WORLD

MACRO-ECONOMIC SCENARIO 2024-2025

Quarterly – June 2024

ECO
ÉTUDES ÉCONOMIQUES GROUPE

Extension without disruption

It may seem odd to stick an 'extension without disruption' label on an economic and financial scenario beset by political uncertainties of varying intensity, which will be removed either sooner (legislative elections in France) or later (US presidential election). Whereas the second event is likely to significantly structure/alter a scenario's major plot points, the first is less likely to wipe out the backbone of a quarterly global scenario.

And so the trends already sketched out have in fact been extended, with no disruption

In the Eurozone, growth is still expected to accelerate, underpinned by private consumption. The cracks showing in the US seem unlikely to drag down growth, which could once again prove its staying power – just as inflation has done as we reach the end of this deflation road.

In the **US**, the resilience that characterised the 2023 economy actually hung on into early 2024. Coupled with the booming job market, reduced short-term sensitivity to interest rates (balance sheet repair, persistently low cost of debt) meant growth could better absorb monetary tightening, which turned out to be the most aggressive in decades. And while the negative impact of monetary policy has been much less brutal than was feared, it has not vanished. Its effects play out over time. Corporate debt is up, to be refinanced at higher rates in 2024 and 2025; actual mortgage rates are climbing back up; defaults on other types of debt (credit cards, auto loans) are on the rise; surplus savings (specifically in lower-income households) have dried up; and savings rates have declined quite a bit. These are the first cracks still forecasting a mild recession as 2024 flips to 2025. After 2.5% in 2023, our scenario is based on growth of 2.0% in 2024 and just 0.4% in 2025: declining growth paired with an alternative scenario in which the economy is likely to once again display surprising resilience. In line with a soft slowdown paired with an upside risk to growth, the slide in inflation should continue on a gradual and uneven trajectory, leaving inflation higher than its target until the end of 2025.

In the **Eurozone**, though European elections have confirmed the overall balance in the European Parliament's representation, uncertainty about the vote in France is ushering in a downside risk. Estimated as 'politics as usual' before the French National Assembly was dissolved, our central scenario does not include this risk and does retain its key assumption. The principle of accelerated growth driven by private consumption remains, despite the cautious approach consumers are still taking and a deflationary process that promises to be rocky in 2024.

The decline in inflation – the benefits of which are already visible – is now a little less easy and a little less clear. Inflation is hanging on, owing mostly to its inertia in services, which reflects delayed pressures on payroll costs, connected to the late recovery of past losses of purchasing power in wage negotiations. And lastly, though consumption is the prime mover of this recovery, it may bring a bit brisker external demand with it, buoying Eurozone GDP by 0.8% in 2024 and by 1.5% in 2025.

In monetary policy terms, our scenario has never presumed an early or massive cut in US key rates

Rather than the 'pivot' the markets were waiting for, it has focused on the 'plateau'. And now this is a matter of extending that plateau before easing later.

Obviously, there are few hopes that the 'American obstacle' will be quickly removed, a constraint especially for some emerging countries; inflation numbers indicate that it is merely moving toward its target slowly, that growth is holding steady, and that the labour market is solid despite recent signs of weakening – all of which calls for prudence.

The **Fed** will need a little more time to be convinced that inflation is on a clear path toward 2%, and a little more time before it goes ahead with a first cut to its key rate. That could happen in September and would likely be followed by another reduction in December, bringing rates down by a total of 50bp in 2024. In 2025, easing could be more aggressive, totalling 150bp over the first three quarters. However, this kind of projection hinges on a relatively pessimistic economic scenario. If the economy and the labour market hold up better than expected, the Fed may adopt a more gradual pace.

The US status quo has not prevented the **ECB** from starting to cut rates. It will continue unless there is strong downward pressure on the EUR or a much clearer recovery, especially if it is more inflationary than expected.

Core and headline inflation are expected to reach 2% during H225 and allow the ECB to extend the rate relief that began in June, when it cut rates by 25bp. Our scenario points to gradual and ongoing easing, with the ECB lowering its deposit rate by 25bp every quarter until September 2025 to bring it back to 2.50%, our estimate of the neutral rate.

Interest rates are likely to continue to feel moderate upward pressure

Indeed, the monetary easing theme has been floating around for a long time now. Whether it has already begun or is on the horizon (or being delayed, as in the

US), easing is no guarantee that interest rates will fall. Several factors, including the widespread risk of inflation and the possible increase in the neutral rate, argue for stable or even slightly higher rates.

In the **US**, our bond yield projections have been nudged upward all along the curve. We currently expect 10-year Treasury yields to be 4.30% at the end of 2024, then 4.05% at the end of 2025. The upward revision of the long-term yield signalled in the dot plots deserves a look: stuck at 2.50% between 2019 and 2023, it was raised for the second consecutive FOMC, from 2.5625% in March to 2.75%. Such a nudge speaks of the possible increase in the neutral rate, which may be linked to factors like deglobalisation and slowing demand for Treasury bonds from world central banks, sovereign funds and national financial institutions.

In the **Eurozone**, the ECB began cutting its key rates and is expected to continue. The markets are fully pricing in this monetary easing cycle and expect the deposit rate to fall back near 2.50%. Amid a relatively optimistic outlook on European growth and persistently high public deficits (an excessive deficit procedure is affecting Belgium, France and Italy, all of which must present a debt-reduction plan by September), European sovereign yields have little chance of declining, especially if the Fed delays the start of its own easing cycle. Our scenario is for a German 10Y yield of about 2.65% at end-2024.

With spreads tight, adding a political risk premium (with no risk of redenomination) has resulted in a widening French spread compared to the Bund of up to 80bp. This OAT-Bund premium will continue to fluctuate according to the political uncertainties that will not necessarily be removed at the end of the election in the absence of a clear majority.

Finally, US parameters, the Fed's monetary strength and Trump's potential win are positive for the USD overall

Next come some unique stories such as the political risk for the Eurozone, the worsening fiscal situation in Latin America or, on the contrary, the favourable carry for some Asian and European currencies. Our scenario calls for a modest depreciation of the EUR, to USD1.05 at the end of 2024.

Catherine LEBOUGRE

Focus Geopolitics – Is this the 'boiling frog' scenario?

US elections are turning up the heat and continuing to put pressure on the global geopolitical scenario.

In Europe more than elsewhere, the prospect of Trump 2.0 is forcing a scenario of – at the very least – a lower US contribution to Nato, which cannot be unrelated to the surge in Poland's military spending. Such an outlay will weigh on the country's fiscal consolidation and debt trajectory. So Poland is one European country where a shift in the overall political paradigm is starting to emerge relatively clearly in its macroeconomics and sovereign profile. There is no doubt that this shift will affect the zone running the length of what can now be called a second front, from the Baltic countries all the way to Romania – where Nato's biggest base will sit. In reality, military cooperation is organised all the way down this line, protecting the Polish border, especially around the very dangerous and highly strategic Suwalki corridor linking Russia to its exclave Kaliningrad between Poland and Lithuania. For the Baltics, neighbouring Russia is seen as an existential threat, and budgets will be set with an eye to a wartime economy – much more than in Western Europe, where voters are far more divided over the issue of supporting Ukraine.

Caution: uneven public opinion

The asymmetry in public opinion will play a part in countries' upcoming fiscal decisions. But other kinds of geopolitical asymmetry are also on the rise in Europe: take Hungary, which is basing its industrial upscaling on the contribution of direct investment capital and technology from China[1]. More than ever, Hungary and Serbia are setting up to be the bridgeheads on the Chinese Silk Road in Europe. And as for the Black Sea, it remains a major strategic priority for Russia, which is using it to move its wheat and fertiliser exports and, more importantly, access warm waters. This means all the peripheral countries are consequential for Moscow, which is destabilising the political situation of diminutive Georgia, stuck right in the middle of the chessboard while Europe's major powers play. No one wants to be the rook standing right next to the king.

Still, the gradual militarisation of those economies closest to the war zone has had positive indirect effects, spurring regional development projects around that magic word 'connectivity'. And this is rebooting the Three Seas initiative that was launched in 2016 for the purpose of promoting cooperation on energy, transport and communications infrastructure. The group comprises 13 countries (plus Ukraine and Moldova as associate members), all located along a North-South axis bordering the Baltic, Adriatic and Black Seas. This North-South economic development plan, intended to expand on the East-West axis linking Europe to Russia, now has the challenge of replacing it. It is also reflected in the Via Carpatia highway project connecting Lithuania to Greece.

The real enemy is not Russia, but China – even more so with a Republican president.

Central and Eastern Europe are attempting to organise strategically and for the long term, as is Nato, which is considering much more of a multi-year schedule to spread out the risks of political volatility from their New World ally. But strategic choices will also have to be made while under pressure from the US, which is insisting that Nato craft a clearer strategy on Asia. Some Asian countries have already been invited to the latest annual meetings. Indeed, as seen from Washington, the Ukrainian conflict is diverting US foreign policy away from the 'pivot to Asia', which has been a bipartisan goal since the Obama administration. The real enemy is not Russia, but China, and even more so with a Republican president. Among the 'hawks', the idea of strategic negotiation with Europe is gaining in popularity – staying in the Ukraine theatre only if Europe commits more to the Indo-Pacific theatre.

Is America's strategy nightmare happening right now?

This issue is tangled up with the strategic alliance of China and Russia, one that is constantly being confirmed both directly and indirectly, even as China treads carefully to avoid being accused of direct military aid. However, the alliance is literally bringing the old American strategy nightmare to life. The nightmare that appeared at the end of World War II is the hostile unification of a portion of Eurasia, which geopolitical shapers have always considered a heartland, as summed up by that old saying, "who rules Eurasia commands the world". And with the Sino-Russian *rapprochement*, it is increasingly urgent that the major powers have a global strategy. For Japan, to name one, which is under a triple threat from Russia, North Korea and China, this scenario of an accelerated Sino-Russian strategic and military coordination is a major point of vigilance. Of course there is the added risk of an incident in the China Seas, which would likely escalate into a broader conflict. The Taiwan question, long at the top of the geopolitical risk list, is even higher now that Lai Ching-te has been elected its president.

From frog… to salami

China's assertiveness toward the Philippines has been a headache for every country in the region for months now, especially with the alliance treaty between Manila

[1] For more information, see our publication: Xi Jinping visits Hungary, an economy in remission – 6 June 2024

and Washington. So the regional strategy of dissuasion and cooperation (among Japan, Korea and the Philippines) is solidifying in an effort to preserve the maritime status quo while restoring the lines of direct military communication with Beijing, so as to limit the risks of misunderstanding. Yet this is all happening against a backdrop of unremitting tension and continuous incidents – to which the international community and the markets are all too accustomed. It does, however, suggest that China's government is tempted by the 'salami geopolitics' popularised by Azerbaijan, which consists of slicing off small pieces of coveted land. And so the red lines are moved, inch by inch. That image of the frog in a pot of water that gradually comes to a boil is really quite apt.

Time to choose

The tense situation in the China Seas, along with the nuclear ramp-up and the booming growth of the Chinese navy, are provoking loud strategic debate in the US. To put it briefly, many Washington strategists are now concerned that the more time goes by, the narrower the window of opportunity to stop China from taking action on Taiwan. And this is also driving them to look for a way to crank up the heat on China's already fragile economy. The entire world is busy coming up with scenarios for China's strategy on Taiwan, but we must not forget the US temptation to hasten the scenario in one way or another.

For months now, the "double standard" issue has become a geopolitical factor to be taken very seriously, because it is hastening the multipolar strategies.

In fact, the US is having a moment of strategic choices on all fronts: Ukraine, Asia and Israel. In Israel, Washington has been no more successful in shutting down the Houthis (whose reach has actually broadened) as it has been in ending the war in Gaza. And that war is currently ruining the US's reputation, both out in the world and among its own elite. For months now, the 'double standard' issue has become a geopolitical factor to be taken very seriously, because it is hastening the multipolar strategies and, by extension, worldwide geopolitical fragmentation. The double-standard theme is bringing to life a Great South that is nonetheless very disparate, and scarred by deep rifts, particularly between India and China. In spite of this, even as the US remains a superpower in military and monetary terms, the era of hegemony is truly at an end – regardless of who ends up back in the White House.

Tania SOLLOGOUB

DEVELOPED COUNTRIES
Extension without disruption

USA – Still resilient for now, but tentative cracks forming

Eurozone – Reasoned trust but still subject to verification

United Kingdom – Ambition on growth vs fiscal challenges

Japan – A complete exit from deflation after the next global economic cyclical recovery

Extension without disruption

The trends already sketched out have in fact been extended, with no disruption. In the Eurozone, growth is still expected to accelerate, underpinned by private consumption. The cracks showing in the US seem unlikely to drag down growth, which could once again prove its staying power – just as inflation has done as we reach the end of this deflation road.

USA: STILL RESILIENT FOR NOW, BUT TENTATIVE CRACKS FORMING

The resilience that characterised the US economy in 2023, when growth accelerated to 2.5% on an annual average basis despite widespread predictions for recession entering the year, has largely carried over into the beginning of 2024. While Q124 growth slowed to just 1.3% on a headline basis, underlying details were more upbeat, with much of the drag coming from the volatile inventories and net export components and final sales to private domestic purchasers advancing by a more robust 2.8%.

As we have noted over the past couple of quarters and will reiterate here, we believe that the main factor underlying the greater-than-anticipated resilience is that the economy has been less interest rate sensitive in the near term. While the Fed's tightening cycle has been more aggressive than any seen for decades, many households and corporates were able to lock in low rates for extended periods, allowing the economy to better withstand monetary tightening in the near term.

However, while many forecasts are calling for another year of strong growth in 2024, we remain more pessimistic on the outlook in late 2024 into early 2025, in large part due to our thoughts on monetary policy transmission and lags, as detailed in the linked publications. This in part reflects the fact that the amount of corporate debt maturing and therefore needing to be re-financed at higher rates rises in 2024 and continues to grow in 2025, with maturing high yield debt jumping by an even larger percentage in 2025.

Additionally, the transmission to households may slowly build up too as the effective mortgage rate gradually ticks up while delinquencies for other types of debt, such as credit cards and autos, have started to show some cracks already. For example, both credit card and auto delinquencies are at their highest level in more than a decade. On top of this, the personal saving rate remains extremely low, and consumers continue to draw down any excess savings from Covid stimulus packages that may remain.

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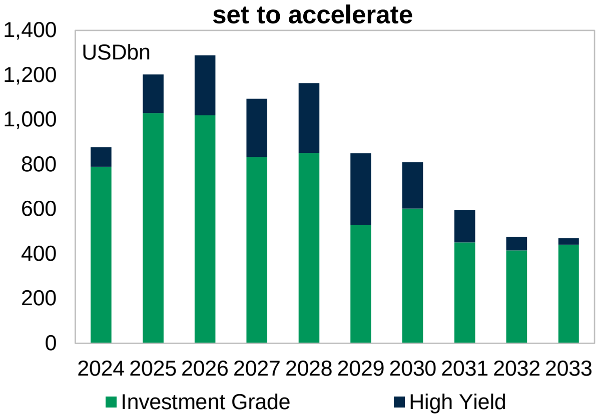
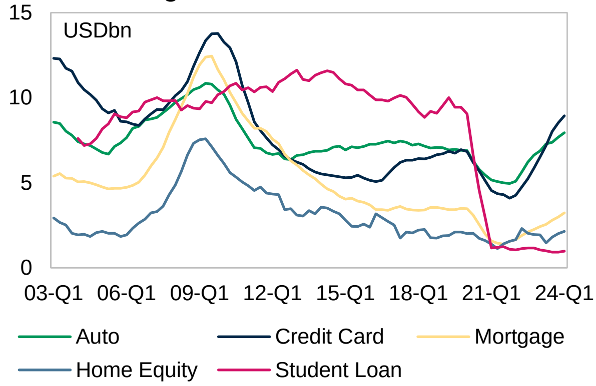
Consequently, while the economy looks to have continued to grow at a solidly positive, albeit slower, pace in H124, we believe that rate hikes will begin to bite more noticeably toward the end of 2024. This results in a recession in Q424/Q125, at which point there will be significantly more debt to be refinanced at higher rates. For now, we maintain the base case as a relatively mild recession given healthy balance sheets for corporates and especially households, but as more and more debt is refinanced at higher rates, the risk of something breaking and a more severe downturn rises. This leaves growth slowing from 2.5% in 2023 to 2.0% in 2024 and just 0.4% in 2025, even if we expect the quarterly pace to bounce back in the latter portion of 2025 as interest rates come down.

US: maturing corporate debt set to accelerate



Sources: Bloomberg, CA CIB

US: credit card & auto delinquencies at highest in more than a decade



Sources: New York Fed, CA CIB

That said, we again acknowledge that recession is not a high conviction call, and we see risks tilted towards the economy remaining more resilient. While we do see some pain for certain segments of the economy either way, there is a possibility that this will be outweighed by continued strength in others. Among consumers, for example, many of the households most susceptible to rising rates are those at the lower end of the income spectrum. However, upper-income households may remain better insulated, which creates the possibility of what we would refer to as a "two-track" economy in which lower-income households face recession-like conditions but upper-income households continue spending such that the overall economy avoids recession. Corporations could face similar dynamics, with smaller businesses more at risk and larger ones potentially more resilient.

