WORLD MACRO-ECONOMIC SCENARIO 2025-2026

Quarterly – December 2024

ECO
ÉTUDES ÉCONOMIQUES GROUPE

CA

A conditional scenario, more than ever

More than ever, the outlook depends on the turn taken by US geopolitical and economic policy. Assumptions about the scale and timing of the measures to be taken by the new administration mean that, in the US, the economy is likely to remain resilient, but there will also be renewed inflation, modest monetary easing and upward pressure on long-term interest rates. Moreover, these measures are only one explanation for the sluggish recovery in the Eurozone, which is likely to be below potential.

Drawing the contours of the **US** (and therefore global) **scenario** requires making assumptions about both the scale of the measures likely to be implemented and their timing, depending on whether they fall within the prerogatives of the president or require the approval of Congress.

As far as tariffs are concerned, Donald Trump's threats look like extreme pressure tactics. They call for an ‘intermediate’ scenario consisting of substantial increases, without however reaching the campaign proposals. Tariffs would thus rise to an average of 40% for China, from Q225, and to an average of 6% for the rest of the world, phased in over the H225. Aggressive fiscal policy, favouring tax cuts and maintaining extremely high deficits, would be implemented later: its effects could become apparent from 2026. In terms of immigration, restrictions could be applied from the start of the presidential term. They would be followed by a very sharp slowdown in immigration flows and, if deportations are to be expected, they would be ‘selective’ as opposed to a massive and indiscriminate removal of millions of people. Finally, deregulation, of which the energy and financial sectors would probably be the main beneficiaries, would spread its ‘benefits’ throughout Trump’s term in office.

Taken as a whole, these policy orientations should be favourable to growth. However, if the expected positive impact of aggressive fiscal policy and deregulation exceeds the negative impact of tariffs and immigration restrictions, it will follow. Given the resilience of the US economy, which is still expected to outperform forecasts to grow by around 2.7% in 2024, this suggests that growth will remain strong, albeit slightly weaker. Because of a few vulnerabilities (low-income households & small businesses are more exposed to high interest rates), our scenario assumes a slowdown to 1.9% in 2025, before a recovery to 2.2% in 2026: a development that should be accompanied by a revival in inflation. The end of the disinflationary path to the 2% target is the most difficult, and customs duties could put pressure on prices in a range of 25-30bp. Total inflation could therefore fall back to around 2% next spring, before picking up to around 2.5% by the end of 2025 and remaining there in 2026: the potential for monetary policy easing will be very limited.

In the **Eurozone**, the acceleration in growth over the summer gives reason to hope that the recovery will be only a modest one and that it will still be below potential and below the pace that will benefit the US. While the upturn in household consumption recorded over the summer augurs slightly stronger growth, the latest information on investment does not augur a marked acceleration. Falling inflation, which will boost purchasing power, but also a rebuilding of real wealth, implying a reduced savings effort, and lower interest rates, which will help to restore purchasing power for property: the ingredients are there for a continued recovery in household spending. But only at a very moderate pace, as fiscal consolidation and global uncertainty are likely to encourage a continued high savings rate. Our scenario therefore assumes a modest acceleration in consumption to 1.1% in 2025 and 1.2% in 2026, after 0.9% in 2024. After a sharp fall in 2024 (-2.1%), investment in 2025 is likely to remain penalised by the transmission delay of monetary easing but above all by weak domestic demand and growing uncertainty over foreign demand. Investment is expected to grow by just 1.5% before firming slightly in 2026 (2%).

The Trump administration's policies would have a moderately negative impact on growth in the Eurozone, the most important short-term channel of which would be uncertainty.

The Trump administration’s policies would have a moderately negative impact on growth in the Eurozone, in the short term primarily due to uncertainty. Furthermore, the monetary and fiscal policy mix remains unfavourable to growth, with the key rate returning to neutral by mid-2025, while the ECB’s balance sheet reduction continues to be restrictive. The forecasts therefore put growth on a very soft acceleration trend, rising from 0.7% in 2024 to 1.0% in 2025 and then 1.2% in 2026: potential growth should be reached, but the output gap, which is slightly negative, should not yet be closed, while the growth gap with the US economy is expected to widen.

In **EMs**, if it were not for the difficulties associated with Trump 2.0, the situation would be improving: lower US key rates favouring global monetary easing, loosening pressure on EM FX and, more generally, on external financing for EMs; domestic growth buoyed by falling inflation and rate cuts; still buoyant exports to developed countries (primarily the US). But the effects of these supporting factors are likely to be undermined by the plausible repercussions of the measures taken by the new US administration. In addition to the tariffs likely to

make EM exports more expensive and more limited, there will be less monetary accommodation in the US and a possible reduction in US military and financial support for Ukraine, fuelling geopolitical uncertainty in Europe. It is therefore preferable to be a large country with a low degree of openness, such as India, Indonesia or Brazil, a commodity-exporting country or an economy that is well integrated with China, which is preparing for the Trump storm.

In **China,** the last Politburo meeting concluded in December with a commitment by the authorities to implement a "more proactive" fiscal policy and a "sufficiently accommodating" monetary policy, to revive domestic demand and stabilise the property & equity markets. A period of trade tensions is looming and, apart from restrictions on exports of critical products (including rare earths), the tools of retaliation are limited: it is difficult to react by boosting the competitiveness of exports (the CNY is already historically low) or by reciprocally increasing custom duties, which would risk penalising already very fragile domestic consumption. The authorities' intentions to provide more vocal support for domestic demand are commendable, but the effectiveness of this strategy will depend on household confidence: the rebound cannot be decreed, and our scenario continues to predict a slowdown in growth in 2025.

The market's hopes of bold **monetary easing** have been refuted and are no longer on the agenda, particularly in the US. In an economy assumed to remain 'resilient', with inflation around 2% and then likely to pick up again, the easing would be modest. After a total reduction of 100bp in 2024, the **Fed** could ease by a further total of 50bp, taking the Fed Funds rate (upper limit of the target range) to 4.00% in H125 before pausing for a prolonged period.

As for the **ECB**, with inflation in line with target and no recession in sight, it would continue its moderate easing via its key rates, while extending its quantitative tightening. After its four 25bp cuts in 2024, the ECB could cut rates by 25bp at the January, March and April meetings, then maintain its deposit rate at 2.25%, ie, very slightly below the neutral rate estimate (2.50%).

Everything points to a scenario of a modest rise in **interest rates**. Given the economic scenario (limited slowdown in growth and moderate inflation concentrated at the beginning of the period) and modest monetary easing followed by an earlier pause, US interest rates could fall slightly in H125 before recovering. 10Y Treasury rates would move within a range of 4.20-4.50%. The new rate forecasts are higher than the previous ones and envisage a 10Y rate approaching 4.50% at the end of 2025 and around 5.00% at the end of 2026.

In the Eurozone, several factors point to a scenario of a slight rise in sovereign interest rates: market expectations of a bold monetary easing, where a correction could lead to a recovery in swap rates; an increase in the volume of government securities linked to the ECB's reduction in the size of its balance sheet (quantitative tightening) and to still-high net issuance; and a diffusion of the rise in US bond yields to their European equivalents, expected at the end of 2025 and in 2026. While the German economy (where early elections are due to be held in February) continues to suffer, and the political situation in France struggles to become clearer, 'peripheral' countries have seen their good economic results (notably Spain) and their political stability (this applies to Italy and Spain) rewarded by a significant tightening of their spreads against the German 10Y rate in 2024: they should benefit from the same support in 2025. Our scenario therefore assumes German, French and Italian 10Y rates at 2.55%, 3.15% and 3.55% respectively at the end of 2025.

Finally, for the **USD**, several positive factors, including the currency's attractiveness in terms of yield, have already been factored into its price. As a result, our scenario assumes that the USD will remain close to its recent highs throughout 2025, without overshooting them for long.

Catherine LEBOUGRE

Focus Geopolitics – The grammar of 'transactional geopolitics' under Trump

As Donald Trump is set to return to the White House, the Ukrainian front seems increasingly suspended between two very opposing scenarios, one of negotiation and one of escalation. This could be the geopolitical game changer of 2025. At the same time, the political balances in the Middle East are being redrawn, and Iran's place in this balance will be one of the central issues of Trump 2.0.

Donald Trump is returning to the White House. On the campaign trail, he promised rapid peace in Ukraine, a promise that expresses the aspirations of Trump's more isolationist electoral base as well as the fears of 'elite' voters aware of the budgetary cost of the US' global military presence. The risk of imperial overstretch has loomed over the US strategic community since 1987, when Paul Kennedy published *The Rise and Fall of the Great Powers*. And now that two systemic wars are underway, on the Ukrainian front and in the Middle East (systemic because the balance of international relations depends on their outcome), the same strategic community is looking for the impossible solution to the problem of a triple front that the US has fewer and fewer financial resources to take on – the third front being Taiwan, which remains central to global geopolitics and to one of the biggest risks to the world economy.

The military exercises intensifying around Taiwan are strategic fixation points

The intensification of Beijing's military exercises around Taiwan, which are regularly increasing in scale and enabling the Chinese army to work on coordinating its various corps, seems to contradict the relative lull in US-China relations over the past year or more and the re-establishment of numerous channels of diplomatic & military communication between Beijing & Washington. In contrast, these exercises could be seen as a test of a blockade strategy and as the best way to lull an international community that is gradually getting used to China's tightened presence around the island, as well as to its constant transgression of red lines. The geopolitics of the boiling frog.

All this will be on the negotiating table if Trump eventually tries to make a deal with China. In this sense, tariff negotiations should not be seen as independent of the Taiwan issue. More than ever, in the transactional world that lies ahead, geopolitics will be connected to economics. And the air of 'transaction' that Trump's arrival heralds is already leading many governments' geopolitical strategy down the path of the most realistic schools of thought, to the detriment of the geopolitics of human rights, often favoured under the Biden administration.

Transactional geopolitics will undoubtedly put a partial end to human rights geopolitics, but it must consider the interconnectedness of conflicts

Just as the US-China relationship is not independent of what happens on the Ukrainian front, all theatres of tension are now linked. Russia's alliance with North Korea has only reinforced this observation, giving the latter the means of greater strategic independence, which is not to China's liking – and which is worrying the whole region. This interconnection of theatres has another, slightly more positive, consequence: although war is contagious, we must not forget that ceasefires and attempts at negotiation can be too. Discussions on one front would undoubtedly spread to others. However, the incumbent US administration's ability to manage this combination of theatres will certainly be tested by the most revisionist powers. And there will be no negotiation with Russia without China's involvement.

Finally, the Trump team's platform of "peace through strength" is also one of "peace through fear". It will therefore have a strong deterrent aspect, which will also be an effective condition for ceasefires – hence Poland's border wall with Belarus. This programme of peace through strength is therefore likely to come at a high cost to the US, which will have to be credible in deterring its strategic enemies as well as its friends – in particular Israel, which would call for more 'deal making'.

The countries that signed the Abraham Accords expect the new US president to preserve the gains of these agreements by stabilising relations with Iran. And in the Gulf region, most governments, led by Saudi Arabia, seem above all concerned with carrying out their various long-term 'visions' and domestic transformation strategies. Saudi Arabia, which is talking to both Russia and Ukraine, also presents itself as a potential negotiating facilitator. But the unknown factor of Syria has all the countries in the region worried, as do Israel & Turkey's positions and Egypt & Jordan's fragility. Trump's 'art of the deal' is unlikely to change much in these areas of concern, where the richer Gulf powers will have a role to play. On the other hand, Trump is expected to play a role on issues relating to a Palestinian state, the focus of all regional discussions.

Scenario expectations for Ukraine have shifted

Whether well-founded or not, Trump's statements about his ability to settle the war in Ukraine were nonetheless enough to shift market expectations towards negotiation scenarios: these are now seen as possible for 2025, both by the financial community and by the strategic community. There are several reasons for this shift in consensus. The first is that Trump's legitimacy depends on his ability to deliver results – economically, socially

and geopolitically. By centralising power and drawing the spotlight to himself, Trump must mark changes. The other reason for this anticipation of negotiations is the increasingly widespread idea that the solution in Ukraine will be more political than military, unless either Russia or Ukraine collapses. Russia's advance on the front also poses a dilemma for Europe, because Ukrainian conscription has its limits: continued support for Kyiv means providing financing & arms supplies, but also, at some point, sending troops, and European public opinion does not seem ready for that. In Trump's world, Europeans are going to have to face up to the gap between their rhetoric of support and the reality of a war that is not currently going as they expected.

A period of limbo between war and peace, in which back-and-forth diplomacy does not prevent fighting, fears of escalation or even incidents that could suddenly steer the scenario towards an intensification of the conflict.

Finally, any negotiations on the future of Ukraine may also be preceded by spikes in military or diplomatic tension, as everyone is currently trying to make sure that they are in the best possible position when the talks open. We are therefore entering a period of limbo between war and peace, in which back-and-forth diplomacy will not prevent fighting, fears of escalation or even incidents that could suddenly steer the scenario towards an intensification of the conflict.

And negotiating means thinking about what comes next. From this point of view, Europe does not seem fundamentally better prepared for war than for peace. Indeed, if Ukraine does not join NATO, the promise of joining the EU will take on even greater importance for Kyiv and, above all, for the war-weary Ukrainian people, who are demanding serious guarantees of security.

Who will decide?

Failure to honour this promise of EU membership would ultimately jeopardise the EU's geopolitical credibility. It would also fuel the pro-Russian upsurge in public opinion in Eastern Europe, as the Romanian elections showed.

More generally, European public opinion is increasingly divided on what part to assign Ukraine in the European symphony. Ultimately, who will decide Kyiv's political and economic place in the world of tomorrow? Polish farmers or the EU institutions?

Tania SOLLOGOUB

DEVELOPED COUNTRIES
A highly conditional scenario

USA – Continued resilience in the shadow of policy uncertainty

Eurozone – A sluggish recovery at a lower pace than potential

United Kingdom – Downward revisions to the growth outlook

Japan – On the cusp of breaking out of structural deflation

A highly conditional scenario

More than ever, the outlook depends on the course of US geopolitical and economic policy. Assumptions about the scale and timing of the measures to be taken by the new administration give reason to hope that the US economy will continue to show resilience. These measures are just one of the explanations for the sluggish recovery in the Eurozone, at a rate below potential.

USA: CONTINUED RESILIENCE IN THE SHADOW OF POLICY UNCERTAINTY

The US economy has remained resilient in 2024, with growth continuing to surprise to the upside and currently tracking at 2.7% for the year as a whole, on an annual average basis. Growth was particularly solid in the middle of the year, averaging 2.9% on a QoQ SAAR basis in Q224 and Q324, and we are currently tracking only a modest slowdown to around 2.2% in Q424.

Going forward, we expect a step down in 2025, but only to a still solid pace of 1.9%, before an uptick to 2.2% in 2026. This would represent continued resilience overall, with growth still chugging along even if we think the robust pace seen in 2023 and 2024 will not be maintained.

Given the looming shift of control in Washington, any views on the economic outlook in the coming years involves a two-step process: first, looking at the current state of the economy and underlying momentum, and second layering on assumptions regarding the details and timing of any policy changes.

While the labour market has clearly started to cool, we see this as more of a normalisation that has brought supply and demand into better balance after a period of overheating.

With regards to the former, the economy and current underlying momentum remain generally healthy. While there are admittedly some pockets of weakness, large swathes of the economy have remained well insulated from rising interest rates, while aggregate corporate and household balance sheets are in good shape, on balance. In our view, this would point to still strong, albeit modestly slower, growth moving forward.

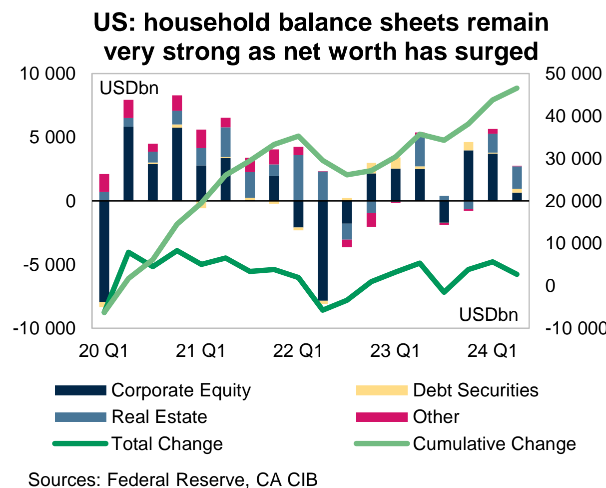
Additionally, while the labour market has clearly started to cool, we see this as more of a normalisation that has brought supply and demand into better balance after a period of overheating, as opposed to a severe deterioration. For example, the cooling experienced thus far has been largely manifested in declining job openings, with layoffs remaining at historically low levels. As well, even after the recent decline in job openings, they continue to outpace the number of unemployed, leaving the vacancy-to-unemployment ratio above 1x. We see only modest additional increase in the unemployment rate to around 4.3%, before it then hovers in the low-4% range through our forecast horizon.

However, a drastic shift in control of the levers of power in Washington, as the US goes from a Democratic President facing a divided Congress to a Republican President enjoying a Republican Congress, means that a shift in the policy mix holds the potential to sway this outlook.

Policy uncertainty remains extremely high, and we stand ready to adjust our assumptions as needed, but we include the following assumptions in our forecast with regards to key policy measures:

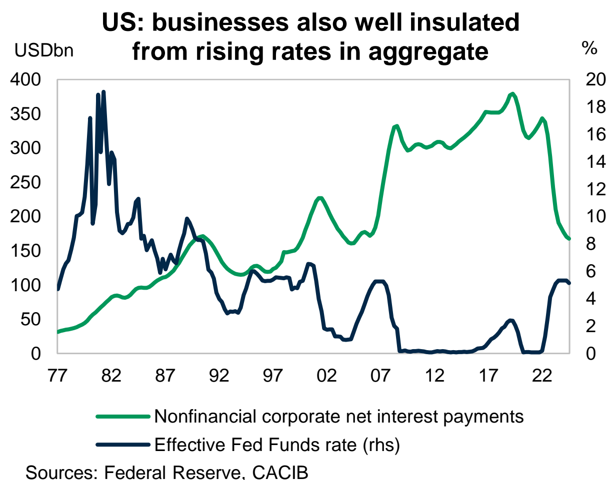
- ✓ **Tariffs:** a middle ground scenario with substantial tariff increases compared to current levels, but not all the way to Donald Trump's campaign proposals.

US: household balance sheets remain very strong as net worth has surged



Sources: Federal Reserve, CA CIB

US: businesses also well insulated from rising rates in aggregate



Sources: Federal Reserve, CACIB

Specifically, we pencil in tariffs on China rising to 40% on average, beginning in Q224, with tariffs on the rest of the world rising to an average of 6%, phased in over H224.

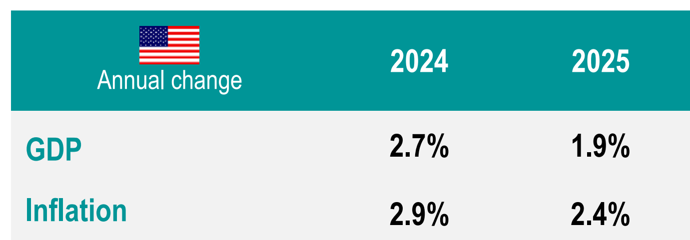
- ✓ **Immigration:** a clear tightening of immigration restrictions, but again a middle ground scenario that does not go as far as Trump's campaign proposals. Specifically, we think the main impact will be to slow immigration inflows back towards levels in Trump's first term (roughly 750k per year) from more than 3.3m in each of 2023 and 2024, as estimated by the CBO. We do expect some deportations, but think these will be more targeted against those that commit crimes once entering the US, as opposed to mass removal of millions of people. Trump can likely impose immigration restrictions right at the beginning of his term.
- ✓ **Fiscal policy/tax cuts:** an aggressive fiscal policy keeping deficits extremely high, with a focus on tax cuts. Specifically, we anticipate a full extension of the Tax Cuts & Jobs Act, with modest additional tax cuts, for example to the corporate tax rate or making tips tax free, also on the table. We are sceptical of the potential for huge spending cuts as an offset. These changes would likely take longer as they would require legislation, and therefore could be more of a 2026 story.
- ✓ **Deregulation:** a major deregulatory push throughout Trump's term, with the energy and financial sectors likely among the beneficiaries. While changes should take place steadily throughout Trump's term, it may take some time for the impact to fully ramp up, especially as some regulatory changes require making comment periods available before changes are implemented.

On balance, we expect this policy mix to be modestly growth positive, with a boost from aggressive fiscal policy and de-regulation outweighing a drag from tariff hikes and stricter immigration policies. That said, we think some of the growth-negative policies will be implemented sooner, with growth-positive policies taking longer to materialise.

