Europe Hardest Hit in GDP Expectations….Italy Leading the Way….

Key Points:

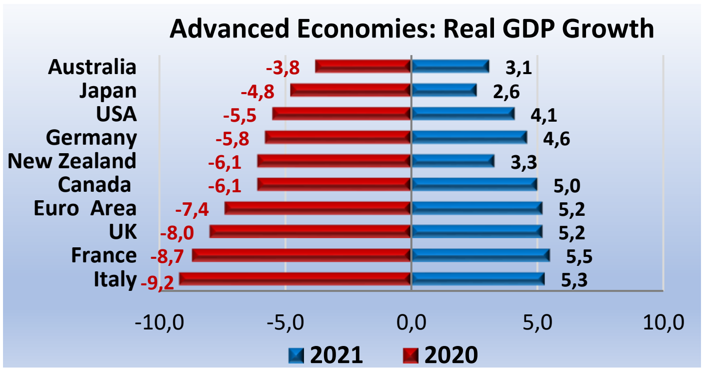
- Italy 2020 real GDP growth of -9.2%
- UK one of hardest hit advanced economies
- Argentina & Brazil GDP expectations worst in emerging economies
- Turkey unemployment rate to reach 16.0%
- Following by Brazil in 2nd place

The Covid-19 health pandemic has not only resulted in a widespread loss of life and severe human suffering, but also left the world in an extreme uncertain economic outlook. For the first time since the Great Depression, most countries from both advanced and emerging economies will be in recession in 2020. The pandemic stresses the urgent need for health and economic policy action which include global support, to protect vulnerable populations, to reduce its consequences and to improve each countries' capacity to prevent and cope with similar events in the future.

To contain the virus, governments around the world had to take drastic measures that have put economies into a standstill. Central banks in many countries have cut policy rates and taken other far-reaching steps to provide liquidity and to maintain investor confidence. World economic activity dropped practically overnight, however without such measures to contain the pandemic, the eventual damage to society and the economy would doubtlessly be greater. Per capita income is expected to shrink in most countries this year, which might cause many to fall back into poverty. The IMF expects the global public debt to exceed the post-World War II peak.

While the ultimate outcome is still uncertain and the pandemic still increasing in many countries, essential uncertainty surrounds these forecasts - the danger of a deeper and more extended recession is very real. Because of the uncertainty of the situation and the variation of outcomes, our forecasts for the year 2020 will be revised regularly and might differ substantially from time to time.

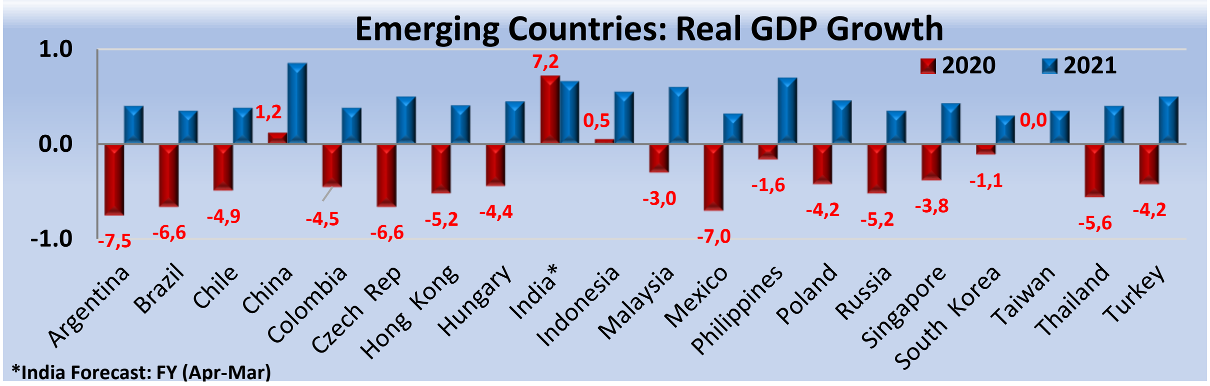
Outlook for Advanced and Emerging Economies:

