

## Bundesbank Ready to Support ECB Action

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

### Summary

**Bundesbank ready to support ECB action "if this is really needed"** – a Reuters story went on to suggest that policymakers are looking at all relevant data, and that inflation forecasts for 2016 are important, but not the only decisive figure.

**OECD calls on Germany to lower taxes and social security contributions** for low income earners, in its bi-annual survey on Germany. IMF head Lagarde suggested making the exchange rate a more prominent part of economic policy.

**Claudia Buch has replaced Sabine Lautenschläger as Bundesbank board member**, with responsibilities for financial stability, risk and audit.

**France – euro strength no excuse for not reforming France**, says the head of the Medef national employers' association, noting that *"in the country's current situation where we need to boost exports and support our exporting industries ... the right level of the euro would be between \$1.15-1.25"*.

**German ZEW was weak in May, falling to 33.1 (from 43.2)** for the survey expectations measure, and leaving it barely above its long-term average.

**Spain – House sales slumped in Q1-14**, falling by 14.4% YY, after a drop of 10.0% in Q4-13 and 2.2% in 2013, INE data showed.

**Spain – Final Apr HICP confirmed at +0.3% YY**, bouncing back from a 0.2%YY decline in Mar, INE reported this morning.

**France – HICP inflation rises to 0.8% YY in April**, slightly below market expectations (0.9%), and from 0.7% in Mar. CPI inflation rose to 0.7% YY, from 0.6% YY in March, core CPI inflation at 0.5% from 0.4% YY in March.

**Italy – April HICP inflation revised lower to 0.5% YY in final reading**, vs. 0.6% YY in the preliminary estimate. Inflation likely to drop back to 0.4% in May.

**Portugal – HICP inflation moves back to -0.1% YY in April**, from -0.4% YY in March, in line with expectations, on adverse base effects in fuel prices.

**Greece – government to ask for austerity relief beyond 2016**, *Ekathimerini* reports, reportedly arguing that there is no need to achieve a primary surplus of 4.5% of GDP permanently between 2016 and 2020.

**Greece – budget deficit continued to improve in April on further declines in primary spending**. Tax revenues missing targets yet again, confirming the still weak status of the economy.

14 May 2014

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With thanks to Antonio Montilla and Ann O'Kelly

Economics

Western Europe

Industrialised G7 Countries

### Recent Research

#### Sweden — Inflation Bounce in April, but CPIF below Riksbank Forecast

13 May 2014

The inflation bounce in April was slightly stronger than expected (CPI: 0.0% YY, CPIF: 0.5% YY), but core inflation once again surprised to the low side versus the Riksbank's forecast, although the undershoot narrowed to "just" 0.1pp. Despite the uptick in inflation in April, we still reckon that a rate cut in July is the most likely outcome.

Tina Mortensen

#### Euro Economics Weekly — How Might QE Affect Financial Conditions?

9 May 2014

We try to assess the channels via which QE (our base case by end-2014) may affect financial conditions and the euro area economy. At present, the Citi Financial Condition Index (FCI) still

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## Today's News in Detail

**Bundesbank ready to support ECB action if needed**, Reuters ran a story on Tuesday quoting two sources confirming that *"we have always said that we are willing to act if this is really needed"*. The article went on to suggest that policymakers are looking at all relevant data, and inflation forecasts for 2016 are important but not the only decisive figure. Separately, the *Wall Street Journal* reported that the Bundesbank was willing to back an array of stimulus measures from the ECB next month, including a negative rate on bank deposits and purchases of packaged bank loans if needed to keep inflation from staying too low. Comment: we believe pieces are gradually falling into place for the ECB Governing Council to lower its key policy rates at the June meeting, when the new staff macroeconomic projections are likely to show further downward revisions in the inflation mid-points, probably by 0.2ppt to 0.8% for 2014 and by 0.1ppt to 1.1% for 2015 and by 0.1ppt to 1.4% for 2016.

