

July 6, 2020



# Nigeria Strategy Report

H2 2020

Global Economy and Markets

## Global Recession: The Pandemic Edition

### Executive Summary

In our previous H1 20 Outlook report, we expressed optimism for global growth prospects in 2020 (IMF predicted FY20 growth of 3.4%) on the basis of the resolved US-China trade war, a partial resolution to the Brexit uncertainty and improvements across the sub-regions of emerging markets. Instead, global economies were hit by a Great-Depression-esque crisis, following the breakout of the COVID-19 pandemic. The disease has infected over 11 million people worldwide and claimed the lives of over 500,000 individuals. The lockdown measures put in place across to stop the spread of this highly infectious and deadly disease has handicapped the global economy. Amongst advanced countries, Japan has slipped into a technical recession while others such as the EU and the US) are standing on the brink, waiting for Q2 numbers to ratify widely consensual views. Akin to advanced economies, the widespread of the global pandemic has adversely affected growth in emerging and developing economies. Economies such as China and India have reported record-low growths.

The response from fiscal and monetary authorities in these economies, however, has been swift and decisive. Interest rates have been slashed and trillions pumped into the economy by Central Banks. Additionally, governments have introduced huge fiscal stimulus programme to support businesses and those who have lost their jobs as a result of the pandemic. Going forward, the recovery will be largely determined by nations' ability to prevent another large-scale outbreak of the disease. In the midst of wild uncertainties regarding a second wave of the virus, the IMF projects that the global economy will contract by 4.9%YoY in 2020 with advanced economies contracting by 8.0%YoY and EMDE down by 3.0%YoY.

***In this report, we look at the major themes that dominated the global, economic and financial landscape in H1 2020, as well as our outlook for FY 2020.***

*Covid-19 reverses growth prospects*

The year kicked off on a positive note, with conclusion of the phase one trade deal giving credence to an expansion in the advanced economies over 2020. According to the IMF in their January WEO report, growth in advanced economies was expected to print at 1.6%, a slight moderation from the 2019 estimate of 1.7%. However, all hopes of a YoY growth dissipated, following the fast and devastating spread of corona virus outside china which led to key economies implementing lockdown orders in a bid to curb the spread.

The first major outbreak outside Asia occurred in Italy where the number of cases ballooned from 150 on Feb 23 to 800 5 days later. Initially, the government ordered a lockdown in just the Northern regions of the country where the clusters of infections were located but two days later, on March 10th, with the number cases topping 10,000 and the number of confirmed deaths at 463 people, this was extended to a full nationwide lockdown. As the virus spread rapidly across Europe other countries followed Italy's lead in imposing a full lockdown – France on March 17, Germany on March 22 and Britain on March 23. Across the Atlantic in the US, the first case was reported on January 20 with the first death coming a month later on February 29, but by March 13 cases had touched 2,000 with at least 48 deaths leading President Trump to declare the outbreak a national emergency and by the end of March majority of states had imposed a statewide stay-at-home order. At the start of April over a million people worldwide had been infected by the virus, and millions more had lost their jobs as a result of the lockdown measures put in place. At this point, all optimism of an economic growth this year had been reversed.

The US has been especially hit hard by the impact of this novel virus. They have the highest number of both cases and deaths – at least 2.9 million and 132,00 respectively. Consequently, states started imposing lockdown orders in the middle of March and by April, majority of states had implemented either a full or partial lockdown. For an economy like the US that is primarily driven by consumption<sup>1</sup> this had serious implications. Q120 GDP numbers showed the US economy declined by 5.0% YoY (Q419: +2.1%), which signified the first negative GDP reading since the 1.1% decline in Q114 and the deepest quarterly plunge since the final quarter of 2008. This decline resulted from a sharp drop in Personal Consumption Expenditure (PCE) to an annualized rate of -6.8% (vs 1.8% in Q419) reflecting a drop in spending on services and durable goods. Also playing a role in the GDP contraction was a sharper decline in private investment by 10.5% (Q419: -6.0% YoY). Further highlighting the impact of the lockdown was monthly retail sales which reached a nadir of -21.6% YoY in April (a further contraction from its March print of -6.17%) marking the sharpest

