

Global Economic Outlook – September 2020

Recovery Underway

Highlights

- Global GDP fell 10% in 1H20; very severe two-month recession
- Recovery after April faster than expected, despite coronavirus spread
- Fitch forecasts world GDP to fall by 4.4% in 2020 versus 4.6% in June GEO
- Fitch raises China and US 2020 GDP forecasts
- Forecasts for eurozone, UK and emerging markets lowered
- Double-digit falls in 2020 GDP in Spain, the UK, France, Italy, Mexico and India
- Leisure and transport sector weakness stands out
- Job losses lie ahead in eurozone and UK
- Slower path back towards normalisation from 4Q20

Global Forecast Summary

(%)	Annual Average 2015-2019	2019	2020F	2021F	2022F
GDP Growth					
US	2.5	2.2	-4.6	4.0	3.0
Eurozone	2.0	1.3	-9.0	5.5	3.2
China	6.7	6.1	2.7	7.7	5.5
Japan	1.0	0.7	-5.3	3.3	1.2
UK	1.8	1.5	-11.5	4.0	3.3
Developed ^a	2.0	1.6	-6.3	4.3	2.8
Emerging ^b	4.7	4.4	-1.3	6.6	4.7
World ^c	3.0	2.6	-4.4	5.2	3.6
Inflation (end of period)					
US	1.5	2.3	0.6	0.7	1.2
Eurozone	0.8	1.3	-0.6	0.8	1.3
China	1.8	4.5	2.0	1.6	2.0
Japan	1.0	0.8	-0.1	0.5	0.8
UK	1.5	1.3	0.4	1.9	1.6
Interest Rates (end of period)					
US	0.83	1.75	0.25	0.25	0.25
Eurozone	0.04	0.00	0.00	0.00	0.00
China ^d	3.49	3.25	2.95	2.95	2.95
Japan	-0.06	-0.10	-0.10	-0.10	-0.10
UK	0.46	0.75	0.10	0.10	0.10
US 10 Year Yield	2.24	1.92	0.75	1.20	1.50
Exchange Rates and Oil					
Oil (USD/barrel)	57.7	64.1	41.0	45.0	50.0
USDJPY (end-period)	111.7	109.1	107.0	109.0	109.0
USDEUR (end-period)	0.86	0.89	0.87	0.87	0.87
GBPUSD (end-period)	1.43	1.31	1.15	1.15	1.15
USDCNY (end-period)	6.48	6.99	7.00	7.20	7.40

^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 USD at market exchange rates (3 year average)

^d One year Medium Term Lending Facility

Source: Fitch Ratings



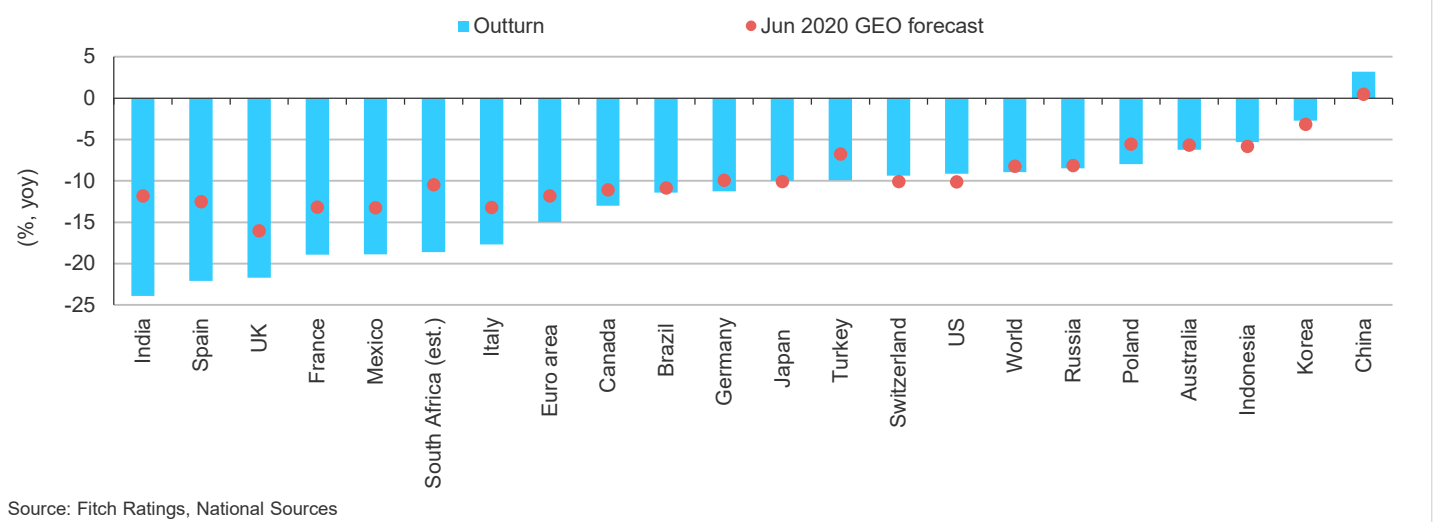
Recovery to Slow After Recent Gains

The initial phase of economic recovery from coronavirus-related lockdowns has been faster than expected and Fitch Ratings now forecasts the annual decline in world GDP in 2020 at -4.4% compared with -4.6% in June. Fitch has revised up its 2020 GDP forecasts for China and the US, partly offset by deeper expected declines in the eurozone, the UK and India. But with the coronavirus yet to be contained, the pace of the global recovery will slow from 4Q20. Under our base-case assumption that major advanced economies will avoid renewed nationwide lockdowns, we expect that it will take a long time before economic activity fully returns to pre-virus (4Q19) levels: not until 4Q21 in the US, and not until around 4Q22 in the eurozone, where the initial downturn was deeper. In a downside scenario in which renewed nationwide lockdowns become necessary over the winter, GDP may fall again although the shock is likely be less severe than in 2Q20.

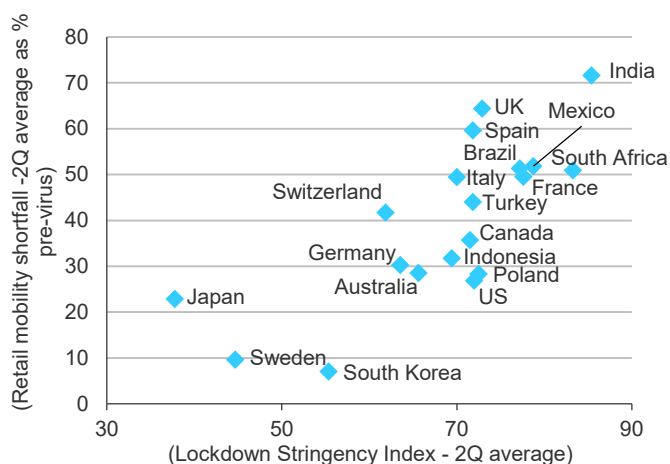
Economic Damage Assessment

Official data have now revealed the extent of the damage to 1H20 global economic activity from the coronavirus outbreak and the related lockdown responses. Global GDP based on our 'Fitch 20' aggregate fell by 10% between 4Q19 and 2Q20. The enormous scale and speed of this decline is even more remarkable given that China's economy completely recovered its earlier coronavirus-related losses in 2Q20, growing by 3.2% yoy, faster than the 0.4% anticipated in our previous GEO. US GDP contracted by 9.1% qoq (not annualised) in 2Q20, slightly less than the 9.9% decline anticipated in the June GEO, but the eurozone shrank by 12.1%, compared with our expectation for an 8.9% contraction.

GDP Growth Outturn 2Q20



Lockdown Stringency and Mobility



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

The deepest recessions were in India (-23.9% yoy in 2Q20), the UK (-21.7% yoy), and Spain (-22.1% yoy), countries that saw particularly large shocks in daily mobility data on visits to retail and recreation venues, and where lockdowns were stringent and long-lasting throughout 2Q20. GDP destruction was felt far and wide: with the exception of China, every country in the Fitch 20 experienced large declines, albeit somewhat milder in Korea than elsewhere.

Mid-Year Bounce

The abrupt interruptions to activity in March and April, were, however, followed by quite sharp recoveries as restrictions were eased. This is evident in official monthly measures of GDP for Canada and the UK and third-party monthly GDP estimates for the US. These all show activity rising quite quickly in May and June after precipitous declines through March and April. US GDP was -14.5% below its January level at the April trough, but by June this shortfall had been reduced to -5.5%. In Canada, the April shortfall of 18.0% had been reduced to 8.5% by June, while for the UK, a 25.6% shortfall had been cut to 17.4%. Monthly GDP estimates are not available for the eurozone but a wide set of other indicators confirm a similar pattern of a very deep two-month recession followed by sharp increases in activity in May and June.

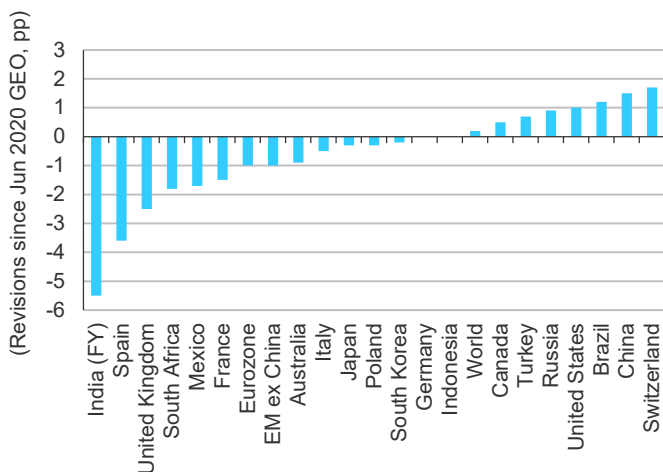
Moreover monthly 'hard' activity data – including industrial production, construction output, retail sales, consumer spending and US labour market data – and surveys strongly suggest that GDP continued to grow month on month through July and August. Given that June activity was already substantially higher than the 2Q20 average, this points to 3Q20 GDP rising sharply on a qoq basis and we have lifted our 3Q20 quarterly growth forecasts for most of the major economies.

Revised Forecasts

Fitch now expects world GDP to fall by 4.4% in 2020. This would still be more than twice as deep as the great recession in 2009 but it is less severe than the 4.6% decline we expected in June and represents the first upgrade to our 2020 global GDP forecast this year. We expect US GDP to contract by 4.6% in 2020, 1pp less than the 5.6% decline expected in the June GEO. The downturn in 2Q20 was slightly less severe than expected, recent consumption data have been particularly strong, and unemployment has fallen faster than anticipated. We have revised China's 2020 GDP growth forecast to 2.7% from 1.2% in June following the stronger-than-expected 2Q20 outturn and continuing recoveries in investment, housing and exports through July.

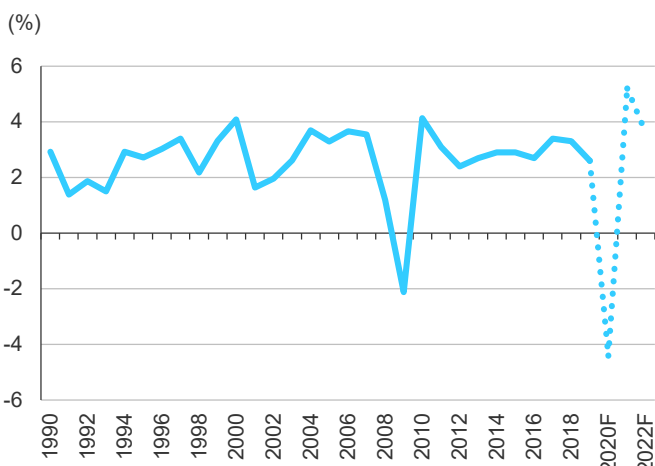
By contrast, we now expect eurozone GDP to fall by 9.0% in 2020, compared with 8.0% previously. The 2Q20 outturn was much weaker than expected but the impact on the annual GDP forecast has been partly offset by improved recovery prospects for 3Q20. We now forecast the annual decline in GDP at 13.2% (from -9.6% in June) in Spain, 10.5% in France (-9.0%) and 10.0% in Italy (-9.5%). We now predict that UK GDP will decline by 11.5% (-9.0%) in 2020 following a much larger-than-expected 20.4% qoq decline in 2Q20. We now expect smaller declines in GDP in

Revisions to 2020 GDP Forecasts



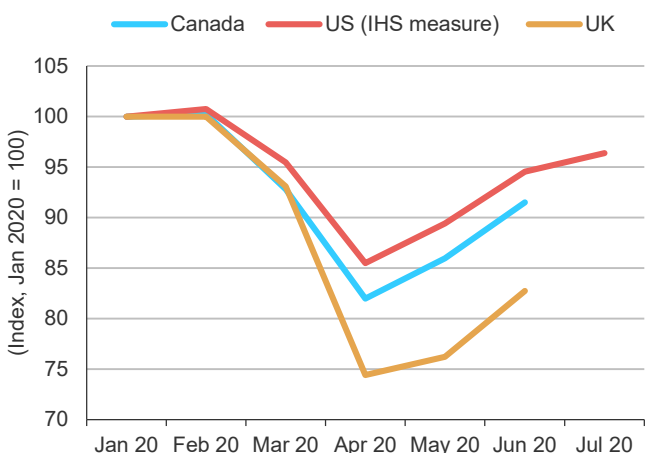
Source: Fitch Ratings' estimates

Global GDP Growth



Source: Fitch Ratings' estimates

Monthly GDP Indices



Source: Fitch Ratings, StatCan, MA, ONS, Haver Analytics

Canada at 6.6% (-7.1%) and Switzerland at 5.3% (-7.0%). We have cut the outlook for emerging markets (EM) excluding China to -5.7% (from -4.7% in June) with large downward revisions to India, Mexico and South Africa outweighing modest upgrades to Russia, Brazil and Turkey.

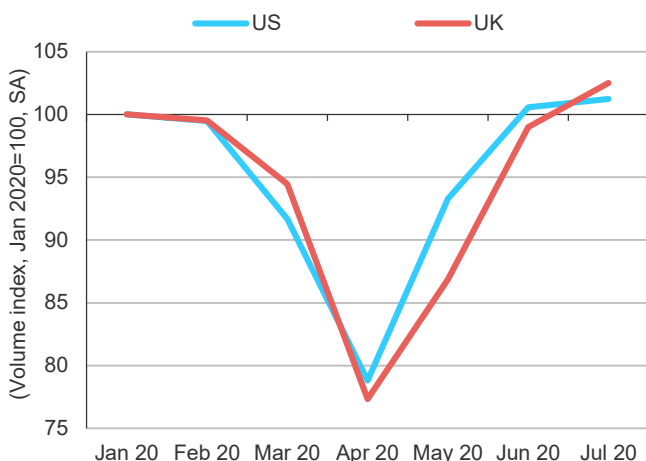
If recoveries in the US and Europe were to continue at the pace of the past couple of months, GDP would return its pre-virus level very soon, forming the much debated 'V'-shaped rebound and mirroring what has been seen in China. However, we think this is too optimistic and instead see the recovery slowing from 4Q20 as the initial boost from re-opening fades. With the coronavirus far from contained, social distancing behaviour and restrictions are likely to persist through 2021 and consumers are likely to remain cautious in light of the sharp rise in unemployment that has already happened in the US and is expected in Europe later this year. It is also like that businesses will slash investment. Our US and European forecasts continue to look decidedly 'swoosh'-shaped, with a slow haul back to pre-virus GDP levels taking 18 and 30 months, respectively, from the April trough in the US and eurozone.

That said, we have slightly revised up our forecast for 2021 world growth to 5.2% from 4.9% in June. This reflects stronger growth in the eurozone – at 5.5% compared with 4.5% – and in EM excluding China – at 5.2% versus 4.8%. However, this primarily reflects the lower starting level of GDP, which implies greater scope for catch-up as economies normalise and as negative output gaps close. Moreover, we believe that the 'new normal' will be characterised by lasting reductions in supply-side potential (**coronavirus gdp impact to persist in medium term 27 07 2020**) due to scarring effects from higher long-term unemployment and lower investment – in this sense, GDP will not revert to the levels implied by pre-virus trends even over the medium term.

Sustained Social Distancing

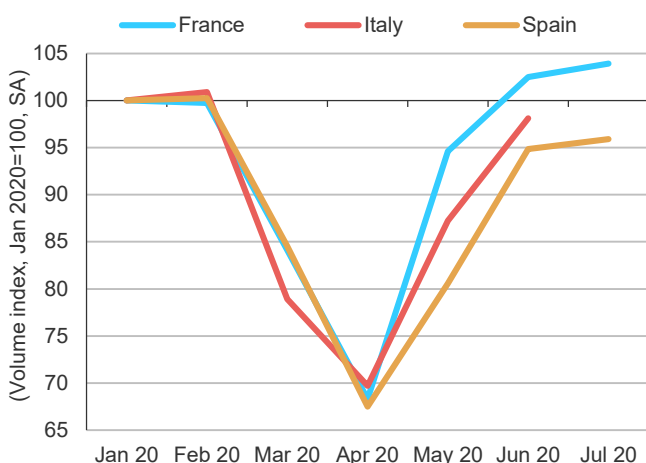
Economies have recovered strongly in the past few months despite the continued global spread of the virus, with new cases in the US picking up sharply from late-June, second waves emerging in France and Spain from late-July, and cases rising in Japan and Korea. However, daily mobility data have not shown renewed declines in retail and recreation visits over the past month or so in these countries, in contrast to the initial surge in new virus cases in March and April. This partly reflects more targeted health policy responses with greater reliance on testing and tracing around localised outbreaks and the imposition of renewed social-distancing restrictions that are much narrower in scope, both geographically and by type of activity. It is too early to say if this more targeted approach along with other interventions (such as mandatory face coverings) will be successful in containing the virus at a lower economic cost. For now, our base-case assumption continues to be that renewed, stringent nationwide lockdowns – such as those that were imposed in March and April – will be avoided.

