

Greece: High Stakes at Today's Eurogroup Meeting

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Summary

Eurogroup meeting on Greece to begin at 3pm CET today. Following a request by the Greek government to extend its current bailout, Eurogroup President Dijsselbloem convened an extraordinary Eurogroup meeting for 3pm CET today. Comment: We believe that the extension request raises the likelihood that a deal can be struck this weekend, but whether a deal can be agreed remains uncertain.

Reactions to the Greek extension request mostly positive from officials in Brussels, Rome and Paris.

Some hardline reactions from Portugal, Slovakia and Estonia.

German reactions to the Greek extension request were mixed: A finance ministry spokesman rejected the proposal, while German Deputy Chancellor Gabriel urged talks to continue.

Bundesbank President: Greek collateral waiver can be reinstated if certain conditions are met.

First Set Of ECB Minutes cover largely familiar ground, but also highlight important role of financial market expectations in the ECB's QE decision on January 22

Today's News in Detail

Eurogroup meeting on Greece to begin at 3pm CET today. Following a request by the Greek government to extend its current bailout, Eurogroup President Dijsselbloem said that he will convene an extraordinary Eurogroup meeting at 3pm CET today. Bloomberg reports that the request is for a six-month extension of the "Master Facility Agreement" and that the letter seems to meet [the five conditions that Eurogroup President Dijsselbloem required the Greek government to accept](#) before convening another Eurogroup meeting. Discussions over the request among Eurozone finance ministers began yesterday afternoon. Comment: We believe that the extension request raises the likelihood that a deal can be struck this weekend, but whether a deal can be agreed remains uncertain. For more discussion, see [Greek Extension Request Raises Chance of Interim Deal This Week](#).

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Reactions to the Greek extension request – positive... Reuters reports that officials from the European Commission and the French and Italian governments

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Economics

Western Europe

Industrialised G7 Countries

Recent Research

Euro Area — Greek Extension Request Raises Chance of Interim Deal This Week

19 February 2015

Following a formal request by the Greek government to extend its current bailout, Eurogroup President Dijsselbloem said that he will convene an extraordinary Eurogroup meeting at 3pm CET tomorrow. In our view, the extension request significantly raises the likelihood that a deal can be struck this weekend that would extend the current bailout before its extension at end-February. However, the situation remains fluid, with limited response to the Greek request so far, but some supportive comments from the European Commission and dissatisfaction from the German government. Convening a meeting does not automatically imply that a bailout extension will be agreed this week. Should such an agreement take place, formal approval still requires parliamentary approval from a number of national parliaments. Following such an extension, agreement on a more durable, follow-up bailout can also not be taken for granted.

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

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welcomed the effort by the Greek government. **Italian Economy Minister Pier Carlo Padoa-Schioppa** warned of the risk involved in any Greek exit, noting that *"we have to send a signal that the euro is irreversible...If a country were to leave, it wouldn't just mean one less country in the union but the transformation of the euro into a mechanism that can be undone."* **Italian Prime Minister Matteo Renzi** spoke to his Greek counterpart on Thursday, according to an Italian official, and Renzi also spoke to European Commission President Jean-Claude Juncker. In France, **Prime Minister Manuel Valls** called the Greek move *"a very encouraging sign that a solution is possible, and very quickly"*. **European Commission spokesman Margaritis Schinas** said the Greek proposal could be the basis for a *"reasonable compromise."* **US Treasury Secretary Jack Lew** spoke by telephone on Thursday with his Greek, Dutch and French counterparts, urging all sides to make concessions in the talks and noting that the US was monitoring the situation in Greece very carefully.