For the labour market, we expect some further gradual cooling, and look for a peak unemployment rate of around 4.6%. We think the picture has been muddied by conflicting data recently, and despite very strong nonfarm payroll gains, believe that other indicators such as a much softer household survey point to signs of cooling. That said, even if our forecast is on track it would represent less of an increase than would be typical based on past recessions, in this case due to the unprecedented imbalance between labour demand and labour supply, which may continue to face headwinds as more baby boomers retire. This mismatch allows labour market cooling to be more skewed towards declining job openings than mass layoffs.

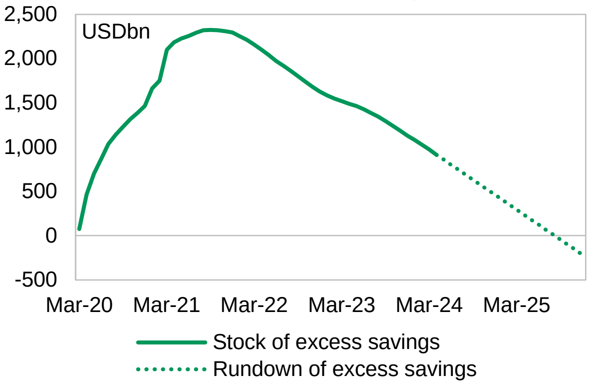
Inflation has become a bit more entrenched, with services prices especially sticky and only declining slowly. Despite the expected downturn in our forecast, we anticipate this will continue to be the case, especially as labour supply constraints may keep wage growth at relatively healthy levels even as the unemployment rate ticks modestly higher, and low inventories have kept home prices from dropping too sharply for the shelter component.

Annual change	2024	2025
GDP	2.0%	0.4%
Inflation	3.0%	2.5%

As a result, we maintain our forecast for above-target inflation through end-2025, and while we expect both headline and core CPI to decelerate further from current levels, the path is very gradual and bumpy. For example, we see headline CPI dipping below 3% around July to hover in the mid- to high-2% range in H224, before slowing a bit further in early 2025 but stalling once it reaches around 2.4%. For core CPI, we look for a gradual decline to just below 3.3% by end-2024 and a modest additional decline in early 2025 before progress is halted once it hits the 2.7-2.8% range. A more severe recession could lead to a sharper slowdown back to the 2% target, but we are not convinced that a mild recession would give factors that may mean inflation persistently hovers modestly above target.

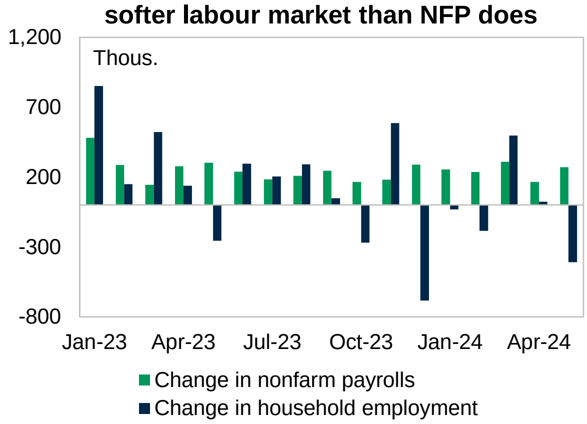
Nicholas VAN NESS

US: consumers continue to draw down excess savings



Sources: BEA, Bloomberg, CA CIB

US: household survey suggests softer labour market than NFP does



Sources: BLS, Bloomberg, CA CIB

EUROZONE: REASONED TRUST BUT STILL SUBJECT TO VERIFICATION

The widening sources of expansion in the global manufacturing cycle support our narrative of a moderate recovery in growth in the Eurozone, reducing the short-term threats to that recovery.

Despite the continued caution shown by Eurozone consumers and a disinflationary process that looks set to be bumpy in 2024, **we keep our assumption of an acceleration in growth driven by private consumption**. This would be slightly delayed compared to our previous scenario, but could be accompanied by slightly stronger external demand in 2024. GDP in the Eurozone should grow by 0.8% in 2024 and 1.5% in 2025.

While the European elections confirmed the overall balance of power within the European Parliament, the uncertainty surrounding the French elections introduces a downside risk for the Eurozone economy. Our central scenario, based on unchanged policies, does not incorporate this risk, as the outlook was set before the dissolution of the French National Assembly.

Q1 acceleration reassures without comforting

At +0.3% in Q124, GDP growth signals an acceleration in activity compared with 2023 when stagnation occurred over the four quarters, with GDP even declining slightly in Q3 and Q423 (0.1%). Growth has surprised on the upside in most countries, leaving a carry-over effect of +0.3% in 2024, automatically increasing our growth forecast for 2024 from +0.7% to +0.8%. **In Q124, GDP in the Eurozone was nevertheless still slightly below the level it would have been if it had grown at the average rate recorded between the sovereign debt crisis and just before Covid (from 2013-19).**

This strengthening of growth is mainly due to the acceleration in net exports, while domestic demand is contracting and the process of destocking is intensifying. GDP growth is thus the result of a positive contribution from net exports (+0.9ppt), which offsets the negative contribution from domestic demand (-0.2ppt) and of changes in inventories (0.3ppt).

The acceleration in exports (+1.4%, after +0.2% in Q423) **was driven by France, Germany and the Netherlands**, although the latter two countries experienced a sharp adjustment that only offset the fall that occurred at the end of 2023. Imports, on the other hand, fell (-0.3%), mainly as a result of lower imports from Italy.

The weakness of domestic demand is due to modest growth in private consumption, stagnant public consumption and a marked fall in investment.

Household consumption disappointed with its lack of acceleration (+0.2% over the quarter). Growth was very modest in France (+0.1%) and barely faster in Italy, Spain and the Netherlands (+0.3%), while it was negative in Germany (-0.4%).

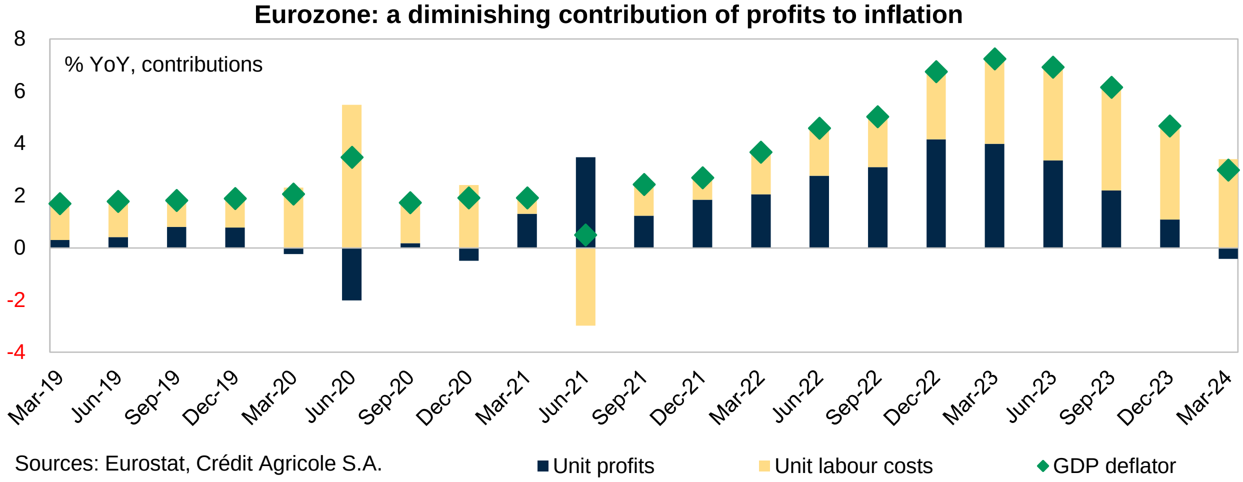
> ***Q1 came close to confirming our scenario of a recovery in household consumption, but we continue to see it as the main driver of the recovery.***

The decline in investment (-1.5% over the quarter) **should be put into perspective**, as it is mainly due to the 41% fall in investment in Ireland, particularly in the intellectual property investment component. Without this effect, investment in the Eurozone would have risen by 0.4%, with a recovery in all the other components with the exception of transport goods.

Still cautious consumers do not change our narrative on private consumption

Q1 came close to confirming our scenario of a recovery in household consumption. Despite the positive increase in the purchasing power of household disposable income, consumers have arbitraged in favour of saving. However, we continue to see private consumption as the main driver of the recovery in our scenario for 2024. Although this dynamic has not yet

Eurozone: a diminishing contribution of profits to inflation



Sources: Eurostat, Crédit Agricole S.A.

been fully confirmed, no other factor has been able to invalidate this assumption, which is based on a smaller future rise in the savings rate, boosted by an improvement in household confidence. We are confident that the disinflationary process will continue, guaranteeing gains in purchasing power and supporting confidence.

Bumpy inflation

However, this process promises to be bumpy. **It is above all the inertia of inflation in services that justifies the persistence of inflation in 2024**, with delayed pressure on wage costs linked to the delayed recovery of past losses of purchasing power in wage negotiations. The long duration of contracts initially slows negotiated wage growth, but accelerates it at the end of the inflationary cycle.

However, despite a rebound in negotiated wage growth in Q124 (+4.7% YoY, after +4.5%) due in particular to one-off payments (bonuses) in the German public sector, all wage anticipation indicators point to a slowdown in 2024. The hourly labour cost index, which also showed an acceleration in Q124 (+4.3% after 3.6%), is actually rather reassuring, when its sectoral evolution is dissected. The acceleration is particularly marked in the construction sector, while in services it is confined to financial, scientific and technical services and public administration. **Contact-intensive services, which had pushed up wage inflation at the end of the pandemic, are seeing a slowdown in their wage cost dynamics.** The weakening in the job vacancy rate (2.8% in Q124, after peaking at 3.4% in mid-2022), even if it has not translated into a rise in the unemployment rate (down in April to 6.4% after 6.5%), nevertheless signals that tensions on the labour market are easing and that their contribution to the acceleration in wages should fade.

The ECB looks back at what has already been achieved, while maintaining a restrictive stance

Despite the upward revision of its inflation forecasts for 2024 and 2025, **the ECB is looking at the progress already made in the disinflationary process and the fall in inflation expectations**. It is also aware that, despite the cut in interest rates, the monetary policy stance remains restrictive. This restrictive stance will be maintained in 2024. The ECB still intends to moderate domestic demand growth to prevent firms from passing on higher labour costs in the form of higher prices. In addition to the second-round effects still present (delayed wage adjustment), third-round effects should be kept to a minimum.

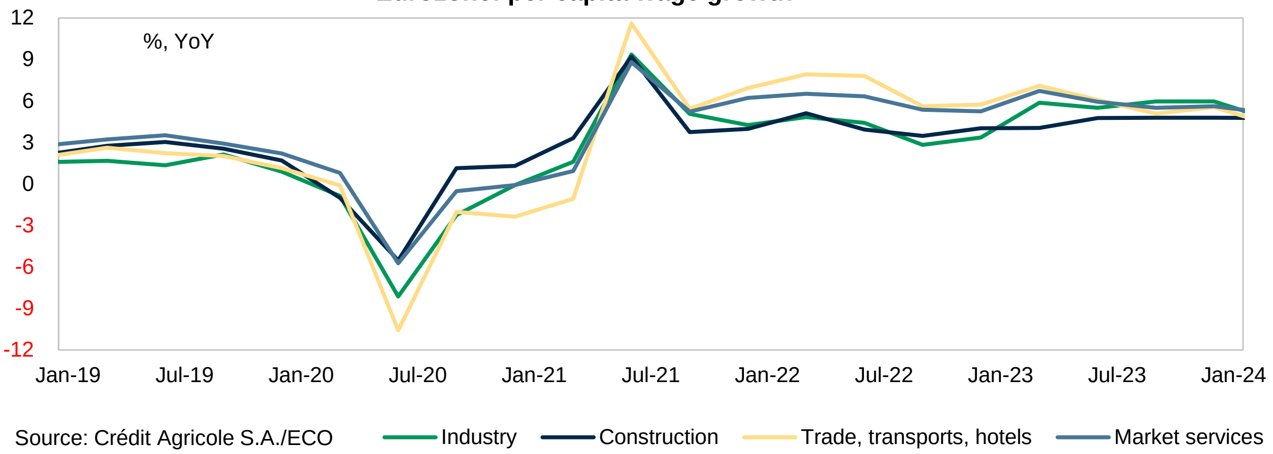
Rates on new loans remain unchanged, as do credit standards. Despite a BLS survey signalling less negative loan demand, the expansion of credit to the private sector is still very modest. While, on the one hand, the improvement in the activity surveys and household confidence are strengthening the demand outlook and may pose an upward risk to inflation, supply factors such as labour force growth and the anticipated upturn in the productivity cycle could, in the ECB's view, moderate the rise in unit labour costs and price dynamics.

Annual change	2024	2025
GDP	0.8%	1.5%
Inflation	2.4%	1.8%

The contribution of rising profits to inflation has now been cancelled out, as disinflation no longer allows rising labour costs to be passed on to prices. This squeeze on margins should ease as wages slow and productivity recovers cyclically. Nevertheless, the latter will remain modest, moderated by greater job retention than in the past. The unemployment rate should stabilise at 6.6% in 2024, before resuming its decline to 6.5% in 2025.

Paola MONPERRUS-VERONI

Eurozone: per capita wage growth



Source: Crédit Agricole S.A./ECO

UNITED KINGDOM: AMBITION ON GROWTH VS FISCAL CHALLENGES

Polls unanimously suggest that the UK's general election on 4 July is likely to result in a landslide victory of the Labour party and a big majority at Westminster (of more than 300 seats according to Electoral Calculus polls). The forecast Labour victory would be larger than Tony Blair's landslide in 1997 (419 seats) and be the largest win by any party in modern parliamentary history, except for 1931. The Conservatives are set for a historic defeat, potentially dropping below 100 seats after the election.

The situation of UK public finances has significantly deteriorated recently by the Covid-related boost in public spending, the slowdown in growth, the increase in the amounts spent on debt interest and inflation-linked government bonds, as well as persistently weaker-than-expected productivity growth. Public deficit and general government gross debt reached 5.9% and 101.3% of GDP respectively in 2023. The budgetary policy stance will have to remain restrictive whichever party wins the election, meaning that primary surpluses will be needed to stabilise the debt ratio.

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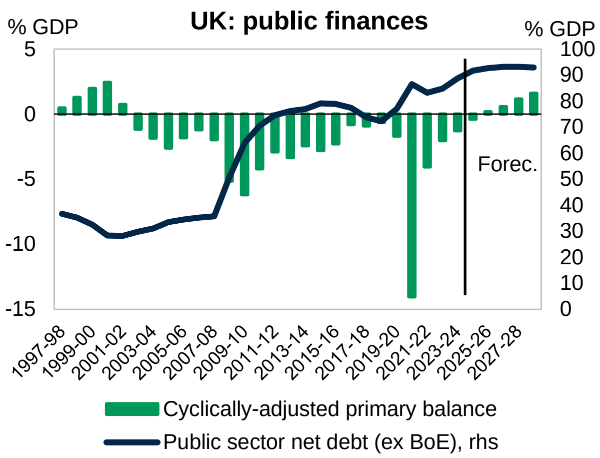
The Labour party has committed to respect the current fiscal rule according to which the public debt ratio will be on a downward path in five years (currently met with a margin of less than GBP9bn according to the OBR forecasts in March). There are three options for the next government:

- ✓ deliver large cuts in 'unprotected' public services (such as Transport, Justice and the Home Office);
- ✓ raise taxes;
- ✓ or borrow more, potentially breaching the fiscal rule.

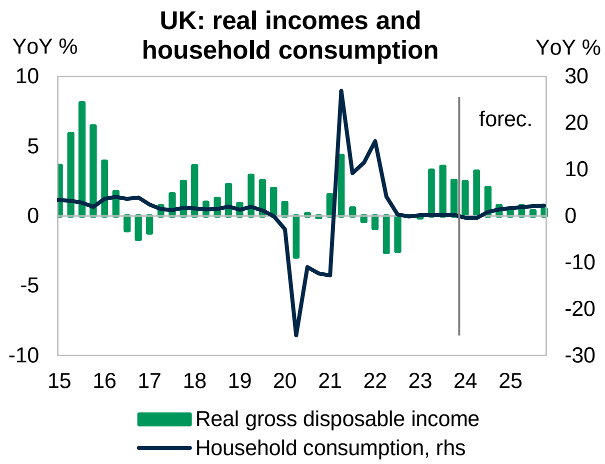
The Labour party has given no indication which path it would undertake. The additional tax rises it announced in its manifesto are modest (GBP8.6bn a year) and Labour has ruled out increasing the three largest taxes (income tax, National Insurance and VAT).

The Labour party put the emphasis on efforts to boost growth, aiming for the strongest growth in the G7 over the next parliament. Its economic plan is indeed ambitious on reforms (in education, health, the planning system, labour market regulation, green investment, industrial strategy). However, its pledges in terms of additional spending and taxes look modest when compared to the boldness in the growth objective, perhaps tacitly acknowledging the lack of fiscal space. The planned extra spending in public services is concentrated in education and health (GBP4.8bn a year). The biggest commitment, the Green Prosperity Plan, comes in at no more than GBP5bn a year, funded in part by borrowing and in part by "a windfall tax on the oil and gas giants". Although a significant increase, it will be insufficient to avoid public sector net investment from falling as a percentage of GDP over the next five years.

