ALLIANCEBERNSTEIN

GLOBAL ECONOMIC RESEARCH

GLOBAL MACRO OUTLOOK

MAY 2020

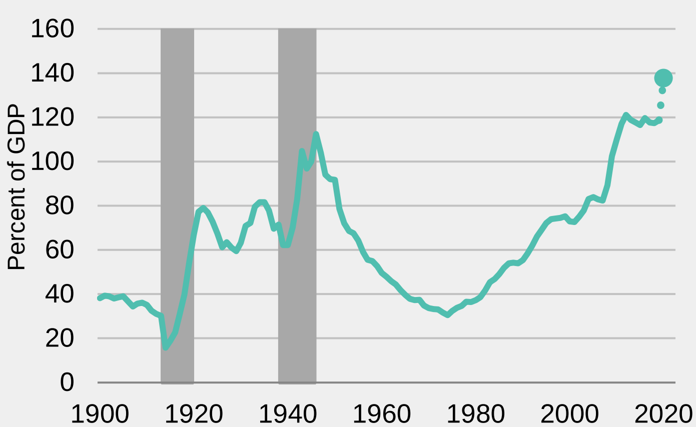
KEY FORECAST TRENDS

+ Early indications confirm that the hit to the global economy from measures to contain the coronavirus is likely to be unprecedented. We have lowered our global growth forecast to –4.6%, roughly twice as big as the decline seen in 2009.
+ Next year, we expect the global economy to rebound by 5.1%. That looks very much like a good, old-fashioned V-shaped recovery. But looks can be deceiving, and next year's rebound masks a permanent hit to output of roughly five percentage points.
+ Moreover, even this estimate depends on the effectiveness of policies to support vulnerable household and firms—and the extent to which the virus can be contained as lockdowns are lifted.
+ A key risk to our forecast is a second wave and another lockdown. We're hopeful that this can be avoided—partly because we expect current lockdowns to be lifted only very gradually in most countries. But risks remain, and a second lockdown would lead the global economy down a materially worse path.
+ The economic cost of the crisis won't be measured in just output and jobs. It will also place a huge strain on public-sector balance sheets: the government debt/GDP ratio for developed economies is likely to rise by roughly 20 percentage points this year.
+ That's where central banks come in. If bond yields rise, many governments won't be able to provide the financial support their economies need. So central banks won't allow this to happen, and will keep bond yields pinned close to, or below, zero.

CONTENTS

Government Debt Rises Ever Higher

G7 Countries Gross Government Debt

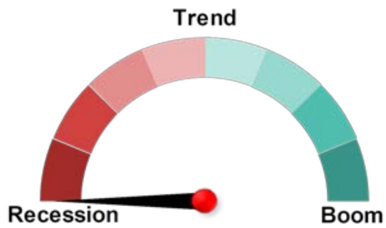


As of April 15, 2020. Shaded periods represent world wars.
Source: Haver Analytics and IMF forecast for 2020

+ Public debt in the developed economies was the highest in at least a century even before the coronavirus crisis. Government support measures are likely to push it materially higher this year.
+ Ultimately, a mixture of financial repression and higher inflation will probably be the most politically expedient way of reducing debt levels. In the meantime, central banks have a key role to play by keeping interest rates and debt-servicing costs low, helping to maintain the illusion of solvency.

GLOBAL FORECASTS

Economic Growth

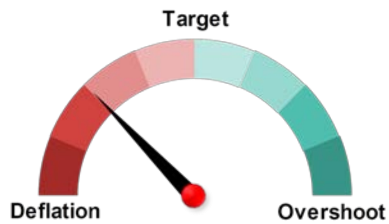


- The near-term hit to the global economy will be huge, perhaps unprecedented
- The policy response leaves hope for a rebound later in the year, but only if the virus can be contained

Key Risks

- Lockdowns in Europe and the US last longer than expected
- Policy fails to prevent mass unemployment/bankruptcy

Inflation

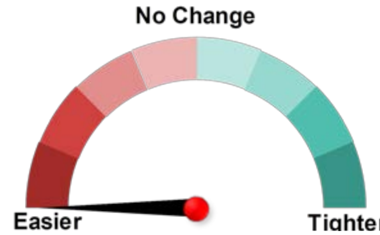


- The big drop in oil prices points to much lower headline inflation in coming months
- While the demand impact from the coronavirus points down, the supply impact points up (i.e., supply chains and food)

Key Risks

- Oil prices
- Will the coronavirus and policy response reinforce secular forces for higher inflation?

Monetary Policy



- Central banks have moved quickly to shore up liquidity and launch large-scale asset purchase programs
- The aim is to keep bond yields low at a time when budget deficits are moving skyward

Key Risks

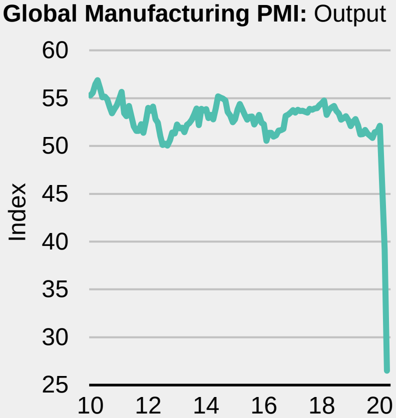
- Fiscal dominance/monetization
- Are we sowing the seeds of an even bigger future debt crisis?

OUTLOOK

- We have lowered our 2020 global growth forecast further to –4.6% from –0.7%. Risks to this forecast look more evenly balanced than a month ago when they were heavily skewed to the downside.
- The US and euro-area economies are expected to contract by 5.5% and 10.0%, respectively, this year, while China is expected to expand by 1.1%. The big difference between the forecasts is largely explained by the relative severity of the economic lockdowns needed to contain the spread of the virus—but also by fiscal stimulus.
- We see global growth rebounding to 5.1 % in 2021. This will depend crucially on the effectiveness of policies to dampen the economic impact of the lockdowns and the extent to which the virus can be contained as those lockdowns are lifted.
- Central banks have moved quickly to relaunch quantitative easing (QE) programs to allow governments to support their economies without putting upward pressure on bond yields. We expect yields to remain close to current record lows.

