IMPORTANT NOTICE:

The information in this PDF file is subject to Fitch Solutions Group Limited's full copyright and entitlements as defined and protected by international law. The contents of the file are for the sole use of the addressee. All content in this file is owned and operated by Fitch Solutions Group Limited and the copying or distribution of this file, internally or externally, is strictly prohibited without the prior written permission and consent of Fitch Solutions Group Limited. If you wish to distribute this file, please email the Subscriptions Department at subs@fitchsolutions.com, providing details of your subscription and the number of recipients you wish to forward or distribute this information to.

This report from Fitch Solutions Macro Research is a product of Fitch Solutions Group Ltd, UK Company registration number 08789939 ('FSG'). FSG is an affiliate of Fitch Ratings Inc. ('Fitch Ratings'). FSG is solely responsible for the content of this report, without any input from Fitch Ratings. Copyright © 2019 Fitch Solutions Group Limited.

DISCLAIMER

All information contained in this publication has been researched and compiled from sources believed to be accurate and reliable at the time of publishing. However, in view of the natural scope for human and/or mechanical error, either at source or during production, Fitch Solutions Group Limited accepts no liability whatsoever for any loss or damage resulting from errors, inaccuracies or omissions affecting any part of the publication. All information is provided without warranty, and Fitch Solutions Group Limited makes no representation of warranty of any kind as to the accuracy or completeness of any information hereto contained.

Fitch Solutions

May 2019
Vol 10 Issue 12

Global Macro Monitor

Downside Risks Remain Amid Signs Of Stabilisation

While equity markets have broadly rallied since mid-December, investor anxiety remains over slowing global growth and US-China trade negotiations. The uncertainty is reflected in US Treasury bonds, which have been rallying (falling yields) for some time. Although the US yield curve is not fully inverted, portions of the curve are, raising the odds of recession more imminently than markets are pricing in, which eurodollar futures place at some point in 2020. Outside US treasuries, market and fundamental signals are mixed, so we await a few more months of data to confirm whether or not economic leading indicators continue to show weakness. The Fed's indefinite pause and the shift to less hawkish or dovish policy in many emerging market nations – under the cover of subdued inflation – combined with China's tax and monetary stimulus and the prospect of a US-China trade deal present some upside risks to the more pessimistic signals emanating from the bond markets.

Europe: ECB Move Less Dovish Than It Appears 5

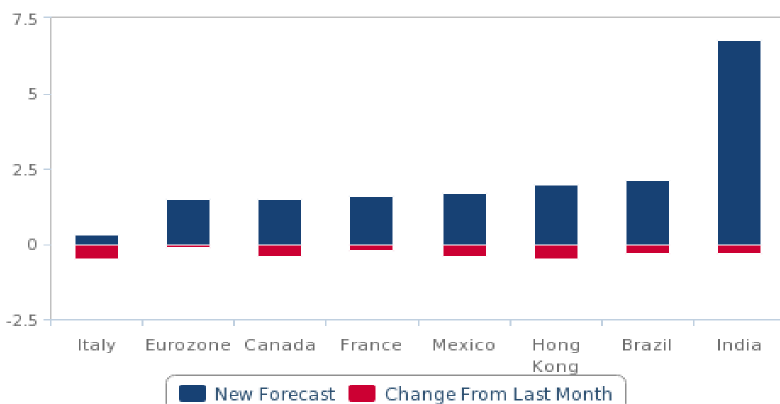
While the ECB announced a third round of TLTROs as the banking sector on the whole remains under pressure, the stimulus measures are small in comparison to the ECB's large growth and inflation downward revisions.

China: National People's Congress Q&A 24

While the focus on growth and employment has been the major theme of the NPC in 2019, policymakers have also continued to champion supply-side and tax reforms as well as opening up the economy to foreign investment.

Several Downward Revisions To Growth This Month

Current 2019 Real GDP Forecast & Difference From Last Month



Source: Fitch Solutions

© 2019 Fitch Solutions Group Limited. All rights reserved.
All information, analysis, forecasts and data provided by Fitch Solutions Group Limited is for the exclusive use of subscribing persons or organisations (including those using the service on a trial basis). All such content is copyrighted in the name of Fitch Solutions Group Limited and as such no part of this content may be reproduced, repackaged, copied or redistributed without the express consent of Fitch Solutions Group Limited.

All content, including forecasts, analysis and opinion, has been based on information and sources believed to be accurate and reliable at the time of publishing. Fitch Solutions Group Limited makes no representation of warranty of any kind as to the accuracy or completeness of any information provided, and accepts no liability whatsoever for any loss or damage resulting from opinion, errors, inaccuracies or omissions affecting any part of the content.

This report from Fitch Solutions Macro Research is a product of Fitch Solutions Group Ltd, UK Company registration number 08789939 ('FSG'). FSG is an affiliate of Fitch Ratings Inc. ('Fitch Ratings'). FSG is solely responsible for the content of this report, without any input from Fitch Ratings. Copyright © 2019 Fitch Solutions Group Limited.

ISSN: 2041-3394

Contents

Global 1-19
Americas 20-23
Asia 24-28
Europe 29-33
MENA 34-38
Sub-Saharan Africa 39-43
Key forecasts 44

Copy Deadline: March 15 2019

Cedric Chehab
Head of Country Risk
Acting Head of Asia

Michael Larsson
Global EM Economist

Daniele Fraietta
Global DM Economist

Katherine Weber
Head of Americas

Michael Richards
Head of Europe

Julie Beckenstein
Head of MENA

Jane Morley
Head of Sub-Saharan Africa

Head Office
30 North Colonnade, London
E14 5GN, UK

Company Locations
London | New York | Singapore
Hong Kong | Dubai | Pretoria

Subscriptions Contact:
Tel: +44 (0)20 7248 0468
Fax: +44 (0)20 7248 0467
email: subs@fitchsolutions.com

US: Growth To Slow In 2019, Watching Downside Risks

Key View

- Q418 GDP data showed signs of resilience in the US economy even as growth slowed to 2.6% q-o-q annualised from 3.4% the previous quarter.
- We maintain our view for real GDP growth to slow to 2.5% in 2019 from 2.9% in 2018 (below our 3.2% estimate).
- We highlight downside risks to our 2.5% forecast in light of growing stresses in the economy consistent with the late stage of the cycle.

Growth remained solid despite significant volatility in financial markets, a partial government shutdown and signs that the impact of trade tensions on global growth was beginning to be felt.

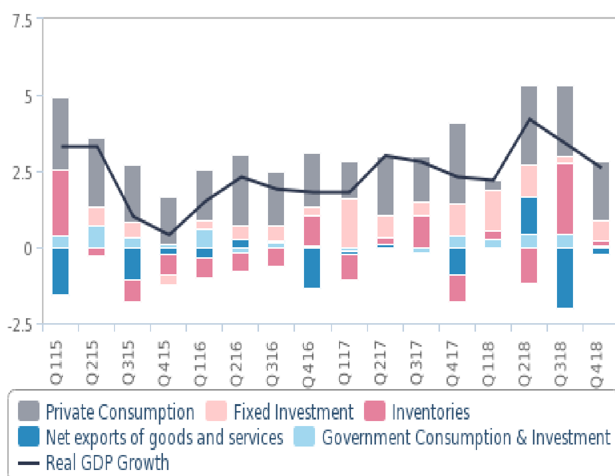
Latest GDP data suggest that the US economy remains relatively resilient, even as growth slowed to 2.6% q-o-q annualised in the last three months of 2018 from 3.4% the previous quarter. Private consumption and fixed investment were the major drivers of growth in Q418, with the latter rebounding after two consecutive quarters of slowing growth. Fixed investment posted growth of 3.9% q-o-q annualised in Q418, up from 1.1% in Q318, primarily on the back of a rebound in non-residential investment. This was driven by strong growth in the equipment and intellectual property sub-components. Overall, at 2.9% in 2018, growth remains above the post-global financial crisis trend of 2.2%.

Private consumption posted solid 2.8% q-o-q annualised growth in Q418, adding 1.9 percentage points (pp) to headline growth. The growth figure marked a slowdown from the previous quarter, but remains broadly in line with the average (2.7%) over the last two years. Growth remained solid despite significant volatility in financial markets, a partial government shutdown that indicated willingness for brinksmanship by both political parties and signs that the impact of trade tensions on global growth was beginning to be felt, suggesting that the US economy remains relatively resilient.

We maintain our view for headline growth to slow to 2.5% in 2019 from 2.9% in 2018. A combination of the waning effects of the 2017 fiscal stimulus, potential for some additional drag

Private Consumption Headlines Growth Once Again

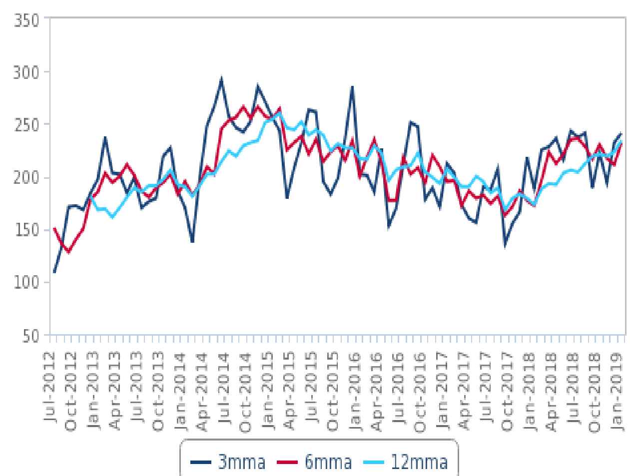
US – Real GDP Growth, % q-o-q annualised & Breakdown, pp contribution



Source: BEA, Fitch Solutions

Job Market Remains Robust

US – Employees On Non-Farm Payrolls, Total m-o-m Net Change SA '000s



Source: Bloomberg, Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

due to output lost and not regained from the 35-day government shutdown and tighter credit conditions underpin our view for slower growth over the coming quarters.

Q418 data was also not all positive, with the weakness in government spending and net exports that drove the deceleration in growth likely indicative of trends that will persist over 2019. Government spending expanded by just 0.4% q-o-q annualised in Q418, compared to average growth of 2.2% over the previous three quarters. State and local and non-defence spending were behind the slowdown, while defence spending remained strong. Net exports were a 0.2pp drag on growth in Q4, a major change from the 1.2pp positive contribution recorded in Q2. Exports have been a less positive contributor to growth over the last two quarters, while imports have been an increasing drag. Nevertheless, our core scenario sees growth remaining above trend in 2019. There are several drivers which remain supportive of the economy, including the labour market, a still-solid investment picture, a less hawkish Fed as well as a slight thawing of international trade tensions.

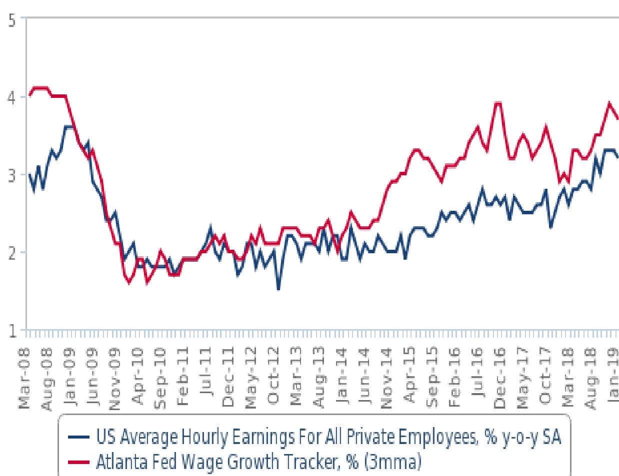
There are several drivers which remain supportive of the economy, including the labour market, a still-solid investment picture, a less hawkish Fed and a slight thawing of international trade tensions.

First, the consumer story should remain strong. The US labour market remains robust with unemployment at 3.8%, and importantly, job growth as measured by non-farm payrolls remains strong. Steady job growth will help to keep the unemployment rate pinned down. The quit rate has come off its peak of 2.4%, which it sustained for Q318, but at 2.3% it remains at a multi-year high, suggesting that labour market participants remain confident about their ability to find new job prospects.

A tight job market, combined with falling oil prices and well-anchored inflation expectations, should continue to put upside pressure on real wages over the coming months, supporting consumers' purchasing power. While interest rates on credit cards have risen in line with the short-end of the treasury curve over the course of 2018, mortgage rates have tracked the decline in bond yields since November 2018, bringing them back to levels seen in late 2016. This could provide a tailwind to consumers considering purchasing a home, as unaffordability (due to a combination of interest rate increases and price appreciation) had been a major limiting factor for consumers in 2018.

Wage Increases To Support Purchasing Power

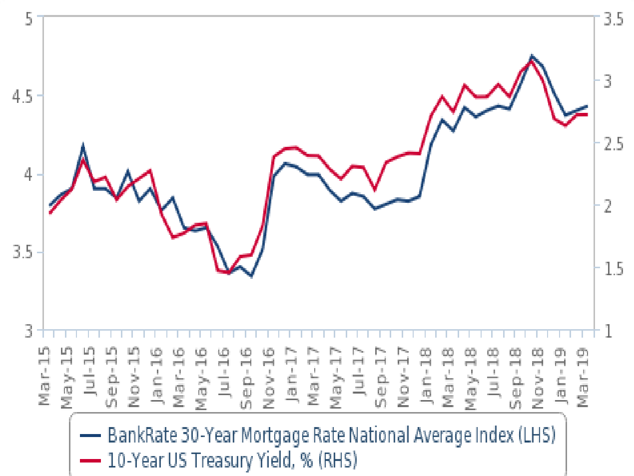
US – Average Hourly Earnings & Atlanta Fed Wage Growth Tracker



Source: Bloomberg, Atlanta Fed, Fitch Solutions

Mortgage Rates Off Their Highs Give Consumers A Break

US – 10-Year Generic US Treasury Yield & BankRate 30-Year Mortgage Rate Index



Source: Bloomberg, Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

Second, the combination of a less hawkish Fed capping bond yields, still-high profit margins, corporate tax cuts enacted in 2017 and progress on US-China trade negotiations should remain supportive of capex in the US. Capital expenditure surveys are a reasonably good leading indicator of future investment, and they remain strong, despite coming off their peak in Q317. This points to the potential for continued strength in non-residential investment in line with the Q418 readings.

There are growing stresses which we believe pose downside risks to the economy. These include rising financial market volatility, falling confidence, high debt loads and downside risks to corporate earnings.

Downside risks to US growth remain salient. Despite several drivers of growth across the economy mentioned above, there are growing stresses consistent with the late stage of the economic cycle, which we believe pose credible downside risks to the economy. These include rising financial market volatility, falling confidence, high debt loads and downside risks to corporate earnings.

It is unclear whether the rally in equity markets since the beginning of the year signals a strong recovery in risk appetite, or whether it is just a rally in what could be a larger bear market that started in October. As such, a renewed downturn in assets could trigger another wave of panic selling, which would ultimately come at a time when economic fundamentals are weaker than they were before, exposing the economy to significant downside risk from feed-through effects. Moreover, despite the easing of financial conditions since the Fed moderated its hawkish tone, improving market sentiment, US high yield corporate credit spreads remain wider than before. Dollar funding conditions are also less benign which, combined with high levels of corporate debt (a record high of 74% of GDP in Q218, according to the Bank for International Settlements) and softening fundamentals, could point to weakness for some US corporates.

Corporate earnings have also weakened in recent months, and historically, profit margins and earnings are correlated to the economy. There is a risk that the current weak patch in high frequency economic data could result in lower profit margins, particularly if rising wages or tariffs put upside pressure on business costs or if companies start to lose pricing power. As such, we will continue to monitor earnings and profit margins closely.

Additionally, the combination of mixed economic data, financial market volatility and the partial government shutdown has weighed on confidence. Confidence is not only an important consideration for future consumption and investment plans, but is sometimes considered a contrarian indicator, as confidence tends to peak or bottom just before the economy does. Moreover, with Congress needing to agree on an increase in the debt ceiling over the coming months, we cannot rule out another significant dip in confidence, similar to that during the partial government shutdown.

Data continue to surprise to the downside in the US, a trend in place since November 2018, as illustrated by the Citi Economic Surprise Index. Moreover, confidence levels for US CEOs are reasonably well correlated with the US Conference Board Leading Economic Index, and CEO confidence has been trending lower after peaking in January 2018. Further weakness in confidence would point towards slower economic activity in the coming months.

Lastly, several models point to the rising probability of a recession in the next 12-24 months. In January the NY Fed Recession Probability Index, which is based on US yield spreads, pointed to a 23.6% probability of recession in the next 12 months. While the probability is still low, it is not negligible, and it has shot up in recent months, reinforcing our view of salient downside risks to the US economy.

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

Europe: ECB Move Less Dovish Than It Appears

Key View

- The European Central Bank (ECB) adopted a relatively dovish tone in its March 7 meeting, as the bank finally acknowledged the weak state of the bloc's economy with substantial downward revisions of growth and inflation expectations.
- The bank also pledged not to increase interest rates in 2019 and announced a new targeted long-term refinancing operations (TLTRO) programme from September.
- Despite these steps, we believe that the announced measures will be insufficient to even partially mitigate the impacts of the slowdown and the bank is running out of tools to effectively stimulate growth.
- We maintain our forecasts for the policy rate to remain at historic lows of 0.00% in 2019, with the first rate hike taking place in Q120, although risks are now tilted towards an even later hike.

The key moves made by the ECB were the announcement (without specific details) that the TLTRO programme would restart in September. The bank also confirmed that it would not increase the policy rate in 2019.

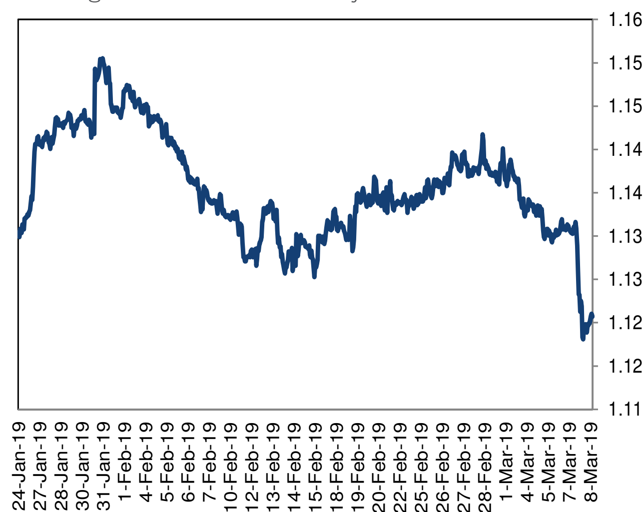
The ECB's March 7 meeting does not signal as much of a dovish shift from the bank as markets believe. The euro fell by more than 1.0% against the US dollar on the back of the meeting. The key moves made by the ECB were the announcement (without specific details) that the TLTRO programme would restart in September, following two earlier programmes (TLTROs and TLTROs II). The programme aims to allow banks to borrow cheaply from the ECB with a view of fostering cheaper lending to the real economy. Markets had initially expected TLTROs III to begin June, but did not anticipate the bank confirming the new measures so early on in 2019. The bank also confirmed that it would not increase the policy rate in 2019. Against this backdrop, we hold to our forecast for the policy rate to remain at historic lows of 0.00% in 2019, with the first rate hike of 25 basis points (bps) in Q120. Risks are tilted towards a later hike than we currently expect, but for now we maintain our forecast for a total of 50bps of hikes over 2020.

