FitchRatings

Global Economic Outlook – March 2019

Less Growth, More Liquidity

Highlights

- Sharp cuts to 2019 growth, 15 out of 20 countries revised down
- EM/China key source of weaker global demand
- But no global recession
- Cushion from tight labour markets, fiscal policy
- China stepping up stimulus, will gain traction in 2H19
- And big shift in global monetary policy conditions
- Now see only one Fed increase in 2019
- ECB rate rises off table, asset purchases to restart

Global Forecast Summary

(%)	Annual Average 2014-2018	2017	2018	2019f	2020f
GDP Growth					
US	2.4	2.2	2.9	2.3	1.9
Eurozone	1.9	2.4	1.8	1.0	1.3
China	6.9	6.8	6.6	6.1	6.1
Japan	1.0	1.9	0.8	0.7	0.5
UK	2.1	1.8	1.4	1.2	1.7
Developed [a]	2.0	2.2	2.1	1.7	1.6
Emerging [b]	4.7	5.2	5.1	4.6	4.9
World [c]	3.0	3.3	3.2	2.8	2.8
Inflation (end of period)					
US	1.5	2.1	1.9	2.2	2.3
Eurozone	0.8	1.3	1.5	1.3	1.4
China	1.8	1.8	1.9	2.4	2.4
Japan	1.0	1.1	0.3	2.1	1.1
UK	1.5	2.9	2.1	2.2	2.2
Interest Rates (end of period)					
US	0.83	1.50	2.50	2.75	3.00
Eurozone	0.05	0.00	0.00	0.00	0.00
China [d]	4.78	4.35	4.35	4.35	4.35
Japan	-0.02	-0.10	-0.10	-0.10	-0.10
UK	0.46	0.50	0.75	0.75	1.25
US 10 Year Yield	2.39	2.43	2.83	3.40	3.70
Exchange Rates and Oil					
Oil (USD/barrel)	64.8	54.9	71.6	65.0	62.5
USDJPY (end-period)	111.6	112.7	109.7	112.0	112.0
USDEUR (end-period)	0.86	0.83	0.87	0.88	0.88
GBPUSD (end-period)	1.43	1.35	1.27	1.30	1.30
USDCNY (end-period)	6.49	6.51	6.87	7.00	7.20

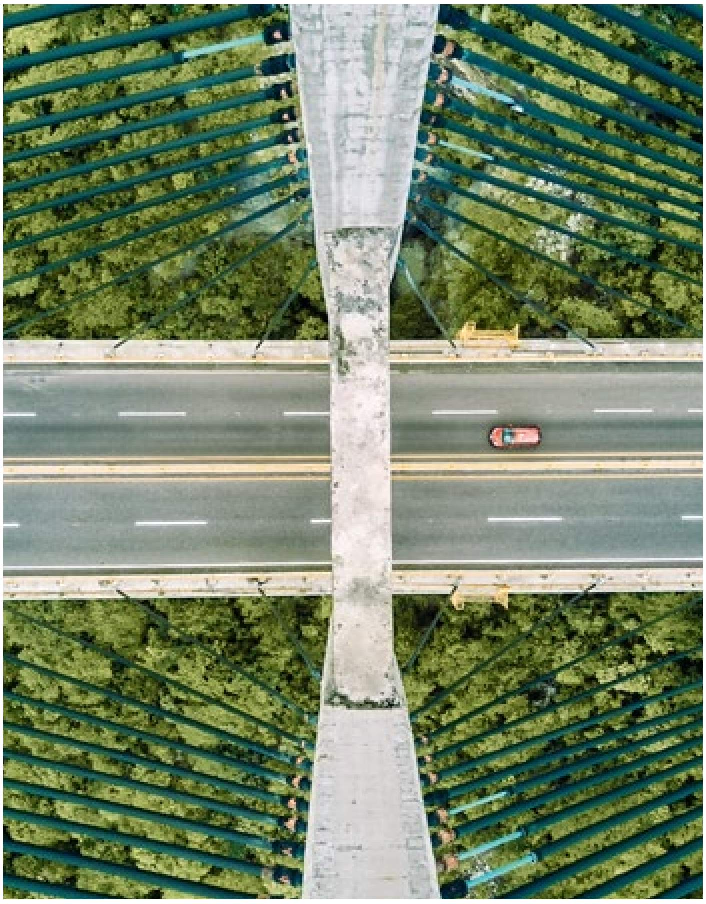
[a] US, Japan, France, Germany, Italy, Spain, UK, Canada, Australia and Switzerland.

[b] Brazil, Russia, India, China, South Africa, Korea, Mexico, Indonesia, Poland and Turkey.

[c] 'Fitch 20' countries weighted by nominal GDP in USD at market exchange rates (3 year average)

[d] One year policy lending rate

Source: Fitch Ratings

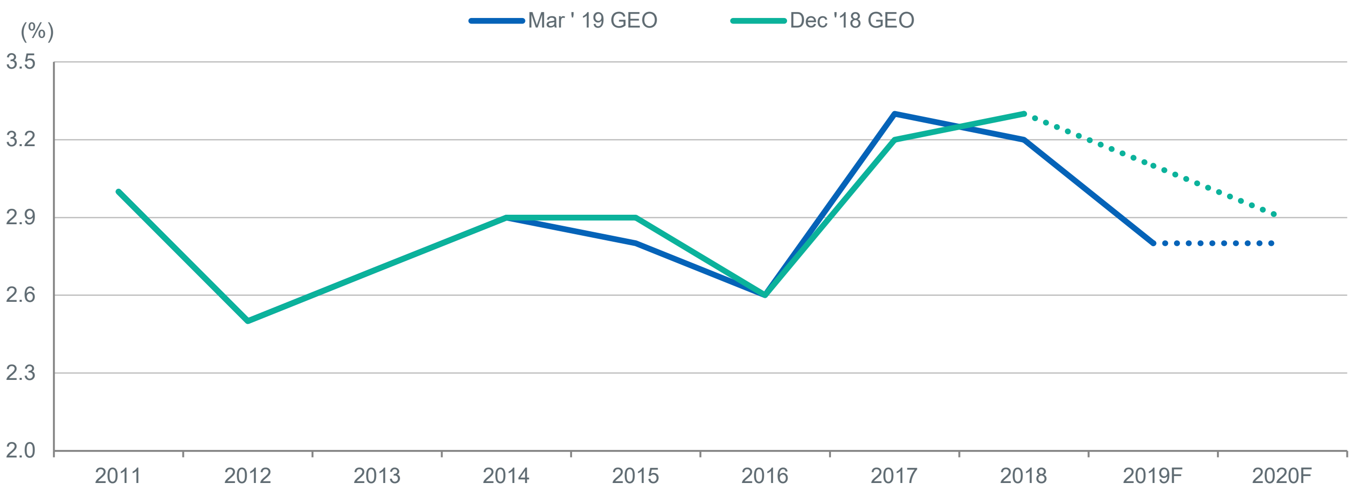


Sharp Deterioration in Global Growth Outlook

Global growth prospects have deteriorated significantly since our last Global Economic Outlook (GEO) in December 2018. The eurozone growth outlook has weakened particularly sharply, evidence of a slowdown in China has become much clearer and activity in other emerging markets (EM) has decelerated, led by abrupt macroeconomic adjustments in Turkey and Argentina in the aftermath of last summer's currency crises. This has occurred against the backdrop of world trade growth weakening steadily through most of 2018 and then abruptly at the end of the year. The US-China trade war has distorted trade flows but weaker EM domestic demand has been a key contributor to the trade slowdown.

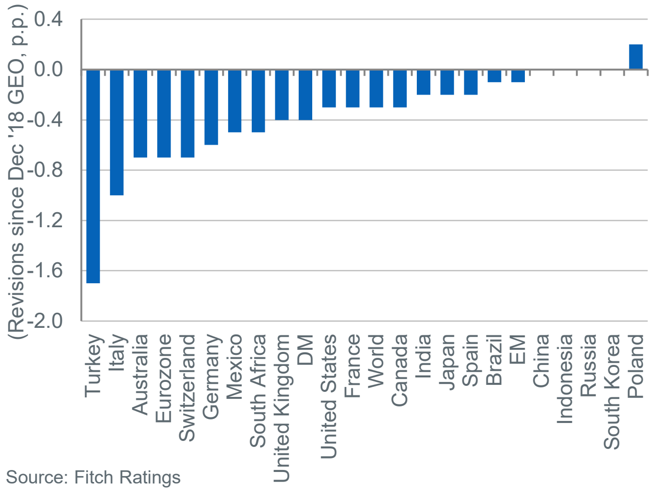
But while our global growth forecast for 2019 has been cut quite aggressively, we do not see the onset of a global recession. The US economy is still growing above trend, low unemployment and solid household income growth are supporting consumer spending, and fiscal policy is being eased. Some of the recent eurozone weakness reflects temporary factors that should soon start to abate. China has stepped up policy easing and we are seeing early signs of this gaining some traction, consistent with our forecast that domestic demand growth in China will stabilise from the middle of this year. The increase in US tariffs on Chinese imports that we had been expecting at the beginning of March has not materialised and there are growing hopes that it may be avoided.

World GDP Growth



Source: Fitch Ratings, National Statistical Offices, Datastream

Revisions to Fitch 2019 GDP Growth Forecasts

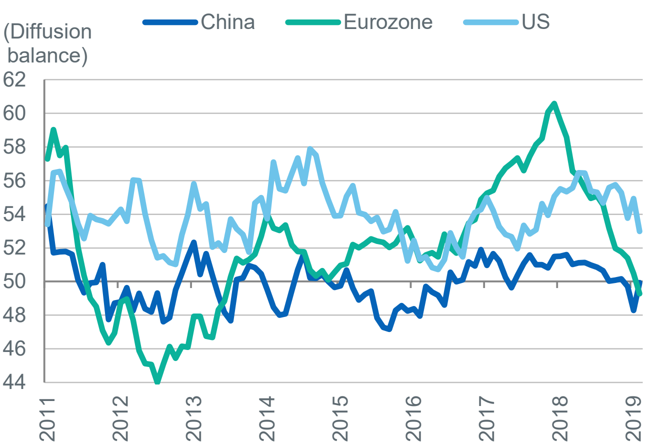


Source: Fitch Ratings

World Export Volumes

Source: Fitch Ratings, CBP Dutch Policy Bureau, Datastream

Purchasing Managers' Indices - Manufacturing



Source: Fitch Ratings, IHS Markit, Bloomberg, Haver Analytics

Moreover there has been a sizeable shift in the global monetary policy environment in the last few months. The Federal Reserve has signaled a pause from its previous guidance of rate increases and we now only see one rate rise this year, compared with three penciled in for 2019 in the last GEO. The ECB has also responded quite swiftly to the growth surprise and now seems unlikely to raise interest rates before the end of 2020. We now think that the ECB will restart net asset purchases in 2019. With the Fed also signalling in recent months that its balance-sheet run-down is likely to stop at the end of 2019, leaving asset holdings at a much higher level than previous analysis had been suggesting, this adds up to a much more generous outlook for global liquidity through 2019 than we had anticipated. This will take pressure off EM central banks to tighten policy and perpetuate an environment of low market interest rates. This elevates the risk of further distortions to the allocation of capital. But in the near term it will support the US housing sector and reduce pressure on corporate, sovereign and EM borrowers – who have taken on sizeable additional debts in recent years – and help to stabilise world growth in 2020.

Deep and Wide Cuts to Growth Forecasts

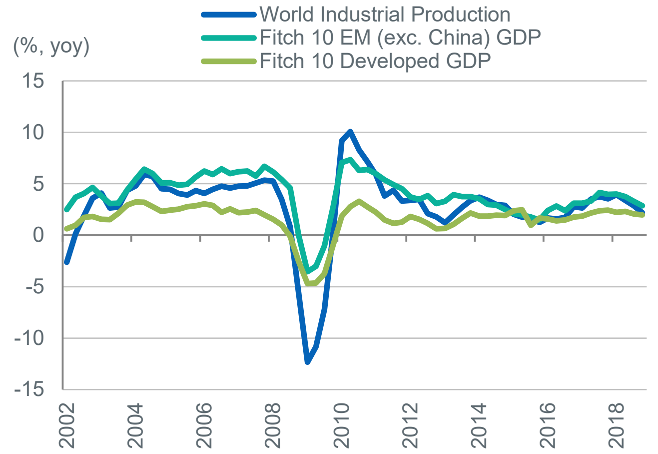
Our global growth forecast for 2019 has been reduced to 2.8% from 3.1% in December and our 2020 forecast has been cut to 2.8% from 2.9%. We had long anticipated that 2018 would prove to be a peak year for global growth and that it would subsequently fall back gradually towards its long-term average of about 2.6%. But the correction now looks like it will be a lot swifter. Our updated forecast shows a 0.4pp decline in global growth between 2018 and 2019, the biggest year-to-year decline since 2012. The scale of the downward revision to the world growth forecast in this edition of the GEO is matched by its scope. We have lowered 2019 growth forecast for 15 of the 20 countries covered, the most dramatic being Turkey (-1.7pp), followed by Italy (-1pp), Australia (-0.7pp), Switzerland (-0.7pp) and Germany (-0.6pp). The eurozone as a whole has seen a 0.7pp cut. Poland was the only country where we raised our forecast, which followed a large-scale fiscal easing package.

EM Demand Shock

The breadth of recent weakness – 14 out of 20 GEO countries saw lower growth than we expected in 4Q18 – makes it a challenge to pinpoint the source of the negative shock. Coming against the backdrop of the rise in global trade policy tensions in 2H18 and the sharp slowdown in world trade growth it is tempting to look to the impact of rising protectionism. There is little doubt that the US-China trade battle has damaged business and consumer confidence globally, and may have already impinged on investment decisions. And it has certainly distorted recent bilateral flows between the US and China. But several factors point to the downturn in domestic demand in China and other EM being a more important part of the explanation for the widespread global downturn.

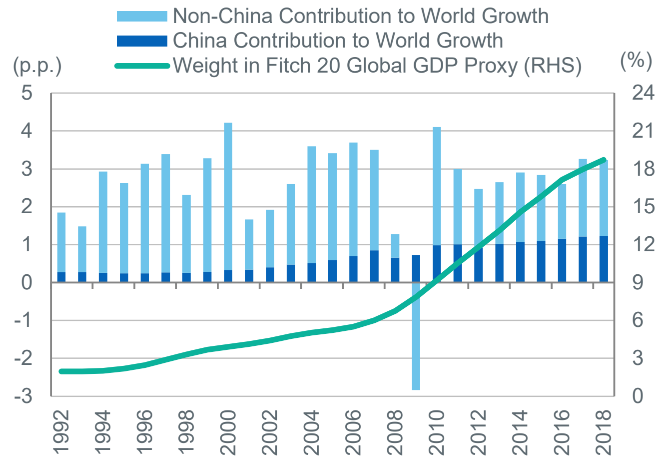
First of all, import growth in the US held up better than global imports through 2018. In fact, EM imports showed a much more dramatic

World Industrial Production and EM & DM GDP



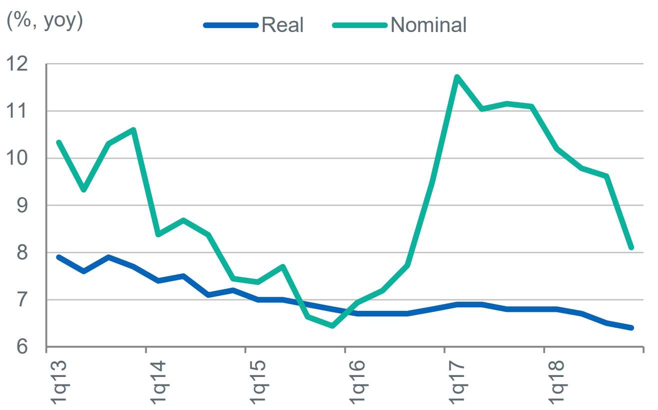
Source: Fitch Ratings, CBP, Datastream

China and Global Growth



Source: Fitch Ratings, National Statistical Offices, Datastream

China - Nominal and Real GDP



Source: Fitch Ratings, NBS, Datastream

drop at the end of 2018 than overall advanced country imports. Secondly, exports to China from other countries – including the rest of Asia, the eurozone and the UK – slowed more sharply than their total exports through 2018. These trade flows have not been directly affected by US-China trade restrictions. A decomposition of the recent downturn in exports from the eurozone also reveals that EM destinations – and particularly Turkey – have been in the lead. This speaks to sizeable fallout from last year's EM foreign-exchange (FX) volatility – as the Fed raised rates – on EM demand and imports.

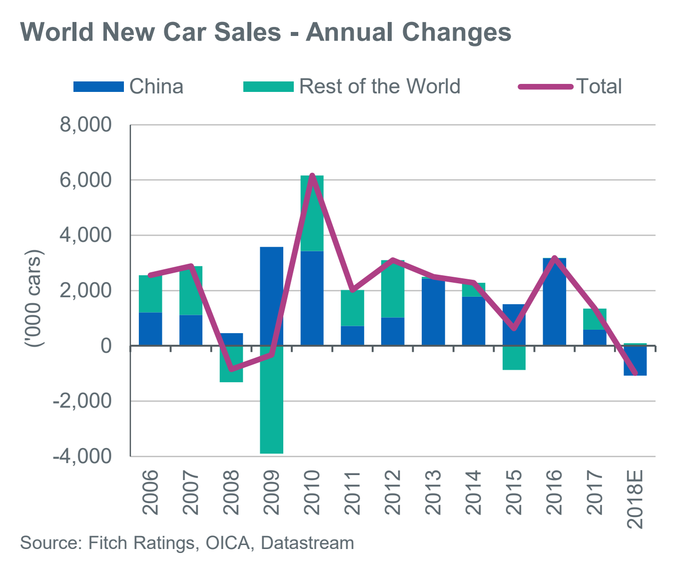
A related observation is that the recent deterioration in global activity indicators has been most pronounced in manufacturing surveys and industrial production. The global industrial production cycle shows a much stronger correlation with EM GDP growth (the chart shows a measure based on the 10 EM countries in the GEO excluding China) than with GDP in advanced countries, where services typically account for a much higher share of the economy. World trade in goods, in turn, tracks global industrial production a lot more closely than world GDP.

