Fitch Ratings

Global Economic Outlook – March 2021

The Final Stretch

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> "The pandemic is not over, but it is starting to look like we have entered the final phase of the economic crisis."
>
> Brian Coulton, Chief Economist, Fitch Ratings

Faster Recovery

Global growth prospects are improving as fiscal support is stepped up sharply, economies adapt to social distancing and vaccination rollout gathers momentum.

Fitch Ratings now expects global GDP to expand by 6.1% in 2021, revised up from 5.3% in Fitch's December 2020 Global Economic Outlook (GEO). Along with better-than-expected outturns in 4Q20 – particularly in Europe and emerging markets (EM) – we now expect world GDP to be 2.5% higher this year than in 2019.

We expect US GDP growth to be 6.2% in 2021 (revised up from 4.5%), China at 8.4% (from 8.0%), the eurozone at 4.7% (unchanged) and EM excluding China at 6.0% (up from 5.0%).

Second Wave of Fiscal Easing

The main driver of our global forecast revision is the much larger-than-expected fiscal stimulus package recently passed in the US. The USD1.9 trillion price tag represents more than 2.5% of global GDP. Fiscal support had a powerful cushioning impact in 2020.

The UK, Italy, Japan, Germany and India have also announced further fiscal easing and the EU's Next Generation EU recovery fund (NGEU) will provide a sizeable boost to eurozone growth in 2022. China is the only major economy starting to normalise macroeconomic policy settings, where the fiscal deficit is being scaled back and credit is slowing as the recovery matures.

Unemployment Forecasts Revised Down

Unemployment forecasts have been cut but job market recoveries continue to lag. Leisure and transport (L&T) industries are labour-intensive and are still afflicted by social distancing. US employment is still 6.1% below pre-pandemic levels, while L&T accounts for more than one-third of furloughed workers in Europe.

Vaccine Rollout Is on Track

Vaccine rollout has gained momentum, particularly in the UK and US. The eurozone has had a slower start but should see an acceleration in 2Q21. It still looks reasonable to assume that the health crisis will ease by mid-year, allowing social contact to start to recover. But immunisation delays or problems remain the key risk.

Reflation Risks Revisited

Improving growth prospects, commodity price increases and short-term supply constraints in parts of manufacturing have renewed focus on inflation risks. US bond yields are up by 60bp this year.

The rate of headline US inflation will rise above 3% in April but underlying inflation will increase much more gradually given labour market slack. The Fed is focused on unemployment, more tolerant of higher inflation and will remain patient. Core inflation will stay well below target in the eurozone and the ECB will continue asset purchases through the whole of 2022.

Related Research

World GDP Recovery to Strengthen from Mid-2021 on Vaccine Rollout (December 2020)

Rise in Eurozone Inflation to Be Short-Lived (March 2021)

US Yields to Rise Further in Medium Term (February 2021)

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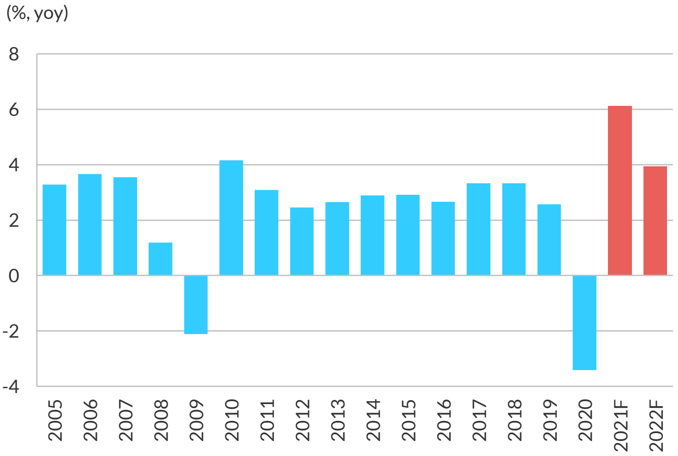
Global Forecast Summary

(%)	Annual Average 2015-2019	2019	2020	2021F	2022F
GDP Growth					
US	2.5	2.2	-3.5	6.2	3.3
Eurozone	1.9	1.3	-6.6	4.7	4.5
China	6.7	6.0	2.3	8.4	5.5
Japan	1.0	0.3	-4.9	3.6	1.7
UK	1.7	1.4	-9.9	5.0	4.9
Developed [a]	2.0	1.6	-5.1	5.4	3.4
Emerging [b]	4.7	4.3	-0.7	7.3	4.7
Emerging ex-China	2.8	2.5	-4.1	6.0	3.8
World [c]	3.0	2.6	-3.4	6.1	3.9
Inflation (end of period)					
US	1.6	2.3	1.4	1.9	2.1
Eurozone	1.0	1.3	-0.3	1.8	0.9
China	2.0	4.5	0.2	1.6	2.0
Japan	0.5	0.8	-1.2	0.9	0.6
UK	1.5	1.3	0.6	1.2	1.3
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	0.92	1.70	1.90
Exchange Rates and Oil					
Oil (USD/barrel)	57.7	64.1	43.3	58.0	53.0
USDJPY (end-period)	112.3	109.1	103.6	105.0	103.0
USDEUR (end-period)	0.89	0.89	0.81	0.83	0.83
GBPUSD (end-period)	1.36	1.31	1.34	1.40	1.40
USDCNY (end-period)	6.63	6.99	6.54	6.60	6.60

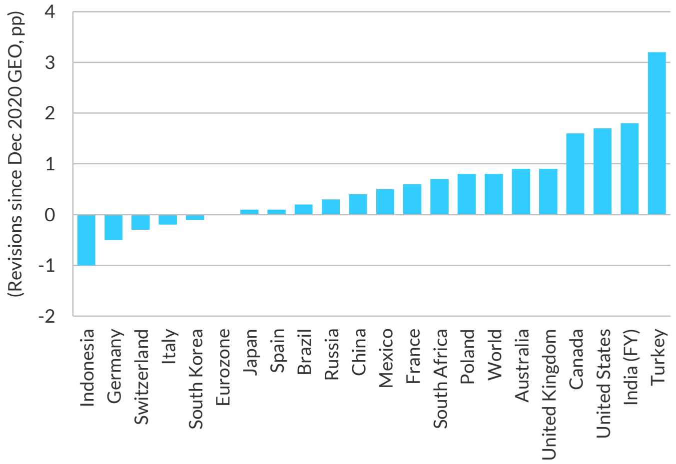
[a] US, Japan, France, Germany, Italy, Spain, UK, Canada, Australia and Switzerland
[b] Brazil, Russia, India, China, South Africa, Korea, Mexico, Indonesia, Poland and Turkey
[c] 'Fitch 20' countries weighted by nominal GDP in US dollars at market exchange rates (three-year average)
[d] One-Year Medium-Term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

World GDP Growth



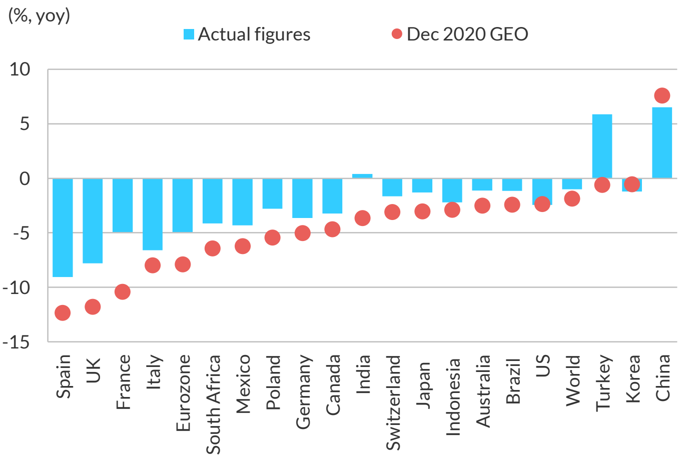
Source: Fitch Ratings' estimates

Revisions to 2021 Annual GDP Forecasts



Source: Fitch Ratings' estimates

GDP 4Q20 Outturns vs Forecasts



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

Forecast Highlights

Fitch expects world GDP to grow by 6.1% in 2021, revised up from 5.3% in the December GEO. This is an eye-catching rate of growth and the fastest annual pace since at least 1980. But it follows a post-war record decline of 3.4% last year (revised from -3.7% in December) so is heavily flattered by the low base. Even so, taking the two years in combination highlights that this recovery is expected to be faster than after the global financial crisis (GFC). GDP in 2021 will be 2.5% above its 2019 average if our forecast proves correct, whilst GDP in 2010 was only 2% above its 2008 (pre-crisis) level, despite the massive stimulus in China back then. We expect world GDP to grow by 3.9% in 2022, little changed from December.

We expect pre-pandemic levels of GDP to be regained sooner than anticipated in the previous GEO. For the US, GDP is now expected to regain its 4Q19 level in 2Q21, three months earlier than before. In the eurozone, this date is brought forward by six months to 4Q21, largely as a result of a much smaller-than-anticipated decline in 4Q20. Perhaps most strikingly, we now see US GDP rising to a level that is 4.3% above pre-pandemic levels by 4Q21 – this is above even our pre-pandemic forecast of where GDP would be by end-2021, a pattern unique among the Fitch 20 countries.

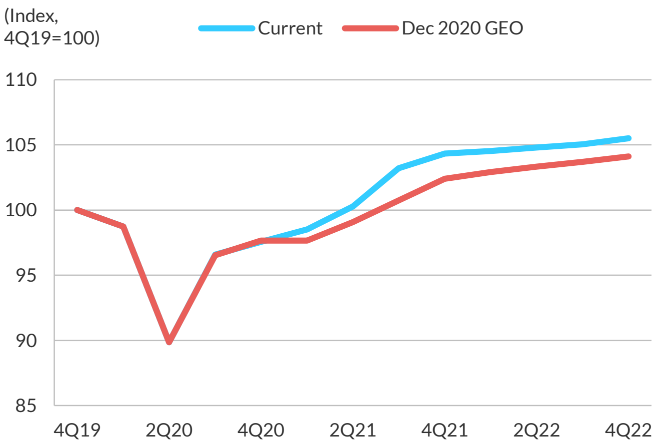
Upward revisions to our forecasts are largest for developed countries where 2021 growth is now predicted to be 5.4%, revised up by 1pp. This mainly reflects the US, where growth is now predicted to reach 6.2%, compared to 4.5% in December. In addition to the fiscal package, incoming US data point to ongoing growth in 1Q21 in contrast to our previous expectation of flat GDP. Expenditure details also highlight the surprising resilience of business investment excluding structures, and buoyant consumer durables spending and housing investment in 2020. This bodes well for recovery in private demand once social distancing eases. Our Canada, Australia and UK forecasts have also seen sizeable upgrades. These reflect better-than-expected 4Q20 outturns, spillovers from stronger US growth, higher commodity prices and the EU/UK free trade deal signed in late December.

The eurozone forecast is unchanged at 4.7% but this reflects a mix of opposing forces. The deteriorating virus situation at the turn of the year necessitated tighter restrictions, most notably in Germany where mobility levels and retail sales fell sharply in January. On the other hand, 4Q20 GDP was sharply higher than anticipated, most notably in France, manufacturing indicators have been stronger than expected so far this year and fiscal policy has been eased further in Germany and Italy. Upward revisions to the France forecast broadly offset the weaker outlook for Germany.

We have revised up EM GDP growth by 0.7pp to 7.3%. Again, this looks very high but has to be seen in the context of the 0.7% decline in EM GDP in 2020 – the first outright annual decline since the beginning of our data series in 1990. China's forecast has been revised up by 0.4pp to 8.4% in response to the improved global outlook and the recent acceleration in exports. A bigger revision could be warranted, but policy support is starting to be withdrawn and credit and investment growth are falling.

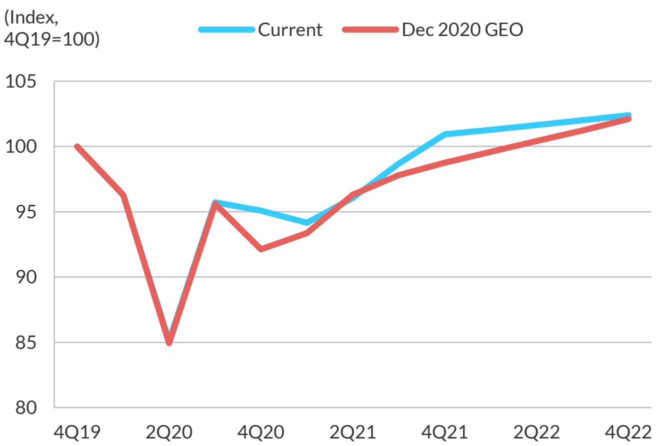
We have made a bigger revision to the 2021 growth forecast for EM excluding China to 6.0%, up from 5.0% in December. Better-than-expected outturns in 4Q20 are an important part of the story here,

US GDP Level - Forecast Comparison



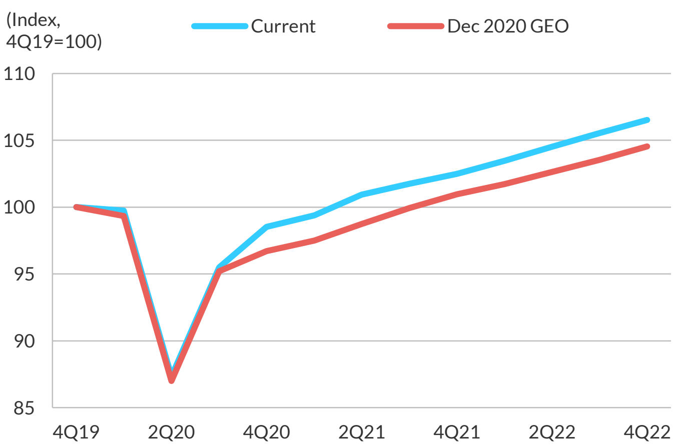
Source: Fitch Ratings' estimates

Eurozone GDP Level - Forecast Comparison



Source: Fitch Ratings' estimates

EM ex China GDP Level Forecasts



Source: Fitch Ratings, National Statistical Offices, IMF, Haver Analytics

with the annual decline in 2020 turning out to be shallower than expected at -4.1% compared to -4.7% before. The biggest revisions are for Turkey and India. Turkish GDP ended 2020 5% higher than in 4Q19 due partly to aggressive credit and monetary stimulus, and we are now forecasting 6.7% growth this year. India's 2H20 rebound also took GDP back above its pre-pandemic level and we have revised up our 2021-2022 forecast to 12.8% from 11.0% on a stronger carryover effect, a looser fiscal stance and better virus containment. Nevertheless, we expect the level of Indian GDP to remain well below our pre-pandemic forecast trajectory.

Learning to Live with Social Distancing

GDP outturns for 4Q20 were better than expected almost across the board with world GDP ending the year only 1% down on pre-pandemic (4Q19) levels. This was despite a number of major economies re-imposing nationwide lockdowns or tighter restrictions late last year. Positive surprises serve to illustrate how economies have adapted to life under social distancing. Specifically, UK monthly GDP only declined by 2.3% during the second nationwide lockdown in November – compared to a 25% cumulative decline over March and April 2020. Our own monthly estimates for France show a similar pattern. Moreover, tighter restrictions in many US states resulted in job losses in January 2021 that were much more narrowly focused in the L&T sectors, compared to the broad-based surge in layoffs in April 2020.

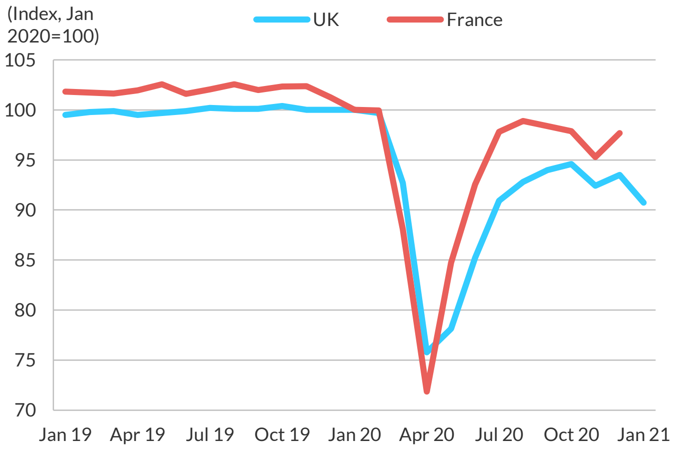
Some of this is due simply to lower starting levels of activity. The scope of more recent restrictions has also been more limited, with manufacturing and construction industries less affected and, in many cases, schools remaining open, helping to ease some of the labour-supply problems that afflicted initial lockdown periods. This in turn is partly a reflection of improved workplace social distancing protocols in many industries.

The rapid evolution of working and spending patterns is striking. More than 30% of UK employees reported exclusively working from home in a recent ONS survey, while a Harvard Business School report suggested 50% of US firms reported that one-fifth of their workforce was remote. The switch to online shopping has been no less dramatic – e commerce accounted for 14% of total retail sales in the US in 4Q20 up from 11.3% in 4Q19 and the share of UK online sales rose to above 35% in early 2021 from 20% pre-pandemic.

The switch in the type of consumption has also been very marked, albeit within the context of a decline in the overall level of spending. In the year to 4Q20, US households' consumption of recreational services fell by USD167 billion (annualised) while recreational goods consumption grew by USD135 billion. The shift from services to goods consumption – as the former has been directly constrained by social distancing restrictions – has provided a boost to manufacturing industries globally, helped further by the strong recovery in China. Global manufacturing demand in the past few months has been resilient, with PMI surveys for the sector showing strength worldwide.

