

Economic Trends for 2021 and beyond: Towards a green economic recovery or an era of economic nationalism?

Jan Van Hove
Chief Economist, KBC Group
Professor of International Economics, KU Leuven

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Menu of the Day

- The Covid-19 Economy
- Towards a green economic recovery?
- The rise and persistence of economic nationalism
- Main take-aways



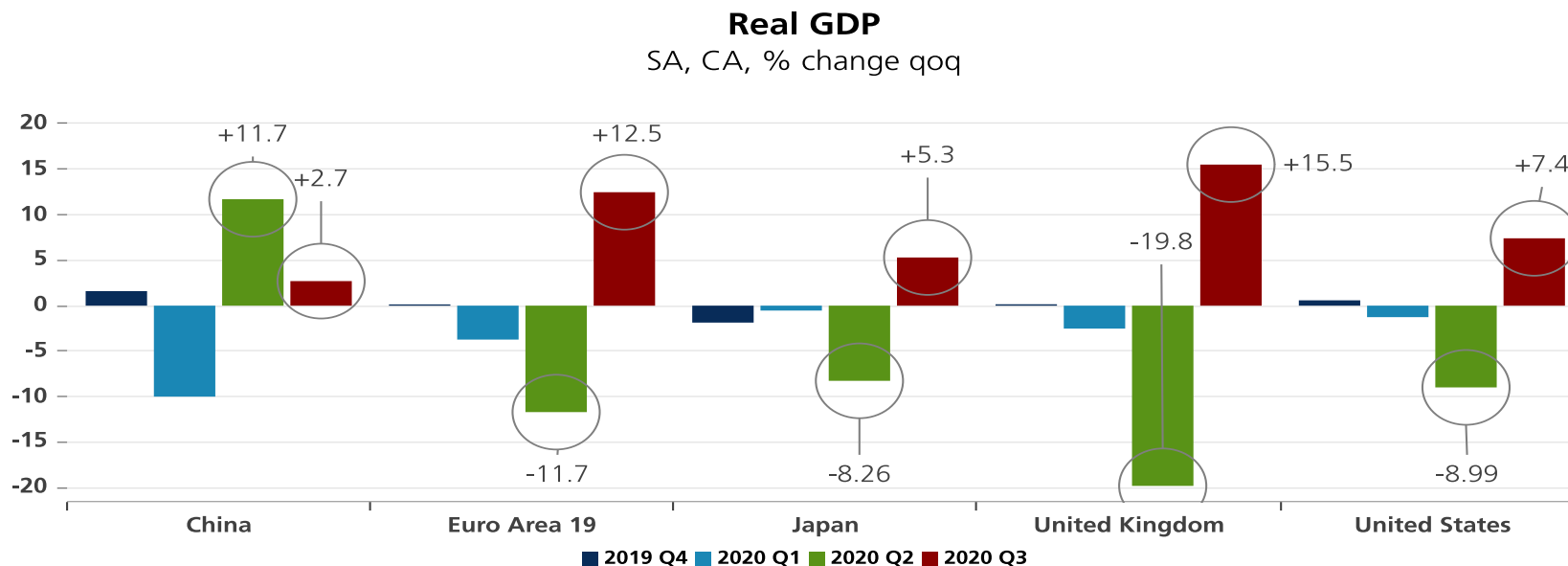
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The Covid-19 Economy



Unprecedented shock, but strong rebound

China leading the global recovery – V-shaped pattern visible (for now) in quarterly dynamics



Source: KBC Economics based on Eurostat, CaO, ONS, BEA, NBS

Total net corona effect so far:

Euro area: -7.5%

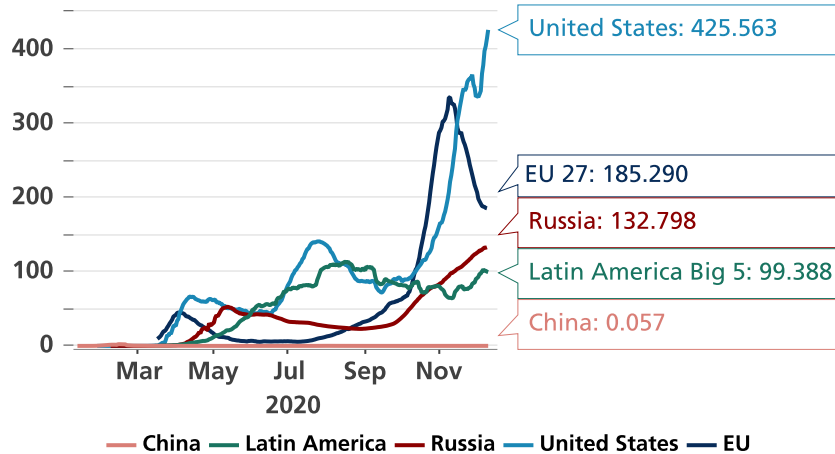
US: -2.7%

China: +5.6%

Second wave of pandemic expected to weigh on global economic recovery

Coronavirus Disease (COVID-19) Pandemic: Confirmed Cases

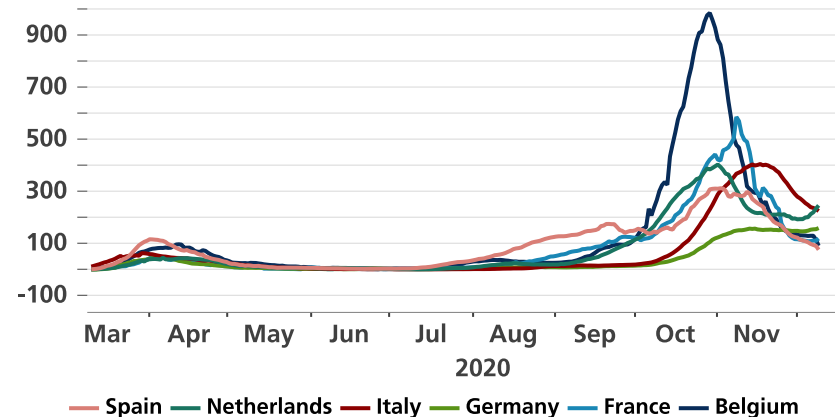
new cases, 7-day periods, per 100.000 inhabitants



Source: KBC Economics based on WHO, Eurostat, UNDESA

Coronavirus Disease (COVID-19) Pandemic: Confirmed Cases

new cases, 7-day periods, per 100.000 inhabitants

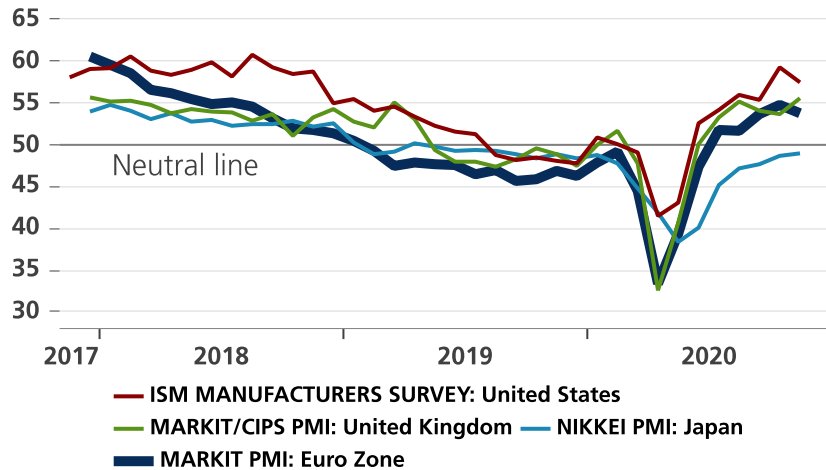


Source: KBC Economics based on WHO, IMF

Business sentiment negatively affected by second pandemic wave, in particular in Europe and in services activities

Business Sentiment Indicators: Industry

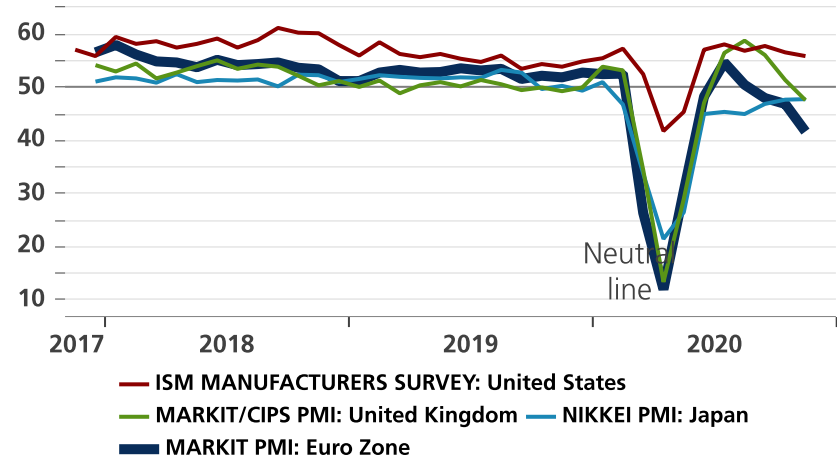
Above 50 = expansion



Source: KBC Economics based on IHS Markit, ISM

Confidence indicators services

Above 50 = expansion



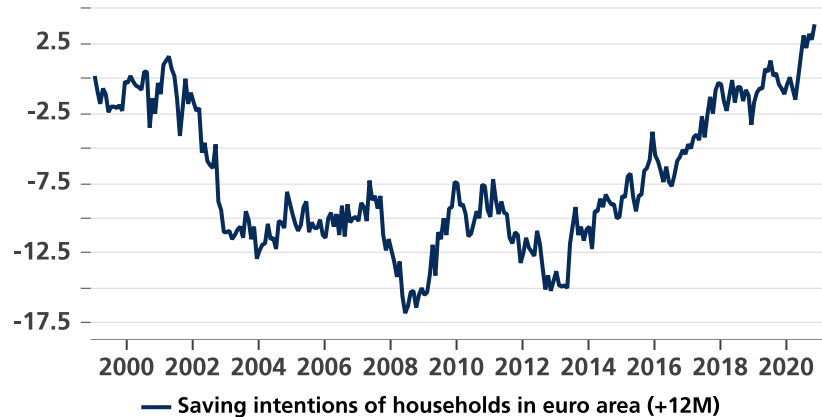
Source: KBC Economics based on IHS Markit, ISM

Savings on the rise

Precautionary private savings mirror growing public deficits

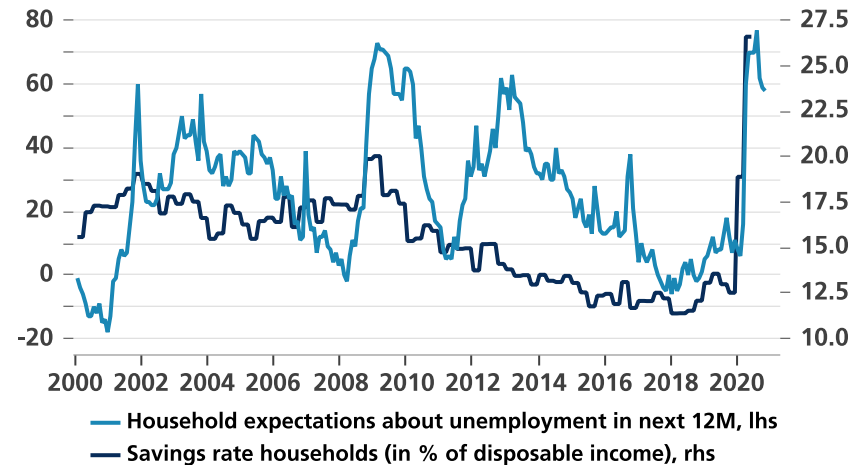
Saving intentions of households in euro area (+12M)

