Prospects

No. 21/142 – 28 April 2021

EUROZONE – 2021-2022 Macroeconomic scenario

A uniform exit from the pandemic, an uneven exit from the economic crisis

- **The second wave of the pandemic seen at the end of the year was reflected in the Eurozone as a further decline in growth in Q4 2020 (- 0.7%).**
- **This fall widened the growth gap between the Eurozone (4% in 2021 and 4.1% forecast for 2022) and the other major advanced economies as well as the divide relative to pre-crisis GDP levels (-6.8% at the end of 2020).**
- **In 2020, the recovery of household consumption was only partial, but the new rise in the savings rate in Q4 2020 implies an immediate possibility of a rebound in consumption once the lockdown ends. It also raises questions about what will happen to spending once public support has been depleted, particularly in countries where income growth is still negative.**
- **The underutilisation of the workforce, which sharply declined over the summer, stabilised by year's end at a much higher level than before the crisis. The declining unemployment rate is still concealing these significant effects of departures from the job market, which are likely to lead to a rise in the unemployment rate once the economy recovers.**
- **The recovery in investment is more advanced, though it varies from one country to another, and is benefiting from a very fast recovery in construction investment.**
- **Despite the Q1 delay in the vaccination campaign rollout, the massive supply of doses anticipated in Q2 will make it possible to achieve vaccination objectives uniformly across the zone's major economies.**
- **Meanwhile, in the first half of the year, the Eurozone will benefit from the robustness of the global manufacturing cycle, which should limit the Q1 2021 GDP decline (-0.6%). The partial reopening of the economy in May will make it possible to achieve positive growth in Q2 (+1.1%), ahead of the strong rebound anticipated in the summer (+2.4%), with the recovery in the consumption of services and the reopening of tourism in the zone.**
- **Fiscal policy will continue to support the recovery, with additional measures in 2021 that will prevent government deficits from improving (too early). This new effort is enabled by the suspension of European budget rules until 2022, thereby enabling support through measures primarily financed by national budgets, pending the broader roll-out of payments drawn from the Next Generation EU plan beginning in 2023.**
- **Monetary policy continues to prove highly responsive to the financing conditions of the private and public sector, and the ECB is showing no signs of complacency with any unjustified upward revision of market inflation expectations.**
- **Our scenario assumes a full recovery in consumption and exports by the end of 2022, but not in investment. As such, the recovery is expected to be incomplete, as domestic demand will not have returned to pre-crisis levels by our scenario's horizon. It is also likely to be uneven. Although the Eurozone average, as well as France and Germany, should return to pre-crisis GDP by mid-2022, Italy and Spain are likely to still fall short at the end of 2022.**

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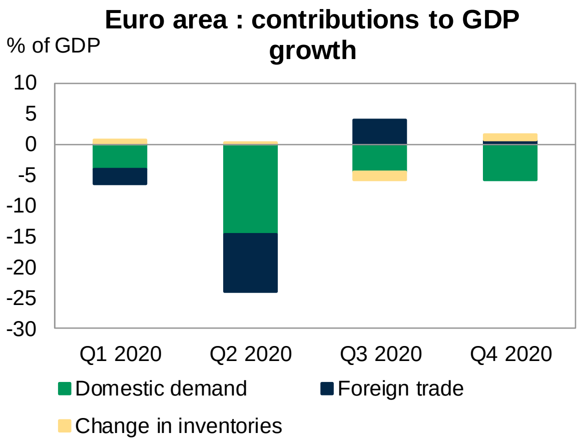
- **The risks are more balanced than they were a few months ago. The centralised management of the vaccination campaign is expected to ensure that countries will exit the pandemic at a similar pace. On the other hand, the countries will exit the economic crisis at a more uneven pace, although the ramping-up of the European funds is likely to reduce that fragmentation.**
- **The main source of risk in our scenario comes from growing pressure on the solvency of companies and the complex choice that governments face as they move from dealing with a liquidity problem to a solvency problem.**

With a more severe GDP contraction in 2020 (-6.8%) and more modest growth anticipated for 2021 (4%) and 2022 (4.1%), the COVID crisis has widened the growth gap between the Eurozone and the other major advanced economies. The new economic and mobility restrictions have led us to moderate our forecasts for the start of the year. Still, the better outlook for the second half of the year means we can expect **activity to return to its pre-crisis level sooner (second quarter of 2022) than forecast in our December scenario.**

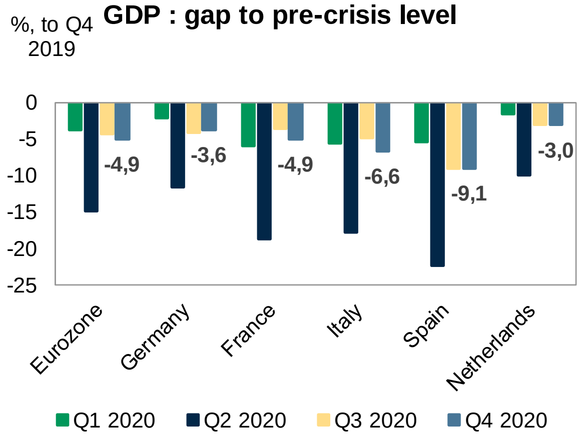
Q4 2020: after the crash and rebound, learning how to be resilient

The zone's growth has proved more resistant to the new restrictions in place since November to tame the second wave of the virus. In the fourth quarter of 2020, the decline in GDP was 0.7% qoq; while the increase in foreign demand held steady, and investment remained positive, this decline was mainly attributable to the drop in private consumption.



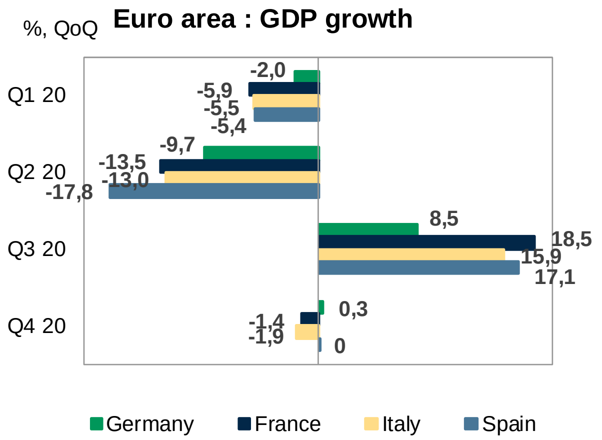
Sources : Eurostat, Crédit Agricole S.A.

