

# Economic & Financial Outlook.

Anton Brender & Florence Pisani



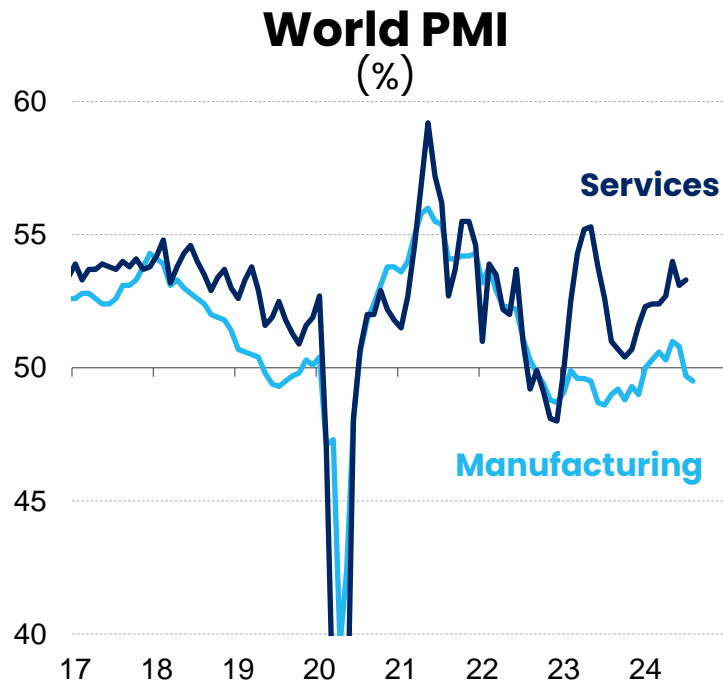




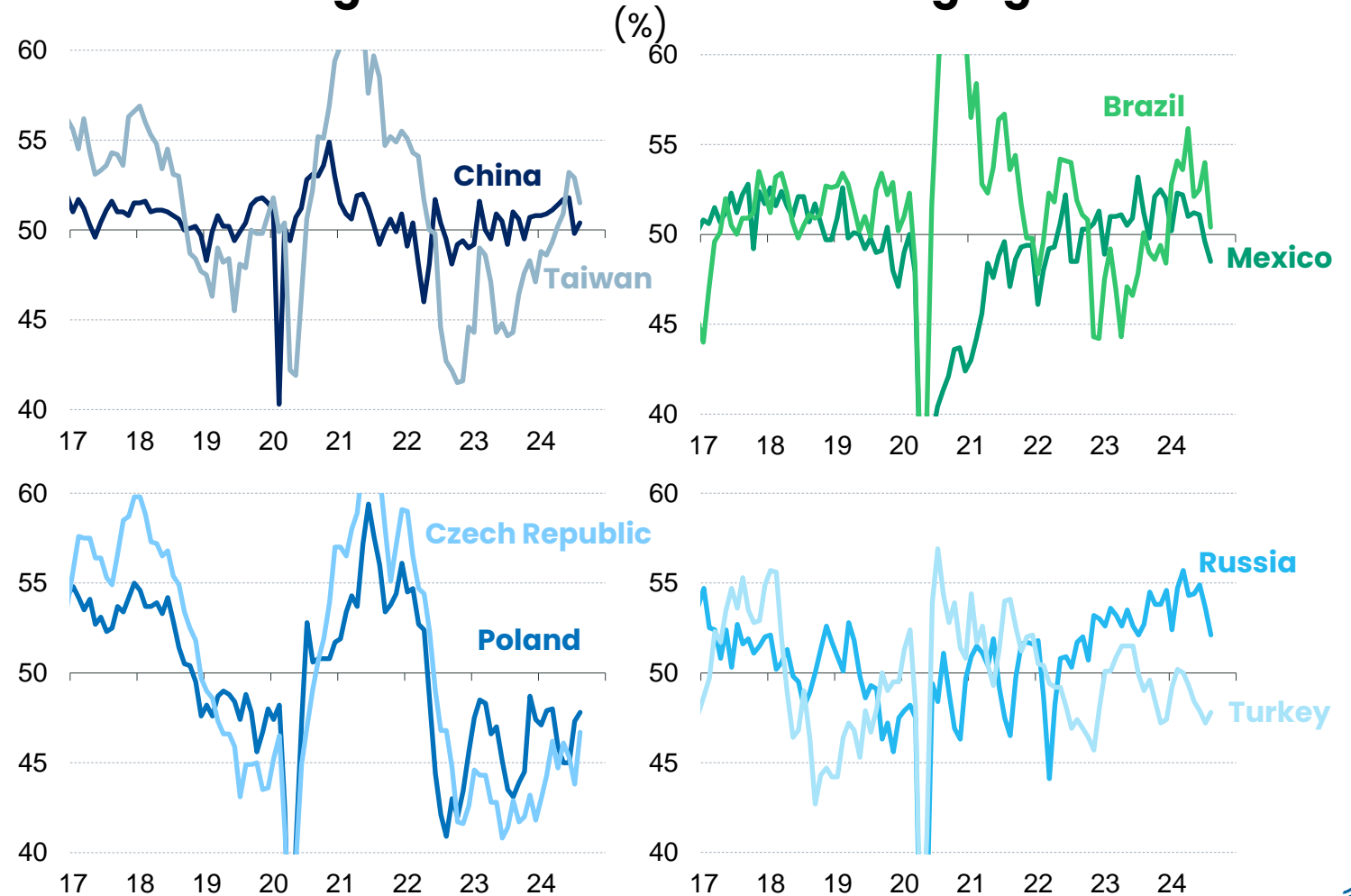
# 1 **Global economy** A manufacturing soft patch.



# While activity in the services sector has been resilient, it weakened in the manufacturing sector

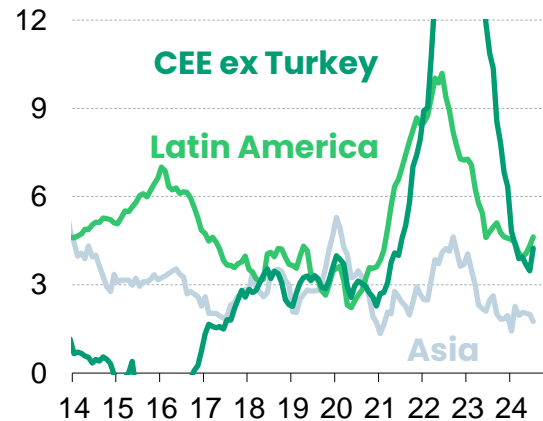


## Manufacturing PMI indices in some emerging countries

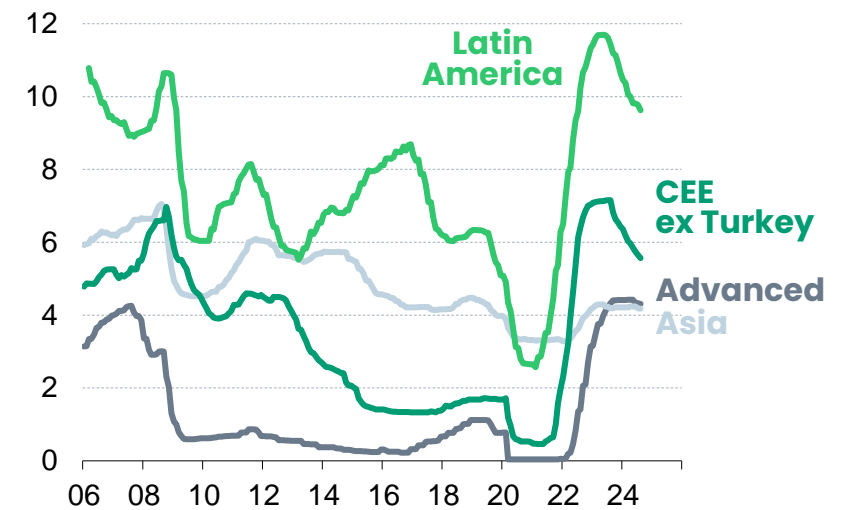


# Disinflation has moved forward, allowing many central banks to start easing

**Global inflation**  
(% year on year)

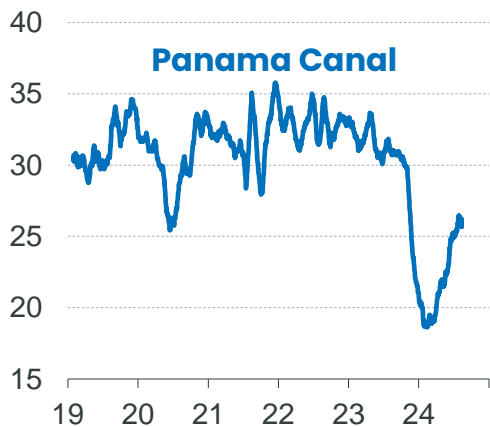
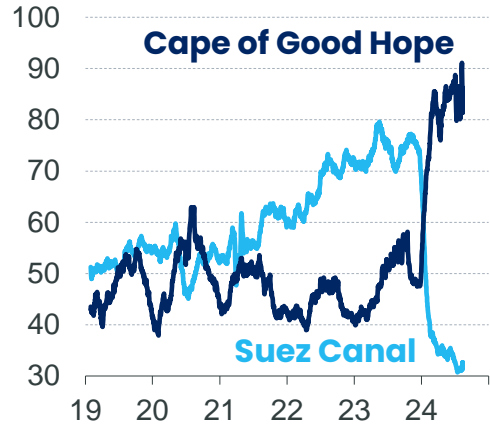


**Monetary policy rate**  
(%)



# Freight costs have continued to rise, but there has been no supply chain disruptions so far

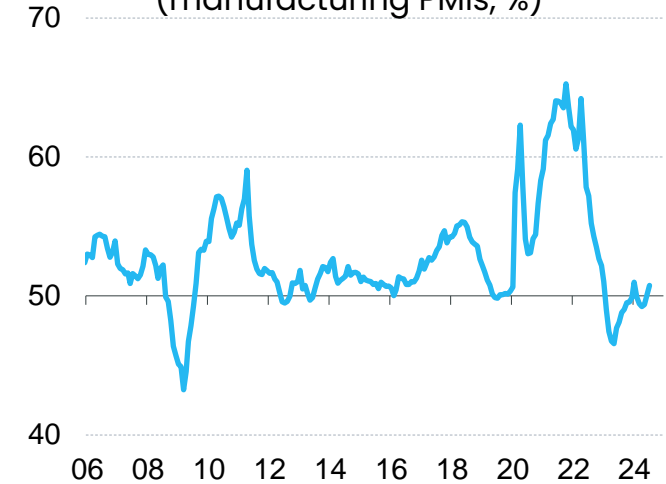
**Number of vessels per day**  
(30 days moving average)



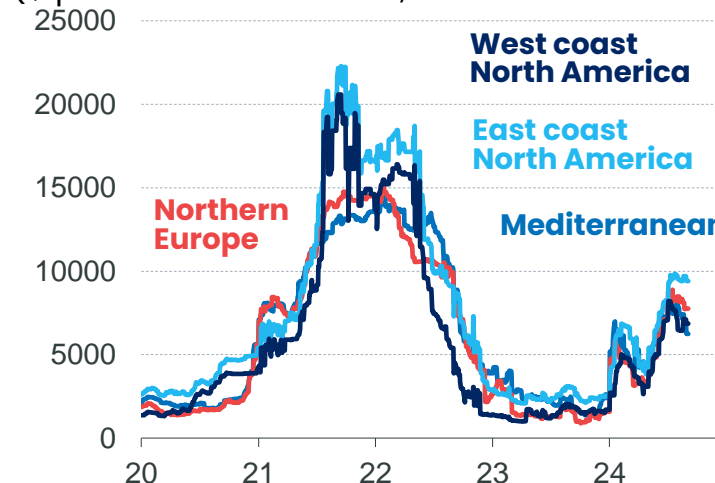
**Harper shipping index**  
(January 2019 = 100)



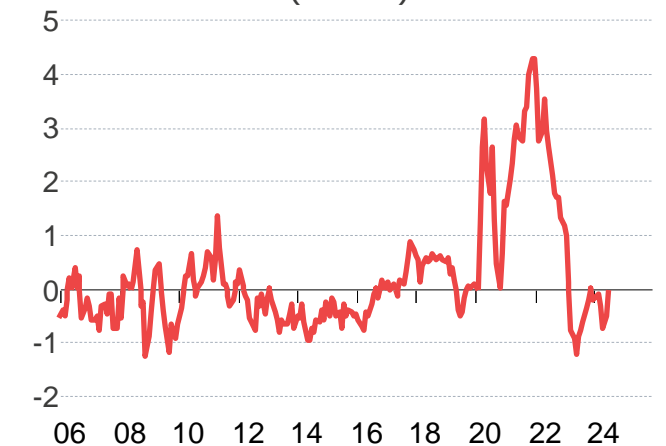
**Global suppliers' delivery time**  
(manufacturing PMIs, %)



**Freight costs**  
(\$ per 40-foot container, from China & East Asia to...)

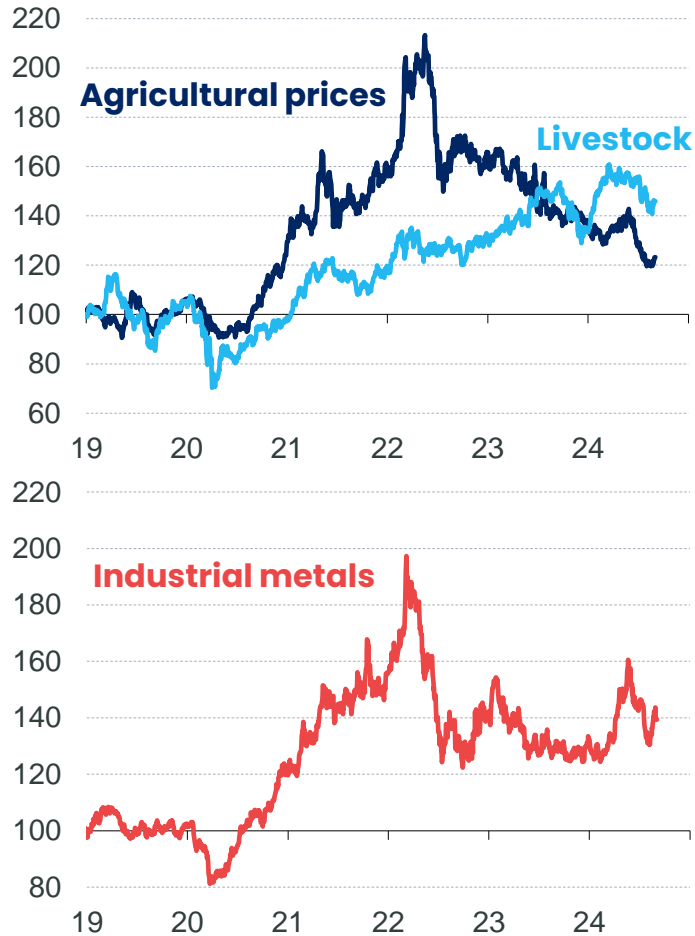


**Global supply chain pressure index**  
(FRBNY)



# Most commodity prices are stable or have moved down recently

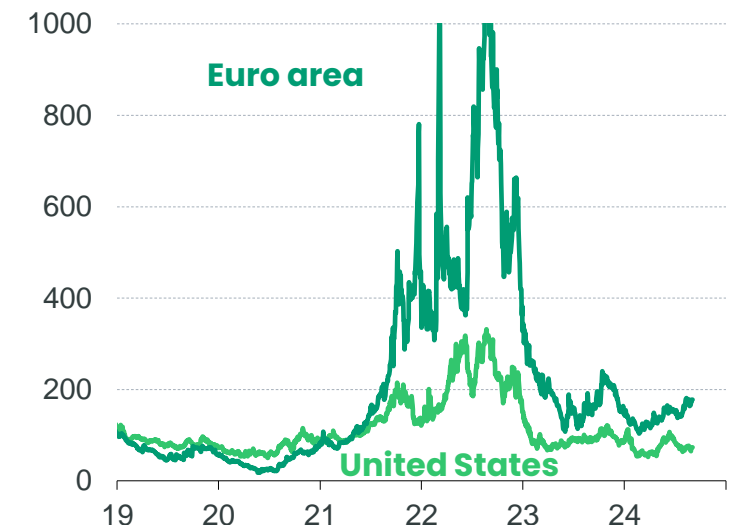
## GSCI commodity prices (January 2019 = 100)



## Crude oil price (Brent, \$ per barrel)

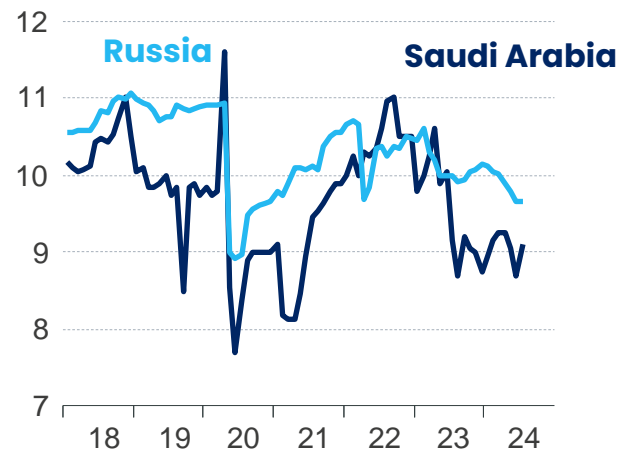


## Natural gas price (January 2019 = 100, in local currency)

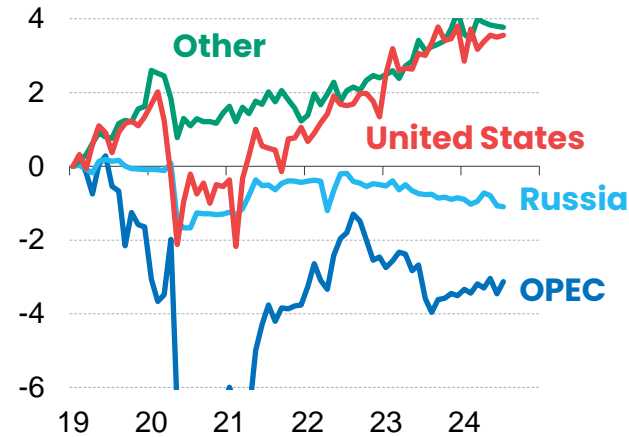


# Oil prices have stabilized around \$80 per barrel, despite a tightening oil market

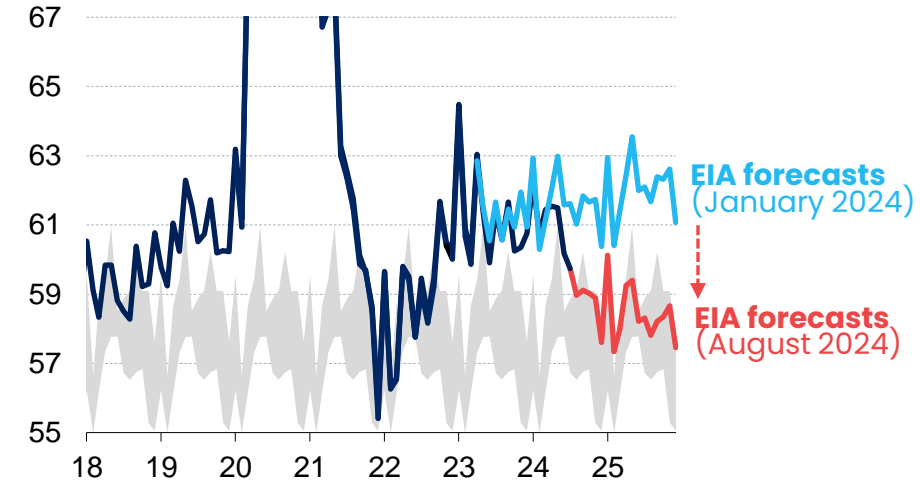
**OPEC+ crude oil production**  
(million barrels per day)



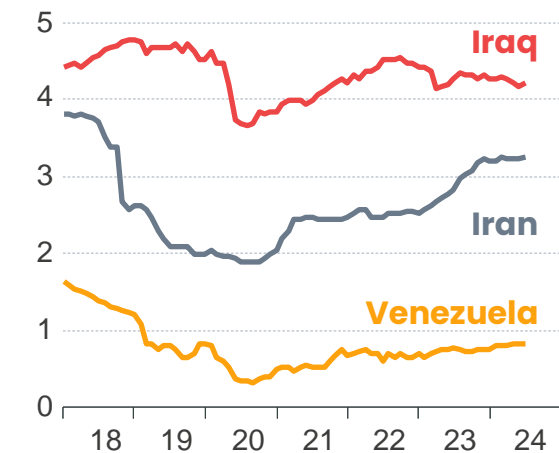
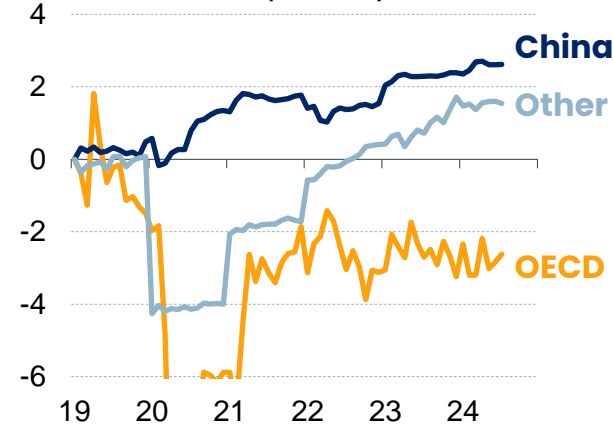
**Cumulated change in oil supply**  
(million barrels per day, since January 2019)



**OECD oil inventories**  
(in days of demand covered)



**Cumulated change in oil demand**  
(million barrels per day, since 2019)



**US strategic petroleum reserves**  
(million barrels)





# Disruptions in the Strait of Hormuz could of course push oil prices higher



**Oil exports via Strait of Hormuz by producer**  
(thousand barrels per day)

	Crude	Products	Total
UAE	2,001	952	2,953
Saudi Arabia	5,860	466	6,326
Kuwait	1,638	807	2,446
Iran	1,366	226	1,591
Qatar	795	375	1,170
Iraq	3,489	458	3,947
Bahrain	0	286	286
Oman	0	0	0
<b>Strait of Hormuz</b>	<b>15,149</b>	<b>3,569</b>	<b>18,718</b>





# 2 China

Still struggling...



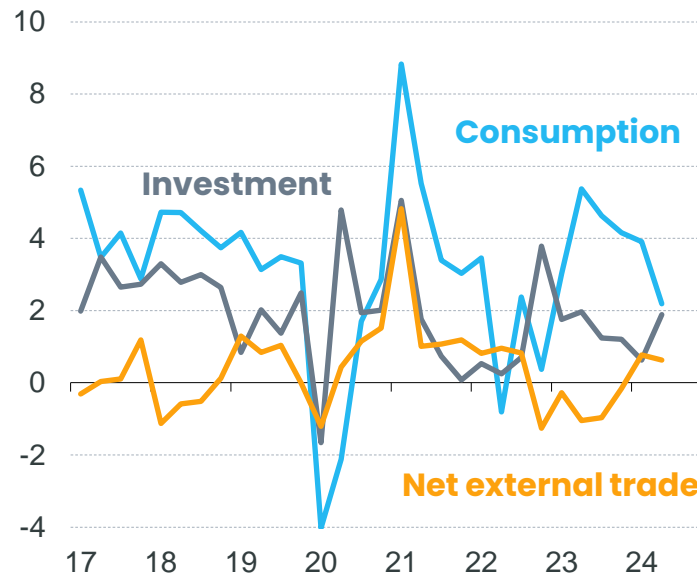
# Real GDP slowed significantly in Q2 2024

## Real GDP growth

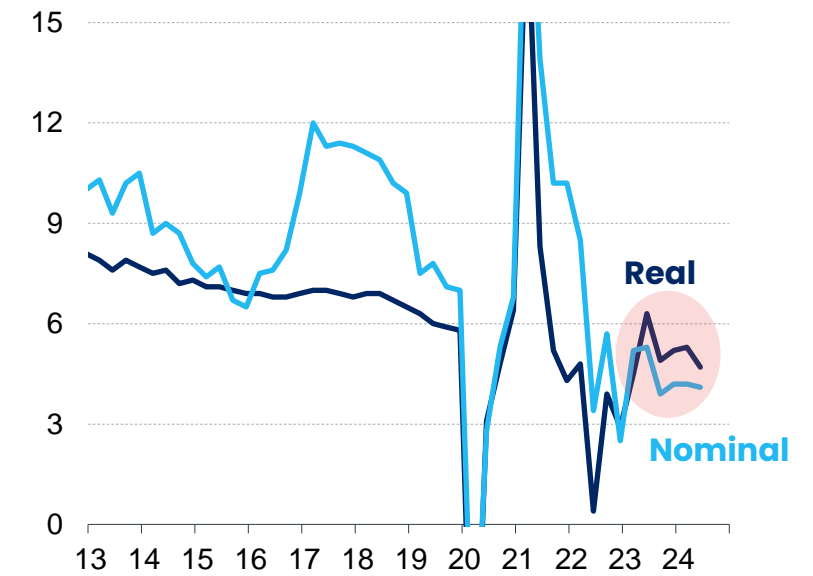
(%, annual rate)



(% year on year contribution)



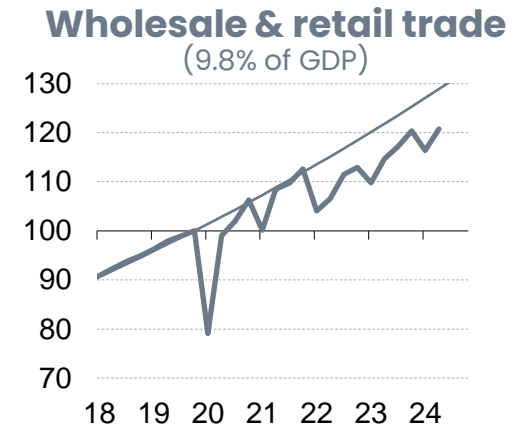
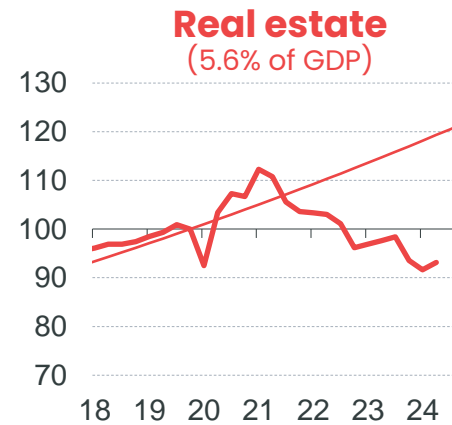
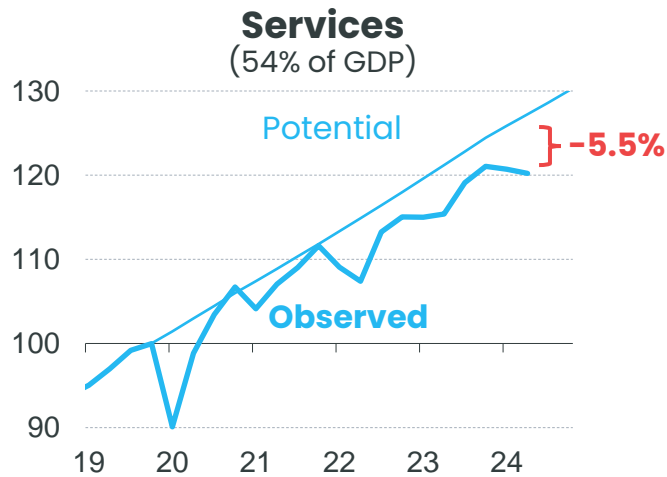
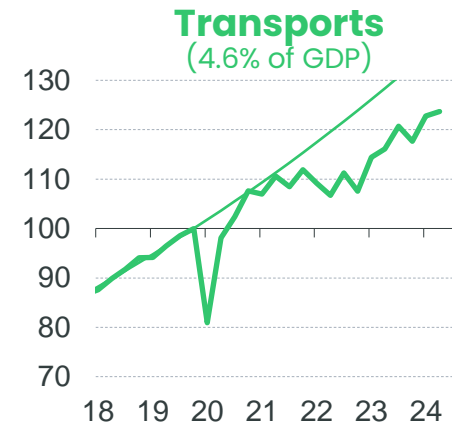
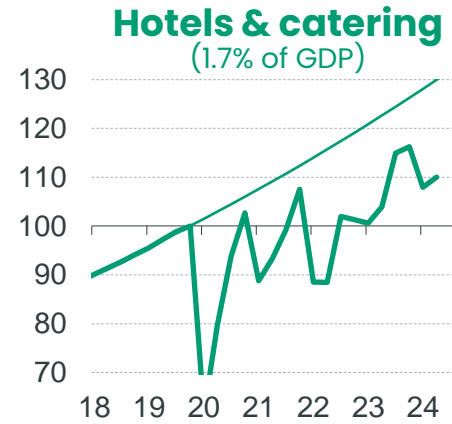
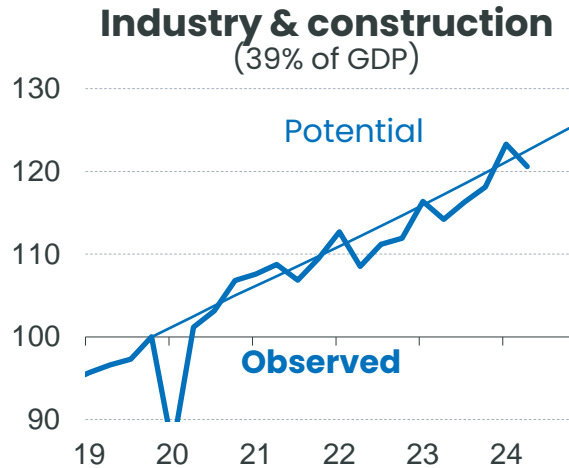
## Real and nominal GDP growth (% year on year)



# Services activity is now well below its past trend

**GDP by industry**  
(2019 Q4 = 100, volume)

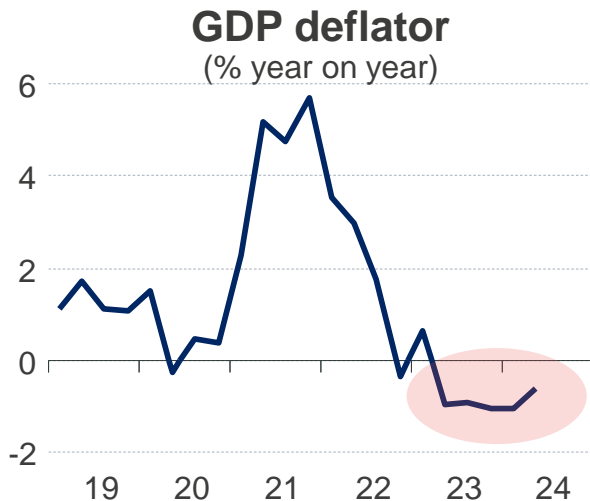
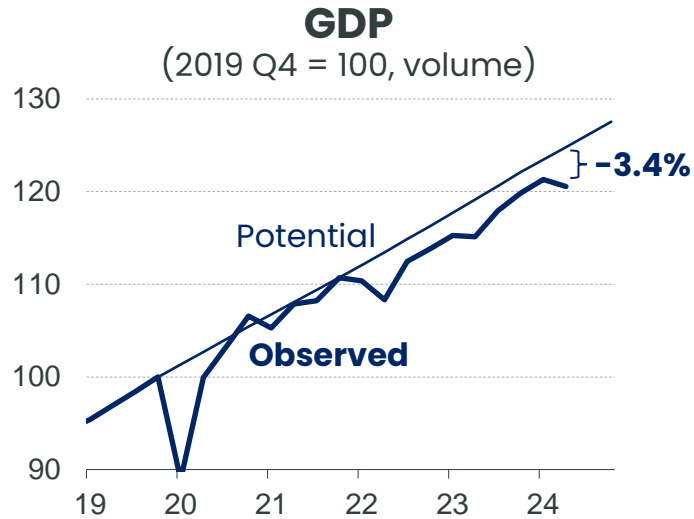
## Selected services sectors



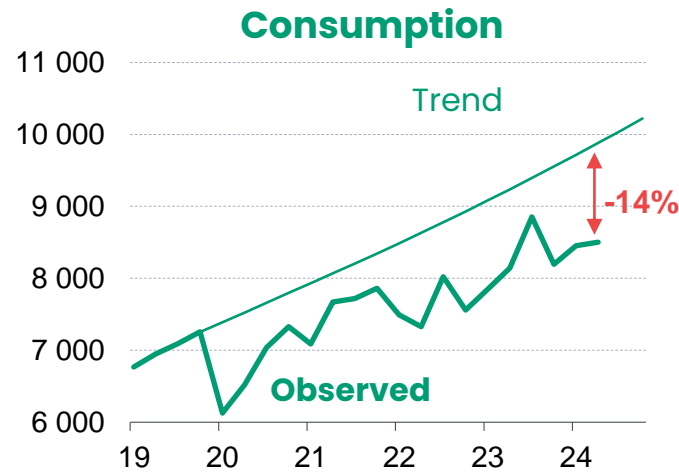
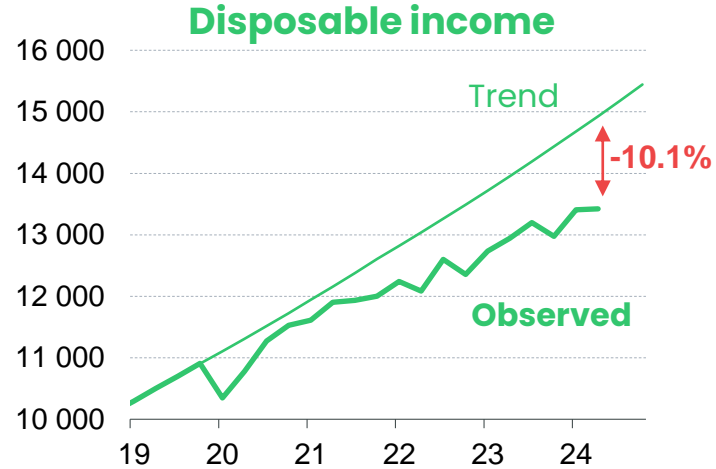
— Pre-pandemic trend  
— Observed



# Deflationary forces are still weighing on activity



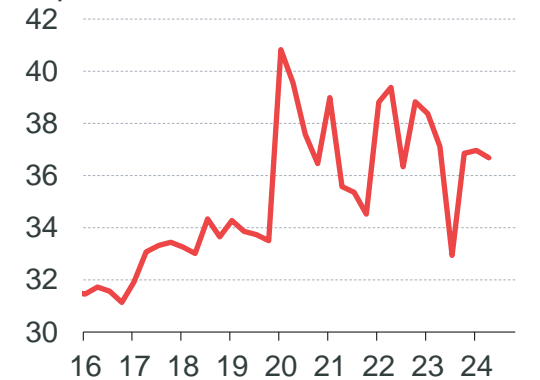
## Urban per capita disposable income and consumption (Yuan)



## Households' deposits (% of disposable income)



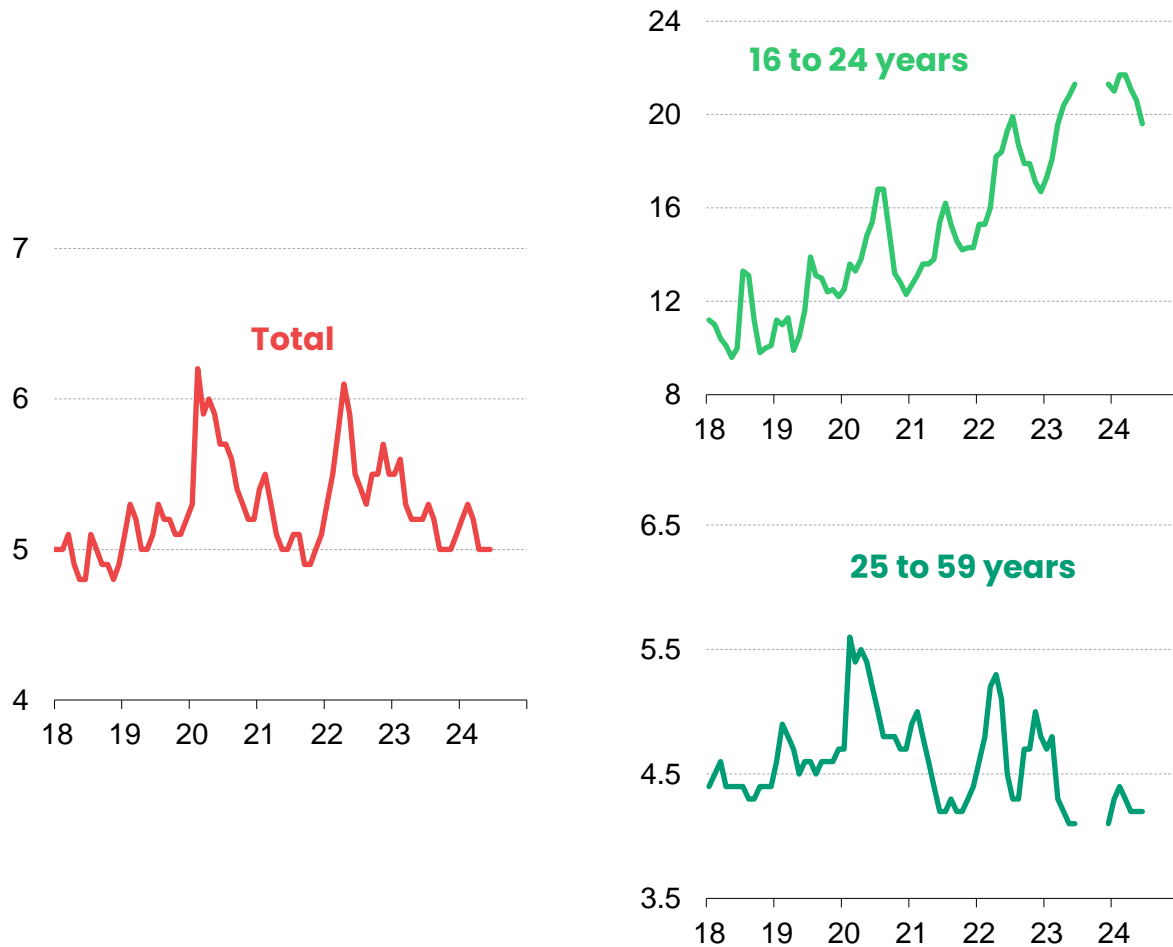
## Saving rate (% of disposable income, urban households)





# Youth unemployment is elevated, and consumer confidence remains depressed

## Unemployment rate (%)

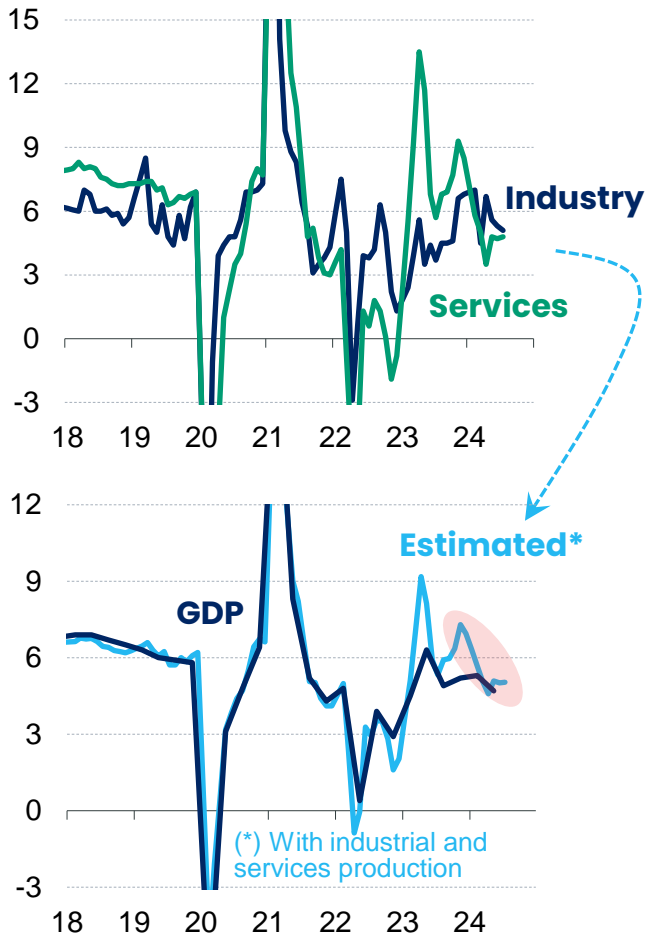


## Consumer confidence

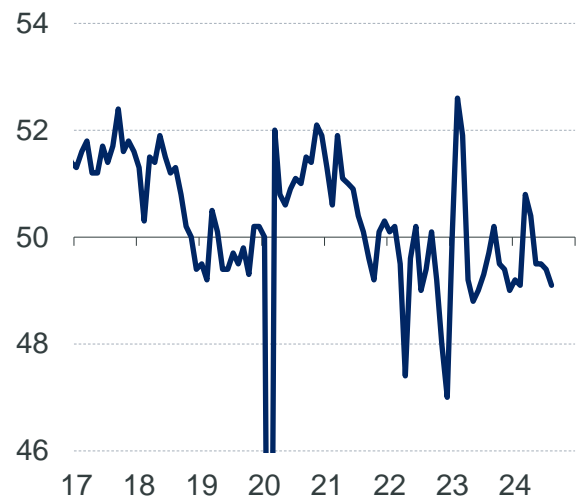


# Monthly indicators point to a weak start of Q3, in the construction sector in particular

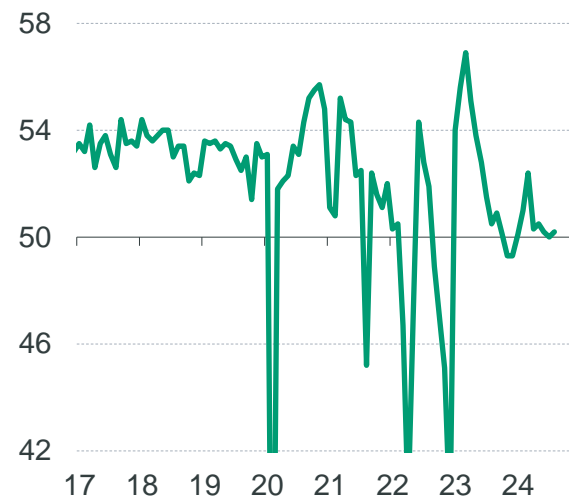
**Monthly output and GDP**  
(% year on year)



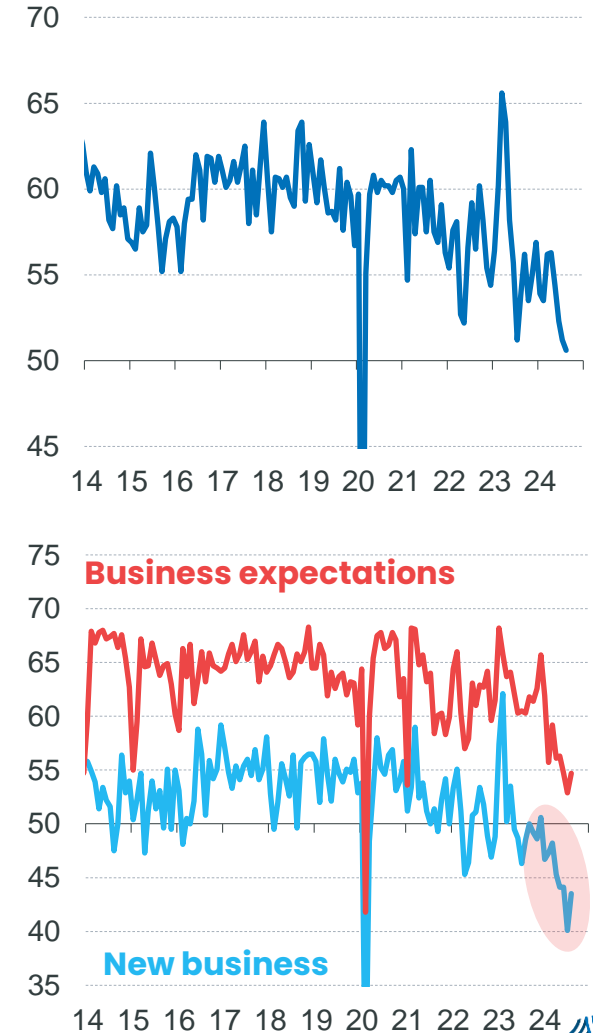
**Manufacturing PMI**  
(NBS)



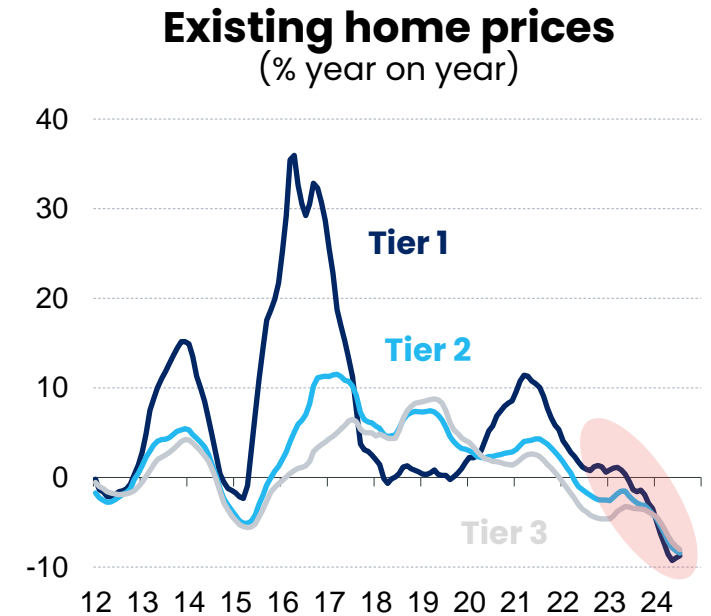
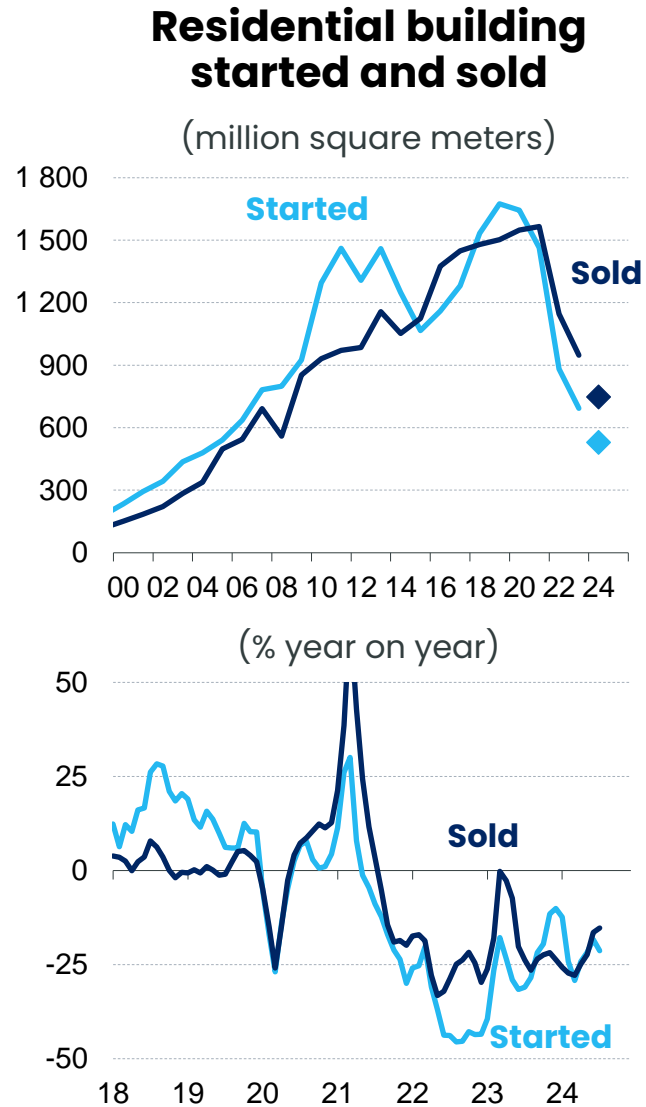
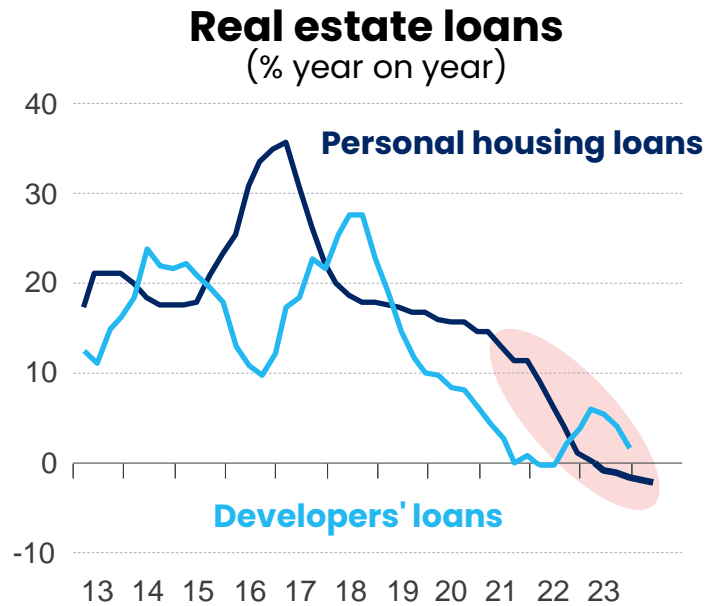
**Services PMI**  
(NBS)



**Construction PMI**  
(NBS)

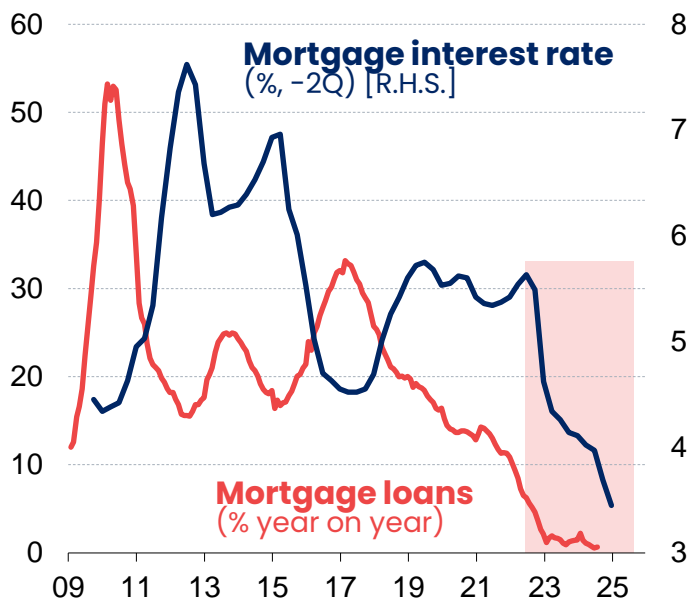


# Real estate investment is the main drag on activity

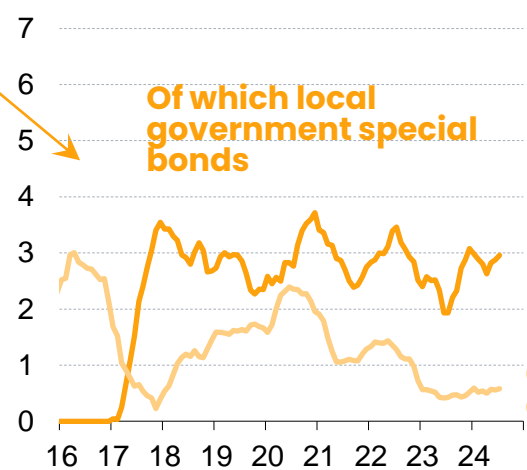
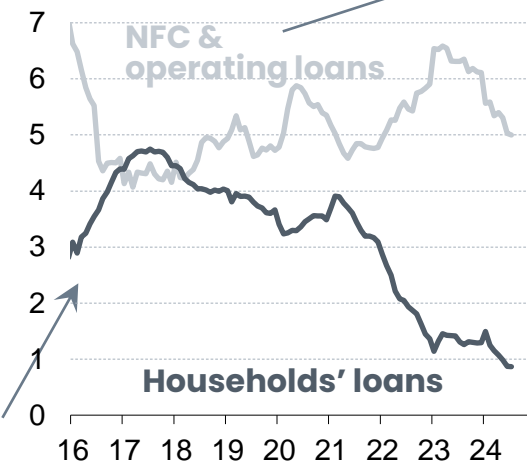
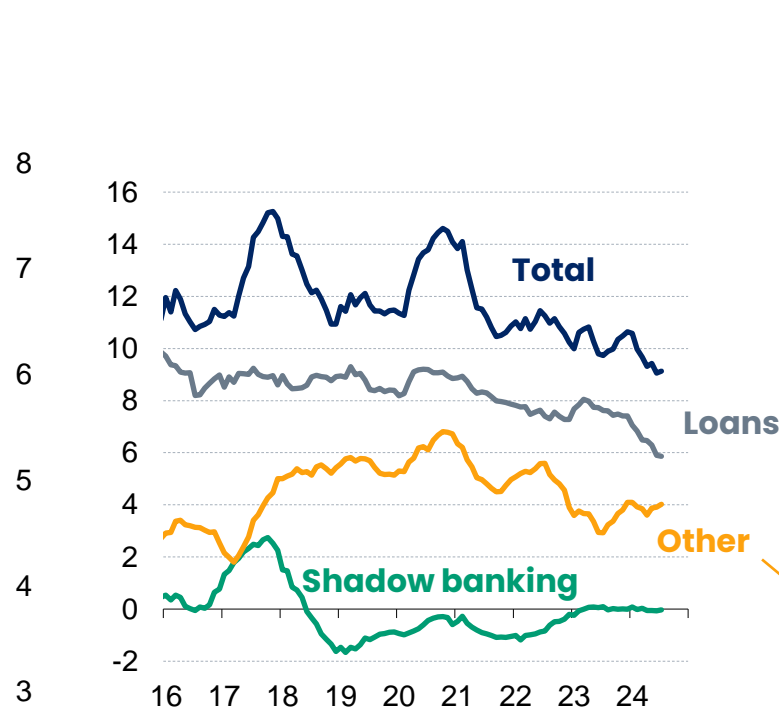