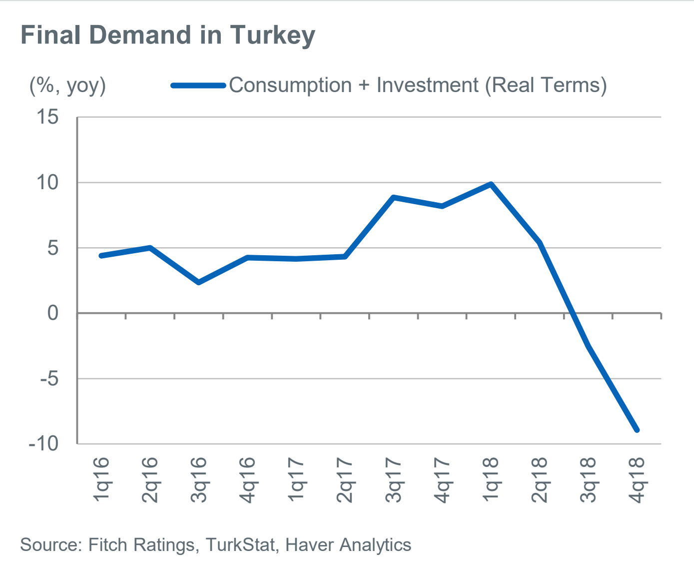
A final piece of evidence is circumstantial and relates to the coincident timing of negative global growth surprises with the downturn in China that became apparent in late 2018. The last time global growth indicators exhibited a synchronized pattern of surprises – on the upside – was in 2H16 when China's economic cycle (particularly when measured by nominal GDP growth) showed clear signs of an upturn. China's economic cycle may now be having more pronounced effects on growth dynamics in the rest of the world than most forecasters, including ourselves, have accounted for. China's nominal GDP (measured at market exchange rates) rose to USD13.6 trillion last year. The annual increment to nominal GDP was USD1.4 trillion, roughly the size of the Spanish economy. China's exponentially growing role in the world has been nowhere more evident than in the new car market, where declining domestic sales led to a fall in global auto sales last year for the first time since 2009.

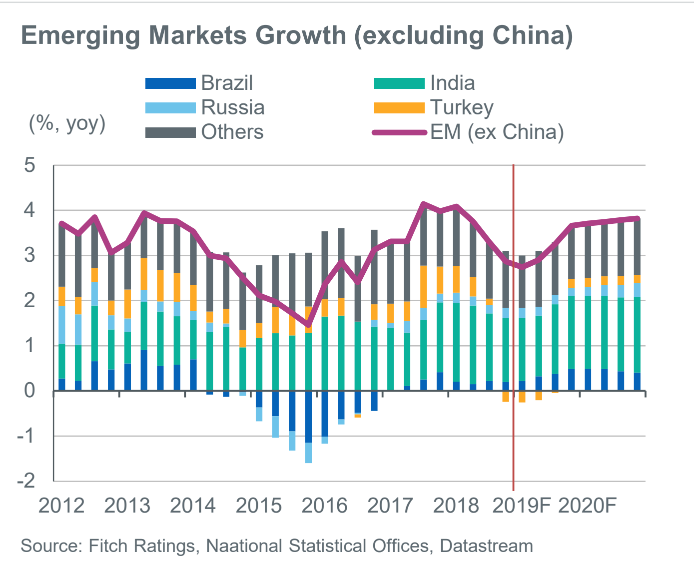
This is not to say that advanced countries have been immune from significant domestic demand shocks. Canada and Australia have seen deteriorating consumption on the back of credit tightening and a downturn in real-estate markets. Within Europe, there is clear evidence of Brexit fears weighing on UK investment, and of political uncertainty and a modest downturn in credit growth hitting capex in Italy. But it suggests that the prospects for demand in China and EM will play a crucial role in the outlook for world trade and GDP growth over the next 18 months.

Turkey Adjustment at its Peak

Prospects for EM exc. China growth will depend heavily on the outlook for Turkey. The country was the key driver of weakening EM exc. China growth in late 2018. Turkish GDP fell by 3% yoy in 4Q18, down from growth of 7.3% yoy in 4Q17. The swing in domestic demand was even more pronounced with consumption and investment falling by 9% and 13%, respectively, in 2018. This collapse was triggered by last summer's currency crisis and the related rise in interest rates. Argentina has also seen a collapse in imports after a similar currency







crisis last year and imports have fallen in most EM countries that saw FX volatility last year. This highlights how vulnerable EM growth had become to a tightening in US dollar liquidity conditions. However, with Turkey's dramatic adjustment having restored the current account to balance in recent months and the shift in Fed policy likely to provide some relief to EM capital flows, EM exc. China growth should start to recover by the end of this year.

China Ramping Up Policy Easing

Our forecast for China remains unchanged from the December GEO despite weaker-than-expected incoming data. GDP growth in 4Q18 was broadly in line with the December GEO forecast but recent monthly activity data releases have been softer than expected. The most dramatic deterioration has been in the trade data. Taken at face value, the decline in import and export growth since November looks alarming as it has been on a par with dynamics seen in 2008. However, there is a fair amount of evidence to suggest that trade flows in mid-2018 were boosted by front-loading in anticipation of US tariff increases (and associated Chinese retaliation) expected to take effect in early 2019. The recent sharp declines in trade partly reflect payback from this earlier artificial boost.

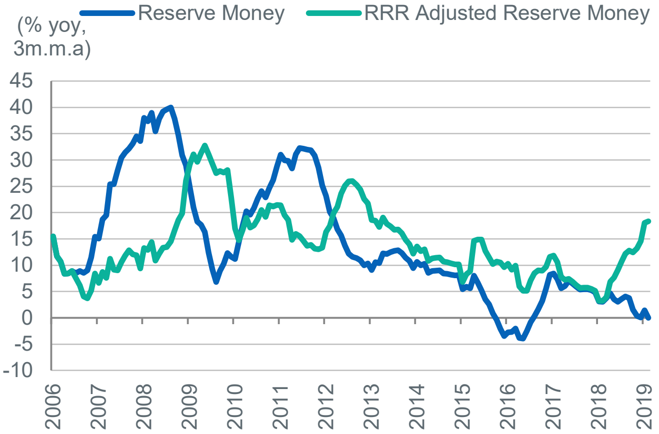
Weaker data has been accompanied by further evidence of macro policy easing. The People's Bank of China (PBOC) cut banks' reserve requirement ratios (RRR) in early January and the increase in central bank liquidity – as measured by the RRR adjusted growth rate of PBOC reserve money – has been on a similar scale to that seen in 2012. There has been a discernable shift in tone from the authorities towards supporting growth with less emphasis on deleveraging, which is likely to result in some scaling back in the intensity of macro-prudential restrictions. This is important for growth given that the earlier deleveraging drive was a catalyst for the slowdown in domestic demand in 2018. Moreover, there are clearer signs of pro-active fiscal stimulus with tax cuts of 2.2% of GDP announced for 2019.

In addition, there are now several signs suggesting that earlier policy easing is starting to take effect, including the recovery in infrastructure investment at the end of 2018 and a modest pick-up in annual credit growth in January and February. GDP growth is still expected to decline in annual terms in 1Q19 and 2Q19 but policy easing should gain enough traction to stabilise growth from the middle of this year.

Eurozone in the Firing Line

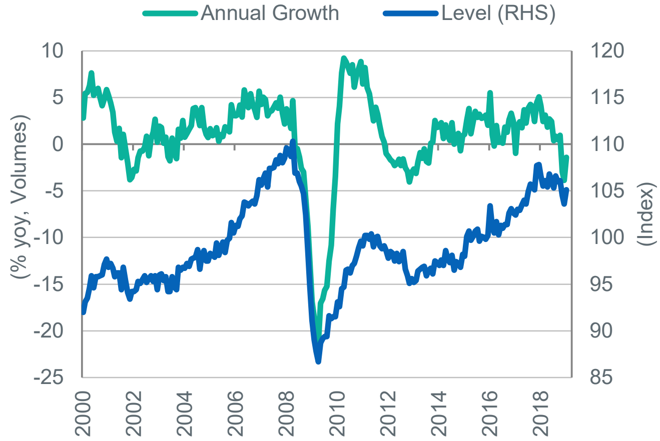
The eurozone economy has proved to be one of the most exposed to the slowdown in global trade as discussed in our recent special report (**https://www.fitchratings.com/site/pr/10063329**). The eurozone's large current account surplus implies a strong reliance on foreign demand and this has been underscored by the fact that data in Germany have deteriorated by more than anywhere else in the currency area. Germany is the most open of the large eurozone economies with far and away the biggest exposures to China. It also has outsize exposure to global auto sales, thanks to a very large auto exports sector with foreign sales equivalent to around 8% of GDP.

China - PBOC Balance Sheet



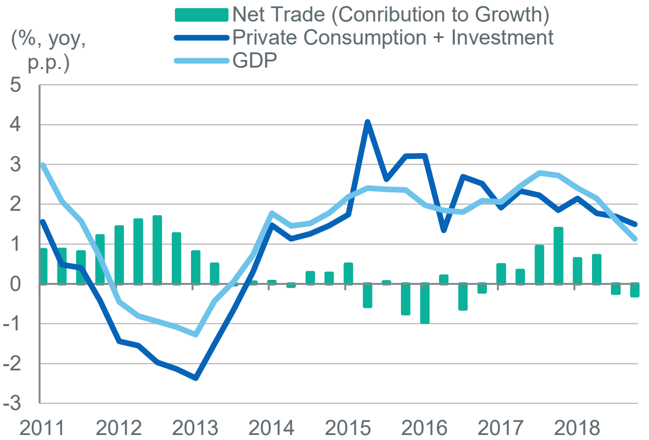
Source: Fitch Ratings, PBOC, Datastream

Eurozone Industrial Production



Source: Fitch Ratings, Eurostat, Datastream

Eurozone Growth - Domestic Demand & Net Trade



Source: Fitch Ratings, Eurostat, Datastream

The correction in eurozone domestic demand in 2H18 was far less pronounced than the turnaround in the contribution of net trade. And while there is evidence of weakening investment in Italy and of street protests reducing consumption in France, by and large the conditions for domestic demand growth look more resilient. These include improvements in the labour market, with still solid employment growth and rising wage inflation. Real income growth is likely to get a boost in the near-term as headline inflation rates ease back with the decline in oil prices.

Credit conditions remain supportive with the ECB's bank lending survey suggesting little evidence of widespread tightening in the supply of credit. If the ECB engages in renewed easing as we now expect this should help support credit growth in Germany and France and boost an already strong construction sector in Germany. The impact of fiscal policy on growth is expected to turn positive this year after two years of modest tightening in 2017 and 2018. Moreover, some of the weakening in eurozone data late 2018 resulted from temporary factors that should unwind. The disruption to eurozone auto sales and production from the change in auto emissions standards last autumn should start to fade soon and there was some tentative evidence for this in eurozone industrial production and German car registrations data for January. Low water levels in the Rhine also caused some significant supply-chain disruptions in Germany late last year but water levels have recently recovered.

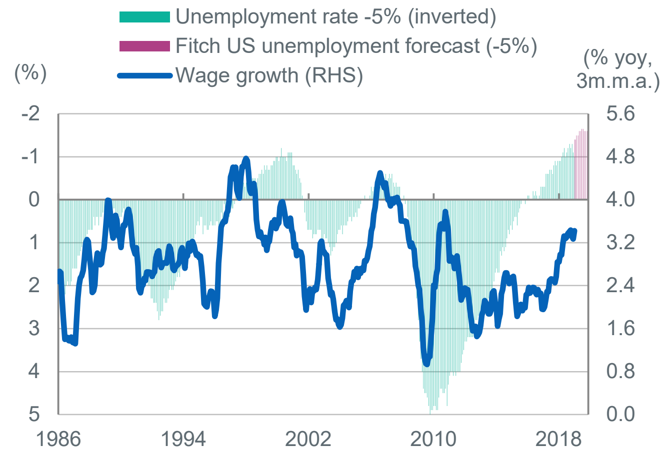
Taking these factors into account, the adjustments to our forecasts for sequential growth in private domestic demand through 2019 have been relatively modest for the eurozone as a whole. While we have become significantly more pessimistic on the outlook for investment growth in Italy – with 2019 capex now expected to grow by just 0.6% compared with 2.1% in December – the downward revisions to private demand growth in France and Germany have been quite mild. However our 2019 GDP growth forecast has been cut to 1.0% from 1.7% in December. Sequential growth is unlikely to recover before 2H19.

US Shows Relative Resilience

The US economy has been a lot more resilient to the global trade slowdown. This partly reflects a much more closed economy – with exports of goods and services of 12% of GDP compared with 28% in the eurozone – and lower export exposure to China. Industrial production, manufacturing surveys and external indicators have all deteriorated in recent months, but on a far less dramatic scale then in the eurozone. The outturn for GDP in 4Q18 was broadly in line with the December GEO, with a welcome bounce back in business investment.

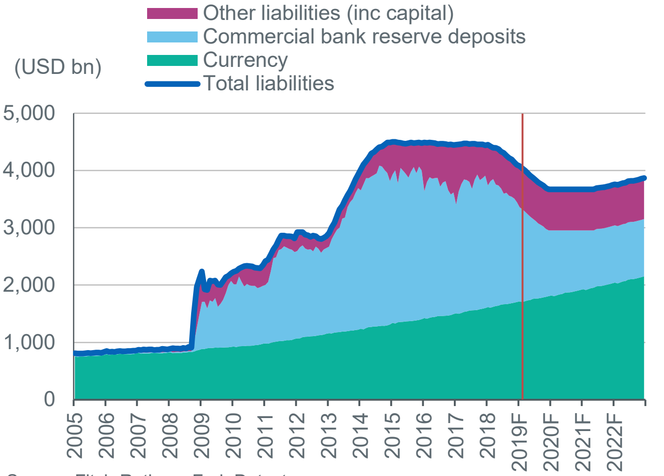
Domestic demand conditions still look solid with only residential investment showing clear signs of slowing through 2018. Very low unemployment and robust income growth are supporting consumer spending. Employment continues to expand at over 1.5% annualised and wage growth has risen to its strongest rate since 2009. And while there is evidence of global trade uncertainty affecting business sentiment, the Philadelphia Fed survey of investment intentions continues to point to decent capex growth ahead in 2019, albeit at a slower rate than in 2018. The Congressional Budget Office expects the federal deficit to widen

US Wage Growth and Unemployment Gap



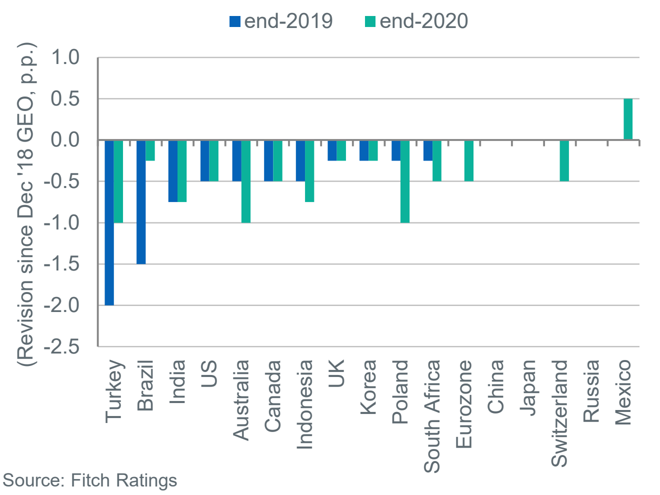
Source: Fitch Ratings, BEA, Datastream

Fed Balance Sheet Liabilities (Fitch Projections)



Source: Fitch Ratings, Fed, Datastream

Fitch 20 - Revisions to Interest Rate Forecasts



Source: Fitch Ratings

as a share of GDP in financial year 2018-2019 (year ending September 2019) which should support demand in the near term. Financial market volatility at the end of last year did take a toll on consumer confidence readings for December but these have recovered.

