FitchRatings

Global Economic Outlook – December 2018

Divergence, Dollar Strength and Disappearing Liquidity

Highlights

- Growth divergence intensifying
- US fiscal support to last through 2019
- Eurozone losing steam
- China slowdown now fact, not forecast
- Three Fed hikes still forecast for next year
- But ECB rate hike no longer expected in 2019
- Credit tightening, dollar strength weighing on emerging markets
- Downside risks rising, particularly for 2020

Global Forecast Summary

(%)	Annual Average 2013-2017	2017	2018f	2019f	2020f
GDP Growth					
US	2.2	2.2	2.9	2.6	2.0
Eurozone	1.5	2.4	1.9	1.7	1.6
China	7.1	6.9	6.6	6.1	6.1
Japan	1.3	1.7	0.9	0.9	0.6
UK	2.2	1.7	1.3	1.6	1.8
Developed [a]	1.8	2.1	2.2	2.1	1.7
Emerging [b]	4.8	5.2	5.2	4.7	4.9
World [c]	2.8	3.2	3.3	3.1	2.9
Inflation (end of period)					
US	1.3	2.1	2.4	2.3	2.4
Eurozone	0.7	1.4	1.6	1.7	1.9
China	1.9	1.8	2.5	2.4	2.4
Japan	0.9	1.1	0.9	2.5	1.2
UK	1.5	3.0	2.4	2.3	2.3
Interest Rates (end of period)					
US	0.48	1.50	2.50	3.25	3.50
Eurozone	0.16	0.00	0.00	0.00	0.50
China [d]	5.11	4.35	4.35	4.35	4.35
Japan	0.02	-0.10	-0.10	-0.10	-0.10
UK	0.44	0.50	0.75	1.00	1.50
US 10 Year Yield	2.28	2.43	3.10	3.75	4.10
Exchange Rates and Oil					
Oil (USD/barrel)	72.3	54.9	72.5	65.0	62.5
USDJPY (end-period)	109.1	112.7	113.0	115.0	115.0
USDEUR (end-period)	0.84	0.83	0.91	0.91	0.91
GBPUSD (end-period)	1.48	1.35	1.30	1.30	1.30
USDCNY (end-period)	6.40	6.51	7.00	7.30	7.40

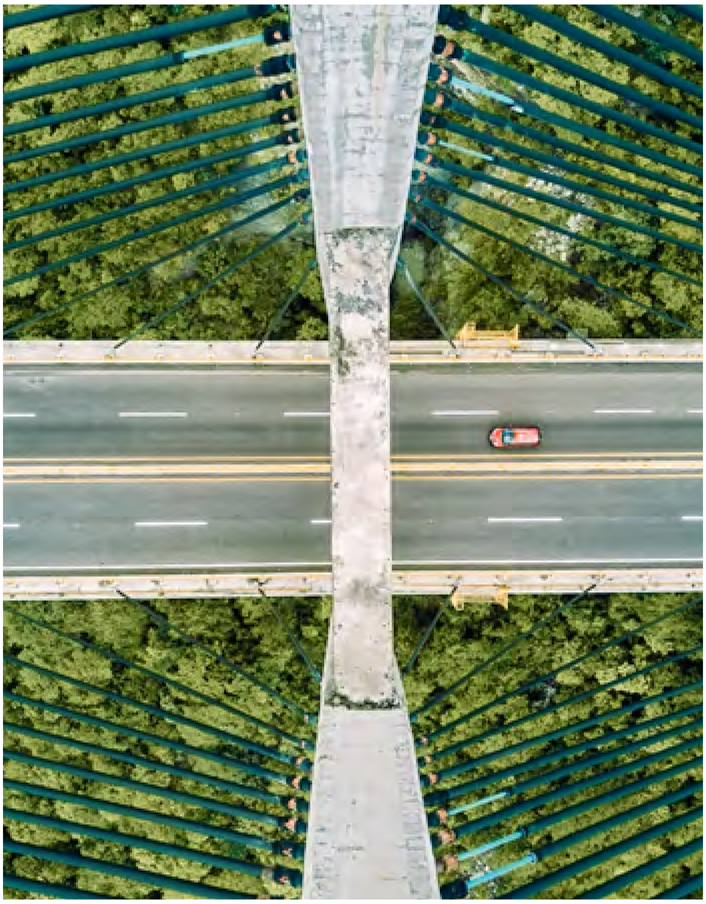
[a] US, Japan, France, Germany, Italy, Spain, UK, Canada, Australia and Switzerland.

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

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

[d] One year policy lending rate

Source: Fitch Ratings



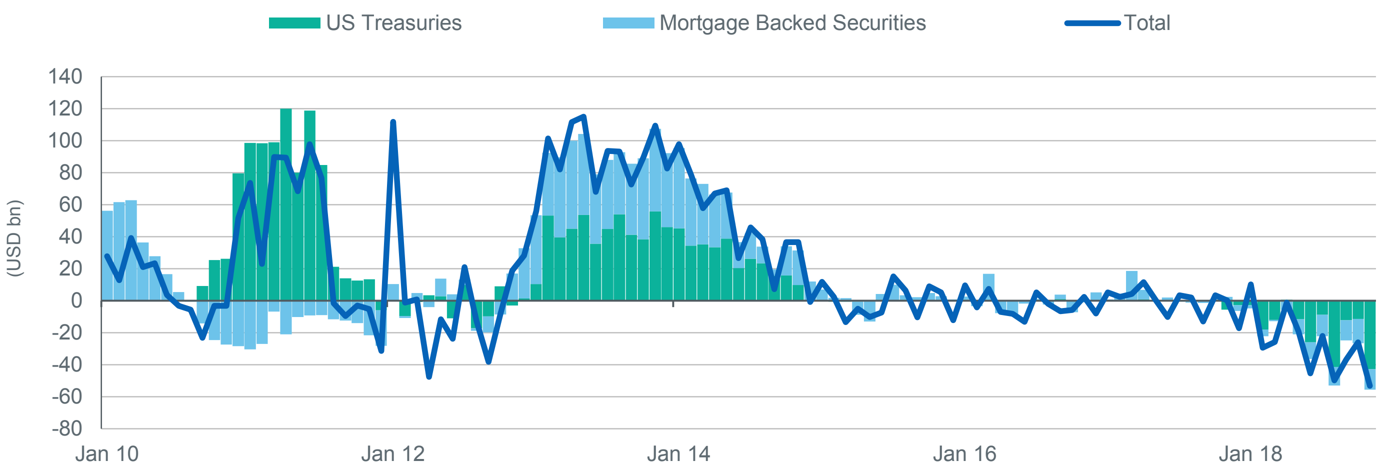
Cracks Starting to Appear

The world economy is still expanding at a robust pace but cracks are starting to appear in the global growth picture. Eurozone growth outturns have disappointed once again, world trade is decelerating, and the China slowdown is now fact, not forecast. Growth dynamics within the three main economies have become more divergent, with US growth still rising on a year-on-year basis, while the eurozone and China have slowed. A historically tight US labour market will keep the Fed on a course of continuous rate hikes right through to 2020 despite a softer external environment. But downgrades to the eurozone growth outlook and stubbornly low core inflation now look likely to persuade the ECB to hold off from raising interest rates until 2020. This will further support the dollar, keeping pressure on emerging markets (EMs), where financing conditions have tightened significantly. Our base case is for a soft landing for global growth in 2020 as US fiscal support fades. But downside risks – from faster-than-anticipated tightening of global financial conditions as central bank liquidity shrinks or an escalation in market fears about eurozone fragmentation – have increased. Trade protectionism remains a key downside risk despite some recent more positive news flow.

Global Growth Has Peaked

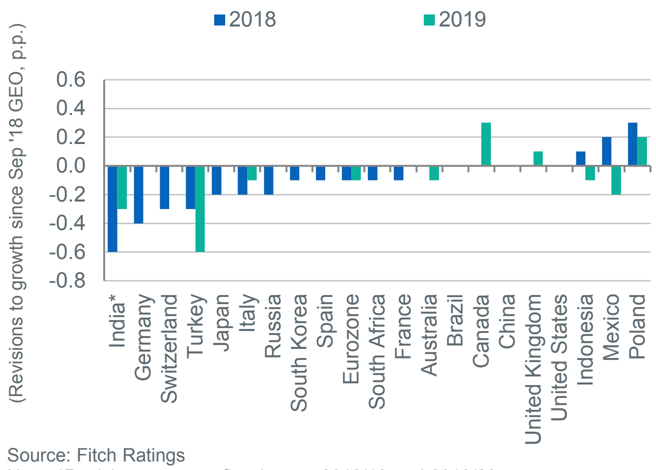
Our global GDP forecasts for 2018 and 2019 have not changed, though we have slightly marked down our forecast for 2020. World growth is expected to hit 3.3% this year, a slightly higher rate than in 2017 and well above the long-run global growth average of 2.6%.

Fed Balance Sheet - Monthly Changes



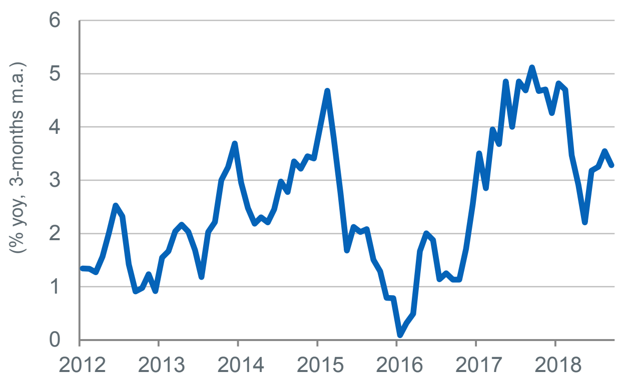
Source: Fed, Datastream, Fitch Ratings

Revisions to Fitch GDP Growth Forecasts



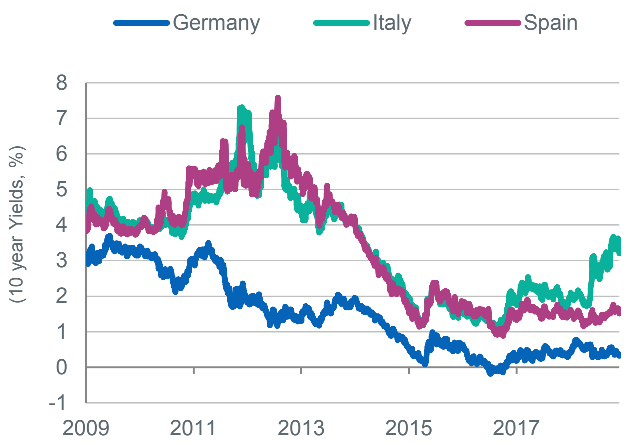
Source: Fitch Ratings
Note: *Revisions concern fiscal years 2018/19 and 2019/20

World Export Volumes



Source: CPB, Datastream, Fitch Ratings

Eurozone Sovereign Bond Yields



Source: Datastream, Fitch Ratings

Global growth is expected to moderate somewhat to 3.1% next year, driven mainly by EMs as China slows and tighter financing conditions and policy settings weigh on Turkey, Indonesia, India and Russia. EM growth should recover somewhat in 2020 as Turkey recovers, Brazil accelerates and policy drag in Russia eases. However, global growth is expected to dip below 3% in 2020 as advanced-country growth falls to 1.7%, converging towards its long-run supply-side determined rate as the boost from US fiscal policy unwinds and monetary policy support is removed.

Advanced-country growth in 2018 has been revised down by 0.1pp since the September 2018 GEO, with all four large eurozone countries now expected to see weaker growth and Japan revised down after a weak, weather-affected outturn for 3Q18. Our 2018 forecast for EM growth in aggregate is unchanged, with upward revisions to Indonesia, Mexico and Poland (based on incoming data) offset by downward revisions to Turkey, South Africa, India and Russia. A total of 11 countries have seen downward revisions to 2018 growth, with only three upward revisions.

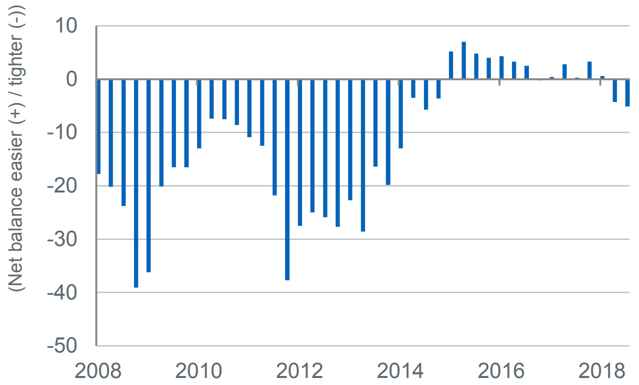
For 2019, advanced-country growth is expected to be a little stronger than previously expected at 2.1%. This reflects an upgrade to Canada on reduced trade-related uncertainties after the USCMA deal and a slight upward revision to the UK following recent fiscal easing measures. The latter should boost prospects for the British economy, assuming that a no-deal cliff-edge Brexit is avoided. However, 2019 also sees more downward than upward forecast revisions, with Italy, Indonesia, India, Mexico and Turkey all expected to grow less rapidly than before. The main changes to our 2020 forecasts are for the US, where growth is expected to decline slightly more rapidly, and Turkey, where the post-crisis recovery is expected to be less pronounced.

Eurozone Disappointment

Eurozone growth was quite disappointing at just 0.2% in 3Q18, with GDP falling by 0.2% in Germany and 0.1% in Italy (the first decline since 2Q14). The negative surprise continued a pattern seen in the last few editions of the GEO. Part of the slowdown can be explained by temporary factors, including disruptions to auto output associated with the introduction of new emissions standards. We estimate that the 7% drop in auto output in Germany in 3Q18 knocked around 0.3% off GDP. However, the underlying slowdown has also been steeper than we expected: German GDP excluding car production dipped to 0.1% from 0.4% in 2Q18.

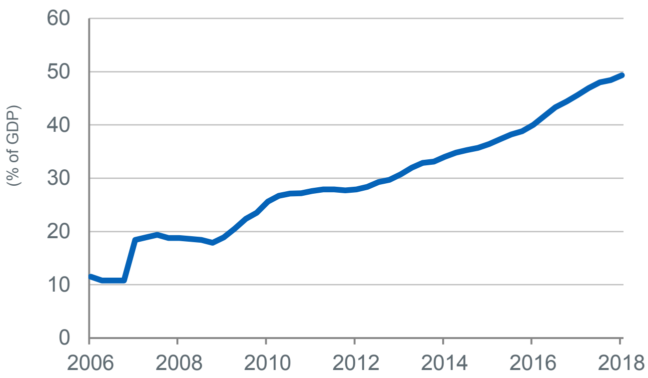
A number of factors seem to be behind the slowdown. World trade is now decelerating. The Dutch Policy Bureau's measure of global trade has recently slowed to just over 3% from around 5% in late 2017. And with some anecdotal evidence of front-loading of trade flows ahead of planned tariff announcements, it is possible that the underlying slowdown has been more dramatic. Net trade boosted eurozone growth by 0.8pp in 2017 but its contribution turned negative in 1H18. Both Germany and Spain saw exports of goods and services fall in 3Q18, and surveys show export orders slowing in Germany. The escalation in global trade tensions has also taken a clear toll on business sentiment. Trade weakness comes against the

Italian Firms' Assessment of Credit Availability



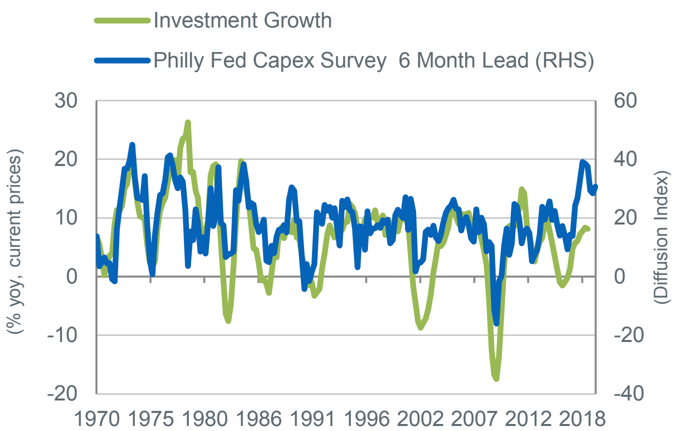
Source: Istat Survey, Fitch Ratings

China - Household Debt



Source: BIS, Datastream, Fitch Ratings

US - Philly Fed Survey and Business Investment



Source: Philadelphia Fed, Datastream, Fitch Ratings
Note: for series 'Philly Fed Capex Survey 6 Month Lead - Q1 2018 = July 2017 observation)

backdrop of an aggregate eurozone private-sector credit impulse (the change in private-sector borrowing as a share of GDP) that was weakening through the course of 2017, consistent with a fading, if still positive, impact of ECB easing on growth in 2018.

