October 2020

Global Macro Views

The Global Macro Forum

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World

	2018	2019	2020	BoR	2021	BoR
Real GDP	3.2%	2.6%	-4.6%	—	4.9%	—
Inflation	2.9%	2.8%	2.4%	—	2.4%	—

Source: Firm analysis as of October 6, 2020. 2020 and 2021 are forecasts. BoR (Balance of Risks): Indicates bias relative to our forecasts as new information becomes available. "⮟" represents a negative view and "—" indicates a neutral view.

Central to the global economic outlook is the path of the coronavirus pandemic. With global deaths surpassing one million, or about 4 percent of confirmed cases, we do not have an independent health forecast other than the uncomfortable certainty that the numbers will keep going up for a time. Ultimately, the world's population will attain herd immunity, perhaps sped along be a vaccine next year. Mitigation efforts keep people away from their jobs and market places to limit the spread of the virus. They have also extracted a regressive toll, as lower-income households depend more on physical presence for their livelihoods.

The world, however, is getting better at social distancing and contact tracing to slow the virus's spread and treating those caught by it. As a result, disruptions to economic activity from COVID-19 are lessening over time. The big reopening wins were scored early as people returned to market activity, even partially. As the base of activity rises, increments add less and less to growth rates. In addition, there is less frontier to open up, ticking down the list of factories, shops, and restaurants to resume business.

The timing of the rebound is entirely shaped by the national experience with the coronavirus. China was the first mover down and now up. China's exports have remained buoyant, led by rising exports of medical equipment and high-tech products. Additionally, stimulus measures focused on infrastructure, fiscal health, and credit have helped. As a result of these drivers, real GDP growth should reach a yearly rate of around 5 percent in the second half of 2020. The US is riding a later wave, but tracking estimates indicate a 65 percent swing in real GDP growth at an annual rate from the second to the third quarter.

The improvement in spending is flagging, partly as the initial impetus of re-openings to growth wanes and party on the failure to extend fiscal stimulus in many economies. Political uncertainty—the US presidential election and Brexit negotiations—puts economic growth further at risk. In any case, rebound is not recovery, and activity will not regain its prior peak level until well after the general public is comfortable with the health situation.

The Federal Reserve (Fed) rebranded itself as more tolerant of inflation by rewriting its longer-run goals and strategies. The outcome-based policy guidance admits overshooting the 2 percent inflation goal to achieve an average of 2 percent over a longer, but unspecified, period. Central banks travel in a lumbering pack, so expect more to embrace the ambiguous possibility of overshooting. Inflation will move higher, buoyed by the tolerance of central banks of above-goal outcomes.

Developed Markets

United States

	2018	2019	2020	BoR	2021	BoR
Real GDP	2.9%	2.3%	-4.1%	—	3.4%	—
Inflation	2.3%	1.8%	1.1%	—	2.2%	—

Source: Firm analysis as of October 6, 2020. 2020 and 2021 are forecasts. BoR (Balance of Risks): Indicates bias relative to our forecasts as new information becomes available. "⮟" represents a negative view and "—" indicates a neutral view.

The US economy is apparently following the upward-sloped portion of its V-shaped business cycle, turning the corner in early May. In the time since, the insured unemployment rate has about one-half the rise from March to May. Easing of lockdown restrictions and some rebound in household confidence are encouraging people to return to the marketplace in some states and localities, importantly supported by policy impetus. The US is a big country, however, and the experience is disparate. With the continuing COVID-19 caseload building and re-imposition of mitigation efforts in some places, the improvement in spending and output has flagged of late. Moreover, the level of activity remains well below that of the turn of this year. Rebound is not recovery and the hole dug into the US economy by the pandemic is deep and climbing out will likely take about two years.

Supply-chain disruptions have pushed up the prices of some goods, importantly including food, but the weight of deficient demand has pulled overall inflation well below the Fed's 2 percent goal. The Fed's solution in August was to reset the playing field by affirming a new statement of longer-run goals and strategy that targets inflation, on average, and tolerates an overshoot of goal. The Fed explicitly is asymmetric in its goals, emphasizing shortfalls in employment and above-goal inflation outcomes. At is subsequent meeting, the Fed pledged to keep policy accommodative until these goals are achieved. As a result, we expect monetary accommodation to remain full throttle until inflation ultimately run above goal by a moderate amount for a sustained period. "Moderate" and "sustained" are terms of art, left ambiguous by Fed officials. This transition will be lengthy but sped along, should, as we expect, the exchange value of the US dollar continues to depreciate as the US loses some of its relative luster as the provider of safe-haven assets.

