FitchRatings

Global Economic Outlook – December 2020

Light at the End of the Tunnel

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> "The coronavirus is once again taking its toll on economic activity as the second wave prompts new restrictions, but the vaccine news is a game-changer for the outlook over the next two years."
>
> Brian Coulton, Chief Economist, Fitch Ratings

Vaccine Rollout Provides Path to Recovery

The coronavirus pandemic still dominates the global economic outlook heading into 2021, with the second wave of the virus prompting renewed national lockdowns in Europe and tighter restrictions in the US. This will compress economic activity in the immediate months ahead, albeit by much less than in April. But a vaccine rollout now looks imminent and raises the prospect of a significant easing in the global health crisis by the middle of 2021 and a more sure-footed economic recovery thereafter.

The rebound in economic activity in 3Q20 after lockdowns were eased was much faster than anticipated in nearly all Fitch 20 economies, particularly in Europe. Unfortunately, this impressive initial progress towards economic normalisation has not lasted and Fitch Ratings now anticipates a double-dip recession in Europe in 4Q20. This highlights the importance of containing the virus for a fully fledged recovery, as underscored by China's impressive rebound.

Forecasts Revised Up in All Years

We now expect the decline in world GDP in 2020 to be less severe at –3.7% compared to –4.4% in the September Global Economic Outlook (GEO). We have also revised up our annual world GDP growth forecast for 2021, but only modestly, to 5.3% (from 5.2%), as the deteriorating outlook in the very near term partially offsets a stronger outlook from the second half of the year.

We are now significantly more optimistic for 2022, as we assume vaccine rollout will facilitate a material easing in social distancing. We also incorporate a significant uplift to eurozone GDP growth in 2022 from grant disbursements from the EU's Next Generation EU recovery fund (NGEU).

We expect the US and the eurozone to regain pre-pandemic (4Q19) GDP levels earlier than previously anticipated, by 3Q21 and 2Q22, respectively. Vaccine rollout problems or delays are the key downside risk and could result in repeated circuit-breaker lockdowns and extensive social distancing through 2021, weighing heavily on GDP.

More Policy Support Likely in Near Term

The impact of policy easing in cushioning the economic shock through 2020 has become clearer. Household incomes have been protected, unemployment has risen only very modesty in Europe and small business failures have not surged. Further support is likely to be extended in the near term as policy makers seek to provide the private sector with a 'bridge' to the other side of the health crisis. A clearer end-point is likely to reinforce this strategy.

Related Research

Large Policy Easing GDP Impact in the US & Asia Pacific (November 2020)

Furlough Schemes Delay Sharp Rise in European Unemployment to 2021 (November 2020)

Economics Dashboard: Global GDP Forecast Update (November 2020)

US and European Household Savings Surge Through Pandemic (December 2020)

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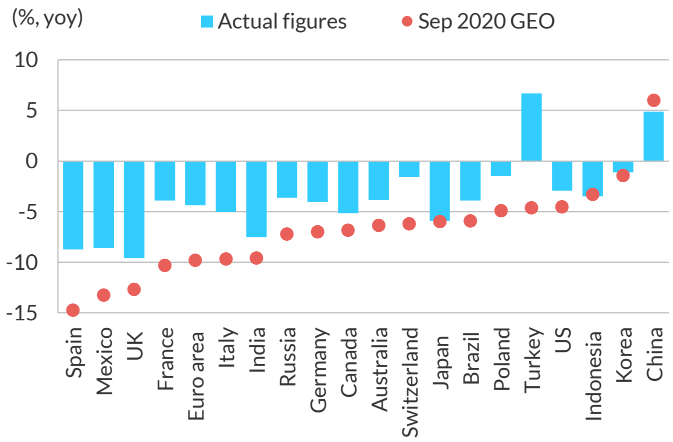
Global Forecast Summary

(%)	Annual Average 2015-2019	2019	2020F	2021F	2022F
GDP Growth					
US	2.5	2.2	-3.5	4.5	3.5
Eurozone	1.9	1.3	-7.6	4.7	4.4
China	6.7	6.1	2.3	8.0	5.5
Japan	1.0	0.7	-5.3	3.5	1.5
UK	1.7	1.3	-11.2	4.1	3.6
Developed [a]	2.0	1.6	-5.4	4.4	3.4
Emerging [b]	4.7	4.4	-1.0	6.6	4.7
World [c]	3.0	2.6	-3.7	5.3	4.0
Inflation (end of period)					
US	1.6	2.3	0.6	0.7	1.2
Eurozone	1.0	1.3	-0.6	0.8	1.3
China	2.0	4.5	0.8	1.6	2.0
Japan	0.5	0.8	0.0	0.6	0.9
UK	1.5	1.3	0.5	2.3	1.6
Interest Rates (end of period)					
US	1.23	1.75	0.25	0.25	0.25
Eurozone	0.01	0.00	0.00	0.00	0.00
China [d]	3.26	3.25	2.95	2.95	2.95
Japan	-0.06	-0.10	-0.10	-0.10	-0.10
UK	0.51	0.75	0.10	0.10	0.10
US 10-Year Yield	2.24	1.92	0.80	1.20	1.50
Exchange Rates and Oil					
Oil (USD/barrel)	57.7	64.1	41.0	45.0	50.0
USDJPY (end-period)	112.3	109.1	105.0	107.0	107.0
USDEUR (end-period)	0.89	0.89	0.85	0.85	0.85
GBPUSD (end-period)	1.36	1.31	1.18	1.18	1.18
USDCNY (end-period)	6.63	6.99	6.70	6.90	6.90

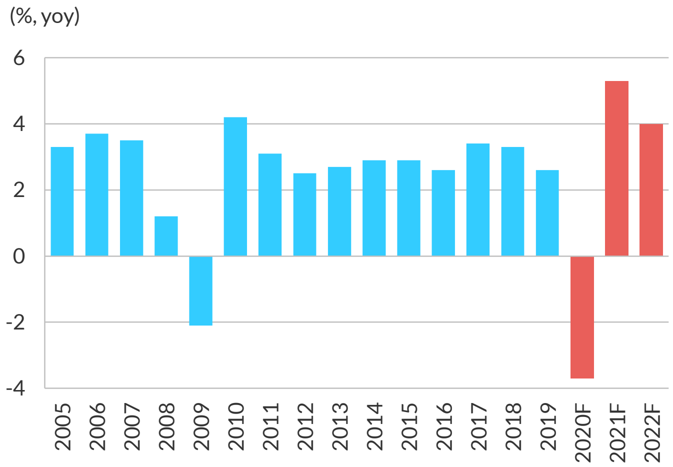
[a] US, Japan, France, Germany, Italy, Spain, UK, Canada, Australia and Switzerland
[b] Brazil, Russia, India, China, South Africa, Korea, Mexico, Indonesia, Poland and Turkey
[c] 'Fitch 20' countries weighted by nominal GDP in US dollars at market exchange rates (three-year average)
[d] One-year Medium-Term Lending Facility
Source: Fitch Ratings

GDP Outturns 3Q20 vs Forecasts



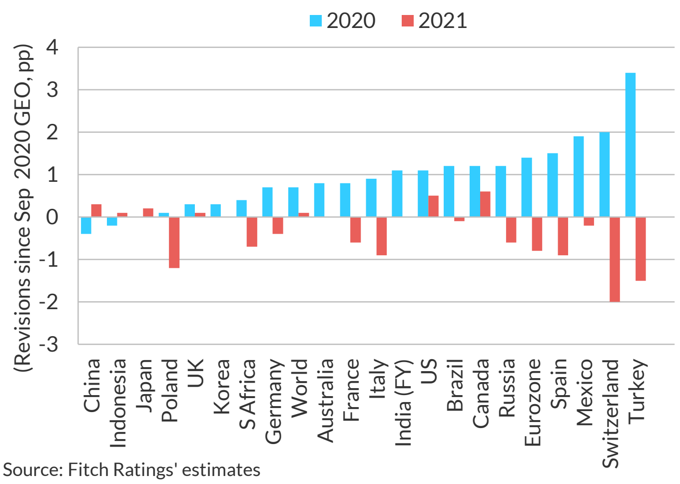
Source: Fitch Ratings' estimates, national statistical offices, Haver Analytics

World GDP Growth



Source: Fitch Ratings' estimates

Revisions to Annual GDP Forecasts



Source: Fitch Ratings' estimates

Forecast Highlights

We have revised up our annual global GDP forecasts for all years in the GEO forecast horizon. We now expect world GDP to fall by 3.7% in 2020 compared to a fall of 4.4% expected in the previous GEO. The revision reflects a stronger-than-expected recovery in 3Q20. As well as being widespread, this outperformance was on a sufficient scale to leave annual GDP in 2020 at a higher level than in the September GEO despite factoring in renewed declines in GDP in 4Q20 in Europe. Nevertheless, the decline is still nearly twice as deep as that in 2009, when world GDP fell by 2.1%.

We have also raised our forecast for world GDP growth in 2021, but only by 0.1pp to 5.3%. Expected stronger growth in both the US and China next year is largely offset by weaker growth in Europe. A growth rate of more than 5% would be very high by historical standards – world GDP has averaged 2.6% a year since 1990 – but has to be seen in the context of the low base in 2020.

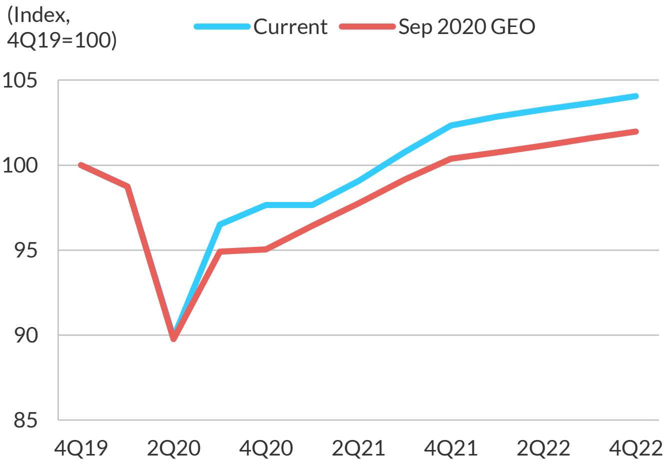
Our forecast for 2022 has seen a more significant revision to 4.0% from 3.6% in September. This reflects both the new assumption on global vaccine rollout and the incorporation of the NGEU stimulus into our eurozone forecasts. The upward revision to 2022 implies a significantly faster recovery from the trough than that which followed the global financial crisis (GFC). World GDP in 2022 would, however, still be around 2.5% below the level implied by our pre-virus forecasts.

We now expect US GDP to fall by 3.5% in 2020. A stronger-than-anticipated recovery in 3Q20 was followed by high-frequency data pointing to continued robust expansion in activity in October. The acceleration in virus cases has prompted tighter social-distancing restrictions in many states, but at the national level, these are far milder than in Europe and, to date, there has been little discernable impact on mobility. With policy support also fading at the end of the year and extended unemployment insurance starting to be unwound we would not discount seeing modest declines in activity in the immediate months ahead. But our monthly arithmetic still points to positive qoq GDP growth at more than 1% (not annualised) in 4Q20 followed by stagnation (i.e. 0% qoq growth) in 1Q21. Nevertheless, stronger growth in 2H21 and beyond – as immunisation allows for faster reopening of services-sector activities – has prompted 0.5pp upgrades to 2021 and 2022 annual GDP, to 4.5% and 3.5%, respectively.

Eurozone GDP is now expected to fall by 7.6% this year, as flagged in our November economics dashboard. This is significantly less steep than the 9% decline we had expected in September and reflects the very substantial positive GDP surprise in 3Q20. Even with a renewed decline of 3.6% in 4Q20, GDP will end 2020 at the same level as predicted in September. However, the winter lockdowns will weigh on annual growth in 2021, which we have revised down to 4.7% from 5.5% in the previous GEO. For 2022, the vaccine rollout and the incorporation of planned NGEU disbursements have resulted in an upward revision of 1.2pp to our growth forecast to 4.4%. NGEU will provide a significant boost to activity, particularly as it is grant-funded and will be directed mainly to public investment, where fiscal multipliers are high.

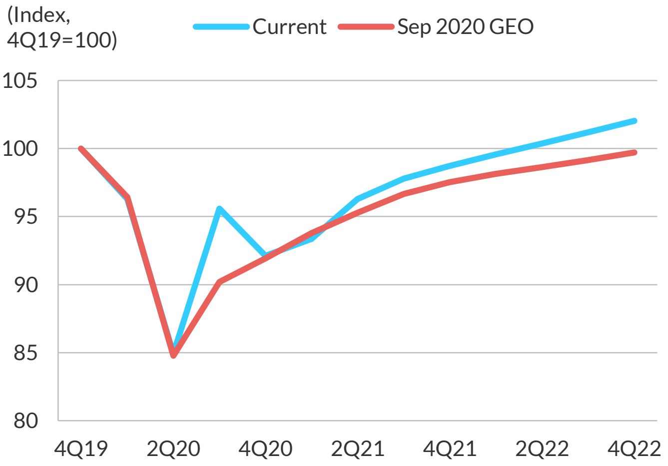
China is one of the few countries to face a downward revision to 2020 GDP in this forecast, but this is in the context of its far greater progress in normalisation than any other Fitch 20 economy and the

US GDP Level - Forecast Comparison



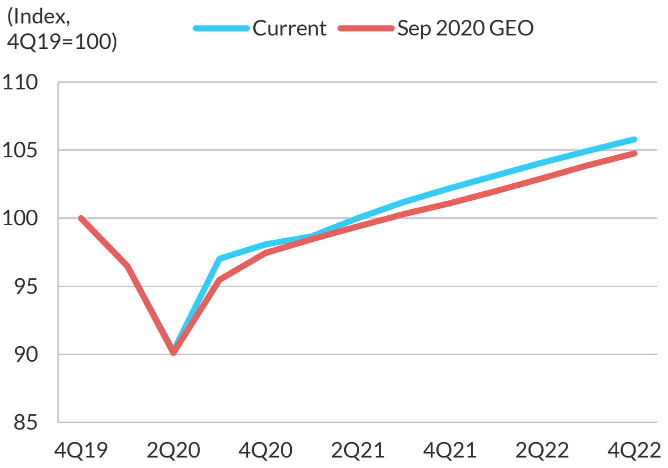
Source: Fitch Ratings' estimates

Eurozone GDP Level - Forecast Comparison



Source: Fitch Ratings' estimates

World GDP Level - Forecast Comparison



Source: Fitch Ratings' estimates

only one where we expect a significantly positive growth rate this year. GDP was a little shy of our expectation in 3Q20 at + 4.9% yoy and we have pared our 2020 expectation to 2.3% from 2.7% in September. However, there is little doubt that the recovery is becoming fully fledged, and with consumer spending picking up and an improved global outlook we have lifted our 2021 forecast to 8.0% from 7.7%.

We now expect GDP in emerging markets (EM) excluding China also to contract less sharply in 2020. Our EM excl. China forecast is –4.7% compared to –5.7% in the previous GEO. This reflects upward revisions to India, Russia, Brazil Mexico and most notably Turkey, where a rapid return to positive yoy growth in 3Q20 has pushed our annual forecast to be mildly positive. Korea's forecast has also been revised up, partly reflecting the relative success there and in other parts of East Asia in containing the virus in 2020. The EM excl. China forecast for 2021 is marginally weaker, however, at 5.0% (from 5.2%) partly reflecting less powerful base effects. We have revised up growth in 2022 by 0.1pp to 3.8%. This is a smaller revision than in developed markets (DM) and partly reflects our more cautious view on the vaccine rollout in EM and less aggressive macro policy support.

Sharp Reopening Boost, but Not 'V'-Shaped

One key lesson from the 3Q20 GDP outturns is the importance of base effects – namely the tendency for growth to be stronger when the starting level of GDP is unusually depressed. In the depth of the crisis, many doubts were expressed about the capacity of economic activity to revert quickly back towards pre-pandemic levels after lockdown restrictions were eased. This debate was couched in terms of 'L' versus 'V'-shaped recovery paths.

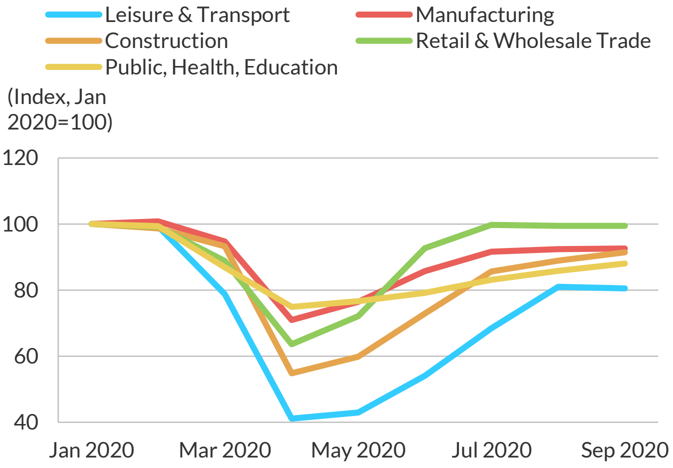
In the event, there was a much sharper-than-expected pick-up following the loosening of restrictions after April, even if the full 'V'-shaped recovery (implying immediate reversion to pre-crisis levels within a quarter) was elusive. Notably, Fitch's bespoke monthly GDP estimates show that GDP in France had recovered to just 1.8% below January 2020 levels by September, having slumped by a huge 28% in April. For the US, GDP was back within 2.4% of January levels by September after falling by 11.5% in April.

