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## ADVANCED ECONOMIES

### UNITED STATES

**The Fed in a state of equilibrium** (EcoFlash of March 20). Its interest rate target has remained at +4.25% - +4.50%, but with a significant downward revision to the median forecast for growth (-0.4 pp to +1.7 y/y in Q4 2025) and an upward revision to the median forecast for PCE inflation (+0.2 pp to +2.5%). However, median projections for rate cuts remain unchanged (two in 2025). Jerome Powell indicated that a "transitory" impact from the tariff hikes was the central scenario. The Fed also surprised by announcing a slowdown in quantitative tightening (EcoInsight of March 20) on its balance sheet. In February, retail sales rose less than expected (+0.2% m/m), and January - which was already negative - was revised downwards (the worst month since 2021). Manufacturing output came as a positive surprise (+0.9% m/m, EST: +0.3%). Housing starts and sales of existing homes are picking up after a difficult January.

### EUROPEAN UNION

**Encouraging developments.** Inflation in the Eurozone fell from 2.5% to 2.3% in February, helped by a slowdown in the rise in electricity prices (+0.2% y/y) and services (+3.68%, the lowest since June 2022). The composite PMI rose in March (+0.2 points to 50.4), thanks to the manufacturing sector (+0.9 points to 48.7) and, in particular, new orders (+1.5 points to 49.2). The services index is down (-0.2 points to 50.4), but is still in expansion territory. Another encouraging sign is that the input price index fell sharply in services (58.3), while it rose marginally in manufacturing (52.3). The European Commission has published its White Paper on European defence (which includes the "ReArm Europe" plan), its Savings and Investments Union strategy and an action plan to support the steel and metal industries. They have all been adopted by the European Council. Some of the retaliatory trade measures against the United States, which were due to come into force on 1st April, have been postponed until "mid-April".

According to the ECB, the aggregate CET1 ratio of the largest banks in the Eurozone stood at 15.9% in Q4 2024, well above regulatory requirements and stable compared with Q4 2023. The increase in outstanding CET1 equity from EUR 1,392 billion to EUR 1,461 billion between Q4 2023 and Q4 2024 (+5.0%) was largely driven by the increase in net income (+9.1%). The cost of risk rose sharply year-on-year (+12.8%), while the ratio of non-performing loans remained stable at 2.3%.

#### GERMANY

**Adoption of off-budget investment plans** (EcoFlash of March 12). The Bundestag and the Bundesrat have adopted the text of law creating an off-budget fund intended to finance investment in infrastructure , as well as the possibility of unlimited growth in defence spending. The composite PMI improved from 50.4 in February to 50.9 in March. The manufacturing PMI rose from 46.5 to 48.3, a 31-month high. The services PMI fell from 51.1 to 50.2. *The Ifo Business Climate Index will be published on March 25, and the GfK Consumer Confidence Index on March 28.*

#### FRANCE

**Gradual improvement.** INSEE has lowered its growth forecast for Q1 from 0.2% to 0.1% q/q, while maintaining its forecast for Q2 at 0.2% q/q. However, the INSEE business climate indicator improved to 97 in March (rebounding by 1 point per month over the last 3 months, and returning to its October level). The employment climate indicator rebounded from 93 to 96 between February and March, but remains below its average for the previous 6 months (98). The government has announced a freeze of almost EUR 9 billion in public spending in order to help it meet its public deficit target of 5.4% of GDP in 2025. *The public deficit for 2024 will be published by INSEE on 27 March.* The Budget Minister expects it to be slightly below expectations (6% of GDP). The composite PMI rebounded from 45.1 in February to 47 in March (close to its January level: 47.6). The manufacturing PMI reached a 26-month high of 48.9. The services PMI rebounded from 45.3 to 46.6, but recorded its two lowest figures over the last 12 months in February-March. *Consumer confidence (on 26 March) and inflation (on 28 March) will also be published.*

#### ITALY

**A slight improvement in industrial production figures.** The IPI deteriorated much less at the start of the year (-0.6% y/y in January, compared with -6.9% in December). Manufacturing output contracted less, driven mainly by a return to growth in «machinery and equipment» (+1.7% y/y; positive annual change for the first time since November 2023).

