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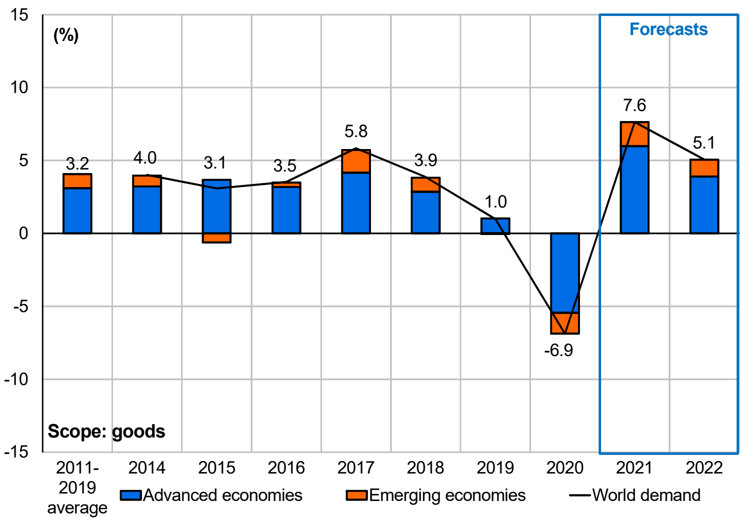
World economic outlook in autumn 2021: Catching up at uneven paces

Xavier Coeln, Célia Colin, Charles Dennery, Niamh Dunne, Valentin Giust, Per Yann Le Floc'h, Matthias Loise, Mounira Nakaa, Chloé Ramet, Éloïse Villani

- In 2021, the global economy is expected to rebound sharply by 6.0% and economic activity is projected to return to pre-pandemic levels, underpinned by vaccine rollouts and fiscal and monetary policy support measures. Global growth is envisioned to reach a still-strong 4.5% in 2022. The pace of the recovery is likely to be uneven: the US and major emerging economies – China, India, Brazil and Russia – are projected to recover to their pre-crisis levels on an annual average basis in 2021, while other major advanced economies – Germany, Italy, Spain and the UK – are not expected to see a recovery until 2022.
- Hindered by pandemic restrictions put in place in 2021, economic activity in the euro area is not forecast to surpass pre-pandemic levels until 2022, by 2.3% above its average 2019 level. Germany is projected to see a quick recovery and Italy will also likely return to its pre-crisis level, whereas Spain is expected to barely regain it.
- The UK was hard hit by the pandemic and the impact of Brexit in 2020, but the country is expected to grow by a strong 7.0% in 2021 and exceed its 2019 average level in 2022 (by 1.5%). The US, which experienced a lesser decline in activity than Europe in 2020, is forecast to report sharp growth in 2021 (up 6.2%) and 2022 (up 4.4%), fuelled by substantial fiscal support.
- Global trade in goods is forecast to recover in 2021, increasing by 11.4% after a 6.7% contraction, underpinned by the rebound in global economic activity. Trade in services, however, is expected to feel the lasting effect of the shock to tourism. Catch-up effects are projected to fade in 2022 and goods trade looks set to rise by a moderate 5.0%.
- This scenario is subject to considerable uncertainty, on both the upside and the downside. Beyond pandemic-related developments, the strength of the rebound will depend on the size and timing of fiscal support programmes and on lasting accommodative financial conditions.

Growth in global demand for French exports



Source: DG Trésor.

1. Sharp rebound in global economic activity in the first half of 2021

1.1 Activity close to pre-crisis levels in Europe and stronger in the US

Activity contracted in major advanced economies in 2020 due to the pandemic and the ensuing containment measures, which affected all demand components. In Japan, which was not impacted to the same extent by the pandemic, and the US, where COVID-19 restrictions were less stringent, activity declined to a relatively limited degree in 2020, falling 4.7% and 3.4%, respectively. European countries experienced sharper downturns, especially Spain (–10.8%) and the UK (–9.8%). Germany (–5.0%), by comparison, was spared because its COVID-19 restrictions were lighter in spring and autumn 2020, whereas France had stricter lockdowns (as shown by a relatively low effective lockdown index, see Chart 2), and its economy is less reliant on services. France (–8.0% in 2020) and Italy (–8.9%) were both in the middle.

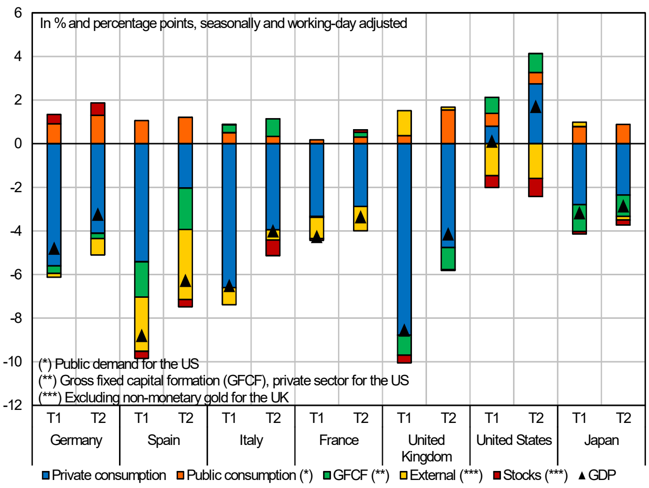
Lockdowns curtailed economic activity in Europe in the first quarter of 2021, most notably in the UK, and to a lesser extent in Germany and Italy. The easing of COVID-19 restrictions prompted a rebound in activity in the second quarter, albeit below pre-pandemic levels: –3.2% in Germany compared with the 2019 average, –6.3% in Spain, –4.0% in Italy and –4.1% in the UK.

Most of the decline in activity in Europe relative to the 2019 average was due to weak private consumption. Household saving rates increased sharply on account of COVID-19 restrictions and precautionary behaviour, while households' income was preserved under government income support schemes (see Box 1). National factors were also at work: Spain's tourism balance deteriorated and there were some minor UK border disruptions after Brexit.