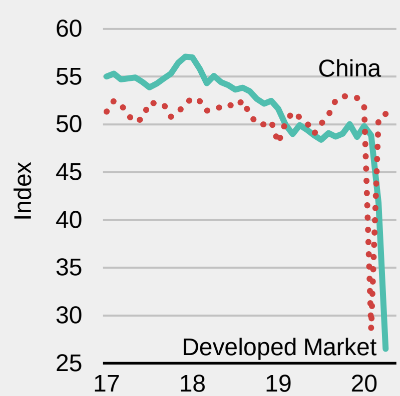
Global Cyclical Outlook: Unprecedented Contraction Underway

Global Manufacturing PMI: Output



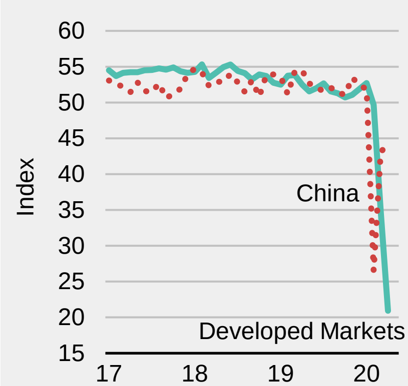
Through April 30, 2020
Source: Haver Analytics and IHS Markit

Manufacturing PMIs: Output



Through April 30, 2020
Source: Haver Analytics and IHS Markit

Services PMIs



Through April 30, 2020
Source: Haver Analytics and IHS Markit

GLOBAL MARKET OUTLOOK: YIELD CURVES

GLOBAL YIELDS

Global—Government plans to unleash massive fiscal support packages might normally be expected to put upward pressure on bond yields. But central banks have made it clear they won't allow this to happen and have started buying huge quantities of government bonds. We expect yields to remain anchored close to, or below, current lows.

US—The Federal Reserve has committed to buying Treasuries on an open-ended basis. Given the economic backdrop, higher yields won't be tolerated, and we expect them to remain low across the forecast horizon.

Euro Area—New QE from the European Central Bank (ECB) makes it clear that core bond yields and peripheral yield spreads won't be allowed to rise materially. Despite the challenge set by the German Federal Constitutional Court, more is likely.

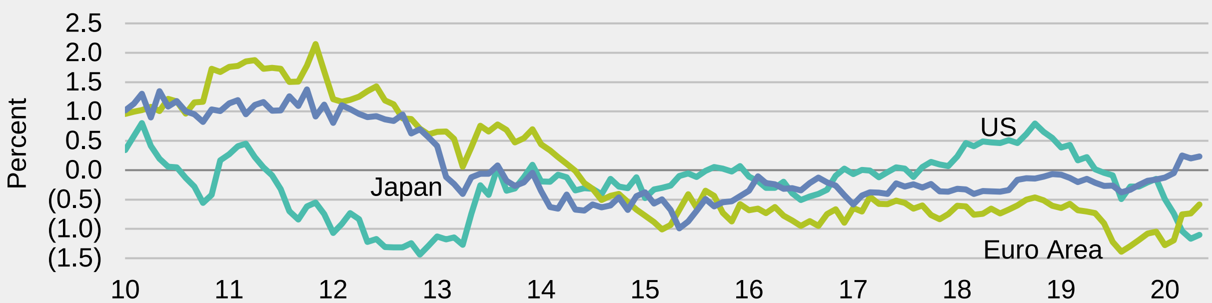
Japan—Tweaks from the Bank of Japan (BOJ)—dropping the Y80 trillion per annum purchase target ––largely validate the status quo. Yield-curve control (YCC) should anchor 10-year yields close to zero over the forecast horizon—and probably long after that.

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

	AB		Consensus	
	2020	2021	2020	2021
US	0.50	1.00	0.90	1.44
Euro Area	(0.50)	(0.25)	(0.36)	(0.04)
Japan	0.00	0.00	(0.04)	0.00
China	2.30	2.50	2.44	2.62

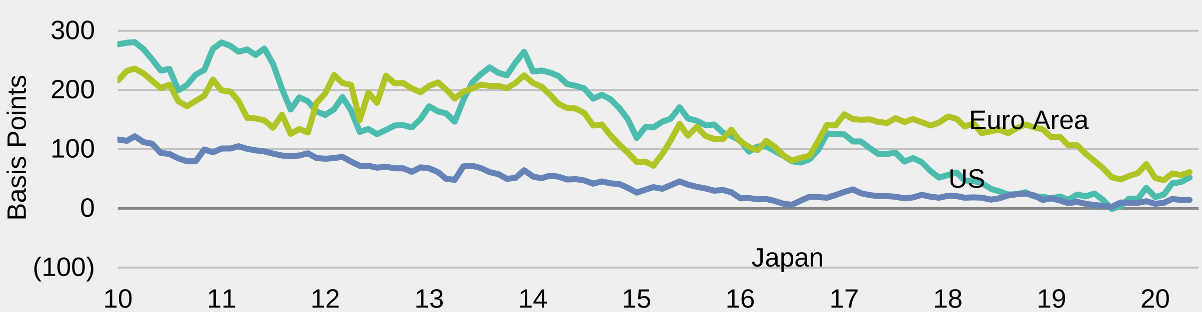
As of May 6, 2020
Source: Bloomberg and AB

Real 10-Year Bond Yields*



*Current 10-year bond yield less five-year/five-year-forward inflation swap
Through May 6, 2020
Source: Bloomberg and AB

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



Through May 6, 2020
Source: Bloomberg and AB

GLOBAL MARKET OUTLOOK: CURRENCIES

FX FORECASTS

USD—With the coronavirus crisis boosting demand for the world's reserve currency, the dollar has strengthened in recent weeks. If the global economy begins to recover later in the year, the dollar is likely to weaken. For the time being, though, risks remain tilted toward further dollar strength.

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

EUR—The euro has been volatile in recent weeks but has returned to near the lows of 2016. We expect the currency to stabilize around these levels, with near-term risks biased towards modest weakness.

