BofA SECURITIES

Global Economic Weekly

The good, the bad, and the ugly

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Economics
Global

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NGEU – Next Generation EU funds

Global Letter: The good, the bad, and the ugly

The main actors in the global economy continue to grow apart. The US still shows remarkable resilience, European growth remains weak, and confidence is yet to rebound in China. Coupled with ongoing changes in global trade and supply chains, equity valuations are reflective of this. In the US, there are concerns about commercial real estate, but there are reasons to believe risks should remain contained.

United States: Is the US economy re-accelerating?

After strong growth in 2H 2023, the January data flow generally points to continued economic momentum in January. The inflation outlook is mixed: we see downside risks to housing and used cars in coming months, but upside risks to growth could mean slower disinflation. Our analysis suggests that most of the recent strength in consumer spending has been due to supply expansion.

Euro Area: Growth convergence: good and bad at once

We expect a lot of growth convergence across Euro area members, and a persistent level differences. Spain should see growth gains from NGEU, but less from energy price normalisations. Italy is the reverse. France looks more balanced. Germany as weak spot works better for markets than the reverse. For the macro, it remains suboptimal.

UK: Energy prices to the rescue

The likely drop in energy price caps shaves 60bp from our 2024E CPI, with headline inflation (temporarily) back to target in the Spring. But underlying inflation (especially services) will remain persistent. Lower CPI will help consumption and growth dynamics.

Asia: Hong Kong – FY24-25 Budget Preview

HK's FY 24-25 budget is set to occur on Feb 28. Very weak land premium, an aging population and infrastructure plan will put a strain on HK's fiscal reserve. We expect HK to continue running fiscal deficits for the next 2-3 fiscal years.

Emerging EMEA: Saudi Arabia – It's not (only) the economy

The revised Aramco production capacity target reflects oil market fundamentals, existing spare capacity and fiscal pressures. We estimate modest fiscal savings at 1.5% of GDP (cUS$17.5bn) over four years or 0.4% of GDP per annum.

Latin America: El Salvador – In pursuit of the IMF deal

We spent two days in San Salvador, meeting with policymakers, politicians, business leaders, local investors, and economists. The trip reaffirmed our previously optimistic views on El Salvador. Improved security is translating into a growth dividend.

Global Letter

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The good, the bad, and the ugly

The main actors in the global economy continue to grow apart. The US still shows remarkable resilience, European growth remains weak, and confidence is yet to rebound in China. Coupled with ongoing changes in global trade and supply chains, equity valuations are reflective of this. In the US, there are concerns about commercial real estate, but there are reasons to believe risks should remain contained.

Elsewhere, we look at key questions for Canada in 2024, including the BoC cutting faster and deeper than the Fed. We also updated our UK forecasts to reflect lower inflation and higher growth. In LatAm, a dovish Banxico is a threat to the Super Peso, and inflation in Brazil and Chile surprised to the upside.

Signs of decoupling are present in global growth, trade, and equity markets

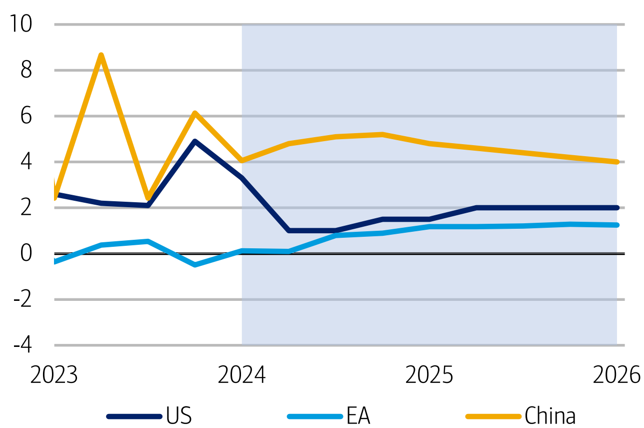
As we have noted since our Year Ahead reports back in November, the global economy is going through a growth decoupling (Exhibit 1). Since then, activity data has continued to be very resilient in the US, with 4Q23 GDP still growing well above potential.

While we continue to expect a deceleration and a soft landing for the US economy, risks to US growth forecasts seem to have moved to the upside, and we expect the Fed easing cycle to begin in June. In contrast, growth in the Euro area has been very anaemic, including weaker-than-expected data in Germany. In spite of this, our base case remains for the ECB to start cutting rates in June.

In China, CPI inflation dipped further in January and, while we continue to expect a continuation of fiscal and monetary support to anchor growth and expectations, markets seem to remain concerned and confidence levels remain subdued.

As we have noted, geopolitics keep driving shifts in international trade and global supply chains. In this context, the US is likely to keep reducing reliance on China. In our view, this means reshoring and friendshoring are here to stay, as are potential risks around rerouting by certain countries (see Friendshoring, or rerouting, that is the question).

Exhibit 1: Growth forecasts for US, Euro area, China (qoq saar, %)
The global economy is going through a growth decoupling



Source: BofA Global Research, Haver
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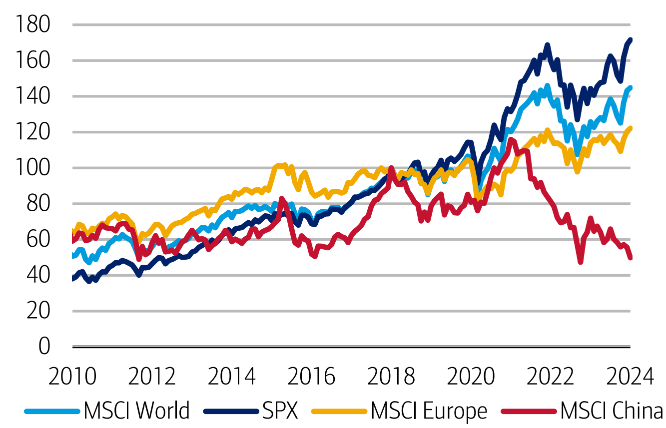
Exhibit 2: MSCI equity indexes, SPX (Jan 2018=100)
China equities have decoupled, and show no signs of recovery so far



Source: BofA Global Research, Bloomberg
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Overall, equity markets are taking stock. SPX has outperformed the MSCI World Index, while European equities underperformed in comparison. Moreover, the decoupling of China equities is starker, and has yet to show any signs of recovery (Exhibit 2).

Commercial real estate: Yellen is "concerned", but not much about systemic risk
The commercial real estate sector remains under pressure as headline risk raises investor uncertainty. Certain property types are seeing pockets of deterioration (notably office and some multifamily properties), and higher interest rates are impacting many borrowers' ability to refinance without injecting new equity. Although this is likely to result in an uptick in defaults as maturities approach, many borrowers may be able to obtain modifications to extend the loans' maturity dates, as our CMBS team has noted.

Easier financial conditions compared to a quarter ago, and the expectation for the Fed to begin cutting rates around the middle of this year should also provide some relief. However, the sector is likely to remain strained as elevated office vacancies and lower prices are expected to persist in this post-pandemic world.

In this context, Treasury Secretary Yellen has noted that she is "concerned" about commercial real estate, and that she expects falling valuations to push up losses among lenders. At the same time, she has reassured that the commercial real estate is unlikely to become a large source of systemic risk to the overall banking sector, citing that the exposure of the largest banks is quite low.

Canada: top 5 questions for 2024
Considering stronger-than-expected activity in the US, we increased our GDP growth forecasts for Canada to 1.3% from 0.9% for 2024. Still, we expect inflation to converge to 2% by 2025 (see Canada: Top 5 questions for 2024).

In our view, the market may be underpricing BoC rate cuts and pricing a higher terminal: BoC may cut faster and deeper than the Fed. At our Toronto conference, clients seem to be paying attention to incoming mortgage refinancing amid higher rates, which poses downside risks to growth.

UK: Energy prices to the rescue
The likely drop in price caps in April could reduce headline inflation in the UK by 60bp this year. Taking this into account, we cut our CPI forecast to 2.4% in both 2024 and 2025 (-60bp and -20bp, respectively). However, core inflation will remain sticky and we stick to our 2024 core forecast at 3.8%, with 2025 moving slightly lower (-20bp).