Other advanced economies are mostly following this basic track, with twists and turns related to the dynamics of the pandemic.

Western Europe

Euro Area

	2018	2019	2020	BoR	2021	BoR
Real GDP	1.8%	1.1%	-9.0%	⮟	6.5%	⮟
Inflation	1.8%	1.2%	0.4%	—	0.9%	—

Source: Firm analysis as of October 6, 2020. 2020 and 2021 are forecasts. BoR (Balance of Risks): Indicates bias relative to our forecasts as new information becomes available. "⮟" represents a negative view and "—" indicates a neutral view.

United Kingdom

	2018	2019	2020	BoR	2021	BoR
Real GDP	1.3%	1.2%	-10.0%	⮟	7.0%	⮟
Inflation	2.7%	1.9%	0.8%	—	1.3%	—

Source: Firm analysis as of October 6, 2020. 2020 and 2021 are forecasts. BoR (Balance of Risks): Indicates bias relative to our forecasts as new information becomes available. "⮟" represents a negative view and "—" indicates a neutral view.

As the COVID-19 lockdown receded, economic activity has resumed in Western Europe although it continues to be impacted by the 'new normal' of social distancing and other containment measures. As expected, there was a sharp bounce-back in economic indicators as lockdown measures were lifted although these are now beginning to plateau in selected areas. Income levels are unlikely to return to their pre-pandemic levels until a vaccine has been developed and widely distributed sometime next year.

Real GDP for the Euro area cratered 12 percent quarter-over-quarter (QoQ) in the second quarter, and showed the sharpest contraction since records began in 1995. As well as the depth of the contraction, the speed was unprecedented—with GDP contracting four times more than in the first quarter of 2009. Indicators showed contractions across all sectors and components, across both domestic and external sources (even in government consumption in places but that was likely a measurement issue). Economic performance by country was closely correlated with the extent of COVID-19 cases, with Germany outperforming the other large Euro area economies. At the other end of the spectrum is Spain, which has been particularly affected by a severe caseload and the destruction of key service sectors such as tourism. Whilst we expect a sharp bounce-back in third quarter GDP—particularly for export-based economies like Germany—it will not prevent long-term scarring such as increased unemployment as schemes supporting the labor market taper off. Inflation also looks set to remain low (despite recent spikes caused by measurement issues) given weak service-sector pricing power and euro appreciation.

The European Central Bank (ECB) has been providing monetary stimulus since the onset of the pandemic—focusing on its Pandemic Emergency Purchase Program (PEPP), which is designed to last until June 2021, alongside cheap liquidity operations. In addition, the ECB maintains dovish guidance regarding future action but this is unlikely to be detailed until 2021. On the fiscal side, Euro area leaders surprised positively with their larger than expected Recovery Fund totalling €750 billion. Crucially, the Recovery Fund consists of both grants (€390 billion) and loans (€360 billion) that will go to countries based on need (for the first time). The Recovery Fund marks a major step in Euro area integration, and could be expanded if required in future. Looking ahead, we will be focusing on the evolution of 2021 budgets although we do not expect the European Commission to push for fiscal consolidation.

The UK is following a similar recovery path to the Euro area, although its policy response has been somewhat different. Whilst the fiscal stimulus has been larger, monetary policy accommodation may end more quickly as Brexit is a complicating factor. Indeed, the UK's efforts to rewrite its trade relationship with the European Union (EU) is likely to impede economic recovery for some time. The situation is fluid, but our current base case is that a limited trade deal will be agreed with the EU (at a 70 percent probability). Brexit would likely continue to see continued pressures on the structure of the UK, particularly the calls for a united Ireland and Scottish independence.

Japan

	2018	2019	2020	BoR	2021	BoR
Real GDP	0.3%	0.8%	-5.3%	⮟	2.0%	⮟
Inflation	1.2%	0.8%	-0.2%	⮟	0.0%	⮟

Source: Firm analysis as of October 6, 2020. 2020 and 2021 are forecasts. BoR (Balance of Risks): Indicates bias relative to our forecasts as new information becomes available. "⮟" represents a negative view and "—" indicates a neutral view.