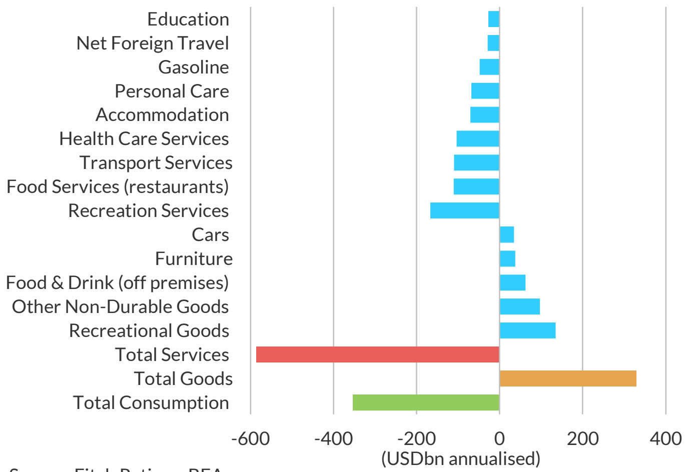
The adaptation of work and spending patterns means that the impact of new virus-related restrictions is now starting to look more like a sector-specific shock, affecting the L&T industries, where face-to-face interactions are integral. This contrasts with the widespread interruptions across broad swathes of economic activity in 2Q20.

Monthly GDP in UK and France



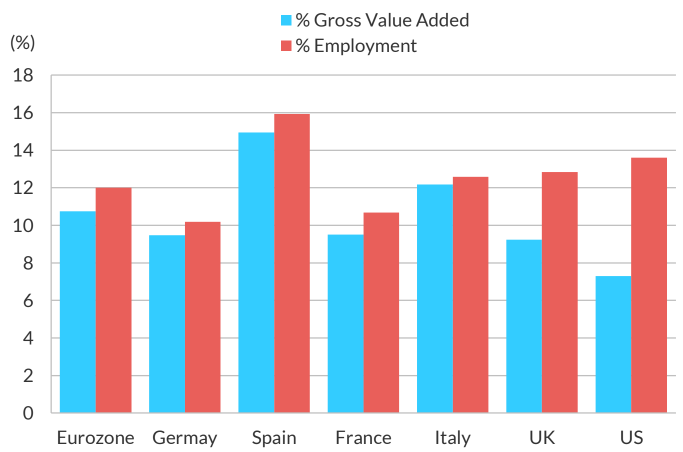
Source: Fitch Ratings' estimates, ONS

Change in US Consumption Between 4Q19 to 4Q20



Source: Fitch Ratings, BEA

Leisure & Transport - Share of GDP and Jobs



Source: Fitch Ratings, US Census Bureau, OECD, Eurostat, Haver Analytics

Job Market Recovery Lagging

The L&T sector is, however, large and highly labour-intensive. The three sub-sectors that make up L&T – transport and storage, food and accommodation services, and arts, entertainment and recreation – account for around 8%-10% of GDP in the US and Europe but 12%-14% of jobs. This highlights the impact of ongoing social distancing in limiting the labour market recovery. By means of illustration, US employment in February 2021 was 6.1% lower than in January 2020 despite GDP being down by 'only' 2.5% in the year to 4Q20. There was a bounce in L&T employment in February 2021 as restrictions were eased, but it was still 18% down on January 2020, accounting for 3.5 million of the 7.4 million decline in total employment over the same period. If the L&T sector is stripped out, the decline in US employment is significantly smaller at 4%.

In Europe, furlough schemes have proved highly effective at protecting jobs and these schemes have recently been extended. This has, in combination with incoming data, prompted downward revisions to our European unemployment forecasts. However, these schemes are time-limited and we suspect they will become somewhat more targeted through 2021 and in 2022. A disproportionate share of furloughed workers is in the L&T sector – between a third and a half of all on furlough in the UK, France and Spain. We still expect European unemployment rates to rise significantly this year. It is hard to envisage fully fledged labour market recoveries – even with outsize economic stimulus policies – until face-to-face service industries return. Once again, this underlines the importance of facilitating a future reduction in social distancing through immunisation programmes.

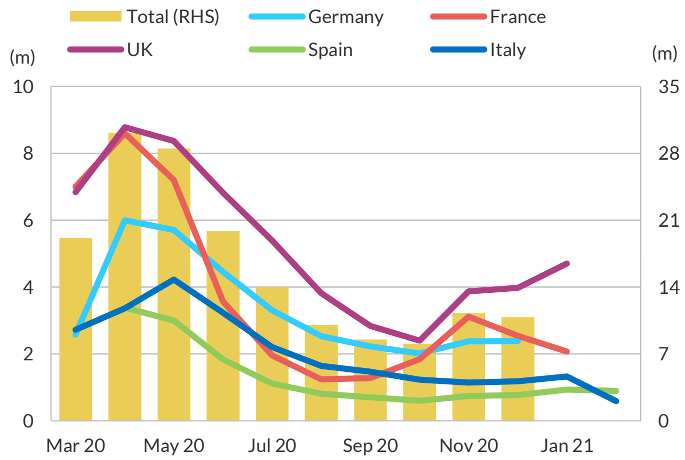
Vaccine Rollout Broadly on Track

Progress on vaccine rollout in the advanced economies looks to be broadly on track. The December GEO assumed that most people aged over 50 would have received a vaccine by the middle of this year. The over-50s account for 35% of the population in the US and UK and 40% in Europe. As of 15 March 2021, 381 million doses had been administered worldwide, with 32% of the US population and 38% of the UK population having received a single dose. The eurozone has started more slowly, with France, Italy, Germany and Spain reaching around 11% of the population so far. The current daily run rate in the eurozone is around 0.3% of the population per day, or around 1.5%-2% a week and there is pressure to raise this, with the EU aiming to vaccinate 70% of its adult population (roughly 55% of the total population) by August.

There are large uncertainties related to distribution and production delays and take-up rates of vaccine offers. A much lower share of the population has received full vaccination according to the recommended two doses – only 11% in the US and 2%-3% in the UK and eurozone. However, with more vaccines having been approved and early epidemiological evidence pointing to their effectiveness in reducing infection and severe illness in the recipient population, the broad picture looks positive. Herd immunity still looks like a more distant target, but it still looks feasible to reach a point by mid-year when social distancing can start to be scaled back more assertively in the advanced economies.

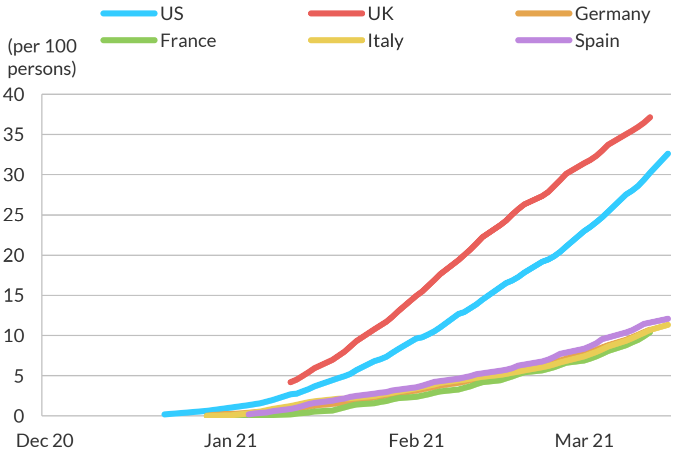
The challenge for EM looks greater though. At a worldwide level, the share of the population having received one vaccine dose is

Furlough Schemes (Actual Numbers)



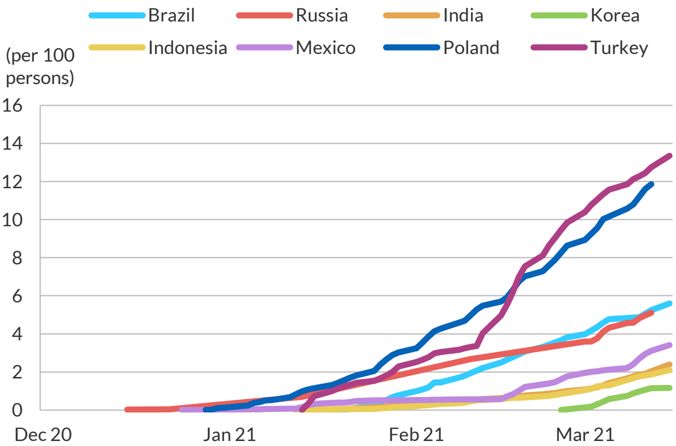
Source: Fitch Ratings, Haver Analytics

Vaccine Doses Administered - Selected DMs



Source: Fitch Ratings, Oxford University, Haver Analytics

Vaccine Doses Administered - Selected EMs



Source: Fitch Ratings, Oxford University, Haver Analytics

under 4% and for India, Indonesia and Mexico it is around 2%-3%. According to the Duke Global Health Innovation Center, lower-income countries have procured far smaller quantities of the major vaccines relative to population size. Typically, this is less than 50% of the population compared to pre-orders of two to four times population size in the advanced economies.

Second Wave of Fiscal Support

The previous GEO flagged the likelihood of further fiscal support in 2021 but policy easing has far exceeded our expectations, owing to the passage in the US of the USD1.9 trillion American Rescue Plan (ARP). The headline number takes total discretionary fiscal easing announcements in the US since the pandemic began to USD5 trillion, or 23% of 2019 GDP, far outstripping easing measures in any other Fitch 20 country. The December GEO had assumed a further USD1 trillion of easing measures in 2021, which were, in the event, approved right at the end of 2020.

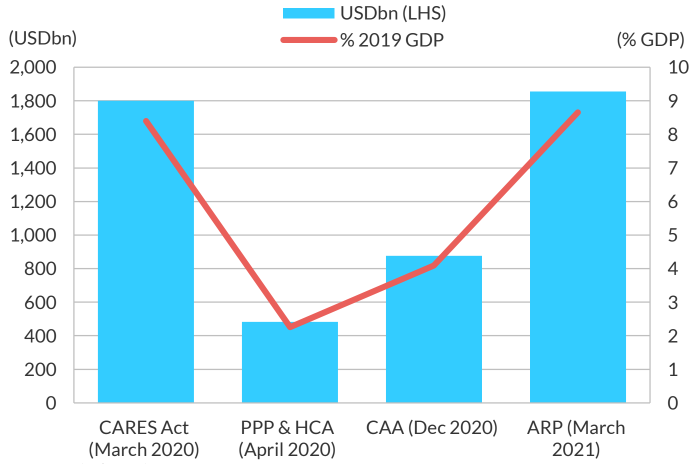
The ARP includes an additional USD1.2 trillion (5.7%) of federal spending in calendar year 2021, including stimulus payments to households, extended unemployment benefits and support for state and local governments. A mechanical application of Congressional Budget Office (CBO) fiscal multipliers to these components would point to an uplift to GDP of 3% or more. But there are huge uncertainties about fiscal multipliers in the current environment.

On the one hand, high unemployment and zero-policy interest rates would boost the impact of additional spending. On the other, it is unclear how ongoing social distancing might reduce the size of multipliers. There was a sharp increase in household savings in 2020 following the arrival of stimulus payments. Some of the support to state and local governments could also be used to reduce budget deficits.

The negative output gap will be much smaller in 2021, increasing the chance that some of the extra spending feeds into higher imports or prices. Market interest rates have also clearly moved up in response to the fiscal easing announcement, consistent with at least some element of 'crowding out' behaviour. None of this is to deny the very powerful cushioning impact that fiscal easing had on the economy last year. But we err on the side of caution and have only raised our 2021 US GDP forecast by around 2pp.

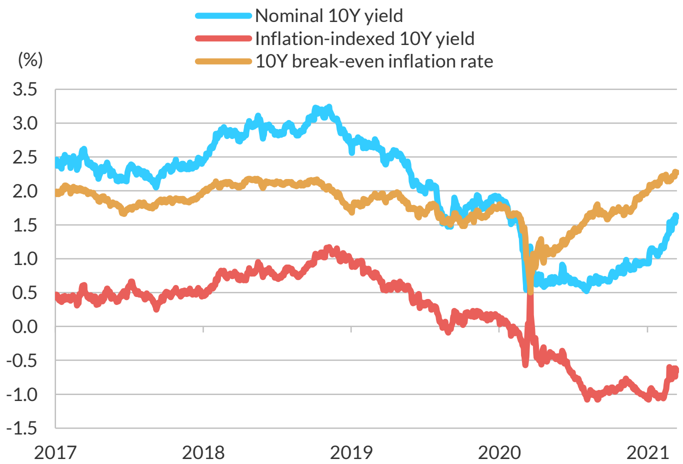
The US is far from alone in announcing further fiscal easing in recent months. The UK March budget included an additional 2.8% of GDP in support measures, including an extension of the furlough scheme; Japan presented a supplementary budget in December and Italy announced EUR32 billion (1.9% GDP) of easing measures in January. Germany has also extended fiscal support as mobility restrictions have been tightened and it has signaled a willingness to step this up further. Moreover, our Spain and Italy growth forecasts continue to assume a sizeable boost from NGEU grants from 2022 even though details are still being worked out. Discussions may also commence soon over a follow-up infrastructure package in the US, but there is little visibility on this at present.

US Fiscal Stimulus Measures



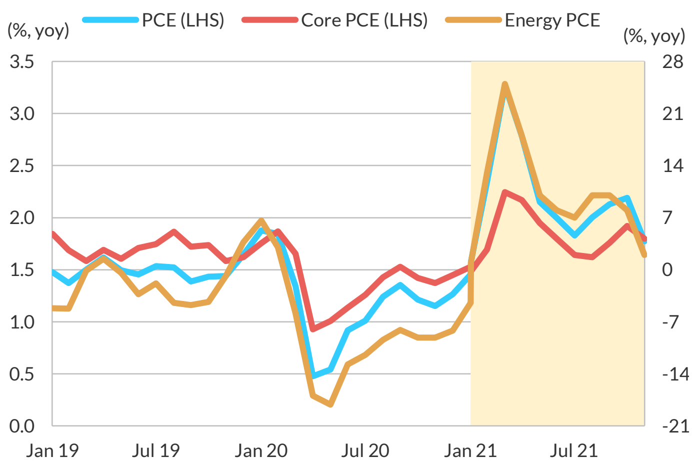
Source: Fitch Ratings, CBO, IMF

US 10-Year Government Bond Yields



Source: Fitch Ratings, Fed, Haver Analytics

US Near-Term Inflation Outlook (Monthly)



Source: Fitch Ratings, BEA, Haver Analytics

Reflation Risks Revisited

Strengthening US growth prospects have prompted financial markets to refocus on reflation, with US 10-year bond yields rising by around 60bp since the start of the year. The increase has been split half and half between higher real rates and higher inflation expectations (as measured by the yield gap between nominal and inflation-linked bonds). While yields remain very low, at 1.6%, the speed of adjustment has fueled fears about rising US inflation.

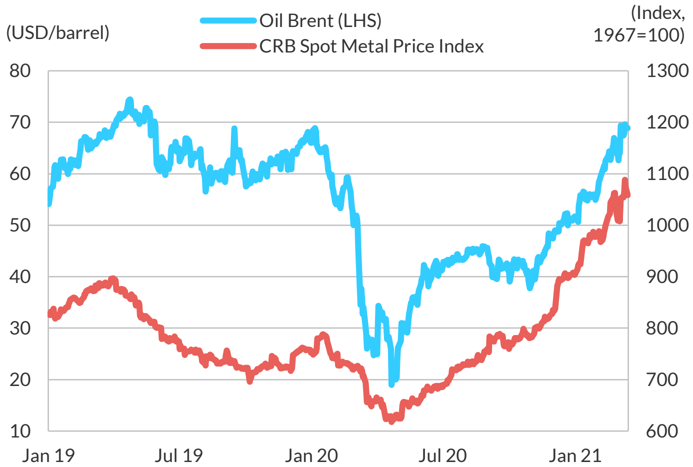
It is very likely that the rate of US headline inflation will rise quite significantly in the immediate months ahead. There are several factors at play here. Firstly, the recent rise in oil prices to USD65-70 /bbl range (Brent). If prices remain close to these levels, then the yoy increase will leap to around 250% in April, reflecting the rout in the market in April 2020 when the monthly average was USD27/bbl. This could see the energy component of the personal consumption expenditure (PCE) deflator – which has a weight of 5% in the index – rise to 25%-30% yoy. Secondly, base effects from sharp falls in the index in April 2020 will push up the yoy core PCE inflation rate. Thirdly, supply-chain pressures in the semi-conductor industry and rising shipping rates will add to production costs. These factors could easily push headline PCE inflation over 3% yoy in April.

Long-term US inflation risks have also risen (see US Yields to Rise Further in the Medium Term). Monetary and fiscal policy easing has never been seen on this scale. Increased concerns about inequality could result in policies aimed at boosting wage growth, while de-globalisation will add to price pressures. Higher public debt levels and perceptions of the risk of fiscal dominance of monetary policy could also boost inflation expectations.

Nevertheless, it is still hard to see a sharp acceleration in underlying US inflation over the next two years. Unemployment remains high and wage inflation – as measured by the Atlanta Fed measure – has remained stable in the past year. Services-sector core inflation also remains steady at 2%. The likely emergence of a positive output gap in 2022 is significant, but evidence points to a weaker correlation than in the past between the output gap and inflation.

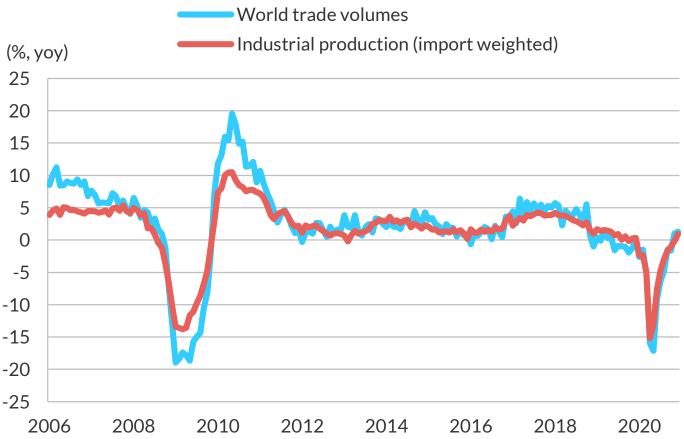
Against this backdrop we expect the Fed to remain patient. The shift in policy goals in August 2020 amounts to a material change in its reaction function. The Fed has become more tolerant of higher inflation and is focused on high unemployment and low labour force participation rates keeping employment far from its maximum. Tapering of the current rate of asset purchases is unlikely until the beginning of next year and the Fed funds rate is unlikely to rise until 2024. Bond yields will continue to see upward pressure in the medium term, but we expect this normalisation process to be gradual, although the risk of a more volatile adjustment remains.

