

ECB's Lautenschläger Calls for Progress on Bank Resolution

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

Summary

ECB's Lautenschläger on the need for progress on bank resolution mechanism – which needs to be established over the next couple of years “because one cannot do European supervision and promote resolution on national levels”, adding that “we will let banks fail, if they do not pass the assessment”.

France's Responsibility Pact unlikely to translate into hiring targets – A meeting last Friday did not produce anything concrete but the ‘reformist’ trade unions (CFD, CFTC and CGC) indicated that some progress had been made, with hiring goals likely to be set in each professional sector/industry, rather than at national level.

EP President Schulz nominated as centre-left's top candidate for EP elections. After his nomination, the groupings of the centre-right and liberal parties called on Schulz to suspend his Presidency until the EP elections in May.

German and Finnish Finance Ministries criticise European Commission over EDP. The two ministries criticise the EC's revised excessive deficit procedure (EDP) as reducing political responsibility for deficits, and lacking both transparency and an empirical basis.

Moody's raises outlook for Germany to Stable, citing reduced contingent liabilities for the German government from the euro area crisis.

Moody's raises outlook for Austria to Stable, as it sees reduced banking sector vulnerabilities and considers it unlikely that the restructuring of a nationalised lender will “materially undermine” the sovereign's creditworthiness.

Germany files suit against European Commission over energy price subsidy investigation.

German Chancellor wants to cut bureaucracy in EU.

Italy – Unemployment rate reached new record-high of 12.9% in Jan, against consensus and Citi expectations looking for a stabilisation at 12.7%.

Spain – Current Account at €7.1bn (0.7% of GDP) in 2013, increasing from a deficit of €11.5bn (1.1% of GDP) in 2012, highest level since 1985, Bank of Spain data showed.

Portugal – Troika revises GDP forecast up, unemployment and deficit down.

Greece's structural unemployment rate is 17%, estimates Greek Labour Institute INE/GSEE.

Slovenia – 4Q GDP growth surprises on the upside, driven by inventories and net taxes – confidence indicator suggesting continuing recovery, though at lower

3 March 2014

Guillaume Menuet
+44-20-7986-1314

Giada Giani
+44-20-7986-3281

Ebrahim Rahbari
+44-20-7986-6522

With Thanks to Antonio Montilla

Economics

Western Europe

Industrialised G7 Countries

Recent Research

Euro Economics Weekly — ECB to Cut: Beware the (Early) Ides of March

28 February 2014

A 15bp refi rate cut to 10bp is our base case – we argue that the evidence of persistently weak inflation and the associated risks in terms of economic activity as well as debt sustainability will likely prompt the ECB to lower its policy rate in March.

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

UK Economics Weekly — Budget Preview — Building Towards the Election

28 February 2014

The 19 March Budget is likely to show this year's fiscal deficit about £3bn below the end-2013 Autumn Statement forecast and about £12bn below the spring 2013 Budget forecast. The Budget is likely to be roughly neutral in fiscal terms, leaving the multi-year

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pace.

Today's News in Detail

ECB's Lautenschläger on the need for progress on resolution mechanism – ECB Executive Board Member Sabine Lautenschläger stressed during a panel discussion at a Bundesbank conference on Friday that a bank resolution mechanism needed to be established over the next couple of years *"because one cannot do European supervision and promote resolution on national levels"*. Mrs. Lautenschläger, vice-chair of the Single Supervisory Mechanism, argued that *"we will let banks fail, if they do not pass the assessment"*, adding that *"we have the chance to clean this up, and we will use this chance"*. Bundesbank Board member Andreas Dombret also urged euro area countries to agree on a mechanism soon, warning that the supervisory body would lose credibility without a resolution system. German Finance Minister Wolfgang Schäuble noted that he did not expect euro zone finance ministers to agree a compromise on bank resolution when they meet on 11 March. Comment: A new round of talks will likely be necessary between the European Parliament and the EU (represented by Greece which holds the rotating EU presidency) before an agreement can be found with respect to the complex issues about the decision-making process, the level of political intrusion and discrimination based on the level of contribution, as well as the split into two treaties for the resolution mechanism and the fund.