The headline story in August was the resignation of Prime Minister Abe for health reasons, which introduced a new element of political uncertainty to Japan. The dust has settled, and Yoshihide Suga, Abe's former chief cabinet secretary, was selected to serve out the remainder of Abe's term as Prime Minister. Suga has demonstrated a strong commitment to continuing Abenomics, including the close relationship with the Bank of Japan (BoJ) and its super easy monetary policy regime. Suga's administration has emphasized its goal of further deregulation, setting its sights first on lowering mobile phone fees. It looks increasingly likely that snap elections will be called in the first half of 2021 in order to cement Suga's administration beyond the remainder of Abe's term, which expires in October 2021.

On the macro front, high frequency indicators bottomed in May and have recovered sharply over the course of the summer. However, momentum is moderating after the initial bounce-back. A resurgence in COVID-19 infections continues to weigh on confidence and consumption.

Core inflation will most likely be negative in 2021, which will create some headaches at the BoJ—but for now, this will not be enough to prompt serious discussion of a rate cut at the BoJ, especially if the yen remains stable. Our base case is for the BoJ to maintain a holding pattern on the policy rate, yield curve control, and quantitative easing for the foreseeable future. They want to maintain whatever ammo they have left and deeper negative rates are viewed as harmful for banks. The yen has been relatively well behaved for them as well, especially during the leadership transition last month, which takes off a degree of pressure.

Australia & New Zealand

Australia

	2018	2019	2020	BoR	2021	BoR
Real GDP	2.8%	1.6%	-5.0%	⮟	1.8%	⮟
Inflation	2.0%	1.5%	0.4%	—	1.1%	—

Source: Firm analysis as of October 6, 2020. 2020 and 2021 are forecasts. BoR (Balance of Risks): Indicates bias relative to our forecasts as new information becomes available. "⮟" represents a negative view and "—" indicates a neutral view.

The Australian economy contracted by a record 7 percent in the second quarter, led by sharply lower consumption due to containment measures. However, household disposable incomes still rose, reflecting the boost to social assistance benefits. Large social assistance programs, JobKeeper and expanded unemployment support, have been a solid buffer for household balance sheets during this period of economic stress. We expect a 5 percent contraction in real GDP for 2020, and a partial recovery of 1.8 percent next year. Population growth and domestic demand will likely remain below normal for some time. Social assistance programs have been a key support for the economy, but under current policy, settings are tapering off beginning in the fourth quarter. One bright spot in the economy is the higher terms of trade as iron ore prices have climbed. Net exports have been a positive contributor to growth this year, as imports have fallen by more than exports.

The housing market remains a key domestic risk in our outlook. A weaker demographic profile, higher unemployment, and growing levels of household debt should apply downward pressure to home prices. This will weigh on growth and inflation in our view. Home prices have held in so far in 2020, with national home prices off only 2.7 percent from the latest peak in April. The decisive moment in housing will be later this year when fiscal policy tapers off and the mortgage-deferral period rolls off.

The Reserve Bank of Australia (RBA) launched a substantial monetary support package in mid-March. This saw the policy rate cut to the effective lower bound of 0.25 percent, and a yield target of 0.25 percent established for 3-year Australian government securities. The RBA has stopped short of a more traditional quantitative easing program, and considers negative rates to be an extraordinarily unlikely option at this point on time. Fiscal policy is set to do the heavy lifting for the Australian economy, as demonstrated in the October budget, but the RBA still has ammunition to provide further support. A shallow recovery and a disinflationary environment should prompt further RBA easing. In our view, this further easing will come before year-end in the form of a 15 basis point cut to the policy rate, a 3-year yield target, and a term funding facility. There is a possibility of further monetary stimulus, such as a "proper QE" program, as termed by Assistant Governor Debelle, but that is unlikely to be set out by the RBA in the near-term.

In New Zealand, the Reserve Bank of New Zealand (RBNZ) has been extremely active in the secondary market purchasing securities and flattening the curve. The RBNZ increased the size of its Large Scale Asset Purchase Program (LSAP) to NZD 100 billion in August, up from NZD 60 billion, and is front-loading the program to demonstrate a desire to drive yields lower. The prospect of negative rates has been more openly discussed in New Zealand, but are not likely to be implemented until 2021, in our view.

Emerging Markets

China

	2018	2019	2020	BoR	2021	BoR
Real GDP	6.6%	6.1%	2.0%	▲	8.0%	—
Inflation	2.5%	2.9%	2.3%	—	1.9%	—

Source: Firm analysis as of October 6, 2020. 2020 and 2021 are forecasts. BoR (Balance of Risks): Indicates bias relative to our forecasts as new information becomes available. "⌄" represents a negative view and "—" indicates a neutral view.