Economic activity was stronger in the US, which returned to pre-pandemic levels in the first quarter, rising by 0.1% compared with 2019, and far surpassed that level in the second quarter (up 1.7%). Substantial government support programmes and the reopening of the economy brought a surge in domestic demand. As a result, private investment and consumption, as well as public demand, all exceeded their 2019 levels. However, the US's external balance was still weaker than pre-crisis norms.

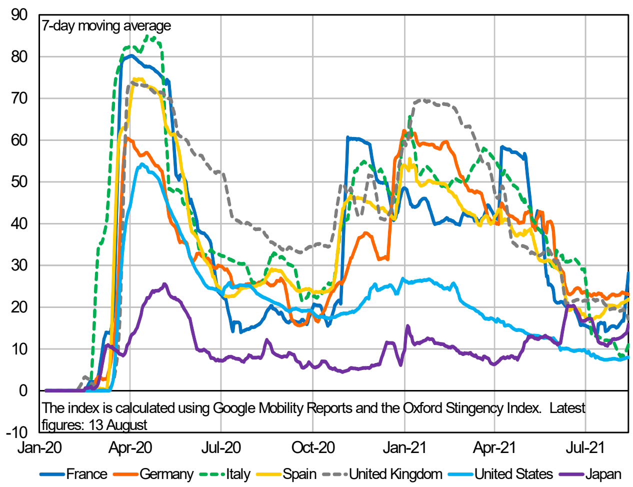
The situation worsened in Japan in early 2021, with tougher COVID-19 restrictions weighing on domestic demand. Activity declined to a lesser extent than in Europe compared with pre-pandemic levels, down 2.8% in the second quarter of 2021 compared with the 2019 average.

Chart 1: Change in activity in H1 2021 compared with 2019 average and contributions from demand components



Sources: National accounts; DG Trésor calculations.

Chart 2: Effective lockdown index



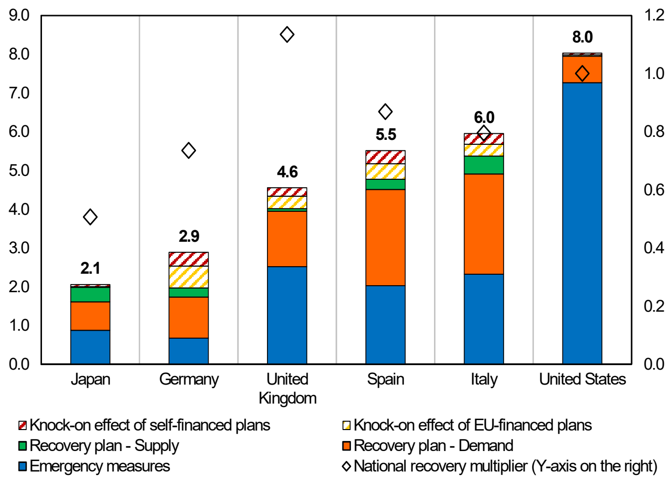
Sources: Goldman Sachs.

Box 1: Impact of fiscal support programmes on the GDP of advanced economies

Advanced economies put in place substantial fiscal support programmes to mitigate the economic and social impacts of the health crisis and jumpstart economic activity. Support measures included emergency measures[a], which were implemented widely in 2020 to address the near-term consequences of the crisis[b] and support businesses' ability to recover, and recovery measures to support economic activity during the recovery and in the medium term. Recovery measures buoy both demand (households' purchasing power, government investment in transportation, etc.) and supply (support for innovation, new jobs and training, tax relief for businesses, etc.)[c]. In 2021 and 2022 combined, these measures are expected to represent between 2.9% of GDP in Germany and 10.5% of GDP in the US[d].

The estimated cumulative impact of support measures in 2021 and 2022 is projected to be between 2.1% of GDP in Japan and 8.0% in the US (see Chart 3). In Japan, the relatively low impact on GDP may be due to limited emergency measures in the country and the predominance of measures to boost supply in the recovery plan. The multiplier effect of these measures is weaker in the short term. In the US, because automatic stabilisers are weak, significant emergency measures were implemented (notably to protect households' purchasing power) which likely boosted GDP growth. Spain and Italy implemented comprehensive recovery plans financed by the Recovery and Resilience Facility[e] and their plans had a strong investment focus. These factors are estimated to have significant effects on GDP: Italy's recovery plan had a 6.0% impact on its GDP and Spain's was equal to 5.5%[f]. In the UK, practically all of the country's recovery measures are likely to boost demand, especially investment, with a high multiplier effect and a 1.5% impact on GDP.

Chart 3: Estimated cumulative impact in 2021 and 2022 of support measures (% of 2019 GDP)



Sources: DG Trésor calculations.

A country's recovery plan has a positive impact on the economic activity of its partner countries. These knock-on effects are particularly significant in European countries, which are more integrated and have implemented more comprehensive recovery plans[g] in step with each other. This is particularly true of Germany. The recovery plans of its European partners are estimated to account for nearly 40% of the total impact of recovery plans on Germany's economic activity.

