

Europe's Economic Outlook: The Upward Climb

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Today's Speakers



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Agenda

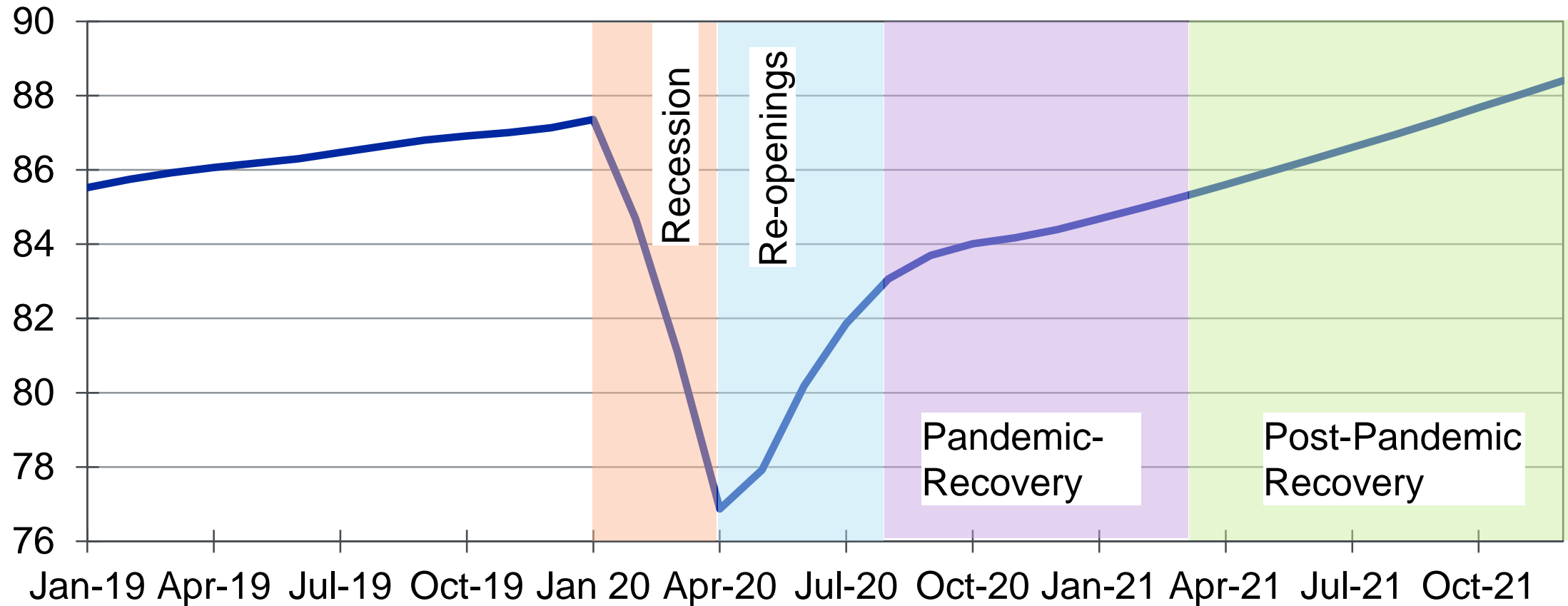
1. Global Economic Outlook
2. Euro Zone and the European Union
3. U.K. and Brexit Scenarios
4. Forecast and Risks for Europe
5. Q&A

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Global Economic Outlook

Global Economy Struggles to Gain Traction...

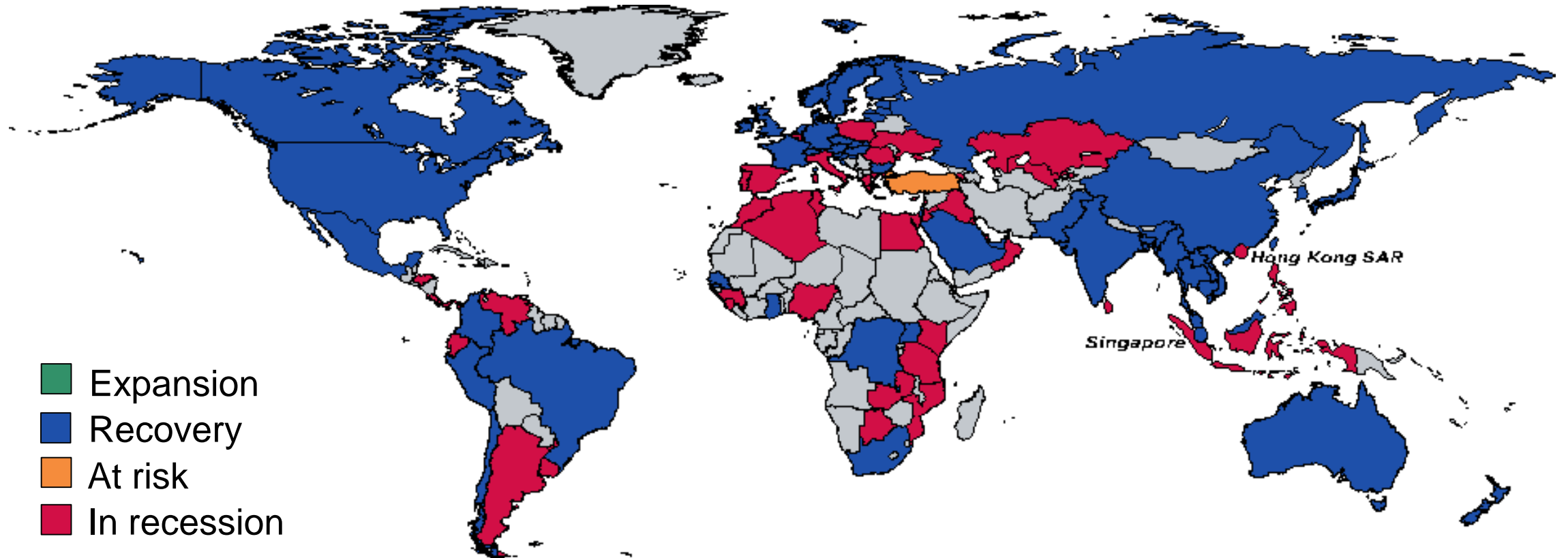
Global real GDP, tril 2012\$



Sources: Government sources, Moody's Analytics

...With a Tentative Recovery in Much of the World

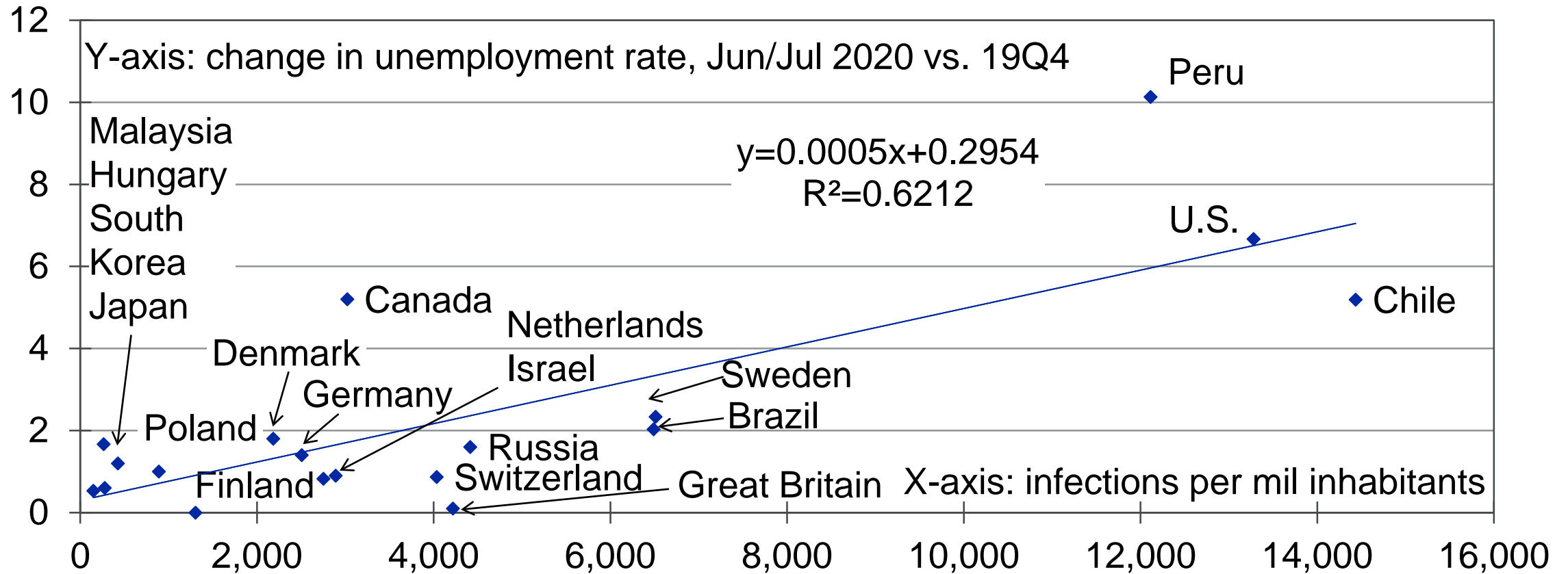
Global business cycle status as of September 2020