Activity rebounded late in the third quarter after a modest slowdown in July-August due to extensive flooding in the Yangtze river basin and a few pockets of second-wave COVID-19 cases. China's exports have remained buoyant, led by rising exports of medical equipment and high-tech products. What's more, stimulus measures focused on infrastructure, fiscal health, and credit have been beneficial. Because of these drivers, real GDP growth should reach a yearly rate of approximately 5 percent in the second half of 2020. Meanwhile, strong and effective health policy should limit the risk of any widespread, countrywide resurgence of COVID-19. These trends should ensure the recovery becomes more broad-based with a gradually firming trend in corporate profits, labor markets and household consumption—which have mostly lagged the export- and production-led recovery.

China's favorable growth and interest rate differential, its improving current account position, and increasing financial integration—implemented through bond and equity index inclusion channels—should provide it with ample macro and policy buffers against further external shocks including worsening geo-political relations with the US and other trade partners. In this context, the overall stance of monetary policy will remain largely neutral. Further liquidity infusions can be expected through Medium-Term Lending Facilities (MLF), open-market operations and, possibly, a cut in the banks' required reserve ratio (RRR). Nevertheless, the overall policy framework will prioritize stabilization and financial risk control while ensuring the affordability of government debt issuance, and at the same time also limiting the risk of any premature over-tightening.

In 2021, we expect yearly growth to increase to 8 percent, and possibly more, mainly on base effects. Inflation should be contained to around 2 percent due to declining pork prices and a gradual recovery in labor hiring and incomes. The current account and the overall balance of payments should remain in a comfortable surplus. In this context, we continue to expect the CNY to continue appreciating against the USD through the first few months of next year.

The 14th Five Year Plan (145-YP, covering the 2021-25 period) will most likely be rolled out in late October. China's leadership has already signaled a strategy of 'dual circulation,' which is expected to be fleshed out, and which contains elements of a hedging strategy to continue integrating with the rest of the world on its terms, as far as possible, or to go it alone if needed. Under the rubric of this strategy, we expect the Chinese authorities to re-introduce a (soft) growth target or a target-range of around 5 percent per year, re-invigorate efforts to internationalize the yuan, play a more decisive role in setting global standards in high tech areas and other multi-lateral fora, and strengthen economic and strategic relationships with key countries in the existing 'Belt and Road Initiative' framework.

South Korea

	2018	2019	2020	BoR	2021	BoR
Real GDP	2.7%	1.9%	-2.0%	—	4.0%	⮝
Inflation	1.7%	0.5%	0.5%	⮟	1.2%	—

Source: Firm analysis as of October 6, 2020. 2020 and 2021 are forecasts. BoR (Balance of Risks): Indicates bias relative to our forecasts as new information becomes available. "⮟" represents a negative view and "—" indicates a neutral view.

Korea has struggled lately with a resurgence of COVID-19 infections, though mobility and overall activity has not slowed to the extent that it did in March-April of 2020. Adequate tracing and treatment capabilities should contain the resurgence and limit the need for widespread lockdowns. A pickup in exports has helped but the growth rate of Korean semi-conductor sales are still lagging those of Taiwan. Domestic business confidence and household sentiment remain weak. Manufacturing PMIs remain below 50, though they are better than earlier this year. These trends portend a growth contraction of around 2 percent on a yearly basis in 2020. The government has unveiled several fiscal stimulus packages that should deliver an impulse of around 5 percent of GDP. However, the private sector remains weak; labor markets—barring government hiring—continue to weaken. Inflation expectations are stabilizing, but at well below the targeted 2 percent annual rate, and the Bank of Korea (BOK) has become constrained by the zero bound in cutting nominal policy rates even further. That said, we do expect the BOK to intensify its purchases of government bonds on any further external or epidemiological shocks, or if the Korean yield curve steepens. But, without any pre-set targets or forward guidance (as of yet), the BOK has also broadened its collateral window and is enhancing its re-lending facilities. As external demand conditions normalize, we expect a bounce-back in GDP growth in 2021, to 4 percent annually alongside a small pick-up in inflation.

