ALLIANCEBERNSTEIN®

GLOBAL ECONOMIC RESEARCH

GLOBAL MACRO OUTLOOK

FEBRUARY 2021

KEY FORECAST TRENDS

- Global growth is set to accelerate strongly once advanced economies lift COVID-19 restrictions, spurred on by highly expansionary policies and a partial drawdown of forced savings. But there are key differences between countries.
- Fresh stimulus should push the level of US output above the precrisis trend in the second half of 2021. Depending on the extent of any supply-side scarring from COVID-19, this could put upward pressure on inflation.
- The outlook for Europe is more muted, partly due to measures to contain COVID-19 and slow vaccine rollout. The level of output is unlikely to regain pre-pandemic levels until the middle of 2022.
- In China, output is back at pre-COVID-19 levels and the priority now is economic and social stability. We expect China to exert a stabilizing influence on global growth.
- Base effects should push headline inflation higher in coming months. Thereafter, the immediate path forward will depend on the complex interplay between the pace of the demand recovery and supply-side scarring. Upside risks are highest in the US.
- Strong growth and rising inflation point to higher bond yields. But central bank policy is still focused on suppressing yields and driving inflation higher. We expect yields to remain largely anchored in Europe and Japan, with some upside likely in the US.
- The return of US exceptionalism points to a stronger dollar against the euro and the yen, but strong global growth should support growth-sensitive currencies.

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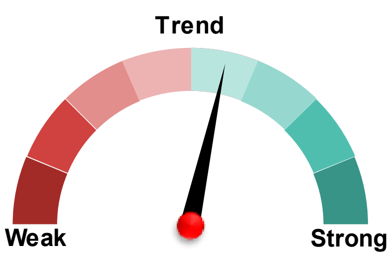
THE GLOBAL CYCLE

ECONOMIC ACTIVITY

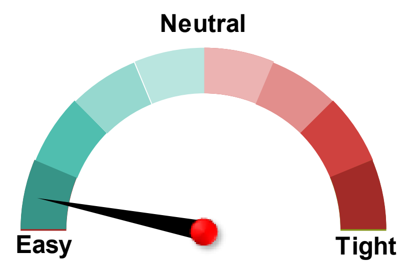


- Growth is set to rebound strongly; in the US, we expect output to rise above the precrisis trend.
- Elsewhere, the rebound is likely to be more muted; a full recovery will take time.

INFLATION

- Elevated debt and a shift in the underlying policy regime provide fertile ground for rising inflation.
- After a base effect–driven bounce in headline inflation, the near-term outlook is more nuanced.

MONETARY POLICY



- Advanced-economy policy rates are likely to remain on hold next year and probably well beyond it.
- Central banks will continue to push back against anything other than a modest rise in bond yields.

GLOBAL FORECAST

FORECAST OVERVIEW

Key Assumptions

- **Virus**: likely to weigh on growth in 1Q, then fade as a cyclical factor
- **Vaccine:** effective vaccines an important part of this process, but won't allow an immediate return to business as usual
- **Fiscal policy:** should remain highly supportive at the global level; US now leading the way
- **Monetary policy:** central banks to keep policy rates anchored and bond yields low
- **Secular backdrop:** headwinds to be exacerbated by COVID-19

Central Forecast

- **Global growth:** strong rebound likely after soft first quarter
- **Reflation:** fiscal stimulus to push US output above precrisis trend; more gradual recovery elsewhere
- **Inflation:** regime shift underway, 2021 outlook remains nuanced but upside risks rising
- **Yields:** joined at the hip to be tested as growth recovers; yield increase likely to be modest
- **USD:** higher against EUR and JPY; brightening backdrop for growth-sensitive currencies

Key Risks

- Virus mutations and/or vaccine failure lead to a materially worse growth path, pushing recovery further back into 2022
- The US Federal Reserve (Fed) fails to control the reflation narrative; bond yields rise sharply
- Are we missing historical warning signs of inflation: big increase in demand when supply is impaired; fastest broad money growth since the 1980s; growing acceptance of money-financed fiscal stimulus?

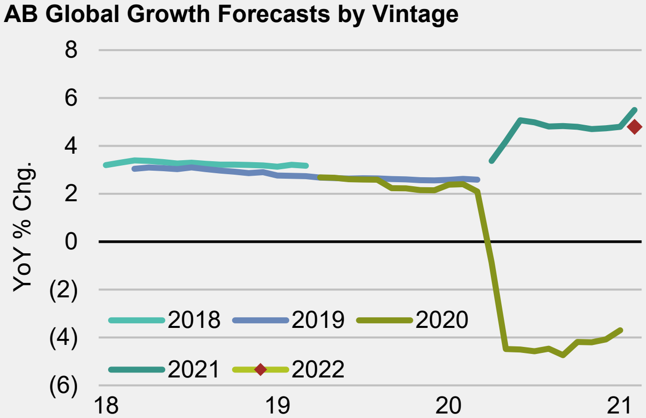
AB Growth & Inflation Forecasts (%)

	Real GDP Growth		CPI Inflation	
	2021	2022	2021	2022
US	6.5	4.6	2.1	2.2
Euro Area	3.5	5.0	1.1	1.2
Japan	2.0	2.2	0.1	0.4
China	8.2	5.5	1.5	2.2
Global	**5.5**	**4.8**	**2.1**	**2.3**
Industrial Countries	4.7	4.6	1.5	1.7
Emerging Countries	6.6	5.0	3.1	3.2
EM ex China	5.2	4.5	4.5	4.3

