

SCÉNARIO ÉCO

Société Générale Economic & Sector Studies

Slowcession takes root

- **Temporary bright spot fading:** Slowcession remains the most likely outcome for the major economies ... but recession risks have increased. Significant risk from the US elections in November. The Fed has engaged a first 50bp move and markets are pricing further fast track action. The pace of labour market deterioration will be a key driver for the Fed.
- **China set to miss 5% growth target.** Rebuilding consumer confidence will take time and new investment engines are still small. The likelihood of massive policy support remains low given the ongoing deleveraging that the authorities are navigating.
- **Europe shifts to tighter fiscal policy** and monetary easing. Fiscal policy tightening is back on the agenda, not least with eight EU member states (France, Italy, Hungary, Slovakia, Romania, Malta, Belgium, Poland) already under Excessive Deficit Procedure. For the euro area member states, respecting the rules is particularly important given that this is a condition of the ECB's still untested TPI.
- **On the monetary policy front, the ECB is taking a conservative approach to rate cuts**, with the risk of falling behind the curve. The ECB remains concerned on wage inflation. Keep in mind that it will take quite a few rate cuts before the policy stance shifts from restrictive to accommodative.
- **Structurally we maintain our view of shorter and more volatile cycles** given political uncertainty, geopolitical fragmentation, and global transitions (AI, Environment...).

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EDITORIAL

ONGOING DECELERATION AND UNCERTAINTIES

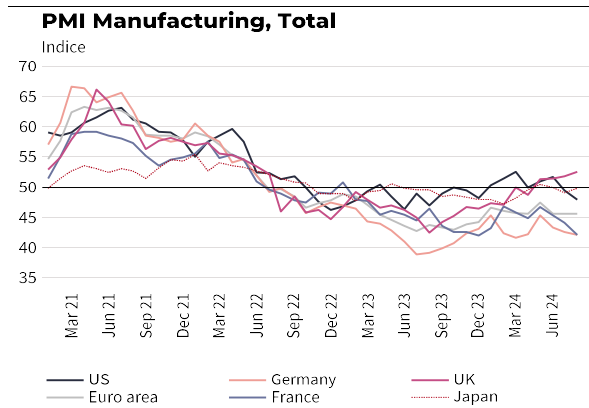
After a first half of 2024 where activity surprised on the upside, especially the US economy, the global dynamics are showing diverging trends with lacklustre manufacturing activity in a context of stagnating international trade. Services sector has so far shown more resiliency, but labour markets are already cooling as reflected in fewer vacancies and lower wage pressures.

We expect a deceleration in the US. Activity has so far remained supported by household consumption and manufacturing investment, but the labour market is now showing clear signs of weakening. Significant uncertainty looms, however, with the upcoming November elections, be it on immigration, fiscal measures, energy politics or international relations.

In Europe, activity is in aggregate holding up fairly well but with significant geographical differences, with notably weaker signals from Germany where the manufacturing industry is suffering from Chinese competition especially in the electrical vehicles sector. In France political uncertainty and the expected fiscal tightening will continue to weigh on business confidence and thus on investment.

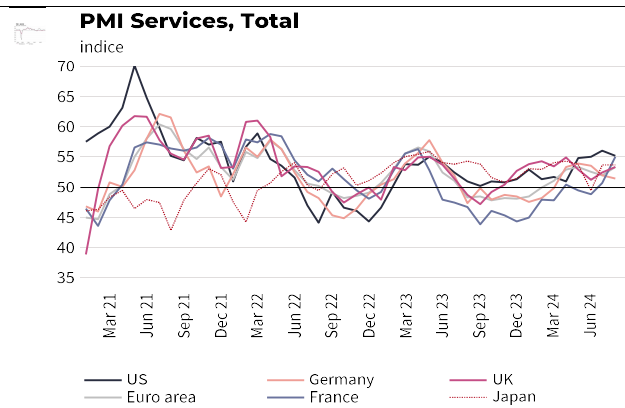
The pace of disinflation and the easing of labour market tensions are paving the way for further rate cuts in the coming months on both sides of the Atlantic. We expect 25bp of rate cuts at each ECB and Fed meeting until the end of 2024 and further easing in 2025. Even as the ECB and the Fed cut rates, monetary policy will still remain in restrictive territory for some time. Both central banks are, moreover, still engaging quantitative tightening albeit at a slower pace for the Fed and at a pace that is set to pick up a little in 2025 for the ECB.

Manufacturing recession



Source: LSEG, SG Economic and Sector Studies

Services still resilient



Source: LSEG, SG Economic and Sector Studies

China continues a difficult balancing act of ensuring orderly deleveraging of the economy and management of the real estate crisis. Modest stimulus is helping the economy to avoid a deeper downturn but is unlikely to provide a structural shift.

European fiscal rules are back into effect and several countries may find it difficult to comply, not least those under an excessive deficit procedure (EDP). This risks pressuring euro area sovereign spreads.

In France, after the parliamentary elections, the budgetary process faces significant hurdles in the parliament. Fiscal policy will have to see a steady pace of tightening, and the risk is that failing to deliver now will see a more abrupt and disorderly tightening further down the road. Being placed under an EDP is not a breach of the European fiscal rules, but the Commission will have to approve the path of the deficit reduction. France should present its 5-year budget plan to Brussels over the coming weeks and this will be closely watched. Compliance with the European fiscal rules is a prerequisite for a member state to benefit from the ECB's Transmission Protection Instrument (TPI). The TPI, not yet tested since its creation in 2022, allows the ECB to intervene against unwarranted spread widening as long as the member state complies with the European fiscal rules. Should France not comply with these rules, further financial tensions cannot be ruled out.

IN SLOWCESSION MODE

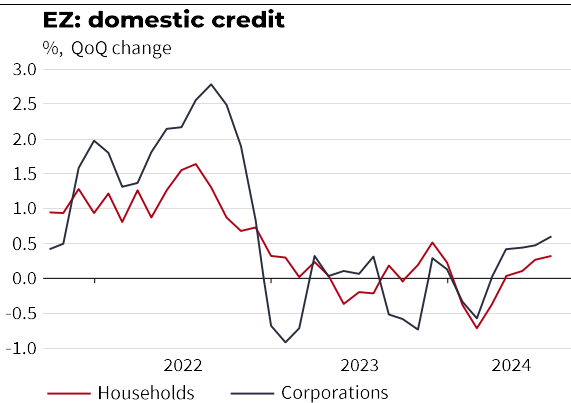
In the medium term the world economy is expected to remain in a slowcession mode. This characterizes by an environment of weak growth dynamics where global activity is not falling into recession but struggles to rebound. It is explained by a combination of cyclical and structural factors.

On the cyclical side,

- **The lagged effects of past monetary restriction are likely to continue to operate in the coming quarters,** despite lower policy rates of major central banks (except for Japan).

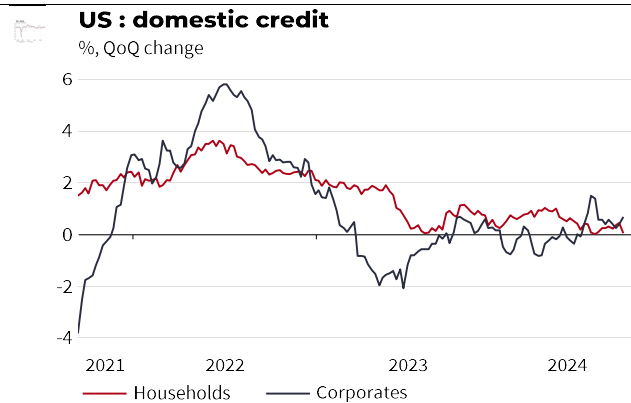
- **Quantitative tightening will continue to have an impact on global liquidity.** We expect the Fed to end QT around the turn of the year. The market is concerned by the optimum level of reserves before liquidity strains could appear in the system. The ECB is expected to shrink its balance sheet until end 2026.

Bank credit slightly bottoming out...



Source: LSEG, SG Economic and Sector Studies

...but remains weak across de board



Source: LSEG, SG Economic and Sector Studies

- **Fiscal policies are expected to be tighter especially in the euro area with the reactivation of the fiscal rules**, and the reduced fiscal room in most countries of the monetary union. In the US, we also expect the fiscal stance to remain constrained in a context of potentially divided Congress. We expect fiscal support in China to fall short of what is needed to lift the economy coming out of slow growth.
- **The monetary tightening cycle in Japan** must be watched carefully as the Japanese yen is an international funding currency thanks to traditionally lower interest rates supporting large carry trade positions. Moreover, higher domestic interest rates could push Japanese investors to reduce their international portfolio exposure and increase financial stability risks.
- **Risks of significant market repricing** cannot be ruled out especially as valuations have not corrected in the face of higher interest rates since 2022. It remains to be seen how valuations will behave in a context of weaker growth and reduced prospects of rate cuts after 2025.

On the structural side,

- **Climate change intensification is increasing the frequency and severity of weather-related disasters leading not only to tragic human loss but also hurting productive capital and thus growth potential.** Supply side shocks imply higher inflation in the medium term and higher indebtedness and further limiting policy room to support the urgently needed climate transition.

- **Both the digital and green transitions offer an opportunity for growth**, but policies need to be well managed to ensure just and fair transitions.
- **Geopolitical and geoeconomic fragmentation is already driving the return of industrial policies, with focus on strategic autonomy and protecting key interests.** This is likely to push firms to place resilience above efficiency in shaping supply chains and increase trade tensions in strategic sectors.

All these factors contribute to increase uncertainty leading to a higher propensity to save and limited investment dynamics. As a result, our growth expectations for the next years envisage one of the lowest average growth rates registered at the global level in the last 30 years.

ECONOMIC FORECASTS

GDP, % ch YoY	2023	2024f	2025f	2026f
Developed Markets	1.6	1.3	1.5	1.4
United States	2.5	2.1	1.5	1.8
Japan	1.7	0.0	1.0	0.6
United Kingdom	0.1	0.9	0.9	0.9
Euro area	0.5	0.9	1.0	1.1
Germany	-0.1	0.1	0.6	1.0
France	1.1	1.0	0.9	1.1
Italy	1.0	0.7	0.6	0.8
Spain	2.5	2.3	1.5	1.6
Emerging Markets	4.2	3.9	3.8	3.6
Asia	5.3	4.7	4.4	4.3
China	5.2	4.3	4.0	3.8
India	8.2	6.7	6.2	6.2
Central and Eastern Europe	2.9	2.5	2.3	1.9
Latin America	2.3	2.5	2.4	2.4
Brazil	2.9	1.9	1.9	2.0
Middle East and Central Asia	1.9	2.6	3.8	3.1
Africa	3.2	3.5	3.8	3.8
World (PPP weighted)	3.3	2.9	3.0	2.8

CPI, % ch YoY, avg	2023	2024f	2025f	2026f
Developed Markets	4.6	2.6	2.0	2.0
United States	4.1	2.9	2.5	2.5
Japan	3.2	2.3	1.8	1.5
United Kingdom	7.3	2.7	2.2	2.0
Euro area	5.4	2.4	2.0	1.9
Germany	6.0	2.4	2.2	2.0
France	5.7	2.5	2.0	2.0
Italy	5.9	1.4	2.0	2.0
Spain	3.4	3.2	2.1	2.1
Emerging Markets	8.3	8.3	6.2	4.9
China	0.3	0.7	1.2	2.0
India	5.4	4.7	4.7	4.7
Brazil	4.6	4.0	3.5	3.5

%, EoP (unless otherwise indicated)	Latest 24/09	2024f	2025f	2026f
Fed Funds target (high)	5.00	4.50	3.50	3.25
Gov 10Y, US	3.75	4.00	3.50	3.75
ECB Deposit facility rate	3.50	3.00	2.00	2.00
Gov 10Y, Germany	2.17	2.25	2.00	2.25
Gov 10Y, France	2.95	2.95	2.70	2.95
Gov 10Y, Italy	3.52	3.75	3.50	3.75
Gov 10Y, Spain	2.97	2.95	2.80	3.05
BoE, Bank rate	5.00	4.75	3.50	3.50
Gov 10Y, United Kingdom	3.93	4.00	3.50	3.50
BoJ, bank rate	0.25	0.35	0.40	0.50
Gov 10Y, Japan	0.84	1.00	1.10	1.15
EUR / USD	1.11	1.05	1.10	1.15
EUR / GBP	0.83	0.90	0.90	0.90
USD / JPY	144	150	140	130
USD / CNY	7.1	7.2	7.0	7.1
Oil Brent (USD/b)	74	75	70	70
European Natural Gas (TTF, EUR/MgW/h)	36	40	40	40
EU ETS carbon (EUR/Metric ton)	64	75	90	100

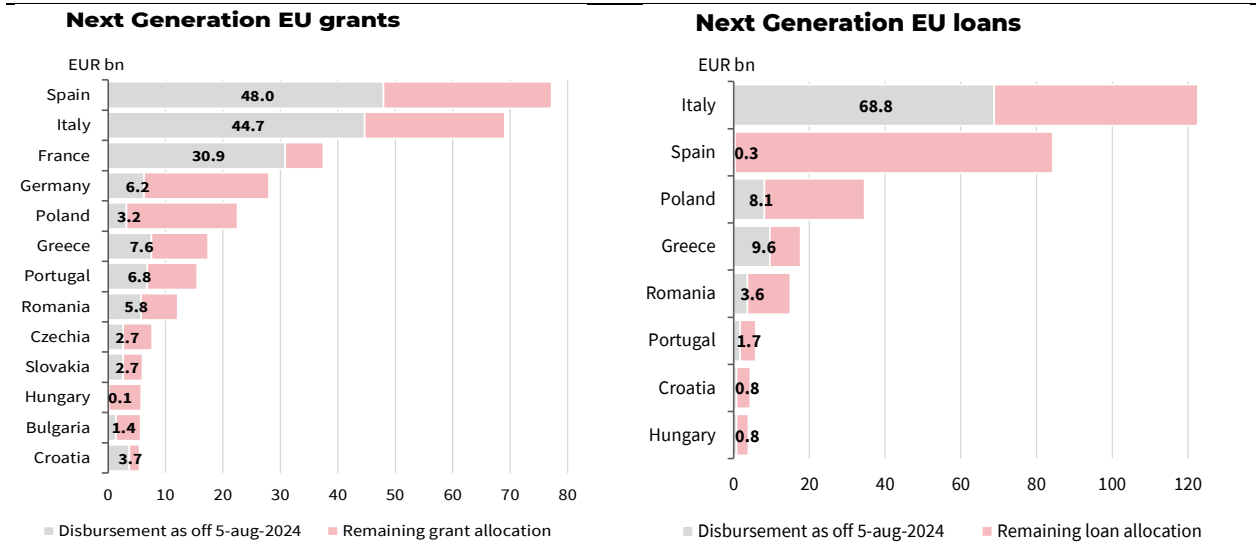
EURO AREA

- **The temporary bright spot seen in the euro area is now fading, as the disinflation bounce fades.**
- **Unemployment remains low, but labour markets are no less tight, and we look for some uptick in unemployment over the forecast horizon.**
- **Fiscal policy is set to turn more restrictive as several key member states look to reduce budget deficits and ensure compliance with the EU fiscal rules.**
- **Additional rate cuts from ECB are expected, but monetary policy will remain in restrictive territory for much of the forecast horizon.**

After a temporary bright spot, growth momentum in the euro area is losing steam heading into the end of 2024. Several factors are contributing hereto. Top of the list, we note that the disinflation bounce is losing momentum and the lift from a flurry of major summer events, including the Olympics, are now behind. Political uncertainty is a further factor, not least in France where spreads over Germany have widening by around 20bp since the elections. Housing markets, moreover, remain lacklustre and while ECB rate cuts will offer some support, overall monetary policy will remain in restrictive territory some time.

On the fiscal front, moreover, policy is turning more restrictive in several key member states. However, for some states, the ongoing disbursement of the NGEU funds will remain supportive. To date, out of the EUR 723 bn allocated (435 in grants and 288 in loans), only EUR 257 bn euros have been effectively disbursed, with quite heterogeneous situation by country. France has almost absorbed its allocation, with 82% of the allocated fund disbursed). The plan is set to finish by august 2026 and could see more countries accelerating to consume their allocated share.

