

Emerging Markets Outlook

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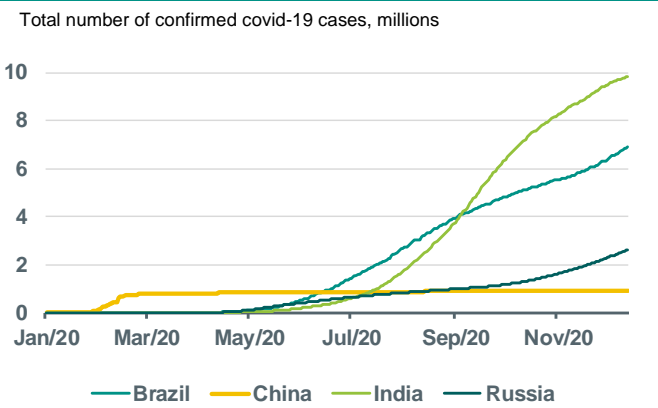
Path to recovery from covid-19 shock will remain bumpy in 2021

- ▶ **EMs set for catch-up growth in 2021, but full recovery will not take place before 2022**
- ▶ **Timeline for vaccine roll-out in EMs depends largely on availability and existing infrastructure**
- ▶ **Portfolio flows to EMs boosted by vaccine news, while current account deficits have come down**
- ▶ **Unprecedented fiscal and monetary easing raises instability risks in some countries**
- ▶ **In search of the most vulnerable EMs using our own risk heatmap**
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The road to post pandemic normalisation remains bumpy

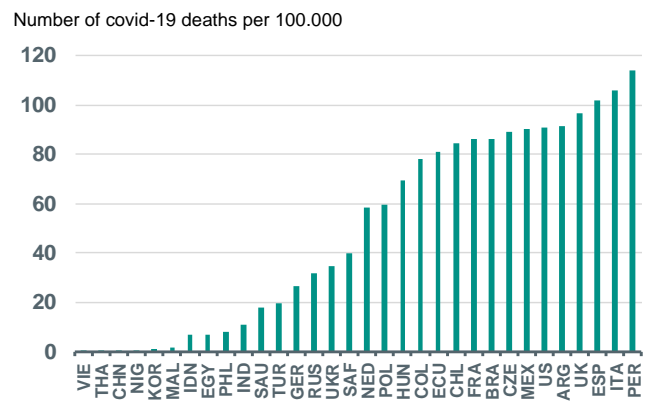
Global economic prospects have been shaped by the covid-19 pandemic, that sent the world economy into a deep recession in the first half of 2020. The path to post pandemic normalisation and recovery has started, but will remain bumpy and full of pandemic-related uncertainties, with clear differences between countries/regions reflecting different policy approaches and variations in the strength of public health systems. North East Asia (China, Taiwan, South Korea) has done well in getting the pandemic under control, while many EMs including India, Brazil and Russia are still struggling. Meanwhile, in relative terms Asia and Africa are reporting less fatalities than the Americas and Europe.

Not every country is 'in control' of the pandemic yet



Source: Bloomberg

Fatalities high in Americas and Europe, low in Asia, Africa



Source: Johns Hopkins Coronavirus Resource Center

Timeline for vaccine roll-out in EMs will depend largely on availability and infrastructure

Recent developments on the vaccine front look positive and are more or less in line with our global base scenario, in which we assume emergency vaccines to be approved by end 2020 (also see our report on vaccine developments [here](#)).

Vaccination programmes have already started in several developed and emerging economies. In general, we expect vulnerable groups and key workers to be inoculated by mid 21-Q2. We expect approval of full market access of vaccines and the start of a broader roll-out in 21-Q3, bringing herd immunity closer. The specific timeline for vaccine roll-out in EMs depends largely on availability and existing infrastructure. Countries that have secured deals with large pharmaceutical companies and have adequate cold storage infrastructure and vaccine logistics know-how could reach so-called 'herd immunity' prior to some advanced economies. Several Chinese vaccine candidates already received emergency use authorisations. China has already vaccinated many specific groups at home and works together with foreign countries to develop and test. The UAE, for instance, already introduced one of the Chinese vaccines. Russia also developed a vaccine, but that will likely be used in Russia and neighbouring countries only (Hungary has been criticised by the EU for its plan to use the Russian vaccine).

Despite renewed headwinds from pandemic, EMs set for catch-up growth in 2021

The spread of covid-19 and the instalment of lockdowns has sent the global economy into a tailspin, particularly in Q2. We sharply downgraded our 2020 growth forecasts for advanced and emerging economies. We now expect the US economy to contract by around 4% in 2020 and the eurozone economy by around 7.5% (the IMF expects an aggregate contraction of almost 6% for all advanced economies). We cut our EM average growth forecasts for 2020 from +4.1% pre-corona to -3.0% now. The sharpest cuts took place in Latin America (Peru, Mexico, Colombia) and South Asia (India, Philippines, Thailand). Only for a few Asian countries that were successful in containing the pandemic (China, Taiwan, Vietnam) we expect positive annual growth in 2020. Nevertheless, we expect negative annual growth in 2020 in all EM regions, with Latin America hit the most (-8.2%) followed by emerging Europe (-4.1%) and emerging Asia (-1.5%).

The global economy has started to recover at the end of Q2 as economies have reopened and worldwide authorities have reacted by massive monetary and fiscal stimulus. Manufacturing PMIs have bounced back and global trade has picked up again over the summer. Still, with second and third virus waves and renewed (partial) lockdowns in many places, our global base case assumes a bounce in activity in Q3 to be followed by renewed weakness in 20-Q4 and 21-Q1. That said, in annual growth terms we expect the sharp 2020 dip to be followed by above trend growth in 2021, mainly reflecting base effects. For 2021, we now forecast US growth at 3.2% and eurozone growth at 2.7%. For EMs, we expect annual growth to accelerate to almost 6% next year, with emerging Asia in the lead (around 7%) followed by emerging Europe and Latin America (around 3.5%). However, the pandemic will leave its mark: by end 2021 emerging markets will have lost over 6% of GDP compared with our pre-covid-19 base case. Many EMs (excluding countries like China or Taiwan) will not have returned to pre-corona GDP levels before 2022.