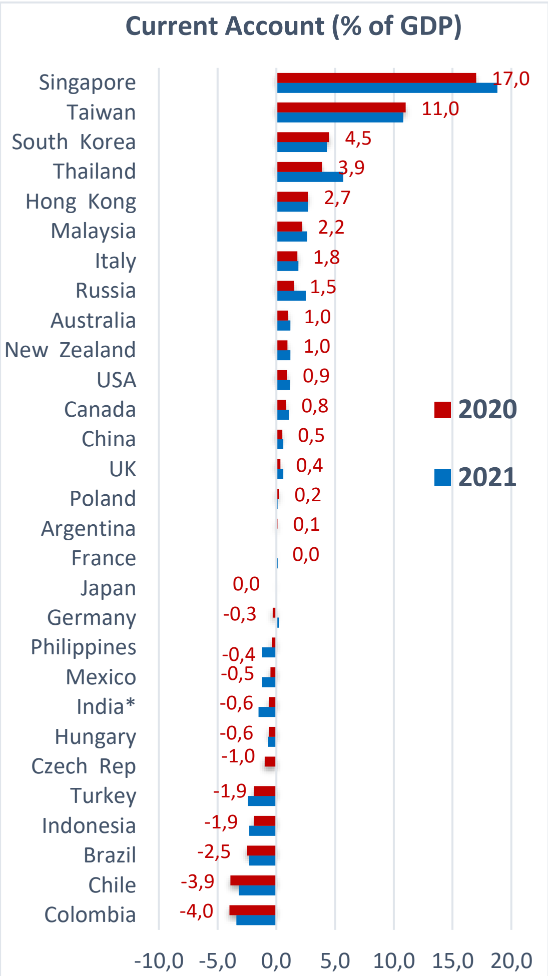


Looking at the accompanying chart, the worst hit of all countries are those countries in Europe with Italy and France leading the way with an expected -9.2% and -8.7% for 2020, respectively. The UK follows by - 8.0% and we forecast an overall -7.4% for the Euro Area for 2020.

We expect the USA to contract by 5.5% in 2020 and to rebound to 4.1% in 2021.

The situation for Emerging Markets (EM) does not look much better with Argentina leading the way at -7.5%, followed by Brazil with -6.6%. We expect China to grow 1.2% this year and to recover to a more than 8.0% growth next year.