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Reactions to the Greek extension request – hardline: However, **Portuguese FinMin Maria Luis Albuquerque** said, in an interview with Germany's *Handelsblatt*: *"There's a framework within which we are prepared to discuss with the Greek government. This framework is the current aid programme, which needs to be extended....It worked in Portugal – we completed our programme successfully"*. According to the *Financial Times*, **Slovakia's Prime Minister Robert Fico** rejects any flexibility on the amount of debt that Greece must repay: *"This is a red line for us. It would be impossible to explain to the public that 'poor' Slovakia... should compensate Greece. ...To explain to people that we have to give money to Greece for their salaries and pensions? Impossible."* **Estonia's FinMin Maris Lauri** said, according to Bloomberg, *"The problem is, Greece doesn't have specific solutions. For the most part they just have ideas. They tell us 'there is such a problem, it must be solved', but they don't offer a solution, they just say that they don't like the solution offered now."*

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Reactions to the Greek extension request – German: Reuters reports that a German Finance Ministry official rejected the Greek extension proposal, saying it was *"not a substantial solution"* because it did not commit Athens to stick to the conditions of its international bailout. A leaked letter from the German finance ministry said that *"the Greek letter is not clear at all, but opens immense room for interpretation,"* adding that *"it ... represents a Trojan horse ... in substance putting an end to the current programme."* The German Finance Ministry spokesman earlier said the Greek proposal did not meet the criteria agreed by the Eurogroup and *"goes in the direction of a bridge financing without fulfilling the demands of the programme"*. A Greek official said that Greek Prime Minister Alexis Tsipras had a 50-minute telephone call with German Chancellor Angela Merkel on Thursday, which according to the article is believed to be their first substantive exchange since the Athens government was elected on Jan. 25 and the call was *"was held in a positive climate, geared towards finding a mutually beneficial solution for Greece and the euro zone,"* according to the official. Tsipras also spoke to French President Francois Hollande, who, according to a Greek official, promised to raise the issue with Merkel when she visits him in Paris on Friday. German Economy Minister Sigmar Gabriel said what mattered was what economic reforms Greece was prepared to make, adding: *"The letter can only be the start of negotiations."* But Gabriel also said that *"I would advise that we don't rush to say yes or no, but that we engage in talks,"* noting that *"certainly not everything is possible, but I'm very happy that we've come this far."* Gabriel said that *"what the Greek government needs to know is that it's their right to change policies in Greece, but that it's not possible to distribute the resulting costs to others in Europe,"* adding that *"we can't explain to Slovak citizens why the minimum wage in Greece is twice as high and why Slovak taxpayers should make transfers to Greece."* In response to the objections from the German

Ebrahim Rahbari

ECB — First Set Of ECB Minutes 19 February 2015

Today the ECB released its first set of minutes (which the ECB calls 'accounts'), covering the 22 January meeting at which the ECB announced its €1.1trn QE programme. From now, such minutes are to be published four weeks after each monetary policy meeting. The minutes cover largely familiar ground, but we highlight a few interesting points.

Ebrahim Rahbari

UK — Labour Market Data 18 February 2015

Job growth remains strong, with the numbers of people in work up by 2.0% YY in Q4-14. The gain in employment in 2014 (608K) is the best for any year since 1988. The share of the adult population in work matches the record peak set in 2004-05. Job growth is increasingly oriented to full-time employees, rather than self-employment or part-time work. With the huge disparity between job growth and workforce growth, labour market slack continues to shrink rapidly. The number of job vacancies is at a new record high and the short-term jobless rate is the lowest since data began in 1992. We expect that continued strength in the demand for labour will pull the jobless rate a little below 5% by the end of this year and lower still next year. .