In the UK, the bigger picture remains a persistent inflation problem. In our view, consensus and markets are too complacent on medium-term inflationary pressures, especially in services. We do not think the Bank of England will be able to cut rates before August (see Bank of England review: message loud and clear).

LatAm: dovish Banxico should hit MXN, inflation disappoints in Brazil and Chile
In LatAm, despite inflation surprising to the upside in January, Banxico was dovish, softening forward guidance in today's statement and opening the door to rate cuts coming soon (see Banxico opens the door for cuts). We expect Banxico to cut rates in the March meeting. In our view, this may be the beginning of the end to the Super Peso.

In Brazil and Chile, inflation surprised to the upside this week. In Brazil, the BCB's focus on labor market resilience and services inflation should prevent an acceleration of cuts (see January IPCA: bad news all over). In Chile, inflation remains very volatile, making it difficult to infer a clear trend. We continue to think markets are too optimistic, as loose monetary and fiscal policy may pressure inflation (see Inflation surprises on the upside).

United States

Michael Gapen
BofAS

Is the US economy re-accelerating?

- After strong growth in 2H 2023, the January data flow generally points to continued economic momentum in January.
- The inflation outlook is mixed: we see downside risks to housing and used cars in coming months, but upside risks to growth could mean slower disinflation.
- Our analysis suggests that most of the recent strength in consumer spending has been due to supply expansion.

Has economic momentum carried over into the new year?

January job growth: seasonal disturbance

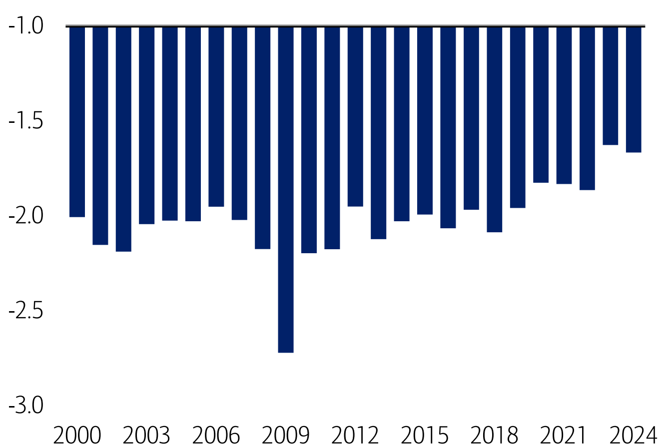
After 4Q 2023 GDP growth came in well above expectations at 3.3% q/q saar, investors have been watching the January data to see if the economy will keep growing above trend in the new year. First up, nonfarm payrolls surged by 353k in January. Payrolls typically shrink by at least 1.5% (i.e., 2.4mn based on current levels) on a raw basis in the month of January due to seasonal layoffs. But in recent years, the magnitude of the seasonal downshift has diminished (Exhibit 3). This could be related to the changes in consumer spending patterns and, more recently, labor hoarding. The question is whether seasonal factors have caught up to this trend. If not, seasonally adjusted January payroll growth would be unduly strong, and not representative of underlying economic trends.

Other January data: choppy, but generally positive

Average hourly earnings rose by 0.6% m/m in January, although the index of weekly payrolls (essentially jobs x hours x wages) only increased by 0.2% because of a sharp drop in hours. Still, upward revisions to jobs and wages in prior months mean the index is up 5.2% annualized over the last three months.

We forecast a soft January retail sales report, with the ex-autos component contracting by 0.3% m/m and the core control group rising 0.2%. Weak January retail spending is likely to weigh on 1Q GDP. But the good news is that we attribute this expected

Exhibit 3: Nonfarm payroll growth in the month of Jan (% m/m NSA)
The seasonal downshift in payrolls in January has reduced in recent years



Source: Bureau of Labor Statistics (BLS)
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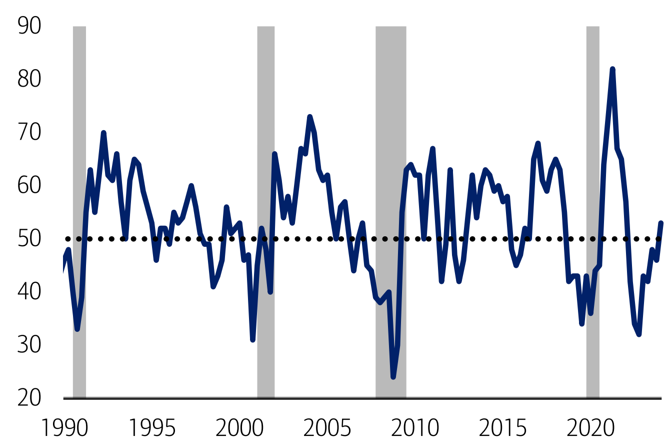
Exhibit 4: Conference Board CEO Confidence Index (50+ = positive)
CEO confidence turned positive for the first time in two years



Source: Conference Board
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weakness to unfavorable seasonal adjustments and winter weather disruptions, rather than deteriorating consumer fundamentals.

In terms of the other January data, the manufacturing ISM jumped to its highest level since January, although it remains in contractionary territory. Consumer sentiment increased to a two-and-a-half year high, and the Conference Board's CEO Confidence Survey moved into expansionary territory for the first time in two years (Exhibit 4).

Bottom line: activity is slowing… slowly

The January activity data point to upside risks to our 1Q GDP growth forecast of 1.0%. Although a repeat of the 4%-plus growth from 2H 2023 seems unlikely, as growth stays at or above trend there is a risk that inflation could re-accelerate or at least get stuck significantly above the Fed's 2 percent target.

Fed implications

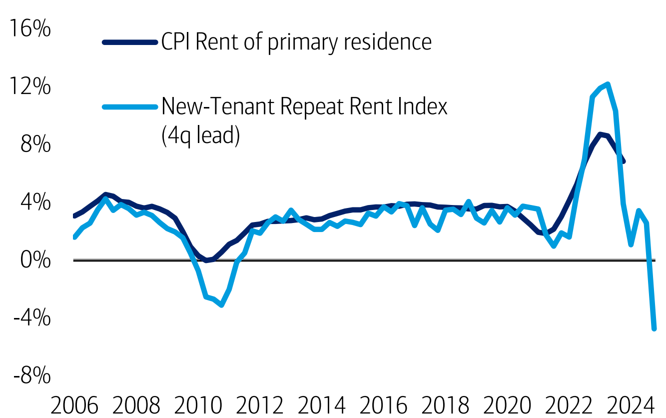
Uncertainty about the last mile on inflation

Core PCE inflation is down to 2.9% y/y and is below 2% on a three- and six-month basis. Favorable base effects should lower the y/y rate by at least a few tenths in the next few months. But can we get all the way down to 2%? Some spot rental inflation indicators are pointing to a sharp drop in housing inflation in coming months, which could get core PCE inflation back to 2% before year-end (Exhibit 5; see US Viewpoint: Rent inflation to moderate but regional differences persist). Another leg of used car deflation, which appears to be in the pipeline based on wholesale price data, should also help.

On the flip side, however, the prices paid index of the January services ISM spiked to its highest level since last February. This points to upside risks to ex-housing services inflation (Exhibit 6), although we would caution against reading too much into a single data point, especially when it is not clear how much of the reported increase in costs will be passed on the consumers vs. absorbed in margins.

Exhibit 5: CPI rent inflation vs. New-Tenant Repeat Rent Index (%y/y)

Researchers at the Cleveland Fed have found that the New Tenant Repeat Rent Index leads CPI rent inflation by four quarters



Source: BLS, Federal Reserve Bank of Cleveland

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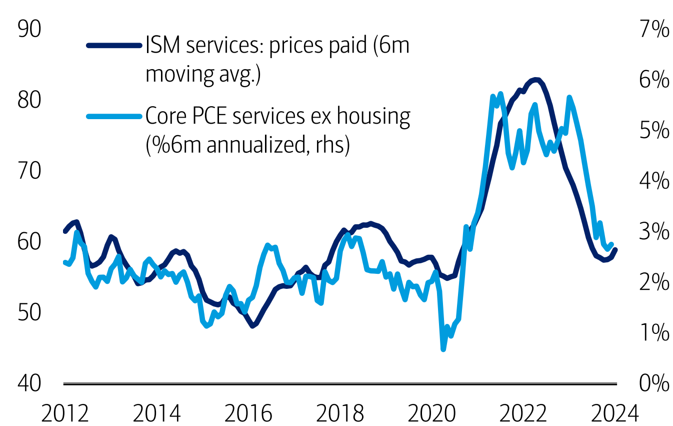
Exhibit 6: ISM services prices paid vs core PCE services ex housing

The spike in ISM services prices paid in Jan could point to a pickup in services inflation



Source: ISM, Bureau of Economic Analysis (BEA), Haver

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Boiling the outlook down to Econ 101

The FOMC appears to be split between those who think the Fed does not necessarily need to cut in March because the economy is holding up well, and those who think it would be a mistake to cut in March because the economy is at risk of overheating. Our assessment is that Chair Powell and possibly Governor Waller are in the first camp.