Component of the consumer confidence surveys



Source: KBC Economics based on DG ECFIN

Belgium - Savings ratio vs. fear for unemployment



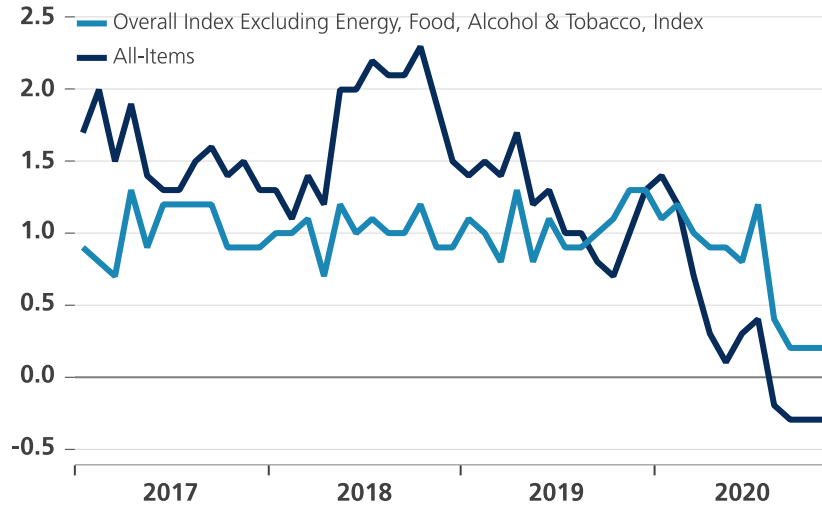
Source: KBC Economics based on Eurostat, NBB

European inflation drop due to slower economic developments

Inflationary/deflationary trends differ across EU countries

Euro area - Inflation

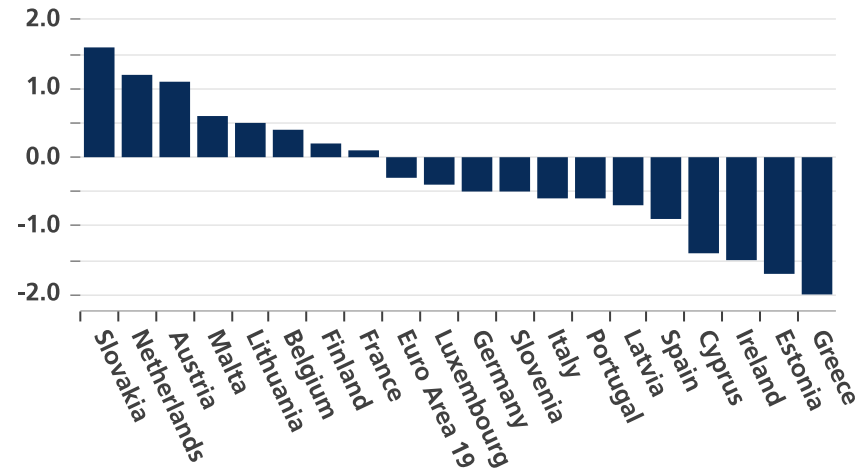
y.o.y. change



Source: KBC Economics based on Eurostat

Headline inflation

HICP, annual change in %, latest figure = October 2020

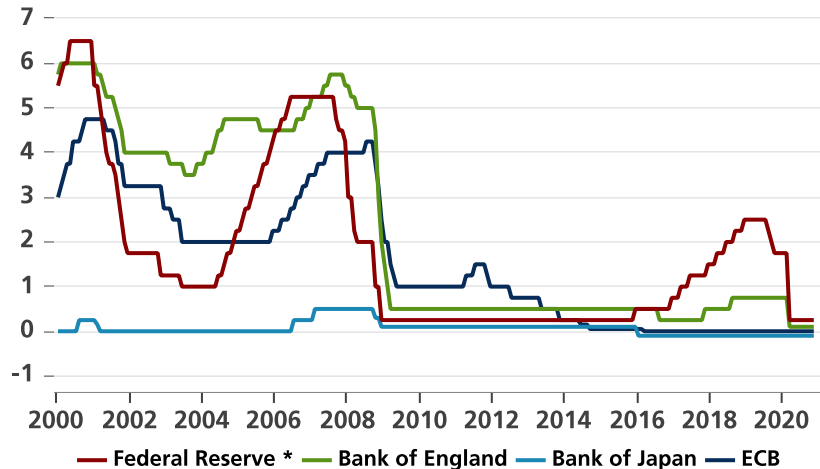


Source: KBC Economics based on Eurostat

Central banks to the rescue (again)

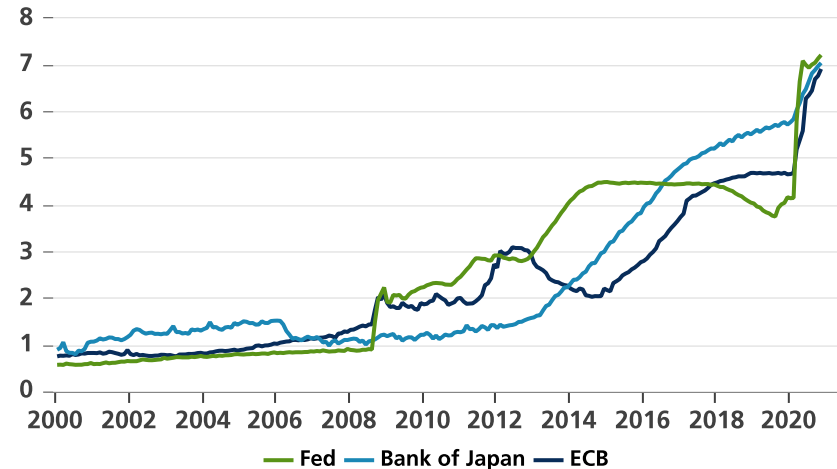
Unconventional tools are the new normal

Policy rates Western Central banks
(in %)



Source: KBC Economics based on ECB, BOJ, BoE, Fed

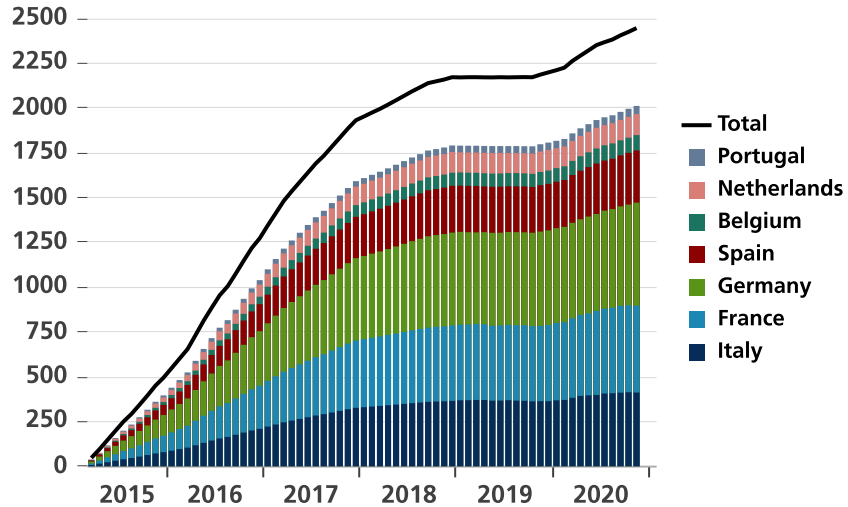
Size of balance sheets (assets)
National sources, local exchange rates



Source: KBC Economics based on ECB, Fed, BOJ

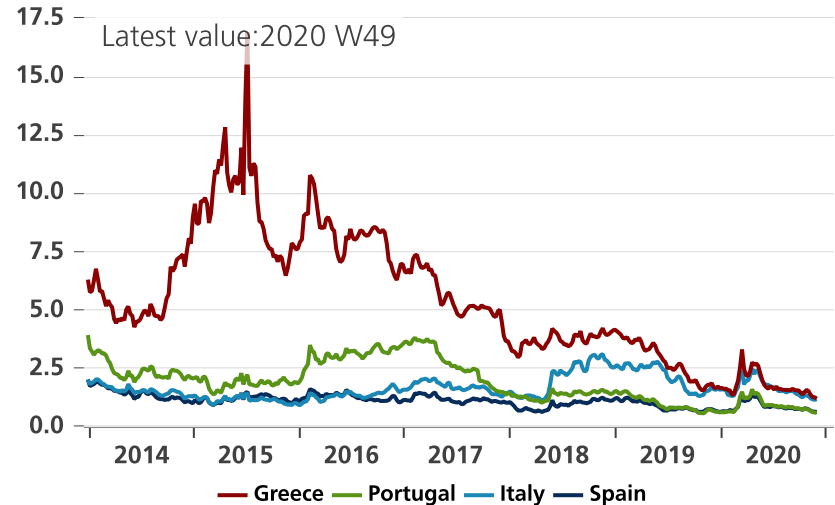
ECB market interventions keep intra-EMU interest rate spreads subdued

ECB PSPP portfolio, bn EUR



Source: KBC Economics based on ECB

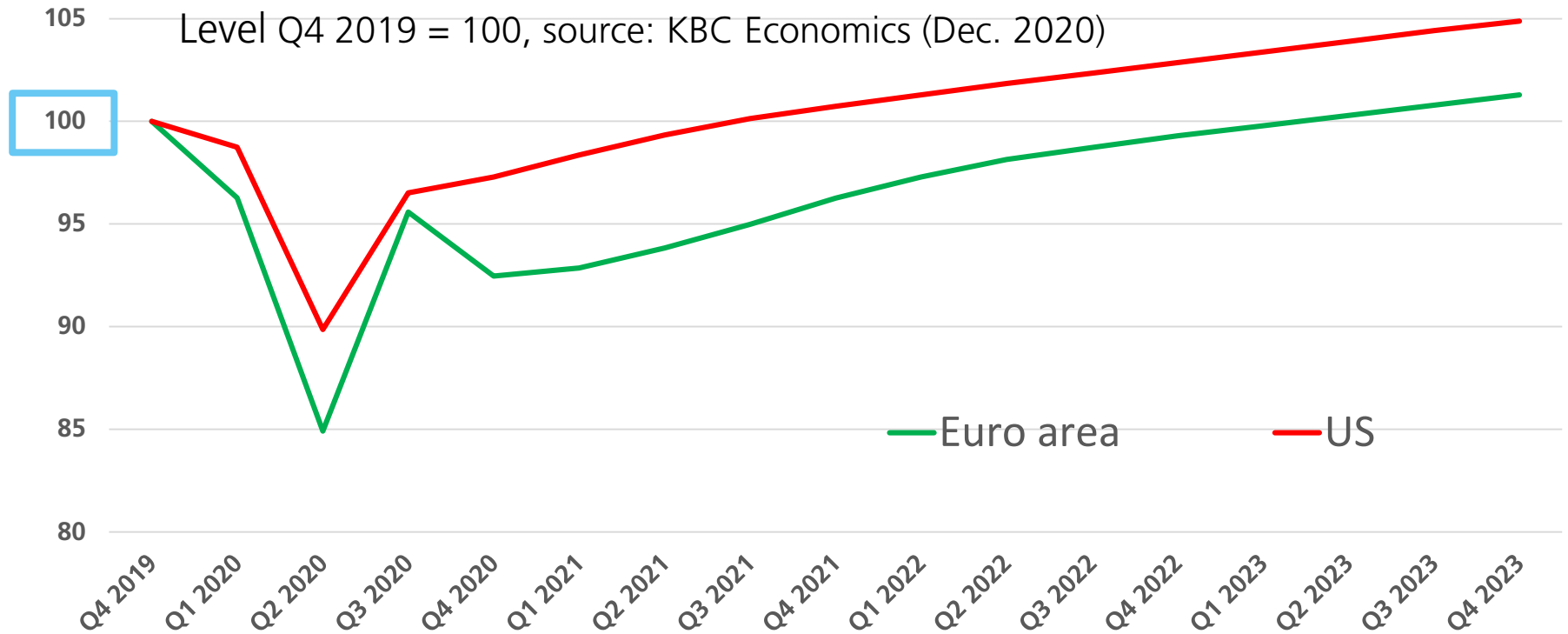
Interest rate spread 10y sovereign bonds
in %