Turning to the economic outlook, fundamentally, our scenario is little changed relative to three months ago: the UK economy is set on a stronger footing this year than last year as the worst of the cost-of living crisis looks to be largely in the past, rates have stabilised, and the BoE should start easing its monetary policy this summer. The recession which the UK economy experienced in H223 was short-lived and relatively mild, as real GDP posted a peak-trough decline of 0.4% between the end of Q223 and the end of Q423, leaving annual GDP growth in 2023 at a meagre +0.1%. This was followed by a stronger-than-expected rebound in Q124 of 0.6% QoQ (against 0.3% QoQ forecast) driven mainly by net trade as imports fell by more than exports, while domestic demand progressed only very slightly. Household consumption was up 0.2% QoQ and still stands 1.9% below its pre-Covid levels. The bright spot of growth was investment: business investment grew for the second quarter in a row while dwellings investment ended five consecutive quarters of contraction. We expect the recovery in investment to continue in the coming quarters as the



Sources: OBR, Crédit Agricole S.A./ECO



Sources: ONS, Crédit Agricole S.A./ECO

BoE starts cutting rates likely in August. Better-than-expected growth in Q124 has led to an upward revision to our forecast for annual growth this year of 0.8% (vs 0.5% previously), while leaving 2025 unchanged at 1.4%.

Annual change	2024	2025
GDP	0.8%	1.4%
Inflation	2.6%	2.0%

We expect household consumption to be the main driver to growth, followed by investment, while net trade will likely be negative on growth. Consumer confidence has been on an upward trend during most of the past year as real incomes have been recovering alongside strong pay growth and falling inflation. In April, the GfK index of households' expectations of their financial situation in the coming 12 months rose back towards its historical average. Real income growth is expected to grow by over 3% in 2024 as a whole with a boost from the continued unwinding of the previous external shocks as well as the successive cuts in National Insurance Contributions. The saving ratio is relatively high (10.5% in Q423 vs 6% in Q419). While some dissaving is likely in the coming months as consumers increase consumption, it is likely to remain abnormally high reflecting greater precautionary saving against the risk of future unemployment. Unemployment has risen by more than expected recently (to 4.4% in April, + 0.5ppt YoY) as demand for labour has weakened, while the inactivity rate has deteriorated further reaching 37.4% of the population aged 16 and over (up 0.8ppt YoY), a 25-year high. Improving the supply-side of the labour market, especially the health problem among inactive people, is one of the huge challenges that needs to be fixed by the next government. Labour aims for ambitious reforms in labour market regulation, but the proposed measures are unlikely to have an immediate effect.

Slavena NAZAROVA

JAPAN: A COMPLETE EXIT FROM DEFLATION AFTER THE NEXT GLOBAL ECONOMIC CYCLICAL RECOVERY

Positive real GDP growth expected in Q324

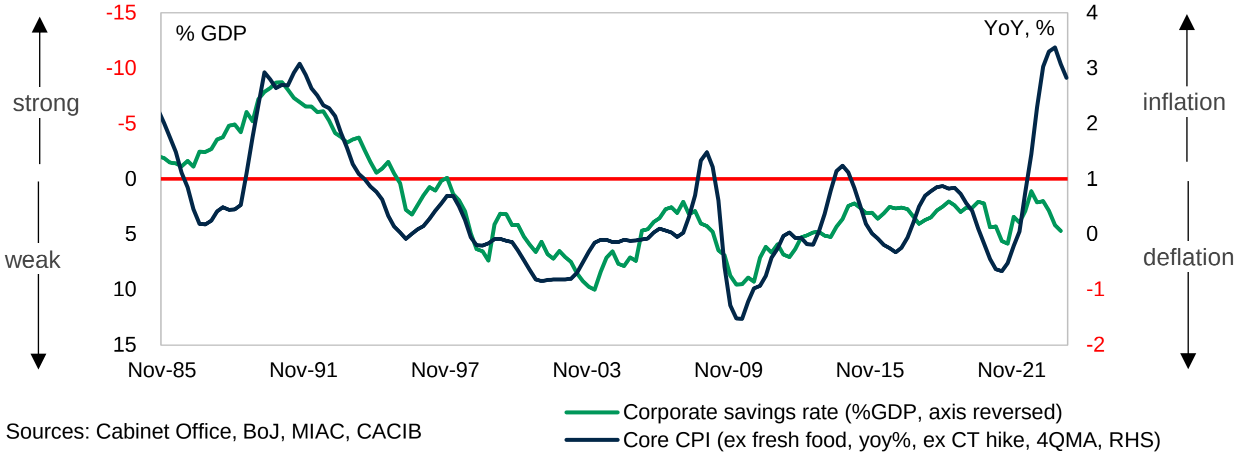
Japan's real GDP on a 2Q/2Q annualised basis came in at -1.2%, marking the second consecutive quarter of decline. Even assuming that real GDP growth will turn positive in Q2 as automobile production resumes, 2Q/2Q growth will continue to remain negative and will likely mark the third consecutive quarter of negative growth.

Real GDP growth on a 2Q/2Q basis marking three consecutive negative quarters is typically an indication that economic conditions are deteriorating. The government and the BoJ maintain the stance that Japan's economy continues to remain on a recovering trend. However, they have also started to indicate that some economic indicators are showing signs of weakness. **The government and central bank will likely continue to maintain a cautious attitude until Japan's economic growth turns positive in Q324.** However, when the Q3 GDP results are released in November, there is a strong likelihood that the global economy will be showing greater signs of slowing down.

In 2025, economic growth will likely come in near the potential growth rate of around 0.7%.

The BoJ exiting from the negative interest rate regime despite domestic demand remaining weak will act as a drag on Japan's credit cycle. Combined with weakness in external demand, real GDP growth for 2024 will likely come in negative. A stronger JPY will likely suppress corporate profits. The increase in wages will likely lead households to offset the previous

Japan: corporate savings rate and core CPI



Sources: Cabinet Office, BoJ, MIAC, CACIB decline in savings. As a result, consumption recovery will remain limited.

In 2025, economic growth will likely come in near the potential growth rate of around 0.7%. Once the global economy enters the next cyclical upswing and nominal GDP growth picks up, corporates will likely increase capex.

Inflation to decelerate below the 2% target by H224

Key inflationary measures have significantly surpassed the BoJ's inflation target of 2%. However, most of the upward pressure on prices stems from temporary factors and is not due to a strong recovery of domestic demand. The government and the BoJ maintain the view that Japan's economy has yet to achieve the 2% inflation target in a stable and sustainable manner with more change necessary for underlying inflationary trends to evolve.

The primary cause of Japan's deflation has been continued excess savings by Japanese corporates. After the collapse of Japan's economic bubble, the corporate savings rate became positive, which has since then continued to destroy aggregate demand and in turn strengthen structural deflationary pressures. The increase in capex and a tight labour market should remove excess corporate savings and strengthen inflationary pressures, but that will likely take a few years.

Annual change	2024	2025
GDP	-0.1%	0.6%
Inflation (ex-fresh food and energy)	2.0%	0.9%

Core CPI (ex-fresh food and energy) will likely start to decelerate in H124 as upward pressures from higher import prices and cost push moves peak and fall below the BoJ's 2% target by H224. Core CPI growth will likely decelerate to around 1% in 2025, then subsequently re-accelerate as the global economy picks up and domestic demand strengthens further. The pick-up in wages should help strengthen domestic demand and drive the corporate savings rate back into negative territory, removing deflationary pressures and strengthening inflationary pressures.

Takuji AIDA – Ken MATSUMOTO

EMERGING COUNTRIES
The benefits of disinflation

The benefits of disinflation

Continuing disinflation, even if it becomes stickier looking forward, should allow further EM rate cuts, support domestic demand and consolidate the outperformance of EM growth vs developed markets. The main risks remain related to the Fed policy and to political/geopolitical uncertainty.

A constructive growth outlook

The macroeconomic outlook for EMs remains reasonably constructive. One of the main factors of improvement is disinflation. EM inflation has continued to decline in recent months. The EM CPI YoY change excluding China, Russia and Turkey (which are unique cases) has declined from 4.4% in December 2023 to 3.8% in May. This is to be compared to a peak of 7.7% in September 2022. From a geographical perspective, disinflation has been stronger in Latin America and Central Europe, mostly because inflation had jumped more strongly in these two regions previously, leaving more room for price normalisation.

Disinflation has allowed EM central banks to continue lowering policy interest rates. Not all of them, though. Again, this has been the case in Latin America and EMEA much more than in Asia, for the same reasons mentioned above. Also, after an initial phase of easing, some central banks have become more reluctant to cut rates, based on the resilience of inflation. Mexico has cut only once, while Brazil has become less dovish. In Central Europe, Poland cut in 2023 but not yet in 2024; Romania has not cut at all. A few central banks have actually hiked rates, modestly (Indonesia, Taiwan), or more spectacularly (Turkey, Egypt).

Further monetary easing ahead

Looking forward, we expect monetary conditions to continue to be eased in H2. Even if the next phase of disinflation will be more difficult to achieve, real interest rates have increased on average for EMs because disinflation has been quicker than monetary easing. As a consequence, we expect further rate cuts for the rest of the year in 75% of the countries that we cover. In the second half of the year, we see an average cut per country of 171bp in EMEA, 131bp in Latin America and 36bp in Asia (arithmetic average).

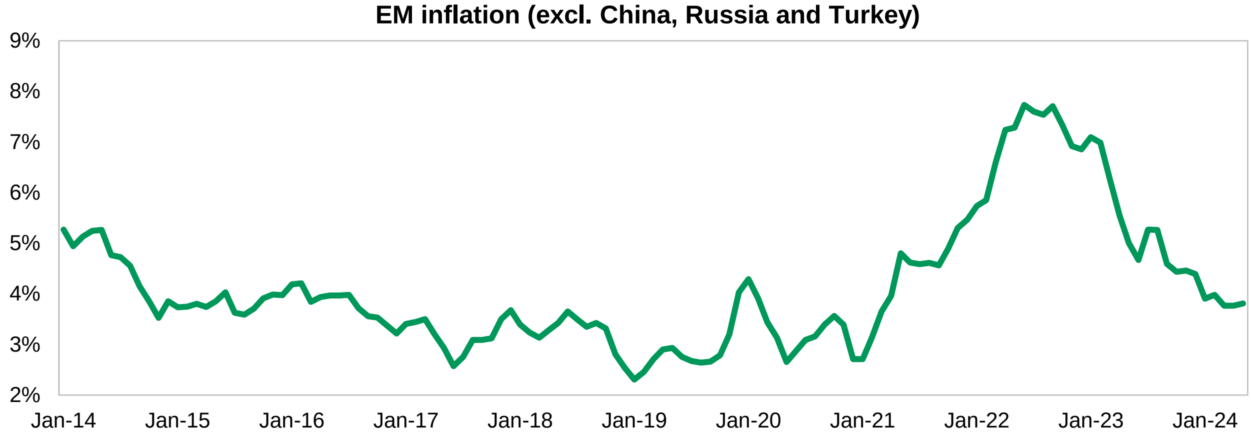
This will likely support households' purchasing power, and also contribute to fuel investment. So H2 should see some rebalancing of growth towards domestic demand.

We expect a very slight increase in EM growth, with a larger contribution of domestic demand and a lighter contribution of exports

The story should be different for exports. The big picture is that aggregated EM exports have been flattish over the past two years, past the post-Covid recovery. Looking forward, an improvement seems unlikely. First, our US economist expects a sequential soft patch for the US economy, in Q4 this year and Q1 of next year. This should cap EM exports. Second, protectionist worries are growing and also tarnish the outlook for global trade. Recently announced measures, such as the EU's new tariffs on China EVs, have the same effects. Finally, the US protectionist stance may grow further ahead of, and after, the US presidential election. We expect the US and also the EU to exert more scrutiny on third countries which are sometimes used to circumvent the tariffs and barriers put on China's trade.

We also expect Chinese growth to be resilient. It should be slightly lower than last year, but we actually revised it upward compared with our forecasts three months ago (to 4.7% – see the *article on China*).

EM inflation (excl. China, Russia and Turkey)



Sources: Eikon Datastream, Crédit Agricole CIB

Strengthening domestic demand

Overall, **we expect a very slight increase in EM GDP growth, from 4.0% in 2023 to 4.1% in 2024, with a larger contribution from domestic demand and a lighter contribution from exports**. At the same time, we forecast a slowdown of economic growth in developed markets (due mostly to the soft patch in the US). As a consequence, the EM growth outperformance vs developed markets should widen further, from 2.5ppt to 3.0ppt in 2024, ie, the upper part of the range observed during the pre-Covid period (2014-19).

The US election remains a bit of an elephant in the room for EMs. However, its impact on protectionism should not be overestimated. In particular, the relatively large consensus existing among US politicians about China, suggests that US-China tensions will remain intense whoever the next President is. The outlook for geopolitical uncertainty in Europe may be impacted more by the outcome of the US election. A victory of Donald Trump could result in less support to Ukraine and increased uncertainty and risk aversion, weighing on the policy leeway in Emerging Europe.

Domestic politics matters

EM domestic politics matters, too. **Q2 has seen a rather busy pipeline in terms of elections, with differentiated outcomes in India, Mexico and South Africa.** In India, Narendra Modi's coalition retained a majority, but a narrower one. Increased dependence of the BJP on its allies suggests less leeway to push through difficult economic reforms – hence somewhat undermining the long-term growth prospects. It may also lead to slightly higher fiscal risk as the government may have to secure support from allies with additional spending.

In Mexico, Claudia Sheinbaum had a larger-than-expected victory. This could result in some institutional reforms and an increase in fiscal spending, which undermines the market perception of the country and the MXN.

Annual change	2024	2025
GDP	4.1%	3.9%
Inflation	5.6%	3.8%

By contrast, in South Africa, the new post-election coalition is opening the door to pro-market reforms. If effectively implemented, these could contribute to upgrading potential growth.

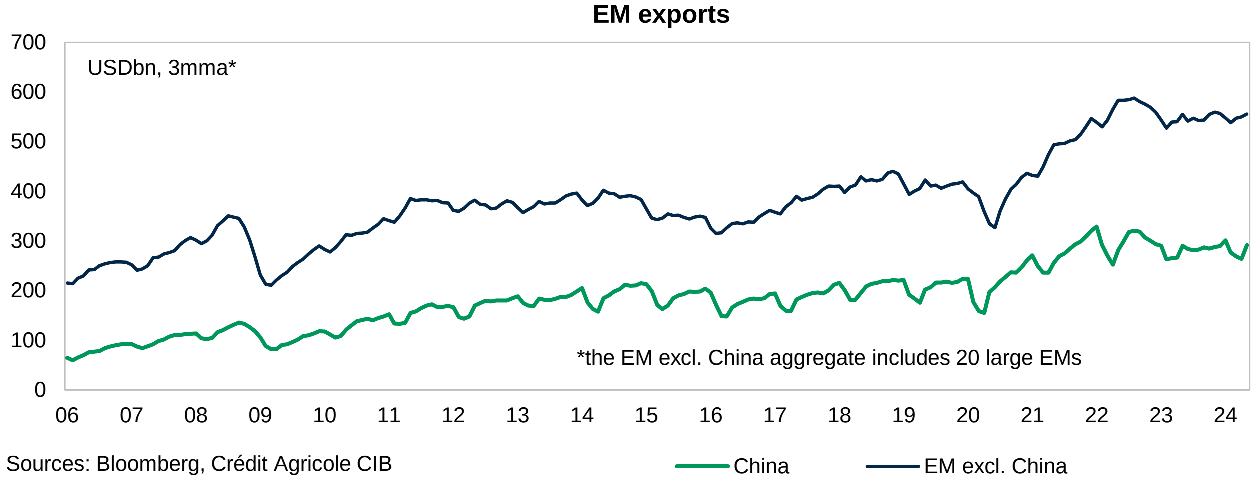
The main risks to this constructive scenario

We see two main risks to this scenario. First, **the possibility that US rates stay 'higher for even longer'**. The prospects of US rate cuts currently support the EM outlook. Should US inflation prove even stickier than expected, leading the Fed to become even less dovish, then some EMs would see their policy leeway reduced, and some currencies could come under pressure.

Second, **there are plenty of geopolitical risks in the pipeline**. Beyond US-China frictions and the Middle East tensions, one of the most intense risks remains related to the war in Ukraine and the tensions between Russia and Europe. This risk would likely be compounded should Trump become the next US President, as this would put pressure on European military capabilities. These two risks have the potential to widen the divide between the West and the Global South, in a way that could generate tensions and negative feedback loops on trade, international institutions and possibly financial pressures.