Source: Moody's Analytics

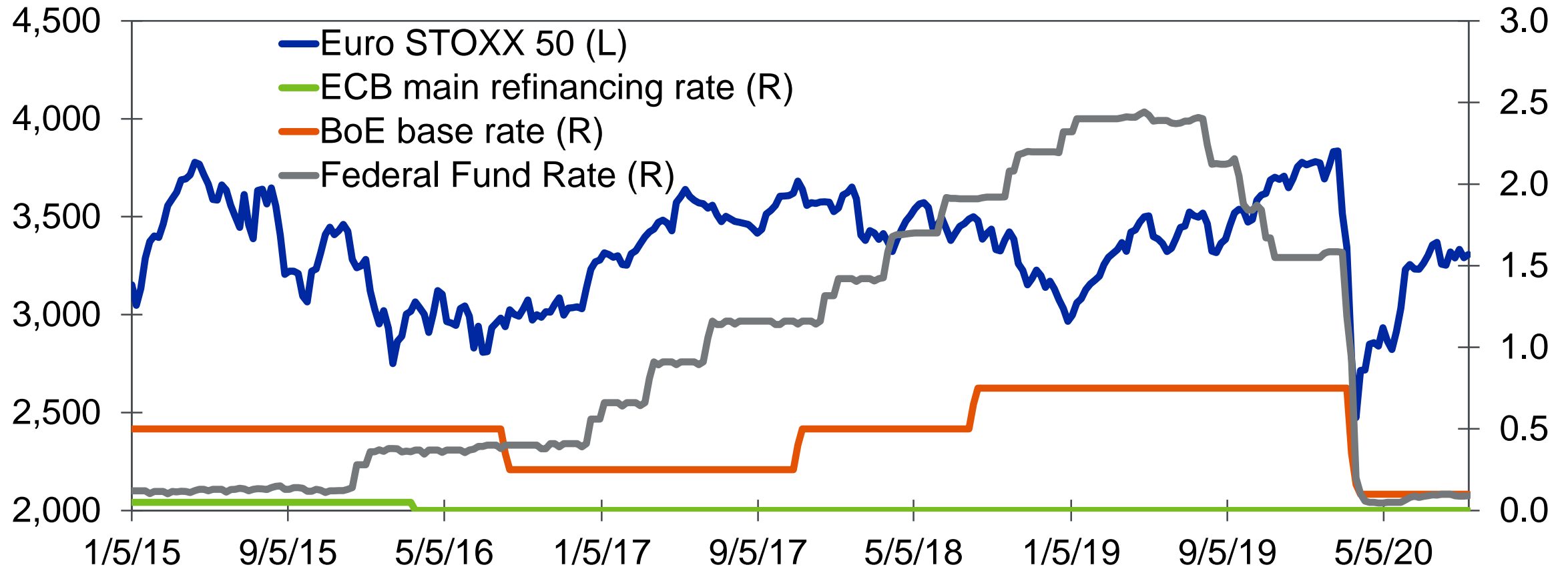
More Infections...Weaker Economy

Confirmed infections vs. change in unemployment



Sources: WHO, Government sources, Moody's Analytics

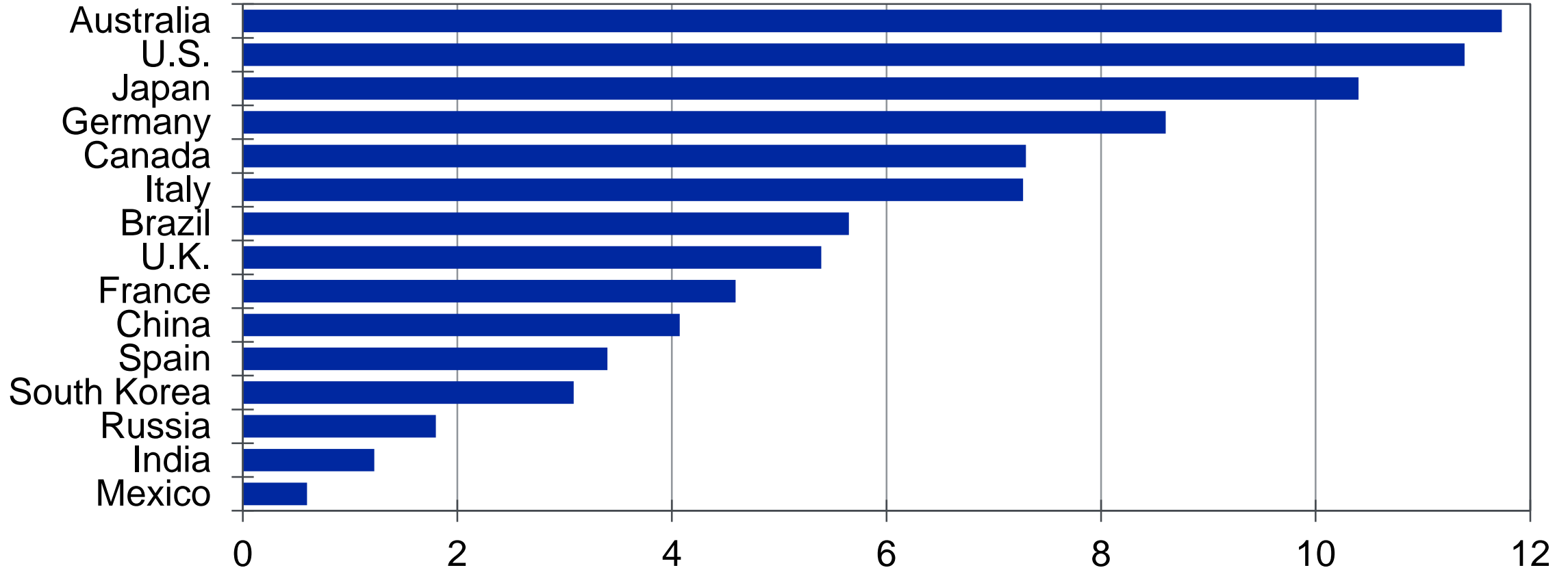
Central Banks Have Erected a Strong Firewall



Sources: Federal Reserve, SIX Financial, Moody's Analytics

Fiscal Policymakers Respond Aggressively

Fiscal support, % of 2019 GDP, Aug 2020



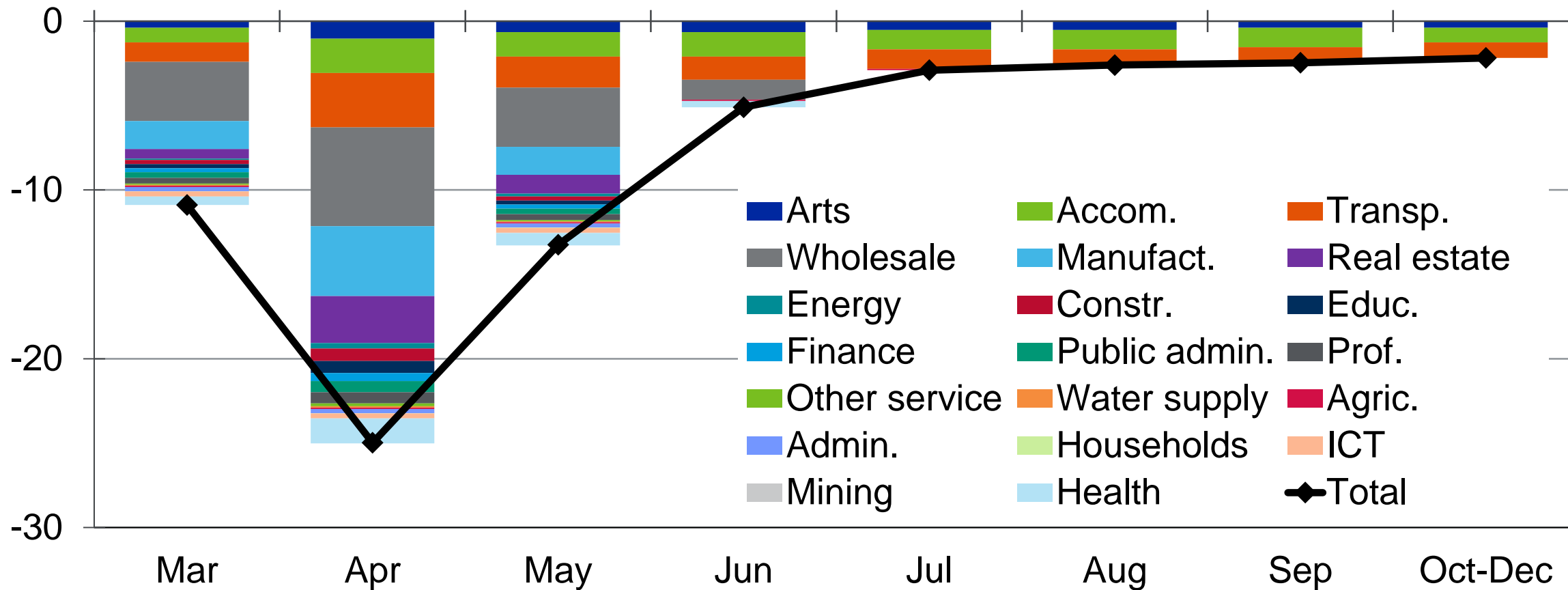
Source: Moody's Analytics

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Euro Zone and the European Union