This 'compression-decompression' dynamic is evident when looking at the downturn and recovery by sector. Manufacturing, construction and wholesale and retail activity all showed a strong bounce in 3Q20 after lockdowns were eased, contrasting with the leisure and transport sectors where many restrictions remained in place and demand was constrained by voluntary social distancing. The sharp rebound in employment in the US – with more than 15 million temporarily laid-off workers returning to work between April and November – is another example of the reopening premium. This suggests that GDP could pick up again quite markedly after the winter as restrictions are eased.

Powerful Impact from Policy Easing

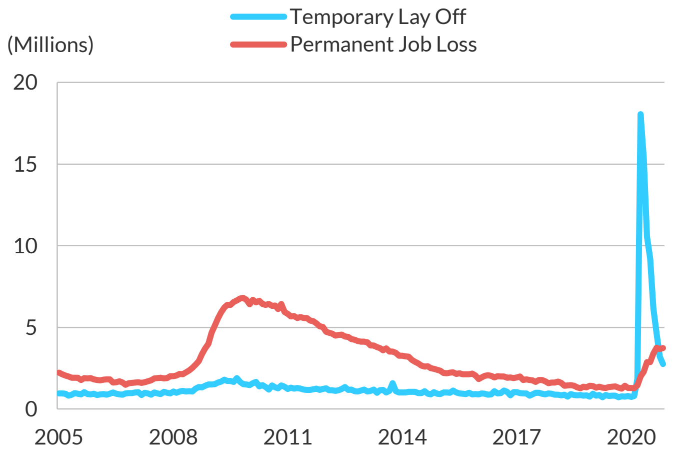
Another feature of the crisis that has become clearer as the year progressed is the powerful cushioning effect from macro policy easing. Gauging the impact of fiscal and monetary stimulus on activity is challenging even in a normal cycle, but it is particularly hard in a pandemic, characterised by a mixture both of demand- and supply-side shocks. However, our recently published econometric

UK Monthly GDP - Selected Industries



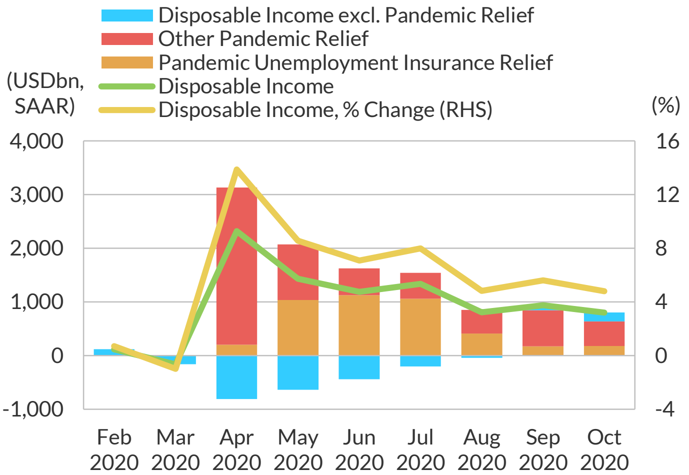
Source: Fitch Ratings, ONS, Haver Analytics

US Unemployed - Reason for Unemployment



Source: Fitch Ratings, BLS, Haver Analytics

US Household Income - Change from January 2020



Source: Fitch Ratings, BEA, Haver Analytics

estimates for the US and Asia-Pacific countries suggest a very large impact from fiscal easing. Moreover, several developments have highlighted the role of policy easing and sovereign support in protecting firms and households from the full force of the downturn.

Firstly, aggregate household disposable income levels have held up very well relative to GDP. In Europe, household sector disposable income dipped only modestly in 1H20 despite precipitous falls in nominal GDP. And in the US, aggregate household income has accelerated, rising by 4.6% yoy in October. This remarkable outturn reflects huge transfers to the household sector, including one-off pandemic stimulus payments, increases in the generosity of unemployment insurance, and paycheck protection loans to sole proprietors. These transfers are now diminishing, but this is happening as disposable income excluding pandemic support has recovered to above pre-crisis levels. Moreover, since a large share of transfers in the US and Europe were saved in 1H20 – partly reflecting overt restrictions on services consumption – households have built up some buffers to maintain consumption levels.

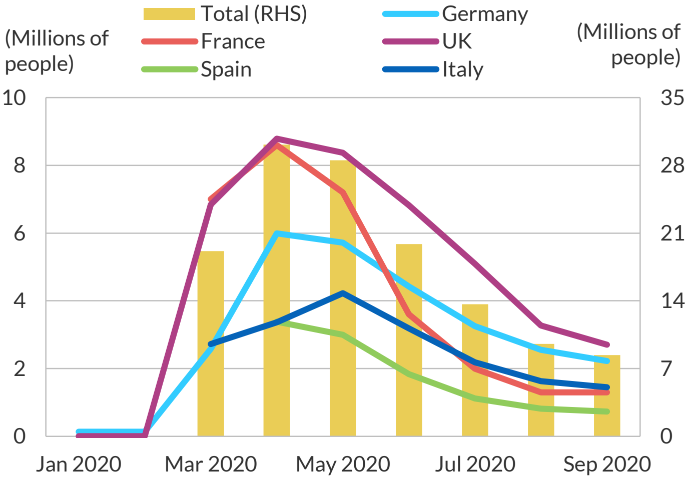
Secondly, short-time working schemes were very successful in preventing a sharp rise in unemployment in Europe: forecasts made in the spring have proven far too pessimistic – the unemployment rate has risen by only around 1pp since January in Germany, France and the UK and is unchanged in Italy. Only Spain has seen a sizeable shock – of nearly 3pp since January – but this is mild by comparison with the GFC, despite a much deeper GDP contraction this time around. At the peak of the pandemic, 30 million workers were on furlough schemes in the four largest eurozone countries (EZ4) plus the UK, equivalent to 20% of the workforce. By paying firms to adjust hours rather than levels of employment, the schemes prevented job separation that could have proven more damaging in the medium term, particularly in some European countries, where hiring and firing costs are high. We still expect European unemployment to rise in 2021 and 2022 as furlough schemes are unwound, but the peaks will be lower than feared.

Thirdly, there is little evidence – so far – of a surge in small business failures, a major worry at the height of the crisis. Bankruptcy filings in the US and the UK are significantly lower year to date. Furlough schemes have doubtless helped, but sovereign credit guarantees and business lending facilities – against the backdrop of a flood of central bank liquidity, with an estimated USD5 trillion of global quantitative easing (QE) asset purchases in 2020 – have played a big role. Forbearance has also been important. The surge in bank lending to corporates in 2Q20 was striking, and a clear sign that the tightening in credit supply that typically amplifies the effects of a downturn had been avoided at the peak of the crisis. However, loan officer surveys suggest commercial banks started to tighten lending standards from 3Q20 and it remains to be seen how credit conditions and small business failures will evolve as forbearance unwinds and sovereign support facilities are pared back.

China Shows that Virus Containment Is Key

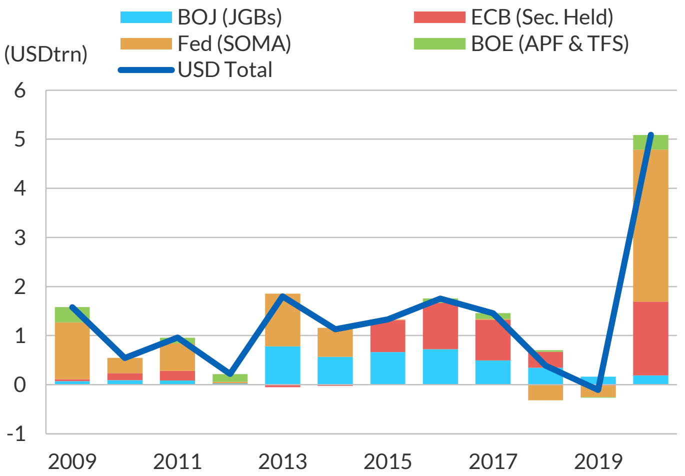
China's swift economic recovery after the outbreak has been striking, but the subtext is a sobering message for other countries – namely that virus-containment seems to be a pre-requisite for a fully-fledged normalisation. GDP in China is now more than 3% above pre-virus levels and growing swiftly, helped by on-balance-

Furlough Schemes (Actual Numbers)



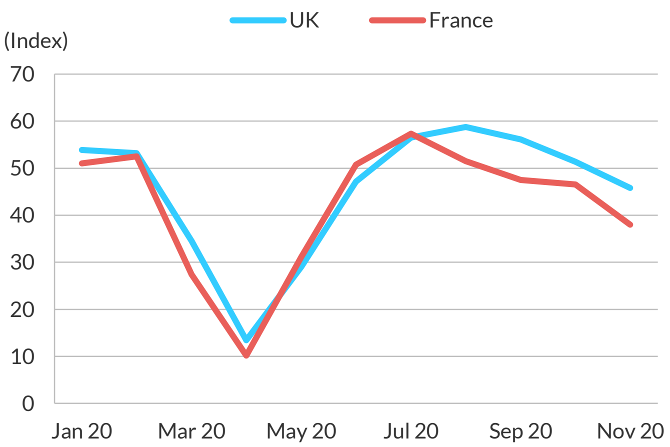
Source: Fitch Ratings, FEA, INSEE, HMRC, EpData, INPS, Haver Analytics

Global QE Purchases in US Dollar Terms



Source: Fitch Ratings, BoJ, ECB, Fed, BoE, Haver Analytics

Services PMIs in UK and France



Source: Fitch Ratings, Markit, Haver Analytics

sheet fiscal easing and a pick-up in credit growth. Boosted initially by infrastructure, property and exports, the expansion recently has broadened to the consumer, with retail sales up by more than 4% yoy in October. There is recent evidence of socially intensive services consumption (i.e. consumer activities that involve proximity to others) starting to return, following the collapse in new virus cases. Retail sales in the catering sector returned to yoy growth in October and domestic air travel has now recovered to above pre-virus levels. However, this shift still seems some way off in the US and Europe, where the recovery in consumer spending to date has been heavily geared towards durable goods, with services lagging.

Second Wave, Second Downturn in Europe

Indeed, the recent tightening of restrictions in Europe in the face of the surge in new virus cases is delivering a severe setback to the service sector, as bars and restaurants are forced to close, sports and entertainment events are cancelled, and domestic travel and tourism is curtailed. Test, trace and isolate approaches have had limited success in containing the virus, with governments resorting again to costly, lockdown-type restrictions to prevent health systems becoming overwhelmed. France and the UK imposed second nationwide lockdowns in November, while Germany Spain and Italy have also tightened restrictions. Daily Google mobility data on visits to retail and recreation venues have fallen sharply in recent weeks and we now expect GDP to decline in 4Q20 in all of these countries.

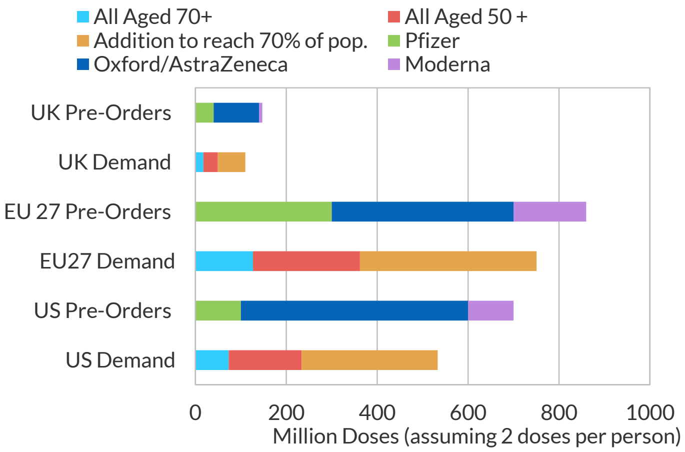
The shock to daily activity should be much smaller than it was in April though. Working-from-home modalities are better-established, workplace social-distancing protocols have allowed more activities to remain open – including manufacturing and construction – and online consumption has increased. Schools have remained open in the UK and France in the second wave and there has been less interruption to the provision of non-virus-related health services. Our monthly GDP forecasts assume that the fall in activity in November (relative to the pre-virus norm) was roughly half that in April. Indeed, service PMI surveys for France and the UK fell in November but by much less than in April. We do, however, expect that the tightening of restrictions through November will be unwound only gradually over the winter months.

Vaccines Can Put an End to Social Distancing

Against this backdrop, the recent positive news from three leading Phase 3 vaccine trials is highly consequential. If a critical mass of the population can be immunised, it will allow governments to ease social-distancing restrictions and curb voluntary social-distancing behaviour, the two key drivers of the massive economic disruption in 2020. In short, vaccination could unlock a much swifter return to pre-virus activity levels than we anticipated previously.

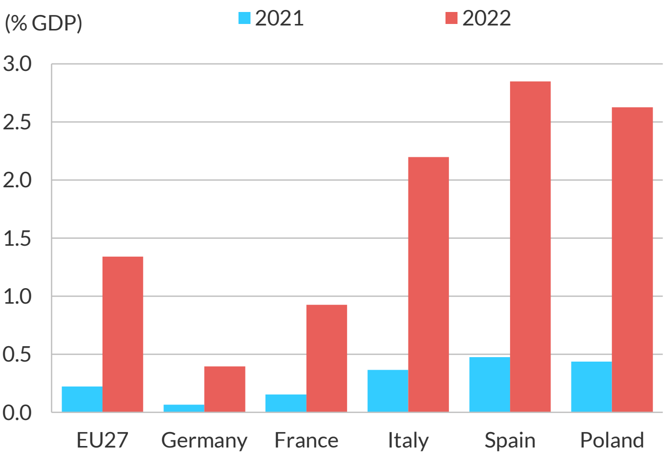
The UK government has already approved the Pfizer vaccine, and our GEO working assumption is that the US and EU authorities approve one or more by the end-2020 or very early in 2021. Pre-orders from the US, EU and UK governments of the three vaccines exceed the doses required to cover 70% of the population; Pfizer and Astra Zeneca report 2021 production capacity of 1.3 billion and 3 billion doses, respectively.

Vaccine Demand and Supply - US & Europe



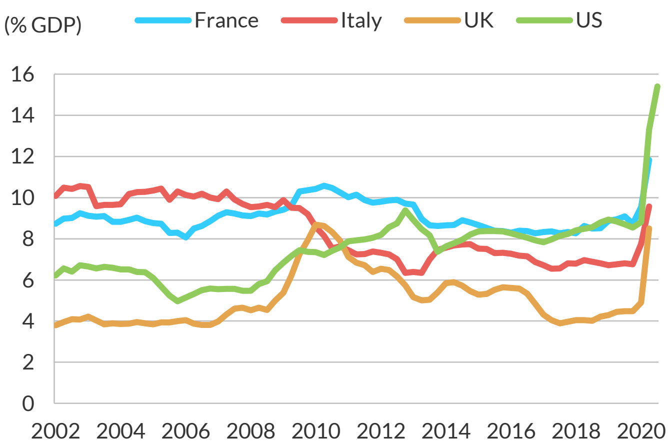
Source: Fitch Ratings, Eurostat, US Census, Duke Global Health Innovation Center, Duke University

Next Generation EU Grants Allocation



Source: Fitch Ratings, European Commission, IMF, Haver Analytics

Households' Savings Ratio



Source: Fitch Ratings, ECB, BEA, ONS, Haver Analytics

The logistics of mass immunisation are doubtless challenging, but it seems reasonable to assume that by the middle of 2021 a significant share of the population in the major developed economies will have received the vaccination. Healthcare workers, the vulnerable and those aged over 70 will be the priority, but coverage of most people aged over 50 by the middle of 2021 would seem broadly feasible. On this basis, we would anticipate a significant easing of the health crisis by next summer, allowing restrictions to be unwound more rapidly and a material reduction in voluntary social-distancing behaviour. This should allow for a more sure-footed recovery in economic activity in advanced economies from 2H21.

However, the global benefits could be unevenly distributed. Emerging markets – with the exception of India – have not secured supplies through pre-orders on anything like the same scale and could face bigger logistical challenges in rolling out mass-inoculation programmes. Partly for this reason, we have made smaller upward revisions to our EM forecasts following the vaccine news.

