

BI-ANNUAL CONFERENCE | THE ECONOMIC CONSEQUENCES OF DONALD TRUMP'S RETURN

TRANSCRIPTION

00:00:00 - Emmanuel Laborde

Good afternoon everyone. Thank you for joining us for this latest biannual BNP Paribas Economic Research conference. So, on this Tuesday afternoon, we are live with you for the first broadcast, the most interactive one, the one in which you will be able to take part.

Or if you're watching us later on *replay*, thank you for being here. And I thank you again for your loyalty, because more and more of you are coming to this event that we organise every six months. Several hundred of you signed up as soon as you heard about the theme of this new conference.

Several thousand of you followed us on *the replay* of the June conference, so thank you all for being here. It's a pleasure to work for you and to see so many of you on the other side of the post. You BNP Paribas employees are obviously used to this event. Note that clients are now invited and welcome.

It's because the circle has been widened that we have to start with a disclaimer: "In the context of the Markets in Financial Instruments Directive MiFID2, we like to make it clear that the various presentations you will be attending this afternoon, as well as what will be said at this conference, do not constitute investment advice.

That says it all. We're now going to develop the programme with a theme in the air at the end of 2024: "The economic consequences of Donald Trump's return.

It's a subject that goes far beyond the economic consequences alone. The media obviously covered his re-election, and will no doubt do the same for his inauguration next January. So, whether you're a supporter or a detractor of Donald Trump, as soon as we start talking about him we hear a lot of superlatives. We are going to take a look at his economic programme and its consequences, starting with a three-chapter sequence on the direct consequences for the United States and the domestic market. We will then look at the consequences for trade relations between the United States and Europe. Finally, we will look at the consequences for relations between the United States and emerging countries.

At the end of the sequence, you will of course be able to ask us your questions. As you know, this is an interactive event. In the room next to us, the moderators are there to classify your questions and distribute them to us at the end of each chapter.

Secondly, we will look at Donald Trump's energy and climate policies. We know that he is very pro-business, which is not always a good sign for the environment. So between his election promises and the reality of what will be put in place on the ground, where will the cursor lie between business, energy and, above all, the environment? We'll be talking about this with Jean-Luc Proutat and Pascal Devaux, who will be joining us for a second set.

You have the programme. Everyone must be logged in, so it's time to start our first game.

00:02:48 - Emmanuel Laborde

We begin this first set with the new Chief Economist of BNP Paribas, Isabelle Mateos y Lago. Hello Isabelle.

00:03:51 - Isabelle Mateos y Lago

Hello Emmanuel.

00:03:52 - Emmanuel Laborde

It's a pleasure to have you here for this half-yearly conference. As luck would have it, you've spent a lot of time in the United States in your professional life, or worked with the Anglo-Saxon world, which will provide us with some relevant insights by way of an opening.

So, you were able to follow Donald Trump's first term in office. Then there were four "Democratic" years under Biden. Trump will be back in office in January. What has changed? What is the economic state of the world today and what measures will be in place from the beginning of 2025?

Isabelle Mateos y Lago

Let's start with the state of the global economy. It's in pretty good shape, despite the prevailing gloom. Over the last few years, monetary policy has been tightened with historic brutality and, largely as a result, inflation has returned to close to the central banks' targets just about everywhere in the world.

And what's remarkable is that this has happened without breaking growth. Growth has really held up and unemployment rates are at historically low levels across the world. However, all this is not completely uniform.

Generally speaking, services are performing much better than industry. Industry has been in the doldrums around the world for several quarters now, and naturally the more industrial economies, such as Germany, are suffering.

So Germany has been stagnating for three years. Conversely, economies that are more service-oriented, such as Spain and the United States, have very high growth rates. So there are disparities, but the economic situation is fairly good.

Emmanuel Laborde

When it comes to political news, the picture is more mixed. Lots of extremes and lots of elections this year too. What's your view?

Isabelle Mateos y Lago

Indeed, there were a record number of elections around the world in 2024 and, in the vast majority of cases, the leaders who were in power were ousted or lost a significant proportion of the support they had in parliament.

Voters indeed sending out a very strong message of discontent. From my point of view, this is linked to the fact that the inflationary shock is still very present in people's minds, and to the fact that even if wage inflation has caught up with price inflation, the price level itself is on average almost 25% higher than it was a few years ago, just before the pandemic.

And this remains a subject of great resentment among consumers, particularly those of modest means.

Emmanuel Laborde

What can we expect from Trump? For a start, what character traits have not changed in the man we knew in office during his first term?

Isabelle Mateos y Lago

Trump remains a fundamentally provocative and unpredictable person. So anything I say about what we can expect should be taken with a grain of salt. But he is also someone who has very strong ideas and biases when it comes to economic policy, and who has every chance of remaining so.

For example, tariffs are great, fossil fuels are wonderful. On the other hand, taxes are bad, regulation is bad, social spending is bad. That's roughly the picture we can expect.

Emmanuel Laborde

It's true that he expresses himself in practically this way - subject, verb, complement - one idea per sentence. It's his way of haranguing crowds and it works very well indeed. So that's the continuity of the character. Now, what's going to be new in this second term?

There are undoubtedly mistakes he made the first time around that he won't be making again. What can we expect from Trump 2.0?

Isabelle Mateos Y Lago

What is new is that, on the one hand, he is much better prepared for the exercise of power. He was able to see, not without frustration during his first mandate, that in the end there were balancing forces and safeguards in his team and in the administration

This time he has every intention of not allowing himself to be encumbered by safeguards, and it is clear that he has begun to make appointments to key positions at a fairly rapid pace, particularly but not only to economic posts. So we can expect his political programme to be implemented without hindrance.

On the other hand, and perhaps even more importantly, the economy he will inherit in January is very different from the one that existed when he took the helm in January 2016. If he expects the economy to react in the same way, he may be in for some surprises.