We think both groups agree that expansion in aggregate supply has aided disinflation and supported growth. But they seem to disagree on demand. Implicit to the first view is the idea that demand is probably slowing, but its impact on growth has been swamped by supply. The second group is concerned that demand is accelerating or is at risk of doing so. Therefore, if supply conditions were to stop improving, inflation could stall or even re-accelerate. Our analysis supports the first point of view. We find that demand-driven consumer spending growth is slowing, while supply has gone from a significant headwind to a moderate tailwind. This is why we remain comfortable with our June rate cut forecast despite growing upside risks to economic activity.

Euro Area

Evelyn Herrmann
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Growth convergence: good and bad at once

- We expect a lot of growth convergence across Euro area members, and hence persistent level differences.
- Growth composition matters. Spain should see growth gains from NGEU, but less from energy price normalisations. Italy is the reverse.
- France looks more balanced. That Germany is the weak spot works better for markets than the reverse. For the macro, it remains suboptimal.

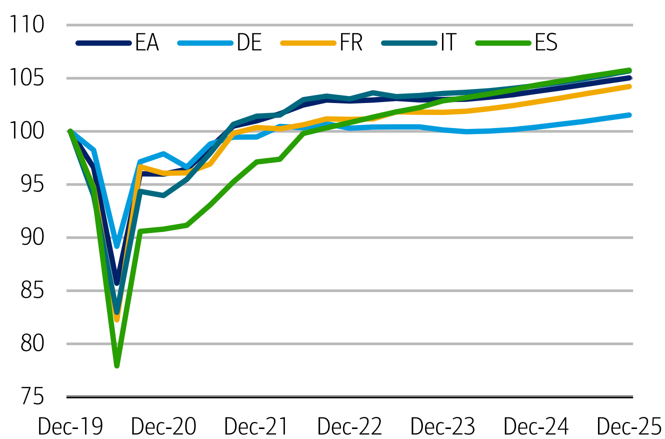
When growth converges, level differences endure

We expect Euro area growth at 0.4% this year and 1.1% in 2025. Growth differentials across members are still a story for 2024, with Germany's -0.2% and Spain's 1.3% the extremes across our big-4 Euro area forecasts. But in our base case, growth convergence, which has already come a long way since the start of the pandemic, continues. In 2025, all the big 4 are in a 0.9-1.3% growth range (although Germany will still take the lower bound of that).

We may be overestimating growth convergence a little in our forecast: implied standard deviations across the big 4 fall to the lowest level since the mid-90s (Exhibit 8). But we are already back to 2018/19 lows now, and think there are reasons to expect more to come. NGEU (Next Generation EU) driven capex will continue to support Italian growth, but has yet to properly raise Spain's. And purchasing power gains from energy prices should lift growth more broadly, perhaps with the exception of Spain. That is, of course, under the assumption of no additional growth shocks (be it exogenous or self-inflicted).

As growth continues to converge, GDP level gaps that have emerged over the past few years will become more persistent. Relatively speaking, that will put France, Italy and Spain in a more comfortable position than Germany (Exhibit 7).

Exhibit 7: GDP levels 4Q19=100
When growth converges, level gaps will become persistent



Source: BofA Global Research, Eurostat

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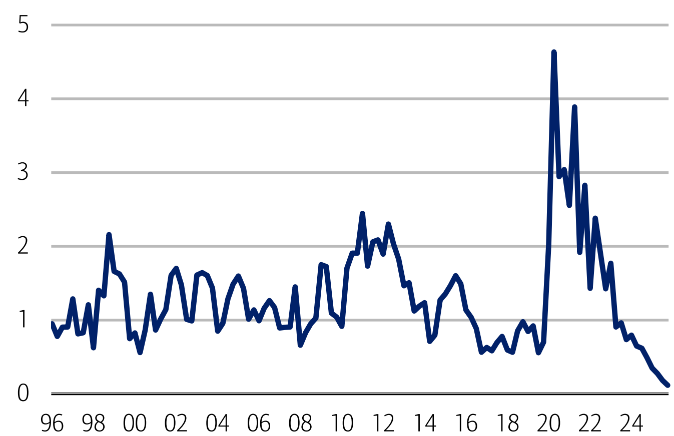
Exhibit 8: Standard deviation of big-4 % yoy GDP growth
We are back to 2017-19 already, and expect more to come



Source: BofA Global Research

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That's not enough to cure old debt-sustainability vulnerabilities – nobody grows enough for that, and especially Germany could put a lid on pan-Euro area growth. But from a market perspective, it is perhaps the second best outcome underpinning our strategists relatively benign view on Euro area sovereign spreads (see European Rates Viewpoint: EUR and UK rates: 24 charts in '24 12 January 2024).

Euro area: the growth mix is not suggesting self-sustained dynamics

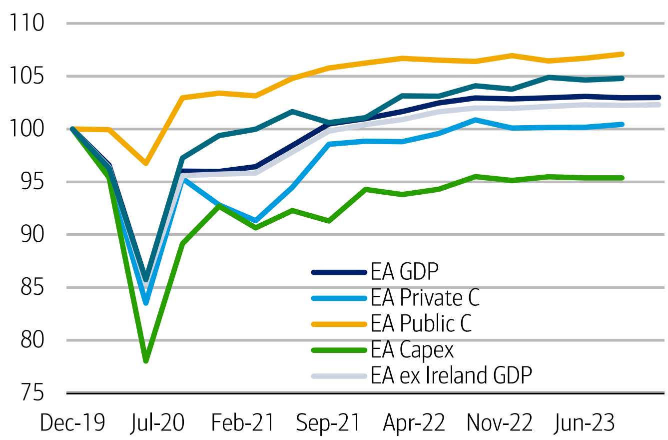
We tend to be growth bears (or just bears in general). So our Euro area forecasts remain below consensus, although less so these days. Macro factors matter a lot here: monetary policy is too tight, fiscal policy wasn't sufficiently supportive during the pandemic and the acute phase of the energy shock and is now far too tight in Germany, for instance. Exogenous supply shock driven inflation has probably permanently reduced real household incomes, weighing on consumption levels, even if growth rates should improve again. And amid tight policy, lacklustre domestic and foreign demand, capex cannot really thrive on its own.

Euro area GDP components reflect that story, too. Euro area GDP may be a little more than 2% above pre-pandemic levels (dark blue line in Exhibit 9), but the one component whose strength really stands out is public consumption at 7% above pre-pandemic levels (yellow line). Meanwhile, household consumption has basically moved sideways at pre-pandemic levels for more than a year now – perhaps not a surprise given various supply shocks to inflation have probably lowered real disposable income levels durably. That's not a mix that supports broad-based and self-sustained growth.

It may not be quite as bad as it looks though. At Euro area aggregate, capex seems to be down by 5% vs 4Q19. A lot of that is due to Ireland, where capex is down almost 75% (remember patent relocation into Ireland causes big capex swings, creating a very unusual and transitory 2019 base, typically offset by big net export contributions). Irish quarterly GDP swings can matter a lot for the very specific Euro area sequential growth trajectory, but less for GDP levels over time. But they do for capex. Excluding Ireland, capex in the Euro area is c 5% above pre-19 levels (dark green line in Exhibit 9). This is certainly good news but very country specific and clearly insufficient to deal with long-term challenges.

