

## Yet Another “Tentative Agreement” on EU Bank Resolution

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

### Summary

**Yet another tentative agreement on euro area bank resolution.** The FT reports that Eurozone finance ministers have reached a tentative agreement on single bank resolution, focusing in particular on the backstop for national bank resolution funds, paving the way for a formal agreement among the full set of EU finance ministers today and a sign-off by EU heads of state and government at the EU Summit later this week. Comment: there still appear to be many details to be worked out over the course of the next few months – probably even over the next few years.

**European Parliament and Finance Ministers agree on EU Deposit Guarantee directive.** Bloomberg reports that European Parliament negotiators and officials from Lithuania, which holds the EU's rotating presidency, agreed late yesterday on the EU's directive on deposit guarantees, which harmonises national deposit guarantee arrangements.

**German government proposes Bundesbank vice president Lautenschläger for ECB executive board** as a replacement for Jörg Asmussen.

**Germany: new labour minister expects minimum wage to apply by 2017.**

**German ZEW survey was very strong in December**, rising to 32.4 for the current conditions indicator and 62.0 for macroeconomic expectations.

**Italy hit by wave of increasingly violent protests.** A rally in Rome is planned for today by the new “pitchfork” movement, which has been bringing several thousands of people to the streets of Italian cities in the past week, with escalating violent protests.

**Spain – regulated part of electricity tariff to rise by 2% in January**, *El Economista* reports, citing industry minister Soria's announcement yesterday. The newspaper estimates that overall electricity prices may increase by 7% in Jan 2014.

**Portugal – ECB President Draghi's comment on the need for a second programme sparks domestic debate**, as ECB President said on Monday that Portugal will have a programme after the completion of the current bailout in June 2014.

**Portugal – state guarantees for banks' debt issuance extended until June 2014.**

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18 December 2013

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Economics

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Western Europe

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Industrialised G7 Countries

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### Recent Research

#### UK — Inflation Undershoots Consensus Again

17 December 2013

CPI inflation edged down to 2.1% YoY in November from 2.2% in October, in line with our forecast and a tenth below consensus. This is the lowest YoY rate for four years. So far this year, CPI inflation has undershot the pre-release consensus five times, with four “in line” readings and only two overshoots. By contrast, CPI inflation overshoot the pre-release consensus more often than it undershot in every year during 2005-12, with roughly twice as many overshoots as undershoots.

**Michael Saunders**

#### Sweden — Riksbank Delivers, But With Dovish Tilt

17 December 2013

As expected, a unanimous Riksbank board cut the key policy rate by 25bp to 0.75% at today's monetary policy meeting, arguing that “inflation has been unexpectedly low and, despite the recovery, inflationary pressures over the

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## Today's News in Detail

**Yet another sort of agreement on euro area bank resolution.** The FT reports that Eurozone finance ministers have reached a tentative agreement on single bank resolution, focusing in particular on the backstop for national bank resolution funds. The FT noted that the deal was characterised as a breakthrough, as the “*common position*” that was agreed would pave the way for a sign-off by the full set of finance ministers today and EU leaders at the EU Summit later this week. Details of the agreement were not disclosed, but the article suggested that the main element of substantial progress was an agreement on the nature of access to additional funding for bank resolution other than through the national resolution funds that are to be built up gradually over ten years. During the transitional phase, countries should have access to the permanent common rescue facility, even though it was unclear in what form and under which conditions (and German FM Schäuble commented that the permanent rescue facility “*won't be a general credit line for everybody*”). The article also suggested that there had been an agreement on the “*steady state*” of the financing for resolution decisions which could be more significant. Eurogroup President Dijsselbloem noted that “*they had come a long way*” and German Chancellor Merkel said she thought a deal could be found today that would mean that they “*as heads of states and governments won't have to deal with it*”. The French FM Moscovici said that EU finance ministers had reached an agreement on the backstop, which included a common backstop, which could take several forms. But he also added that it would have to be specified “*in the years to come*” and that no form was excluded. Comment: the announcement of an agreement on bank resolution last week was clearly premature and there are many details and in fact some major decisions that still need to be agreed. It appears as if the pressure to announce some form of political agreement this week is very high, but at the same time negotiations will continue in the spring, and the full specification of the resolution arrangements will probably only be worked out in the years to come.

