Macro Monthly

Economics
GLOBAL

Public debt on the rise

- Markets are watching data closely for any signs of rate cut timing and magnitude in the coming months…
- …with inflation, growth and labour market data all likely to determine the timing and magnitude of rate cuts…
- …and in a busy election year, how much room is there for fiscal policy support?

2024 has started as 2023 finished, with markets trying to work out when central banks will move towards rate cuts, and how quickly they will then be reduced. On the back of January's central bank meetings, market interest rate cut expectations may have been pushed back a touch while **our forecasts still look for Federal Reserve and European Central Bank rate cuts to start in June,** and to be smaller in magnitude than is currently being priced in.

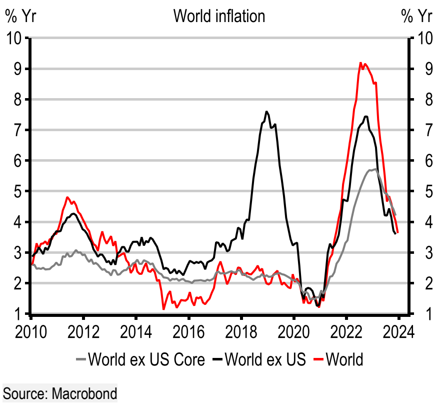
Inflation relief

Resilient growth and inflation risks may delay rate cuts

Inflation has come down markedly, particularly over the past six months (see Chart 1), giving room for central bankers to think about easing. But activity data continue to hold up particularly in the US (see Chart 2). The early signs from 2024 suggest **economic activity continues to tick along despite the risks to growth** from higher rates and geopolitical uncertainty.

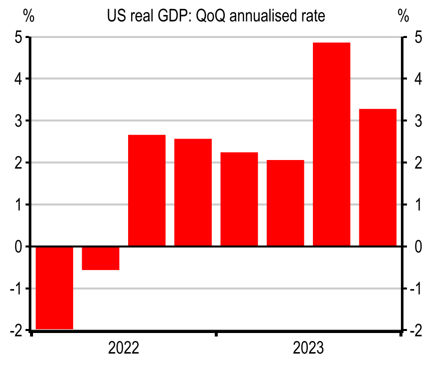
As a result, central bankers face a tough balancing act – trimming rates may limit any downside risks to the economy, **but it could risk cutting too early and stoking another leg higher in inflation**. The ongoing disruption to global shipping poses additional inflation complications, too.

1. inflation pressures continue to abate…



Source: Macrobond

2. … with US growth holding up particularly well



Source: Macrobond

HSBC

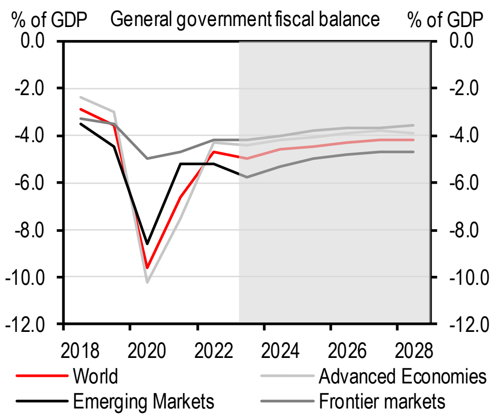
Supportive fiscal policy

But 2024 isn't just about monetary policy. As a big election year, **fiscal policy is likely to remain close to centre stage**. Governments have played a key role in supporting economic growth in recent years, but with higher interest bills and regular spending growth lifted by past inflation, how much is left for incumbent governments to spend?

More spending needs are likely to keep debt elevated

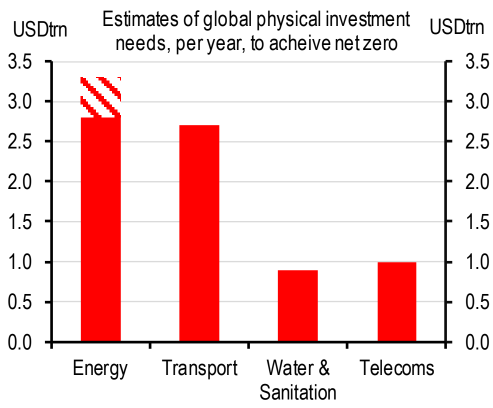
We're not starting from a favourable position: public debt stands at record high levels. In fact, the World Bank projects global public debt to rise by 1ppt of GDP per year over the medium term (2023-28) with the US and mainland China as the main contributors. And with much spending needed to meet net zero emissions targets, **this could lead to debt levels relative to GDP rising by as much as 40-50ppt**. Enhancing private sector investments for greener energy and other areas will likely be needed. That means higher tax revenues – especially in emerging markets – will be needed to tame debt levels.

3. Fiscal consolidation is unlikely to reach pre-pandemic levels…



Source: IMF. Note: Shaded region denotes IMF estimates

4. …as a lot needs to be done in terms of net-zero emissions targets



Source: Grantham Research Institute on Climate Change and the Environment, Investments for Green Recovery and Transformational Growth 2020–30, June 2021. Note: Energy estimate is 2.8-3.3 USDtrn pa.

Investors will watch for signs of fiscal discipline

Usually, ahead of elections, we wouldn't expect the fiscal breaks to be pressed. But with debt issues gathering more headlines in recent months and concerns over fiscal sustainability, **we could see incumbent or new governments show more restraint**. In the US, for example, the fiscal deficit widened to 6.3% of GDP in 2023 and will likely widen further in 2024 to 6.5%. As a result, **investors will be watching for signs of fiscal discipline**, not just in emerging markets but in developed economies too.

Key recent releases

Date	Market	Release	Period	Actual	Consensus expectation	Prior	Actual vs. Consensus
25 Jan	US	Real GDP (quarter, annualised)	Q4, flash	3.3%	2.0%	4.9%	↑
25 Jan	US	Real consumer spending (quarter, annualised)	Q4, flash	2.8%	-	3.1%	-
1 Feb	Eurozone	HICP (year)	Jan, flash	2.8%	2.7%	2.9%	↑
1 Feb	US	ISM manufacturing (index)	Jan	49.1	47.2	47.1	↑
2 Feb	US	Nonfarm payrolls, monthly change (thousands)	Jan	353	189	333	↑
5 Feb	Mainland China	Caixin services PMI (index)	Jan	52.7	53.0	52.9	↓
5 Feb	US	ISM services (index)	Jan	53.4	52.0	50.5	↑
8 Feb	Mainland China	CPI (year)	Jan	-0.8%	-0.5%	-0.3%	↓

Source: Bloomberg, HSBC

↑ Positive surprise – actual is higher than consensus, ↓ Negative surprise – actual is lower than consensus, → Actual is in line with consensus

Key upcoming events

Date	Market	Release	Period
16 Feb	UK	Retail Sales	Jan
19 Feb	Mainland China	People's Bank of China interest rate announcement	-
22 Feb	EU / UK / US	PMIs	Feb
29 Feb	US	Personal Consumption Expenditure	Jan
29 Feb	Mainland China	NBS Manufacturing PMI	Feb
1 Mar	Eurozone	Consumer Prices	Feb
1 Mar	US	ISM Manufacturing PMI	Feb
4 Mar	Mainland China	Caixin Services PMI	Feb

Source: Refinitiv Eikon, HSBC

Disclosure appendix

Important disclosures

1 This report is dated as at 12 February 2024.

2 All market data included in this report are dated as at close 09 February 2024, unless a different date and/or a specific time of day is indicated in the report.

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