Global Economic Weekly

US GDP keeps feeling the heat, will the Fed?

26 January 2024

Economics
Global

Global Letter: US GDP keeps feeling the heat, will the Fed?

US GDP keeps surprising on the upside. Strong activity and a still tight labor market raise questions as to whether the goods disinflation may have run its course and we are expecting too much from services. ECB and BoJ on hold: we expect the ECB to cut in June and BoJ to exit NIRP/YCC in April. Red Sea disruptions remain another inflation risk.

United States: Defying Gravity

GDP cooled, but not nearly as much as expected. The economy continues to defy expectations.We expect headline and core PCE inflation in December to rise by 0.15% m/m and 0.17%, respectively. Solid growth and falling inflation support our soft-landing view.The Fed will shift to neutral rate guidance next week as it discusses when to begin normalizing its policy rate stance and slow the pace of balance sheet runoff.

Euro Area: ECB review – not in a rush

The ECB is on its way to cuts but without rushing or pre-comitting. Lack of explicit pushback on an April cut makes it live. But we stick to our call of a first cut in June, and faster cuts after that is the more likely alternative scenario.

UK: BoE preview – starting a pivot

We expect the Bank of England (BoE) to keep Bank Rate unchanged next week. Guidance will change slightly, starting a slow pivot towards cuts down the line, but not imminently. At the same time, forecasts should still show sticky inflation.

Asia: Singapore – Budget Preview

The current Prime Minister plans to handover the country's leadership later this year. In the lead-up, we expect a sharpened focus by the government in addressing cost-of-living concerns & the 16th Feb Budget could be more household-friendly than past years.

Emerging EMEA: Serbia – managing inflows

Inflation to reach 1.5-4.5% target range in 2Q24, unlocking some 150bp in NBS rate cuts this year from June. Growing NBS FX reserves signal appreciating pressures on the RSD. NBS may allow RSD appreciation similar to the Albanian lek.

Latin America: Brazil – Key Things to Watch in 2024

Eyes will remain on the fiscal, as the government attempts to achieve the zero deficit target set for 2024.Activity should show some moderate deceleration. Inflation and Selic rate expected to keep the downward trend. External basic balance should be stronger in '24, while political agenda will focus on tax reform and municipal elections.

Table of Contents

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Glossary
ALL: Albanian lek
NBS: National Bank of Serbia
NIRP: negative interest rate policy
PBoC: People's Bank of China
RSD: Serb dinar
YCC: yield curve control

Global Letter

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US GDP keeps feeling the heat, will the Fed?

Following the strong retail sales print last week, 4Q US GDP came out much stronger than expected, at a much-above-potential 3.3% qoq saar, following the even stronger 3Q print. At the same time, disinflation continues. The question is whether the Fed will look through inflation risks coming from the demand side an geopolitics, or rather choose to look through them.

Talking about central banks, the ECB and BoJ both had meetings this week, with no policy changes in either. We continue to expect the ECB to start easing in June by 25bp per quarter, and we believe it is more likely for the pace to accelerate after that than for the easing cycle to start earlier. The BoJ left all key policy targets unchanged, as widely expected, but we continue to expect an exit from NIRP/YCC in the April meeting.

In China, PBoC announced a 50bp cut to reserve requirements, beating market expectations and sending a clear signal to lift sentiment. Policy makers pledged to support credit growth in targeted areas, while reiterating the stance to maintain FX stability. We expect to see a small decline in the 1yr loan prime rate in the near term, possibly 15bps in 1Q and another 30bps cumulatively before the end of the year.

Last, but not least, disruptions in the Red Sea continue to be elevated, and shipping costs have continued to rise as US/UK strikes have failed to deter the Houthis. Since December, the conflict has led shipping costs to increase significantly—yet another example of geopolitics bringing upside risks to inflation.

Another strong GDP print in the US

The advance estimate of 4Q US GDP showed that the economy grew at a strong above-trend pace of 3.3% qoq saar after 4.9% in 3Q. This was well above consensus and our expectations of 2.0% and 1.5%, respectively. This was mainly due to a resilient consumer, high government spending, growth in (volatile) net exports & another strong inventories print.

At the same time, disinflation continues. However, the strength in activity coming from the demand side and a still tight labor market raise questions as to whether this can continue seamlessly, or the goods disinflation has run its course and we are expecting too much from services. Too early to tell, but the timing of the easing cycle may depend on whether the Fed decides to look through these risks, or pay attention to them.

ECB: not in a rush

The latest ECB meeting was probably the most uneventful in a long while. We expected no policy changes, nor to the outlook, or to guidance in general. And broadly, this is what we got. Our key takeaway is that Lagarde, during the press conference, stood by her words at Davos a week before (i.e., cuts in the summer).

In our view, the emphasis was on highlighting data dependence and trying to avoid rushing or pre-committing—hence, the lack of an explicit pushback on March or April. We stick to our call of a first cut in June, and we believe it is more likely for the pace to accelerate after that than for the easing cycle to start earlier.

BoJ: one step closer to normalization

At its first monetary policy meeting of the year, the BoJ left all key policy targets unchanged, as widely expected. In a housekeeping exercise, the BoJ board voted unanimously to extend by one year the deadline for its funding-for-lending program. Elsewhere, there were little changes to the policy statement. The central bank also left all components of its forward guidance intact, but the January Outlook Report & Governor Ueda's presser were hawkish. We continue to expect an exit from NIRP/YCC in the April meeting.

PBoC: 50bp RRR cut signals more monetary policy support ahead

The PBoC said it will lower the reserve requirement ratio (RRR) by 50bp. This RRR reduction will release RMB1tn of long-term liquidity to commercial banks, bringing the weighted average RRR will to around 7.0%, from 7.4%.

The PBoC also announced other targeted measures, and reiterated its commitment to keep the yuan at a reasonable "equilibrium" level, implying limited tolerance for currency depreciation in the near term. We expect a small decline in the 1yr loan prime rate near-term, possibly 15bps in 1Q, and another 30bps cumulatively before the end of the year.

A Sea of Red

Disruptions in the Red Sea continue to play out in line with our view of an ongoing acute impact on shipping costs and supply chains (see Global rate cuts lost at (Red) Sea?). US/UK strikes have failed to deter Houthi attacks to continue, and disruptions could persist for some time. Since December, the conflict has led shipping costs to increase significantly—yet another example of geopolitics bringing upside risks to inflation.

Shipping costs have increased by up to 300% on routes from Asia to Europe, and about doubled for routes between China and the US. Based on recent literature, we believe the inflation impact could be relevant if the conflict persists. However, there are also some arguments to expect a smaller passthrough from a cost push than during the pandemic.

United States

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Defying gravity

- GDP cooled, but not nearly as much as expected. The economy continues to defy expectations.
- We expect headline and core PCE inflation in December to rise by 0.15% m/m and 0.17%, respectively. Solid growth and falling inflation support our soft-landing view.

The economy continues to defy expectations

Our 2024 outlook includes a resilient consumer offset by softening in non-consumer segments like residential and non-residential investment. While the advance estimate of 4Q GDP surprised sharply to the upside, rising 3.3% q/q saar against our expectation for a 1.5% increase, the mix of activity came in as we expected (see US Watch: Still hot US economy: 4Q GDP at 3.3%). Growth held up due to a resilient consumer, but other sectors of the economy moderated. Overall, growth in economic activity cooled, but not nearly as much as we expected. The US economy continues to defy expectations.

Looking into the details, growth in real consumer spending came in much higher than expected at 2.8% q/q saar on solid spending for both goods and services. In line with our forecast, real business spending seems to be levelling off, with structures investment slowing from its double-digit growth rate. Residential investment posted its second consecutive quarterly gain, albeit a smaller one as high mortgage rates and low inventory continue to constrain activity in the sector.

Inventories, a generally volatile component, surprised to the upside. Autos potentially played a big role in the accumulation in this quarter. Within trade, another volatile component, exports grew at a much stronger pace than we expected while imports came in line with expectations. Additionally, government spending also came in higher than expected, likely driven in part by growth in government employment, which was robust in 4Q. Keeping aside the volatile trade and inventories print, final sales to domestic purchasers slowed from its 3Q print of 3.5% to 2.7%. Looking ahead, we expect final sales to slow further from its current pace on the back of lagged effects from tighter financial conditions and a moderating labor market.

Exhibit 2: BEA's advance estimate of 4Q US GDP (q/q % saar and pp contribution)
Robust growth on the back of a resilient consumer, strong government spending, and net exports

	%% q.q saar q/q saar	Contribution to real GDP (pp)	% q/q saar	Contribution to real GDP (pp)
GDP	4.9		3.3	
Consumer Spending	3.1	2.1	2.8	1.9
Residential Investment	6.7	0.3	1.0	0.0
Structures	11.2	0.3	3.2	0.1
Equipment	-4.4	-0.2	1.0	0.1
Intellectual Property Products	1.8	0.1	2.1	0.1
Government	5.8	1.0	3.3	0.6
Exports	5.4	0.6	6.3	0.7
Imports	4.2	-0.6	1.9	-0.3
Net Exports (Bil 2012$)	-931	0.0	-908	0.4
Inventory Accumulation (Bil 2012$)	77.8	1.3	82.7	0.1
Final Sales	3.6		3.2	
Domestic Final Sales	3.5		2.7	

Source: Haver Analytics, BEA

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Resilient activity and further disinflation

The GDP report confirms that the economy can continue to expand at a moderate – or even faster pace – while still experiencing disinflation. In addition to the better-than-expected GDP print for 4Q, employment and retail sales data beat expectations in December. Survey data on the business sector and consumer sentiment data also improved recently. As a result, the Bloomberg Economic Surprise index turned positive over the course of December and remains positive in January after tumbling in November (Exhibit 3).

