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World economic outlook in Spring 2021: an uneven recovery

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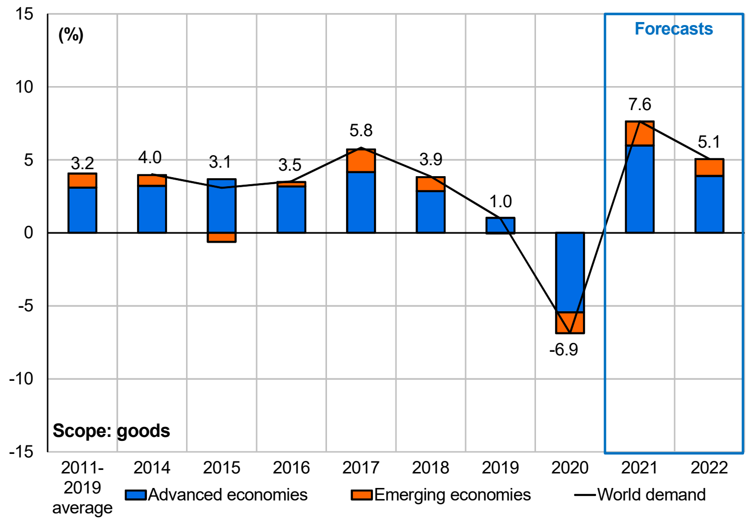
- Following a contraction of a scale not seen since the Second World War (–3.4%), the world economy is expected to bounce back strongly in 2021 (5.3%). This rebound will come mostly from the gradual exit from the global pandemic, as productive capacity was well protected by very comprehensive support measures. However, the recovery will be experienced unevenly across countries. While emerging economies as a whole, along with the United States, are expected to restore economic activity to 2019 levels before the end of the year, advanced economies overall will not manage to do the same until 2022.
- The euro area economy is expected to regain ground lost to the crisis by 2022, but recovery will again be unevenly spread across the region. While the German economy is expected to recover quickly to 1.8% above 2019 levels by the end of 2022, Spain (–0.9%) and Italy (–1.6%) will not reach pre-crisis levels over this period.
- The US experienced a milder shock than Europe in 2020. Economic activity is expected to recover to levels 4.9% higher than in 2019 by the end of 2022, helped by considerable fiscal stimulus. The UK economy, already coming to terms with the effects of Brexit and hit hard by the pandemic in 2020, is forecast to be 1.5% smaller in 2022 than in 2019.
- After falling sharply, global trade in goods recovered quickly in the second half of 2020 and is expected to continue to rebound in 2021 in line with industrial production, with forecast growth of 8.7% (–6.3% in 2020). Trade is expected to grow by 4.8% in 2022 as the world economy recovers.
- However, considerable uncertainties remain, and health improvements will be crucial. The recovery will also depend on labour market developments and firm dynamics, as well as continuing favourable financial market conditions.

Growth in world demand for French exports



Source: DG Trésor.

1. An uneven recovery

1.1 In 2020, advanced economies saw unprecedented falls in output

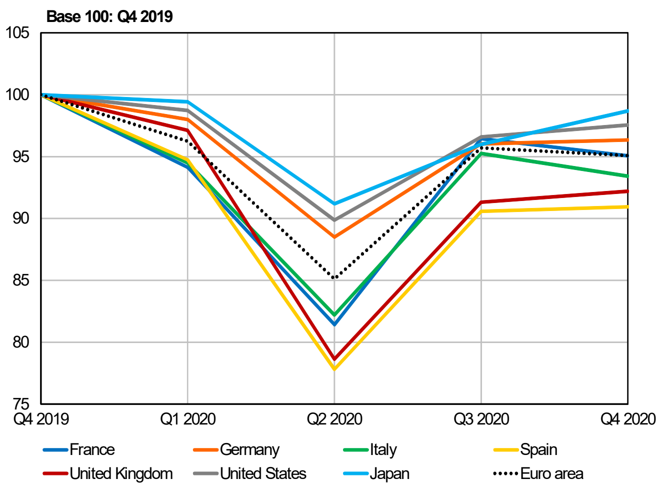
The COVID-19 pandemic, together with the preventive measures and restrictions, dramatically curbed economic activity, leading to sharper falls in output than those seen during the Great Financial Crisis. The downturn was unequal across countries, sectors and components of demand.

The extent of falls in GDP reflected the seriousness of the health emergency and the severity of restrictions in different countries. This was seen for example in Japan, where the spread was largely contained, and in the United States, where less restrictive measures were put in place. In both countries, the downturn was less severe than in Europe. Overall, Germany emerged better than its European neighbours, as its economy shrank by 5.3% in 2020, having contained a first wave of infections in the first half of the year, while also benefitting from specialisation in key economic sectors. At the other end, Spain and the United Kingdom were hit hard in the spring (and autumn, in the case of the UK) and experienced sharper falls in output (–11.0% and –9.9% respectively). France and Italy found themselves in the middle of the group, as their economies shrank by 8.2% and 8.9% respectively in 2020 (see Chart 1).

Besides government consumption, all components of demand fell in 2020, albeit by varying degrees in different countries. Private consumption in particular was affected by COVID-19 restrictions and contributed significantly to the decline in economic activity. Nevertheless, household income held steady in most countries thanks to large-scale government financial support, reflected by a sharp rise in the savings rate (see Box 1). After a summer rebound, retail sales stagnated in the second half of 2020 and have been falling since October in most countries, along with new COVID-19 restrictions. Investment also fell sharply but recovered strongly in the second half of the year, as investors grew more confident of an end to the pandemic despite uncertainty as to the exact horizon. Most advanced economies, particularly in the euro area, saw a dramatic fall in exports – and more heavily than imports – in 2020.