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

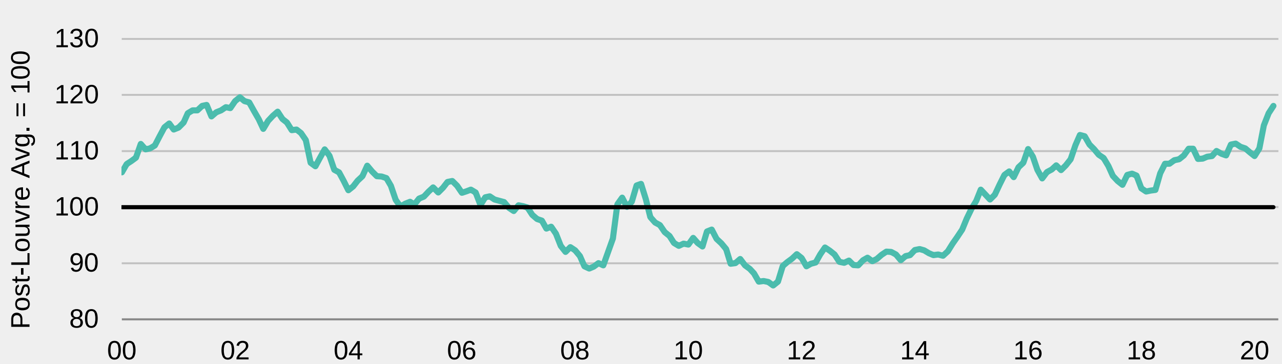
	AB		Consensus	
	2020	2021	2020	2021
EUR/USD	1.08	1.13	1.12	1.16
USD/JPY	105	105	107	110
USD/CNY	7.05	7.00	7.00	6.90
EUR/GBP	0.88	0.92	0.87	0.87

As of May 6, 2020
Source: Bloomberg and AB

Nominal USD Exchange Rate: US Dollar Index

Through May 6, 2020
Source: Bloomberg and AB

Real USD Broad Trade-Weighted Exchange Rate



Through May 6, 2020
Source: Haver Analytics and AB

US

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
US	(5.5)	4.4	0.5	2.5	0.13	0.13	0.50	1.00

OUTLOOK

- We expect the second quarter of 2020 to be the worst in modern US economic history. The sudden stop in activity due to policies protecting public health has no meaningful precedent, and incoming data simply aren't able to keep pace with the speed of the collapse. This leaves us with only limited information to use in assessing its magnitude.
- In the medium- and longer-term, however, the magnitude of the decline is less significant than the nature of the eventual recovery. Innovative and aggressive policies from the Fed have kept the financial system functional, which should allow massive fiscal stimulus from Congress to reach households and businesses. As the economy begins to reopen, that stimulus should pave the way for an economic rebound later this year if the public-health situation improves.
- As has been evident in the stimulus rollout, however, a larger government role in the economy is typically accompanied by inefficiencies. One consequence of this crisis is that this larger economic role will last for years to come, so we expect long-term growth to be lower than it was before.

RISK FACTORS

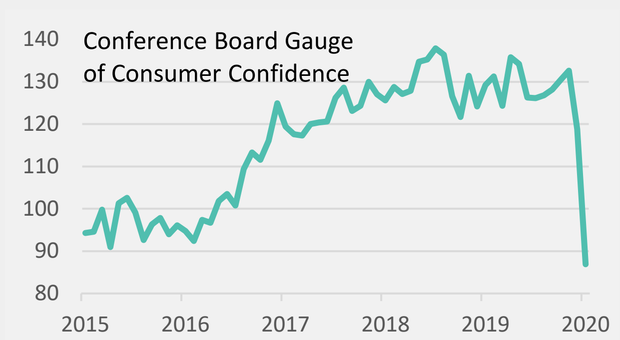
- Financial markets appear priced for the economy to begin rebounding in short order. If the public-health situation makes that impossible, a longer lockdown would not only hurt the economy but could also trigger another round of financial market volatility.

OVERVIEW

After a few weeks of lockdown, focus has begun to turn to a gradual economic reopening. The decision carries both risk and reward. The risk is that premature easing of restrictions could lead to a renewed coronavirus spread, forcing another—likely longer—lockdown. The reward is that if easing of restrictions works, economic life could restart and a pathway to a more normal environment could emerge. Financial markets, as well as most policymakers, appear to be betting on a successful easing scenario, and our base-case is, too. We assume a gradual easing of restrictions over the next few weeks, with April likely representing the trough in economic activity. If that assumption proves correct, we expect an uneven rebound, with some regions and industries recovering relatively quickly and others remaining in distress for much longer.

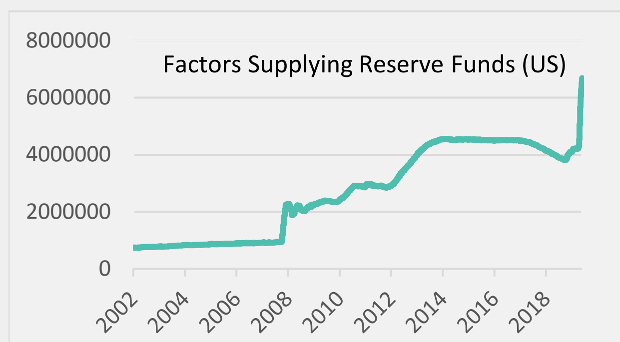
While assessing the next few months remains an exercise in speculation rather than analysis, we have enough data in hand to make an educated guess at the magnitude of the hit to GDP, which now appears likely to exceed 10%. Because we expect an uneven and gradual recovery, we have downgraded our GDP growth forecast for the year to –5.5%, even assuming a second-half rebound and unprecedented amounts of monetary and fiscal stimulus.

Consumer Confidence



Through April 15, 2020
Source: Refinitiv Datastream

Federal Reserve Balance Sheet



Through May 31, 2020
Source: Refinitiv Datastream

Euro Area

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
Euro Area	(10.0)	5.0	0.5	1.2	(0.50)	(0.50)	(0.50)	(0.25)	1.08	1.13

OUTLOOK

+ Government efforts to contain the spread of COVID-19 will likely lead to a significant economic contraction this year. We have lowered our 2020 growth forecast to –10% from –3.5%. Risks to this forecast are more evenly balanced.
+ We expect the economy to rebound with 5% growth next year, but that will depend crucially on governments containing the spread of the virus—and on the success of their attempts to support the economy.
+ The ECB has moved quickly to offer more cheap funding to banks and has increased the size of its asset-purchase program by €870 billion, or 7% of GDP, in order to keep bond yields low at a time when government deficits and debt are likely to balloon.

RISK FACTORS

+ Our forecasts assume that there won't be a second wave and another economic lockdown. Should this be wrong, growth over the next two years could be materially lower than expected.
+ While the pace and extent of the policy response have been impressive, there is still a risk that government efforts will fail to prevent mass unemployment and bankruptcy, especially if there are significant lags between the announcement and effective implementation of policies needed to protect income and jobs.

