OUTLOOK
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Contacts
Madhavi Bokil +1.212.553.0062
SVP-Macro Research, CfCR
madhavi.bokil@moodys.com

Gabriel Agostini +1.646.947.9933
AVP-Analyst
gabriel.agostini@moodys.com

Atsi Sheth +1.212.553.7825
Chief Credit Officer
atsi.sheth@moodys.com

Colin Ellis +44.20.7772.1609
MD-Center for Credit Research
colin.ellis@moodys.com

» Contacts continued on last page

Global Macro Outlook 2025-26

Growth, inflation and interest rates to settle at lower, stable levels

Summary

The global economy has shown remarkable resilience in bouncing back from supply chain disruptions during a pandemic, an energy and food crisis as the Russia-Ukraine war began, high inflation and consequent monetary policy tightening. Most G-20 economies will experience steady growth and continue to benefit from policy easing and supportive commodity prices. However, postelection changes in US (Aaa negative) domestic and international policies could potentially accelerate global economic fragmentation, complicating ongoing stabilization. The aggregate and net effects of trade, fiscal, immigration and regulatory policy changes will expand the range of outcomes for countries and sectors.

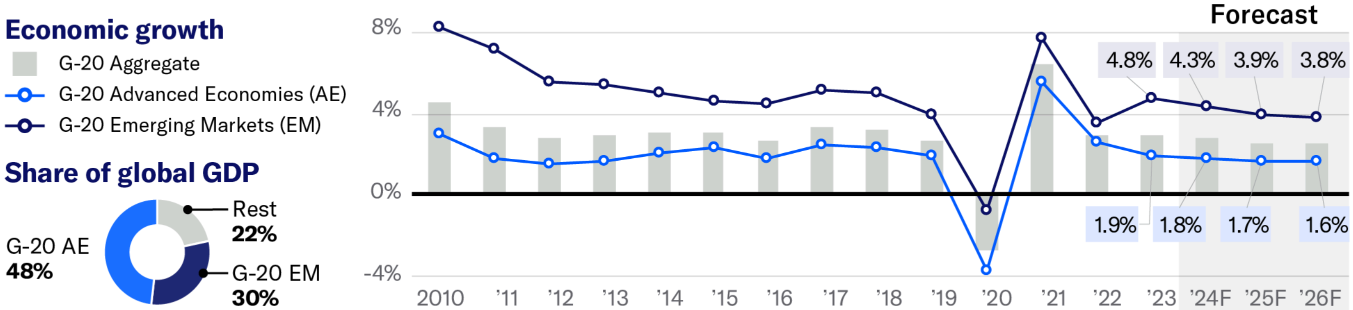
» **G-20 economies will post steady but differentiated growth rates.** We forecast the G-20 economies will grow by 2.8% in 2024, down from 3.0% in 2023 and moderate through 2026. The US economy is outperforming other advanced economies, though its growth will likely decelerate despite the strong momentum. Europe's sluggish recovery will gradually firm. China's (A1 negative) growth will likely slow even as stimulus measures are implemented. Rising trade protectionism and a push in several large economies to strengthen domestic industries makes external demand a less reliable source of growth.

» **Increased trade tensions and geopolitical stresses are primary risks to the macro outlook.** The inclusion of North Korean soldiers by Russia in Ukraine (Ca stable), rising tensions in the South China Sea and the Taiwan Strait and expanding conflicts in the Middle East contribute to a tense international backdrop. Competition between the US and China will shape policies, potentially raise global trade barriers and trigger trade or currency wars. This long-term geoeconomic fragmentation could further split the global economy into geopolitical blocs, complicating global trade and financial connectedness, further dampening global growth.

» **Reductions in global policy interest rates will end in 2025.** We expect core inflation will decline to near central bank targets by mid-2025, facilitating movement of policy rates toward neutral stances. Synchronized easing will help bolster economic stability but at least some of this may be countered by heightened risks to US inflation from policies proposed by the incoming administration of Donald Trump. We expect the Fed will adopt a cautious approach to policy normalization.

» **Change in US administration injects greater policy induced uncertainty.** The new US administration will inherit an economy with surprising strength but for forecasting purposes we assume that the net effect of policies will exert a small drag on economic activity. Other than that, we do not account for changes to fiscal, immigration or trade policies until they are implemented.

Exhibit 1
G-20 annual growth



Source: Moody's Ratings

Exhibit 2
Macroeconomic outlook for G-20 economies, 2025-26F

G-20 Economies	Real GDP Growth[1] Annual average, %				Inflation YoY, %				Unemployment Annual average, %		
	2023	'24F	'25F	'26F	2024 Target[2]	'24F	'25F	'26F	'24F	'25F	'26F
G-20 AE	1.9	— 1.8	— 1.7	1.6							
US	2.9	▲ 2.7	— 2.0	1.8	2.0%	2.8	2.2	2.2	4.0	4.3	4.1
Euro area	0.5	— 0.7	▼ 1.2	1.5	2.0%						
Japan	1.7	— 0.2	— 0.8	0.5	2.0%	2.7	2.1	1.8	2.5	2.4	2.4
Germany	-0.3	▼ -0.1	▼ 0.7	1.2	--	2.5	2.2	1.9	3.5	4.1	4.0
UK	0.3	— 1.1	▲ 1.8	1.7	2.0%	2.5	2.5	2.3	4.3	4.3	4.2
France	1.1	— 1.2	— 0.9	1.4	--	2.8	2.1	1.7	7.5	7.5	7.5
Italy	0.7	— 0.7	— 0.9	1.0	--	1.3	1.9	2.0	6.8	6.8	6.8
Canada	1.2	— 1.1	— 1.8	1.7	2.0% (+/-1.0%)	2.5	2.1	2.0	6.4	6.5	6.5
Australia	2.0	— 1.3	— 2.5	2.3	2.0% - 3.0%	3.1	2.6	2.5	4.1	4.2	4.5
Korea	1.4	— 2.3	— 2.1	2.0	2.0%	2.3	2.1	2.0	2.6	2.8	3.0
G-20 EM	4.8	— 4.3	— 3.9	3.8							
China	5.2	— 4.7	— 4.2	3.8	around 3%	0.5	1.5	1.3	--	--	--
India	7.7	— 7.2	— 6.6	6.5	4.0% (+/-2.0%)	4.8	4.6	4.5	--	--	--
Brazil	2.9	▲ 3.0	— 2.2	2.5	3.0% (+/-1.5%)	4.5	3.7	3.3	--	--	--
Russia	3.6	▲ 3.8	▲ 1.5	1.2	4.0%	8.2	6.9	5.0	--	--	--
Mexico	3.2	— 1.5	— 1.3	2.0	3.0% (+/-1.0%)	4.7	4.2	2.0	--	--	--
Indonesia	5.0	— 5.0	— 5.0	5.0	2.5% (+/-1.0%)	2.3	2.5	2.5	--	--	--
Turkiye	5.1	— 3.2	▼ 2.0	3.5	5.0% (+/-2.0%)	60.0	33.5	24.0	--	--	--
Saudi Arabia	-0.8	▼ 1.7	▼ 4.7	4.7	USD Peg[3]	1.6	1.9	2.0	--	--	--
Argentina	-1.6	▲ -3.5	— 3.0	1.8	--[4]	235.0	80.0	30.0	--	--	--
South Africa	0.7	— 1.1	— 1.7	1.7	3.0% - 6.0%	4.8	4.5	4.4	--	--	--
All	3.0	— 2.8	— 2.6	2.5							

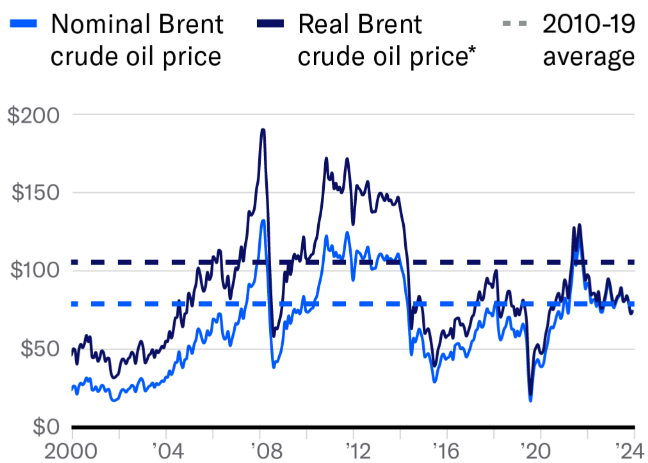
Growth forecast adjustment from the previous report
▲ Upward ≥ 0.25 pp — No adjustment ▼ Downward ≥ 0.25 pp

1. See our previous Global Macro Outlook, 28 August 2024. 2. The European Central Bank targets symmetric inflation of 2% over the medium term; the US Federal Reserve aims for inflation of 2% over the longer term. 3. Exchange rate arrangement is conventional peg to the US dollar. 4. The Central Bank of Argentina is targeting gradual disinflation under the country's IMF program.
Source: Moody's Ratings