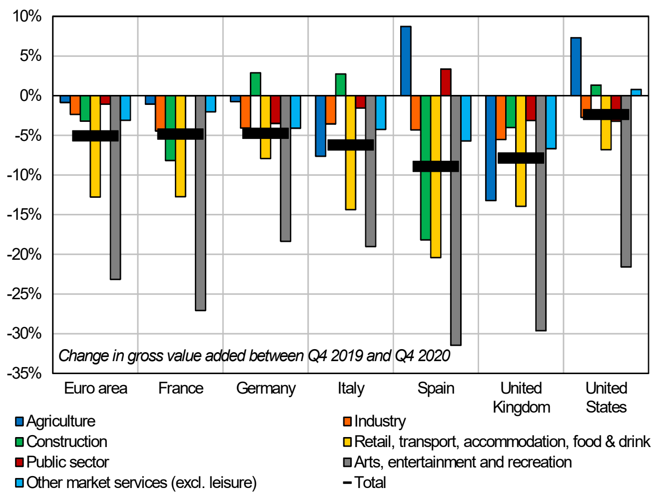
The divide between services and industry continued in 2020 (see Chart 2). The leisure sector, more vulnerable to COVID-19 restrictions due to high social interaction, continues to be heavily affected, while manufacturing output has recovered strongly and is approaching pre-crisis levels.

Chart 1: GDP movements in major advanced economies



Sources: Quarterly national accounts.

Chart 2: Sectoral downturns in selected advanced economies, Q4 2020



Sources: National accounts; DG Trésor calculations.

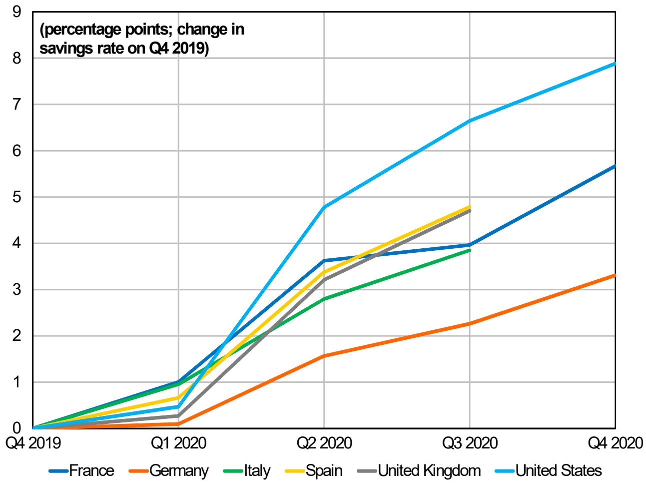
Box 1: Are savings built up during the pandemic a potential driver of recovery?

In 2020, there was an unprecedented rise in household savings in advanced economies. This build-up in savings can be linked to pandemic restrictions, which limited household consumption. At the same time, purchasing power was mostly unaffected thanks to household financial supports, amidst a worsening outlook for the economy and employment that favoured precautionary saving.

The increase in the savings rate varied across countries. In Q2 2020, the savings rate (as a % of gross disposable income) increased by almost 20 percentage points in the United States, United Kingdom and Spain, by more than 10 percentage points in France and Italy, and by 9 percentage points in Germany, over their pre-crisis levels. For the whole of 2020, the surplus accounted for more than 3 percentage points of GDP in Germany, nearly 6 percentage points in France and almost 8 percentage points in the United States. These differences can be explained by a number of factors, including the level of pandemic restrictions, the extent of financial supports for households, demographics and the financial position of households before the pandemic[a]. According to an ECB study[b], despite a significant rise in precautionary savings in the first quarter of 2020, forced savings was the primary driver of higher savings rates across the euro area over this period.

Consuming a portion of this savings surplus could stimulate the "catch-up" in consumer spending when the pandemic situation improves and restrictions are eased. The wealth effect for households could be considerable, given that a large proportion of savings are liquid financial assets held in the form of bank deposits[d], while the pandemic restrictions have forced households to postpone large purchases[e]. On the other hand, the fact that the majority of these savings are held by more well-off households less impacted by the crisis could limit the potential rebound in consumer spending.

Chart 3: Surplus savings accumulated in 2020 (% of 2019 GDP)[c]



Sources: Bureau of Economic Analysis, Destatis, INSEE and Eurostat.

The experience of past recessions would suggest that while an improvement in the COVID-19 situation might lead to a marked increase in private consumption, the savings rate would not drop back to its pre-crisis level immediately. Precautionary saving could continue amid concerns over how quickly the labour market returns to normal, or the possibility of future tax increases to tackle the rise in public debt.