Exhibit 9: Euro area GDP components (4Q19=100)

Capex ex Ireland looks ok, courtesy of NGEU effects (in Italy in particular)



Source: BofA Global Research, Eurostat

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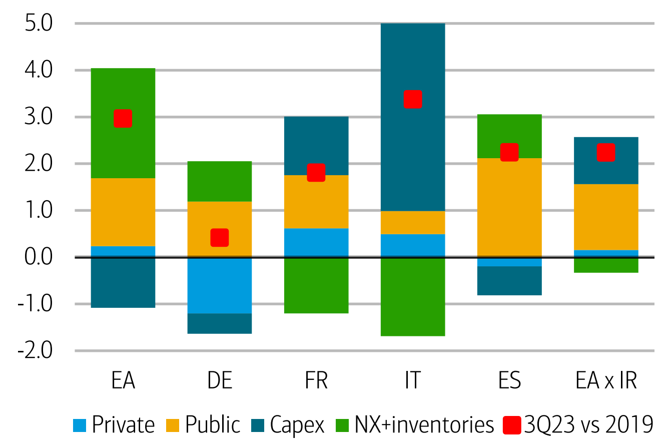
Exhibit 10: Contributions to GDP growth since 4Q19

Growth hasn't been broad-based anywhere (except perhaps in France)



Source: BofA Global Research, Eurostat

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Every big-4 country has something special about it

Growth composition is still very lopsided across member states, although in different ways. In Exhibit 10 we show aggregate GDP growth by component across the big 4 member states (and the Euro area including and excluding Ireland).

Italy's GDP growth has been very capex-driven, with NGEU and the superbonus

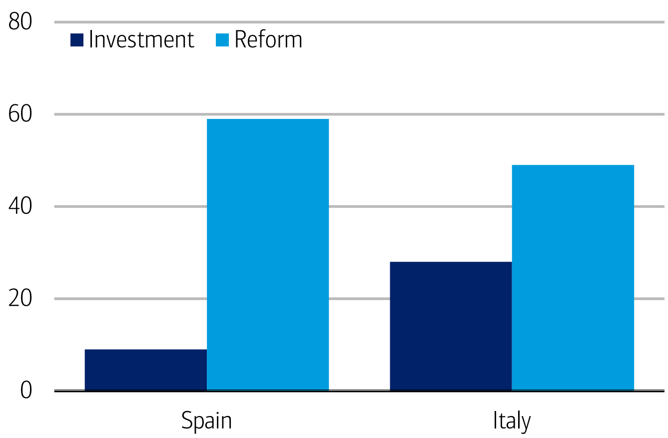
at play. Perhaps that explains why consumers have weathered the energy price shock relatively well considering the consumer price shock went further than elsewhere (see

Exhibit 12 for electricity prices). There is a small possibility that capex will trigger stronger, broader growth across the economy going forward. Normalisation in consumption growth, not more, is our base case, but an upside risk perhaps exists if consumer energy prices decline fast.

Spain has been lagging Italy, not in NGEU reform implementation but in capex deployment (Exhibit 11). That catch-up potential should transpire in better growth than elsewhere in our forecast horizon. This will be key into 2024 and beyond. Public consumption has been the main driver of growth while there are very little signs of NGEU in capex data. This has to be a result of slow implementation, public capex crowding out private one, or, likely, both. With fiscal policy tightening in 2024 capex would need to replace some of the more moderate evolution of public consumption we would expect. Similarly, wholesale market design for energy markets led to a faster pass-through of energy price moves. The squeeze arrived earlier. So did the relief and the recovery in private consumption. Absent major surprises on wage developments the biggest impact from energy prices on private consumption should be behind us. It is still yet to come in the rest.

France is still among the recovery leaders, in our view. Some would argue debt ratios are too high. But it is fiscal policy's job to stabilise the economy. Getting the economy back on a relatively "normal" GDP composition path despite the pandemic and the energy price shock is, consequently, a job well done (perhaps not perfectly, but still). Upside risks from lower electricity prices on purchasing power may be delayed to 2025, given the way the government chose to smooth the energy shock over time with price caps. But given the starting point, and once past the peak effect of monetary policy tightening, we would assume growth to resume an unspectacular but steady path soon.

Exhibit 11: Share of NGEU milestones and targets fulfilled (in %)
Italy is more advanced on investment milestones than Spain. GDP reflects that, but leaves more room for more substantial Spanish GDP catchup



Source: BofA Global Research, European Commission

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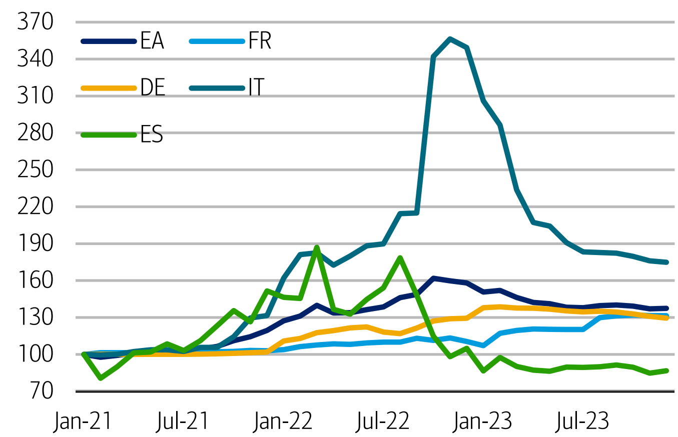
Exhibit 12: HICP electricity prices (Jan-21=100)
Very different electricity price profiles make for different timelines on consumer purchasing power gyrations



Source: BofA Global Research, Eurostat

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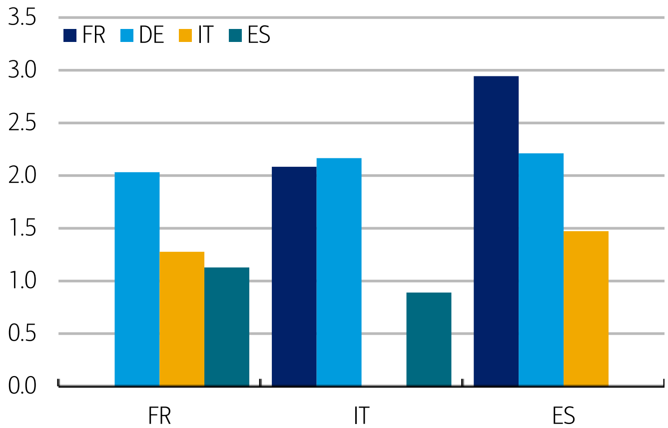
"It's just Germany" probably doesn't cut it, we're all in the same boat

We argued last week that Germany's growth performance is concerning. That view doesn't change today. NGEU is small for the economy, by design, and domestic fiscal policy has moved into severe self-prescribed tightening. Consumers are struggling with higher energy prices and persistent energy supply concerns. We expect German growth to move closer to the Euro area average in 2025 on the back of almost inevitable normalisation forces in the economy, but our conviction level is low.

It would be easy to argue that we can 'sort of' ignore German weakness from the Euro area perspective. From a market perspective, weakness in Germany is easier to digest than weakness in the periphery. But that might be a little too short-sighted. We argued in 2019, and reiterate today, that German domestic demand remains a large driver for other Euro area countries' exports, but so do German exports themselves given the integration of the inner-Euro area production chain (Euro Area Economic Watch: German exports: nor the quantum, nor the right composition of demand). As a consequence, if a big member state like Germany struggles with its own export growth and domestic demand, it will limit the upside elsewhere, too.

Exhibit 13: Share of domestic value added in domestic demand abroad
France, Italy and Spain have c 2% of their GDP linked to German domestic demand.....



