

Outlook 2024 - Transcription

00:00:00:00 - 00:00:27:19

William de Vijlder

Hello. On behalf of the Economic Research team of BNP Paribas, I wish you a very good year. May it bring a lot of prosperity, but also may it bring you a lot of topics to read about, to discuss, to analyze with colleagues and friends. We are going to help you in that respect. We will provide you lots of analyses throughout the year. And we will already start in this video by covering a number of topics which we consider to be important for this year. What can we expect for 2024? What will characterize this new year? I would argue that there are two “certainties”. One is the continuation of desinflation that will pave the way for Central Banks, the Fed Reserve and the ECB to start cutting their policy rates in the spring of this year.

These two developments, lower inflation and lower interest rates will be very positive, should have a positive impact on economic activity and on demand and should actually translate into a gradual pickup of economic growth as the year goes by. Two certainties, but also three key questions. One key question is whether there will still be a delayed negative impact on activity and on the amount of the past rate hikes.

The second key question is about the swiftness of economic activity in terms of reaction to lower inflation and to lower interest rates. Whether that reaction will be rapid or slow makes a big difference for economic confidence, but also for the pricing of financial markets and indeed even for the decisions taken by Central Banks. And then a third key question is the US soft landing.

It seems that the Federal Reserve has really managed successfully this very difficult task of bringing down inflation without triggering a recession. But when the US will have soft landed and subsequently in reaction to lower rates, activity picks up again, will that lead to a rapid reappearance of inflationary pressures? To be seen. So two “certainties”. Three questions.

But of course it goes without saying that the list of questions is far longer than what I have mentioned this far. For instance, our Banking Economics team in this video will cover things related to regulation and how that will evolve, and also the decisions that the ECB will take with respect to the management of its balance sheet. Our OECD team will, amongst other things, talk about the relative performance between France and Germany.

Germany, which has really have had a very difficult year in 2023. And there is also the very important topic, of course, of climate change and the economic repercussions, as we have seen in recent years and also very recently. And then finally, our country risk team will talk about a large number of countries really showing to what extent country performance in Asia can differ from what is happening in Africa or in Latin America or in Central Europe.

Lots of things to be covered. So time has come to pass the microphone to my colleagues, and I wish you a very interesting video.

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Céline choulet

In the United States, the year 2023 was marked by a banking run, triggered by the spectacular rise in interest rates, which particularly weakened some regional banks that were ill-prepared for this shock. Once again this year, the economic, monetary and financial environment will pose challenges for the US banking sector. Net interest margins are likely to remain under pressure, and the cost of risk is likely to increase. The impact of the Federal Reserve's shrinking balance sheet on bank liquidity will also be closely watched.

Finally, our attention will be focused on the translation into US law of the latest Basel III agreements, which regulators will be striving to finalize before the autumn elections, with ambitions no doubt revised downwards, given the fierce criticism of the relevance and legality of the text proposed last July.

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Laurent Quignon

In the spring of 2023, after the initial shockwave of bank failures in the USA and Switzerland, European bank share prices recovered rapidly. Also in 2023, mainly variable-rate banking systems saw their interest margins widen as rates rose. From 2024 onwards, trends could very gradually become slightly more favorable to banking systems with a high proportion of fixed rates.

At the same time, residential property and the cost of bank risk are likely to suffer from the delayed effects of rising interest rates, to a greater extent in countries where variable rates are more prevalent.

Finally, the Eurosystem will begin to reduce its PEPP portfolio from the second half of 2024, accelerating the decline in banks' excess reserves. Their LCR ratios are still very high today, and will approach critical levels. These critical levels are implicit and not directly observable, and the ECB will need to keep a close eye on any signs of tension on the interbank market which might indicate that LCR ratios are approaching these critical levels.

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Hélène Baudchon

The economy is quite closely linked to politics (and vice versa). In this respect, 2024 is set to be a critical year with many and important elections and in particular the European elections in June and the US presidential election in November. Another important development to monitor this year is the one of the policy mix. Indeed, we expect monetary policy to become a bit less restrictive, while fiscal policy should become a bit more tight.

Indeed, the size of the fiscal imbalances should again be a focus in an environment where the gap between growth and interest rates is less favorable. The sustainability of public debt ratios indeed assume a gradual but constant reduction in primary deficits. In Europe this reduction will occur within the somewhat more flexible framework of the new budgetary rules, thanks to the agreement finally reached by Member States at the end of 2023.

To conclude, the task of Central Banks should be a bit less tricky this year thanks to disinflation. While for governments, the fiscal tradeoffs should become a bit more complicated.