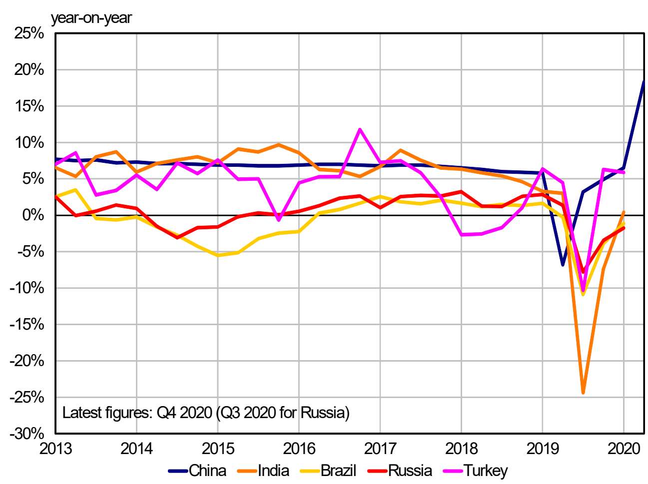
a. "Household wealth and indebtedness in France, Germany and Italy before the Covid-19 crisis", Banque de France, Bulletin no. 230, Article 3, 25 August 2020.
b. ECB Economic Bulletin, 6/2020 published on 24 September 2020, Box 5: "Covid-19 and the increase in household savings: precautionary or forced?".
c. Surplus savings are calculated as the cumulative value of additional savings (over the level of savings in Q4 2019) per quarter as a percentage of annual GDP for 2019 in each country.
d. A number of studies have shown that the wealth effect is significantly greater for liquid financial assets than for real estate or non-liquid assets. See, for example, Garbinti *et al.*: "Wealth effect on consumption during the sovereign debt crisis", *ECB Working Paper* no. 2357, January 2020. The marginal propensity to consume out of wealth also varies across countries.
e. According to a European Commission (ECFIN) consumer survey, large purchases fell to the same degree as during the Great Financial Crisis (–37 pts); in February 2021, they remained below pre-crisis levels (–17 pts).

1.2 Although all major emerging economies were badly affected initially, they are expected to rebound at different speeds

While the shock to major emerging economies has been unprecedented, the degree and length of the crisis has been different across countries (see Chart 4). China and Turkey were mildly affected, as growth slowed to 2.3% and 1.8% respectively over the whole of 2020, as their economies rebounded markedly following the initial shock earlier in the year. In India, Brazil and, to a lesser extent, Russia, the pandemic caused a sharper downturn and a more gradual recovery, implying to a recession in 2020 (–8.4% in India, –4.6% in Brazil and –3.1% in Russia).

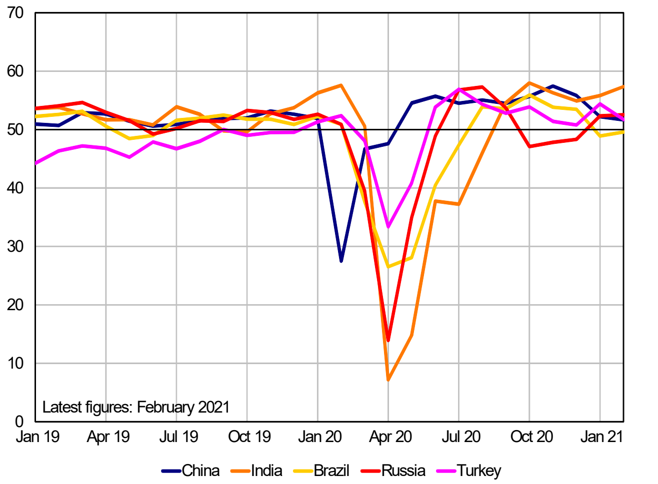
Business surveys point to diverging prospects for major emerging economies (see Chart 5). PMI indices in China returned to expansion territory in March 2020 for manufacturing and in May 2020 for services, and have remained buoyant since. While the PMI index is holding steady just above 50 in Turkey, it has been rising in Russia since the autumn, and is now just above 50. In Brazil, the composite PMI recovered strongly in the second half of 2020, but fell back into contraction in January 2021. In India, the PMI emerged from contraction territory in August for manufacturing and October for services; both have been rising steadily since January 2021.

Chart 4: GDP growth in major emerging economies



Sources: National statistics institutes.

Chart 5: Business sentiment in major emerging economies



Sources: Composite PMI index (Markit), except for Turkey (manufacturers' index).

2. After an unprecedented downturn, the world economy is expected to bounce back strongly over the forecast period

This scenario assumes a gradual return to normal on the healthcare front and the lifting of restrictions worldwide in the second half of 2021. It also assumes that monetary policy will remain accommodative and keep favourable financing conditions. Sectoral and labour reallocations would be gradual, with no surge in bankruptcies or unemployment, and government supports would be phased out slowly. It should be stressed, however, that this forecasting exercise is complicated by a high degree of uncertainty, given the extent of the economic shock, the number of factors that could affect recovery, and the considerable pandemic-related risks (see Section 4).

