

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

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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



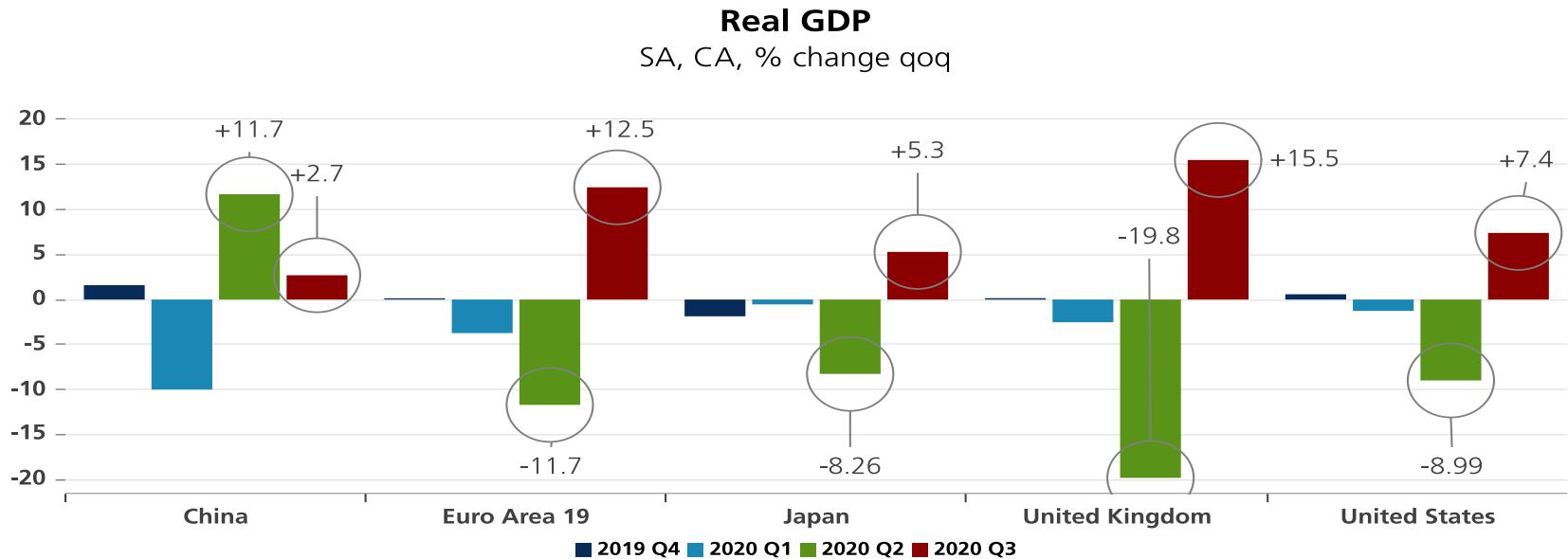
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The Covid-19 Economy



Unprecedented shock, but strong rebound

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



Total net corona effect so far:

Euro area: -7.5%

US: -2.7%

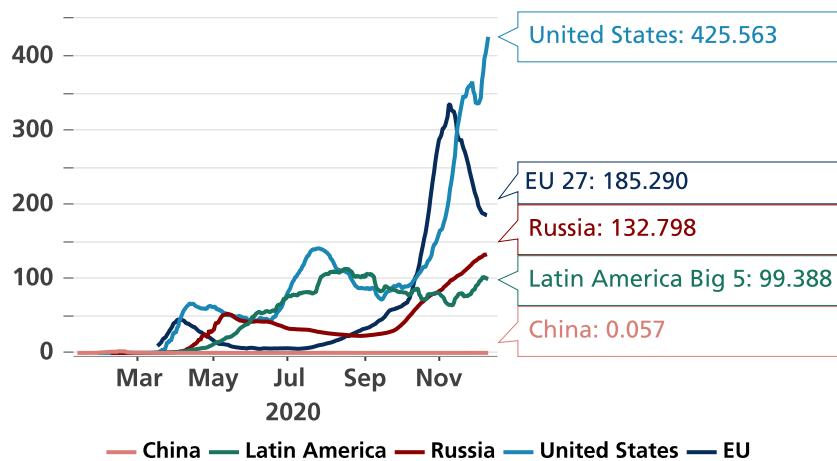
China: +5.6%

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

Second wave of pandemic expected to weigh on global economic recovery

Coronavirus Disease (COVID-19) Pandemic: Confirmed Cases

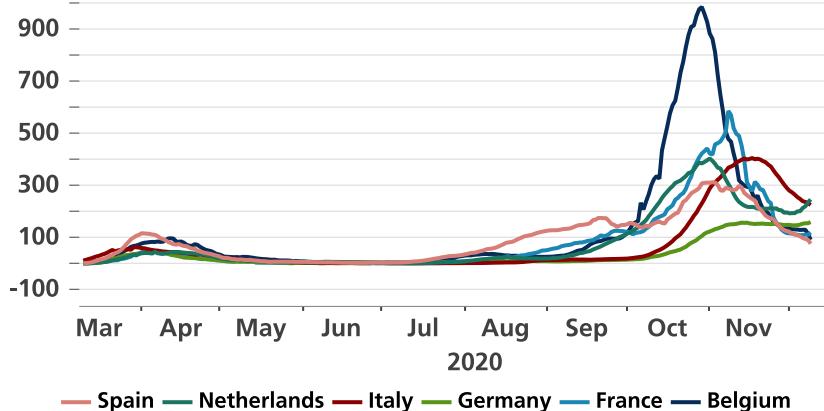
new cases, 7-day periods, per 100.000 inhabitants



Source: KBC Economics based on WHO, Eurostat, UNDESA

Coronavirus Disease (COVID-19) Pandemic: Confirmed Cases

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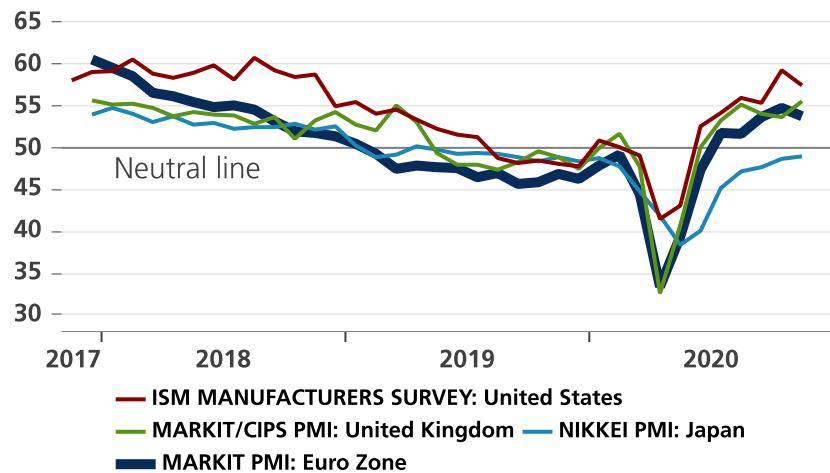


Source: KBC Economics based on WHO, IMF

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

Business Sentiment Indicators: Industry

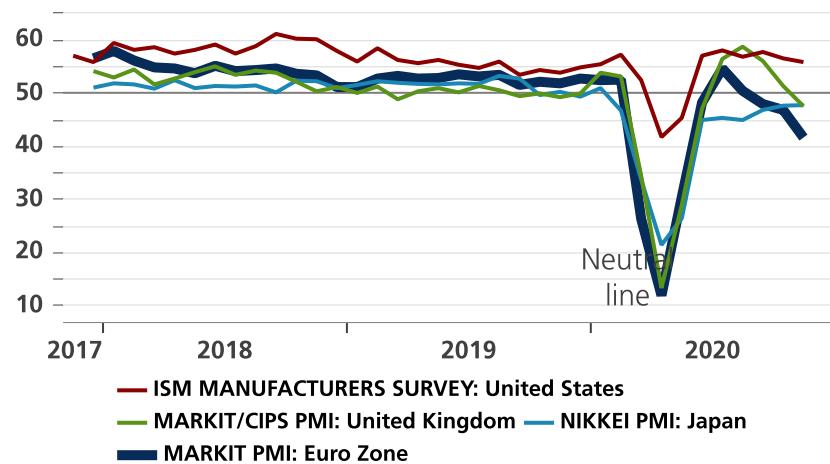
Above 50 = expansion



Source: KBC Economics based on IHS Markit, ISM

Confidence indicators services

Above 50 = expansion



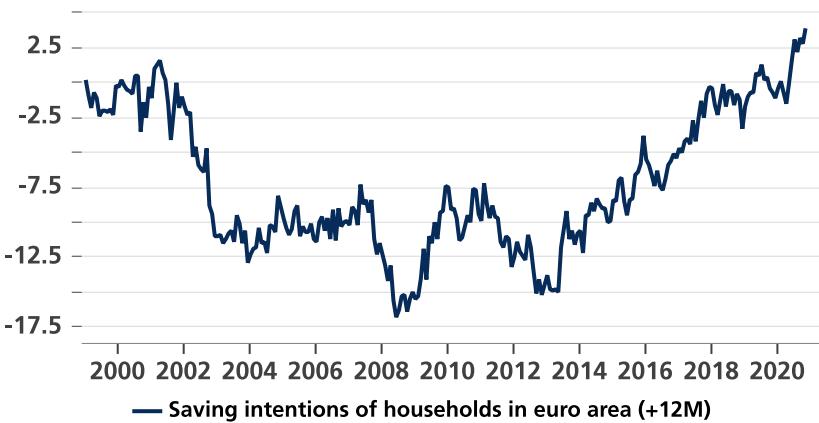
Source: KBC Economics based on IHS Markit, ISM

Savings on the rise

Precautionary private savings mirror growing public deficits

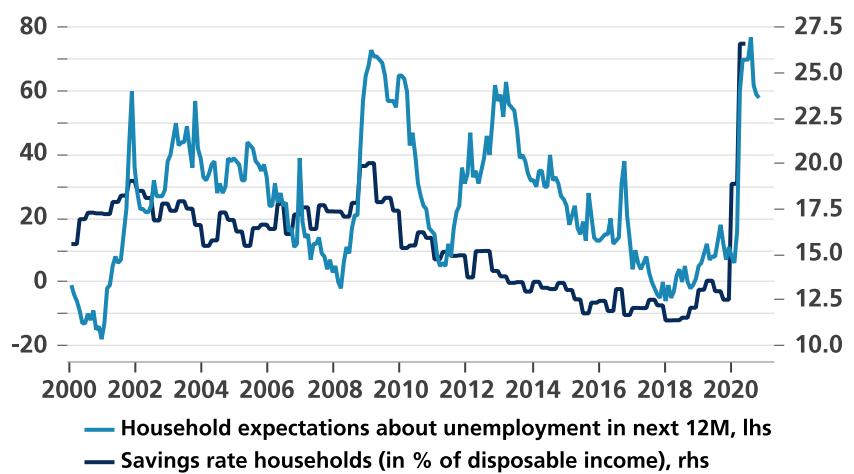
Saving intentions of households in euro area (+12M)