Inflation, meanwhile, was at the Fed's 2% target for a second consecutive quarter as core PCE printed at 2.0% q/q annualized in 4Q. This was in line with our expectation, and in our view, suggests that core PCE inflation in December was likely in line with our forecast—0.17% m/m. If our forecast does indeed prove to be correct, then it would imply 3m saar and 6m saar growth rates of 1.5% and 1.8%, respectively, for core PCE inflation and a y/y rate of increase below 3.0% (Exhibit 4).

Fed to keep its options open

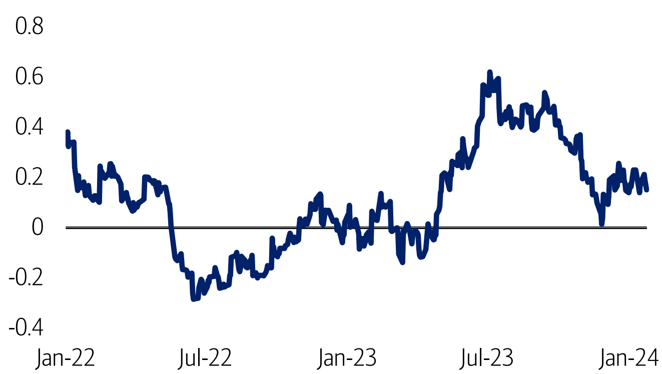
Next week the Fed will hold its first meeting of 2024. As we noted in our preview (see January FOMC preview: Playing for time), we expect it will be pleased with the progress made in returning inflation towards the 2% target without a significant rise in the unemployment rate. However, we think the Fed will remain coy about its intentions for the timing of policy normalization. We think the Fed prefers to see more data before making any decision on whether to start reducing rates in March, as we currently expect.

That said, there has been enough progress to warrant a change in forward guidance in the post-meeting statement. We think the current language referencing "the extent of any additional policy firming" can be replaced with "in determining any additional policy rate adjustments". The literal reading of this guidance would suggest the Fed is just as likely to raise rates as cut them, but the direction of travel in recent changes to policy rate guidance would signal some easing bias, particularly since most Fed communication has implicitly indicated the tightening cycle is over. While we continue to think the Fed can normalize its policy rate on inflation data alone, we acknowledge the upside surprise on 4Q GDP growth may be concerning to some committee members who believe bringing services inflation in line with the inflation target requires more softening in activity and labor markets.

Finally, we expect the committee will have an extensive discussion on how and under what conditions to reduce the pace of balance sheet runoff. In our view, Chair Powell will only provide a high-level synopsis of this discussion.

Exhibit 2: Bloomberg economic surprise index (+ = better than expected data)

Economic data has continued to defy expectations



Source: Bloomberg

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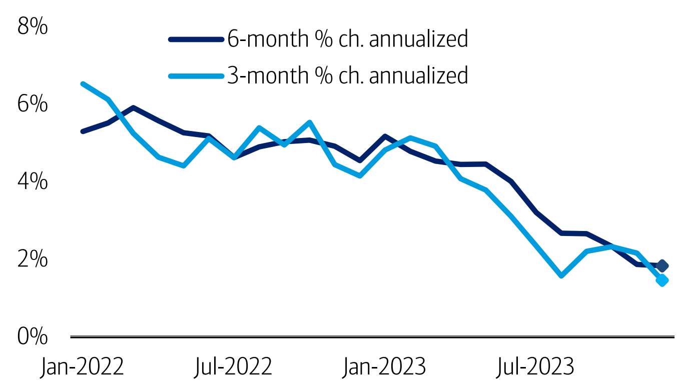
Exhibit 3: Core PCE inflation (diamonds represent expectations for December)

Core PCE inflation is running below the Fed's target in recent months



Source: Bureau of Economic Analysis, Haver Analytics, BofA global research

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ECB review: not in a rush

- The ECB is on its way to cuts but without rushing or pre-comitting. Lack of explicit pushback on an April cut makes it live.
- But we stick to our call of a first cut in June, and faster cuts after that is the more likely alternative scenario.
- Rates rally amid modest ECB pushback to the pricing of 1H cuts. EUR lower, consistent with rates, but not sustained.

Guiding to cuts, without rushing or pre-comitting

The latest ECB meeting was probably the most uneventful in a long while. We expected no policy changes, none to the outlook, or to guidance in general. And broadly, this is what we got. We also got pushback on market pricing, but markets will certainly want to read it as softer than before – particularly since Lagarde did not push back explicitly against earlier cuts when asked about whether April was live. However, she also argued that a debate on cuts was seen as premature at the Governing Council.

Our key takeaway is that Lagarde, during the press conference, stood by her words at Davos a week before (i.e., cuts in the summer). To us, the emphasis was on highlighting data dependence and trying to avoid rushing or pre-comitting – hence, the lack of an explicit pushback on March or April. It will be up to the data. But, by construction, the ECB looks at the data with a backward looking bias. They want to be sure. They want to see wages and margins, among other data. The economy is not putting pressure on them, and the ECB is starting to see signs of an acceleration, which would further remove any pressure to act quickly.

Hence, we stick to our call of a first cut in June, and we view more frequent than quarterly 25bp cuts in 2024 as the more likely alternative scenario to earlier cuts or bigger increments. But by clearly leaving the door open to earlier cuts this week, markets will have to continue to price some risks.

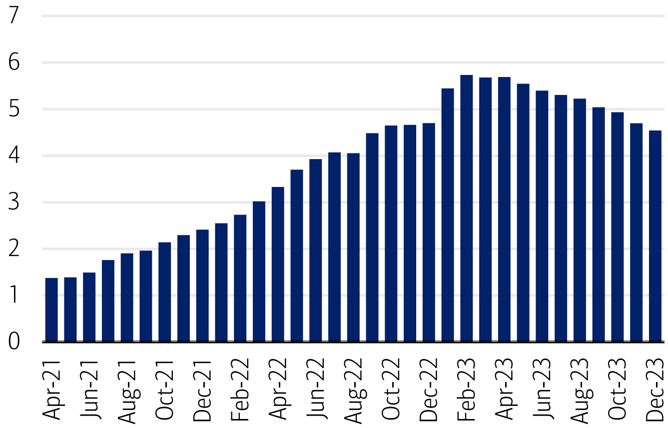
Finally, we got some guidance on the potential timing of the outcome of the framework review, with late spring being likely, which we read as by the June meeting.

Risks a bit more balanced on the inflation outlook

Despite a barely unchanged outlook, we perceived the (subjective) balance of risks around inflation as marginally more balanced. There was a long list of upside risks but an equally long one of downside risks. Even when talking about shipping costs, Lagarde was quite cautions on arguing that initial conditions matter in terms of the impact on inflation, and what we had seen so far is likely to have a moderate impact. Still, she flagged this as a key development to follow. We would agree with all those points.

The emphasis was still though on domestic inflation and the smaller progress there. As we argued last week (and we include again the charts this week), the renewed focus on wages and domestic inflation are more reflective of a still quite backward-looking central bank compared with what the data says. Yes, in yoy terms, domestic inflation is improving slowly, but momentum is now not far from target.

Exhibit 1: Euro area, domestic inflation measure, yoy%
Far from target, but mostly due to base effects



Source: BofA Global Research, Eurostat

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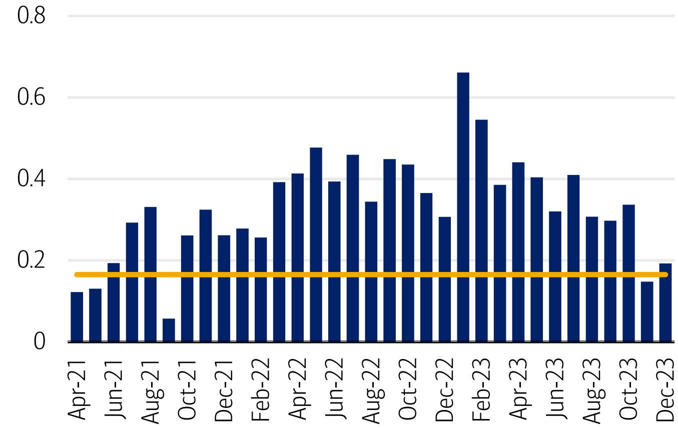
Exhibit 2: Euro area, domestic inflation measure, mom%
Very significant deceleration, now close to target



Source: BofA Global Research, Eurostat

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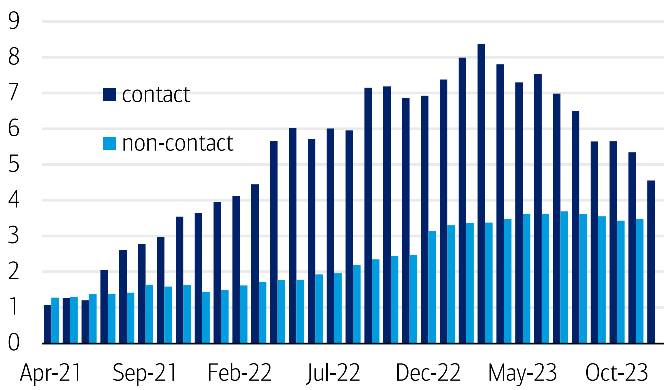
Exhibit 3: Contact vs non-contact services inflation, yoy%
Improvement has been driven by contact services



Source: BofA Global Research, Eurostat. Contact intensive sectors include Transport services, Recreational and cultural services, Package holidays, Restaurants and hotels, Hairdressing salons and personal grooming establishments. Non-contact intensive services include the rest of services.

