

# Prospects

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## Italy – Monthly News Digest

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## A week of talks to shuffle the deck

At noon on Tuesday 26 January, Giuseppe Conte submitted his resignation to the Italian President, officially launching the political crisis that had been brewing since the start of the year. The Prime Minister's resignation puts an end to Conte II and kicks off a series of talks for the formation of a new government. Since 27 January, President Mattarella has met in turn with all of the political delegations in order to find a way out of the crisis. These discussions are intended to "listen to the voice of Parliament" and take stock of the situation. If they succeed, they are expected to lead to a new executive supported by a new majority, or by the same one. If this happens, the President has several options. He might renew the term of the current Prime Minister if Conte is able to build a majority, appoint a new Prime Minister designated by a majority coalition, or grant an exploratory term to a third-party political figure. This exploratory term is used in uncertain times. It allows the Head of State to ask a figure (generally the holder of an institutional office, such as the speaker of one of the two houses of Parliament) to explore the parties' intentions. This was particularly true in 2018 when President Mattarella granted an exploratory term first to the Speaker of the Senate, Elisabetta Alberti Casellati, then the Speaker of the House, Roberto Fico. If all of these options fail, the President may call for new elections in Italy. These talks are the fourth for Sergio Mattarella, following those held in December 2016 that led to the formation of the Gentiloni government, and those in June 2018 and September 2019 that enabled the formation of the Conte and Conte II governments.

The President began the series of talks by meeting with the speakers of both houses on Wednesday. On Thursday, the parties of the left, the PD, Italia Viva, and LeU visited the Presidential palace. Friday, the centre-right coalition and Five Star Movement took their turn to meet with the President. Once the government crisis begins, legislative activity stops until there is a new vote of confidence. The government is tasked with routine matters.

Between taking public stances and negotiating in secret, there are still several possible scenarios, including elections.

- ✓ The first on the table would be Conte III. This "political" government would entail keeping Giuseppe Conte as Prime Minister, supported by a majority formed of the PD, M5S, and the group of "responsible" senators. This option, which seemed the likeliest at the start of the week, has become less and less viable. This is because despite the lengthy negotiations, the ten senators brought together by Giuseppe Conte would not allow the formation of a stable majority as the President sought.
- ✓ Conte III with Italia Viva is also decreasingly likely. Although Italia Viva had expressed its willingness to form part of a left-wing majority, Matteo Renzi, without formally ruling out Giuseppe Conte, expressed his doubts after leaving Quirinal Palace about a new mandate for the Prime Minister. Instead, he called for an exploratory mandate that he felt would expand the options available. At the same time, he is not certain that after Italia Viva's defection, the Democratic Party would be ready to reproduce a majority that would give Matteo Renzi power to exert pressure again. The Five Star Movement, meanwhile, said it was against including Italia Viva in the coalition again. Still, there remains some room for a deal, which will depend on how much Giuseppe Conte is willing to sacrifice, as he could be cast aside if the unappealing choice is made to hold new elections.
- ✓ The second option which is gaining acceptance is to have a so-called "Ursula coalition" government, half-political, half-institutional. The "Ursula government" is a concept put forward by Romano Prodi in August 2019, which refers to the pro-Europe parties that voted in favour of the President of the European Commission. It would take the form of a broad coalition that would entail Forza Italia joining the majority comprised of the PD and M5S. This alternative depends on how solid the centre-right coalition is. What may happen is that Forza Italia might break away from its allies, like when Matteo Salvini set off on his own to form a government with the M5S. The traditional right would stand to lose it all in new elections, due to its weak showing in the polls, as well as the smaller size of Parliament, which is expected to significantly reduce its share of the legislature. On the other side, Matteo Salvini is also under pressure from the more liberal party in his bloc (the Lega Nord led by the President of Veneto, Luca Zaia, and Giancarlo Giorgetti) to uphold a national unity government and support the recovery. However, he remains opposed to any alliance with Italia Viva.
- ✓ Finally, one of the options suggested by Matteo Renzi is a "technical" government that would see the return of Paolo Gentiloni and Mario Draghi. The President of Italia Viva suggested a switch in roles, with Giuseppe Conte going to the Commission and Paolo Gentiloni becoming Prime Minister. He would have Mario Draghi be Minister of Finance. Draghi could also be offered the role of Prime Minister. Mario Draghi is keeping a cautious distance, as usual. But the gestures to Giuseppe Conte and Luigi Di Maio make either option seem credible.