The global economy is stabilizing, but faces risks from policy shifts and geopolitical conflicts

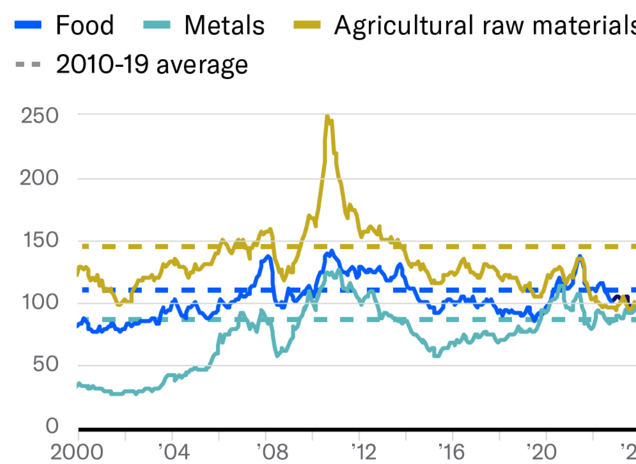
The global economy has swiftly overcome the disruptions of the last four years, and economic outlooks of major G-20 economies are on track to stabilize at sustainable levels. Falling interest rates, facilitated by low and stable inflation, will secure the current expansion. Furthermore, commodity prices remain supportive (see Exhibits 3 and 4).

Exhibit 3
Oil prices have returned to pre-2022 levels



*Oct-2024 prices, deflated by US CPI
Sources: US Energy Information Administration, US Bureau of Labor Statistics, Haver Analytics and Moody's Ratings

Exhibit 4
Commodity prices have eased from their peaks
Real commodity price index, Sep-2024 = 100



Oct-2024 prices, deflated by US CPI
Sources: International Monetary Fund, US Bureau of Labor Statistics, Haver Analytics and Moody's Ratings

Nevertheless, US election results herald potentially sweeping changes in US domestic and international policy. A firming of trade protectionism in the US and elsewhere, and a weakening of the current global trade and security architecture, could have long-term detrimental consequences for global economic dynamism. Importantly, the economic benefits, or peace dividend, from increased globalization of the last several decades is at risk from a potentially accelerated fragmentation of the global economy.

It is not our usual practice to change our baseline assumptions on account of policy proposals made during election campaigns given the uncertainty surrounding the timing, magnitude and the interaction of different policy measures. Nevertheless, we recognize that US policies are likely to change in fundamental ways under the new administration. Changes to US trade policy in particular could potentially set off retaliatory and protectionist measures elsewhere, resulting in a no-win scenario for the global economy over the long term.

The range of plausible outcomes surrounding our baseline US forecasts have therefore expanded. Four areas which are consequential for the short and medium-term macroeconomic outlook are: (1) fiscal policy; (2) immigration policy; (3) trade policy; and (4) independence of institutions, including the Fed and the agencies producing reliable data on the state of the economy.

The implications to the US and global economy are not straightforward. New significant tax cuts would prop up US growth in the near term, but the potentially inflationary impulse from such measures in a full-employment economy would influence the Fed's policy decisions. If financial markets increase risk premia related to fast-deteriorating US government debt affordability, financing conditions could worsen. Meanwhile, immigration restrictions on highly-skilled immigrants and large-scale deportations of undocumented workers would curb US growth potential while stoking wage-driven inflationary pressures from a tighter labor market.

Greater trade protectionism in the US will be a clear risk to both US and global economic expansion, with varying implications for different countries and sectors. High tariffs on imports from China would raise prices of traded goods. Meanwhile, high uncertainty regarding the contours of US trade policy toward China and the rest of the world over the next couple of years will likely weigh on business investment. For China, the tariffs would also increase the difficulty of managing the restructuring of local government financing vehicle (LGFV) debt, in our view. In addition to China's export sector, economies with large export-oriented industrial bases

— like Japan (A1 stable), Korea (Aa2 stable), Germany (Aaa stable) and Mexico (Baa2 stable) — will be vulnerable to a harsher global trading regime that may eventually emerge.

Our baseline forecasts incorporate some uncertainty regarding US domestic and international policies

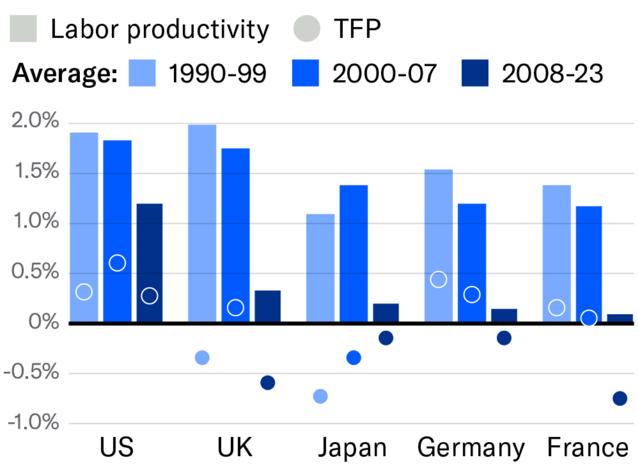
Our baseline forecasts for the G-20 economies, which account for 78% of global GDP, envision them growing collectively by 2.8% in 2024, down from 3.0% in 2023. We forecast growth will further moderate in 2025 and 2026 to around 2.6% and 2.5%, respectively. We expect G-20 advanced economies to settle at a somewhat softer 1.7% in 2025 and 1.6% in 2026, down from 1.8% in 2024 under this scenario. Further, we estimate G-20 emerging markets will grow by 4.3% in 2024, down from 4.8% in 2023 and then decelerate to 3.9% in 2025 and 3.8% in 2026. This moderation is largely because of our expectation that the Chinese economy will continue to slow owing to domestic structural difficulties coupled with considerable external headwinds.

The deceleration to a stable pace of growth in 2025 and 2026 reflects the natural progression of economic cycles. Our 2026 growth forecasts for most of the G-20 countries are based on our assessment of potential growth rates. These estimates take into account underlying trends in labor force size and quality, capital accumulation and productivity drivers, especially allocative efficiency and technological progress. It is widely recognized that potential growth has declined globally across advanced and emerging economies since the mid-2000s. Population aging, limited scope for additional gains in educational attainment and consequently a slower rate of productivity growth (see Exhibits 5 and 6) — from new ideas and innovations alongside the optimal distribution of resources (allocative efficiency) — will further restrict potential growth, especially in advanced economies. Although artificial intelligence (AI) holds promise, the extent to which it can enhance labor productivity and offset the effects of demographic aging is uncertain.

Exhibit 5

Productivity growth has declined in most advanced economies ...

Average annual labor productivity and TFP growth (%)



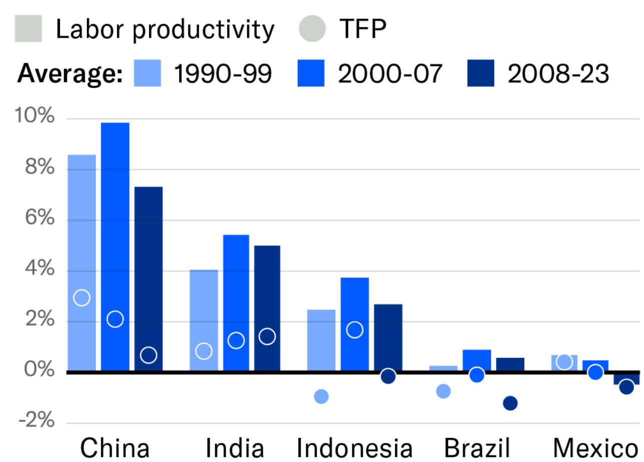
Total Factor Productivity (TFP) measures how much output can be produced from inputs such as labor, land, machinery and infrastructure. It is a measure of an economy's productive efficiency.

Sources: The Conference Board Total Economy Database and Moody's Ratings

Exhibit 6

... and emerging market countries

Average annual labor productivity and TFP growth (%)



Sources: The Conference Board Total Economy Database and Moody's Ratings

Economic outlooks of individual countries vary greatly. The US economy is experiencing its strongest run since the global financial crisis of 2008 and continues to significantly outperform other advanced economies. While we expect the economy to decelerate, the underlying momentum remains strong and could continue to surprise with faster growth in a reasonably predictable policy environment. Recoveries in the UK (Aa3 stable) and euro area are set to strengthen over the next two years as domestic demand gains traction amid easing financial conditions and improving real wages. Real wage gains will continue to buoy strong domestic demand in Japan, sustaining economic growth at potential.

In China, actions by the central bank, finance ministry and other authorities should help support the financial sector and potentially prevent excessive economic weakening. However, the measures do not address the root causes for weak underlying domestic demand, in our view. Domestic demand, which is tied to household and business sentiment, is unlikely to meaningfully turn around without a significant improvement in household finances. While we have raised our real GDP growth forecast for China — assuming the government will continue to announce incremental support — we expect the economy will continue to decelerate over the next two years in accordance with its growth potential.

