ECO PERSPECTIVES

Eco PERSPECTIVES by BNP PARIBAS

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EDITORIAL

ECONOMIC RESEARCH

BNP PARIBAS

The bank for a changing world

EDITORIAL

AFTER A MOST DIFFICULT YEAR, CAUTIOUSLY HOPEFUL FOR 2021

Until the very end, 2020 has been a difficult year, to say the least. However, there are reasons to be cautiously hopeful about the economy in 2021. Vaccination should reduce the uncertainty about the economic outlook. Ongoing fiscal and monetary support is also important. However, more than ever, caution is necessary in making forecasts. Reaching herd immunity may take longer than expected and some of the economic consequences of the pandemic may only manifest themselves over time.

2020 has been a difficult year, to say the least. The Covid-19 recession was completely unexpected, abrupt and deep. It has triggered a huge effort from monetary and in particular fiscal policy to cushion the impact on the financial situation of households and companies. 2020 was difficult until the very end with another wave of infections in the US and several European countries, causing new restrictions. High frequency indicators such as the Google Mobility[1] data – which are closely correlated with household spending - show that the rebound after the drop in November has come to a halt. This means that the new year will start on a softer note than previously expected.

CAUTIOUSLY HOPEFUL

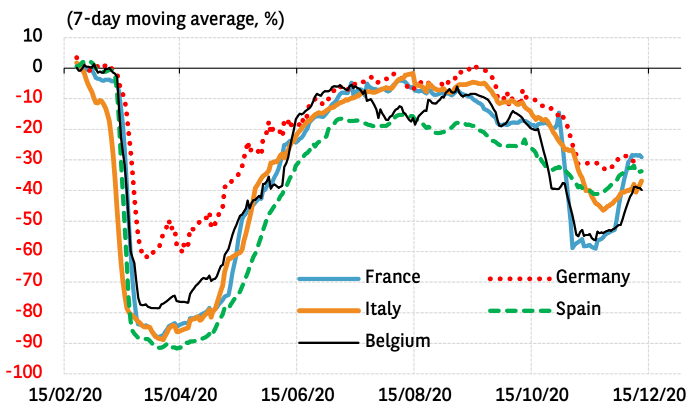
Nevertheless, there are reasons to be cautiously hopeful about the economy in 2021. Vaccination has already started in some countries and will gradually be extended to others. This should lower the risk of disruptions due to waves of new infections and hence reduce the uncertainty about the economic outlook. Consequently, the support coming from fiscal and monetary policy should make itself felt more clearly. However, more than ever, caution is necessary in making forecasts. Reaching herd immunity may take longer than expected, which would imply that infections-related uncertainty might linger on. In addition, we should be mindful that the links between final demand and its drivers -e.g. interest rates, income, company earnings- are not rigid. Psychology plays a key role. For households, unemployment expectations are an essential indicator to monitor. After declining during the economic rebound in the third quarter, the assessment by European households of the labour market outlook has deteriorated again as of late. In the near term, this may act as a drag on spending and boost precautionary savings. In addition, savings have been increased as consumer choices were restricted by the lockdown measures. Subsequently, as the outlook improves, this should go in reverse and households may very well tap into the savings accumulated during lockdown. For companies, what matters more than anything is visibility stretching far enough into the future. It will drive their decisions in terms of investments and recruitment. The latest European Commission survey on investment intentions shows only a small increase is planned for next year. The aggregate picture masks a high degree of heterogeneity. Business sentiment in the manufacturing sector has been holding up well in the euro area whereas services are suffering from the restrictions introduced in recent weeks. Companies that have seen a big increase in their debt load due to a drop in turnover during lockdown may prioritise deleveraging over investing. On the other hand, profitable businesses with a good balance sheet and an improving demand outlook may step up their investments, which would have favourable spillover effects on other sectors.

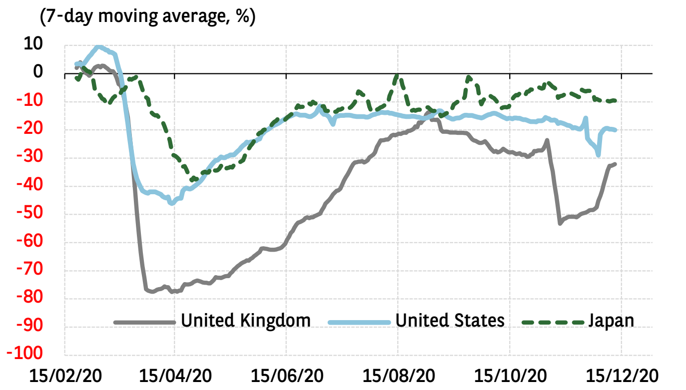
1 Google Mobility Reports show how visits and length of stay at different places change compared to a baseline. The baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020. A figure of negative 30% indicates that traffic was down 30% compared to a baseline. The reports show trends over several weeks with the most recent data representing approximately 2-3 days ago—this is how long it takes to produce the reports. In order to smooth the series, we use a seven-day moving average of the raw data in the Google Mobility Reports. Source: Google.

UNEASE ABOUT THE 'KNOWN UNKNOWNS'

Assessing the pace of growth in 2021 and beyond is challenging because some of the consequences of the pandemic may only manifest themselves over time. This would mean that the economy could still face headwinds even when the health situation would be considered under control. A key unkown is the impact of ending income and liquidity support measures to households and businesses. There is concern that this could cause an increase in unemployment, as companies which are financially fragile try to lower their cost base or close their activities altogether. This implies that the pick-up in activity will need to be sufficiently strong, in particular in sectors such as leisure and hospitality which have been under huge stress due to social distan-

RETAIL AND RECREATION MOBILITY





SOURCE: GOOGLE (LAST UPDATE 13/12/2020), BNP PARIBAS cing and administrative closures. Another important unknown is the reaction of financial markets should central banks gradually shift their guidance in reaction to a sustained increase in GDP. Finally, there is the important question to which extent changes in behaviour observed this year could become permanent. This unknown is particularly relevant at the sector level. One can think of how working from home will influence the need for office space, how online shopping will impact the demand for retail shopping space, how video streaming will weigh on visits to cinemas, theatres or stadiums and how video conferencing can have repercussions on business travel.

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UNITED STATES

CHANGE OF SCENERY

The 46th president of the United States, Joe Biden, will face a difficult mandate. At the time of his inauguration on 20 January 2021, he will inherit a sluggish economy, as the Covid-19 pandemic continued to worsen with a human toll of tragic proportions. Looking beyond the health crisis, the new Democratic administration will have to act on political and social stages that have never seemed so antagonistic at the dawn of a new decade. With his reputation as a man of dialogue, Joe Biden will need all of his long political experience and skills in the art of compromise to try to heal America's divisions.

Though not the landslide the polls predicted, Joe Biden's victory was nonetheless decisive: with 81.3 million popular votes (51.4% of votes cast) and 306 electoral votes out of a total of 538, the Democrat candidate won the 3 November election and was elected the 46th president of the United States. His term will begin with his inauguration on 20 January 2021. Kamala Harris will be the first woman to become Vice-President.

WHAT MANOEUVRING ROOM FOR PRESIDENT BIDEN?

And then what? President Biden's ability to get things done will depend on the balance of power in Congress. The elections did not spark the "Blue Wave" that the Democrats were hoping for: according to the vote count as of 6 December, the Democratic Party barely held on to their majority in the House of Representatives (222 seats, just above the minimum threshold of 218 seats), while the Republicans gained 10 seats. All eyes are now focused on the Senate, whose support is vital for the passage of laws and treaties and for confirming nominations to key positions (including Supreme Court justices, Federal Judges and the Attorney General). So far, the Republican Party has clung to 50 seats while the Democrats have won 48. The two remaining seats are both in the State of Georgia. Since none of the candidates managed to obtain the required 50% of the vote during the general election, a runoff election will be held on 5 January 2021. If the Democrats win both seats, the Senate would be split equally with 50 seats for each party, in which case the Vice-President, Kamala Harris, who is also president of the Senate according to the Constitution, would cast the tie-breaking vote. A lot of US government policy in the years ahead will depend on which way Georgia votes on 5 January.

President-elect Biden has made some bold proposals, from healthcare (strengthen Obamacare, provide easier access to Medicare and Medicaid, introduce universal healthcare for children, Federal subsidies for private insurance policies...) to labour conditions (raise the Federal minimum hourly wage from USD 7.50 to USD 15; improve the status of the self-employed, double Federal funding for the State Small Business Credit Initiative...) and education (increase the number of scholarships, free education through community college for students from low-income households, student loan forgiveness after 20 years of repayments...), but there is very little chance these measures would be adopted if there is a Republican majority in the Senate. Even within the Democratic camp, these proposals would be subject to compromise. In other areas, however, President Biden will have greater manoeuvring room, especially in foreign affairs, where he is likely to act through presidential decrees.

The United States will re-join the Paris Climate Agreement, which is not a treaty and thus does not require Senate approval. This is one example from Biden's list of campaign promises that will be met. There could also be some bipartisan support for industrial policies (stricter place-of-origin rules to qualify as "made in America"; Federal

GROWTH AND INFLATION (%)

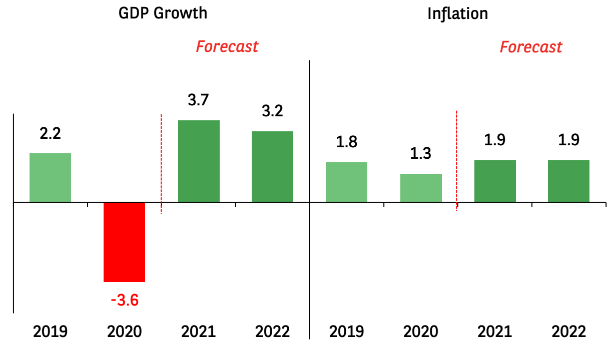

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

ELECTION RESULTS OF NOVEMBER 3, 2020

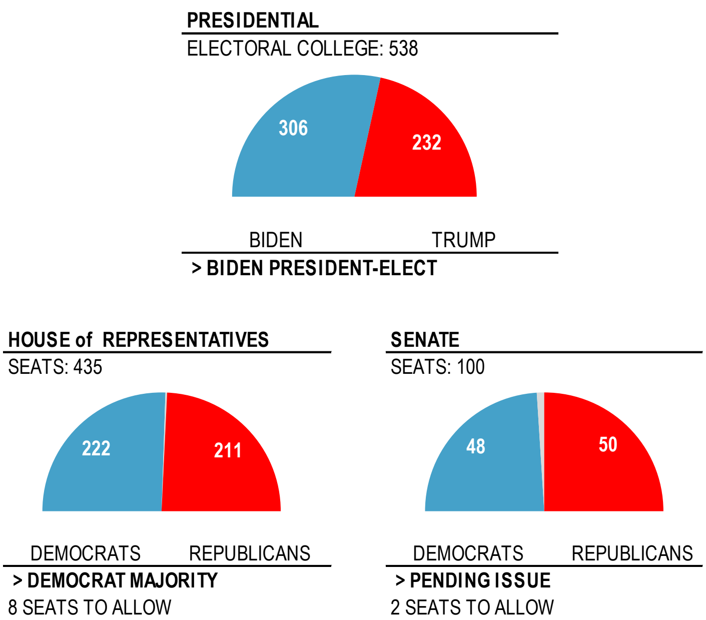

CHART 2 SOURCE: ASSOCIATED PRESS

purchases of American products; greater investment in research and development) and infrastructure investment (road repairs, high-speed internet services, encouraging the development of rail and public transportation).

HEALTH EMERGENCY AND THE ECONOMIC CRISIS

The immediate priority for the Biden administration will be to fight the pandemic, after an alarming resurgence that threatens to worsen an already dire human toll (nearly 300,000 deaths) and social-economic disaster (nearly 10 million jobs have already been destroyed). As we were going to press, the number of new Covid-19 cases, aggravated by the Thanksgiving holiday, had already risen to an all-time high, with 175,000 new cases daily, or nearly 53 new cases per 100,000 inhabitants. This is twice as high as in Europe[1]. Initially hitting the more rural states (North Dakota, Indiana, Kansas, Utah and Colorado), the second wave of the pandemic has returned to the big metropolitan areas.

Even if a vaccine does become available in late 2020 or early 2021, the situation will continue to worsen in the weeks ahead. In a recent speech before the Bay Area Council Economic Institute, Federal Reserve Chairman Jerome Powell warned that the next few months would be "very difficult". The State of New York, which has waged one of the bitterest fights against the pandemic, has had to close its schools again, while most retail stores and public spaces have shut down again in California. Mobility reports by the internet search engines show that activity is slowing. After rebounding for several months, private consumption seems to have contracted in November, falling between 1% and 1.5% (see box and chart 3). Moreover, this decline is expected to worsen in December.

Even before he was elected, Joe Biden worked with House Chair Nancy Pelosi to promote a supplemental budget package to fight the pandemic. The pre-electoral atmosphere combined with the summer's economic rebound was not propitious for a bipartisan budget agreement, and the status quo prevailed. With the economic horizon darkening again, this stand-off seems increasingly unsustainable. Recently, a bipartisan initiative was launched in the Senate to unblock nearly USD 1,000 bn in emergency funds. In addition to purely health-related measures (widespread testing and tracing procedures; facilitating access to healthcare), the package proposes to raise and extend the Federal Unemployment Benefit Program (which was lowered to USD 400 a week) and to beef up the Paycheck Protection Program, a support mechanism for small businesses.

Completed on 7 December 2020

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1 At 5 December 2020, the Covid-19 incidence rate in the European Union was 23 new cases a day per 100,000 inhabitants (7-day moving average for Germany, France, Italy, Spain, Portugal, the Netherlands, Belgium, Austria, and Ireland) compared to 53 new cases per 100,000 in the United States. Source: Johns-Hopkins University.

MONITORING PRIVATE CONSUMPTION

From artificial intelligence to e-commerce, social networks and video conferencing, the digital revolution has accelerated in all its forms during the Covid-19 crisis. Faced with the need to track the pandemic, new tools have been developed to measure consumer behaviour that draw on "big data". Google, the internet search engine, issues daily Mobility Reports for all regions of the world based on the use of its apps, such as Google Maps. Whereas for national institutions, the production of statistics has been disrupted by the pandemic, these online tools have proven to be very useful for estimating the loss of production attributable to social distancing and/or lockdown restrictions. In France, there seems to be a strong correlation with economic activity (Insee, 2020[1]). The same observation can be made for the United States, where private consumption trends, usually available on a monthly basis, can be analysed using the search engines' mobility reports. Based on an principal component analysis, the six destination criteria used by Google were weighted to obtain the following composite indicator:

$$\Delta IGM = 0{,}19.\Delta I_{RET} + 0{,}18.\Delta I_{RES} + 0{,}18.\Delta I_{TRANS} + 0{,}18.\Delta I_{PHARM} + 0{,}17.\Delta I_{WORK} + 0{,}10.\Delta I_{PARK}$$

where: Δ expresses monthly change (normalized) in indicators; **IGM** : the overall mobility indicator; I_{RET} : retail and recreation customer traffic indicator; I_{RES} : total time spent at home indicator (opposite sign); I_{TRANS} : public transport indicator; I_{PHARM} : food and pharmacy traffic indicator; I_{WORK} : commuting traffic indicator; I_{PARK} : park traffic indicator.

Estimates of private consumption trends were obtained using linear regression between the data series provided by the Bureau of Economic Analysis (BEA) and the IGM trend as calculated above. Although it is based on a limited number of observations and is thus fragile, the similarity is remarkable. For the month of November, it suggests that consumption will drop into negative territory after a 6-month rebound (see chart 3).