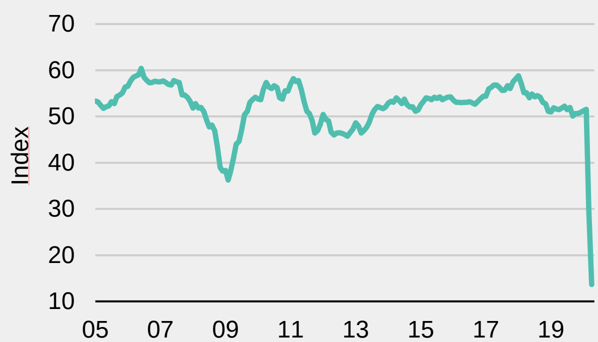
OVERVIEW

Incoming data confirm that COVID-19 is likely to leave a deep scar in the euro-area economy. National-accounts data show that euro-area output contracted by 3.8% in the first quarter, with the countries that imposed the strictest lockdowns suffering the heaviest declines. Output contracted by 4.7% in Italy, 5.2% in Spain and 5.8% in France, but has likely fallen by much less than average in Germany.

We expect even bigger output declines in the second quarter, because economic lockdowns were in place for only part of March but almost all of April—and will be lifted only very gradually. The good news is that the slow removal of lockdowns reduces the risk of a second virus wave and another lockdown. The bad news is that the road to recovery is likely to be long.

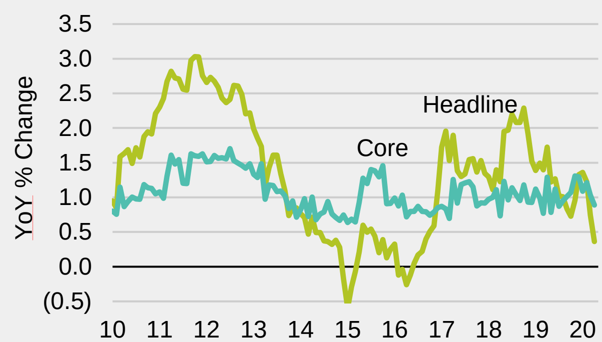
The ECB continues to play a pivotal role in providing weaker euro-area countries with the financial resources to confront the virus. There are worries that the German Federal Constitutional Court's recent ruling on the legality of its bond purchases could interfere with this. But the ECB is not bound by this decision and has legal backing from the European Court of Justice. The central bank is stretching its mandate to the absolute breaking point but looks set to continue its purchases anyway.

Composite Purchasing Managers' Index



Through April 30, 2020
Source: Haver Analytics and IHS Markit

Consumer Price Index (CPI) Inflation



Through April 30, 2020
Source: Haver Analytics

Japan

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
Japan	(4.0)	2.5	0.0	0.7	(0.10)	(0.10)	0.00	0.00	105	105

OUTLOOK

- The spread of COVID-19 in Japan remains limited despite a sharp increase in cases in the first half of April, which prompted an extension of the economic shutdown.
- As is the case elsewhere, second-quarter GDP will fall sharply because of restricted economic activity.
- The collapse in global demand and confidence will also hurt Japanese growth in coming quarters.

RISK FACTORS

- A sharply stronger yen would apply an additional economic squeeze.

OVERVIEW

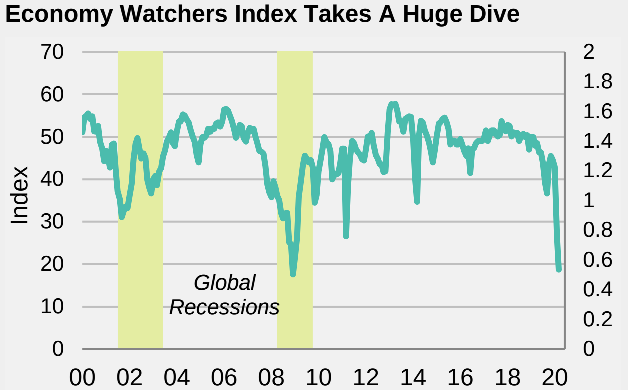
Like a number of other countries in the Asia-Pacific region, the spread of COVID-19 throughout Japan remains limited. Nevertheless, a surprisingly sharp increase in the number of cases through April prompted Prime Minister Shinzo Abe's government to extend the state of emergency through May 31.

As a result, Japan's second-quarter GDP will fall very sharply—roughly in line with the experience in other developed economies, and likely chalk up three straight quarterly GDP declines. Activity fell sharply in the fourth quarter of 2019 from a big pullback in spending following the October value-added tax hike. The initial drag from the COVID-19 response—via the drop in tourist arrivals, supply-chain disruption and other factors—implies that there's a good chance the first quarter of 2020 will be negative. Now, the partial economic shutdown and a collapse in global export cycle will hit the second quarter, too. It's a bleak situation, to be sure, but the consensus has already adjusted to incorporate a very soft growth profile.

The shape of the recovery will depend on continued success in managing the virus, the speed and extent of constraint relaxations, and the economic boost from macro policy. Japan has already announced a raft of support measures; it's rumored that yet another supplementary budget is in the pipeline.

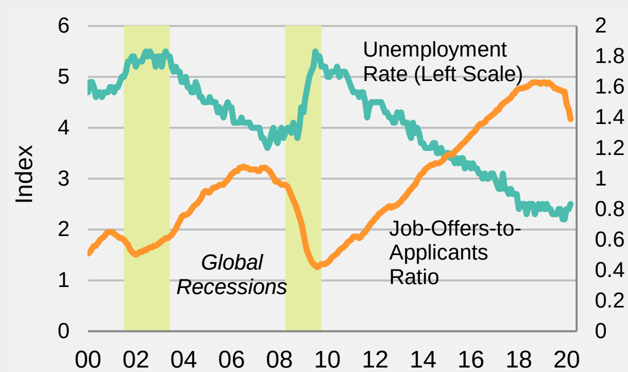
With the BOJ effectively "all-in" on monetary policy already, the most recent policy tweaks largely validate the status quo. The BOJ removed the Y80 trillion Japanese Government Bond (JGB) purchase target from its statement, pledging to "purchase a necessary amount of JGBs without setting an upper limit," with "a view to maintaining stability in the bond market and stabilizing the entire yield curve at a low level." This pledge stresses the primacy of the price target and reinforces the idea that monetary policy's main role is to facilitate fiscal expansion—joined at the hip.