Moreover, while aggregate eurozone credit growth has picked up again recently, there are signs of credit conditions tightening in Italy in the wake of recent bond market volatility. Italian 10-year yields have risen by 150bp since May. Historically, there has been a close correlation between government bond yields and corporate borrowing costs, and Italian firms have now reported a tightening of credit availability for two consecutive quarters. Rising policy uncertainty has also weighed on firms' optimism about future investment spending.

We still see this as a modest slowdown in eurozone growth back towards potential – which we estimate at around 1.3% – rather than a more abrupt stalling of the economy. Tightening labour markets and robust job growth are supporting consumers, nominal wage growth has picked up, and the fall in oil prices could provide a boost to real wage growth. In addition, credit conditions in the bloc as a whole remain very accommodative, supporting investment momentum in Germany and France and ongoing strength in real estate markets. But the tensions between Italy and the European Commission over fiscal policy have increased uncertainty and downside risks to growth.

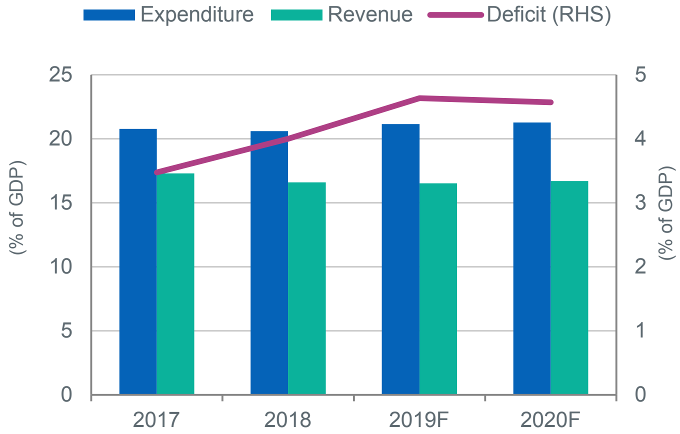
China Slowdown – From Forecast to Fact

Our forecasts for China have not changed in this edition of the GEO, but the slowdown we have been expecting for a while is now materialising. The slowdown has so far been domestically driven, led by a marked weakening in infrastructure investment in response to the earlier squeeze on shadow financing. While export growth has slowed somewhat in real terms, it has been quite resilient, possibly reflecting front-loading in anticipation of future US tariff hikes.

Infrastructure continues to weigh on wider activity, despite an improvement in the numbers in October, but what has been more striking in the recent monthly data has been the weakness in retail sales. Retail sales growth fell to 6.5% in October in real terms, the lowest rate since 2003. Pressure on consumer demand for goods has also been reflected in auto sales, which are expected to post their first outright decline in 2018 since the 1990s, partly sparked by the expiry of earlier tax breaks. Consumer confidence has fallen since the spring, likely weighed down by tariff worries and stock market declines.

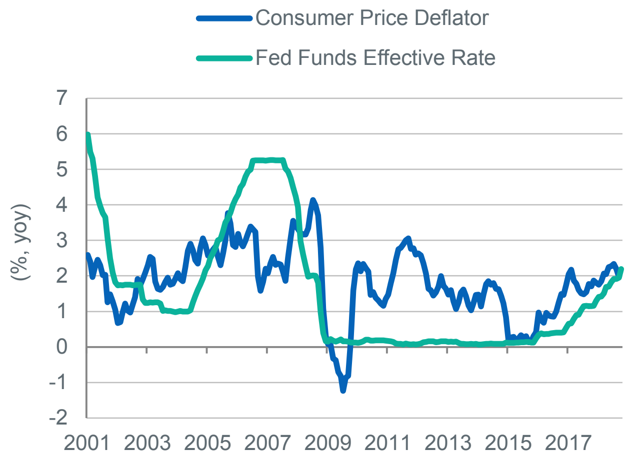
Broader measures of consumer spending – which better reflect the increasing share of services in total spending – have been holding up better, helped by the government's anti-poverty drive supporting rural incomes. Nevertheless, a new and salient feature of this Chinese growth cycle is the increase in the household sector's debt service burden following a huge increase in the debt/income ratio in the last five years. This is a drag on disposable income and leaves consumer spending vulnerable to changes in the cost and availability of credit. Household credit growth has slowed sharply in the last two years, partly in response to macro-prudential tightening, though it still far exceeds income growth.

US Federal Government Revenue and Expenditure



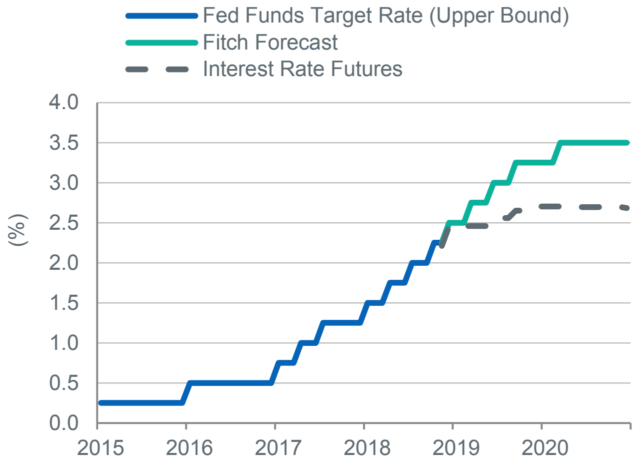
Source: CBO, Fitch Ratings
Note: Financial years ending September

Fed Funds Rate and US Inflation



Source: Fed, Datastream, Fitch Ratings

Fed Funds Rate



Source: Bloomberg, CBOT, Fitch Ratings

With rising domestic headwinds and the US tariff threat looming , macro policy has progressively shifted towards supporting growth since the spring. But despite three cuts to the reserve requirement ratio (RRR), the current approach appears quite distinct from earlier easing episodes. Specifically, there is a much great focus on "on-budget" fiscal easing in the form of tax cuts in contrast to bank credit-financed public investment. Indeed, credit growth continued to decline through October in the face of ongoing macro-prudential restrictions, banks' limited capacity to rapidly expand lending, and the authorities' reluctance to reverse their previous high-profile deleveraging drive. There have been substantial tax cuts already in 2018, and further cuts are expected next year. Nevertheless, with the short-term impact of tax cuts on economic growth somewhat untested, we do not expect growth to stabilise until mid-2019.

US Fiscal Support to Growth – One More Year

The US economy remains strong, and growth slightly exceeded our expectations in 3Q18. Conditions for the consumer remain very supportive, with robust job growth, rising wage inflation and elevated confidence. Tax cuts have boosted disposable income growth, and the saving ratio has fallen through 2018. Business investment slowed down in 3Q18 but survey-based indicators suggest it will continue to have decent momentum through 2019, albeit at a slower pace than this year. Residential investment has been more disappointing and appears to have slowed in response to the rise in mortgage rates but it now only accounts for 4% of GDP, compared to 14% for business investment.

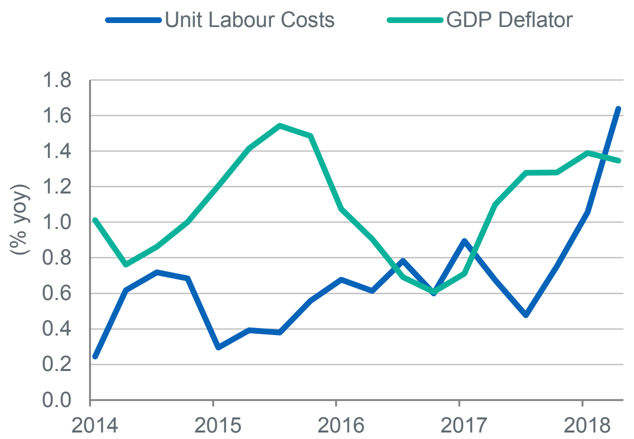
GDP growth remains on track to reach around 3% this year. While we expect growth to slow next year, the economy will still expand at an above-trend pace of 2.6%. To a large extent, this reflects continuing support for the economy from fiscal policy. While tax cuts have been the main fiscal impetus to growth this year, federal government spending will take over in 2019. The Congressional Budget Office's projections show federal government spending rising by 0.5% of GDP in FY19 (year ending 30 September 2019). Some of this reflects rising interest payments but the fact that the spending ratio is rising sharply while the economy is growing so rapidly underscores the extent of discretionary easing.

With fiscal support for growth scheduled to tail off in 2020, growth is forecast to slow further to 2%. The prospects for an additional round of tax cuts have fallen even further after the mid-term election results, and a split congress reduces the chance of co-operation on a further spending hike in the run-up to presidential elections in 2020. Indeed, current laws will require amending just to avoid a sharp retrenchment in federal spending in 2020.

Fed to Follow Through

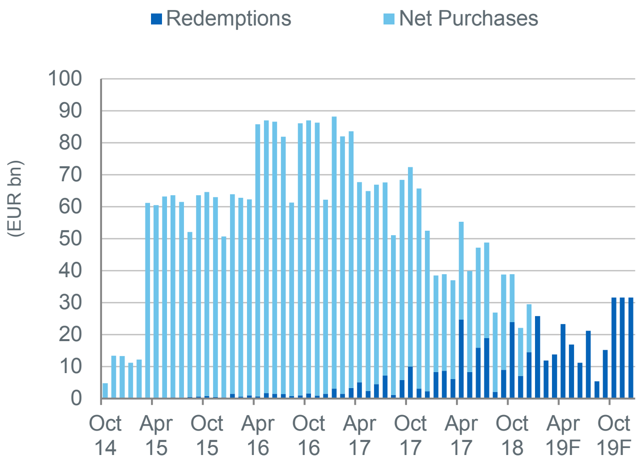
The prospect of continued above-trend growth in the context of an already very tight labour market is likely to see the Fed continue to hike rates through 2019. The widely expected hike in the Fed Funds target range to 2.0%-2.25% in September was accompanied by a statement that further gradual rate hikes would be warranted. However a combination of factors – including a weakening

Eurozone Inflation and Unit Labour Costs



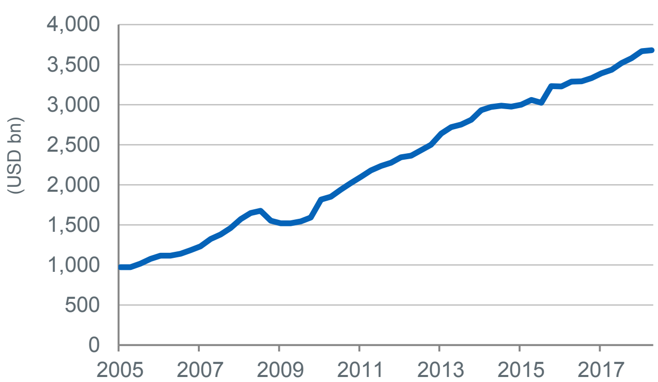
Source: ECB, EC, Datastream, Fitch Ratings

ECB Asset Purchases - Gross and Net Flows



Source: ECB, Datastream, Fitch Ratings

US Dollar Credit to EM Non-Financial Sector



Source: BIS, Datastream, Fitch Ratings

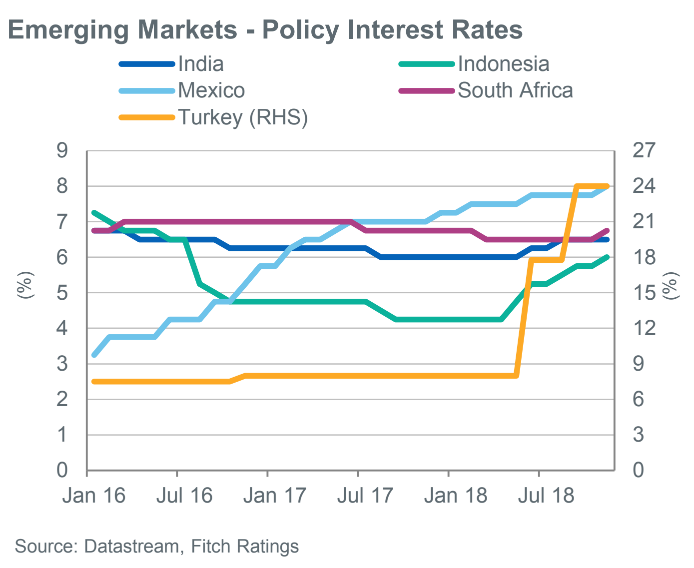
external economic environment, the Fed's removal of the word "accommodative" to describe the stance of monetary policy, and recent market volatility – have raised speculation that the Fed may be very close to the end of its hiking cycle. In particular, Chairman Powell's comment that rates are "just below the range of neutral estimates" saw market expectations of rate hikes pared back.

We are inclined to discount this view. Powell was simply referring to the FOMC September projections of the long-term Fed Funds rate, which range from 2.5% to 3.5%. The Fed is still a long way from the middle of this range, and many Fed officials believe rates will need to exceed neutral, as reflected in the FOMC's median projection of 3.4% for rates in 2020. Moreover, Powell has gone out of his way to emphasise the high degree of uncertainty about estimates of the neutral rate and their limited value as a precise guide to policy. With the Fed having achieved its inflation mandate and overachieving on employment, its conviction seems to be that the economy is healthy enough to absorb a continued gradual normalisation in monetary policy. We expect the Fed to hike again later this December and to follow through with three more hikes next year.

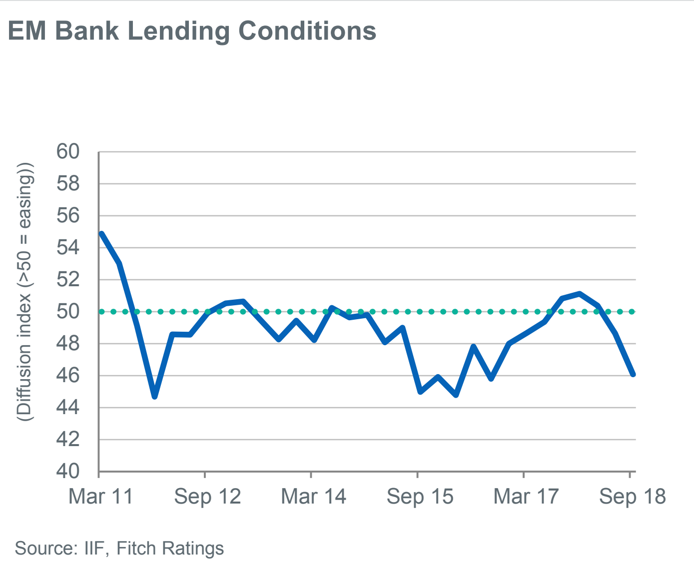
ECB – A Slow Retreat

There has been rather more soul searching at the ECB. Recent speeches by ECB officials have acknowledged that the recent slowdown partly reflects the ongoing deceleration in world trade where downside risks are rising. The increased threat of tighter financing conditions as a result of rising sovereign spreads has also been recognised. Probably most importantly, the ECB seems to be increasingly disappointed with trends in underlying inflation. The noticeable pick-up in wages has not translated into higher core inflation, which the ECB attributes to companies absorbing higher labour costs by squeezing profit margins. ECB President Draghi recently aired the possibility that this muted pass-through from labour costs to prices could become more persistent if firms become more uncertain about future prospects. This would translate into a slower rise in core inflation in the next two years than currently forecast by the ECB.

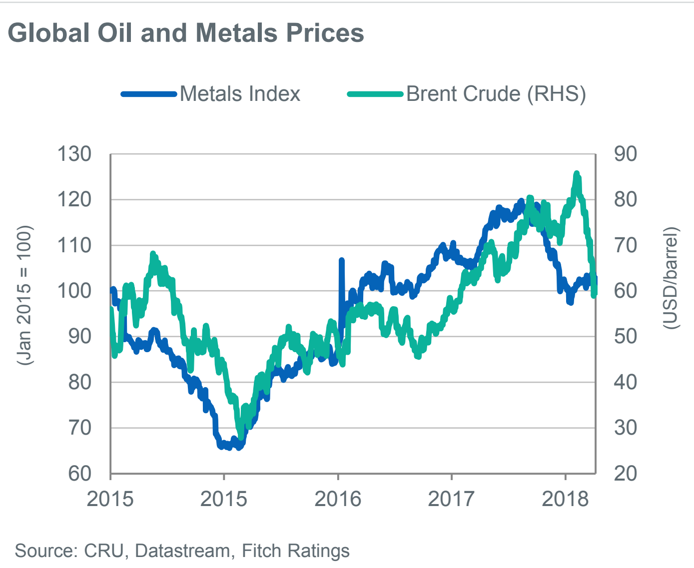
Neither the growth downgrade nor the slow pick-up in core prices are likely to prevent the ECB from terminating quantitative easing (QE) in December. Recent ECB messaging has consistently emphasised the coming "pivot" away from net asset purchase flows as the main instrument for providing monetary accommodation towards a focus on the large stock of assets held, the associated reinvestment flows (which are set to reach around EUR250 billion in 2019) and forward guidance on interest rates. However, with inflation expectations recently heading lower, we suspect that the ECB may soon adjust its current forward guidance on interest rates. Ending QE at a time of growing uncertainty may necessitate a lower-for-longer monetary policy stance in order to lift inflation towards target. Hence we have revised our forecast of ECB interest rates, pushing back the first hike to 2020.