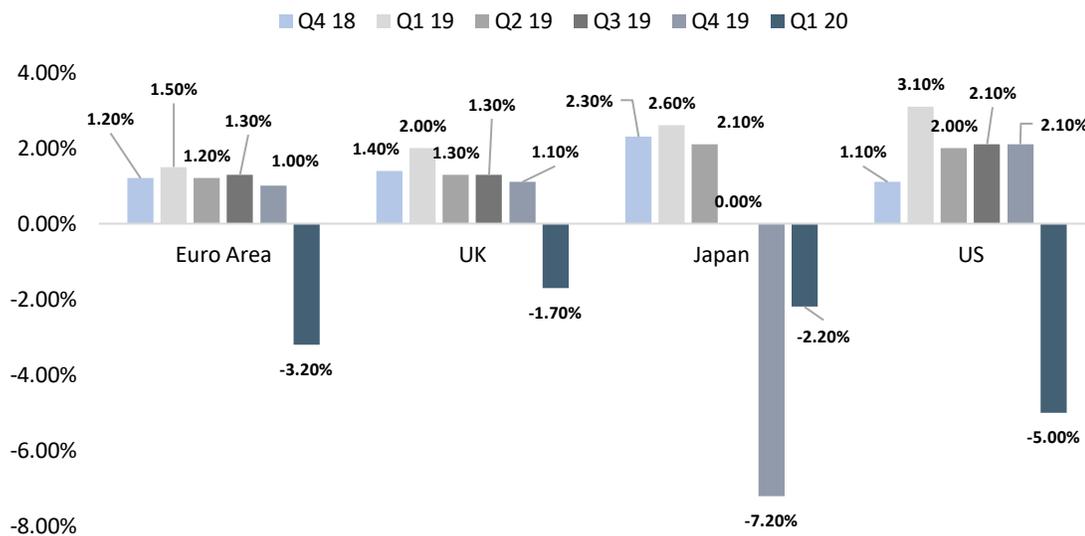
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<sup>1</sup> ~70% of GDP

plunge in the series' history. Also, there was a spike in unemployment rate to a peak of 14.7% in April (vs unemployment rate of 3.5% recorded pre-lockdown), with c. 40 million Americans filing for unemployment benefits between mid- March and end of May.

Faced with the economic crisis both monetary and fiscal authorities dove into their impressive arsenal and came out with some firepower to help stave off a full economic collapse. To begin, over a couple of unscheduled meetings in March, the FOMC cut the benchmark interest rate by 150bps to a range of 0 – 0.25%. To support the functioning of financial markets the US Fed agreed to purchase Treasury and agency securities “in the amount as needed”, reintroduced PDCF<sup>2</sup> that provides low interest (currently 0.25%) loans for up to 90 days to the largest primary dealers and relaunched the MMMFLF<sup>3</sup> with \$10 billion of credit protection to backstop money market funds and ensure they can meet demand for redemptions. Furthermore, to encourage bank lending, the Fed temporarily reduced the reserve requirement for all depository institutions to 0% and lowered the rate it charges banks for loans via its discount window by 150bps to 0.25%. Lastly, the Fed announced a \$600 billion Main Street Lending Program to support small and medium-sized businesses. On the fiscal leg, the US Congress passed a \$2.3 trillion “CARES Act”<sup>4</sup> which translates to ~ 11% of GDP, aimed at providing one-time tax rebates to individuals, expand unemployment benefits and loans to help small businesses that retain workers.

**Figure 1: GDP growth in developed economies**



Source: Bloomberg, ARM Research

<sup>2</sup> Primary Dealer Credit Facility

<sup>3</sup> Money Market Mutual Fund Liquidity Facility

<sup>4</sup> Coronavirus Aid, Relief and Economy Security Act

Japan, which like the US is powered by consumption<sup>5</sup>, recorded an annualized 2.2% decline in GDP over Q120. While the outturn is slower than the 7.2% contraction recorded in Q419, it also implies the economy is technically in a recession. The Q120 number reflects a 3.3% decline in household consumption and 3.0% decline in private consumption, as consumers were hit by a double whammy of the lockdown and 20 bps expansion in consumption tax. Trade is also an important driver of growth in Japan and over Q120, we saw a deceleration in net exports (-24%YoY) reflecting a faster decline in exports relative to imports, thus acting as a drag on growth. The slowdown in consumption also reflected in YoY inflation numbers which printed at 0.1% in April (December 19: 0.8%), stemming from a fall in spending on fuel, transport, culture & recreation, which are areas most affected by the lockdown and social distancing measures.

Given the country already maintains a negative policy rate at -0.1%, the BOJ had to explore other options to foster economic growth. To begin, the bank increased its government bond, commercial paper and corporate bonds purchase, with the upper limit for the last two set at Y20 trillion, until the end of March 2021. Also, its annual purchase of ETFs and J-REITS<sup>6</sup> was increased, with upper limit now set at Y12 trillion and Y180 billion, respectively. To further support the economy the Government of Japan announced a second<sup>7</sup> supplementary budget totaling Y31.9 trillion. This budget establishes a rent support grant for SMEs, provides loans to corporations, raises the employment adjustment subsidy given to companies that puts workers on temporary paid leave and makes additional payments to low-income single parent households.