**✓ Our opinion** – *The pandemic has laid the framework. The timing is tight. Unusual challenges are being met with unusual talks and options. The likelihood of each possible scenario is changing as the week goes on. All options are still on the table, and if they fail, the unwanted elections with all the risk that they bring.*

*The reasonable scenario that would please Europe's seats of power is obviously a semi-technocratic government with strong figures from the social-democratic left, such as Paolo Gentiloni and Mario Draghi. This would make it possible to make decisions fit to deal with the crisis and regain the trust of Italy's partners as the country is once again falling prey to the vagaries of its political system.*

*But a semi-political agreement including the centre-right is also a viable solution. It would enable all factions to play a role in the stimulus plan and decide on how to allocate the European funding. It is hard to pick a winner at present, but the talks have reshuffled the deck. It's all up to the President now.*

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## 48 hours until crunch time

After Matteo Renzi's Italia Viva party withdrew its support on 13 January, the coalition government consisting of M5S and the Democratic Party (PD) found itself with a minority in the Senate. On 20 January, Prime Minister Giuseppe Conte won a confidence vote in the upper house by 156 votes to 140, allowing him to remain at the helm of the executive thanks to the support of responsible senators and the abstention of 16 Italia Viva senators. The coalition has taken a hit, however: not counting Renzi's senators, it has lost its absolute majority and now has only a relative one. While this vote of confidence has given Italy's prime minister a bit of breathing room, it has in no way drawn a line under the political crisis that has been consuming Italy for nearly two weeks now. Just a few days after confronting Parliaments, the Conte government once again finds itself at a crossroads. Between Wednesday and Thursday, members of senate will have to vote on the report by Justice Minister Alfonso Bonafede on the administration of justice. The reform to which this report relates does not have consensus support and the prime minister might not be able to garner enough votes in the Senate to get it through. A rejection of this reform would be tantamount to a disavowal of the executive, with the risk of once again bringing down the ruling majority.

The prime minister is well aware that the numbers are not looking good for him and he is once again faced with a decisive choice: call for a vote and count on being able to drum up enough support in the meantime, or offer his resignation before Wednesday. His resignation could put some new cards on the table. The option of securing his majority on a group of "pro-Europe builders" is evaporating. The investigation into the centrist UDC party's chief Lorenzo Casa in connection with the Ndrangheta trial has weakened the centrist group on which the prime minister had hoped to be able to rely. Furthermore, other parties from which he might have hoped to pick up deserters – whether Italia Viva or Forza Italia – are closing ranks. The centre-right, after visiting the president, clearly announced that it would not be supporting the government and is calling for an election.

## But is Italy really heading for a snap election?

This is the option feared by many. Holding parliamentary elections would be a last-resort solution to end the crisis – but a solution the Italian population would not understand. The latest polls taking the temperature of society are unequivocal: 45% of Italians don't understand the crisis, and one out of every five has no desire to go to the voting booth. Furthermore, such an election would not be without its risks. The first risk would be to Italy itself: if the executive were to resign, Italy would be unable to present its recovery plan to Europe and would thus miss out on European financial assistance to help it get through the crisis. The next risk would be to members of parliament: with constitutional reform having reduced the number of representatives, several deputies and senators would lose their seats if fresh elections were held. Elections would also mean a new electoral law would have to be passed to replace the current "Rosatellum Bis". Lastly, organising elections in the midst of a pandemic is a complex undertaking and one for which no one wants to take responsibility.

## So what's the way forward?

A new scenario seems to have been emerging since last weekend. Since Saturday, supporters of Matteo Renzi have been signalling that they have reopened a door that was thought to have been shut. Silvio Berlusconi has also changed his tune and reiterated his proposal of a government of national unity.