As a result, the sequencing of these policy changes in our base case results in slower growth in 2025 compared to 2026. That said, policy uncertainty remains high, both around the eventual details and the timing, and we will adjust our forecasts as needed, as more clarity emerges.

While there are some conflicting pressures on growth from the Trump policy mix, we anticipate a boost to inflation, and consequently have revised our inflation forecasts higher. We had already expected the last mile back to 2% to be the most difficult to achieve, and upcoming policy changes will likely only increase the difficulty level.

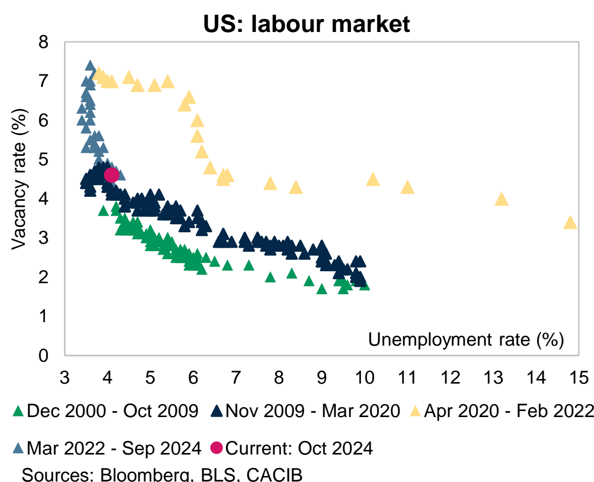
That said, the silver lining is that we think the boost from tariffs and the like may be smaller than many are anticipating. In fact, the sum total of the upward revisions that we have pencilled in are in the 25-30bp range for both headline and core, at the point of maximum impact, and this takes until later in 2026 to fully ramp up to this maximum.



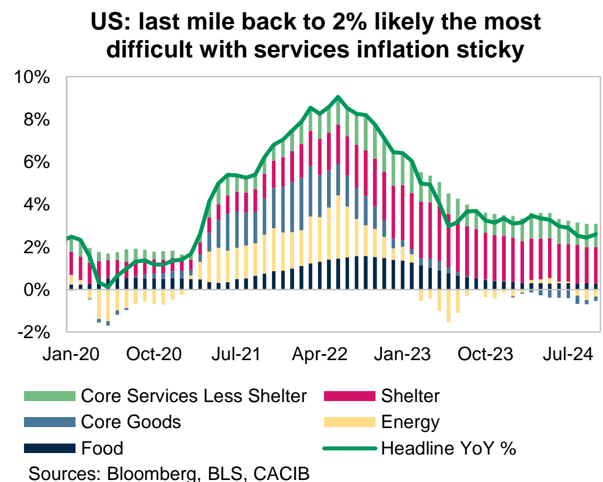
Annual change	2024	2025
GDP	2.7%	1.9%
Inflation	2.9%	2.4%

Specifically, we expect headline CPI to dip to the low-2% range next spring before bumping back up to around 2.4-2.5% by end-2025 and hovering around there through 2026. We look for core CPI to very slowly tick down to finally dip below 3% by March 2025 before holding in the 2.8-2.9% range for the remainder of 2025 and the 2.7-2.8% range in 2026.

Nicholas VAN NESS



Sources: Bloomberg, BLS, CACIB



Sources: Bloomberg, BLS, CACIB

EUROZONE: A SLUGGISH RECOVERY AT A LOWER PACE THAN POTENTIAL

Facing the relative slowdown in the US economy, the Eurozone saw its growth accelerate over the summer, though still at a much slower pace than in the US (0.9% YoY). The upturn in household consumption seen over the summer bodes well for slightly stronger growth in 2025. The latest news on investment does not promise a marked acceleration. We have revised our investment forecast downwards and postponed its recovery until 2026. Our GDP growth forecasts for 2024 and 2025 have therefore been reduced (from 0.8% to 0.7% and from 1.3% to 1% respectively). In 2026, GDP growth would return to its potential rate of 1.2%, but the modest negative output gap would still not be closed. This pace would not be enough to halt a further widening of the growth gap with the US economy, fuelled by a growing divergence in economic policies. The Trump administration's policies would have a moderately negative impact on growth in the Eurozone.

The acceleration in domestic demand: more than just an illusion

The latest estimate of GDP in the Eurozone for Q324 confirmed our forecasts from September, with growth of 0.4%, resulting in **growth for 2024 of 0.7%**. Following growth of 0.3% in Q1 and 0.2% in Q2, growth in Q324 is therefore accelerating.

Domestic demand made a positive contribution to growth (+0.9 points). On the other hand, net foreign demand made a negative contribution (-0.9 points). Inventory accumulation outpaced GDP growth, making a positive contribution (+0.4 points). After several quarters of strong destocking, this rebuilding is common to all the major Eurozone economies. **This growth was driven by a recovery in value added in industry (+0.4% over the quarter), market services (+0.4%) and non-market services (+0.6%), while value added fell in agriculture (-0.8%) and construction (-0.5%).** The distribution of value added is still favourable to wages, thanks to a slight acceleration in employment (0.2%) and wages per capita (0.9%). However, productivity is recovering slightly, allowing the rise in unit labour costs to weaken and the deterioration in margins to slow. Hourly productivity is recovering more rapidly, thanks to the stagnation in the number of hours worked.

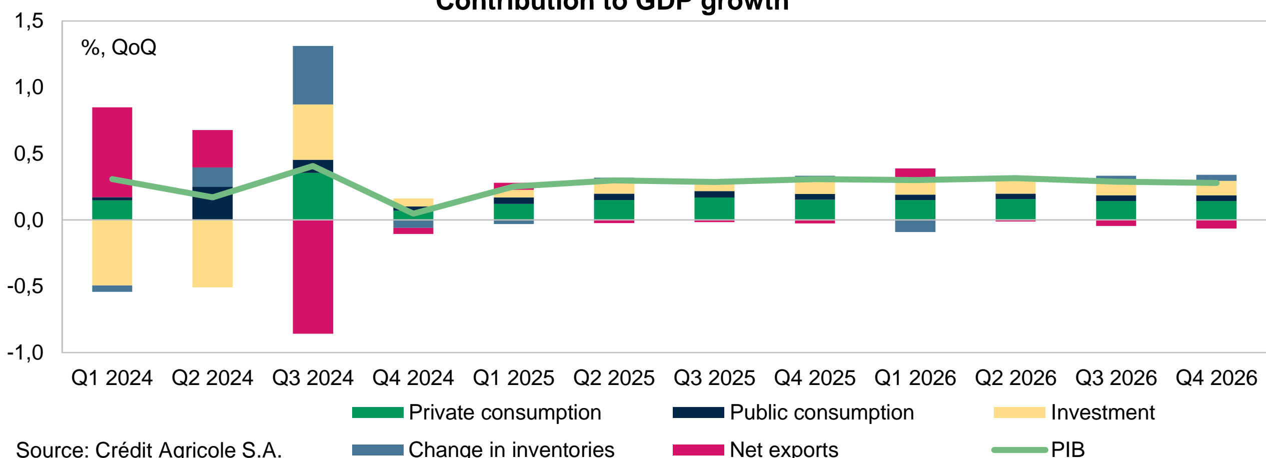
Although the rebound in industrial production in August led to an upturn in Q3, this appears to have been short-lived, given the data for September and October. In October, industrial activity was still down by 1.2% YoY, with a marked decline in the production of intermediate goods (-3.5%) and durable consumer goods (-3.2%). In addition, the latest surveys continue to show extreme weakness in industrial activity.

The acceleration in GDP growth over the summer has therefore not extended into Q4 (0% over the quarter) in our forecast, due in particular to a backlash from growth in France (0%, with a post-Olympic Games adjustment and political and fiscal uncertainty) and a fall in GDP in Germany (- 0.1%).

The positive surprise on private consumption confirms our narrative

The recovery in household consumption in Q3 (+0.7%) is very real, with spending accelerating sharply in all the major Eurozone economies. This is not just the result of the positive and temporary effect of the Olympic Games on French household consumption (+0.6% over the quarter): the rebound is widespread. Private consumption rose by 0.3% in Germany, 1.4% in Italy and 1.1% in Spain.

We forecast a slight acceleration in household spending in 2025, underpinned by increased purchasing power and a reduced need to save, as falling inflation rebuilds real wealth levels and lower interest rates allow some recovery in real estate purchasing power. The capacity to consume is increasing, even if real wages have only just made up for the accumulated losses in purchasing power since Covid and the energy price crisis, without having returned to trend levels. But the will to consume may not follow. **Structural changes in consumption**



Source: Crédit Agricole S.A.

patterns are underway, leading to reduced consumption and greater sustainability. In addition, several years of fiscal consolidation are likely to lead to greater prudence in private spending. Finally, global uncertainty remains high, and this is still encouraging a high savings rate. We therefore expect **household consumption to accelerate only moderately, to 1.1% in 2025 and 1.2% in 2026, after 0.9% in 2024**.

Weak investment momentum still associated with downside risk

The rise in investment in Q3 (+2%) conceals a much less positive reality, since it is **the result of a strong recovery in investment in IT and communication technology goods in Ireland** (+211%), which masks the decline in investment in the Eurozone (-0.4%) and in the Eurozone's main economies. Investment in housing continued to decline, albeit at a slower pace, in all the major countries with the exception of Spain. This stagnation is the result of strong growth in Italy and, to a lesser extent, France, but a very marked decline in Spain.

Investment in housing has been declining at an annual rate for the past two years, while investment in construction and public works has been recovering from the sharp fall of 2022. The *Bank Lending Survey* points to a strong recovery in demand for home loans thanks to the fall in interest rates and the improvement in the housing market, with a recovery in building permits in the northern economies of the Eurozone. The interest rate on new home loans has already fallen to 3.6%, and banks expect conditions to ease significantly over the next quarter. However, despite their acceleration, the flow of home loans continues to grow very moderately.

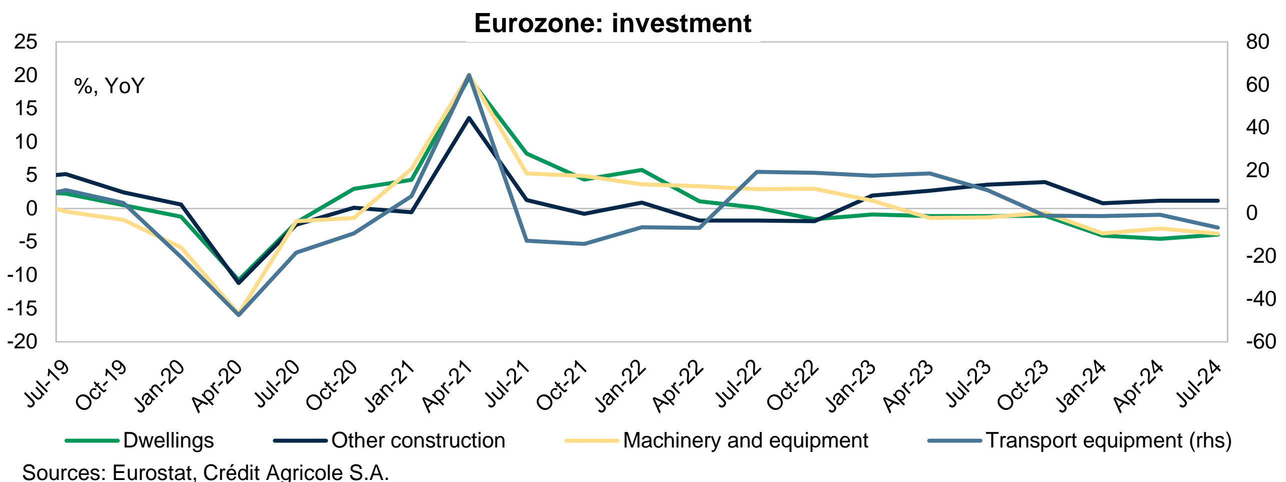
Productive investment fell in the Eurozone in Q4 (-1.8%), driven by a very marked decline in investment in transport goods (-3.8%). The latter was very significant in France (-8%), Italy (-6%) and Spain (-4.2%), while the accumulation of transport goods rose in Germany (+3.8%). Over the past year and a half, productive investment has been falling at an increasingly rapid pace, with transport equipment making a growing contribution. While the flow of loans to non-financial companies has picked up, surveys continue to show weaker demand for loans due to the fall in investment and still high levels of internal financing. The average cost of new business loans has fallen, but credit conditions are expected to tighten. Weak demand and high financing costs explain the downward revision of investment plans in 2024. The European Commission's investment survey points to some improvement in 2025.

> ***Higher tariffs would reduce trade, but expansionary fiscal policy in the US would have the opposite effect by boosting foreign demand for European products.***

We expect investment in housing to stabilise (despite the delayed downturn in Italy due to the end of the *Superbonus* incentives). On the other hand, we have deferred the effect of the transmission of interest rate cuts on productive investment. While the cyclical recovery in productivity will enable margins to improve, the delay in the transmission of lower interest rates to investment decisions is still penalising, since it extends to the end of 2025. Investment decisions will continue to be ‘clouded’ by growing uncertainty over foreign demand and moderated by weak domestic demand. Hiring decisions will follow a similar pattern. **We expect investment to fall sharply (-2.1%) in 2024, then to recover to 1.5% and 2% in 2025 and 2026, with the quarterly pace of expansion remaining modest until the summer of 2025.**

Trump 2.0: the most important transmission channel in the short term is uncertainty

The direct macroeconomic impact of Trump's term in office would be moderately negative for the Eurozone. The uncertainty channel will play an important role in the short term. While higher tariffs could reduce trade, expansionary fiscal policy in the US could, on the other hand, boost demand for European products. The final outcome will depend on the mix between the extent of fiscal easing and of the increase in tariffs, but also on the sequence in which these policies are implemented. Assuming an increase up to



Sources: Eurostat, Crédit Agricole S.A.

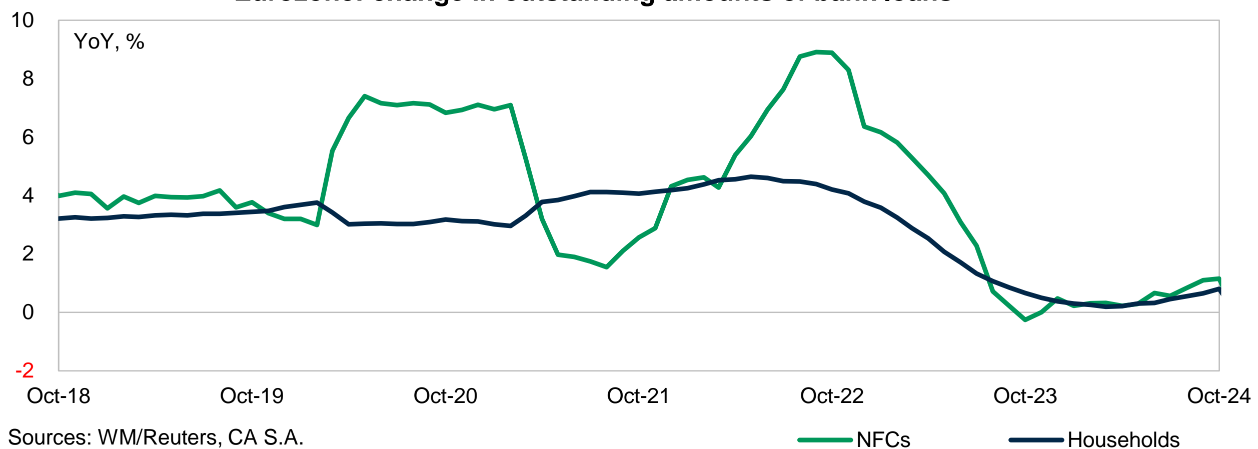
6% in customs duties on certain products (steel, aluminium and automobiles) exported to the US by the EU and a slightly later fiscal expansion on the other side of the Atlantic (see US article), the loss of GDP for the Eurozone between now and 2030 could amount to 0.1-0.2% on average. The impact could be greater in some countries, notably Germany, once we take into account the spread of the shock through the automotive industry's value chain.

No policy-mix support

Facing this new shock, the policy mix remains unfavourable to growth. Monetary policy remains restrictive until mid-2025, when the key rate returns to neutral, while the reduction in the ECB's balance sheet continues provide a negative impulse. An additional negative fiscal impulse from national budgets is forecast, but this is partially offset by the peak in NGEU payments in 2025. This would not be sufficient to halt the rise in the debt-to-GDP ratio.

Annual change	2024	2025
GDP	**0.7%**	**1.0%**
Inflation	**2.4%**	**2.0%**

Paola MONPERRUS-VERONI



UNITED KINGDOM: DOWNWARD REVISIONS TO THE GROWTH OUTLOOK

As expected, the robust rates of growth which the UK economy experienced in H124 proved unsustainable. Real GDP slowed to 0.1% QoQ in Q324, as internal demand remained weak, and exports continued to contract. Business confidence deteriorated further in Q424, suggesting that any acceleration of growth is unlikely before early next year. **We revised down our forecast for Q424 growth to 0.1% QoQ (against 0.3% QoQ previously) which brings our forecast for 2024 annual growth to 0.8% (against 1% expected previously).**

One of the reasons for **the gloomy sentiment in the private sector is the government's announcement of higher-than-expected tax increases in the Budget of 30 October**. By far, the biggest tax measure was the 1.2ppt increase in the employer National Insurance Contributions (NICs). It implies higher labour costs for businesses, which will likely translate into more inflation in 2025 and 2026, but will also likely have negative effects on employment, wages, profitability and business investment.

Businesses will likely cut headcounts and wages while increasing prices in order to preserve margins.

Therefore, **the outlook for 2025 and 2026 is becoming more complicated, not least because of the uncertain external environment and the threats to global trade implied by Donald Trump's re-election in the US**. Despite significant fiscal easing announced in the Autumn Budget[1], fiscal policy will remain restrictive in the coming years. Moreover, Bank rate expectations are revised up due to the hawkish implications of the higher budget deficit. The loosening of monetary policy by the BoE will be more gradual than previously expected. We expect 100bp of cuts next year, 50bp less than expected three months ago, followed by 125bp in 2026. Moreover, past rate hikes will increasingly weigh on household incomes as

[1] Budget policies increase spending by almost GBP70bn (a little over 2% of GDP) a year on average over the next five years. Half is funded through tax increases. The other half of the increase in spending is funded by GBP32bn (1% of GDP) more borrowing annually over the next five years.

mortgage rates remain high and households with 5Y fixed term rates mortgages will have to refinance at higher rates. **According to the BoE, around half of mortgages are expected to see payment increases by Q427.**

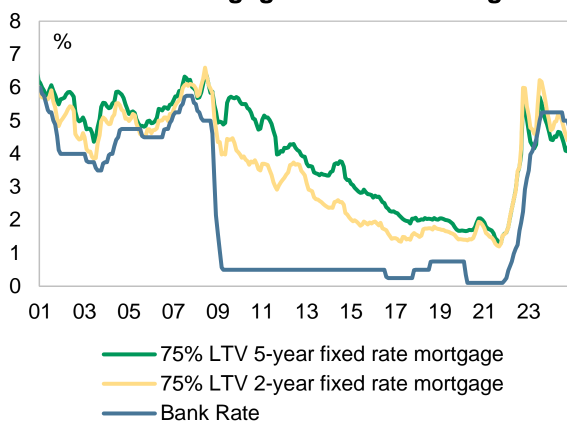
Consequently, **we revised down private consumption growth due to the higher tax burden announced in the Autumn Budget as well as higher interest rate**s. Real income growth is likely to slow in 2025 as wage growth continues to moderate and inflation remains slightly above target. The labour market is set to worsen by more than previously expected due to the impact on business labour costs from the increase in the employer NICs and the National Living Wage (NLW) announced in the Autumn Budget. Indeed, businesses will likely cut headcounts and wages while increasing prices in order to preserve margins. The impact of the Autumn Budget is also expected to be negative on business investment due to the likely negative impact of the increase in labour costs on business profitability, as well as due to higher for longer interest rates.