1 Insee, Point de conjoncture, 17 November 2020.

CONSUMPTION PLUNGES AGAIN

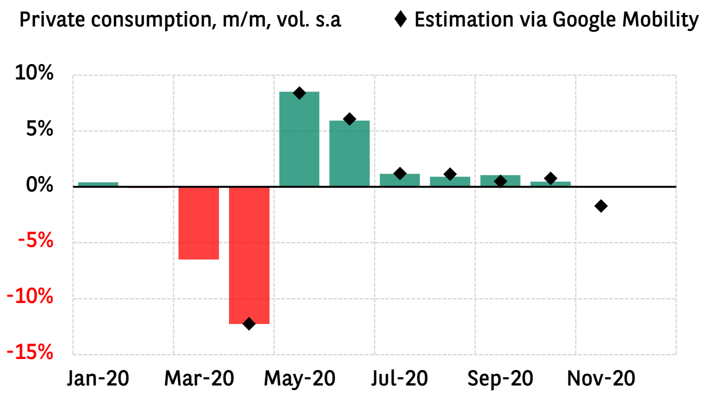

CHART 3 SOURCE: BEA, GOOGLE, BNP PARIBAS

CHINA

THE TIGHTENING IN CREDIT CONDITIONS IS A DELICATE EXERCISE

Economic activity has rebounded rapidly since March and has gradually spread from industry to services. Infrastructure and real estate projects continue to drive investment, but it has also begun to strengthen in the manufacturing sector as well, encouraged by solid export performance. Lastly, private consumption is still lagging, but yet has picked up vigorously since the summer. Whereas fiscal policy should continue to be growth-supportive in the short term, the monetary authorities are expected to adjust their priorities and return their focus on controlling financial risks. Credit conditions should be tightened slowly, especially via the introduction of new prudential rules. Corporate defaults are likely to increase alongside efforts to clean up the financial sector.

China has experienced a V-shaped economic recovery since lockdown restrictions were lifted last March. After contracting 10% between Q4 2019 and Q1 2020, real GDP regained all of the lost ground in just a quarter (+11.7% q/q in Q2). Real GDP then rose by 2.7% in Q3 and is expected to gain another 2% in Q4. Moreover, the recovery has gradually spread and strengthened. The rebound was initially driven by industrial production and by investment in public infrastructure and real estate, which were buoyed by policy stimulus measures. Then the rebound in global demand has boosted the export sector. Lastly, the services sector and private consumption have regained strength since the summer. In full-year 2020, real GDP growth is expected to reach 2% (chart 1).

However, the crisis triggered by the Covid-19 pandemic has left scars. Private consumption in particular is still far from returning to normal, since households have been hard hit by the downturn in the labour market and in disposable income. Moreover, enterprises have faced increasing financial difficulties while their debt ratios are excessively high. Credit risks are on the rise and we are bound to see an increase in corporate defaults on bank loans and in the bond market. The authorities have begun to adjust their credit policy to give priority to controlling the risks of instability in the financial sector, albeit without thwarting the turnaround in the economy.

V-SHAPED RECOVERY CONFIRMED

The economic recovery has been solid over the last months of 2020 (chart 2). On the supply side, industrial production has accelerated continuously since lockdown restrictions were first lifted in March, and reached 6.9% year-on-year (y/y) in September and October. In the first ten months of the year, industrial production was 1.8% higher in volume than the 2019 figure. In value terms, it has remained virtually flat given the nearly 2% decline in producer prices in 2020.

In the services sector, the rebound started much later, but activity has accelerated strongly since September. After plummeting in Q1, growth in the services sector swung from -0.4% y/y in Q2 to +4% in Q3. In October, it finally caught up with and surpassed the growth of industrial production (+7.4%). These sector dynamics are expected to continue in the short term, and services will resume their role as the main growth engine in 2021.

The acceleration in services kept pace with the renewed vigour of private consumption. Although online commerce picked up rapidly in Q2, the rebound in retail sales was very hesitant at first and did not consolidate until the end of the summer (+4.6% y/y in October). In the first ten months of the year, retail sales volumes were still nearly 8% below the 2019 level.

Households are regaining confidence, bolstered by the recent improvement in the labour market and by declining inflation. The urban unemployment rate has fallen since March, and hit 5.3% in October, the same level as at the beginning of the year. Consumer price inflation has fallen sharply since July, dropping from 2.7% y/y to a negative 0.5% in November. This is mainly due to the major slowdown in food prices, which had soared in Q4 2019 and in the first months of 2020. Core inflation is also low, but stable (+0.5% since July, down from a 2019 average of 1.6%).

Household demand should continue to recover, although it is likely to idle somewhat longer given the increase in the number of precarious jobs that accompanied the improvement in the labour market and the still mild increase in disposable income (+0.6% y/y in real terms in the first nine months of 2020). At the same time, new measures to

GROWTH AND INFLATION (%)

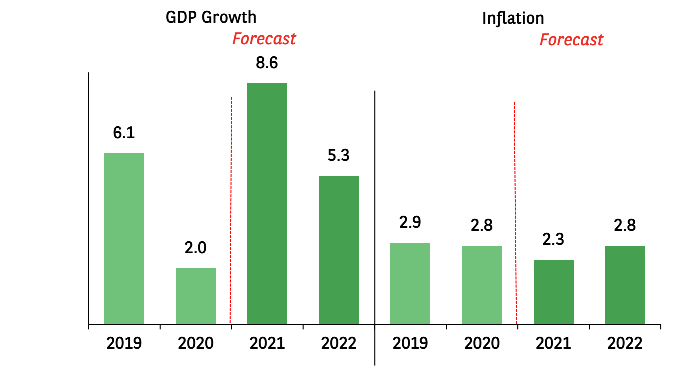

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

ECONOMIC ACTIVITY NORMALISES, BUT RETAIL SALES STILL LAG

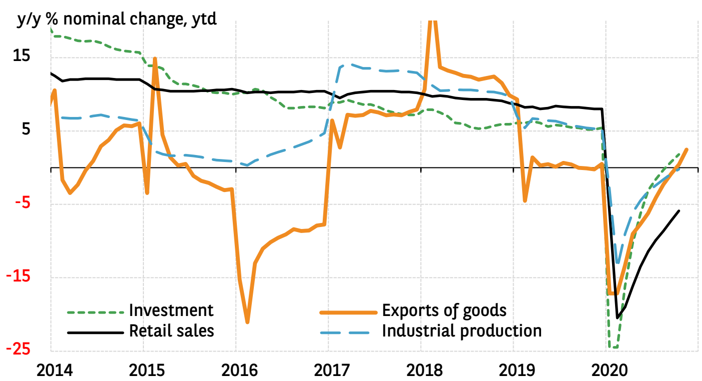

CHART 2 SOURCE: NBS, CEIC

stimulate private consumption will probably be adopted next year, since expanding consumption remains a top priority for China's economic strategy. In the new five-year plan presented last fall, the domestic market is clearly specified as one of the pillars of economic growth. The details of the 2021-2025 five-year plan will be released in March.

Domestic investment also strengthened in October (+1.8% y/y in the first ten months of 2020), largely fuelled by Infrastructure and real estate projects. Investment in the manufacturing sector is still weak, although it has shown signs of picking up, bolstered notably by the solid performance of exports. They have rebounded since June and rapidly gained strength, rising from an average of +10% y/y (in current USD) for the period July-October to 21% in November. China has successfully responded to the strong increase in global demand for medical supplies and equipment, technological goods, and more recently, for other consumer goods such as toys. Export prospects are still uncertain, however, since they are dependent on the ongoing turnaround in global demand, which hinges on the spread of the pandemic, and on future trade talks between Washington and Beijing.

THE AUTHORITIES READJUST THE CREDIT POLICY

Investment in infrastructure projects is expected to remain dynamic in the short term while real estate investment could lose some momentum, in response to economic policy adjustments. Fiscal policy and public investment are indeed expected to continue to support economic activity. Meanwhile, the authorities have begun to selectively tighten their credit policy.

Given the solidity of the economic rebound, the monetary authorities have now some leeway to adjust their goals and give priority to controlling risks in the financial sector. Yet tightening the screws on lending will be no easy task. On the one hand, it must not hamper the ongoing economic turnaround, nor add to deflationary pressures. Beijing probably also wants to avoid accentuating the yuan's appreciation, which has already gained 7% against the USD over the past six months. On the other hand, while encouraging healthy loan practices, the authorities must continue to support otherwise healthy enterprises that are encountering financial difficulties due to the Covid-19 crisis, while limiting the risks of instability and bouts of stress in the financial sector.

Since April, the central bank has maintained its key policy rate at 2.95% (after a 30bp cut earlier in the year), but has gradually tightened money market rates (the 7-day repo rate rose from an average of 1.5% in April to 2.3% in November). Even so, the central bank will probably limit the rise in domestic interest rates and also maintain liquidity at comfortable levels in the financial sector.

In contrast, the authorities are likely to slowly tighten credit conditions by acting primarily on the prudential framework and by demanding greater discipline from financial players. Last month they already introduced rules to put debt limits on real estate developers. They have also clearly signalled their determination to supervise internet finance more closely. In early December, they announced tighter prudential standards applicable to banks considered to be too big to fail, and the list of these institutions is expected to get longer, notably to increase supervision of regional banks.

DEBT SWELLS AGAIN

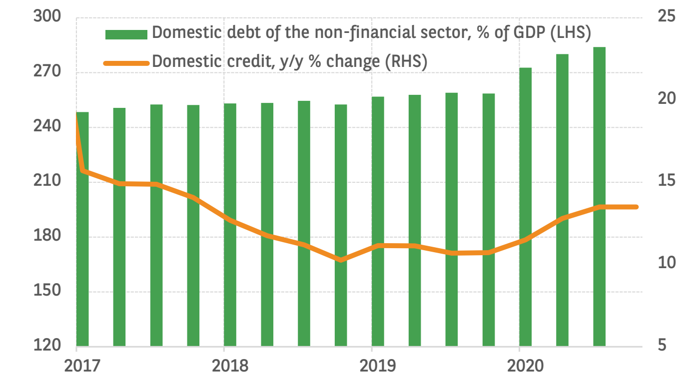

CHART 3 SOURCE: PBOC, BNP PARIBAS

CORPORATE DEFAULTS ARE EXPECTED TO INCREASE

Corporate defaults are expected to increase in 2021 due to the impact of the Covid-19 crisis and the corollary impact of efforts to clean up the financial sector.

The Chinese economy entered the Covid-19 crisis with excessively high debt, estimated at 258% of GDP (domestic debt of the non-financial sector at year-end 2019). In 2017-2019, measures were implemented to reduce financial risks (tighter regulations, a decline in shadow banking activities, and the start of corporate debt reduction), but this movement was cut short by the Q1 2020 crisis and the ensuing easing of the monetary and regulatory environment. The debt excess of the economy has only worsened. The increase in the social financing stock (total credit) accelerated from 10.7% y/y at year-end 2019 to 13.7% in October (it is expected to level off during the last months of the year). The debt-to-GDP ratio is projected to increase by about 25 percentage points in 2020, after a ten-point increase in the previous three years (chart 3).

Although economic activity has returned to normal in most sectors, many corporates and households are still in fragile positions after the financial losses of the beginning of the year. The weight of debt servicing charges will increase considerably in the months ahead as post-Covid support measures (credit lines, refinancing, rescheduling of debt repayments) wind down. In the banking sector, the official non-performing loan ratio increased slightly to 1.96% in Q3 2020, which is still low but trending slightly upwards. Recent corporate defaults in the local bond market also foreshadow more to come. The number of corporate defaults could rapidly exceed the 2018-2019 levels. More importantly, the share of state-owned companies in default seems to be increasing, showing proof of a slow decline in implicit state support.

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JAPAN

A VERY GRADUAL NORMALISATION PROCESS

As in other economies across the globe, Japan will report a record-breaking recession in 2020. The path to a full economic recovery will be probably longer because growth would remain very subdued. According to our forecast, Japanese GDP will not return to pre-crisis levels before the end of 2022. Domestic demand remains sluggish due to corporate investment, although household consumption seems to be picking up again. For the moment, Japanese exports are benefiting from China's robust economic rebound. Fiscal policy, the front line of defence, will continue to receive support from the Bank of Japan's monetary policy. There are also talks of a new fiscal package.

BEGINNING TO RETURN TO NORMAL

Faced with the first wave of the pandemic, Japan declared a state of emergency from early April to the end of May 2020, albeit without a legally enforced lockdown. Even so, economic activity plummeted, real GDP contracting by an unprecedented 8.2% in Q2 2020 (q/q, non-annualised). In Q3, GDP rebounded more strongly than expected (up 5% q/q). Consumption regained vigour as consumer confidence picked up, while exports were supported by Japan's main trading partners (led by China) return to growth. In contrast, corporate investment still seems to be weak and will probably remain depressed given the low production capacity utilisation rates and persistently high uncertainty.

The most recent cyclical indicators are sending mixed signals. The Bank of Japan's Tankan index improved very slightly in Q3 2020 but is still holding at a low level, while the composite purchasing managers index (PMI) stagnated in November below the 50 threshold, separating expansion from contraction. After the strong Q3 rebound, GDP growth is expected to slow significantly in Q4, up only 0.6% q/q. The rise in new Covid-19 cases in both Japan and its main trading partners will strain both foreign and domestic demand, especially household consumption. Activity is still expected to be fairly lacklustre in H1 2021 due to uncertainty over the health situation and the labour market. By H2 2021, hopes for the distribution of a vaccine should boost global demand and reduce uncertainty. The yen is expected to appreciate mildly over the course of 2021 (JPY/USD of 98 in Q4 2021 vs. 101 in Q1 2021) and should not have a significant impact on Japanese exports. According to our scenario, Japanese GDP will not return to Q4 2019 levels until our forecast horizon (year-end 2022). Under this environment, inflation will remain low or even negative, and fiscal support will remain strong.

FISCAL POLICY: THE FRONT LINE OF DEFENCE

In the midst of a slow and incomplete recovery, disinflationary pressures will persist. Headline inflation entered negative territory in October 2020 (-0.4% y/y, after 0% in September) and should remain there throughout 2021. Wages will not be very attractive as companies initially seek to restore margins.

Fiscal policy will continue to be the main vector of public support in 2021. A bigger fiscal package is currently being discussed, including subsidies for service sector companies hard hit by social distancing measures and lockdown restrictions, as well as financing for the digital transition. Under this environment, the Bank of Japan's main action will be to maintain its 10-year rate at about 0%. BoJ might also extend its corporate financing support, but we do not expect to see any major changes in monetary policy in 2021, despite low inflation.

Completed on 7 December 2020

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GROWTH AND INFLATION (%)

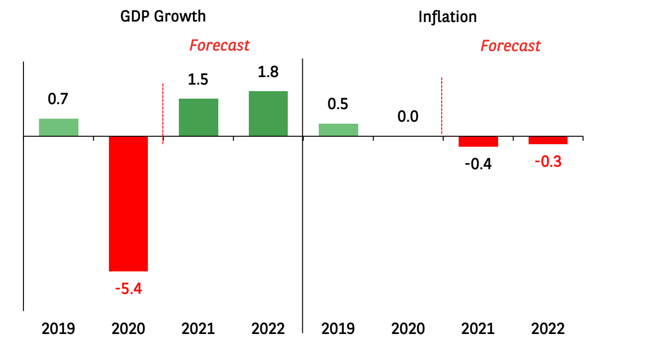

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

EXPORTS (VOLUME, YEAR-ON-YEAR)

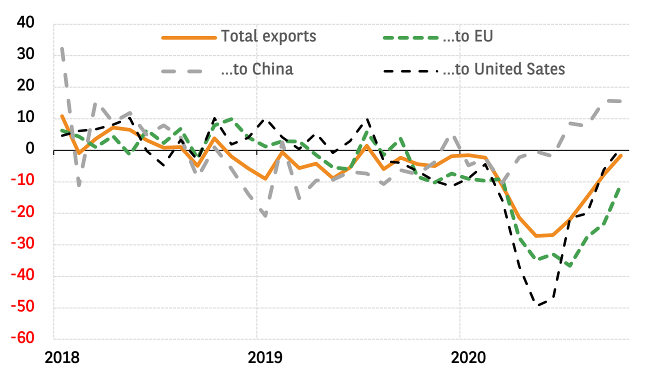

CHART 2 SOURCE: MINISTRY OF FINANCE

EUROZONE

CAUTIOUS BUT HOPEFUL

The resurgence of the Covid-19 pandemic halted the Eurozone's economic recovery. It looks like year-end 2020 will be harder than expected due to new social distancing measures and lockdown restrictions set up in most of the member states. Industrial output remains low compared to pre-crisis levels and companies in the tradeable services sector continue to be at the forefront of restrictions. As to the first half of 2021, uncertainty is still high. Faced with this environment, the European Central Bank (ECB) is expected to announce new monetary stimulus measures following its 10 December meeting as fiscal support measures are gradually reduced.

The second wave of the Covid-19 pandemic created a shock that halted the Eurozone's economic recovery, even though it was not as strong as the initial shock in March-April. The development of a vaccine is encouraging news, but it could take some time before it has an impact on the economy.