Our post-pandemic growth forecasts cut sharply

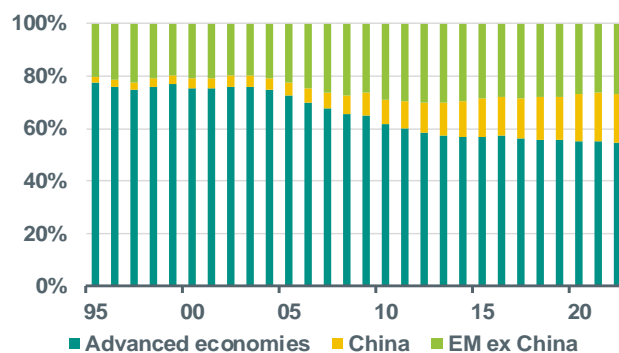
2020 growth forecasts ABN AMRO GE, January 2020 versus now (ppt)



Source: ABN AMRO Group Economics, EIU

Rising EM share in global economy mainly stems from China

Share in global GDP, nominal, %



Source: EIU

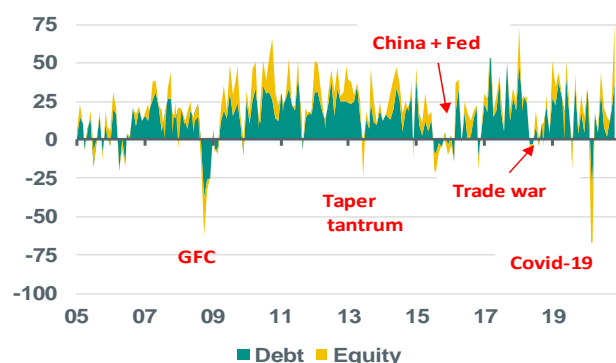
While the pandemic seems to have put growth differentials in favour of EMs, that is to a large extent due to China's quick and sharp recovery. In fact, since the end of the commodity super cycle, the share in global GDP of EMs excluding China has fallen from just over 30% in 2013 to around 26.5% in 2020. In the same period, China's share in global GDP has risen further, from 12.5% to 18%. In fact, the rise of China has been accelerated in the pandemic year 2020.

Recovery of portfolio flows to EMs boosted by positive vaccine news and US elections

In early 2020, the spread of covid-19 beyond China led to a sharp deterioration in market sentiment, that went hand in hand with a large outflow of portfolio flows from emerging markets. According to IIF data, (non-resident) portfolio flows out of EMs amounted to a record high of USD 90bn in March. That amount of outflows was higher than the amounts seen during any single month at the times of the global financial crisis in 2008-09. However, portfolio outflows from EMs lasted for four months in a row in September-December 2008, while in the current pandemic crisis there was a much quicker rebound. Portfolio (debt and equity) flows to EMs have been in positive territory from April onwards, despite a summer lull in August-September. The recovery of portfolio flows to EMs since March was initially relatively modest. However, the overall picture has improved recently on positive vaccine news and the reduction of uncertainty regarding the outcome of the US presidential elections. The IIF estimates monthly portfolio flows to EMs at a record high in November (USD 76.5 bn). It should be noted that key EMs such as China, Brazil or Russia are not very dependent on portfolio inflows, as they have relatively strong external fundamentals (China, Russia) and/or depend to a large extent on less volatile forms of capital inflows (FDI in Brazil). Meanwhile, the rebound of portfolio flows to EMs has gone hand in hand with a recovery of emerging market currencies and an easing in credit risk premia in the course of 2020, following the covid-19 shock in March.

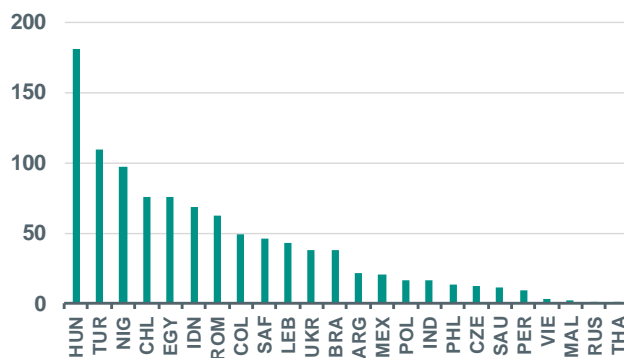
Portfolio flows to EMs have recovered from covid-19 shock

USD billion



Gross financing requirements in relation to FX reserves

Current account balance + MLT debt repayments, in % of FX reserves, 2021



Import compression has driven down current account deficits

Regarding EM external finances, the pandemic-driven recession has generally supported EM trade and current account balances. That mainly stems from import compression, although EM exports – after an initial covid-19 related collapse – have recovered in the course of 2020 as well, on the back of a rebound in global trade and policy stimulus in advanced economies. Current account deficits in GDP terms came down in 2020 in many EMs compared to 2019, with Turkey, Czech Republic, Hungary and Romania as main exceptions. In India, Argentina and Mexico, the current account balance has shifted from deficit into surplus in 2020.

Looking broader at gross external financing requirements (adding up current account balances with amortisations on medium-term debt), these look to be generally manageable for most EMs so far, also reflecting the strength of FX reserve buffers. When measured in relation to the size of FX reserves, Hungary and Turkey will have the largest

financing requirements in 2021 year, followed by Nigeria, Chile, Egypt and Indonesia. That said, covid-19 related headwinds have added to payment difficulties in quite a number of vulnerable countries. That is also illustrated by a rising number of sovereign defaults/debt servicing problems in 2020 (e.g. Argentina, Ecuador, Lebanon, Suriname and Venezuela).