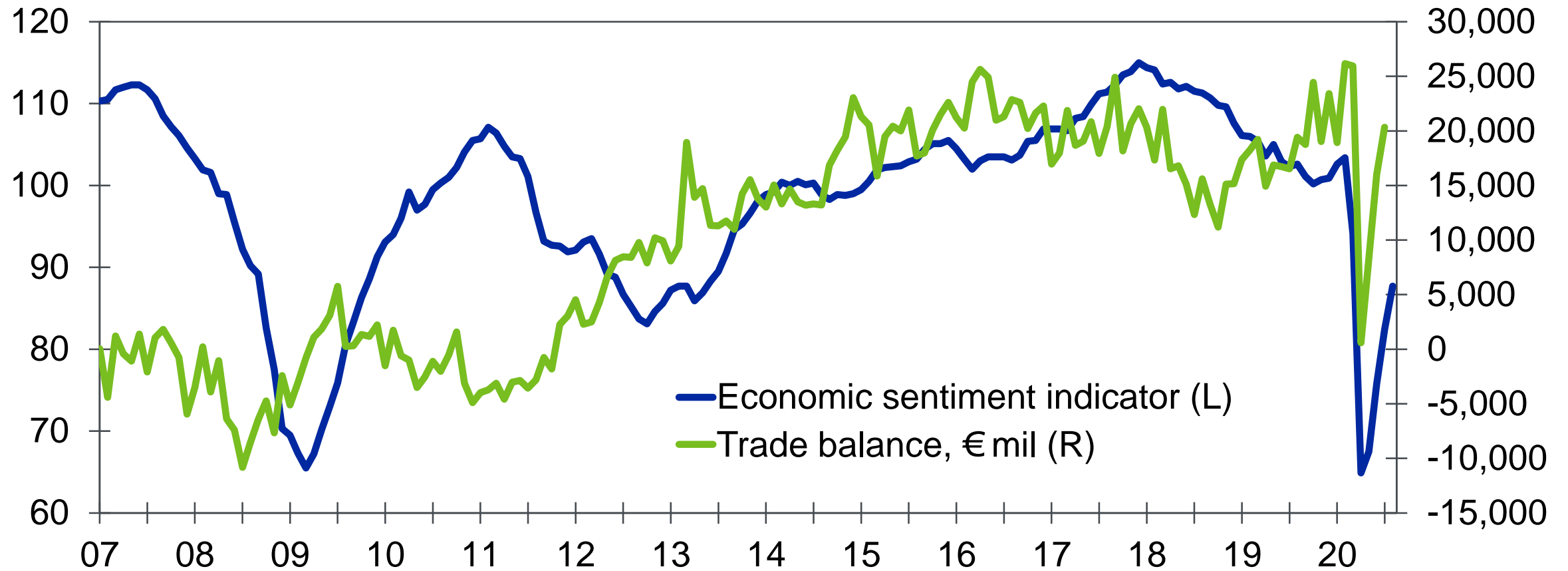
The Euro Zone GDP Declined Dramatically in Q2

Deviation from normal level of activity, ppts, by industry



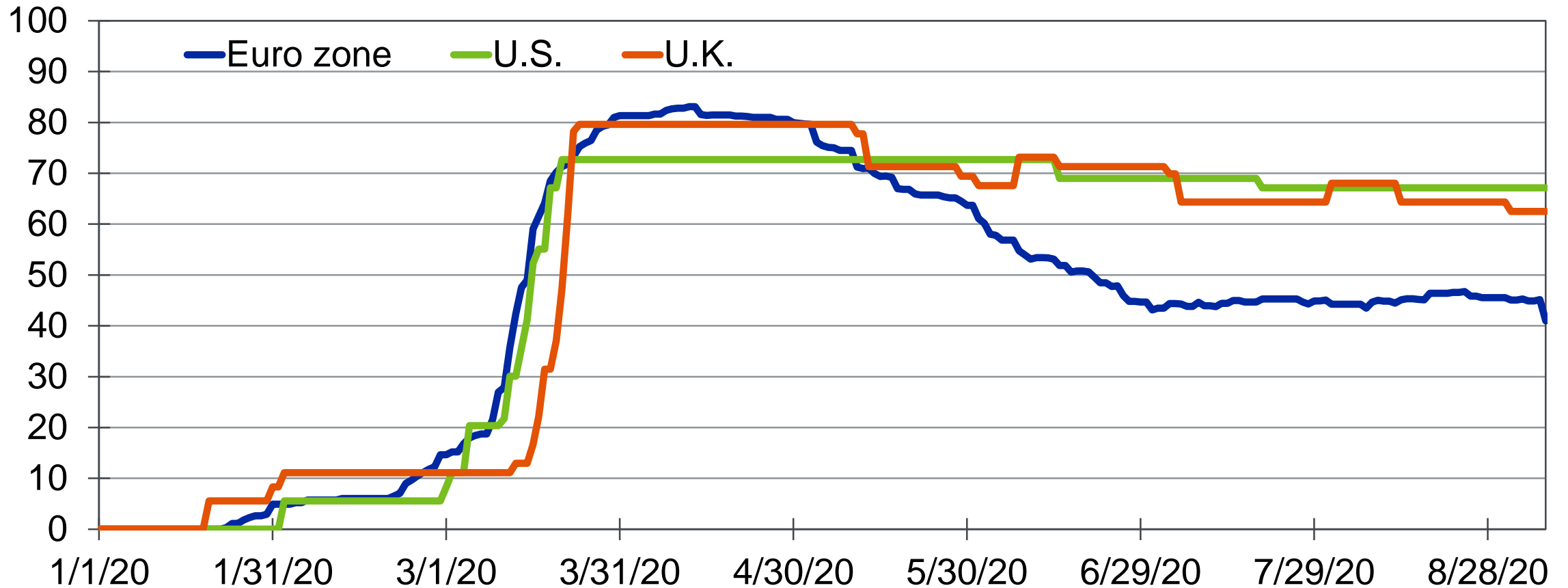
Source: Moody's Analytics

Some Recovery in the Remainder of 2020



Sources: European Commission, Eurostat, Moody's Analytics

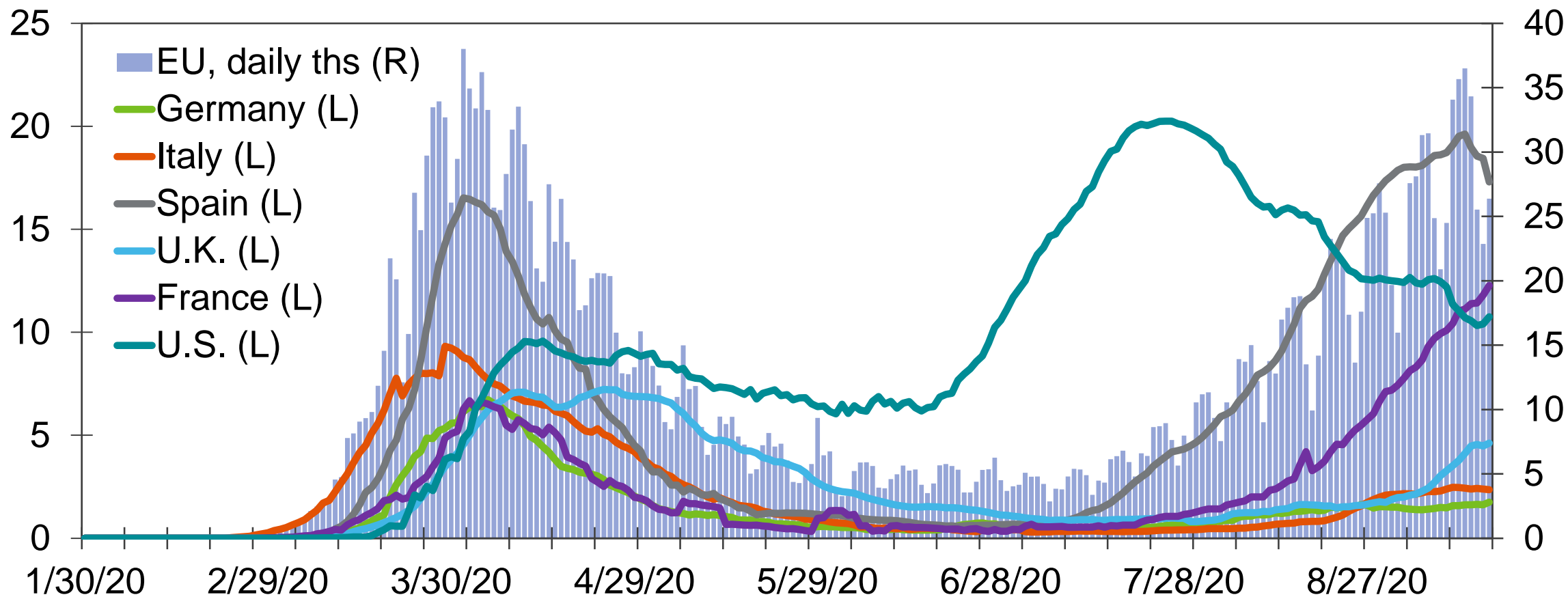
Stringency of Lockdown Measures Still Relatively High