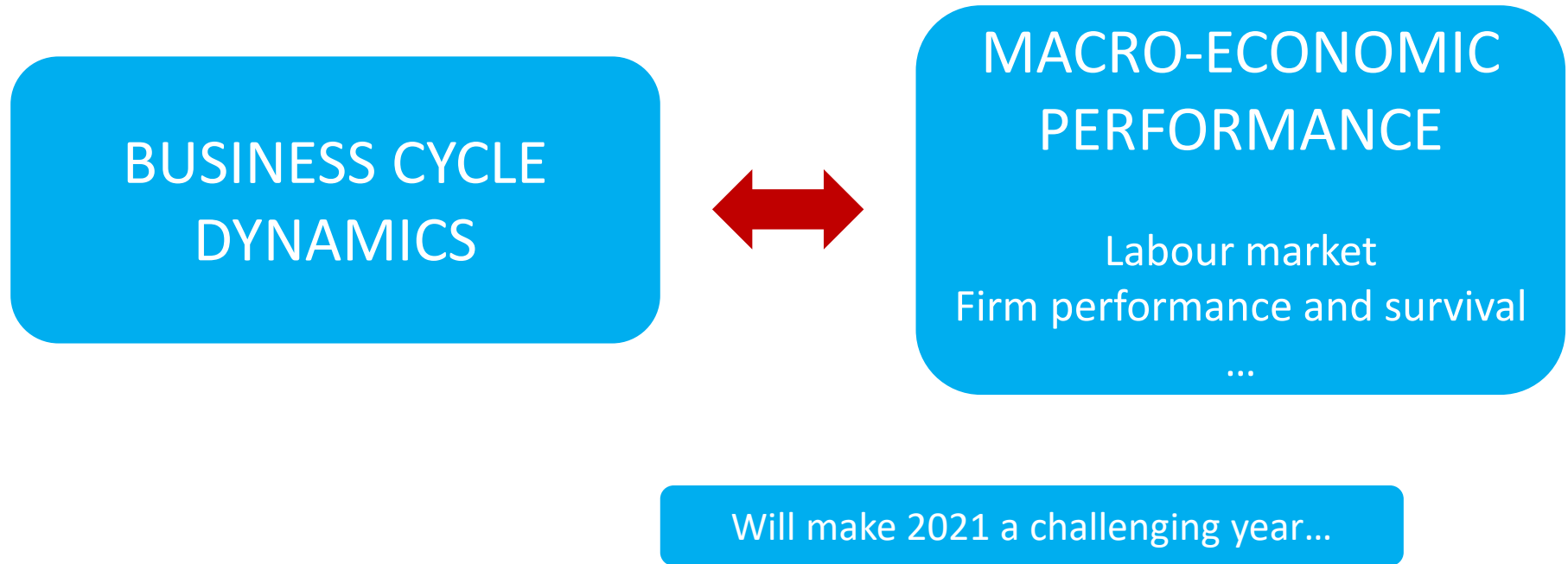
Source: KBC Economics based on Macrobond

Economic outlook for business cycle: slower recovery due to second corona wave

Evolution in real GDP in Euro area and US



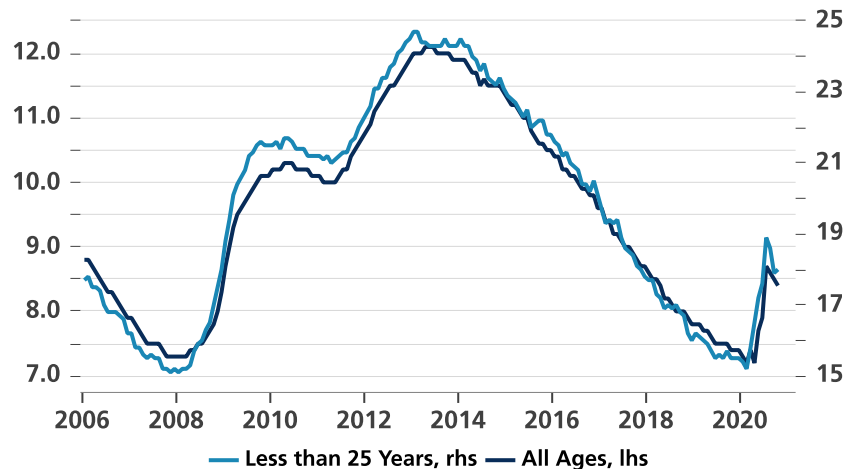
Dual nature of economic outlook



Global recovery in business cycle, but postponed impact on the real economy: unemployment rise in Europe is just starting

Euro Area - Unemployment rate

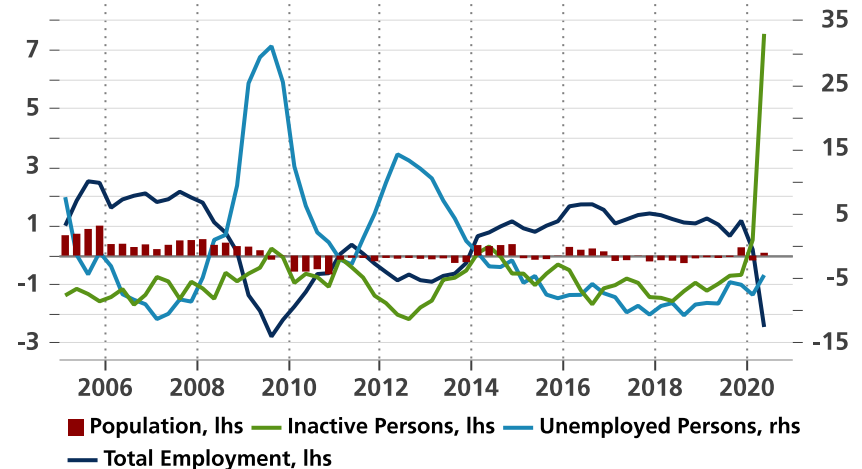
as a % of the labour force, males & females, SA



Source: KBC Economics based on Eurostat

Euro Area - Labour market dynamics

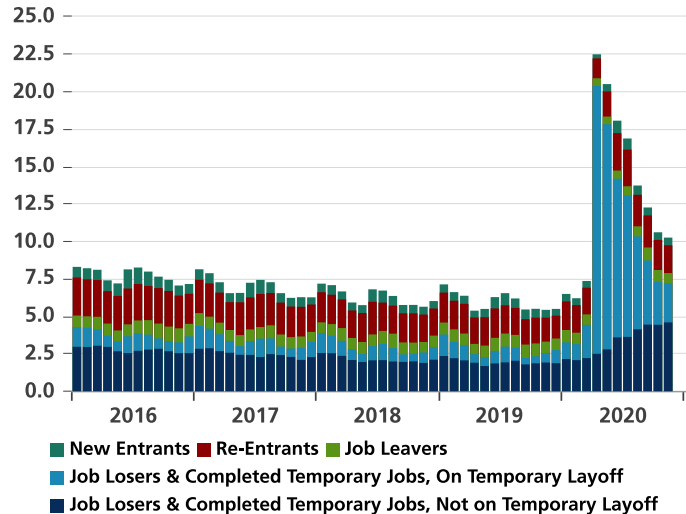
Males & Females, 15 to 64 years old, Annual changes in %



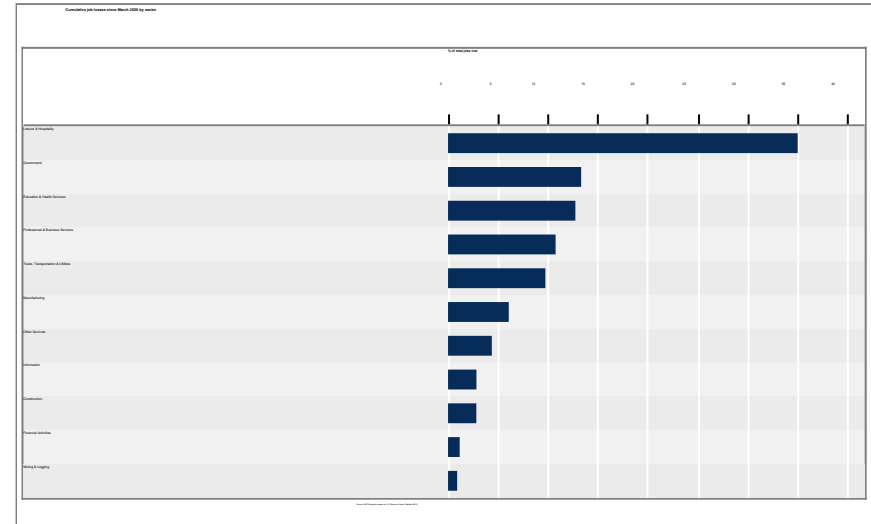
Source: KBC Economics based on Eurostat

US: long-lasting impact on labour market expected – vulnerability of lower earners may trigger social disruptions

United States, National Unemployment Millions, by reason

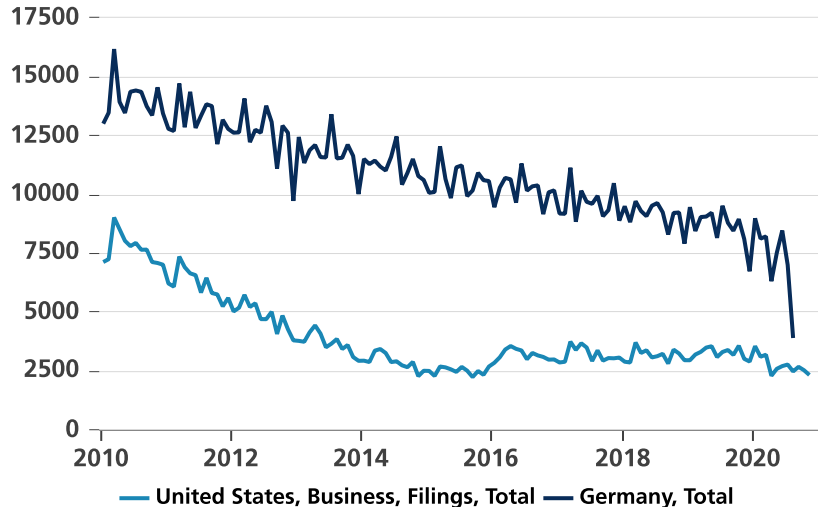


Source: KBC Economics based on BLS



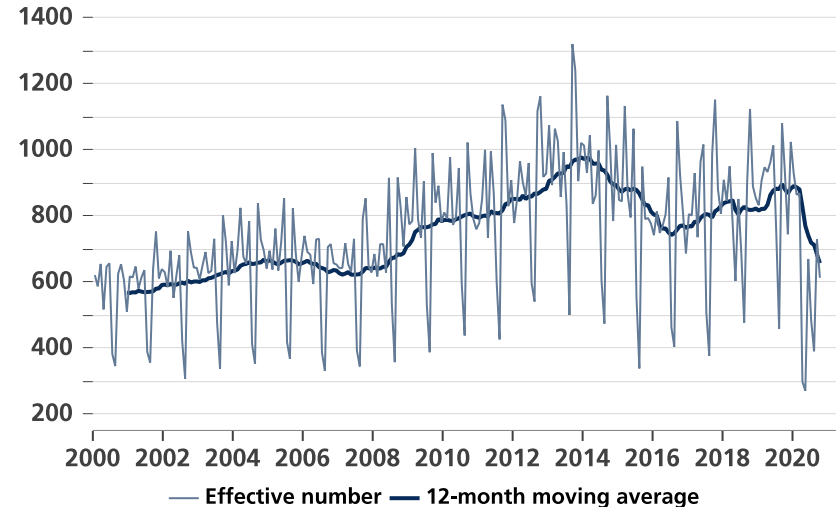
Bankruptcies: nothing visible now, but shock will come...