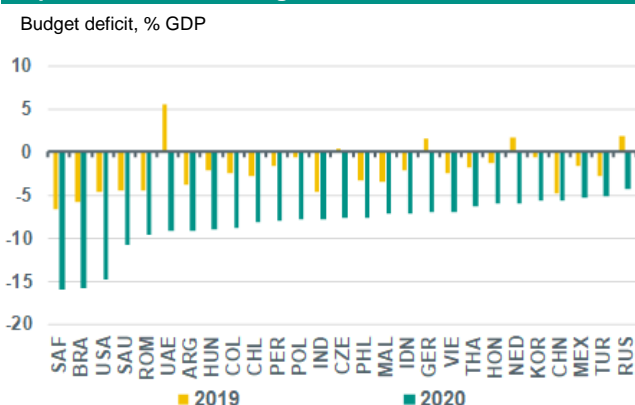
Box – Optimistic outlook for EM FX versus US dollar (Georgette Boele)

We are optimistic about the prospects for emerging market currencies in 2021 in relation to the US dollar. First, EM currencies tend to rally when global growth and trade are improving and when investor sentiment is constructive. We expect such an environment in 2021. Second, we expect the US dollar to weaken across the board, as we expect the Fed will keep policy rates low for the next five years and US real yields will remain negative or even become more negative. Third, partly supported by the rolling out of vaccines, we expect catch-up growth in emerging markets in 2021, although in many cases a full recovery from the covid-19 shock will not take place before 2022. Fourth, valuation of EM FX is generally attractive, particularly for Brazilian real, Turkish lira, Russian ruble, Mexican peso, Chilean peso, Colombian peso and South African rand. All in all, we think that EM FX will outperform the US dollar in 2021, although country specific challenges could still result in EM FX volatility in some cases.

Like DMs, EMs have implemented unprecedented fiscal and monetary easing

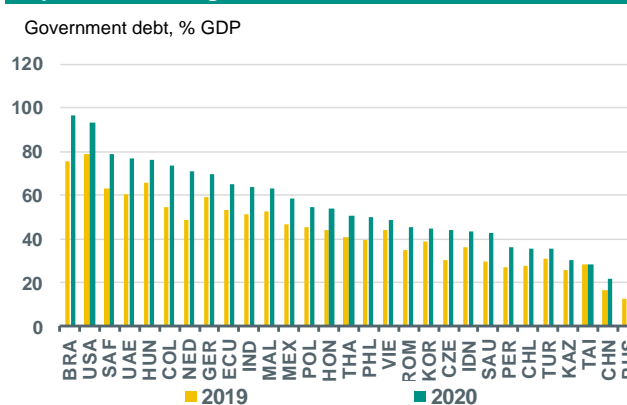
Fiscal and monetary stimulus has been very much on the front line of the economic policy response to cushion the blow from the pandemic. In the fiscal area, the covid-19 pandemic clearly marked a shift from conservatism to activism, and the fiscal expansion has been vast in many countries. EMs were no exception. Their fiscal response has been large by historical standards, albeit still somewhat smaller than that of advanced economies (EMs typically have comparatively less fiscal space and access to cheap capital). Fiscal deficits in South Africa and Brazil are estimated to have widened by around 10% of GDP. The UAE even shows a reversal of a budget *surplus* of 5% of GDP in 2019, to a *deficit* of 9% of GDP in 2020. By contrast, countries such as Turkey and India showed a relatively moderate deterioration of around 2-3% of GDP. As a result of these deficits, the downturn in the economy, and – in some cases – the depreciation of the local currency, public debt increased on average by about 10 ppt. Some, such as Czech Republic and Poland, have seen their debt increase from relatively manageable levels, while Brazil, South Africa, and UAE saw an increase from already high levels.

Unprecedented fiscal easing



Source: EIU, ABN AMRO Group Economics

Rapid increase in government debt as a result



Source: EIU, ABN AMRO Group Economics

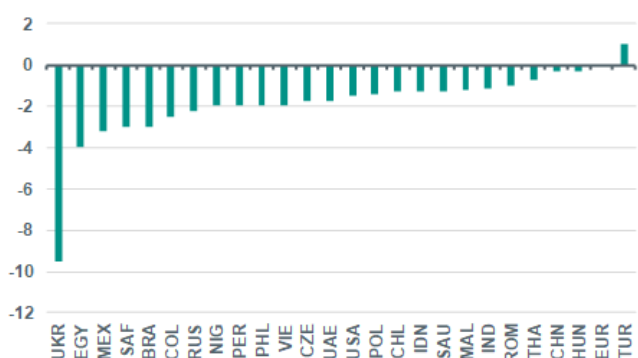
Central banks have effectively accommodated the fiscal expansion, as they cut interest rates aggressively to buffer the economic shock. It was possible for EMs to participate in this as DMs' monetary accommodation led to extremely benign global liquidity conditions. As a result, policy interest rates in EMs fell across the board, from small decreases of around 30 bp in countries such as Hungary and China, to reductions of more than 250bp in Ukraine, Egypt, Mexico, South Africa and Brazil. The only exception is Turkey. The Turkish lira was under such sharp downward pressure that the authorities

were obliged to increase interest rates in September and November. While the real interest rate in Turkey became positive as a result, in many other EMs the real interest rate is substantially negative. Notable examples include Poland, Czech Republic, Chile, India, Hungary and Brazil.

Several emerging markets even embarked on forms of quantitative easing. In this context, the pandemic marked a turning point for “unconventional monetary policies” in EMs. In countries such as Indonesia, Poland and Thailand, central banks have bought substantial amounts of government bonds, lowering bond yields and easing monetary conditions. While policy interest rates were already close to zero in the case of Poland and Thailand, in the case of Indonesia, this has apparently been the preferred option, instead of the more conventional response of cutting policy interest rates (which stands at 3.75% currently) first.

Significant monetary easing took place as well

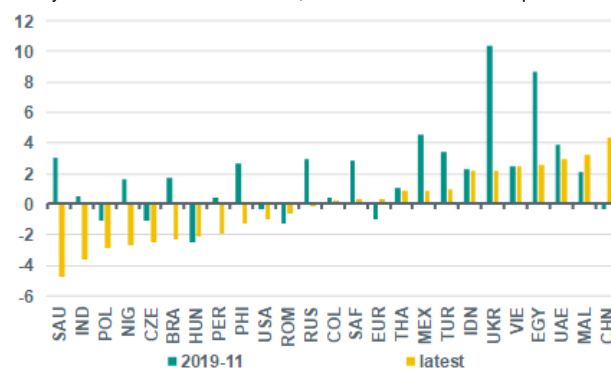
Policy interest rate, difference between current rate and rate at end Jan, ppt