A YEAR AFTER THE PANDEMIC BEGAN, HOW IS THE EUROZONE ECONOMY FARING?

Economic growth in the Eurozone was especially erratic in 2020, depending on the number of Covid cases. How do things currently stand compared to the pre-pandemic situation? The catching-up phase has not fully run its course yet. The second wave of the Covid-19 pandemic has slowed the economy's momentum, and the Eurozone remains weakened. Yet compared to March and April, two months marked by an abrupt drop-off in supply and demand, the situation has begun to normalise. All cyclical indicators pertaining to business sectors, output and private consumption are rising towards pre-crisis levels (see chart 2). The second wave of the Covid-19 pandemic hit most of the Eurozone member states, but it was not as virulent as the first wave and supply capacity was not hit quite as hard (schools, for example, generally remained open, which enabled parents to continue working). Although they do not provide a perfect picture of households' consumption, retail sales rebounded strongly and have now surpassed year-end 2019 levels. Looking beyond the automatic rebound due to pent-up demand, fiscal support measures also helped limit the loss of households' purchasing power. Manufacturing output, in contrast, is still below pre-crisis levels, which reflects in particular sluggish corporate investment. In recent months, however, manufacturing keeps showing resilience, as illustrated by the sector's purchasing managers index (PMI)[1], which has been holding above the 50 threshold since July. Inversely, activity in the services sector continues to erode, and the sector PMI held far below 50 in November (41.7, down from 46.9 in October). These trends illustrate the asymmetrical impact of the crisis depending on the sector specialisation of member states.

All in all, the Eurozone economy is not out of danger yet, and we expect Q4 2020 GDP to decline again. Full-year GDP growth is expected to contract by 7.5%, before rebounding to 5.6% in 2021, and then slowing again to 3.9% in 2022. Eurozone GDP will not rise above pre-crisis levels before this horizon. These figures mask major disparities between member states and raise fears of greater divergences within the Eurozone. Germany, for example, should return to pre-crisis levels well before Spain. The development of a vaccine is encouraging news. Yet since it will take time to immunise a sufficient proportion of the population and it is uncertain how well the vaccine will be accepted, it could take longer for the economic impact of the vaccine to be felt.

1 The Purchasing Managers Index (PMI) is based on a survey of business leaders. The survey provides an accurate picture of the economic health of various business sectors (manufacturing, tradeable services, construction). A score of 50 is the threshold separating contraction from expansion phases.

GROWTH AND INFLATION (%)

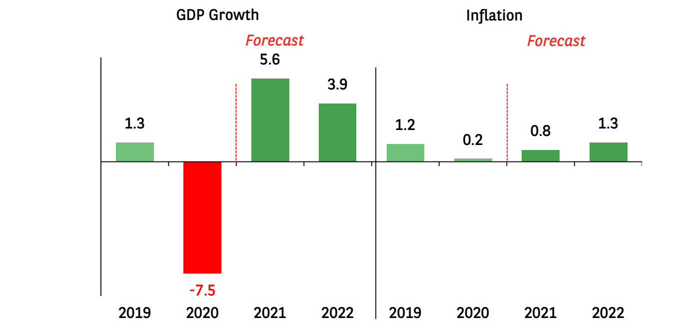

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

EUROZONE ECONOMIC INDICATORS

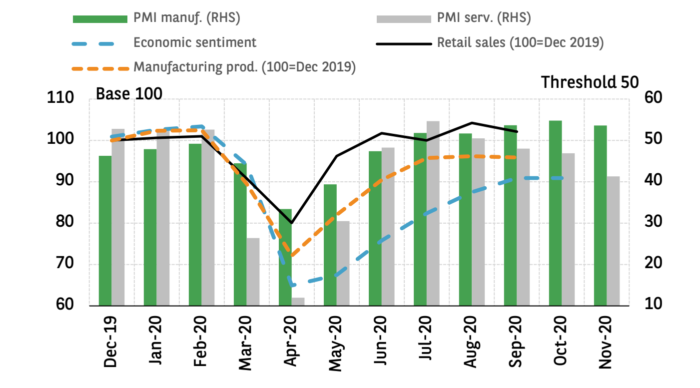

CHART 2 SOURCE: EUROPEAN COMMISSION, EUROSTAT, MARKIT

MONETARY POLICY WILL NOT BE NORMALISED ANYTIME SOON

The monetary authorities continue to worry about the disinflationary impact of the pandemic. In November 2020, Eurozone inflation held in negative territory for the fourth consecutive month (-0.3% y/y), while core inflation, i.e. adjusted for products with the most volatile prices, remained positive but at historically low levels (+0.2%). Low inflation is especially prevalent in tourism-related services, which are at the forefront of social distancing requirements and lockdown restrictions that have been set up around the globe. Faced with this environment, the European Central Bank (ECB) has decided to take new measures at its 10 December meeting, as it has clearly announced. In particular, the envelope of its Pandemic Emergency Purchase Programme (PEPP) has been increased by EUR 500 bn and the horizon extended to at least the end of March 2022. The distribution of a vaccine is unlikely to trigger a tightening of monetary policy, since the ECB is still wary about the financing conditions of member states (see chart 3).

Major signals concerning future monetary policy decisions could emerge around mid-2021, when the ECB plans to finish its strategic review. This review, which follows in the wake of the one conducted by the US Federal Reserve (the Fed), will mainly focus on the inflation target and potential changes in monetary instruments to attain its targets. The ECB could change its tune by insisting more on employment and the symmetrical nature of its medium-term inflation target. Like the Fed, the ECB could be more inclined to accept inflation of more than 2% without tightening its monetary policy. That would introduce a new accommodating bias for monetary policy.

WHAT FISCAL SUPPORT CAN BE EXPECTED IN 2021?

The relationship between fiscal and monetary policies could be one of the themes covered in the ECB's strategic review. Member state governments are benefiting from the suspension of European fiscal rules, which has enabled them to absorb a big part of the shock in 2020. Measured by the change in the primary structural balance[2], there was a very strong fiscal impact this year, even though the size varied from one member state to the next. At the aggregate level, based on the European Commission's most recent estimates (which date back to 5 November), the Eurozone's fiscal impulse was about 3.5 points of potential GDP. This massive intervention was necessary given the size of the shock, and it helped limit the loss of household revenues and corporate bankruptcies. In 2021, support from government administrations will diminish dramatically: at the aggregate level the impact will be more or less neutral in the Eurozone (see chart 4). With the expected rebound in growth and the reopening of businesses, short-time working schemes will be gradually withdrawn. Questions about tightening fiscal policy or stabilising the public debt ratio will rapidly become hot topics of debate again. Yet even if the normalisation of the Eurozone economy were to accelerate in 2021 and beyond, for the moment it is still weak, and an excessively rapid withdrawal of fiscal support could be counterproductive. In the short term at least, maintaining favourable financing conditions limits the risks of public debt rollover. In any case, based on cumulative information currently available for the period 2020-2022, the Eurozone will probably maintain an expansionist fiscal policy (cumulative impulse of about 2.5% of potential GDP). The European stimulus fund Next Generation EU should begin to support national policies as of next year. The strong emphasis on investment should have a bigger multiplier effect on activity in the medium term.

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2. The primary structural balance corresponds to the public balance adjusted for cyclical effects and interest charges.

EUROZONE: 10-YEAR SOVEREIGN RATES

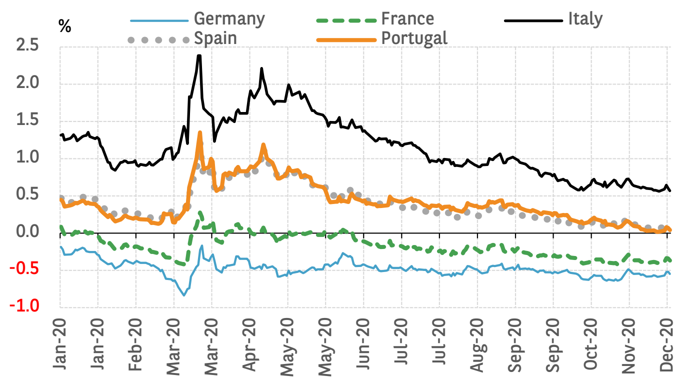

CHART 3 SOURCE: ECB

EUROZONE: CHANGE IN THE PRIMARY STRUCTURAL BALANCE (% OF POTENTIAL GDP)

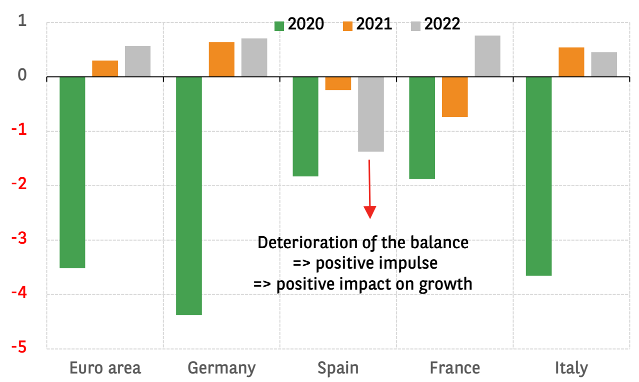

CHART 4 SOURCE: AMECO

INCOME UNCERTAINTY BOOSTS PRECAUTIONARY SAVINGS

The second lockdown interrupted an already stalling recovery. However, the business climate is likely to improve soon on the expectation that several vaccines might soon be available. Inflation is currently in negative territory because of the VAT cut, but will soon turn positive again once the measure expires on 1 January 2021. Because of the second lockdown, the 2021 budget will show a larger deficit than assumed in September, EUR180 bn or 5.2% of GDP. In Q2, the household savings rate rose to 20.1%, a new historical high. Once the pandemic is over, the savings rate could drop considerably if consumers catch up on postponed purchases.

LOCKDOWN INTERRUPTS RECOVERY

After a historical contraction of 9.1% in Q2, GDP rebounded vigorously in Q3 by 8.5%, which was slightly better than expected. Nevertheless, activity was still 3% lower than a year earlier. The rebound was partly due to the progressive lifting of the lockdown measures from end of April onwards. Moreover, activity was also boosted by the government stimulus programme launched in June. Nonetheless, in the course of Q3, business cycle indicators signalled that the recovery was losing momentum. The ifo climate indicator peaked in September well below the pre-crisis level. Moreover, despite an impressive rebound, GfK consumer confidence index remained in negative territory, as the propensity to buy stalled owing to fears about a second wave of infections.

Following the sharp rise in infections, new restrictions were necessary. However, the government initially did not want to decree full lockdown, as it would make one of its key measures – the cut in the VAT rate from 1 July – ineffective. Only bars, restaurants and theatres wear closed but non-essential shops stayed open. As infections remained at a very high level, at mid-December the authorities decided finally also to close non-essential shops, schools and nurseries. In addition, employers were asked either to close their companies for holidays or to enable working from home.

End November, the ifo climate index lost 2.5 points, due to considerably more pessimistic expectations, in particular in services. Also the GfK consumer confidence index plunged deeper into negative territory. However, even though the actual business situation has deteriorated, it is possible that expectations in have improved in December, amid reports that several vaccines might soon become available, one of which from the German firm BioNTech together with the US firm Pfizer. The government is preparing a vaccination campaign, but it might take up until 2022 before the whole population has been vaccinated.

TEMPORARY VAT CUT RESULTS IN LOWER PRICES

Even though wages have not progressed much, purchasing power of employees improved considerably in the second half of the year as consumer prices declined following the temporary cut in the VAT rate. With effect as from 1 July, the standard rate was cut from 19% to 16% and the reduced rate from 7% to 5%. If enterprises had fully passed on the VAT cut to consumers, HICP inflation would have been lowered by 1.8 percentage points. This has not been the case. In October, consumer prices were 0.5% lower from a year earlier. According to the Bundesbank, the VAT cut appears to have been passed on fully for most food products and industrial goods excluding energy. In some cases, the price declines went even well beyond the VAT effect. By contrast, in services only one third of the lower tax rate appears to have been passed on. Only in a few areas such as telecommunications, prices were reduced. The VAT cut will expire on 1 January 2021, and inflation should return to significantly positive values. In 2021, inflation could reach 1.3 compared with 0.4 in 2020.

GROWTH AND INFLATION (%)

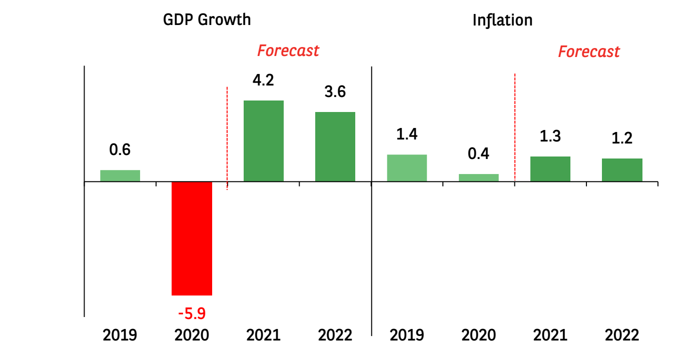

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

LIGHT LOCKDOWN HAS FAILED TO CURB COVID-19 INFECTIONS

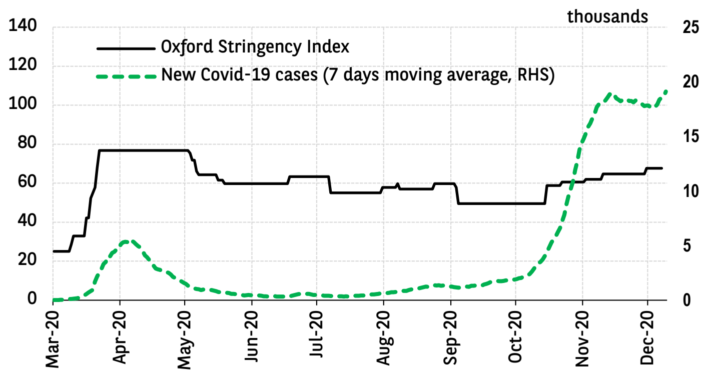

CHART 2 SOURCE: ECDC, UNIVERSITY OF OXFORD

2021 BUDGET DEEPER INTO THE RED

As the economic consequences of the coronavirus pandemic will continue to be felt next year, fiscal policy will be very accommodating in 2021. The escape clause of the federal government's debt brake and the EU budget rules are to remain active. End November, the Parliamentary Budget Committee reached agreement with the government on a revised budget for 2021, foreseeing EUR 180 bn (5.2% of GDP) in new debt compared with EUR 218 bn in 2020. This is substantially higher than the EUR 96 bn finance minister Olaf Scholz presented in his original draft budget in September.

Federal spending will be close to EUR 500 bn, about the same level as in 2020. Compared to the original draft, expenditure will be increased by EUR 85 bn to cover the additional costs related to the new lockdown and the vaccination. By contrast, tax receipts should be slightly higher, as the economy is doing better (EUR 293 bn compared with EUR 265 in 2020). Much is done to reduce the tax burden for household. From 2021 onward, many citizens do not longer pay the solidarity levy. Moreover, families will receive more child support: EUR 15 per month and per child. For all households, the basic tax-free allowance will be increased. A major question is when parliament will reactivate the debt brake mechanism. As the general election will be held in autumn 2021, that will be for the next parliament to decide.

HOUSEHOLD SPENDING DURING THE PANDEMIC

The lockdown measures and distancing rules have resulted in significant income losses for the household sector. In Q2 and Q3, net wages and salaries contracted by 3.8% and 0.5%, respectively. This implies that the average employee lost around EUR 130 a month in Q2. Thanks to increased social security spending, the annual change in disposable household income amounted to -0.8% in Q2 and +0.7% in Q3. At the same time, household consumption sharply declined due to the closure of non-essential shops, bars, restaurants etc. Moreover, as income uncertainty increased, consumers became more reluctant to spend. As a result, the savings ratio has risen to 20.1 in Q2, a highest since the start of the series in 1991, and eased down to 13.5 in Q3. The latter was still well above the long-term average (10.8). It is expected that consumption could rebound and the saving ratio could return to close to its long term average once the pandemic is over and public life has returned to normal. The savings rate could even drop considerably below its long-term average if consumers catch up on postponed purchases.