I'll just cite a few statistics. Fed rates in January 2016 were below 0.50 basis points. We are over 400 basis points higher. Public debt is 20 GDP points higher. Long-term interest rates are higher. The economy is now at full employment, and inflation, which had long been below the 2% target, is now above it.

All this creates a very different context which could lead to a very different reaction from the economy to the same measures.

Emmanuel Laborde

So much for that introduction. Thank you very much Isabelle, you'll be following us and we'll catch up with you later on in the

conference. We're going to look specifically at the US domestic market, which is no mean feat. With 330 million consumers, it's one of the world's leading economies. With you Anis, good morning.

Anis Bensaidani

Hello Emmanuel.

Emmanuel Laborde

First light with you: what can we expect with Trump's return from 20 January? What will happen in the Oval Office of the White House?

Anis Bensaidani

The central message, or perhaps the title of the teaser for season 2 of Donald Trump, could be "higher, stronger", since Donald Trump is back in the presidency with the firm intention of resuming and completing the work begun between 2017 and 2021.

To do this, he can rely on a clear victory in the presidential election, on a Republican majority in both houses of Congress, and on the feedback from his first stint in the White House. Nevertheless, this comeback is not without uncertainty and unpredictability, two terms that I believe define Donald Trump quite well.

Nonetheless, as far as his political fundamentals are concerned, we can expect developments that oscillate between extending and amplifying the path mapped out during his first term in office. On the other hand, a key difference lies in the macroeconomic environment in which her election is taking place, as Isabelle has already explained.

Emmanuel Laborde

Let's talk a little about the fundamentals of his policy. It has been said that he is a very readable person, who knows how to harangue crowds. On what pillars will he base his policy?

Anis Bensaidani

We have identified four pillars which, I think, sum up Donald Trump's approach to economic policy fairly well. The first relates to his tax policy. On this front, we can expect an extension of the TCJA (Tax Cuts and Jobs Act), the 'signature' budget bill of his first term, which essentially consists of a major package of tax cuts, including on capital and the highest incomes. The campaign was also an opportunity to announce tax cuts that would go beyond the scope of the TCJA, but their implementation is more uncertain.

Secondly, Trump is characterised by a strong desire for deregulation. This is likely to have a positive effect on growth, particularly through investment. On the other hand, the downside of this "deregulationist" approach is that it extends to environmental issues.

Let's continue with immigration. It would be difficult to explain the 'Trumpian corpus' without mentioning this subject, on which the campaign promises were, I think, unrealistic, particularly as regards the number of deportations. But we must nevertheless expect a significant drop in the number of net annual entries into the United States over the coming years.

Last but not least is foreign trade, which Trump sees from a protectionist angle, with additional tariffs to come.

00:11:42 - Emmanuel Laborde

But he didn't wait. In his first speech, he talked about customs duties. He announced some very significant figures. We'll come back to them. We'll be quoting them quite often because they're quite spectacular.

What can we expect to see between the announcements and the reality?

00:12:00 - Anis Bensaidani

Let's start with the announcements. On the campaign trail, Trump announced tariffs of between 10% and 20% on all imports of goods into the United States, with one notable exception, China, whose goods would be penalised by tariffs of up to 60%.

That said, there is considerable uncertainty about the choices that will actually be made and the timetable for their implementation. But this does not contradict the fact that Trump wishes to tackle the issue with renewed or increased vigour during his second term.

More concretely, at the end of a sequenced introduction, the effective tariff on imports from China is expected to rise to 40% (currently it is 15 %) and the average tariff on imports from the rest of the world, including the European Union, is expected to rise to 5% from the current 2%.

Finally, it should be emphasised that these are average effective customs duties, which means that certain specifically targeted products could be subject to customs duties well in excess of these rates.

Emmanuel Laborde

These are very clear-cut political points. What are the macroeconomic consequences for the United States?

Anis Bensaidani

Firstly, it should be noted that the impact of Donald Trump's political programme on growth is more likely to be felt in 2026. In the short term, his election has not upset growth forecasts, which remain a slowdown in an economy that is currently close to full employment, from its long-term level, towards a slightly more balanced level, with an average annual growth rate of 2.1% in 2025 compared with the 2.8% expected in 2024.

That said, the central message is that Donald Trump's plans are associated with an increased risk of inflation. There are two explanations for this: the first has to do with the tariffs plans mentioned, insofar as it is consumers who will ultimately bear the additional cost of higher tariffs. The second element relates to migration policy, insofar as we can expect downward pressure on the labour supply which, in turn, will lead to renewed tensions on the labour market. Furthermore, implementing tax cuts at a time when the economy is close to full employment is likely to reduce their effectiveness, on the one hand, and increase the risk of inflation, on the other.

As a result, inflation is expected to pick up again in 2025, from Q2, in other words from the start of Donald Trump's economic programme. This implies that the US scenario in general moves from the idea of a *soft landing*, in other words a return of inflation to its 2% target without causing an economic recession, to a *no landing*, linked precisely to this take-off of inflation.

Emmanuel Laborde

If there is inflation, the Fed will be there to react, so can we expect some fairly strong action?

Anis Bensaidani

Naturally, an upturn in inflation will lead or force the Fed to maintain a restrictive monetary policy, and therefore to interrupt the easing cycle that began in September.

This is why, if we continue to expect a cut of 25 basis points at the December FOMC meeting, we expect a stable rate target for 2025 as a whole, with an upper bound of 4.5%. Financial conditions will be all the tighter as US federal debt, in relation to GDP, is on an upward trajectory, which implies a future increase in bond yields.

And, finally, this combination of higher prices and higher interest rates will weigh on demand, and therefore on growth, which we expect to slow to 1.3% in 2026.

