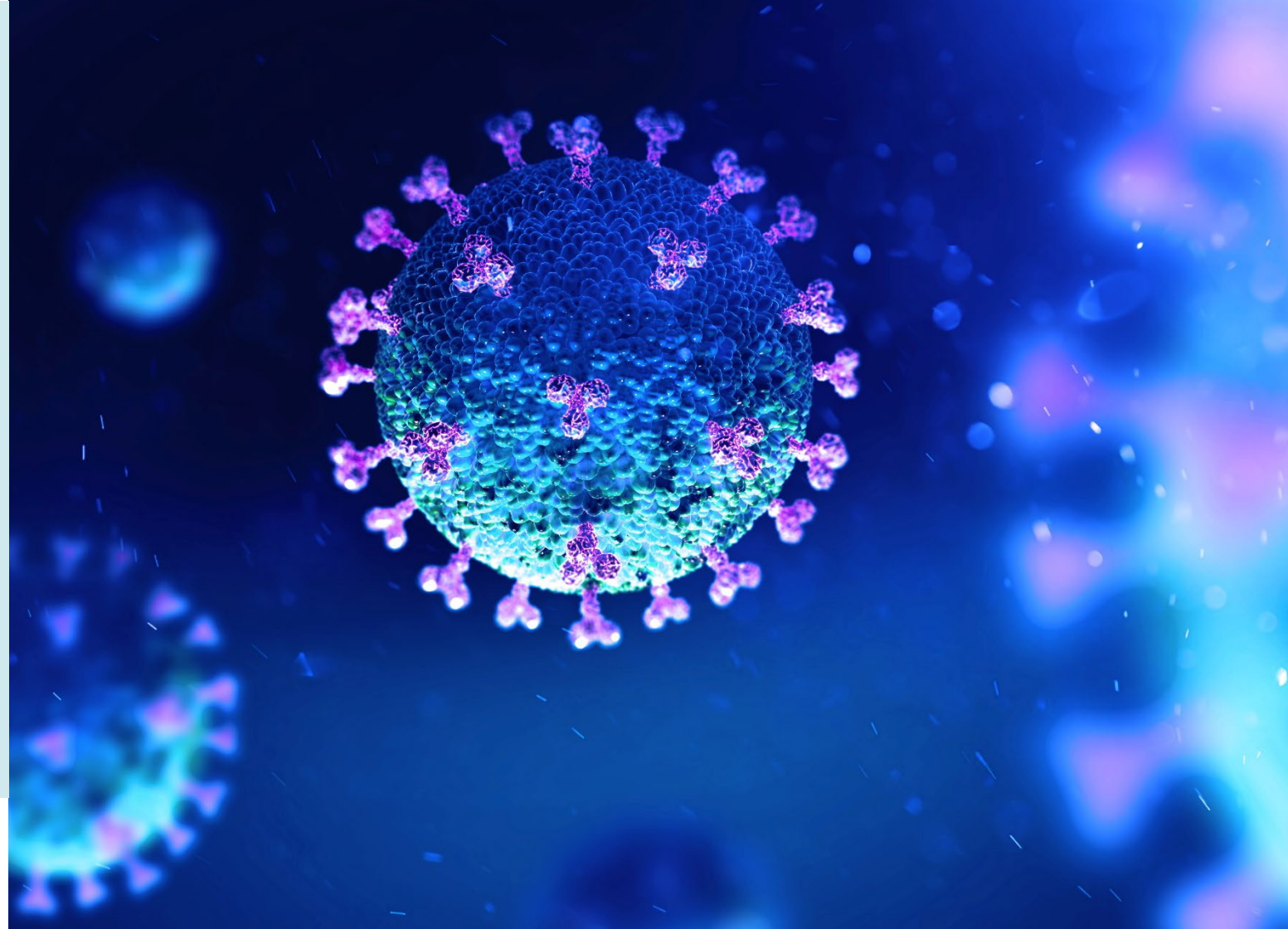


COVID-19: QUARANTINED ECONOMICS

Economic, Capital Markets
and Industry Research

Global Economic Outlook

as of March 2020

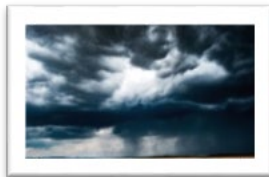


PRE COVID-19: WALL OF FRAGILITIES



FRAGMENTATION

- February 14: US section 301 tariffs of 15% imposed on 01/09/2019 (subset of USD300bn) cut in half.
- Average US tariffs on imports from China remain elevated at 19.3%.



ECONOMIC FLATLINE

- No full-fledged global recession
- Soft landing of the economy: after +3.1% in 2018, +2.5% in 2019, +2.4% in 2020E (expected before COVID-19)



EUROPEAN HOTSPOTS

- The UK formally left the EU on 31 January 2020, but there is still a lot to talk about and months of negotiations to come. Expect a longer transition
- Weak governing coalitions



USA 2020 ELECTION

- Additional volatility, in the U.S., on the back of the campaign: trade policies, financial vulnerabilities, the fragile emerging markets and high valuations will create more volatility.



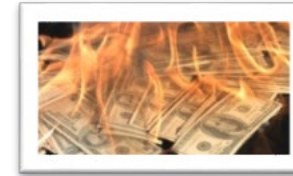
PROTESTS

- From Hong Kong to Santiago de Chile



OVERVALUATION

- Overvalued equity markets
- Increasing risks for corporates in U.S., Eurozone & China (SOEs)
- Neo-asset managers



ZERONOMICS

- End of period forecasts: Bund -0.6% 2019, -0.1% 2020. 10-year U.S: 1.6% 2019, 1.9% 2020 – before COVID-19



CASH PILES

- Companies have hoarded cash
- High savings rate among households
- Low unemployment rate and steady increase of salaries



Central Banks

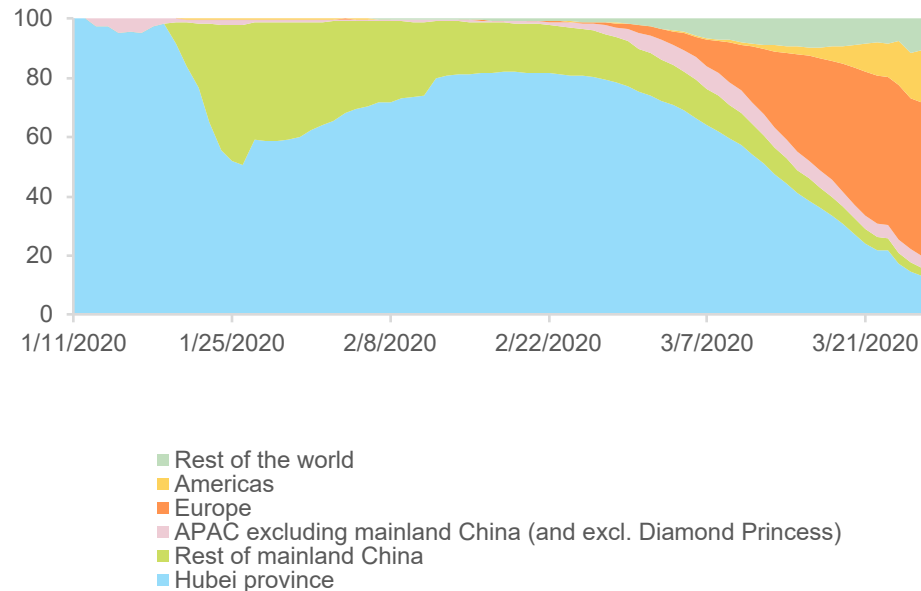
- Central banks allowed a stabilization of the protectionist shock
- Low inflation was favorable to consumption



POCKETS OF RESILIENCE

COVID-19 PANDEMIC COULD LAST TILL MIDYEAR

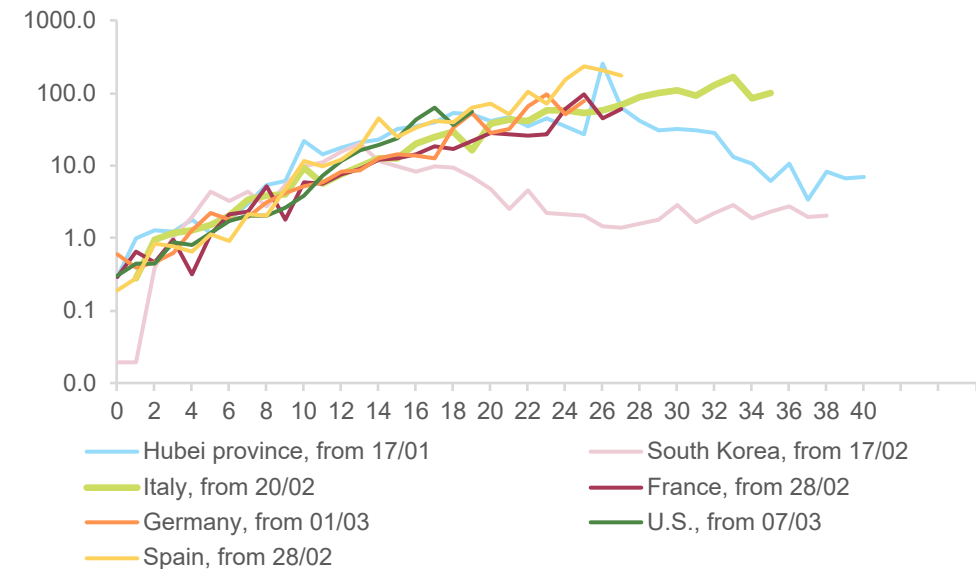
Distribution of confirmed cases of COVID-19 (% , data up to 26 March 2020)



Source: Official reports, Allianz Research

Until 26 February, more than 95% of confirmed cases of COVID-19 were in mainland China. The distribution has since spread to the rest of the world, with c.52% of cases located in Europe, and c.18% in Americas (vs. c.16% in China), as of 26 March.

Daily change in number of confirmed cases per 1mln people (data up to 26 March 2020)



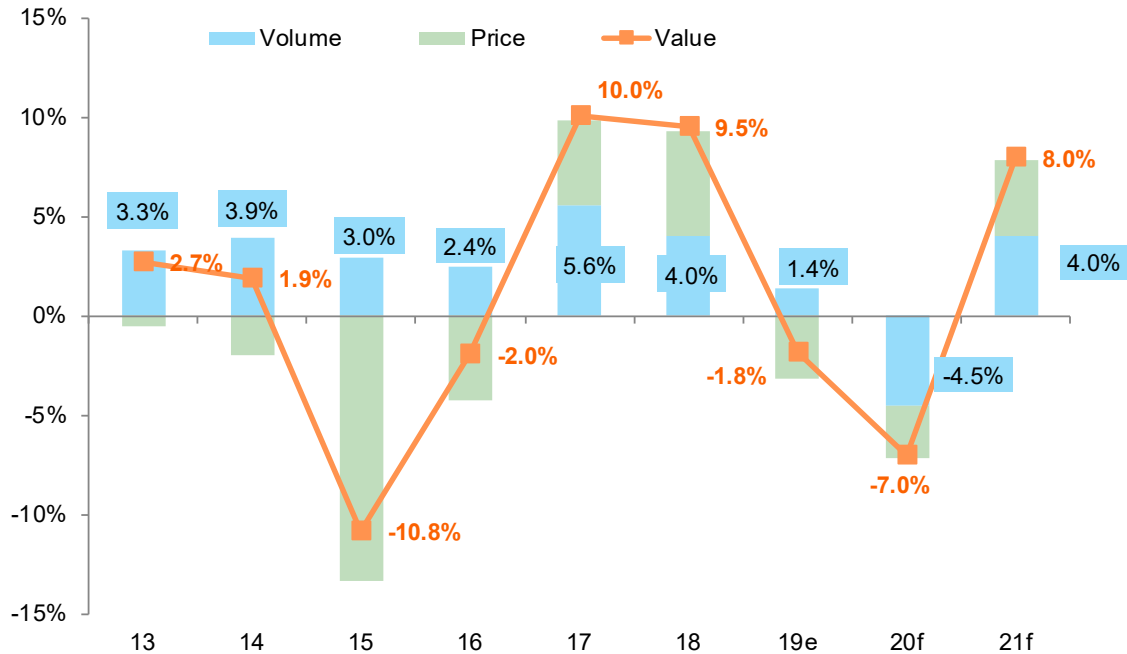
Source: Official reports, Allianz Research

The spread of the epidemic in China took 26 days to recede (on 18 February), after confinement measures were put in place. They have started to be gradually lifted from mid-March. Italy, France, Germany and the U.S. are trailing the Hubei province by nearly two months.

PASS-THROUGH 1: GLOBAL TRADE INTO RECESSION



Global Trade growth in volume and value (% , y/y)



Sources: IHS Markit, Euler Hermes, Allianz Research

We expect two quarters of recession in trade in goods and services (Q1 and Q2) which will bring the annual figure to -4.5% in 2020. In value terms, plummeting commodity prices will weigh on prices.