Stimulus Measures Meagre Compared To Downward Revisions To Growth

The stimulus measures announced are small in comparison to the ECB's large growth and inflation downward revisions. The bank slashed its 2019 real GDP growth forecasts to 1.1%, from

Dovish Response To ECB Meeting From Investors

Exchange Rate, USD/EUR (Hourly)



Source: Bloomberg, Fitch Solutions

USD1.12/EUR Remains Key Support Level

Exchange Rate, USD/EUR

Source: Bloomberg, Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

1.7%. Inflation forecasts were also cut, with prices now set to remain below the bank's 'just below' 2.0% target until at least 2021.

These forecast revisions, in our view, are a much more significant development than the stimulus measures. Prior to this meeting, the ECB had been reluctant to fully acknowledge the scale of the eurozone downturn, in spite of a collapse in economic activity indicators over the past year. We have long argued that the bloc's growth outlook was weaker than headline GDP figures suggested. Ongoing 'no-deal' Brexit risks and a potential EU-US trade war have soured the external trading environment, exposing the underlying weak macroeconomic environment in the eurozone.

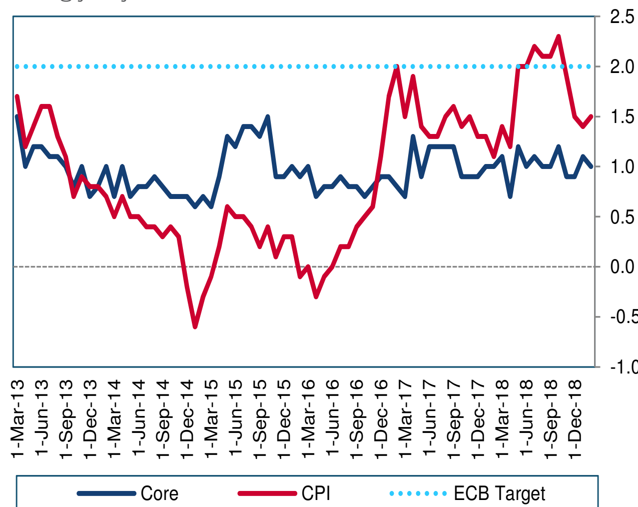
Ongoing 'no-deal' Brexit risks and a potential EU-US trade war have soured the external trading environment, exposing the underlying weak macroeconomic environment in the eurozone.

Given the scale of the eurozone downturn, the largely priced-in promise of no interest rate rises in 2019 and a further TLTRO programme is unlikely to be a silver bullet for the economy. The ECB has been reluctant to announce specific details of the TLTROs III programme, giving it wiggle room for dovish adjustments over the coming months without sending a negative signal to markets. The US Fed, by comparison, has shifted its stance more significantly, announcing a pause to its rate hiking cycle and shifting its language from 'hawkish' to 'neutral' in February.

We now forecast the benchmark Fed funds forecast to be 2.50-2.75% in 2019, from 3.00-3.25% previously. This means that US/eurozone interest rate differentials are likely to widen less substantially in 2019 than previously would have been expected. Against the backdrop of a less hawkish Fed, we maintain our forecasts for the euro to strengthen to USD1.22/EUR at end 2019, compared to a Bloomberg consensus estimate of USD1.20/EUR. The ECB meeting reinforces our long-term view that the eurozone has a lack of monetary and fiscal firepower to deal effectively with a large economic slowdown, and that the region is ill prepared to cope with another global financial crisis were it to emerge.

ECB Target To Remain Out Of Reach Once Again

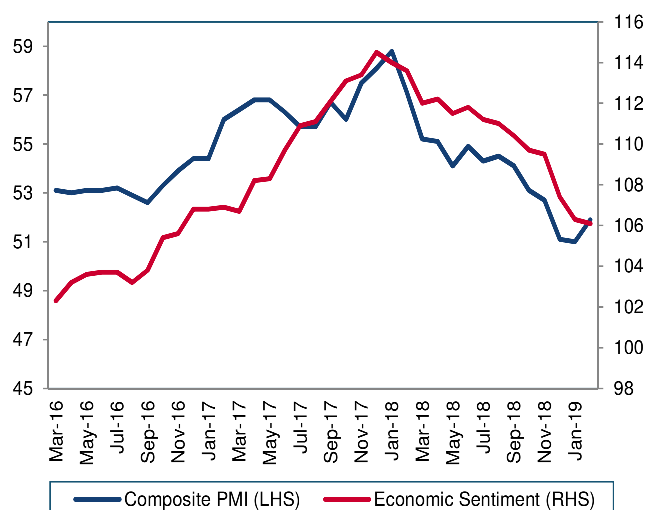
Eurozone – Consumer Price Index & Core Inflation, % chg y-o-y



Source: Eurostat, Fitch Solutions

ECB (Finally) Coming To Terms With Eurozone's Bleak Economic Outlook

Eurozone – Composite Purchasing Managers' Index Reading & Economic Sentiment



Source: Eurostat, Markit, Fitch Solutions. Note: A PMI score above 50 denotes expansion

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

Japan: BoJ's Accommodative Policy To Remain

We believe that over 2019, monetary policy will remain unchanged with a risk that BoJ adopts an even more accommodative policy to support growth should the outlook deteriorate significantly.

Key View

- The Bank of Japan (BoJ) will likely keep its loose monetary policy steady for an extended period.
- Although the outlook for a stable yen could become less of a concern for the BoJ, Japan will face both domestic and external headwinds in 2019 that may force the BoJ to loosen monetary policy further.
- However, the central bank faces technical constraints to further easing as interest rates are already negative and its balance sheet is now bigger than the Japanese economy.

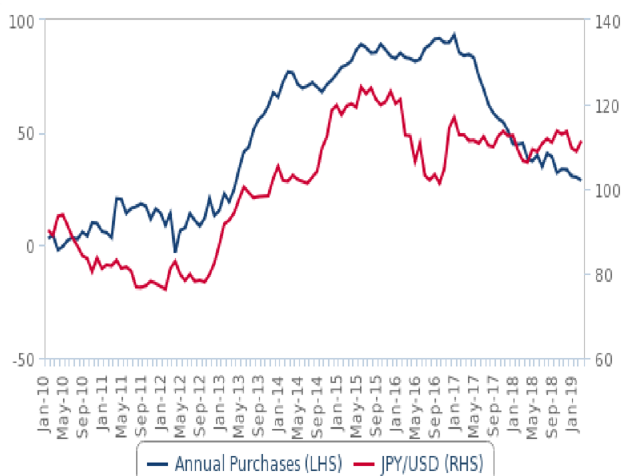
In a 7-2 vote, the BoJ kept its monetary policy settings unchanged during its March meeting: the short-term policy rate remains in negative territory at -0.10% while the 10-year JGB yield will stay at around 0.0% and, in theory, the annual pace of purchases at JPY80trn will be maintained. The BoJ noted in its statement the risks stemming from the expectations of a weaker global economy that may weigh on Japanese exports. We at Fitch Solutions believe that over 2019, monetary policy will remain unchanged with a risk that the BoJ adopts an even more accommodative policy to support growth should the outlook deteriorate significantly, although such a move would be technically complicated to pursue, and would worsen the burden of those exposed to negative interest rates, such as Japanese banks.

Stabilisation Of The Yen Less of A Concern For Now

Our outlook for the Japanese yen is rather stable, as we see the unit remaining in its JPY105-115/USD range, averaging JPY110.00/USD in 2019, which should alleviate the BoJ's concerns about a sharp appreciation. The BoJ has always emphasised that currency strength is a headwind for the export-dependent country, and we believe that currency volatility will remain a top priority in Tokyo. In the statement of the March monetary policy meeting, the central bank highlighted that Japanese exports may face downside pressure as the global economy slows.

Stable Yen Despite Reduced Purchases By The BoJ

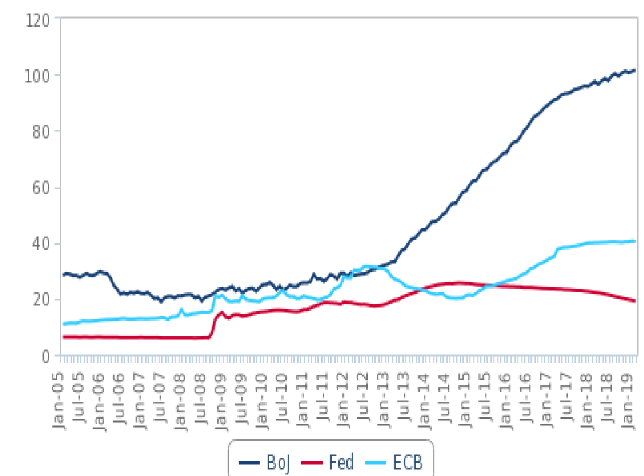
Japan – BoJ Annual Purchases 1-Year Rolling Average (JPYtrn) & JPY/USD



Source: Bloomberg, Fitch Solutions

BoJ's Balance Sheet Is Bigger Than The Japanese Economy

BoJ, Fed & ECB Balance Sheets As A Share Of GDP, %



Source: Bloomberg, Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

Looser Policies If Needed, But Via Which Channel?

We believe there is a risk that the BoJ may even ease further; however, such a decision would be limited by technical constraints as interest rates are already negative and the balance sheet of the central bank is now bigger that the country's GDP, standing at 101% of GDP in February, compared to 40% and 20% for the ECB and the Fed respectively. Earlier in March, BoJ Governor Haruhiko Kuroda declared that the central bank may consider lowering interest rates or expanding its asset purchase programme if needed. However, given the above-mentioned statistics, BoJ's room to manoeuvre appears limited. First, we believe that cutting interest rates will be an unpopular decision that may trigger a concerted backlash from some government officials, such as Finance Minister Taro Aso, but also from the financial community and even potentially voters.

We believe that cutting interest rates will be an unpopular decision that may trigger a concerted backlash from some government officials, the financial community and even potentially voters.

Second, the average of the annual purchases made by the BoJ has been steadily declining since 2017 (without strengthening the currency) and is well below the BoJ's JPY80trn target as only JPY30.7trn was added to the balance sheet in 2018. As such, we believe that a higher level of purchases may be a more viable option for the central bank than lowering interest rates. However, there are also some limits, as the central bank now owns 43% of the outstanding amount of JGBs.

Downside Risks To Easing Further

Further easing, if implemented, could cause other risks. For instance, as we noted in January, Japanese banks have seen their profitability decline due to lower yields, which has led them to increase investments and lending towards riskier geographies, assets and sectors in a search of yield. However, if the yen were to strengthen sharply, the BoJ could decide to ease further in order to offset the upside pressure on the currency, although this would pose longer-term structural risks to the economy, in our view. BoJ is a clear example of an institution facing one of our key macro themes for 2019 – increasing dilemma for policymakers.

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

UK: Negotiations Likely To Be Extended, But Little Change To Brexit Outcome

***Editorial note:** This article was published on March 7, and therefore does not reflect the fast-moving series of events that has defined the Brexit process. Based on our assessments we hold to our view of the UK eventually leaving the EU with a soft 'Brexit In Name Only' deal as laid out below.*

We believe that the government will be forced into softening its stance, keeping the UK in some form of customs union in order to gain Labour support for a deal. As the prospect of a no-deal Brexit recedes, the likelihood of a second referendum is increasing.

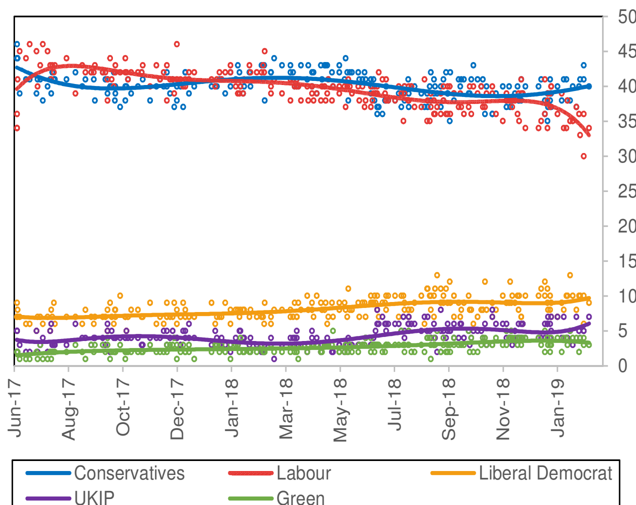
Key View

- The UK government is likely to seek an extension of the Article 50 negotiation period in order to avoid leaving the EU in a 'no-deal' Brexit on March 29.
- It is difficult to see how an additional two or three months will solve the intractable differences between the UK and EU when it comes to the Northern Ireland backstop, and as such we hold to our view that May's withdrawal agreement will not pass in its current form.
- Instead, we believe that the government will be forced into softening its stance, keeping the UK in some form of customs union in order to gain Labour support for a deal.
- As the prospect of a no-deal Brexit recedes, the likelihood of a second referendum is increasing.

The long-running process of the UK attempting to extricate itself from the EU is set to continue for at least an additional three months after Prime Minister Theresa May announced that there could be a vote on seeking an extension of the Article 50 negotiation period for an additional three months. The contemplation of an extension of the negotiating period comes as a major climb-down for the prime minister, who had previously been adamant that the UK would be leaving the EU on the scheduled departure date of March 29.

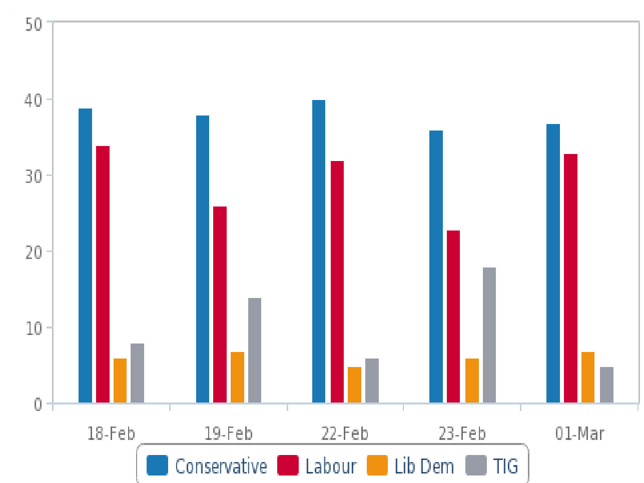
The impact of this on what sort of Brexit (if any at all) the UK implements is a complicated one, clouded by an extremely fluid political environment in which both the government and the opposition are failing to maintain any control over the various wings of their parties. Our core

Labour Support Slipping Despite Government's Floundering
UK – Opinion Polling, %



Source: YouGov, Survation, ICM, ComRes, Opinium, Ipsos MORI, Fitch Solutions

TIG Eating Into Labour Support Rather Than Conservatives
UK – Opinion Polls With Independent Group Included, %



Note: TIG = The Independent Group. Source: Opinium, YouGov, Deltapoll, SkyData, Survation, Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

view for Brexit since mid-2018 has been that the UK will leave the EU on March 29 with a 'soft' Brexit, also known as a 'Brexit in name only' (BRINO) deal, where the country remains part of a customs union as well as closely tied into the single market. This was in stark contrast to the government's earlier stated objectives of taking the UK out of the single market and the customs union, while maintaining an open border on the island of Ireland.

May And Corbyn Forced Into Policy Reversals

Over the past several months, the government has shifted its stance towards a softer Brexit, with the UK still out of the customs union with a 'backstop' in place to avoid a hard border between the Republic of Ireland and Northern Ireland.

Over the past several months, in the face of a lack of progress in negotiations, frequent defeats of its Bills in parliament, and threats of Cabinet resignations, the government has shifted its stance towards a softer Brexit, albeit with the UK still out of the customs union with a 'backstop' in place to avoid a hard border between the Republic of Ireland and Northern Ireland. In late February the government made the most significant shift in its stance by raising the prospect of jettisoning the commitment to leave the bloc in March 2019 should parliament vote to do so.

At the same time, the main opposition Labour Party has also altered its stance on Brexit. Following the defection of eight MPs to the newly formed 'Independent Group' (TIG) and the defeat of a Labour frontbench amendment to the government's 'neutral motion' (a legislative tool allowing Parliament to express an opinion on an issue) on February 27, the party leadership has endorsed the prospect of a second referendum. Previously, Labour leader Jeremy Corbyn had consistently dismissed the prospect of supporting a second referendum, after running an election campaign in 2017 on a manifesto pledge to leave the EU and having, during his decades on the backbenches, proved one of the political left's most ardent eurosceptics. However, the loss of eight MPs to TIG – although largely related to an antisemitism scandal in the Labour Party – has seemingly spurred the leadership into altering its stance. This comes at the same time as a major push by Remain-supporting Labour shadow ministers and MPs (forming the bulk of the Parliamentary Labour Party) to shift policy towards a second referendum.

Next Steps

The shift in the government's stance on Brexit became evident on February 26, when May announced that the next meaningful vote on her EU Withdrawal Agreement would take place on March 12. In the event her deal is rejected, a second vote will be held asking MPs if they want to leave the EU with no deal in place. This vote has almost no chance of passing, and as such a third vote will then take place asking if the government should seek an extension of the negotiating period allowed by Article 50 of the Lisbon Treaty. We at Fitch Solutions believe that this vote is likely to pass, forcing the prime minister to travel to Brussels to seek an extension of Article 50.
To grant an extension, there has to be unanimous support among the members of the European Council, formed by the heads of government of each member state. While we believe that the Council will offer an extension, there is a large amount of uncertainty as to how long this extension could go on for. May has stated her preference for an extension that does not go beyond the end of June, with the period simply seen as one in which to get a final deal across the line in legislatures both in the UK and EU. One benefit for both the UK and EU of a short extension is that the UK would not be required to take part in the elections to the European Parliament, scheduled for late May.