Oil and Metals Prices



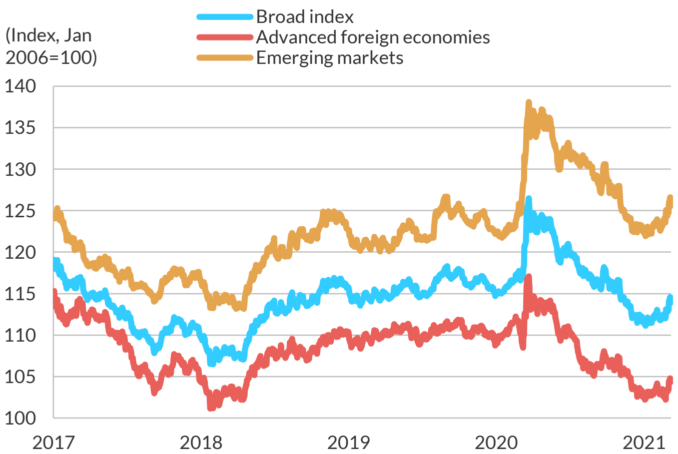
Source: Fitch Ratings, Financial Times, CRB, Haver Analytics

World Trade and Industrial Production



Source: Fitch Ratings, CPB

Nominal Trade-Weighted US Dollar Index (Fed)



Source: Fitch Ratings, Fed, Haver Analytics

Emerging-Market Cross Currents

Global macro developments continue to provide a favourable backdrop for emerging-market recoveries, with China's economy expanding robustly, US demand set to accelerate, and a recent strong recovery in commodity prices. We have revised up our 2021 annual average oil price forecast to USD58/bbl (Brent) from USD45/bbl in December and our 2022 forecast to USD53/bbl from USD50/bbl. The rebound reflects the stronger-than-expected recovery in demand, coordinated supply cuts from OPEC, and sharp falls in US shale output. The swift recovery in China has also supported metals prices and Fitch has recently raised its iron ore price assumptions to USD125 a tonne, a 16% increase on 2020.

China's recovery and the global switch from services to goods consumption has helped global manufacturing and merchandise trade, both of which have now retraced pre-pandemic levels. We expect world trade in goods and services to rise by around 8.5% this year after an estimated 9.2% fall in 2020. Indeed, the recent pace of recovery in manufacturing demand – including a strong recovery in global auto sales in 2H20 – has exacerbated supply-chain bottlenecks in shipping and semi-conductors, though these should ease by 2H21. Capital flows to emerging markets picked up sharply in late-2020, further supported by the easing in global financial conditions and a broad-based weakening of US dollar from the middle of 2020.

These factors have contributed to the upgrades to our EM ex-China growth forecast and have helped EMBI spreads to remain stable so far this year, despite the rise in US bond yields. Nevertheless, our EM ex-China GDP forecast still is far below the level we were projecting pre-pandemic. Moreover, we expect a moderation in oil prices in 2H21 and in iron ore prices in 2022. A rising US yield environment could also start to constrain the scope for further monetary policy easing in some EMs. The past few weeks have also seen the US dollar start to stabilise. We forecast the dollar to remain broadly stable but appreciation is possible if reflation leads to sharp US economic outperformance in 2021.

Key Risks

Severe delays or setbacks in immunisation strategies remain the main risk. This could push back the point at which social distancing can be relaxed and necessitate repeated lockdowns through 2021. The risk of asset price volatility – against the backdrop of high valuation ratios in the US equity market – is also significant, particularly if market fears of inflation intensify and bond yields rise more rapidly than expected.

A sharper-than-expected rise in underlying US inflation and long-term interest rates would be quite disruptive for global financial markets. Further out, there is still great uncertainty about the fundamental health of private-sector firms – particularly SMEs – once exceptional sovereign support and forbearance measures start to be unwound. On the upside, exceptional policy stimulus could boost US and global growth by more than anticipated, particularly if growing consumer confidence prompts a more rapid drawdown of household savings accumulated through the pandemic.

United States

Fitch has revised up the US GDP growth forecast for 2021 by 1.7pp to 6.2% on the very large fiscal stimulus package recently passed and stronger-than-expected incoming data for 1Q21.

GDP rose by 4.1% annualised in 4Q20, trimming the full-year decline to 3.5%. A striking feature of the expenditure breakdown was the strength of consumer durables outlays in 2H20 and the boom in residential investment, up 14.1% in the year to 4Q20. The decline in business investment was also shallower than expected as increases in equipment and intellectual property heavily offset the large fall in spending on industrial and commercial buildings.

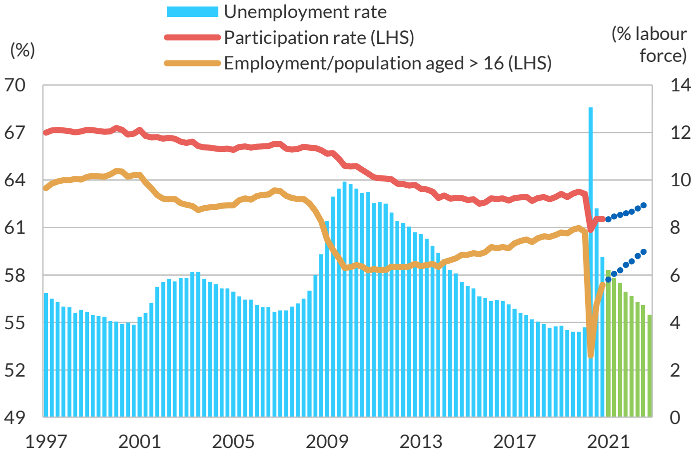
This highlights the extent to which outsize policy support cushioned the private sector, helping activity in sectors less exposed to social distancing and restrictions on face-to-face services. This has been borne out in 1Q21 to date, where renewed restrictions have delivered a much narrower shock to the economy than in last spring. PMI surveys, consumer spending and job market data now all point to GDP rising by around 4% annualised in 1Q21.

A fiscal stimulus package with headline easing of around 9% of GDP has recently been passed. Not all of this will be implemented in 2021 and there are wide uncertainties about the size of fiscal multipliers but the scale warrants a very significant increase in our growth forecast. We now expect the economy to regain its pre-pandemic level in 2Q21 and see GDP ending this year 4.3% higher than in 4Q19.

Strong GDP growth will help to bring unemployment down swiftly but this will be tempered by a recovery in labour force participation as restrictions are eased. By end-2022, unemployment will still be above 4.0% and the employment-to-population ratio below 60%, short of the Fed's assessment of 'maximum' employment levels. The rate of inflation will rise to above 3% in April driven by commodity price rises, base effects on core PCE and temporary supply-chain pressures. Long-term inflation risks have also increased. However, the rise in underlying inflation will be more gradual given labour market slack.

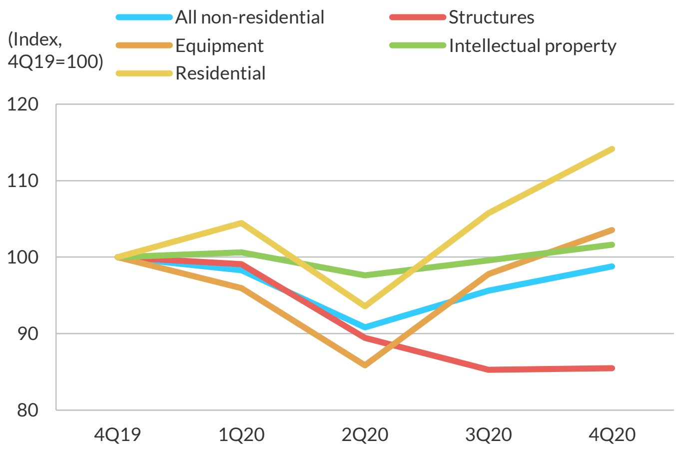
The Fed has become more tolerant of higher inflation and is unlikely to start discuss tapering until after the summer. Following USD2,980 billion of asset purchases in 2020, we expect a further USD1,400 billion in 2021 and USD700 billion in 2022, with no policy rate hikes until 2024.

US - Labour Market Outlook



Source: Fitch Ratings, BLS, Haver Analytics

US - Private-Sector Investment Breakdown



Source: Fitch Ratings, BEA, Haver Analytics

United States - Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020	2021F	2022F
GDP	2.5	2.2	-3.5	6.2	3.3
Consumer Spending	2.9	2.4	-3.9	5.7	3.0
Fixed Investment	3.3	1.9	-1.8	6.4	1.8
Net Trade (contribution pp)	-0.4	-0.2	0.0	-1.1	-0.3
CPI Inflation (end-year)	1.6	2.3	1.4	1.9	2.1
Unemployment Rate	4.4	3.7	8.1	5.8	4.7
Policy Interest Rate (end-year)	1.23	1.75	0.25	0.25	0.25
Exchange Rate, USDEUR (end-year)	0.89	0.89	0.81	0.83	0.83

Source: Fitch Ratings

Eurozone

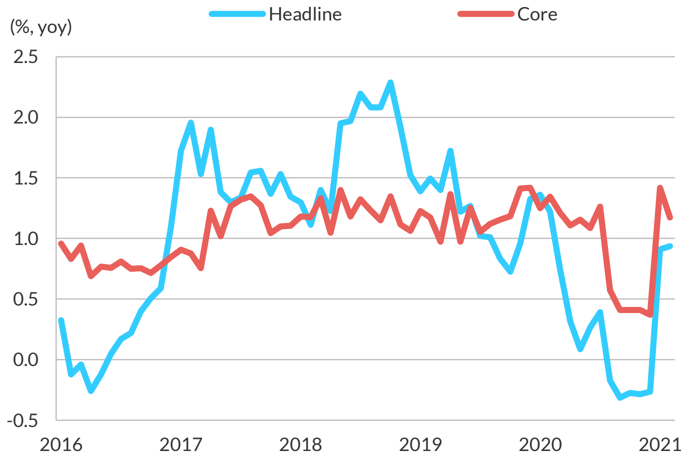
Fitch expects the eurozone economy to grow 4.7% this year, unchanged from December's GEO forecast. The deteriorating health situation at the turn of the year led to a tightening of existing restrictions including a full lockdown in Germany. Yet, growth in 4Q20 was not as weak as feared, given the much stronger-than-anticipated GDP outturn in France and unexpected expansions in Germany and Spain. The final outturn for 2020 was a fall of 6.6% versus expectations of -7.6% in December.

Eurozone 4Q GDP contracted 0.7% qoq instead of our earlier -3.6% forecast, with weakness in consumption countered by a further increase in exports. Indeed, the recovery in global trade has resulted in rapid improvements in the manufacturing sector with strong gains in both output and new orders. We expect the recently announced US fiscal stimulus to provide support for the eurozone, while domestic demand will be buoyed by reopening later in the year and the NGEU's EUR750 billion fiscal boost. As before, we expect the bulk of the EU fiscal injection to be felt in 2022 given the complex decision-making process.

At the same time, the slow rollout of the vaccine programme is likely to weigh on the growth outlook in 1H21. The European Commission now aims to inoculate 70% of adults by the end of the summer after initial problems with the supply of vaccines. As such, restrictions are expected to remain in place and hence activity is likely to rebound more noticeably from 3Q21. For most countries, services sector PMI surveys continue to remain below 50.

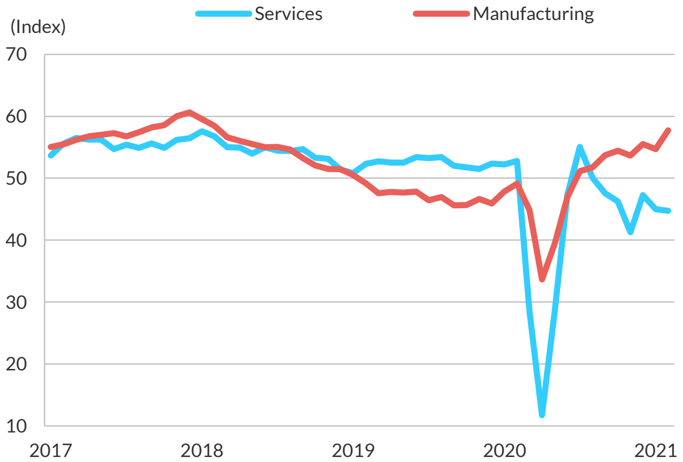
Given the recent recovery in government bond yields and concerns over a possible tightening in financial conditions, the ECB said that it will be stepping up the pace of asset purchases over the next three months. The ECB also said that recent increases in inflation were driven by transitory factors (including the reversal of Germany's VAT rate cut and changes to the weights in the HICP basket) and that it is prepared to see through these gains. Our assessment (Rise in Eurozone Inflation to be Short-Lived) highlights weak services sector inflation, labour market slack and the tendency for downward shocks to core inflation to persist. We expect the ECB to purchase EUR1.1 trillion of assets this year (after EUR1.2 trillion in 2020) and to use the full pandemic emergency purchase programme (PEPP) envelope of EUR1.85 trillion by March 2022.

Eurozone - Inflation



Source: Fitch Ratings, Eurostat, Haver Analytics

Eurozone - PMI Indices



Source: Fitch Ratings, IHS Markit, Haver Analytics

Eurozone - Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020	2021F	2022F
GDP	1.9	1.3	-6.6	4.7	4.5
Consumer Spending	1.7	1.3	-8.0	2.6	4.6
Fixed Investment	4.3	5.7	-8.3	6.3	4.9
Net Trade (contribution pp)	-0.1	-0.5	-0.4	1.2	0.2
CPI Inflation (end-year)	1.0	1.3	-0.3	1.8	0.9
Unemployment Rate	9.1	7.6	7.9	9.4	8.3
Policy Interest Rate (end-year)	0.01	0.00	0.00	0.00	0.00
Exchange Rate, EURUSD (end-year)	1.13	1.12	1.23	1.21	1.21

Source: Fitch Ratings

China

China's economy grew by 2.3% in 2020 and ended the year 6.5% larger than in 4Q19. This was a remarkable achievement in the context of the pandemic and reflected China's success in containing the virus, strong investment growth and a boost to net trade as exports rebounded very rapidly from mid-year and services imports collapsed. The export recovery continues to accelerate and with a stronger outlook for global demand we have raised our 2021 GDP forecast to 8.4% from 8.0% in December.

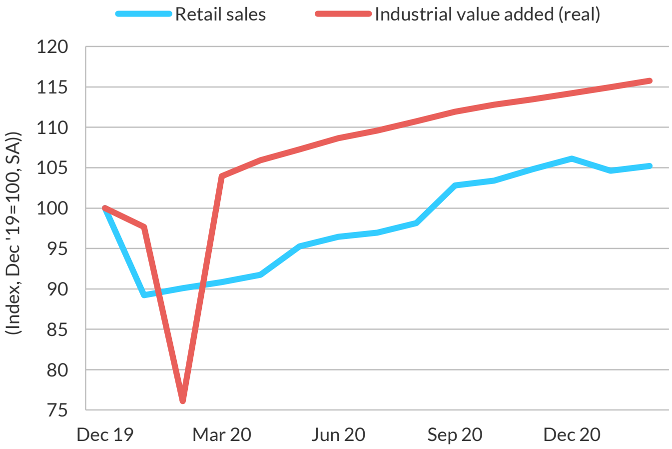
We could easily have made a larger upward revision to our growth forecast given the high share of exports in GDP and the low starting point for GDP in 2021. However, gauging the state of economic growth at this juncture is tricky given the surge in yoy rates in January and February due to the low base in 2020.

Moreover, there are a number of reasons to err on the side of caution. Firstly, the GDP outturn in 4Q20 was slightly weaker than the 7.6% yoy growth rate we anticipated in the previous GEO, with qoq growth at 2.6% versus 4.1%. Renewed restrictions on travel over the Chinese New Year in response to new virus cases have also weighed on the recovery in consumer spending, although there is evidence of spending being redirected away from travel and domestic tourism to other outlays. Retail sales on a seasonally adjusted basis were lower in January and February than in 4Q20.

Most importantly though there are clearer signs of a shift in macro policy focus away from growth support towards ensuring medium-term financial stability. Credit growth has slowed since last October and the credit impulse – the change in the flow of credit expressed as a share of GDP – peaked in 3Q20. The credit impulse is well-correlated with key drivers of domestic demand including housing and auto sales.

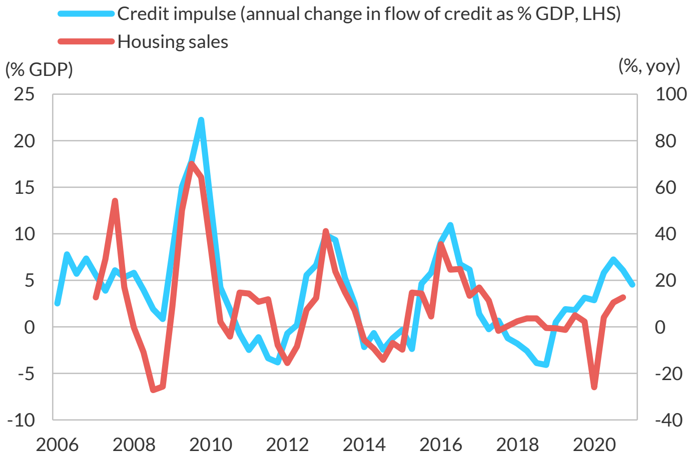
While we still don't expect increases in official policy interest rates, macro-prudential policies seem to be firming up and Fitch expects financing conditions for local government financing vehicles to tighten in 2021. Fiscal support is also starting to be withdrawn, with the consolidated deficit expected to fall to 7.5% of GDP in 2021 from 9.0% in 2020. This could weigh on fixed asset investment growth, which fell to 5.8% yoy in December as infrastructure investment stabilised.