Elsewhere, India's (Baa3 stable) economy is growing robustly and has the potential to sustain high growth rates as strong private sector financial health reinforces a virtuous economic cycle. South Africa's (Ba2 stable) economy is poised for faster (albeit still muted) potential growth versus the last decade if its energy sector reform measures relieve constraints on energy supply. Despite significant potential benefits from the ongoing reorganization of US supply chains, Mexico's growth prospects are marred by high interest rates, fiscal consolidation and a gradual weakening of institutions. Meanwhile Brazil's (Ba1 positive) economic growth has been stronger than expected. While we forecast potential growth of around 2.5%, ongoing structural reforms could strengthen it further.

Increasing trade protectionism together with a push in several large economies to strengthen their domestic industries make external demand a less reliable source of growth. In this context, economies with robust domestic drivers of growth will experience greater resilience and stability. Meanwhile, several G-20 economies, including the US, Europe, India, Brazil and Indonesia (Baa2 stable) are exploring industrial policies in an effort to improve their economic resilience, which could potentially alter the structures of their economies. Supply chain relocation and investment from multinational companies and Chinese domestic manufacturing firms looking to geographically diversify production additionally create opportunities for India, Mexico and several Southeast Asian countries.

Trade restrictions and geopolitical frictions top global risks, especially after the US election

Trade tensions and geopolitical stresses are the primary risks to the macroeconomic outlook.

Three of the world's economically significant regions — Europe, the Middle East and Asia — are troubled by contentious geopolitical issues. The inclusion of North Korean soldiers by Russia to fight its war in Ukraine and uncertainty about future US funding for Ukraine has increased the risk of a wider conflict in the region. There is increasing danger of a broader regional conflict in the Middle East. Simultaneously, tensions in the South China Sea and the Taiwan Strait continue, raising risks that the region could become a source of major flashpoints in the future.

Even without wars, the international geopolitical backdrop remains tense and a key source of uncertainty. The strategic competition between the US and China — the world's largest economies — will likely continue to shape their industrial and trade policies, as well as those of their trading partners. Trade barriers around the world could increase and broaden to include non-tariff barriers, such as domestic content rules and quotas, which can be harder to circumvent than tariffs.

A scenario where trade and industrial policies improve a balance in bilateral trade relations by reducing persistent surpluses and deficits may be difficult to achieve but ultimately prove sustainable for the global trading system. However, a scenario that devolves into trade or currency wars will be detrimental for the global economy.

While it is difficult to say what shape it will ultimately take, we are potentially in the midst of long-term geoeconomic fragmentation that could split the global economy along the lines of geopolitical blocs. Such a fragmentation will present a relatively more operationally difficult environment for global trade and financial connectedness, further dampening global growth.

Monetary policy rates move closer to neutral in 2025

We expect core inflation rates to decline to 2% by mid-2025 across advanced economies and monetary authorities to seek neutral stances in the coming quarters. Synchronized easing should bolster broader macroeconomic stability. Emerging market central banks across Latin America and Asia will look to tailor monetary policies to local needs as long as external market pressures stay contained.

As growth slows and inflation declines to target, the cases for maintaining restrictive stances will quickly diminish, especially where risks to growth are most acute, such as in Europe. Indeed, policy discussions have already moved from debating how quickly rates should be reduced to considering credible estimates of neutral rates.

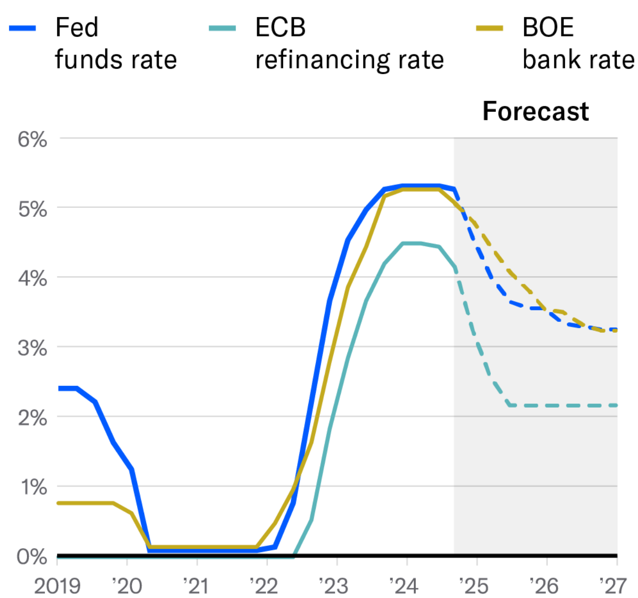
With a 25 basis point (bp) cut in the November meeting, the Fed has now lowered the federal funds rate by a total 75 bps since September to 4.50%-4.75%. Fed Chairman Jerome Powell clarified in the press conference that the election outcome has no bearing on the Fed's decision as of now, and that potential policy actions of the new administration would not preemptively factor into monetary policy decisions. Nevertheless, uncertainty and inherent policy lags will complicate monetary policy management and keep the Fed guarded. As such, it may not ease quite as much as we previously envisioned given the risk of potentially inflationary measures from the new administration. We now expect the central bank will cut the fed funds rate by 25 bps at each of the upcoming meetings and pause when the rate reaches 3.50%-3.75% by the middle of 2025. Solid expansion will allow for such a pause to assess the economic situation and financial conditions.

There is considerable uncertainty about the equilibrium level of the US neutral rate, as reflected in the wide range of estimates of long-term nominal federal funds rates included in the Federal Open Market Committee's September Summary of Economic Projections, which ranged from 2.4% to 3.8%. We assess the fed funds rate will eventually normalize to somewhere in the range of 3.0% and 3.5% (see Exhibits 7 and 8).

Exhibit 7

Central banks will hasten to move close to a neutral stance in 2025

Policy rates, %

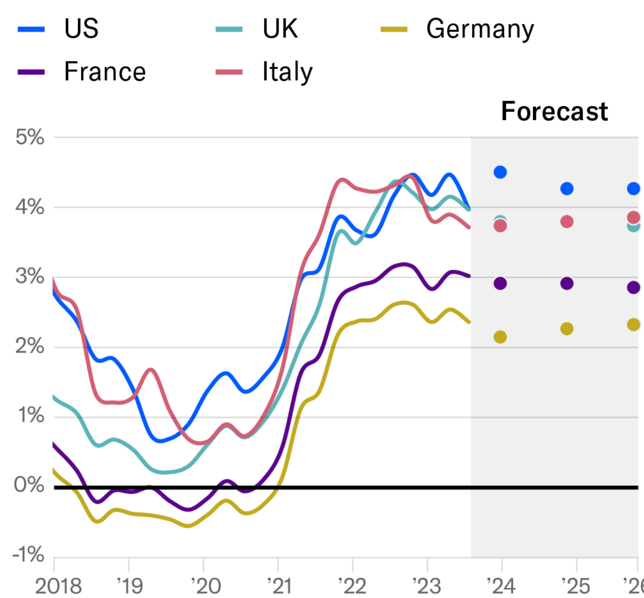


Source: Moody's Ratings

Exhibit 8

Bond yields are set to remain high

10-year government bond yields, %



X-axis labels refer to end-of-period.
Source: Moody's Ratings

The central challenge for central banks in the coming quarters will be determining the real neutral rate, or r*, the real policy rate that is consistent with stable inflation. The Fed's, European Central Bank's (ECB) and the Bank of Japan's (BOJ) search for the unobservable neutral rate will shape financing costs and market volatility in 2025.

The ECB staff judges a deposit rate of 2.0%-2.25% to be consistent with a neutral stance. Against a weak economic backdrop and ongoing disinflation, the ECB will likely cut rates aggressively in its upcoming meetings and end its easing cycle by mid-2025. Indeed, the ECB's back-to-back rate cuts in September and October that lowered the deposit rate to 3.25% and the refinancing rate to 3.40% display an urgency to return monetary policy to a neutral stance.