Economy Watchers Index Takes A Huge Dive



Through May 7, 2020
Source: Refinitiv Datastream

Labor Market Starts to Turn



Through May 7, 2020
Source: Refinitiv Datastream

China

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
China	1.1	8.8	2.8	3.0	4.35	4.10	2.30	2.50	7.05	7.00

OUTLOOK

+ China's official real GDP growth rate will likely be about 1.1% in 2020, down from 6.1% in 2019. The main drivers: weakness in capex and the impact from the COVID-19 epidemic. We expect 2021 growth to rebound to about 8.8%.
+ Continued monetary- and fiscal-policy easing should counter downward pressure on the economy, with the focus likely on infrastructure projects and property easing—the measures most likely to help stabilize the economy.
+ Rising pork prices may push up inflation, but we don't think the increase will limit the central bank's policy easing.

RISK FACTORS

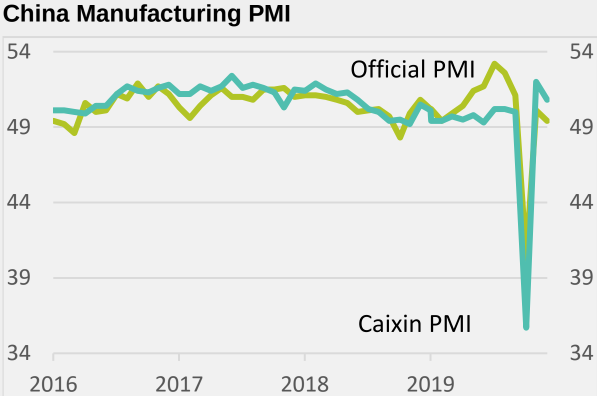
+ Policy easing may be less effective than expected if economic data surprise significantly to the downside. This would put a sustained economic stabilization at risk this year and next.
+ With COVID-19 now a global pandemic, there will be further downward pressure on the Chinese economy from imported cases, weak external demand and disruption of the supply chain from the world to China.

OVERVIEW

We saw encouraging developments in China during April. First, 98% or more of industrial and manufacturing companies resumed business. Second, during the first 15 days of April, power production rose by 1.2% year-over-year (yoy) and is therefore higher than the same period last year. Third, heavy-truck sales were up 43% yoy in April versus -24% yoy in March, reflecting strong transportation and construction rebounds. And fourth, auto sales and property sales are back to normal levels.

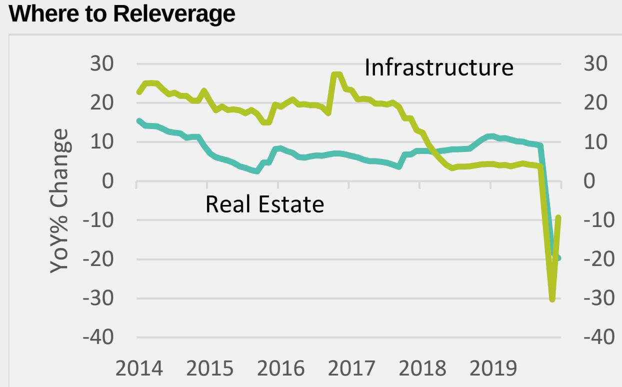
China learned lessons in battling COVID-19, allowing it to normalize faster than expected. Strict restrictions on imported cases cushioned against a second wave. The virus life cycle has been about six months from its early December start, and is now less deadly and less contagious. Strict enforcement of face masks, tracing and identifying cases through pay systems including WeChat Pay and Alipay, and mobile devices also helped. Adopting health QR codes was a positive, too: green indicating free to travel given no interaction with cases, yellow for a history of contacting confirmed cases, and red for confirmed cases. Also, a combination of Western and traditional Chinese medicine may have led to better recovery rates.

China Manufacturing PMI



Through April 30, 2020
Source: Bloomberg and AB

Where to Releverage



Through March 31, 2020
Source: Bloomberg and AB

Canada

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
Canada	(5.0)	3.5	0.5	2.5	0.25	0.25	0.50	1.00	1.40	1.35

OUTLOOK

- Canada is in the same boat as every other country: the unprecedented COVID-19 shock will cause a deep recession. Massive fiscal and monetary policy support should help limit the damage, but all depends on public-health progress.
- The Bank of Canada (BOC) appointed Tiff Macklem as governor, replacing the outgoing Stephen Poloz. Macklem has vast experience and was a key player at the BOC during the GFC; we see no near-term policy impact from the change.

RISK FACTORS

- In addition to the obvious uncertainty around COVID-19 and the associated public health response, oil-price volatility is another worry for Canada.

OVERVIEW

As is true everywhere, Canada is in a recession with a certain cause and uncertain depth and duration. Policymakers have responded aggressively and, we believe, effectively enough to lay the groundwork for an eventual recovery. But until the public-health situation stabilizes and economic restrictions are eased, that recovery won’t start. Once it does, Canada’s economic trajectory will likely mirror that of the US and global economies.

Australia/New Zealand

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
Australia	(4.4)	3.1	1.0	1.6	0.25	0.25	0.88	0.88	0.64	0.64
New Zealand	(6.0)	4.5	1.3	1.9	0.25	0.25	1.00	1.00	0.62	0.62

AUSTRALIA/NEW ZEALAND

- The impact of COVID-19 shutdowns will be profound. Both countries entered a nearly full-lockdown phase in the last week of March, with measures in New Zealand a little harsher than those in Australia. GDP will fall deeply into negative territory in the second quarter.
- Substantial stimulus—including a range of support measures such as wage subsidies—is being put in place to cushion the economies through the shutdown. The policy settings in place now seem to be of the scale and scope to do the job. With the virus largely under control—with limited community transmission—economic restrictions are starting to be lifted.
- Both antipodean central banks cut policy rates to their effective lower bounds (25 basis points and introduced a form of QE. The Reserve Bank of Australia went further, committing to a program of YCC by pegging three yields at 25 basis points and announcing its intent to buy whatever quantity of government and semi-government bonds is necessary to stabilize market behavior.