In May, the Bundesbank has conducted a survey on how household budgets have been affected by Covid191. It found out that on average, more than 40% of respondents incurred income or other financial losses due to the pandemic or the policy measures addressing it. Not surprisingly, the number is much higher for people in the labour market (46%) than the rest of the population, mainly pensioners (28%). On average, the Bundesbank panel expects their monthly net income to fall, on average, by EUR 64 per month over the following twelve months. Compared to the previous survey in May 2019, spending intentions were lowered driven by income losses and higher inflation expectations. The latter is surprising as in standard economic theory spending on durables would increase if one expects inflation to be higher. The loss in income only had a limited effect on the marginal propensity to consume.

Using the Bundesbank household expectations survey, a different group of researchers at the Bundesbank have studied how households react to policy announcements2. The panel was divided in four groups, three of them receiving relevant information about actual announcements and the fourth one receiving irrelevant information, a so-called placebo treatment. All the three policy measures were expansionary and should have boosted household confidence. However, the research showed

PROBABILITY DISTRIBUTION OF EXPECTED INDIVIDUAL MONTHLY INCOME CHANGES

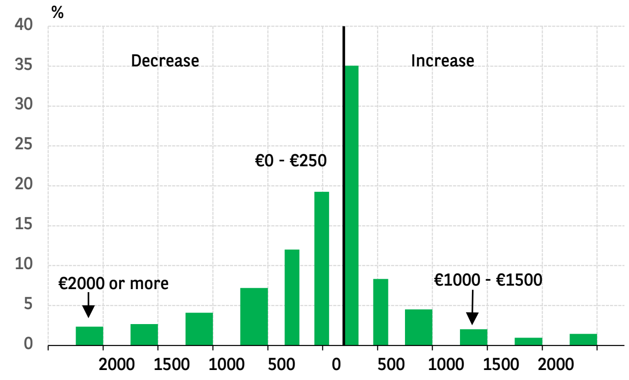

CHART 3

SOURCE: DEUTSCHE BUNDESBANK ONLINE PANEL HOUSEHOLDS (BOP-HH)

that it did not have any significant impact on expectations about income. Moreover, individuals who received information on stimulus packages actually provided a lower estimate on GDP growth. A possible reason is that the policy announcements signalled to households that the economy was in a weaker state than they had assumed. The researchers found that credit-constrained households became more optimistic after having received news about the policy announcements. These households are probably already aware of the economy being in dire straits. Any announcement of an expansionary policy, might lead to an upward revision of their expectations. By contrast, credit unconstrained households became more pessimistic, suggesting that in their case the signalling effect dominated.

It would be wrong to conclude from this research that stimulus packages do not affect household spending. By their effect on employment and income expectations, they can have an important impact once implemented. The Bundesbank research brief demonstrates primarily the importance of carefully announcing these programmes to prevent households reacting negatively to them.

Completed on 13 December 2020

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1 René Bernard, Panagiota Tzamourani, Michael Weber, *How are households' consumption plans affected by the COVID-19 pandemic?*, Research Brief | 35th edition, November 2020
2 Olga Goldfayn-Frank, Georgi Kocharkov, Michael Weber, *Households' Expectations and Unintended Consequences of Policy Announcements*" Research Brief | 34th edition, November 2020

LIGHT AT THE END OF THE TUNNEL

The huge recessionary shock in H1 was followed by an equally spectacular rebound of economic activity in Q3, with an 18.7% jump in real GDP, although it will remain short-lived. The recovery has turned out to be W-shaped: GDP is expected to fall again in Q4 because of lockdown measures reintroduced on 30 October to tackle the second wave of the covid-19 pandemic. However, the second V should be less pronounced than the first: the decline should be smaller because the lockdown measures are less stringent, and the rebound should also be smaller because restrictions will remain in place and the economy is weakened. There is still a long way to go, but the arrival of vaccines means that there is light at the end of the tunnel. The first positive effects of the France Relance plan should also underpin growth, possibly taking GDP back to its pre-crisis level in 2022.

THE Q3 REBOUND IN DETAIL

According to INSEE's second estimate, French GDP grew 18.7% q/q in Q3, a rebound as spectacular as the collapse that preceded it (-19% in H1 2020), and revised upward from the first estimate of 18.2%. France's Q3 rebound was the second-largest in the eurozone, behind Ireland with 21.4%. However, it was not enough to make up all the lost ground, and GDP remains 3.7% below its end-2019 level. On the one hand, this is a fairly small margin given the depths to which the economy sank in H1, but on the other it is still a significant shortfall, and recouping the last few percent will be a harder and slower process than the initial recovery, which was more of an automatic rebound from a low base.

All GDP components surged in Q3, although the rebound was held back by a large negative contribution of the change in inventories. Changes in business investment and consumer spending are worth noting in particular. Business investment fell by 21% in H1, before rising by the same proportion in Q3, similar to the movements in GDP whereas variations in investment are usually much larger. This time, the contraction was not made worse through the channels of expectations, deterioration in the business climate, increased uncertainty or the financial accelerator. INSEE's quarterly survey of investment in the manufacturing sector also shows this relative resilience: the expected 14% drop in 2020 is less than the 22% decrease seen in 2009. This illustrates the fundamentally different nature of the two crises and the fact that financial constraints are less severe today, because of the huge fiscal and monetary support provided since the spring.

Consumer spending and public-sector consumption were the GDP components that rebounded most in Q3: the latter ended the quarter back at its pre-crisis level while the former ended it 1.6% below, whereas investment was 5% lower and exports 15% lower. Consumer spending on goods rose 1% above its pre-crisis level, but spending on services remained 5% lower. As regards the upturn in spending on goods, we could see the glass as half-empty or half-full. On the one hand, we could be disappointed that it exceeded its pre-crisis level by only 1%, despite being less hampered by public health restrictions than spending on services. On the other hand, given the circumstances, we might be impressed by the fact that it rose above its pre-crisis level at all. The sharp fall in the household saving ratio in Q3, to 16.5% of gross disposable income, supports a positive reading of consumer spending figures. After jumping by 11.6 points in H1 2020, the savings rate fell by almost as much in Q3 (-10.2 points): the flow of forced savings, built up during the first lockdown, seems to have largely deflated.

THE RISK OF A W-SHAPED RECOVERY HAS MATERIALISED

The Q3 rebound was mainly an automatic response to the previous slump. We knew that it would be followed by weaker growth as catching-up effects faded, and because of ongoing large sector disparities along with public health constraints and uncertainties. The second lockdown, which began on 30 October as a way of tackling the second wave of infections, means that the question now is not how much growth will slow, but how large the contraction will be. The risk of a W-shaped recovery has therefore materialised (see chart 2). However, the second V should be less pronounced than the first:

- The contraction in Q4 2020 should be smaller because the second lockdown has been less stringent than the first, the sector

GROWTH AND INFLATION (%)

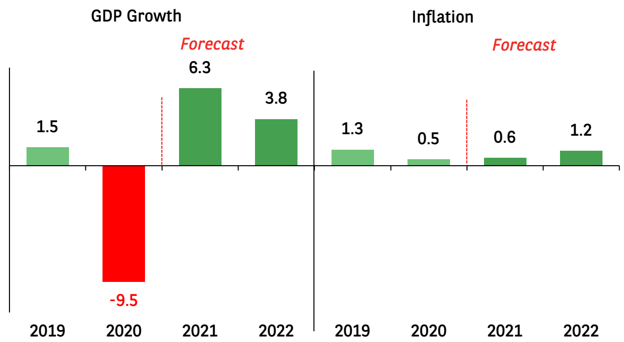

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

ILLUSTRATION OF THE W-SHAPE SCENARIO

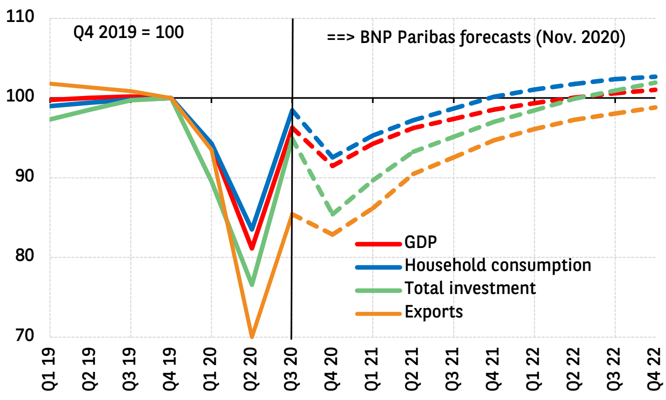

CHART 2 SOURCE: INSEE, BNP PARIBAS

impact has been more concentrated (see chart 3), businesses and consumers have adapted, and the international environment is less gloomy. Business-climate and consumer-confidence survey results fell sharply in October and November, but much less than in March and April[1]. One particular negative aspect of the Q4 lockdown is the fall in consumer spending, which is expected to be slightly greater than the fall in GDP, whereas it was smaller in Q2.

- As regards the rebound in early 2021, the lockdown is being eased only gradually and restrictions are being kept in place; the economy remains weakened by the first lockdown; public health constraints and uncertainties remain, as do sector disparities; and economic concerns (Brexit, faltering US growth) are continuing to cast a shadow.

The extent of the Q4 decline in GDP remains unclear. INSEE and the Banque de France estimate that the economy was running at 96% of its normal rate in October and 88% in November (as opposed to 71% in April 2020). With the second lockdown continuing into December, although it has been eased, that percentage should rise, but the question is how far? Our forecast of a 5% quarterly drop in GDP (made before lockdown-easing measures were announced on 24 November) is based on the rate rising back to 90%. That assumption, and therefore our projected fall in GDP (in Q4 and in 2020 as a whole) could prove overly pessimistic. In its Economic Outlook of 2 December, INSEE estimated the rate at 92% and forecast a 4.4% contraction in GDP in Q4 and 9.1% in 2020.

HOPES AND CHALLENGES FOR 2021 AND 2022

The economy should recover gradually but significantly from early 2021. The upturn will be gradual because of the reasons mentioned above regarding Q1, but also because of the sector characteristics of the French economy: it is highly dependent on market services, which are being hit harder by Covid-19 than manufacturing, and for longer[2]. The aftermath of the huge recessionary shock in 2020, the extent of which is currently unknown, will also hamper the recovery: business failures, higher unemployment, higher debt ratios and weaker productivity growth. However, we expect growth to be 6.3% in 2021, which is a significant rebound. That figure, and our 3.8% growth forecast for 2022, are higher than consensus and institutional forecasts. For 2021, we even see the balance of risks being on the upside, whereas it will be neutral in 2022.

Growth should be supported by activity levels continuing to return to normal, but also by the shock-absorbing effects of emergency measures and the first positive effects of the France Relance plan, particularly on investment. There is also potential for a rebound in consumer spending because of the amount of savings built up during the crisis. Those accumulated savings are generally in liquid form, and so are readily available to be spent. However, they are also concentrated among high earners, which may actually prevent a strong rebound in consumer spending, since wealthier people spend more on travel, entertainment and other leisure activities, which are more prone to Covid-19 restrictions. There is also the risk of this money being converted into precautionary savings. This will depend on confidence levels. It will also depend on the situation in the labour market, which will be subdued at best. We expect both employment and the unemployment rate to rise, although the size of the increase is uncertain. The upturn in employment could be small while we fear a sharp rise in unemployment.

1 Consumer confidence barely rose between the two lockdowns, so the renewed decline has taken it to its lowest level since December 2018.
2 The most exposed sectors (transport equipment, retail, transport services, accommodation and food service, and other recreational services) account for 22% of value added and 29% of jobs.

SMALLER SECTOR IMPACT OF THE SECOND LOCKDOWN
LOSS OF ACTIVITY BY SECTOR COMPARED TO Q4 2019, % DIFFERENCE

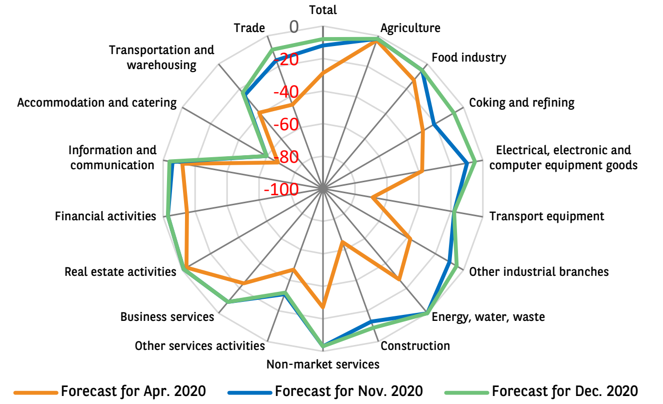

CHART 3 SOURCE: INSEE, BNP PARIBAS

FRENCH GDP BACK TO ITS PRE-CISIS LEVEL
BUT NOT ON ITS PRE-CRISIS TRAJECTORY

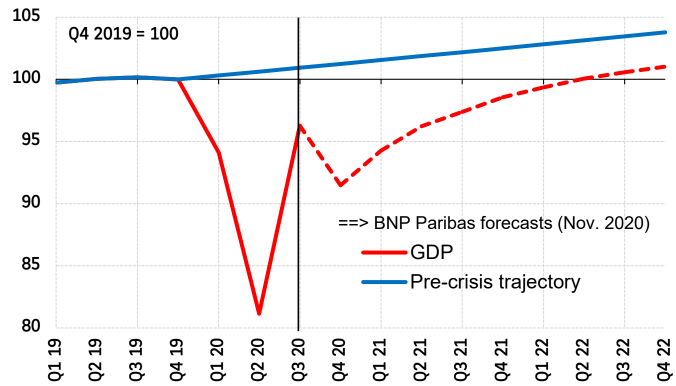

CHART 4 SOURCE: INSEE, BNP PARIBAS

ITALY: COPING WITH THE SECOND WAVE

Following an impressive decline in the first half of 2020, the Italian economy rebounded over the summer. Value added rose strongly in construction and manufacturing, while the recovery in the services sector was less substantial. Favourable indications also come from house prices invalidating the darkest scenario depicted at the beginning of the pandemic. To contain the second wave of infections, the Italian Government has taken restrictive measures, with negative effects on activity. The economy is expected to decline in Q4 again. This contraction should be less significant than in the first half of the year, with only a moderate impact on 2020 growth, while the carry- over in 2021 should be more sizeable.

A WIDESPREAD SUMMER RECOVERY

Following the impressive decline recorded in the first half of 2020 (-5.5% in Q1 and -13% in Q2), the Italian economy rebounded over the summer. In Q3, real GDP rose by 15.9% q/q, although remaining almost 5 percentage points below Q4 2019 level. Net exports contribution was positive (+4%), as exports increased by 30.7% and imports by 15.9%, while domestic demand added 13 percentage points to the overall growth, benefitting from the significant rebound of investment, which rose by 31,3% q/q, more than offsetting previous declines (-7.6% in Q1 and -17% in Q2).

From July to September, capital spending rose by about EUR 20 billion in comparison with Q2, adding 5.3% to the overall Q3 growth. The recovery was widespread, with investment in construction rising by about 45%, both for dwellings and for other buildings, more than machinery and equipment (+34%). Expenditure on intellectual property products, which had remained virtually unchanged since the outbreak of the virus, rose by less than 1%.

Given the end of the lockdown and the easing of social distancing measures, private consumption increased by 12.4% in Q3, after -6.8% in Q1 and -11.5% in Q2, with a 7.5% positive contribution to the GDP growth. Despite the summer rebound, consumption is still about 7% below Q4 2019. Italian households increased expenditures by EUR 27 bn, after a reduction of EUR 47 bn in the previous two quarters. In Q3, purchases of durable goods rose by more than 45%, moving above the 2019 level, while those of services, which account for about half of total consumption, despite increasing by 16.4%, are still more than 10% lower than pre-pandemic values.

A MANUFACTURING RECOVERY

In Q3, the economic recovery was widespread. Manufacturing value added rose by 35% q/q. Production rebounded in sectors that had undergone the largest contraction in previous quarters, such as textiles products, clothes and shoes and means of transport. Despite the summer improvement, manufacturing is still recording a 4% loss in comparison with Q4 2019, with some sectors well below pre-crisis level.

In services, which was the only sector to have recovered the 2008 level before the outbreak of the virus, the recovery was less more limited. Value added increased by almost 12%, after dropping by -4.6% in Q1 and -11.4% in Q2. Turnover in the accommodation and food service activities rose by more than 160%, although remaining 25 percentage points below Q4 2019, benefitting from a moderate recovery in the tourist sector. In Q3, expenditure of non-residents rose by five times on a quarterly basis.