India

	2018	2019	2020	BoR	2021	BoR
Real GDP	7.4%	5.1%	-8.0%	—	7.0%	—
Inflation	4.2%	3.3%	5.0%	▼	4.0%	▲

Source: Firm analysis as of October 6, 2020. 2020 and 2021 are forecasts. BoR (Balance of Risks): Indicates bias relative to our forecasts as new information becomes available. "▼" represents a negative view and "—" indicates a neutral view.

India's near-total lockdown from March-May brought economic activity to a grinding halt as reflected in the 24 percent annual collapse in quarterly GDP—the worst growth result of any major economy. However, it failed to halt the spread of the disease as the ill-considered lockdown resulted in a chaotic migration of informal labor back to the rural hinterland. The subsequent re-opening of the economy amid inadequate tracing and testing capabilities has raised the number of infections to the second highest in the world. On its current course, India is set to register the largest number of infections in only few months' time. The rapid spread of the disease, however, appears to be less fatal than most other countries. Nonetheless, business and consumer confidence has been dented, the recovery of mobility and activity has been weak, and a sharp rebound is unlikely until a vaccine is widely administered. As a result, India's GDP growth this year is likely to fall nearly 8 percent year over year, considerably weaker than previously projected. Further, inflation has also surprised on this upside—mainly on account of higher food and retail-fuel prices and disruptions in distribution and logistics. Some of these price pressures should prove transitory. But the rebound in growth should remain slow due to the persistent spread of the infection alongside a broken banking system and constrained fiscal space. The ongoing re-opening of the economy to larger amounts of foreign direct investment, amidst ongoing supply chain rotation, is boosting the external position and the build-up in currency reserves by the central bank is helping maintain the rupee's competitiveness. Nevertheless, these will not substitute for incomplete and ineffective domestic supply-side reforms, which have now begun constraining India's growth potential. Ongoing trends are raising the odds that two out of the three major ratings agencies downgrading the sovereign credit rating to below investment-grade by the second half of next year.

Latin America

Most Latin American economies bottomed out between May and June after epic contractions in the previous two months. High-frequency data, along with leading indicators, show activity rebounded in the third quarter thanks to a gradual reopening and higher mobility in the region, and a bounce in external demand. However, the pace of recovery differs from country to country, and it depends, among other factors, on the level of integration they have to the global economy. On the domestic front, we think one factor that has contributed to differentiate the pace of recovery, is the degree of government support to protect workers' income, especially those in the informal sector, and small-and –medium size enterprises (SMEs). The flip side of this approach has been the deterioration of fiscal accounts that will likely be reflected in wide deficits at the end of the COVID-19 pandemic. In that regard, the following months will be key to assess the willingness of the governments and the political feasibility to consolidate public finances. The first test will come with the 2021 budget proposals. The focus will be on Brazil and the commitment of policymakers to comply with the fiscal rules, and in Colombia, Mexico and Uruguay, which may become "fallen angels" if fiscal and growth challenges are not managed properly.

In August, Argentina and Ecuador successfully completed their respective debt-restructuring processes. Both countries reached an agreement with more than 98 percent of bondholders and, at the same time, got a substantial debt relief for the next five years. Yet, debt restructuring was only a necessary, but not a sufficient condition, to stabilize the chronic macro imbalances. Argentina needs to move out of its macro policy inconsistencies and to negotiate a new deal with the International Monetary Fund (IMF). Ecuador needs to implement structural reforms that could make dollarization sustainable over time, but general elections next year may jeopardize these efforts.

The COVID-19 pandemic hit Central America and the Caribbean hard due to dependence on tourism receipts and remittances from abroad along with a sizable informal economy, and amid large macro imbalances and weak fundamentals before the outbreak. Multilateral support has been key to deal with the challenges imposed this year, but in some cases, like in El Salvador, this has not been enough to close the financing gaps and they have tapped the markets at a high cost. Costa Rica has formally started negotiations with the IMF for an Extended Fund Facility for USD 1.75 billion and implement structural reforms. We cannot rule out that other countries like the Dominican Republic request IMF's financial and technical support

Brazil

	2018	2019	2020	BoR	2021	BoR
Real GDP	1.3%	1.0%	-5.4%	—	3.5%	—
Inflation	3.7%	3.7%	2.8%	—	3.0%	—

Source: Firm analysis as of October 6, 2020. 2020 and 2021 are forecasts. BoR (Balance of Risks): Indicates bias relative to our forecasts as new information becomes available. "⮟" represents a negative view and "—" indicates a neutral view.