Sources: University of Oxford, Blavatnik School of Government, Moody's Analytics

Rising Number of Infections

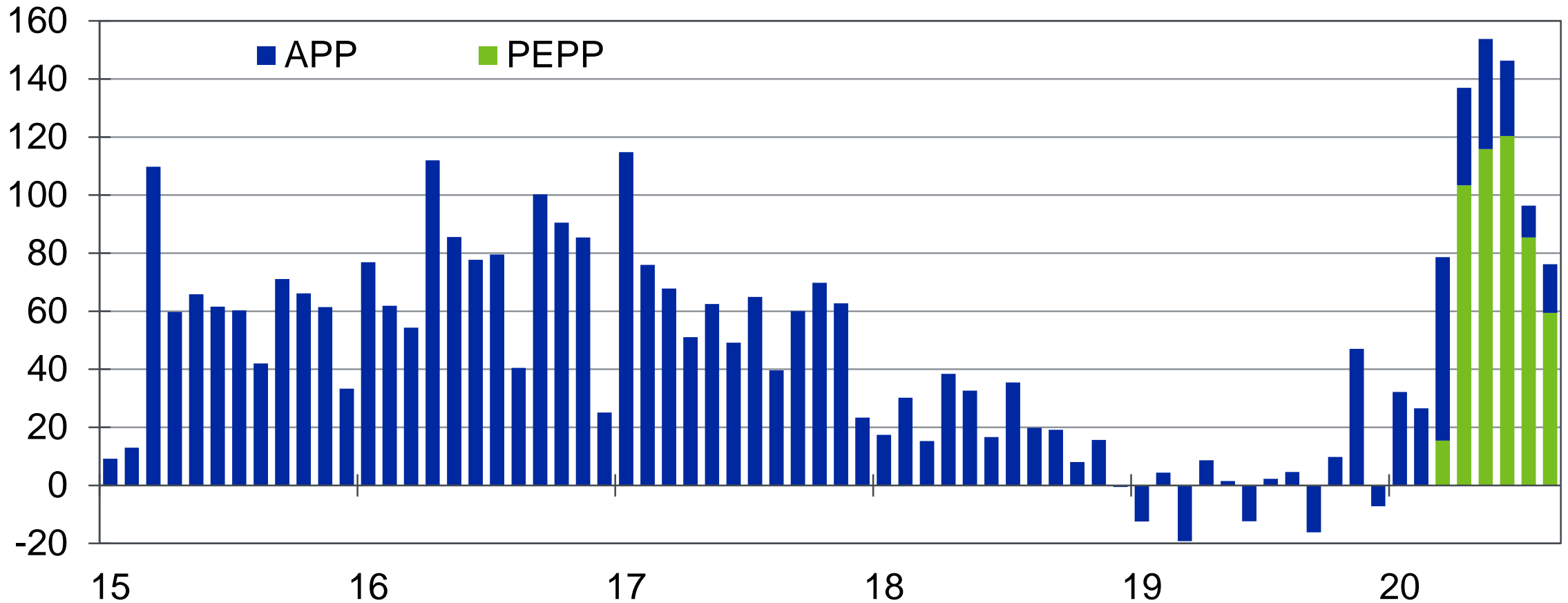
Coronavirus reported cases per 100,000 population, 7-day MA, as of Sep 16