Source: Datastream, Fitch Ratings



Source: IIF, Fitch Ratings



Source: CRU, Datastream, Fitch Ratings

Emerging Markets – Your Dollar, Our Problem

These contrasting monetary policy dynamics are likely to put renewed upward pressure on the value of the US dollar. Our Fed Funds rate forecasts are well above current futures market expectations, and there is a strong consensus that the ECB will adjust interest rates next year given the forward guidance it laid out in June. Shocks to market expectations of Fed and ECB policy rates have been closely correlated with movements in EURUSD over the last few years.

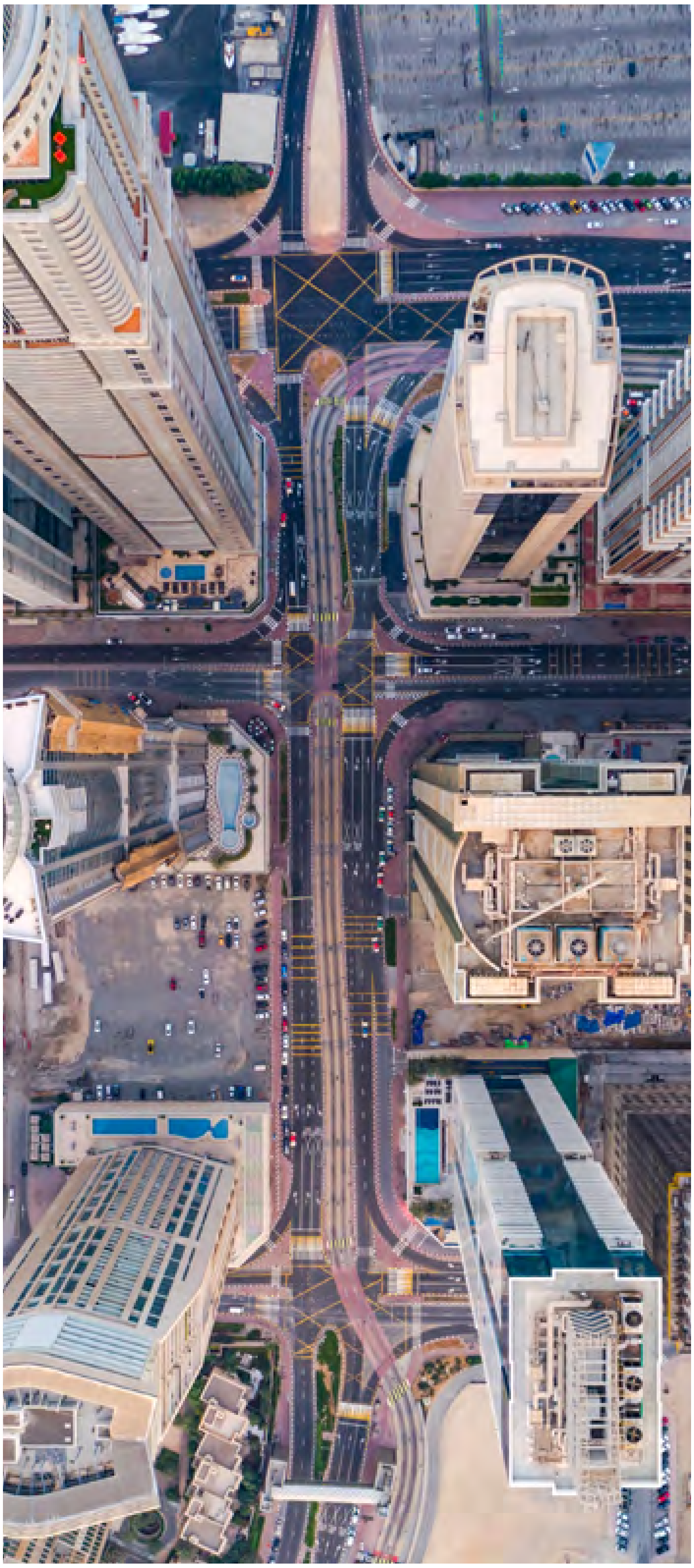
Renewed dollar strength and ongoing Fed tightening will continue to pressure EM financing conditions. The stock of EM non-financial sector debt denominated in US dollars has more than doubled since 2009. This implies a rising EM debt service burden in local-currency terms when the dollar strengthens, and amplifies the global impact of higher US interest rates. Moreover, there is strong evidence that US monetary conditions influence global capital flows to EMs. Recent empirical research by Fitch Ratings finds that a 10% dollar appreciation reduces EM capital flows by 1% of GDP for the larger EMs (see EM Capital Flows to Remain Subdued **https://www.fitchratings.com/site/re/10052887**) and suggests that EM capital inflows will remain subdued over the next couple of years as the Fed tightens.

The recent tightening in EM financing conditions is reflected in the Institute for International Finance's survey of EM bank lending conditions, which showed a further significant tightening in 3Q18. Interest rates in India, Mexico, Indonesia and, most dramatically, Turkey are all much higher than we anticipated this time last year, and central banks in Indonesia, Mexico and South Africa have all surprised on the hawkish side since September. Downward revisions to 2019 growth in Turkey, Indonesia and India in this edition of the GEO all reflect, to some extent, tighter credit conditions.

Oil Prices - A Barrel Roll

Commodity prices are also imparting a fresh source of external volatility for EMs. Having seen a sustained recovery between early 2016 and mid-2018, hard-commodity prices have fallen back in recent months. In the case of metals, this is likely to be related to the China slowdown. But oil prices have been on a rollercoaster ride, nearing USD90 per barrel (Brent) in early October on supply-shortage fears before recently falling below USD60. A softening of US sanctions on Iran (with larger carve-outs than expected for some of Iran's largest customers) was the initial trigger for the recent fall, but came amidst rapidly expanding US shale production.

We expect oil prices to recover somewhat from current levels, with OPEC+ likely to agree to some production cuts at its early December meeting. Our 2018 annual average estimate has been raised slightly to USD72.5 per barrel to reflect year-to-date outturns but our 2019 assumption is unchanged at USD65. In the medium term, we have become a little more confident in the ability of OPEC+ to help stabilise prices – notwithstanding important differences in fiscal break-even prices between Saudi Arabia and Russia – and have revised up our 2020 forecast to USD62.5 from USD57.5 in the last GEO.



Downside Risks – 2020 in Focus

The balance of risks to our forecasts is shifting towards the downside. This year has shown the capacity for tightening global liquidity to adversely affect the growth outlook, particularly for EMs. The possibility of US inflation pressures intensifying increases with each decline in the unemployment rate. The end to ECB QE could put upward pressure on eurozone sovereign bond yields as governments are required to tap market funding sources again, while tensions between Italy and the European Commission could spark renewed market fears about eurozone fragmentation. A cliff-edge no-deal Brexit would be another material shock to eurozone growth prospects given the bloc's sizeable trade surplus with the UK. China's policy challenges in terms of supporting growth while controlling financial risks have been made harder by the trade war with the US, notwithstanding the recent announcement of fresh negotiations and a 90-day extension of the deadline before the next increase in US tariffs. And while the threat of blanket US tariffs on car imports has eased for now, it is hard to be confident that US tariff threats beyond China will not re-emerge. Headwinds for 2020 – when fiscal support for US growth fades – seem to be building.

United States

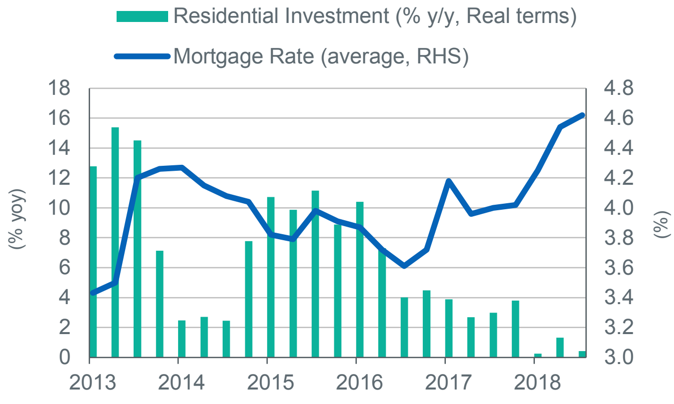
GDP grew by 3.5% annualised in 3Q18, slightly faster than anticipated in the last GEO (3.0%). The biggest positive surprise was on consumption but other details were less encouraging, with slower growth in private investment and a sharp inventory build. The latter coincided with rapid import growth – and a sizeable drag from net trade – which could be consistent with stockpiling ahead of pre-announced tariff increases on Chinese imports.

The consumption outlook remains robust, with a tight labour market and rising wage growth supporting incomes and high consumer confidence driving down the saving ratio. The strength of government spending highlights the substantial ongoing boost to the economy from federal fiscal easing, which goes well beyond last December's tax cuts. The softening of business investment in 3Q18 could reflect firms starting to worry about trade tensions, but the Philadelphia Fed survey of capex intentions still points to rapid business investment growth in the next six months.

The recent slowdown in private residential investment, however, looks more persistent and reflects the ongoing increase in mortgage rates. Slower external growth and recent dollar strength will also be a headwind to net trade. With the benefits of the tax cuts beginning to fade and business investment set to lose some steam, GDP growth is expected to decline to 2.6% in 2019 from just under 3% this year. Growth is expected to dip further to 2.0% in 2020 on diminishing fiscal support. The prospect of a further round of tax cuts has all but evaporated following mid-term congressional elections.

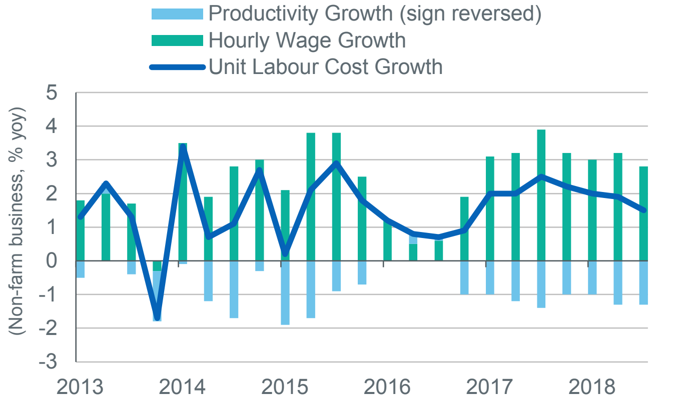
Slowing growth is unlikely to knock the Fed off its course of gradual rate rises, with a further hike expected later this month and three more next year. The rise in wage inflation is becoming clearer as unemployment reaches exceptionally low levels. While this has not yet fed through to rising core CPI inflation, this reflects improving labour productivity, a development that should boost the Fed's assessment of the neutral interest rate.

US - Residential Investment and Mortgage Rates



Source: BEA, FHFA, Datastream, Fitch Ratings

US - Wages and Unit Labour Costs



Source: BLS, Datastream, Fitch Ratings

United States – Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	2.2	2.2	2.9	2.6	2.0
Consumer Spending	2.7	2.5	2.7	2.5	2.2
Fixed Investment	4.4	4.8	5.3	3.1	1.8
Net Trade (contribution pps.)	-0.3	-0.4	-0.3	-0.4	-0.2
CPI Inflation (end-year)	1.3	2.1	2.4	2.3	2.4
Unemployment Rate	5.6	4.4	3.9	3.4	3.4
Policy Interest Rate (end-year)	0.48	1.50	2.50	3.25	3.50
Exchange Rate, USDEUR (end-year)	0.84	0.83	0.91	0.91	0.91

Source: Fitch Ratings

Eurozone

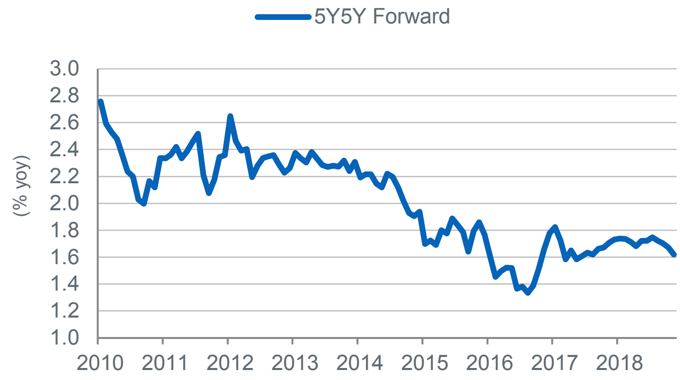
Given large negative GDP surprises in both Germany and Italy in 3Q18, we have revised down our eurozone growth projection for this year by 0.1pp to 1.9%. Recent weakness partly reflects a series of temporary shocks that should unwind, including a record cold winter in 1Q18, strikes in France and the introduction of CSG/indirect taxes in 2Q18, and large disruptions to auto sector production in 3Q18 related to changing emissions regulations.

But it also looks as if the earlier recovery was more reliant on external demand than previously assumed and we have also downgraded our forecast for GDP growth in 2019 by 0.1pp to 1.7%. The recent moderation in global trade has seen net trade turn from a tailwind to a headwind for growth, exacerbated by the ongoing strength of imports. There is also evidence of credit conditions starting to tighten in Italy in response to rising bond yields.

Nevertheless, the slowdown still looks gradual rather than abrupt, with domestic demand supported by tightening labour markets, rising wage inflation and still easy financing conditions overall. While a complete breakdown of 3Q18 growth is not available at the euro-area level, country-specific details show that investment remains a source of strength both in investment and machinery and in bricks and mortar. Demand for bank loans for investment continues to improve.

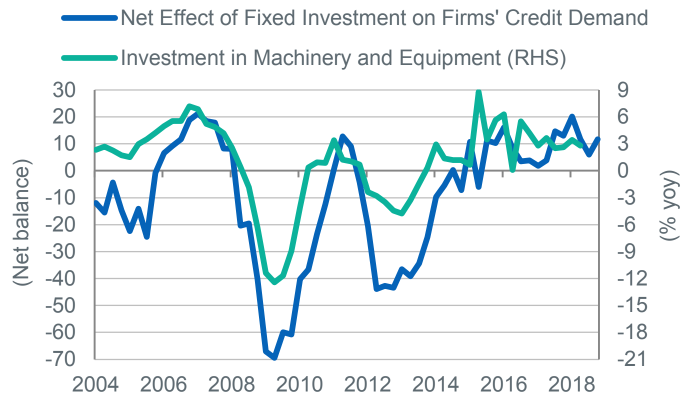
The ECB looks on course to phase out net asset purchases after December and is increasingly citing a "pivot" away from net purchases to reinvestment and forward guidance as the main tools for providing monetary accommodation. However, the growth disappointment, stubbornly low core inflation and the recent decline in inflation expectations have prompted us to shift the projected timing of the first ECB rate hike to 2020 from 2019 in the last GEO. The ECB is expected to maintain the stock of Asset Purchase Programme (APP) Holdings flat for at least the next two years but there is uncertainty over whether the ECB's Targeted Long-term Refinancing Operation (TLTROII) loans will be allowed to mature from the middle of 2020.

