

ECB – No Actions Expected Today

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Summary

ECB meeting: we see no change in April, but a cut in June — We expect **key interest rates to be unchanged** today. Some announcements are possible on the liquidity policy, but the pressure to act is not overwhelming just yet. We expect President Draghi to sound more dovish. We still lean to a further and final rate cut in June, triggered by a further inflation undershoot versus the ECB forecast.

IMF argues for more unconventional measures by the ECB – Christine Lagarde argued that *"more monetary easing, including through unconventional measures, is needed in the euro area"*. Comment: we agree with the IMF that the slow growth picture, high debt levels and the 'slowflation' environment require additional policy stimulus for the central bank to meet its inflation mandate.

Germany – Cabinet adopts bill to introduce minimum wage in January 2015. The measure still needs to be passed by both houses of parliament.

Germany – car registrations rise by 5.4% YY in March.

French cabinet – Sapin and Montebourg to share FinMin positions. Michel Sapin, who was named Finance Minister, promised *"a strong gesture"* on household taxes. He stressed that *"deficit cuts will be maintained"* but noted that *"the pace of deficit reduction would be discussed at the euro level"*. Mr. Montebourg, former industry minister, saw his portfolio expanded to include economic policy and the digital economy. Comment: the smaller number of Cabinet ministers (16 vs 20) was probably necessary to reduce previous cacophony but the split responsibilities at the FinMin could prove a fairly unwieldy arrangement.

Italy – Berlusconi seeks ways to remain leader of centre-right, ahead of EU elections, reportedly asking President Napolitano for a grace period ahead of the decision on 10 April on how he will serve his 1-year sentence for tax fraud.

Italy – Confindustria calls for the government to negotiate more fiscal room in return for structural reforms, Reuters reports.

Spain – Household saving rate slipped further in Q4 13, to 10.4%, but disposable income rose by 0.3% YY, first annual increase since Q3 11. Firms' financial surplus posted a new record-high of 4.3% of GDP in Q4.

Spain – services PMI rises by 0.3ppt to 54 in March, above the 50-threshold for the fifth consecutive month. Employment index improved to 49.3, albeit remaining below the 50-threshold, Reuters reported.

Portugal – new fiscal consolidation plans for 2015 to be presented on 15 April to the IMF, PM Passos Coelho said yesterday, *Diario Economico* reports.

Ireland: Unemployment falls again, tax take rises.

3 April 2014

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With thanks to Antonio Montilla & Ann O'Kelly

Economics

Western Europe

Industrialised G7 Countries

Recent Research

Spain — Labour Market Recovery Strengthens In Q1

2 April 2014

Spain's registered unemployment fell by 16.6k (-0.4% MM in seasonally-adjusted terms) in March, slightly less than we expected (-33K), but still enough to continue along the path of falling numbers of jobseekers observed since last August (-0.7% MM on average). Registered unemployment was still up by 0.7% QQ (NSA), but this was the lowest quarterly increase in Q1 (normally the worst for job creation) since 1999.

Giada Giani | Antonio Montilla

Sweden — Riksbank Expected to Lower Conditional Interest Rate Path

2 April 2014

We expect the Riksbank to maintain the repo rate unchanged at 0.75%, but to revise its conditional interest rate path

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Today's News in Detail

ECB meeting – We see no change in April, but a cut in June — We expect the ECB Governing Council (GC) **to leave its key interest rates unchanged**. Some announcements are possible on the liquidity policy, but the pressure to act is not overwhelming just yet. Despite a drop in euro area flash HICP to 0.5% YY in March from 0.7% YY in February and further evidence of negative growth in bank loans to the private sector, we believe the GC will focus on signs of recovery in economic activity and will reiterate its forward guidance. Yet, we expect President Draghi to sound more dovish than he did in March. We still lean to a further and final rate cut in June, triggered by a further inflation undershoot versus the ECB forecast. But with GDP growth picking up, the window for ECB easing may be closing unless new disinflationary shocks and/or a further ratcheting down in medium-term inflation expectations emerge.