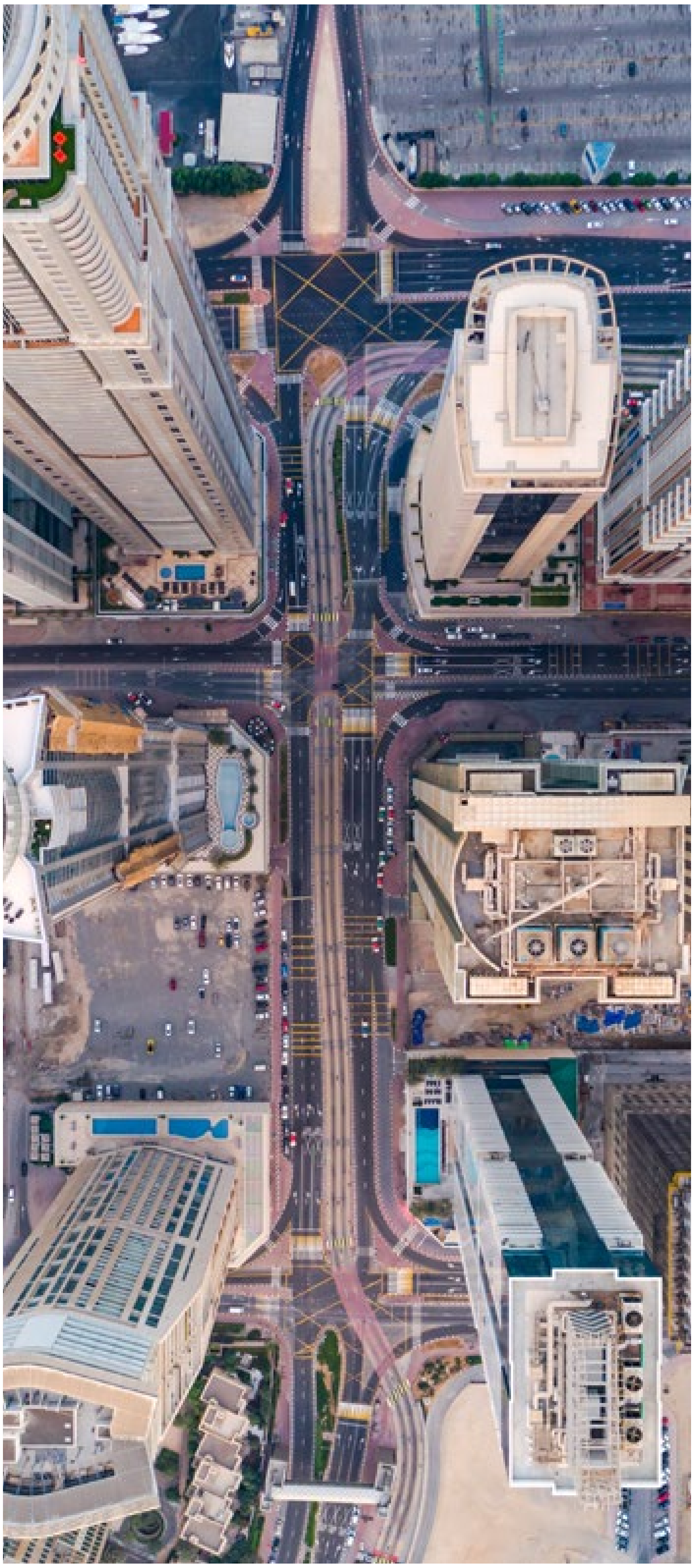
We have lowered our 2019 growth forecast by 0.3pp since December to reflect the more challenging external environment, slightly softer incoming data and a temporary drag from the government shut-down on GDP in 1Q19. However, we have not fundamentally altered our broad expectation of above trend growth this year.

But the Fed Capitulates

Despite still solid US economic data the Fed made some very significant changes to its forward guidance at its January meeting. The statement accompanying the decision to hold interest rates steady highlighted the room for a 'pause' in what had previously been signaled as a normalisation in interest rates. But Fed chairman Jay Powell's subsequent press conference went much further in signaling that rates may even have peaked. This sharp change of tone was justified with reference to external 'cross-currents', worries about the impact of the government shut-down and concerns about the effects of financial market volatility on domestic US credit conditions.

This coincided with dovish news from the Fed about its balance sheet adjustment plans. Powell indicated that the balance sheet was likely to remain much larger over the long term than previously suggested as the Fed confirmed that the 'floor' system for setting interest rates would remain in place indefinitely. This system requires an abundance of overnight liquidity (in the form of commercial bank reserves held at the Fed) in the banking system and the Fed is now suggesting that reserves of USD800 billion to USD1,000 billion could be necessary to achieve this. In addition, the central bank said that it was prepared to adjust the pace of normalisation in the balance sheet in response to incoming data, breaking with previous guidance that this process would take place in the background (or on 'autopilot') and would not become a monetary policy tool.

The magnitude of the shift in Fed guidance was a surprise to us – even allowing for the changing external environment – and has made the US monetary policy outlook less predictable. However, we suspect that fears over the outlook in China may have played quite a significant role in Fed thinking, as indeed they did in 2015 and early 2016. Based on our China view, we believe that the Fed will become less nervous about the external environment in the second half of this year and will refocus on the risks to wage and price inflation from the falls in unemployment from already historically low levels. But it will probably not be until the end of the year that they feel ready to raise rates again and we now only expect one increase this year. We have also updated our predictions for the Fed's balance sheet in line with recent statements and now see the run-off terminating at the end of 2019 at a level of around USD3.7 trillion (see chart). This compares with our previous analysis – based on earlier Fed research pointing to a long-run level of commercial bank reserves of just USD100 billion – which saw the balance sheet continuing to shrink through to the end of 2022 to a about USD2.7 trillion.



ECB to Restart Net Asset Purchases

The ECB has already responded to the shock to eurozone growth expectations by announcing a shift in its forward guidance on interest rates, stating at its March meeting that rates would remain on hold at least through the end of 2019. It also introduced a forthcoming two-year TLTRO-III lending programme for banks to head off concerns about a tightening of bank funding conditions as outstanding TLTRO-II loans get closer to maturity. But while the joint announcement of these two moves in March came a little earlier than many had expected they are unlikely to be seen as sufficient to address the implications of the growth shock for achieving the ECB's inflation target. The shift in guidance on rates to beyond 2019 had already been anticipated by financial market (and flagged in our last GEO) and TLTRO-III is to some extent a defensive measure.

The ECB had already started to fret last year about low core inflation – which has sat stubbornly around 1% – even before the growth shock. Its updated growth forecasts (similar to our own) now imply that GDP growth will fall below potential in 2019, which may add renewed downward pressure on core inflation. Moreover inflation expectations have been falling. Against this backdrop we expect that the ECB will decide that further stimulus measures will be necessary to support the return of inflation to target over the medium term. ECB officials have said on numerous occasions that all tools are available and we think the logical next move is to announce a restart of net asset purchases later in 2019. We also no longer see the ECB raising rates before the end of 2020, compared with our previous forecast of 50bp of tightening next year.

EM Central Banks Gain a Reprieve

These changes amount to a sizeable reassessment of the outlook for global liquidity conditions. The challenges that we foresaw as central banks gradually normalised monetary policy settings have not gone away but have clearly been postponed for quite some time. This will ease pressures on EM central banks to tighten policy. Moreover, following the Fed's pivot, we no longer expect the appreciation of the US dollar to continue and have reduced our forecasts for US bond yields. These changes to US dollar liquidity should help capital flows to EM and we have indeed seen evidence of a recovery in the last month or so. The new global monetary policy outlook has been accompanied by substantial downward revisions to our forecasts for EM policy interest rates since December's GEO. Brazil, Turkey, India, Indonesia, South Africa and Poland have all seen end-2019 policy interest rate forecasts reduced.

Key downside risks to our forecasts include the possibility of a new round of US tariffs, a no-deal Brexit and a sharp deceleration in China. A significant rise in the US inflation rate would also be disruptive if it prompted the Fed to tighten much more aggressively.

United States

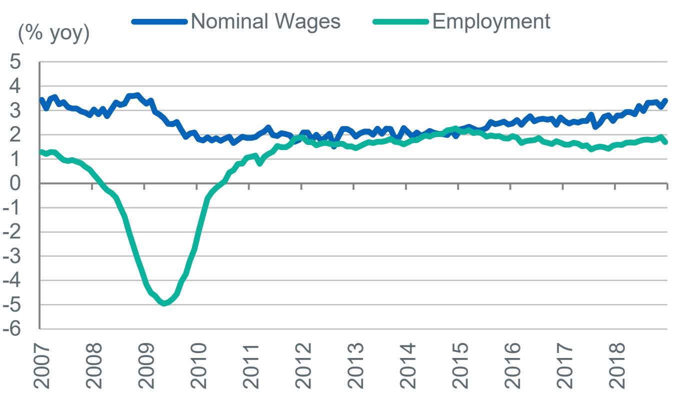
The US economy grew by an annualised 2.6% in 4Q18, down from 3.4% in 3Q18. The slowdown was slightly more pronounced than expected in the December GEO forecast (3.1% annualised in 4Q18) but was mild compared with Europe. The slowdown has been most pronounced in trade and manufacturing indicators, and in residential investment, the latter related to earlier increases in long-term interest rates in 2018. Steep falls in equity prices at the end of December also took a toll on consumer confidence and, along with widening credit spreads, led to some tightening in financial conditions.

However, underlying economic momentum still looks quite resilient, supported by robust household income growth, expanding business investment and federal fiscal easing. Nominal household incomes continue to grow at an annualised rate of about 5% thanks to accelerating wages and job growth, which has continued to average around 1.7% annualised over the past three months. Meanwhile, surveys suggest companies continue to plan to increased investment in 2019 despite the rise in global uncertainties. The impact of tax cuts on households is fading but strong public expenditure growth is set to push up the federal deficit in 2019.

Monetary policy is also set to be significantly more accommodative than we anticipated in December thanks to the Fed's 'pivot' at its January meeting. This has seen us revise our forecast for further rate increases this year to just one compared with a prediction of three in the December GEO. The change in Fed forward guidance has helped US equity prices erase all of their December losses and seen credit spreads narrow, reversing the earlier tightening in credit conditions.

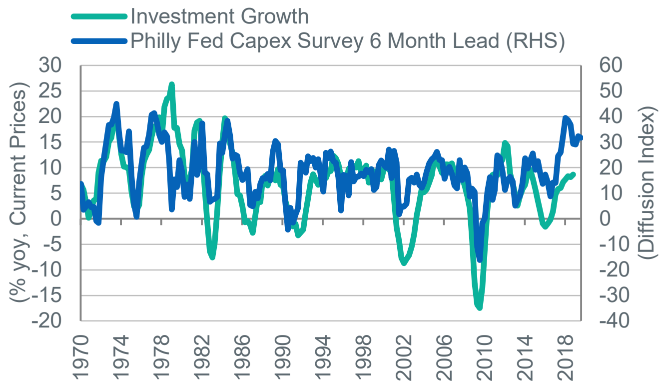
We have lowered our 2019 growth forecast to 2.3% from 2.6% in December on the basis of weaker external demand, the incoming data and a small drag on 1Q19 GDP from the six-week government shut-down. However, this is a substantially smaller revision than to European growth and leaves 2019 growth above its estimated potential rate of 1.9%.

US - Wage and Job Growth



Source: Fitch Ratings, BEA, Datastream

US - Philly Fed Survey and Business Investment



Source: Fitch Ratings, Philadelphia Fed, Datastream

United States – Forecast Summary

(%)	Ann. Av.2014-18	2017	2018	2019f	2020f
GDP	2.4	2.2	2.9	2.3	1.9
Consumer Spending	2.9	2.5	2.6	2.5	2.2
Fixed Investment	4.3	4.8	5.3	2.8	1.8
Net Trade (contribution pps.)	-0.4	-0.4	-0.3	-0.4	-0.2
CPI Inflation (end-year)	1.5	2.1	1.9	2.2	2.3
Unemployment Rate	4.9	4.4	3.9	3.6	3.6
Policy Interest Rate (end-year)	0.83	1.50	2.50	2.75	3.00
Exchange Rate, USDEUR (end-year)	0.86	0.83	0.87	0.88	0.88

Source: Fitch Ratings

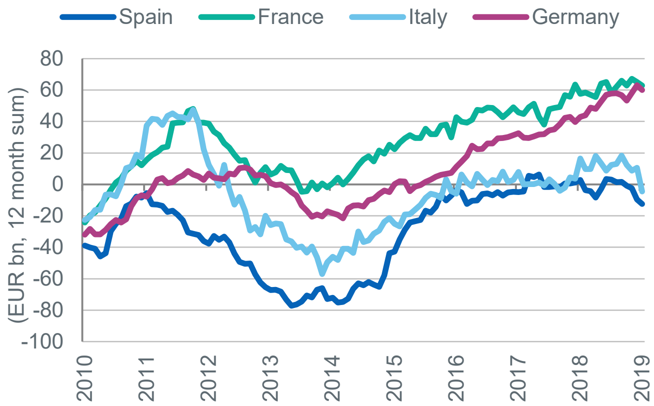
Eurozone

The eurozone economy slowed sharply in the second half of last year as external demand weakened and several one-off events hampered production. The growth slowdown meant that trade became a headwind for the manufacturing sector, resulting in a substantial deceleration in production and a significant ramp-up in inventories. GDP growth at 0.2% in 4Q18 was below the 0.5% projection made in December's GEO. Hopes of an imminent bounce-back in manufacturing activity at the start of the year have been tempered by weaknesses in business surveys. We have lowered our growth forecast for this year and next to 1.0% and 1.3%, respectively, from 1.7% and 1.6% in December.

This gloomier external environment has not been matched on the domestic side. Strong employment growth, wage gains and rising real incomes are all supportive of consumer spending. Consumer confidence remains above long-term averages even if these have moderated since the middle of last year. Domestic demand also remains supported by continuing gains in business investment given high profitability, high capacity utilisation and favourable financial conditions. The flow of bank credit to corporates continues to increase although some moderation is evident in Italy and Spain. Credit conditions remain loose despite some marginal tightening in Italy. Nevertheless, heightened uncertainty about future trading relations could impinge on investment.

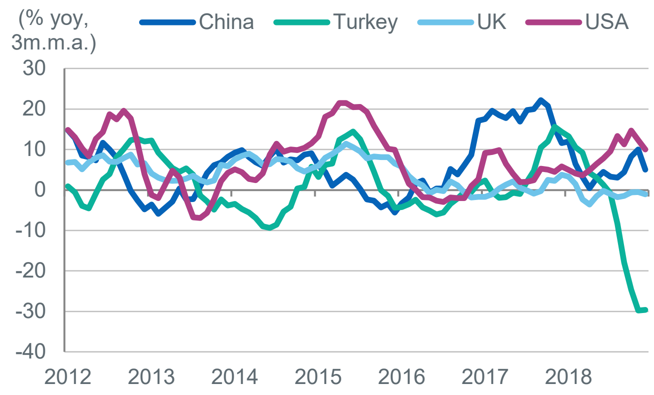
Given the sharp pullback in growth, rapid fall in inflation expectations and the potential tightening in bank financing conditions in June as TLTRO-II loans age, the ECB introduced key policy changes at its March meeting. Interest rates will now remain unchanged for longer ("at least through the end of 2019") and maturing securities will be reinvested for longer. The ECB also announced TLTRO-III consisting of seven quarterly operations, each with a maturity of two years. We have lowered our inflation forecasts to 1.3% and 1.4% for this year and next, and no longer expect a rate increase in 2020. ECB net asset purchases are likely to recommence later in 2019.

Eurozone - New Loans to Firms



Source: Fitch Ratings, ECB, Datastream

Eurozone - Goods Exports to Key Trading Partners



Source: Fitch Ratings, Eurostat, Datastream

Eurozone – Forecast Summary

(%)	Ann. Av.2014-18	2017	2018	2019f	2020f
GDP	1.9	2.4	1.8	1.0	1.3
Consumer Spending	1.5	1.6	1.3	1.3	1.4
Fixed Investment	3.2	2.6	3.0	2.7	2.5
Net Trade (contribution pps.)	0.1	0.8	0.2	-0.4	-0.4
CPI Inflation (end-year)	0.8	1.3	1.5	1.3	1.4
Unemployment Rate	10.0	9.1	8.2	8.3	8.4
Policy Interest Rate (end-year)	0.05	0.00	0.00	0.00	0.00
Exchange Rate, EURUSD (end-year)	1.17	1.20	1.14	1.14	1.14

Source: Fitch Ratings

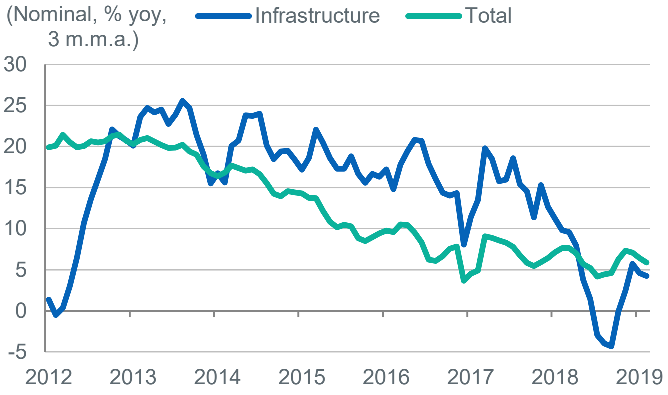
China

China's economy slowed to 6.4% yoy in real terms in 4Q18 from 6.5% in 3Q18. While this was slightly better than our expectation of 6.3% in the December GEO, a more holistic view of the incoming data confirms a significant loss of growth momentum since the middle of 2018. Nominal GDP growth dipped to 8.1% yoy in 4Q18 from 10% in 1H18, manufacturing PMI surveys have been below 50 since December, credit has slowed and retail sales volume growth declined by 1pp between June and December. Trade growth also declined quite dramatically from December although this partly reflects payback for earlier front-loading of exports to the US ahead of announced US intentions to raise tariffs in 2019.