Cost for global trade for one month of confinement (USDbn)

	Goods 20% shock	Travel No travel during one month	Transport services A 50% shock due to the closure of borders & containment measures	Total
EU 28	104.1	34.8	16.1	155
China	72.0	24.0	8.0	104
US	42.8	11.1	4.2	58
Rest of the world	213	60	19	292
Total lost per month	361	130	47	538
Total lost per quarter	649	342	73	1064
Total lost in 2015* per quarter				652
Total lost in 2009* per quarter				955

For goods and transport services 1 month of lockdown, 1 month of 70% back to normal activity and 1 month of 80% back to normal activity

For travel we take full impact for three months

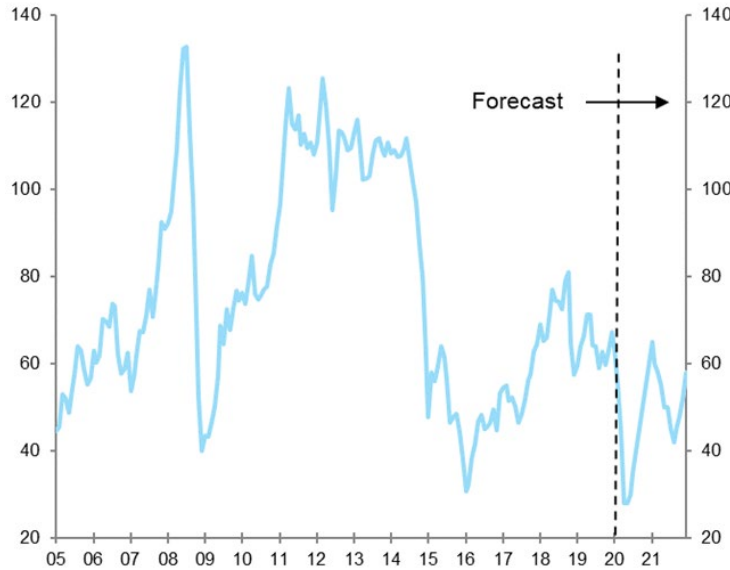
* in 2009 and 2015, total annual losses amounted to 3819bn and 2606bn respectively

Sources: ITC, Euler Hermes

We estimate that one month of confinement in all countries would lead to USD538bn of export losses at the global scale. Over a quarter, taking into account a progressive come back to normal levels of activity, the losses would reach more than USD1tn.

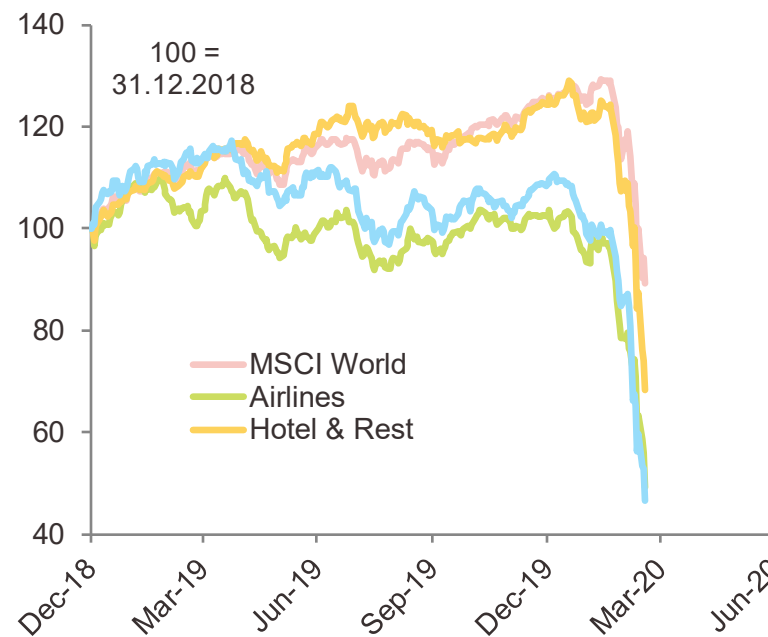
PASS-THROUGH 2: GLOBAL MONETARY AND FINANCIAL CONDITIONS: A HUGE TIGHTENING

Brent Crude price forecast



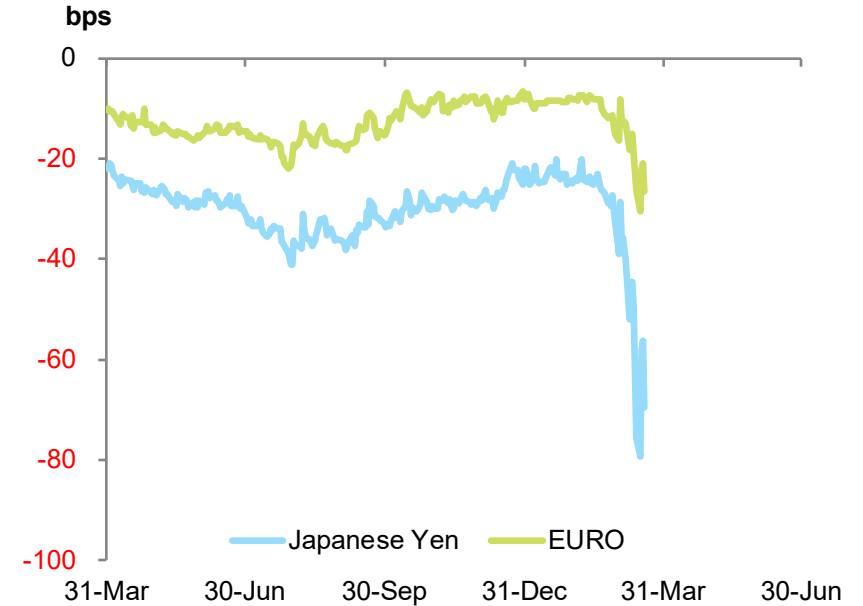
Source: Bloomberg, Euler Hermes, Allianz Research

Global Equity Indices



Sources: Refinitiv, Allianz Research

Major cross currency bases vs USD



Sources: Bruegel, IHS Markit, Allianz Research

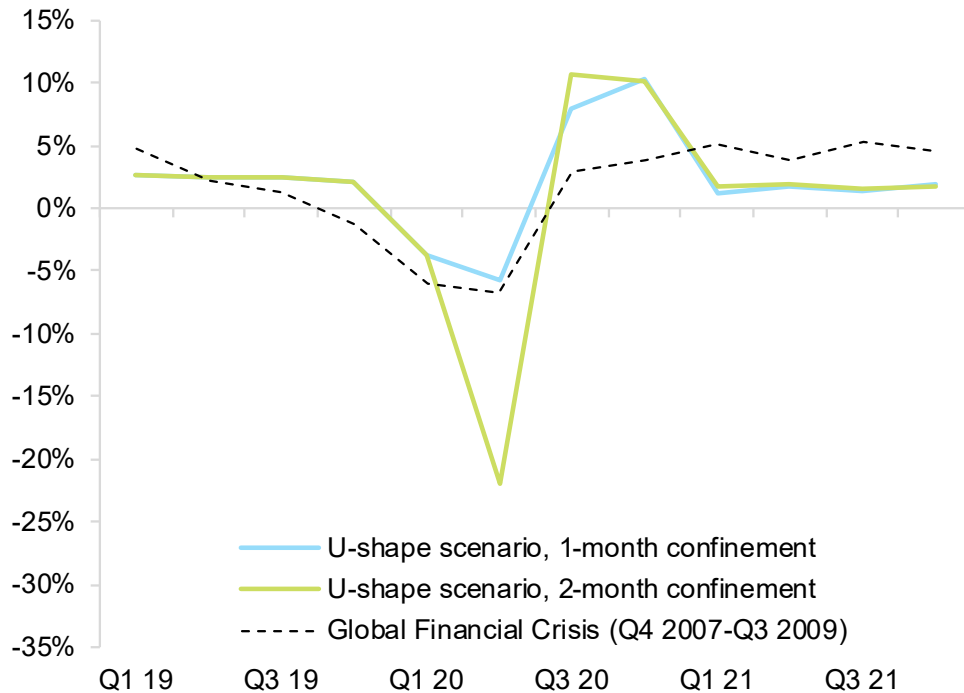
We have revised down our 2020 oil price forecast to USD 41/bbl avg (Q2 average to USD 28/bbl) on the grounds of further demand forecast reduction globally on prolonged lockdowns lasting well into if not the entire Q2.

The sharp correction of global equity prices also mirrors much stronger difficulties in issuing capital and financing any investment plan. The most exposed sectors to the current shock indeed under-perform and are likely to face obstacles in funding their activity

The strong appreciation of the Dollar, beside a significant widening of credit spreads, represents another contributor to a tightening of monetary and financial conditions, especially for emerging economies. It will be difficult to issue debt or refinance in the coming weeks

PASS-THROUGH 3: SECLUSION RECESSION FOLLOWED BY U-SHAPE RECOVERY

Global real global GDP growth, q/q annualized



Sources: Euler Hermes, Allianz Research

We expect the supply and demand shocks, especially through confinement to push the global economy into recession in H1 2020 (75% of the 2009 trough for 1 month of confinement). We expect a U shape recovery thereafter supported by the stimulus measures.

Real global GDP growth, annual, %

	2017	2018	2019	2020	2021
World GDP growth	3.3	3.1	2.5	0.5	3.1
United States	2.4	2.9	2.3	0.5	2.7
Latin America	0.9	1.0	0.1	-1.8	1.6
Brazil	1.1	1.3	1.1	-1.5	1.9
United Kingdom	1.8	1.3	1.4	-0.9	1.3
Eurozone members	2.7	1.9	1.2	-1.8	2.1
Germany	2.8	1.5	0.6	-1.8	2.2
France	2.4	1.7	1.3	-1.3	2.2
Italy	1.7	0.7	0.3	-3.5	1.7
Spain	2.9	2.4	2.0	-0.8	2.0
Russia	1.6	2.3	1.3	1.2	1.8
Turkey	7.5	2.8	0.9	2.5	4.0
Asia	5.4	4.9	4.4	2.3	4.7
China	6.9	6.7	6.1	4.0	5.8
Japan	2.2	0.3	0.7	-2.0	2.5
India	7.3	6.2	5.3	3.8	5.8
Middle East	1.2	1.1	0.6	0.1	2.2
Saudi Arabia	-0.7	2.4	0.2	1.2	2.0
Africa	3.1	2.7	1.9	0.5	2.4
South Africa	1.4	0.8	0.3	-0.5	0.7

* Weights in global GDP at market price, 2019

NB:

Fiscal year for India

Sources: Euler Hermes, Allianz Research

NB: the forecasts for the Eurozone take into account 1 month lockdown

TWO SCENARIOS: U-SHAPED V. PROTRACTED CRISIS

Covid19 assumptions

U Shape Scenario
Peak in May. Exit by September. Containment lasts three months in Europe and US with full confinement in Europe for one or two months. Border closure lifted by June.

Protracted Crisis
12-18 months sanitary crisis with possible reinfection. Borders stay closed and intermittent domestic confinement prevail.

Scenario in a nutshell

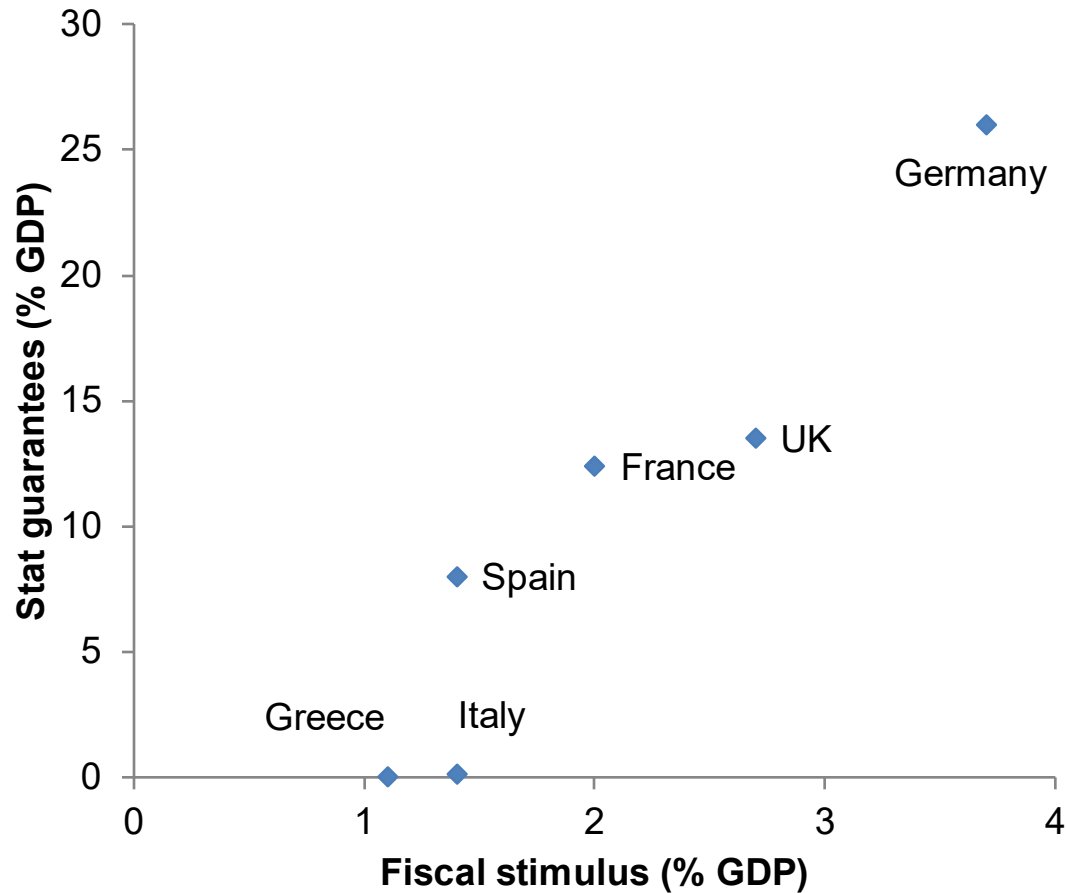
U Shape Scenario
Technical recession in H1 in most of Europe and Asia. Recovery is U-shaped and inflationary. Unprecedented policy mix to mitigate shock and help protect the web.