Backroom manoeuvring is underway to bring these various new threads together. One of the proposed solutions is reportedly for Giuseppe Conte to resign ahead of Wednesday's vote. This could happen on Tuesday evening, rendering the vote on the justice reform moot. Conte's resignation would formally open up the crisis, which has been referred to as a "staged crisis". The current occupant of the Palazzo Chigi would then be sworn in again by the Head of State and tasked with building a new, broader majority that would bring together M5S, the PD, Italia Viva and some centrists, and which might also secure the support of some Forza Italia senators

whom Silvio Berlusconi appears, reading between the lines, to have authorised to break away from the right-wing bloc. This would give rise to a new electoral pact rooted in a new programme and a reconfigured balance of powers. The result would be a national consensus government – not a national unity government – with centre-right support that could get reforms, including the recovery plan, back on track. It would offer a dignified way for new allies (the centrist “fourth way”) to join a third Conte government.

Some obstacles remain, however. To start with, the Five-Star Movement has thus far categorically refused to allow troublemaker Renzi to make a grand comeback. M5S thinks Italia Viva – which, despite the concessions granted to it, precipitated the crisis – can no longer be trusted. However, it is going to have to choose between accepting the new pact, abandoning Conte or facing the electorate. M5S was set to hold an emergency meeting on Monday evening to decide how to proceed.

All hopes are pinned on the new deal.

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### Resilient exports

After October's slight decline, exports grew 4% in November from the previous month. The export recovery was driven both by growth in Eurozone exports (+4.8%) and those to non-EU markets (+3.2%). Imports increased (+3.3%), driven by increased purchases of capital goods (+9.6%).

The rise in sales of intermediate goods (+7.1%) explains half of November's export growth. It was accompanied by a sizeable increase in sales of non-durable consumer goods. Markets whose growth is driving exports are, for the Eurozone, Germany which led to a more than 8% increase in exports year-on-year, as well as Switzerland and the United Kingdom. Outside the Eurozone, sales to Asia continue to drive exports, particularly with the recovery in Chinese demand. Those four markets contribute to more than half of sales in metals

(+15.3%), automobiles (+26.9%), and machinery (+2.1%).

The trends observed in export markets are also perceptible in new industrial orders, which are growing for export markets (+2.5%) but falling domestically (-3.8%). The increase in export orders has been driven by intermediate goods, the only category to record a rise (+0.8%), while investment goods and consumer goods have fallen -2.5% and -2.6%. Overall, new orders contracted 1.3% in November compared to the previous month.

Industrial sales also held steady, returning to September levels, a 2.0% decline from the month before. The decrease was seen in both domestic and foreign markets, but was larger in the domestic market, with -2.5% and -1% respectively.

**✓ Notre opinion** – *It seems that exports could offset the weakness of the domestic market, which has been badly hurt by the autumn lockdown measures. The robustness of November's exports partially explains the resilience of industrial output over this month, which fell only 1.4%. Despite a weaker environment, Italian businesses continued to produce, and the foreign market could offer an outlet for their production. A better-than-forecast situation in Germany and a strong recovery in China and the United States both help Italian exports, which are retaining market share despite the crisis. However, this balance remains as fragile as before, given the downside risks on the global economy.*

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### The Senate's gamble

The resignation of two ministers and the Secretary of State from Italia Viva officially triggered a cabinet crisis, and could result in the end of the current Conte government (formed by the PD-M5S-Italia Viva majority). The day after Matteo Renzi's statements announcing that he would withdraw his party from the government, the Prime Minister faced several options: face a confidence vote, continue negotiating with Renzi's faction, or resign. He seems to have opted for choosing a “responsible” majority to keep the legislature together. This option had been mentioned, but did not seem to be the top

choice although rumours about vote counts and negotiations with various senators had leaked early in the week. It had been deemed too fragile by President Sergio Mattarella. But with the connection to Italia Viva seemingly gone for good, this was a risk that the Prime Minister decided to take. With the defection of Italia Viva, Giuseppe Conte must rely on the support of so-called “responsible” senators to obtain a slim numerical majority.

In the Senate, the current Conte government has the support of the majority, with 92 M5S senators, 35 PD



senators (35), five from LeU, six from the Autonomies, and nine Senators from the mixed group, for a total of 165 votes if *Italia Viva* is also counted. This tally does not include senators for life. With the exit of Matteo Renzi's party, the coalition has fallen below a majority, with 147 votes. Counting the senators for life, Mario Monti and Elena Cattaneo, who up to now have supported the second Conte government, the total is 149. Giuseppe Conte must therefore get 14 votes to achieve 161 (or 12 if Monti and Cattaneo are counted) and form a majority.