As 2020 closed out in the Eurozone, the gap in GDP compared to its pre-crisis level widened further (-4.9% compared to the fourth quarter of 2019). **However, the scale of this activity gap varied widely according to the major economies**: lower than the Eurozone average in Germany (-3.6%) and equal in France (-4.9%), but higher in Italy (-6.6%) and especially Spain (-9%).



Sources : Eurostat, Crédit Agricole S.A.

The European economies' response to the autumn lockdown was mixed and varied depending on the strictness of measures and on each economy's capacity to benefit from a buoyant global manufacturing cycle (see *Eurozone Focus – Health assumptions*). While GDP fell in Italy (-1.9%) and France (-1.4%), it continued to rise in Germany (+0.3%) and stalled in Spain (0%).



Sources : Eurostat, Crédit Agricole S.A.

Overall, **the decline in household consumption (- 3%) was less marked than expected**, with spending behaviour gradually adapting to the new retail options available. **Despite hours worked falling again, payrolls rose, and the decline in disposable income (-0.8%) was limited, supported both by the trend in government benefits and deferred taxes.** Disposable income is therefore very close to the pre-crisis levels seen in the summer of 2020. As such, it was the constraints on spending that triggered another increase in the savings rate. After its Q3 2021 decline, which had accompanied the economic and consumption

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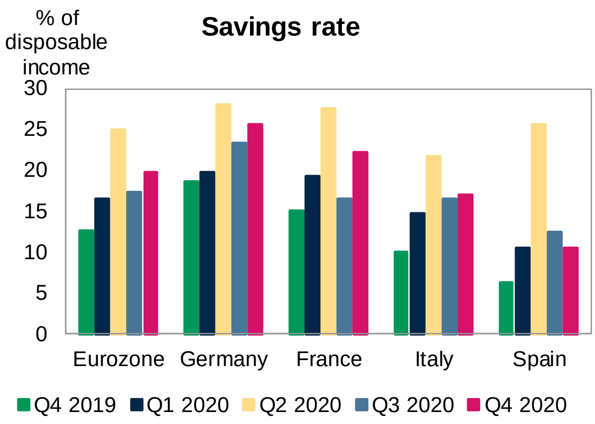
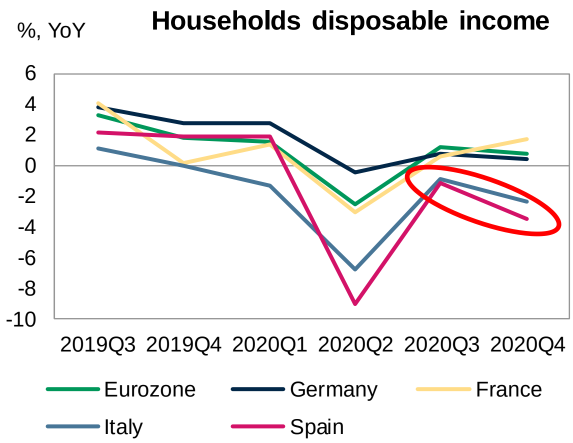
recovery over the summer, **the household savings rate rose sharply in Q4 2020 (19.8% after 17.3%). That is its highest level since 1999, after the peak seen in Q2 2020 at 25% during the first lockdown.** Household net lending is also up significantly to 11.1% and has been reflected in a renewed accumulation of liquid assets, which at 126.5% of disposable income has risen 9 points in one year. The increase in debt is also large (+5 points year-on-year to 62.7%), driven by bank debt (+2.9% year-on-year). The increase in financial and non-financial wealth nonetheless has enabled net household wealth to rise again. This forced savings implies an immediate possibility of a rebound in consumption once the lockdown ends, but raises questions about what will happen to spending once public support has been depleted.

These questions are more pressing for some countries than others. A more marked decline in household spending was seen in France (-5.6%) and Germany (-3.3%), while in Spain, private consumption was up slightly. The savings rate rose to a new high in all major economies of the zone, except for Spain. It increased the most in France (where in Q3 2020 it had nearly returned to its pre-crisis level) and Germany, and to a lesser extent in Italy.



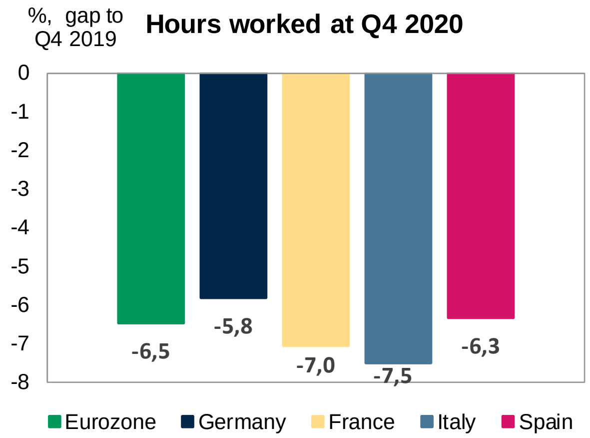
Sources : Eurostat, Crédit Agricole S.A.

But the income dynamic also explains these movements: gross disposable income still accelerated year-on-year in France in Q4, held steady at a positive clip in Germany, but was still down in Italy and even more so in Spain, thereby limiting savings capacity. These gaps in income and savings cushions will be the reason why the ability of household consumption to rebound will differ by country.



Sources : Eurostat, Crédit Agricole S.A.

Payrolls were supported by the rise in employment (+0.3%), despite the **renewed decline in hours worked (-1.6%) in Q4 which widened their gap relative to the pre-crisis era (-6.5%).**



Sources : Eurostat, Crédit Agricole S.A.

Although during the summer, the lifting of mobility restrictions temporarily enabled people absent from the labour market to return to the workforce, the number of people who were absent because they were laid off increased in Q4 2020 again, particularly in France and Italy.
People not available to work or look for a job were able to rejoin the labour market in the summer, but that return was interrupted in Q4 2020. **The underutilisation of the workforce, which sharply declined over the summer, stabilised by year's end at a much higher level than before the crisis.** Although the return to the labour market resulted in a rise in both employment and unemployment during the summer, the jobless rate then fell again, driven by the combination of modest job growth (+0.3% in Q4 2020) and even more modest growth in the workforce.