UK

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
UK	(10.0)	6.5	0.8	1.7	0.10	0.10	0.25	0.75	1.23	1.23

OUTLOOK

+ We have lowered our 2020 growth forecast to –10% to account for government measures to contain COVID-19. Next year, we expect the economy to rebound by 6.5%, though this will depend heavily on the success of measures to support households and firms, and on avoiding a second wave of the virus.
+ The government has responded forcefully to support households and firms during the economic lockdown. According to our estimates, direct fiscal support has been worth over 4% of GDP, and state guarantees worth an additional 15%. It's critical to ensure that this money reaches vulnerable companies and households.
+ The BOE left policy unchanged at its May Monetary Policy Committee meeting. But it's highly likely that the central bank will soon increase its asset purchase program beyond the £200 billion (9% of GDP) announced in March. As with other central banks, it is vital that the BOE continues to keep a lid on bond yields and government debt-servicing costs.

RISK FACTORS

+ Brexit has faded into the background in recent weeks, but the government will soon have to decide whether to ask for an extension of the transition phase beyond the end of December. The economy will be in no place to absorb a disorderly transition as it attempts to recover from the COVID-19 outbreak.

Norway/Sweden

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
Norway	(7.5)	4.5	1.1	1.7	0.25	0.75	1.00	1.25	10.75	10.50
Sweden	(6.5)	5.0	0.8	1.3	(0.25)	0.00	(0.25)	0.00	10.50	10.25

NORWAY OUTLOOK

+ Growth in the mainland economy was a relatively healthy 1.9% in the fourth quarter, but a sharp slowdown is likely in the coming months as the impact of COVID-19, oil-price weakness and the global slowdown all start to bite. We expect the economy to contract by 7.5% this year, slightly worse than Sweden (–6.5%) but better than the euro area and the UK (–10.0%).
+ The Norges Bank bucked the global trend in 2019, raising its deposit rate on three occasions to 1.50%. But with global central banks back in crisis mode, the Bank has been quick to reverse course, lowering rates to zero.

RISK FACTORS

+ In addition to COVID-19 concerns, high household debt (currently 220% of income) and oil-price volatility remain key sources of vulnerability.

SWEDEN OUTLOOK

+ Sweden has been less aggressive than other countries in imposing restrictions on economic activity. While it won't completely escape the economic weakness sweeping the globe, the economic damage will likely be more contained. This was apparent in first-quarter GDP: the decline of 0.3% was much smaller than the euro area's 3.8% contraction.
+ The Riksbank has taken a different course from other central banks, leaving interest rates on hold at zero and focusing instead on funding support for banks and a resumption of its asset-purchase program.

RISK FACTORS

+ In addition to COVID-19, high household debt and elevated house prices are still important risk factors for Sweden.

Asia ex Japan

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
Asia ex Japan	**0.7**	**7.2**	**2.5**	**2.8**	**3.47**	**3.24**	**2.85**	**3.02**	**—**	**—**
Hong Kong	(2.5)	(0.5)	2.8	2.5	1.00	0.90	0.76	0.77	7.78	7.80
India	1.0	6.0	3.4	3.9	3.00	2.50	5.80	6.00	77.00	76.00
Indonesia	3.5	4.5	3.0	3.2	4.00	3.50	7.80	8.00	15,000	14,500
South Korea	(0.2)	3.0	0.3	1.0	0.50	0.50	1.25	1.25	1,250	1,250
Thailand	(6.5)	3.5	0.2	0.8	0.50	0.50	1.00	1.00	34.00	34.50

OUTLOOK

+ The economic impact of COVID-19—travel restrictions, lockdowns, supply-chain disruption, weaker global demand and impaired confidence—remains the dominant driver.
+ Policymakers have, in general, responded quickly, but challenges remain, particularly with the blowback of weaker developed-market demand not yet experienced.

RISK FACTORS

+ COVID-19, US-China tensions

OVERVIEW

COVID-19 is the only factor influencing the outlook in Asia ex-Japan right now. The responses to the virus itself—including lockdowns, testing and case tracking—have been relatively successful. Taiwan and Korea stand out on this front. Singapore was on that list, too, but cases has exploded in recent weeks (due to clusters in migrant-worker hostels). It's a reminder that even the best test/track/isolate regimes can have blind spots—and that risks of a second wave remain.

The policy response to date has been positive—with monetary easing and substantial fiscal support. But there are question marks over the effectiveness and, crucially, the sustainability of those policies. Pressure to open up locked-down economies is building quickly.

There is also still the anticipated blowback of weaker domestic demand from the US and Europe, as they endure the worst parts of their economic sudden stop. This dynamic will be a further drag—a drag that is now starting to show in economic data (a sharp decline in Korea's April exports, for example).

.

.

Latin America

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
Latin America	**(5.8)**	**2.6**	**8.2**	**6.6**	7.14	**6.65**	6.77	6.72	—	—
Argentina	(5.0)	2.5	45.0	35.0	35.00	30.00	—	—	75.00	80.00
Brazil	(5.8)	3.0	3.4	3.6	3.00	4.00	7.75	7.50	5.00	4.50
Chile	(4.4)	3.8	2.2	2.0	0.50	1.00	3.10	3.00	840	830
Colombia	(3.6)	3.7	4.0	3.5	3.00	3.25	6.00	6.50	4,000	4,100
Mexico	(7.0)	0.9	3.5	3.5	5.00	5.00	6.75	7.00	24.00	23.00

OUTLOOK

+ Latin America will likely fare the worst across emerging markets (EM), as generalized activity lockdowns are accompanied by lower export prices and external demand, limited health-system capacity and large informal sectors.
+ Expansionary monetary policy has played a larger role: inflation expectations remain well contained owing to the nature of the shocks and despite the large currency depreciation. Fiscal-policy response will likely be limited, with governments still mindful of binding budget constraints.

RISK FACTORS

+ While global financial conditions have stabilized, a resurgence of volatility shouldn't be discounted as low growth, large capital outflows and currency depreciation impact sovereign and private-sector balance sheets and income statements.
+ The expected collapse in growth will likely reignite demand for populist policies in coming years and increase the chance of social upheaval.