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IMF argues for more unconventional measures by the ECB – IMF Managing Director Christine Lagarde argued that "*more monetary easing, including through unconventional measures, is needed in the euro area*". Her speech on Wednesday outlined the Fund's policy recommendations ahead of its spring meetings in Washington next week. Comment: the IMF continues to stress that the slow growth picture, high debt levels and the 'slowflation' environment require additional policy stimulus in order for the central bank to meet its inflation mandate. We agree with the need for more action, but doubt that the GC will find a consensus to cut and bring the deposit rate into negative territory just a month after having argued that its enhanced forward guidance was the right response to an upward sloping, albeit modest, medium to long-term inflation trajectory.

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Germany – Cabinet adopts minimum wage bill. The Wall Street Journal (WSJ) reports that the German cabinet adopted its minimum wage bill yesterday, as expected. The minimum wage of €8.50/hour will be introduced in January 2015, but is subject to transition periods of up to two years for existing pay deals and excludes the long-term unemployed (for a period of six months on re-employment), and those below 18 years of age. German Labour Minister Nahles said that she expected 3.7m employees to see wage increases as a result of the minimum wage, and expected no net job gains or losses. According to the article, the proposal is to be voted on in the Lower House of the German parliament in July and in September in the Upper House.

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Germany – car registrations up 5.4%YY in March. The German Federal Transport Authority (KBA) reported that German car registrations were up by 5.4% YY in March, implying a 41.6% MM increase in registrations vs. February. The KBA noted that some of the increase may have been due to weather-effects as this winter was very mild, while the previous one had been unusually harsh. Registrations in Q1 are up by 5.6% YY, but still below 2012 levels.

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French cabinet – Sapin and Montebourg to share FinMin duties – PM Manuel Valls was sworn in on Wednesday and the smaller cabinet was announced (containing 16 ministers vs. 20), ahead of its first meeting on Friday. Mr. Valls will present his government's priorities to the lower house on Tuesday. Michel Sapin, former Labour Minister in the Ayrault government, was named Finance Minister, a position that he held under the Presidency of François Mitterrand some 20 years ago. Mr. Sapin, speaking on France Inter radio on Thursday morning promised "*no tax increases*" and "*a strong gesture*" on household taxes. He stressed that "*deficit cuts will be maintained*" but noted that

for 2015-16 lower (by about 25-30bp) when it presents the Monetary Policy Update on 9 April. In other words, the Bank is expected to maintain its near-term easing bias, while indicating initial tightening around 1/2Q next year. .

Tina Mortensen

France Macro View — Manuel Valls Tasked To Prioritise Growth Over Deficit Reduction

1 April 2014

President Hollande nominated Manuel Valls, Interior Minister in the Ayrault government, to become Prime Minister. Mr Hollande spoke to the nation explaining that a new smaller team would focus on delivering previously announced structural reforms such as the Responsibility Pact, but that policy action would also be adjusted to include a Solidarity Pact to deliver purchasing power gains for households. Mr Hollande suggested that France would prioritise GDP growth over fiscal consolidation.

Guillaume Menuet

Euro Area — Inflation Falls to 0.5% YY in March

31 March 2014

Euro area inflation was weaker than consensus expectations in March: the headline rate declined to a four-year low of 0.5% YY (0.49% YY), from 0.7% in February and from 0.8% YY on average in the past five months. Euro area inflation has surprised to the downside in three of the past six months, and inflation has generally undershot consensus in the largest member states in recent months.

Giada Giani

ECB — Likely To Stay Put in April Despite Room To Ease

28 March 2014

We expect no change in rates on Thursday. Despite a likely drop in flash HICP to 0.6% YY in March from 0.7% YY in Feb and further evidence of negative growth in bank loans to the private sector, we believe the Governing Council will focus on signs of recovery in economic activity and will reiterate its forward guidance. Yet, we expect Draghi to sound more dovish than he

“the pace of deficit reduction would be discussed at the euro level”. Mr. Montebourg, former industry minister, saw his portfolio expanded to include economic policy and the digital economy. Former Finance Minister Pierre Moscovici indicated on France 3 television that he expected to be put forward for a top job in Brussels. Comment: the smaller number of ministers, some with enhanced responsibilities, should help reduce the cacophony that often characterised the Ayrault government. While Mr. Sapin will be tasked with negotiating France’s budget deficit reduction path with Brussels, Mr. Montebourg will likely play to the domestic audience, using his expanded responsibilities to give him a bigger say on policy and reassuring the Left. This could prove to be a fairly unwieldy arrangement. Mr. Sapin who was in charge of loosening labour laws and of changing the unemployment insurance system, will unveil the Responsibility Pact, and its social equivalent, the Solidarity Pact, designed to lower the burden of taxation on less wealthy households. Negotiating an extra year with Brussels to bring the budget deficit below 3% of GDP will be hard in our view, unless the Commission were to relax the rules for all member states in the same position.