Retail Sales in US and UK



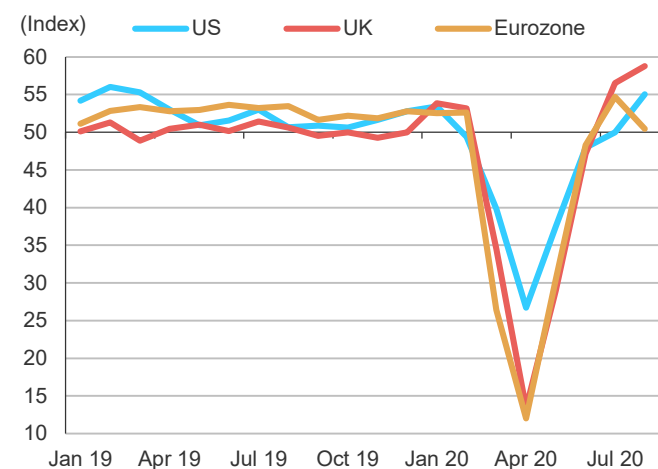
Source: Fitch Ratings, Census Bureau, BLS, ONS, Haver Analytics

Retail Sales in France, Italy and Spain



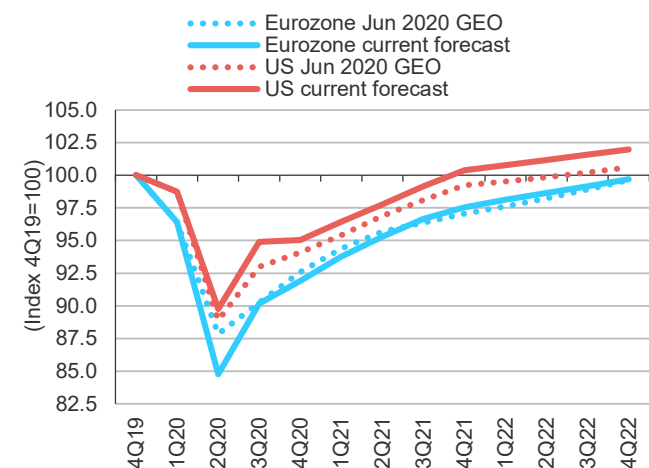
Source: Fitch Ratings, INSEE, ISTAT, INE, Haver Analytics

Services PMIs in US, UK and Eurozone



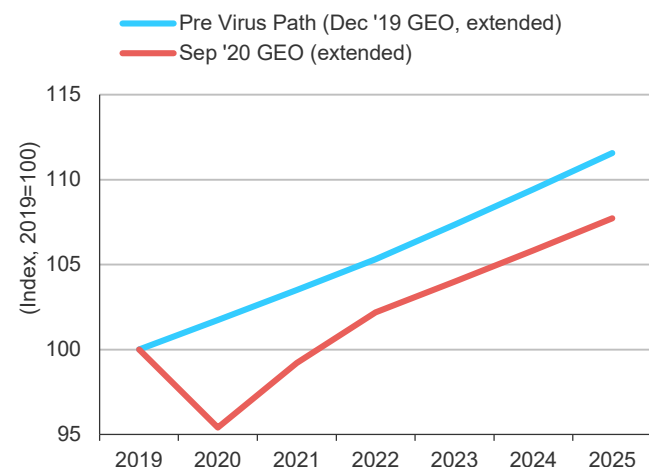
Source: Fitch Ratings, IHS Markit, Haver Analytics

US and Eurozone - GDP level forecasts



Source: Fitch Ratings' estimates

US Medium Term GDP Outlook



Source: Fitch Ratings' estimates

Nevertheless, the pandemic is likely to entrench voluntary social distancing behaviour and ongoing restrictions that will take a lasting toll on GDP. One way to illustrate the broader economic impact of this is to look at the sectoral breakdown of the recent GDP shock. UK and Canadian production-based GDP shows that the transport and leisure sector (comprising transport and storage, accommodation and food services plus arts, entertainment and recreation) was one of the hardest-hit in March and April and then amongst the slowest to recover in May and June. By contrast, manufacturing, construction and retail trade also saw big falls in April but these sectors have recovered much more quickly as lockdowns have been eased.

Fitch's corporate team has identified the transport and leisure sector as the most likely to suffer sustained large revenue shortfalls as tourism and business travel, catering and sporting and cultural events are curtailed and airline travel collapses in response to virus fears and related restrictions. Leisure and transport accounts for 8%-10% of GDP in most major advanced economies and 12% in Spain (**economic dashboard 2q20 gdp lessons learned 06 08 2020**) so a lengthy slump in output in this sector would have a material direct drag on macroeconomic performance.

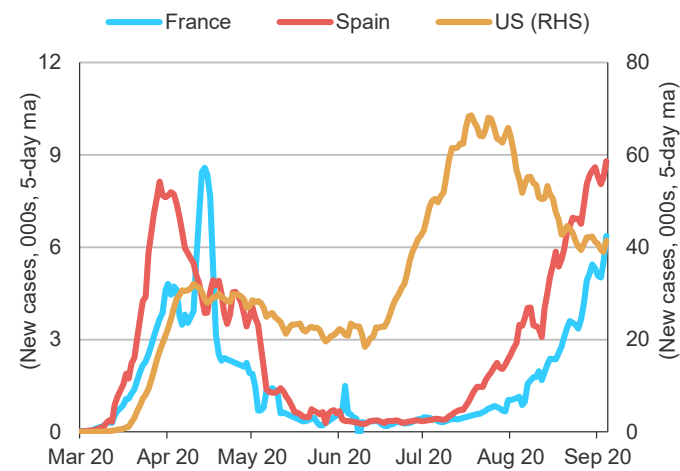
Unemployment and Consumer Caution

Concerns about job security are also likely to continue to weigh on consumer sentiment, and confidence surveys have shown few signs of recovery. This could mean that saving ratios decline only slowly from recent highs. In the US, the unemployment rate has fallen since April, but at 8.4% is still very high by historical standards. Moreover, the number of unemployed due to permanent job loss continues to rise even as numbers on temporary lay-off have declined rapidly.

In Europe, declining participation rates and, more significantly, the massive take-up of government job-subsidy schemes have limited the rise in unemployment rates to date. Unemployment on the widely used international labour force survey (LFS) definition is based on the share of the working age population that is "available and willing" to work but cannot find a job. During lockdown, travel and workplace restrictions meant that many job searchers ceased to be available for work, compressing the measured unemployment rate. However, as economies open up, this effect is unwinding as reflected, for example, in a sharp rise in Italian unemployment in July.

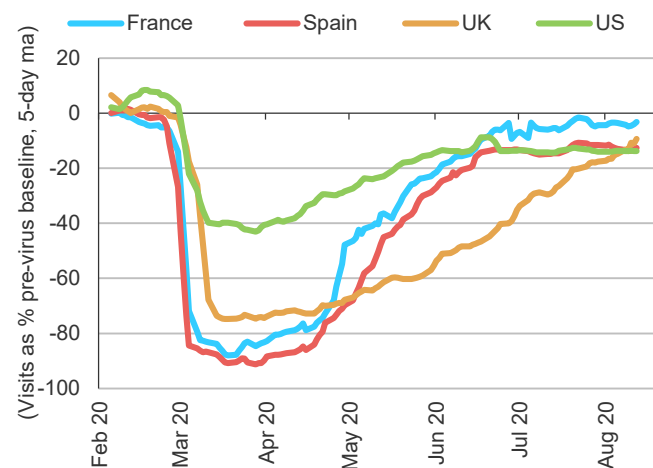
More importantly, a huge number of jobs in the four largest eurozone economies plus the UK have been placed on official furlough schemes: at the peak in May, they accounted for some 34 million, and while numbers had fallen to around 30 million by June, this still represented around 18% of the combined labour force. A rapid end to these schemes could result in a huge, immediate shock to jobless totals unless a very high share of furloughed employees were re-employed. A more likely scenario is for the schemes to be phased out gradually – Germany and France recently have announced extensions. Nevertheless, we

Confirmed Daily Coronavirus Cases



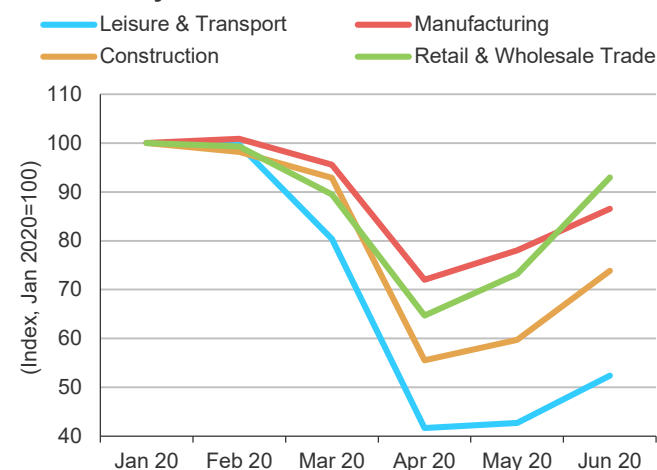
Source: Fitch Ratings, Johns Hopkins University, Haver Analytics

Daily Visits to Retail and Recreation Venues



Source: Fitch Ratings, Google, Haver Analytics

UK Monthly GDP - Selected Industries



Source: Fitch Ratings, ONS, Haver Analytics

still expect a sharp increase in European unemployment in 2H20 as the job subsidies are pared and hard-hit labour-intensive sectors, such as tourism and hospitality, continue to deal with social distancing disruptions.

WTO Brexit to Stall UK Recovery

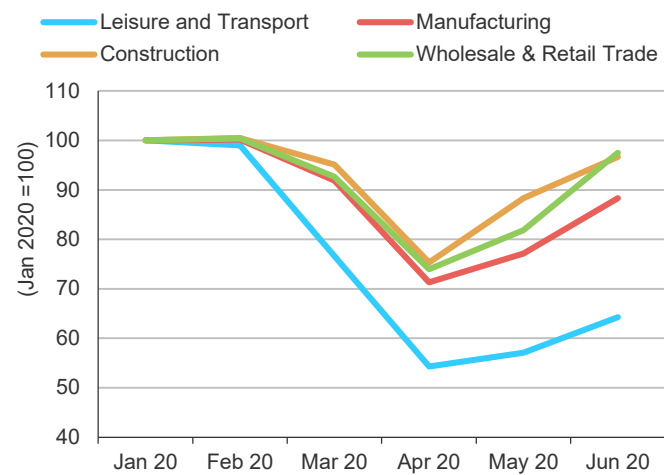
Changes in UK-EU trading arrangements are likely to significantly curtail the pace of the UK's economic recovery in 2021, as the Brexit transition period ends on 1 January 2021. With limited progress so far in negotiations on a free trade agreement (FTA) and time running out, the GEO forecast now assumes that UK-EU trade will move to WTO terms in January. This does not preclude the possibility of progress towards an FTA later on, but it is highly unlikely that the transition period will be extended. Trading on WTO terms will see the imposition of tariff and non-tariff barriers on UK-EU goods trade and is likely to involve disruptions at borders. In addition to the trade shock, we expect lower investment and consumption, a weaker exchange rate and higher inflation. There are huge uncertainties as to exactly how this will play out but we have lowered our UK GDP forecast for 2021 by around 2pp relative to a smooth FTA transition and see the UK recovery stalling in 1H21. This shock is smaller than our previous 'no-deal' Brexit scenario analysis published prior to the Withdrawal Agreement.

Emerging Markets in Focus

The pandemic has become more prevalent in EM countries excluding China as the year has progressed. Brazil, Russia and India now have some of the highest coronavirus caseloads in the world and Latin America currently accounts for more than 40% of coronavirus fatalities. EM countries in many ways face tougher economic challenges than developed ones, given more limited social safety nets and healthcare capacity. Also, they have less scope for aggressive macro policy easing, as reflected in their more limited policy support measures compared to the advanced countries among the Fitch 20. Many EMs now face economic contractions on a scale comparable to or larger than those seen in Europe despite much higher underlying growth rates.

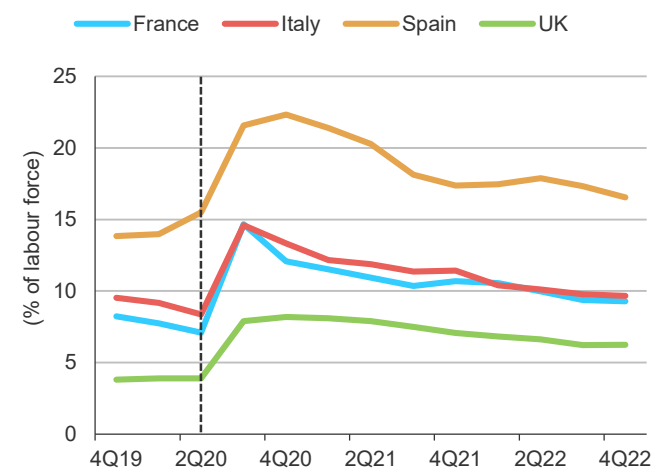
We have cut our 2020 GDP forecast for EM excluding China to -5.7% in this GEO from -4.7% in June. This primarily reflects a huge downward revision to our India GDP forecast for the fiscal year-ending March 2021 (FY21) to -10.5% from -5.0% in the previous GEO. GDP fell by 23.9% yoy in 2Q20 and we estimate the implied decline in qoq terms (for which official data are unavailable) at 25.6%, the largest fall among all the Fitch 20 countries (South Africa has yet to report). India imposed one of the most stringent lockdowns worldwide in 2Q20 and domestic demand fell massively. Limited fiscal support, fragilities in the financial system, and a continued rise in virus cases hamper a rapid normalisation in activity. The double-digit growth rate we expect for 2021-2022 simply reflects the low base in 2020 – we do not expect GDP to return to pre-virus levels until 1Q22.

Canada Monthly GDP - Selected Industries



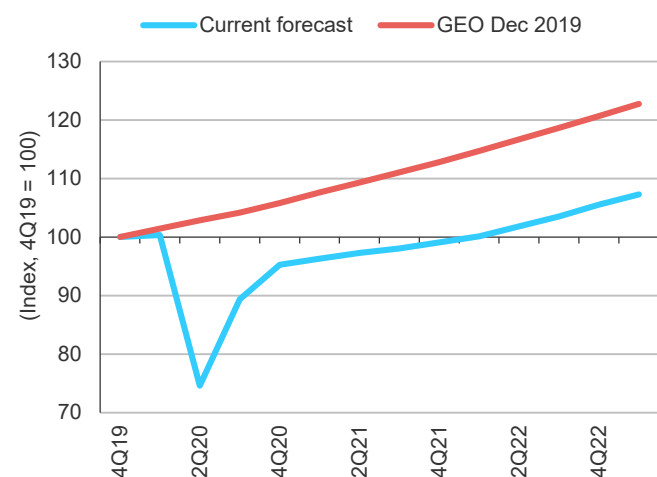
Source: Fitch Ratings, StatCan, Haver Analytics

Unemployment Outlook



Source: Fitch Ratings' estimates

India GDP Level Forecast



Source: Fitch Ratings' estimates

EMs recently have seen some relief, however, from shifts in global financial market conditions that have accompanied the pandemic policy responses, including the flood of liquidity from the Fed and the ECB. The sharp decline in long-term US bond yields since March, accompanied by falling EM dollar sovereign spreads has eased EM funding costs and supported global investor risk appetite. Capital flows to EMs have recovered in recent months according to the Institute of International Finance. The recent weakening of the US dollar against other major currencies also has been supportive of EM credit conditions, while the recovery in oil and metals prices has helped EM commodity producers. Fitch has raised its annual average oil price assumption for 2020 to USD41 a barrel (Brent) from USD35/bbl in June, but we see slightly lower oil prices in the long term and have lowered our 2022 forecast to USD50/bbl from USD53/bbl.

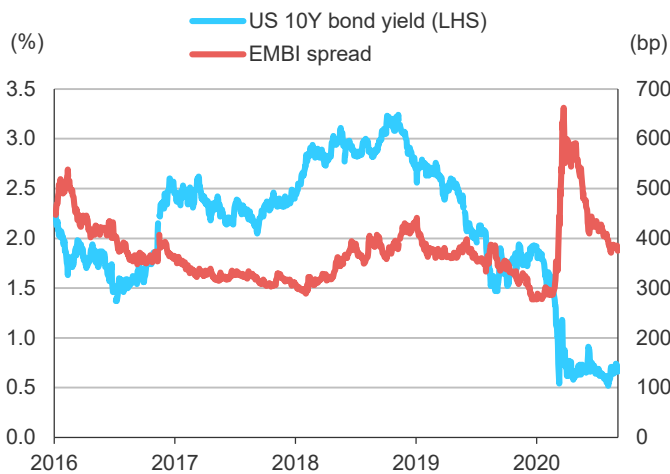
Policy Support Is Unwavering

Huge policy support will partly offset constraints on the recovery in private-sector demand. By June, macro policy easing announcements were already unprecedented in scale but since then there have been further significant stimulus measures. This includes the new EU recovery fund agreed in July, which authorises the European Commission to borrow up to EUR750 billion (5.4% of EU GDP) from 2021 for disbursement to member states to help support the recovery from the pandemic shock. It is too soon to gauge the economic impact but this is likely to be supportive of growth for Italy and Spain.

France and Italy also have announced additional fiscal support and following the UK 'Plan for Jobs' in early July – which included additional one-off job subsidy payments, infrastructure spending, tax cuts and the restaurant consumption voucher scheme – we now see fiscal easing of around 9% of UK GDP. Russia and Korea have also announced additional easing and China's direct fiscal easing is estimated to be more than 5% of GDP in 2020. Progress on agreeing another stimulus package in the US stalled in the past few months, but our sovereign rating team expects Congress to agree an additional support package in the next few months. We now estimate for the Fitch 20 as a whole that direct fiscal support measures of more than 8% of (2019) GDP have been announced, up from around 7% in June.