Michael Saunders

Euro Area — Greece – After The Feb 16 Eurogroup Meeting 17 February 2015

Following the lack of agreement at the Feb 20 Eurogroup meeting, we reiterate our view that a deal between the Greek government and its creditors remains the most likely outcome, but highlight a rising risk that the negotiations will fail (or drag on beyond the point at which deposit outflows or the Greek government's cash position become critical). In that case, capital controls, a Greek government collapse or a referendum would seem more likely next steps than Grexit. Two main hurdles to an agreement are the scope to lower

government official, Greek officials questioned whether Germany spoke for the other euro zone finance ministers, whose aides were already in Brussels to consider the options during a meeting on Thursday afternoon. A Greek official said that *"tomorrow's Eurogroup has only two options: either to accept or reject the Greek request...It will then be clear who wants to find a solution and who doesn't."*

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Bundesbank President: Greek collateral waiver can be reinstated if certain conditions are met. Bloomberg reports that Bundesbank President Jens Weidmann said at an event in Frankfurt that a letter from the Greek government asking for a program extension is not enough to assess whether conditions will be met sufficiently in order to reinstate a waiver for Greek government assets from the minimum collateral requirements needed for Eurosystem funding facilities. Weidmann said that the *"waiver is connected to specific conditions which are clearly defined and if these conditions are met again the waiver could be reinstated. This is logical"*. Weidmann also said that the ECB Governing Council did not discuss capital controls at its meeting on February 18.

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First Set Of ECB Minutes. Yesterday the ECB released its first set of minutes (which the ECB calls 'accounts'), covering the 22 January meeting at which the ECB announced its €1.1trn QE programme. From now, such minutes are to be published four weeks after each monetary policy meeting. The minutes cover largely familiar ground, including that a broad majority in the Governing Council (GC) agreed that there was a risk of inflation expectations in the euro area becoming disanchored, that a broad-based purchase programme was therefore merited, that the risk-sharing arrangements should reflect the special institutional circumstances in the euro area, while concerns about the QE programme centred on whether it was needed, likely to be effective or potentially harmful. However, the minutes also highlighted the importance of financial market prices in the ECB's decision, noting that *"market expectations of a broad-based purchase programme...had continued to intensify"*, while Chief Economist Praet's discussion of policy options noted that *"a large part of the very substantial financial price adjustment observed over recent weeks would most likely rapidly unwind if no monetary policy action was taken at the current meeting"*. Comment: in our view, building up market expectations of ECB action, with the attendant pressure brought by those expectations, may have part of ECB President Draghi's strategy to sway some GC members that may have been sceptical about QE. However, this does not mean that the ECB will always validate market expectations. For more discussion, see [ECB - First Set Of ECB Minutes](#).

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Latest issues of Sovereign Debt Update

Greece To Propose Bailout Extension Today

19 February 2015

ECB approves small increase in ELA for Greece, rejects request for more T-bill issuance, may favour capital controls. Greek govt to propose extension of bailout programme today. Greek parliament elects new President of Greece with large majority. ECB to release Minutes for first time today. Schäuble says Portugal proof of success of austerity programmes. Spain: exports jump in Dec, EconMin says target of 600K new jobs to be exceeded. French HICP at -0.4% YY in Jan, below consensus.

Ebrahim Rahbari | Ann O'Kelly

Greek Government To Request Bailout Extension Today?

18 February 2015

Greek fiscal surplus targets and insistence by the Eurogroup that Greece commits to successfully concluding the existing programme. Another Eurogroup meeting may be convened on Feb 20 to extend the current bailout. Should no agreement be reached this week, risks rise further, but we stress that a failure of negotiations or cut-off of ELA by the ECB would not automatically follow.

Ebrahim Rahbari

UK — CPI Inflation Falls to Record Low

17 February 2015

CPI inflation fell to just 0.3% YY in January, from 0.5% YY in Dec-14, in line with our forecast and 0.1 percentage points below consensus. This is the fifth time in the last seven months that CPI inflation has undershot the pre-release consensus. Looking ahead, CPI inflation is likely to fall a little further in coming months but, we currently expect the low in CPI inflation to be 0.1% YY (in April and June), whereas last month our profile showed a couple of negative prints. We regard the weakness in prices as benign disinflation that will help produce rapid growth in real household disposable incomes and real consumer spending.

Michael Saunders

Euro Economics Weekly — Is the Credit Cycle Turning?