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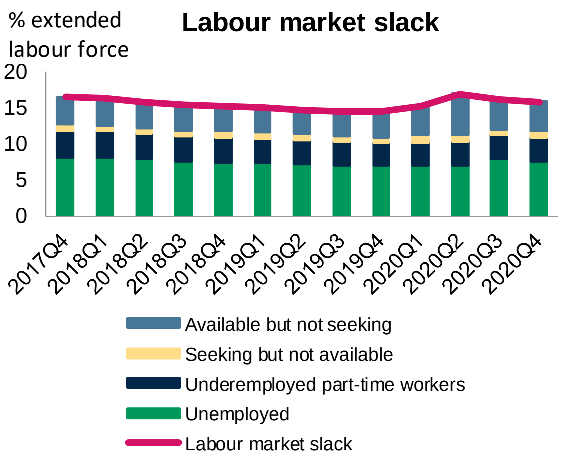


Sources : Eurostat, Crédit Agricole S.A.

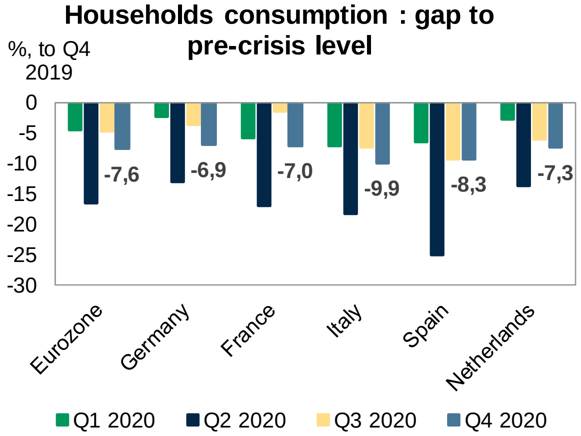
The growth in investment in Q4 2020 remained positive in the Eurozone (+1.6%) and in all major economies, except for Spain. Nevertheless, the dynamics at work varied by country. Business investment (+0.8% across the Eurozone) only grew in Italy and fell most in France. In contrast, construction investment (+0.2% across the Eurozone) drove capital accumulation in Germany and France, while it fell in Italy (after a 41% jump in the third quarter) and plunged in Spain.

Profit margins at non-financial companies improved in Q4 in the Eurozone, returning to 2017 levels (40.4%). They recovered in all major economies of the zone. They benefited from a decline in the cost of labour and production taxes, net of grants, which included public support in the form of short-time work schemes. **This improvement in profitability is therefore still illusory,** but it made it possible to support the recovery in business investment, driving their investment rates up (+23.4%). Net lending therefore continued to recover (2.3% of added value) and has helped to maintain the liquid asset stock of companies, which in one year have risen by 11.6 points of added value. This liquidity has also been driven by the steady growth of credit (+3.6% year-on-year) and the bank debt ratio (+17% points), which has helped push up the firms debt ratio (84.2%). Lending standards and terms and conditions for new loans nonetheless tightened during the summer, making it more costly to pursue debt. However, stricter lending standards may be causing the decline in applications for government-backed loans as the government guarantee had helped considerably in relaxing lending criteria.

Looking back at 2020

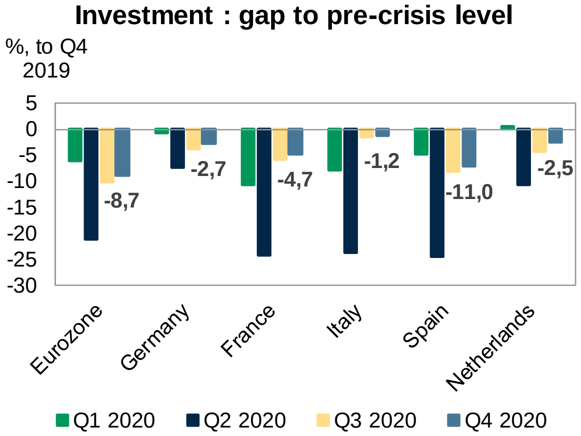
Over the course of 2020, the recovery in household consumption was therefore only partial (-8.1% on average for the year, with a -7.6% lag from pre-crisis levels).

It was faster in Germany and France (where it ended up only -6.8% and -7% below pre-crisis levels) than in Spain and Italy (where that gap was -9.9% and -9.2% respectively).



Sources : Eurostat, Crédit Agricole S.A.

The decline in investment over 2020 was large (- 8.5%) and its recovery has also been delayed (-8.7% from pre-crisis levels), but it is generally further along in Italy (-1.2%) and Germany (-2.7%), while remaining well below in France (-4.7%) and Spain (-7.2%).



Sources : Eurostat, Crédit Agricole S.A.

In construction, capital accumulation is close to its pre-crisis level (-2.8%) due to a very rapid recovery in Germany and Italy, where the end-of-2019 level has already been exceeded, whereas France and especially Spain are still well behind.