China - Monthly Activity Indicators



Source: Fitch Ratings, NBS, Haver Analytics

China - Credit Impulse and Housing Sales



Source: Fitch Ratings, NBS, CEIC, Haver Analytics

China - Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020	2021F	2022F
GDP	6.7	6.0	2.3	8.4	5.5
Consumer Spending	8.2	5.9	-3.6	12.7	6.5
Fixed Investment	6.1	4.6	5.1	7.4	4.6
Net Trade (contribution pp)	0.0	0.6	0.7	1.3	0.0
CPI Inflation (end-year)	2.0	4.5	0.2	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	6.54	6.60	6.60

Source: Fitch Ratings

Japan

The Japanese economy ended 2020 much more strongly than we expected in our December GEO. GDP expanded by a buoyant 2.8% qoq in 4Q20, against 1.2% expected. Strong gains were recorded in household consumption and exports. For the whole of 2020, Japan's GDP shrank 4.9%.

However, the rise in new virus cases in December and January temporarily has set back the recovery in 1Q21. The authorities imposed a state of emergency in several prefectures and imposed containment measures. The state of emergency was lifted in some areas at end-February and early-March, except for Greater Tokyo where it was extended by two weeks. However, solid export volumes and industrial production should provide a partial offset to weak domestic consumer spending.

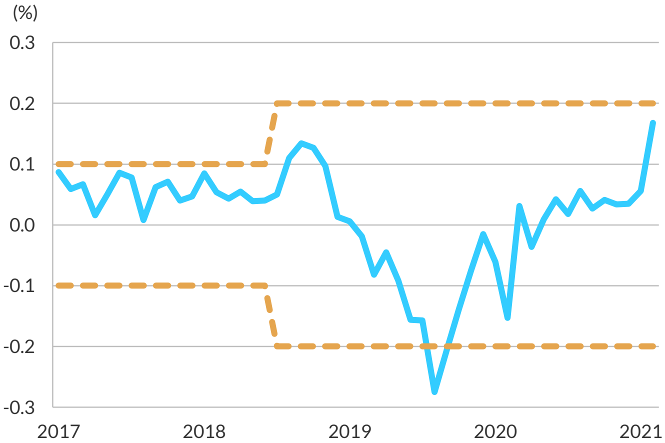
We expect GDP to be flat in 1Q21, and for the economy to regain momentum from 2Q21. Consumption should rebound, while the export-oriented manufacturing sector should continue to perform well amid strong global demand for capital goods and electronics.

Vaccine inoculation started in February, which should boost confidence and support the services sector in 2H21 and in 2022. The supplementary budget that was passed in December will further support aggregate demand. We now expect GDP to expand 3.6% this year (+0.1pp from the December GEO) and 1.7% in 2022 (+0.2pp).

The Bank of Japan (BoJ) is about to publish an assessment of its monetary operations and measures, with a view to enhancing the effectiveness and sustainability of its policies. We expect the review to result in only minor changes to its operations or forward guidance, as the BoJ's yield curve control policy has been successful in keeping yields low. The BoJ is likely to maintain its current monetary policy settings in 2021-2022, with a policy rate of -0.10%, and its focus on yield curve control (with a 0% target for 10-year JGB yield).

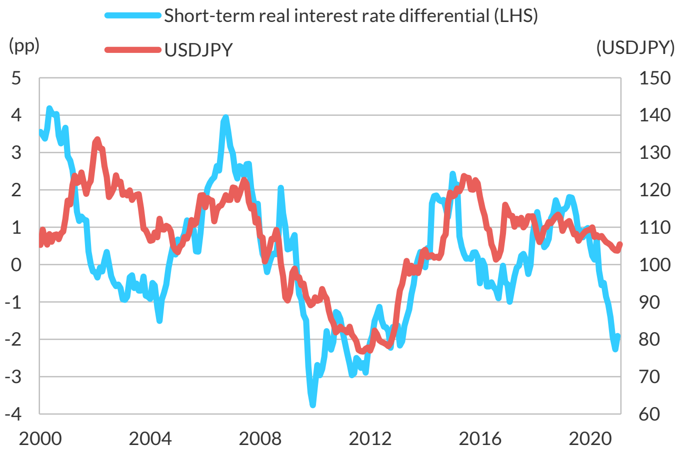
The yen was hit by the recent bond market sell-off. However, favourable short-term real yield differential vis-a-vis the US should support the currency over the medium term. We now forecast the yen to appreciate against the US dollar to 105 by end-2021 and to 103 by end-2022.

Japan - 10-Year JGB Yield and Tolerance Band



Source: Fitch Ratings, Ministry of Finance Japan, Haver Analytics

Japan - Yen and Real Interest Rate Differential vs US



Source: Fitch Ratings, Bank of Japan, ICE, BEA, BBA, MIC, Haver Analytics

Japan - Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020	2021F	2022F
GDP	1.0	0.3	-4.9	3.6	1.7
Consumer Spending	0.1	-0.2	-6.0	2.6	2.8
Fixed Investment	1.2	0.8	-4.2	1.8	1.4
Net Trade (contribution pp)	0.3	-0.2	-1.1	1.5	-0.1
CPI Inflation (end-year)	0.5	0.8	-1.2	0.9	0.6
Unemployment Rate	2.8	2.4	2.8	2.8	2.4
Policy Interest Rate (end-year)	-0.06	-0.10	-0.10	-0.10	-0.10
Exchange Rate, USDJPY (end-year)	112.3	109.1	103.6	105.0	103.0

Source: Fitch Ratings

United Kingdom

We have revised up our UK growth forecast for 2021 to 5.0% from 4.1% in the December GEO and for 2022 to 4.9% from 3.6%. This reflects the last-minute UK-EU Trade and Cooperation Agreement (TCA), unexpected sequential growth in 4Q20, the improved global outlook, additional fiscal easing and swift progress on vaccine rollout.

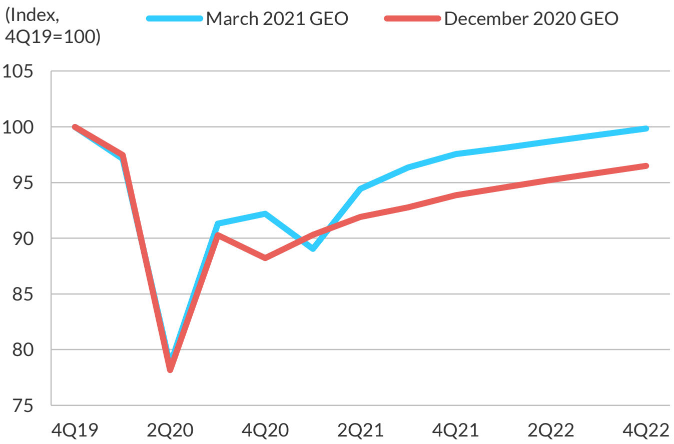
GDP expanded by 1.0% qoq in 4Q20, much stronger than our expectation for a 1.1% decline. The second nationwide lockdown in November had a far smaller impact on activity that the first, with GDP falling by only 2.3% on the month earlier compared to a cumulative fall of 25% in March and April 2020. GDP recovered again in December but then fell 3.9% in January 2021 as a third and stricter lockdown was imposed.

We don't expect to see much of an improvement in February or March data and hence expect GDP to fall by 3.4% in 1Q21. But with new cases and hospitalisation rates back down to last September levels and vaccinations progressing rapidly, the government plans a phased loosening of restrictions over the next few months in its re-opening roadmap. Barring setbacks on the health crisis, this should result in a sizeable pick-up in GDP in 2Q21.

The UK-EU TCA signed on 24 December 2020 established a free-trade area in goods (subject to rules-of-origin requirements), but introduced significant non-tariff barriers to trade, particularly for services. The loss of single market access will reduce GDP growth in the medium term but the deal improves the outlook relative to our earlier assumption that the relationship would revert to WTO terms. Nevertheless, there was very significant trade disruption around the turn of the year as extra checks and documentation were required - UK exports to the EU fell by 43% in volume terms, despite non-EU exports rising 9%. Earlier stockpiling by trade partners and pandemic-related disruption played some part in this, but the fall was unprecedented.

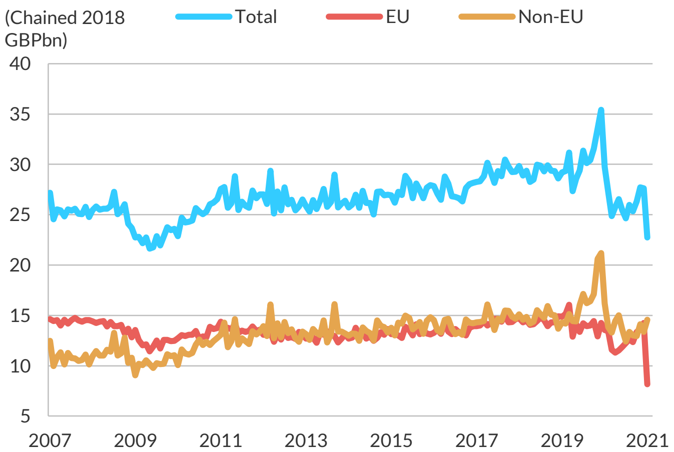
Fiscal policy has also been eased, with an additional 2.8%-of-GDP of measures in the March Budget. These included an extension of the furlough scheme and the temporary 130% capital allowance on plant and machinery investment, although they were accompanied by pre-announced tax increases from 2023-2024. We have lowered our 2021 unemployment forecast to 6.2% (from 7.3%) in light of stronger growth, the extension of the furlough scheme to September and incoming data.

UK - GDP Level Forecasts



Source: Fitch Ratings' estimates

UK - Volume of Goods Exports



Source: Fitch Ratings, ONS, Haver Analytics

United Kingdom - Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020	2021F	2022F
GDP	1.7	1.4	-9.9	5.0	4.9
Consumer Spending	2.0	1.1	-11.0	5.2	5.9
Fixed Investment	2.9	1.5	-8.7	4.7	3.9
Net Trade (contribution pp)	-0.1	-0.1	0.7	-3.4	-0.1
CPI Inflation (end-year)	1.5	1.3	0.6	1.2	1.3
Unemployment Rate	4.5	3.8	4.5	6.2	4.9
Policy Interest Rate (end-year)	0.51	0.75	0.10	0.10	0.10
Exchange Rate, GBPUSD (end-year)	1.36	1.31	1.34	1.40	1.40

Source: Fitch Ratings

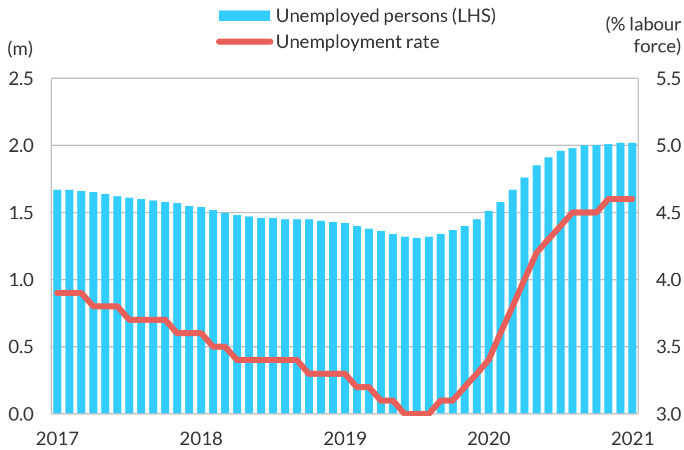
Germany

Contrary to our expectations for a 1.1% contraction, GDP grew 0.1% in 4Q20 but still left the economy some 4% smaller than in 4Q19. The boost to growth in 4Q20 came from a strong increase in exports and a second quarterly gain in investment. Nevertheless, this resilience was short-lived, given tighter restrictions in December, which continued into 2021, that required all non-essential outlets to close and led some regional governments to impose a travel ban. Google mobility data showed visits to retail and recreational centres fell to similar levels to those during the first lockdown. We expect GDP to contract in 1Q21 and for the economy to grow 4.5% in 2021, revised down from 5%. For 2022, we expect GDP to grow by 3.8%.

Strong external demand is boosting growth in the manufacturing sector, with PMI indices for February showing further expansion in output and rising new orders. This is particularly important for Germany, given the shares of manufacturing and exports in GDP. In contrast, German services PMI eased further given the ongoing restrictions and closure of non-essential shops. The end of the temporary cut in VAT could also add to recent weakness in retail sales at a time when consumer sentiment remains low and the outlook for major purchases is weak. While the government extended the lockdown until end-March, a five-step plan has been introduced to ease restrictions over time. Initially, this will include some non-essential shops and later in March cinemas and concert venues.

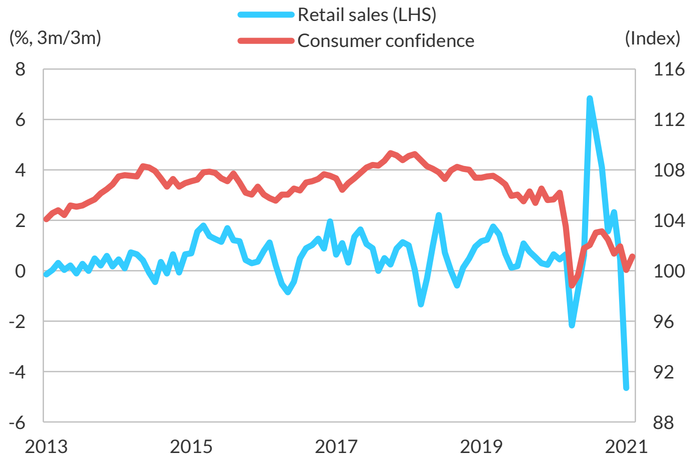
While the furlough scheme prevented a sharper increase in the unemployment rate, joblessness still increased in 2020, from 3.6% before the pandemic to 4.6% by December, equivalent to half a million jobs. Most of the job losses have been borne by marginally employed workers (so called "mini-jobbers") who don't qualify for Kurzarbeit. The majority of those affected were employed in sectors hard hit by the crisis (such as hospitality, leisure). We expect the rate of inflation to rise further this year given the reversal of last year's VAT cut and other temporary factors.

Germany - Unemployment Rate and Levels



Source: Fitch Ratings, FSO, Haver Analytics

Germany - Retail Sales and Consumer Confidence



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

Germany - Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020	2021F	2022F
GDP	1.6	0.6	-4.9	4.5	3.8
Consumer Spending	1.8	1.6	-6.1	0.3	3.4
Fixed Investment	2.8	2.5	-3.1	5.2	4.4
Net Trade (contribution pp)	-0.3	-0.6	-0.9	2.5	0.4
CPI Inflation (end-year)	1.2	1.5	-0.7	2.0	0.7
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	1.23	1.21	1.21

Source: Fitch Ratings

France

France's economy shrank by 1.3% qoq in 4Q20, a much smaller decline than the 6.9% contraction we expected in December's GEO. The decline was driven by a sizeable drop in household spending given the implementation of a second national lockdown during most of 4Q20, though investment and net trade provided a partial offset. A third lockdown was avoided at the start of 2021, but the government strengthened existing restrictions and extended night-time curfews.

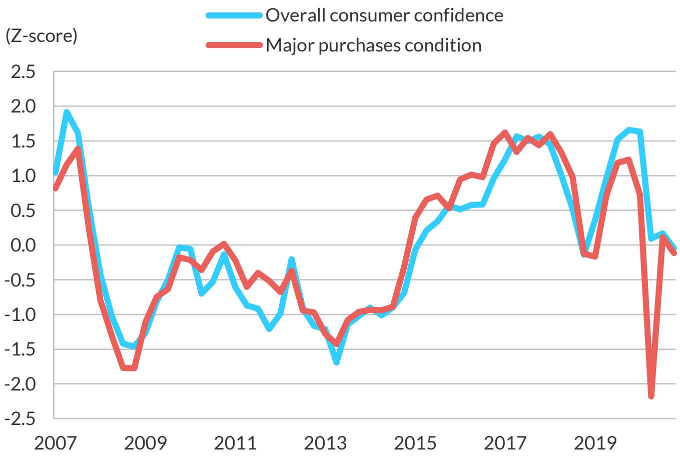
We had expected the economy to grow in 1Q21, but with restrictions still in place we now expect a second consecutive quarterly contraction. Nevertheless, the stronger outturn in 4Q20 means that we have revised up our growth forecast for 2021 to 5.4% (from 4.8%) while 2022 remains at 3.8%.

We expect consumption to improve once restrictions are lifted, but sentiment among households remains weak. One factor that is weighing on sentiment is the outlook for the labour market, with some 2.1 million workers in furlough in January, the bulk of whom are concentrated in sectors such as accommodation, restaurants, trade and transport. From March, workers on the furlough scheme will receive a smaller proportion of their total salary and more of it will have to be paid by their employers. We expect unemployment to rise to 9.6% this year, but with recent outturns much lower than expected and GDP growth revised up, this forecast is 1pp lower than the December GEO.

In common with other eurozone countries, France's manufacturing economy is benefiting from the recovery in world trade with indices, such as the manufacturing PMI, rising to three-year highs; new orders increased rapidly from both domestic and foreign clients. By contrast, the services sector PMI remained in contraction, recording the sixth consecutive below-50 reading.