Annual change	2024	2025
GDP	0.8%	1.2%
Inflation	2.5%	2.2%

These mixed effects of the Autumn Budget on the private sector imply that any positive impact on growth of the fiscal easing in the form of higher public expenditure and capital investment will likely be offset to a great extent by weaker private consumption and business investment than previously forecast. **Our annual growth forecast for 2025 is revised down to 1.2% vs 1.5% expected previously, mainly due to the carry-over effect of a weaker H224. For 2026, we expect a slight acceleration to 1.5%.**

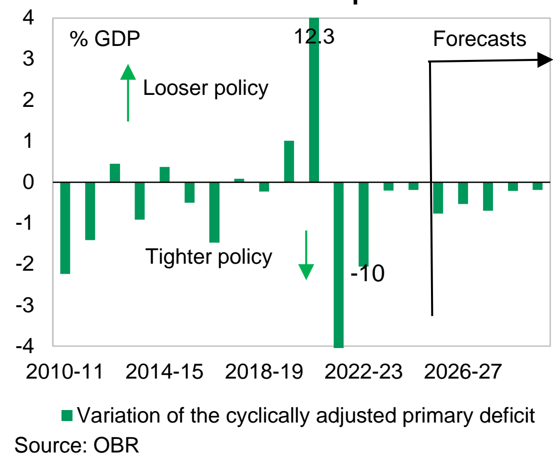
Slavena NAZAROVA

UK: mortgage rates remain high



Sources: Bank of England, Crédit Agricole SA / ECO

UK: fiscal impulse



Source: OBR

JAPAN: ON THE CUSP OF BREAKING OUT OF STRUCTURAL DEFLATION

Supporting growth through economic measures

Amid stagnant domestic demand and the global economic slowdown, the BoJ's premature rate hike decision has put downward pressure on the credit cycle, resulting in negative real GDP growth in 2024. **Real GDP for Q324 was +0.3% QoQ (+1.2% annualised).** Domestic demand is still weak, with de facto negative growth: real private domestic demand in Q3 is still 0.5% below the pre-Covid 2019 average. The problem is, **unless Q4 shows very strong growth of +1.1% QoQ (+4.4% annualised), real GDP growth in 2024 would become negative**. Real GDP growth in 2024 is now likely to be negative. We forecast real GDP growth for 2024 as -0.2%, as the OECD also forecasts negative growth at -0.3%.

> ***Negative growth in 2024 would lead to a return to deflation, and would implement an economic policy that places the highest priority on overcoming deflation.***

Negative growth depresses inflation due to a lack of aggregate demand. Looking at the relationship between the real GDP growth rate and the YoY change in the private consumption deflator (1Y lag, excluding data for 2010 after the GFC, 2021 after Covid, 1997 and 2014 which are the years of the consumption tax hikes), we see that a sluggish growth rate slows the rate of increase in the consumption deflator in the following year. The potential growth rate in the mid-0% range is the dividing line between an acceleration and a deceleration of the consumption deflator.

In 2025, amid the global economic slowdown, the change to a stronger JPY would also put downward pressure on corporate earnings. Wage growth would first lead to a recovery in household fundamentals, which increases the savings rate, and consumption is not yet expected to recover strongly. To recover the weak political base of the administration by expanding public support, large-scale economic measures should maintain growth at the level of the potential growth rate.

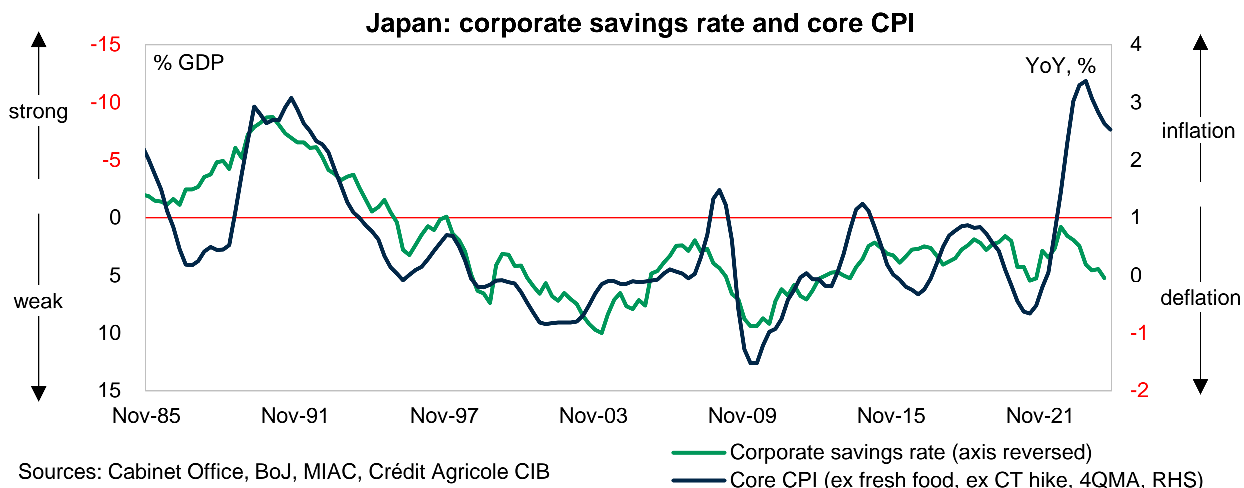
Core core CPI expected to contract to around 1% by end-2025

Negative growth of -0.2% in 2024 would depress the consumption deflator's rate of increase by 0.5ppt in 2025. Considering that the consumption deflator for Q3 was +2.1% YoY, we are concerned that inflation would be well below the 2% inflation target in 2025. While the BoJ and the market seem to believe that the inflation rate would remain stable at around 2% in 2025 and that rate hikes may continue, we believe that the downward impact of negative growth in 2024 has been widely underestimated. The government is concerned that negative growth in 2024 would lead to a return to deflation, and would implement an economic policy that places the highest priority on overcoming deflation. Fiscal spending on economic measures is likely to amount to JPY21.9trn, and although negative growth is likely in 2024, the effects of fiscal spending would prevent a return to deflation. In addition, the basic income tax deduction would be raised, gasoline tax would be reduced, and large-scale economic measures are likely be approved before the Upper House election next summer.

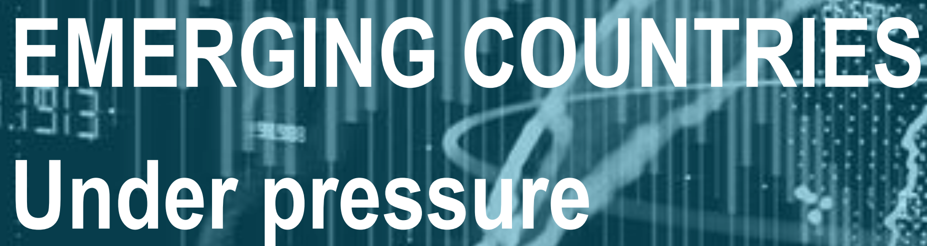
Annual change	2024	2025
GDP	-0.2%	0.7%
Inflation (ex-fresh food and energy)	2.4%	1.8%

The impact of wage increases on service prices in H2 is limited and appears to be insufficient to push inflation to 2% on a sustained basis. The limited rise in service prices is due to weak domestic demand. We expect core core CPI (excluding fresh food and energy) to stay above 2% until mid-2025, but to contract to around 1% by the end of 2025.

Takuji AIDA – Ken MATSUMOTO



Sources: Cabinet Office, BoJ, MIAC, Crédit Agricole CIB



EMERGING COUNTRIES
Under pressure

Overview – Under pressure

Focus – Mexico: in the shadow of a powerful and demanding neighbour

China – China gets ready for the trump storm

Brazil – Higher and higher

India – Switching to a lower gear

Under pressure

The improvements at work in emerging markets risk clashing with the challenges stemming from expected "Trump 2.0" policies.

If it were not for the challenges of "Trump 2.0", one could argue that the backdrop would improve for EMs in 2025. We see three positive factors.

Tailwinds

First, **the beginning of the Fed's monetary easing provides some relief to EMs**. The sharp hike in US interest rates that was initiated in March 2022 has considerably tightened global monetary conditions until a few months ago. The Fed fund went up 525bp and 10Y yields increased by about 300bp in a matter of two years. This has pressured those EMs that rely on external financing. This has also constrained EM central banks, and exerted pressure on EM currencies. The US rate cut cycle, which began in September 2024, is expected to make it easier for EM central banks to cut rates, decrease the FX pressure and more generally facilitate EM's external financing.

Second, **the GDP growth outlook should be resilient**. In EMs themselves, lower inflation and lower interest rates support the purchasing power, consumption and improve the perspectives for investment. Job markets are also supportive on average, with unemployment rates often close to record low levels.

Third, **the EM export dynamic has gained momentum over the past year**. The trade balance, aggregated at the EM level has shifted from a deficit one year ago to a surplus, and not only thanks to China. Looking forward, the sequential strengthening of economic growth in developed countries (first of all in the US) suggests that the demand from developed markets should remain supported.

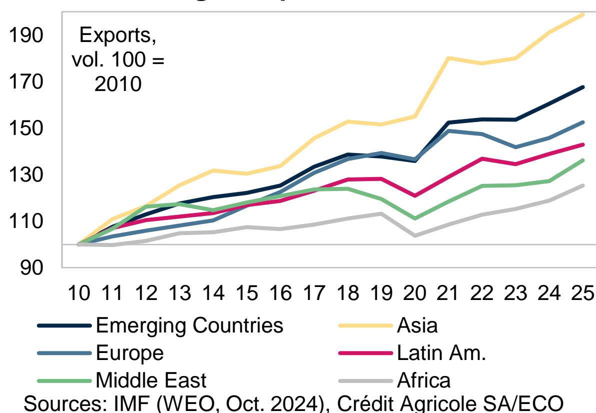
Headwinds

However, these three supporting factors obviously make only part of the story. **The policies that will be implemented by the Trump administration will likely fuel significant challenges for many EMs.** We identify three main angles.

> *Large EM countries that are less opened than others, and that rely on domestic demand to a larger extent than others, may prove more resilient*

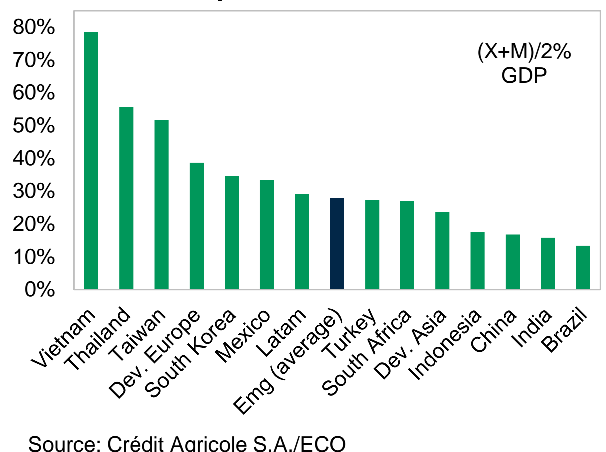
First, **the import tariffs that will likely be imposed by the US will cap EM exports**. It remains unclear what could be the final rate of tariffs, and whether it will be a blanket tariff, or if some specific countries will be targeted more than others. We believe that it makes sense to expect these countries that run a large bilateral trade surplus vis-à-vis the US to be under focus. This includes China and Mexico (*see Mexico focus*), some European countries and also many Asian economies. These economies will feel the heat. Not only are they rather opened to trade across the board, but their exports to the US represent a large share of their GDP: 27% for Mexico, 22% for Vietnam, and from 7-10% for the likes of Korea, Taiwan, Singapore, Malaysia and Thailand (3% for China). Hopefully, China may respond to the US pressure with some additional fiscal stimulus to support its own economy. This is what we expect to happen; and this should indirectly benefit these economies that are well integrated with China (including Asian economies and some commodity exporters).

Exports of goods: regional performances



Sources: IMF (WEO, Oct. 2024), Crédit Agricole SA/ECO

Openness to trade



Source: Crédit Agricole S.A./ECO

Second, **the likely decrease of the US military and financial support to Ukraine may fuel geopolitical uncertainty in Europe** (*see Geopolitics focus*), and Central and Eastern European countries may face increasing pressure, with fiscal (military spending and other supporting measures), monetary (FX constraints possibly intensifying) and demographic consequences (including migration flows). We also expect the pressure on China to remain strong or to intensify, beyond the issue of tariffs.

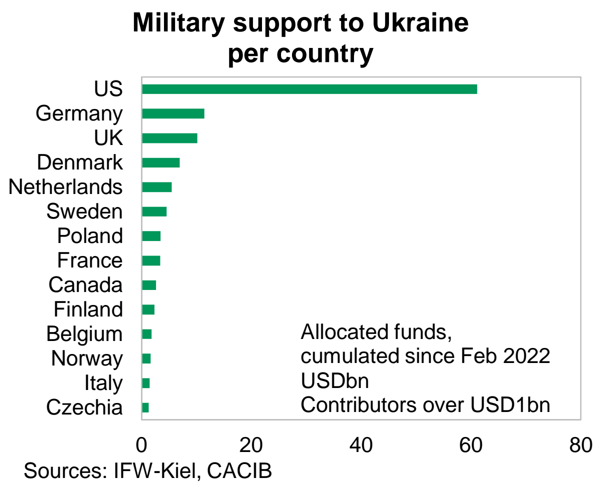
Annual change	2024	2025
GDP	4.2%	3.9%
Inflation	5.8%	4.3%

Third, **the economic policy of the Trump administration may prove more inflationist than that of the previous administration**. That may limit the Fed's leeway when it comes to lowering interest rates. In turn, this would cap the relief for EM.

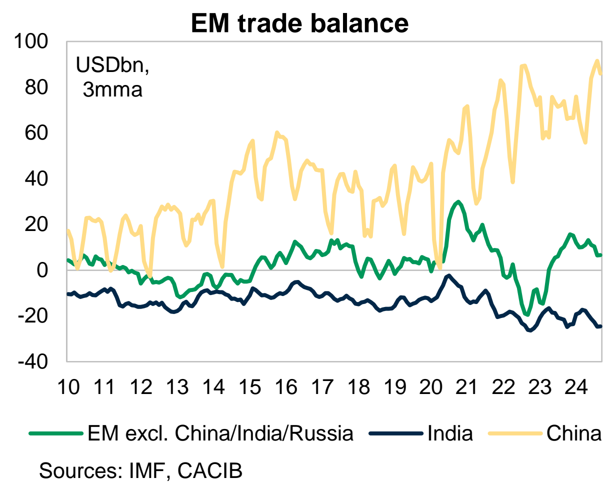
Against such a backdrop, these large countries that are less opened than others, and that rely on domestic demand to a larger extent than others, may prove more resilient. The likes of India, Indonesia or Brazil fall in this categories (although these three countries also face other idiosyncratic constraints).

Overall, **we expect EM economic growth to slow only marginally, from an estimated 4.1% in 2024 to 3.8% in 2025**, with a risk to the downside depending on the US economic policy.

Sébastien BARBÉ



Sources: IFW-Kiel, CACIB



Sources: IMF, CACIB

Focus Mexico – In the shadow of a powerful and demanding neighbour

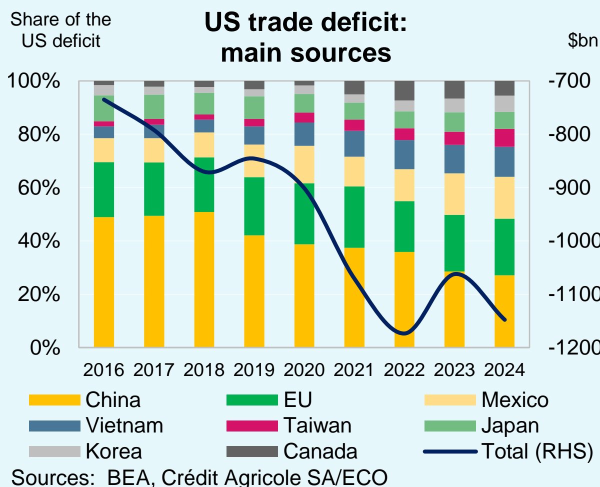
Declarations by Donald Trump or those close to him, such as Jamieson Greer, who has been appointed US Trade Representative and describes Chinese ambitions as "an existential threat to the American way of life", make China their main target, but it is far from being the only potential victim of US tariffs. **US trade anger is focused primarily on China but does not spare countries with which the US has large trade deficits: Mexico**, which is also suspected of being a 'Trojan horse' for China (and other countries), **is particularly concerned**. Trump has threatened Mexico and Canada with 25% tariffs, even though the three countries are bound by a free trade agreement (USMCA) due to be renegotiated in 2026. This agreement, which came into force in July 2020 following the renegotiation of NAFTA, described by Trump as "the worst trade agreement ever concluded", had already tightened trading conditions within the area[2].

In recent years, thanks to protectionism against China and nearshoring, **Mexico has become the second-largest supplier to the US[3], gaining market shares held by Chinese exporters.** This development has led to a widening of the US trade deficit, with significant imbalances concentrated in key sectors where Mexico has considerably increased its exports: automotive, machinery and equipment, and electronics. In addition to the automotive sector, which is still 'in the firing line'[4], **greater attention could be paid to electronic and technological products, of which Mexico is now one of the main exporters to the US**. Mexican imports of technological components from China (and other Asian countries such as Malaysia and Vietnam) have risen considerably, as have imports of Chinese car parts[5].

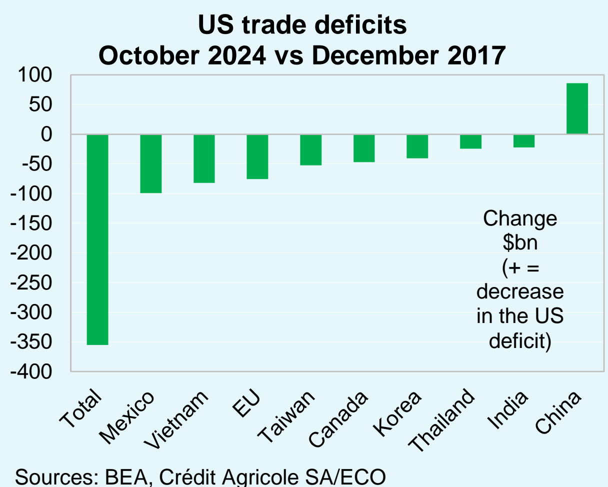
Developing the free trade agreement in a way that prevents it from being 'transgressed' and Mexico from being used as a platform to circumvent tariffs imposed outside the USMCA, while preserving North American trade flows, will likely to be a daunting task, given the intertwined nature of the Mexican and US value chains. For example, of Mexican exports of vehicles and engines, the share of the Mexican value added is 52.8% while the US one is 18.5% (39% of the foreign share of value added). Studies suggest that, **if we look only at Mexican exports of vehicles to the US, the share of US value added rises to almost 70% of foreign value added**.

Developing the free trade agreement in a way that prevents it from being 'transgressed' and Mexico from being used as a platform to circumvent tariffs imposed outside the USMCA, while preserving North American trade flows, will likely to be a daunting task.

If the tariffs were uniformly raised to 25%, the increase in US value imports from Mexico would amount to almost USD100bn: a heavy bill for which it is unclear, in the end, by which agents it would be paid. The tariff hikes brandished by Trump can therefore be interpreted as a maximum threat with which to frighten his opponents before reaching a more reasonable 'deal'.



Sources: BEA, Crédit Agricole SA/ECO



Sources: BEA, Crédit Agricole SA/ECO

[2] The new version imposed, among other things, an increase in the required North American content in automobiles (from 62.5% to 75%) and a minimum wage rule (40-45% of a vehicle produced by workers paid at least USD16 an hour).

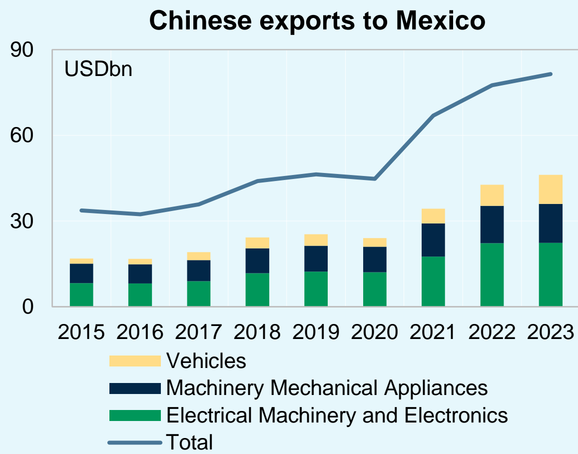
[3] With a 17% share of US imports, Mexico is ahead of the EU (19%), but ahead of China (15%). From Mexico's point of view, the role of bilateral trade is even more obvious: Mexican exports to the US account for over 80% of its exports, or 27% of GDP.

[4] Over the last few years, more than 70% of disputes have concerned the Mexican automotive sector.

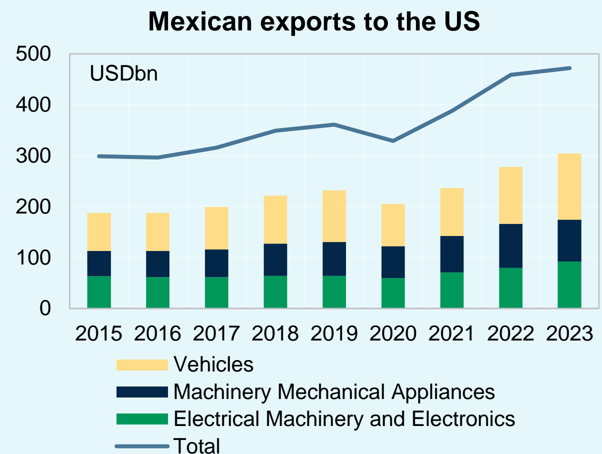
[5] China is now Mexico's second-largest supplier (20% of Mexican imports).