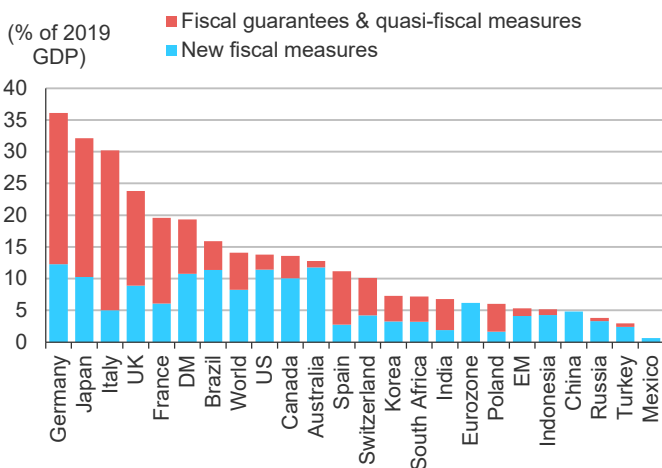
Central banks also seem quite unconstrained by inflation fears. The surge in bank lending to non-financial firms in 1H20 was in stark contrast to the pattern seen after earlier episodes of central bank balance-sheet expansion but it seems to reflect, in large part, rising precautionary demand for cash. As such we don't see the related recent acceleration in broad money supply measures as signaling higher inflation in the months ahead (**eurozone money supply surge will not spark inflation near term 21 08 2020**); the opening up of very large negative output gaps is more likely to push down on core inflation in the near term.

US Bond Yields and EMBI Spread



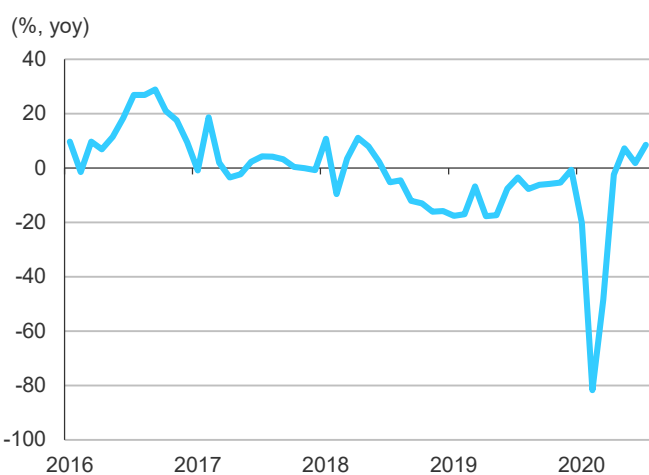
Source: Fitch Ratings, JP Morgan, Fed, Haver Analytics

Macro Policy Response in Fitch 20



Note: EM stands for Emerging Markets, DM stands for Developed Markets
Source: Fitch Ratings, IMF

China Car Sales



Source: Fitch Ratings, CAAM, Haver Analytics

The pace of central bank balance-sheet expansion has recently slowed but this largely reflects eased fears about financial stability rather than a desire to scale back monetary policy accommodation. The Fed's recent switch to a flexible average inflation-targeting framework and the move to an asymmetric employment target – downplaying the role of very low unemployment rates as an independent signal to tighten policy – seems to hard-wire what was already a highly dovish bias. While we have not seen fresh announcements of additional asset purchases from the major central banks in recent months we sense no reluctance to implement such moves if the recovery falters. Monetary policy makers will be closely watching signs of tightening credit availability in recent bank loan officer surveys, although evidence is also mounting that the US housing market may be starting to respond to lower long-term interest rates.

Spillovers from China's Recovery

China stands out as the only Fitch 20 country in which we expect GDP to grow in 2020, but it is important not to underestimate the positive global spillovers that will flow from China's recovery. Supply-chain disruptions related to China-based factory closures at the start of 2020 have eased and regional trading partners will benefit from the pick-up in domestic demand. China's recovery has been led by investment which is typically more import-intensive than consumption. The pick-up in construction in China has also been felt in global commodity markets, with the accompanying boost to global metals demand a factor behind rising metals prices, including copper. The recent recovery in auto sales in China is also significant. China plays a dominant role in the global car market, a sector which, in turn, has large multiplier impacts on manufacturing worldwide. Stronger auto demand in China should help the recovery in Germany given its outsize exposure to auto and manufacturing exports, and we have raised Germany's 2021 GDP forecast slightly.

Winter Lockdown Risk

The sharp rise in new virus cases in the US, Spain and France as mobility rates rose in the past few months underscores the ongoing downside risk to the forecasts from a renewed deterioration in the health crisis. While the response to the recent surge in cases has been more targeted, a reversion to full lockdown approaches cannot be ruled out, particularly if hospitalisation and death rates start to rise rapidly again and threaten to overwhelm health systems. Such a scenario could prompt renewed falls in GDP over the winter months. However, it seems likely that the shock would not be as severe as that in 2Q20 given improved healthcare capacity and experience in dealing with the virus, treatment innovations, testing and tracing frameworks and the adjustments in economic and social behaviour. Optimism over the possibility of a vaccine becoming available is also growing, a development that would entail upside risks to the economic outlook.



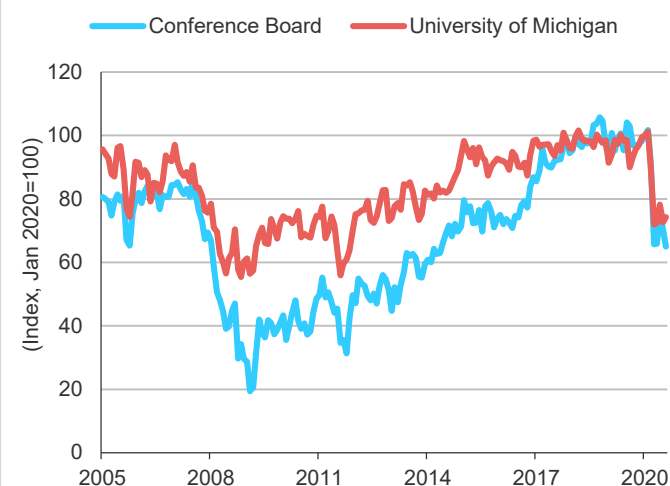
United States

US GDP fell by a staggering 9.1% in 2Q20 (31.7% annualised), a decline nearly four times larger than the sharpest previous post-war downturn at the start of 1958. However, while the coronavirus recession was the deepest since the Great Depression it was also the shortest. Clear evidence has emerged that economic activity started rising again from May after plummeting in March and April. It looks as if the pace of recovery in 3Q20 will exceed our previous forecasts, prompting us to revise the forecast annual decline in GDP in 2020 to -4.6% from -5.6% in the previous GEO.

The recovery so far appears resilient to the rise in new virus cases since late-June. A host of monthly indicators including retail sales, PMI balances, housing starts, capital goods orders and non-farm payrolls point to activity rising further in July and August. Visits to retail and recreation venues flattened off from early July as virus fears intensified and re-opening was put on hold in a number of the largest states, but there has been no renewed sharp decline. We now forecast GDP to rise by 5.7% (25% annualised) in 3Q20.

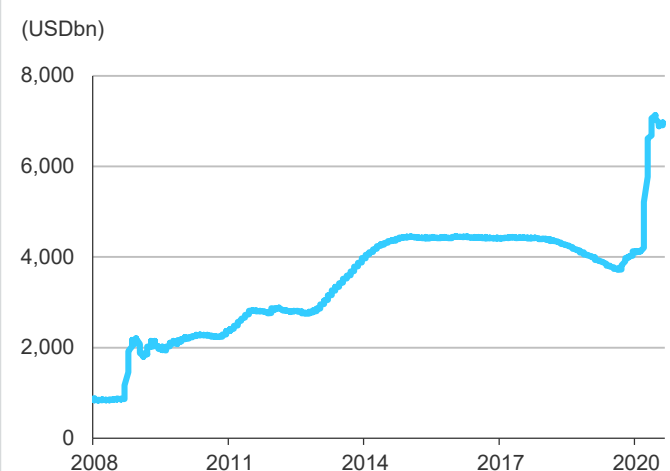
The recovery is likely to slow sharply in 4Q20, however, as the one-off boost from re-opening fades. Virus fears are still directly constraining spending, and consumer sentiment remains depressed, weighed down by high insecurity over jobs. Policy support is also fading at the margin – unemployment benefits became less generous in August and the Fed’s balance sheet peaked in early June. Nevertheless, the unprecedented scale of policy easing is likely to continue to support growth over the next couple of years. Household finances have improved in recent years, providing some scope at the aggregate level for consumption smoothing in the face of income shocks. We expect growth to be above trend in 2021, returning GDP to its pre-virus (4Q19) level by 4Q21, but unemployment will remain above 7% throughout next year.

US Consumer Confidence Surveys



Source: Fitch Ratings, CB, University of Michigan, Haver Analytics

US - Fed Balance Sheet (Weekly)



Source: Fitch Ratings, Fed, Haver Analytics

United States - Forecast Summary

(%)	Ann. Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	2.5	2.2	-4.6	4.0	3.0
Consumer Spending	2.9	2.4	-5.1	4.1	3.1
Fixed Investment	3.3	1.9	-4.6	4.4	3.5
Net Trade (contribution pps.)	-0.4	-0.2	0.8	-0.1	-0.2
CPI Inflation (end-year)	1.5	2.3	0.6	0.7	1.2
Unemployment Rate	4.4	3.7	8.5	7.6	6.5
Policy Interest Rate (end-year)	0.83	1.75	0.25	0.25	0.25
Exchange Rate, USDEUR (end-year)	0.86	0.89	0.87	0.87	0.87

Source: Fitch Ratings

Eurozone

The eurozone economy is set for a sharp rebound in 3Q20 following the easing of lockdown conditions in April/May. This bounce in activity comes after a record decline in economic activity in 2Q20, which saw GDP shrink by 12.1%. Despite the expected strong recovery in the current quarter we now forecast a larger contraction of 9% this year rather than the 8% we expected in June. For 2021, we forecast the economy growing at 5.5% compared to our previous projection of 4.5%.

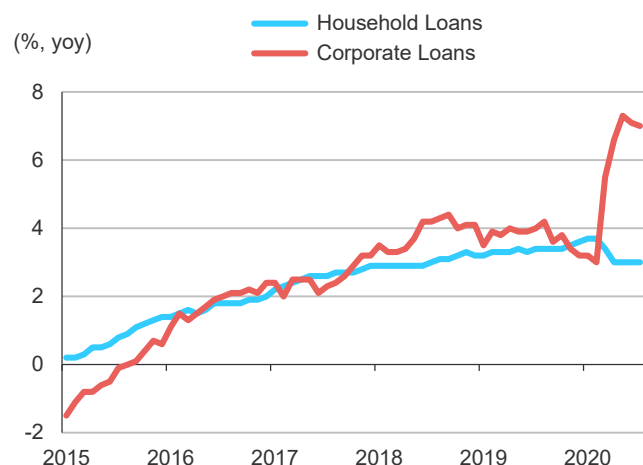
In recent weeks, a number of eurozone countries have reported a resurgence in coronavirus cases. In response, indicators such as Google mobility and restaurant bookings show that although the recovery has continued into August, momentum has slowed. Nevertheless, the health situation is significantly better than it was at the peak of the crisis and no government is calling for a full national lockdown. However, this does not preclude local or sector-specific restrictions.

Job subsidy programmes have provided strong support to households, limiting unemployment rate increases and maintaining income levels. Yet consumers remain worried about both their financial situation and the state of the economy while also anticipating higher unemployment rates despite the success of the job-subsidy scheme. Most countries are in the process of extending such schemes.

Substantial fiscal stimulus injected by national governments will help the economic recovery as will the implementation of the EU's EUR750 billion recovery fund. Our eurozone forecast currently does not consider the additional growth that will follow once funds are actually spent but we expect this stimulus to provide additional support to growth from 2021.

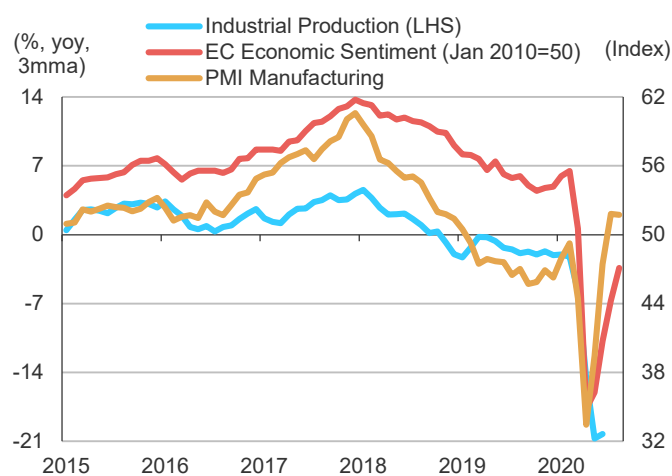
The ECB has also provided significant support to the economy through its pandemic emergency purchasing programme (PEPP) as well as long-term refinancing operations. Along with state guarantees, these policy moves have ensured that credit has continued to flow to the private sector providing more favourable conditions than those faced in the global financial crisis. Nevertheless, we expect companies to remain cautious about investment plans given the current conditions.

Eurozone - Household and Corporate Loans



Source: Fitch Ratings, ECB, Haver Analytics

Eurozone - Industrial Production and Surveys



Source: Fitch Ratings, Eurostat, EC, IHS Markit, Haver Analytics

Eurozone - Forecast Summary

(%)	Ann. Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	2.0	1.3	-9.0	5.5	3.2
Consumer Spending	1.7	1.3	-9.7	6.8	3.5
Fixed Investment	4.3	5.7	-10.6	0.9	1.9
Net Trade (contribution pps.)	-0.1	-0.5	-3.6	-0.4	0.2
CPI Inflation (end-year)	0.8	1.3	-0.6	0.8	1.3
Unemployment Rate	9.1	7.6	9.7	10.1	8.8
Policy Interest Rate (end-year)	0.04	0.00	0.00	0.00	0.00
Exchange Rate, EURUSD (end-year)	1.17	1.12	1.15	1.15	1.15

Source: Fitch Ratings

China

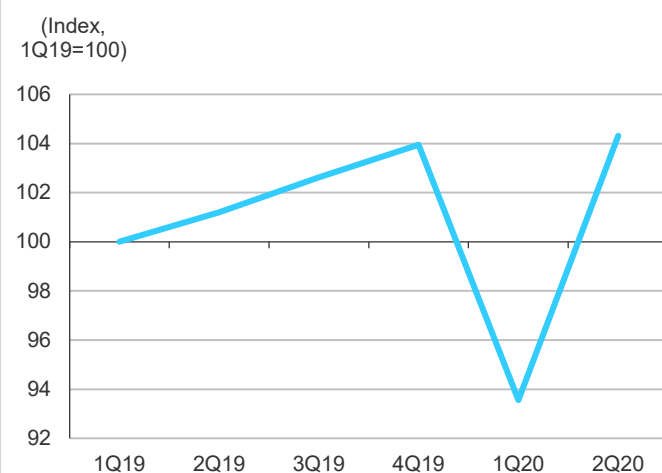
GDP grew by 11.5% qoq and 3.2% yoy in 2Q20, a lot faster than the respective 8.3% qoq and 0.4% yoy forecasts in our previous GEO. This was sufficient to take GDP back above its 4Q19 pre-crisis level, underscoring the importance of successful virus containment for achieving normalisation. The 2Q20 surprise and the strength of more recent monthly data have prompted upward revisions to our annual growth forecasts to 2.7% for 2020 (from 1.2% in the June GEO) and to 7.7% for 2021 (from 7.5%).

The recovery in domestic demand in 2Q20 was led by fixed asset investment. Policy support has played a major role, including through increased local government special bond issuance that has supported a strong rebound in infrastructure investment. Real-estate investment also has recovered sharply, boosted by an acceleration in credit growth from under 11% yoy in late-2019 to 12.7% in July. Direct fiscal policy easing has also been extensive, characterised by a greater use of on-balance-sheet fiscal expansion than in previous downturns. Fitch estimates the general government consolidated fiscal deficit will widen to about 11% this year from 5.9% in 2019.

The revival in consumer spending has, by contrast, been a lot more subdued, with retail sales still 1.1% lower yoy in July. This partly reflects challenges from social distancing behaviour as reflected in still-subdued activity in the catering sector. The rise in household indebtedness in recent years may also have exacerbated the impact of the coronavirus-related shock to household income.

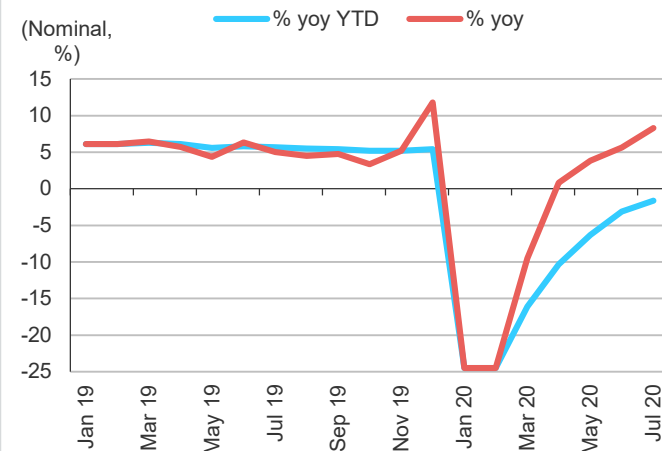
Export demand was surprisingly strong in recent months, growing by 9.5% in August. This is due partly to a surge in exports of virus-related medical supplies but consumer electronics exports have also rebounded, likely reflecting the greater resilience of global consumer durables demand through the pandemic. While US-China trade tensions have intensified in recent months, the 'Phase 1' trade deal remains intact. The improving Chinese growth outlook means we no longer expect further interest rate cuts from the PBOC.