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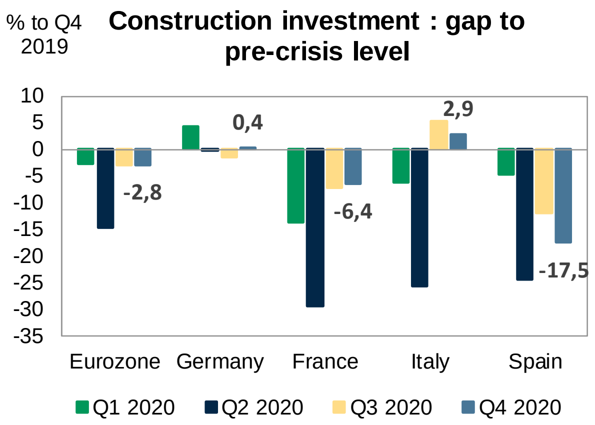
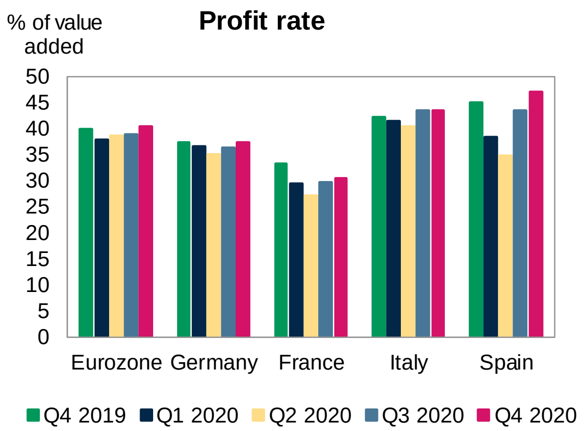
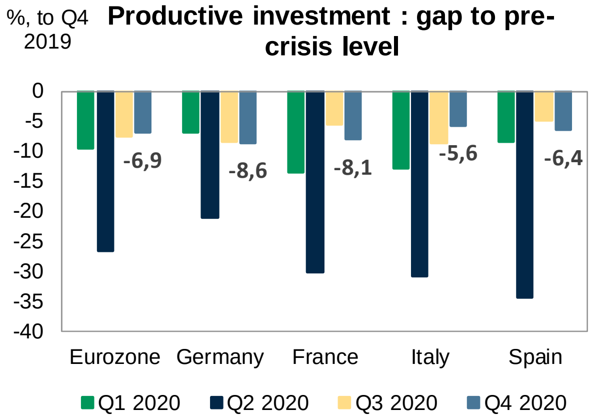


Sources : Eurostat, Crédit Agricole S.A.



Sources : Eurostat, Crédit Agricole S.A.

However, the recovery of total investment has been partial (-6.8%). In Italy and Spain, the faster recovery in business investment is being supported by margins that have returned to pre-crisis levels more quickly, while it is still a bit lower in Germany and even further back in France.



Sources : Eurostat, Crédit Agricole S.A.

2021: benefiting from the recovery elsewhere before beginning a local recovery

Our growth scenario introduces a downward revision of growth in the first quarter of 2021 (-0.6%) compared to our December forecasts, while the partial reopening of activities anticipated in May will help boost growth for the second quarter (+1.1%) *(see Eurozone Focus – Health assumptions).*

Despite the gloomy news on the current health situation and looming restrictions, in the first half of the year the **Eurozone is benefiting from the power of the global cycle and robust US activity**. The overall improvement in confidence is being passed on to the zone, particularly in industry, where production growth accelerated sharply in March, according to the PMI index, which climbed to its highest point since 1997. However, the capacity utilisation rate still remains low in the first quarter, and both demand-side and supply-side production constraints are high.

Eurozone Focus – Health assumptions: an ambitious but achievable race against time

Although the availability of several vaccines at the end of 2020 shaped expectations of a rapid exit from the crisis, those expectations soon had to be adjusted. The emergence of viral variants, coupled with delays in vaccine production and distribution, have helped to fragment expectations further. Hence the (harder) bargain of suffering more permanent losses in business to gain control of a pandemic that has grown more complex. This trade-off between the economy and health has become more difficult to settle given the costs of the first lockdown, which have since become clear and have mapped out economic hierarchies among the countries. Responses to the pandemic's second and third waves have been marked by hesitancy over strategies that curb activity and movement.

When the second lockdown began, mobility restrictions and business closures were most severe in France and Italy, less so in Spain, and much less so in Germany. Yet starting in December, Germany and Italy further hemmed in activity, followed by Spain, while France began to relax its restraints. In January, limitations on movement and business were still quite severe in Germany, the Netherlands, Italy and Spain, where measures had been less strict since the start of the second wave. The situation in France was

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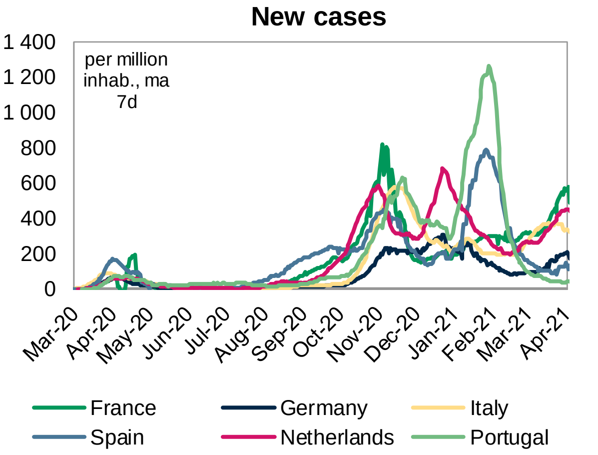
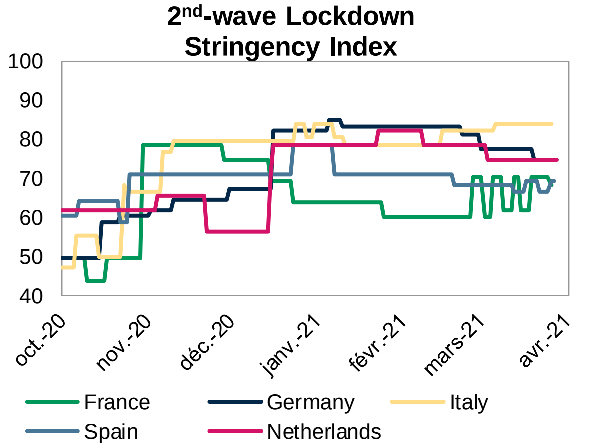
characterised by more restrictive measures. This hierarchy among countries was maintained through February, but in March, Germany and the Netherlands had begun to ease constraints before backtracking, while Italy and France tightened them further still. Spain, meanwhile, did little to change the severity of the measures in place.

While these latest restrictions had been expected to control the spread of the virus, now the focus is on vaccine strategy to set the timetable for reopening the economy. This timetable, though longer than others elsewhere, does look to be uniform among European Union (EU) countries. The EU's strategy for supplying vaccines has evolved gradually, dropping the free-for-all approach of the first weeks of the pandemic and adopting a stronger cooperative spirit in its place. So Europe's capitals instructed the European Commission to purchase vaccines and support a coordinated effort to distribute them. The Commission has overseen the production of sufficient vaccine quantities in the EU, entering into agreements and advance purchase contracts with manufacturers on behalf of EU Member States to ensure that all States have affordable access to Covid-19 vaccines. Expenses are financed by the €2.7 billion Emergency Support Instrument.