As of February 1, 2021
Source: AB

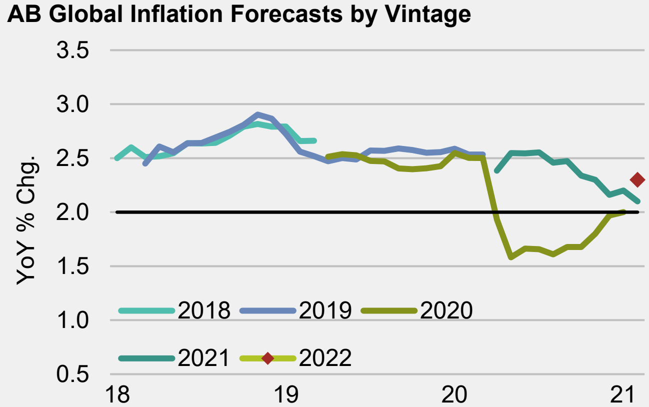
FORECASTS THROUGH TIME

AB Global Growth Forecasts by Vintage



Forecast years start in February: i.e., the first forecast for calendar-year 2022 is February 2021.
As of February 1, 2021
Source: AB

AB Global Inflation Forecasts by Vintage



Forecast years start in February: i.e., the first forecast for calendar-year 2022 is February 2021.
As of February 1, 2021
Source: AB

GLOBAL MARKET OUTLOOK: YIELD CURVES

GLOBAL YIELDS

Global—The aim of monetary policy over the past year has been to support fiscal policy by keeping bond yields low. This consensus may start to fray as economies begin to recover. The European Central Bank (ECB) and Bank of Japan (BOJ) are committed to some form of yield-curve control (YCC). But that's not the case in the US, where the Fed may see more fiscal stimulus as a signal that it can start to wind down its own support for the economy.

US—With fiscal stimulus already in train and more likely to follow, US rates are likely to head higher. Still, low global rates and ongoing Fed purchases should limit the increase and we expect yields to remain below precrisis levels through 2021.

Euro Area—The ECB boosted its Asset Purchase Programme in December. The focus is now on maintaining highly accommodative financial conditions and the volume of purchases could be tweaked, in either direction, to achieve this.

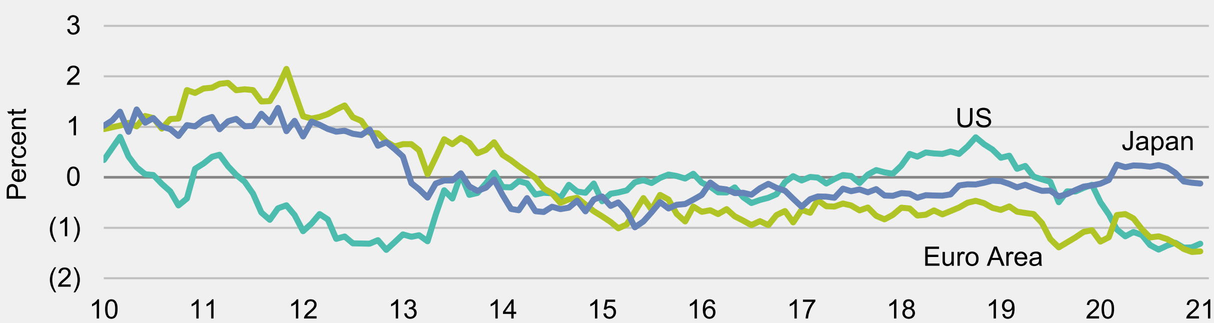
Japan—Tweaks from the BOJ—dropping the Y80 trillion-per-annum purchase target—largely validate the status quo. YCC should anchor 10-year bond yields close to zero for the foreseeable future.

10-Year Yields: AB vs. Consensus Year-End Forecasts (%)

	AB		Consensus	
	2021	2022	2021	2022
US	1.75	2.00	1.34	1.68
Euro Area	(0.25)	0.00	(0.32)	(0.05)
Japan	0.00	0.00	0.04	0.04
China	3.20	3.25	3.17	3.09

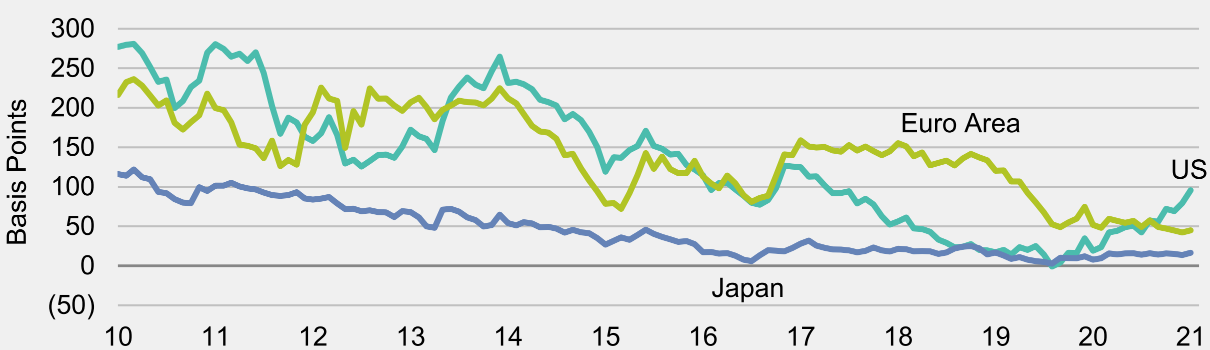
As of February 1, 2021
Source: Bloomberg and AB

Real 10-Year Bond Yields*



*Current 10-year bond yield less five-year/five-year-forward inflation swap
Through January 31, 2021
Source: Bloomberg and AB

Yield Curves: 10-Year Bond Yield Minus Two-Year Bond Yield



Through January 31, 2021
Source: Bloomberg and AB

GLOBAL MARKET OUTLOOK: CURRENCIES

FX FORECASTS

USD—As the US economy accelerates more than its developed market peers, we expect the dollar to rise against the euro and the yen. But faster global growth should support EM and commodity-sensitive currencies against the dollar.

EUR—The euro has fallen back from two-year highs against the dollar. We expect further softness in coming months, driven by a widening growth and bond-yield gap with the US. In the wake of the vaccine rollout controversy, it's possible that politics could also begin to weigh on the euro, especially when next year's French presidential election comes onto the horizon.