Component of the consumer confidence surveys



Source: KBC Economics based on DG ECFIN

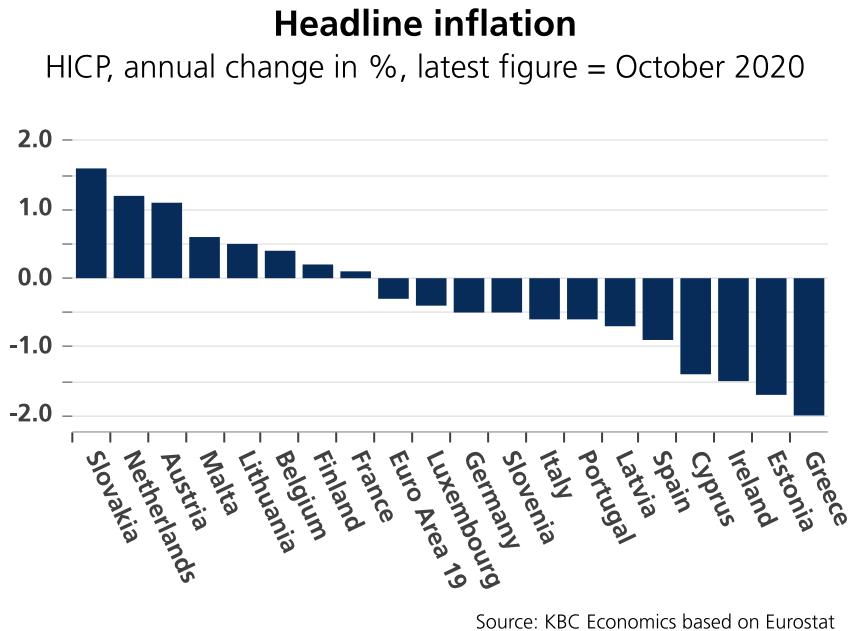
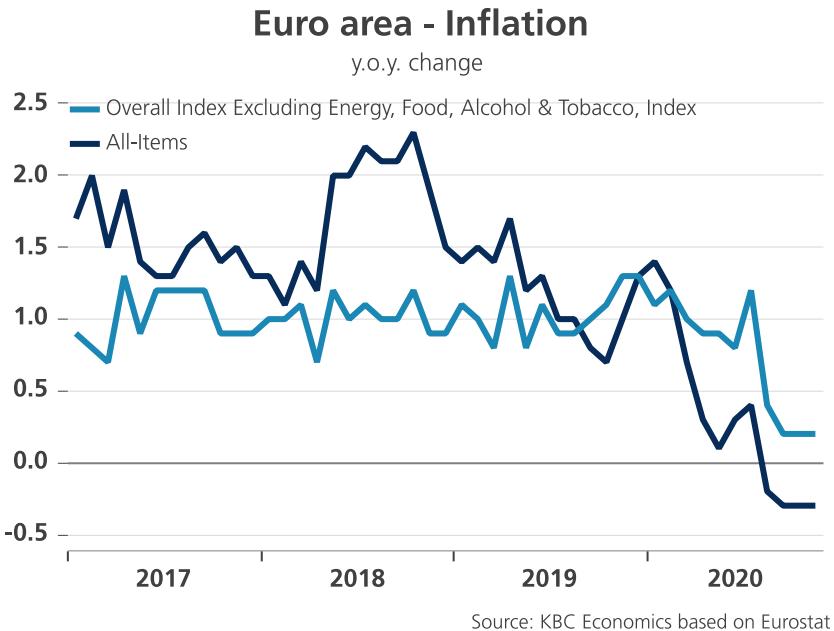
Belgium - Savings ratio vs. fear for unemployment



Source: KBC Economics based on Eurostat, NBB

European inflation drop due to slower economic developments

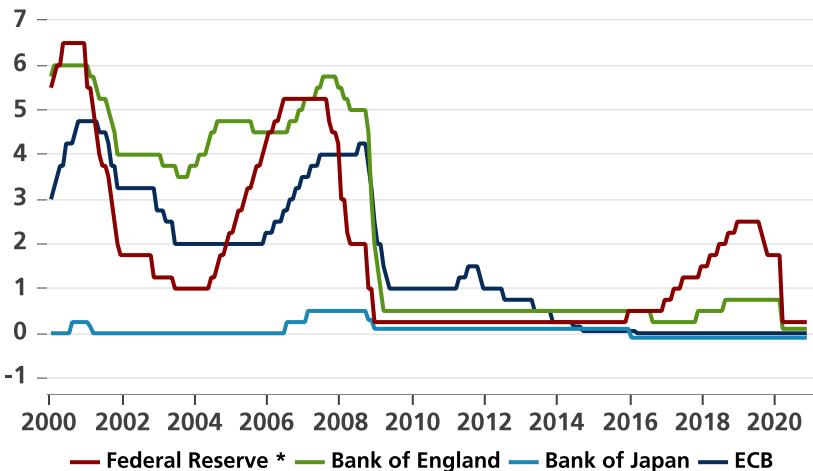
Inflationary/deflationary trends differ across EU countries



Central banks to the rescue (again)

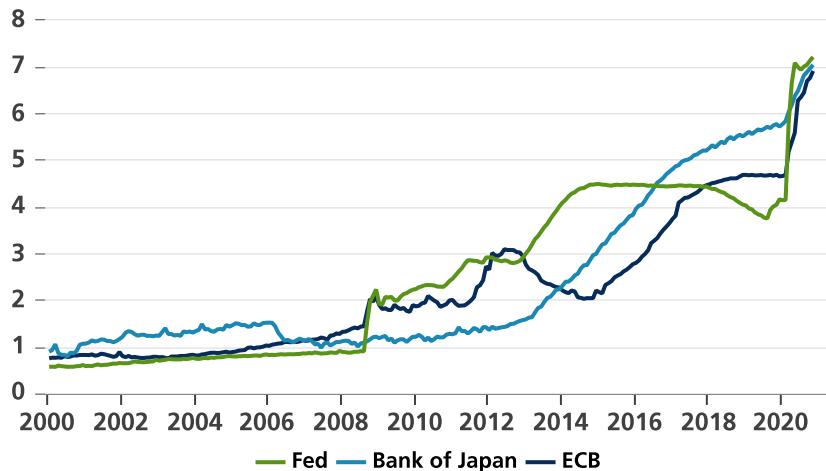
Unconventional tools are the new normal

Policy rates Western Central banks
(in %)



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

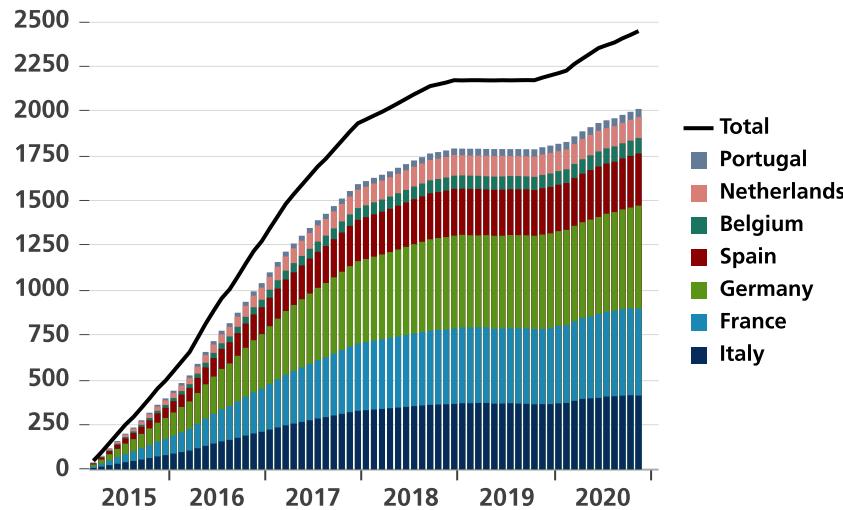
Size of balance sheets (assets)
National sources, local exchange rates



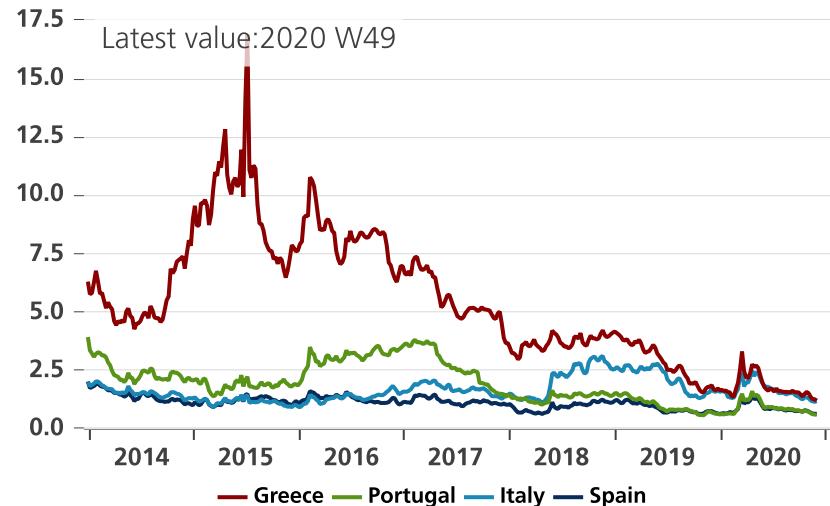
Source: KBC Economics based on ECB, Fed, BOJ