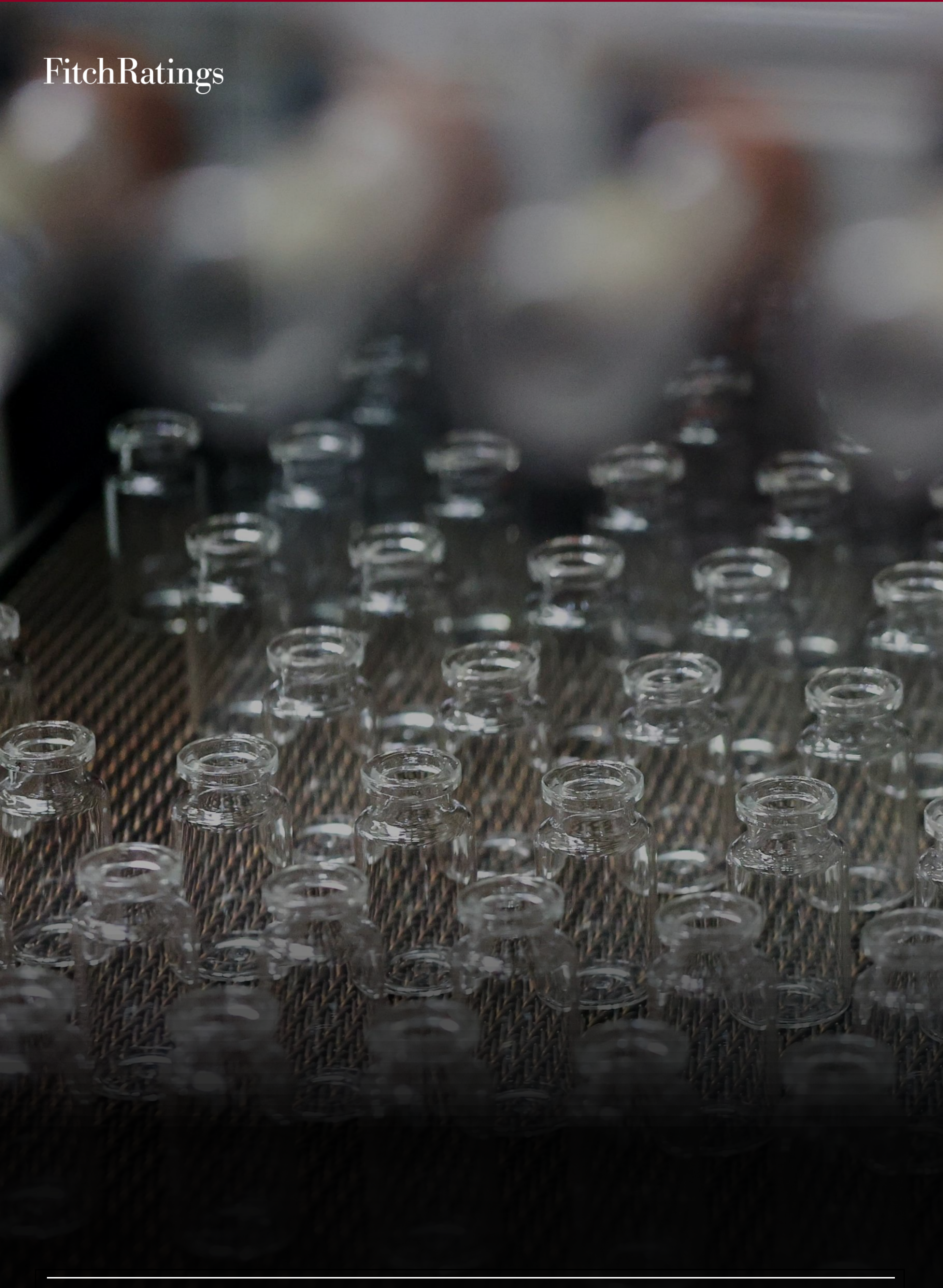
Policy Support to Be Extended

Immunisation will not alleviate the pressure on health systems in the immediate months ahead, raising the risk of a further tightening or delayed easing in mobility restrictions. With this in mind and with the vaccine news providing medium-term clarity, we think macro policy will remain very supportive in the near term. The ECB is likely to scale up and extend its asset purchase programme before year-end and the Fed is increasingly talking about raising the pace of asset purchases. We anticipate a further USD1 trillion (nearly 5% of GDP) in fiscal stimulus measures in the US in early 2021 – including further extensions of unemployment insurance – and the UK government has recently rolled forward its furlough programme to end-March 2021. The French government has also announced additional fiscal easing in recent months and we anticipate a significant stimulus in Italy and Spain from NGEU grants in 2022.

Vaccine Rollout Delay Is Key Downside Risk

The key downside risk to the forecast relates to potential delays in the vaccine rollout. These could stem from approval delays, unforeseen medical problems, logistical bottlenecks or low take-up rates if public confidence falters. The risk is that 2021 continues to be characterised by repeated 'circuit-breaker' lockdowns, unrelenting pressure on health systems and extensive voluntary social distancing. A sharp rise in small business failures and faster-than-anticipated increases in European unemployment are also key risks. Our base-case forecast assumes a lack of a comprehensive free trade agreement (FTA) between the UK and the EU and incorporates a negative shock of around 2pp to UK GDP in 2021, but this is unknown territory and the impact could be larger.

Upside risks stem from a faster vaccine rollout than we have assumed and a quicker end to social distancing. High savings rates could also see some unlocking of pent-up household demand if confidence returns more quickly than anticipated.



United States

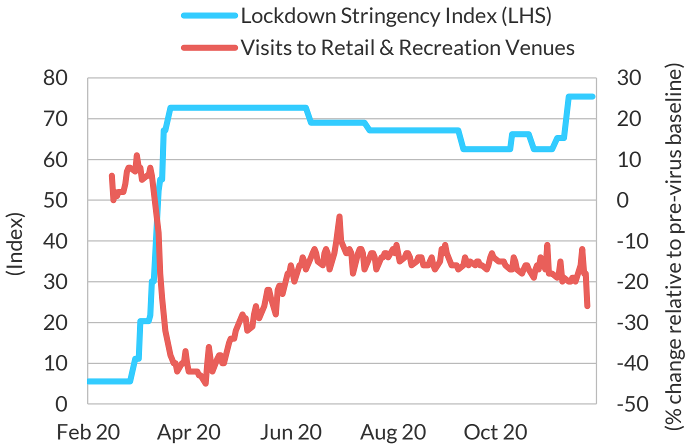
The economy rebounded by 7.4% in 3Q20 (33% annualised), faster than the 5.7% expected in the previous GEO. Our bespoke monthly GDP measure suggests that economic activity in April – the peak month of lockdown restrictions – was nearly 12% lower from January, but by September, output was back to just 2.4% below its level at the start of the year. Recent data including non-farm payrolls and PMI surveys point to activity having expanded further in October and we now expect the decline in GDP in 2020 as a whole to be –3.5%, compared to –4.6% in the September GEO.

The faster-than-anticipated recovery suggests a strong re-opening effect once restrictions were eased over the summer. But the impact of massive macro policy easing on the economy has also become clearer. Our econometric estimates show a huge 9% boost to GDP in 2020 from fiscal policy easing, while outsize Fed liquidity and wider credit support prevented any significant tightening of credit conditions. The sharp rise in aggregate household-sector disposable income resulting from tax cuts and fiscal transfers has helped the recovery in consumer spending, which was particularly large for durable goods.

However, the very near-term outlook is darkening due to the surge in virus cases and hospitalisation rates, which is prompting a slowdown in further re-opening and renewed social-distancing restrictions in many states. This is likely to take a toll on services spending and with further fiscal stimulus measures unlikely to be rolled out until 2021, we do not discount declines in GDP in the coming months. GDP is still likely to rise in 4Q20 qoq, but we expect the economy to stagnate in 1Q21.

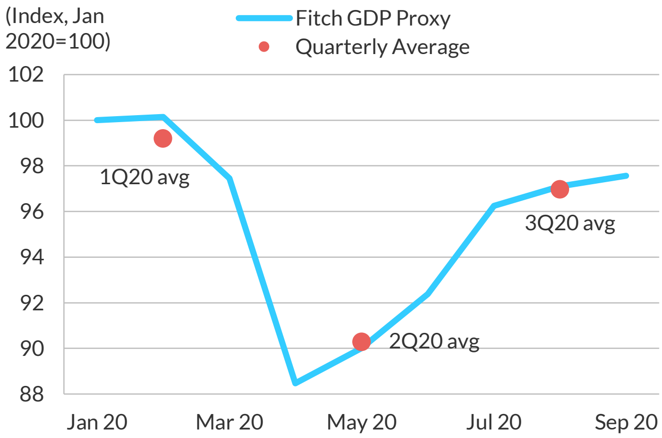
Looking further ahead, the outlook is brighter. Our assumption is that vaccine rollout will have reached a sufficient scale by the middle of 2021 to allow a more concerted and sustained relaxation in social-distancing restrictions. This will boost demand and supply in service-sector industries and activity should recover faster than we expected through 2H21. We now expect the economy to grow by 4.5% in 2021, revised up from 4.0% in the September GEO. Growth in 2022 is now expected to be 3.5%, revised up from 3.0%.

US - Lockdown Stringency and Mobility



Source: Fitch Ratings, Oxford University, Google, Haver Analytics

US - Fitch's Monthly GDP Proxy



Source: Fitch Ratings' estimates

United States – Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	2.5	2.2	-3.5	4.5	3.5
Consumer spending	2.9	2.4	-3.6	5.0	3.7
Fixed investment	3.3	1.9	-2.7	4.4	3.7
Net trade (contribution pp)	-0.4	-0.2	0.0	-0.9	-0.2
CPI inflation (end-year)	1.6	2.3	0.6	0.7	1.2
Unemployment rate	4.4	3.7	8.1	6.5	5.6
Policy interest rate (end-year)	1.23	1.75	0.25	0.25	0.25
Exchange rate, USDEUR (end-year)	0.89	0.89	0.85	0.85	0.85

Source: Fitch Ratings

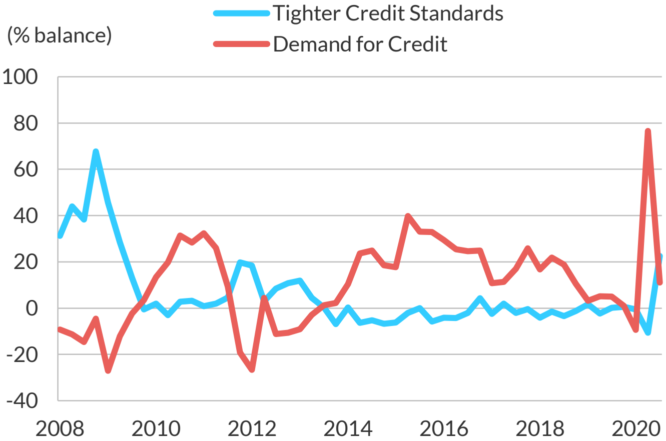
Eurozone

The economy grew more than expected in 3Q20, increasing 12.6% qoq against a forecast of 6.4% qoq in September's GEO. Despite the rapid growth, output remains 4.4% below its pre-pandemic level. Moreover, given the resurgence of coronavirus cases and the restrictions announced by governments, we foresee a further contraction in 4Q20 to leave 2020 annual growth at –7.6%. Two factors drive our forecasts in the medium term: the prospects for mass inoculation and the significant fiscal boost provided by the NGEU fund. The latest vaccine development news raises hope that the worst of the crisis may be over in the near future and with it a corresponding decline in uncertainty.

This uncertainty is best illustrated in the surge in household savings during the first lockdown, although this also reflected direct restrictions on spending, particularly in the services sector. And while consumer spending recovered over the summer, households continue to be cautions given the troubled outlook for employment and wage dynamics. The furlough schemes have been successful in limiting the rise in unemployment to date, but with numbers on the schemes starting to rise again as labour-intensive industries are hit by new restrictions, job security is fragile. Uncertainty and spare capacity are also affecting the investment outlook as firms postpone or cancel capital expenditure plans. While the domestic economy will be supported by the NGEU's EUR750 billion fiscal boost, we expect the implementation process to be complex and the spending impact will not be significant until 2022.

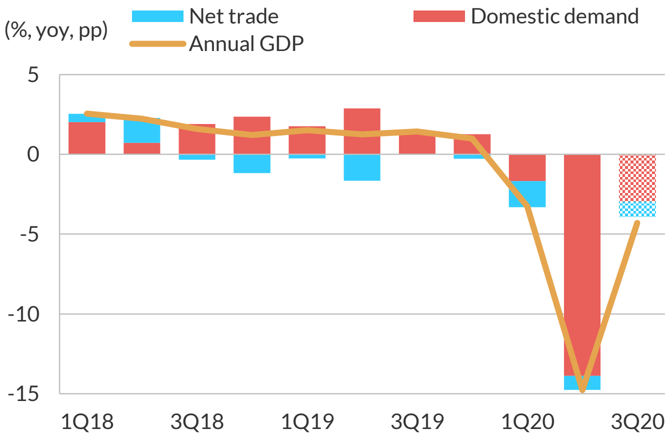
Annual headline inflation has slowed rapidly this year falling to –0.3% in November and a long way below the ECB's inflation objective of "below but close to 2%"; the ECB's staff projections forecast headline inflation increasing only slowly over the medium term to 1.3% by 2022. Given this background, monetary policy will continue to remain supportive, including a likely further boost to the monthly pace and expected duration of asset purchases at the ECB's December meeting. The central bank has also provided extra liquidity to the banking sector via TLTROs auctions. Demand for loans by firms has moderated recently after the surge in borrowing during 2Q20, while credit standards on loans to firms and households tightened in 3Q20. Further liquidity provisions on generous terms is also likely in December.

Eurozone - Firms' Demand and Supply of Bank Loans



Source: Fitch Ratings, ECB Loan Officer Survey, Haver Analytics

Eurozone - GDP and Components



Source: Fitch Ratings, Eurostat, Haver Analytics

Eurozone – Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	1.9	1.3	-7.6	4.7	4.4
Consumer spending	1.7	1.3	-8.6	5.3	4.3
Fixed investment	4.3	5.8	-9.5	4.0	5.5
Net trade (contribution pp)	-0.1	-0.5	-1.1	-0.1	0.2
CPI inflation (end-year)	1.0	1.3	-0.6	0.8	1.3
Unemployment rate	9.1	7.6	8.2	9.9	8.5
Policy interest rate (end-year)	0.01	0.00	0.00	0.00	0.00
Exchange rate, EURUSD (end-year)	1.13	1.12	1.18	1.18	1.18

Source: Fitch Ratings

China

GDP growth picked up further in 3Q20 to 4.9% yoy and while this was a little weaker than the 6% we anticipated in the September GEO, the recovery has become more fully fledged. Activity in 3Q20 was already more than 3% above the pre-coronavirus 4Q19 level and China is the only Fitch 20 country where we see GDP growth in 2020 as a whole. Recent monthly data have generally beaten expectations and we are confident that there will be a further pick-up in yoy growth in 4Q20. Nevertheless, as highlighted in our November update, we have lowered our 2020 forecast moderately to 2.3% from 2.7% in the September GEO.

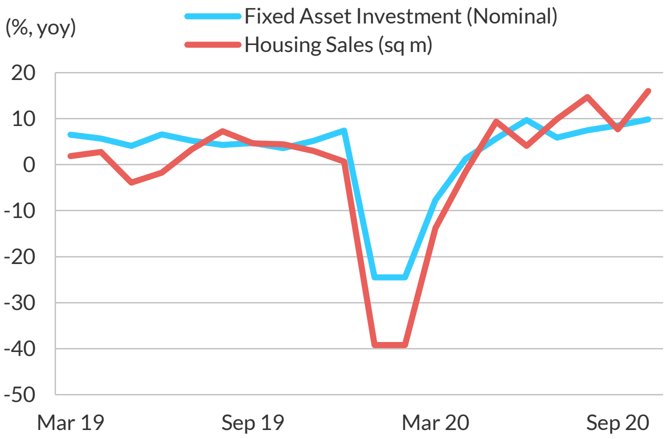
The recovery has broadened in recent months. Fixed-asset investment rose to 9.8% in yoy terms in October, supported by ongoing strength in infrastructure investment, a further acceleration in housing sales, and a recent improvement in manufacturing investment. The latter may be related to the return to double-digit yoy export growth in October and November, supported by the resilience of global demand for durable goods including electronics.

There also has been a notable acceleration in consumer spending, with retail sales growth turning positive in yoy terms from August and reaching more than 4% in October. This partly reflects stronger conditions in the job market – urban unemployment rates have recently fall back to pre-coronavirus levels – but most importantly, the success in taming the virus. The virtual eradication of new cases has allowed socially intensive consumption to return, as evidenced in the surge incatering sales growth to more than 6% yoy in October after being down by nearly half in March.

We have revised up our 2021 GDP growth forecast to 8.0% from 7.7% in the previous GEO, on an increasingly broad recovery in domestic demand and the anticipated improvement in global prospects from 2H21 as vaccine deployment eases the health crisis. This would be well above our estimate of China's long-term growth potential of around 5.5%, but is quite achievable from such a low base in 2020.

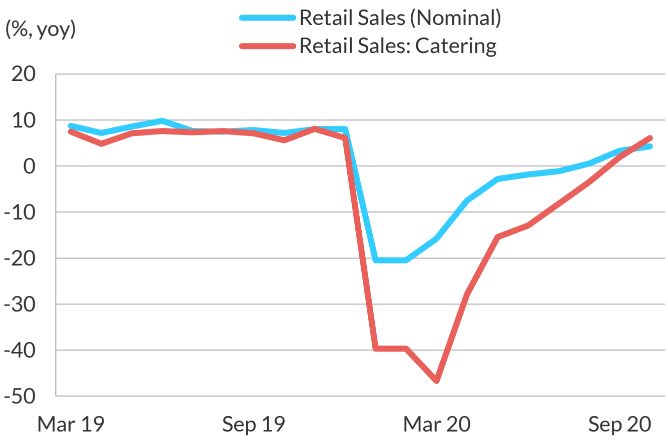
The need for ongoing macro policy support is clearly waning but we do not foresee increases in benchmark interest rates, particularly given the recent decline in core inflation and appreciation in the yuan. Nevertheless, credit growth could be close to peaking.

China - Fixed Asset Investment & Housing Sales



Source: Fitch Ratings, CNBS, Haver Analytics

China - Retail Sales



Source: Fitch Ratings, CNBS, Haver Analytics

China – Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	6.7	6.1	2.3	8.0	5.5
Consumer spending	8.2	5.9	-4.7	9.3	6.3
Fixed investment	6.1	5.0	6.7	8.4	4.9
Net trade (contribution pp)	0.0	0.6	0.2	0.1	-0.1
CPI inflation (end-year)	2.0	4.5	0.8	1.6	2.0
Policy interest rate (end-year)	3.26	3.25	2.95	2.95	2.95
Exchange rate, USDCNY (end-year)	6.63	6.99	6.70	6.90	6.90

Source: Fitch Ratings

Japan

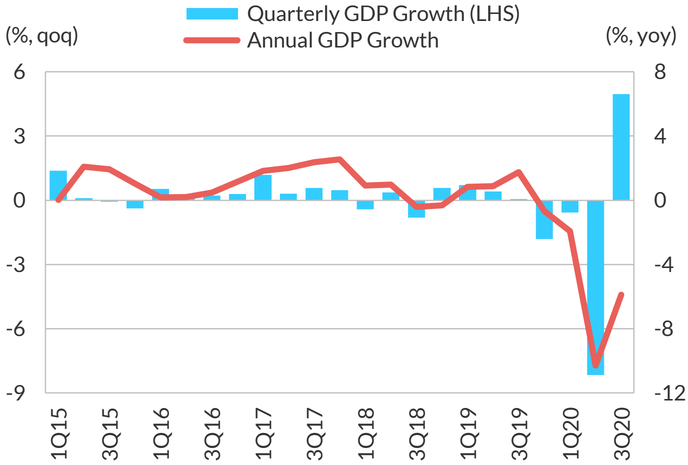
Japan's 3Q20 GDP jumped 5% qoq, making up more than half of the coronavirus-induced output losses incurred in 1H20. The outturn was slightly stronger than expected in our September GEO (+4.5%), though the 2Q20 GDP outturn was revised down to −8.2% qoq from −7.9%. Household consumption and exports fuelled the rebound in activity, but investment remained a weak spot. Japanese GDP expanded for the first time in quarterly terms since 2Q19, after a series of shocks to activity from the October 2019 sales tax hike and typhoon disruptions, and the 2020 pandemic. Our econometric estimates show that fiscal policy has been instrumental in limiting the economic damage from the pandemic. We find that growth for 2020 would have been 3.5pp lower in the absence of discretionary fiscal policy measures.