Protracted Crisis
L-Shaped recovery with debt monetization, systemic equity/credit/ liquidity issues and direct actions by policy makers disrupt market roles for years to come. Hard to restart engines

Macroeconomics	Unit	2020						2021		
		U Shape Scenario	MIN (maximum drawdown, qoq annualized)	U Shape Scenario	MIN (maximum drawdown, qoq annualized)	Protracted crisis	MIN (maximum drawdown, qoq annualized)	U Shape Scenario	Protracted crisis	
Real GDP		1 month confinement		2 months confinement				1 month confinement	2 months confinement	
Global	%	0.6	-5	-1.5	-20	-2.5		3.0	2.9	1.5
EMU	%	-1.8	-11	-4.4	-26	-7.2	-30	2.1	2.1	-1.8
US	%	0.5	-15	-1.9	-33	-3.0	-38	2.7	2.6	-0.1
China	%	4.0	-13	1.2	-13	-0.2	-13	5.8	5.0	3.0
Inflation		1 month confinement		2 months confinement				1 month confinement	2 months confinement	
EMU	%	0.3		0.1		-0.6		1.6	1.8	0.2
US	%	0.3		-2.4		-3.9		3.0	2.8	0.7
Unemployment rate		1 month confinement		2 months confinement				1 month confinement	2 months confinement	
EMU	%	8.5		9.5		11.0		8.0	8.8	11.5
US	%	6.5		9.0		10.0		6.3	8.8	13.0
Other Indicators		1 month confinement		2 months confinement						
Global trade	%	-4.5		-10.0		-15.0				
Global business insolvencies	%	14		20 - 25		35 - 40				

POLICY BAZOOKAS: FISCAL IN THE LEAD...

Fiscal policy: stimulus vs. State guarantees (% GDP)



Total fiscal stimulus and policies aimed at corporates

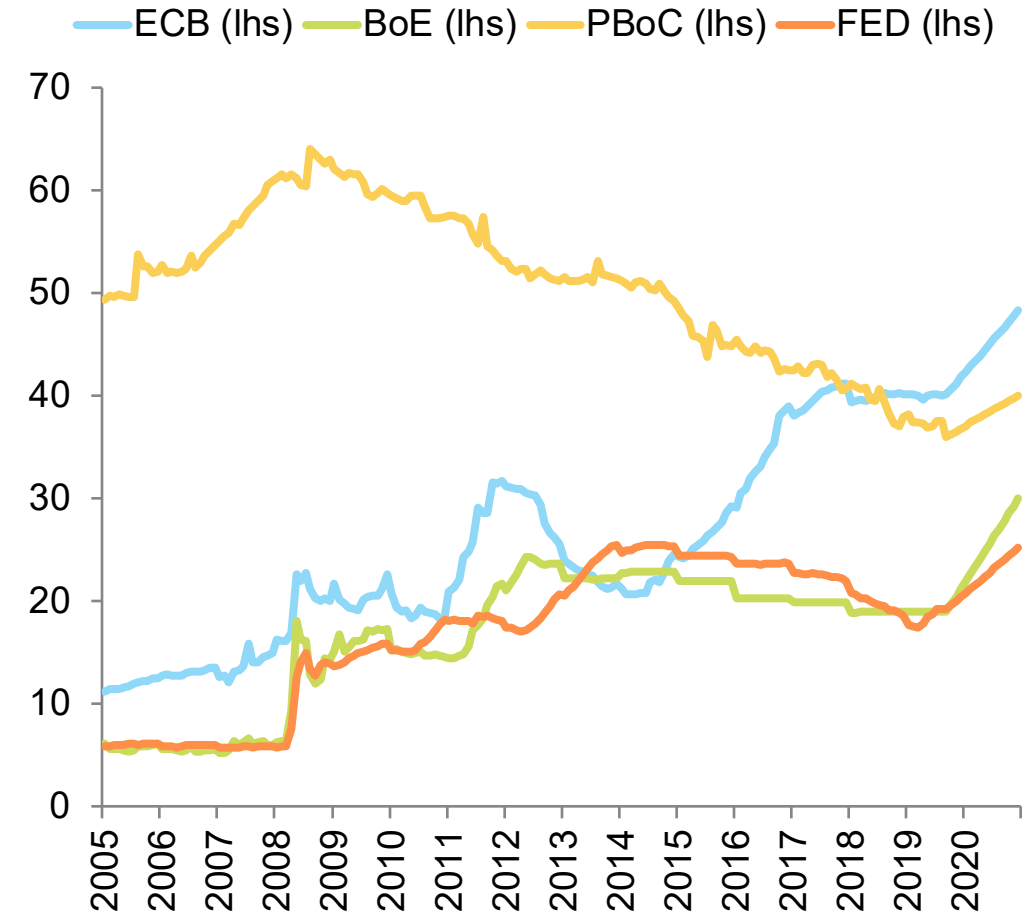
	EU	Germany	France	Italy	Spain	USA
<i>Total stimulus</i>	€37bn	€123bn (3.6% of GDP)	€45bn (2% of GDP)	€25bn (1.4% of GDP) + further €20bn likely	€17bn (1.4% of GDP)	\$1trn (4.5% of GDP)
<i>State loans & guarantees</i>	€28bn in loans to SMEs via the EIB, further ESM-backed loan facility discussed	€550bn in loans via KfW & unlimited if needed, €50bn for self-employed, export guarantees (€153bn)	€300bn in guarantees, unlimited if needed, €2 solidarity fund for the self-employed	€5bn (further increase under discussion)	€100bn, €400m credit line for tourism sector	\$250bn in SME loans
<i>Tax deferrals</i>		Easing rules to defer taxes, reduce prepayments, suspension of penalties and late-payments	€35 for one month tax deferral plus help with loan rescheduling, tax rebates	Tax suspension	€14bn in tax relief for SMEs and self-employed	income tax holidays for 2020
<i>Looser regulation</i>	Looser EU state aid, fiscal rules & banking regulation	Looser insolvency laws				Looser banking regulation
<i>Equity stakes / nationalizations</i>		TUI has reached out for state support	Support announced for Renault & PSA	Nationalization of Alitalia		\$50bn for airlines

POLICY BAZOOKAS: ...CENTRAL BANKS AS LENDERS OF LAST RESORT

Central Banks: Whatever it takes to “Bring it on”

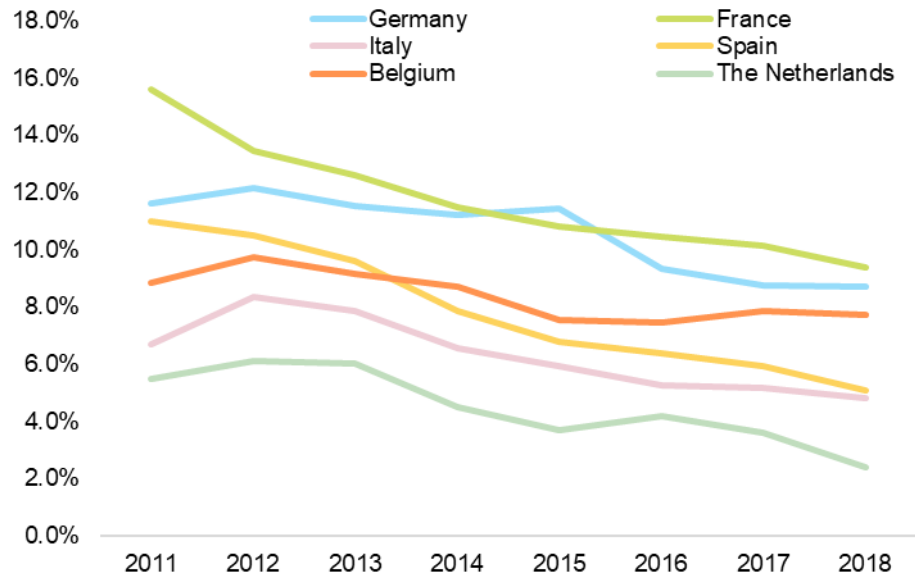
ECB	FED	PBOC
<ul style="list-style-type: none"> - Bold & generous TLTRO terms with average rate below MRO plus an interim TLTRO round for immediate liquidity - EUR120bn QE envelope till end-2020 on top of monthly EUR20bn QE pace - temporary capital & operational relief to banks - PEPP EUR750bn with no issuer limit or capital key restrictions 	<ul style="list-style-type: none"> - 150bp rate cut - Restart of QE to the tune of USD700bn - USD1.5tn of supplementary liquidity injections in the repo market to backstop liquidity in the Treasury market - three-month credit in U.S. dollars on a regular basis and at a rate cheaper than usual arranged among G6 central banks - Instalment of commercial paper funding facility - Further increase in QE purchase - Liquidity swaps with major central banks - Money Market Mutual Fund Liquidity Facility 	<ul style="list-style-type: none"> - 10bp cut to the policy rate (Loan Prime Rate) - Liquidity injection through open market operations: RMB1.7tn in early February. - Liquidity injection through medium-term lending: RMB300bn in total over February and March. - Liquidity injection through reserve requirement ratio cut: RMB550bn, with cut between 50-200bp depending on banks. - Credit support: RMB350bn provided by policy banks, RMB300bn earmarked loans from PBOC to banks.

Central Bank balance sheets (% of GDP)



FIRMS AT RISK IN CORE EUROZONE: 13,000 WITH AN AVERAGE TURNOVER OF EUR40MN AT RISK

Share of SME & MidCaps at risk, % of total



Sources: Euler Hermes

We find that more than 13,000 SMEs & MidCaps (7% of total) in the six biggest Eurozone countries are at risk of going bust after persistent low profitability and turnover growth. We find that more than EUR500bn of turnover (or 4% of Eurozone GDP) could be at risk.

Monthly new bank loans and stock of corporate debt, EUR bn

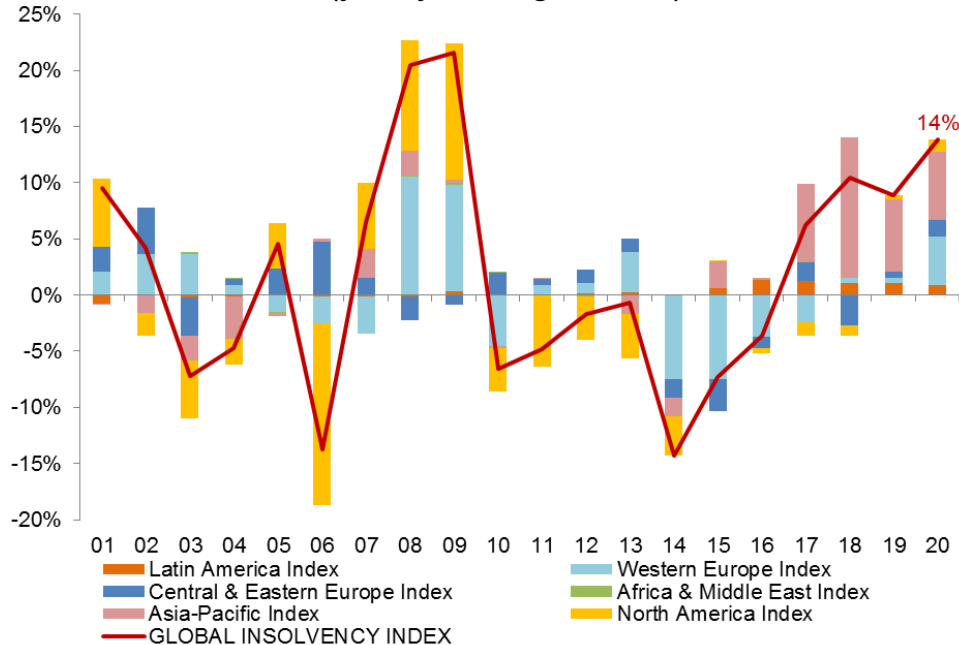


Sources: ECB, BIS, Euler Hermes, Allianz Research

Public guarantees in the Eurozone of EUR1000bn (EUR550bn in Germany, EUR300bn in France, EUR100bn in Spain) will help avoid company bankruptcy for 3 to 4 months.