Source: IHS Markit, ABN AMRO Group Economics

... leading to negative real interest rates in many EMs

Policy interest rates minus inflation; US and eurozone for comparison



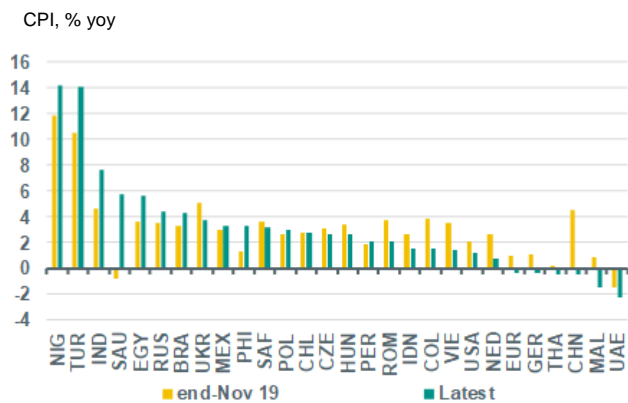
Source: IHS Markit, ABN AMRO Group Economics

These policies raise instability risks in some countries

These accommodative policies, while helping to cushion the blow to the economy, can increase medium-term risks. An increasing debt burden can make repayments more difficult. Very loose monetary policies raise inflation risk in the medium term. Most advanced economies have seen their inflation fall from a very low level despite very loose monetary policies. Emerging markets show a more mixed picture, with countries such as Turkey, India, Brazil and Mexico showing an increase in inflation and a comparatively high level of inflation. Poland and Philippines also show an increase in inflation, albeit from a lower level. Besides the accommodative policy stance, also contributing to these high levels of inflation are depreciating local currencies (leading to increasing import prices) and high food price inflation. By contrast, inflation remains very low or negative in many other EMs. CPI inflation in China turned negative in November (-0.5% yoy), which was mainly driven by a sharp turn in the pork price cycle.

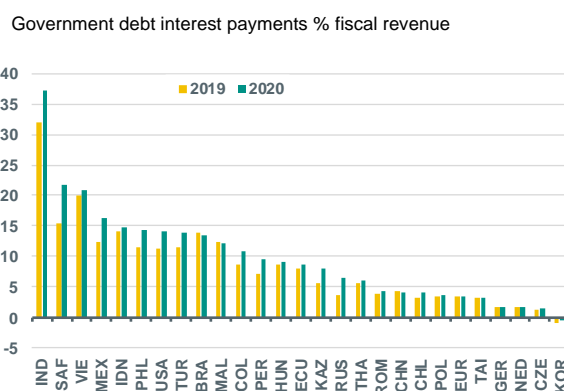
While almost all countries showed a sizeable increase in government debt burden in 2020, questions about debt sustainability may matter more for some countries than others. The global low interest rate environment helped to compress long-term rates and to lower the cost of issuing additional debt in most EMs. However, in some cases debt service is still a significant burden. When looking at (just) interest payments on government debt, India and South Africa stand out, while Mexico, Philippines and Turkey also show a significant increase, but from more manageable levels. Emerging markets that are already vulnerable in terms of inflation and debt could see increased risk as a result of the unprecedented stimulus. From the previous analysis, this could be the case in Brazil, South Africa and India, and also Philippines, Mexico and Turkey to a lesser extent. EMs with a weak banking system are also expected to see increased risks in 2021, as insolvencies and an increase in non-performing loans (second-stage effects of the crisis) will hit banks' financial metrics.

Inflation in some EMs increasing despite the downturn



Source: IHS Markit, Bloomberg, ABN AMRO Group Economics

... and debt service substantial for some



Source: EIU, ABN AMRO Group Economics

In search of the most vulnerable EMs using our own risk heatmap

With our 'risk heatmap' we aim to measure to which extent countries are vulnerable for negative global macroeconomic developments, whatever their cause is. With this heatmap we categorise countries into four categories. The 'very highly vulnerable' countries (marked red in the table below) are the most fragile to a deterioration of the global environment, both in terms of creditworthiness and growth. For 'highly vulnerable' countries (amber), adverse global conditions will impact the currency and growth prospects, but with no significant rise in the risk of sovereign defaults. 'Moderately vulnerable' countries (yellow) may be impacted by overall negative sentiment towards EMs, but this should be short-lived, while their future growth prospects remain favourable. 'Low risk' countries (green) are deemed the most resilient with respect to negative shocks. Here we focus on the bigger EMs (as shown in the table). Many poor heavily indebted (but smaller) countries rely heavily on multilateral and bilateral support, including debt forgiveness, and would definitely classify as highly vulnerable, but are out of scope in this exercise.

EMs most vulnerable to the impact of covid-19 on their access to external financing are those that had the weakest preconditions in terms of fiscal and external (including corporate) debt fundamentals when the pandemic struck. Still, while the pandemic hit EMs badly and in many countries had a devastating impact on the social-economic situation, some of the risk factors showed an improvement in 2020. As stated earlier in this publication, examples include current account balances and inflation, while the 'lower for longer' global interest rate climate makes debt sustainability less of an issue for many EMs, at least on the short term.

For 2021, as growth will pick up, we expect some deterioration of the current account deficits, but in most of the countries covered the deficit is expected to remain modest. Main exceptions are Colombia, Egypt and Saudi Arabia with an expected current account deficit above 3% of GDP. Thanks to the generally modest deficits, most countries also see a relatively modest deterioration in foreign debt ratios. A total foreign debt to export revenue (goods, income and services) ratio higher than 2 has long been regarded as a level where the likelihood of foreign debt-service problems increases. The number of countries in our table with ratios above 2 rose from six in 2019 to eight a year ago, and remains eight now. Government debt levels did surge as expected and will rise further in 2021, but thanks to the low interest rate environment, debt interest payments in many countries barely changed, and in some cases even fell. As long as interest rates stay low, many countries can bear those higher debt levels.

Countries with a debt to export ratio of 2 or higher all classify as very highly vulnerable (Argentina, Lebanon) or highly vulnerable (Brazil, Chile, Colombia, Ecuador, Egypt, Indonesia). Some countries with debt to export ratios below 2, but with high and rising levels of foreign debt and government debt (above 60% of GDP) and/or relatively high inflation levels

(above 10%), amongst others, we classify as high risk as well (South Africa, Turkey and Ukraine). If, for whatever reason, risk aversion flares up again, these are the countries that in our view will suffer most from renewed episodes of capital outflows and currency weakness, which could harm their economic base further.

