

Spain – Fitch Revises Rating Outlook to Stable

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Summary

Spain – Fitch revises outlook to stable, affirms BBB rating, citing improved policy track record, a faster than expected adjustment in the balance of payment, an advanced banking sector restructuring since 2012, improving financial conditions for the sovereign, and a sooner than expected return to positive real GDP growth in H2 2013. On the other hand, failure to place the public debt-to-GDP ratio on a downward trend, weaker medium-term growth and a deterioration in sovereign funding conditions would result in a negative rating action.

Comment: while the Spanish economic rebalancing is obviously underway, we think it will still take few years for the public debt-to-GDP ratio to stabilize amid weak real and nominal GDP growth.

Bank recaps via common funds a last gap solution, according to the ECB – ECB's Joerg Asmussen told German public broadcaster ARD on Monday that "*in the view of the ECB, the European permanent rescue facility with the instruments that it has at its disposal is the last port of call*". He reiterates the ECB's view that it was essential to clarify how to shore up banks' balance sheets before the release of the results of stress tests in the autumn of 2014.

French politics: discontent against government policies reaches record highs – An IFOP poll for newspaper Journal du Dimanche showed that 91% of French people want President Holland to make some changes. 43% of respondents replied that he needed to "*change his policies*", 30% wanted a "*new method of government*" and 18% favoured a "*cabinet reshuffle*". 85% of the Socialist Party supporters also expressed a desire for change.

Italy – 2014 Budget envisages a reduced tax burden for households, for €1bn (0.06% of GDP), a note from the Ministry of Finance says, after renewed pressures from PdL, which claims that the Budget is increasing the tax burden.

Portugal – government to soften civil servant pay cuts, searches for new measures to keep the fiscal deficit target at 4% of GDP in 2014.

Greece – troika to resume talks today, likely to focus on the prior actions required for the disbursement of €1bn tranche, and on the controversial fiscal gap for 2014 (the government claims it will be only €0.5bn, against €2-2.5bn estimated by the troika).

4 November 2013

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Economics

Western Europe

Industrialised G7 Countries

Recent Research

Euro Economics Weekly — Why the ECB Should Worry About the Strong Euro

1 November 2013

The euro is at its highest level in nominal trade-weighted terms since November 2011, even though the euro area economy remains weak. We think that the current nominal and real level of the euro expose the euro area (EA) economy to substantial risks, given how open the euro area is, how sensitive its exports are to the exchange rate, and how reliant growth in the euro area is on (net) exports. Further appreciation would magnify these risks.

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

UK Economics Weekly — Leaders and Laggards in the Recovery

1 November 2013

The recovery is broad-based in terms of sectoral output gains. However, in other respects, the recovery is very uneven. Consumer confidence has risen by much more among the top 25% of

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Today's News in Detail

Spain – Fitch affirms BBB rating and revises outlook to stable, citing improved policy track record, a faster than expected adjustment in the balance of payment, an advanced banking sector restructuring since 2012, improving financial conditions for the sovereign, and a sooner-than-expected return to positive real GDP growth in H2 2013. The rating agency noted that the Spanish authorities have made significant reforms in the labour market, pension system, fiscal framework and financial sector, pointing out however that the pace of reform is likely to slow down in 2014-15 as external pressures ease. In addition, Fitch stated that a failure to place the public debt-to-GDP ratio on a downward trend together with a weaker economic performance in the medium term and a deterioration in sovereign funding conditions would result in a negative rating action. Fitch expects the Spanish economy to expand by 0.5% in 2014.

Comment: in our view the rebalancing of the Spanish economy is definitely gathering pace, but we think the process is going to be long and major headwinds (private deleveraging, still large fiscal imbalances, ongoing adjustment in the housing sector, and tight financial conditions) are likely to prevent any significant economic growth in the next couple of years.

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Bank recaps by common funds as last gap solution, according to the ECB – ECB Executive Board member Joerg Asmussen told German public broadcaster ARD on Monday that *"in the view of the ECB, the European permanent rescue facility with the instruments that it has at its disposal is the last port of call"*. He reiterates the ECB's view that it was essential to clarify how to shore up banks' balance sheets before the release of the results of stress tests in the Autumn of 2014. Mr. Asmussen called again for a common resolution mechanism to be funded through a levy on banks, so as to complete banking union, suggesting that in the meantime, the rescue fund should provide a backstop. Comment: We do not think that the common rescue facility will end up recapitalising many banks under the current framework, given the required ex-ante contributions from equity holders, subordinated debt holders, member states and/or national bank rescue funds.

