



# Global Economic Outlook

March 2021

---

[home.kpmg/globaleconomicoutlook](https://home.kpmg/globaleconomicoutlook)



# Introduction



## Like many aspects of our lives right now, predicting the future is hard.

Forces beyond our control are affecting our personal and professional lives in ways that have not been seen for generations. Notwithstanding a certain amount of optimism that is seeping through as vaccination programs begin in a number of countries and territories, the full impact of the pandemic on economies and businesses around the world remains unclear.

With the effects of the various containment and health strategies taken by governments over the past 12 months now beginning to show, countries are all performing differently. The contraction in overall performance and employment levels has been universal but how, when and if countries will rebound remains unclear.

KPMG recognizes these differences.

In this edition of our Global Economic Outlook, Chief Economists from KPMG firms around the world including China, India, Nigeria, Saudi Arabia, the UK and the US, to name a few, identify and discuss some of the risks – and opportunities – that are facing their local governments and organizations.

Whether it be the positive influence of a predicted oil price increase across the Middle East and Africa, or the impacts felt with the cessation of government support programs in the UK, our teams seek to provide insights and perspectives that can help clients and the wider business community to better understand what the short-term future might hold.

We hope they will help you to plan a pragmatic and sustainable path to economic recovery.

Please get in touch with any of the KPMG professionals quoted within the report for further information on your specific market.

### Gary Reader

Global Head of Clients & Markets  
KPMG International

# Contents

The global outlook: Public spending after COVID	04
--	----

## Countries and regions in focus:

— <b>The US:</b> Building a bridge to the post-pandemic economy	06
— <b>China:</b> Consumption and Services should contribute more to future recovery	08
— <b>Japan:</b> Economy hopes for recovery during Olympic year	10
— <b>India:</b> Fiscal stimulus and targeted policy impetus to drive growth	12
— <b>Eurozone:</b> Short-term setbacks followed by a fragile recovery	14
— <b>UK:</b> Nascent recovery on the horizon	16
— <b>Saudi Arabia:</b> Recovery centred on oil price trends	18
— <b>Middle East:</b> GCC leads growth in the region	20
— <b>Nigeria:</b> Modest recovery despite rising oil prices	22
— <b>South Africa:</b> Path towards growth and sustainability	24

Appendix: KPMG country forecasts	26
----------------------------------	----



# The global outlook: Public spending after COVID

The COVID pandemic has almost universally expanded the role of the state around the globe.

Despite the high borrowing needed to fund a response, low interest rates have magnified the scale of sustainable borrowing by governments around the world.

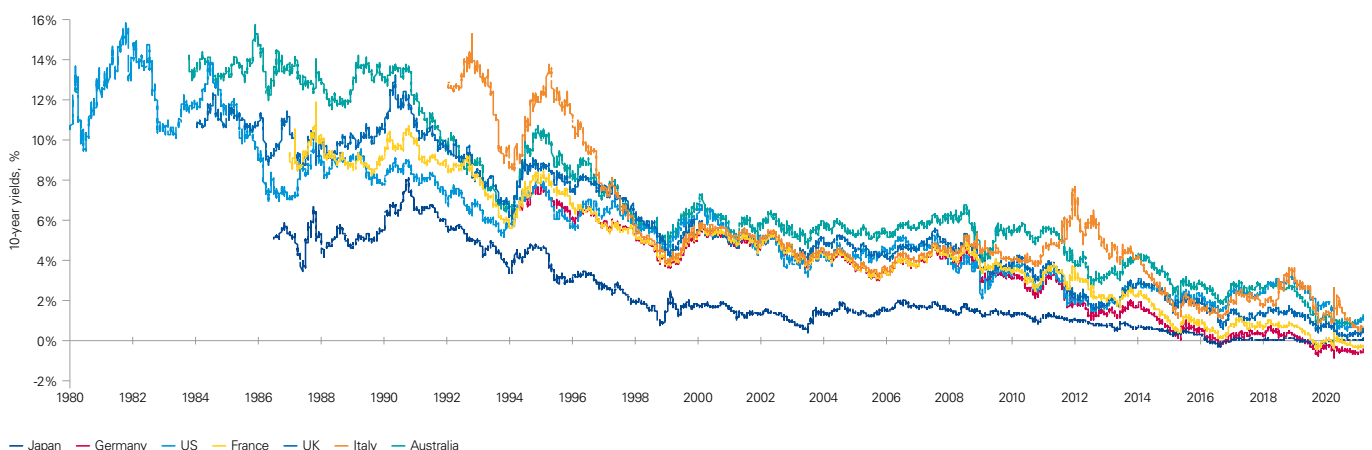
The post-COVID period could see a generational shift towards the state taking a larger role in the economy, particularly in health.

One of the legacies of the COVID pandemic could be a generational shift towards higher government spending, as fiscal policymakers adjust to the new reality of rising demands for government support while interest rates remain low.

The shock of the COVID pandemic has pushed governments to increase spending to record levels, with over USD10trillion being allocated around the world. Much of this effort has

been financed by additional borrowing, adding to the already large debt piles that governments had accumulated before the pandemic began. However, as interest rates have also fallen around the world<sup>1</sup> – the cost of servicing that debt has remained low, which could mean that some of the extra spending may remain until the crisis period of the pandemic has passed.

Chart 1: Long term interest rates have fallen over the last 30 years



Source: Refinitiv.

<sup>1</sup> Despite rising early this year, US 10-year Treasury yields are still below levels seen at the start of 2020.

## The arithmetic of debt and growth

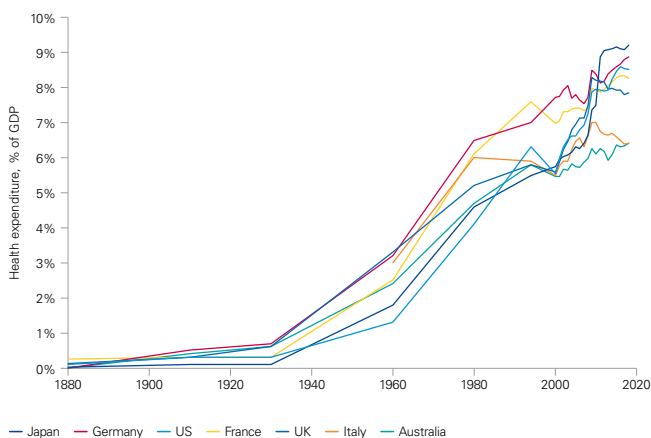
In a world where interest rates are low, the traditional view of debt as a stock against income levels has less relevance. As long as the rate of interest is below the rate of economic growth, the total stock of debt will tend to decrease as a share of GDP without the need to run fiscal surpluses. This means that deciding whether a given level of debt is sustainable becomes more a question of growth paths and interest rates than one of a balance of government revenues and spending.

Low interest rates are expected to persist well into the next decade. Historically, the overall decline in the interest rates took place gradually over a 30-year period and across multiple economies while more recently, the impact of COVID has revised down interest rate expectations.

Spending on health could be the main beneficiary, as public health systems are strengthened against further pandemics and capacity expands to reverse the backlog in postponed treatments from the last 12 months.

Spending in health is a category where levels tend to increase, both in absolute terms and as a share of overall GDP. The frontier of new treatments coupled with the rising cost of healthcare of an ageing population translates into the overall share of public sector spending also tending to increase over time. Across the more advanced economies, estimates by the WHO show that between 6% and 8% of GDP was devoted to health.

**Chart 2: A rising share of GDP is devoted to health expenditure**



Source: WHO, Tanzi and Schuktnecht (2000) via OurWorldinData.



## Risks of higher debt

However, pursuing the strategy of higher spending funded by persistent deficits does carry risks. While interest rates are low, a large stock of debt remains affordable – but even a small increase in rates could see the costs of servicing that debt spiral upwards. These risks are even greater in those countries that face a significant credit or exchange rate risk. For many, the space afforded by low interest rates may be far more limited.

### Constance Hunter

Chief Economist, KPMG LLP (KPMG US)

### Dennis Tatarkov

Senior Economist, KPMG in the UK

# United States: Building a bridge to the post-pandemic economy

The US was able to avert economic disaster in 2020 due to a significant fiscal and monetary policy response.

Nevertheless, a “K” shaped recovery is underway where industries and households most vulnerable to the pandemic are still in need of assistance to prevent long-term economic scarring.

The trajectory for recovery is dependent on a supportive policy environment and a likely step change in the level of technological know-how among firms and households which could make way for a productivity burst as the post-pandemic economy.

Broadly speaking the US was able to avert economic disaster in 2020 due to a significant fiscal and monetary policy response. 2020 GDP fell the least of any OECD economy except Sweden and Switzerland.

Nevertheless, the economic and social response to the pandemic has not been uniform. Likewise, the geographic, industry, and household impact has not been uniform, leading economists to call the recovery “K” shaped denoting the upper and lower legs of the “K”, as the relative performance of various geographies, industries, and households is bifurcated between those that are doing well versus those that are doing poorly.

