

January 14, 2021

Nigeria Strategy Report

H1 2021

Global Economy and Markets

The road to recovery

Executive Summary

Our H220 outlook painted a concise picture of a global economy ruffled to its core by the coronavirus pandemic. The lockdown measures imposed across the globe to mitigate the health crisis pushed most economies into a recessionary phase and left others in the doldrums. This edition gives insight into the impressive pace of recovery recorded by most nations post-lockdown, as the gradual reopening of economies triggered a return to relative normalcy. Advanced economies clawed back to their pre-pandemic levels, with Japan going one-step further to record growth in Q3. The emerging and developing economies weren't too far behind, as we saw China defy the odds by avoiding a recession over the course of the year.

Overall, fiscal and monetary authorities remained staunch in their efforts to provide adequate and much needed relief in the midst of the pandemic while governments either renewed or introduced fresh stimulus packages with hopes of avoiding a loss of recovered ground. Looking ahead, the approval and subsequent roll-out of vaccines across nations like the UK, US, Canada, Saudi-Arabia, et cetera. has raised optimism of a swift recovery in economic activities while a change at the helm of power in the US could possibly translate to a diffusion of existing tension between the world's two largest economies. To crown things off, the EU and UK reached an eleventh-hour agreement on a post-Brexit trade deal, staving-off a divorce that would have had negative ripple-effects on both parties and financial markets across the globe. These combine to corroborate the IMF's projection of a 5.2% growth rate in the global economy by the end 2021 (FY20: -4.4%).



In this report, we look at the major themes that dominated the global, economic, and financial landscape in H2 2020, as well as our outlook for FY 2021.

Glimpse of a recovery in advanced economies

Most advanced economies started putting in place lockdown measures at the end of March and we saw the effect of those measures in their Q120 numbers, with all reporting either a slowdown or decline in their YoY growth numbers. The full brunt of these lockdown measures, however, was not fully realized until the following quarter (Q220) where the contraction from Q120 deepened and majority of these economies were pushed into technical recessions. By Q320, as economies partially reopened and gradual steps were being taken towards economic recovery, we saw the level of contraction ease and a few countries, most notably Japan, recorded a strong return to growth.

Based on YoY numbers, the US officially entered a recession in Q320 after recording a contraction of 2.9%YoY which followed a 9.0%YoY decline in Q220. Q320's YoY decline was led by a 2.9% contraction in PCE (Q220: -10.2%YoY), one of the main drivers of growth in the US, which in turn was driven by a 7.4%YoY decline in expenditure on services (Q220: -14.0%YoY). The decline in services expenditure can be tied to the restrictions put in place which limited the amount of people that could gather publicly in certain places and even led to certain business (such as cinemas, theatre) temporarily shutting their doors. We also saw a decline in Gross private domestic investment (-3.6%YoY vs -16.9%YoY in Q220) while government consumption expenditures and gross investment slowed to 0.3%YoY (vs 2.1% in Q220).

What these YoY numbers fail to fully show, though, is the impressive pace of economic recovery that occurred in Q320 as revealed in the QoQ growth. QoQ numbers show that in Q320 the US economy grew at record pace of 33.1%QoQ (after a record contraction of 31.4%QoQ in Q220) and the drivers of this QoQ recovery in Q320 are in keeping with an economy making its way back to its normal level after a shock. PCE rose by 40.6%QoQ (from -33.2%QoQ in Q220), Gross private domestic investment was up by 84.9%QoQ (Q220: -46.6%QoQ) and exports climbed by 60.5%QoQ (Q220: -64.4%QoQ). The bounce back that occurred in Q320 was not limited to just GDP growth, we also saw an impressive recovery in employment as business reopened and those who had been previously let go rediscovered gainful employment. Tech companies, which saw demand in their services skyrocket during this period, also went on a hiring spree to be able to keep up with demand. The unemployment rate averaged 13% in Q220, going as high as 14.7% in April, but by Q320 the average unemployment was down to 8.8%. Although the pace of employment gains has now slowed, unemployment continues to tick lower with November's unemployment rate printing at 6.7% - the lowest level since March.