Sources: WHO, Moody's Analytics

Asset Purchases Return With a Vengeance

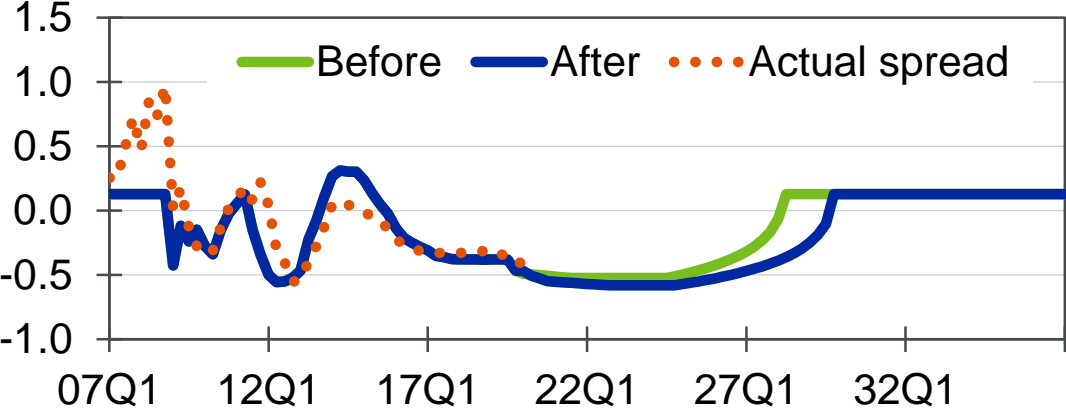
Net asset purchases by ECB, € bil



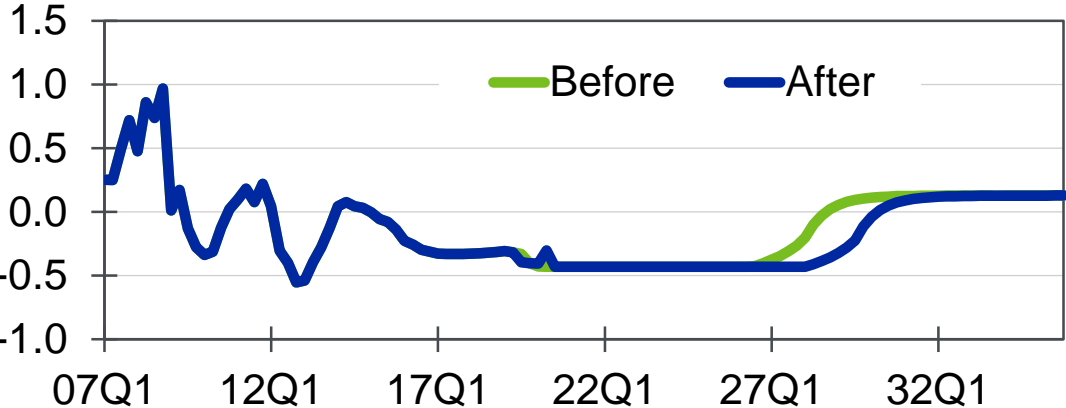
Sources: ECB, Moody's Analytics

The Pandemic Start Shifted the Euribor Forecast

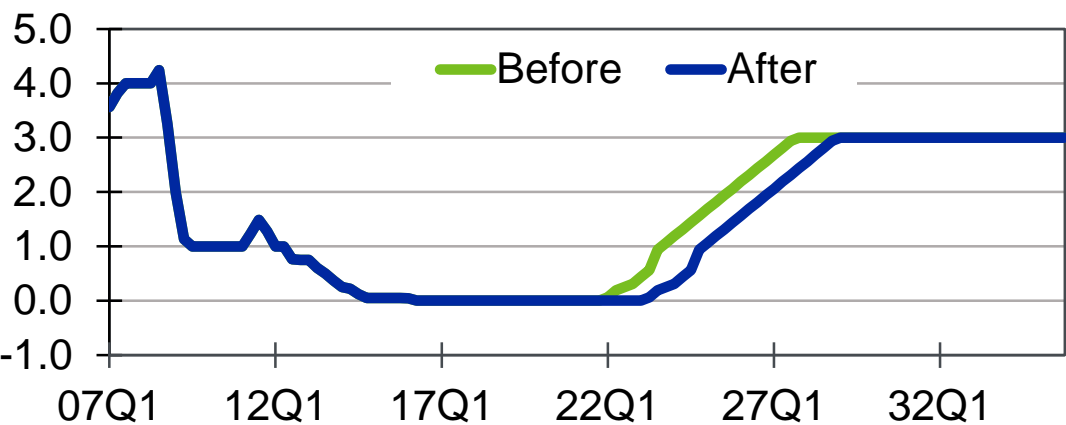
Equilibrium spread, %



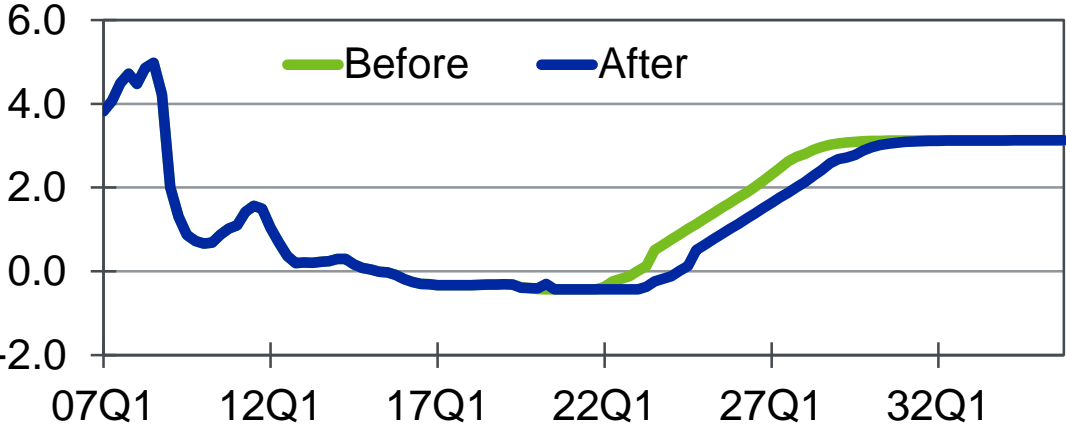
Actual spread, %



Main refinancing rate



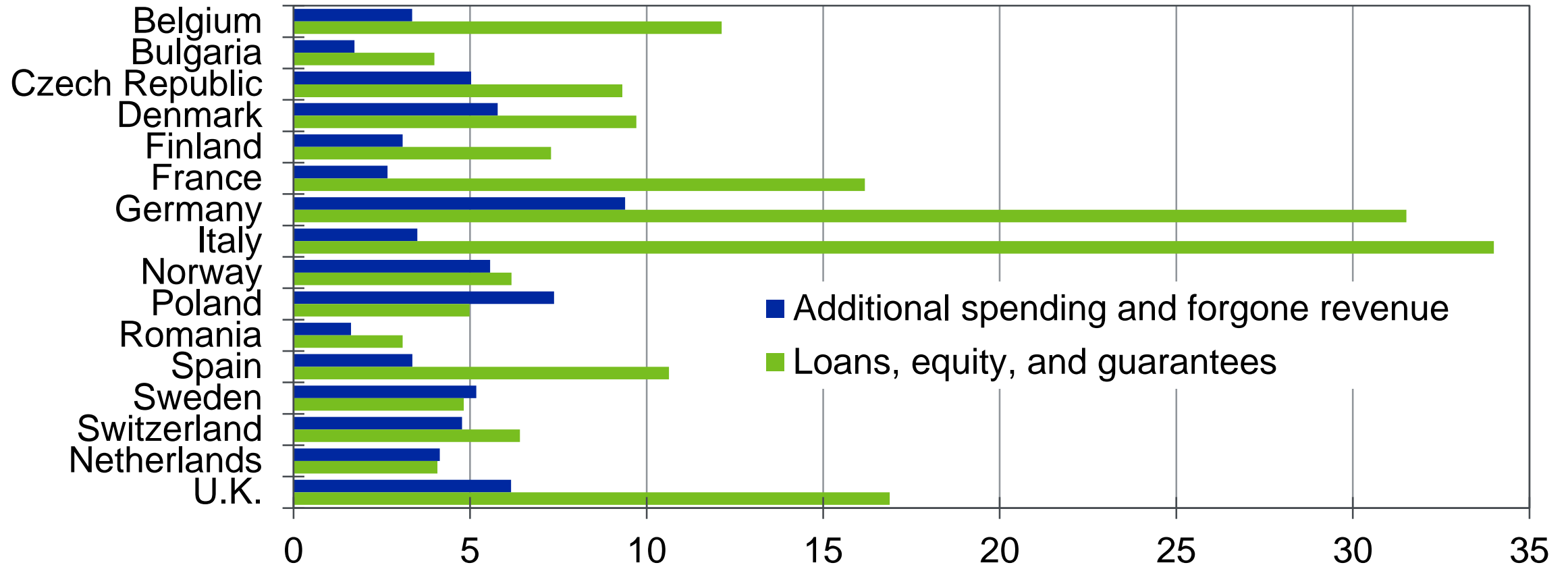
Euribor



Sources: ECB, Moody's Analytics

German Government Takes Bold Action

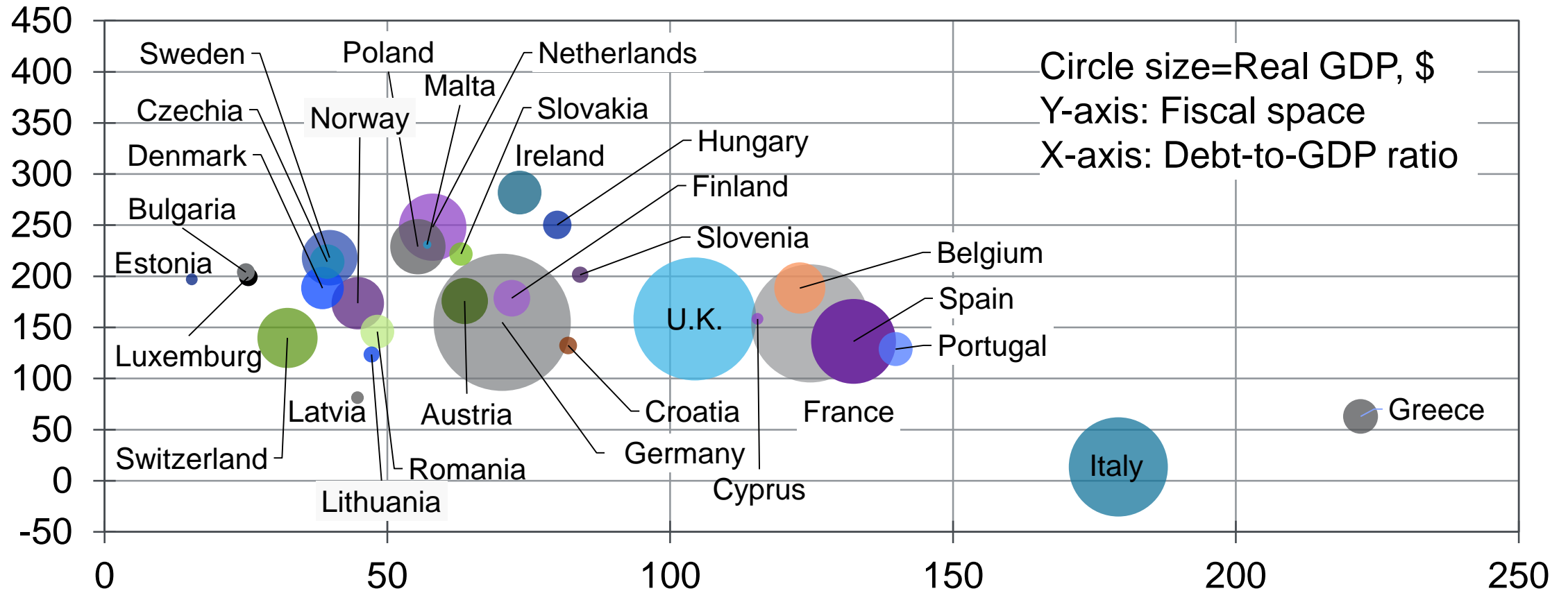
Fiscal stimulus, select countries, % of GDP



Sources: IMF, Moody's Analytics

Italy Has Very Little Fiscal Space

Sovereign borrowing capacity given current yields, proj. output growth and primary bal.