Broadly speaking the goods industry is doing well as the pandemic saw a surge in goods consumption rising by 3.9% as households purchased goods that improved their experience of working and spending greater amounts of time at home. Meanwhile services consumption fell by 7.3% in 2020. Many parts of the services industry experienced both a supply and demand shock.



Table 1: KPMG forecasts for the US

	2020	2021	2022
GDP	-3.5	5.9	4.3
Inflation	1.3	2.4	2.0
Unemployment rate	8.1	5.2	3.7

Source: BEA, BLS, KPMG analysis.

Note: GDP growth is shown for the full year. Inflation and unemployment rates are annual averages.

A supply shock because services such as sporting events or live concerts were not supplied and a demand shock because services such as air travel or indoor restaurant dining were demanded at much lower levels due to concerns about the pandemic. The residential housing market is benefiting from low interest rates, high savings, and a shifting demand for what people want out of their homes. The corporate real estate market is suffering from a negative supply shock as some businesses are not allowed to open and a demand shock as others choose to remain shut until vaccinations allow the resumption of in-office work.

The “K” shaped recovery has also been seen at the household level. The large leisure and hospitality industry is now employing 22% fewer people than before the pandemic. The unemployment rate for those that must work from their job site is 8.1% compared with an unemployment rate of 3.8% for those who can work from home. In addition, the income levels of those who can work from home is higher as these are mostly occupied by those with a college education or above. Meanwhile only 9% of those with just a High School degree are able to work from home at all. This bifurcation has been assisted by the increased unemployment benefits and other supplemental income given to families in the bottom 70% of the income distribution.

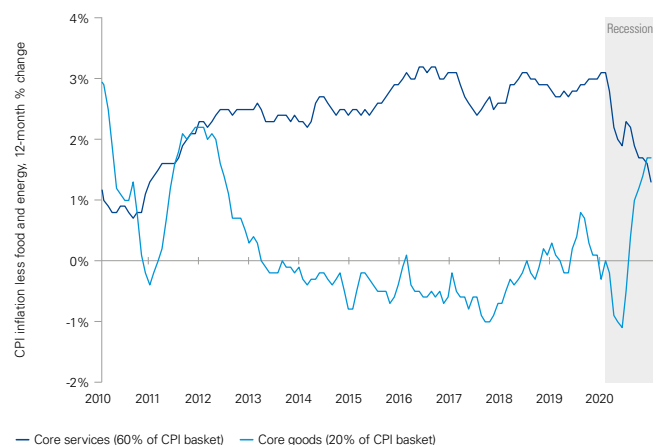
As the US and other economies deploy fiscal policy in large doses to prevent economic collapse from the lost output the pandemic caused, a key question economists are asking is “will this level of debt have unintended negative consequences in the years to come?” The fiscal and monetary assistance provided to weather the pandemic has helped many corporations, and bankruptcies in the US are down from high levels seen early in the pandemic. Nevertheless, it would seem companies cannot keep elevating debt levels indefinitely and some reckoning will be in store unless companies grow their way out of debt.

For governments, the question is more complex. Low interest rates, that are substantially below the growth and inflation rate, suggest it would be wise to borrow now to return the economy to pre-pandemic levels. The question of how debt levels will interplay with interest rates will likely be determined by the level and type of inflation: demand-pull inflation is more durable and desirable than cost-push inflation, though some level of both is to be expected, even preferred, provided that inflation does not get out of hand.

While bottlenecks are emerging in goods supply chains, we expect these to dissipate in the second half of the year. Meanwhile, base effects will drive up headline inflation through the third quarter.

Looking through these events, we do not anticipate sustained inflation above 2.5% for the next several years.

### Chart 3: Inflation dynamics suggest moderate overall price increases



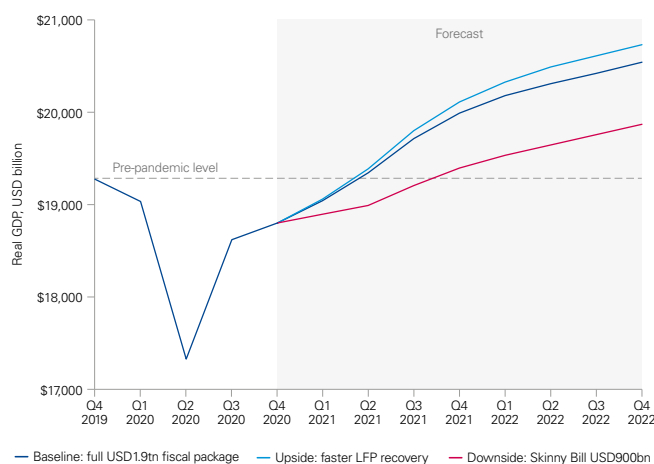
The first priority of governments is to maintain the firewall built around the COVID-impacted parts of the economy until we reach the post-pandemic economy.

The cornerstones of the firewall are income support, excess liquidity to prevent capital market dislocation, and support to firms to prevent net business exit. Efforts around income support and preventing capital markets dislocation have been very successful and the efforts to prevent business exit have been better than prior recessions. However, there will likely be some scarring in highly impacted industries such as leisure and hospitality, retail and healthcare.

Much of the Biden USD1.9 trillion fiscal relief is aimed at maintaining the economic firewall around the impacted parts of the economy. Much of the remainder is focused on increasing vaccination rates, providing assistance to impacted state and local governments, and funding to allow schools to reopen and childcare to be available.

The pandemic has caused a large number of workers to leave the labor force. More than two million workers over the age of 55 have left the labor force, likely due to health concerns for themselves or their households. An additional 2.1 million prime age workers (ages 25-54) have also left. Several studies suggest childcare issues and health concerns have been the main drivers. The return of these workers during the recovery will contribute to keeping wages and inflation in check despite significant fiscal assistance.

### Chart 4: Fiscal relief a key factor in near-term growth projections



LFP: Labor Force Participation.

Source: KPMG Economics, Bureau of Economic Analysis, Macroeconomic Advisers by IHS.

After the pandemic, the trajectory for recovery is dependent on a supportive monetary environment and likely a step change in the level of technological know-how among firms and households. We anticipate as much as the post-World War II era allowed the US economy to harness high savings rates, accumulated know-how and capital investment, and a pent-up demand for goods and services, the post-COVID era is likely to harness unprecedented levels of savings accumulation, low interest rates, a step change in technological know-how and digital transformation plus pent-up demand for goods and services. While demographics will likely prevent the same level of boom seen after World War II, we do expect above potential GDP and a possible productivity surge that should help to propel growth for several years after the pandemic.

**Constance Hunter**

Chief Economist, KPMG US



# China: Consumption and Services should contribute more to future recovery

Consumption and Services are expected to contribute more to China's economic recovery.

Strong external demand should support exports.

Stimulus policies introduced last year to fight the pandemic will be dialed back gradually. The pace of policy normalization is key.



Table 2: KPMG forecasts for China

	2020	2021	2022
GDP	2.3	8.8	5.4
Inflation	2.5	1.3	2.0
Unemployment rate	4.2	3.8	3.6

Source: Wind, KPMG forecasts. Average % change on previous calendar year except for unemployment rate, which is average annual rate. Inflation measure used is the CPI and the unemployment measure is the registered unemployment rate.

Manufacturing and exports had been the main drivers for China's economic rebound in 2020. Year-on-year growth of industrial production has turned positive since last April and has remained strong since then. In comparison, the recovery of consumption, especially service consumption, has lagged behind due to quarantine measures put in place to control the spread of COVID. With the pandemic now under control and quarantine measures gradually being lifted, consumption is recovering and we expect it to contribute more to China's economic recovery this year. For example, box office sales during the week-long Lunar New Year holiday (11-17 February) hit a record high of RMB7.8 billion (or USD1.2 billion), equivalent to almost 40% of last year's annual total.

Looking forward, we expect the Consumption and Service sectors to continue to improve in 2021. With the global economy recovering from the pandemic, demand for Chinese exports has remained robust. The distribution of vaccines across the globe has been uneven and production in many emerging markets has yet to reach full capacity. These factors should support China's exports in the months ahead.

Compared to other major economies, the Chinese government was relatively restrained in adopting large fiscal and monetary stimulus policies to help boost the economy. Nonetheless, Beijing is still expected to pull back some of the stimulus measures in order to control rising debt levels and prevent asset price inflation. It is important to monitor the pace of policy adjustment. We expect China's overall economy to continue to recover and grow 8.8% in 2021.





Stability of the labor market has been a top priority for the Chinese government in recent years. To support the labor market amid the pandemic, the government has taken various measures including expanding higher education enrolment and reducing social security contributions by companies. New urban employment reached 11.9 million in 2020, 2.9 million higher than the government target. We expect the unemployment rate will gradually return to pre-COVID levels, with an average of 3.8% in 2021.