Sébastien BARBÉ

EM exports



Sources: Bloomberg, Crédit Agricole CIB

CHINA: AN ADMINISTERED ECONOMY AGAINST THE CYCLE

Following months of upheaval and continued deterioration of property market indicators, the Chinese authorities unveiled a new plan to support the sector. This plan draws primarily on purchases of vacant properties by public companies or municipalities in order to transform them into social housing. Just over USD40bn has been earmarked for the plan – a minuscule amount when compared to the inventory of apartments for sale, estimated at CNY30trn and over 750 million m². Authorities are hoping to create a confidence shock that should stabilise the market and, above all, curb the dangerous decline in property prices that China is experiencing.

China's property market is vital

The current property sector crisis is a key factor in China's scenario. It is the reason behind (1) the shift in public and private investment from construction to manufacturing, (2) the pressure on the industrial sector to deliver growth, (3) China's increased dependence on its export machine and (4) the tension generated globally by China's overcapacity.

> ***The question of fiscal economic support and how it is allocated remains crucial, as authorities continue to favour a supply-driven recovery.***

It is also fuelling a disinflationary, or even deflationary, spiral, which China has been mired in for over a year. This is certainly due to the decline in property prices, but also waning household confidence, as consumers prefer to build up emergency funds rather than spend. Although consumption in the services sector has increased, mainly thanks to spending on domestic tourism – which is being actively promoted – the pace of sales of durable and non-durable goods remains below growth, which casts doubt over its sustainability as authorities reiterate their desire to rebalance their economic model between consumption and investment.

Growth levels and risks

In late May, the IMF raised its 2024 growth forecast to 5% – China's official target – on the back of a stronger-than-expected Q1. Our projection remains more conservative at 4.7% in 2024 and 4.2% in 2025, in light of several areas of uncertainty clouding the scenario.

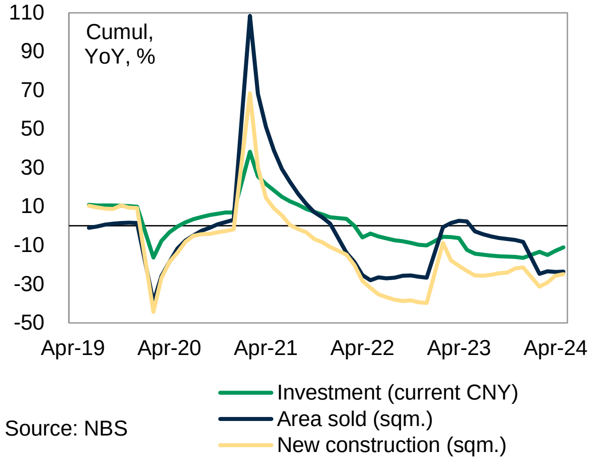
In the short term, the main risks are related to rising protectionism in the US and particularly in Europe. The increased tariffs announced by Joe Biden on flagship products exported by China (solar panels, batteries, electric vehicles) are largely political and will have little economic impact. The higher tariffs announced by the EU on electric vehicles are already proving much more painful. The EU accounted for 40% of China's EV exports in 2023. Finally, if Donald Trump takes back the White House, we could see tariffs on imports from China rise to 60% across the board. He may also take a firmer line on companies seeking to avoid customs tariffs by moving their goods through third-party countries like Mexico or Vietnam. If this happens, China's response remains highly uncertain but would likely hamper its economy.

Annual change	2024	2025
GDP	4.7%	4.2%
Inflation	0.5%	1.4%

Domestically, the question of fiscal economic support and how it is allocated remains crucial, as authorities continue to favour a supply-driven recovery. The Central Committee's third plenum in July will focus on economic issues and is likely to see additional measures unveiled to further stimulate the property market.

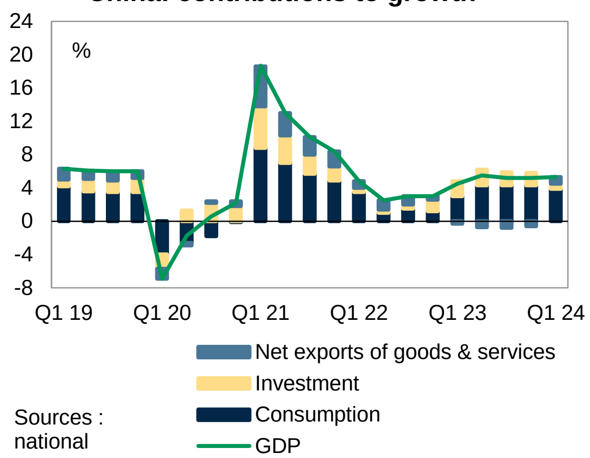
Sophie WIEVIORKA

China: résidential real estate



Source: NBS

China: contributions to growth



Sources : national

BRAZIL: GROWTH IS HOLDING UP, BUT INFLATION IS STICKY

After stagnating in the second half of 2023, growth (+0.8% in Q1; +2.5% YoY) recovered sharply thanks to domestic demand, which was driven by a solid showing from the labour market, transfers, lower inflation and the recovery in lending. This rebound, especially in productive investment, triggered a spike in imports, while exports and public spending were virtually flat. This recovery (justifying a growth carryover of 1%) suggests that growth of just over 2% is achievable, despite the negative contribution from net foreign demand and the future adverse impact of the heavy rains in the Rio Grande do Sul state (5.4% of the population, 6.5% of Brazil's GDP, focused on agriculture). The impact of this flooding on national growth will likely be limited to 0.4ppt, whereas the budgetary cost could reach BRL15bl (or c.0.5% of GDP, above the fiscal spending cap).

Fiscal consolidation is slow and insufficient, and it is preventing Brazil from returning to Investment Grade status, while other indicators are encouraging.

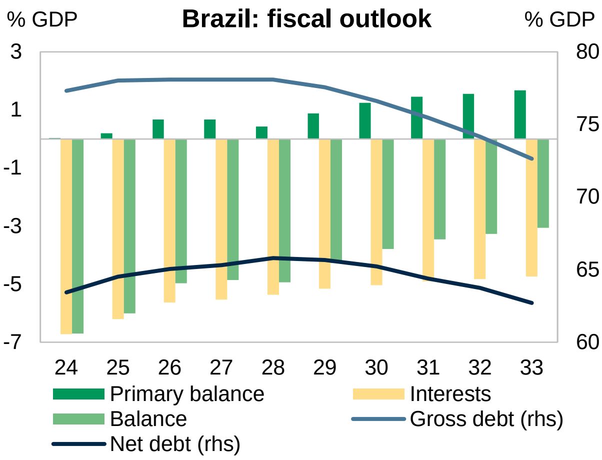
This unfortunate event is a reminder that **the fiscal leeway needed to absorb potential shocks — climate or social — is crucial.** In this regard, although the most recent fiscal results appear to indicate that the worst is behind us, the primary balance and public debt both disappointed, and the path for the official debt-to-GDP ratio seems ambitious[2]. Fiscal consolidation is slow and insufficient, and it is preventing Brazil from returning to Investment Grade status, while other indicators (growth, success bringing inflation into line, trade performance, direct investment, external liquidity) are encouraging.

After falling sharply, inflation picked up again very recently (3.9% in May, still within the target range of 3% +/- 1.5ppt) **as did inflation expectations**. According to the BCB, the recent de-anchoring of inflation expectations is due to a deterioration in the external scenario, the "incorrect perception" of the commitment to reach the inflation target and recent budget announcements. The BCB denounced the lack of commitment to structural reforms and fiscal discipline, the increase in the issue of affected loans and the uncertainty over the stabilisation of public debt. Overall, this could have contributed to the increase in the neutral interest rate. In short, inflation risks are deemed to be asymmetric and to the upside.

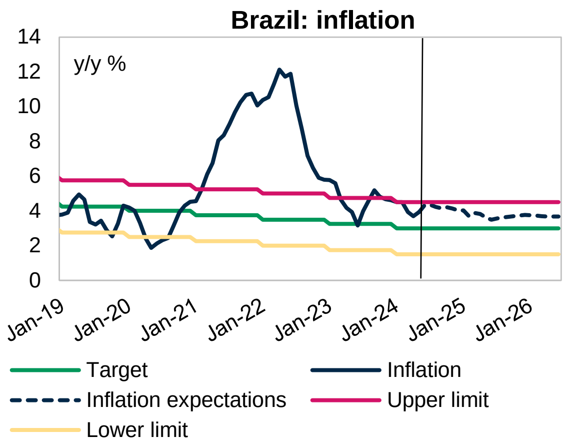
Annual change	2024	2025
GDP	2.0%	1.8%
Inflation	4.0%	3.5%

Much more than the Fed funds rate, it is the risk of stickier inflation (especially in services) that is slowing monetary policy easing by the BCB. As is the case everywhere, the final stretch in the inflation battle is the most difficult, and easing that is deemed premature by the markets must be avoided. After cutting its key Selic rate sharply (from 13.75% in July 2023 to 10.50%), the BCB is now expected to adopt a more cautious stance. We expect the Selic rate to stay 10.50% until the end of the year.

Catherine LEBOUGRE



Sources: Official (*Tesouro*), Crédit Agricole SA/ECO



Sources: BCB, Crédit Agricole S.A./ECO

[2] The official assumptions are a little optimistic, with growth and the Selic rate averaging 2.5% and 6.6% respectively for 2025 and 2033. The primary deficit target does not seem enough to limit gross debt to 78.1% of GDP in 2026 before bringing it down to 72.6% in 2033. A primary surplus of around 1.5% on a regular basis would be more convincing. However, the fiscal situation is not too concerning. Debt is primarily domestic and held by Brazilian investors, the average maturity is increasing slowly, and there is no foreign exchange risk.

INDIA: UNDAUNTED BY THE ELECTION

The big surprise for India in the past quarter was the failure of incumbent PM Narendra Modi's BJP to get a majority in parliament and instead having to rely on fellow NDA coalition members to form government. While this outcome will likely slow Modi's reform agenda, especially reforms relating to land and the labour market, we do not think the election will have a significant negative affect on India's growth outlook or the outlooks for the INR or Indian government bonds. Modi is still PM and will push through economic reforms, just at a slower pace.

The election will not have a significant negative affect on India's growth outlook or the outlooks for the INR or Indian government bonds.

Out of the 30-person Cabinet, 25 are from Modi's BJP and 5 from other parties in the NDA coalition. Most importantly, Finance Minister Nirmala Sitharaman was reappointed. Sitharaman is a prudent fiscal manager and behind the government's target to get the fiscal deficit back down to 4.5% of GDP by next year. Stronger-than-expected growth has boosted tax revenues and along with a record USD25bn dividend from RBI will provide enough of a fiscal buffer to allow Modi to continue with his existing spending plans as well as throw some largess the way of the rural areas where the BJP lost ground in during the elections.

India's growth outlook more than one person or party

India's long-run growth outlook is larger than one person or party. India has a large and young population that will allow it to benefit from further 'friendshoring'. Modi has laid some groundwork for India's economic success with significant investments in infrastructure, reforming of the tax system and the digitisation of the economy. **We look for a slowing in growth to 7.3% in 2024 YoY from 7.7% YoY in 2023**, which is an upward revision given the stronger-than-expected finish to growth in 2023 and the potential for a La Nina weather event to develop later this year.

The government's spending plans remain in place, but so too do high interest rates, which are constraining both consumption and investment. IMD as well as other international weather bureaus are forecasting a significant chance of a La Nina event developing in H224, which would bring above average rainfall and boost India's agricultural production and consumption.

RBI to keep policy tight for now

We have pushed back our forecast timing for RBI's first rate cut from Q3 to Q4. While inflation has eased to 4.7% YoY, it remains above the centre of RBI's 2-6% tolerance band and the explicit target of RBI Governor Shaktikanta Das. Furthermore, strong growth, rising oil prices and the weak INR threaten reacceleration in inflation. Governor Das also wants to see a strong monsoon season (June-September) and falling food prices inflation before considering cutting rates. He will also want to keep in place the INR's interest rate premium over the USD in order to prevent further depreciation, which could add to imported inflation pressures. We continue to expect Indian headline inflation to slow to 4.5% YoY from 5.3% YoY in 2023.

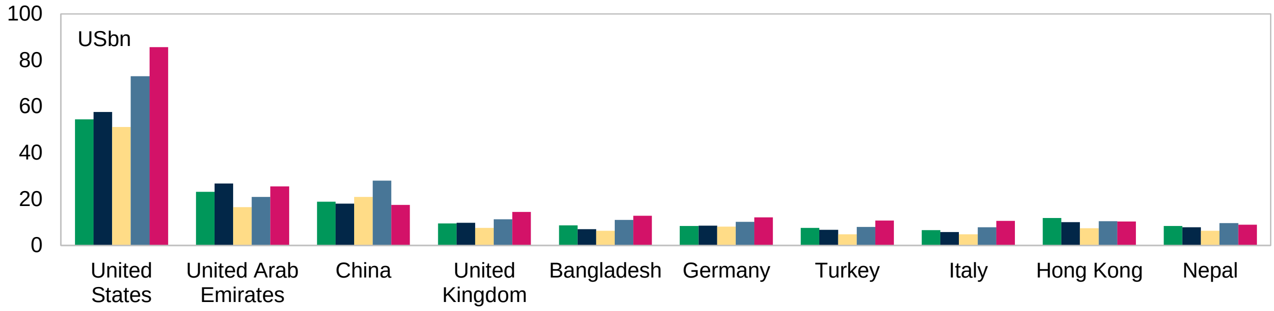
Annual change	2024	2025
GDP	7.3%	6.3%
Inflation	4.5%	4.6%

INR to continue struggling

We forecast gradual appreciation in the INR in H224 and for USD/INR to fall to 82.75 by year-end. RBI will continue to aggressively smooth the currency, again to prevent further weakening and imported inflation. This also means the central bank will take the opportunity of a strong INR to rebuild reserves. This two-sided smoothing will keep USD/INR in tight ranges and volatility low. **India's economy will continue outperforming that of its trading partners and therefore remain a weight on the country's current account balance.** India's terms-of-trade is improving, however, as global food price inflation outpaces energy inflation. La Nina also has the potential to boost India's agricultural exports. So we expect India's current account balance to remain stable at -1.4% of GDP during 2024.

David FORRESTER

India: exports by country



Sources: Bloomberg, Crédit Agricole CIB

SECTORS

Oil – Future demand remains uncertain

Gas – Europe is expected to fully replenish its inventories this year

Oil – Future demand remains uncertain

The announcement of a major increase in OPEC+ production in 2025 may not be enough to provide significant relief to the oil market, especially if production in the US fails to return to growth.

Oil prices remained between USD80 and USD85 per barrel throughout Q2. Overall, the market has been fairly stable over the past three months. Crude oil production in the US plateaued at around 13m barrels per day (bpd), while the number of wells did not increase. The US is gradually rebuilding its strategic reserves. Production by OPEC+ was also fairly flat at around 41.5m/bpd. **Growth in demand remains solid in non-OECD countries, albeit lower than in previous years.**

However, this recent stability on oil markets is hiding widespread uncertainty over potential short- and long-term fluctuations. Global oil production forecasts for 2024 and 2025 from OPEC and the International Energy Agency (IEA) are quite different. While OPEC still expects an average annual increase in demand of 2m/bpd in 2024 and 2025, the IEA is being much more conservative, forecasting growth of 1.1m/bpd in each of the next two years. Furthermore, in early June, OPEC+ announced a 2.5m/bpd increase in production from September 2024 until the end of 2025. OPEC+ also committed to ending the voluntary 2m/bpd production cut that was decided on last year. The announcement of this increase is fuelling fears of excess supply and lower oil prices. However, when compared to OPEC+ oil production in Q124, this increase only equates to 1.3m/bpd. As such, current oil production by OPEC+ already includes almost half of the announced increase.

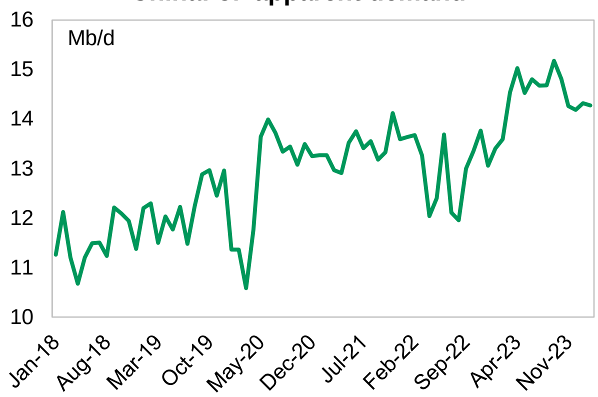
OPEC+ also committed to ending the voluntary 2m/bpd production cut that was decided on last year.

As a result, **the OPEC+ production targets for the end of 2025 that were set at the last inter-ministerial meeting may not be enough to absorb the cumulative 2m/bpd rise in demand between 2024 and 2025**. Our price scenario therefore remains unchanged from the previous quarter. It assumes that, under the influence of Saudi Arabia, OPEC+ will continue to adapt its production.