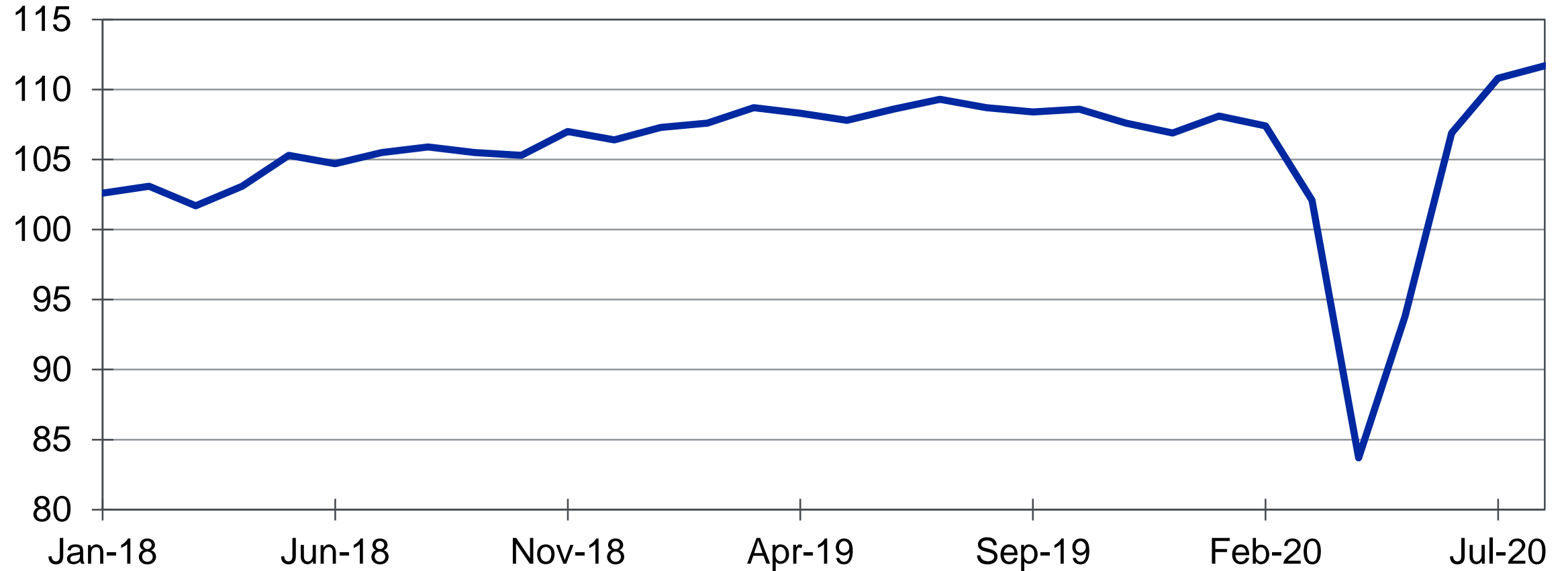
Source: Moody's Analytics

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UK & Brexit Scenarios

A V-Shaped Rebound in U.K. Retailing

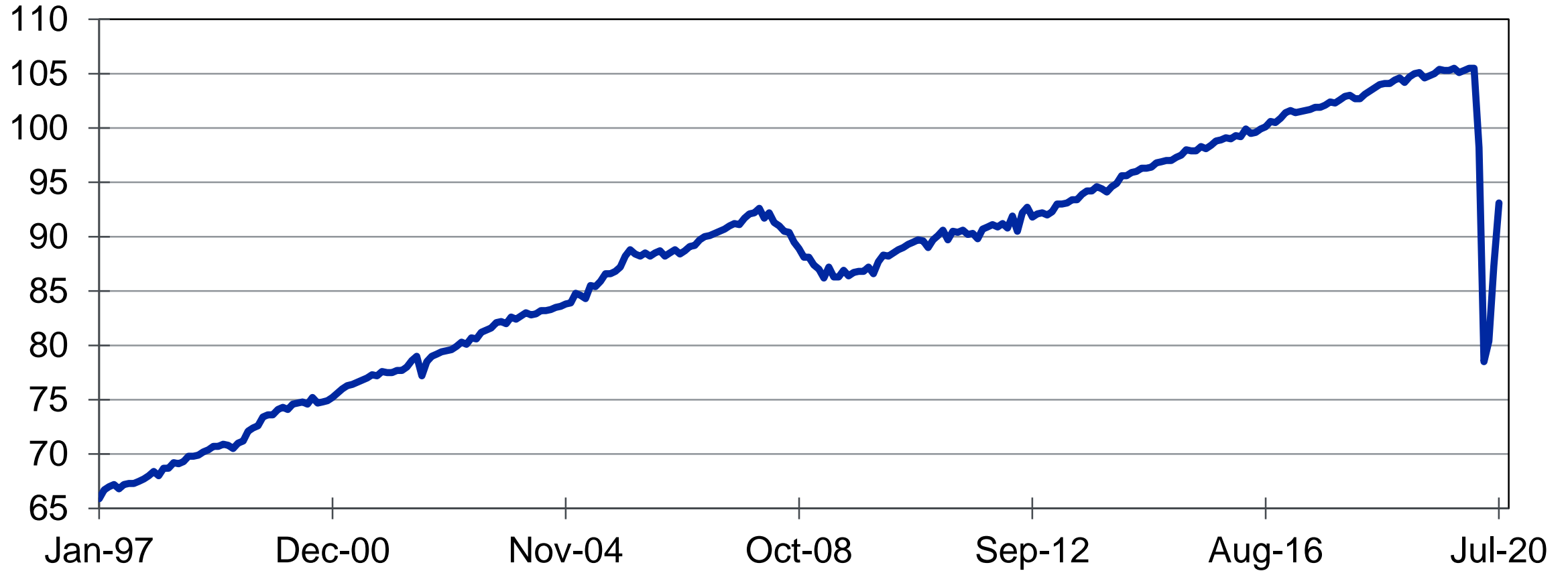
U.K. retail sales including fuel sales, volume