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France's 'Responsibility Pact' unlikely to translate into specific hiring targets – The French government is targeting early April for labour unions and employers to agree on the terms of the Responsibility Pact (RP) which aims to improve the corporate sector's profit margins. A meeting between the interested parties last Friday did not produce anything concrete but the 'reformist' trade unions (CFD, CFTC and CGC) indicated that some progress had been made, with hiring goals likely to be set in each professional sector/industry rather than at the national level, but most likely to be defined in qualitative rather than numerical terms. Various press articles suggested that discussions are expected to conclude shortly after the municipal elections at the end of March, with a draft law to be sent to parliament around September, making the reduction in labour charges effective for 2015. Business daily *Les Echos* reported that PM Jean-Marc Ayrault indicated on Sunday in an interview in *Le Parisien* that the government is keen to keep the €20bn CICE system of corporate tax credits, but that it would likely review the various systems of labour charge exonerations and merge them with the €10bn from the RP. Comment: French businesses will likely need more clarity about their obligations under the RP, as well as guarantees about some stability in fiscal pressure, before hiring more workers. But a necessary condition for this more positive hiring scenario to materialise will be faster GDP growth and further improvement in order books.

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EP President Schulz nominated as centre-left's top candidate EP elections. Current European Parliament (EP) President Martin Schulz was nominated as the lead candidate of the EP's centre-left grouping SPE last weekend in Rome, *Handelsblatt* reports. In his acceptance speech, Schulz said that Europe couldn't accept that politics should be dictated by financial markets and that it was not acceptable to rely on the 'invisible hand' to ensure that the financial sector was kept in check. After his nomination, the groupings of the centre-right and liberal parties called on Schulz to suspend his Presidency of the European Parliament until the elections on 22-25 May.

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German and Finnish Finance Ministries criticise European Commission over EDP. Bloomberg reports that the German and Finnish Finance Ministries

consolidation intact. With a series of key elections and the Scottish referendum approaching, the focus is likely to be on measures to support real incomes, with help for SMEs. The Chancellor is unlikely to rein in the "Help to Buy" scheme.

Michael Saunders | Ann O'Kelly

Euro Area — A Higher-Than-Expected HICP Inflation Print

28 February 2014

The euro area HICP flash estimate showed inflation remained unchanged in February at 0.8% YY against consensus expectations for a decline to 0.7% (Citi: 0.6%).

Giada Giani

Denmark — Back to Negative Growth in 4Q 2013

28 February 2014

After having been stagnant for the past three years, the Danish economy finally showed decent growth in 2Q-3Q 2013. This came to an abrupt halt in 4Q, where GDP growth once again contracted (by 0.5% QQ). The drop mainly reflected a weak underlying trend for most demand components. Meanwhile, the history of the series was revised up, leaving full-year 2013 GDP growth at 0.4% YY, spot on our forecast, and up from a 0.4% YY contraction in 2012.

Tina Mortensen

Sweden — Strong GDP Recovery, But Temporary Factors At Play

28 February 2014

GDP growth was up by a whopping 1.7% QQ (3.1% YY) in 4Q13, explained to a large extent by inventories and a lesser extent by public consumption; inventories lifted YY GDP growth by a stronger-than-expected 1.5pp, and central government consumption increased by a 4.7% YY due to temporary defense expenses. We see a clear setback risk for both indicators in the coming quarter(s).

Tina Mortensen

Euro Area — Bank Credit Data Understate Credit Flows to Non-Financial Firms

recently criticised the European Commission (EC) for being too lenient in applying the Excessive Deficit Procedure (EDP). Their joint paper criticised the EC's new approach to excessive deficits which focuses on structural deficits (instead of headline deficits), saying that this approach reduces political responsibility for deficits, is not transparent and lacks an empirical basis. EU Commissioner Rehn responded that the EC was applying a sophisticated approach to ensure that governments were only on the hook for their own actions (as opposed to unfortunate circumstances).

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Moody's raises outlook for Germany to Stable. Rating agency Moody's raised the outlook for the German sovereign to Stable from Negative while retaining its top Aaa rating. The rating agency argued that financial risks and contingent liabilities for the German government from the Eurozone crisis had fallen, and contagion risk had reduced. Comment: the revision of the outlook was widely expected.