	Average oil price (barrel)
2024	$85
2025	$88

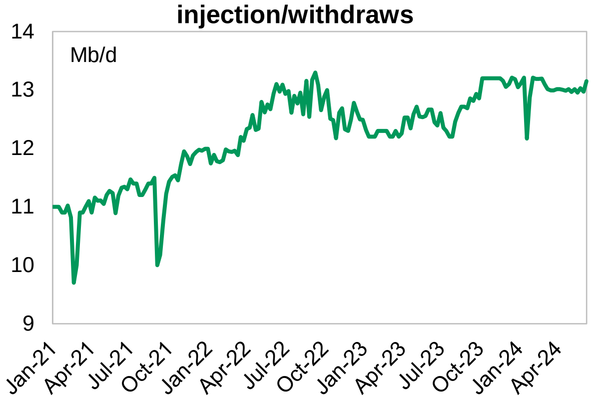
Stéphane FERDRIN

China: oil apparent demand



Source: Crédit Agricole S.A./ ECO

USA: crude oil production after SPR injection/withdraws



Sources: EIA, Crédit Agricole S.A. / ECO

Gas – Europe is expected to fully replenish its inventories this year

Despite Europe's optimism over replenishing its natural gas inventories, the announcement that it will stop importing Russian gas in 2025 is stoking fears of possible market tension.

Natural gas prices rose in May and June compared to February and March (+EUR2.20/MWh or +21% in Europe), **but remain close to their spring 2023 levels.** Prices have remained relatively moderate, mainly thanks to lower consumption in Europe than before the crisis and monthly LNG imports of over 9bn m^3. These trends meant that, like last year, natural gas inventories were substantial at the end of the winter. As a result, natural gas injection needs will likely be similar to spring and summer 2023. Assuming that Asia does not experience a major heatwave this summer, tension on the LNG market in the coming months should be limited. By maintaining LNG imports at 9-10bn m^3, gas inventories should be replenished for next winter.

Assuming that Asia does not experience a major heatwave this summer, tension on the LNG market in the coming months should be limited.

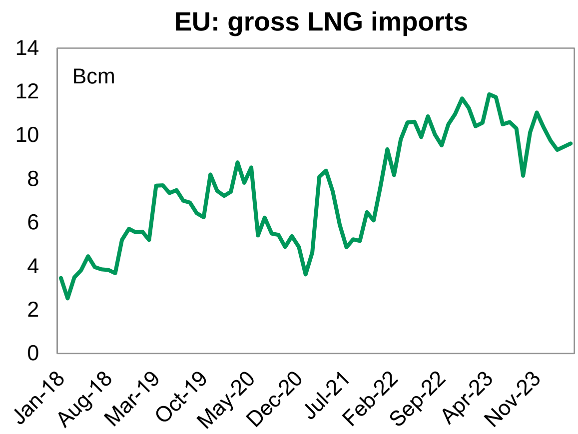
However, European natural gas markets remain delicately balanced. Europe now relies heavily on Norway and the US for its natural gas supply. The gas pipelines between Norway and Europe have suffered several technical incidents that have disrupted gas deliveries. So far, these disruptions have had little effect on the security of Europe's natural gas supply. However, the risk that natural gas prices will rise again is higher if there is an extended disruption to deliveries of Norwegian gas during the winter.

The end of pipeline deliveries from Russia on 1 January 2025 could trigger additional tension on the natural gas market early next year. Finding an alternative to Russian gas could prove particularly problematic for certain European countries. New gas delivery routes via Turkey or European LNG terminals for liquefied gas will have to quickly be brought on stream. Delays announced by certain liquefaction terminals in the US could complicate the search for an alternative to 13bn m^3 of Russian gas that still transits Ukraine.

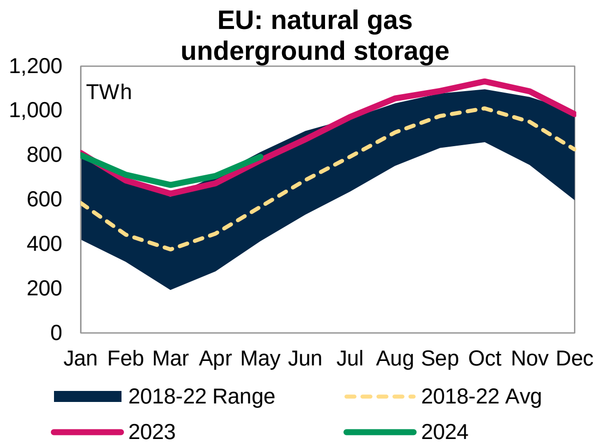
If Europe's additional sources of natural gas are unable to supply enough volume in early 2025, the continent will have no choice but to pay a premium to redirect additional LNG volumes (around 11bn m^3) that have reached Asian ports.

	EU LNG imports
Q1 2024	28.6 billion m^3

Stéphane FERDRIN



Source : Crédit Agricole S.A.



Sources: GIE, Crédit Agricole SA / ECO

MARKETS

Monetary policy – “American obstacle”

Interest rates – Moderate upward pressure

Exchange rates – In step with monetary policy

Monetary policy – "American obstacle"

Our scenario has never presumed an early or massive cut in US key rates. Rather than the 'pivot' the markets were waiting for, it has focused on the 'plateau'. And now this is a matter of extending that plateau before easing later. The US status quo has not prevented the ECB from starting to cut rates. It will continue unless there is strong downward pressure on the EUR or a much clearer recovery, especially if it is more inflationary than expected.

FEDERAL RESERVE: STILL ON PAUSE

The Fed has been on hold since July of last year, and we have recently pushed back our expectation for the timing of the first cut a bit, until September from July. This would be followed by a skip in November and another cut in December to maintain a total of 50bp of cuts by year-end, with the timing simply delayed by one meeting from the prior forecast. This represents the first change in our call since October of last year, and is a much smaller shift than the market and a number of other forecasters have undergone since the beginning of the year. For example, in mid-January the market was pricing a full cut by March and a total of almost 170bp of easing at one point.

However, we were never convinced that the Fed would be able to act so early and so aggressively, and thus held firm to our call even as it became a hawkish outlier, a decision that has been validated in recent months. Consequently, much of the move in market pricing since January has been a convergence to where we already were, so our new forecast only requires a tweak as opposed to a wholesale change.

Still, higher inflation prints than expected in Q124 suggest an even bumpier path back to 2% than we were already anticipating. Thus, it will take the Fed longer to gain the necessary confidence that inflation is sustainably on track to return to 2%, and therefore a bit longer than previously thought until the first cut arrives.

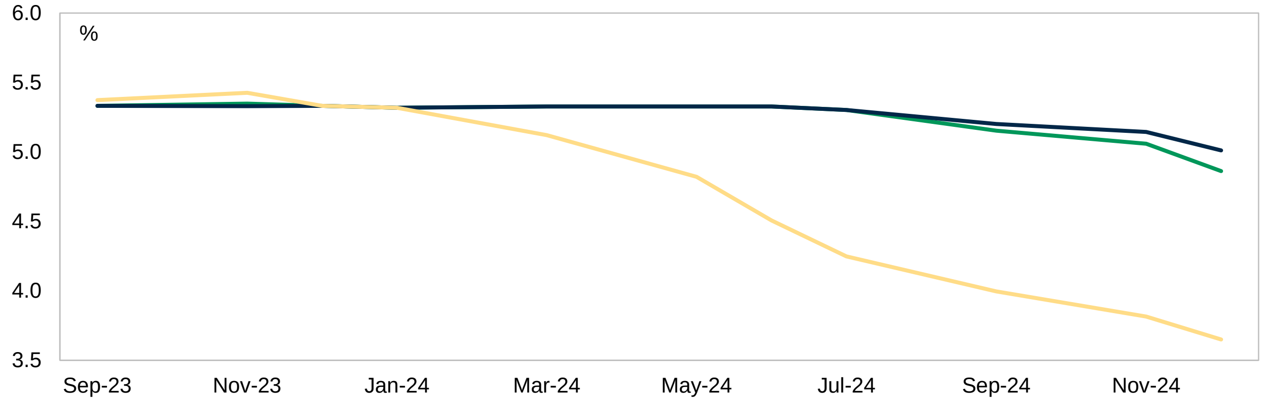
Higher inflation prints than expected in Q124 suggest an even bumpier path back to 2% than we were already anticipating.

That said, better inflation reports in April, and especially May, should keep the Fed on track to cut later this year. We see some tentative signs of labour market cooling as well, which also contribute to our view that cuts remain on the table later this year given that we see the Fed's reaction function with regards to employment being asymmetric, with a weaker labour market drawing more of a reaction than a strong labour market would. As such, we are sticking with 50bp of cuts by year-end, for the time being.

In 2025, we maintain our forecast of more aggressive easing totalling 150bp through the first three quarters of the year, but stress that this view is predicated upon our more downbeat macro outlook. If that does not materialise and the economy and labour market remain more resilient than we anticipate, then the Fed would likely stick with a more gradual pace of cuts.

Nicholas VAN NESS

Fed pricing has undergone a substantial shift this year



Sources: Bloomberg, Crédit Agricole CIB

EUROPEAN CENTRAL BANK: MONETARY EASING AND QUANTITATIVE TIGHTENING

The economic recovery that began in 2024 is expected to continue in 2025, bringing Europe's economy back to its potential. At the same time, inflation – headline and core alike – will likely continue to normalise and converge towards 2% in H225.

Against this backdrop, after cutting its key rate by 25bp at its June monetary policy meeting, **the ECB will be able to continue its cycle of easing**.

We expect monetary easing to be gradual but continuous: the ECB will likely cut its deposit facility rate by 25bpeach quarter until September 2025, bringing it down to 2.5%, which is our estimate of the neutral rate.

There are two types of risk inherent in our scenario. First, a stronger-than-expected recovery, leading to tension on the labour market and upside pressure on wages and prices, could push the ECB to slow the pace of its rate cuts. Second, insofar as the ECB is reluctant to let the EUR depreciate too sharply, it may be restricted by what the Fed does. A more hawkish Fed could put downward pressure on the EUR.

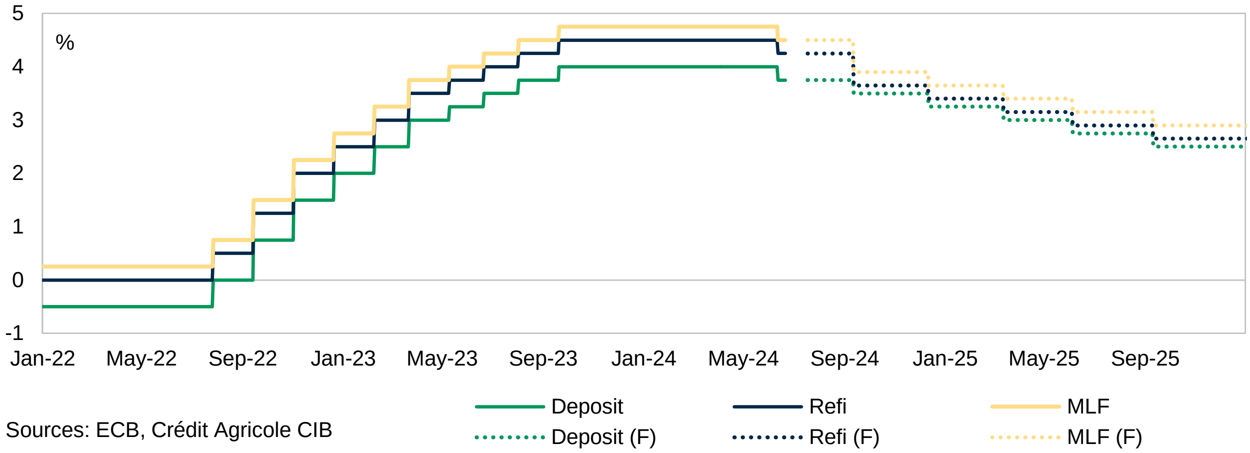
Beyond the scale of monetary easing, the issue of the monetary policy framework will come up starting in Q3. In September, the ECB will reduce the spread between its refinancing and deposit facility rates from 50bpto 15bp. This narrower spread should incentivise bidding by banks in the refinancing operations and partly offset the decline in the ECB's balance sheet elsewhere. Indeed, QT will continue (and ramp up slightly starting in July), while TLTRO redemptions will continue until December.

A more hawkish Fed could put downward pressure on the EUR.

This new monetary policy framework will return duration to the market (through QT) and **reduce interbank liquidity** (insofar as MRO and 3MLTRO borrowings likely will not come close to offsetting the QT-induced reduction).

Louis HARREAU

ECB: main refinancing rates



Sources: ECB, Crédit Agricole CIB

BANK OF ENGLAND: A RATE CUT IN AUGUST BARRING MAJOR INFLATION SURPRISE

The BoE has maintained the status quo on its key policy rate (Bank rate at 5.25%) since our last quarterly scenario in March. However, there has been a clear dovish shift within the MPC. In June, there were already two members of the MPC who voted for a 25bp reduction in the Bank rate, for the second meeting in a row, contrasting with two members voting for a rate hike in February. The BoE revised its forecasts for inflation to the downside in its May monetary policy report reflecting weaker external inflationary pressures in the short term and a slightly greater margin of excess supply in the medium term.

CPI inflation is expected to reach 2.6% in Q424, 2.3% in Q425 and 1.6% in Q426.

Turning to the June MPC meeting, the minutes indicate a two-way split within the majority that voted for the status quo. For some members, the policy decision of this meeting was "finely balanced", downplaying the recent upside surprises in services and inflation. For the less dovish camp, the upside news in services inflation meant that second-round effects would have a more persistent upward effect on underlying inflation. For these members, "more evidence of diminishing inflation persistence was needed before reducing the degree of monetary policy restrictiveness". Our interpretation is a further dovish shift in the overall stance of the MPC, tending to confirm our scenario for a first rate cut on 1 August. However, the BoE remains data-dependent and the inflation and wage data by that date will be key. There will have to be no big upside surprises in order for three more members of the MPC (the number needed for a majority) to vote for a rate cut.

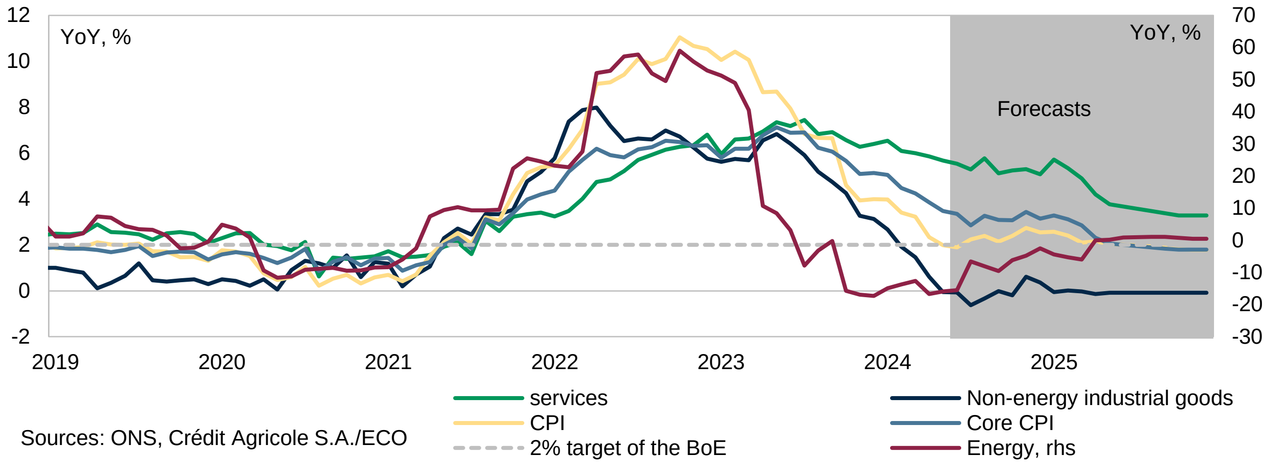
Turning to the developments in inflation in the past three months, CPI inflation fell to the 2% target in May from 3.2% YoY in March, close to the BoE's projection from the May monetary policy report. However, services inflation continued to exceed expectations (5.7% in May, against 5.3% expected, down from 6% in March). Part of this strength was due to regulated and indexed components of the basket, and volatile components, which have no implications for medium-term inflation. **By contrast, core goods inflation (-0.1% YoY) was lower than expected** and short-term indicators continued to point to easing cost pressures. Wage inflation moderated in line with the BoE's expectations: private-sector regular pay growth eased from 6.1% in the three months to January to 5.8% in the three months to April. Though the impact of the April increase in the National Living Wage seemed larger than expected, the BoE continued to project annual pay growth of "just over 5%" for Q224. There was a sense of comfort in the fact that the PMI services input price index declined in May to close to its historical average after having rebounded sharply in April suggesting that the impact of the annual hike in the National Living Wage was not persistent. Furthermore, households' inflation expectations have continued to moderate and for the most part have normalised to around their historical averages. Given that inflation expectations play a big role in pay settlements, this bodes well for further wage moderation.

Households' inflation expectations have continued to moderate and for the most part have normalised to around their historical averages.

Regarding the general election, its potential outcome should have little, if any, implications for monetary policy. Indeed, given the politically cautious stance chosen by the Labour party alongside a commitment to a balanced current budget and falling public debt ratio in five years, any additional fiscal easing that it may announce in the short term, will likely be modest. Indeed, while the Labour party's electoral plan is clearly pro-growth, pro-stability and pro-EU, the constrained fiscal framework limits the possibility of a large fiscal stimulus. The risks are even tilted towards additional tax increases than announced before the election, at least in order to avoid big cuts in 'unprotected' departments (transport, justice and the home office). If this risk materialises, more disinflation rather than inflation will lie down the road.