The euro area recorded a 3.1% YoY decline in GDP over Q120 (Q419: 1.0%) which is the sharpest YoY decline since the third quarter of 2019. The biggest economies in the bloc have been hard-hit by the virus, recording some of the highest number of cases and deaths worldwide, and the lockdown measures they put in place have had negative effects on the economy, particularly on consumption. Germany's GDP contracted by 2.3% YoY (Q419: 0.4%), the largest quarterly slump since 2009 when the country was engulfed in global financial crisis. There was a fall in household consumption (-2.2% YoY), foreign demand in the form of exports (-3.2% YoY), and investment<sup>8</sup> (-9.2% YoY). Further indicative of the economic woes was the 11.6%<sup>9</sup> YoY decline in production, observed in March, as factories shut down and manufacturing ground to an almost complete halt. Over Q120, Italy recorded a 5.4%YoY contraction in its GDP (Q419: 0.1%) as final consumption expenditure decreased by 4.9%<sup>10</sup> (Q419: 0.2%) and gross fixed capital formation fell by 8.8%<sup>11</sup> (Q419: 1.3%).

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<sup>5</sup> ~60% of GDP

<sup>6</sup> Japan – Real Estate Investment Trusts

<sup>7</sup> The first totalled Y25.7 trillion and was introduced in April

<sup>8</sup> Gross Fixed Capital Formation

<sup>9</sup> The sharpest drop was seen in the automotive industry (-31.1%) which is a big driver of German's economy

<sup>10</sup> Led by a decline of 6.3% in household consumption

<sup>11</sup> The biggest drags being transport equipment (-25.2% vs 8.2% in Q419), machinery & equipment (-13.3% vs 1.9% in Q419)

(Q419:0.3%). Elsewhere, France (-5.0% vs 0.9% in Q419), Spain (-4.1% vs 1.8% in Q419) and the Netherlands (-0.7% vs 1.6% in Q419) all recorded significant declines in their growth on the back of the lockdown measures put in place to slow the spread of the coronavirus.

In the euro area, there have been responses from both individual nations and the bloc as a whole. Germany ran down their accumulated reserves in addition to adopting a €156 billion supplementary budget, which provided €50 billion in grants to small business owners and self-employed persons, venture capital funding for start-ups and expanded access to short-term work subsidy. In Italy, the government implemented a €25 billion emergency package which includes €10.3 billion in measures to preserve jobs and support the income of laid-off workers, €6.4 billion in additional measures to support businesses and €5.1 to support credit supply. France, meanwhile, postponed rent and utility payments for affected SMEs, as well as the social security and tax payments for companies. Additionally, the government accelerated the refund of tax credits and provided direct financial support for affected liberal professions and independent workers. The ECB left the rates on the main refinancing operations, marginal lending facility and deposit facility stand unchanged at 0%, 0.25% and -0.50% respectively. However, to keep borrowing costs low, they increased the Pandemic Emergency Purchase Programme (PEPP) of public and private securities to €1.35 billion (previously: €600 billion) and extended the timeframe by six months to June 2021. Additionally, the ECB continued its €20 billion monthly Asset Purchase Programme (APP) with an additional net purchase of €120 billion added until year-end<sup>12</sup>. The European Commission also unveiled a €540 billion package to help economies within the bloc recover from the impact of the coronavirus and the package includes €100 billion for unemployment benefits and €200 billion in loans for smaller businesses.

In the UK, which had the most coronavirus cases and deaths in Europe and where even the Prime Minister was admitted into intensive care after catching the virus, GDP decreased by 1.7% YoY (Q419: 1.1%). This marked the biggest fall since Q309. Services, the dominant sector of the economy, contracted by 1.4%YoY over the quarter (Q419:1.4%), its first decline since Q409<sup>13</sup>. Leading the decline in services were transport, storage and communications (-2.1%YoY vs 2.0% YoY in Q419) and wholesale and retail trade (-2.8%YoY vs 1.4%YoY in Q419). Additionally, production fell by 4.1%YoY, a faster decline than Q419 (-1.8% YoY), with the manufacturing sector (-5.1% YoY vs -2.7%YoY in Q419) the biggest drag. Retail

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<sup>12</sup> This addition was announced in March

<sup>13</sup> Where it fell by 0.8%.