# Monetary policy has stopped having traction on mortgage borrowing

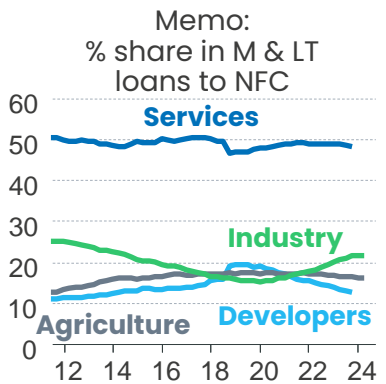
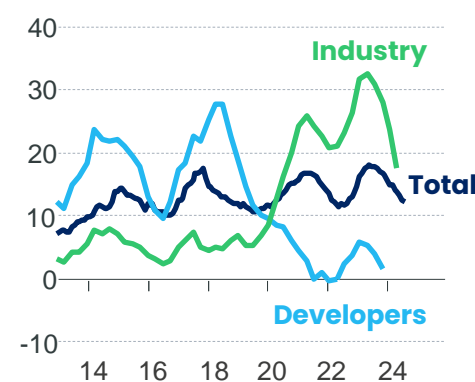
## Mortgage loans and interest rate



## Total social financing (% year on year contribution)



## Medium- and long-term loans to NFC (% year on year)

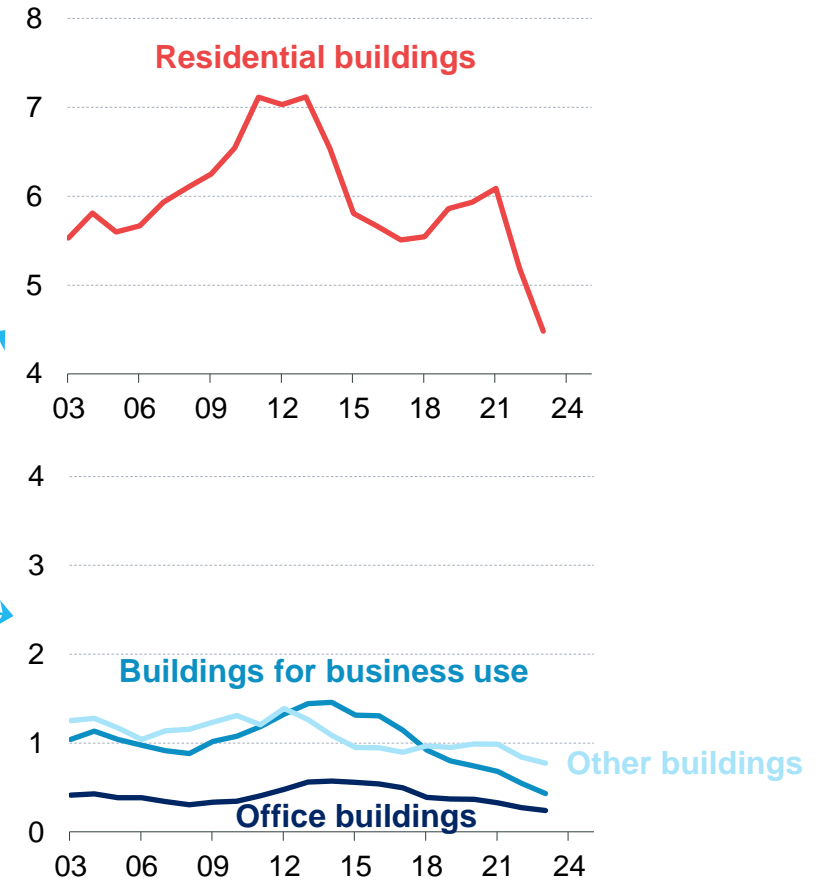
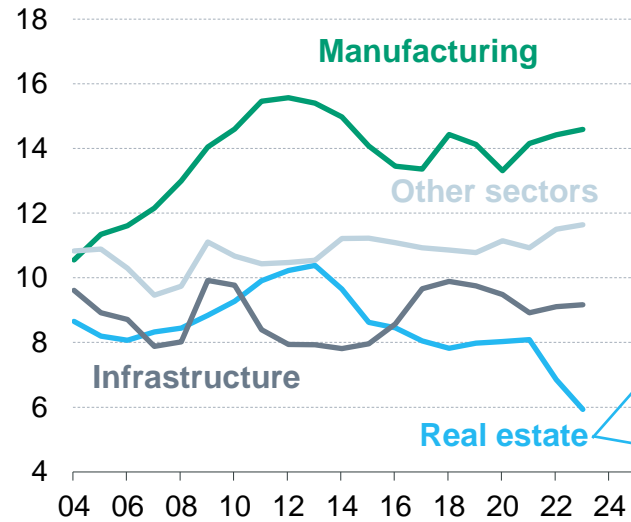




# The real estate sector is the source of deflationary pressures that are proving hard to offset! (I)



## Gross fixed capital formation (% of GDP)

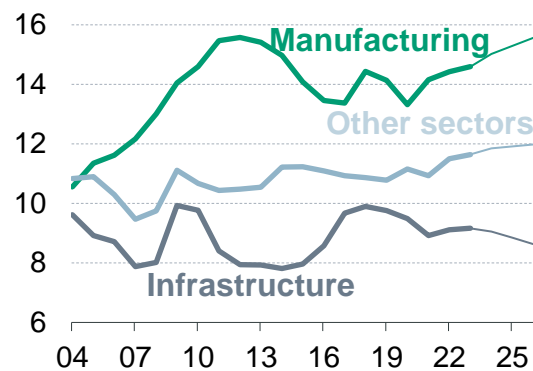
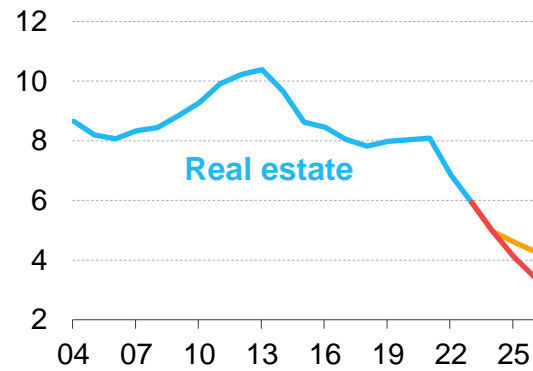
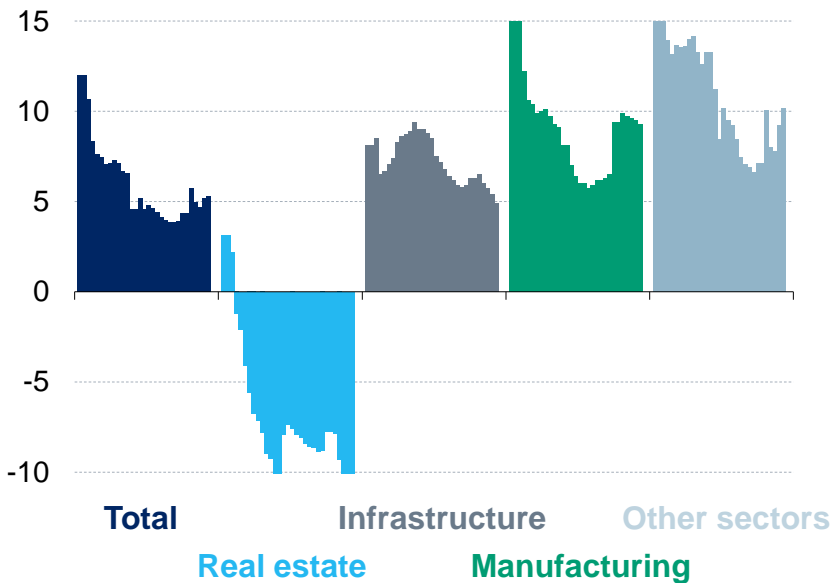


# The real estate sector is the source of deflationary pressures that are proving hard to offset! (II)

## Fixed asset investment by industry

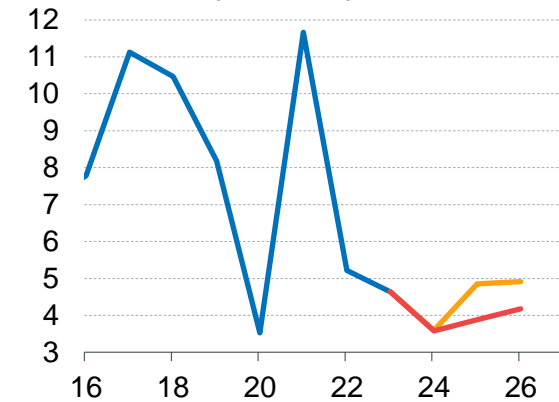
(% of GDP)

(% year on year cumulated growth, January 2022 – July 2024)



## Nominal GDP growth

(% year on year)

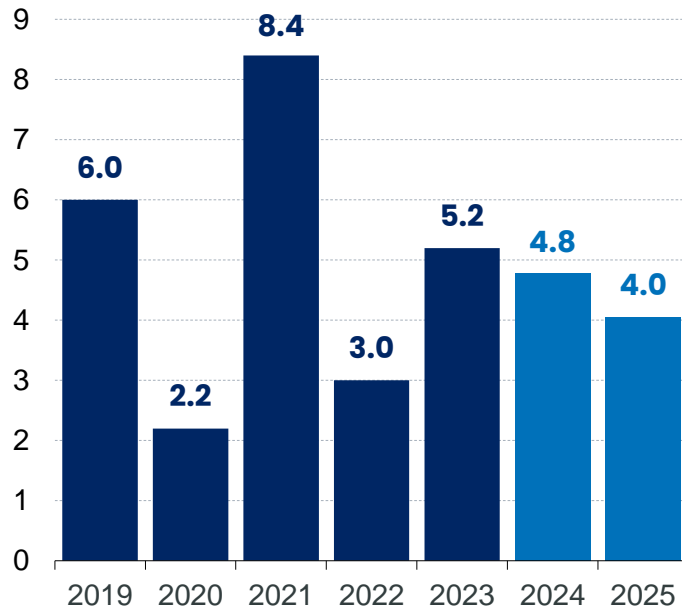


	Real estate investment			Nominal GDP		
(annual growth)	2024	2025	2026	2024	2025	2026
Real estate investment stabilizes in 2025	-11%	0%	0%	3.5%	5.0%	5.0%
Real estate investment keeps on falling	-11%	-11%	-11%	3.5%	4.0%	4.2%

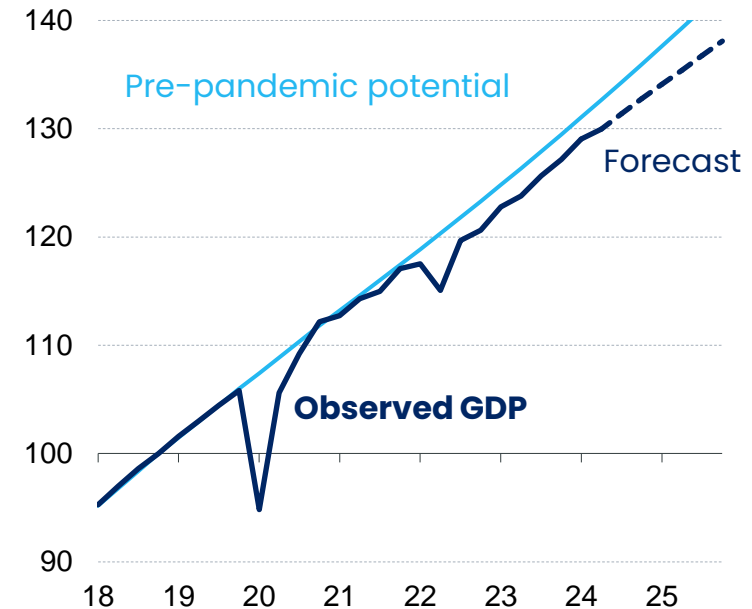


# Against this background, growth is likely to remain subpar in 2025

### Real GDP growth (%, annual average)



### Real GDP trajectory (2018 Q4 = 100)





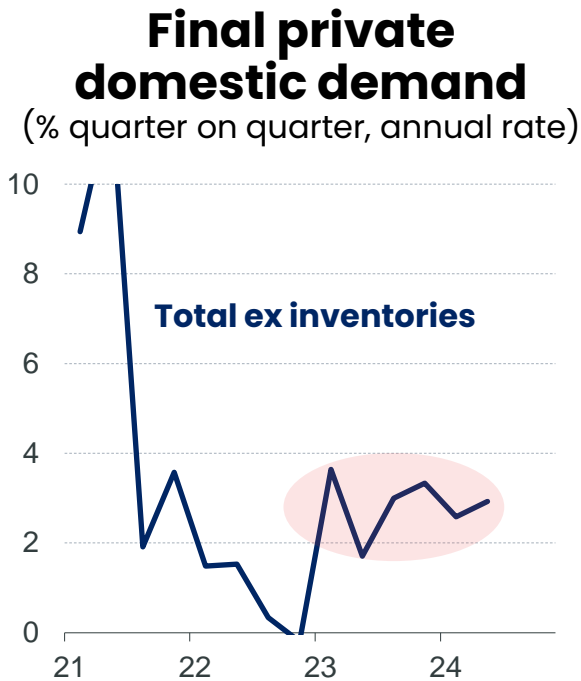
# 3 United States

Rate cuts are coming...



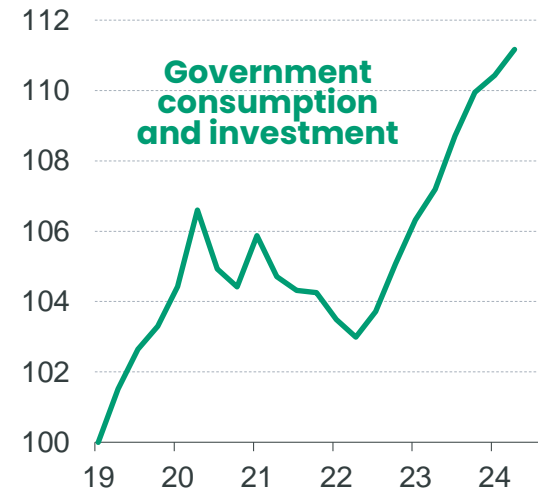
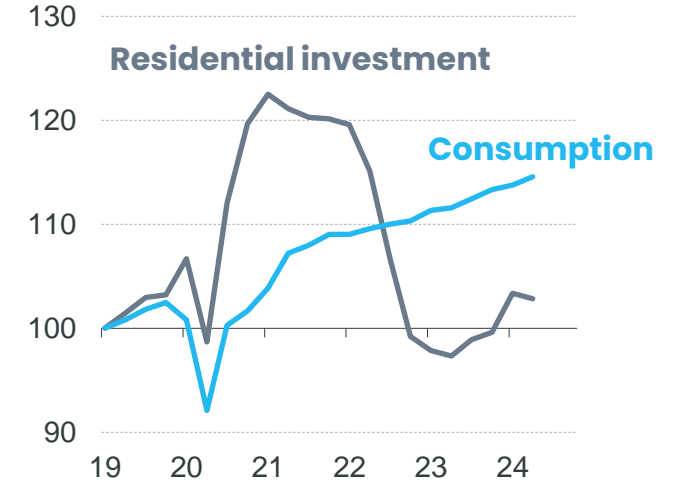
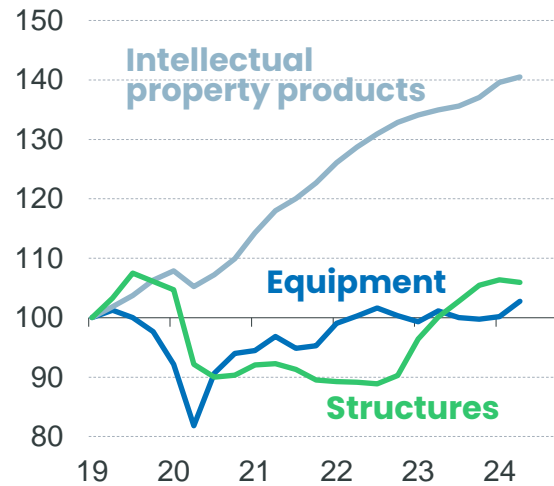


# Since beginning of 2023, final domestic demand has kept growing at a solid pace



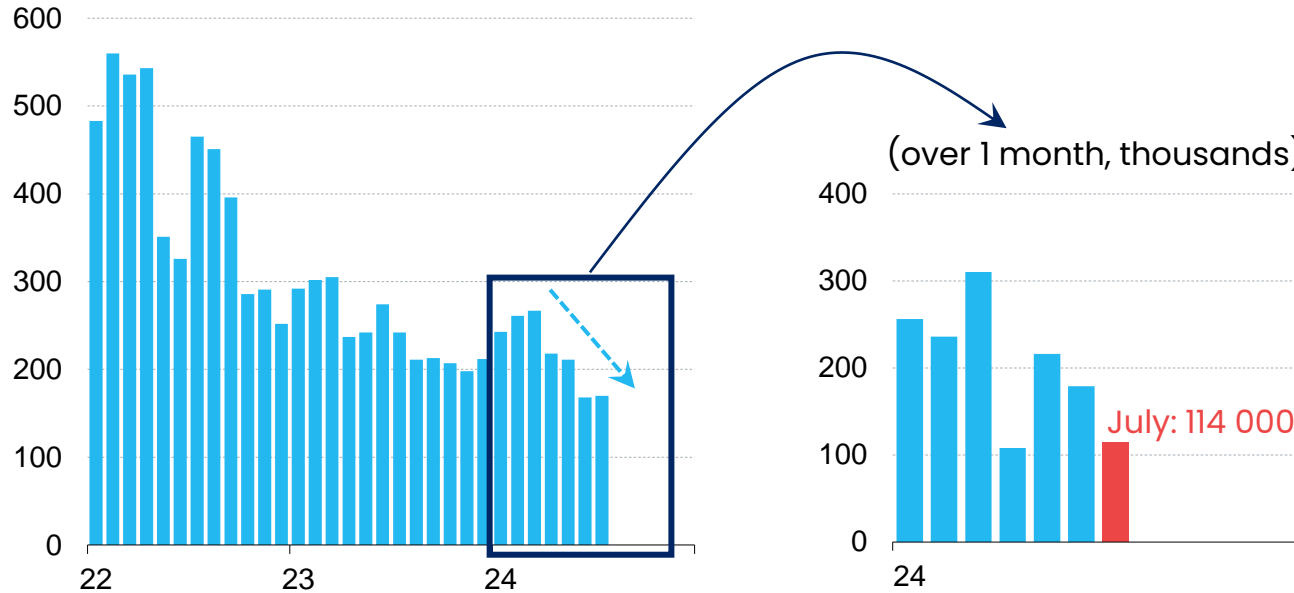
## Final domestic demand components

(2019 Q1 = 100)

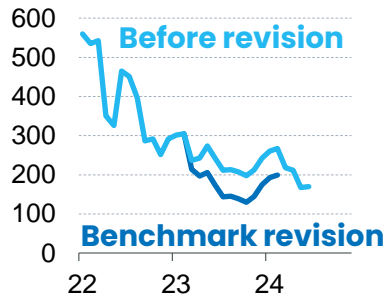


# The July labor market report has however triggered fears of a looming recession

**Change in employment\***  
(over 3 months, monthly rate, thousands)



**Unemployment rate**  
(%)

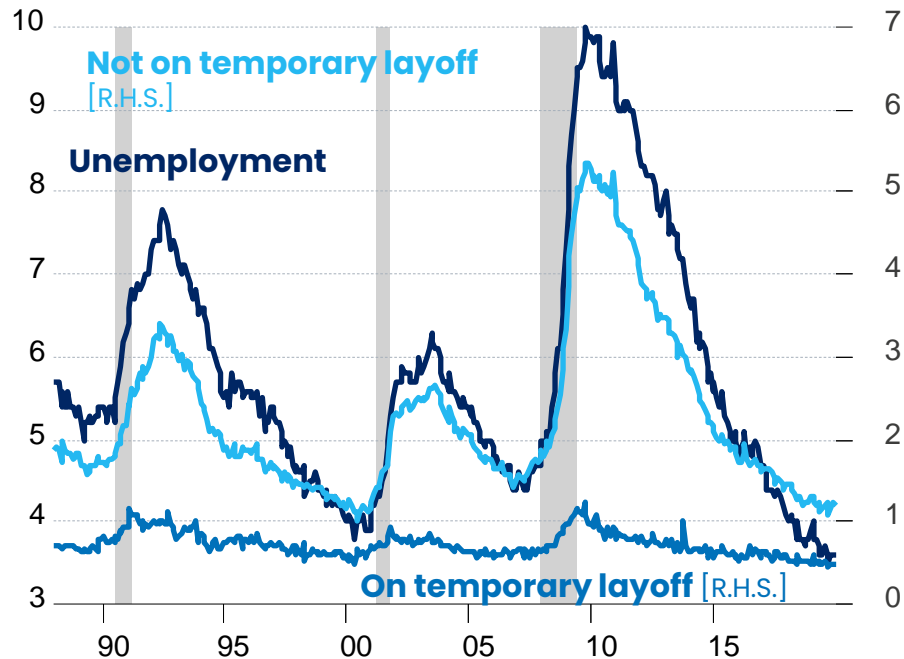


(\*) The preliminary estimate of the benchmark revision indicates an adjustment to March 2024 total nonfarm employment of -818000 (-0.5%). The revision rests on data from the QCEW which is based on state unemployment insurance tax records. This means that these data likely do not pick up part of unauthorized migrant workers.

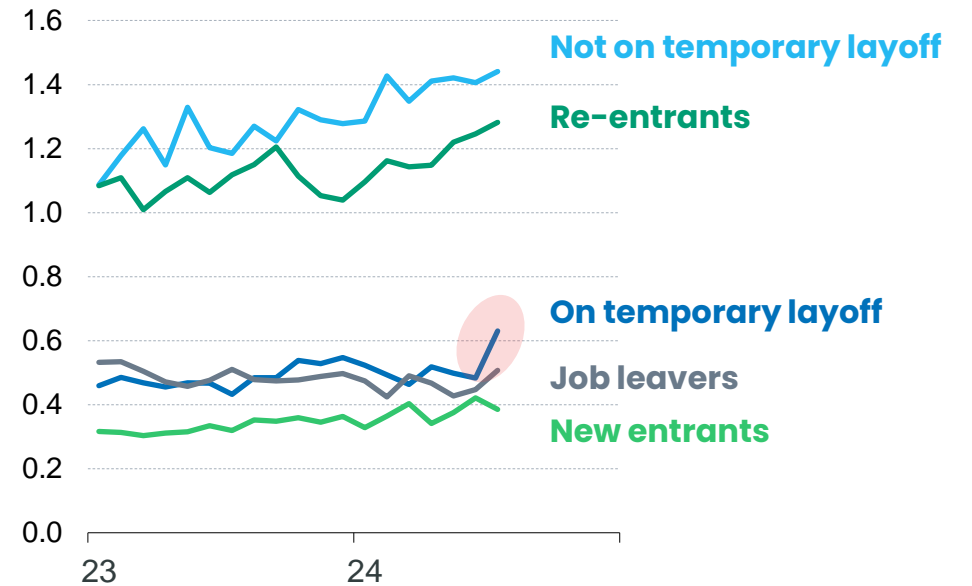


# But recessions usually start with a pick-up in (non-temporary) layoffs!

**Temporary and not temporary unemployment**  
(% of labor force, 1988-2019)

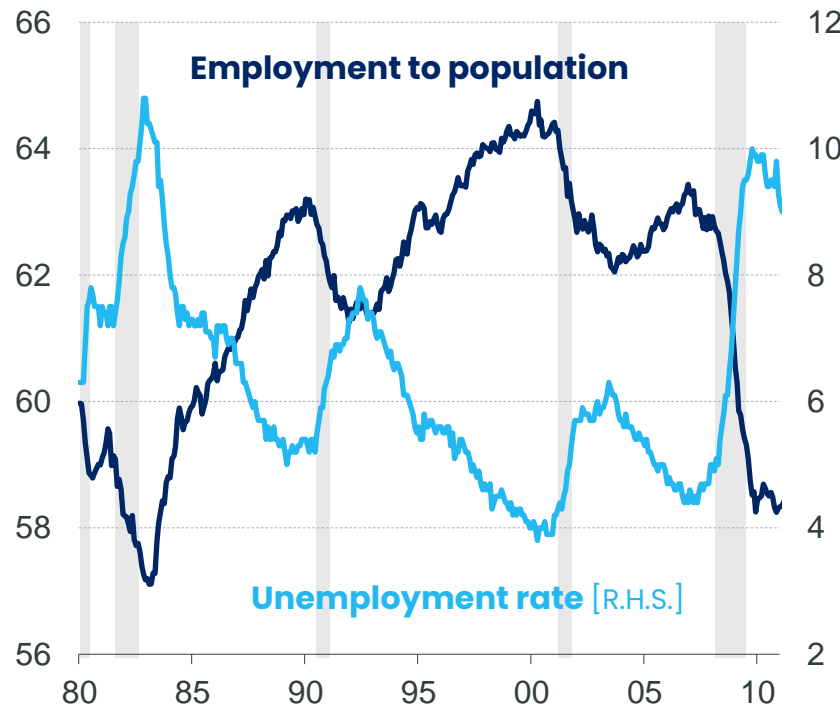


**Reasons for the rise in unemployment**  
(% of labor force)

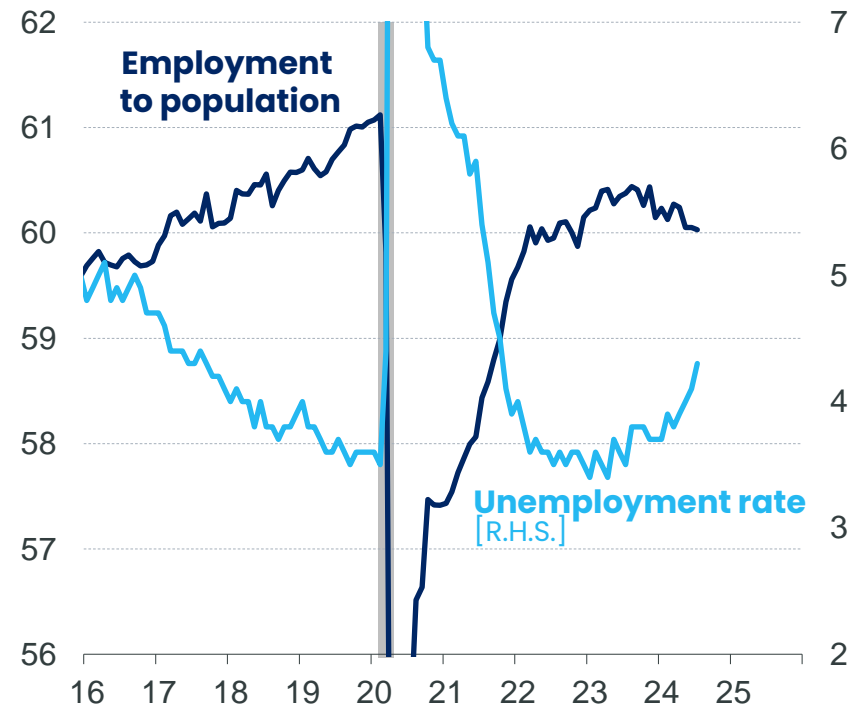


# The recent increase in the unemployment rate overstates the deterioration of the labor market

## Unemployment and employment rates (%)



Past episodes of rising unemployment rate were associated with a fall in the employment to population ratio.

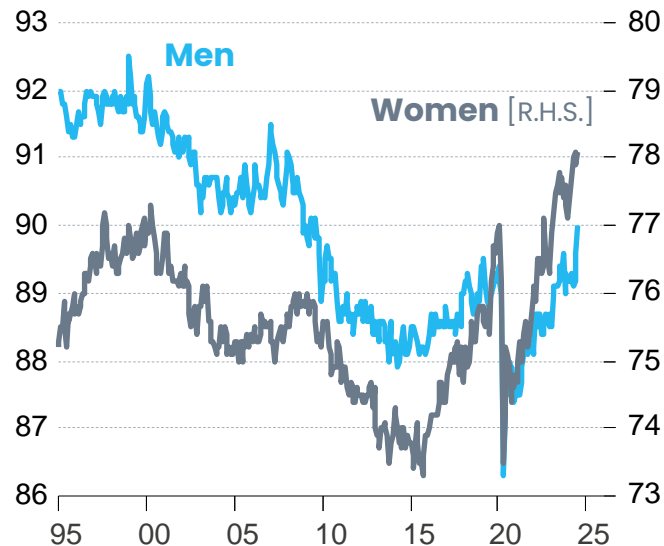


In the current episode, the rise in unemployment comes largely from a rise in labor supply!

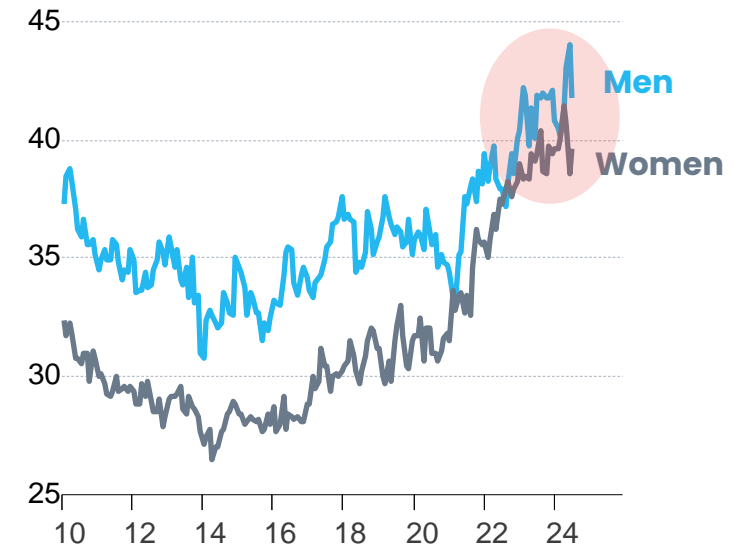


# With participation rates already at record high levels...

## Prime age participation rate (%)



## Disabled participation rate (% 16- to 64-year-old)

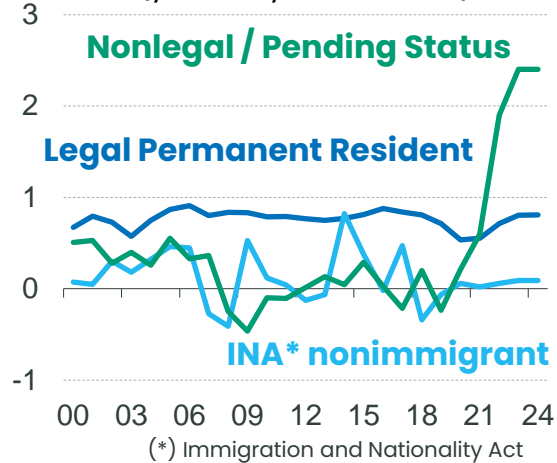




# ... job creations will have to decelerate to 120 000 per month to prevent the unemployment rate from falling

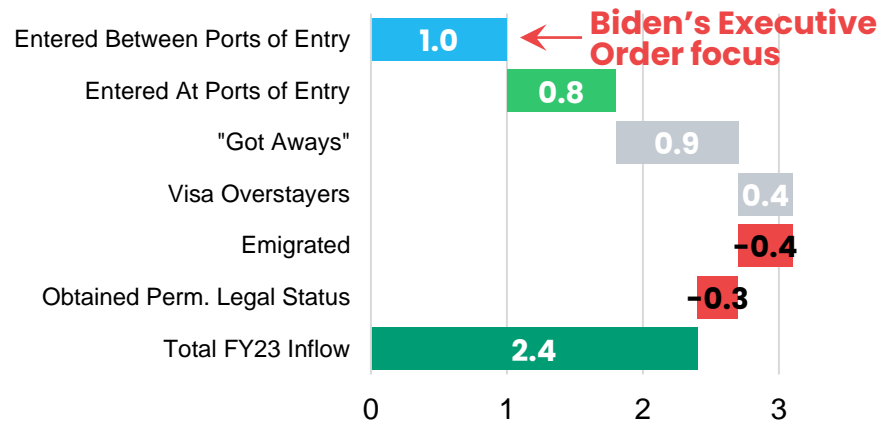
## Net immigration by category

(year on year, millions)



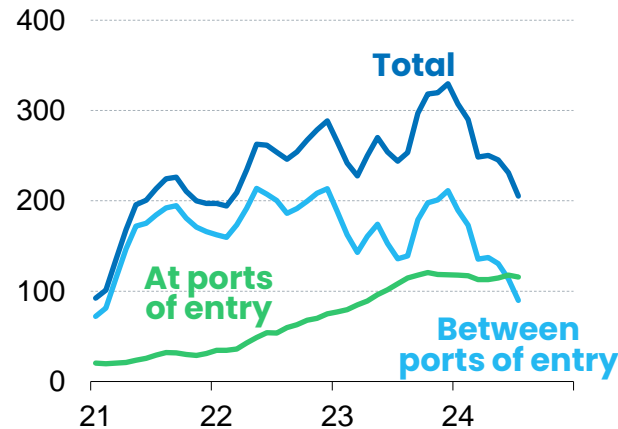
## Nonlegal / Pending Status immigrants

(2023, millions)



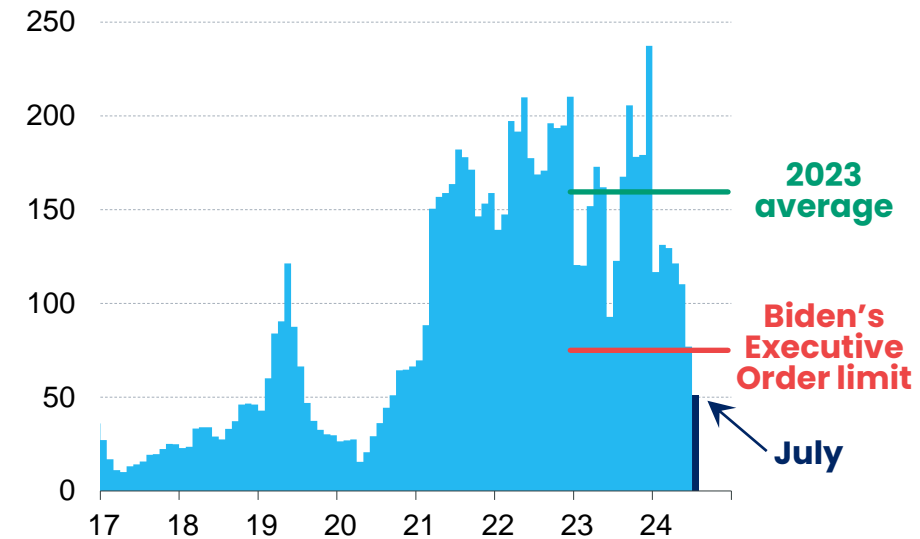
## Nationwide encounters

(thousands per month, 3mma)



## Southwest land border encounters between ports of entry

(thousands per month, adults only)

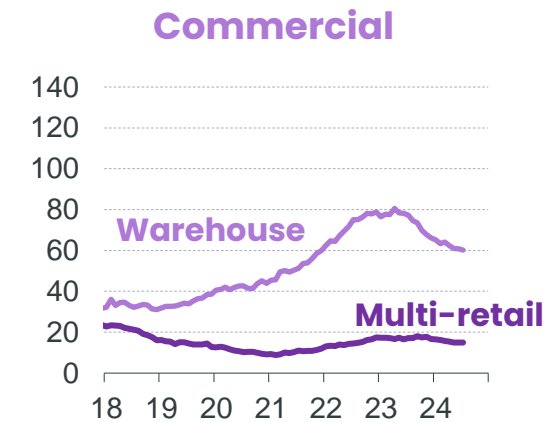
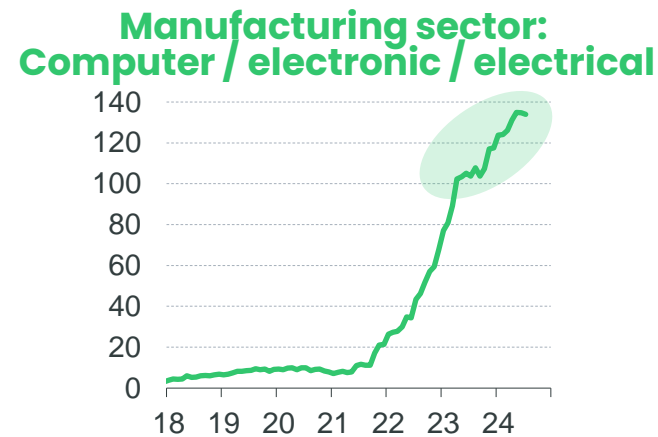
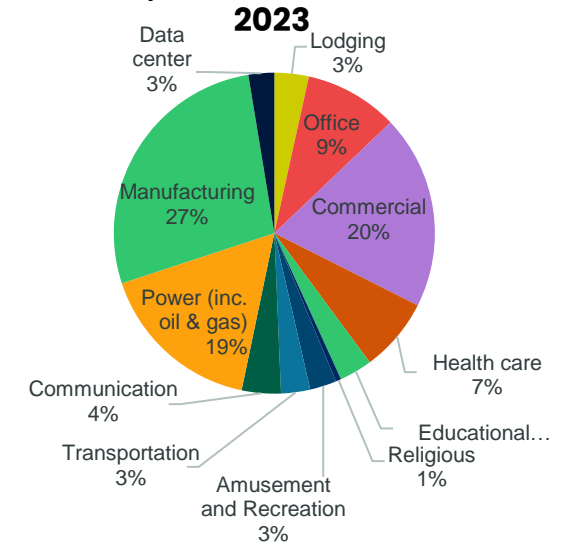
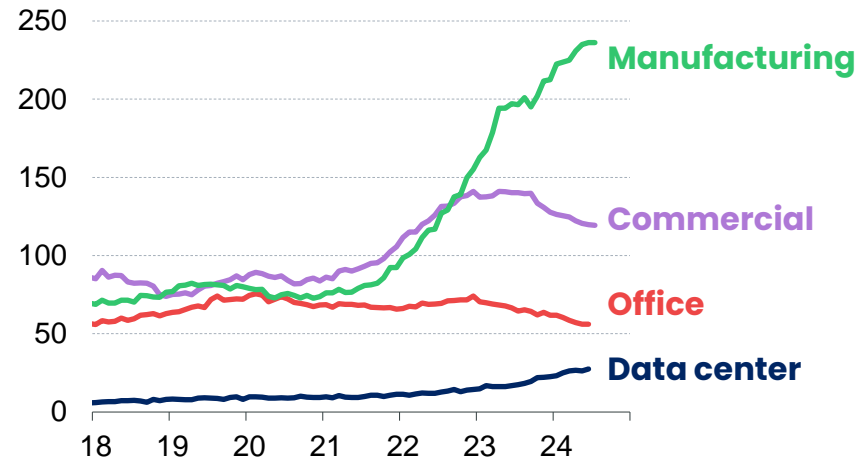
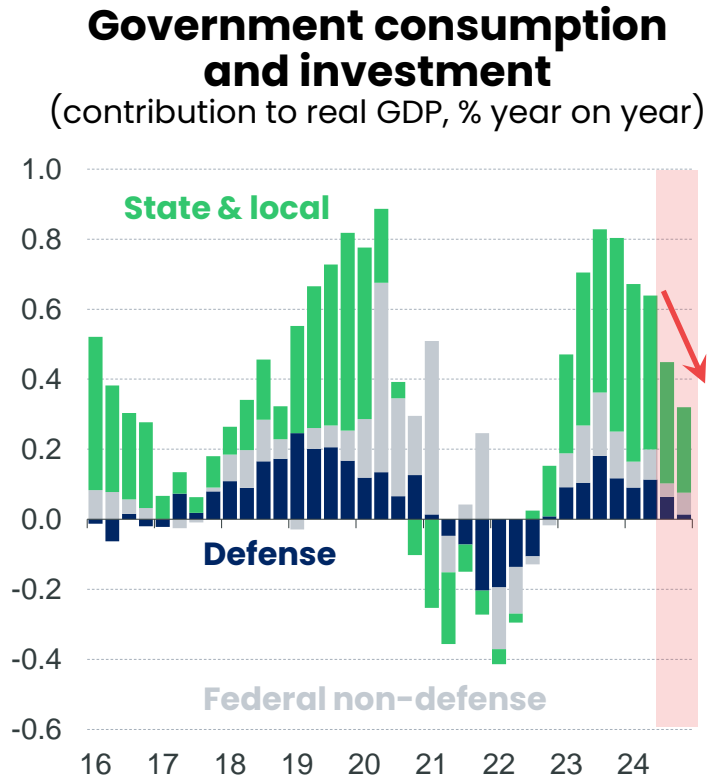


**Biden's Executive Order could reduce working age population growth by 50 000 per month.**



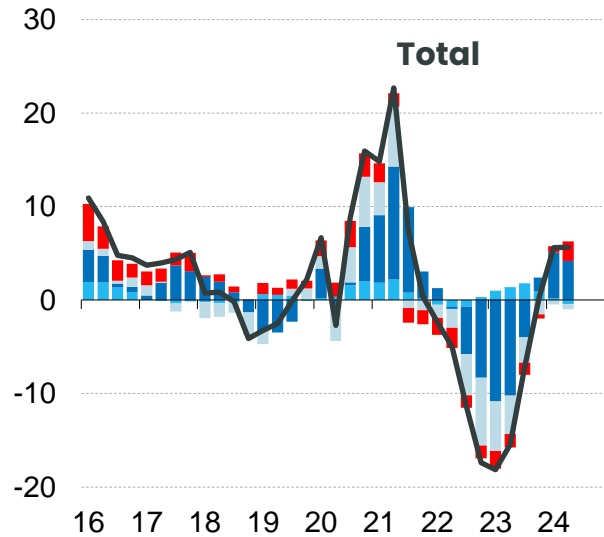
# The fading of the support provided by government spending and firms' structures investment will help slow down growth

## Private investment in non-residential structures (\$ billion, current prices, annual rate)



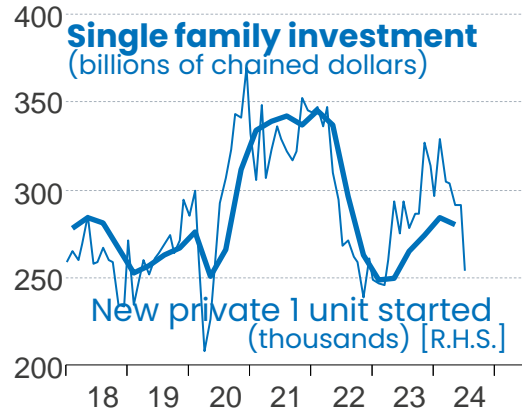
# Despite falling mortgage rates, housing activity is unlikely to ramp up...

**Residential investment**  
(% year on year contributions)

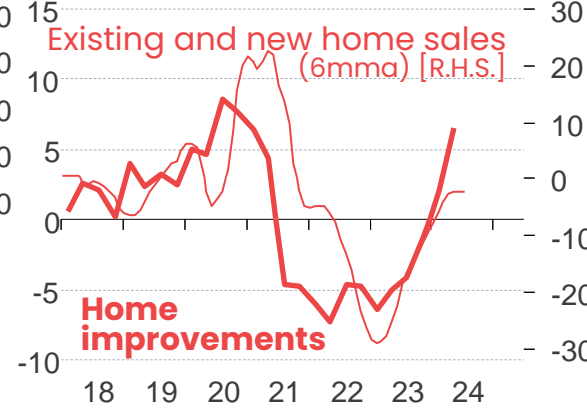


- Multifamily
- Single family
- Brokers' commissions
- Improvements

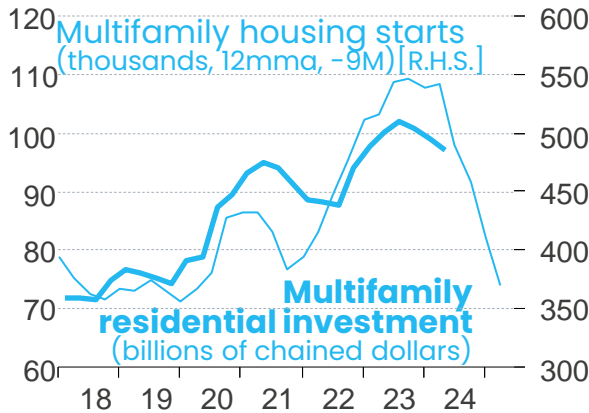
**Single family investment**  
(annual rate)



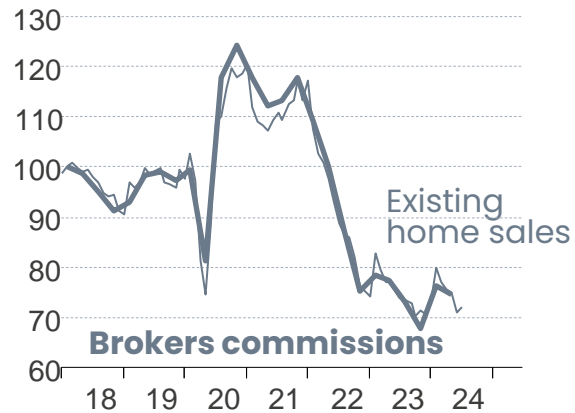
**Home improvements**  
(% year on year, volume)



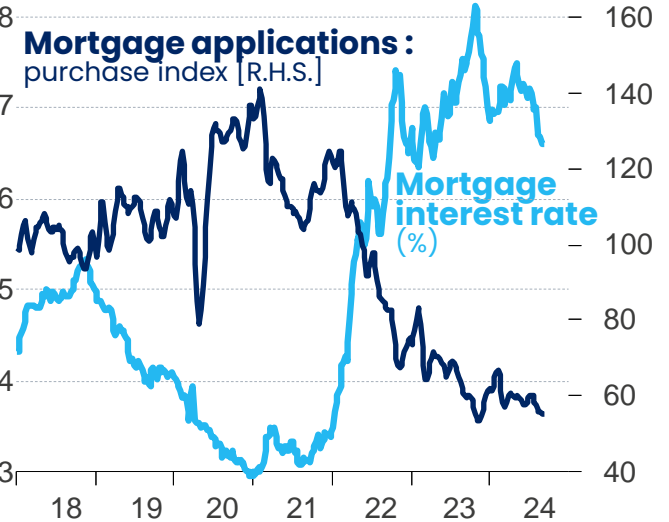
**Multifamily investment**  
(volume, annual rate)



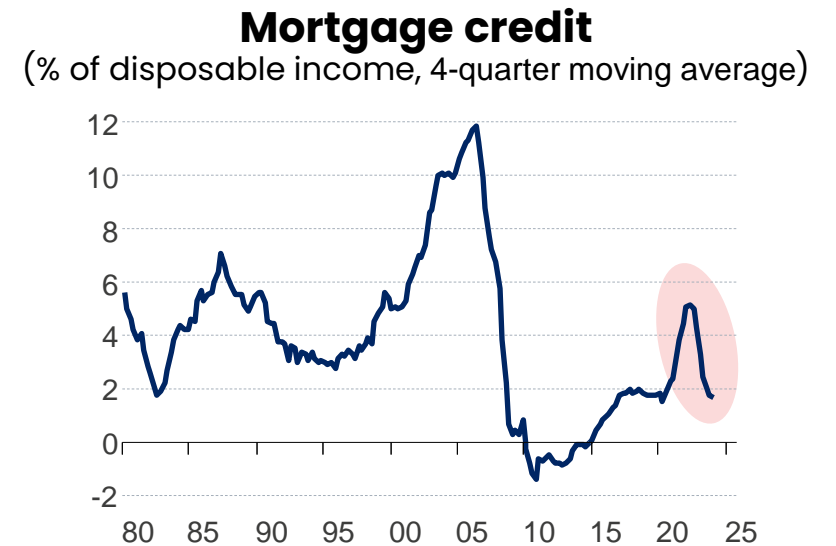
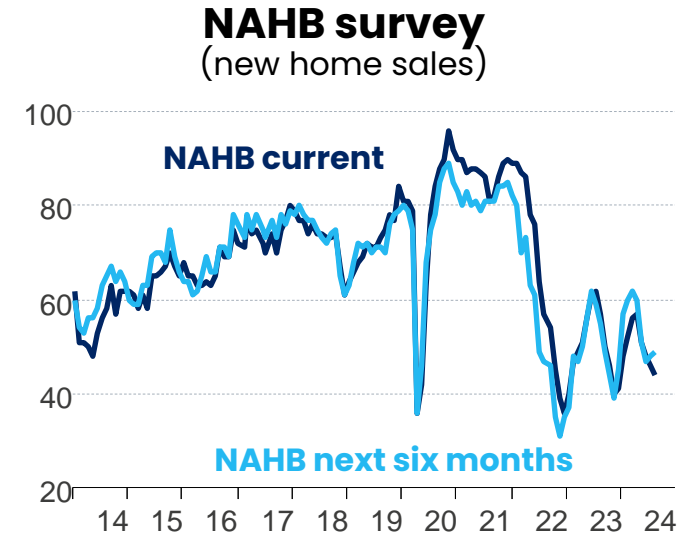
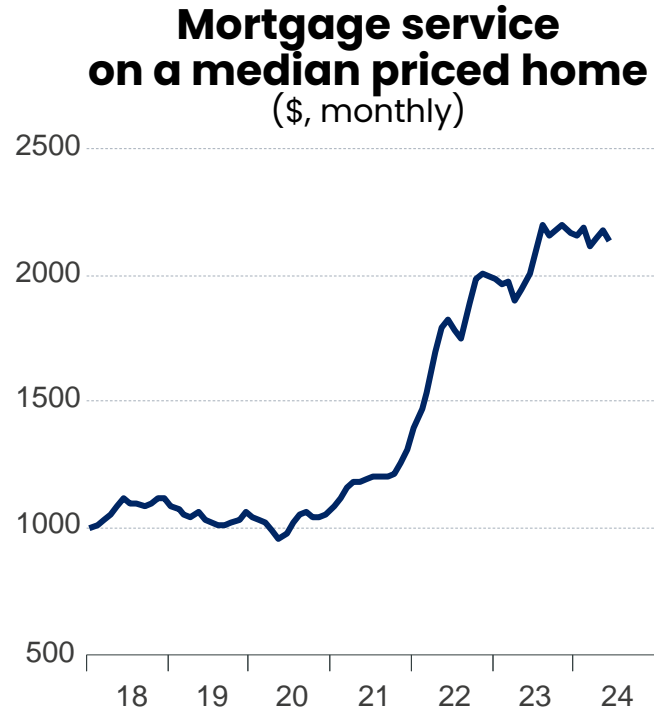
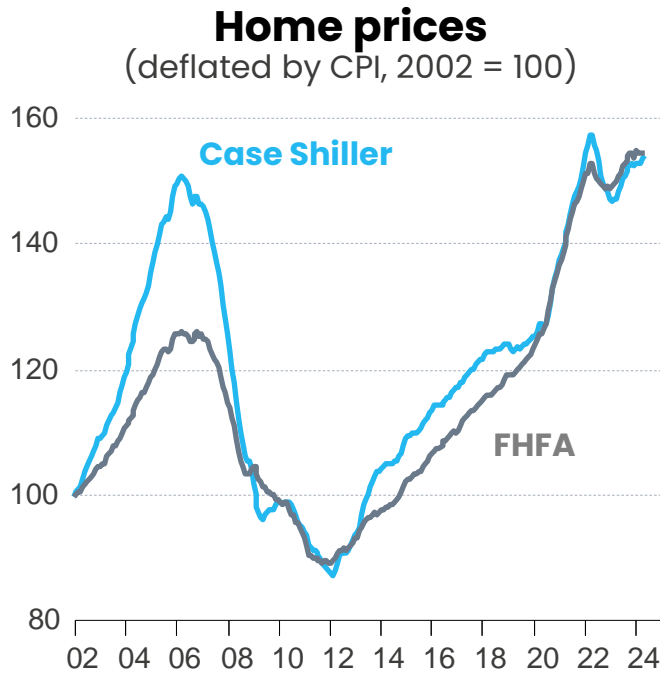
**Brokers commissions**  
(January 2018 = 100)



**Interest rates and mortgage applications**

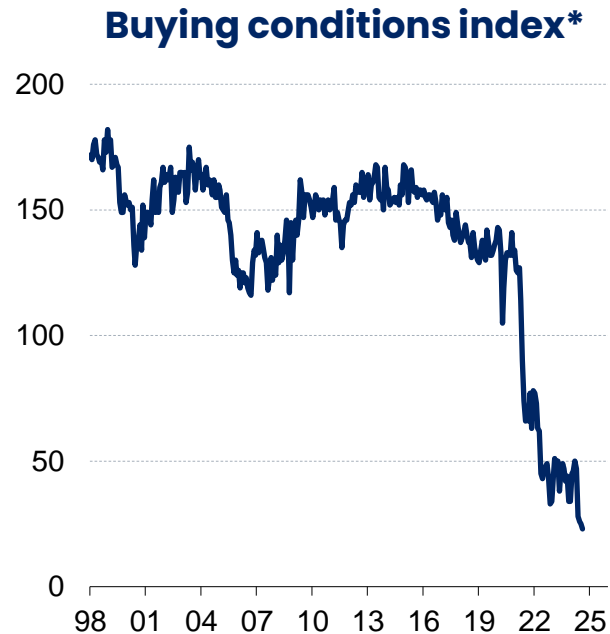


# ... as home affordability remains stretched

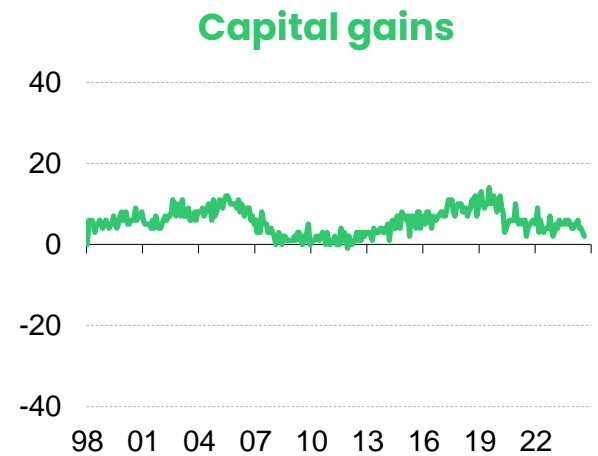
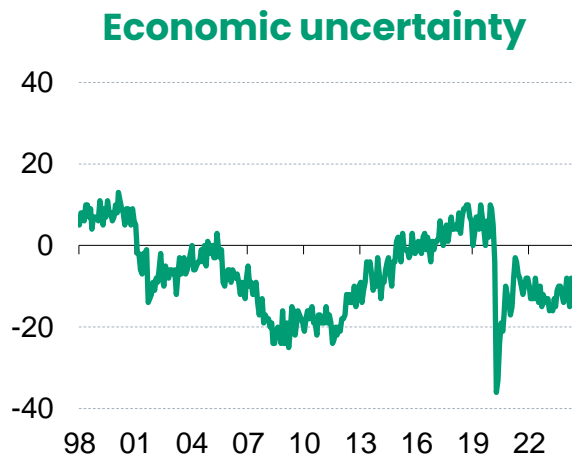


# Memo. Households believe it's not a good time to buy a home!

## Buying conditions for houses by selected reasons (Michigan survey)



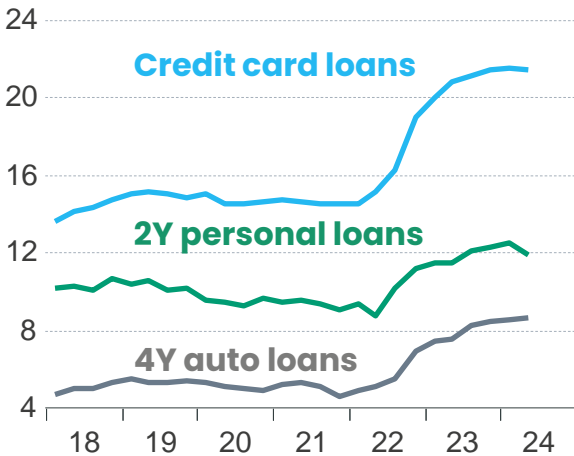
(\*) Generally speaking, do you think now is a good time or a bad time to buy a house?