Emmanuel Laborde

When we talk about the Fed, we're obviously talking about the actions it will take, but we're also talking about the people. There has been no appointment to the Fed for the time being, but we know that this is one of Donald Trump's objectives.

Can you confirm this?

Anis Bensaidani

Indeed, more generally, the idea of a possible or attempted future challenge to the Fed's independence was very present, at least in the background, during the election campaign. And it is very likely that Trump will try to appoint a more accommodating figure to replace Jerome Powell as head of the Federal Reserve when his term expires in 2026.

Having said that, I think there is an institutional framework to guarantee or protect the independence of the Fed. This includes the structure of the Board of Governors, the fact that if the Chairman nominates individuals to join the Board of Governors, they are subject to confirmation by the Senate. And finally, there is the fact that it is almost legally impossible for the Chairman to remove a governor.

So, obviously, the subject of the independence of the Central Bank tends to frighten people, insofar as the consequences could be dramatic if were to be called into question. However, with these institutional safeguards, the risk is perhaps overestimated.

00:16:59 - Emmanuel Laborde

So we'll be keeping a very close eye on things. Thank you very much, Anis. If you have any questions for the United States, you can ask them and we'll bring them to you in a few minutes at the end of our round table.

Stéphane. Hello.

Stéphane Colliac

Hello.

Emmanuel Laborde

Trade relations between the United States and Europe will be of direct concern to us, and Trump 2.0 will obviously have levers to influence trade. Which levers would have the greatest impact on relations with Europe, and on which countries?

Stéphane Colliac

Yes, initially, we could say that Trump could paradoxically turn out to be rather positive for the European economy, since the first version of Trump was, on the whole, positive. It helped to maintain growth in the United States and provided an outlet for growth for many European economies, particularly the German economy.

So this first version, if we summarise, consisted mainly tax cuts, which supported American growth, and deregulation. As Anis

pointed out, at least initially, this was good for the economy.

These are factors that are likely to persist. On the other hand, it will obviously be difficult to say that a trade policy with more tariffs will be positive, at least initially. With a greater impact on the European economy.

Emmanuel Laborde

Which countries and sectors are likely to be most affected?

Stéphane Colliac

We have seen that Europe's trade surplus with the United States has tended to increase in recent years, with Germany accounting for around half of this.

Germany may therefore appear to be a prime target. When we look at the other countries, those which, for the most part, have a fairly large industrial base could be affected, including Italy, which is Europe's second largest industry, and perhaps France to a lesser extent, but we'll come back to that later.

And when we look at industry, particularly Germany, the main trade surpluses are in automobiles, machinery and equipment, electrical equipment and intermediate goods. When we talk about intermediate goods, we're talking about chemicals, plastics, rubber and metallurgy.

So these are the sectors at risk. During Trump's first term, we had tariffs on steel, for example. Now, we could have more tariffs on more sectors because this version 2 of Trump is more prepared, as we have heard, and so he could implement his initial programme more.

Emmanuel Laborde

And what about France? What's in store for us?

Stéphane Colliac

France has the advantage of not having a trade surplus with the United States, which means that it does not stand out particularly compared with other countries. It even has a slight deficit of 2 billion euros.

And when we look at its main export sectors to the United States, such as aerospace, there is no surplus. This is France's number one export to the United States, but it's a bilateral deficit.

What's more, the various companies involved are highly intertwined: a joint venture in engines, suppliers to both Airbus in the United States and Boeing in Europe. So if one punishes this sector, he's cutting off an arm.

Emmanuel Laborde

There is indeed an interdependence.

Stéphane Colliac

There is indeed an interdependence.

And if we look at the other key sectors for French exports to the United States, we can talk about luxury goods and beverages.

In these sectors, there are few advantages to adding tariffs.

We're not going to relocate champagne production to the United States. That doesn't seem very likely.

Emmanuel Laborde

A beautiful image indeed. This is a special situation for France, which could protect us in direct trade relations. But wouldn't the main risk come our trade with Germany?

Stéphane Colliac

It could be. It's true that 13.3% of French exports go to Germany, and only 7.8% to the United States.

So it's a more important outlet. And when you look at the relationship between France and Germany, 40% of French exports are industrial inputs. So if Germany suffers from higher tariffs on its final goods, such as cars, this would have a knock-on effect on French exporters who supply metals, plastics and tyres to the German car industry.

00:21:29 - Emmanuel Laborde

Let's turn to monetary policy. Let's try to look ahead. What about inflation and ECB policy in the long term?

00:21:39 - Stéphane Colliac

While in the United States, Trump's impact on inflation is relatively clear, as we heard from Anis earlier, it is a little less clear in Europe, with ambivalent effects. On the one hand, we would have the effect of higher tariffs and slightly higher US inflation.

But there will also be deflationary tendencies elsewhere in the world economy, as is already the case in China. China tends to export deflation, and we'll be discussing this again with François later. But the increase in protectionist tariffs in the United States could trigger a response from China, which would be to export more deflation and be in a situation of greater overcapacity.

And in Europe, industry also appears to be in a state of overcapacity, as in Germany, and there could also be deflationary pressures.

All in all, this means that overall inflation could remain relatively unchanged compared with what we were expecting before these tariffs were implemented.

00:22:31 - Emmanuel Laborde

Emmanuel

Laborde

So how will this be reflected in both interest rates and the euro-dollar exchange rate?

00:22:48 - Stéphane Colliac

Let's start with the euro-dollar exchange rate. It's true that we can expect the policies implemented by the US administration to have a positive impact on the dollar, and that it will be a strong dollar. But does a strong dollar mean a weak euro?

This is also what we need to look at in terms of imported inflation. Of course, some goods are priced in dollars, oil is denominated in dollars, so de facto, when the euro depreciates against the dollar, this has an impact on imported inflation.