Source: BofA Global Research, OECD TiVA 2019 data

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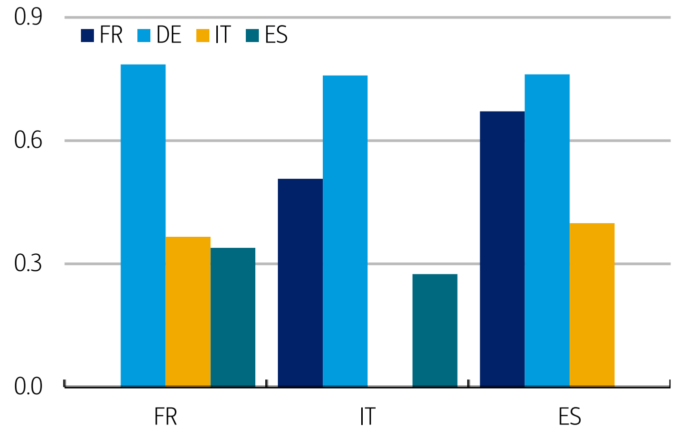
Exhibit 14: Share of domestic value added in exports of trade partners
... and c 0.8% again to German exports abroad



Source: BofA Global Research, OECD TiVA 2019 data

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UK

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Energy prices to the rescue

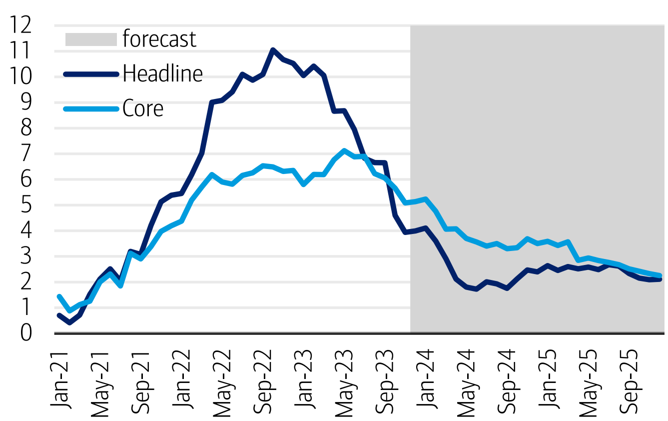
- The likely drop in energy price caps shaves 60bp from our 2024E CPI, with headline inflation back to target in the Spring, but then reaccelerating.
- Underlying inflation (especially services) will remain persistent – we see core at 3.5% at end-2024, and still above target at end-2025.
- Lower CPI will help consumption dynamics – we now see growth at 0.3% in 2024 and 0.8% in 2025 (+20bp both years).

Headline falling (temporarily), core persisting

In our Europe Economic Weekly: A slow pivot all around, we flagged that the expected cut to Ofgem (Office of Gas and Electricity Markets) price caps in April could reduce headline inflation by 60bp this year, and bring UK inflation back to target fast. We now incorporate this scenario in our monthly inflation profiles (Exhibit 15). We cut our CPI forecast to 2.4% in both 2024 and 2025 (-60bp, -20bp respectively). But core inflation will remain sticky – we keep our 2024 core forecast at 3.8%, with 2025 moving slightly lower (-20bp).

In our new profiles, headline inflation drops close to target in April and even slightly below that in May, temporarily (Exhibit 15). Later in the year, with the energy effect fading and core still persistent, we see CPI accelerating back to around 2.5% yoy. We forecast both headline and core inflation to stay above target over 2025 (core still at 2.3% yoy in December 2025).

Exhibit 15: UK, BofA CPI forecast (yoy%)
Headline should come down fast, but core will stay sticky



Source: ONS, BofA Global Research

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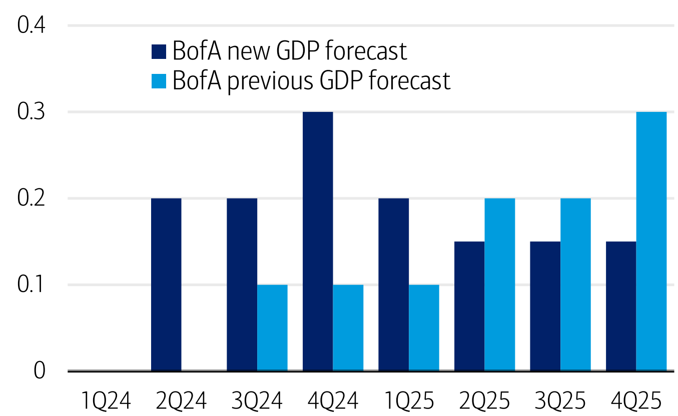
Exhibit 16: UK, BofA GDP forecast (qoq%)
Lower headline inflation will help consumption (and GDP) this year



Source: ONS, BofA Global Research

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In the UK, the bigger picture remains the persistent inflation problem. In our view, consensus and markets are too complacent on medium-term inflationary pressures, especially in services. We don't think the Bank of England will be able to cut rates before August and we expect just two cuts this year (see UK Watch: Bank of England review: message loud and clear).

Lower headline inflation will frontload the recovery

While we remain bearish on the growth prospects of the UK economy, lower inflation will certainly help consumer balances from 2Q24 onwards. This will likely frontload the economic recovery this year (Exhibit 16). In our base case, the UK goes back to positive growth in 2Q24 vs 3Q24 before. We upgrade our GDP projections to 0.3% in 2024 (+20bp) and 0.8% in 2025 (+20bp).

Exhibit 17: UK monthly inflation forecasts, yoy%
Headline falling fast in the near term

	CPI, yoy %	CPI core, yoy %
Jan-24	4.1	5.2
Feb-24	3.6	4.8
Mar-24	2.9	4.1
Apr-24	2.1	4.1
May-24	1.8	3.7
Jun-24	1.7	3.6
Jul-24	2.0	3.4
Aug-24	1.9	3.5
Sep-24	1.8	3.3
Oct-24	2.1	3.3
Nov-24	2.5	3.7
Dec-24	2.4	3.5

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

Asia

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Hong Kong – FY24-25 Budget Preview: Between a rock and a hard place

Complete report: Hong Kong – FY24-25 Budget Preview: Between a rock and a hard place

Fiscal principles increasingly stand in contrast to reality

Since the return to Chinese sovereignty in 1997, the HKSAR has followed several guiding principles on public financing, including "keeping the expenditure within the limits of revenues" and a "low tax policy". However, such principles have been contrasted with the reality. For the past three out of four fiscal years, the HK government has ran fiscal deficits. We estimate the final FY 23-24 deficit to be HK$ 130bn.

Persistent headwinds on medium term fiscal outlook

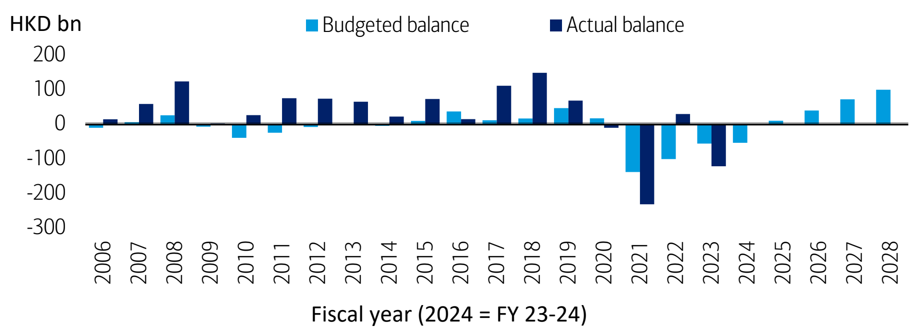
The fiscal outlook will likely remain weak for the next 2-3 fiscal years. The shortfall in land sales is the biggest reason for why we believe Hong Kong's fiscal position will further deteriorate. On the other hand, the government has penciled in for an acceleration of infrastructure expenditure.

Choosing between a rock and a hard place

To maintain a balanced budget in the near term, the government must sacrifice at least one of the below: **1)** keeping the current expenditure plan, **2)** maintaining a low tax regime, **3**) avoiding financing for general spending through bond issuances, **4)** avoiding significant drawdowns in the Capital Works Reserve Fund (CWRF), and **5)** refraining from using the Land Fund to cover for the fiscal shortfall.

The Budget, to be announced on 28th Feb, will likely reveal which path the government will take. We believe a combination of transfer from funds and/or bond issuance will be the most plausible options under the current circumstances.