GROWTH AND INFLATION (%)

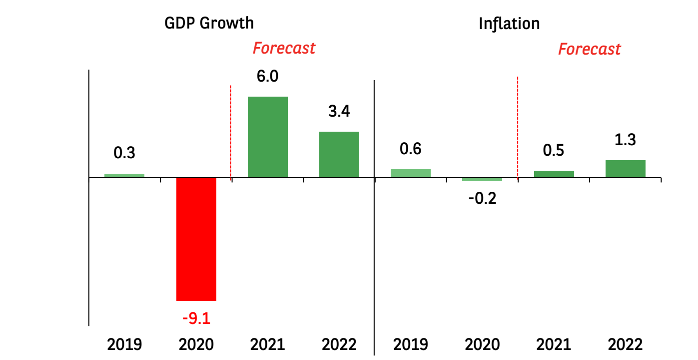

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

REAL GDP AND COMPONENTS (Q3/Q2 % CHANGE)

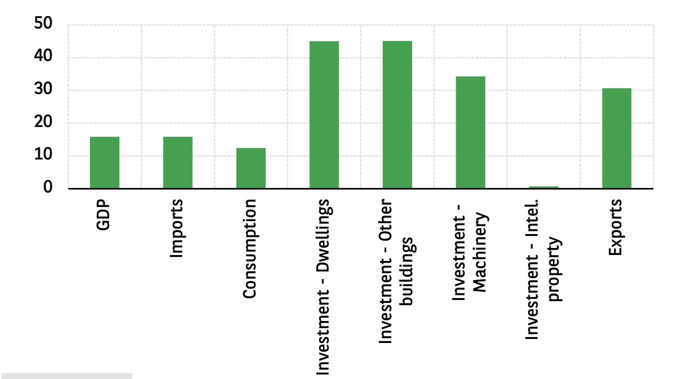

CHART 2 SOURCE: BNL CALCULATIONS ON ISTAT DATA

REAL ESTATE: A LESS GLOOMY SCENARIO

In Q3 the construction sector experienced a strong rebound: indeed, the value added growth (+46% q/q) more than compensated the decline recorded in the previous quarter. Favourable indications also come from house prices. In fact, the unexpectedly sustained growth recorded during the first six months of the year invalidates the darkest scenario depicted at the beginning of the pandemic (-10% y/y for house prices in 2020). According to Istat data, between April and June the prices of houses purchased by families increased by 3.1% q/q and 3.4% y/y - the highest changes ever recorded since these series became available (2010) - the prices of the new and existing houses rising respectively by+2.7% and +3.7%. The second quarter data follow the positive trend already recorded in the first three months of 2020 (+1.7% y/y, +0.9% q/q) when the pandemic was only at the beginning, with most of the real estate transactions relating to agreements settled before the lockdown.

Assuming stable prices in the second part of the year, the growth rate for house prices in 2020 would be +3.2%, a value never reached since the data have been available (2010) (curiously, in a year when the pandemic will bring the change in the Italian GDP to a historical low level). The price growth has been quite homogeneous in all the areas of the country: in the North West regions house prices grew by 5.5% y/y, mainly driven by the good performance of Milan, where prices have been growing for nineteen quarters in a row and where, quite unexpectedly, they recorded an increase of +13.5% and +15.9% y/y respectively the first and second quarter of 2020. The uncertainty that still surrounds the evolution of the pandemic makes it difficult to predict the future price trend. The evidence seems to suggest that the increased time that households spend in their houses (due to the lockdowns and the increased popularity of working from home) might have inflated the demand for bigger and more expensive houses. More likely, due to the lockdowns and the weak economic activity that followed, only the few transactions involving parties with a strong commitment to buy (or with an agreement settled before the pandemic) may have been carried out. These hypotheses seem supported by the deep fall in house transactions during the first six months of 2020. According to Agenzia del Territorio, after decreasing by 15.5% between January and March, house sales fell by 27.2% between April and June (with a loss in sales of 43 thousands homes compared to the same period in 2019). The decline is evenly distributed throughout the country, reaching the lowest values in the Southern regions (-33.4%) and in the islands (-34.2%).

The drop in transactions hit main cities in quite a homogeneous way, including Milan, Rome and Turin, where house sales decreased by 26.5, 23.4 and 27.5% respectively in the second quarter of 2020.

Ad hoc surveys conducted by specialized operators show stagnant demand for the months to come, mostly driven by the desire to adapt the house to the new habits. The need for many families to carry out a large part of their working life or school activities at home might lead to an increase in the demand for larger places with well-separated rooms and outdoor spaces. However, the uncertainty about the macroeconomic scenario and the reduced profitability of the lease (mainly due to the collapse of short-term rents) might cut the demand for investment, which had supported the real estate sector in the months preceding the outbreak of the epidemic. The decline in incomes and rents and the dependence of part of the demand on bank credit are elements that may contribute to a contraction, while the new use that families make of living spaces could represent a supporting factor. A more precise scenario can only be determined in the next months. It depends on the impact of the prolonged emergency on the Italian economy and on whether the change in work organisation is permanent or not.

ITALY: HOUSE PRICES (INDEX)

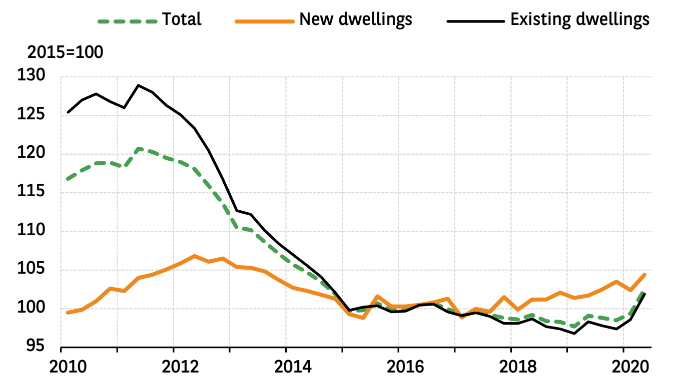

CHART 3

SOURCE: BNL CALCULATIONS ON ISTAT DATA

THE EFFECT OF THE SECOND WAVE ON THE ITALIAN ECONOMY

After declining from April to June, the number of new daily cases of COVID-19 has risen again since August, strongly accelerating in October and reaching a peak in the middle of November. To contain the second wave of the infection, the Italian Government has taken restrictive measures, including a partial lockdown in some regions, with negative effects on economic activity. In September, production declined by almost 6% m/m, with that of textile, clothing and shoes falling by one fourth and that of means of transport by more than 10%. Given the worsening of the global scenario, Italian exports in non-EU countries fell by 2.6% in October and business confidence again declined. Besides, labour market conditions are still uncertain, with a negative effect on the income evolution of households. The number of persons in employment made only a partial recovery, remaining more than 420 thousand below the level of the beginning of 2020. The recourse to social safety nets has softened the effects of the crisis on the unemployment rate, which continued to hover slightly below 10%. Despite several measures approved by the Italian Government to support households and firms' income -especially in sectors more affected by the crisis- the economy is expected to decline again in Q4. The contraction should be less significant than in the first half of the year, with only a moderate impact on 2020 growth, while the carry-over in 2021 should be stronger.

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A FISCAL STIMULUS MONITORED CLOSELY BY BRUSSELS

Forecasts made at the start of the year will probably turn out to be accurate. Spain is set to be the Eurozone's economy hardest hit by the Covid-19 epidemic. We forecast GDP to shrink by 11.8% in 2020 before rebounding by 7.0% in 2021. The social situation has worsened again this year, forcing the government to introduce new large-scale welfare benefits (e.g. minimum living income), which will be reinforced in 2021. Spain's huge EUR 140 billion stimulus plan will support the recovery, should raise the country's potential growth and create jobs. But the structural budget deficit is widening. Once the Covid-19 crisis is over and the recovery underway, Brussels will intensify the pressure on the Government to speed up certain key reforms, and in particular regarding the country's pension system.

In all likelihood, the Spanish economy will contract again in the fourth quarter of 2020. Although the second wave of Covid-19 has been receding rapidly since its peak in mid-November, restrictions on activity have remained – until mid-December at least – severe and among the most stringent in Europe. Despite the sizeable rebound in activity in Q3 (+16.7% q/q, non-annualised), Spanish GDP was still 9% below its end-2019 level, a recovery comparatively smaller than in other European countries.[1] Breaking down the figures by expenditures, the recovery in service exports had unsurprisingly been the weakest (43.6% below the Q4 2019 level) – pulled down by the slump in tourism activity. Gross fixed capital formation and households spending were down 11.1% and 10.5%, respectively. However, within household consumption, spending on durable goods had rebounded rapidly, rising above its Q4 2019 level.[2]

For sure, job-protection measures – mainly the ERTE temporary unemployment scheme – have significantly cushioned the shock on the labour market, particularly in the service sector. According to the Spanish Employment Office (SEPE)[3], the number of workers affiliated to the social security system was 2.2% lower in November than in February in the industry, and 2.6% lower in services.[4] Comparing these figures with the larger declines in GDP, we see that the government's measures to protect jobs are having a positive effect, although this comes at a high cost for the public finances. According to the labour ministry, 746,900 workers were covered by a ERTE in November. The ERTE scheme has been extended until 31 January, which should limit the increase in unemployment until then. The unemployment rate was 16.2% in October.

FISCAL CONSOLIDATION PUSHED BACK UNTIL 2022 AT THE EARLIEST

Spain's fiscal policy will therefore remain highly expansionary in 2021. The 2021 budget, which was approved by parliament in late November, will amount to a record of EUR239 billion. Key welfare measures put forward by coalition partner Podemos will be reinforced; this is the case of the minimum living income (IMV), for which a further EUR3 bn will be allocated (see box). However, investment accounts for the largest increase in the budget, with significantly greater spending on R&D, apprenticeships and vocational training, as well as the modernisation of public infrastructure. On the revenue side, new taxes on high-earners will be introduced. The budget will also be partly funded by EUR 27 billion of subsidies granted by the European Commission to Spain in 2021 as part of the EU recovery fund (Next Generation EU).

GROWTH AND INFLATION (%)

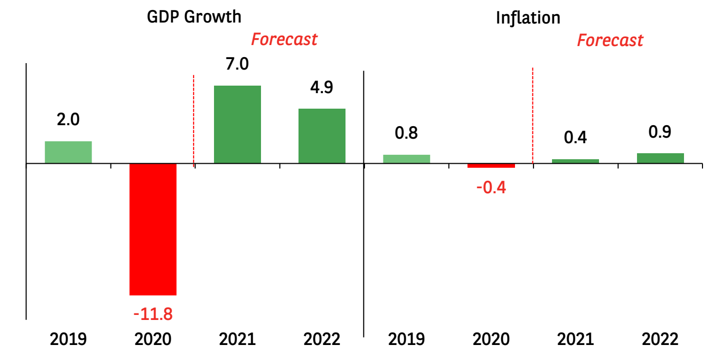

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

GOVERNMENT PRIMARY STRUCTURAL BALANCE (% GDP)

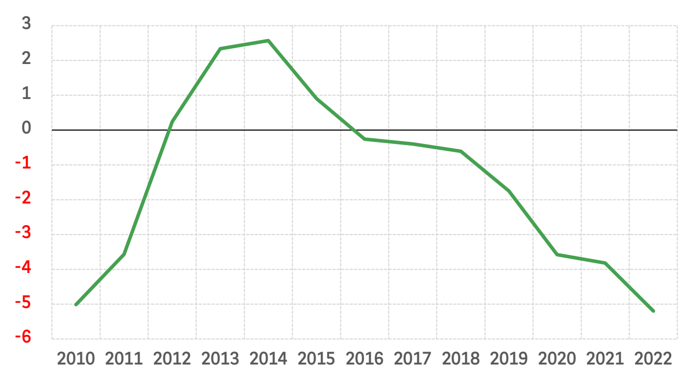

CHART 2 SOURCE: AMECO

This record budget has been built in line with the rapid implementation of Spain's large-scale EUR 140 billion national recovery plan (the "Recovery, Transformation and Resilience plan") for 2021-2026. With this plan, the government is hoping to generate around 800,000 jobs by 2023 and boost GDP growth by 2.5 percentage points over the same period, by investing massively in the ecological and digital transitions. Half of the spending (EUR 72 bn) is due to take place in the next three years.

1 For a comparison of recovery rates, see H. Baudchon and L. Boisset, Eurozone: from rebound to relapse, BNP Paribas Ecoflash, 4 November 2020.
2 A large part of the increase can be traced to automobile sales, which bounced back thanks to the government's decision in June to offer subsidies for the purchase of cleaner vehicles (Renove 2020 programme).
3 Seasonally-adjusted figures.
4 Employment in the construction industry was only 1.1% lower than the February level.

However, the public-sector deficit is expected to jump to around 120% of GDP at the end of 2020, an increase of 20 percentage points year-on-year. Against these circumstances, and once the Covid-19 crisis is over, Spain's government will be under pressure from Brussels again to address certain major structural issues that represent a long-term drag on Spain's budget balance. In particular, the European Commission wants the Spanish government to commit to ensuring the future viability of its pension system, and to introduce new measures to reduce the proportion of people with temporary jobs[5].

Based on its November forecasts, the European Commission estimates that Spain's structural primary deficit (i.e. the deficit excluding changes in income/expenditure related to the economic cycle and excluding interest payments on debt) will widen further in the next two years, reaching 5.2% of GDP in 2022 (see chart 2). This is by far the largest deficit in the Eurozone, and more than twice the Euro-area average (-2.3%).

NFCS AND THE COVID-19 SHOCK

At this stage, it remains difficult to quantify precisely the impact of the Covid-19 crisis on the liquidity and solvency of the non-financial corporation (NFC) sector. A Bank of Spain study[6] estimates that between April and December, demand for liquidity from non-financial corporations could exceed EUR 230 billion, although almost three quarters of that would be covered by state-guaranteed loans. Unsurprisingly, the sectors struggling the most are tourism and leisure, transport and automotive. However, it is worth bearing in mind that non-financial corporations went into the Covid-19 crisis with a more solid financial position than in the past. In particular the debt-to-GDP ratio had dropped steadily between 2010 and 2019, falling to levels unseen since the early 2000s.[7]

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THE IMPACT OF COVID-19 ON INEQUALITY IN SPAIN

Without doubt, rising inequality is one of the main social risks emerging from the Covid-19 crisis in Spain. In its annual report on wages development[1] the International Labour Organization shows that the ratio between wage earners belonging to the 9th-decile and those belonging to the 1st-decile increased substantially in the first wave of the pandemic, i.e. between Q1 and Q2 2020 (see chart 3). At the end of Q2, Spain's ratio was by far the worst in the EU. Part of that sharp increase in disparities was due to the fact that a high proportion of jobs in Spain are precarious, in sectors hard-hit by Covid-19 restrictions and unsuited to remote working. To address these growing difficulties, the government introduced in emergency a minimum living income (IMV) in June. The IMV is a subsistence income of up to EUR 462 per month for a single person, rising to a maximum of EUR 1,015 for larger households. The IMV budget will be increased by EUR 3 bn in 2021, as recommended by the 2021 budget approved by parliament in November. A second significant welfare measure will be the 5% increase in the IPREM index used to calculate most welfare benefits. In addition, when the current government came to power it promised to raise progressively the minimum wage to 60% of Spain's median wage by the end of the current parliament in 2023, i.e. to around EUR 1,200 per month. The minimum wage is currently EUR 950 per month.

1 Global Wage Report 2020-21: Wages and minimum wages in the time of Covid-19, International Labour Organization, December 2020

RATIO OF 90TH PERCENTILE OF THE WAGE DISTRIBUTION TO 10TH PERCENTILE

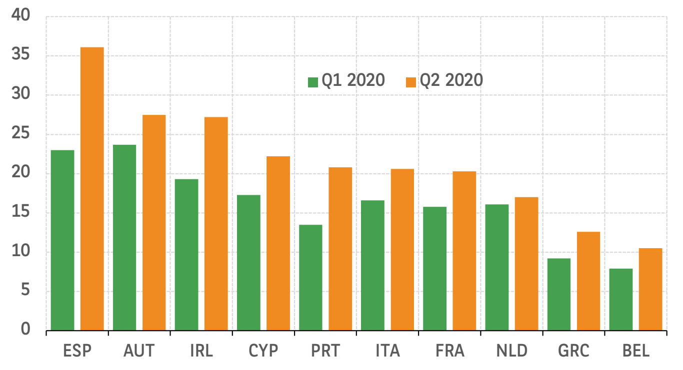

CHART 3 SOURCE: : INTERNATIONAL LABOUR ORGANIZATION, BNP PARIBAS

5 *Bruselas apremia a España a reformar las pensiones y el mercado laboral*, El País, 7 December 2020.
6 Blanco et al. (2020), Spanish non-financial corporations' liquidity needs and solvency after the Covid-19 shock, occasional paper, Banco de España.
7 As a proportion of GDP, the consolidated debts of non-financial corporations fell from 108.2% in Q2 2010 to 61.0% in Q4 2019 (Bank of France data).