Slavena NAZAROVA

UK: CPI inflation



Sources: ONS, Crédit Agricole S.A./ECO

BANK OF JAPAN: ADDITIONAL RATE HIKE UNLIKELY UNTIL H225

BoJ decided to reduce its purchases of long-term JGBs at June monetary policy meeting

The Bank of Japan (BoJ) policy board decided (unanimously) to maintain the financial market adjustment policy of guiding the overnight unsecured call rate at 0-0.1%. The BoJ decided to reduce its purchases of long-term JGBs (8-1 majority). The BoJ will "confirm the views of market participants and decide on a specific plan for reducing purchases over the next one to two years at its next monetary policy meeting in July". Before additional rate hikes can begin, "long-term interest rates would be more freely shaped in financial markets" and a firm consensus must be formed in the market for a neutral rate. For this to happen, the BoJ likely decided to reduce its purchases of long-term JGBs and weaken its intervention to improve the bond market's ability to factor in fundamentals and future expectations.

So far, **the Basic Policy on Economic and Fiscal Management (*Honebuto*), has had a strong influence on the BoJ, which is charged with managing monetary policy consistent with the government's economic policy.** This is because the Kishida administration has continued the Abenomics economic policy framework, including bold monetary policy under *Honebuto*. The BoJ's lifting of its negative interest rate policy will change the Abenomics framework, including bold monetary policy. The new *Honebuto*, to be approved by the Cabinet in June, will continue to require the BoJ to maintain an accommodative financial environment.

In addition to the 2% price stability target, an additional long-term target in the new Honebuto is a real GDP growth rate of more than 1%.

Despite making policy adjustments, BoJ maintains a dovish policy stance

The government continues to express its desire to shift Japan away from a "cost-cutting economy". With the government maintaining its commitment to the Abenomics framework of a policy-mix of accommodative monetary and fiscal policies, the hurdle for the BoJ to turn hawkish remains high.

Despite making a major policy change, the central bank explicitly indicated that "the Bank anticipates that accommodative financial conditions will be maintained for the time being". Such a statement is likely the central bank signalling to the government that it remains committed to supporting Japan's economy until it fully exits from deflation by maintaining a dovish policy bias and that the latest policy adjustment was not a hawkish shift toward subsequent policy tightening in the near future.

Next policy rate hike will likely be in Q425

In addition to the 2% price stability target, an additional long-term target in the new *Honebuto* is a real GDP growth rate of more than 1%. Even in the short term, real GDP growth must exceed 1.3% in FY25 to achieve a primary balance surplus, according to the Cabinet Office's estimates. The problem is that the BoJ's real GDP growth forecast for FY25 is 1%, which is below the target. Our forecast is 0.6%, which is even below the BoJ's forecast. The BoJ judges that "the economy will continue to grow above its potential growth rate as the positive cyclical mechanism from income to spending gradually strengthens against the backdrop of moderate growth in overseas economies and an accommodative financial environment". Until foreign central banks begin to cut interest rates and the economy enters into a cyclical recovery, we expect the BoJ to be forced to maintain an accommodative financial environment in order to keep the growth outlook from falling short of its target.

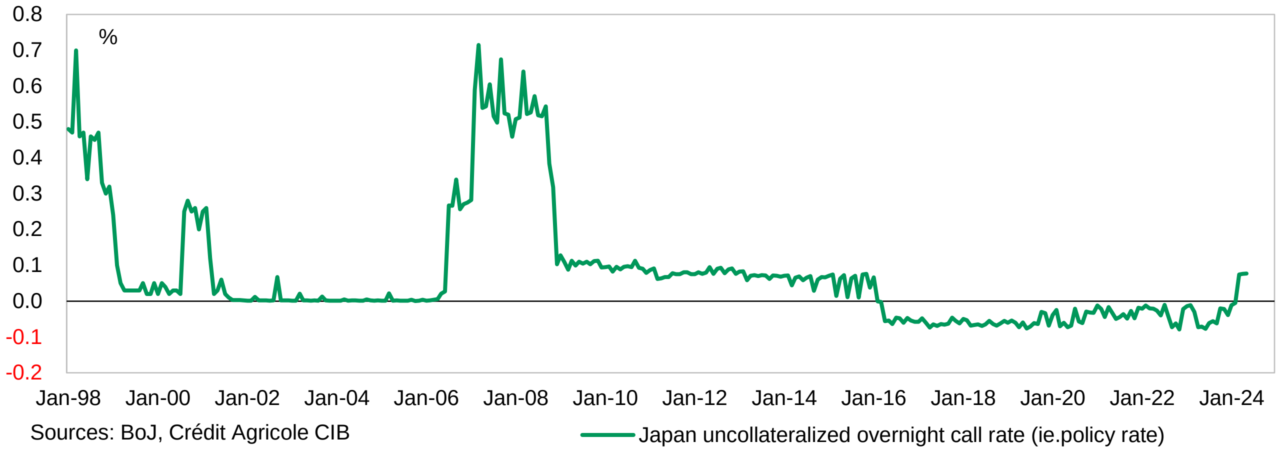
The BoJ's additional rate hike would likely not be conducted until H225 when the global cyclical recovery and the reassurance of recovering domestic demand emerge. The functioning of the bond market needs to be further improved in order to build a consensus for a neutral interest rate, and at the time of the additional rate hike, which is expected to be in H225, we expect the amount of JGB purchases to be halved from the current monthly amount of JPY6trn.

As long as current weak domestic demand and accommodative monetary policy continue, we expect the 10Y JGB yield to hover around 1.00%. If our economic projection holds and the BoJ starts to hike its policy rate by 15bp with reduction of JGB purchases to around JPY3trn, we expect the 10Y yield to rise around 1.40%.

As long as current weak domestic demand and accommodative monetary policy continue, we expect the 10Y JGB yield to hover around 1.00%. If our economic projection holds and the BoJ starts to hike its policy rate by 15bp with reduction of JGB purchases to around JPY3trn, we expect the 10Y yield to rise around 1.40%.

Ken MATSUMOTO – Takuji AIDA

Japan: uncollateralized overnight call rate



Sources: BoJ, Crédit Agricole CIB

Interest rates – Moderate upward pressure

Interest rates are likely to continue to feel moderate upward pressure. Indeed, the monetary easing theme has been floating around for a long time now. Whether it has already begun or is on the horizon (or being delayed, as in the US), easing is no guarantee that interest rates will fall. Several factors, including the widespread risk of inflation and the possible increase in the neutral rate, argue for stable or even slightly higher rates.

USA: HIGHER RATES FOR LONGER

The US labour market has remained hot. Rising wages highlight the risk that the last half mile in inflation can be harder to fight than previously anticipated, delaying the long-awaited Fed easing cycle. We have fine-tuned our US rate forecast – modestly higher rates and a still inverted 2-10Y Treasury curve by year-end, to account for a strong labour market and sticky inflation.

Rates are modestly higher across the curve in the new forecast. For example, the 10Y Treasury yield is now at 4.30% at year-end vs 4.20% in the prior forecast. We have delayed the timing of the first Fed rate cut from July to September this year, while maintaining a total of 50bp cuts by year-end. Higher-than-expected inflation prints in Q124 suggest a bumpy path back to the Fed's 2% inflation goal. As such, officials have signalled that it would take longer to gain the necessary confidence that inflation is sustainably on track to decline to the 2% target, and therefore a bit longer than anticipated until the easing cycle finally begins.

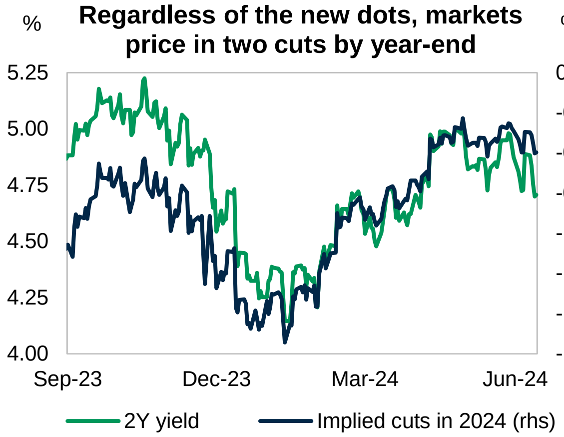
As rates investors have digested recent inflation reports and FOMC communications, the market seems to care more about weakening inflation data than the hawkish 12 June FOMC dot plot. The intermediate sector on the yield curve has outperformed following weak May inflation prints. The price action makes sense, as the Fed takes a data-dependent approach in setting policy rates. The 12 June FOMC dot plot showed the median projected one 25bp cut in 2024, or two fewer cuts than in the March version. While this was more hawkish than expected, it was offset by additional easing in 2025-26, as the total amount of easing by end-2026 remained the same as in the March dots. Regardless of the new dots, markets price in two cuts by year-end.

Outside of the near-term dots, the longer-run dot was also bumped up for a second straight meeting, and sat at 2.75% vs 2.5625% in March. This metric had been stuck at 2.5% from 2019-23. The increase in the longer-run dot was not a surprise in light of recent debate on the rising r*, due to factors such as de-globalisation and potentially slowing demand for Treasuries by global central banks, sovereign wealth funds and domestic financial institutions.

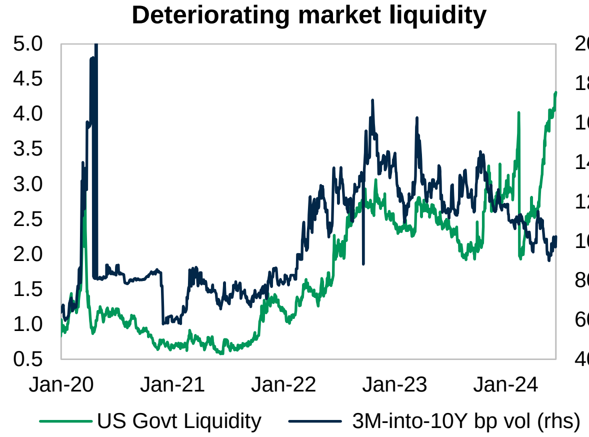
Higher-than-expected inflation prints in Q124 suggest a bumpy path back to the Fed's 2% inflation goal.

We remain biased towards curve steepeners. The yield curve continues to steepen in our forecast horizon, as we expect the Fed to cut rates starting in H224. However, we expect the curve to steepen less than in the prior forecast due to stronger growth and inflation which is slower to decline.

Market liquidity has deteriorated recently, driven by the duration rally on political uncertainty in Europe. This is evident in the widening on-the-run/off-the-run spreads to levels even worse than during Covid. US elections will dominate market headlines over the coming months. Regardless of who wins the presidential election, we expect the federal deficit to



Sources: Bloomberg, CA CIB



Sources: Bloomberg, CA CIB

continue rising, although the composition of the deficit can be different – more tax cuts by Donald Trump or more spending by Joe Biden. The rising deficit puts upward pressure on Treasury term premium, resulting in a higher r*, in our view.

Alex LI

EUROPE: YIELDS NOT RETREATING

Though inflation is yet to be at target, its descent in combination with the ECB's medium-term forecast have opened the door for rate cuts to start and continue going forward. It is however vital to consider that a rate cutting cycle is fully embedded into markets whereby policy rates are expected to fall to around 2.5%. Therefore, more optimism on the growth front as the EZ gradually moves away from recession prospects and slightly higher ECB inflation expectations have not resulted in further EGB yield drops, not should they in our opinion. To us, the Fed delaying the start of its own easing cycle because the economy remains quite strong, is also a factor suggesting EGB yields should not fall in the months ahead but could actually rise driven by a number of factors.

High nominal growth suggests that the easing cycle must be slow and data dependent as a resurgence of inflation would be problematic. On both sides of the Atlantic, a key feature remains large fiscal deficits despite no labour market slack which works to boost yields via two mechanisms. First, from a macro perspective, big deficits boost growth and public sectors encroach on scarce private sector resources which makes the descent of inflation slower or less likely. As for the fiscally minded, big deficits also imply more government bond market supply which could weigh on bond markets as QT continues and accelerates in July for the Eurozone.

For the EU, big deficits are also a preoccupation from a financial stability perspective. Note that the EU has put Belgium, France and Italy under excessive deficit procedures so these countries must show a plan with regards to deficit reduction concrete steps by September. Unless countries flaunt the rules, this should have no market impact but reflects how governments insist on pro-cyclical fiscal policy.

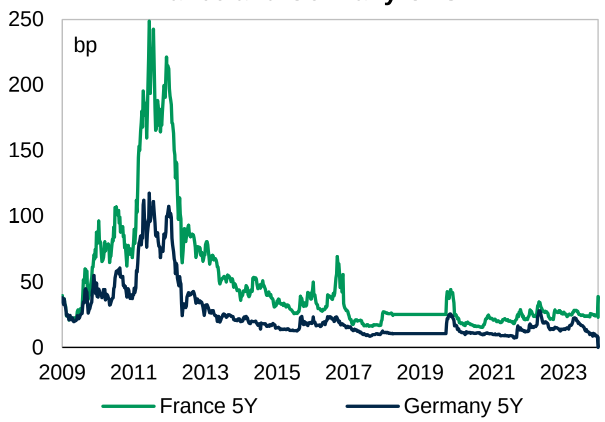
Once election uncertainty is out of the way, our sense is that the 10Y OAT-Bund spread can contract.

For France, this has become more complicated as EU elections have triggered a snap domestic election introducing political risk premium into OATs. While spread widening to Bunds has caught a lot of media attention, we would stress that other indicators such as sovereign CDS and the shape of the curve are much more sanguine about risks. Part of the reason, in our view, relates to a lack of redenomination risk prospects with the current political agendas so there has also been limited contagion risk into other EGBs. Fast spread widening has come from a background of very tight EGB spreads relative to Bunds so this was already likely to correct at some stage, just not to the extent evidenced.

Our view is that OAT cheapening has already gone a long way, and that domestic investors should look at current valuation at the shorter end of the curve as attractive, vs swaps for example. Once election uncertainty is out of the way, our sense is that the 10Y OAT-Bund spread can contract as investors will unwind futures sold to protect portfolios from market volatility. It is worth cautioning that despite finding value in OATs vs other markets, on an outright basis we still find all EGBN expensive relative to the macro backdrop and risks that real yields may need to stay higher for longer.

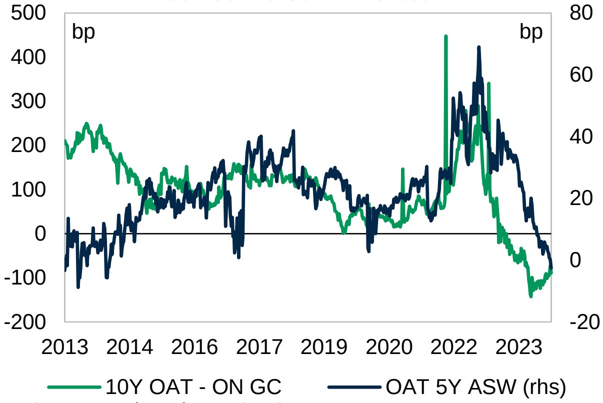
Bert LOURENCO

France and Germany CDS



Sources: Bloomberg, CA CIB

Big cheapening of OAT vs swaps, but curve still inverted



Sources: Bloomberg, CA CIB

Exchange rates – In step with monetary policy

Finally, US parameters, the Fed's monetary strength and Trump's potential win are positive for the USD overall. Next come some unique stories such as the political risk for the Eurozone, the worsening fiscal situation in Latin America or, on the contrary, the favourable carry for some Asian and European currencies.

DEVELOPED COUNTRIES: STILL BEARISH ON EUR/USD

We maintain our bearish outlook on EUR/USD for the rest of 2024 due to: (1) the policy divergence between the more dovish ECB and the relatively more neutral Fed; (2) the risks ahead of the French general election that could exacerbate the threat of wider Eurozone peripheral spreads and their negative impact on the EUR; and (3) the geopolitical risks stemming from the US presidential election and their negative impact on EUR/USD in H224. These developments and risks could erode the appeal of EUR-denominated assets and further derail the nascent improvement of the Eurozone's net exports and growth outlook. In turn, this could halt and even trigger a reversal of the recent net portfolio inflows into the Eurozone and EUR-buying by corporates. **We keep our below-consensus EUR/USD forecast, expecting the pair to slide to 1.05 by the end of 2024.**

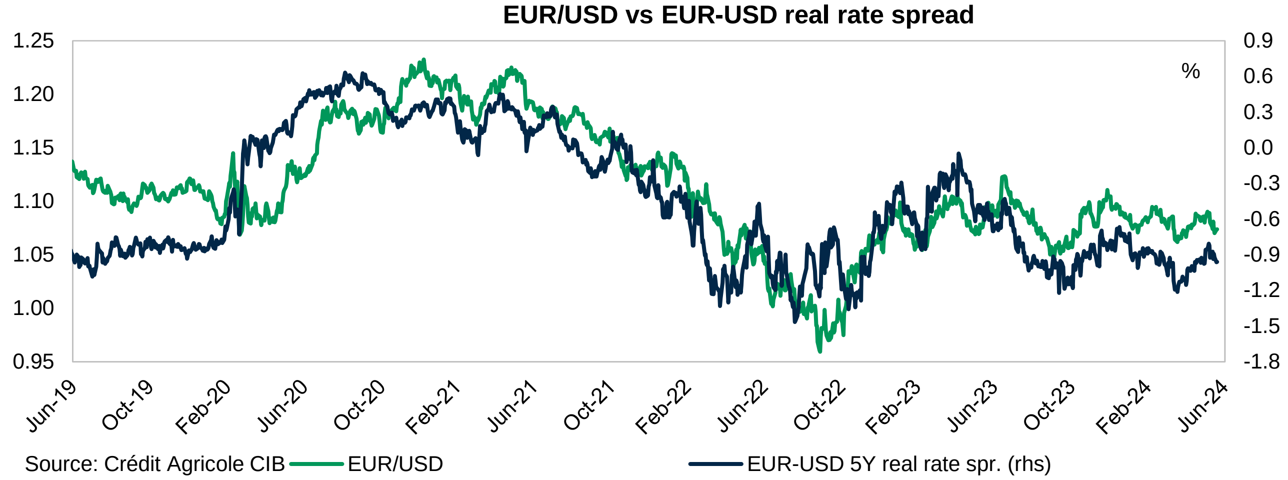
Starting with **the first EUR/USD driver – the relative ECB-Fed policy outlook** – we note that since the start of 2024, we have seen positive economic data surprises out of the Eurozone and some economic disappointments out of the US. At the same time, inflation started surprising to the upside in the US once again. Despite the mixed data signals, these developments have triggered some repricing of ECB rate cuts while keeping the Fed rate expectations little changed. In turn, this led to a renewed widening of EUR-USD real and nominal rate spreads.