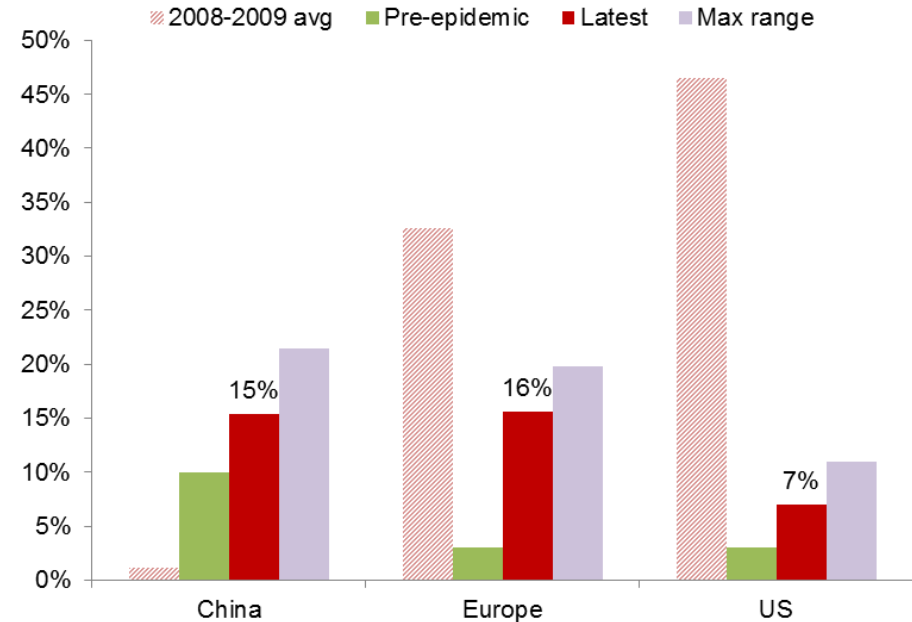
GLOBAL INSOLVENCIES HEADING TO NEW RECORDS SINCE 2008-2009

EH Global and Regional Insolvency Indices (yearly changes in %)



Source: national statistics, Euler Hermes, Allianz Research

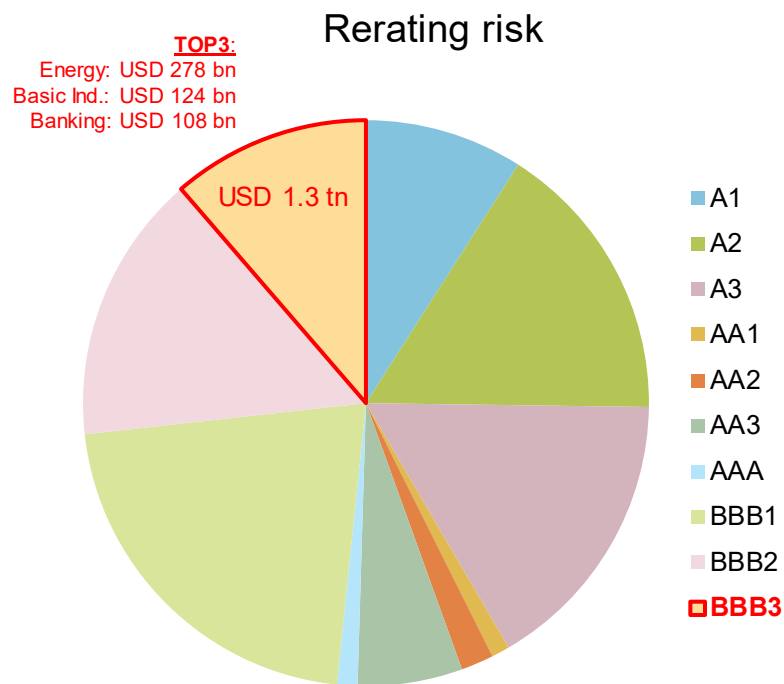
2020 re-forecasts – selected key countries and region



Source: national statistics, Euler Hermes, Allianz Research

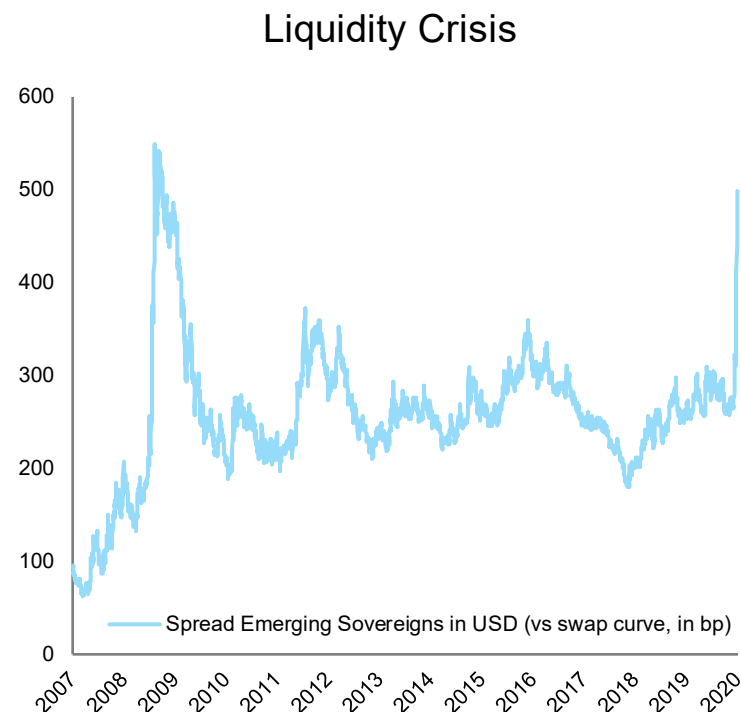
Global insolvencies have the potential to increase by +14%, looking at historical sensibility to economic cycle and government interventions to support corporates (tax deferrals, state loans and guarantees, etc..) and to avoid top insolvencies and their domino effect (nationalization) – lowering insolvencies growth by 3 to 5 pp. This 4th consecutive year of rise would result from a +7% increase in the US, a +15% rise in China and a +16% surge in Europe. Final figures still depend on (i) the timing and magnitude of other policy measures yet to announced and (ii) the potential closures of business courts (which would create lags and delays in official registrations of liquidations and restructuring procedures).

WHAT COULD GO WRONG? CANARIES IN THE COAL MINE



Source: ICE BofA Global Corp. Index, Allianz Research

Major credit event triggering a vast movement of re-rating in particular for BBB- (BBB3) companies (11% of Global Corp. Bond Index, corresponds to a volume of USD1.3tn.



Source: ICE BofA, Allianz Research

Signs that the liquidity supply in financial markets is impaired; the risk of liquidity bifurcation with more liquid segments becoming more liquid and more illiquid segment more illiquid.



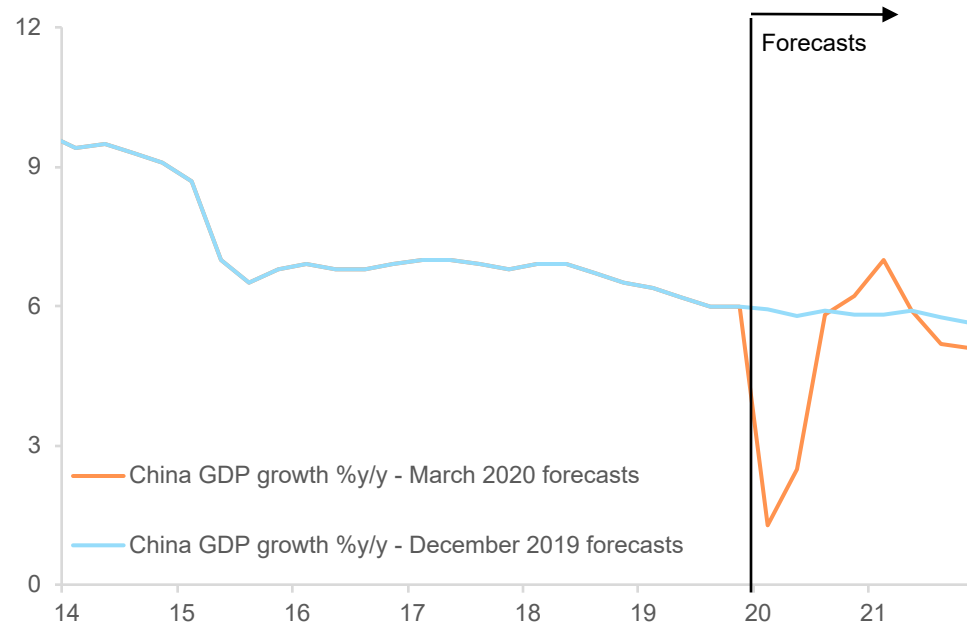
Source: Refinitiv, Allianz Research

Restarting engines from a large share of GDP administered will require precise, collaborative, and transparent moves to allow for price discovery on markets, and supply chains.

CHINA GDP GROWTH IN 2020 REVISED DOWN TO 4%



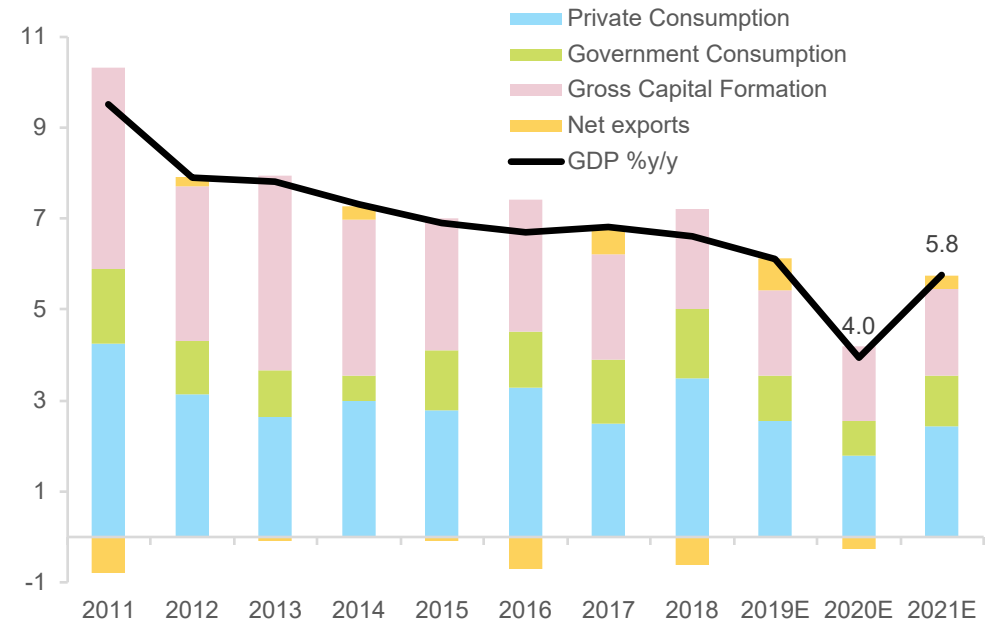
GDP growth



Source: National statistics, Allianz Research

Activity data at the beginning of the year declined to record lows. This does not bode well for overall economic growth in Q1, and we have pencilled in a forecast of 1.3% y/y (down from 6.0% in Q4 2019).

GDP growth (%) & breakdown of contributions (pp)

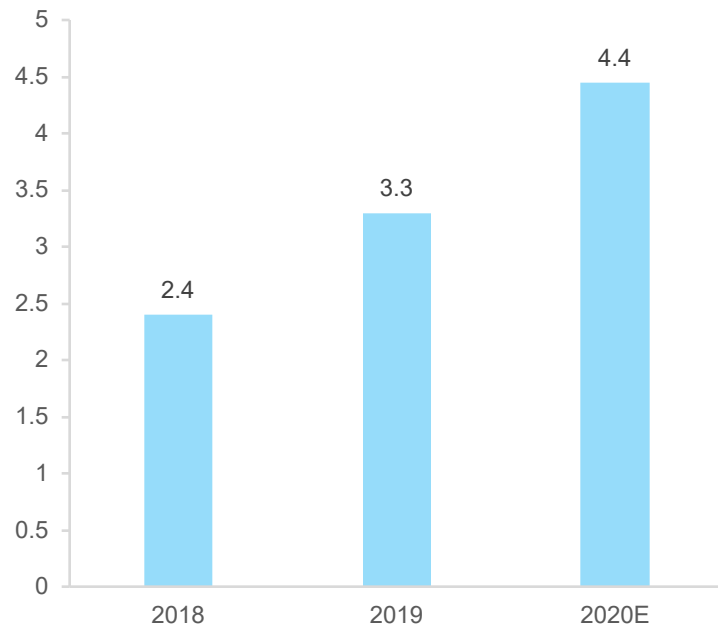


Source: National statistics, Allianz Research

After the slump of Q1, we expect a gradual recovery thereafter, particularly visible in H2. This should be possible thanks to some catch-up from pent-up production and policy support. We expect 2020 GDP growth at 4.0%.