Low absorption of NGEU funds: uneven capacity by country



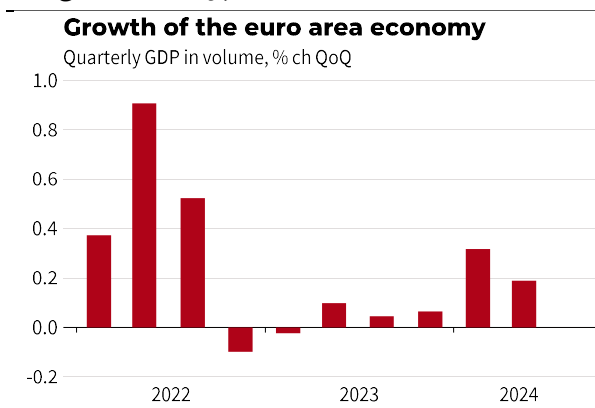
Source: EU Commission, SG Economic and Sector Studies

Source: EU Commission, SG Economic and Sector Studies

The new report on Future European Competitiveness, prepared by Mario Draghi, sets out a roadmap for more supportive policies. It identifies a long list of key challenges and provides recommendations to address them. The report emphasizes a focus on innovation, securitization of energy and scarce resources and the reduction of regulatory obstacles and the administrative burden for SMEs. The most politically sensitive proposal is a call for more EU-level joint debt to finance key investments. The report advocates that EU should invest around USD 750bn-800bn annually (4.7% of EU GDP) to close its competitiveness gap with the US and China.

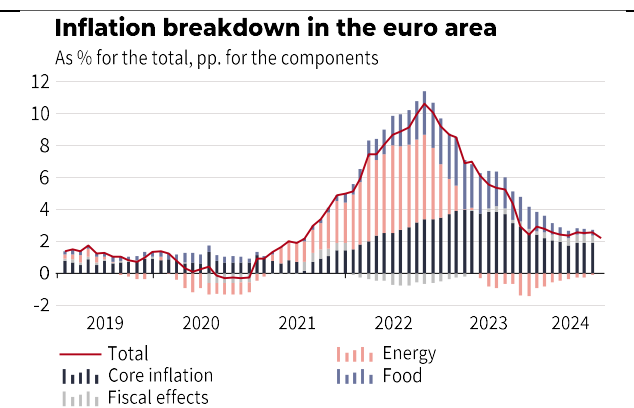
Finding a political consensus to implement the proposals is likely to prove challenging and our baseline assumption is that the most ambitious parts of the plan, not least in terms of new common spending programs will not materialise over the forecast horizon. Should we be positively surprised on this front, this would offer upside to our forecast.

A slight recovery, to be confirmed



Source: Eurostat, SG Economic and Sector Studies

Disinflation continues



Source: Eurostat, SG Economic and Sector Studies

Household consumption is expected to recover moderately over the forecast horizon. Zooming in on households, purchasing power should continue to improve

thanks to ongoing disinflation, but at a slower pace. With firms seeking to preserve profitability by moderating unit labour cost growth, real wage growth will be more modest, as will employment growth. As a result, unemployment is expected to rise. Comfortable household savings provide room for manoeuvre, but more subdued wealth effects and rising unemployment should prompt consumers to exercise caution. Residential investment will continue to slow, as demand is constrained by still-high mortgage rates and high construction prices. Gradual rate cuts by the ECB should facilitate financing.

Export growth will remain below its long-term average, with risk of further trade tensions, and eventual tariff hikes for EU exporters as a response to the hike of tariffs on Chinese EVs. Imports are expected to recover as household gradually consumption picks up. The current account surplus will thus remain below its pre-COVID level.

Headline inflation is now close to the 2% target, clocking in at 2.2% YoY in August. While the recent fall in energy prices allows for further disinflation, we note that service price inflation has since late 2023 remained around the 4% level in year-on-year terms. With employee compensation softening, we expect service price inflation to start easing gradually. Nonetheless, the ECB remains concerned about wage dynamics.

The ECB cut rates for the first time in June, and we expect a further 75 bps of cuts by the end of the year. Nevertheless, monetary policy is expected to remain tight over much of the forecast horizon with the neutral rate seen at close to 2% in nominal terms. The ECB's quantitative-tightening announcements imply further tightening of liquidity conditions.

Risks to this scenario remain on the downside, due to political and geopolitical risks. A further risk is that labour markets suffer a sharper adjustment than expected, triggering a higher unemployment rate, and weighing on consumption.

Euro area	2023	2024f	2025f	2026f
Real GDP, % ch YoY	0.5	0.9	1.0	1.1
Household consumption	0.7	0.7	0.9	0.9
Public consumption	1.0	1.3	0.7	0.8
Investment	1.2	0.2	1.0	1.4
Exports of goods & services	-0.4	1.0	2.6	2.9
Imports of goods & services	-1.1	0.5	2.3	2.9
Inflation, % annual average	5.4	2.4	2.0	1.9
Core inflation, % annual average	5.0	2.8	2.1	1.9
Real gross disposable income (GDI), % ch YoY	1.2	0.6	0.3	0.8
Households saving rate, % of GDI	13.7	13.6	13.1	13.0
Unemployment, % of labour force	6.5	6.6	6.7	6.8
Fiscal balance, % of GDP	-3.6	-3.5	-3.2	-3.0
Public debt, % of GDP	90	90	90	91
Current account balance, % of GDP	1.6	2.2	2.0	2.0

GERMANY

- **Failing to overcome the cyclical slump that followed the energy crisis, the German economy continues to flirt with stagnation.**
- **Households maintain high precautionary savings, limiting internal demand which has not been offset by exports.**
- **The government aims to support high value-added industries (pharmaceuticals, semiconductors) even under the budget consolidation expected for 2025.**

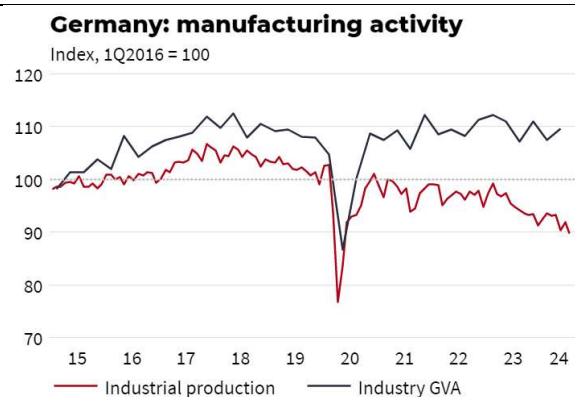
Germany lingers in a low-growth environment on the back of weak demand. GDP will barely grow this year (0.1%), and the country will continue to underperform in 2025 (0.6%). The negative surprise in growth in the second quarter (-0.1% QoQ) was driven by the contraction in private consumption and investment, despite strong wage growth and ongoing disinflation.

Growth held back by Investment and private consumption



Source: Bundesbank, SG Economics & Sector Studies

Industry: plunging production but resilient GVA

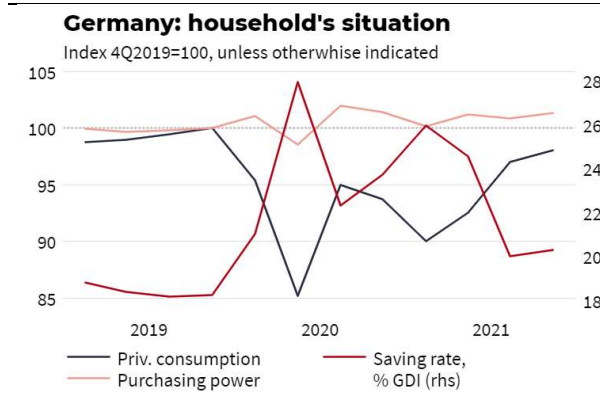


Source: Destatis, SG Economics & Sector Studies

Industry misstep continues, with production still contracting, and now 8.7% below pre-pandemic levels. This deterioration is confirmed in the short term with leading indicators pointing to further contraction, e.g. manufacturing PMIs have been deteriorating since May. It should be noted that as industrial production erodes, its gross value added is proving rather resilient. The latter has recovered following the pandemic and energy crisis and remains at a similar level to 2018-19. This hints to some form of adaptation of the sector towards products - e.g. electric vehicles - and branches such as pharmaceuticals and defence with higher added value. Services have slowed but continue to contribute to growth (+1.1% YoY in Q2). Overall, German producers face an improving business environment as labour market conditions ease, financial conditions improve, and energy prices decline. However, they continue to face rising unit labour costs (+33% since 2016) while their per capita productivity stagnates putting upward pressure on companies to trim jobs. We expect unemployment to reach 6.4% in 2025. The lack of productivity gains

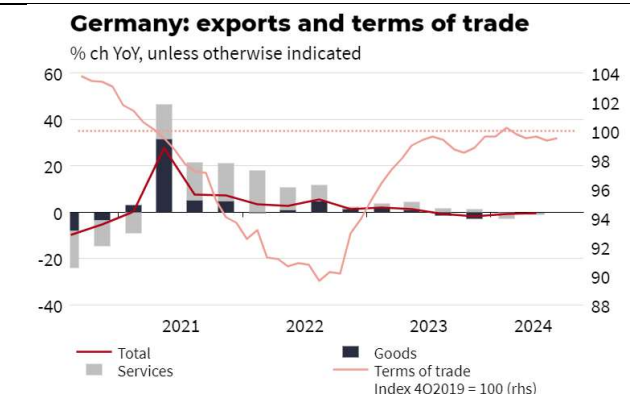
and the prospect of a decline in the working-age population (-4% between 2022 and 2030, according to the European Commission) raise doubts about the German economy's ability to maintain output levels.

Albeit a robust purchasing power, households maintain excess savings



Source: Destatis, Eurostat, SG Economics & Sector Studies

International competitiveness is restored but exports keep underperforming



Source: Destatis, Bundesbank, SG Economics & Sector Studies

While producers report insufficient demand as a limit to their activity, household's precautionary savings behaviour persists. The household savings rate (21.2% of GDI in Q1) remains the highest in the euro area and is nearly 3pp above its pre-pandemic level. It is set to remain above the 20% mark well into next year limiting consumption, which is catching up very slowly. Less precautionary savings in favour of growing consumption will be a driver of medium-term growth. This arbitrage by households comes at a time when wages keep exhibiting a vigorous dynamic and inflation slows, boosting their purchasing power. Indeed, real wages rose by 2% YoY in the first half of the year, and negotiated wages rose by 3.1%. Meanwhile, inflation is easing and is expected to hit 2.4% on average this year before returning to the 2% target in the course of 2025.

External demand is not providing a substitute, even though Germany has recovered its international competitiveness. The latter, measured by the terms of trade, is now at levels comparable to those of 2019, overcoming the effects of disruptions to value chains and the energy crisis. Export growth this year will be only very limited (0.7% YoY) and is set to remain well below its 2010-2019 average over the forecast horizon, in the wake of a slowdown in China and the US economies. Meanwhile, the current account balance will sustain a surplus and will expand this year in view of reduced demand for foreign products.

The Government is committed to fiscal consolidation and to respect the debt brake but is considering measures to boost private investment. Negotiations for the 2025 budget call for a reduction of EUR 8 bn (~0.7% of GDP) compared to 2024, in particular by cutting international aid commitments. Among the most salient points is the reduction of military and financial aid to Ukraine which is almost halved (~EUR 4 bn). In addition, the coalition is considering financing operations that fall outside the scope of the debt brake's compliance calculations, a manoeuvre that is

likely to be challenged in the Federal Court in the coming months. This is the case of the equity injection to Deutsche Bahn of EUR 10.4 bn and the reallocation of residual funds from the energy subsidies of the KfW Development Bank into loans for the rail and motorway industries (~EUR 8 bn). In addition, the public authorities are aiming to boost investment and production in industries with high added value and export potential. The first major results have been announced, with large-scale investments for the construction of industrial sites in pharmaceuticals (3.6bn EUR), and semiconductor (10bn EUR).

Risks remain tilted to the downside and weight on a rebound next year. External demand could be shape by new geopolitical and political shocks. Higher uncertainty would compromise recovery due to postponed investment and further precautionary behaviour from consumers. Moreover, as next year's federal elections approach and the discourse around immigration hardens, the risks to further imbalances in the labour force are to be monitored.

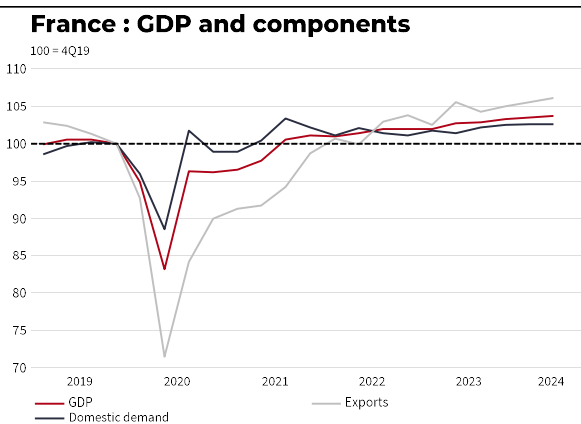
Germany	2023	2024f	2025f	2026f
Real GDP, % ch YoY	-0.1	0.1	0.6	1.0
Household consumption	-0.2	0.7	0.6	0.9
Public consumption	-0.1	1.7	0.3	0.9
Investment	-0.7	-2.4	0.4	1.4
Exports of goods & services	0.2	0.7	2.1	2.3
Imports of goods & services	-0.3	-0.1	2.4	2.5
Inflation, % annual average	6.0	2.4	2.2	2.0
Core inflation, % annual average	5.1	2.9	2.2	2.0
Real gross disposable income (GDI), % ch YoY	-0.4	0.6	0.1	0.8
Households saving rate, % of GDI	20.3	20.6	20.1	19.9
Unemployment, % of labour force	5.7	6.2	6.4	6.6
Fiscal balance, % of GDP	-2.5	-1.6	-1.5	-1.4
Public debt, % of GDP	64	63	63	63
Current account balance, % of GDP	6.2	6.7	6.4	6.2

FRANCE

- **Activity is expected to remain lacklustre over the forecast horizon.**
- **Disinflation is expected to continue, albeit more slowly for the services sector.**
- **The public deficit has slipped, and France has fallen under an Excessive Deficit Procedure. The outlook for budgetary consolidation is uncertain.**

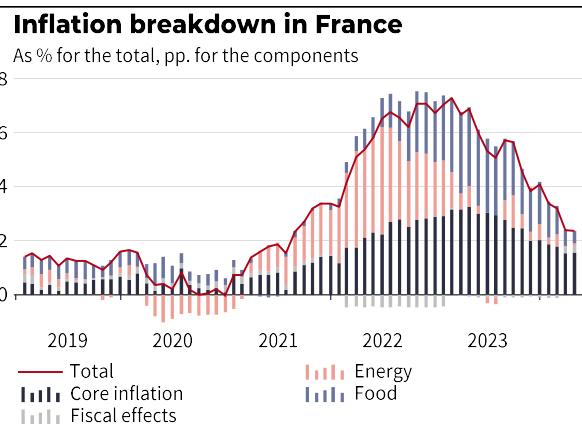
Growth prospects for France remain weak. Growth in 2024 is projected to clock in at 1% and remain lacklustre in 2025 and 2026. After a resilient start to the year and a 3Q24 buoyed by the effects of the Olympics, activity will be held back by economic political uncertainties as both consumers and businesses adopt wait-and-see positions. INSEE and the Banque de France forecast growth in Q3 at 0.5%, followed by a contraction in Q4 of -0.3%. The level of uncertainty measured in the Banque de France's monthly business survey has increased since elections were called and reached its highest level since 2022. The slowdown in productive investment, despite the still well-oriented profitability of enterprises, is limiting the expansion of the economy.

A poor outlook for 2024-25



Source: INSEE, SG Economic and Sector studies

Disinflation continues



Source: Euro Area, SG Economic and Sector studies

The dynamics of foreign trade will remain favourable. The fall in imports, associated with the reduction in the energy bill, together with positive export dynamics driven by the demand for goods, equipment, and transport coming mainly from the US, have allowed the current account deficit to contract. The Olympic Games provided a rebound in exports of services in the third quarter, particularly in the hospitality sectors, but the impact will be short-term.

Household demand is expected to recover only very slowly over the forecast horizon. The institutional review of the national accounts carried out by INSEE highlights the marked drop in food consumption since the end of the Covid Crisis. It is now below its 2019 level, owing mainly to a “quality” effect. The decline in

consumption reflects a change in range (moving from national brand products to distributor brand products, etc.) as well as a recomposing of the basket by product (less meat for more pasta, etc.). Households are keeping their savings high, despite their improving purchasing power since late 2023, due to the ongoing uncertainties. The uncertainty generated by the volatile political environment since the end of the second quarter could prolong a generalized wait-and-see attitude. Purchase intentions remain subdued and residential investment continues to contract. However, real wage growth in a context of disinflation should allow for a slight increase in consumption over the forecast horizon.