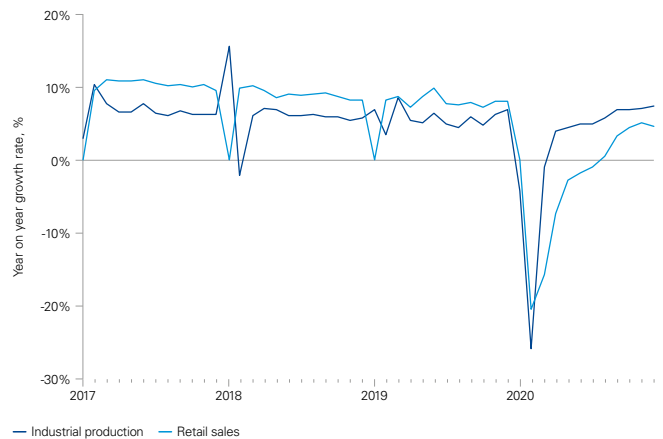
China adjusted its consumer price inflation (CPI) calculation baskets in February 2021. The weight of food prices in CPI has been reduced while the weight of housing, healthcare, transport and communications has increased, reflecting changing consumption patterns. With a gradual recovery in pork supply and a high base effect, food inflation growth should remain muted in 2021. Meanwhile, higher energy prices and improving economic activity should drive up non-food prices. We expect overall inflation to register 1.3% in 2021.

The Hong Kong (SAR) economy has seen modest sequential recovery since the second half of 2020 but it still contracted by 6.1% for the full year, its sharpest decline on record. The tourism sector took a big hit as quarantine measures restricted travel. Inbound visitors to Hong Kong (SAR) plunged by more than 93% and retail sales dropped by almost a quarter. Despite a still challenging economic environment, the Hong Kong (SAR) capital market has shown resilience. The Hong Kong Stock Exchange had 144 IPOs in 2020, including nine US-listed mainland China companies choosing secondary listings there. The funds raised totaled HKD400.2 billion, up 27% from 2019. We expect Hong Kong (SAR) to continue to be one of the leading listing destinations in 2021, driven by the growing ecosystem of innovative and New Economy companies.

**Kevin Kang, PhD**

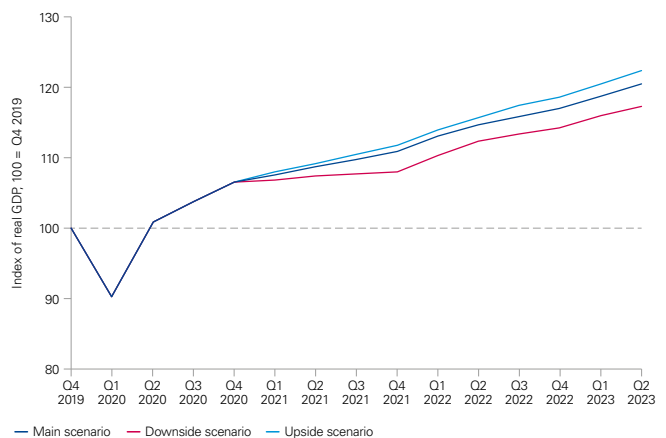
Chief Economist, KPMG China

**Chart 5: China's recovery has been led by industrial production, but consumption is improving**



Source: China National Bureau of Statistics, KPMG analysis.

**Chart 6: China's economy is expected to continue to recover**



Source: China National Bureau of Statistics, KPMG analysis.

# Japan: Economy hopes for recovery during Olympic year

Short-term economic outlook is positive as public health restrictions are to be eased in due course, and the vaccination program is rolled out.

Persistent low inflation looks set to continue as policy measures and pandemic impacts have a negative effect on prices.

Despite high borrowing levels, low interest rates provide some room for further fiscal policy stimulus.



Table 3: KPMG forecasts for Japan

	2020	2021	2022
GDP	-4.9	2.3	2.1
Inflation	0	0	0.2
Unemployment rate	2.8	3.1	2.8

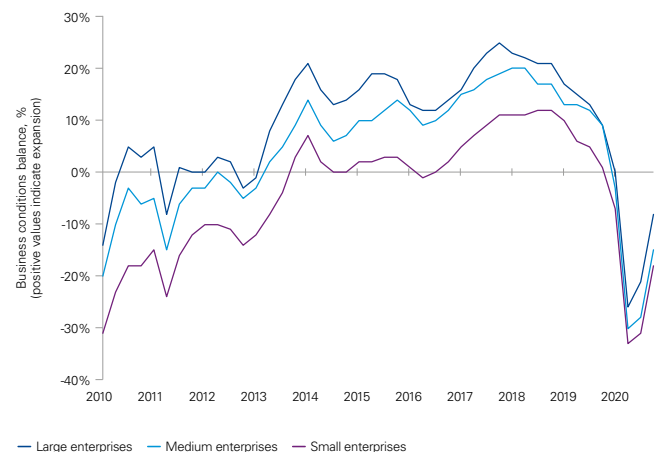
Source: Cabinet Office of Japan, Japan Ministry of Internal Affairs and Communications, KPMG analysis.

The outlook for the Japanese economy is being shaped by the overall response to the pandemic. The number of cases in Japan is the lowest amongst the G7, however a resurgence of cases early in 2021 has prompted the state of emergency to be extended. This will likely encumber activity at the start of the year.

Japan opted for a longer vaccine approval period, however, with the Pfizer vaccine receiving authorization on 14 February, the vaccination roll-out program is ongoing with priority being given to medical workers and older residents after March. This positivity is somewhat tempered by the ongoing uncertainty surrounding the 2021 Olympic Games which are set to take place later this year after being postponed last year.

After contracting by 5.1% in 2020, we expect GDP to begin to recover, growing by 2.3% this year and 2.1% in 2022. While the risk of the pandemic remains, ongoing restrictions and consumer hesitancy may inhibit activity and prevent a more fulsome recovery. The influential Tankan survey shows a gradual improvement in sentiment across all sizes of enterprise.

Chart 7: Recovering business outlook in 2021



Source: Bank of Japan.



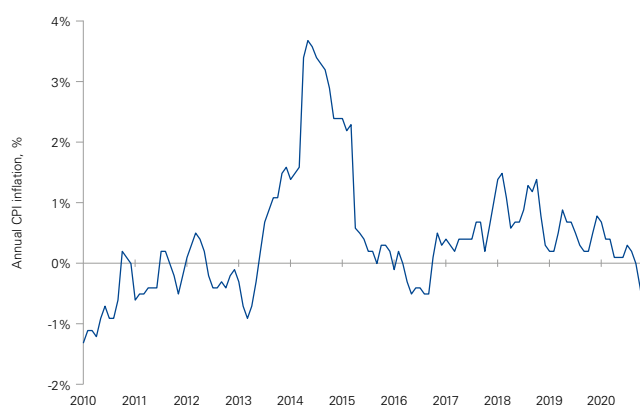
Japan's economy is set to benefit from a stronger recovery in external demand, particularly as the Chinese economy grows more steadily and the recovery across other advanced economies potentially boosts growth in exports.

However, weak domestic demand could contribute to a slow pace of inflation which was already at low levels before the start of the pandemic. This year could see another year of no change in consumer prices after monthly inflation turned sharply negative at the end of 2020 owing to the direct and indirect effects of the pandemic.

The impact of the "Go to Travel" campaign which provides a discount on domestic travel is likely to remain a factor in lowering the headline rate of inflation. The campaign has been temporarily suspended due to the ongoing state of emergency, but once reinstated it could exert a drag on inflation later this year.

As elsewhere across the more advanced economies, policy has played a major role in supporting the Japanese economy with low interest rates and high levels of fiscal spending. While Japan's overall government debt, representing about 266% of GDP, is exceptional across large advanced economies, low borrowing rates and high levels of domestic saving may allow for further stimulus packages to be launched later in the recovery. Thus far, Japan's Ministry of Finance has taken a cautious stance.

**Chart 8: Inflation has turned sharply negative in the wake of the pandemic**



Source: Japan Ministry of Internal Affairs and Communications.



# India: Fiscal stimulus and targeted policy impetus to drive growth

The Indian economy is showing early signs of a broad V-shaped recovery, owing to larger public stimulus spends, the revival of consumer confidence, robust financial markets and an uptick in manufacturing activity.

The proposed 34.5% hike in capital expenditure is expected to drive private investment while also boosting demand.

Income levels and livelihood opportunities are expected to further improve in FY22, as economic recovery gathers pace and vaccine administration progresses.

India is estimated to have one of the quickest economic rebounds in Asia.