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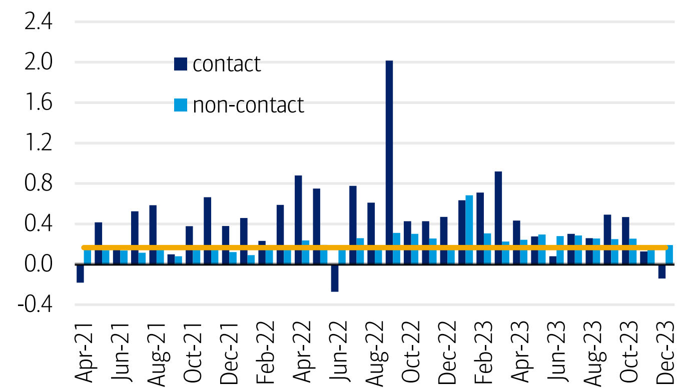
Exhibit 4: Contact vs non-contact services inflation, mom%
But, even in non-contact services, monthly rates have normalized



Source: BofA Global Research, Eurostat. Contact intensive sectors include Transport services, Recreational and cultural services, Package holidays, Restaurants and hotels, Hairdressing salons and personal grooming establishments. Non-contact intensive services include the rest of services.

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How to balance a pivot while pushing back

We expect the Bank of England (BoE) to keep the Bank Rate unchanged at next week's policy meeting with a 1-7-1 vote in favour. Guidance will change slightly, starting a slow pivot towards cuts down the line, but not imminently. At the same time, forecasts should still show sticky inflation. While we would expect the hiking bias to go away, we think the BoE is likely to maintain that "monetary policy would need to be sufficiently restrictive for sufficiently long".

The beginning of it all

Indeed, next week's Bank of England's meeting should mark the beginning of a slow pivot towards a cutting cycle that should start in August and proceed slowly. We would argue that the BoE is unlikely to find that " material progress had been made in returning inflation to the 2% target sustainably" and hence it is unlikely to pivot strongly towards a cut. Still, latest data since the BoE's last meeting suggest significant progress in returning inflation to target and this is likely to be reflected in the new forecasts, near term, and with slight changes in guidance.

It should also be reflected in the vote. While it is a close call, on the margin, we would still expect one vote for a hike and a first vote for a cut. Small deviations from that are also likely.

A gentle pushback

The inflation forecasts should come down in a clear way for this year and next, mainly due to much lower energy prices. But medium term, BoE inflation forecasts may need to remain stickier, to show some (gentle) rebuff vs early cuts. This would signal that market pricing may not be consistent with inflation reaching the target at the traditional two-year horizon for monetary policy. At the same time, with constant interest rates, we would expect some undershoot to target. The implicit signal would be one of a market that has moved too fast.

Small changes to guidance

We would expect guidance to move away, even if at least partially, from a hiking bias. The easiest way would be to remove the following phrase: "Further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures. " Alternatively, the language could be softened or qualified.

On the other hand, we would still expect the following phrase to be maintained in the minutes as a way of additionally pushing back towards too-aggressive a loosening of financial conditions: "Monetary policy would need to be sufficiently restrictive for sufficiently long to return inflation to the 2% target sustainably in the medium term".

Still the last, still slow

Remember we still expect the BoE to keep the Bank Rate on hold at 5.25% until August, and we expect a cutting cycle of 25bp per quarter from there. The UK will be the last of the major central banks to start and it is likely to move more slowly, at least compared with the ECB. The UK still has a bigger persistent inflation problem, despite recent improvements.

BoE forecasts: energy prices to the rescue

The February MPR inflation forecasts should come down in a clear way this year and the next, mainly due to much lower energy prices (Exhibit 1). We assume that the BoE would incorporate some significant adjustments in the Ofgem caps in April/July (press reports suggest a 16% drop in April, followed by an additional drop in July too).

Lower headline inflation should also boost consumer balances and growth – we see 1Q25 growth being upgraded to 0.8% yoy, with the 1Q26 forecasts at 1.1% yoy. Medium term, BoE inflation forecasts may need to remain stickier (both in 2025 and 2026), to show some (gentle) rebuff vs early cuts. For 1Q27, we pencil in 1.4% growth (broadly consistent with trend) and inflation still slightly above the target (2.1%).

Exhibit 1: Lower inflation near-term, sticky medium-term
BofA forecasts of mean BoE forecasts in November Monetary Policy Report

BofA forecast for Feb MPR (Nov MPR figures in parentheses)

	GDP % yoy	Inflation
2024 1Q	0.1 (0.2)	3.7 (4.4)
2025 1Q	0.8 (0.0)	2.3 (2.8)
2026 1Q	1.1 (0.6)	2.2 (2.2)
2027 1Q	1.4	2.1

Source: BofA Global Research, BoE

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FX: It's all relative

One of the main narratives behind this year's strong performance for the pound has been carry. At a time where many central banks have been guiding markets towards the possibility of a near-term rate cuts, the BoE has been steadfast in its view that rates will need to stay higher for longer and rates cuts will be later rather than sooner. Despite our view that the tightening cycle is now at an end and the February meeting will begin the pivot towards an easing bias, we do not think that this will be enough for investors to conclude that rate cuts are imminent. Indeed, we continue to believe that the UK rates markets remains overly optimistic in its expectation for a 25bps rate cut in May. As our UK economists opine above, we would expect the BoE to lean on language that pushes back on current market pricing. Admittedly, the BoE has been remarkably quiet since the start of the year in comparison to its peers, so there is a smaller body of evidence to suggest how forceful that push back will be. We will look to the Bank's forecasts projections under the assumption of current market rates as a guide to how far the MPC is willing to push back on current pricing.

In terms of GBP reaction, with the market still pricing in the chance of early rate hikes, we think the risks are skewed asymmetrically. We doubt that the MPC will validate current market pricing so an unwind of front-end cuts should be constructive for the GBP outlook. Though date remains soft in broader terms, we note the divergence between softer EZ PMI vs stronger UK PMI. UK lead indicators and housing data have in particular shown signs of improvement. Furthermore, developments in the Red Sea are likely to be an unwelcome dynamic for a country already being buffeted by a number of structural inflationary issues. Caution is thus warranted with the bottom line being a supportive backdrop for further GBP gains.

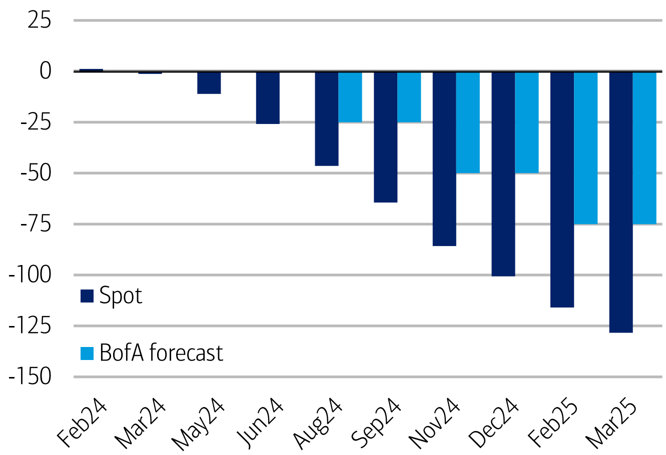
Rates: dovish interpretation possible

Following a strong rally into the end of 2023, UK rates have retraced partially since the start of the year, with the latest leg on the back of last Wednesday's upside surprise in inflation. The market priced out more than one 25bp Bank rate cut post-inflation, bringing more balance to the front-end and Monetary Policy Committee (MPC)-dated Sonia pricing closer to our economists' base case. The market is currently pricing in a cumulative 100bp of cuts by December 2024 vs. our base case of 50bp (Exhibit 2).

We do not expect a May cut, but the market prices in around 11bp of cuts for May MPC (Exhibit 3). We believe this may reflect (1) the market believing the BoE will need to cut sooner than its latest guidance: the BoE is viewed as the second most likely central bank to surprise on the dovish side by the end of 2024. A sharp Ofgem price cap fall in April could push the headline inflation to target in April/May, but April's inflation data to be released on 22 May will not be available in time for the 9 May MPC meeting. (2) a big probability of a cut in June following this inflation drop, were the drop to occur, would mechanically lead to some probability of cuts priced for April through interpolation.