The growth slowdown has coincided with a step-up in policy support for the economy with a further 100bp cut in banks reserve requirement ratios (RRR) in early January and clearer signals of pro-active fiscal stimulus. The latter includes tax cuts of 2.2% of GDP for 2019 - including to VAT and employer social security contributions – which are considerably larger than those announced in 2018 (1.2%). Recent policy pronouncements have increasingly emphasised employment and stability goals with some dialling down in rhetoric on controlling leverage and financial risks, even as the authorities have lowered their 2019 growth target to a range of 6% to 6.5% from around 6.5%.

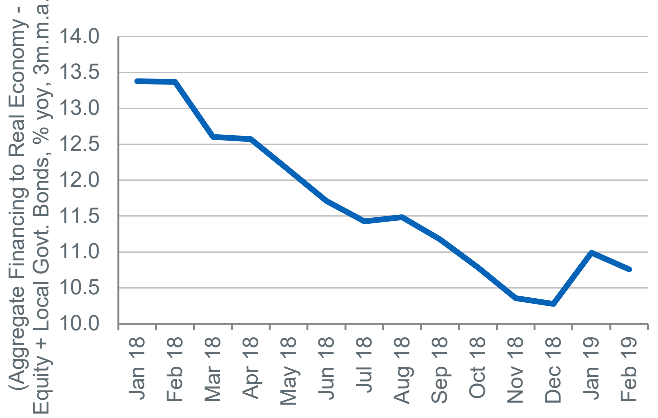
Moreover, there are more signs that earlier policy easing is starting to gain traction. Credit growth picked to 10.9% yoy in January and February 2019 after running at around 10.5% in 4Q18. And infrastructure investment – which was one of the key drivers of last year's slowdown – has recovered in the past few months. The previously planned increase in US tariffs at the beginning of March has also been postponed. Better news on US-China trade and a more assertive policy response have seen us leave our 2019 growth forecast unchanged, despite weak incoming data. Nevertheless, we still see annualised GDP growth dipping further to 6.0% by 2Q19 before stabilising.

China - Fixed Asset Investment



Source: Fitch Ratings, NBS, Datastream

China - Credit Growth



Source: Fitch Ratings, NBS, PBOC, Datastream

China – Forecast Summary

(%)	Ann. Av.2014-18	2017	2018	2019f	2020f
GDP	6.9	6.8	6.6	6.1	6.1
Consumer Spending	7.6	6.6	6.9	6.9	7.4
Fixed Investment	6.0	4.6	4.5	5.6	5.1
Net Trade (contribution pps.)	-0.3	-0.2	-0.4	0.9	-0.2
CPI Inflation (end-year)	1.8	1.8	1.9	2.4	2.4
Policy Interest Rate (end-year)	4.78	4.35	4.35	4.35	4.35
Exchange Rate, USDCNY (end-year)	6.49	6.51	6.87	7.00	7.20

Source: Fitch Ratings

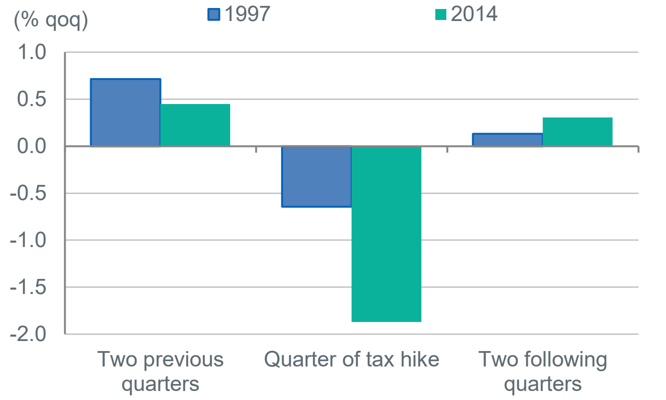
Japan

GDP growth was in line with our expectations in 4Q18 at 0.5% but we have revised down our forecasts for 2019 and 2020 to 0.7% (-0.2pp from the last GEO) and 0.5% (-0.1pp), respectively. This reflects weak incoming data and a more challenging external environment. High-frequency data for early 2019 point to a deterioration of activity and export orders in the manufacturing sector, as well as weak domestic consumption. Japan appears to be affected by two globally weak manufacturing sectors: capital goods and auto parts. Exports (in nominal terms) dropped for three consecutive months through January before picking up in February. Growth this year will be quite volatile, with the consumption tax rate set to be raised to 10% from 8% in October.

Based in previous episodes (1989, 1997 and 2014), we expect growth in 2Q19, and especially 3Q19, to accelerate amid increased stockpiling by businesses and consumers bringing forward their expenditures, before collapsing in 4Q19. However, the hit to activity should prove less pronounced than in 2014 given the smaller size of the tax increase (the tax rate was increased to 8% from 5% in 2014) and the offsetting one-off measures planned by the government to smooth demand. The tax rise amounts to around 1% of GDP on an annual basis, while the offsetting fiscal measures are 0.4% worth of GDP, making a net fiscal drag of only 0.6% of GDP.

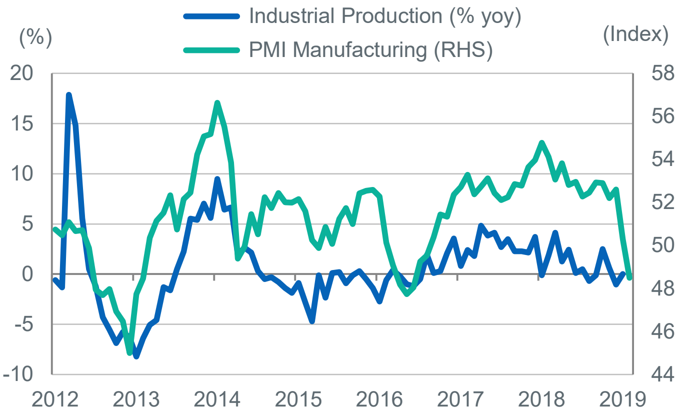
The sales tax increase will also affect inflation. Based on the experience of 2014, Japanese producers and retailers pass on about 60% of the tax rise to consumers on the month of impact. We expect inflation to pick up temporarily above 2% by the end of 2019, before drifting back down. However, amid persistently muted underlying inflationary pressures, weaker global growth and the dampening effect of the tax increase on growth, we expect the Bank of Japan to stick with its monetary policy settings over the forecast horizon.

Japan: GDP Impact of Previous Sales Tax Hikes



Source: Fitch Ratings, CAO, Haver Analytics

Japan - Industrial Production



Source: Fitch Ratings, Bank of Japan, METI, Markit, Bloomberg,Datastream

Japan – Forecast Summary

(%)	Ann. Av.2014-18	2017	2018	2019f	2020f
GDP	1.0	1.9	0.8	0.7	0.5
Consumer Spending	0.1	1.1	0.4	0.7	-0.2
Fixed Investment	1.7	3.0	1.1	1.1	0.3
Net Trade (contribution pps.)	0.3	0.5	0.0	-0.3	0.2
CPI Inflation (end-year)	1.0	1.1	0.3	2.1	1.1
Unemployment Rate	3.1	2.8	2.4	2.5	2.5
Policy Interest Rate (end-year)	-0.02	-0.10	-0.10	-0.10	-0.10
Exchange Rate, USDJPY (end-year)	111.6	112.7	109.7	112.0	112.0

Source: Fitch Ratings

United Kingdom

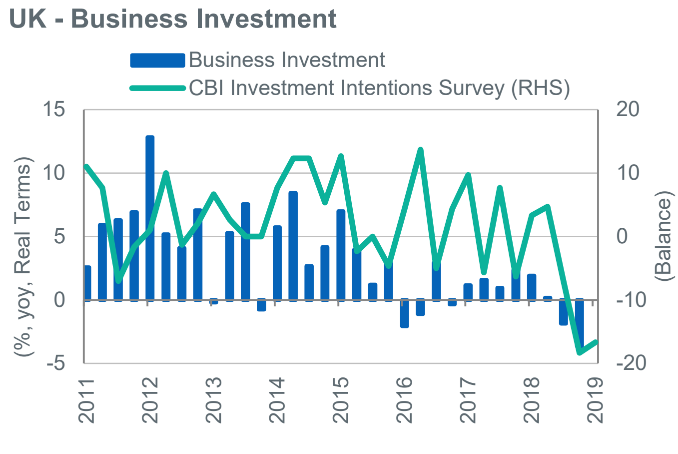
The UK economy slowed to 0.2% in 4Q18, in line with the December GEO forecast and down from 0.6% in 3Q18. Our 2019 growth forecast has been lowered on the back of weak incoming data for 1Q19, our more pessimistic view on global economic prospects and the increasing likelihood that Brexit uncertainty is extended.

Monthly activity data point to GDP growth running at a 0.2% quarterly pace in 1Q19. Industrial production and trade data have deteriorated as they have elsewhere in Europe but there is also clearer evidence of softening domestic demand. Consumer credit growth continues to slow and consumer confidence indicators have recently turned downwards.

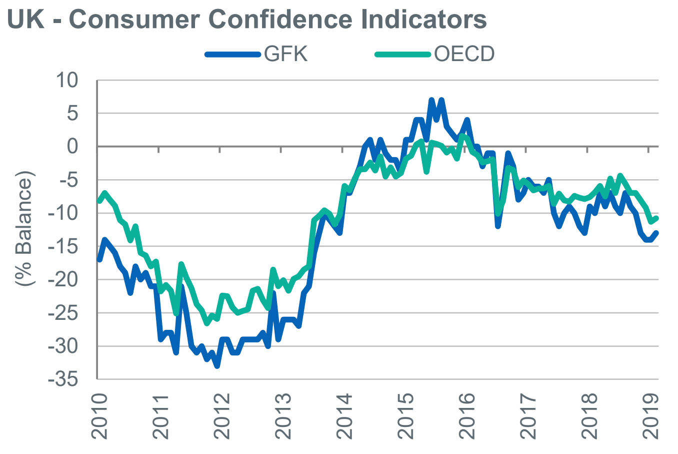
The impact of Brexit uncertainty on domestic spending has become a lot more evident. Business investment declined for the whole of 2018, the longest period of contraction since 2008/2009. CBI surveys show investment intentions at their weakest levels since 2009. Recent PMI surveys have also suggested UK companies are starting to stockpile ahead of Brexit.

The UK parliament has now failed to ratify the EU/UK Withdrawal Agreement on two occasions despite the rapid approach of the Brexit deadline and has voted to support a request to delay to Article 50. However, there is still little visibility on the way forward, meaning that Brexit uncertainty is likely to be extended at least into 2Q19, damaging confidence and delaying investment decisions.

In combination with the much weaker outlook for the eurozone – the UK's main trading partner – this makes it hard to envisage any material recovery in UK growth until late 2019, even on the assumption of an eventual smooth transition to a new trading relationship with the EU. Our 2019 growth forecast has been lowered to 1.2% from 1.6% in December. This would be below trend and implies a modest rise in unemployment. Against this backdrop – and on the assumption of a broadly stable pound – we no longer expect the Bank of England to raise interest rates in 2019.



Source: Fitch Ratings, ONS, CBI, Datastream



Source: Fitch Ratings, OECD, GFK, Datastream

United Kingdom – Forecast Summary

(%)	Ann. Av.2014-18	2017	2018	2019f	2020f
GDP	2.1	1.8	1.4	1.2	1.7
Consumer Spending	2.3	2.1	1.7	1.6	1.9
Fixed Investment	3.3	3.5	0.0	-0.3	1.8
Net Trade (contribution pps.)	-0.2	0.5	-0.2	-0.5	-0.1
CPI Inflation (end-year)	1.5	2.9	2.1	2.2	2.2
Unemployment Rate	4.8	4.3	4.1	4.4	4.4
Policy Interest Rate (end-year)	0.46	0.50	0.75	0.75	1.25
Exchange Rate, GBPUSD (end-year)	1.43	1.35	1.27	1.30	1.30

Source: Fitch Ratings

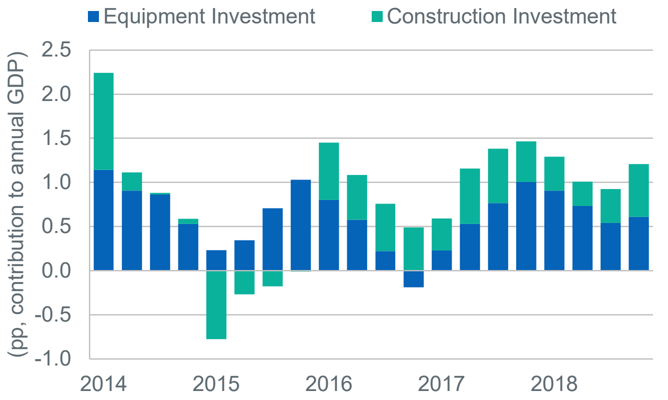
Germany

The German economy narrowly avoided recession in the second half of last year following contraction in 3Q18 and stagnation in 4Q18. The flat quarterly growth outturn contrasted with the 0.7% that we had expected in December and reflected weak net trade and a significant drawdown in inventories. Germany's greater trade openness and larger exposure to China and the global auto sector have left it particularly exposed to the global downturn. External weakness saw plunging industrial production and falling factory orders in 4Q18 but some green shoots have appeared recently, including rising car registrations, recovering car orders and a modest pick-up in ex-autos production even if manufacturing PMI data remain weak.

In contrast, the domestic economy remains underpinned by the labour market, increasing demand for bank loans, an expansion in the construction sector and a moderate dose of fiscal easing. The unemployment rate has fallen to historic lows while vacancies have also grown to record levels. This combination suggests that wage growth is likely to continue rising rapidly given reports of labour shortages, particularly in the science and engineering sectors. Private consumption is likely to benefit from these factors and to recover from last year's slowdown, which largely arose from delays in ensuring environmental compliance of new passenger cars.

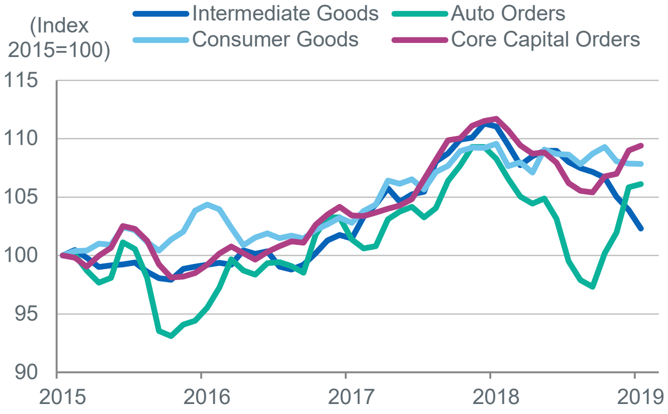
Business investment remains supportive of growth with equipment spending growing strongly in response to high-capacity utilisation rates. The construction sector also continues to boom with confidence at an all-time high in late 2018. However, the cooling in world trade could affect new business investment while uncertainty surrounding future trading arrangements with the UK, potential US tariffs on cars and weak Chinese growth continue to trouble German manufacturers. Given the weak external environment, we have cut our growth forecasts for this year to 1.0% from a previous projection of 1.6%. Our 2020 forecast remains at 1.4%.

Germany - Equipment and Construction Investment



Source: Fitch Ratings, Destatis, Datastream

Germany - Factory Orders by Type



Source: Fitch Ratings, Destatis, Datastream, Haver Analytics

Germany – Forecast Summary

(%)	Ann. Av.2014-18	2017	2018	2019f	2020f
GDP	1.9	2.2	1.4	1.0	1.4
Consumer Spending	1.5	1.8	1.0	0.9	1.5
Fixed Investment	2.9	2.9	2.6	2.5	2.0
Net Trade (contribution pps.)	0.1	0.3	-0.4	-0.6	-0.1
CPI Inflation (end-year)	1.0	1.5	1.7	1.9	2.0
Unemployment Rate	4.2	3.8	3.4	3.4	3.4
Policy Interest Rate (end-year)	0.05	0.00	0.00	0.00	0.00
Exchange Rate, EURUSD (end-year)	1.17	1.20	1.14	1.14	1.14

Source: Fitch Ratings

France

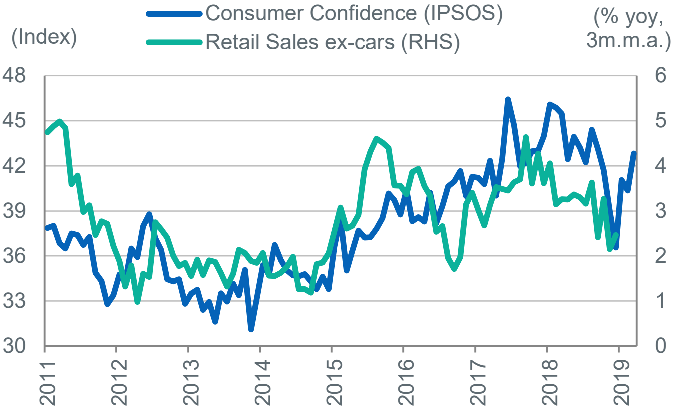
Growth forecasts for this year and next have been lowered by 0.3pp and 0.1pp to 1.4% and 1.5%, respectively. Economic growth slowed to 0.3% in 4Q18, below the 0.5% we expected in December's GEO. The weakness was mainly caused by the hit to consumption from the "yellow vests" protests in late 2018. Outsized growth in exports provided a timely offset to flat consumption in 4Q18, but this reflected a jump in lumpy items, including aerospace and naval deliveries. Nevertheless, we expect GDP to increase by 0.3% in 1Q19, a view supported by the sharp rebound January's in industrial production.