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French politics: discontent against government policies reaches record highs – An IFOP poll for newspaper Journal du Dimanche showed that 91% of French people want President Holland to make some changes. 43% of respondents replied that he needed to "change his policies", 30% wanted a "new method of government" and 18% favoured a cabinet reshuffle. While these calls for change are stemming from the opposition conservative UMP and extreme right National Front supporters, 85% of the Socialist Party supporters also expressed a desire for change, with the splits 35% for policies, 30% for method and 20% for reshuffle. Comment: the government is in a complicated position, having continued with the tax increases initiated by his predecessor and making only slow progress on expenditure cuts. Fiscal pressure is now so high that the majority of voters are calling for a more ambitious reform of the role of the state. In all likelihood the upcoming municipal and European elections will amount to a vote of no confidence for the new government, conceivably opening the door to more ambitious reforms in the second half of the 2014, with a key focus on expenditure reductions to eventually make enough savings to lower taxation.

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income earners than among the rest, and is much stronger among professionals than skilled and unskilled manual workers. The gap in jobless rates between the most highly-educated and least-educated is at a record high. Gains in jobs are much bigger in London and surrounding areas than the UK average.

Michael Saunders

Scandi Economics Update –

4 November 2013

Sweden — Government trails behind in opinion polls.

Sweden — Data preview.

Norway — New government to boost spending in revised budget.

Norway — Data preview.

Denmark — Scandinavia split over bank rule timeline.

Denmark — October currency reserves.

Tina Mortensen

Italy – 2014 Budget envisages a reduced tax burden for households, a note from the Ministry of Finance says. The statement came after increased pressures from one of the two main governing coalition parties – PdL – claiming that the Budget is increasing further the tax burden. The Ministry of Finance said the budget envisages for the first time in recent years a reduction in total tax burden (by 0.1pp of GDP, from 44.3% to 44.2%) and that households should benefit from a lower tax burden for €1bn (0.06% of GDP). Higher taxation is envisaged for the business sector (mainly banks), the note said. Comment: while we agree that the budget 2014 is timid in its stated target to reduce taxes by cutting public spending, the pressures from PdL probably also reflect the large divisions within the party between the government loyalists and the most hawkish supporters of the leader Berlusconi.

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Portugal – government to soften civil servant pay cuts, searches for new measures to keep the fiscal deficit target at 4% of GDP in 2014. *Diario Economico* reports that the two governing coalition parties, PSD and CDS, are studying the application of an extraordinary contribution on public-private partnerships (PPP) and on the telecommunications sector in order to reduce the planned wage cuts to public sector employees encompassed in 2014 draft budget. The parliament passed last Friday the 2014 Budget in a first reading, the analysis of the details is due to start now, with a final vote expected for the end of this month.

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Greece – troika to resume talks today. The Greek FinMin has reportedly said that “common sense” should prevail among the negotiating parties. The troika return is in contrast with press reports last week suggesting a further delay of the visit because of lack of adequate action from the Greek government. FinMin Stournaras said *“Our lenders have to pay close attention to the fact that the Greek economy is turning around, which the markets have already recognized.”* Ekathimerini reported that the troika would like to raise the privatisation targets to €3.8bn (2% of GDP) to make up for the shortfall in privatisations revenues likely to be recorded in 2013. Comment: the debate in the upcoming negotiations will likely focus on the so-called prior actions, required for the disbursement of €1bn tranche, as well as on the controversial fiscal gap in 2014. The government claims it will be only €0.5bn, while the troika reportedly estimates it at €2-2.5bn.

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Latest Issues of Sovereign Debt Crisis Update

Euro Area Core Inflation Falls to Record-Low Levels

1 November 2013

Euro area inflation falls to 0.7% YY in October, lowest since 2009, amid core inflation plummeting to 0.8% YY – the lowest level since records began in 1990. A partial reversal of the weak Oct inflation print may occur in November, but the downtrend in core inflation remains clear.

Giada Giani

ECB Will Offer Additional Liquidity, Nowotny Says

31 October 2013

The ECB will provide liquidity to avoid the “cliff” effect at the end of LTROs, Austrian central banker Nowotny says, but he remained vague on the timing and

on the form this new liquidity measure will take.