Sources: Crédit Agricole S.A., OWID



Sources: Crédit Agricole S.A., Oxford University

The Commission offered the countries the most equitable solution for allocating vaccine doses, pro-rated to the population of each Member State. However, the States decided instead to include some flexibility, to enable dose distribution based on each country's epidemiological situation and vaccination needs. This choice was also justified by a series of differences among vaccine prices (five to ten times higher for mNRA vaccines than for AstraZeneca's), their storage conditions, and the laboratories' presumed chances of producing a vaccine.

Under this system, if a State decides not to use its pro-rated allowance, its doses are redistributed among the other interested Member States. For example, some countries (Austria, Slovenia, Croatia, Czech Republic, Latvia, and Bulgaria) have chosen to participate less in the purchase of mRNA vaccines, and instead make AstraZeneca the centrepiece of their vaccination campaign. Germany (83 million inhabitants), meanwhile, has chosen the Pfizer-BioNTech vaccine and is expected to receive 94 million doses, 64 million from the EU's first purchase of 200 million, and 30 million from a separate bilateral agreement signed after some countries refused to buy the additional 100 million doses reserved by the EU.

Delivery delays contributed to the lag in the European vaccine campaign's distribution target in the first quarter of 2021. The imperative now is to salvage the second quarter of the year and meet the vaccination target of 80% of healthcare and social workers, as well as those over age 80, before the end of March, and 70% of the adult population by the end of the summer. Achieving these two goals would accomplish two aims: reducing death and hospitalisation rates and relieving pressure on healthcare systems; and then putting Europe on the path to herd immunity, helping protect those who cannot be vaccinated and providing a bulwark against the spread of the virus and the development of variants.

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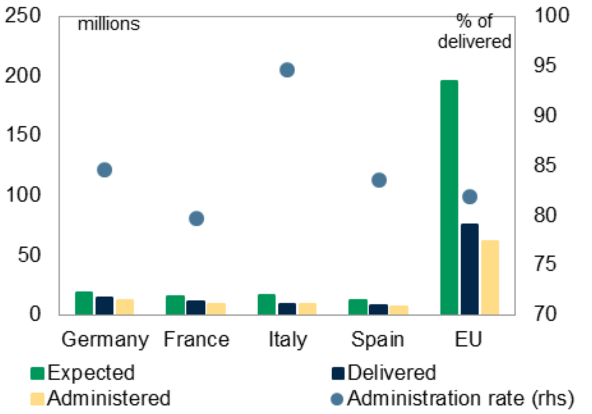
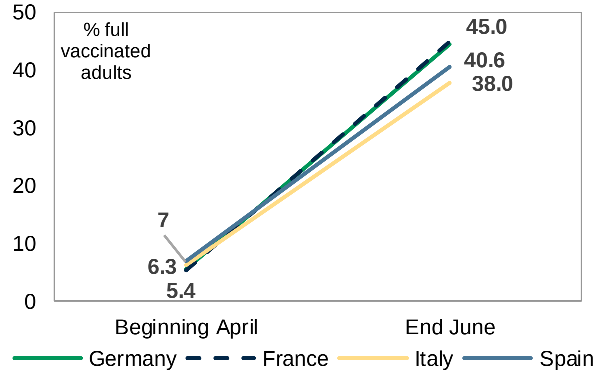
The EU first responded to delivery delays by purchasing new doses from other suppliers (10 million Pfizer-BioNTech) and tightening the control and transparency mechanism imposed on vaccine exports at the end of January. This meant exports of vaccines produced in the EU could be blocked if there was any delay in a supplier's delivery, in accordance with reciprocity and proportionality principles (epidemiological situation and proportion of the population already vaccinated). However, any such blockage must not have an impact on the EU's international commitments (continuing exports under the Covax scheme) or threaten the continuity of vaccine production. With a global manufacturing chain, political coordination among countries is essential and "vaccine nationalism" is prohibited, since it discourages public financing of production capacity at different links in the value chain that would achieve the scale necessary to meet global demand.

Q1 2021 : vaccine doses



Sources: ECDC, Crédit Agricole S.A.

Vaccine uptake in adult population: conservative scenario



Sources: ECDC, Crédit Agricole S.A.

In the immediate term, it looks as if the vaccination strategy's targets can be reached. The EU has already vaccinated 14.2% of its adult population with the first dose, and 6% with the second dose. Among the four major countries, first-quarter deliveries compared to expected doses ranged from 56% in Italy to 79% in Germany. Countries most reliant on AstraZeneca, such as Italy and Spain, compensated for the fewer doses delivered by administering the vaccines more efficiently (with an inoculation rate from 89% in Italy to 72% in France).

In the second quarter, a higher volume of doses is expected. Both Pfizer-BioNTech and Moderna, which met their first-quarter delivery commitments, are expected to increase deliveries, while AstraZeneca has committed to deliver only 70 million doses of the contracted 180 million. Going by the very conservative assumption that only half of the promised doses will be delivered (one-third for AstraZeneca), 38% to 51% of the adult population could be vaccinated by the end of June.

A stronger rebound in the summer is also expected (+2.4%), with consumption of services picking back up, and tourist flows heading back to Europe.

Our scenario assumes a full recovery in consumption and exports by the end of 2022, but not in investment. By mid-2022, household spending will have fully recovered in France and Germany, but not in Italy or Spain. Investment – specifically productive investment – will not be back to its pre-crisis level by our scenario's horizon. Despite the stabilising effect of public support, the corporate financial situation has deteriorated. Cash flow requirements allocated to paying deferred tax and social security contributions and repaying debt may curb companies' propensity to invest, and fuel their risk aversion. While the maturities and grace periods of government-backed loans have been extended, loan moratoria are coming to the end of their use as liquidity support. Extending them has become a costlier prospect, and banks will become more selective in that respect. **The harm to companies' survival has not been prevented – merely postponed. The same is true of the harm to employment.** Not all temporary withdrawals from work can be absorbed by an employment recovery. This will be exacerbated by significant reallocation effects between sectors. **The unemployment rate will rise and peak in early 2022 (9.5%) before starting to decline.**