Exhibit 18: Budgeted and actual fiscal balance
The government is likely to revise down its fiscal projection in the upcoming FY24-25 Budget



Source: The Treasury, BofA Global Research. Note: Budgeted balance for 2025-2028 are forecasts in FY23/24 Budget
BofA GLOBAL RESEARCH

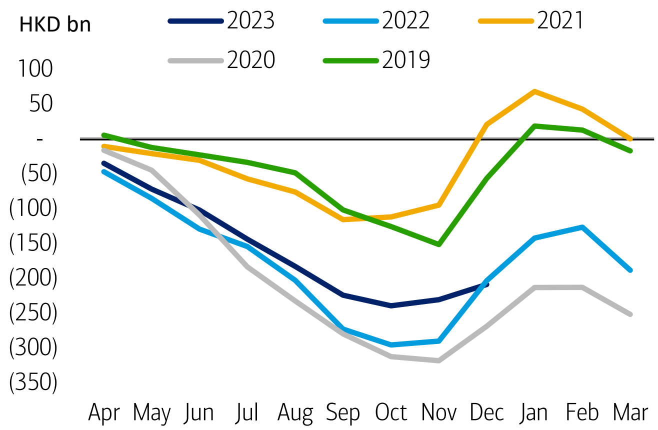
Dissecting the fiscal shortfall

Currently, the HK government runs a fiscal deficit at a size similar to that seen in 2020 and 2022 (Exhibit 19). As of Dec 2023, cumulative consolidated fiscal deficit reached HK$209bn before repayment/proceeds, the second largest on record in the same month (only behind HK$269bn in 2020). As a result, fiscal reserves cover around 12 months of fiscal expenditure (Exhibit 20).

We believe the falling revenue from land premium and stamp duties have been the major driver of the fiscal shortfall, amid relatively the stable paths of expenditure and other tax collections.

Exhibit 19: Cumulative running fiscal deficit (without proceeds from bond issuance)

HK government is running a fiscal deficit similar to those seen in 2020 and 2022



Source: CEIC, The Treasury, BofA Global Research

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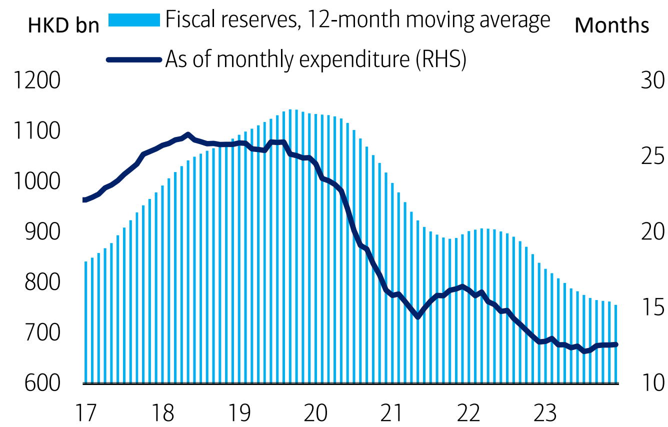
Exhibit 20: Fiscal reserves' coverage of monthly expenditure

Fiscal reserves now cover around 12 months of fiscal expenditure



Source: CEIC, The Treasury, BofA Global Research

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Record-low land premium collected since FY09/10

Revenue from land premium is on the worst record since FY09/10. As of November 2023, the revenue only reached HK$12.1bn fiscal-year-to-date, around 15% of the initial target set for FY23-24 (HK$85bn). The muted revenue was not only due to low prices transacted, but also the record-high number of failed land tenders. As of Jan 2024, there were already six failed residential and commercial land auctions, the highest on record.

The current plan for the Land Fund is not to be withdrawn and used until 2030

The base case is for Land Fund resources to remain at the HKMA until 2030. Of the portion of the Land Fund invested in the HKMA, in 2022 HKMA Annual Report disclosed "the repayment date of placements by Future Fund and the interest thereon (note 30) was extended from 31 December 2025 to 31 December 2030 unless otherwise directed by the Financial Secretary according to the terms of the placements".

However, emergency measures can allow the Financial Secretary to draw on the Land Fund to fund current expenditures. The Resolution which established the Land Fund states the Land Fund can be used only for investment and not for the provision of any government services. The Resolution does not allow the government to freely transfer resources from the Land Fund to the General Revenue Account or other government funds. However, in practice, the Financial Secretary, with consent from the Legislative Council, has previously used Land Fund resources to cover for shortfall in revenue, as was the case in FY 03-04 and FY 04-05.

Conclusion

We believe transfer from funds (including CWRF and Land Fund), with additional support from bond issuance, will be the most plausible options to fund the needs of the GRA under the current circumstances.

The FY24-25 Budget, to be announced on 28th Feb, will likely reveal which path the government will take. Either way, with revenue structurally weak from the decline of land premium, we expect Hong Kong's fiscal reserves to remain on the path of decline for the next 2-3 fiscal year.

Emerging EMEA

Jean-Michel Saliba
MLI (UK)

Saudi Arabia: energy policy – It's not (only) the economy

- The revised Aramco production capacity target reflects oil market fundamentals, existing spare capacity and fiscal pressures.
- We estimate modest fiscal savings at 1.5% of GDP (cUS$17.5bn) over four years or 0.4% of GDP per annum. The additional funds could be put into use into priority domestic diversification projects instead, in our view.

Complete report:* *Emerging Insight: Saudi Arabia: energy policy

Saudi energy policy makes a U-turn

Main pillars of Saudi energy policy

We believe there are three aspects that are central to energy policy in Saudi Arabia: a) competition for global market share in upstream operations or swing oil producer role (affecting spot prices); b) future investment decisions and maintaining of spare capacity buffer (affecting long-term oil prices); and c) focus on integration and expansion of downstream ventures to create domestic jobs, secure captive demand for crude and make operations less volatile.

Saudi energy policy decisions are likely to finely balance OPEC (Organization of the Petroleum Exporting Countries) members' funding needs, the impact on oil demand, internal group cohesion considerations, reliability as a major oil supplier, and public perceptions (both domestically and internationally).

Strong near-term incentives to support high spot oil prices

The more assertive nationalistic 'Saudi First' policy and the ongoing mega-projects spearheaded by the Public Investment Fund (PIF) suggest large medium-term financing requirements and the need for elevated oil prices.

We think Saudi Arabia's interests remain centered around market stability, rather than spiking or too elevated oil prices that could lead to global oil demand destruction and more rapid decarbonization efforts. Indeed, the Saudi Minister of Energy self-describes energy policy as 'proactive, pre-emptive and precautionary'.

Press reports suggest authorities are considering a further secondary market listing for Saudi Aramco shares this year (current free-float is 1.8%). A potential sale may be aided by a supportive oil price backdrop, in our view.

The sliding fiscal regime allows authorities to capture the upside in oil prices. The royalty rate on crude oil and condensate production, amended effective 1 January 2020, is 15% for Brent prices up to US$70/bbl; rising to 45% for Brent prices between US$70/bbl and US$100/bbl, and to 80% for Brent prices above US$100/bbl).

Underwhelming November OPEC+ meeting does not help

The November 2023 OPEC+ meeting was underwhelming in terms of potential support to oil prices. We suspect it may lead to only resulting in a modest decline in production (possibly closer to a status quo outcome), and exhibiting little cohesion (with Angola subsequently leaving the group). The agreed production cuts are valid only for 1Q24, with some signs that further cuts may be difficult to agree upon, all else being equal.