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Italy – Berlusconi seeks a way to remain leader of centre-right ahead of EU elections. The leader of Forza Italia centre-right party, Silvio Berlusconi, met with President Napolitano yesterday, reportedly to ask him for some form of grace to preserve his status of leader of the main opposition party, one week before the Milan court decides on how Mr. Berlusconi will serve his 1-year sentence for tax fraud (either house arrest or doing public services). The decision is expected on 10 April. According to local media, Mr Berlusconi requested Napolitano to grant him grace to allow him to lead the political campaign ahead of the May EU election. Moreover, Berlusconi struck a bipartisan agreement with the leader of ruling party PD, and current Prime Minister, Matteo Renzi earlier this year on a list of shared structural reforms (including the very divisive electoral law). Remaining leader of Forza Italia, Berlusconi reportedly argued to Napolitano, would prevent a weakening of his party and would allow Mr Berlusconi himself to stick to the reform agreement with Renzi. A note by the Presidency acknowledged the meeting, remarking it was requested by Mr. Berlusconi, but did not give any hint about a possible agreement being found with Mr. Berlusconi. Local media (eg, *La Stampa*, *Corriere*) report that Napolitano left no margin for negotiations on grace. Comment: a weakening of Mr. Berlusconi’s leadership in Forza Italia is likely to reduce support for his party (possibly in favour of Grillo’s anti-establishment party M5S) and may also weaken the party’s willingness to stick to the Berlusconi-Renzi agreement on the reform agenda (in our view, one of the main points of strength of new PM Renzi for his chances to succeed in implementing some key reforms).

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Italy – Confindustria calls for the government to negotiate more fiscal room in return for structural reforms, Reuters reported. “Negotiations need to be opened so that Italy, along with the other countries in the same situation that request it, are allowed the margins of flexibility that are in the Stability Pact in exchange for a robust series of structural reforms”, a statement from the major industrial business association in Italy said. Comment: rising support for anti-European parties in several large euro area members is likely to give some more leverage to PM Renzi to request and obtain a more delayed fiscal consolidation path if growth-enhancing structural reforms are finally implemented.

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Spain – Household saving rate slipped further in Q4, close to historical low. Sector account data released yesterday showed the household saving rate was down slightly in Q4, to 10.4% of disposable income (four-quarter sum), from 10.6% in Q3 13 and 11.4% on average in 2012. This was the lowest reading

did in March. We still lean to a further and final rate cut in June, triggered by a further inflation undershoot versus the ECB forecast.

Guillaume Menuet

Euro Economics Weekly — Italy — Some Short-Term Optimism

28 March 2014

The policy measures recently presented by new Italian PM Renzi do not quite reflect the supply-side structural reforms long advocated for Italy. However, the moderate fiscal expansion they imply will likely impart a positive boost to GDP growth in coming quarters and reinforce the nascent cyclical recovery. Tax cuts and large repayments of government debt arrears will lift consumption and investment, but job growth is unlikely before 2015.

Giada Giani | Ebrahim Rahbari | Guillaume Menuet | Michael Saunders | Antonio Montilla

UK — GDP – Interesting Details Behind the Headlines

28 March 2014

The ONS revised up Q4 export growth from 0.4% QQ (0.7% YY) to 2.8% QQ (2.3% YY), with an offsetting downward revision to stockbuilding. Second, the ratio of private sector debt/GDP continued to fall, reaching 187.5% of GDP in Q4-13 from 191.1% in Q3, having peaked at 218.3% in Q1-09. Third, the current account deficit was £22.4bn in Q4 (5.4% of GDP) only slightly below the Q3 level (22.8bn, 5.6% of GDP – a record in both cash terms and as a share of GDP).