Eurozone - Financial Market Inflation Expectations



Source: Bloomberg, Fitch Ratings

Eurozone - Credit Conditions for Investment



Source: ECB, Datastream, Fitch Ratings

Eurozone – Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	1.5	2.4	1.9	1.7	1.6
Consumer Spending	1.1	1.6	1.5	1.4	1.2
Fixed Investment	2.2	2.6	3.3	3.0	2.1
Net Trade (contribution pps.)	0.1	0.8	0.2	0.1	0.3
CPI Inflation (end-year)	0.7	1.4	1.6	1.7	1.9
Unemployment Rate	10.7	9.1	8.5	8.1	7.7
Policy Interest Rate (end-year)	0.16	0.00	0.00	0.00	0.50
Exchange Rate, EURUSD (end-year)	1.20	1.20	1.10	1.10	1.10

Source: Fitch Ratings

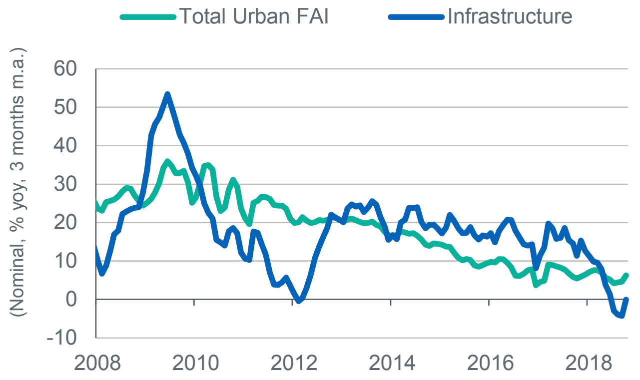
China

Chinese GDP growth slowed to 6.5% yoy in 3Q18 from 6.7% in 2Q18, in line with the September GEO forecast. The slowdown has become more evident in high-frequency data, with retail sales, housing indicators, credit growth, Purchasing Managers' Indices (PMIs) and industrial profits all slowing in recent months. While export orders have recently softened, the slowdown so far mainly reflects the lagged impact of earlier credit tightening measures. The squeeze on shadow financing activity took a particularly heavy toll on infrastructure investment, which saw outright declines on a yoy basis between May and September before posting a rise in October.

Macro policy has progressively shifted towards supporting growth since the spring, and a third cut in the RRR was announced in October. Fiscal policy has also been eased significantly, with VAT and income tax cuts, an increase in VAT rebates for exporters, and a reduction in tariffs on (non-US) imports. The easing of central bank liquidity has contributed to a sharp fall in short-term interbank interest rates but so far has not stemmed the decline in credit growth, which fell by a further 0.5pp between September and October to 10.5% yoy. This partly reflects continued restrictions on shadow credit and banks' limited capacity to ramp up lending. The authorities' reluctance to reverse their earlier "deleveraging" campaign is increasing pressure for further "on-budget" fiscal easing, and it seems likely that additional tax measures will be announced in 2019.

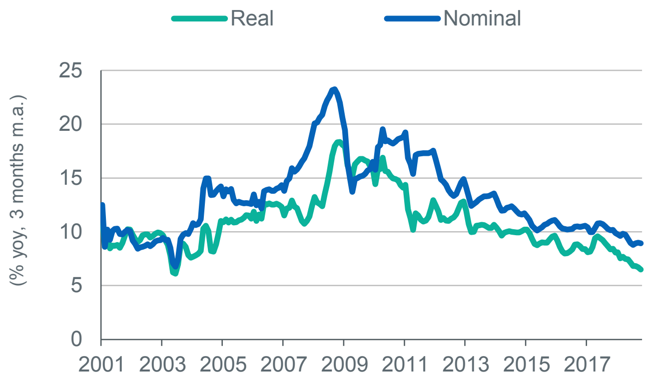
Headline nominal export growth has held up quite well so far but export volume growth has started to slow and there is some evidence that recent export data have been boosted by front-loading. The drag to growth from exports looks set to intensify even after the recent announcement to delay the next increase in US tariffs by 90 days pending fresh negotiations. And with the timing and effectiveness of tax cuts in boosting the economy uncertain, we do not expect GDP growth to bottom out until the middle of next year.

China - Fixed Asset Investment (FAI)



Source: NBS, Datastream, Fitch Ratings

China - Retail Sales



Source: NBS, Datastream, Fitch Ratings

China – Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	7.1	6.9	6.6	6.1	6.1
Consumer Spending	7.8	6.6	6.9	7.1	7.7
Fixed Investment	7.0	4.6	4.3	5.0	4.9
Net Trade (contribution pps.)	-0.3	-0.2	-0.7	-0.2	-0.3
CPI Inflation (end-year)	1.9	1.8	2.5	2.4	2.4
Policy Interest Rate (end-year)	5.11	4.35	4.35	4.35	4.35
Exchange Rate, USDCNY (end-year)	6.40	6.51	7.00	7.30	7.40

Source: Fitch Ratings

Japan

Japan's 3Q18 GDP contracted 0.3% qoq, as a series of natural disasters and adverse weather through the summer disrupted production, exports and domestic demand. This downturn in activity should be temporary. Monthly hard data released since October point to a bounce back in 4Q18 as businesses ramp up production and household spending resumes. However, the strength of the rebound is uncertain, highlighted by a softening manufacturing PMI survey for November. We have nudged down our forecast for full-year 2018 GDP, to 0.9% from 1.1% in the previous GEO.

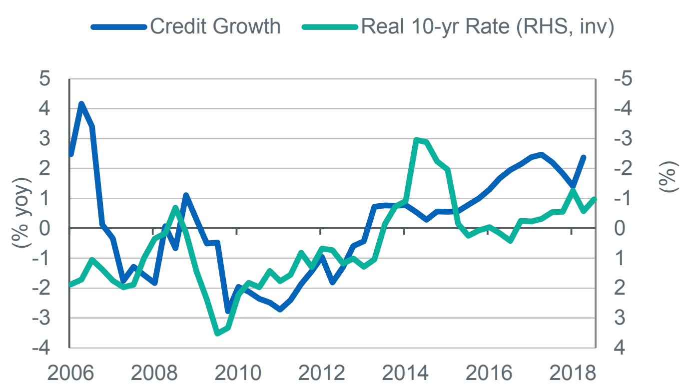
We still expect GDP to grow at a decent pace over the forecast horizon. A tight labour market should support consumption, while investment is expected to remain firm as businesses expand capacity amid increasing labour shortages and construction accelerates ahead of the 2020 Tokyo Olympics.

We expect the Bank of Japan's (BoJ) policy stance to remain highly accommodative over the coming years, which will support the outlook for domestic demand. The BoJ's ultra-loose stance since early 2013 has pushed down real yields into negative territory, which in turn has spurred a pick-up in credit to the private sector. We expect the bank to stick with its current policy settings within the forecast horizon: a negative interest rate (-0.1%) applied on some of the bank's deposits coupled with a targeted 10-year nominal yield of 0% with a +/-0.2% fluctuation band.

However, external headwinds arising from a slowing Chinese economy, a broader slowdown in global trade and rising protectionism threats will weigh on export growth and will cause businesses to become more cautious in their production and investment.

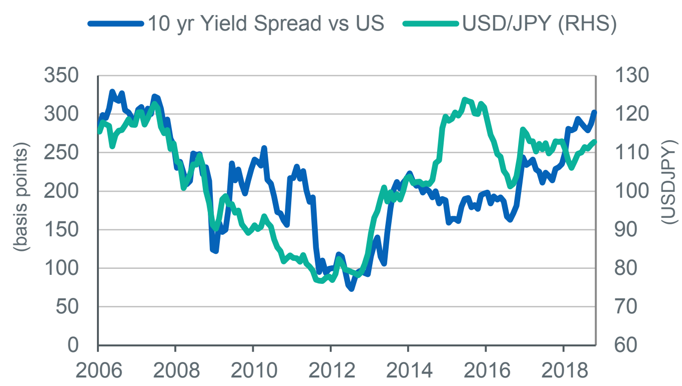
The yen (JPY) has steadily depreciated against the dollar since March, on the back of US Fed tightening and a widening yield differential between US bonds and Japanese bonds. We now look for the JPY to settle around 115 against the dollar within the forecast horizon.

Japan - Credit Growth and Real Interest Rates



Source: Datastream, Fitch Ratings

Japan - USD/JPY and Interest Rate Differential



Source: BoJ, Fed, Fitch Ratings

Japan – Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	1.3	1.7	0.9	0.9	0.6
Consumer Spending	0.5	1.0	0.4	0.6	0.0
Fixed Investment	2.6	2.5	1.8	1.4	0.4
Net Trade (contribution pps.)	0.2	0.5	0.0	0.1	0.2
CPI Inflation (end-year)	0.9	1.1	0.9	2.5	1.2
Unemployment Rate	3.4	2.8	2.4	2.3	2.3
Policy Interest Rate (end-year)	0.02	-0.10	-0.10	-0.10	-0.10
Exchange Rate, USDJPY (end-year)	109.1	112.7	113.0	115.0	115.0

Source: Fitch Ratings

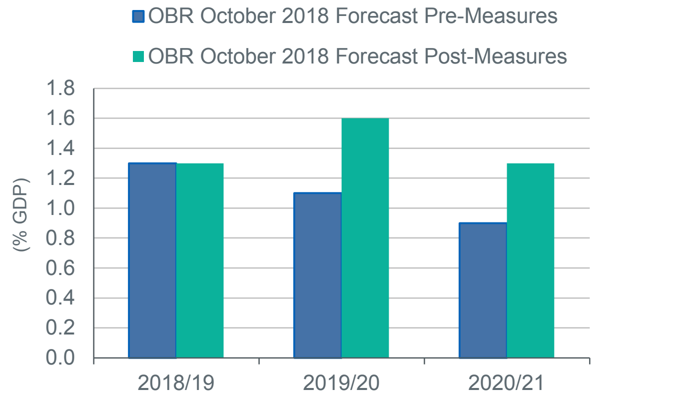
United Kingdom

UK GDP growth in 3Q18 was 0.3pp faster than expected in the September GEO, at 0.6%, up from 0.4% in 2Q18. Temporary factors are likely to have played a part, including unusually warm weather and England's surprisingly good progress in the football World Cup. The Office for National Statistics' newly introduced monthly GDP data show that growth slowed significantly in August and September, while retail sales growth dipped in October. With Brexit-related uncertainty having increased, we have lowered our estimate of 4Q18 growth to 0.2%, which leaves our forecast for annual growth in 2018 unchanged at 1.3%.

The UK and the EU27 have now agreed on the terms of the UK's withdrawal and a political declaration on the future relationship with the EU but there are serious doubts about whether this will be approved by the UK parliament in mid-December. Parliament's failure to approve the deal would raise the possibility of a Conservative Party leadership challenge, a second referendum, a general election or a no-deal "cliff-edge" Brexit. The latter would be highly damaging for the economy.

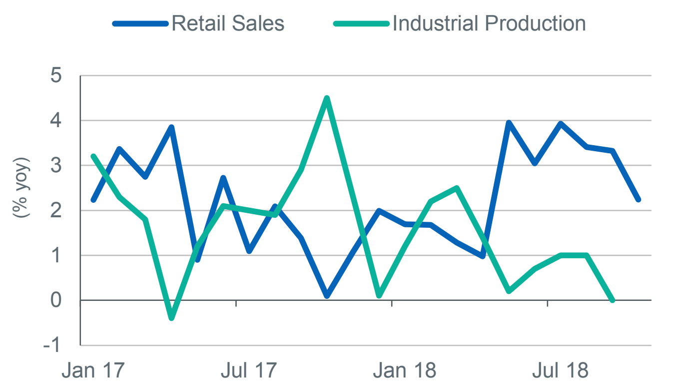
For the purpose of the GEO forecast, we continue to assume that a cliff-edge Brexit will be avoided. On this basis, we would expect to see a reduction in near-term uncertainty in 2019, contributing to a recovery in private-sector investment and a pick-up in GDP growth. In addition, the Autumn Budget indicated a substantial discretionary easing of fiscal policy over the next two financial years of 0.6%-0.7% of GDP. A sizeable part of this reflects higher public spending plans, and we have revised up our 2019 and 2020 growth forecasts by 0.1pp since the September GEO. The risks to our growth forecasts are clearly skewed to the downside but in our central scenario, where a cliff edge is avoided, we would expect the Bank of England to raise rates again in 2019.

UK - Cyclically Adjusted PSBR



Source: OBR, Fitch Raings

UK - Retail Sales and Industrial Production



Source: ONS, Datastream, Fitch Ratings

United Kingdom – Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	2.2	1.7	1.3	1.6	1.8
Consumer Spending	2.3	1.8	1.5	1.4	1.9
Fixed Investment	3.9	3.3	0.1	1.4	2.0
Net Trade (contribution pps.)	-0.2	0.6	0.3	0.3	-0.1
CPI Inflation (end-year)	1.5	3.0	2.4	2.3	2.3
Unemployment Rate	5.4	4.3	4.1	4.3	4.3
Policy Interest Rate (end-year)	0.44	0.50	0.75	1.00	1.50
Exchange Rate, GBPUSD (end-year)	1.48	1.35	1.30	1.30	1.30

Source: Fitch Ratings

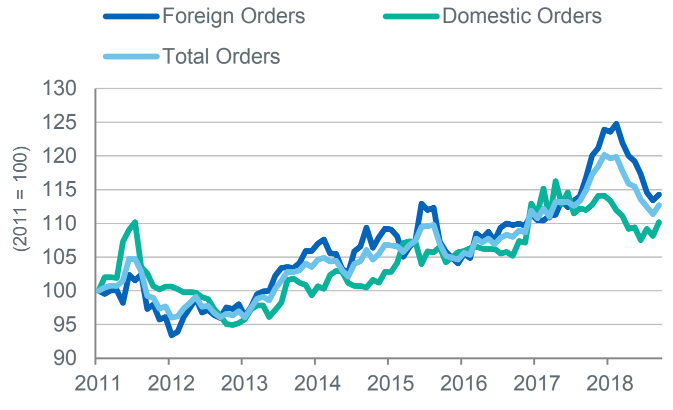
Germany

Germany's GDP growth was significantly weaker in 3Q18 than we had forecast in the September GEO. While our projection foresaw growth of 0.5%, the actual outturn was -0.2%. Although we expect the contraction to be short-lived and driven by temporary factors, the large forecast miss means that we have revised down our growth projection for this year to 1.6% from 2.0%. Projections for next year and 2020 have been left unchanged.

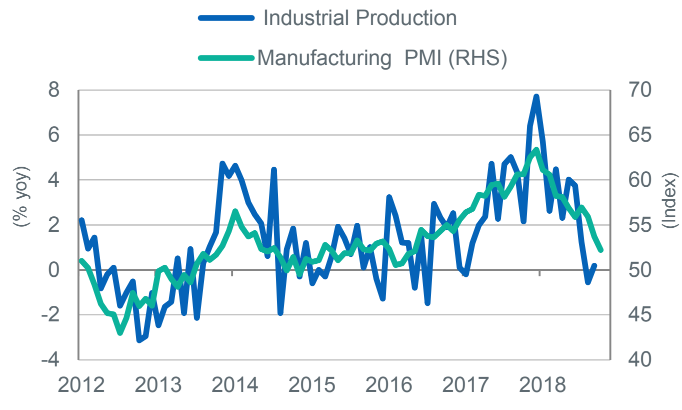
Despite the forecast miss, the recovery looks fundamentally sound. The underlying pace of domestic expansion remains underpinned by a strong labour market, upcoming fiscal easing and ongoing expansion in the construction sector. Construction companies are benefiting from soaring demand for real estate, increased investment in buildings, and higher state spending on infrastructure. In response, the number of job openings continues to grow, adding 35,000 to a total of 807,000 in November. As the labour market tightens and labour supply begins to dry up, firms may struggle to fill the record number of vacancies.

This environment should be positive for wages, which were up around 3% in 3Q18 and should rise at about this rate in 2018 overall. Consumers are also likely to benefit from a boost to real incomes as the price of oil drops. In addition, the German cabinet agreed last month to increase the national minimum wage in 2019 and 2020. Low borrowing costs and upbeat consumer sentiment will help household spending. Investment should continue to boost the economy. The industrial sector is currently operating with stretched capacity; capacity utilisation, at 87%, is just 1.5pp below the pre-crisis high.

The main drags on the economy are the slowdown in external demand and the uncertainty created by the still unresolved US-China trade dispute and the possibility of a renewed flare-up of US-EU trade tensions. Germany's highly open economy and large auto industry leave it particularly exposed.