Despite the ECB rate cuts, financial conditions are expected to remain tight, adding to the factors holding back a significant acceleration of domestic demand. The central bank's quantitative-tightening announcements imply further tightening of refinancing conditions for the banking sector. Rising business failures should reduce the appetite for financing new investment. Banks are maintaining constraining standards on loans to businesses and for consumer credit and other lending to households, while moderating the standards for mortgage loans to households. Demand for credit remains hence subdued, and loans to households and corporates continue to limp along.

The labour market is set to see some softening. The employment rate remains at high levels (69% at end 1Q24). Nonetheless, employment growth is expected to lag as the effect of apprenticeship contracts on employment growth decreases (the "Labor Mission" program which finances subsidized contracts comes to an end since 2Q24); the return of hours worked to their 2019 levels, and the expected efforts by companies to rebuild labour productivity. Unemployment is thus expected to rise, partly also a result of the increase in the labour force induced by the 2023 pension reform, which keep more older workers active for longer.

The fall in inflation is expected to continue, below 3%. The fall in energy prices should continue over the remainder of the year and allow for further disinflation. Oil prices have been trending downward since mid-July, due to sluggish domestic demand in China. By contrast, services' inflation impacted by the Olympic Games is expected to remain elevated in the near term, preventing a further decline in inflation in 2024. Disinflation should continue in 2025, with pressures in the services sector easing and imported energy prices expected to further drop slightly.

Debt is expected to rise again due to persistently high deficits. The deficit is expected to rise from the authorities' initial forecast. The slippage in social security and community deficits, and the expected decline in tax revenues, should push the deficit beyond the 5.1% announced by the authorities in April. The Treasury DG estimates that the deficit could reach 5.6% in 2024 (6.2% in 2025) if no corrective action is taken. The trajectory of the public deficit remains uncertain in the present environment and building political agreement for significant fiscal consolidation will be very challenging with the risk, moreover, of seeing some structural reforms, such

as elements of the pension reform rolled-back. This will weigh both on public finances and growth potential.

Risks to this scenario remain on the downside. Risks associated with the energy crisis have dissipated but will remain so as long as the conflict in Ukraine persists. The socio-political environment, as well as eventual rolling back of reforms could add up to the uncertainty and prolonged the wait-and-see attitude. Further increase of trade tensions and downside risks to foreign demand with downside risks of the US and already weak demand in China could also prove unfavourable.

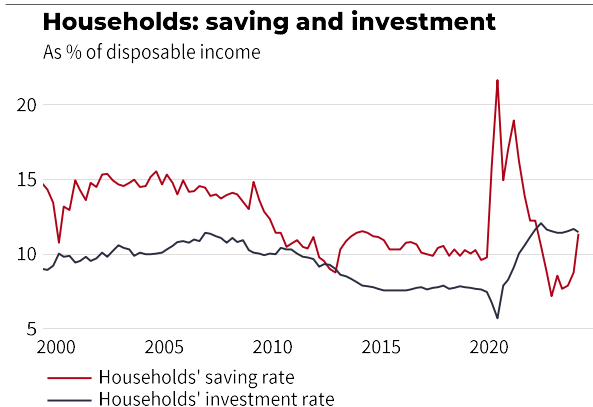
France	2023	2024f	2025f	2026f
Real GDP, % ch YoY	1.1	1.0	0.9	1.1
Household consumption	0.9	0.7	1.3	1.2
Public consumption	0.8	1.1	0.0	0.5
Investment	0.7	-0.8	1.4	2.0
Exports of goods & services	2.5	1.7	2.2	3.0
Imports of goods & services	0.7	-1.6	2.5	3.2
Inflation, % annual average	5.7	2.5	2.0	2.0
Core inflation, % annual average	4.0	2.4	2.0	2.0
Real gross disposable income (GDI), % ch YoY	0.9	0.9	0.2	0.6
Households saving rate, % of GDI	16.9	16.9	15.9	15.3
Unemployment, % of labour force	7.1	7.4	7.9	7.9
Fiscal balance, % of GDP	-5.5	-5.7	-5.5	-5.0
Public debt, % of GDP	111	112	113	115
Current account balance, % of GDP	-1.0	-0.3	-0.3	-0.3

ITALY

- **GDP growth outperformed the euro area in 2023 but should slow in 2024 and 2025 as fiscal measures unwind. NGEU will remain a supportive factor over much of the forecast horizon.**
- **Purchasing power is set to increase in 2024 after two years of contraction, allowing households to start rebuilding savings.**
- **Public debt is set to return to an upward trajectory as of 2024.**

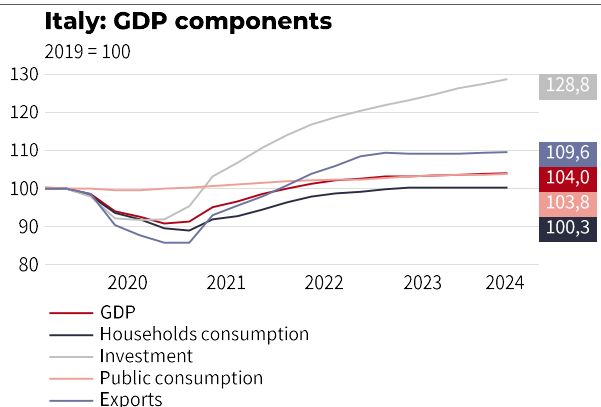
Italian GDP grew slightly in 2Q24 and is set to remain close to potential in 2024 and 2025. Growth had held up well to the slowdown in the euro area in 2023, driven by strong investment growth, supported by Next Generation EU funds and national housing renovation support programmes. Total investment is thus 26% higher than its pre-Covid level, and 75% higher for the dwelling component alone. GDP is now 4.7% higher than in 4Q19, but household consumption is barely back to its pre-pandemic level.

Slight rebound of the saving rate



Source: Istat, SG Economic and Sector Studies

Strong performance of investment



Source: ECB, SG Economic and Sector Studies

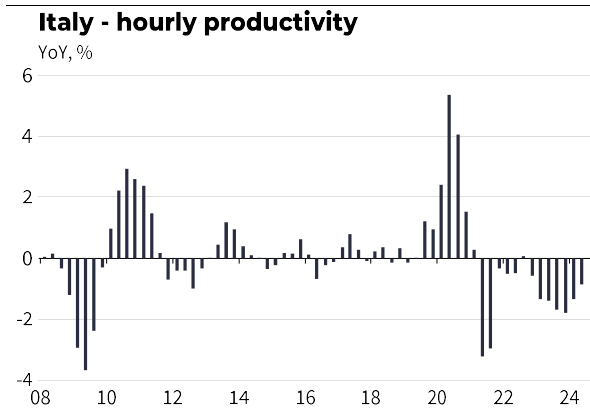
Household income is expected to increase in 2024 after two years of contraction in purchasing power. Negotiations have led to hourly wage increases, particularly in industry, which will support purchasing power in a context of slowing inflation. However, subsidies to households will be less generous than in 2023, with the withdrawal of the "energy vouchers" that have enabled households to cope with the energy crisis. The savings rate, at an all-time low, is expected to start to rise, and household consumption is forecast to remain sluggish over much of the forecast horizon.

Inflation is expected to slow sharply in 2024 thanks to lower energy prices and return to the ECB's 2% target in 2025. Core inflation is expected to be slightly above 2% this year, while food prices are decelerating rapidly. Despite a slight upside in negotiated wages, the risks of a wage-price spiral are limited in Italy due to a

labour market based on collective bargaining, with a very slow process of renewal of sector agreements, low indexation of wages to prices and very low productivity.

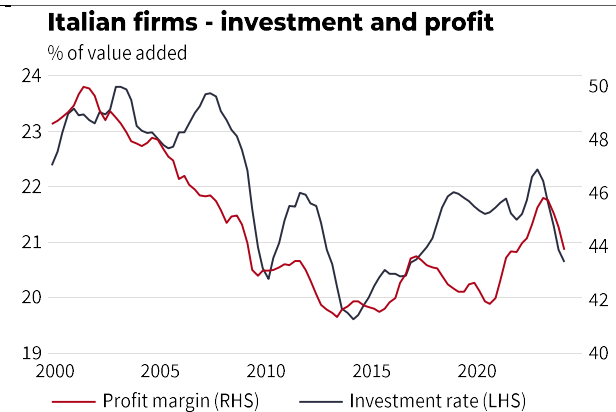
Employment is expected to slow in 2024 after two years of strong job creation. The unemployment rate is expected to continue to fall this year and is set to stabilize below 7%. It is expected to remain at a level structurally lower than the average of the last ten years due to persistent tensions linked to demographic changes with a decline in the working-age population and a sharp slowdown in migration flows. Recruitment difficulties remain high and are quoted as the main factor limiting production in Italy.

The decline in hourly productivity ...



Source: Istat, SG Economic and Sector Studies

... is weighing on firms' margins



Source: Istat, SG Economic and Sector Studies

Business investment is expected to slow in 2024 and 2025, after three years of record growth. Investment in capital goods is slowing down, but still positive, fuelled by European subsidies. However, housing investment is expected to stall in 2024, due to the changes made to the housing renovation state aid: the tax credit rate will drop from 110% to 70% in 2024 and 65% in 2025, and the portability of tax credits has been completely abolished, as has the possibility of bringing forward the deadlines to benefit from credits on work undertaken in 2023. Credit momentum remains weak: outstanding corporate loans are contracting at -4% YoY. Credit contraction and moderate investment growth are expected next year.

European funds support the economy. The modified plan, including the REPowerEU chapter, has further strengthened the focus on the green transition, devoting 39% of the available funds to measures that support climate objectives. Key investments for the green transition are: i) energy efficiency in residential and public buildings (EUR 16.9bn), ii) sustainable mobility (EUR 34.5bn), iii) development of renewable energies and the circular economy and improvement in waste and water management (EUR 24.7bn). There will still be €83 billion of funds available to the Italian government by 2026 (3.9% of GDP), and therefore a strong incentive to maintain a cooperative attitude with the European Union and implement key structural reforms, in particular the overhaul of the judicial system.

The primary balance is expected to improve significantly in 2024, from -3.6% to -0.9% of GDP, but will be far from returning to the 2% surplus, necessary to secure a declining trend in general government debt. Support measures in response to the

energy crisis will be completely abolished in 2024, reducing spending by almost 1pp of GDP (EUR 22bn). But above all, the cost of housing renovation measures would be drastically reduced (-2.5pp of GDP, or EUR 54bn). On the revenue side, capital transfers will be reduced by 0.5pp of GDP (EUR 13bn), which will weigh on the public balance. Finally, interest costs are expected to be higher, due to the increase in the average cost of debt with the maturities of bonds with lower rates (EUR 5bn). Italy has been placed in the excessive deficit procedure by the European Commission and the public balance is expected to remain high (around 4.5% of GDP) over our forecast horizon.

Public debt is forecast to resume an upward trajectory. Past interest rate hikes and weak growth will weigh on public debt dynamics over the medium term. In 2023, public debt was lower than expected. It is nevertheless 3 points above its pre-Covid level and is expected to resume an upward trajectory to reach nearly 144% of GDP by 2026.

The public debt situation generally remains vulnerable to the risk of increased sovereign tensions following a deterioration in debt sustainability and/or speculative attacks on financial markets. The backstop established by the ECB through flexibility in the reinvestment strategy of maturing PEPP assets (although this will decline as of 2H24 and end at year-end) and the Transmission Protection Instrument (TPI) should limit the risks of excessive movements in financial markets. The TPI, however, has yet to be tested and is only operational for member states respecting the EU fiscal framework.

Italy	2023	2024f	2025f	2026f
Real GDP, % ch YoY	1.0	0.7	0.6	0.8
Household consumption	1.2	0.0	0.4	0.5
Public consumption	1.2	0.0	0.2	0.4
Investment	4.9	2.9	1.2	1.5
Exports of goods & services	0.5	0.6	2.0	2.3
Imports of goods & services	-0.2	-2.8	2.5	2.4
Inflation, % annual average	5.9	1.4	2.0	2.0
Core inflation, % annual average	4.5	2.4	2.3	2.0
Real gross disposable income (GDI), % ch YoY	-0.5	1.7	0.1	0.6
Households saving rate, % of GDI	8.2	9.8	9.5	9.6
Unemployment, % of labour force	7.7	7.0	6.9	6.7
Fiscal balance, % of GDP	-7.4	-4.8	-4.7	-4.5
Public debt, % of GDP	137	140	142	144
Current account balance, % of GDP	0.5	1.2	1.2	1.1

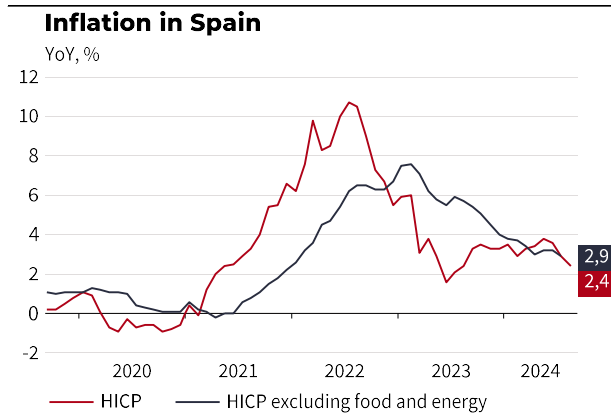
SPAIN

- **Growth is expected to outperform that of the euro area in 2024 and remain above potential in 2025.**
- **Household purchasing power will slow in 2024 after a record year and unemployment is set to stabilize.**
- **The country will partially reduce its budget deficit and the public debt is set to decrease slightly.**

Growth will remain dynamic in 2024 and will be above its potential in 2025. It will remain higher than that of its major European partners, supported by the sharp increase in household disposable income (11% in 2023 and 6% in 2024), the strength of investment and the good performance of services exports (tourism). The unemployment rate, now below its structural level, is expected to start to increase very slightly in 2025. The European recovery plan will continue to support the Spanish economy until 2026.

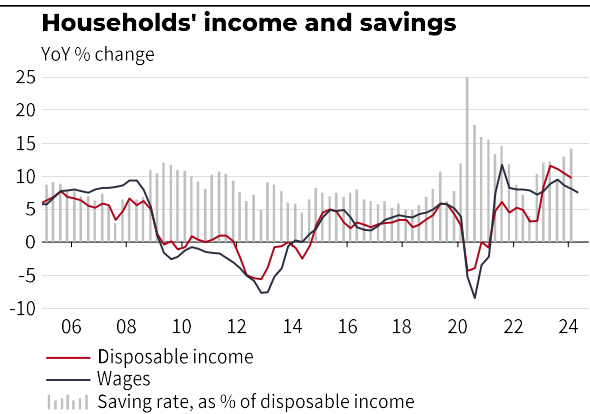
Growth surprised again to the upside in 2Q24, recording one of the best performances in the euro area. Investment was very dynamic and external demand also made a strong contribution to growth.

A deceleration in prices ...



Source : INE, SG Economic and Sector Studies

... and a strong increase in disposable income



Source : INE, SG Economic and Sector Studies

Business investment is expected to grow in 2024, despite tighter financial conditions and weaker domestic demand. It is supported by loans and grants from the new version of the European recovery plan, which has revised upwards the total subsidies to €80bn (5.5% of GDP), of which EUR 29 bn (1.9% of GDP) is still available. Spain's amended recovery plan includes a *REPowerEU* chapter and EUR 83bn of loans (5.7% of GDP) in addition to the grants already allocated. 40% of the plan will support the climate objectives. Main investments are : i) over EUR 12bn in the energy efficiency of public and private buildings including new social housing, ii) EUR 13.2bn in sustainable mobility in urban and long-distance, iii) EUR 6.9 bn for the decarbonisation of the energy sector by under the *REPowerEU* chapter and EUR

22bn under the financial instrument ICO Green Line, in clean technologies and infrastructure (including storage and electricity grids) and accelerating the development and use of renewables, including renewable hydrogen.

Household consumption is expected to continue to support growth until 2026.

Gains in purchasing power are expected to continue to be dynamic in 2024 after a record year thanks to wage and employment dynamics. Employment is expected to continue to grow in 2024 and slow in 2025, allowing companies to record productivity gains and rebuild their margins.