We doubt that these developments would be sustained and believe that central bank policy divergence between the ECB and the Fed could return, in a blow to EUR/USD. In particular, we believe that the combination of sticky US inflation and the November US presidential election could delay any meaningful Fed easing until early 2025. This is reflected in our policy rate expectations that imply a more pronounced divergence between the more neutral Fed and the more dovish ECB this year.

The combination of sticky US inflation and the November US presidential election could delay any meaningful Fed easing until early 2025.

Turning to **the second EUR/USD driver – the Eurozone political risks and their impact on peripheral yields and the EUR** – we note that the French general election could add a layer of political uncertainty and thus cloud the Eurozone growth outlook, especially if the recent increase of government borrowing costs, the widening of EGB peripheral spreads and therefore the tightening of European financial conditions linger in the coming months. We maintain a negative bias on EUR/USD from current levels given that: (1) contagion from the OAT market is already starting to spread to other EGB markets like the BTP market; (2) Eurozone stocks have taken a hit as well and could continue to erode the investment appeal of the EUR; and (3) the bond market & equity sell-off would trigger tightening of Eurozone financial conditions and could force the ECB to turn more dovish in a blow to the EUR's rate appeal.

One way to assess the FX impact of the unfolding political drama in Paris is to look at the EUR/USD evolution during recent episodes of political uncertainty in France and Italy. Given that the ascent of the fringe



Source: Crédit Agricole CIB

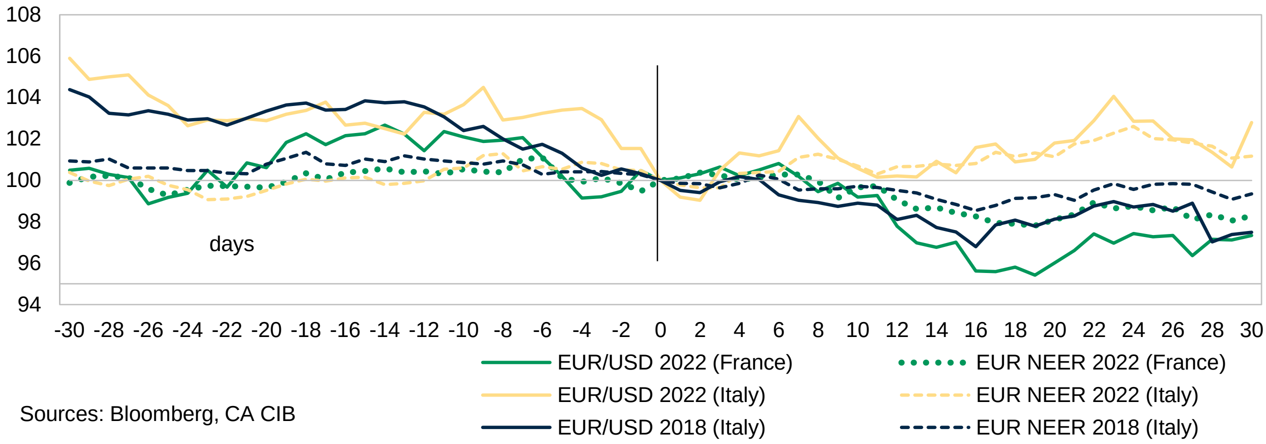
parties on the right has been relatively recent, we focus on the impact of the French legislative election in June 2022 and the Italian general election in September 2022. As shown in the chart, **both EUR NEER and EUR/USD suffered considerable losses in the run-up to both elections and continued to underperform in the wake of the French legislative election**.

Turning to the impact on EUR/USD of the US presidential elections, we concluded that **a Donald Trump presidency could be positive for the USD and negative for the EUR**, given the threat it would represent to global trade in general and the outlook for Eurozone exports in particular. Here, we expand on that topic by noting the positive role that the latest improvement of global trade and the associated recovery of the Eurozone trade surplus has played in support of the EUR across the board. In particular, our in-house FX flows point at a significant increase of EUR buying by corporates.

A Trump presidency would risk plunging the global economy into a new trade war. This could hurt and even derail the nascent recovery of global trade. The EUR could be particularly vulnerable, especially if Eurozone governments follow the US's lead in imposing fresh tariffs on China and other trading partners. Importantly, this would represent further escalation of the growing trade tensions between the EU and China.

Valentin MARINOV

The euro tended to suffer when populist parties gained in European elections



Sources: Bloomberg, CA CIB

EMERGING COUNTRIES: AFTER THE FED RATE CUT

The second half of the year should see the first rate cut by the Fed. Our in-house scenario is for one 25bp cut in September and another one in December. This should be welcomed by EM investors, who have been expecting a cut for a relatively long period of time.

However, precisely because it has been expected, it is partly in the price already. So the actual impact on EM currencies will also depend on the forward guidance. From that point of view, there are reasons to be cautious. In our view, the risk is that US rates remains 'higher for even longer'. Should this risk materialise, the upside for EM currencies (on average) would be somewhat limited.

We see Latam currencies underperforming Asian and EMEA currencies in H2.

Fortunately, the EM outlook is also supported by the benefits on disinflation, which opens the door to some support on the outlook for domestic demand, and ultimately GDP growth, as well as from still relatively high carry in many EMs.

Putting these main factors together, we expect a slight appreciation of EM FX vs USD, on average. The main risks to that scenario are, in our view, the Fed (in case rate cuts are postponed or scaled down), and geopolitical risks (even more so if Donald Trump wins the US presidential election).

From a regional standpoint, we see Latam currencies underperforming Asian and EMEA currencies in H2. Latam currencies should continue to be capped by investors' wariness vis-à-vis possible fiscal deterioration. This is the case for the MXN post-election, and for the BRL as the Brazilian government also sent signals suggesting increased spending. On top of it, the MXN remains stretched (with its real effective exchange rate still well above its long-term average).

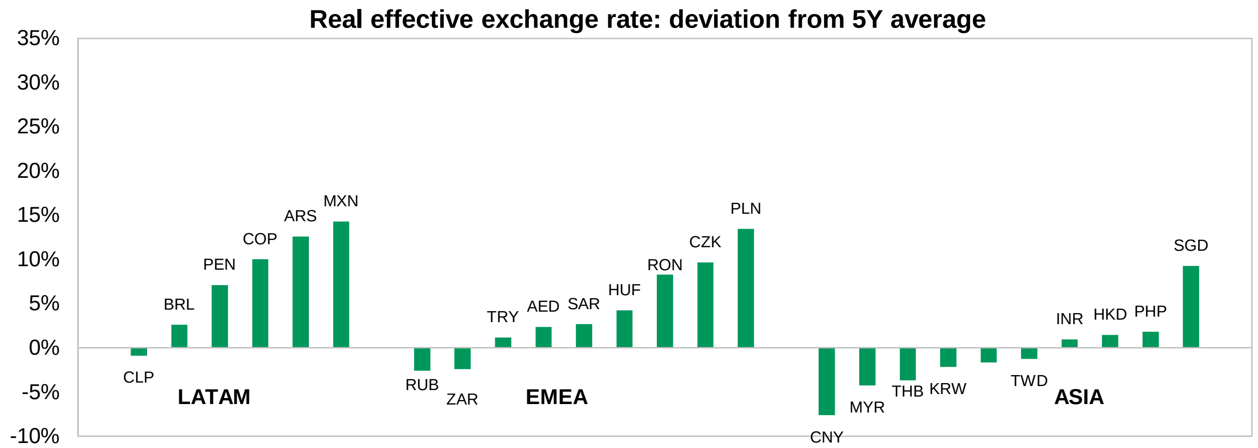
Central European currencies should show some resilience, on the back of recovering economic growth, and some increased reluctance of central banks to lower interest rates quickly (and as the ECB continues to ease monetary policy).

We also expect the TRY and the EGP to be resilient, partly because the monetary authorities in these two countries should carry on with the more careful monetary policies that have begun to put these two currencies back on investors' radar screen.

In Asia, we believe the CNY could continue to depreciate vs USD in the short term, but we expect it to stabilise in the course of Q3, supported by the improving macro narrative, the persisting current account surplus, and as the Fed initiates its rate cut cycle.

Asian high-yield currencies should benefit from relatively strong growth and decent carry. This should be the case of the IDR in particular. The Asian tech-currencies should benefit from the electronic cycle, that should provide some support and partly offset lacklustre overall EM exports.

Sébastien BARBÉ



Sources: BIS, Crédit Agricole CIB

ECONOMIC AND FINANCIAL FORECASTS

Economic forecasts

Interest rates

Exchange rates

Commodities

Public accounts

ECONOMIC FORECASTS

	GDP (yoy, %)			Consumer price (yoy, %)			Current account (% of GDP)		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
United States	**2.5**	**2.0**	**0.4**	**4.1**	**3.0**	**2.5**	**-3.1**	**-3.1**	**-3.0**
Japan	**1.8**	**-0.1**	**0.6**	**4.0**	**2.0**	**0.9**	**3.5**	**2.0**	**2.0**
Eurozone	**0.6**	**0.8**	**1.5**	**5.4**	**2.4**	**1.8**	**2.9**	**3.9**	**3.8**
Germany	0.0	0.1	1.1	6.0	2.4	1.9	5.9	7.0	6.9
France	1.1	1.1	1.3	5.7	2.6	1.6	-0.6	1.4	1.4
Italy	1.0	1.0	1.1	5.9	1.0	1.6	0.5	3.6	3.6
Spain	2.5	2.3	1.7	3.4	3.2	2.1	2.6	1.1	0.9
Netherlands	0.2	0.7	1.3	4.1	2.9	2.0	10.1	9.1	8.8
Belgium	1.4	1.2	1.3	2.3	3.9	2.0	-1.0	0.0	-0.1
Other advanced									
United Kingdom	0.1	0.8	1.4	7.3	2.6	2.0	-3.3	-1.5	-2.1
Canada	1.1	0.5	2.0	3.8	2.5	2.0	-0.8	-0.8	-0.8
Australia	1.8	1.2	2.0	5.8	4.0	3.4	0.6	-0.7	-0.8
Switzerland	0.9	1.8	1.2	2.2	2.0	1.7	8.0	8.0	7.6
Sweden	0.1	1.2	1.9	8.5	3.5	2.4	6.3	6.9	4.3
Norway	1.1	0.7	1.1	5.5	3.5	2.9	17.9	16.3	15.3
Asia	**5.2**	**5.0**	**4.6**	**2.1**	**1.9**	**2.4**	**1.6**	**1.3**	**1.1**
China	5.2	4.7	4.2	0.2	0.5	1.4	1.8	1.2	0.8
India	7.7	7.3	6.3	5.3	4.5	4.6	-1.4	-1.4	-1.6
South Korea	1.4	2.4	2.1	3.6	2.7	2.2	2.1	3.5	3.5
Indonesia	5.0	5.1	5.0	3.7	2.8	3.0	-0.2	-0.4	-0.7
Taiwan	1.4	3.0	2.3	2.5	2.1	1.9	13.9	11.5	11.3
Thailand	1.9	2.4	3.0	1.3	1.0	2.0	1.1	2.8	4.6
Malaysia	3.7	4.6	4.7	2.5	2.4	2.3	2.2	2.8	3.0
Singapore	1.1	2.7	2.8	4.8	3.3	3.0	19.8	17.0	16.7
Hongkong	3.2	3.0	3.1	2.1	2.0	2.2	8.6	9.2	9.6
Philippines	5.6	5.8	5.7	6.0	3.6	3.3	-2.3	-2.1	-2.0
Vietnam	5.1	6.0	6.3	3.3	3.3	3.2	4.1	4.1	4.1
Latin America	**0.3**	**1.9**	**2.1**	**5.9**	**3.4**	**2.6**	**-3.0**	**-3.1**	**-2.6**
Brazil	2.9	2.0	1.8	4.6	4.0	3.5	-1.3	-1.7	-2.0
Mexico	3.2	1.8	1.5	5.6	3.8	3.5	-0.3	-1.4	-1.0
Emerging Europe	**2.9**	**2.6**	**2.6**	**20.3**	**20.3**	**8.4**	**-0.2**	**-0.2**	**-0.4**
Russia	3.6	2.5	1.5	5.9	7.7	5.5	2.5	1.6	1.3
Turkey	4.5	3.0	3.0	53.4	59.0	18.0	-4.3	-3.0	-3.0
Poland	0.2	2.8	4.6	11.6	3.8	4.4	1.6	1.6	1.1
Czech Republic	-0.3	1.2	2.6	10.8	2.2	2.1	0.4	0.8	1.2
Romania	2.1	3.2	3.5	10.5	5.8	3.9	-7.0	-6.5	-6.0
Hungary	-0.9	2.3	3.4	17.6	4.0	3.7	0.2	0.0	0.3
Africa, Middle East	**2.0**	**2.4**	**3.3**	**15.9**	**11.4**	**8.1**	**3.6**	**2.4**	**1.8**
Saudi Arabia	-0.8	2.2	4.1	2.3	2.1	2.0	4.0	2.4	1.8
United Arab Emirates	3.3	3.7	4.0	1.7	2.2	2.2	10.5	9.9	8.2
South Africa	0.5	1.1	1.8	5.9	5.0	4.6	-1.7	-2.4	-2.6
Egypt	3.0	2.8	4.4	33.9	27.0	16.0	-1.8	-3.5	-2.5
Algeria	4.1	3.0	2.8	9.3	5.5	5.3	2.4	-0.3	-1.7
Qatar	1.9	2.2	2.6	3.0	2.2	2.0	17.0	15.0	15.0
Koweit	-0.5	1.1	3.0	3.7	2.6	2.2	21.0	24.0	22.0
Morocco	2.7	3.0	3.2	6.1	2.9	2.5	-1.0	-2.1	-2.0
Tunisia	0.4	1.7	1.9	9.3	7.7	6.8	-3.1	-3.4	-3.5
Total	**2.9**	**2.9**	**2.6**	**5.7**	**4.3**	**3.1**	**0.7**	**0.6**	**0.5**
Advanced economies	**1.5**	**1.2**	**1.0**	**4.8**	**2.7**	**2.1**	**0.1**	**0.3**	**0.3**
Emerging countries	**4.1**	**4.1**	**3.9**	**6.5**	**5.6**	**3.9**	**1.1**	**0.8**	**0.6**

	2023				2024				2025			
Real GDP growth, QoQ %	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
USA (annualised)	2.2	2.1	4.9	3.4	1.4	1.7	0.5	-0.8	-0.5	1.1	1.4	2.0
Japan	1.1	1.0	-0.9	0.1	-0.5	0.5	0.2	0.1	0.1	0.2	0.2	0.2
Eurozone	0.1	0.1	0.0	-0.1	0.3	0.3	0.5	0.4	0.3	0.4	0.3	0.3
Germany	0.3	-0.1	0.1	-0.5	0.2	0.0	0.3	0.3	0.3	0.3	0.2	0.2
France	0.1	0.7	0.1	0.3	0.2	0.2	0.4	0.4	0.3	0.2	0.2	0.4
Italy	0.3	-0.1	0.4	0.1	0.3	0.2	0.3	0.4	0.0	0.3	0.4	0.4
Spain	0.4	0.5	0.5	0.7	0.7	0.4	0.5	0.5	0.4	0.4	0.3	0.2
United Kingdom	0.2	0.0	-0.1	-0.3	0.6	0.3	0.4	0.4	0.3	0.4	0.4	0.4

