No. 20/341 – 6 January 2021

EUROZONE – 2021-2022 Macroeconomic scenario

Between promises and threats

- **A wave of optimism surged after it was announced that a vaccine would soon be available. However, the resistance of the pandemic's spread to the latest restrictions to mobility is a warning that the link between virus and mobility is still strong.**
- **Our conviction is that this link will not be broken right away, and our scenario remains wedged between medium-term promises and short-term threats. We forecast GDP growth of 3.8% in 2021 and 3.9% in 2022.**
- **Attempts to slow the second wave of the pandemic are preventing 2020 from ending well and hampering 2021 growth. We forecast a 3% GDP decline in the fourth quarter and annual average growth of -7.4% in 2020.**
- **The expected rebound in the first quarter of 2021 (+1.8%) will enable a partial recovery of the reduced year-end activity. The GDP shortfall from pre-crisis levels will still be 5.6% at the end of Q1 2021.**
- **Countervailing forces affect the outlook. On one hand, uncertainty as to how well the pandemic can be brought under control will continue to constrain spending decisions, both for consumers and investors, including in the second half of 2021.**
- **The crisis' impact on bankruptcies and unemployment will gradually become visible in 2021, because the income support measures have been extended into the first few months of 2021.**
- **On the other hand, support for the economy remains massive. The ECB added some easing in December, leaving itself room to act, but signalling a lasting presence on the markets and a desire to maintain low rates all along the yield curve. Fiscal support is looking to be larger than expected in the 2021 draft budgets.**
- **At the end of 2022, Eurozone GDP will have made up its growth gap relative to the end of 2019 (+0.7%). However, there is still a high risk of unevenness: Germany and France are expected to achieve 1.2% and 0.5% increases in GDP over the end of 2019, respectively; but Italy (-0.7%) and Spain (-3.3%) are likely to remain below that mark.**

The economy-health trade-off

The profile of our 2021 outlook will still largely be determined by the spread of the virus. The availability of a vaccine does not alter this profile but reduces the extreme risk in the scenario. The pace of growth will be very crucially dependent again on the degree of support from economic policies. **We forecast GDP growth of 3.8% in 2021 and 3.9% in 2022.**

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A profile still dictated by the pandemic: our assumptions

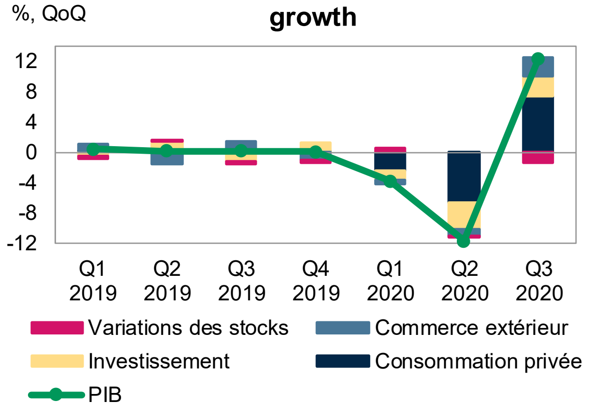
Although the signs of a new wave of the pandemic were already visible when we were compiling our September outlook, we assumed, which was plausible and in line with consensus, that there would be limited spread of the virus, contained by social distancing, rapid identification of positive cases due to increased testing capacity, and possibly localised lockdowns. Betraying these assumptions, the pandemic has been on an upward course, and we are again faced with the issue of handling either "soft" or full-blown lockdowns. For the moment, the varying timing and magnitude of the second wave have prompted countries to adopt less economically damaging strategies and even to vary their approach regionally.

The scenario must be calibrated using scientifically plausible public health assumptions and actions on mobility and economic activity that are consistent with those assumptions. These public health assumptions and mobility options that come with them are couched in a high degree of uncertainty, with the former heavily dependent on the success of the latter. It is entirely plausible that the spread of the virus could take longer to curb than it did last spring, with "soft lockdowns" still allowing significant freedom of movement. Although the last quarter of 2020 has been characterised by negative growth, the continuation of many economic activities during the "soft" lockdown will nonetheless help reduce its downward impact on growth. The gradual change in consumption and selling behaviours in the retail sector also mean people should be quicker to adapt to new restrictions on mobility, which should therefore have less of an adverse effect on consumer spending. Additionally, the recovery that looks set to take shape when lockdown ends in the first quarter of 2021 could be more moderate than its summer 2020 forerunner due to both longer-lasting social distancing measures and self-imposed restrictions on mobility. In that case, 2021 growth locked in at the end of 2020 would be fairly weak. A modest growth trend would emerge from that overhang, particularly during the first half of the year, which could feature new trade-offs in the handling of successive waves of resurgence, with strong, early measures imposed at each new outbreak. The experience of the spring lockdown does show some new aspects of the compromise between protecting health and economic growth. One lesson in particular is that economic losses are generally "linear" and infections "exponential" over time, which means that taking action early in response to new outbreaks could pay off.

The third-quarter GDP bounce has been stunning and stronger than expected: +12.5% quarter-on-quarter, after an 11.7% drop in the second quarter. Despite this bounce, GDP is still 4.4% below its end-of-2019 level. The growth overhang left in the year 2020 remains very negative (at -6.6%).

After reducing growth by 10.6 points in the second quarter, **domestic demand** made a very positive contribution to third-quarter growth (+11.3 points).