Last time we updated this table was in June 2020. Compared to June we continue to classify Argentina and Lebanon as very highly vulnerable (red), while Ecuador moved to high (amber) thanks to a rather successful debt rescheduling. The biggest change is in the moderate risk category (yellow). Malaysia, Philippines and Saudi Arabia changed from low to moderate, while Russia moved from moderate to low risk.

Key variables EM's (2021)												
2021 figures	Current account*	Foreign Debt/ exports	Debt service ratio (paid)	Fin. Req*	St Liabilities/ mths exports	import cover	Fiscal balance*	Gov. debt*	Inflation	Household debt*	NFS Grp. debt*	NFS Grp. debt (FX)*
Argentina	2,0	3,6	17,9	3,5	2,9	6,9	-6,2	116,0	46,4	5,6	15,7	9,5
Lebanon	2,0	3,8	57,5	31,3	8,2	18,2	-10,3	131,3	93,6			
Brazil	-0,7	2,0	45,8	16,6	9,7	14,1	-7,5	98,5	3,6	33,8	48,4	20,4
Chile	-1,9	2,4	32,6	19,8	6,1	5,1	-8,3	38,5	3,1	50,0	221,6	40,8
Colombia	-4,6	2,6	32,7	13,8	5,3	10,5	-5,4	72,9	2,9	31,2	38,9	12,3
Ecuador	1,4	2,4	21,2	5,4	3,3	1,4	-3,1	69,0	-0,2	17,0	27,2	
Egypt	-3,3	2,1	23,4	8,1	3,3	5,0	-10,1	121,9	6,0			
Indonesia	-2,4	2,2	32,3	12,7	6,7	6,5	-6,1	46,0	3,0	17,2	23,9	9,4
South Africa	-2,7	1,6	17,3	15,4	4,3	5,0	-9,0	84,9	4,0	36,7	43,8	20,0
Turkey	-1,3	1,9	32,2	26,7	8,1	2,4	-4,9	39,3	11,0	18,0	77,5	35,2
Ukraine	-0,1	1,6	16,8	10,4	2,3	4,0	-6,3	72,6	5,6			
China	1,6	0,9	8,3	4,3	3,9	14,3	-5,0	25,0	2,0	59,8	166,3	6,5
Hungary	-1,2	1,3	42,6	44,3	5,9	2,5	-4,9	75,2	2,9	20,4	72,3	34,4
India	-0,5	0,9	9,9	6,3	3,1	10,1	-6,1	64,6	4,5	14,1	50,6	7,5
Malaysia	4,6	0,9	5,7	8,8	2,4	5,5	-6,1	65,2	2,0	77,1	77,9	13,8
Mexico	0,9	1,0	11,4	7,1	2,2	4,5	-3,5	57,5	3,8	16,9	30,4	23,6
Nigeria	-2,1	1,0	8,1	5,4	2,3	4,8	-3,1	21,9	16,0	15,4	7,8	
Peru	-1,1	1,4	8,1	13,1	5,4	15,7	-5,4	41,1	2,2	16,0	48,1	
Philippines	-0,9	0,7	8,6	5,8	1,8	8,6	-6,7	52,4	3,2	17,2	33,1	
Saudi Arabia	-3,3	1,4	14,0	12,0	3,8	21,6	-7,7	48,0	2,5	13,3	53,9	10,2
Thailand	4,8	0,6	10,8	4,2	2,0	11,1	-5,5	54,8	1,0	76,2	53,8	8,6
United Arab Emirates	3,2	0,8	8,0	17,9	2,8	3,4	-7,8	76,1	2,5	24,5	76,6	
Czech Rep.	-0,2	0,9	9,2	11,0	1,5	8,2	-4,9	46,1	2,1	33,4	59,3	28,7
Korea Rep. (South)	3,9	0,6	8,0	5,2	2,8	7,9	-5,5	48,6	1,0			
Poland	1,9	0,9	23,7	14,9	3,7	4,1	-3,3	55,2	2,4	35,0	44,8	14,5
Russian Federation	2,7	0,9	10,8	3,1	2,1	11,8	-2,2	22,4	3,5	22,5	90,6	22,8
Vietnam	2,0	0,4	5,2	5,8	1,1	4,1	-4,7	49,6	2,1	20,2	123,6	

*) as % GDP
 source: BU, IIF, Group Economics

Emerging Asia: China is leading the region out of the covid-19 abyss

Due to the covid-19 pandemic, annual growth in emerging Asia will be negative in 2020 (-1.5%), a rare phenomenon.

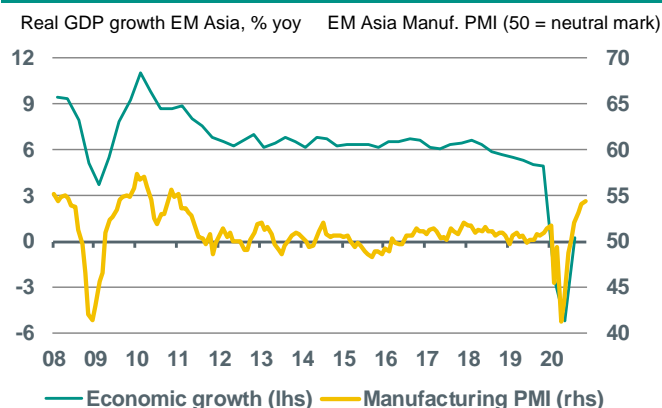
That said, there is strong divergence with regard to the handling of the pandemic and the severity of economic pain:

- In North Asia (China, Taiwan, South Korea) and Vietnam, the authorities have gained control over the virus relatively quickly and the collapse in GDP in the first half of 2020 has been relatively limited. For China, Taiwan and Vietnam we expect positive annual growth for the full year 2020. For Taiwan, which has profited from a pandemic-related pickup in demand for electronic products, we now even expect slightly higher growth in 2020 than we did before the pandemic broke out. For South Korea we expect a limited contraction in 2020 (-1.0%).
- By contrast, in South Asia authorities have generally been less successful in getting the pandemic under control. Moreover, countries like Thailand and Malaysia are relatively dependent on tourism, while commodity exporters like Malaysia and Indonesia have felt the effects of previous corrections in commodity prices. We have seen double digit GDP contractions in Q2 for Malaysia, Philippines and Thailand. Meanwhile in India – faced with infrastructural bottlenecks - a stringent but messy lockdown led to a 24% yoy GDP contraction in Q2, the sharpest in the region.