Our expectations for next week imply bias for the market to interpret things on the dovish side. With more balanced market pricing of BoE and ECB cuts vs. our economists' expectations, we think the course for our view to fade market pricing of BoE Bank rate cuts in 2024 against ECB rate cut pricing in 2025 has now largely run its course.

Exhibit 2: MPC-dated Sonia Bank Rate hike exp. vs. BofA f'casts, bp
First 25bp cut priced in by June MPC



Source: Bloomberg, BofA Global Research

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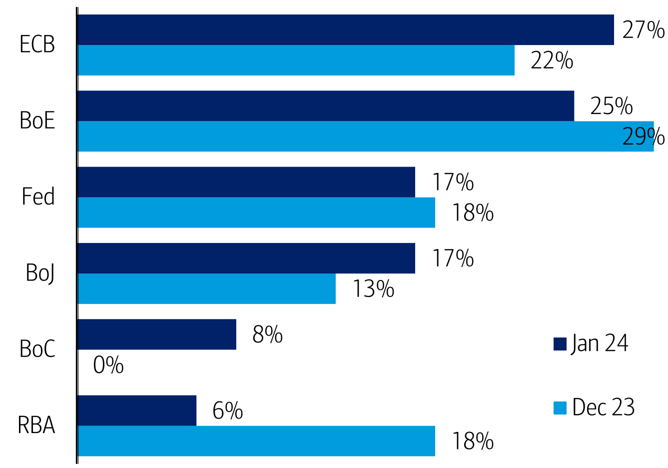
Exhibit 3: Which central bank is most likely to deliver a more dovish outcome by YE 2024 than current market pricing:
BoE seen as second most likely to surprise dovishly



Source: BofA Global Research FX and Rates Sentiment Survey

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Asia

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Singapore – Budget Preview

- FY23, we think that the latest estimates may be revise up to reflect a fiscal surplus of S$2bn (0.3% of GDP) vs. previous estimate for a deficit of S$0.4bn. For FY24, we think that the government may announce an overall deficit of S$3bn (0.4% of GDP)

- In the lead-up to leadership handover, Budget 2024 could be more household-friendly than past years

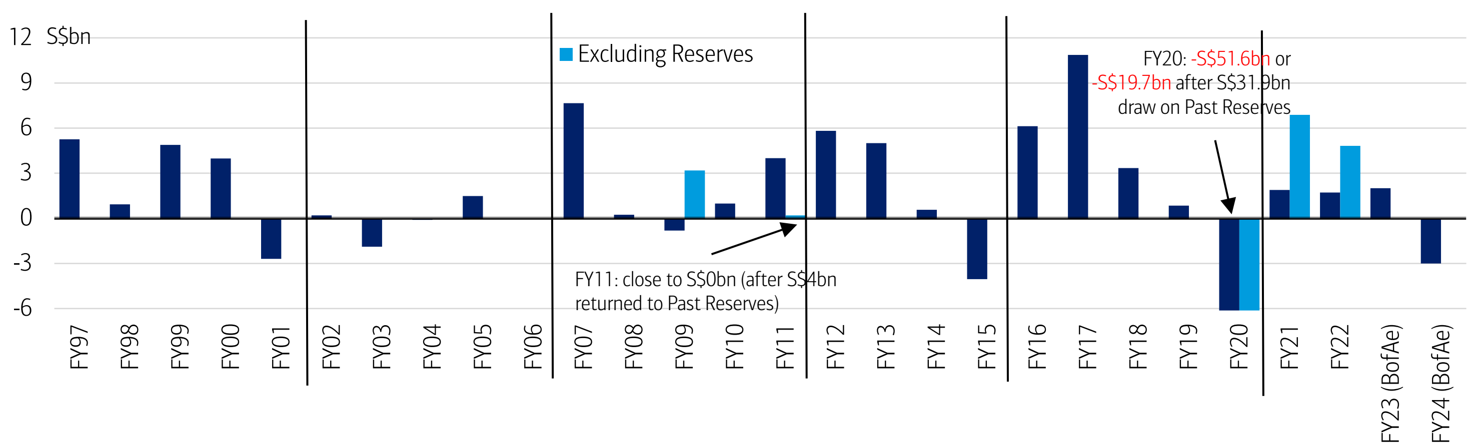
We outline our expectations and areas of focus for Budget 2024 (16th Feb) below:

For FY23 (Apr '23 to Mar '24), Budget 2023 (Feb '23) projected a small fiscal deficit of S$0.4bn (0.1% of GDP). Given strong revenues to date, we think that the latest estimates may be revise up to reflect a fiscal *surplus* of S$2bn (0.3% of GDP). This may imply a cumulative surplus of S$13.7bn under the current parliamentary term, after the S$8.1bn draw on Past Reserves in FY21 and FY22 is excluded.

For FY24, we think that the government may announce an overall *deficit* of S$3bn (0.4% of GDP). This may reflect (a) higher special transfers to households & businesses amid sharpened focus on cost-of living pressure in the lead-up to leadership handover (see theme #3 of Year Ahead), and (b) lower corporate & personal income taxes, given weaker performance in year of assessment 2023 vs. 2022. These would more than offset higher revenue from the 2nd 1ppt GST increase, and other new taxes.

Given the government's track record of fiscal prudence, we don't expect space from the fiscal surplus in FY21-23 (we estimate S$13.7bn) to be fully utilized. This also provides the government with some headroom in FY25, if elections are not called by March 2025.

Exhibit 11: Overall fiscal position (S$bn, % of GDP)
Cumulative fiscal surplus in FY21-FY23 could amount to S$5.6bn (or S$13.7bn after draw on Past Reserves is excluded)



Source: BofA Global Research, MOF. Haver Note: Links refer to likely start/end of each fiscal year; Elections took place in Nov '01, May '06, May '11, Sep '15 and Jul '20

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Exhibit 6: Fiscal position over FY19-FY24

We think that FY23 fiscal position could be revised up to +0.3% of GDP; For FY24, we think that a fiscal deficit of -0.4% of GDP could be announced

Components	FY19	FY20	FY21	FY22	FY23 (Budget Feb '23)	FY23 Revised (BofAe)	FY24 (BofAe)
(1) Operating Revenue	74.3	67.4	82.5	91.0	96.7		
(2) Total Expenditure	75.3	86.4	94.8	104.9	104.2		
(3) Primary Balance (1) - (2)	-1.1	-19.0	-12.3	-13.8	-7.5		
(4) Special transfers to households & businesses	1.6	33.5	6.8	2.7	2.8		
(5) Basic Balance (3) - (4)	-2.6	-52.5	-19.1	-16.5	-10.3		
(6) Top-ups to funds	13.6	17.3	0.0	6.3	16.8		
(7) Net investment returns contribution	17.0	18.2	20.4	22.4	23.5		
(8) Overall Balance (5) - (6) + (7)	0.8	-51.6	1.2	-0.4	-3.6		
(9) Capitalization of infra	0	0	0.7	2.2	3.5		
(10) Depreciation of infra + Interest costs & loan expenses	0	0	0	0.1	0.3		
Overall Fiscal position (8) + (9) - (10)	0.8	-51.6	1.9	1.7	-0.4	2.0	-3.0
% of GDP	0.2	-10.5	0.3	0.3	-0.1	0.3	-0.4
Note: Utilization of past reserves		31.9	5.0	3.1			

Source: BofA Global Research, MOF, Haver

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Amongst the many policy measures that will be unveiled, we keep an eye on the following:

- (1) Household-friendly measures (perhaps more so than past years) that are aimed at alleviating cost of living pressures for lower- & middle-income groups.
- (2) Interim financial support for involuntarily unemployed workers. This will mark a policy shift, and was already flagged in the "Forward Singapore" blueprint[1] published last Oct.
- (3) Schemes aimed at strengthening Singapore's appeal as an investment destination, ahead of the raising of effective tax rate for multinational firms to 15% to meet BEPS 2.0 requirement (possibly from 1st Jan 2025); and
- (4) Possible new revenue measures, including taxes aimed at wealthy group.

On the macro front, the following will be of importance to track:

- (1) MOF's projection of fiscal impulse. MOF's measure factors in the current year's estimated spending of longer-term endowment & trust funds – which is not published (MOF only publishes actual/estimated spending of previous years). This would provide a more precise picture of the short-term macroeconomic impact vs. a simple comparison of basic balances between two periods.
- (2) Output gap estimates, which would serve as a precursor before it is next published in MAS semiannual Macroeconomic Review in late April; and
- (3) Potential inflationary (or disinflationary) impact from Budget measures.

[1] The blueprint is a public engagement exercise initiated in June 2022 with the aim of refreshing Singapore's social compact.

Emerging EMEA

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Serbia: managing inflows

Base effect, but more than that

Inflation in Serbia dipped to just about 7.6% yoy at the end of 2023 and we expect it to remain on a steady di2sinflation track in 1H24. A large part of this disinflation is mainly due to a massive base effect from the inflationary start of 2023, which will remain until at least the end of 2Q24. However, apart from just a simple base effect, inflation has been moderating since the peak in 3Q22 in seasonally-adjusted annualized terms and is now roughly around NBS' target range.