But US concerns extend beyond trade, to include the feared consequences of recent constitutional changes in Mexico[6]. **Negotiations should also cover immigration and drug trafficking.** In this respect, Mexico is already sending out signals that it does want to promote good relations with its powerful neighbour, as evidenced by the announcement of a record seizure of Fentanyl and increased efforts to manage emigration. **Mexican authorities are seeking to reduce their dependence on China.** Claudia Sheinbaum recently championed a plan to replace Chinese imports with Mexican-made products or, if that is not possible, with North American or European imports. This initiative is in line with the policy of Andrés Manuel López Obrador (AMLO). Last summer, under pressure from the US, he imposed a 25% tax on Mexican exports of steel and aluminium which are not melted down and cast in North America, to limit the entry of Chinese steel. Finally, **Chinese direct investments in Mexico remain limited**.

Jorge APARICIO LOPEZ



Sources: Trade Map, Crédit Agricole S.A./ECO



Sources: Trade Map, Crédit Agricole S.A./ECO

[6] These reforms (including changes to the system for electing judges and the abolition of autonomous regulatory bodies) have raised concerns about the independence of the judiciary and are also likely to be a source of tension. The status of Pemex and CFE as companies of national interest, limiting private investment to 46%, contributes to the uncertainty.

CHINA: CHINA GETS READY FOR THE TRUMP STORM

At the Politburo meeting in December, Chinese authorities vowed to support the economy with "more proactive" fiscal policies and a "moderately loose" monetary policy in a bid to stimulate domestic demand and stabilise the property and equity markets.

The atypical wording and degree of support reflect three observations. First, the authorities are genuinely concerned about the slowdown in growth and the weakness of domestic activity. Second, previous measures have not had the desired effect. And third, the Chinese economy needs to prepare for renewed protectionism, initially from the US and Europe, but also from other emerging countries which are increasingly irritated at what they consider to be unfair competition from China.

5% growth - what next?

The Politburo said it was confident its target of 5% growth for 2024 would be met. **We still expect growth to fall slightly short of this target, at around 4.8%** due to feeble domestic demand, which has caused strong deflationary pressure. Inflation should come in at around 0.3% in 2024, well below the central bank's 3% target.

The ongoing slide in property prices is creating a negative wealth effect for Chinese consumers, whose confidence has slumped.

Retail sales growth remains below overall GDP growth and the property market is struggling to stabilise. Key indicators (surface area sold, new construction, average prices) are still contracting, and monetary policy support (rate cuts on mortgage loans, a reduction in the required reserve ratio to release cash) and budget stimulus measures (creation of support funds to purchase properties that are vacant or under construction) have not brought about the expected rise in confidence.

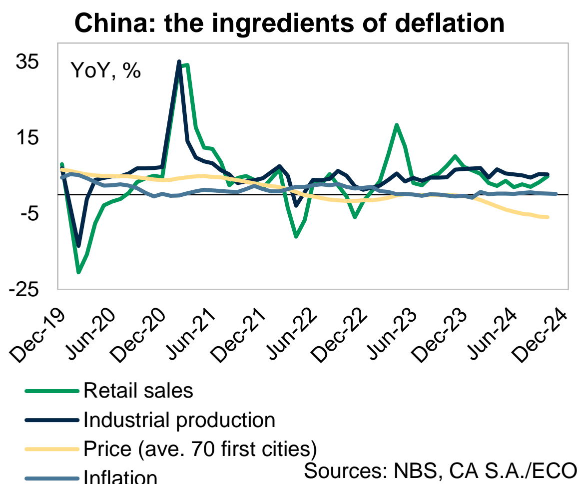
The ongoing slide in prices is creating a negative wealth effect for Chinese consumers, whose confidence has slumped. Faced with the 'three mountains' to be climbed (healthcare, education, housing) and with low wage growth, they prefer to keep up their savings instead of their spending. The luxury sector, where revenues have collapsed in China in 2024, is starting to see this first hand.

What stimulus options are available?

While the **authorities** have so far refused to announce a massive fiscal stimulus like in 2008-09, they have **opened the door to providing more support**, recognising that consumption and stronger domestic demand are key to future growth. Up to now, stimulus measures had been limited to the usual areas: banking, business and infrastructure spending. Could consumption become the new focus, even though Xi Jinping has regularly criticised welfare states as fostering 'laziness'?

The first noteworthy change is the acknowledgement of a lack of transparency regarding the debt levels of local authorities, whose revenues have collapsed with the property crisis. They built up mountains of debt – sometimes hidden in ad hoc financing vehicles – to meet the central government's growth targets, in particular in terms of infrastructure deployment. To put their accounts in order, they have been authorised to issue around USD1.4trn in additional debt, much of which will in fact be used to 'clean up' their existing debt. This is a first step, as the total volume of hidden debt is estimated at USD8.4trn.

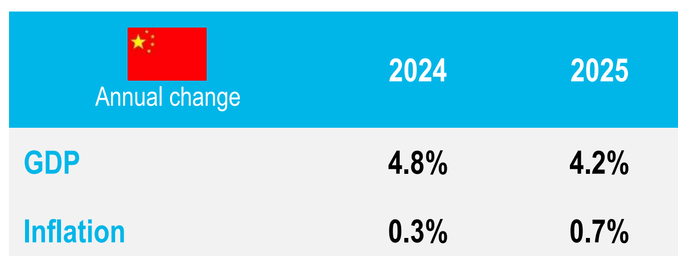
Could the provinces also drive a consumer-led recovery? Local trials could test new public policy before rolling it out on a larger scale. China has little experience in the matter, but its needs are massive. The absence of a social safety net (unemployment, healthcare, maternity, pensions) is key to understanding Chinese households' consumption behaviour and excess savings, and therefore the rise of surplus



production capacity, which – as it is not being absorbed by domestic demand – needs to find a market abroad.

With a period of trade tensions on the horizon, **it is high time that China gave itself a real chance to transition from an economy based on labour-intensive manufacturing and copying foreign technology to an innovation-based economy driven by domestic demand and services**. This transition will be all the more challenging as the US is doing all it can to prevent China from catching up in the technology race for as long as possible. New tariffs have been introduced to curb China's rise in semiconductors, and 140 Chinese companies have been added to the US Department of Commerce's blacklist.

While the scenario of 60% tariffs on China announced by Trump during his election campaign seems unlikely because of the effect it would have on US inflation, a median scenario with tariffs doubling to 40% is possible. In 2018, China retaliated with matching tariffs and lowered its exchange rate to make its economy more competitive. But the CNY is already at all-time lows, and higher tariffs could further dampen domestic consumption, which is already weak. Restrictions on exports of critical goods remain a possibility – starting with rare metals, on which measures have already been announced.



Annual change	2024	2025
GDP	4.8%	4.2%
Inflation	0.3%	0.7%

The markets gave the stimulus a very warm welcome – a sign that the news was expected and hoped for, after months of doubts as to the real state of the Chinese economy and the impression that the authorities had done too little. It remains to be seen whether investors will still be as enthusiastic when further details are provided.

Sophie WIEVIORKA

BRAZIL: HIGHER AND HIGHER

In terms of growth and employment, and even external accounts, the story is a great one, and the upturn in the investment rate has even raised hopes of an upward revision of the potential growth rate (currently estimated at around 2%). But other indicators suggest that the story is one of a very positive output gap, generating inflation that the Brazilian Central Bank (BCB) is working hard to combat.

The Brazilian economy has shown unexpected resilience. Some of the figures speak for themselves: unemployment at a record low (just over 6%), GDP growth of 4.1% YoY in Q3 (taking growth to 3% for 2024 and 0.8% for 2025), buoyant domestic demand, and an upturn in the investment rate (to 17% of GDP). The strength of household consumption and, above all, of productive investment has led to a sharp increase in imports and a negative contribution to growth from net exports. This imbalance in volume has been accompanied by a limited widening of the current account deficit (cumulative over 12 months) which, reduced to 1% of GDP at the start of the year, now only slightly exceeds 2% of GDP, and which continues to be covered by gross direct investment flows (3% of GDP). On the other hand, since bottoming out at 3.2% in June 2023, inflation has picked up to the point of exceeding the upper limit of the target range (3% ± 1.5ppt). In November, inflation reached 4.90%: a sustained pace that reflects the rise in food and service prices, but also the almost 20% depreciation of the BRL against the USD since the start of the year, accompanied by a rise in inflation expectations.

While Brazil is not immune to financial pressures from the US, it is relatively sheltered from US tariff threats.

The BCB has been quick to react: since September, **it has raised its Selic rate by 125bp** to 12.25%. While interest rates and the average cost of credit are high (particularly in real terms), household consumption is still growing at an annualised rate of almost 6% and credit flows are increasing: for the time being, there are few if any notable signs of a slowdown. However, in addition to the output gap, which is considered to be even more positive, the BCB is concerned about the public accounts. The post-Covid effort came to a halt in the summer of 2022[7]. The savings measures announced at the end of November are not likely to comfort the BCB, which considers that the lack of budgetary discipline and the uncertainties over the stabilisation of public debt are likely to raise the neutral interest rate and therefore the cost of disinflation. **The BCB has already indicated that its key rate could be raised by 100bp at each of its next two meetings**

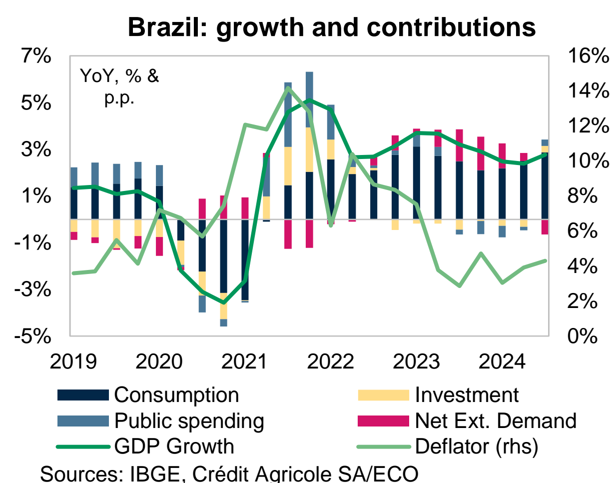
[7] After peaking at 2.4% of GDP, despite sustained growth, the primary surplus (consolidated public sector, cumulative monthly balances over 12 months) evaporated, giving way to primary and total deficits of 2% and 9.5% of GDP respectively in October. The government's net and gross debt stood at 62% and 79% respectively.

(at the end of January and mid-March 2025), taking it to 14.25%.

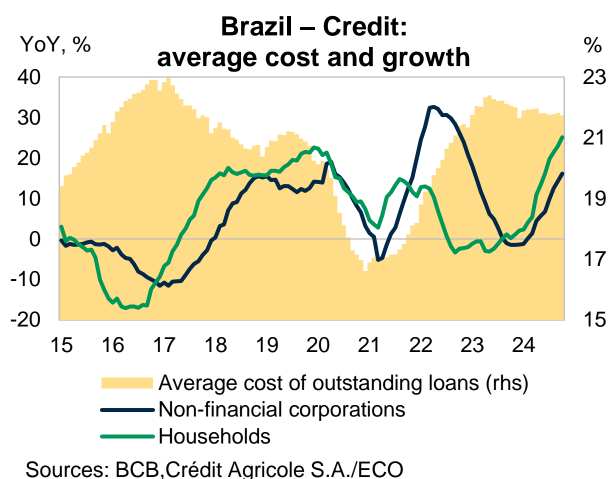
Annual change	2024	2025
GDP	3.4%	1.8%
Inflation	4.5%	3.8%

Tighter monetary and financial conditions, pressure on the BRL, stubborn inflation, less budgetary support, slower growth in real household income: **all the ingredients are there for a slowdown, but not a collapse, in domestic demand**. On the external front, the risks remain measured. The Chinese slowdown is a bad omen, but it should be limited, and Brazil exports essential products. Finally, while Brazil is not immune to financial pressures from the US, it is relatively sheltered (especially compared with its Latin American peers, which are either highly exposed or smaller and more open) from US tariff threats[8].

Catherine LEBOUGRE



Sources: IBGE, Crédit Agricole SA/ECO



Sources: BCB,Crédit Agricole S.A./ECO

INDIA: SWITCHING TO A LOWER GEAR

India's growth is set to slow from 6.8% in 2024 to 6.3% in 2025. Higher living costs and restrictive monetary policy are weighing on consumption and private-sector investment, and slowing global growth will all be a drag on growth in 2025. There are several positives that will support GDP growth in the coming year, however, leaving India outperforming its EM Asian peers.

First, **investment will pick up in 2025**. Significant public infrastructure spending remains in place post India's general election. And, having lagged public investment for several years, private investment potentially faces a strong year in 2025. Business optimism was heading higher into the general election in 2024 and has recovered to pre-election levels post the BJP's loss of its parliamentary majority. Importantly, private companies have been engaging in record levels of equity and debt capital raisings suggesting this optimism is encouraging investment.

The Southern Oscillation and Indian Ocean Dipolar indexes are close to La Nina territory indicating above-average rainfall for India in the coming six months. This will be positive for India's agricultural output as well as rural incomes, jobs and consumption. Weaker industrial commodity prices along with stronger agricultural exports are forecast to restrict growth in India's current account deficit to 1.6% in 2025 from 1.4% of GDP in 2024. India's growth outperformance relative to its trading partners maintains the upward pressure on its current account deficit.

RBI switching to supporting growth

Improving crop yields will lower food price inflation taking pressure off household finances to support consumption and will allow RBI to begin its rate cutting cycle also helping boost consumption and investment. **Indian core inflation has been running below 3% for much of 2024, so food price inflation has been holding RBI back from cutting rates.** We forecast headline inflation in India to fall from 4.5% in 2024 to the centre of RBI's 2-6% tolerance band and 4% in

[8] A large economy with a modest openness rate of 17%; exports to the US are limited to 10% of total exports, or less than 2% of Brazilian GDP; a trade deficit with the US (2023 figures).

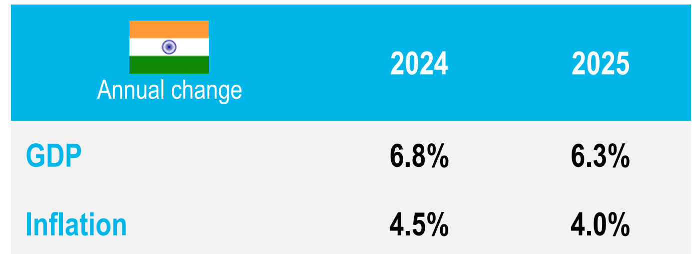
2025. RBI's new Governor, Sanjay Malhotra, while potentially less hawkish than former Governor Shaktikanta Das, will take a pragmatic approach to monetary policy and begin the central bank's rate cutting cycle in February. We forecast RBI lowering its Repurchase Rate from 6.50% to 5.75% in 2025 and to the upper end of its estimate of neutral. This would match the fall in rates we expect from the Fed, limiting the downward pressure on the INR from RBI's policy easing.

India has advantages in global trade wars

Weaker global trade due to rising trading tensions will weigh on Indian growth. Having a large domestic economy and relatively low exposure to global trade means India will not experience as much of a drag on growth from global trade wars as other EM Asia economies. **A key area to watch for India in the coming year(s) will be PM Narendra Modi's relationship with President-elect Donald Trump.** Modi was one of the first foreign leaders to call and congratulate Trump and the PM and President-elect both said the conversation was great. Trump has been critical of India's tariffs on US exports in the past, but India's gradual pivot towards the west and away from China and Russia as well as India's growing geopolitical heft means Modi could earn favour with Trump and reduce the impact of any US tariffs.

> ***RBI's new Governor, Sanjay Malhotra, will take a pragmatic approach to monetary policy and begin the central bank's rate cutting cycle in February.***

India could also continue to benefit from further diversification of supply chains away from China and other US trading partners that fall out of favour with Trump. Key areas to watch on the US-India tariff front will be the technology and pharmaceutical sectors as well as the US's H1B visa regulations for the millions of Indians working and studying in the US. India's diaspora are a significant source of remittances and foreign investment in their home country.

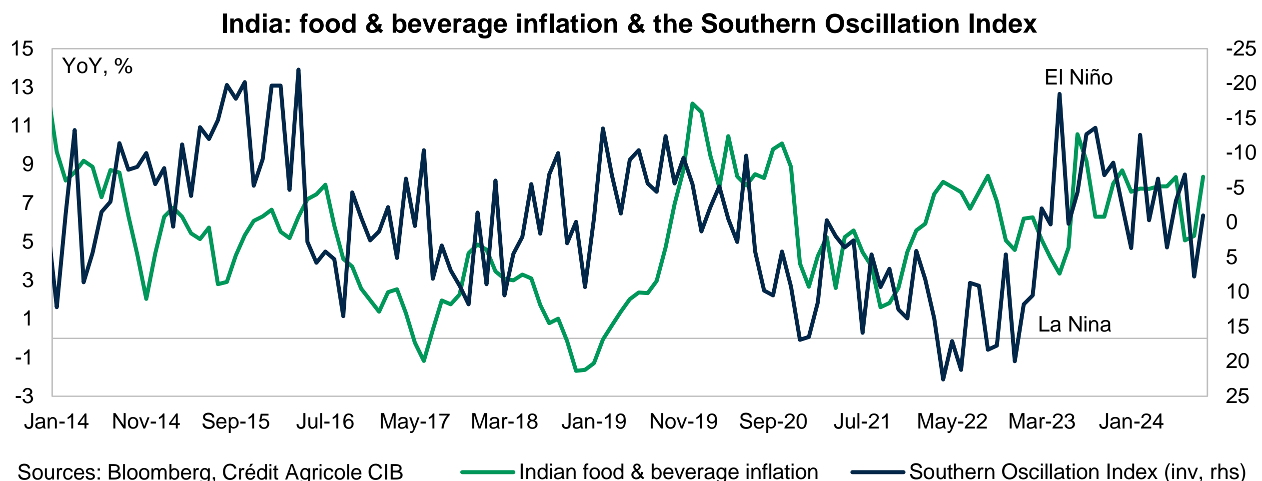


Annual change	2024	2025
GDP	6.8%	6.3%
Inflation	4.5%	4.0%

INR to remain under downward pressure

India's large domestic economy and relatively low exposure to global trade leaves the INR with the lowest correlation in EM Asia with the CNY. The INR is not immune from USD strength, however, especially given we expect RBI to begin gradually cutting rates in February. Foreign investor outflows from India's equity market are also weighing on the currency. RBI continues to heavily manage the exchange rate acting as a brake on USD/INR appreciation. With USD700bn in FX reserves or nearly 10X monthly imports coverage, RBI has significant reserves to support the INR. RBI also recently announced that it is raising the cap on interest rates local banks can offer Indian non-residents on deposits. Banks can now offer rates up to the Overnight Alternative Reference Rate (ARR) plus 400bp on bank deposits with maturities between one and three years. For deposits of three-to-five years, the interest rate ceiling has been raised to Overnight ARR plus 500bp, up from 350bp. We think such efforts will only slow INR depreciation and not turn the trend and forecast USD/INR to peak at 85.00 in 2025.

David FORRESTER



Sources: Bloomberg, Crédit Agricole CIB

Oil – Price stability despite the risk of chaos

Gas – Things are looking more difficult for 2025

Automotive – A structural crisis

Metals – European steel at a crossroads

Semi-conductors – A limited rebound in 2024 despite the rise of artificial intelligence

Container shipping – The challenges of Trump 2.0

Oil – Price stability despite the risk of chaos

Despite the uncertainties surrounding Donald Trump's return to power, our scenario projects stability in oil prices, based on a minimal increase in US production, a slight decline in Iranian production and the renewal of OPEC+ production cuts.

Over the 2025-26 period, the oil market could well be knocked sideways by Donald Trump's return to power in January 2025. The President-Elect has promised to restart drilling and increase oil production in the US. Will he manage to bring the Ukraine-Russia conflict to an end as he likes to boast? And what impact will this have on Russian oil production? Will Europe import Russian oil and oil products again? Will Trump approve a strike on Iranian oil facilities (refused by the Biden administration), and if so, how will Iran respond? And finally, will OPEC+ decide to put an end to its production cuts to regain market share?

New US sanctions on Iran could have only a limited impact on Iranian oil exports.

It is not certain that the new US administration will manage to restart drilling and significantly increase US oil production. The US oil sector has consolidated and the drilling of new wells is now driven by a focus on maximum profitability rather than extra volumes. Several oil majors, such as ExxonMobil and Chevron, have said they will not increase their drilling expenditure in 2025.