On a practical level, a short extension, as opposed to a longer period of the UK remaining in the EU, gets the issue 'out of the way'. For more than two years Brexit has dominated the policy agenda in the UK, using up all political capital and meaning that there has been little to no government focus on reforms relating to healthcare, education, welfare spending and numerous other areas. Similarly for the institutions of the EU, time has been spent focusing on Brexit negotiations rather

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

than potentially more pressing long-term issues such as the impact of mass migration on the bloc, the rise of populist eurosceptics in many member states, and the future of the eurozone.

However, for some within the EU, notably French President Emmanuel Macron, there is a reluctance to offer the UK a short extension of the Article 50 negotiating period and instead only offer a period around two years in length. A longer extension would be seen as a failsafe that the UK will not leave the EU without a deal – which would cause short-to-medium-term economic harm both in the UK and EU – as well as giving the UK more time to potentially experience a change of heart and hold a second referendum on membership that results in a 'Remain' vote.

A 'soft' approach towards the UK regarding negotiations could be seen as precedent in the (albeit unlikely) event that other member states seek to extricate themselves from the bloc in the future.

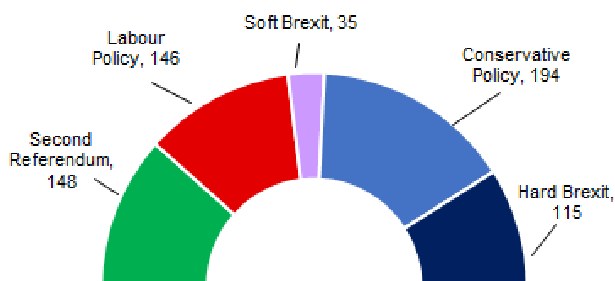
For Brexiteers, a longer extension of Article 50 could prove a poisoned chalice. On the positive side, as opposed to an 'implementation period' until the end of 2020 in which the UK is out of the EU but subject to its rules and regulations with no say, the UK would remain a member with full voting rights. The longer timeframe would also offer the opportunity to negotiate a deal without the contested 'backstop' for Northern Ireland. However, as Macron and other eurofederalists have advocated, a longer extension risks fuelling a rise in anti-Brexit sentiment in the UK and a reversal of the 2016 referendum, which would be the worst-case scenario for those who support leaving the EU.

Extension Likely

We believe that the EU will acquiesce to a short extension of Article 50, with the risk that a longer extension will be rejected by the UK government, risking a no-deal exit. What the EU will not agree to, though, are rolling extensions, where if May cannot get her deal through parliament by the end of June she returns to Brussels to seek a further extension to avoid no-deal or a second referendum. The risk to the EU is that rolling extensions would further block up the administrative functions of the EU, with no opportunity to plan for the future. Moreover, a 'soft' approach towards the UK regarding negotiations could be seen as precedent in the (albeit unlikely) event that other member states seek to extricate themselves from the bloc in the future. Once the extension has

Government Needs To Woo Soft Brexiteers And Labour MPs To Pass Deal

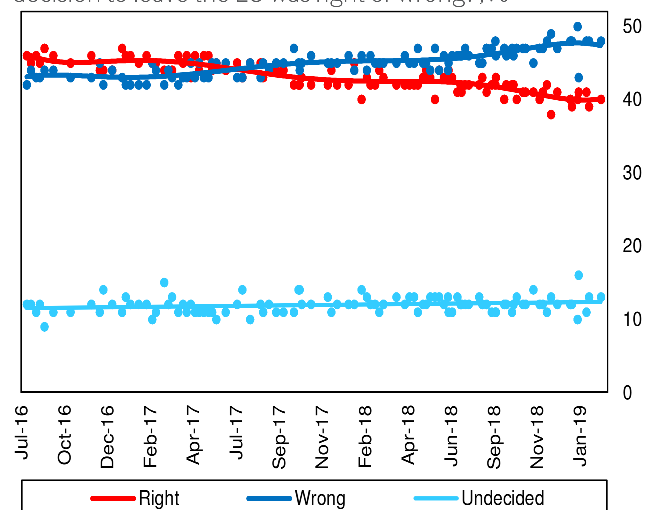
UK – House Of Commons, MPs Split By Likely Brexit Preference



Source: ElectionMapsUK, Fitch Solutions

Polls Turning, But Do They Account For Disenfranchised Voters?

UK – Opinion Poll: 'In hindsight, do you believe that the UK's decision to leave the EU was right or wrong?', %



Source: YouGov, Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

been granted, the government will hope to present to MPs two binary choices: leave the EU with the deal the government presents, or leave the EU with no deal at all. The outcome is unlikely to prove this simple, with the Labour Party now openly supporting a second referendum unless all of its Brexit tests are met insofar as shifting towards a soft BRINO with continued customs union membership on the table and a close relationship with the single market after Brexit.

What If May's Deal Passes?

We would expect May to leave her post as prime minister soon after a deal was implemented. The Conservatives are likely to want a change in leadership as the UK enters uncharted waters outside the EU. Any leadership contest is likely to prove divisive.

Should a sufficient number of pro-Brexit MPs from both the Conservative and Labour parties fear the potential for any extension of Article 50 to result in the scuppering of the Brexit process and a second referendum, then there is a small possibility that Theresa May's deal could pass. In this eventuality, the UK enters into a 'transition' or 'implementation' period until the end of 2020. During this period, the UK would remain part of the customs union, single market and other EU protocols, but have no say on their development. It would also be during this period that the UK would attempt to negotiate its future trading relationship with the EU to be implemented in January 2021.

The deal does not cover the post-Brexit relations between the EU, instead stating that the UK would simply be out of the customs union, with a 'backstop' in place for Northern Ireland in the event that no free trade agreement is ratified by the end of the implementation period. This would see Northern Ireland remain part of the customs union, with the rest of the UK outside it, requiring customs checks to be carried out along the Irish Sea. For Northern Ireland's Democratic Unionist Party (DUP), which props up the minority Conservative administration, as well as many Conservative MPs, this prospect was the reason behind initially rejecting May's Withdrawal Agreement in late 2018.

In the event of the deal passing, we would expect to see UK assets strengthening as a result of a relief rally, with a no-deal exit off the table. The 'political declaration' that came alongside the Withdrawal Agreement is non-binding, but has set out some vague ideals of what the UK-EU relationship will look like at the end of the implementation period. This will include the UK seeking 'equivalence' regarding trade in services, which implies that UK financial services will have no better access to the EU after Brexit than any other third country. Being outside the customs union will afford the UK the ability to negotiate free trade deals with other countries once outside the EU.

Politically, the passage of May's deal would act as a release valve for other political issues to come into focus. A hard core of Remain supporters in the Liberal Democrats, Independent Group, Scottish National Party and others will continue to try to force the government into holding a second referendum, but we believe that once the UK is officially out of the EU, even if in a transition period, it is unlikely that parliament would immediately call for a new one to re-enter the bloc. Aside from that, we would expect May to leave her post as prime minister soon after a deal was implemented. Her resilience in sustaining her premiership since the 2017 general election has surprised us and most political observers, but after stating ahead of a leadership contest in December 2018 that she would not contest the 2022 general election, the Conservatives are likely to want a change in leadership as the UK enters uncharted waters outside the EU. Any leadership contest is likely to prove divisive, with a number of individuals from both the Remain and Leave wings of the party believed to be interested in the top job, but no one person is seen as a likely victor as of yet.

What If No Deal Passes?

Should the prime minister's Withdrawal Agreement be defeated in the Commons for a second time, the following day MPs will have the opportunity to vote on the UK leaving the EU with no

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

withdrawal agreement in place. The chances of a vote on a no-deal Brexit passing are extremely small. All opposition parties oppose leaving without a deal (barring around three Labour MPs), while a large proportion of the Conservative Party and the Cabinet are also against reverting to World Trade Organization (WTO) terms. At this stage, the government has not revealed (or decided) whether it will whip Conservative MPs into supporting or voting against a no-deal Brexit, or whether it will offer a free vote. All options risk Cabinet resignations and further splits within an already deeply divided party.

A no-deal Brexit will almost certainly cause significant disruption across many industries reliant on exporting goods or services to or importing from the EU. Firms operating under regulatory oversight from the EU are likely to face a period of stagnation.

In the event of a no-deal Brexit, the impact on sectors of the UK economy are unlikely to be uniform, although in the short term it will almost certainly cause significant disruption across many industries reliant on exporting goods or services to or importing from the EU. Similarly, firms operating under regulatory oversight from the EU are likely to face a period of stagnation, whether this relates to financial services, pharmaceuticals or telecoms operators. Politically, a no-deal Brexit could see Theresa May remain in office in the short-to-medium term in order to oversee some form of attempt to mitigate the impact of a no-deal Brexit. The Conservatives realise that a leadership contest in the middle of a no-deal Brexit would be seen by the public as indulgent. Even those Conservatives staunchly opposed to a no-deal Brexit could see that leaving the party could result in a general election, which in turn could see a Jeremy Corbyn-led Labour Party come to power with a radical left-wing policy agenda, something even the most pro-EU Conservative MP would be reluctant to countenance.

The wider political impact of a no-deal Brexit on the UK as a whole could be very destabilising. It would be difficult for the government in Westminster to deny the Scottish National Party-led government in Edinburgh the prospect of a second independence referendum for Scotland, given the significant constitutional and economic changes a no-deal Brexit would engender. It is not clear yet what a second Scottish independence referendum would turn out as its result. With the country voting overwhelmingly to remain in the EU by 62% to 38%, in comparison to a 52% to 48% vote to leave in the UK as a whole, we could see Scotland choose independence followed by an attempted swift re-entry into the EU. However, we could also see a confirmation of the previous 2014 referendum result, with Scotland voting to remain in the UK, as it would be difficult to campaign on a platform arguing that Scotland would be better off out of the UK after so vehemently decrying the massive damage a no-deal Brexit could do to Scotland.

For Northern Ireland, we would also expect to see major difficulties emerge if there were to be a no-deal Brexit. Without some form of customs arrangement between the UK and the EU, there would have to be some form of checks imposed on the border between Northern Ireland and the Republic of Ireland. With the UK trading on WTO terms after a no-deal Brexit, it would implement 'Most Favoured Nation' (MFN) status on its trading partners. If the UK government, in an effort to avoid a hard border on the island of Ireland, stated that this meant tariff-free, check-free access for goods coming across the border, then under MFN this would have to apply to all other countries in the WTO importing goods into the UK, something the government would not be able to agree to. As such, some form of check on the border would be required in the event of a no-deal Brexit. Even cameras intended to scan lorry numberplates would face a strong risk of vandalism from Irish republican dissidents, while a more formal barrier on the border could raise cross-community tensions following years of steady improvement.

What If Article 50 Is Extended?

What we believe to be the most likely outcome of the coming weeks is that MPs will reject both May's withdrawal agreement and no deal, and instead instruct the government to seek an

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

extension of Article 50. In the event that this is granted for a short period, for example until end June, we retain our view that May will be forced to eventually present a withdrawal agreement advocating much softer terms of leaving the EU than previously envisaged. There is little reason to think that MPs that rejected May's withdrawal agreement in March would suddenly change their minds in June to supporting such a deal, especially from the eurosceptic wing of the Conservative or Labour parties. As such, we expect May to eventually accept membership of some form of customs union in order to gain Labour support on a withdrawal agreement. Jeremy Corbyn has stated that his party will push for a second referendum in the event that his party's Brexit tests are not passed by the withdrawal agreement. Neither Corbyn nor May wants to see a second referendum occur, so some form of compromise in the middle, such as a soft BRINO, may be seen as the least negative option. The outlook for the economy in this scenario is largely benign, with slow but stable growth.

Under an extension of Article 50, particularly if the UK is forced into a long extension lasting until end 2020 or beyond, we could well see a second referendum take place.

In the short-to-medium term, this form of Brexit is unlikely to result in any significant economic downturn. If the UK states that it will join a new customs union rather than the existing one, until end 2020 the UK would sit in an 'implementation period', fully inside the existing customs union and single market. This means little impact on day-to-day operations, although of course any incoming EU legislation or regulation would have to be implemented with the government having no say over its formation. Following this, given that the UK would still be in a customs union with the EU, there should be little impediment to trade and there would be no need for the imposition of any infrastructure on the border between the Republic of Ireland and Northern Ireland. On the pro-Leave side of the debate, some may question whether the UK has really left the EU in this scenario, given how closely the British economy will remain tied to the institutions of the EU after Brexit.

Prospects For A Second Referendum Are Rising

Alternatively, under an extension of Article 50, particularly if the UK is forced into a long extension lasting until end 2020 or beyond, we could well see a second referendum take place. There are a number of different routes to this. Given the government's razor-thin majority (just six seats at present) and the divisiveness surrounding the Brexit debate, we could well see the government collapse in that period. There is a notable chance that a general election would be fought along the lines of Leave vs. Remain, with the Conservatives offering the former and Labour the latter.

Alternatively, Parliament could seek to override the government and take full control of the legislative process. At present, we do not believe that there is a Commons majority in favour of a second referendum, but should the extension seem to offer no other options than May's unaltered deal or no deal, then we could see a greater shift towards another public vote. Calling a full referendum requires notable lead-up time, with the passage of primary legislation required, the establishment of official campaigns, and the referendum campaign itself. This means that if it were to occur, it would have to be at least organised and approved by the end of the initial Article 50 extension in order to warrant a further extension to hold the referendum.

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

Global Macro Outlook

Downside Risks Remain, But Early Signs Of Stabilisation

We continue to forecast the global economy to grow by 3.0% in 2019, but it is increasingly clear that financial market volatility and trade risks are feeding through to several countries where growth has started to weaken. We have made several downward revisions to our growth forecasts for key economies ranging from developed markets such as Hong Kong (0.5%), Italy (0.5%) and Canada (0.4%) to emerging markets such as Mexico (0.4%), Brazil (0.3%) and India (0.3%). Despite various revisions over the past few months, we expect downward pressure to remain over the coming months, particularly as we still see downside risks to our forecasts for the eurozone to grow by 1.5% and for the US to expand by 2.5% in 2019.

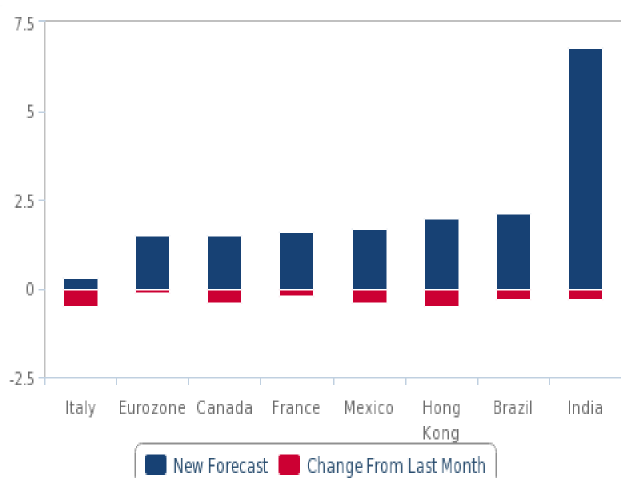
Financial market volatility has subsided since late December, but at current levels, volatility remains high, which could weigh on business and consumer confidence and/or be signalling that another bout of risk-off is around the corner.

Financial market volatility has subsided since late December, but at current levels, volatility remains high compared with previous periods, which could continue to weigh on business and consumer confidence and/or be signalling that another bout of risk-off is around the corner. While the jury is still out on what the next leg looks like, it is clear that the risks to global growth remain to the downside. With that, we also see growing upside risks to our neutral view for the US dollar on the back of a potential change in risk sentiment and safe haven flows.

While we continue to anticipate downside risks over the near term, we see growing potential for better news to emerge over the second half of the year. The dovish shift by global policymakers points to a greater focus on supporting growth as financial stability has temporarily improved, which could start to feed through in H219. At the same time, it looks increasingly likely that the US and China will strike a trade deal, and while we do not expect a comprehensive agreement to be reached, the risks are skewed to the upside and would improve global risk sentiment. Moreover, the global trade cycle should start to benefit from more positive base effects going into Q3 and Q4, which could also help to stabilise several major exporters. Importantly, some leading indicators point to greater stability in the Chinese economy; coupled with a trade deal,

Several Downward Revisions To Growth This Month

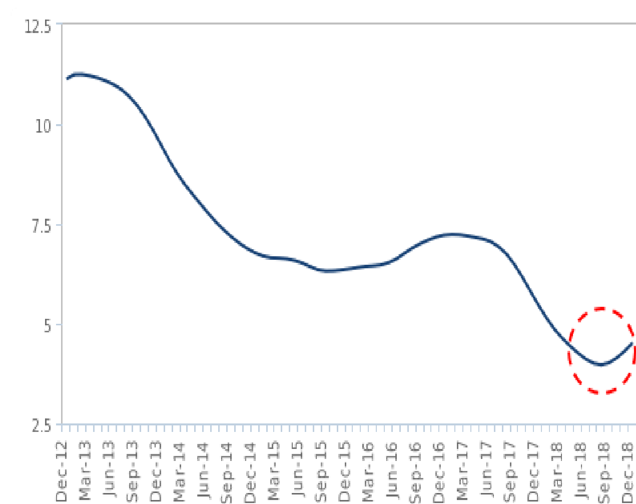
Current 2019 Real GDP Forecast & Difference From Last Month



Source: Fitch Solutions

Cyclical Recovery In Growth Afoot?

China – OECD Leading Indicator, y-o-y SA



Source: Bloomberg, Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

and continued fiscal and monetary support from the authorities, this could help to bring greater confidence and momentum to the global economy.

Developed Markets

Lower expected growth in France and Italy is the main factor behind our real GDP growth revision for the eurozone and we still see downside risks to our forecasts for the region.

We have revised down our 2019 growth forecast for developed markets (DMs) to 1.9% from 2.0% previously, while maintaining our growth projection for 2020 unchanged at 1.7%. The 2019 revision mainly reflects less dynamic growth in Canada and the eurozone due to a number of growth-dampening factors. These include a continued weakening of business confidence as a result of lingering trade tensions and Brexit-related uncertainties, heightened financial market volatility and tighter monetary policy conditions, albeit less so than we thought back in Q418. We now expect real GDP growth of 1.5% in 2019 in both Canada and the eurozone, down from 1.9% and 1.6% previously. Lower expected growth in France and Italy is the main factor behind our real GDP growth revision for the eurozone and we still see downside risks to our forecasts for the region. In the US, still-solid macroeconomic fundamentals will support growth in 2019, which we forecast to come in at 2.5%, slower than 2018's 2.9% growth rate, but still well above most DMs. Against a backdrop of well-anchored inflation, a still-tight labour market will support household purchasing power.