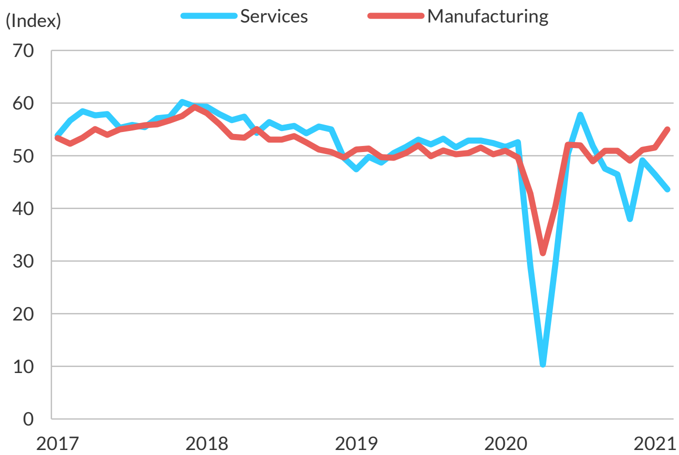
Fitch expects most impact from recent fiscal easing announcements to be felt in 2022 rather than 2021 as the economy deals with pandemic-related disruption. We expect headline inflation to increase in 2021 given the recovery in the price of oil and other temporary factors, while underlying inflation will remain subdued given the substantial degree of spare capacity.

France - Consumer Confidence



Source: Fitch Ratings, INSEE, Haver Analytics

France - PMI Indices



Source: Fitch Ratings, IHS Markit, Haver Analytics

France - Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020	2021F	2022F
GDP	1.6	1.5	-8.1	5.4	3.8
Consumer Spending	1.4	1.5	-7.2	0.3	3.9
Fixed Investment	3.2	4.2	-10.2	11.6	3.2
Net Trade (contribution pp)	-0.1	-0.2	-1.5	0.8	0.0
CPI Inflation (end-year)	0.8	1.5	0.0	1.5	1.3
Unemployment Rate	9.5	8.5	8.0	9.6	8.3
Policy Interest Rate (end-year)	0.01	0.00	0.00	0.00	0.00
Exchange Rate, EURUSD (end-year)	1.13	1.12	1.23	1.21	1.21

Source: Fitch Ratings

Italy

The 1.9% drop in GDP in 4Q20 was not as severe as we had expected in December's GEO (-3.4% qoq) but still left the economy 6.6% below the pre-crisis level of output. The easing in mobility restrictions in December helped to prevent a sharper loss in activity. But rising infections and hospitalisation rates prompted the government to reimpose restrictions in early 2021. As a consequence, visits to retail and recreation venues dropped and are likely to remain sparse while restrictions remain in place.

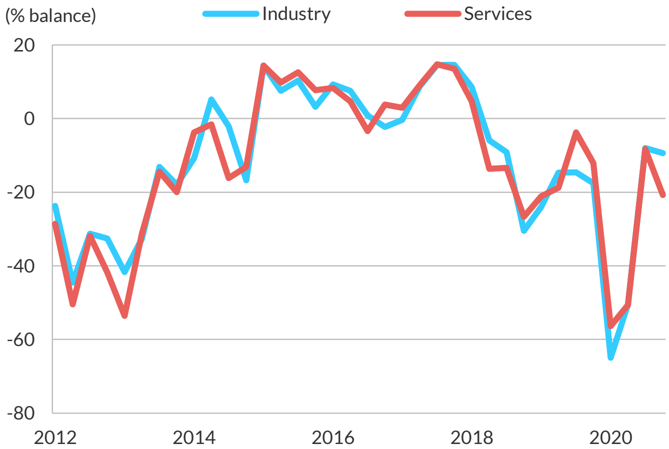
Industrial production improved modestly at the start of 2021 and higher-frequency indicators, such as the manufacturing PMI, point to further recovery. New export orders increased for the third straight month in February and at the fastest pace since December 2017. On the other hand, services PMI remained below 50, highlighting the two-speed recovery of the economy.

We have assumed that the bulk of the NGEU grants allocated to Italy will boost GDP in 2022 and that these will be directed to public investment, where fiscal multipliers tend to be high. In the wake of fresh political problems, former ECB president Mario Draghi was asked to form a new government with widespread cross-party support. Prime Minister Draghi has prioritised speeding up the vaccine rollout; at the same time, expectations are growing in the market that he will be able to accelerate the absorption of NGEU funds. Ideological differences within the parties backing the government may constrain the implementation of structural reforms.

Consumer confidence has recouped recent losses but not surpassed its pre-crisis level. We expect investment to increase this year as cash flow recovers and demand prospects improve. Investment tax credits (Transizione 4.0) should also help. Housing investment will also help overall investment through the payment of Superbonus 110%, a tax incentive for improving the energy efficiency of residential buildings. Our 2021 unemployment forecast has been lowered to 11.1% from 11.8% in December in response to incoming data and a recent extension of the ban on redundancies until June.

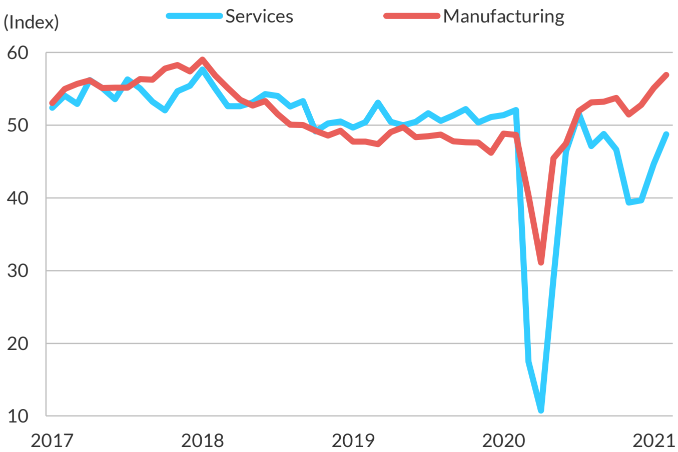
GDP should increase significantly in 3Q21 as vaccination rollout progresses, but we have revised down our 2021 annual growth forecast to 4.3% from 4.5% in December. Growth should remain well above trend at 4.3% in 2022, due in part to NGEU investments.

Italy - Investment Conditions vs Previous Quarter



Source: Fitch Ratings, Bank of Italy, Haver Analytics

Italy - PMI Indices



Source: Fitch Ratings, IHS Markit, Haver Analytics

Italy - Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020	2021F	2022F
GDP	1.0	0.3	-8.9	4.3	4.3
Consumer Spending	1.2	0.3	-10.7	1.4	4.0
Fixed Investment	2.6	1.1	-9.1	8.9	3.3
Net Trade (contribution pp)	-0.1	0.7	-0.7	1.2	0.4
CPI Inflation (end-year)	0.7	0.5	-0.3	1.1	0.7
Unemployment Rate	11.1	9.9	9.1	11.1	9.4
Policy Interest Rate (end-year)	0.01	0.00	0.00	0.00	0.00
Exchange Rate, EURUSD (end-year)	1.13	1.12	1.23	1.21	1.21

Source: Fitch Ratings

Spain

The Spanish economy outpaced its larger eurozone counterparts in 4Q20 with growth of 0.4% qoq (December GEO -3.6%), driven by sizeable gains in government spending and household consumption with the latter clearly a beneficiary of lower restrictions on mobility relative to other eurozone countries.

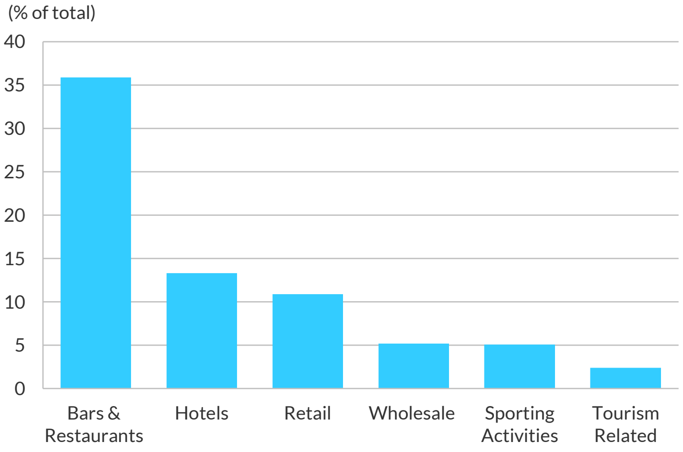
The number of new coronavirus cases has declined in recent weeks due to regional measures that include early evening curfews and limited travelling. The vaccine rollout has been slower than expected given supply glitches, but this has not prevented some regions from relaxing restrictions and extending shopping hours in department stores. However, Google mobility data do not show a material rise in the number of visits to retail and recreation venues so far this year.

We expect investment to recover in 2021, driven by improved growth expectations and declining uncertainty. The most recent bank lending survey showed that demand for loans for investment purposes remained subdued. Forward-looking surveys on investment intentions, however, appear to be improving, helped by government loan schemes.

Policy measures continue to support the economy. By end-January some 739,000 workers (3.4% of the pre-pandemic workforce) were still in furlough, with almost a third of that total formerly employed in bars and restaurants. Workers in the hotel industry make up another 15% of those on furlough. The extension of the ERTE scheme until end-May has helped to contain job losses but not prevented the unemployment rate from rising to 16.0% in January from 13.8% a year ago. Nevertheless, we have lowered our 2021 unemployment forecast to 17.1% from 18.4% in the previous GEO.

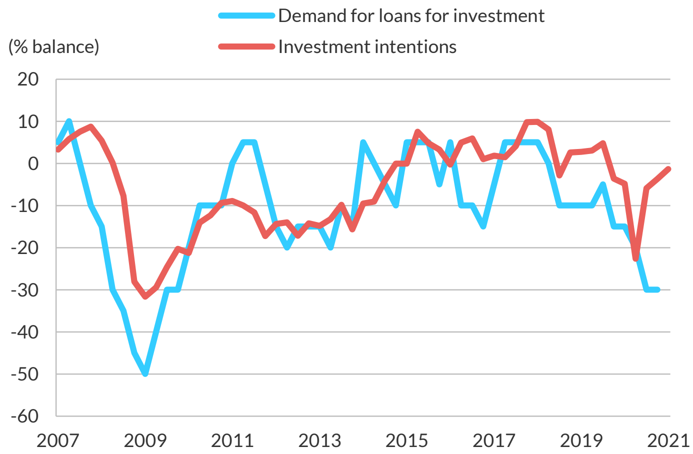
The NGEU scheme will support medium-term growth. The government needs to submit a final draft to the European Commission by end-April 2021, detailing how it plans to spend the money. We continue to expect the economy to grow 5.4% in 2021 and 6.6% in 2022 (unchanged from December's GEO) but now expect a rebound in activity in 3Q21 rather than 2Q21.

Spain - Workers in ERTE (January)



Source: Fitch Ratings, epdata.es

Spain - Investment Outlook



Source: Fitch Ratings, Bank of Spain, MICT, Haver Analytics

Spain - Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020	2021F	2022F
GDP	2.8	2.0	-11.0	5.4	6.6
Consumer Spending	2.3	0.9	-12.4	7.1	5.6
Fixed Investment	4.6	2.7	-12.4	4.2	5.6
Net Trade (contribution pp)	0.2	0.6	-2.0	-0.4	0.3
CPI Inflation (end-year)	0.7	0.8	-0.6	1.7	0.7
Unemployment Rate	17.7	14.1	15.6	17.1	13.5
Policy Interest Rate (end-year)	0.01	0.00	0.00	0.00	0.00
Exchange Rate, EURUSD (end-year)	1.13	1.12	1.23	1.21	1.21

Source: Fitch Ratings

Switzerland

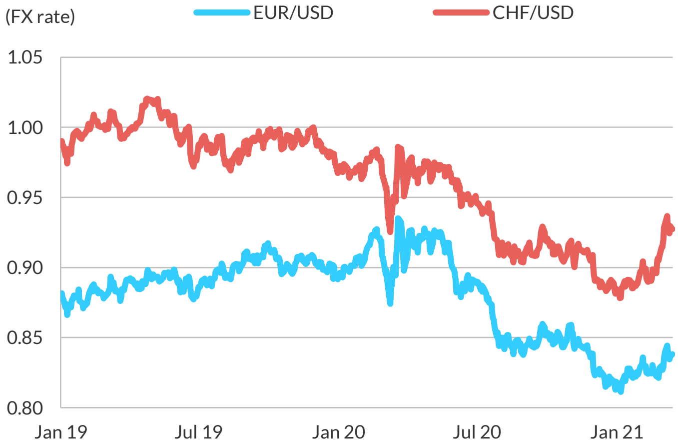
4Q20 GDP increased by 0.3% qoq, contrary to our expectations of a 1% qoq decline in output, boosted by a strong increase in government spending, a second consecutive rise in investment and a fall in imports. Consumer spending fell in 4Q20 and it is likely that consumer weakness extended into 2021 given the reduced number of visits to retail and recreation venues. Despite the stronger outturn for 4Q20, we expect the economy to contract in 1Q21 and for output to rebound more strongly from 3Q21 as restrictions are eased.

Although Switzerland has applied less-stringent rules on social distancing than neighbouring countries, its shops, restaurants and leisure facilities remained closed until early-March. We therefore expect GDP to increase 3.1% this year, a slight downgrade on our previous projection of 3.4%. For 2022, we maintain our forecast of 3.1%.

The country's manufacturing sector is growing rapidly, in common with neighbours, as production and new orders rise to their highest in more than two years. Investors have sought the safety of the Swiss franc in the past year, just as they did during previous episodes of global economic turmoil. This caused the franc to strengthen, put downward pressure on prices, and created an additional obstacle to export growth. However, optimism over vaccination programmes and an expected easing in restrictions should boost worldwide growth. In that environment investors have reduced their demand for Swiss francs.

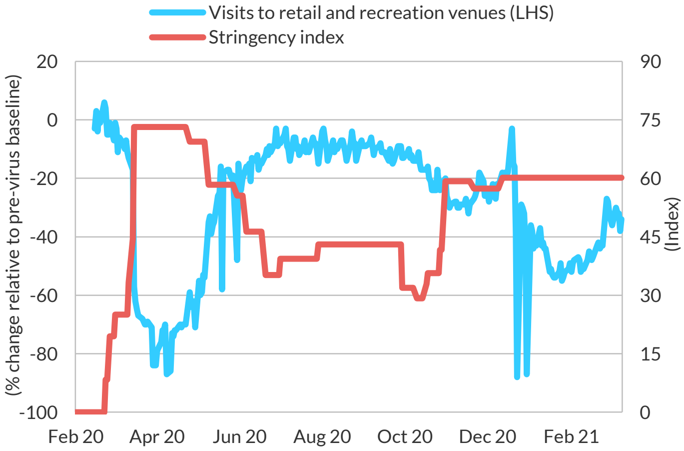
Policy measures, such as the short-time working scheme, continue to support employment and household incomes. The government has extended the scheme; scrapping the maximum time limit a company can participate in the programme and the grace period before affected businesses can apply. Apprentices and workers on fixed-term contracts will also be included in the scheme. Nevertheless, consumer confidence and households' appetite for major purchases remain subdued.

Switzerland - Exchange Rates



Source: Fitch Ratings, Wall Street Journal, Haver Analytics

Switzerland - Stringency and Mobility Indices



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

Switzerland - Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020	2021F	2022F
GDP	1.9	1.1	-3.0	3.1	3.1
Consumer Spending	1.5	1.4	-4.5	2.9	3.7
Fixed Investment	2.1	1.2	-1.7	3.1	3.2
Net Trade (contribution pp)	1.0	0.0	-0.2	0.6	0.2
CPI Inflation (end-year)	0.1	-0.1	-1.0	1.2	-0.3
Unemployment Rate	2.9	2.3	3.1	4.0	3.0
Policy Interest Rate (end-year)	-0.75	-0.75	-0.75	-0.75	-0.75
Exchange Rate, USDCHF (end-year)	0.98	0.97	0.88	0.98	0.98

Source: Fitch Ratings

Australia

The Australian economy recorded another period of solid expansion in 4Q20, growing 3.1% qoq. For 2020, Australian GDP contracted a limited 2.4% (against an expectation of -2.8% in our December GEO). The success of the authorities in virus containment has allowed the loosening of restrictions and powered a resumption of activity in 2H20. The macro policy response has also been instrumental in supporting household incomes, corporate balance sheets and labour and housing markets.

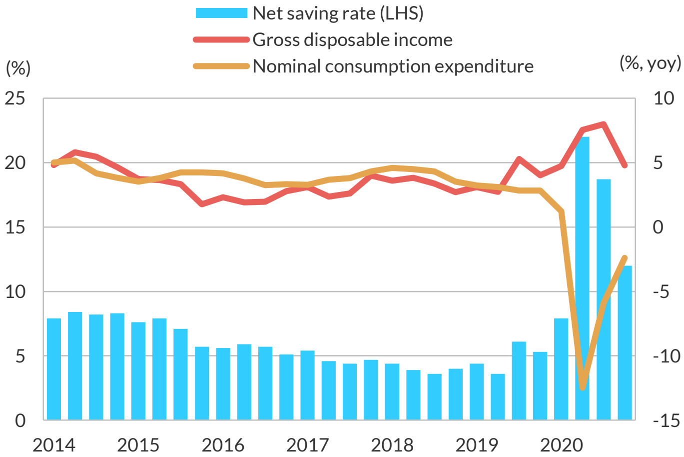
Moreover, the sharp pick-up in industrial metal prices – fuelled by China's strong demand – has provided a strong support to the economy via higher export earnings. Buoyant terms of trade – export prices relative to import prices – rose by 4.7% qoq in 4Q20. Trade tensions with China have failed to diminish nominal exports amid a lack of alternative sources of iron ore.

We expect momentum to remain solid in 2021, though the pace of expansion should moderate on a sequential basis. Households have accumulated large savings buffers during the pandemic, which should allow consumption to expand robustly. Public-sector investment should remain strong with a large number of projects still in the pipeline. However, export earnings buoyancy is likely to fade as industrial metal prices decline from highs in 2H21 while the tourism and education sectors will still struggle amid the continued closure of international borders. We expect GDP to grow 4.7% this year (+0.9pp from the December GEO) and 2.4% in 2022 (-0.3pp).

The Reserve Bank of Australia (RBA) struck a dovish stance in its most recent committee against a backdrop of rising foreign and domestic bond yields. The central bank had to increase its purchases in recent weeks to lean against upward yield pressure and defend its 0.1% three-year government bond yield target.