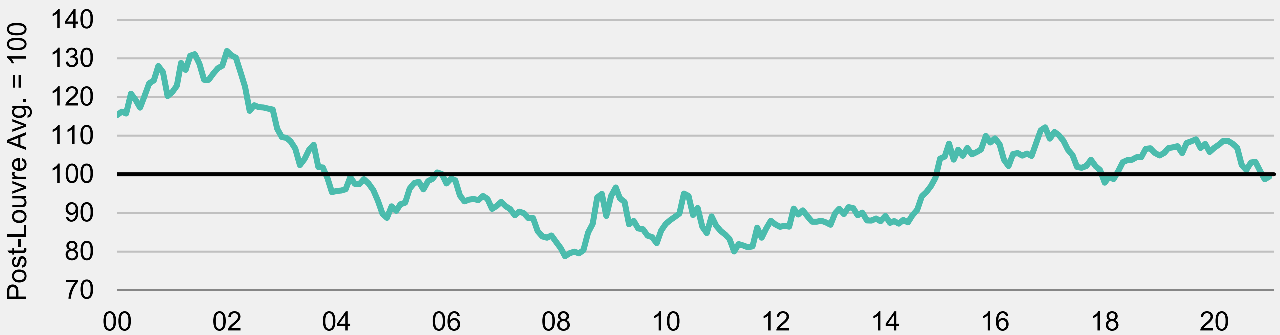
JPY—We see few Japan-specific reasons for a big shift in the yen. Policies in developed economies have converged with those in Japan. That said, we still think the yen retains its risk-off characteristics.

Global FX: AB vs. Consensus Year-End Forecasts (%)

	AB		Consensus	
	2021	2022	2021	2022
EUR/USD	1.15	1.20	1.25	1.25
USD/JPY	110	110	102	105
USD/CNY	6.30	6.20	6.36	6.20
EUR/GBP	0.88	0.85	0.89	0.91

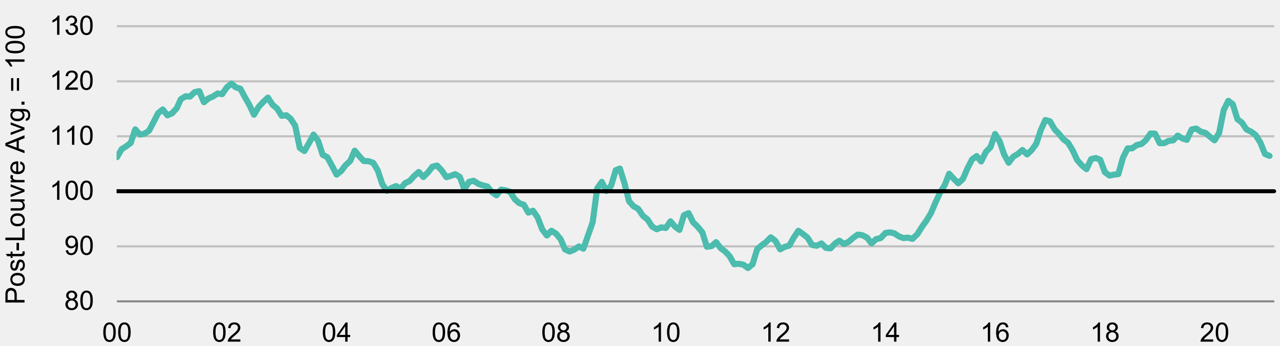
As of February 1, 2021
Source: Bloomberg and AB

Nominal USD Exchange Rate: US Dollar Index



Through January 31, 2021
Source: Bloomberg and AB

Real USD Broad Trade-Weighted Exchange Rate



Through January 31, 2021
Source: Haver Analytics and AB

US

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
US	6.5	4.6	2.1	2.2	0.00	0.00	1.75	2.00

OUTLOOK

- The US economy contracted roughly 2.5% year over year (YoY) in 2020, but better days are at hand. It is now clear that the US economy will benefit from significant fiscal support in 2021. The spending package passed late last year, and one likely to pass in the coming weeks, represent a very strong tailwind to growth once the economy reopens. Our forecast for 2021 of roughly 6.5% GDP growth is at least three times above the economy's steady-state run rate.
- Despite a robust path for growth, we expect inflation to rise only modestly, because there is work to do to close the gap between the economy's potential and its current level. By one measure, there are still more than 10 million workers sidelined as a result of COVID-19.
- With inflation likely to remain subdued over the course of the year, we expect the Fed to remain on the sidelines. Rate hikes are off the table in 2021, and we expect the central bank to continue QE unabated throughout the year.

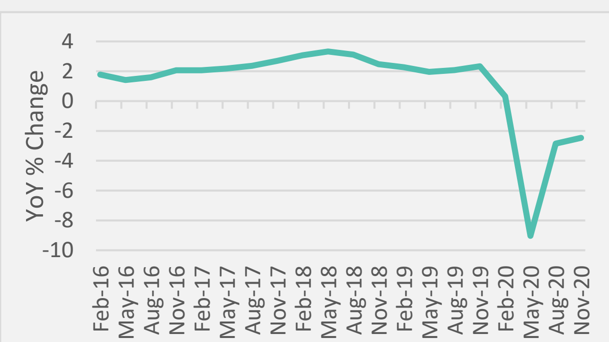
RISK FACTORS

- The clear and evident risk to our outlook is COVID-19. If the progress of vaccinations is slow or incidences of new and more dangerous mutations increase, the economy may not be able to reopen as quickly or as robustly as we currently anticipate.
- The Fed will have communication challenges to deal with in 2021, most notably related to its eventual plans to slow the pace of QE purchases. That discussion is likely to heat up later this year and could cause market volatility.

