

EC Unveils Package to Stimulate Lending

Summary | Today's News in Detail | Latest Issues of Sovereign Debt Update | Macroeconomic Forecasts | Recent Research

Summary

EU to loosen rules on securitization to boost lending – The European Commission adopted on Thursday a package of measures to stimulate new and different ways of unlocking long-term financing. Internal Market and Services Commissioner Michel Barnier said that *"too little money was invested in 'unlisted infrastructures'"*, adding that *"good securitization would help us re-launch financing, which many companies need"*.

Germany: deputy Chancellor Gabriel says countries must be ready to forgo business with Russia – until the conflicts are solved at the negotiating table.

France: PM Jean-Marc Ayrault fighting to keep his Premiership– A Harris Interactive poll showed that 78% of respondents want a new Prime Minister after the second round of the municipal elections on Sunday. Newspapers including *Les Echos* and *Le Monde* indicate that a government reshuffle is imminent.

France: Constitutional Court rejects 'Florange' law on plant closures – says that it would *"impose burdens on companies' decisions ... that amount to an unconstitutional infringement on property rights and freedom of enterprise"*, with penalties being *"out of proportion with the seriousness of the targeted behavior"*.

France: weak rebound in consumer spending in Feb – up by 0.1% MM (Mkt. 0.8%, Citi 1.3%) after a 2.1% drop in January distorted by the Jan-14 VAT hike.

Italy: business confidence posts fifth consecutive gain in March – rising to 89.5 from 88.2, on signs of a broadening recovery to the service sector. Industrial confidence momentum seems to be petering out.

Spain: HICP Inflation falls to -0.2% YY in March – from +0.1% YY in Feb and +0.3% YY over the previous three months.

Spain's retail sales declined by 0.1% MM in February, after a strong pick-up of 2.4% MM in Jan

Spain: 2013 fiscal deficit to be presented today – FinMin Cristobal Montoro will unveil the figures, which we expect to come in marginally above the target of 6.5% of GDP (excluding bank recap costs), at the regular Cabinet meeting.

Greece: troika to disburse €11.9bn if multi-bill is passed on Sunday – The Troika is trying to put political pressure on the Greek Parliament to approve the agreed reforms, amid ongoing discontent with some of the measures.

Greece: domestic private deposits dropped by €318mIn in Feb – Household deposit depletion continues amid a still largely negative savings rate.

Want more detail on our macroeconomic forecasts for European countries? See the March edition of *European Economic Forecast Highlights*, just out

28 March 2014

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With thanks to Antonio Montilla & Ann O'Kelly

Economics

Western Europe

Industrialised G7 Countries

Recent Research

Norway — Norges Bank Confirms Initial Tightening Around Mid-2015

27 March 2014

As expected, today's Norges Bank meeting turned out to be basically a non-event - the first of its type for quite a while; the sight deposit rate was kept stable at 1.50% and the conditional interest rate path was broadly confirmed (lifted marginally for 2015, while lowered slightly for 2016), hence continuing to signal initial tightening around summer 2015, with a total of one-two rate hikes pencilled in for the second half of 2015. The near-term bias remains neutral, confirming that a rate cut remains off the agenda.

Tina Mortensen

UK — Retail Sales Surge

27 March 2014

The ONS reports that retail sales volumes rose by 1.7% MM in February

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

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Today's News in Detail

EU to loosen rules on securitization to boost lending – The European Commission adopted on Thursday a package of measures to stimulate new and different ways of unlocking long-term financing and supporting Europe's return to sustainable economic growth. Michel Barnier, Internal Market and Services Commissioner said that *"too little money was invested in 'unlisted infrastructures'"*, adding that *"good securitization would help us re-launch financing, which many companies need"*. The package of measures includes a communication on the long-term financing of the economy, a legislative proposal for new rules for occupational pension funds and a communication on crowd-funding. The communication on long-term financing builds on the responses to the consultation and on the debate in international fora such as the G20 and the OECD. It identifies specific measures which the EU can take to promote long-term finance. Comment: these proposals are a step in the right direction, but the lion's share of corporate funding will likely continue to come from banks in the next few years. While the majority of financial institutions are beginning to relax their lending standards, firms' need to deleverage and the still high economic costs of borrowing do not point to much acceleration in loan flows very soon.

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Germany: deputy Chancellor says countries must be ready to forgo business with Russia – German deputy Chancellor and SPD party leader Gabriel told newspapers that western countries, including Germany, needed *"in case of doubt"* to forgo economic benefits in relations with Russia until the conflicts are solved at the negotiating table and the security of all European neighbouring countries is guaranteed.