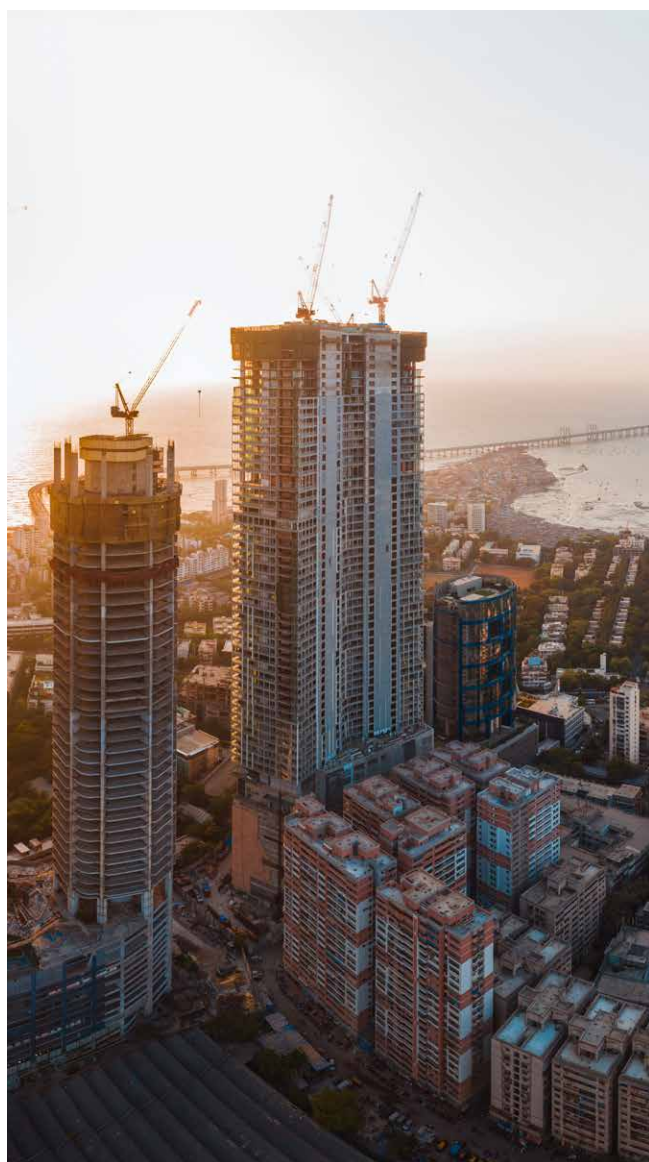


Table 4: KPMG forecasts for India

	2020	2021	2022
GDP	4.0	-8.0	10.5
Inflation	4.8	6.5	4.5
Unemployment rate*	7.6	10.4	8.1

Source: Ministry of Statistics and Programme Implementation. Real GDP (at constant prices) for FY21 is advanced estimates.

\*FY20 & FY21 is based on CMIE data.

With India emerging out of the pandemic-induced recession, its GDP improved by 0.4% in the December quarter, and these trends look set to continue in the final quarter of India's financial year, which ends on 31 March 2021. This is evident from high-frequency indicators such as Goods and Services Tax (GST) collections, automobile and tractor sales, rail freight traffic, power demand, Purchasing Managers' Index (PMI), and corporate revenues. Also, with the easing of mobility restrictions, manufacturing activity is reverting to pre-COVID levels. However, services, particularly high contact services, continue to lag.

India's GDP growth is expected to rebound to 10.5% during 2021-22. To further stimulate growth, policies over recent months have been focused on reforms that propagate growth. For example, the manufacturing sector stands to benefit from Production-Linked Incentives (PLIs) announced for key sectors that aim to showcase India as a preferred manufacturing and export hub. Meanwhile, services growth is expected to gain traction in 2H22 (especially contact-intensive services) as vaccine availability and deployment improves. The outlook for growth in agriculture is contingent on the monsoon season, and the sector is expected to maintain growth similar to the current financial year (3%, year-on-year), if the monsoons are normal.





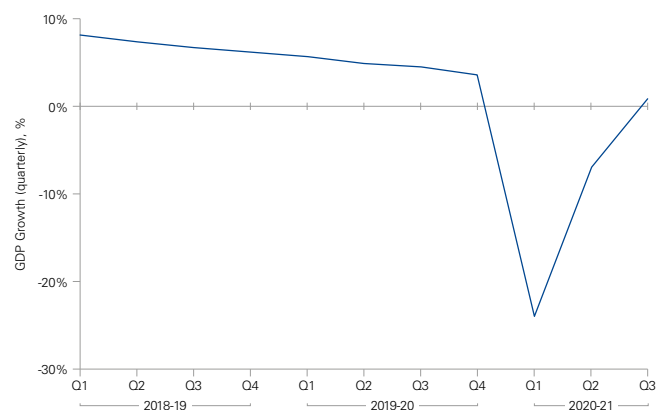
As the Indian economy returns to normalcy, there could be a healthy rise in tax collections as well as an uptick in public revenues arising from the disinvestment process. In this context, it is pertinent to note that the government has indicated that the sale of government stakes in selected State-Owned Enterprises (SOEs) as well as publicly owned banks and India's premier insurance company, is likely to be completed by the next financial year. This large-scale privatization process, coupled with the 6.8% fiscal deficit targeted for 2021-22, is expected to provide headway for incremental expenditures on healthcare and capital creation, which will play a pivotal role in enhancing the focus on sustainable economic development. These initiatives are expected to restore the pandemic-induced hiatus in the generation of new employment opportunities.

The Indian government has undertaken a slew of reforms, including labor reforms, corporate tax cuts and PLIs to steer the economy to recovery in the next financial year. However, key factors that will drive this rebound include normal monsoons, success in averting a full-fledged second wave of COVID, and discretionary spending staying unaffected by cost pressures, particularly those stemming from high pump prices of petrol and diesel.

#### Preeti Sitaram

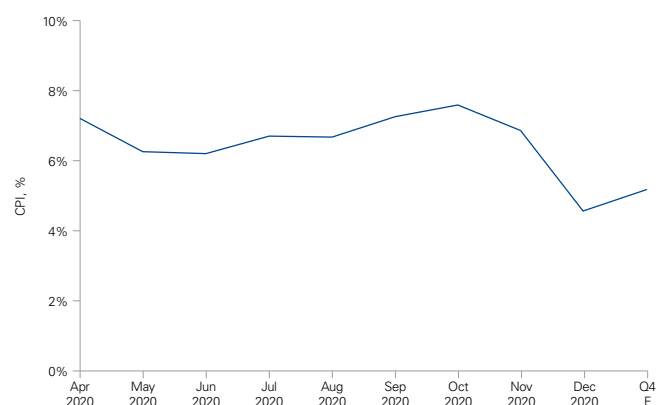
Director, Infrastructure, Government and Healthcare (IGH),  
KPMG in India

**Chart 9: Decisive signs of V-shaped recovery are visible**



Source: Ministry of Statistics and Programme Implementation. RBI - Reserve Bank of India.

**Chart 10: Inflation is likely to ease but remain above RBI's target of 4%**



Source: Ministry of Statistics and Programme Implementation. RBI - Reserve Bank of India.

# Eurozone: Short-term setbacks followed by a fragile recovery

Stricter social distancing restrictions put in place to combat rising infection numbers have set back recovery.

Despite generous fiscal and monetary support, the path to recovery will continue to diverge across the Eurozone.

As more countries entered lockdown due to a rising number of COVID cases, the Eurozone economy ended 2020 with a fresh contraction. Ongoing restrictions in the first quarter of 2021 could see further falls in output, taking the economy back into recession, albeit a much milder one than seen at the start of the pandemic in the first half of 2020.

Despite the recent rise in inflation, ECB policy rates are expected to remain unchanged over the next two years, with the ECB continuing to provide support to the economy via its program of asset purchases.

A range of national and EU lending facilities, together with grants, have been put in place to shield the economy. Most notably the Next Generation EU recovery plan, estimated at EUR750bn, is expected to provide support over the coming years through stronger investment as well as growth-oriented reforms.

Table 5: KPMG forecasts for the Eurozone

	2020	2021	2022
GDP	-6.8	4.2	4.1
Inflation	0.3	1.2	1.2
Unemployment rate	8	8.9	8.4

Source: Eurostat, KPMG forecasts. Average % change on previous calendar year except for unemployment rate, which is average annual rate. Inflation measure used is the HICP.

The outlook for this year is highly dependent on the speed of the vaccine rollout, as well as on the emergence of new variants of the virus that may require the imposition of a more prolonged series of restrictions. In addition, the varying speed of recovery from the pandemic is expected to lead to further divergence in economic performance across Eurozone countries.





Germany is one of the economies within the Eurozone to suffer the least during the pandemic, with its industrial production picking up in the second half of 2020 and exports benefiting from an early recovery in China.

The extensive measures undertaken by the French authorities to support its economy could see a relatively strong rebound in the second half of this year, provided that progress to contain the pandemic remains on track.