The Brazilian economy fell 9.7 percent in the second quarter (QoQ) after contracting 2.5 percent in the previous quarter. Several sectors were not allowed to operate in April and part of May, and a gradual reopening started in June. Since then, some activities have almost fully reopened and some others still face tight restrictions. Industrial activities led the contraction in the second quarter with 12.3 percent decline, followed by services, with a 9.7 percent drop, while agriculture edged up 0.4 percent. However, the partial reopening of the economy along with the rebound in external demand have benefited industrial activities, which have led the rebound of the Brazilian economy and at the end of August they were only 2.7 percent below pre-Pandemic levels. Services are lagging the rebound as some restrictions remain in sectors like hospitality, recreation, and transportation. We expect GDP to rebound 6.4 percent in the third quarter and a more moderate expansion in the fourth quarter. We recently increased our GDP projection to -5.4 percent (year-over-year) in 2020 due to a stronger rebound in the third quarter and a partial extension of the COVID-19 emergency aid for the rest of the year.

The deployment of a large fiscal stimulus in 2020 will lead a primary deficit in the order of 12-13 percent of GDP. In its 2021 Budget Law Project, the government projects a primary deficit of BRL 233.6 billion, equivalent to 2.9 percent of our projection of next year's GDP. Then, after fiscal consolidation efforts, the primary deficit equals 2.1 percent and 1.6 percent in 2022 and 2023, respectively (also based on our GDP projections). A caveat of our projections is that they do not consider the so-called Renda Cidada (Citizen Income) program, President Jair Bolsonaro's signature social program. The government is still looking for funding sources, which has created several controversies as it may add more pressure to the fiscal rules. The good news is that Bolsonaro's administration has resumed its reform agenda and sent to Congress a revenue-neutral tax reform to simplify the system and a public sector reform aimed to cut current expenditures permanently. The downside is that these two reforms have been diluted and may have limited impact on fiscal accounts.

The external accounts in Brazil have improved during the pandemic following their deterioration between 2017 and 2019. Brazil's current account deficit improved to 1.6 percent of GDP in the last twelve months through August from 2.8 percent at the end of 2019. This improvement has been driven by net exports and a lower deficit of the primary income. The financial account has seen large portfolio outflows this year. We expect the current account deficit to end the year at 1.5 percent of GDP due to continued weak domestic demand, a rebound in commodity prices (iron ore), and global trade improvement. We expect capital outflows to moderate for the rest of 2020.

Inflation pressures have increased recently due to rising food prices, however we expect inflation to remain below the 4 percent target this year due to the large negative output gap. Also, the unemployment rate will likely remain high and spare capacity will continue to contain cost pressures. We edged up our average inflation projection for 2020 to 2.8 percent due to the recent spike in food prices. We expect headline inflation to be 3 percent in 2021. On policy implications, we think the Central Bank of Brazil has ended its easing cycle at 2 percent. It has implemented a forward guidance signaling they are likely to keep the Selic policy rate at 2 percent for an extended period of time as long as the government does not jeopardize the current fiscal rules.

Mexico

	2018	2019	2020	BoR	2021	BoR
Real GDP	2.0%	-0.1%	-9.0%	⮟	2.5%	⮟
Inflation	4.9%	3.6%	3.4%	⮟	3.6%	⮟

Source: Firm analysis as of October 6, 2020. 2020 and 2021 are forecasts. BoR (Balance of Risks): Indicates bias relative to our forecasts as new information becomes available. "⮟" represents a negative view and "—" indicates a neutral view.

The Mexican economy plunged 17.1 percent (QoQ) in the second quarter after a 1.2 percent contraction in the previous quarter. Economic activity has contracted sequentially since. This means the economy was in a downward trend quite before the pandemic shock. The contraction was driven by industrial production and services. On a year-over-year basis, GDP fell 18.9 percent.

We expect GDP growth to fall 9.0 percent in 2020 due to the pandemic, a small fiscal stimulus, and rapid job destruction. Reopening of those sectors mostly linked to the United States-Mexico-Canada Agreement may provide a spur to activity, helped by the rebound of the US economy. Construction is also improving due to government signature infrastructure projects. Household consumption, especially in the lowest deciles of income, has been supported by an unexpected surge in wage remittances. We expect a slow recovery of the Mexican economy in 2021 as private investment will remain depressed and household consumption will likely recover at a slow pace due to the large job destruction. The government's austerity policy will extend to 2021 according to the budget project for that year.