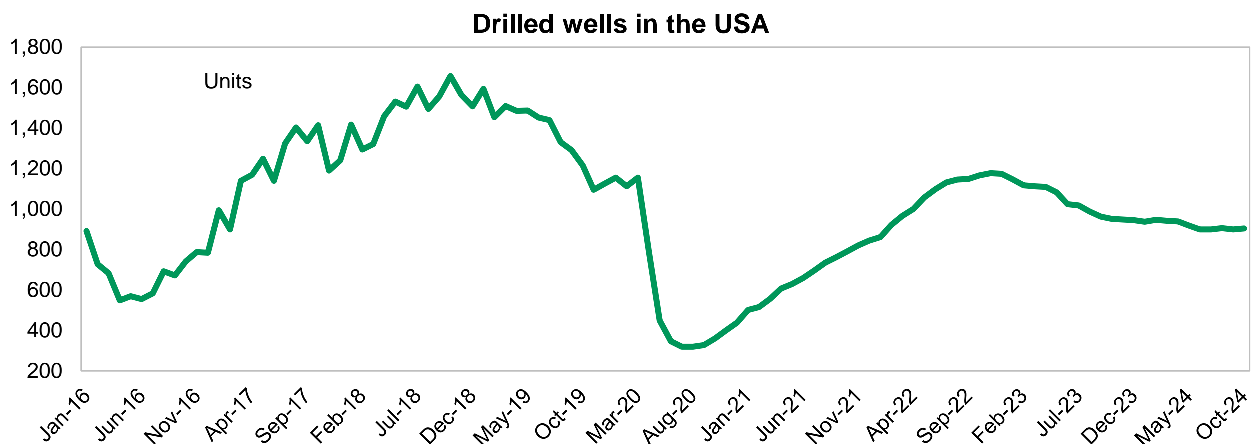
Whatever happens in terms of the political and military situation between **Russia** and Ukraine, Russia will need oil prices to be as high as possible to **finance the war or rebuild its economy in the event a peace agreement is signed with Ukraine**. Europe is unlikely to resume its oil imports from Russia. We believe that Europe will choose to maintain, or even increase, its energy imports from the US in order to reduce its trade surplus and, thereby limit – or even avoid – 'punitive' tariffs being imposed on its exports.

The new US administration is not likely to give the go-ahead for military strikes on oil facilities in Iran. However, we believe that US authorities will impose new sanctions on Iranian oil sales. This should satisfy the leading OPEC+ members, who may take advantage of the situation to increase their crude oil production. However, new US sanctions on Iran could have only a limited impact on Iranian oil exports. Iran has learned how to circumvent sanctions. Blocking the Strait of Hormuz – often threatened by Iran in the past – would only be considered as a last resort, if the very existence of the Iranian regime came under threat.

In these circumstances, and despite a limited increase in oil demand of around 1m barrels per day in 2025 and 2026, OPEC+ will renew its production cuts, as it did in early December. **Our scenario hinges on oil prices remaining relatively stable between 2025 and 2026, at between USD75 and USD85 per barrel.**

	Average oil price (barrel)
H4 24	$ 75
2025	$ 78

Stéphane FERDRIN



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

Gas – Things are looking more difficult for 2025

The stability in the gas market in 2024 may not be repeated in 2025. The end of Russian pipeline gas imports and an earlier winter are threatening to put renewed pressure on the gas market in 2025.

European natural gas demand remains low and does not look set to return to pre-2022 energy crisis levels. In particular, demand from the industrial sector has still not recovered due to low activity levels in gas-intensive sectors. Strong production from hydropower facilities thanks to this year's heavy rainfall and from French nuclear plants has limited the need to use gas-fired power plants to meet electricity demand. Liquefied natural gas (LNG) imports in Europe continued to fall over Q324. The volumes freed up by Europe are sent to Asia.

Any easing of federal rules by the new US administration will not increase gas liquefaction capacity for several years.

2025 will mark the end of Russian gas imports via Ukraine, which mainly supplied central European countries. The transit agreement between Ukraine and Russia ends on 31 December 2024 and will most likely not be renewed, even if Trump – as he likes to boast – manages to bring an end to the conflict that has affected Europe and its energy markets for nearly three years. Even if Europe continues to import Russian LNG, which is essential for the equilibrium of its energy market, it will prioritise the US for its natural gas supply. With the end of Russian pipeline gas imports in 2025, the EU will have to import around 13bn m^3 in additional LNG, representing an increase of approximately 12% in relation to current levels.

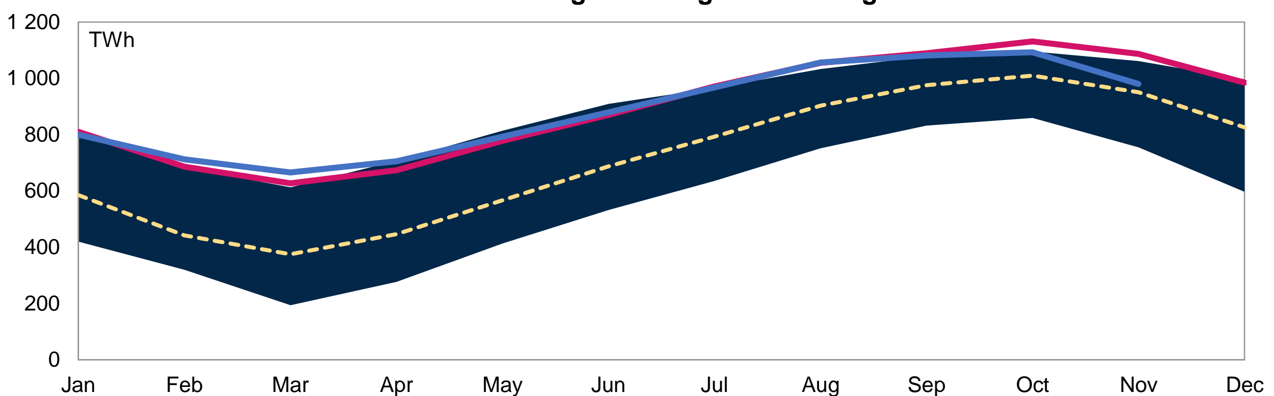
Winter 2024-25 seems to have come earlier than last winter. The inventory drawdown was bigger in November than in last year. At the end of November 2024, gas storage levels showed a shortfall of around 10bn m^3 in relation to November 2023. This represents the equivalent of one month's LNG imports by the EU. If this shortfall does not worsen by the end of winter, Europe will need to import around 12bn m^3 of natural gas per month (vs an average of around 8.5bn m^3 in 2024) during the injection season (between April and October) to offset the loss of Russian gas and rebuild storage levels to 100%.

While Europe will potentially see an increase in its LNG requirements, supply is only set to rise slightly in 2025. Several liquefaction terminals in the US are well behind schedule. Trump's arrival in office – although positive for an increase in natural gas mining and exports – will have little impact on the availability of US liquefaction facilities in 2025. Any easing of federal rules by the new US administration will not increase gas liquefaction capacity for several years.

	EU LNG imports
Q3 2024	21.3 billion m^3

As a result, **competition for LNG between Europe and Asia could intensify in 2025, causing gas prices to rise compared with 2024.**

Stéphane FERDRIN



Automotive – A structural crisis

Demand is much weaker than expected, threatening the transition to electric vehicles (EVs). The unequal balance of power with Chinese manufacturers in the EV segment is inevitable. At the same time, the industry is restructuring. The Autos sector is being hit from two sides: declining sales and the harder-than-expected industrial transition.

Affordability of vehicles

Car prices were up by more than 30% between 2019 and 2021, with this price increase far outstripping the rise in income. European consumers have therefore considerably reduced their car budgets. The cost of an EV is still not comparable to an equivalent petrol or diesel engine model, and there are still too few models available for EUR20-25k. In addition, governments across Europe are reducing subsidies for EV purchases.

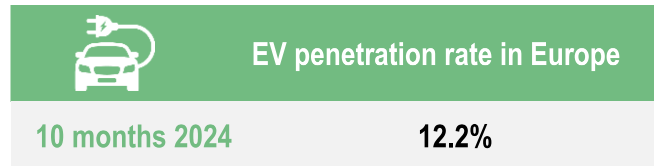
The rude awakening has hit the European automotive sector particularly hard as electric vehicles are not as profitable as traditional models.

The reality of EV sales contrasts with Europe's emissions reduction plans

This undermines the ambitious objectives of European carbon emissions regulations, which set intermediate obligations of -15% in 2025, -55% in 2030 and -100% in 2035 (compared with the reference emissions level of 95g of CO2/km set in 2021 for new vehicles). Will this reality check lead to a relaxing of the rules? This is by no means certain. Over the first ten months of 2024, the EV penetration rate was 24.6% in China, 12.2% in Europe and 7.7% in North America. The lag in Europe means it is unlikely that European manufacturers will meet the target of EVs accounting for 25% of sales in 2025. The current forecast is for 18% – lower than initially expected.

Surplus production in China is disrupting sector balances around the world

The advent of EVs is reshaping the sector, which is also suffering from competition from Chinese manufacturers. The Chinese domestic market is progressing, but less so than in the previous decade. As a result, many factories have surplus production and are seeking new export markets. Geopolitical tensions and a global shift towards to more protectionism (and even overtly protectionist policies) are having no effect on such an uneven balance of power. Customs barriers can stem the tide, but the structural imbalance remains unresolved.

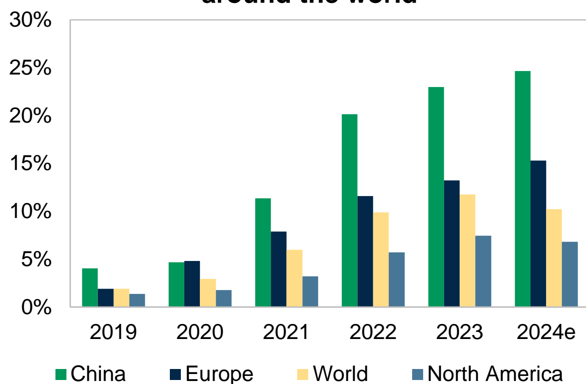


Sharp decline in profitability until 2026

The rude awakening has hit the European automotive sector particularly hard as EVs are not as profitable as traditional models. In Q324, while sales were down by 14%, European manufacturers' operating profit fell by 40%. We expect their operating margins to decline until 2026, falling from a peak of 10.8% in 2022 to a low of 6.8% in 2025. Similarly, equipment manufacturers, who have been hit hard by the drop in volumes, will also experience some tough times. To survive, all are restructuring hard, lowering their break-even points by nearly 20% in Europe: a bitter reality check.

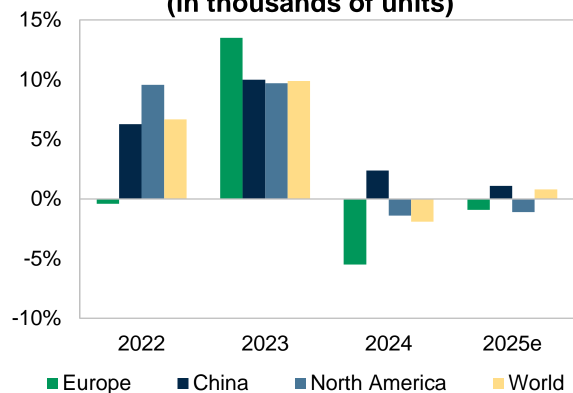
Véronique VIGNER

EV Penetration rate around the world



Source: Crédit Agricole S.A./ECO

Automotive production (in thousands of units)



Sources: S&P global,Crédit Agricole S.A./ECO

Metals – European steel at a crossroads

The European metals sector is at a particularly difficult low point in the cycle, and in 2025, it will also have to address its decarbonisation with the application of the EU's Carbon Border Adjustment Mechanism (CBAM) and the gradual phasing out of its carbon emissions allowances at the start of 2026.

With no signs of recovery in demand from the key construction and vehicle manufacturing sectors, apparent steel consumption in the EU in 2024 is expected to fall to its lowest level in the past ten years, at around 127m tonnes.

Interest rate cuts in recent quarters – theoretically good news for the sector – are only likely to start feeding through from 2025, meaning that end-2024 could be the low point in the cycle. However, the recovery in demand expected over the next year is uncertain and will probably be limited, at around 3%, matching 2023 levels, but still well behind the pre-Covid era.

As well as suffering from weak demand, European manufacturers are also facing record imports.

As well as suffering from weak demand, European manufacturers are also facing record imports. **More than 70% of imports in Europe over the first seven months of 2024 came from Asia**, where domestic markets are unable to absorb surplus production from China, whose depressed real estate sector is continuing to affect demand for steel. A possible return to the tariffs in force during the first Trump presidency would be likely to worsen this situation, given the possible rerouting of part of the trade flows to the EU.

Uncertainties and a wait-and-see approach are weighing on green steel

The European metals sector will have to implement its decarbonisation strategy in this depressed economic environment. The end of the CBAM transitional phase in 2025 and the launch of the operational phase in **January 2026 will mark the start of the phasing-out of the sector's 'free' carbon emission allowances**. The CBAM is the main driver of the sector's decarbonisation, but its current form has failed to convince manufacturers and its impact on the European market remains uncertain.

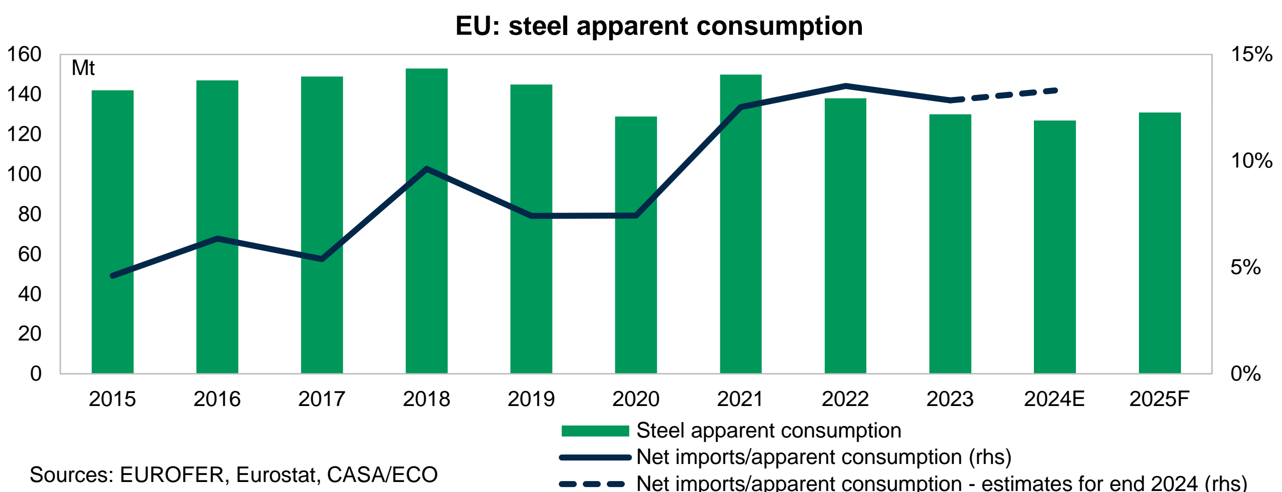
In addition, the **announcement in June of the extension of certain safeguards for some steel products until 2026 did not lessen calls for more protectionism in Europe** to ensure the economic viability of the green steel production model, among other reasons. Green steel is highly dependent on energy prices, which remain high in Europe, and will also require considerable capex to deliver an irreversible transformation.

	European steel trade deficit
H1 2024	1.7 Mt/month

Wait-and-see seems to be the dominant approach at the end of 2024, with 2025 likely to be the last opportunity to adjust the European legal framework in the manufacturers' favour.

Guillaume STECHMANN

EU: steel apparent consumption



Sources: EUROFER, Eurostat, CASA/ECO

Semi-conductors – A limited rebound in 2024 despite the rise of artificial intelligence

Semiconductors are seen as the oil of the digital age. Macroeconomic uncertainty and geopolitical tensions around the world could slow down the sector's growth and disrupt its supply chain.

The semiconductor sector, which was initially highly integrated, has fragmented over time. It is capital-intensive and has a complex global supply chain, whose gravity centre still leans heavily towards Asia. It comprises three types of activities: (1) design; (2) manufacturing – which involves foundries –and (3) assembly, testing and packaging (ATP).

Growth in the sector is currently driven by memory chips and graphics processing units (GPUs), which are essential for AI.

The sector is cyclical, regulated by supply and demand for end-user products and chip inventories. In 2023, the cycle hit a low, with revenues down by nearly 12% vs 2022, at USD530bn. The rebound is slower than expected, mainly due to a slowdown in demand for smartphones, PCs and tablets, which together account for one-third (33%) of the sector's revenues.

AI and memory chips are the growth drivers

The rebound only truly picked up from Q224 with two consecutive quarters of growth in Q2 and Q3, respectively with 6.5% and 9.2%. Strong demand for memory chips and graphic processor units or GPUs drove this growth.

GPUs are the engines of computing power. They are essential for the training and inferencing of artificial intelligence (AI) models, which have been booming since the advent of ChatGPT in November 2022.

The rebound has continued, but at a slower pace, with 8.3% in Q424 and a decline of -1.9% expected in Q125. Foundry utilisation rates are below 80%, but are expected to rise above 82% in Q425, while sector revenues will cross the USD700bn milestone in 2025.

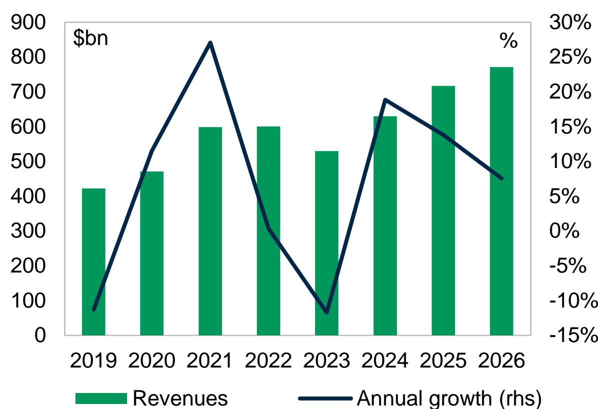
	Global semiconductor market
2024	$630 billion
2025	$717 billion

A sector at the centre of global geopolitics

Taiwan currently accounts for more than 51% of foundry capacity, followed by China with 26%. Geopolitical tensions between the US and China result from their respective quest for technological sovereignty and strategic autonomy. This requires autonomy in semiconductors. Donald Trump's election as the next President of the US could further fragment the supply and push prices up.

Rabindra RENGARADJALOU

Worldwide market revenue trend



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

Worldwide foundry utilisation rate

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

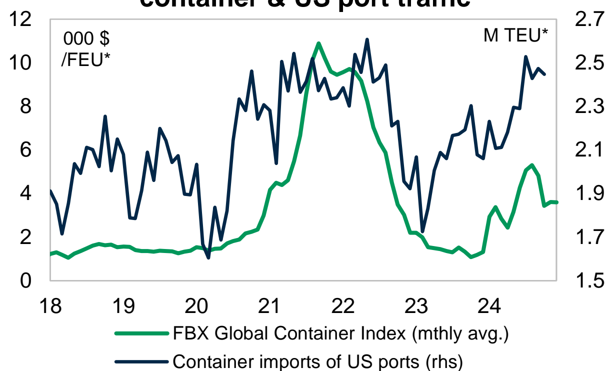
Container shipping – The challenges of Trump 2.0

As Donald Trump returns to power with plans for massive import tariffs, global trade could face a new shock. Shippers are being sorely tested by geopolitical tensions and logistics problems and the pressure is not expected to ease any time soon.

Against all expectations, maritime container shipping is ending its best ever year (excluding market bubbles), having handled the biggest wave of deliveries in history. **Spot market freight rates have soared again**, reaching 50% of the highs seen during the Covid pandemic in early August. Although these rates have since eased, they remain two to three times higher than last year, allowing transporters to raise contractual freight rates.

Continuing Houthi attacks on ships in the Red Sea are one cause of this overheating, as ships are taking the longer route via the Cape of Good Hope, mobilising 7% of global capacity. This situation, combined with shippers' expectations of forthcoming disruptions to logistics, triggered **inventory building** in the spring, which **exacerbated tension in the sector and caused renewed port congestion especially in China**.

Average freight rates for a 40-foot container & US port traffic



Sources: Bloomberg, Datastream, Freightos, CA S.A.
* TEU: 20-foot equivalent unit - FEU: 40-foot equivalent Unit

US ports volumes are now close to the record levels seen in 2021-22. The same applies in Mexico and Brazil – major markets for China up to now. **For 2024, while we expect global traffic to rise by more than 5%, capacity demand will increase by more than 15% due to the longer distances travelled, delays and the greater imbalance in shipping routes in favour of exports from Asia.**

The return of Donald Trump – no stranger to this situation – threatens to cause a new unparalleled shock for international trade, with his announced drastic increase in customs duties to more than 60% on China, including 10% immediately at the start of his term, also targeting other countries such as Mexico and Canada.