To consolidate this majority, the "responsible" senators could take the form of a fourth Parliamentary group if there are more than 10 of

them supporting Giuseppe Conte as a bloc. Among those considered likely, the so-called mixed groups, particularly with senators from abroad, could lend their support to the head of government, as well as some of the former Five Star senators banned from the party. Conte could get support from *Forza Italia*, as well as *Italia Viva* members who have broken away from Matteo Renzi.

The Prime Minister has given himself until Monday to face a confidence vote. He will ask for the Assembly's vote at the start of the week and will appear before the *Palazzo Madama* Tuesday morning to do the same for the Senate.

**✓ Notre opinion** – *The Prime Minister seems to be doing everything within his power to "parliamentise" the crisis and save his government. A slim majority in the Senate will of course allow him to keep the legislature alive, but relying on a small group of disparate senators to govern will end up being difficult. If he fails, it's possible elections will be held in June. Nobody seems to want this to happen, neither the current majority as the M5S is expected to lose nearly half of its representatives, nor the centre-right which is holding together but wants the crisis to be settled in Parliament.*

Originally published on 15 January 2020

### Economic players are better prepared for the pandemic's second wave, but hardship remains

As the consequences of the second wave on the economy become clearer, the publication of the accounts of institutional sectors sheds more light on how economic players are faring after the third-quarter bounce.

**Strong growth in the third quarter was also reflected in an increase in disposable household income, which grew 6.8% quarter-on-quarter, after a decline revised to 5.5% in the second quarter. Despite the 12.1% increase in final consumer spending, savings fell only slightly, from a peak of 19% to 14.6%, or 4.4 percentage points less. At the same time, the household investment rate rose from 4.9% to 6%. Given the economy's strong performance, a recovery in household income was expected, but its strength was surprising nonetheless. In fact, after falling 6.6% from pre-crisis levels during the first lockdown (Q2), disposable income is only 0.8% lower than what it had been in the fourth quarter of 2019.** Several factors explain this rebound. First, employment support measures made it possible to limit the impact of the decline in income on households. Details of the accounts show that while the value of primary income dropped 8.8% in the first half of 2020 relative to the first half of 2019, **the decline in gross disposable income was much smaller over the period (-3.8%) and was mostly offset by the growth in net social transfers (+60.3% and a 5.1 percentage point contribution to disposable income).** Second, the economic restart has also

been reflected in a substantial increase in hours worked, which rose 21% over the previous quarter. This recovery was accompanied by a 12% revenue increase in what is still a low-inflation environment.

For businesses, growth in added value was stronger than in compensation, and enabled a **3.2-point improvement in the margins of non-financial companies, rising from 39% in Q2 to 42.2%.** The investment rate of non-financial companies, meanwhile, grew 0.5 percentage points, to 22.2%.

The improvement in players' situations after the difficulties encountered in the first half of the year has enabled them to face the second wave of the pandemic in better shape. The ISTAT business survey during the health crisis shows that, unlike the first lockdown, the approach that varies by region, with lockdowns ranging from partial to total, has encouraged the continuation of some activity. **Although 48% of companies declared themselves to be inactive during the first lockdown, 68.9% of them have remained active during the second phase of restrictions.** Furthermore, 23.9% of them are reporting partial activity (carrying on their business under certain limitations in terms of space, hours, and customer access). **Of the 73,000 companies declared closed (7.2% of the sample and 4.0% of employment), 85% are micro-companies concentrated in the non-commercial services sector.** Businesses directly affected by the

restrictions were the most common to declare a closure, or even partial activity. They are concentrated in sports and entertainment (77.9% closed or partially active), followed by lodging and hospitality services, casinos, and food service (84.9% closed or partially active), and retail (3.1% closed and 15% partially active). These were also the largest sectors in reporting a decline in revenue between June and October. Tourism businesses were the most affected, with nearly 43.5% of companies in hospitality that say that they did not have any revenue or saw it decline more than 50%. Restaurants appeared more resilient, with 26.7% of companies showing no revenue or a more than 50% decline, and 56.3% between 10 and 50%.