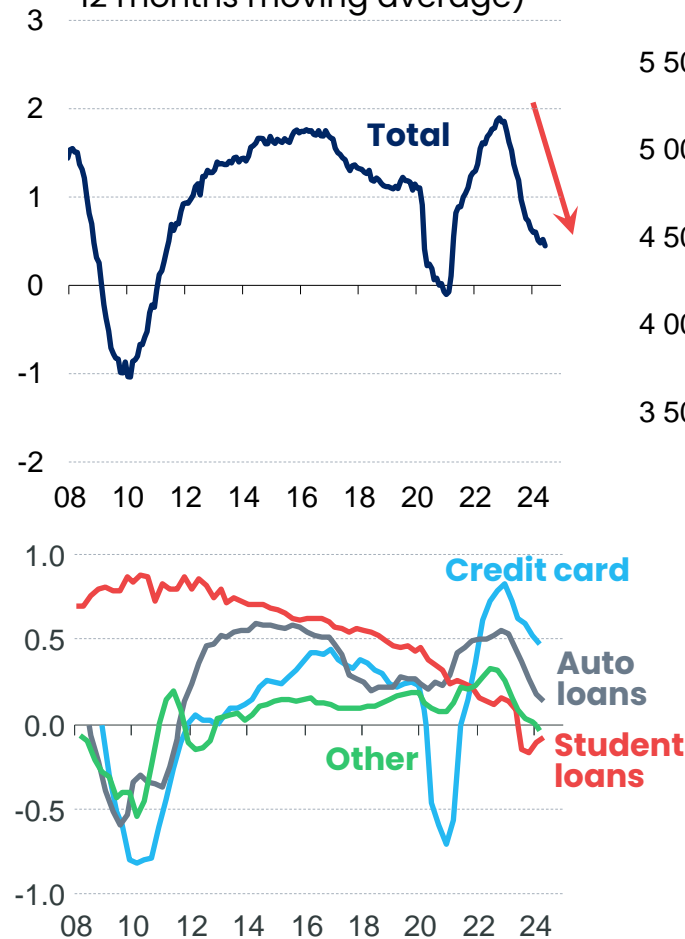


# High interest rates are clearly curbing consumer credit

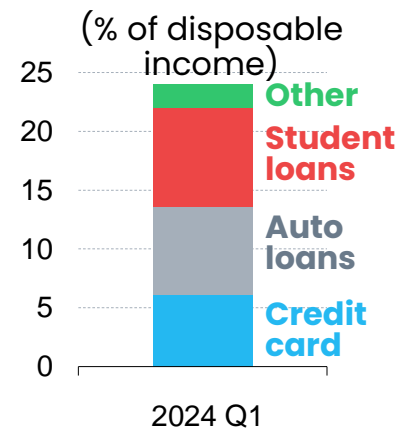
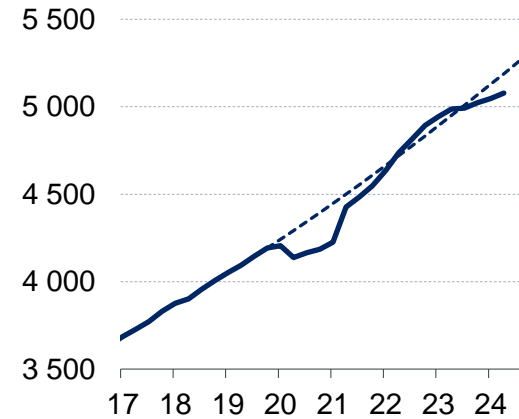
**Interest rate on consumer credit (%)**



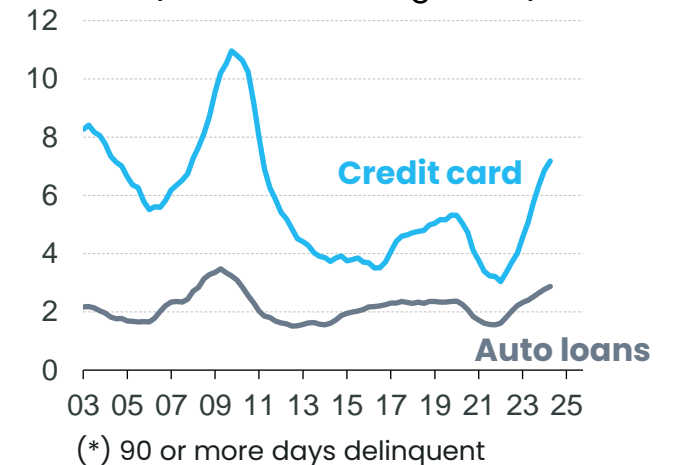
**Consumer credit**  
(% of disposable income, 12 months moving average)



**Outstanding amount of consumer credit**  
(\$ billion)



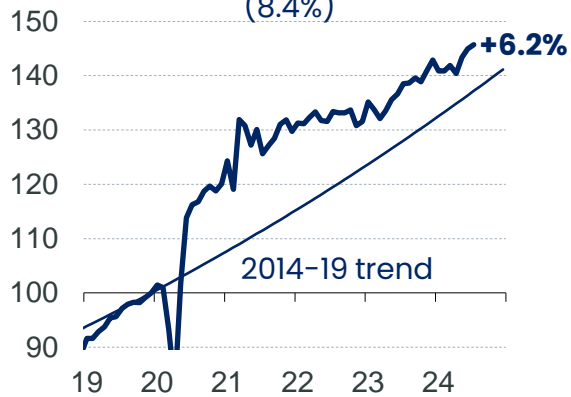
**New seriously delinquent balances\***  
(% of outstanding loans)



# Services consumption is now almost back on trend

## Household consumption (December 2019 = 100, volume)

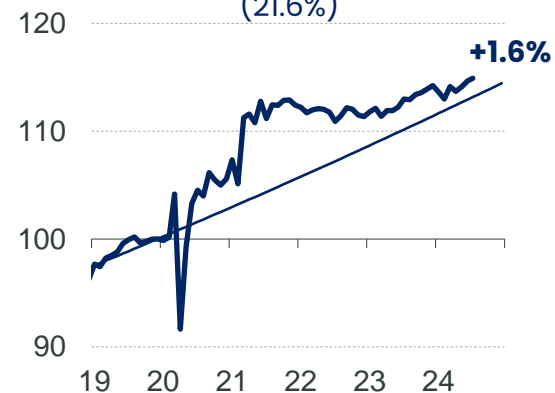
### Durable goods ex autos (8.4%)



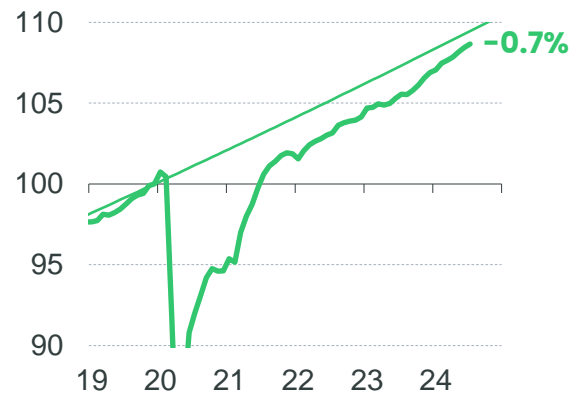
### Autos (4.2%)



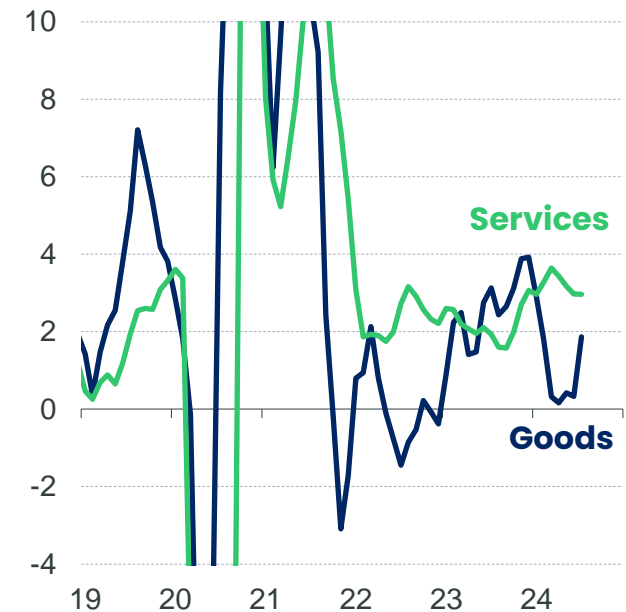
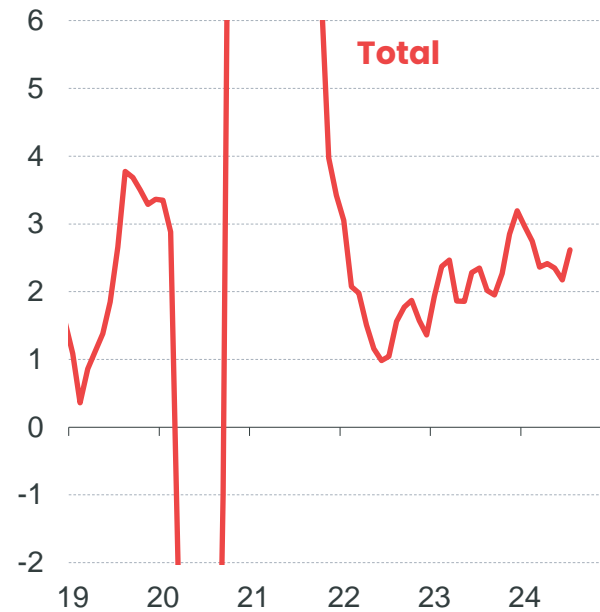
### Nondurable goods (21.6%)



### Services (65.8%)

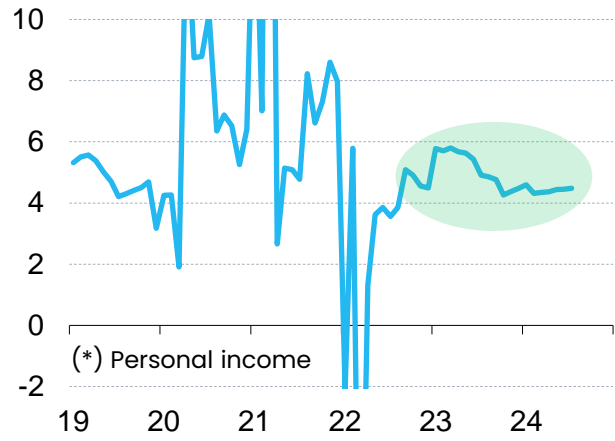


## Consumption (%, 6m change at annual rate, 3 months moving average, volume)

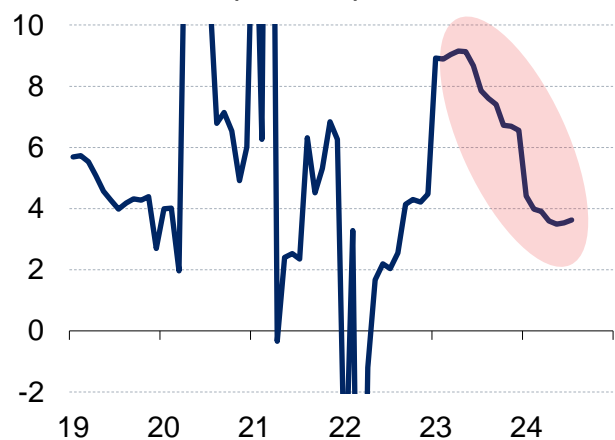


# While before tax income growth has been remarkably stable, taxes on capital gains contributed to a slowdown in disposable income growth

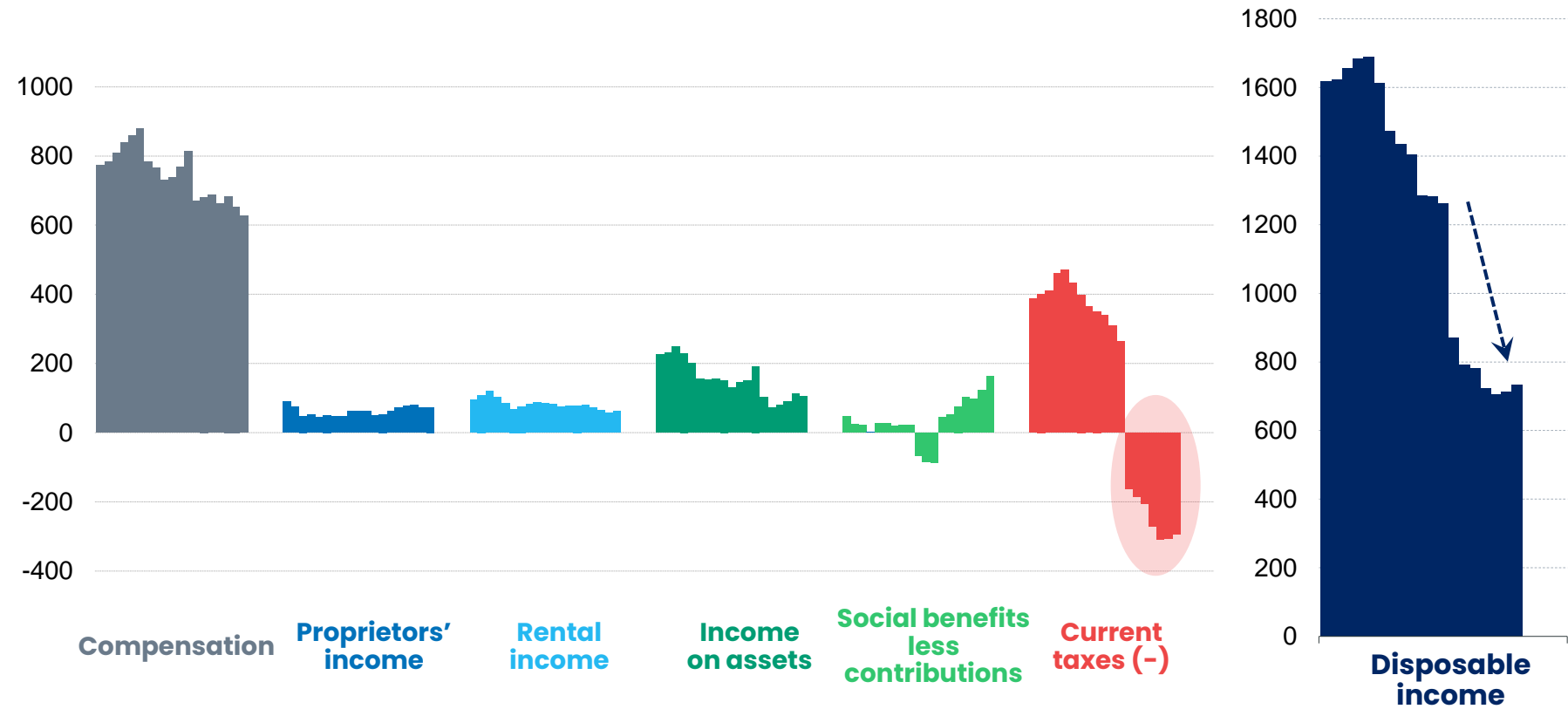
**Income before tax\***  
(% year on year)



**Disposable income**  
(% year on year)



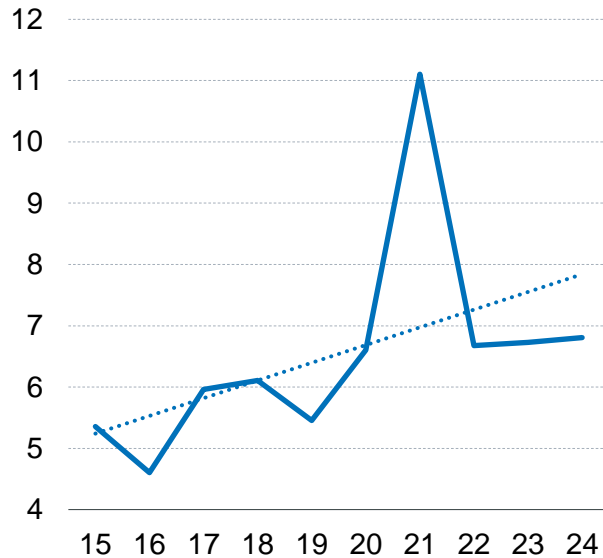
**Contribution to disposable income**  
(\$ billion, change over 1 year, January 2023 to July 2024)



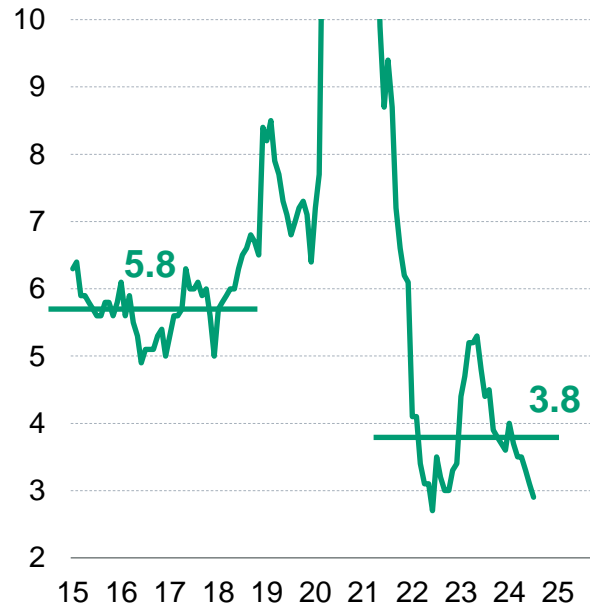
# The low measured saving rate is largely due to the exclusion of realized capital gains from disposable income!

## Two measures of the saving rate (% of disposable income)

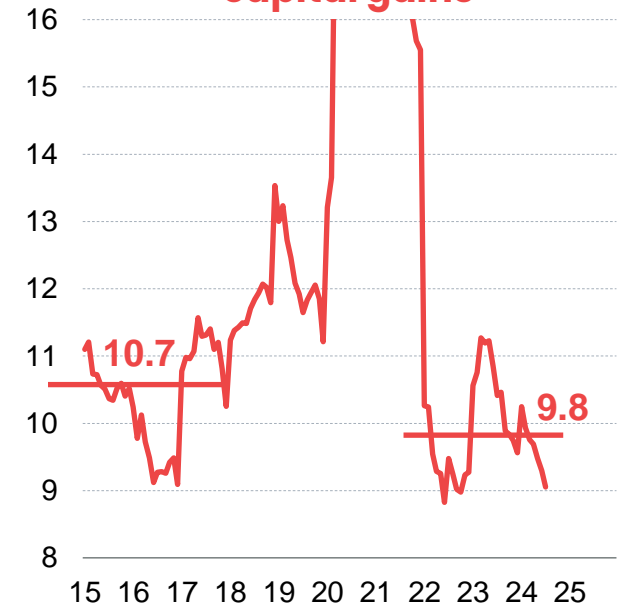
### Realized capital gains (% of disposable income)



### Official measure

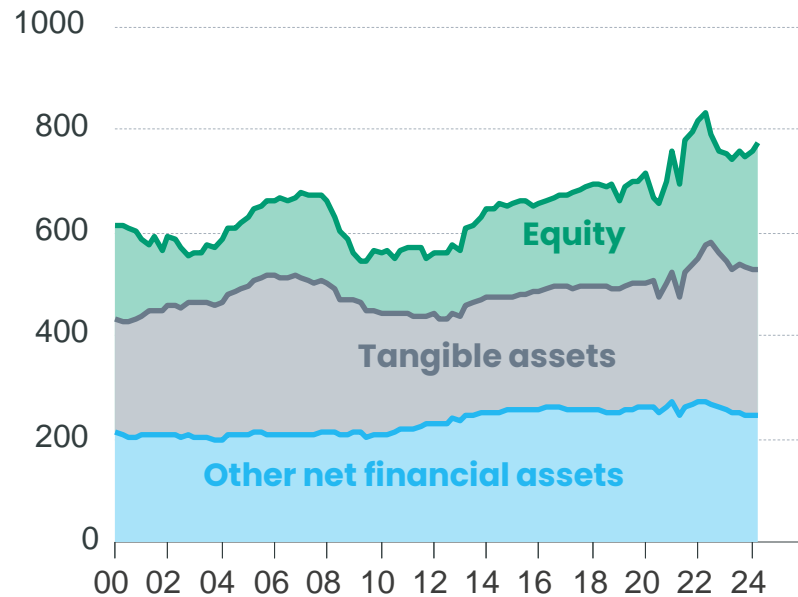


### Including realized capital gains



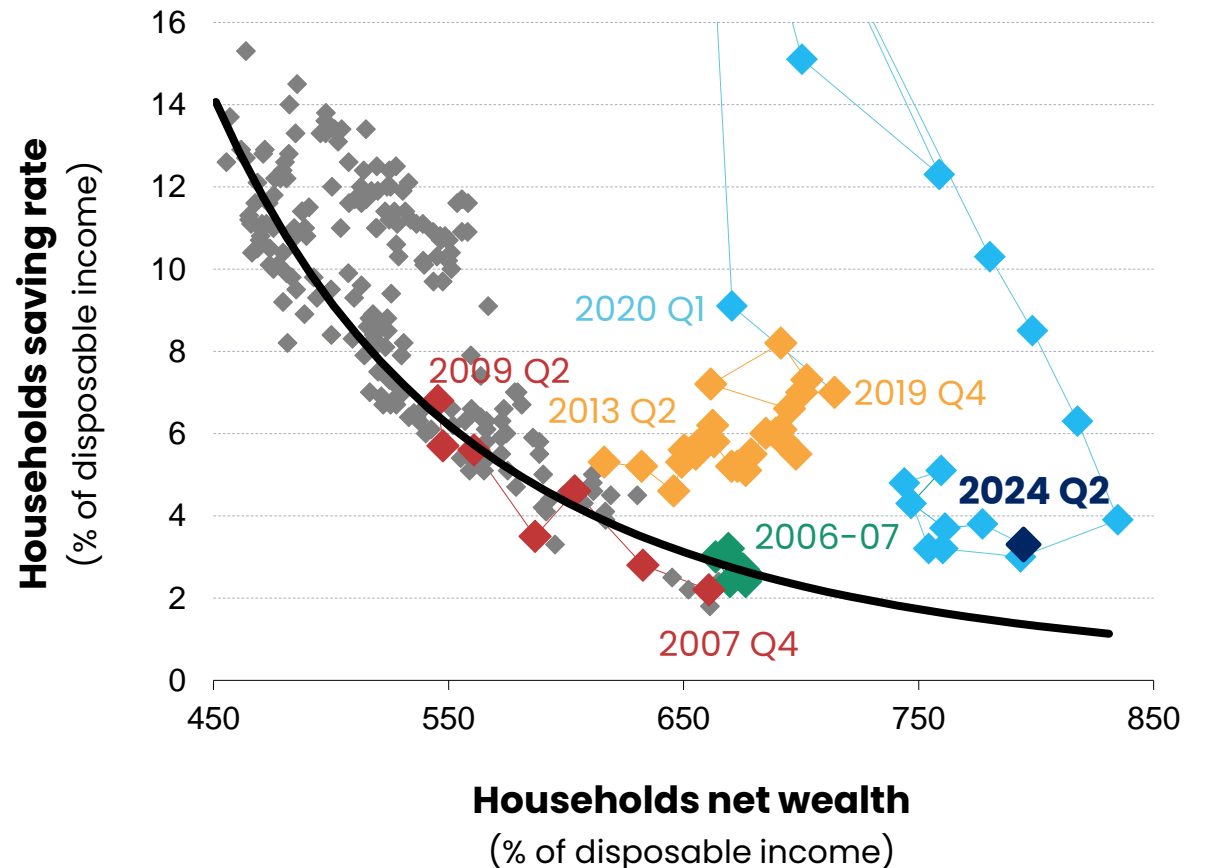
# Given the rise in wealth over the last couple of years, the saving rate is not that low

**Households' net wealth**  
(% of disposable income)



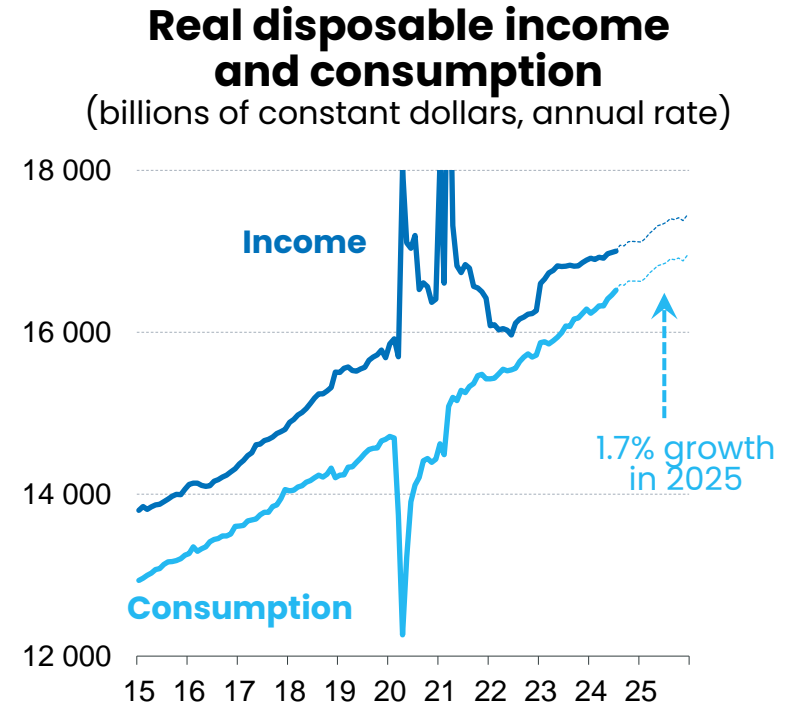
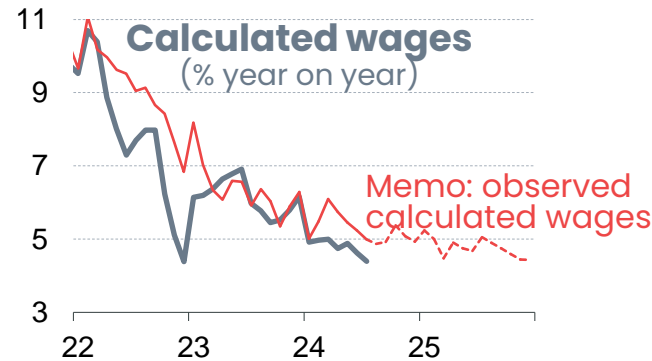
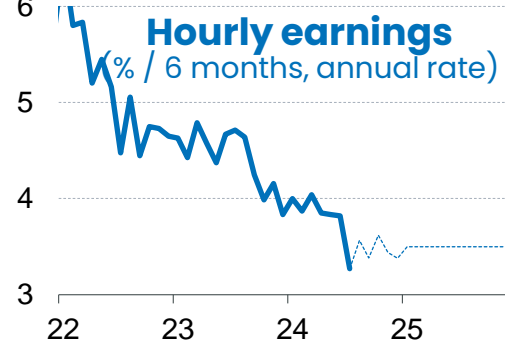
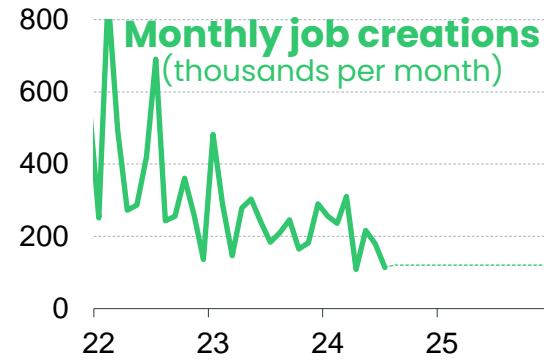
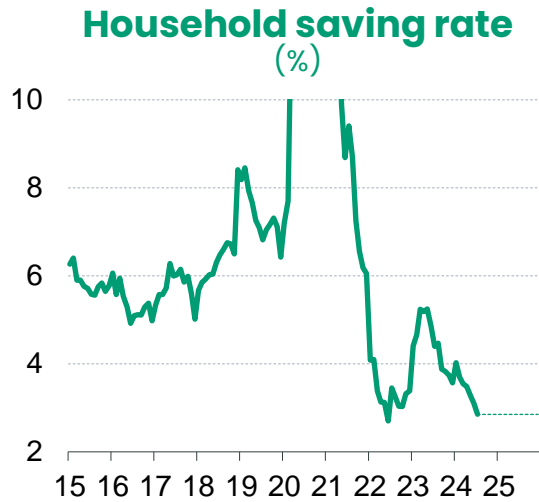
**From 2019 Q4 to 2024 Q1, household net wealth has increased by close to 80 points of disposable income.**

**Households' net wealth and saving rate**  
(1959-2024)



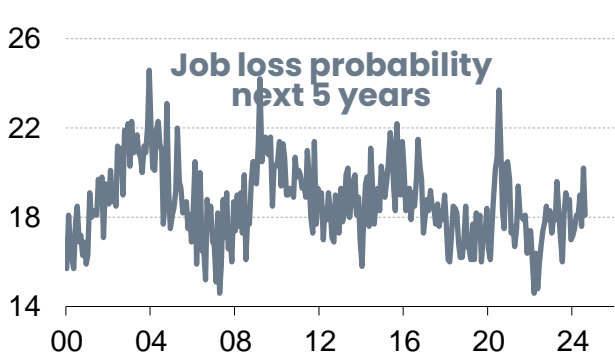
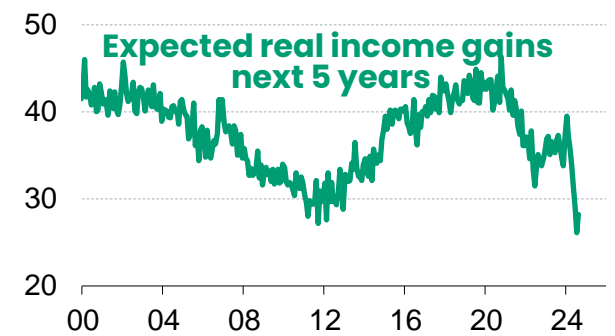
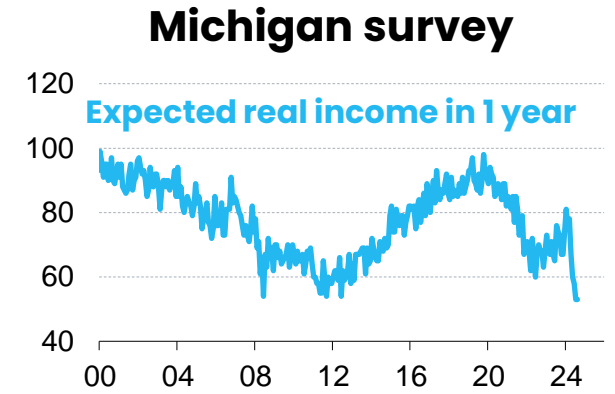
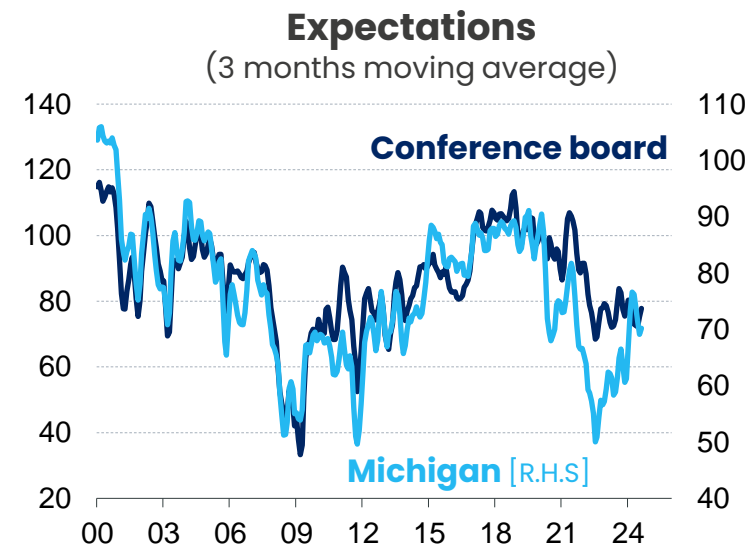
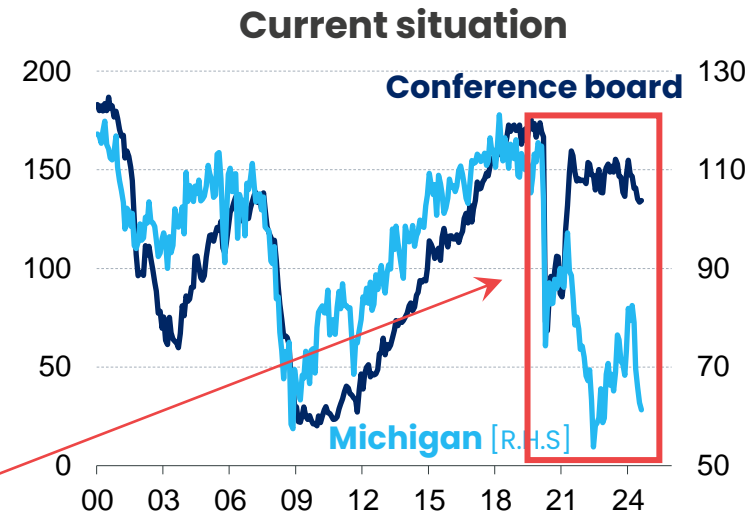
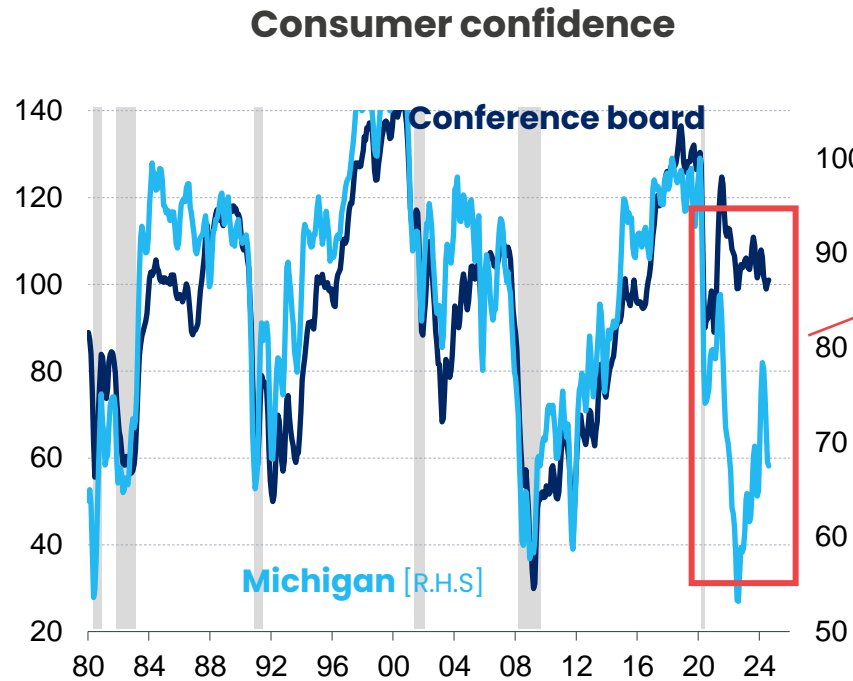


# With a stable saving rate, consumption should keep growing at a decent pace...



# ... but weakening consumer confidence calls for some caution!

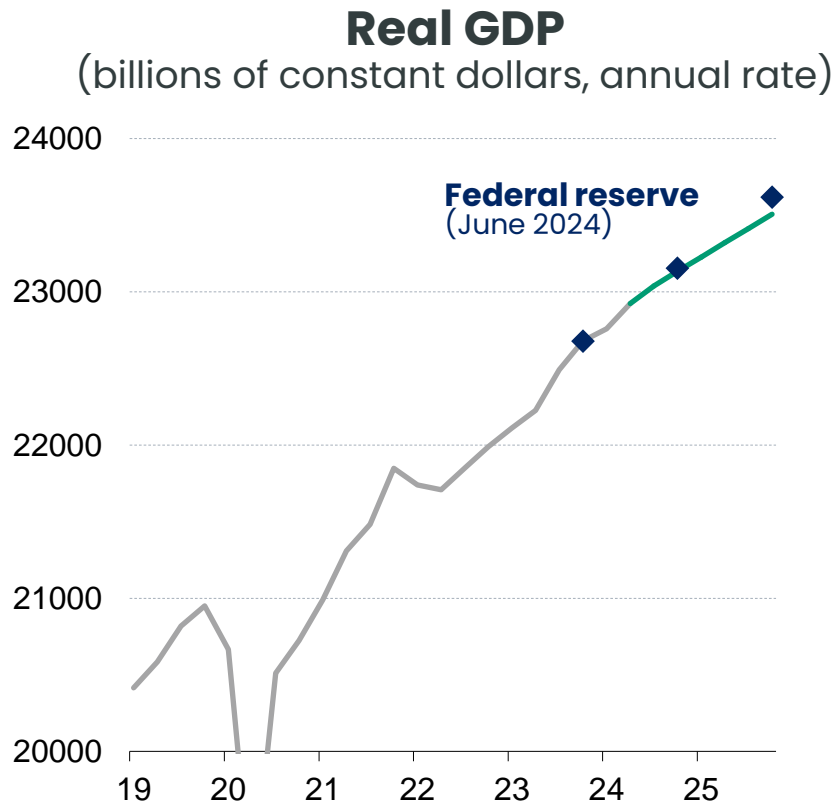
## Two surveys of consumer confidence



Sources: LSEG Datastream, Candriam

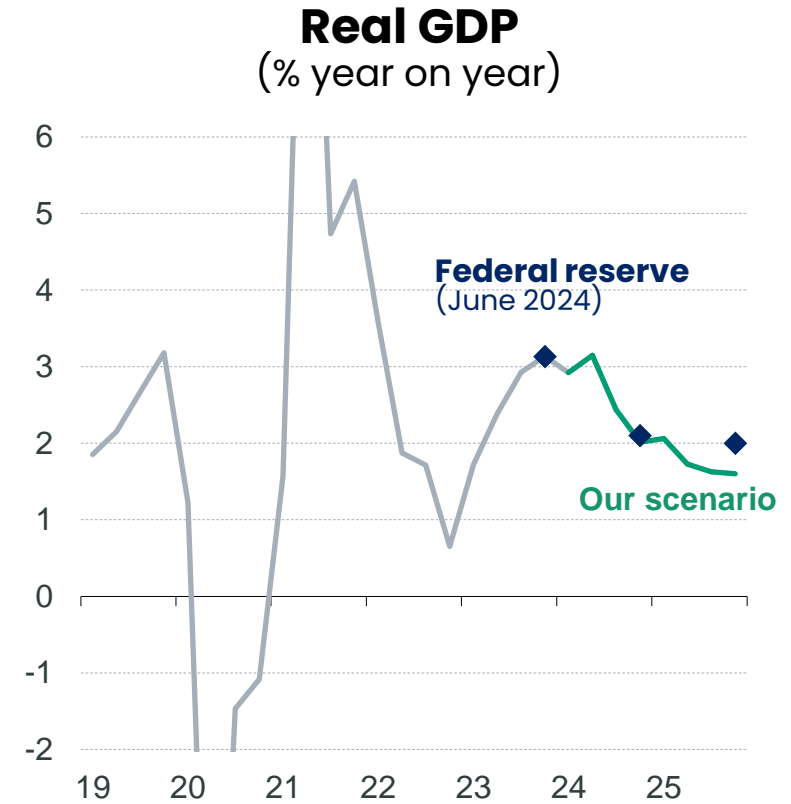


# Barring a confidence shock, GDP should grow at 2.6% in 2024 before slowing down to 1.7% in 2025



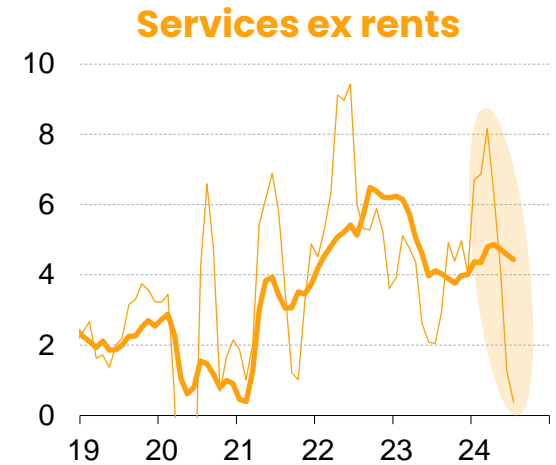
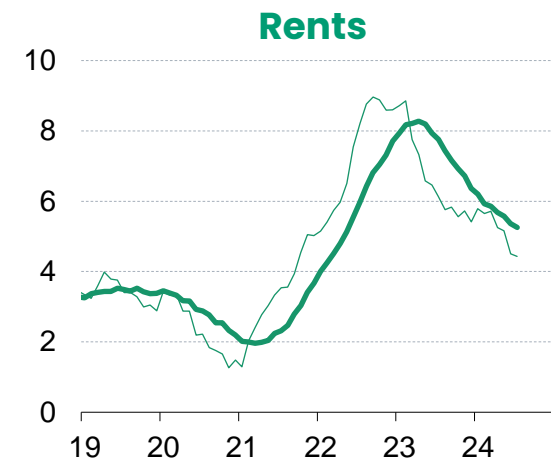
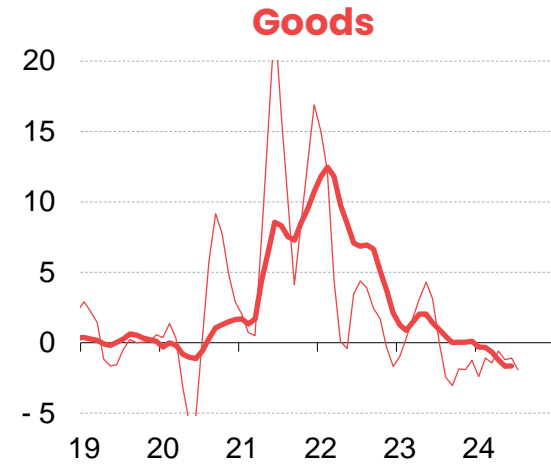
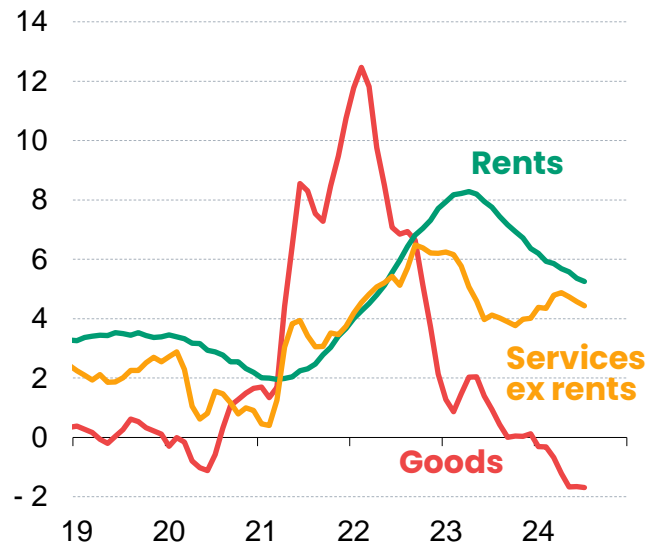
#### Our scenario

2022 = 1.9%  
2023 = 2.5%  
2024 = 2.6%  
2025 = 1.7%



# Despite some volatility, the disinflation process has been going on

## Core CPI inflation

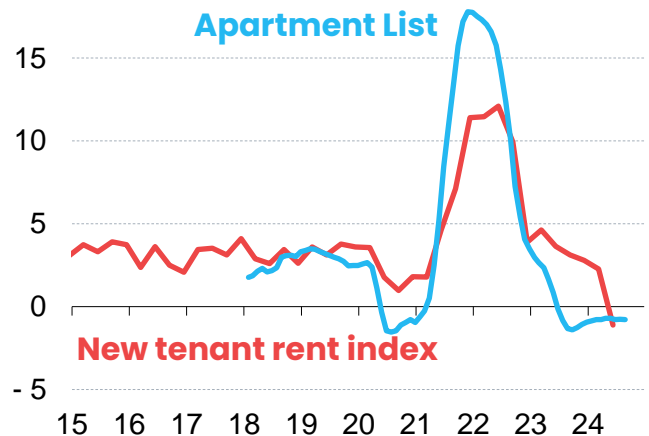
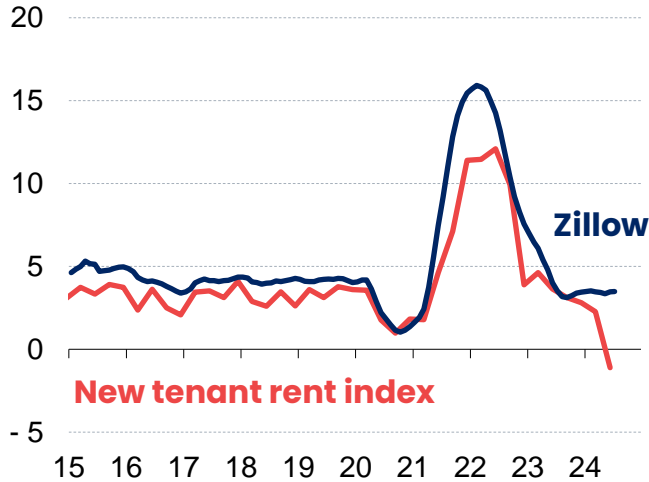


— year on year  
 — over 3 months, annual rate

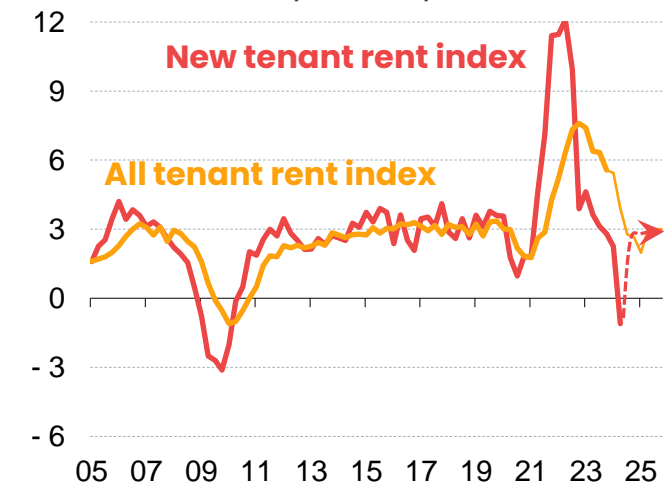
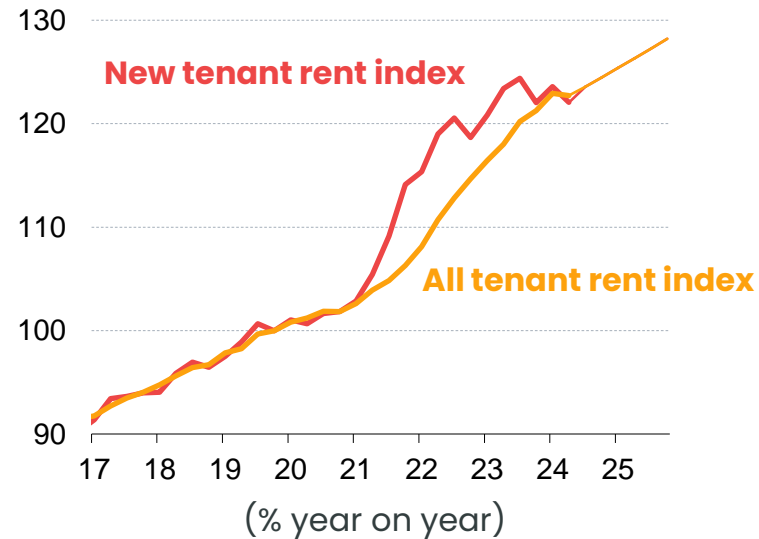


# Rents are on track to decelerate further

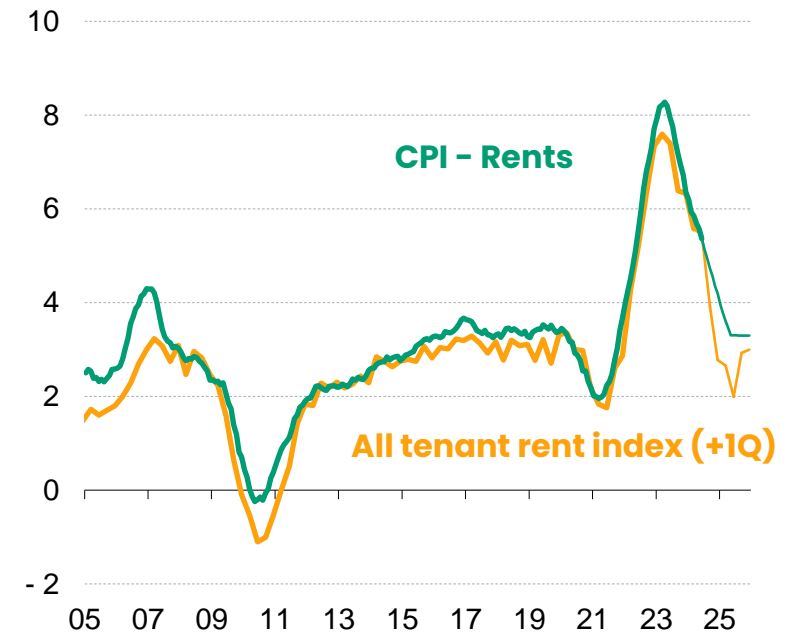
**New tenant rents**  
(% year on year)



**New tenant rents and all rents**  
(2019 Q1 = 100)



**CPI rents**  
(% year on year)

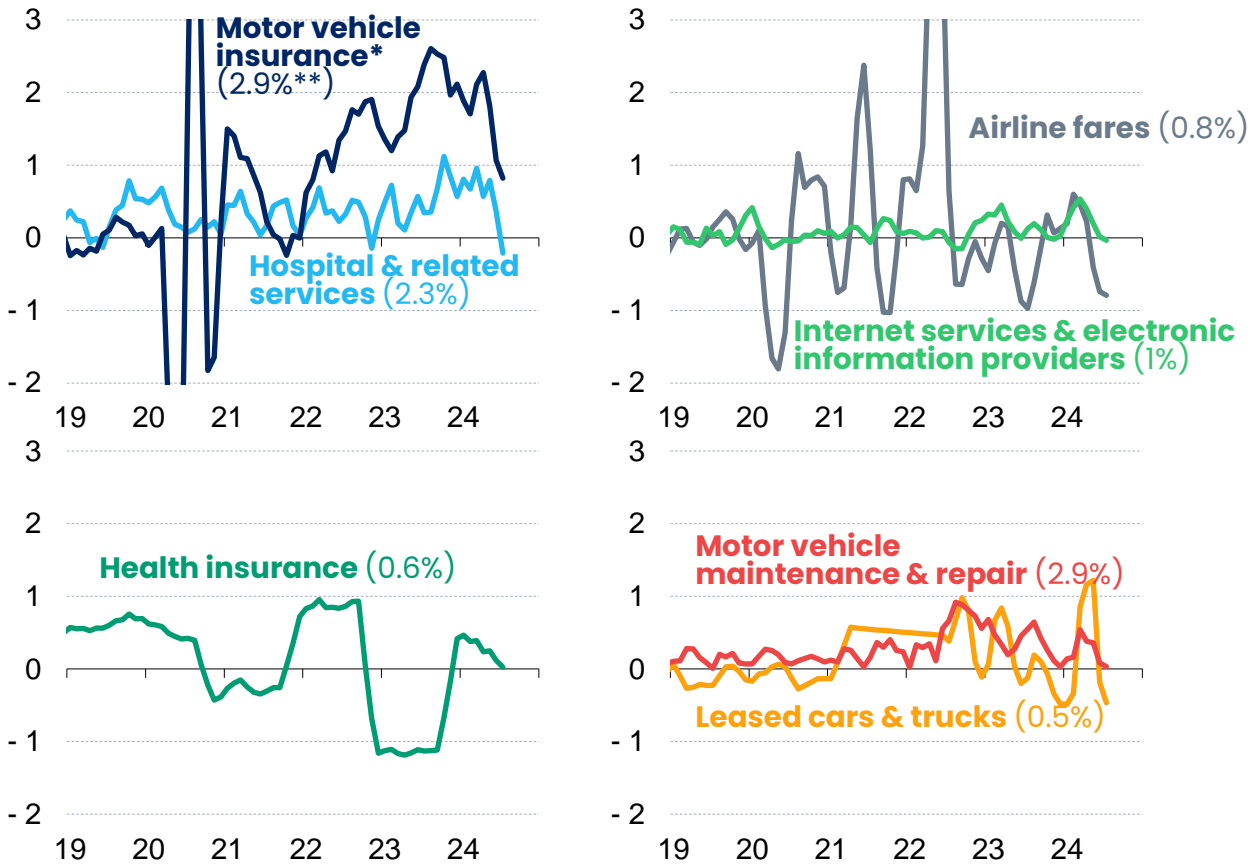




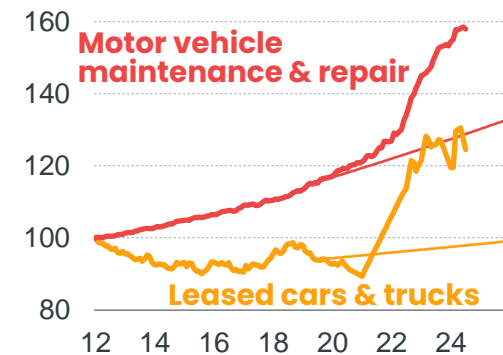
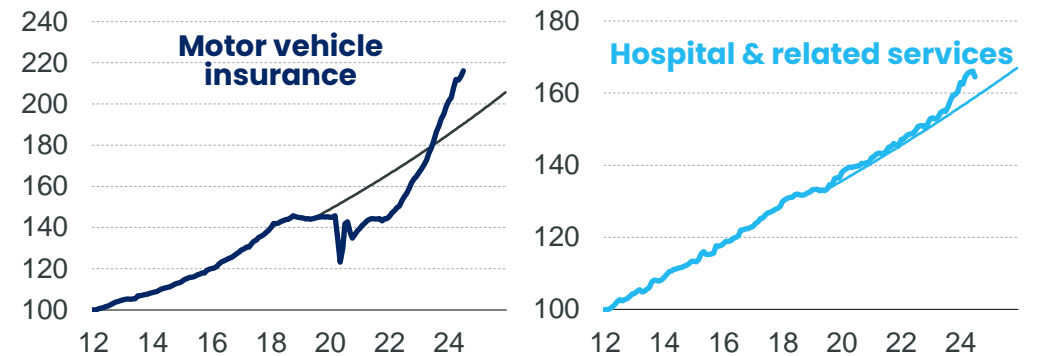
# The recent catch up in some CPI services components seems to be coming to an end