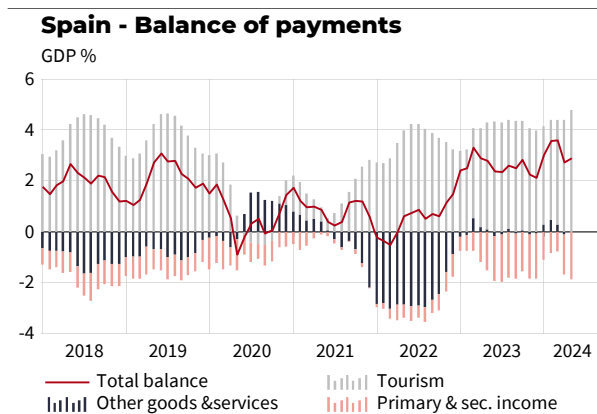
Household consumption is expected to support growth over the forecast horizon.

Gains in purchasing power are expected to continue after a record year in 2024 thanks to wage and employment dynamics. Employment is expected to keep growing in 2024 but slow in 2025, allowing companies to register productivity gains and rebuild their margins. Slowing inflation, negotiated wage increases and pension increases will support household incomes over the horizon of our forecast. The savings rate – back to higher than historical average level in 2023 – is expected to adjust slightly, allowing households to cope with the expected deterioration in the labour market.

Harmonised inflation has eased to close to 2.5% and is set to return to the inflation target of 2% in 2025.

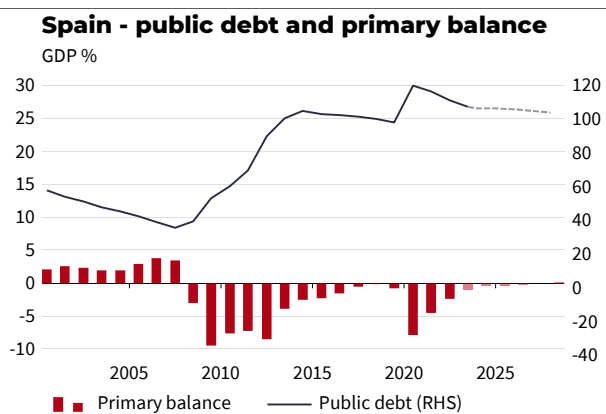
The disinflation process is uneven, with a marked slowdown in the prices of food and household equipment, and a more persistent price dynamics in the accommodation, food and leisure services. Core inflation is expected to slow gradually, from 4% in 2023 to close to 2% in 2025.

Economy back in external surplus



Source : INE, SG Economic and Sector Studies

Public debt would stabilize at a high level



Source : Eurostat, SG Economic and Sector Studies

Spain's current account balance recovered in 2023 and is expected to remain in surplus over the forecast horizon.

While the positive current account balance had suffered from the halt in tourism during the pandemic and the rise in the price of energy imports following the war in Ukraine, it recovered significantly and is set to reach 2.8 % of GDP in 2024. The current account balance is set to remain close to 2.5 % of GDP over the medium term, thanks to the strength of tourism revenues in a context of slowing domestic demand.

Strong growth and restrictive fiscal policy will allow the public deficit to fall below the 3% threshold in 2024. The gradual dismantling of energy measures will save around 0.5% of GDP in 2024 and 0.3% in 2025. However, the indexation of pensions to inflation weighs on the sustainability of public finances, as it prohibits spending freezes, which are a very effective way to limit the public deficit in times of rising prices. After two years of decline, public debt is still 9pp higher than the pre-Covid level and is expected to decrease slightly over the forecast horizon.

Beyond 2024, the government's fiscal stance is set to return to accommodative. The hung parliament represents a challenge for the preparation of the 2025 finance law. However, economic policy will continue to focus on addressing income inequality, redistribution, and social and environmental policies.

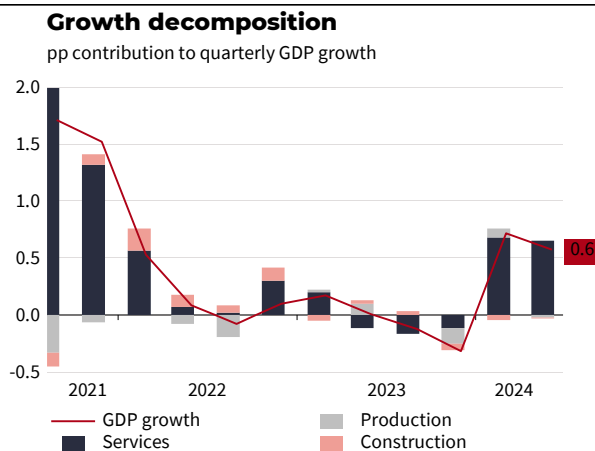
Spain	2023	2024f	2025f	2026f
Real GDP, % ch YoY	2.5	2.3	1.5	1.6
Household consumption	1.8	1.9	1.8	1.9
Public consumption	3.8	1.6	0.8	0.8
Investment	0.8	2.2	1.5	1.4
Exports of goods & services	2.3	3.7	2.3	2.8
Imports of goods & services	0.3	2.4	2.5	2.9
Inflation, % annual average	3.4	3.2	2.1	2.1
Core inflation, % annual average	4.1	2.8	1.9	2.1
Real gross disposable income (GDI), % ch YoY	6.8	2.4	0.9	1.0
Households saving rate, % of GDI	11.7	12.6	11.8	11.1
Unemployment, % of labour force	12.2	11.9	12.0	11.8
Fiscal balance, % of GDP	-3.6	-2.9	-2.9	-2.8
Public debt, % of GDP	108	106	106	105
Current account balance, % of GDP	2.6	2.8	2.5	2.5

UNITED KINGDOM

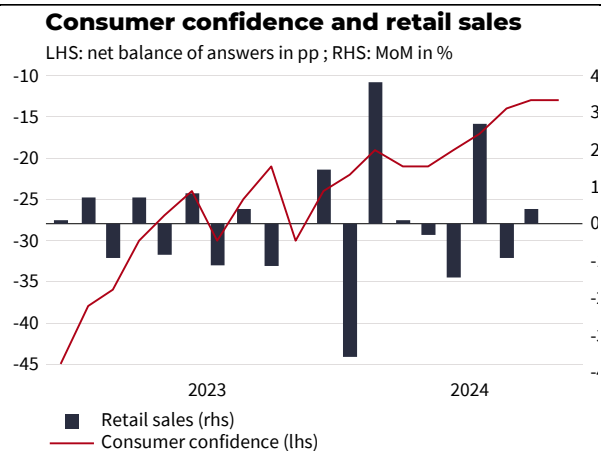
- **The weak growth momentum continues. We expect private demand to increase in the second half of 2024 and support growth into 2025.**
- **The new Labour government faces fiscal policy challenges, and a shift towards a more conservative fiscal stance is expected.**
- **Disinflation progresses, in the context of a cooling labour market, with the BoE following a prudent monetary policy easing cycle.**

The weak growth momentum continues. In 2Q24, GDP expanded by 0.6% QoQ and by 0.9% YoY (the fastest growth since 2022), continuing the positive trend from the previous quarter. On the supply side, growth was driven by the services sector, but partially held back by a fall in construction, in negative territory for the third consecutive quarter. In H2-24 and in 2025 private consumption should gradually support growth in the next quarters, as consumer confidence and real disposable income continue to rise. On the other hand, public investment and expenditure are expected to decline slightly due to fiscal constraints. Forward-looking indicators, such as the PMI composite and the OECD Composite Leading Indicator of business cycle, paint a more positive picture for the UK compared to its European peers.

A more stable but weak growth trend



Consumer confidence is rising



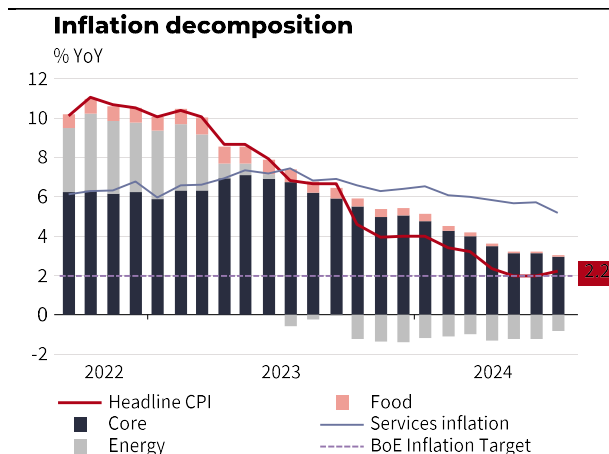
Source: OECD, ONS, Refinitiv, SG Economic and Sector Studies

While still subdued, private demand is expected to increase throughout the second half of 2024 and drive growth into 2025. Robust government support and strong nominal wage growth led to an increase in real personal disposable income during 1H24 amid decelerating inflation. Nominal wages should continue to grow faster than inflation this year, helping to rebuild households' purchasing power, only partly offset by lower employment levels due to businesses laying off redundant staff to maintain profit margins. Private demand should pick up and drive growth throughout 2H24 and into 2025, as monetary policy continues its easing cycle, disinflation progresses, and consumer confidence and real disposable income continue to rise.

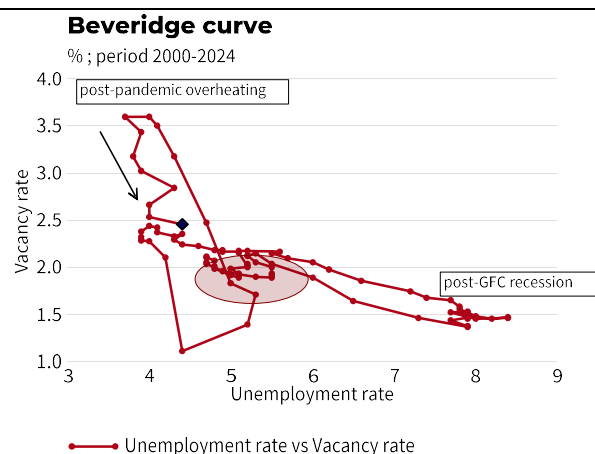
The new Labour government faces fiscal policy challenges, and a shift to a more conservative fiscal stance is expected. The Labour government's public spending audit identified a GBR 22bn overspend above the resource departmental expenditure limit for the FY 2024/2025 (0.8% of 2023 GDP or 2.5% of public receipts). The main causes of this overspend stem from the previous Conservative government's unfunded spending, especially on immigration, but also from the current government's decision to increase public wages more than planned in the 2024 Spring Budget. This year's budget shortfall comes on top of medium-term spending pressures on defence, healthcare and social spending, as well as on budgets of "unprotected" departments.

To stabilize the debt-to-GDP ratio, the Labour government's priority is to boost growth, but the effects of this approach will only materialize in the medium term. In the short term, we expect the government to respect the country's fiscal rules and thus adopt a conservative fiscal stance, with public spending cuts and tax increases beyond those announced during the electoral campaign. However, in a context of weak medium-term economic perspectives, the public debt-to-GDP ratio should continue to gradually grow in the coming years.

Disinflation is underway



The labour market is cooling



Source: ONS, Refinitiv, SG Economic and Sector Studies

The disinflationary trend continues, with a cooling labour market. The BoE should follow a prudent monetary policy cutting cycle. CPI inflation rose to 2.2% YoY in July, from 2% in May, due to base effects. While this is far lower than the post-pandemic peak, domestic price pressures remain persistent. Core and service inflation show a decreasing trend but remained high in July, at 3% and 5.2% YoY respectively. This is due to a still-tight labour market, which however shows signs of easing. The vacancies-to-unemployment ratio is normalizing, with the Beveridge curve moving towards its long-term levels.

We expect headline inflation to rise slightly by the end of the year due to base effects, reaching 2.7% YoY at the end of 2024. It should then return to the BoE's target in 2025. Core price pressures should prove stickier, but they should still follow a disinflationary path as the labour market continues to ease, in the context of

productivity and the labour force growth returning to their low pre-pandemic average in the medium term. In August, the BoE opted for a 25bp cut to 5%, in line with our forecast. We expect another similar cut by the end of the year, in line with a prudent monetary easing cycle.

Risks to our outlook are balanced. Downside risks are linked to escalating geopolitical tensions in the Middle East, which could cause a spike in energy prices and hinder the expected pick-up in private consumption. Moreover, domestic price pressures may be more persistent than anticipated, potentially leading to monetary policy adjustments with negative growth implications. On the other hand, upside risks are associated with the possibility of the new government changing the country's fiscal rules, and unveiling in the Autumn Budget less conservative fiscal policies than anticipated.

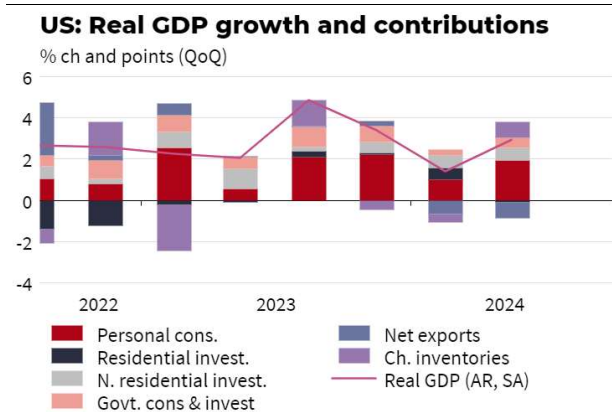
UK	2023	2024f	2025f	2026f
Real GDP, % ch YoY	0.1	0.9	0.9	0.9
Household consumption	0.3	0.7	1.1	0.6
Public consumption	0.5	1.7	0.6	1.2
Investment	2.2	0.7	1.2	1.0
Exports of goods & services	-0.5	0.3	2.0	2.0
Imports of goods & services	-1.5	0.5	1.9	1.6
Inflation, % annual average	7.3	2.7	2.2	2.0
Core inflation, % annual average	6.2	3.5	2.3	2.1
Real gross disposable income (GDI), % ch YoY	2.1	1.5	1.1	0.8
Households saving rate, % of GDI	9.7	10.5	10.3	10.3
Unemployment, % of labour force	4.0	4.3	4.7	4.9
Fiscal balance, % of GDP	-5.8	-5.2	-4.9	-4.7
Public debt, % of GDP	98	99	101	103
Current account balance, % of GDP	-3.3	-3.7	-3.4	-3.2

UNITED STATES

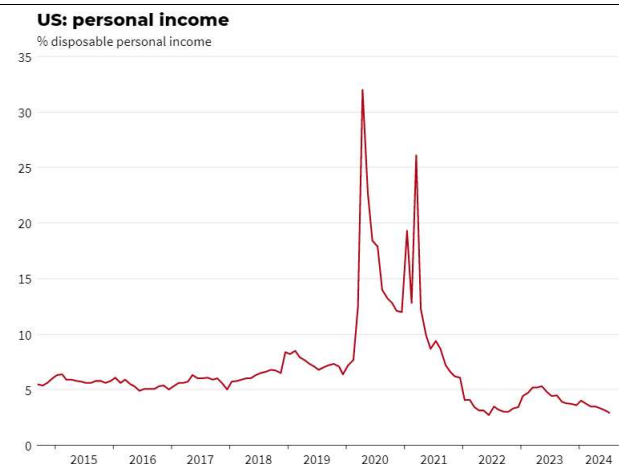
- **We expect growth to stall in the remaining of the year.**
- **A weakening labour market should weigh on disposable income growth and consumption expenditures.**
- **This deteriorating outlook, coupled with ongoing disinflation should open the way for 3 cuts by year-end.**

Real GDP growth should stall starting from Q3. While Q2 data came in stronger than expected (at 2.8% QoQ annualized), the weakening of the labour market became more evident over the course of the last quarter, with job creation significantly slowing and unemployment rate up to 4.3%. The downward revision by the BLS of non-farm payroll by over 800k in the 12 months leading to March 2024 further changed the picture and deteriorated the outlook. We thus expect the labour market to further weaken, with potential for job destruction over the next quarters. Households' saving behaviour will also act as an additional headwind, as a weakening outlook raises the changes of a boost to precautionary savings.

Growth remained solid in Q2...