In 2019, the economy is expected to be driven primarily by domestic demand helped by a likely rebound in private consumption. Consumer sentiment has staged a strong recovery at the start of the year. Fiscal measures, including those additionally adopted at the end of 2018 to pacify protestors, as well as lower inflation, should support purchasing power. The Bank of France estimates that Macron's fiscal easing will add 0.1pp-0.2pp to 2019 growth.

Employment should continue to grow albeit at a slower pace than in recent months while investment is expected to remain supported by improved corporate cash flows, low interest rates and favourable financing conditions. Companies also continue to report availability of equipment as a factor limiting output, which should help capital spending.

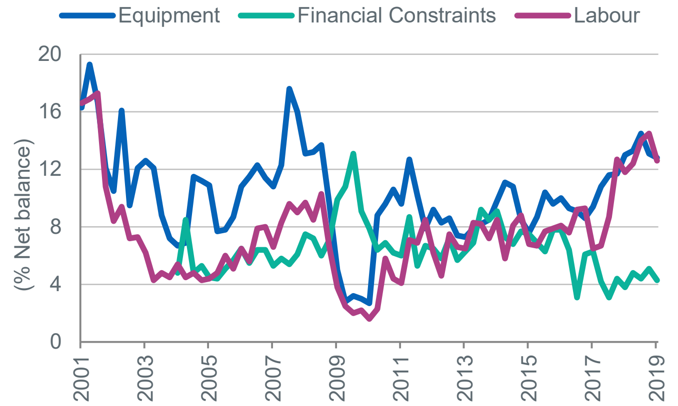
Better GDP growth through the recent expansion period has not translated into significant declines in the unemployment rate, which remains elevated at 9%, down from 10.4% in 2015. It is a paradox of the French economy that even with high levels of unemployment, an increasing number of companies continue to complain about a lack of skilled workers. The mismatch between companies' needs and the skills available could prove to be an additional restraining factor on growth. France is less exposed than other eurozone economies to the global trade slowdown but we nevertheless see net exports' contribution to growth declining in 2019.

France - Retail Sales and Consumer Confidence



Source: Fitch Ratings, Reuters/IPSOS, Datastream

France - Factors Limiting Production



Source: Fitch Ratings, European Commission, Datastream

France – Forecast Summary

(%)	Ann. Av.2014-18	2017	2018	2019f	2020f
GDP	1.4	2.2	1.5	1.4	1.5
Consumer Spending	1.2	1.0	0.9	0.9	1.2
Fixed Investment	2.3	4.5	2.9	2.6	2.1
Net Trade (contribution pps.)	-0.2	-0.1	0.6	0.2	0.1
CPI Inflation (end-year)	0.9	1.2	1.9	1.5	1.6
Unemployment Rate	9.9	9.4	9.1	8.8	8.5
Policy Interest Rate (end-year)	0.05	0.00	0.00	0.00	0.00
Exchange Rate, EURUSD (end-year)	1.17	1.20	1.14	1.14	1.14

Source: Fitch Ratings

Italy

The Italian economy entered recession for the third time this decade after recording two consecutive quarters of negative growth in 2H18. The 0.1% contraction in 4Q18 was below the growth of 0.3% that we had expected in December's GEO. Inventory depletion accounted for a large chunk of the contraction in 4Q18 with weakness also concentrated in domestic demand. High-frequency indicators at the beginning of the year do not point to an imminent recovery and we have pencilled in flat GDP in 1Q19.

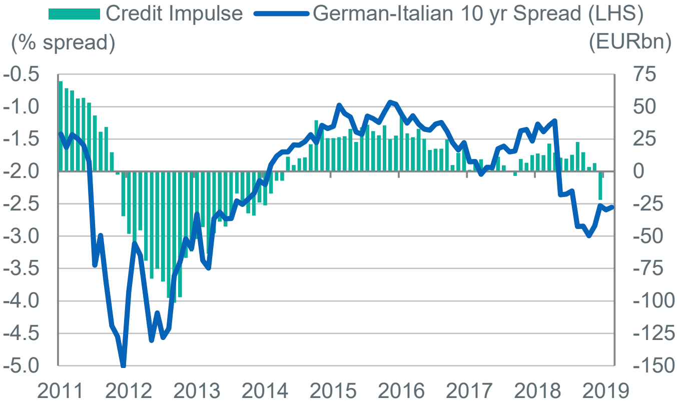
Surprisingly, exports performed strongly in recent months despite the deceleration in global trade. However, we expect quarterly growth in exports to moderate given the slowdown in some of Italy's key trading partners. Annual growth in exports of goods to China is already contracting while those to the EMU and European countries outside of the EU have been slowing rapidly. Weakness here has been partly offset by continued growth in exports to the US.

Within domestic demand, we expect investment spending to slow sharply in 2019. Business investment has already decelerated. This partly reflects the fading of earlier fiscal incentives but the sharp increase in sovereign yields that followed last year's disorderly budget process is also likely to have been a factor. The spread to German government bond yields remains wide (in the chart the spread is inverted). The premium paid on holding Italian bonds is a fairly good indicator of future bank credit flows. The chart shows the annual change in the flow of bank loans to the private sector.

The Bank of Italy's Survey on Inflation and Growth Expectations is already pointing to a downward assessment of investment conditions. Prospects for consumption growth are holding up better helped by a rise in real disposable income and the introduction of the citizenship income scheme.

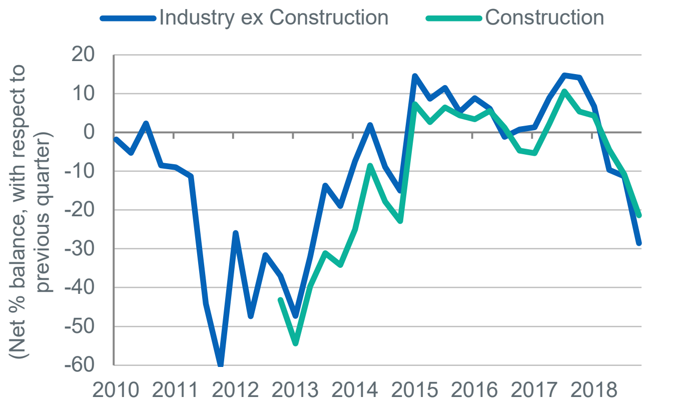
With both export and investment growth prospects deteriorating we have sharply reduced our 2019 GDP growth forecast to 0.1% from 1.1% in December's GEO. Growth is expected to recover modestly to 0.5% in 2020.

Italy - Yield Spread and Change in Credit Flow



Source: Fitch Ratings, ECB, Datastream

Italy - Firms' Assessment of Investment Conditions



Source: Fitch Ratings, Bank of Italy

Italy – Forecast Summary

(%)	Ann. Av.2014-18	2017	2018	2019f	2020f
GDP	0.9	1.6	0.9	0.1	0.5
Consumer Spending	1.1	1.5	0.6	0.5	0.6
Fixed Investment	2.2	4.4	3.4	0.6	0.4
Net Trade (contribution pps.)	-0.2	0.3	-0.1	-0.1	-0.1
CPI Inflation (end-year)	0.6	1.0	1.2	1.1	1.3
Unemployment Rate	11.6	11.3	10.6	10.7	10.9
Policy Interest Rate (end-year)	0.05	0.00	0.00	0.00	0.00
Exchange Rate, EURUSD (end-year)	1.17	1.20	1.14	1.14	1.14

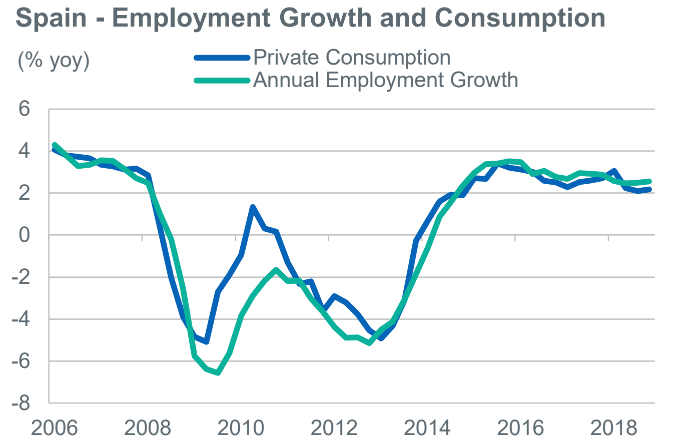
Source: Fitch Ratings

Spain

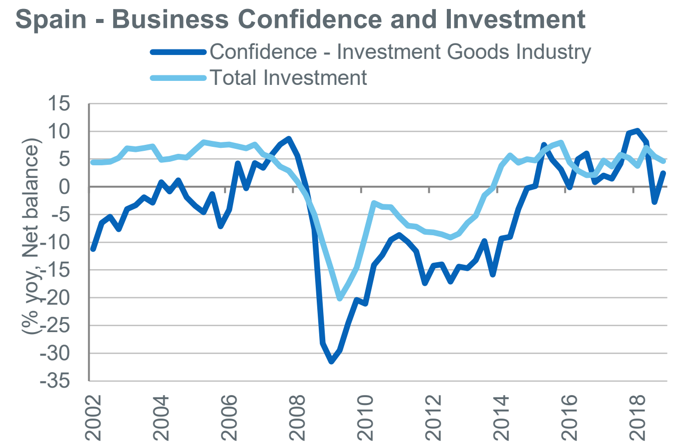
The Spanish economy continues to hold up well after recording another strong quarterly expansion of 0.7% in 4Q18, matching our forecast in the December GEO report. Growth was driven by a strong rebound in exports and supported by robust private and public spending. Investment was the weak spot, recording its first quarterly contraction since mid-2017. Moderation in investment chimed with the Bank of Spain's Bank Lending Survey for 4Q. This report suggested that the decline in overall demand for loans in 4Q18 had been driven by both lower fixed capital investment and companies' greater recourse to internal financing.

While the economy remains resilient, we expect some growth moderation in 2019 and 2020. We have reduced our growth forecasts by -0.2pp to 2.1% and 1.7% in 2019 and 2020, respectively – a modest downgrade compared with those made in other larger eurozone countries. We expect investment to decelerate noticeably to 2.9% this year from last year's very strong growth rate of 5.2%. The outlook for residential investment has improved as the sector sees renewed activity after a long period of decline. However, uncertainty arising from political tensions could cast a shadow on companies' investment decisions. The government called a general election in April precipitated by the failure of socialist PM Sanchez to win backing for this year's budget. The outcome of the election is uncertain and may not result in a stable coalition.

Private consumption should continue to be supported by employment growth – albeit at a slower pace than last year – and the recent increase in the minimum wage. However, the latter, which took effect at the start of this year, has divided opinion with the Bank of Spain warning that it could result in job losses. In the event that job growth and incomes do slow sharply, households would have limited room to offset the impact on consumption given that the savings rate is now close to its lowest in a decade.



Source: Fitch Ratings, INE, Datastream,



Source: Fitch Ratings, INE, Datastream

Spain – Forecast Summary

(%)	Ann. Av.2014-18	2017	2018	2019f	2020f
GDP	2.7	3.0	2.5	2.1	1.7
Consumer Spending	2.5	2.5	2.4	2.0	1.8
Fixed Investment	4.9	4.8	5.2	2.9	2.8
Net Trade (contribution pps.)	0.0	0.1	-0.3	0.0	0.0
CPI Inflation (end-year)	0.5	1.2	1.2	1.4	1.5
Unemployment Rate	19.7	17.2	15.3	14.2	13.5
Policy Interest Rate (end-year)	0.05	0.00	0.00	0.00	0.00
Exchange Rate, EURUSD (end-year)	1.17	1.20	1.14	1.14	1.14

Source: Fitch Ratings

Switzerland

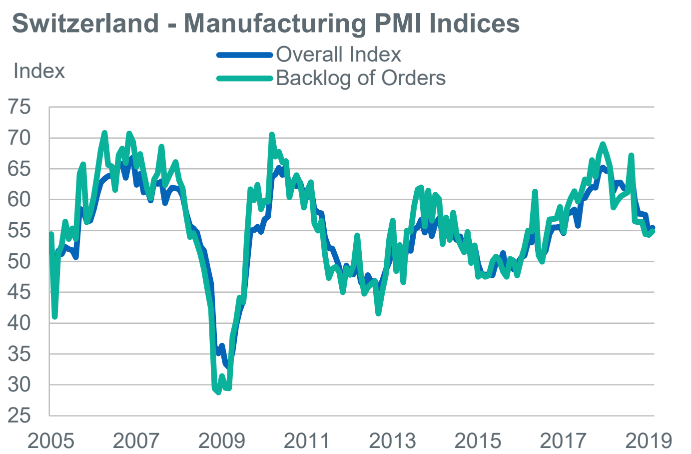
Growth in 2019 is now forecast at 1.2%, down by 0.7pp since the December GEO, with growth for next year now projected at 1.6%, down by 0.1pp. The forecast cuts reflect the global slowdown in growth, the uncertain outcome of the negotiations on Switzerland's Framework Agreement with the EU and the tensions arising from trade disputes.

The growth outlook in other European countries has become gloomier in recent months with Germany's sharp downward revision in growth a particularly strong headwind for Switzerland. In addition, the appreciation of the Swiss franc since May 2018 is another potential drag on export volumes. Unsurprisingly, business confidence has dropped rapidly since the middle of last year. Indices of manufacturing have also fallen sharply with backlog of orders following suit.

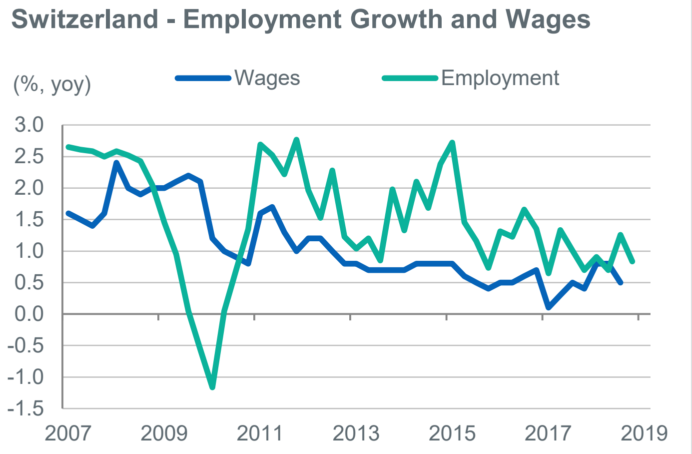
Given this mounting degree of uncertainty, it is understandable that companies have pulled back on investment spending, with 2H18 seeing large contractions. We expect business to delay investment spending and to restrain from adding to existing production capacity. Moreover, investment in construction is likely to decelerate given increasing vacancy rates. We expect investment spending to slow to just 0.3% this year from 1.7% in 2018.

Private consumption is expected to provide the main source of GDP growth this year and next. Consumers will remain supported by employment growth and higher wages amid a tightening labour market and loose credit conditions. Monetary policy has bolstered demand for housing and real estate prices are at record highs. A declining inflation rate is bolstering households' real purchasing power.

Given the weaker growth profile, we have also lowered our inflation forecast to 0.8% at end-2019 (the same as end-2018) and 0.9% at end-2020. In light of this and our revised forecast for ECB interest rates, we now expect the Swiss National Bank to keep its policy rate unchanged at minus 0.75% through 2020. This compares with our previous forecast of a 50bp increase next year.



Source: Fitch Ratings, Credit Suisse Group, Datastream



Source: Fitch Ratings, FSO, Datastream

Switzerland – Forecast Summary

(%)	Ann. Av.2014-18	2017	2018	2019f	2020f
GDP	1.9	1.7	2.5	1.2	1.6
Consumer Spending	1.3	1.2	1.0	1.3	1.4
Fixed Investment	2.7	3.4	1.7	0.3	2.0
Net Trade (contribution pps.)	1.2	0.9	2.4	1.2	0.3
CPI Inflation (end-year)	0.0	1.1	0.8	0.8	0.9
Unemployment Rate	3.1	3.2	2.8	2.6	2.7
Policy Interest Rate (end-year)	-0.58	-0.75	-0.75	-0.75	-0.75
Exchange Rate, USDCHF (end-year)	0.97	0.97	0.97	0.99	0.99

Source: Fitch Ratings

Australia

We have sharply reduced our 2019 GDP growth forecast for Australia to 2.0% from 2.7% in the December GEO. The housing downturn is having larger negative effects on the real economy than we had envisaged, while the agriculture sector has been suffering from the effects of a prolonged drought. GDP grew by just 0.2% in 4Q18 compared with our previous expectation of 0.6% and 3Q18 growth was revised down to 0.3%.

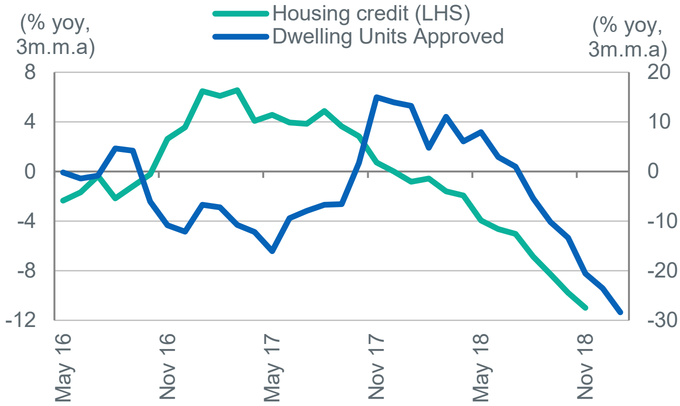
Construction activity has declined in the past two quarters while consumption growth has been slowing against a backdrop of sluggish household income, a low savings ratio, high debt and adverse wealth effects from declining house prices. However, despite mounting headwinds, the labour market has remained strong and buoyant bulk commodity prices have lifted export receipts and companies' profits.