ECB market interventions keep intra-EMU interest rate spreads subdued

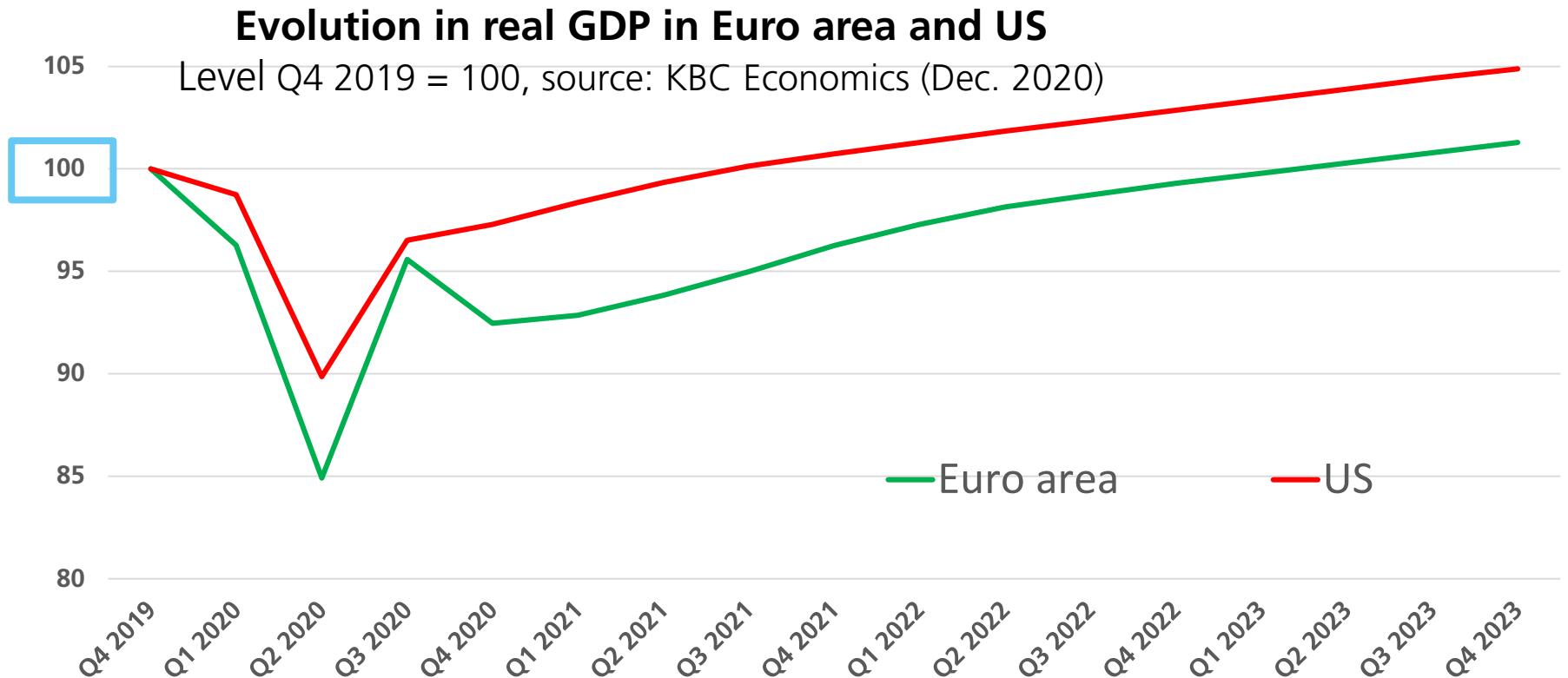
ECB PSPP portfolio, bn EUR



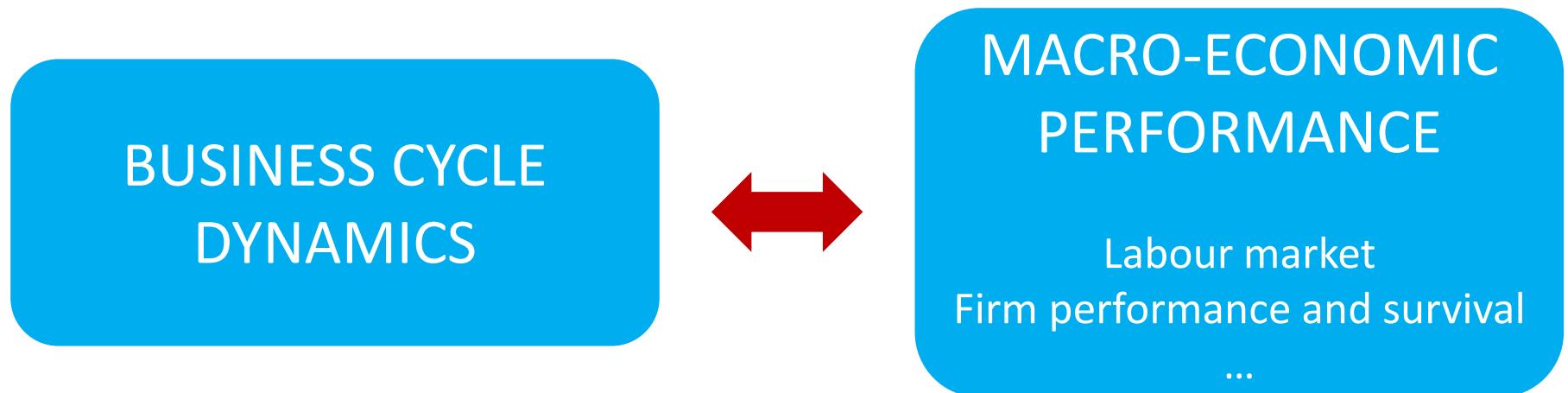
Interest rate spread 10y sovereign bonds
in %



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

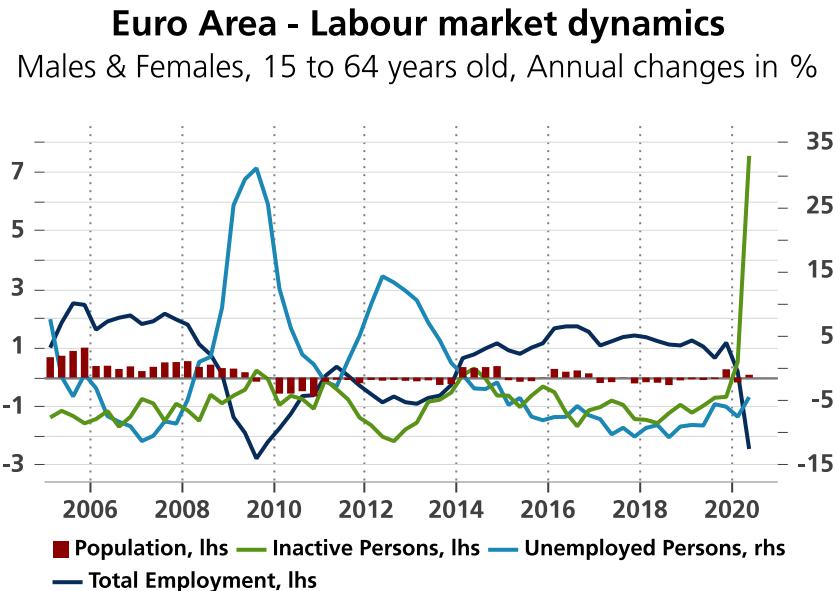
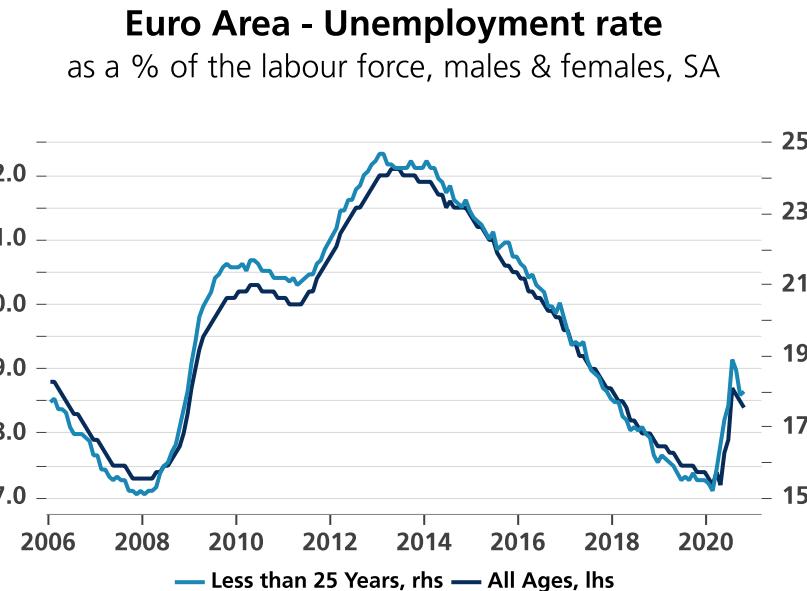


Dual nature of economic outlook



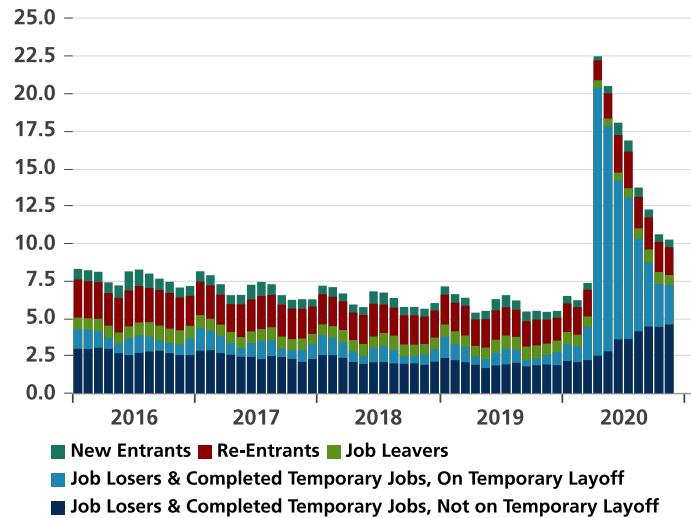
Will make 2021 a challenging year...

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

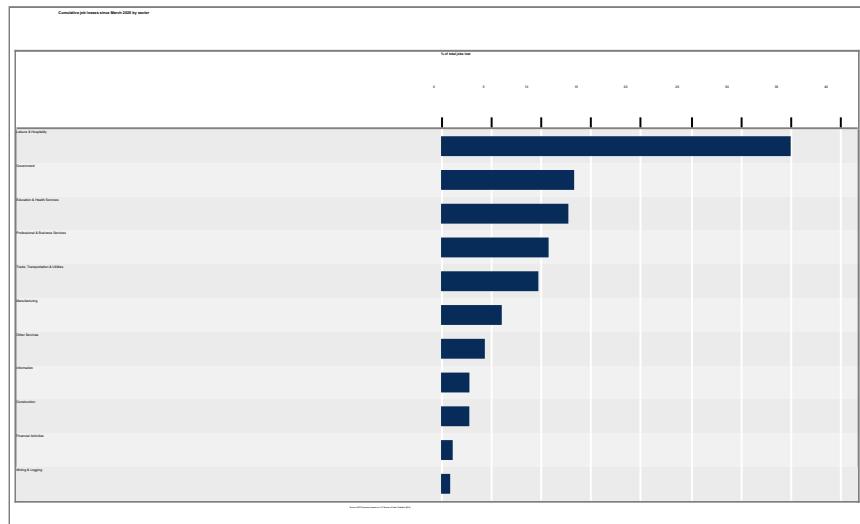


US: long-lasting impact on labour market expected – vulnerability of lower earners may trigger social disruptions

United States, National Unemployment
Millions, by reason

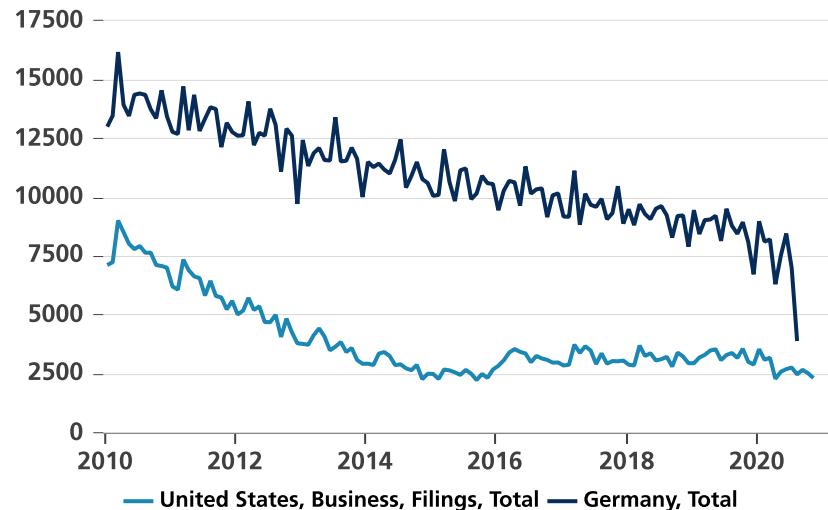


Source: KBC Economics based on BLS



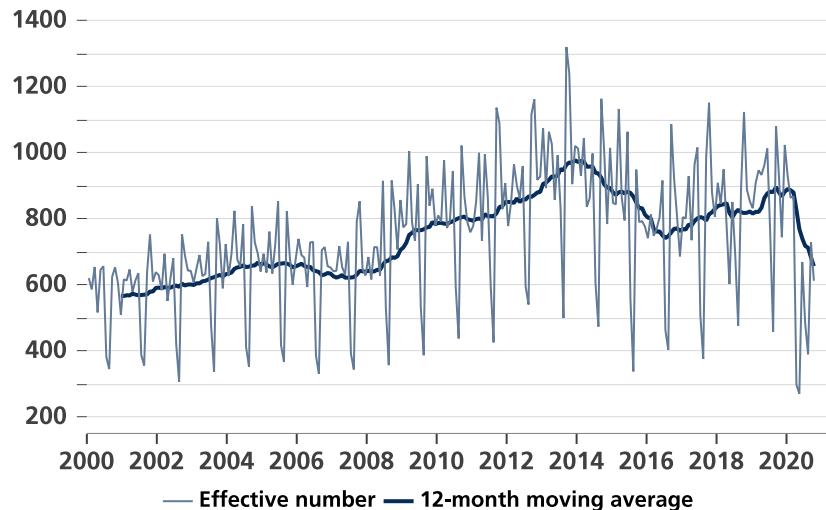
Bankruptcies: nothing visible now, but shock will come...