Hard data, the Tankan survey and the Economy Watchers survey, point to a firm pace of expansion in 4Q20. Machinery orders have shown tentative signs of stabilisation, which suggests that the business investment downturn has now passed. The timelier PMIs hint at some downside risks amid a significant third wave of the virus hitting the country. However, they still suggest that 4Q20 GDP should expand quite solidly. Restrictions imposed by the authorities so far have been light.

In all, we still expect 2020 GDP to contract 5.3%. We have revised up our forecasts for 2021 and 2022, to 3.5% (+0.2pp) and 1.5% (+0.3pp), respectively. The distribution of an effective vaccine that we expect through 2021 should boost confidence and support a firmer recovery of the service industry. Japan has signed deals with several pharmaceutical companies to secure access to 290 million doses of vaccines. An expected supportive fiscal stance into 2021 should further strengthen the outlook.

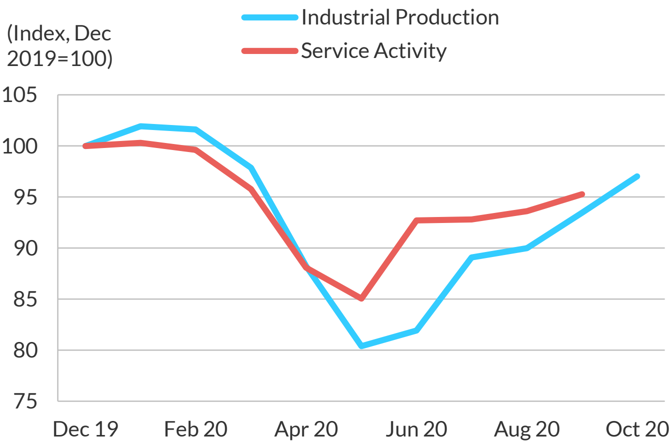
Inflation has slowed through the pandemic. Consumer prices were pulled down by a combination of lower oil prices, a stronger yen, weak demand, and policy-driven subsidies to encourage household spending in the travel and hospitality industries (through the "Go To" campaigns). We think that inflation will trough in 1Q21, and should start to pick up from there as the aforementioned factors will fade or reverse. Inflation will remain well below the Bank of Japan's 2% target amid entrenched low expectations from the public.

Japan - Real GDP Growth



Source: Fitch Ratings, Cabinet Office of Japan, Haver Analytics

Japan - Sectoral Output Breakdown



Source: Fitch Ratings, METI, Haver Analytics

Japan – Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	1.0	0.7	-5.3	3.5	1.5
Consumer spending	0.2	0.2	-6.1	3.2	2.2
Fixed investment	1.3	1.3	-4.8	1.7	1.5
Net trade (contribution pp)	0.2	-0.2	-1.1	0.7	0.0
CPI inflation (end-year)	0.5	0.8	0.0	0.6	0.9
Unemployment rate	2.8	2.4	2.9	2.8	2.4
Policy interest rate (end-year)	-0.06	-0.10	-0.10	-0.10	-0.10
Exchange rate, USD/JPY (end-year)	112.3	109.1	105.0	107.0	107.0

Source: Fitch Ratings

United Kingdom

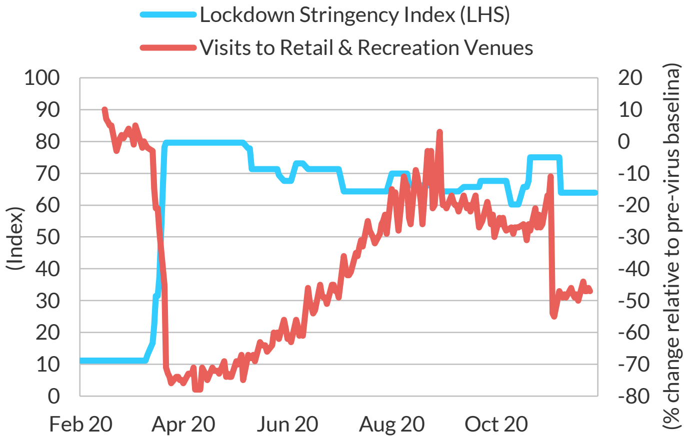
GDP grew by 15.5% qoq in 3Q20 – a more rapid rebound than expected in the previous GEO (12.1%) – but with the imposition of a second nationwide lockdown in November, activity is likely to see a renewed dip in 4Q20. Output had recovered to 8.6% below January 2020 levels by September and retail sales and PMI surveys suggest further gains were made in October. However, daily mobility data collapsed in November after the lockdown was imposed.

There are good grounds for expecting the incremental impact of the second lockdown to be significantly smaller than in April. Schools remain open and construction, manufacturing and many healthcare services are experiencing less interruption, due in part to workplace social-distancing arrangements. Better-established working-from-home modalities, increased online retail spending, click-and collect arrangements and more take-away food services will also mitigate the shock. However, while the national lockdown formally ended on 2 December, tightened restrictions look set to remain in place over the next couple of months and we now expect GDP to decline by 2.3% in 4Q20. This would leave annual GDP down by 11.2% in 2020, similar to the September GEO forecast despite the positive surprise in 3Q20.

On the evidence of the mid-year post-lockdown recovery, GDP should pick up significantly in 1H21. This should be helped by the extension of further policy support – the Coronavirus Job Retention Scheme was recently extended to March 2021 and support for the self-employed has also been expanded. The Bank of England also announced a further GBP150 billion of asset purchases at its November meeting. But the outlook for early 2021 is also clouded by the uncertain impact of negotiations between the UK and the EU – we continue to assume a lack of a comprehensive FTA and a WTO-terms scenario for the purposes of our economic forecasts, an assumption which knocks off around 2pp from our 2021 GDP forecast.

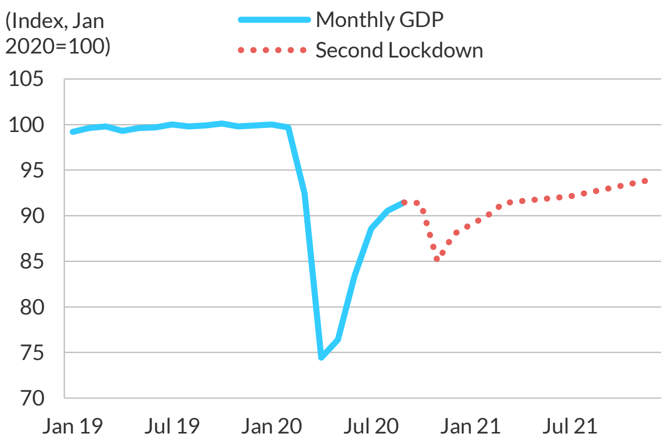
Prospects for 2H21 and 2022 have improved owing to breakthroughs on the vaccine. Our base-case assumption is that vaccine rollout will have reached sufficient scale to allow a significant easing in social-distancing restrictions and behaviour through 2H21. Our 2022 growth forecast has been revised up accordingly – to 3.6% from 3.3% in the previous GEO – helped also by the improvement in global economic prospects.

UK - Lockdown Stringency and Mobility



Source: Fitch Ratings, Oxford University, Google, Haver Analytics

UK - Monthly GDP Path



Source: Fitch Ratings, ONS

United Kingdom – Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	1.7	1.3	-11.2	4.1	3.6
Consumer spending	2.0	0.9	-14.5	3.5	4.0
Fixed investment	2.9	1.5	-12.4	4.8	4.0
Net trade (contribution pp)	-0.1	-0.2	2.8	-0.5	-0.1
CPI inflation (end-year)	1.5	1.3	0.5	2.3	1.6
Unemployment rate	4.5	3.8	4.8	7.3	6.1
Policy interest rate (end-year)	0.51	0.75	0.10	0.10	0.10
Exchange rate, GBPUSD (end-year)	1.36	1.31	1.18	1.18	1.18

Source: Fitch Ratings

Germany

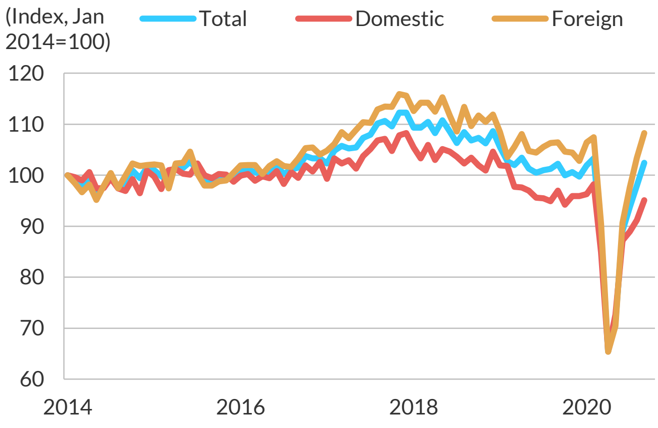
The strong GDP rebound in 3Q20 means that the German economy has now recovered two-thirds of the output lost in 1H20. The 8.5% qoq increase was stronger than our September GEO forecast (5.1% qoq) with exports and private consumption contributing to the quarterly gain. The recent imposition of a partial lockdown, which has now been extended until January, is likely to result in economic contraction in 4Q20. However, in contrast to the spring lockdown, the current restrictions are likely to trigger a smaller decline in output given that schools and non-essential shops have remained open.

Moreover, industrial activity already recovered well, boosted by a pick-up in foreign manufacturing orders, particularly from China. Car production has risen to its highest since February. In contrast to 1H20, when industry accounted for a substantial chunk of the decline in output (around 40%), during the current lockdown the sector has not been affected by supply-chain disruptions.

Domestic demand has been affected by mobility restrictions and greater consumer caution. Even before the new restrictions came into effect, retail sales had weakened after a surge in mid-year. The reversal of April's temporary VAT cut at the end of the year risks derailing the recovery in the services sector. In any case, the Bundesbank estimates that around 40% of the tax relief was not passed on to consumers but helped to improve profit margins. Consumer sentiment remains subdued and households have little appetite for major purchases at present.

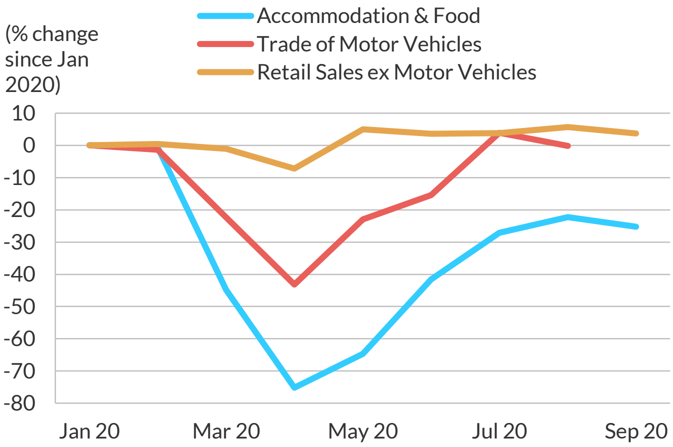
The use of short-time working schemes (Kurzarbeit) contained a rapid increase in unemployment, but did not prevent the jobless rate from rising to 4.5% by 3Q20 from 3.4% at the start of the year. Some 2.6 million people remain in Kurzarbeit (August data) although there is little immediate risk of a surge in unemployment given that the scheme has been extended until end of 2021. We expect the economy to recover next year as restrictions are lifted and a programme of vaccinations is implemented. The fiscal boost from the NGEU grants should lead to only a modest boost to the German economy in 2022.

Germany - Manufacturing Orders



Source: Fitch Ratings, FSO, Haver Analytics

Germany - Services



Source: Fitch Ratings, FSO, Haver Analytics

Germany – Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	1.6	0.6	-5.6	5.0	3.7
Consumer spending	1.8	1.6	-5.8	6.5	3.5
Fixed investment	2.8	2.5	-4.2	3.4	2.4
Net trade (contribution pp)	-0.3	-0.6	-1.4	0.8	0.3
CPI inflation (end-year)	1.2	1.5	-0.7	1.3	1.5
Unemployment rate	3.8	3.1	4.2	4.9	4.7
Policy Interest rate (end-year)	0.01	0.00	0.00	0.00	0.00
Exchange rate, EURUSD (end-year)	1.13	1.12	1.18	1.18	1.18

Source: Fitch Ratings

France

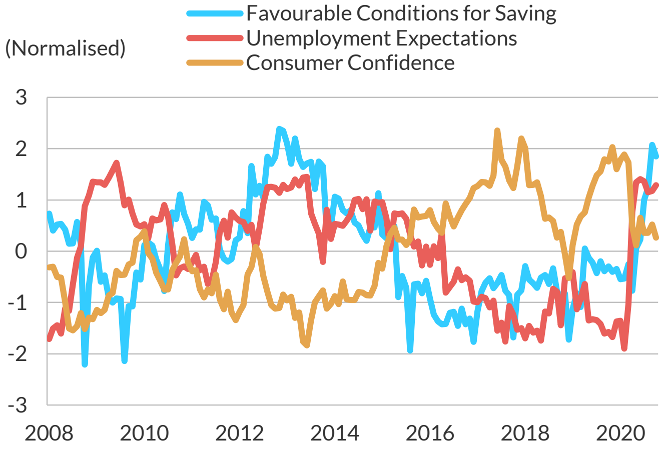
The economy grew very strongly in 3Q20, exceeding our expectations by a wide margin. The 18.2% qoq bounce (September GEO 10.8%) was driven by sizeable increases in exports, investment and public spending. The boost from government spending in 3Q20 was essentially a reversal of the sharp contraction in 2Q20 and is largely a reflection of the way public services were accounted for during the first lockdown with a sharp decline in output volume measures amidst the closures

A resurgence of coronavirus cases in early autumn led to a second lockdown in late-October with wide restrictions imposed on restaurants, bars and non-essential shops. Anyone venturing outside has to carry a written note justifying their proposed journey. While other European countries have also imposed new closures, the restrictions in France are far stricter and more damaging to the economy, particularly to its larger service sector. By default, France's smaller manufacturing sector has lagged its larger euro-area counterparts, failing to benefit from China's rapid recovery. October's PMI indices were the weakest among the largest euro-area countries.

Before the latest restrictions, total consumer spending had recovered rapidly, helped by a surge in car purchases that benefitted from substantial government subsidies on electric vehicles. Nevertheless, consumers remain cautious given the deteriorating outlook for the labour market with 1.6 million still in furlough at end-October. Moreover, households continue to express a strong desire for greater precautionary savings, which are already at historically high levels.

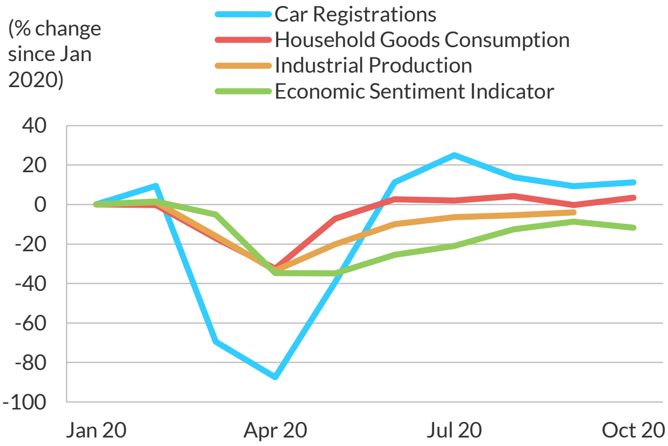
Business investment is also likely to remain sluggish in the near term. And French exports in 2021 are likely to continue to be hit by the crisis since they are concentrated in affected sectors, including aeronautics and international tourism. We expect the economy to contract in 4Q20, resulting in a decline of 9.7% in 2020 output. Fitch also expects the bulk of the impact from recent fiscal easing announcements to be felt in 2022 rather than 2021 as the economy deals with pandemic-related disruptions in the near term.