## Contribution to core services ex rent inflation

(% over 3 months, annual rate)



## CPI (January 2012 = 100)



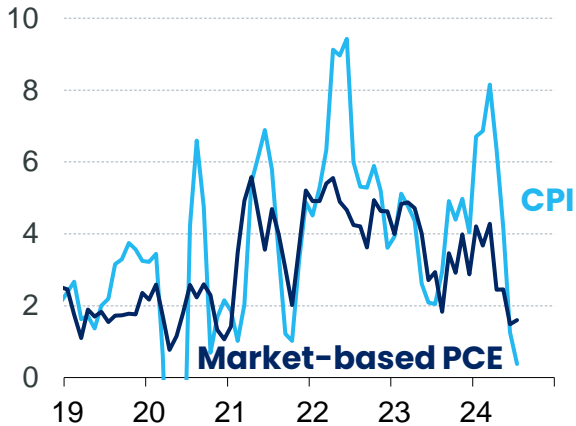
(\*) Several factors are driving up the cost of car insurance:  
 - Higher accident rates than before the pandemic.  
 - Vehicles are costlier to replace.  
 - The increased length of repairs raises the costs of insurance companies which provide replacement cars.  
 - More vehicles damaged by extreme weather.  
 (\*\*) weight in total CPI



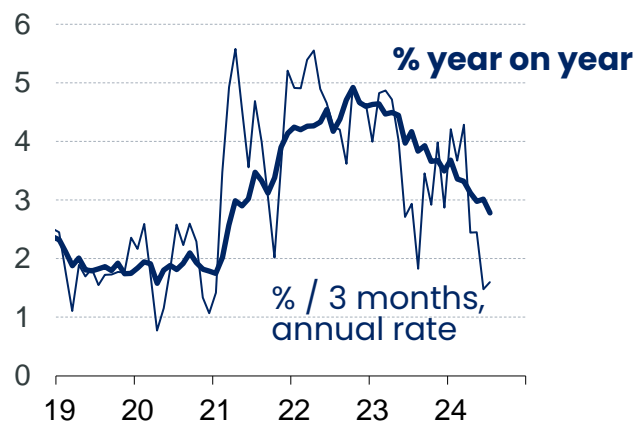
# After some divergences, CPI measures are getting closer to PCE measures

## Core services ex shelter inflation

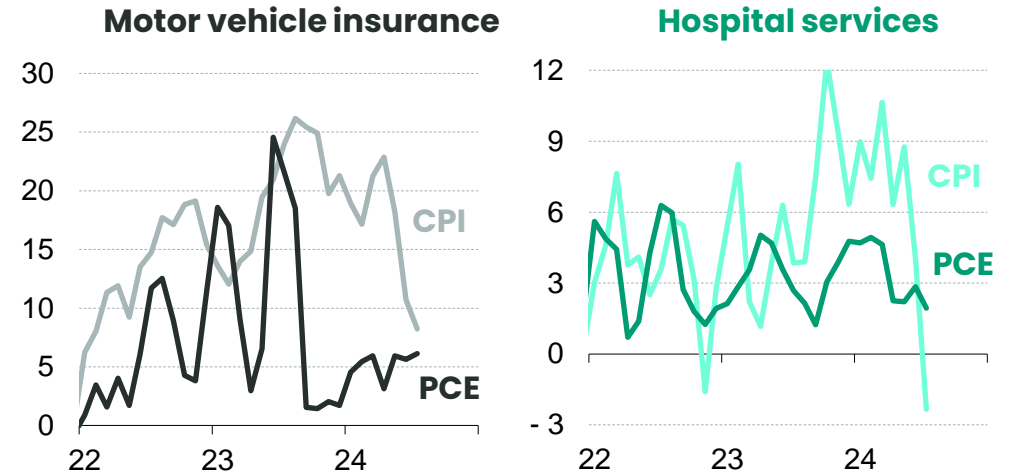
**PCE deflator vs CPI**  
(% / 3 months, annual rate)



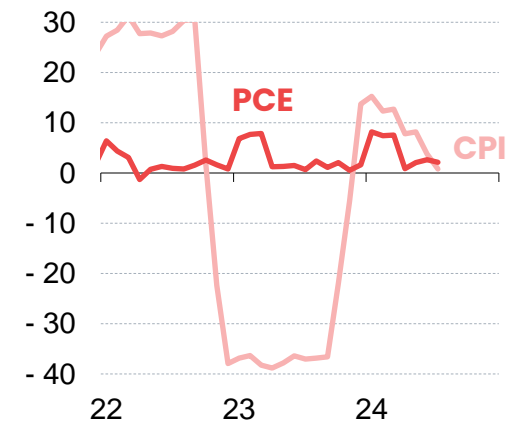
**Market-based PCE deflator**



**CPI vs PCE deflator**  
(% year on year)



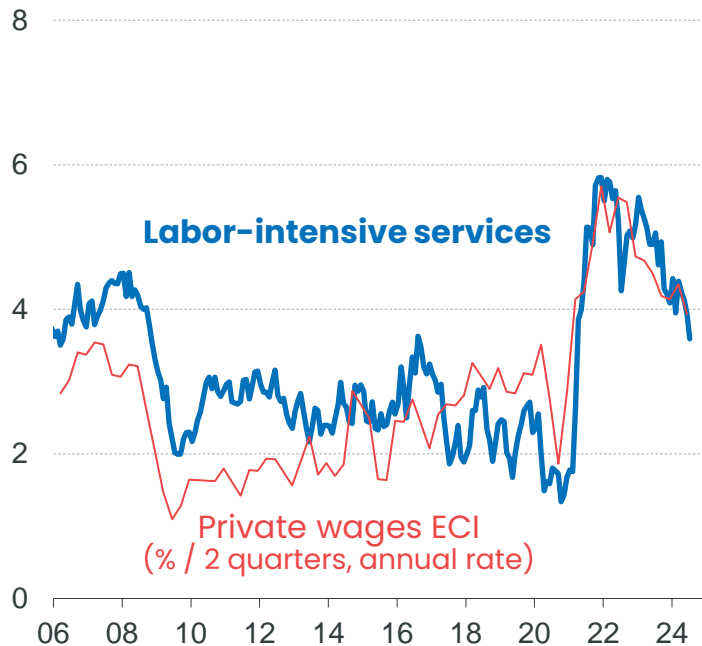
**Health insurance**



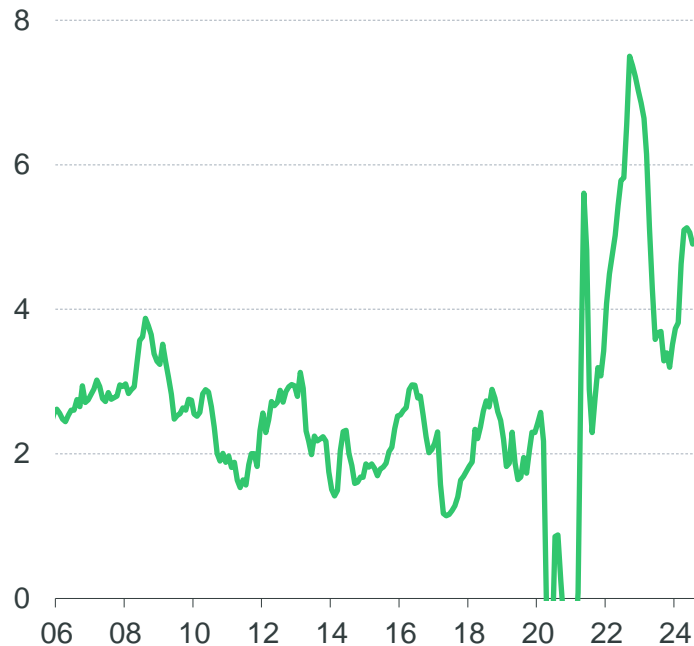
# Inflation in labor intensive services is gradually falling back to pre-covid levels...

## Labor-intensive vs non-labor-intensive services CPI (% year on year)

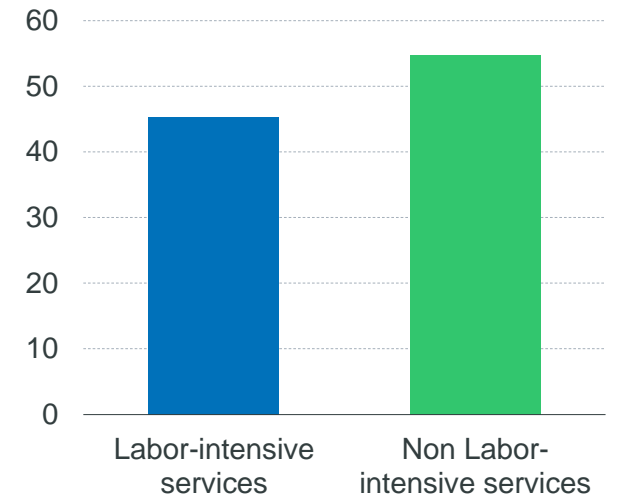
### Labor-intensive



### Non-labor-intensive

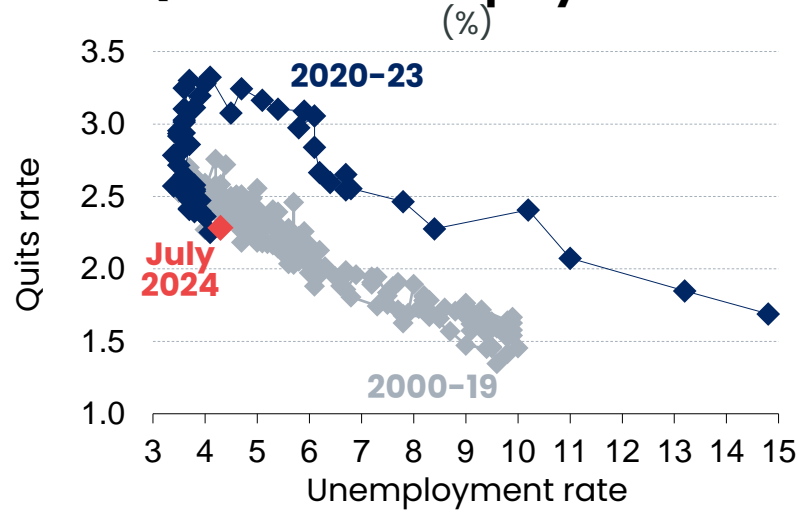


## Share in core services ex rents (%)



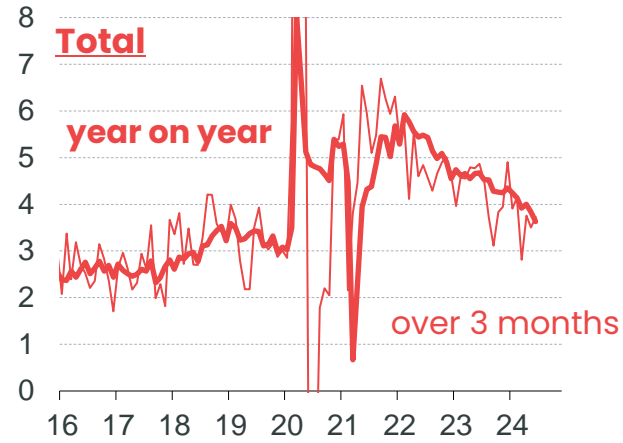
# ... as easing labor market tensions have allowed most wage growth measures to recede

### Quits and unemployment rate



### Hourly earnings

(% change, annual rate)

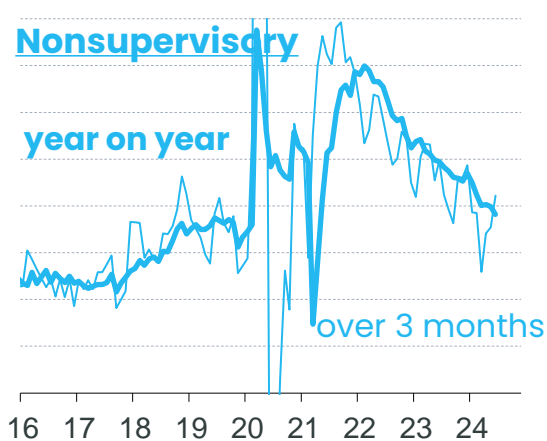
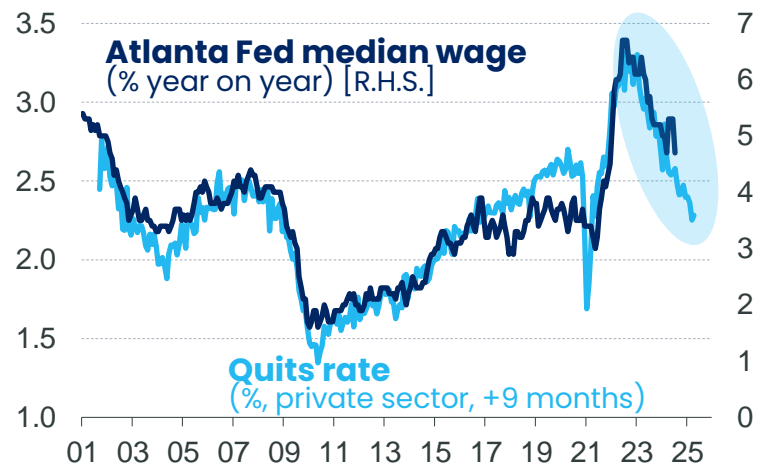


### ECI wages

(% annual rate)



### Atlanta Fed wages and quits rate



# The balance of risk should lead the Fed to start easing in September

## Chair Powell's Press Conference, July 2024

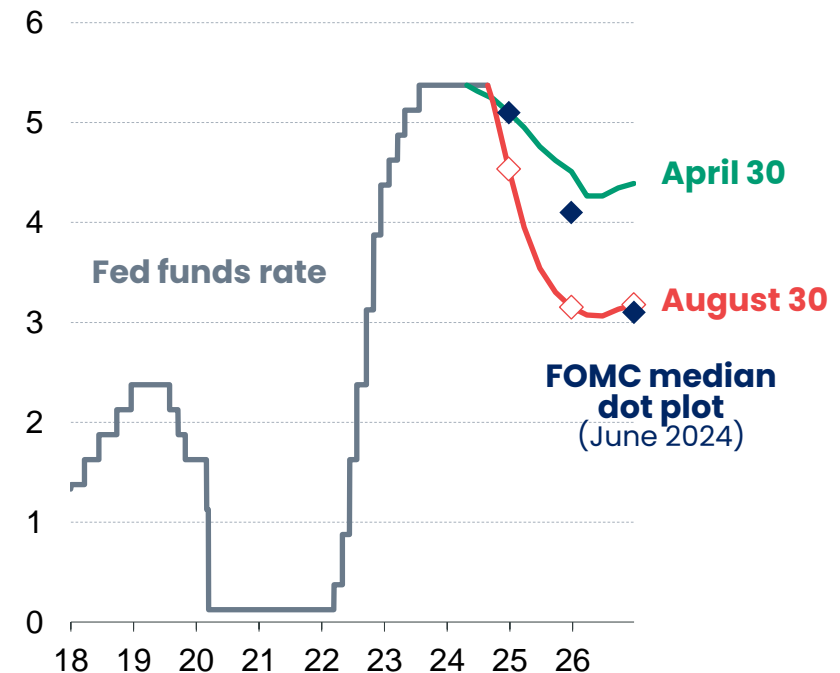
- "A reduction in our policy rate could be on the table as soon as our next meeting in September."
- "The downside risks to the employment mandate are real now."
- "You know, we're a nonpolitical agency."
- "Anything that we do before, during, or after the election will be based on the data, the outlook, and the balance of risks and not on anything else."
- "We would never try to make policy decisions based on the outcome of an election that hasn't happened yet."

## Jackson Hole Economic Symposium, August 2024

- "The time has come for policy to adjust."
- "We do not seek or welcome further cooling in labor market conditions."

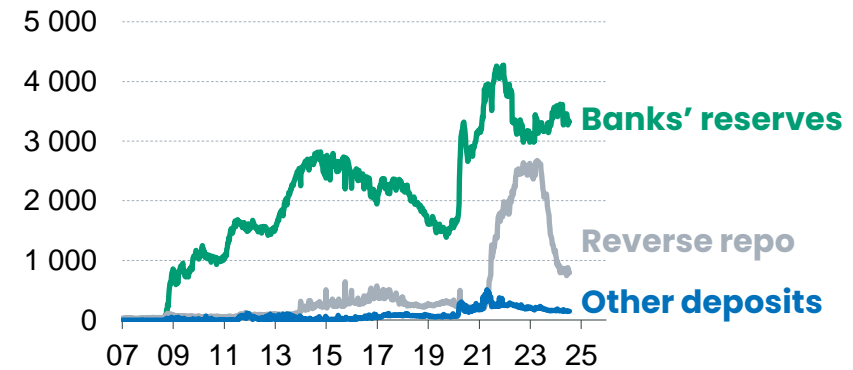
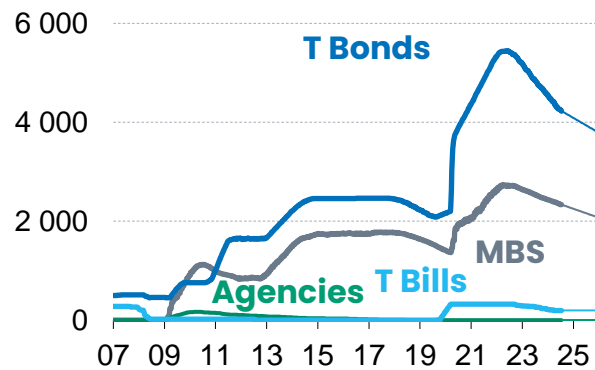
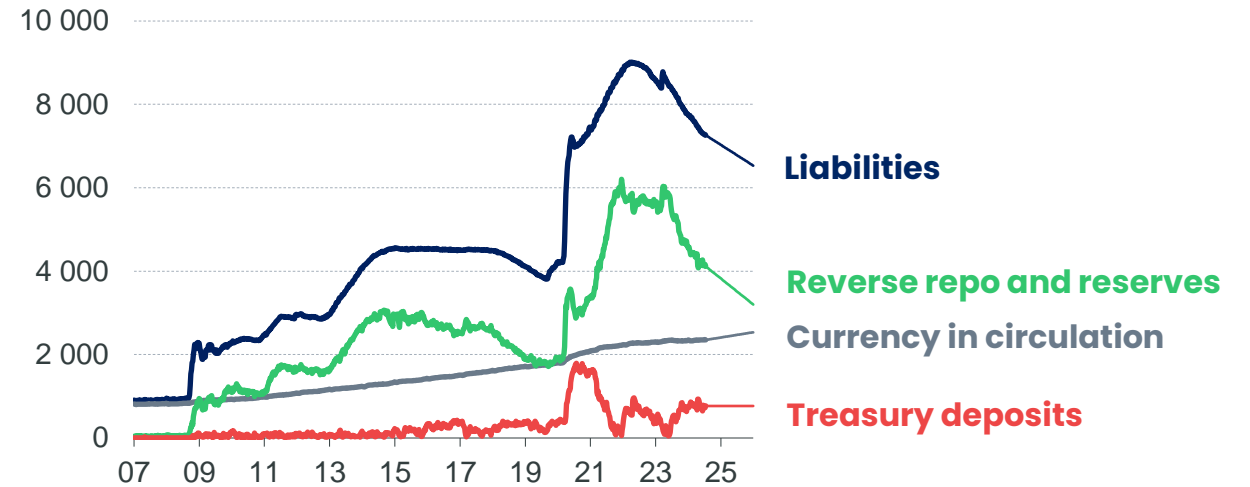
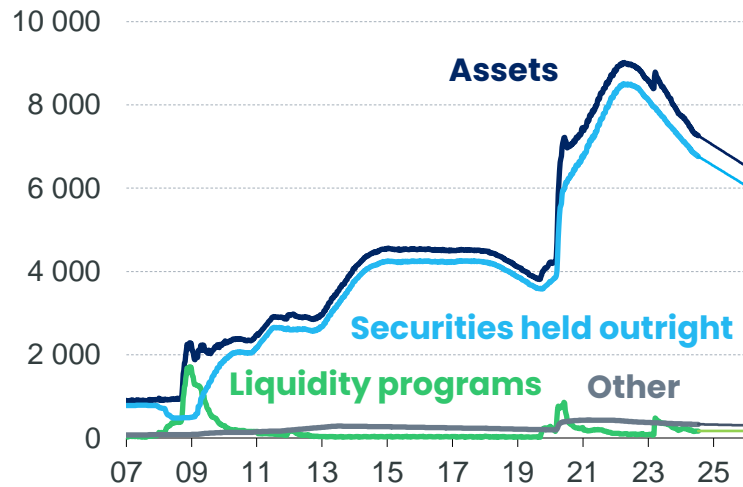
**Monetary developments in 2025 will largely depend on the path of the economy... and hence on the outcome of the coming elections!**

## Fed funds rate and expectations (%)



# Memo. Federal Reserve balance sheet

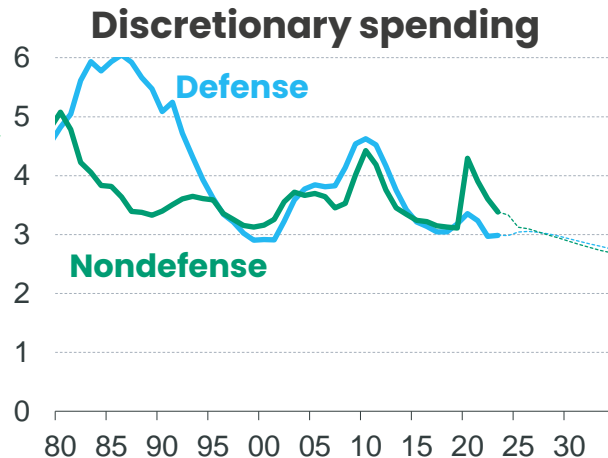
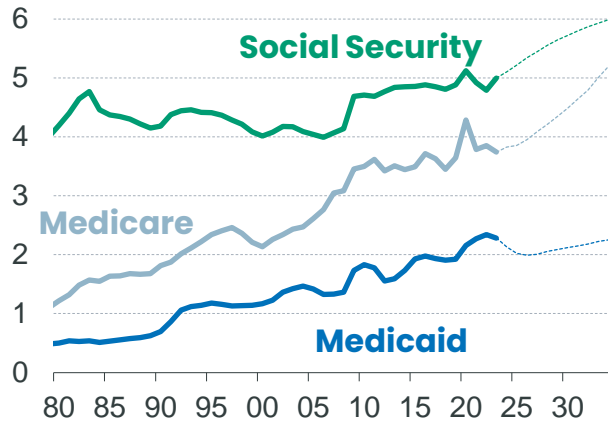
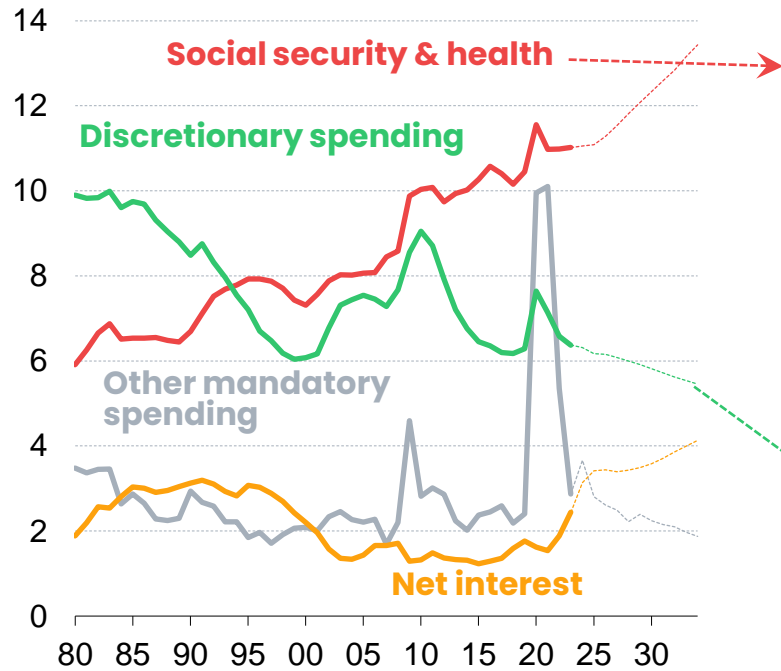
(\$ billion)



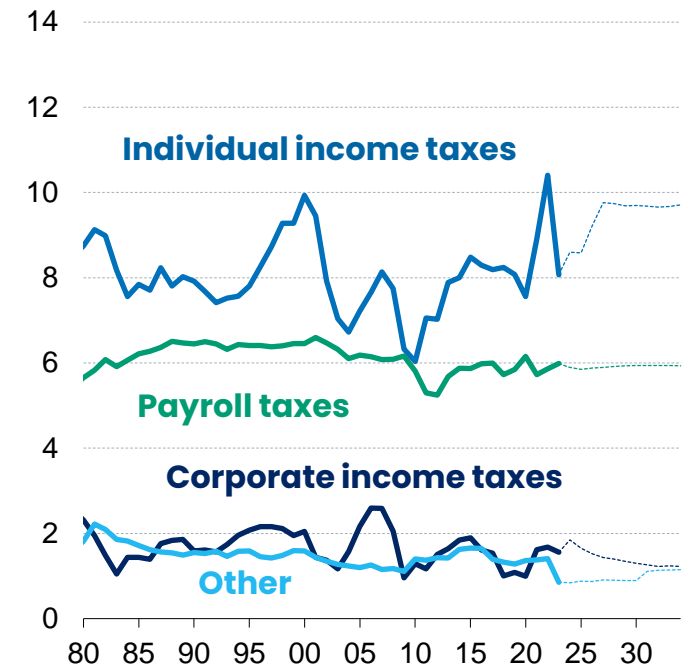
# Memo. Federal government spending and revenues

## Federal government spending and revenues (% of GDP, CBO forecasts)

### Spending



### Revenues

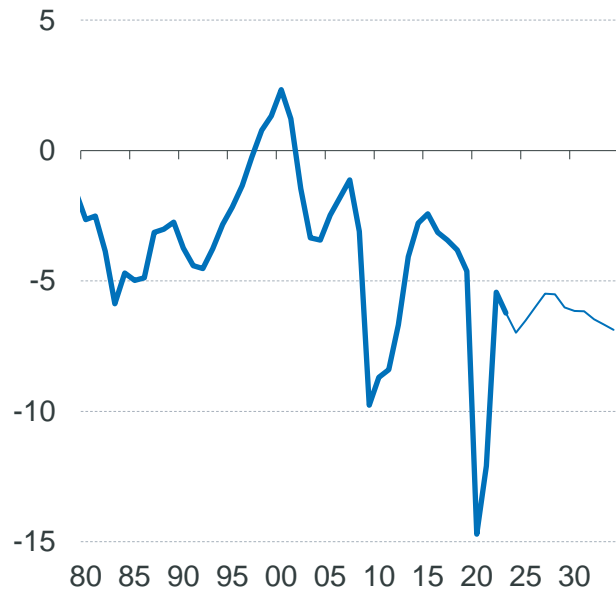




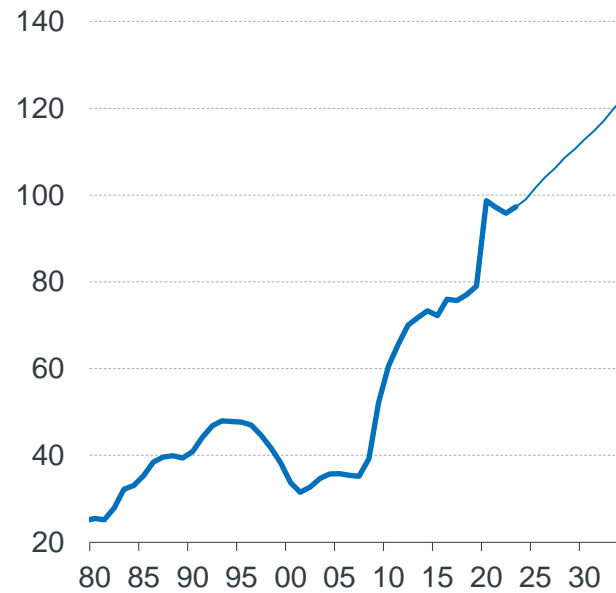
# Memo. Federal government balance and debt

## Federal government balance and debt (% of GDP, CBO June 2024 forecasts)

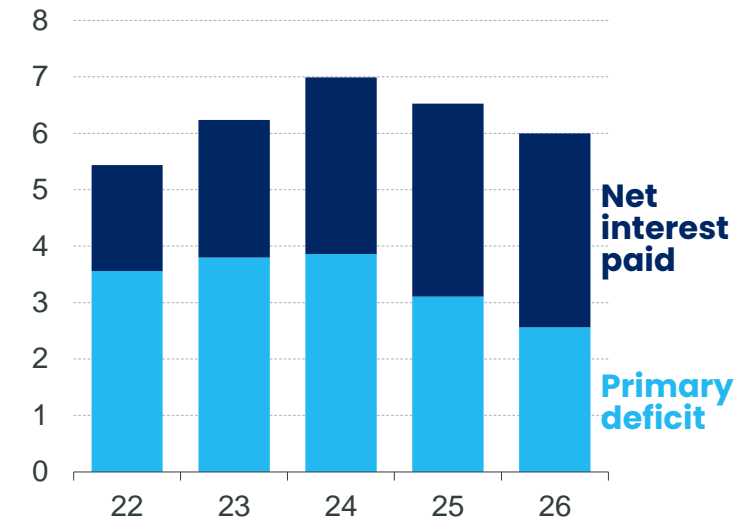
### Federal balance



### Federal debt



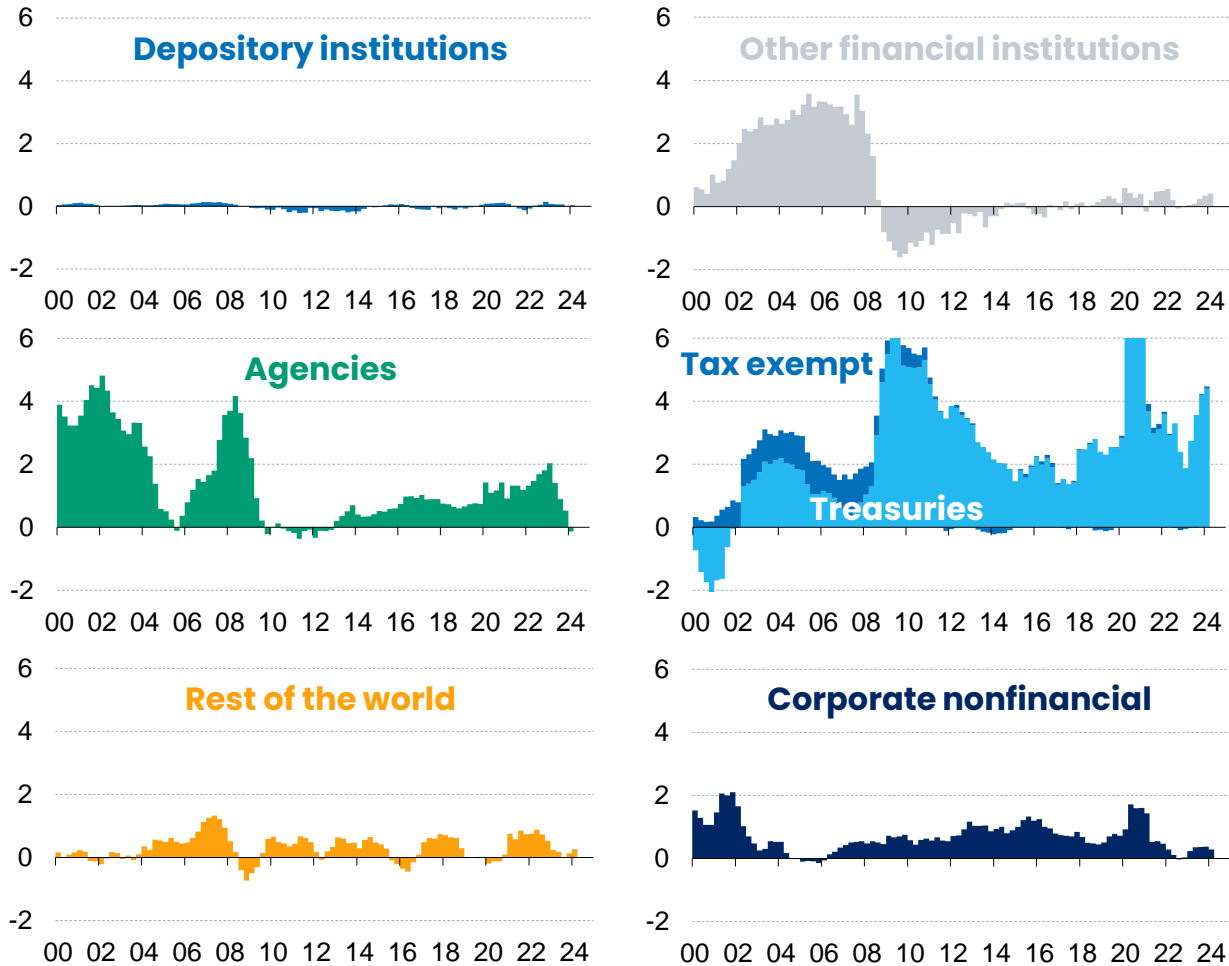
### Memo: federal deficit (% of GDP)



# Memo. Bond market equilibrium

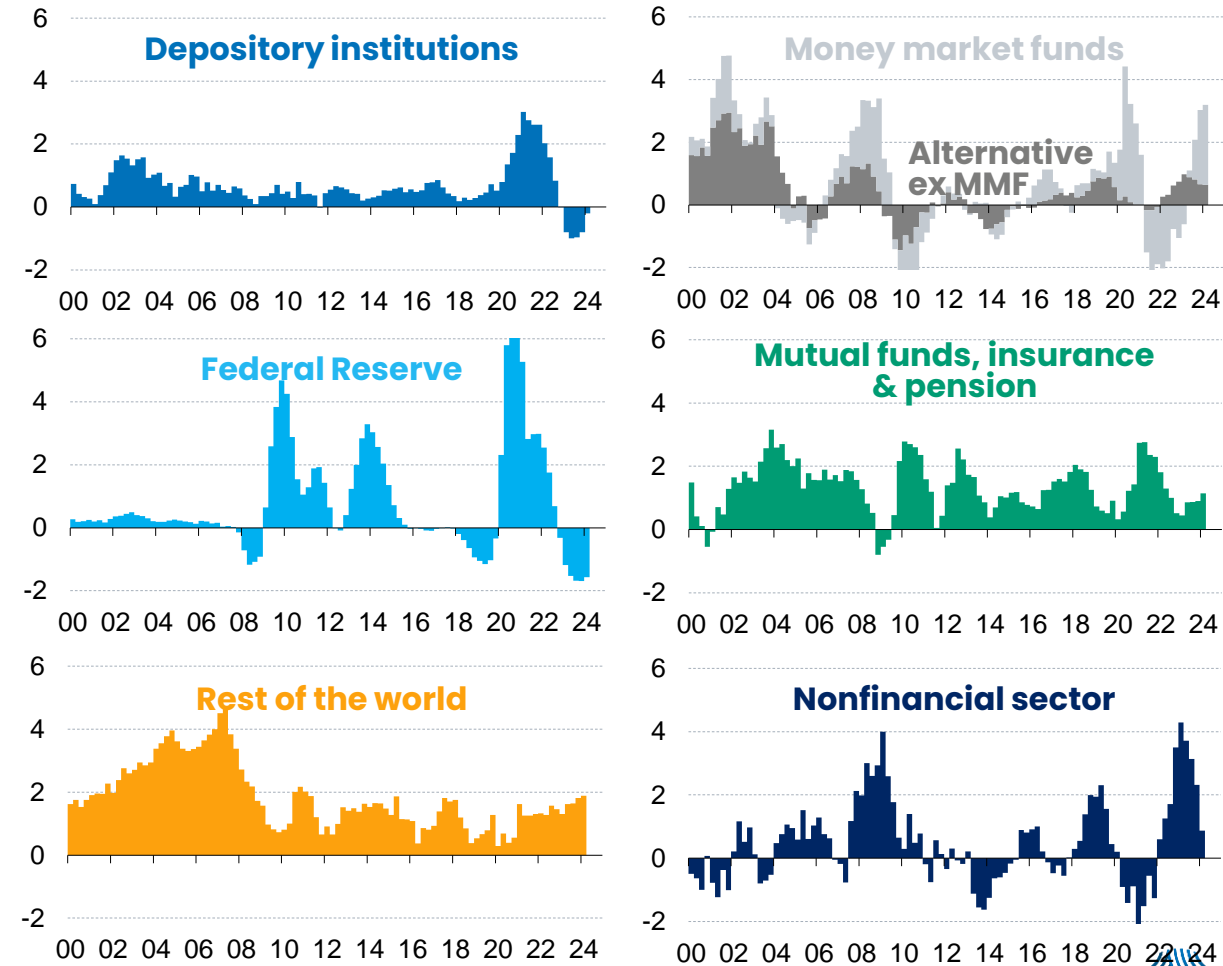
## Net suppliers of debt securities

(% of outstanding bond market, moving average over 4Q)



## Net buyers of debt securities

(% of outstanding bond market, moving average over 4Q)





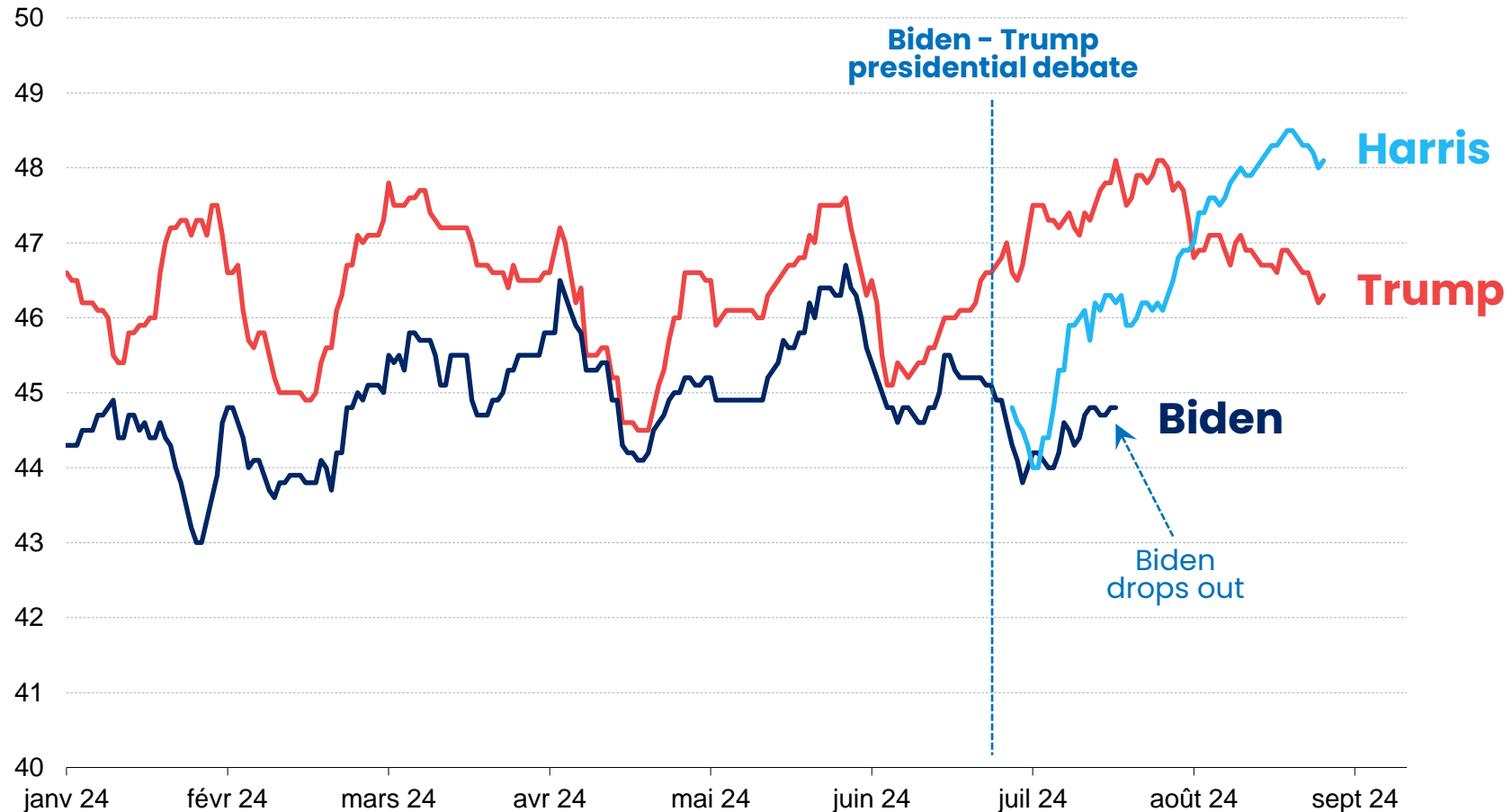
**Focus**

Harris narrows gap against Trump...



# Since President Biden stepped aside, the race got tighter

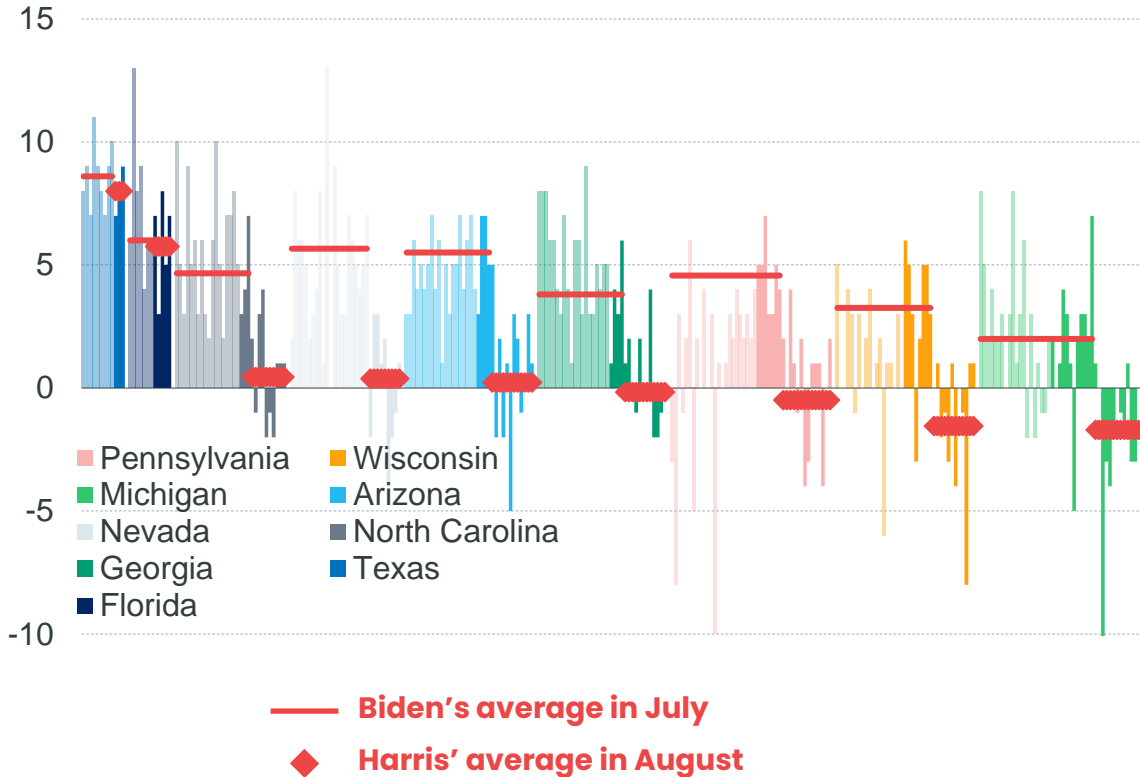
## 2024 Presidential election – National polls (%)



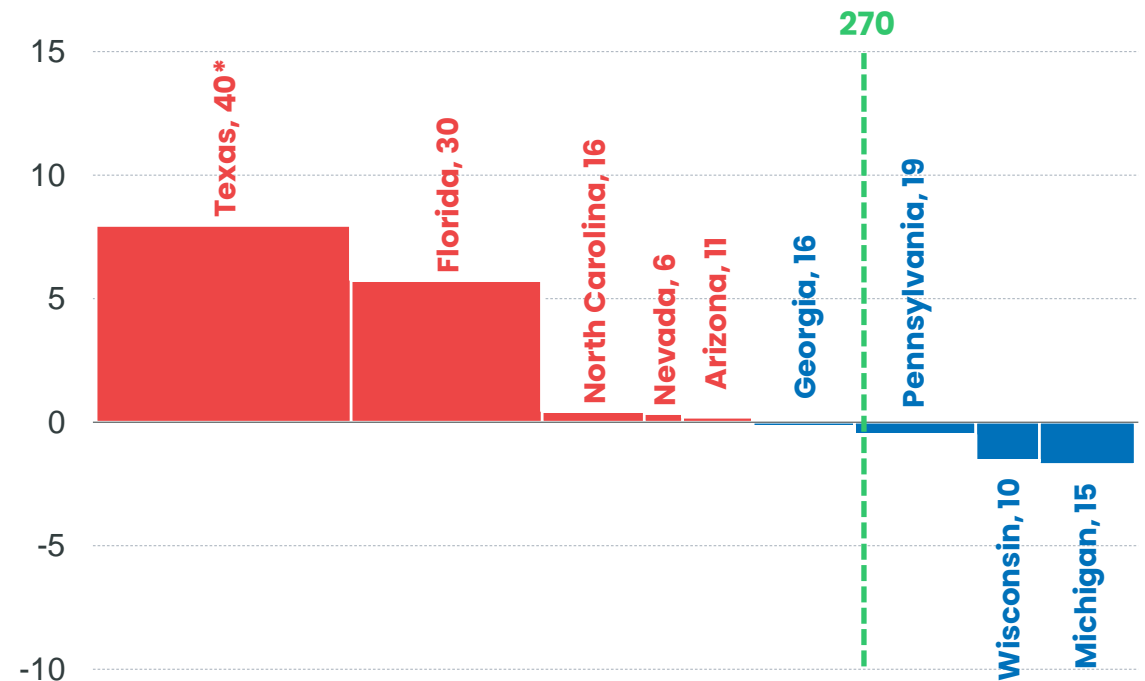
# K. Harris made significant progress in the swing States

## D. Trump's net percentage lead over Democrat candidates in swing States

(%, by polls since January 2024)



(%, average polls in August)

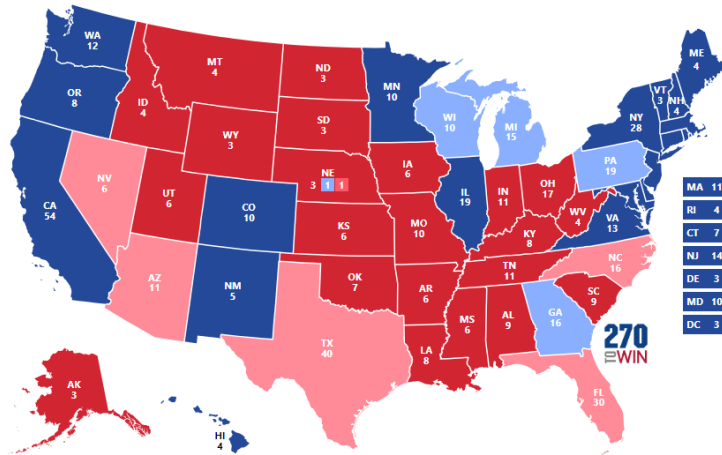


(\*) Electoral votes

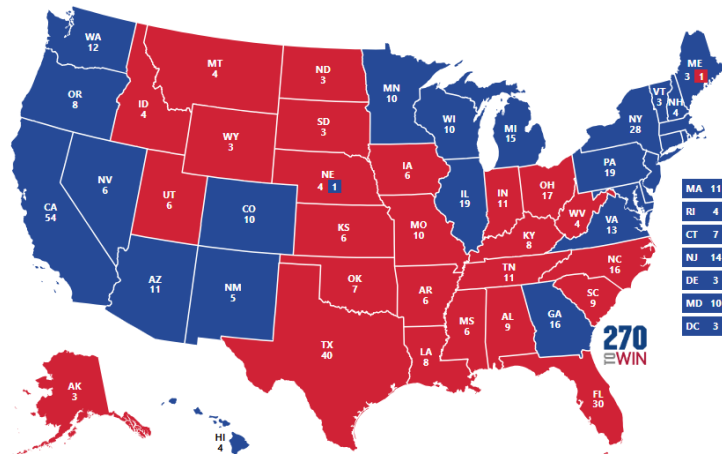


# How the present polls' map compares with 2020 election results?

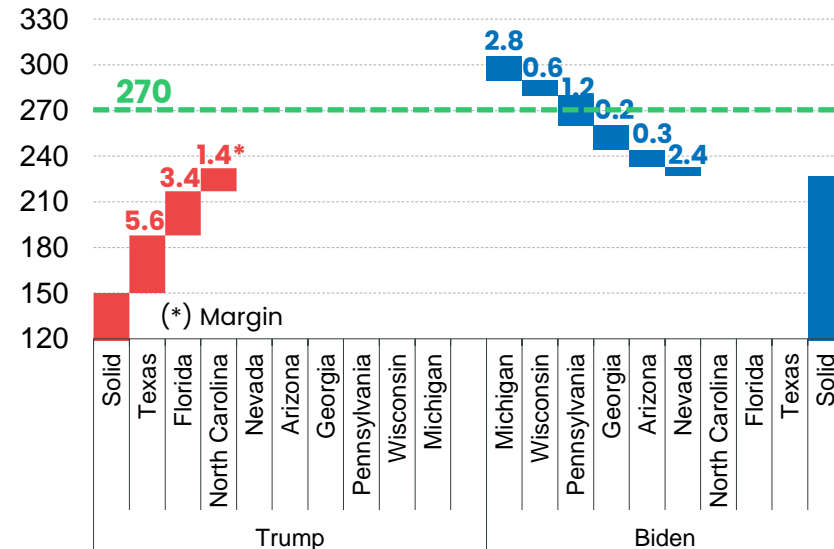
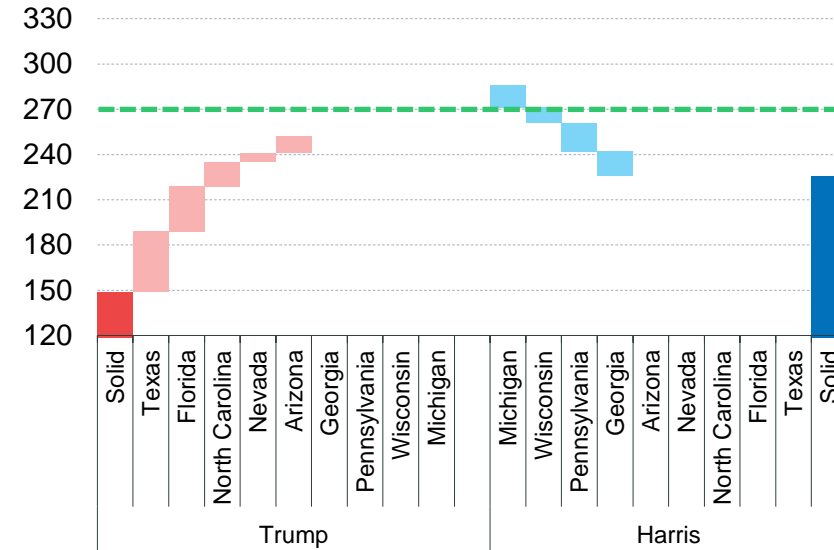
August average polls



2020 results

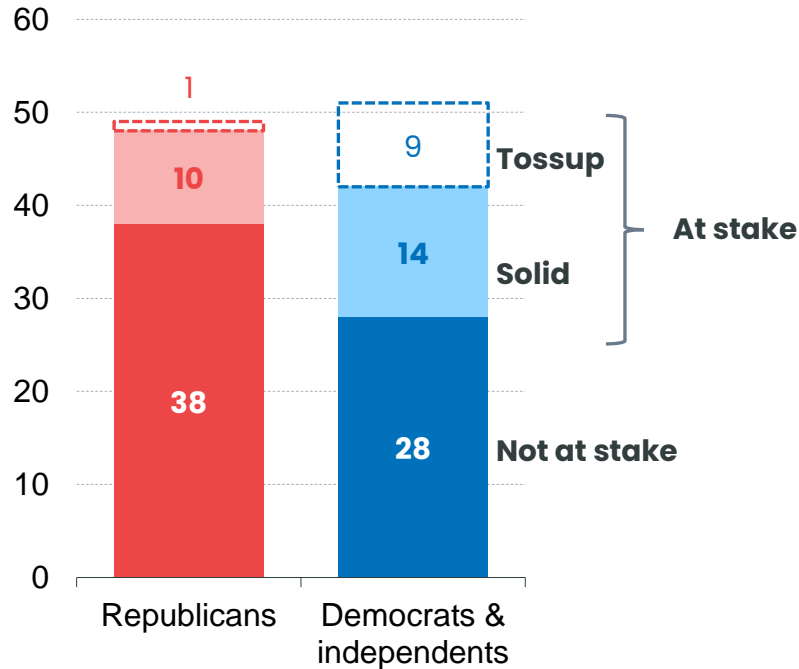


Electoral votes



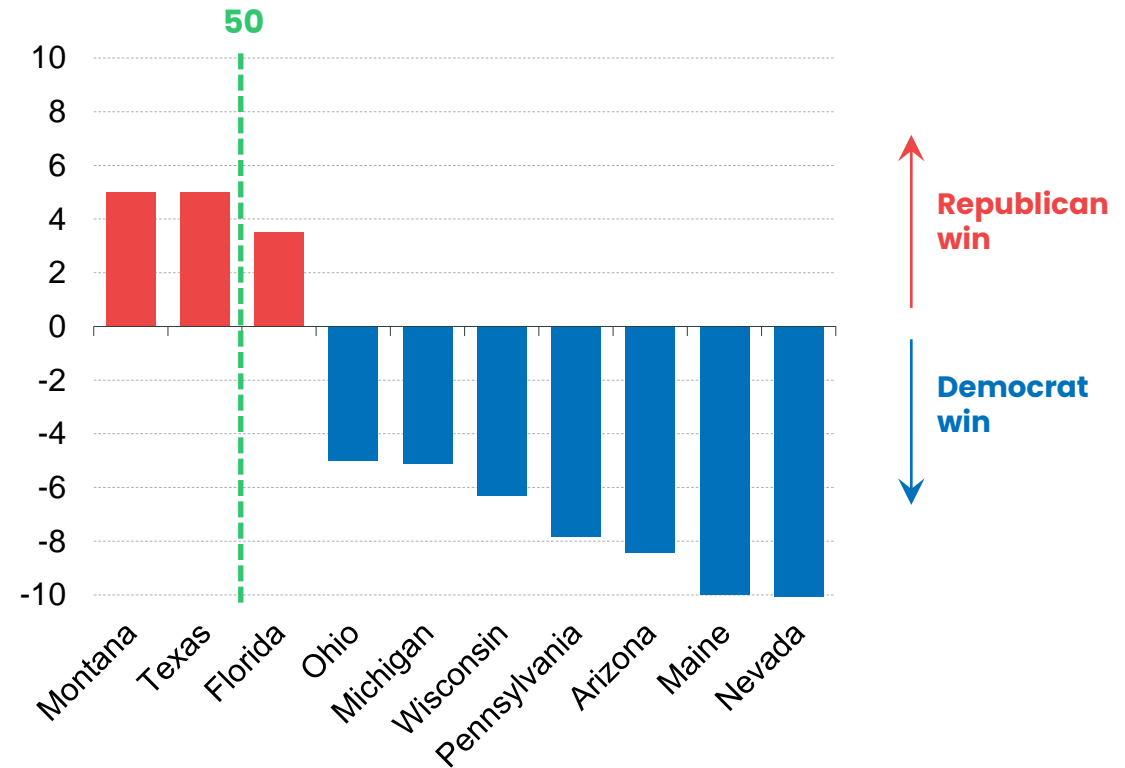
# Republicans are still likely to flip the Senate

## Distribution of Senate seats\*



(\*) West Virginia counted as a solid Republican state

## Republicans net percentage lead over Democrats in the ten "tossup" States (%, August average)







## Focus

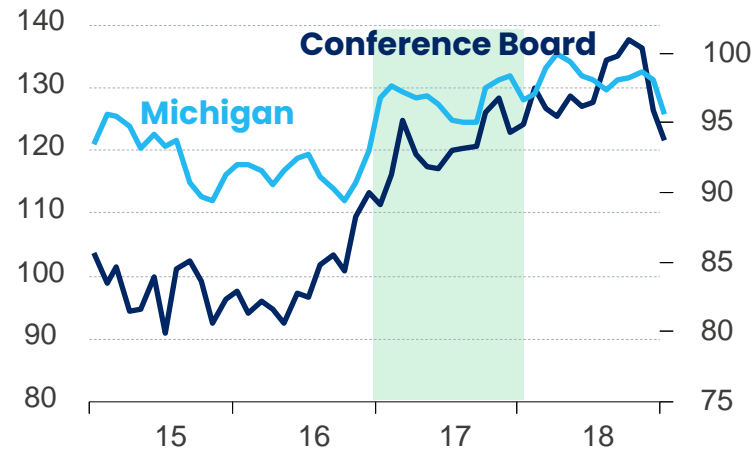
What if Donald Trump were to be re-elected in November 2024?