Table 1: Growth forecasts[a]

GDP (yearly average, %)	2018	2019	2020	2021	2022	Cumulative 2020-2021	Cumulative 2020-2022
				(forecasts, WDA)			
World growth	**3.5**	**2.7**	**–3.4**	**5.3**	**4.3**	**1.7**	**6.1**
Advanced economies[b]	**2.2**	**1.6**	**–4.8**	**4.1**	**3.6**	–0.9	2.6
Unites States	3.0	2.2	–3.5	4.9	3.7	1.2	4.9
Japan	0.6	0.3	–4.8	2.7	2.1	–2.2	–0.1
United Kingdom	1.3	1.4	–9.9	4.6	4.6	–5.8	–1.5
Euro area	**1.9**	**1.3**	**–6.8**	**3.7**	**4.1**	–3.3	**0.6**
Germany	1.3	0.6	–5.3	3.5	3.8	–2.0	1.8
Italy	0.8	0.3	–8.9	3.9	3.9	–5.3	–1,6
Spain	2.4	2.0	–11.0	5.6	5.4	–6.0	–0.9
Other advanced economies	2.3	1.6	–3.1	3.5	3.3	0.3	3.6
Emerging economies	**4.5**	**3.6**	**–2.4**	**6.3**	**4.9**	**3.7**	**8.8**
Brazil	1.3	1.4	–4.6	3.3	1.6	–1.5	0.1
China	6.8	6.1	2.3	8.4	5.8	10.9	17.3
India[c]	6.1	4.2	–8.4	10.7	6.0	1.4	7.5
Russia	2.2	1.3	–3.1	3.0	2.4	–0.2	2.2
Turkey	2.6	0.9	1.8	6.0	4.2	7.9	12.4
Other emerging economies	3.3	2.5	–4.0	4.3	4.5	0.1	4.6
Global trade[d]	*4.4*	*0.3*	*–6.3*	*8.7*	*4.8*	*1.8*	*6.7*
Global demande for French exports[e]	*3.9*	*1.0*	*–6.9*	*7.6*	*5.1*	*0.2*	*5.3*

a. Forecasts are finalised as of 1 March 2021.
b. Forecasts for "advanced economies" and "emerging economies" are calculated using IMF forecasts (January 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, United States, United Kingdom, OPEC, Netherlands, China, Switzerland, Japan, Russia, Poland, Turkey, Brazil, Sweden, South Korea, Hong Kong, Singapore, Canada, Morocco, Portugal, Austria, Czechia, Hungary, Australia, India, Malaysia, Mexico, Thailand, Ireland, Denmark, Greece, Slovakia, Norway, Taiwan, Finland, Philippines and Argentina), in addition to imports from France.
e. World export demand covers the 39 countries mentioned above, which together account for 91% of French exports.

Source: DG Trésor (March 2021).

2.1 The pandemic is expected to affect major advanced economies unequally

After the euro area, economy shrank by an unprecedented 6.6% in 2020, the ongoing pandemic and continuing restrictions are expected to restrain recovery in the first half of 2021 and limit growth in 2021 to 3.7%. The pace of recovery in individual countries will depend on their sensitivity to the initial shock (e.g. sectoral composition of the economy, exposure to international trade, etc.), country-level structural factors (e.g. labour market structure, potential growth, etc.) and the extent of national support and recovery measures. The NextGenerationEU recovery plan will also benefit the euro area over the period 2021-2026. Growth is set to gather pace in 2022 and will reach 4.1%, boosted by consumer spending as pandemic restrictions are lifted. The euro area economy will return to 2019 levels by the end of the forecast period, albeit with significant differences across countries.

In Spain, whose economy took a severe hit in 2020 (–11.0%), a strong rebound is forecast for 2021 (5.6%), driven by consumer spending and investment. The lifting of pandemic restrictions and a steady recovery in tourism will help the economy to regain lost ground, with growth rising to 5.4% in 2022. However, Spain is not expected to regain all of its lost output by 2022 (–0.9% down on 2019) due to (i) long-term weakness of the labour market, as the structurally high unemployment, has risen sharply with the growth of temporary contracts, and where pre-existing matching problems hamper labour reallocation; and (ii) continuing difficulties in the tourism sector (12% of GDP). The strength of the recovery will also depend on the use of EU recovery funds, of which Spain and Italy are the main recipients.

The extent of the pandemic in Italy resulted in a sharp fall in output (–8.9%). The economy is expected to recover through 2021 and 2022 (3.9%). While consumer spending is expected to recover, structural weaknesses in the labour market, in particular weak productivity and low labour market mobility among the economically active, will continue to restrain growth. The EU recovery plan should help sustain investment, which is forecast to reach pre-crisis levels by 2022, despite weak economic growth (output will remain 1.6% below 2019 levels).

Germany was less severely affected by the pandemic than other European countries, leading to a more moderate fall in output of 5.3% in 2020. The German economy, helped along by a resilient manufacturing sector in comparison with services, as well as a strong recovery in international trade, should rebound in 2021 (3.5%). In 2022, GDP is expected to grow by 3.8%, as the economy rebalances towards domestic demand, in particular consumer spending, which is expected to overtake pre-crisis levels on the back of a resilient labour market and sustained growth in real wages.

The United Kingdom was hit hard by the pandemic; restrictions weighed heavily on output in 2020, as the economy shrank by 9.9%. Stringent lockdown measures are expected to restrain economic activity in early 2021, before a gradual return to normal conditions lifts GDP growth to 4.6%. As well as the lingering effects of the pandemic, the effects of Brexit are expected to subdue output in 2022. The loss of export performance due to changes in the regulatory environment, in addition to uncertain domestic demand, should dampen growth.

In the United States, GDP fell by 3.5% in 2020. A comprehensive stimulus, all the more necessary given weaker automatic stabilisers, helped to minimise the impact on the wider economy while protective measures in response to the pandemic were generally less restrictive than in other advanced economies. Output is expected to rebound strongly in 2021 with growth of 4.9%, overtaking its pre-crisis level. Fiscal stimulus packages implemented from December 2020 onwards are expected to help sustain consumer spending as progress with vaccination programmes reduces the need for social distancing. As households release some of their savings, alongside a gradual return to normal labour market conditions, consumer spending should remain strong over the forecast period. Growth is expected to slow in 2022 as the effect of stimulus programmes weakens, while unemployment should continue to fall to just above its pre-crisis level.