The European Central Bank (ECB) was the last of the major central banks to follow the Fed's dovish tilt. In March, it unveiled a new round of targeted long-term refinancing operations

TABLE: GLOBAL FORECASTS (2017-2023)

	2017	2018e	2019f	2020f	2021f	2022f	2023f
Real GDP Growth (%)							
US	2.2	2.9	2.5	2.0	1.8	1.9	1.9
Eurozone	2.4	1.9	1.5	1.5	1.5	1.5	1.5
Japan	1.9	0.7	0.5	0.6	0.5	0.4	0.4
China	6.9	6.6	6.2	5.7	5.3	5.4	5.4
World	3.3	3.2	3.0	2.9	2.9	2.9	2.9
Consumer Inflation (ave)							
US	2.1	2.4	2.3	2.3	2.2	2.1	2.1
Eurozone	1.5	1.7	1.6	1.7	1.7	1.8	1.8
Japan	0.5	1.2	1.6	1.9	2.1	2.4	2.5
China	1.6	2.1	2.3	2.2	2.2	2.3	2.3
World	2.7	2.9	3.1	2.9	2.7	2.7	2.7
Interest Rates (eop)							
Fed funds rate	1.25	2.25	2.50	3.00	3.00	3.00	3.00
ECB refinancing rate	0.00	0.00	0.00	0.50	1.00	1.50	1.75
Japan overnight call rate	-0.10	-0.10	-0.10	0.00	0.25	0.50	0.75
Exchange Rates (ave)							
USD/EUR	1.13	1.18	1.19	1.24	1.26	1.26	1.26
JPY/USD	112.14	109.50	110.00	109.00	108.00	107.50	107.00
CNY/USD	6.76	6.62	6.70	6.70	6.65	6.75	6.65
Oil Prices (ave)							
OPEC Basket (USD/bbl)	52.43	69.78	70.00	77.00	81.00	82.00	82.00
Brent Crude (USD/bbl)	54.75	71.69	73.00	80.00	84.00	85.00	85.00

e/f = estimate/forecast. Source: Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

EMs remained broadly supported in February, continuing to take their cue from the Federal Reserve's 'indefinite pause' in its rate hiking cycle. Strengthening currencies and subdued inflation have also played a significant part.

(TLTRO) programme from September with the aim of stimulating sluggish eurozone growth. The programme aims to allow banks to borrow cheaply from the ECB with a view to fostering cheaper lending to the real economy. The ECB also reiterated its commitment to not hiking rates until 2020. Against this backdrop, we at Fitch Solutions hold to our forecast for the policy rate to remain at historic lows of 0.00% in 2019, with the first rate hike of 25 basis points (bps) in Q120. Given the scale of the eurozone downturn, the largely priced-in expectations of no interest rate rises in 2019 and a further TLTRO programme are unlikely to be a silver bullet for the economy. On the Brexit front, Prime Minister Theresa May's Brexit deal was defeated in Parliament on March 12. Against a backdrop of still-elevated uncertainty, we continue to believe that the most likely outcome is a 'soft' Brexit following an extension to Article 50.

Emerging Markets

Emerging markets (EMs) remained broadly supported in February, continuing to take their cue from the Federal Reserve's 'indefinite pause' in its rate hiking cycle. The Fed's tilt to a less hawkish policy stance has anchored a broader shift among EM central banks towards a neutral or dovish bias since the start of the year, while strengthening currencies, subdued inflation due to lower oil prices and broadly more robust risk appetite have also played a significant part.

We believe that there will be more EM monetary policy course-corrections to the dovish side in the coming months, easing or reversing some of the interest rate hikes that prevailed through

TABLE: GLOBAL AND REGIONAL REAL GDP GROWTH, % Y-O-Y (2017-2020)

		2017	2018e	2019f	2020f
World		3.3	3.2	3.0	2.9
Developed states		2.3	2.3	1.9	1.7
Emerging markets		4.8	4.7	4.5	4.6
Asia Ex-Japan		6.6	6.4	6.1	5.8
Latin America		1.8	1.5	2.2	2.7
Emerging Europe		3.8	3.3	1.8	2.8
Sub-Saharan Africa		2.9	2.6	3.4	4.1
Middle East & North Africa		1.8	2.3	1.9	2.8
Developed Market Exchange Rates (ave)					
		2017	**2018e**	**2019f**	**2020f**
Eurozone	USD/EUR	1.12	1.18	1.19	1.23
Japan	JPY/USD	112.14	109.50	110.00	109.00
Switzerland	CHF/USD	0.98	0.97	0.93	0.95
UK	USD/GBP	1.28	1.35	1.35	1.41
Emerging Market Exchange Rates (ave)					
		2017	**2018e**	**2019f**	**2020f**
China	CNY/USD	6.76	6.62	6.70	6.70
South Korea	KRW/USD	1,130.8	1,130.0	1,150.0	1,160.0
India	INR/USD	65.12	68.40	73.00	75.00
Brazil	BRL/USD	3.19	3.66	3.83	3.96
Mexico	MXN/USD	18.92	19.23	19.32	19.13
Russia	RUB/USD	58.33	62.81	64.50	65.60
Turkey	TRY/USD	3.65	4.84	5.30	5.80
South Africa	ZAR/USD	13.31	13.25	14.10	14.22

e/f = estimate/forecast. Source: Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

Our growth forecasts for 2019 show a divergence across EMs, with Latin America and Sub-Saharan Africa witnessing an acceleration in growth, while other regions will continue to slow.

most of 2018 and therefore easing the growth-stability trade off that we have been highlighting as a pinch point for many EMs last year. We expect this trend to play out particularly in nations where exposure to foreign capital flows is relatively low, while macroeconomic imbalances such as twin deficits, high inflation and low growth are not as stark. In turn, this slight policy shift should help to support growth across the EM universe, which has come under pressure in recent quarters.

However, there is a risk that as the trend of moderating hawkish policy lower takes hold, some of the more vulnerable EMs such as Turkey, South Africa and even the Philippines could make a policy misstep by acting prematurely, given high levels of uncertainty surrounding trade and the implications of a slowing global economy.

Our growth forecasts for 2019 show a divergence across EMs, with Latin America and Sub-Saharan Africa witnessing an acceleration in growth, while other regions will continue to slow. In aggregate though, our EM growth forecast has been revised lower by a marginal 0.1 percentage

TABLE: DEVELOPED STATES, REAL GDP GROWTH FORECASTS (2017-2020)

	2017	2018e	2019f	2020f
Developed States Aggregate Growth	**2.3**	**2.3**	**1.9**	**1.7**
G7	2.1	2.1	1.8	1.6
Eurozone	2.4	1.9	1.5	1.5
EU-28	2.4	2.0	1.7	1.7
Selected Developed States				
Australia	2.5	2.8	2.5	2.4
Austria	3.0	2.1	1.8	1.7
Belgium	1.7	1.5	1.3	1.3
Canada	3.0	1.8	1.5	1.9
Czech Republic	4.4	3.0	2.8	2.6
Denmark	2.3	1.3	1.8	1.7
Finland	2.6	2.5	2.0	1.8
France	2.2	1.5	1.6	1.5
Germany	2.2	1.6	1.2	1.4
Hong Kong	3.8	3.0	2.0	2.3
Ireland	7.2	7.5	4.5	4.1
Italy	1.6	0.9	0.3	0.5
Japan	1.9	0.7	0.5	0.6
Netherlands	2.9	2.5	1.7	1.5
Norway	1.8	1.7	1.6	1.4
Portugal	2.8	2.1	1.5	1.3
Singapore	3.6	3.3	2.8	2.9
South Korea	3.1	2.7	2.3	2.5
Spain	3.0	2.5	2.2	2.0
Sweden	2.4	2.7	2.3	1.9
Switzerland	1.1	2.6	1.9	1.7
Taiwan	2.9	2.6	2.3	2.2
UK	1.8	1.4	1.5	1.6
US	2.2	2.9	2.5	2.0

e/f = estimate/forecast. Source: Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

Mexico will face headwinds from a slowing US economy, coupled with weak industrial production and contracting investment due to erratic policy formation in the coming quarters.

points (pp) to 4.5% compared to last month, driven mostly by a number of downward revisions to our forecasts for Latin America (-0.2pp to 2.2%) and emerging Asia (-0.1pp to 6.1%) – with rising political risk the main theme. In the former, we have revised 2019 growth forecasts lower for Argentina (-0.1pp to -0.5%), Brazil (-0.3pp to 2.1%) and Mexico (-0.4pp to 1.7%) due to the knock-on effect of weaker than expected Q418 data, coupled with heightened political risk in the latter two. For example, Mexico will face headwinds from a slowing US economy, coupled with weak industrial production and contracting investment due to erratic policy formation in the coming quarters. In Brazil, the administration of President Bolsonaro faces significant challenges in achieving reforms to the country's pension system, and our view is that it will under-deliver due to a backlash by core supporters coupled with legislative hurdles.

In emerging Asia, while mounting political risk is partly the reason for our downward revision of India's 2019 growth forecast by 0.3pp to 6.8%, high-base effects will also weigh on growth prints over the coming quarters. We see the prospect of a second term for the ruling Bharatiya Janata Party in upcoming elections boding well for policy continuity, reform momentum and investment over a multi-year period. However, this is mitigated by rising tensions with Pakistan and the potential for strong gains at the polls by the Indian National Congress party, which would lead to a more complex policymaking environment, posing downside risks to growth in the coming quarters.

TABLE: EMERGING MARKETS, REAL GDP GROWTH FORECASTS (2017-2020)

	2017	2018e	2019f	2020f
Emerging Markets Aggregate Growth	**4.8**	**4.7**	**4.5**	**4.6**
Latin America	**1.8**	**1.5**	**2.2**	**2.7**
Argentina	2.9	-2.4	-0.5	3.1
Brazil	1.1	1.1	2.1	2.4
Mexico	2.0	2.0	1.7	1.9
Middle East And North Africa	**1.8**	**2.3**	**1.9**	**2.8**
Saudi Arabia	-0.9	2.3	2.4	2.6
UAE	0.8	2.8	3.1	3.5
Egypt	4.2	5.3	5.2	5.3
Sub-Saharan Africa	**2.9**	**2.6**	**3.4**	**4.1**
South Africa	1.3	0.8	1.7	2.1
Nigeria	0.8	1.9	2.4	3.3
Emerging Asia	**6.6**	**6.4**	**6.1**	**5.8**
China	6.9	6.6	6.2	5.7
India*	6.7	7.1	6.8	6.7
Indonesia	5.1	5.2	5.3	5.4
Malaysia	5.9	4.7	4.2	4.2
Philippines	6.7	6.2	6.1	6.2
Thailand	4.0	4.1	3.5	3.6
Emerging Europe	**3.8**	**3.3**	**1.8**	**2.8**
Russia	1.5	2.3	1.6	1.7
Turkey	7.4	3.2	-1.9	3.5
Hungary	4.1	4.8	3.5	2.7
Romania	7.0	4.2	3.9	3.5
Poland	4.7	5.1	3.9	3.5

**Fiscal years ending March 31 (2009 = 2009/10); e/f = estimate/forecast. Source: Fitch Solutions*

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

Americas: Regional Economic Outlook

Shifting To A Less Hawkish Monetary Policy Outlook For Latin America

Key View

- Our outlook for monetary policy across Latin America in 2019 is turning less hawkish.
- While we still expect a majority of the region's major economies to see interest rate hikes in 2019, our more neutral view on the US dollar and stable inflation has led us to expect that central banks will delay their hikes.
- Risks to our interest rate forecasts are weighted to the downside, given the possibility that a slowdown in global growth undermines economic activity in the region.

A less hawkish Fed and a stable dollar will broadly ease pressure on Latin American central banks to raise interest rates.

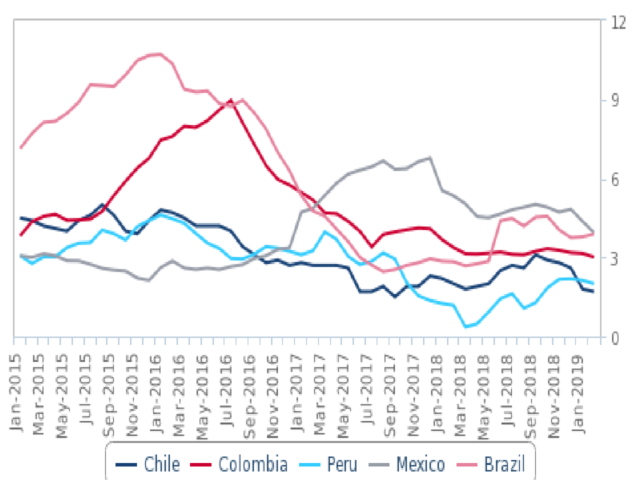
At Fitch Solutions, we have lowered our expectations for rate hikes in many of Latin America's major economies over the coming quarters. Our long-held view was that a series of rate hikes by the US Federal Reserve (Fed) in 2019, a strengthening US dollar and higher global energy prices would prompt Latin America's central banks to raise rates, ending a period of cheap borrowing (*see 'Fitch Solutions: Latin America Key Themes For 2019', December 6 2018*).

However, with external conditions turning more supportive, we see less upwards pressure on the region's interest rates. First, we revised down our 2019 Fed forecast from three hikes to one hike, which would bring the US fed funds rate to 2.50-2.75% by end 2019 (*see 'Moving To One 25bps Hike In 2019 As Fed Shifts Language To Neutral', February 5*). This view has contributed to our neutral outlook for the dollar (*see 'USD: Dollar At A Crossroads', January 2*). A less hawkish Fed and a stable dollar will broadly ease pressure on Latin American central banks to raise interest rates to maintain the real interest rate differential with the US and to protect the value of their respective currencies. Second, we expect price growth to remain stable across the region despite a modest uptick in global energy prices. Inflation has remained moderate, broadly remaining within central bank target ranges in recent months, and expectations appear to be well-anchored.

In recent months, we revised our end 2019 interest rate forecast for Peru to 3.25%, from 3.50% previously, implying two hikes from the current rate of 2.75%. This incorporates the revised

Recent Disinflation Allows For Less Hawkish Monetary Policy

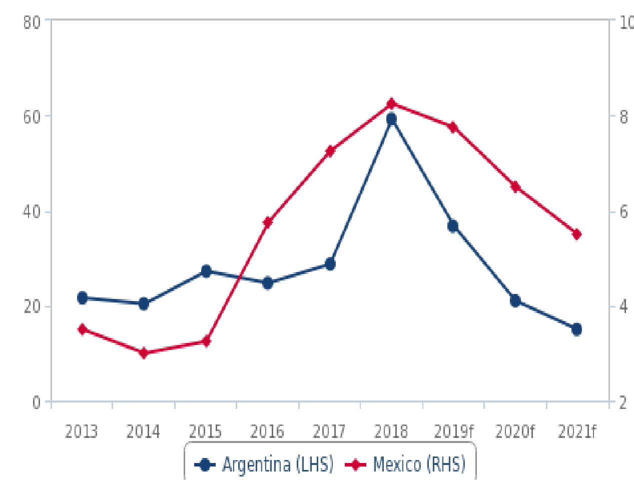
Latin America – Consumer Price Inflation, % y-o-y



Source: Bloomberg, Fitch Solutions

After Hikes In 2018, BCRA And Banxico Will Lower Rates

Argentina & Mexico – Policy Interest Rate, %



f = Fitch Solutions forecast. Source: National sources, Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

Fed outlook for 2019 and stable inflation, but without the price pressures from higher energy prices that we previously expected (*see 'Peru Will See Modest Rate Hikes In 2019 Despite Greater Downside Risks', February 14*). We are currently revising our interest rate forecast for Brazil, where moderate inflation, weak economic activity and relatively supportive sentiment increasingly suggest that the Banco Central do Brasil may hold interest rates over the coming quarters.

Argentina and Mexico will lower interest rates in 2019. In 2018, Argentina hiked its policy rate from 28.75% to 59.25% as a severe weakening of investor sentiment caused a sharp drop in the peso, which lost 50.6% of its value in 12 months, and drove up inflation. However, we forecast that the Banco Central de la República Argentina will begin cutting its Leliq rate in the latter half of 2019 as its aggressive monetary stance drives a slowdown in price growth (*see 'Argentina's Contractionary Monetary Policy Will Deliver Results', January 24*). Mexico also broke from the regional trend in 2018. Banco de México (Banxico) hiked its benchmark interest rate to 8.25%, the highest level since 2009, to forestall FX volatility amid political uncertainty over the 2018 presidential election and trade negotiations with the US and Canada. In the coming months, we expect inflation to settle within Banxico's 2.0-4.0% target range, evidenced by February's 3.9% y-o-y print. This, combined with a less hawkish Fed and Mexico's wide interest rate differential with the US, will allow Banxico to lower rates to support real GDP growth.

With economic activity slumping across the region in recent years, central banks have taken an active role, using accommodative monetary policy to support output.

In addition, language from central banks suggests that many Latin American economies are operating below potential. With economic activity slumping across the region in recent years, central banks have taken an active role, using accommodative monetary policy to support output. In press statements in Q119, the Brazilian, Colombian and Peruvian central banks cited the 'gradual recovery of the Brazilian economy', 'uncertainty over [economic activity's] pace of recovery' and 'output level remains below its potential' respectively as primary reasons for holding rates steady. While the Chilean central bank began to hike its benchmark interest rate in October 2018 (*see 'Quick View: Below-Target Inflation Reading Will Likely Delay Rate Hikes In Chile', February 11*), it will likely hold rates in the short term, cognisant of the fact that decelerating Chinese growth would reverse the 2018 rebound in Chilean growth.

A significant slowdown in global growth poses further downside risks to our interest rate forecasts for 2019 and 2020. At Fitch Solutions, our core view is that real GDP growth will slow in China, the US and across other developed markets in the coming quarters (*see 'Weakening Consumer Sentiment To Constrain DM Growth', February 14*). The Chinese government has used fiscal and monetary stimulus to prop up growth, presenting tailwinds to demand for Latin American exports and bolstering economic activity. Nevertheless, if the Chinese or US economies see a marked downturn in domestic demand, this could undermine growth across Latin America and prompt a return of monetary stimulus across the region.

TABLE: POLICY INTEREST RATE FORECASTS

	2018	2019f	2020f
Argentina	59.25	36.75	21.00
Brazil	6.50	8.00	8.00
Chile	2.75	3.50	4.00
Colombia	4.25	4.75	5.25
Mexico	8.25	7.75	6.50
Peru	2.75	3.25	4.00

f = forecast. Source: Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

Americas: Fitch Solutions vs Consensus

Below Consensus On Mexican Growth

Below Consensus On Mexican Growth: At Fitch Solutions, our 2019 real GDP forecast for Mexico sits at 1.7%, below Bloomberg consensus of 1.8%. Mounting headwinds to the Mexican economy, which include slumping industrial production and decelerating US growth, have led us to revise down our forecast and highlight several downside risks to growth (*see 'Mexican Growth To Slow Amid Investment And Industrial Weakness', March 7*). In addition, political uncertainty surrounding President Andrés Manuel López Obrador (AMLO) will hamper investment, as AMLO has cancelled several major public works projects since taking office in December 2018 and favoured public consultations as a feature of his policymaking process.