Number of Bankruptcies



Source: KBC Economics based on DESTATIS, ABI

Belgium - Number of bankruptcies



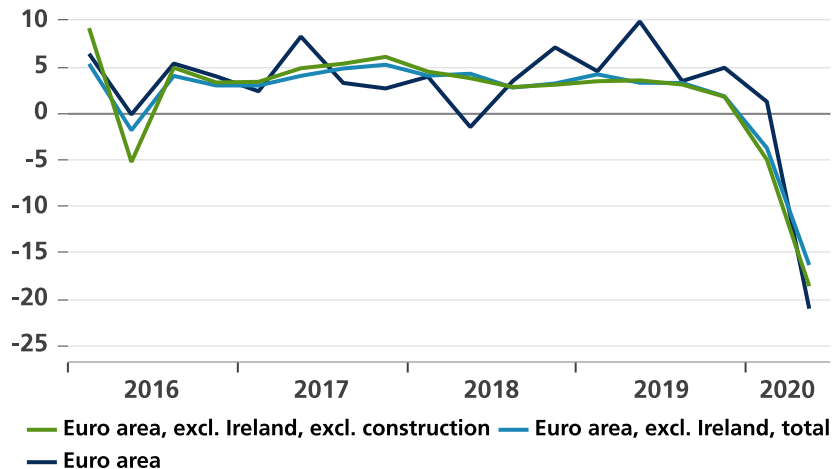
Source: KBC Economics based on Statistics Belgium

Investments likely tumbling down

May jeopardize economic recovery, in particular if it reaches structural investments (e.g. IP)

Gross fixed capital formation

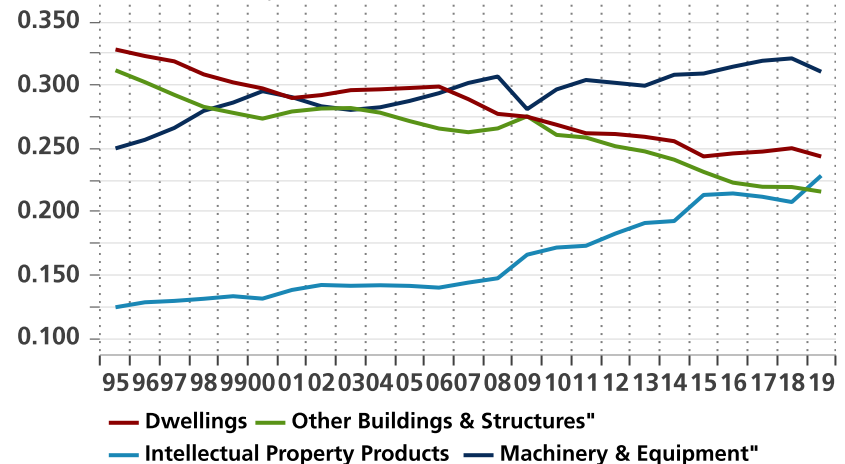
annual change in %



Source: KBC Economics based on Eurostat

Euro area - Composition of Gross Fixed Capital Formation

2010 prices, SA, CA, as a % of total

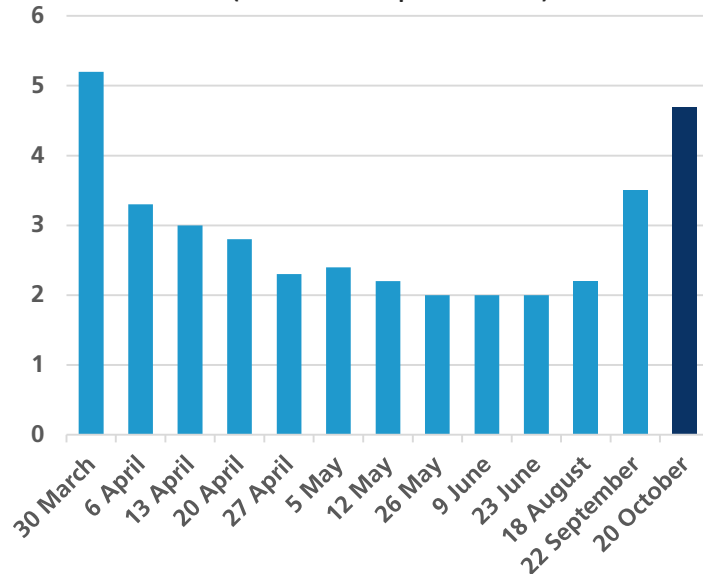


Source: KBC Economics based on Eurostat

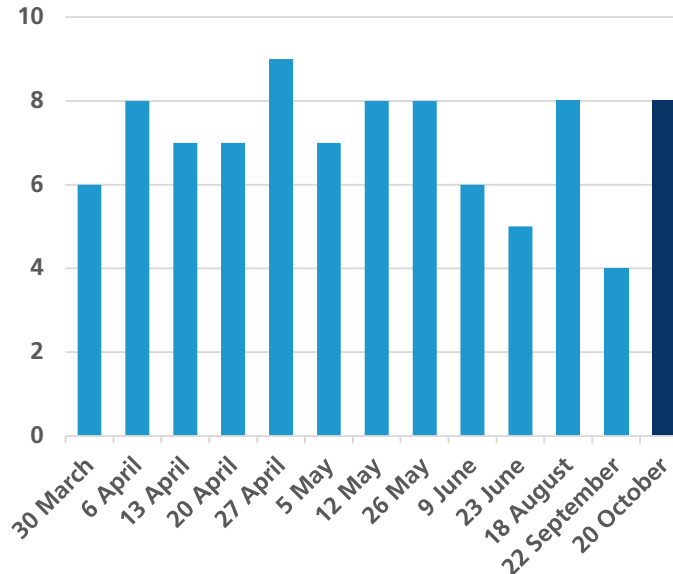
National surveys show the way – e.g. Belgium

- (1) Staff shortages increasingly cause disruptions in production.
(2) Bankruptcy risk remains high. (3) Investment plans for 2021 are reduced.

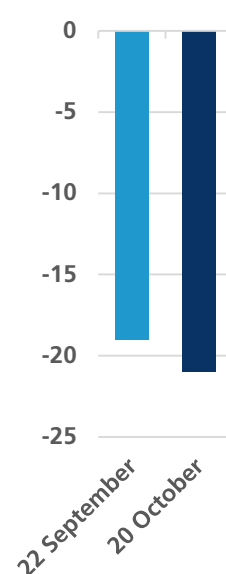
Staff shortage being a reason for the current revenue decline
(in % of respondents)



Bankruptcy is likely or very likely
(in % of respondents)

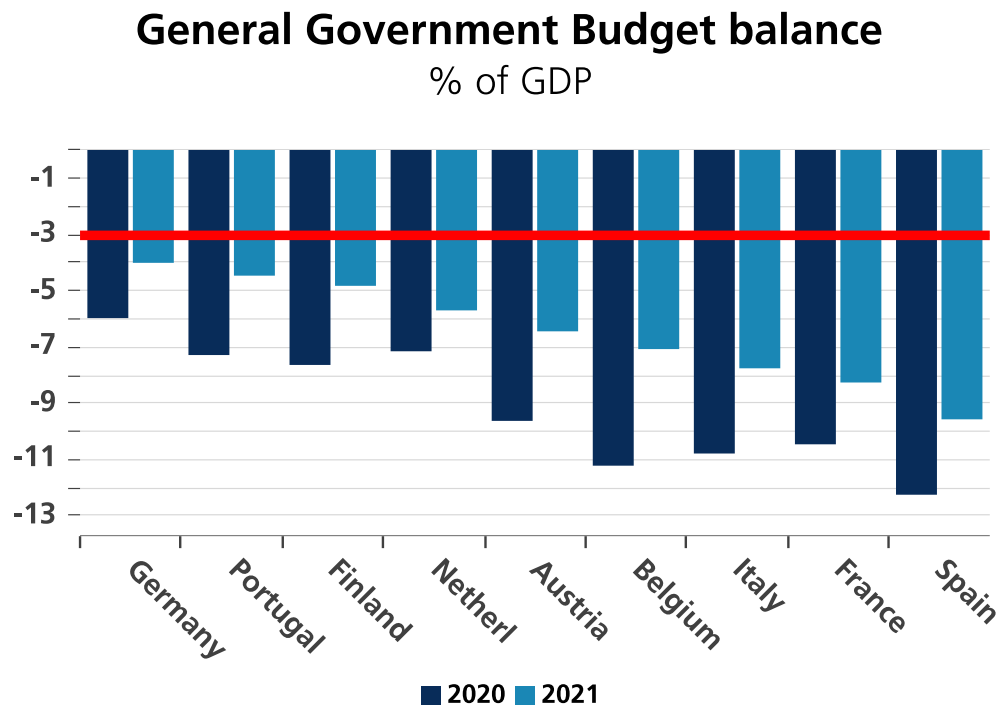


Expected impact on investment in 2021
(in %) (*)



Major challenges for public finances

Fiscal stimulus... but who will pay?



Source: KBC Economics based on DG ECFIN

2

Towards a green economic recovery?



Economy & Environment: friends or foes?

Competitive
(dis)advantage

Short versus
long term

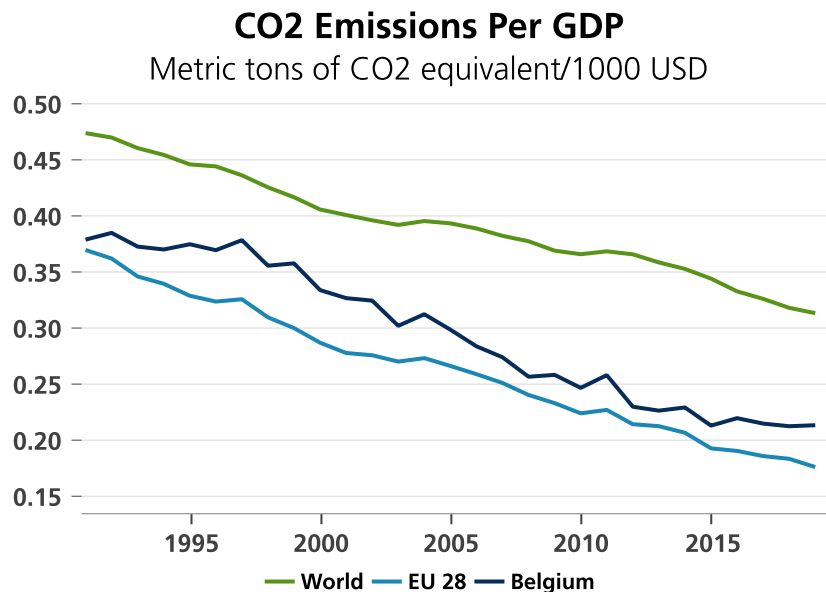
Regulatory costs

Operational and
financial
disruption

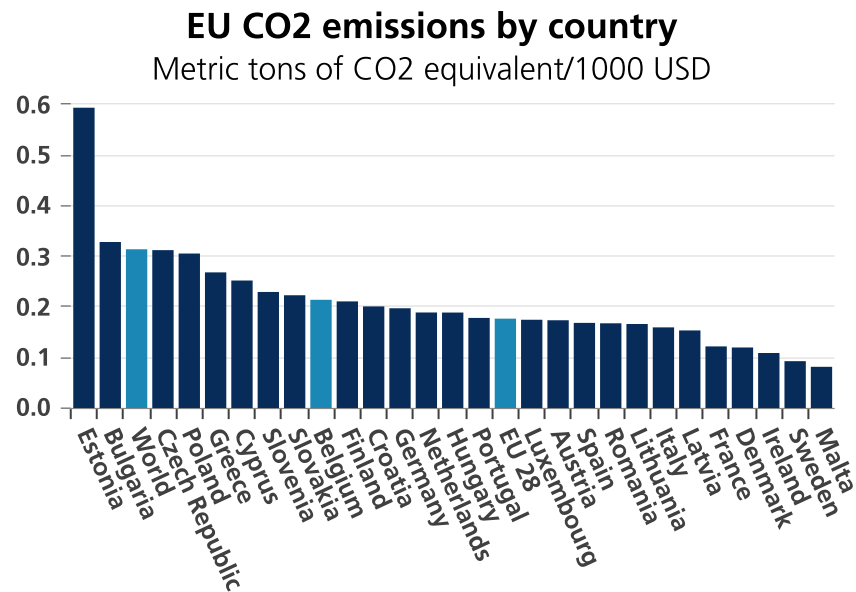
Challenges versus
opportunities

How Green are the European and Belgian Economies?

Emissions intensity of EU & Belgian GDP has been declining and is below world average...