France - Consumer Confidence



Source: Fitch Ratings, INSEE, Haver Analytics

France - Activity Indicators



Source: Fitch Ratings, INSEE, European Commission, Haver Analytics

France – Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	1.6	1.5	-9.7	4.8	3.8
Consumer spending	1.4	1.5	-8.0	4.5	3.6
Fixed investment	3.2	4.2	-13.6	0.8	3.5
Net trade (contribution pp)	-0.1	-0.2	-1.8	-0.2	0.0
CPI inflation (end-year)	0.8	1.5	-0.5	1.5	1.3
Unemployment rate	9.5	8.5	8.3	10.7	9.3
Policy interest rate (end-year)	0.01	0.00	0.00	0.00	0.00
Exchange rate, EURUSD (end-year)	1.13	1.12	1.18	1.18	1.18

Source: Fitch Ratings

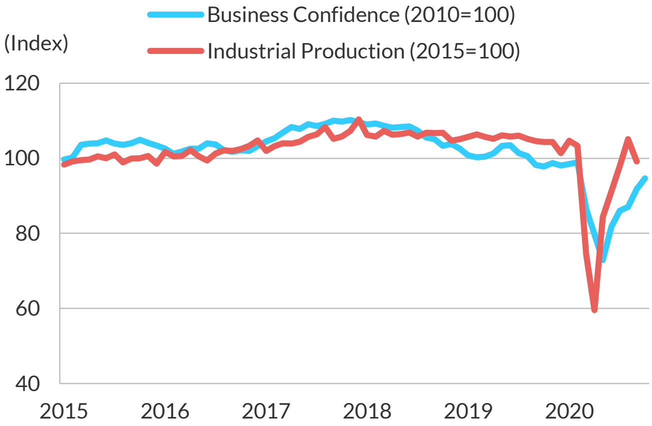
Italy

The quarterly rebound in 3Q20 was striking and much stronger than expected at 16.1% (September GEO: 9.8%) driven by sizeable gains in private consumption and exports (30.7% qoq). However, we expect Italy to suffer a double-dip recession in 4Q20, in common with other large eurozone countries, given its implementation of regional restrictions. Service sectors are likely to bear the brunt of lockdown, particularly hospitality. But the magnitude of the contraction should be lower than the first lockdown, particularly since industrial and construction activity is not affected by the restrictions.

This divergence between domestically and externally facing sectors is evident in the further weakening both of consumer confidence and households' major purchases intentions. Fragile labour-market dynamics have not helped consumers. In the weeks following the first lockdown, people stopped looking for work, resulting in a sharp drop in the jobless rate (since people have to be looking for work to be counted as unemployed); but the subsequent easing in restrictions pushed the unemployment rate back to where it was at the start of the year. In addition, the recent re-imposition of partial lockdown measures has resulted in a pick-up in the aggregate number of government-approved hours for those on the furlough scheme, reversing the downward trend evident since the peak in April. At the same time, the new family bonus payment of a maximum of EUR240 per month (to be paid in 2021) should help to sustain consumer spending.

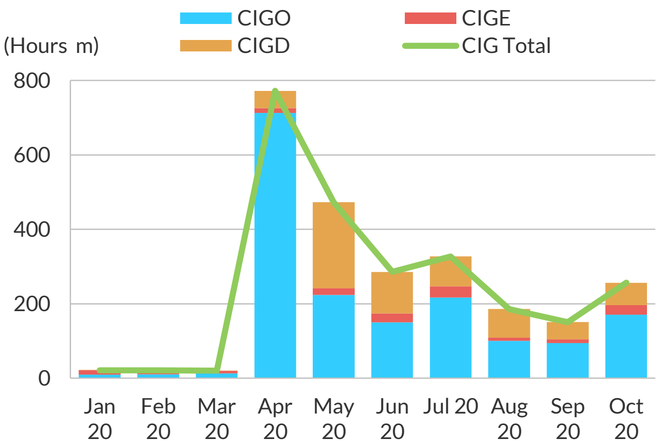
We now expect GDP to increase by 4.5% next year down from 5.4% in the September GEO as near-term weakness outweighs the better outlook for the health crisis from 2H21. For 2022 we are now forecasting 4.3% growth, significantly higher than the 2.6% in the September GEO. This primarily reflects the incorporation of the fiscal boost provided by the NGEU. We have assumed NGEU grants allocated to Italy in 2022 will be 2.2% of GDP and that these will be directed to public investment, where fiscal multipliers tend to be high. The brighter global outlook and vaccine rollout will also help.

Italy - Industrial Production



Source: Fitch Ratings, ISTAT, Haver Analytics

Italy - Furloughed Hours by Scheme



Source: Fitch Ratings, INPS, Haver Analytics

Italy – Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	1.0	0.3	-9.1	4.5	4.3
Consumer spending	1.2	0.4	-10.5	3.2	2.8
Fixed investment	2.7	1.6	-7.8	7.5	5.3
Net trade (contribution pp)	-0.2	0.5	-1.0	0.9	0.4
CPI inflation (end-year)	0.7	0.5	-0.5	0.8	0.8
Unemployment rate	11.1	9.9	9.8	11.8	9.5
Policy interest rate (end-year)	0.01	0.00	0.00	0.00	0.00
Exchange rate, EURUSD (end-year)	1.13	1.12	1.18	1.18	1.18

Source: Fitch Ratings

Spain

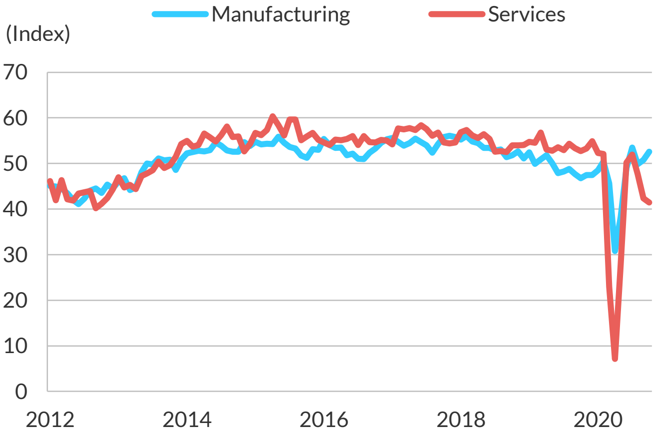
Output contracted sharply in 2Q20, so a significant rebound was to be expected in 3Q20; nevertheless, the strength of the recovery was significantly above our expectations, with GDP increasing 16.7% qoq against 9.9% in the September GEO. However, despite the robust increase, GDP in level terms remains 9% below where it was prior to the onset of the crisis. Moreover, the resurgence of coronavirus cases and the accompanying restrictions on mobility are already showing up in weakening activity in 4Q20. With GDP now expected to contract in the final quarter, we expect the economy to decline by −11.7% in 2020 (less severe compared to our September GEO forecast of −13.2%). For 2021, we expect the economy to grow by 5.3% (September GEO: 6.2%).

Social-distancing restrictions are likely to weigh on growth in early 2021 but these should ease later in the year as new vaccines are rolled out. Contact-intensive industries account for a particularly high share of the Spanish economy and hence the boost to growth from an eventual easing of the health crisis should be powerful. That said, international tourism is key and this could take time to recover.

Medium-term growth will also be affected by the substantial grants that Spain secured as part of the NGEU: EUR140 billion of the EUR750 billion fund, with half of the allocated cash in the form of permanent transfers providing a material boost to growth in 2021-2026 via stronger government consumption and investment. Our 2022 growth forecast has been revised up to 6.6% from 4.3% in September, primarily reflecting the incorporation of NGEU grants of 2.9% of GDP

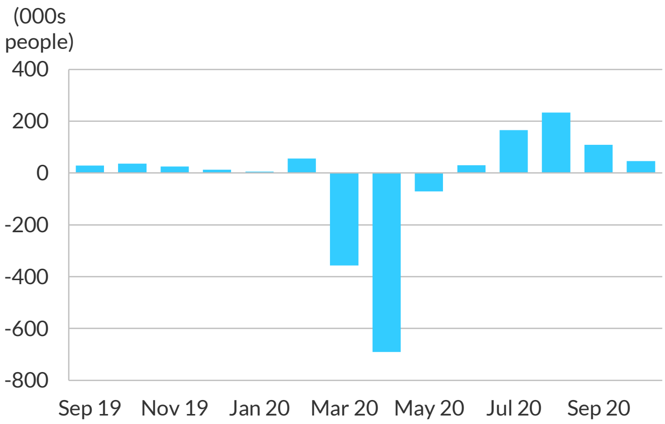
Consumers increased spending as restrictions were eased over the summer, but this now appears to be retrenching into November, judging by the decline in spending via debit and credit cards. The main longer-term risk to consumption remains the dynamics around the labour market. More than 2.5 million people have left furlough (ERTE) in recent months, but around half a million workers (October data) remain in the scheme. Employment affiliations rose through 2Q20 and 3Q20, but the monthly increase has slowed recently. Exports are also likely to remain under pressure given the sharp drop in goods trade and weakness in the tourism sector.

Spain - PMI Indices



Source: Fitch Ratings, Markit, Haver Analytics

Spain - Monthly Changes in Employment (Affiliations)



Source: Fitch Ratings, Ministerio de Trabajo e Inmigracion, Haver Analytics

Spain – Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	2.8	2.0	-11.7	5.3	6.6
Consumer spending	2.3	0.9	-13.8	6.6	4.6
Fixed investment	4.6	2.7	-13.9	4.5	7.2
Net trade (contribution pp)	0.2	0.6	-1.6	-0.1	0.5
CPI inflation (end-year)	0.7	0.8	-0.9	1.2	1.3
Unemployment rate	17.7	14.1	15.9	18.4	14.8
Policy interest rate (end-year)	0.01	0.00	0.00	0.00	0.00
Exchange rate, EURUSD (end-year)	1.13	1.12	1.18	1.18	1.18

Source: Fitch Ratings

Switzerland

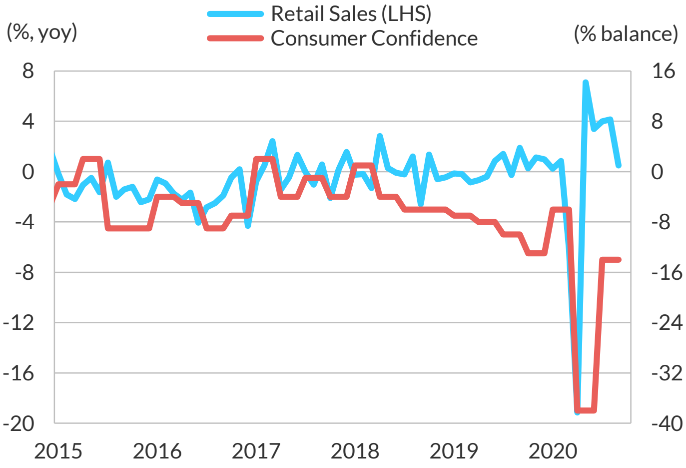
Robust growth in private consumption and investment resulted in a strong quarterly GDP outturn of 7.2% in 3Q20, exceeding our forecast of 4% in the September GEO. Relative to countries in the eurozone, Switzerland experienced a shallower GDP contraction in 1H20 owing to less stringent lockdown measures and hence a slower rebound. The resurgence of coronavirus cases has led to the imposition of renewed restrictions in the country, but in contrast to the lockdown earlier in the year, these new limitations are less stringent and are dependent on each canton's policies. Some localities have implemented strict lockdowns while others have allowed restaurants, non-essential shops and schools to remain open. Also, mobility indices have fared better in Switzerland than elsewhere, suggesting a smaller decline in output in 4Q20. We expect GDP to decline 3.3% for 2020 as a whole, and for the economy to grow 3.4% in 2021 and 3.1% in 2022.

The introduction of a short-time working scheme supported employment but did not prevent an increase in the jobless rate to 3.3% in October, from 2.6% at the start of the year. Consumer confidence remains subdued and households have expressed little appetite for making major purchases in coming months. Consumer surveys also reflect a deterioration in job security and unfavourable assessments of labour-market conditions. We still expect the unemployment rate to increase in the medium term, particularly in labour-intensive industries, such as hospitality and tourism. Business investment is likely to remain constrained given ongoing business caution and large spare capacity.

Externally, the Swiss franc's traditional role as a haven currency resulted in strong appreciation during May, but this subsequently eased as coronavirus cases subsided and economies reopened. Renewed restrictions in the eurozone and elsewhere risk pushing the franc higher while concerns persist about coronavirus.

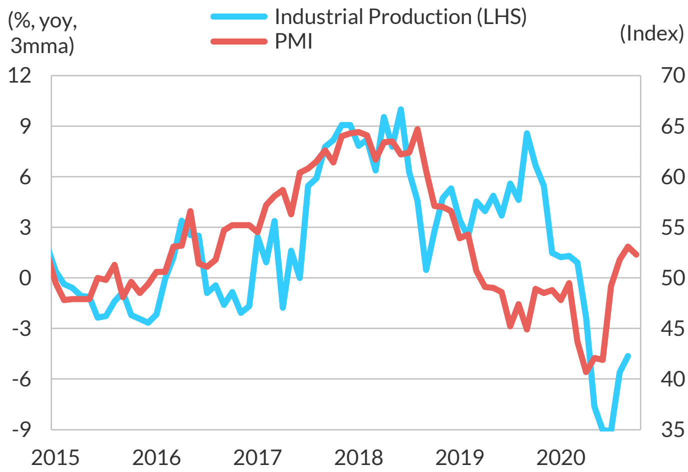
Pricing power is likely to remain weak, with headline CPI inflation at −0.7% in November and with the franc appreciating. In this context, the Swiss National Bank is likely to maintain its ultra-accommodative monetary policy at −0.75% with intervention on the foreign-exchange market to weaken the franc as and when it deems necessary.

Switzerland - Retail Sales & Consumer Confidence



Source: Fitch Ratings, FSO, SEC, Haver Analytics

Switzerland - Industrial Production



Source: Fitch Ratings, Swiss FSO, procure.ch, Haver Analytics

Switzerland – Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	1.9	1.1	-3.3	3.4	3.1
Consumer spending	1.5	1.4	-4.7	4.4	3.4
Fixed investment	2.1	1.2	-3.4	3.3	3.1
Net trade (contribution pp)	1.0	0.0	0.7	0.2	0.3
CPI inflation (end-year)	0.1	-0.1	-0.6	0.5	0.2
Unemployment rate	2.9	2.3	3.2	4.0	3.1
Policy interest rate (end-year)	-0.75	-0.75	-0.75	-0.75	-0.75
Exchange rate, USDCHF (end-year)	0.98	0.97	0.96	0.98	0.98

Source: Fitch Ratings

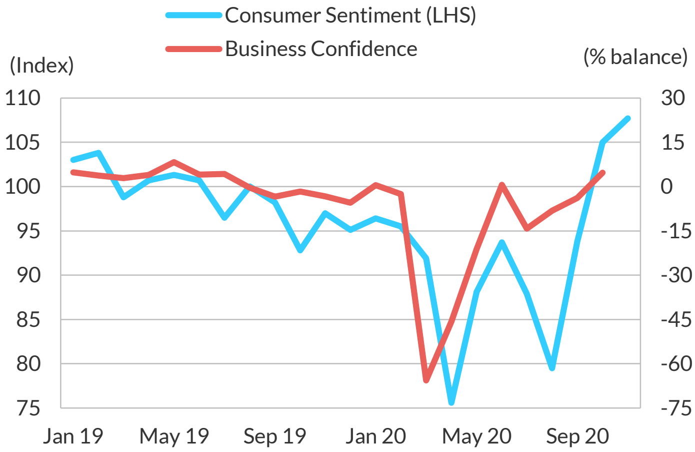
Australia

Fitch has revised up its 2020 GDP forecast for Australia, at −2.8% from −3.6% in the September GEO. The economy rebounded by 3.3% qoq in 3Q20, faster than expected in our previous GEO. Data for the last months of 2020, such as payrolls and confidence surveys, have continued to improve markedly as the Victoria state economy has gradually reopened. Local virus cases have dropped to near zero in the past month allowing social-distancing restrictions to be rolled back considerably and laying the ground for a strong domestic recovery. We expect another solid 4Q20 GDP outturn, at +1.8% qoq. The impact of massive macro policy easing on the economy has also become clearer. Our econometric estimates show a huge 6% boost to GDP in 2020 from fiscal policy easing alone.

Financial conditions have been very supportive too. The Reserve Bank of Australia (RBA) stepped up its policy response to the crisis at its November meeting. It lowered the cash rate, the three-year government bond yield target, and the term funding facility rate all to 0.1% (from 0.25%). It increased the QE program, with the pledge to buy AUD100 billion of government bonds (maturity 5 to 10 years) over the next six months. We expect the RBA to stick with its 0.1% interest rate and its yield curve control policy through the forecast horizon. We do not expect the bank to cut rates into negative territory nor to undertake significant further easing.

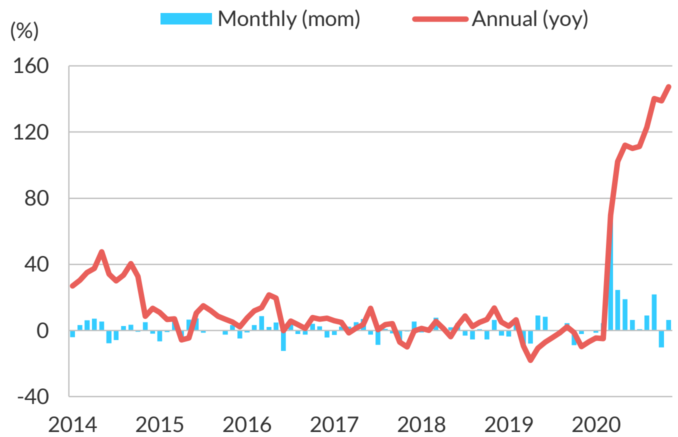
Looking further ahead, the outlook for domestic spending has become brighter on the expected distribution of various vaccines in 2021, which should support sentiment. Australian households have accrued huge buffers of savings that will bolster consumption over this period. However, rising diplomatic and trade tensions with China – Australia's largest trading partner – poses potential headwinds for exports. China has imposed trade barriers (tariff and non-tariff) on a range of Australian products including wine and barley. However, iron ore – the main commodity exported to China – is not affected and prices have surged in recent months due to strong demand from China. Fitch expects Australian GDP to expand 3.8% in 2021 (-0.1pp since the September GEO) and 2.7% in 2022 (unchanged).