Number of Bankruptcies



Source: KBC Economics based on DESTATIS, ABI

Belgium - Number of bankruptcies



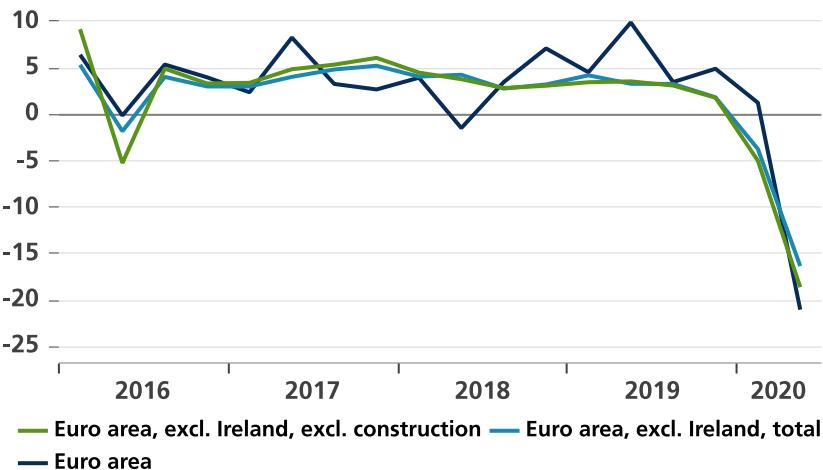
Source: KBC Economics based on Statistics Belgium

Investments likely tumbling down

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

Gross fixed capital formation

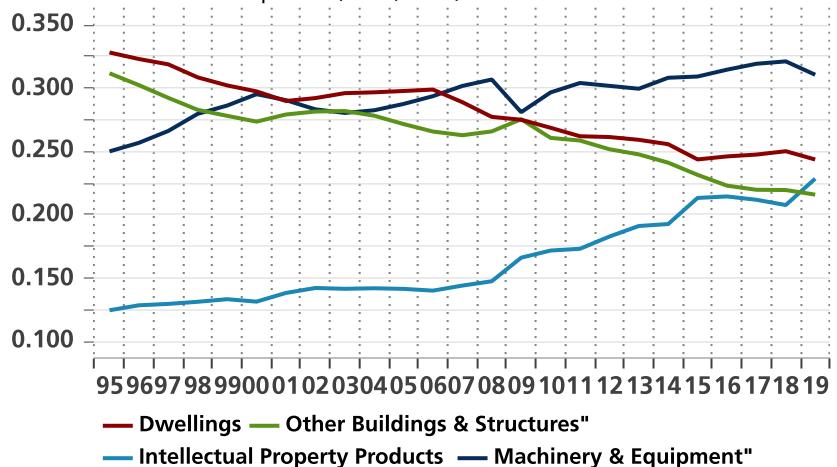
annual change in %



Source: KBC Economics based on Eurostat

Euro area - Composition of Gross Fixed Capital Formation

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



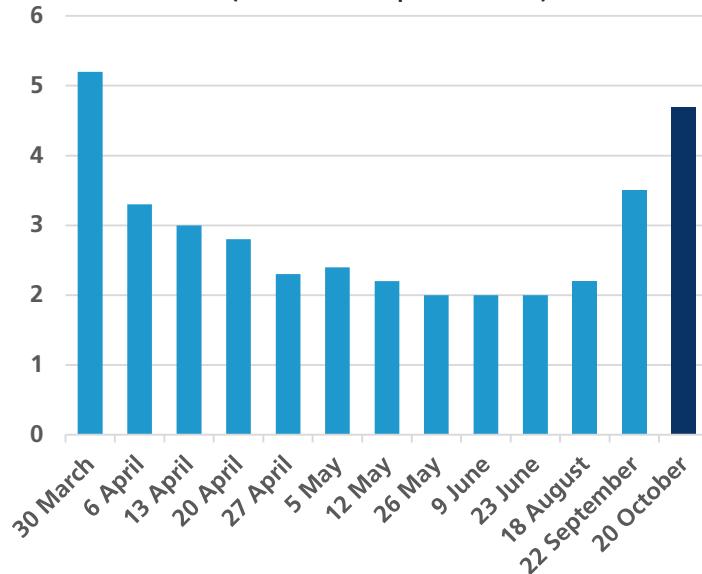
Source: KBC Economics based on Eurostat

National surveys show the way – e.g. Belgium

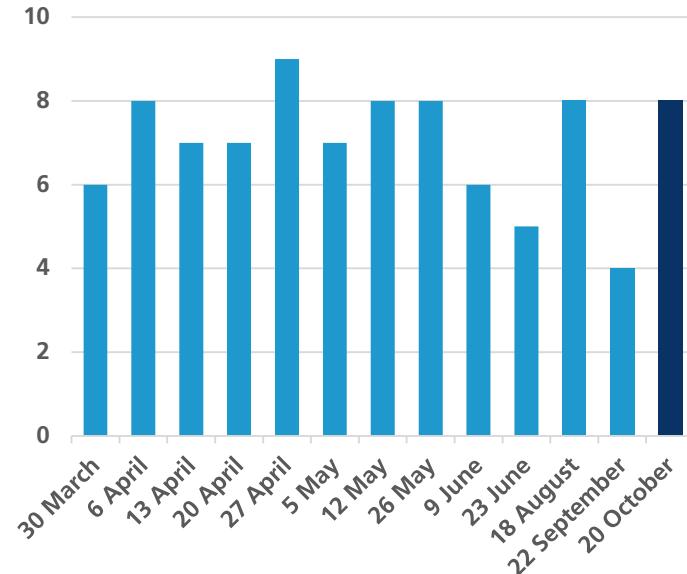
(1) Staff shortages increasingly cause disruptions in production.

(2) Bankruptcy risk remains high. (3) Investment plans for 2021 are reduced.

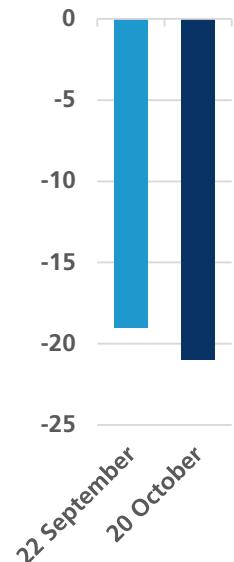
Staff shortage being a reason for the current revenue decline
(in % of respondents)



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

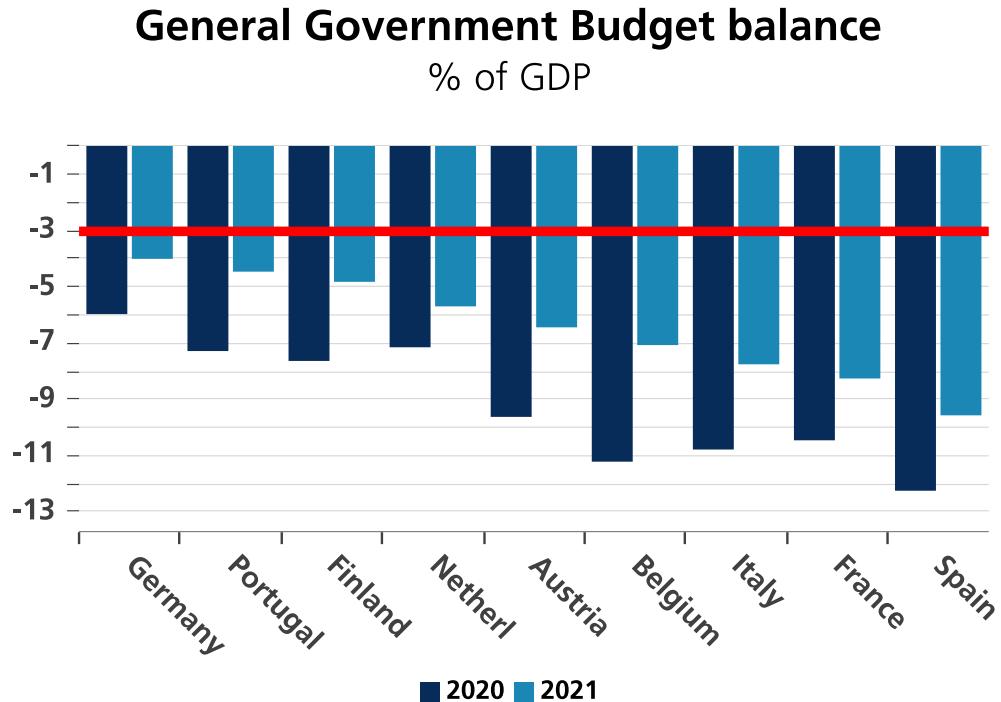


Expected impact on investment in 2021
(in %) (*)



Major challenges for public finances

Fiscal stimulus... but who will pay?



Source: KBC Economics based on DG ECFIN

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Towards a green economic recovery?



Economy & Environment: friends or foes?

Competitive
(dis)advantage

Short versus
long term

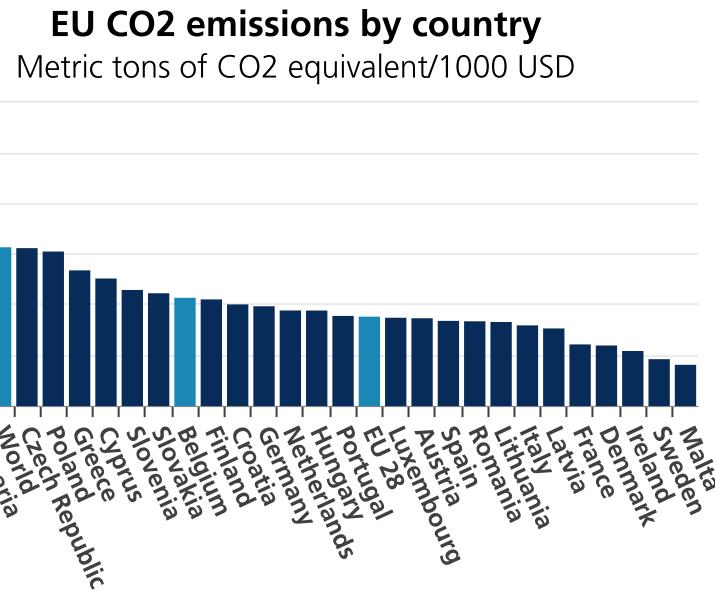
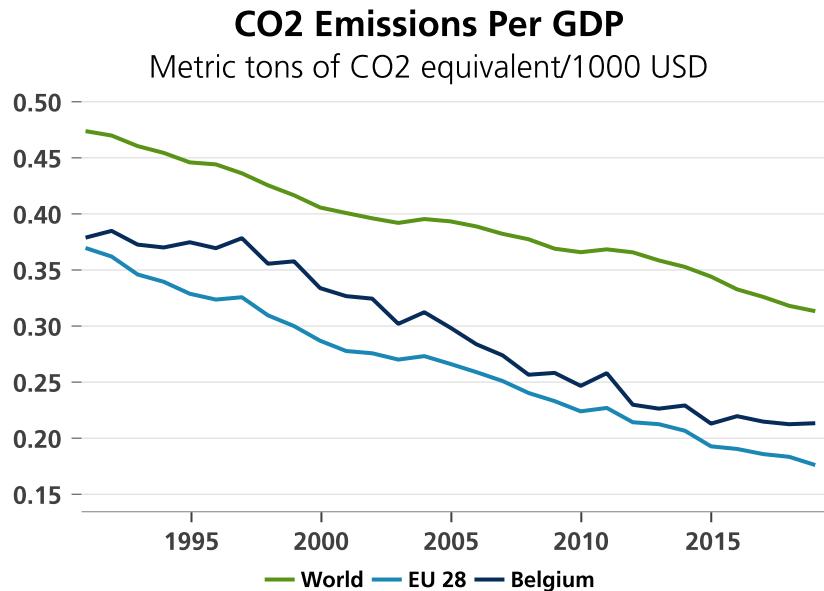
Regulatory costs