Michael Saunders

UK Economics Weekly — CPI Disinflation and RPI Reflation

28 March 2014

CPI inflation — already down to 1.7% YY, the lowest since 2009 — is likely to fall to about 1.5% during this year, undershooting the MPC’s target and consensus expectations in both 2014 and 2015. However, the subdued near-term path for CPI inflation is unlikely to be matched by RPI inflation, which is the relevant measure for index-linked gilts. With gains in house prices — and, subsequently, rising Bank Rate — we expect the RPI-CPI wedge will rise to

since Q3-07 (when it stood at 10.2%). Households' financial balance in 2013 recorded a surplus of 2.5% of GDP, in line with 2012 average. Q4 household disposable income rose by 0.3% YY, first annual growth rate since Q3 2011, amid a 0.9% YY increase in wages (strongest YY% since Q4 2008, although affected by strong base effects due to the temporary suspension of the Christmas bonus for civil servants in Q4 2012). As for businesses, **the financial balance of non-financial corporations continued to improve** in the four quarters ending in Q4, posting a new record-high surplus of 4.3% of GDP (from 3.8% in Q3 and 0.5% on average in 2012), amid on-going contraction in investment (-5.3%YY in Q4) and a falling wage bill (-2.9% YY in Q4). Profit growth slowed down in Q4 13, to -0.4% YY (first YY decline since Q3 10), but on average profit growth has been strong in 2013 (+4% vs. +3% in 2012). Comment: Q4 data support our view that real household disposable income is likely to improve in 2014 thanks to net job creation, subdued inflation, and reduced fiscal tightening. We expect this will translate into a 1.2% expansion in private consumption (after falling by 2% and 3% in 2012 and 2013, respectively), despite a record-low saving rate and on-going private deleveraging. In our view, the robust balance sheet position of non-financial corporations should allow for a strong pick-up in overall business equipment investment (by around 6.3% in 2014 after 2.6% in 2013).

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Portugal – new fiscal consolidation plans for 2015 to be presented on 15 April to the IMF, PM Passos Coelho said yesterday, *Diario Economico* reports. The budgetary cuts will be aimed at reducing the fiscal deficit from 4.0% of GDP this year to 2.5% in 2015, as agreed in the bailout programme.

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Ireland: Unemployment falls again, tax take rises. According to data out yesterday, the standardized unemployment rate ticked down to 11.8% in March, from 11.9% in February (and a peak of 15.1% in Feb 2012). Yesterday's reading is the lowest since April 2009. Although the total number (396,900) on the Live Register (which includes casual and part-time workers as well as those on Jobseekers Allowance) has fallen by 8% (33,900) since March 2013, the number of long-term unemployed (over a year) remains high, at 45.8% of the total. Also out yesterday, the Exchequer Return showed **tax revenues in the first three months of the year up 4.7% YY** and 2.9% better than forecast, with income tax up 3.5% YY, and VAT receipts up 6.4% YY. Higher-than-expected car sales in the first three months of the year meant that excise returns were up 11.5%. On the other side, expenditure was down 5.8% YY, giving an Exchequer deficit of €2.3bn for the first three months of the year, an improvement of €1.4bn on the same period last year. Minister for Public Expenditure and Reform Brendan Howlin said that while expenditure was on target and in line with expectations, *"the Government is aware of the continuing need to keep overall expenditure on profile."*

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Latest Issues of Sovereign Debt Update

Eurogroup Reminds France of Budget Commitments

2 April 2014

ECB's Constancio on low March HICP. Eurogroup's Dijsselbloem says France aware of budget commitments. Germany: public sector wage rise, latest on minimum wage and energy reform. French govt reshuffle expected today, poll approval for PM Valls. Italy: unemployment up, borrowing down. Spain: unemployment down, car sales up. Dutch GDP revised up. Greece: Eurogroup agrees disbursement, upcoming bond issuance. Eurogroup to decide on Portugal's bailout exit on 5 May. Slovakia's bond issuance.

about 1½% in Q4-14 and about 2½% in Q4-15.

Michael Saunders | Ann O'Kelly

Scandi Economics Update — Early Indications of Slower Norwegian Wage Growth This Year

3 April 2014

Sweden — Monetary policy meeting preview — Government appoints committee to improve business climate.

Norway — Wage agreement among blue-collar industrial workers — House price data — Government warns oil companies against "unacceptable" project delays — Labour market is stabilizing.