BELGIUM

STRUCTURAL IMPACT LIMITED SO FAR, BUT EVENTUALLY BILL COMES DUE

We expect the Belgian economy to lose 7.2% of its size this year, followed by a 3.8% increase next year. After a strong recovery in the third quarter, private consumption is expected to decline again at the end of this year, but not as much as during the first lockdown. So far, structural damages seem to have been mainly avoided, with bankruptcies close to their normal level and unemployment rates stable since the beginning of the year. Government support measures have no doubt played a crucial role in this but once these measures are discontinued, some long term scarring will take place.

At the end of the first half of this year, Belgian quarterly real GDP was 15% below the level of the last quarter of 2019. Upward revisions of the national accounts, for both the first and the second quarters, fuelled a more optimistic outlook. This was seemingly reinforced by a higher-than-expected growth rate for the third quarter, coming in at 11.4% quarter-on-quarter.

The uptick in new cases at the beginning of the fourth quarter and the subsequent increase in countermeasures however paint a less rosy picture. We expect lower economic activity in the last quarter of this year and it remains to be seen if a technical recession can be avoided at the start of 2021.

LABOUR MARKET

The unemployment rate has remained stable (around 5%) since the beginning of the year, which is quite remarkable. In fact, during the same period the EU-average unemployment rate increased by close to 1 percentage point and a similar trend was observed in the neighbouring countries. The expanded "temporary unemployment"-scheme no doubt played a major part in the standout performance of the Belgian labour market. In April, when government measures to fight the pandemic were at their most stringent, close to 1.2 million people benefitted from this scheme. For September, that number had fallen below 200.000, still almost twice as high as the normal level.

During the second lockdown, which was imposed at the beginning of November, this number is expected to go up again, with more than half of all companies looking to increase the number of workers they enlist for the scheme. We expect to see around half a million workers registered for temporary unemployment by the end of this year. From the 2nd quarter of 2021 onwards this number should slowly drop again.

At that point, the actual unemployment rate will be creeping upwards as government support measures are expected to come to an end. All in all, we expect to see the unemployment rate peak well above 7% by the start of 2022. Even though an estimated number of 140.000 people losing their job will cause significant economic hardship, the unemployment rate will be at a similar level than that of 2017.

At that point, halfway through the Michel-I government's legislation period, close to 160 000 jobs had been created since the end of 2014. Just as many were added in the 2 following years. An equally fast pace of job-creation might be hard to repeat, but the unique stop-start-character of the current crisis could support a quick rebound.

CORPORATES

In its monthly survey, the National Bank of Belgium (NBB) has been tracking the negative impact of the health crisis on firms' turnover levels. Turnover losses peaked above 30% for the economy as a whole in the month of April, but this gradually improved to less than 15% in August. For November, companies expect another deterioration as the 2nd lockdown kicks in.

GROWTH AND INFLATION (%)

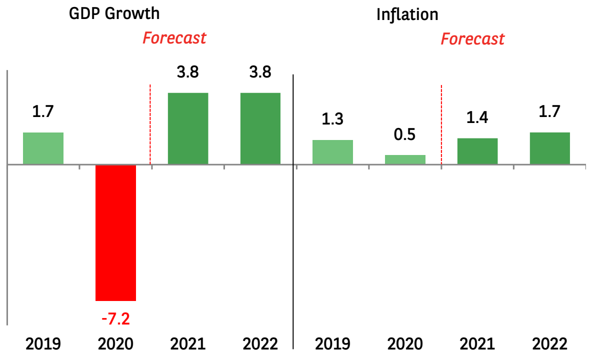

CHART 1 SOURCE: NATIONAL ACCOUNTS, BNP PARIBAS FORTIS

The hardest hit areas are reported in client-facing sectors such as Events, Accomodation & Food Services and the Non-Food Retail sector. Aggregated real-time data on retail spending confirms this picture, with expenditures in the first two weeks of November some 20% below their normal levels. After private consumption almost posted a full recovery to pre-crisis levels in the third quarter, a significant decline is in the cards for the last months of this year.

Still, the impact of this second lockdown is likely to be softer, as businesses now seem better equipped to deal with more stringent measures. In November, full time telework was quickly reinstated for more than 30% of all employees. This closely resembles the situation in the first lockdown and is well in excess of the 9% reported for September.

Across the board, firms are fearing a strong increase in bankruptcy risk. Surveys show that close to 10% could be out of business by the second half of next year. The main reasons for liquidity problems are thought to be revenue losses and late payments, with insufficient credit lines so far less of an issue.

The impact on investment plans is significant. For the entire economy, firms intent to cut back on their pre-covid investment plans by more than 20%, for both this year and 2021. In the second quarter of this year this trend was already traceable in the national accounts, with corporate investment 23% below the level it had reached at the end of 2019. We do not expect investments to reach this level again before the end of 2022.

PUBLIC FINANCE

The freshly minted De Croo-government announced new outlays to the tune of 1% of GDP but the revenue-side of the equation remains somewhat murky. A large slice of the newly budgeted government income is expected to arise from increased efforts to fight social fraud, which does not look all that realistic.

For this year, we expect revenues to decline by close to EUR 14 bn in line with the reduction in GDP. General expenditures will be close to last year's level, with an additional EUR 16 bn in Covid-related spending taking place at various government levels. All in all, we see the deficit for this year ending up at 8.7% of GDP. Today there is no real indication that the deficit would fall below 5% of GDP before the end of the government's ruling period in 2024.

This of course adversely impacts the government debt level, which we put this year at 114% of GDP. A recent study by the NBB suggests a *"safe upper boundary"* of 120% of GDP for Belgian government's debt. This boundary is higher than that of countries like France, Italy and Spain because historically, Belgian governments have shown a willingness to implement fiscal policy consolidation in the face of an increasing debt level.

It remains to be seen whether the current centre-left government, led by a centre-right politician, will choose a similar path after the health-crisis has been brought under control.

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AUSTRIA

CORPORATE SECTOR SEVERELY WEAKENED BY COVID-19 CRISIS

The government decreed a second lockdown in November due to the rapid rise in Covid-19 infections. Business indicators point to a fall in activity. Thanks to the short-time work scheme, unemployment has only risen moderately. Moreover, inflation has remained at a relative high level compared to other eurozone countries. In 2021, fiscal policy remains very accommodative and the deficit might only shrink to 6.3% of GDP. The economy is projected to rebound by 3.5% in 2021 compared with a slump in 2020 (-7.5%). A major downside risk is the increased indebtedness of the non-financial corporate sector.

SECOND LOCKDOWN HALTS RECOVERY

Austria weathered the first wave of the sanitary crisis reasonably well, but the second wave in autumn turned out to be much more severe. It forced the government to decree a second lockdown in early November, resulting in the closing of hotels, bars, restaurants and theatres at least until 6 January. After a strong recovery in the third quarter (11.1%), the second lockdown has provoked a renewed slump, albeit less severe than in the spring. The WIFO business climate index fell deeply into the red, as companies assessed the current situation as worse, and were quite concerned about the coming few months. In particular, economic conditions in the sectors tourism, transport and the consumer goods were considered as very unfavourable.

Labour market conditions have deteriorated although less than might have been expected thanks to the short-time work scheme. The unemployment rate peaked at 5.9% in June compared with 4.5% before the crisis. In recent months, unemployment has come down, reaching 5.4% in October. However, the early warning indicator of the Austrian employment service points to more layoffs coming in the weeks ahead.

To provide financial support for the hospitality industry, the VAT rate for food and accommodation services was temporarily cut to 5% in July 2020. This rate will probably apply until December 2021. However, in line with government intentions, the lower VAT rate has not been passed on to consumers. In the first place, it could be considered as a kind of compensation for the sector, which faces higher costs and lower incomes due to the sanitary regulations to stop the spread of the virus. In addition, numerous businesses in this sector are struggling with liquidity problems. Mainly because of rising prices in the services sector, inflation has remained relatively high compared to other eurozone countries. Overall, inflation is forecast at around 1.5% in 2020.

FISCAL STANCE TO REMAIN ACCOMMODATIVE

As in 2020, several budgetary rules such as the debt brake and those of the European Stability and Growth Pact will be suspended in 2021, as the budget will still be dominated by the effects of the Covid-19 crisis. Support measures for the most affected sectors - such as the fixed cost subsidy, the short-time work scheme or the support fund for non-profit organisations - will continue. Investment expenditures, in particular in climate protection, public transport and digitalisation are increasing. Moreover, active labour market policies will replace spending on short-time work allowances. Nevertheless, government expenditure is set to decline by 1.3% from 2020, when spending was boosted by several emergency measures. On the revenue side, some relief measures, such as the temporary loss carry-back will take the full effect. This rule allows companies to offset the losses caused by the Covid-19 pandemic against the profits made in earlier years. Moreover, the marginal tax rate of the first income bracket will be lowered. However, this will be compensated by the increase in tax revenues associated with the expected strong recovery. The general government revenue ratio is expected to decline to 47.1 % of GDP compared with 47.9 % in 2020. The deficit could improve to 6.3 % of GDP compared with 9.5% in 2020. The debt-to-GDP ratio is expected to inch up to 84.8 % from 84% in 2020. In 2019, it amounted to 70.5%.

GROWTH AND INFLATION (%)

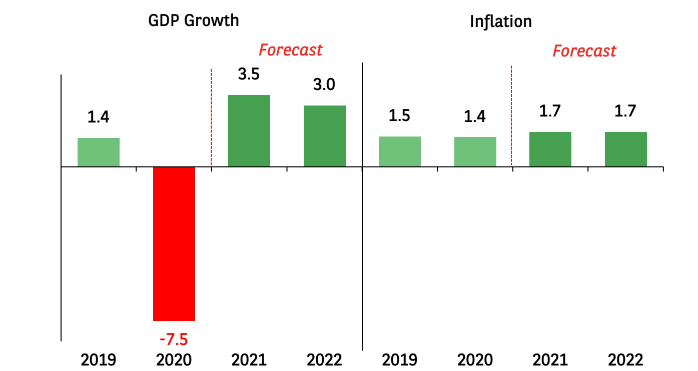

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

PRIVATE SECTOR IS SEVERELY WEAKENED

The economy is expected to rebound 3.5% in 2021 after the slump in 2020 (-7.5%). A major downside risk for the economy is the fragility of the non-financial corporate sector. Corporate profitability, which was already substantially lower than during the Great Recession, has further declined. Moreover, in the first half of 2020, the debt-to-income ratio of the corporate sector increased by 13 bp to almost 324%. Despite the sharp fall in activity, the number of bankruptcy proceedings and insolvencies will probably be lower in 2020 compared to last year, because of the legal measures taken during the Covid-19 crisis. An increase in insolvency proceedings could be expected once these measures expire.

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FINLAND

A RESILIENT, BUT NOT VERY DYNAMIC, ECONOMY

In Q2 2020, Finland stood out from the rest of Europe as the country that reported the smallest decline in GDP – "only" -4.4%. Yet the ensuing recovery was less vigorous than for its EU neighbours, and Finland will surely continue to underperform in the months ahead. Even so, the Finnish economy is still one of the most resilient in Europe, thanks notably to the relatively feeble spread of the virus and robust support from the fiscal and monetary authorities.

In the first half of 2020, Finland was not hit as hard economically as most other developed countries. The country did not suffer as much from the pandemic, which allowed the authorities to impose less stringent restriction measures than in most other European countries.

THE ECONOMIC SITUATION IN 2020

Nonetheless, the economic recovery in the second half of 2020 has been weaker than in the rest of Europe. The Finnish economy was already showing signs of weakness before the Covid-19 crisis started, and GDP even contracted in Q4 2019. In particular, exports dropped sharply, which is likely to be the main factor behind the decline in GDP this year. The Ministry of Finance, the European Commission and the OECD all expect exports to fall by about 12% this year.

Considering growth in 2020 as a whole, it is worth comparing Finland with its Nordic neighbours. In the first half, GDP in Sweden and Denmark plummeted by 8.1% and 8.3%, respectively, while it declined by "only" 5.7% in Finland. However, in its Autumn Economic Forecast[1], released in November, the European Commission expects GDP to decline more sharply in Finland than in Denmark or Sweden in 2020 as a whole, which means that the economic recovery will be more vigorous in these latter two countries. Moreover, the European Commission expects this trend to continue in 2021 and 2022 (see chart 2).

WHAT TO EXPECT NEXT YEAR AND AFTER?

The Finnish economy is not expected to return to its pre-crisis level particularly quickly. One reason is that the second wave of the pandemic, which is currently sweeping Finland and its European trading partners, is bound to slow the economic recovery further. Indeed, although the recent announcements concerning the effectiveness of different vaccines against the virus raise hopes that the crisis will wind down in the months ahead, a third wave of the virus could hit Europe before a vast vaccination campaign can be rolled out.

In any case, the Finnish economy should be able to count on the monetary and fiscal authorities to provide the necessary support to return to sustainable growth.

At its December meeting, the European Central Bank (ECB) further eased its monetary policy stance, notably by increasing the envelope of its asset purchase programme by EUR 500 bn and by extending its horizon for net purchases until at least March 2022[2].

In its *Autumn Economic Survey*[3], the Ministry of Finance forecasts that the deficit will swell to 7.7% of GDP in 2020. Although it should narrow in the following years, the deficit is still expected to be near 3% of GDP in 2024. In comparison, it stood at only 1% of GDP in 2019. In 2020, the support measures put in place by the government to tackle the sanitary and economic crises have amounted to a little more than 2% of GDP. The government's draft 2021 budget suggests that these will still be worth nearly 1% of GDP in 2021. That is because while private consumption and exports are expected to support growth in the months ahead, certain segments of the economy could take much longer to recover from the crisis. In its latest *Economic Outlook*[4], the OECD anticipates that it will take a long time for investment to return to pre-crisis levels. Moreover, according to the Ministry of Finance, the unemployment rate could hit 8.2% next year, and will still be above 7.5% in 2024.

GROWTH AND INFLATION (%)

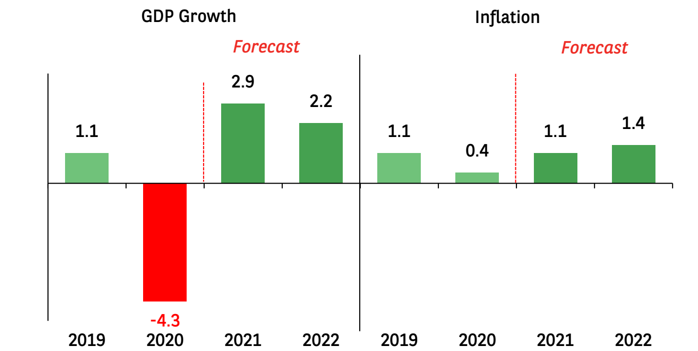

CHART 1 SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

EUROPEAN COMMISSION GDP FORECASTS (%)

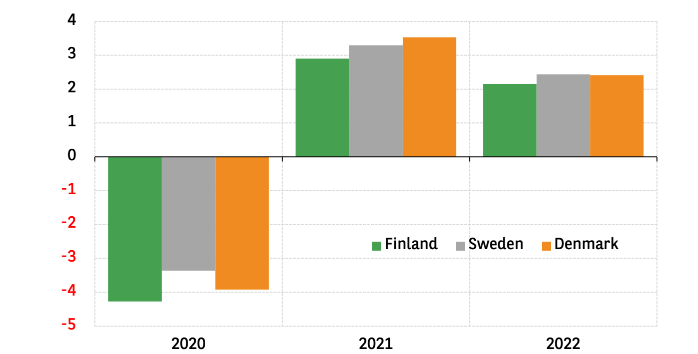

CHART 2 SOURCE: EUROPEAN COMMISSION

Completed on 10 December 2020

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1 Autumn 2020 Economic Forecast, European Commission.
2 Monetary policy decisions, 10 December 2020, European Central Bank
3 Economic Survey: Autumn 2020, Ministry of Finance.
4 Economic Outlook, December 2020, OECD.