Above Consensus On Panamanian And Costa Rican Growth: Our outlooks are more constructive than consensus for real GDP growth in Panama and Costa Rica. Our 2019 forecasts of 5.5% for Panama and 3.0% for Costa Rica are above the consensus estimates of 5.3% and 2.6% respectively. We expect that economic activity will rebound in the coming months after labour strikes undermined growth in both markets in 2018. In Panama, stronger construction sector activity will lift overall growth (*see 'Rebounding Construction Industry To Drive Panama Growth', February 13*). Meanwhile, in Costa Rica, an improving fiscal position and greater political certainty will support foreign investment (*see 'Fiscal Reform A Political Victory For Costa Rican President', December 5 2018*).

TABLE: REAL GDP GROWTH AND EXCHANGE RATE FORECASTS

	2019 Real GDP Growth, %				End-2019 Exchange Rate		
	Fitch Solutions	Bloomberg Consensus	Consensus Last Month	Currency	Fitch Solutions	Bloomberg Consensus	Consensus Last Month
Argentina	-0.5	-1.0	-1.0	ARS/USD	44.00	44.00	46.00
Bolivia	4.4	4.4	4.4	BOB/USD	7.10	-	-
Brazil	2.1	2.4	2.5	BRL/USD	3.90	3.70	3.75
Canada	1.5	1.8	1.8	CAD/USD	1.29	1.29	1.29
Chile	3.5	3.4	3.4	CLP/USD	610.0	655.0	656.0
Colombia	3.2	3.2	3.2	COP/USD	3,091	3,050	3,050
Costa Rica	3.0	2.6	2.8	CRC/USD	611.2	-	-
Ecuador	0.8	0.6	0.6	-	-	-	-
Guatemala	3.2	3.2	3.2	GTQ/USD	7.88	-	-
Mexico	1.7	1.8	1.9	MXN/USD	19.15	19.25	19.50
Panama	5.5	5.3	5.2		-	-	-
Peru	3.9	4.0	3.9	PEN/USD	3.28	3.30	3.30
US	2.5	2.5	2.5	USD/EUR	1.22	1.18	1.20
Uruguay	2.3	1.7	1.7	UYU/USD	33.89	-	-
Venezuela	-14.3	-13.6	-7.0	-	-	-	-

Source: Bloomberg, Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

More Bearish Than Consensus On Brazilian FX: Our end 2019 forecast for the Brazilian *real* of BRL3.90/USD is weaker than the consensus estimate of BRL3.70/USD, reflecting our long-held view that President Jair Bolsonaro will likely disappoint investor expectations on pension reform and prompt a sell-off in Brazilian assets in the coming quarters. We expect that the unit will begin to depreciate from the spot price of BRL3.81/USD in H219 as legislative opposition slows policymaking and inflation picks up, widening Brazil's inflation differential with the US (*see 'BRL: Likely To Weaken As Reforms Underwhelm', January 7*).

TABLE: INFLATION AND INTEREST RATE FORECASTS

	2019 Average Inflation, %			End-2019 Policy Interest Rate, %		
	Fitch Solutions	Bloomberg Consensus	Consensus Last Month	Fitch Solutions	Bloomberg Consensus	Consensus Last Month
Argentina	40.2	39.2	38.2	36.75	34.45	37.65
Bolivia	2.1	3.6	3.6	-	-	-
Brazil	4.5	3.8	4.0	8.00	6.90	7.25
Canada	2.0	1.8	1.8	2.25	2.15	2.15
Chile	2.6	2.9	3.0	3.50	3.50	3.65
Colombia	3.4	3.3	3.5	4.75	4.75	4.95
Costa Rica	2.8	3.0	3.0	5.50	5.50	5.40
Ecuador	1.4	0.6	0.5	-	-	-
Guatemala	4.4	4.1	4.1	2.75	-	-
Mexico	3.8	4.1	4.1	7.75	8.20	8.25
Panama	1.1	2.0	2.0	-	-	-
Peru	2.7	2.4	2.4	3.25	3.45	3.55
US	2.3	1.9	2.0	2.50	2.80	2.80
Uruguay	7.6	7.6	7.8	-	-	-
Venezuela	2,662,975	1,098.567	823,691	-	-	-

Source: Bloomberg, Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

Asia: Regional Economic Outlook

China's National People's Congress Q&A: The Implications For Reforms, Growth And Trade

The annual National People's Congress (NPC, parliament) took place over the two-week period between March 5 and 15, and it laid the foundations for many of China's policy priorities over the coming 12 months. In line with recent years, policymakers continued with the usual focus on multi-year themes such as equitable growth, economic stability, reform and environmental protection, but this year also saw the focus shift slightly from de-risking to growth as the Chinese economy faces myriad challenges. Below, we outline some of the key announcements that came out of the NPC and explain how they could impact growth domestically, as well as China's regional trade partners.

What was the main focus of this year's NPC, and was it substantially different from last year?

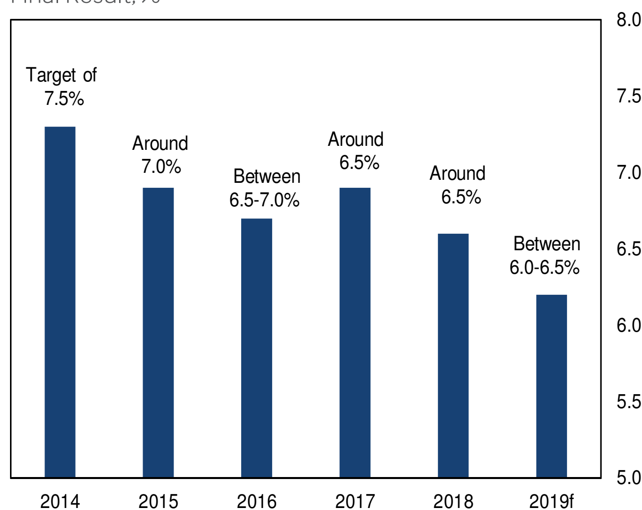
At last year's NPC there was a significant focus on curbing risks that had built up, especially in the shadow banking sector, and the aim was to de-risk the economy by pausing the leverage cycle. This year, however, the focus seems to have shifted to arresting the slowdown in growth, which ironically was in large part the result of last year's campaign to rein in leverage, but was also accentuated by the rise in trade tensions between the US and China. At the same time, there was no mention of the 'Made In China 2025' industrial plan for the first time since it was floated in 2015. While we do not believe Beijing is willing to abandon the strategy, this may point to the fact that Chinese policymakers are being mindful of ongoing trade discussions, given that the plan has come under significant criticism from the US government.

While the focus on growth and employment has been the major theme of the NPC in 2019, policymakers have also continued to champion supply-side and tax reforms as well as opening up the economy to foreign investment, which will go some way to help dampen trade tensions. Importantly, policymakers reduced the growth target to between 6.0% and 6.5%, from 'around

While the focus on growth and employment has been the major theme of the NPC in 2019, policymakers have also continued to champion supply-side and tax reforms as well as opening up the economy to foreign investment.

China's New, Lower Growth Target

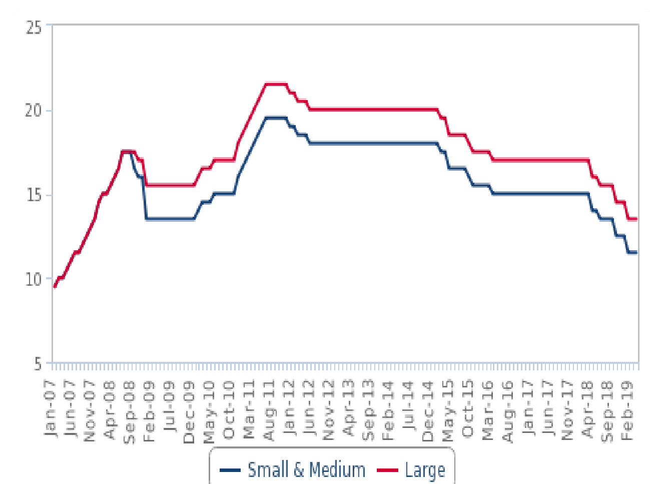
China – Evolution Of Real GDP Growth Target & Final Result, %



Source: Local media, Fitch Solutions

Monetary Policy To Remain Accommodative

China – Reserve Requirement Ratio By Type Of Bank, %



Source: Bloomberg, Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

6.5%' previously, which is in line with the ongoing structural slowdown in the economy and will provide the government with more policy flexibility. Our own forecasts point to a slight slowdown in real GDP growth to 6.2% in 2019 from 6.6% in 2018.

What levers will policymakers use in order to help stimulate growth?

We expect a two-pronged approach which includes a continued focus on reform momentum in order to improve the efficiency of the economy as well as targeted, direct and indirect stimulus measures. Given that the Chinese authorities remain concerned about the rapid rise of corporate leverage in recent years, we do not expect broad-based monetary and fiscal stimulus. In terms of supply-side reforms, we saw more tax cuts announced worth CNY2trn, aimed primarily at small and micro enterprises, which will be implemented over 2019, while VAT for the manufacturing sector will be reduced by three percentage points (pp) to 13%, alongside a 1pp cut to the VAT on construction, transportation and other sectors to 9%. In addition to tax cuts, small and medium enterprises will also receive a 15% cut to their internet broadband service rates and a 20% cut to their mobile internet service rates.

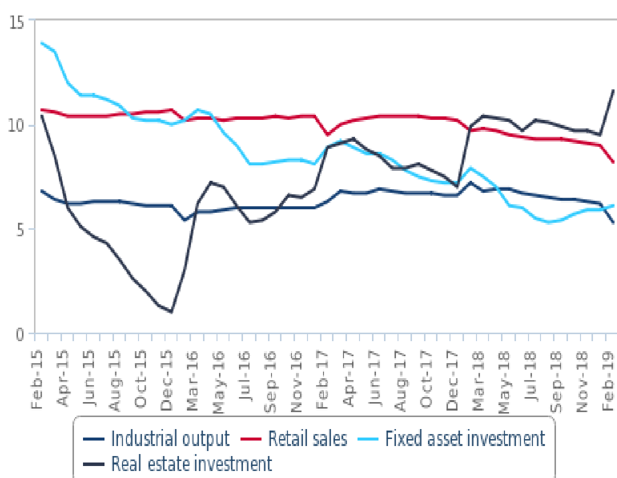
Given that the Chinese authorities remain concerned about the rapid rise of corporate leverage in recent years, we do not expect broad-based monetary and fiscal stimulus.

In addition, Chinese officials are pushing forward with the relaxation of rules for foreign investors. While China's latest foreign investment law that was passed on March 15 lacks detail and is open to broad interpretation – possibly not to give away too much during negotiations – it is another step in the right direction towards allowing greater foreign investment into the country. We have already seen restrictions being lifted in key areas such as agriculture, finance, transportation and energy. This will bode well for the economy, which will benefit from greater private sector investment.

With regard to stimulus measures, and in particular monetary policy, authorities will likely cut the reserve requirement ratio (RRR) further, and there are early signs that monetary policy is starting to feed through as yields on Chinese 10-year bonds have fallen from about 4% to 3% in recent quarters, while banks issued a record CNY3.2trn worth of new loans in January. While authorities could still cut the benchmark interest rate, we believe that it is less likely, and would only be reserved as a last resort as they want to avoid another build-up in debt.

Real Estate And Fixed Investment Picking Up

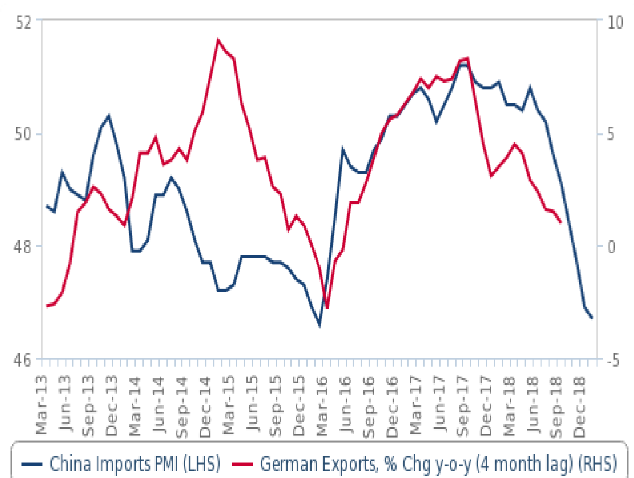
China – Key Economic Variables, % chg y-o-y



Source: Bloomberg, Fitch Solutions

Recovery In China Would Bode Well For German Exports

China PMI Imports & German Exports, % chg y-o-y (4 month lag), 3mma



Source: Bloomberg, Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

In terms of direct spending priorities in 2019, they include CNY2.6trn in infrastructure investment, an 18.9% increase to the poverty alleviation fund to CNY126.1bn, CNY25bn for environmental conservation (25% more than in 2018) and CNY53.8bn to support employment and entrepreneurship. While mild by historical standards, it re-iterates a more targeted and balanced approach aimed at stabilising the economy rather than spurring a rapid acceleration in growth. Beijing's supportive stance can be summed up by its 2.8% target for the fiscal deficit in 2019, slightly wider when compared to 2.6% in 2018, and we also still see room for some off-balance sheet and local government stimulus to come through as well.

While Chinese policymakers did not openly discuss their 'Made in China 2025' plan during the NPC, we nonetheless believe that it is an important policy priority and will continue to run in the background.

How will these dynamics impact Chinese growth and key trading partners?

While we continue to forecast a slowdown in the Chinese economy to 6.2% in 2019, ongoing stimulus will help to support the economy, with various high frequency indicators showing greater signs of stabilisation and even recovery. Moreover, continued reforms will help to improve the investment climate in the country, which should have an impact on cross-border investment flows and trade dynamics, which could bode well for China's largest trading partners.

For example, a slight pickup in Chinese infrastructure spending as well as increased incentives for the auto sector should help to provide some support for German exports of capital and durable good exports, which have been very weak in recent months, and were partially the result of the slowdown in China. China is Germany's third largest export market, accounting for about 7% of all exports, and cars, vehicle parts and aerospace equipment account for approximately 30% Germany's exports to China.

At the same time, the combination of reforms towards a more consumer-driven economy and greater consumption of US goods as part of any US-China trade deal suggests that we could see US exports strengthen. In February China pledged to purchase USD30bn of agricultural goods from the US, which will help to reverse the previous downtrend in Chinese agricultural imports from the US. Of course, the risk here is that if China re-focuses some of its demand towards the US, this means that it could be diverting demand from its other large trade partners such as Brazil, Argentina and even more developed markets such as Germany and the UK in the event that China buys more industrial goods.

While Chinese policymakers did not openly discuss their 'Made in China 2025' plan during the NPC, we nonetheless believe that it is an important policy priority and will continue to run in the background. This policy, combined with easing restrictions on foreign investment into China, should help the Chinese manufacturing sector to move up the value chain and this will present both opportunities and headwinds for existing trading partners. China will start to pose greater competition to the manufacturing sectors of more advanced manufacturing economies such as Taiwan, South Korea and Japan. China has seen its share of exports of integrated circuits and vehicle parts surge over the past decade and will continue to grow its market share of high-value manufacturing exports such as full traditional and electronic vehicles, high-end electronics and specialised equipment. However, as China moves away from lower-end manufacturing, this presents significant opportunities for up and coming light- and medium-manufacturing hubs in countries such as India, Indonesia, the Philippines and particularly Vietnam to become a greater part of the Asian and global manufacturing supply chain.

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

Asia: Fitch Solutions vs Consensus

Below Consensus On India And Thailand Growth, Above On Pakistan Growth

At Fitch Solutions, we hold a lower-than-consensus view on real GDP growth in India and Thailand; however, we have an above consensus view for real GDP growth in Pakistan.

India: We forecast India's real GDP growth to slow to 6.8% in FY2019/20 (April-March), below the Bloomberg consensus estimate of 7.4%. On top of unfavourable base effects which we expect to weigh on growth over H1 FY2019/20, we also see mounting growth headwinds regardless of whether the ruling Bharatiya Janata Party (BJP) or the Indian National Congress (INC) forms the government after the lower house general election which will take place between April 11 and May 23. While our core view is that the BJP will win the most seats, it might not be enough for a simple majority on its own and this would pose headwinds to policymaking and would likely see slower economic reform momentum. The risk of another escalation of Indo-Pakistan tensions under continued BJP leadership over the next several quarters is likely to also weigh on investor confidence and this could see businesses hold back their business expansion plans. However, under the (relatively lower probability) scenario that the INC forms the government, some of the BJP's positive economic reforms implemented since 2014 could be reversed. Policy uncertainty in the form of a weakened mandate or even a possible policy reversal by the INC therefore underpin our view for investor and business confidence to remain subdued over the next several quarters.