sales, which is a measure of consumption, declined by 22.6% YoY in April after a 5.8%YoY decline in March. To support growth, the Bank of England (BOE), just like its American counterpart, slashed its benchmark rate over a couple of meetings in March to historically low levels by 65bps to 0.1%, which beats the previous low of 0.25% first seen in August 2016<sup>14</sup>. To supplement this, the BOE increased their holdings of UK government bonds and sterling non-financial investment-grade corporate bonds by £200 billion to a total of £645 billion. They also introduced a new TFSME<sup>15</sup>, aimed at allowing eligible banks and building societies to access four-year funding at rates very close to the Bank Rate and also provides extra funding for banks that increase lending, especially to SMEs. Furthermore, the BOE – in coordination with HM Treasury – launched a CCFF<sup>16</sup> aimed at buying one-year commercial papers of eligible businesses that have seen a covid-related disruption to their cash. A raft of fiscal measures were also announced including: (i) £14.7 billion in additional funding for the NHS, public services and charities; (ii) £27 billion worth of support for businesses in the form of property tax holidays, direct grants and compensation for sick pay leave; and (iii) strengthening the social safety net by nearly £7 billion to support vulnerable people.

**Table 1: Overview of Macro indicators across DM**

	EU	UK	Japan	US
<b>Latest Monetary Policy Action</b>	0.00%	0.10%	-0.10%	0.00%
<b>Mean CPI: 2020*</b>	0.74%	1.50%	0.40%	1.65%
<b>Mean CPI: 2019</b>	1.19%	1.40%	0.50%	1.82%
<b>GDP (Q120)</b>	-3.20%	-1.70%	-2.20%	-5.00%
<b>GDP (Q419)</b>	1.00%	1.10%	-7.20%	2.10%
<b>Avg Unemployment 2020</b>	7.28%	3.90%	2.60%	8.43%

Source: Bloomberg, Bureau of Labour Statistics, ARM Research

### ***EM Growth: Scarred by the pandemic***

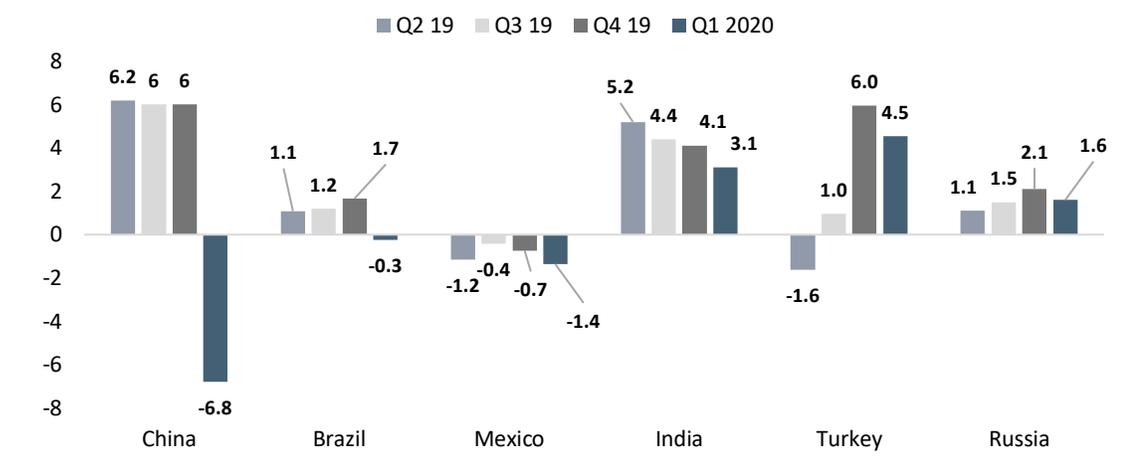
Similar to developed economies, the widespread of the global pandemic adversely impacted growth in emerging and developing economies. This necessitated the shutdown of most economies, weakened demand, constrained exports and spurred the slow growth/contraction among emerging and developing economies over the first half of the year.

<sup>14</sup> After the historic Brexit vote

<sup>15</sup> Term Funding Scheme with additional incentives for SMEs

<sup>16</sup> Covid Corporate Financing Facility

Figure 2: Emerging and developing economies GDP growth (% YoY)



Source: Bloomberg, ARM Research

In EM Asia, China had a good start to the year, following the positive developments which ensued from the signing of US-China phase 1 trade deal, after almost two years of trade rifts between both countries. Specifically, US agreed to cut the tariff imposed on \$120 billion worth of Chinese goods to 7.5% (formerly 15%). In return, China pledged to increase purchases of farm, energy and manufactured goods from the US, by at least \$200 billion over the next two years, whilst suspending its retaliatory 25% tariff on US goods. However, the adverse impact of COVID-19 outbreak weighed heavily on China's economy. For context, being the first country to be immersed in the COVID-19 pandemic, China implemented a large-scale lockdown, shutting down all non-essential business activities. Consequently, the country witnessed its first economic contraction on record, with Q1 2020 GDP contracting by -6.8% YoY (vs Q4 19: 6% YoY). Precisely, steep contraction was seen across all sectors relative to Q4 19 – Secondary industry<sup>17</sup> (-9.6% vs 5.8% YoY), tertiary industry<sup>18</sup> (-5.2% vs 6.6% YoY) and primary industry<sup>19</sup> (-3.2% vs 3.4% YoY).