A SLOWER RECOVERY THAN OTHER COUNTRIES IN 2021?

Greece's economic recovery will be fraught with uncertainty in 2021. The Covid-19 hit to activity could last longer in the tourism industry – a key sector for the country – than in other sectors. The decline in tourist inflows in summer 2020 has limited significantly the rebound in Q3 GDP, which was much weaker than in other European countries. Some confidence indicators, particularly regarding the unemployment outlook, have worsened during the autumn. The conservative government plans to use the large amounts of money allocated by the European recovery fund to finance its stimulus plan, details of which will be finalised early next year. Despite that, public debt is likely to remain above 200% of GDP by the end of 2021, which is very worrying from a long-run perspective.

With GDP only recovering by 2.3% in Q3, Greece posted Europe's weakest rebound in output during the summer. Going into Q4, Greece's real GDP was still 12.1% below its level at the end of 2019[1]. The slump in service exports – related to the fall in tourism activity – continued in Q3, causing net exports to be a major drag on GDP. Imports rebounded more significantly in line with stronger consumer spending[2]. The European Commission now forecasts Greek GDP to contract by 9.0% in 2020, almost twice the decline initially anticipated in the stability programme. Output should then pick up by 5.0% in 2021.

Since Greece's economy is heavily dependent on tourism, its recovery could be weaker than those in other European countries in 2021. The Covid-19 crisis could cause a more long-term hit to the tourism sector, even if the pandemic fades gradually as one or more vaccines are rolled out in the near future. This will have evident ramifications for the labour market. In November, household expectations about future trend in unemployment has reached its lowest level since August 2013[3], a period when tensions regarding Greek sovereign debt were still intense. That said, government projections show a "contained" rise in unemployment in 2020, with the jobless rate climbing by 1.6 points to 18.9% before falling back to 17.9% in 2021. These forecasts are fairly close to the European Commission's estimates.

Against the backdrop of this fragile recovery, fiscal policy will play a crucial role in supporting activity again in 2021. The 2021 budget – which was still being discussed in parliament at the time of writing – includes a reduction in employee social-security contributions and new subsidies for companies hiring the long-term unemployed. At the same time, the National Recovery Plan, which will be finalised in the first quarter of 2021, will mainly be funded by the grants received from the European Recovery Fund. As a share of GDP, Greece will be the third-largest recipient of direct subsidies (10.0%), behind Croatia (12.1%) and Bulgaria (11.5%). If we incorporate loans, Greece could receive EUR 32 billion from the European Recovery Fund between 2021 and 2026, which is equal to 17% of its 2019 GDP.

Despite this support from the EU, Greece's public finances remain a concern in the long run. The European Commission has revised upward its forecasts regarding Greece's deficits for 2020 (6.9% of GDP) and 2021 (6.3%). As a result, public-sector debt is expected to hit 207.1% of GDP in 2020 before falling to 200.7% in 2021 thanks to the upturn in economic growth.

GROWTH AND INFLATION (%)

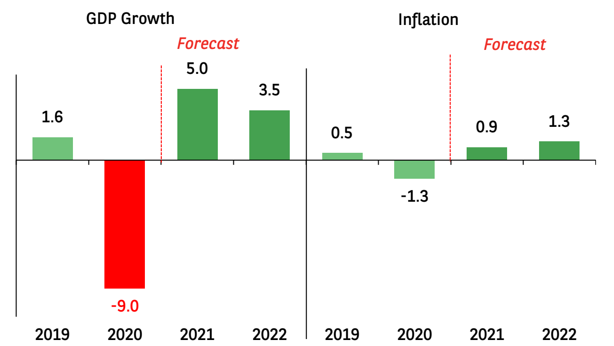

CHART 1 SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

Nevertheless, Greek bond yields – which have continued to fall over the autumn[4] – should remain low in 2021 thanks to the support from the European Central Bank, the European Recovery Fund and the low trend in inflation. This will reduce debt servicing costs further. According to the OECD, net interest payments on General Government Debt will continue to fall in 2020 (2.51% of GDP) and 2021 (2.43%). For the sake of comparison, net interest payments peaked at 7.2% of GDP at the height of the European crisis in 2011.

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1 As opposed to a European average of 4.4% (Eurostat).
2 After adjusting for seasonal variations.
3 European Commission data.

4 On 18 November, the yield spread to German Bunds fell below 1.6 percentage points for the first time in over ten years.

UNITED KINGDOM

ANOTHER CONTRACTION IN Q4, BEFORE THE DEFINITIVE RECOVERY?

The record fall in UK GDP in the second quarter gave way to unprecedented growth in the third, and the news that an effective vaccine against Covid-19 will soon be widely available suggests that the economy could start its definitive recovery in 2021. However, the UK is not out of the woods yet. Given that a second national lockdown was introduced in England in November, there is little doubt that economic activity will drop again in the fourth quarter. Moreover, the strength of the recovery is, because of Brexit, more uncertain than elsewhere. This not only because of the UK's decision to leave the EU's single market and customs union, but also due to continued uncertainty over whether a free-trade agreement will be found.

According to the initial estimate from the Office for National Statistics (ONS), the UK's GDP bounced back in the third quarter, growing by 15.5%. This strong rebound, which followed a fall of 22% in the first half, was driven by the reopening of the economy after the first lockdown – bars and restaurants, for instance, had to wait until early July before reopening their doors.

THE ECONOMY HAS FALLEN A LONG WAY BEHIND

Despite this record growth in Q3, UK GDP was still nearly 10% lower than it was at the end of 2019. Although Spain is in a similar position, in the USA, France, Germany and Italy, GDP has recovered to "only" 5% below its level back then (see chart 2). One of the explanations for this gap is the significant collapse in household consumption. While it has fallen by around 2% in France and 3% in the USA, in the UK it is down more than 12% in real terms since the end of 2019. In its latest *Economic Outlook*, published in December, the OECD forecasts that the fall in private consumption will be twice as deep in the UK as it will be in France or the Euro Zone as a whole.

In addition, the recovery has shown signs of running out of steam since the end of the summer. Monthly figures from the ONS showed that GDP grew by only 1.1% in September. On top of this, a fresh drop in GDP looks highly likely in the final quarter of 2020. This is because the government responded to a deterioration in the health situation by introducing a national lockdown across England from 5 November to 2 December. After this ended, England returned to a tiered system of restrictions that is stricter than the one that was introduced in October. In the highest tier ("Very High"), household mixing is forbidden indoors and only allowed in outdoor public spaces for groups of six people maximum; in addition, bars, restaurants and hotels are not closed, except for sales by takeaway, click-and-collect, drive-through or delivery services.

That said, the adverse economic impact of this second lockdown will surely be less severe than the first. One reason is that it was shorter and less restrictive. Another is that the starting point for the economy was much lower than it was in the first quarter. As a result, BNP Paribas expects that GDP will fall by 'only' 3.7% in the final quarter.

In addition, fears of a sharp rise in unemployment at the end of the year have dissipated somewhat. Admittedly, those businesses forced to reduce, or indeed stop, their activity are certainly facing increased difficulties. However, the government has also chosen to reintroduce its Coronavirus Job Retention furlough scheme (CJRS) until March 2021. This programme has already proved its worth. Although the unemployment rate has increased since the beginning of the crisis, the rise has been limited to less than a percentage point. In October the unemployment rate was 4.8%. The CJRS had been due to end in October, to be replaced by a less generous scheme. This led the Office for Budget Responsibility (OBR) to predict a rise in the unemployment rate to over

GROWTH AND INFLATION (%)

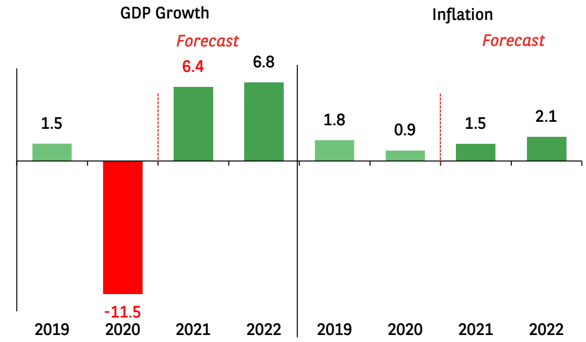

CHART 1 SOURCE: EUROPEAN COMMISSION, BNPPARIBAS

REAL GDP (Q4 2019 = 100)

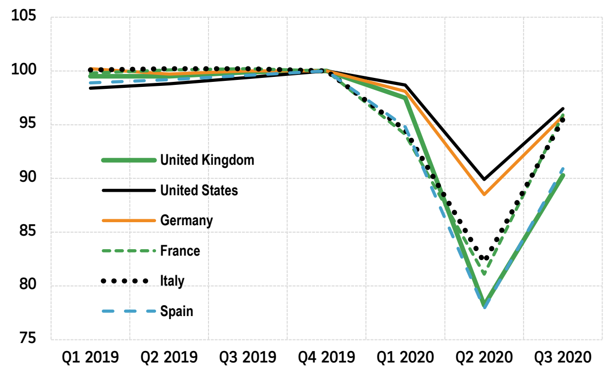

CHART 2 SOURCE: ONS, OECD

10% by the end of the year. Since the announcement of the extension, the OBR has revised its forecasts, and now expects unemployment to peak at 7.5% in the second quarter of 2021.

WHAT NEXT FOR MONETARY AND FISCAL POLICIES?

To face the health and economic crises in 2020, the British government will have spent more than GBP280 billion, and the OBR forecasts that the government deficit will hit 19% of GDP. In his latest Spending Review, the Chancellor of the Exchequer, Rishi Sunak, announced that GBP 55 billion would be made available to public services in 2021-22.

What's more, the impact of government support on public finances will be felt for years to come. The OBR estimates that the deficit will still be around GBP 100 billion, or 4% of GDP, by 2025-26. As far as growth is concerned, UK GDP is not expected to return to its end-2019 GDP level until the fourth quarter of 2022[1].

Faced with such a sharp deterioration of public finances, the government could respond rapidly. Indeed, there is a risk that it will react too quickly. While the IMF recently cautioned against tightening fiscal policy too quickly in the UK[2], the Chancellor has pledged to balance the books as soon as possible. In its central scenario, the OBR estimates that GBP 20-30 billion in spending cuts or tax rises would be required to *"balance revenues and day-to-day spending and stop debt from rising by the end of this Parliament"*. Any tightening could come as early as in the 2021 Budget, which is due to be presented in March 2021.

When it comes to monetary policy, the Bank of England has further relaxed its stance. Although it has left its policy rate at 0.10%, it has increased its asset purchasing programme by GBP 150 billion at the beginning of November. Overall, this means that its programme has more than doubled in size since the beginning of the crisis, to nearly GBP 900 billion, or some 40% of GDP.

BREXIT: SO FAR, SO GOOD

Meanwhile, the UK has concluded a free trade agreement with Canada, but negotiations with the EU drag on. According to European Commission President Ursula von der Leyen, the outline of a final agreement is in place for most areas, but three main points of disagreement remain.

The first concerns the two parties' commitment to respecting a "level playing field", which means a framework that aims to maintain open and fair competition in the long term. The second has put fisheries, a minor industry, at the centre of the discussions. The Europeans want to ensure substantial access to UK territorial waters for their fishermen, but the UK wants to regain full sovereignty over its waters. Lastly, the two sides are still arguing over the governance of the agreement, which is to say on its dispute resolution mechanism.

Whatever happens, the UK will leave the EU's single market and customs union at the end of 2020. The country is therefore heading towards a "hard Brexit", and numerous non-tariff barriers will hinder its exchanges with the EU from 1 January 2021[3]. In the case of goods, these may include additional procedures, notably to meet EU standards, and enhanced customs controls, resulting in additional costs and more border delays for UK exporters.

If no agreement is reached, these non-tariff barriers will come on top of tariffs imposed on goods traded between the two sides. The OBR estimates that a no-deal exit will trim two percentage points off UK growth in 2021. Given that the forecast recovery in 2021 in the scenario of a deal was, at 5.5%, already feeble in the light of the contraction in 2020, the rebound in a no-deal scenario would be very disappointing. This reduction in GDP growth would be due to border disruption, lower business investment, reduced productivity, increased structural unemployment, and other short-term effects on demand and supply, resulting in part from heightened uncertainty and tighter credit conditions (see chart 3). This would delay the point at which GDP regains its pre-virus level by almost a year (see chart 2 again).

DIFFERENCE IN REAL GDP BETWEEN NO-DEAL AND DEAL SCENARIOS (%-PT)

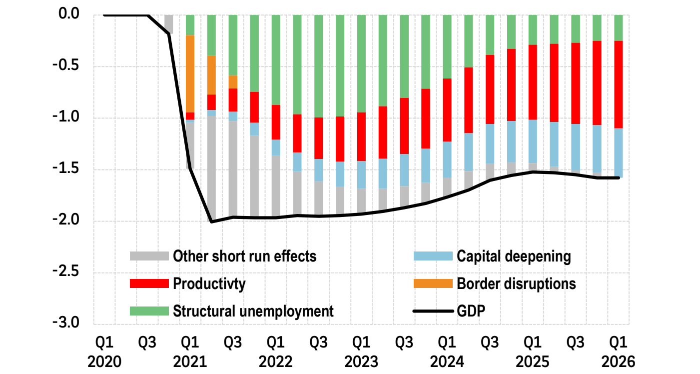

CHART 3 SOURCE: OBR

In the long term, the OBR estimates that the UK's GDP will be 4% lower than it would have been without Brexit, and that a no-deal exit would cost an additional two percentage points. Although failure to reach a free trade agreement with the EU would probably harm the UK economy, it is in fact the UK's exit from the single market that will have the biggest negative effect on growth.

With all that in mind, Brexit will surely have an impact on fiscal and monetary policy. On the fiscal side, if Brexit does have a negative effect on the economy – as predicted by the vast majority of studies on the topic – public finances will come under further pressure due to lower tax revenue and higher spending (unemployment benefits, etc.). Moreover, any benefits from stopping its contributions into the EU budget will be minor and will surely be offset over the next few years by the payment of the UK's past commitments – the so-called "Brexit Financial Settlement", which is estimated at more than GBP30 billion. Meanwhile, the UK might be tempted to deregulate its economy, but it is already one of the most lightly regulated and any relaxation would take the country further away from the EU, which would lead to more non-tariff barriers between the two parties.

As far as monetary policy is concerned, the Bank of England may find itself faced with, on the one hand, a weakened economy and, on the other hand, strong inflationary pressures – for example caused by a drop in the pound and the application of tariffs on UK imports. However, in such circumstances, the central bank would almost certainly opt for a loosening of its policy, as it did when confronted with the same dilemma after the 2016 referendum.

In summary, this saga which began more than four years ago will reach its final act before the end of this year. Although the effects of Brexit on the UK economy have so far been milder than many had feared, the real shock will not come until 1 January 2021, with the after-effects possibly to be felt for many years. What matters is not the fall, it is the landing.

Completed on 7 December 2020

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1 Economic and fiscal outlook, November 2020, OBR.
2 United Kingdom: Staff Concluding Statement of the 2020 Article IV Mission, IMF, 29 October 2020.
3 What will be the economic consequences of a hard Brexit?, BNP Paribas, 30 November 2020.

SWEDEN

A HARD-HIT ECONOMY

Since March 2020, Sweden has adopted a more relaxed approach to the COVID19 outbreak as no lockdown has been imposed to the population. However, the recent pick up in new infections could slow the recovery down in Q4 2020. Pervasive uncertainty will continue to hamper exports and corporate investment, while household consumption is fuelling the economic recovery. In 2021, the Riksbank will maintain and expand its vast asset purchasing programme. New expansionist measures are expected to bolster an already accommodating fiscal policy.

After falling by 8% in Q2 2020, GDP rebounded by 4,9% in Q3 2020. The 2020 full-year decline is expected to be 3.4% according to the European Commission's forecast. In 2021, the GDP is expected to grow by 3.3%. However, It will take time, for the economy to recover pre-pandemic levels. The effects of a new Coronavirus wave on the economy are to be feared since Sweden has one of the highest mortality rate among the European countries with 7,000 deaths per 10 million inhabitants.