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Moody's raises outlook for Austria to Stable. Rating agency Moody's raised its outlook for the Austrian sovereign to Stable from Negative while retaining its top Aaa rating on Friday, as in the case of the German sovereign. The rating agency argued that despite the possibility that the government may need to add up to €18bn of debt onto its balance sheet from the restructuring of a nationalised lender, contingent liabilities for the banking sector had fallen. Regarding the nationalised lender, the rating agency argued that the restructuring would not raise the refinancing needs of the sovereign and that the cost to the government would likely be much smaller than the addition to government debt, and that the strength of the Austrian government would therefore “*not be materially undermined*” by the resolution of the lender. Comment: the decision was somewhat surprising. While we did not expect Moody's to downgrade the Austrian government, we thought that downgrade risks were material and that the rating agency was therefore not likely to lift the Negative outlook.

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Germany sues European Commission over energy price subsidy investigation. The German government is suing the EU Commission (EC) at the European Court of Justice over an EC investigation of Germany's reduced environmental levies for energy-intensive industries, Bloomberg reports. According to a spokesman for the German Energy Ministry, the action kept “*all negotiating options open*” and does not suspend the EC investigation, but that the German government was still convinced that exemptions were consistent with EU law and State-Aid rules.

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German Chancellor wants to cut bureaucracy in the EU. Bloomberg reports that German Chancellor Merkel said that “*whatever can be decided locally, should be decided locally*”, in a podcast posted on her official website today. Merkel added that EU laws and directives could be made less bureaucratic and that many in the UK in particular believed that the EU was not efficient enough and meddled too much.

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Italy – Unemployment rate reached a new record-high at 12.9% in Jan, against consensus and Citi expectations looking for a stabilisation at 12.7%. Comment: the Italian jobless rate is well above the previous peak in the mid-Nineties (11.4% in 1998) and at the highest level since records began (the OECD series starts in 1960). The unexpected rise in the unemployment rate came as a result of an increase in the labour force (+0.2% MM), while employment remained flat in Jan, albeit still down by 0.4% YY. The unemployment rate in Italy

27 February 2014

Bank loans account for 46% of the debt of non-financial corporates in the euro area and 16% of total firm liabilities. As non-bank sources of firm funding are becoming more important, total NFC debt flows are falling less than bank loan data suggest. Total non-financial corporate (NFC) debt flows in the euro area were roughly flat in Q3 2013 vs -3-4%YY for bank lending to NFCs in recent months.

[Ebrahim Rahbari](#) | [Antonio Montilla](#)

UK — UK ECI Highest Since Late 1980s

27 February 2014

The UK Economic Conditions Index (also called an Economic Sentiment Index) rose to 116.9 in February from 115.9 in January, and is the highest since the late 1980s. There is no sign that the recent heavy rainfall is seriously denting UK economic growth. Indeed, all the signs are that the UK economy is booming. The rise in consumer confidence is becoming more broad-based, but disparities between the top quartile and other groups remain high.

[Michael Saunders](#)

UK — YouGov Reports Lower Inflation Expectations

27 February 2014

We report here the results of the February YouGov survey of inflation expectations among the general public. The median for inflation expectations in the year ahead fell to 2.2% in February from 2.4% in January. The median for inflation expectations in the longer term (next 5-10 years) fell to 3.0% YoY in February from 3.2% YoY in January. On both measures, the February reading is the fourth consecutive decline and the lowest since early 2010.

[Michael Saunders](#)

UK — Strong Investment Recovery Boosting Growth

26 February 2014

The QQ gain in Q4 GDP was not revised from the provisional figure of 0.7% QQ, although the YoY rate was revised down fractionally to 2.7% from 2.8%. Ex oil and gas, real GDP rose 0.8% QQ, the same as Q3. But the

tends to underestimate the slack in the labour market as the still-high number of temporarily laid-off workers (under the so-called Cassa Integrazione e Guadagni, CIG) implies a large body of inactive workers are still accounted for in the employment ranks.