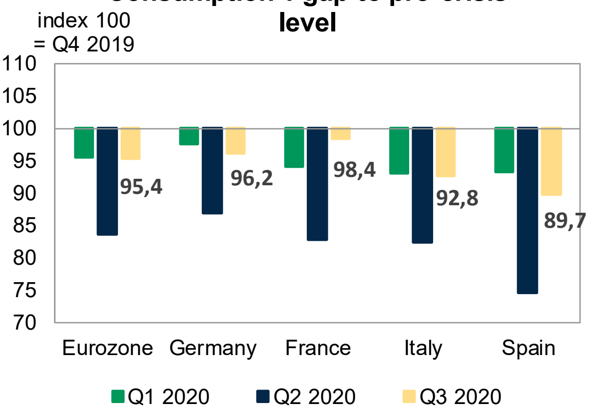
Eurozone : contributions to GDP growth



Sources : Eurostat, Crédit Agricole S.A.

Private consumption (+14% third quarter/second quarter) and **public consumption** (+4.8%) quickly recovered after their second-quarter declines (-12.4% and -2.2%, respectively). Household consumption is still 4.6% below its end-of-2019 level. In France, the recovery was the strongest; it remains further behind in Germany, and even more so in Italy and Spain.

Consumption : gap to pre-crisis level



Sources : Crédit Agricole S.A.

The rebound in **investment** was also large (+13.4%) but not enough to offset the second-quarter decline (-16%). Investment therefore remains further back, at 10.2% below its pre-crisis level within the Eurozone. Although the Q4 2019 level in Italy has been recovered and exceeded, in Germany the gap has been sharply reduced, while in France and Spain it remains very large.

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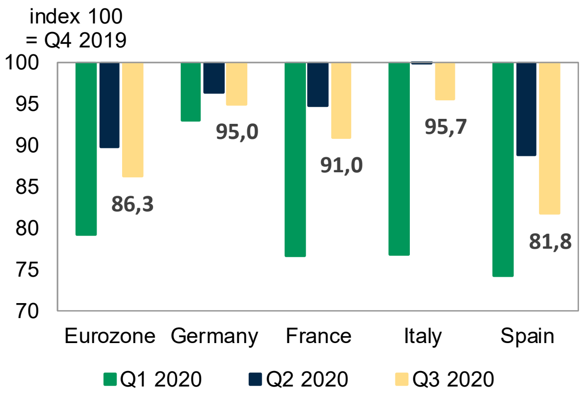
Investment : gap to pre-crisis level

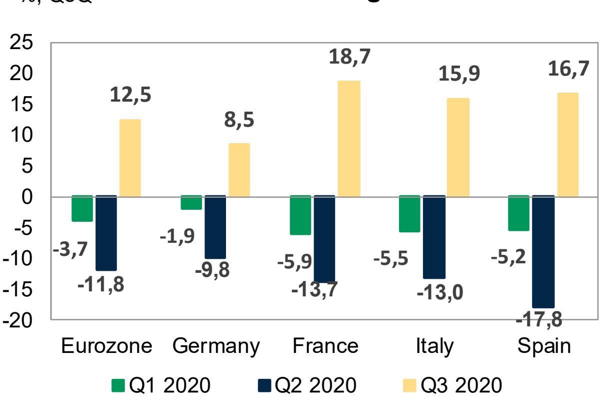


Source : Crédit Agricole S.A.

Lastly, **foreign trade in goods and services** contributed positively to Q3 growth (2.4 points), putting an end to three straight quarters where it had been holding back GDP gains. Exports rebounded significantly (+17.1%, after -18.9% in Q2). However, export levels are still 8.7% below pre-crisis levels. Italy and Germany were able to make up their foreign demand losses better than France and Spain, which are still way behind compared to Q4 2019 levels.

Domestic demand for imports was less brisk than foreign demand. **Imports** rose 12.3% (after -18.2% in Q2) and their level remains 10.9% below their pre-crisis levels. The difference is large across all countries, especially in Spain, where all components of domestic demand have very partially recovered.

Eurozone : GDP growth

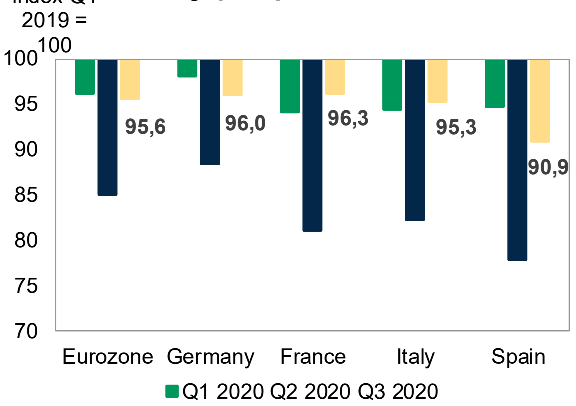


Sources : Eurostat, Crédit Agricole S.A.

The resurgence was therefore very strong, but not evenly distributed among major Eurozone economies: +18.7% in France, +16.7% in Spain, +15.9% in Italy, and +8.5% in Germany.

The shortfall compared to pre-crisis levels is less uneven: in France, Germany, and Italy, it has been "limited" (about -4%), **with Spain being the exception again** (-9.1%).

GDP : gap to pre-crisis level



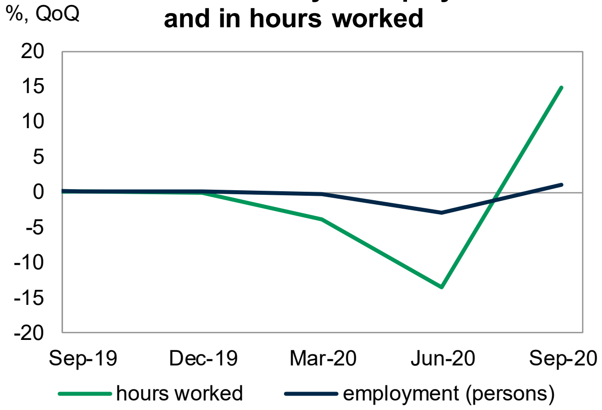
Sources : Eurostat, Crédit Agricole S.A.