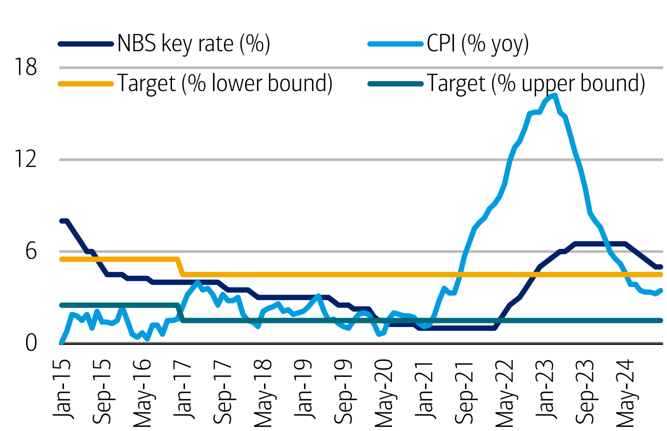
Target range in sight for 2H24

Overall, we see inflation slowing to 5.5% by end-1Q24 and to 3.9% yoy by end-2Q24. However, the eventual reversal of the base effect from July may help to stabilize inflation in 2H24, likely keeping it within a 3.2-3.5% range. This may be above the NBS's target of 3%, but still below its 4.5% upper bound of the range.

ECB and inflation to unlock easing cycle in June

With inflation staying above the NBS's target range for most of 1H24, we think the bank will likely remain cautious and keep rates unchanged until at least June. Global and regional inflationary risks remain somewhat volatile, which should warrant extra caution, especially with Serbia still on its current IMF program. However, with inflation continuing to slow, the bank will likely start to include discussions on the conditions for an easing cycle to start in one of the near-term policy meetings. It should be open to begin its easing cycle as soon as inflation reaches its target range, which we expect in June. The cycle will likely be supported and potentially triggered by the first rate cut by the European Central Bank, which we also expect in June (see: Global Economic Weekly: All good on the retail front 19 January 2024). Domestic inflation trends will likely be more important for the NBS's decision, at least from the perspective of the official press release.

Exhibit 13: Inflation within 4.5% target range should unlock rate cuts
First cut expected in June, along with the first expected ECB cut



Source: NBS, Bloomberg, BofA Global Research estimates

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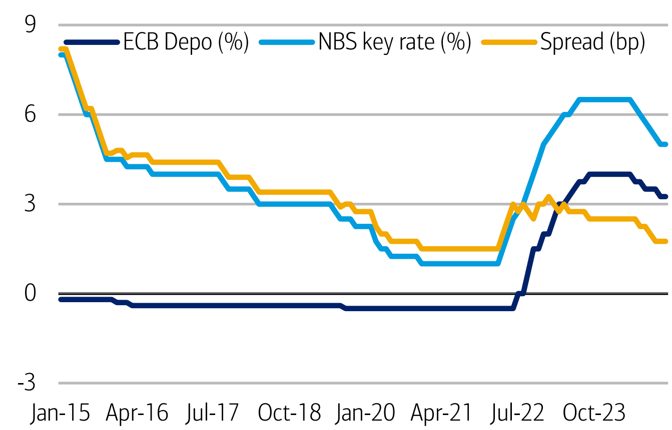
Exhibit 14: NBS hiked more than ECB, so can cut more as well
Spread between NBS kay rate and ECB depo rate to normalize



Source: Bloomberg, BofA Global Research estimates

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150bp in cuts as a baseline

We expect the NBS to cut by 25bp at nearly every policy meeting this year, which should bring the key rate all the way to 5% by 2024 eop, or even below. The ECB easing cycle will likely be the key factor setting the pace of rate cuts. However, before 2022 shocks, the spread between NBS key and ECB depo rates was as low as 150bp, vs 250bp now. After some 550bp in rate hikes in 2022-23, we think the NBS has more room to cut, so we expect normalisation of the ECB/NBS spread to 175-200bp by the end of this year. Thus, deeper cuts may be possible with a more dovish ECB.

EURRSD to watch

On the back of a relatively tight monetary policy, Serbia is seeing record capital inflows, which boosted the National Bank's reserves to above EUR24bn in late 2023. This clearly suggests material revaluation pressures on the existing EURRSD peg. At robust double-digit money supply growth throughout last year, such continued accumulation of FX reserves through FX interventions may start to become an important factor supporting inflationary pressures in the near future. Therefore, we see a material likelihood of RSD revaluation, similar to the dynamics of the Albanian Lek from late 2022. Thus, we note that the dynamics of total FX reserves of Bank of Albania and National Bank of Serbia over the past two years are remarkably similar. Meanwhile, Bank of Albania has allowed ALL to appreciate by about 9% in 2023, vs persistent peg by the NBS.

Fiscal flows may bring more inflows

The approved 2024 budget envisages some RSD240bn (about EUR2bn) in domestic borrowing as well as the same amount in external commercial borrowings, which is down from RSD300bn in the revised 2023 budget. Moreover, MinFin's 1Q24 borrowing plan last week for the domestic market has been exceeded by 40%, as a result of a single auction, when the Ministry managed to sell some RSD63.1bn (about $600m or >25% of annual target) in 8Y bonds. The press release highlighted the strong interest in new RSD paper from international investors, accounting for some 40% of total demand. Such robust demand for domestic debt may signal continued strong inflows to the local debt market with all the resulting appreciating pressures on the RSD. Moreover, we also think the Ministry might prefer to replace planned external commercial borrowing with domestic supply, which may further support such inflows. Overall, we expect Serbia to issue about USD1-1.5bn in external debt, although the actual amount may be smaller, given limited and falling fiscal needs.

Latin America

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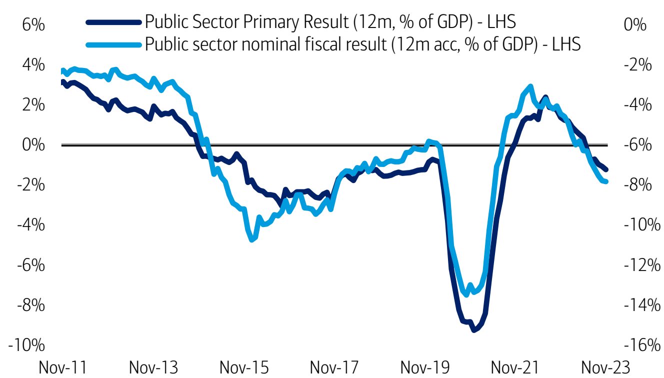
Brazil: key Things to Watch in 2024

Complete report: Emerging Insight: Brazil – Key Things to Watch in 2024

Will the fiscal (still) be a concern in 2024?

Yes. After 2021 and 2022 registering positive results, with primary surpluses and reduction in gross government debt (Exhibit 9and Exhibit 10), public accounts deteriorated in 2023. Despite 2021 and 2022 prints, fiscal stimulus measures weren't particularly low in the two-year period and summed over R$500bn. In 2023, some of these stimulus measures remained, but without reforms to help reduce costs, government indebtedness increased.

Exhibit 15: 2023 public sector maintained 2H22 negative trend...
Public Sector's Primary Result/GDP (%)



Source: BCB, National Treasury, BofA Global Research

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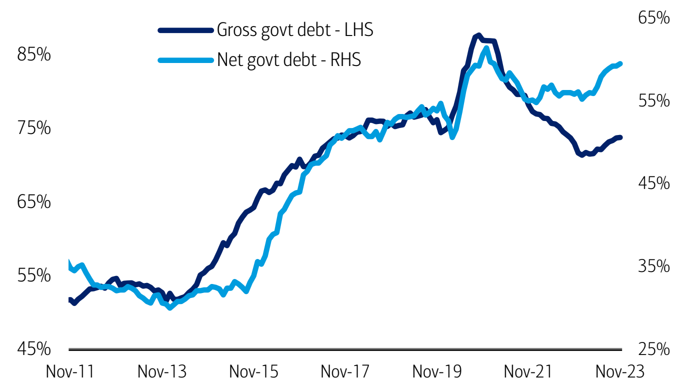
Exhibit 16: ... which translated into higher debts
Debt/GDP (%)



Source: BCB, National Treasury, BofA Global Research

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A key drag in 2023 was the increase in Bolsa Família's stipend from R$400 per family to R$600, generating an additional cost of R$80bn last year, accumulating R$160bn in 12months until November 2023 (from R$32.9bn in 2019). In addition, the country continues to face a deeper historical problem regarding its levels of expenditures, which even surpass its Latam peers. The rigidity of the budget, with about 90 percent of mandatory spending, also makes it more difficult to deliver larger cuts in the budget without structural reforms.

Also jeopardizing the headline for 2023, the government was allowed to open extraordinary credit to pay the accumulated stock, of about 95 billion reais on court-ordered debts, with an extraordinary credit. This is positive for the economic team, as such payments are not limited by the new fiscal rule and do not affect primary targets for 2025 and 2026. Executive technicians expressed that the objective is to start 2024 without this pending liability. The ruling pleases the economic team, easing fiscal risks related to court-ordered debt payments throughout Lula's term. Still, it does not end the conflict permanently, with discussions on court-ordered debts and judicial decisions remaining a fiscal risk in the longer term.

Even though 2023 ended on a sour note, with a large primary deficit, Finance Minister Haddad was a positive surprise. Ever since the presentation of the new fiscal rule and the zero-deficit target, the MoF continued committed to such goal and was able to get all revenue boosting measures presented to Congress approved before year-end – despite some dilution.