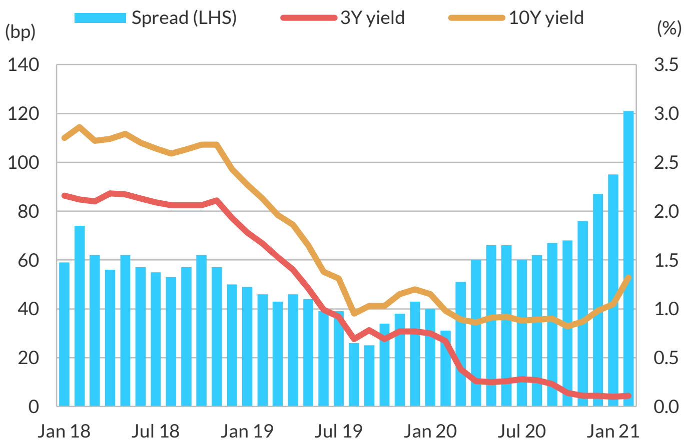
We expect a continued decline in the unemployment rate, though the phasing out of the JobKeeper program at end-March is likely to temporarily pause this momentum. RBA governor Philip Lowe recently signalled that an unemployment rate just above 4% would be consistent with full employment.

Australia - Household Income & Consumption



Source: Fitch Ratings, ABS, Haver Analytics

Australia - Government Bond Yields



Source: Fitch Ratings, RBA, Haver Analytics

Australia - Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020	2021F	2022F
GDP	2.5	1.9	-2.4	4.7	2.4
Consumer Spending	2.3	1.2	-5.8	6.6	2.3
Fixed Investment	-0.6	-2.5	-3.0	4.3	2.7
Net Trade (contribution pp)	0.6	1.0	0.3	-0.7	0.2
CPI Inflation (end-year)	1.7	1.8	0.9	2.3	2.2
Unemployment Rate	5.6	5.2	6.5	6.0	5.4
Policy Interest Rate (end-year)	1.60	0.75	0.10	0.10	0.10
Exchange Rate, USDAUD (end-year)	1.35	1.43	1.30	1.26	1.33

Source: Fitch Ratings

Canada

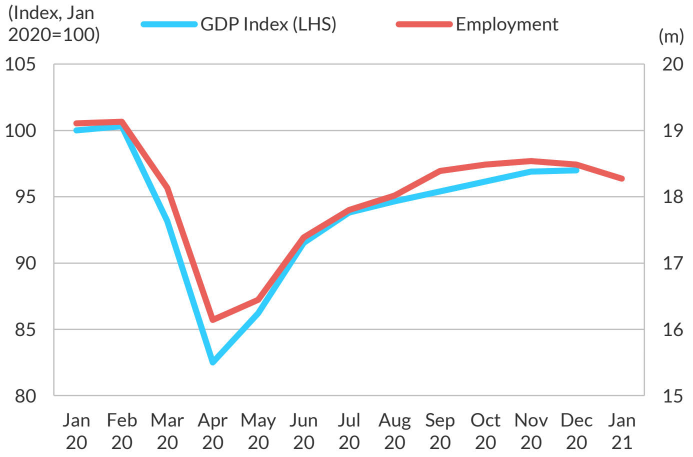
Fitch has revised up Canada's GDP forecast for 2021 significantly to 6.1% from 4.5% in the December GEO. This reflects a better-than-expected outturn for 4Q20, spillovers from a stronger outlook in the US, and higher oil prices. Our 2022 growth forecast has also inched up to 3.7% from 3.6%.

GDP grew by 2.3% in 4Q20 compared to an expectation of 0.6%. Consumption and residential investment were stronger than expected. Residential investment, which rose 3.6% in 2020, continues to benefit from demand for greater work-from-home space and residential upgrades during the 2020 shutdowns, leading to a jump in sales of major home appliances (+47% in December) and renovation materials and supplies (+28%). Metropolitan housing prices rose 5.4% on average in 2020.

Trade and investment spillovers from the US stimulus package will be sizeable. Canadian goods exports to the US rose, representing 72% of merchandise exports. We also expect activity to benefit from economic re-opening as vaccines are distributed, while higher oil prices lift national income. Unemployment data for February was also better than expected, with the rate declining to 8.2%, the lowest since March 2020. Strengthening global demand for Canadian oil, minerals, agricultural products and services (excluding tourism) also reinforce Canada's improving growth outlook.

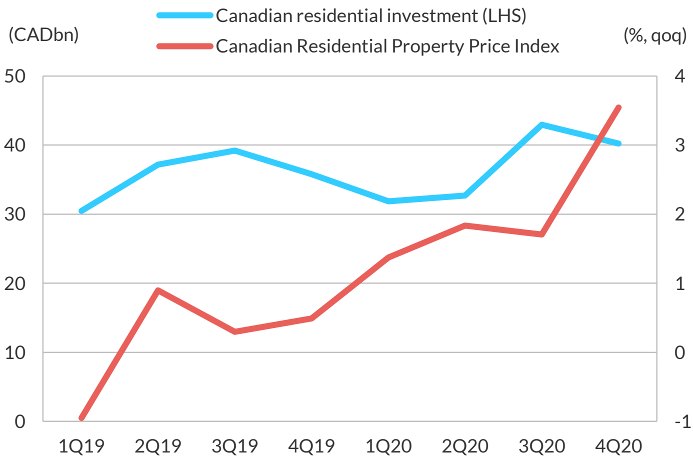
The Bank of Canada (BOC) left rates at the lower bound of 0.25% in March and signalled continued QE purchases of CAD4 billion a week. This signals the economic recovery has not fully taken hold and that there are sharp sectoral shifts. Large federal income transfers have put a firm floor under household consumption, but calibrated public health restrictions in October-February reduced retail commerce and about 15% of retailers were closed during December, whereas retail e-commerce sales rocketed 69% yoy. Covid-19 variants and a dual-track recovery for some households remain risks. The BoC is likely to taper its current bond purchases during 2021, but we currently do not expect a rate hike before 2023.

Canada - GDP and Labour Market



Source: Fitch Ratings, Statistics Canada

Canada - Residential Investment and Housing Prices



Source: Fitch Ratings, Statistics Canada

Canada - Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020	2021F	2022F
GDP	1.8	1.9	-5.4	6.1	3.7
Consumer Spending	2.5	1.7	-6.1	6.3	3.9
Fixed Investment	-0.9	0.3	-3.6	7.5	3.3
Net Trade (contribution pp)	0.1	0.3	0.5	-0.8	0.2
CPI Inflation (end-year)	1.7	2.2	0.7	1.3	1.5
Unemployment Rate	6.4	5.7	9.6	7.7	5.8
Policy Interest Rate (end-year)	1.00	1.75	0.25	0.25	0.25
Exchange Rate, USDCAD (end-year)	1.31	1.31	1.29	1.27	1.27

Source: Fitch Ratings

Brazil

Brazil's economy contracted by 4.1% in 2020 compared to the December GEO forecast of -4.6%. Fitch has increased its 2021 growth forecast to 3.3% from 3.1% given the carryover effect from the stronger-than-expected 4Q20 outturn and a more favourable external backdrop.

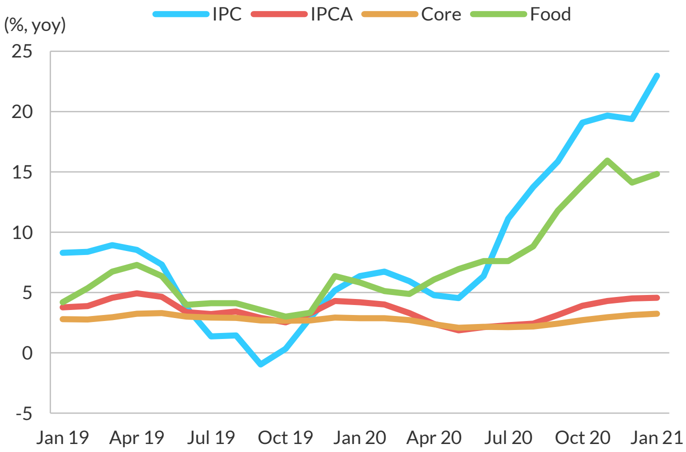
External factors, including the rebound in China, higher commodity prices, and the accommodative international monetary backdrop, are supportive for Brazil's economy, with interest rate cuts in 2020 also helping. On the fiscal side, we expect an extension of modest emergency aid into 2021.

Nevertheless, we expect the rebound in GDP in 2021 to be tepid after such a deep recession. Policy support is likely to be scaled back as fiscal tightening will weigh on the recovery and monetary policy is tightened aggressively in the rest of this year. Further downside risks stem from the pandemic's evolution and further delays in the vaccination process, which has started slowly. Loss of confidence in the trajectory of fiscal accounts could also undermine the recovery. The recent unexpected replacement of Petrobras' CEO has reignited concerns about state intervention and weighed on market sentiment.

IPCA inflation reached 4.52% in December 2020 (which was above the target of 4%). Inflation exceeded the 3.75% inflation target for 2021 in January and February. Higher commodity prices, a weak Brazilian real, high producer price prints (which could feed into consumer prices) and the base effect from low inflation in early-2020 will continue to put pressure on IPCA in the coming months. Fitch forecasts inflation to end 2021 above target. The persistence of inflation, recent deterioration of inflation expectations, and the extension of emergency aid mean that the central bank is likely to raise rates by a total of 250bp in 2021.

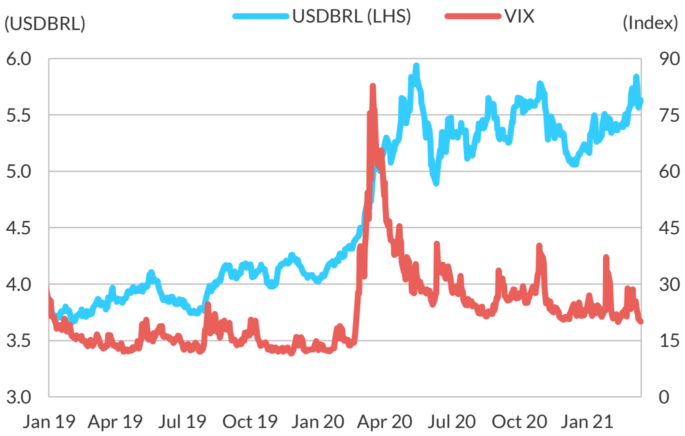
The real remains weak and recently volatile, despite low external imbalances and higher commodity prices. This dynamic may reflect Brazil's current low real interest rates, fiscal fragilities, and political and reform uncertainties.

Brazil - Inflation



Source: Fitch Ratings, BCB, Haver Analytics

Brazil - FX and Volatility



Source: Fitch Ratings, Wall Street Journal, BCB, Haver Analytics

Brazil - Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020	2021F	2022F
GDP	-0.5	1.4	-4.1	3.3	2.5
Consumer Spending	-0.1	2.2	-5.5	3.5	2.9
Fixed Investment	-4.0	3.4	-0.6	5.7	2.7
Net Trade (contribution pp)	0.7	-0.5	1.1	0.1	0.0
CPI Inflation (end-year)	5.7	4.3	4.5	4.5	3.5
Policy Interest Rate (end-year)	10.04	4.50	2.00	4.50	5.50
Exchange Rate, USDBRL (end-year)	3.52	4.03	5.20	5.20	5.00

Source: Fitch Ratings

Russia

GDP fell 3.1% in 2020, less than the 3.7% contraction we forecast in December. Lockdown measures have been less far-reaching than in many countries and Russia has a relatively small services sector. A sizeable fiscal stimulus and a positive contribution from net trade also helped to cushion the impacts of a sharp fall in private-sector domestic demand and oil production cuts under the OPEC+ agreement (which subtracted around 1pp from growth).

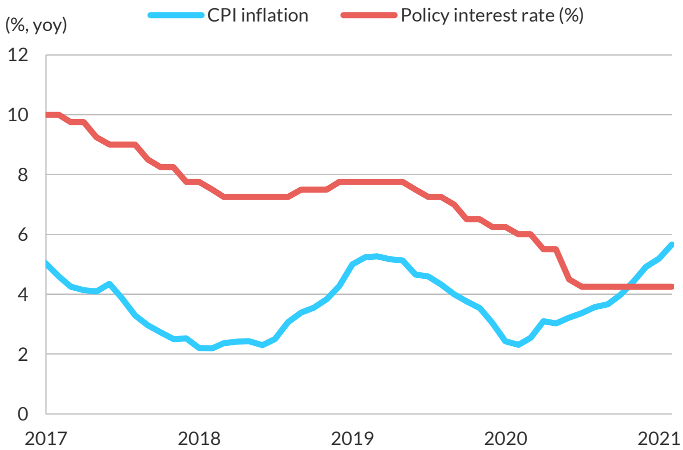
Fitch has upgraded its 2021 forecast by 0.3pp to 3.3%, helped by a higher oil price but with the second wave of Covid-19 weighing on activity early in the year. While the mortality rate is well above the 2020 peak, the infection rate has declined steadily since January; Fitch expects the government to maintain looser restrictions than in 2Q20.

We assume that activity will strengthen from 2H21, driven by a partial recovery in investment and growing confidence, supported by vaccination rollouts. Fitch has maintained its forecast for GDP growth to moderate to 2.7% in 2022 as economic slack is steadily absorbed.

The rise in the rate of inflation to 5.7% in February was mainly due to temporary factors including higher global food prices and Covid-19 supply constraints. But there has also been a moderate increase in inflation expectations and we have revised up our end-2021 forecast by 0.7pp to 4.2%, with inflation returning to target at 4.0% at end-2022.

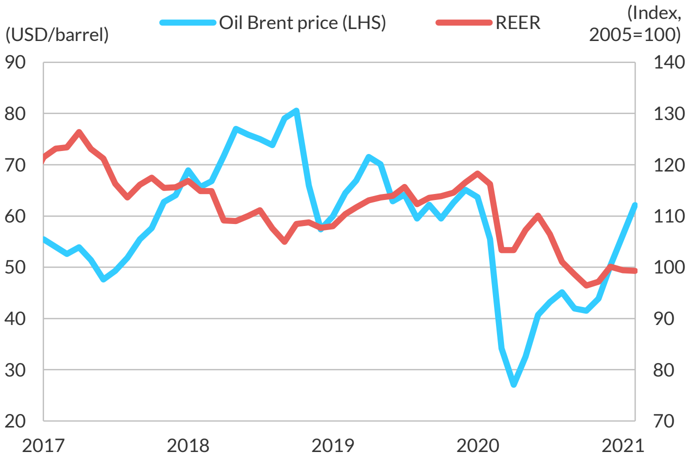
Higher oil prices will support a stronger rouble in 2021 but the extent of the real effective exchange-rate appreciation is limited by the accumulation of excess oil revenue under the budget rule, together with ongoing geopolitical tensions and sanctions risk.

Russia - Inflation and Interest Rate



Source: Fitch Ratings, Rosstat, CBRF, Haver Analytics

Russia - Oil Price and Real Effective Exchange Rate



Source: Fitch Ratings, Financial Times, CBRF, Haver Analytics

Russia - Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020	2021F	2022F
GDP	1.0	2.0	-3.1	3.3	2.7
Consumer Spending	-0.2	3.2	-8.6	2.3	3.4
Fixed Investment	-0.5	1.5	-6.2	2.1	5.7
Net Trade (contribution pp)	1.5	-0.6	1.9	-1.1	-0.4
CPI Inflation (end-year)	6.7	3.0	4.9	4.2	4.0
Policy Interest Rate (end-year)	9.36	6.25	4.25	4.50	5.00
Exchange Rate, USDRUB (end-year)	62.75	61.91	73.88	72.00	71.00

Source: Fitch Ratings

India

India's recovery from the depths of the lockdown-induced recession in 2Q20 (calendar year) has been swifter than we expected. GDP surpassed its pre-pandemic level in 4Q20, growing 0.4% yoy, after contracting 7.3% yoy in the previous quarter. The rapid pace of expansion at the end of 2020 was powered by falling virus cases and the gradual rollback of restrictions across States and Union territories.

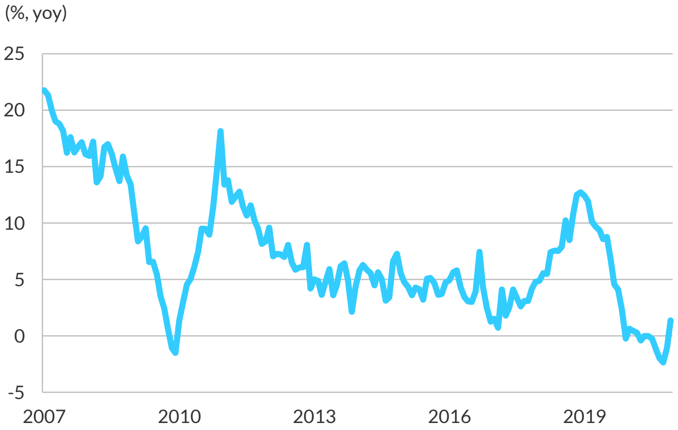
High-frequency indicators point to a strong start to 2021. The manufacturing PMI remained elevated in February, while the pick-up in mobility and a rise in the services PMI point to further gains in the services sector. However, the recent flare up in new virus cases in some states has prompted us to expect milder growth in 2Q21. Moreover, the global auto chip shortage could temporarily diminish Indian industrial production gains in 1H21.

The Union Budget for the fiscal year ending March 2022 (FY22) unveiled a fiscal stance more accommodative than we expected. Spending is set to be increased substantially, notably infrastructure, healthcare, and military outlays. Looser fiscal policy should support the short-term cyclical recovery, which along with stronger underlying growth momentum prompted us to nudge up our FY22 GDP growth forecast substantially, to 12.8%. This is 1.8pp higher than the December GEO.

The increase in inoculation to the most at-risk people should allow restrictions to be eased significantly towards end-2021 and in 2022. This should further support services sector activity and consumption. Nevertheless, an impaired financial sector is likely to keep the provision of credit tight, limiting investment spending. We expect GDP growth to ease to 5.8% in FY23, a downward revision of -0.5pp since December. The forecast level of GDP remains substantially below our pre-pandemic trajectory.