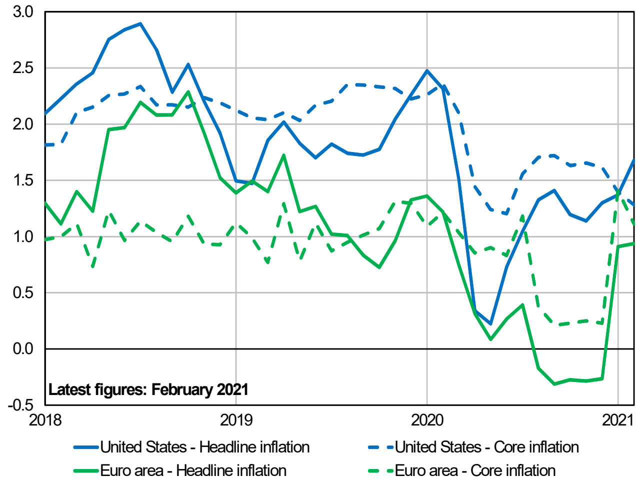
Japan was impacted less by the pandemic in 2020, recording a more moderate decline (–4.8%) than other major advanced economies. Output is expected to return to around its pre-crisis level in 2022. While the labour market has been protected, at the cost of fewer hours worked and lower variable pay, consumer expenditure is expected to recover slowly, as households remain hesitant and wages slowly return to normal levels. The Japanese economy should receive a boost from increased trade in goods.

Box 2: Will inflation return to normal levels in the US and the euro area?

Just before the pandemic, the annual inflation rate in 2019 in the United States was 1.8% at close to full employment, higher than in the euro area (1.2%). In 2020, this gap widened (1.3% in the United States; 0.3% in the euro area). Similar factors affected price dynamics in both areas, in particular (i) energy prices dragged on inflation in 2020 (contributing –0.6 pp in the US and –0.7 pp in the euro area), in response to the sharp fall in energy demand at the height of the pandemic; (ii) core inflation, which was positive in both areas (1.4 pp in the US and 0.5 pp in the euro area), fell on both sides of the Atlantic in line with economic activity, particularly in the tourism and transport sectors; (iii) food prices increased in response to higher demand for essential goods (contributing 0.5 pp in the US and 0.4 pp in the euro area). What these figures do not show, however, is the divergence in the second half of the year. While inflation increased in the United States as economic activity regained steam, the euro area remained in deflationary conditions (–0.2% on average), due to the temporary reduction in VAT in Germany in the second half of 2020.

In early 2021, higher energy prices were a driver of inflation in the United States (1.7% in February) and the euro area (0.9%), where the end of the VAT reduction in Germany also applied upward price pressure. 2021 should be broadly characterised by a strong rebound in energy prices and some components of core inflation[a], adding temporary inflationary pressures in the second quarter. In the euro area, inflation is expected to converge to the ECB target – albeit temporarily – in the second half of 2021, as the reversal of the temporary VAT reduction in Germany in the second half of 2020 feeds into higher price levels. After this largely technical rebound in 2021, inflation is expected to stabilise at a lower level as a result of continuing weak demand. In the United States, core inflation should be sustained by the fiscal stimulus, hovering just above 2% during 2022. It is possible that households and State administrations will hoard a portion of transfers they receive, curtailing the recovery. This should keep inflationary pressures in check, against the backdrop of a moderate wage-price loop as the labour market would regain only some degree of normality by 2022.

Chart 6: Inflation in the euro area and United States



Sources: Eurostat, Bureau of Labor Statistics.

a. Underlying inflation, which excludes energy, food and tobacco, incorporates the effects of the reduction – and therefore the reversal of the reduction – in VAT.

2.2 Fiscal stimulus will drive a rapid return to pre-crisis GDP levels in most major emerging countries

In China, the economy continued to grow in 2020 (2.3%), unlike in most other countries. However, this growth was characterised by an imbalance between a large and rapid rebound in production, mostly in manufacturing, on the one hand, and falling consumption on the other. An accommodative policy mix, as well as electronic goods and healthcare equipment exports, sustained industrial production, despite the collapse in global demand and continuing tensions with the United States. China is expected to continue its resurgence in 2021, with forecast growth of 8.4%, aided by market share gains in 2020 and continued pro-active fiscal policy, in addition to favourable base-effect. However, monetary policy is expected to remain neutral, to allow more room to provide refinancing to public enterprises. In 2022, the acceleration of consumer spending should drive GDP growth to reach 5.8%, boosted by steady employment growth and the release of savings built up during 2020.

The recession in Brazil was less severe than expected in 2020, as GDP fell by 4.1%[1]. The economy has benefitted from the rebound in industrial production in China, its largest export market (mainly raw materials such as soy and iron ore). At the same time, the government has embarked on an ambitious counter-cyclical policy. Brazil's budgetary support plan accounts for 8% of GDP, and more than half of the programme consists of transfers to vulnerable households in order to prop up consumer spending. Owing to the poor state of the country's public finances, almost all support measures will be phased out in 2021, with growth expected to reach 3.3%, dampening the recovery. While the pandemic remains a major cause of short-term uncertainty, weak investment and low productivity are set to hamper growth over the medium and long term.