OVERVIEW

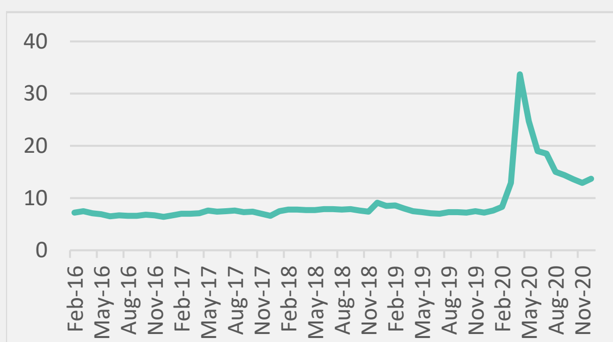
If one assumes, as we do, that the economy can reopen slowly in the next few months, then much more rapidly in the summer, the growth outlook for 2021 and 2022 is the brightest in recent memory. The combination of elevated household savings, continued fiscal support and accommodative monetary policy is a cocktail that should lead to heady rates of growth for several quarters in a newly reopened economy. This outcome depends, of course, on the public health situation, but we are cautiously optimistic that by mid-2021 things will look much more normal. High growth, low inflation, fiscal spending and low interest rates form a backdrop that suggests strong financial market performance; beware, however, that valuations in many assets are already quite elevated. Markets are still likely to have rough patches this year, despite the constructive backdrop. Over the long term, the same cocktail that will boost growth in 2021 and 2022 will eventually cause a hangover in the form of rising government debt and the consequences thereof. But such concerns are more likely to play out several years from now rather than in the next few quarters. In the meantime, we would expect the economy to enjoy the party once COVID-19 is in the rearview mirror.

US GDP



Through November 15, 2020
Source: Refinitiv Datastream

Personal Savings as % Of Disposable Income



Through December 15, 2020
Source: Refinitiv Datastream

Euro Area

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
Euro Area	3.5	5.0	1.1	1.2	(0.50)	(0.50)	(0.25)	0.00	1.15	1.20

OUTLOOK

+ While vaccine developments mean there's light at the end of the COVID-19 tunnel, the euro area still faces a difficult few months, particularly given the very slow pace at which vaccination programs are currently being rolled out. The good news is that the emergence of new, more transmittable, virus mutations has not led to a surge in cases. But even allowing for this, a cautious lifting of restrictions on economic and social activity looks likely.
+ In light of this, we expect the euro area to make only a partial recovery this year. We forecast a 3.5% increase in calendar-year growth after a 6.8% contraction in 2020. We're more optimistic about next year and expect the economy to expand by 5.0%. This would place output back above its precrisis level but would leave it well adrift of the precrisis trend.
+ With a weak near-term growth outlook, persistent failure to generate inflation and an ongoing need to support fiscal policy, monetary policy will remain highly accommodative for the foreseeable future. In recent months, the European Central Bank (ECB) has switched its focus away from the volume of purchases towards a more flexible approach aimed at maintaining exceptionally loose financial conditions; this could mean either a higher or lower volume of overall purchases.

RISK FACTORS

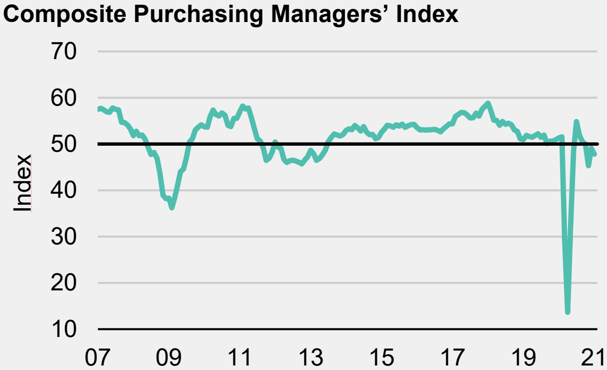
+ Media reports point to very slow vaccine rollouts and significant opposition to vaccination in many euro-area countries. In a worst-case scenario, these could delay the achievement of herd immunity and leave countries open to another seasonal resurgence of COVID-19 later this year.

OVERVIEW

Despite fresh restrictions on economic and social activity, euro-area growth surprised on the upside in the fourth quarter, with output contracting by just 0.7% compared with the record 11.7% drop in the second quarter. There are several reasons why the economy has been more resilient this time around: lighter and more targeted restrictions, the fact that output in most of the worst-hit sectors was already quite weak, and the resilience of the manufacturing sector. While the economy is likely to contract again in the first quarter, the resilience shown in the fourth quarter offers hope that this will again be contained.

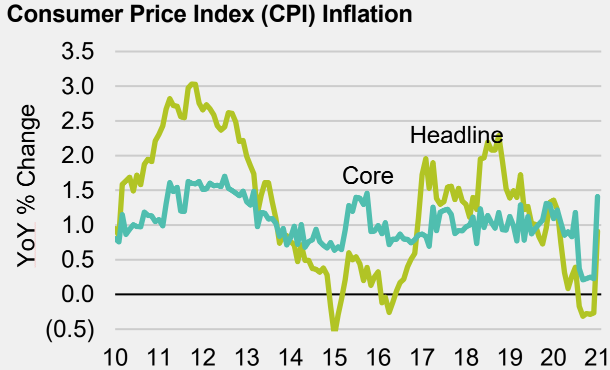
Inflation delivered a big surprise in January, the headline rate jumping from –0.3% to 0.9% and core inflation rising from 0.2% to 1.4%. While inflation was always likely to rise this year, as COVID-19-related base effects fell out of the annual comparison, most of this was not expected until later in the year. But we're sceptical that this marks the start of an upward trend. This is partly because the underlying drivers for higher inflation are not yet in place in the euro area, and the fact that the January data were affected by a lot of noise: a reversal of last July's German sales tax cut, delayed seasonal sales, new fuel taxes and new index weights. We therefore view this as being part of a choppy reversal of last year's COVID-19-induced drop, rather than the beginning of an upward trend, and would expect the ECB to take much the same view.