THE HOUSEHOLD CONSUMPTION'S RESILIENCE

Sweden's small, open economy was hard hit by the massive drop-off in world trade in 2020 as exports fell by more than 18% in Q2. However, they turned out to be resilient as their level in May was close to their December 2019 level. However, the pandemic resurgence particularly in the US and the UK[1] combined with the risk of a hard brexit, could hamper exports in Q1 2021. Since exports experimented a further decline in Q3 and Q4 2020, they are unlikely to return to pre-crisis levels before H2 2021.

Regarding corporate investment, uncertainty persists, but manufacturing leaders are less pessimistic than they were in Q3 (manufacturing PMI reached 59.1 in November). Even so, investment is expected to recover slowly given the currently low level of corporate financial capacities despite the government's financial support.

Soaring house prices since May have illustrated the renewed optimism of households[2]. Private consumption, down 4% in 2020 should regain strength in 2021 if a vaccine is widely expanded. Retail sales growth was stronger in Q3 2020 than in December 2019[3]. However, household savings rose sharply during the pandemic, due to restrictions on outdoor leisure activities and deteriorating labour market conditions. The unemployment rate is expected to reach 8.6% in 2020 and then 9% in 2021, up from 6.8% in 2019.

A STRENGTHENED MONETARY AND FISCAL SUPPORT

Inflation slows down in 2020 and should reach 0.6%, away from its 2% target in 2020 according to the Commission estimates. Inflation could accelerate again to 0.8% in 2021 thanks to an accommodating monetary policy and depending on the economic recovery. Moreover, the Swedish central bank announces that it will expand its quantitative easing program to SEK 700 billion which is SEK 200 billion more than its earlier target of SEK 500 billion. However, Riksbank governor Stefan Ingves stated that he saw *"no hurry to raise the repo rate"* and decided to keep it at 0% until the end of 2023.

GROWTH AND INFLATION (%)

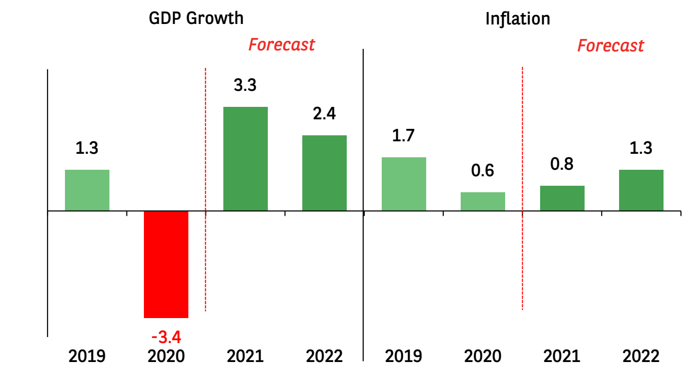

CHART 1 SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

Fiscal policy is also accommodating since new measures were introduced in the 2021 and 2022 budget, representing additional amounts of SEK 105 billion in 2021 (2% of GDP) and SEK 85 billion in 2022 (1.7% of GDP). These measures are geared mainly for companies and the most hit by unemployment such as youngsters - from 19 to 23 years old - low skilled workers and immigrants. Large training programmes will also be set up. The government is also providing support for the regions by doubling their allocated funds and extra SEK 10 billion subsidies were dedicated to hospitals in early Q4 2020. Such measures will widen the public deficit to 4% of GDP in 2020 and 3.8% in 2021. Public investment in the ecological transition and infrastructure should continue to boost domestic demand.

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1 The United States and the UK, Sweden's third and fourth largest trading partners, are among the economies most impacted by the Covid-19 crisis.
2 The house price index has risen constantly since May 2020 to 261.81 in October 2020, up from 239.55 in April (100 = January 2005).
3 The retail price index, excluding vehicles and repair services, averaged 112.28 in June-October 2020, compared to 110 in December 2019 (100=2015).

NORWAY

ONE OF THE LEAST AFFECTED DEVELOPED ECONOMIES

Norway was not hit as hard by the Covid-19 pandemic as most its European neighbours. Moreover, the economy has been able to count on considerable support from the fiscal and monetary authorities. In its draft budget for 2021, presented in October, the government has pledged to maintain an expansionist policy, even if spending will logically not be as high as in 2020. What's more, faced with an upturn in Covid-19 cases and tighter restriction measures, the central bank has adopted a more conciliatory tone.

After plunging by 6% in Q2 2020, the GDP of "mainland" Norway – excluding the offshore oil sector – rebounded by 5.2% between July and September. Unsurprisingly, it was the sectors hit hardest by the restriction measures put in place to tackle the sanitary crisis that reported the strongest rebounds in the third quarter. Household consumption also bounced back, rising by nearly 10%. As in other countries, the recovery was strongest immediately after lockdown measures were lifted. According to Statistics Norway's monthly indicator (SSB), GDP rose by only 0.6% in September.

Faced with a flare up in coronavirus cases, the Norwegian government decided in early November to impose new social distancing restrictions and recommended everyone to remain at home as much as possible.

THE ROLE OF FISCAL AND MONETARY POLICIES

Although its 2021 budget[1] was unveiled prior to this new tightening of restrictions, the government already recognised the need to maintain an expansionist fiscal policy. Since 2001, the government's deficit is financed by transfers from the Oil Fund, and these transfers are called the structural non-oil deficit. In 2021, this deficit should still amount to 3% of the fund's total value (or 9.4% of GDP), after 3.9% (12.3% of GDP) in 2020. Although the use of the fund by the government is regulated, there is enough flexibility to deal with shocks like the one that hit the Norwegian economy this year.

Meanwhile, the Norges Bank has softened its tone a bit. In the communiqué following its September meeting, the central bank discussed rate hikes in the next couple of years. Yet, after its last meeting in early November, the central bank returned to a more cautious stance, stressing that its policy rate would remain unchanged at 0% until there were clear signs that economic conditions were returning to normal[2]. In its report, the Norges Bank warned that higher infection rates and tighter restriction measures in Norway and abroad would *"likely put a brake on the upswing in the coming period"*.

THE ECONOMIC PROSPECTS FOR 2021

Since the outbreak of the pandemic, Norway is the European country that has recorded the lowest number of deaths due to Covid-19 as a share of the population. This has allowed the authorities to impose softer restriction measures than elsewhere. As a result, even though the country was also hit earlier this year by a big drop in the price of oil, its main export product, the economy has been particularly resilient.

In its most recent *Economic Outlook*[3], the OECD estimates that mainland Norway's GDP contracted by 3.2% in 2020. This is the fifth best anticipated performance among the 37 OECD members.

GROWTH AND INFLATION (%)

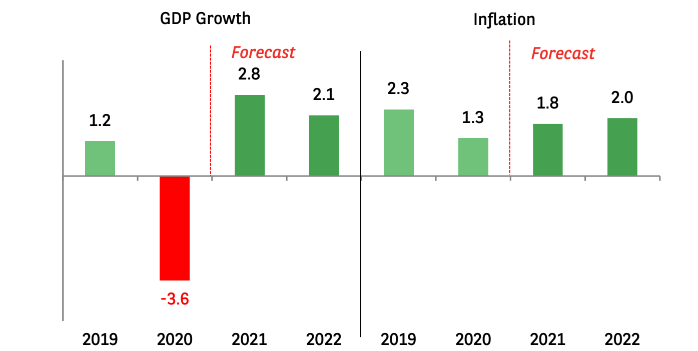

CHART 1 SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

OECD FORECASTS FOR GDP GROWTH IN 2020 (%)

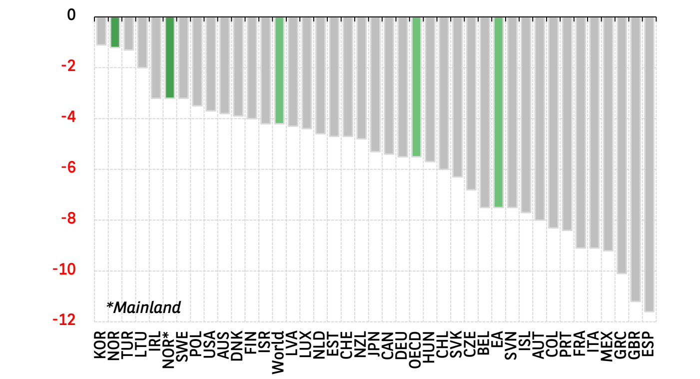

CHART 2 SOURCE: OECD

As to the Norwegian economy as a whole – including the oil sector – GDP is only expected to contract by 1.2%. The only member country for which the OECD anticipates a smaller drop is South Korea (see chart 2).

Completed on 7 December 2020

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1 The National Budget 2021, Norwegian government
2 Rate decision November 2020, Norges Bank
3 Economic Outlook, December 2020, OECD

DENMARK

UNCERTAINTY REMAINS

The Danish economy has quickly rebounded after the reopening of the borders but a complete catch-up will take time since the resurgence of the Coronavirus epidemic keeps the country's economic situation uncertain. Services exports were hard hit by the crisis in 2020, but are offset by a surge in Danish household consumption, supported by government measures. Fiscal policy should remain accommodative in 2021 and the Central Bank of Denmark will continue to defend its peg with the euro.

Danish GDP rebounded by 4.9% (q/q) in the third quarter of 2020, but failed to compensate the Q2 sharp fall of 7% (q/q). GDP is expected to contract by 3.9% over the year. In 2021, growth is expected to rebound by 3.5% according to the European Commission estimates. However, new measures to fight the Covid-19 pandemic and a weaker external environment could undermine the recovery.

HOUSEHOLDS REGAIN CONFIDENCE

The Danish economy's recovery depends on the resumption of world trade. Since the beginning of the crisis, services exports have been hit hard, falling by 11.6% in Q2 2020, mainly due to the absence of foreign tourists. The rebound in Q3 (+5.6%) is far from sufficient to allow exports to return to their 2019 level. In addition, the prospect of a hard Brexit could add an additional drag, as the UK is the Denmark's fourth largest trading partner.

After falling by 6.38% (q/q) in Q2 2020 and despite a rebound of 3.3% (t/t) in Q3, business investment is unlikely to return to its pre-crisis level until a vaccine is widely spread in 2021. The second wave of the Covid-19 pandemic eroded the confidence of business leaders which remains low in Q4 (the manufacturing PMI in November reached 47.7) and is unlikely to improve in H1 2021. The housing market has rebounded strongly since the end of June, and real-estate prices have risen above pre-crisis levels[1].

Household consumption has picked up rapidly since the end of the first lockdown in March 2020 and recovered to pre-crisis levels as of June 2020. It should therefore decline by only 2% in 2020 and increase by 4% in 2021. This optimism among households is expected to continue thanks to government support measures to consumption and labour market resilience[2]. Part of the special pension scheme was paid to households in October, which triggered an increase in their incomes amounting 2.6% of GDP. Moreover, the recovery of consumption would increase price volatility in 2021.

During lockdown in April and May 2020, inflation dropped to 0% before rising to 0.2% in October 2020. This sharp slowdown is due to a deep drop in oil prices. It would have been even more pronounced without the introduction of an additional tax on tobacco in April[3]. Inflation is expected to accelerate in 2021, to nearly 1%. The central bank's top priority is to protect the DKK peg to the euro, which was threatened as the Danish krone has regularly exceeded the peg (EUR 0.1340 against DKK 1). The central bank said it is open to massive selling of DKK to defend its value. The key policy rate was cut by 15bp to -0.6% in March 2020 and is unlikely to be lowered again in 2021.

GROWTH AND INFLATION (%)

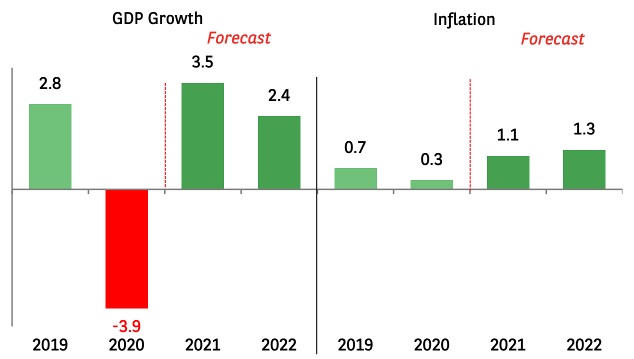

CHART 1 SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

In H2 2020, the government rapidly replaced the broad subsidy programmes of the first lockdown with more targeted measures aiming at companies forced to shut down and their employees. Fiscal policy should still remain expansionist in 2021 and 2022 and will continue to widen the fiscal deficit, which will probably swell to 3.4% of GDP in 2020. Over the DKK 66 billion in government loans guarantees made available to companies in 2020, only DKK 4.8 billion were claimed. The remaining amounts could therefore still be granted to companies facing difficulties in 2021. Large training programmes will also be launched. The agenda for structural reforms, and for the ecological transition in particular, will be maintained in 2021 and 2022.

Completed on 7 December 2020

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1 House prices rose 4.3% in Q3 2020, compared to 3.6% in Q4 2019.
2 The labour market participation rate dropped 3% during the first lockdown, but half of it was recovered by August 2020.
3 The price of a pack of cigarettes increased 24% in April following the introduction of a tobacco tax, rising from DKK41 to DKK55 a pack. The price will rise to DKK60 in January 2022.

FORECASTS

ECONOMIC FORECASTS

%	GDP Growth 2019	2020 e	2021 e	2022 e	Inflation 2019	2020 e	2021 e	2022 e
United States	2.2	-3.6	3.7	3.2	1.8	1.3	1.9	1.9
Japan	0.7	-5.4	1.5	1.8	0.5	0.0	-0.4	-0.3
United Kingdom	1.5	-11.5	6.4	6.8	1.8	0.9	1.5	2.1
Euro Area	1.3	-7.5	5.6	3.9	1.2	0.2	0.8	1.3
• Germany	0.6	-5.9	4.2	3.6	1.4	0.4	1.3	1.2
• France	1.5	-9.5	6.3	3.8	1.3	0.5	0.6	1.2
• Italy	0.3	-9.1	6.0	3.4	0.6	-0.2	0.5	1.3
• Spain	2.0	-11.8	7.0	4.9	0.7	-0.4	0.4	0.9
China	6.1	2.0	8.6	5.3	2.9	2.6	2.3	2.8
India*	4.2	-11.4	11.6	5.0	4.8	5.8	4.3	3.8
Brazil	1.1	-4.5	3.0	3.0	3.7	3.1	4.0	4.0
Russia	1.3	-4.5	3.8	3.0	4.3	3.4	3.5	3.5

* Fiscal year from April 1st of year n to March 31st of year n+1

SOURCE: BNP PARIBAS (E: ESTIMATES, FORECASTS), LAST UPDATE: 23/11/2020

FINANCIAL FORECASTS

Interest rate, %		2021					
End of period		Q1e	Q2e	Q3e	Q4e	**2021e**	**2022e**
United States	Fed Funds (upper limit)	0.25	0.25	0.25	0.25	0.25	0.25
	T-Notes 10y	1.10	1.20	1.30	1.40	1.40	1.50
EUROzone	Deposit rate	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
	Bund 10y	-0.35	-0.50	-0.40	-0.20	-0.20	0.10
	OAT 10y	-0.10	-0.25	-0.15	0.10	0.10	0.50
	BTP 10y	0.75	0.60	0.80	1.20	1.20	1.70
	BONO 10y	0.35	0.20	0.40	0.60	0.60	1.00
United Kingdom	Base rate	0.10	0.10	0.10	0.10	0.10	0.10
	Gilts 10y	0.40	0.40	0.50	0.60	0.60	0.75
Japan	BoJ Rate	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
	JGB 10y	0.05	0.05	0.10	0.10	0.10	0.15

Exchange rate		2021					
End of period		Q1e	Q2e	Q3e	Q4e	**2021e**	**2022e**
USD	EUR / USD	1.22	1.24	1.25	1.25	1.25	1.30
	USD / JPY	101	100	98	98	98	95
	GBP / USD	1.39	1.41	1.44	1.44	1.44	1.59
EUR	EUR / GBP	0.88	0.88	0.87	0.87	0.87	0.82
	EUR / JPY	123	124	123	123	123	124
Brent							
Period-average		Q1e	Q2e	Q3e	Q4e	2021e	2022e
Brent	USD/bbl	56	54	55	59	56	-

SOURCE: BNP PARIBAS GLOBAL MARKETS (E : ESTIMATES, FORECASTS), UPDATED ON 23/11/2020

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