In India, experienced a deep recession in 2020, as the economy shrank by 7.0% over the calendar year (and by 8.4% over the 2020/21 tax year, according to estimates). The pandemic reached its peak in September 2020 and now appears to be under control. The economy is expected to rebound strongly in 2021, with forecast growth of 10.7%, supported by a broad fiscal stimulus package that will take over from significant monetary easing that began in 2019 and continued in 2020. New structural reforms, along with continued FDI, should maintain the economy's growth potential, with GDP forecast to grow by 6.0% in 2022, limiting the harm from internal imbalances (i.e. public finances and financial sector).

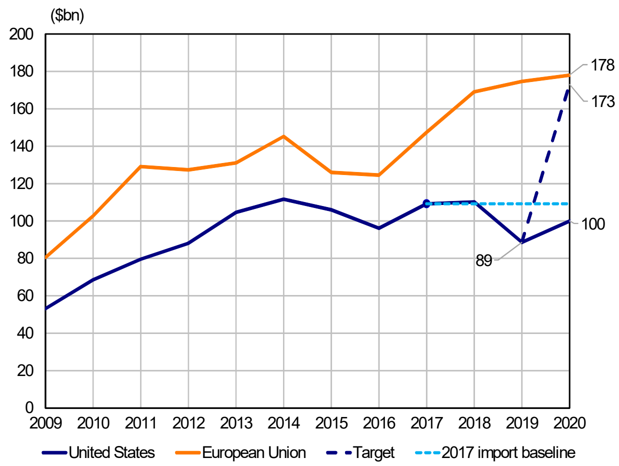
(1) Official figures. The DG Trésor forecast, finalised before publication of the latest figures, was –4,6%.

In Russia, the economic contraction in 2020 was smaller than expected (–3.1%), despite the combined effect of the pandemic and the collapse in oil prices in March. The fall in the rouble, the economy's relatively sheltered structural composition (i.e. limited service sector, public sector employment) and substantial fiscal and monetary support measures together limited the scale of the recession. Supported by the resumption of the public investment programme, the economy is expected to grow by 3.0% in 2021, before returning to a pace more in line with underlying fundamentals in 2022 (2.4%).

In Turkey, temporary expansionary policies helped the economy recover strongly in the second half of 2020 and achieve growth of 1.8% across the year. Growth is expected to reach 6.0% in 2021, driven by resurgent international trade in goods and encouraging progress with the vaccination programme. The Turkish economy is expected to continue to grow strongly in 2022 (4.2%). However, labour market weaknesses, in particular high levels of informal employment in pandemic-exposed sectors, will restrain growth in the aftermath of the crisis.

Box 3: Review of Chinese purchase commitments, one year on from the Phase One Deal

Chart 7: Chinese goods imports covered by the Phase One Deal



Source: Chinese General Administration of Customs.

Signed on 15 January 2020, the China-US agreement provides for managed trade arrangements, with a Chinese commitment to increase purchases of American goods and services by $76.7bn in 2020 and $123.3bn in 2021 over 2017 levels (the so-called "pre-trade war" baseline), equal to $200bn of additional imports over two years. Goods covered by the import commitments fall into three broad categories and accounted for three-quarters of US imports into China in 2017: agricultural goods, energy products and manufactured goods; manufactured goods account for both the highest number of products and highest value of import commitments. One year on from the agreement, China has increased its imports of US goods over 2019 levels despite the COVID-19 crisis, but has not reached the target set under the agreement (*see* Chart 7); in 2020, imports of US goods covered by the agreement stood at $100bn[a] (against $109bn in 2017). This figure did however equate to a 12.9% increase on 2019 and accounted for the most of the 10.4% increase in all US goods imports into China[b]. This performance contrasts with the slight decline in total imports into China of 1.1% against the backdrop of COVID-19 and indicates a partial catch-up, after US goods imports into China fell by 21.3% in 2019 in the context of the trade war. According to Chinese figures, agricultural goods imports came closest to the target (–2.3%, against 51.9% on 2017), followed by manufactured goods (–14.9% against 42.0%) and energy products (44.6% against 273.0%). The increase in agricultural goods imports is largely due to an increase in purchases of American soybeans and, to a lesser extent, pork and grain. Imports of manufactured goods fell due to a decline in automotive and aerospace goods, despite an increase in imports of semi-conductors (precautionary purchases linked to US threats of an export ban) and medical devices. Energy purchases represented the most ambitious target; the increase in imports in volume terms is underestimated due to the fall in oil prices in 2020 (the export price index for US fossil fuels fell by 28.2%). Failure to reach these targets is in part due to limitations identified by a number of analysts when the agreement was signed. One is that value commitments do not take into account the changes in price and volume; another is that the targets themselves are very ambitious, given that figures for 2019 – when protectionist measures were at their height – were the starting point.

a. Chinese Customs Administration figures. Only commitments on goods, representing $64bn of the $76.7bn increase in goods and services in 2020, are included in this analysis. Figures for services are still unavailable.
b. However, imports not covered by the agreement increased only slightly (1.1%) on 2019, and remain far below (–23%) 2017 levels.