We see the following key points from the meeting:

a) OPEC+ production is likely slated to decline only modestly in 1Q24, given the low credibility of the pledged cuts. We estimate the cuts announced could result in a decline of only 300k bpd in production for 1Q24 versus October 2023 levels. OPEC+ announced additional voluntary cuts of 2.2mn bpd, but this includes the Saudi 1mn bpd cut rollover and 0.2mn bpd in Russia refined oil product cuts (i.e. 1mn bpd of cuts pledged excluding Saudi Arabia rollover and Russia oil product cuts). Our estimates are smaller because a) the cuts are voluntary adjustments, and valid only for 1Q24; b) a number of countries may not fulfil pledges (United Arab Emirates (UAE), Iraq, Russia); and, importantly, c) the voluntary adjustments are calculated from the 2024 required production level as per the 35th OPEC Ministerial Meeting held on June 4 2023, in addition to the voluntary cuts previously announced in April 2023 and later extended until the end of 2024, and not from current production reference levels;

b) note that Iran, Venezuela, Libya still have no quotas. Production may increase from these countries, depending on US sanctions or security conditions;

c) cohesion of the group may have weakened. Angola rejected its output quota which was based on three external assessments, although its planned production level is not significantly different from the OPEC+ target, and subsequently exited the group. The unilateral Saudi 1mn bpd supply cut may have weakened its hand in negotiations; we had suggested it may distort compliance and future negotiation incentives within OPEC+;

d) Brazil could join OPEC+ from 1 January 2024, but this may be symbolic as it has suggested output cuts would not be binding on it;

e) further revision of quotas in June 2024 or November 2024 meetings may be complicated. Recall that OPEC+ is planning to start the process of negotiating quotas for 2025 based on independently-assessed production capacity, likely helping fulfil a key demand by the UAE to increase its quota over the medium-term. This could minimize frictions between the UAE and Saudi Arabia. OPEC+ had suggested that, by end-June 2024, all OPEC+ countries will undergo an assessment by three independent secondary sources to identify production capacities to be used for 2025 reference production levels. (Nigeria, Angola and Congo external assessments have already been completed); and,

f) a steep decline in oil prices may be needed to force the hand of OPEC+. The next (37th) OPEC and non-OPEC Ministerial Meeting will be held on 1 June 2024, and no official meeting has been announced in the interim period until then for now. The next Joint Ministerial Monitoring Committee (JMMC) is to take place on 3 April 2024.

Spare capacity decisions can affect long-term oil prices

Saudi Aramco future investment decisions and maintaining of spare capacity buffer are a critical policy parameter of Saudi energy policy. In addition to its influence on spot prices through its ability to adjust production, Saudi Arabia can decide on pace of its reserves development which would potentially affect future supply to the market, and hence long-term oil prices. There are distinct trade-offs in this decision. If Saudi Arabia is producing at close to its maximum capacity, it will have little control over sharp upside movements in oil prices. On the other hand, if excess capacity is large, oil prices are likely to be under downward pressure.

MSC revision unlikely to be solely justified by government fiscal needs

The Saudi Aramco announcement holds an important signal for markets, both for the government fiscal accounts and long-term oil prices. Saudi Aramco announced in late January that it has received a directive from the Ministry of Energy to maintain its Maximum Sustainable Capacity (MSC) at 12mn bpd, and not to continue increasing its MSC to 13mn bpd.

Expert call highlights limits to current energy policy

Our conference call with an oil & gas expert (see Expert call on Saudi oil capacity increase halt and Red Sea tensions) highlights OPEC+ reluctance to cut production further unless there is a material demand shock, reducing potential support to oil prices.

Latin America

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El Salvador: Trip Notes – In Pursuit of the IMF deal

Complete report: ***El Salvador Watch: Trip Notes: In Pursuit of the IMF deal***

Two days in San Salvador: optimistic, like before the trip

We spent two days in San Salvador, meeting with policymakers, politicians, business leaders, local investors, economists, and a multilateral organization. Overall, the trip reaffirmed our previously optimistic views on the Salvadoran economy. The unprecedented improvement in security conditions seems to be yielding a GDP growth dividend. Also, the government is more focused on getting an IMF program which is the key to ensure public debt sustainability. On the negative side, the risks are the overreliance on domestic financing that can weaken the pension system and crowd out private borrowers (firms and households), and the low level of international reserves. We think both issues could be tackled with an IMF program.

Possible IMF deal: President Bukele taking ownership

The difference between now and the last three years – during which El Salvador has been discussing a potential program with the IMF – is that President Bukele is getting more involved. In October 2023, he told the press, *"at the end of the negotiations we will reach an agreement. I would expect the agreement to come after the elections [February 4th, 2024]. [...] There have been very productive conversations and we expect a deal in the future. We have the willingness to do it and understand they [IMF] do too."*[1] To the best of our knowledge, this was the first time President Bukele spoke about the timing and likelihood of an IMF program.

IMF acknowledges capacity of El Salvador to deliver

Meanwhile, the IMF's Director for the Western Hemisphere, Rodrigo Valdes, argued that Bukele's high political capital could be valuable to deliver the reforms that an IMF program would entail. *"To some extent, they have a big opportunity that few countries have in the region: they have the governance and support to do what is needed to be done."*[2] Bukele has consistently polled in the 80%-90% during his administration. His party, Nuevas Ideas, commands a super-majority (over two thirds) in Congress. Polls suggest the representation of Nuevas Ideas in Congress will increase after the February election.

The sticking point is Bitcoin's legal tender

We know from the IMF's last Article IV report, published in 2022, that the IMF doesn't support bitcoin as legal tender. In addition, there is the precedent of the Central African Republic (CAR), which also adopted Bitcoin as a legal tender and later sought an IMF program. The staff report from the IMF shows that repealing the legal tender status was a prior action (pre-condition) for an IMF program.

But if the IMF does not show flexibility on repealing Bitcoin's legal tender status, the ball will be in Salvador's court. Public policy students are taught that leaders must distinguish between battles of necessity and battles of choice. For El Salvador, we believe Bitcoin is a battle of choice, whereas obtaining an IMF program is a necessity in

[1] See https://diarioelsalvador.com/presidente-bukele-ve-un-panorama-positivo-para-un-acuerdo-con-el-fmi/418779/.

[2] See https://www.reuters.com/world/americas/imf-says-recent-el-salvador-mission-was-very-productive-2023-10-13/.

the sense it would unlock the external financing to make the economy thrive.

The GDP growth dividend associated to improved security

President Bukele's signature achievement in the last five years has been the drop in the crime rate. El Salvador has gone from having a war-like crime rate before Bukele (106.8 per 100k people in 2015) to one of the lowest in the LatAm region (2.4 in 2023).

Channels whereby security influences economic growth are multiple: tourism, labor productivity, property values, extortion payments liberated for capital investment of SMEs, lower transactions costs, human capital accumulation (lower outward migration, among others).

Tourism is where the security dividend is most tangible

Before the pandemic, in 2019 tourism exports in the balance of payments were US$ 1.3bn (4.9% of GDP), a record high. Since then, tourism revenues soared to US$ 2.4bn (7.2% of GDP) in the rolling four quarters ended in 3Q2023.

Because of booming tourism revenues and a better trade balance, we estimate that the current account deficit narrowed from 6.6% of GDP in 2022 to 2.3% in 2023.

Fiscal slippage in 2023

With fiscal results published up to December 2023, we can see El Salvador had slippage in 2023. The primary surplus of the Non-Financial Public Sector, excluding pensions, shrank from a large 3% of GDP in 2022 to 1.6% of GDP in 2023. If one includes pensions – considering that by convention the Non-Financial Public Sector must include social security – then the primary surplus went from 2.1% of GDP in 2022 to 0.4% of GDP in 2023.

But there's a robust plan to adjust in the next years

Despite the slippage between 2022 and 2023, we expect the primary balance to improve by 0.6pp of GDP in 2024 and 1pp of GDP in 2025. If El Salvador wants to work towards an IMF deal they cannot derail on the fiscal adjustment.

There's a number of powerful measures from the expenditure side – already approved – whose effects should gain traction in 2024. We are talking about the slash in the number of municipalities (to 44 from 262), the elimination of fuel subsidies (except for propane gas), the restriction of automatic wage adjustments in the health sector (aka "escalafon"), hiring freezes, early retirement, and other public sector downsizing actions.

Current financing strategy is sub-optimal

Another amber light, in our opinion, is the financing strategy that is relying too much on domestic financing (arrears, domestic banks, pension funds), and the trade-offs could become increasingly unattractive over time.

We believe the government can continue with this strategy of relying on domestic financing in the coming years, without defaulting. But it would reduce the availability of credit for households and firms, clashing with the Bukele administration's goal of boosting private investment. Moreover, it would force the pension funds to have a less diversified portfolio, liquidating foreign investment, and thus lowering the next external wealth of El Salvador.

An IMF program could relieve these pressure points by unlocking several sources of external funding. We would expect other multilaterals to increase their support of El Salvador through budget support loans. In addition, lower risk premiums could facilitate external issuances.