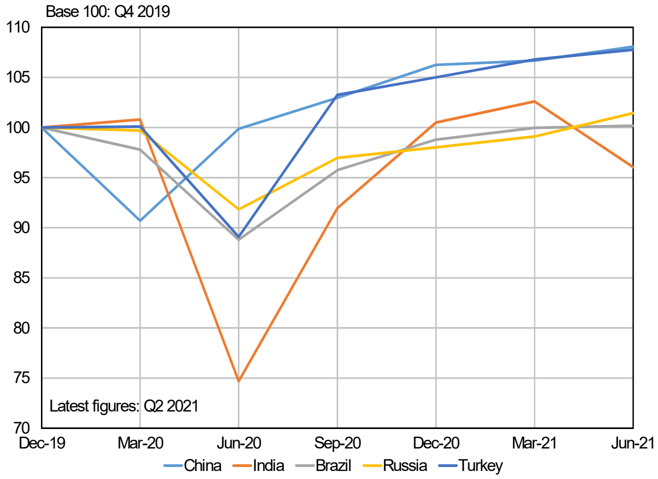
a. For more information on emergency measures during the crisis in Europe, see Fatton H. and Ponton C. (2021), "Les mesures d'urgence mises en place pendant la crise en Europe", *Trésor-Economics* No. 289. Publication forthcoming.
b. Examples include short-time work schemes and cash flow assistance for businesses and the hardest-hit sectors.
c. Classifying these measures enables us to apply different multipliers for each type of measure in order to estimate the cumulative impact on GDP over a two-year period. DG Trésor estimates of the multipliers associated with recovery measures are in line with the literature. These are higher for demand than supply because the impact of supply-side measures on economic activity is likely to be seen predominantly after two years. The multipliers associated with emergency measures are generally expected to be lower, except for funding released for the healthcare sector. However, the multipliers associated with the US's emergency measures are higher than in Europe, in line with CBO estimates. This is because measures to support purchasing power are more supportive of economic activity if automatic stabilisers are weak.
d. Total support excluding automatic stabilisers represents 2.9% of 2019 GDP in Germany, 3.9% in Japan, 5.6% in the UK, 5.8% in Spain, 9.0% in Italy and 10.5% in the US.
e. The EU's Recovery and Resilience Facility under NextGenerationEU has financed 100% and 86% of the recovery plans in Spain and Italy, respectively.
f. The multiplier effects of the recovery plan (supply and demand measures combined) are estimated to be 0.9 in Spain and 0.8 in Italy, compared with 0.7 in Germany.
g. The knock-on effects are calculated using the recovery plans of all euro area countries, mainly financed under NextGenerationEU, in addition to the countries shown in the chart. The effects can be attributed to rising exports due to stronger demand from trading partners, based on the estimated elasticity of trade to demand and the geographic breakdown of global demand for each country's exports.

1.2 Patchy recovery in emerging economies, but stronger than anticipated on average

The rebound in activity in major emerging economies was robust in early 2021 (see Chart 4) and stronger than expected in March[1]. However, the recovery has been considerably dampened by tighter monetary and fiscal policy (in Brazil, Turkey and Russia) and tougher pandemic restrictions (in Turkey and India). In China and Turkey, the impact of the health crisis on economic activity in 2020 was relatively mild (with their economies growing by 2.3% and 1.8%, respectively, compared with 6.1% and 0.9% in 2019) and the sharp rebound in activity enabled these countries to surpass by far their pre-crisis levels. In the second quarter of 2021, China's GDP was 8.1% higher than its 2019 level and Turkey's was 6.0% higher. In Russia, which grew by 1.4% between 2019 and early 2021, and Brazil (0.2%), the weaker rebound has now been hampered by tighter monetary policy to stave off inflationary pressures. In India, the renewed COVID-19 outbreak in the spring appears to have severely affected economic activity (down 6.4% in the second quarter, GDP growth down 3.9% since 2019).

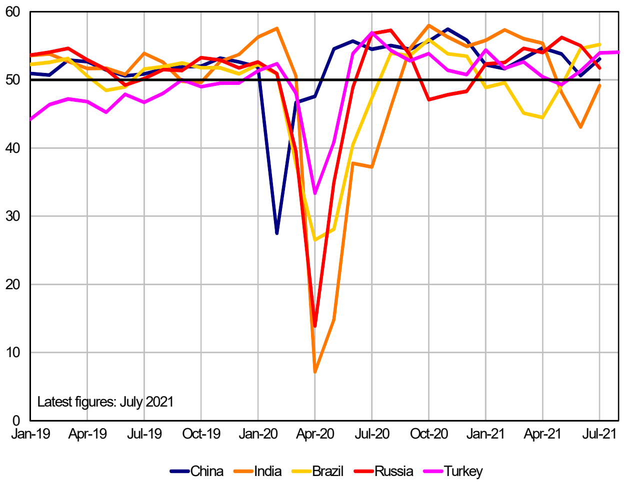
Business surveys point to diverging prospects for major emerging economies (see Chart 5). After falling sharply in the spring, manufacturing PMIs are back up in China and India, but PMI readings in India are still below 50, indicating a contraction. In contrast, the PMI has been declining in Russia since May. In Brazil and Turkey, PMIs have been rising since the spring and are now firmly in expansionary territory (above 50).

Chart 4: GDP growth in major emerging economies



Source: National statistics institutes, DG Trésor calculations.

Chart 5: Business environment in major emerging economies



Source: Composite PMI index (Markit), except for Turkey (manufacturing PMI).

2. An uneven recovery hinged on pandemic-related developments

The scenario for 2022 assumes that vaccine rollouts will progress at a rapid pace in most advanced economies, prompting COVID-19 restrictions to be lifted gradually from autumn 2021. In Japan, after a slow start, the vaccination campaign has picked up speed, but tougher restrictions are planned for the third quarter of 2021 due to higher caseloads. The pace of vaccine rollout in emerging economies is more inconsistent. While vaccine deployment is accelerating in China, Turkey and Brazil, India and Russia are lagging behind. However, none of these emerging countries are expected to impose stringent new restrictions. This scenario also assumes that the recovery plans (see Box 1) and favourable financial conditions (with accommodative monetary policy and key interest rates rising only gradually by the end of

(1) See Blanchet M. et al. (2021), "World economic outlook in Spring 2021: An uneven recovery", *Trésor-Economics* No. 281.

2022) will foster an economic rebound in advanced economies. Supply problems (semiconductor shortages and shipping bottlenecks) are expected to continue and commodity prices are forecast to stay above their pre-crisis levels until the end of 2022, impacting consumer prices and activity in some sectors.

