

Baisse des taux : quel impact sur l'économie mondiale ?

Emmanuel Laborde: Hello and welcome to this special episode of Economic Research. That's it! The American elections which have caught the attention of citizens and also of economic actors throughout the world are over now. Let's go back to other economic matters. This video is recorded a few days before the US elections. So they will not be mentioned.

On our agenda, three topics that we'll discover in a moment. But just before, let's meet with Isabelle Mateos y Lago. She has replaced William de Vijlder beginning of September at the head of the Economic Research Department. She's our first guest.

Introduction

Emmanuel Laborde: Hello.

Isabelle Mateos Y Lago: Hello.

Emmanuel Laborde: We have three minutes to draw your portrait. That's quite a challenge!

A lot to say in such a short time. We will make choices. First, a simple question: who are you? Could you describe your career through three key moments?

Isabelle Mateos Y Lago: First key moment, in 1999, it doesn't make us feel any younger. I began at the Ministry of Economy and then left for Washington.

I worked with the French Delegate at the International Monetary Fund and at the World Bank. I discovered how foreign high officials perceive our country, France, and above all, Europe.

And I realised everything we have in common in Europe. Things we tend to hide to ourselves in all European countries being too much focused on differences which are superficial.

And I also realised that for all these high officials from other parts of the world Europe is not at all in the centre of the map.

Emmanuel Laborde: Hence the interest of having an outside view. After 1999, let's go to 2015. A new sector, a new country. You flew from the US to the UK.

Isabelle Mateos Y Lago: That's was big change, indeed. I joined the private sector.

For a very long time, I thought that you needed to work in the public sector to serve the public interest.

And little by little, I realised that it is almost the opposite.

A private-sector company, in order to thrive, must answer public needs as well as possible.

If it fails to do so, it disappears. It is replaced by another one.

It is a rather healthy process.

Emmanuel Laborde: After these 25 years in English-speaking countries, you returned to France. What is the feeling of returning to your home country?

Isabelle Mateos Y Lago: Interestingly, that's a cultural shock. But it is easier to absorb than the previous ones. I'm like a smartphone, so to speak, that has returned to its initial settings after pressing the reset button. I regained my old reflexes and all the implicit codes quite spontaneously. But with the added benefit of my foreign experiences, of course. I hope it will really help me to add value in my interactions with my colleagues and the bank's customers.

Emmanuel Laborde: You are Group Chief Economist at BNP Paribas since the third of September. What does it mean to you?

Isabelle Mateos Y Lago: After having much listened to my colleagues and the bank's customers, we clearly have two objectives.

First, we have to continue to bring perspectives to bank businesses' executives but also to our customers on the current state of the economy so they take better decisions each day. But equally important, we have to give them strategic insights on underlying trends that impact the economy.

The European economy, first. But as the European economy is widely open, the situation in other parts of the world that weighs on the situation in Europe.

Emmanuel Laborde: Let's focus on the news, on our editorial choices. I remind you that this program is recorded before the US elections. According to you, what is the current state of the economy? What are the topics to be discussed?

Isabelle Mateos Y Lago: This is a complex era. We have new geopolitical issues. Climate change, ageing populations, as well, are major concerns.

They issues are outside the economic field but they have a significant impact.

So there is a lot of uncertainty. But we do have strong convictions on a few topics. First, the decrease in interest rates. We feel pretty certain that we are about to see a decrease in the interest rates of central banks. Second topic on which we have solid opinions, the slowdown in Chinese economy. It will deeply impact the global economy. These two topics will be discussed in the following segments.

Emmanuel Laborde: Thanks a lot.

Isabelle Mateos Y Lago: Thanks.

Emmanuel Laborde: We'll talk about rate cuts with H  l  ne Baudchon.

To what extent are rate cuts a good sign?

Emmanuel Laborde: So, it's all about rate cuts. This is a topic regularly discussed at the Economic Research Department. This is your field, H  l  ne.

H  l  ne Baudchon: Hello.