...also reflecting stretched demand



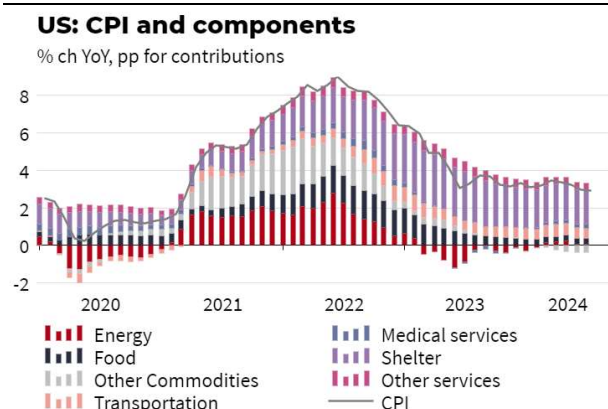
Source: Bureau of Economic Analysis, US Department of Commerce, Refinitiv, SG Economics and Sector Studies

Inflation has come in roughly in line with our expectations, and further easing in Q4 is seen. The latest data have indeed confirmed the ongoing disinflationary process, which is now largely ongoing even in “supercore” items, namely non-shelter services (such as transportation and medical care). Significant easing is to be expected in the 2nd half of the year, notably on the shelter component, reflecting eased pressures on market rents. Easing wage pressures (average hourly earnings down to 3.6% YoY in July, close to pre-pandemic increases) will support this process.

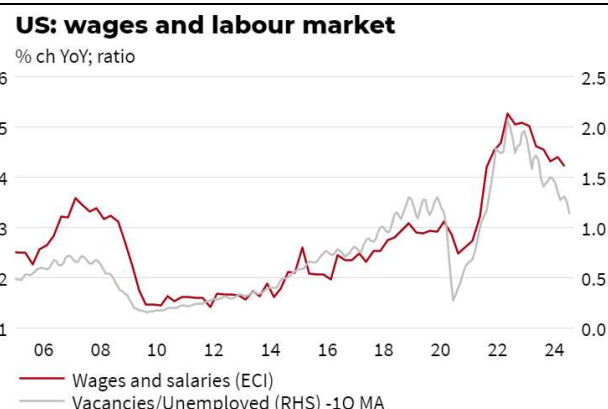
Fed will thus have room to cut rates this year. Progress on disinflation, weakening of labour market and increasing risks on the growth outlook have drastically changed the balance of risk, with full employment now squarely back at the core of the Fed’s attention. After significant volatility over the course of the year, markets

have converted towards our view of multiple rate cuts by the end of the year. Turning to QT, we expect it to continue even after the first cut. More precisely, we expect Treasuries runoff to continue until 1Q25, while QT on MBS should proceed until 2025-end, reflecting the Fed's long-run objective of mostly holding Treasuries. A moderate Treasuries purchase may resume in 2026, to avoid further decline of reserves as a share of nominal GDP.

Inflation largely eased...



... in line with labour market developments



Source: Bureau of Labour Statistics, US Department of Labor, Refinitiv, SG Economics and Sector Studies

The November presidential and congressional elections bring uncertainties and are likely to be very close. Our assumption for the scenario is that the broad outlines of US politics would remain little changed after the election. If Donald Trump is re-elected with congress support allowing him to apply a rupture agenda, which is not our assumption, the scenario would change as major policy fields would be significantly affected, such as energy, environment, and foreign policies.

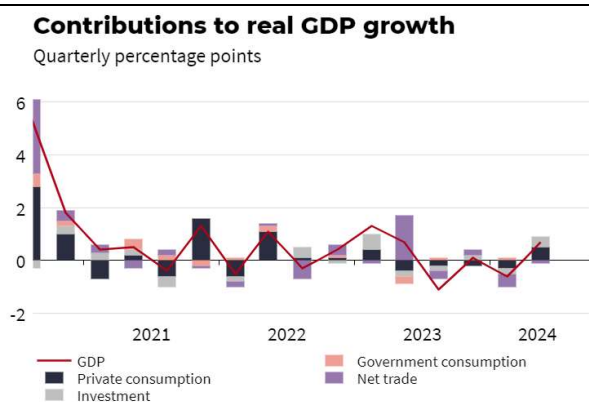
US	2023	2024f	2025f	2026f
Real GDP, % ch YoY	2.5	2.1	1.5	1.8
Household consumption	2.2	2.0	2.0	2.1
Public consumption	2.7	1.7	1.1	1.0
Investment	2.0	4.0	1.2	2.7
Exports of goods & services	2.6	1.7	2.0	2.0
Imports of goods & services	-1.7	3.5	3.2	3.3
Inflation, % annual average	4.1	2.9	2.5	2.5
Core inflation, % annual average	4.8	3.4	2.5	2.5
Real gross disposable income (GDI), % ch YoY	4.1	1.8	2.2	2.4
Households saving rate, % of GDI	4.5	4.3	4.9	5.1
Unemployment, % of labour force	3.6	4.2	4.5	4.2
Fiscal balance, % of GDP	-6.3	-5.3	-5.8	-5.6
Public debt, % of GDP	98	98	100	101
Current account balance, % of GDP	-3.0	-3.1	-3.3	-3.3

JAPAN

- **With the first signs of positive real wage growth, we expect consumption headwinds to ease progressively.**
- **After exiting from negative rates in March, the BOJ raised in July its upper bound policy rate from 0.1% to 0.25%. We expect further normalization of monetary policy to move very gradually.**
- **Budgetary policy will remain supportive over the forecast horizon.**

Consumption headwinds should ease progressively with first signs of positive real wage growth. Last April, the workers' union (Rengo) managed to conclude a wage increase of 5.3%, higher than their initial target. Consumption has remained muted in H1 2024, as the impact of a higher wage round should only start to kick in the second half of the year. Consumer confidence remains fragile but is expected to recover gradually in the second half of 2024, as the effect of the spring wage negotiations emerges, and the pace of inflation decreases. In 2025 and onwards, persisting labour shortage should contribute to drive wage increase, which will support households' disposable income. Government policy is also expected to remain very supportive of wages increase.

Growth momentum has remained fragile



Source: SG Economic and Sector Studies, Refinitiv

...but real wages are turning positive



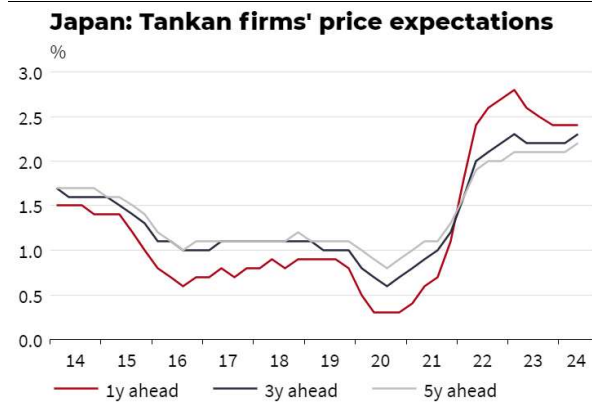
Source: SG Economic and Sector Studies, Refinitiv

Business investment is expected to remain steady. Corporate earnings, which have been above pre-pandemic levels and are boosted by the depreciation of the yen, are supporting investment. Going forward, investment is expected to continue to increase, albeit at a slower pace, supported by government subsidies, particularly for green and digital investments. Corporate investments should be supported by stronger profits thanks to recovery in external and domestic demand and the need to increase efficiencies given labour constraints.

Inflation is set to gradually decline, as food and energy prices recede, and then would remain closer to the BOJ's target. Heightened geopolitical tensions, a weak yen and adverse weather conditions have kept energy and food prices elevated in

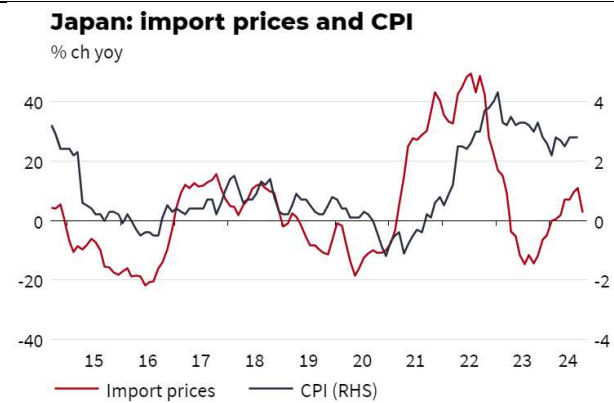
the first half of the year. Government measures to reduce the burden on household energy costs were also in the process of being phased out. These factors have underpinned inflationary pressure. They are now expected to decrease, but real wage growth is expected to bring additional force to the inflation trajectory. In the medium term, labour shortages and an ageing population could keep the pressure on wages and prices. However past performance calls for caution. The trajectory of inflation could disappoint, even if expectations seem to be better anchored.

Price expectations stabilize



Source: SG Economic and Sector Studies, Refinitiv

CPI is sensitive to import prices



Source: SG Economic and Sector Studies, Refinitiv

Monetary policy is expected to further normalize. We expect the Bank of Japan to gradually normalize its monetary policy in the next two years, raising its policy rate to around 0.5% by end-2026. The pace of further rate increases will depend on inflation and wage growth data. The central bank will remain cautious throughout this period to prevent its policy normalisation causing an economic recession or undermining its success in reflation of the economy. The pace of interest-rate increases will depend largely on the strength and durability of wage growth. Due to its history of deflation, we expect BOJ to err on the side of caution. The normalization should be very gradual. It should nevertheless be supportive for the yen, and it will lift the floor of borrowing costs in the global financial markets.

The budget deficit should slightly contract, but fiscal policy will remain supportive. With an output gap gradually narrowing, fiscal policy support, partly related to pandemic relief, is gradually being withdrawn. However, over the medium term, age-related spending, particularly in the health sector, will continue to put pressure on the deficit. The planned rise in defence spending up to 2027 is large, close to 0.7% of GDP. Debt service costs are bound to rise. We expect the fiscal deficit to remain in average close to 3% of GDP over the forecast horizon.

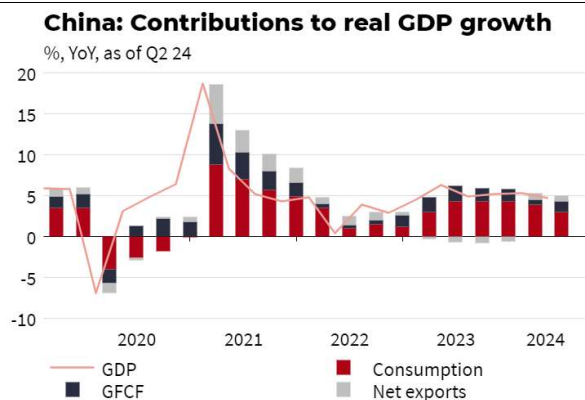
Japan	2023	2024f	2025f	2026f
Real GDP, % ch YoY	1.7	0.0	1.0	0.6
Household consumption	0.6	0.0	1.2	0.7
Public consumption	0.0	0.5	0.4	0.4
Investment	1.8	0.6	0.8	0.8
Exports of goods & services	3.0	0.4	2.4	1.6
Imports of goods & services	-1.5	0.7	1.9	2.0
Inflation, % annual average	3.2	2.3	1.8	1.5
Core inflation, % annual average	3.9	2.0	1.6	1.2
Real gross disposable income (GDI), % ch YoY	-2.9	1.4	1.0	0.7
Households saving rate, % of GDI	-0.1	1.4	1.0	1.0
Unemployment, % of labour force	2.6	2.4	2.3	2.5
Fiscal balance, % of GDP	-3.9	-3.8	-3.0	-3.0
Public debt, % of GDP	252	257	258	259
Current account balance, % of GDP	3.6	4.0	4.3	3.7

CHINA

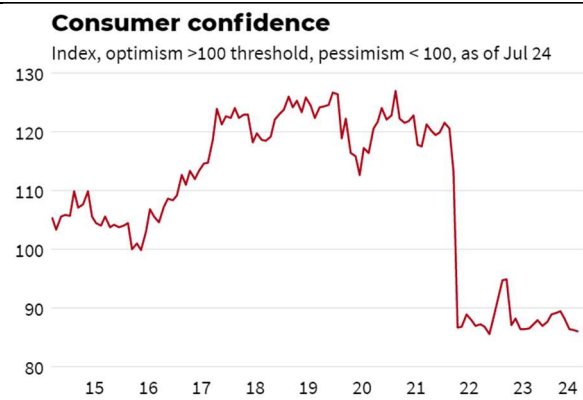
- **The economy continues to struggle with weak domestic demand, low confidence and slowing private consumption.**
- **The property sector is in chronic downturn. The rising EV exports provide only a partial compensation.**
- **Public support continues to focus on supply-side rather than demand-side reforms.**

GDP growth is expected to register a structural deceleration over the forecast horizon. The ongoing correction in the property sector will continue to weigh on investment amid persistent financial stress among property developers and local governments, slowing demand for housing, and a housing surplus. On the export front, rising tensions with the United States and its allies will continue to weigh on China's trade and technological advances. In the medium term, the growth outlook is deteriorating due to a prolonged crisis of confidence and the lasting effects of the slowdown in the housing market. Rebalancing efforts toward consumption-led growth could increase China's growth potential. However, the authorities seem to continue to favour the manufacturing industry to compensate for the weakness of the real estate market, while signs of production overcapacity have emerged and could fuel trade tensions. Consumer confidence remains very low.

GDP growth is slowing



Confidence remains lows

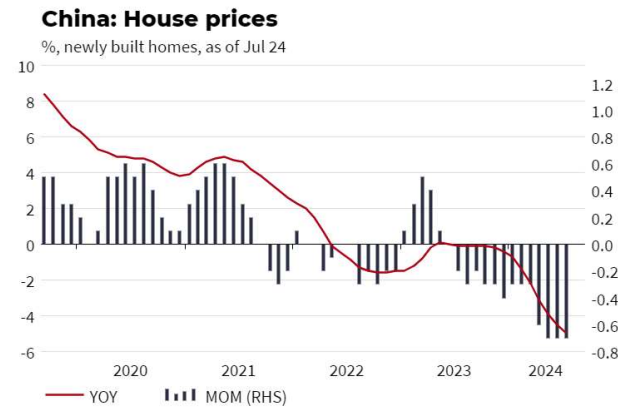


Source: Refinitiv, SG Economic and Sector Studies

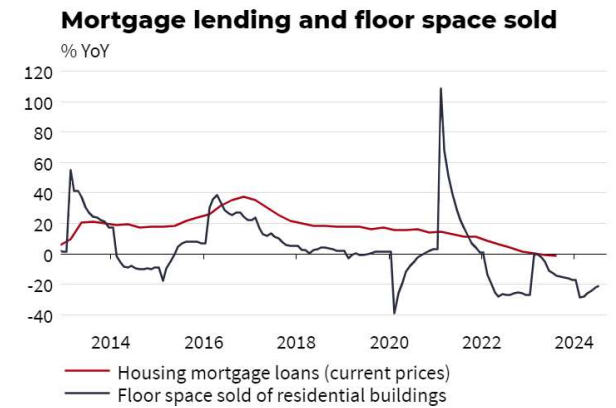
The slowdown in real estate will continue to be a major drag on growth. The acceleration of the contraction in property prices and sales has prompted the authorities to accelerate support measures, including absorbing the housing surplus with the introduction of a CNY 300 billion facility from the PBoC to state-owned enterprises mandated to purchase unsold housing and convert it into social housing. The facility can encourage bank lending to the tune of CNY 500 billion, according to the authorities. Given the size of the unsold housing stock, only around 10% could be absorbed by the announced measures. The downward trend is this expected to continue. The shrinking population and slowing urban population growth will

structurally reduce the demand for housing in the coming years and make it difficult to absorb excess stocks.

House prices continued to fall



Demand for housing is still struggling to recover

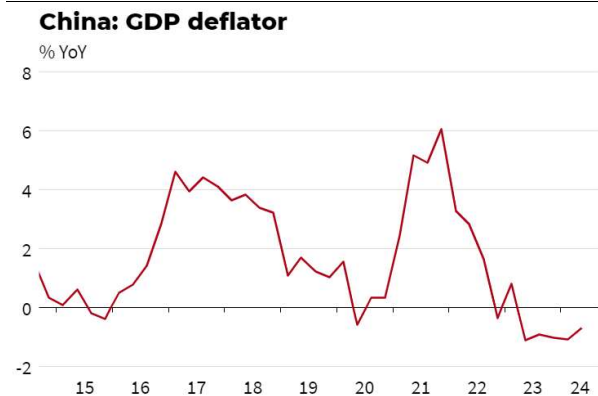


Source: Refinitiv, SG Economic and Sector Studies

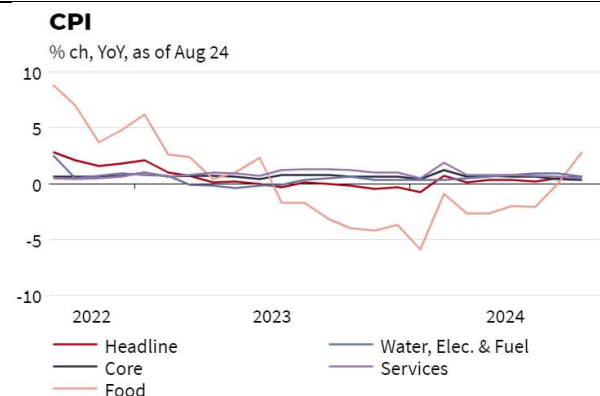
The policy mix will remain accommodative to mitigate the real estate crisis but is not expected to provide a structural solution. The stimulus measures are expected to increase infrastructure spending to help offset weak real estate investment. In a context of contraction in property prices, transfers from the central government to local governments are expected to support refinancing needs, although they will not solve the problem structurally.