Sources: ONS, Moody's Analytics

This Is Still Bad

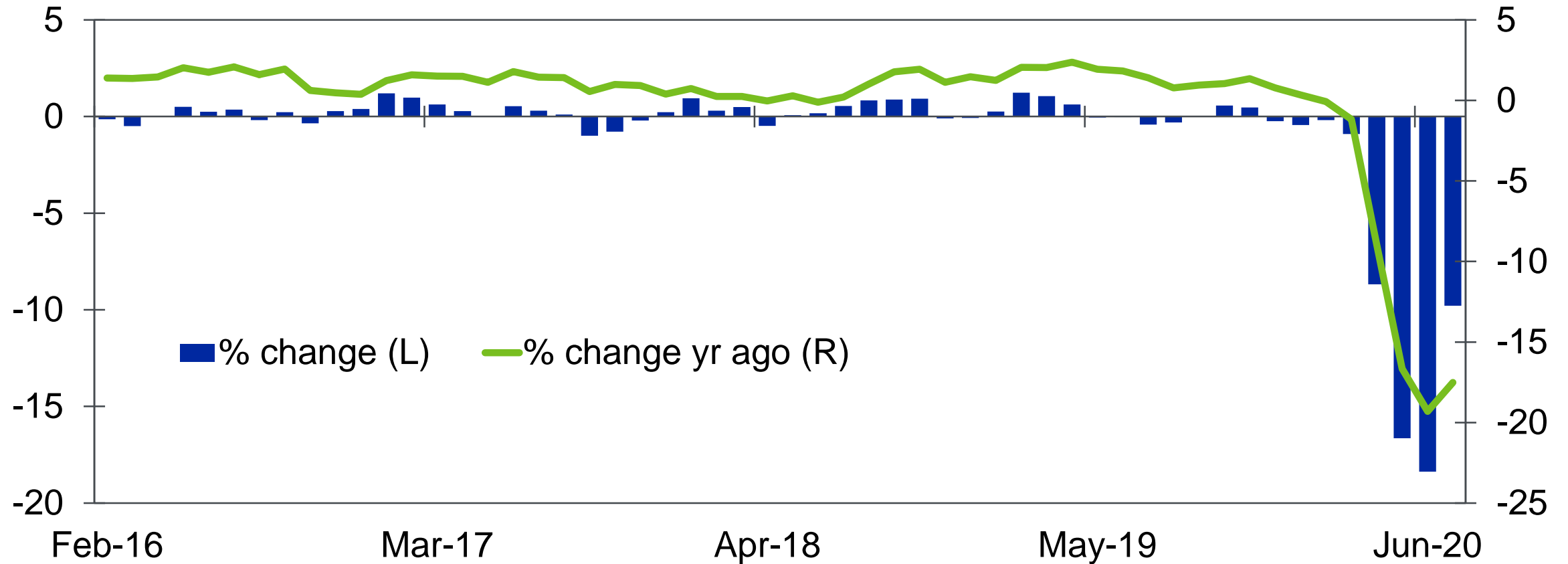
U.K. monthly GDP, 2016=100



Sources: ONS, Moody's Analytics

The British Are Still Working Way Less

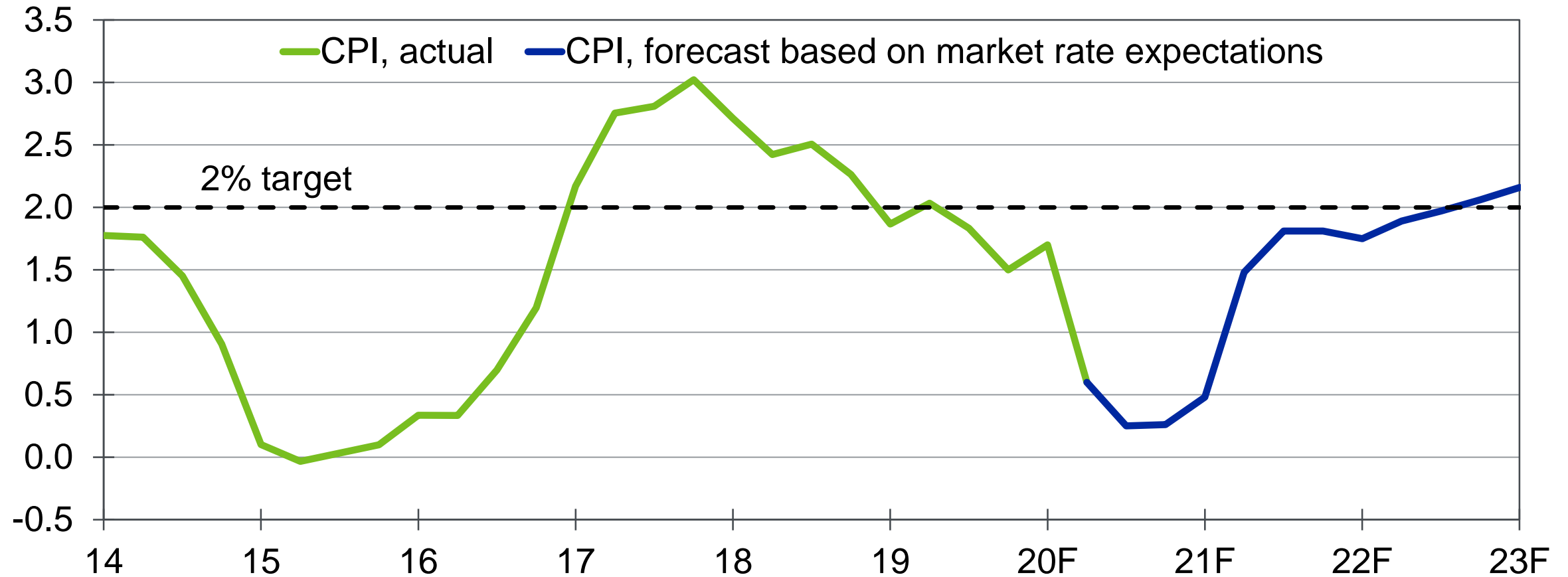
U.K. actual weekly hrs of work, 3-mo MA



Sources: ONS, Moody's Analytics

The BoE Will Need to Lower CPI Forecasts

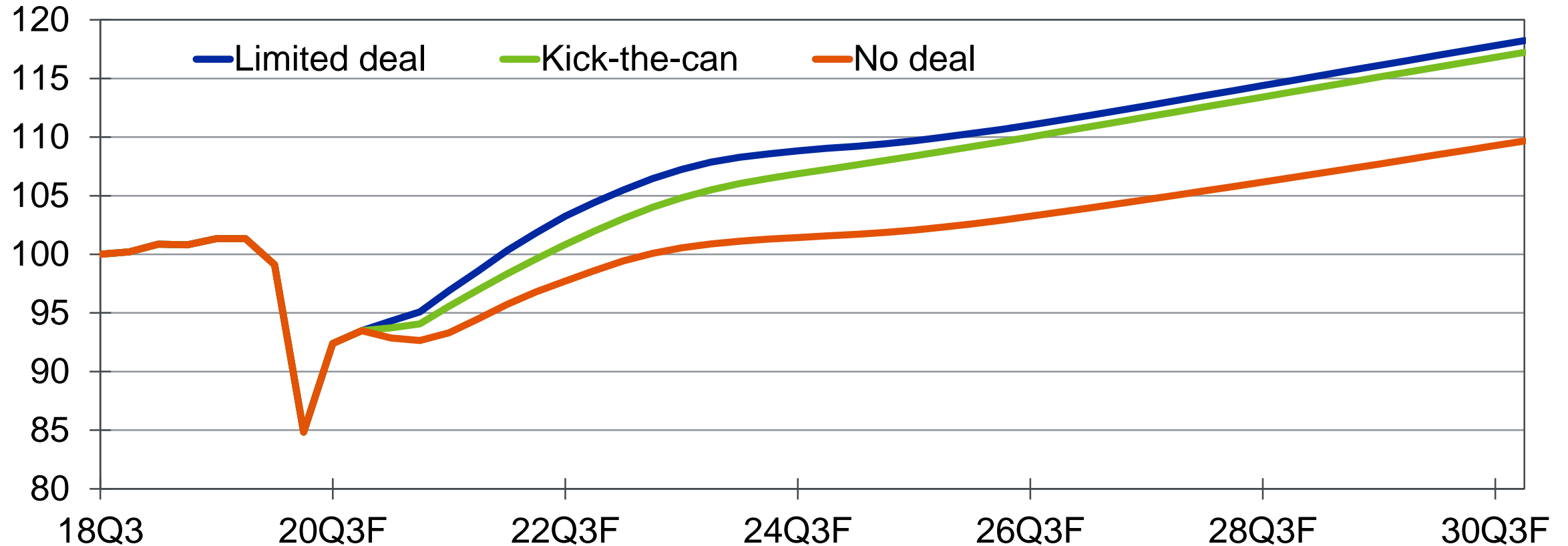
Bank of England's CPI inflation projections



Sources: Bank of England, Moody's Analytics

Limited Deal Will Support GDP

Real GDP, 2018Q3=100



Sources: ONS, Moody's Analytics

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Forecasts & Risks for Europe

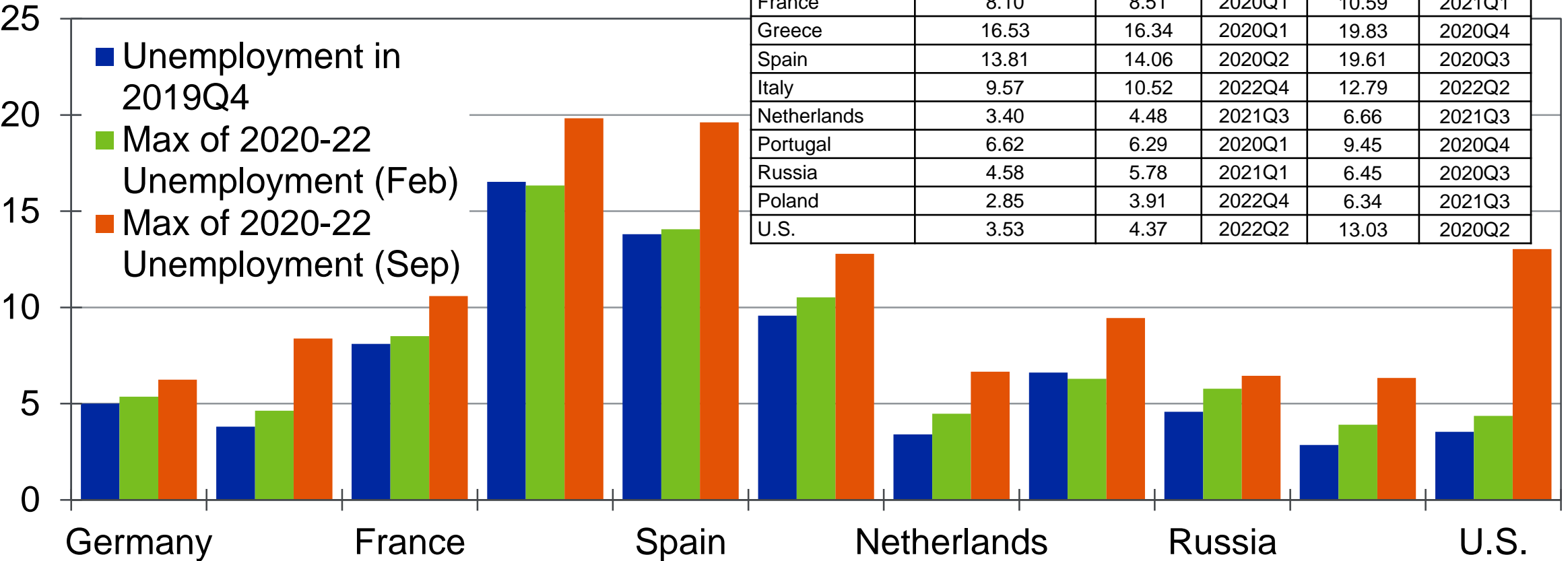
Global Economic Body Blow

Real GDP growth, % change, baseline scenario

		2020Q1	2020Q2	2020Q3	2020Q4	2019	2020	2021
U.S.	Feb	0.3	0.5	0.5	0.4	2.3	1.7	1.7
	May	-1.2	-9.4	3.8	0.2	2.3	-5.7	-5.7
	Sep	-1.3	-9.1	6.1	0.7	2.2	-4.3	3.5
Euro zone	Feb	0.4	0.4	0.4	0.4	1.2	1.3	1.3
	May	-3.8	-12.4	12.7	0.5	1.2	-7.0	-7.0
	Sep	-3.6	-12.1	9.8	1.0	1.3	-7.7	3.9
Germany	Feb	0.4	0.4	0.5	0.4	0.6	1.1	1.1
	May	-2.7	-10.5	10.8	0.3	0.6	-5.6	-5.6
	Sep	-2.0	-9.7	7.1	0.8	0.3	-5.8	2.8
U.K.	Feb	0.3	0.3	0.3	0.3	1.3	1.0	1.0
	May	-2.3	-14.2	10.9	2.2	1.4	-7.4	-7.4
	Sep	-2.2	-20.4	17.3	1.8	1.5	-9.8	5.4
Italy	Feb	0.2	0.2	0.2	0.2	0.2	0.4	0.4
	May	-4.8	-16.4	18.0	1.7	0.3	-9.0	-9.0
	Sep	-5.5	-12.8	11.6	1.8	0.3	-9.5	4.3
Spain	Feb	0.4	0.4	0.5	0.5	2.0	1.8	1.8
	May	-3.4	-15.7	18.4	0.4	2.0	-6.7	-6.7
	Sep	-5.2	-18.5	13.7	2.6	2.0	-12.0	5.8
France	Feb	0.4	0.4	0.4	0.3	1.2	1.2	1.2
	May	-5.8	-11.2	11.0	0.3	1.3	-9.0	-9.0
	Sep	-5.9	-13.8	13.0	0.3	1.5	-10.3	4.3
Sweden	Feb	0.4	0.4	0.3	0.5	1.2	1.4	1.4
	May	0.0	-8.3	6.1	0.2	1.3	-3.1	-3.1
	Sep	0.2	-8.3	3.8	0.1	1.3	-4.0	1.6
Russia	Feb	0.5	0.3	0.4	0.4	1.2	1.9	1.9
	May	0.1	-11.6	-1.9	6.8	1.4	-7.3	-7.3
	Sep	0.3	-12.7	1.7	6.3	1.4	-6.5	5.9
Global output	Feb	0.4	0.9	0.8	0.7	2.5	2.4	2.4
	May	-3.1	-6.7	5.2	1.6	2.4	-4.5	-4.5
	Sep	-2.9	-7.6	6.1	1.9	2.4	-4.6	5.0