In a bid to prop-up the economy, the People's Bank of China (PBoC) adopted an accommodative stance, cutting rates twice so far in 2020 (February and April), to the lowest level on record. Precisely, the medium-term lending facility (MLF) which serves as a guide to the loan prime rate (LPR)<sup>20</sup>, was trimmed by 30bps to 2.95% in order to incentivize the commercial banks to reduce the lending rates. Similarly, the one- and five-year LPR now

<sup>17</sup> This sector contributed 54% of Q1 2020 GDP, and comprises mining, manufacturing, production and supply of electricity and construction.

<sup>18</sup> Accounted for 44.2% of Q1 2020 GDP. It comprises the services sector.

<sup>19</sup> Contributed 2% of Q1 2020 GDP. It includes agriculture, forestry, animal husbandry and fisheries.

<sup>20</sup> LPR is the interest rates charged by banks to its creditworthy clients.

stands at 3.85% and 4.65% following a 30bps and 15bps cut in the rate respectively. Other measures taken by the PBC include liquidity injection of RMB 4.6 trillion into the banking system via OMOs, expansion of re-lending and re-discounting facilities by RMB 1.8 trillion to support manufacturers of medical supplies, SMEs and agricultural sectors at low interest rates, reduction of the interest on excess reserves from 72bps to 35bps, amongst others. In addition to these monetary measures, an estimated 3.6 trillion yuan (\$500 billion) of discretionary fiscal measures was announced to help revive the economy.

Over in India, the economy grew by the slowest pace on record (available since 2004) by 3.1% over Jan-Mar 21, compared to 4.1% in the prior quarter. This brought the 2019/2020 fiscal year (FY 2020) growth rate to 4.2% - the slowest in 11 years. The slow growth in the quarter was driven by contraction in investment (-6.5% vs Q3 2020: -5.2%), and slowdown in private spending (Q4 2020: 2.7% vs Q3 2020: 6.6%). Further worsening the picture is the widened trade deficit, as exports contracted at a faster pace (-8.5% vs Q3 2020: -6.1%) compared to imports (Q4 2020: -7% vs Q3 2020: -12.4%). Also, the economy was faced with high debt burden which translated to increased non-performing assets in the banking sector. The gloomy growth picture as well as rising debt informed Moody's revision to a negative outlook. Further aggravating India's economic situation was US' threat to impose sanctions on India for purchasing five units of S-400 missile systems worth \$5 billion from Russia.

To combat the detrimental impact of the pandemic on its economic growth, the Reserve Bank of India (RBI) trimmed interest rates twice this year by a total of 115bps to 4% - the lowest on record. In addition, the RBI infused 3.7 trillion rupees into the financial system to boost liquidity and spur bank lending to productive sectors of the economy. This was accompanied by a six-month moratorium (March – August 2020) on loan repayments, granting relief to borrowers during the stated period. In addition, RBI granted credit support to the trade sector while simultaneously extending the tenor of small business refinancing facilities, amongst other measures. Fiscal measures such as \$265 billion stimulus package which comprises cash transfers to lower-income households, insurance coverage for healthcare workers and wage support to low-wage workers, were adopted to revive the economy.

Over in EM Europe, the preliminary GDP numbers for Russia showed the economy's growth slowed to 1.6% YoY in Q1 2020, relative to an expansion of 2.1% in Q4 2019. While breakdown components are unavailable as at the time of this report, the Q1 2020 GDP growth fell short of the economic development ministry growth forecast of 1.8% YoY. Meanwhile, recent indicators revealed the impact of the lockdown due to the pandemic on the economy. Precisely, Russia's

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<sup>21</sup> India calendar: Q4 2020

industrial output shrank to its lowest since 2009 by 6.6% YoY in April (March: 0.3% YoY). This stemmed from contractions in the extraction of raw materials by 3.2% YoY in April (vs -1.7% YoY in March) and manufacturing output (April: -10% YoY vs 2.6% YoY in March) amid dwindling global demand and sharp drop in commodity oil prices.