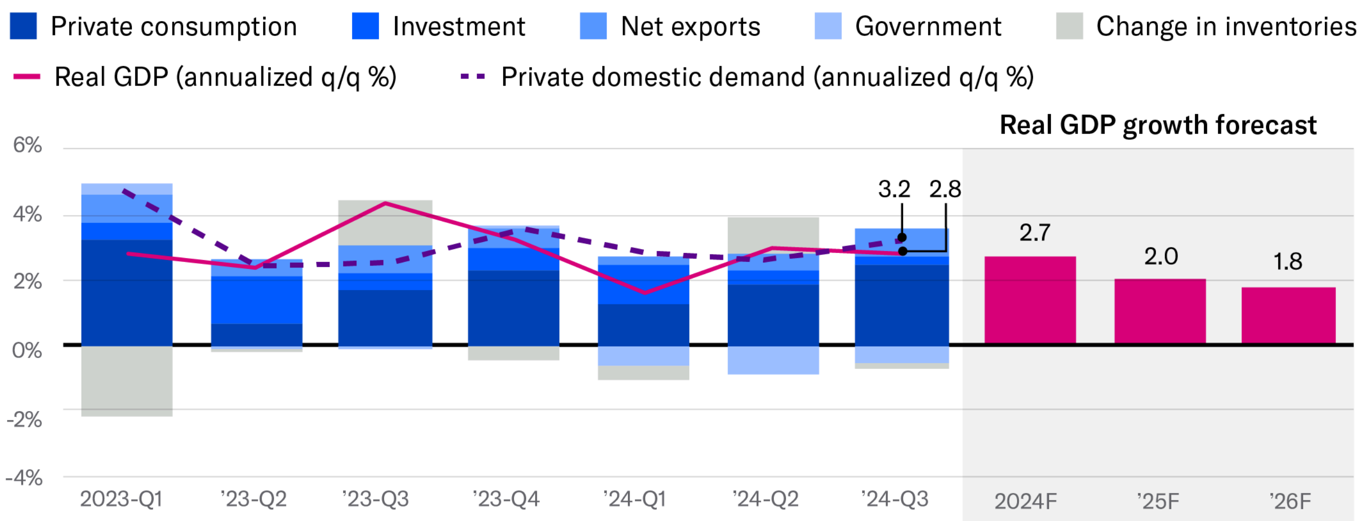
The BoJ opted to leave rates unchanged at its October meeting. However, we believe the central bank will further normalize monetary policy with another policy rate increase later this year or in 2025. The strength of wage increases will remain a key consideration for the BoJ, given the announcement by the largest labor union group, Rengo, to seek at least 5% wage increases in 2025, similar to this year's increase.

The US economy has staying power

The US economy is strong and continues to outperform G-7 peers. US real GDP advanced by a robust 2.8% in Q3, down modestly from 3.0% in Q2, driven by strong private consumption and resilient business investment. Consequently, we raised our annual real GDP growth forecast for 2024 to 2.7% from 2.4%. We expect US economic growth to slow in 2025 to 2.0% and in 2026 to 1.8% (see

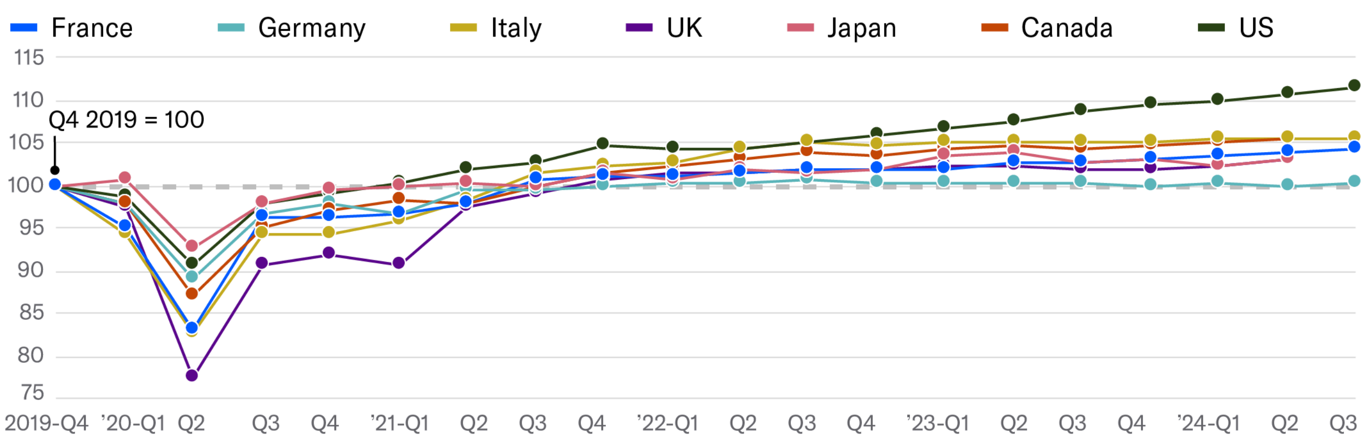
Exhibits 9 and 10) amid relatively high rates, normalizing consumption and a cooling labor market. We expect a modest pullback in hiring to drive the unemployment rate modestly higher over the next couple of quarters before it gradually settles at around 4% in 2026. To be clear, we do not expect any significant retrenchment in the labor market.

Exhibit 9
Consumers are driving US growth
Contributions to US real GDP growth



Source: Bureau of Economic Analysis, Haver Analytics and Moody's Ratings

Exhibit 10
US economic recovery and expansion has far outpaced its G-7 peers
Real GDP, Q4-2019 = 100



Sources: Haver Analytics and Moody's Ratings

A broad range of macroeconomic indicators instill confidence in the lasting power of the US economy. Updated figures on personal income, savings rates and expenditure suggest that households are financially more robust than initially thought. However, the experience across US households is mixed, with a large portion of savings and wealth accumulation concentrated at the top of the income and wealth distribution and many households still struggling to pay rent and buy food. Indeed, the latest 2023 data showing real median household income was down 0.7% relative to 2019 underscores this disparity.

Our forecasts assume that uncertainty about policy measures of the new Trump administration will exert a small drag on economic activity. Other than that, we do not account for any impact of changes to fiscal, immigration or trade policies. Per our normal approach, we will assess and incorporate the macroeconomic implications of the next administration's policy measures only after they are passed.

Core inflation has moderated and we expect it to close in on the Fed's 2% target by mid-2025. However, risks to inflation have risen in light of the incoming administration's stated policy objectives and we expect the Fed will turn more cautious as it cuts the policy rate in coming months.

China's support measures will provide relief, but growth deceleration remains on the cards

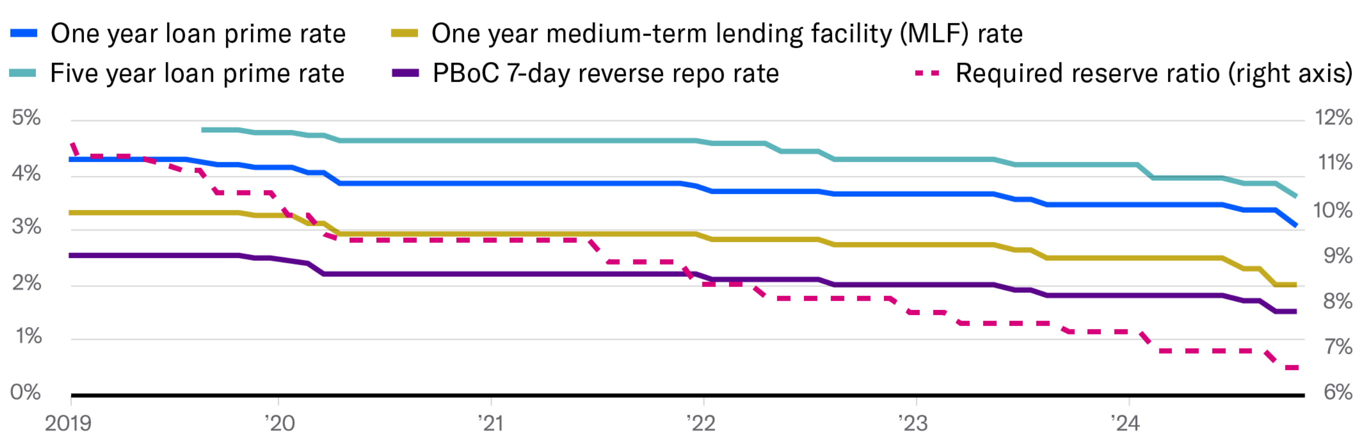
China's real GDP grew by 4.6% in Q3 relative to a year ago, falling short of the government's 5% target growth rate. We expect fourth quarter growth to be similar at around 4.5% and have therefore raised our growth forecast for this year to 4.7% from our previous estimate of 4.5%. We expect real GDP growth to slow to 4.2% in 2025, instead of our previous forecast of 4.0%, and further to 3.8% in 2026.

On 8 November, the Chinese government unveiled a 10 trillion yuan ($1.4 trillion) fiscal package. The measures include a 6 trillion yuan increase in the local government debt ceiling, which would facilitate a debt swap between regional and local governments and LGFVs over three years, converting hidden debts into government bonds. This swap benefits regional and local governments by lowering interest rates compared to those of LGFVs, thus creating fiscal space on local governments' balance sheets for development spending. Authorities will also issue 800 billion yuan in special local government bonds annually for five years, totaling 4 trillion yuan. Together, these actions are designed to provide relief to local government balance sheets, ease monetary conditions and support greater bank lending.