Source: Bundesbank, Datastream, Fitch Ratings



Source: Markit, Datastream, Fitch Ratings

Germany – Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	1.8	2.2	1.6	1.6	1.4
Consumer Spending	1.4	1.8	1.1	1.4	1.3
Fixed Investment	2.1	2.9	3.2	2.7	2.0
Net Trade (contribution pps.)	0.1	0.3	-0.4	-0.5	0.0
CPI Inflation (end-year)	0.9	1.6	1.7	1.9	2.1
Unemployment Rate	4.5	3.8	3.5	3.5	3.4
Policy Interest Rate (end-year)	0.16	0.00	0.00	0.00	0.50
Exchange Rate, EURUSD (end-year)	1.20	1.20	1.10	1.10	1.10

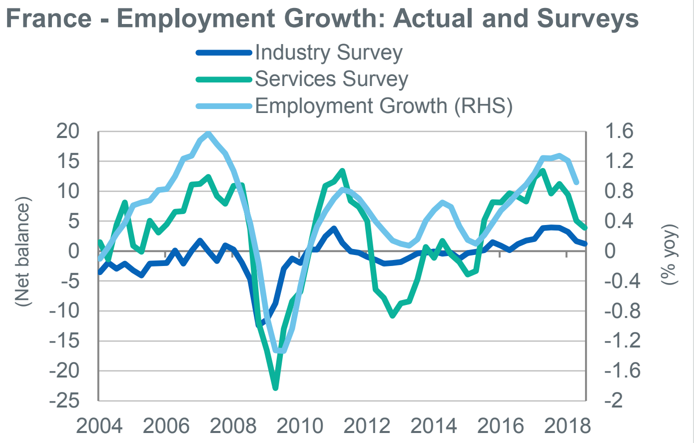
Source: Fitch Ratings

France

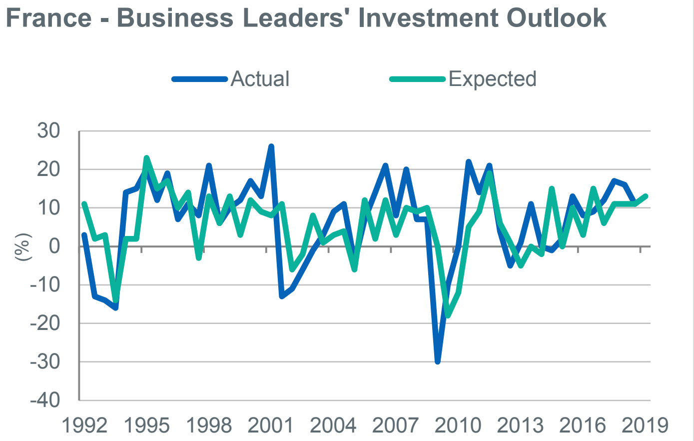
A rebound in exports and recovery in consumption helped the French economy to grow by 0.4% in 3Q18, just below the 0.5% we had expected. The economy was subject to a number of temporary headwinds during the first half of the year, both domestically and externally. An exceptionally cold spring, industrial strikes and the effect of indirect taxes and higher social contributions (CSG) affected consumption. The economy in the first half of the year was also weighed down by weak exports (-0.6% in 1Q18 and -0.1% in 2Q18) as significant aircraft deliveries at the end of 2017 were not replicated in the early part of this year. Downward revisions to export growth mean that we now expect GDP growth of 1.6% in 2018, down from 1.7% in the September GEO.

We expect consumption to reassert itself thanks to an expected easing in inflation, as oil prices fall, as well as the reduction in both unemployment insurance contributions and housing taxes. Domestic demand is also likely to find support in ongoing employment growth for the remainder of this year before moderating slightly next year as growth slows and subsidised contracts are reduced. The Manpower Employment Outlook Survey for 4Q18 noted that large employers still expect to add to their payrolls but at a slower pace, while a stronger hiring pace is anticipated in SMEs. Despite labour market tightness, wages have yet to respond.

Investment is expected to remain supported by improved corporate cash flows, low interest rates and favourable overall financing conditions. A recent survey of industrial companies by INSEE showed that the replacement of equipment continued to be the main reason for increasing capex in the first half of next year. The same survey noted that there would be a temporary pullback in investment in late 2018 in response to auto sector specific problems, similar to those that afflicted other European economies. Heading into next year, the slowing in global trade volumes and ongoing trade tariff uncertainty should result in a further moderation in export orders.



Source: Datastream, INSEE, Fitch Ratings



Source: Datastream, INSEE, Fitch Ratings

France – Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	1.2	2.2	1.6	1.7	1.6
Consumer Spending	1.2	1.0	0.9	1.4	1.3
Fixed Investment	1.5	4.5	3.0	3.2	2.2
Net Trade (contribution pps.)	-0.3	-0.1	0.5	0.0	0.1
CPI Inflation (end-year)	0.6	1.2	1.8	1.5	1.6
Unemployment Rate	10.1	9.4	8.9	8.5	8.1
Policy Interest Rate (end-year)	0.16	0.00	0.00	0.00	0.50
Exchange Rate, EURUSD (end-year)	1.20	1.20	1.10	1.10	1.10

Source: Fitch Ratings

Italy

The Italian economy contracted in 3Q18 after 14 quarters of consecutive growth. Weakness was concentrated in investment (-1.1% qoq) and consumption (-0.1% qoq). Forward-looking surveys do not bode well for the current quarter. The composite PMI, for instance, dropped below 50, the threshold that separates expansion from contraction.

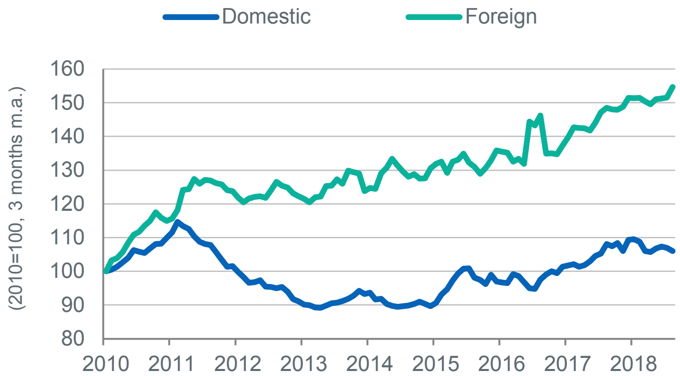
Political uncertainty at home and general concerns about global trade disputes are already affecting our growth projections for this year and next such that we now expect the outturn for 2018 to be just 1.0% (from a previous forecast of 1.2%). We have also nudged down 2019 growth by 0.1pp to 1.1%.

We are doubtful about the prospect of a looser fiscal stance boosting growth in 2019, partly because of uncertainties over implementation details and likely low multiplier impacts from some measures. There is a greater chance of a boost to public investment in 2020 but even here we have only nudged up our GDP forecast by 0.1pp to 1.0%. The main reason for discounting the benefits of looser fiscal policy on the economy is the recent increase in bond market volatility, which is increasing investment uncertainty and starting to tighten credit conditions.

The 150bp increase in Italian government bond yields since May this year threatens to curb lending to the private sector. The Bank of Italy's (BOI) November Financial Stability Report suggested that some evidence of tighter credit conditions was already emerging. BOI and Istat surveys have both recently recorded a tightening of firms' assessment of credit conditions, and the former also found that increased uncertainty and the higher cost of finance are likely to affect firms' assessment of capital expenditure.

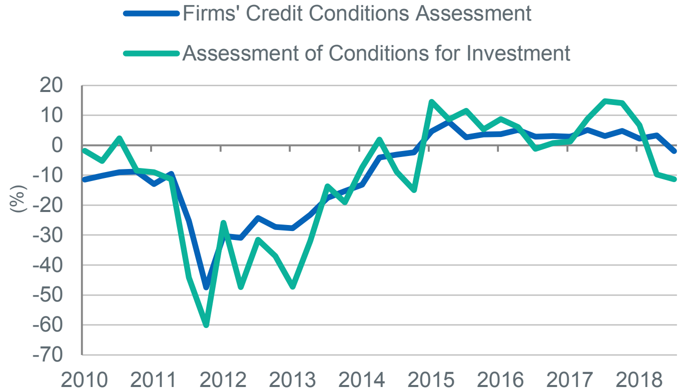
While employment is above 2008 levels and the unemployment rate has fallen to around 10%, we expect the pace of job creation to slow further in response to the loss of growth momentum, further denting the domestic economy. Cooling export demand is likely to take a toll on manufacturing, where domestic orders have been lacklustre this year.

Italy - Industrial Orders



Source: ISTAT, Datastream, Fitch Ratings

Italy - Credit Conditions and Investment Outlook



Source: Bank of Italy, Fitch Ratings

Italy – Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	0.4	1.6	1.0	1.1	1.0
Consumer Spending	0.5	1.5	0.6	0.8	1.0
Fixed Investment	0.2	4.3	4.1	2.1	1.4
Net Trade (contribution pps.)	0.0	0.3	-0.3	-0.1	-0.1
CPI Inflation (end-year)	0.6	1.0	1.3	1.6	1.8
Unemployment Rate	11.9	11.3	10.9	10.5	10.2
Policy Interest Rate (end-year)	0.16	0.00	0.00	0.00	0.50
Exchange Rate, EURUSD (end-year)	1.20	1.20	1.10	1.10	1.10

Source: Fitch Ratings

Spain

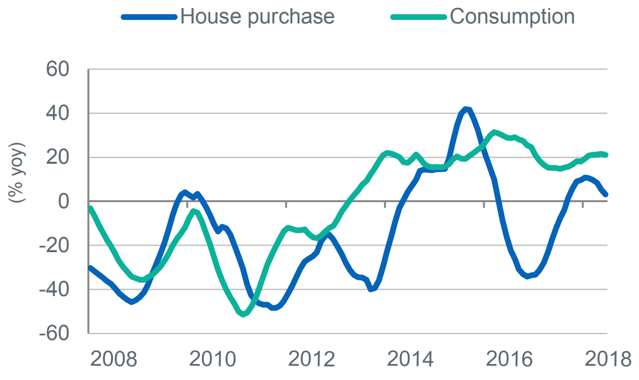
Spain continues to defy the slowdown evident elsewhere in the euro area, with GDP expanding by 0.6% in 3Q18, the same rate as in 2Q18 and close to the September GEO estimate of 0.7%. We have shaved our 2018 annual growth estimate to 2.6% from 2.7% in September, partly reflecting a downward revision to historical data for 1Q18, but we have left our 2019 and 2020 forecasts unchanged.

Domestic demand remains the driving force, with net trade detracting from growth in the first three quarters of this year. Sizeable revisions have been made to the components, with a notable upward revision to investment. The acceleration in investment reflected a strong rebound across all sectors including machinery and equipment and more specifically in transport equipment. Capex momentum continued in 3Q18.

Credit conditions remain favourable but firms' demand for loans decreased somewhat in 3Q18, partly due to a greater recourse to internal financing. Consumer credit continues to drive total demand for new loans but households may encounter less support as the economy moves forward. The pace of job creation remains upbeat for now but as this slows over time, real incomes are likely to come under pressure. Moreover, households have limited room to offset any income slowdown with savings given that these are close to their lowest in a decade.

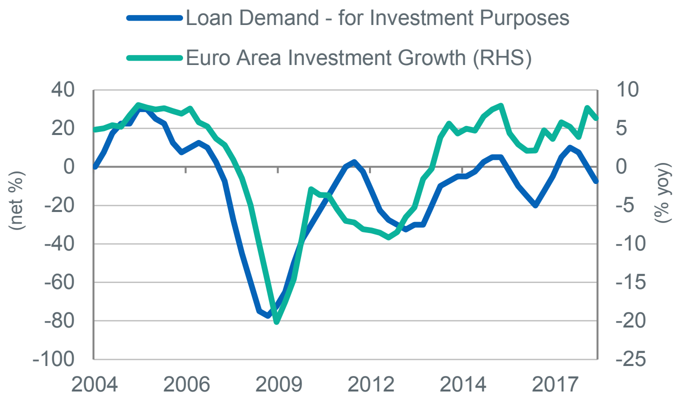
Unemployment rates have been falling steadily since 2013, helped by strong increases in temporary employment, but without further labour market reforms the still elevated level of structural unemployment will likely weigh on consumption over time. For now, high-frequency data point to 4Q18 growth being in the 0.6%-0.8% range. Surveys such as the services PMI accelerated in October helped by gains in incoming new orders, while the EU Economic Sentiment Indicator also arrested its recent decline.

Spain - New Loans to Households



Source: Datastream, Fitch Ratings

Spain - Investment Growth and Demand for Loans



Source: INE, Datastream, Fitch Ratings

Spain – Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	1.9	3.0	2.6	2.3	1.9
Consumer Spending	1.4	2.5	2.4	2.3	1.9
Fixed Investment	3.1	4.8	6.2	4.1	2.8
Net Trade (contribution pps.)	0.3	0.1	-0.5	-0.1	0.0
CPI Inflation (end-year)	0.5	1.2	1.8	1.6	1.8
Unemployment Rate	21.9	17.2	15.5	13.8	12.7
Policy Interest Rate (end-year)	0.16	0.00	0.00	0.00	0.50
Exchange Rate, EURUSD (end-year)	1.20	1.20	1.10	1.10	1.10

Source: Fitch Ratings

Switzerland

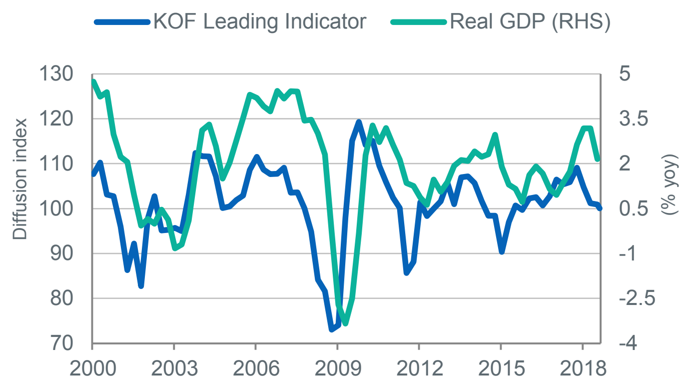
Growth in the first half of this year was artificially boosted by both the Winter Olympics and the football World Cup given that both FIFA and the IOC are based in Switzerland. This always suggested a slowdown in the second half of the year but 3Q18 GDP was much worse than expected at -0.2% qoq compared to 0.4% qoq in the September GEO. The decline was concentrated in exports and investment, and we suspect that some of the temporary factors that affected Germany and Italy may have been at play. Hence we expect a notable rebound in 4Q18. Nevertheless, our 2018 annual forecast has been revised down to 2.7% from 3.0%.

The Swiss economy has seen a sizeable boost to growth from net trade over the last 18months or so, with export demand helping its manufacturing sector. However, sentiment deteriorated at the start of the fourth quarter with the KOF leading indicator deteriorating. Like the eurozone, the outlook for the Swiss economy now looks to be suffering from the deceleration in world trade.

Domestically, however, the economy remains supported by high levels of employment, with the unemployment rate decreasing steadily since late 2016. A tightening labour market should ensure further gains in wages (currently growing at a yearly rate of around 1%) particularly given growing skills shortages reported in key professions. While consumers remain relatively optimistic in the latest SECO sentiment survey, expectations regarding household finances and savings are now below average.

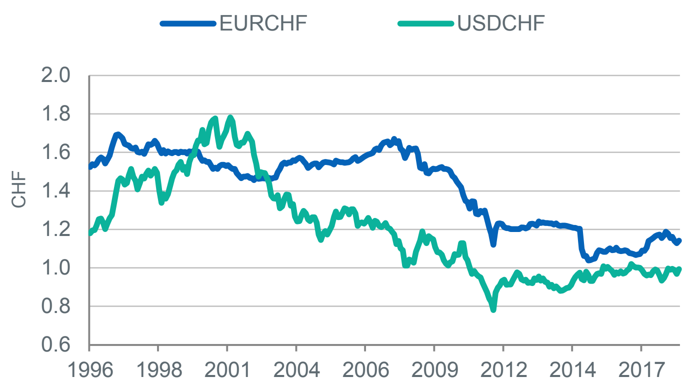
We have revised our prediction for Swiss National Bank (SNB) policy rates to reflect our change of view on the ECB rate outlook. We now expect the SNB to keep its policy rate unchanged at -0.75% in 2019 (from a previous 25bp hike to -0.5%) and to lift it to -0.25% in 2020. We believe the SNB would not want to move to a less accommodative monetary policy stance ahead of the ECB raising rates in order to avoid upward pressure on the Swiss Franc.