**Industrial businesses seem to have held up better. Specifically, 13% of the companies surveyed saw losses greater than 50% between June and October, and more than 80% of industrial firms remained active in November.** This data largely explains the behaviour of industrial output during the second wave, as it has proven more resilient than during the first lockdown. **After growing 1.4% in October, the industrial output index fell 1.4% month-on-month in November.** All sectors, except for intermediate goods (+0.2%), were affected by this decline, but it remained largest for consumer goods (-4.0%) and energy (-3.6%). The growth overhang for the third quarter was

therefore slightly negative, at 0.8%. Year-on-year, output was 4.2% lower. The Q3 recovery was partially offset by the slowdown beginning in September. After nearly returning to pre-crisis levels in August, industrial output in November was 4.7% below where it was in January 2020.

These were direct consequences of the closure of retail shops in the red and orange zones, as **November's retail sales index contracted by 6.9% in terms of value and 7.4% in terms of volume.** As with the first lockdown, there was an increase in food sales (+1.0% in both value and volume terms) and a decline in non-food products in both value and volume terms (-13.2% and -13.5%, respectively). Year-on-year, retail sales dropped 8.1% by value and 8.4% by volume, driven by non-food sales (-15.1% by value and volume). Except for computing, telecommunications, and telephone devices (+28.7%) and household tools and appliances (+2.0%), nearly all non-food product groups saw a decline. It remains larger in clothing and recreation products, with -45.8% for shoes, leather articles, and travel goods, and (-37.7%) for clothing and furs. **E-commerce continues to gain ground, with online sales up +50.2%.** Small shops, meanwhile, are being hit harder than large retail, with sales at -12.5% for the former and -8.3% for the latter.

*Originally published on 15 January 2021*



### Political chronicle: from a manufactured crisis to an outright crisis

Italy isn't just a seismic zone in a literal sense; its politics are also subject to tectonic shifts. The fear is that the Conte government could itself be swallowed by a crevice. Although the hostility between the Prime Minister and Matteo Renzi was already palpable before the coming of the new year, the political crisis took on a new dimension the following week with several potential outcomes, from a mere cabinet reshuffle to early elections.

#### Behind the chaos: a matter of big money

Tensions between the Prime Minister and the head of Italia Viva had emerged around the management of the stimulus plan and the use of ESM funds. In an open letter to the press late last month, Matteo Renzi criticised Giuseppe Conte's approach to managing the NGEU, which was to rely on a special cabinet led by the triumvirate of the Prime Minister and the Ministers of Finance and of Economic Development. Returning to the controversy of whether or not to use the €36 billion from the European Stability Mechanism was also in the balance. Supported by Mr. Renzi and the Democratic Party, it continues to draw fierce objections from M5S and the right-wing opposition. But behind this matter of big money, Mr. Conte's control of the board was the real target, and the origin of what some believe to be a manufactured crisis.

This is because Mr. Renzi, despite his 4% in the polls, holds a trump card. Italia Viva is only a minor partner in the governing coalition supporting Conte II, which also includes the PD, MS5, and LUE. However, the majority in Parliament, and particularly in the Senate, is so narrow that it depends on the support of Italia Viva's eighteen senators. As both houses of the Italian Parliament played exactly the same role in approving each legislative act, not controlling the majority in one of them means losing the majority in all of Parliament.

#### Political manoeuvring: a three-turn game

As no compromise was reached, the tensions deteriorated into open conflict. Italia Viva threatened to withdraw its ministers from the government, which could plunge the country into a new political crisis and possibly early elections. But why take that risk when the majority has everything to lose? A quick look at the polls shows no upheaval in store, with the Lega still in front, despite the rise of Fratelli d'Italia, followed by the PD and by MS5 which has shrunk to practically nothing. Given the serious times, calls for responsibility have grown, reaching the highest levels of government. From the outside, this strategy by a minority party seems fairly irrational. Some might see it as yet another attempt by Mr. Renzi to cause trouble for both right and left alike. But it's also

possible Renzi is saying out loud what Zingaretti is thinking to himself. Behind the show of force between Italia Viva and Conte, tempered by appeals to responsibility from Zingaretti, negotiations are playing out backstage between the three mediators, Bettini, Spadafora, and even Di Maio.