Inflation remains close to zero in 2024, despite a decline in disinflationary pressures. Lower global commodity prices and negative food prices have contributed to disinflationary pressures. Inflation remains close to zero and the contraction of the GDP deflator for five consecutive quarters reflects fragile domestic demand. The recent increase of food prices, driven by pork prices, should nevertheless stabilise inflation this year.

The deflator is contracting



Inflation remains close to zero

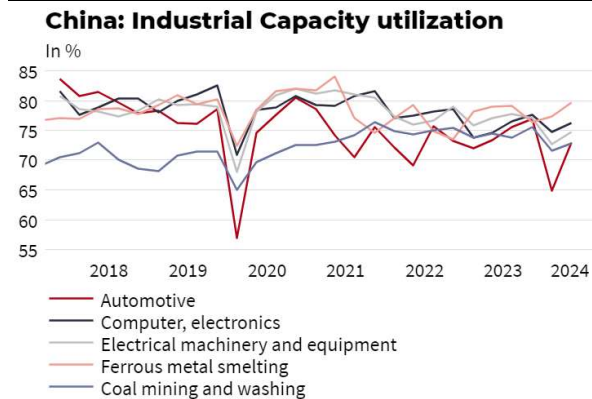


Source: Refinitiv, SG Economic and Sector Studies

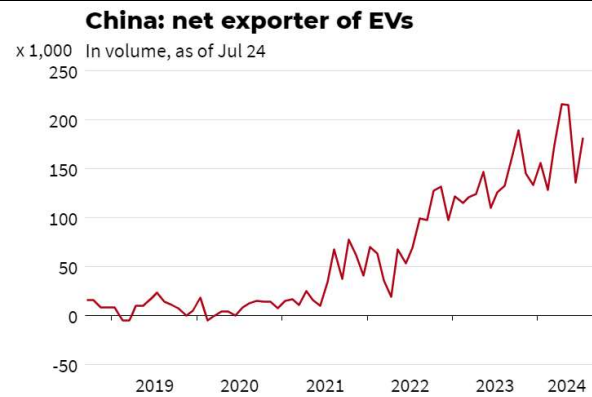
Downside risks to the growth outlook are related to overcapacity and disinflationary risks, partly caused by persistently weak demand. Industrial utilization capacity has been on a downward trend since the pandemic, especially in the automotive sector, while inventory growth has also been faster than pre-

pandemic rates. Some specific sectors like EVs are bright spots but do not provide yet a counterweight of the required magnitude and could face hurdles in the export markets. The authorities have shown their willingness to continue to support the "new productive forces", without significant support for domestic consumption, which remains depressed by the real estate market. This could accentuate the existing imbalances in Chinese growth between manufacturing and consumption.

Utilization capacity is declining



Rising EV exports



Source: Refinitiv, SG Economic and Sector Studies

Geopolitical tensions will remain present and may intensify with the risks of overcapacity from China. Geopolitically, the trade and national security relationship with the United States will continue to weigh and shape global value chains and China's role in them. Geopolitical and security issues in Taiwan also remain a source of risk.

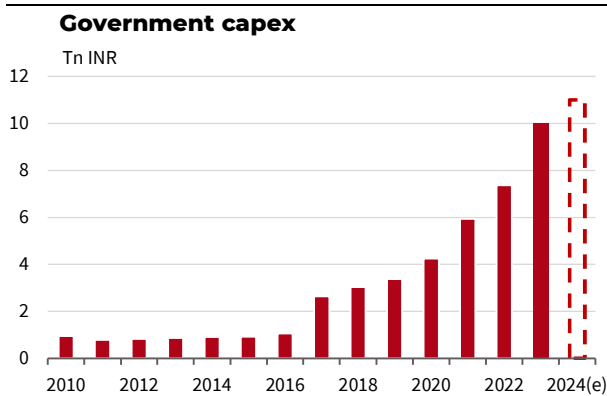
China	2023	2024f	2025f	2026f
Real GDP, % ch YoY	5.2	4.3	4.0	3.8
Household consumption	7.9	5.0	4.9	3.8
Public consumption	4.5	5.0	4.3	4.1
Investment	4.2	3.1	3.9	3.8
Exports of goods & services	1.1	4.2	2.0	2.6
Imports of goods & services	1.9	2.6	3.5	2.3
Inflation, % annual average	0.3	0.7	1.2	2.0
Fiscal balance, % of GDP	-6.8	-7.1	-6.8	-6.7
Public debt, % of GDP	83	91	96	101
External debt, % of GDP	16	17	17	18
Current account balance, % of GDP	2.1	2.2	1.3	1.0

INDIA

- **Investment is set to slow, following a period of strong momentum driven by public investment.**
- **Growth should land back to its potential (6-6.5%) in the medium term.**

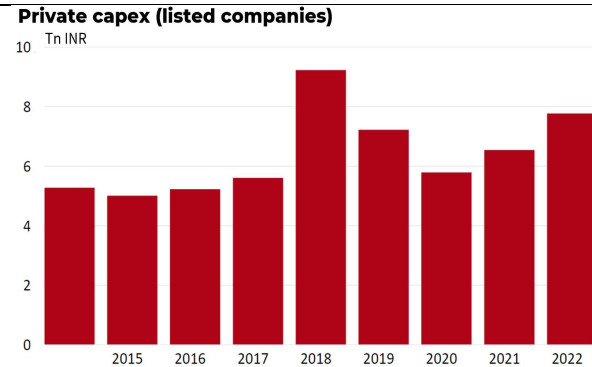
Investment should start to slow. Public investment, a major contributor to growth over the last two years, should start to slow down, in line with planned fiscal consolidation. Growth in private-sector investment is currently too weak to sustain the current momentum in total investment. This will contribute to a slowdown in Indian growth, which is currently above potential.

Public investment should grow at a slower pace in 2024



Source CSO, SG Economics and Sector Studies

Private capex contributes less to growth

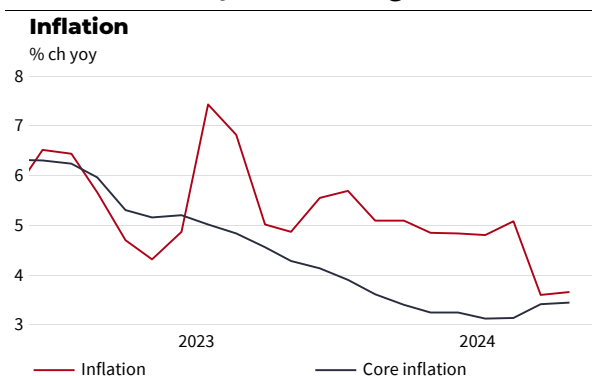


Source: Eikon, SG Economics and Sector Studies

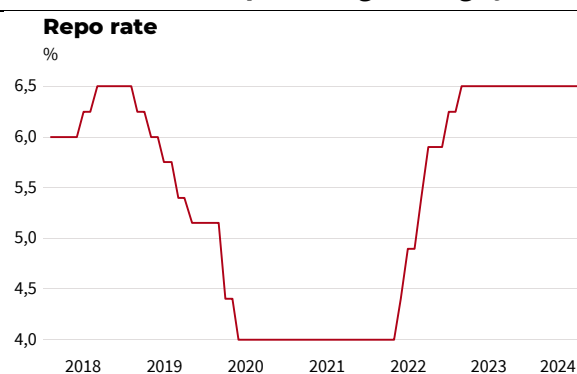
Inflation continues to decelerate, albeit slowly, which should support private consumption. This is largely due to core inflation, which has been decelerating since 2023 (the latest acceleration is simply linked to a revision of mobile phone tariffs). Lower inflation will support private consumption, which is set to rebound from growth well below its historical average in 2023. The real growth in private consumption in 2Q24 of 7.5% YoY, well above that of the last three semesters (around 2%), is a first sign of this rebound.

The inclusion of India in JP Morgan's Emerging Markets Index since June 2024 should contribute to the attractiveness of Indian bonds. The wave of capital inflows linked to passive investors (USD 20-30bn expected over 2024) should be beneficial for the rupee. However, this gradual opening-up of India to foreign investors raises the risk of capital outflows in times of risk aversion, necessitating a cautious exchange rate policy by the central bank.

Inflation is slowly decelerating in 2024



The RBI is at the top of its tightening cycle



Source: RBI, Refinitiv and SG Economics and Sector Studies

Source: RBI, Refinitiv and SG Economics and Sector Studies

Fiscal consolidation has begun at the central government level, however this is much less clear at the states level. We expect the fiscal deficit to stabilize around 8% of GDP over the forecast horizon, but given the strong nominal growth, public debt ratio should remain under control. A risk to this outlook is the return of populist measures, especially considering PM Modi's drawback in the recent elections.

India's officially neutral position towards Russia remains a source of geopolitical uncertainty. Trade flows are growing, as monthly imports from Russia were multiplied more than tenfold compared to the historical mean. However, this situation raises questions on the nature of India's international relations in the medium term, and the risk of exposition to potential sanctions.

India	2023	2024f	2025f	2026f
Real GDP, % ch YoY	8.2	6.7	6.2	6.2
Household consumption	4.0	6.8	6.0	6.0
Public consumption	2.5	6.0	5.6	5.6
Investment	9.0	7.8	6.5	6.5
Exports of goods & services	2.6	7.5	6.0	6.0
Imports of goods & services	10.9	8.3	6.0	6.0
Inflation, % annual average	5.4	4.7	4.7	4.7
Fiscal balance, % of GDP	-8.6	-8.3	-8.0	-8.0
Public debt, % of GDP	84	83	84	83
External debt, % of GDP	18	16	16	15
Current account balance, % of GDP	-1.2	-1.4	-1.5	-1.5

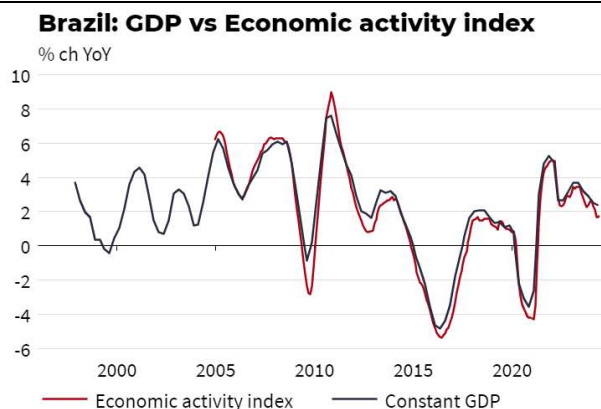
BRAZIL

- **Growth is expected to stabilize below 2% over the horizon partly on the back of higher interest rates.**
- **Inflation edged up towards the upper limit of the target band.**
- **The BCB opted for a cautious approach and markets are now expecting a hiking cycle.**
- **Fiscal and monetary uncertainty increase risks to the scenario.**

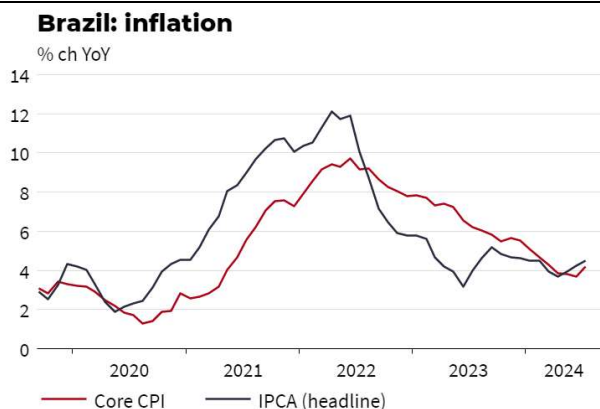
We expect GDP growth to soften to 1.9% in 2024-2025. Over the course of 2024 growth has suffered from a weak harvest on unprecedented floodings, but spending on reconstruction should partly offset the losses. Growth remains partly sustained by the still strong labour market, that saw unemployment fall to 6.9%, its lowest level since 2015, and real earnings expanding. Such strong labour and income dynamics also reflect the ongoing expansionary fiscal policy led by the Lula government.

The fiscal policy is expected to tighten over 2025-2026. Fiscal targets were weakened early this year. They now aim for a primary balance in 2024/2025, and for a surplus in the following year up to reaching 1% in 2028. However, net of seasonal effects, the first months of this year saw primary balance falling short of the target, prompting announcements of spending cuts, which should come from an audit of social benefit programs to deal with possible irregularities in spending. Our deficit forecast also integrates the expectation that interest expenses will remain elevated.

Growth remained solid...



... and inflation edged up



Source: Banco Central do Brasil, IBGE - Instituto Brasileiro de Geografia e Estatística, Refinitiv, SG Economics and Sector Studies

Inflation slightly rebounded. The IPCA was up to 4.5% in July, up from 3.7% YoY in April, mainly because of the housing and food components. It is now at the upper level of the 1.5%-4.5% range, prompting caution from the central bank. Speaking at the Jackson Hole annual economic conference, the central bank governor Campos Neto underlined the importance of the expanded government spending on monetary policy transmission. Additional uncertainty, however, stems from the

decision of President Lula, who has been critic of Neto and high rates, to pick Gabriel Galípolo as the next head of the BCB. It will remain to be seen whether the choice of new central bank chief, which will succeed Neto whose term ends in December, will result in material changes in the central bank stance. In any case, the BCB printed a first rate hike in September. Further hikes are expected of still strong labor market and inflationary pressures.

We see additional risks to our scenario. Apart from moderate changes in connection with the new economic activity data, we mostly left our scenario unchanged. However, new risks are emerging. If upside surprises on inflation were to materialize, and if the government was not successful in raining in spending, the central bank may be forced towards a more hawkish stance, with potential adverse implications for next year growth. Conversely, an excessive dovish stance in that scenario – if President Lula was to exert more influence on the new central bank chief - would result into an intensification of inflation risks.

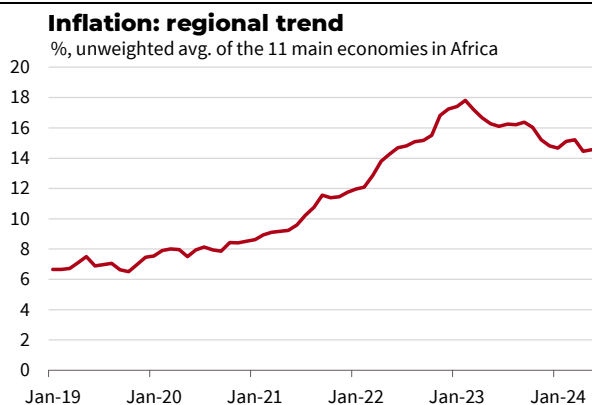
Brazil	2023	2024f	2025f	2026f
Real GDP, % ch YoY	2.9	1.9	1.9	2.0
Household consumption	3.1	2.2	2.0	2.0
Public consumption	1.5	1.5	1.5	1.3
Investment	-3.0	1.4	1.4	1.7
Exports of goods & services	9.0	3.0	3.0	3.0
Imports of goods & services	-1.3	1.7	2.5	2.5
Inflation, % annual average	4.6	4.0	3.5	3.5
Fiscal balance, % of GDP	-3.1	-8.0	-7.5	-6.0
Public debt, % of GDP	85	87	88	90
External debt, % of GDP	34	33	33	33
Current account balance, % of GDP	-1.0	-1.7	-1.7	-1.9

AFRICA

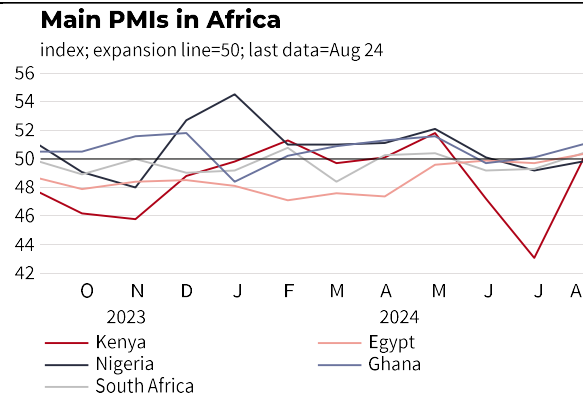
- **The economic environment remains uncertain, with most of the positive factors recorded in 1H24 having moderated.**
- **Regional growth is still expected to be slightly below 4% in 2025 (marginal increase vs. 2024), mainly due to a (limited) rebound in private demand.**
- **While slightly higher, growth remains insufficient to ensure real development in the region. In addition, a number of structural problems (vulnerability of public finances, FX financing needs, climate risks) remain unresolved.**

The improvement in the regional economic environment observed in 1H24 is still ongoing but remains fragile, with most of the factors supporting this improvement showing signs of abating. First, inflationary pressures continue to ease but seemingly at a slower pace than before. In some countries, inflation seems to have even stabilized or even already picked up again, often due to weather events (causing local food prices to spike) or depreciating currencies (causing higher import prices). Overall, despite wide disparities across countries, average regional inflation remains high, well above historical levels. As a result, the main confidence indices remain volatile and fragile, often in or near the contraction zone (for corporates) or below their pre-Covid level (for households).