Recovery in the Netherlands is expected to be primarily driven by consumer spending, with investment this year remaining relatively weak due to ongoing uncertainty about the future. High levels of household debt could make the economy vulnerable to changes in consumer sentiment, although with public debt still relatively low despite the large rise in spending during the pandemic, the government has ample room to provide additional support.

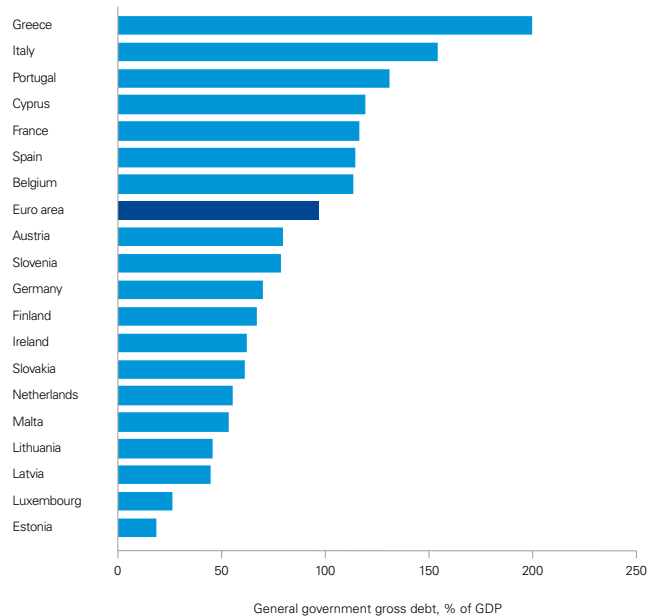
A new ruling coalition in Italy, led by former ECB Governor Mario Draghi, could provide a much-needed impetus to reforms of the judicial system and regulatory frameworks. This, combined with a relatively strong recovery in investment, could lift Italy's productivity and potential future growth rate.

After experiencing one of the sharpest contractions in 2020, the Spanish economy is expected to remain vulnerable this year, with the pandemic likely to dampen the busy summer tourist season and unemployment remaining high over the next two years.

**Yael Selfin**

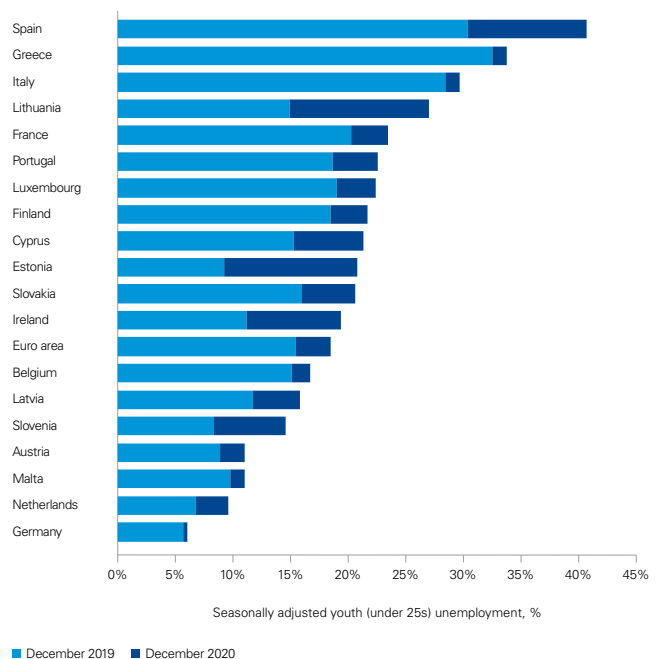
Chief Economist, KPMG in the UK

**Chart 11: Space for additional government spending varies with government debt in Eurozone ranging between 200% to 18%**



Source: Eurostat. Figures are for Q3 2020.

**Chart 12: The pandemic triggered a marked rise in youth unemployment in some countries**



Source: Eurostat.



# UK: Nascent recovery on the horizon

Accelerated vaccine roll-out program should support a solid recovery in second half of 2021.

First quarter lockdown to reverse some of the gains seen in second half of 2020.

Brexit-related frictions and limited agreement on Services trade with the EU will dampen recovery.

The economy managed to avoid a contraction in the fourth quarter of 2020 despite a lockdown taking place during part of the quarter. However, growth momentum eased in December with the economy contracting by 9.9% overall in 2020. A more prolonged lockdown in the first quarter of 2021 will inevitably see GDP contract, although by much less than in Q2 last year. A rapid roll-out of the vaccine is expected to facilitate relatively strong growth from Q2 onwards, with Brexit-related trade frictions expected to ease from the second half of this year.

Government intervention and in particular the Job Retention Scheme, should help to keep unemployment relatively low considering the scale of the negative shock to the economy.

The pace of inflation is expected to accelerate this year as the gradual economic recovery, rising oil prices and the phased expiration of temporary VAT cuts for hospitality businesses add to a more inflationary mix.

Table 6: KPMG forecasts for the UK

	2020	2021	2022
GDP	-9.9	4.6	5.6
Inflation	0.9	1.6	1.9
Unemployment rate	4.5	5.6	5.8

Source: ONS, KPMG forecasts. Average % change on previous calendar year except for unemployment rate, which is average annual rate. Inflation measure used is the CPI and the unemployment measure is LFS.

The impact of Brexit on supply chains is also likely to push up consumer prices. However, inflation is expected to remain below the Bank of England's 2% target by next year, allowing for a longer period of low interest rates to support the economic recovery.







An estimated deficit of GBP355bn for the 2020-21 fiscal year, together with the additional spending announced by the Chancellor in the March Budget to protect the economy in the short-term, could see public sector debt rise to 110% of GDP by 2023-24. However, the cost of servicing the debt is expected to remain below pre-COVID levels, while the rise in corporate tax rate and the freezing of income tax thresholds could see the deficit fall to 3% of GDP in the medium-term compared to 17% at present.

Despite the severity of the recession, company insolvencies fell significantly, reaching levels well below the average prior to the pandemic (chart 13). This is likely a result of the temporary restrictions of the Corporate Insolvency and Government Act, as well as reduced judicial activities and HMRC operations and encouragement by the government to provide forbearance to businesses that are under pressure due to the pandemic. It also reflects the impact of the range of government support schemes. Once social restrictions are lifted and these protective measures are removed, we could see a significant resurgence in the number of insolvencies.

In contrast, the pandemic has resulted in a sharp rise in household saving, as the lockdowns and on-going social restrictions have prevented spending on a range of services and activities (chart 14). This may signal a significant rise in consumer spending once restrictions are lifted, although survey evidence shows that the majority of additional savings is concentrated in higher income bracket households who are planning to use most of the extra money to reduce debt or to make a range of investments.

**Yael Selfin**

Chief Economist, KPMG in the UK

**Chart 13: Business failures fell markedly during the current crisis**



Source: The Insolvency Service.

**Chart 14: Savings rose as some spending was curtailed by the lockdowns and social distancing restrictions**



Source: ONS.

# Kingdom of Saudi Arabia:

## Recovery centered on oil price trends

Base effects and an oil price recovery will support the modest economic turnaround evident since the second half of 2020.

Bans on international travel will limit Hajj-related flows on the balance of payments and national accounts until at least the latter part of 2021.

Fiscal accounts remain robust, relative to peers, but the public sector balance sheet will remain vulnerable to oil price volatility and related international volume demand.

Real GDP growth started to show signs of a weak turnaround – nominal GDP is expected to remain below its Q4 2019 level until Q4 2022 – in the second half of 2020, with flash estimates suggesting the year-on-year rate of contraction easing to 3.8% in the fourth quarter, following year-on-year contractions of 7% in the second quarter (at the height of domestic COVID-related lockdown measures) and 4.6% in the third quarter.

Base effects will be the biggest driver of annual growth expectations of 3% year-on-year in 2021. Further support to KSA's oil and non-oil components of GDP this year will stem from a further easing of domestic pandemic-related restrictions, an oil price recovery (oil prices are expected to average USD60.4 per barrel (pb) in 2021, compared to an annual average of USD39.8 pb in 2020) as well as ongoing government spending on mega-projects and Vision 2030 initiatives.

Looking forward, growth in 2022 will be supported by the trends witnessed in 2021, as well as the likely normalization of Hajj, which was severely curtailed in 2020 as part of the government's COVID containment measures. (Ongoing concerns over COVID will likely prevent a full easing of the current Hajj restrictions during 2021.)

Amid the economic contraction witnessed in the second quarter, the total unemployment rate rose sharply, from 5.7% in Q1 2020 to 9% in Q2, a rise that occurred despite the government implementing salary support for Saudi citizens working in the private sector. An easing of pandemic-related measures saw the unemployment rate fall to 8.5% in Q3 2020 (latest available figures) and this downward trend is expected to continue during 2021-22, in line with the expectations of a continued economic recovery.