Table 1: Growth forecasts[a]

GDP (annual average, %)	2018	2019	2020	2021	2022	Cumulative 2020-2021	Cumulative 2020-2022
				(forecasts, working-day adjusted)			
Global growth	**3,6**	**2,8**	**–3,3**	**6,0**	**4,5**	**2,5**	**7,1**
Advanced economies[b]	**2,3**	**1,6**	**–4,6**	**5,3**	**4,3**	0,5	4,7
United States	3,0	2,4	–3,4	6,2	4,4	2,5	7,1
Japan	0,6	0,0	–4,7	2,3	3,0	–2,5	0,4
United Kingdom	1,4	1,3	–9,8	7,0	5,3	–3,6	1,5
Euro area	**1,9**	**1,3**	**–6,5**	**4,9**	**4,4**	–1,9	**2,3**
Germany	1,3	0,6	–5,0	3,2	4,6	–2,0	2,5
Italy	0,9	0,3	–8,9	5,8	4,5	–3,6	0,7
Spain	2,6	2,2	–10,8	6,1	5,7	–5,4	0,0
Other advanced economies	2,8	1,1	–2,8	5,1	4,2	2,1	6,4
Emerging economies	**4,5**	**3,7**	**–2,1**	**6,5**	**4,7**	**4,3**	**9,2**
Brasil	1,8	1,4	–4,1	5,2	1,8	0,9	2,7
China	6,7	6,1	2,3	8,2	5,4	10,7	16,7
India[c]	6,6	4,2	–7,3	10,6	6,6	2,6	9,3
Russia	2,2	1,3	–3,0	4,4	2,5	1,3	3,8
Turkey	2,6	0,9	1,8	7,8	4,3	9,7	14,3
Other emerging economies	3,4	2,7	–3,7	4,5	4,6	0,6	5,3
Global trade in goods[d]	*4,5*	*0,5*	*–6,7*	*11,4*	*5,0*	*4,0*	*9,2*
Global demande for French exports[e]	*3,9*	*1,1*	*–6,8*	*10,4*	*4,9*	*2,9*	*8,0*

a. Forecasts finalised on 17 August 2021 and based on the assumption that the average oil price per barrel would be $68 in 2021 and $69 in 2022 and the average $/€ exchange rate would be 1.19 in 2021 and 1.17 in 2022.
b. Growth forecasts for advanced economies and emerging economies are based on IMF forecasts (July 2021), taken from DG Trésor forecasts for countries in Table 1 as well as France.
c. Forecasts are given for the fiscal year, which runs from April (n) to March (n+1).
d. Global trade is calculated based on imports from 39 countries (Germany, Belgium, Italy, Spain, US, UK, Netherlands, China, Switzerland, Japan, Russia, Poland, Turkey, Brazil, Sweden, South Korea, Hong Kong, Singapore, Canada, Morocco, Portugal, Austria, Czech Republic, Hungary, Australia, India, Malaysia, Mexico, Thailand, Ireland, Denmark, Greece, Slovakia, Norway, Taiwan, Finland, Philippines and Argentina), plus the Organisation of the Petroleum Exporting Countries (OPEC) and France.
e. Global demand for French exports covers the 39 countries mentioned above plus OPEC, which together account for 91% of French exports.

Source: National accounts, IMF (July 2021); DG Trésor calculations.

2.1 Government support and gradual easing of restrictions set to power the recovery in major advanced economies

Economic activity in the euro area, contracted by a record 6.5% in 2020. Despite stringent COVID-19 restrictions still in place in the first half of 2021, the euro area's economy is expected to rebound sharply in 2021, growing by 4.9%, and continue to expand in 2022 (up 4.4%), surpassing its pre-pandemic level in late 2021. The pace of recovery varies across countries depending on their sensitivity to the COVID-19 shock (e.g. sectoral composition of the economy, exposure to international trade, etc.), different structural factors (e.g. labour market, potential growth, etc.) and the extent of support and recovery measures.

Following a 5.0% contraction in 2020, Germany held out better than its European partners, but is expected to experience a more tepid recovery in 2021 (+3.2%), as pandemic restrictions were particularly harsh in the first quarter of 2021. In 2021, Germany's economy will likely be fuelled by its resilient manufacturing sector and its exposure to global trade – the main drivers of economic recovery – despite supply shortages undermining the automotive industry. In 2022, the economy is envisioned to grow 4.6% as it gradually rebalances towards domestic demand, in particular consumption, which is expected to exceed pre-crisis levels on the back of a resilient labour market and sustained wage growth.

Economic activity contracted sharply in Italy in 2020 (–8.9%) amid the country's severe COVID-19 outbreak. A rebond is expected in 2021 (+5.8%) and 2022 (+4.5%), aided by increased investment, especially in the construction sector under the recovery plan. Through its ambitious recovery plan for 2021-26 (12% of GDP), Italy is projected to close the sizeable investment gap which had been widening in the country since the euro zone crisis. 87% will be financed by loans and grants under the Recovery and Resilience Facility. Consumption is envisioned to pick up, but will likely remain hampered by structural weaknesses in the labour market (low labour force participation).

With economic activity severely affected in Spain in 2020 (–10.8%), the country is expected to see a sharp rebound in 2021 (+6.1%), driven by private consumption. In 2022, the easing of pandemic-control measures and the gradual return of tourism (12% of GDP in 2019) are projected to continue to restore growth (+5.7%) to the economy, which will also be supported by investment under the recovery plan. Activity, however, looks set to remain sluggish amid a persistently bleak labour market. Unemployment skyrocketed due to a predominance of temporary contracts for low-skilled workers, and is not expected to return to its pre-pandemic level by the end of the forecast horizon. The rebound is also likely to hinge on how effectively EU recovery funds are used. Spain and Italy are the main beneficiaries.