On a brighter note, emerging Asia has shown a clear economic rebound from the covid-19 collapse, led by China. The regional manufacturing PMI has risen from a trough of 41.2 in April to a ten-year high of 54.5, albeit with a wide variety between countries. Regional GDP growth turned marginally positive again in Q3 (+0.2% yoy), compared with -5.3% in Q2. That was largely thanks to China (back to almost 5% annual growth), with most other countries still showing negative annual growth in Q3. The rebound is based on the fact that pandemic restrictions have been eased in the course of 2020, while authorities have added significant monetary and fiscal support. What is more, for export oriented emerging Asia it has been important that the global economy has improved compared to Q2. World trade has shown a rebound from the covid-19 collapse in April and May, with emerging Asia and particularly China outperforming the recovery. In addition, market sentiment has improved on vaccine news and the US elections, supporting the return of portfolio flows. All in all, the foundations are being laid for a return to above trend growth in 2021, driven by base effects. We expect regional growth to accelerate to 7.3% in 2021. Still, while emerging Asia's growth outperformance continues, we expect regional GDP to stand 5.5% lower by end 2021 compared to our pre-corona base case.

Risks to the outlook partly stem from tense US-China relations. We expect the incoming Biden-administration to strengthen ties with traditional allies and keep the pressure on China. While we do not foresee a revival of the bilateral tariff war, we expect (tech) decoupling to continue. A further shift to regional supply chains is likely, with the Regional Comprehensive Economic Partnership – covering trade and investment amongst 15 Asia-Pacific countries (including China, Japan but not India) accounting for 30% of global population and GDP – having been signed in November.

Crawling out of the covid-19 abyss



Source: ABN AMRO Group Economics, Bloomberg, Refinitiv

China's exports have outperformed in this pandemic year



Source: CPB

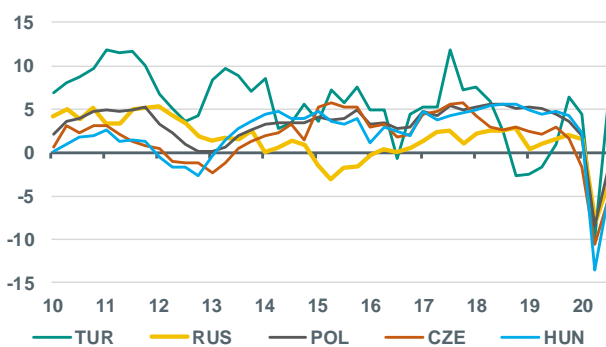
Emerging Europe: Middle of the road

When the pandemic reached Europe in March 2020, countries in emerging Europe moved relatively quickly and effectively towards a lockdown in the first phase of the crisis. This resulted in sharp economic contractions in the second quarter. Some recovery followed in the third quarter, but many countries in the region are currently showing a serious second-wave outbreak, threatening the early-stage recovery. We expect regional GDP to contract 4.1% in 2020, better than an estimated -8% in Latin America, but worse than -1.5% for emerging Asia. The average for emerging Europe hides large differences between countries, with contractions of around 2% in Turkey and around 4% in Poland and , Russia. The Czech Republic and Hungary showed sharper downturns of 6.5% and 5.5% respectively. The downturns were in many countries countered by large-scale monetary and fiscal stimulus. For instance, Poland, Czech Republic and Hungary saw a widening of their budget deficits by 7-8% points of GDP in 2020. The corresponding increase in the government debt burden still leaves debt at a manageable level for Czech Republic and Poland. In the case of Hungary, debt is increasing from an already substantial level. Poland and Czech Republic also implemented significant monetary easing and saw negative policy interest rates in real terms. In Turkey, the focus was primarily on monetary easing. This country continued to stimulate the economy with ultra-low interest rates, and as a result, the economy showed one of the largest recoveries in Q3 worldwide (+15.6% qoq sa). However, this monetary stimulus came at the expense of financial stability, and authorities were obliged to increase interest rates sharply to counter sharp downward pressure on the lira.

Due to less demand for emerging Europe's exports from for instance the eurozone, the external position of most countries in the region deteriorated under the covid-19 pandemic. For energy exporters such as Russia, this was related to the sharp drop in oil price since the start of the crisis. The external debt burden increased significantly in Turkey and Hungary, countries that were already dealing with a high level of external debt. These two countries show the largest 2021 external financing requirement of the EMs covered in this outlook. Czech Republic, Poland and Russia also showed increases, but from a more manageable level.

GDP recovered in Q3 after sharp contraction in Q2

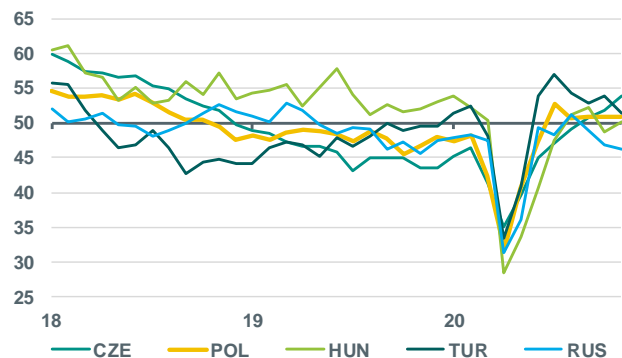
Real GDP, % yoy (last figure is Q3 20)



Source: Bloomberg, ABN AMRO Group Economics

Some renewed weakness indicated by PMIs

Manufacturing PMIs, 50 = neutral mark (last figure is Nov 20)



Source: Bloomberg

Going forward, the region is expected to grow by about 3.5% in 2021 from a low base, helped by recovery of the eurozone (where we expect real GDP to grow by 2.7% in 2021), and still supportive policies globally. In the case of emerging Europe's EU members, ample access to EU funding will be important. In this context, it is positive that on 10 December, an accord was reached on the EU's upcoming 7-year financial framework and the EUR750bn coronavirus recovery fund. Poland and Hungary previously objected to a mechanism linking payments of EU money to adherence to the bloc's key legal principles. All in all, despite the expected recovery in 2021, we expect emerging Europe's real GDP to stand around 5.5% lower at end-2021, compared to our pre-corona base case.