13 February 2015

Credit flows turn positive in Q4-14 — Signs of further relaxation in lending standards underpinned by cheaper funding for banks and senior loan officers' declining perception of risk suggest an imminent end to the credit-less recovery. Periphery member states are de-leveraging at a slower pace and pick-up in financing needs hints that upside surprises in fixed investment growth are possible. Narrower lending margins and increased competition are good signs — ECB action to provide ample and very cheap liquidity will probably lead to a further relaxation in lending standards, while incentivising banks to refocus on their traditional intermediation role of extending credit to the private sector. A brighter picture? — Potential for the euro area outlook to

ECB to consider Emergency Liquidity Assistance for Greek banks today. Greek Govt to request 6-month bailout extension today? Tsipras says old austerity programme is "dead". Germany's Schäuble says Greece must decide whether it wants a programme or not. EU FinMins comment on the status of Greece's negotiations. Greece: Presidential election takes place in parliament today. BdF Governor Noyer says Dutch RMBS so far account for largest share of ABS purchases by ECB.

[Ebrahim Rahbari](#) | [Ann O'Kelly](#)

Eurogroup Puts Friday Deadline on Greece Request

17 February 2015

Eurogroup meeting on Greece ends without agreement or joint statement, new meeting possible on Friday Feb 20. Eurogroup's Dijsselbloem lists conditions for continuing talks. Greek FinMin Varoufakis says he had been prepared to agree to an extension, but under different conditions than those demanded. Two draft statements, according to FT, one from Eurogroup, one from EU Commission's Moscovici. Eurogroup supports Portugal request to repay IMF loans early. Italy mulls reforms to clear up NPLs.

[Ebrahim Rahbari](#) | [Ann O'Kelly](#)

Prospect of Greece Deal Uncertain at Today's Eurogroup

16 February 2015

Today's Eurogroup meeting focussed on Greece, prospects of deal uncertain. Greek PM Tsipras: Greece needs time for reforms, not money. ECB's Draghi: deflation risk low, but higher than a year ago. ECB's Praet: flexibility needed on ELA in systemic crisis. Germany: State election in Hamburg: SPD top, Merkel's CDU has worst result since WWII. German govt mulls part privatisation of roads infrastructure. Germany reported not paying directly into European Fund for Strategic Investment.

[Ebrahim Rahbari](#) | [Ann O'Kelly](#)

Greece: Negotiating Parties Adopt More Constructive Tone in Brussels

13 February 2015

EU Summit reaches no conclusions on Greece. Merkel open to compromise, Tsipras confident of mutually viable solution, while pressure mounts for a deal. EU's Moscovici and France's Sapin: Greek talks advancing well. Sources suggest ECB has increased ELA ceiling to €65bn. ECB's Constancio expects better GDP growth in ECB's March forecasts. ECB's Praet, Weidmann on QE. Flash 4Q GDP outcomes in Germany, France beat consensus.

[Guillaume Menuet](#) | [Ebrahim Rahbari](#)

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Macroeconomic Forecasts

UK — UK Monthly Inflation Profile, Updated 17 Feb 2015

17 February 2015

Our latest inflation profile for the UK after the release of data for January 2015.

[Michael Saunders](#)

European Economic Forecast Highlights, January 2015

23 January 2015

This companion to the January issue of *Global Economic Outlook and Strategy* gives more detailed annual forecasts for European countries to 2019, as well as quarterly economic forecasts to 4Q16 for the major countries.

brighten noticeably if the cost and availability of bank credit continue to improve. To be sure there are downside risks from external shocks and internal tail risks, but there may be upside possibilities from credit conditions.

[Guillaume Menuet](#) | [Ebrahim Rahbari](#) |
[Michael Saunders](#) | [Antonio Montilla](#) | [Ann O'Kelly](#)

UK Economics Weekly — Is the IR Hawkish or Dovish?