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**OECD calls on Germany to carry out more structural reforms, while IMF calls for more attention to exchange rates**. In its survey on Germany, the OECD said that the risk of poverty and levels of income inequality had remained roughly equal in Germany in the past two years. The report criticised that while Germany had one of the lowest unemployment rates among industrial countries, it was on the basis of a growing low-wage sector. The report also criticised the German education system, as a country where the success of young people was most dependent on the wealth of their parents. The OECD called on Germany to lower taxes and social security contributions, particularly on low-income citizens, while the introduction of a national minimum wage was welcomed. In a joint press conference, German Economy Minister Gabriel said that many of the issues noted by the OECD were reflected in the policy plans of the Grand Coalition, but that the OECD report also showed that Germany cannot afford to stand still. IMF head Lagarde, who also joined the press conference, noted that interest rates in advanced economies could not stay low for too long but that the exit from extraordinarily loose policies needed to be communicated clearly and well in advance. *Frankfurter Allgemeine Zeitung* reports that Lagarde also said that exchange rate policies should have a more prominent role in economic policy, as that would allow strengthening parts of the economy as desired.

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**Claudia Buch succeeds Sabine Lautenschläger at the Bundesbank**.

*Handelsblatt* reports that Claudia Buch started her new job as board member at the Bundesbank yesterday, replacing Sabine Lautenschläger who left to join the ECB's Executive Board. Ms. Buch's responsibilities will be over financial stability, risk and audit, while Lautenschläger's previous responsibilities over banking and supervision were allocated to Andreas Dombret. Ms. Buch was most recently the head of the economic research institute IWH and has been a member of the German Council of Economic Advisers since 2012.

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**France – euro strength no excuse for not reforming France**. Pierre Gattaz, head of the Medef national employers association said on Tuesday that while *"the euro's level seems too high to me given the French situation"*, the French government should not use the *"strong euro argument to not restructure [the economy], to abstain from fundamental reforms that the country absolutely needs"*. Mr. Gattaz went on to add that *"in the country's current situation where we need to boost exports and support our exporting industries ... the right level of the euro would be between \$1.15-1.25"*. Comment: in our view, a weaker euro would certainly give some breathing space to the exporting corporate sector, but

suggests that euro area financial conditions are not particularly supportive of economic activity, mainly due to still-high bank lending rates and the strong currency.

[Giada Giani](#) | [Guillaume Menuet](#) | [Ebrahim Rahbari](#) | [Michael Saunders](#) | [Antonio Montilla](#)

## UK Economics Weekly — MPC Likely to Retreat from "Low for Longer"

9 May 2014

The Inflation Report is likely to show a further upgrade to the MPC's growth outlook, and a lower nearterm CPI forecast. With clear signs that the jobs market is tightening, we expect the MPC will slightly lift their inflation forecasts further out and project that labour market slack will be exhausted during 2015. We expect the MPC will use the May IR to retreat from their "low for longer" message and signal clearly the need for households, businesses and markets to prepare for rising rates.

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

## Norway — Another Upside Surprise from Core CPI in April

9 May 2014

Core CPI posted another upside surprise in April, and with a 2.5% Y/Y reading, CPI-ATE is spot on target. The overshoot versus Norges Bank's forecast widened, but a temporary Easter effect pulled up inflation in April.

[Tina Mortensen](#)

## UK — REC Survey Suggests Labour Market Tightening Rapidly

9 May 2014

The monthly Report on Jobs survey (a survey of firms and recruitment consultancies) suggests that employment growth and firms' hiring intentions remain very strong, the availability of staff is worsening rapidly and pay growth is turning up quite sharply. It appears that labour market slack is being eroded rapidly. The clear uptrend in the survey index over the last six months signals the possibility of a marked pickup in average earnings growth in the rest of this year.

[Michael Saunders](#)

the fundamental problem of the low profitability of French businesses can only be addressed by lower corporate taxes and lower social security contributions, requiring the government to find additional expenditure savings over the next few years. Nevertheless, we expect President Hollande to push strongly on the issue of excessive currency strength after the European Parliamentary elections, favouring GDP-supportive policy initiatives in order to counter-balance continued efforts in terms of fiscal tightening.