The People's Bank of China (PBoC) has also taken significant steps in an effort to boost liquidity and ease financial conditions to revive credit growth (see Exhibits 11 and 12).[1]

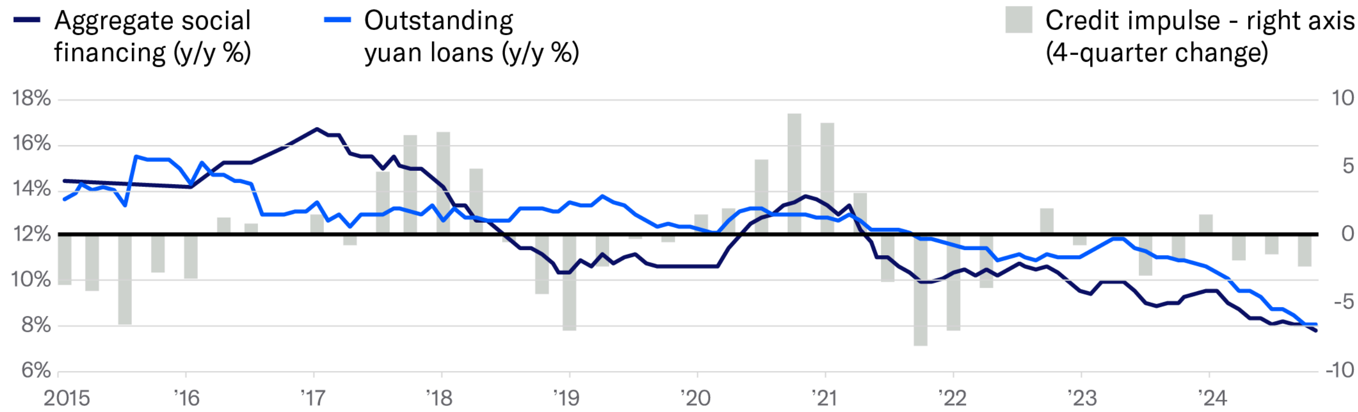
Exhibit 11

The PBoC has been easing rates to revive the economy ...



Sources: People's Bank of China, Haver Analytics and Moody's Ratings

Exhibit 12
... but credit growth continues to slow amid weak demand



Sources: People's Bank of China, Haver Analytics and Moody's Ratings

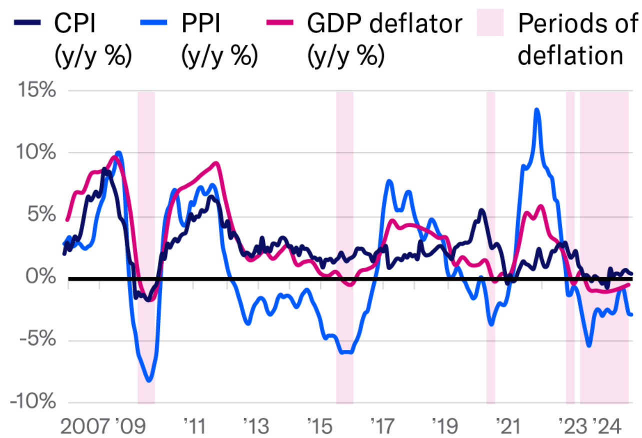
These measures will help mitigate the immediate risks related to local government finances and stabilize the financial sector. But economic growth will continue to slow nevertheless. Property prices may have further to fall before they reach a trough and stabilize. In addition, property is unlikely to be an attractive investment vehicle for some time. Without sufficient household-directed stimulus, domestic consumption may remain a weak driver of growth. Deflationary pressures persist because of subdued consumer demand, and weigh on business investment and hiring (see Exhibits 13 and 14). Economic uncertainty, low returns on financial savings and the hit to net worth from the property price correction in turn dampen consumer sentiment and demand. These conditions have formed a self-perpetuating cycle which will be difficult to break.

Policy support measures are likely to further evolve in response to rising trade restrictions from the US, Europe and other economies. The economy will likely face a difficult external backdrop going forward, not least because the new Trump administration will likely tighten trade barriers, specifically targeting China. The extent to which the government's policies will mitigate the impact of the external headwinds remains to be seen.

Meanwhile, China's export sector, a prominent driver of growth, could face hurdles as the US, Europe, as well as large emerging market countries like India, Brazil and Indonesia, adopt trade barriers. Some of the trade barriers, such as local content requirements or quotas, will be more difficult to circumvent than tariffs. In addition, China faces structural growth constraints from a declining working age population and weak productivity growth related to inefficient resource allocation, which will become binding over time.

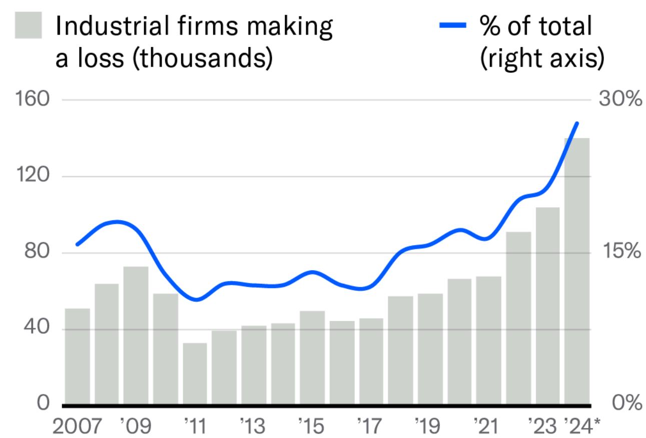
The deceleration we envision in our forecasts will be relatively balanced, and therefore sustainable, if achieved with healthier local government balance sheets and a limited increase in economywide debt. Even at these slightly lower growth rates, China's economy will contribute meaningfully to global economic growth.

Exhibit 13
Deflationary pressures persist in China because of subdued consumer demand



Sources: China National Bureau of Statistics, Haver Analytics and Moody's Ratings

Exhibit 14
Share of loss-making Chinese industrial firms is at its highest level in recent years



*2024 data is through September
Sources: China National Bureau of Statistics, Haver Analytics and Moody's Ratings

Europe's sluggish recovery hinges on a revival in consumer demand

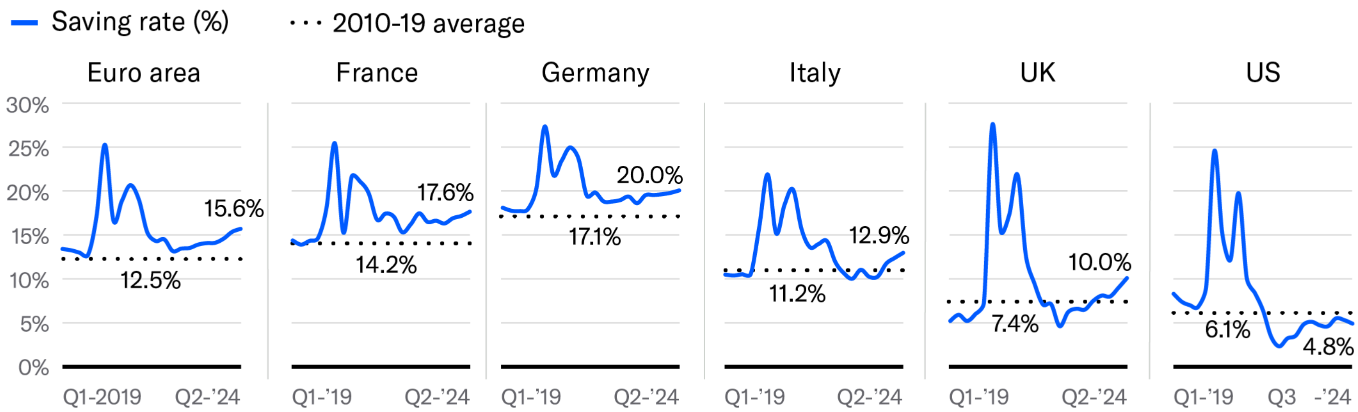
We expect a slow cyclical improvement in Europe in 2025 and 2026 as looser financial conditions promote household spending and investment.

The UK economy is poised for around 1.0% growth in 2024 and will further solidify in 2025 and 2026. Solid real wages, employment growth and improving consumer confidence should promote greater consumer spending. Policy easing by the Bank of England (BoE) will further help sustain the recovery.

Euro area recovery has been particularly sluggish, although there is considerable heterogeneity across member countries. Preliminary flash estimates of Q3 real GDP show economic activity remains soft. Euro area real GDP grew by just 0.9% in Q3 relative to a year ago, marking the sixth quarter of sub-1% annual growth. We forecast real GDP will grow 0.7% in 2024 before it strengthens to 1.2% in 2025 and 1.5% in 2026.