Table 7: KPMG forecasts for KSA

	2020	2021	2022
GDP	-4.1	3.0	2.5
Inflation	3.4	2.6	2.5
Unemployment rate	7.8	7.0	6.1

Source: GASTAT, KPMG forecasts. Average % change on previous year except for the unemployment rate, which is the annual rate taken from the Labour Force Survey and represents the rate for the total resident population. GDP represents real GDP growth at constant prices, GDP growth for 2020 includes a flash estimate for Q4 2020.





Based on several assumptions, inflationary pressures are anticipated to be contained to an annual average of 2.6% during 2021-22. First, there will be no further public revenue raising measures such as the increases in the value-added tax rate or customs duties witnessed in mid-2020. Indeed, these measures will reduce year-on-year upward price pressures through base effects during 2021.

Second, the dominant role played by foreign workers in the local employment market allows for flexible labor supply conditions that will further constrain price pressures stemming from potential skills shortages (although the risk remains that, should domestic COVID case numbers increase, the foreign supply of labor will be restricted).

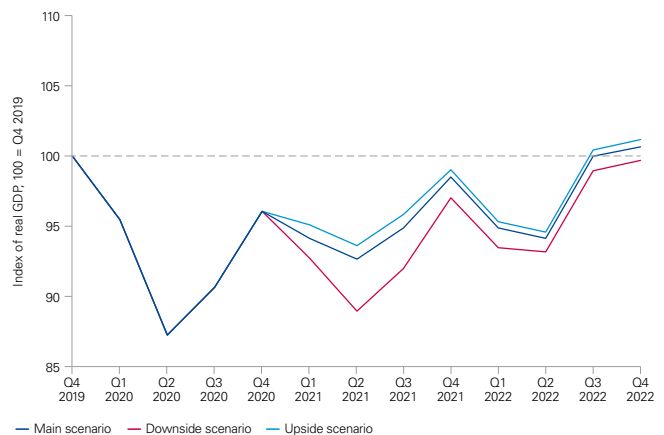
Third, the economy will remain below its pre-COVID levels until at least Q4 2022, further suggesting that capacity constraints will bring few upward price pressures over the next two years.

The budget deficit to GDP ratio will decline during 2021-22 following a sharp rise in 2020, when low oil prices, undermined revenues and a sharp contraction in nominal GDP resulted in a deterioration through the denominator. A gradual improvement in the size of nominal GDP, combined with an ongoing improvement in oil prices, should support public sector finances in both absolute terms and against relevant GDP ratios, although a continued heavy reliance on hydrocarbons as a public revenue source brings with it the vulnerabilities associated with oil price volatility.

#### Kilbinder Dosanjh

Senior Economist, Global Strategy Group,  
KPMG Al Fozan & Partners

**Chart 15: KSA economy is expected to return to pre-COVID levels in Q4 2022 but growth will remain volatile**



Source: GASTAT, KPMG forecasts.

# Middle East: Gulf Cooperation Council leads growth in the region

The pace of economic recoveries across the Middle East will be varied, highlighting the diversity of economic development across the region.

The Gulf Cooperation Council (GCC) has proven more resilient in the face of the economic shock created by the pandemic.

Economic vulnerabilities will remain across the region, with the pandemic and oil prices remaining key indicators.



## Gulf Cooperation Council

The Gulf Cooperation Council, comprised of the Kingdom of Saudi Arabia (KSA), the United Arab Emirates (UAE), Kuwait, Bahrain, Oman and Qatar, will benefit from the rise in international oil prices during 2021-22. The importance of oil revenues in driving the GCC's economies, particularly that of Saudi Arabia, which is the dominant economy in the bloc, means the recent price recovery will provide a boost to both oil and non-oil regional economic activity.

In particular, Saudi tourist numbers – a key source of tourism revenues for neighboring countries – are likely to normalize as the vaccine rollout accelerates across the region. Moreover, sovereign wealth funds, combined with fiscal reserves, have provided a cushion against the pandemic-induced economic shock experienced across the bloc.

Nevertheless, the outlook remains one of subdued (but steady) economic growth over the next two years, with an underlying risk that vaccine rollouts in the GCC and its main trading partners fail to curtail COVID infection rates.

The realization of this risk would be felt most acutely through the oil revenue, tourism and/or Hajj channels. A renewed surge in COVID cases across the bloc's main trading partners would limit external demand and risk the need for tighter pandemic-related restrictions within the GCC. Moreover, the recent oil price recovery will generally be insufficient to fully restore (to pre-pandemic levels) foreign exchange reserves (and thus domestic liquidity), public sector balance sheets or the size of nominal GDP, over the next two years.





Inflationary pressures will be contained across the bloc through relative economic weakness and subdued global commodity prices. One source of potential upward price pressures is the heavy reliance on foreign labor that has traditionally filled labor shortages and skills gaps and this remains a risk common across all six countries. Labor supply could prove slow to respond to economic growth trends, in the wake of past and still-present pandemic containment measures.

Nevertheless, the total unemployment rate, a figure that reflects a combined rate for GCC citizens plus expatriates, will fall from the highs of 2020, as economic activity across the region accelerates. However, the true health of the labor market will in part be masked by the aforementioned dominance of foreign labor in local markets (reflecting the fact that this source of labor will generally leave the country should their employment cease).

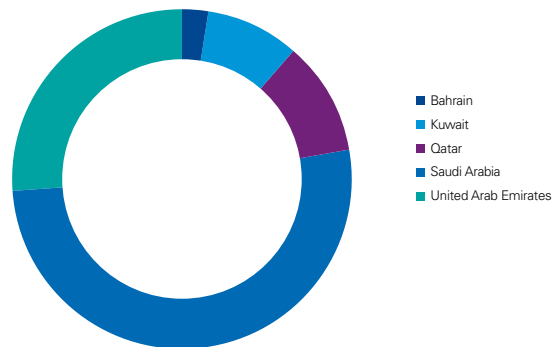
### Non-GCC

In general, non-GCC economies in the Middle East fared worse than their GCC counterparts in 2020. Many of these economies entered the pandemic with a myriad of challenges, including weak fiscal and external balance sheets, below par economic growth rates and varying degrees of political and/or social friction. Therefore, they were ill-prepared for the economic shocks that stemmed from COVID, with the pandemic both emphasizing and worsening the structural weaknesses in these economies. It is anticipated that the already burdened healthcare systems combined with institutional weaknesses, will prolong the negative repercussions of the pandemic on these economies, with high unemployment rates and risks of contagion remaining throughout 2021 and into 2022.

#### Kilbinder Dosanjh

Senior Economist, Global Strategy Group,  
KPMG Al Fozan & Partners

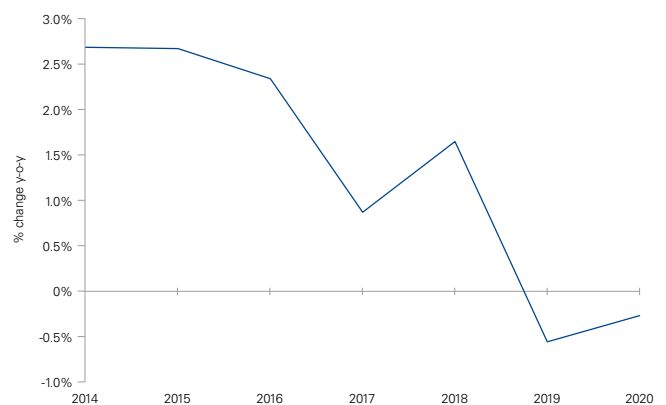
**Chart 16: Saudi Arabia is by far the dominant economy in the GCC (nominal GDP)**



Note: Excludes Oman.

Source: Economist Intelligence Unit.

**Chart 17: Inflationary pressures have historically remained muted in the GCC**



Note: Unweighted average. Excludes Oman.

Source: Economist Intelligence Unit.

# Nigeria: Modest recovery despite rising oil prices

Nigeria's economic recovery is expected to be modest in 2021.

Riding on positive oil market sentiments, the Oil sector will likely recover, while the Agriculture and Telecommunications sectors are expected to achieve more modest growth.

Inflation, mainly due to supply chain shocks, will likely taper in 2021.

High unemployment and underemployment rates are expected to persist in 2021.

Following a surprise exit from recession in Q4 2020, and a marginal year-on-year growth rate of 0.11%, economic recovery in Nigeria is expected to be modest in 2021. Despite renewed waves of COVID, a sustained momentum in economic activities coupled with a strengthening of global oil demands and rising oil prices, will drive economic recovery for the year ahead.

The Oil sector, which accounted for approximately 8.16% of overall GDP in 2020 and had a decline of -8.89% year-on-year growth rate, could potentially recover due to positive oil market forecasts for 2021 and a potential ramp up of oil production by OPEC+. These could help raise Nigeria's oil production by 10-15%, following the decline from 2.07mbpd in Q1 2020 to 1.56mbpd in Q4 2020 due to OPEC+1 production quota policy. The higher oil price forecasts for 2021 will also provide an upside for revenues across the entire sector.