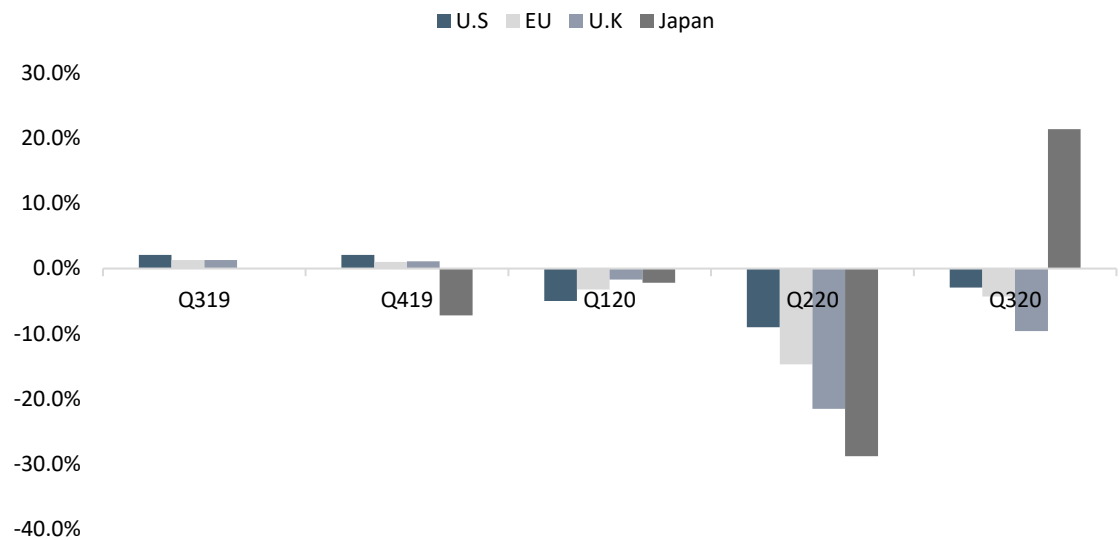
The Eurozone slipped into a recession in Q220 following a 14.7%YoY contraction in economic growth during the period (Q120: -3.2%YoY), owing largely to Covid-19 induced disruptions. However, Q320 brought about a more moderate contraction with GDP declining by 4.3%YoY as the bloc's largest economies all recorded some level of economic recovery following the easing of lockdown restrictions imposed across the region. France's economy contracted by 3.9%YoY (Q220: -18.9%) as household consumption expenditure (-1.3%YoY), Gross fixed capital formation (-4.8%YoY) and Export (-15.3%YoY) all fell at slower pace. Elsewhere, Germany (-4% vs -11.3% in Q220), Spain (-8.7% vs -21.5% in Q220) and Italy (-5% vs -18% in Q220) all recorded less-than-expected declines in economic activities. Governments across Europe enacted Furlough-schemes¹ in Q220 to shield workers from the harsh effects of the pandemic and ultimately check burgeoning unemployment levels in the region. Impressively, these schemes recorded a commendable level of success as unemployment rate averaged 7.6%, only slightly higher than the previous quarter.(Q120: 7.30%). Fast-forward Q320, the easing of lockdown measures coincided with a cutback in the level of support provided by some governments, with employers expected to shoulder an increased share of payments. However, most companies, still tottering from the shutdown in economic activities, laid-off workers rather than picking up the tab. This consequently exposed the region's labor market to the full brunt of the pandemic as unemployment rate averaged 8.6% in the quarter, peaking at 8.7% in July.

The UK, which was officially in a recession in Q220, recorded a slower rate of contraction in Q320 of 9.6%YoY when compared to the previous quarter (Q220: -21.5%YoY). Driving the improved picture over Q320 was services, the main driver of the UK's growth, which printed at -10%YoY (Q220: -20.8%YoY). Within services there were notable improvements in Distribution, hotels and restaurants (-6.2%YoY vs -37.3%YoY in Q220); Business services and finance (-7.6%YoY vs -10.9%YoY in Q219); and Government & other services (-15.5%YoY vs -26.2%YoY in Q219). Production declined for the 8th consecutive quarter, this time by 6.7%YoY which is a marked improvement from the 18.7% contraction in Q220. The improvements in GDP recorded in Q320 translated into a 15.5%QoQ growth, which is by far the fastest QoQ growth available on record which stretches as far back as 1955. Unlike the US, the UK did not see its unemployment rate shoot to Great Depression levels - instead unemployment has hovered between 4-5% all year. However, also unlike the US, UK unemployment has been rising post the lifting of national lockdown measures. Unemployment averaged 4.2% in Q220 but has risen slightly to an average of 4.7% in Q320.

¹ Government Subsidies to the payrolls of companies hit hard by the pandemic

Japan returned to growth in Q320 following an admirable job in containing the spread of the virus. Annualized growth in Q320 came in at an impressive 21.4%, following an annualized decline of 28.8% in Q220. Aiding the recovery in Q320 was a surge in private consumption to 20.1% (Q220: -28.7%), buttressed by the retail sales data which improved from an average of -9.2%YoY in Q220 to an average of -4.5%YoY in Q320. Government consumption also contributed to Q320's growth, rising 9.3% on an annualized basis after declining 1.4% in Q220. Lastly, there was a complete reversal in the outcome of trade figures boosting overall growth – exports climbed by 31.3% on an annualized basis (Q220: -53.4%) while imports dropped by 33.8% (Q220: +9%). The combined effect of these moves made net exports the biggest contributor to the growth seen in the period.

Figure 1: GDP growth in developed economies



Source: Bloomberg, ARM Research

China leads recovery in emerging markets

Unlike majority of economies around the globe, China managed to avoid a recession over 2020 despite the strict lockdown imposed on their population to limit the spread of the coronavirus. After reporting its first ever quarterly contraction (-6.8%YoY) in Q120 China recovered quickly and reported strong growth in the following two quarters. Growth in Q220 came in at 3.2%YoY while GDP grew at a faster pace of 4.9%YoY in Q320. The higher growth in Q320 followed on from improved performances across industrial production (5.8%YoY vs 4.4%YoY in Q220) and the services sector (4.3%YoY vs 1.9%YoY in Q220); agricultural production remained at 3.9%YoY. Consumption, however, continues to remain a drag on growth- evidenced by the retail sales numbers. Over Q320, retail sales averaged 0.9%YoY, much improved from the -4.03%YoY in Q220 but still far off from the 8%YoY averaged over FY19.