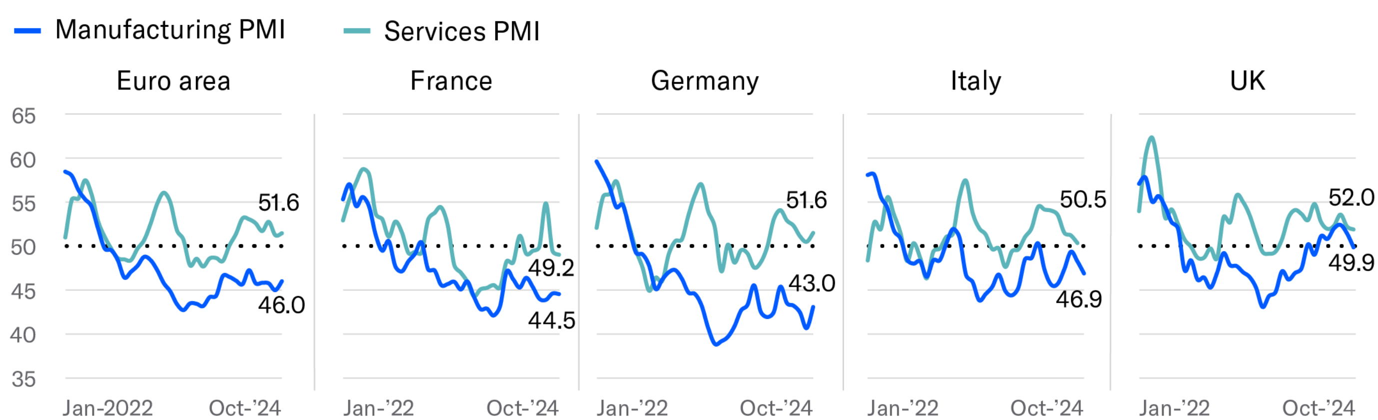
Risks to the outlook are tilted to the downside. The German economy has especially struggled to gain momentum and has stagnated near pre-pandemic levels. Indeed, the economy eked out 0.2% sequential growth in Q3 following a downwardly revised 0.3% contraction in Q2 and we expect it to contract by 0.1% this year. While not as bleak as Germany, growth momentum in France (Aa2 negative) and Italy (Baa3 stable) remains unremarkable. Consumers across the region are reluctant to spend, which is reflected in the steady rise in household savings to above pre-pandemic levels, in contrast to consumer behavior in the US (see Exhibit 15). Business investment and industrial activity remain muted, hindered by weak domestic demand as well as intense price competition in domestic and international markets, especially from Chinese firms (see Exhibit 16).

Exhibit 15
European households are accumulating savings beyond pre-pandemic levels
Household saving rate



Sources: Eurostat, Office for National Statistics, Bureau of Economic Analysis, Haver Analytics and Moody's Ratings

Exhibit 16
Euro area industrial activity remains muted
PMIs, 50+ = expansion



Sources: S&P Global, Haver Analytics and Moody's Ratings

In light of this subdued outlook, the ECB is likely to step up the pace of its easing with a 50 bp rate cut in December, followed by 25 bp cuts at the next few meetings. At this pace, its rate cuts would end by April 2025 as policy normalization is achieved, provided the economy doesn't deteriorate before then. In fact, we could see the ECB going into an aggressive easing mode if the economic outlook further deteriorates.

Other G-20 economic outlooks

Anglophone: Canada and Australia

Canada: Growth will slow before front-loaded monetary easing supports rebound in late 2025

Canada's (Aaa stable) economy is set to cool further before monetary easing begins to support a rebound in the second half of next year. After stagnating for most of 2023, the economy grew about 2% in the first half of 2024, supported by a mix of migration-driven population growth, non-discretionary consumer spending and public employee raises. However, we expect growth will weaken through the first quarter of next year as the government curtails migration flows and high interest rates weigh on consumption. The savings rate reached a record-high 7.2% in Q2, up from 4.9% a year prior and well above its 3% 2010-19 average, suggesting that households are setting aside funds in anticipation of mortgage renewals at higher rates. A softer labor market will also dent consumption, with unemployment registering at 6.5% in October, above its 2017-19 average of 6.0% and up steadily from a 55-year low of 4.8% in July 2022. We expect unemployment to rise further, but average about 6.5% over the next couple of years.

The Bank of Canada (BoC) cut rates by 50 bps in October, accelerating the cadence of 25 bp cuts made in each of the three prior meetings and bringing the policy rate to 3.75%. With annual headline and core inflation metrics — including the BoC's preferred trimmed-mean and median inflation measures — comfortably in the bank's target range of 2% (+/- 1%) and set to moderate further, we expect more easing. Following annual inflation of 3.9% in 2023, we forecast that rate to decline to around 2.5% in 2024 before settling around 2.0% in 2025-26. In the meantime, we expect growth to decelerate to 1.1% this year before recovering to just under 1.8% in 2025 as monetary easing and looser financial conditions support a cyclical recovery in demand. However, we think the country's aging demographics and comparatively low investment and productivity levels will likely keep Canada's growth constrained under 2% in 2026 and beyond.

Australia: Growth momentum will wane further as central bank maintains cautiously tight stance

Australia's (Aaa stable) economic momentum has waned amid high interest rates. Real GDP grew just 1.0% in the four quarters to 2024 Q2, down from 1.3% in Q1 and the slowest growth outside of recession since Q1 1991. Government spending has been a primary growth driver in recent quarters and has helped to make up for continued weakness in private consumption, which fell in Q2 and has driven just a third of growth over the last year. Although the labor market remains historically strong, a steady and continued drop in job vacancies and rise in the unemployment rate — which reached 4.1% in October, up from a record low of 3.5% in December 2022 — will likely cap consumer sentiment and purchasing power into early 2025.

The Reserve Bank of Australia (RBA) will likely maintain a tight monetary stance as its concerns about sticky inflation overshadow diminishing growth momentum. The disinflation process resumed in Q3 after stalling out in the first half of the year, with annual inflation falling to 2.1% in September, down sharply from 3.8% in June and within the RBA's 2%-3% target range. However, disinflation was driven in part by temporary cost-of-living relief policy measures. Although core inflation also fell to 2.7%, down from 3.7% in June, risks are skewed toward higher levels given sticky services driven in part by a tight labor market, subdued productivity and pressures from housing prices which comprise the largest component (22%) of the CPI basket.

At its November meeting, the RBA held its cash rate at 4.35%, where it has been for a year, making it the last among major central banks to hold out on the global monetary easing cycle. It will likely look for inflationary pressures to settle durably within target before easing its tight policy stance, which we expect to commence in the first half of 2025. In this context, we expect higher interest rates to continue weighing on near-term growth and that consumer demand will remain subdued through early 2025 because real income growth is weak and household budgets are constrained. As such, we estimate real GDP growth to moderate to a below-trend 1.3% this year before a recovery in real incomes and dwelling investment support a rebound to 2.5% in 2025 before settling toward potential of around 2.3% in 2026.

Developed Asia: Japan and Korea

Japan: Domestic demand will power growth

We have kept our real GDP growth forecasts for Japan unchanged from our August projections. We expect the economy to expand by 0.8% in 2025 after eking out just 0.2% growth this year, and then decelerate to potential growth of around 0.5% in 2026. Our forecasts assume the domestic demand recovery observed in the second quarter have continued strengthening in the second half of this year. Wage growth should continue to power household spending. Easing energy prices will also support the economy.

At 2.45% in September, headline inflation remains above the BoJ's 2% target. Core inflation, excluding fresh food and energy, has remained stable around 2% in the third quarter. We have therefore raised our inflation projections to average slightly above 2.0% in 2025. Our forecast of 1.8% inflation in 2026 should be viewed in the context of lingering uncertainty regarding the sustainability of strong wage and price pressures. The 2024 shuntō negotiations resulted in an average pay raise of 5.17%, which was the largest increase in three decades. A similar outcome to the 2025 wage negotiations could indicate that inflation expectations have permanently shifted, making the BoJ's 2% medium-term inflation goal within reach. Accordingly, we expect the BoJ to continue to seek policy normalization by incrementally adjusting the policy rate higher.

Korea: Semiconductor surge to partly offset domestic economy weakness until rate cuts revive consumption

A cyclical upswing in global semiconductor demand is moderating, but will help offset domestic sluggishness in Korea's economy into next year. Goods exports jumped 10.4% year-on-year in Q3 from 10.1% in Q2 and to their highest since Q2 2022. They were driven by a cyclical upswing in exports of semiconductors (up 41% y/y) and computers (up 119%), which together account for about 17% of total exports and have been reinvigorated by global demand for AI-related products. However, private investment fell for the second quarter in a row and household consumption grew by a tepid 0.5% in Q3, up from a 0.3% contraction in Q2. We expect high interest rates, a sluggish real estate market and rising household debt service and delinquency ratios – albeit low by international standards – to keep consumption sluggish for the next couple of quarters.

We expect the Bank of Korea's (BoK) monetary normalization will continue in 2025 and that it should begin to revive domestic demand in the second half of next year. Annual headline and core inflation eased respectively to 1.3% and 1.8% in October, and are set to trend lower as domestic economic activity stays cool. In October, the BoK eased rates by 25 bps to 3.25%, marking its first benchmark rate cut since July 2021. We expect further easing in the coming quarters amid slower growth and falling inflation, though US monetary policy uncertainty and high household debt levels will keep the BoK cautious about the speed of normalization and on hold until 2025.