Composite Purchasing Managers' Index



Through January 31, 2021
Source: Haver Analytics and IHS Markit

Consumer Price Index (CPI) Inflation



Through January 31, 2021
Source: Haver Analytics

China

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
China	8.2	5.5	1.5	2.2	4.35	4.30	3.20	3.25	6.30	6.20

OUTLOOK

+ China ended 2020 in relatively good shape, and reasonable growth is set to continue in 2021.
+ 2021 marks the first year of China's 14th Five-Year Plan, and the 100th anniversary of the Communist Party; maintaining economic stability will be paramount this year.
+ But with economic activity normalizing, attention is turning back toward other policy objectives: controlling leverage; leaning against potential speculative excesses; internationalization of the currency.

RISK FACTORS

+ COVID-19: rising cases, city lockdowns and tighter social distancing measures.
+ Policy error: could a faster recovery prompt excessively aggressive tightening measures (PBOC, property, regulation)?
+ Geopolitical backdrop: under the Biden administration, the rhetorical heat will cool down, but missteps are possible.

OVERVIEW

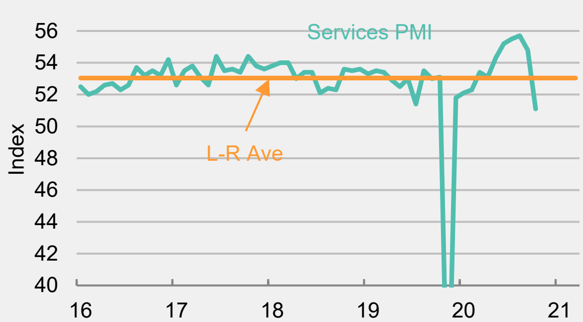
China ended 2020 in reasonable shape. GDP increased smartly in the fourth quarter, to end the year 6.5% above the fourth quarter 2019 level. China's position is unique, with its return to the pre-pandemic trend well ahead of any other major economy. As 2021 starts to unfold, however, it looks like activity will soften—at least a little. Domestic COVID-19 cases have dropped, and travel restrictions were strengthened ahead of the Lunar New Year holiday. The PMIs already show evidence of those restrictions: the official nonmanufacturing PMI, for example, dropped by an outsized three points in January to 52.4.

Overall, however, we expect to see the virus remain under control in China (tolerance for outbreaks remains very low) and anticipate fairly rapid vaccine rollouts as the year progresses. The restrictions around LNY travel will certainly add some volatility to the data over the next few months, but we are convinced that GDP growth will remain solid through the course of the year. With positive base effects, this means 2021 GDP should print in the 8%–9% range.

With GDP "normalized" to a large extent, policymakers have been able to shift their focus from supporting post-lockdown growth and towards other "stability" goals, like controlling overall leverage in the system and leaning against speculative excesses in the property and equity markets. To that end, it's interesting that the PBOC—while following the mantra of "no sharp turns"—has allowed market rates to drift higher as it has (unusually) withdrawn liquidity ahead of the LNY holiday. We expect a supportive-but-tight policy regime to remain in place through 2021.

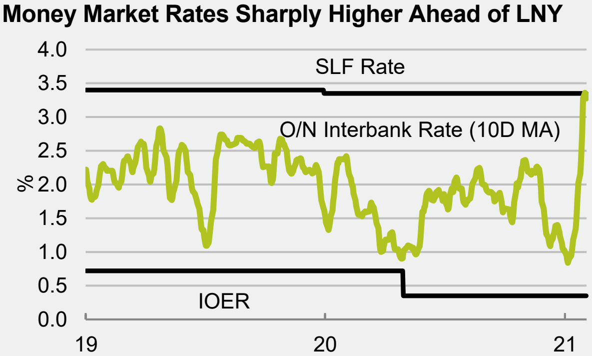
The other policy goal which may garner more attention this year is renminbi internationalization. Accommodating modest, and sustained, currency appreciation is part of that goal. Accordingly, after solid gains last year, we expect continued CNY strengthening in 2021.

Services Sector Under Pressure



Through January 2021
Source: Haver

Money Market Rates Sharply Higher Ahead of LNY



Through February 3, 2021
Source: WIND

Japan

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
Japan	2.0	2.2	0.1	0.4	(0.10)	(0.10)	0.00	0.00	110	110

OUTLOOK

+ The COVID-19 State-of-Emergency (SoE) restrictions have been extended to early March.
+ The popularity of new PM Yoshihide Suga has slipped sharply, increasing political uncertainty in an election year.
+ Japan is likely to remain a growth laggard through 2021.
+ Monetary policy is set to be tweaked in March; consistent with continuing YCC for longer.

RISK FACTORS

+ A sharply stronger yen would apply additional economic squeeze.

OVERVIEW

The government decided to extend the COVID-19-related SoE another month (to March 7) for 10 key prefectures. It's worth noting that new legislation passed by the Diet will give the SoE more teeth, allowing the government to penalize businesses that fail to follow its instructions. At the margin, this reinforces the idea that Japan will be a growth laggard in 2021.

On the monetary-policy side, the BOJ remains cemented to YCC. It will be the last central bank to budge in an environment where others are starting to at least consider next steps. The widening of the bands around YCC is coming in March. But it has little to do with its monetary-policy stance, except that it allows the BOJ to argue that the current regime can last EVEN LONGER (i.e., "look, the JGB market is not broken, yields move around a bit"). In that sense, widening the bands is an EASING, not a sign of prospective tightening.

These Japan-specific factors—along with the US exceptionalism discussed above—leave us biased towards seeing a weaker yen through 2021. In addition, with PM Suga's popularity rating plunging, politics is in the mix again.