But on the other hand, in terms of effective exchange rates, if we have a rising dollar, we can anticipate - and we'll be discussing this again with François later - that Asian currencies will respond differently and perhaps depreciate.

So the euro's effective exchange rate could be much more stable than that, and the effect of imported inflation could be manageable for the European Central Bank. A little more inflation in the United States, an exchange rate with relatively manageable pressures, and perhaps a slightly more negative economic situation in Europe in our recent apprehension - since we have just updated our economic scenario -, means a little less inflationary pressure, so the effects offset each other.

And overall, the ECB's monetary policy outlook remains unchanged in terms of its terminal interest rate target. We expect a 2% key rate next spring, which is what we were already expecting before Donald Trump was elected and what we continue to expect after Donald Trump's election.

00:24:13 - Emmanuel Laborde

In fact, I invite you to follow our half-yearly conference in June, where we discussed the 2% target rate and ECB policy. Thank you very much.

Isabelle, I'm turning to you again. We've just heard that we can expect a lot of changes when Trump comes to power.

Couldn't this be a 'positive electroshock' for the old continent, which has been humming along a bit? Can't we see this as a great opportunity for us?

Isabelle Mateos Y Lago

It is possible, and to be honest, Europe needs it.

I believe that this was in fact the message, not exactly covertly, of Mario Draghi in the report he submitted to European leaders at the beginning of September.

Europe is falling behind, whether in terms of GDP per capita, productivity, investment or, more fundamentally, its ability to secure its future in a sovereign and autonomous manner. So we urgently need to take action on a number of fronts.

Usually, reports like this are put in a drawer and forgotten even more quickly than they were written. But this time, I think, thanks in part to the electroshock of Donald Trump's election, that European leaders, on the contrary, took it on board, studied it in depth and came to the conclusion that they broadly agreed with the diagnosis and that, on the other hand, they broadly disagreed with the recommendations and what should be done about them.

And so now they've said, here we are, we're going to try to reach an agreement, and it's going to take a bit longer. But at least there's an intention to act.

And that's positive.

Still at the EU, it is not insignificant that last week the European Commission finally signed an agreement with the Mercosur countries, a free trade agreement covering both goods and services to create a market of 700 million consumers. 25 years after the opening of negotiations, this is not an insignificant moment. As I was saying, we are at a pivotal moment when protectionist clouds are gathering.

It's important for Europe to point out that it remains open to international trade. It is a cornerstone of its prosperity. It is an important message to the rest of the world that Europe remains willing to trade with all those who wish to do so on fair terms.

And finally, at national level too, we are seeing the effects of this electroshock.

Until recently, Germany had a fairly dysfunctional coalition government. Everyone expected a year of political paralysis. Well, not at all. On the very day that Donald Trump's election was announced, Chancellor Scholtz decided to pull the plug and bring down his government, as it were.

We are now going to have early elections in February which will unblock the situation more quickly. The number one issue, one

of the main issues at stake in this election, is now what to do about the famous "*debt brake*", this constitutional rule that has been an extremely powerful brake on public investment.

And Germany badly needs to increase its public investment. And now, all of a sudden, there seems to be a consensus emerging in the space of a few weeks that it would be a good idea to loosen the debt brake a little.

So it's all quite positive. It really is a time of opportunity.

We can't be sure that action will be taken, but in any case, there are grounds for optimism.

Emmanuel Laborde

There are already a lot of reactions in anticipation. In fact, it was good to point it out.

The final chapter in this first part looks at trade relations between the United States and emerging countries.

With you, François, good morning.

François Faure

Hello Emmanuel, hello everyone.

Emmanuel Laborde

I'd like to come back very quickly to Donald Trump's announcements on 26 November, the day after the election: immediate talk of tariffs on Canada, Mexico and China.

You can tell it's a subject that's very close to his heart. He had been thinking about it for years and wanted to re-introduce these very, very high import taxes. It's not going to be without consequences for emerging countries.

Can you give us a quick overview?

François Faure

So yes, first of all, let's remember that this is going to have a fairly massive impact on international trade. Two studies have been published, one in September by the Peterson Institute for International Economics, an American *think tank*, and the other in November by the Centre d'études prospectives et d'informations internationales, CEPII, a French *think tank*.

According to CEPII, there will be a negative impact on world trade of just over 3%, which is far from negligible. It's a little less than the shock of 2020, but still quite significant. In terms of GDP and for emerging countries, unsurprisingly, there are two countries that will be most affected, obviously China, with a negative shock of between 1 and 1.5 GDP points by 2026, with retaliatory measures by the United States' other partners.

Then there is the impact on Mexico, a key partner of the United States. According to a simulation by the Peterson Institute for International Economics, Mexico would be affected. The impact on Mexican GDP will be around 1 point, which is not negligible.

On the other hand, these simulations show that the impact on other emerging countries is not that great, which seems a little surprising to us, because given the threats made by Trump, we can expect a fairly significant contraction in international trade.

Then, if we look by region, one thing seems obvious: Asia and even Latin America will be more affected than the countries of Central Europe, quite simply because for the first two regions, the United States accounts for between 10% and 20% of exports, whereas for the countries of Central Europe it's less than 5%, and 6% for Turkey. So the direct impact would be greater for Asia and Latin America.

That said, things are not so clear-cut for Latin America, because there are fears that the trade war could have a negative impact on commodity prices. We know that Latin American countries are major producers and exporters of raw materials.

So, even if they are not as closely integrated into global value chains as Asia and Eastern Europe, they could suffer from a fall in raw material prices.

Emmanuel Laborde

We were talking about the commercial impact, but is there a financial impact as well?

François Faure

The financial impact, yes of course. What my colleagues have said is basically a stronger dollar and interest rates that would be higher for longer.

This is a fairly bad mix for emerging countries, because there is a lot of portfolio investment that could return to the United States as a result of the '*fly to quality effect*', which is well known for emerging countries.