China's headline inflation number printed at -0.5%YoY for the month of November (October: +0.5%), the first negative reading since 2009 when the economy struggled with the fallout from the global financial crisis. Driving the decline in November was a 2.2% fall in food prices which in turn was driven by a 12.5% plunge in the price of pork. This follows a rebound in pig stocks after the African swine fever outbreak last year that decimated stocks. Although November's deflation can be attributed to the decline in pork prices, the general direction of inflation does not paint a picture of a country with exuberant consumer spending. In Q320, inflation averaged 2.3%YoY, a significant decline from the 3.9%YoY averaged over H120. Looking at trade numbers, China's exports grew by 21.1%YoY in November marking the sixth consecutive month of export growth as well as the fastest rate of increase since Feb 2018. Exports have been supported by high demand for Chinese-made medical gear and lockdown goods from other parts of the world that are still struggling with severe coronavirus outbreaks. Imports are also on the climb, although at a much slower rate to exports, they rose 4.5%YoY in November making 3 consecutive months of import growth. The better performance of exports, relative to imports, led trade surplus higher by 103%YoY to US\$75.4 billion. To keep supporting the economy, the Chinese government has introduced a number of policies including an additional \$293billion fiscal stimulus. This stimulus has been channeled directly to prefecture and county-level governments to make up for their funding shortfalls due to tax cuts.

Elsewhere across EM Asia, India entered a technical recession in Q320, its first ever, following a 7.5%YoY decline (Q220: -23.9%YoY). The improvement in Q320 compared to Q220 mirrored marked improvements across PFCE² (-11.3%YoY vs -26.7%YoY in Q220), GFCF³ (-7.3%YoY vs -47.1%YoY in Q220) and exports (-1.5%YoY vs -19.8%YoY in Q220). On the other hand, government spending, represented by GFCE⁴ declined by 22.2%YoY in Q320 after a 16.4%YoY growth the previous quarter. To keep fanning these flames of economic recovery, the Indian government announced additional stimulus of about 9 trillion rupees which takes the total virus relief package to almost 30 trillion rupees, or 15% of GDP. Although, it must be noted that only a fraction of this is in the form of new spending, most of the support is in the form of measures to increase lending and liquidity. Measures included in this new package include tax incentives worth 1.46 trillion rupee (\$20 billion) for companies that set up manufacturing and exporting facilities in India, cheap loans for struggling sectors like automobiles, retirement fund subsidies to companies adding new jobs.

² Private Final Consumption Expenditure

³ Gross Fixed Capital Formation

⁴ Government Final Consumption Expenditure

There is also an infusion of 60 billion rupees in the infrastructure debt platform and income tax relief to real estate developers and buyers. There has also been support from the monetary authorities with the MPC deciding to continue with its current accommodative stance for as long as necessary through the current financial year and into the next. In that regard, the policy repo rate under the liquidity adjustment facility (LAF) was left unchanged at 4.0%. The reverse repo rate under LAF remains at 3.35% and the marginal standing facility (MSF) rate and bank rate at 4.25%. China isn't the only emerging economy to avoid a technical recession in the face of a global pandemic. After a 9.9%YoY contraction in Q220, Turkey bounced back in Q320 to record a 6.7%YoY growth. Driving the recovery in Q320 were financial and insurance activities (+41.1%), information and communication (+15%), industry (+8%), construction (+6.4%), agriculture (+6.2%) and services (+0.8%). Over H120, Turkey's economy was negatively impacted by a sharp drop in external demand and to a lesser extent by a drop in domestic demand. To support the return to growth, policymakers focused on driving demand and investment through credit growth which led a 47%YoY rise in domestic credit over October. It has not been all rosy, however, for the Turkish economy this year. There has also been a steep fall in the currency this year (depreciated 28% YTD) as a result of a hit to the tourism sector following the coronavirus outbreak and also from a reversal of capital flows. All these, coupled with interventions by the central bank to support the lira, pushed the foreign currency reserves to a 20-year low and prompted fears about a potential balance of a payment crisis. Turkey is also battling rising inflation with CPI printing at 14.03%YoY in November (H120: 11.9%YoY). On the back of these problems, at the start of November, President Erdogan dismissed the central bank governor and days later accepted the resignation of the finance minister, who also happens to be his son-in-law. To support the lira and tame the double-digit inflation, the Turkish central bank announced at their November meeting its biggest interest rate rise in over two years of 475bps to 15%. The decision to allow a rise in rates is a volte-face for President Erdogan who is a staunch opponent of rate hikes and once labelled high rates "the mother and father of all evil". Additionally, the banking regulator announced that they would reduce restrictions on derivative transactions between local banks and foreign investors; these restrictions were introduced earlier in the year to make it harder for investors to bet against the currency.

Rounding up EM Europe, Russia suffered two consecutive quarters of contraction – Q220 (-8.0%YoY) and Q320 (-3.4%YoY) – confirming a technical recession. The improvement from the third quarter revealed improved showings in the hotels & restaurants sector (-25.9%YoY vs -56.9%YoY in Q220) as well as an improvement in the manufacturing sector where output was unchanged YoY in Q320 following a 7.9% YoY contraction in Q220.