# Before looking at 2025, let's look back at what happened in 2017

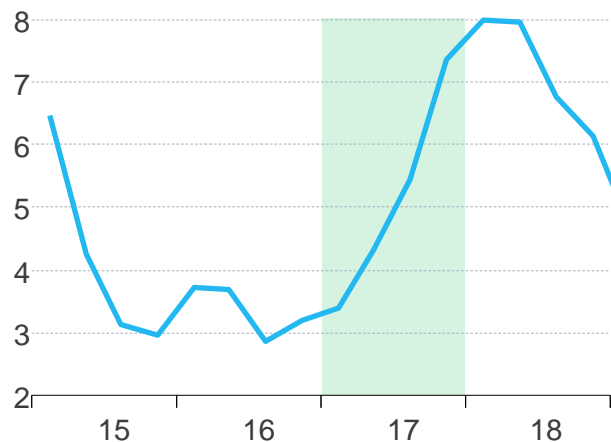
### Manufacturing ISM (%)



### Consumer confidence (Indices)



### Equipment and IPP investment (% year on year)



### S&P 500 (Index)



**Confidence jumped...**

**... and the stock market benefited from lower taxes on corporate profits!**



# What is D. Trump proposing on trade?

## Two opposite visions in the Mandate for Leadership 2025

**Kent Lassman argues that the best trade policy is a humble, limited-government approach that would encourage free trade with all nations.**

Lassman believes that we should **lower or repeal tariffs** – including eliminating “the destructive Trump–Biden tariffs” – in order to make goods more affordable for Americans.

**Peter Navarro disagrees with Kent Lassman almost across the board.**

“Trade policy can and must play an essential role in an American manufacturing and defense industrial base renaissance”.

China is viewed as an “economic aggressor” in the form of “tariffs, nontariff barriers, dumping, counterfeiting and piracy, and currency manipulation”.

**Donald Trump’s preferred path is clear**  
“I’m a big believer in tariffs”

“Under Joe Biden, our trade deficits, also known as losses, have hit record highs. Since 2000, the U.S. has racked up \$17 trillion in cumulative trade deficits with the world. Only a fool or a fanatic would dismiss these facts as irrelevant.

These gigantic sums of exported wealth are being used to build up our enemies’ military strength and transfer permanent ownership of American companies, intellectual property, real estate, and other assets to foreign nations. Foreigners now own \$16.75 trillion more of our economy than we own of theirs. Our country is being plundered.

**The best way to stop this hemorrhaging of America’s lifeblood is a simple but powerful tariff on most foreign products, like the kind that was the primary source of government revenue through most of American history, and which built this country into the manufacturing powerhouse of the world.”**

**Donald Trump, “My Tariff Policies Were a Success”, Wall Street Journal.**

## Higher tariffs

**Impose tariffs of 60% on Chinese goods (or higher!\*) as well as a blanket 10% tariff on all U.S. imports.**

(\*) **“Maybe it’s going to be more than that”** D. Trump

“If Trump goes down the road of that tariff, there’s a desire to convert that into a tax cut of some kind back in the American people similar to the oil income from the state of Alaska,” Gingrich said (the state of Alaska cuts a check every year to its residents from its oil revenue).



# How would higher tariffs affect the US economy?

## Effects of tariffs on the economy

### Negative impacts on output

#### Aggregate income channel

By increasing the price of consumer and capital goods, higher tariffs lower the purchasing power of U.S. consumers and businesses.



Higher inflation, lower consumption and lower investment

#### Confidence channel

Businesses' uncertainty about future barriers to trade increases and so does the perception of investment's risk.



Businesses delay or forgo new investments (or make expensive changes to their supply chains). The cost of capital may also increase.

#### Export Channel

Retaliatory tariffs by US trading partners reduce US exports



Less US exports

### Mitigating factors

#### Expenditure switching channel

Higher prices for imported goods could induce consumers and firms to switch to domestically produced goods, increasing domestic demand and reducing imports.

#### More fiscal receipts

The public deficit will be reduced\*.

(\*) The CRFB estimates that the public debt will be reduced by 4 GDP points (over 2026-2035).

### Impact on GDP

CBO estimated that previously enacted substantially smaller tariffs (2% of the value of goods and services purchased by US consumers) have reduced US output by 0.1 to 0.3%.

#### Recent studies

##### 10% universal + retaliation

- 2.1% (ECB)
- 1.1% (E. York, Tax Foundation)
- 1.0% (CRFB)

##### 10% universal + 60% on China

- 1.5% (Capital economics)
- 1.4% (Institute Der Deutschen Wirtschaft)



# What is D. Trump proposing on economic policy?

## More tax cuts

**Extend the individual tax cuts set to expire on Dec. 31, 2025**

Trump's advisers have pitched him on proposing **a 15% corporate tax rate** (down from 21%) and to **reinstate immediate expensing for capital expenditures**. The plan would be coupled with ending corporate tax deductions and other tax breaks, including the new clean energy credits in the Inflation Reduction Act.

"The idea I've been talking about with Trump is: Why don't we go to 15 percent corporate rate, get rid of the credits and deductions, and just make it 15 percent," Stephen Moore.

If the law's temporary individual income and estate tax cuts were to be made permanent, deficits would be larger than those in CBO's baseline, on net, by **\$2.5 trillion over 2024–2033** (excluding debt-service costs. Most of the effects would occur after 2026)

## Repeal of the IRA

Support repeal of massive spending bills like the Infrastructure Investment and Jobs Act (IIJA) and Inflation Reduction Act (IRA).

Trump has talked about repealing the IRA, calling it the "biggest tax hike in history".

**"This ridiculous Green New Deal crusade is causing car prices to skyrocket** while setting the stage for the destruction of American auto production." D. Trump.

## Repeal of Obamacare

Repeal "harmful health policies enacted under the Obama and Biden Administrations" (D. Trump.).





# What is D. Trump proposing on immigration?

## Trump's declarations are unambiguous...

Donald Trump is using the Eisenhower-era "Operation Wetback" as a blueprint for his vision, which he pledges will be **"the largest domestic deportation operation in American history" to remove the estimated 10.5 million undocumented people in the United States** — of whom two-thirds have lived in the country for more than a decade.

**Trump is weighing repeating a 2016 ban barring travelers from seven Muslim-majority countries from entering the US**, including Afghanistan and Gaza, and also those who express "communist" and "Marxist" views.

## ... but the macroeconomic consequences remain unaddressed

### If immigration is just "stopped" in 2025:

The labor force increase would be 150 000 per month lower.

Barring a rebound in productivity, this would imply:

- either hardly any growth in employment over 2025, i.e. a much weaker economy;
- or an unemployment rate falling at 3.3% by end of 2025 (instead of 4.4%), forcing the Fed to tighten and trigger a recession!

**Although deporting 10 million persons looks physically impossible\*, any number would only aggravate tensions on the labor market.**

(\*) Although officials claimed the Eisenhower summer operation led to 1.3 million apprehensions, scholars including Lytle Hernández have challenged that figure — saying that those statistics include arrests from previous years. According to Lytle Hernández, the number of apprehensions for fiscal year 1955 was about 250,000.



# The “Mandate for Leadership 2025” devotes many pages to the Fed as an institution... while D. Trump seems more focused on persons!

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## Forcing the Fed to change its policy...

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### Eliminate the “dual mandate”

Eliminate “full employment” from the Fed’s mandate, requiring it to focus on price stability alone.

### Curb the Fed’s excessive last-resort lending practices

These practices are directly responsible for “too big to fail” and the institutionalization of moral hazard in our financial system.

### Wind down the Federal Reserve’s balance sheet

Limit future balance sheet expansions to U.S. Treasuries. The Federal Reserve should be prohibited from picking winners and losers among asset classes. Above all, this means limiting Federal Reserve interventions in the mortgage-backed securities market. It also means eliminating Fed interventions in corporate and municipal debt markets. Stop paying interest on excess reserves.

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## ... or suppressing the Fed!

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### More controversial: Free Banking / Gold standard

P. Winfree\* suggests that the next Administration should think about proposing legislation that would “effectively abolish” the Federal Reserve and replace it with “free banking,” whereby “neither interest rates nor the supply of money” would be “controlled by government.” Free banking would produce a “stable and sound” currency and a “strong” financial system, “while allowing lending to flourish.” Alternatively, Winfree writes, the next Administration should “consider the feasibility of a return to the gold standard.”

(\*) Paul Winfree is one of the contributors to the “Mandate for Leadership 2025”.

Trump said he would not reappoint Fed Chair Jerome Powell\*, accusing Powell of considering rate cuts to give Democrats an advantage in the 2024 elections.

(\*) Powell chairman’s mandate comes to an end in May 2026.











### Firing Powell as Chairman of the FOMC may prove difficult

Whatever happens at the Board of Governors, the FOMC would still elect its chair, and it could very well pick Board Governor Jerome Powell as FOMC Chair, meaning that it would still be Powell to stand at the lectern for press conferences as the face of the Fed.





# What could happen if D. Trump does all of what he promised?

		Impact on US GDP	Impact on inflation
<b>Tariffs</b>	10% universal tariff + 60% on China		
<b>Immigration</b>	Zero net migration and deport 10 million undocumented migrants		
<b>Tax cuts</b>	Extend 2017 tax cuts, cut corporate tax rate to 15%, full investment expensing		
<b>Repeal of the IRA</b>	The negative impact is offset by a significant increase in drilling activity		
<b>TOTAL</b>			

**If D. Trump does (almost) all what he promised, (our so called “Hard Trump” scenario), inflation would be rising due to higher tariffs and a tighter labor market. To remain credible, the Fed would have no choice but to tighten monetary policy... despite faltering activity.**

# There is a lot of uncertainty on how far D. Trump can go on immigration

D. Trump is planning to finish the border wall. **Closing the border in 2025 seems however difficult:** first money will have to be appropriated by Congress and the construction will take more than a year given notably all administrative constraints (buying of land...)

## **A reminder of the 2017 promise**

*The President instructed US Customs and Border Protection to implement a "wall" at least 18 feet high (5.5 meters), aesthetically pleasing on the US side and capable of preventing both ladder and tunneling across it. The wall must be designed to prevent anyone from breaching it within 3 meters using a jackhammer, vehicle, blowtorch or any other means of drilling. The wall's foundation must be at least 1.82 m high to prevent tunnel construction. According to Democratic Senator Claire McCaskill, **this physical barrier will stretch for 2,940 km along the U.S.-Mexico border, i.e. almost 2,000 km more than the current fence, more or less completed since 2008.***

D. Trump may try to offset the continuing inflow of migrants by some deportation, but here again the technical and social obstacles are likely to be significant.

## S.-Mexico Border Wall System recently built and pre-existing barriers



# There is also a lot of uncertainty on how far D. Trump can go on tariffs

## For tariffs, what D. Trump is planning is not clear:

D. Trump has not explained whether he envisions the universal tariff as a new floor or an add-on to existing ones. For example, if an imported product was now taxed at 5 percent, would that rate rise to 10 percent or to 15 percent?

Nor has D. Trump said **whether the new tariff would apply to imports from the nearly two dozen countries with which the US has free trade deals**. They include Canada and Mexico, which together account for nearly a fifth of the overall U.S. trade deficit in goods, and with which D. Trump’s administration renegotiated the nearly tariff-free trade deal that replaced NAFTA (the USMCA).

## Has D. Trump the authority to implement new tariffs on “non free trade agreement” countries?

The Supreme Court may not go along with the president setting a new tariff rate on the pretext that all foreign trade is unfair. Placing a new 10 percent tariff against all products from all sources might even attract a judicial stay to prevent implementation as challenges are considered by the courts.

On the opposite, R. Lighthizer said that given the size of the U.S. trade deficit and its impact on the American economy, a president would have “clear authority” under two laws – the International Emergency Economic Powers Act and Section 338 of the Tariff Act of 1930 – to impose tariffs unilaterally. Still, he said, depending on political conditions, D. Trump might instead choose to ask Congress to enact new legislation so that a successor would not be able to easily revoke it. “He has the legal authority to do it and he’s got two routes”.

On China, the Supreme Court could find that it is the prerogative of the Congress to set tariffs at rates amounting to an embargo outside of war, assuming there were no grounds for invoking laws protecting national security.

## In Mandate for leadership, Navarro targets only non-FTA countries

Trade Deficit Reductions for Target Countries

Country	SCENARIO ONE: PARTNER COUNTRIES MATCH U.S. TARIFF RATE		SCENARIO TWO: U.S. MATCHES PARTNER TARIFF RATES	
	Projected Change in Bilateral Trade Balance (\$ Billions)	Bilateral Deficit Reduction as Share of 2018 Bilateral Deficit	Projected Change in Bilateral Trade Balance (\$ Billions)	Bilateral Deficit Reduction as Share of 2018 Bilateral Deficit
India	5.0	24%	18.7	88%
Taiwan	1.0	6%	9.2	59%
Vietnam	0.7	2%	17.2	44%
Thailand	3.2	17%	6.4	34%
Communist China	18.5	4%	70.6	17%
European Union	8.0	5%	25.3	15%
<b>Total</b>	<b>35.4</b>	<b>4%</b>	<b>45.6</b>	<b>5%</b>



# The United States–Mexico–Canada Agreement (USMCA) could be used as a powerful bargaining tool by the US

## The USMCA review clause (article 34.7)

In summary, USMCA will terminate 16 years after the date of its entry into force (i.e., by 1 July 2036), unless each party confirms that it wishes to continue the agreement for a new 16-year term.

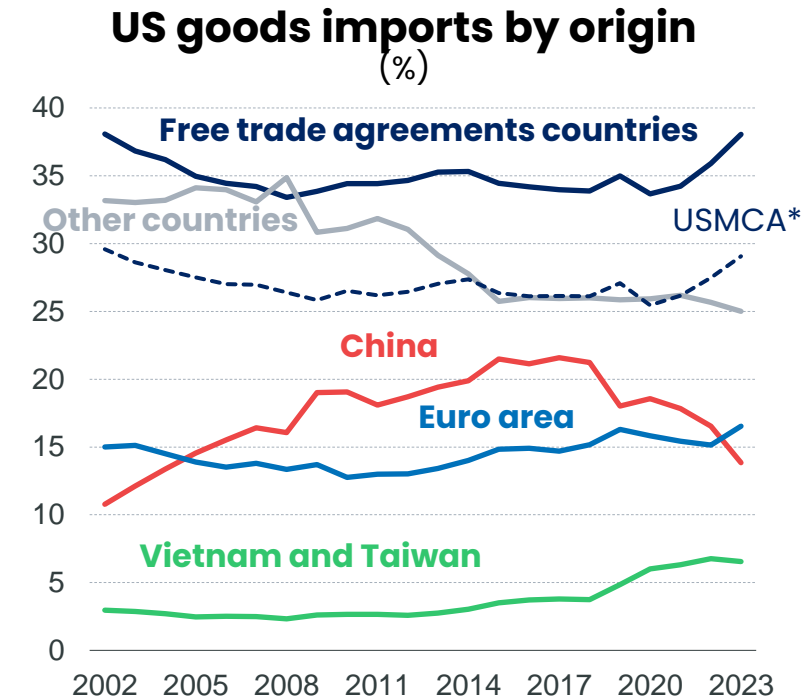
The parties are to confirm their ongoing support for USMCA at a “**joint review**”. The first joint review will take place on July 1, 2026. Should the parties confirm that they want to continue, then the agreement will be extended for another 16 years.

If the parties do not extend the agreement in 2026, then the Commission is to conduct a joint review each year until 2036. During these joint reviews, the parties can confirm their wish to extend the agreement for another 16 years. **Failure to extend the agreement will lead to USMCA termination on July 1, 2036.**

## Article 34.6: Withdrawal

A Party may withdraw from this Agreement by providing written notice to the other Parties. A withdrawal shall take effect six months after a Party provides written notice. If a Party withdraws, this Agreement shall remain in force for the remaining Parties.

**Withdrawal from the Treaty could be done by the President unilaterally.** But this raises the question of the **USMCA Implementation Act** which can normally only be terminated by Congress. If the USMCA Implementation Act remains in effect, other provisions of federal law may grant the President authority to restrict trade with Canada or Mexico. But such actions would likely be subject to judicial review on various grounds.



(\*) United States–Mexico–Canada Agreement

**How far D. Trump is really willing to go in terms of trade policy remains unknown!**



# How would a “Hard Trump” scenario for 2025 look like, assuming the Republican party wins both the Senate and the House?

## Effect on 2025 GDP compared to our former main scenario

	Measures taken	GDP	Unemployment rate	Inflation
<b>Tariffs</b>	10% on non-FTA countries, 60% on China and some non-tariffs measures on FTA countries, symmetric retaliation + uncertainty amplified by legal disputes and constitutional challenges	-1.5%	+1.0%	The reallocation of domestic resources induces a slowdown in productivity growth... <b>+2.0%</b>
<b>Immigration</b>	Net migrant inflows into the labor force = -50 000 / month		-1.0%	... but curtailing immigration dampens the impact on the unemployment rate. <b>+0.5% to 1.0%</b>
<b>Tax cuts</b>	Full investment expensing & 15% corporate tax rate	+0.4%	-0.4%	
<b>Repeal of the IRA</b>	We assume the negative impact is offset by a significant increase in drilling activity	0.0%	0.0%	
<b>Total</b>		<b>-1.1%</b>	<b>-0.4%</b>	<b>+2.5% to 3.0%</b>

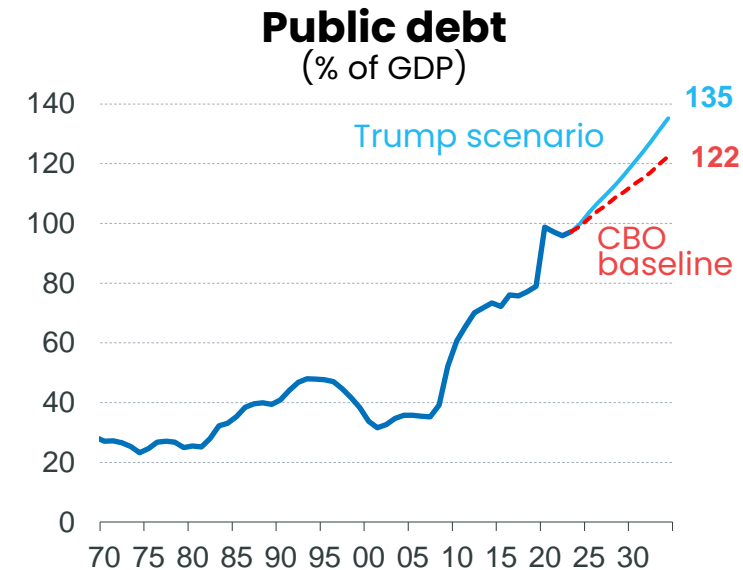
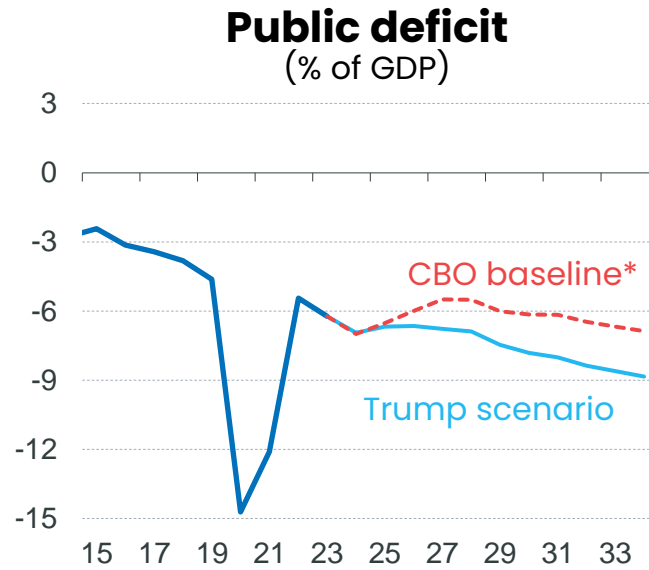
**Inflation would be rising due to higher tariffs and a tighter labor market. Still the Fed, to remain credible, would have no choice but to tighten monetary policy... despite faltering activity.**



# Such a scenario would further aggravate the public debt trajectory

## Impact on the 2026 public deficit (% of GDP, compared with CBO baseline)

<b>Tariffs</b>	<b>-0.7%</b>
<b>2017 TCJA extension</b>	<b>+0.9%</b>
<b>Corporate tax cut</b>	<b>+0.3%</b>
<b>Full expensing</b>	<b>+0.2%</b>
<b>Lower growth</b>	<b>+0.6%</b>
<b>Total</b>	<b>+1.3%</b>



(\*) assuming tax cuts expiration at end of 2025

# A “softer” D. Trump scenario could also unfold, with trade policy mainly used as a bargaining tool and moderate immigration control

## Effect on 2025 GDP compared to our former main scenario

	Measures taken	GDP	Unemployment rate	Inflation
<b>Tariffs</b>	3% on non-FTA countries, 30% on China & symmetric retaliation + some uncertainty	-0.5%	+0.5%	+0.7%
<b>Immigration</b>	Net migrant inflows into the labor force = +50 000 / month		-0.3%	+0.2%
<b>Tax cuts</b>	Full investment expensing & 15% corporate tax rate	+0.4%	-0.4%	
<b>Repeal of the IRA</b>	We assume the negative impact is offset by a significant increase in drilling activity	0.0%	0.0%	
<b>Total</b>		-0.1%	-0.2%	+0.9%

The impact on productivity is marginal

**In 2025, the economic trajectory is slightly less favorable than in our baseline (the Fed turns more cautious and makes fewer cuts).**





# K. Harris has endorsed the proposals outlined in the President's FY2025 Budget...

## Proposals in the President's FY 2025 Budget (cumulative for FY 2025 to 2034)

<b>Education and Family Support</b>	<b>\$1,215 billion</b>
Expand access and funding for pre-K and child care	\$600 billion
Establish national paid family and medical leave	\$325 billion
Offer free community college and increase Pell Grants and other higher	\$290 billion

<b>Expansion of Health Care Programs</b>	<b>\$968 billion</b>
Extend higher Affordable Care Act subsidies and expand to Medicaid	\$473 billion
Increase Indian Health Service funding	\$202 billion
Improve Medicaid home- and community-based services	\$151 billion
Increase behavioral health, mental health, and other public health funding	\$142 billion

<b>Other Initiatives</b>	<b>\$541 billion</b>
Support affordable housing	\$184 billion
Increase near-term discretionary spending levels*	\$170 billion
Enact other spending increases	\$187 billion

<b>Tax Cuts, Tax Credits, and Tax Breaks</b>	<b>\$504 billion</b>
Expand CTC through 2025 and make permanently fully refundable	\$315 billion
Expand EITC	\$163 billion
Enact or expand other tax cuts, tax credits, and tax breaks	\$25 billion

<b>Spending Reductions</b>	<b>-\$921 billion</b>
Slow future growth of discretionary spending	-\$511 billion
Reduce prescription drug and other health care costs	-\$241 billion
Extend the mandatory sequester for Medicare and other programs	-\$90 billion
Expand user fees and spectrum auctions and other spending changes	-\$79 billion

<b>Subtotal, Net Costs</b>	<b>\$2,307 billion</b>
----------------------------	------------------------

<b>Corporate and Business Taxes</b>	<b>-\$2,799 billion</b>
Increase corporate income tax rate from 21 percent to 28 percent	-\$1,425 billion
Reform international tax rules	-\$641 billion
Increase corporate book minimum tax and stock buyback tax rates	-\$317 billion
Expand limit on deductibility of executive compensation	-\$272 billion
Enact other corporate tax increases	-\$144 billion

<b>High-Income Taxes</b>	<b>-\$1,145 billion</b>
Establish 25 percent billionaire tax on unrealized income	-\$503 billion
Increase top individual income tax rate from 37 percent to 39.6 percent	-\$256 billion
Reform and Increase capital gains taxes	-\$289 billion
Tighten rules and close loopholes for estate and gift taxes	-\$97 billion

<b>Additional Medicare Taxes and Net Investment Income Tax</b>	<b>-\$814 billion</b>
Increase NIIT and Medicare tax rate for taxpayers making over \$400,000	-\$412 billion
Apply NIIT to passthrough business income	-\$402 billion

<b>Other Taxes</b>	<b>-\$437 billion</b>
Reduce the tax gap by extending IRS funding and other policy changes	-\$260 billion
Close various fossil fuel, digital currency, and other tax breaks and loopholes	-\$177 billion

<b>Subtotal, Gross Savings</b>	<b>-\$5,195 billion</b>
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<b>Net Interest Savings</b>	<b>-\$389 billion</b>
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<b>Total, Policy Savings in the President's FY 2025 Budget</b>	<b>-\$3,277 billion</b>
--	-------------------------

**"The budget irresponsibly punts on tax cut extensions and Social Security solvency** by calling to extend expiring tax cuts for those earning below \$400,000 with offsets and extend Social Security solvency but failing to specify the policies to accomplish these goals or incorporate the cost of the extensions" – CRFB Mar. 11, 2024



# ... while focusing on lowering costs for American families

## Summary of the Fiscal Effects of the Harris Agenda to Lower Costs for American Families (cumulative for FY 2025 to 2034)

Policy	Ten-Year Deficit Impact
Expand CTC to \$3,000 or \$3,600 for young children	\$1.1 trillion*
Further expand CTC to \$6,000 for newborns	\$100 billion
Extend the ACA premium tax credit expansion	\$400 billion
Expand the EITC for workers without child dependents	\$150 billion
Provide a \$25,000 first-time homebuyer credit for four years	\$100 billion^
Enact additional affordable housing policies for four years	\$100 billion'
Lower prescription drug costs	-\$250 billion+
<b>Total Impact of the Harris Agenda to Lower Costs for American Families</b>	<b>\$1.7 trillion</b>
<i>Memo: Impact of Agenda if housing policies are made permanent</i>	<i>\$2.0 trillion</i>

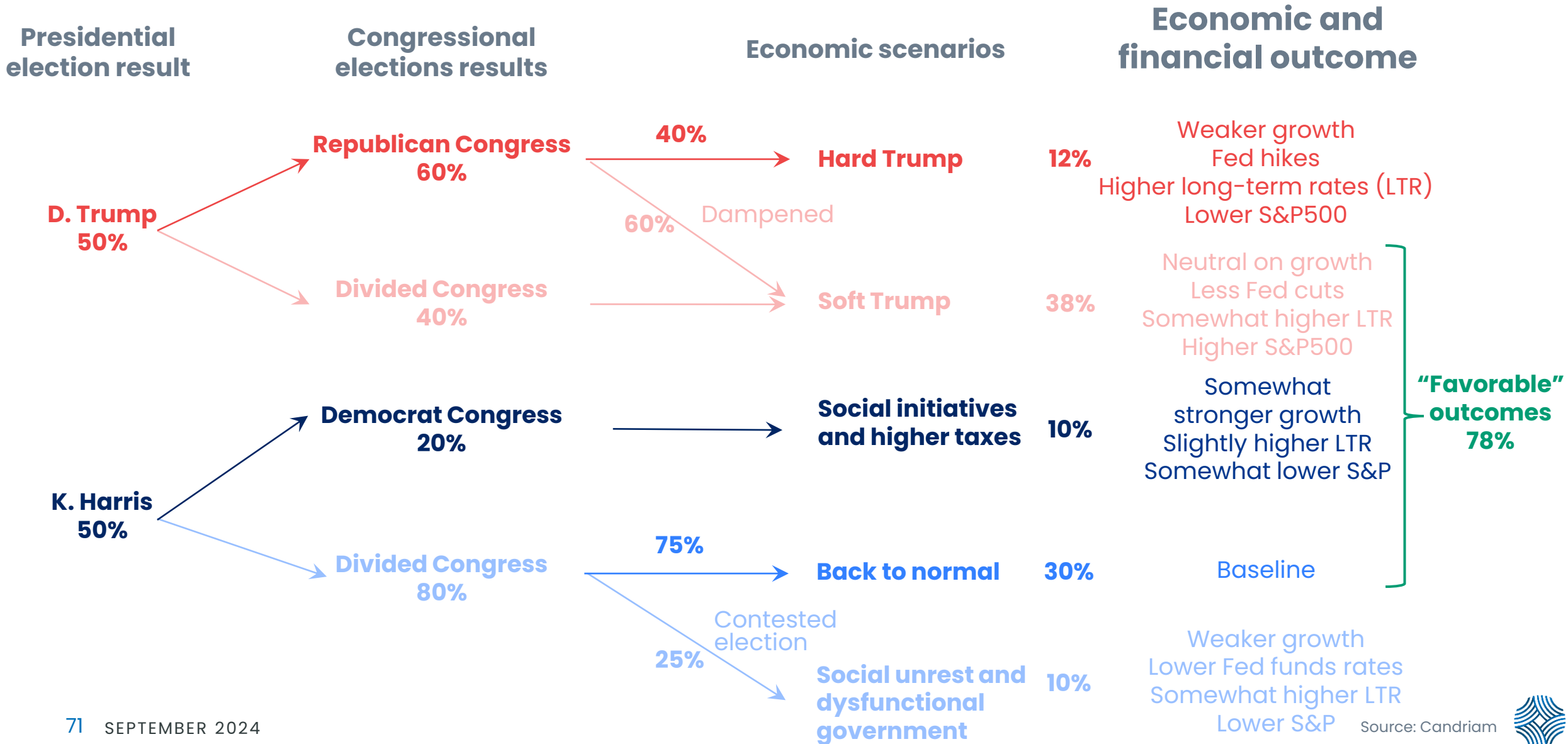
K. Harris has also proposed eliminating taxes on tips and raising the minimum wage, which would cost between \$100 and \$200 billion over a decade.

She has also said she will release plans supporting education, childcare, and long-term care, among other policies.

Harris would also seek to raise the corporate income tax rate to 28 percent, which would reduce the deficit by \$1 to \$1.4 trillion over a decade. More generally, she supports the \$5 trillion tax increases proposed by the Biden White House.

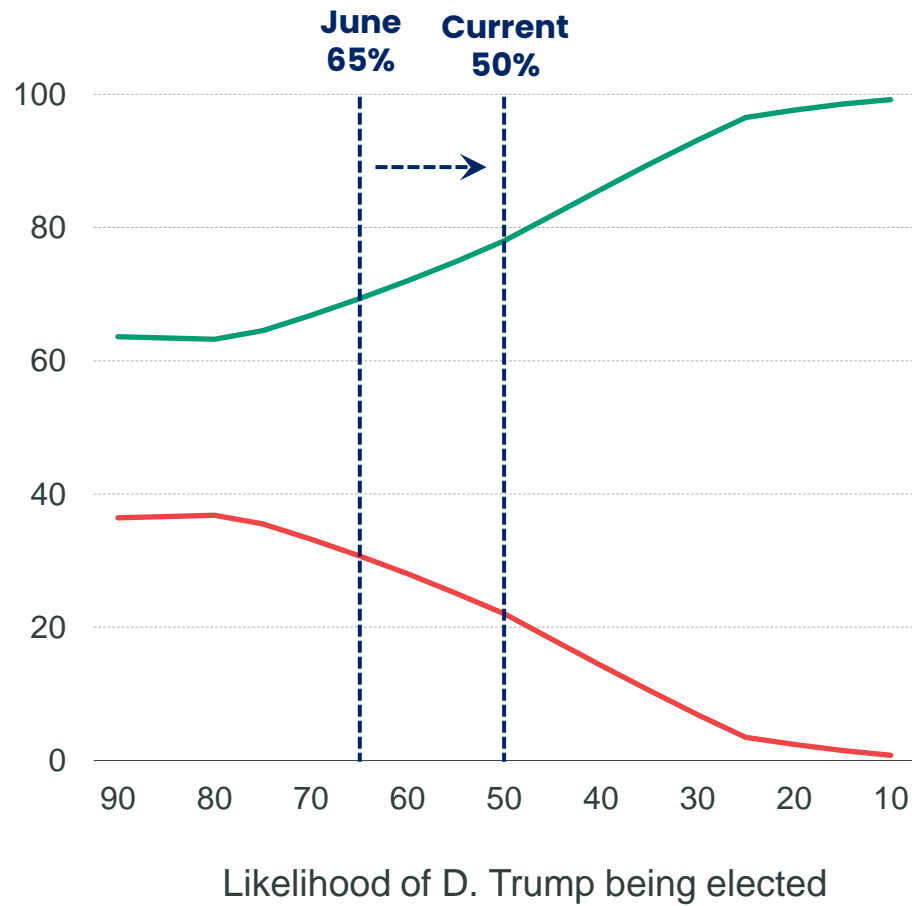


# With J. Biden dropping out, the probability of a Democrat win has increased



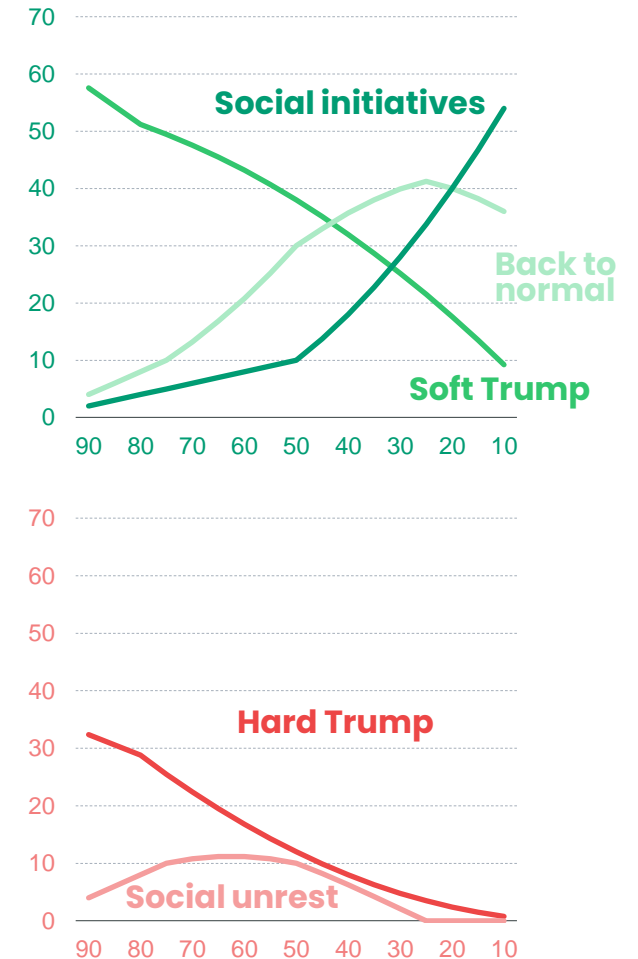
# “Unfavorable” outcomes do not seem the most likely

Likelihood economic outcomes given the probability of D. Trump being elected (%)



**Favorable economic outcomes for 2025**  
(Soft Trump, Back to normal or Social initiatives)

**Unfavorable economic outcomes for 2025**  
(Hard Trump or Social unrest)





# 4 Euro area

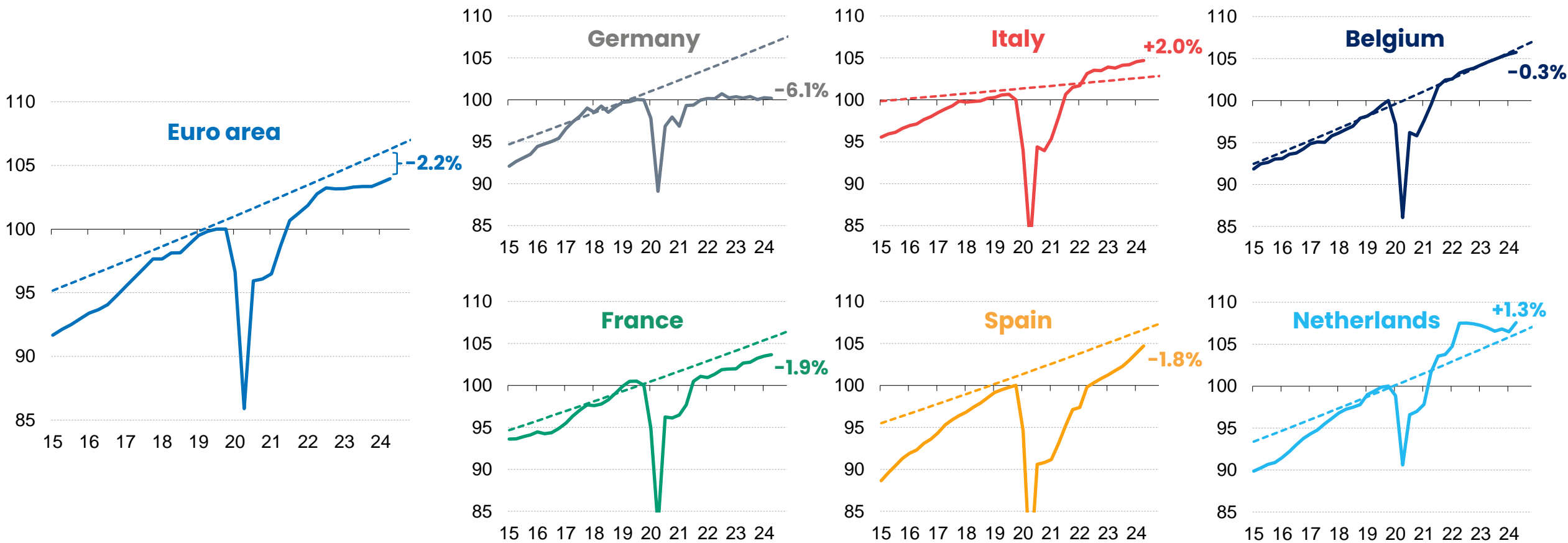
## Cautious monetary policy easing...



# Euro area activity remains well below trend... mainly because German GDP is stuck at its pre-covid level

## Real GDP

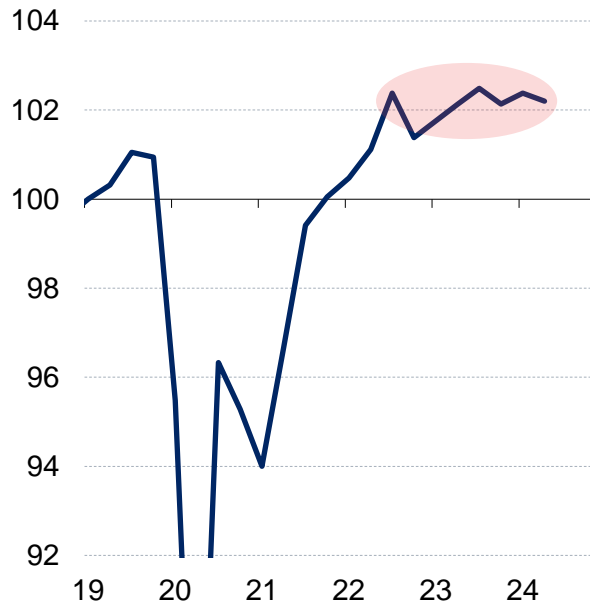
(compared to 2004-2019 trend, 2019 Q4 = 100)



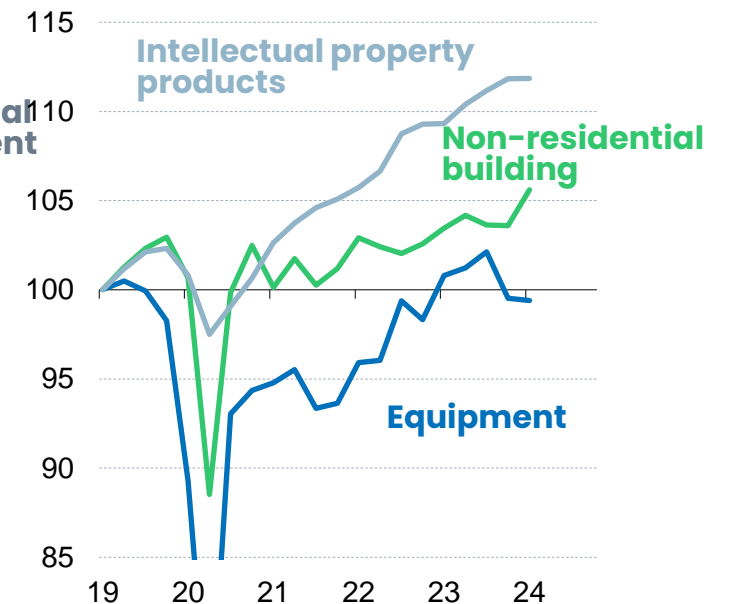
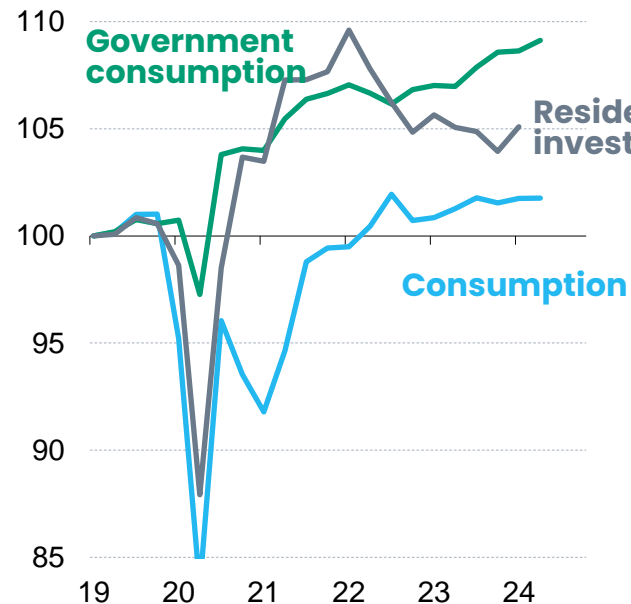
# Domestic demand remains sluggish

## Domestic demand in the 4 largest euro area countries

**Domestic demand**  
(2019 Q1 = 100, ex inventories  
and ex public consumption, volume)



**Domestic demand components**  
(2019 Q1 = 100, volume)

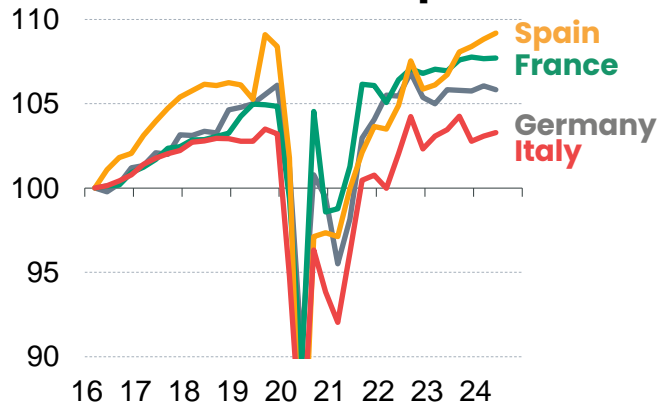




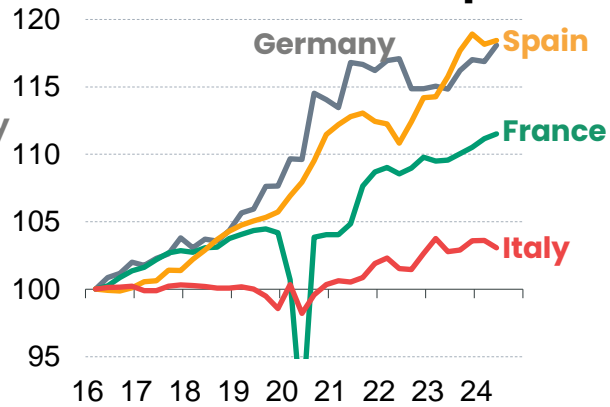
# Memo. Demand components by country

(2016 Q1 = 100, volume)

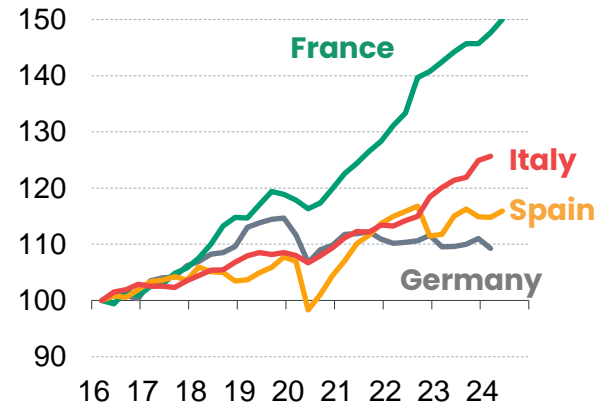
### Private consumption



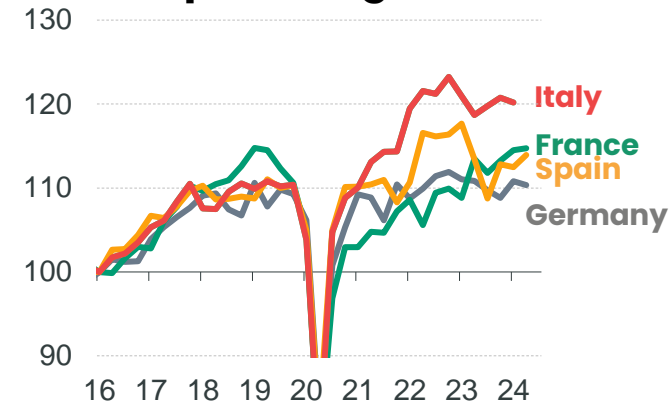
### Government consumption



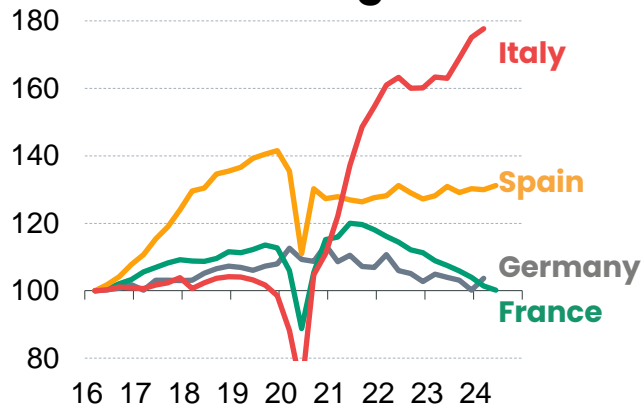
### IPP investment



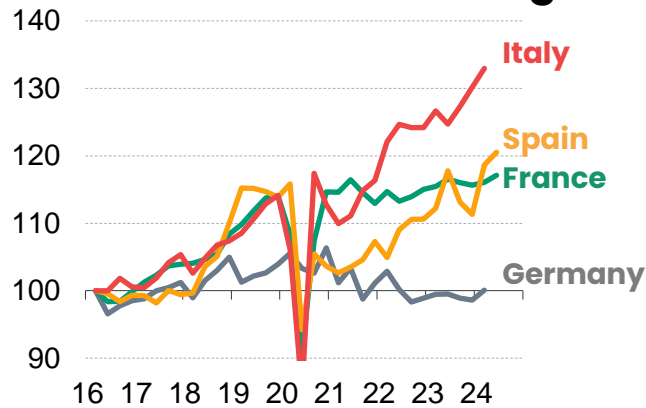
### Exports of goods



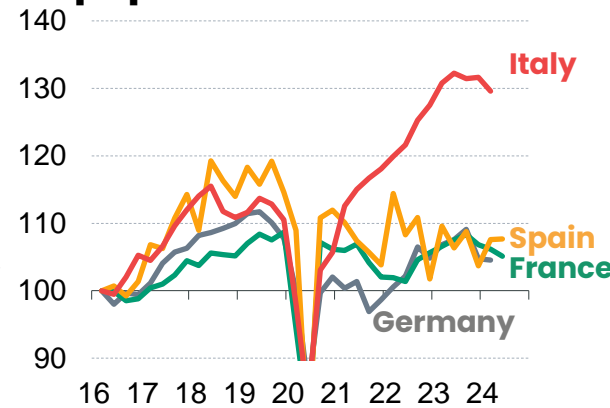
### Dwellings



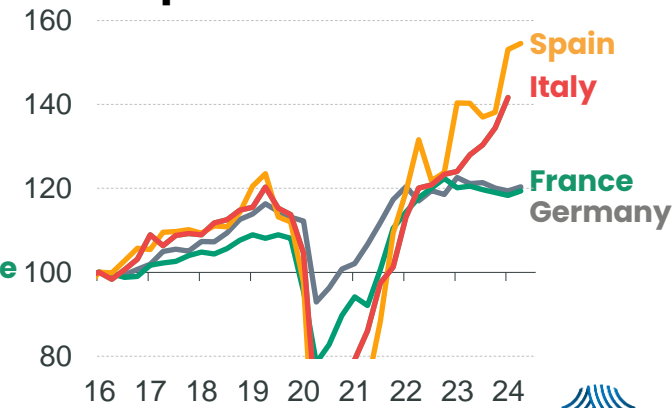
### Non-residential building



### Equipment investment

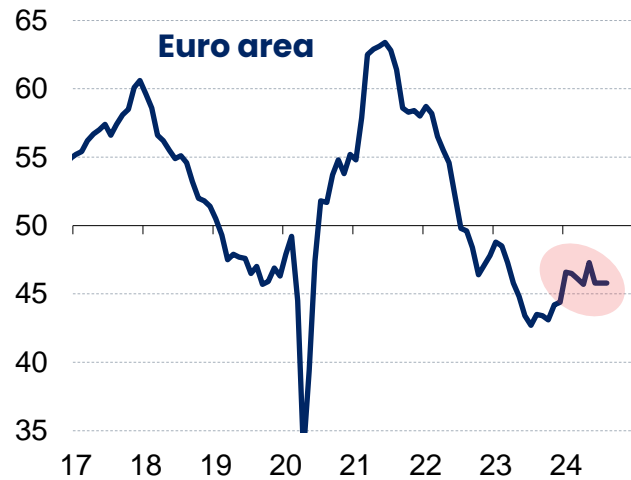


### Exports of services

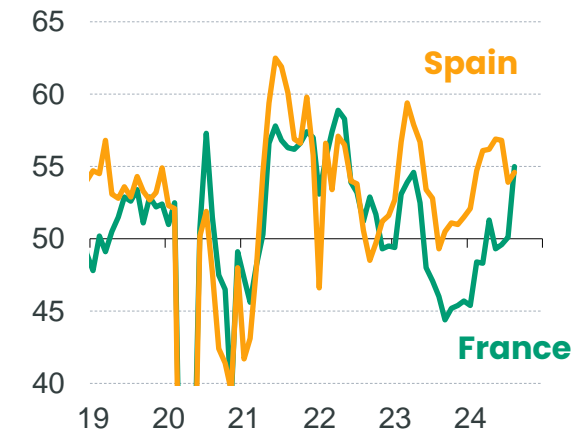
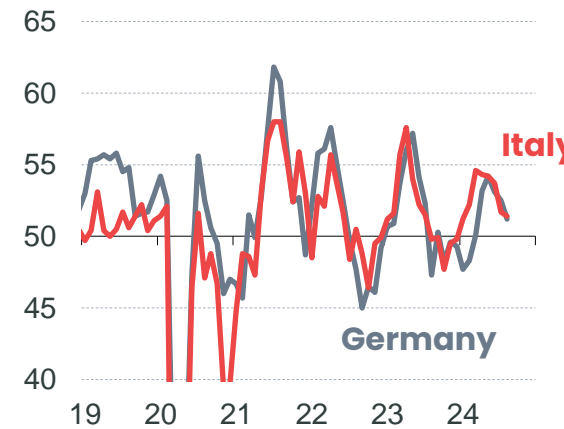
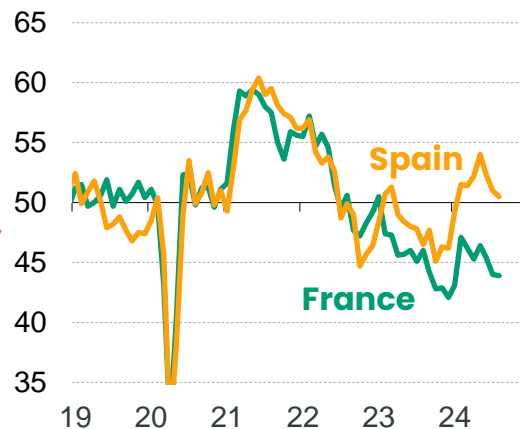
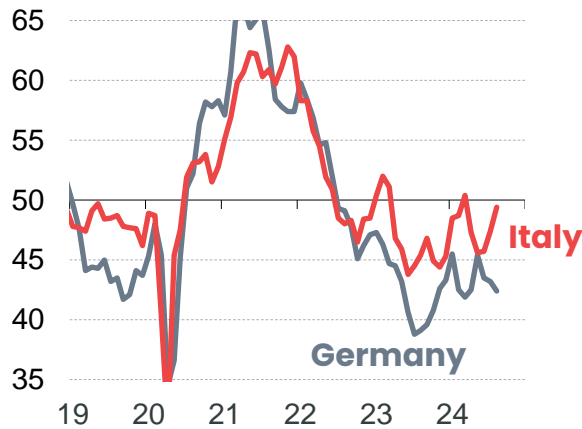
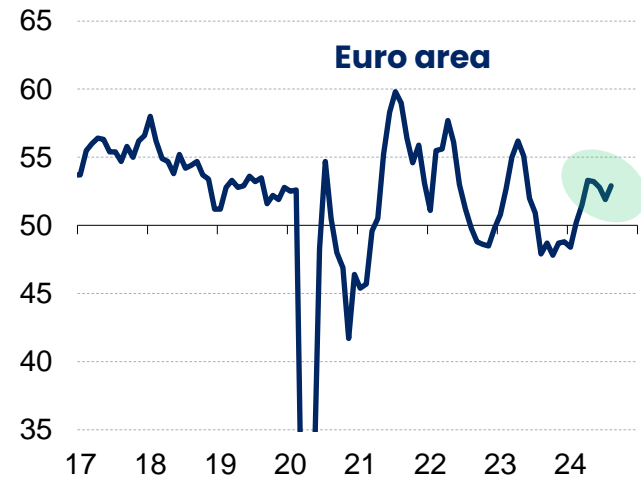