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Spain – Current Account at €7.1bn (0.7% of GDP) in 2013, increasing from a deficit of €11.5bn (1.1% of GDP) in 2012, Bank of Spain data showed. This is the highest current account (CA) surplus for Spain since 1985. The rise in the CA balance reflects primarily a 54.3% decline in the deficit on trade in goods to €11.6bn in 2013, with exports rising by 5.1% and imports falling by 0.9%. The services surplus rose by 9.2% to €40.3bn, mainly driven by tourism. Comment: the figure is in line with our forecasts and confirms that improvements are mainly due to strong exports (on the back of competitiveness gains) as well as lower imports (due to falling domestic demand). We expect the current account balance to improve further over 2014 and 2015 (to 0.7% of GDP).

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Portugal – Troika revises GDP up, unemployment and deficit lower. The EU/IMF/ECB troika representing Portugal's international lenders concluded the 11th Review of the Portuguese programme and revised expected 2014 GDP growth up by 0.4pp to +1.2%, while projecting unemployment to decline to 15.7% — a downward revision of 1.1pp. The 2013 fiscal deficit is estimates at 4.5% of GDP (net of 0.4pp costs for bank recap) well below the original target of 5.5%, thanks to better tax revenues (also thanks to the one-off tax amnesty). The statement finds the risks on the fiscal outturn for 2014 (deficit of 4% of GDP) more balanced than previously and says that public debt is sustainable as long as structural reforms continue. The completion of the review will allow the disbursement of a €2.5bn tranche. The last programme review is due to take place in April. Comment: the better-than-expected economic and fiscal data are likely to allow Portugal to exit the bailout programme without any need for additional official help.

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Greece's structural unemployment rate is 17%, estimates Greek Labour Institute INE/GSEE. *Ekathimerini* reports a study from the Greek institute saying that the unemployment rate (currently 28%) is unlikely to fall below 17% even by 2026 – even assuming GDP Growth of 3.5%/4.0% yearly – as they estimated the structural unemployment rate to be 17%. INE/GSEE estimates that in order for the economy to recreate the jobs lost since 2009, it will need at least 20 years with an annual job creation rate of 50,000.

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Slovenia – 4Q GDP growth surprised, driven by inventories and net taxes.

Jaromir Sindel +42 0 233 061 485

In data released on Friday, GDP surged by 1.2% QQ swda in 4Q13, resulting in 1.9% YY growth after -0.8% a quarter ago. Hence, GDP in 2013 fell by 1.1% YY after -2.4% in 2012, which is better than we expected for 2013 (-1.8%). Three things are behind the large positive surprise: i) upward revision in 1Q-3Q to +0.7% cumulatively from -0.4% initially; ii) a large inventory contribution of 1.3%pts to 1.2% QQ GDP growth in 4Q13; iii) a large contribution from net taxes, which contributed 0.7%pts to GDP growth in 4Q13. Excluding this, household consumption and fixed investment supported GDP in 4Q13. Fixed investment was supported by the building sector, which is in line with construction output data. Also industrial production fits the value added growth in industry. By contrast, valued added in the financial sector fell by 12% YY in 4Q13. Although adverse weather in 1Q14, destocking of inventories and a high contribution of taxes in 4Q13 should limit optimism, forecast implications are on the upside, with the confidence indicator suggesting continuing recovery, though at lower pace.

strong recovery in investment (up 8.7% YoY) reinforces the likelihood that the economy is set for strong GDP growth and strong job growth in 2014-15. Our base case is for 3.3% growth in 2014 (well above consensus), and risks probably lie to the upside.

Michael Saunders

UK — No Sign of Adverse Weather Effects in BBA and CBI Data

25 February 2014

Today's data from the BBA and CBI give no sign that the unusually heavy rainfall of recent weeks has had a significant adverse effect on the UK economy. Retailing and home purchases probably are not as acutely sensitive to weather effects as housebuilding and agriculture. However, if the recent adverse weather was having a major impact on the economy, rather than just localized impacts, then it probably would be evident in the areas covered by today's data. .

Michael Saunders

Sweden — Minutes: Dovish Riksbank Board, with Extensive Inflation Focus

26 February 2014

The minutes from the 13 Feb monetary policy meeting confirm that low inflation is becoming a genuine concern for the Riksbank (RB) board, supporting our view that the discussion among board members this year likely will be about whether to ease further rather than about the timing of initial tightening.

Tina Mortensen

Scandi Economics Update — PMIs on the Agenda

3 March 2014

Sweden — Strong GDP recovery, but temporary factors at play — Poll confirms opposition lead — Data preview.