Supporting the upturn in the manufacturing sector is industrial output which saw its average contraction slow to 5.3%YoY in Q320 from an average contraction of 8.5%YoY in Q220. There was no sign of a recovery in the mining and quarrying sector, however, as it continued to feel the combined effect of constrained oil production and lower oil prices; the sector was down 12.3%YoY in Q320, only a slight improvement from the 12.8%YoY fall in Q220.

After cutting rates by 175bps over H120, the CBR5 have, so far over H220, cut rates by 25bps to a record low of 4.25% in a bid to keep supporting the economy. Annual inflation, meanwhile, continues to rise - with November's inflation rate printing at 4.4%, above the CBR's target of 4.0% and the highest rate since July 2019. With inflation now overshooting the central bank's target, the likelihood of further cuts has now been reduced. Other supportive measures announced by the CBR in H220 include reducing the interest rates on loans aimed at supporting lending to SMEs (and to support and maintain employment) from 2.5% to 2.25%.

Over in Latin America, the Brazilian economy expanded at a record 7.7%QoQ in Q320, following a 9.6%QoQ contraction in Q2 when the economy was hit hard by the pandemic. For context, the service sector (which contributes c.75% of GDP), grew by 6.3%QoQ (Q220: -9.4%QoQ) as the easing of lockdown restrictions translated to a resurgence in business activities. Industrial output rose sharply by 14.8%QoQ (Q220: -13%), owing largely to the contributions of the Transformation industry (+23.7%QoQ). The primary sector however recorded a second quarterly decline in output, edging down 0.5%QoQ (Q220: -0.3%QoQ). In terms of unemployment, the jobless rate was up 130bps in Q320, peaking at 14.6% in September as the number of unemployed persons rose to an all-time high of 14.09million. In an attempt to kickstart economic proceedings post lockdown, the Central Bank of Brazil (CBB) enacted a policy that allows financial institutions deduct up to 30% of their reserve requirement on saving deposits. The deducted funds will be the used in credit operations to micro and small companies up till 2023. The CBB also slashed the Selic rate (policy rate) further by an aggregate amount of 100bps to a record low of 2.00%. In fiscal terms, the federal government announced the release of \$236.3billion in financing for small, medium and large-scale producers through the plan SAFRA⁶ 2020/2021. In addition to this, the World Bank approved a \$1billion loan to support the scaling-up of the conditional cash transfer program termed "Bolsa Familia" to include an additional 3 million individuals.

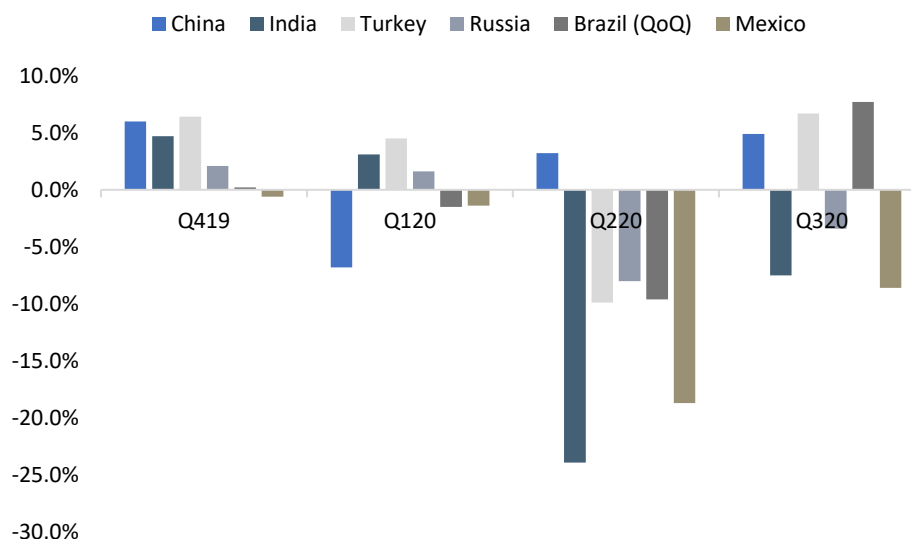
Akin to what we saw in Brazil, the easing of lockdown measures in Mexico helped spur some level of economic recovery as growth rate printed at -8.6%YoY in Q3'20 (Q2: -18.7%YoY).

⁵ Central Bank of Russia

⁶ Agriculture and Livestock Financing Plan

The industrial (Q320: -8.8%YoY vs Q220: -25.5%YoY) and Service (Q320: -8.9%YoY vs Q220: -16.3%YoY) sectors contracted at a slower pace in comparison to Q220 while the primary sector rebounded strongly (+7.4%YoY) from a downtick experienced in the previous quarter (Q220: -0.9%YoY). In a rather surprising turn of events, following two additional rate cuts totaling 75bps, Banco de Mexico held borrowing costs steady (at 4.25%) for the first time in nearly two years during its November meeting. Policy makers explained that a pause in the easing cycle would provide much needed room for inflation to converge towards the bank's 3% target (Inflation fell 76bpsYoY to 3.33% in November). Furthermore, the ministry of finance, through the National Banking and Securities Commission (CNBV), announced new measures to restructure credit provided to clients and institutions, a move aimed at stimulating demand for loans.