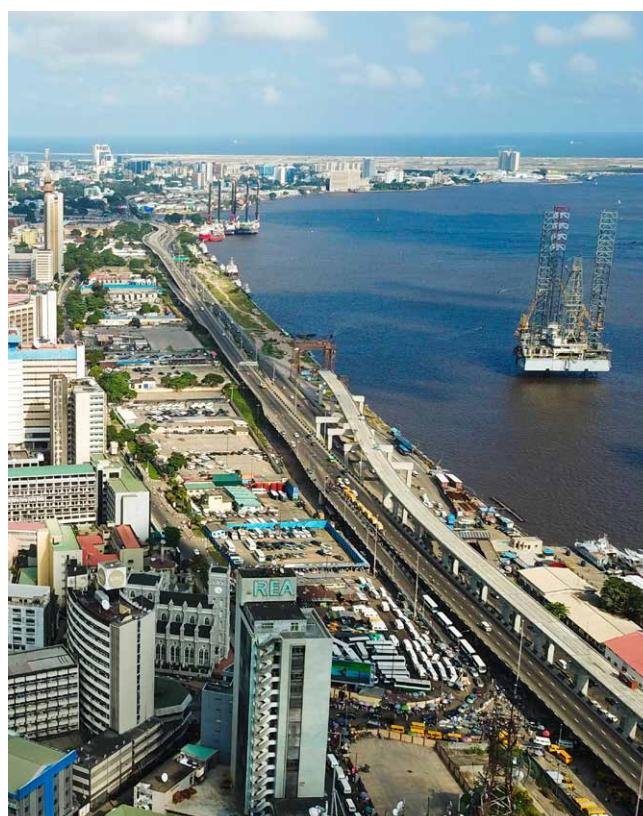
The non-oil sectors contributed approximately 91.84% to GDP in 2020 after a -1.79% year-on-year growth rate. These sectors will continue to recover in 2021 driven primarily by a sustained growth momentum in the Agriculture and Telecommunications sub-sectors. However, growth in the Agriculture sector may be slightly moderated by ongoing insecurity in some critical regions of the country.

The Manufacturing and Trade sectors are likely to remain pressured, on the back of low consumption expenditure and the potential impact of limited access to FX on supply costs. The recent opening of the land borders may have a positive impact on growth of the two sectors in 2021, including the increased export of manufactured products to the West African sub-region and improved access to imported inputs and products. In addition, lower credit costs and an increased access to intervention funds by the government will also stimulate growth in these sectors. As oil prices rise, access to foreign exchange for the Manufacturing and Trade sectors is expected to also improve.

Table 8: KPMG forecasts for Nigeria

	2020	2021	2022
GDP	-1.92	1.9	2.64
Inflation	15.75	13.5	11.8

Source: : NBS, IMF, World Bank, Rencap, BMI, NESG, SBG Securities, KPMG forecasts. Forecasts are based on main scenario of slow recovery. Inflation is based on % year-on-year change of CPI.

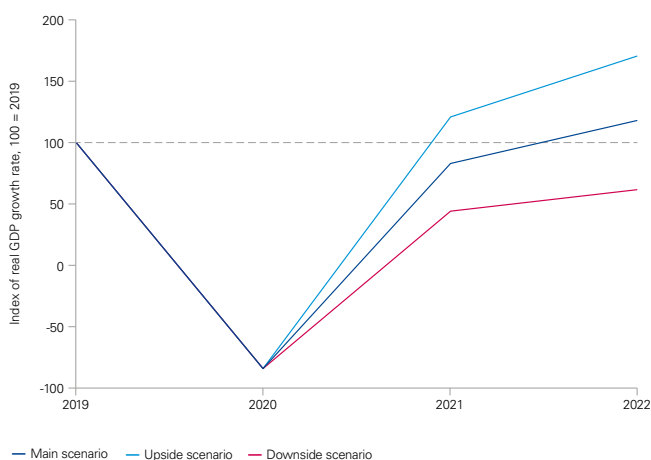




Growth in the Services sector could potentially recover driven mainly by the financial services and information and communication technology sub-sectors. Growth in accommodation and food services will remain muted, recovering from -17.75% year-on-year growth rate in 2020 as the second wave of COVID dissipates and the administration of vaccines is rolled out across key cities.

Nigeria's inflation rate accelerated by 12.34% in April to approximately 15.75% in December 2020, largely driven by increased food prices. The recorded increase in inflation resulted from a combination of supply side factors including disruption of agricultural activities caused by flooding and insecurity, closure of the land borders, COVID lockdown, exchange rate devaluation, increase in electricity tariffs and the removal of fuel subsidies.

**Chart 18: Nigeria economy could return to pre-COVID growth rate in 2022**



Source: NBS, IMF, World Bank, Rencap, BMI, NESG, SBG Securities, KPMG forecasts.

The monetary factors resulting from expansionary policies and programs implemented to stimulate the economy also played a role, albeit to a lesser degree, in driving inflation. We expect the inflation rate to taper in the second half of 2021 as the pressure on supply side factors ease and the economy adjusts to new electricity tariffs and fuel price regimes. We also expect a modest level of monetary tightening by the central bank in 2021 as growth returns and policy shifts from one focused solely on growth to one that also incorporates price stability.

As of Q2 2020, the unemployment rate in Nigeria is currently 27.1% while the underemployment rate is 28.6% – which are significantly worse than the rates from Q3 2018 (unemployment rate – 23.1% and underemployment rate – 20.1%).

Unemployment in Nigeria is structural with high growth sectors having a low employment absorption capacity and employment intensive sectors growing slowly. There are also broader skills mismatch issues for both low wage and high wage employment opportunities. While the government has initiated several employment creation initiatives to combat this, we do not expect a significant improvement in the unemployment rate in 2021.

**Olusegun Zaccheaus**

Associate Director, Strategy and Economics,  
KPMG in Nigeria



# South Africa: Path towards growth and sustainability

National Budget targets fiscal sustainability and economic growth.

Vaccine rollout provides optimism for a positive rate of recovery.

Economy still faces headwinds of managing large public debt, inconsistent power supply and the need for structural reforms.



The South African economy is recovering slowly from the lows of the COVID pandemic experienced in mid-2020, with growth expected to rise to 3.5% in 2021 following a contraction of just below 8% for 2020.

Economic activity continues to increase, and many sectors are back to, or just below, pre-pandemic levels with notable exceptions being the construction, transport and tourism sectors. The exchange rate has also recovered to within its fair value range of approximately R15 to the US dollar from well above R19 in March 2020. It should maintain this level for the rest of 2021.

Table 9: KPMG forecasts for South Africa

	2020	2021	2022
GDP	-8	3.5	2.2
Inflation	3.3	3.9	4.3
Unemployment rate	29.2	32.8	32.6

Source: Statistics South Africa, KPMG analysis.

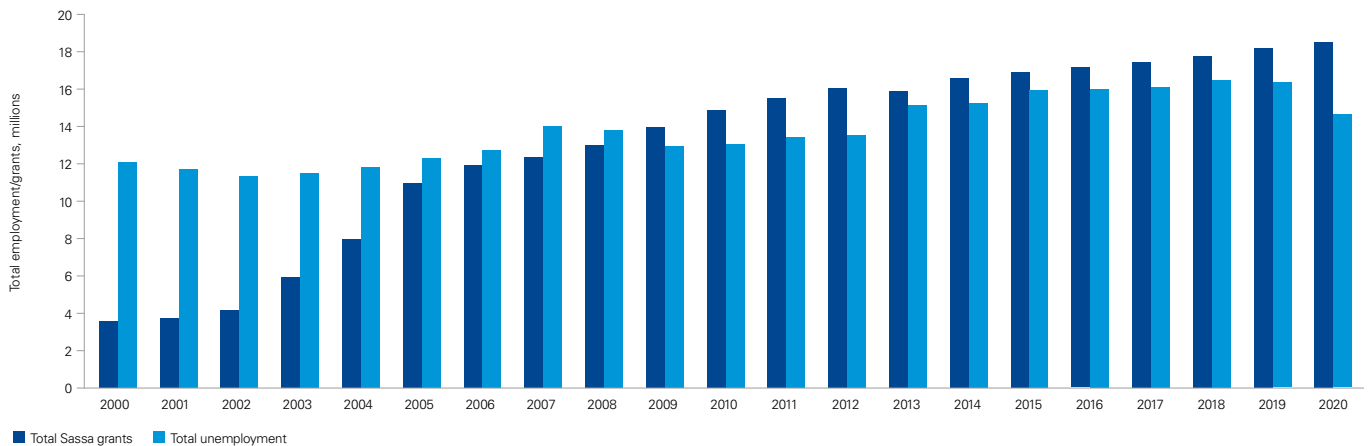
The rate of inflation is expected to increase from an average of 3.3% for 2020 in line with the general recovery of the economy but it is still forecasted to be below the midpoint of the target range of 3-6% for 2021. Upward pressure from global oil prices and local energy prices is responsible for much of the increase. These have resulted in lending rates being reduced to their lowest levels and are expected to remain stimulatory through 2021-22.