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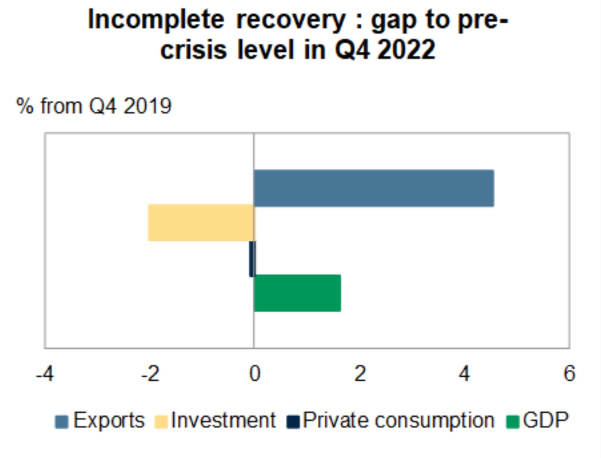
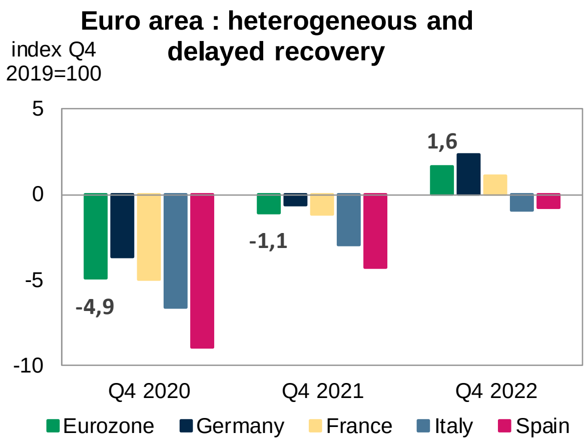


Sources : Eurostat, Crédit Agricole S.A.

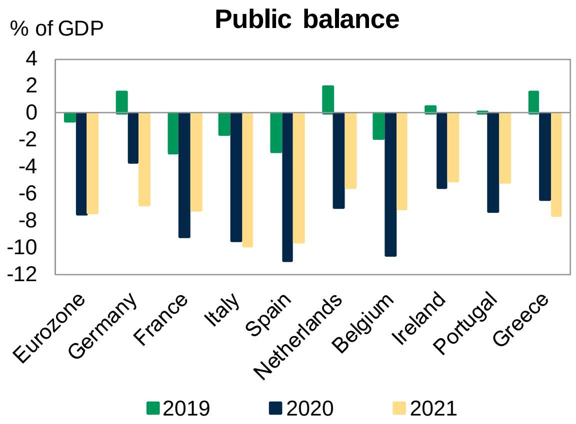
As such, the recovery is expected to be incomplete, as domestic demand will not have returned to pre-crisis levels by our scenario's horizon. It is also likely to be uneven. Although the Eurozone average, as with France and Germany, should return to pre-crisis GDP by mid-2022, Italy and Spain are likely to still fall short at the end of 2022.



Sources : Eurostat, Crédit Agricole S.A.

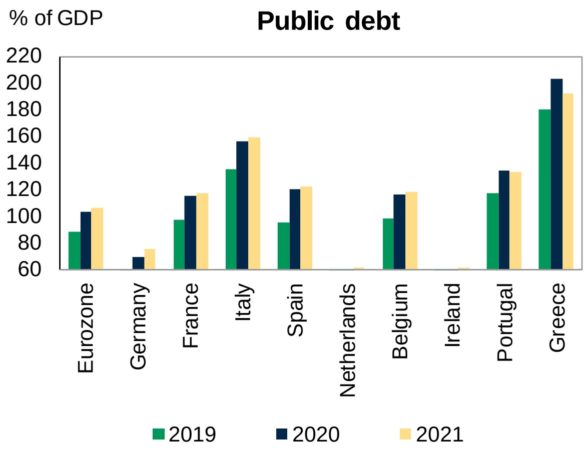
Fiscal policy: a positive push, still largely nation-driven

The decline in Eurozone GDP in 2020 (-6.8%) was more limited than expected when the budgets for 2021 were presented (-7.8%). The deficit was shallower than expected (7.4% vs. 8.7% of GDP) because there was less of a decline in the balance's cyclical component and in its structural component. In fact, 2020's support measures were not used up, and the balance carried over to 2021. In 2021, growth is shaping up weaker (+4%) than initially projected when budgets were set for 2021 (+5.9%), with less improvement in the government balance due to the cycle. Above all, though, more structural erosion in the balance is expected, with both the deferral of uncommitted 2020 spending carried forward to the 2021 deficit, and additional measures taken to cushion the negative impact of the second (or even third) lockdown.



Sources : Eurostat, Crédit Agricole S.A.

As such, **the deficit is not expected to improve (7.4%) in 2021, and projected debt is expected to continue to increase from 100.8% in 2020 to 103.9% of GDP. Overall, additional measures worth 1.5 percentage points of GDP have been announced since November 2020.** While the fiscal stance was initially thought to become stricter in France and Italy, and remain unchanged in Germany, it will ultimately be more expansionary in all the major Eurozone economies.



Sources : Crédit Agricole S.A.

States therefore heeded the recommendations of European and international institutions to "do more". They were aided by the Commission's decision to extend the suspension of the Stability and Growth Pact (SGP) rules until at least 2022. Uncertainty persists, however, as to the future budgetary supervision framework, since discussion of a possible reform of the rules has not yet begun, though the European Budget Committee has suggested that this reform be discussed before deactivating the SGP's general escape clause. Against this backdrop, **spending more carries the risks of backlash and premature budgetary restraint if European rules are reinstated as early as 2023.**

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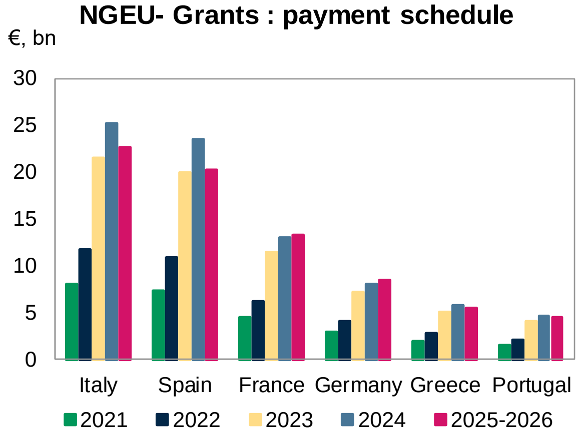
Nevertheless, European funds are providing some visibility. Though they are disbursed later (by 2026), the commitment numbers are known in advance (before 2023), so that the countries can anticipate spending from the national budget. Countries are expected to be able to receive 9% of total grants in 2021, 13% in 2022, 24% in 2023, 27% in 2024, and the remainder into 2026. In addition, 15% of total NGEU loans could be available as soon as 2021, and 28% in 2022.