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France: PM Jean-Marc Ayrault fighting to keep his Premiership– A Harris Interactive poll for TV channel LCP-Assemblée Nationale showed that 78% of respondents want a new Prime Minister after the second round of the municipal elections on Sunday. Socialist politicians at the top of their wish list are: Interior Minister Manuel Valls (19%), former Socialist Party President and former Labour Minister Martine Aubry (13%), Former PM and Foreign Minister Laurent Fabius (10%). However, 46% of respondents did not wish any of those to become the next Prime Minister! Various newspapers including *Les Echos* and *Le Monde* indicate that President Hollande has decided to announce a reshuffle of his government in the coming days. Comment: In our view, it would not be surprising if PM Jean-Marc Ayrault were to be replaced as PM, given his very low popularity rating. At the same time, we would expect President Hollande to continue to apply the same policies but to want to quicken the pace of reforms, which might require a smaller government to give the impression that the team of ministers is more tightly focused on implementing important changes geared toward improving the country's competitiveness. An alternative solution might be a small reshuffle, before a change of PM in the latter part of 2015 when the focus will be on preparing the 2017 elections.

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France: Constitutional Court rejects 'Florange' Law on plant closures – France's Constitutional Court wrote in a statement that the requirements of firms with more than 1,000 employers to prove that they had exhausted all options for selling a factory before closing it down would *"impose burdens on companies' decisions ... that amount to an unconstitutional infringement on property rights and freedom of enterprise"*. It concluded that the penalties contained in the Florange law of 20 times the minimum wage per worker if the sale of a factory was found to be unjustified were *"out of proportion with the seriousness of the*

(1.8% ex fuel), following the drop of 2.0% MM in Jan and 2.7% MM gain in Dec,. Behind the monthly volatility, the trend in retail sales volumes is booming. Overall retail sales volumes in the last three months are up 4.3% YY, with sales volumes by non-food retailers up by 6.1% YY. For both series, the latest growth rate is the highest since 2004 and a marked contrast to the sluggish trend of recent years.

Michael Saunders

UK — YouGov Report Further Drop in Inflation Expectations

27 March 2014

The median for inflation expectations in the year ahead edged down to 2.1% from 2.2% in Feb and 2.4% in Jan, and this is now the lowest since Dec-09. The median for inflation expectations in the longer term fell to 2.8% YY in March from 3.0% YY in Feb and 3.2% in Jan. This measure now matches the record low seen in Dec-08 and Jan-09 (when the economy was in recession and VAT was being cut). Both gauges of inflation expectations have now fallen for five months in a row.

Michael Saunders

The Exposure of Euro Area and EU Countries to Russia & Ukraine

25 March 2014

We summarise the measured direct exposures of EU and euro area (EA) countries to Russia and Ukraine. In our view, the potential exposure of the EA and EU economy to a crisis in Russia and Ukraine could be large. The exposure to a potential crisis through commodity links is the most important, with EU countries relying on Russia for roughly 20% of their total energy consumption, 25% of their gas consumption (with few available alternative supplies), and a sizable share of their oil and coal consumption.

Ebrahim Rahbari | Giada Giani | Guillaume Menuet | Antonio Montilla

Euro Economics Weekly — Euro Area: Upside Risks To Q2 GDP

21 March 2014

Business confidence upswing to continue — Historical patterns suggest that sentiment is likely to improve until

targeted behavior". Comment: this law, passed in parliament in October was one of the flagship policies to placate left-wing and Socialist party supporters, and has been controversial from the start. It would be surprising if the government tried to resuscitate it in the coming months, given the focus on business-friendly policies to improve competitiveness and introduce more flexibility in the labour market.

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France: weak rebound in consumer spending in Feb – French consumer spending rose by only 0.1% MM (Mkt. 0.8%, Citi 1.3%) after a 2.1% drop in January which was distorted by the 1 January 2014 VAT rate hike. Compared to the same month last year, spending fell 0.3% YY in Feb after a 0.5% YY drop in January. Durable goods spending rose by 2.1% MM owing to better car sales, but purchases of household goods fell for the second successive month (-0.8% after -1.9% in January). Comment: To date, spending is declining at a rate of 1.5% QQ vs. the fourth quarter, suggesting at best a very small contribution from household expenditure to GDP. The better-than-expected gain in household sentiment in March suggests that, together with low headline inflation, a better performance is likely in the second quarter.