Looser financial conditions should support disposable income as floating-rate household debt (55% of total) gradually resets at lower rates. Depending on the pace of rate reductions over the next year, a recovery for consumption may provide some buffer for growth, particularly if the tech cycle turns and export demand for semiconductors slows. In the meantime, we expect external demand for AI-related chips as well as US and EU-driven investment in new sectors such as EVs and renewable energy to offset domestic weakness and support a rebound in growth to 2.3% in 2024 and 2.1% in 2025, up from 1.4% in 2023, before it returns to potential of around 2% in 2026. However, increasing trade frictions and uncertainty between China and the US increase risk to our growth forecasts in light of Korea's close trade relationship with both.

Emerging Asia: India and Indonesia

India: Outlook remains robust

India's real GDP expanded 6.7% year-over-year in the second quarter of 2024, driven by a revival in household consumption, robust investment and strong manufacturing activity. High-frequency indicators – including expanding manufacturing and services PMIs, robust credit growth and consumer optimism – signal steady economic momentum in Q3. Indeed, from a macroeconomic perspective, the Indian economy is in a sweet spot, with the mix of solid growth and moderating inflation. We forecast 7.2% growth for calendar year 2024, followed by 6.6% in 2025 and 6.5% in 2026.

Household consumption is poised to grow, fueled by increased spending during the ongoing festive season and a sustained pickup in rural demand on the back of an improved agricultural outlook. Additionally, rising capacity utilization, upbeat business sentiment and the government's continued thrust on infrastructure spending should support private investment. Sound economic fundamentals, including healthy corporate and bank balance sheets, a stronger external position and ample foreign exchange reserves also bode well for the growth outlook.

Sporadic food price pressures continue to inject volatility in the disinflation trajectory. Headline inflation breached the upper bound of the RBI's 4% (+/-2%) tolerance band for the first time in more than a year in October, accelerating to 6.2% amid a sharp jump in vegetable prices. Despite the near-term uptick, inflation should moderate toward the RBI's target in the coming months as food prices ease amid higher sowing and adequate food grain buffer stocks.

Even so, potential risks to inflation from heightened geopolitical tensions and extreme weather events underscore the RBI's cautious approach to policy easing. Although the central bank shifted its monetary policy stance to neutral while keeping the repo rate steady at 6.5% in October, it will likely retain relatively tight monetary policy settings into next year given the fairly healthy growth dynamics and inflation risks.

Indonesia: Healthy domestic consumption will help offset weak external demand

We estimate Indonesia's real economy to grow around 5.0% in 2024-25 as solid domestic demand offsets a relatively weak external environment. The Indonesian economy grew 4.9% year-on-year in Q3, driven by solid private consumption and investment (both up 5.1%). Although favorable base effects supported 9.1% year-on-year growth in exports, up from 1.4% in Q1 and 8.2% in Q2, external sector weakness will likely persist amid lower commodity prices and a slow recovery of export demand, particularly from China. However, we expect domestic consumption and increased investment in the new capital city to counter trade-related economic drags while a tourism rebound and sustained foreign direct investment inflows support its external position.

President Prabowo Subianto assumed office on 20 October after winning 58% of the vote in the February elections. The policy stance of the new administration will play a significant role in determining the outlook for investment and growth in 2025 and beyond. Ongoing efforts toward commodity downstreaming — particularly for nickel — which was part of the outgoing government's strategy seeking to leverage Indonesia's natural resources into higher value-added economic activity, could yield positive outcomes. A focus on industrial upgrading will likely remain a key part of the new government's growth-focused economic agenda, which may also include an expansion of welfare programs.

We expect Bank Indonesia (BI) to loosely mirror the Fed's rate cuts to support exchange rate stability, even as inflation settles within the 1.5%-3.5% target. BI cut its policy rate for the first time in three years by 25 bps to 6.0% just hours before the Fed kicked off its easing cycle in September. The Fed pivot and wider interest rate differential eased growing pressure on the rupiah, which appreciated over 7% between the end of Q1 and Q2, fully reversing its steady slide over the year prior. We expect further Fed cuts and steady inflation – which we estimate will average 2.5% over the next couple of years – will open up space for BI to normalize rates further in 2025.

Latin America: Brazil and Mexico

Brazil: Structural reforms will support growth even as higher interest rates weigh on activity

A strong labor market and healthy business sector activity will compensate for weakness in Brazil's agricultural sector for the next couple of quarters. Real activity grew 2.5% in the first half of 2024 over the same period last year despite historic flooding, with output in the services (up 3.2%) and industrial sectors (up 3.3%) more than enough to offset weakness in agriculture (down 3.4%). Consumption continues to drive growth and has been supported by a low unemployment rate, which fell to 6.4% in September from 6.6% in August and to its lowest in nearly a decade. High interest rates will dampen economic momentum through 2025, but structural economic reforms over the last few years — including strengthened central bank independence, improved governance of state-owned enterprises and tax and labor reforms — will keep growth around 2.5% over the medium term and above the 1.5% average in 2010-19. Infrastructure investment plans also enhance longer-term growth potential, though their effects will take time to materialize and are contingent on overcoming fiscal constraints and attracting private investment.

In response to recent backsliding on the disinflation process, the Central Bank of Brazil (CBB) hiked the Selic rate by 25 bps in September and 50 bps in November to 11.25%, reversing an easing cycle that began in August 2023 but was paused since June. Historic flooding in Rio Grande do Sul has hurt crop yields and the worst drought conditions in over 70 years has driven electrical plants to shift from low-cost hydroelectricity to more costly thermal plants for generation. The resulting rise in food and energy prices has pressured headline inflation, which climbed to 4.8% in October from a recent low of 3.7% in April. Although upward pressures on core prices have been more modest and core metrics remain within the CBB's 1.5%-4.5% target range, we expect the monetary authority to remain highly sensitive to further inflationary pressures in the context of strong growth and a tight labor market, which will keep real interest rates high well into 2025.

Mexico: Tight monetary policy, modest fiscal consolidation and trade uncertainty will dampen growth prospects

We estimate that Mexico's real growth will slow to 1.5% in 2024 and 1.3% in 2025 from a robust 3.2% in 2023, but economic activity could weaken further if trade tensions with the US escalate. Real economic activity increased by a solid 1.0% in Q3, up from a weak 0.1% in Q1 and 0.2% in Q2 as the agriculture sector rebounded from drought-like conditions in early 2024. However, economic momentum will remain sluggish amid high interest rates, fiscal consolidation and heightened investor uncertainty in the wake of the far-reaching judicial reforms approved in October. The reelection of Trump as the next US president will also add to business uncertainty until his trade agenda – which may threaten steep tariffs as leverage for tighter control of the US-Mexico border – comes into clearer focus, further depressing investment into next year.

We expect growth will remain constrained to 2% over the long term amid a weaker investment climate, but further risks could emerge if the US-Mexico-Canada Agreement is renegotiated on terms unfavorable to Mexico in 2026. Conversely, US policy incentives to regionalize North American supply chains could further promote nearshoring and its attendant benefits for Mexico if it can overcome structural shortcomings related to the country's climate, infrastructure and water scarcity.

Banxico's gradual rate normalization will continue despite temporary setbacks on headline inflation and Fed policy uncertainty. The Mexican central bank cut the policy rate by 25 bps to 10.50% in September, continuing a stop-and-go easing cycle begun in March. Although a depreciation of the peso (down about 16% since May) and unfavorable weather conditions have slowed progress on headline inflation, annual core inflation fell to 3.8% in October, its lowest since February 2021 and within Banxico's 2%-4% target. With growth slowing, core disinflation set to continue and restrictive real rates, we think the central bank will cut rates further this year and next, albeit at a cautious pace.

On 1 October, Claudia Sheinbaum of the ruling Morena party assumed the presidency after winning around 60% of the vote and a strong mandate to govern in the June elections, which left her Morena coalition within striking distance of the two-thirds majority required in both chambers to pass constitutional reforms. However, the incoming administration's maneuverability will likely be constrained by a weakening fiscal position. In particular, the government's ability to provide virtually unrestricted financial support to Petróleos Mexicanos (PEMEX; B3 negative) will diminish in light of the national oil company's expanding cash needs and prospects of weakened government finances.

Latin America: Argentina

Argentina: Economic weakness, disinflationary progress will persist amid fiscal austerity

Macroeconomic conditions will remain weak as Argentina's (Ca stable) government implements an austerity agenda designed to correct the country's longstanding fiscal and external imbalances. On 15 September, President Javier Milei presented his government's zero-deficit budget proposal for 2025, which would build upon sweeping economic and fiscal reforms of this year and be realized through cuts to public investment, subsidies and transfers to state-owned enterprises and provinces. Congressional challenges and social resistance may prevent or dilute the full implementation of the budget measures, but we expect a broad continuation of the fiscal and economic reforms passed since Milei took office in December 2023 and which have produced fiscal surpluses in the first three quarters of 2024, a performance not seen since 2008.