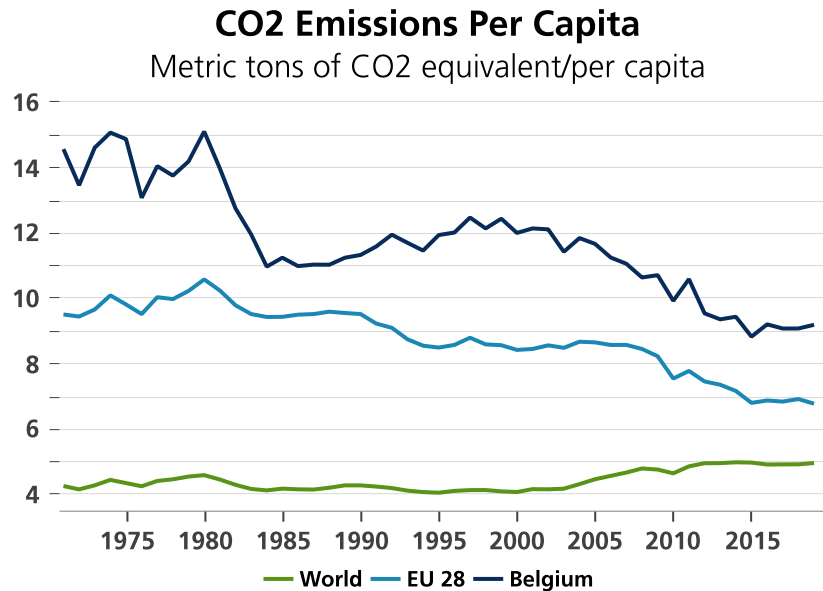
Source: KBC Economics based on DG EDGAR



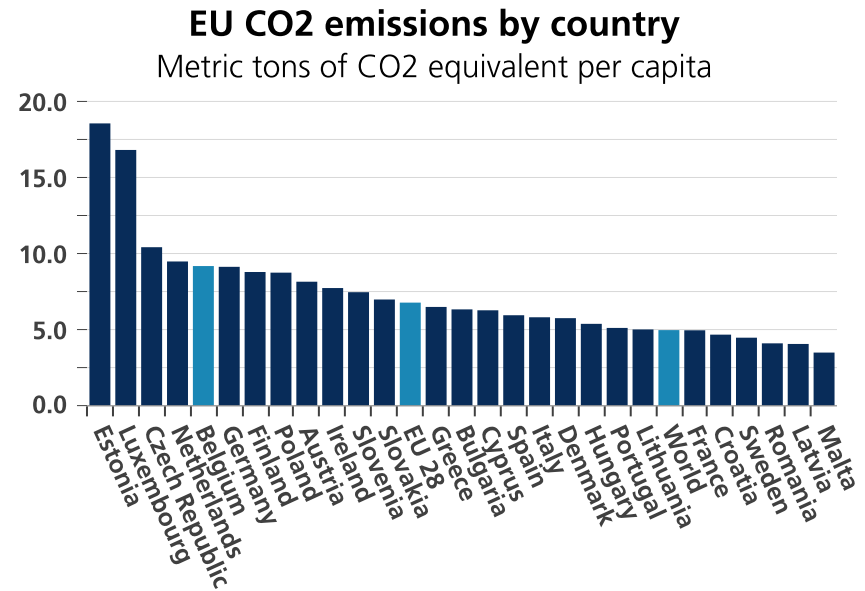
Source: KBC Economics based on DG EDGAR

How Green are the European and Belgian Economies?

...but emissions per capita are higher



Source: KBC Economics based on DG EDGAR

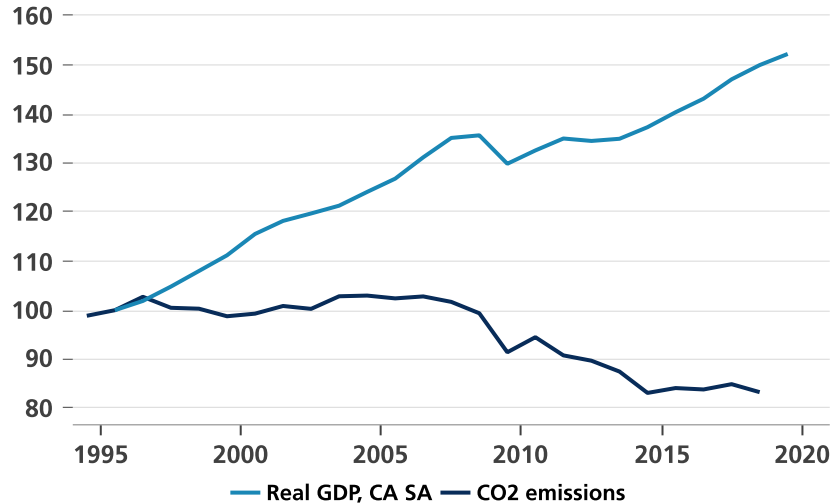


Source: KBC Economics based on DG EDGAR

Good news: Growth has clearly decoupled from emissions

EU 28 real GDP and CO2 emissions decoupled

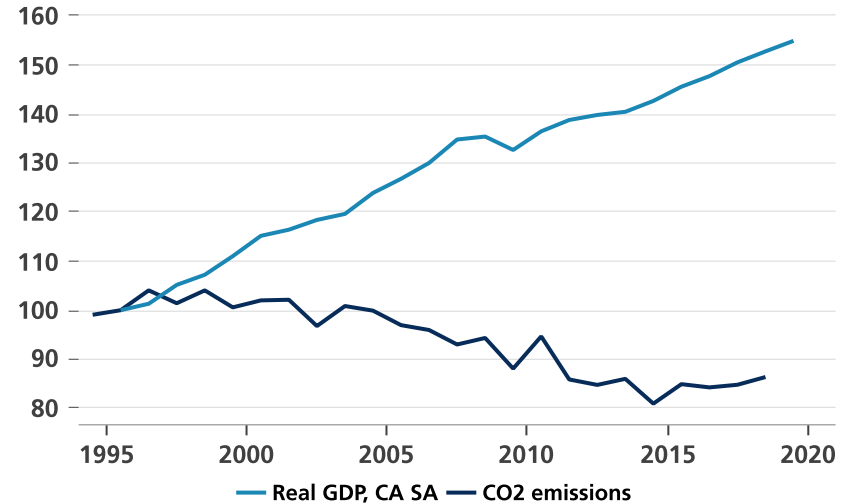
Index 1995 = 100



Source: KBC Economics based on DG EDGAR, NBB, Eurostat

Belgian real GDP and CO2 emissions decoupled

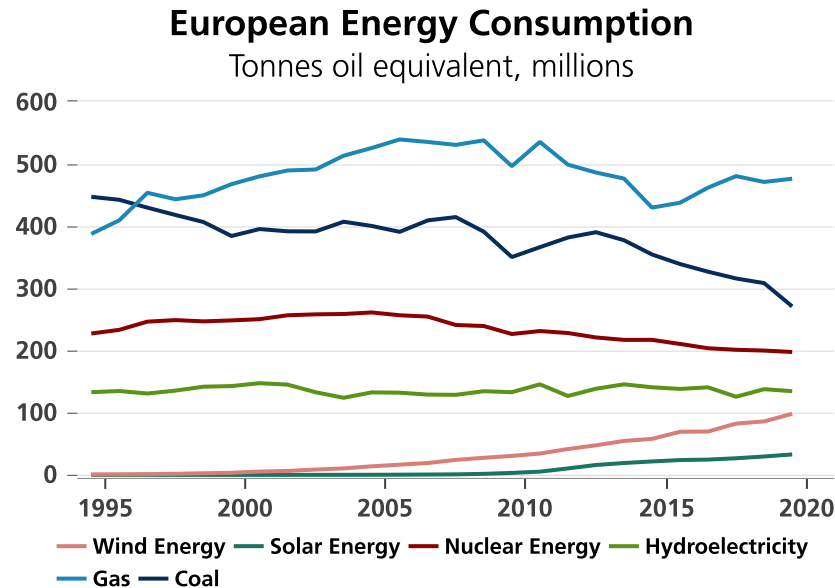
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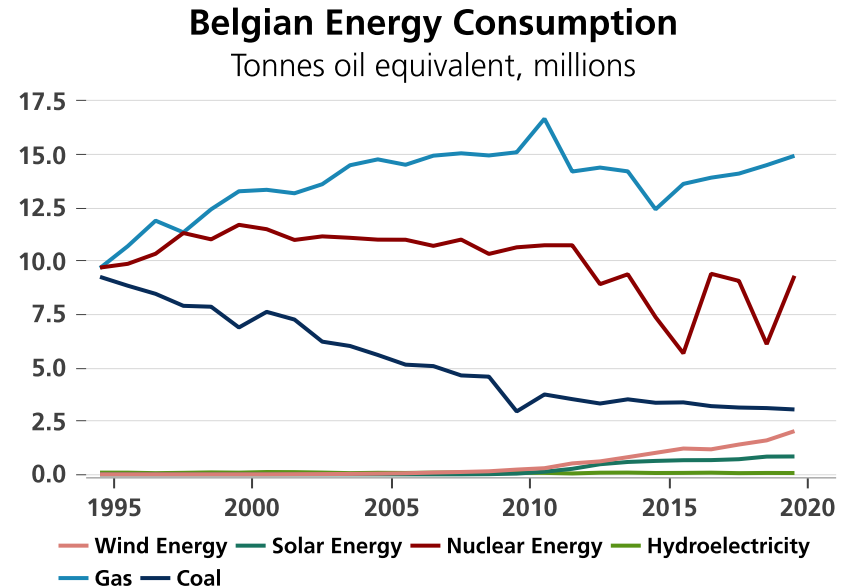
Source: KBC Economics based on DG EDGAR, NBB, Eurostat

Ecological transition via energy consumption

Renewables are accounting for a growing share of energy consumption, but there is a long way to go



Source: KBC Economics based on BP



Source: KBC Economics based on BP

EU Policies against climate change

GREEN RECOVERY

EU Green Deal

= framework
From window-dressing to
real transition policies

Next Generation EU
+ EU multi-annual
financial framework
30% GREEN

Investment stimulus
Carbon pricing
Other 'greening' taxes



Recovery and Resilience Facility

Key recovery instrument of Next Generation EU

- Will provide €672.5 billion in frontloaded loans and grants
- To receive grants, Member States need to submit their own national recovery and resilience plans -> **'do not harm'-principle**
- They are strongly encouraged to include **investment and reforms in 7 flagship areas:**

green

Power up – Frontload future-proof clean technologies & accelerate renewables.

Renovate – Improving energy efficiency of public & private buildings.

- **Recharge and Refuel** – Promote future-proof clean technologies to accelerate sustainable, accessible & smart transport, charging & refuelling stations & extension of public transport.

- **Connect** – Fast rollout of rapid broadband services, including fiber & 5G networks.

- **Modernise** – Digitalisation of public administration & services, including judicial & healthcare systems.

Scale-up – Increase European industrial data cloud capacities & the development of powerful, cutting edge, & sustainable processors.

- **Reskill and upskill** – Adapt education systems to support digital skills & educational & vocational training for all ages.

digital

Green economy: impact?

Macro impact assessment:
Vague and uncertain



What impact from 55% reduction in GHG
emissions compared to 1990 by 2030?

EC predicts 0.5% additional economic growth

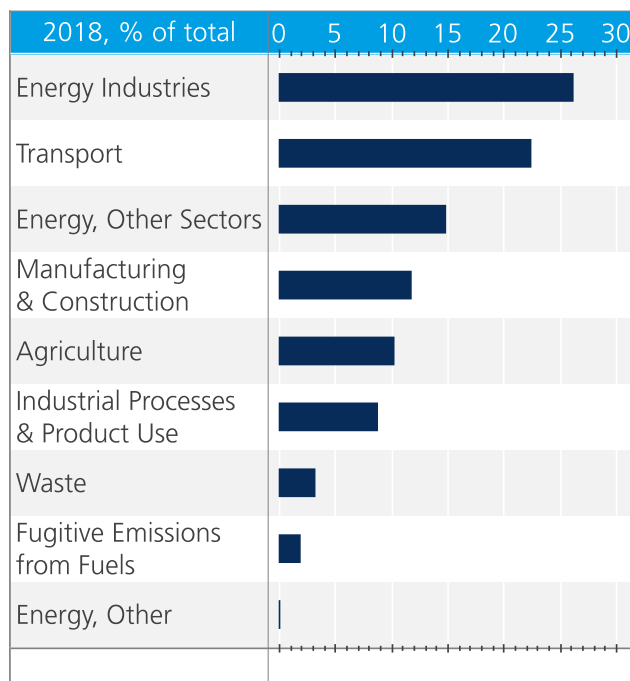
Micro impact assessment



Sectoral challenges very diverse
Winners and losers within sectors

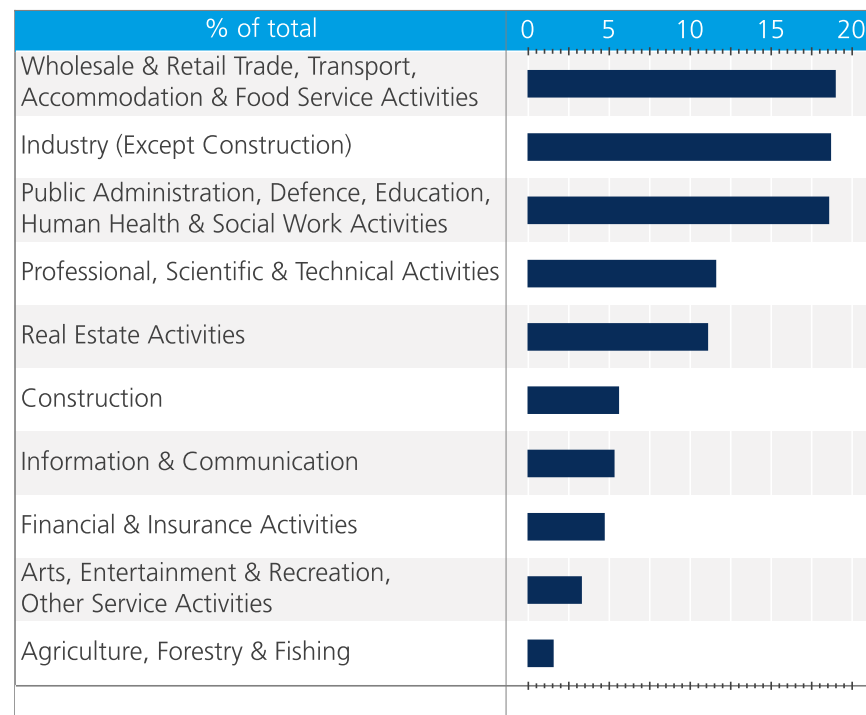
Energy, transport, manufacturing, construction and agriculture will all face a challenging transition in EU