While the measures actually adopted will probably be more pragmatic, they will accelerate the decoupling of the US and China. Despite geopolitical tensions and the tariffs in place since 2018, China continues to dominate containerised US imports, with a market share of nearly 40%. Since 2018, it has lost 7 points to other countries such as Vietnam, Thailand and South Korea. While imports of Chinese products exempt from tariffs have increased, the value of imports of goods subject to 25% duty has fallen by half.

In the short term, spot freight rates could remain high, before returning to a downward trend

Higher and more broader tariffs would further shift US supply chains, extending shipping routes and creating new logistical challenges. Depending on the extent of the new tariffs and the targeting of circumvention strategies, in Mexico for example, and given the expected retaliation, a decline in North American container traffic cannot be ruled out.

In the short term, spot market freight rates could remain high, underpinned by a wave of imports ahead of forthcoming tariffs and the risk of disruption, although a repeat of the strike by dockworkers at US East Coast ports, who received the support of the new president, now seems less likely.

Natural market forces should then take over. Continued robust shipping deliveries, lower demand due to high inventories, and the removal of new customs tariffs should reduce freight. **The easing would accelerate further if ships were able to resume their usual routes via the Red Sea.**

Bertrand GAVAUDAN

MARKETS

Monetary policy – Measured easing, early stopping

Interest rates – Upward pressure

Exchange rates – The dollar: already very high

Monetary policy – Measured easing, early stopping

The market's hopes of bold easing have been dashed and are no longer on the agenda, especially in the US. A 'resilient' economy and a slight upturn in inflation warrant modest residual easing. In the Eurozone, the ECB's key rate is likely to fall just below its supposed neutrality.

FEDERAL RESERVE: A SHALLOW EASING CYCLE

With the Fed finally having begun its easing cycle in September, the key questions as we enter into 2025 centre around how quickly the Fed will cut going forward, and how far these cuts will go. Given our views outlined above that the economy will remain resilient and inflation will hold above 2%, we expect the easing cycle to be a relatively shallow one overall, with limited additional easing from the current stance.

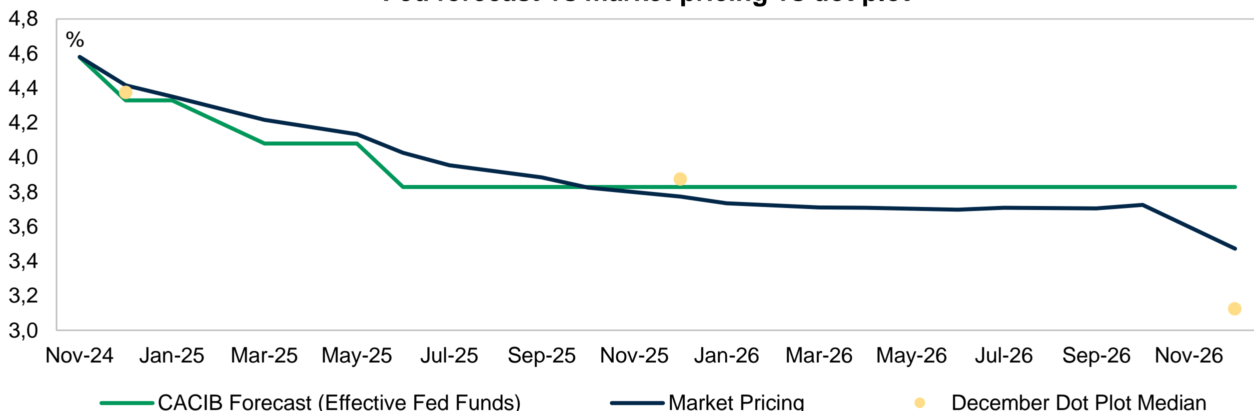
Specifically, we anticipate an additional 50bp of cuts in total, before the Fed then goes on an extended pause with a terminal rate of 4.00% for the upper bound of the target range. In terms of the pace, our base case sees the Fed switching to an every-other-meeting cadence in H225, skipping meetings in January and May but cutting in March and June, before then pausing.

This follows a total of 100bp of cuts in 2024, including a jumbo cut to start the cycle in September followed by consecutive 25bp cuts in November and December. That said, the Fed has clearly signalled it is "at or near" the point of slowing its pace of easing, with this sentiment consistent with our view.

Run-off will conclude with reserve balances in the USD3trn range.

Balance sheet run-off should continue into early 2025, but we think the Fed is approaching an end to QT, which we anticipate will happen at end-Q125. Reserve balances are the key balance sheet line-item to watch concerning this decision, with the Fed targeting a ratio of reserves to GDP of around 10-11%, according to comments from FOMC members. In this vein, we think run-off will conclude with reserve balances in the USD3trn range and the total balance sheet in the high-USD6trn range.

Nicholas VAN NESS



Sources: Bloomberg, Federal Reserve, Crédit Agricole CIB

EUROPEAN CENTRAL BANK: QUALITATIVE EASING, QUANTITATIVE TIGHTENING

After cutting interest rates by 25bp four times in 2024, the ECB should continue its rate-cutting cycle in 2025, gradually moving towards, or slightly beyond, its neutral rate.

We expect the ECB to cut its deposit rate by 25bp at its meetings in January, March and April, and then keep it on hold at 2.25%. This is slightly below our estimate for the neutral rate (2.5%), meaning the ECB would have an accommodative stance.

Contrary to market pricing, the ECB should not have to cut key rates any further, since inflation is expected to remain close to 2%.

Contrary to market pricing, the ECB should not have to cut key rates any further, since inflation is expected to remain close to 2% or slightly lower, and the recovery in economic growth – albeit weak – will continue.

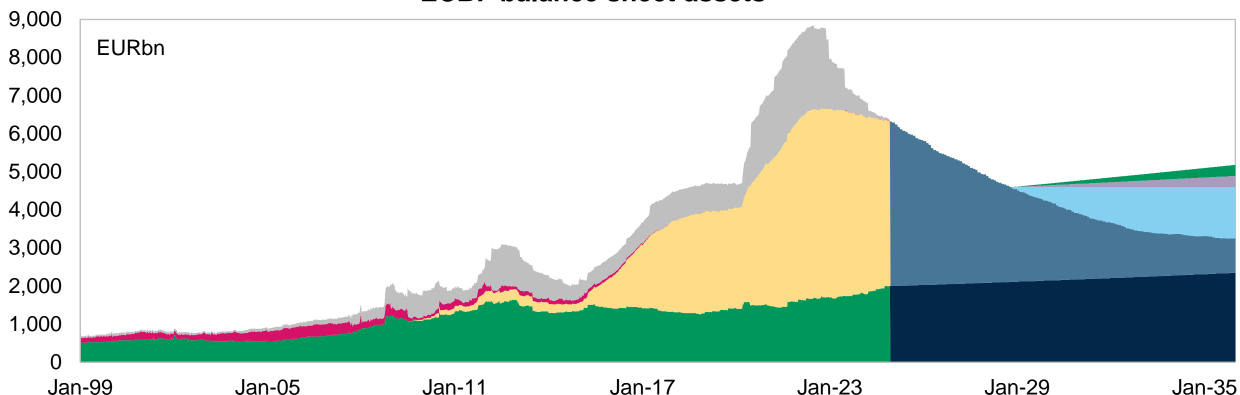
As set out in its new monetary policy framework, the ECB will continue to reduce its balance sheet. The last TLTRO III operation ends in December 2024 and thereafter the ECB will only use standard refinancing operations – one-week MROs and three-month LTROs – with a refi rate 15bp above the deposit rate. Since these operations are relatively expensive and as banks have low liquidity requirements, we do not expect the use of these operations to increase significantly.

In terms of asset purchases, the ECB will stop all its reinvestments from January 2025, ramping up its quantitative tightening slightly – up to now, it partially reinvested redemptions under the PEPP. The asset portfolio will be reduced by an average of EUR45bn per month over the year.

As a result, **banks' liquidity should continue to decline, by around EUR500bn over the year**, falling from around EUR3trn to around EUR2.5trn. Although this seems to be a considerable amount, liquidity will gradually become scarcer, and the effects of this should continue to be felt on the debt markets.

Louis HARREAU

ECB: balance sheet assets



Sources: ECB, Crédit Agricole CIB

BANK OF ENGLAND: THE MEASURES ANNOUNCED IN THE AUTUMN BUDGET IMPLY TWO-SIDED RISKS

The BoE cut its key policy rate in August and November, by a total of 50bp bringing it to 4.75%. We expect it to stay put in December and to continue signalling that "if things evolve as expected, it is likely that interest rates will continue to fall gradually". Continued modest upside surprises in services inflation (notwithstanding downside surprises in total CPI inflation) and uncertainties related to the impact of the fiscal plans outlined in Autumn Budget 2024 justify a cautious approach in the rate setting. Indeed, the fiscal plans of the new government represent a substantial near-term loosening of fiscal policy compared with the plans outlined by the previous government in March, with government expenditure projected to rise on average by around GBP70bn (2% of GDP) per year from 2025-26 compared with the OBR's March projections, partially offset by taxation measures.

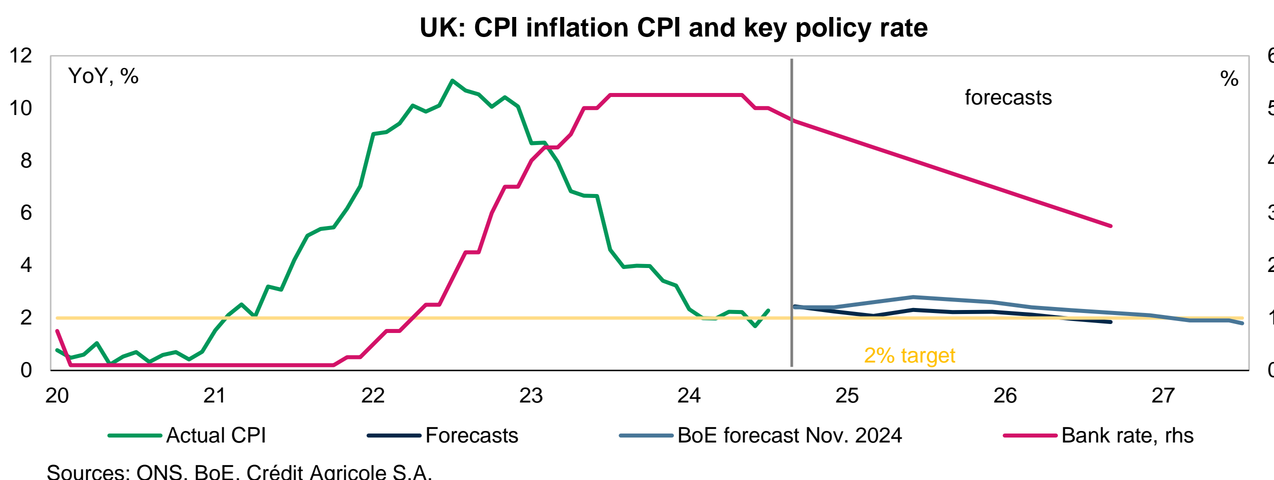
Crucially for the inflation outlook, **businesses are facing a significant increase in labour costs from April 2025**: changes to employer National Insurance Contributions (NICs), increases in the National Living Wage and costs associated with the employment rights bill. The changes to employer NICs are estimated to result in an average annual tax increase in excess of GBP800 per employee. The impact of the Budget announcements on inflation will depend on the degree to and speed with which these higher costs pass through into prices, profit margins, wages and employment. The degree of pass-through of labour

costs increases to prices will depend on the state of internal demand: **in the context of subdued consumer confidence and elevated interest rates, firms are less able to pass their cost increases to consumer prices and may decide to cut more in headcounts or wages instead**.

The changes to employer NICs are estimated to result in an average annual tax increase in excess of GBP800 per employee.

The implications for monetary policy are two-sided risks depending on how firms respond to the measures: higher prices in the near term but also lower wages and more labour market slack, implying a weaker medium-term outlook for inflation. **We have revised both our inflation and unemployment rate forecast to the upside.** But, while the BoE expects a boost to CPI inflation of "just under 0.5pp at their peak", we believe that the weakness in demand will result in lower pass-through to prices than expected by the BoE. Still, CPI inflation will remain above-target for longer as a result of the Autumn Budget measures, reaching a peak at 2.8% in Q325 according to the BoE (2.3% in our forecasts), but still falling below target in the third year of the forecast period (Q227 against Q426 in our forecasts). **We have raised our forecast for the Bank rate for 2025 by 50bp, foreseeing only one rate cut per quarter. We forecast slightly more easing in 2026 to a terminal Bank rate of 2.75%.**

Slavena NAZAROVA



BANK OF JAPAN: UNLIKELY TO CONTINUOUSLY HIKE RATES IN 2025

Due to continued unstable political developments and the prospect of a contraction in inflation in H225 due to a slow recovery in domestic demand, the BoJ would be unable to raise rates for some time after raising them to 0.50% in January 2025. **The BoJ could enter a full-fledged rate hike cycle toward a neutral rate in H126**, when domestic demand is expected to expand as aggressive fiscal spending and corporate investment restore net domestic fund demand (fiscal balance + corporate savings rate) against the backdrop of a global cyclical recovery.

The BoJ's forecast for real GDP growth in FY24 has continued to be revised downward. The January 2025 Outlook for Economic Activity and Prices is expected to show a downward revision to the low 0% range, now making it difficult to say that the growth rate would exceed the potential growth rate. The BoJ has a policy of adjusting the degree of monetary easing by raising interest rates if the economy and prices develop in line with the outlook.

Before the downward revision of the real GDP growth forecast in April, the BoJ rushed to lift its negative interest rate policy in March, and in July, it decisively raised rates additionally while revising the forecast further downward. In hindsight, it may be judged that the BoJ's prematurely executed rate hike in the midst of the global economic slowdown also put downward pressure on domestic demand, resulting a negative growth in 2024. The excessive JPY depreciation pressure is not due to the BoJ's delay in raising rates, but to the weakness of domestic demand as indicated by negative growth. The government has already begun to worry that negative growth in 2024 would not dispel the long-lasting deflationary mindset and halt the Japanese economy's movement toward a complete break from deflation.

At the October Monetary Policy Meeting, the Ministry of Finance and the Cabinet Office aligned themselves as the "government's stance is that it will prioritize breaking free from deflation in its economic and fiscal management", and requested the BoJ to manage monetary policy by "closely cooperating with the government". The fact that the BoJ, which is required by the BoJ Act to manage monetary policy consistent with the government's basic economic

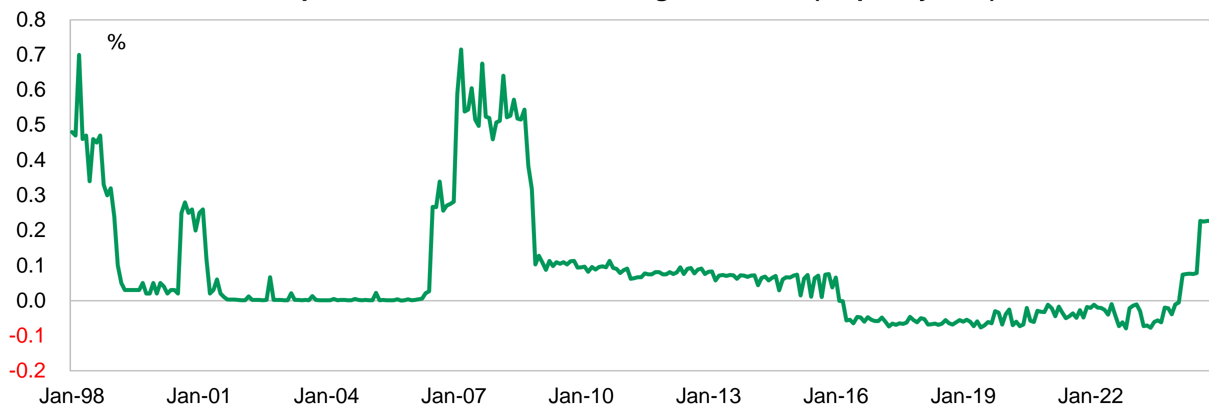
policy, is perceived by the market as having a tendency not to attach importance to the GDP growth rate is in itself a major problem.

The BoJ's prematurely executed rate hike in the midst of the global economic slowdown also put downward pressure on domestic demand.

Even if the BoJ does not raise interest rates, due to disinflation because of negative growth in 2024, the negative real policy rate would narrow, the degree of monetary easing would be adjusted, and the excessive downward pressure on JPY would disappear. The government is becoming wary that a slowdown in inflation and the BoJ's premature additional rate hikes would result in a positive real policy rate, putting the brakes on the recovery of domestic demand and risking a return to deflation. It will be interesting to see if, by January, **the BoJ would go against the government's opposition and insist that negative growth is also on track and raise rates again**.

With Prime Minister Shigeru Ishiba, the LDP-Komeito government would likely be forced to manage the Diet in an unstable manner as a minority ruling party with less than a majority of seats in the Lower House. For the future fiscal stimulus measures, it is likely that the government needs the support of the Democratic Party For the People (DPFP), that is demanding to raise basic tax deductions for income tax and measures to reduce energy costs. If the LDP appears to resist, for example by reducing the scope of the basic tax credit increase, the risk is that the LDP's support would decline further, making it impossible to continue the Ishiba administration. Until the Diet passes the government's budget bill next March, the LDP-Komeito government would likely accept many of the DPFP's arguments. As a result, **the government's economic policy direction would ultimately revert to aggressive fiscal policy and Abenomics**.

Ken MATSUMOTO – Takuji AIDA



Sources: Bloomberg, Crédit Agricole CIB

Interest rates – Upward pressure

Everything points to a scenario of a modest rise in interest rates in the US and in the Eurozone. In particular, the prospects for monetary easing are only modest and ultimately nearing completion, but there are also high public financing needs.

USA: RE-ASSESSING RATE PATH UNDER TRUMP 2.0

Given potential policy changes under Donald Trump's second term as president and a possible earlier Fed pause in rate cuts, we expect US rates to stay in a range in 2025, with the 10Y Treasury yield trading between 4.20% and 4.50%. In our Treasury rate forecast, the 10Y yield shows a modest decline in H125 with the Fed easing cycle continuing and a mild growth slowdown likely.

Trump's election victory and recent strong economic data have changed the growth outlook for 2025. Growth momentum remains solid with healthy household balance sheets, a labour market that has eased and decent corporate profits. Meanwhile, there appear to be some pockets of weakness among lower income households and smaller businesses that are more susceptible to high interest rates, suggesting a slower pace of growth in 2025 than in 2024.

Market participants have re-calibrated the future rate path, with a pause probably coming over the next few FOMC meetings. As suggested by Fed Chair Jerome Powell recently, "the economy is not sending signals that we need to be in a hurry to lower rates", allowing the FOMC to "approach rate decisions carefully". We expect a pause in Fed rate cuts, which could come as early as the 29 January FOMC meeting.

The current easing cycle has been unique given that the 10Y yield has increased 60-70bp since the first rate cut. While there were instances in the 1990s when Treasuries also sold off after the first cut, the rate increase back then was at a much smaller scale. The macro backdrop was also drastically different. For example, the Fed cut rates in 1998 due to the LTCM crisis.

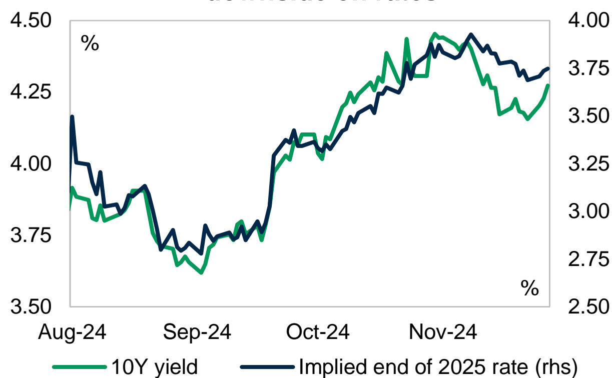
Overall, our new rate forecast is higher than the prior one to reflect net growth positive impact from expected Trump policies, with a boost from aggressive fiscal measures, including tax cuts, along with regulatory reforms, outweighing a drag from rising tariffs and tightening border policies. We do not believe tariffs and border policies will be as extreme as proposed by Trump during the election campaign.

The timeline of policy implementation is important to the growth and inflation trajectory.