Australia - Confidence Surveys



Source: Fitch Ratings, WMI, NAB, Haver Analytics

Australia - RBA Net Securities Purchases



Source: Fitch Ratings, RBA, Haver Analytics

Australia – Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	2.4	1.9	-2.8	3.8	2.7
Consumer spending	2.3	1.2	-6.2	4.8	2.3
Fixed investment	-0.6	-2.5	-3.9	3.5	3.0
Net trade (contribution pp)	0.6	1.0	0.3	-0.4	0.4
CPI inflation (end-year)	1.7	1.8	0.9	2.1	2.2
Unemployment rate	5.6	5.2	6.5	6.2	5.6
Policy interest rate (end-year)	1.60	0.75	0.10	0.10	0.10
Exchange rate, USDAUD (end-year)	1.35	1.43	1.36	1.35	1.34

Source: Fitch Ratings

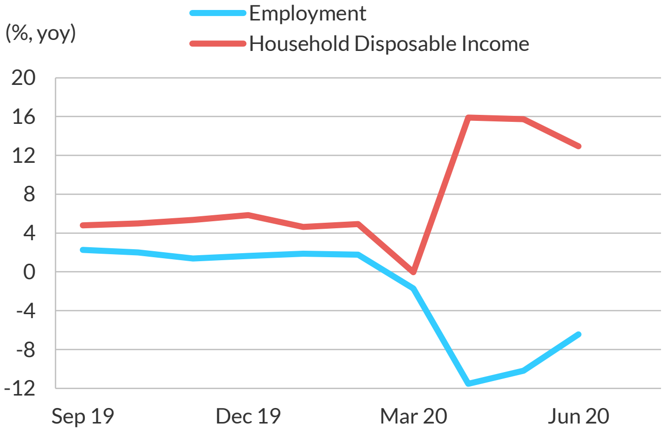
Canada

Canada's strengthening economic performance in 2H20 has led us again to revise up our 2020 forecasts to –5.7% (September GEO: –6.6%) and 4.5% (4.2%) for 2021. Robust government transfers to households and wage subsidies, vigorous real-estate investment, and stronger export demand from trade partners (although the seasonally adjusted current account deficit widened by CAD0.5 billion to CAD7.5 billion) contributed to 8.9% growth in 3Q20. The nationwide second coronavirus wave amid an expected measured pace of vaccine distribution in 2021 pose some downside risk to expected recovery in 2021. We believe there will be greater certainty to Canada-US trade following the US presidential elections supporting cross-border trade and investment, although Canada-China trade will remain sensitive to geopolitics.

Canada's housing investment has rebounded strongly, rising 30% in 3Q20 and even exceeding 4Q19 levels. Home resale activity and renovations were surprisingly strong, and new residential construction rose almost 10%. A demand surge for suburban homes supported by greater employment and income stability among skilled workers belies a falling price trend in downtown rental markets, where lower-income, renting households are concentrated. However, greater household savings and low mortgage refinancing rates cut the Canadian aggregate household debt service ratio sharply to 12.4% of disposable income in 2Q20 from an average of 14.8% in 2019. Employment has picked up steadily, although the reintroduction of calibrated public restrictions in October slowed job growth to 0.3%, from 2.3% on average since May. Unemployment was at 8.5% in November.

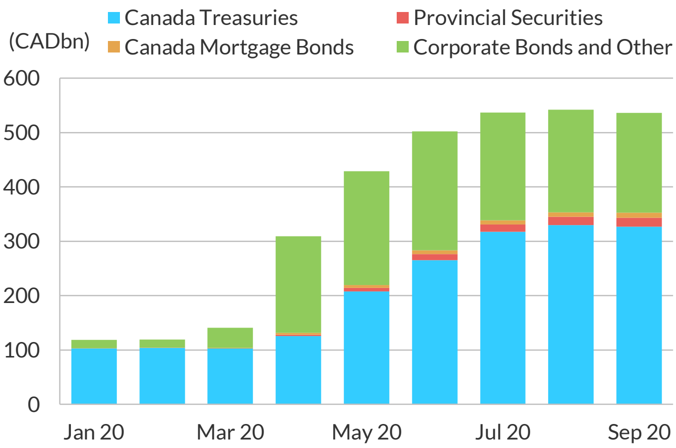
We expect the Bank of Canada (BoC) to maintain its monetary policy rate at the 0.25% lower bound through 2022, when the central bank anticipates the first nearing of its inflation target in 4Q22 under its central scenario. The BoC began to scale back its asset purchases as the economy gained momentum in 3Q20 (its balance sheet peaked at CAD542 billion in August), and in October the authorities announced their tapering of QE purchases to CAD4 billion a week from CAD5 billion.

Canada - Employment and Household Income



Source: Fitch Ratings, StatCan, Department of Finance Canada, Haver Analytics

Canada - Bank of Canada Balance Sheet



Source: Fitch Ratings, Bank of Canada, Haver Analytics

Canada – Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	1.8	1.9	-5.7	4.5	3.6
Consumer spending	2.5	1.7	-6.3	6.8	3.9
Fixed investment	-0.9	0.3	-4.0	6.2	3.3
Net trade (contribution pp)	0.1	0.3	0.7	-1.1	0.0
CPI inflation (end-year)	1.7	2.2	0.6	0.9	1.3
Unemployment rate	6.3	5.7	9.5	7.8	6.4
Policy interest rate (end-year)	1.00	1.75	0.25	0.25	0.25
Exchange rate, USDCAD (end-year)	1.31	1.31	1.31	1.31	1.31

Source: Fitch Ratings

Brazil

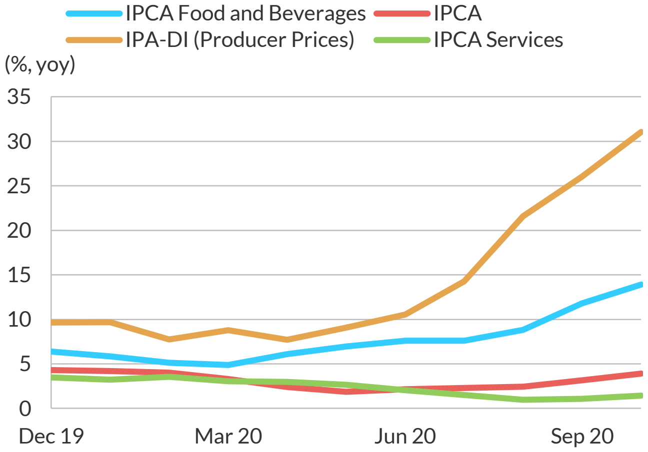
Fitch has revised up its 2020 GDP forecast to −4.6% from −5.8% in the September GEO and adjusted the forecast for 2021 down slightly to 3.1% (from 3.2%). The 3Q20 GDP outturn revealed a slightly faster-than-expected rebound, reflecting the steady opening of the economy, while 1H20 GDP was revised up. The coronavirus voucher (a fiscal transfer to the vulnerable population) amounting to around 4.5% of GDP, has provided an important support to households, thereby cushioning the blow from the pandemic. Moreover, the implementation of job-protection schemes and a dip in the labour-force participation rate has curtailed the rise in the unemployment rate.

Fitch expects Brazil's economy to rebound in 2021, due to a global economic recovery, strong growth in China (its main trading partner) and a competitive local currency. An accommodative monetary policy and possible reduction in household savings from recently elevated levels will continue to facilitate a gradual economic recovery, beyond the favourable base effect from easing of social-distancing measures. However, several downside risks could hamper the recovery, including the 'fiscal cliff' from the phase-out of emergency support measures in 2021 and the persistence of a high unemployment rate. A resurgence of the coronavirus, tightening of social-distancing measures and/or policy manoeuvres that undermine market confidence in the future fiscal trajectory are additional downside risks.

IPCA inflation has been under pressure, reaching 3.92% in October (close to the 4.0% target) on higher food and energy prices. Producer prices have risen faster, reflecting pressure from high energy prices and pass-through from a weaker Brazilian real. In addition, an early return of the electricity surcharge recently will also put pressure on the inflation print. As such, Fitch has raised its inflation forecast for 2020. The central bank has cut its policy rate to a historical low of 2%, but Fitch expects rate increases in 2021.

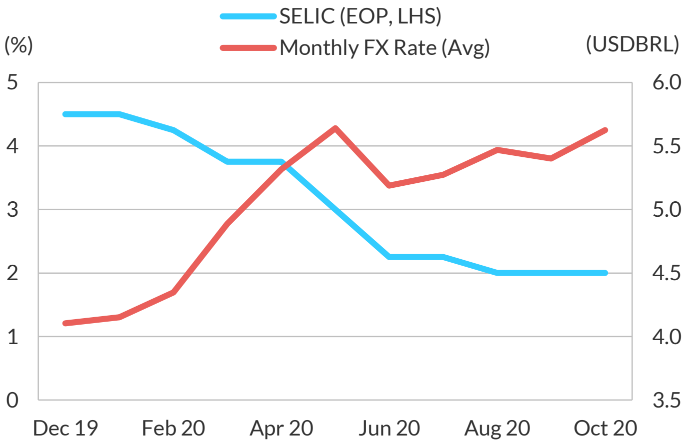
Despite the adjustment in external accounts, the real has weakened significantly in 2020 and has remained volatile, driven by reduced domestic interest rates, political and fiscal/reform risks and external uncertainties. The central bank has intervened in the spot and derivatives markets to reduce volatility and provide hedging to the private sector.

Brazil - Inflation



Source: Fitch Ratings, IBGE, FGV, Haver Analytics

Brazil - Exchange Rate and Policy Interest Rate



Source: Fitch Ratings, FRB, Central Bank of Brazil, Haver Analytics

Brazil – Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	-0.5	1.4	-4.6	3.1	2.5
Consumer spending	-0.1	2.2	-5.7	3.8	2.9
Fixed investment	-4.0	3.4	-5.1	3.4	3.3
Net trade (contribution pp)	0.7	-0.5	1.8	0.1	-0.1
CPI inflation (end-year)	5.7	4.3	4.2	3.5	3.5
Policy interest rate (end-year)	10.04	4.50	2.00	3.00	4.50
Exchange rate, USDBRL (end-year)	3.52	4.03	5.40	5.20	4.90

Source: Fitch Ratings

Russia

Fitch has upgraded its 2020 forecasts for the Russian economy to −3.7% yoy (from −4.9% in September). This reflects upward revisions to 2Q20 data and a stronger 3Q20 outturn than we expected at−3.8% yoy (September GEO: −7.2%). The economic rebound is losing momentum, however, as the positive impact of pent-up demand is exhausted, according to the central bank, and the health situation deteriorates again. We have revised down our forecasts for 2021 to 3% (from 3.6% in the previous GEO) to reflect a second dip in activity in 4Q20 and economic slump carrying through into 1Q21.

GDP contracted by 5.6% yoy in 2Q20 mostly due to a collapse in private consumption (−22% yoy) and a sharp fall in investment (−10% yoy). Export resilience in 2Q20, coupled with a sharp contraction in imports, led to a large positive net trade contribution, however.

Retail sales picked up strongly in 3Q20 (+23% qoq), but we expect private consumption to decelerate while the marginal improvement in industrial production (+2% qoq in 3Q20) will halt in 4Q20 as the rise in coronavirus cases hits confidence, and reduces consumption and investment. Cuts in oil production will lead to a contraction in exports in 2H20 and the OPEC+ deal could constrain a full recovery in 2021.

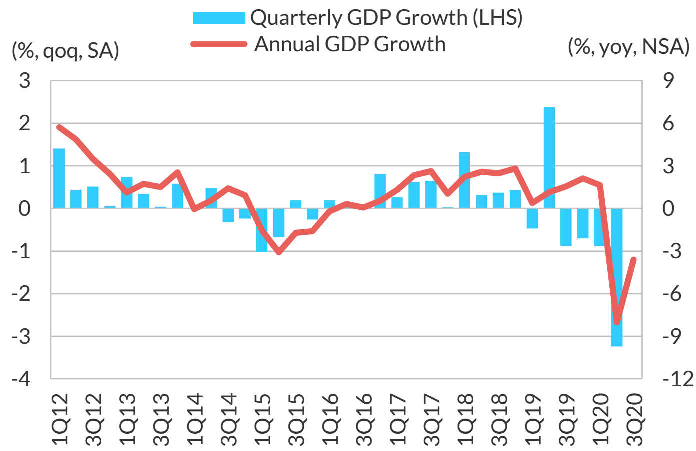
The renewed GDP contraction in 4Q20 and prolonged economic slump in 1Q21 will lead to a slower-than-expected recovery in 2021, while fiscal stimulus is gradually being wound down, further weighing on growth. We expect the economic rebound to gain traction in 2Q21 when vaccines are deployed, confidence improves, and investment recovers. Fitch projects Russia's GDP will reach its pre-crisis level by 3Q21.

Inflation accelerated to 4.4% in November. However, we project CPI will fall to 3.9% at end-2020, as the rouble appreciates after weakening in previous months, and as disinflationary factors prevail, despite higher inflation expectations. This will lead the central bank to cut rates by an additional 25bp in 2020. Higher oil prices will support a slightly stronger currency in 2021-2022 but ongoing geopolitical tensions and sanction risks will remain and could lead to renewed pressure on the rouble.

Russia - Import and Export Volume

Source: Fitch Ratings, Oxford Economics, Haver Analytics

Russia - Gross Domestic Product



Source: Fitch Ratings, Rosstat, Haver Analytics

Russia – Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	0.8	1.3	-3.7	3.0	2.7
Consumer spending	-0.5	2.5	-14.2	2.4	4.4
Fixed investment	-0.6	1.5	-5.1	2.8	3.7
Net trade (contribution pp)	1.3	-1.4	1.9	-1.3	-0.4
CPI inflation (end-year)	6.7	3.0	3.9	3.5	4.0
Policy interest rate (end-year)	9.36	6.25	4.00	4.50	5.00
Exchange rate, USDRUB (end-year)	62.75	61.91	74.00	72.00	71.00

Source: Fitch Ratings

India

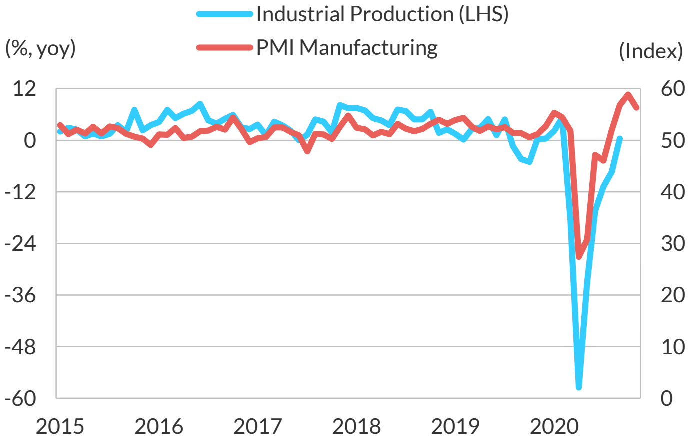
The Indian economy staged a sharper rebound in 3Q20 from the coronavirus-induced recession than we expected in our September GEO. GDP fell 7.5% yoy (September GEO: −9.6%), up from −23.9% in 2Q20. The rebound in activity was especially sharp in the manufacturing sector: output reached its pre-pandemic level in 3Q20, and the manufacturing PMI hints at further gains. Manufacturing is buoyed by strong demand for autos and pharmaceutical products, in particular. The rebound in the services sector was more muted amid continued social distancing, with containment measures scaled back only gradually.

The outlook is brighter owing to an expected rollout of various vaccines in 2021. India has pre-ordered 1.6 billion doses including 500 million doses of the Oxford/AstraZeneca vaccine. Distribution should allow a faster-than-expected easing of social-distancing restrictions and boost sentiment. However, it seems likely that the vaccine rollout over the next 12 months will not reach the majority of the people given the huge logistical and distribution challenges in a heavily populated country like India. Regional shutdowns are likely in the next few months while the virus is still spreading.

We now expect GDP to contract 9.4% in fiscal year to end March 2021 (FY21) (+1.1pp), followed by +11% (unchanged) and +6.3% (+0.3pp) in the following years. The coronavirus recession has nevertheless inflicted severe economic scarring. The need to repair balance sheets, increased caution about long-term planning, and firm closures will limit investment demand. Furthermore, increased financial-sector weakness – amid deteriorating asset quality – will hold back credit provision. The failure of another bank in recent weeks – the third failure in the past 16 months –underlines the challenges in the financial sector.

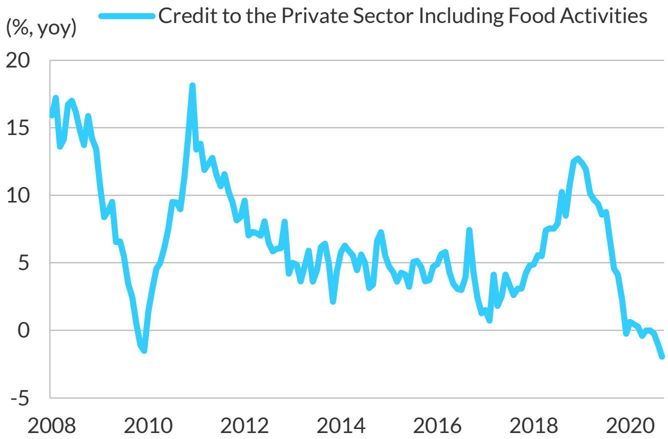
Consumer prices have continued to accelerate in recent months, buoyed by lingering supply disruptions. This has deterred the Reserve Bank of India (RBI) from resuming its easing cycle. We think inflation has now peaked and should start to decelerate rapidly on favourable base effects and an easing of supply disruptions. This should provide room for the RBI to cut interest rates in 2021.