Australia/New Zealand

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
Australia	3.2	4.5	1.5	1.6	0.10	0.10	1.45	1.75	0.79	0.75
New Zealand	4.5	3.0	1.4	1.5	0.10	0.10	1.45	1.75	0.74	0.72

AUSTRALIA/NEW ZEALAND

+ COVID-19 remains contained in Australia and New Zealand, with cases of community spread at, or very close to, zero on most days. With the exception of international travel (business, tourists, students) and major public events, life has pretty much returned to normal.
+ As a result, the economic data have generally printed on the stronger side in both economies. The labor market data illustrate this well. In NZ, unemployment dropped back below 5%, while in Australia, employment is back above pre-COVID-19 levels. While positive, some risks remain. An element of fiscal austerity is returning in Australia as the "Jobkeeper" and "Jobseeker" support programs are unwound. And currency strength has tightened financial conditions to some extent.
+ Despite these better-than-expected outcomes, we anticipate that both the Reserve Bank of Australia (RBA) and Reserve Bank of New Zealand (RBNZ) will continue with ultra-accommodative monetary settings. The RBA announced an extension of its QE program for another six months and reinforced its commitment to YCC. And while the prospect of negative policy rates in NZ has receded, we still expect the RBNZ to strike a dovish tone in its next monetary-policy statement late February.

Canada

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
Canada	4.5	4.0	1.8	2.0	0.25	0.25	1.50	1.75	1.20	1.22

OUTLOOK

+ Canada has locked down more strictly and has had a lower incidence of COVID-19 outbreaks than its southern neighbor, which should pave the way for a solid economic recovery in the second half of the year.
+ If global commodity prices benefit from reopening later in the year, that would also be a tailwind for Canada.
+ The Bank of Canada (BOC) is on hold for now, providing just about all the support it can to an economy still struggling with lockdowns. As with the Fed, we expect the BOC to remain accommodative across the forecast horizon and beyond.

RISK FACTORS

+ As it has been, so shall it be. Until COVID-19 IS convincingly in the rearview mirror, it is the dominant risk for Canada as it is everywhere else.

OVERVIEW

The long, slow winter slogs on, but there is increasingly bright light at the end of the tunnel. Progress on vaccinations and the eventual waning of the winter surge should allow for a gradual reopening of Canadian society and the economy in the coming months. Reopening should accelerate later in the year, allowing Canada to begin undoing much of the economic damage the crisis has wrought. We expect growth numbers to look quite strong by the end of the year, but it will be a few more months before that acceleration begins in earnest.

UK

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
UK	3.5	8.5	1.4	1.9	0.10	0.10	0.50	0.75	1.30	1.40

OUTLOOK

+ Last year, the UK stood out with one of the worst death rates from COVID-19 and one of the biggest declines in output. And it seems to have entered 2021 in much the same vein, with the emergence of new, more transmittable, virus mutations pushing case numbers sharply higher and forcing the government to introduce stricter restrictions on economic and social activity than in other European countries.
+ While this is likely to take a heavy toll on output growth in the early part of the year, the good news is that the UK's vaccine program is making rapid progress. As of the end of January, the UK had administered 14.2 vaccines for every 100 people, compared with 9.1 in the US and just 2.8 in the European Union. While the government is likely to take a cautious approach to reopening the economy, especially where overseas travel is concerned, it now seems realistic to assume that the most economically damaging restrictions will soon be a thing of the past.
+ After a difficult start to the year, we expect the economy to rebound quite vigorously. That's partly because of the speed with which effective herd immunity is likely to be reached, but also because household balance sheets are in much better health than they were a year ago and because clarity over the future trading relationship with the European Union should provide a firmer backdrop for business investment. The fact that the economy is operating so far below pre-virus levels is also significant. After expanding by 3.5% this year we expect the British economy to grow by 8.5% next year, putting it far above other advanced economies.

RISK FACTORS

+ There are risks in both directions. In the very near term, it's possible that the economy will prove more resilient than we expect. Further out, there are risks of a more muted recovery if virus mutations interfere with the achievement of herd immunity or there's a more long-lasting impact than anticipated from the end of the Brexit transition period. The future shape of fiscal policy will also have a big impact, though these risks look to be more evenly balanced.

Asia ex Japan

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
Asia ex Jap/Ch	**6.4**	**5.6**	**2.5**	**3.0**	**2.03**	**2.15**	**3.90**	**4.20**	**—**	**—**
Hong Kong	5.0	2.8	1.0	1.5	0.50	0.50	0.80	1.00	7.77	7.80
India	9.3	7.0	4.5	5.0	3.50	3.25	6.15	6.30	72.00	71.00
Indonesia	5.0	5.2	2.3	2.8	3.25	3.25	6.45	6.55	13,800	13,700
South Korea	4.3	4.0	1.0	1.5	0.50	1.00	2.00	2.50	1,050	1,050
Thailand	5.6	7.1	1.1	1.2	0.50	0.50	1.75	2.00	30.0	30.0

OUTLOOK

+ In general, the virus is contained in most countries across the region, but cases continue to rise in Malaysia, leading to the imposition of tighter restrictions.
+ Regional exports of goods have recovered—initially on the technology side before flowing more broadly to non-tech. But exports of services, like tourism, remain weak.
+ Substantial monetary and fiscal support has been delivered. Questions persist around how far “unconventional” policies can be pushed, even if market concerns have subsided for now.

RISK FACTORS

+ COVID-19, US-China tensions

OVERVIEW

In general, Asia continues to effectively control the spread of COVID-19. Cases in countries such as Taiwan and Vietnam are close to zero. Cases in India, Indonesia and the Philippines remain elevated, but still controlled. The main exception is Malaysia, where cases continue to surge, leading to a further extension of the Conditional Movement Control Order (CMCO) restrictions. The region isn’t out the woods, to be sure, but the virus is becoming less of a dominant factor.

At the same time, a global trade recovery has clearly helped the region. Exports, initially tech-related but now across the board, have bounced sharply, and are benefiting countries like Taiwan and Korea. For those more exposed to services—for example, Thailand, with its heavy reliance on tourism—the outlook remains bleak. It’s difficult to see a rapid recovery until the emergence of widespread vaccination, which seems unlikely to occur fast enough across the region to restore normality until 2022.