While economic activity in the UK was particularly hard hit by the pandemic in 2020 (–9.8%), a strong recovery is predicted over the forecast horizon. Sustained public consumption and tax incentives for investment are expected to be available until 2022, and will help the economy to bounce back strongly in 2021 (+7.0%). In 2022, economic activity is forecast to continue to rebound (+5.3%), fuelled by renewed private consumption. As restrictions are gradually lifted, the improvement in private consumption in the second quarter of 2021 is expected to impact the economy mainly in 2022 (+6.2% in 2022, compared with +3.7% in 2021). The labour market is projected to normalise, with short-time work schemes being replaced by back-to-work initiatives and training programmes. Exports are also expected to propel economic activity in 2022 after sluggish growth in 2021 due to the new regulatory environment, particularly in connection with Brexit.

In the US, GDP contracted by 3.4% in 2020, at a slower pace than in major European countries. After largely limiting the impact of the COVID-19 crisis, fiscal stimulus programmes are expected to considerably boost economic activity. In 2021, the US economy is projected to grow a strong 6.2%, outstripping its pre-pandemic level, which was exceeded in the second quarter of 2021. Still-strong household consumption, private investment also driven by an accommodative monetary policy and buoyant external demand are all predicted to support growth in 2021. In 2022, economic activity is forecast to grow at a slower pace (+4.4%) as domestic demand normalises, but is expected to be trade-driven. Meanwhile, the unemployment rate is likely to keep declining to slightly above its pre-crisis level.

Japan was not hit as hard by the pandemic in 2020 and saw its economic activity contract to a lesser extent (–4.7%) than in other major advanced economies. The economy is expected to rebound more moderately in 2021 (+2.3%) and 2022 (+3.0%). In 2021, trade is forecast to be the main engine of growth in activity as the global economy picks up, while domestic demand is envisioned to remain flat despite a relatively stable job market. Growth in investment is expected to remain limited in 2021, while only a moderate improvement in consumption is forecast due to pandemic restrictions. In 2022, economic activity is likely to be fuelled by a recovery in domestic demand as restrictions are lifted.

Box 2: Inflation in the US

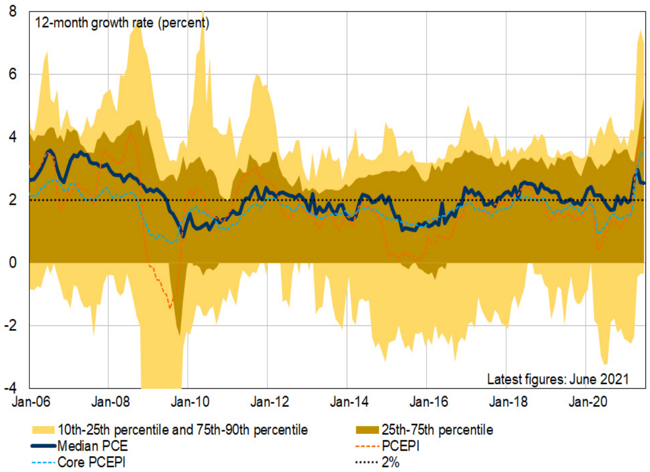
The US consumer price index has increased substantially since January 2021 (+5.4% in July, year-on-year) and core inflation[a] has followed a similar trajectory (+4.3%). The increase is partly attributable to the catch-up effect of falling prices in spring 2020 and the contribution of energy prices, which declined by 3.7% between January 2020 and January 2021 before rising by 19.3% since January 2021. The COVID-19 crisis has also dealt a heavy blow to other components of the consumption basket, especially transport, which made up 12.3% of the basket, but contributed 1.7 points to inflation in July. Year-on-year, airline fares have climbed 19.0%, while used car prices have jumped 41.7%.

The personal consumption expenditure price index (PCEPI), also known as the PCE deflator, is another measure used by the Federal Reserve to conduct monetary policy. The PCEPI has also gone up, albeit to a lesser extent (+4.2% in July 2021 year-on-year, compared with +1.4% in January). The Federal Reserve Bank of San Francisco releases PCE inflation distribution data per percentile, which details the change in prices of a basket of goods and services, plus the weighted average.

Median PCE has only risen moderately, increasing by 2.6% in June 2021, up from 1.9% in January 2021 (see Chart 6). Inflation is currently concentrated in some goods and services and prices are not rising across the board.

The Federal Reserve believes that the current high inflation readings are only transitory[b] because of fiscal support and supply-side issues. It does not plan to raise interest rates before 2023, but is expected to taper its asset purchases from the current $120bn per month by the end of 2021, earlier than planned. This is projected to result in tighter financial conditions, which are nonetheless expected to remain accommodative over the forecast period.

Chart 6: Personal Consumption Expenditure (PCE) inflation distribution[c] in the US



Sources: Federal Reserve Bank of San Francisco.

a. Excludes energy and food.
b. The PCE is a broad set of goods and services divided into categories, with an inflation rate by category. For instance, median PCE inflation is the inflation rate of the category whose expenditure weight is in the 50th percentile of price changes.
c. Because there has been no impact or little impact on economic agents' long-term inflation expectations. See Federal Reserve Chairman Jerome Powell's press conference on 28 July 2021, in response to a question from Gregory Robb from MarketWatch.

2.2 Despite economic policies being more restrictive in emerging countries, strong global trade is expected to fuel their recovery

In China, growth is projected to reach 8.2% in 2021 before returning to its normal pace of 5.4% in 2022, as improving job prospects and higher disposable income drive up household consumption. In the first half of 2021, economic activity gathered pace, growing at a rate close to its pre-pandemic level (+0.6% and +1.3% quarter-on-quarter in the first and second quarters, respectively, amounting to carry-over growth of 7.5% at the end of the first half). Growth was supported by all demand components, including household consumption, which only picked up gradually and at a later stage than exports. Investment was undermined by tougher regulations, especially in the real estate sector. Following monetary support measures in 2020, public debt levels rose sharply from 255% of GDP to 280% over the year and the government now has a target to stabilise the debt-to-GDP ratio. In the near term, activity may also be affected by a resurgence of COVID-19 cases in several regions. Amid a difficult rebalancing of growth[2], the Chinese government may

(2) Chinese households' saving rate is estimated to be close to 33% of disposable income in 2020.

intervene in the event of an economic slowdown, such as when it moved to cut the reserve requirement ratio for banks in mid-July 2021.