With GDP still being approximately 8% below 2019 levels and unemployment increasing to an unprecedented 32.5% or 7.2 million for the last quarter of 2020, the real economy will still require more time and resources to return to its pre-pandemic position. With this in mind, the government has extended its COVID distress grant until the end of April 2021. To date, almost R300 billion in financial assistance has been extended to both citizens and businesses.

Given the country's social transformation imperatives, the 2021 National Budget has again had to target two competing objectives over the medium-term period, i.e. the immediate focus on extending the benefits of the social wage for the growing numbers in need and the longer-term focus on economic growth strategies.



Chart 19: Extending the social wage and growing the economy



Source: South African social security agency, KPMG analysis.

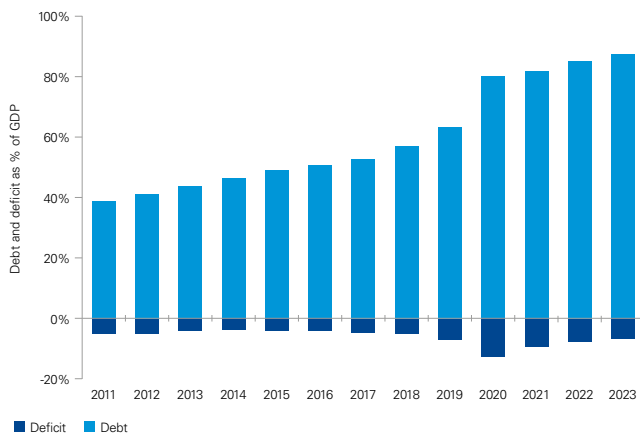
The overall tone of the budget and the fact that gross loan debt is set to reach R5.2 trillion by 2023-24 or just under 90% of GDP, has resulted in spend being targeted more towards the reduction of public expenditure and the stimulation of economic growth. This policy stance is in contrast to previous years when the economic growth mandate appeared to have been neglected as evidenced by the low economic growth and increased unemployment suffered over this period.

Additionally, it was announced that the corporate income tax rate would be reduced by one percentage point to 27%, thereby signaling the move to a more business and investor friendly environment.

South Africa has positioned itself as the financial hub for the rest of Africa leveraging its broad and sophisticated financial markets. In addition, the Africa Continental Free Trade Agreement (AfCFTA), part of which came into effect this year, presents an opportunity to expand South Africa's financial linkages throughout the continent.

To date, progress in terms of both transformation and growth has been significantly restricted by ongoing corruption and policy-implementation failures; these constraints may prove decisive for South Africa's efforts to exit the COVID slump.

Chart 20: Deficit and debt outlook



Source: National Treasury of South Africa and South African Reserve Bank, KPMG analysis.

**Gavin de Lange**

Chief Operating Officer, KPMG in South Africa

# Appendix: KPMG country forecasts

	GDP			Inflation			Unemployment		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
World	-3.1	5.0	4.4	1.9	2.3	2.2	6.9	6.3	5.5
US	-3.5	5.9	4.3	1.3	2.4	2.0	8.1	5.2	3.7
Canada	-5.4	4.9	4.3	0.7	1.7	2	9.6	7.7	6.3
Argentina	-10.3	5.5	2.8	42.7	47	40	12.0	10.8	9.8
Brazil	-4.4	3.2	2.3	3.6	3.7	3.5	14.0	14.1	13.3
Chile	-6	5.4	3.4	3.1	3.5	3	10.6	8.8	9.1
Mexico	-8.7	3.5	2.7	3.4	3.6	3.4	4.4	4.5	4.3
Colombia	-6.8	4.8	3.8	2.5	2.9	3.1	16.1	14.9	14.2
Peru	-11.1	10	4.2	2	2.1	1.8	13.9	9.6	7.8
Germany	-3.8	3	3.6	0.5	1.7	1.6	5.9	6.1	5.7
France	-8.3	5.5	3.7	0.5	0.9	1.1	8.2	10.1	9.1
Italy	-8.9	4.1	3.2	-0.1	0.7	0.9	9.4	11.1	10.3
Netherlands	-3.8	2.4	3.1	1.1	1.3	1.5	3.8	5.6	5.4
Spain	-11.0	5.3	5.9	-0.3	0.8	1.2	15.5	16.8	15.9
Eurozone	-6.8	4.2	4.1	0.3	1.2	1.2	8	8.9	8.4
Norway	-1.3	3.5	3.1	1.3	2.4	2.2	4.8	4.9	4.4
Sweden	-3.0	2.9	3.6	0.5	1.2	1.1	8.3	8.8	7.8
Switzerland	-3.2	2.8	3.1	-0.7	0.3	0.4	3.1	3.6	3.4
UK	-9.9	4.6	5.6	0.9	1.6	1.9	4.5	5.6	5.8
Poland	-2.7	3.5	4.1	3.7	2.4	2.2	6	6.5	5.1
Russia	-3.1	2.9	2.5	3.4	3.8	3.9	5.8	5.4	5.2
Turkey	0.9	4.1	4.6	12.3	13.2	10.1	13	13.5	12.8
Saudi Arabia	-4.1	3.0	2.5	3.4	2.6	2.5	7.8	7	6.1
China	2.3	8.8	5.4	2.5	1.3	2.0	4.2	3.8	3.6
Hong Kong (SAR), China	-6.1	5.2	4.6	0.3	1.0	1.5	5.6	5.0	4.6
Japan	-4.9	2.3	2.1	0	0	0.2	2.8	3.1	2.8
India	4.0	-8	10.5	4.8	6.5	4.5	7.6	10.4	8.1
Indonesia	-2.0	4	4.8	2	2	2.7	7	6.2	5.8
Malaysia	-5.6	6	5.8	-1.1	2.1	2.2	4.5	3.5	3.3
Philippines	-9.3	7	6.5	2.6	3.5	2.8	10.4	7.5	6.8
Singapore	-5.4	6	4.7	-0.2	0.9	1.3	3.1	2.6	2.1
South Korea	-0.9	3.5	3.3	0.5	1.2	1.4	4	3.9	3.8
Nigeria	-1.9	1.9	2.6	15.75	13.5	11.8	27.1	-	-
South Africa	-8	3.5	2.2	3.3	3.9	4.3	29.2	32.8	32.6

Source: National statistical agencies, KPMG analysis.

Note: Average % change on previous calendar year except for unemployment rate, which is average annual rate.

India forecasts refer to FY20, FY21 and FY22; Consumer Price Inflation measured as % change Dec-on-Dec for Argentina, Brazil, Chile, Mexico, Colombia and Peru.

# Contacts

## US

### **Constance Hunter**

**Chief Economist, KPMG US**

constancehunter@kpmg.com

## China

### **Kevin Kang, PhD**

**Chief Economist, KPMG China**

k.kang@kpmg.com

## United Kingdom

### **Yael Selfin**

**Chief Economist, KPMG in the UK**

yael.selfin@kpmg.co.uk

## Australia

### **Dr. Brendan Rynne**

**Chief Economist, KPMG in Australia**

bjrynn@kpmg.com.au

## India

### **Preeti Sitaram**

**Director Infrastructure, Government and Healthcare (IGH), KPMG in India**

psitaram@kpmg.com

## Kingdom of Saudi Arabia

### **Kilbinder Dosanjh**

**Senior Economist, Global Strategy Group, KPMG Al Fozan & Partners**

kdosanjh@kpmg.com

## Nigeria

### **Olusegun Zaccheaus**

**Associate Director, Strategy and Economics, KPMG in Nigeria**

olusegun.zaccheaus@ng.kpmg.com

## South Africa

### **Gavin de Lange**

**Chief Operating Officer, KPMG in South Africa**

gavin.delange@kpmg.co.za

[home.kpmg/globaleconomicoutlook](https://home.kpmg/globaleconomicoutlook)

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2021 Copyright owned by one or more of the KPMG International entities. KPMG International entities provide no services to clients. All rights reserved.

KPMG refers to the global organization or to one or more of the member firms of KPMG International Limited ("KPMG International"), each of which is a separate legal entity. KPMG International Limited is a private English company limited by guarantee and does not provide services to clients. For more detail about our structure please visit <https://home.kpmg/governance>

Throughout this document, "we" and "KPMG", refers to the global organization or to one or more of the member firms of KPMG International Limited ("KPMG International"), each of which is a separate legal entity.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

CREATE | CRT134318 | March 2021