Norway — Oil at USD 100 loss warning rejected by Norges Bank — Monthly consumer data stay soft — Data preview.

Denmark — Back to negative growth in 4Q.

Tina Mortensen

The January-February confidence indicator suggests GDP growth of around 0.1% YY in 1Q14, which is possible if we see a destocking of inventories in 1Q14. If the export-driven recovery continues and the banking sector avoids a new increase in non-performing loans, YY GDP growth around zero in 2014 seems more likely than forecasts of a 1% contraction (Citi -0.9%). For more detail, see also [***Slovenia Macro Flash - 4Q GDP surprised, but driven by inventories and net taxes.***](#)

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Latest Issues of Sovereign Debt Update

Inflation Keeps Subsiding in February

28 February 2014

German and Spanish inflation both lower than expected. ECB's Draghi on "small safety margin", Jazbec on additional tools. Unemployment falls in Germany, consumer spending falls in France, but economic confidence jumps in Italy. In Spain, pace of house price contraction eases. S&P raises Belgium outlook to Stable, affirms AA rating. Greece: Bank deposits by non-financial private sector fall back in Jan. Ireland: employment rises in 4Q. European Economic Forecast Highlights for February.

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

Mersch Says ECB is Reviewing All Policy Options

27 February 2014

Mersch says ECB "reflecting 360 degrees on everything". Germany's Constitutional Court strikes out 3% threshold for EP election. Buch nominated Buba deputy head. French jobless total continues to climb, consumer confidence falls. Italy's anti-establishment M5S splits. Spain's 4Q GDP revised down. Greek govt mulling 5-yr bond, reaches agreement with Troika on bank recap needs. Portugal's govt would prefer precautionary line. February's Global Economic Outlook and Strategy is out.

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

EC Forecasts Revise Growth Up and Inflation Down

26 February 2014

EC's Winter Economic Forecasts. ECB's Nowotny on low inflation, negative depo rate. Germany's SPD to mark out own EA policy. Merkel to call for stronger EU in London speech. German CDU MPs against softer goals for Greece. France missing deficit targets says EC. France's Montebourg wants ECB to tackle low inflation. Renzi confirmed as Italy's PM. Spain's Rajoy raises 2014 GDP forecast, says tax cuts in 2015. Greek firms social security contributions to fall. EC sees better growth in Slovenia.

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

ECB's Visco and Coeuré on Possible Policy Action(s)

25 February 2014

ECB's Praet warns on overburdened ECB. Germany: 4Q GDP confirmed at 0.4% QQ, small 2013 budget surplus. German govt favours giving Greece more discretion in third bailout. France: labour costs reduction could create 300K jobs. Italy's Renzi pledges pro-business agenda, wins confidence vote in Senate. Spain's Rajoy expected to present fiscal reform plans today. Dutch house prices fall. Greece: troika talks resume. Portugal: precautionary credit line may not be needed says ESM's Regling.

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ECB Waiting for More Information in March

24 February 2014

ECB stands ready to act, says Draghi. ECB's Praet on low inflation over the medium term. Buba's Weidmann on sterilisation and negative deposit rate. Claudia Buch to succeed Lautenschläger as Buba deputy head. Italy: Renzi's new government faces Senate confidence vote this afternoon. Italy's PDs lose support, M5S gain - latest polls. Moody's upgrades Spain to Baa2 with positive outlook. Spain's trade deficit shrinks, tourist arrivals rise. Greek government considers reducing number of MPs.

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Macroeconomic Forecasts

European Economic Forecast Highlights — February 2014

27 February 2014

This companion to Global Economic Outlook and Strategy - February 2014 gives detailed quarterly forecasts for the main European countries to end 2015 as well as annual forecasts for all countries 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 — February 2014

26 February 2014

We now expect global growth to accelerate from 2.5% in 2013 (at current exchange rates) to about 3.1% in 2014, with a 0.2% downgrade for this year's forecast from last month. We are again trimming emerging market (EM) growth forecasts. We are also cutting about ½% off our 2014 growth forecasts for the US and Japan this month. Various EM central banks are likely to tighten policy this year, whereas the ECB and BoJ are both likely to loosen further. The Fed remains likely to start hiking in 2015.

[Willem Buiter](#) |

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Appendix A-1

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