Nonetheless, consensus forecast for 2024 primary result (according to the latest focus survey) continues to be around a deficit of 0.8% of GDP – sitting far below the tolerance band of ±0.25% of GDP. Noise around a revision to the target has only faded regarding the timing. Though the budget has already been approved and enacted, the executive branch still has the power to change the primary target at any time, by sending an amendment bill to Congress. In our view, were the government to change the target, it is more likely to do so by March, after the 1st Primary Revenue and Expenditure Assessment Report for the year, as revenues expectations would be more accurate by then.

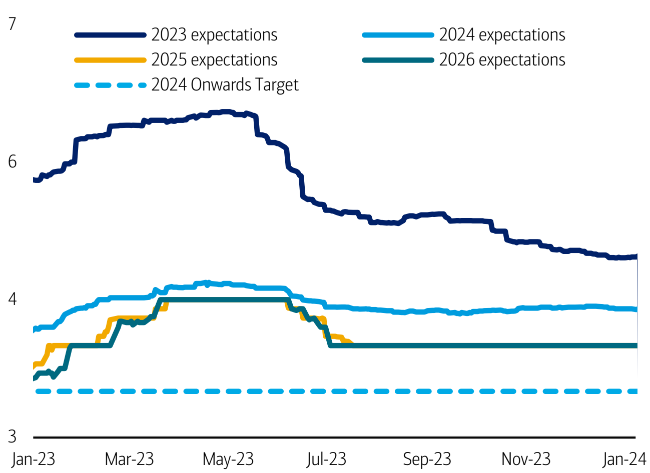
Recall that not meeting the target would trigger a reduction on the expenditure growth next year, with the percentage of spending growth going to 50% (instead of 70%) of the revenue.

All in, we believe the public sector will post a primary deficit of -0.4% of GDP in 2024 (from a 0.8% deficit in 2023), due to higher growth in revenues expected from the new measures. Besides, the breakdown of GDP growth next year should be more favorable for revenue collections, despite deceleration in overall activity. The deterioration of interest payments ahead should also take gross debt-to-GDP to 77.8% in 2024, from 76.1% in 2023.

Will inflation and rates continue to decline?

Yes. IPCA had a positive year in 2023, with inflation ending within the target (4.6%yoy in YE23, from 5.8% in YE22) after two years of misses. Headline and underlying measures decelerated throughout the year, driven by lower commodities prices and lagged effects of increases in interest rates. Looking at core components, both industrial goods and services trended down. After the end of federal taxes exemptions in the middle of the year, regulated prices represented a relevant pressure to the print (mainly for gasoline). Overall, inflation in 2023 surprised analysts to the downside, particularly compared with mid-year forecasts (Exhibit 11).

Exhibit 17: Inflation expectations still de-anchored
Key focus in longer horizons



Source: BCB

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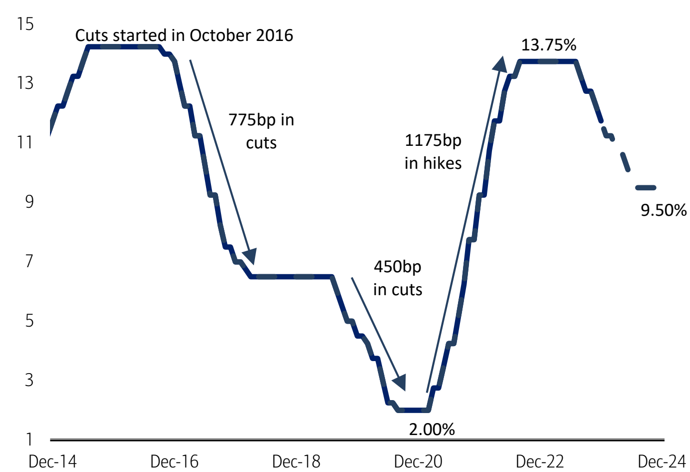
Exhibit 18: BCB started the easing cycle in Aug23
We expect a terminal rate of 9.50%p.a. to be reached in July



Source: BCB

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For 2024, we forecast inflation at 3.7% by year-end, lower than in 2023, but still above mid-target. Inflation should stay more well behaved throughout the year, impacted by high real rates and base effects from federal tax reoneration, which may lead to declining core component and regulated prices. But, risks are more tilted to the upside, and will depend on the severity of El Niño effects and possible escalation of geopolitical conflicts.

Key forecasts

Exhibit 13: Economic forecasts

GDP growth, inflation and policy rate forecasts for the major economies

Economic forecasts

	2023Q1	2023Q2	2023Q3	2023Q4	2024Q1	2024Q2	2024Q3	2024Q4	2022	2023F	2024F	2025F
Global and Regional Aggregates, %												
United States												
Real GDP growth [1]	2.2	2.1	4.9	**3.3**	**1.0**	**1.0**	**1.5**	**1.5**	1.9	**2.5**	**2.1**	**1.8**
CPI inflation	5.8	4.0	3.6	**3.2**	**2.8**	**2.8**	**2.5**	**2.3**	8.0	**4.1**	**2.6**	**2.4**
Policy Rate (EoP)	4.88	5.13	5.38	**5.38**	**5.13**	**4.88**	**4.63**	**4.38**	4.38	**5.38**	**4.38**	**3.38**
Euro area												
Real GDP growth [1]	0.2	0.6	-0.4	**0.2**	**0.0**	**0.7**	**0.9**	**1.3**	3.4	**0.5**	**0.4**	**1.1**
CPI inflation	8.0	6.2	5.0	**2.7**	**2.8**	**2.4**	**1.9**	**2.0**	8.4	**5.5**	**2.3**	**1.4**
Policy Rate (EoP)	3.00	3.50	4.00	**4.00**	**4.00**	**3.75**	**3.50**	**3.25**	2.00	**4.00**	**3.25**	**2.00**
China												
Real GDP growth [2]	4.5	6.3	4.9	**5.2**	**4.3**	**5.0**	**4.8**	**5.0**	3.0	**5.2**	**4.8**	**4.6**
CPI inflation [3]	1.3	0.1	-0.1	**-0.3**	**0.1**	**0.5**	**0.9**	**1.7**	2.0	**0.4**	**0.8**	**1.7**
Policy Rate (EoP)	3.65	3.55	3.45	**3.45**	**3.30**	**3.15**	**3.00**	**3.00**	3.65	**3.45**	**3.00**	**2.90**
Japan												
Real GDP growth [1]	3.7	4.5	-2.1	**0.9**	**1.1**	**0.5**	**1.3**	**1.0**	0.9	**1.7**	**0.8**	**1.0**
CPI inflation	3.6	3.4	3.1	**2.9**	**2.5**	**2.5**	**2.6**	**2.2**	2.5	**3.3**	**2.5**	**1.9**
Policy Rate (EoP)	-0.10	-0.10	-0.10	**-0.10**	**0.05**	**0.05**	**0.05**	**0.25**	-0.10	**-0.10**	**0.25**	**0.5**
Global Aggregate [4]												
Real GDP growth									3.5	**3.1**	**2.8**	**3.1**
CPI inflation									6.0	**4.2**	**2.9**	**2.7**
Policy Rate (EoP)									4.5	**5.2**	**4.5**	**3.9**
Emerging Markets Aggregate [4]												
Real GDP growth									4.2	**4.2**	**4.0**	**4.3**
Real GDP growth (ex-China)									4.9	**3.6**	**3.6**	**4.2**
CPI inflation									4.8	**3.8**	**3.1**	**3.2**
Policy Rate (EoP)									5.7	**5.9**	**5.3**	**4.9**

Note: Bold values correspond to forecasted data. Notes: 1. Quarterly values are % q/q annualized | 2. Quarterly values are % y/y. | 3. Quarterly values are period averages. | 4. Due to reporting limitations, Global and EM aggregate are annual only. **Source:** BofA Global Research

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Exhibit 14: Markets forecasts

Forecasts for FX, interest rates, commodities and equities

Markets forecasts

	spot	2024Q1	2024Q2	2024Q3	2024Q4	2025Q1
Exchange Rates (EoP)						
EUR/USD	1.08	**1.07**	**1.10**	**1.15**	**1.15**	**1.16**
USD/JPY	147.8	**145**	**143**	**142**	**142**	**140**
USD/CNY	7.17	**7.45**	**7.40**	**7.10**	**6.90**	**6.90**
GBP/USD	1.27	**1.23**	**1.26**	**1.31**	**1.31**	**1.33**
Interest rates (% EoP)						
US 10yr	4.11	**4.40**	**4.30**	**4.25**	**4.25**	**NA**
Bunds 10yr	2.29	**2.45**	**2.35**	**2.25**	**2.10**	**NA**
Japan 10yr	0.73	**0.70**	**0.85**	**0.95**	**1.05**	**1.05**
Commodities [1]						
Oil - Brent ($/bbl)	82.4	**78.0**	**80.0**	**82.0**	**80.0**	**NA**
Oil - WTI ($/bbl)	77.1	**73.0**	**75.0**	**77.0**	**75.0**	**NA**
Gold ($/oz)	2020.1	**1950**	**1950**	**2000**	**2000**	**2100**
Equities (EoP)						
S&P 500	4894				**5000**	
Stoxx 600	479				**410**	