Switzerland - GDP and KOF Survey



Source: KOF, Datastream, Fitch Ratings

Switzerland - Swiss Franc Against EUR and USD



Source: Datastream, Fitch Ratings

Switzerland – Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	1.8	1.7	2.7	1.9	1.7
Consumer Spending	1.7	1.2	1.0	1.5	1.7
Fixed Investment	2.5	3.3	2.4	1.9	2.2
Net Trade (contribution pps.)	0.5	0.9	1.0	0.1	0.2
CPI Inflation (end-year)	-0.1	1.1	1.2	1.4	1.3
Unemployment Rate	3.2	3.2	2.9	2.8	2.9
Policy Interest Rate (end-year)	-0.41	-0.75	-0.75	-0.75	-0.25
Exchange Rate, USDCHF (end-year)	0.95	0.97	0.97	0.97	0.97

Source: Fitch Ratings

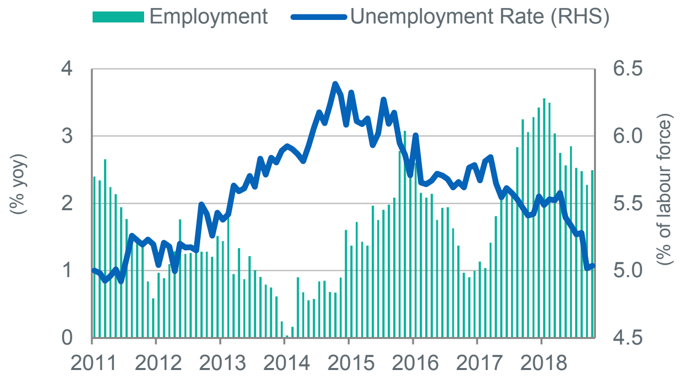
Australia

The flows of high-frequency hard data and business surveys point to a slowdown in overall activity and spending in the second half of the year, from what was a buoyant pace of expansion in 1H18. Retail sales expanded only modestly in the third quarter, while the PMI surveys in the services and construction sectors slipped sharply through the end of the year. However, business investment intentions remain elevated, supported by external tailwinds: a weakening Australian dollar (AUD) and a pick-up in the country's hard-commodity export prices. Australia's trade balance moved into surplus early this year, and reached a historically high level in September.

The economy should continue to expand at a solid, above-trend pace in 2019 and 2020. The outlook should be supported by ramped-up LNG production, robust investment (both private and public) and a tight labour market. The unemployment rate dropped to its lowest level in more than six years in October, although this partly reflected a slowdown in labour force participation growth. With leading indicators pointing to continued solid job growth in the months ahead, we look for the unemployment rate to print around 5% in 2019 and 2020, down from 5.3% in 2018.

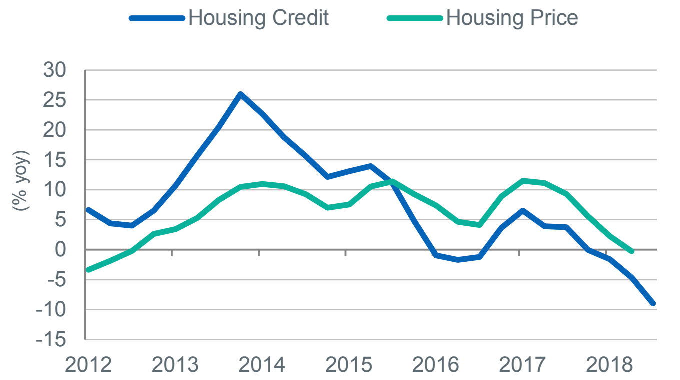
House prices have stepped down since early 2017, with outright falls registered in Sydney and Melbourne. One of the factors behind the cooling housing market has been a sharp slowdown in housing credit, amid tightening lending standards for households and property developers. The easing of Chinese demand has also played out. Softening housing prices will weigh on activity in the next two years through negative wealth effects and lower residential construction activity. Weakness in housing credit and price should keep the Reserve Bank of Australia on the dovish side and we only see a very shallow tightening cycle starting next year. We expect only 75bp of tightening by the end of 2020.

Australia - Employment



Source: ABS, Datastream, Fitch Ratings

Australia - Housing Credit and Prices



Source: ABS, Fitch Ratings

Australia – Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	2.4	2.2	3.3	2.7	2.7
Consumer Spending	2.5	2.7	2.8	2.4	2.3
Fixed Investment	-1.3	3.4	3.2	3.7	3.8
Net Trade (contribution pps.)	0.8	-0.9	-0.3	-0.2	-0.1
CPI Inflation (end-year)	1.9	1.9	1.9	2.2	2.3
Unemployment Rate	5.8	5.6	5.3	5.0	4.9
Policy Interest Rate (end-year)	2.11	1.50	1.50	1.75	2.25
Exchange Rate, USDAUD (end-year)	1.23	1.28	1.40	1.42	1.39

Source: Fitch Ratings

Canada

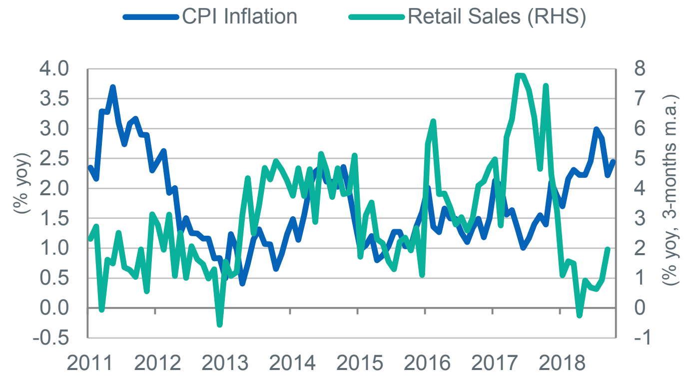
Agreement on a revised trade pact to replace NAFTA, the United States-Mexico-Canada Agreement (USMCA), reduces downside risks to the Canadian economy and has contributed to an upward revision to our 2019 GDP growth forecast to 1.9% from 1.6%. We also expect consumption to be somewhat more resilient than we previously forecast. We still expect growth to decelerate in 2020, in line with our forecast for the US, but we have revised up our growth forecast to 1.7%. This is in line with our upwardly revised estimate of long-term potential growth.

GDP grew by 0.5% in 3Q18, in line with the September GEO and down slightly from 2Q18. Both consumption and, particularly, capex were weak but net trade made a large positive contribution thanks to a decline in imports. In addition to reduced NAFTA uncertainty, investment should benefit from the announcement in November's Fall Economic Statement of expanded tax breaks for business investment that could cost up to CAD5 billion in revenue (or 0.2% of GDP) in 2019. Set against this is the impact of a rapid fall in commodity prices and pressure on the price of Canada's heavy crude resulting from transport constraints. If sustained, this could weigh on investment growth.

Inflation has come back close to the target after transitory rises in fuel, travel and transport prices. Inflation was 2.4% in September, and Fitch expects it to remain within the target range. Wage growth has eased in recent months despite low unemployment. This relates partly to the previous introduction of higher minimum wages.

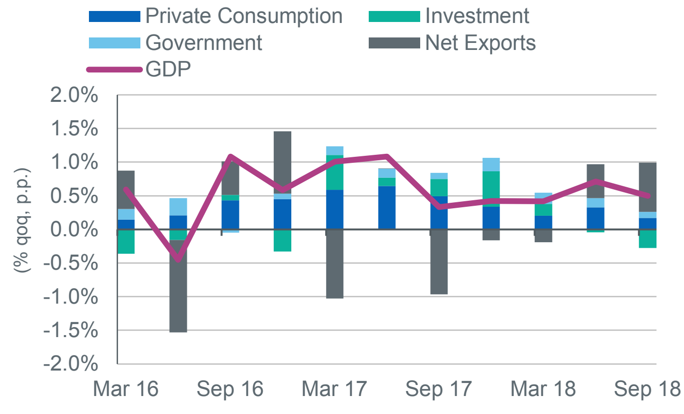
The Bank of Canada increased interest rates for a third time this year at its October meeting, the first since the NAFTA deal, and removed the word "gradual" from its guidance on future rate moves. We expect it to match the Fed in terms of rate rises in 2019. The Canadian consumer remains sensitive to higher rates thanks to high household debt, but policy rate rises will feed through only gradually to mortgage rates. Transactions in the housing market are starting to recover, although new mortgage lending volumes are sluggish.

Canada - CPI Inflation and Retail Sales



Source: CANSIM, Datastream, Fitch Ratings

Canada - GDP Growth Contributions



Source: CANSIM, Datastream, Fitch Ratings

Canada – Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	2.0	3.0	2.1	1.9	1.7
Consumer Spending	2.6	3.6	2.3	1.8	1.8
Fixed Investment	-0.6	3.0	2.8	2.1	2.9
Net Trade (contribution pps.)	0.3	-1.0	-0.1	0.2	-0.4
CPI Inflation (end-year)	1.4	1.9	2.4	2.1	2.2
Unemployment Rate	6.8	6.3	5.8	5.6	5.6
Policy Interest Rate (end-year)	0.77	1.00	1.75	2.50	2.75
Exchange Rate, USDCAD (end-year)	1.21	1.25	1.30	1.30	1.30

Source: Fitch Ratings

Brazil

Fitch forecasts Brazilian GDP growth to reach 1.3% in 2018 and to average 2.5% in 2019-2020. After a weak second quarter, which was adversely affected by the May truckers' strike and policy uncertainty due to the election cycle, an economic recovery was recorded in 3Q18. GDP grew by 0.8% in 3Q18, broadly in line with the September GEO (0.9%) and boosted by strong investment and exports and a recovery in consumption.

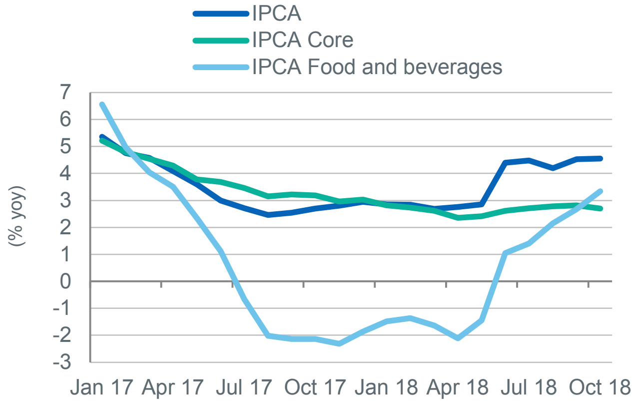
Fitch expects that external demand and an easing of political and policy uncertainties will support a gradual economic recovery in 2019-2020. The positive market reaction to the election result could impart greater confidence and be positive for investment trends in 2019. However, further upside to growth would partly depend on the economic agenda of the incoming administration of President-elect Bolsonaro, who will take office on 1 January.

While the incoming administration is supporting a broadly market-friendly agenda, there is continued uncertainty over how successful it will be in pushing through deeply unpopular fiscal reforms in a fragmented congress. Disappointment with the economic reform agenda is the biggest domestic risk for confidence and activity, while tighter external financing conditions, lower commodity prices and Argentina's economic contraction are the chief external risks.

An output gap and a gradual recovery combined with a still high unemployment rate have kept underlying inflationary pressures in check, and we expect inflation to end 2018 slightly below the target for the year.

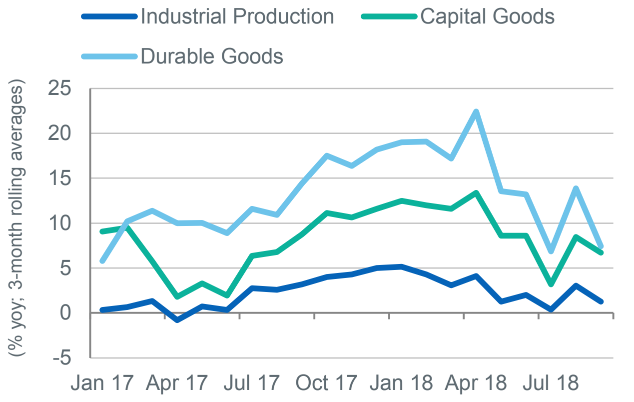
The central bank has kept rates stable for most of the year. Fitch expects the bank to maintain rates until the end of 2018 and to increase them gradually over the course of 2019. Inflation expectations remain well anchored around the inflation target. Inflation targets are set to decline from the current 4.5% to 4.25% in 2019 and 4.0% in 2020. The BRL responded positively to the election result, although it has recently faced depreciating pressures. Such pressures could persist on the back of tighter external conditions or if the reform momentum proves to be underwhelming.

Brazil - Inflation Trend



Source: BCB, Fitch Ratings

Brazil - Industrial Production



Source: BCB, Fitch Ratings

Brazil – Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	-0.5	1.1	1.3	2.2	2.7
Consumer Spending	0.0	1.4	2.0	2.4	3.3
Fixed Investment	-5.4	-2.5	5.1	5.4	3.0
Net Trade (contribution pps.)	0.8	0.1	-1.1	-0.5	0.0
CPI Inflation (end-year)	6.8	2.9	4.1	4.3	4.0
Policy Interest Rate (end-year)	11.41	7.00	6.50	8.00	8.00
Exchange Rate, USDBRL (end-year)	2.91	3.32	3.90	3.90	3.90

Source: Fitch Ratings

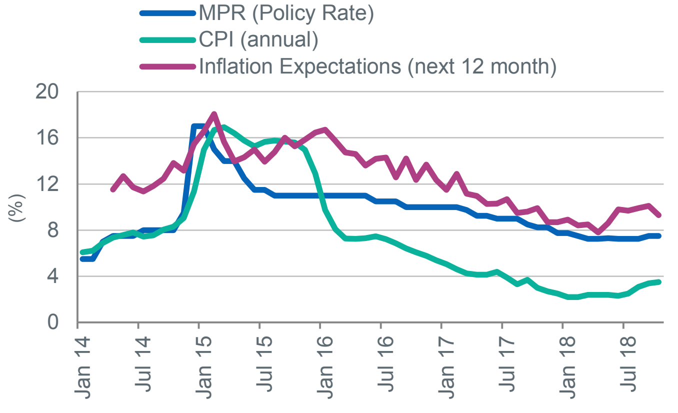
Russia

Adjustments to historical data and slower-than-projected growth in 3Q18 have led us to downgrade our forecast for Russia's 2018 GDP growth to 1.8% (from 2.0% in September). Retail sales and industrial production have slowed materially in 2H18. Nevertheless, estimated growth rebounded strongly in October (2.5% yoy), driven by industrial production. We believe that faster execution of government spending towards the end of 2018 should also provide some positive contribution. We maintain our view that growth will decelerate to 1.5% in 2019 due to tighter-than-anticipated monetary policy, a weaker RUB and the scheduled VAT increase. Growth will recover to 1.9% in 2020, supported by stronger domestic demand on the back of lower inflation, our expectation of some monetary policy easing, and faster execution of public spending.

Inflation increased moderately to 3.5% in October and we believe it will rise further to 3.9% – close to the Central Bank of Russia's (CBR) target of 4% – by year-end. It is expected to increase further to 5.2% in 2019, reflecting a weaker RUB and the 2019 VAT increase. End-2020 inflation will approach the bank's target as the effect of tax hikes wanes. We believe that the CBR will remain on hold for the rest of the year after making a "pre-emptive" 25bp hike to 7.5% in September. Another 25bp rate increase is on the cards for 2019 given the risk of increased volatility in financial markets, higher household inflation expectations and further tightening of US sanctions. This would leave room for rate cuts only in 2020, if the CBR is confident that inflation and inflation expectations are on a downward path.

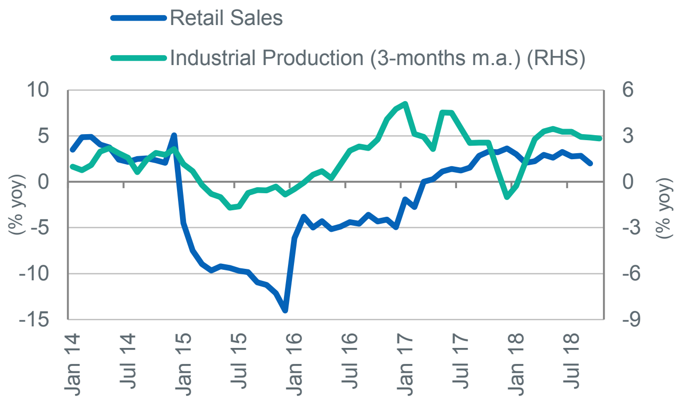
The correlation between the RUB and oil prices has weakened due to Ministry of Finance FX intervention and the increased role of market perceptions of sanctions risk. The likely postponement of sanctions legislation until 2019 has allowed the RUB to regain some ground and we expect the RUB/USD at 66.5 for end-2018 and to remain close to 67.5 in 2019-2020.

Russia - Interest Rates and Inflation



Source: FSS, CBR, Fitch Ratings

Russia - Retail Sales and Industrial Production



Source: Datastream, Fitch Ratings

Russia – Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	0.3	1.5	1.8	1.5	1.9
Consumer Spending	-0.3	3.4	2.7	2.1	2.7
Fixed Investment	-1.3	4.3	1.9	2.2	3.1
Net Trade (contribution pps.)	1.5	-2.3	0.1	-0.3	-0.4
CPI Inflation (end-year)	8.2	2.5	3.9	5.2	4.0
Policy Interest Rate (end-year)	9.17	7.75	7.50	7.75	7.25
Exchange Rate, USDRUB (end-year)	51.42	57.57	66.50	67.50	67.50

Source: Fitch Ratings

India

India's GDP growth softened quite substantially in 3Q18 (calendar year), growing by 7.1% yoy after 8.2% in the previous quarter. Consumption was the weak spot, stepping down from 8.6% to 7.0%, though still growing at a healthy rate. Other components of domestic demand fared well, notably investment, which has been steadily strengthening since 2H17. The external sector was again a significant drag on overall GDP amid steadily accelerating imports.