Operational and
financial
disruption

Challenges versus
opportunities

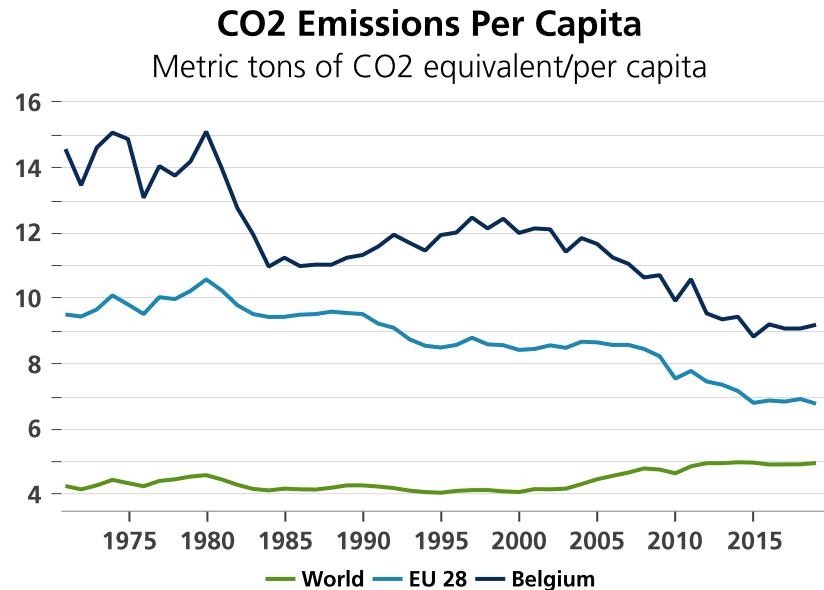
How Green are the European and Belgian Economies?

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

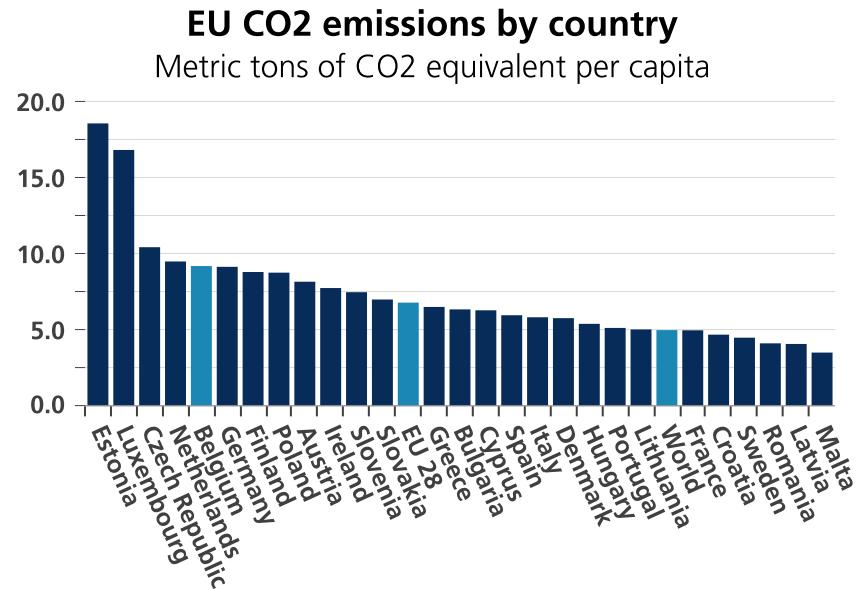


How Green are the European and Belgian Economies?

...but emissions per capita are higher



Source: KBC Economics based on DG EDGAR

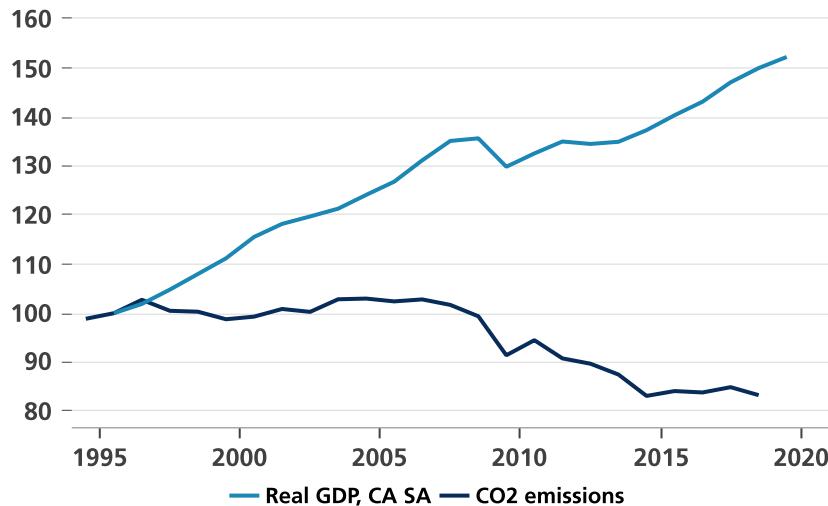


Source: KBC Economics based on DG EDGAR

Good news: Growth has clearly decoupled from emissions

EU 28 real GDP and CO2 emissions decoupled

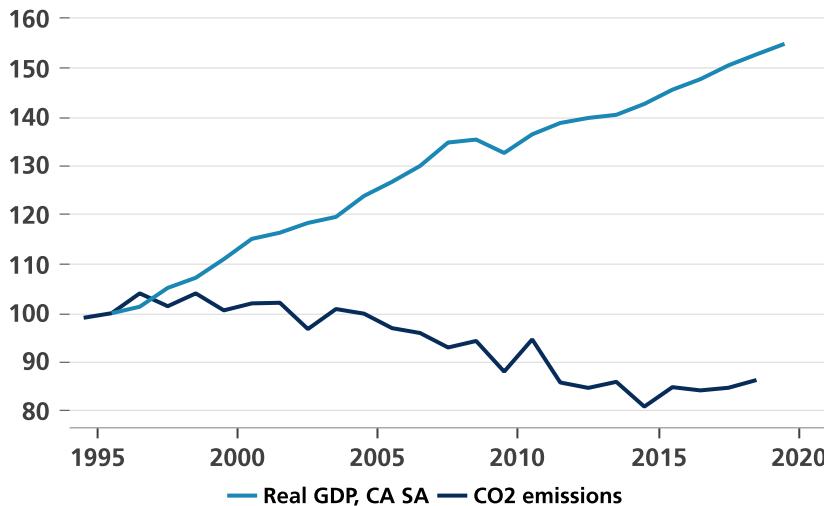
Index 1995 = 100



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

Belgian real GDP and CO2 emissions decoupled

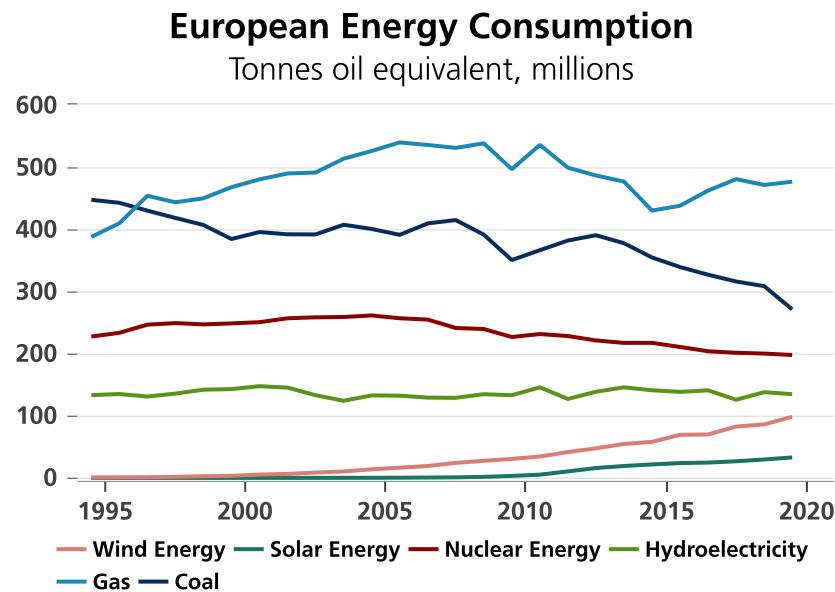
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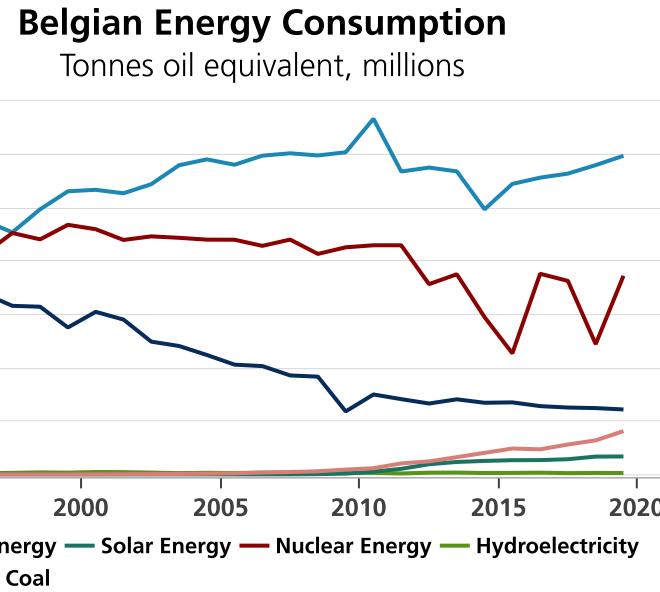
Source: KBC Economics based on DG EDGAR, NBB, Eurostat