That said, the transmission belt is less important than in the past. Firstly, because the governments of emerging countries are largely indebted in their national currencies and not in dollars.

On the other hand, even if there are portfolio investments that can be withdrawn overnight, the share of domestic investors in national public debt has increased significantly in recent years.

So there could be an effect, but it will be muted, at least on domestic rates. And in fact, we haven't seen much of it since the announcements of Trump's election and his measures.

Emmanuel Laborde

There are two exceptions to this question?

François Faure

Yes, Turkey and Egypt. In both cases, the proportion of foreign currency debt is very high. However, a distinction needs to be made between the two countries.

There is one country where public finances have been put on a sounder footing, and have even improved significantly. This is the case with Turkey, where the public debt rate is expected to be only around 20%, perhaps 25% by the end of the year or early next year.

So it's still very little. And the deficit, for the moment, apart from the cost of financing the earthquake that took place last year, is pretty well under control. Egypt, on the other hand, needs external financing to service its foreign debt.

So Egypt is much more vulnerable than Turkey.

Emmanuel Laborde

20% for Turkey versus over 100% for France, just to give you an idea of the scale. It is indeed significant. So how might China react? Because we know that US-China trade is absolutely vital.

One can't do without the other. Their two economies are very closely linked. They have been in a latent economic war for years. What reaction can we expect from China after Trump's announcements?

François Faure

Firstly, we can simply expect retaliation and equivalent measures.

It should be remembered that since 2018, even though the United States has opened fire by increasing tariffs, the Chinese have responded.

The average tariff rate on US products has risen from 8% in 2018 to 20%. That's not far from the 15% that Anis mentioned earlier. Then, very recently, the Chinese decided to reduce sales of certain materials that are critical for the United States and to ban them outright, in the same way that the Americans banned the sale of electronic chips to Chinese manufacturers.

So the Chinese are going to play a power game. At the same time, to come back to the rather difficult economic situation in China, the government will continue to take measures to support domestic demand in order to offset the impact that this will inevitably have on exports, which explains the results of the simulations.

Emmanuel Laborde

So what measures? Can we list a few?

François Faure

The Chinese are going to use the whole palette.

In terms of monetary policy, the Chinese authorities will probably continue to lower interest rates, and will try to stimulate house purchases to help the country out of its property crisis.

In terms of fiscal policy, the authorities are likely to take measures to continue to support consumer income and hence consumption.

As far as exchange rate policy is concerned, it is possible that the monetary authorities will accept a depreciation of the exchange rate, which together with the deflation that Stéphane mentioned earlier, will make the real exchange rate, i.e. including the impact of prices, even more competitive.

The measures also concern financial policy. The Chinese have decided to increase bond issues to finance public investment, to be able to swap the debt of local authority

financing vehicles which are a burden on local authority finances and *ultimately* to try to support public investment.

Finally, as far as industrial policy is concerned, the monetary authorities will try to subsidise sectors and companies that can gain market share outside the United States.

Emmanuel Laborde

There is often a political gap between what has been announced and what actually happens, so it remains to be seen

Lastly, are there winners and losers for the other countries? And then the question within the question: could any countries benefit from China's strategy of circumventing protectionist measures?

François Faure

The message is not very simple, but overall what is likely to happen is that, leaving aside Latin America which is a very special case, if we take Asia and Central Europe which are purely industrial countries, Asia will be a little better spared by the measures imposed by Trump.

Firstly, because they are naturally better integrated into Chinese value chains, and so if the Chinese relocate their exports, they will benefit more than Central European countries. Secondly, as far as direct investment is concerned, the relocation of exports requires an increase in the direct investment that goes with it, so as to be able to relocate production that would be affected by tariffs.

Direct investment is much more massive and directed towards Asian countries than Central European countries. Vietnam is the main beneficiary, as do Thailand and Indonesia. In Central Europe, there are two special cases, Hungary and Serbia, which have received a lot of direct investment, but very recently and not in the same proportions as China's investment in Asian countries.

That's the first point.

The second point is that the countries of Central Europe, like the other countries in the eurozone, are going to face head-on competition from China on the European market because most of the products exported are finished goods.

So, these are not complementary products, but substitutable ones. So, the countries of Central Europe will suffer in the same way as the other countries in the eurozone.

And thirdly, as far as the countries of Central Europe and Turkey are concerned, labour costs and therefore unit labour costs have risen sharply in recent years.

There has been considerable catching up in terms of real wages, both in Central Europe and in Turkey. As a result, the real exchange rate between these countries and China is very unfavourable, which will make competition from Chinese products even fiercer.

00:39:31 - Emmanuel Laborde

So, we've got some great topics in store for the next six-monthly conferences. We have a lot of questions.

The first, Anis, concerns what you said about the United States. I'll give it to you: the other dimension of the *policy mix* that you mentioned briefly just now, with the deterioration in the budgetary situation mentioned in passing.

Should we be worried about these excesses? We've seen a lot of money printing, and the abysmal debt in the United States continues to climb. How can we try to extend the curves?

Anis Bensaidani

Surprisingly, the subject of the deteriorating US fiscal situation was relatively absent from the presidential campaign, despite the unmistakable deterioration in metrics.

Isabelle mentioned earlier that the public debt is around 120% of GDP. The deficit is currently around 6.5 points of GDP, which is unprecedented levels outside the periods of war and recession. The situation is set to continue and deteriorate further in the future, according to various estimates by the IMF and the Congressional Budget Office.

Nevertheless, it is clear that this is not raising any particular concerns in the United States at the moment. This is due to the special nature of the US, which is underpinned by the fact that the country issues the international reserve currency and by the central role of US Treasury bonds on the financial markets as a benchmark and as a risk-free asset.