Note: Bold values correspond to forecasted data. Notes: 1. All values are EoP, except for gold forecasts, which are period averages. **Source:** BofA Global Research

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Detailed forecasts

Global economic forecasts

Exhibit 15: Global Economic Forecasts

Global GDP growth expected at 2.8% in 2023

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2022	2023F	2024F	2025F	2022	2023F	2024F	2025F	Current	2023F	2024F	2025F
Global and regional aggregates												
Global	3.5	3.1	2.8	3.1	6.0	4.2	2.9	2.7	6.05	5.22	4.52	3.91
Global ex US	3.9	3.2	3.0	3.4	5.5	4.2	2.9	2.8	6.20	5.18	4.56	4.03
Global ex China	3.7	2.5	2.3	2.7	7.0	5.2	3.5	3.0	6.75	5.73	4.97	4.22
Developed Markets	2.6	1.5	1.1	1.4	7.4	4.7	2.5	2.0	4.21	4.27	3.54	2.61
Emerging Markets	4.2	4.2	4.0	4.3	4.8	3.8	3.1	3.2	7.50	5.95	5.26	4.87
Emerging Markets ex China	4.9	3.6	3.6	4.2	6.5	5.8	4.5	4.1	9.99	7.62	6.77	6.19
Europe, Middle East and Africa (EMEA)	3.9	1.1	1.2	2.1	8.0	7.0	4.1	3.3	9.03	5.91	5.27	4.21
European Union	3.0	0.6	0.8	1.6	9.2	6.5	2.6	1.8	4.39	4.39	3.60	2.35
Emerging EMEA	4.6	2.2	2.7	4.0	7.6	9.4	7.0	6.4	18.34	10.17	9.60	8.78
Emerging Asia	4.2	5.0	4.8	4.8	3.6	2.2	2.1	2.5	4.28	4.37	3.96	3.75
ASEAN	5.8	4.3	4.8	4.9	4.6	3.5	2.8	2.8	4.89	4.92	4.35	3.78
Latin America	4.0	2.2	1.7	2.3	7.7	5.0	3.8	3.4	10.99	10.88	8.60	7.66
G6												
US	1.9	2.5	2.1	1.8	8.0	4.1	2.6	2.4	5.38	5.38	4.38	3.38
Euro area	3.4	0.5	0.4	1.1	8.4	5.5	2.3	1.4	4.00	4.00	3.25	2.00
Japan	0.9	1.7	0.8	1.0	2.5	3.3	2.5	1.9	-0.10	-0.10	0.25	0.50
UK	4.3	0.3	0.1	0.6	9.1	7.3	3.0	2.6	5.25	5.25	4.75	3.75
Canada	3.8	1.1	0.9	2.0	6.8	3.9	2.8	2.1	5.00	5.00	3.75	3.00
Australia	3.6	1.8	1.4	2.0	6.6	5.7	3.4	2.9	4.35	4.35	4.35	3.50
Euro area												
Germany	1.9	-0.1	-0.1	0.9	8.6	6.3	3.6	1.5	4.00	4.00	3.25	2.00
France	2.5	0.8	0.7	1.3	5.9	5.8	3.1	1.9	4.00	4.00	3.25	2.00
Italy	3.9	0.7	0.3	1.1	8.7	6.0	1.7	1.4	4.00	4.00	3.25	2.00
Spain	5.8	2.4	1.3	1.5	8.3	3.4	2.6	0.9	4.00	4.00	3.25	2.00
Netherlands	4.4	0.0	0.3	1.1	11.6	4.1	1.7	1.6	4.00	4.00	3.25	2.00
Belgium	3.0	1.4	0.9	1.2	10.3	2.2	1.5	1.7	4.00	4.00	3.25	2.00
Austria	4.8	-0.7	0.0	1.5	8.6	7.7	2.7	2.1	4.00	4.00	3.25	2.00
Greece	5.7	2.0	1.1	1.7	9.3	4.2	2.0	1.7	4.00	4.00	3.25	2.00
Portugal	6.8	2.2	1.0	1.4	8.1	5.4	2.5	1.1	4.00	4.00	3.25	2.00
Ireland	9.5	-1.4	2.7	2.0	8.1	5.8	2.9	1.6	4.00	4.00	3.25	2.00
Finland	1.6	-0.4	0.2	1.0	7.2	4.3	0.9	1.2	4.00	4.00	3.25	2.00
Other developed economies												
New Zealand	2.5	1.2	0.8	2.0	7.2	5.8	3.0	2.5	5.50	5.50	3.75	3.00
Switzerland	2.7	0.9	1.1	1.2	2.8	2.2	1.5	1.1	-0.75	1.75	1.25	0.50
Norway	3.7	1.1	0.4	1.2	6.2	5.3	3.7	2.8	4.50	4.50	4.00	2.75
Sweden	3.0	-0.3	-0.4	1.1	8.1	8.5	2.5	1.6	4.00	4.00	3.25	2.00
Emerging Asia												
China	3.0	5.2	4.8	4.6	2.0	0.4	0.8	1.7	3.45	3.45	3.00	2.90
India	6.7	6.5	5.7	6.0	6.7	5.6	4.7	4.3	6.50	6.75	6.50	6.25
Indonesia	5.3	5.0	5.1	5.2	4.2	3.6	3.0	3.0	6.00	6.00	5.00	4.00
Korea	2.6	1.4	2.3	2.5	5.1	3.6	2.3	2.0	3.50	3.50	2.75	2.50
Taiwan	2.4	1.1	3.2	2.3	2.9	2.5	2.0	1.5	1.88	1.88	1.88	1.88
Thailand	2.7	2.8	3.7	2.7	6.1	1.6	1.7	1.0	2.50	2.50	2.50	2.00
Malaysia	8.7	4.0	4.6	4.8	3.4	2.6	2.3	2.5	3.00	3.00	3.00	3.00
Philippines	7.6	5.4	5.4	5.5	5.8	6.0	3.3	3.1	6.50	6.50	5.50	4.50
Singapore	3.6	0.7	2.3	2.6	6.1	4.8	2.6	2.3				
Hong Kong	-3.5	3.4	2.1	2.4	1.9	1.8	1.0	1.7	4.71	5.40	4.60	3.85
Vietnam	8.0	5.0	6.2	6.8	3.2	3.4	3.8	4.1	4.50	4.50	4.50	5.00

Source: BofA Global Research

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Exhibit 16: Global Economic Forecasts (continued)
Global GDP growth expected at 2.8% in 2023

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2022	2023F	2024F	2025F	2022	2023F	2024F	2025F	Current	2023F	2024F	2025F
Latin America												
Brazil	2.9	3.0	2.2	2.5	9.3	4.6	3.8	3.7	11.75	11.75	9.50	9.50
Mexico	3.9	3.4	2.0	1.0	7.9	5.5	4.6	4.4	11.25	11.25	9.25	7.50
Argentina	5.2	-1.2	-3.0	3.5	72.4	133.5	278.0	150.4	100.00	133.00	83.00	55.00
Colombia	7.3	1.2	1.9	2.9	10.2	11.8	7.1	4.0	13.00	13.00	9.50	6.00
Chile	2.4	0.1	2.2	2.0	11.6	7.6	3.4	3.2	8.25	8.25	5.25	4.75
Peru	2.7	-0.4	2.6	3.0	7.9	6.3	2.8	2.5	6.50	6.75	4.00	4.00
Ecuador	2.9	1.5	2.0	2.8	3.7	2.1	2.0	2.1				
Uruguay	4.9	1.1	3.3	2.0	8.3	5.1	4.8	4.7				
Costa Rica	4.6	5.1	3.8	3.5	7.9	-0.9	2.7	3.0	5.75	6.00	5.00	5.00
Dominican Republic	4.9	2.2	5.1	5.0	7.8	3.7	4.2	4.9	7.00	7.00	6.00	6.00
Panama	10.8	6.0	2.0	3.6	2.1	1.9	1.7	1.5				
El Salvador	2.6	1.9	2.7	2.8	7.3	1.2	1.9	1.4				
Guatemala	4.1	3.5	3.5	4.0	9.2	4.2	4.2	4.0	5.00	5.00	4.50	4.50
EEMEA												
Türkiye	5.6	4.0	3.2	4.6	72.0	53.4	56.8	29.3	45.00	42.50	45.00	30.00
Nigeria	3.3	2.5	3.0	3.1	18.8	25.0	15.0	15.0	18.75	20.25	16.00	14.00
Egypt	6.7	3.8	2.5	3.8	8.5	24.4	29.0	25.0	19.75	18.25	22.25	23.25
Poland	5.6	0.5	3.0	3.5	14.3	11.6	4.5	5.0	5.75	5.75	5.75	4.75
South Africa	1.9	0.5	1.5	1.7	6.9	5.9	5.0	4.6	8.25	8.25	7.50	7.00
Romania	4.2	1.5	3.7	3.7	13.7	10.6	6.0	3.5	7.00	7.00	7.00	5.00
Czech Republic	2.4	-0.2	1.5	2.7	15.1	10.7	2.5	2.0	6.75	6.75	4.00	3.00
Israel	6.5	1.8	2.6	3.4	4.4	4.2	2.5	2.2	4.50	4.75	3.50	2.20
Hungary	4.6	-0.3	2.8	3.0	14.6	17.1	4.5	4.7	10.75	10.75	5.50	4.00
Saudi Arabia	8.7	0.0	1.6	4.5	2.5	2.6	2.2	2.1	5.50	6.00	5.00	4.00
Ukraine	-29.1	6.3	4.5	8.0	20.0	13.4	7.0	8.0	15.00	15.00	13.00	13.00