China - Seasonally Adjusted GDP



Source: Fitch Ratings, NBS China, Haver Analytics

China - Fixed Asset Investment



Source: Fitch Ratings, NBS China, Haver Analytics

China - Forecast Summary

(%)	Ann. Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	6.7	6.1	2.7	7.7	5.5
Consumer Spending	8.2	5.9	-6.4	7.5	5.6
Fixed Investment	6.8	4.7	9.5	9.6	5.1
Net Trade (contribution pps.)	0.0	0.7	1.2	0.1	0.2
CPI Inflation (end-year)	1.8	4.5	2.0	1.6	2.0
Policy Interest Rate (end-year)	3.49	3.25	2.95	2.95	2.95
Exchange Rate, USDCNY (end-year)	6.48	6.99	7.00	7.20	7.40

Source: Fitch Ratings

Japan

The sharp fall in Japanese GDP in 2Q20 was in line with our June GEO expectations, at -7.8% qoq. All demand components plummeted, but the largest declines by far were export volumes (-18.5%) and private consumption (-8.2%). The plunge in GDP was induced by the countrywide state of emergency imposed in April-May and collapsing external demand from trading partners.

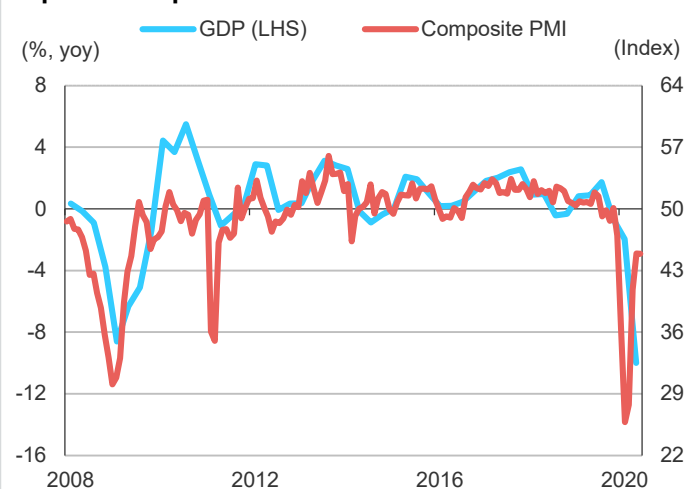
New coronavirus infections have surged since July, above the level reached at the height of the nationwide state of emergency in April-May. However, there are far fewer patients with severe symptoms and new infections have started to decline anew more recently. Some restrictions imposed over the summer there have started to be relaxed again.

Against this backdrop, we still expect a relatively strong rebound in 3Q20 GDP, at 4.5% qoq, though less than in the June GEO. Industrial production and export volumes staged a strong recovery in July. Nevertheless, we expect the pace of normalisation to slow, amid lingering weak sentiment. The August composite PMI held steady from July, at 44.9. Falling core machinery orders signal a weak outlook for business investment. We now forecast a 5.3% fall in GDP for 2020, which is a 0.3pp downward revision since the June GEO.

The adjustment in the labour market has been limited, with the jobless rate rising only to 2.9% in July, from 2.4% in January. However, the limited rise in unemployment mainly reflects a fall in labour participation (people dropping out of the labour force during the pandemic). As the recovery gathers pace, more people will enter the labour market while labour demand will remain weak. We now see the unemployment rate peaking at 3.7% in 4Q20.

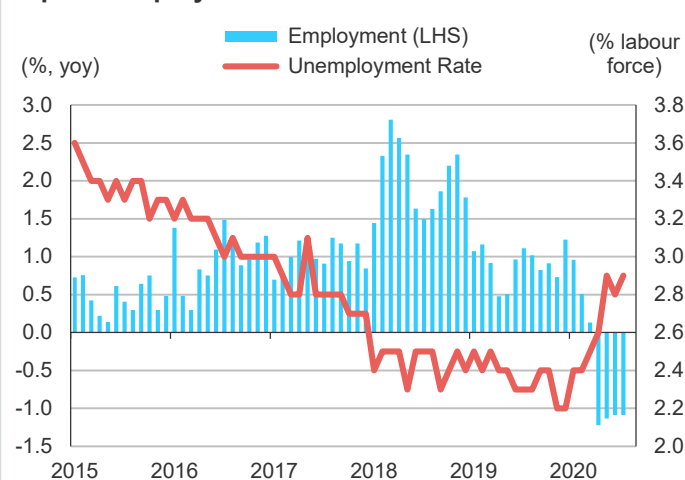
The resignation of PM Shinzo Abe for health reasons brings forward the political uncertainty that was already anticipated with forthcoming general elections, which must be held by October 2021. Abe's successor will be chosen from within his governing Liberal Democratic Party, and we therefore do not expect significant policy changes in the near term.

Japan - Composite PMI & GDP Growth



Source: Fitch Ratings, Haver Analytics

Japan - Employment



Source: Fitch Ratings, MIAC, Haver Analytics

Japan - Forecast Summary

(%)	Ann. Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	1.0	0.7	-5.3	3.3	1.2
Consumer Spending	0.2	0.2	-6.0	3.4	1.0
Fixed Investment	1.3	1.3	-2.8	2.8	1.9
Net Trade (contribution pps.)	0.2	-0.2	-1.5	0.1	0.1
CPI Inflation (end-year)	1.0	0.8	-0.1	0.5	0.8
Unemployment Rate	2.8	2.4	3.0	3.1	2.6
Policy Interest Rate (end-year)	-0.06	-0.10	-0.10	-0.10	-0.10
Exchange Rate, USDJPY (end-year)	111.7	109.1	107.0	109.0	109.0

Source: Fitch Ratings

United Kingdom

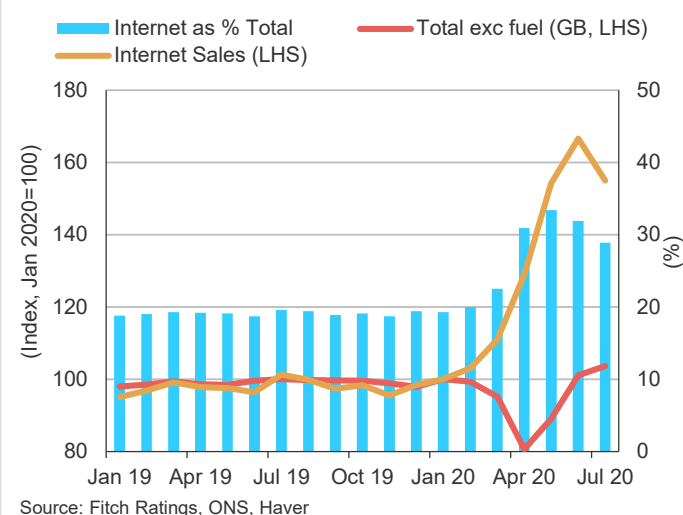
UK GDP fell by 20.4% QOQ, one of the largest quarterly falls among the Fitch 20 economies and much worse than the -14.8% forecast in the June GEO. The 21.7% decline in yoy terms was similar to France and Spain, which entered lockdown earlier in March, but the length of the UK lockdown – with stringent restrictions stretching into late-June – contributed to the scale of the shock to quarterly GDP.

However, official monthly data also showed that, after falling nearly 26% between February and April, GDP started recovering from May. By June the level of GDP was already 6.4% above the 2Q20 average and high-frequency data – including retail sales, PMIs, construction output and daily mobility readings – point to activity having risen further in July and August. This supports our updated forecast of a rebound in 3Q20 of around 12% qoq, a swifter recovery than we anticipated. Taking this into account, we have revised our annual 2020 forecast -11.5% from -9.0% in June.

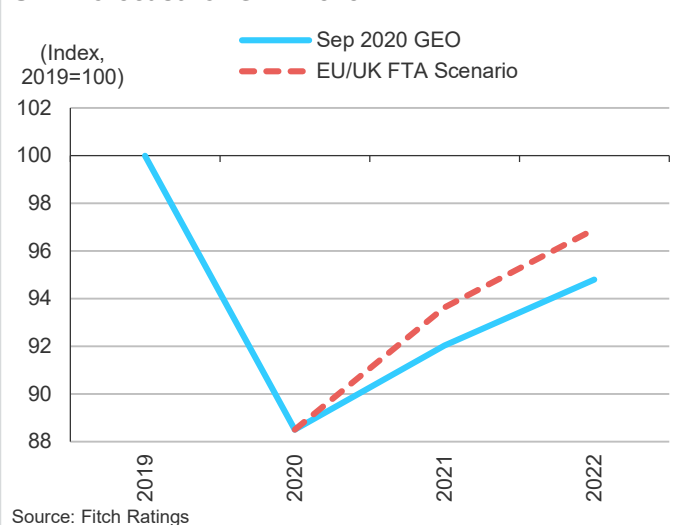
The government has announced additional fiscal stimulus since the previous GEO and we now estimate direct fiscal easing of around 9% of GDP compared to 5.5% in June. This, along with the weaker starting point for GDP in 2020 – and hence greater scope for subsequent catch-up – points to stronger yoy growth in 2021 than we forecast previously.

However, our new 2021 forecast is actually weaker than the June GEO, at just 4%. This reflects the fact that we are now assuming, for the purposes of the GEO forecast, that UK-EU trade will be on WTO terms on 1 January 2021. The cumulative impact on our GDP forecast for 2021 and 2022 is just over 2pp relative to a scenario where a UK-EU FTA is reached. With the job-retention scheme due to be wound down in October and the recovery expected to stall in 1H21, we expect unemployment to rise to around 8% by year-end and remain at this level through the middle of next year.

UK - Retail Sales Value



UK - Forecast for GDP Level



United Kingdom - Forecast Summary

(%)	Ann. Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	1.8	1.5	-11.5	4.0	3.3
Consumer Spending	2.3	1.0	-12.6	7.6	3.6
Fixed Investment	1.9	0.7	-15.4	1.9	2.9
Net Trade (contribution pps.)	-0.1	0.1	2.6	-1.5	0.0
CPI Inflation (end-year)	1.5	1.3	0.4	1.9	1.6
Unemployment Rate	4.5	3.8	6.0	7.6	6.5
Policy Interest Rate (end-year)	0.46	0.75	0.10	0.10	0.10
Exchange Rate, GBPUSD (end-year)	1.43	1.31	1.15	1.15	1.15

Source: Fitch Ratings

Germany

The German economy experienced the largest contraction in 50 years during 2Q20. The 9.7% GDP drop was worse than we had expected in the June GEO (-8.1%) as consumers cut back on spending and business slashed capex. Compared to other larger euro area countries, Germany's contraction was both softer and shorter due to a less severe lockdown and a comprehensive fiscal package. Among the eurozone countries, Germany appears to be best-placed to recover.

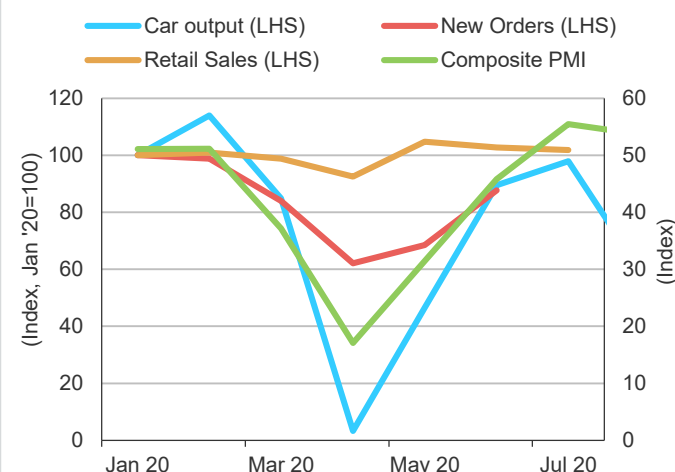
High frequency data, such as Google mobility and the Bundesbank's weekly truck toll mileage index, point to a swift 'V'-shaped recovery in 3Q20, but we expect this strong momentum to moderate thereafter. Retail sales increased strongly in May but declined in June, while consumer confidence has improved given the introduction of a temporary cut to the VAT rate. With people confined to their homes and shops closed, savings increased significantly during lockdown. Low inflation and the tax cut are likely to boost real incomes in 2H20 while the Kurzarbeit scheme continues to cushion the labour market, preventing rapid increases in joblessness.

Although employers registered almost 12 million workers in June the actual number participating in the programme peaked at 6.7 million in May and dropped to around 5 million in June. The scheme has now been extended until end-2021.

The German construction industry has also proved to be robust during the crisis, with strong underlying demand and substantial order backlogs in place. On the other hand, the industrial sector has fared worse and remains dependent on weak global demand (notwithstanding the boost from the recovery in the Chinese economy) and the hit to business confidence. The service sector, out of all sectors, will likely continue to bear the brunt of any social distancing restrictions.

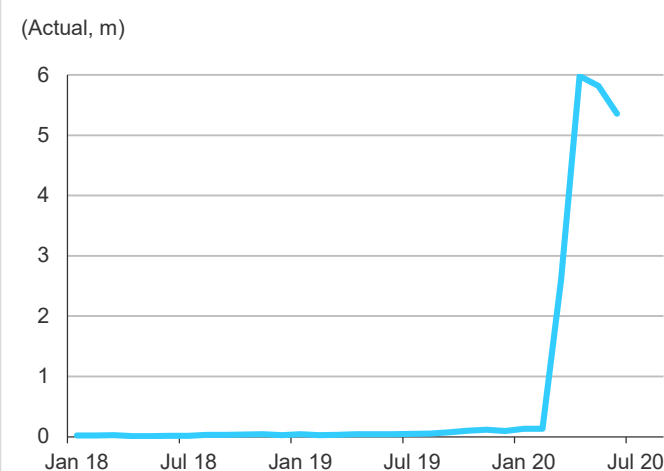
We have left 2020 growth unchanged at -6.3% given that the sharper-than-expected decline in 2Q20 will be offset by a stronger-than- envisaged recovery in 3Q20. We expect the economy to grow by 5.4% in 2021 (5.0%) and by 3.2% in 2022.

Germany - Activity Indicators



Source: Fitch Ratings, FSO, VDA, BMWV, IHS Markit, Haver Analytics

Germany - Numbers on Furlough (Kurtzarbeit)



Source: Fitch Ratings, Federal Employment Agency, Haver Analytics

Germany - Forecast Summary

(%)	Ann. Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	1.6	0.6	-6.3	5.4	3.2
Consumer Spending	1.7	1.6	-8.0	5.7	3.4
Fixed Investment	2.8	2.5	-3.6	4.6	2.1
Net Trade (contribution pps.)	-0.2	-0.6	-2.4	0.1	0.3
CPI Inflation (end-year)	1.1	1.5	-0.7	1.3	1.5
Unemployment Rate	3.8	3.1	4.5	4.7	4.2
Policy Interest Rate (end-year)	0.04	0.00	0.00	0.00	0.00
Exchange Rate, EURUSD (end-year)	1.17	1.12	1.15	1.15	1.15

Source: Fitch Ratings

France

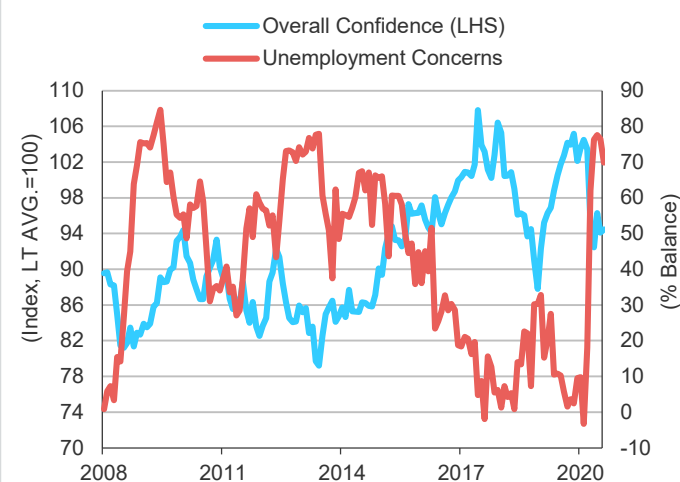
The downward revision to 1Q20 and the sharper-than-expected contraction in 2Q20 (-13.8% vs -8.4% in June GEO) has led us to revise our growth forecast for 2020 despite a likely strong rebound in activity in 3Q20. We now see the economy shrinking by 10.5% this year instead of 9.0% and also expect growth next year to be a little higher than before. All expenditure components within GDP declined sharply in 2Q20, with exports plunging 25.5%.

As with other larger euro area countries, the easing of lockdown measures has resulted in a sharp rebound in activity. Indices, such as the composite PMI, now exceed the pre-coronavirus period while car sales have bounced back rapidly, helped by pent-up demand and government incentives for the purchase of electric vehicles. Consumer confidence has also recovered part of its losses but appears to have lost momentum into July. Savings increased significantly during lockdown and remain high even as restrictions have eased. Survey questions on conditions for making major purchases have plateaued after an initial sharp increase. Confidence may be ebbing because of the ongoing uncertainty surrounding the labour market.

Concern in surveys about rising unemployment in the coming year are now at levels last seen during the global financial crisis. While France’s job subsidy programme, Chomage Partiel, is likely to be extended – minimising the threat of numerous, near-term job losses – some 2.4 million continued to participate in the scheme in July.

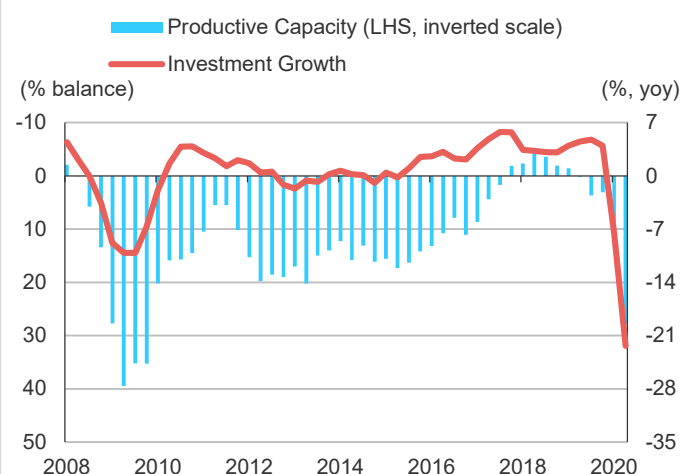
The recent quarterly INSEE survey pointed to a deeper unease about the prospects for recovery beyond 3Q20. Corporates are likely to remain cautious about investment plans, while exports may weigh on growth given the expected weakness in the eurozone, the risk likelihood of the UK and the EU failing to agree a Brexit FTA, and trade war issues. France announced a substantial fiscal package to counter the downturn and we expect government support for the economy to be the main policy priority in the near term in common with other euro area economies.