The economic policy response to date has been positive—with monetary easing and substantial fiscal support being delivered across the board. This should help underpin a recovery. But across the region an end to the monetary easing cycle is close. Fiscal policy—supported by central bank action—is now dominant.

The Philippines, India and Indonesia, among others, have ventured down a path of unconventional monetary policy, intervening in domestic government bond markets to smooth volatility and facilitate fiscal deficit financing. Indonesia has an explicit “burden-sharing” agreement between the finance ministry and the country’s central bank. In the Philippines, the central bank provided substantial loans in 2020, an arrangement that will continue in 2021. And in India, the Union Budget delivered a much sharper deterioration in the deficit than expected; almost certainly the Reserve Bank of India will be called on again to help absorb the additional issuance.

To date, market concerns have been eased by the commitment that these are “one-off” measures, and presumably boosting growth trumps most credit concerns. This may prove to be the case. But history tells us that advancing down this path seldom stops at the first step.

Latin America

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
Latin America	**4.5**	**2.9**	7.4	**6.2**	**5.86**	**5.97**	**6.03**	**5.87**	**—**	**—**
Argentina	4.0	2.5	40.0	30.0	30.00	25.00	—	—	120.0	180.00
Brazil	3.0	3.0	3.6	3.5	3.50	5.00	7.50	7.50	5.00	4.50
Chile	6.5	2.9	3.0	3.0	0.50	1.50	2.50	3.50	720	750
Colombia	5.7	3.9	2.8	3.0	1.50	1.50	5.40	5.50	3,600	3,800
Mexico	5.0	2.5	3.6	3.5	3.50	3.50	5.40	4.75	20.5	21.0

OUTLOOK

+ Despite the upgrade in our US growth outlook, Latin American economies will lag the recovery in developed markets. Brazil is moving ahead with its reform agenda but results for the real economy will take longer to materialize there.
+ Countries across the region are announcing vaccination schemes that will effectively cover most of the population and allow for gradual reopenings. However, low institutional capacity will likely imply a lengthier implementation.

RISK FACTORS

+ The government's handling of the vaccination effort could delay the focus on badly needed fiscal reforms that will alleviate concerns on medium-term fiscal sustainability.

OVERVIEW

In Brazil, inflationary pressures are rising, increasing the likelihood of an earlier start to the Brazilian Central Bank's (BCB) normalization of interest rates. Food prices are rising as recent droughts have affected crop yields, and coronavirus-related direct stimulus to individuals is having an effect on some goods-sector prices. While some of these factors are transitory, there is some evidence that high wholesale prices could have a lasting effect on core inflation and will warrant a policy response from the BCB later this year. We expect the central bank to hike 150 basis points by year-end. Fiscal risks are still present, but the new leaders of Congress, who are both aligned with President Bolsonaro, are expected to champion the government's reform agenda and support compliance with existing spending limits.

Mexico continues to benefit from the large stimulus in the US. Remittances continued breaking records in December while manufacturing exports remain strong, implying a reduction in external vulnerabilities. Our improved forecast for US growth explains this month's increase in our forecasts for the Mexican economy in 2021from 4.5% to 5%. The government's pledge to austerity was confirmed, as Mexico delivered a slight primary surplus aided by an increase in tax and non-tax revenues coupled with scant stimulus spending to face COVID-19. Oil revenues fell owing to lower prices and stable production, but administrative efforts have been successful in shoring up fiscal accounts by increasing tax collection. For the remainder of the year, the focus will be on whether the increases in tax revenue persist and if the administration can pass tax reform in the second half of the year.

In Colombia, the Duque administration announced it would start a discussion with Congress on tax reform that will try to avoid a sovereign rating downgrade to below investment grade. The plan is to pass the reform before mid-year to avoid the topic from entering the political debate ahead of next year's congressional and presidential elections. While discussing tax increases before fully recovering from the COVID-19 crisis will be difficult, we expect rating agencies will wait until year-end before deciding. Higher oil prices, proceeds from privatization, as well as higher growth as the economy recovers can improve fiscal prospects. However, increasing tax revenues in the medium term will be needed to avoid a downgrade to high-yield status.

Eastern Europe, Middle East and Africa (EEMEA)

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
EEMEA	**3.3**	**3.4**	**5.5**	**5.1**	**4.74**	**4.63**	**6.13**	**6.06**	**—**	**—**
Hungary	4.1	4.5	3.2	3.5	0.60	1.00	2.25	2.50	4.00	345
Poland	3.9	4.5	2.6	3.2	0.10	0.10	1.45	1.70	4.50	4.30
Russia	2.9	2.8	3.8	4.0	4.00	4.50	6.30	6.20	70.0	67.0
South Africa	2.7	2.0	3.5	4.2	3.50	4.00	9.20	9.30	15.0	15.5
Turkey	3.7	4.0	14.1	11.0	13.00	11.50	10.50	10.50	7.50	7.60

OUTLOOK

+ Economic growth was relatively weak in the last quarter of 2020 and renewed lockdowns could continue to weigh on activity in several EEMEA countries early in 2021. The gradual distribution of a vaccine should start to reignite the economic recovery at some point during the first half of the year, but output will remain below pre-pandemic levels for quite some time.
+ Central banks responded swiftly to the COVID-19 crisis by easing monetary policy and implementing bond purchase programs to support domestic financial liquidity. While further modest interest-rate cuts are possible in Russia, other countries, such as South Africa, have likely come to the end of their easing cycles. Although we don't think the interest-rate cycle in the region has turned, Turkey has been forced to tighten monetary policy owing to exchange-rate pressures.

RISK FACTORS

+ The resurgence of COVID-19 cases in some countries and varying vaccine procurement and distribution plans could lead to diverging rates of economic recovery.
+ The timing and the degree of normalization of international travel and a revival of the tourism industry will also remain important risk factors for countries such as Turkey.