CHINA POLICY MIX: FURTHER EASING TO COME

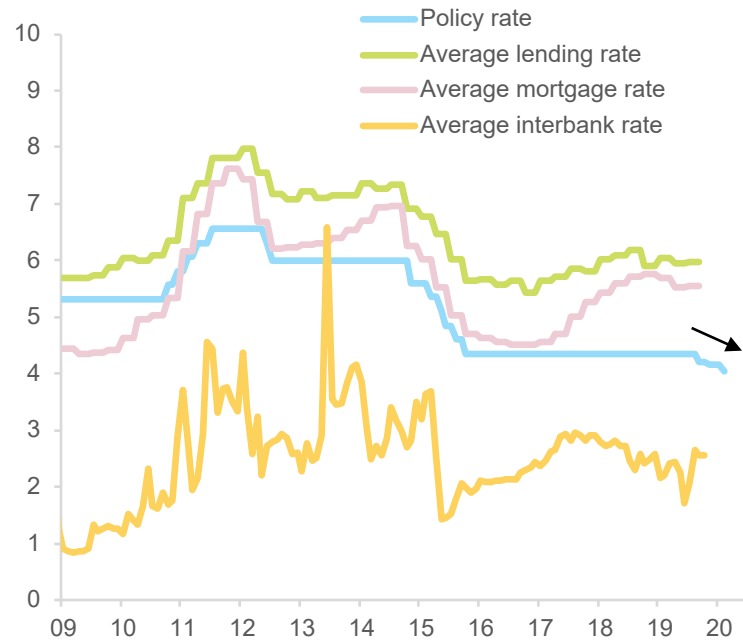
Size of fiscal stimulus package (% of GDP)



Source: Allianz Research

Fiscal easing is likely to increase in 2020. We now expect fiscal support amounting to 4.4% of GDP, up from 2.7% forecast before the COVID-19 outbreak.

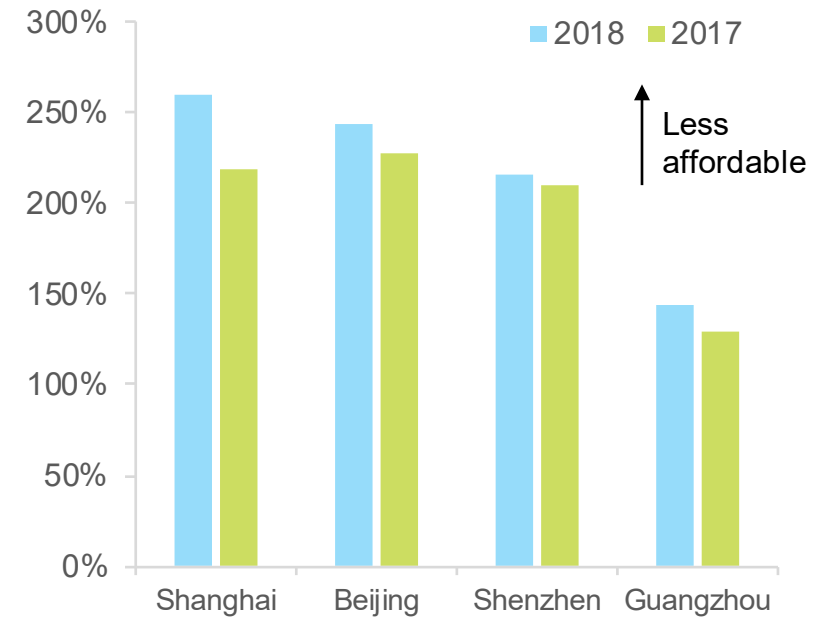
Interest rates (%)



Source: Datastream, Allianz Research

On the monetary side, the PBOC should continue easing. Over 2020, we expect cuts in the policy rate worth 30bp in total, and the Reserve Requirement Ratios to be lowered by 150bp overall.

Housing affordability (cost as % of income)

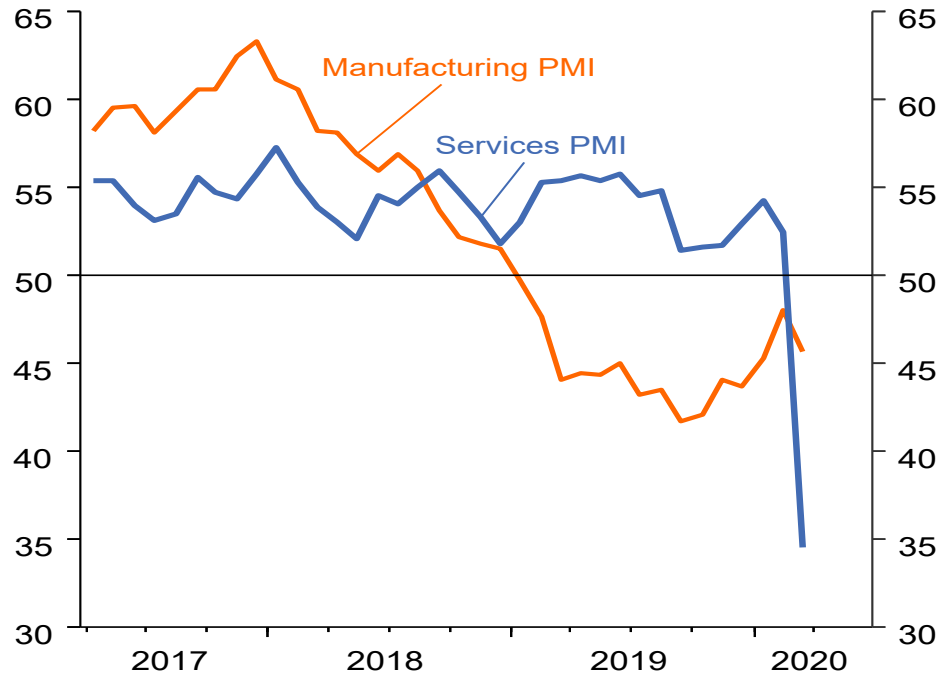


Source: Bloomberg, Allianz Research

Authorities still seem reluctant to use the housing sector as a cyclical stabiliser, as they may be more concerned with housing affordability. Credit conditions may be loosened only marginally.

EUROPE: 65 MILLION PEOPLE POTENTIALLY IN NEED OF JOB SUPPORT AT EU LEVEL

Eurozone PMIs



Sources: Refinitiv, Allianz Research.

What looks like a data mistake, isn't one. The Eurozone is facing an unprecedented economic setback in terms of size and speed, with the contraction in GDP driven above all by the services

Employment at risk and cost for public finances

	Cost of Kurzarbeit at 70% subsidy	Compensation (incl. employer social contributions, EUR bn) at risk	Full time-jobs at risk in Million
EU 27		140	65
Eurozone		122	49
Germany		40	12
France		25	7
Italy		16	8
Spain		12	9

Sources: Eurostat, Euler Hermes, Allianz Research

A lockdown is estimated to shutdown 30% of the economy and hence put jobs at risk given the temporary pause of activity. We estimate that 65 million people could be in need for partial unemployment benefits which would cost EUR140bn, or 0.9% of GDP

EU POLICY RESPONSES WILL HELP TO ALLEVIATE THE SHOCK BUT HURT PUBLIC FINANCES

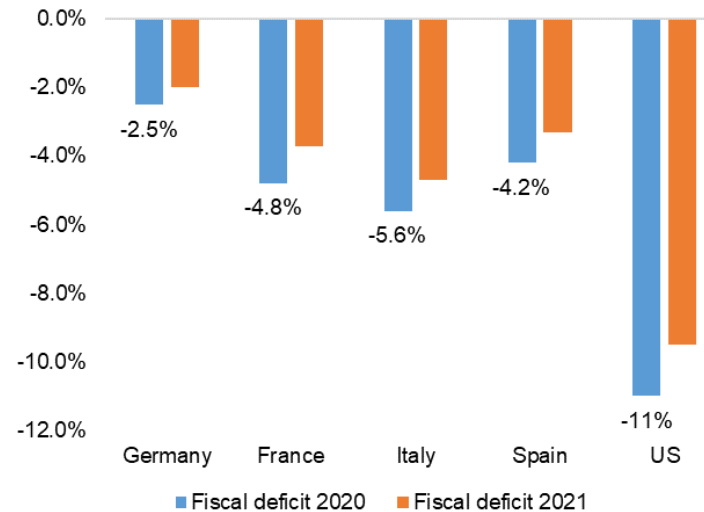
Fiscal stimulus by country and impact on real GDP growth and fiscal balance

	Fiscal stimulus (EURbn)	Share of GDP	Impact on GDP growth (in pp)	Impact on fiscal balance (in pp)
Germany	123	3.6%	1.3	-2.8
France	45	2.0%	0.8	-1.3
Italy	25	1.4%	0.7	-0.9
Spain	18	1.4%	0.5	-1.1
UK	60	2.7%	1.1	-1.8
US	1000	4.6%	1.2	-4.1

Sources: Euler Hermes

Bazooka economic policy responses will not avoid a global recession in H1 2020, but should help companies and consumers withstand the severe albeit temporary shock.

Fiscal balance, % of GDP

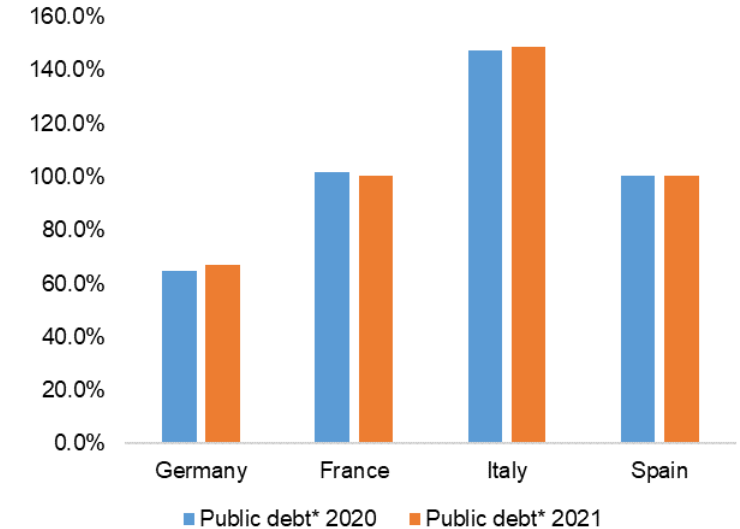


Note: forecasts do not include State guarantees and potential nationalisations of firms.

Sources: Euler Hermes

Fiscal responses in every impacted country amount to as high as 10% of GDP by supporting companies' working capital requirements (credit lines for SMEs, tax reliefs) and scaling up social safety nets (temporary unemployment and other transfers).

Public debt, % of GDP



Note: forecasts do not include State guarantees and potential nationalisations of firms.

Sources: Euler Hermes

The increase in fiscal deficits in 2020 would push public debts above 100% of GDP in France and Spain and to 147% of GDP in Italy

EUROPEAN CORPORATES: EXPECT DECREASING TURNOVERS AND DETERIORATING MARGINS



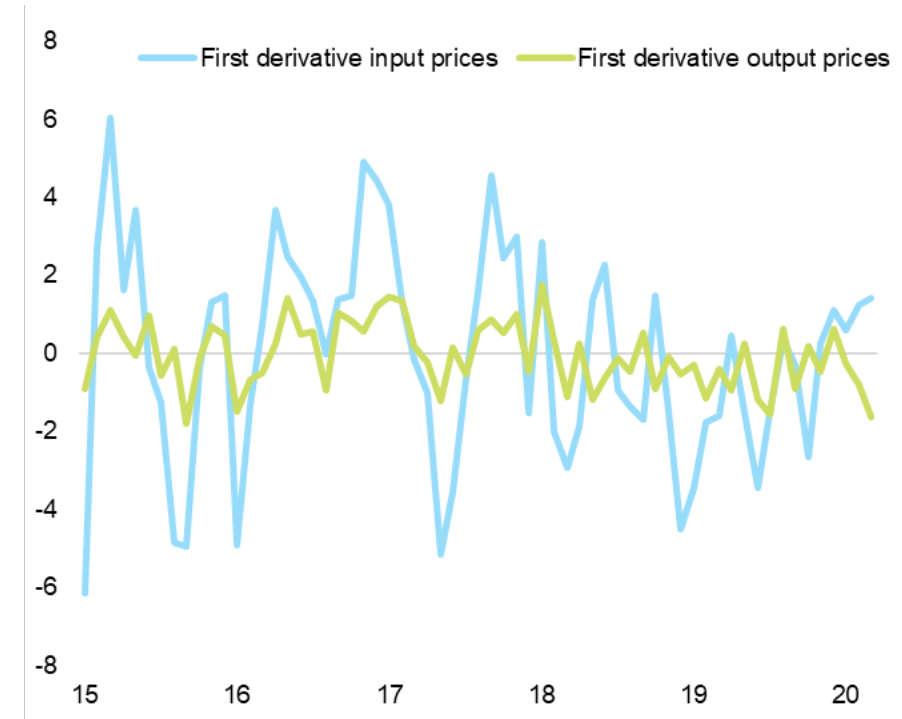
Turnover growth (y/y), manufacturing sector