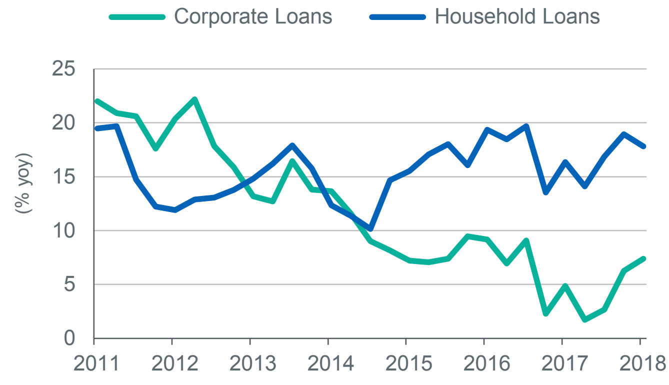
We have lowered our growth forecasts on weaker-than-expected momentum in the data, higher financing costs and reduced credit availability. We now see GDP growth at 7.2% in the fiscal year ending March 2019 (FY19), followed by 7.0% in FY20 and 7.1% in FY21.

The banking sector is still struggling with a high proportion of non-performing assets, while non-banking financial institutions (NBFIs) are facing tighter access to liquidity following the default of IL&FS, one of the 30 biggest NBFIs in India. NFBIs have accounted for a large share of all lending in recent years and have expanded credit rapidly. So far, the Reserve Bank of India (RBI) has dismissed calls by the government to provide emergency liquidity and to ease lending restrictions on the maximum volume of lending that state-run banks can provide to NBFIs.

Fiscal policy should continue to support growth in the run-up to elections in early 2019. Stepped-up public investment has helped to stem the downward trend in the investment/GDP ratio, boosted by infrastructure spending. There have also been measures to support rural demand.

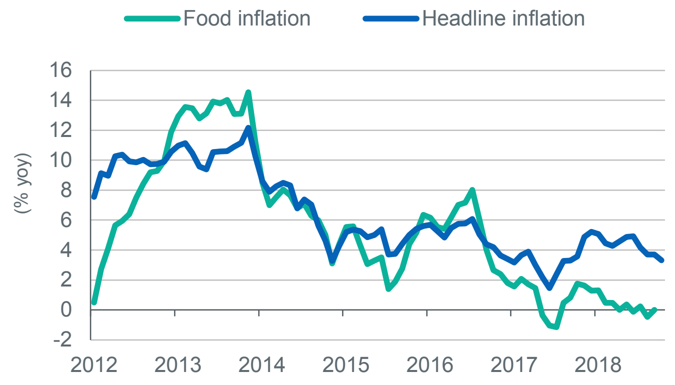
Headline inflation has slipped in recent months, and touched a 13-month low in October, at 3.3% yoy. Food prices have pulled the headline index down, but core inflation remains elevated. We expect inflation to edge up mildly in the coming months, on normalising food prices and higher import prices stemming from the depreciation of the rupee (INR). The widening of the current account deficit amidst tighter global financing conditions should put downward pressure on the currency, and we forecast the INR to weaken to 75 against the dollar by end-2019.

India - Household and Corporate Loans



Source: BIS, Datastream, Fitch Ratings

India - Headline Inflation and Food Inflation



Source: Labour Bureau, MOSPI, Fitch Ratings

India – Forecast Summary

(%) FY starting April	Ann. Av.2013-17	FY17-18	FY18-19f	FY19-20f	FY20-21f
GDP	7.1	6.7	7.2	7.0	7.1
Consumer Spending	7.0	6.6	8.0	7.4	7.2
Fixed Investment	5.4	7.6	9.6	7.7	7.3
Net Trade (contribution pps.)	0.7	-1.5	-1.6	-0.4	0.0
CPI Inflation (end-cal. year)	6.1	5.2	3.5	4.3	4.1
Policy Interest Rate (end-cal. year)	7.08	6.00	6.50	6.75	6.75
Exchange Rate, USDINR (end-cal. year)	63.22	63.83	73.00	75.00	75.00

Source: Fitch Ratings

Korea

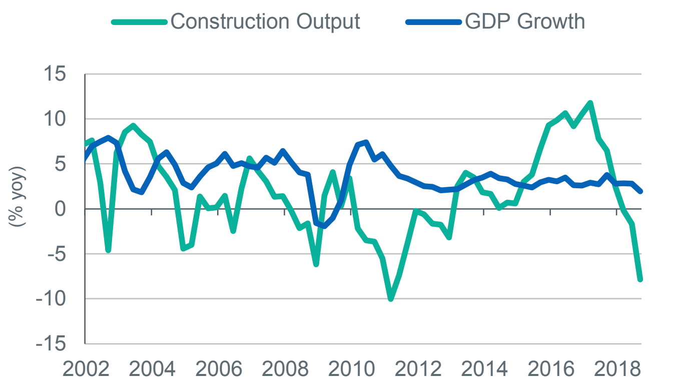
Korean GDP expanded by 0.6% qoq in 3Q18 – a steady pace from the previous quarter. Annual growth decelerated significantly, to 2.0% from 2.8%, but this reflected a strong base effect. Net exports and government consumption bolstered growth over the quarter, but investment fell sharply. The capex decline, at 4.5%, was the second consecutive large decline after a 2.9% fall in 2Q18 and has been on a scale not seen since the global financial crisis. Sharp falls in construction output have played a major role, partly reflecting macro-prudential tightening aimed at this sector. But the investment correction also reflects strong base effects after a rapid ramp-up in capex in the semi-conductor sector over the last two years.

The government has recently announced the rollout of further stimulus measures aimed at boosting private and public investment, shoring up struggling sectors such as shipbuilding, and creating jobs through subsidies and tax cuts to small businesses. Accommodative macroeconomic policies, an unwinding of base effects, and deregulation measures should help capex start to stabilise in 2019.

The labour market has shown some signs of weakness in the past few months, with a rising unemployment rate and sluggish job creation. The substantial hike in the minimum wage over the past two years has likely contributed to the pick-up in the unemployment rate, weighing on low-skilled job creation. Demographics are also weighing on employment growth. Korean export volumes have picked up steam this year and are forecast to grow at their strongest pace since 2012, buoyed by semiconductors and petrochemicals. However, while Korea's direct exposure to the US-China trade spat via global value chains is limited, the expected slowdown in the Chinese economy will curb export growth more significantly in 2019 and 2020.

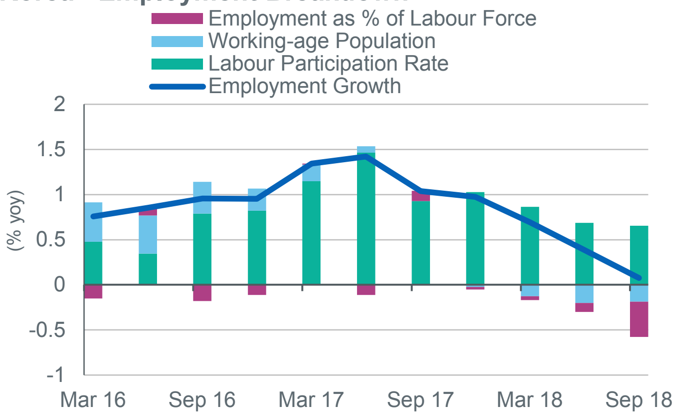
Inflation printed just at the Bank of Korea's (BoK) 2% inflation target in November. However, a slowing economy and a fall in the oil price should put downward pressure on prices within the forecast horizon. We expect the BoK to hike rates once more in 2019 after the hike at its recent November meeting.

Korea - GDP and Construction Output



Source: Kostat, Fitch Ratings

Korea - Employment Breakdown



Source: Kostat, OECD, Fitch Ratings

Korea – Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	3.0	3.1	2.6	2.5	2.5
Consumer Spending	2.2	2.6	2.8	2.6	2.4
Fixed Investment	5.2	8.6	-2.3	-1.0	2.1
Net Trade (contribution pps.)	-0.5	-2.5	1.6	1.4	0.3
CPI Inflation (end-year)	1.2	1.5	1.9	1.8	1.8
Policy Interest Rate (end-year)	1.84	1.50	1.75	2.00	2.25
Exchange Rate, USDKRW (end-year)	1114	1071	1130	1150	1150

Source: Fitch Ratings

Indonesia

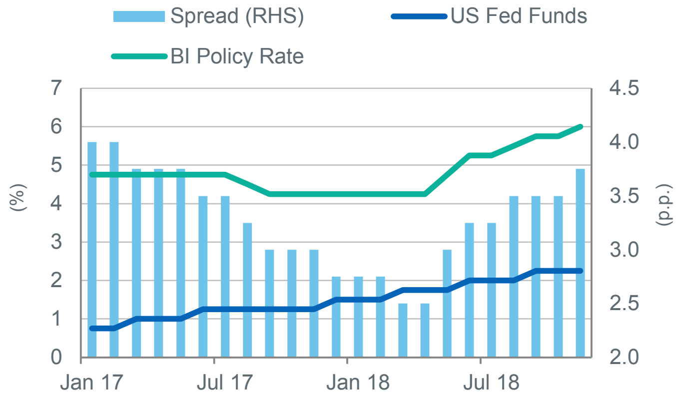
Indonesia's GDP growth remained broadly steady in 3Q18, slowing only slightly from 5.3% yoy to 5.2%. The breakdown showed that government consumption and investment picked up further, while consumption slowed slightly. Growth in exports and imports eased but remained buoyant. The external sector contributed negatively to growth as import growth outpaced export growth.

GDP growth is forecast to decline to 5.0% next year (revised from 5.1% in the September GEO) due to tighter financial conditions, but the slowdown is expected to be moderate given the economy's relatively low leverage. Consumer confidence has slipped in recent months, but it remains quite elevated amid low inflation. Domestic vehicles sales have remained solid at the beginning of 4Q18. Investment is expected to be the main driver of slower GDP growth next year. Higher financing costs, coupled with the rollout of measures by the government to curb the rapid rise of imports, are expected to take an increasing toll on capital expenditure.

Inflation has remained soft over the past few months, hovering around 3% – at the lower end of Bank Indonesia's (BI) target range (3.5%+/-1%). Fuel and price controls have dampened price pressures from earlier increases in global oil prices. We expect inflation to remain contained, on a slowing economy and lower oil price.

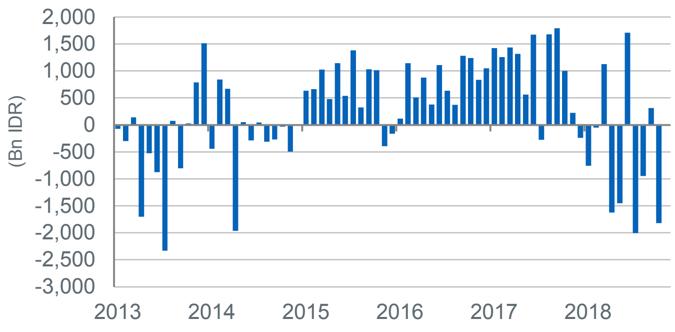
BI raised its benchmark interest rate to 6% at its November meeting, the sixth hike this year. for a cumulative 175 bps of hikes since this May This came after a surprise jump in imports expanded the trade deficit in October, sparking fears of renewed downward pressure on the rupiah (IDR). The IDR has nevertheless been steadily regaining ground against the dollar since early November, amid an easing in tensions in global markets. However, the high foreign ownership of rupiah-denominated government bonds, the wider current account deficit and the declining buffers of foreign exchange reserves still leave the IDR vulnerable to shifts in market sentiment. We expect BI to broadly follow the Fed, with two hikes in 2019 and one in 2020.

Indonesia - Policy Rate vs US Fed Funds



Source: Fed, BI, Fitch Ratings

Indonesia - Trade Balance



Source: Datastream, Fitch Ratings

Indonesia – Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	5.1	5.1	5.2	5.0	5.1
Consumer Spending	5.1	5.0	5.1	4.9	5.1
Fixed Investment	5.0	6.2	6.7	5.4	5.6
Net Trade (contribution pps.)	0.3	0.3	-0.7	0.5	0.1
CPI Inflation (end-year)	5.3	3.6	3.2	3.3	3.0
Policy Interest Rate (end-year)	6.42	4.25	6.00	6.50	6.75
Exchange Rate, USDIDR (end-year)	12477	13568	14600	14800	15000

Source: Fitch Ratings

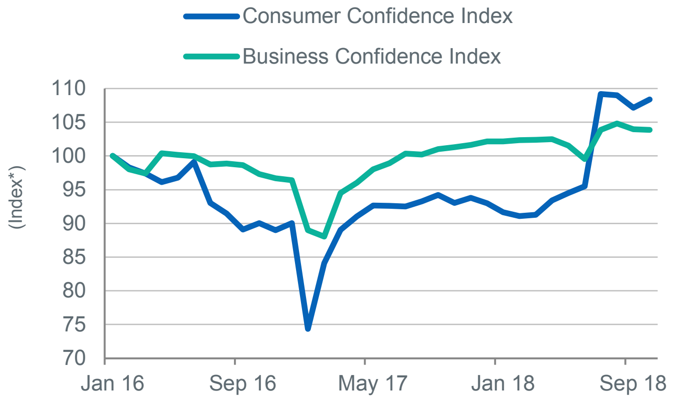
Mexico

Mexico's GDP growth was slightly better than expected in 3Q18, at 0.8% qoq, leading Fitch to revise up its 2018 growth estimate to 2.2%. Some of this positive momentum will carry over into 2019. The election of Andres Manuel Lopez Obrador in July, taking office in early December, has led to higher consumer confidence, underpinning consumption. This could be bolstered by higher transfers to be included in the 2019 budget to be presented in December. Also on the upside, uncertainties over trade with the US are reduced by the prospect of a USMCA agreement being ratified in 2019, or at least a lower risk of a termination of NAFTA.

However, we expect lower business investment growth in 2019 as the policies of the new government lead to greater uncertainty. The decision in October to cancel the world's largest airport project near Mexico City will have a noticeable direct impact on investment in 2019. Other proposals to outlaw some commercial bank fees and other proposals made by the presidential transition team have unsettled financial markets, and the risk premium on domestic Mexican assets will stay higher for longer. The medium-term growth outlook depends partly on the fortunes of the oil sector. We assume a stabilisation in oil output in 2019-2020 but there are downside risks for operational and policy reasons.

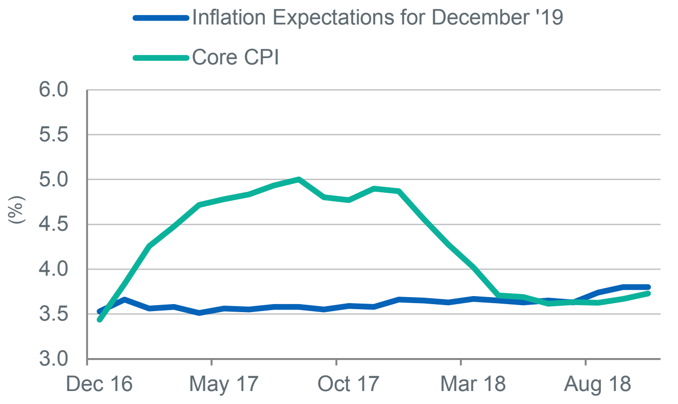
We have lowered our forecast for the peso despite Banco de Mexico's decision to raise rates by 25bp to 8.0% in November. With three Fed hikes expected in 2019, the scope for Banxico to cut rates is limited. But we do see rates starting to fall gradually later in 2019 and through 2020 as inflation continues to decline towards its target, reaching 3.9% by end-2019, slightly above our previous forecast given peso weakness. The incoming administration has pledged to maintain a relatively tight fiscal policy, targeting a primary surplus of 0.8% of GDP. A departure from this or a less credible budget could mean tighter monetary policy.