EU Greenhouse Gas Emissions by Sector



Source: KBC Economics based on UNFCCC

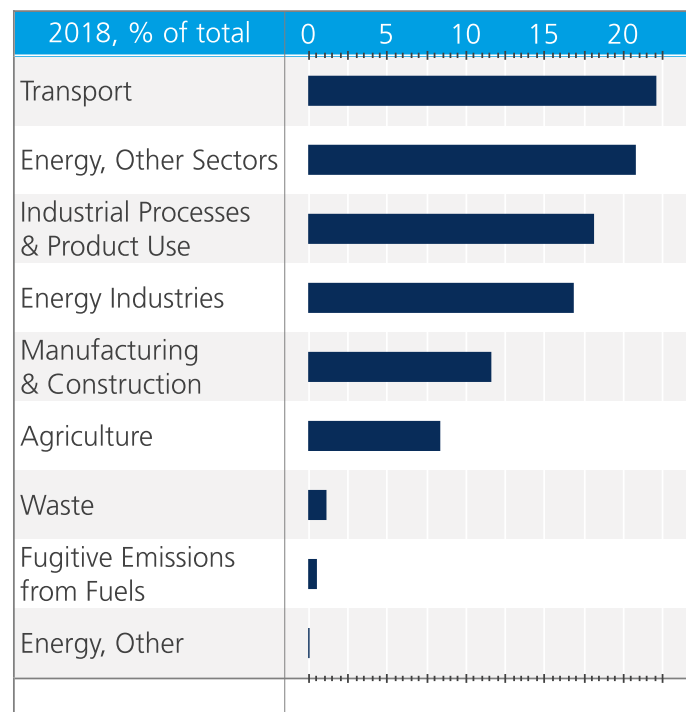
European value added by sector



Source: KBC Economics based on ECB

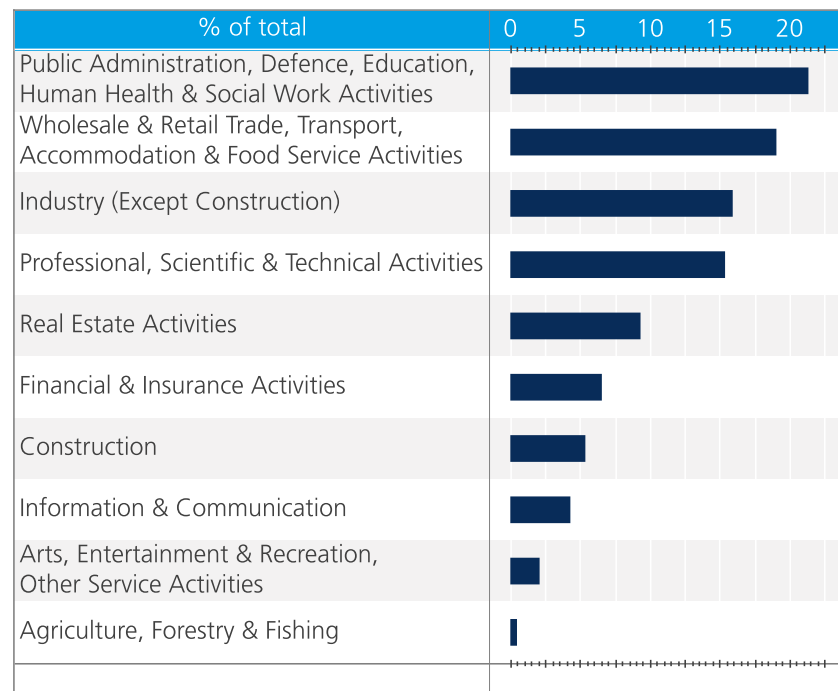
The same is true for Belgium

Belgian Greenhouse Gas Emissions by Sector



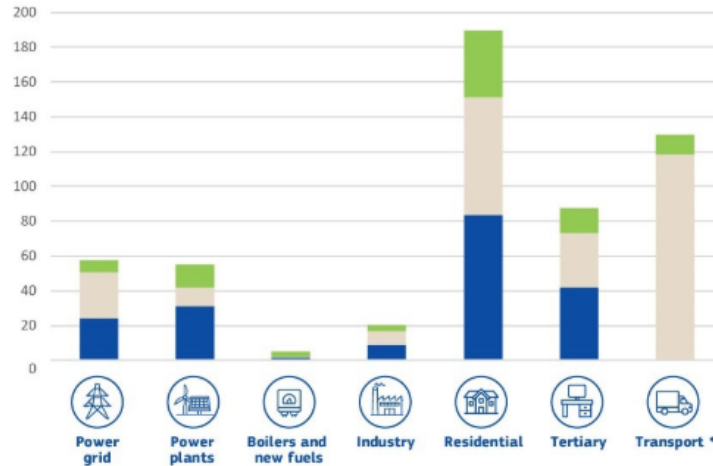
Source: KBC Economics based on UNFCCC

Belgian value added by sector



Source: KBC Economics based on ECB

Annual average investment 2011-2020 and additional 2021-30 under existing policies and to achieve -55% greenhouse gas emissions reductions - in billions euros (2015)



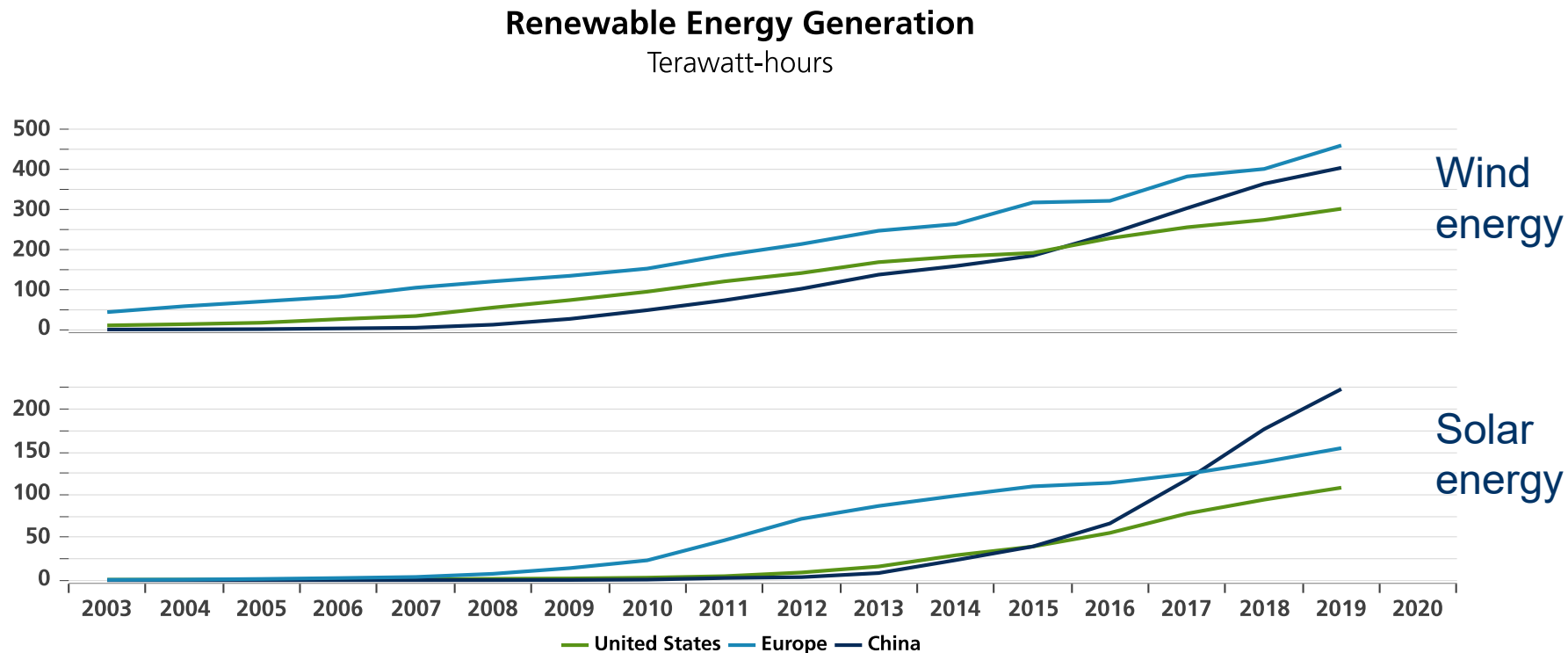
* Transport only shows additional investment

	Additional to achieve -55% greenhouse gas reductions, 2021-2030
	Additional under current 2030 policies in 2021-2030 compared to 2011-2020
	Historic annual investments in the energy system 2011-2020

Hopeful news:

- 1) Accomplishable mission
- 2) Creates business opportunities

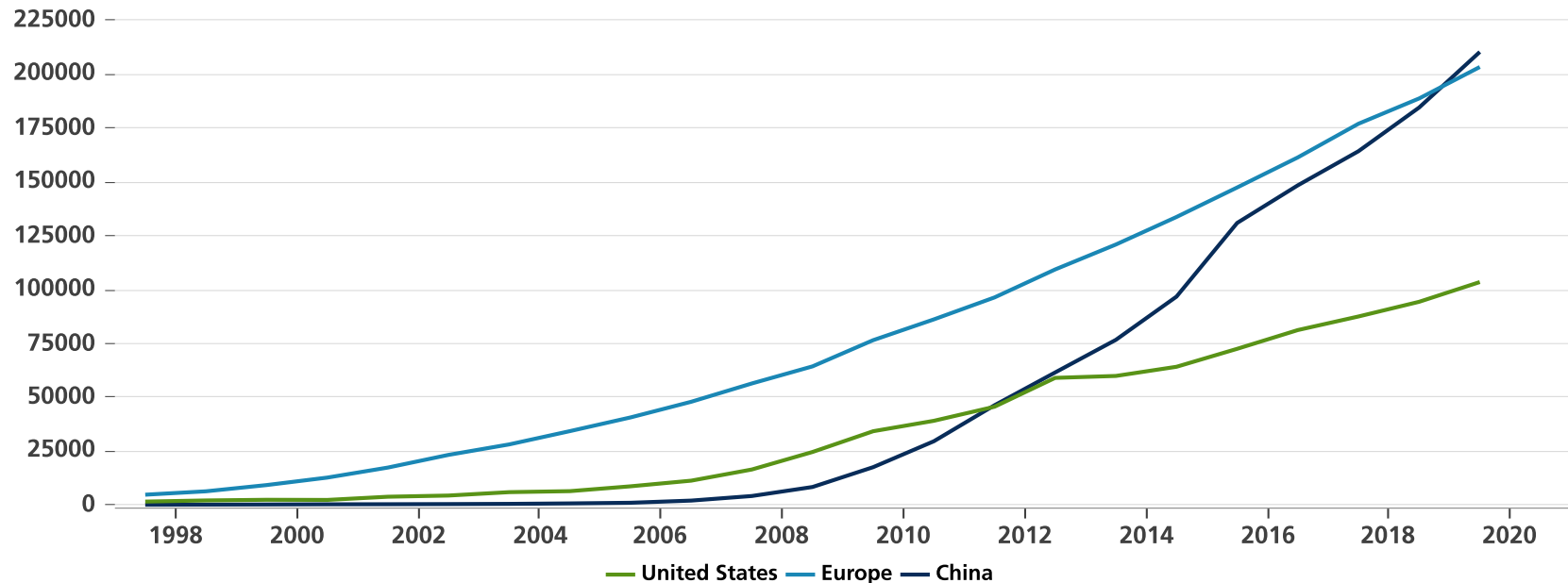
Global competition jeopardizes Europe's first mover position in green economy