Sources: Eurostat, Euler Hermes, Allianz Research

In the context of the COVID-19 crisis, we estimate that turnovers of Eurozone companies could fall between -15% to -25% y/y at the peak of the crisis end of March

Turnover growth (y/y), manufacturing sector



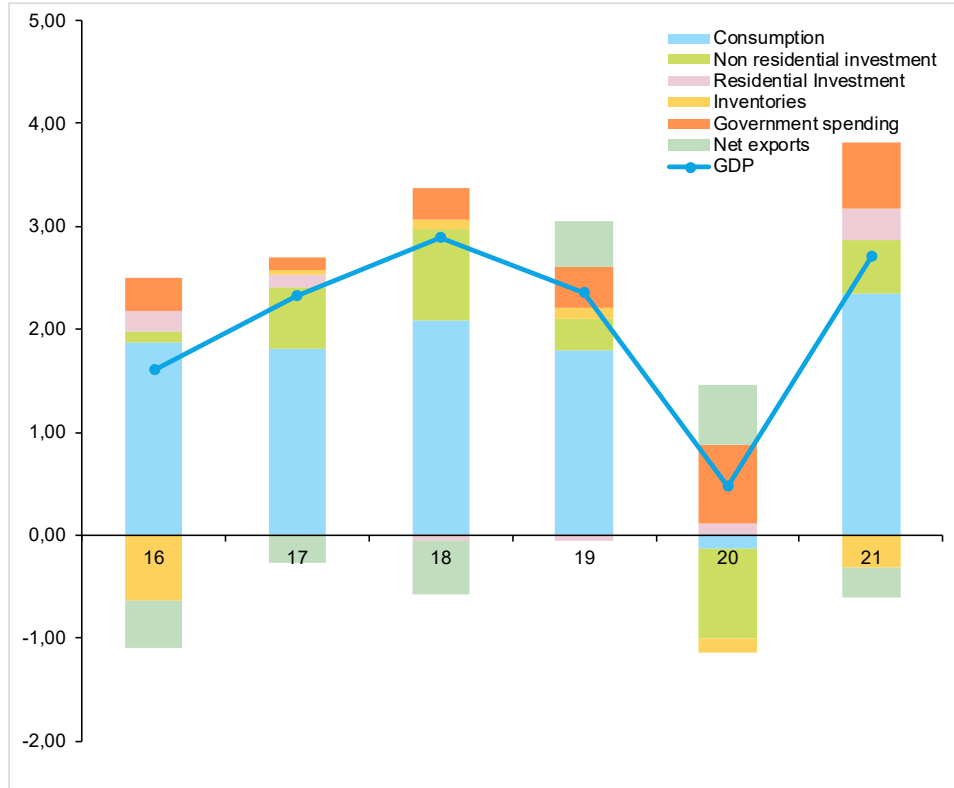
Sources: Eurostat, Euler Hermes, Allianz Research

In March, input prices increased due to the supply chain disruptions while selling prices decreased due to the fall in demand... Operating margins could be indented by 1.0pp to 1.5pp.

US: A U-SHAPE RECOVERY



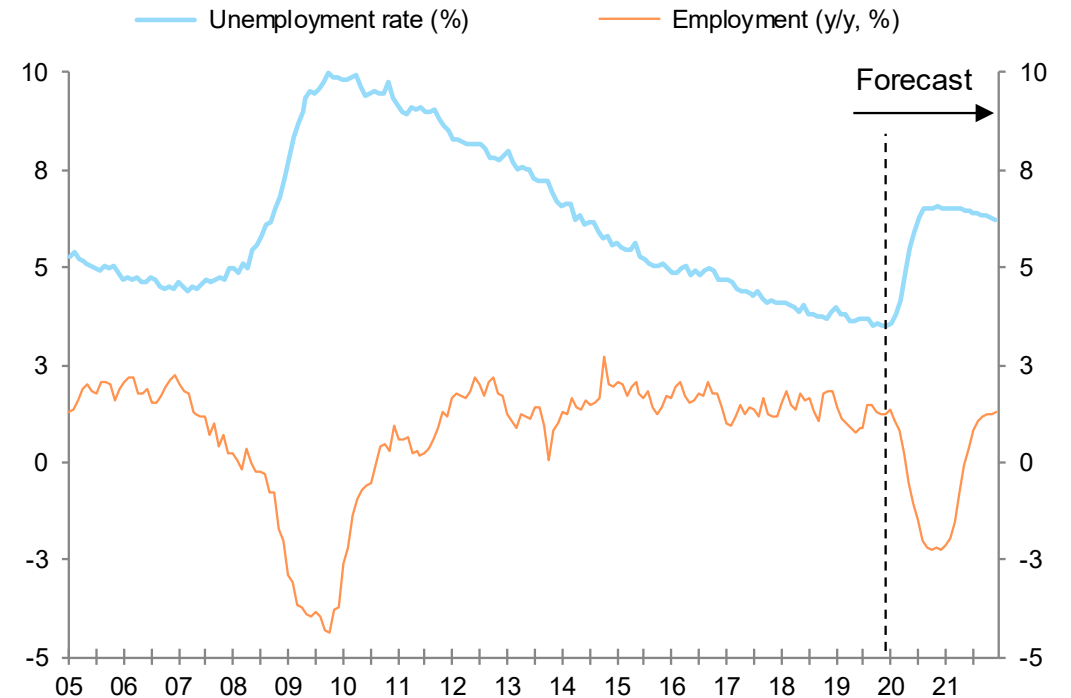
Contribution to US GDP growth (pp)



Sources: IHS Markit, Euler Hermes, Allianz Research

We expect the US economy to significantly contract in Q2 2020 close to -3.8% q/q. US GDP growth should reach 0.5% y/y in 2020 and 2.7% y/y in 2021

US labor market

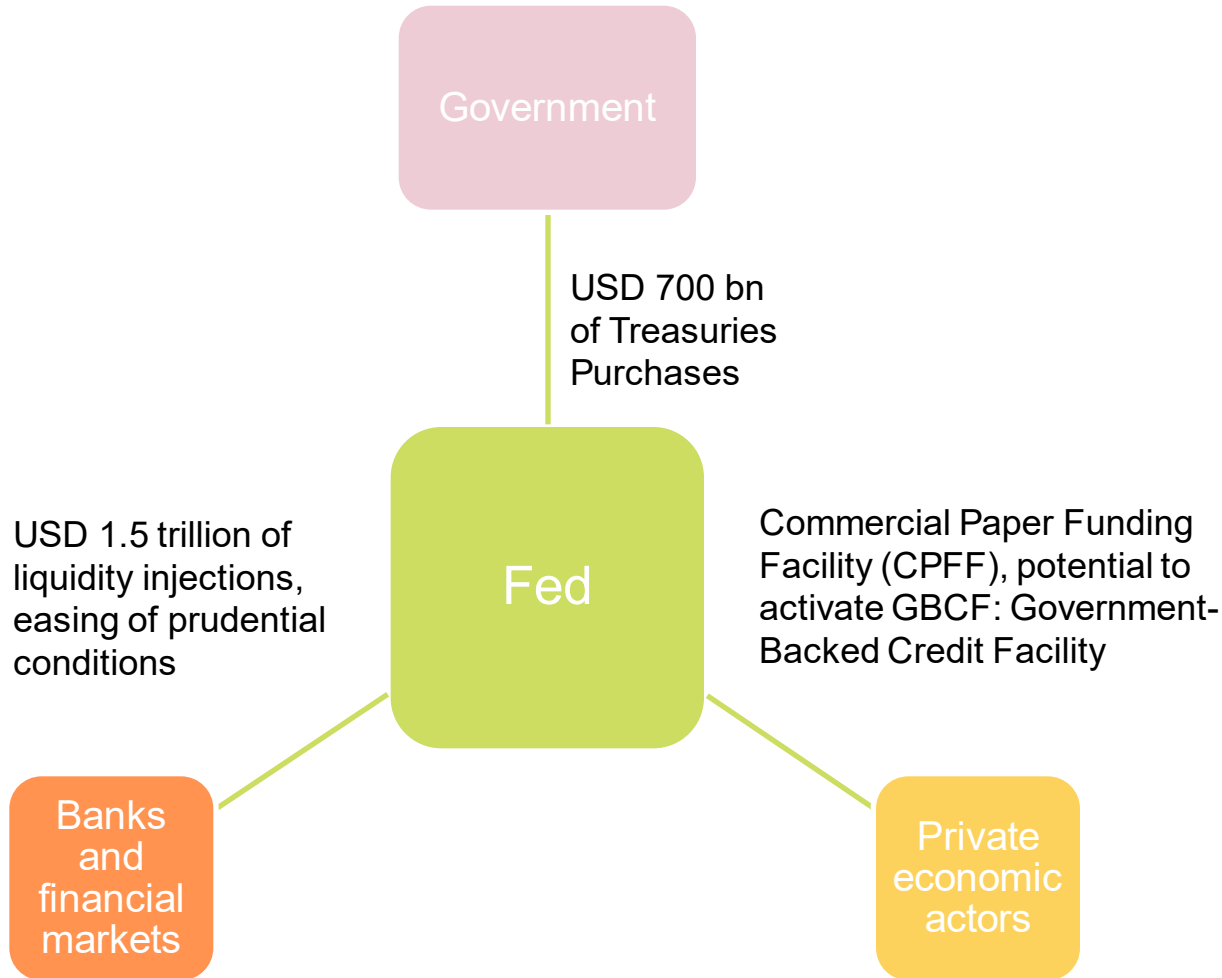


Sources: IHS Markit, Euler Hermes, Allianz Research

The cumulated amount of job losses between February and August could reach 4 millions people. All in all, we expect the US unemployment rate to reach a peak of 6.5% in January 2021

US POLICY: A POWERFUL ARSENAL OF STABILIZATION

New tools of the US monetary policy



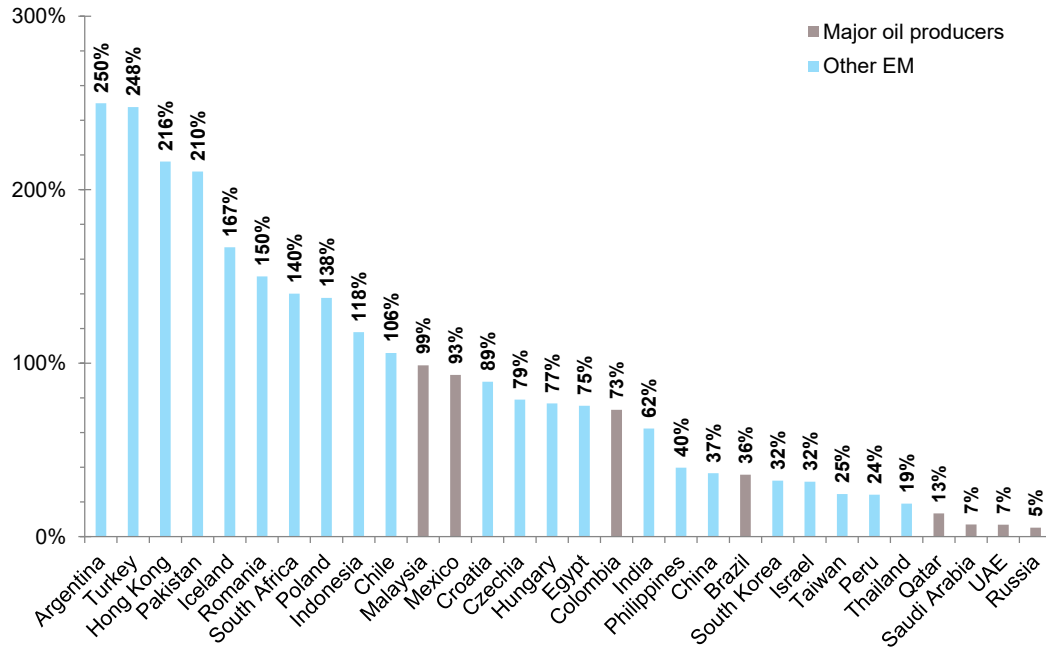
New (proposed) tools of the US fiscal policy (size of multiplier)

- Sending checks to households (High)
- Guaranteeing paid sick leaves (High)
- Giving credit guarantees to companies (Low)
- Allowing income tax holidays for 2020 (Average)
- Developing infrastructure spending (High)
- Increasing healthcare spending (High)
- Authorizing loan forbearance (Average)
- Providing food aid (High)

- The White House is likely to vote a package worth USD 1 trillion (4.5% of GDP). We expect its overall multiplier size to reach 0.9, leading to a positive impact on GDP growth of 1.2 pp between Q2 2020 and Q2 2021