These differences in performance between countries are particularly the result of sharply contrasting sector-specific trends: Italy and Spain saw a fast recovery in industrial activity, but France's was slower, and Germany even more so; retail is still badly hurting in Spain, and to a lesser extent, Italy; construction has exceeded its pre-crisis level in Italy but it still below it in Germany, France, and most of all Spain.

A smoke-and-mirrors job market

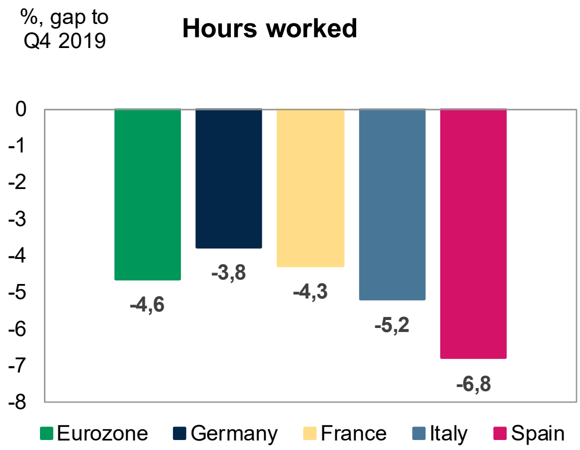
Employment grew 1% in the third quarter (after -3% in the second quarter), but the number of people employed is 3.6 million below its pre-crisis level. **The unemployment figure does not tell the whole story on its own, because working hours have been greatly reduced by short-time work schemes.** In the second quarter of 2020, the decline in hours worked reached 26% in Spain, 15.3% in Italy, and 14.8% in France. If you were to total up the decline in number of employed and in the hours they worked, the result is more consistent with the GDP downturn.

Eurozone : recovery in employment and in hours worked



Sources : Eurostat, Crédit Agricole S.A.

The rapid recovery in hours worked in the third quarter (+14.8% after -13.6% in the second quarter) is slightly greater than the rise of GDP, but remains partial and has left effective hours worked at 4.6% below pre-crisis levels. Unlike GDP, this divergence is about the same in each of the bloc's major economies.



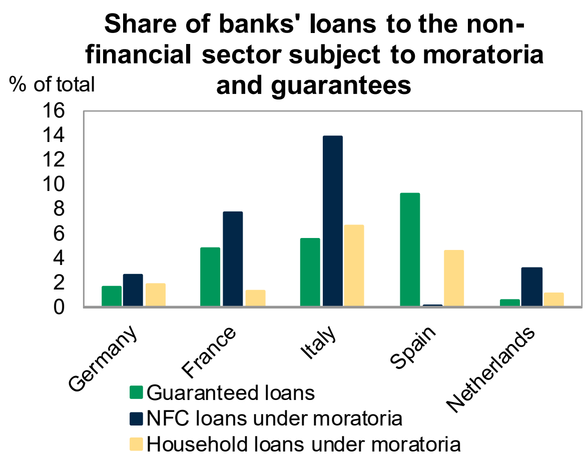
Sources : Eurostat, Crédit Agricole S.A.

The Eurozone unemployment rate fell slightly in October to 8.4%, continuing the slow decline that began in August. The zone contains 1.9 million more unemployed than in February before the spread of the pandemic, an additional 1.2 points of unemployment. **But the unemployment figures do not tell the whole story of the crisis' impact either.** Measures taken to limit job losses have led to furloughs rather than lay-offs. Additionally, people who are unable to seek work or were not available due to lockdowns were not counted as unemployed. A sizeable share of those who had already registered at employment agencies were no longer actively seeking jobs or were no longer available to work because, for instance, they had to take care of their children during the period in question. **The workforce underutilisation indicator, or labour market slack, therefore greatly increased in the Eurozone during the second quarter.** It reached 8.3% of the (expanded) labour force in Germany, 15.3% in France, 23.6% in Italy, and 25% in Spain. These figures are not yet available for the third quarter in the Eurozone, except for France, where the labour market slack sharply decreased in the third quarter, nearing its end-of-2019 level. In other major economies, declines in activity are decreasing, and the labour force is approaching its pre-pandemic level. But although the labour force is 0.2% above pre-crisis levels in Germany, it was still 1.3% lower in Italy and Spain in the third quarter. **Despite this recovery in the labour market and employment, the damage to employment done by the crisis will materialise at a lag: we project increased unemployment in 2021 (10.1% after 8.2% in 2020) and stabilisation in 2022 (10.2%).**

Look out for the tidal wave!

Employment performance will necessarily be tied to the profitability and financial health of companies. The drop in economic activity had an immediate negative impact on business profitability. **In the Eurozone, profit margins fell 6% in the first quarter of 2020 and 18% in the second quarter. However, on average business bankruptcies were down 41.7% year-on-year in the second quarter of 2020.** Meanwhile, the failure rate among the self-employed rose, though remaining close to its long-term average. However, the 28.5% drop in the number of new businesses registered in the spring should set alarm bells ringing. This is because **these changes are due to the suspension of bankruptcy declarations, as well as prevention measures** that, if they do not remedy the fall in sales, have at least helped remedy the corresponding liquidity risks.

Non-financial companies (NFCs) have been able to preserve their cash flows: their liquid assets rose 9.6% in the first quarter and 18% in the second. Furlough schemes and the option to defer tax and social security contributions have helped limit the costs incurred by the temporary decline in activity. Government-guaranteed loans have enabled businesses to lengthen their loan maturities, meet interest payments, cover operating expenses and adjust output in line with the new environment. **In the second quarter of 2020, government-guaranteed loans accounted for 1.6% of all new loans in Germany, 4.8% in France, 5.6% in Italy and 9.2% in Spain.** For large corporates, government-backed loans on average accounted for 3.8% of total new loans in the Eurozone; the equivalent figure for SMEs is 14.3%. Moratoria on loans to NFCs have also played a part, applying to 2.6% of total loans in Germany, 7.7% in France, 13.9% in Italy and 0.2% in Spain. These policies have had a greater impact in Italy and Spain, where liquidity stress seems to have arisen more quickly than in France or Germany.