In Brazil, fiscal policy supported the recovery in activity in the second half of 2020, securing strong carry-over growth in 2021. However, lower transfers to households and inflation are expected to dampen consumption this year. In global trade, Brazil was buoyed by the rebound in global demand, especially in its leading export market China, and improved terms of trade. As a result, growth is expected to hit 5.2% in 2021, with GDP overtaking its pre-crisis level. In 2022, growth is forecast at 1.8% as the catch-up effects fade, government support is gradually withdrawn and potential growth loses momentum.

In India, accommodative monetary policy helped limit the economic contraction in fiscal year 2020/2021[3] to –7.3%. The recovery was interrupted by a second COVID-19 wave and the reintroduction of lockdown measures, which prompted a decline in activity in the second quarter of 2021 (–6.4% quarter-on-quarter), with services and domestic demand the hardest hit. Economic activity is expected to rebound as pandemic restrictions are lifted and an expansionist fiscal policy is implemented. Despite re-emerging inflationary pressures, the Reserve Bank of India is expected to continue to prioritise measures to support growth which, in fiscal year 2021/2022, is forecast at 10.6%. Structural reforms, foreign direct investment and fiscal support are projected to bolster growth prospects in fiscal 2022/2023 (+6.6%).

In Russia, the structure of the economy (low share of services and high rate of public servants), as well as substantial fiscal and monetary support, helped economic activity to remain relatively steady in 2020 (–3.0%). In 2021, rising oil prices, higher wages and lower unemployment are expected to fuel a recovery in growth (+4.4%) despite higher inflation and tighter monetary policy. Against a backdrop of elevated uncertainty surrounding the implementation of major public investment projects, the economy is predicted to return closer to pre-pandemic trends (+2.5%) in 2022.

In Turkey, the government's highly accommodative economic policy – albeit temporary – led to a sharp rebound in the economy in the second half of 2020 and growth of 1.8% over the full year. Amid a more favourable health context with an encouraging pace of vaccination, growth is forecast to reach 7.8% in 2021. Global trade is expected to be the main growth driver, despite a restrictive monetary policy still in place due to continued inflationary pressures. In 2022, economic activity is projected to remain strong (+4.3%). However, labour market fragility (high proportion of informal workers in sectors highly exposed to the pandemic) could soften post-crisis growth.

Box 3: Recent COVID-19 outbreaks dampen growth prospects in Southeast Asia

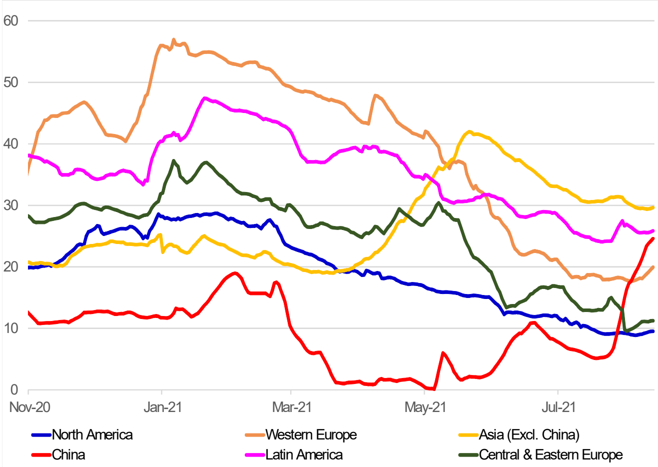
Since the start of the pandemic, Southeast Asia[a] has stood out as one of the most resilient regions, with governments pursuing "zero-COVID" strategies[b] to counter the health crisis. In 2020, Asia's economies were nonetheless affected by the decline in global and domestic demand, with the region's economy posting a 4% contraction. The Philippines entered a recession (–9.6%) amid falling private consumption (–8%), which accounts for 70% of the country's GDP, while Thailand (–6.1%) was particularly hard hit because of its exposure to tourism (20% of GDP before the crisis) as tourist numbers plummeted in 2020. Indonesia, ASEAN's biggest economy, limited its recession (–2.1%) thanks to a substantial fiscal support programme and more favourable sectoral specialisation with less exposure to tourism. Vietnam benefited from the rebound in China's economy and global demand, and was one of the few countries in the region – alongside Myanmar and Brunei – to still see its economy grow (+2.9%).

a. Includes Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Vietnam, Laos, Myanmar and Cambodia.
b. The aim of a "zero-COVID" strategy is to curb the circulation of the virus. This involves imposing strict lockdowns as soon as an outbreak is detected and introducing tough border controls and mandatory quarantine for all travellers, together with a highly functioning "test, trace and isolate" system for rapid contact tracing.

(3) From 1 April 2021 to 31 March 2022.

The worsening of COVID-19 cases in recent months with the emergence of more contagious variants[c], and the slow pace of vaccine rollouts in these countries[d], have delayed reopening and recovery in Southeast Asia as restrictions (see Chart 7[e]) weigh heavily on household consumption and the services sector. In July, the Asian Development Bank (ADB) lowered its growth outlook for Southeast Asia to 4.0% in 2021 (compared with 4.4% forecast in April), but envisioned a stronger recovery in 2022 (+5.2%). Projections were downgraded for Malaysia (+5.5%), Indonesia (+4.1%), Thailand (+2.0%) and Vietnam (+5.8%), and remain unchanged for the Philippines (+4.5%). Only Singapore has seen its growth outlook raised for 2021 (+6.3%). The key driver of recovery in ASEAN countries is expected to be external demand as domestic consumption and investment struggle to pick back up amid tougher restrictions. Demand from China and the US for the region's exports has favoured electronics exporters (Singapore, Vietnam, Malaysia, the Philippines and Thailand). Commodity producers like Indonesia and Malaysia have benefited from the global economic context and global prices, while the most tourism-reliant countries – Thailand, Cambodia and the Philippines – are expected to be hardest hit after closing their borders. Fiscal and monetary support is envisioned to remain limited because there is less room for manoeuvre now than before the crisis and interest rates are already at record lows.