Key forecasts

Exhibit 21: 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**	**2.3**
Policy Rate (EoP)	4.88	5.13	5.38	**5.38**	**5.13**	**4.88**	**4.63**	**4.38**	4.38	**5.38**	**4.63**	**3.63**
Euro area												
Real GDP growth [1]	0.4	0.5	-0.5	**0.1**	**0.1**	**0.8**	**0.9**	**1.2**	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	**3.0**	**2.8**	**3.2**
CPI inflation									6.0	**4.2**	**2.8**	**2.7**
Policy Rate (EoP)									4.5	**5.2**	**4.6**	**4.0**
Emerging Markets Aggregate [4]												
Real GDP growth									4.2	**4.1**	**4.0**	**4.3**
Real GDP growth (ex-China)									4.9	**3.5**	**3.5**	**4.2**
CPI inflation									4.8	**3.8**	**3.0**	**3.2**
Policy Rate (EoP)									5.7	**6.0**	**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 22: 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	149.3	**145**	**143**	**142**	**142**	**140**
USD/CNY	7.20	**7.45**	**7.40**	**7.10**	**6.90**	**6.90**
GBP/USD	1.26	**1.23**	**1.26**	**1.31**	**1.31**	**1.33**
Interest rates (% EoP)						
US 10yr	4.15	**4.40**	**4.30**	**4.25**	**4.25**	**NA**
Bunds 10yr	2.35	**2.45**	**2.35**	**2.25**	**2.10**	**NA**
Japan 10yr	0.71	**0.70**	**0.85**	**0.95**	**1.05**	**1.05**
Commodities [1]						
Oil - Brent ($/bbl)	81.8	**78.0**	**80.0**	**82.0**	**80.0**	**NA**
Oil - WTI ($/bbl)	76.2	**73.0**	**75.0**	**77.0**	**75.0**	**NA**
Gold ($/oz)	2034.5	**1950**	**1950**	**2000**	**2000**	**2100**
Equities (EoP)						
S&P 500	4998				**5000**	
Stoxx 600	485				**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 23: Global Economic Forecasts

Global GDP growth expected at 2.8% in 2024

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2022F	2023F	2024F	2025F	2022F	2023F	2024F	2025F	Current	2023F	2024F	2025F
Global and regional aggregates												
Global	3.5	3.0	2.8	3.2	6.0	4.2	2.8	2.7	6.05	5.22	4.58	3.97
Global ex US	3.9	3.2	3.0	3.4	5.5	4.2	2.8	2.8	6.20	5.18	4.57	4.04
Global ex China	3.7	2.5	2.3	2.8	7.0	5.2	3.3	3.0	6.75	5.73	5.05	4.29
Developed Markets	2.6	1.5	1.2	1.5	7.4	4.7	2.5	2.0	4.21	4.27	3.65	2.71
Emerging Markets	4.2	4.1	4.0	4.3	4.8	3.8	3.0	3.2	7.49	5.95	5.28	4.89
Emerging Markets ex China	4.9	3.5	3.5	4.2	6.5	5.8	4.3	4.1	9.99	7.62	6.81	6.22
Europe, Middle East and Africa (EMEA)	3.9	1.0	1.1	2.1	8.0	7.0	4.0	3.3	9.10	5.91	5.29	4.23
European Union	3.0	0.6	0.8	1.6	9.2	6.5	2.6	1.8	4.36	4.39	3.60	2.35
Emerging EMEA	4.6	2.1	2.5	4.0	7.6	9.4	7.0	6.4	18.54	10.17	9.66	8.83
Emerging Asia	4.2	5.0	4.8	4.8	3.6	2.3	1.9	2.4	4.28	4.38	3.98	3.77
ASEAN	5.8	4.3	4.8	4.9	4.6	3.6	1.6	2.7	4.89	4.92	4.47	3.90
Latin America	4.0	2.2	1.7	2.3	7.7	5.0	3.8	3.4	10.69	10.88	8.59	7.66
G6												
US	1.9	2.5	2.1	1.8	8.0	4.1	2.6	2.3	5.38	5.38	4.63	3.63
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	0.3	0.8	9.1	7.3	2.4	2.4	5.25	5.25	4.75	3.75
Canada	3.8	1.1	1.3	2.4	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	-0.2	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	3.7	2,8	2.8	6.00	6.00	5.25	4.25
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	5.6	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	3.2	2.1	2.4	1.9	2.1	2.0	1.9	4.67	5.75	4.75	3.75
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 24: Global Economic Forecasts (continued)

Global GDP growth expected at 2.8% in 2024

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2022F	2023F	2024F	2025F	2022F	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	11.25	11.75	9.50	9.50
Mexico	3.9	3.2	1.8	1.0	7.9	5.5	4.9	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	12.75	13.00	9.50	6.00
Chile	2.4	0.1	2.2	2.0	11.6	7.6	3.4	3.2	7.25	8.25	5.00	4.75
Peru	2.7	-0.4	2.6	3.0	7.9	6.3	2.8	2.5	6.25	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	2.8	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	21.75	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	6.25	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	10.00	10.75	5.50	4.00
Saudi Arabia	8.7	-0.9	0.1	4.5	2.5	2.6	2.2	2.1	5.50	6.00	5.25	4.25
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 25: Real GDP growth, qoq annualized %

Global GDP growth expected at 2.8% in 2024

	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	0.4	0.5	-0.5	0.1	0.1	0.8	0.9	1.2	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	0.8	0.8	1.2	0.3	0.3	0.8
Canada	2.5	1.4	-1.1	1.0	1.8	1.7	2.1	2.3	1.1	1.3	2.4
Australia	-	-	-	-	-	-	-	-	1.8	1.4	2.0
G6 Aggregate	1.7	1.6	1.6	1.6	0.7	0.9	1.2	1.3	1.5	1.3	1.5
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	21.5	-3.5	1.9	-0.5	7.7	-1.7	2.8	4.9	3.2	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	0.4	2.3	1.4	0.8	-0.2	3.2	1.8	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	1.3	2.1	2.7	3.3	2.5	1.9	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 26: 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 (unch)	-	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*	10.00	-	-	-	-	-	-
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	11.25	(-50bp)		20th (-50bp)		8th (-50bp)	19th (-50bp)
Chile	7.25	(-100bp)			2nd (-25bp)	23rd (-25bp)	18th (-25bp)
Colombia	12.75	(-25bp)	-	(-25bp)	(-50bp)	-	(-50bp)
Mexico	11.25	-	(unch)	21st (-25bp)	-	9th (unch)	27th (-25bp)
Peru	6.25	(unch)	(-25bp)	(unch)	(-25bp)	(unch)	(-25bp)
Emerging EMEA							
Czech Republic	6.25		08th (-25bp)	20th (-25bp)		02nd (-50bp)	27th (-50bp)
Hungary	10.00	(-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 27: 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	149	153	145	143	142	142
EUR-JPY	161	161	155	157	163	163
GBP-USD	1.26	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	0.65	0.64	0.66	0.68	0.71	0.71
Asia						
USD-CNY	7.20	7.40	7.45	7.40	7.10	6.90
USD-INR	82.96	83.00	83.00	82.50	82.00	82.00
USD-IDR	15635	15500	15400	15400	15300	15200
USD-KRW	1328	1300	1300	1260	1250	1230
Latin America						
USD-BRL	5.00	4.85	4.90	4.88	4.80	4.75
USD-MXN	17.15	16.97	17.80	17.90	18.30	18.50
Emerging Europe						
EUR-PLN	4.33	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	30.67	29.53	32.00	35.00	37.00	40.00
USD-ZAR	18.97	18.36	18.60	18.50	17.70	17.80
Rates forecasts						
US 10-year	4.15	4.50	4.40	4.30	4.25	4.25
Germany 10-year	2.35	2.70	2.45	2.35	2.25	
Japan 10-year	0.71	0.61	0.70	0.85	0.95	1.05
UK 10-year	4.05		4.00	4.00	4.00	4.00
Canada 10-year	3.55	3.75	3.70	3.65	3.65	3.60
Commodities forecasts						
WTI Crude Oil - $/bbl	76.43	82.00	73.00	75.00	77.00	75.00
Brent Crude Oil - $/bbl	81.63	86.00	78.00	80.00	82.00	80.00
Gold $/oz	2034.65	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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