Emmanuel Laborde: Let's review these rate cuts in the chronological order. What we saw and happened these last months.

The ECB initiated the first cut at the beginning of the summer. Then, the Fed followed. When we're recording this video, we are in the last weeks of 2024, the ECB has made three 25 basis point cuts.

So, we have one question in mind. That's the title of this segment. Is it a good sign or a bad sign?

H  l  ne Baudchon: It is rather a good sign, for now. Central banks are normalising their monetary policy having driven their key rates to quite high levels to control the surge of inflation. We see well on the chart the huge increase in interest rates. But as inflation has strongly receded these last two years. And the 2% target being attainable, it paves the way for rate cuts in parallel with the decline in inflation. In nominal terms, it means monetary policy is becoming less restrictive.

Emmanuel Laborde: There's also anticipation in these rate cuts.

H  l  ne Baudchon: Yes. This is also a pro-active approach. The Fed and the ECB are not reacting to a suddenly deteriorating economy but they are acting in a preventive way to preserve the existing situation, that is to say a soft landing of the US economy and a slow economic take-off in the Eurozone.

Emmanuel Laborde: So, after a period of high rates, the rate cuts cycle has started. Now the question is: at what rate will it continue?

H  l  ne Baudchon: According to our central scenario, We expect the cuts to continue at a gradual and regular pace in the coming quarters. The objective is to continue to support growth avoid growing risks of deterioration. That is particularly true for the Eurozone where signs of recovery are still fragile. The ECB, during its October meeting, said they were monitoring the situation. But this is true also for the US if they want to avoid a sharper labour market slowdown.

Emmanuel Laborde: Let's not forget inflation.

Hélène Baudchon: Central banks have to take inflation into account. It has not totally disappeared. It decreased but it has not disappeared. There are pockets of resistance, in the services sector in particular, where inflation is still high and its decline limited. That is why it is important too not to lower rates too fast.

Emmanuel Laborde: This fine-tuning process to find a balance between growth and inflation, that's the recurring point with interest rates. What's the objective?
To what extent will central banks lower their rates?

Hélène Baudchon: In our baseline scenario, We expect the Fed and the ECB to come near neutral rate, that is to say the theoretical interest rate which neither boosts nor inhibits economic activity. We would still be in a rather positive scenario where we won't need monetary policy to be really accommodative to support economy more strongly. But if we look at the risks surrounding this central scenario, for the ECB, a stronger monetary easing could be necessary. While that's the opposite risk in the US.

Emmanuel Laborde: Thanks. We will follow this topic in the weeks and months to come.
Let's join our next guest, Laurent Quignon.

The effects of interest rates cuts on European banks

Emmanuel Laborde: After a long and unfavourable period of low rates, almost six years, European banks overall have seen their interest margins and profitability increase when ECB's rates rose in 2022 and in 2023.

Emmanuel Laborde: Hello.

Laurent Quignon: Hello.

Emmanuel Laborde: We're entering a phase of rate cuts. What will be the impact on the interest margins of European banks?

Laurent Quignon: There's no clear answer. In banking systems with fixed-rate loans like in France, Germany or Belgium, this decrease causes a reduction in the cost of banking resources. This phenomenon is intensified by a decline in customers' trade-offs toward more costly saving products. The return on bank assets remains rather stable in the absence of massive renegotiations. In contrast, banking systems relying on variable rate loans like in Italy, Spain or Portugal which have seen a significant increase in their margin interests when the rates increased in 2023 should see these margins contract during the revision of loan contracts. But it would remain at a level superior to what prevailed when the rates were low.

Emmanuel Laborde: Beyond the structure of fixed or variable rates, are there other factors that could attenuate the sensitivity of banking systems to variations?

Laurent Quignon: Besides hedging strategies, a greater diversification of activities, or geographical diversification, and a larger proportion of fees in the total income are factors likely to attenuate the effects of rate variation on banks' incomes.

Emmanuel Laborde: Does the method of financing, fixed or variable rates, affect the evolution of cost of risk?