### **But playing with fire often leads to getting burnt**

Tensions seemed to reach a breaking point over the weekend. The latest rumours indicated that both sides' strategies had led to a stalemate. The political balancing act that sought to increase the left's share of control of the government, while limiting the Prime Minister's prerogatives, which had been greatly expanded by management of the pandemic, has fallen apart. Giuseppe Conte, who until now had gained from the cracks in the majority, clearly changed his tune by acceding to several of Italia Viva's demands. But he seemed to have forgotten how precarious his position is. He threatened to seek a vote of confidence, even without majority support. Some have said that he might not be worried about new elections and aims to lead his own list, on the back of his management of the crisis.

Over the weekend, Mr. Renzi persisted, and signalled that without a change in executive leadership there could be no resolution. Was he bluffing? Was the hostility real? Were the rumours coming true? He denied negotiating for his own ministry. Overwhelmed by Renzi's ploy, the PD which had been running out the clock ended its silence and put its foot down. Their new talking point is "no alternative to Giuseppe Conte". This is also supported by the M5S, which, reinvigorated by Beppe Grillo's appeal, has fallen in line behind the Prime Minister.

Friday's meeting, which was meant to be decisive, ended with an offer of friendship from the Prime Minister, confirmed by a long Facebook message on

Saturday. Conte is ready to give in to some of Italia Viva's demands, and that party in turn said that it would wait to comment on the full text of the Stimulus Plan, not just the thirty pages that were submitted to it.

Every possible scenario is still on the table: if Italia Viva does not withdraw its support for the majority, the path is open to a cabinet reshuffle that would lead to Conte III. If Renzi does withdraw his support, three things may happen. The Prime Minister could ask for a vote in Parliament to "trap" Italia Viva and retain a slim numerical majority with the help of so-called "responsible" senators. But this option is deemed too risky by the PD, and by President Sergio Mattarella. If this attempt were to fail, the last resort would be to appoint a technocratic government, after which no options would remain save for elections that nobody seems to want. These prerogatives would be limited to managing the vaccination campaign and stimulus plan. Mario Draghi's name has come up several times. This solution has been promoted by Forza Italia among others, because it would enable that party to get back into the game and have a say in how the European funds are spent. Likewise, the Lega might tacitly support this initiative, with Matteo Salvini caught between a rock and a hard place: the pressure from his liberal wing in the North to maintain the centre-right's lead and the risk of losing votes on his right flank to Giorgia Meloni.

It's hard to imagine the majority having management of the stimulus taken out of its hands. For this reason, after a week of tensions, the first scenario seems the most likely. Though he may take a few lumps, the Prime Minister is expected to give in to Italia Viva's demands after they somewhat refocused their attention on the stimulus issue this weekend.

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## Consult our last publications:

Date	Title	Theme
21/01/2021	<u>Insects as a source of protein for animal feed</u>	AgriFood
14/01/2021	<u>2021: a pivotal year</u>	Eurozone
08/01/2021	<u>Italy – 2021-2022 Scenario: 2021, same as last year?</u>	Italy
06/01/2021	<u>Spain – 2021-2022 Scenario: persistent uncertainties in 2021</u>	Spain
06/01/2021	<u>Eurozone – 2021-2022 Macroeconomic scenario: between promises and threats</u>	Eurozone
22/12/2020	<u>Germany – 2021-2022 scenario: growth hinges on containing the risks to health and expansionary fiscal policy</u>	Germany
22/12/2020	<u>France – 2021-2022 Scenario: What will the end of the crisis look like for France?</u>	France
22/12/2020	<u>Italy – Monthly News Digest</u>	Italy
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**Crédit Agricole S.A. — Group Economic Research**

12, place des États-Unis – 92127 Montrouge Cedex

**Publication manager:** Isabelle JOB-BAZILLE**Chief Editor:** Armelle SARDA**Editorial committee:** Paola MONPERRUS-VERONI – Farouz LEMOSLE – SOFIA TOZY**Information centre:** Dominique PETIT**Editor:** Fabienne PESTY**Contact:** [publication.eco@credit-agricole-sa.fr](mailto:publication.eco@credit-agricole-sa.fr)**Consult the Economic Research website and subscribe to our free online publications:****Internet:** <https://etudes-economiques.credit-agricole.com/en>**iPad:** [Etudes ECO application](#) available on App store platform**Android:** [Etudes ECO application](#) available on Google Play platform

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