EMERGING MARKETS: SUDDEN STOPS, CURRENCIES, AND CORPORATES

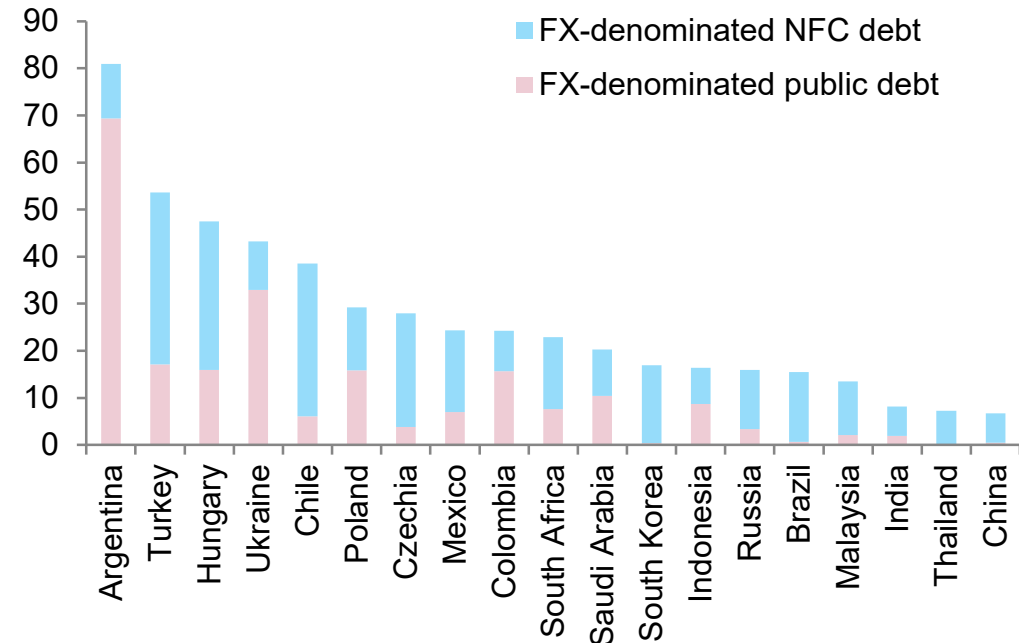
Emerging Markets: Gross external financing requirement (% of FX reserves)



Sources: IHS Markit, Allianz Research

Risk appetite likely to deteriorate in markets with high gross external financing requirements.

Foreign exchange-denominated sovereign and NFC debt (% of GDP), Q3 2019, selected EM



Sources: National statistics, IIF, Allianz Research

Argentina has the highest share of FX-denominated debt to GDP (80%). And most of that is sovereign debt.

EMERGING EUROPE: GROWTH FORECAST REVISIONS AND POLICY LEEWAY

2020 GDP growth forecasts

Real GDP growth	2019	2020 Dec. forecasts	2020	2021
Emerging Europe	2.2	2.1	1.2	2.8
Poland	4.1	3.1	1.0	3.6
Czechia	2.4	2.2	-0.5	2.7
Romania	4.1	2.8	0.8	3.2
Hungary	4.9	3.0	1.0	3.1
Slovakia	2.3	2.3	-0.6	2.6
Croatia	2.9	2.4	-0.8	3.0
Bulgaria	3.7	2.7	0.5	3.1
Slovenia	2.4	2.5	-0.5	2.5
Lithuania	3.9	2.5	0.5	3.0
Latvia	2.2	2.4	0.2	2.7
Estonia	4.3	2.7	0.6	3.0
Turkey	0.9	2.3	2.5	4.0
Serbia	4.1	2.6	1.3	3.2
Russia	1.3	1.3	1.2	1.8
Ukraine	3.2	3.0	1.0	2.8
Azerbaijan	2.2	2.3	-0.2	2.7
Kazakhstan	4.5	3.5	1.3	3.8

Sources: National statistics, IHS Markit, Allianz Research

Sharp downward revision of growth, especially in EU member states which are very export-dependent on the Eurozone.

Monetary policy leeway

	Inflation target	Inflation Q4 2019	Inflation latest month	Policy rate	Monetary policy leeway
Poland	2.5%	2.8%	4.7%	1.00%	●
Czechia	2.0%	3.0%	3.7%	1.00%	●
Romania	2.5%	3.7%	3.0%	2.50%	●
Hungary	3.0%	3.4%	4.4%	0.90%	●
Slovakia*	2.0%	2.9%	2.9%	0.00%	●
Croatia	-	0.9%	1.5%	2.50%	●
Bulgaria**	2.0%	3.1%	3.7%	0.00%	●
Russia	4.0%	3.5%	2.3%	6.00%	●
Turkey	5.0%	10.3%	12.4%	9.75%	●

* Slovakia is a Eurozone member, thus monetary policy is set by the ECB.
 ** Bulgaria has currency board with a peg to the EUR, thus it follows the monetary policy of the ECB.

Sources: National statistics, IHS Markit, Allianz Research

Monetary policy leeway is limited, in theory. Yet, and despite elevated inflation, the central banks of Czechia, Poland and Turkey cut rates at Emergency meetings in mid-March.

Fiscal policy leeway (2019 ratios)

	Fiscal balance % of GDP	Public debt % of GDP	Fiscal policy leeway
Poland	-1.9%	47.5%	●
Czechia	0.3%	32.0%	●
Romania	-3.8%	36.0%	●
Hungary	-1.9%	69.0%	●
Slovakia	-1.2%	48.0%	●
Croatia	0.1%	71.5%	●
Bulgaria	1.0%	21.0%	●
Russia	1.8%	15.0%	●
Turkey	-5.0%	32.3%	●

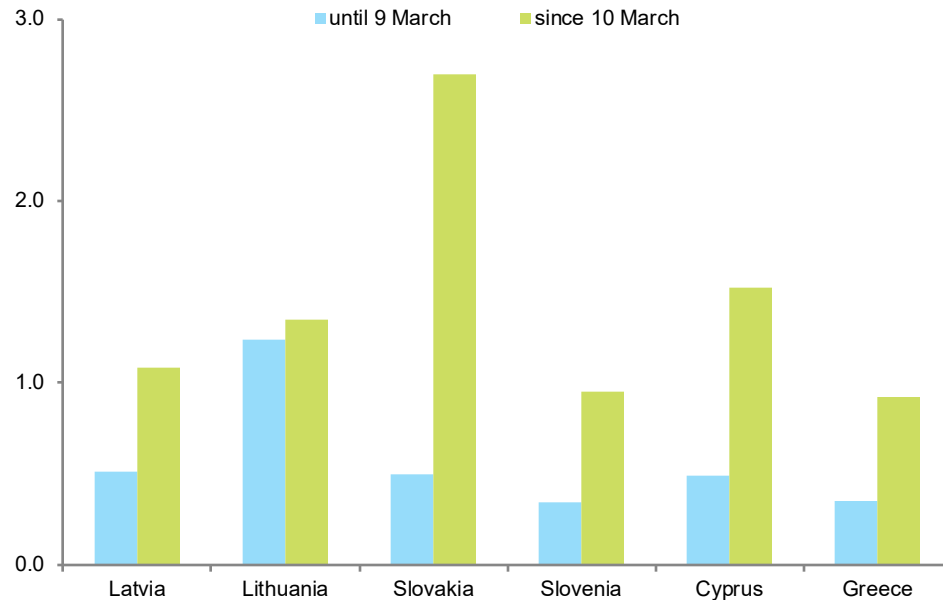
Orange if <-3% if >50%

Sources: Eurostat, IHS Markit, Allianz Research

Fortunately all countries have policy leeway and will use it. But fiscal deficits and public debt ratios will rise.

EMERGING EUROPE: SOUNDING THE LIQUIDITY ALARM

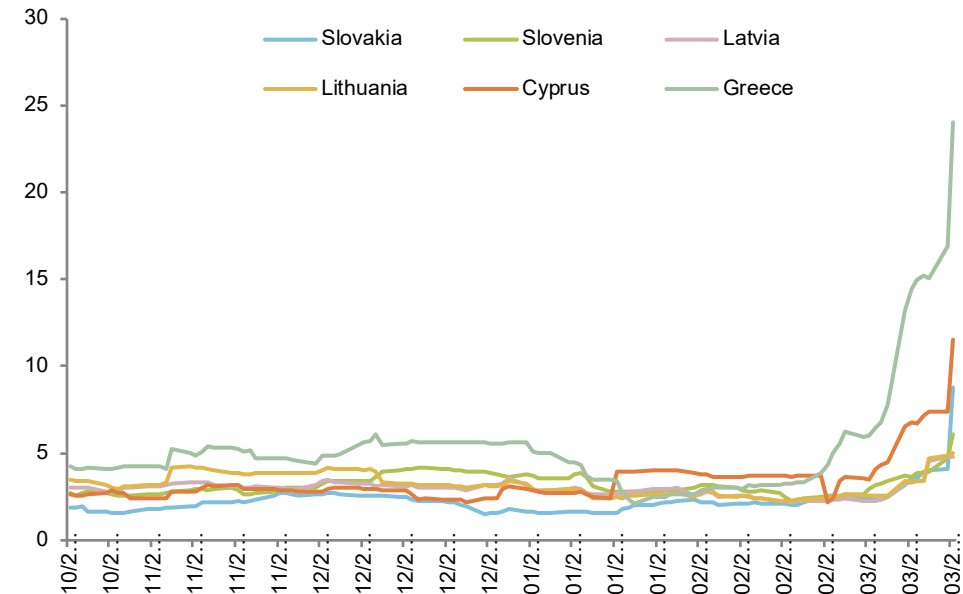
Bid-Ask spreads widening strongly (10y tenor)



Sources: Bloomberg Allianz Research

Sharp increases in liquidity costs in peripheral markets indicate reduced supply by market makers. Also visible in volumes and immediacy of transactions.

Risk of liquidity bifurcation (daily spread volatility)



Sources: Refinitiv, Allianz Research

Risk of liquidity bifurcation: liquid bonds becoming more liquid and illiquid ones more illiquid. Risk of an accident (impaired market access) cannot be excluded in such a volatile environment.

ASIA-PACIFIC: POLICIES AIMING TO CUSHION THE ECONOMIC BLOW OF COVID-19

Real GDP growth (%)

	2019	2020 Dec forecasts	2020	2021
Asia-Pacific	4.3	4.2	2.0	4.6
Australia	1.8	1.4	-0.9	1.5
China	6.1	5.9	4.0	5.8
Hong Kong	-1.2	3.0	-2.4	1.1
India*	4.9	5.8	3.6	5.8
Indonesia	5.0	4.8	2.9	5.4
Japan	0.7	0.7	-2.0	2.5
Malaysia	4.4	3.5	0.3	3.6
New Zealand	2.2	2.0	-0.9	1.9
Philippines	5.9	6.0	4.3	6.7
Singapore	0.7	1.1	-1.8	2.1
South Korea	2.0	1.9	0.5	2.4
Taiwan	2.7	1.4	0.8	2.8
Thailand	2.4	2.2	-2.6	1.3
Vietnam	7.0	6.5	6.1	6.0

Source: National Statistics, Allianz Research

We expect Asia-Pacific GDP growth at 2.0% in 2020, after 4.3% in 2019. After negative sequential growth in H1, a partial recovery should follow.

Monetary policy leeway

	Inflation Target	Inflation 2019 Q4	Inflation latest month	Policy rate	Monetary policy leeway
Australia	2%-3%	1.8%	1.8%	0.25%	●
China	3.0%	4.2%	5.2%	4.05%	●
India	4.0%	5.8%	6.6%	5.15%	●
Indonesia	3.5% +/-1%	2.7%	3.0%	4.50%	●
Japan	2.0%	0.5%	0.5%	-0.10%	●
Malaysia*	-	1.0%	1.6%	2.25%	●
New Zealand	1%-3%	1.9%	1.9%	0.25%	●
Philippines	3% +/-1%	1.5%	2.6%	3.25%	●
South Korea	2.0%	0.0%	1.1%	0.75%	●
Taiwan*	-	0.4%	-0.2%	1.13%	●
Thailand	2.5% +/-1.5%	0.6%	0.7%	1.00%	●
Vietnam*	-	2.2%	5.4%	5.00%	●

* no explicit inflation targeting framework

Light red when policy rate < latest inflation, green otherwise

Source: National Statistics, Allianz Research

Most central banks in Asia-Pacific have been aggressively cutting policy rates, with some now pursuing unconventional easing measures. Inflationary and FX pressures need to be watched.

Fiscal policy leeway

2019	Fiscal balance % of GDP	Public debt % of GDP	Fiscal leeway
Australia	-0.7%	42%	●
China	-6.1%	55%	●
Hong Kong	0.6%	0%	●
India	-7.5%	69%	●
Indonesia	-1.9%	30%	●
Japan	-3.0%	246%	●
Malaysia	-3.0%	56%	●
New Zealand	0.1%	29%	●
Philippines	-1.1%	39%	●
Singapore	4.3%	114%	●
South Korea	0.7%	41%	●
Taiwan	-1.3%	33%	●
Thailand	-0.2%	42%	●
Vietnam	-4.4%	54%	●

Light red if < -3% if > 50%

Source: National Statistics, Allianz Research

Given the leeway, almost all economies have announced fiscal stimulus, in particular in Singapore, Japan, Thailand, New Zealand, Australia, Hong Kong, South Korea and China.