High-frequency data and indicators point to weak economic momentum carrying over into 2019. Business sentiment has deteriorated and retail sales growth has been muted in early 2019, while housing data, such as building approvals and mortgage credit, point to further falls in residential construction in the coming quarters. The unemployment rate should remain low and we think the labour market will prove relatively resilient, providing an important backstop for household consumption. We now expect unemployment to stabilise at 5.3% 2019 and 2020, a bit higher than in the previous GEO.

The weaker GDP and labour market outlook have prompted us to revise our forecasts for monetary policy and now expect the Reserve Bank of Australia to lower its policy rate by 25bp this year.

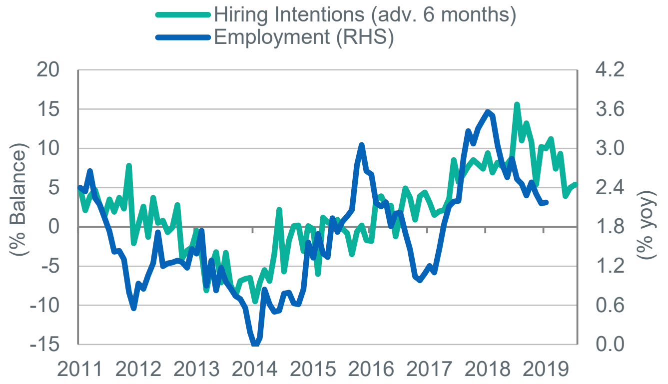
Momentum should improve in the latter part of the year. Fiscal policy is expected to be eased over the course of the year, both at the federal and state levels, particularly given a strong pipeline of infrastructure projects. The flow of credit to businesses to fund investment remains solid, in line with quite elevated investment plans. Growth is expected to recover to 2.5% in 2020.

Australia - Housing Market



Source: Fitch Ratings, ABS, Haver Analytics

Australia - Employment Conditions & Jobs



Source: Fitch Ratings, NAB, ABS, Haver Analytics

Australia – Forecast Summary

(%)	Ann. Av.2014-18	2017	2018	2019f	2020f
GDP	2.6	2.4	2.8	2.0	2.5
Consumer Spending	2.5	2.4	2.6	1.5	1.9
Fixed Investment	-0.4	3.2	2.7	1.1	2.7
Net Trade (contribution pps.)	0.6	-0.8	0.2	0.1	0.1
CPI Inflation (end-year)	1.8	1.9	1.8	1.8	2.0
Unemployment Rate	5.7	5.6	5.3	5.3	5.3
Policy Interest Rate (end-year)	1.87	1.50	1.50	1.25	1.25
Exchange Rate, USDAUD (end-year)	1.29	1.28	1.42	1.47	1.43

Source: Fitch Ratings

Canada

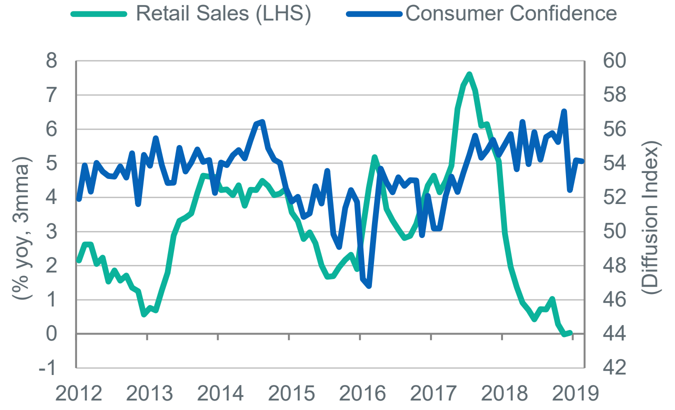
GDP data for 4Q18 were disappointing with growth slowing to just 0.1% qoq in 4Q18 and limiting growth to 1.8% overall in 2018. Household consumption growth slowed sharply (purchases of durable goods including autos fell), and business and residential investment contracted, with stock-building preventing an overall contraction. Investment weakness is linked to trade uncertainty (USMCA was not signed until late November and remains unratified) and lower oil prices.

The sharp slowdown in 4Q18 has led us to lower our growth outlook, although the pace of growth through 2019 is seen little changed. We forecast real GDP growth of 1.6% in 2019, close to potential growth, on the assumption that both consumption and investment come back. At the same time as output has slowed, the labour market remains strong, exemplified by the rapid pace of job creation and improving wage gains. As in the US, this is pulling jobseekers off the sidelines, leading to a steady 5.8% unemployment rate. We also expect some fiscal stimulus in 2019.

The slowing in consumption has been expected. Higher interest rates led the pace of non-mortgage lending growth to halve to 2% during 2018; five-year mortgage rates have risen by 100bp since the start of the tightening cycle. A stabilisation in the housing market led to lower positive wealth effects on consumption and lower housing market activity.

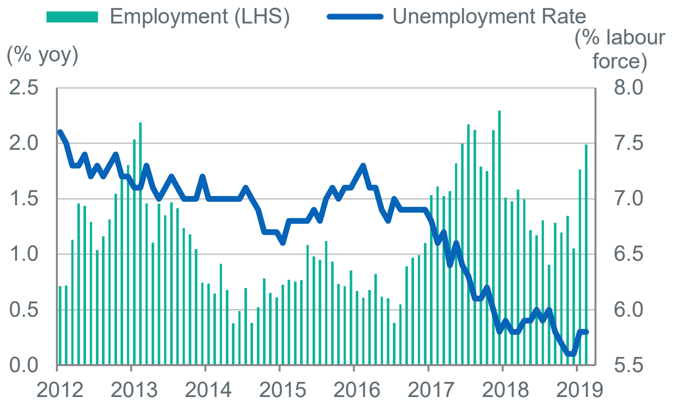
In light of the weaker growth outlook and lower inflationary pressure, Fitch expects the Bank of Canada (BoC) to raise rates just once in 2019, in line with its US rate view. At its meeting on March 6, a more dovish BoC echoed the Federal Reserve's February meeting in saying that a pause in rate rises was warranted and that economic conditions continued to merit a policy rate below the neutral rate. After three increases of 25bp each in 2018, the policy rate is 1.75%, while the BoC's latest estimate of the neutral rate is 2.5%.

Canada - Retail Sales & Consumer Confidence



Source: Fitch Ratings, CANSIM, OECD, Datastream

Canada - Employment



Source: Fitch Ratings, CANSIM, Datastream

Canada – Forecast Summary

(%)	Ann. Av.2014-18	2017	2018	2019f	2020f
GDP	1.9	3.0	1.8	1.6	1.7
Consumer Spending	2.5	3.6	2.1	1.5	1.8
Fixed Investment	-0.7	3.0	0.8	-0.9	2.9
Net Trade (contribution pps.)	0.3	-1.0	0.1	0.5	-0.3
CPI Inflation (end-year)	1.7	1.9	2.0	2.0	2.0
Unemployment Rate	6.6	6.3	5.8	5.8	5.8
Policy Interest Rate (end-year)	0.85	1.00	1.75	2.00	2.25
Exchange Rate, USDCAD (end-year)	1.26	1.25	1.37	1.35	1.35

Source: Fitch Ratings

Brazil

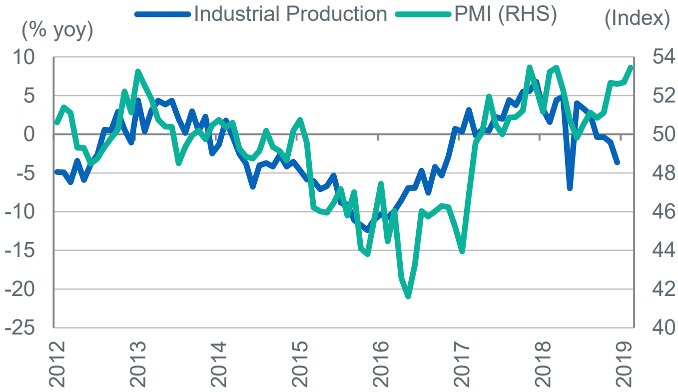
Real GDP growth was 1.1% in 2018 compared with Fitch's projection of 1.3%. The economy decelerated in 4Q18, growing by just 0.1%. On the demand side, the weakness was concentrated in investment and government consumption while on the supply side, industrial production weighed on activity.

Fitch has slightly lowered its growth forecast for 2019 to 2.1% from 2.2%, reflecting the weak 4Q18 performance as well as our expectation that the recovery will remain gradual. Domestic demand is expected to be supported by improving bank lending conditions and the rebound in consumer and business confidence. The market-friendly agenda of the new administration is easing uncertainty (as reflected in the decline in sovereign CDS spreads, bond yields and the rise in the local stock market) although much will depend on implementation. Fitch believes that progress on the new administration's economic agenda (in particular the pension reform) will be important for maintaining and improving domestic investor confidence.

The main domestic risk for Brazil's economic performance is any disappointments with the reform agenda that increase concerns related to public finances. On the external front, several factors could become larger headwinds, including commodity price volatility, a deeper China slowdown, international trade tensions and a worsening of Argentina's economic outlook.

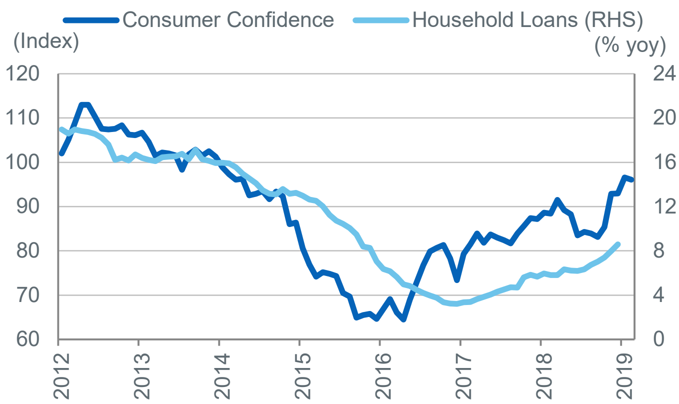
Brazil's inflation rate reached 3.7% at the end of 2018, below the target of 4.5%. Inflation remains contained, reflecting the sluggish economic recovery, high unemployment rate and stability of the Brazilian real. Inflation expectations remain well-anchored around the targets for 2019-2020. These factors coupled with revised market expectations for US Fed tightening have given the central bank additional space to hold the policy rate for a longer period of time. Fitch no longer projects additional rate rises this year but expects a tightening cycle to commence next year. However, any frustration with the reform agenda, leading to depreciation and volatility of the real, and an increase in Brazil's risk premium could change our projection of flat interest rates in 2019.

Brazil - Industrial Production and PMIs



Source: Fitch Ratings, IBGE, IHS Markit, Bloomberg, Haver Analytics

Brazil - Household Confidence and Loans



Source: Fitch Ratings, FGV, Banco Central do Brasil, Haver Analytics

Brazil – Forecast Summary

(%)	Ann. Av.2014-18	2017	2018	2019f	2020f
GDP	-0.8	1.1	1.1	2.1	2.7
Consumer Spending	-0.3	1.4	1.9	2.4	2.8
Fixed Investment	-5.7	-2.5	4.1	4.0	4.2
Net Trade (contribution pps.)	0.8	0.1	-0.5	0.7	0.0
CPI Inflation (end-year)	6.2	2.9	3.7	4.0	4.0
Policy Interest Rate (end-year)	11.03	7.00	6.50	6.50	7.75
Exchange Rate, USDBRL (end-year)	3.21	3.32	3.88	3.80	3.80

Source: Fitch Ratings

Russia

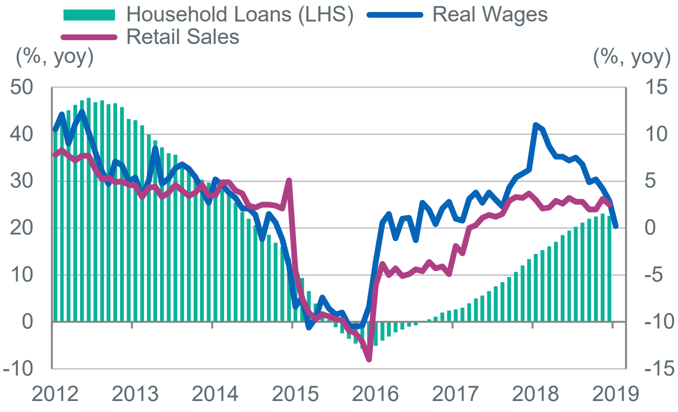
Recently released official estimates for annual GDP showed growth accelerating to 2.3% in 2018 compared to our December GEO estimate of 1.8%. The new data reflect revisions in the construction sector incorporating the completion of large energy projects. GDP growth was also revised up to 1.6% (1.5% previously) in 2017 and 0.3% in 2016 (-0.2%). Rosstat is undertaking methodological and data collection changes, so further revisions are possible. Quarterly data consistent with the new annual estimates are not yet available, complicating the assessment of the current state of the economy.

We expect the economy to slow to 1.5% in 2019, as tax increases, a higher inflation rate and a weaker ruble will weigh on consumption. We also expect weaker investment, especially given a higher base effect from 2018. Net exports will continue to contribute to growth reflecting weaker domestic demand. We forecast growth rising to 1.9% in 2020 supported by some monetary policy easing, recovering private consumption and the government's spending programme.

After increasing to 4.3% at the end of 2018, annual inflation has only moderately accelerated (5.2% yoy in February), despite an increase to VAT. The authorities do not expect the full impact of the tax increase to materialise until April and hence we maintain our end-2019 forecast of 5.2%. Our expectation is that inflation will then ease gradually towards the 4% Central Bank of Russia (CBR) target in 2020.

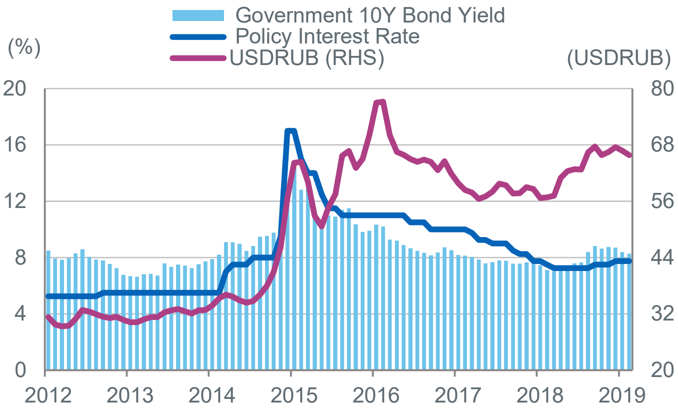
In spite of weaker-than-anticipated inflation and after two 25bp pre-emptive rate rises to 7.75% in late 2018, we only expect the CBR to prudently ease its policy stance from 2020. Household inflation expectations declined for the first time in several months in February, but remain high at 10.1%. Although pressure on the ruble has reduced recently, the likelihood of sanctions and the foreign-currency purchase programme should maintain the ruble at around 67.5 against the US dollar in 2019-2020.

Russia - Wages, Household Loans & Retail Sales



Source: Fitch Ratings, OECD, CBR, Datastream

Russia - Interest Rates and Exchange Rate



Source: Fitch Ratings, WM/Reuters, Thomson Reuters, Datastream

Russia – Forecast Summary

(%)	Ann. Av.2014-18	2017	2018	2019f	2020f
GDP	0.5	1.6	2.3	1.5	1.9
Consumer Spending	-0.8	3.2	2.2	1.8	2.6
Fixed Investment	-0.9	5.5	2.3	1.9	3.0
Net Trade (contribution pps.)	1.6	-2.3	0.5	0.2	-0.3
CPI Inflation (end-year)	7.4	2.5	4.3	4.9	4.0
Policy Interest Rate (end-year)	9.55	7.75	7.75	7.75	7.25
Exchange Rate, USDRUB (end-year)	57.61	57.57	69.37	67.50	67.50

Source: Fitch Ratings

India

India's GDP growth softened for the second consecutive quarter in 4Q18, with the economy growing by 6.6% yoy after increases of 7% and 8% in 3Q18 and 2Q18, respectively. The slowdown has been driven by cooling activity growth in the manufacturing sector and, to a lesser extent, agriculture. Weaker momentum has been mainly domestically driven. First, credit availability has tightened up in areas heavily dependent on non-bank financial company (NBFC) credit, such as autos and two-wheelers, where sales have dropped. Second, food inflation has been muted and fell into negative territory late last year, weighing on farmers' incomes.