So, it's clear that all this protects the United States to some extent. Nevertheless, I believe that this unique position will be put to the test in the years to come as public debt is expected to rise and if new macroeconomic or financial shocks occur.

In the meantime, this deterioration in budget metrics is not without consequences, since the interest rates at which the United States borrows have nonetheless risen significantly in recent years. The interest burden is growing, with the associated crowding-out effect on other public spending that might be considered more useful or productive.

Emmanuel Laborde

One question about Europe for you Stéphane, there are actually two.

Ultimately, does Europe's salvation not depend on Germany's ability to finally support investment, when the United States and China are already doing so?

Stéphane Colliac

Yes, it would be a belated dream, because Germany has been under-investing for some years now, particularly in terms of public investment, but even in terms of investment in industry. But sometimes you need shocks to wake you up and see what needs to be done.

So, overall, this would be the positive that Isabelle was talking about earlier, i.e. a complicated situation that presents us with two problems, either finding a solution or going into decline. Germany has already had to make this trade-off in the past, with the reforms to the labour market in 2005, which ushered in a period of fairly long and fairly positive growth, with Germany outperforming the rest of Europe.

It was already a situation of low growth that had lasted for a long time, and, in the end, we had this reaction and this work done on competitiveness, on making the labour market more flexible at the time, which had been a very useful reform for Germany.

So today, we need to invest more, develop production potential in services, and invest in this sector, which is the future. The car

is electric, but it will also have a lot of software inside. It just so happens that the biggest market capitalisation on the DAX is SAP, so that's no coincidence, and that's precisely what we need to do in the future, we need more SAPs in Germany.

Emmanuel Laborde

Perhaps a "world" question: won't Trump's arrival in power accelerate trade flows between the BRICS? The BRICS Brazil, Russia, India, China and South Africa and the BRICS that continue to expand.

François Faure

Yes, in any case, as far as China and Brazil are concerned, of course, there are already a lot of trade flows, and this can only intensify. Even if I have mentioned the European market, which will be an alternative target for China in the face of American retaliation, the Chinese are going to try to expand their markets just about everywhere, and so they're going to do it where the markets are the biggest, i.e. the major economies, with the exception of Russia for very specific reasons, so as to support their growth.

Isabelle Mateos y Lago

If I may add a word, I believe that the vast majority of emerging economies recognise that international trade is an important growth factor for them. And so that's the other part of the equation that François is talking about: all these economies want to continue to increase their participation in global value chains, to play the role of connector as much as possible between the different blocs that are emerging. It's a phenomenon that we've already been seeing for some time, this rise in South-South trade of sorts, and it's likely to be reinforced if the United States moves in an even more protectionist direction.

Emmanuel Laborde

I'll just give you a quick summary of other questions: 't the future really about investing rather than exporting?

Stéphane Colliac

Yes, indeed, t every time that exports have 'slipped', that's the question we've asked ourselves in the past, so it's a very good question, particularly in relation to Germany's reaction to what may happen in terms of trade relations with China. China's specialisation is eating into Germany's specialisation, they are selling fewer cars to China and German direct investment in China has broken records in recent quarters, so this is also what could happen in the United States. Instead of exporting from China, they will build their cars and invest locally. And that's what Europe could also do in the United States: instead of building in Europe or even Mexico, build in the United States to get around these customs barriers.

Emmanuel Laborde

Thank you to all of you who have given us the opportunity to ask these questions, which is why it was so interesting to follow us live during the first broadcast. Thank you, gentlemen, for being here and for the richness of your contributions.

Isabelle, on the other hand, you're obviously going to stay with us because you'll be concluding this part later, so we're moving on to the second chapter of this biannual conference and we're talking about energy and climate issues.

00:46:26 - Emmanuel Laborde

So Pascal and Jean-Luc have joined us on this stage, good morning gentlemen, good morning to both of you, Isabelle will be staying with us to wrap up later.

So, the second issue - and this is perhaps the main divide between the Republicans and the United States, even more so with Trump regularly flaunting his climate sceptic ideas — is energy and climate issues, which will divide the United States more than ever.

We know that Trump is a fervent defender of fossil fuels, he developed shale gas, which had already been launched under Barack Obama, but he expanded it, he opened new drilling zones in Alaska in areas that until then had been protected zones and off-limits to prospecting, we hear that he is really very proactive, very pro-business. Throughout his campaign, he has never stopped asserting his positions. Quite frankly, this is one of his promises and, over and above business, the idea of defending the *American way of life*, which consumes a lot of energy, taking the car and travelling thousands of kilometres is very common in the United States, and having access to cheap energy is also part of this way of life that Americans don't want to get rid of. Trump's solution is to put a lot of energy on the market to bring prices down. It's still very accessible, but is it as simple as that?

Pascal Devaux

So no, of course it's always a bit more complicated than that, and before answering your question I'm going to put a few things into perspective first. Since Trump's first term in office in 2016, US oil production has risen by more than 50%, so it really has become a major player in the market. Since 2023, the United States has been the world's leading exporter of oil and liquefied natural gas, so we can say without hesitation that the United States has a major influence on the oil market and therefore on prices.

To come back to your question about these campaign statements aimed at increasing oil production to influence prices, what we need to bear in mind is that the American oil sector is dominated solely by private companies and that it is these private

companies that will decide whether or not to invest in new production capacity.

So even if the federal government relaxes the regulations to facilitate new drilling, particularly on federal land, which accounts for around 25% of potential exploitable land, in the end it will still be private companies that maximise their revenues and decide whether to invest.

We are currently in an oil market where prices are trending downwards and, at the same time, the cost of production for American producers is relatively high, especially compared with producers in the Middle East, for example.

We can therefore assume that these private American oil companies will give priority to redistributing income to their shareholders rather than investing in new production capacity in a market where the outlook is, to say the least, uncertain, if not very mixed.