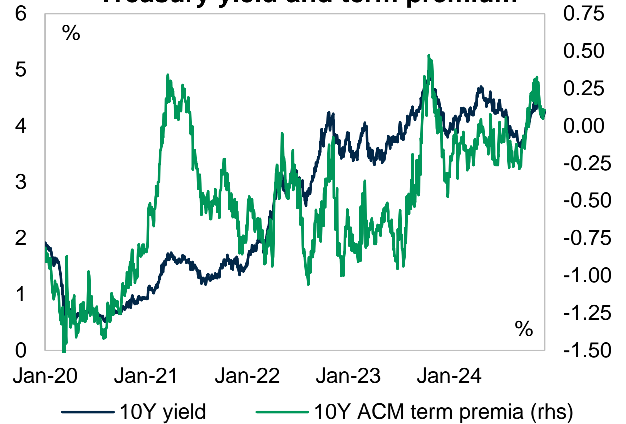
While the 2Y yield could trade between 3.75% and 4.25%, if our macro forecast is correct that the Fed stops at 4.00% in the upper bound policy rate in H125, long-end rates could grind higher in H225 and 2026 as growth positive policies are gradually phased in. **We see the 10Y yield trading close to 5.00% by end-2026.**

The timeline of policy implementation is important to the growth and inflation trajectory, in our view. **Some of the growth negative policies can be implemented in the early stage of Trump's presidency, as many of those do not require legislation.** On the other hand, growth positive policies, eg, tax cuts, may take longer to roll out, as they require congressional approval. Hence, a modest decline in the 10Y yield mid-2025 before a rise in 2026 in our forecast.

We expect the yield curve to stay relatively stable and biased towards steepening, as the front end is



Sources: Bloomberg, CACIB



Sources: Bloomberg, CACIB

anchored after the Fed pause and improved growth momentum increases long-term rates. Higher tariffs and tighter immigration policies are a recipe for rising inflation, which, combined with increasing Treasury supply due to tax cuts, will likely raise Treasury term premium.

Alex LI

EUROPE: CHANGING HANDS OF STABILITY

In retrospect 2024 was an unusual year, essentially divided into two halves. With a large amount of central bank easing priced in for the ECB (and Fed), the delay of inflation falling towards target prompted the rates repricing we were expecting which delivered negative EGB total returns. Mid-way through the summer however a series of events transpired to deliver the bull steepening of yield curves investors had been expecting for some time. Inflation started to fall rapidly, and pockets of weakness tilted the perception of central banks that it was time to reduce the extent of restrictive policy on both sides of the Atlantic.

From a fundamental perspective, Germany has continued to struggle, particularly its manufacturing sector, with no growth. Nevertheless, **there has been no aggregate Eurozone recession given the strong performance of periphery countries**. Yet the combination of EU budget rules enforcement through excessive deficit procedures (EDP) and French political instability have dimmed the growth outlook further. Therefore, within a context of falling credit markets remaining healthy and their better economic performance, periphery EGBs performed best in 2024, while **core and semi-core markets underperformed cash**. With early elections also called in Germany for February, Italy and Spain presently stand out for their political stability which appeals to a wider sense of investors.

For 2025, we think periphery markets should continue to benefit from these factors but also the risks that German elections could bring about the suspension of the debt brake, which with some delay, would contribute to more Bund issuance and better fiscal-led growth prospects. At the same time, **it is evident that the Draghi plan points in the direction of more EU level or common issuance down the road implying more risk sharing**, and hence spread compression, but this will be subject to a variety of political obstacles and might need another crisis to validate 'existential' government expenditure, namely on defence.

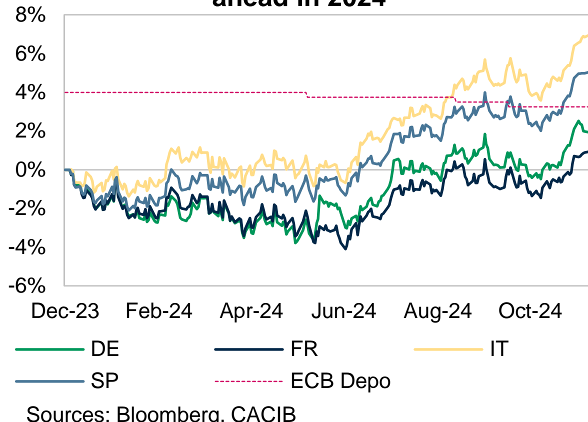
A key theme that transpired in 2024 and we think may continue in 2025 is the cheapening of government bonds relative to swaps. Throughout all of 2025, the ECB should continue to reduce the size of its balance sheet through QT which adds to the extent of free floating government securities in addition to net national and supra-national EUR issuance. This abundance of collateral, in addition to dealer balance sheet regulatory-driven size constraints implies EGB repo rates should incrementally continue to rise relative to ESTR.

As for the impact of US elections and policy mix on EUR rates, this remains unclear, but we have factored in some possibility of higher UST yields dragging EGB back-end yield higher too.

Therefore, **in the absence of demand for safe-haven assets, and a continued ECB easing cycle, we think the Bund curve should continue steepening relative to swaps.** As is the case in the UST and gilt markets, we have no objection to Bund yields moving higher above swaps in the current paradigm of pro-cyclical fiscal expansion while central banks are easing policy through cutting rates on one hand, but tightening through QT.

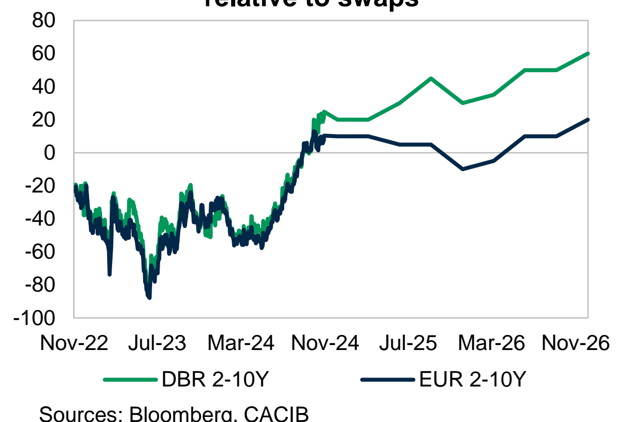
As for the impact of US elections and policy mix on EUR rates, this remains unclear, but we have factored

Periphery EGBs total return ahead in 2024



Sources: Bloomberg, CACIB

Bund curve should steepen relative to swaps



Sources: Bloomberg, CACIB

in some possibility of higher UST yields dragging EGB back-end yield higher too, albeit in late 2025 and into 2026 as these measures gain traction on the economy. **Over the next few quarters however a key market driver would be where the ECB's terminal rate lands**, with markets expecting this closer to 1.5% than our house view of above 2% given inflation at target and no EZ recession in sight. If that is the case, we expect the swap curve to bear flatten from current levels, sending EGB yields somewhat higher. **On a relative basis, cash just might perform well again in 2025.**

Bert LOURENCO

Exchange rates – The dollar: already very high

Donald Trump's victory, the Republican majority, expectations of robust growth, higher inflation and modest monetary easing in the US have resulted in a rise in the USD. The currency has already benefited greatly from its current and expected yield differential.

DEVELOPED COUNTRIES – 2025 OUTLOOK: MAKING THE USD GREAT AGAIN 2.025

The USD rallied after Donald Trump's victory at the US presidential elections and amid market expectations of a 'red wave' in the US congress. The second Trump administration is expected to usher in fiscal stimulus policies and more assertive trade policies that could boost the chances of a soft landing in the US and render US inflation stickier. We and the US rates markets further expect that the Trump policy mix could cut short the Fed easing cycle and this has already given a boost to the USD rate appeal across the board.

Turning to the USD outlook, we think that many positives are already in the price of the currency and expect it to remain close to recent highs but not exceed them on a sustained basis throughout 2025. Furthermore, while we cannot exclude further USD gains on the back of US tariffs, their timing and aggressiveness are quite uncertain. In the long term, we also believe that a return of President Trump's 'Weak USD Doctrine' and market fears about the Fed's independence could weigh on the USD once again as we head into 2026. Next to the impact from Trump's policies, we further consider historic evidence about the USD performance during Fed easing cycles in the past when these were accompanied by a soft or no landing of the US economy (as has been the case in 1984, 1995 and 1998). We conclude that the USD tended to outperform in the early stages of past Fed easing cycles but that its rally petered out about six months later and even went into a reverse vs risk-correlated currencies.

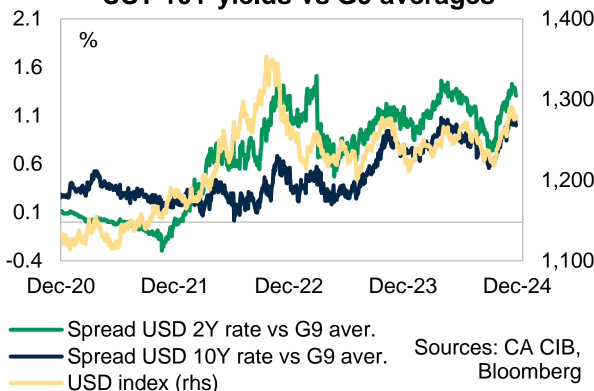
Our 2025 USD outlook is informed by the experience from both 2018 as well as historic evidence during Fed easing cycles leading to a soft landing in the US. In particular, we are constructive on the USD in the next 3-6M but we believe that many positives are in the price and this should limit its ability to outperform significantly further. Still elevated US rates should continue to burnish the relative rate appeal of the USD vs low-yielding G10 currencies. In the next 6-12M, we expect that the USD outlook would start to weaken once again as its relative growth and rate appeal starts to wane. In addition, Trump's 'weak USD doctrine' as well as concerns about Fed independence and even fiscal dominance in the US could erode foreign demand for the USD.

Still elevated US rates should continue to burnish the relative rate appeal of the USD vs low-yielding G10 currencies.

Turning to EUR/USD, while the mix of FX drivers remains negative we doubt that a sustained drop below recent lows is likely in the next 3-6M under our central scenario. We have downgraded our EUR/USD outlook in the wake of the US election but believe that many negatives are already in the price and the pair is starting to look oversold and undervalued. We also note that our economists do not expect a recession in the Eurozone and further pencil in a terminal ECB rate of 2.25%, ie, well above current European rate market expectations. Furthermore, while political developments in France and Germany have rattled EUR investors in recent months, our rate strategists are not positioned for a repeat of the sovereign debt crisis from ten years ago and think that many negatives are already priced in.

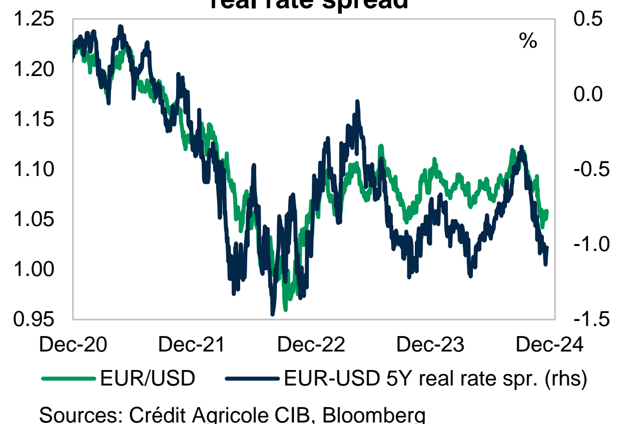
Last but not least, we think that a potential reduction and even a withdrawal of the US support

The USD index plotted against spread between US 2Y rates and UST 10Y yields vs G9 averages



Sources: CA CIB, Bloomberg

EUR/USD vs EUR-USD 5Y real rate spread



Sources: Crédit Agricole CIB, Bloomberg

for Ukraine under President-elect Donald Trump should ultimately precipitate the end of the war in 2025. In turn, this could usher in a period of easing geological risks in Europe that could boost domestic demand in the Eurozone. Furthermore, an end to the Ukraine war could lead to a reconstruction boom in the country that could act as a tailwind for recovery in the Eurozone as well. In the longer term, we further assume that the Eurozone recovery could regain momentum supported by easing financial conditions, recovering real incomes and abating geopolitical risks. The Eurozone growth disadvantage vs the US could thus start shrinking again in earnest in 2026. This should help the oversold and undervalued EUR recover in 6-12M.

Valentin MARINOV

EMERGING COUNTRIES: A YEAR OF TWO HALVES

Facing the "Trump 2.0" risk

On paper, EM currencies should benefit from resilient economic growth in 2025 as well as from the US monetary easing. The gap between EM implied yields and US short-term interest rates had been divided by a factor of 4 between 2022 and mid-2024, strongly reducing EM carry attractiveness. But since the start of the Fed easing, it has begun to widen again. In 2025, this improvement should continue.

However, **there is a risk that Trumponomics could cap the progress, by slowing the pace of US rates cuts**. And this is not the biggest risk facing EMs. In our view, the likely import tariffs imposed by the US, as well as increasing geopolitical uncertainty, will challenge the EM backdrop. **In our base case scenario, we expect EM to have to digest these tariff and geopolitical risks in H1, after Trump comes in office.** Accordingly, we assume a year of two halves for EM FX. We see EM FX weakening vs the USD in H1, as the market prices in the risks of "Trump 2.0". We then see a more supportive outlook for H2, provided the dust settles, after Trump's policies are partly clarified. That being said, we see a high level of uncertainty on the H2 improvement and on the timing of a possible EM FX rebound.

EM FX by region: no safe bets

In EMEA FX, we see two groups of currencies. On the one hand, **Central European currencies should be capped by geopolitical risk. CE4 FX should continue to display a significant interest rate gap with the EUR.** But this carry opportunity is actually the price to pay for likely intensifying geopolitical risk. On the other hand, **the EMEA high-yielders may be less directly impacted by the geopolitical uncertainty**. Our positive view on the TRY and ZAR, in particular, makes it possible to look beyond the sole carry and to value stabilisation strategies (TRY) or the benefits of economic reforms (ZAR).

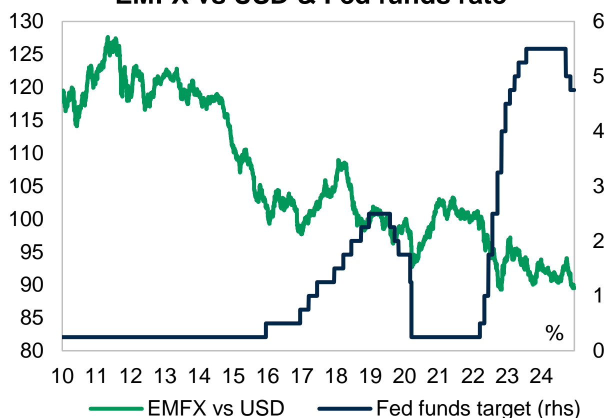
The likely import tariffs imposed by the US, as well as increasing geopolitical uncertainty, will challenge the EM backdrop.

Asian currencies provide stability, on paper (stronger balance sheets than the rest of EMs, China ready to support growth). **But the outcome of the Asian currencies would depend on how US protectionism unfolds.** This should cap the performance of export/tech-focused currencies (KRW, TWD, SGD, THB, MYR). We see the CNY controlled depreciation as a likely by-product of the US tariff pressure. Currencies of the least opened countries such as India or Indonesia may be less impacted.

Latin American markets display rather high carry. But this often comes with more fragile sovereign profiles compared with their EM peers. The MXN's performance depends on the pressure that could come from "Trump 2.0". We expect the BRL to outperform the other Latam currencies, partly because the BCB will increase interest rates.

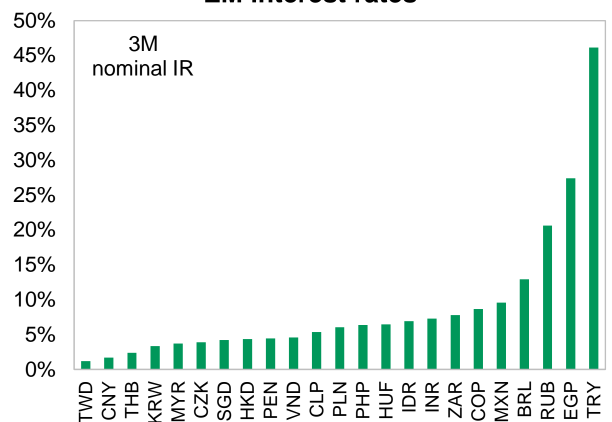
Sébastien BARBÉ

EMFX vs USD & Fed funds rate



Sources: Bloomberg, CACIB

EM interest rates



Sources: Bloomberg, CACIB

ECONOMIC AND FINANCIAL FORECASTS

Economic forecasts

Interest rates

Exchange rates

Commodities

Public accounts

ECONOMIC FORECASTS

	GDP (yoy, %)			Consumer price * (yoy, %)			Current account (% of GDP)		
	2024	2025	2026	2024	2025	2026	2024	2025	2026
United States	**2.7**	**1.9**	**2.2**	**2.9**	**2.4**	**2.5**	**-3.6**	**-3.5**	**-3.5**
Japan	**-0.2**	**0.7**	**1.0**	**2.4**	**1.8**	**1.0**	**4.0**	**2.5**	**2.0**
Eurozone	**0.7**	**1.0**	**1.2**	**2.4**	**2.0**	**1.7**	**2.5**	**2.5**	**2.5**
Germany	-0.2	0.2	0.8	2.5	2.1	2.0	6.7	6.4	6.0
France	1.1	0.8	1.1	2.3	1.2	1.5	0.3	1.5	1.5
Italy	0.5	0.6	0.9	1.1	1.7	1.2	1.6	2.4	2.6
Spain	3.1	2.4	1.8	2.9	2.3	1.7	2.5	0.9	1.5
Netherlands	0.9	1.6	1.5	3.2	2.5	2.2	9.6	10.1	10.1
Belgium	1.0	1.3	1.5	4.3	2.9	1.9	-0.3	-0.2	-0.2
Other advanced									
United Kingdom	0.8	1.2	1.5	2.5	2.2	2.0	-3.0	-1.2	-2.2
Canada	1.1	1.8	1.9	2.4	2.0	2.0	-0.8	-1.0	-0.9
Australia	1.2	2.1	2.2	3.3	3.3	3.0	-0.9	-1.1	-1.3
Switzerland	1.3	1.3	1.8	1.3	1.0	1.0	8.2	7.6	8.0
Sweden	0.5	1.2	1.8	2.9	1.7	1.9	7.9	4.4	4.3
Norway	0.9	1.3	1.4	3.2	2.7	2.9	18.3	17.4	16.5
Asia	**5.0**	**4.5**	**4.5**	**1.7**	**1.8**	**2.1**	**1.6**	**1.2**	**1.0**
China	4.8	4.2	3.9	0.3	0.7	1.0	1.5	0.8	0.5
India	6.8	6.3	6.7	4.5	4.0	4.7	-1.4	-1.6	-1.7
South Korea	2.2	1.8	2.1	2.3	2.0	2.0	4.9	4.8	4.9
Indonesia	5.1	5.0	5.1	2.4	2.6	2.7	-0.8	-1.0	-1.2
Taiwan	4.2	2.6	2.5	2.2	1.9	1.8	14.8	13.0	12.2
Thailand	2.6	2.8	2.7	0.4	1.4	1.2	2.2	2.8	3.2
Malaysia	4.5	4.2	4.3	2.2	2.3	2.2	2.4	2.0	2.5
Singapore	3.7	2.4	2.5	2.5	2.3	2.2	19.7	18.8	19.3
Hongkong	2.5	2.3	2.2	1.8	2.5	2.2	11.3	10.7	10.0
Philippines	5.6	6.0	6.1	3.2	2.6	3.2	-3.5	-3.5	-2.9
Vietnam	6.4	6.1	6.0	3.6	3.2	3.3	4.5	5.6	4.1
Latin America	**2.4**	**2.3**	**2.4**	**3.7**	**3.1**	**2.7**	**-1.3**	**-1.6**	**-1.8**
Brazil	3.4	1.8	2.2	4.5	3.8	3.5	-2.6	-2.2	-2.5
Mexico	1.5	1.2	1.8	4.7	3.8	3.3	-0.6	-0.7	-0.9
Emerging Europe	**2.9**	**2.4**	**2.4**	**21.0**	**11.6**	**7.8**	**0.6**	**0.3**	**0.2**
Russia	3.5	1.5	1.5	8.5	6.8	5.5	2.7	2.2	2.1
Turkey	3.0	3.0	3.2	60.1	28.0	17.0	-1.5	-1.5	-1.5
Poland	2.6	3.5	3.3	3.7	4.4	3.1	1.0	0.6	0.1
Czech Republic	1.0	2.6	2.4	2.5	2.2	2.0	1.6	1.2	0.6
Romania	1.1	3.5	2.9	5.6	3.9	3.3	-6.9	-6.4	-6.0
Hungary	0.7	2.9	3.1	3.6	3.7	3.0	1.5	0.6	0.6
Africa, Middle East	**2.0**	**3.3**	**3.4**	**13.0**	**10.6**	**9.0**	**1.3**	**0.8**	**0.8**
Saudi Arabia	0.8	4.2	4.0	1.7	2.3	2.1	0.0	-0.8	-1.2
United Arab Emirates	4.0	5.0	4.5	2.2	2.2	2.2	8.5	8.0	7.5
South Africa	0.4	1.7	1.3	4.4	4.3	4.4	-1.9	-2.2	-2.3
Egypt	2.4	3.0	4.4	33.3	21.0	14.0	-6.6	-6.4	-5.1
Algeria	3.8	3.0	2.7	5.3	5.2	4.8	1.3	-0.5	-1.5
Qatar	1.5	1.8	5.0	1.0	1.5	1.3	13.5	13.0	16.0
Koweit	-2.7	3.0	2.5	3.0	2.5	2.2	28.0	24.0	22.0
Morocco	2.5	3.0	3.2	6.1	2.5	2.4	-2.1	-2.6	-2.9
Tunisia	1.3	1.5	1.5	7.1	6.8	6.8	-3.5	-3.4	-3.5
Total	**3.0**	**2.8**	**2.9**	**4.4**	**3.3**	**3.0**	**0.6**	**0.3**	**0.2**
Advanced economies	**1.5**	**1.4**	**1.7**	**2.6**	**2.2**	**2.0**	**-0.2**	**-0.2**	**-0.4**
Emerging countries	**4.2**	**3.9**	**3.9**	**5.8**	**4.3**	**3.7**	**1.2**	**0.7**	**0.6**