France - Consumer Confidence



Source: Fitch Ratings, INSEE, Haver Analytics

France - Investment Conditions



Source: Fitch Ratings, INSEE, Haver Analytics

France - Forecast Summary

(%)	Ann. Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	1.6	1.5	-10.5	5.4	3.1
Consumer Spending	1.4	1.5	-8.2	6.8	2.9
Fixed Investment	3.2	4.2	-13.9	5.1	2.1
Net Trade (contribution pps.)	-0.1	-0.2	-1.5	-0.2	0.2
CPI Inflation (end-year)	0.7	1.5	-0.5	1.5	1.3
Unemployment Rate	9.5	8.5	10.4	10.9	9.8
Policy Interest Rate (end-year)	0.04	0.00	0.00	0.00	0.00
Exchange Rate, EURUSD (end-year)	1.17	1.12	1.15	1.15	1.15

Source: Fitch Ratings

Italy

GDP declined more than we expected in 2Q20, contracting 12.8% compared with a June GEO forecast of -8.2%. With lockdown measures easing in May, economic activity has been quick to recover, and this may lead to a sharp rebound in 3Q20. Monthly indicators, such as industrial production, surged in May while PMI indices rose back above the 50 threshold. However, recent high-frequency indicators suggest that there has been some loss of growth momentum in recent weeks.

Italy has been one of the worst-hit countries globally but has managed to contain the virus outbreak owing to its stringent quarantine rules. Similar to other eurozone countries, Italy is experiencing a resurgence in new cases but the government has been quick to act to stem the contagion whilst insisting that no new country-wide restrictions will be imposed.

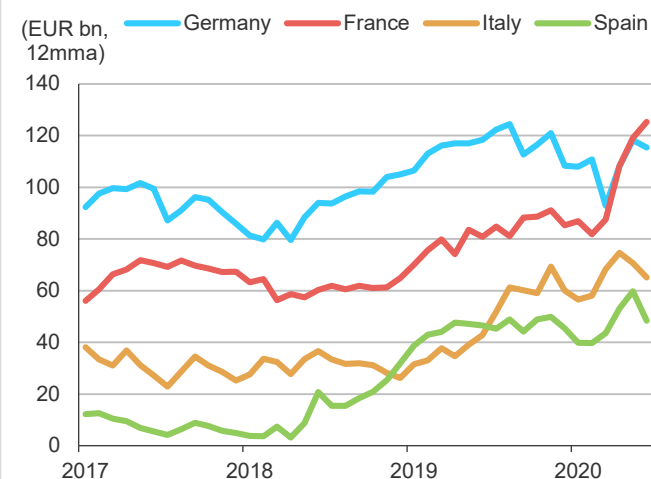
Italy's recovery will be supported by an additional EUR12 billion fiscal injection (approved in August) that will fund the suspension of social security contributions, an extension of the moratorium on SMEs' debt repayments and the short-time working programme. Importantly, our forecasts do not yet account for any spending arising from the approval of the EUR750 billion EU recovery fund.

The Cassa Integrazione (CIG) job subsidy scheme has also helped to weather the coronavirus impact by supporting disposable income and preventing a sharper increase in joblessness. The government has now extended the job subsidy scheme until end-2020 and also maintained the ban on redundancies, both of which should support households.

As a consequence of the lockdown, household savings rose sharply and have only partially reversed. Whether consumers continue to spend will depend, to some extent, on fears about health risks. We also expect capital spending to remain subdued given firms' dim assessment of economic conditions.

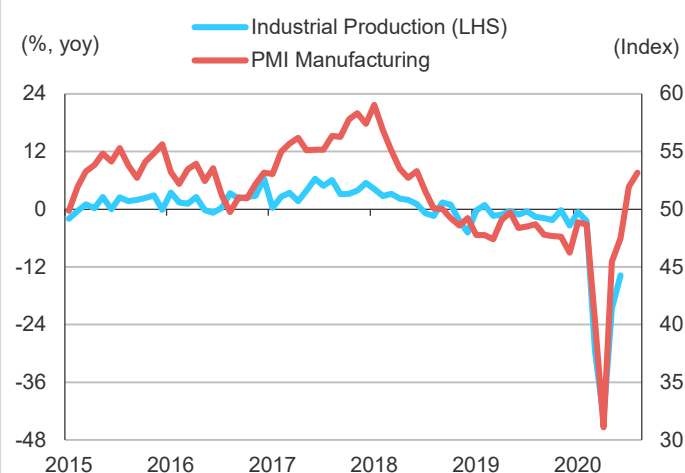
We have lowered our 2020 growth forecast to -10.0% (from -9.5%) and expect GDP to expand by 5.4% in 2021, above our previous estimate of 4.4%, reflecting the lower starting point for activity and the announcement of additional fiscal support at the national level.

Italy - Households' Bank Deposit Growth



Source: Fitch Ratings, ECB

Italy - Industrial Production



Source: Fitch Ratings, ISTAT, IHS Markit, Haver Analytics

Italy - Forecast Summary

(%)	Ann. Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	1.0	0.3	-10.0	5.4	2.6
Consumer Spending	1.2	0.4	-9.8	5.6	2.0
Fixed Investment	2.7	1.4	-14.9	2.9	2.4
Net Trade (contribution pps.)	-0.1	0.5	-1.4	0.8	0.4
CPI Inflation (end-year)	0.6	0.5	-0.5	0.8	0.8
Unemployment Rate	11.1	9.9	11.4	11.7	10.0
Policy Interest Rate (end-year)	0.04	0.00	0.00	0.00	0.00
Exchange Rate, EURUSD (end-year)	1.17	1.12	1.15	1.15	1.15

Source: Fitch Ratings

Spain

The Spanish economy experienced the steepest decline in activity among all eurozone countries in 2Q20. Output contracted -18.5%, much more severe than our June GEO forecast of -8.4%, with all GDP components recording substantial falls, including a 34% plunge in exports. As lockdown conditions eased in May, activity recovered quickly resulting in strong improvements in industrial production and retail sales, all consistent with a sharp rebound in 3Q20.

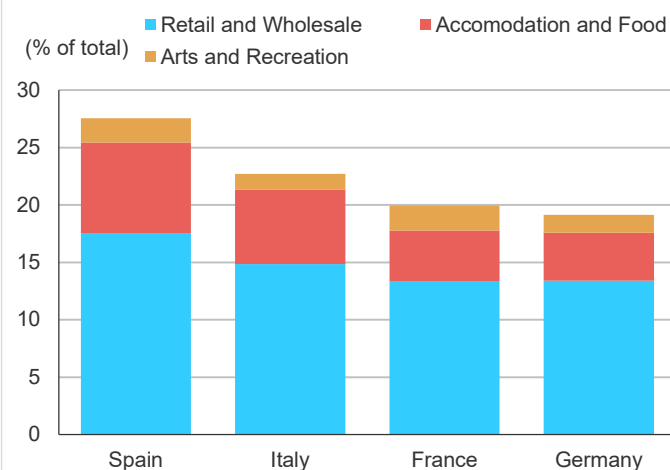
Nevertheless, despite the expected bounce back in 3Q20, the depth of the contraction in 2Q20 means that we have lowered our annual growth forecast to -13.2% in 2020 (-9.6% in June GEO). But the weaker starting point for growth in 2020 implies greater scope for catch-up in 2021. As such we now see the economy expanding 5.6% next year rather than the 4.4% we previously forecast.

Importantly, we have not included in this forecast round the approval of the EU's EUR750 billion recovery fund. Spain could receive up to EUR140 billion of this total, resulting in a material boost to growth from 2021.

Spain's economy has been particularly vulnerable to virus-containment measures. The country has a higher dependence on tourism than its eurozone counterparts and a higher share of employees in sectors that are vulnerable to social distancing restrictions. Unemployment increased to 15.5% in 2Q20 but the damage to the labour market has been contained owing to the much-widened scope and coverage of the ERTE furlough scheme. At the peak of the crisis, more than the 3 million people were placed in the job subsidy programme and while workers have been returning to work, some 1 million people are still furloughed. The government is discussing plans to extend the programme beyond September.

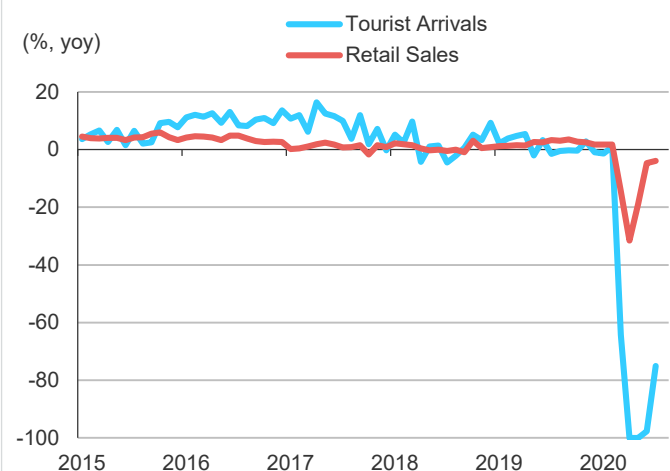
The resurgence of COVID-19 cases since July implies a degree of ongoing cautiousness, both by consumers and business. Despite recent improvements, consumer confidence remains subdued while business sentiment has suffered a setback after recent gains. While a second national lockdown seems unlikely, PM Pedro Sanchez has effectively handed over the decision to impose local restrictions to Spain's autonomous regions.

Spain - Employment by Key Sector



Source: Fitch Ratings, Eurostat

Spain - Tourist Arrivals and Retail Sales



Source: Fitch Ratings, INE, Haver Analytics

Spain - Forecast Summary

(%)	Ann. Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	2.8	2.0	-13.2	6.2	4.3
Consumer Spending	2.3	1.1	-15.0	6.8	4.1
Fixed Investment	4.0	1.8	-18.2	3.3	4.3
Net Trade (contribution pps.)	0.2	0.5	-2.1	0.6	0.4
CPI Inflation (end-year)	0.5	0.8	-0.9	1.2	1.3
Unemployment Rate	17.7	14.1	18.3	19.3	17.3
Policy Interest Rate (end-year)	0.04	0.00	0.00	0.00	0.00
Exchange Rate, EURUSD (end-year)	1.17	1.12	1.15	1.15	1.15

Source: Fitch Ratings

Switzerland

The Swiss economy declined by 8.2% in 2Q20 almost matching our June GEO forecast of -8.4%. Switzerland's growth slump was less severe than its neighbours due to increased sales in the pharmaceutical sector. As with other European countries, 3Q20 economic activity has recovered rapidly since lockdown conditions were eased. Indicators, such as the leading KOF indicator and the manufacturing PMI, have risen strongly.

Given the expected strong recovery in 3Q20 we now expect the economy to contract 5.3% this year, from a forecast of -7.0% before. Nevertheless, many parts of the economy (tourism, watchmaking, air travel and entertainment among others) continue to suffer from disruption caused by the crisis. This is likely to affect the investment and labour market outlook.

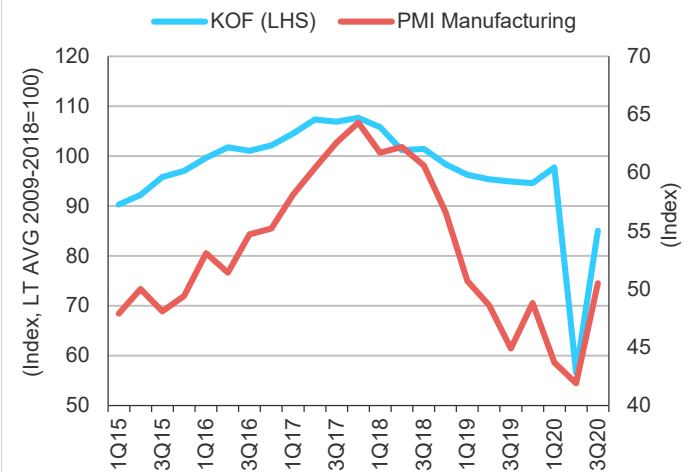
For 2021 we forecast growth of 5.4%, boosted by income receipts from various sporting activities. FIFA, UEFA and the IOC are located in Switzerland and the surge in spending related to the Olympics and the Euro tournament (postponed from 2020) will boost GDP growth by around 0.5pp in 2021.

As in other European countries, Switzerland's job subsidy programme has provided key support to households during the crisis. In July, the government extended its Kurzarbeit scheme to 18 months from 12 months.

Aside from coronavirus, domestic uncertainty continues to centre on the country's negotiations with the EU on finalising its key framework agreement. This covers movement of people as well as recognition of industrial standards. A referendum has been called for later in September, which if not passed would abolish the free movement of EU citizens across Switzerland.

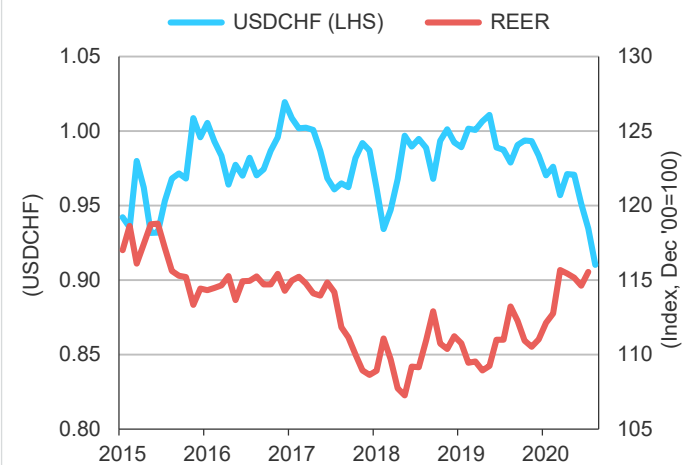
Coronavirus-related uncertainty led to a further appreciation of the Swiss franc around May given its traditional role as a haven currency. While pressure on the franc has eased recently, the risk of a strong appreciation remains high while concerns about coronavirus persist. Rather than lower its policy rate – currently at -0.75% – the SNB is likely to contain further appreciation by intervening to sell the franc.

Switzerland - Leading Indicators



Source: Fitch Ratings, procure.ch, KOF, Haver Analytics

Switzerland - Exchange Rates



Source: Fitch Ratings, Swiss National Bank, Haver Analytics

Switzerland - Forecast Summary

(%)	Ann. Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	1.8	1.2	-5.3	5.4	3.1
Consumer Spending	1.3	1.3	-7.3	7.4	3.6
Fixed Investment	2.1	1.1	-4.5	5.1	3.1
Net Trade (contribution pps.)	1.0	1.0	0.0	0.4	0.1
CPI Inflation (end-year)	0.0	-0.1	-0.6	0.5	0.2
Unemployment Rate	2.9	2.3	3.8	4.3	3.1
Policy Interest Rate (end-year)	-0.60	-0.75	-0.75	-0.75	-0.75
Exchange Rate, USDCHF (end-year)	0.97	0.97	0.96	0.98	0.98

Source: Fitch Ratings

Australia

We have downgraded our 2020 GDP forecast for Australia, due to the re-imposition of a strict lockdown in the Melbourne metropolitan area in July-August. The state of Victoria makes up nearly 25% of the national economy. The closure of internal state borders has further disrupted economic activity and weighed on sentiment at the national level. Timely data, such as the PMI balances and consumer confidence, show that the recovery that was under way in June reversed in July-August.

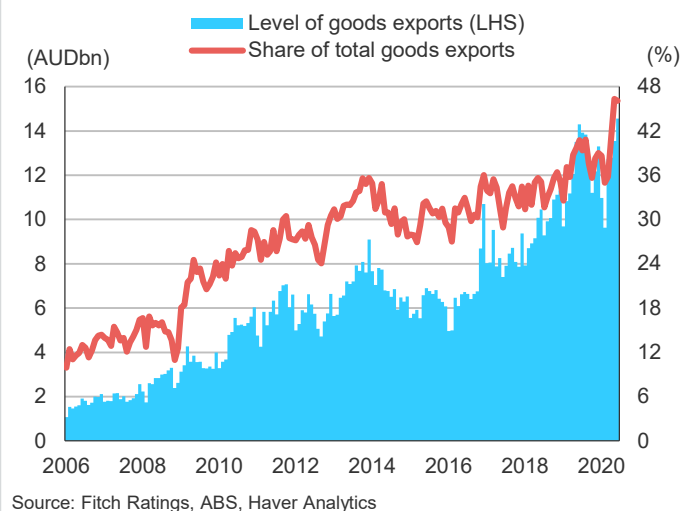
GDP registered a 7% qoq drop in 2Q20, and we now expect only a slight pick-up in 3Q20, at +0.4% qoq. Growth should bounce back strongly in 4Q20 on the assumption that major restrictions are removed. In all, we see GDP contracting 3.6% in 2020, a 0.9pp downward revision from the June GEO.

Activity should benefit from a very accommodative macro policy stance, which is shoring up household income. The mining sector should also continue to be supported by strong Chinese demand for industrial commodities (particularly iron ore). Goods exports to China are already surging, despite political tensions between the Australian and the Chinese governments.