Thanks to the benevolence of the markets, encouraged by the European plan, the most urgent financing needs will be met at low cost. That is why the average issue yield fell to 0.6% in 2020 in Italy and 0.2% in Spain. This lower cost of financing, particularly for the main beneficiary countries, eases the pressure for consolidation until 2024. Italy and Spain could receive €8bn and €7bn, respectively, in NGEU grants in 2021, and €11.8bn and €10.9bn in 2022.

NGEU- Grants : payment schedule



Source : Crédit Agricole S.A.

On top of this, €8.3bn and €3.9bn, respectively, have already been disbursed under the SURE programme to finance short-time work schemes, i.e. 0.9% of GDP in 2021 for both countries. Adopted in May 2020, the programme became available with the September 2020 signing of the €25bn to guarantee €100bn in bond issues that are to fund Member States' loans. €90.6bn in loans were requested by countries and agreed to upon a decision from the European Council. An additional request for €3.7bn was made, for a total of €94.3bn. The European Commission was able to carry out the first issues in 2020 (in October, November and December) totalling €39.5bn, and in the first quarter of 2021 (with issues of €36bn) it has already brought in €75.5bn. The bond issues (with maturities from three to thirty years) have proven very successful, with investor demand being ten times larger than supply and very favourable financing conditions that have enabled States receiving SURE loans to save €5.8bn in interest charges compared to a national issue. As such, €62.5bn in loans have already been paid out to the States, which have already spent 80% of the funds. The result is that in 2020 alone, the SURE programme had already covered 25 to 30 million European workers (one-quarter of the employment of the States that had requested support) out of a total of 35 million on short-time work schemes. When surveyed by the Commission, the Member States agreed that the SURE programme had played a critical role in their decisions to extend or strengthen these job support measures.

SURE programme

Beneficiaries	Total committed € bn	Paid in 2020	Paid in Q1 2021	Expected in Q2 2021
Italy	27.4	16.5	8.3	2.6
Spain	21.3	10.0	3.9	7.4
Poland	11.2	1.0	4.3	6.0
Belgium	8.2	2.0	2.0	4.2
Portugal	5.9	3.0	0.0	2.9
Romania	4.1	3.0	0.0	1.1
Hungary	0.5	0.2	0.3	0.0
Greece	5.2	2.0	0.7	2.5
Czech	2.0	0.0	1.0	1.0
Slovenia	1.1	0.2	0.9	0.0
Croatia	1.0	0.5	0.5	0.0
Slovakia	0.6	0.3	0.3	0.0
Lithuania	1.0	0.3	0.3	0.4
Bulgaria	0.5	0.0	0.0	0.5
Cyprus	0.6	0.3	0.2	0.1
Malta	0.4	0.1	0.1	0.2
Latvia	0.3	0.1	0.1	0.1
Ireland	2.5	0.0	0.0	2.5
Estonia	0.2	0.0	0.0	0.2
Total	**94.2**	**39.5**	**23.0**	**31.7**

Apart from Spain, which is relying almost entirely on European funds to give the economy a positive fiscal boost, most of the effort for other countries is still paid out of the national budget.

ECB: managing the delayed recovery

At the start of the year, the ECB had to contend with the "reflation trade" and "reflation tantrum" trends driven by the upward revision of growth and inflation expectations in the United States, justified by the launch of the vaccination campaign and the American Rescue Plan, and by the risk of monetary policy moving in a less accommodating direction.

The ECB's response was clear: although the reflation trade might make sense in the United States, it is not relevant or necessary in the Eurozone, because quite simply, it is not motivated by sound fundamentals.

In the Eurozone, core inflation (i.e. excluding food and energy) will be extremely volatile this year, due to multiple technical effects (re-weighting of sub-components, base effect from the temporary cut to the German VAT rate, shifts in the dates of summer

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and winter sales) and will go from 1.4% in January 2021 to 0.5% during the summer, stabilising around 1.0%-1.1% in 2022. Headline inflation is therefore expected to be above 2%, but this high level is expected to be temporary (Q4 2021). This is because, out of all commodities whose prices have seen sizeable spikes, only oil has had a significant impact on consumer price indices, and its price is stabilising. Fears of the supply bottlenecks that appeared last year did not materialise except in a few rare cases. The factors that have been keeping inflation low for over a decade are still present, and have been reinforced even further by the pandemic (digitalisation, shifts to services, excess savings, poor demographics, excess capacity).

The ECB's scenario, which predicts a better growth outlook, has remained unchanged with respect to medium-term inflation and does not justify (or at least not yet) a structural rearrangement of inflation expectations.

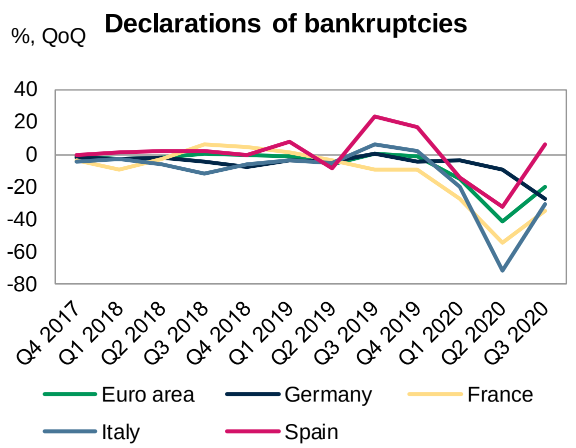
As such, the ECB is applying the following rule: if the rise in interest rates comes with increased inflation, leaving real rates unchanged, central banks must not interfere with markets; on the other hand, if there is no lasting rise in inflation leading to a rise in real interest rates that could harm the economy, this would justify the central bank reiterating its intolerance for markets' perception of a less accommodating repositioning of its monetary policy. The ECB has therefore committed itself to evaluating both financing conditions and inflation prospects, justifying the recent up-tick in the pace of PEPP purchases. In order to avoid a retightening of financing conditions, which would be incompatible with the fight against the pandemic's downward effects on the projected inflation curve, the ECB will continue to take a flexible approach to these purchases, depending on market conditions. If favourable financing conditions can be maintained through flows of asset purchases without exhausting the PEPP budget, during the set time horizon (March 2022), this envelope is not expected be fully used. If on the other hand, it were to prove necessary to increase purchases further, it would be possible to recalibrate the currently €1.85tn envelope.