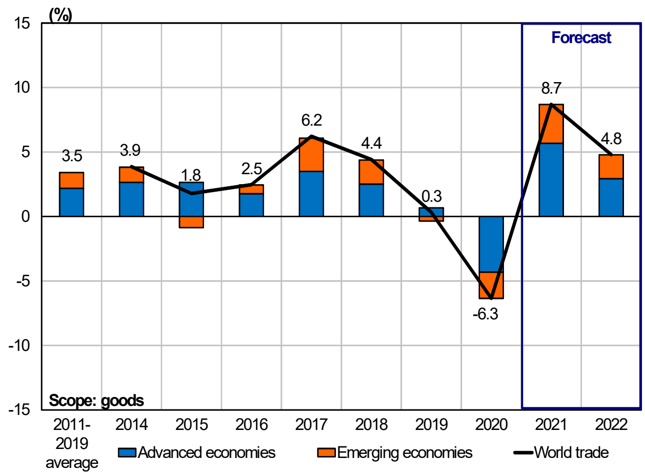
The COVID-19 crisis and the continuation of historically high tariffs have hampered the agreement. The pandemic has weighed heavily on imports into China, as well as the value of US goods exports (down 13.4% in 2020) for all trade partners. Increased demand for mass-market electronic goods as a result of the broad shift to remote working benefitted China but offered little benefit to the United States, one third of whose exports to China includes non-electrical machinery and equipment, and aerospace and automotive hardware – sectors that are facing particular difficulties in the global market. Furthermore, the Phase One deal has not managed to end the trade war between China and the United States. Tariffs applied by both sides have remained at historically high levels throughout 2020 (around 20% on average), including most sectors covered by China's purchase commitments.

3. Trade to be supported by global economic recovery

Global trade in goods fell sharply in 2020 (–6.3%), in step with the unprecedented fall in economic activity worldwide, particularly in the advanced economies that are more integrated into the international trading system. This decline is due to the measures taken in the second quarter of 2020 to curb the spread of COVID-19, which led to the partial shutdown of economies, and the fall in domestic demand. Trade in emerging economies, particularly in Asia, held up more strongly, as demand shifted towards medical devices and electronic goods. In total, global trade in goods fell by almost 14% in the second quarter of 2020 compared to their pre-crisis level. By the end of the 2020, global trade in goods had almost returned to pre-crisis levels, in line with a resurgent world economy in the second half of the year[2]. However, trade in services, weighed down by the tourism sector, remained well below pre-crisis levels.

Global trade is expected to bounce back strongly in 2021, with growth of 8.7%. Advanced economies will contribute markedly to the recovery (see Chart 8). Imports into the US are expected to rebound strongly in 2021 as the Biden spending plan spurs demand. However, COVID-19 restrictions will hamper the recovery in euro area trade in the first half of 2021. In 2022, growth in global trade is expected to slow to 4.8%, in line with growth of the world economy, as the "catch-up effect" fades out. A return to normal trading conditions in the euro area as pandemic restrictions are eased, along with buoyant activity in the emerging economies, will sustain global trade in 2022. However, as China shifts its focus to domestic demand and production, economic growth in China will have less of an impact on global trade as has been the case.

Chart 8: World trade and contributions by area



Source: CNT, DG Trésor calculations.

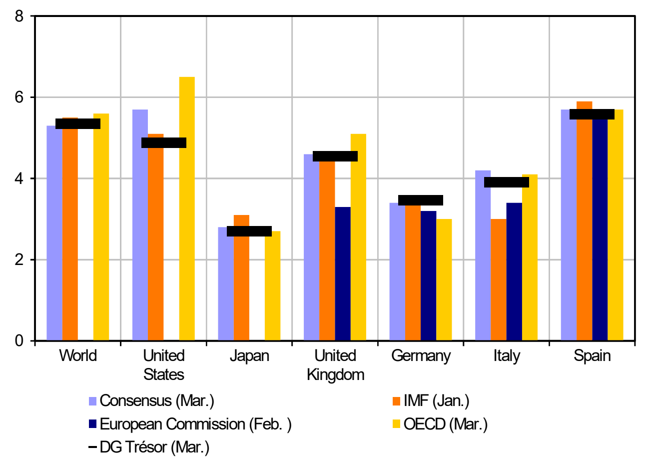
French export demand is expected to rebound in 2021 (7.6%, up from –6.9% in 2020) albeit at a slower pace than global trade overall, and despite experiencing a slightly sharper fall in 2020. French exports, heavily exposed to euro area countries, will remain tied to pandemic restrictions which, when lifted, will serve as a boost to French export demand in 2022 (5.1%), although this might relate more to a weak recovery in imports from the United Kingdom post-Brexit than to buoyant demand in emerging economies.

(2) According to *Centraal Planbureau* (CPB) global trade grew in December 2020 to 1.3% above its December 2019 level.

Box 4: Comparison with forecasts from international organisations

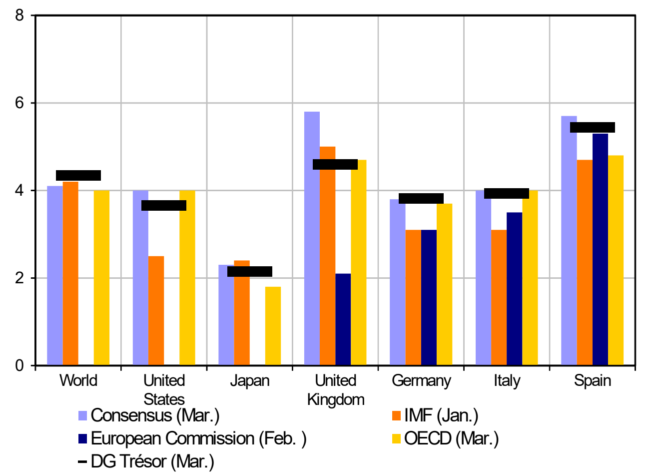
There is broad consensus on the scenario of a strong recovery in the world economy over the forecast period. Overall, the scenario is close to those of the IMF in January and OECD in March, more favourable than the European Commission's Spring forecast in February for European countries, and lower than the OECD's growth projections for the United States.