In a bid to mollify the effects of COVID 19 pandemic, the Central Bank of Russia (CBR) adopted an accommodative stance, cutting its interest rates twice this year by a cumulative figure of 75bps to 5.5%. In addition, the CBR introduced temporary regulatory easing for banks, 6 months loan payment deferrals for affected citizens and SMEs as well as a cut in interest rates on SME loans from 4% to 3.5%, amongst other measures. On the fiscal front, key expansionary measures implemented include unemployment benefit; tax deferrals for most affected companies; tax holiday on all taxes (save VAT) and social contributions to SMEs, sole proprietors and NGOs, amongst others over Q2 2020.

After recording an expansion of 6.4% in Q4 2019, Turkey's economic growth slowed to 4.5% YoY in Q1 2020. The tepid growth reflects slower growth in consumption (Q1 2020: 5.1% vs Q4 19: 6.8%) and decline in external demand as exports contracted by 1% in Q1 2020 (vs Q4 19: 4.4% YoY) – the lowest since 2016 -- while imports rose by 22% (Q4 19: 29.3% YoY). A steeper contraction in fixed investment by 1.4% YoY (vs -0.6% in Q4 19) further contributed to the slower growth. These more than outweighed the expansion in government expenditure by 6.1% YoY in Q1 2020 relative to 2.7% YoY growth in the preceding quarter. In a bid to combat impact of COVID 19, the Central Bank of the Republic of Turkey (CBRT) slashed rates three times by a cumulative figure of 375bps to 8.25% this year. In addition, liquidity facilities were enhanced, reserve requirements on foreign currency deposits were reduced by 500bps in other for banks to meet their lending growth targets. Furthermore, banks postponed repayment on credit card loans for housing, consumer and vehicle purchases, while a 3-month moratorium on bank loan repayments were granted to firms affected by the crisis. Meanwhile, to facilitate bilateral trade and support financial stability, the overall bilateral swap agreement between Turkey and Qatar was tripled from \$5billion to \$15 billion.

On the fiscal side, a stimulus package of TL100 billion (\$15.4billion) geared towards mitigating the potential economic downturn was announced. Other key measures include deferral of loan repayment by companies, deferred and reduced taxes for affected industries, extension of personal and corporate income tax filing deadlines, allowances for the solidarity foundations increased, including accelerating support for farmers, amongst others. Notwithstanding, the second quarter is bound to face pressures from impact of COVID 19.

In Latin America, Brazil recorded highest number of coronavirus cases with over 800,000 confirmed cases and 42,000 deaths between February 27th and June 15th, 2020. The initial shock of the pandemic and associated social distancing measures constrained activity in the later part of Q1 2020. Consequently, the economy contracted by 0.3% YoY in Q1 2020 – the first and steepest contraction since Q4 2016, after expanding by 1.7% YoY in the preceding quarter. Specifically, there was contraction in transportation and storage, public administration, health and other activities which led to a 0.5% contraction in the services sector (Q4 19: 1.6% YoY). Similarly, the industrial output shrank by 0.1% (Q4 19: 1.5%) as manufacturing, construction and utilities receded during the period under review. These outweighed the 1.9% growth in the primary sector (Q4 19: 0.4%). Meanwhile, unemployment rate rose by 130bps to 12.2% in Q1 2020 and subsequently increased to 12.6% in April, as labour force participation rate fell to 51.5%, with circa 70 million people out of the workforce.

To boost growth, the central bank of Brazil lowered the Selic rate (policy rate) three times (February – May) by a cumulative amount of 150bps to 3%. In addition, the US fed arranged to provide up to \$60 billion swap facility over a six months period, to increase dollar liquidity in Brazil, while Brazil central bank opened a facility to provide loans to financial institutions. On the fiscal aspect, Brazil's government created a **2020 war budget**<sup>22</sup> solely for emergency measures related to the pandemic., which is different from the Federal budget. Other measures taken to cushion the impact of COVID 19 on its economy include the expansion of Bolsa Familia program (a conditional cash transfer program) with the inclusion of over one million beneficiaries, temporary tax breaks and credit lines for key firms, amongst others.