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Stéphane Colliac

The greening of the industry supported growth in 2023 and will be again an important topic in 2024. In France, this topic is seen as an opportunity as the country is relatively de-industrialized. In parallel, Germany, in the leadership position, in energy intensive sectors and increasingly suffering from the competition of China is in a more difficult situation. And in 2024, the lights could even turn orange for this greening. Demand was already affected by the increase of interest rates and should be affected by the decrease of fiscal support in 2024. Again, Germany is in the particular situation with the end of the subsidy for the purchase of electric cars in order to reduce the fiscal deficit, when France has only decided to decrease the scope of this support.

Is this enough to maintain the positive growth gap favorable to France ? Anyway, this our scenario.

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Jean-Luc Proutat

With an average of 15 degrees celsius across the globe, 2023 will have been the hottest year on record, not only since temperature records began, but also probably in the entire Holocene, which is the interglacial period we are currently in, and which began around 10,000 years ago.

On the geological time scale, i.e. in a few thousand years' time, it is possible that the Earth will tip over into a new ice age and eventually cool down. In the short term, however, humanity must act to ensure that the climate change it has caused does not jeopardize its own livelihoods. Multilateral recognition of this imperative is just 30 years old. In 1994, the United Nations signed the Framework Convention on Climate Change, which was to set up the famous Conference of the Parties or COP.

So, 2024 will be an opportunity to celebrate this anniversary and take stock of the planet's growing awareness. Some will no doubt regret that greenhouse gases, although acknowledged to be responsible for global warming, have continued to accumulate in the atmosphere, and in unprecedented quantities. But others will note that the trend has slowed and that investment in renewable energies which are increasingly competitive with fossil fuels, has taken off. In 2024, we can perhaps look forward to a reversal in the emissions curve, and celebrate another anniversary: the discovery of the greenhouse effect by French mathematician Joseph Fourier just 200 years ago.

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Pascal Devaux

In Africa and Middle East, we will watch three main topics in 2024. The first topic is macroeconomic. In sub-Saharan Africa, governments will face a debt wall in foreign currencies in a context of rising interest rates. In Egypt an agreement should be found with the IMF, but it is not sure that it will be sufficient to fix the economy of Egypt.

The second topic is geopolitic. Tensions should persist in the Middle East with negative economic consequences on the whole region, notably on trade and tourism. In sub-Saharan Africa as for the rest of the world, 2024 is a year of election. About 14 elections are scheduled, notably in South Africa. The last topic is commodities, which remain a key point for this region as in Africa and Middle East, they are very large hydrocarbon exporters and cereal importers.

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Christine Peltier

In Central Europe economic growth is expected to accelerate in 2024. Fiscal policy will stay supportive and monetary policy easing will continue cautiously due to still strong wage growth pressure. On the political front, we will pay close attention to Romania and to Poland, where the pro-European government has just taken office. In emerging Asia, average economy growth is expected to slow down slightly in 2024, mostly due to the slowdown in China and in India.

At the same time, the improvement in the global tech cycle is expected to help strengthen economic growth in South Korea and Taiwan. In China, some sectors, such as green tech sectors, will continue to support economic growth, but domestic demand remains weak and the crisis in the property sector continues. In the coming years the challenge for the authorities will be to restore private sector confidence and to continue adjustments in the property sector and in public finance. In 2024 in Asia, the electoral calendar will be busy. In particular, the geopolitical consequences of the mid January elections in Taiwan will be monitored closely. Then we will have elections in Indonesia and South Korea, in India. These elections could affect the prospect for structural reforms in these countries, but in the short term, these elections will not have a major impact on the economic policy direction.

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Salim Hammad

Latin America is coming off a rather positive year: growth has surprised to the upside. Inflation overall has converged towards Central Bank's targets and currencies have held up their ground. The region, which is removed from geopolitical hotspots, has also benefited from three tailwinds which will carry on into 2024, namely the global demand for minerals to support the energy transition, greater resilience from the US economy as well as commodity prices and the further development of nearshoring.

In 2024, we will have elections in six countries in the region with some continuity anticipated in Mexico, the Dominican Republic, El Salvador, and most likely in Uruguay and Venezuela. On the economic front, Argentina will experience a recession, Brazil and Mexico will slow down, while Colombia, Chile and Peru will experience a recovery, after a difficult year in 2023. Rate cuts will accelerate with a disinflationary process.

However, the impact on food prices of the climate phenomenon El Niño, as well as the risk of fiscal slippage and geopolitical tensions, as well as the Fed's policy, could weigh adversely on the easing of monetary policy across the region.

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William de Vijlder

On behalf of the team, I thank you for having watched this video, and I would say stay tuned because throughout the year we will keep you up to date in terms of our economic analyses, through our publications, videos, podcasts and of course, do visit our website. Thank you.