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**The German ZEW survey of financial analysts was weak in May, notably for the expectations measure.** Survey expectations came in at 33.1 in May, from 43.2 in April (Consensus: 40.0, Citi: 45.2), their weakest level since January 2013 and now close to the LT average. The current conditions component strengthened to 62.1 in May, from 59.5 in April (Consensus: 60.5, Citi: 57.5), reaching its strongest level since July 2011 and now standing at 1.5 std above the LT average. Survey expectations for the euro area also weakened quite sharply to 55.2 from 61.2, bringing them to the lowest level since August 2013, but still 0.8 std above the LT average. Comment: the data highlights that German growth is slowing in Q2 relative to the very strong Q1, perhaps somewhat more than we expected previously and probably somewhat affected by ongoing tensions in Russia/Ukraine (even though Q1 was also boosted by unusually mild weather). Nevertheless, we continue to expect solid (and above-consensus) growth in Germany in 2014 and beyond.

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**Spain – House sales slumped in Q1-14 by 14.4% YY.** According to data from INE, house sales rose by 22.8% YY in March, after falling by 27.6% and 23.2% in February and January, respectively. Year-to-date home sales are now 14.4% below Q1 2013, after a drop of 10.0% YY in Q4-13 and 2.2% in 2013 on average, although the decline was exacerbated by temporary jump in house sales in early 2013 due to changes in mortgage interest deductibility. Comment: the increase in March-14 was mainly driven by temporary effects due to the later timing of Easter in 2014 relative to last year. In our view, the housing sector adjustment in Spain is likely to take still quite some time to be completed, given the large stock of unsold properties still available in the market. In addition, house prices continue to be 10%-15% above their long-run average, when measured against household income or housing rents.

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**Spain – Final Apr HICP confirmed at +0.3% YY,** bouncing back from -0.2% YY in Mar, INE reported this morning. The national CPI rose to 0.4% YY, from -0.1% YY in Mar. The CPI breakdown showed the increase was driven by a pick-up in energy inflation (1.5% YY in Apr vs. -1.4% in Mar) on the back of adverse base effects (0.2% MM in Apr 14 vs. -2.7% MM in Apr 13), as well as an increase in core CPI inflation (ex. fresh food and energy) which rose to 0.2% vs. 0% in Mar, with prices of entertainment and culture remaining flat in YY terms in Apr (after -2.3% YY in Mar), affected by Easter holidays. On the other hand, food price inflation eased further in Apr 14 (to -0.5% YY vs. 0% in Mar). Comment: the pick-up in April was mainly driven by adverse effects in the energy component together with some temporary effects due to the later timing of Easter in 2014 relative to last year. In our view, inflation should decline again in coming months and in general remain close to zero this year.

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**Italy – April HICP inflation revised lower to 0.5% YY in final reading,** vs. 0.6% YY preliminary estimate, limiting the Easter-related rebound relative to March (when inflation printed at 0.3% YY). Inflation may drop back to 0.4% YY in May, as the Easter effects wash out. CPI inflation was confirmed at 0.6% YY, up from 0.4% YY in March. Core CPI (ex-fresh food and energy) edged higher to

## ECB — Comfortable with a June rate cut (and a negative depo rate)

8 May 2014

Dovish Draghi signals greater willingness to act — ECB President Mario Draghi indicated that the Governing Council (GC) had reviewed all instruments during the May meeting in Brussels, which he described as a preview of the June 5 gathering in Frankfurt. Although all rates were left unchanged today, a dovish Q&A comforted our scenario that the ECB was playing for time, waiting for the next set of forecasts, credit numbers and inflation estimates to announce further policy easing in June.

Guillaume Menuet

## Norway — Norges Bank keeps Rates Stable and Issues Neutral Statement

8 May 2014

As expected, today's Norges Bank meeting turned out to be more or less a non-event; the sight deposit rate was kept stable at 1.50% and the Bank basically reiterated the message from the March meeting. In other words, the statement "The analysis continues to imply a key policy rate at today's level in the period to summer 2015, followed by a gradual increase" from the March MPR still holds.