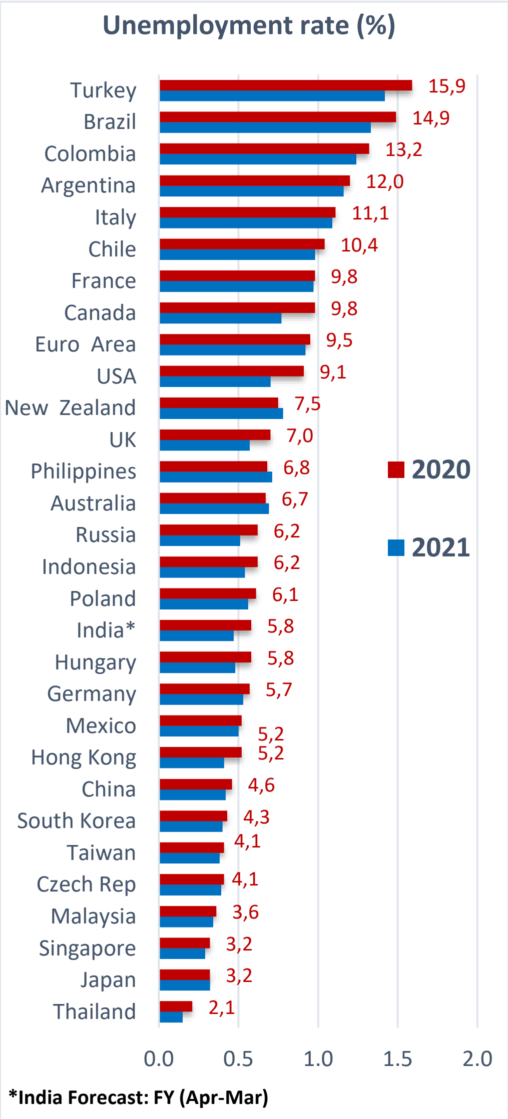


Trade and travel bans have significantly disrupted supply chains, and while these challenges will eventually be resolved, there is no doubt that global economic growth has suffered severely. The ongoing crisis has negatively affected consumption and investment. Private consumption and fixed investment are both expected to decline sharply this year before slowly recovering in 2021. The collapse in activity in the first half of 2020 has been driven by lower consumer spending, reflecting the closure of non-essential businesses, avoidance of travel, and subdued confidence. At the same time, household saving has risen sharply, with labour incomes supported in many countries by government measures for furloughed (unpaid leave of absence) employees.

Demand is set to remain subdued for longer as workers concerned about their employment prospects will tend to save a higher share of their income, and firms faced with uncertainty about future sales will delay or cancel investment. Even if most of the impact is expected to be temporary, the pandemic will likely leave some persistent scars. Investment shortfall and the drop in employment will reduce the economy's production potential, preventing a quick return to the previous path of output.

Countries that are severely integrated in global value chains, heavily dependent foreign financing countries and countries that rely extensively on international trade, commodity exports, and tourism are likely to suffer extremely. Commodity-exporting countries are expected to be hard hit by adverse spill overs from sharply weaker growth in China, and by the collapse in global commodity demand, especially for oil.

The IMF mentioned earlier this month that certain policy actions have also had some positive spillover effects for emerging markets. In March, emerging markets were basically shut out of access to bond issuance. In April and May, however, because of the scale of measures taken mainly by advanced economies, but also by many emerging market economies, the enormous injection of liquidity meant that emerging markets with good fundamentals could return and issue bonds. These critical financial lifelines can help countries stabilize at a time when economies are at a standstill.



Despite the recent improvement in the stock market, the extremely high unemployment rate will remain for a long period.

The outbreak and the economic downturn in the US caused unemployment to rise by more than 14 million, from 6.2 million in February to 20.5 million in May 2020. This resulted in an unemployment rate of 13.3% in May from a very low 3.8% in February this year.

We expect the US unemployment rate to reach 9.1% in 2020 and 7.0% in 2021, respectively. A rate of 14.9% and 13.2% are forecasted for Brazil and Colombia, respectively. The Euro Area rate is expected to reach 9.5%, while Turkey will reach a high of 15.9%. In May, the EU has put in place a temporary instrument to help workers keep their jobs during the crisis. The Council adopted SURE, a temporary scheme which can provide up to €100 billion of loans under favourable terms to member states.

Sharp rises in unemployment are also projected in the UK and Spain, as well as in some smaller open economies, although temporary support programmes are cushioning labour incomes in the near term. Smaller changes are projected in Germany, France and Italy with job losses moderated by their respective schemes to support employment

According to the Ipsos What Worries the World May survey, unemployment concern is most prevalent in Spain (66%), Italy (65%), and South Africa (60%). In just three countries does an issue other than COVID-19 and unemployment emerge as the top issue: Hungary (Healthcare), Mexico (Crime & Violence) and Russia (Poverty & Social Inequality).

In summary:

We expect that the return to economic normality is likely to be a slow and a bumpy road. The disturbance in the labour market and ongoing social distancing will weigh heavily on consumer spending, while firms will be overly cautious on capital spending. In event of a renewed virus outbreak later this year, uncertainty would intensify further for an extended period, with additional precautionary saving, weaker household spending, and substantially softer investment prospects.

In this challenging situation, it is essential to boost trade confidence by improving transparency to save lives. The OECD recommended that supply chains should be ongoing especially for essentials such as health products and food. Unnecessary export restrictions and other trade barriers should be avoided, and policy action should be implemented for the immediate term and longer term at the same time.

Provided that the policy measures taken to support incomes, jobs, liquidity and investment are effective, economic activity should slowly rebound once the quarantine is gradually relaxed.

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