India - Industrial Production



Source: Fitch Ratings, MOSPI, Markit, Haver Analytics

India - Inflation-Adjusted Bank Credit



Source: Fitch Ratings, MOSPI, RBI, Haver Analytics

India – Forecast Summary

(%) FY starting April	Annual Avg. 2015-2019	FY19-20	FY20-21F	FY21-22F	FY22-23F
GDP	6.7	4.2	-9.4	11.0	6.3
Consumer spending	7.1	5.3	-12.3	12.0	5.6
Fixed investment	5.9	-2.8	-14.2	18.3	6.0
Net trade (contribution pp)	-0.3	0.9	3.9	-0.2	0.9
CPI inflation (end-calendar year)	4.2	7.4	4.9	3.5	4.0
Policy interest rate (end-calendar year)	6.37	5.15	4.00	3.50	4.00
Exchange rate, USDINR (end-calendar year)	67.06	71.27	73.00	73.00	75.00

Source: Fitch Ratings

Korea

Fitch has revised up its 2020 GDP forecast to −0.8% from −1.1%. Korea economic rebound in 3Q20 (+2.1% qoq) was above our September forecast (+1.8%), while incoming data in 4Q20 suggest that the recovery in the export-oriented sector continues unabated. Industrial production had recovered most of the ground lost due to the pandemic in October, while the buoyancy of the manufacturing PMI in November – its highest level since 2011 – hints at further gains. Exports continued to gather momentum in November, particularly towards Europe and the US despite surging virus cases there. Demand for Korean export items, such as semiconductors and wireless electronic devices, is strong amid shifting consumption patterns towards goods and investments in 5G infrastructure.

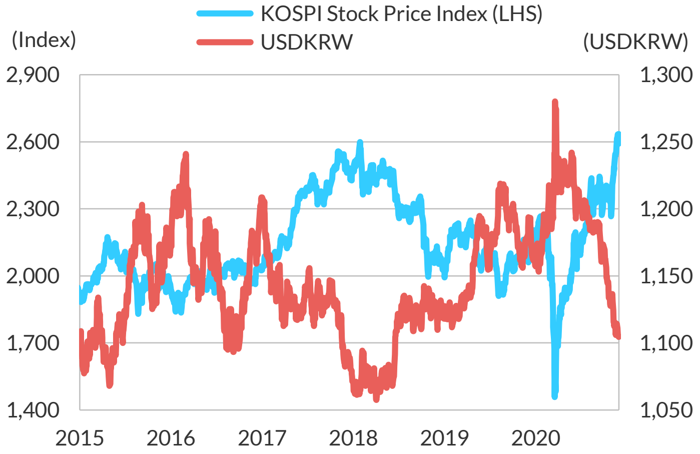
Activity in the services sector returned close to pre-pandemic levels in October, highlighting the capable domestic handling of the health crisis which contained virus waves. Cases have increased anew in the past few weeks, which is likely to keep services consumption moderate at end-2020, but consumer sentiment is picking up.

We expect a gradual easing of the pandemic in 2021, and this should provide a further boost to confidence and support domestic spending. Fiscal policy should also remain supportive. The government plans to raise spending further. We expect GDP to expand by 3.8% in 2021 (+0.1pp from the September GEO) and 3.0% in 2022 (+0.1pp).

The Korean won has appreciated more rapidly than we expected in the past few weeks, bolstered by positive sentiment over vaccine news and a recovery in world trade. We expect the currency to continue appreciating in the next few quarters on the global recovery, although at a milder pace.

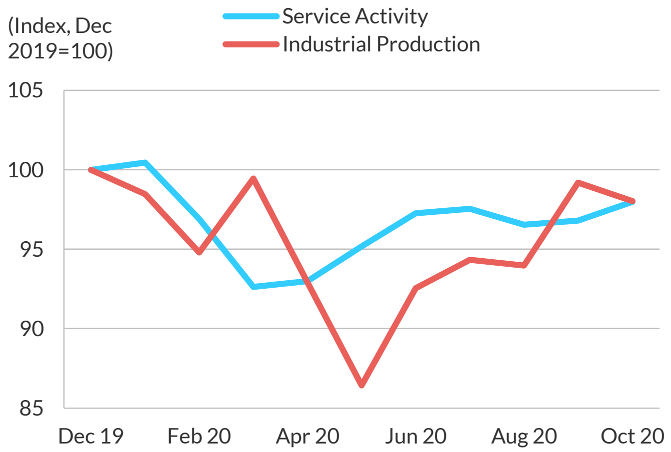
The Bank of Korea (BoK) kept its monetary settings broadly unchanged since cutting rates in May. It kept its policy rate at 0.5% – confounding our expectation of another 25bp cut before year-end – and its balance sheet expansion limited. We forecast the policy rate at 0.5% throughout 2022 amid expected persistently below-target inflation and the need to solidify the recovery.

Korea - Daily Stock Price and FX



Source: Fitch Ratings, Korea Stock Exchange, Bank of Korea, Haver Analytics

Korea - Sectoral Output Breakdown



Source: Fitch Ratings, KOSTAT, Haver Analytics

Korea – Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	2.8	2.0	-0.8	3.8	3.0
Consumer spending	2.5	1.7	-4.4	3.3	2.8
Fixed investment	3.3	-2.8	2.7	2.9	3.5
Net trade (contribution pp)	-0.3	1.0	0.3	1.8	0.5
CPI inflation (end-year)	1.1	0.4	0.3	1.0	1.5
Policy interest rate (end-year)	1.48	1.25	0.50	0.50	0.50
Exchange rate, USDKRW (end-year)	1138	1158	1100	1070	1060

Source: Fitch Ratings

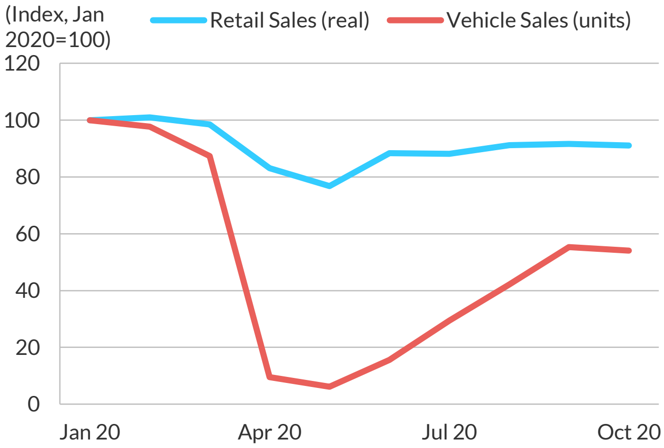
Indonesia

Fitch downgraded its 2020 GDP forecast for Indonesia and now expects a fall of 2.2% (compared with -2.0% in the September GEO). This reflects a slower-than-expected recovery in the final months of 2020, while the 3Q20 GDP rebound was slightly weaker than our forecast. Household consumption remains depressed, including goods consumption. October real retail sales were still more than 9% below their pre-pandemic (February 2020) level, while vehicle sales were 45% lower. Indonesia's failure to contain the virus is holding back the pace of GDP recovery in the short term. It means the authorities are maintaining many restrictions, while household confidence is depressed. On a positive note, the manufacturing sector has picked up recently with PMI balances improving sharply in November.

We expect the recovery to pick up pace sequentially from 1Q21 as the heath crisis eases. The government has pre-ordered 353 million doses of various vaccines including from China. But it will take time before they are distributed widely, given the distribution and logistics challenges and the size of Indonesia's population. The benefit to activity from increased confidence and a significant relaxation of pandemic restrictions should start to be felt in 2H21. Higher commodity prices will add support. We have upgraded our 2021 and 2022 GDP forecasts, to +6.3% (+0.1pp) and +5.7% (+0.2pp), respectively.

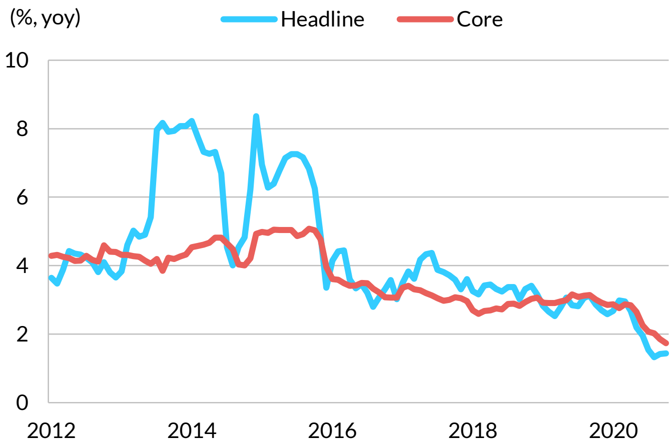
On the policy front, Bank Indonesia (BI) delivered a 25bp rate cut in its November meeting. A continued slowing in inflation and a strengthening rupiah gave room for BI to increase support to a weak economy. We now think that the policy rate will remain at 3.75% until end-2021. We expect inflation to start to accelerate only from 2H21 - as food prices normalise and the recovery matures – and will not reach the 3% target until end-2022. We also expect the rupiah to depreciate only slightly amid a strengthening global recovery. BI is expected to resume a slow tightening cycle in 2022.

Indonesia - Indicators of Goods Consumption



Source: Fitch Ratings, Bank Indonesia, Gaikindo, Haver Analytics

Indonesia - Consumer Price Inflation



Source: Fitch Ratings, Haver Analytics

Indonesia – Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	5.0	5.0	-2.2	6.3	5.7
Consumer spending	5.0	5.2	-2.6	6.2	5.9
Fixed investment	5.3	4.5	-4.8	6.5	5.5
Net trade (contribution pp)	0.4	1.4	1.3	1.4	0.4
CPI inflation (end-year)	4.0	2.6	1.5	2.6	3.0
Policy interest rate (end-year)	5.68	5.00	3.75	3.75	4.25
Exchange rate, USDIDR (end-year)	13693	13901	14000	14100	14200

Source: Fitch Ratings

Mexico

Fitch has upgraded its economic forecast for Mexico to –8.9% in 2020 from –10.8% in the September GEO. The Mexican economy rebounded 12.1% qoq in 3Q20 – surpassing our expectation of a 6.5% qoq increase in the previous GEO – boosted by a revival of the secondary sector. However, we have lowered our forecasts for 4Q20 to 2% qoq (4% previously) as the rebound following the lifting of restrictions is waning and uncertainties around a renewed rise in coronavirus cases will weigh on the recovery.

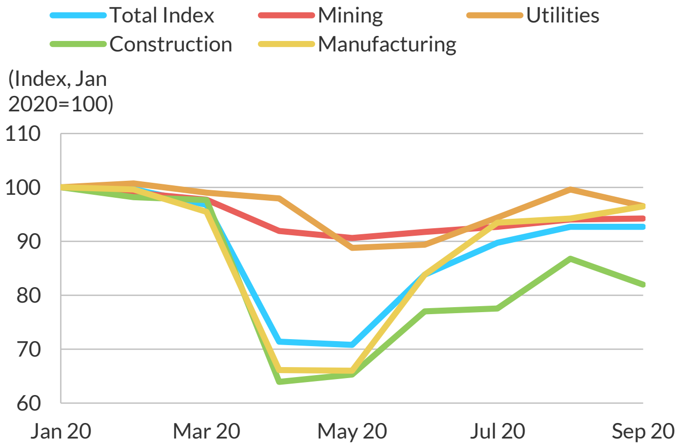
Industrial production rose 21.7% in 3Q20 (–23.7% in 2Q20), partly boosted by a rebound in the manufacturing sector. Retail sales picked up by 14.4% qoq (–15% in 2Q20) and service output rose 9% after a 15% contraction in 2Q20. Yet the recovery lost momentum in 3Q20, with the IGAE Economic Activity Indicator growing by a meagre 1% in September compared with the month earlier. Industrial production was flat and construction and utilities recorded a monthly contraction after a healthy recovery in August.

The external sector has supported the recovery, reflecting the tight link between the Mexican and US economies. Export volumes rose 3.9% yoy (three-month moving average) in October, while imports contracted 14.6%, leading to a strong positive net trade contribution.

The renewed rise in coronavirus cases, prolonged uncertainties, ongoing restrictions on activity and subdued fiscal support will weigh on domestic demand and the investment outlook; however, we assume immunisation news will boost confidence and the rollout of vaccines will start to have an effect on output from 2H21. The government had intervened (particularly in the energy sector) in ways that hurt business confidence prior to the pandemic and non-Pemex public capex remains low. The government has announced two sets of infrastructure projects in conjunction with the private sector that could help to reverse this trend. We expect GDP to still be 1.5% below its pre-crisis level by end-2022.

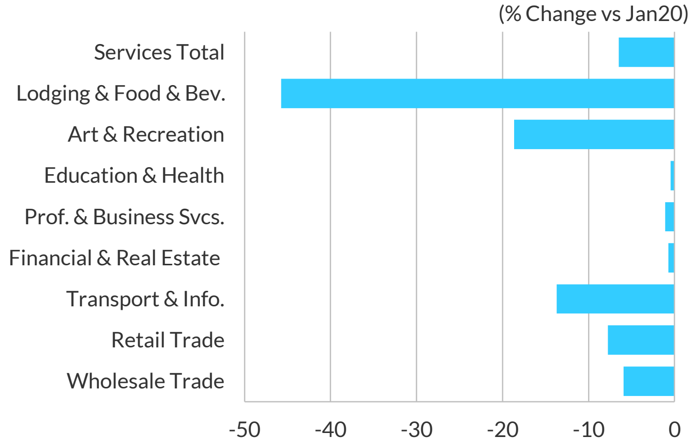
Inflation accelerated to 4.1% in October, bringing CPI above the Banxico's target range of 2%-4% for three consecutive months. It is likely to remain at the upper end of the target range for several months. The central bank kept its rate unchanged in November, but we project an additional cut in December. The recent appreciation of the peso, substantial economic slack, positive real rates, and large differential with the Fed Funds rate will provide some room for further easing.

Mexico - Industrial Production Index



Source: Fitch Ratings, INEGI, Haver Analytics

Mexico - Service Sector Activity as of September 2020



Source: Fitch Ratings, INEGI, Haver Analytics

Mexico – Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	2.0	-0.1	-8.9	4.2	2.5
Consumer spending	2.5	0.4	-11.1	4.1	3.5
Fixed investment	0.1	-5.1	-22.0	2.8	4.3
Net trade (contribution pp)	0.2	0.9	1.4	-0.2	-0.5
CPI inflation (end-year)	4.0	3.6	3.9	3.4	3.2
Policy interest rate (end-year)	5.95	7.25	4.00	4.00	4.50
Exchange rate, USDMXN (end-year)	18.39	18.85	20.10	20.10	20.10

Source: Fitch Ratings

Poland

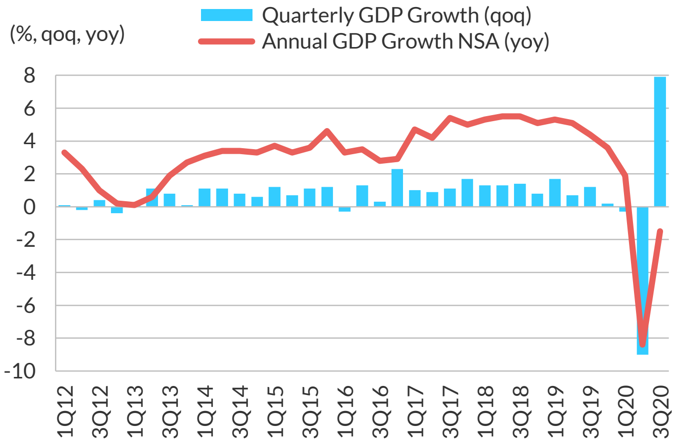
Poland's economy recovered from a steep decline in 2Q20 to grow 7.9% qoq in 3Q20, aided by robust household consumption growth (13.7% qoq). Economic growth in 4Q20 is likely to be weaker, however, given new restrictions on activity from October in the wake of the second wave of the coronavirus. Retail sales fell in October after three months of expansion, most likely because of these measures. Nevertheless, significant government stimulus and strong net exports (that contributed 0.5pp to 3Q20 growth) will offset the slowdown in investments, leading to real GDP contraction of -3.4% in 2020. The unemployment rate stabilised at 6.3% as of October 2020, helped by wage-support measures. The sharp fall in wage growth, as well as cautious household sentiment pose some downside risks to consumption and inflation in 2021.

Private investment will be sluggish heading into 2021 as businesses exercise caution. Surveys by the central bank (NBP) estimate nearly half of all private businesses lack visibility of a viable timeline for restoration of their pre-pandemic investment plans. However, public investment growth is likely to be strong given the closure of the current EU funding cycle. Disbursement of NGEU funds will provide an upside.

Fitch expects that Poland will compromise in its standoff with the EU over rule of law conditionalities in the NGEU and the next Multi-Annual Financial Framework (MFF) to avoid jeopardising the flow of EU funds that are crucial to investment. Fitch expects investment growth to peak at 12.5% in 2022, when the main impact of NGEU funds will be felt. This will boost economic growth to 5.1% in 2022 from 3.3% in 2021.

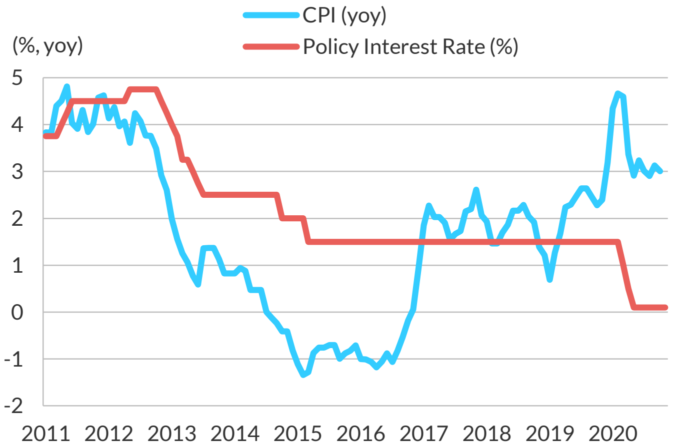
Inflation decelerated moderately to 3% yoy in November, and is likely to average 3.4% in 2020. Core inflation, however, remains strong, averaging 4.2% in June-October. Inflation will dip (on an annual average basis) in 2020 to 2.2% due largely to base effects, before rising to 2.7% in 2022. Fitch expects the central bank to tighten interest rates moderately, to 0.5% by end-2022 from 0.1% currently. The NBP is likely to taper its QE programme as a precursor to normalising rates.