Tina Mortensen

## UK — RICS Survey Suggests Housing Remains Strong

8 May 2014

The RICS survey shows a net balance of 54% of surveyors reported rising house prices in the three months to April, marginally down from 57% in March but far above average and indeed above any levels in 2003-07 (when house price inflation averaged 12% YoY). Sales are rising, the supply of housing is falling and the sales/stocks ratio is the highest since late-2007. There is no sign that the tightening of mortgage lending standards in late-April is having a significant effect on housing activity.

Michael Saunders

## UK — Will "Help to Buy" Be

1.0%YY from 0.9%YY in March, broadly stable around these levels since last December.

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**Portugal – HICP inflation moves back to -0.1% YY in April**, from -0.4% YY in March, in line with expectations, on adverse base effects in fuel prices (up by 0.6% MM in April 14, against a fall of 2% MM in April 13). A rebound in air fares also contributed to lift overall inflation, but this is likely to be related to the Easter holidays and reversed back in May. Inflationary pressures in the rest of the basket continued to subside. CPI food inflation dropped even more into negative territory, to -1.0% YY from -0.4% YY in March.

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**Greece – government to ask for austerity relief beyond 2016.** *Ekathimerini* reports that the Greek government intends to ask its European creditors to change the fiscal targets when talks on the sustainability of the Greek debt begin at the end of August. In particular Athens would argue that there is no need to achieve a primary surplus of 4.5% of GDP permanently beyond 2016, if the European lenders are willing to grant more debt relief which would allow for the debt-to-GDP ratio to fall to the targeted 122% by 2020. Comment: with the recent EU Commission projections still pointing to a very large output gap (9.3% of GDP) and a primary balance already in surplus, in our view, the nominal primary balance will improve progressively over the next few years even without further fiscal austerity as the economy recovers. We doubt the European lenders will allow Greece to reverse some of the fiscal consolidation measures achieved so far.

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**Greece – budget deficit continued to improve in April on further declines in primary spending**, preliminary data from the finance ministry showed yesterday. Primary spending dropped by 6.0% YY in the first four months of 2014, falling further from the March reading of -5.4% YY. On the other hand, state budget revenues rose by 2.5% YY in Jan-Apr, but the increase was supported mainly by extraordinary EU funding inflows. Ordinary state revenues were down by 1.3% YY, from -0.4% YY in March and slightly positive YY rates in the previous three months. The primary state budget balance moved to a €1.05bn surplus, accounting for 0.6% of GDP, above the target (of €0.7bn). Comment: despite the weak tax revenues dynamics, still a sign of a struggling domestic economy, we believe the state budget execution remains favourable, as both the overall and the primary balance beat the respective targets, thanks to public spending controls.

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## Latest Issues of Sovereign Debt Update

### Refi Rate Cut Alone Not Enough, Says ECB's Nowotny

13 May 2014

ECB: Nowotny says refi rate cut alone is not enough to deal with low inflation, Constancio says medium-term inflation outlook key for June decisions. EU proposes new sanctions over Ukraine tensions. EU considers loosening ABS treatment under liquidity rules. Bank of Italy mulls support for SME lending. German wholesale prices. France: lower business confidence and soft GDP, says BdF. Greek GDP to contract by "just" 1% YY in 1Q, says Finance Ministry.

Ebrahim Rahbari | Guillaume Menuet | Giada Giani

### Moody's Revises Portugal's Rating by One Notch to Ba2

12 May 2014

## Scaled Back? Would It Matter?

7 May 2014

There is a renewed debate as to whether the government should use macro-prudential policies – in particular to rein in the to Buy (HTB) scheme launched in the 2013 Budget – to cool the housing market. The Chancellor may well scale back the HTB scheme before yearend by cutting the ceiling from a £600k property value to £400k or even £300k. However, given the modest number of HTB loans among properties worth more than £350K, we doubt that such a change would significantly slow the housing market.