Sources : ECB, Crédit Agricole S.A.

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However, these measures are temporary and encourage increased debt. They have therefore been accompanied by a downgrade in ratings or outlooks for a number of corporate issuers; the probability of default on loans to NFCs increased from 2% in late 2019 to 2.6% in September 2020, with the increase being four times larger for SMEs than for larger businesses (per AnaCredit).

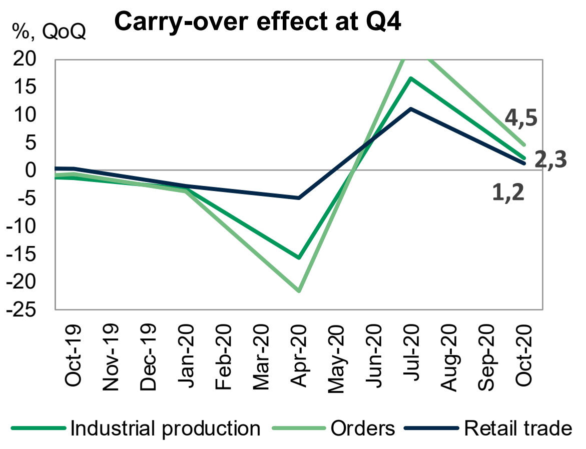
During the initial phase of the pandemic, businesses borrowed more from banks mainly to cover ongoing expenses, taking out loans with terms of less than one year. Bank borrowing remained high in the second quarter, while market-based corporate debt rose to record levels, driven by ECB intervention to stabilise markets. As activity bounced back over the summer, corporate bond issues and bank borrowing slowed, though continuing at a sustained pace. Meanwhile, NFCs lengthened the average maturity of their borrowings (with the average proportion of net new loans with maturities over five years up from 57% in 2019 to 100% in September 2020), thus reducing their immediate refinancing requirements and locking in prevailing highly favourable financing terms. The volume of government-backed loans exceeded the net amount of new lending, suggesting that existing loans were converted into government-backed loans, particularly in Italy and Spain.

Despite an increase in underlying risk, credit conditions remain favourable. Government guarantees have lowered the risk of loss and kept a lid on upward pressure on interest rates driven by higher probabilities of default. **However, lending conditions could tighten quickly as these programmes end, particularly in those sectors most affected by the crisis, where net debt has increased and the risk of refinancing has greatly increased.**

Q4 2020-Q1 2021: Containing the current wave

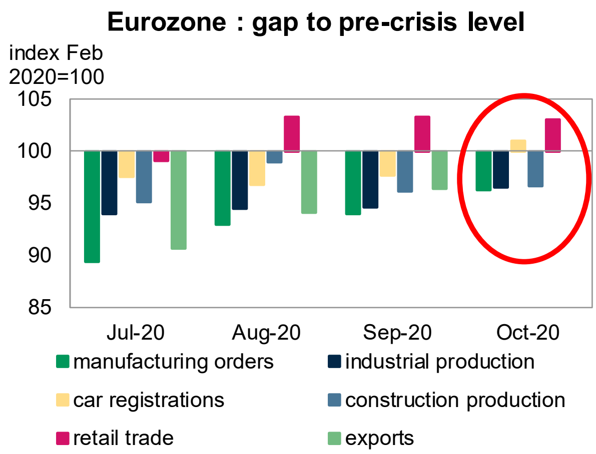
Attempts to slow the second wave of the pandemic are preventing 2020 from ending well and hampering 2021 growth. We forecast a 3% GDP decline in the fourth quarter and annual average growth of -7.4% in 2020. We project that the “V”-shaped GDP profile around the start of the year will be very shallow, because mobility restrictions will be maintained until the link between mobility and the virus has been definitively broken or at least weakened.

We still know little about what impact the new restrictions on activity and business closures have had on fourth-quarter 2020 growth. October retail sales rebounded after a weak September and are now 3.1% above their February levels. This is also true of new car registrations, which are 2% above pre-crisis levels.



Sources : Datastream, Crédit Agricole S.A.

Supply-side indicators fared worse, but construction output was up 0.5% in October, narrowing its gap from pre-crisis levels (-3.4%). Industrial output’s strong rebound in October (+2.1% over the month) is contributing a 2.3% overhang to Q4 growth while reducing the gap from the pre-crisis period to 3.5%.



Sources : Eurostat, Crédit Agricole S.A.

This vigour reflects the solid performance of the manufacturing cycle, with much faster output growth in both intermediate and capital goods. The rebound was particularly big in Germany and France (even though output remains lower than pre-crisis levels, by 5.6% and 3.5% respectively), and to a lesser extent Italy and Spain (where by contrast the gap created by the crisis has practically vanished, falling to 2.2% and 0.9% respectively).