Source: BofA Global Research

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Exhibit 17: Real GDP growth, qoq annualized %
Global GDP growth expected at 2.8% in 2023

	1Q 2023	2Q 2023	3Q 2023	4Q 2023	1Q 2024	2Q 2024	3Q 2024	4Q 2024	2023	2024	2025
Developed Markets											
United States	2.2	2.1	4.9	3.3	1.0	1.0	1.5	1.5	2.5	2.1	1.8
Euro Area	0.2	0.6	-0.4	0.2	0.0	0.7	0.9	1.3	0.5	0.4	1.1
Japan	3.7	4.5	-2.1	0.9	1.1	0.5	1.3	1.0	1.1	1.3	1.2
United Kingdom	1.0	0.2	-0.5	0.2	0.1	0.0	0.4	0.4	0.3	0.1	0.6
Canada	2.5	1.4	-1.1	0.6	0.9	1.3	1.8	2.0	1.1	0.9	2.0
Australia	-	-	-	-	-	-	-	-	1.8	1.4	2.0
G6 Aggregate	1.6	1.7	1.7	1.6	0.6	0.8	1.2	1.3	1.5	1.2	1.4
Emerging Markets											
China	8.7	2.4	6.1	4.1	4.8	5.1	5.2	4.8	5.2	4.8	4.6
Indonesia	6.0	5.2	2.9	4.1	5.7	7.0	3.6	4.1	5.0	5.1	5.2
Korea, Republic Of (South)	1.3	2.5	2.4	3.0	0.4	3.2	2.7	3.1	1.4	2.3	2.5
Thailand	7.1	0.7	5.5	3.9	6.4	9.6	-0.3	-6.0	2.8	3.7	2.7
Singapore	0.3	-1.6	4.0	1.2	2.0	2.0	3.2	4.1	0.7	2.3	2.6
Hong Kong	23.0	-5.1	0.3	4.0	1.7	1.9	3.8	5.9	3.4	2.1	2.4
Brazil	7.5	7.5	1.1	0.1	5.8	0.8	2.2	1.1	3.0	2.2	2.5
Mexico	3.3	3.4	4.3	2.3	2.0	1.3	0.3	-0.2	3.4	2.0	1.0
Colombia	9.2	-4.1	1.0	0.8	3.2	2.8	2.8	2.8	1.2	1.9	2.9
Chile	0.2	1.6	-1.2	0.3	0.8	3.3	3.5	2.5	0.1	2.2	2.0
Peru	-5.2	1.3	0.1	4.0	2.4	2.8	3.2	3.2	-0.4	2.6	3.0
Türkiye	-0.5	14.6	1.1	-3.6	5.1	3.5	4.5	7.7	4.0	3.2	4.6
South Africa	-1.9	0.7	0.7	0.8	1.8	1.8	2.0	2.0	0.5	1.5	1.7

Source: BofA Global Research

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Monetary policy forecasts

Exhibit 18: Key meeting dates and expected rate change (bp)
End of period

	Current	24-Jan	24-Feb	24-Mar	24-Apr	24-May	24-Jun
Developed Markets							
Fed	5.25	31st (unch)	-	20th (-25bp)	-	1st (unch)	12th (-25bp)
ECB	4.50	25th (unch)		7th (unch)	11th (unch)		6th (-25bp)
BoJ	-0.10	23rd (unch)		19th (unch)	26 (+10bp)		14th (unch)
BoE	5.25		1st (unch)	21st (unch)		9th (unch)	20th (unch)
BoC	5.00	24th (unch)	-	6th (unch)	10th (unch)	-	5th (-25bp)
Riksbank	4.00		1st (unch)	27th (unch)		8th (unch)	27th (-25bp)
SNB	1.75			21st (unch)			20th (unch)
Norges Bank	4.50	25th (unch)		21st (unch)		3rd (unch)	20th (unch)
RBA	4.35		5-6 (unch)	18-19 (unch)		6-7(unch)	17-18(unch)
RBNZ	5.50		28th (unch)		10th (-25bp)	22th(-25bp)	
Emerging Asia							
China (lending rate)	3.45	19th (unch)	19th (unch)	19th (unch)	19th (unch)	19th (unch)	19th (unch)
Req. res. ratio*	10.50	-	-	-	-	-	-
India**	6.75	-	8th (unch)	-	-	-	-
Repo rate	6.50	-	-	-	-	-	-
Cash res. ratio	4.50	-	-	-	-	-	-
Korea	3.50	11th (unch)	22nd (unch)	-	12th (unch)	23rd (-25bp)	-
Indonesia	6.00	Unch	Unch	Unch	Unch	Unch	-25bp
Taiwan	1.88	-	-	21st (unch)	-	-	20th (unch)
Thailand	2.50	-	7th (unch)	-	10th (unch)	-	12th (unch)
Malaysia	3.00	13th (unch)	23rd (unch)	-	12th (unch)	24th (unch)	-
Philippines	6.50	-	Unch	Unch	-	Unch	-25bp
Latin America							
Brazil	11.75	31st (-50bp)		20th (-50bp)		8th (-50bp)	19th (-50bp)
Chile	8.25	31th (-50bp)			2nd (-25bp)	23rd (-25bp)	18th (-25bp)
Colombia	13.00	31th(-25bp)	-	(-25bp)	(-25bp)	-	(-50bp)
Mexico	11.25	-	8th (unch)	21st (-25bp)	-	9th (unch)	27th (-25bp)
Peru	6.50	(-25bp)	(-25bp)	(-25bp)	(-25bp)	(-25bp)	(-25bp)
Emerging EMEA							
Czech Republic	6.75		08th (-25bp)	20th (-25bp)		02nd (-50bp)	27th (-50bp)
Hungary	10.75	(-50bp)	(-50bp)	(-50bp)	(-50bp)	(-50bp)	(-50bp)
Israel	4.50	1st(unch)	26th(unch)	-	8th(unch)	27th(-50)	-
Poland	5.75	(unch)	(unch)	(unch)	(unch)	(unch)	(unch)
Romania	7.00	(unch)	(unch)		(unch)	(-25bp)	
South Africa	8.25	25th (unch)	-	21st (unch)	-	23rd(unch)	-
Türkiye	45.00	(unch)	(unch)	(unch)	25th(+500bp)	(unch)	

Note: Bolded data are expectations in basis points. "—" denotes no meeting. TBA: MPC meeting not yet set. *Major five banks. **Reverse repo rate.
Source: BofA Global Research, Central Banks

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FX, rates and commodity forecasts

Exhibit 19: Quarterly forecasts

End of period

	Spot	23-Dec	24-Mar	24-Jun	24-Sep	24-Dec
FX forecasts						
G6						
EUR-USD	1.08	1.05	1.07	1.10	1.15	1.15
USD-JPY	148	153	145	143	142	142
EUR-JPY	160	161	155	157	163	163
GBP-USD	1.27	1.21	1.23	1.26	1.31	1.31
USD-CAD	1.35	1.36	1.35	1.34	1.32	1.30
AUD-USD	0.66	0.64	0.66	0.68	0.71	0.71
Asia						
USD-CNY	7.17	7.40	7.45	7.40	7.10	6.90
USD-INR	83.12	83.00	83.00	82.50	82.00	82.00
USD-IDR	15825	15500	15400	15400	15300	15200
USD-KRW	1337	1300	1300	1260	1250	1230
Latin America						
USD-BRL	4.92	4.85	4.90	4.88	4.80	4.75
USD-MXN	17.20	16.97	17.80	17.90	18.30	18.50
Emerging Europe						
EUR-PLN	4.37	4.34	4.36	4.33	4.29	4.25
USD-RUB	118.69	89.47	76.00	77.00	78.00	80.00
USD-TRY	30.32	29.53	32.00	35.00	37.00	40.00
USD-ZAR	18.87	18.36	18.60	18.50	17.70	17.80
Rates forecasts						
US 10-year	4.11	4.50	4.40	4.30	4.25	4.25
Germany 10-year	2.29	2.70	2.45	2.35	2.25	
Japan 10-year	0.72	0.61	0.70	0.85	0.95	1.05
UK 10-year	3.98		4.00	4.00	4.00	4.00
Canada 10-year	3.48	3.75	3.70	3.65	3.65	3.60
Commodities forecasts						
WTI Crude Oil - $/bbl	77.07	82.00	73.00	75.00	77.00	75.00
Brent Crude Oil - $/bbl	82.26	86.00	78.00	80.00	82.00	80.00
Gold $/oz	2023.84	1900.00	1950.00	1950.00	2000.00	2000.00

Notes: Spot exchange rate as of day of publishing. The left of the currency pair is the denominator of the exchange rate. Currency forecasts are for end of period

Source: BofA Global Research, Bloomberg

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