TABLE: REAL GDP GROWTH AND EXCHANGE RATE FORECASTS

	2019 Real GDP Growth, %				End-2019 Exchange Rate		
	Fitch Solutions	Bloomberg Consensus	Consensus Last Month	Currency	Fitch Solutions	Bloomberg Consensus	Consensus Last Month
Australia	2.5	2.7	2.7	USD/AUD	0.73	0.73	0.75
Bangladesh	7.5	7.5	7.5	BDT/USD	85.50	-	-
China	6.2	6.2	6.2	CNY/USD	6.90	6.70	6.83
Hong Kong	2.0	2.4	2.5	HKD/USD	7.77	7.82	7.80
India	6.8	7.4	7.3	INR/USD	73.00	70.84	69.80
Indonesia	5.3	5.1	5.1	IDR/USD	14,310	14,100	14,250
Japan	0.5	0.8	0.9	JPY/USD	110.0	108.0	108.0
Macau	4.1	-	-	MOP/USD	7.99	-	-
Malaysia	4.2	4.5	4.5	MYR/USD	4.30	4.09	4.16
Myanmar	6.4	-	-	MMK/USD	1,589	-	-
New Zealand	2.8	2.7	2.8	USD/NZD	0.69	0.69	0.70
North Korea	6.0	-	-	KPW/USD	143.0	-	-
Pakistan	4.4	4.0	4.0	PKR/USD	148.0	-	-
Philippines	6.1	6.1	6.4	PHP/USD	54.13	53.35	54.00
Singapore	2.8	2.5	2.6	SGD/USD	1.35	1.33	1.35
South Korea	2.3	2.5	2.5	KRW/USD	1,130	1,115	1,125
Sri Lanka	3.1	3.7	3.7	LKR/USD	188.0	-	-
Taiwan	2.3	2.3	2.3	TWD/USD	31.25	30.70	31.00
Thailand	3.5	3.8	3.9	THB/USD	31.50	31.80	32.60
Vietnam	6.5	6.6	6.7	VND/USD	23,700	23,150	23,300

Source: Bloomberg, Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

Pakistan: While we forecast Pakistan's real GDP growth to slow to 4.4% in FY2018/19 (July-June), from 5.8% in FY2017/18, our forecast still puts us above Bloomberg consensus estimates that expect growth of 4.0%. Our slightly more optimistic view on growth is due to our expectation for Pakistan's likely bailout deal with the IMF to stabilise the economy, thereby putting a floor on the economic growth deceleration. Slowing global growth will likely put downside pressure on Pakistan's exports, particularly to key destinations such as the US and China. The loss of purchasing power as a result of rising domestic inflation will also weigh on private consumption growth. While global crude oil prices fell during the second half of 2018, the decline in energy prices has been partially offset by a weaker currency and provided limited support towards Pakistan's external accounts. Moreover, we believe that any IMF agreement with Pakistan will eventually come with strict targets to boost foreign exchange reserves. With import coverage near all-time lows at about three months, the IMF is likely to put pressure on the State Bank of Pakistan to increase their reserve holdings.

Thailand: We forecast Thailand's real GDP growth to slow to 3.5% in 2019, from 4.1% in 2018, as we expect an easing of investment and exports to weigh on the broad economy. Our forecast puts us below Bloomberg consensus expectations for 3.8% growth. We believe that the largest build-up of inventories since at least 1993 in 2018 diminishes prospects for higher investment growth in 2019 as businesses will likely cut back on plans to increase productive capacity while they try to run down their stocks. The Thailand export sector is likely to also be hit by slowing growth across the region and in its key export markets, China and the US.

TABLE: INFLATION AND INTEREST RATE FORECASTS

	2019 Average Inflation, %			End-2019 Policy Interest Rate, %		
	Fitch Solutions	Bloomberg Consensus	Consensus Last Month	Fitch Solutions	Bloomberg Consensus	Consensus Last Month
Australia	2.1	2.0	2.1	1.50	1.40	1.55
Bangladesh	6.0	6.0	6.0	6.00	-	-
China	2.3	2.1	2.2	4.35	-	-
Hong Kong	2.1	2.3	2.3	2.38	-	-
India	4.2	3.5	3.6	6.25	6.10	6.55
Indonesia	3.8	3.5	3.4	6.50	6.15	6.40
Japan	1.6	1.0	1.0	-0.10	-0.10	0.00
Macau	3.0	-	-	-	-	-
Malaysia	1.2	1.6	2.0	3.25	3.20	3.35
Myanmar	5.7	-	-	-	-	-
New Zealand	2.0	1.8	1.9	1.75	-	-
North Korea	-	-	-	-	-	-
Pakistan	6.0	7.1	7.1	10.00	-	-
Philippines	5.2	3.7	4.0	5.25	4.70	5.00
Singapore	1.3	1.1	1.3	2.50	-	-
South Korea	1.6	1.5	1.7	1.75	1.85	1.90
Sri Lanka	4.8	4.3	4.0	9.25	-	-
Taiwan	1.3	1.1	1.1	1.38	1.45	1.45
Thailand	0.9	1.0	1.3	1.75	1.90	1.95
Vietnam	3.8	3.9	4.0	6.25	6.55	6.55

Source: Bloomberg, Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

Europe: Regional Economic Outlook

Germany's Inflation To Remain Below The ECB's Medium-Term Target

A less dynamic outlook for the German economy, which we forecast to expand by 1.2% and 1.4% in 2019 and 2020 respectively, will be the main factor behind lower inflation.

Key View

- We at Fitch Solutions are forecasting Germany's inflation to ease to 1.7% in 2019 and to 1.8% in 2020, down from 1.9% in 2018 due to a less dynamic economic outlook.
- The balance of risks to our inflation outlook remains tilted to the downside.
- A flattening yield curve reinforces our view that a late-cycle inflationary tailwind will be unlikely in the months ahead.

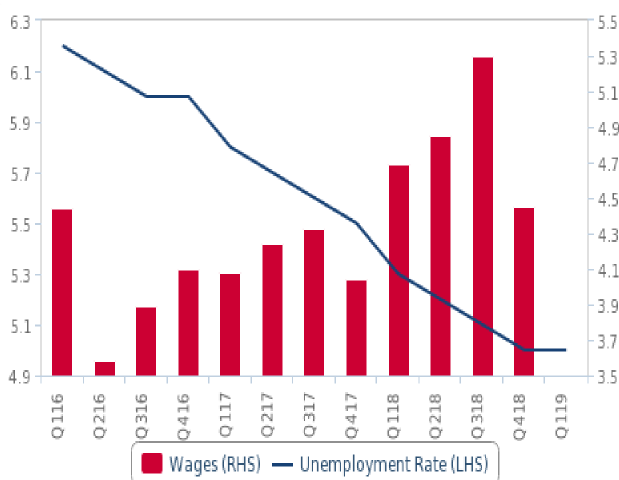
German inflation will undershoot the European Central Bank (ECB)'s medium-term target of just below 2.0% in 2019 and 2020. A less dynamic outlook for the German economy, which we forecast to expand by 1.2% and 1.4% in 2019 and 2020 respectively, will be the main factor behind lower inflation. The upside pressures on inflation from buoyant wage growth due to a tight labour market will not be enough to even out the curbing effect of weaker internal and external demand on domestic price pressure. Against a backdrop of weaker real GDP growth, we at Fitch Solutions are forecasting inflation to ease to 1.7% in 2019 and to 1.8% in 2020, down from 1.9% in 2018.

Risks To Short-Term Inflation Outlook Swayed To The Downside

The balance of risks to our inflation outlook is tilted to the downside. Downside risks mainly relate to weaker-than-expected real GDP growth in Germany this year and the next due to a stronger-than-currently anticipated impact on the German economy of lingering Brexit-related uncertainties and softer growth in China (*see 'Chinese Growth To Slow Further In 2019 On Trade Dispute, Slowing Consumption', January 21*). Upside inflation risks stem from the possibility of souring US-China and US-EU trade disputes producing a late-cycle inflationary tailwind due to the imposition of higher import tariffs (*see 'Inflation To Remain Below Central Banks's Medium-Term Target In Developed Markets', March 6*). Additional upside risks reflect our relatively bullish

Inflation To Ease Despite Robust Labour Market Gains

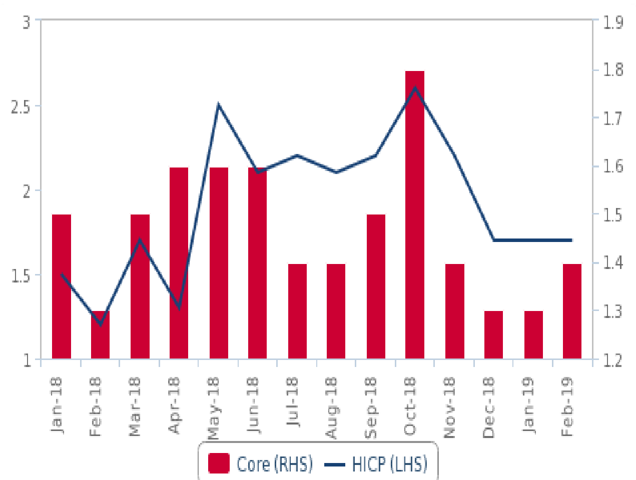
Germany – Unemployment Rate, % & Gross Wages, % chg y-o-y



Source: Destatis, Fitch Solutions

Domestic Price Pressures To Ease Going Forward

Germany – HICP & Core Inflation, % chg y-o-y



Source: Destatis, Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

outlook on the oil market for 2019. Our Oil & Gas team currently expects oil prices to average USD73.0/bbl in 2019, up from an average of USD60.0/bbl as of March 2019 (*see 'Brent: Set For Further Gains In 2019', March 1*).

High Frequency Indicators Point To Ongoing Weakness

Poor December data releases offer further evidence that underlying economic growth has slowed and that the ongoing loss of growth and inflation momentum is unlikely to revert going forward. Destatis's inflation and core inflation data continue to indicate the lack of generalised inflationary pressures in the German economy. The harmonised index of consumer prices (HICP) for Germany came in at 1.7% y-o-y in February, unchanged from its January value, while core inflation rose by 1.4% y-o-y, from 1.3% in January.

Poor December data releases offer further evidence that underlying economic growth has slowed and that the ongoing loss of growth and inflation momentum is unlikely to revert going forward.

Industrial production dropped by 3.9% y-o-y in December 2018, after falling by 4.0% in November when it recorded the biggest drop since Q409. Similarly, factory orders dropped by 7.0% y-o-y in the same month, dragged down by a 3.2% y-o-y decline in domestic orders and by a larger 9.6% y-o-y drop in foreign orders, the biggest decline since September 2009.

Flattening Yield Curve Hints At Lower Inflation

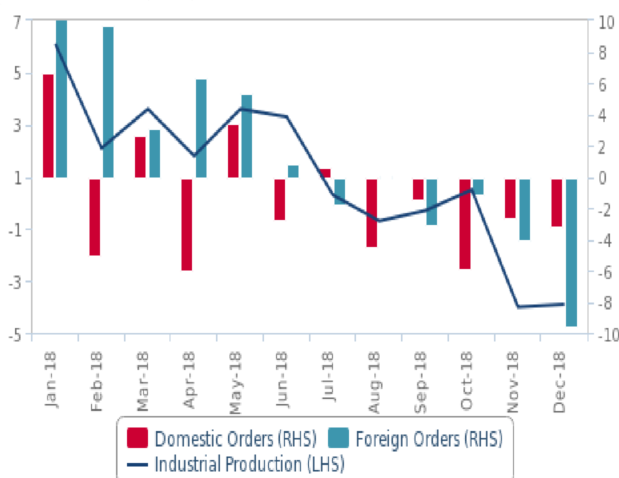
A flattening yield curve tallies with weakening inflation expectations, reinforcing our view that a late-cycle inflationary tailwind will be unlikely in the months ahead. Germany's yield curve has flattened over the past few quarters as long-term rates started to level off in anticipation of lower growth and inflation. The spread between the yields on the German 10-year government bonds and the two-year bonds, a good proxy for bond market sentiment, narrowed to 0.67 percentage points (pp) in March 2019, down from 0.85pp at end Q418 and 1.10pp at end Q118

Longer-Term Inflation Expectations Trending Downwards

Market-based and survey-based measures of inflation expectations continue to trend downward. In March, the German two-year inflation-linked zero coupon (ILZC) bond implied average inflation of 1.0% over the next two years. On a longer horizon, the five-year ILCZ suggested an

Ongoing Downward Pressure On The Economy

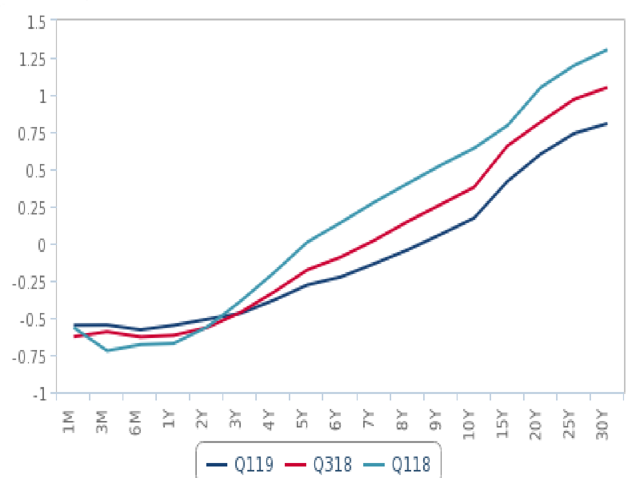
Germany – Industrial Production, Domestic & Foreign Orders, % chg y-o-y



Source: Destatis, Fitch Solutions

Flattening Yield Curve Suggests Lower Growth And Inflation Ahead

Germany – Yield Curve, %



Source: Bloomberg, Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

average inflation rate of 1.4% over the next five years, well below the ECB's target. Survey-based measures of inflation expectations are broadly in line with their market-based counterparts. In February, German consumers reported expectations of lower price trends over the next 12 months: the GfK Consumer Price Expectations Index for Germany came in at -13 points, down from -12.9 in January and -7.8 in December 2018.

Despite downward trending market-based inflation indicators, we maintain a more bullish outlook for long-term inflation due to a new labour contract affecting about one million civil servants.

Despite downward trending market-based inflation indicators, we maintain a more bullish outlook for long-term inflation due to a new labour contract affecting about one million civil servants. We expect German inflation to hover around 1.8% over the next five years. A new labour contract envisaging wage increases by about 8.0% over the next two years was agreed to in March between German states and public-sector employees. Under the new contract, public sector wages will be retroactively increased by 3.2% from January 2019. Wages will be further hiked by 3.2% in January 2020 and by 1.4% in January 2021. Incoming legislation will gradually exert upward pressure on wages and hence on headline inflation.

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

Europe: Fitch Solutions vs Consensus

Above Consensus View On Russian Inflation

Above Consensus Russian Inflation: At Fitch Solutions, we expect inflation to average 5.7% in 2019, above Bloomberg consensus estimates of 5.0%. We see inflationary pressures primarily tilted to the upside in Russia in the near term. Pro-inflationary factors such as a VAT rate hike, fuel price increases and geopolitical risks are likely to keep inflation on its current accelerating trajectory. The consumer price index increased to 5.0% and 5.2% in January and February 2019 respectively, from 4.3% in December 2018, supporting our view that price growth would gain pace in H119.

Mixed Scandinavian Growth Outlook: We expect GDP growth of 2.3% in Sweden, above consensus estimates of 2.0%. This reflects our less bearish view on Swedish exports, which was

TABLE: REAL GDP GROWTH AND EXCHANGE RATE FORECASTS

	2019 Real GDP Growth, %				End-2019 Exchange Rate		
	Fitch Solutions	Bloomberg Consensus	Consensus Last Month	Currency	Fitch Solutions	Bloomberg Consensus	Consensus Last Month
Austria	2.1	2.0	2.0	USD/EUR	1.22	1.20	1.20
Azerbaijan	1.3	2.8	3.0	AZN/USD	1.80	-	-
Belarus	2.9	2.5	2.5	BYR/USD	2.22	-	-
Belgium	1.3	1.4	1.5	USD/EUR	1.22	1.20	1.20
Croatia	2.7	2.7	2.6	HRK/USD	6.22	-	-
Czech Republic	2.8	2.9	3.0	CZK/EUR	25.10	25.25	25.20
Denmark	1.8	2.0	2.0	DKK/USD	6.26	6.21	6.17
Eurozone	1.5	1.4	1.6	USD/EUR	1.22	1.20	1.20
Finland	2.0	1.9	2.0	USD/EUR	1.22	1.20	1.20
France	1.6	1.4	1.6	USD/EUR	1.22	1.20	1.20
Germany	1.2	1.4	1.6	USD/EUR	1.22	1.20	1.20
Greece	1.8	1.9	1.9	USD/EUR	1.22	1.20	1.20
Hungary	3.5	3.5	3.3	HUF/EUR	314.0	320.0	320.0
Ireland	4.5	3.3	3.3	USD/EUR	1.22	1.20	1.20
Italy	0.3	0.7	0.9	USD/EUR	1.22	1.20	1.20
Kazakhstan	3.8	3.5	3.4	KZT/USD	359.0	-	-
Luxembourg	2.8	3.2	3.2	USD/EUR	1.22	1.20	1.20
Netherlands	1.7	2.0	2.1	USD/EUR	1.22	1.20	1.20
Norway	1.6	2.2	2.3	NOK/USD	7.90	7.89	7.75
Poland	3.9	3.8	3.8	PLN/EUR	4.20	4.25	4.25
Portugal	1.5	1.6	1.8	USD/EUR	1.22	1.20	1.20
Romania	3.9	3.6	3.5	RON/EUR	4.73	4.75	4.73
Russia	1.6	1.5	1.5	RUB/USD	64.00	67.00	67.00
Slovakia	4.2	4.0	4.0	USD/EUR	1.22	1.20	1.20
Spain	2.2	2.2	2.2	USD/EUR	1.22	1.20	1.20
Sweden	2.3	2.0	2.0	SEK/USD	7.98	8.28	8.25
Switzerland	1.9	1.6	1.7	CHF/USD	0.97	0.97	0.98
Turkey	-1.9	0.2	0.5	TRY/USD	5.60	6.05	6.05
Ukraine	2.9	2.9	2.9	UAH/USD	30.60	30.00	30.00
UK	1.5	1.5	1.5	USD/GBP	1.35	1.37	1.35
Uzbekistan	4.8	-	-	UZS/USD	8,656	-	-

Source: Bloomberg, Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

reinforced by a rebound in GDP and export figures for Q418. In Norway, we expect economic growth of 1.6%, which is below the Bloomberg consensus forecast of 2.2%, as we believe that stagnating oil prices and fading momentum in Norway's main exports markets will limit its growth potential.

More Hawkish View On Hungarian And Ukrainian Rates: Our 2019 policy rate forecasts of 1.35% for Hungary and 16.50% for Ukraine are above Bloomberg consensus expectations for 1.05% and 15.15% respectively. Our more hawkish view on Hungary is due to the Hungarian National Bank (MNB)'s acknowledgement of building inflationary pressures in the economy and reiteration of its decision making independence in relation to the European Central Bank. This reinforced our stance that the MNB will begin its hiking cycle in H219. In Ukraine, still elevated demand-side price pressures and investor uncertainty ahead of the presidential and parliamentary elections in April will make the National Bank of Ukraine reluctant to cut rates aggressively from 18.0%, explaining our above consensus rate forecasts.