Source: KBC Economics based on BP

Global competition jeopardizes Europe's first mover position in green economy

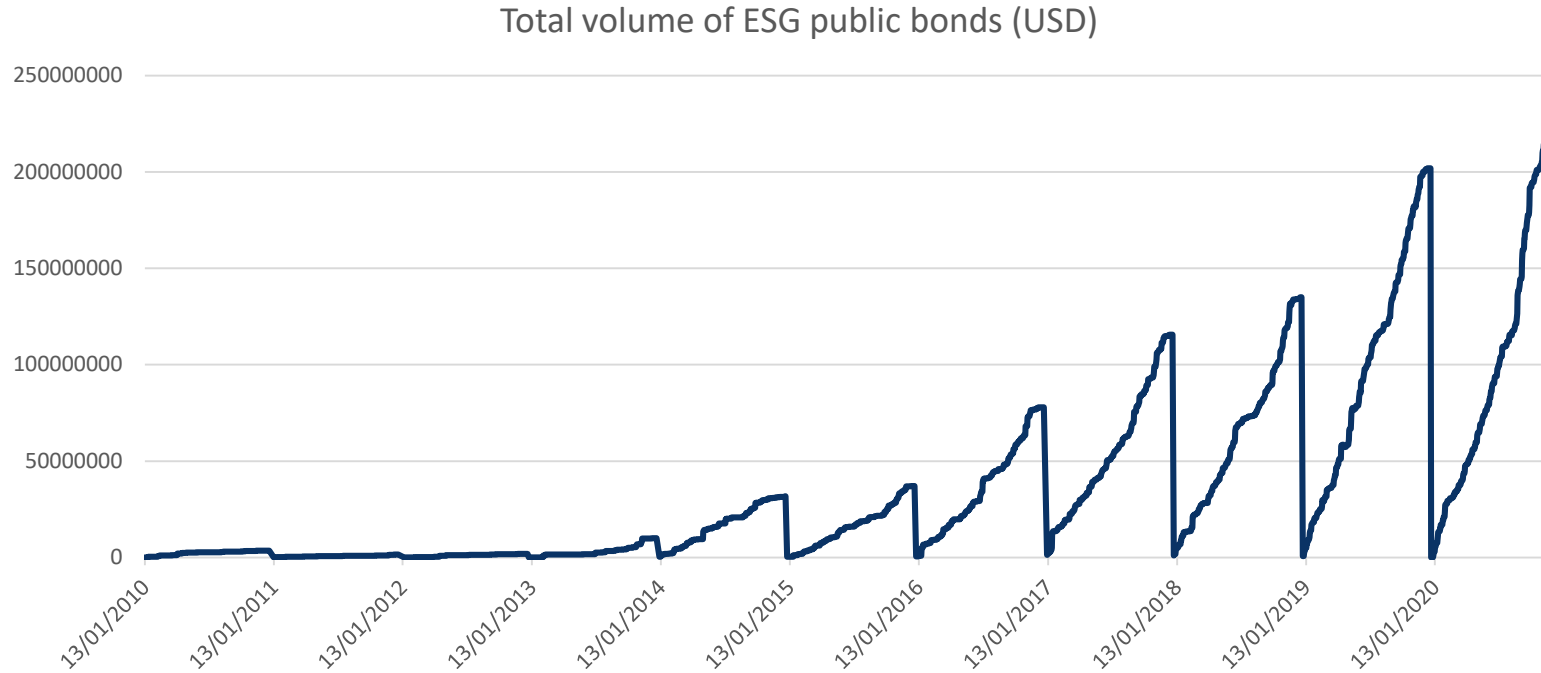
Wind Energy, Installed Turbine Capacity
Megawatts



Source: KBC Economics based on BP

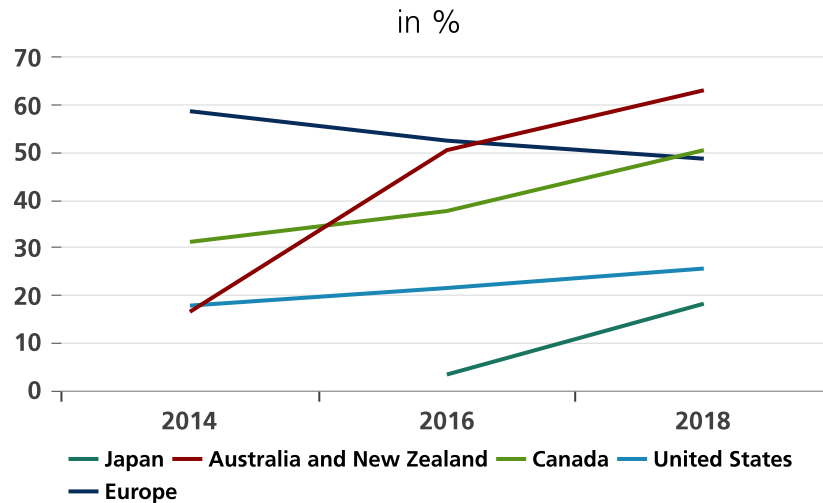
Increasing emissions of ESG public bonds

With another strong boost in 2020



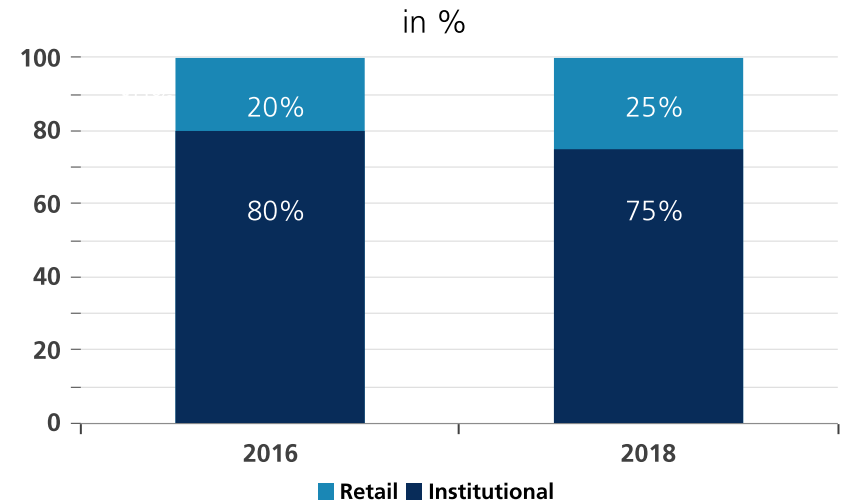
Green Finance: Sustainable investments on the rise

Proportion of sustainable investing relative to
total managed assets 2014-2018



Source: KBC Economics based on GSI-alliance

Global share of institutional and retail
sustainable investing assets 2016-2018



Source: KBC Economics based on GSI-alliance

3

The rise and persistence of economic nationalism



Many faces of economic nationalism

Trade and investment
protectionism

Public support with
corona-motivation

Regulatory home bias

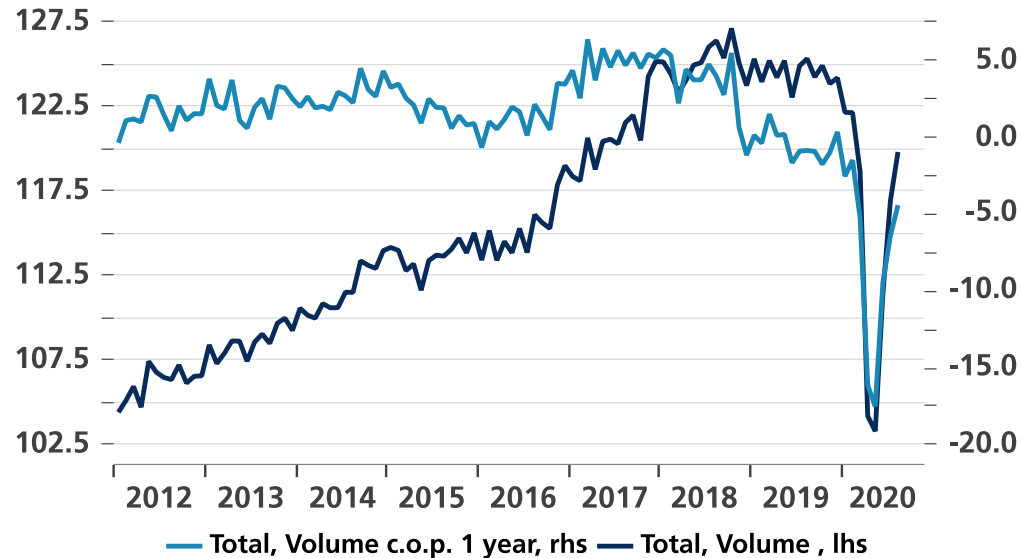
Home focus in green
and digital transition

Currency manipulation

Devastating impact of Covid-19 on global trade

But also strong rebound

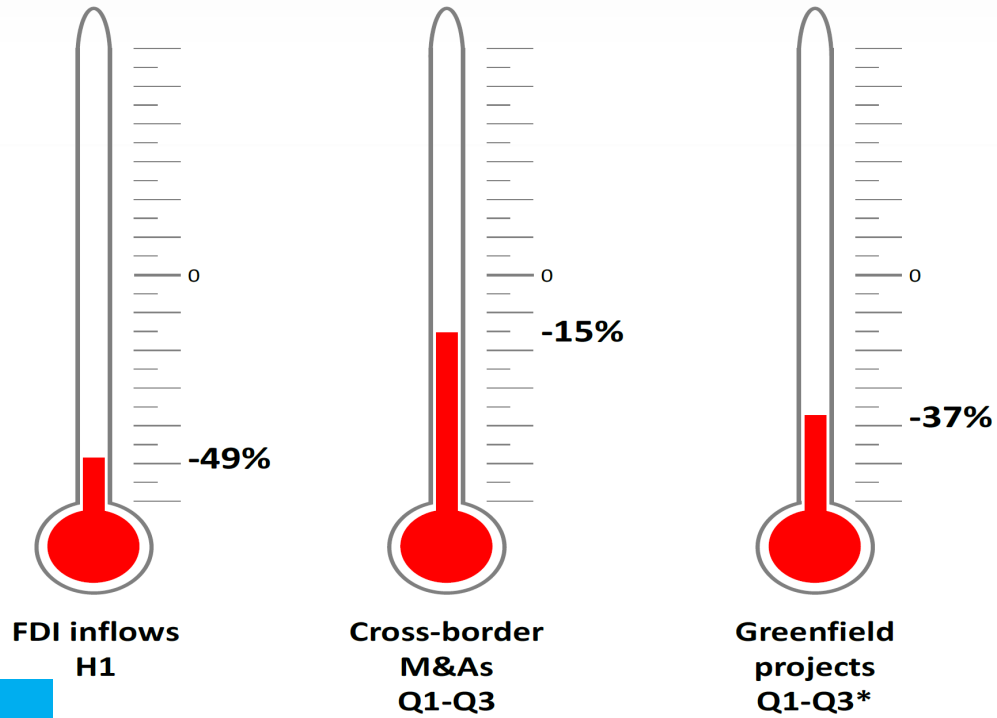
**World, Foreign Trade, CPB World Trade Monitor,
SA, Index**



Source: KBC Economics based on CPB

Same impact on global investments

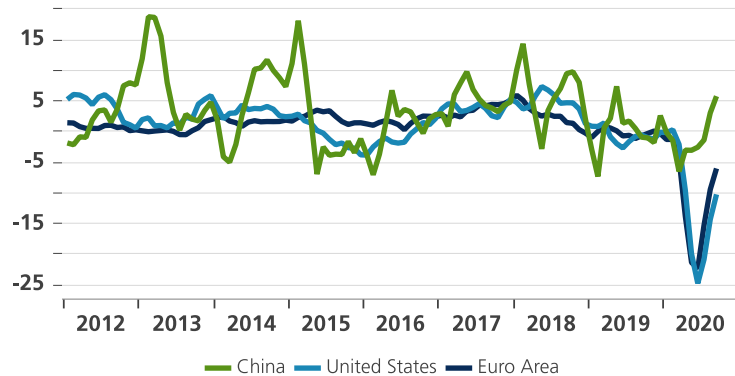
Figure 1. Global investment thermometers, 2020 Q1-Q3
(Per cent change vs 2019)



Source: UNCTAD (2020)