Figure 2: Emerging and developing economies GDP growth



Source: Bloomberg, ARM Research

Virus containment still a problem for advanced nations

Despite advanced economies now being partially opened to one degree or the other, the coronavirus outbreak is still far from being contained in majority of these countries. The number of cases and deaths are on the rise and in some places has even surpassed the highs seen earlier in the year in what was then thought as the worst of the pandemic. Dithering, mixed signaling by officials and a downright refusal to make the tough decisions needed to get pandemic under control hampered government's ability to push back the spread in some countries while 'corona fatigue' affected compliance by the general population. With the pandemic still preventing economies from fully reopening, Governments have kept up with the stimulus packages they introduced at the start of the outbreak (detailed in our NSR H220 report) with some tweaks to these packages in some cases.

In the US, the peak of the pandemic was believed to have occurred in April when they reported, what was then a record, 2752 coronavirus deaths in a single day. But that record has been broken twice now with the record daily deaths now above 3000. Cases are also rising all across the country and setting new records almost on a weekly basis; more than 15.5 million people in the US have now been infected with at least 290,000 dead. At the onset of the outbreak, the Northeast was the hardest hit region and by the summer the Sun Belt, which has rushed to reopen, became the new epicenter of the pandemic. By early fall, the Midwest and West which had so far avoided the pandemic's worst, felt the full devastation of it and as the year comes to a close the virus is now simply everywhere. States have put in measures of their own to try and stop the spread of the virus within their borders – California for example recently imposed its strictest set of measures since the early days of the pandemic in a bid to keep the rise in cases from overwhelming hospitals – but there has not been a similar level of motivation from the Federal Government to do just that. Aside from failing to put in a strict enough strategy in place to curb the spread of the disease, the Federal Government were not quick enough to extend the stimulus packages that have supported the economy, alongside millions of individuals, since lockdown measures were imposed. The CARES Act, which was created in March, expires at the end of the year and alongside it so will benefits including but not limited to: enhanced unemployment benefits, eviction bans and mortgage reliefs. Rather than swiftly and decisively agreeing on a new package Democrats and Republicans were locked in negotiations for months with both sides wide apart in terms of the size of the overall package and the details of the package itself with neither willing to give an inch. At the last minute, both sides agreed on a \$908 billion bill put together by a bipartisan group of lawmakers. Aside from failing to agree on new deals, the Government have also been clawing back at some existing ones. The Treasury have decided to allow several of the Fed's emergency lending programs to expire at the end of the year which will dramatically reduce the central bank's ability to backstop the financial system. Additionally, they have asked the Fed to return \$455 billion of currently unused funds.

The UK have also failed to get a tight grip on the spread of the coronavirus and have oscillated from one strategy to another. After easing their initial lockdown in May, the Government trialed a local lockdown system which involved a three-tiered system of restrictions, with differing degrees of rules imposed on areas of the country depending on their number of coronavirus infections. And when that proved unable to stop the rise in coronavirus cases the Government announced a second lockdown at the start of November to last four weeks until the start of December in order to prevent a “medical and moral disaster” for the NHS.

At the end of this lockdown England return to the three-tiered system of restrictions which would last until next spring with the tiers stricter than they were initially; Scotland has a similar framework except that theirs has five levels, Northern Ireland entered a two-week lockdown at the end of September while Wales has lenient guidelines in place. As of writing the UK had at least 1.76 million confirmed cases, the most in Europe, with over 60,000 deaths although the rate of infection has slowed since that second lockdown was imposed. They might be inconsistent when it comes to picking a strategy to halt the spread of the virus but the UK government have shown consistency when it comes to providing support to the economy by extending a number of schemes which were due to expire at the end of October. The Furlough scheme was extended until March 2021, although the government will decide in January whether employers should start paying into the scheme. Additionally, business premises forced to close in England are to receive grants worth up to £3,000 per month under the Local Restrictions Support Grant. Also, £1.1bn is being given to local authorities to enable them to support businesses more broadly while mortgage payment holidays were also extended for another 6 months.

There has been a second wave of covid-19 infections sweeping across the EU, particularly in France, Italy and Spain, which has led to the imposition of new lockdown measures and dampened lingering hopes of a sustained economic recovery. Spain has extended its state of emergency until May 2021; Germany has closed bars, restaurants and entertainment venues until January 2021 with mumblings of another nationwide lockdown before the end of the year; Italy has introduced a 3-tier system reminiscent of the UK's; and France only plans to relax its national lockdown if the number of daily new cases drops below 5,000 by December 15, which currently does not seem to be feasible. There have been responses from individual countries and the bloc as a whole in the face of this second wave. In Italy, the government approved an €8billion aid package, the fourth Covid-19 stimulus package enacted since March, which offers lump sum payments to workers in specific industries. The ECB retained the MRO⁷ rate, the marginal lending facility and deposit facility at 0%, 0% and -0.5% respectively. The bank further expanded its PEPP⁸ of public and private securities by €500billion, bringing the total asset purchase value to €1.85billion and extended the duration of the programme to at least the end of March 2022. The Bank's Governing Council also opted to "recalibrate" the third edition of its TLTRO⁹ (TLTRO III), which are ultra-cheap loans for banks, by extending the current favorable terms to lenders by 12 months until June 2022. The amount that counterparties are entitled to borrow under the TLTRO III operations was extended from 50% to 55% of their eligible stock of loans and the newly recalibrated conditions will only be available to banks which meet a certain lending performance target.