Manufacturing orders rose again, continuing to approach their pre-crisis level, and the latest December surveys indicate the business has nearly stabilised after the sharp fall in November. Stronger manufacturing output growth offset the downward trend in the service sector and enabled the composite PMI index to recover. In the

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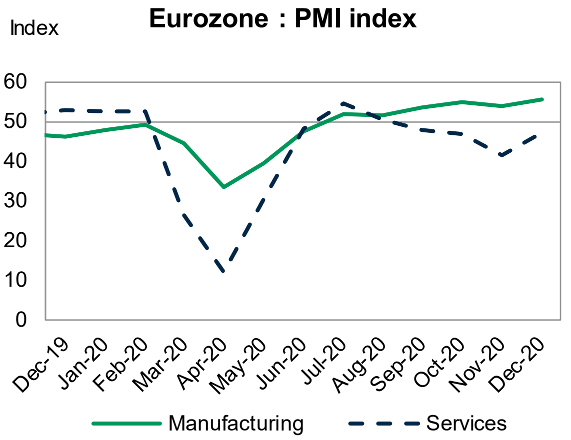
manufacturing sector, the output increase grew, and was accompanied by a steeper increase in new orders and export sales, which saw their second-largest rise in three years. In services, business grew for the fourth month in a row, but the pace of the contraction slowed greatly, and the decline in new contracts slumped.

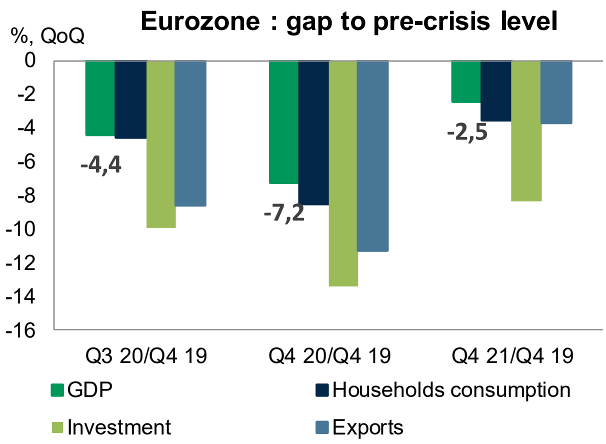


Sources : Markit, Crédit Agricole S.A.

On average, fourth-quarter PMI was 48.4, which is below the third quarter (52.4) but much higher than the previous quarter (31.3). The signal that the economic impact of the pandemic's second wave was much less severe than the first has been confirmed by high-frequency mobility indicators, which imply a 2.5% decline in activity in the fourth quarter.

We forecast a 3% GDP decline in the fourth quarter and annual average growth of -7.4% in 2020. All domestic demand components, except for public consumption, are part of this decline. Net foreign demand has also been weakened by the decrease in European demand, but its contribution to GDP growth remains just barely positive. **In Q4 2021, GDP dug a new gap to pre-crisis levels, at 7.2% below Q4 2019.**

The expected rebound in the first quarter of 2021 (+1.8%) will enable a partial recovery of the reduced year-end business. It is predicated on a very gradual easing of restrictions by spring as the country attempts to halt the virus in its tracks without paralysing the economy. **The GDP shortfall from pre-crisis levels will still be 5.6% at the end of Q1 2021.** The moderate "V" shape of Eurozone growth is largely due to the curve forecast in France scenario, which assumes that the second lockdown will have a more negative impact, due to its being more restrictive than elsewhere. For this reason, the rebound expected in Q1 2021 is more significant there as well.



Sources : Eurostat, Crédit Agricole S.A.

Countervailing forces affect the outlook

The assumption that mobility restrictions could be partly relaxed is dragging down the entire first half of the new year, with GDP growth limited to +0.9% in the second quarter of 2021.

Uncertainty as to how well the pandemic can be brought under control will continue to constrain spending decisions, both for consumers and investors, including in the second half of 2021. The EIB survey tells us that nearly half of EU businesses are looking to delay, abandon, or cut back their investment plans. **Investment growth is expected to be small (2.5% in 2021 and 4.6% in 2022, after -9.7% in 2020) and primarily driven by public and construction investment.** Business investment is likely to focus on equipment replacement or innovation, and to a lesser degree, capacity expansion. With 3.6% growth in 2021 and 3.7% in 2022 after -8.3% in 2020, **the recovery in private consumption is expected to fare better; still, some of the savings accumulated in 2020 will likely be held back out of precaution** (unemployment, erosion of public income support).

Some general programmes will continue to favourably affect businesses,[1] but the range of economic support measures currently varies by country based on whether or not they have been extended. For instance, short-time work scheme has been extended in most countries, and the ban on lay-offs has been pushed back to the first quarter of 2021 in Italy and Spain, but the deferral of tax and social security contributions and government-backed loans have not, in some countries, as of the end of 2020.

[1] For instance, the EBA has allowed the special prudential treatment for loan repayment holidays to be extended to the first quarter, thereby *de facto* delaying defaults, including in countries where the suspension of bankruptcy declarations has not been extended.

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End-date of support measures	France	Germany	Italy	Spain
State guarantee scheme - application window	Jun-21	Dec-20	Dec-20	Jun-21
Loan moratoria	Mar-21	Mar-21	Mar-21	Mar-21
Insolvency filing suspension	Aug-20	Dec-20	Sep-21	Mar-21
Short-time agreements	Dec-21	Dec-21	Mar-21	Jan-21
Lay-off interdiction	None	None	Mar-21	Jan-21
Taxes and contributions exemption/deferrals	Dec-20	Mar-21	Apr-21	Feb-21

Our outlook assumes that most economic support measures will be extended, and further measures added. Many European authorities have raised red flags about the risks of withdrawing support measures too early. The ECB estimates that the various policies adopted (deferral of taxes and contributions, direct support to private agents, short-time working, moratoria and government guarantees on loans, macroprudential policy and forbearance adjustment) will have contributed 3.4 percentage points to GDP growth in 2020. These measures will provide the same positive contribution in 2021. However, these measures will be gradually withdrawn in the second half of 2021 as uncertainties regarding the progress of the pandemic and freedom of movement restrictions are cleared up. The risk will be reflected in company balance sheets when business returns to normal. The risk will be mitigated by the strong positive fiscal impulse enabled by the ramping up of the NGEU European fund. **The increase in bankruptcies and unemployment, however, explains why we forecast a 1% smaller growth profile per quarter and +3.9% annual average growth in 2022. At the end of 2022, Eurozone GDP will have made up its growth gap relative to the end of 2019 (+0.7%). However, there is still a high risk of unevenness: by the end of 2022, Germany and France are expected to achieve 1.2% and 0.5% increases in GDP over the end of 2019, respectively; but Italy (-0.7%) and Spain (-3.3%) are likely to remain below that mark.**