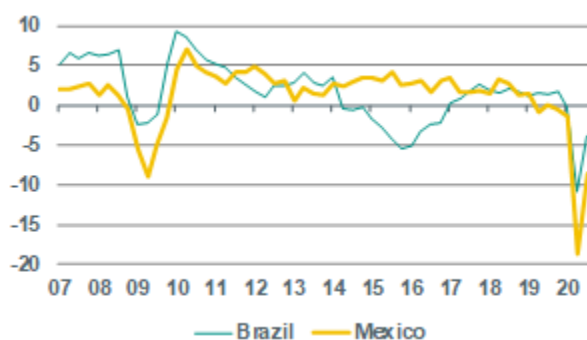
Latin America: Growth will remain restrained

The covid-19 outbreak did not only hit Latin America hard physically as well as economically. Despite strict lockdowns, the death toll in Latin America (excluding the Caribbean) is the highest in the world. Testing capacity is in most countries limited, as is hospital capacity. Testing capacity in the region is only a fraction of what it is in the US and around a quarter of the capacity in Europe. Deaths per million people in Brazil, Chile and Peru stand above the figure in the US, while Argentina and Colombia are similar to Spain. Uruguay is the only country that stands out with a low level of casualties and a relatively mild economic impact.

Amongst the six largest economies, Argentina, Mexico and Peru in 2020 are worst hit, with GDP falling by 10% or more. The contraction in Brazil, Chile (both -5%) and Colombia (-7.7%) is below the regional average. The big hit came in Q2, with GDP contracting by more than 10% in all the big-6 countries. Peru was by far worst off with a decline of 30% yoy, followed by Argentina and Mexico with a decline close to 20% yoy. As a consequence both formal and informal employment fell sharply, also compared to other emerging markets. Lockdowns were eased in many countries during Q2, despite remaining high spread of the virus. Fiscal and monetary support intensified at the same time and this led to a gradual pick-up in activity since May, which intensified in Q3. GDP in Q3 in most countries was positive compared to a quarter before, but still negative compared to a year earlier. We expect regional GDP to contract by 8.2% in 2020 (compared to -0.4% in 2019), followed by a modest recovery of 3.7% in 2021. All in all, we expect regional GDP to stand around 8.5% lower at end-2021 compared to our pre-corona base case. Only in 2022 GDP in most countries is expected to return to 2018 levels. The main exception is Mexico, where it will probably take till the 2024 presidential elections. The reason for this is that the government hardly introduced fiscal support measures for consumers and businesses who are affected by covid-19. This further hit business confidence, which had already fallen sharply since the inauguration of president Lopez Obrador in December 2018 as a result of his perceived negative attitude to private investment.

Latin America worse off than in 2009 ...

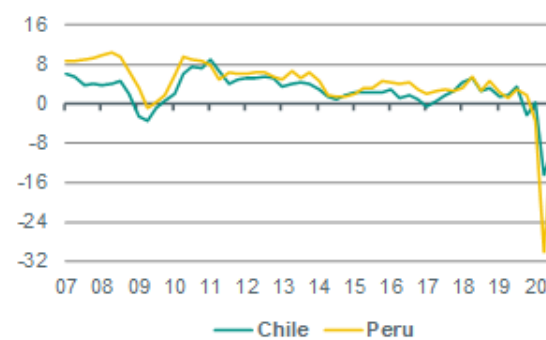
Real GDP, % yoy (last figure is Q3 20)



Source: Bloomberg

... and recovery will take longer

Real GDP, % yoy (last figure is Q3 20)



Source: Bloomberg

Risks remain tilted to the downside, as covid-19 is not under control yet in most countries. Moreover, the region is facing two years with a heavy election schedule. In 2021 there are general elections in Peru (April) and Chile (November) and mid-term congressional elections in Mexico (June) and Argentina (October). In 2022 there are general elections in Colombia and Brazil. In the longer run we expect growth to remain subdued. Unsustainably high government debt levels need to be reversed, while structural weaknesses like bad infrastructure, healthcare and education have only worsened. Since the end of the commodity boom in 2014, most countries in the region barely grew, while Argentina and Brazil experienced years of deep recession. Lower growth and lower commodity prices also resulted in a renewed deterioration of the fiscal situation since 2014. This worsened further in 2020. All of this not only leaves the region badly prepared to counter the social and economic consequences of covid-19, but this will temper growth in the medium term as well.