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Italy: business confidence posts fifth consecutive gain in March – rising to 89.5 from 88.2, on improving sentiment in the services sector (92.4 from 90.2). Industrial confidence posted only a small increase (99.2 from 99.1), while construction and retail confidence declined. The assessment of industrial orders improved, but this was offset by the fact that firms were slightly less constructive about their stocks of finished products despite being still comfortably below the long-term average. Comment: the recovery is broadening out to more sectors than just industry, but the cyclical upswing in industrial confidence seems to be petering out.

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Spain: HICP Inflation falls to -0.2% YY in March – the flash estimate of Spanish HICP came at -0.2% YY in March (lowest since Oct 2009), below our forecast (0.0%) and market expectations (+0.1%), and falling from +0.1% YY in Feb and +0.3% YY over the previous three months, INE data released this morning showed. CPI inflation declined from 0.0% in Feb to -0.2% YY in Mar. INE stated that the decline was due to lower food prices in March compared to Mar-13, as well as some temporary effects due to the later timing of Easter in 2014 relative to last year. Comment: domestically generated price pressures continue to subside in Spain. The split is not available at this stage but we expect that some marginal increase in fuel prices may have been offset by further easing in core prices (excl. fresh food and tobacco) and, more fundamentally, due to the past appreciation of the euro and still ample spare capacity. We expect HICP inflation to average 0.0% YY over 2014 (vs. 1.5% in 2013, when it was boosted by the 3pp VAT rate hike in Sept-12).

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Spain: Retail sales fall back in February, declining by 0.1% MM – below our expectations (+0.5% MM), and after a strong pick-up of 2.3% MM in January. On a yearly basis, retail sales (WDA) fell by 0.5% YY, after a rise of 0.5% YY in Jan. Comment: the marginal decline in retail sales in Feb likely reflects a pay back after a strong pick-up in the previous month. According to the press release the fall in Feb was mainly accounted for by food (-1.3% MM), and household equipment (-1.6%). We continue to expect private consumption to post positive QQ growth in 1Q and over 2014, on the back of reduced fiscal tightening, marginal improvements in employment, and some boost to real disposable income stemming from falling inflation.

summer, but that the room for upside is limited in Spain. Italy & Germany are in a comfortable position while France underperforms.

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

UK Economics Weekly — Raising UK Growth Forecasts Again

21 March 2014

We are again lifting our above-consensus growth forecasts, and now look for real GDP growth of 3.5% this year and 3.6% in 2015 (from 3.3% and 3.2% respectively). We expect the upcoming data will show CPI inflation down to 1.6% YoY in February (lowest since 2009) from 1.9%. Even so, with rising capacity use, we still expect the MPC will start to hike in Q4 this year. And, with our higher growth outlook, we now expect the initial hiking cycle will carry rates up to about 2.5% by end-2015.

Michael Saunders | Ann O'Kelly

Scandi Economics Update — Non-Event Norges Bank Meeting

28 March 2014

Norway — Non-event Norges Bank meeting — Energy Minister sees Russia as "stable" gas supplier — Registered jobless rate stable at 2.9% in Feb.

Sweden — Poll confirms opposition lead — S&P affirms Swedish Triple-A rating — Retail sales to continue mild upward trend (out at 8.30 UK time)

— Stable household lending growth at 5.1% YY in February.

Denmark — EconMin: No tax cuts in 2014 growth package.

Tina Mortensen

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Spain: 2013 fiscal deficit to be presented today – Daily *El Pais* reports that FinMin Cristobal Montoro is expected to present the general government fiscal deficit figures for 2013 at the regular Cabinet meeting today. Mr. Montoro noted on Thursday that the budget deficit figure for 2013 was overall “positive”. Earlier this week the Bank of Spain estimated that the fiscal deficit was 6.6% of GDP in 2013 (vs. target of 6.5% excluding bank recap), while the EU Commission has previously estimated the figure at 6.7%. The Ministry of Finance is due to publish the full details of the 2013 budget execution next Monday. Separately, the Cabinet is also expected to approve today a royal decree for the new system of electricity price setting in order for it to enter into force from April, daily *Expansion* reported. Comment: we expect the general government fiscal deficit in 2013 to come marginally above the target of 6.5% of GDP (excluding bank recap costs).