The risk of inflation stabilizing at a high level



Confidence indicators are still fragile



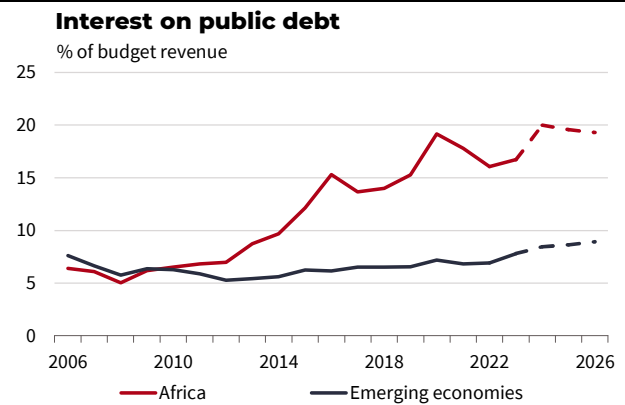
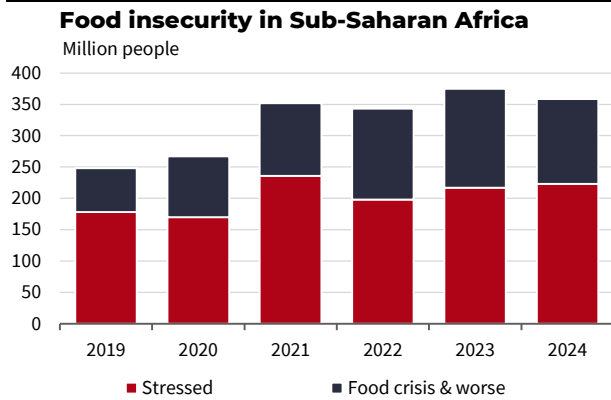
Source: Refinitiv, SG Economic and Sector Studies

Second, despite the reopening of international capital markets for African signatories, sovereign issuances remain rare (only Cameroon and Zambia – to conclude the restructuring of its public debt in FX – issued this summer) and expensive (Cameroon paid a 9.5% coupon for its 7 years / USD 550m issue). Other commercial capital flows (FDIs, portfolio flows, etc.) appear more resilient, but overall remain insufficient to significantly boost private investment. Finally, commodity prices have moderated this summer, which could be partly detrimental in a region where commodities still account for nearly two-thirds of exports.

Despite these signs of slowing down, we are keeping our regional growth forecasts unchanged, at 3.5% in 2024 (vs. 3.2% in 2023), then 3.8% in 2025 and 2026. This slight acceleration expected for next year would be mainly due to the rebound in private demand, which would benefit from the gradual reduction in inflation. Depending on the pace of this reduction, central banks in the region should gradually ease their monetary policy (easing is already underway in some countries: Morocco, Kenya, Mozambique, Botswana, Namibia). Public demand is expected to be less dynamic, as the majority of African countries have begun fiscal consolidation efforts and/or continue to face significant constraints on their financing conditions (both in local currency and in foreign currencies). The dichotomy between “small” countries (often with diversified economies) and “large” economies (often dependent on oil or metals) seems to be set to continue; on average, the first group is expected to grow at around 5% in 2025 and 2026, compared to 3% for the 2nd.

Persistent food insecurity, including from climate-related events

The sustainability of public debt is still in question



Source: Refinitiv, World Bank, SG Economic and Sector Studies

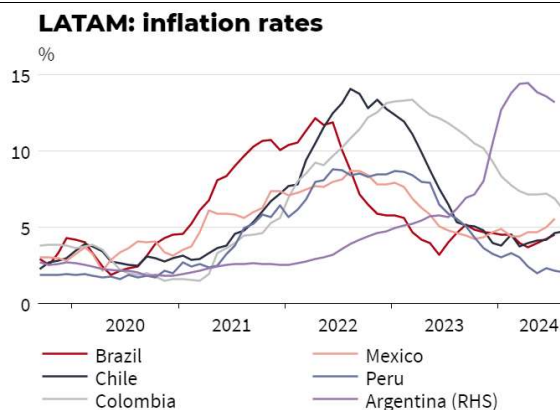
Several risks continue to weigh on this (too modest) acceleration. First, the expected growth rates remain insufficient (to ensure a sustainable increase in per capita income given Africa’s still strong population growth, of the order of 2.5% per year) and fragile, particularly as the frequency and intensity of climate events seem to increase. This growth vulnerability looks all the more problematic as the region’s political structures remain fragile. Moreover, most of the region’s structural fragilities remain: fragile balance of payments, FX refinancing risks, debt vulnerabilities due to high interest rates, etc.

LATIN AMERICA

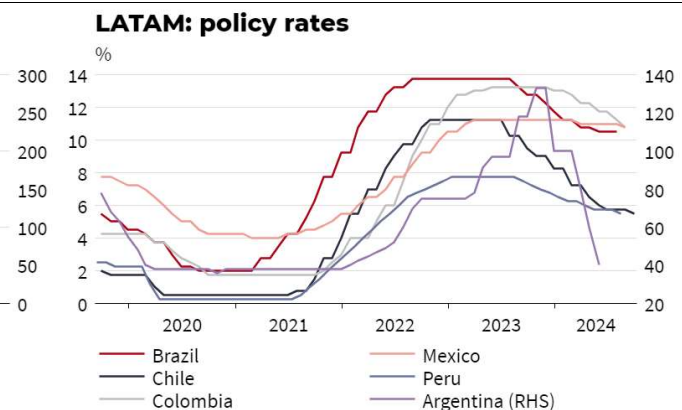
- **Easing cycle is well underway, with timid hopes for Argentina.**
- **This is supported by falling import prices and subdued growth, and elevated real rates.**
- **There is increased divergence of macro outlook across the region.**

After leading in the easing cycle, inflation trajectories have diverged in the region. High real rates (compared to pre pandemic averages) supported ongoing disinflation in some countries of the region, namely Colombia and Peru. In the meantime, monthly price pressures have stabilized at a still elevated 4% in Argentina over the last three months, following the austerity therapy of President Milei. The ability of the government to further ease inflationary pressures will be tested in the coming quarters. On the other hand, such Brazil, Chile and Mexico have experienced a (limited) rebound. This has occurred, while the last two have approached the pre pandemic real rates, and while the Brazilian economy is being boosted by fiscal stimulus.

Inflation has started to diverge ...



...and so has monetary policy

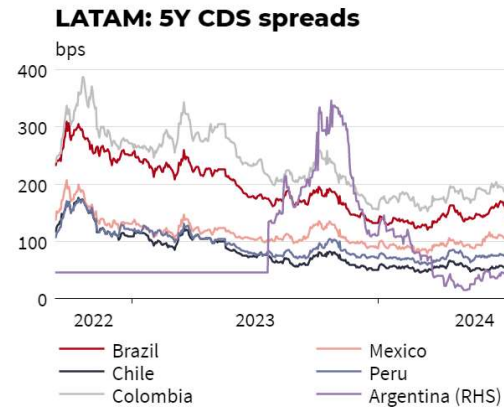


Source: National central banks and Statistics Institutes, Refinitiv, SG Economics and Sector Studies

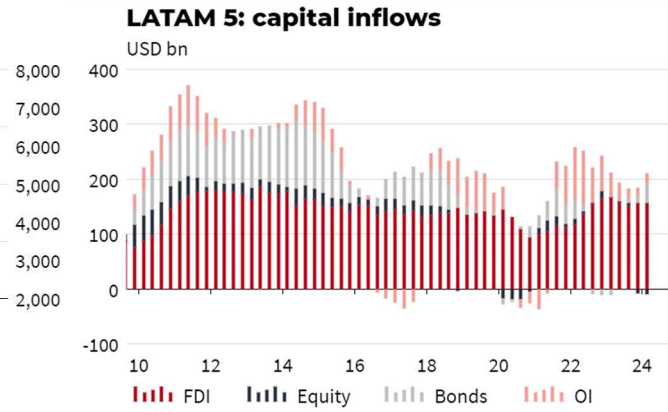
Growth is overall still expected to significantly cool in 2024 and is set to be around 2%, just around half of the expansion recorded in 2022, on the back of lagged effects of tighter policy, weak external demand and lower commodity prices.

Risk sentiment has remained broadly stable. Spreads have remained rather stable across the main countries of the region. Argentina exhibited some volatility, with an increase since May of around 300bps. On the other hand, capital inflows have remained consistent in the region in Q1 and have consisted mostly of FDIs.

Risk sentiment has remained stable



Capital inflows were strong in 1Q24



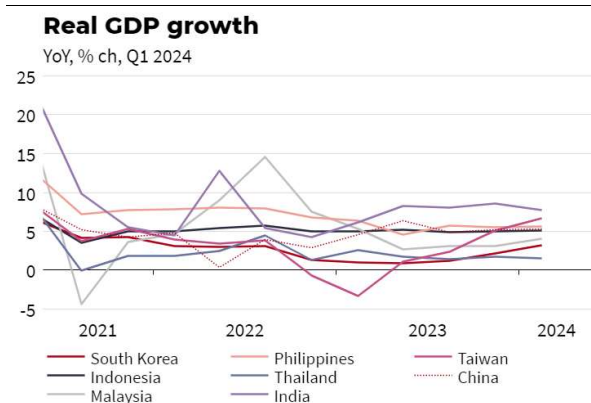
Source: Refinitiv, IMF, SG Economics and Sector Studies

EMERGING ASIA

- **Emerging Asia's regional growth should see only moderate deceleration into 2025, despite lower expected demand from China, thanks to resilient domestic demand.**
- **Inflationary pressures are gradually dissipating. However, climate impact on harvests from El Niño could increase food prices.**
- **Downside risks related to economic and geopolitical uncertainties may weigh on regional investment and trade.**

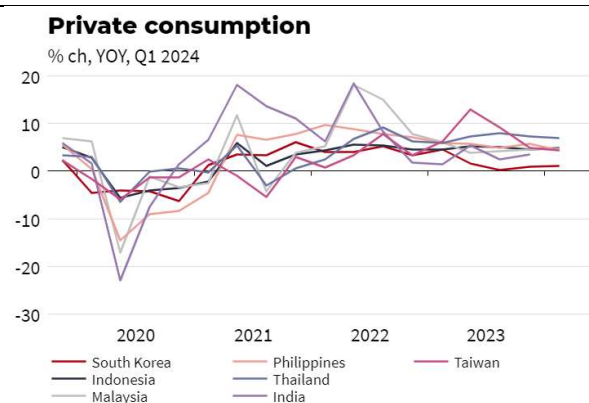
Regional growth is expected to remain buoyant this year as inflationary pressures dissipate. Domestic consumption, which accounts for more than half of GDP for most countries in the region, will continue to support regional growth. The labour market is improving, with unemployment in most economies already back to pre-pandemic levels. Tourism has continued to recover, supporting consumption and service activity. Regional trade is gradually improving, driven by the recovery of the semiconductor sector.

Growth in the region remains dynamic



Source: SG Economic and Sector Studies, Refinitiv

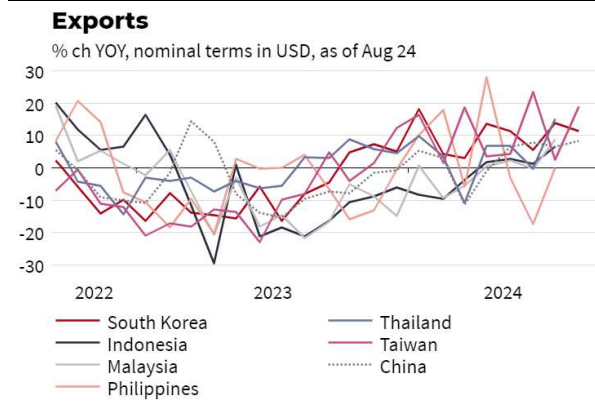
... supported by private consumption



Source: SG Economic and Sector Studies, Refinitiv

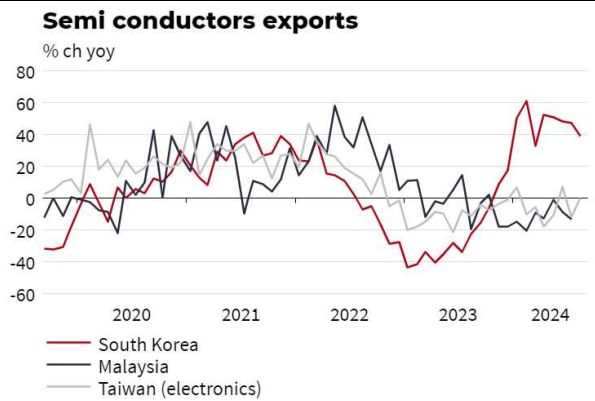
External demand has gradually picked up but could start to decelerate, as we expect lower demand from China and from the US in 2025. The recovery in the semiconductor cycle is also maturing. Semiconductor exports and production have accelerated in South Korea since August 2023, starting a cyclical recovery from the industry's contraction that lasted more than a year. In 2024, this improvement continues but the cycle is maturing. In addition, fragmentation and geopolitical tensions pose a downside risk to exports, especially the semiconductor industry.

External demand has picked up..



Source: SG Economic and Sector Studies, Refinitiv

..partly driven by the semiconductor cycle

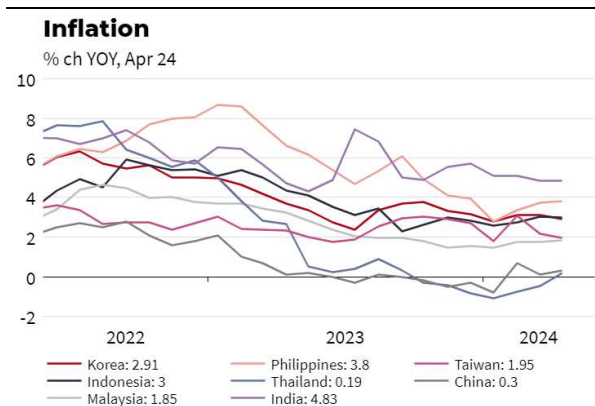


Source: SG Economic and Sector Studies, Refinitiv

Inflationary pressures should continue to ease. Most economies have returned to pre-pandemic inflation averages and close to the central bank target (India, Philippines, Vietnam, Indonesia), as pressures on energy and food prices have eased. However, climate change combined with impact of El Niño could affect agriculture and crops in the region and exacerbate food prices.

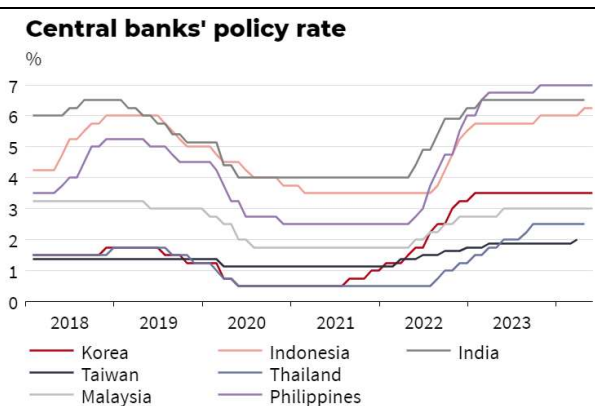
Many economies in the region have registered the effects of the interest-rate rises since 2022. This drag should now fade as a result of a gradual easing of monetary policy. Alongside slower consumer price inflation, consumers' confidence to spend should recover. A remaining headwind will come in the form of progressive fiscal consolidation.