⁷ Main Refinancing Operations

⁸ Pandemic Emergency Purchase Program

⁹ Targeted longer-term refinancing operations

Although Japan might not have been hit to the extent that the West has been in terms of number of cases and/or deaths they are still experiencing a rise in cases and have recently hit a new record high of daily cases and there is a worry that this third outbreak wave could overwhelm hospitals. The government are wary of this new outbreak halting the recovery seen in Q320 and with respect to that the Prime Minister launched Japan's third fiscal stimulus of the year in early December. The entire stimulus package is worth ¥73.6 trillion (\$708bn) and includes extensions of subsidy programs aimed at promoting domestic travel, spurring consumption and helping companies maintain employment, as well as incentives for digitalization and carbon reduction. This package brings the combined value of coronavirus-related stimulus to about \$3trillion.

Vaccine approvals provide the light at the end of the tunnel

Despite the impressive efforts by governments around the world to keep their respective economies afloat in the midst of a pandemic, the recovery could not really get started until the health crisis was resolved. With that in mind the results from a number of pharmaceutical companies indicating high efficacy for their respective covid-19 vaccinations has been the most welcome piece of news this year. A few countries, including the UK, Canada and most recently the US, have now approved a vaccine and started the process of delivering this vaccine to the general population starting with the most vulnerable and frontline workers. Before the news of the vaccine came out, the IMF projected that advanced economies would grow by 3.9%YoY in 2021 after a 5.8% contraction this year. However, following the announcements of the vaccine and the subsequent commencement of vaccination programs it is likely that there would be an upward revision on growth prospects with the IMF even acknowledging in their WEO that the production of a safe, effective vaccine would be the major upside to their forecasts.

After a contraction of 4.3% in FY20, the US is expected to grow at 3.1% over FY21 according to the IMF's forecasts. Although, it must be noted that that could now come in higher following the FDA's authorizing the use of Pfizer's vaccine with priority being given to health care workers and nursing home residents. It is hoped that if this vaccination program is successful the country and its economy can return to some semblance of normal by summer 2021. Further supporting the economic recovery is Congress' passing of the \$900 billion federal aid, one of the largest in modern US history. The year-end compromise includes: \$166 billion in direct stimulus checks, \$120 billion in extra unemployment help, \$325 billion in small business aid, \$25 billion in federal rental assistance and an extension for state and local governments to spend aid provided by the CARES Act.

Another factor that could affect the US' growth trajectory in 2021 is their new leadership of President-elect Joe Biden. Biden is expected to introduce less business friendly and more socially supportive policies but how far he will be allowed to go will depend on whether the Democrats control the Senate, which will not be known until after the Georgia Senate runoff election in January. Biden wants to eliminate the tax cut for individuals earning more than \$400,000 a year and raise the corporate income tax rate from 21% to 28%. President-elect Biden has also pledged to rejoin the Paris Agreement on Climate Change and plans to integrate climate change targets across every aspect of US foreign policy, national security and trade. He has set a target of net-zero emissions by 2050 for the US and has vowed to rely entirely on — and even export — clean energy. There are some key issues, however, on which President Trump and President-elect Biden do not disagree totally. With regards to trade the President-elect has signaled he would continue to be tough on China, although he is unlikely to continue the confrontational tariff regime. President-elect Biden has also exhibited some protectionist tendencies and has floated a tax to penalize US companies for moving jobs and manufacturing overseas. We will get a clearer idea of Mr. Biden's plans for his tenure when he lays out his policies during his inauguration speech in January.

The UK was the first advanced economy to approve and start using a vaccine with initial doses reserved for the over-80s, workers in care homes and NHS staff. Before there was even a whiff of this vaccine rollout, the IMF had predicted the UK would grow at 5.9% in 2021, after a 9.8% contraction in 2020. The UK economy is largely services driven so a successful vaccine program that enables more businesses to open would be a welcome boost for the economy and overall growth prospects. The major downside for the UK's growth outlook was the potential (and completely realistic) failure to strike a post-Brexit trade deal with the EU before the Dec.31 deadline. Failure to strike a deal would have meant that British firms would revert trading with the EU under WTO rules and would face higher WTO-negotiated tariffs for imports and exports. However, after fractious negotiations, an agreement was finally reached between the two parties. This agreement will provide tariff-free and quota-free access to the EU's markets which is a welcomed relief for the manufacturing sector. The agreement, however, does not stop UK professional services providers from losing their ability to automatically work in the EU and also does not cover financial services access to EU markets. The agreement is a huge positive for the economy. The economic impact of this agreement will be massive, the OBR¹⁰ had forecast a 2% GDP decline in the event of a no-deal while the IMF estimated a no-deal Brexit would have knocked 3% off the UK's long-term potential output.