** HICP for euro area countries, CPI for others*

	2024				2025				2026			
Real GDP growth, QoQ %	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
USA (annualised)	1.6	3.0	2.8	2.2	1.9	1.4	1.2	1.8	2.5	2.5	2.4	2.4
Japan	-0.6	0.5	0.3	0.2	0.1	0.1	0.1	0.2	0.2	0.3	0.4	0.4
Eurozone	0.3	0.2	0.4	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Germany	0.2	-0.3	0.1	-0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
France	0.2	0.2	0.4	0.0	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Italy	0.3	0.2	0.0	0.1	0.1	0.3	0.2	0.3	0.2	0.2	0.2	0.2
Spain	0.9	0.8	0.8	0.6	0.5	0.5	0.5	0.4	0.4	0.5	0.4	0.4
United Kingdom	0.7	0.5	0.1	0.1	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4

	2024				2025				2026			
Consumer prices, YoY %	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
USA	3.2	3.2	2.6	2.7	2.6	2.2	2.4	2.5	2.4	2.5	2.5	2.5
Japan	3.2	2.2	2.0	2.3	2.2	2.2	1.7	1.0	0.9	1.0	1.1	1.2
Eurozone	2.6	2.5	2.2	2.2	2.2	2.0	1.9	1.8	1.7	1.7	1.7	1.8
Germany	2.7	2.6	2.2	2.4	2.4	2.0	2.1	2.0	2.0	1.9	1.9	2.0
France	3.0	2.5	2.1	1.7	1.6	1.3	1.5	1.5	1.3	1.4	1.5	1.5
Italy	1.0	0.9	1.2	1.2	1.5	2.1	1.8	1.4	1.2	1.2	1.2	1.4
Spain	3.2	3.6	2.3	2.3	2.5	1.9	2.4	2.3	1.7	1.6	1.6	1.6
United Kingdom	3.5	2.1	2.0	2.4	2.2	2.1	2.3	2.2	2.2	2.1	2.0	1.8

	2024				2025				2026			
Unemployment rate, %	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
USA	3.8	4.0	4.2	4.2	4.2	4.3	4.3	4.3	4.2	4.2	4.1	4.0
Japan	2.5	2.6	2.5	2.7	2.8	2.9	3.0	3.1	3.1	3.0	3.0	2.9
Eurozone	6.6	6.5	6.3	6.4	6.4	6.4	6.4	6.4	6.4	6.3	6.3	6.2
Germany	3.3	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
France	7.5	7.5	7.5	7.6	7.7	7.7	7.8	7.8	7.8	7.8	7.7	7.7
Italy	7.1	6.7	6.1	6.1	6.2	6.3	6.3	6.3	6.2	6.2	6.2	6.2
Spain	11.8	11.6	11.3	11.3	11.4	11.2	11.1	11.0	11.1	10.7	10.5	10.4
United Kingdom	4.4	4.1	4.3	4.4	4.3	4.2	4.2	4.2	4.2	4.2	4.2	4.2

	GDP (b)	Private consump-tion (b)	Public consump-tion (b)	Investment (b)	Exports (b)	Imports (b)	Net exports (a)	Changes in inventories (a)
Eurozone								
2024	0.5	0.8	1.2	1.1	-0.3	-0.6	0.1	0.2
2025	0.8	0.7	1.6	-2.6	2.1	-0.4	1.2	-0.4
2026	1.3	1.1	0.8	0.9	3.1	2.5	0.4	-0.5
Q4 2024	*0.4*	*0.3*	*0.2*	*0.1*	*0.6*	*0.5*	*0.1*	*-0.3*
Q1 2025	*0.3*	*0.1*	*0.0*	*0.5*	*0.7*	*0.5*	*0.2*	*-0.4*
Q2 2025	*0.3*	*0.4*	*0.2*	*0.4*	*0.8*	*0.7*	*0.1*	*-0.4*
Q3 2025	*0.4*	*0.4*	*0.2*	*0.4*	*0.7*	*0.7*	*0.0*	*-0.4*
Germany								
2024	-0.1	-0.2	-0.1	-0.7	0.2	-0.3	0.2	0.0
2025	0.1	0.4	1.8	-3.1	0.0	-1.6	0.6	-0.6
2026	0.8	0.9	1.1	0.7	1.5	0.9	0.3	-0.3
Q4 2024	*0.1*	*0.1*	*0.1*	*-0.7*	*-0.2*	*-0.3*	*0.0*	*0.1*
Q1 2025	*0.2*	*0.2*	*0.2*	*0.0*	*0.4*	*-0.6*	*0.4*	*-0.4*
Q2 2025	*0.2*	*0.3*	*0.2*	*0.6*	*0.4*	*0.6*	*-0.1*	*-0.1*
Q3 2025	*0.3*	*0.3*	*0.3*	*0.6*	*0.6*	*0.6*	*0.0*	*-0.1*
France								
2024	1.1	0.9	0.8	0.7	2.5	0.7	0.6	-0.3
2025	1.1	0.5	1.5	-1.4	2.1	-1.4	1.2	-0.4
2026	1.0	0.7	0.6	0.7	1.8	1.8	0.0	0.3
Q4 2024	*0.4*	*0.4*	*0.4*	*-0.2*	*0.8*	*0.9*	*0.0*	*0.2*
Q1 2025	*0.0*	*-0.2*	*-0.1*	*0.1*	*0.5*	*0.5*	*0.0*	*0.1*
Q2 2025	*0.3*	*0.3*	*0.2*	*0.3*	*0.5*	*0.5*	*0.0*	*0.0*
Q3 2025	*0.2*	*0.2*	*0.2*	*0.3*	*0.2*	*0.3*	*0.0*	*0.0*
Italy								
2024	1.0	1.2	1.2	4.9	0.5	-0.2	0.2	-1.2
2025	0.8	0.0	-0.1	2.8	0.4	-3.7	1.3	-1.1
2026	0.8	1.3	-0.6	-0.6	1.9	1.8	0.1	0.2
Q4 2024	*0.3*	*0.2*	*-0.1*	*0.0*	*0.6*	*0.5*	*0.0*	*0.1*
Q1 2025	*0.2*	*0.2*	*-0.2*	*0.0*	*0.5*	*0.5*	*0.0*	*0.1*
Q2 2025	*0.1*	*0.4*	*-0.1*	*-0.4*	*0.6*	*0.5*	*0.0*	*-0.1*
Q3 2025	*0.3*	*0.4*	*-0.1*	*-0.4*	*0.6*	*0.5*	*0.0*	*0.1*
Spain								
2024	2.5	1.8	3.8	0.8	2.3	0.3	0.7	-0.1
2025	2.6	1.8	1.5	2.8	4.4	2.6	0.8	-0.1
2026	1.8	1.5	1.1	3.6	3.2	3.5	0.1	0.0
Q4 2024	*0.3*	*0.3*	*0.0*	*0.8*	*0.8*	*1.0*	*0.0*	*0.0*
Q1 2025	*0.2*	*0.2*	*0.1*	*1.1*	*0.9*	*1.3*	*-0.1*	*0.0*
Q2 2025	*0.5*	*0.4*	*0.4*	*1.0*	*0.8*	*0.8*	*0.0*	*0.0*
Q3 2025	*0.5*	*0.5*	*0.4*	*1.0*	*0.7*	*0.8*	*0.0*	*0.0*
Portugal								
2024	2.3	1.6	1.0	2.6	4.1	2.2	0.9	-0.4
2025	1.6	1.7	1.0	2.8	3.7	3.6	0.1	0.0
2026	2.2	2.0	0.7	6.2	3.2	3.8	-0.3	0.0
Q4 2024	*0.3*	*0.5*	*0.3*	*3.0*	*0.7*	*1.2*	*-0.2*	*0.0*
Q1 2025	*0.4*	*0.4*	*-0.1*	*2.0*	*0.5*	*1.0*	*-0.2*	*0.0*
Q2 2025	*0.3*	*0.6*	*0.0*	*1.1*	*0.5*	*1.0*	*-0.2*	*0.0*
Q3 2025	*0.9*	*0.6*	*0.5*	*1.2*	*1.2*	*0.8*	*0.2*	*0.0*
Netherlands								
2024	0.1	0.8	2.9	1.2	-0.4	-1.7	1.0	-2.2
2025	0.7	0.3	2.6	-1.6	0.1	-0.8	0.7	-0.4
2026	1.3	1.2	1.0	2.4	3.0	2.4	0.8	-0.8
Q4 2024	*0.4*	*0.4*	*0.2*	*-0.1*	*1.0*	*0.3*	*0.7*	*-0.5*
Q1 2025	*0.6*	*0.4*	*0.2*	*0.8*	*1.0*	*0.5*	*0.5*	*-0.3*
Q2 2025	*0.1*	*0.4*	*0.2*	*0.4*	*0.8*	*0.7*	*0.2*	*-0.4*
Q3 2025	*0.2*	*0.4*	*0.2*	*0.9*	*0.2*	*0.7*	*-0.4*	*0.2*
United Kingdom								
2024	0.1	0.2	0.5	2.2	-0.5	-1.5	0.3	-0.9
2025	1.1	0.4	2.3	1.3	-0.8	6.1	-2.2	0.1
2026	1.5	1.8	1.7	3.1	1.7	8.5	-2.4	0.4
Q4 2024	*0.3*	*0.3*	*0.0*	*0.4*	*0.5*	*7.0*	*-2.2*	*0.0*
Q1 2025	*0.3*	*0.4*	*0.4*	*0.8*	*0.3*	*0.7*	*-0.1*	*0.0*
Q2 2025	*0.3*	*0.5*	*0.4*	*0.8*	*0.3*	*1.0*	*-0.3*	*0.0*
Q3 2025	*0.4*	*0.5*	*0.4*	*0.8*	*0.5*	*1.0*	*-0.2*	*0.1*

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

INTEREST RATES

Short-term interest rates		17-Dec	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Etats-Unis	Fed funds	4.75	4.50	4.25	4.00	4.00	4.00	4.00	4.00	4.00	4.00
	Sofr	4.62	4.32	4.07	3.82	3.82	3.82	3.82	3.82	3.82	3.82
Japon	Call rate	0.25	0.25	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Eurozone	Refinancing	3.15	3.15	2.65	2.40	2.40	2.40	2.40	2.40	2.40	2.40
	Deposit	3.00	3.00	2.50	2.25	2.25	2.25	2.25	2.25	2.25	2.25
	€str	3.16	2.92	2.43	2.18	2.19	2.20	2.20	2.20	2.20	2.20
	Euribor 3m	2.85	2.78	2.32	2.23	2.26	2.27	2.28	2.29	2.30	2.31
United-Kingdom	Base rate	4.75	4.75	4.50	4.25	4.00	3.75	3.50	3.25	3.00	2.50
	Sonia	4.70	4.70	4.45	4.20	3.95	3.69	3.45	3.20	2.95	2.45
Sweden	Repo	2.75	2.75	2.25	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Norway	Deposit	4.50	4.50	4.25	4.00	3.75	3.50	3.25	3.00	3.00	3.00
Canada	Overnight	3.25	3.25	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75

10Y rates	17-Dec	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
USA	4.39	4.40	4.25	4.20	4.20	4.50	4.70	4.80	4.90	4.95
Japan	1.07	1.05	1.15	1.15	1.20	1.30	1.50	1.55	1.75	1.75
Eurozone (Germany)	2.24	2.30	2.40	2.40	2.60	2.55	2.55	2.70	2.75	2.80
Spread 10 ans / Bund										
France	0.81	0.80	0.75	0.70	0.65	0.60	0.60	0.55	0.55	0.55
Italy	1.16	1.30	1.25	1.15	1.05	1.00	0.95	1.00	1.00	0.95
Spain	0.70	0.75	0.70	0.65	0.60	0.55	0.50	0.50	0.45	0.45

Asia		17-Dec	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
China	7d reverse repo rate	1.50	1.50	1.40	1.30	1.20	1.20	1.10	1.00	1.00	1.00
Hong Kong	Base rate	5.00	4.75	4.50	4.25	4.25	4.25	4.25	4.25	4.25	4.25
India	Repo rate	6.50	6.50	6.25	6.00	6.00	5.75	5.75	5.50	5.50	5.50
Indonesia	7D (reverse) repo rate	6.00	6.00	6.00	5.75	5.75	5.50	5.50	5.25	5.25	5.25
Korea	Base rate	3.00	3.00	2.75	2.25	2.25	2.25	2.25	2.25	2.25	2.25
Malaysia	OPR	3.00	3.00	3.00	3.00	3.00	2.75	2.75	2.50	2.50	2.50
Philippines	Repo rate	6.00	5.75	5.50	5.25	5.00	5.00	5.00	5.00	5.00	5.00
Singapore	O/N SORA	3.05	2.70	2.45	2.30	2.20	2.15	2.15	2.15	2.10	2.10
Taiwan	Redisc	2.00	2.00	2.00	2.00	2.00	2.00	2.00	1.88	1.88	1.88
Thailand	Repo	2.25	2.25	2.00	2.00	1.75	1.50	1.50	1.50	1.50	1.50
Vietnam	Refinancing rate	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Latin America											
Brazil	Overnight/Selic	12.25	12.25	14.25	15.50	15.50	15.50	15.50	15.00	14.00	13.00
Mexico	Overnight rate	10.25	10.00	9.50	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Emerging Europe											
Czech Rep.	14D repo	4.00	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Hungary	Base rate	6.50	6.50	6.25	6.00	5.75	5.50	5.25	5.00	4.75	4.50
Poland	7D repo	5.75	5.75	5.75	5.75	5.50	5.25	5.00	4.75	4.50	4.25
Romania	2W repo	6.50	6.50	6.25	6.00	5.75	5.50	5.25	5.00	4.75	4.50
Russia	1W auction rate	23.00	23.00	23.00	21.00	18.00	16.00	15.00	14.00	12.00	12.00
South Africa	Repo	7.75	7.75	6.50	6.25	5.75	5.75	5.75	5.75	5.75	5.75

EXCHANGE RATES

USD Exchange rate

Industrialised countries		17-Dec	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Euro	EUR/USD	1.05	1.06	1.05	1.04	1.05	1.07	1.07	1.08	1.09	1.10
Japan	USD/JPY	154.0	152.0	150.0	148.0	146.0	148.0	147.0	146.0	146.0	145.0
United Kingdom	GBP/USD	1.27	1.27	1.26	1.25	1.28	1.30	1.30	1.32	1.34	1.36
Switzerland	USD/CHF	0.89	0.89	0.89	0.90	0.90	0.91	0.91	0.90	0.90	0.89
Canada	USD/CAD	1.43	1.41	1.41	1.39	1.37	1.35	1.33	1.32	1.31	1.30
Australia	AUD/USD	0.63	0.65	0.64	0.65	0.65	0.66	0.67	0.68	0.70	0.70
New Zealand	NZD/USD	0.57	0.58	0.57	0.58	0.58	0.60	0.61	0.62	0.64	0.64

Euro Cross rates

Industrialised countries		17-Dec	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Japan	EUR/JPY	161	161	158	154	153	158	157	158	159	160
United Kingdom	EUR/GBP	0.83	0.83	0.83	0.83	0.82	0.82	0.82	0.82	0.81	0.81
Switzerland	EUR/CHF	0.94	0.94	0.93	0.94	0.95	0.97	0.97	0.97	0.98	0.98
Sweden	EUR/SEK	11.49	11.50	11.50	11.40	11.30	11.10	10.90	10.80	10.70	10.60
Norway	EUR/NOK	11.77	11.80	11.40	11.30	11.20	11.00	10.80	10.60	10.50	10.40

Asia		17-Dec	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
China	USD/CNY	7.29	7.20	7.35	7.50	7.48	7.45	7.40	7.45	7.45	7.40
Hong Kong	USD/HKD	7.77	7.78	7.78	7.77	7.76	7.75	7.76	7.76	7.77	7.77
India	USD/INR	84.87	84.50	84.75	85.00	84.75	84.75	84.50	84.50	84.50	84.25
Indonesia	USD/IDR	16085	15850	16100	16300	16200	16000	16000	15800	15600	15500
Malaysia	USD/MYR	4.47	4.40	4.60	4.70	4.60	4.60	4.60	4.70	4.70	4.50
Philippines	USD/PHP	59.0	59.0	59.5	60.0	59.8	59.2	59.0	58.8	58.5	58.0
Singapore	USD/SGD	1.35	1.34	1.35	1.37	1.37	1.36	1.36	1.35	1.34	1.33
South Korea	USD/KRW	1438	1390	1410	1430	1420	1400	1400	1390	1390	1370
Taiwan	USD/TWD	32.5	32.4	32.8	33.3	33.2	32.8	33.0	32.8	32.8	32.6
Thailand	USD/THB	34.3	35.0	35.8	36.2	36.1	36.1	36.1	36.0	35.9	35.8
Vietnam	USD/VND	25445	25500	25800	26000	26100	26100	26000	26000	25800	25800
Latin America											
Brazil	USD/BRL	6.19	6.00	6.00	6.00	6.05	6.10	6.15	6.20	6.25	6.30
Mexico	USD/MXN	20.15	20.50	20.75	21.00	21.25	21.50	21.75	22.00	22.25	22.50
Africa											
South Africa	USD/ZAR	18.08	18.00	17.80	17.00	16.60	16.40	16.40	16.80	17.00	17.50
Emerging europe											
Poland	USD/PLN	4.07	4.10	4.19	4.18	4.10	3.97	3.96	3.92	3.87	3.83
Russia	USD/RUB	104.67	93.00	94.00	95.00	96.00	96.00	96.00	96.00	96.00	96.00
Turkey	USD/TRY	35.02	34.80	35.50	35.70	36.00	36.00	37.00	38.00	39.00	39.00
Central Europe											
Czech Rep.	EUR/CZK	25.12	25.40	25.80	25.50	25.10	24.70	24.60	24.50	24.40	24.30
Hungary	EUR/HUF	412	410	415	410	397	385	380	370	368	365
Poland	EUR/PLN	4.26	4.35	4.40	4.35	4.30	4.25	4.24	4.23	4.22	4.21
Romania	EUR/RON	4.97	4.98	4.98	4.97	4.97	4.97	4.97	4.97	4.97	4.97

COMMODITIES

Av. quarter price		17-Dec	Dec-24	2025				2026			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Brent	USD/BBL	74	75	75	80	80	78	75	80	80	82

Av. quarter price		17-Dec	Dec-24	2025				2026			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gold	USD/oz	2,638	2,600	2,500	2,400	2,350	2,300	2,350	2,400	2,500	2,500

PUBLIC ACCOUNTS

	Government balance (% of GDP)			Public debt (% of GDP)		
	2024	2025	2026	2024	2025	2026
United States	**-6.5**	**-6.4**	**-6.5**	**98.2**	**99.6**	**101.8**
Japan	**-4.5**	**-3.5**	**-2.5**	**232.4**	**223.3**	**215.3**
Eurozone	**-3.1**	**-3.0**	**-2.8**	**88.3**	**89.5**	**90.8**
Germany	-2.2	-2.0	-1.8	63.4	64.3	64.8
France	-6.2	-6.0	-5.5	112.9	116.8	119.4
Italy	-3.8	-3.3	-2.8	134.8	136.0	138.1
Spain	-3.1	-2.9	-2.8	103.0	102.9	104.1
Netherlands	-0.2	-1.9	-2.4	42.8	43.8	45.4
Belgium	-4.2	-4.8	-4.2	105.3	106.3	106.3
Greece	-1.2	-0.8	-0.8	157.8	153.1	150.2
Ireland	2.1	1.1	0.4	44.7	42.2	41.8
Portugal	0.3	0.4	0.4	98.2	95.9	93.5
United Kingdom	**-4.7**	**-4.1**	**-3.6**	**101.4**	**102.2**	**104.1**

Completed on 20 December 2024

Publication Manager: Isabelle JOB-BAZILLE
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