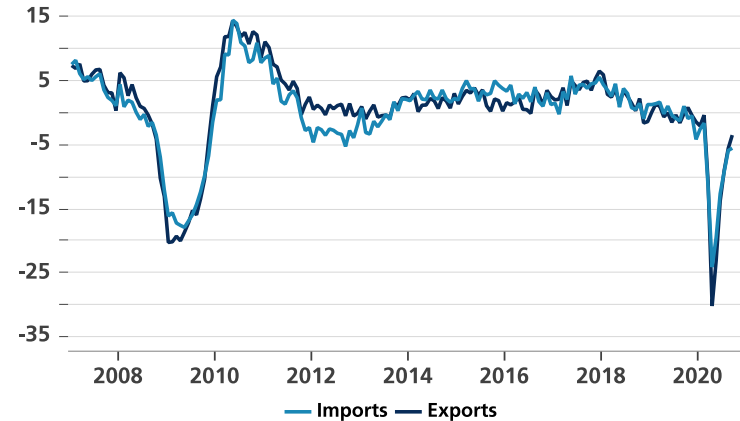
European trade hit severely by the corona crisis, but recovering

**CPB World Trade Monitor, Export, Total, Volume,
SA, Index**
c.o.p. 1 year, m.a. 3 months



Source: KBC Economics based on CPB

Euro Area - trade volume flows
Goods trade, SA, % c.o.p. 1 year



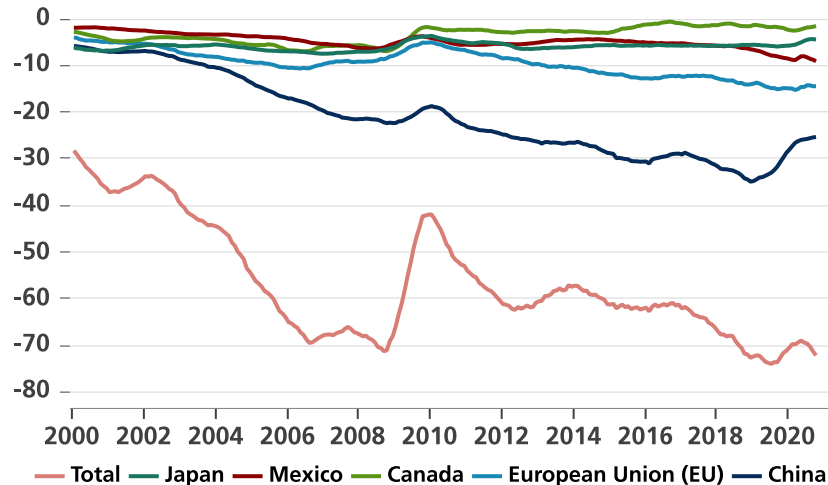
Source: KBC Economics based on CPB

US-China Trade War

Longlasting and fierce conflict about political and technological supremacy – Europe has to make choices

US bilateral trade balance

Goods trade, in billions of USD, m.a. 12 months

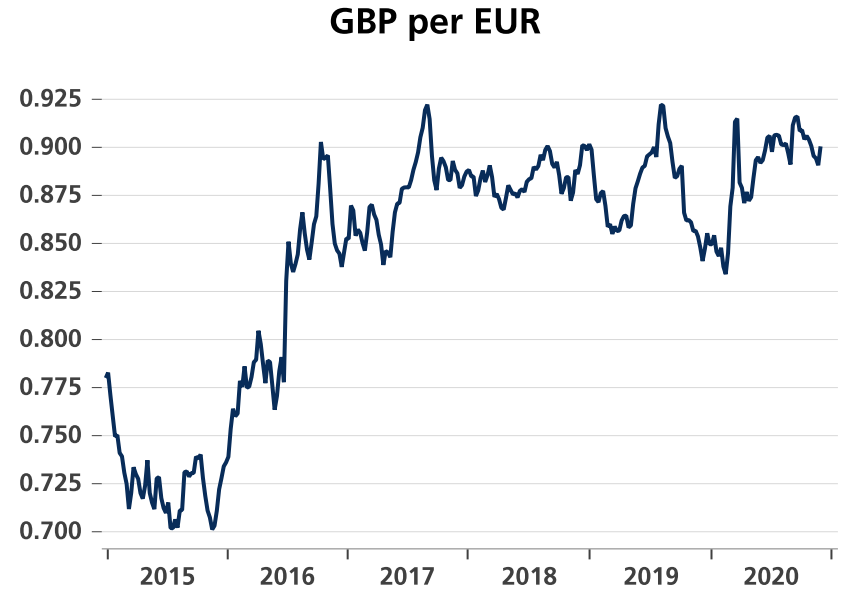


Source: KBC Economics based on U.S. Census Bureau



No-Deal Brexit is Back

Vulnerability of small open economies

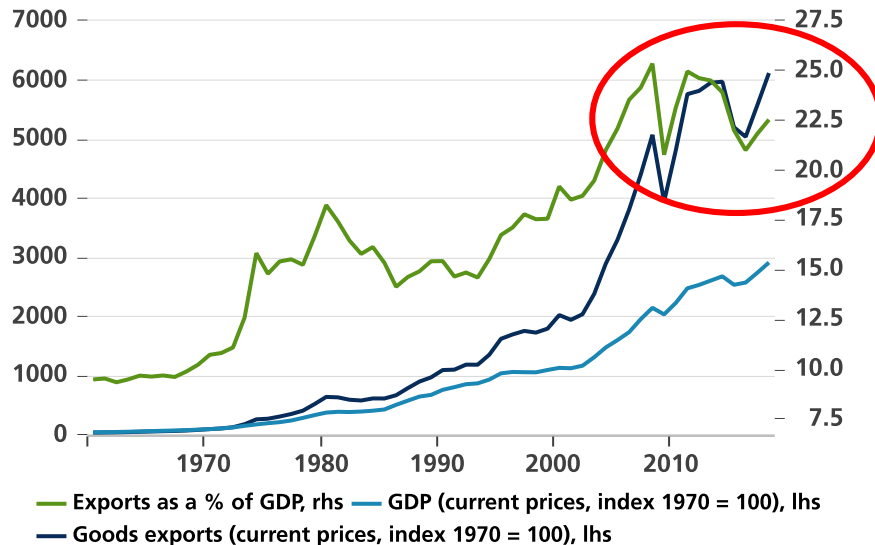


Source: KBC Economics based on Macrobond

Era of Economic Nationalism

Silent rise in protectionism will be strengthened in post-Covid-19 era

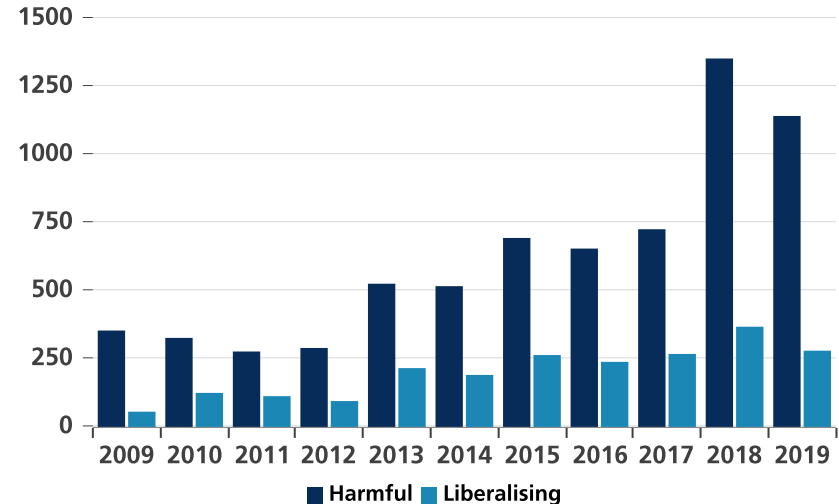
Global trade flows and GDP



Source: KBC Economics based on UNCTAD, World Bank

Number of new trade interventions

global, by impact on international trade

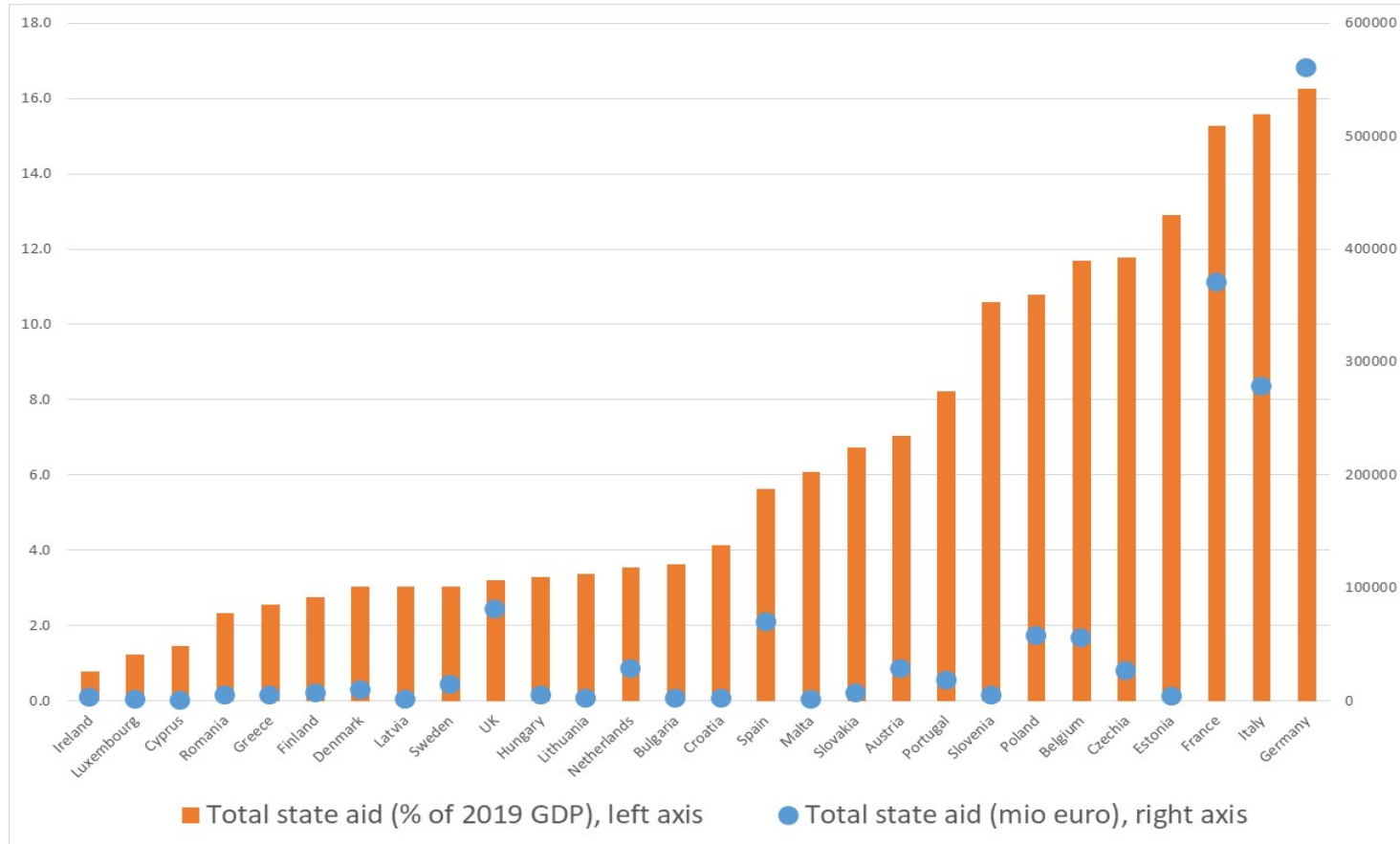


Source: KBC Economics based on Global Trade Alert

Corona-excuses – Broader rise in economic nationalism

- State aid: justified and proportional? (note: green and digital motivation)
- Fiscal stimulus: home bias or not?
- Export guarantees: solution or problem?
- Economic (and political) freedom: future of the market economy?
- ...

State aid support in the EU: Level playing field distorted?



Main take-aways

Exceptional economic shock due to Covid-19 pandemic

Desynchronization between business cycle and other economic developments

Strong resilience in global/European economy: recovery in Q3

Vulnerable economy, addicted to monetary and fiscal stimulus

Corporate world in a defensive mood

Corona crisis will cause long-lasting challenges

Green and technological transition is an opportunity

Unfortunately jeopardized by rise in economic nationalism

Doing business requires balancing many factors

**Thank you for
your attention!**

Email:
chiefeconomist@kbc.be

Twitter:
@JanVanHove_KBC

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