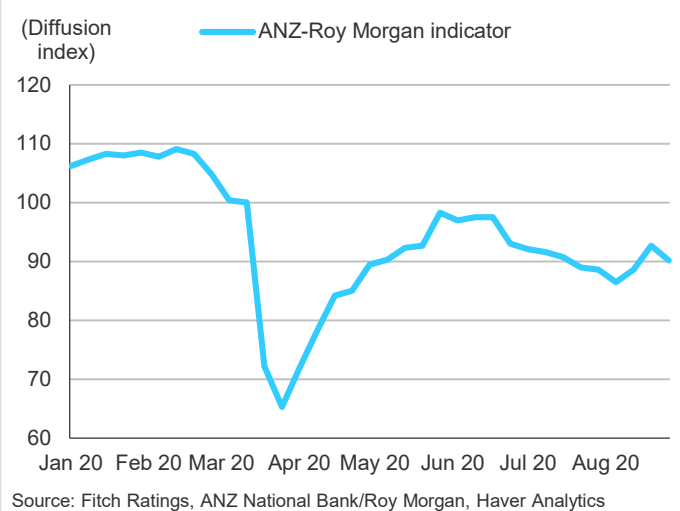
Consumer prices dropped a large 1.9% qoq in 2Q20, to settle at -0.3% yoy (after +2.2%). However, the drop mainly reflected temporary factors that will be reversed in 3Q20, such as free child care services for April-June and plunging fuel prices. We expect headline inflation to revert to the bottom end of the Reserve Bank of Australia (RBA)'s 2%-3% target band toward 2H21.

We expect the RBA to keep its monetary settings broadly the same over the forecast horizon, with a policy rate at 0.25% and the continuation of its yield curve control (YCC) policy. An extension of bond purchases with longer maturity targeted within the YCC policy is a strong possibility in coming months.

Australia - Goods Exports to China



Australia - Weekly Consumer Confidence



Australia - Forecast Summary

(%)	Ann. Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	2.4	1.8	-3.6	3.9	2.7
Consumer Spending	2.3	1.5	-8.8	2.8	2.3
Fixed Investment	-0.5	-2.0	-3.8	4.2	2.8
Net Trade (contribution pps.)	0.5	1.0	1.7	1.2	0.4
CPI Inflation (end-year)	1.8	1.8	1.1	2.2	2.4
Unemployment Rate	5.6	5.2	7.1	6.7	6.0
Policy Interest Rate (end-year)	1.87	0.75	0.25	0.25	0.25
Exchange Rate, USDAUD (end-year)	1.33	1.43	1.38	1.37	1.36

Source: Fitch Ratings

Canada

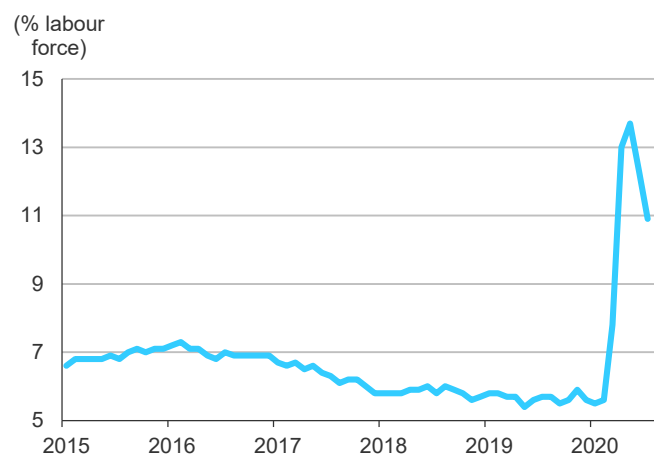
GDP fell by 11.5% qoq in 2Q20, further than the 9.6% expected in June and steeper than the contraction in the US. However, a stronger-than-expected rebound in activity so far in 3Q20 has led us to revise up 2020 GDP, and we now expect a fall of 6.6% compared with -7.1% in June. Manufacturing has recovered strongly according to surveys of capacity utilisation and real retail sales reached a record high in June as lockdowns eased. We expect growth to average 4.2% in 2021, also revised up since late-June. Employment has partially recovered, with the unemployment rate at 10.9% in July relative to the peak of 13.7% in May. However, involuntary part-time work is still widespread.

Canada has contained the coronavirus fairly well and policymakers have supported the economy with rate cuts, bond purchases by the Bank of Canada (BOC) and fiscal spending. In August, the government said it would extend into 2021 unemployment insurance and benefits for the unemployed introduced earlier this year, support that is equivalent to up to 2% of GDP.

The BoC has said it will maintain the current level of interest rates (0.25%) until the inflation target has been achieved, and a renewal of the BoC's inflation-targeting mandate in 2021 could provide an opportunity to refine the policy framework. Inflation is on course to average less than the target of 2% throughout our forecast period.

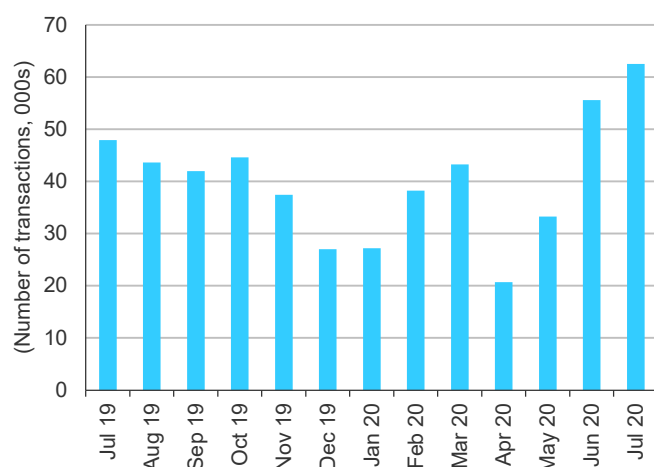
The housing market – one driver of Canada's growth in recent years – has rebounded very strongly in terms of transactions and prices. This is accompanied by a pick-up in mortgage credit, although households have been reducing consumer debt. Some cooling in the housing market is likely as pent-up demand is gradually satisfied. Near-term risks to growth from a potential correction in the housing market have receded in a context of lower-for-longer interest rates. Demographics and household formation have supported the housing market but as noted by the BoC, lower immigration will interrupt population growth, detracting from potential growth.

Canada - Unemployment Rate



Source: Fitch Ratings, Statistics Canada, Haver Analytics

Canada - Housing Transactions



Source: Fitch Ratings, CREA

Canada - Forecast Summary

(%)	Ann. Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	1.7	1.7	-6.6	4.2	3.0
Consumer Spending	2.4	1.6	-7.5	5.1	3.2
Fixed Investment	-1.1	-0.4	-9.1	0.7	3.2
Net Trade (contribution pps.)	0.2	0.2	1.3	0.6	0.0
CPI Inflation (end-year)	1.7	2.2	0.6	0.9	1.3
Unemployment Rate	6.3	5.7	9.6	8.1	6.9
Policy Interest Rate (end-year)	0.85	1.75	0.25	0.25	0.25
Exchange Rate, USDCAD (end-year)	1.26	1.31	1.35	1.40	1.40

Source: Fitch Ratings

Brazil

Fitch has revised up its 2020 GDP forecast and now expects a contraction of 5.8% (from -7.0%). The upward revision comes in light of better-than-expected 2Q20 data and the expectation of a steady reopening of the economy: real GDP contracted by 9.7% qoq and 11.4% yoy. We have slightly adjusted our GDP growth forecast to 3.2% in 2021 compared to 3.5% previously.

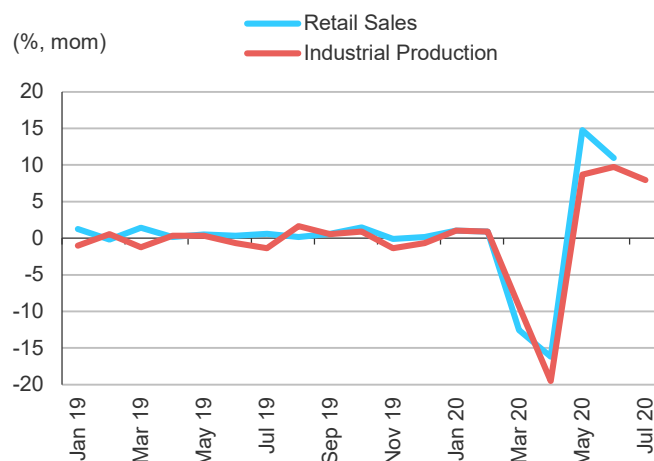
Consumer and business confidence are recovering from lows. Despite Brazil's difficult pandemic situation, high-frequency data – such as the rebound in retail sales in June – suggest that fiscal transfers to support the vulnerable population and the reopening of the economy have helped to support domestic demand. Similarly, industrial production grew 8.9% in June compared with the month earlier, highlighting the turnaround in production indicators. Risks to our growth projections come from an intensification of the coronavirus leading to an interruption in the reopening process or renewed selective shutdowns and/or domestic policy uncertainties, especially related to fiscal policy.

Fitch expects growth to recover in 2021 owing to the favourable base effect, easing of the pandemic and improving external conditions, notably the rebound in the Chinese economy. However, the recovery is likely to be constrained by the need for fiscal adjustment, a high unemployment rate and the likely persistence of policy uncertainty related to reforms.

Inflation remains subdued in 2020, with IPCA reaching 2.3% in July, well below the central bank's target of 4%. The sizeable economic contraction and the negative output gap have reined in inflationary pressures. The central bank has cut the benchmark policy rate to the historically low level of 2%. Fitch expects the central bank to keep rates on hold in 2020 before gradually increasing them in 2021.

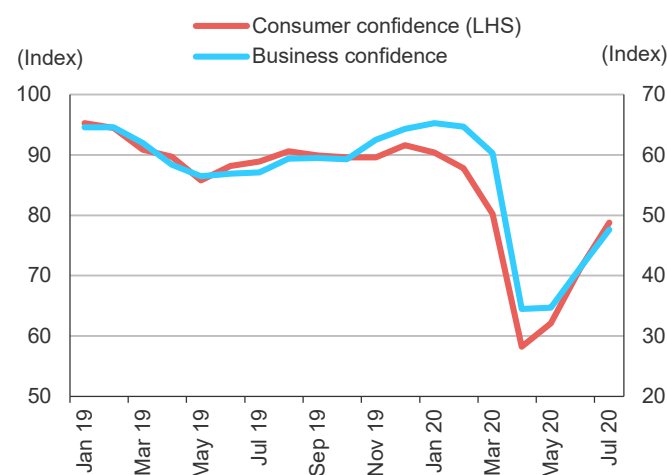
The Brazilian real has depreciated significantly during the year given the unfavourable external scenario, fragile public finances and reduced policy rate. The central bank has sold more than USD20 billion in the FX spot market since the beginning of 2020 and increased the outstanding FX swaps (settled in real) to provide FX liquidity and reduce volatility.

Brazil - Retail Sales and Industrial Production



Source: Fitch Ratings, IBGE, Haver Analytics

Brazil - Confidence Indicators



Source: Fitch Ratings, CNI, FGV, Haver Analytics

Brazil - Forecast Summary

(%)	Ann. Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	-0.6	1.1	-5.8	3.2	2.5
Consumer Spending	-0.2	1.8	-6.9	2.7	2.7
Fixed Investment	-4.5	2.3	-9.1	4.5	3.5
Net Trade (contribution pps.)	0.6	-0.5	1.6	0.3	0.0
CPI Inflation (end-year)	6.2	4.3	1.9	3.3	3.5
Policy Interest Rate (end-year)	10.51	4.50	2.00	3.00	4.75
Exchange Rate, USDBRL (end-year)	3.20	4.03	5.30	5.00	4.80

Source: Fitch Ratings

Russia

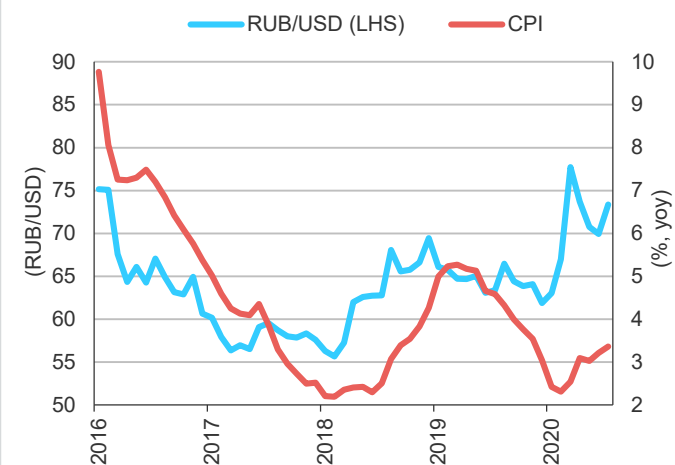
Fitch has upgraded its forecasts for the Russian economy in 2020 and now expects a GDP decline of 4.9% versus -5.8% in the previous GEO. Consumer demand is recovering, fiscal support has been increased significantly and oil prices have recovered. Net trade will support growth in 2020 as the import contraction outweighs the fall in exports that followed the OPEC+ deal and cut in oil production.

GDP fell by 8.5% yoy in 2Q20 but survey indicators point to a pick-up in activity at the beginning of 3Q20. Although subdued oil output is still a drag on industrial production, and the manufacturing PMI registered a setback in July, the services PMI surged to 58.5, suggesting a marked rebound in the sector, accompanied by a sharp improvement in business confidence. The government anti-crisis budget measures account for an estimated 3.5% of GDP, and will likely prevent a sharp deterioration in the labour market, and help to protect household income.

Growth will be above trend in 2021-2022, but GDP will not to return to its pre-virus (4Q19) level until the start of 2022, as we expect a very gradual tightening of the fiscal and monetary stance. Net trade will turn negative in 2021-2022 as oil export volumes will remain constrained by the OPEC+ deal, while a strengthening rouble and robust domestic demand will support import growth.

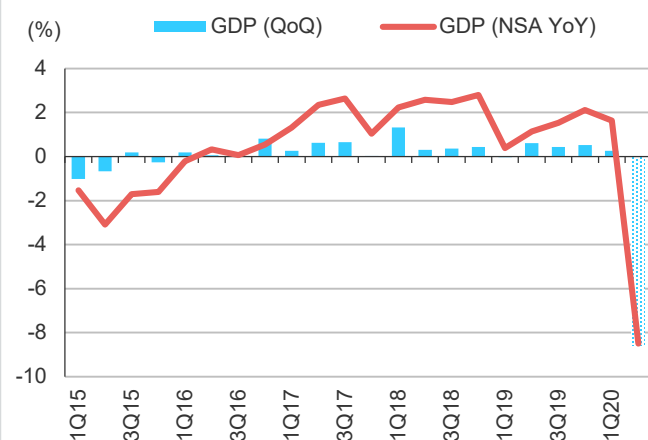
Following the recent sharp weakening of the rouble, partly due to geopolitical factors and contagion effect from Belarus, we expect inflation to accelerate to 3.9% at end-2020 but this will be temporary. The downward revisions to the real neutral rate estimate by the Central Bank of Russia in July to 1%-2% from 2%-3%, suggests that there is more room for the central bank to cut rates further for monetary policy to remain accommodative.

Russia - Exchange Rate and CPI



Source: Fitch Ratings, Haver Analytics

Russia - GDP Growth Rates



Note: 2Q20 qoq GDP growth represents Fitch's estimate
Source: Fitch Ratings, Rosstat, Haver Analytics

Russia - Forecast Summary

(%)	Ann. Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	0.8	1.3	-4.9	3.6	2.7
Consumer Spending	-0.5	2.5	-6.0	5.4	3.2
Fixed Investment	-0.6	1.5	-9.7	4.4	4.8
Net Trade (contribution pps.)	1.3	-1.4	0.4	-0.7	-0.3
CPI Inflation (end-year)	7.4	3.0	3.9	3.5	4.0
Policy Interest Rate (end-year)	9.56	6.25	4.00	4.50	5.00
Exchange Rate, USDRUB (end-year)	57.48	61.91	72.00	70.00	69.00

Source: Fitch Ratings

India

India recorded one of the sharpest GDP contractions in the world in 2Q20 (1Q of the 2020 fiscal year). GDP shrank a staggering 24% yoy – almost double our expectation embedded in the June GEO – amid the imposition of one of the most stringent global nationwide lockdowns. All demand components except government consumption fell massively in the quarter. Private consumption lost more than 27% qoq, investment slumped an eye-watering 43% qoq.

GDP should rebound strongly in 3Q20 amid a re-opening of the economy, but there are signs that the recovery has been sluggish and uneven. The PMI balances have bounced back but they imply that the level of activity is still well below its pre-pandemic level in 3Q20. Still-depressed levels of imports, two-wheeler sales and capital goods production indicate a muted recovery in domestic spending.

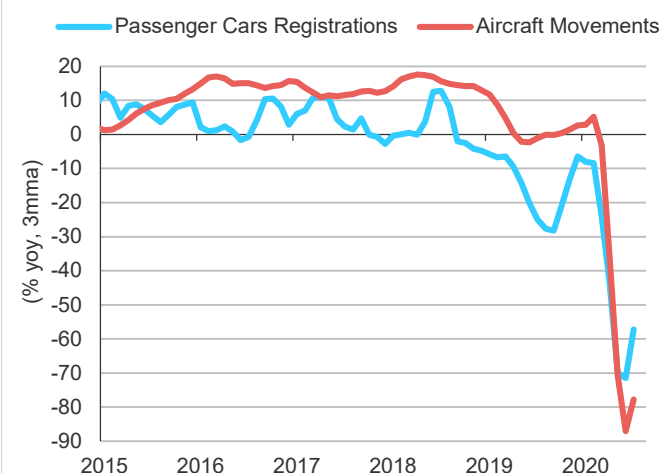
Multiple challenges are holding back the recovery, both in the short and medium term. New cases of the coronavirus continue to increase, forcing some states and union territories to re-tighten restrictions, though these localised containment measures are generally less stringent than in March-April. The continued spread of the virus and the imposition of sporadic shutdowns across the country depress sentiment and disrupt economic activity.

The severe fall in activity has also damaged household and corporate incomes and balance sheets, amid limited fiscal support. A looming deterioration in asset quality in the financial sector will hold back credit provision amid weak bank capital buffers.