¹⁰ Office for Budget Responsibility

The EU, according to IMF forecasts, is expected to grow by 5.2% in 2021, after an 8.3% contraction in 2020, supported by solid growth in the bloc's major economies – Spain at 7.2% (vs -12.8% in 2020), France at 6% (vs -9.8% in 2020), Italy at 5.2% (vs -10.6% in 2020) and Germany at 4.2% (vs -6.0% in 2020). Just like ex-bloc member the UK, the EU has begun its vaccine rollout programme with all EU member states now having a supply of vaccine on hand to distribute. In the meantime, the EU has agreed on a historic €1.8trillion (or \$2.2 trillion) budget and stimulus package which will be crucial to some of the bloc's weakest economies that have been decimated by the coronavirus pandemic. The deal consists of the temporary recovery instrument tagged “Next Generation EU” alongside targeted reinforcements to the long-term EU budget for 2021-2027. The former, which is worth €750billion, will be financed by jointly backed bonds and should provide the ECB¹¹ with another asset to purchase under its Pandemic Emergency Purchase Program (PEPP) while the latter, which is estimated to be worth €1.074billion, aims at assisting member nations mitigate the covid-19 induced shocks and pave the way for a sustainable future. Looking at the potential impact of the stimulus deal, the European Commission has estimated that the plan could add around 2% to the bloc's economic output by 2024, create 2 million additional jobs by 2022 and go one step further in assisting the ECB to attain its inflation target of just under 2%, with ECB president Lagarde even suggesting making the recovery fund a permanent tool for similar crises in the future.

On a larger scale, not only will the funds help the region overcome the economic damage the coronavirus left in its wake, but they pave the way for much deeper integration in the bloc and set the stage for the continent's transition to a low-carbon economy. An upside for the bloc's growth outlook comes in form of a post-Brexit trade deal agreed with the UK, following months of negotiations. The deal is the largest bilateral trade pact in history and will see both parties maintain the existing zero-tariff zero-quota arrangements on traded goods worth £668billion as at 2019. However, exports from the UK must meet newly enacted rules of origin to qualify for tariff-free access to EU markets. This rule determines how much of a product's content must be derived from a nation bound by the agreement. Furthermore, a five-and-a-half-year transition period for fishing quota shares ensures that the EU retains guaranteed access to the UK's waters for the time being, although both sides agreed on a 25% cut in the share of fish caught by EU vessels in British waters. This cut is valued at £146million and will be phased in over the next five years.

¹¹ European Central Bank

Japan is yet to give approval for the use of a coronavirus vaccine just yet but the government has indicated a desire to have majority of the population vaccinated by the end of H1 2021. The IMF estimates Japan will return to growth in 2021 at a pace of 2.3% following a 5.3% contraction in 2020. The Olympics, postponed from this year, is now scheduled to hold next summer and if the vaccination programme, not just in Japan but globally also, goes smoothly, + this Olympics could provide a major shot in the arm for Japan's economy. More people will be attracted to come over to Japan to watch and participate in the Games when they do not have to worry about catching the virus or having to spend time quarantining. The more people that come over the bigger the boost to the economy from sales, transportation and accommodation.

Emerging countries face long wait for vaccines

As the wealthiest countries in the world lay claim to more of than half of the doses of the coronavirus vaccines coming on the market in 2021, giving them more than enough to vaccinate their entire population twice over, majority of the poorer emerging nations are struggling to secure enough to vaccinate their population. This means that while the advanced economies start to reopen and move towards normalcy emerging markets might not be able to do that or at least not at the pace of the advanced economies. With that in mind it is hard to look past IMF's forecast for growth in majority of these countries and subsequently for the region as a whole. According to IMF's most recent projections, growth in EMDEs¹² should print at 6.0%YoY in 2021 following a 3.3%YoY contraction in 2020.

Emerging and developing Asia are expected to record the fastest growth of 8.0% over 2021 (2020: -1.7%) led, as always, by China. China are the only major economy expected to escape a contraction over 2020 with an estimated growth of 1.9% and then a further growth of 8.2% projected for 2021. China have made huge strides on the vaccine front with two strong candidates and one has now been approved by two countries – Bahrain and the UAE – for emergency use. China made these vaccines readily available around the country, ostensibly under an emergency-use policy, and it is estimated that over a million people have so far received the vaccination. Analysts expect domestic demand and household consumption to be the main driver of growth in the coming year fueled by the deployment of the COVID-19 vaccine, a recovery in the job market and a release of excess savings from this year. According to Morgan Stanley, the savings rate over the first 3 quarters of the year has been 37%, greater than the normal level of 30%. It is expected this excess savings, which is equivalent of 6% of China's annual consumption, could be released next year.

¹² Emerging Market and Developing Economies

Additionally, there is also expected to be normalization of fiscal and monetary policies in order to bring down credit growth as well as the fiscal deficit to GDP ratio which has risen beyond their usual 3% target to more than 3.6%.

Still in emerging and developing Asia, the IMF projects an 8.8% growth for India in 2021 which would mark an impressive recovery from the expected 10.3% contraction in 2020. India's national implementation plan on vaccine disbursement aims to immunize around 23% of the population by mid-2021 which should allow a meaningful rebound in the upcoming year, particularly in the services sector, according to Goldman Sachs. The pace of economic recovery will be weighed down by a number of factors including: a weak labor market, reflected by the labor force participation rate that is still below pre-COVID levels, that could drag down the rebound in consumption; hit to corporate balance sheets from a rise in corporate interest burden and low manufacturing capacity utilization to act as drag on private investment rebound; and a slowdown in fiscal stimulus.