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

EU Green Deal

= framework

From window-dressing to
real transition policies

GREEN RECOVERY

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

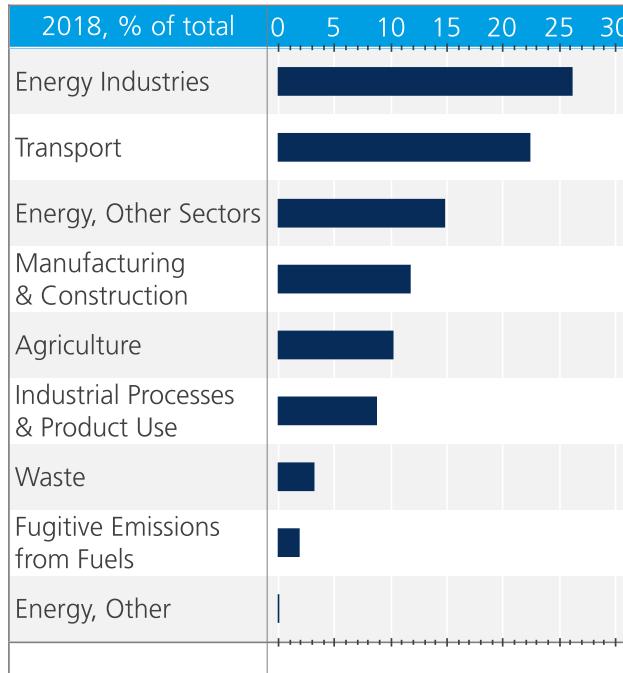
Micro impact assessment



Sectoral challenges very diverse
Winners and losers within sectors

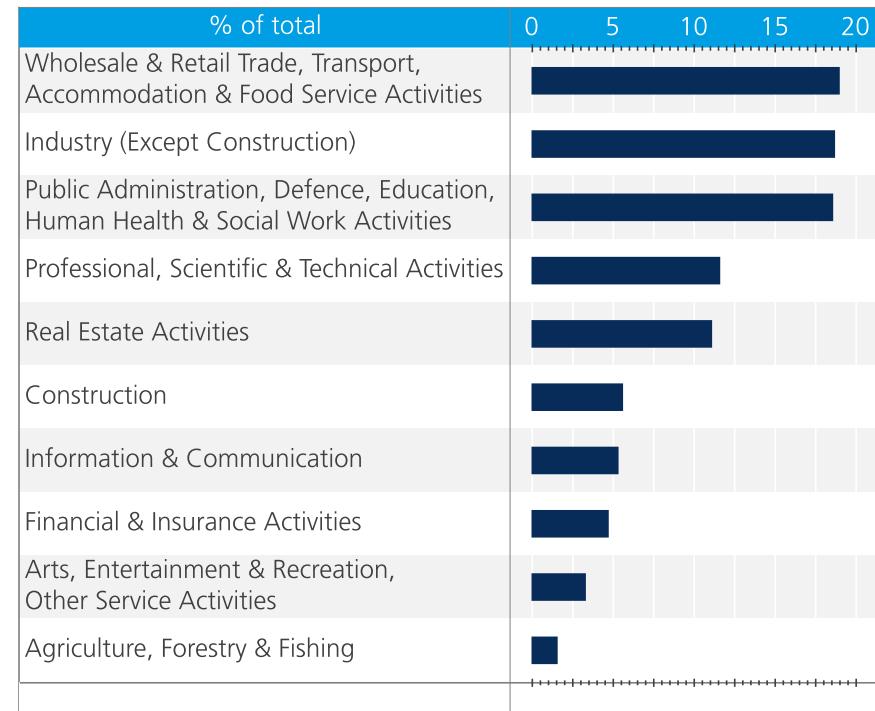
Energy, transport, manufacturing, construction and agriculture will all face a challenging transition in EU

EU Greenhouse Gas Emissions by Sector



Source: KBC Economics based on UNFCCC

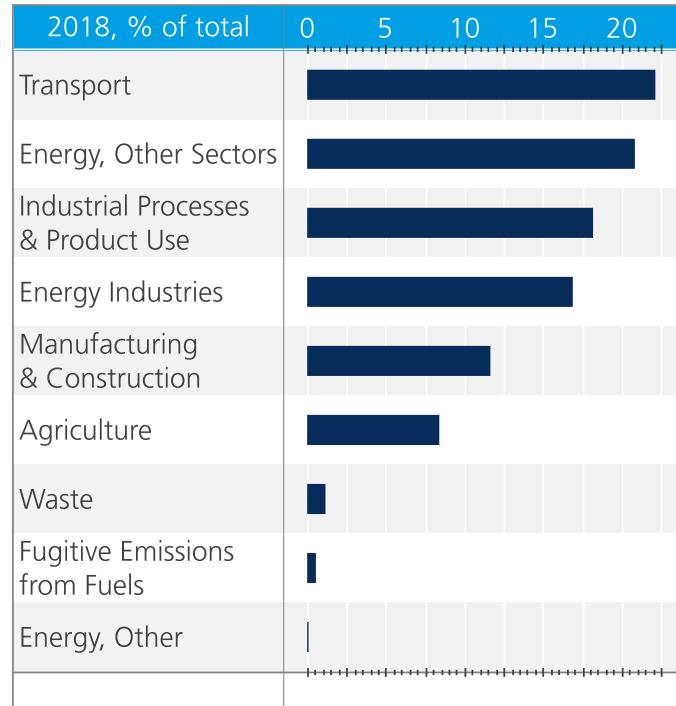
European value added by sector



Source: KBC Economics based on ECB

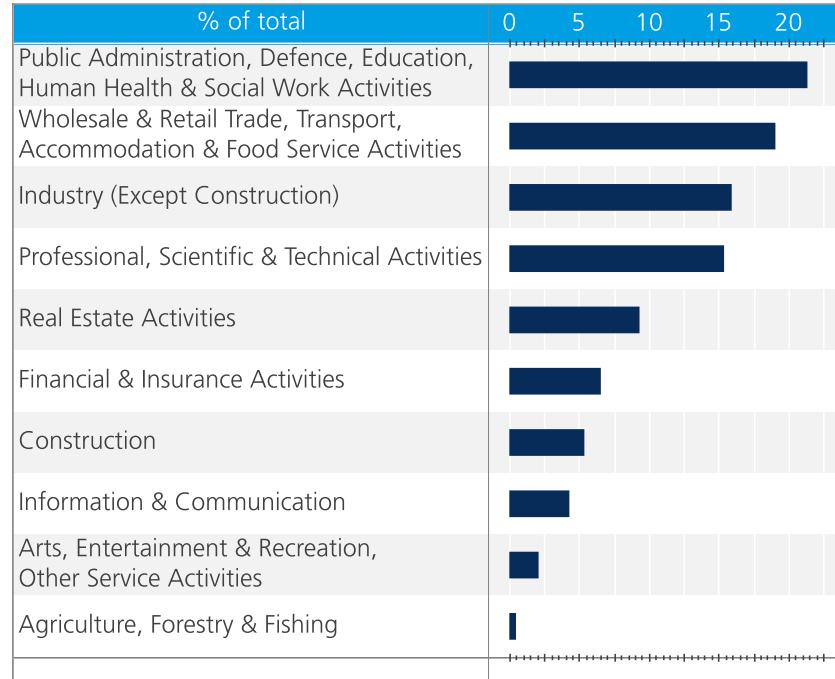
The same is true for Belgium

Belgian Greenhouse Gas Emissions by Sector



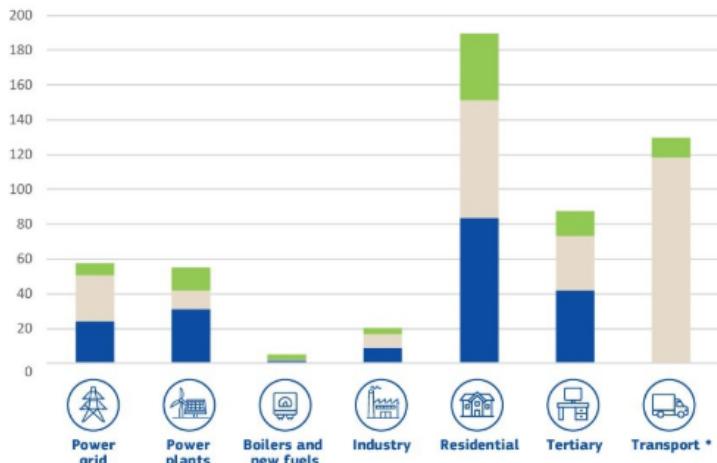
Source: KBC Economics based on UNFCCC

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)



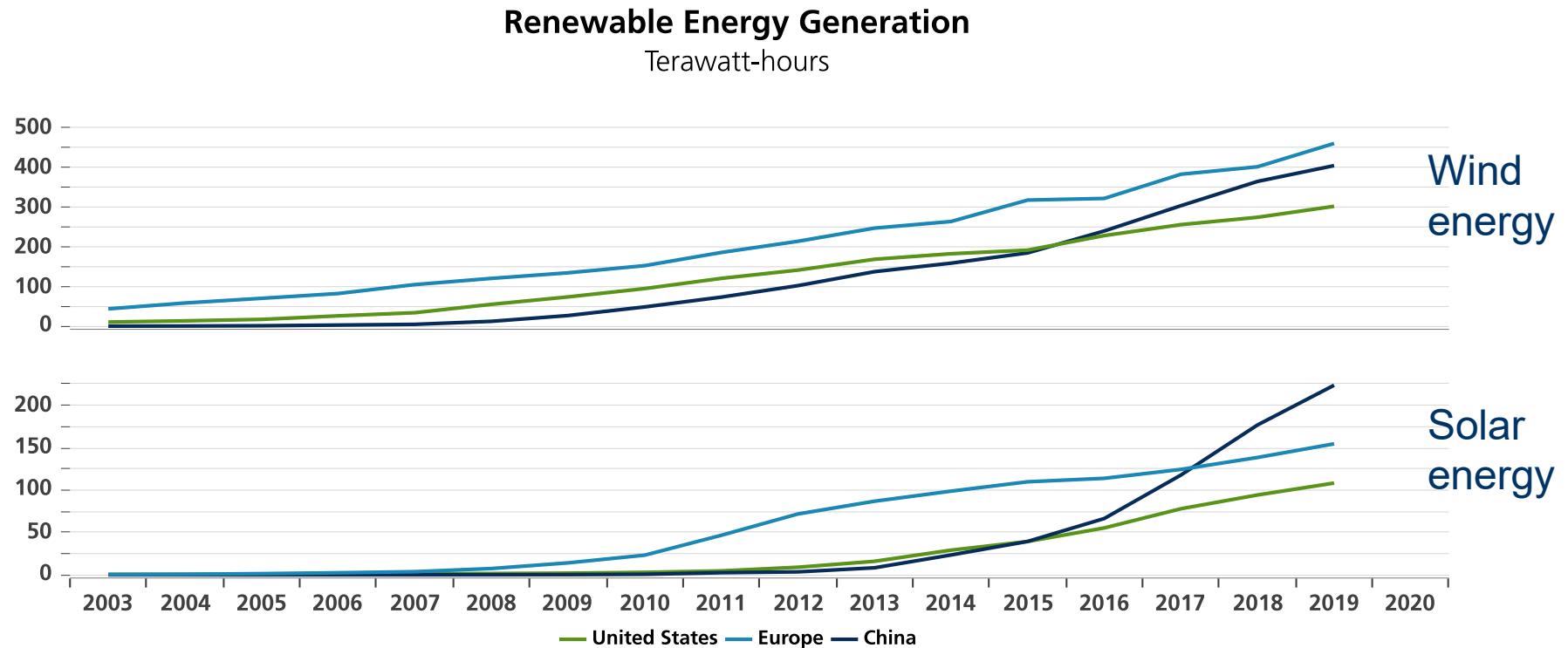
* Transport only shows additional investment

	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:

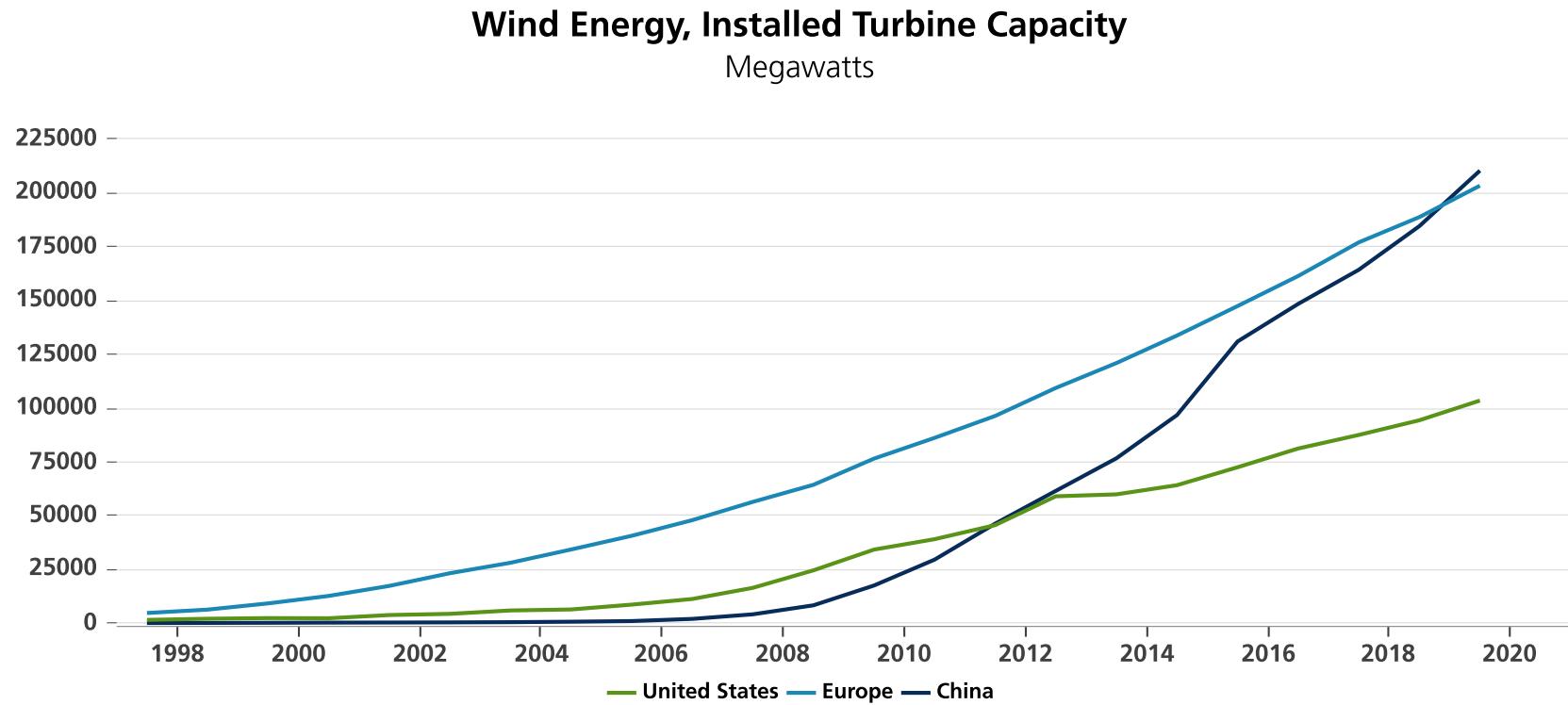
- 1) Accomplishable mission
- 2) Creates business opportunities

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



Source: KBC Economics based on BP

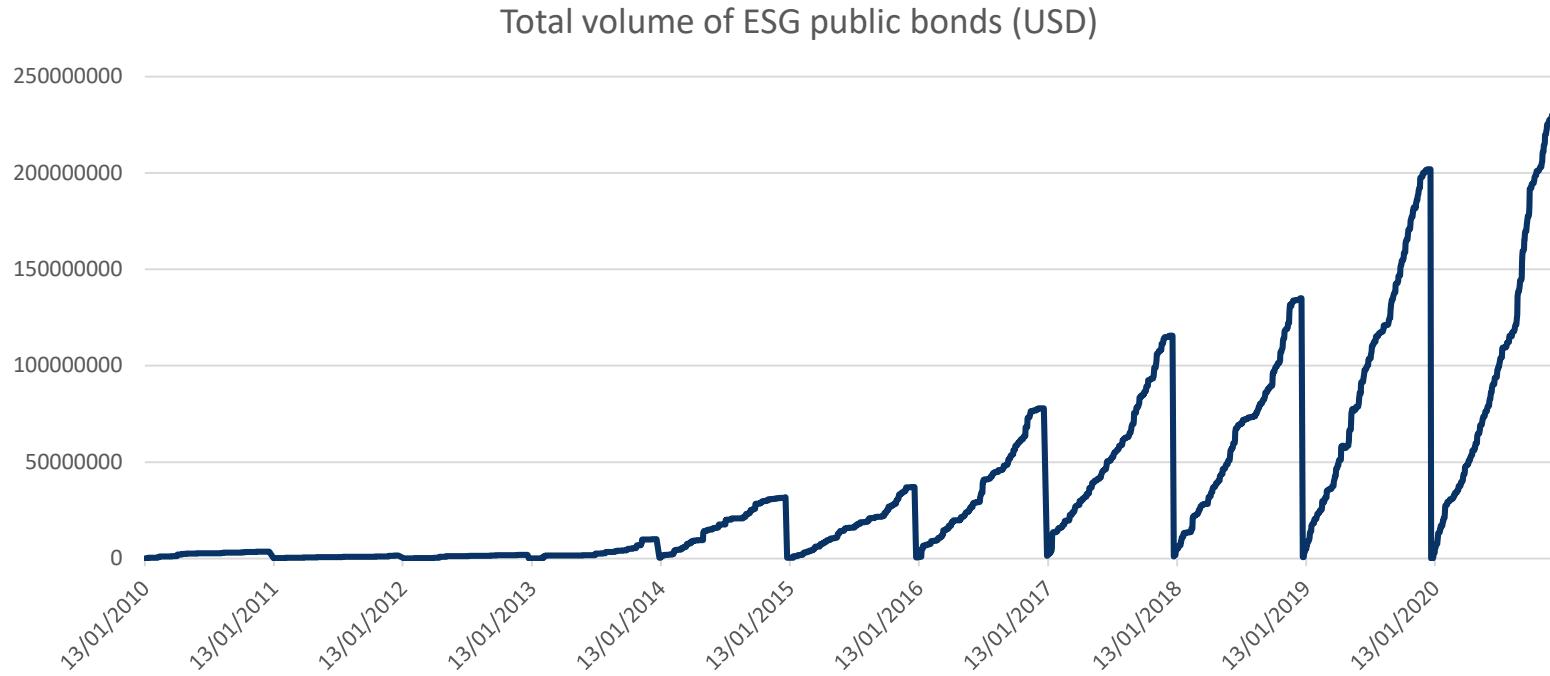
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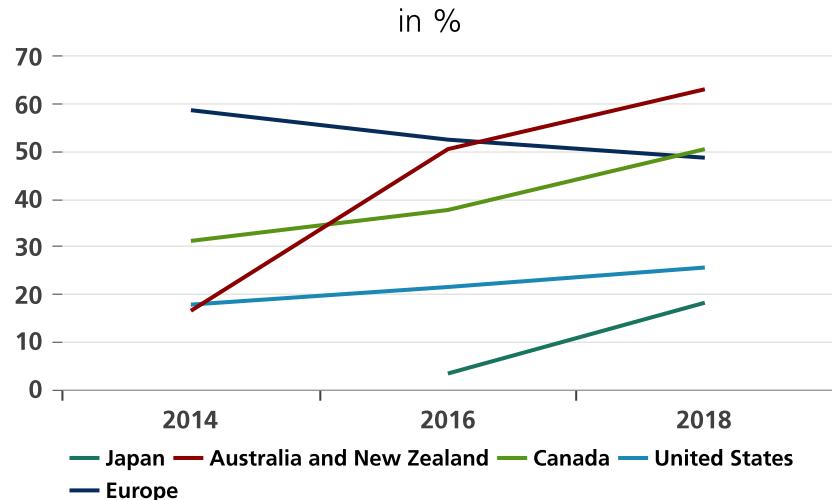
Increasing emissions of ESG public bonds

With another strong boost in 2020



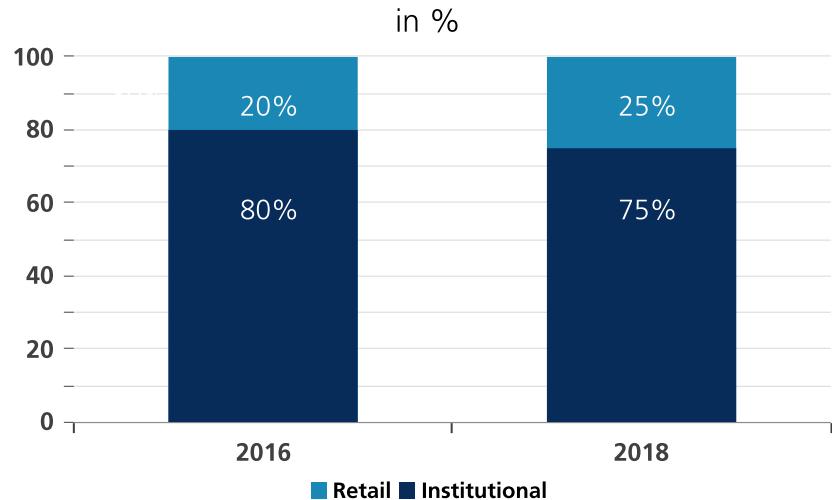
Green Finance: Sustainable investments on the rise

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



Source: KBC Economics based on GS1-alliance

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



Source: KBC Economics based on GS1-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

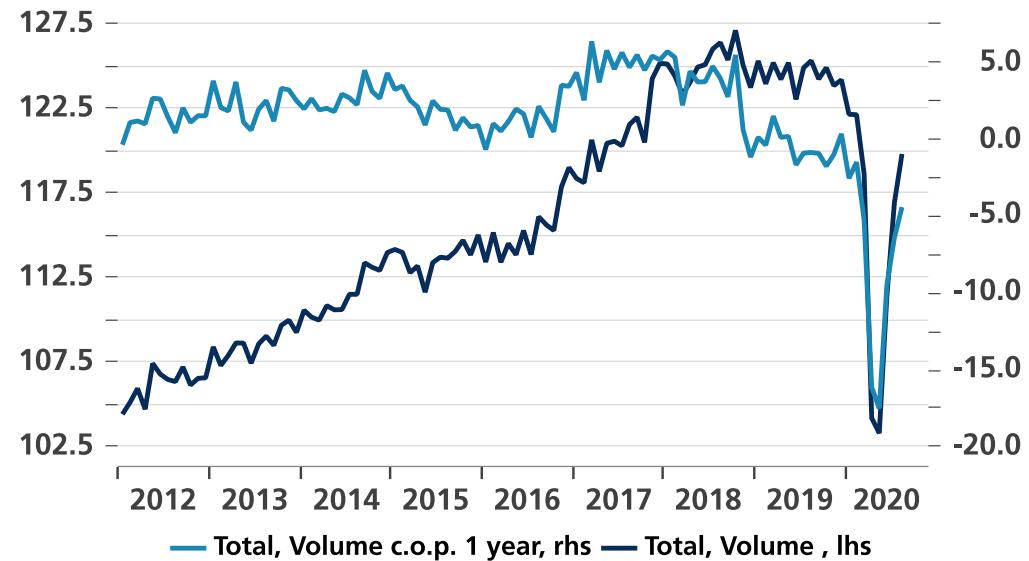
Home focus in green and digital transition

Currency manipulation

Devastating impact of Covid-19 on global trade

But also strong rebound

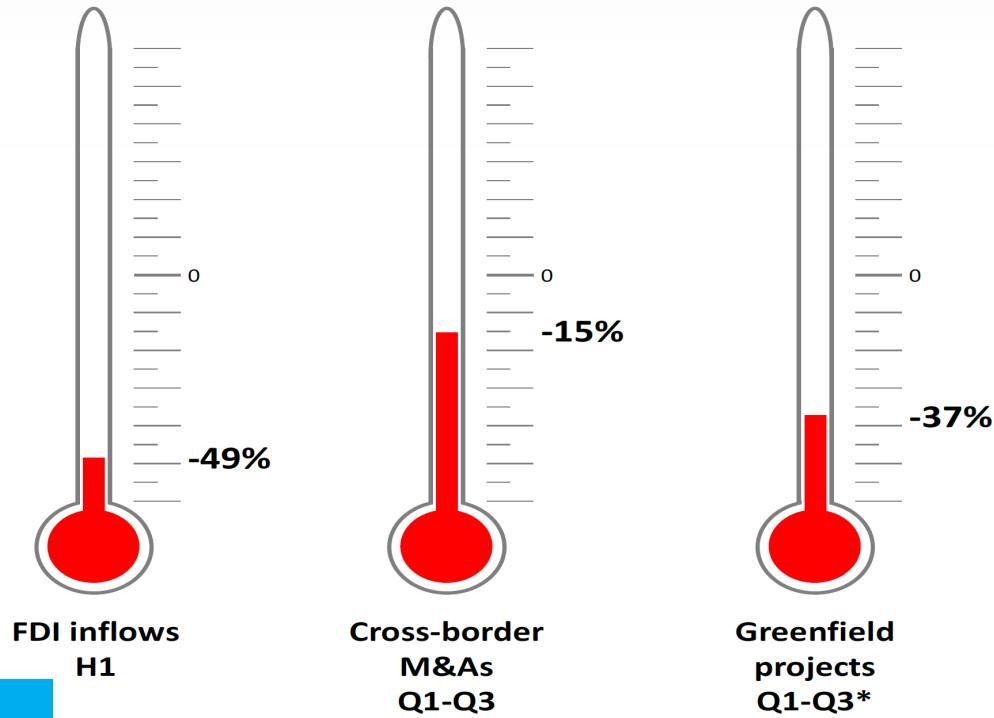
**World, Foreign Trade, CPB World Trade Monitor,
SA, Index**