Denmark — March currency reserves, no intervention.

Tina Mortensen

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French PM Valls to Prioritise Growth over Deficit Targets

1 April 2014

New French PM to prioritise growth. EU and IMF on low inflation. ECB: Noyer on securitisation, Nouy on corrective measures. Germany: Energy Summit today between fed govt and states. Ongoing German public sector wage talks. Italy: Renzi's constitutional changes. Spain's PMI highest for 4 years. Spain's budget deficit narrows, current account widens. Portugal's 2013 budget deficit well below target. Eurogroup expected to approve bailout tranche to Greece. Belgium's 2013 deficit numbers delayed.

Ebrahim Rahbari | Guillaume Menuet | Giada Giani

French government reshuffle to be announced today?

31 March 2014

Eurogroup informal meeting to discuss Greece and Portugal, with Tuesday's press conferences scheduled for 12:30CET (Eurogroup) and 18:00CET (Ecofin). ECB's Weidmann on low inflation period likely to prove transitory – stressed that "monetary policy should respond to such factors only in the event of second round effects", adding that extremely low rates are a risk to financial stability.

Guillaume Menuet | Giada Giani | Ebrahim Rahbari

EC Unveils Package to Stimulate Lending

28 March 2014

EU to loosen securitization rules to boost lending. Germany's Gabriel says countries must be ready to forgo business with Russia. France: PM Ayrault fights for his job, Constitutional Court rejects Florange law on plant closures. Italy's business confidence rises again in March. Spain: HICP inflation falls to -0.2% YY, retail sales decline. Spain's 2013 fiscal deficit to be unveiled today. Greece: Troika to disburse €12bn if multi-bill passed. Greek domestic private deposits fall in Feb.

Guillaume Menuet | Giada Giani | Ebrahim Rahbari

ECB's Linde on Need to Ease to Offset Deflation Risk

27 March 2014

ECB's Linde on need to counter deflation risk. EC's Tajani says euro strength must be addressed. Germany's Schäuble, Eurogroup's Dijsselbloem on SRM. French govt mulls tax cuts for lower-income households. French unemployment surges but consumer confidence rises. Italy: govt wins Senate confidence vote on provinces, consumer confidence rises. Economic forecasts from Bank of Spain and Bank of Portugal. Greek govt seeks agreement on reform bill. Citi's latest Global Economic Outlook.

Guillaume Menuet | Giada Giani | Ebrahim Rahbari

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Macroeconomic Forecasts

European Economic Forecast Highlights — March 2014

27 March 2014

This companion to Global Economic Outlook and Strategy - March 2014 gives detailed quarterly forecasts for the main European countries to end 2015, as well as annual forecasts to 2018 for growth, inflation, current balance, fiscal balance, primary balance and government debt.

Ann O'Kelly | Michael Saunders | Guillaume Menuet | Giada Giani | Ebrahim Rahbari

Global Economic Outlook and Strategy — March 2014

26 March 2014

Our global growth forecasts are unchanged this month. Within that, we again trim our EM growth forecasts, and lift forecasts for advanced economy growth. We believe risks to our EM growth forecasts remain to the downside. The spillovers from the Russia-Ukraine crisis are likely to keep geo-political tensions high nearterm. We expect easing from the BoJ, ECB and PBOC in Q2/Q3, whereas rising capacity use is likely to prompt the BoE to hike rates in late 2014, with the Fed hiking in H2-2015.

[Willem Buiters](#) | [Guillermo Mondino](#) | [Michael Saunders](#) | [Robert V DiClemente](#) | [Kiichi Murashima](#)

Emerging Markets Macro and Strategy Outlook — What happens to EM when US short-term rates rise?

27 March 2014

How will EM be affected if short term US interest rates go up sooner rather than later? One important way of assessing the significance of rising short term US rates is to think about what impact it might have on the behavior of commercial banks in managing their cross-border exposure to EM. The reason for this is that, by and large, banks fund themselves at the front end of the yield curve, and so an upward shift at the front end of the curve might cause a 'second round' of capital outflows from EM, following the first round by portfolio investors that accompanied tapering fears in 2013.

[Guillermo Mondino](#) | [David Lubin](#) | [Johanna Chua](#)

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Appendix A-1

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