Furthermore, high inflation has added strains to household income. Supply-chain disruptions and excise duties increases have caused prices to rise. However, we expect inflation to slow amid weak underlying demand, an easing in supply-chain disruptions and a good monsoon.

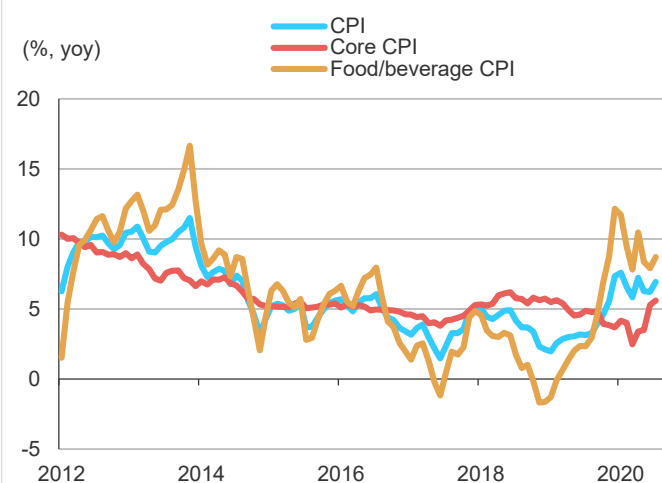
We have slashed our GDP forecast for this fiscal year to -10.5%, a huge revision of -5pp compared to the June GEO. We expect the shortfall of activity relative to our pre-virus forecast to be 16% by early 2022.

India: Passenger Cars and Aircraft Movements



Source: Fitch Ratings, AAI, OECD, Haver Analytics

India - Inflation



Source: Fitch Ratings, Haver Analytics

India - Forecast Summary

(%) FY starting April	Ann. Avg. 2015-2019	FY19-20	FY20-21F	FY21-22F	FY22-23F
GDP	6.7	4.2	-10.5	11.0	6.0
Consumer Spending	7.1	5.3	-14.5	11.2	6.0
Fixed Investment	5.9	-2.8	-27.7	14.8	5.0
Net Trade (contribution pps.)	-0.3	0.9	5.3	0.7	0.9
CPI Inflation (end-cal. year)	4.7	7.4	4.4	2.0	3.5
Policy Interest Rate (end-cal. year)	6.83	5.15	3.50	3.50	4.50
Exchange Rate, USDINR (end-cal. year)	65.18	71.27	75.00	75.00	73.00

Source: Fitch Ratings

Korea

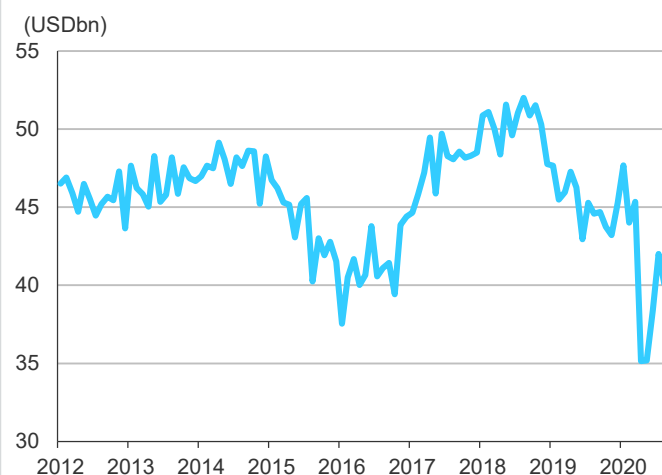
The coronavirus-induced recession in Korea was much less severe than in most other countries. This reflects a successful virus containment – notwithstanding a recent rise in new cases – without the need to impose draconian restrictions on economic activity. GDP contraction did deepen in 2Q20 (-3.2% qoq, after -1.3% in 1Q20), but the hit to activity stemmed essentially from tumbling external demand – reflecting collapsing activity in trading partners. Conversely, domestic spending proved resilient. Consumer spending started to recover from a weak 1Q20, while investment saw only limited falls in construction and facilities expenditure.

We expect the economic recovery to continue in 2H20. Nevertheless, private consumption is expected to slow considerably in the later part of 3Q20 due to a rising coronavirus tally and the authorities' tightening of social distancing guidelines. The possibility of a further increase in restrictions to the authorities' "Level 3" guidelines is a risk to the growth outlook.

The economy should stand to benefit from the increase in Chinese activity underway. Timely export data show the Korean external sector continues to improve. Electronics goods exports are driving the rebound, amid a surge in demand for telecommuting devices. Large fiscal support and loose monetary policy should also support domestic demand. We now expect GDP to fall by -1.1% this year (a revision of -0.2pp since the June GEO), followed by a 3.7% increase in 2021 and 2.9% in 2022.

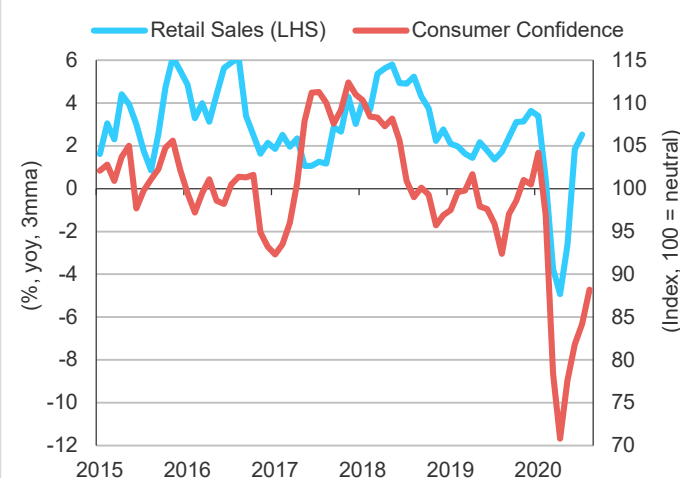
We expect headline inflation to gradually accelerate from lows towards the middle of next year, as the recovery gathers pace and oil prices recover. Nevertheless, weak underlying domestic demand should keep inflation well below the Bank of Korea's (BoK) 2% target. This should prompt the BoK to keep its monetary policy stance loose, and we are now pencilling in another 25bp rate cut this year. We also expect the BoK to launch an asset-purchase program, though it may be limited.

Korea - Goods Exports



Source: Fitch Ratings, Korea Custom Service, Haver Analytics

Korea - Retail Sales & Consumer Confidence



Source: Fitch Ratings, KOSTAT, Bank of Korea, Haver Analytics

Korea - Forecast Summary

(%)	Ann. Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	2.8	2.0	-1.1	3.7	2.9
Consumer Spending	2.5	1.7	-4.4	2.8	2.5
Fixed Investment	3.3	-2.8	3.3	3.0	3.2
Net Trade (contribution pps.)	-0.3	1.0	-1.0	1.2	0.6
CPI Inflation (end-year)	1.3	0.4	0.3	1.0	1.5
Policy Interest Rate (end-year)	1.63	1.25	0.25	0.25	0.50
Exchange Rate, USDKRW (end-year)	1115	1158	1180	1110	1080

Source: Fitch Ratings

Indonesia

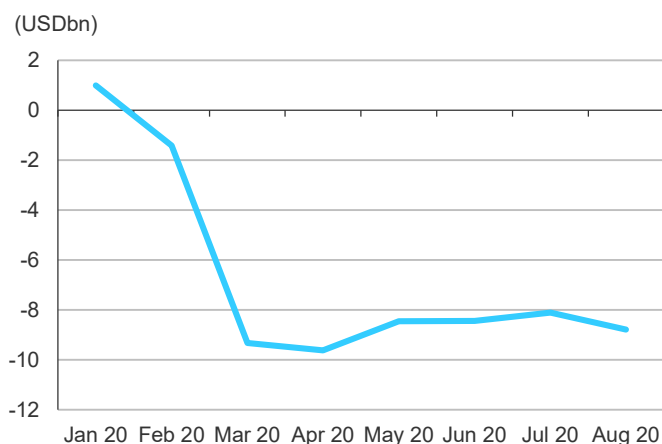
Indonesian GDP fell by 5.3% yoy in 2Q20, a slightly smaller fall than expected in June (-5.9%). All the demand components registered a double-digit drop, including public consumption. Economic activity should benefit from a post-lockdown bounce in 3Q20. However, with the number of daily new virus cases continuing to increase and some social restrictions being extended, the rebound should be modest.

Weak imports and still-depressed business and consumer sentiment suggest that domestic demand recovery is slowing. Retail sales flattened out in July, though the manufacturing PMI continued to improve in August. We still see the annual GDP contraction at 2% in 2020 (unchanged since the June GEO). In the coming quarters, growth should benefit from the Chinese stimulus buoying the demand for commodities and increased infrastructure spending. We forecast GDP to grow 6.2% in 2021 (a revision of -0.4pp) and 5.5% in 2022 (unchanged).

Weak foreign investor appetite and Indonesia's low revenue base have prompted Bank Indonesia (BI) and the government to come to an arrangement to fund the large fiscal deficit for this year. BI has increased its purchases of government bonds on the primary market (since April) to finance IDR574 trillion of debt issuance, roughly two-thirds of the projected fiscal deficit this year. The government stresses this policy as one-off arrangement.

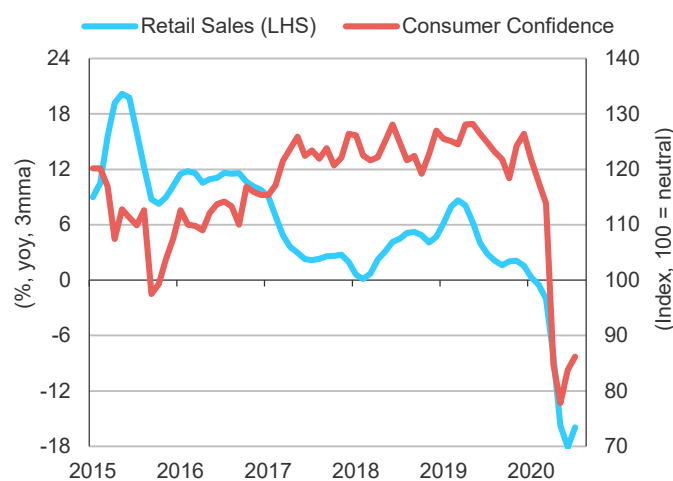
Inflation has slipped continuously since February, pulled down both by the volatile and core components. We think inflation will have troughed in 3Q20. It should stage a recovery thereafter on rising oil prices and a normalisation of food price inflation. We think monetary financing will be used as a temporary measure and therefore should not de-anchor inflation expectations amid this year's environment of demand compression. Nevertheless, market sentiment remains fragile, and has been undermined by recent media reports of discussions in parliament to amend BI's governance and monetary board structure. Persistent currency volatility and an expected acceleration in inflation should keep BI cautious - we think the bank's rate-cutting cycle is over and expect a gradual pace of monetary normalisation starting in 2021.

Indonesia - Cumulative Portfolio Net Flows



Note: Cumulative from January 2020
Source: Fitch Ratings, IIF, Haver Analytics

Indonesia - Retail Sales & Consumer Confidence



Source: Fitch Ratings, Bank Indonesia, Haver Analytics

Indonesia - Forecast Summary

(%)	Ann. Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	5.0	5.0	-2.0	6.2	5.5
Consumer Spending	5.0	5.2	-2.7	6.1	6.1
Fixed Investment	5.3	4.5	-5.7	5.1	5.4
Net Trade (contribution pps.)	0.4	1.4	0.8	0.9	0.3
CPI Inflation (end-year)	4.7	2.6	1.7	2.8	3.2
Policy Interest Rate (end-year)	6.06	5.00	4.00	4.50	4.75
Exchange Rate, USDIDR (end-year)	13236	13901	14400	14200	14200

Source: Fitch Ratings

Mexico

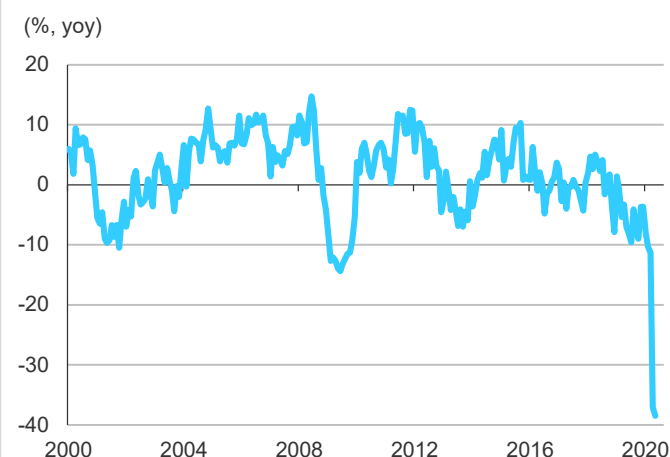
GDP fell by 18.9% yoy in 2Q20, much worse than our June GEO forecast of -13.3%. Along with signs of a muted 3Q20 recovery we have downgraded our 2020 GDP forecast to -10.8% from -9.1% in June. The rate of new coronavirus cases (itself a function of the rate of testing as well as the prevalence of the disease) has started to fall but is not far off its recent highs. A smaller direct fiscal response is also a factor behind the relatively shallow pace of recovery. The 2021 budget to be released on 8 September is not expected to signal a break with the relatively tight fiscal stance.

The manufacturing sector is closely linked to the US but suffered a steeper contraction and has shown a more sluggish recovery than its US counterpart, partly as a result of differing lockdown stringency. Investment has fallen very steeply, possibly reflecting investor perceptions around the investment climate as well as virus-related disruptions.

The economy showed some signs of recovery in June, with industrial production jumping 17.9% from the month earlier but we expect the rebound to be modest. July manufacturing PMI data pointed to another marked decline in business conditions, and the high number of coronavirus cases will likely hinder domestic demand and constrain a rebound in tourism exports. Many businesses remain closed despite a loosening of restrictions, leading to additional job cuts.

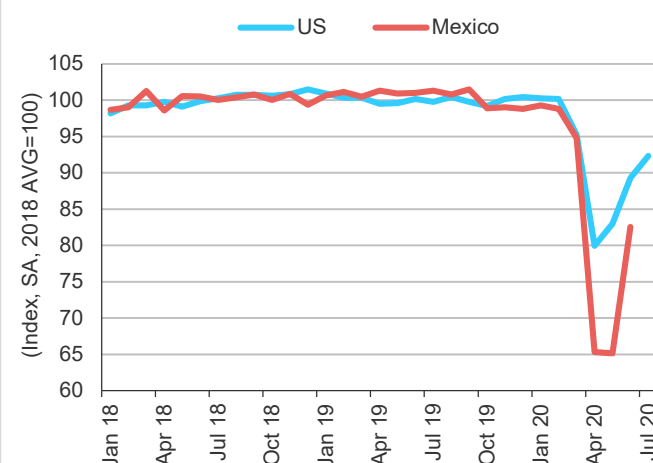
Headline inflation edged up to 3.6% yoy in July, from 3.3% in June. Goods price inflation, in particular food price inflation, has accelerated reflecting earlier peso depreciation, while services prices fall. We expect inflation to end the year at 3.5%, due to further currency appreciation, significant economic slack and the fading impact of higher fuel prices. We expect the Banco de Mexico, which has lowered interest rates to 4.5% in 50bp steps, to make two further 25bp cuts, leaving the rate at 4% by end-2020. This is significantly higher than in many other EMs, and still a positive real rate.

Mexico - Gross Fixed Capital Formation



Source: Fitch Ratings, INEGI, Haver Analytics

Mexico - Manufacturing Output vs US



Source: Fitch Ratings, Fed, INEGI, Haver Analytics

Mexico - Forecast Summary

(%)	Ann. Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	2.0	-0.3	-10.8	4.4	2.8
Consumer Spending	2.5	0.4	-9.0	4.5	3.0
Fixed Investment	0.1	-5.1	-16.0	4.7	3.2
Net Trade (contribution pps.)	0.2	0.9	-0.1	0.1	0.2
CPI Inflation (end-year)	4.1	3.6	3.5	3.4	3.2
Policy Interest Rate (end-year)	4.99	7.25	4.00	4.00	4.50
Exchange Rate, USDMXN (end-year)	17.20	18.85	22.00	21.50	21.00

Source: Fitch Ratings

Poland

Poland's economy shrank by 8.9% qoq in 2Q20 driven by a collapse in both private consumption (-10.8% qoq) and fixed investment (-11.4% qoq). Nevertheless, the contraction was still the smallest amongst the Visegrad four countries. This reflected the economy's lower reliance on external demand and a large dose of policy stimulus. Combined expenditure and revenue-side measures of PLN130.15 billion (5.8% of 2019 GDP) had been implemented as of 19 August. There are signs that the bottom has been reached, with retail sales and industrial orders both returning to positive real growth yoy in July.

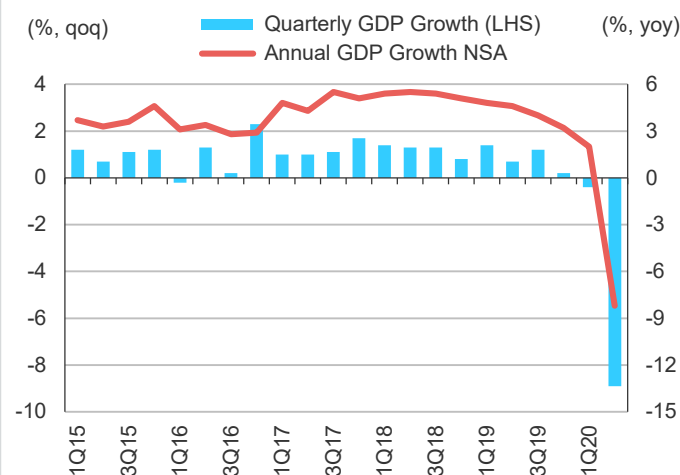
Fitch expects growth to return in 3Q20, as restrictions have been eased and economic activity picks up. Risks primarily arise from the potential imposition of a new lockdowns if coronavirus cases surge. Most governmental wage-support measures are set to expire by September, which could cause unemployment – which reached 6.3% as of July – to increase at least temporarily.