Mexico's economy delved deeper into recession in Q1 2020 recording the fourth consecutive quarter of contraction of 1.4% YoY – the steepest since 2009. This stemmed from a plunge in industrial (-2.9% YoY vs Q4 19: -2% YoY) and services sectors (-0.7% YoY vs Q4 19: -0.2 YoY%), which overshadowed growth in the primary sector<sup>23</sup> of 1.4% YoY relative to a contraction of 0.3% in the preceding quarter. Reduced investments in the prior year due to policy uncertainties, was exacerbated by the initial impacts of the COVID 19 pandemic, throwing the country into deeper recessionary waters. While Banco de Mexico had earlier adopted an accommodative stance due to concerns on its growth picture, it cited risks from COVID 19 pandemic on economic activities in its recent decisions. This brought about five consecutive rate cuts this year, by a total of 180bps to 5% - lowest rate since November 2016. In addition, the money regulation deposit (DRM) – a mandatory deposit requirement for commercial and development banks - was reduced by 50 billion pesos (\$2.06 billion)

<sup>22</sup> Valid until December 31<sup>st</sup>, 2020.

<sup>23</sup> Farming, forestry, fishing and mining

to improve liquidity and lending capacity. Furthermore, cost of repos was reduced while USD liquidity was provided for the private sector via US dollar auctions. After the Mexican government faced backlash for frugal policies, the government gave in to pressures for fiscal economic support with \$26 billion stimulus package. Prior to this, the government announced public housing credit, VAT refunds, lending to SMEs amongst others as part of the measures to combat the economic effects of the pandemic.

### *What shape will the recovery take?*

Countries are slowly starting to emerge from lockdown and economies are humming with activity once again, so it seems the recovery process has begun. However, with a vaccine being a distant possibility at this point, health officials have warned of a potential second outbreak which could halt the economy once again. This possibility of further waves of outbreak, which required the re-imposition of containment measures, remains the most important systematic risk factor for economies. However, there is acknowledgment that the downturn could be less severe than forecast if the economic normalization proceeds faster than expected or if medical breakthroughs enable us cope better with the pandemic. The IMF predicts that advanced economies will decline by 8.0% YoY over FY20 based on the assumption that the pandemic fades over H220 and that most of the disruptions crystalize over Q220. The disruptions we expect to see in Q220 include steeper drops in consumption, production and manufacturing across all economies. Besides that, there are more idiosyncratic factors to consider. The US is expected to decline by 8.0% but renewed confrontation with China – this time over China’s presumed overreach in Hong Kong – could lead to a new round of economic conflicts that dampen recovery efforts. There is also the US presidential election towards the end of the year which will determine the future direction of the foreign and domestic policy.

The IMF projects that Japan will decline by 12.8%YoY in 2020 and the Tokyo Olympics, which could have provided a timely boost to consumption and overall growth, has now been postponed to next year. Within the euro area Italy is expected to be the hardest hit with a 12.8%YoY drop while France and Germany’s growth is forecast print at -12.5%YoY and -7.8%YoY respectively by FY 20. Overall, the bloc is expected to contract by 10.2%. Ensuring a unified recovery across all member states in the euro area is not just important for the economic health of the bloc but potentially also in ensuring its survival. In that regard, the European Commission proposed raising €750 billion on behalf of all members to finance the economic recovery. €500 billion will be distributed as grants to all countries based on their recovery needs (Italy and Spain will get the most) while the remaining €250 billion would be

made available in the form of loans. This would be the first time the bloc has raised large amounts of common debt in the capital markets and still requires approval from the 27 finance ministers from member states. The UK's economy is forecasted to contract by 10.2% and further complicating their situation is the ongoing trade negotiations with the EU to map out the relationship the UK will have with the bloc going forward. Unless an extension is granted, these negotiations to agree on a trade deal needs to be concluded by year-end if both sides want to continue to do business without tariffs, quotas or other barriers.