Lowering the deficit while maintaining economic support: the 2021 budget challenge

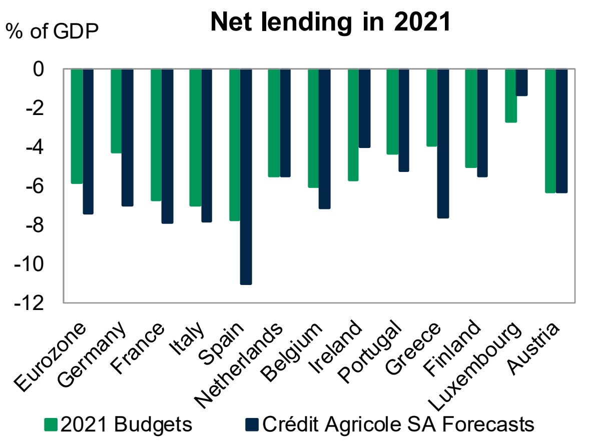
The economic boost provided by fiscal policy met the challenge in 2020: an average of 3.7 points of GDP in the Eurozone to counteract a 7-point loss of national output.

States' responses have not always been proportionate to the economic damage caused by the pandemic. For some heavily-indebted countries, issues of credibility as to the sustainability of their public finances won out and limited what they were able to do. This was particularly true of Spain and Portugal, which though they suffered more from the crisis, deployed smaller measures than in other countries, whether they are considered structural or temporary. The larger deficit deterioration caused by the downturn limited their ability to manoeuvre.

On the other hand, countries like Germany and the Netherlands, which saw smaller economic declines, responded with massive support measures. In France, although the structural deficit is going up sharply, a temporary deficit deterioration has begun, with one-off measures to help guarantee a positive fiscal impulse.

Member States whose budgets are on more solid footing have therefore generally provided more direct budgetary aid, while Member States whose budgetary position is weaker have tended to make greater use of liquidity support. These measures do not have an immediate impact on the overall deficit but constitute a contingent liability if they were to materialise. They amount to 20% of GDP in the Eurozone, primarily in the form of government guarantees, and to a lesser extent, deferrals of taxes and payroll contributions. The European Commission estimates that 25% of these guarantees have been used as of October 2020.

This was made possible by the temporary suspension of the Stability Pact's budget monitoring rules, giving some leeway to Member States. This suspension will remain in effect in 2021, because European authorities have called on the States to avoid withdrawing their economic support too soon.



Sources : 2021 Budgets, Crédit Agricole S.A.

The 2021 draft budgets presented by the States to the European Commission on 15 October anticipate a still-negative output gap in 2021, which explains why the discretionary economic support measures should not be removed too soon. Although the structural support measures provided in 2021 under the budget bills will come to

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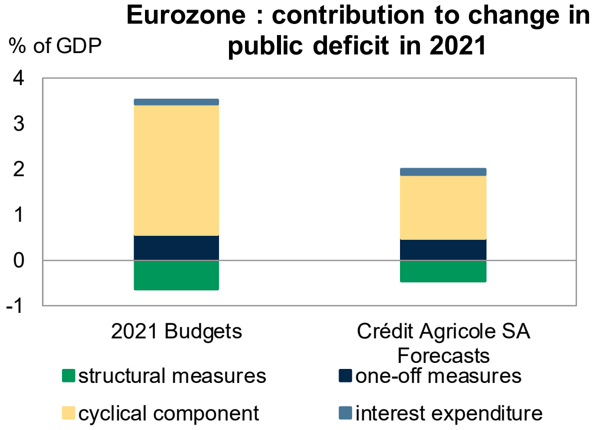
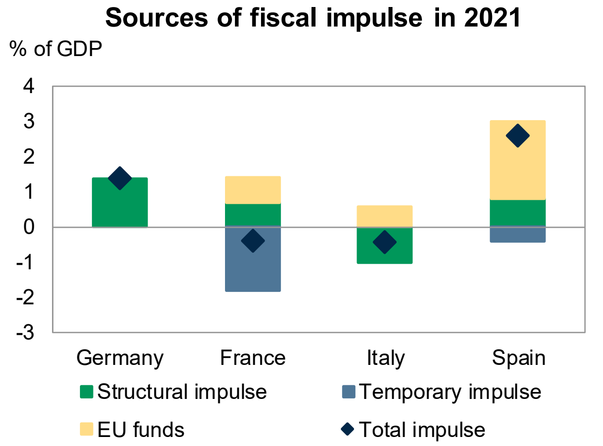
the same figure as in 2020, the improved economic environment will nonetheless help reduce the Eurozone deficit.

Budget bill deficit projections, however, are already obsolete: the positive fiscal impulse will probably be higher in some countries, particularly in Germany, where an early end to fiscal support was enacted.



Sources : 2021 Budgets, Crédit Agricole S.A.