Source: KBC Economics based on CPB

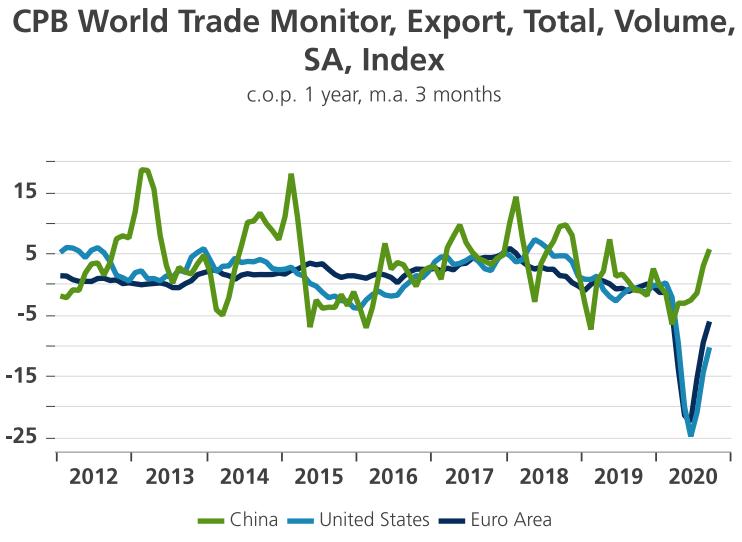
Same impact on global investments

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

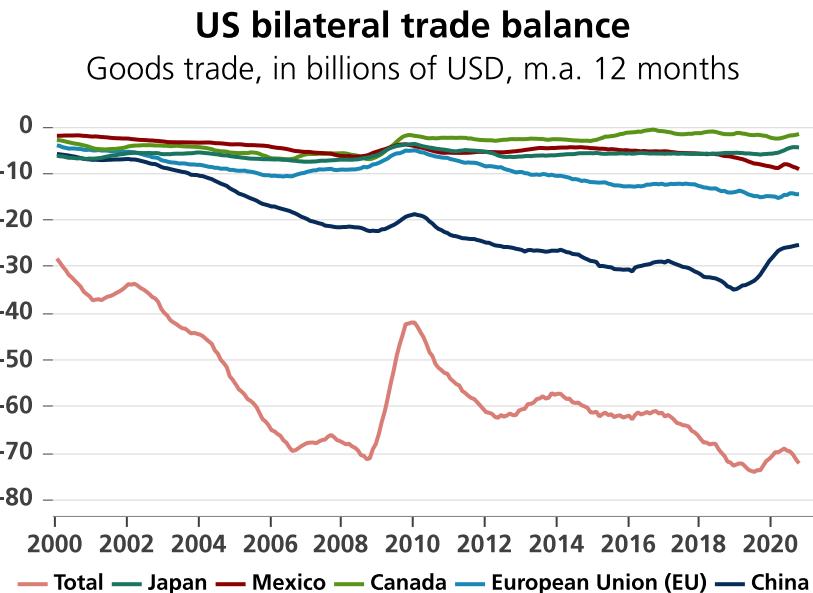


Euro Area - trade volume flows
Goods trade, SA, % c.o.p. 1 year



US-China Trade War

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

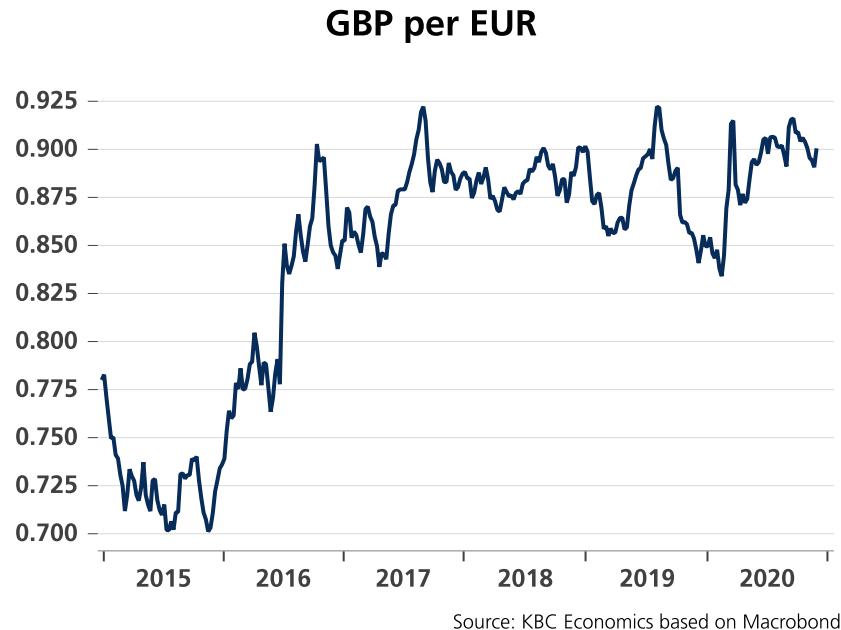


Source: KBC Economics based on U.S. Census Bureau



No-Deal Brexit is Back

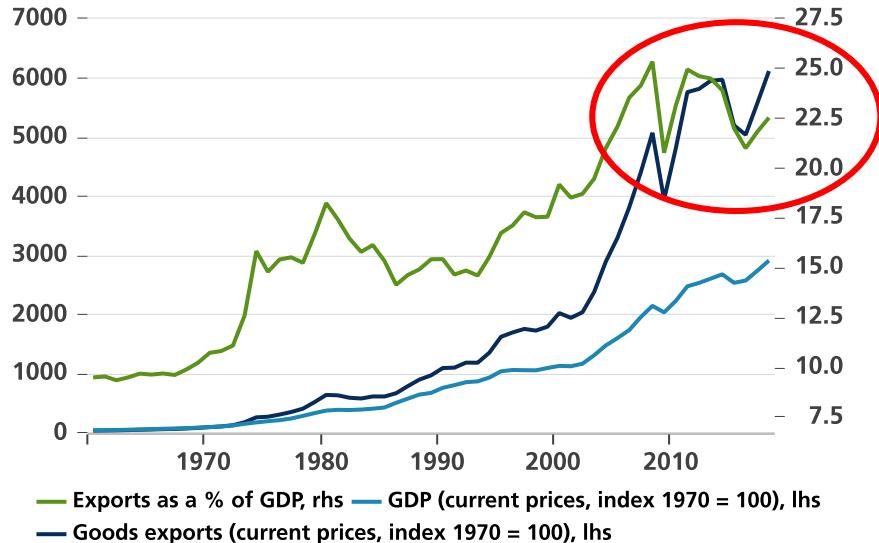
Vulnerability of small open economies



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

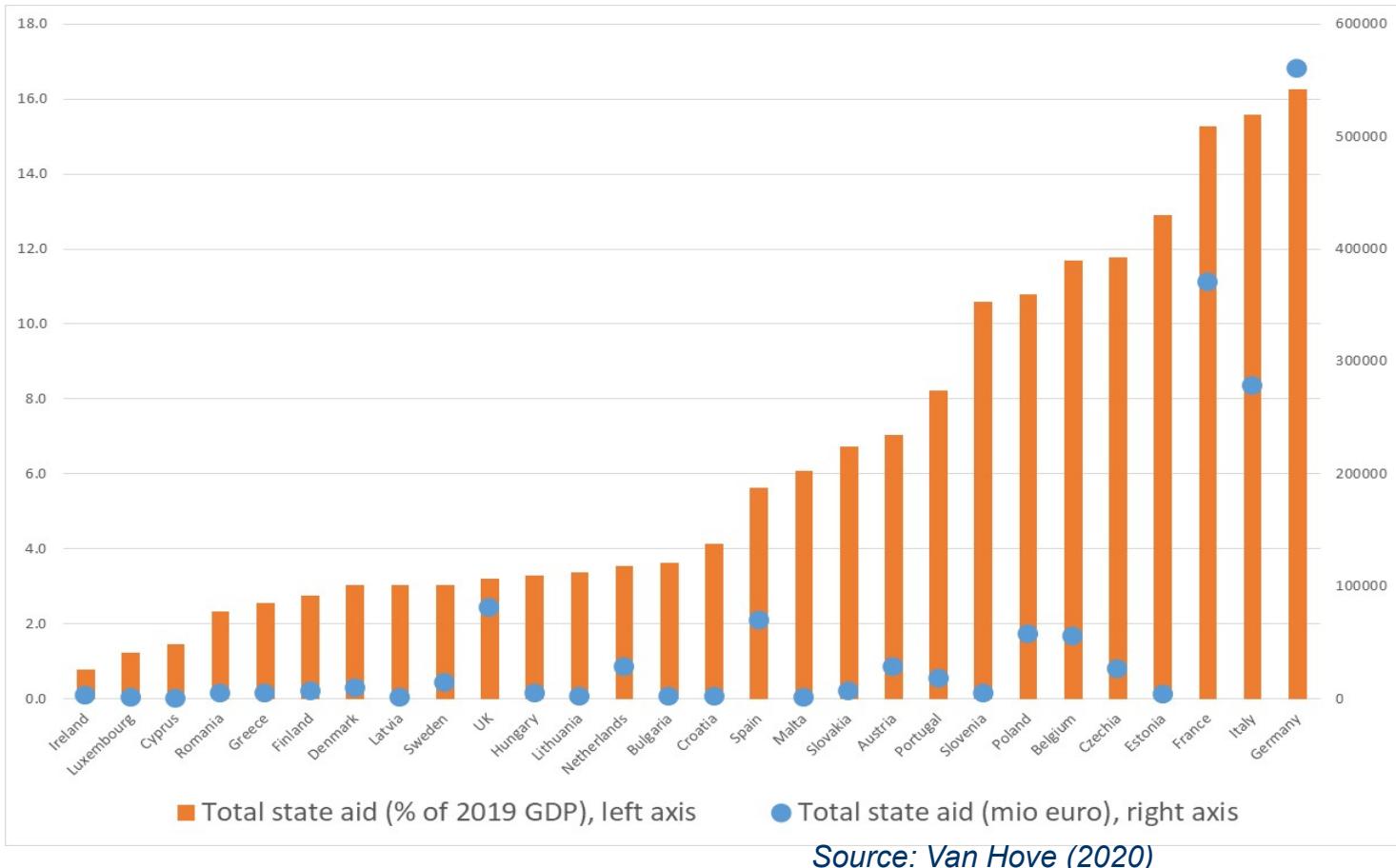


Source: KBC Economics based on Global Trade Alert

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!**

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