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Greece: Troika to disburse €11.9bn if multi-bill is passed – *Ekathimerini* reports government sources saying that eurozone lenders are ready to approve a tranche of €8.3bn (and the IMF a tranche of €3.6bn) if the government manages to get the multi-bill encompassing the structural measures agreed with the Troika through parliament in a crucial vote to be held on Sunday. The newspaper quotes a senior European official saying on Thursday that an informal Eurogroup meeting will take place on Tuesday April 1 in Athens to officially approve the program and the disbursement of the bulk of the bailout tranche. “*All that is left now is for the Greek Parliament to vote for the draft law so that we can formally approve the disbursement*” he stated. The newspaper also reports that after talks with government coalition MPs on Thursday, the government convinced them to vote in favour of the bill. The major point of dissent was on the new rules for length of shelf-life for milk and pharmacy licences. Comment: given the fragile government coalition and dissent against proposed structural reforms among some ruling MP (negotiations with the Troika on this review have been going on since last September), the Troika is probably trying to exert political pressure by saying that once the bill is passed a considerable amount of money will be immediately disbursed. Aside from political brinksmanship, we would expect the multi-bill to be passed as the costs of voting against it are too high.

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Greece: domestic private deposits dropped by €318mn in Feb – Both non-financial corporations (NFC) and households reported a decline (by €403mn and €79mn, respectively). NFC deposits have been broadly stable over the past 12 months (+€58mn cumulated flows, or +0.3%), while household deposits have dropped by €3.6bn (or -2.6% relative to February 2013). Comment: the still poor liquidity situation in the country and a negative household savings rate are causing bank deposits to be depleted, which in turn is weakening the position of domestic banks.

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Latest Issues of Sovereign Debt Update

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 government mulls tax cuts for lower-income households. French unemployment surges but consumer confidence rises. Italy: government wins Senate confidence vote on provinces, consumer confidence rises. Economic forecasts from Bank of Spain and Bank of Portugal. Greek government seeks agreement on reform bill. Citi's latest Global Economic Outlook.

“QE Is Not Out Of Question”, says Weidmann

27 March 2014

ECB: Weidmann on QE, negative deposit rate and deflation risk, Draghi on the exchange rate, Makuch and Viso on deflation risks, Liikanen on extra stimulus. G7 to meet in Brussels in June. EU exposure to Russia and Ukraine. Germany's ifo survey posts decline. Bol's Visco on Italy's debt burden. Italian exports to non-EU remain weak. Spain's Constitutional Court rejects Catalonia's sovereign declaration. Portugal's government budget improves in Feb. Slovenia's better March confidence reading.

Giada Giani | Guillaume Menuet | Ebrahim Rahbari

Germany's Q1 GDP Growth To Be Strong, Says Bundesbank

25 March 2014

Bundesbank says mild weather boosted Q1 GDP. ECB's Liikanen ready to take decisive action. Germany's SPD-led states oppose renewable energy levies on firms. German govt reduces planned 2014 issuance. France to continue structural reform despite election reversal. Spain: Troika returns to Madrid. Spain's car production rises in Feb. Greek central govt primary surplus rises, govt to distribute social dividend. Portugal: govt preparing fiscal consolidation plans for 2015.

Giada Giani | Guillaume Menuet | Ebrahim Rahbari

ECB Not Thinking About Changing Its Forward Guidance

24 March 2014

ECB: Constancio stands by current forward guidance, Knot says other tools available before asset purchases, Liikanen worries about impact of Ukraine on Finland. Flash March PMIs. Germany's SPD wants minimum EU-wide corporate tax. German banks' contribution to SRM. French municipal elections. French govt mulls cut in local authority spending. Italy's privatisation plans. Spain's govt rules out VAT hike, opposition PSOE ahead of PP in poll. Austria: nationalised lender needs more capital.

Guillaume Menuet | Giada Giani | Ebrahim Rahbari

EU Reaches Agreement on Single Resolution Mechanism

21 March 2014

SRM to apply to all SSM banks, resolution funds to be pooled over 8 years. EU Council to widen Russia sanctions list. ECB's Lautenschlaeger on rates. German Council of Economic Advisers raises growth forecast. Moscovici on French GDP growth. Italy: rise in 2014 deficit target may not be needed. EC may revise down Spain's structural deficit. Dutch and Belgian consumer confidence. S&P affirms Greece's rating. Greece: Threat to reform bill agreed with Troika. Slovenia's c. govt deficit in Feb.

Giada Giani | Guillaume Menuet | 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.

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 Buiter | 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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