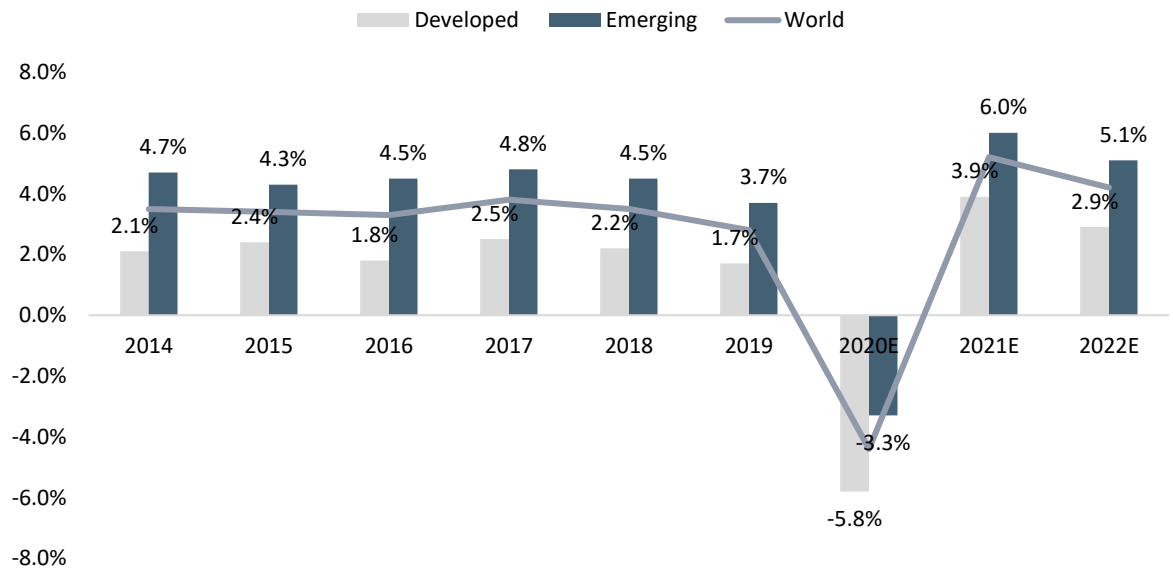
Emerging and developing Europe's 2021 growth is expected to print at 3.9% following an expected 4.6% contraction in 2020. Russia was the first country to approve a vaccine for widespread public use back in August and have so far inoculated over 200,000 people across the country. The IMF forecasts a 4.1% contraction over 2020 before a return to growth in 2021 at 2.8%. The reduction in OPEC cuts, due to come live at the start of 2021, should help lead a recovery in Russia's beleaguered mining sector. A rise in oil prices would also be a welcomed boost to the mining sector and the overall economy, however, Russia's Economic Development Ministry estimates a base case range of \$43-45 per barrel over the mid-term. Further estimates by the ministry include a 3.7% growth in fixed investment and a 4.5% growth in retail trade.

Finally, to Turkey which the IMF predicts would grow at 5.0% in 2021, a complete reversal of the 5.0% contraction expected in 2020. Their new central bank governor has declared that they would no longer be selling dollars to pop up the lira – a policy that has cost, according to analysts' expectations, over \$150bn over the past two years. This is in a bid to rebuild their FX reserves which hit record lows this year while in a bid to get inflation under control, the central bank chief indicated he would be willing to further raise rates. But given President Erdogan's strong views on high rates it is not known how far the central bank will be allowed to raise rates to tackle the double-digit inflation.

The human toll of Covid-19 remains evident in Latin America as the region recorded 28% of total cases and 34% of total deaths worldwide by the end of Q320. Thus, with the pandemic far from controlled and the labor markets still reeling from the after-effects of the lockdown, the IMF projects an 8.1% contraction in economic activities in FY20 (FY19: 0%), after which, the region would record a growth rate of 3.6% in 2021. Specifically, in Brazil, which remains the epicenter of the pandemic in Latin America, the IMF expects growth rate to print at -5.8% in FY20 (FY19: 1.1%), while an expansion of 2.8% has been penned down for 2021. We expect the coronavirus vaccine (pending when it arrives in Latino América) to be a timely shot in the arm for a nation that is largely dependent on its service sector. although recovery is expected to be protracted as the country contends with elevated unemployment levels and a \$7billion shortfall in its 2021 budget, stemming from emergency aid payments being rolled over into next year.

In Mexico, the IMF’s projection makes for more dour reading as the Bretton Wood institution expects GDP to shrink by as much as 9.0% in FY20 (FY19: -0.3%), succeeded by a 3.8% expansion in 2021. On a positive note, a potential recovery in global oil prices and a partnership between the Mexican government and the Carlos Slim Foundation to produce and develop a COVID-19 vaccine could serve as the catalyst to a quicker and more stable economic recovery.

Figure 3: Trend in global growth and projection (%)



Source: Bloomberg, ARM Research

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