Emmanuel Laborde

So this will be a first brake on Donald Trump's strictly political will, the economic reality, the reality, real life, there are what we think, what we wish and then what happens in reality. Are there any other factors?

Particularly in terms of geopolitics?

Pascal Devaux

Absolutely, the energy market and geopolitics go hand in hand.

The international geopolitical situation is very different from what it was during Trump's first term, and in particular there is a much higher level of geopolitical tension in the Middle East, which is of course the main oil production area, and gas to a lesser extent.

Another element to be considered in relation to this geopolitical risk in the Middle East is once again this campaign statement that would like to ban Iranian oil exports.

For the time being, the consequences this could have on the oil market are still fairly uncertain and will depend very much on the decisions taken by the Gulf producers. The Gulf producers are the only ones with unused production capacity that they can put on the market fairly quickly.

So, either these Gulf producers put oil back on the market to compensate for the fall in Iranian exports, and thus regain market share, or they wait and let the price of oil rise and thus increase their revenues, which are essentially revenues that end up in the coffers of the governments of the Gulf countries.

Emmanuel Laborde

Here again I come back to the same conclusion as after your previous answer, there is a political will, it's very strong, but there are economic realities, geopolitical realities, we're going to have to deal with them, the truth will be between the two.

Pascal Devaux

Yes, absolutely, and a priori we can assume, at least in the short term, that the impact of the federal government's decisions will be very limited and that the increase in US oil production in 2025 will essentially be due to productivity gains, not to political decisions for the time being.

This is due both to sluggish demand, due in particular to the Chinese slowdown, and to increased oil production by non-OPEC countries, including the United States, Canada and South American countries such as Brazil and Guyana.

Emmanuel Laborde

We've been talking about oil since the beginning of this interview, but there's another very important source of energy that we can't ignore, and that's gas. Since the end of Nord Stream, the whole of Europe has become very dependent on liquefied natural gas from the United States, which arrives by ship.

What about this energy source?

Pascal Devaux

So, on the face of it, Trump is likely to have a greater impact on the gas sector than on the oil sector.

It's true that this is a very important issue for European energy security. The European gas market is currently fairly tense, mainly for political reasons. Since the sharp drop in Russian gas exports to Europe, we are still somewhat dependent on Russian oil, but much less so than before of course. The United States has become the leading supplier of liquefied natural gas to Europe: around 18% of total gas imports from the United States are destined for Europe, if we consider both liquefied gas and gas in gaseous form.

If we come back to the US gas market, we really need to distinguish between short-term and medium-term factors. In the short term, we are seeing several delays in the construction of new gas liquefaction plants, and this should push up US gas prices a little, at least in the short term.

Emmanuel Laborde

We hear time and time again, whatever energy sector we're talking about, that there's a political will to act quickly, but that the reality will be more in the medium term. The consequences of the policy will come in six months, a year, two years, I don't know what timeframe we can give, but that's the medium term.

Pascal Devaux

We're looking at a time scale of 4, 5, 6 years, so it's a bit further out, and the consequences of federal decisions will be felt in the medium term, essentially through actions that will have an impact on regulations, a bit like oil.

So, we should see the end of the moratorium on new LNG exports, we should have new authorisations to set up liquefaction units, so all this new gas will come onto the market in the medium term. We also need to bear in mind that, in the medium term, this new gas will come onto the market at the same time as other producers, notably Qatar, who will also be increasing their production.

Qatar is set to increase its production by more than 60% by 2028-2030. So, in the medium term, we'll have a lot of gas coming onto the market, and there's a possible risk of a gas glut in relation to demand, so obviously there could be downward pressure on gas prices in the medium term.

Emmanuel Laborde

Thank you very much Pascal.

Jean-Luc, I turn to you. We can hear in these remarks Trump's desire to be very proactive on everything to do with fossil fuels, whether gas or oil. What we also hear very clearly in his speech is his climate scepticism, and he also almost verbalised, or at least that's how we interpret it, a desire to get the United States out of the Paris agreements, which date back to COP 21 in 2015.

These are agreements which, just as a reminder, aim to limit emissions of various greenhouse gases and effects to limit global warming. This is a major global agreement, and Trump would like to break away from it.

In the end, isn't the climate the biggest loser in this election, to put it simply?

Jean-Luc Proutat

We must be honest, or realistic: Donald Trump's return to office is not, on the face of it, good news for the fight against global warming. As you said, Trump is clearly in the camp of the climate sceptics, which poses a real question when you have to lead a country that is still one of the main producers of greenhouse gases on the planet.

Let's look at some figures. Since the industrial revolution, the United States has been responsible for around a quarter of cumulative CO² emissions, and each American emits an average of 17 to 18 tonnes of CO² equivalent per year. That's twice as much as a European and 17 times as much as an African, so it's quite clear that the United States plays a major role in climate change, and it's hard to imagine making progress on this issue without them

Emmanuel Laborde

It's a slightly pessimistic start, but a realistic one. But let's not confuse Trump and the United States, because that's important. We're already in a federal area, which means that there are governors who are there to administer each of their states with real political will, and if we look at the figures, there are signs of encouragement, because the United States as a whole has already started to reduce its greenhouse gas emissions, can you confirm that?

00:58:00 - Jean-Luc Proutat

Yes, over the last fifteen years or so - and this is a major trend - CO₂ emissions in the United States have fallen by around 20% cumulatively.

Emmanuel Laborde

This is significant.

Jean-Luc Proutat

That's less than in Europe, but still quite remarkable. This has continued under Trump's first presidency, which is worth noting.

Even so, the United States remains heavily dependent on fossil fuels, which still account for 80% of its national energy mix. But as you said, some states have made progress in decarbonising their energy mix and are now approaching the best European standards.

Emmanuel Laborde

So, the one we talk about most often is California, right?