Michael Saunders

## Scandi Economics Update – Budget to Highlight Norway's Superior Fiscal Stance

14 May 2014

**Sweden** — Inflation bounce in April, but CPIF remains below Riksbank forecast — Fin Min: No to housing market inquiry — Prospera inflation expectations — Riksbank speech.

**Norway** — Spring 2014 budget (out at 9.45 UK time) — Risks of strike among oil-service workers increasing.

Tina Mortensen

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Moody's upgrades Portugal, under review for further upgrade. ECB's Liikanen says "we will decide in June". EU Foreign Ministers in Brussels today, after referendum in eastern Ukraine. Merkel says financial market regulation still on agenda. Advisor of German Chancellor calls for "Swiss-style" intervention on euro. Juncker tells Paris not to blame euro for self-inflicted woes. French PM promises tax cuts for low-income households. Disappointing Italian IP. Spanish poll favours ruling PP.

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

## **ECB's Draghi: "Comfortable with Acting Next Month"**

9 May 2014

Dovish Draghi signals greater willingness to act, describes yesterday as a preview of the June meeting. Top candidates for EP elections oppose further EU expansion. German govt envoy says EU sanctions on Russia could be avoided. Germany: trade data weaker than expected, tax revenue forecasts raised for 2014-18. Italy's ruling PD has 10pp lead over M5S. Spain: poll shows ruling PP ahead for EP election. Greek unemployment edges lower. S&P confirms Portugal's BB rating, revises outlook to Stable.

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

## **ECB Likely To Stay Put, But Dovish, Today**

8 May 2014

ECB likely to stay put today, cut in June - but Draghi will probably make dovish sounds. French Economy Minister says level of euro a matter for Eurogroup, but French Treasury study shows benefit for economy of weaker euro. Italian government wins confidence vote in Senate on labour market reform. Spain: Economic recovery continues but challenges remain, says Troika. March industrial production: weak in Germany, France, Italy.

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

## **FTT Introduction Targeted for January 2016**

7 May 2014

FTT agreement targeted by year-end, introduction by Jan 2016. ECB sterilisation target missed again. Weak German industrial orders. Germany: reform of industrial energy subsidies. French President Hollande regrets slow pace of reform. Italy: Parliamentary commission approves Senate reform text, OECD lowers GDP growth forecast. Spain: CIS poll shows ruling PP as preferred option. EC and OECD forecasts for Dutch economy. Greek govt coalition at risk if Socialists perform badly in EU election.

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## **Macroeconomic Forecasts**

### **European Economic Forecast Highlights — April 2014**

2 May 2014

This companion to Global Economic Outlook and Strategy - April 2014 gives detailed quarterly forecasts for the main European countries to end 2015. Figures 20-21 give 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 — April 2014**

30 April 2014

Our global growth forecasts are little changed this month, at 3.1% for 2014 (same

as last month) and 3.5% for 2015 (up a tenth), at current exchange rates. We expect US growth will rebound to 3%+ QoQ SAAR in Q2, while the UK is our biggest above-consensus growth call. We now expect the ECB to implement QE later this year, in addition to a Q2 rate cut. We lift our euro area growth forecasts by 0.2-0.3 percentage points per year for 2015-17, with a more modest upgrade to inflation forecasts. .

[Willem Buiter](#) | [Guillermo Mondino](#) | [Michael Saunders](#)

## **Emerging Markets Macro and Strategy Outlook - EM's 'stagflation puzzle'**

1 May 2014

The broad picture these days is that DM is enjoying a low-inflation recovery, while EM is suffering a high-inflation slowdown. That's not technically 'stagflation' for EM, of course, but the combination of high inflation prints and disappointing activity data is notable for a number of countries across EM. The main consequence of rising inflationary pressure is that EM central banks have raised rates. This doesn't do much to support growth optimism in EM.

[Guillermo Mondino](#)

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# Appendix A-1

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