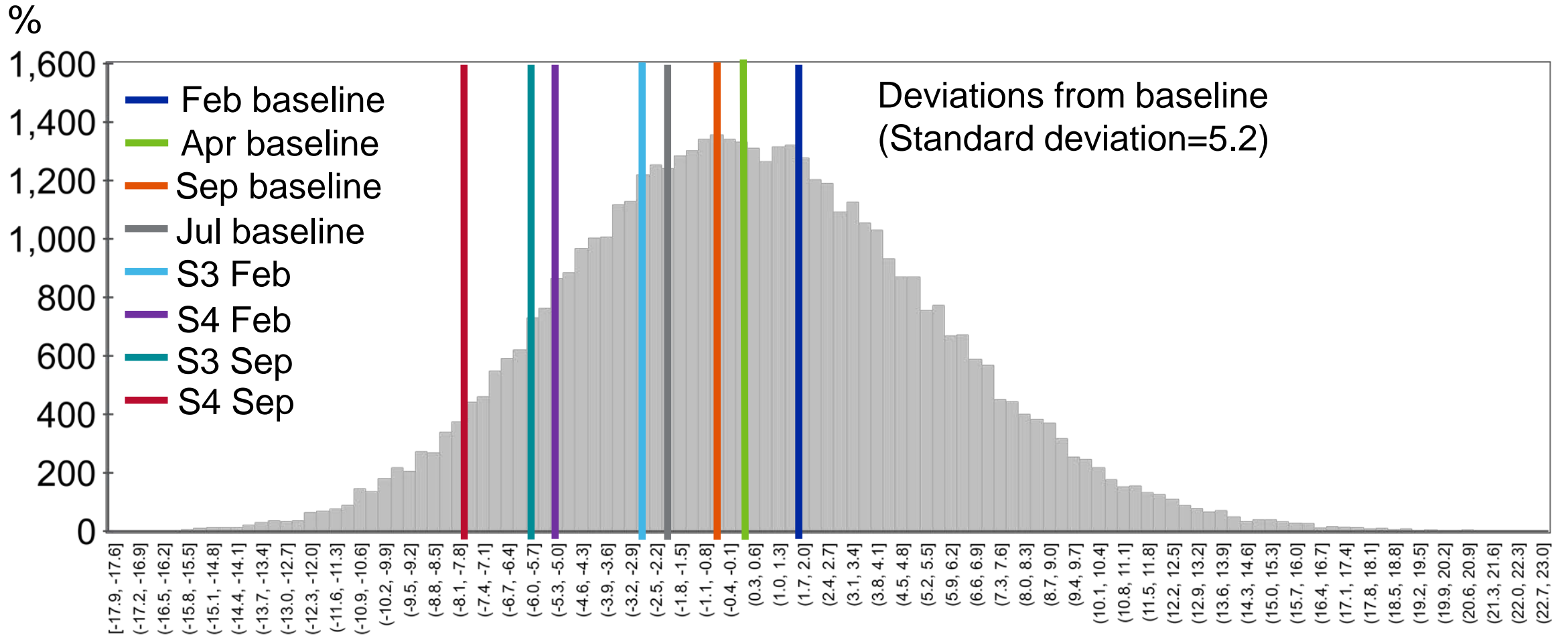
Unemployment Increases

Shift of baseline scenarios



Source: Moody's Analytics

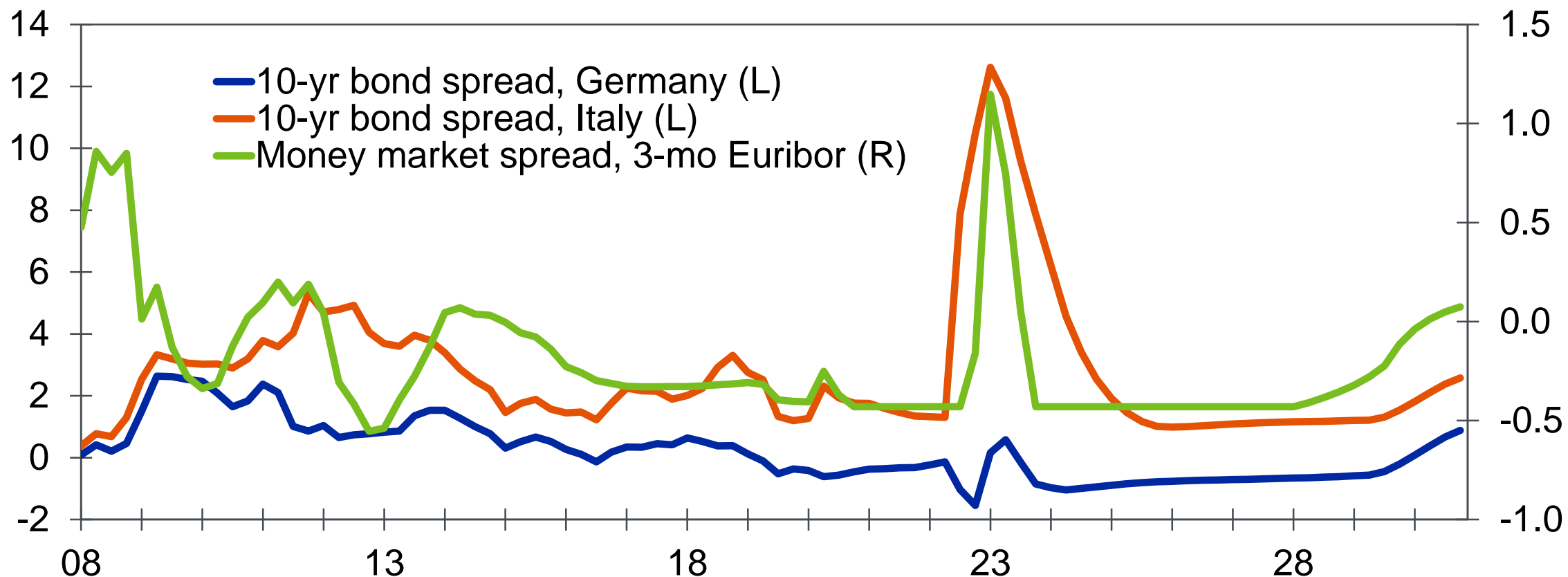
Severity, Average Deviations From Baseline



Source: Moody's Analytics

Financial Stress Can Exceed Previous Peaks in a Stress

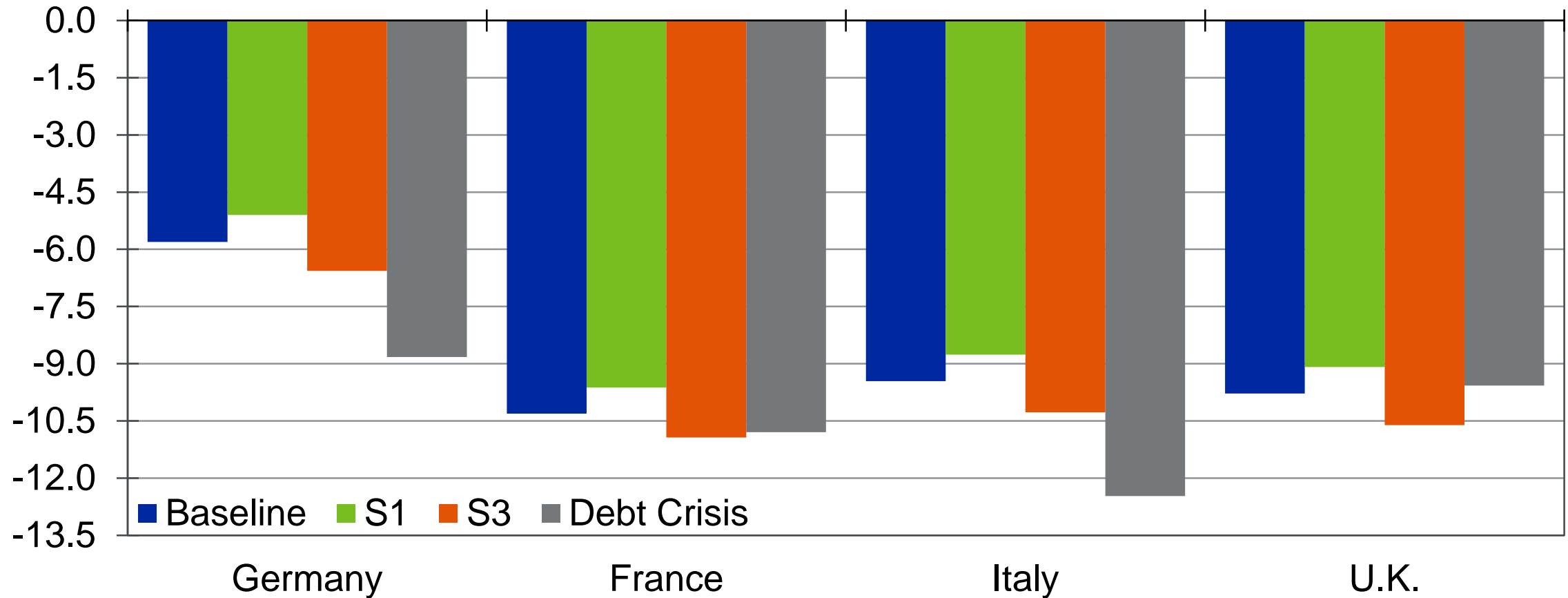
Risky rate less risk-free rate, %, Debt Crisis Scenario



Source: Moody's Analytics

GDP Growth Under Various Risks

2020 for Baseline, S1, S3; 2024 for debt crisis; % change yr ago



Sources: European Commission, Moody's Analytics

Q&A

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Policymakers respond aggressively

Country	Fiscal policy	Monetary policy
Italy	€25 bn (1.4% of GDP) emergency package and €750 bn (41% of GDP) loan guarantees	ECB: €750 bn (7% of GDP) Pandemic Emergency Asset Purchase Program; additional €120 bn (1% of GDP) for existing APP
France	€110 bn (4% of GDP) fiscal package and €300 bn (13% of GDP) loan guarantees	ECB
Spain	€8.9 bn (1% of GDP) aid package and €200 bn (16% of GDP) loan guarantees	ECB
Germany	€50 bn (2% of GDP) direct transfers to SMEs; €20 bn (1% of GDP) social spending; €550 bn (22% of GDP) loan guarantees; €200 bn (8% of GDP) Economic Stabilization Fund	ECB
U.K.	£72 billion (3% of GDP) fiscal spending and £330 billion (15% of GDP) loan guarantees	Rate cuts in March (65 bps overall); expanding UK government bond holdings by £200 (9% of GDP)
Czech Republic	€3.7 bn (2% of GDP) fiscal package and €33.3 bn (16% of GDP) loan guarantees	Rate cuts in March (125 bps overall); increased frequency of repo operations and reduced the countercyclical capital buffer rate
Russia	\$4 bn (0.2% of GDP) amount of funds allocated to help businesses and citizens	No rate change. New \$7 bn (0.5% of GDP) lending facility for SMEs and reduced interest rate on existing facility
Portugal	€1 bn (0.5% of GDP) per month financial support and €3.7 bn (1.9% of GDP) loan guarantees	ECB