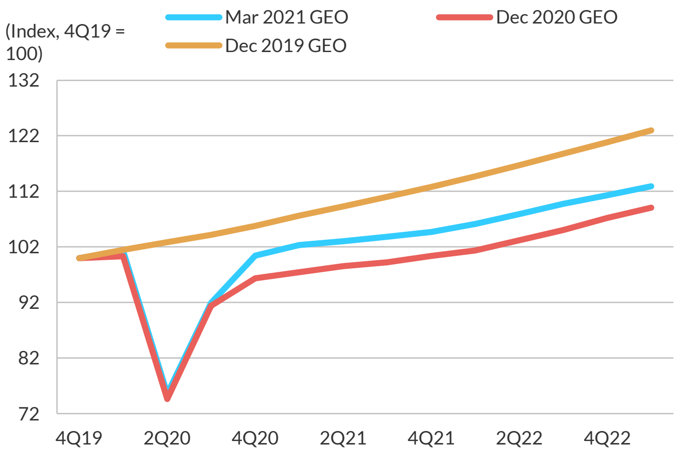
We no longer expect the Reserve Bank of India (RBI) to cut its policy rate, owing to a brighter short-term growth outlook and a more limited decline in inflation than we had forecast. The RBI will nonetheless keep its policy loose over the forecast horizon to shore up the recovery. The central bank will likely continue to use forward guidance on policy rates and carry out open-market operations to keep a lid on borrowing costs.

India - Inflation-Adjusted Bank Credit



Note: Credit to the private sector, including bank credit
Source: Fitch Ratings, Reserve Bank of India, Haver Analytics

India - GDP Levels Forecasts



Source: Fitch Ratings' estimates

India - Forecast Summary

(%) FY starting April	Annual Avg. 2015-2019	FY19-20	FY20-21F	FY21-22F	FY22-23F
GDP	6.7	4.0	-7.5	12.8	5.8
Consumer Spending	7.1	5.7	-9.5	14.2	5.6
Fixed Investment	7.1	3.2	-9.5	19.0	5.0
Net Trade (contribution pp)	-0.5	-0.2	2.4	-2.0	0.5
CPI Inflation (end-cal. year)	4.2	7.4	4.6	3.9	4.3
Policy Interest Rate (end-cal. year)	6.37	5.15	4.00	4.00	4.00
Exchange Rate, USDINR (end-cal. year)	67.06	71.27	73.05	71.00	74.00

Source: Fitch Ratings

Korea

Korean GDP performed well in 2020 compared to other economies, contracting by a modest 0.9%. However, GDP expanded less than we expected in 4Q20, at 1.2% qoq (versus +1.9% expected), amid a third wave of the virus that took its toll on household consumption and services activity. The rest of the economy was robust, with export volumes, manufacturing production and investment recording strong gains. The rebound in world trade, with solid demand for electronics, has buttressed the economy since 2H20. Large fiscal support and loose financial conditions have also reinforced domestic demand.

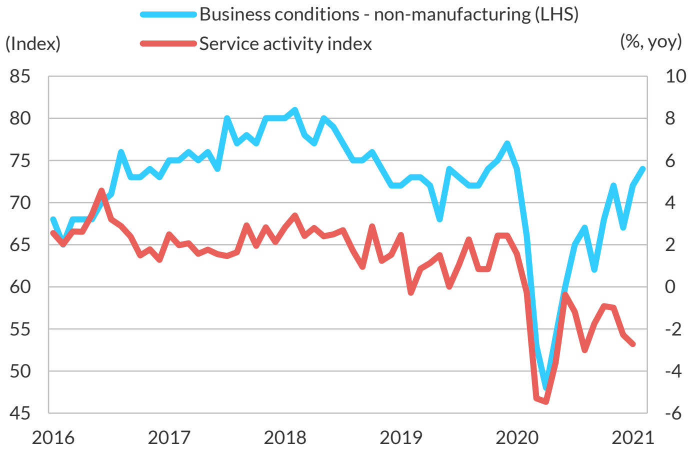
Industrial production and services sector momentum appears to have improved rapidly in February and March. With the third wave of the virus now under control, the authorities have rolled back restrictions. Business conditions in the services sector and consumer confidence are strengthening on an improving health situation.

Furthermore, the export-oriented manufacturing sector should continue to perform well. Global chip shortages are likely to keep demand for Korea's export semiconductors high for the next few months. Export strength is likely to wane later this year as global consumers rebalance their spending patterns towards services. However, structural factors point to continued solid demand for chips and electronics even in the longer term, such as the rollout of 5G networks.

We still expect GDP to expand solidly in 2021, at +3.7% (down 0.1pp from the December GEO). The passing of another budget will keep fiscal policy supportive. A robust global growth outlook should support external demand and industrial production. The vaccine rollout started in February, which should further boost confidence and support the services sector in 2H20 and well into 2022. We still expect GDP to expand 3.0% in 2022.

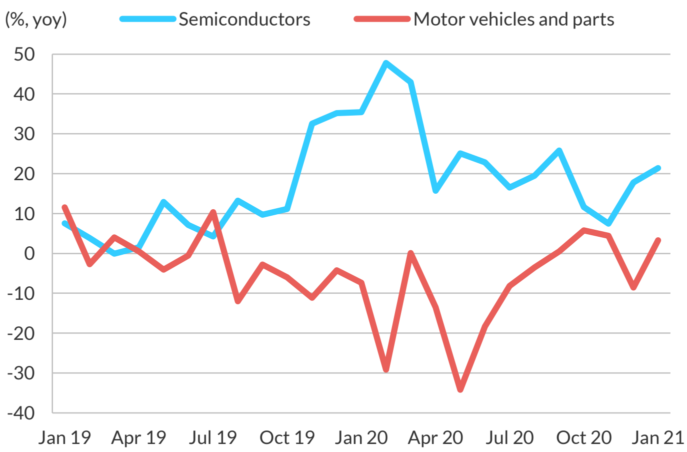
The Bank of Korea (BoK) also has voiced concern about increasing financial stability risks amid strong household loans growth and increased house prices. However, muted underlying price pressure and upward pressure on long-term yields mean the BoK is likely to maintain its policy rate through 2022.

Korea - Services Activity



Source: Fitch Ratings, KOSTAT, Haver Analytics

Korea - Manufacturing Production



Source: Fitch Ratings, KOSTAT, Haver Analytics

Korea - Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020	2021F	2022F
GDP	2.8	2.0	-0.9	3.7	3.0
Consumer Spending	2.5	1.7	-4.9	2.1	3.0
Fixed Investment	3.3	-2.8	2.8	3.7	3.3
Net Trade (contribution pp)	-0.3	1.0	0.4	2.2	0.5
CPI Inflation (end-year)	1.1	0.4	0.5	2.0	1.6
Policy Interest Rate (end-year)	1.48	1.25	0.50	0.50	0.50
Exchange Rate, USDKRW (end-year)	1138	1158	1088	1060	1070

Source: Fitch Ratings

Indonesia

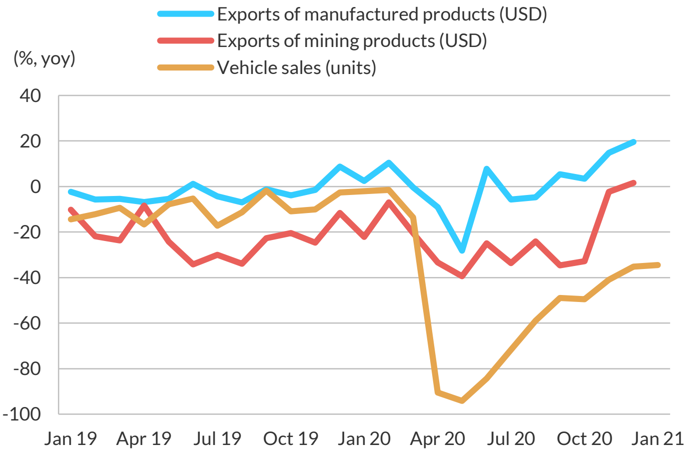
The pace of Indonesia's economic recovery slowed in 4Q20, though momentum was a bit stronger than we had anticipated in our December GEO. Rapidly rising new virus cases weighed on consumption amid a renewed tightening of restrictions in the densely populated regions of Java and Bali. For 2020, Indonesia GDP shrank 2.1%, its weakest performance since the Asian Financial Crisis in 1997-1998.

Momentum looked lackluster at the beginning of 2021, and we expect activity in 1Q21 to be sluggish. Consumer confidence is still depressed, vehicle sales were weak in January, and mobility is increasing only very slowly. However, falling new virus cases in the past few weeks allowed the authorities to scale back some restrictions in February. We expect underlying momentum to strengthen from 2Q21. Vaccinations have started, but widespread inoculation will take time given Indonesia's large population and logistical challenges. Social distancing is likely to remain a drag on the economy for most of 2021. We have downgraded sharply our GDP growth forecast for this year, to 5.3%, a cut of 1pp from the December GEO.

Against this backdrop, rising commodity prices and the rise in world trade are providing some economic support. The price of palm oil in the past few weeks reached its highest level since 2012. Indonesia's manufacturing export growth has picked up noticeably. Commodity prices are likely to decline from highs in the next months, but will remain supported by growth in the US and Europe. We expect Indonesian GDP growth to rise to 6% next year – an upward revision of 0.3pp – predicated on a relaxation of most social distancing restrictions by then.

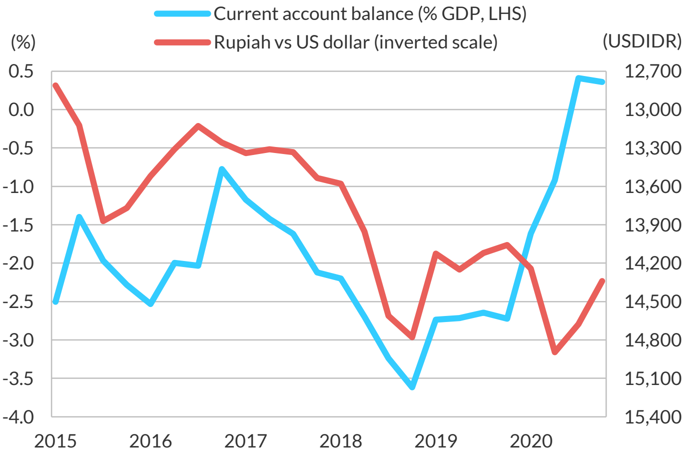
Weak domestic demand and rising exports pushed Indonesia's current account into surplus in 2H20, for the first time since 2011. Stronger external balances and higher commodity prices should provide some short-term support for the rupiah in the face of rising US yields. Nevertheless, we expect the current account to gradually widen again with the pick-up in domestic demand and think that Bank Indonesia (BI) is now done with its easing cycle. We expect BI to keep its policy rate at 3.5% this year and start hiking in 2022.

Indonesia - Exports and Domestic Demand



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

Indonesia - Current Account and Rupiah



Source: Fitch Ratings, Bank Indonesia, Haver Analytics

Indonesia - Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020	2021F	2022F
GDP	5.0	5.0	-2.1	5.3	6.0
Consumer Spending	5.0	5.2	-2.7	3.8	6.3
Fixed Investment	5.4	4.5	-4.9	4.5	6.2
Net Trade (contribution pp)	0.3	1.4	1.1	0.6	0.4
CPI Inflation (end-year)	4.0	2.6	1.7	2.6	3.0
Policy Interest Rate (end-year)	5.68	5.00	3.75	3.50	4.00
Exchange Rate, USDIDR (end-year)	13693	13901	14105	14000	14500

Source: Fitch Ratings

Mexico

We have revised up our growth forecast for 2021 to 4.7%, resulting both from stronger-than-expected activity at the end of 4Q20 boosting the carryover from last year, and the impact of stimulus in the US. External demand was a major driver of growth in 2H20 and we expect this to continue. Remittances also grew, supporting consumption.

We expect domestic activity in 2H21 to benefit from greater mobility as vaccines are distributed. Activity in 1Q21 was hit by a number of temporary factors including still-high Covid-19 infection rates, semiconductor shortages affecting manufacturing, and interruptions to electricity supply caused by extreme weather, which showed up in contracting PMIs.

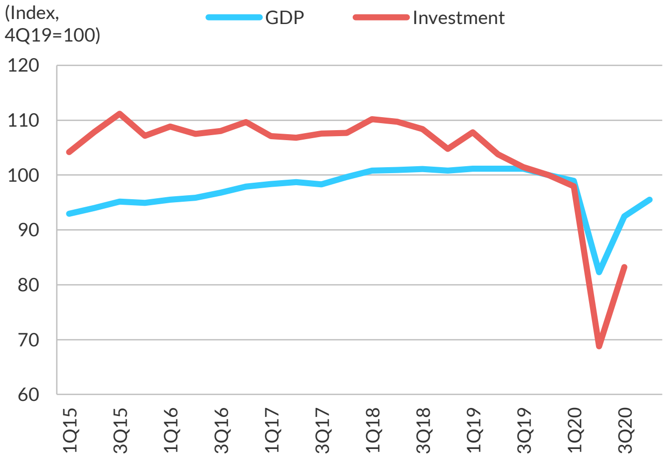
Mexico continues to benefit from strong external demand from the US, which absorbs 80% of merchandise exports. Exports to the US fell 8.5% yoy in 2020 (slightly less than overall exports) largely because of the falls in 2Q20, but were up 6% yoy in 4Q20, suggesting that export growth will be strong in 2021. Import demand from the US is, however, also recovering after an 18.4% yoy fall in 2020.

While the next phase of the recovery in the US may be more skewed towards services than goods, reducing the size of the spillover effect, improvements in the US labour market and opening up of the services sector would help to further boost remittances, which account for 4% of GDP.

However, we expect GDP growth to slip to 2.5% in 2022. Investment shrank 18.7% overall in 2020, among the strongest contractions anywhere. Domestic policy signals regarding the investment climate in certain sectors – for example electricity – are negative for a recovery. Credit supply and demand are also weak.

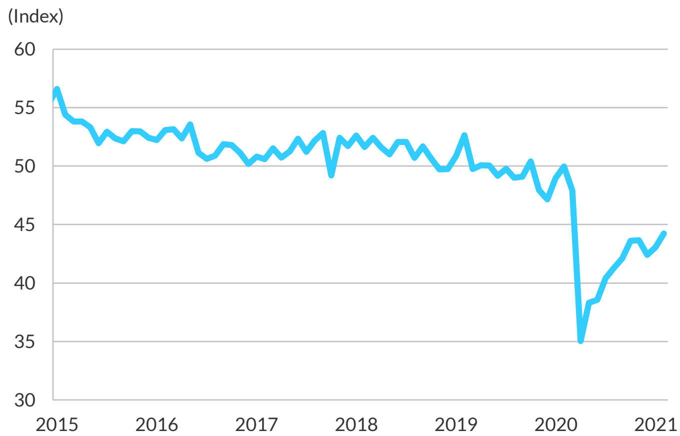
We believe Banxico will cut rates once more to 3.75%, even as other central banks start to consider rate rises. A temporary rise in headline inflation in 2Q21 caused largely by base effects will be discounted by policymakers. A rate cut will become less likely the more that global risk aversion increases. The peso will remain vulnerable to any shift in sentiment towards riskier assets, as demonstrated by the weakening in the peso in March.

Mexico - GDP and Investment Levels



Source: Fitch Ratings, INEGI, Haver Analytics

Mexico - PMI Manufacturing



Source: Fitch Ratings, IHS Markit, Haver Analytics

Mexico - Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020	2021F	2022F
GDP	2.0	-0.1	-8.2	4.7	2.5
Consumer Spending	2.5	0.6	-11.4	3.8	2.7
Fixed Investment	0.1	-4.6	-18.7	6.9	4.3
Net Trade (contribution pp)	0.2	0.8	3.7	1.9	0.0
CPI Inflation (end-year)	4.0	2.8	3.2	3.4	3.2
Policy Interest Rate (end-year)	5.95	7.25	4.25	3.75	4.50
Exchange Rate, USDMXN (end-year)	18.39	18.85	19.95	20.10	20.10

Source: Fitch Ratings

Poland

Poland's GDP outturn of -2.7% in 2020 was less severe than we had expected in our earlier forecast of -3.4% in the December GEO. This was supported by government consumption and resilient goods exports in 4Q20 (13.5% qoq growth). Fiscal support to counter the macroeconomic impact of the pandemic will continue in 2021, although in a more targeted manner than before. Under government plans, up to PLN52.34 billion (2.2% of GDP) in support measures will be available in 2021. Fitch expects unemployment to increase moderately by end-2021 as some targeted support measures are tapered.

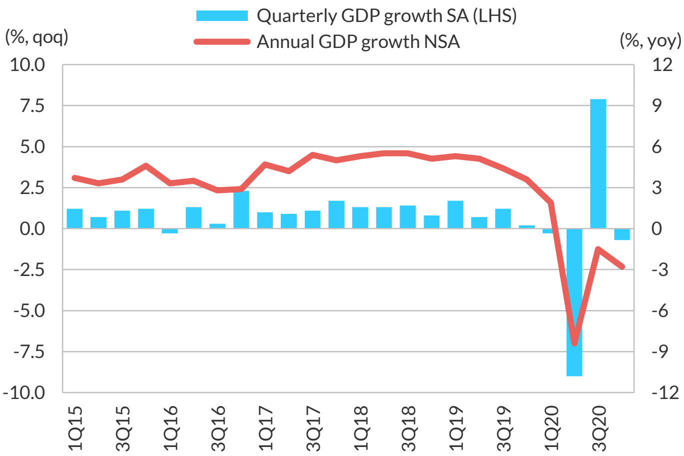
As of March 2021, Poland is entering an intensified phase ('third wave') of the pandemic, with the seven-day average new infection rate at new highs (above 13,270). The government has imposed lockdowns in various regions. At least 7% of the population has received a first dose of a vaccine but Poland continues to face supply constraints.

