

## Global and European growth forecast: reasons to be cheerful

We've upgraded our forecasts for 2020

### Global growth forecast

2019 2.9% to **2.8%** | 2020 2.5% to **2.7%**

Near term indicators remain weak, but there are reasons to be cheerful further ahead:

- ⚡ **Lower energy prices** are helping to bring down inflation and boost real incomes
- 🤝 **US-China are moving closer** to a trade deal
- 📊 **Monetary policy looks easier** - interest rates may rise more slowly

European growth failed to pick up in 2018, but Eurozone fundamentals look strong and signs of a rebound are emerging:

- 📈 4th consecutive year of **above trend GDP growth** (>1.2%)
- 👍 **Above trend employment growth** for almost all member states

### European growth forecast

2019 1.6% to **1.3%** | 2020 1.2% to **1.4%**

## Emerging Markets (EM) forecast update: oil on troubled waters

Inflation outlook improves for most EM countries (ex Russia) due to:

- 📉 Falls in crude oil prices
- 📉 Domestic economic slack



### Russia

Cheaper oil means weaker currency and more imported inflation. But this had already been priced in and our growth outlook remains the same

### China

Trade war truce with the USA warrants mild optimism but its economy is still set for an ongoing slowdown

### Brazil

Economic confidence is high and Bolsonaro's ambitious pension reform proposal has encouraged investors

## Japan: Bank of Japan to stay on hold through Value Added Tax (VAT) hike

### Growth outlook

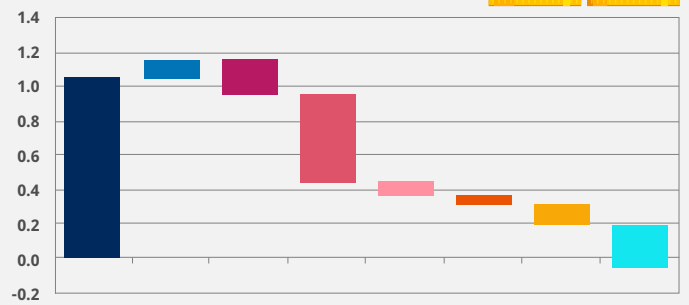
2019 1.0% to **0.7%** | 2020 0.0% to **0.4%**

8% to 10% planned rise in VAT in October

- 🏦 **Monetary policy is likely to remain unchanged** through the VAT hike
- 📊 **The short-term interest rate should be held at -0.1%** until late 2020
- 📉 **Likely decline in consumer demand**, as well as frontloading, as a result
- 🎓 **Japanese Government plan to offset the impact of the VAT hike with additional spending**

### Spending to counteract VAT increase

Cumulative net revenue, GDP %



Source: Ministry of Finance, Schroders Economics Group, 26 February 2019.

Source: Schroders as at March 2019.

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