We expect investment growth – particularly in the public sector – to be strong from 4Q20, extending into 2021, owing both to base effects as well as the heightened absorption of EU funds, in line with the closure of the current EU funding cycle. The availability of additional EU funding under the Next Generation rescue package will pose an upside to growth.

Inflationary pressures were strong in 2Q20 despite the sharp shock to economic growth, reaching a peak of 3.3% yoy in June. Inflation will peak at 3.4% (annual average basis) in 2020, before falling to 2% in 2021 mainly due to base effects.

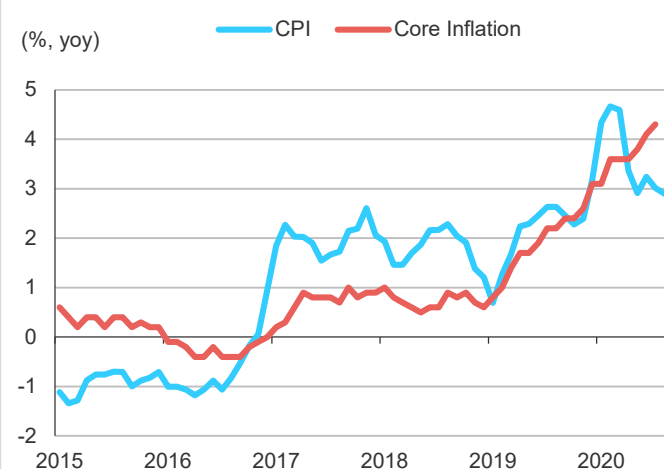
The central bank's cumulative interest rates cut of 140bp since February signal, in our view, a prolonged period of tolerance of low rates to boost growth. Fitch expects normalisation of rates to begin only in 2021, to 0.3%, reaching 0.5% by end-2022.

Poland - Real GDP Growth



Source: Fitch Ratings, CSO, Haver Analytics

Poland - Inflation



Source: Fitch Ratings, CSO, NBP, Haver Analytics

Poland - Forecast Summary

(%)	Ann. Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	4.2	4.1	-3.5	4.5	3.3
Consumer Spending	3.9	3.9	-5.0	5.8	3.6
Fixed Investment	3.7	7.2	-4.0	5.8	2.9
Net Trade (contribution pps.)	0.5	1.1	0.3	-0.4	0.0
CPI Inflation (end-year)	0.5	3.2	2.8	1.4	3.5
Policy Interest Rate (end-year)	1.69	1.50	0.10	0.30	0.50
Exchange Rate, USDPLN (end-year)	3.65	3.80	3.70	3.65	3.60

Source: Fitch Ratings

Turkey

Fitch has upgraded its GDP forecast for Turkey and now expects a fall of 3.2% in 2020 (from -3.9% in the June GEO). This reflects a stronger-than-previously forecast recovery to date in 3Q20, boosted by credit-fueled domestic demand and a recent rise in exports. The economy contracted 11% qoq in 2Q20 (versus -9.7% qoq in our previous GEO). Exports collapsed by 33.6% qoq in 2Q20, far larger than the 15.8% contraction in imports, leading to a substantial negative net trade contribution. Despite loose fiscal and monetary policy, private consumption plunged by 9% qoq, while investment suffered a more moderate decline (-7.2% qoq).

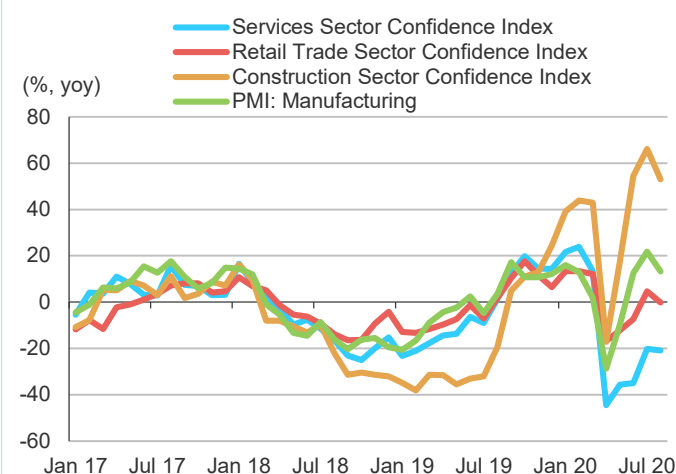
Economic activity rebounded quickly, however, with industrial production picking up 18% month on month both in May and June and retail sales jumping. Credit growth reached 33.2% yoy (on a 13-week annualised basis and foreign-currency adjusted) in July, mainly originated by state banks and largely composed of credit to consumers. This has helped to support the fast turnaround in domestic demand.

The manufacturing PMI returned to growth in June (at 53.8), and strengthened further in July to 56.9. The indicator weakened slightly in August but remained well above the 50 benchmark, reflecting a robust increase in new orders, production and customer demand.

Tourism is also showing some signs of recovery and we expect the external sector to be less of a drag on growth in 2021-2022 as external demand recovers and import growth slows due to weaker credit stimulus. Growth will remain above trend at 5% in 2020 and 4.6% in 2021 and we expect GDP to reach its pre-crisis (4Q19) level by end-2021.

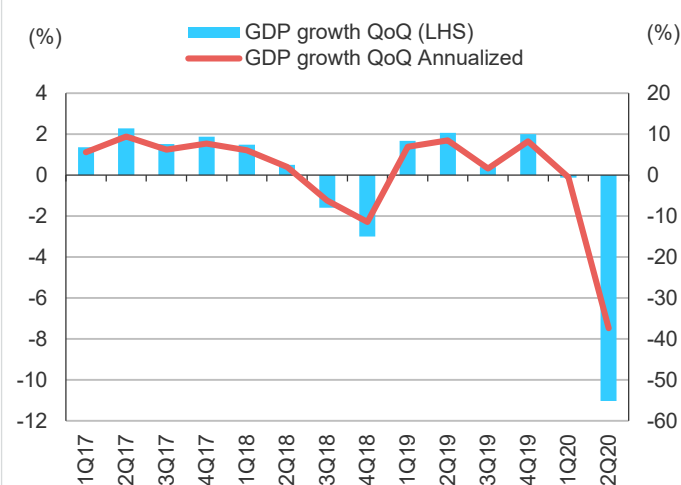
Lira depreciation accelerated in August, leading to a 24% weakening year-to-date, and spurring higher input costs. Inflation eased in August to 11.8% (from 12.6% in June), and although pass-through from the exchange rate could lead to a temporary increase in CPI in 2H20, we expect inflation to decelerate in 2020. We forecast the Central Bank of the Republic of Turkey will further tighten liquidity through the rate corridor before raising rates by 100bp to 9.25% this year.

Turkey - Survey and Confidence Indicators



Source: Fitch Ratings, Turkstat, IHS Markit, Haver Analytics

Turkey - Quarterly GDP Growth



Source: Fitch Ratings, Turkstat, Haver Analytics

Turkey - Forecast Summary

(%)	Ann. Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	4.2	0.9	-3.2	5.0	4.6
Consumer Spending	3.2	0.7	1.2	5.7	5.7
Fixed Investment	1.4	-12.4	-3.9	5.0	5.2
Net Trade (contribution pps.)	1.1	2.4	-4.7	-0.5	-0.5
CPI Inflation (end-year)	10.3	11.8	10.8	11.0	11.1
Policy Interest Rate (end-year)	9.57	12.00	9.25	10.25	11.25
Exchange Rate, USDTRY (end-year)	3.28	5.95	7.60	7.90	8.10

Source: Fitch Ratings

South Africa

Fitch has downgraded its growth forecasts for South Africa to -8.5% in 2020 (from -6.7% in June). The country is likely to register the deepest on record fall in output in 2Q20 (at a forecast -17.7% qoq versus -10% assumption in the previous GEO), reflecting the severe impact of lockdown measures on the economy. We expect an increase in activity in 3Q20 as national lockdown was eased further in August.

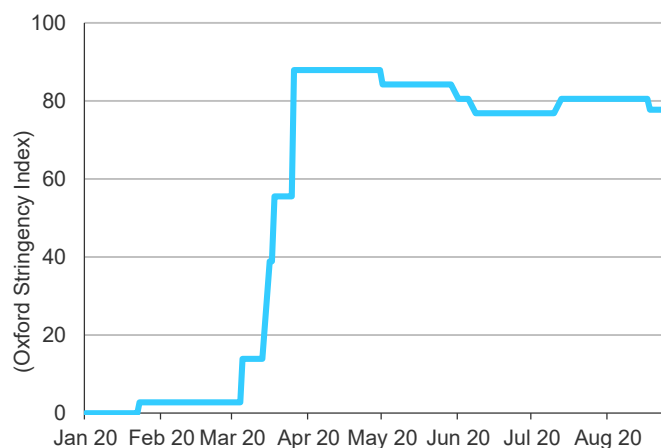
Recently released hard data point to a collapse in activity in 2Q20, with seasonally adjusted wholesale and retail trade declining by 19.9% and 23.5%, respectively. Manufacturing and mining production (s.a) both fell by 30.2% qoq in 2Q20, while electricity generation fell 10% qoq.

The contraction mainly occurred in April, however, with trade rebounding sharply in May and recovering further in June. Manufacturing production surged 30.4% in May from April and 16.8% in June from the month earlier, while manufacturing PMI jumped to 57.3 in August from 51.2 in July, which bodes well for 3Q20. Although demand remains subdued and job shedding seems set to continue, more companies will re-open and many are back to normal capacity as the government loosened restrictions further in August.

Limited fiscal space will constrain any further rise in government spending. As the consolidated fiscal deficit surges to 14.9% of GDP in FY20/21, the government plans to present a fiscal consolidation plan in its Medium-Term Budget Policy Statement in October. Growth will be above trend in 2021-2022 but we don't expect GDP to return to pre-shock level (4Q19) within the forecast horizon, as renewed electricity cuts and lack of fiscal support will weigh on growth.

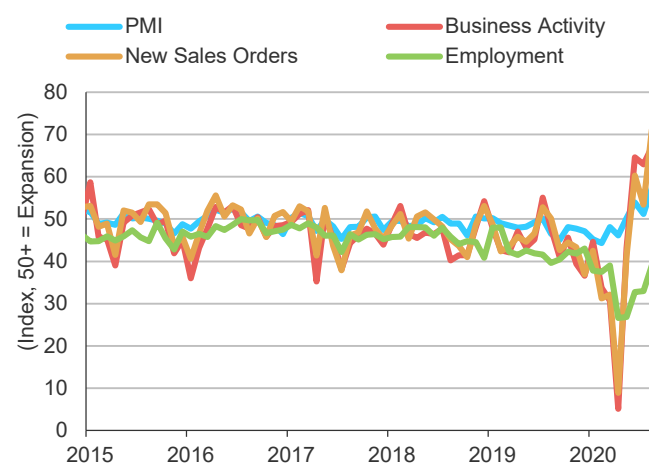
The South African Reserve Bank is facing pressures to support the recovery beyond its measures so far, given the constraints on fiscal stimulus, but risks to the exchange rate and recent increase in inflation, to 3.2% yoy in July from 2.2% yoy in June, will prevent further cuts this year. A gradually closing output gap will push up inflation in 2021-2022 towards the mid-point of the central bank's target band of 3%-6%.

South Africa - Lockdown Stringency



Source: Fitch Ratings, University of Oxford, Haver Analytics

South Africa - Survey Indicators



Source: Fitch Ratings, Bureau of Economic Research South Africa, Haver Analytics

South Africa - Forecast Summary

(%)	Ann. Avg. 2015-2019	2019	2020F	2021F	2022F
GDP	0.8	0.2	-8.5	4.3	2.5
Consumer Spending	1.5	1.0	-7.7	5.9	3.6
Fixed Investment	-0.5	-0.9	-18.1	5.6	3.7
Net Trade (contribution pps.)	-0.2	-0.6	1.2	-0.7	-0.6
CPI Inflation (end-year)	5.4	4.0	3.2	4.0	4.2
Policy Interest Rate (end-year)	6.39	6.50	3.50	3.50	4.00
Exchange Rate, USDZAR (end-year)	12.98	14.03	17.00	17.10	17.20

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	-9.1	5.7	0.2	1.5	1.4	1.4	1.2
Euro area	0.3	0.0	-3.6	-12.1	6.4	1.9	2.0	1.6	1.4	0.9
China	1.4	1.4	-10.7	12.4	4.1	3.3	0.2	0.2	0.1	0.1
Japan	0.0	-1.8	-0.6	-7.8	4.5	1.3	1.0	0.9	0.6	0.4
UK	0.5	0.0	-2.2	-20.4	12.1	3.2	-0.1	0.0	2.9	1.9
Germany	0.3	0.0	-2.0	-9.7	5.1	2.3	1.7	1.6	1.1	0.7
France	0.2	-0.2	-5.9	-13.8	10.8	3.6	0.6	0.6	0.5	0.6
Italy	0.0	-0.2	-5.5	-12.8	9.8	2.5	1.0	0.8	0.9	0.9
Spain	0.4	0.4	-5.2	-18.5	9.9	3.7	2.1	1.4	1.1	1.1
Switzerland	0.4	0.8	-2.5	-8.2	4.0	2.1	2.1	1.8	0.8	0.7
Australia	0.5	0.6	-0.3	-7.0	0.4	3.8	1.3	1.0	0.8	0.9
Canada	0.3	0.1	-2.1	-11.5	7.4	1.3	1.2	1.1	1.1	0.9
Brazil	0.1	0.5	-2.5	-9.7	6.2	2.1	0.4	0.6	0.5	0.5
Russia	0.4	0.5	0.3	-8.6	0.7	1.4	2.3	1.6	1.5	0.6
India	0.7	1.2	0.3	-25.6	19.7	6.6	1.1	1.1	0.8	1.1
Korea	0.4	1.3	-1.3	-3.2	1.8	1.2	1.4	1.1	0.7	0.7
Mexico	-0.2	-0.6	-1.2	-17.1	6.5	4.0	1.7	1.3	0.8	0.6
Indonesia	1.2	1.2	-0.8	-6.9	3.4	2.1	2.0	2.2	1.4	1.3
Turkey	0.4	2.0	-0.1	-11.0	5.2	3.4	1.4	1.0	1.0	1.0
Poland	1.2	0.2	-0.4	-8.9	4.6	2.3	1.4	1.1	0.8	0.8
South Africa	-0.2	-0.4	-0.5	-17.7	11.5	2.9	0.9	0.7	0.6	0.6
Developed ^a	0.4	0.1	-2.0	-10.5	6.5	1.3	1.3	1.2	1.3	1.0
Emerging ^b	0.9	1.1	-6.0	0.5	5.8	3.3	0.7	0.6	0.5	0.4
World ^c	0.6	0.5	-3.5	-6.4	6.2	2.1	1.1	1.0	0.9	0.8

^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 USD at market exchange rates (3 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	-9.1	-4.5	-4.9	-2.3	8.9	4.5	5.6
Euro area	1.4	1.0	-3.1	-15.0	-9.8	-8.1	-2.7	12.4	7.2	6.1
China	6.0	6.0	-6.8	3.2	6.0	8.0	21.1	7.9	3.7	0.5
Japan	1.7	-0.7	-2.0	-10.0	-6.0	-3.1	-1.4	7.9	3.9	3.1
UK	1.3	1.1	-1.7	-21.7	-12.7	-9.9	-7.9	15.7	6.2	4.8
Germany	0.8	0.4	-2.2	-11.3	-7.0	-4.9	-1.2	11.2	6.9	5.3
France	1.6	0.8	-5.7	-18.9	-10.3	-6.9	-0.6	16.0	5.3	2.3
Italy	0.5	0.1	-5.6	-17.7	-9.7	-7.2	-0.8	14.7	5.3	3.7
Spain	1.9	1.8	-4.1	-22.1	-14.7	-12.0	-5.2	18.0	8.5	5.7
Switzerland	1.3	2.2	-0.8	-9.4	-6.2	-5.0	-0.6	10.3	6.9	5.5
Australia	1.8	2.3	1.6	-6.3	-6.4	-3.3	-1.9	6.6	7.0	4.0
Canada	1.6	1.5	-0.9	-13.0	-6.8	-5.8	-2.6	11.2	4.7	4.3
Brazil	1.2	1.7	-0.3	-11.4	-5.9	-4.4	-1.7	9.5	3.6	2.0
Russia	1.5	2.1	1.6	-8.5	-7.2	-6.3	-4.4	6.3	7.1	6.2
India	4.4	4.1	3.1	-23.9	-9.6	-4.8	-4.0	30.4	9.7	4.0
Korea	2.0	2.3	1.4	-2.7	-1.4	-1.5	1.1	5.6	4.5	3.9
Mexico	-0.4	-0.7	-1.4	-18.9	-13.2	-9.3	-6.7	14.0	7.9	4.4
Indonesia	5.0	5.0	3.0	-5.3	-3.3	-2.4	0.3	10.0	8.0	7.1
Turkey	1.0	6.4	4.4	-9.9	-4.6	-3.3	-1.8	11.4	6.9	4.4
Poland	4.0	3.2	2.0	-8.0	-4.9	-2.9	-1.1	9.7	5.7	4.1
South Africa	0.1	-0.5	-0.1	-18.6	-9.1	-6.1	-4.8	16.5	5.1	2.7
Developed ^a	1.7	1.4	-1.2	-11.8	-6.6	-5.5	-2.4	10.5	5.1	4.8
Emerging ^b	4.2	4.4	-3.0	-4.2	0.0	2.1	10.3	10.7	5.1	2.2
World ^c	2.6	2.5	-1.8	-8.9	-4.1	-2.6	2.5	10.6	5.1	3.8

^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 USD at market exchange rates (3 year average)

Source: Fitch Ratings

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