Fitch expects the economic recovery will be delayed to at least 2Q21, as private consumption will remain sluggish amid cautious householder sentiment. However, industrial production and, to a lesser extent, construction will remain resilient and we have revised up our 2021 GDP growth forecast by 0.8pp since December.

Pent-up consumer demand and investment – the latter fuelled by the NGEU and the EU's Multiannual Financial Framework funds – will propel growth to 4.1% in 2021 and 4.7% in 2022, closing the negative output gap. The contribution of net exports to growth will be subdued, reflecting higher import growth associated with strong domestic investment and consumer demand.

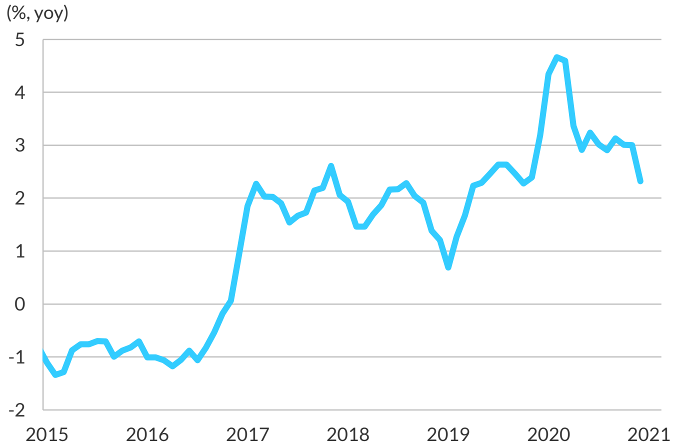
Fitch expects inflationary pressures to persist in 2021-2022, given increases in power and administered prices, higher global energy prices, taxes on sugary products, as well as the impact of higher demand. However, the National Bank of Poland has strongly signalled a dovish intent, and Fitch expects rate hikes to be only gradual, starting in 2022 at the earliest. Additionally, the NBP has signalled its readiness to intervene in FX markets to prevent an over-appreciation of the zloty, as was evident in its actions in December 2020.

Poland - Real GDP Growth



Source: Fitch Ratings, CSO of Poland, Haver Analytics

Poland - CPI Inflation



Source: Fitch Ratings, CSO of Poland, Eurostat, Haver Analytics

Poland - Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020	2021F	2022F
GDP	4.3	4.6	-2.7	4.1	4.7
Consumer Spending	4.0	4.0	-3.0	6.6	6.0
Fixed Investment	3.7	7.3	-8.3	5.5	4.7
Net Trade (contribution pp)	0.5	1.1	1.0	0.2	-0.1
CPI Inflation (end-year)	0.9	3.2	2.3	2.5	3.5
Policy Interest Rate (end-year)	1.52	1.50	0.10	0.10	0.30
Exchange Rate, USDPLN (end-year)	3.79	3.80	3.76	3.65	3.55

Source: Fitch Ratings

Turkey

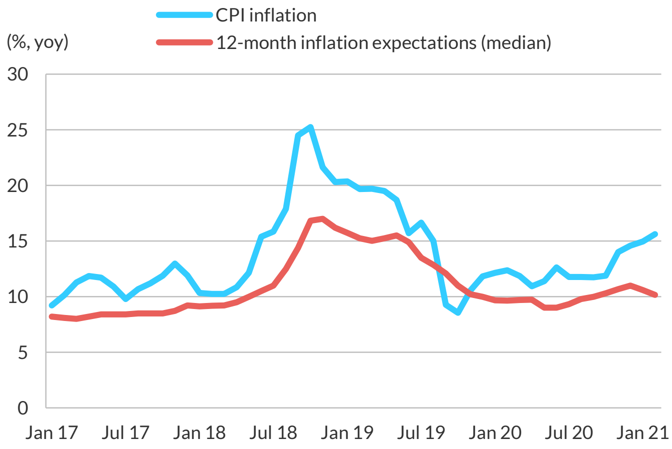
Turkey's economy expanded by 1.8% in 2020, surpassing our 0.2% December GEO forecast and joining China as the only other Fitch 20 economy to record growth for the whole year. After the sharp recovery in 3Q20 fuelled by credit and monetary stimulus, Turkey surprisingly maintained sequential growth momentum at 1.7% qoq in 4Q20. Household consumption, government spending and net trade all contributed to growth.

We have revised up our 2021 forecast significantly to 6.7% (from 3.5% in December) reflecting the strong growth carryover from 2020 as well as continuing effects of high credit growth in 1H21. We expect the economy to slow in 2H21 due to tighter monetary and credit conditions and a more conservative fiscal stance, with an announced revision in the budget deficit to 3.5% from 4.3% of GDP. Reduced policy support will balance the impact of improving external demand and the easing of local restrictions in line with progress in vaccinations. Our 2022 forecast of 4.7% is in line with our expectation that the economy will move closer to a growth trajectory consistent with our assessment of growth potential (4.3%).

Strong monetary and credit stimulus, while supporting growth resilience in 2020, led to high inflation of 14% at year end. Cost pressures due to the pandemic and the 2020 depreciation of the Turkish lira, rising international food and energy prices, and still-high inflation expectations continue to exert upward pressure on prices, and the rate of inflation rose to 15.6% yoy in February. Although we expect inflation to ease to 11.5% by end-2021 and further to 9.2% by end-2022, these remain above the central bank's forecasts of 9.4% and 7%, respectively.

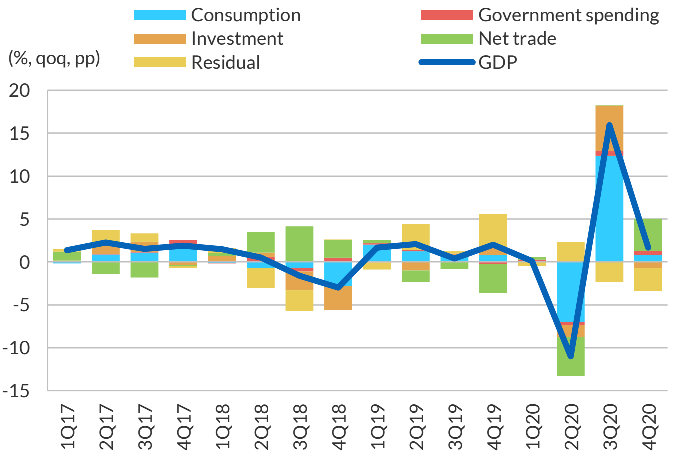
The new management at the central bank tightened policy significantly in 4Q20, taking the policy rate to 17% – and provided forward guidance that policy will remain tight to achieve a sustained decline in inflation. As a result, we forecast only gradual policy easing starting in late-2021. We also expect the lira to remain volatile but to end this year at a broadly similar rate to late-2020, hence adding little to inflation. A tight monetary policy stance and reduced current account deficit will weigh against changing global investor sentiment as well as continued concerns regarding the sustainability of the current orthodox policy mix.

Turkey - CPI Inflation and Inflation Expectations



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	2020	2021F	2022F
GDP	4.2	0.9	1.8	6.7	4.7
Consumer Spending	3.4	1.6	3.2	9.2	5.7
Fixed Investment	1.4	-12.4	6.5	8.5	5.1
Net Trade (contribution pp)	1.1	2.4	-5.5	0.7	-0.3
CPI Inflation (end-year)	11.7	11.8	14.6	11.5	9.2
Policy Interest Rate (end-year)	11.78	12.00	17.00	15.00	12.00
Exchange Rate, USDTRY (end-year)	3.98	5.95	7.35	7.25	7.50

Source: Fitch Ratings

South Africa

GDP contracted by 7% in 2020, less severe than our forecast of -8.1% in the December GEO. The economy was already on a weak footing before the pandemic as GDP had been declining since 3Q19, reflecting a combination of cyclical and structural factors. We expect these ongoing challenges to constrain the recovery and we forecast a mild growth trajectory of 4.3% in 2021 and 2.5% in 2022.

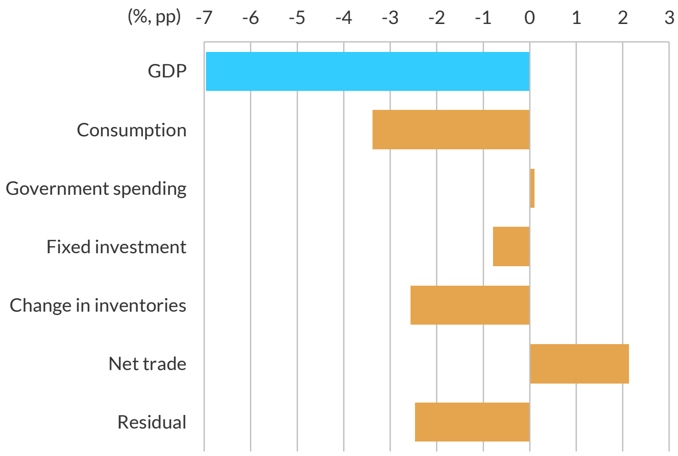
GDP rebounded by 13.7% qoq in 3Q20 and 1.5% in 4Q20 following a 16.6% slump in 2Q20. The gradual lifting of stringent lockdown measures starting in June and the improvement in the terms-of-trade with the rise in metal prices supported a rebound in mining and manufacturing and a recovery in exports. Retail, accommodation and catering also made strong contributions to the recovery as private consumption rose, despite restrictions on transport, travel and high unemployment.

Still, nearly all sectors of the economy contracted sharply over the full year except for agriculture and government services. Output fell at double-digit rates in mining, manufacturing, construction and transport. The pandemic shock particularly affected fixed investment, which declined by a staggering 17.5%. Consumption decreased by a smaller but still significant 4%. The slump in domestic demand translated into a sharper fall in imports than in exports and an improvement in the current account balance.

A string of weak indicators suggests the recovery stumbled upon a return to level-3 social restrictions in 1Q21. We forecast growth to gather pace in 2Q21 after the easing of restrictions in early March but significant challenges persist. Household disposable income will come under pressure from the end of fiscal support measures, the rise in energy prices and wage moderation. Electricity outages and fiscal consolidation will further weigh on activity. Real GDP in 4Q20 was 4.2% below its (4Q19) pre-pandemic level and we do not expect it to fully recover until end-2022.

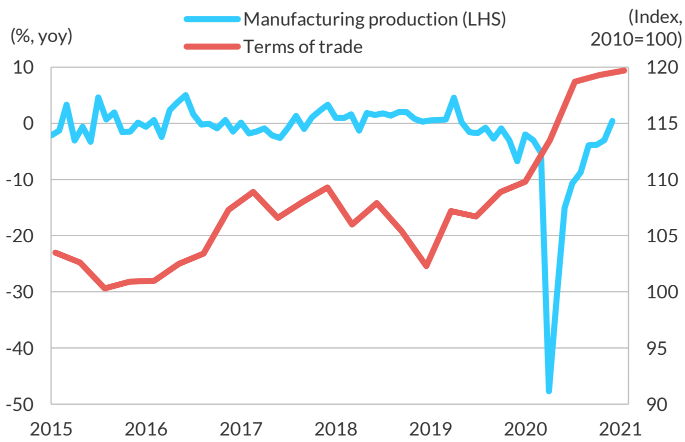
Inflation has been stable since mid-2020 and was 3.2% in January. We expect it to rise moderately towards the mid-point of the South African Reserve Bank's 3%-6% target. A mild recovery and moderate inflation should keep the SARB rate on hold in 2021.

South Africa - Contributions to GDP Growth in 2020



Source: Fitch Ratings, STATSSA, Haver Analytics

South Africa - Manufacturing and Terms of Trade



Source: Fitch Ratings, STATSSA, SARB, Haver Analytics

South Africa - Forecast Summary

(%)	Annual Avg. 2015-2019	2019	2020	2021F	2022F
GDP	0.8	0.2	-7.0	4.3	2.5
Consumer Spending	1.5	1.0	-5.4	5.2	3.0
Fixed Investment	-0.5	-0.9	-17.5	6.1	4.2
Net Trade (contribution pp)	-0.2	-0.6	2.1	0.8	0.0
CPI Inflation (end-year)	5.0	4.0	3.3	4.4	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	15.80	16.30

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	7.5	1.0	1.0	1.8	2.9	1.1
Euro area	0.2	0.1	-3.8	-11.6	12.5	-0.7	-1.0	2.0	2.7	2.3
China	1.2	1.2	-9.7	11.6	3.0	2.6	0.2	1.6	0.5	0.5
Japan	0.2	-1.8	-0.6	-8.3	5.3	2.8	0.0	0.7	0.8	0.6
UK	0.5	0.0	-2.9	-19.0	16.1	1.0	-2.7	4.4	2.5	1.8
Germany	0.3	0.0	-2.0	-9.7	8.5	0.3	-1.1	2.4	3.2	1.7
France	0.2	-0.2	-5.9	-13.5	18.5	-1.4	-1.0	1.5	2.3	2.1
Italy	0.0	-0.4	-5.5	-13.0	15.9	-1.9	-1.4	1.7	3.1	2.6
Spain	0.4	0.4	-5.2	-17.9	16.4	0.4	-1.0	1.7	3.0	2.8
Switzerland	0.5	0.4	-1.9	-7.2	7.6	0.3	-0.7	0.9	1.5	1.3
Australia	0.6	0.4	-0.3	-7.0	3.4	3.1	1.3	0.9	0.7	0.7
Canada	0.5	0.1	-1.9	-11.4	8.9	2.3	0.7	1.6	1.8	1.4
Brazil	-0.1	0.4	-2.1	-9.2	7.7	3.2	-0.6	0.2	0.3	0.4
Russia	-1.4	-0.3	-0.5	-2.8	0.7	-1.9	1.5	5.7	0.8	0.8
India	-0.8	0.9	2.1	-26.0	21.6	9.3	1.9	0.7	0.8	0.8
Korea	0.4	1.3	-1.3	-3.2	2.1	1.2	1.0	1.2	0.9	0.7
Mexico	0.0	-1.1	-1.0	-16.8	12.4	3.3	0.3	1.1	0.2	0.5
Indonesia	1.2	1.2	-0.8	-6.9	3.1	2.6	1.1	1.5	1.7	1.5
Turkey	0.4	2.0	0.1	-11.0	15.9	1.7	0.6	0.5	0.1	0.2
Poland	1.2	0.2	-0.3	-9.0	7.9	-0.7	0.2	2.2	2.2	1.3
South Africa	-0.2	-0.4	-0.4	-16.6	13.7	1.5	0.1	1.2	0.6	0.4
Developed [a]	0.5	0.1	-2.0	-10.4	9.2	1.0	0.1	1.8	2.5	1.3
Emerging [b]	0.5	0.9	-5.3	0.5	6.3	2.9	0.5	1.6	0.6	0.6
Emerging ex-China	-0.2	0.5	-0.3	-12.3	10.1	3.2	0.9	1.6	0.8	0.7
World [c]	0.5	0.4	-3.2	-6.3	8.1	1.7	0.2	1.7	1.8	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	-2.8	-2.4	-0.2	11.6	6.9	6.9
Euro area	1.4	1.0	-3.3	-14.6	-4.2	-4.9	-2.2	12.9	3.1	6.1
China	5.9	5.8	-6.8	3.2	4.9	6.5	19.3	8.0	5.2	2.7
Japan	1.3	-1.0	-2.1	-10.3	-5.8	-1.3	-0.8	9.0	4.4	2.1
UK	1.4	1.2	-2.2	-21.0	-8.7	-7.8	-7.6	19.1	5.1	6.0
Germany	0.8	0.4	-2.2	-11.2	-4.0	-3.6	-2.8	10.3	4.9	6.3
France	1.6	0.8	-5.6	-18.6	-3.7	-4.9	0.0	17.2	1.3	5.0
Italy	0.5	-0.2	-5.8	-18.2	-5.2	-6.6	-2.5	13.9	1.3	6.0
Spain	1.8	1.7	-4.2	-21.6	-9.0	-9.1	-4.9	17.8	4.2	6.7
Switzerland	1.3	1.6	-0.4	-8.0	-1.4	-1.6	-0.5	8.1	2.0	3.0
Australia	1.9	2.2	1.4	-6.3	-3.7	-1.1	0.5	9.0	6.2	3.7
Canada	1.9	1.7	-0.3	-12.7	-5.3	-3.2	-0.7	13.9	6.5	5.6
Brazil	1.3	1.6	-0.3	-10.9	-3.9	-1.1	0.2	10.6	3.0	0.3
Russia	1.5	2.1	1.6	-8.0	-3.4	-4.5	-2.6	6.0	6.1	9.1
India	4.6	3.3	3.1	-24.4	-7.3	0.4	1.0	36.3	13.0	4.2
Korea	2.0	2.3	1.4	-2.7	-1.1	-1.2	1.1	5.7	4.3	3.8
Mexico	0.0	-0.6	-1.4	-18.7	-8.6	-4.3	-3.2	17.7	4.9	2.1
Indonesia	5.0	5.0	3.0	-5.3	-3.5	-2.2	-0.3	8.6	7.1	6.0
Turkey	1.0	6.4	4.5	-10.3	6.3	5.9	5.5	19.1	2.9	1.4
Poland	4.4	3.6	1.9	-8.4	-1.5	-2.8	-2.3	9.7	3.9	6.0
South Africa	0.1	-0.5	0.4	-17.8	-6.2	-4.2	-3.6	17.0	3.5	2.4
Developed [a]	1.7	1.4	-1.2	-11.7	-4.2	-3.3	-1.3	12.3	5.5	5.8
Emerging [b]	4.2	4.3	-2.9	-4.3	0.8	2.9	10.7	11.8	5.8	3.3
Emerging ex-China	2.4	2.5	1.5	-13.0	-3.9	-1.4	-0.2	16.6	6.6	4.0
World [c]	2.6	2.4	-1.8	-8.9	-2.3	-1.0	3.2	12.1	5.6	4.9

[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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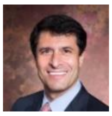

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