OVERVIEW

We have reduced our 2020 growth forecast markedly, expecting a recession this year. To blunt the negative economic effects of COVID-19, the government has announced a large-scale monetary- and fiscal-stimulus package. The Banco Central do Brasil cut the Selic rate by 75 basis points at its May meeting and maintained its dovish bias. The government is in the process of approving a "war budget" that will provide cash transfers to the most vulnerable portion of the population and make credit available to shuttered businesses. Although Brazil is in the middle of a multi-year fiscal consolidation program, the magnitude of the economic shock has led policymakers to deviate from fiscal targets for the remainder of this year. The fiscal consolidation plan is set to resume in 2021.

Growth numbers for the first quarter show that Mexico was in deep recession even before COVID-19. The lack of a fiscal response as well as lower trend and cyclical growth explain why we expect growth in Mexico to underperform the rest of the region. Monetary policy has more room for easing, but the central bank is wary of destabilizing outflows from local markets. So, it is cutting the policy rate gradually and focusing on the proper functioning of the credit, FX and bond markets. Despite a recent round of credit-rating cuts, we still think the likelihood of losing investment-grade status is low.

Colombia's authorities have also taken a gradual approach in fiscal and monetary policy. The government vowed to finance the health-spending increase using intragovernment savings. However, after large adjustments in growth expectations and increases in the deficit allowed by the fiscal-rule committee, we expect debt-to-GDP ratios to markedly increase in the next two years. Market participants will watch for a strategy that puts debt metrics on a sustainable path—because the risk of losing investment-grade ratings remains large. Peru and Chile continued unveiling the details of their large fiscal packages to counteract the economic slowdown, without major short-term concerns for debt stability. However, political pressure on weak governments could increase the risk of populist policies in the medium term.

Argentina continues its debt restructuring effort during the COVID-19 crisis. The government has submitted a proposal to creditors, which we expect to be rejected. We believe the government can restore debt sustainability while also honoring its commitments to bondholders.

Eastern Europe, Middle East and Africa (EEMEA)

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
EEMEA	**(5.2)**	**4..0**	**4.6**	**5.2**	**4.19**	**4.85**	**6.47**	**6.44**	**—**	**—**
Hungary	(7.6)	6.2	2.5	3.3	0.90	0.90	1.40	2.10	375	345
Poland	(6.0)	6.6	2.8	3.1	0.50	0.50	1.30	1.75	4.75	4.50
Russia	(4.3)	2.9	3.4	3.8	5.00	5.00	5.60	5.90	73.00	70.00
South Africa	(6.9)	2.7	3.4	3.9	4.00	5.00	9.80	10.00	17.10	17.70
Turkey	(4.2)	3.9	10.0	11.5	7.00	10.00	13.00	12.00	7.70	7.00

OUTLOOK

+ EEMEA real growth prospects have deteriorated markedly for 2020, because of weaker external demand (a large euro-area recession) and domestic lockdown measures to contain COVID-19. Lower energy prices also weigh on real GDP growth for the region’s oil exporters.
+ Given a challenging growth outlook, most central banks will continue to ease monetary policy and increasingly consider more unorthodox policy measures, such as bond purchases, to support domestic financial liquidity.

RISK FACTORS

+ While the extent of the economic downturn in 2020 is becoming clearer, the shape of the recovery beyond this year remains highly uncertain. Governments’ exit strategies from current lockdown measures and their ability to prevent a second spike in infections will play a big role.

OVERVIEW

We have revised our EEMEA growth forecasts for 2020 downward during April. Hungary’s and Poland’s growth forecasts were reduced mainly because of weaker eurozone growth assumptions. We also now forecast more severe recessions in South Africa, Turkey and Russia—not only from a weaker external environment and lower commodity prices but also because of more severe lockdown measures implemented over the past month. The growth recovery we forecast for 2021 remains uneven: Central and Eastern European (CEE) economies and Turkey are mostly expected to recoup this year’s growth drawdown thanks to fiscal and monetary stimulus, but Russia and South Africa will see a more permanent loss of output: for Russia the cause is a modest oil-price recovery, and for South Africa it’s structural fiscal constraints.

In the EEMEA region, Turkey’s stimulus efforts and policy choices have arguably led to severe macroeconomic dislocations and created significant vulnerabilities in the current environment. The expected sharp recession certainly merits a decisive policy response, and the government has been seemingly very successful in containing the COVID-19 crisis. The country’s well-funded and equipped health-care system coped very well in the face of the pandemic. Yet from a macroeconomic perspective, additional lira liquidity injections with monetary policy already loose and the authorities’ efforts to contain currency depreciation, especially in light of low net reserves, are incompatible.

Latest data clearly show that the Turkish Central Bank (CBRT) has spent US$37 billion in foreign reserves year to date in defending the currency, based on our calculations. The CBRT’s net foreign assets (NFA) now stand at US –$13 billion once netting out short-term US-dollar swaps owed to domestic banks. If we excluded gold reserves of US$32 billion, NFA cash reserves are deeply negative. In our view, this is an important vulnerability to domestic confidence, because in effect the CBRT has spent resources to defend the currency that it actually owes to domestic US-dollar depositors.

The Turkish government announced that is working on securing further *long-term* currency swaps with other central banks that would bolster its FX reserve position and preserve domestic confidence in both the domestic banking sector and currency, yet the outcome of these negotiations remains uncertain. Requesting International Monetary Fund (IMF) support, even under the organization’s Rapid Financing Instrument (RFI), which has very low conditionality, does not seem a palatable political option for the government at this juncture.

The negative growth and social implications of COVID-19 are particularly severe for South Africa, where the unemployment rate was around 30% before the crisis. The hit to growth will push the budget deficit for fiscal year 2020/2021 to more than 10% of GDP, and government net loan debt, including provisions and contingent liabilities, is now likely to breach 100% of GDP within the next three years. Low external debt levels and the depth of the local bond market provide a financing buffer, but the bond-market dislocation at the end of March saw the South African Reserve Bank (SARB) take the unprecedented step of purchasing local bonds. The size of the SARB's bond purchases has, however, been negligible to date and we don't think there's a risk of debt monetization, despite the challenging fiscal outlook. The crisis could be a catalyst for pragmatic restructuring of the public-sector balance sheet, but near-term risks include rising public discontent about the severity of the lockdown measures and the possibility that the health sector would be unable to cope if the virus spreads.