13 February 2015

On one side, the MPC's economic outlook — strong growth, tightening labour market, prospect of above-target inflation three years ahead — might seem to imply that policy needs to be tightened quite soon. On the other side, the MPC's acknowledgment that 0.5% is no longer the effective lower bound for Bank Rate might seem to open up the possibility of a rate cut. In our view, the MPC is firmly on hold nearterm, with an expectation to hike over time — but not imminently. Although slack is shrinking, the MPC probably has an asymmetric policy bias — in favour of a low for longer stance rather than pre-emptive tightening. We still pencil in the first rate hike for early 2016, with rates then over time rising further than markets expect in response to continued solid economic growth.

[Michael Saunders](#) | [Ann O'Kelly](#)

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Ann O'Kelly | Michael Saunders | Guillaume Menuet | Ebrahim Rahbari | Tina Mortensen

Europe: Monthly Inflation Profiles, Updated 22 January 2015

22 January 2015

Updated monthly inflation forecasts for Euro Area, Germany, France, Italy, Spain, UK, Sweden and Switzerland.

Ann O'Kelly | Michael Saunders | Guillaume Menuet | Ebrahim Rahbari | Tina Mortensen

Global Economic Forecasts — January 2015

23 January 2015

This file shows summary forecasts as published in Citi's Global Economic Outlook and Strategy.

Michael Saunders

Global Economic Outlook and Strategy – January 2015

21 January 2015

We are cutting our 2015 global growth forecast to 3.0% from 3.1% in our end-2014 outlook. We look for 3.6% US growth this year, and make modest upgrades to forecasts for the euro area and Japan, with downgrades to Switzerland and some major commodity producers. It is virtually certain that the ECB will launch QE on 22 January. We expect an initial program of around €600bn, focused on government bonds, with limited direct mutualisation of any losses. QE probably will be expanded over time. The BoJ also will probably increase QE further around midyear. Some smaller European countries are likely to test limits of the sub-zero bound on policy rates. We still pencil in the first Fed hike for late-2015, but are postponing our forecast for the first BoE hike to early 2016. The Greek election (25 January) and the UK election (7 May) highlight recurring themes of political risks.

Willem Buiter

Emerging Markets Macro and Strategy Outlook — Can EM Save Itself From Downgrades?

23 January 2015

Some big emerging economies - Russia, South Africa, Brazil, Turkey - could be facing the risk of sovereign downgrades over the next couple of years, thanks to lower commodity prices, slower growth in China, weaker world trade growth, an uncertain outlook for capital flows. But policymakers are fighting back: there has been a notable improvement in the quality of policymaking across EM in recent months. Brazil is the clearest example of this, but we also detect improved policy in South Africa, Turkey and Russia. One consequence of this environment is that there may still be value in local EM curves, especially if the commodity price outlook remains disinflationary. There is an attractive steepness in EM local curves relative to the US curve which suggests a still attractive return profile for the asset class. This is especially the case if recent weaker US data keeps the Fed on hold for longer.

Guillermo Mondino

Foreign Exchange Forecasts — Volatility Is Back – January 2015

16 January 2015

EUR/USD may consolidate if the ECB disappoints on 22 January but this will probably not last. We still look for parity and lower over the next couple of years. Volatility in FX is back with divergent cycles, the commodity price shock and idiosyncratic factors such as the surprising SNB actions key drivers. The multi-year USD rally should continue. We see 10-20% more USD upside vs. G10 currencies over the next two years, helped by growth and policy divergence. CHF was under upward pressure from flows into Switzerland from geopolitical

hotspots, Greece and general selling of EUR ahead of likely ECB QE. But the implied tightening of monetary conditions looks set to fling Switzerland further into weak growth/deflation and additional rate cuts are the likely minimum response. Controls on capital inflows may also be considered. Tentatively, we assume this stabilizes CHF over the medium term and we still expect USD/CHF upside.

Jeremy Hale

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Appendix A-1

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