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The EIU Update

COVID-19 to send almost all G20 countries into a recession

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Following the coronavirus outbreak, we have revised our growth forecasts for all countries across the world. The results paint a bleak picture. Across the G20, all but three countries will register a recession this year. The global economy will contract by 2.2%.

Revised growth forecasts for G20 countries in 2020

Real GDP growth (% in 2020)	Real GDP growth (% in 2020)	Previous forecast (before outbreak)
Argentina	-6.7	-2
Australia	-0.4	2
Brazil	-5.5	2.4
Canada	-1.3	1.8
China	1	5.9
France	-5	1
Germany	-6.8	0.9
India (2020/21 fiscal year)	2.1	6
Indonesia	1	5.1

Italy	-7	0.4
Japan	-1.5	0.4
South Korea	-1.8	2.2
Mexico	-5.4	1.1
Russia	-2	1.6
Saudi Arabia	-5	1
South Africa	-3	1.4
Turkey	-3	3.8
UK	-5	1.1
US	-2.8	1.7
Global (market exchange rates)	-2.2	2.3

> “The global economic picture is looking bleak, with recessions in almost every developed economy across the world. We assume that there will be a recovery in the second half of the year, but downside risks to this baseline scenario are extremely high, as the emergence of second, or third waves of the epidemic would sink growth further. At this stage, it is also hard to see an exit strategy from the

> lockdowns, which means that uncertainty will remain high. Finally, the combination of lower fiscal revenues, and higher public spending, will put many countries on the brink of a debt crisis."
>
> AGATHE DEMARAIS, THE EIU'S GLOBAL FORECASTING DIRECTOR

Regional highlights

The **US economy** will contract by 2.8% this year. The administration's initial response to the coronavirus was poor, allowing the illness to spread quickly. In addition, just as the economic risks related to Covid-19 began to mount, the agreement between Saudi Arabia and Russia to cut oil production collapsed, sending oil prices tumbling. The combination of the coronavirus epidemic, and the slump in global oil prices, means that investment will contract sharply this year, especially in the energy sector, and export growth will sag. This puts Donald Trump's re-election bid at risk, as unemployment looks set to rise sharply.

The impact on **China's economy** of the Covid-19 outbreak is set to be much deeper than that of SARS. Assuming that the virus does not flare up again, we expect China's real GDP growth to stand at only 1% in 2020, compared with an estimated 6.1% in 2019. The slowdown will be concentrated in the first quarter of the year and will still be felt in the second quarter. Growth will recover in the second half of the year when China typically produces most of its GDP.

The **eurozone** will be one of the hardest hit regions, posting a full-year recession of 5.9%. Germany (-6.8%), France (-5%), and Italy (-7%) will register full-year recessions. In Germany, the huge manufacturing sector is highly export-oriented, which means that the country is particularly exposed to both supply chain disruption and weak global demand. As a result, the recovery that we are expecting in other eurozone countries in the second half of 2020 will materialise much more slowly in Germany.

Growth prospects are particularly poor across **Latin America**. Argentina (-6.7%), Brazil (-5.5%), and Mexico (-5.4%) will all register recessions this year. Mexico is closely reliant on trends in the US, and our expectation that US GDP growth will drop puts a strain on Mexico's economic prospects. Across the region, business disruption will cause inward foreign direct investment (FDI) to fall sharply. This will be severely damaging in a region where domestic savings are weak and FDI accounts for 3% of GDP and 15% of total fixed investment. Meanwhile, for the Southern Cone countries, the approach of the southern hemisphere winter raises the prospect of a difficult, prolonged epidemic.

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