The ECB has therefore reiterated its goal: avoiding any negative effects on confidence and any crowding-out effect on demand that could be caused by an unfavourable trend in financial conditions; keeping excessive market optimism from outstripping the current realities of the economy. Through this decision, it plans to address the two biggest threats to monetary policy effectiveness: frictions in financial intermediation that could hinder the transmission of monetary stimulus and the lack of guidance on expectations that could feed uncertainty as to its ability to put activity and inflation back on a sustainable growth trajectory.

Risks: delayed, not avoided

Risks are more balanced than they were a few months ago, despite the current difficulty with managing the pandemic and the increased lag compared to other advanced economies. The availability of vaccines, the acceleration of the rollout, and clearer outlook for medium-term fiscal support are positives for Eurozone economies. The centralised management of the vaccination campaign, despite the delays seen at the start of the year, is expected to ensure that countries will exit the pandemic at a similar pace. On the other hand, the end of the economic crisis will be more uneven, although the ramping-up of the European funds is likely to reduce that fragmentation.

The main source of risk in our scenario comes from growing pressure on the solvency of non-financial corporations, which have continued to suffer from a sharp fall in their revenue, while having already exhausted their cash reserves and encountered difficulty renewing the debts that are falling due. However,in the third quarter of 2020 (most recent data available), the rise in Eurozone bankruptcies (there are 20% fewer of them than pre-crisis) is still imperceptible.



Sources : Eurostat, Crédit Agricole S.A.

Several Eurozone governments have in fact temporarily amended the legal framework governing bankruptcy proceedings, suspending declarations. Cash flow support measures have also delayed such declarations. Although there is consensus that bankruptcies will not experience the same trend as they did during the global financial crisis, a sharp rise is nonetheless inevitable.

In this first crisis management phase, preventing a destructive wave of corporate bankruptcies and minimising their cost to society have therefore been crucial to preserving economic and financial stability. **Government support has played a major role in enabling the banking sector to be part of the solution and continuing to play its role:** this

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has made it possible to avoid traditional proceedings from being implemented which would have resulted in a quicker, perhaps excessively quick, rise in bankruptcies. This support was largely focused on liquidity assistance at a time when the gap between halted revenue and ongoing operating costs had to be filled.

Today, **governments are facing a complex choice: continue or withdraw this support and therefore deal with moving from a liquidity problem to a solvency problem.** In making this decision, they will need to assess the short-term challenge of the consequences of restoring competition by withdrawing government support and regulatory exemptions given the long-term challenge of reallocation needs.

The Covid-19 pandemic has created a dangerous, unprecedented combination of pressure on liquidity and acceleration of long-term trends that favour certain companies (digital practices and business models, selling without physical interaction) over others. This shock could lead to the insolvency of a large number of companies whose futures look very different. This liquidity crunch and these transformations will make it more complicated to **strike an already-difficult balance between the risk of ineffectively liquidating economically viable businesses and the equally ineffective propping-up of non-viable "zombie" businesses.**

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Crédit Agricole S.A. growth forecasts

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

	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	**-3,8**	**-11,6**	**12,5**	**-0,7**	**-0,6**	**1,1**	**2,4**	**1,1**	**0,8**	**0,7**	**0,6**	**0,6**	**1,3**	**-6,8**	**4,0**	**4,1**
Germany	-2,0	-9,7	8,5	0,3	-1,0	1,3	1,7	1,1	0,7	0,7	0,7	0,7	0,6	-5,3	2,9	3,9
France	-5,9	-13,5	18,5	-1,4	0,4	-0,4	2,8	1,1	0,6	0,6	0,5	0,5	1,5	-8,2	5,4	3,6
Italy	-5,5	-13,0	15,9	-1,9	-1,3	1,5	2,9	0,7	0,7	0,6	0,4	0,4	0,3	-8,9	3,8	3,9
Spain	-5,4	-17,8	17,1	0,0	-0,8	1,1	3,4	1,3	1,0	0,9	0,9	0,8	2,0	-10,8	4,9	5,3
Netherlands	-1,5	-8,5	7,8	-0,1	-0,9	1,6	1,7	0,8	0,6	0,6	0,6	0,6	1,6	-3,8	2,7	3,4
Belgium	-3,4	-11,8	11,6	-0,1	0,2	0,9	1,4	0,7	0,8	0,5	0,5	0,5	1,7	-6,3	4,0	3,1
Ireland	-3,9	-2,1	11,8	-5,1	-0,2	3,8	2,2	1,5	1,3	1,1	1,1	1,1	5,9	2,5	5,2	6,3
Portugal	-4,0	-13,9	13,3	0,2	-1,9	1,2	3,8	2,2	0,6	0,5	0,3	0,2	2,5	-7,6	4,1	5,2
Greece	0,4	-13,4	3,1	2,7	1,6	1,9	3,9	3,2	2,1	1,5	0,6	0,4	1,6	-8,0	5,7	8,6
Finland	-0,9	-4,3	3,2	0,4	-0,2	0,8	1,3	0,8	0,6	0,6	0,6	0,6	1,3	-2,8	2,0	3,0
Luxembourg	-1,6	-7,3	9,3	1,6	0,2	0,6	0,6	0,6	0,6	0,6	0,6	0,6	2,3	-1,3	5,0	2,5
Austria	-3,0	-10,7	11,8	-2,7	-0,5	2,8	2,1	1,6	0,5	0,5	0,5	0,5	1,4	-6,7	3,6	4,3
Slovenia	-4,8	-10,1	12,2	-1,0	0,8	-0,1	2,0	1,9	0,5	0,5	0,5	0,5	3,2	-6,1	4,5	3,8
Malta	-2,5	-14,2	8,0	3,8	1,3	1,1	1,0	0,3	1,6	2,6	1,1	1,1	5,6	-6,9	5,6	5,6

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