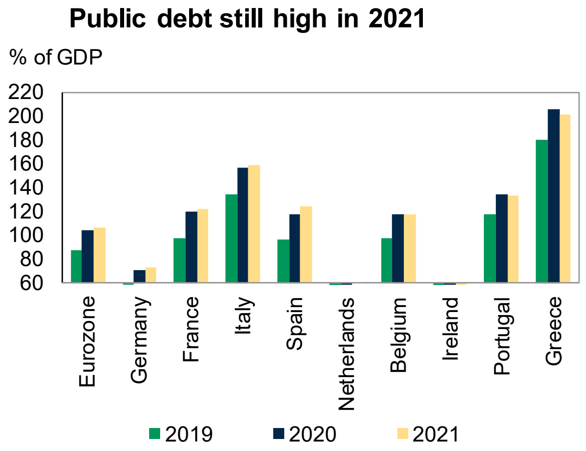
In 2021, structural economic support measures will fall slightly compared to 2020, but they will remain large and offset the removal of temporary measures. It is clear that the recognition that this crisis would persist has led governments to keep in place for longer some measures that had initially been expected to last briefly. This is particularly true in France, where the decrease in temporary measures has exceeded the increase in the structural deficit, thereby reducing the boost to the economy. **In all countries, the economic recovery will make a positive contribution to lower the deficit.**



Sources : 2021 Budgets, Crédit Agricole S.A.

European funds will intervene only marginally to finance the recovery in 2021. Few countries have included them in their 2021 budgets. On one hand, delays in negotiating the Next Generation EU (NGEU) fund initially allowed for little insight into exactly how much each country could expect to receive, and for how long. On the other, the constraints that come with these funds call for drafting detailed spending plans and using a great deal of administrative capacity before the European Commission can sign off. Nonetheless, the funds accounted for by some States provide significant fiscal impulse above and beyond the nationally provided impulse, especially in Spain, and to a lesser extent France and Italy.

Although the existence of a deficit will still have a negative impact on debt accumulation, that effect will be partly offset by the difference between the interest paid on the debt and the economy's growth rate, which is expected to turn negative. The projected economic recovery would reverse that "critical" difference and limit the debt increase in 2021.



Sources : Crédit Agricole S.A.

The ECB provides further assurance against monetary hardening

ECB communication has focused on the medium-term risks to businesses and banks if the massive support of national authorities were to be withdrawn early. Safely ferrying the economy to the distant shore without being swept off-course by the crisis, with **favourable financial conditions as its main compass**, is the message it is sending and the spirit of the announced measures. It sends a very clear signal of a lasting, substantial presence.

It justifies that presence in two ways: the larger impact of the second wave on the short-term scenario and still-high uncertainty accompanied by downward risks. The cautious behaviour of private stakeholders and the weakness of corporate balance sheets are negatively impacting the projections made by the ECB, which has revised 2021 GDP downward (from 5% to 3.9%) and forecast 4.2% growth in 2022 and 2.1% in 2023. In this low-growth environment, inflation is expected to be 1.4% in 2023. In the medium term, the recovery is expected to be supported by fiscal expansion and the preservation of favourable financial conditions. The slowdown in the growth of loans to businesses in October is being watched closely, because although it is due to less urgent liquidity needs, it is also the product of a decline in investment and hardening of loan approval conditions.

As the second wave of the pandemic delayed the recovery, the ECB deemed it necessary to **maintain the level of support provided in recent months, facilitating lending under favourable conditions to the benefit of the banks that will rise to the challenge.**

The ECB wants to avoid the downward spiral that would result from credit reduction as government guarantees and loan repayment holidays wind down. **This is the reason for recalibrating conditions** in the third series of targeted long-term refinancing operations (**TLTRO III**). The ECB thereby extended the period when very favourable conditions will apply by twelve months, until June 2022: 50 basis points (bp) below the refinancing rate for all loan stocks and 50 bp below the deposit rate for all net loan stocks equal to the level of those granted between October 2020 and December 2021. The precondition for this strong incentive to lend is clear: don't reduce existing support. There will also be three additional operations (June, September, and December 2021), but at the refinancing rate for a smaller amount of outstanding loans compared to their level during the baseline period. The Governing Council also decided to increase the total amount that counterparties will be allowed to borrow during TLTRO III from 50% to 55% of their eligible loans, which **gave a fresh breath of oxygen to banks in the periphery, which were closer to the original limit**. The collateral easing measures adopted in April 2020 were also extended until June 2022.

In order to guarantee the provision of liquidity in the money market, the ECB also announced four additional refinancing operations (PELTRO) from March to December 2021, lasting one year.

The ECB also aims at **avoiding tensions in the sovereign debt market right as the damage caused by the second lockdown is forcing governments to deploy additional fiscal support in 2021, when debt issues will likely be larger than expected and government deficits will take longer to shrink.** This is the reason behind **the additional €500 bn for the PEPP**, bringing the programme's total to €1.85 trillion, and the expansion of the **net purchase period to the end of March 2022. Reinvestments of the principal payments from maturing securities are also extended at least through 2023**. The course of the pandemic and the vaccine roll-out calendar will define that deadline, with herd immunity expected by the end of 2021 and a genuine recovery set to begin in early 2022, supported in its early stages by the ECB. The ECB is hoping to **avoid having the curve steepen again too soon, while maintaining strict control over its slope in all jurisdictions.** To achieve this, the Bank says it is prepared to make full use of its flexibility and not consider any purchase limit imposed on it to be an obstacle.

These announcements **allow for no possibility of monetary policy normalisation in the medium term**. Until then, the conclusions of the revision to the ECB's strategy will be released in order to shed some light on what is expected to be a normalisation strategy in the new post-pandemic world and in the environment of very low natural interest rates.