Progress on the fiscal front has helped to increase confidence in the Argentine peso and slow inflationary momentum. The black-market peso premium, a proxy for confidence in the currency and a source of inflationary pressure, averaged about 22% in October, down from 108% in 2023. Improved exchange rate stability has helped the government maintain its crawling peg and minimize inflationary pass-through to domestic prices, with monthly price inflation falling to 2.7% in October from a high of 25.5% last December and to its lowest in nearly three years. We expect disinflation to continue amid reform efforts but estimate that average annual inflation will reach about 235% this year, up from 133.5% in 2023, before easing to 80% in 2025 and 30% in 2026. However, the peso remains pressured by private sector expectations of exchange rate liberalization and currency stability remains a key economic vulnerability, particularly in the context of the country's negative net foreign exchange reserves and looming international bond payments.

Domestic demand will remain lackluster amid fiscal and economic adjustment, though a sharp rebound in agricultural production (up 81% y/y in Q2) and primary exports (up 48%) following last year's drought will soften the depth of this year's recession and support a modest degree of economic activity over the next couple of years. We estimate that the Argentine economy will shrink by another 3.5% in 2024, following a 1.6% contraction in 2023, before the partial unwinding of imbalances supports a rebound in growth to 3% in 2025 and 1.8% in 2026.

Middle East: Turkiye and Saudi Arabia

Turkiye: Sustained policy tightening will drive disinflation and slower growth through 2025

Turkiye's (B1 positive) economy will slow as it digests tighter monetary policy. Its central bank has held its benchmark policy rate at 50% since March, up sharply from 8.5% in June 2023. The monetary authority's stance is part of a broader policy shift to more orthodox policymaking designed to reverse several years of soaring inflation and currency pressure. Early signs of progress are becoming more apparent, with credit growth decelerating and year-on-year inflation falling sharply to 48.6% in October — the lowest since July 2023 — from a recent high of 75.4% in May. Increases in the minimum wage and many administered prices, as well as a relatively expansionary fiscal policy, will slow progress in taming inflation, which we estimate will average 60% in 2024 — up from 53.9% in 2023 — before decelerating to 33.5% in 2025 and 24% in 2026 on the back of the material tightening in fiscal policy.

The last time Turkiye embarked on a monetary policy correction in mid-2018, the economy contracted for two consecutive quarters. It remains to be seen whether a similar slowdown would be politically acceptable this time, and the risk remains that a sharp weakening of the labor market could trigger a policy reversal. However, the central bank is building a track-record of adhering to its price stability mandate and we expect monetary policy to remain tight. Against this tighter policy backdrop, we expect Turkiye's real GDP growth to slow to 3.2% and 2.0% in 2024 and 2025, respectively, down from 4.5% last year, before rebounding to about 3.5% in 2026.

Saudi Arabia: Non-hydrocarbon sector growth will continue despite oil-sector volatility

Saudi Arabia's (A1 positive) real economy grew by a relatively sluggish 0.8% on a sequential basis in Q3, down from 1.4% in Q2, as output in the country's important hydrocarbon sector (about 30% of GDP) remained a drag on the economy. We expect the drag to slowly dissipate as the Saudi government's voluntary production cuts — first enacted in concert with the Organization of Petroleum Exporting Countries and other partners (together OPEC+) last May — are only slowly and gradually unwound over the next two years. However, risks are skewed toward a slower normalization of production given global demand headwinds.

Non-oil economic activity will continue to grow at a rapid clip. Real non-hydrocarbon GDP was up by a robust 4.2% in Q3 relative to a year prior, largely driven by the ongoing construction of large-scale, government-backed infrastructure projects in tourism, entertainment and urban development. We expect non-oil growth to average a robust 4%-5% over the next few years, bolstered by government spending on project implementation and possibly through higher private-sector investment as the government focuses on crowding-in private capital, supported by reforms that enhance Saudi Arabia's business environment. However, risks to oil prices and production levels will amplify the trade-off between implementing diversification projects and maintaining a robust fiscal position. Overall, we estimate growth will rebound to 1.7% in 2024 and 4.7% in 2025-26 as voluntary oil production cuts are gradually unwound and non-oil activity steadily advances.

The country's exchange rate peg to the US dollar has helped to keep inflation in check despite strong economic activity in the non-oil sector. Annual inflation held steady at around 1.6% in the first three quarters of this year, down from a recent peak of 3.4% in January 2023 and we expect it to average around 2% through 2026.

Emerging Europe and Africa: Russia and South Africa

Russia: Economy will settle into lower growth potential after wartime fiscal stimulus fades

Russian economic growth is set to decelerate as wartime fiscal stimulus moderates and monetary policy tightens to rein in inflationary pressures. The Russian economy grew by 3.1% in Q3 over the year prior, down from 4.1% in Q2. Its economic resilience partly reflects its adaptation to the sanctions regime, as it has diverted most of its key imports and embargoed oil and coal exports from the EU to closer trading partners while simultaneously avoiding the G7's $60 oil-price cap. However, wartime fiscal stimulus has been the country's primary economic engine over the last two years, growing to about 6% of GDP in 2024 from 3.7% in 2023 and 3.0% in 2022. We expect growth to fall to 1.5% in 2025 from 3.8% in 2024 as budgeted wartime expenditures grow at markedly slower rates.

The shift to a wartime economy will push near-term inflation higher and dampen longer-term growth prospects. Outsized government support for the economy has intensified inflationary pressures with year-on-year inflation rising to 8.5% in October, up from a post-pandemic low of 2.3% in April 2023. In response, the central bank has rapidly raised its policy rate to 21% as of October, up sharply from 7.5% in June 2023 when it began tightening its policy stance. We expect the monetary authority to maintain a tight stance through 2025 as wartime spending keeps inflation firm, but inflation will remain relatively high at 6.9% and 5.0% in 2025 and 2026, respectively, amid an unprecedentedly tight labor market. War mobilization has triggered acute labor shortages and wage pressures, some of which will likely persist even if the fighting ends amid the country's difficult demographic outlook, which has likely been scarred by the war. We expect adverse demographics, less wartime stimulus and a complex sanctions regime to weaken Russia's long term growth potential to 1.2% in 2026.

South Africa: Load shedding eases, but growth will likely remain constrained

Structural energy sector constraints will continue to weigh on South Africa's growth dynamics despite early signs of improvement. On 13 October, Eskom Holding SOC Limited (B2 stable) – the state-owned energy utility that is responsible for 90% of the country's electricity generation – announced that it managed to go 200 consecutive days without power cuts (load shedding), a sharp turnaround from a record-setting 2023 when there were blackouts on 280 days. The improvement is in part because of energy sector reforms that helped the embattled energy utility shore up capacity and catch up on deferred maintenance. Although we expect these efforts should help growth to gradually recover and strengthen to 1.7% by 2026, up from 0.7% in 2023, the country's energy system will likely continue as a constraint for three to four years.

Monetary policy normalization will continue at a gradual pace, but rates will remain relatively restrictive and weigh on near-term growth prospects. The South African Reserve Bank (SARB) joined the global easing cycle and cut its policy rate by 25 bps to 8.0% at its September meeting, but we expect it to calibrate its stance with the Fed as it seeks to maintain currency stability, even as inflation durably settles within its 3%-6% band. Annual inflation reached 3.7% in September, down from 4.4% in August and a peak of 8.1% in July 2022.

On 30 October, the Government of National Unity, a coalition between the African National Congress (ANC) and the centrist Democratic Alliance, released its first medium-term budget policy statement which pushed for broad structural reforms amid fiscal consolidation. Made necessary by the loss of the ANC's parliamentary majority for the first time since the end of apartheid in 1994, power-sharing is new to South Africa and presents a risk to government stability and the administration's ability to deliver on its policy agenda. However, we expect broad economic and fiscal policymaking continuity under the new coalition, which has centered its near-term agenda around reducing load shedding and shoring up the energy sector.

Endnotes

1 It cut the required reserve ratio (RRR) and 7-day reverse repo rate, reduced home loan rates and eased down payment ratios to support the property sector. It also announced new swap facilities and a relending program to reinvigorate the stock market by incentivizing brokerages, asset managers and insurers to buy stock ETFs and blue chip stocks as well as encourage stock buybacks.

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Contacts

Radhika Ramalingam +91.80.6885.8306
Senior Credit Associate
radhika.ramalingam@moodys.com

Susmi Thomas +91.80.6885.8019
Credit Associate
susmi.thomas@moodys.com

Gong Cheng +852.3758.1628
MD-Credit Strategy
gong.cheng@moodys.com

Elena H Duggar +1.212.553.1911
Managing Director-Credit Strategy
elena.duggar@moodys.com

Nick Hill +33.1.5330.1029
MD – Global Credit Strategy & Guidance
nick.hill@moodys.com

Marie Diron +44.20.7772.1968
MD-Global Sovereign Risk
marie.diron@moodys.com

Anne Van Praagh +1.212.553.3744
MD-Gbl Sovereign Risk
anne.vanpraagh@moodys.com