[Giada Giani](#)

ECB's Nowotny Sees No Need for Action on the Euro

30 October 2013

ECB's Nowotny: no need for action on euro, but room for more non-standard measures. German coalition talks: first decisions today. German pension insurance contributions could fall in 2014. French government delays eco tax. Italy's GDP to fall slightly in 3Q - ISTAT. Italian property tax - again. Spanish state budget deficit falls in Sep. Spanish banks' capital from deferred tax assets. Portugal's government backtracks on pension cuts. Ireland's two-speed house prices. Slovenia's slightly worse confidence.

[Ebrahim Rahbari](#)

Dijsselbloem Calls for Reform of Fiscal Rules

29 October 2013

Eurogroup's Dijsselbloem calls for conditionality on budget deficit target extensions, says plans to directly recapitalise banks to be finalised by year-end. BdF's Noyer says France must do more on expenditure reduction. French President Hollande's popularity at new low. Italy's business sentiment rises. Mr Berlusconi's daughter denies she will take on party leadership. Spanish retail sales weak, mortgage approvals plunge. Ireland may not need credit line, says FinMin. IMF on Slovenia.

[Giada Giani](#)

EU Council Kicks Banking Union Decisions to December

28 October 2013

EU Council: no decisions on major agenda items. Asmussen on need for national backstops. German coalition talks start on tricky issues. Italy's coalition parties may now have incentive for elections in spring 2014. Fitch affirms Italy's rating, Moody's warns of bail-in risk for weak Italian banks. French Govt backs down on levy on popular investment and savings vehicles. Spain's Govt to repay bank loan early. Portugal's lower corporate tax rate. Greek Govt's savings on social security spending.

[Ebrahim Rahbari](#)

EU Leaders Confident about Compromise on Banking Union

25 October 2013

After first day of EU Summit, leaders generally sounded confident of compromise on banking union and SRM by yearend. ECB's Asmussen not overly worried about exchange rate. French unemployment continues to rise. Italy's consumer confidence unexpectedly drops to lowest level since June. Spain: Job creation only after real GDP growth of 1%, says government minister. Portugal's YTD central government deficit still slightly above 2012 level.

[Giada Giani](#)

Draghi Warns Banks May Fail ECB Assessment

24 October 2013

Draghi says ECB won't hesitate to fail banks, has "no doubt whatsoever" that backstops will be there. ECB's Angeloni expects bank assessments to be more credible, as ECB has to deal with outcome. ECB's Mersch notes reduced financial fragmentation. Germany's coalition negotiations start with Europe issues. Italy's Senate votes to set up committee on constitutional reform. Spain exits recession in 3Q says BoS. Portugal: Fitch confirms rating, outlook. Greece: no debt relief before summer 2014.

[Giada Giani](#)

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Macroeconomic Research

European Economic Forecast Highlights — October 2013

24 October 2013

This companion to Global Economic Outlook and Strategy gives detailed quarterly forecasts for the main European countries to end 2014, together with annual forecasts to 2017 for growth, inflation, current balance, fiscal balance, primary balance and government debt.

[Ann O'Kelly](#)

Global Economic Outlook and Strategy — October 2013

23 October 2013

Our global growth forecasts are unchanged this month, at 2.5% for 2013 and 3.2% for 2014 (at current exchange rates). We make a marginal (0.1pp) upward revision to our 2014 euro area forecast — led by upgrades to Portugal and Spain. The exact timing of the start of Fed tapering is highly uncertain, but we now expect that tapering will be pushed back to March, with asset purchases not ending fully until late 2014. The ECB is likely to introduce a new LTRO in Q1, with extra BoJ easing in 2014.

[Willem Buiter](#)

Emerging Markets Macro and Strategy Outlook — Has EM growth-pessimism gone too far?

25 October 2013

Pessimism about EM growth has gathered pace in recent months, but could the pessimism be overdone? EM growth-pessimism seems to sit uncomfortably with recent data. For one thing, the gap between PMIs in DM and those in EM seems to be closing a bit. On balance, though, we still don't see upside risks to EM growth as too visible. Demographic threats to EM growth are becoming more prominent. So while the near-term seems favorable for EM assets, the rally we anticipate might be a nervous one.

[Guillermo Mondino](#)

Perspectives — The Global Demographic Transition—What Role Are China & Other Emerging Asian Economies Likely to Play?

21 October 2013

In previous work, we have documented the features of aging populations in the advanced economies. We now cast these issues against the broader backdrop of global demographics. Specifically, is aging in the advanced economies a problem specific to those economies or a more general feature of the global landscape? To what extent do more favorable demographics in the emerging markets offset aging in the advanced economies?

[Nathan Sheets](#)

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Appendix A-1

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