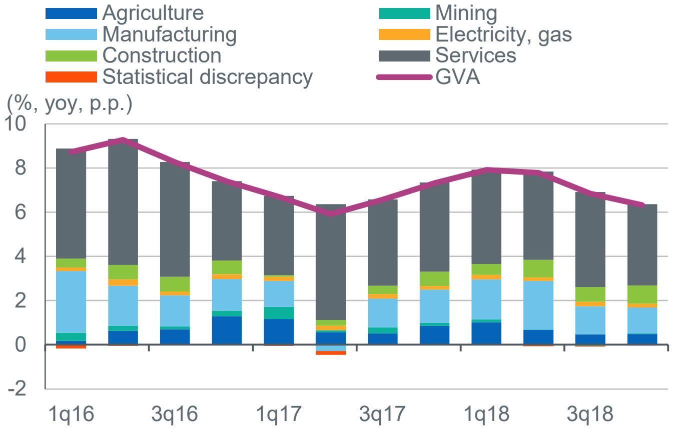
While we have cut our growth forecasts for the next fiscal year (FY20, ending in March 2020) on weaker-than-expected momentum, we still see Indian GDP growth to hold up reasonably well, at 6.8%, followed by 7.1% in FY21.

Banks have been increasing credit to the private sector in recent months, filling the void left by the NBFCs. Further capital injections and a looser regulatory stance of the Reserve Bank of India (RBI) have eased (though not removed) the state banks' capital constraints, while the central bank has raised the limit on collateral-free loans that banks can make to farmers (by 60%), helping prevent a decline in bank lending.

Fiscal and monetary policies are also becoming more growth-friendly. The RBI has adopted a more dovish monetary policy stance and cut interest rates by 25bp at its February 2019 meeting, a move supported by steadily decelerating headline inflation. We have changed our rate outlook and we now expect another 25bp cut in 2019, amid protracted below target inflation and easier global monetary conditions than previously envisaged. On the fiscal side, the budget for FY20 plans to increase cash transfers for farmers.

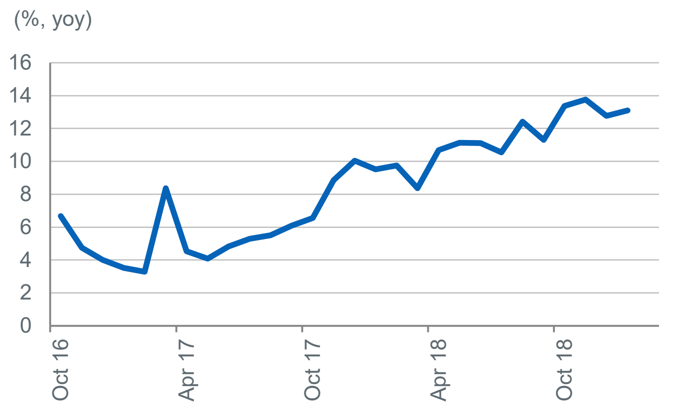
Our benign oil price outlook and our expectations of accelerating food prices in the coming months should support rural households' income and consumption.

India - Contribution to Gross Value Added



Source: Fitch Ratings, CSO, Haver Analytics

India - Total Bank Credit Growth



Source: Fitch Ratings, RBI, Haver Analytics

India – Forecast Summary

(%) FY starting April	Ann. Av.2014-18	FY17-18	FY18-19f	FY19-20f	FY20-21f
GDP	7.4	7.2	6.9	6.8	7.1
Consumer Spending	7.5	7.4	7.7	7.7	7.9
Fixed Investment	5.7	9.3	10.2	6.6	7.1
Net Trade (contribution pps.)	0.4	-2.8	-0.9	0.1	0.0
CPI Inflation (end-cal. year)	4.7	5.2	2.1	3.8	4.3
Policy Interest Rate (end-cal. year)	6.83	6.00	6.50	6.00	6.00
Exchange Rate, USDINR (end-cal. year)	65.18	63.83	69.82	72.00	73.00

Source: Fitch Ratings

Korea

Korean GDP grew by 2.7% in 2018, its weakest performance since 2012. Investment expenditures were the main drag on growth, dropping 2.1% over the year, plagued by the turnaround of the construction and real-estate cycle. However, the other components of domestic demand – private and public consumption – picked up in 2018 and grew robustly, bolstered by the rolling out of an expansionary fiscal policy by the Moon administration.

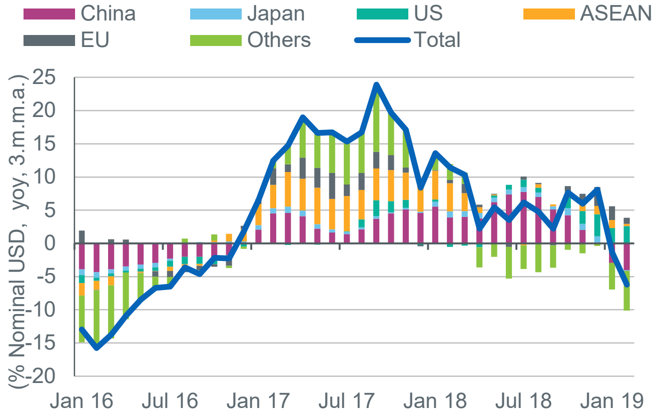
We expect Korean GDP growth to edge down to 2.5% this year and the next, the same as in the last GEO. The Korean economy should lose momentum on weaker external demand and from a cooling labour market weighing on sentiment and consumer spending.

Exports have been under pressure since late last year, mainly on falling shipments of semi-conductors, and petroleum and petrochemical products, some of the country's main export items. Exports to China, which take a quarter of Korea's overseas shipments, have been falling rapidly for the fourth straight month in February.

The pace of job creation in the private sector has been muted since early 2018. While part of the reason for the underlying slowdown in employment growth is structural – the Korean working-age population started to decline in 2018 – the sharp increase in the minimum wage over the past two years is likely to have weighed on hiring, particularly in labour-intensive sectors such as retail. The end of the construction boom – another labour-intensive industry – has also reduced the demand for workers.

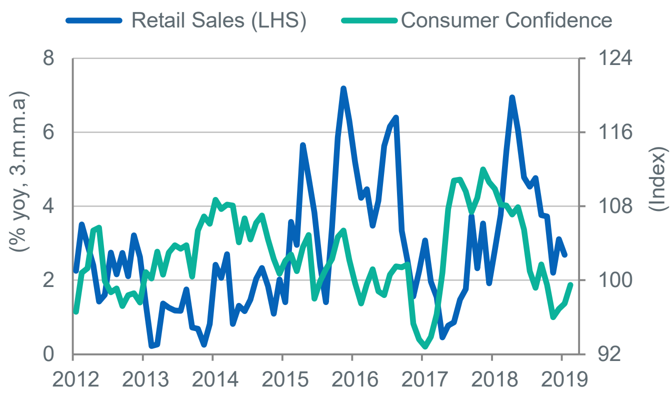
However, fiscal policy should continue to provide support to domestic demand, helping the recovery in investment and bolstering job creation in the public sector and for elderly people. The government has launched measures aimed at encouraging large corporations to boost capital expenditures in eight key innovative sectors and to nurture SMEs. Meanwhile, the government has stepped up support to troubled industries, mainly auto and shipbuilding, to help them revive spending. We now expect the Bank of Korea to keep rates on hold until 2020.

Korea - Goods Exports by Destination



Source: Fitch Ratings, KCS, Haver Analytics

Korea - Retail Sales & Consumer Confidence



Source: Fitch Ratings, KOSTAT, Bank of Korea, Datastream

Korea – Forecast Summary

(%)	Ann. Av.2014-18	2017	2018	2019f	2020f
GDP	3.0	3.1	2.7	2.5	2.5
Consumer Spending	2.4	2.6	2.8	2.6	2.4
Fixed Investment	4.1	8.6	-2.1	-0.1	2.2
Net Trade (contribution pps.)	-0.6	-2.5	1.3	0.3	0.2
CPI Inflation (end-year)	1.3	1.4	1.3	1.5	1.7
Policy Interest Rate (end-year)	1.63	1.50	1.75	1.75	2.00
Exchange Rate, USDKRW (end-year)	1115	1071	1116	1140	1140

Source: Fitch Ratings

Indonesia

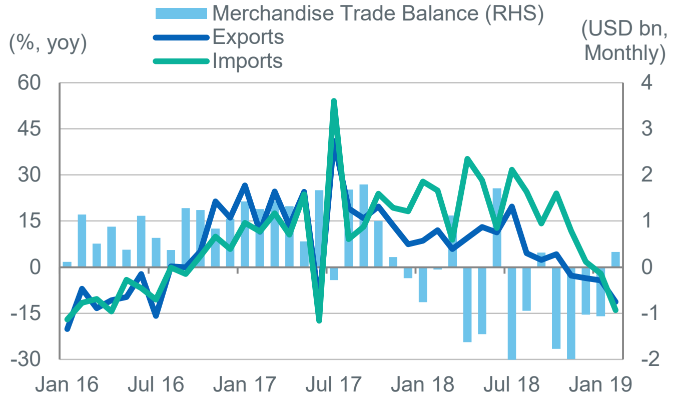
Indonesian GDP grew by 5.2% in 2018, up slightly from 2017, when GDP expanded by 5.1%. We expect Indonesia's GDP growth to ease slightly this year to 5.0%. This is one of the few 2019 GDP forecasts that are unchanged from the previous GEO. While headwinds from external demand have increased, we no longer expect further monetary policy tightening.

Since 2014, GDP growth has hovered around 5% a year, down from more than 6% in the previous decade. A positive feature of recent economic performance is that investment has gained traction, boosted by the government's infrastructure drive. Total investment grew 6.7% in 2018, its highest rate since 2012. The flip side of this has been a wider trade deficit and an increasing drag from net trade as capital goods imports have risen – total import volumes were up by 12% in 2018.

Slowing global trade and Chinese demand dampens the outlook for exports in 2019. Investment is also likely to slow following various policy measures taken last year – including monetary tightening – aimed at curbing the trade deficit. On the other hand, there have been signs that imports are slowing – imports contracted 14% yoy in February in nominal terms – partly in response to administrative controls on capital goods imports. This should limit the drag from net trade. Prospects for consumption have also been boosted by a more accommodative outlook for monetary policy and a substantial rise in the social assistance bill.

The easing of global financial conditions since end 2018, coupled with a much more dovish Fed since the January 2019 FOMC meeting, has brought capital inflows back to Indonesia. Fitch now expects a much milder depreciation of the rupiah in 2019 and 2020. Against this global backdrop and contained inflation, we no longer expect Bank Indonesia to raise interest rates in 2019 or 2020. This is a big change from our previous expectation that rates would rise by another 75bp by the end of 2020.

Indonesia - Merchandise Trade



Source: Fitch Ratings, Statistics Indonesia, Haver Analytics

Indonesia - Daily Stock Price and FX

Source: Fitch Ratings, Reuters, Datastream

Indonesia – Forecast Summary

(%)	Ann. Av.2014-18	2017	2018	2019f	2020f
GDP	5.0	5.1	5.2	5.0	5.1
Consumer Spending	5.1	5.0	5.1	5.0	5.1
Fixed Investment	5.4	6.2	6.7	5.6	5.6
Net Trade (contribution pps.)	0.0	0.3	-1.0	-0.4	0.0
CPI Inflation (end-year)	4.7	3.6	3.1	3.4	3.2
Policy Interest Rate (end-year)	6.15	4.25	6.00	6.00	6.00
Exchange Rate, USDIDR (end-year)	13233	13568	14380	14200	14300

Source: Fitch Ratings

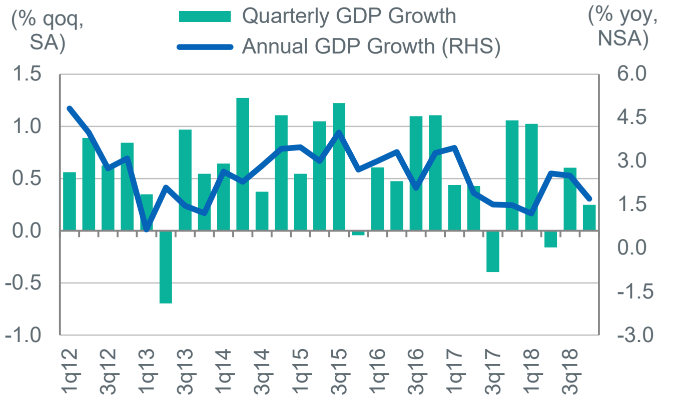
Mexico

Mexico's economy slowed sharply in 4Q18 and data weakness has persisted into 2019, leading us to lower our growth forecast to 1.6% in 2019 from 2.1% in December. At the end of February, the Banco de Mexico (Banxico) reduced its growth forecast range for 2019 to 1.1%-2.1%. Part of this reflects transitory factors, such as the impact of fuel shortages and strikes, but there are also more persistent trends keeping growth below potential. On the supply side, weakness has been concentrated in secondary activities. Oil output continues to contract, reducing annual growth by an average of 0.25pp over 2014-2018. We believe this will continue over the next two to three years.

In terms of demand, business confidence is suffering from policy uncertainty generated by the new administration, which took office in December. Consumer spending has diverged significantly from indicators of consumer sentiment even as the inflation rate has fallen, boosting real wages. The pace of formal sector job creation is slowing. Manufacturing exports remain dynamic but automotive exports have been hit by the global slowdown in the sector, a factor we expect to reverse. Government spending has fallen by more than it usually does in the early months of a new government.

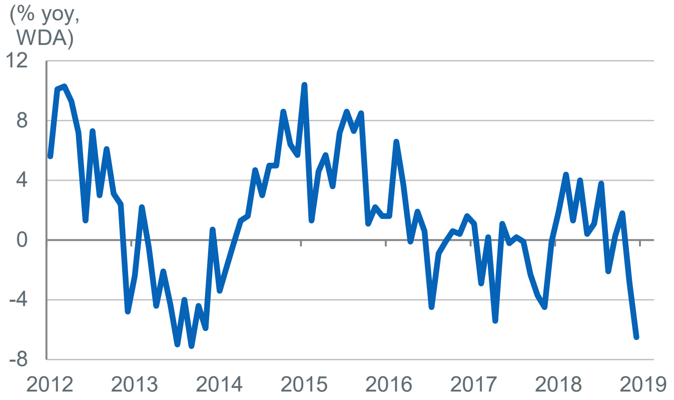
Banxico's rate tightening cycle looks to have peaked, after two 25bp increases in October and December, which took the rate to 8.25%. We expect policymakers to cut rates in 2019. Recent inflation readings have been lower than expected and, together with the soft economy, will make the authorities more confident of hitting the inflation target. With a fall to 3.9% yoy in February, the inflation rate is back within the target range for the first time since December 2016. Core inflation has been slower to fall, reflecting the persistence of energy price and other shocks. Potential inflationary risks are led by external shocks, which would lead to currency depreciation, but include the impact of a rise in the minimum wage, which will put upward pressure on earnings.

Mexico - Real GDP Growth



Source: Fitch Ratings, INEGI, Datastream

Mexico - Gross Fixed Capital Formation



Source: Fitch Ratings, INEGI, Haver Analytics

Mexico – Forecast Summary

(%)	Ann. Av.2014-18	2017	2018	2019f	2020f
GDP	2.6	2.1	2.0	1.6	2.0
Consumer Spending	2.8	3.1	2.5	1.8	2.4
Fixed Investment	1.8	-1.6	1.4	-0.7	1.5
Net Trade (contribution pps.)	0.1	-0.8	0.1	0.1	0.0
CPI Inflation (end-year)	4.1	6.8	4.8	3.8	3.5
Policy Interest Rate (end-year)	4.99	7.25	8.25	7.75	7.25
Exchange Rate, USDMXN (end-year)	17.20	19.57	19.69	20.00	19.50

Source: Fitch Ratings

Poland

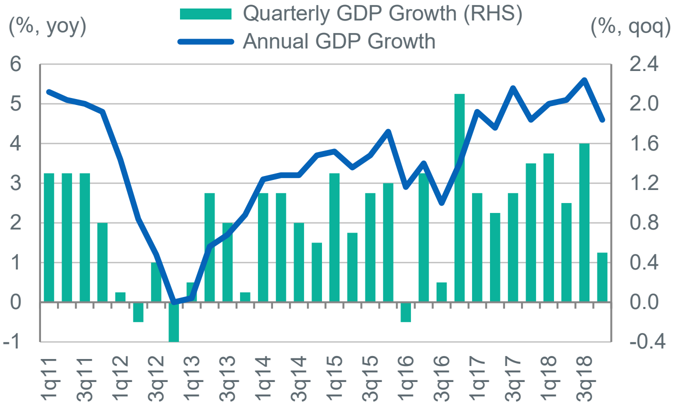
Poland's GDP growth reached a 12-year peak of 5.1% in 2018, driven by robust private consumption and investment growth. Headwinds from a slowing eurozone contributed to a slowdown in qoq seasonal adjusted growth to 0.5% in 4Q18, the lowest since 3Q16. However, we have raised our growth forecasts, despite our downbeat view on the eurozone, owing to a pre-election fiscal stimulus worth around 2% of GDP. Growth is now expected to be 4% this year (from 3.8% in the December GEO) and 3.5% next year (3.0%).

The largest measures are a bonus for pensioners and an expansion of 'Family 500+' transfers to families with one child (previously only those with two or more children qualified). Both will boost private consumption, with a partial negative offset from higher import growth. The staggered timing of the measures (pensioners' bonuses in 2Q and the Family 500+ in 4Q) will smooth the impact on consumption over the year. The impact of proposed taxation measures is less clear, although they will also hold back growth.

The inflation rate has fallen from a recent peak of 2.3% in 3Q18 to 1.2% in February, driven by the government's decision to freeze electricity prices. Despite unemployment falling to a decade low of 5.8% at end-2018, wage growth is expected to plateau as inflows of Ukrainian workers mitigate labour shortages. Fitch has lowered its end-year inflation forecasts to 1.7% from 2.7%, given the low pass-through of wage growth to inflation and the impact of stable regulated energy prices. The cumulative effect of higher household spending and fiscal easing is likely to push inflation to just above the mid-point of the inflation target, at 2.6% by end-2020.