TABLE: INFLATION AND INTEREST RATE FORECASTS

	2019 Average Inflation, %			End-2019 Policy Interest Rate, %		
	Fitch Solutions	Bloomberg Consensus	Consensus Last Month	Fitch Solutions	Bloomberg Consensus	Consensus Last Month
Austria	2.5	2.0	2.0	0.00	0.10	0.10
Azerbaijan	4.0	4.0	4.0	8.00	-	-
Belarus	5.5	6.4	6.4	10.00	-	-
Belgium	2.3	1.8	2.0	0.00	0.10	0.10
Croatia	1.6	1.4	1.9	3.50	3.20	3.25
Czech Republic	2.3	2.2	2.3	2.25	2.30	2.30
Denmark	1.2	1.4	1.4	0.25	-0.40	-0.40
Eurozone	1.6	1.4	1.7	0.00	0.10	0.10
Finland	1.4	1.3	1.5	0.00	0.10	0.10
France	1.5	1.5	1.7	0.00	0.10	0.10
Germany	1.7	1.7	1.8	0.00	0.10	0.10
Greece	1.1	1.0	1.2	0.00	0.10	0.10
Hungary	3.2	3.1	3.2	1.35	1.05	1.05
Ireland	1.1	1.1	1.3	0.00	0.10	0.10
Italy	1.3	1.2	1.4	0.00	0.10	0.10
Kazakhstan	5.1	5.8	5.9	8.75	-	-
Luxembourg	2.1	2.0	2.0	0.00	0.10	0.10
Netherlands	1.5	2.0	2.1	0.00	0.10	0.10
Norway	3.0	2.0	2.1	1.25	1.20	1.25
Poland	2.9	1.9	2.3	1.50	1.55	1.60
Portugal	1.5	1.3	1.5	0.00	0.10	0.10
Romania	3.5	3.4	3.4	3.00	3.15	3.15
Russia	5.7	5.0	4.9	7.50	7.75	7.40
Slovakia	2.3	2.3	2.4	0.00	0.10	0.10
Spain	1.8	1.5	1.6	0.00	0.10	0.10
Sweden	1.9	1.9	2.0	0.00	0.00	0.15
Switzerland	1.0	0.8	1.0	-0.50	-0.55	-0.55
Turkey	17.0	17.3	18.8	18.00	20.40	19.25
Ukraine	8.2	8.9	8.8	16.50	15.15	15.15
UK	2.2	2.1	2.1	1.00	1.10	1.15
Uzbekistan	16.0	-	-	14.00	-	-

Source: Bloomberg, Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

MENA: Regional Economic Outlook

GCC Crisis Update: Easing Of UAE Shipping Ban On Qatar Unlikely To Signal Thaw

Key View

- There is little to suggest that the February easing of UAE restrictions on shipping to and from Qatar signals a wider breakthrough in the GCC crisis.
- The UAE's re-iteration of its commitment to the boycott of Qatar and Qatar's lack of an official response imply that the two sides remain unwilling to make the concessions needed to drive mediation forward.
- In the absence of major triggers for either a resolution or an escalation in intra-GCC tensions, we at Fitch Solutions expect the crisis to officially remain in a 'frozen' state.

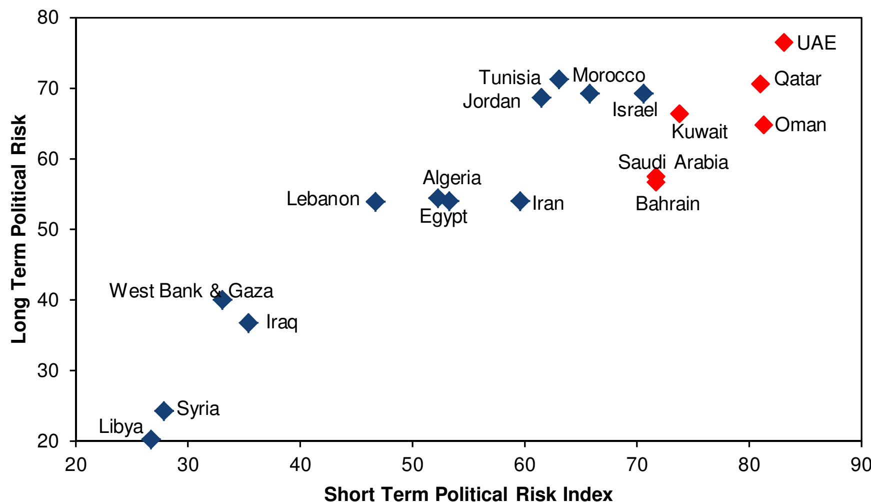
The UAE's apparent easing of restrictions on third-party shippers' movement of cargo to and from Qatar does not in and of itself signal a thaw in the GCC crisis.

The UAE's apparent easing of restrictions on third-party shippers' movement of cargo to and from Qatar does not in and of itself signal a thaw in the GCC crisis. Over the last two weeks of February, Abu Dhabi and Dubai port operators issued circulars implying third-party shippers are no longer subject to bans on shipments to and from Qatar imposed after the June 2017 outbreak of the GCC crisis. While Qatar flagged and owned vessels are still prohibited from calling at UAE ports (and vice versa), this seems to represent a slight de facto easing of the Quartet states' (UAE, Saudi Arabia, Bahrain and Egypt) ongoing boycott of Qatar.

That said, there is little to suggest that this marks any sort of breakthrough in the ongoing crisis. Emirati authorities have already affirmed that the wider boycott of Qatar still stands, and state-linked media in all GCC countries involved have continued to post negative coverage of the opposing side. It appears more likely in our view that the move is linked to Qatar's boycott-related legal complaint filed at the WTO against the UAE in 2017.

GCC Still A Safe Haven, But Fragmentation Could Erode The Bloc's Competitiveness Over Time

MENA – Short-Term & Long-Term Political Risk Index Scores (Out Of 100)



Note: Higher score indicates lower risk. Source: Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

Qatar's economy is weathering the crisis reasonably well given its vast net foreign assets, undisrupted hydrocarbon exports and expanding gas output, while the Quartet states themselves have hardly seen their economies impacted at all.

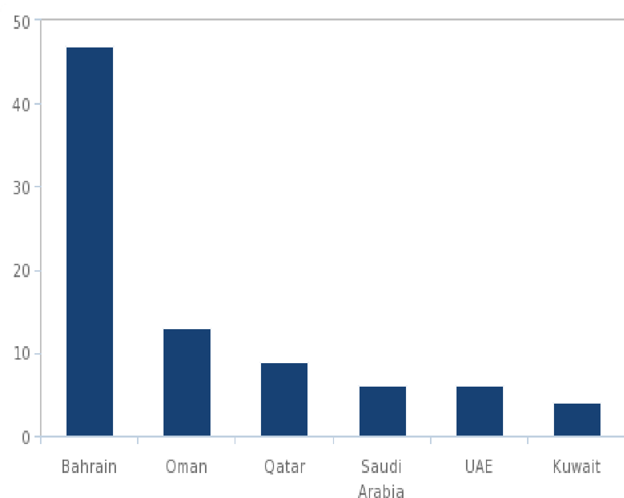
Moreover, the lack of an official response by Qatari authorities implies no major change in Qatar's stance against the Quartet. Qatari authorities could conceivably have used the UAE's easing of restrictions as a face-saving opening to indicate a willingness to make some concessions against the opposing side. Saudi Crown Prince Mohammed bin Salman's mention of Qatar in a positive light at the Future Investment Initiative conference in Riyadh in October 2018 arguably offered a similar opportunity, particularly as it came amid international pressure on Riyadh over the reported killing of journalist Jamal Khashoggi inside the Saudi Consulate in Istanbul and also shortly before the annual GCC Summit (*see 'GCC December Summit: Factors To Watch', November 29 2018*). However, the fact that Qatari authorities did not officially respond to these overtures suggests that they still view the risks of carrying on the crisis as more manageable than the potential political costs associated with making concessions and re-entering into a new cooperation agreement with the Quartet states.

Broadly speaking, a key factor in the lack of progress towards a resolution seems to be that none of the parties to the crisis are under pressure to end it quickly. Qatar's economy is weathering the crisis reasonably well given its vast net foreign assets, undisrupted hydrocarbon exports and expanding gas output, while the Quartet states themselves have hardly seen their economies impacted at all. Meanwhile, both sides have also been able to maintain strong alliances with their security guarantor, the US, limiting security-related risks of carrying on the crisis. The US, on its end – while keen to reach a resolution to minimise disruption to its regional counterterrorism and counter-Iran campaigns – also does not seem willing to strain its strategically and economically valuable relationships with the individual GCC countries to pressure them into backing down.

There are factors that could shift the risk-reward calculus for one or both parties and thus spur a resolution. Collapsing oil prices could result in economic pressures across the GCC, prompting governments to pursue fiscal consolidation measures. GCC-wide cooperation on the implementation of such measures could in turn be perceived as key to manage social discontent and stability. Similarly, rising security threats – for example, from Iran or from another

Limited Trade Ties Lessen Urgency Of Crisis Resolution

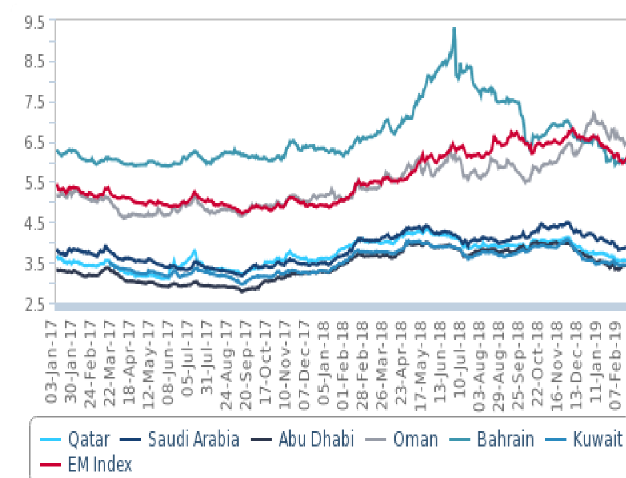
GCC States – Exports By Country To GCC, % Of Total Exports



Source: Trade Map, Fitch Solutions

Political Pressures Perceived As Manageable

Selected GCC – USD 10-yr International Bond Yields & EM Index (Yield To Worst), %



Note: All bonds mature in 2026, except for Kuwait (2027). EM Index = Bloomberg Barclays Emerging Markets Sovereign TR Index Value Unhedged USD. Source: Bloomberg, Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

Arab Spring-style uprising in the broader region – could make the benefits of closer intra-GCC ties appear greater than the issues associated with the individual members' currently diverging strategic priorities. Alternatively, the US could come to see a resolution as more of a priority. For example, if US-Iran tensions escalate or it looks to disengage from the Middle East, making it more willing to raise pressure on one or both sides to make concessions.

We see limited scope for a drastic escalation in the crisis, as this could spur pushback from the US and affect foreign investor sentiment towards the GCC at large.

We nevertheless consider these scenarios unlikely, at least over the short-to-medium term. Equally, we also see limited scope for a drastic escalation in the crisis, as this could spur pushback from the US and affect foreign investor sentiment towards the GCC at large. Consequently, our core view remains for the GCC crisis to officially stay 'frozen'. Given the already-limited trade links and political cooperation within the GCC, this will probably not have a pronounced impact on the individual countries' economic and political stability over the next several years. In the longer term, however, it would represent a lost opportunity to enhance economic, financial, regulatory and infrastructural integration, which over time may weaken the bloc's competitiveness when compared with other regions, and as such hamper the individual states' ambitious economic diversification programmes.

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

MENA: Fitch Solutions vs Consensus

Above Consensus On Lebanon Growth

This month in Fitch Solutions vs Consensus we highlight our above-consensus forecast for Lebanese growth and our below-consensus view on Qatari inflation.

Above Consensus On Lebanon Growth: We forecast Lebanon's real GDP growth to come in at 1.6% y-o-y in 2019, above Bloomberg consensus of 1.2%. Our relatively optimistic view is underpinned by a few key assumptions. Most notably, we expect the newly formed government to implement selected fiscal consolidation measures, which will help unlock soft loans and grants pledged at an international donors' conference last year. In turn, we believe this will help fund capital projects, while also supporting business confidence. While the purchasing managers' index remains below the 50-level separating private sector expansion from contraction, the February reading of 46.9 marked the slowest pace of deterioration in a year, suggesting that confidence has modestly improved. Meanwhile, we do not expect fiscal reforms to prove far-reaching enough to substantially increase businesses' and households' cost burden – at least not over 2019. Finally, we also expect the country's tourism sector to record solid growth this year, in part due to the Saudi government's recent removal of an advisory warning its citizens against travel to Lebanon.

Below Consensus On Qatar Inflation: We are below consensus on Qatari inflation, forecasting an average of 1.1% in 2019, compared to Bloomberg consensus of 2.0%. In the absence of a new VAT (which the government has now postponed 'indefinitely') we do not expect a major pickup in prices over the quarters ahead. This view is further based on our assumption that housing prices, which contracted in 2018, will remain weak in 2019 as supply continues to outstrip demand. In addition, the outlook for imported inflation appears subdued, amid limited downside pressures

TABLE: REAL GDP GROWTH AND EXCHANGE RATE FORECASTS

	2019 Real GDP Growth, %				End-2019 Exchange Rate		
	Fitch Solutions	Bloomberg Consensus	Consensus Last Month	Currency	Fitch Solutions	Bloomberg Consensus	Consensus Last Month
Algeria	2.5	-	-	DZD/USD	123.0	-	-
Egypt	5.2	5.5	5.5	EGP/USD	18.10	18.47	-
Iran	-4.1	-	-	IRR/USD	55,000	-	-
Iraq	3.4	-	-	IQD/USD	1,176	-	-
Israel	3.1	3.3	3.3	ILS/USD	3.50	3.53	3.64
Kuwait	3.1	3.0	3.0	KWD/USD	0.32	-	-
Lebanon	1.6	1.2	1.2	LBP/USD	1,550	-	-
Libya	10.1	-	-	LYD/USD	2.70	-	-
Morocco	3.3	3.3	3.4	MAD/USD	9.60	-	-
Oman	2.7	3.3	3.3	OMR/USD	0.39	-	-
Qatar	2.5	2.9	2.9	QAR/USD	3.64	-	3.64
Saudi Arabia	2.4	1.9	2.0	SAR/USD	3.75	3.75	-
Tunisia	2.7	2.5	2.5	TND/USD	3.00	-	-
UAE	3.1	3.1	3.2	AED/USD	3.67	-	-

Source: Bloomberg, Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

on the US dollar (and by extension the riyal), which has actually displayed relative strength in recent weeks. We highlight that Qatar has seen deflation over the past several months, with price growth standing at -1.6% y-o-y in both January and February. Our forecast implies an acceleration in inflation compared to the 0.2%-level recorded in 2018, largely because we expect economic activity to inch up, fuelling domestic demand, and due to the recent implementation of excise taxes. Nevertheless, the forecast remains firmly below our projected average for the GCC on the whole, at 2.0% in 2019.

TABLE: INFLATION AND INTEREST RATE FORECASTS

	2019 Average Inflation, %			End-2019 Policy Interest Rate, %		
	Fitch Solutions	Bloomberg Consensus	Consensus Last Month	Fitch Solutions	Bloomberg Consensus	Consensus Last Month
Algeria	6.3	-	-	4.00	-	-
Egypt	12.7	13.0	12.7	15.75	-	-
Iran	30.0	-	-	-	-	-
Iraq	2.4	-	-	5.00	-	-
Israel	1.2	1.2	1.2	0.50	0.55	0.65
Kuwait	1.2	1.9	1.9	3.00	-	-
Lebanon	5.0	3.5	3.5	10.00	-	-
Libya	15.0	-	-	3.00	-	-
Morocco	1.7	1.5	1.5	2.50	-	-
Oman	2.7	2.6	2.6	3.26	-	-
Qatar	1.1	2.0	2.0	5.00	-	-
Saudi Arabia	2.0	2.0	2.0	2.75	-	-
Tunisia	7.2	7.0	7.0	8.50	-	-
UAE	1.9	2.2	2.3	2.75	-	-

Source: Bloomberg, Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

Sub-Saharan Africa: Regional Economic Outlook

Horn Of Africa To Benefit From Improving Diplomatic Relations And Increasing Investment

Key View

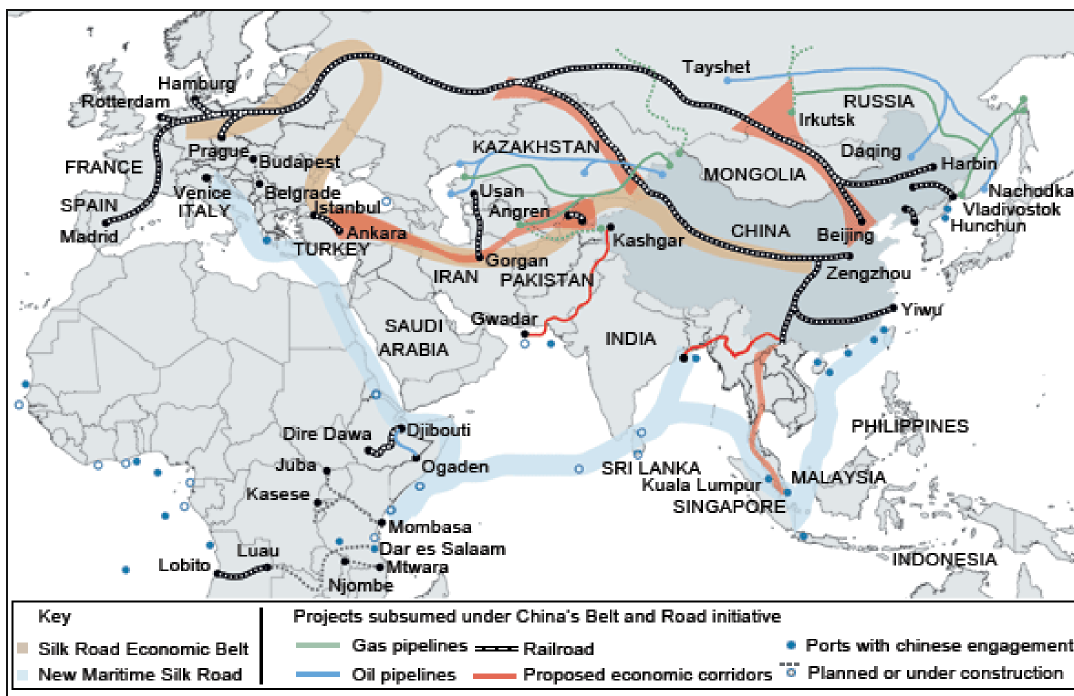
- At Fitch Solutions, we believe that the economic and political outlook for nations in the Horn of Africa region will improve in the coming years.
- Domestic political shifts will likely boost diplomatic relations between these nations in the coming years, as will the region's increasing geopolitical importance.
- The potential for greater regional integration could also improve the business environment, offering further upside potential to growth.
- Increasing interest from foreign investors, particularly those from the Gulf and China, will offer economic tailwinds.
- However, significant risks to the economic and political outlook remain, namely ongoing threats from domestic political instability and Islamist militant groups.

Domestic political shifts will likely boost diplomatic relations between the Horn of Africa nations in the coming years, as will the region's increasing geopolitical importance.