Laurent Quignon: Yes. In systems with variable rates, decrease will benefit all the borrowers. In systems with fixed rates, it will only benefit the recent borrowers and not the current borrowers. Renegotiations are possible of course but they will be interesting only for a very small part of the borrowers.

That being said, we must bear in mind that, in banking systems with fixed rates, interest charges did not follow the increase in rates in 2022 and in 2023. Being at a very low level, the cost of risk had only slightly increased.

Emmanuel Laborde: So, the decrease in rates should continue. In this context, what will happen to banks' profitability in the months to come?

Laurent Quignon: In average, for European banks, the negative impact of decreasing interest rates on bank interest margins should be partially offset by a positive volume effect. According to the last ECB's survey, the banks notice a strong rebound in housing loans demand and a moderate recovery in demand from firms for loans for the first time in two years. That's encouraging. But we could still see a dichotomy according to the financing model: fixed rates or variable rates.

The banks which mostly own fixed rates portfolios, like French banks, should better succeed compared to their rivals from Southern Europe. Besides, they own most diversified business portfolios, which go far beyond retail banking. And the decrease in interest rates should sustain fees coming from other activities.

Emmanuel Laborde: Thanks a lot for this insight. For our next topic, we're going to China.

The effects of the Chinese economic slowdown on emerging countries

Emmanuel Laborde: Last topic of this program: the Chinese slowdown.

It has varied consequences for different countries.

Overall, in developed countries, the effect should be negative even if the deflation in China might generate gains in purchasing power.

In emerging countries, we'll have to consider Foreign Direct Investments that could change the situation. We are going to review these different situations.

Emmanuel Laborde: Hello.

Christine Peltier: Hello.

Emmanuel Laborde: Let's see some transmission channels of this Chinese economic slowdown to the rest of the world. The first that comes to mind is that of foreign trade. Can you describe it?

Christine Peltier: Yes. The most obvious transmission channel the slowdown in Chinese imports, and imports of raw materials in particular.

It affects commodity producing countries by a combined effect of the decrease in export volumes and the decrease in commodity prices.

Emmanuel Laborde: Which countries will be affected?

Christine Peltier: In emerging countries, Latin American countries and South Africa are expected to suffer most from this reduced Chinese demand.

Emmanuel Laborde: Another major channel: prices. The Chinese slowdown will strengthen Chinese competition. What consequences and for which countries?

Christine Peltier: The slowdown in Chinese growth goes with a strengthening of industrial policy which strengthens Chinese competition.

A given country will face this Chinese competition both on its domestic market and on its export markets. And the level of competition is strengthened by China's deflationary pressure.

Emmanuel Laborde: Which countries will be affected?

Christine Peltier: With the increase in US trade tariffs and the decoupling process between China and the US, the Eurozone is probably becoming the main export market for China. If we consider the Eurozone as the third market, and if we combine the intensity of Chinese competition on the domestic market and the intensity of Chinese competition in the Eurozone, without surprise, Central European countries and Turkey will be the most affected ones.

Emmanuel Laborde: What about Asia?

Christine Peltier: Asian countries are mostly challenged on their own domestic markets.

Emmanuel Laborde: Another major channel: FDI. It's part of the Chinese strategy.
It is a major lever that China has used these last years.

Christine Peltier: FDI is a key component of the industrial strategy led by Chinese companies. For two or three years, we've seen a strong increase of Chinese FDI in certain countries to circumvent trade tariffs or to get access to free trade areas. South-East Asian countries, Mexico, and Hungary are among the main beneficiary countries of these dynamics.
Finally, for emerging countries, contrary to developed countries, the overall impact won't be necessarily negative.

Emmanuel Laborde: So, these are mixed results which needed to be discussed.
Thanks a lot.

Emmanuel Laborde: Thanks for watching. For greater insights on these topics or others, let's visit the website of Economic Research. A large resource of on-line contents.
Thanks for watching. See you soon.