# Despite ups and downs, PMI surveys are pointing to ongoing moderate growth

## Manufacturing PMIs

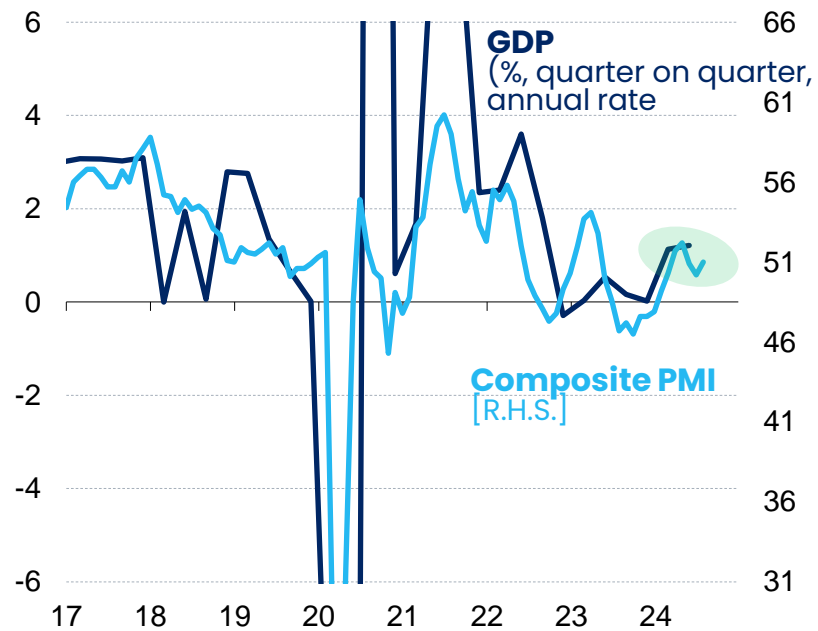


## Services PMIs

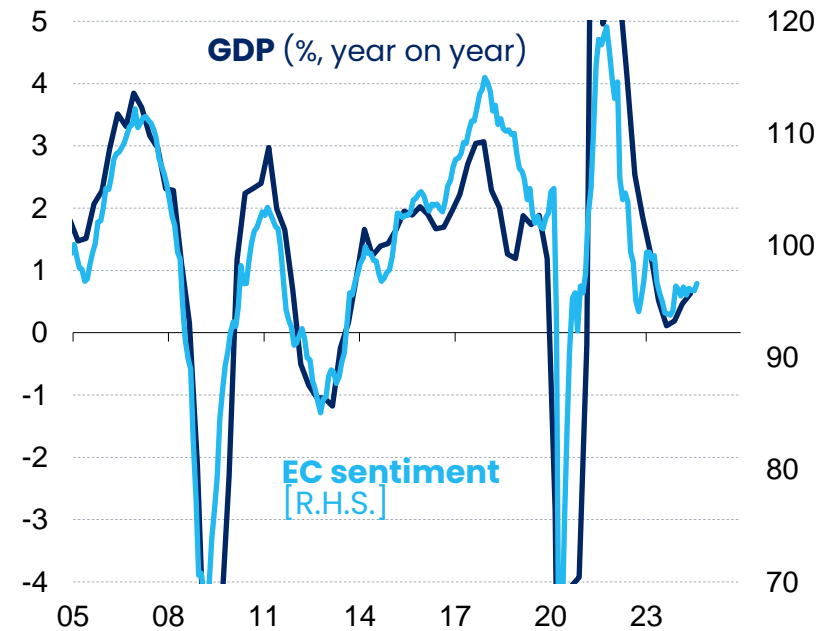


# The EC economic sentiment is going in the same direction

## Composite PMIs and GDP growth

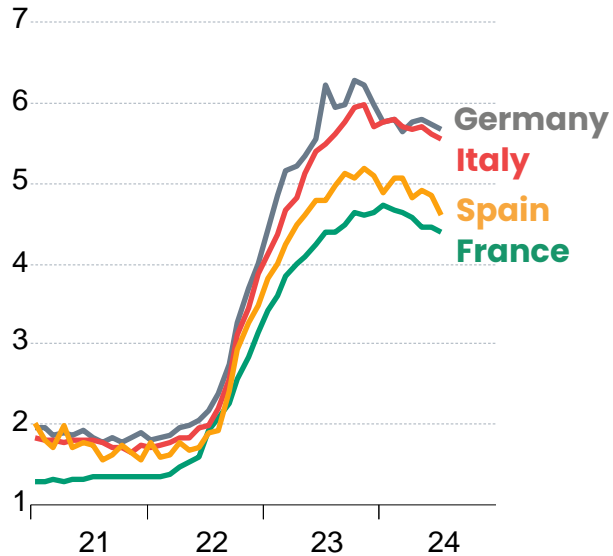


## EC sentiment and GDP growth



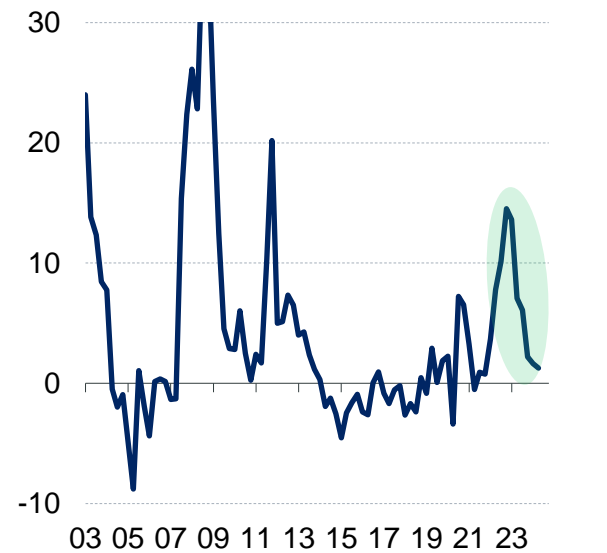
# Credit conditions for firms have stopped tightening, but loan demand remains subdued...

**Interest rates on loans to non-financial corporations**  
(%, new business, up to €1 mln)



**Changes in credit standards to enterprises and demand for loans**

**Net % of banks reporting a tightening of credit standards**



**Net % of banks reporting an increase in demand**

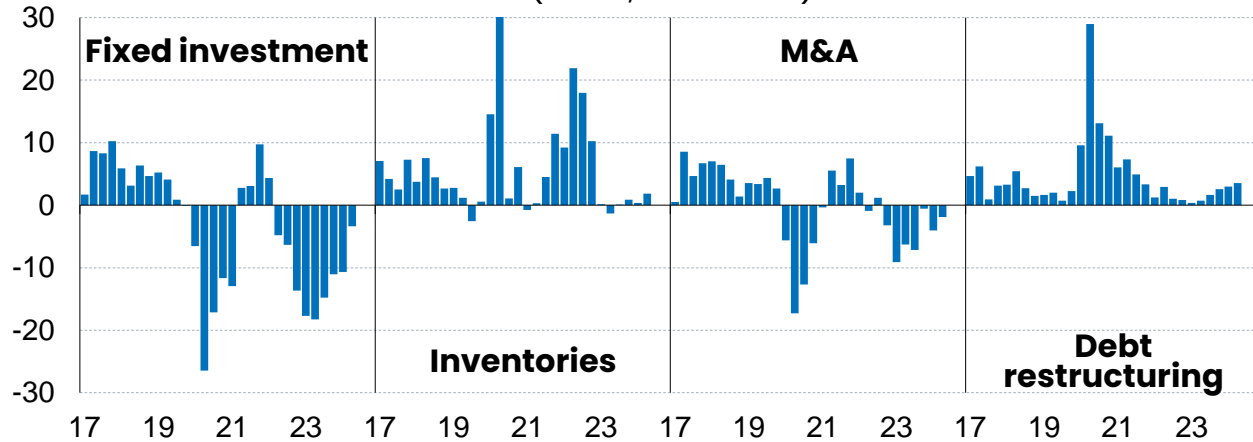


**Loans to non-financial corporations**  
(%, annual rate)

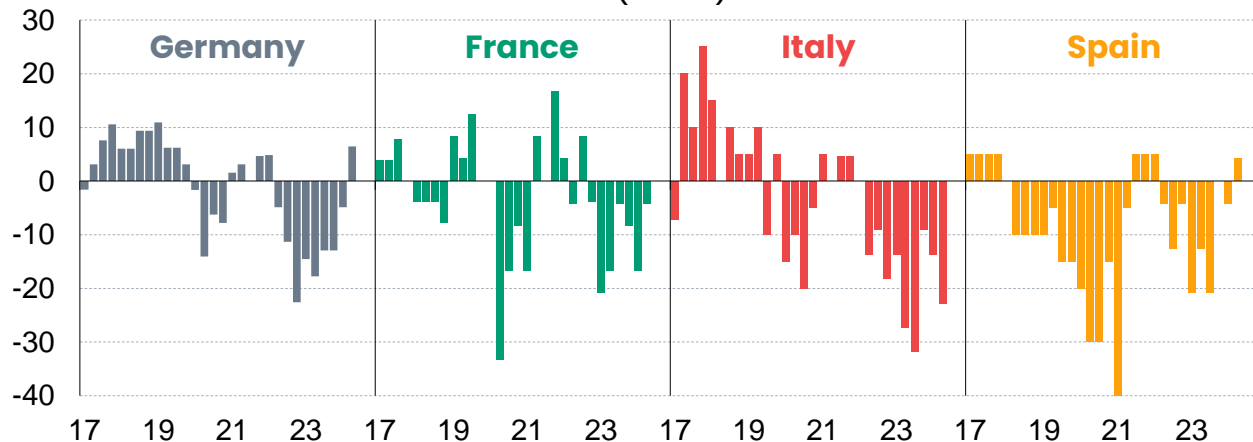


# ... especially for fixed investment

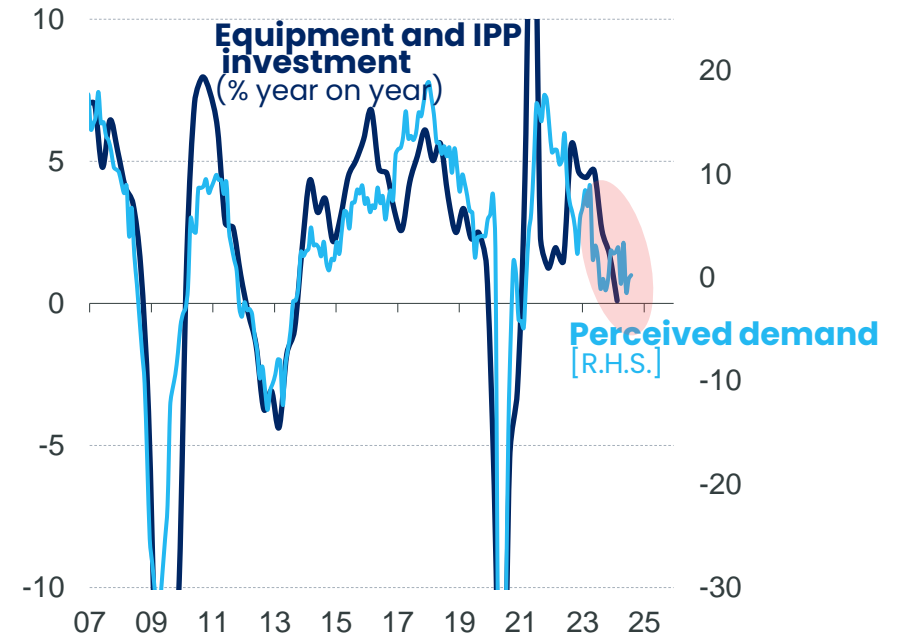
**Factors affecting firms' demand for loans**  
(net %, euro area)



**Firms' demand for loans – Fixed investment by country**  
(net %)

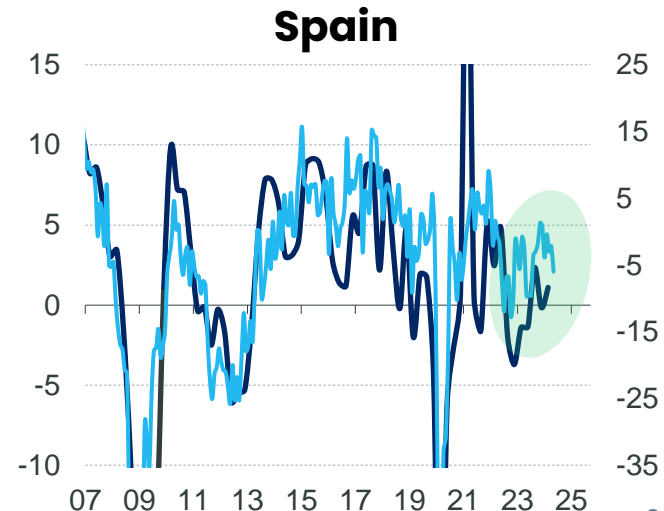
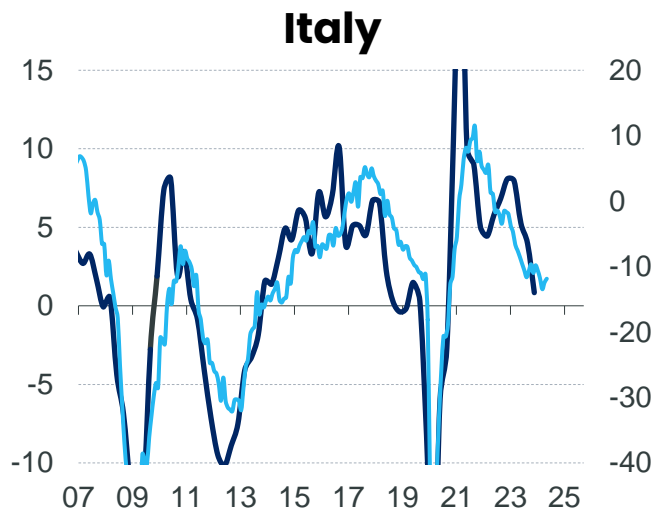
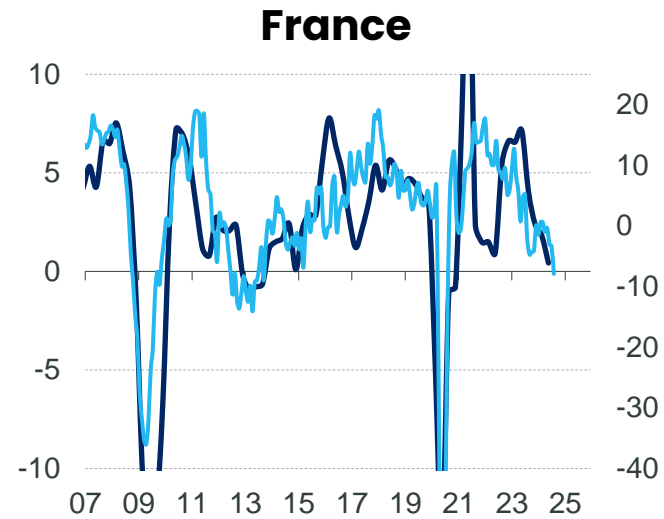
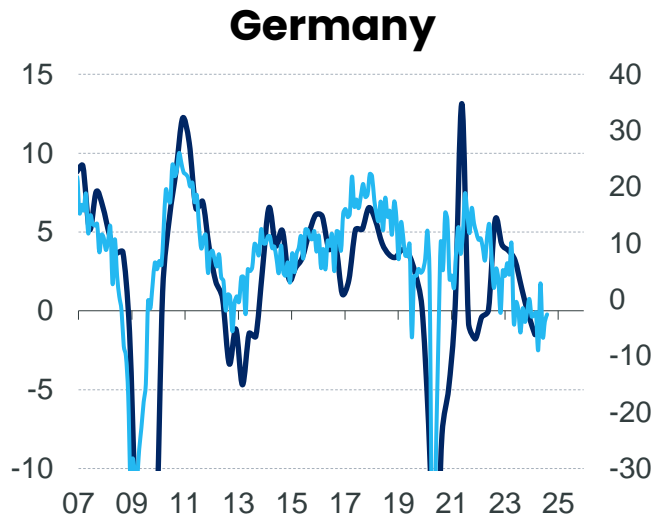


**Equipment and IPP investment versus perceived demand in the euro area**



# For the time being, perceived demand is pointing to business investment growing only in Spain

## Equipment and IPP investment versus perceived demand



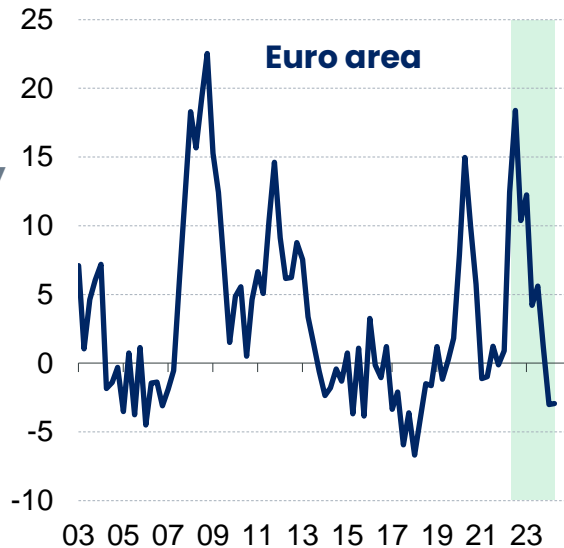
**Equipment and IPP investment**  
(% year on year)

**Perceived demand**  
[R.H.S.]

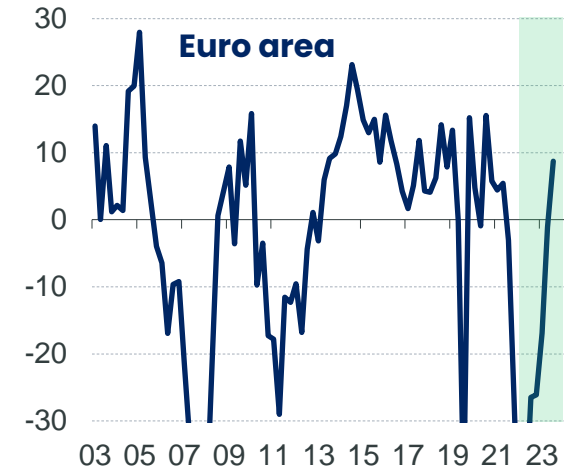


# Credit conditions for mortgage loans to households have started to improve and loan demand seems to be picking up...

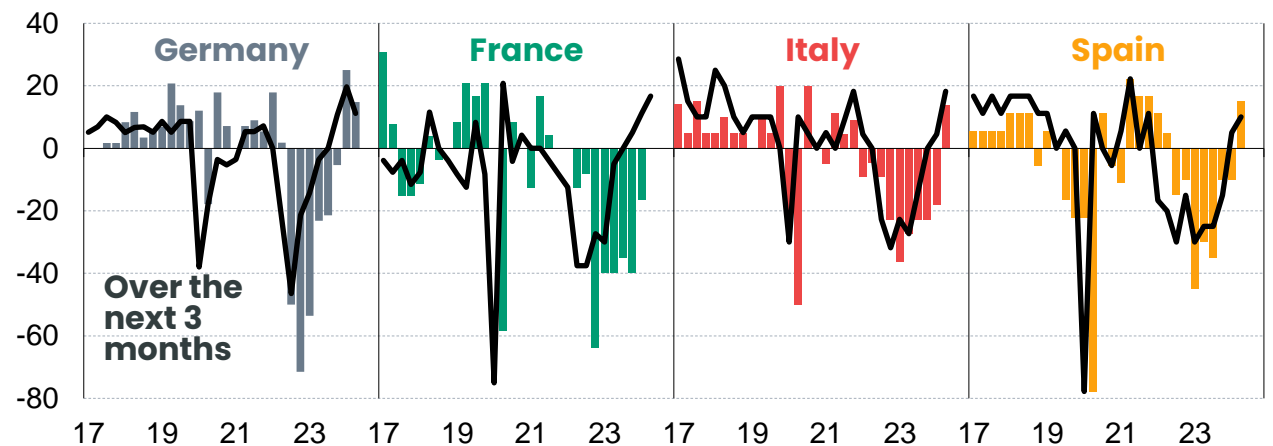
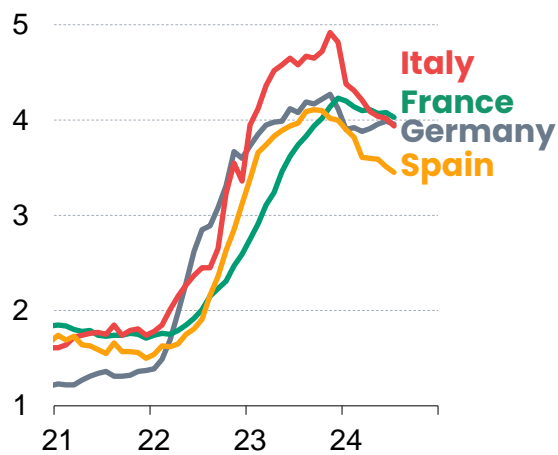
**Changes in credit standards for house purchase loans**  
(net % of banks reporting a tightening of credit standards)



**House purchase loans demand**  
(net %)



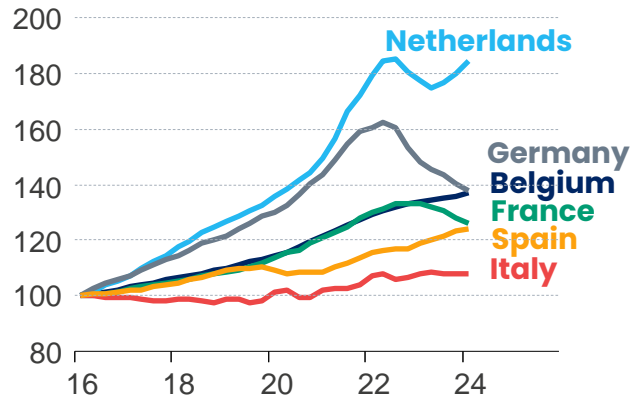
**Mortgage interest rates**  
(%, new business)



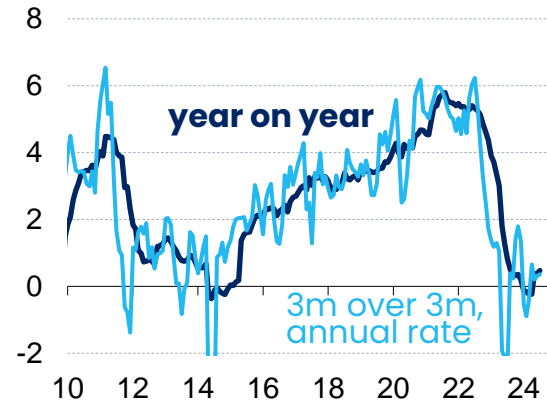


# ... but impaired affordability should prevent a strong rebound in residential investment

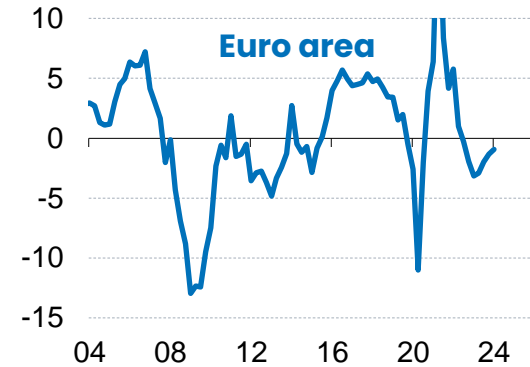
**Home prices**  
(2016 Q1 = 100, nominal)



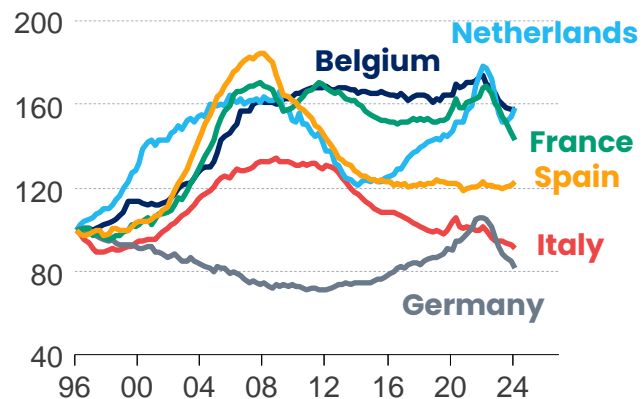
**Loans for house purchase**  
(%)



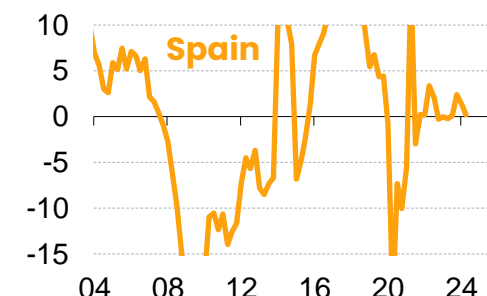
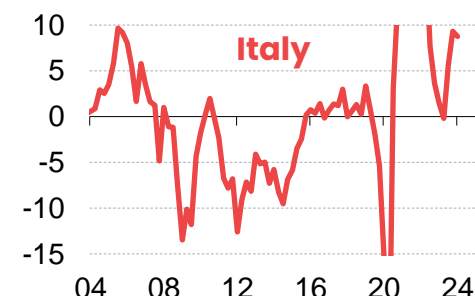
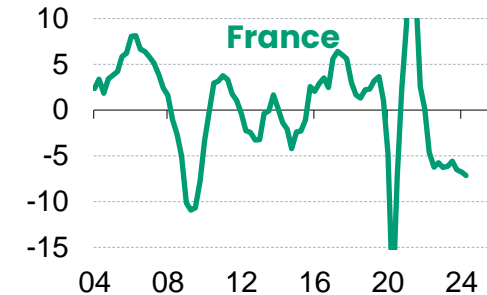
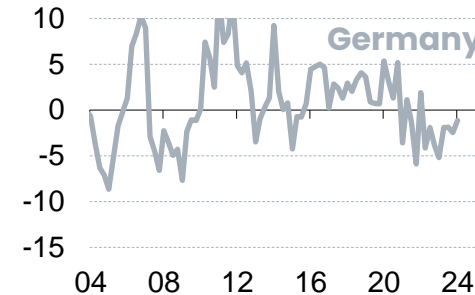
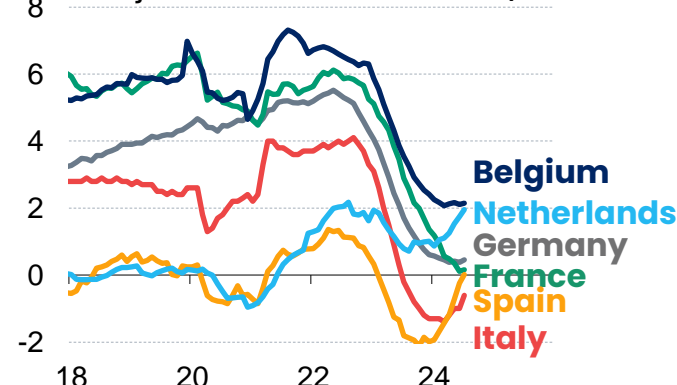
**Residential investment**  
(% year on year, volume)



**Home prices to income ratio**  
(1996 Q1 = 100)

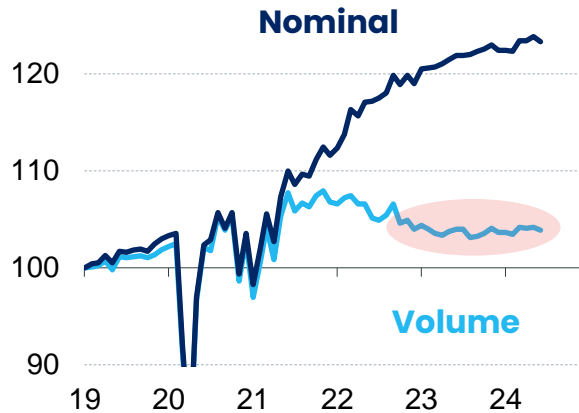


**Total loans to households**  
(% year on year, adjusted for securitization)

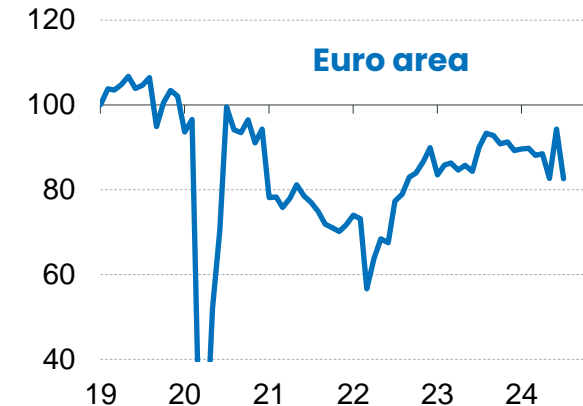


# So far, consumption has progressed timidly!

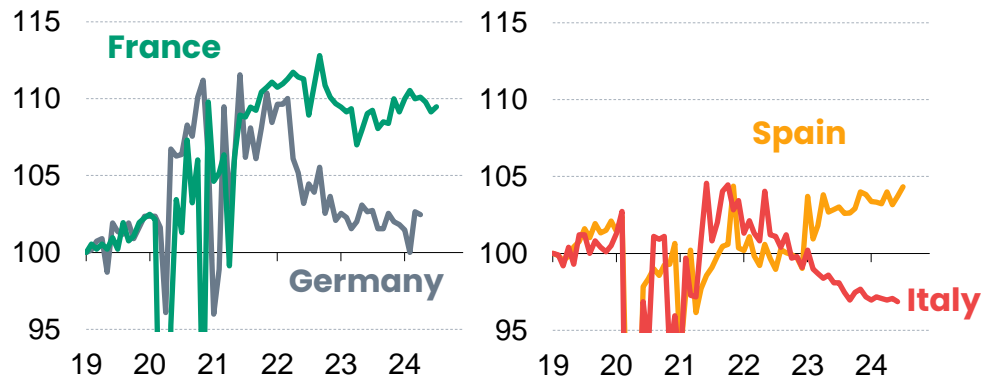
**Euro area retail sales**  
(January 2019 = 100, ex motor vehicles)



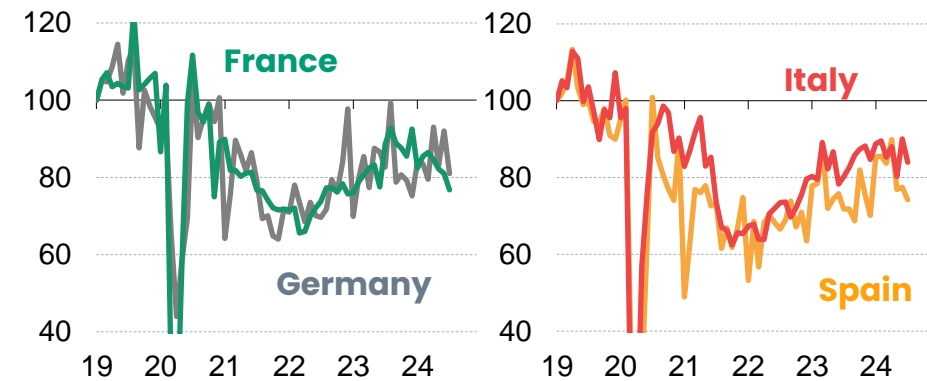
**New car registrations**  
(January 2019 = 100)



**By country**  
(volume)

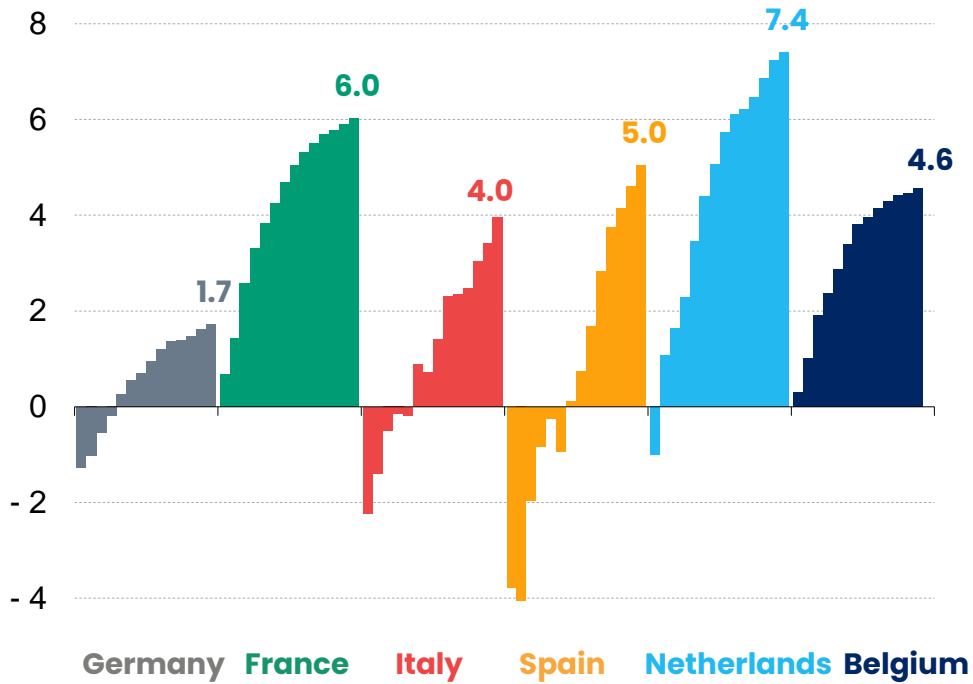


**By country**



# Employment is gradually levelling off

**Cumulated employment growth since Q4 2019**  
(%, 2021 Q1 – 2024 Q2)



**Employment**  
(end of 2019 = 100)



**Employment and firms' expectations**



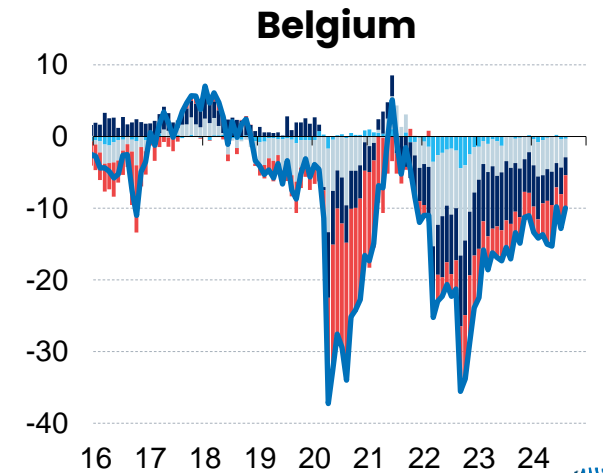
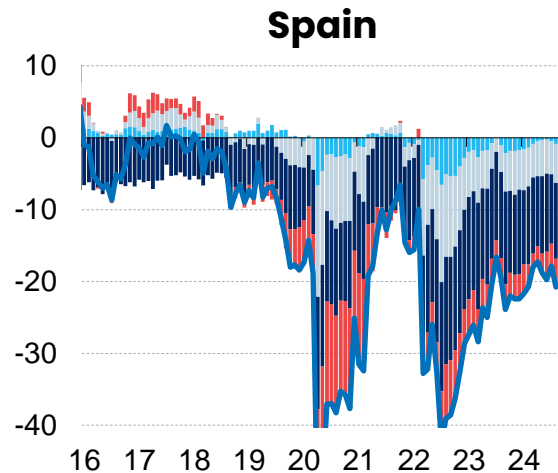
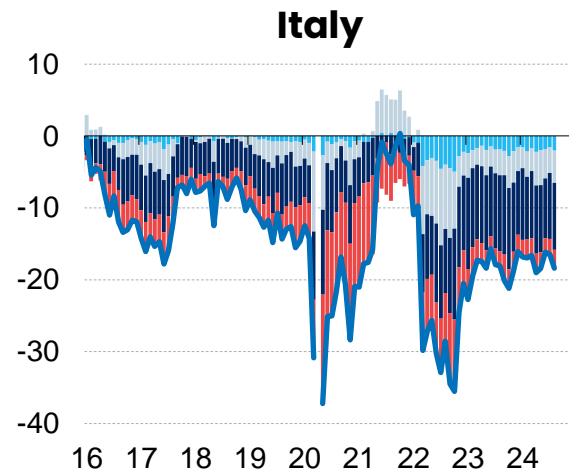
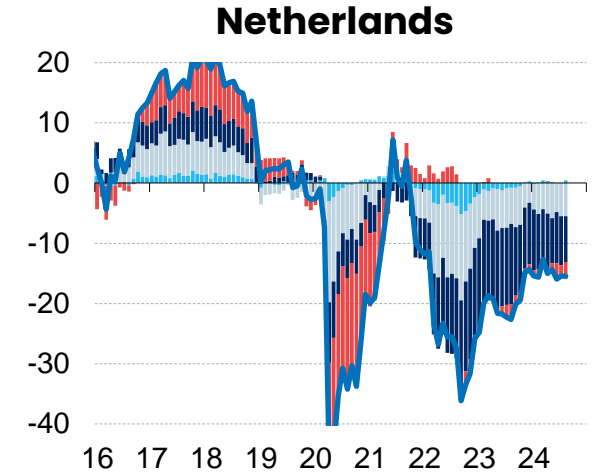
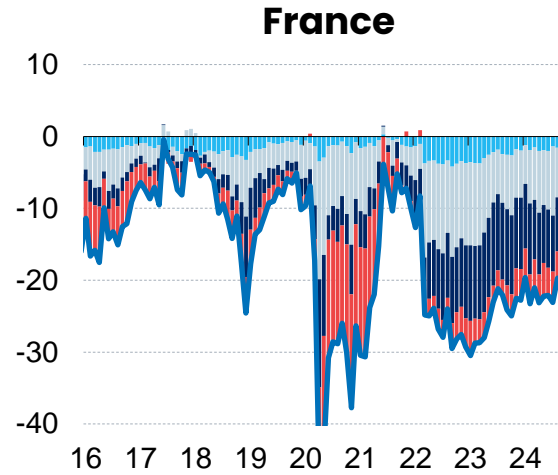
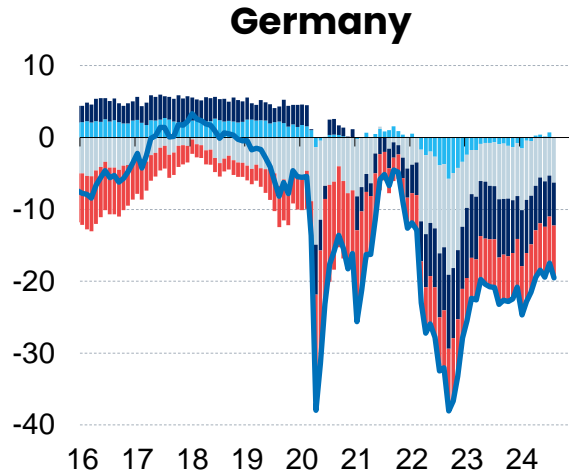
# Consumer confidence is only halfway back to its pre-covid level

## Consumer confidence by country

### Consumer confidence in the Euro area

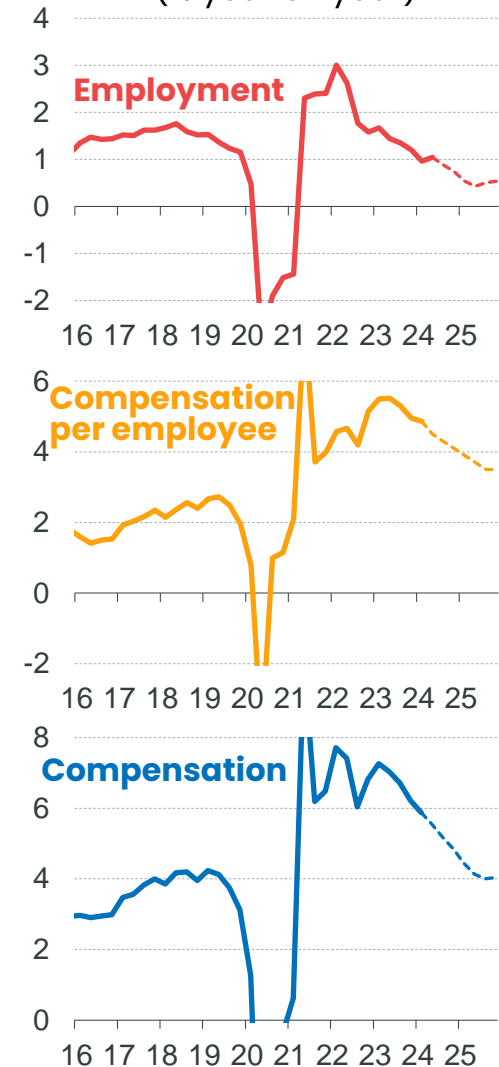


(\*) Next 12 months

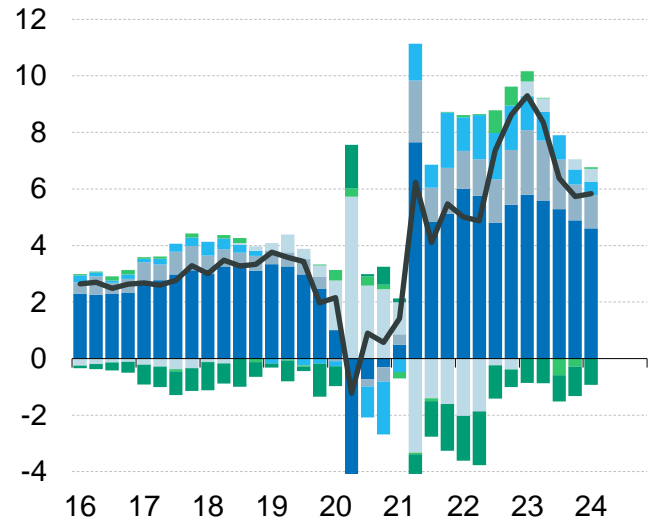


# Still, *real* disposable income growth should now allow consumption to grow moderately...

(% year on year)

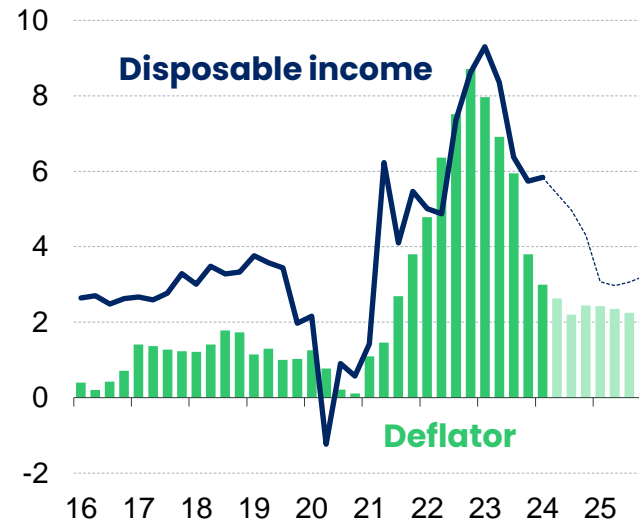


**Disposable income**  
(% year on year contribution)

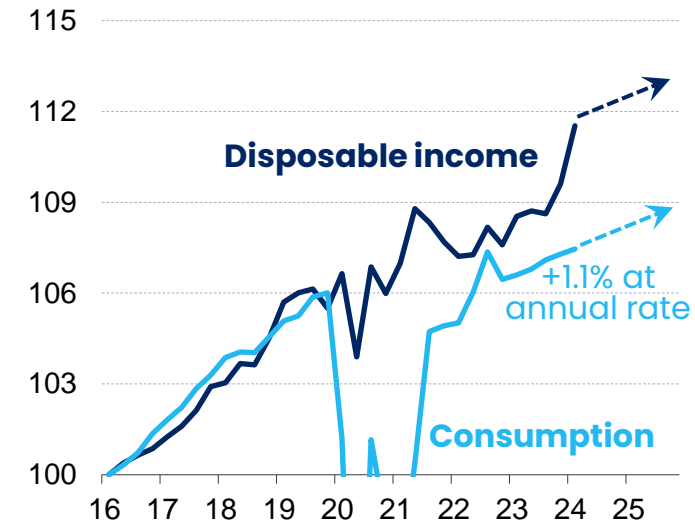


- Compensation
- Gross operating surplus
- Property income
- Net social contributions & benefits
- Current transfers
- Income taxes (-)

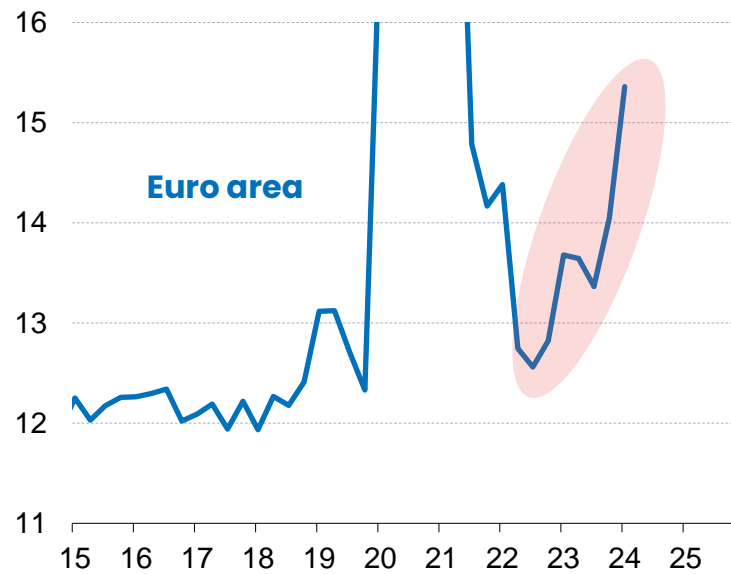
**Disposable income and consumption deflator**  
(% year on year)



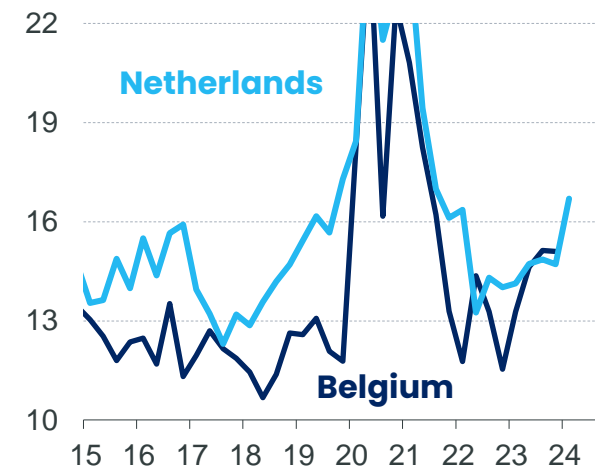
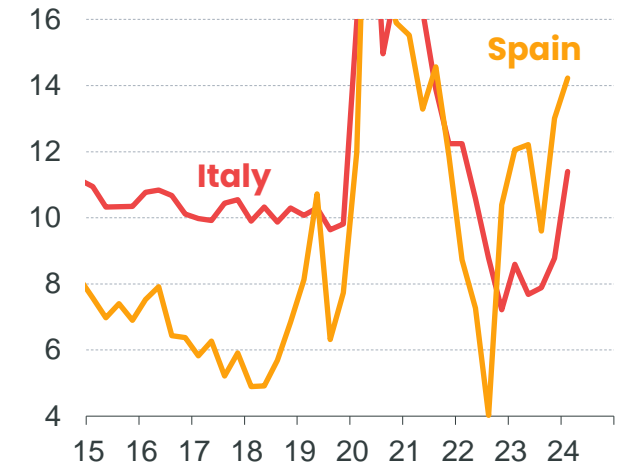
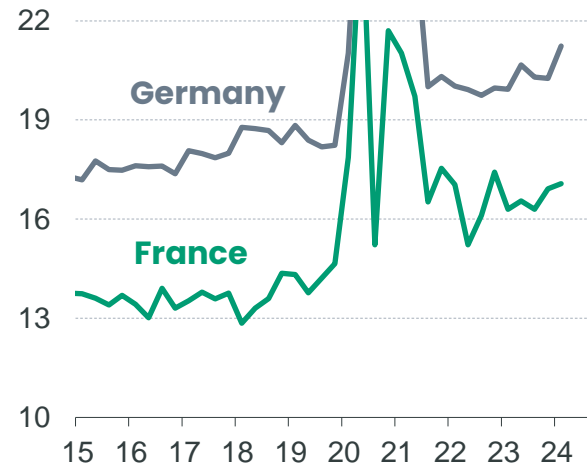
**Real disposable income and consumption**  
(2016 Q1 = 100)



# ... even without the saving rate falling back to more usual levels



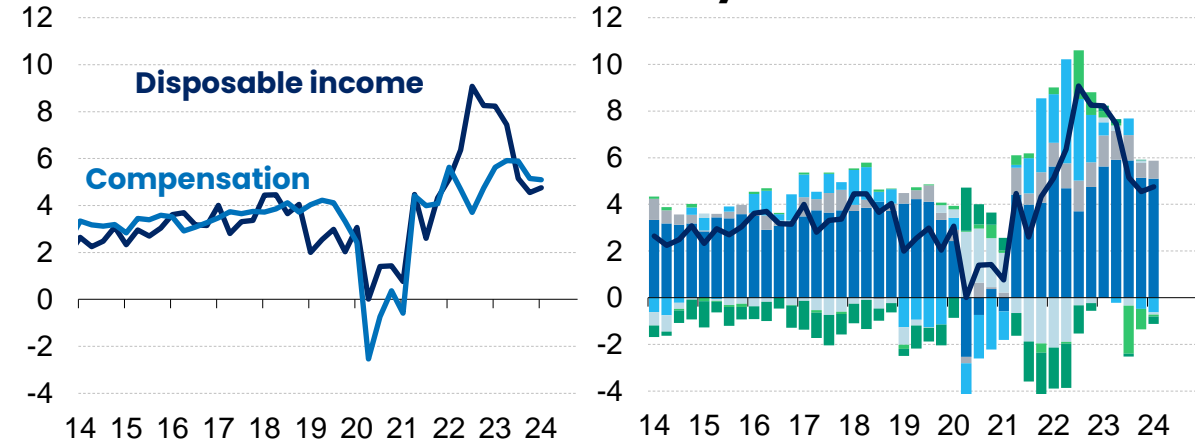
## Saving rates (%)