Chart 9: Growth forecasts for 2021



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

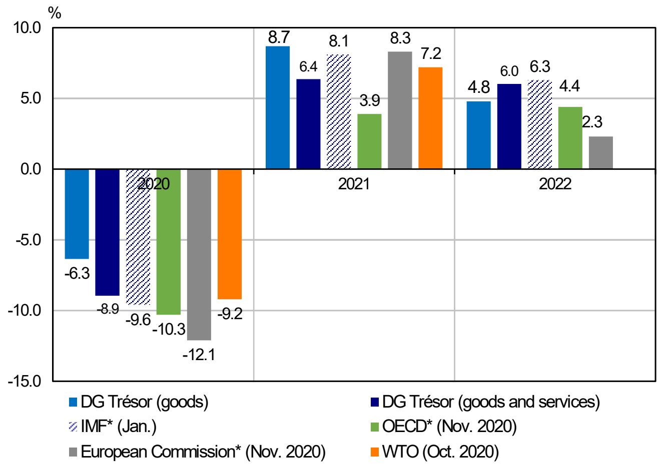
Chart 10: Growth forecasts for 2022



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 surpass pre-crisis levels in 2022. The European Commission and OECD, which did not factor the rebound observed at the end of the year into their November forecasts, predict more moderate growth in trade.

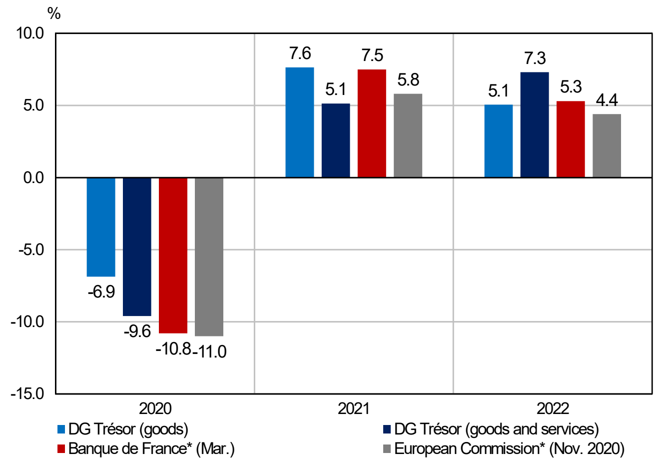
Chart 11: Global trade forecasts



*** Forecasts for goods and services**

Sources: IMF, OECD, DG Trésor.

Chart 12: Export demand forecasts



*** Forecasts for goods and services.**

Sources: European Commission, Banque de France, DG Trésor.

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

4. Considerable uncertainty remains in many areas

While the development of vaccines signals a way out of the crisis, there is still considerable uncertainty over developments in the world economy. High-level risks include:

- Developments with regard to the pandemic, linked to the pace of vaccination and emergence of variants that would require updated vaccines.
- Protecting the production base. Whilst large-scale employment protection and business support measures have prevented mass bankruptcies and redundancies, the outlook remains uncertain. Progress in the medium term will depend on public health developments and the speed at which government supports are withdrawn. Tightening financial conditions too soon against a backdrop of high private-sector debt could increase the risk of bankruptcies and penalise investment. Furthermore, changes in the sectoral composition of the economy could affect productivity and lead to higher unemployment.
- The extent and impact of budgetary measures. New measures may be implemented to provide further support to the wider economy. The impact of measures already announced may depend on how much is actually used, and how much is redirected to savings, for example.
- Uncertainties also persist around the financial markets, particularly given developments in the bond markets. February's increases in US bond yields, which spread to the euro area, could intensify out of fear of inflationary risks, an anticipation that central banks will react, and uncertainty over the sustainability of public finances. Such an increase could result in significant portfolio rebalancing and volatility in some market segments, as well as capital flight from emerging countries. In view of the present very high level of public debt, significant tightening of sovereign financing conditions could lead to early consolidation, weighing on economic activity.
- Trade tensions. The crisis has brought talks of trade barriers back to the fore. On the other hand, the new Biden administration has made encouraging signals on multilateralism, without lifting any major tariff barriers for the moment. Resolving outstanding trade issues between the European Union and United States (e.g. in aerospace and automotive sectors, or retaliation on taxes on digital services) would be favourable to transatlantic trade.

Some causes of uncertainty are area-specific:

- Savings trends in the advanced economies. A considerable amount of savings has built up during the crisis, but the rate of consumption will depend on the health and economic outlooks.
- The impact of Brexit. As well as the drop-off in trade and rising uncertainty in the short term, questions remain as to how quickly the UK economy can restructure, which may affect growth in the medium term. In addition, the UK government's economic strategy, and its consequences, remain unclear.
- The emerging economies have taken advantage of favourable financial market conditions to implement unprecedented fiscal and monetary expansions. However, the risks associated with higher debt levels and the external constraints on independent monetary policy remain high, particularly if interest rates were to rise again in the advanced economies.

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