Nominal GDP	EUR bn	GDP growth (% yoy)				Inflation (CPI, % yoy avg)				Govt balance (% GDP)				
		Forecast**:				Forecast:				Forecast**:				
		2020	2021	previous	2022	previous	2020	2021	previous	2022	previous	2020	2021	2022
China	23556	1.8	8.0		5.5		2.5	2.0		2.5		-6.5	-5.0	-4.5
Hong Kong	468	-6.0	4.0		2.5		0.5	1.5		2.0		-5.9	-2.5	0.0
India	9590	-8.5	9.0		5.5		6.5	4.5		4.5		-7.8	-6.0	-5.5
Indonesia	3329	-1.5	6.0		5.0		2.0	3.0		3.0		-7.1	-6.0	-4.5
Malaysia	943	-5.0	6.0		4.0		-1.0	2.0		2.0		-7.2	-6.0	-5.5
Philippines	1002	-9.0	7.5		6.5		2.5	3.0		4.5		-8.0	-6.5	-6.0
Singapore	578	-6.0	5.0		3.0		-0.2	1.0		1.5		-13.9	-6.5	-2.5
South Korea	2231	-1.0	3.5		3.0		0.5	1.0		1.5		-5.5	-5.5	-4.5
Taiwan	1311	2.5	3.5		2.5		-0.3	1.0		1.0		-1.5	-1.0	0.0
Thailand	1339	-7.0	4.5		4.0		-1.0	1.0		1.5		-6.4	-5.5	-3.5
Czech Rep	462	-7.0	4.0		3.5		3.2	2.0		2.5		-7.5	-5.0	-3.0
Hungary	331	-5.5	4.5		3.5		3.5	3.0		3.5		-9.0	-5.0	-3.5
Poland	1299	-4.0	4.0		3.5		3.0	2.5		3.0		-8.0	-3.5	-3.0
Romania	625	-5.5	4.0		5.0		2.8	2.5		3.0		-9.5	-6.5	-3.5
Russia	4280	-4.0	3.0		4.0		3.5	3.5		4.0		-4.3	-2.0	-1.0
Turkey	2503	-2.0	3.5		4.0		12.0	11.0		10.0		-5.1	-5.0	-4.0
Argentina	971	-10.0	6.0		3.0		42	46		33		-9.0	-6.0	-4.0
Brazil	3220	-5.0	3.0		2.3		3.0	3.5		3.5		-15.9	-7.5	-4.5
Chile	477	-5.0	4.0		3.0		3.0	3.0		3.0		-8.9	-8.5	-7.0
Colombia	787	-7.3	4.0		4.9		2.6	3.0		4.5		-9.0	-5.5	-3.5
Mexico	2605	-10.0	3.0		2.5		3.5	4.0		3.5		-5.3	-3.5	-2.0
Peru	423	-13.0	9.2		5.3		2.0	2.0		3.0		-7.5	-5.5	-3.5
South Africa	782	-7.7	2.5		3.5		3.5	4.0		4.5		-10.0	-9.0	-8.0

	Government debt (% GDP)			Current account (% GDP)			Exchange rate against USD:			Exchange rate against EUR:		
	Forecast:			Forecast**:			Recent	Forecast**:		Recent	Forecast**:	
	2020	2021	2022	2020	2021	2022	10/11/2020	2021	2022	10/11/2020	2021	2022
China	22	25	28	1.7	1.5	1.5	6.54	6.4	6.2	7.77	8.0	8.1
Hong Kong	54	58	56	5.4	4.0	4.0	7.75	7.8	7.8	9.21	9.8	10.1
India	64	65	65	0.5	-0.5	-0.5	74	72	70	88	90	91
Indonesia	44	46	45	-1.8	-2.5	-2.0	14070	14000	13500	16710	17500	17550
Malaysia	63	65	67	4.8	4.5	4.5	4.09	4.2	4.1	4.85	5.2	5.4
Philippines	49	52	54	0.9	-1.0	-2.0	48	51	52	57	64	68
Singapore	154	160	162	18.0	17.5	17.0	1.34	1.3	1.3	1.59	1.7	1.7
South Korea	45	49	51	3.8	4.0	4.0	1104	1050	1000	1311	1300	1300
Taiwan	29	29	29	13.2	11.0	9.5	28.50	29	28	33.85	36	36
Thailand	51	55	55	3.1	5.0	8.0	30.31	30	30	36.00	38	38
Czech Rep	44	46	45	-0.5	0.0	0.5	22	21	20	26	26	26
Hungary	76	75	73	-1.6	-1.0	-1.0	303.72	260	250	360.70	330	320
Poland	55	55	55	2.6	2.0	1.5	3.76	3.4	3.1	4.47	4.3	4.0
Romania	46	48	48	-4.7	-3.5	-3.5	4.10	4.4	4.3	4.87	5.5	5.5
Russia	19	22	24	1.7	2.5	3.5	75.92	72	70	90.17	90	91
Turkey	37	39	40	-4.5	-1.5	-2.5	7.68	7.5	7.0	9.13	9.4	9.1
Argentina	112	116	107	2.4	2.0	0.5	80.16	133	165	95.20	167	215
Brazil	96	99	97	-0.4	-0.5	-1.5	5.29	4.5	4.0	6.29	5.6	5.2
Chile	35	39	42	0.2	-2.0	-3.0	757	730	700	900	910	910
Colombia	74	73	70	-4.6	-4.5	-3.5	3649	3600	3750	4333	4500	4900
Mexico	58	57	56	1.7	1.0	-0.5	20.21	20	19	24.01	25	25
Peru	38	41	42	-1.1	-1.0	-1.5	3.58	3.5	3.4	4.25	4.3	4.4
South Africa	80	85	88	-2.1	-2.5	-3.0	15.42	15.0	14.5	18.31	19.0	19.0

**Forecasts for GDP growth, govt balance, current account and FX are rounded

Source: ABN AMRO Group Economics, EIU, European Commission

Exchange rate EUR/USD 1.25 1.30
Exchange rate USD/EUR 0.80 0.77

Main economic indicators/forecasts

GDP growth (%)	2019	2020e	2021e	2022e	Inflation (%)	2019	2020e	2021e	2022e
Emerging Asia	5.0	-1.5	7.3	5.1	Emerging Asia	2.9	3.1	2.7	3.0
Emerging Europe	2.0	-4.1	3.5	3.9	Emerging Europe	6.6	5.2	5.1	5.2
Latin America	-0.2	-8.2	3.7	3.0	Latin America**	9.2	7.6	8.4	6.9
Emerging markets total	3.5	-3.0	5.8	4.5	Emerging markets total	4.7	4.6	4.2	4.2
Eurozone	1.3	-7.6	2.7	5.2	Eurozone	1.2	0.3	1.1	0.5
US	2.2	-4.2	3.2	3.9	US	1.8	1.2	1.9	1.9
Budget balance (% GDP)	2019	2020e	2021e	2022e	Current account (% GDP)	2019	2020e	2021e	2022e
Emerging Asia	-4.1	-6.8	-5.5	-4.5	Emerging Asia	1.1	2.0	1.4	1.5
Emerging Europe	-0.4	-5.8	-3.5	-2.5	Emerging Europe	1.5	-0.4	0.5	0.5
Latin America	-4.1	-10.6	-6.0	-4.0	Latin America	-1.9	0.2	-0.5	-1.0

Source: EIU, ABN AMRO Group Economics

**Inflation Latin America without Venezuela

* figures Emerging Markets regions are rounded

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