Inflation is stabilizing



Source: SG Economic and Sector Studies, Refinitiv

Central banks have paused



Source: SG Economic and Sector Studies, Refinitiv

Geopolitical risks in the region remain. Economic growth and easing price pressures should be positive for political stability, but risks remain, as shown by recent instability in Bangladesh and Thailand. The new leaders have yet to consolidate their positions. On the geopolitical front, developments in Taiwan, the South China Sea and the Korean peninsula will remain the main potential flash points, as trade protectionism rises. A prolonged correction in China's property

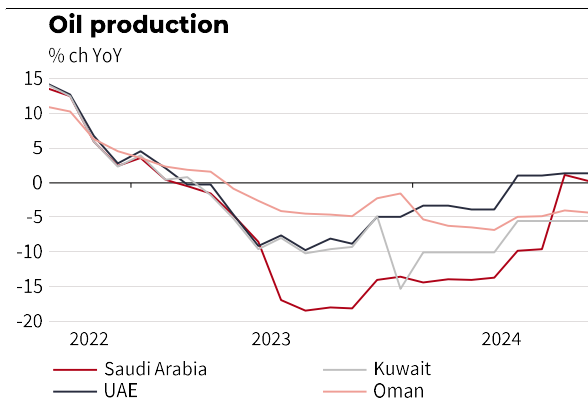
market would also affect countries in the region whose exports are strongly linked to China's investment and demand for raw materials.

GULF STATES

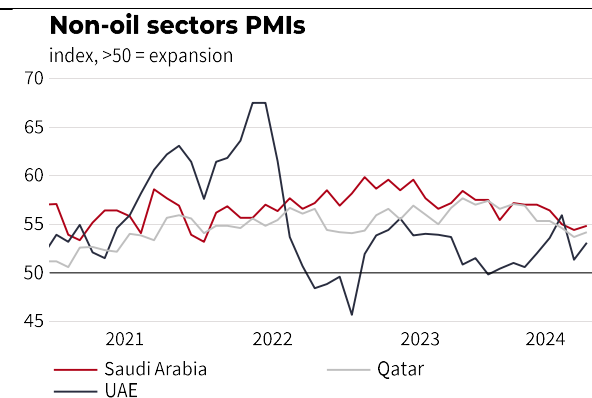
- In 2024, the contraction in hydrocarbon production should limit regional growth to around 2.5% at best. The other sectors, however, remain dynamic.
- This duality could continue in 2025 and 2026. The “simple” stabilisation of hydrocarbon volumes should enable growth to accelerate beyond 4%.
- The region's economic fundamentals remain very solid. While the conflict between Israel and Hamas has so far had little impact, it remains the main risk facing the GCC countries.

As forecasted since several quarters ago, growth in the GCC (Gulf Cooperation Council) countries is expected to be – at best – around 2.5% in 2024. This figure, while accelerating compared with 2023 (0.5%), remains significantly lower than the average growth rate recorded between 2010 and 2019 (3.8%). This disappointing performance is due above all to the reduction in oil production decided by OPEC+ in April 2023 (with Saudi Arabia adding a voluntary reduction). Saudi Arabia and Kuwait recorded contractions in their GDP in 1Q24 (-1.8% and -2.7% YoY respectively; the only and latest figures available for the region). On the other hand, in all the countries of the region, the non-hydrocarbon sectors have remained dynamic, as shown by non-oil PMIs which are still solidly in the expansion zone (but whose recent deceleration will need to be monitored).

Stabilization of oil productions



Non-hydrocarbon sectors remain dynamic (but with decelerating PMIs)

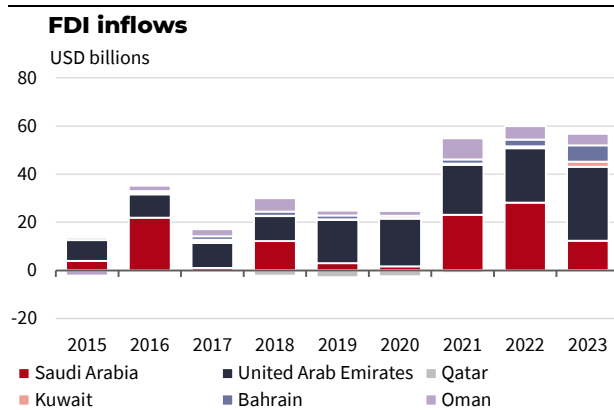


Source: Refinitiv, SG Economic and Sector Studies

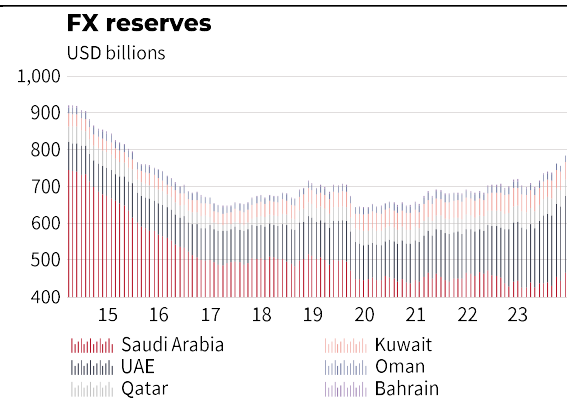
The growth outlook for 2025 and 2026 is better, but unsurprisingly remains dependent on future OPEC+ decisions. Officially, the cuts agreed in 2023 were to be phased out, adding around 200,000 b/d of production each month between 4Q24 and 3Q25. However, OPEC+ countries have always indicated that these increases were conditional. Without commenting on precise production volumes, we expect any production increases to remain limited (probably lower than the figures quoted).

The outlook for less buoyant global demand for oil in 2025 (according to the International Energy Agency) argues for this caution. The outlook for gas production is brighter, with the completion of work on extending the North Field in Qatar scheduled for 2026. **Overall, a “simple” stabilisation (in % ch YoY) of production volumes for 2025 (i.e. zero growth in hydrocarbon GDP) would probably enable total regional growth to exceed 4%, since the non-oil sectors should remain dynamic.** These sectors continue to benefit from the significant increase in “green” investments (more specifically, mitigation investments) and economic diversification, as the region remains one of the most exposed to climate risks (more specifically, transition risks). On the demand side, public demand could slow slightly in 2025 and 2026, suffering from the (limited) fiscal consolidation efforts underway in the region. This should, however, be more than offset by the increased dynamism of private demand, which is benefiting from low inflation, buoyant labour markets and the structural increase in inward FDI throughout the region.

A structural increase in FDIs



Rising FX reserves



Source: Refinitiv, UNCTAD, SG Economic and Sector Studies

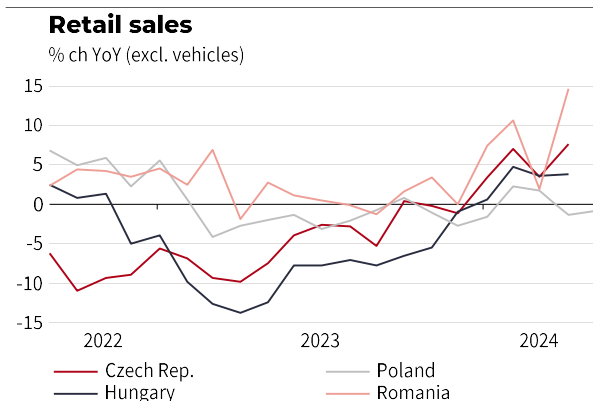
The region's external and fiscal balances remain solid, although it should be noted that 3 of the 6 countries in the region are expected to post fiscal breakeven oil prices in 2025 that are higher than our oil price forecasts for 2025 and 2026 (USD 73/b and USD 70/b respectively): Bahrain, and to a lesser extent Saudi Arabia and Kuwait. **While the conflict between Israel and Hamas has so far had little impact, it remains the main risk to the GCC economies.** An escalation/generalization of the conflict would have a major impact on the Gulf countries, with the general attractiveness of the region declining as a result of security issues, a loss of confidence on the part of outside investors, and a fall in tourism revenues. In addition, greater unrest in the Red Sea would inevitably affect regional supply chains (hydrocarbon exports, imports of consumer and capital goods).

CENTRAL AND EASTERN EUROPE

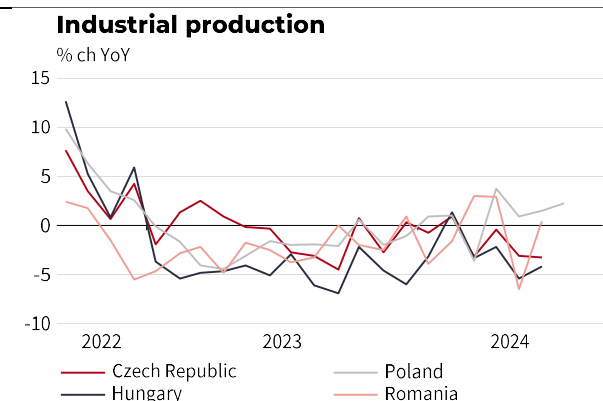
- **Despite the fiscal consolidation expected in 2025, growth will continue its gradual recovery, driven by domestic demand.**
- **After strong disinflation and rate cuts since the end of 2023, inflation should remain relatively stable in 4Q24 and 2025 in a context of moderation in energy prices.**
- **Downside risks relate mainly to a slower-than-expected EU fund absorption, to the war in Ukraine and the related uncertainties.**

Growth has gradually resumed since the start of 2024, mainly driven by domestic demand in a context of disinflation and gradual loosening of monetary policies. Private consumption is the main engine of growth, supported by the increase in real wages since the end of 2023 and, in some countries, by increased public spending in the run-up to elections (notably in Romania and Poland). The absorption of *NextGeneration EU* funds is progressing, although slowly: 35% of funds allocated to the Czech Republic were disbursed at the end of August 2024, 14% for Poland, 24% for Bulgaria, 48% for Romania, 2% for Hungary compared to more than 80% in France and more than 60% in Italy and Spain. The European Commission released the frozen Cohesion Funds and *NextGeneration EU* Funds for Hungary and Poland at the beginning of 2024. By contrast, industrial production, particularly for the automobile sector, remains in negative territory throughout the region, except in Poland. In addition, the significant inventories reduction observed in Czech Republic, Poland and Romania is weighing on growth in 2024.

Consumption is picking up



Industrial production not yet

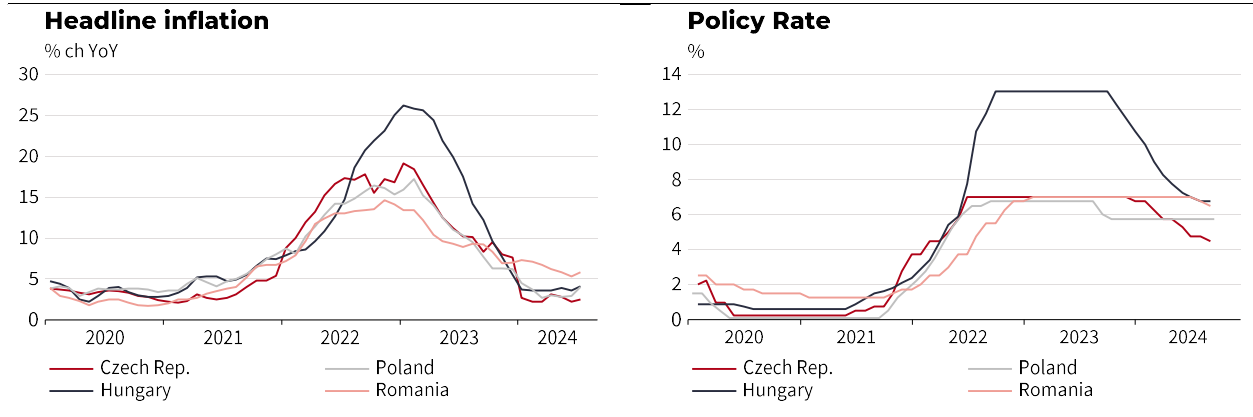


Source: SG Economic and Sector Studies, Refinitiv

After a sharp disinflation in the region in 2023, the consumer price index has remained stable but slightly above central bank targets since January 2024. Romania is an exception with disinflation that started later (from of January 2024) than in the rest of the region due in particular to a still expansionary fiscal policy and a tight labour market coupled with strong wage pressures. Inflation remains high in Romania: 5.8% in July 2024. In this context, the region's central banks have lowered

their key rates since Q3-23: by 250 bp in the Czech Republic, by 625 bp in Hungary and of 100 bp in Poland. The Romanian central bank only started lowering its key rate in July 2024 (by 50 bps).

After a sharp disinflation in the region, inflation has stabilized since January Further rate cuts could take place in 2025



Source: SG Economic and Sector Studies, Refinitiv

Growth in the region is expected to continue its gradual recovery in 4Q24 and in 2025, driven by domestic demand. In a context of moderating inflation, purchasing power and household consumption should continue to recover. Note that labour markets have remained tight in the region: regional companies shed very few workers during the soft patch that hit manufacturing sector last year and in 1H24, with labour hoarding continuing in most countries.

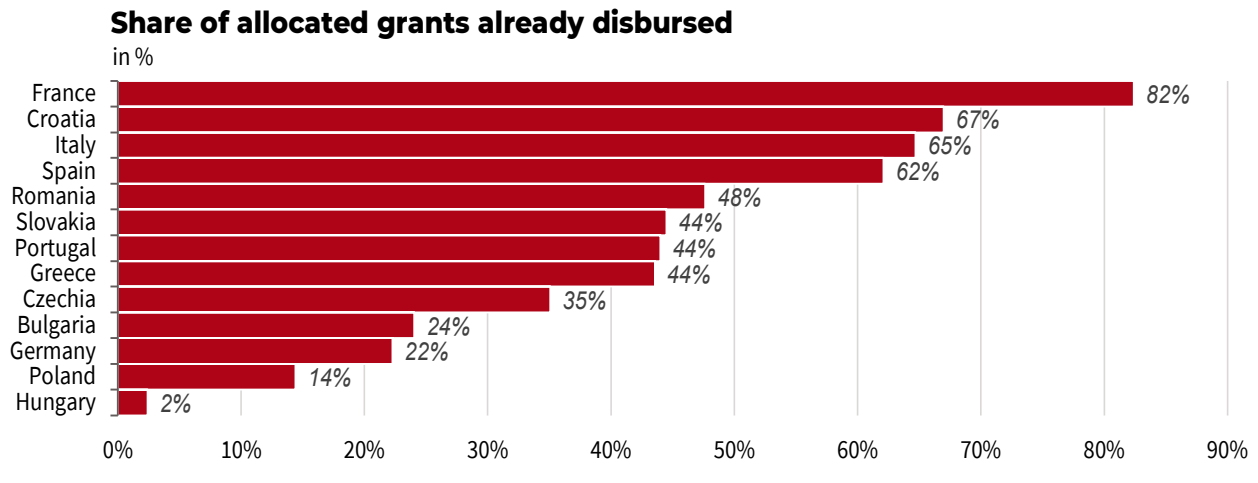
Investment is expected to accelerate slightly due to the continued absorption of European funds: Cohesion Fund and NextGeneration EU Fund. On the other hand, private investment and exports are expected to remain weak in a context of a slow recovery in the euro area.

Fiscal policy should become more restrictive due in particular to the reactivation of European budgetary rules and the fiscal consolidation that will follow. The European Commission opened an Excessive Deficit Procedure in June 2024 for Poland, Hungary and Slovakia while it confirmed it for Romania. The latter displays one of the highest budget deficits in the region. Romania has not undertaken fiscal consolidation yet given the busy electoral calendar in 2024 (parliamentary, presidential and local elections) as evidenced by the recent vote on pensions' hike of 40% from September 2024. Significant fiscal consolidation will be necessary in 2025, likely including tax increases.

Inflation is expected to remain broadly stable in 4Q24 and slightly slowdown in 2025. This trend will be enabled by the moderation of energy prices and the tightening of fiscal policies. In this context, central banks in the region could continue to slightly lower their policy rates in 2025.

Downside risks to the growth outlook relate mainly to a slower-than-expected EU fund absorption or lower effectiveness of implemented projects to raise growth prospects, and weaker-than-expected external demand. They also relate to the war in Ukraine and the related uncertainties surrounding the availability and price of energy in the region. A total cut-off of Russian gas supplies would have a significant impact on some countries, with a high risk of recession in Hungary, Slovakia and Serbia, due to its high share of gas in the primary energy consumption. Poland and Romania are less exposed.

Disbursement of *NextGeneration EU* funds remains slow in Central and Eastern Europe



Source: SG Economic and Sector Studies, Refinitiv

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