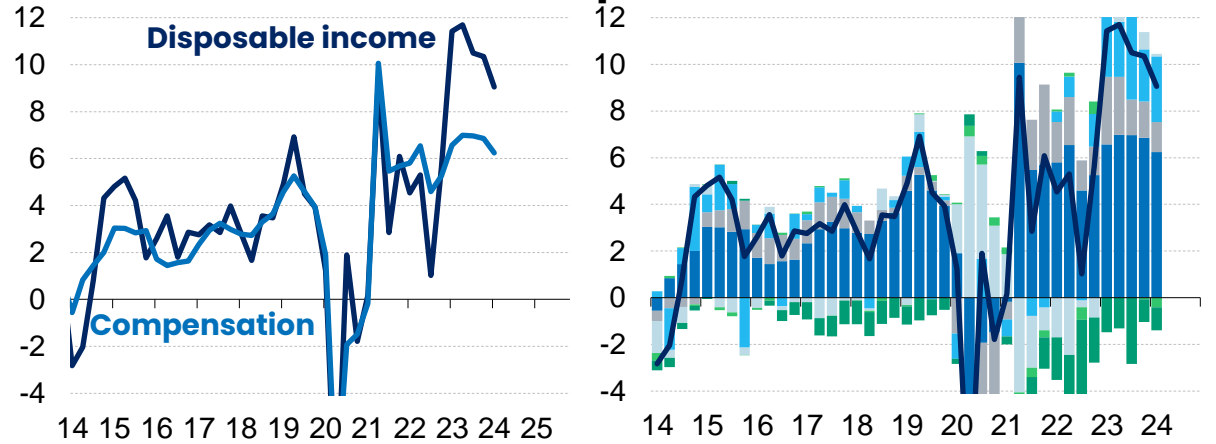
# Memo. Disposable income by country (I)

## Disposable income (% year on year contribution)

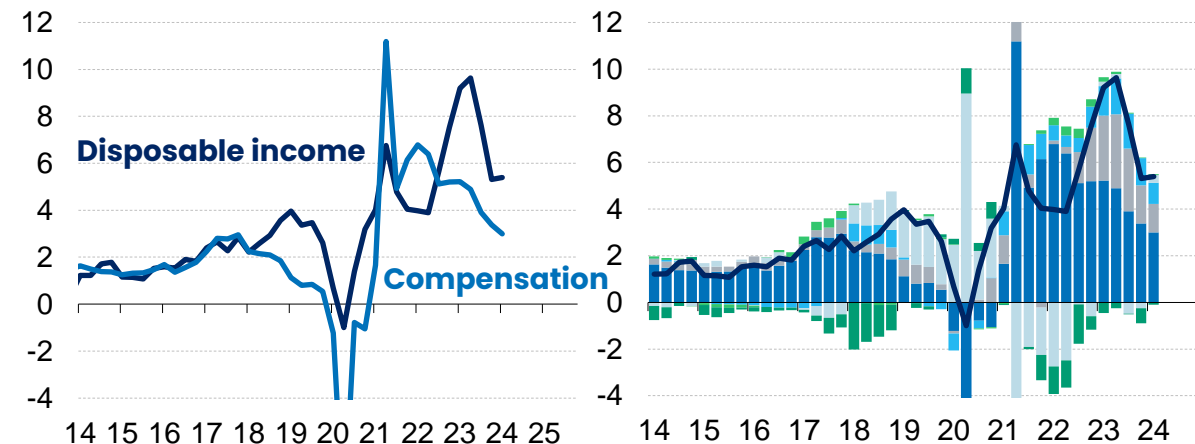
### Germany



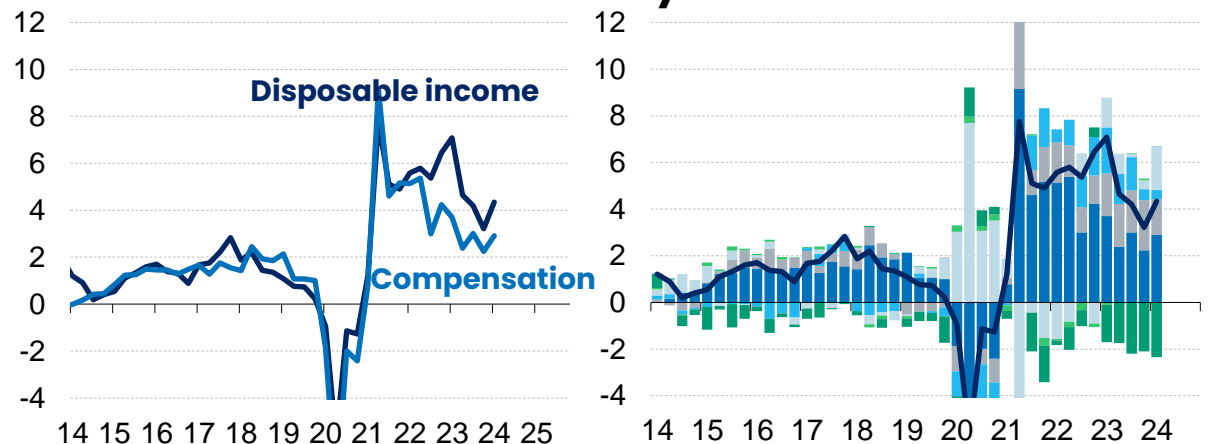
### Spain



### France



### Italy

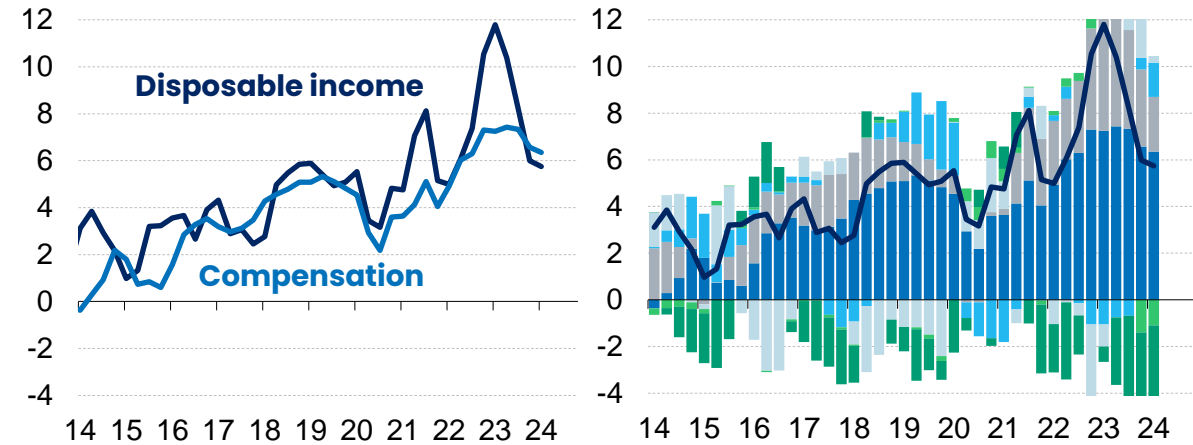




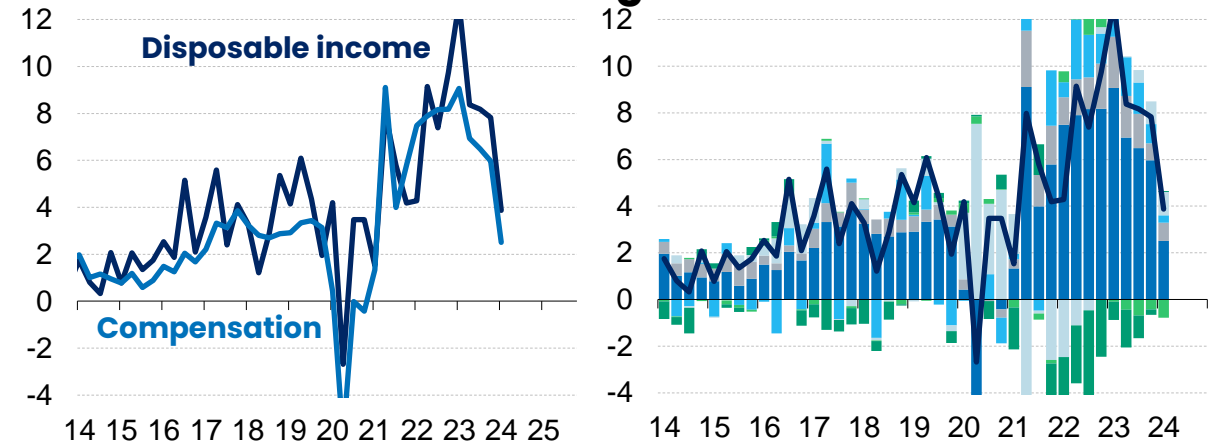
# Memo. Disposable income by country (II)

## Disposable income (% year on year contribution)

### Netherlands



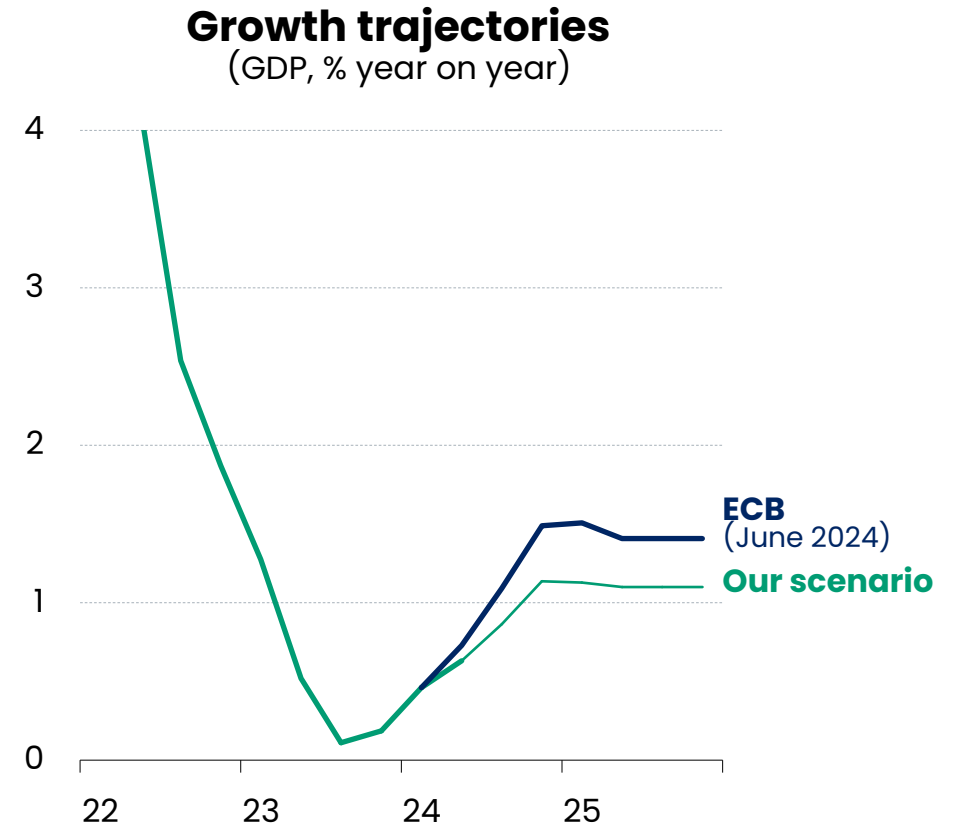
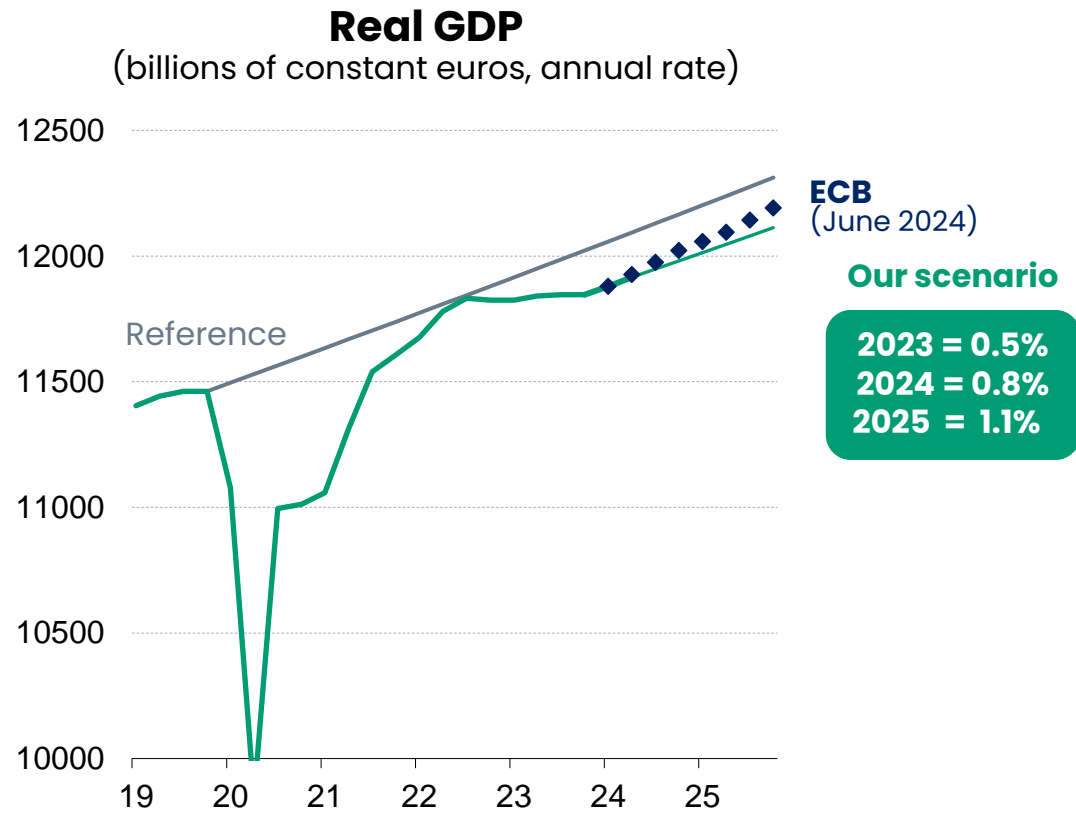
### Belgium



- Compensation
- Gross operating surplus
- Property income
- Net social contributions & benefits
- Current transfers
- Income taxes (-)

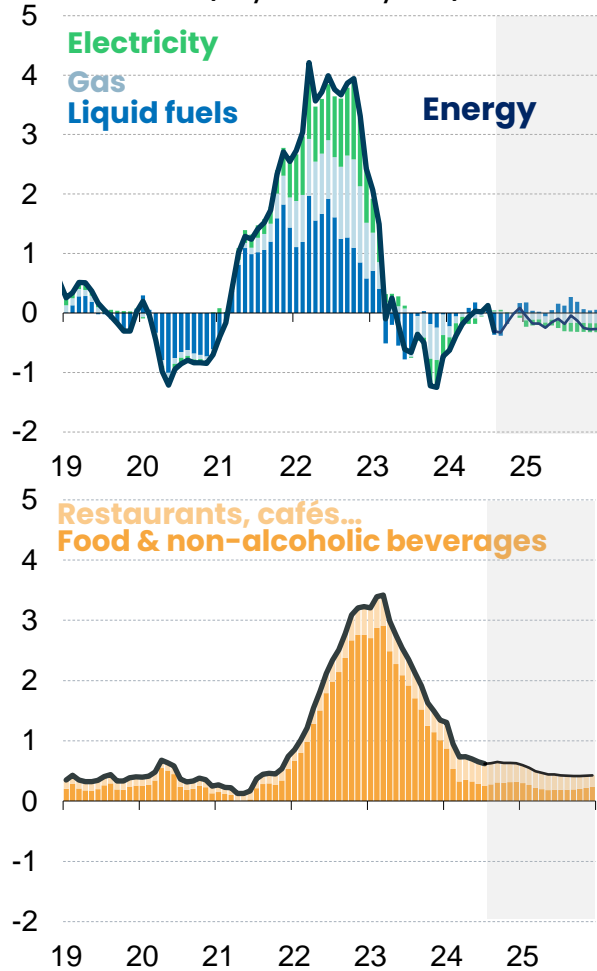


# All in all, Euro area growth should remain around 1% in 2025

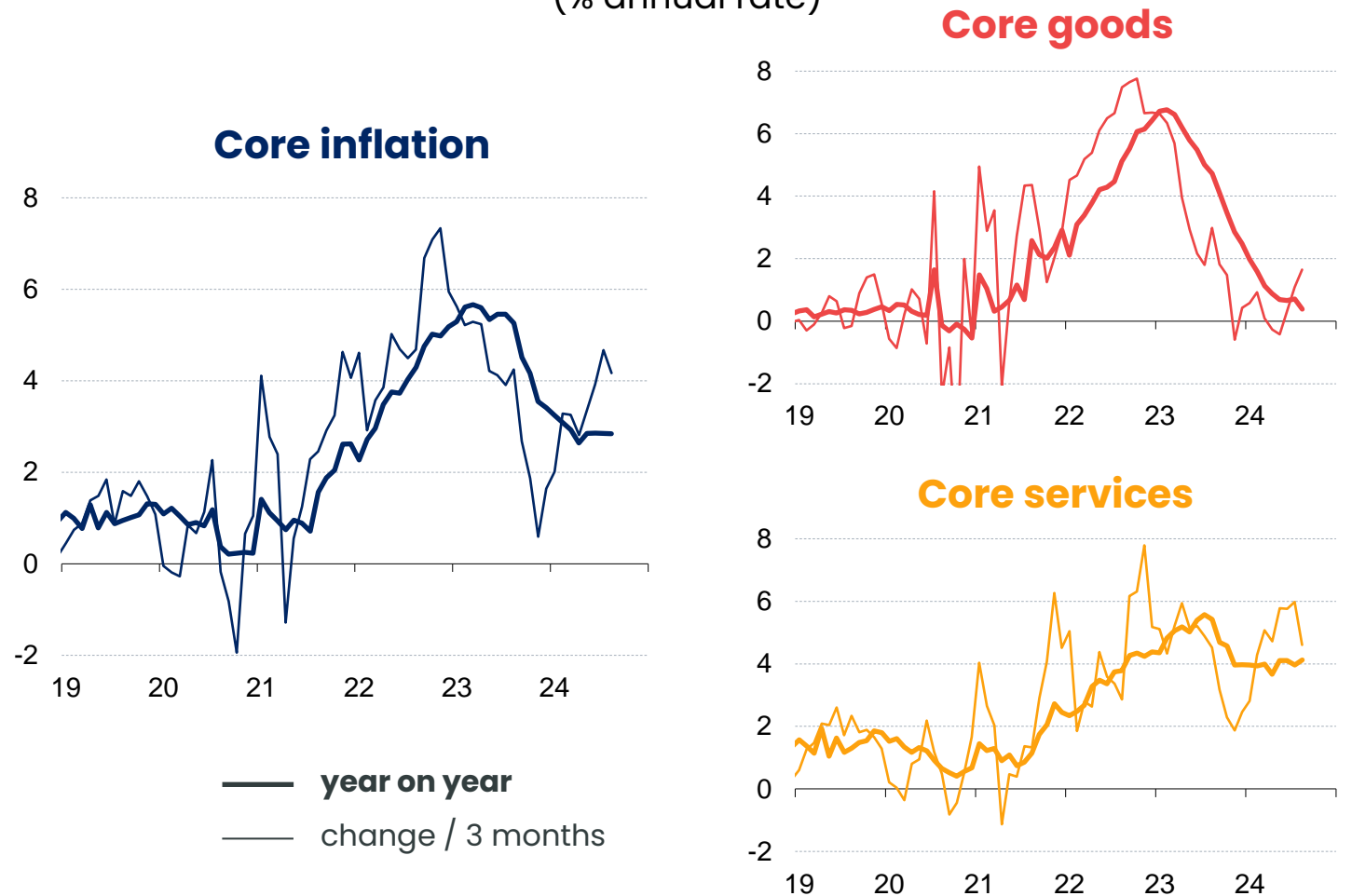


# The problem for the ECB is that core services inflation is still too high...

**Contribution to inflation**  
(% year on year)



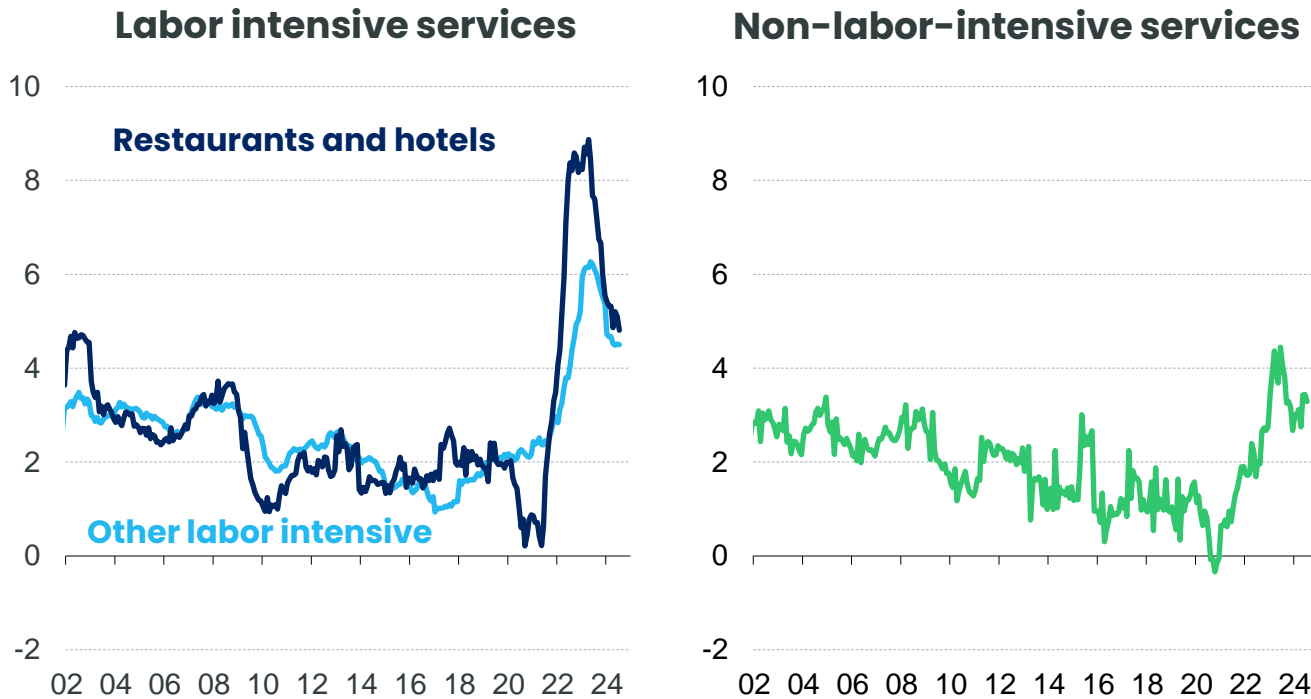
**Core CPI inflation**  
(% annual rate)



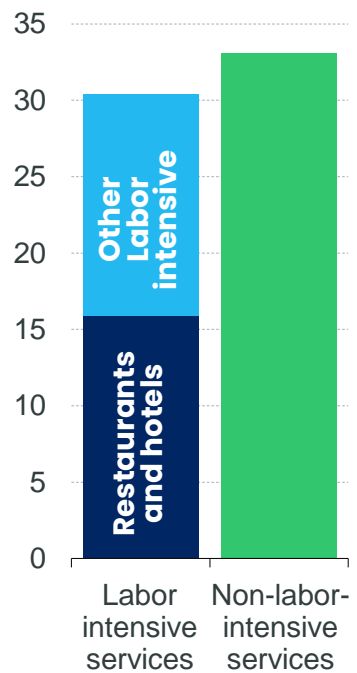
# ... especially in labor-intensive services

## Core services CPI

(% year on year)



(% share in core CPI)



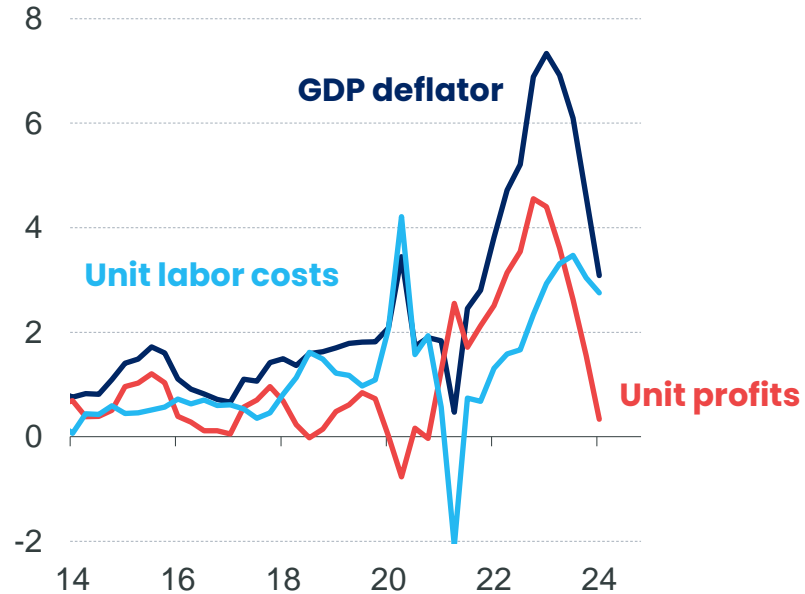
## Services selling price expectations

(over the next 3 months, diffusion index, EC business survey)

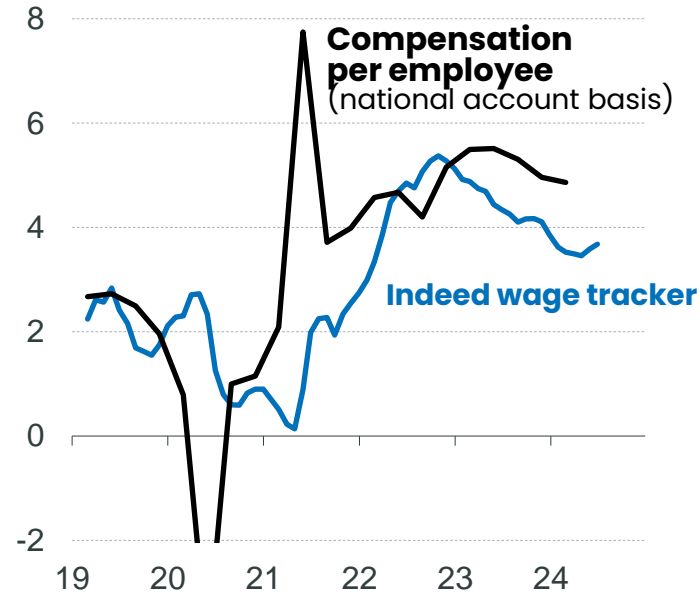


# As emphasized by C. Lagarde, wages, profits and productivity could all contribute to lower domestic price pressures

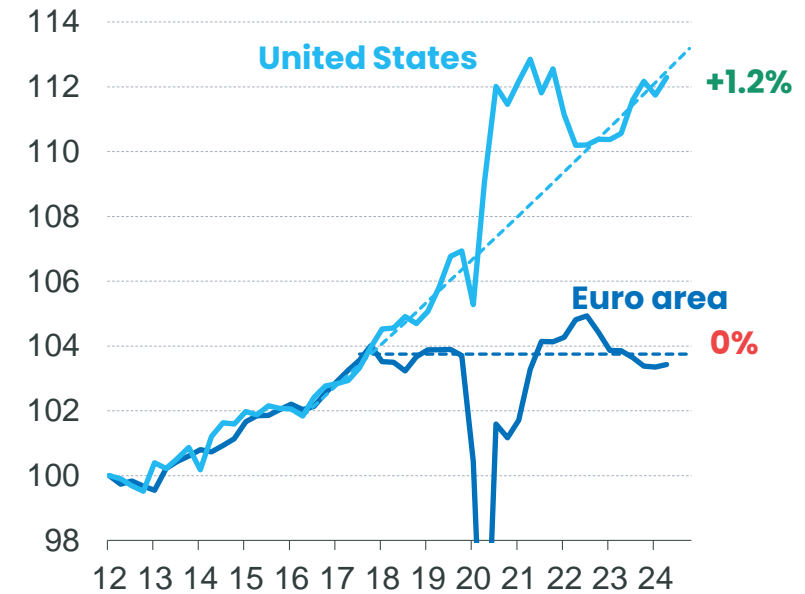
**Contribution to the GDP deflator**  
(% year on year)



**Compensation per employee**  
(% year on year)



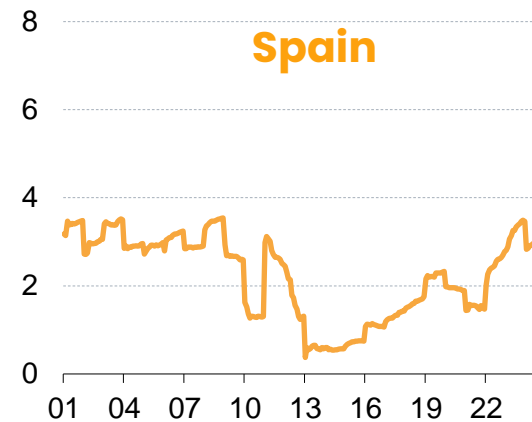
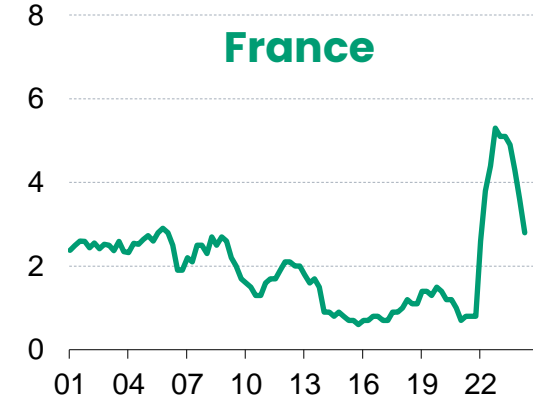
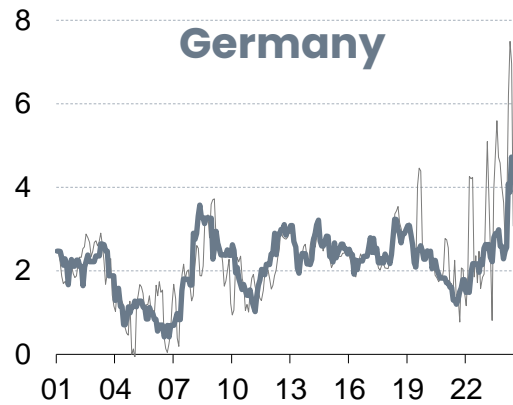
**Real GDP per employee**  
(2012 Q1 = 100)



# Given the resilience in wage increases...

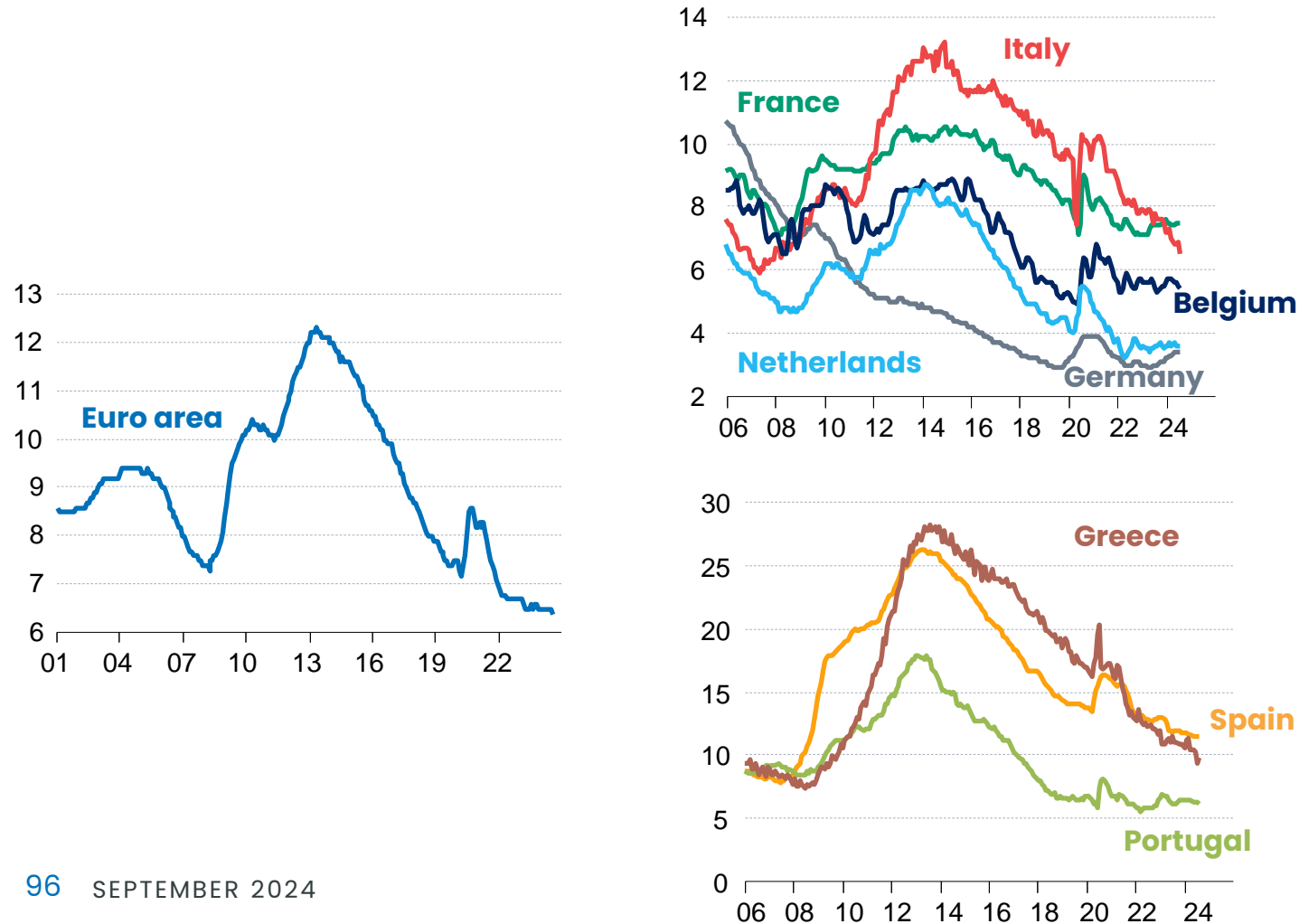


## Negotiated wages (% year on year)

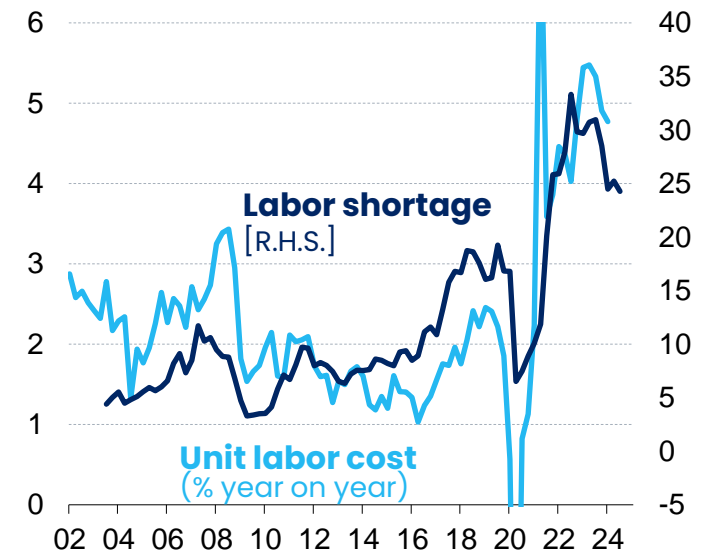


# ... and the tightness in the labor market...

## Unemployment rate in the euro area (%)



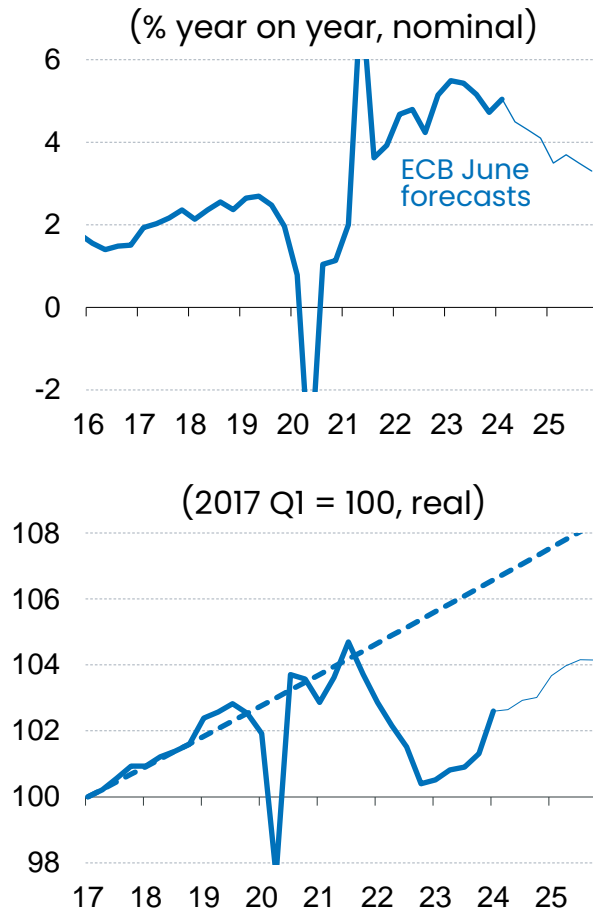
## Labor shortage and unit labor cost



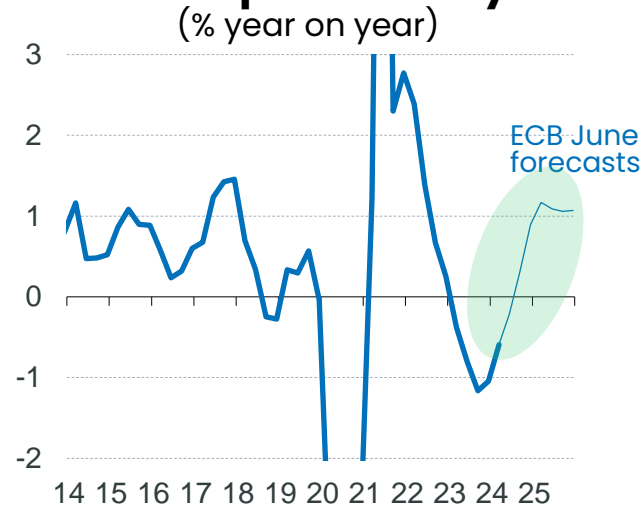


# ... the ECB is clearly betting on a rise in productivity driven by accelerating growth!

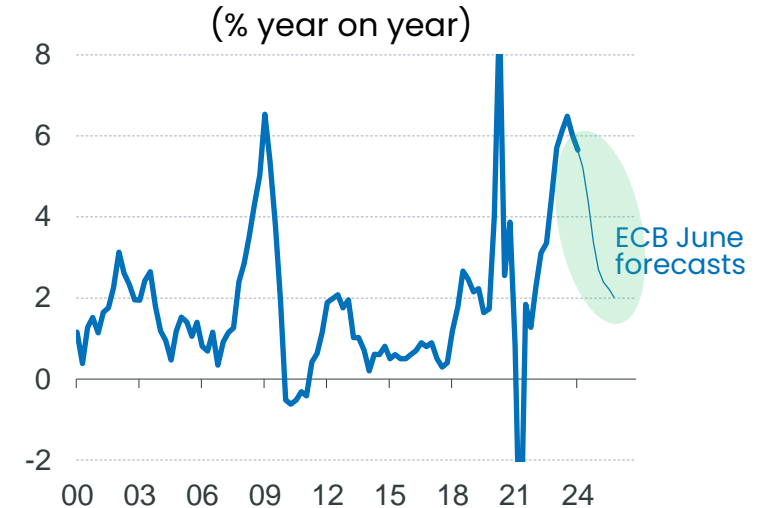
## Compensation per employee



## Labor productivity

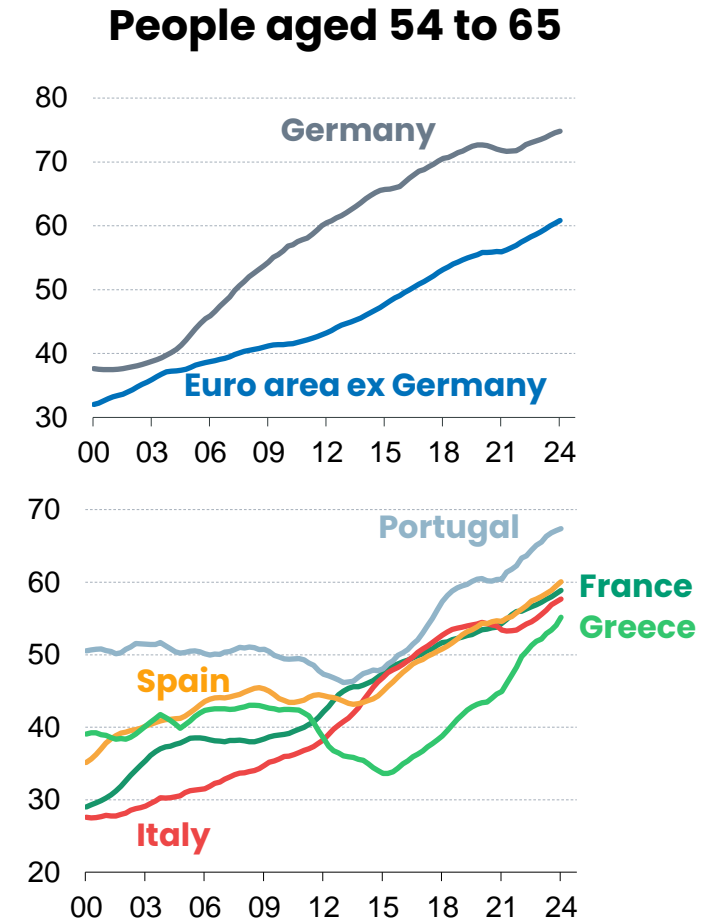
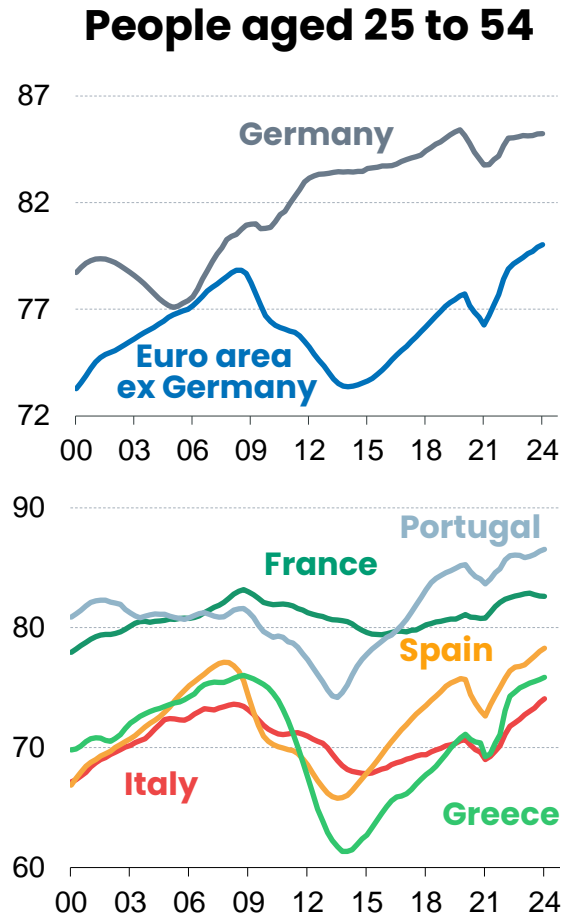
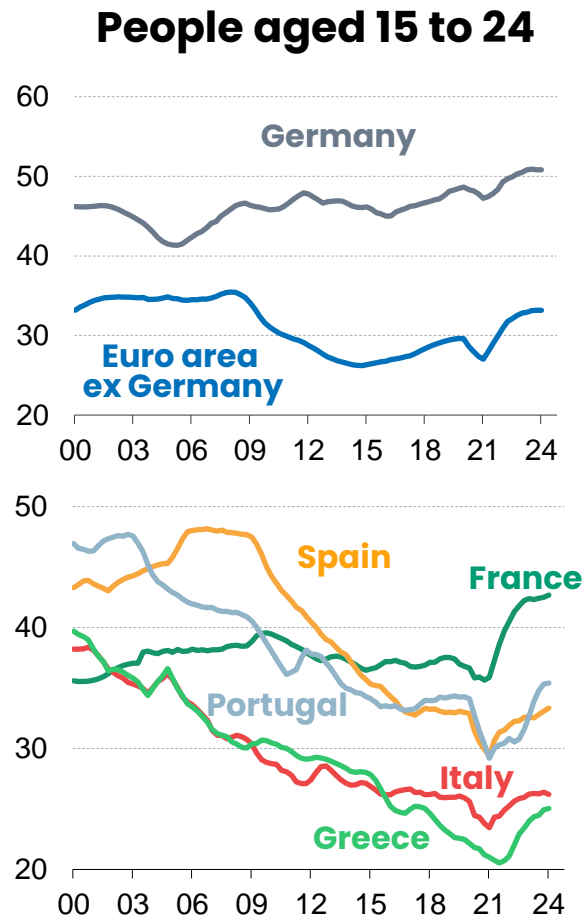


## Unit labor cost



# Memo. Employment rates in most euro countries are catching up with the elevated German levels

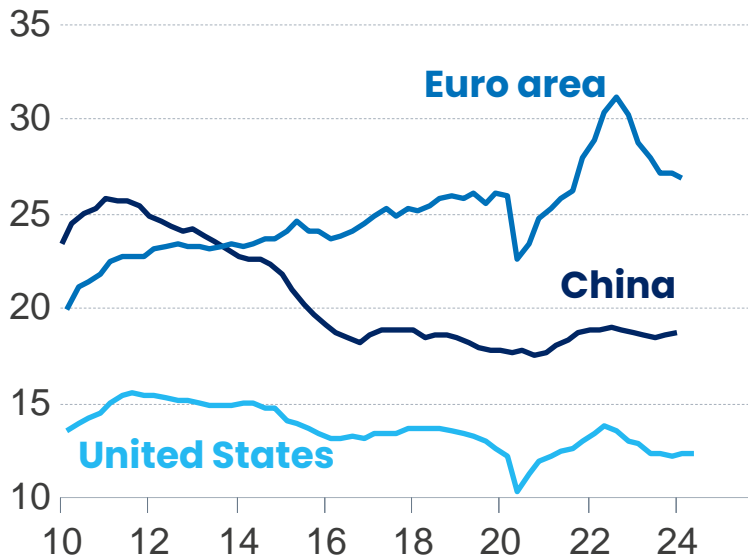
**Employment rates**  
(%, smoothed over 4 quarters)



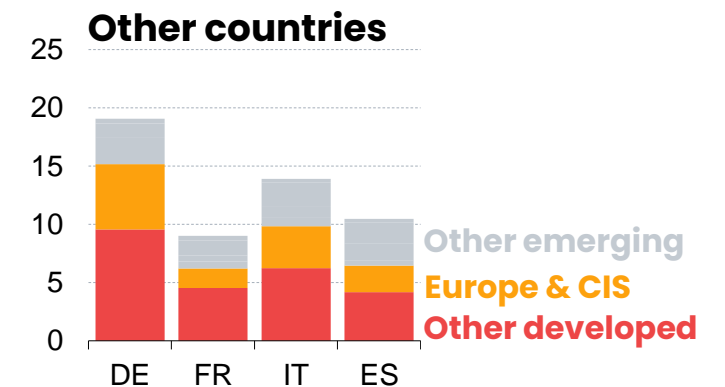
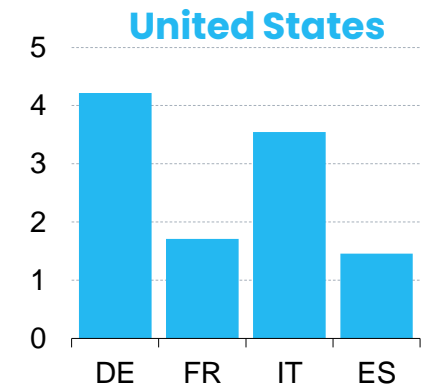
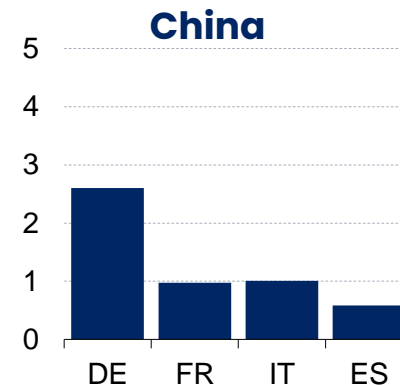
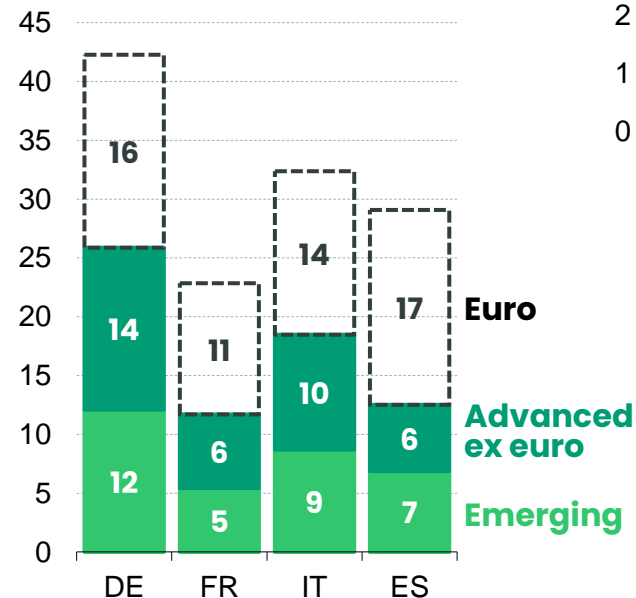
# However, the eurozone is highly open to trade and vulnerable to a slowdown in global growth...

## Euro area countries exports of goods by region (% of GDP, 2023)

### Trade openness\* (% of GDP, 4Q moving average)



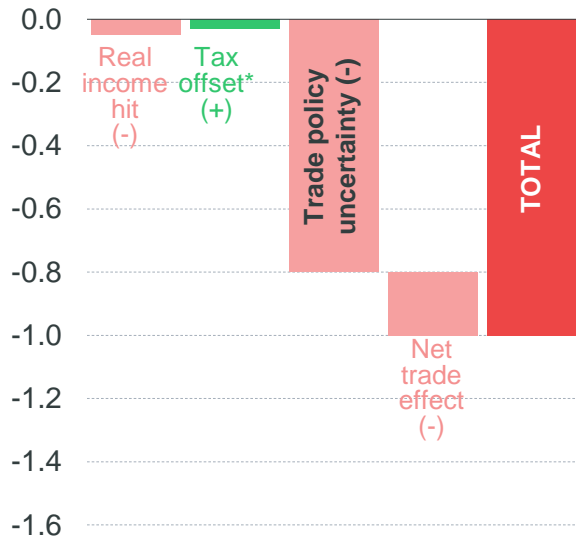
(\*) Measured as the half sum of exports and imports to GDP



# ... which could be triggered by a “Hard Trump” scenario

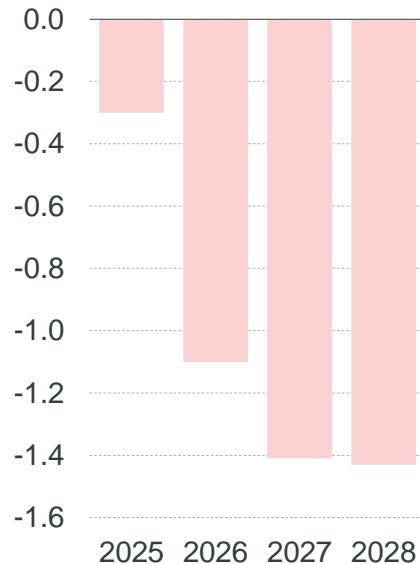
## Some estimate of the impact of a trade war with the US

**Impact of US 10% tariff on euro area GDP**  
(assuming full retaliation, Goldman Sachs estimate)



(\*) Tariff revenue is fully recycled into tax cuts.

**Impact of US tariff increases on German GDP**  
(deviation from baseline, IW estimate)

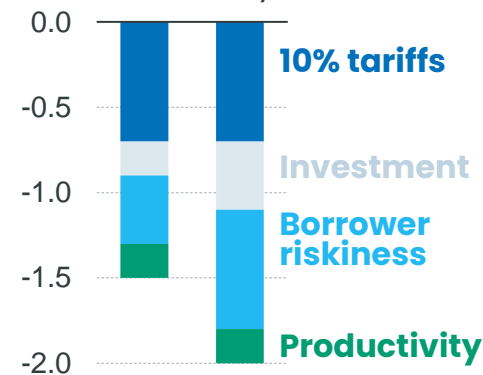


Assuming US levies a 10 per cent tariff on all trading partners' imports (except China) and a 60 per cent tariff on US imports from China, which equals a tariff increase of 40 percentage points. China retaliates by increasing its tariff on US imports by 40 percentage points.