Poland - Gross Domestic Product



Source: Fitch Ratings, CSO of Poland, Haver Analytics

Poland - Policy Rates and Inflation



Source: Fitch Ratings, CSO of Poland, National Bank of Poland, Haver Analytics

Poland – Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	4.3	4.6	-3.4	3.3	5.1
Consumer spending	4.0	4.0	-3.3	5.8	4.3
Fixed investment	3.7	7.3	-6.9	3.5	12.5
Net trade (contribution pp)	0.4	1.0	1.0	-0.2	-0.3
CPI inflation (end-year)	0.9	3.2	2.8	1.7	3.5
Policy interest rate (end-year)	1.52	1.50	0.10	0.30	0.50
Exchange rate, USDPLN (end-year)	3.79	3.80	4.00	3.75	3.65

Source: Fitch Ratings

Turkey

The Turkish economy expanded by 15.6% qoq in 3Q20, surpassing our September GEO expectations for a 5.2% quarterly pick-up. In yoy terms, the recovery was extremely impressive at 6.7%. However, tighter monetary policy, a marked slowdown in credit growth and re-imposition of restrictions in light of a rise in coronavirus cases will weigh on GDP in 4Q20. We have upgraded our forecast to 0.2% yoy in 2020 (versus -3.2% in September) but revised down our projections in 2021 to 3.5% (from 5%).

The economic rebound in 3Q20 more than offset the contraction in 2Q20, leaving GDP 3.3% above its pre-crisis level (4Q19). Private consumption surged 21.4% qoq, boosted by loose monetary policy and strong state-bank lending, while investment jumped by 20.8% qoq. Exports rebounded, rising by 30% qoq, and booming domestic demand led to a 27.6% qoq surge in imports.

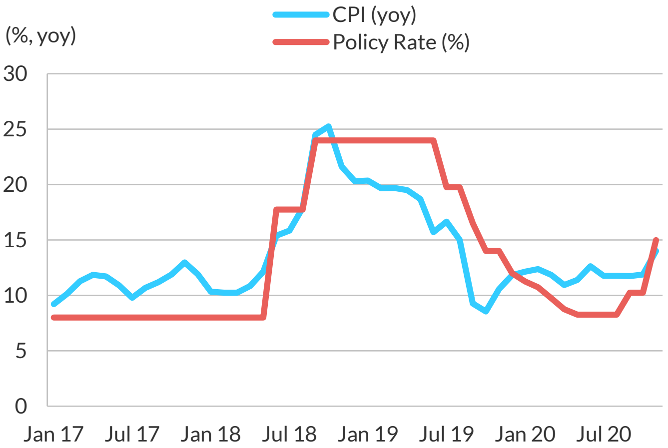
We expect the expansion to reverse in 4Q20, however, and GDP to contract by 3.7% qoq due to policy tightening and further coronavirus-related restrictions. Mobility data already indicate a renewed decline in visits to recreation and retail venues, suggesting a new hit to the hospitality sector, further aggravated by a second dip in economic activity in Europe, and a plunge in tourism arrivals (foreign arrivals were still 60% lower from a year earlier in October). Net trade will subtract 6.2pp from growth in 2020.

Tighter monetary conditions will weigh on domestic demand. The average weighted cost of central bank funding had reached 14.9% prior to the 475bp increase in the main policy rate to 15% in November (from 7.3% in July). Aggregate lending growth fell to less than 10% (13-week, annualised) in early November from a high of 45% in early July.

The recovery will be weaker than expected in 2021 as renewed economic frailty in Europe, further restrictions on mobility, and ongoing uncertainty partly arising from recent lira volatility will constrain growth. We project economic activity to pick up in 2H21 as vaccination campaigns support confidence, restrictions are eased and the recovery in Europe gains traction.

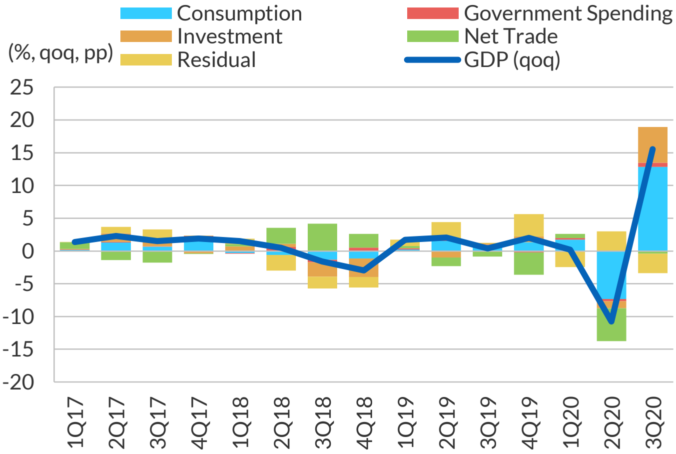
Sharp depreciation of the lira contributed to higher inflation in November at 14.0% and we forecast a year-end rate of 13.5%. The recent monetary tightening and the central bank's commitment to adopt a more orthodox policy provide some support for moderate disinflation from next year.

Turkey - Policy Rates and Inflation



Source: Fitch Ratings, Central Bank of Turkey, Turkstat, Haver Analytics

Turkey - Contribution to Growth



Source: Fitch Ratings, Turkstat, Haver Analytics

Turkey – Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	4.2	0.9	0.2	3.5	4.5
Consumer spending	3.4	1.6	5.0	5.9	5.2
Fixed investment	1.4	-12.4	6.3	5.4	5.5
Net trade (contribution pp)	1.1	2.4	-6.2	-1.3	-0.3
CPI inflation (end-year)	11.7	11.8	13.5	10.5	9.5
Policy interest rate (end-year)	11.78	12.00	15.00	13.00	12.00
Exchange rate, USDTRY (end-year)	3.98	5.95	7.70	7.80	8.10

Source: Fitch Ratings

South Africa

Fitch has revised its GDP forecast for South Africa to –8.1% in 2020 (from –8.5% in September's GEO). The economic contraction in 2Q20 was slightly less severe than we had expected at -16.4% qoq (vs. –17.7% in the previous GEO), and hard data suggest a strong rebound in 3Q20. Yet the recovery seems to be losing traction and weak policy support will weigh on growth in 2021-2022. We have lowered our projection to 3.6% in 2021 (from 4.3%).

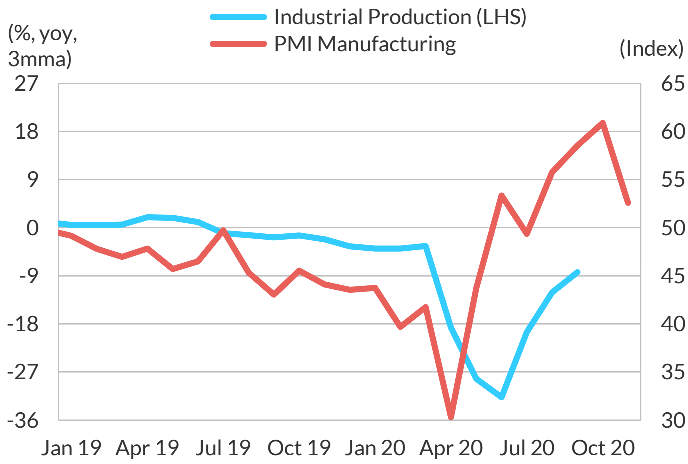
Industrial production recovered strongly in 3Q20, rising by 33% qoq, and retail sales gained 23.9% qoq, while restrictions were eased and lockdown was moved from level two to one in September. Industrial production recorded a healthy pick-up towards the end of the quarter (+3.3% on the month-earlier in September).

However, more recent data point to a renewed slowdown. The manufacturing PMI survey fell to 52.6 in November from a high of 60.9 in October. Growth in retail sales decelerated significantly at the end of 3Q20 (+1.1% in September compared to the month earlier, from 4% month-on-month in August) and the improvement in mobility data halted in November. Electricity generation and consumption also recorded a monthly decline in September, pointing to a weak outturn in 4Q20. The economic slowdown will linger throughout 1Q21 and we expect the economy to pick-up only in 2Q21 as confidence recovers and the full effect of lockdown easing starts to unfold.

Structural bottlenecks will weigh on investment recovery, including load-shedding and fiscal consolidation. The government's economic reconstruction and recovery plan, announced in October, is unlikely to have a strong impact on GDP. The administration has struggled to implement reforms and planned measures are of limited impact, while the surge in government debt means government consumption will be a drag on growth.

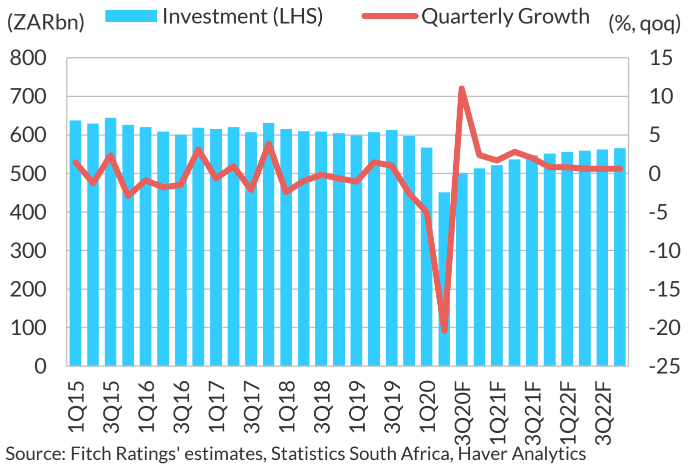
Inflation edged up in October to 3.3% and we expect it to accelerate gradually in 2021-2022 to the mid-point of the South African Reserve Bank's 3%-6% target as the output gap narrows. The easing cycle has likely come to an end as the central bank kept rates stable at its most recent monetary policy meeting and highlighted risks to the outlook, ongoing uncertainties and rising longer-term inflation expectations.

South Africa - Production and PMI Manufacturing



Source: Fitch Ratings, BER South Africa, Statistics South Africa, Haver Analytics

South Africa - Gross Fixed Capital Formation



Source: Fitch Ratings' estimates, Statistics South Africa, Haver Analytics

South Africa – Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	0.8	0.2	-8.1	3.6	2.5
Consumer spending	1.5	1.0	-6.5	4.7	3.7
Fixed investment	-0.5	-0.9	-15.9	6.1	4.0
Net trade (contribution pp)	-0.2	-0.6	0.4	-0.7	-0.4
CPI inflation (end-year)	5.0	4.0	3.3	4.0	4.2
Policy interest Rate (end-year)	6.59	6.50	3.50	3.50	4.00
Exchange rate, USDZAR (end-year)	13.69	14.03	15.40	16.20	16.90

Source: Fitch Ratings

Appendix 1

Quarterly GDP QOQ

(%)	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
US	0.6	0.6	-1.3	-9.0	7.4	1.2	0.0	1.4	1.7	1.6
Euro area	0.3	0.0	-3.7	-11.8	12.6	-3.6	1.3	3.1	1.5	1.0
China	1.3	1.5	-10.6	12.3	3.0	4.1	0.1	0.2	0.5	0.3
Japan	0.0	-1.8	-0.6	-8.2	5.0	1.2	1.0	1.1	0.7	0.6
UK	0.3	0.1	-2.5	-19.8	15.5	-2.3	2.3	1.8	0.9	1.2
Germany	0.3	0.0	-1.9	-9.8	8.5	-1.1	0.9	2.9	2.2	0.9
France	0.1	-0.2	-5.9	-13.8	18.7	-6.9	2.1	3.8	0.8	0.9
Italy	0.0	-0.3	-5.5	-13.0	15.9	-3.4	0.9	1.8	1.6	1.0
Spain	0.4	0.4	-5.2	-17.8	16.7	-3.6	1.4	4.2	1.2	1.1
Switzerland	0.5	0.4	-1.7	-7.0	7.2	-1.0	0.7	1.3	1.2	0.8
Australia	0.6	0.4	-0.3	-7.0	3.3	1.8	1.3	1.1	0.7	0.9
Canada	0.5	0.1	-1.9	-11.3	8.9	0.6	0.7	1.2	1.7	1.4
Brazil	-0.2	0.2	-1.5	-9.6	7.7	1.8	0.0	0.4	0.3	0.5
Russia	-0.9	-0.7	-0.9	-3.2	1.0	-1.2	1.1	2.2	2.1	1.2
India	0.7	1.2	0.3	-25.6	22.5	5.4	1.1	1.1	0.7	1.1
Korea	0.4	1.3	-1.3	-3.2	2.1	1.9	0.7	1.0	0.9	0.8
Mexico	-0.2	-0.6	-1.2	-17.0	12.1	2.0	0.3	0.8	1.2	1.1
Indonesia	1.2	1.2	-0.8	-6.9	3.2	1.8	1.9	2.2	2.2	1.3
Turkey	0.4	2.0	0.2	-10.8	15.6	-3.7	0.2	1.0	1.6	1.2
Poland	1.2	0.2	-0.3	-9.0	7.9	-3.4	1.3	2.4	2.0	1.4
South Africa	-0.2	-0.4	-0.5	-16.4	10.3	1.9	0.6	0.9	0.9	0.7
Developed [a]	0.4	0.1	-2.0	-10.5	9.1	-0.2	0.6	1.8	1.5	1.3
Emerging [b]	0.8	1.0	-6.0	0.8	6.3	2.9	0.4	0.7	0.8	0.6
World [c]	0.6	0.4	-3.5	-6.2	8.1	1.0	0.6	1.3	1.2	1.0

[a] US, Japan, France, Germany, Italy, Spain, UK, Canada, Australia and Switzerland
[b] Brazil, Russia, India, China, South Africa, Korea, Mexico, Indonesia, Poland and Turkey
[c] 'Fitch 20' countries weighted by nominal GDP in US dollars at market exchange rates (three-year average)
Source: Fitch Ratings

Appendix 2

Quarterly GDP YOY

(%)	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
US	2.1	2.3	0.3	-9.0	-2.9	-2.3	-1.1	10.2	4.4	4.8
Euro area	1.4	1.0	-3.3	-14.8	-4.4	-7.9	-3.0	13.4	2.3	7.2
China	6.0	6.0	-6.8	3.2	4.9	7.6	20.5	7.5	4.9	1.1
Japan	1.7	-0.7	-1.9	-10.3	-5.9	-3.0	-1.5	8.4	4.0	3.4
UK	1.0	1.0	-2.1	-21.5	-9.6	-11.8	-7.4	17.6	2.7	6.4
Germany	0.8	0.4	-2.1	-11.2	-4.0	-5.0	-2.4	11.3	4.9	6.9
France	1.6	0.8	-5.7	-18.9	-3.9	-10.4	-2.8	17.0	-0.6	7.7
Italy	0.5	0.1	-5.6	-18.0	-5.0	-8.0	-1.7	15.0	0.7	5.4
Spain	1.8	1.7	-4.2	-21.5	-8.7	-12.3	-6.2	18.9	3.0	8.1
Switzerland	1.3	1.5	-0.4	-7.8	-1.7	-3.1	-0.7	8.2	2.2	4.1
Australia	2.0	2.2	1.4	-6.4	-3.8	-2.5	-1.0	7.7	5.0	4.1
Canada	1.9	1.7	-0.3	-12.5	-5.2	-4.7	-2.2	11.6	4.2	5.0
Brazil	1.3	1.6	-0.3	-10.9	-3.9	-2.4	-0.9	10.1	2.5	1.2
Russia	1.5	2.1	1.6	-8.0	-3.6	-4.2	-2.3	3.2	4.3	6.8
India	4.4	4.1	3.1	-23.9	-7.5	-3.6	-2.8	32.0	8.6	4.2
Korea	2.0	2.3	1.4	-2.7	-1.1	-0.5	1.4	5.8	4.5	3.4
Mexico	0.0	-0.6	-1.4	-18.7	-8.6	-6.2	-4.7	15.6	4.4	3.5
Indonesia	5.0	5.0	3.0	-5.3	-3.5	-2.9	-0.2	9.4	8.4	7.9
Turkey	1.0	6.4	4.5	-9.9	6.7	-0.6	-0.5	12.6	-1.0	4.1
Poland	4.4	3.6	1.9	-8.4	-1.5	-5.4	-3.9	8.1	2.2	7.3
South Africa	0.1	-0.5	0.1	-17.1	-8.5	-6.4	-5.4	14.2	4.4	3.1
Developed [a]	1.7	1.4	-1.1	-11.7	-4.3	-4.5	-2.0	11.4	3.7	5.2
Emerging [b]	4.2	4.3	-3.1	-4.0	0.6	2.5	10.3	10.6	4.9	2.6
World [c]	2.6	2.5	-1.9	-8.8	-2.4	-1.9	2.7	11.1	4.2	4.2

[a] US, Japan, France, Germany, Italy, Spain, UK, Canada, Australia and Switzerland
[b] Brazil, Russia, India, China, South Africa, Korea, Mexico, Indonesia, Poland and Turkey
[c] 'Fitch 20' countries weighted by nominal GDP in US dollars at market exchange rates (three-year average)
Source: Fitch Ratings

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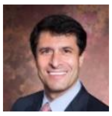

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