OVERVIEW

Russia will remain in the international spotlight after the imprisonment of opposition politician Alexei Navalny. It is certainly possible that we will see a sanctions response from both the EU and the US, but at this juncture we believe that this will likely come in the form of Magnitsky-style sanctions on individuals rather than anything more severe, such as restrictions on sovereign debt. At the same time, it is noteworthy that the US may be softening its stance on Nordstream II too, while statements from US security agencies on Russia's US cyber-attacks—downplaying their severity—also suggests that they are unlikely to be met by heavy sanctions. On the Russian domestic political front, demonstrations are likely to persist and may regain new near-term momentum. That said, given the track record of protests in Russia (2011–2013 and 2017–2018), our base case is that they will not pose a threat to domestic political stability or President Putin's grasp on power. Parliamentary elections are set for around September 2021 and it remains to be seen whether this will have a negative effect on Putin's United Russia party.

In March, Israel will hold its fourth parliamentary poll in two years. Amidst the COVID-19 crisis, Prime Minister Netanyahu's Likud party and Benny Gantz's "Blue and White" alliance agreed to form a unity government following last year's March polls. Yet, the pact between these two fierce political rivals proved short-lived as disagreements over the 2020 budget led to a renewed collapse in government by year-end. Prime Minister Netanyahu will likely face his most challenging re-election bid yet as his approval ratings are under pressure amidst perceptions of pandemic mismanagement and his pending corruption trial which is set to resume in February. His party has also been beset by a series of high-profile defections, in particular that of Gideon Saar, Likud's former education minister, who resigned to set up his own "New Hope" party to challenge Netanyahu in the upcoming March polls. At this juncture, the outcome of the elections remains uncertain, in part because it is unclear as to whether opposition parties can unite and mount an effective challenge against Likud. Against this backdrop, the risk that the March 2021 parliament elections will yield yet another inconclusive result and prolong the political stalemate remains high.

	Real Growth (%)		Inflation (%)		Official Rates (%)		Long Rates (%)		FX Rates vs USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
Global	5.5	4.8	2.1	2.3	1.49	1.50	2.14	2.29	-	-
Industrial Countries	4.7	4.6	1.5	1.7	(0.14)	(0.13)	0.87	1.09	-	-
Emerging Countries	6.6	5.0	3.1	3.2	3.99	3.98	4.10	4.13	-	-
EM ex China	5.2	4.5	4.5	4.3	3.73	3.74	5.04	5.12	-	-
United States	6.5	4.6	2.1	2.2	0.00	0.00	1.75	2.00	-	-
Canada	4.5	4.0	1.8	2.0	0.25	0.25	1.50	1.75	1.20	1.22
Europe	3.5	5.5	1.2	1.3	(0.37)	(0.37)	(0.08)	0.17	1.67	1.72
Euro Area	3.5	5.0	1.1	1.2	(0.50)	(0.50)	(0.25)	0.00	1.15	1.20
United Kingdom	3.5	8.5	1.4	1.9	0.10	0.10	0.50	0.75	1.30	1.40
Sweden	2.5	4.0	1.2	1.4	0.00	0.00	0.25	0.35	10.0	10.0
Norway	3.3	3.5	2.4	2.0	0.00	0.25	1.25	1.50	10.3	10.3
Japan	2.0	2.2	0.1	0.4	(0.10)	(0.10)	0.00	0.00	110	110
Australia	3.2	4.5	1.5	1.6	0.10	0.10	1.45	1.75	0.79	0.75
New Zealand	4.5	3.0	1.4	1.5	0.10	0.10	1.45	1.75	0.74	0.72
China	8.2	5.5	1.5	2.2	4.35	4.30	3.20	3.25	6.30	6.20
Asia ex Japan & China	6.4	5.6	2.5	3.0	2.03	2.15	3.90	4.20	-	-
Hong Kong	5.0	2.8	1.0	1.5	0.50	0.50	0.80	1.00	7.77	7.80
India	9.3	7.0	4.5	5.0	3.50	3.25	6.15	6.30	72.0	71.0
Indonesia	5.0	5.2	2.3	2.8	3.25	3.25	6.45	6.55	13,800	13,700
Korea	4.3	4.0	1.0	1.5	0.50	1.00	2.00	2.50	1,050	1,050
Thailand	5.6	7.1	1.1	1.2	0.50	0.50	1.75	2.00	30.0	30.0
Latin America	4.5	2.9	7.4	6.2	5.86	5.97	6.03	5.87	-	-
Argentina	4.0	2.5	40.0	30.0	30.00	25.00	-	-	120.0	180.0
Brazil	3.0	3.0	3.6	3.5	3.50	5.00	7.50	7.50	5.00	4.50
Chile	6.5	2.9	3.0	3.0	0.50	1.50	2.50	3.50	720	750
Colombia	5.7	3.9	2.8	3.0	1.50	1.50	5.40	5.50	3,600	3,800
Mexico	5.0	2.5	3.6	3.5	3.50	3.50	5.40	4.75	20.5	21.0
EEMEA	3.3	3.4	5.5	5.1	4.74	4.63	6.13	6.06	-	-
Hungary	4.1	4.5	3.2	3.5	0.60	1.00	2.25	2.50	4	345
Poland	3.9	4.5	2.6	3.2	0.10	0.10	1.45	1.70	4.50	4.30
Russia	2.9	2.8	3.8	4.0	4.00	4.50	6.30	6.20	70.0	67.0
South Africa	2.7	2.0	3.5	4.2	3.50	4.00	9.20	9.30	15.0	15.5
Turkey	3.7	4.0	14.1	11.0	13.00	11.50	10.50	10.50	7.50	7.60

Growth and inflation forecasts are calendar year averages.
Interest rate and FX rates are year end forecasts.
Long rates are 10-year yields unless otherwise indicated.
The long rates aggregate excludes Argentina; Argentina is not forecasted due to distortions in the local financial market.
Real growth aggregates represent 31 country forecasts not all of which are shown

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