### JAPAN

**Stable key rate and falling inflation.** The Bank of Japan has maintained its uncollateralized overnight target rate at +0.5%. The announcement gives new prominence to the uncertainty surrounding US trade policies. A fall in energy prices (-3.6% m/m) was made possible by the reintroduction of a government subsidy. Core inflation (excluding unprocessed food) fell from +3.2% in January to +3.0% y/y in February.

### SWITZERLAND

**Another (and final?) interest rate cut.** The SNB cut its key rate by 25 bps (to 0.25%) in response to persistent disinflationary pressures (harmonised inflation was 0.1% y/y in February). It is likely to be left unchanged over the next few months, given the uncertainty surrounding the global macroeconomic scenario.

### UNITED KINGDOM

**The Bank of England maintained its key rate at 4.5%** (8 votes to 1), citing more balanced risks on inflation. The deterioration in the employment surveys is not yet apparent in the labour market, with the number of employees rising by 0.1% in February (preliminary figures), up for the second month running. Revisions over the previous twelve months amounted to 0.2%. The unemployment rate was stable at 4.4% in January (3m/3m), while the rise in regular salaries remained very strong (6.2% y/y). Consumer confidence (GfK index) has been stable for six months, but rose slightly in March (+1.0 points to -19). *The spring budget will be presented on Wednesday 26 March, the same day as inflation for February.*

## EMERGING ECONOMIES

### CHINA

**Property market still in a slump.** Economic growth slowed over the first two months of 2025, but less than expected (EcoPulse of March 18). In the industrial sector, growth lost momentum after a significant acceleration in December but held steady at +5.9% y/y (vs. 5.6% in Q4 2024). In services, growth also slowed (+5.6% y/y in January-February, vs. +6.3% in Q4). On the one hand, growth in retail sales strengthened slightly. On the other hand, the signs of improvement that had appeared in the property sector during the autumn did not continue at the start of the year. Housing sales fell again (-5% y/y after levelling off in Q4 2024), and building activity contracted sharply in January-February (housing starts and work in progress).

### MOROCCO

**The central bank surprised everyone by cutting its key rate by 25 bps to 2.25%.** Inflation has picked up again in the last 2 months. The Consumer Price Index rose by 2.6% y/y in February, compared with a low of 0.7% in December 2024. The rise in food prices explains most of this dynamic. Excluding food, pressure was contained (+0.4% y/y) and core inflation was stable at 2.4%. Above all, expectations are well-anchored. Inflation is expected to remain limited to 2% this year. By cutting its key rate for the second time in a row, the central bank hopes to support the ongoing economic recovery. It expects growth to hit 3.9%, compared with 3.2% in 2024

### POLAND

**Mixed signals in industry.** Activity has been depressed for several months. February's figures (-0.2% m/m and -2% y/y) have not changed this situation. Compared with the previous month, activity in the "food products", "chemicals" and "energy industry" segments contracted. By contrast, the manufacturing PMI improved over the same period, buoyed by new orders, production and employment. It even crossed the 50 threshold for the first time since April 2022. A turnaround for industrial production is therefore possible in the very short term.

**Inflation revised downwards** following a change in the weighting of some specific categories of goods in the CPI basket. In January, headline inflation was at 4.9% y/y after the statistical revision (5.3% previously). It remained stable in February. Inflation excluding food and energy stood at 3.6% y/y in February, after 3.7% in January. These latest figures are now close to the upper end of the inflation target. Nevertheless, monetary policy is likely to remain cautious, even though the Central Bank has revised its inflation forecasts downwards for 2025.

### TÜRKIYE

**Mini financial crisis.** The arrest of Istanbul's mayor, Ekrem Imamoglu, on 14 March and the protests that followed until the weekend have triggered new financial tensions. The lira depreciated by 3% against a euro/dollar basket, the 5-year CDS spread widened by 60 basis points to 324 basis points and the Istanbul stock exchange lost 25%. The central bank raised its key interest rate by 200 basis points to 46% and reportedly sold almost USD 24 billion to support the lira. Finally, the yield on 10-year sovereign bonds rose by 300 basis points to 29%.

This shock comes at a time when the economy has slowed sharply. The consequences for the Treasury of the depreciation of the exchange rate and the rise in the cost of domestic borrowing are not significant enough to interrupt, all other things being equal, the improvement in public finance ratios (interest charges and debt as a proportion of GDP) over recent years. On the other hand, the consequences may be potentially significant through the effect on growth. We will be publishing a newsflash on these topics this week.