Mexico - Consumer and Business Confidence



Source: INEGI, Fitch Ratings
Note: *January 2016 = 100, seasonally adjusted

Mexico - Core CPI and Inflation Expectations



Source: The Bank of Mexico, Datastream, Fitch Ratings

Mexico – Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	2.5	2.0	2.2	2.1	2.4
Consumer Spending	2.7	3.0	2.5	2.3	2.7
Fixed Investment	0.9	-1.5	3.7	1.6	2.1
Net Trade (contribution pps.)	0.0	-0.9	0.4	0.4	0.0
CPI Inflation (end-year)	3.9	6.8	4.7	3.9	3.5
Policy Interest Rate (end-year)	4.24	7.25	8.00	7.75	6.75
Exchange Rate, USDMXN (end-year)	15.91	19.57	20.00	20.00	19.50

Source: Fitch Ratings

Poland

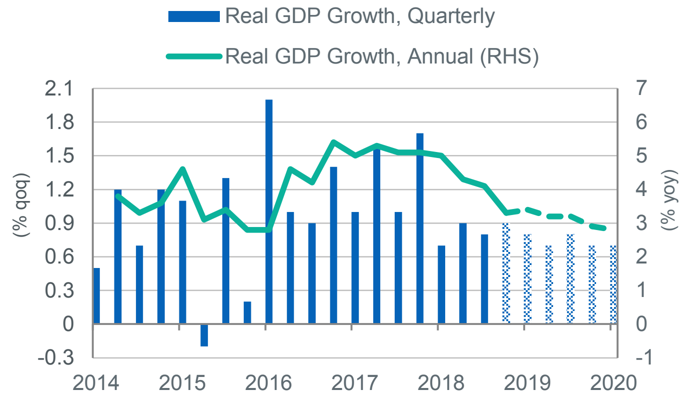
Poland's real GDP growth exceeded expectations at 5.1% yoy in 3Q18 (1H18: 5.2%), while 2017 growth was revised up to 4.8%. Growth was underpinned by slightly lower but still strong consumer spending growth of 4.5 % yoy. Investment growth more than doubled to 9.9% yoy. In the run-up to parliamentary elections in 2H19, Fitch expects some fiscal loosening – primarily in the form of greater social spending – which will support growth.

Nevertheless, growth is forecast to slow over 2019 and 2020, as the pace of increase in EU fund absorption eases. Further, private investment growth will lag public investment growth as investors face staffing constraints. The contribution of net exports to GDP growth will turn positive over 2019-2020, helped by relatively robust export growth. The output gap should remain positive, peaking at 1.5% in 2018 and 2019 as estimated by the European Commission.

In an environment of low unemployment (5.7% as of October 2018), wage growth remains solid (October 2018: 7.6% yoy in nominal terms). Combined with expected increases in electricity prices, the feed-through to inflation is likely to be slightly faster than previously expected. Fitch expects headline inflation to exceed the mid-point (2.5%) of the National Bank of Poland's (NBP) inflation target band by end-2019.

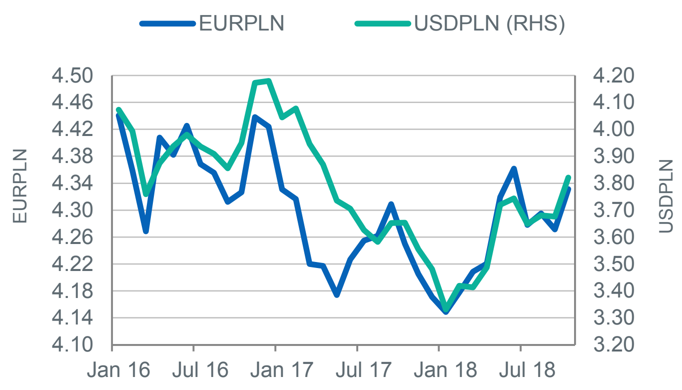
Consequently, the NBP is forecast to hike rates by 25bp in 2019 (the policy rate has remained at 1.5% since 1Q15), buttressed by the bank's less dovish rhetoric in recent months. This is lower than our previous forecast of a 50bp hike, reflecting our revised view on the outlook for ECB rates. The zloty has been under pressure for much of 2018 (down 10% against the USD and 3.8% against the euro in the first eight months of 2018), driven in part by emerging market volatility and some domestic considerations. Fitch expects the zloty to remain steady in 2019-2020, averaging 3.75 against the USD.

Poland - Real GDP Growth Forecast



Source: Eurostat, Datastream, Fitch Ratings

Poland - Polish Zloty



Source: Datastream, Fitch Ratings

Poland – Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	3.3	4.8	5.1	3.8	3.0
Consumer Spending	2.9	4.9	4.5	3.6	3.4
Fixed Investment	2.2	3.9	6.3	3.7	0.8
Net Trade (contribution pps.)	0.4	-0.2	-0.5	0.0	0.4
CPI Inflation (end-year)	0.4	2.1	2.3	2.7	2.5
Policy Interest Rate (end-year)	1.98	1.50	1.50	1.75	2.50
Exchange Rate, USDPLN (end-year)	3.56	3.47	3.75	3.75	3.75

Source: Fitch Ratings

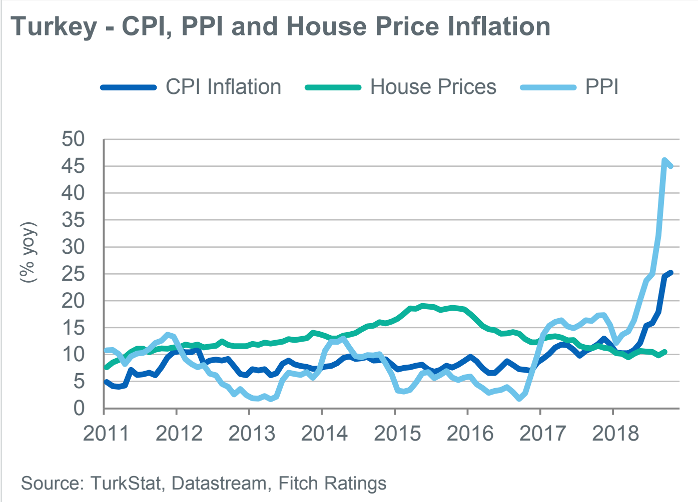
Turkey

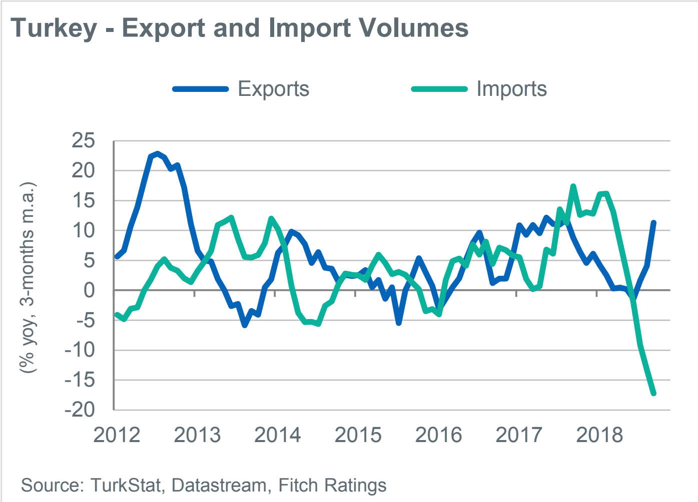
Fitch has adjusted its macroeconomic outlook for Turkey modestly to reflect recent high-frequency data. Our core scenario of a prolonged period of below-trend growth, high inflation and forced external adjustment against a backdrop of relatively tight domestic policy settings and tough external conditions remains unchanged. Banks' recent ability to access external financing, a rebound in the currency and reduced geopolitical tensions have caused a bottoming of confidence indicators. However, the strains in the real economy are more evident and Fitch has trimmed its growth estimates.

Credit availability has dropped sharply and firms are reporting delays in collecting receivables as tighter financing conditions bite. Domestic demand has slumped and unemployment is rising. Fiscal policy has been tightened (notwithstanding some recent temporary tax cuts) and will be a headwind to growth, particularly after the local elections scheduled for March 2019. Net trade and services will provide the main support for growth, due to the weaker lira, though the requirement for imported inputs and the structure of supply contracts will neutralise some of these benefits.

Inflation jumped faster than expected in October (2.7% mom), bringing the yoy rate to 25.2% before falling back to 21.6% in November. Inflation will decline owing to the collapse in domestic demand, although base effects are likely to keep it over 20% until 2H19, and there is uncertainty around the pace of decline; prices of non-tradeables have increased faster than potentially justified, but some in the private sector have been unable to pass on higher costs (October PPI 45.1%) and need to rebuild margins.

Our projected inflation trajectory and the tough external financing environment mean that we do not expect policy rates to be cut until late 2019. Our view on the lira has strengthened slightly (from an average of USDTRY6.2), but this remains subject to considerable uncertainty. A premature loosening of domestic policy settings could lead to renewed market pressure on the currency.





Turkey – Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	6.1	7.4	3.5	0.6	3.2
Consumer Spending	5.2	6.1	4.6	-1.9	3.1
Fixed Investment	7.7	7.8	2.5	-5.9	2.5
Net Trade (contribution pps.)	-0.2	0.1	1.7	3.4	0.5
CPI Inflation (end-year)	8.6	11.9	25.0	17.0	10.0
Policy Interest Rate (end-year)	7.38	8.00	24.00	22.00	16.00
Exchange Rate, USDTRY (end-year)	2.70	3.79	5.80	5.90	6.00

Source: Fitch Ratings

South Africa

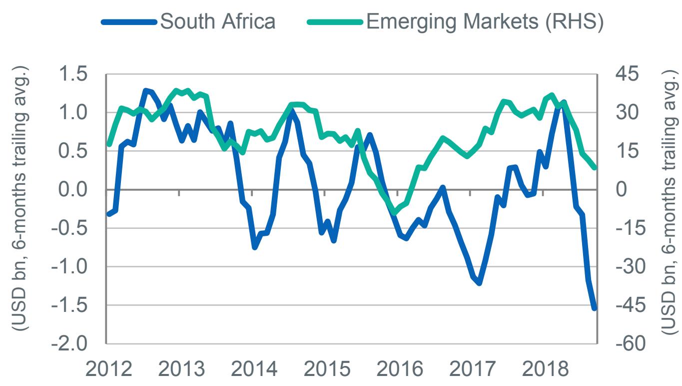
Following the technical recession in the first half of 2018, South African GDP grew by 0.6% in 3Q18. Growth will recover only gradually, to 2.1% in 2019 and 2020. This would be the highest growth rate since 2013 but only moderately above population growth of around 1.5%. Structural problems including skills mismatches, relatively high wages and weak domestic competition persist, while confidence is slow to return.

A government package to boost growth focused on accelerating limited structural reforms already under discussion and on expenditure reprioritisation. Nonetheless, the Medium-Term Budget Policy Statement raised deficit projections, reflecting both problems in tax administration and weak growth. Planned constitutional and legislative changes on land reform are unlikely to hurt the economy directly, but could still unnerve investors amid heightened populist rhetoric ahead of the May 2019 election. A new mining charter took effect after years of discussions, raising the compliance burden moderately but eliminating the risk of more drastic measures over the medium term, leaving the impact on mining investment uncertain.

After a sharp depreciation reflecting wider emerging-market risk aversion, surprisingly weak growth data and reversal of unusually strong inflows at the beginning of the year, the rand has recovered but remains vulnerable in an environment of global financial tightening. The impact of rand weakness on inflation has so far been well contained, with only a modest rise of the headline number to 5.1% in October also reflecting higher oil prices and a 1pp VAT rate hike in April.

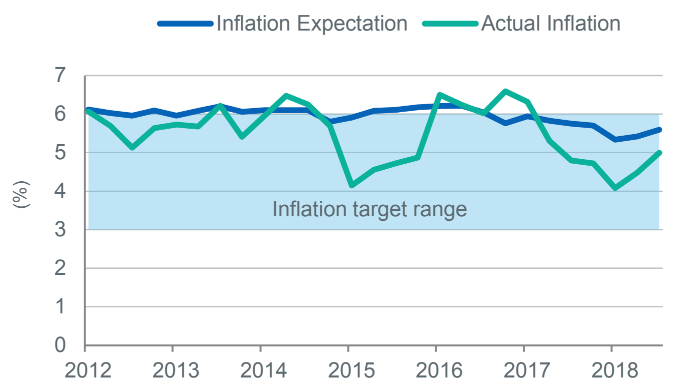
The South African Reserve Bank (SARB) raised its interest rates by 25bp in November, and we forecast another two rate hikes by end-2020. While its model suggests the output gap will still be negative even in 2020, the central bank remains concerned that inflation expectations hover close to the upper bound of its 3%-6% target range and has chosen to reassert its inflation-fighting credentials. The SARB model points to another three hikes by 2020, but inflation has repeatedly undershot the model's forecasts.

South Africa - Net Portfolio Flows



Source: IIF, Fitch Ratings

South Africa - Inflation



Source: BER, South Africa, Datastream, Fitch Ratings

South Africa – Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	1.5	1.3	0.6	2.1	2.1
Consumer Spending	1.5	2.2	1.7	2.2	2.3
Fixed Investment	1.5	0.4	0.4	3.3	3.8
Net Trade (contribution pps.)	0.2	-0.5	-0.5	0.0	-0.2
CPI Inflation (end-year)	5.6	4.7	5.3	5.3	5.2
Policy Interest Rate (end-year)	6.08	6.75	6.75	7.00	7.25
Exchange Rate, USDZAR (end-year)	12.25	12.38	13.90	14.80	15.10

Source: Fitch Ratings

Appendix 1: Quarterly GDP Q/Q

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

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

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

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

Source: Fitch Ratings

Appendix 2: Quarterly GDP Y/Y

(%)	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19
US	1.9	2.1	2.3	2.5	2.6	2.9	3.0	3.2	3.3	2.8
Euro area	2.1	2.5	2.8	2.7	2.4	2.2	1.7	1.5	1.6	1.6
China	6.9	6.9	6.8	6.8	6.8	6.7	6.5	6.3	6.1	6.0
Japan	1.3	1.6	2.0	2.0	1.1	1.4	0.4	0.7	1.2	0.7
UK	1.8	1.9	1.8	1.4	1.1	1.2	1.5	1.4	1.6	1.5
Germany	2.1	2.2	2.7	2.8	2.0	1.9	1.2	1.4	1.5	1.4
France	1.4	2.3	2.7	2.8	2.2	1.6	1.4	1.2	1.4	1.7
Italy	1.6	1.7	1.7	1.6	1.4	1.2	0.7	0.7	0.7	0.9
Spain	2.9	3.1	2.9	3.1	2.8	2.5	2.5	2.4	2.4	2.4
Switzerland	1.2	1.0	1.7	2.5	2.9	3.2	2.2	2.3	1.8	1.6
Australia	1.9	1.9	2.7	2.4	3.2	3.4	3.3	3.3	2.8	2.6
Canada	2.2	3.8	3.0	2.9	2.3	1.9	2.1	2.2	2.2	1.9
Brazil	0.1	0.6	1.4	2.2	1.2	0.9	1.3	1.7	2.0	2.4
Russia	0.6	2.5	2.2	0.9	1.3	1.9	1.3	2.1	2.0	1.4
India	6.1	5.6	6.3	7.0	7.7	8.2	7.1	7.0	6.7	6.4
Korea	2.9	2.8	3.8	2.8	2.8	2.8	2.0	2.8	2.5	2.5
Mexico	3.5	1.9	1.5	1.5	1.2	2.6	2.5	2.3	1.9	2.5
Indonesia	5.0	5.0	5.1	5.2	5.1	5.3	5.2	5.2	5.1	5.0
Turkey	5.3	5.3	11.5	7.3	7.3	5.2	2.5	-0.8	-1.3	-1.1
Poland	4.6	4.2	5.4	5.0	5.3	5.1	5.1	5.0	4.3	4.1
South Africa	1.0	1.2	1.6	1.4	0.8	0.4	0.4	0.2	1.5	2.1
Developed [a]	1.8	2.1	2.3	2.4	2.2	2.3	2.2	2.3	2.4	2.1
Emerging [b]	5.0	5.1	5.5	5.3	5.4	5.3	5.0	4.9	4.7	4.7
World [c]	3.0	3.2	3.5	3.4	3.4	3.4	3.2	3.2	3.2	3.0

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

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

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

Source: Fitch Ratings

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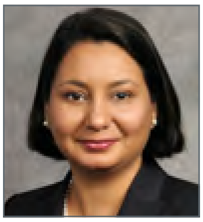

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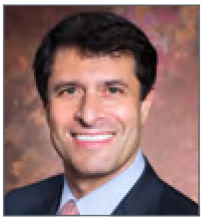

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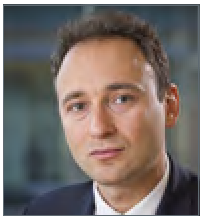

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