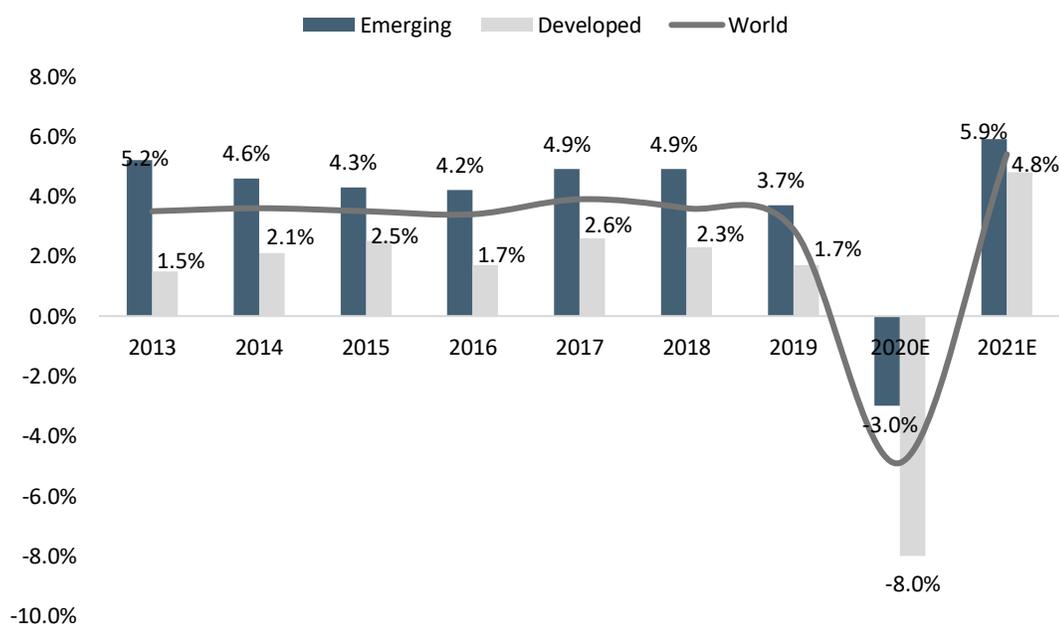
Moving over to the EMDEs, growth is expected to contract by 3% in 2020 (previously: 1% contraction) before going ahead to grow by 5.9% in 2021. Growth in the EMDE Asia region, which typically contributes ~50% of total EMDE GDP, is expected to contract by 0.8% YoY in 2020 (FY 2019: 5.5%) as growth in China slow while India contracts. In China, IMF forecasts an economic growth of 1.0% for FY 2020 (relative to 6.1% in the prior year) – which would mark the slowest growth in the country's record history. This is expected to stem from the lingering impact of the pandemic. Since the gradual reopening of its economy mid-February, recent indicators including industrial production: 4.4% YoY in May 2020 (April 2020: 3.9% YoY), retail sales; -2.8% in May (April 2020: -7.5% YoY), PMI (May: 50.6pts) suggests a rebound in China's economy. However, growth is expected to remain tamed in the near term as it will take some time to ramp up production after the shock. In addition, the slow global recovery is expected to hamper external demand and growth in the export-dependent economy. Over in India, IMF forecasts a contraction in the economy by 4.5% YoY in 2020 (FY 2019: 4.2%) as the shock on both the domestic and global economy spurred by the pandemic is expected to weigh heavily on India's growth numbers. Precisely, we expect consumption, manufacturing and construction activities to be adversely affected, amongst other sectors. This is hinged on recent indicators which showed India's industrial production sank by 55% YoY in April (March: -18% YoY). In addition, elevated debt levels which will be exacerbated by several fiscal measures fused with slow progress in resolving the banking sector asset quality issues, further clouds the growth picture going forward.

In EMDE Europe, countries in the region are expected to contract by 5.8% in 2020 (2019: 1.3%), according to IMF. Specifically, Russia is expected to contract by 6.6% in 2020 from 1.3% growth in 2019. The severe lockdown measures and crude oil supply-chain disruption which debilitated global demand is expected to impede growth in 2020. In addition, extension of production cuts in July and voluntary shut-ins in subsequent months to bolster crude oil prices is expected to lower disposable income for the government and constrict growth in subsequent quarters. We expect to see lower external demand for major exports commodities should trade restrictions across countries persist, weaker industrial output, amongst others. The CBR also holds a dire economic outlook in 2020 which informed its growth forecast of a contraction within a range of 4 to 6% in 2020.

However, similar to IMF, the CBR expects this should be followed with some recovery in 2021 (ranging between 2.8% and 4.8% growth). Meanwhile, Turkey’s economy is expected to shrink over 2020 by 5.0%, from 0.9% growth in 2019 owing to the Covid-19 pandemic. In addition, we believe restrictive measures will adversely impact Turkey’s exports and tourism industry in 2020.

In Latin America, IMF projects the region could contract by 9.4% in 2020 from growth of 0.1% in 2019. Similar to other regions, the pandemic is expected to take its toll on the Brazilian economy, with IMF’s forecast for FY 2020 currently at -9.1% (FY 2019: 1.1%). In fact, Brazil’s government also revised its 2020 outlook to a contraction of 4.7%, hinged on the disruption to production and consumption. We believe the containment measures will adversely impact private consumption and investment, while weak global demand will curb exports in 2020. In Mexico’s case, the stagnation of economic activities for four consecutive quarters is expected to linger, with IMF projecting an economic contraction of -10.5% (FY 19: -0.1%). Precisely, shutdown which began in March is expected to have a significant impact on domestic demand and consumption. Impact of the curbed oil production and the decline in oil prices are also expected to take a toll on the economy.

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



Source: Bloomberg, ARM Research

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