Improvements to diplomatic relations between Horn of Africa states will offer opportunities in the coming years. The appointment of Abiy Ahmed as the prime minister in Ethiopia in April 2018 precipitated several improvements in terms of foreign relations between Horn of Africa nations. For example, in June 2018, not long after he assumed office, Abiy Ahmed announced that the Ethiopian and Eritrean governments had negotiated a peace deal, ending a stalemate that had been in place since 2002. In November 2018, US sanctions against Eritrea were lifted, signalling a gradual end to the country's previous international isolation (*see 'Quick View: Lifting Of Eritrea Sanctions Will Boost Horn Of Africa', November 15 2018)*. This followed Eritrea's

Belt And Road Inclusion Highlights Region's Strategic Importance

Map Of Belt & Road



Source: Mercator Institute for China Studies, Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

agreements to normalise its ties with Somalia in July and Djibouti in September. As a result of these developments, we expect greater economic cooperation between regional peers that will translate into greater interest in tangible investments from foreign governments and investors.

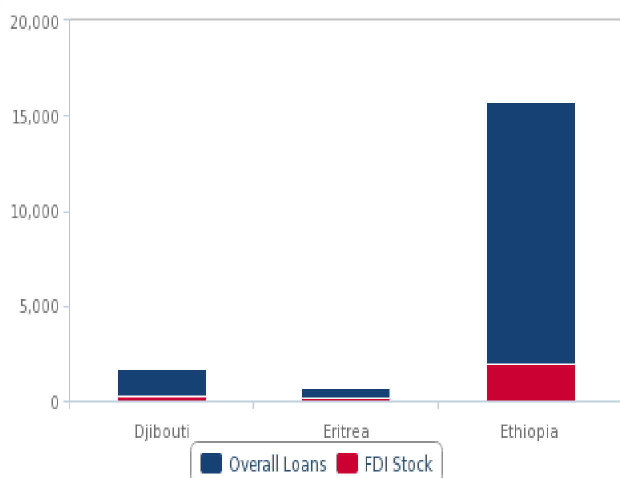
Opportunities for economic cooperation will most likely come in the form of infrastructure investment, which is likely to boost the region's longer term operating environment while presenting opportunities for greater foreign direct investment. Since Ethiopia and Eritrea signed their peace agreement, joint infrastructure projects have been proposed. For example, the Italian government announced in January that it would fund a feasibility study for a 736km railway connecting Addis Ababa with the port of Massawa in Eritrea. Such a railway would improve access to landlocked Ethiopia, which has been dependent on Djibouti for port usage since the Eritrean-Ethiopian War began in 1998. We also note that access to Eritrea's other port at Assab would be ideal for exporting Ethiopia's potash resources from the Danakil depression. The Addis Ababa-Djibouti Railway was inaugurated in early 2018, connecting Ethiopia's capital with the Port of Doraleh and boosting freight transport capacity. These projects are likely to offer significant gains to regional connectivity, boosting trade.

Increasing levels of foreign direct investment into the region will be a driver of growth, cementing its increasing strategic importance, while supporting opportunities for connectivity to improve.

In turn, increasing levels of foreign direct investment into the region will be a driver of growth, cementing its increasing strategic importance, while supporting opportunities for connectivity to improve. The advantageous geopolitical location of the region – located near the intersection of Africa, Asia and Europe and borders the Red Sea – will attract significant foreign capital inflows over the coming years. The promise of the region is further underscored by the fact that it is a key target in China's Belt and Road Initiative (BRI), whereby China has provided over USD15bn of investment and loans to Ethiopia since 2000, particularly into road, power and rail projects. While China is likely to continue to play a large role in the region's economic development, the region's strengthening ties with the Gulf will also be of increasing importance over the coming years. In the latter, for example, the UAE announced plans in August 2018 to build an oil pipeline connecting Eritrea and Ethiopia. The Emirati government invested USD1bn into the National Bank of Ethiopia in order to support the currency, and Dubai property firm **Eagle Hills** launched

China To Remain Key Financing And Investment Partner

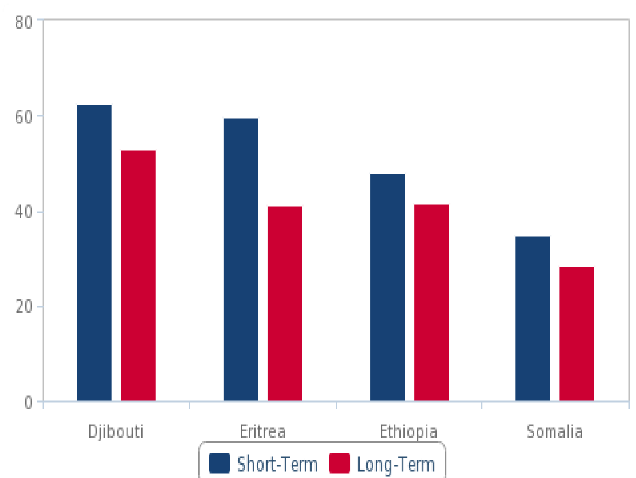
China – Overall Loans (2000-2017) & FDI (2017 Stock) To Horn Of Africa Nations, USDmn



Source: China Africa Research Initiative, National Bureau Of Statistics China, Fitch Solutions

Domestic Instability Will Pose Key Challenge

Horn Of Africa – Short- & Long-Term Political Risk Indices, Scores Out Of 100



Note: Higher score indicates lower risk. Source: Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

a major residential construction project in Addis Ababa in November 2018. Therefore, the region will benefit from a diversification in its sources of investment over the coming years.

Djibouti and Eritrea in particular will be target destinations for major global powers to develop a greater military presence, given that they boast relatively stable political environments in addition to their advantageous location in the Gulf of Aden. China, France, Japan, Saudi Arabia, the UK and the US all currently have military bases in Djibouti, while in Eritrea the UAE has a base and Russia plans to open a logistics base there. Turkey also opened a military base in Somalia in 2017. These developments reflect growing recognition of the region's geostrategic importance, and we therefore expect demand for property in these territories to grow as major global powers jostle for greater military influence.

While we note significant growth opportunities for the region, we stress that Horn of Africa nations face multiple challenges, such as becoming a focus for geopolitical squabbles, persistent domestic political instability and weak operating environments.

While we note significant growth opportunities for the region, we stress that Horn of Africa nations face multiple challenges, such as becoming a focus for geopolitical squabbles, persistent domestic political instability and weak operating environments. Although increasing geopolitical prominence will offer economic tailwinds to the region, land is increasingly likely to become hotly contested as major global powers jostle for strategic advantage. In Djibouti, a legal battle over one of its main ports has been ongoing since early 2018. The government seized ownership of the Doraleh Container Terminal from Emirati firm **DP World**, the port's operator since 2006, after the government sold 23.5% of its two-thirds stake in the terminal to **China Merchants Port Holdings**. This raised suspicion that Djibouti aimed to hand over ownership of the port to China (*see 'Djibouti's DP World Dispute Highlights Wider Risks', February 15*), which will likely raise tensions with the Emirati government. Eritrea is also likely to walk a tightrope over its foreign relations, given that it currently holds a Chinese military base but is also attracting interest from the US and Russia.

In Ethiopia, the largest economy in the region, land disputes and ethnic tensions will slow its growth potential. Since 2015, the majority Oromo and Amhara populations have protested economic marginalisation and the political dominance of the Tigrayan ethnic group. These were sparked by plans to include parts of Oromia in Addis Ababa, leading many Oromo to protest. While Prime Minister Ahmed, an ethnic Oromo, has taken steps towards improving democratisation in the country, disputes over land, resources and representation between ethnic groups represent a structural political challenge (*see 'Social Fragmentation Will Keep Political Landscape Tense', April 13 2018*).

In Somalia, the al-Shabaab insurgency will be the focus of the central government's concerns for the foreseeable future (*see 'Islamist Threat To Remain Elevated In Africa', March 28*). Major terrorist attacks and widespread criminal activity mean that Somalia will remain one of the most high-risk operating environments in the world. We also note that disagreements between the federal authorities and heads of the autonomous regions of Somaliland and Puntland – which have both declared independence but are not internationally recognised – could also stunt the passing of policy. For example, in April 2018, Somalia's federal foreign minister criticised DP World for entering into a port development contract with the Somaliland government, saying that the agreement 'bypassed the legitimate authority' of Somalia. As such, while we expect a brighter outlook for the region, it will remain a high-risk operating environment for the foreseeable future owing to these political headwinds.

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

Fitch Solutions vs Consensus

Above Consensus On Kenya's Policy Rate

Above Consensus On Kenya's Benchmark Interest Rate And Inflation: We at Fitch Solutions expect the Central Bank of Kenya (CBK) to raise its central bank rate by 50 basis points (bps) to 9.50% by end 2019, compared to the Bloomberg consensus forecast for it to be cut to 8.85%. Kenya's annual inflation rate averaged a relatively low 4.7% over 2018 compared to 8.0% over 2017, with more favourable weather conditions supporting agricultural output and driving a cooling of food prices, the largest component of the consumer price basket. Over the short term, however, we expect a normalisation of weather conditions to see food price growth gradually rise from its current low level, providing upward pressure on headline inflation. We also expect the Kenyan shilling to see a greater pace of depreciation over the short term, due to declining tailwinds from remittance inflows and a backdrop of increased risk-off sentiment putting downward pressure on broader emerging market currencies. Our core view is for the effects of higher food inflation and a weaker exchange rate to see Kenya's inflation average 6.0% over 2019 (compared to a consensus forecast of 5.6%), remaining within the CBK's target range of 2.5-7.5%, though we view risks as remaining tilted to the upside. We expect the environment of increased price pressures to incentivise the CBK to raise its policy rate to 9.50% by the end of the year.

TABLE: REAL GDP GROWTH AND EXCHANGE RATE FORECASTS

	2019 Real GDP Growth, %				End-2019 Exchange Rate		
	Fitch Solutions	Bloomberg Consensus	Consensus Last Month	Currency	Fitch Solutions	Bloomberg Consensus	Consensus Last Month
Angola	2.2	2.4	2.5	AOA/USD	370.0	-	-
Botswana	5.1	-	-	BWP/USD	10.55	-	-
Cameroon	4.6	-	-	XAF/USD	551.2	-	-
Congo (DRC)	4.5	-	-	CDF/USD	1,726	-	-
Congo-Brazzaville	3.0	-	-	XAF/USD	551.2	-	-
Côte d'Ivoire	6.6	-	-	XOF/USD	551.2	-	-
Equatorial Guinea	-1.7	-	-	XAF/USD	537.7	-	-
Ethiopia	8.3	-	-	ETB/USD	30.50	-	-
Gabon	2.6	-	-	XAF/USD	551.2	-	-
Ghana	6.8	6.6	6.3	GHS/USD	5.64	5.29	5.29
Kenya	5.2	5.7	5.8	KES/USD	109.0	106.2	106.2
Mozambique	3.7	-	-	MZN/USD	66.00	-	-
Nigeria	2.4	2.4	2.5	NGN/USD	310.0	-	-
South Africa	1.7	1.5	1.6	ZAR/USD	14.22	14.15	13.80
South Sudan	6.0	-	-	SSP/USD	168.0	-	-
Sudan	0.3	-	-	SDG/USD	45.00	-	-
Tanzania	6.5	-	-	TZS/USD	2,413	-	-
Uganda	5.8	-	-	UGX/USD	3,875	-	-
Zambia	3.4	-	-	ZMK/USD	12.50	-	-
Zimbabwe	2.2	-	-	-	1.00	-	-

Source: Bloomberg, Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

More Bearish On The Ghanaian Cedi: We forecast the Ghanaian cedi to end 2019 at around GHS5.64/USD, compared to the Bloomberg consensus forecast of GHS5.29/USD. At the time of writing, the cedi stood at GHS5.68/USD, with a year-to-date depreciation of 13.7%. Currency weakness in 2019 has been exacerbated by the Bank of Ghana cutting its benchmark interest rate from 17.00% to 16.00% on January 28 and signalling scope for further monetary easing, with the prospect of lower real interest rates weighing on investor sentiment. Over the short term we expect the cedi to face further volatility in foreign exchange markets amid an environment of lower domestic interest rates, prevailing current account deficits, as well as elevated risk-off sentiment globally affecting emerging market currencies. However, with a still strong macroeconomic backdrop supported by large-scale investment and growth in the oil sector, we expect demand for Ghanaian assets to remain relatively strong and limit the extent of the depreciation over the coming quarters. As such, we forecast the cedi to average GHS5.30/USD in 2019, compared to GHS4.68/USD in 2018.

TABLE: INFLATION AND INTEREST RATE FORECASTS

	2019 Average Inflation, %			End-2019 Policy Interest Rate, %		
	Fitch Solutions	Bloomberg Consensus	Consensus Last Month	Fitch Solutions	Bloomberg Consensus	Consensus Last Month
Angola	15.3	16.4	15.0	15.00	-	-
Botswana	3.8	-	-	5.00	-	-
Cameroon	3.1	-	-	2.95	-	-
Congo (DRC)	19.0	-	-	14.00	-	-
Congo-Brazzaville	2.9	-	-	2.95	-	-
Côte d'Ivoire	1.5	-	-	5.00	-	-
Equatorial Guinea	1.5	-	-	5.50	-	-
Ethiopia	8.5	-	-	-	-	-
Gabon	3.0	-	-	2.95	-	-
Ghana	10.6	9.3	9.2	16.00	16.00	16.35
Kenya	6.0	5.6	5.6	9.50	8.85	9.10
Mozambique	6.6	-	-	14.25	-	-
Nigeria	13.4	11.9	12.1	14.00	12.50	13.75
South Africa	5.6	5.0	5.2	7.25	6.95	6.95
South Sudan	40.0	-	-	-	-	-
Sudan	45.0	-	-	-	-	-
Tanzania	5.4	-	-	7.00	-	-
Uganda	5.1	4.7	4.7	11.00	-	-
Zambia	8.3	-	-	10.25	-	-
Zimbabwe	22.0	-	-	-	-	-

Source: Bloomberg, Fitch Solutions

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.

TABLE: GLOBAL ECONOMIC ASSUMPTIONS

	Real GDP Growth			Inflation (yearly average %)			Current Account (% of GDP)		
	2018e	2019f	2020f	2018e	2019f	2020f	2018e	2019f	2020f
Majors									
US	2.9	2.5	2.0	2.4	2.3	2.3	-2.7	-2.9	-2.9
Eurozone	1.9	1.5	1.5	1.7	1.6	1.7	3.7	3.3	3.2
Japan	0.7	0.5	0.6	1.2	1.6	1.9	3.6	3.1	2.8
UK	1.4	1.5	1.6	2.4	2.2	2.0	-4.0	-3.5	-3.0
Canada	1.8	1.5	1.9	2.3	2.0	2.1	-2.8	-2.7	-2.4
Australia	2.8	2.5	2.4	2.1	2.1	2.4	-2.0	-1.4	-0.9
Asia									
China	6.6	6.2	5.7	2.1	2.3	2.2	-0.1	-0.3	-0.4
Hong Kong	3.0	2.0	2.3	2.2	2.1	2.0	3.7	3.4	3.4
India*	7.1	6.8	6.7	3.5	4.2	4.7	-2.4	-2.6	-3.0
Indonesia	5.2	5.3	5.4	3.4	3.8	4.4	-3.1	-2.9	-2.8
Malaysia	4.7	4.2	4.2	1.0	1.2	2.4	3.6	1.9	1.9
Philippines	6.2	6.1	6.2	5.3	5.2	4.3	-1.4	-1.5	-1.4
Singapore	3.3	2.8	2.9	0.4	1.3	1.7	20.2	19.4	18.7
South Korea	2.7	2.3	2.5	1.3	1.6	1.9	6.6	5.7	5.5
Taiwan	2.6	2.3	2.2	1.6	1.3	1.3	14.5	12.0	10.9
Thailand	4.1	3.5	3.6	1.1	0.9	1.0	7.4	6.4	5.7
Vietnam	7.1	6.5	6.5	3.5	3.8	4.5	2.3	2.2	2.3
Europe									
Bulgaria	3.3	3.5	3.0	2.8	2.7	2.5	3.3	2.3	1.5
Czech Republic	3.0	2.8	2.6	2.1	2.3	2.0	0.6	0.5	0.4
Hungary	4.8	3.5	2.7	2.9	3.2	3.0	1.1	0.1	-0.1
Poland	5.1	3.9	3.5	1.8	2.9	2.8	-0.5	-1.0	-1.7
Romania	4.2	3.9	3.5	4.6	3.5	3.3	-5.1	-5.2	-5.1
Russia	2.3	1.6	1.7	2.9	5.7	4.5	7.4	5.8	4.7
Turkey	3.2	-1.9	3.5	16.2	17.0	11.5	-4.1	-0.5	-1.2
Latin America									
Argentina	-2.4	-0.5	3.1	33.8	40.2	22.1	-7.8	-2.8	-2.8
Brazil	1.1	2.1	2.4	3.7	4.5	5.1	-0.8	-1.4	-1.7
Chile	4.0	3.5	3.2	2.4	2.6	3.0	-3.0	-2.2	-2.1
Colombia	2.6	3.2	3.6	3.2	3.4	3.3	-3.5	-3.1	-2.9
Mexico	2.0	1.7	1.9	4.9	3.8	3.6	-2.1	-1.8	-1.7
Peru	4.0	3.9	3.8	1.3	2.7	3.3	-1.6	-1.7	-1.6
Sub-Saharan Africa									
Kenya	5.8	5.2	5.5	4.7	6.0	6.2	-5.7	-6.0	-6.0
Nigeria	1.9	2.4	3.3	12.2	13.4	14.2	3.7	2.6	2.8
South Africa	0.8	1.7	2.1	4.8	5.6	5.6	-3.8	-3.3	-3.1
Middle East And North Africa									
Egypt	5.3	5.2	5.3	14.4	12.7	10.2	-2.4	-2.0	-2.2
Kuwait	2.7	3.1	3.6	0.8	1.2	1.6	16.1	13.5	17.4
Lebanon	1.2	1.6	2.1	6.1	5.0	3.5	-21.5	-20.7	-19.9
Morocco	2.9	3.3	3.4	1.8	1.7	1.5	-4.0	-5.2	-5.0
Saudi Arabia	2.3	2.4	2.6	2.5	2.0	2.3	8.9	8.7	9.0
UAE	2.8	3.1	3.5	3.1	1.9	2.7	7.3	7.0	6.5

**Fiscal years ending March 31 (2017 = 2017/18); e/f = estimate/forecast. Source: Fitch Solutions*

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS MACRO RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Macro Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Macro Research.