Jean-Luc Proutat

This is the best-known case, of course. California already produces more than 60% decarbonised electricity, thanks to a mix of nuclear and renewable energy.

California's leaders are aiming for 100% by 2030-2035, and they have a good chance of achieving this in electricity generation.

But there are other examples that we don't spontaneously think of, such as Texas, which is best known for its oil (and its

unforgiving world...).

00:59:09 - Emmanuel Laborde

For those under 20, it's a famous series called Dallas.

00:59:14 - Jean-Luc Proutat

And there you have it. Texas is making great strides in solar energy, with production capacity catching up with California.

Remember that Texas is a Republican state, while California is a Democrat state. This clearly shows that the reality on the ground goes beyond the political divide and is more a question of economic imperatives.

Because what is driving renewable energies, especially solar and wind power, in the United States as elsewhere, is the collapse in their costs.

Over the last fifteen years or so, the production cost of onshore wind power has fallen by almost 70% and that of photovoltaic solar power by 90%. That's where the driving force lies.

Emmanuel Laborde

We also hear Texas' desire to remain a player in the energy sector, whether oil or renewable energies.

Jean-Luc Proutat

Exactly, they change source gradually.

Emmanuel Laborde

With results like these in terms of increasing the efficiency of solar panels and reducing costs, Trump can't do much, can he?

Jean-Luc Proutat

I don't think that the next US administration will be able to completely scrap the Inflation Reduction Act, for example, which encourages the transition to clean energy in the United States, if only because it can be profitable and American companies are very attached to it.

That said, to pick up on what Pascal was saying, the energy transition could be slowed down if, for example, the weakening of environmental laws led to a considerable drop in the price of shale gas, which would then be a little more often included in the trade-offs that can be made between different systems.

We must also remember that the fight against global warming is not all about the United States, but a great deal about international cooperation, particularly in terms of the aid we can give to developing countries to help them decarbonise.

It's about multilateralism, a notion that President Trump is not very attached to. From this point of view, Trump's re-election is perhaps not the best signal to send.

Emmanuel Laborde

Thank you so much for these insights, which I hope have given you a fairly broad view of the economic prospects that lie ahead and their consequences for the environment and the climate.

One question for now: do you think that Trump's election was responsible for the failure of the last climate conference in Azerbaijan?

I think it was about ten days ago?

Jean-Luc Proutat

Yes, that's right.

Emmanuel Laborde

And the results weren't extremely exciting?

Jean-Luc Proutat

They may have seemed disappointing, it's true, but they should be put into perspective. This question comes at just the right time, as there will be a podcast devoted to this COP. I look forward to seeing you all in the near future.

In the run-up to the US presidential election, some players did not mobilise as much as they should have. Perhaps the results, particularly in terms of financing for emerging countries, did not match the stakes.

But I wouldn't call it a failure. In particular, there has been significant progress on the carbon credit trading market, for example.

Emmanuel Laborde

So, it's a bit of a trick question, but I'll try it anyway. You have to know the figure or not. There is no right answer. Whether you know it or not, in terms of emissions, the United States is twice as polluting as Europe, ten times as polluting as Africa and ten times as polluting as China?

Jean-Luc Proutat

Twice as much too. CO₂ emissions per capita are now roughly comparable between the European Union and China. China now

emits much more CO₂ than the European Union, but for three times the population. The curves for per capita emissions are finally converging.

The United States is out of the running if we exclude a few oil-producing countries, such as those covered by Pascal. As a major economy, it has the highest per capita CO₂ emissions.

Emmanuel Laborde

That's the end of the questions for now.

Allow me to offer a final perspective. There has been talk of Trump pulling out of the Paris agreements. Will this really be the case where we can imagine that the international community will react and try to temporise things a little?

Jean-Luc Proutat

It's difficult, and we don't have a crystal ball. Isabelle may have an opinion, but for my part I think that, given what has been announced, this exit is more likely than anything else. Unless an 'adult in the room' reminds us that the empty chair policy is never the best.

Emmanuel Laborde

It's an Anglo-Saxon expression.

Jean-Luc Proutat

If we push the reasoning a little further, the United States itself has an interest in seeing its major partners decarbonise at an accelerated pace. It's a game in which it's in everyone's interest to play. But I am not in the shoes of the President-elect.

Emmanuel Laborde

We'll be keeping an eye on the subject, and this will undoubtedly give us other opportunities to develop great themes during these biannual conferences. Thank you very much for the quality of your contributions.

Isabelle, we'll finish with you if you don't mind.

What are the ideas, the two key ideas for example, to keep in mind after our discussions of just over an hour this afternoon?

Isabelle Mateos y Lago

Admittedly, let's not kid ourselves, we are in an environment fraught with uncertainty, and the election of Donald Trump or his return to office is the cause of a number of these uncertainties. And then there are others, including those outside the economic sphere.

But I don't think we should let pessimism get the better of us. Firstly, because while not all the fundamentals are wonderful, on the whole they still strong. And that's a source of resilience for economies in general.

And above all, the various economic players who will be hit by shocks from the United States have the capacity to act and react. Central banks can cut interest rates, and the

various finance ministries can roll up their sleeves and implement the structural reforms we've been talking about for years.

So, it's also a time of opportunity and accelerated change. And I don't think we should let ourselves become paralysed. We're in a very, very dynamic environment, it's disconcerting, but there's plenty to do and we need to remain optimistic.

Emmanuel Laborde

A beautiful closing message. Let's embrace change with enthusiasm.

Thank you very much Isabelle for opening and closing this conference. Thank you for following us. I hope we've lived up to your expectations. You, the hundreds of you who followed us live and the thousands of you who will watch the *replay*.

Have a wonderful festive season, and don't forget the next half-yearly conference at the end of June.

See soon and enjoy the rest of your day.