The external sector is providing support to economic growth due to the recovery in global demand and weak domestic demand. We expect a current account surplus of 1.6 percent of GDP in 2020, up from the 0.2 percent deficit in 2019. Foreign participation in the government debt market has been reduced to 22 percent in September 2020 from 38 percent at its peak in 2015. In the case of fixed-rate nominal bonds, the reduction has been to 49 percent from its 66 percent peak in 2017.

Income tax revenues have surprised to the upside due to government efforts to improve tax collection. Government expenditure has been contained in the first eight months of the year. The government now projects a primary surplus in 2020, but we expect the debt-to-GDP ratio to jump to 56 percent in 2020 from 45 percent in 2019. The government projects a zero primary deficit in 2021, which appears ambitious amid the mid-term elections in June.

Inflation in the second quarter has been characterized by supply shocks that have pushed inflation above the 3 percent target despite a large negative output. This can be observed in the opposite trend in goods and services inflation. While goods inflation has been moving up at a 5 percent clip, services inflation has been near an annual rate of 2 percent. We expect average inflation in 2020 to drop to 3.4 percent due to economic contraction. The Central Bank of Mexico has cut its policy rate 3 percentage points, to 4.25 percent, from the end of last year. We expect one more quarter-point cut at the next meeting and then Banxico will likely stop due to increasing uncertainty about the inflation outlook.

Russia, Turkey, South Africa, CEEMEA

Russia

	2018	2019	2020	BoR	2021	BoR
Real GDP	1.7%	1.2%	-5.0%	⮟	3.0%	⮟
Inflation	3.5%	4.2%	3.0%	—	3.0%	—

Source: Firm analysis as of October 6, 2020. 2020 and 2021 are forecasts. BoR (Balance of Risks): Indicates bias relative to our forecasts as new information becomes available. "⮟" represents a negative view and "—" indicates a neutral view.

Turkey

	2018	2019	2020	BoR	2021	BoR
Real GDP	3.0%	0.5%	-5.0%	⮟	3.0%	⮟
Inflation	17.0%	15.0%	12.0%	—	11.0%	—

Source: Firm analysis as of October 6, 2020. 2020 and 2021 are forecasts. BoR (Balance of Risks): Indicates bias relative to our forecasts as new information becomes available. "⮟" represents a negative view and "—" indicates a neutral view.

South Africa

	2018	2019	2020	BoR	2021	BoR
Real GDP	1.0%	0.4%	-7.0%	⮟	3.0%	⮟
Inflation	4.7%	4.1%	3.0%	—	3.5%	—

Source: Firm analysis as of October 6, 2020. 2020 and 2021 are forecasts. BoR (Balance of Risks): Indicates bias relative to our forecasts as new information becomes available. "⮟" represents a negative view and "—" indicates a neutral view.

Poland

	2018	2019	2020	BoR	2021	BoR
Real GDP	4.5%	4.2%	-4.5%	⮟	4.5%	⮟
Inflation	1.8%	2.2%	2.5%	—	2.2%	—

Source: Firm analysis as of October 6, 2020. 2020 and 2021 are forecasts. BoR (Balance of Risks): Indicates bias relative to our forecasts as new information becomes available. "⮟" represents a negative view and "—" indicates a neutral view.

Many jurisdictions in Emerging EMEA engaged in strict lockdowns early in the pandemic, and the data would suggest have been rewarded with relative success in combating the health emergency. However the economic impact of such lockdowns have been severe—particularly for South Africa. Russia and Turkey economic outlooks have relatively stable (compared to April 2020), whilst South Africa and CEE have been downgraded.

In CEE, Czech growth has held up better than expected, despite being a very open economy due to sizeable fiscal stimulus. Hungary's open economy has fared worse given less fiscal space. Poland has done a lot more fiscal stimulus than was expected, supporting domestic demand. Romania is suffering from past populist excesses—with political uncertainty likely to remain until elections in the first quarter of 2021 (which should produce fiscal consolidation).

Elsewhere, Russia has been relatively resilient, and more recently has benefited from the increase in oil prices. Turkey has also been relatively resilient so far, but the much-needed increase in rates by the central bank will severely dampen the recovery in 2021 (as will a slow return to full tourism). South Africa continues to have both growth and fiscal woes.

The Global Macro Forum

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Managing Director, Chief Economist & Macro Strategist

Vincent is Mellon's Chief Economist and Macro Strategist. In this role, he is responsible for developing views on the global economy and making relative value recommendations across global bond markets, currencies and sectors.