Reallocation shock, governance challenges, and risks of fragmentation

The COVID-19 crisis has upended and accelerated Europe's structural transformation agenda. The EU has a powerful tool to assist in that transformation, and the national recovery plans that are expected to be finalised during Q1 2021 will reflect what it looks like in each country. This transformation will lead to disruptions (sector-based redistribution of added value and employment, changes to trends in productivity and competitiveness, and impacts on the workforce, income distribution, and sharing of profit/earned income). **How well a country is positioned to address these changes will depend on its structural specifics** (specialisation, competitiveness, role in global and European value chains, workforce qualifications). **The support policies and the changes to governance that result will play a key role in their success.** The ability of countries to incorporate new European supply chains, latch on to technological advances, produce better governance to manage the tremendous public expenditure and get the private sector on board will decide who comes out on top in the post-crisis world.

Text & data completed on 22 December 2020

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Crédit Agricole S.A. growth forecasts

	Quarterly rate (QoQ, %)												Annual rate (YoY, %)			
Eurozone	2020				2021				2022				2019	2020	2021	2022
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
GDP	**-3,7**	**-11,7**	**12,5**	**-3,0**	**1,8**	**0,9**	**1,3**	**1,1**	**0,9**	**0,9**	**0,8**	**0,7**	**1,3**	**-7,4**	**3,8**	**3,9**
Households consumption	-4,5	-12,4	14,1	-4,2	2,2	0,8	1,3	1,1	0,9	0,8	0,8	0,6	1,4	-8,2	3,7	3,7
Public consumption	-0,6	-2,2	4,9	0,6	0,9	0,5	0,5	0,4	0,4	0,3	0,3	0,3	1,9	0,9	4,0	1,6
Total GFCF	-5,7	-16,0	13,8	-3,8	1,8	1,1	1,5	1,3	1,1	1,0	0,9	0,8	5,7	-9,5	2,7	4,6
G&S exports	-3,8	-18,9	17,2	-2,9	2,6	1,8	2,0	1,9	1,9	1,7	1,6	1,5	2,5	-11,1	5,7	7,5
G&S imports	-3,0	-18,2	12,0	-3,4	2,9	1,6	1,6	1,8	1,8	1,6	1,5	1,4	3,9	-11,0	3,1	6,9
Inventory changes (% of GDP)	0,6	0,4	-0,9	-1,0	-1,0	-1,0	-1,1	-1,0	-1,0	-1,0	-1,0	-1,0	0,3	-0,2	-1,0	-1,0
Contributions to GDP growth																
Domestic demand excluding inventories	-3,8	-10,6	11,5	-2,9	1,8	0,8	1,1	0,9	0,8	0,7	0,7	0,5	2,3	-6,3	3,4	3,3
Inventories	0,6	-0,2	-1,4	-0,1	0,0	0,0	-0,1	0,0	0,0	0,0	0,0	0,0	-0,5	-0,5	-0,8	0,0
Net exports	-0,5	-0,9	2,6	0,1	0,0	0,2	0,3	0,1	0,1	0,2	0,1	0,1	-0,5	-0,4	1,4	0,6

	Quarterly rate (QoQ, %)												Annual rate (YoY, %)			
Eurozone	2020				2021				2022				2019	2020	2021	2022
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Eurozone	**-3,7**	**-11,7**	**12,5**	**-3,0**	**1,8**	**0,9**	**1,3**	**1,1**	**0,9**	**0,9**	**0,8**	**0,7**	**1,3**	**-7,4**	**3,8**	**3,9**
Germany	-1,9	-9,8	8,5	-1,4	0,8	0,8	0,9	0,9	0,8	0,8	0,8	0,8	0,6	-5,7	2,5	3,4
France	-5,9	-13,8	18,7	-4,8	3,1	1,0	1,3	1,1	0,8	0,8	0,6	0,5	1,5	-9,2	5,9	3,6
Italy	-5,5	-13,0	15,9	-3,9	1,7	0,7	1,4	0,9	1,0	1,0	1,0	0,4	0,3	-9,2	4,0	3,9
Spain	-5,2	-17,8	16,7	-4,8	1,9	1,1	1,9	1,9	1,6	1,2	1,0	0,7	2,0	-12,0	3,0	5,9
Netherlands	-1,5	-8,5	7,7	-1,4	1,3	0,9	1,0	0,9	0,8	0,8	0,8	0,8	1,6	-4,1	3,1	3,3
Belgium	-3,4	-11,8	11,4	-4,5	3,7	1,4	1,6	1,2	0,8	0,6	0,6	0,6	1,7	-7,5	4,5	3,7
Ireland	-3,5	-3,2	11,1	-0,6	0,8	2,0	1,4	1,4	1,2	1,1	1,1	1,1	5,9	3,1	7,5	5,2
Portugal	-4,0	-13,9	13,3	-2,4	1,2	1,1	2,0	1,3	1,1	0,9	0,6	0,4	2,2	-8,3	3,9	4,5
Greece	0,1	-14,1	2,3	-2,6	1,5	1,5	3,5	2,9	1,7	1,2	0,6	0,4	1,6	-10,0	0,2	7,4
Finland	-1,5	-3,9	3,3	-1,0	1,1	0,4	0,4	0,4	0,5	0,5	0,5	0,5	1,1	-3,4	1,6	1,8
Luxembourg	-1,4	-10,3	11,9	-4,0	4,0	0,7	0,7	0,7	0,6	0,6	0,6	0,6	2,3	-3,8	4,8	2,5
Austria	-2,8	-11,6	12,0	-0,1	1,2	0,5	0,6	0,6	0,9	0,9	0,9	0,9	1,4	-6,4	4,5	3,1
Slovenia	-4,7	-9,8	12,4	-1,7	1,0	0,2	2,2	2,0	0,7	0,7	0,7	0,7	3,1	-6,1	4,7	4,4
Malta	-2,7	-17,1	12,7	-0,7	1,4	1,2	1,1	0,3	1,7	2,6	1,1	1,1	5,3	-8,7	3,5	5,7

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