Chart 7: Effective lockdown index*



*Index based on a combination of restrictions and mobility data. Latest figures: 13 August

*Source: Goldman Sachs (*Effective Lockdown Index).*

c. As at 23 August 2021, Malaysia had the highest incidence rate in the region at 6,538 cases per 100,000 population, despite a swift vaccine rollout. Malaysia's incidence rate was much higher than that of Thailand (2,834), where case numbers have exploded since early July, the Philippines (1,327), Vietnam (1,097) and Indonesia (612), whose first wave peaked in mid-July. In contrast, Laos and Cambodia had lower incidence rates, sitting below 500/100,000. COVID-19 appears to have stabilised in Singapore, where the incidence rate remains below 100/100,000. Apart from Singapore, no other country in the region was affected by the first COVID-19 wave.

d. Despite the faster pace of vaccine rollout in some countries, the prospect of reaching herd immunity in the near future is unlikely. At 23 August, 14% of the population was fully vaccinated in Laos, compared with 12% in Indonesia, 11% in the Philippines, 8.2% in Thailand and 1.9% in Vietnam. Malaysia, Cambodia and Singapore are some of the few countries in the region that have made significant progress, with 41%, 47% and 74% of their populations fully vaccinated, respectively.

e. As at 13 August, North America (9.5), Western Europe (20), Asia (excluding China) (29.6), China (24.6), Latin America (25.9), Central & Eastern Europe (11.2).

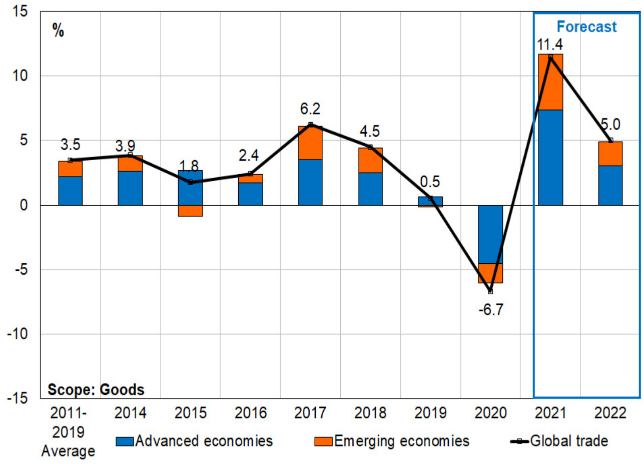
3. Trade bolstered by the global economic recovery

Global trade in goods contracted sharply in 2020 (–6.7%) amid the worst global economic slowdown on record. Trade plummeted in advanced economies in the first half of 2020 due to the particularly stringent measures to stem the spread of the pandemic. Trade in Asia, however, was more resilient because the COVID-19 pandemic affected advanced and emerging economies at different times and demand was higher for medical products and electronic equipment. Trade recovered quickly as vaccines were deployed and economic activity picked up. According to the the Netherlands' Centraal Planbureau (CPB), global trade in the first half of 2021 was up 6.6% on 2019 levels. In contrast, trade in services was still subdued as tourism stayed sluggish.

In 2021, global trade in goods is forecast to rebound considerably (+11.4%), aided by the global economic recovery. Advanced economies are predicted to contribute significantly to fuelling the recovery (see Chart 8), with a sharp increase in US imports, reflecting higher domestic demand. In the euro area, trade is expected to remain hampered by the restrictions imposed in the first half of the year. In emerging economies, strong Chinese trade is also driving the recovery in trade. In 2022, as the catch-up effects fade, global trade is only forecast to grow in step with global economic activity (+5.0%).

Global demand for French exports is expected to bounce back in 2021 (+10.4%) following a sharp contraction in 2020. Global demand is not predicted to grow as fast as global trade because France is highly exposed to the euro area, where the pickup in trade was slower, and trade integration between France and emerging economies has been low (emerging countries have been driving the recovery in trade). In 2022, global demand for French exports (4.9%) is expected to grow at the same pace as global trade amid a normalisation of trade in the euro area.

Chart 8: World trade and contributions by area

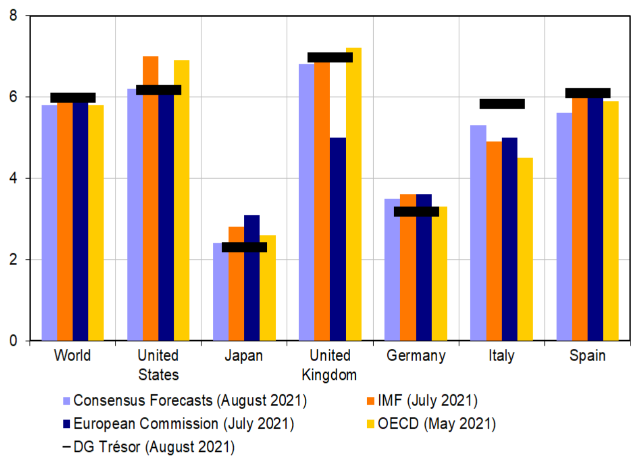


Source: Quarterly national accounts; DG Trésor calculations and forecasts.