Previously, Vincent served as the Chief US Economist and a managing director at Morgan Stanley. For the prior four years, he was a resident scholar at the American Enterprise Institute (AEI). Vincent also worked in several roles at the Federal Reserve over 24 years, including Director of the Division of Monetary Affairs and Secretary and Economist of the Federal Open Market Committee (FOMC). His responsibilities at the Federal Reserve included directing research and analysis of monetary policy strategies and the conduct of policy through open market operations, discount window lending and reserve requirements. Prior to these roles, he was the principal liaison with the domestic desk at the Federal Reserve Bank of New York and was responsible for preparing a document outlining policy alternatives for each FOMC meeting. He was Deputy Director in the Division of International Finance and Associate Economist of the FOMC and spent five years at the Federal Reserve Bank of New York in both the domestic and international research departments.

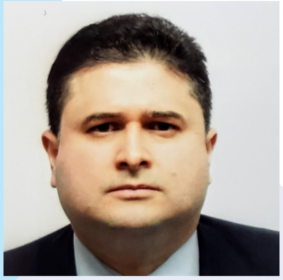
His academic publications primarily concern the conduct of policy and issues related to the monetary transmission mechanism as well as an analysis of alternative auction techniques and Treasury debt management. After an undergraduate training at Fordham University, he received graduate degrees in economics at Columbia University.

Rowena Geraghty
Sovereign Analyst

Rowena is a sovereign analyst at Mellon Investments (UK) Limited, an affiliated entity, and an associated person of the firm.

Rowena contributes to the bond and currency strategy for the Global and Emerging Market portfolios through her fundamental credit and market analysis. She is responsible for research and analysis of economies across EMEA. Rowena joined the firm in 2013. Previously, she worked at Fitch ratings agency and the financial regulator, the Financial Services Authority (a predecessor organization to the UK's current regulator, the Financial Conduct Authority).

Rowena has a BSc and MSc in Economics from the University of London. Rowena has been in the investment industry since 2010.

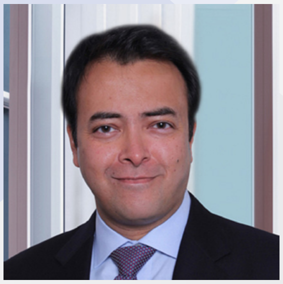


Alejandro Martinez Cruz
Emerging Market Economist

Alejandro is an emerging market economist with a particular focus on Latin American countries. He provides macro views, insights and trade recommendations based on his analysis of economic, statistical and socioeconomic data, which inform the investment decisions of the Emerging Market Debt team.

Prior to joining the firm, Alejandro held several senior roles at HSBC, including a Mexico rates and foreign exchange analyst, senior LatAm strategist and the Head of Latin American Fixed Income Research. In the latter role he led fixed income research efforts for Argentina, Brazil, Chile, Colombia, Mexico, Peru, Ecuador, Dominican Republic and Costa Rica. Previously, he was an economist for Citigroup, and a currency and local rates market analyst at the Bank of Mexico. Alejandro has been in the investment industry since 1998.

Alejandro earned a degree in economics from Instituto Tecnológico y de Estudios Superiores de Monterrey and a masters in economics from the University of Rochester.



Aninda Sankar Mitra
Vice President, Senior Sovereign Analyst

Aninda is senior sovereign analyst of BNY Mellon Investment Management Singapore Pte. Ltd and provides non-discretionary research or discretionary investment management services to the firm as a subadvisor. He is responsible for Asia ex-Japan sovereign debt research. Aninda joined in March 2014 from Fitch Ratings Credit Wire Service where he served as senior director Asia Pacific. Aninda was previously Head of Southeast Asia Economics at ANZ Bank and Senior Sovereign Analyst at Moody's in Singapore and New York.

Aninda holds a MA Economics from University of North Carolina and a BS Economics (Magna Cum Laude) from Bridgewater College. Aninda has over 22 years of experience as a sovereign analyst and economist focused on Asia.

Nicholas Tocchio
Sovereign Analyst

Nick is a sovereign analyst contributing to interest rate and currency strategy for global portfolios. He is responsible for fundamental credit and market analysis for Australia, Canada and New Zealand. Nick joined the firm in 2013 and holds a BA in Economics from Hamilton College. He has been in the investment industry since 2013.

Disclosure

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