## Impact of 1% lower world growth using our macro model (%)

	Euro area	DE	FR	IT	ES
China	-0.1	-0.1	0.0	-0.1	0.0
RoW	-0.6	-0.8	-0.4	-0.6	-0.4
<b>Total</b>	<b>-0.7</b>	-0.9	-0.4	-0.6	-0.4

Overall effects of a trade war on world GDP after 1 year\*



**1% lower world growth would weaken growth in the euro area by 0.7%.**

**This would likely push the euro area in recession territory.**

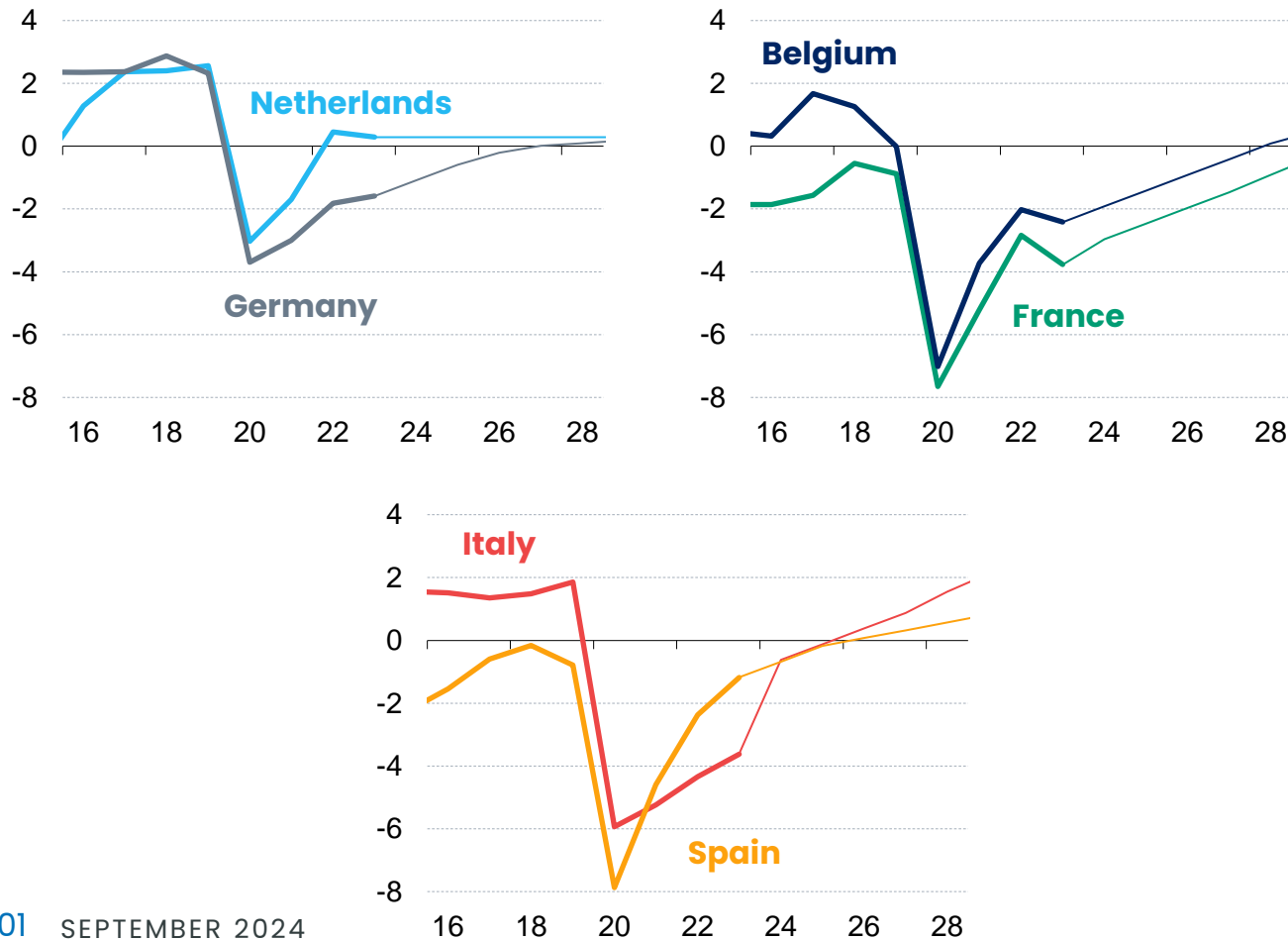
**The ECB would cut rates more than in our baseline and the euro would weaken against the dollar.**

(\*) Costs and consequences of a trade war: a structural analysis, Bank of France

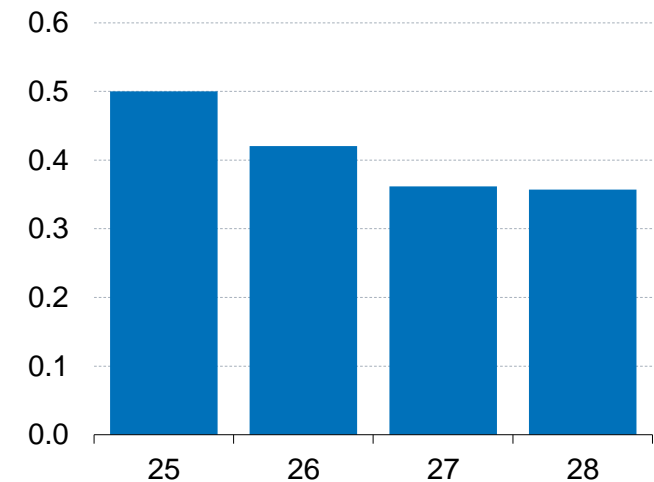


# The implementation of the new fiscal rules is another downside risk to euro area growth...

**Primary balance**  
(% of GDP)



**Euro area\* fiscal rebalancing effort**  
(% of GDP)

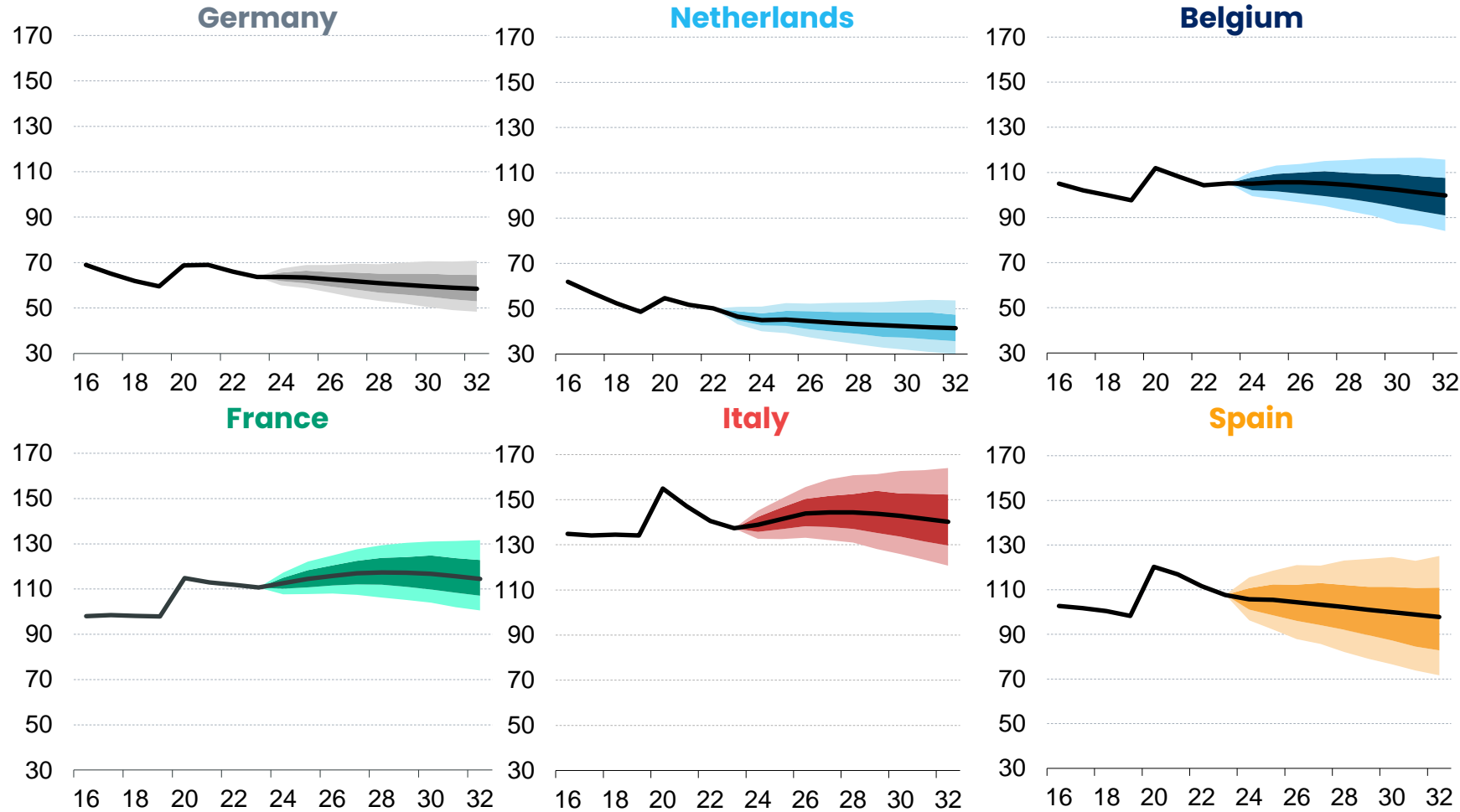


(\* ) Germany, France, Italy, Spain, Belgium

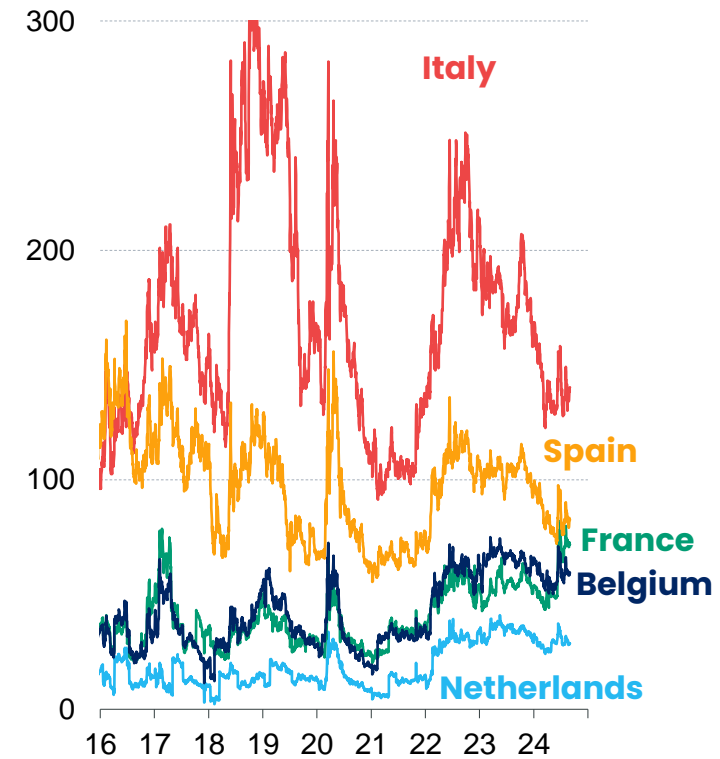


# ... especially if markets consider some countries under excessive deficit procedures as unable to comply!

**General government gross debt**  
(% of GDP)

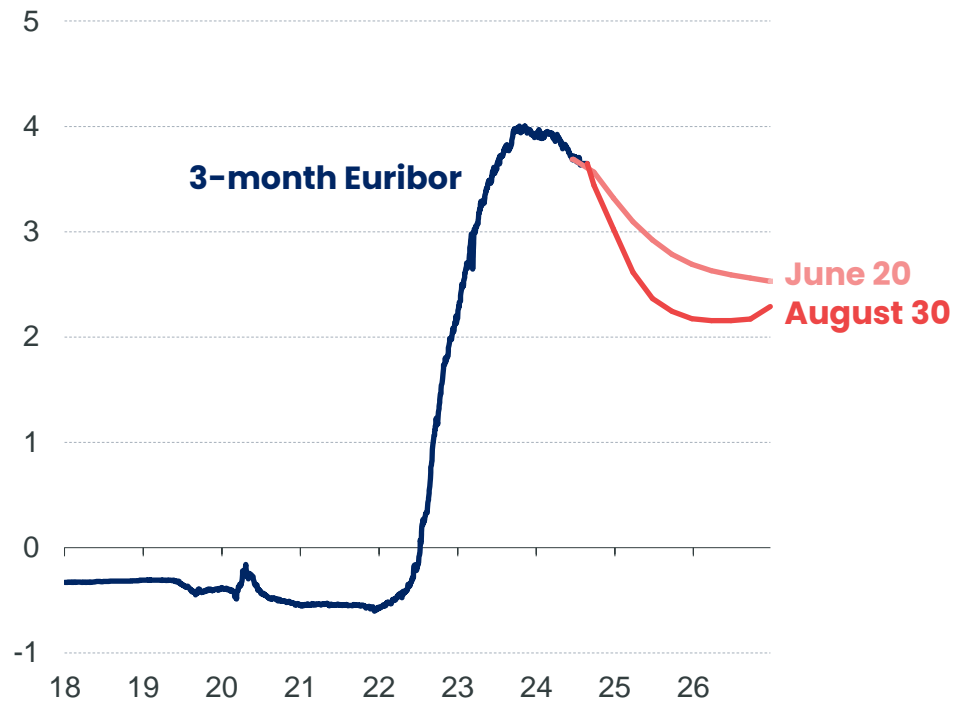


**10-year sovereign spread**  
(basis point)



# Upside risks to inflation and downside risks to growth will force the ECB to be data-dependent and event-driven

## ECB interest rate expectations (%)



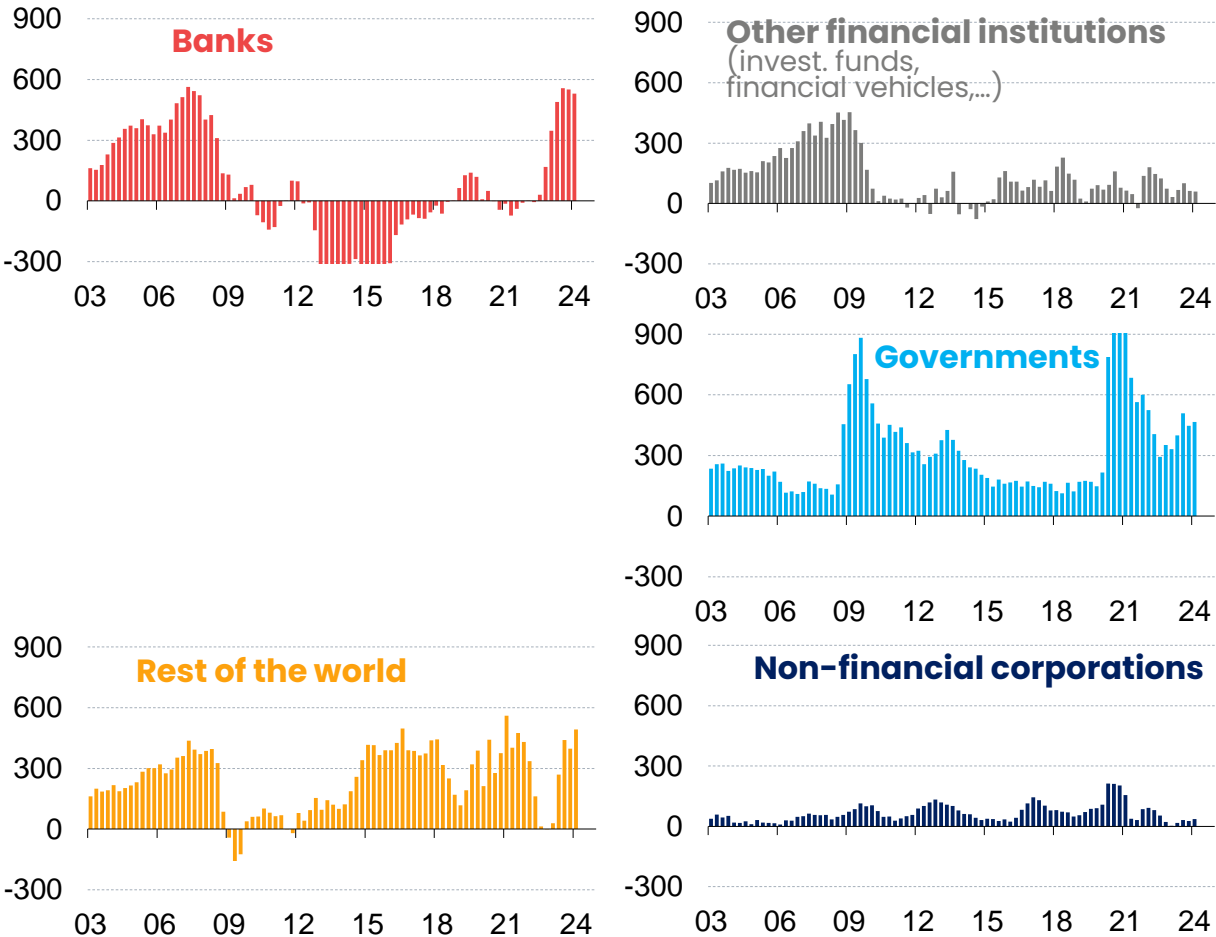
## German 10-year interest rate & expected 3-month rate (%)



# Memo. Bond market equilibrium

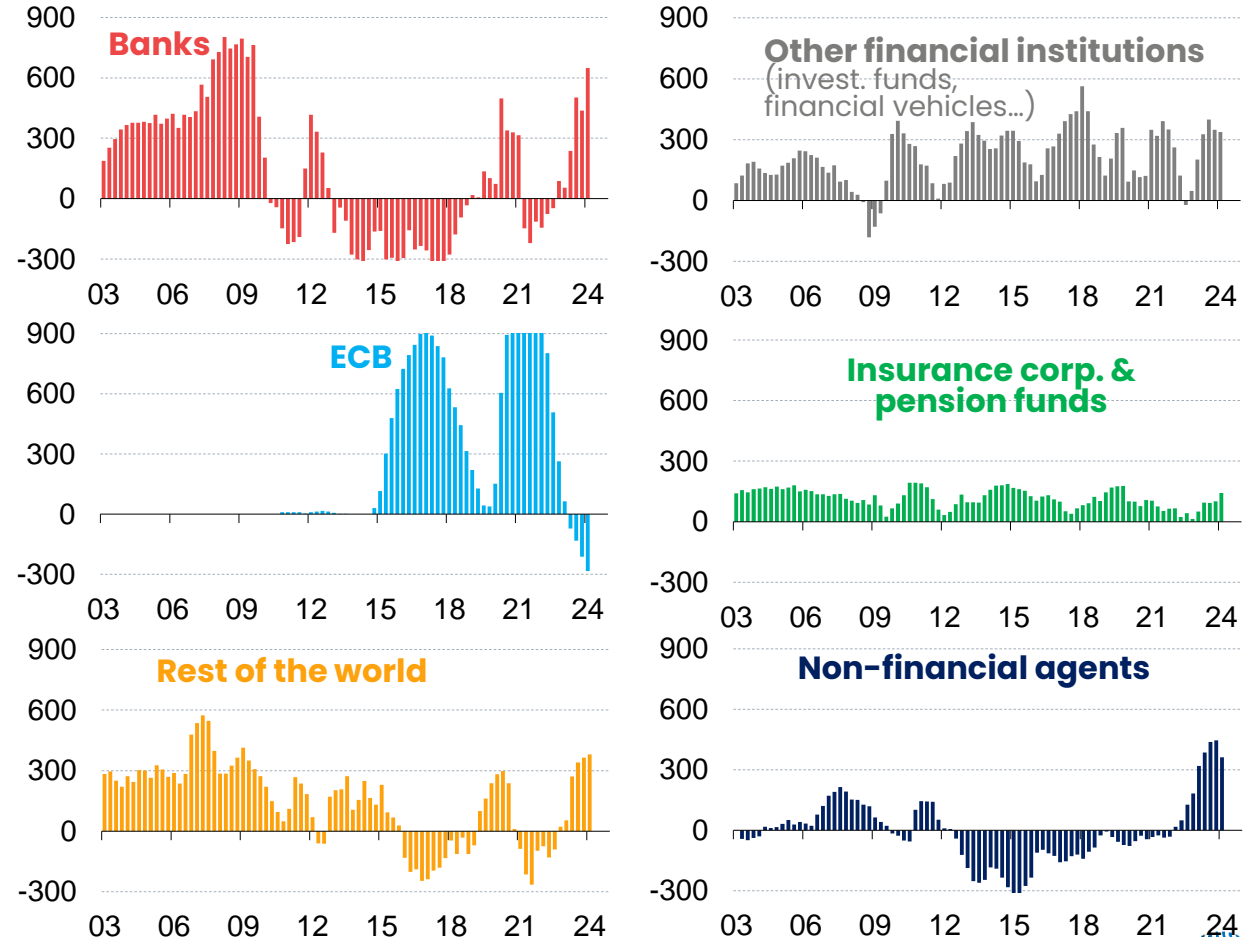
## Net suppliers of debt securities

(€ billion, moving average over 4Q, annual rate)



## Net buyers of debt securities

(€ billion, moving average over 4Q, annual rate)







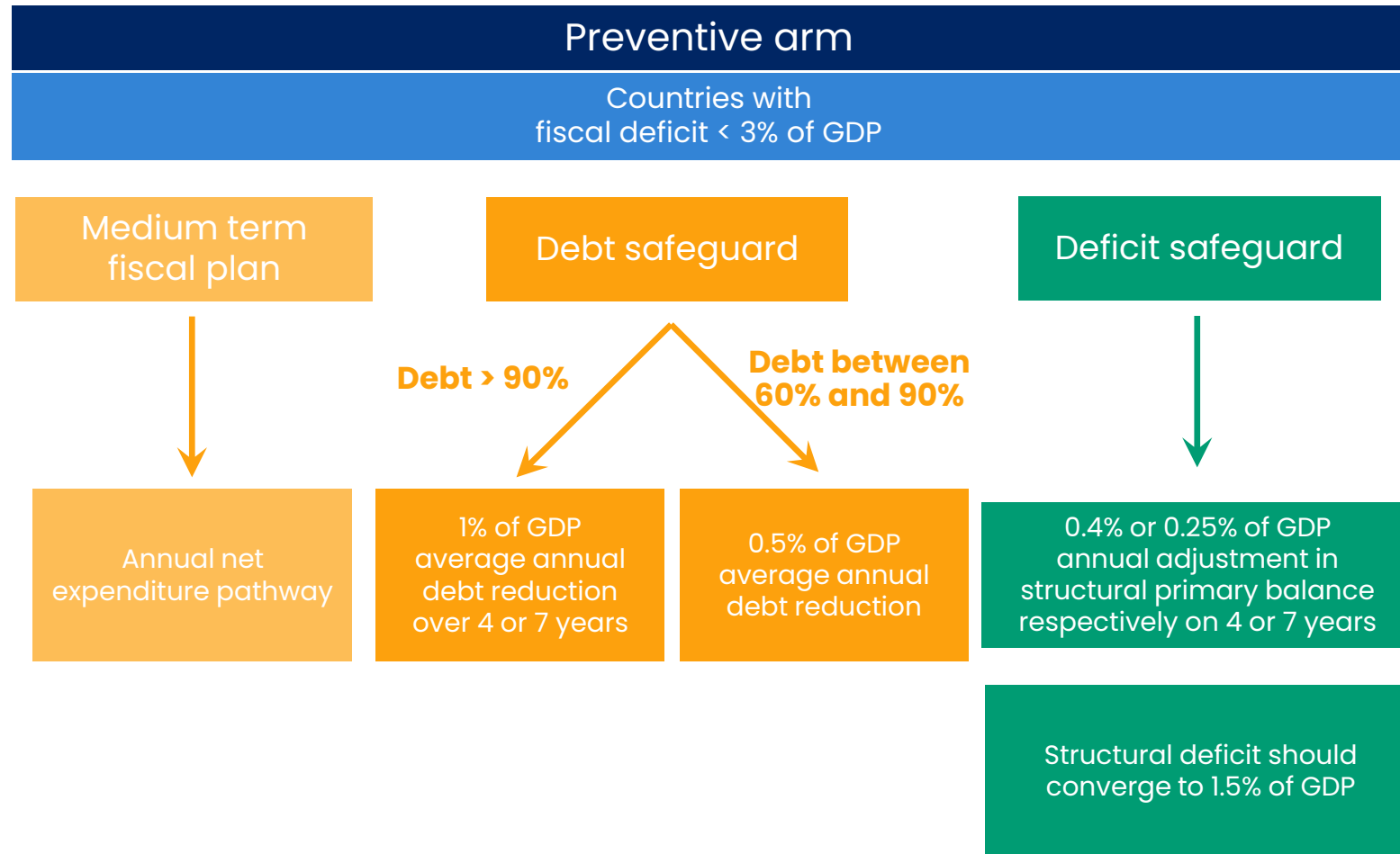
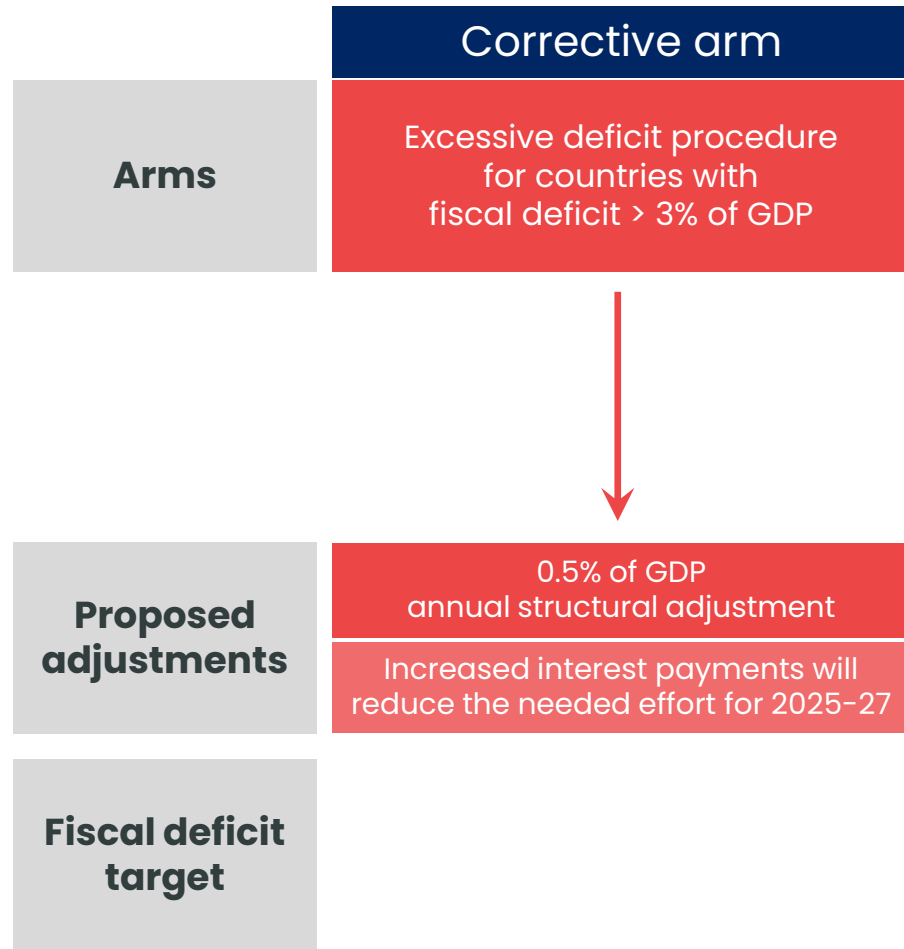
# Focus

## The new fiscal rules



# New fiscal rules are now in place

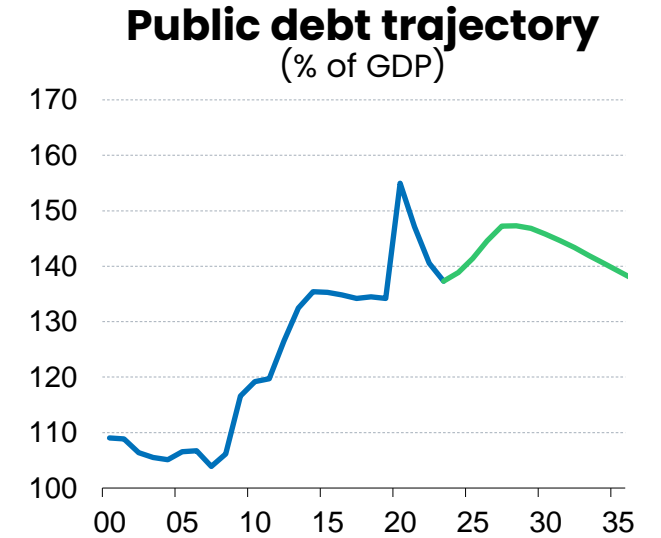
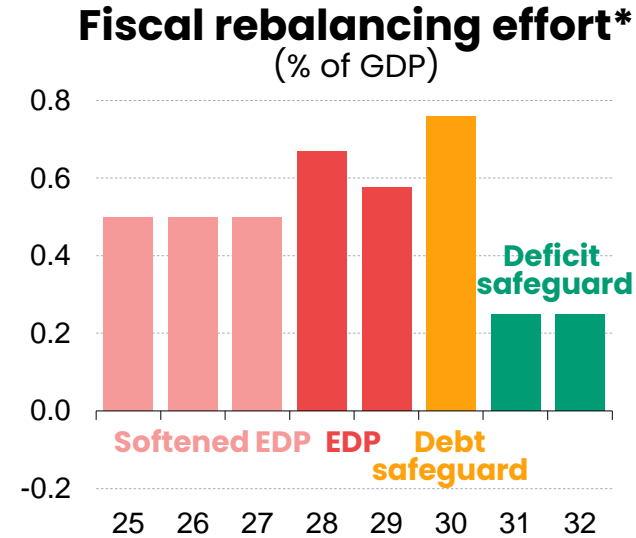
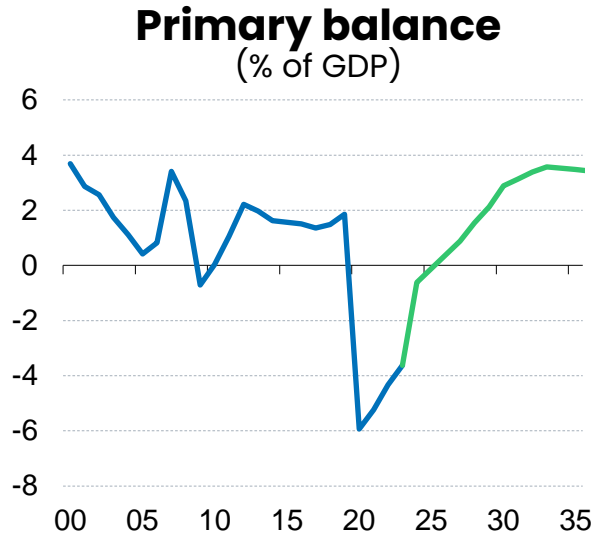
## The new EU fiscal rules



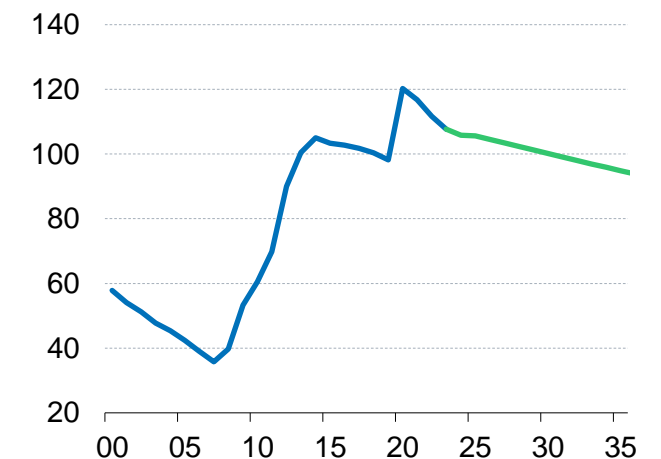
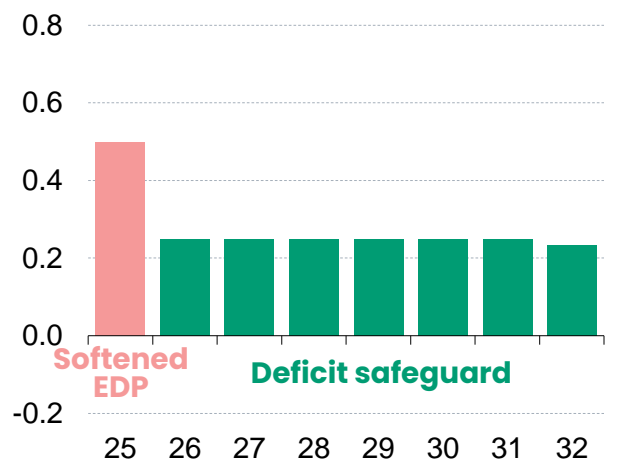
# The new rules remain complex

## What if the new fiscal rules are implemented?

### The case of Italy



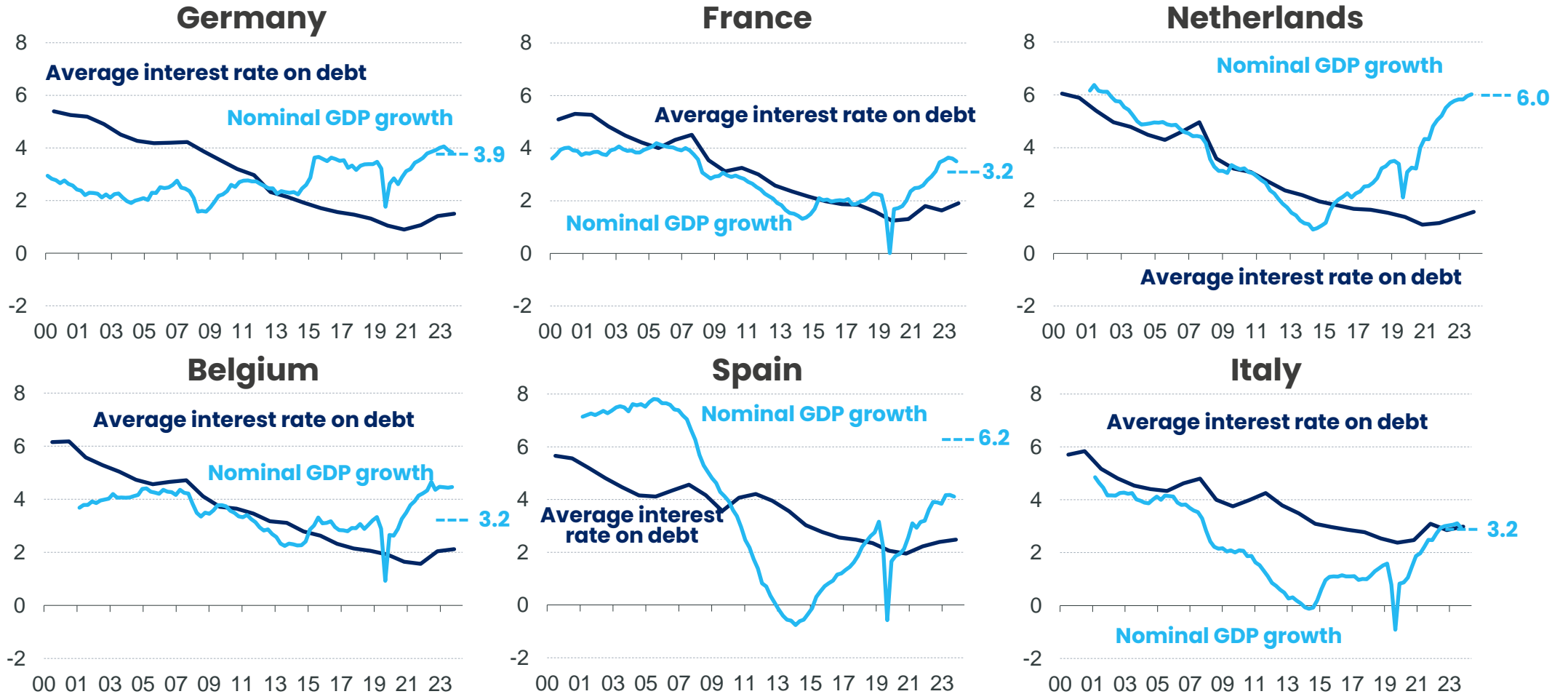
### The case of Spain



(\*) Change in primary balance

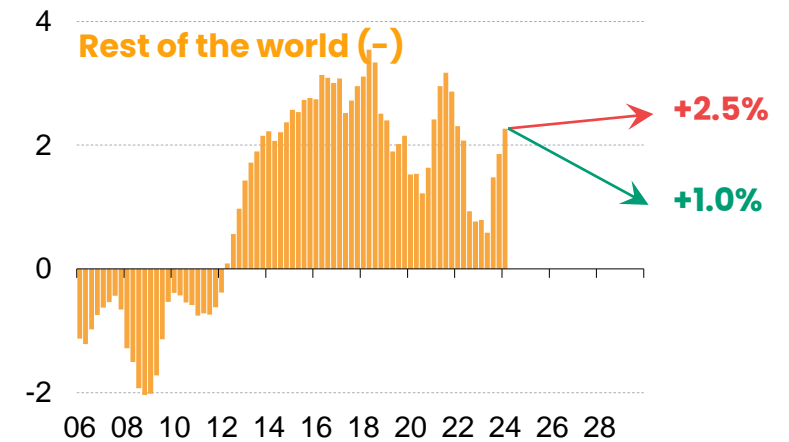
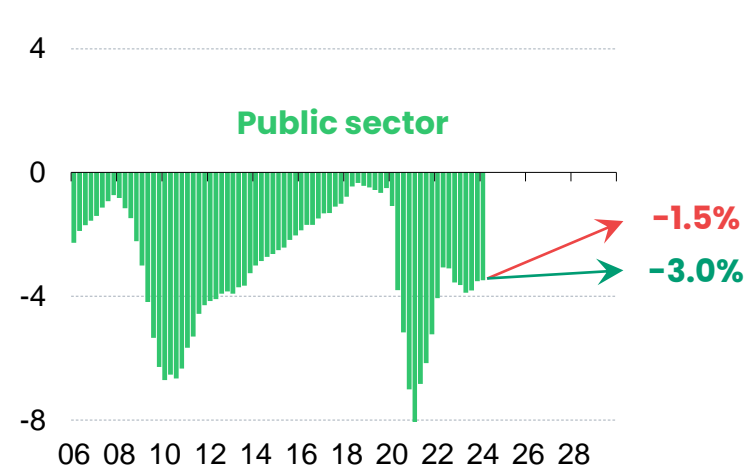
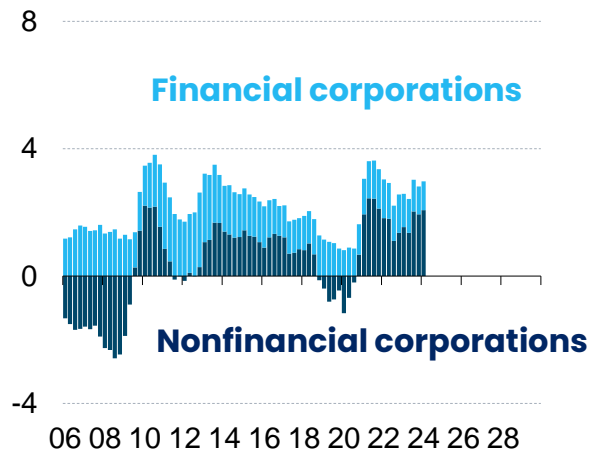
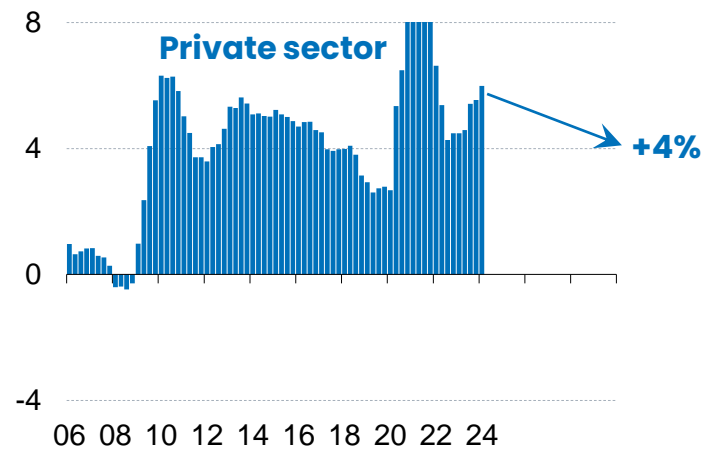
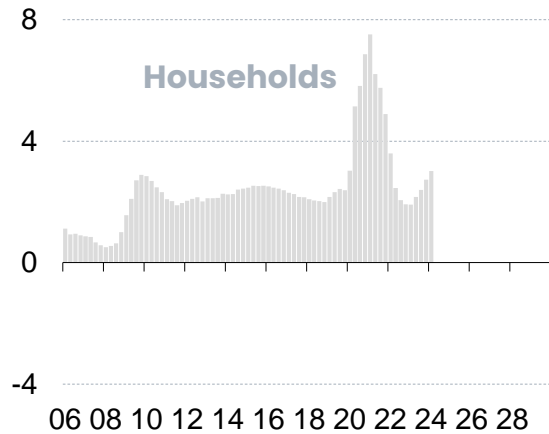
# Memo. Interest rates and nominal growth

Average nominal GDP growth over 7 years and interest rate on government debt (%)



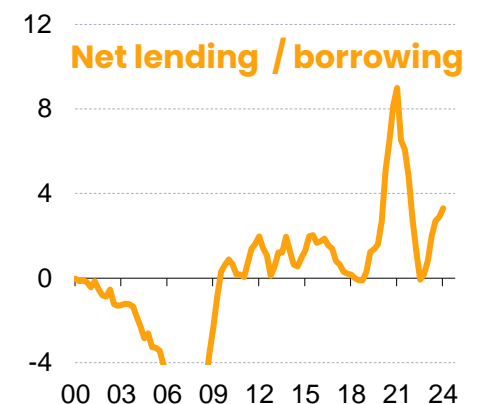
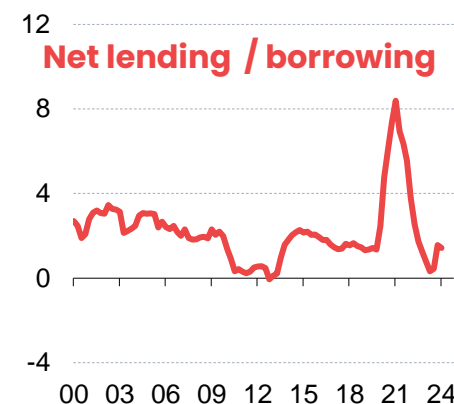
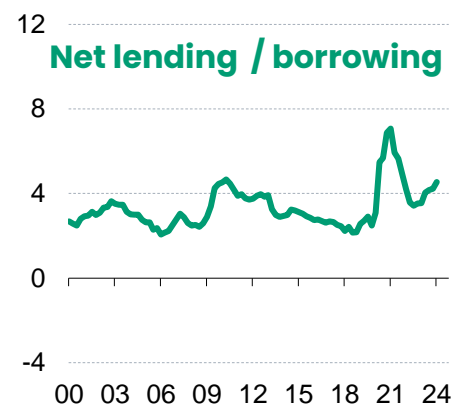
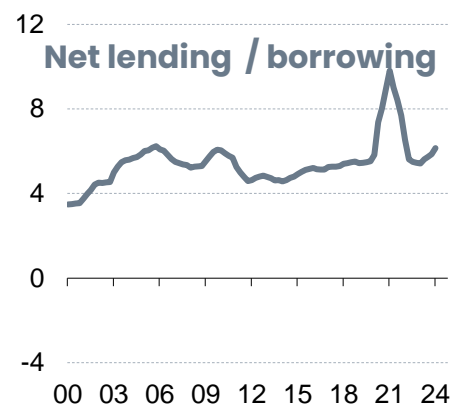
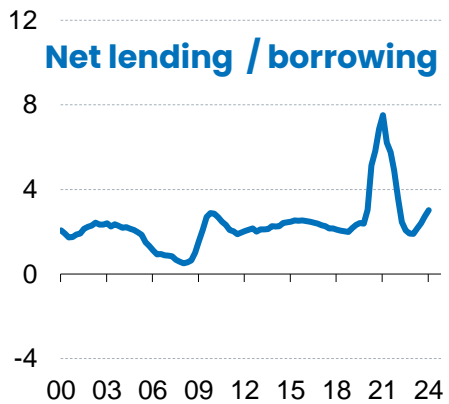
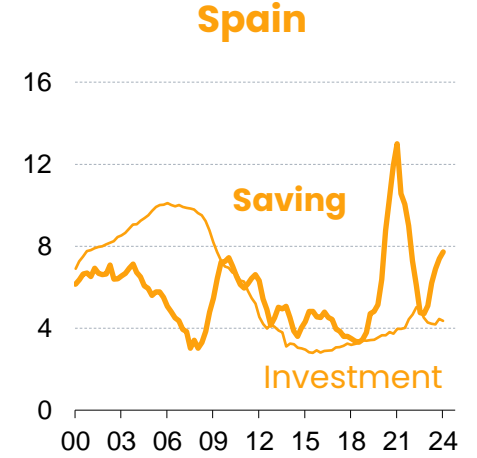
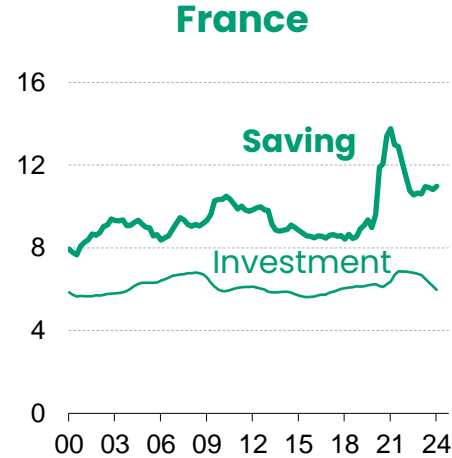
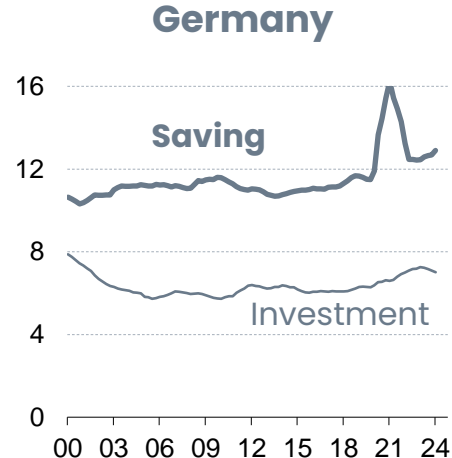
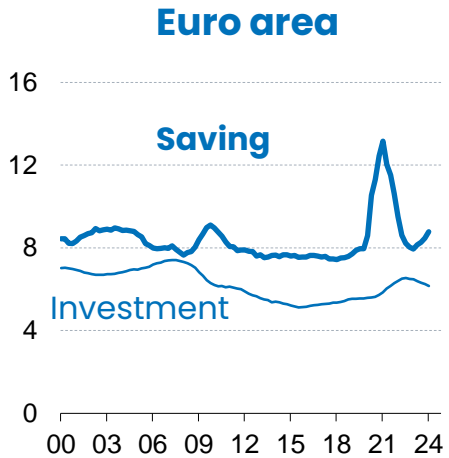
# Targeting a 1.5% of GDP government deficit in the medium term may not be the best way to use our private financial saving!

Net lending (+) or borrowing (-) by sector  
(% of GDP)



# Memo. Households' financing capacity

Households net lending (+) or borrowing (-)  
(% of GDP)



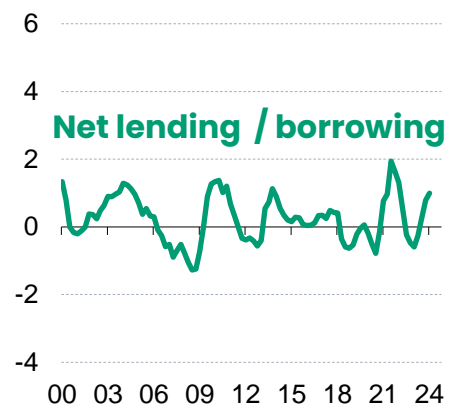
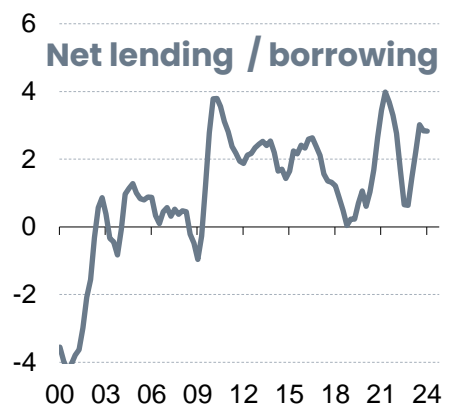
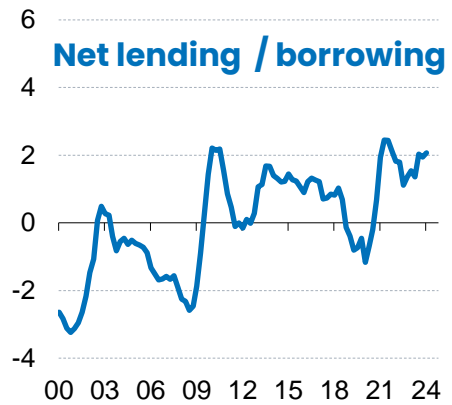
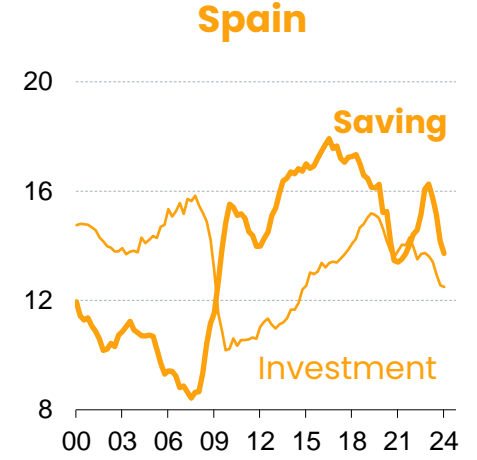
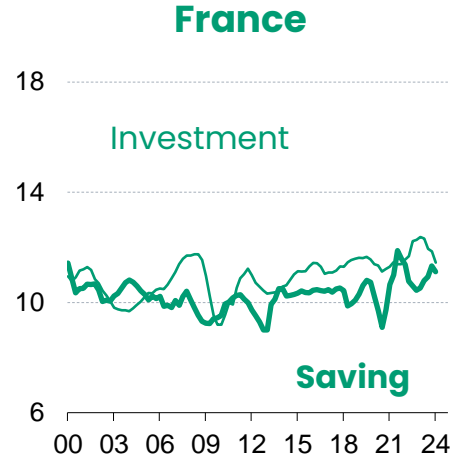
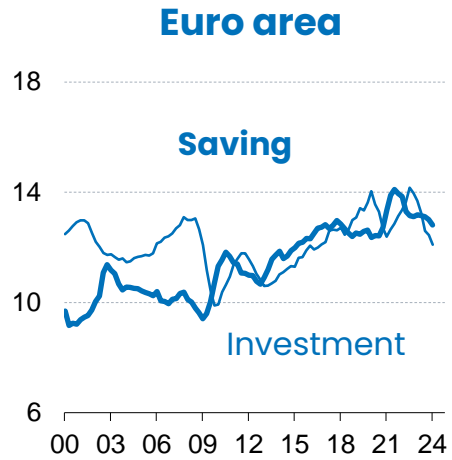
(\*) From 2021 on, households net lending is well above the difference between saving and investment, due to capital transfers (investment grants) received from the government.





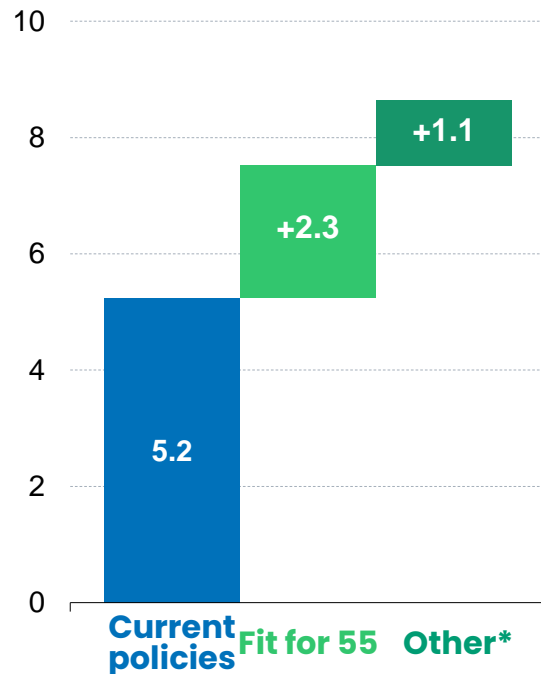
# Memo. Non-financial firms financing capacity

Nonfinancial corporations net lending (+) or borrowing (-)  
(% of GDP)



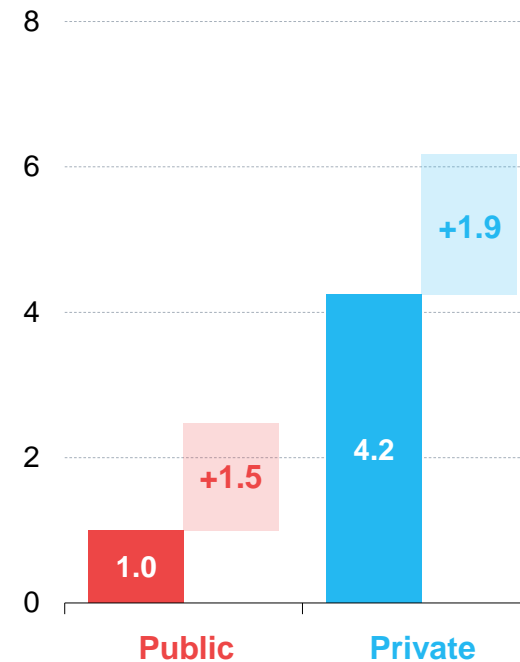
# Especially when ambitious EU climate objectives would require 1.5 GDP points of additional public investment over 2021–30!

## Investments needed over 2021–30 for EU's green transition (% of GDP)



The European Commission estimated that the green transition will cost around €620 billion annually over 2021–30, including:

- €450 billion to reach Fit for 55 objectives
- €150 billion for wider environmental objectives



Assuming the public sector funds 40% of additional investments needed for EU's green transition, **annual public expenditures would have to increase by 1.5% of GDP over 2021–30.**

(\*) Environmental protection, resource management, circular economy and REPowerEU





**Investing  
for tomorrow.**



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