Box 4: Comparison with other forecasts

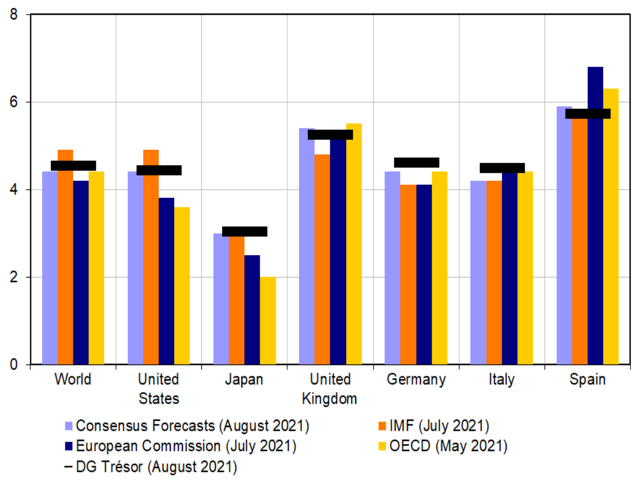
There is consensus among international organisations and economists on the scenario of a strong recovery in global economic activity in 2021 and 2022, given the progress in vaccine rollouts and the scale of support measures (see Charts 9 and 10). Our scenario is broadly consistent with other forecasts. Our 2021 projections are slightly lower for Germany, the US and Japan, but higher for Italy. Our scenario includes the latest economic indicators, in particular growth data for the second quarter, which was not available for most of the other forecasts released at end-August.

Chart 9: Growth forecasts for 2021 (%, annualised)



Sources: IMF, OECD, European Commission, Consensus Forecasts, DG Trésor.

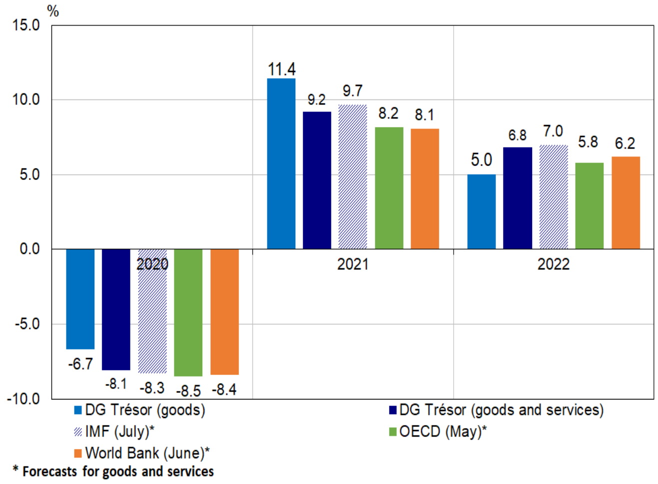
Chart 10: Growth forecasts for 2022 (%, annualised)



Sources: IMF, OECD, European Commission, Consensus Forecasts, DG Trésor.

The outlook for a quick recovery in trade is shared by the IMF, which forecasts that trade in goods and services[a] will rebound sharply in 2021 (see Chart 11). The World Bank and the OECD have not factored trade data for the first quarter of 2021 into their scenarios, in particular in emerging economies, and have therefore forecast a more moderate recovery in trade.

Chart 11: Global trade forecasts



Sources: IMF, OECD, World Bank and DG Trésor.

a. International tourism has been severely affected by the pandemic, weighing heavily on services trade, while the recovery in industrial production in the second half of 2020 has fuelled the rebound in goods trade.

4. Considerable uncertainty on many fronts

This scenario for a recovery in global economic activity is surrounded by considerable uncertainty on the upside and the downside. Uncertainty cutting across every sector includes:

- The pandemic, developments and restrictions: Uncertainty remains about how long COVID-19 vaccines are effective in protecting from the virus in advanced countries and the progress of vaccine rollout in emerging countries.
- Protecting the manufacturing base: While large-scale employment protection and business support measures have prevented mass bankruptcies and layoffs, the outlook remains uncertain. Some companies borrowed heavily during the crisis and might run into trouble again if financial conditions are tightened prematurely. This could increase the risk of bankruptcies and weigh on investment.
- The extent and impact of fiscal support measures: New measures may be implemented to further support economic activity. The measures already announced might have a lesser or greater impact depending on when they are actually implemented.
- Developments in financial markets: The rise in US long-term bond yields could intensify and spread to the euro area. Such an increase could result in significant portfolio rebalancing and volatility in some segments of financial markets, as well as capital flight from emerging countries. In view of the very high existing levels of public and private debt, significant tightening of sovereign financing conditions could lead to early consolidation, weighing on economic activity. A slump in equity markets and real estate would slow economic activity.
- Supply shortages and hiring difficulties. A higher-than-expected increase in commodity prices and worsening semiconductor shortages, exacerbated by ongoing bottlenecks in shipping and hiring difficulties in the labour market, may hold back economic activity and weigh on the pace of recovery and global trade, especially for net commodity importers. Some manufacturing sectors like the automotive and electronics industries could be particularly constrained by supply shortages.
- Trade tensions: Easing tariffs between the US and its partners would support global trade.
- Environmental risks: The increasing frequency and intensity of extreme weather events, e.g. heatwaves and natural disasters, could slow the recovery

Some causes of uncertainty are specific to certain areas:

- Household saving developments in advanced economies remain uncertain. A sizeable amount of savings has been accumulated during the crisis. The pace of consumption out of accumulated saving and future household saving rates will affect the pace of the recovery.
- After Brexit, there is persistent uncertainty around how the British economy will be restructured and the impact of Brexit on growth in the medium term. Changes in trade flows between the UK and the EU, combined with hiring difficulties in some sectors, could weigh on activity in the near term and productivity in the longer term.
- Emerging economies have shown encouraging signs of recovery after implementing unprecedented fiscal and monetary support programmes. However, the risks associated with higher debt levels have increased and the external constraints on independent monetary policy (pressures on exchange rates) remain high, particularly if interest rates were to rise again in advanced economies.

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(01 44 87 18 51)
tresor-eco@dgtresor.gouv.fr

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