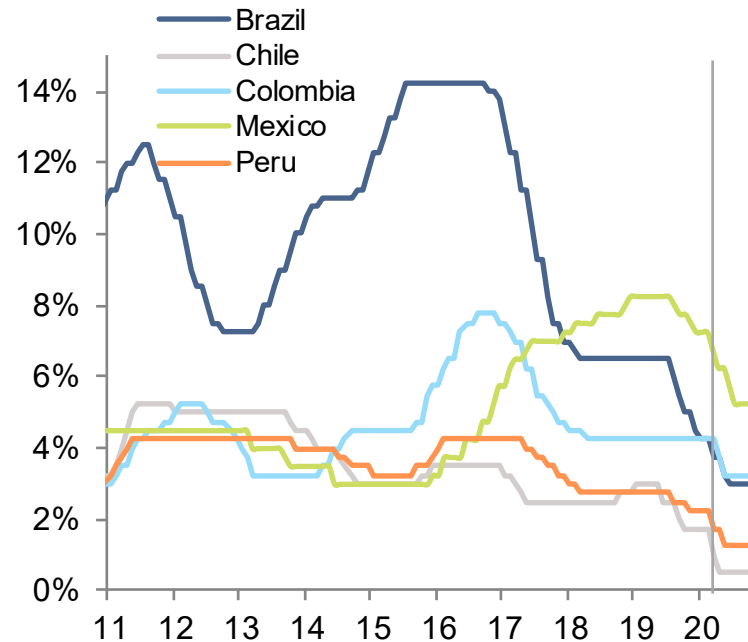
LATIN AMERICA: RECESSION, LOWER POLICY RATES AND HIGHER PUBLIC DEBT BURDENS



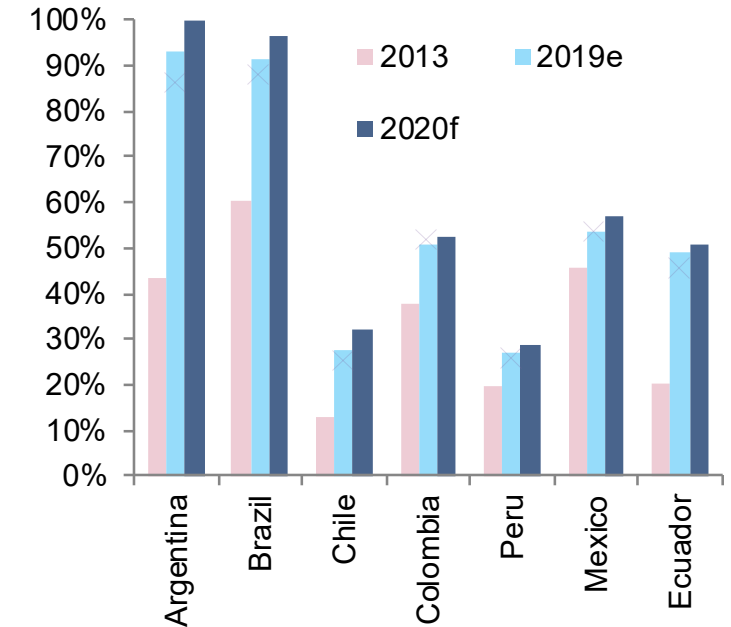
GDP growth forecasts (% , y/y, excluding Venezuela)

	2017	2018	2019	2020	2021
Argentina	2.7	-2.5	-3.0	-4.0	2.1
Brazil	1.1	1.3	1.1	-1.5	2.0
Chile	1.3	4.0	1.0	-2.0	2.0
Colombia	1.4	2.6	3.3	-0,4	2.1
Mexico	2.1	2.1	-0.1	-2.5	1.0
Peru	2.5	4.0	2.2	-0.3	2.5
Latin America	1.7	1.5	0.7	-1.5	1.7

Central bank policy rates (%)



Public debt to GDP ratios (% GDP)



Sources: IHS Markit, Euler Hermes, Allianz Research

We see LatAm entering recession this year (-1.5%) due to the external shock (Chinese contraction in Q1, U.S. in Q2) and internal shock (confinement in Q2).

Sources: IHS Markit, Euler Hermes, Allianz Research

Central banks in Brazil, Mexico, Chile, and Peru already cut rates to support activity. Expect the rest to join, despite downside pressures on currencies.

Sources: IHS Markit, Euler Hermes, Allianz Research

Lower fiscal revenues due to lower oil prices, depressed activity, and large fiscal stimuli will contribute to increase the public debt burden.

MIDDLE EAST: GROWTH FORECAST REVISIONS



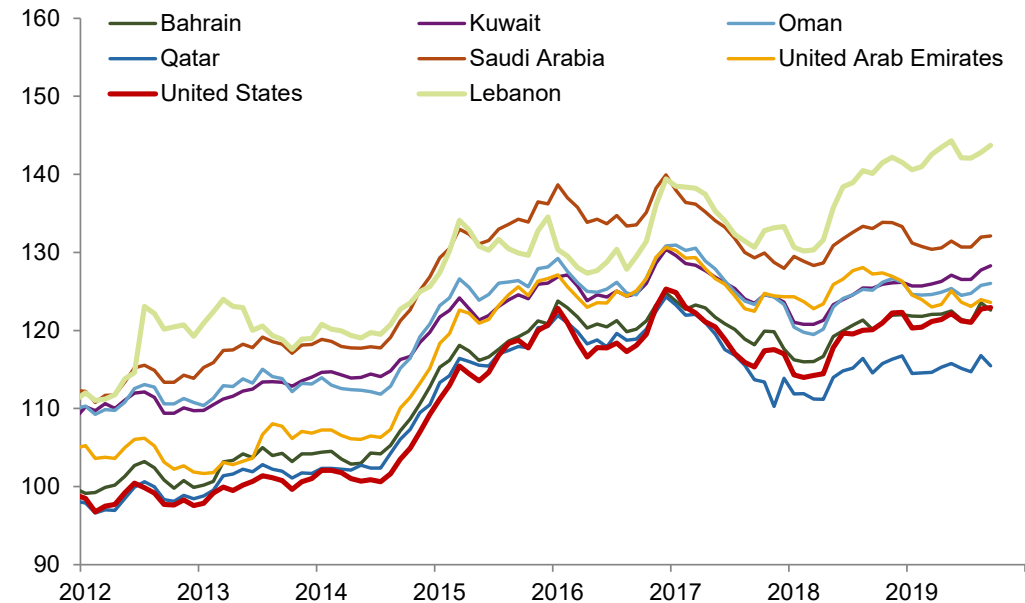
2020 GDP growth forecasts

Real GDP growth	2019	2020 Dec. forecasts	2020	2021
Middle East	0.1	1.4	-0.2	2.0
Saudi A.	0.2	1.2	1.2	2.0
UAE	2.2	2.0	-0.1	1.5
Qatar	0.7	2.0	0.6	2.5
Kuwait	0.9	1.0	0.3	1.5
Oman	1.3	1.7	0.5	2.2
Bahrain	1.2	1.8	0.6	2.0
Iran	-7.0	-1.0	-5.0	1.0
Israel	3.3	3.3	2.0	3.3
Iraq	3.3	3.0	0.5	3.0
Lebanon	-0.2	0.5	-3.0	1.0
Jordan	2.1	2.0	1.0	2.4

Sources: National statistics, IHS Markit, Allianz Research

The Middle East region as a whole will experience a contraction in 2020.

Real Effective Exchange Rate

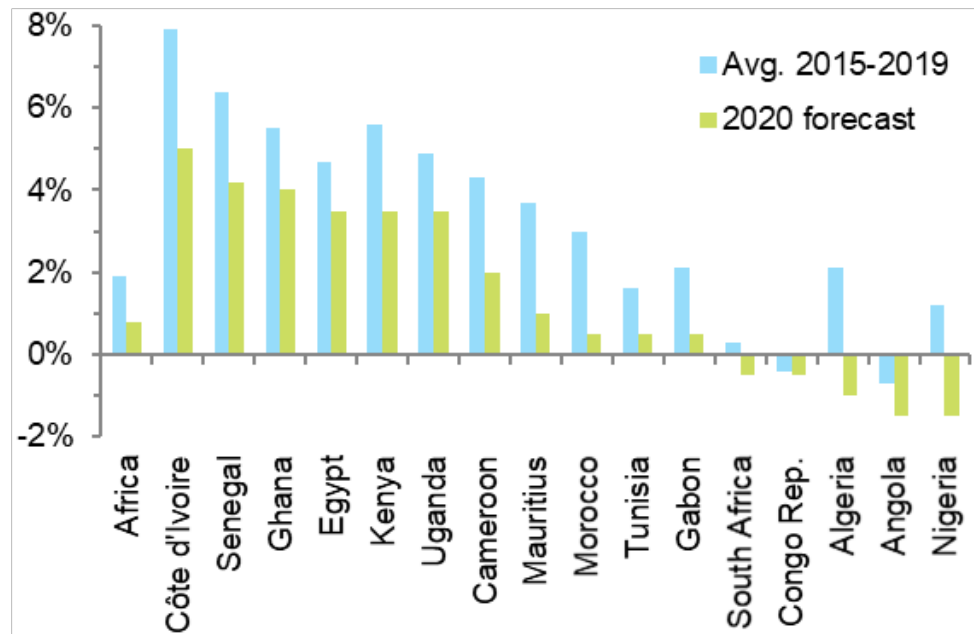


Sources: Bruegel, IHS Markit, Allianz Research

GCC states will follow the monetary policy stance of the US and have sufficient assets to maintain their currency pegs. Oman and Bahrain are weaker but will get support from their larger neighbors, if needed.

AFRICA: STRONG DECELERATION AND LIMITED LEEWAY TO COPE WITH CURRENCY DEPRECIATIONS

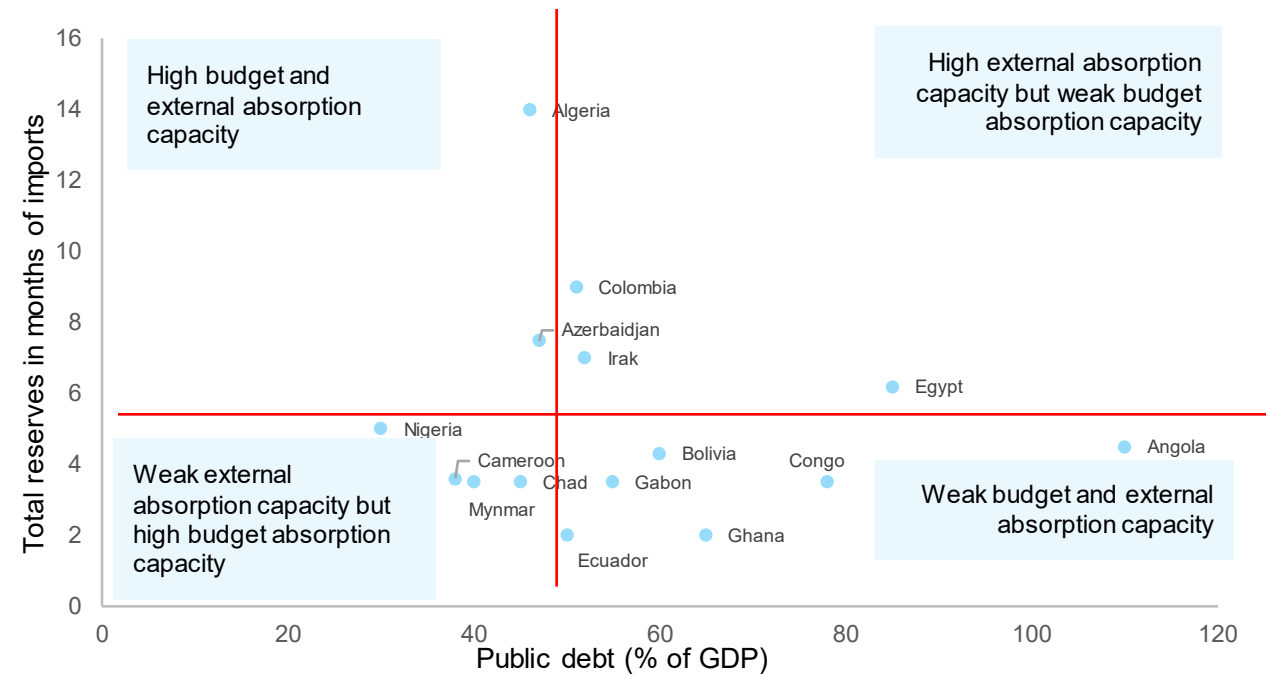
Sharp GDP growth slowdown in 2020



Sources: IHS Markit, IMF, Allianz Research

Growth will disappoint in many countries in Africa: all will experience a deceleration and major oil producers will see a contraction. Countries in recession: South Africa, Congo, Algeria, Angola and Nigeria

Foreign exchange reserves and public debt



Sources: IMF, Allianz Research

Some countries are more exposed than others to possible liquidity shocks. Angola, Gabon, Congo and Ghana are expected to be at the center of the storm.

THANK YOU

Economic, Capital Markets
and Industry Research

Global Economic Outlook

as of March 2020