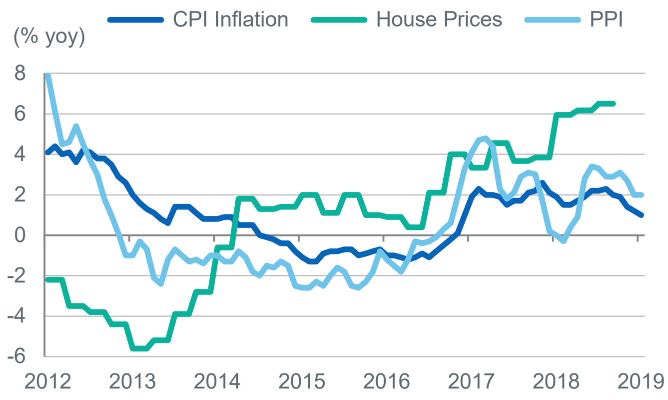
Fitch no longer expects monetary tightening by the National Bank of Poland in 2019 or 2020. This reflects the likelihood of more muted inflationary pressure and adjustments made to forecast for ECB policy.

Poland - Real GDP Growth



Source: Fitch Ratings, Eurostat, Datastream

Poland - CPI, PPI and House Price Inflation



Source: Fitch Ratings, CSO of Poland, Eurostat, Datastream

Poland – Forecast Summary

(%)	Ann. Av.2014-18	2017	2018	2019f	2020f
GDP	4.0	4.8	5.1	4.0	3.5
Consumer Spending	3.8	4.9	4.6	5.4	4.8
Fixed Investment	3.8	3.9	7.3	3.4	0.7
Net Trade (contribution pps.)	0.0	-0.2	-0.1	0.6	-0.1
CPI Inflation (end-year)	0.5	2.1	1.2	1.7	2.5
Policy Interest Rate (end-year)	1.69	1.50	1.50	1.50	1.50
Exchange Rate, USDPLN (end-year)	3.65	3.47	3.76	3.75	3.75

Source: Fitch Ratings

Turkey

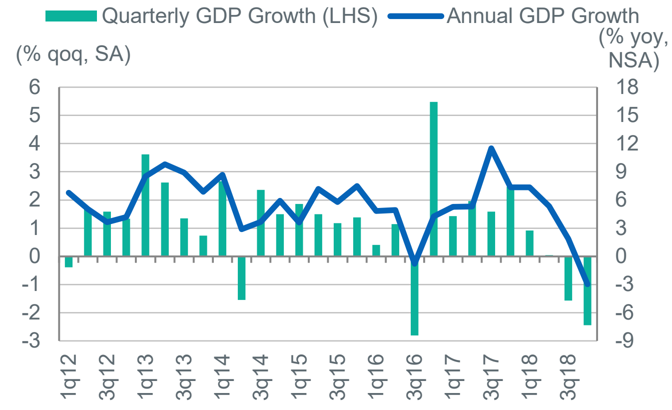
Fitch has revised down its growth projections for Turkey reflecting both a worse-than-expected 4Q18 and continued evidence of weakness as the economy adjusts to the fallout from the plunge in the currency and the policy tightening last year. GDP fell by 2.4% qoq in 4Q18, following a 1.6% qoq decline the previous quarter. This pulled the full-year rate to its lowest since 2009. The main positive contribution to growth came from net trade, reflecting a sharp contraction in imports.

Fitch assumes that sequential qoq growth will resume in 1Q19. This will be led by net trade, with imports continuing to fall sharply. High-frequency indicators are showing signs that the economy is stabilising, with credit growth moving into positive territory, industrial production rising in January and the February PMI hitting a six-month high (albeit still indicating a contraction). However, fiscal policy should become more contractionary after local elections in March (various temporary stimulus measures have been introduced ahead of the polls). Base effects mean that yoy growth rates will remain negative until 4Q19, by which time consumption and investment growth should resume as the economic adjustment progresses. GDP is now expected to fall by 1.1% over 2019 as a whole, reflecting carry over from the sharp fall in 4Q18.

The inflation rate has dipped from its peak, but remains elevated at 19.7% in February. Fitch has lowered its inflation projection for end-2019 due to a sharper-than-projected slowdown in growth and a stronger-than-expected exchange rate (consistent with our view of easing financing conditions for emerging markets). Policy rates were kept on hold in March, at the last MPC meeting ahead of local elections. Fitch assumes rates will be lowered in the second half of the year in line with the slowdown in inflation.

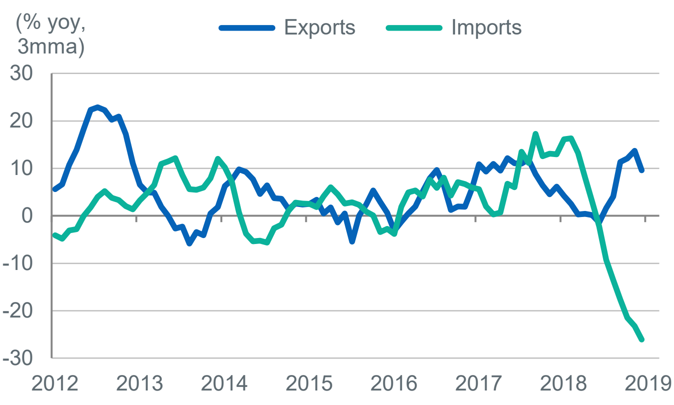
Economic performance should continue to revive in 2020 with GDP recovering by just over 3%. However, growth will remain well below potential and inflation in double digits. Turkey's large external financing requirement means further exchange-rate volatility is a risk in the event of premature policy loosening.

Turkey - Real GDP Growth



Source: Fitch Ratings, TurkStat, Haver Analytics

Turkey - Export and Import Volumes



Source: Fitch Ratings, TurkStat, Datastream

Turkey – Forecast Summary

(%)	Ann. Av.2014-18	2017	2018	2019f	2020f
GDP	4.9	7.4	2.6	-1.1	3.1
Consumer Spending	3.9	6.1	1.1	-6.3	3.1
Fixed Investment	4.5	7.8	-1.7	-8.4	2.5
Net Trade (contribution pps.)	1.0	0.1	3.6	4.6	0.4
CPI Inflation (end-year)	10.3	11.9	20.3	15.0	10.0
Policy Interest Rate (end-year)	9.57	8.00	24.00	20.00	15.00
Exchange Rate, USDTRY (end-year)	3.29	3.79	5.32	5.70	5.90

Source: Fitch Ratings

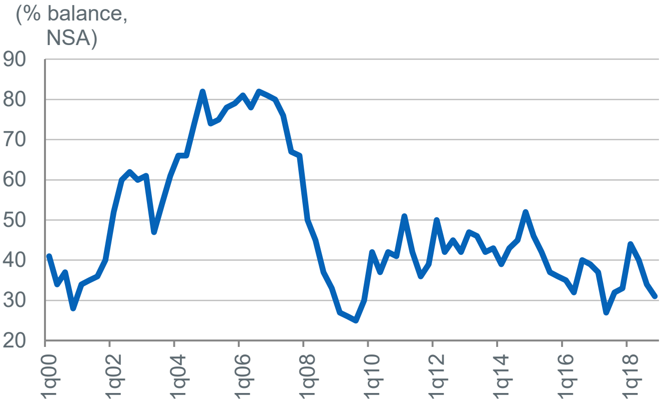
South Africa

GDP grew by just 1.4% in seasonally adjusted annualised terms in 4Q18 suggesting only limited momentum going into 2019. Business confidence continued to decline in the first quarter to exceptionally low levels, possibly reflecting concerns over electricity supply in the face of a new episode of load shedding. Fitch still believes gross fixed investment will gradually recover after the contraction in 2018, as replacement investments can no longer be postponed. Private consumption should continue at a steady but moderate pace supported by continued growth in real wages.

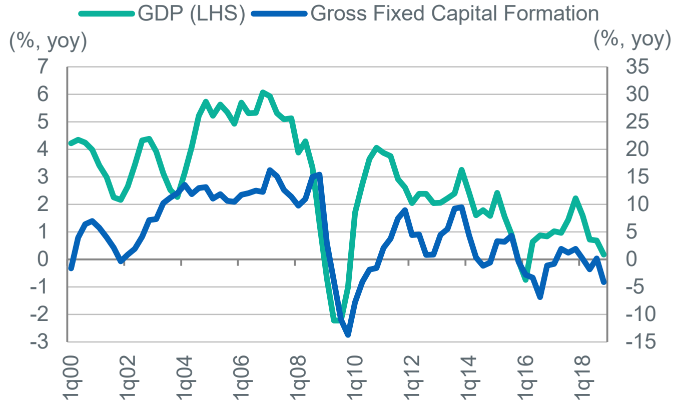
However, the recovery will be slow reflecting structural obstacles to growth, including labour market inefficiencies and skill mismatches. Following the general election on 8 May 2019, the government will continue to seek gradual reforms, but they are likely to be insufficient to increase trend growth substantially in the medium term. The debate about expropriation of land without compensation, although unlikely to affect growth directly, highlights long-term policy risks in the context of exceptionally high inequality, dampening private-sector investment.

Inflation fell to 4% in January, one of the lowest rates recorded over the past 10 years. Five-year-ahead inflation expectations returned to 5.3% in 4Q18, the lowest level on record, suggesting the central bank, the South African Reserve Bank (SARB), is making gradual progress on guiding inflation expectations closer to the centre of its target range of 3% to 6%. Substantial electricity tariff rises over the next three years following a decision by the energy regulator, NERSA, is unlikely to push up inflation by more than 0.4pp.

The weak cyclical environment also contributes to a benign inflation outlook, so the SARB will be able to keep interest rates on hold at 6.75% over the forecast period. Renewed Fed tightening this year is likely to result in renewed pressure on the rand, which tends to react strongly to changes in the US monetary policy direction. But the pass-through to inflation is not strong enough to trigger a reaction by the SARB.



Source: Fitch Ratings, Bureau of Economic Research, Haver Analytics



Source: Fitch Ratings, SARB, Haver Analytics

South Africa – Forecast Summary

(%)	Ann. Av.2014-18	2017	2018	2019f	2020f
GDP	1.1	1.4	0.8	1.6	2.0
Consumer Spending	1.4	2.1	1.8	2.3	2.3
Fixed Investment	-0.1	1.0	-1.4	0.5	2.9
Net Trade (contribution pps.)	0.2	-0.5	-0.2	1.4	-0.2
CPI Inflation (end-year)	5.4	4.7	4.5	4.9	4.9
Policy Interest Rate (end-year)	6.39	6.75	6.75	6.75	6.75
Exchange Rate, USDZAR (end-year)	12.97	12.38	14.39	14.70	15.00

Source: Fitch Ratings

Appendix 1: Quarterly GDP Q/Q

(%)	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19
US	0.4	0.7	0.7	0.6	0.5	1.0	0.8	0.6	0.4	0.5
Euro area	0.7	0.7	0.7	0.7	0.4	0.4	0.1	0.2	0.2	0.3
China	1.5	1.8	1.7	1.6	1.5	1.7	1.6	1.5	1.5	1.5
Japan	0.9	0.4	0.6	0.4	-0.1	0.5	-0.6	0.5	0.2	0.3
UK	0.4	0.3	0.5	0.4	0.1	0.4	0.6	0.2	0.2	0.2
Germany	1.1	0.5	0.6	0.5	0.4	0.5	-0.2	0.0	0.4	0.4
France	0.8	0.7	0.6	0.7	0.2	0.2	0.3	0.3	0.3	0.4
Italy	0.5	0.3	0.4	0.4	0.2	0.1	-0.1	-0.1	0.0	0.1
Spain	0.8	0.9	0.6	0.7	0.6	0.6	0.6	0.7	0.5	0.4
Switzerland	0.4	0.7	0.8	0.8	0.9	0.7	-0.3	0.2	0.4	0.4
Australia	0.4	0.8	0.6	0.6	1.1	0.8	0.3	0.2	0.6	0.6
Canada	1.0	1.1	0.3	0.4	0.3	0.6	0.5	0.1	0.4	0.5
Brazil	1.5	0.3	0.1	0.3	0.4	0.0	0.5	0.1	0.6	0.6
Russia	0.2	0.7	0.4	0.1	0.5	0.5	0.3	0.5	0.4	0.3
India	1.9	2.1	1.9	1.6	2.2	2.1	0.9	1.2	1.9	1.9
Korea	1.0	0.6	1.4	-0.2	1.0	0.6	0.6	1.0	0.5	0.5
Mexico	0.4	0.4	-0.4	1.1	1.0	-0.2	0.6	0.2	0.4	0.5
Indonesia	1.3	1.3	1.2	1.3	1.3	1.3	1.3	1.2	1.2	1.2
Turkey	1.4	2.0	1.6	2.5	0.9	0.0	-1.6	-2.4	0.3	0.8
Poland	1.1	0.9	1.1	1.4	1.5	1.0	1.6	0.5	1.1	1.2
South Africa	-0.1	0.7	0.7	0.9	-0.7	-0.1	0.6	0.3	0.3	0.4
Developed [a]	0.6	0.6	0.6	0.5	0.4	0.7	0.4	0.4	0.4	0.4
Emerging [b]	1.4	1.4	1.3	1.2	1.4	1.2	1.0	1.0	1.2	1.2
World [c]	0.9	0.9	0.9	0.8	0.8	0.9	0.6	0.6	0.7	0.7

[a] US, Japan, France, Germany, Italy, Spain, UK, Canada, Australia and Switzerland.

[b] Brazil, Russia, India, China, South Africa, Korea, Mexico, Indonesia, Poland and Turkey.

[c] 'Fitch 20' countries weighted by nominal GDP in USD at market exchange rates (3 year average)

Source: Fitch Ratings

Appendix 2: Quarterly GDP Y/Y

(%)	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19
US	1.9	2.1	2.3	2.5	2.6	2.9	3.0	3.1	2.9	2.4
Euro area	2.1	2.5	2.8	2.7	2.4	2.1	1.6	1.1	1.0	0.8
China	6.9	6.9	6.8	6.8	6.8	6.7	6.5	6.4	6.1	6.0
Japan	1.4	1.8	2.2	2.4	1.4	1.4	0.2	0.3	0.6	0.4
UK	1.8	1.9	2.0	1.6	1.3	1.4	1.6	1.3	1.4	1.2
Germany	2.1	2.2	2.7	2.8	2.1	2.0	1.2	0.6	0.6	0.5
France	1.4	2.3	2.7	2.8	2.2	1.7	1.3	0.9	1.0	1.3
Italy	1.6	1.7	1.7	1.7	1.4	1.1	0.6	0.0	-0.1	-0.1
Spain	2.9	3.1	2.9	3.1	2.8	2.5	2.4	2.4	2.3	2.2
Switzerland	1.2	1.0	1.7	2.5	3.0	3.4	2.4	1.4	1.0	0.7
Australia	2.2	2.1	2.8	2.4	3.1	3.1	2.7	2.3	1.8	1.6
Canada	2.2	3.8	3.0	2.9	2.2	1.7	1.9	1.6	1.7	1.5
Brazil	0.1	0.6	1.4	2.2	1.2	0.9	1.3	1.1	1.3	1.9
Russia	0.6	2.5	2.2	0.9	1.3	1.9	1.5	1.8	1.7	1.5
India	6.1	6.0	6.8	7.7	7.7	8.0	7.0	6.6	6.2	6.0
Korea	2.9	2.8	3.8	2.8	2.8	2.8	2.0	3.1	2.7	2.6
Mexico	3.5	1.9	1.5	1.5	1.2	2.6	2.5	1.7	1.1	1.8
Indonesia	5.0	5.0	5.1	5.2	5.1	5.3	5.2	5.2	5.1	5.0
Turkey	5.3	5.3	11.5	7.3	7.4	5.3	1.8	-3.0	-3.6	-2.9
Poland	4.6	4.2	5.4	5.0	5.3	5.1	5.1	4.9	4.3	4.5
South Africa	1.1	1.6	1.6	1.4	0.7	0.1	1.3	1.1	1.2	1.7
Developed [a]	1.9	2.1	2.4	2.4	2.2	2.3	2.1	2.0	1.9	1.6
Emerging [b]	5.1	5.0	5.4	5.3	5.5	5.3	5.0	4.7	4.5	4.5
World [c]	3.0	3.2	3.5	3.5	3.4	3.4	3.1	3.0	2.9	2.7

[a] US, Japan, France, Germany, Italy, Spain, UK, Canada, Australia and Switzerland.

[b] Brazil, Russia, India, China, South Africa, Korea, Mexico, Indonesia, Poland and Turkey.

[c] 'Fitch 20' countries weighted by nominal GDP in USD at market exchange rates (3 year average)

Source: Fitch Ratings

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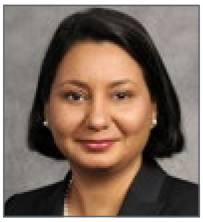

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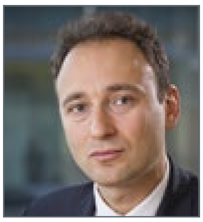

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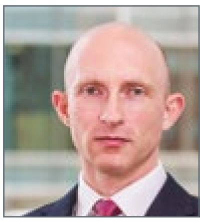

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