Frontier Markets

Sri Lanka's debt sustainability and external financing needs have come under significant scrutiny with the onset of the COVID-19 crisis. In the near term, Sri Lanka's 2020 external funding needs should be covered by regional multilateral lenders, in particular the Asian Development Bank and regional projects sponsored by the World Bank, as well as bilateral funding provided by China and India. Sri Lanka is also in negotiations with the IMF for an RFI facility of around US$800 million. There are also discussions about whether Sri Lanka could still qualify for the G20 International Development Association-related debt relief for this year. In the event of an external financing shortfall, Sri Lanka's external reserves of US$7.5 billion should be able to provide a buffer, although their drawdown would further weigh on sentiment.

We are more concerned about Sri Lanka's ongoing large government financing needs beyond 2020, as well as its government debt sustainability. Sri Lanka's fiscal and debt matrix deteriorated visibly prior to the COVID-19 crisis, following a lack of fiscal consolidation and the government's tax cuts at the end of 2019. A likely recession and revenue shortfall in 2020, combined with potential further currency weakness, are likely to add further upside pressure on government debt, which is set to approach 100% of GDP over the coming years. Our analysis suggests that the Sri Lankan government would have to embark on an unprecedent fiscal-consolidation program just to stabilize debt dynamics—let alone achieve a sustainable decline, given high real interest rates and large annual domestic and external interest payments. Against this backdrop, we believe that the Sri Lankan government will reengage with the IMF for a more substantial support package over the coming12–18 months, but risks have grown that this will require a form of government debt restructuring.

Angola has been on a structural reform/fiscal consolidation path since the start of the three-year Extended Fund Facility program from the IMF that started in December 2018. The country's high oil dependence and high proportion of external debt (more than 80% of total government debt is external while about 60% of revenues are dollarized) contributed to a derating of dollar debt over the past few months. Gross government debt sat north of 100% of GDP at the end of 2019, and we expect this ratio to rise to 147% by 2024 in the absence of any policy adjustments (the worst-case scenario). Our baseline view is, however, that a combination of domestic policy changes (including further subsidy removals, privatization and use of the sovereign wealth fund), as well as more IMF support via the RFI facility will lead to a debt peak at around 125% in 2020 followed by a gradual decline. Angola also qualifies for G20 bilateral debt relief in 2020, which would flatten the debt-service profile noticeably.

	Real Growth (%)		Inflation (%)		Official Rates (%)		Long Rates (%)		FX Rates vs USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
Global	(4.6)	5.1	1.7	2.6	1.57	1.52	1.59	1.85	-	-
Industrial Countries	(6.9)	4.4	0.5	1.8	(0.07)	(0.06)	0.15	0.50	-	-
Emerging Countries	(1.1)	6.2	3.6	3.7	4.13	3.94	3.86	3.94	-	-
United States	(5.5)	4.4	0.5	2.5	0.13	0.13	0.50	1.00	-	-
Canada	(5.0)	3.5	0.5	2.5	0.25	0.25	0.50	1.00	1.40	1.35
Europe	(9.8)	5.2	0.6	1.3	(0.38)	(0.36)	(0.33)	(0.05)	-	-
Euro Area	(10.0)	5.0	0.5	1.2	(0.50)	(0.50)	(0.50)	(0.25)	1.08	1.13
United Kingdom	(10.0)	6.5	0.8	1.7	0.10	0.10	0.25	0.75	1.23	1.23
Sweden	(6.5)	5.0	0.8	1.3	(0.25)	0.00	(0.25)	0.00	10.50	10.25
Norway	(7.5)	4.5	1.1	1.7	0.25	0.75	1.00	1.25	10.75	10.50
Japan	(4.0)	2.5	0.0	0.7	(0.10)	(0.10)	0.00	0.00	105	105
Australia	(4.4)	3.1	1.0	1.6	0.25	0.25	0.88	0.88	0.64	0.64
New Zealand	(6.0)	4.5	1.3	1.9	0.25	0.25	1.00	1.00	0.62	0.62
Asia ex Japan	0.7	7.2	2.5	2.8	3.47	3.24	2.85	3.02	-	-
China	1.1	8.8	2.8	3.0	4.35	4.10	2.30	2.50	7.05	7.00
Hong Kong	(2.5)	(0.5)	2.8	2.5	1.00	0.90	0.76	0.77	7.78	7.80
India	1.0	6.0	3.4	3.9	3.00	2.50	5.80	6.00	77.00	76.00
Indonesia	3.5	4.5	3.0	3.2	4.00	3.50	7.80	8.00	15,000	14,500
Korea	(0.2)	3.0	0.3	1.0	0.50	0.50	1.25	1.25	1,250	1,250
Thailand	(6.5)	3.5	0.2	0.8	0.50	0.50	1.00	1.00	34.00	34.50
Latin America	(5.8)	2.6	8.2	6.6	7.14	6.65	6.77	6.72	-	-
Argentina	(5.0)	2.5	45.0	35.0	35.00	30.00	-	-	75.00	80.00
Brazil	(5.8)	3.0	3.4	3.6	3.00	4.00	7.75	7.50	5.00	4.50
Chile	(4.4)	3.8	2.2	2.0	0.50	1.00	3.10	3.00	840	830
Colombia	(5.0)	3.0	2.8	3.0	3.00	3.25	6.00	6.50	4,000	4,100
Mexico	(7.0)	0.9	3.5	3.5	5.00	5.00	6.75	7.00	24.00	23.00
EEMEA	(5.2)	4.0	4.6	5.2	4.19	4.85	6.47	6.44	-	-
Hungary	(7.6)	6.2	2.5	3.3	0.90	0.90	1.40	2.10	375	345
Poland	(6.0)	6.6	2.8	3.1	0.50	0.50	1.30	1.75	4.75	4.50
Russia	(4.3)	2.9	3.4	3.8	5.00	5.00	5.60	5.90	73.00	70.00
South Africa	(6.9)	2.7	3.4	3.9	4.00	5.00	9.80	10.00	17.10	17.70
Turkey	(4.2)	3.9	10.0	11.5	7.00	10.00	13.00	12.00	7.70	7.00

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

Contributors

Armando Armenta armando.armenta@alliancebernstein.com	Adriaan Du Toit adriaan.dutoit@alliancebernstein.com	Darren Williams darren.williams@alliancebernstein.com
Guy Bruten guy.bruten@alliancebernstein.com	Mo Ji mo.ji@alliancebernstein.com	Eric Winograd eric.winograd@alliancebernstein.com
Katrina Butt katrina.butt@alliancebernstein.com	Markus Schneider markus.schneider@alliancebernstein.com	