	2023				2024				2025			
Consumer prices, YoY %	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
USA	5.8	4.0	3.5	3.2	3.2	3.3	2.7	2.8	2.5	2.2	2.4	2.5
Japan	3.5	4.2	4.3	3.8	3.2	2.2	1.5	1.2	0.9	0.9	0.9	1.0
Eurozone	8.0	6.2	5.0	2.7	2.7	2.6	2.4	2.6	2.3	2.1	2.0	2.1
Germany	8.7	6.9	5.8	3.0	2.8	2.6	2.3	2.6	2.4	2.0	2.0	2.1
France	7.0	6.1	5.5	4.2	3.1	2.8	2.9	2.5	2.4	2.1	1.8	2.1
Italy	9.5	7.8	5.8	1.0	1.2	1.4	1.6	1.9	1.9	2.1	1.9	2.0
Spain	5.0	2.8	2.6	3.3	3.2	3.5	3.2	3.4	2.6	2.2	1.8	1.9
United Kingdom	10.2	8.4	6.7	4.2	3.5	2.1	2.3	2.6	2.4	2.1	1.9	1.8

	2023				2024				2025			
Unemployment rate, %	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
USA	3.5	3.6	3.7	3.7	3.8	4.0	4.2	4.3	4.4	4.6	4.6	4.5
Japan	2.6	2.6	2.7	2.5	2.5	2.6	2.6	2.6	2.6	2.7	2.7	2.7
Eurozone	6.6	6.5	6.6	6.6	6.5	6.6	6.5	6.5	6.5	6.4	6.4	6.4
Germany	2.9	2.9	3.1	3.1	3.2	3.2	3.1	3.1	3.0	3.0	3.0	3.0
France	7.1	7.4	7.4	7.5	7.4	7.9	8.0	7.8	7.7	7.8	7.8	7.7
Italy	7.9	7.7	7.6	7.4	7.2	7.2	7.2	7.2	7.3	7.4	7.4	7.4
Spain	12.9	12.0	12.0	11.9	11.8	11.4	11.3	11.3	11.4	11.0	11.1	11.0
United Kingdom	3.9	4.3	4.0	4.0	4.3	4.5	4.6	4.8	4.8	4.7	4.6	4.6

	GDP (b)	Private consumption (b)	Public consumption (b)	Investment (b)	Exports (b)	Imports (b)	Net exports (a)	Changes in inventories (a)
Eurozone								
2023	0.5	0.5	0.1	0.8	-0.7	-1.4	0.3	0.7
2024	0.7	1.1	0.7	0.9	0.6	0.8	-0.1	0.5
2025	1.4	1.3	0.6	1.8	2.8	2.8	0.1	0.5
Q2 2024	*0.1*	*0.1*	*0.1*	*0.3*	*0.1*	*-0.1*	*0.1*	*0.5*
Q3 2024	*0.2*	*0.3*	*0.1*	*0.1*	*0.3*	*0.3*	*0.0*	*0.5*
Q4 2024	*0.3*	*0.4*	*0.1*	*0.3*	*0.7*	*0.7*	*0.0*	*0.5*
Q1 2025	*0.4*	*0.4*	*0.3*	*0.4*	*0.8*	*0.8*	*0.0*	*0.5*
Germany								
2023	-0.1	-1.0	-2.2	1.0	-1.4	-2.5	0.5	0.2
2024	0.0	0.6	0.0	0.8	0.2	0.7	-0.2	-0.2
2025	1.0	1.3	0.7	1.1	2.4	2.5	0.0	0.0
Q2 2024	*-0.1*	*-0.1*	*-0.1*	*0.3*	*-0.3*	*-0.2*	*-0.1*	*0.0*
Q3 2024	*-0.1*	*0.2*	*-0.2*	*0.0*	*0.2*	*0.3*	*0.0*	*-0.1*
Q4 2024	*0.0*	*0.3*	*0.0*	*0.2*	*0.4*	*0.6*	*-0.1*	*-0.1*
Q1 2025	*0.3*	*0.4*	*0.6*	*0.2*	*0.6*	*0.8*	*-0.1*	*0.0*
France								
2023	0.9	0.6	0.5	1.3	1.6	0.6	0.3	-0.2
2024	1.0	1.5	0.7	0.2	1.9	1.7	0.0	0.0
2025	1.3	1.3	0.4	1.5	1.3	1.2	0.0	0.2
Q2 2024	*0.2*	*0.1*	*0.2*	*-0.1*	*1.2*	*0.5*	*0.2*	*-0.1*
Q3 2024	*0.2*	*0.4*	*0.1*	*-0.1*	*0.3*	*0.2*	*0.0*	*-0.1*
Q4 2024	*0.3*	*0.5*	*0.1*	*0.0*	*0.4*	*0.3*	*0.0*	*0.0*
Q1 2025	*0.4*	*0.5*	*0.1*	*0.1*	*0.4*	*0.3*	*0.0*	*0.0*
Italy								
2023	0.7	1.7	-0.4	0.4	-0.2	-0.4	0.1	-0.3
2024	0.6	1.2	-0.3	-0.8	1.3	-0.4	0.5	-0.4
2025	0.9	0.9	-0.6	1.7	2.6	2.5	0.1	0.1
Q2 2024	*0.1*	*0.3*	*0.0*	*-0.1*	*0.2*	*-0.9*	*0.4*	*-0.4*
Q3 2024	*0.2*	*0.2*	*0.1*	*-0.3*	*0.2*	*0.2*	*0.0*	*0.1*
Q4 2024	*0.2*	*0.2*	*-0.1*	*-0.1*	*0.5*	*0.5*	*0.0*	*0.1*
Q1 2025	*0.3*	*0.3*	*-0.1*	*0.3*	*0.6*	*0.8*	*-0.1*	*0.1*
Spain								
2023	2.4	2.1	2.6	1.8	0.7	-0.6	0.5	-0.2
2024	1.6	1.9	1.3	2.7	0.7	1.4	-0.2	-0.1
2025	1.4	1.5	0.4	2.4	3.6	3.9	0.0	0.0
Q2 2024	*0.2*	*0.2*	*0.3*	*0.6*	*0.5*	*0.7*	*0.0*	*0.0*
Q3 2024	*0.4*	*0.3*	*0.2*	*0.8*	*1.5*	*1.4*	*0.1*	*0.0*
Q4 2024	*0.4*	*0.3*	*0.2*	*0.9*	*1.1*	*1.0*	*0.1*	*0.0*
Q1 2025	*0.5*	*0.4*	*0.1*	*0.7*	*1.3*	*1.0*	*0.1*	*0.0*
Portugal								
2023	2.0	1.2	1.1	1.9	4.0	1.3	1.2	-0.4
2024	1.2	1.1	1.1	4.8	1.5	2.5	-0.5	0.0
2025	2.1	1.6	0.1	4.9	2.8	2.5	0.1	0.0
Q2 2024	*-0.3*	*0.1*	*0.5*	*1.0*	*0.6*	*0.8*	*-0.1*	*0.0*
Q3 2024	*0.4*	*0.3*	*0.1*	*1.3*	*0.9*	*1.0*	*0.0*	*0.0*
Q4 2024	*0.8*	*0.5*	*0.1*	*1.9*	*1.1*	*0.9*	*0.1*	*0.0*
Q1 2025	*0.8*	*0.4*	*0.1*	*1.7*	*1.3*	*0.8*	*0.2*	*0.0*
Netherlands								
2023	0.2	0.1	2.8	2.9	-0.8	-0.3	-0.5	-0.6
2024	0.7	0.4	2.7	0.1	0.7	1.1	-0.2	0.1
2025	1.2	1.2	2.2	1.4	1.6	2.1	-0.2	0.0
Q2 2024	*0.2*	*0.1*	*0.5*	*0.2*	*0.8*	*0.9*	*0.0*	*0.0*
Q3 2024	*0.3*	*0.3*	*0.7*	*0.2*	*0.5*	*0.6*	*0.0*	*0.0*
Q4 2024	*0.3*	*0.3*	*0.7*	*0.3*	*0.5*	*0.7*	*-0.1*	*0.0*
Q1 2025	*0.3*	*0.3*	*0.7*	*0.5*	*0.5*	*0.7*	*-0.1*	*0.0*
United Kingdom								
2023	0.5	0.4	-0.2	2.5	-0.4	-1.4	0.3	-1.1
2024	0.4	0.3	1.0	-2.5	1.7	0.9	0.2	0.0
2025	1.2	1.5	0.8	2.5	1.5	2.3	-0.3	0.0
Q2 2024	*0.0*	*-0.2*	*0.2*	*-1.0*	*0.5*	*0.0*	*0.1*	*0.1*
Q3 2024	*0.1*	*0.2*	*0.2*	*-1.0*	*0.6*	*0.2*	*0.1*	*0.0*
Q4 2024	*0.1*	*0.2*	*0.2*	*-1.0*	*0.6*	*0.2*	*0.1*	*0.0*
Q1 2025	*0.3*	*0.3*	*0.2*	*0.5*	*0.4*	*0.5*	*0.0*	*0.0*

(a) contribution to GDP growth (%, q/q) (b) q/q, %

INTEREST RATES

Short-term interest rates		27-juin	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Etats-Unis	Fed funds	5.50	5.25	5.00	4.50	4.00	3.50	3.50
	Sofr	5.34	5.07	4.82	4.32	3.82	3.32	3.32
Japon	Call rate	0.10	0.10	0.10	0.10	0.10	0.10	0.25
Eurozone	Refinancing	4.25	3.65	3.40	3.15	2.90	2.65	2.65
	Deposit	3.75	3.50	3.25	3.00	2.75	2.50	2.50
	€str	3.66	3.41	3.16	2.91	2.66	2.41	2.41
	Euribor 3m	3.70	3.21	2.96	2.71	2.60	2.60	2.60
United-Kingdom	Base rate	5.25	5.00	4.75	4.50	4.25	4.00	3.75
	Sonia	4.94	4.69	4.44	4.20	3.95	3.71	3.46
Sweden	Repo	3.75	3.50	3.25	3.00	2.75	2.75	2.75
Norway	Deposit	4.50	4.50	4.50	4.25	4.00	3.75	3.50
Canada	Overnight	4.75	4.50	4.25	4.00	3.75	3.50	3.25

10Y rates	juin-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
USA	4.29	4.25	4.30	4.15	4.00	3.95	4.05
Japan	1.07	1.05	1.05	1.05	1.05	1.20	1.40
Eurozone (Germany)	2.45	2.62	2.64	2.45	2.47	2.60	2.64
Spread 10 ans / Bund							
France	0.81	0.71	0.66	0.69	0.70	0.72	0.73
Italy	1.58	1.60	1.55	1.58	1.60	1.62	1.60
Spain	0.95	0.85	0.80	0.78	0.80	0.83	0.78

Asia		27-Jun	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
China	1Y deposit rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Hong Kong	Base rate	5.75	5.50	5.25	4.75	4.25	3.75	3.75
India	Repo rate	6.50	6.50	6.25	6.00	6.00	5.75	5.50
Indonesia	7D (reverse) repo rate	6.25	6.25	6.00	5.75	5.50	5.25	5.25
Korea	Base rate	3.50	3.50	3.25	3.00	2.75	2.50	2.50
Malaysia	OPR	3.00	3.00	3.00	2.75	2.50	2.50	2.50
Philippines	Repo rate	6.50	6.25	5.75	5.25	5.00	4.75	4.75
Singapore	3M SIBOR	3.60	3.55	3.40	2.95	2.40	2.10	2.10
Taiwan	Redisc	2.00	2.00	2.00	2.00	1.88	1.88	1.75
Thailand	Repo	2.50	2.50	2.25	2.00	1.75	1.50	1.50
Vietnam	Refinancing rate	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Latin America								
Brazil	Overnight/Selic	10.50	10.50	10.50	10.00	9.50	9.00	8.50
Mexico	Overnight rate	11.00	10.50	10.00	9.50	9.00	8.50	8.00
Emerging Europe								
Czech Rep.	14D repo	5.25	4.50	4.25	4.00	3.75	3.50	3.25
Hungary	Base rate	7.00	7.00	7.00	6.75	6.50	6.00	5.75
Poland	7D repo	0.00	5.75	5.75	5.75	5.75	5.50	5.25
Romania	2W repo	7.00	6.75	6.50	6.25	6.00	5.75	5.50
Russia	1W auction rate	16.00	14.00	12.00	10.00	8.00	8.00	8.00
South Africa	Repo	8.25	8.25	7.75	6.25	5.50	5.50	5.50

EXCHANGE RATES

USD Exchange rate

Industrialised countries		27-Jun	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Euro	EUR/USD	1.07	1.06	1.05	1.07	1.09	1.10	1.12
Japan	USD/JPY	160.7	157.0	160.0	155.0	154.0	150.0	145.0
United Kingdom	GBP/USD	1.26	1.26	1.25	1.27	1.30	1.33	1.35
Switzerland	USD/CHF	0.90	0.91	0.90	0.89	0.88	0.88	0.88
Canada	USD/CAD	1.37	1.34	1.36	1.34	1.32	1.30	1.28
Australia	AUD/USD	0.67	0.68	0.68	0.70	0.70	0.72	0.74
New Zealand	NZD/USD	0.61	0.61	0.62	0.62	0.62	0.64	0.66

Euro Cross rates

Industrialised countries		27-Jun	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Japan	EUR/JPY	172	166	168	166	168	165	162
United Kingdom	EUR/GBP	0.85	0.84	0.84	0.84	0.84	0.83	0.83
Switzerland	EUR/CHF	0.96	0.96	0.94	0.95	0.96	0.97	0.98
Sweden	EUR/SEK	11.36	11.20	11.30	11.00	10.80	10.60	10.50
Norway	EUR/NOK	11.41	11.00	11.50	11.10	10.80	10.50	10.20

Asia		27-Jun	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
China	USD/CNY	7.27	7.25	7.20	7.18	7.16	7.15	7.12
Hong Kong	USD/HKD	7.81	7.80	7.80	7.78	7.78	7.76	7.76
India	USD/INR	83.43	83.00	82.75	82.50	82.25	82.00	82.00
Indonesia	USD/IDR	16395	15800	15600	15500	15300	15200	15000
Malaysia	USD/MYR	4.72	4.74	4.72	4.70	4.65	4.65	4.60
Philippines	USD/PHP	58.7	57.5	57.2	56.5	56.0	55.5	55.3
Singapore	USD/SGD	1.36	1.35	1.34	1.33	1.32	1.31	1.30
South Korea	USD/KRW	1386	1365	1330	1310	1300	1280	1260
Taiwan	USD/TWD	32.5	32.3	32.2	31.8	31.6	31.5	31.2
Thailand	USD/THB	36.8	36.5	36.0	35.5	35.3	35.0	34.8
Vietnam	USD/VND	25455	25200	25000	24800	24600	24400	24200
Latin America								
Brazil	USD/BRL	5.54	5.50	5.55	5.60	5.65	5.70	5.75
Mexico	USD/MXN	18.35	18.75	19.00	19.25	19.50	19.75	20.00
Africa								
South Africa	USD/ZAR	18.46	18.30	18.00	18.00	18.00	18.00	18.00
Emerging europe								
Poland	USD/PLN	4.03	4.04	4.04	3.95	3.87	3.83	3.75
Russia	USD/RUB	86.00	90.00	87.00	87.00	90.00	90.00	88.00
Turkey	USD/TRY	32.81	33.50	34.00	34.00	35.00	35.50	36.00
Central Europe								
Czech Rep.	EUR/CZK	25.04	24.70	24.60	24.50	24.40	24.30	24.20
Hungary	EUR/HUF	396	385	380	382	382	380	377
Poland	EUR/PLN	4.32	4.28	4.24	4.23	4.22	4.21	4.20
Romania	EUR/RON	4.98	4.97	4.97	4.96	4.96	4.96	4.96

COMMODITIES

Av. quarter price		27-Jun	2024		2025			
			Q3	Q4	Q1	Q2	Q3	Q4
Brent	USD/BBL	86	83	87	85	87	90	90

Av. quarter price		27-Jun	2024		2025			
			Q3	Q4	Q1	Q2	Q3	Q4
Gold	USD/oz	2,329	2,250	2,200	2,200	2,200	2,250	2,300

PUBLIC ACCOUNTS

	Government balance (% of GDP)			Public debt (% of GDP)		
	2023	2024	2025	2023	2024	2025
United States	**-6.0**	**-5.8**	**-5.8**	**98.2**	**100.2**	**101.6**
Japan	**-3.5**	**-4.0**	**-2.5**	**244.2**	**240.9**	**235.1**
Eurozone	**-3.6**	**-3.1**	**-2.5**	**93.4**	**93.5**	**93.4**
Germany	-2.5	-1.6	-1.2	63.6	62.8	62.7
France	-5.5	-5.4	-4.3	109.9	111.6	112.5
Italy	-7.2	-4.5	-3.9	137.3	136.6	136.4
Spain	-3.6	-3.4	-3.1	107.7	106.7	105.6
Netherlands	-0.3	-2.0	-2.1	46.5	45.9	47.1
Belgium	-4.4	-4.2	-4.8	105.2	105.3	106.3
Greece	-1.6	-1.2	-0.8	161.9	154.0	148.4
Ireland	1.7	0.6	1.6	43.7	44.4	42.5
Portugal	1.2	0.3	0.4	97.9	98.7	98.1
United Kingdom	**-5.9**	**-3.3**	**-2.6**	**101.3**	**103.2**	**105.2**

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