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**European Parliament and Finance Ministers agree on Deposit Guarantee directive.** Bloomberg reports that the European Parliament negotiators and officials from Lithuania, which holds the EU's rotating presidency, agreed late yesterday on the EU's directive on deposit guarantees. Under the agreement, each member state has to build up a deposit guarantee fund of 0.8% of guaranteed deposits, financed by levies on the banking sector in each country over ten years, with some flexibility built into the arrangements to fill the fund. “*Concentrated banking sectors*” would only need to build up a fund of 0.5% of guaranteed deposits. The level of the guarantee would be for bank deposits of up to €100K as in the existing directive and the deadline for reimbursements will drop to seven days once the directive is fully binding (i.e. in 2024). The directive thus creates the obligation to have deposit guarantee funds and to harmonise deposit guarantee arrangements, but does not involve any common backstop. Bloomberg suggests that the national guarantee funds could eventually reach €126bn. Both the European parliament and national parliaments will have to pass the compromise bill for it to become law.

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**German government proposes Bundesbank vice president Lautenschläger for ECB executive board.** *Handelsblatt* reports, based on “*government circles in Berlin*”, that the German government has proposed Bundesbank Vice President Sabine Lautenschläger in place of Jörg Asmussen for the Executive Board of the European Central Bank (ECB). For Lautenschläger to be confirmed, the EU Council has to agree on the choice, after consulting the European Parliament

coming year are expected to be much lower than in the most recent forecast in October”.

Tina Mortensen

## Euro Economics Weekly — Spain: 2014 Outperformer?

13 December 2013

Spain has outperformed our forecasts (and the consensus) more than other major euro area economies in 2013, and optimism on the economic outlook has increased markedly in recent months. While Spain is more advanced than other countries with its reform agenda and its exports have become more competitive, we reckon the scope for further upside surprises in 2014 is rather limited.

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

## UK Economics Weekly — Looking Back...the Economic Surprises of 2013

13 December 2013

In contrast to the disappointing growth/inflation mix of recent years, 2013 saw higher-than expected real growth with a slight inflation undershoot. The labour market remains surprisingly flexible, with both wage growth and unemployment lower than expected. We expect some of these themes will carry over into 2014-15, with higher real growth, lower inflation and lower unemployment than the consensus expects but, unlike 2013, a broadening of growth into investment and exports.

Michael Saunders | Ann O'Kelly

## Scandi Economics Update — Riksbank Reclaims Inflation Focus

18 December 2013

**Sweden** — Riksbank delivers, but with a dovish tilt — December sentiment — Nov registered unemployment.

**Denmark** — Increasing euro skepticism.

Tina Mortensen

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and the ECB.

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**Germany: new labour minister Nahles expects minimum wage by 2017.** In an interview with *Bild*, Germany's new labour minister Andrea Nahles (who belongs to the SPD party) said that the nationwide minimum wage of €8.50/hr would apply from January 1, 2017 and that there would be no exemptions.

Comment: the late introduction date is somewhat surprising (the coalition agreement said that the minimum wage was to be phased in between 2015 and 2017), and we are skeptical that there won't be any exemptions, including for apprentices and the long-term unemployed.

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**German ZEW survey – very strong in December.** The German ZEW survey of financial analysts was very strong in December for both current conditions and macroeconomic expectations. Current conditions were up 3.7 points to 32.4, the strongest reading since June 2012 and 1.0 standard deviations above its long-term average. For macroeconomic expectations, the reading rose by 7.4pts to 62.0, which is the strongest reading since March 2006 (also 1.0 std above the long-term average).

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**Italy hit by wave of increasingly violent protests.** A rally in Rome is planned for today by the new “pitchfork” movement, which has been bringing several thousands of people to the streets of Italian cities in the past week, with escalating violent protests. The protesters comprise a variety of groups who are suffering badly from the on-going economic recession, including lorry drivers, self-employed and SME entrepreneurs, low-paid workers, unemployed and students. A too high tax burden, excessive austerity, a general anti-European feeling and angst towards the political establishment are the main points of the protesters. Comment: while the economy struggles to send signs of stabilization, the discontent with the general political establishment is growing, as well as the perception of an increasing immobile government, which may result in more support for extremist and anti-European parties.

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**Spain – regulated part of electricity tariff to rise by 2% in January, *El Economista* reports,** citing industry minister Soria's announcement yesterday. The newspaper estimates that overall electricity prices may increase by 7% at the forthcoming tender for electricity delivery in Q1 2014. Energy producers are pressing for higher tariffs to reflect higher production costs. The 2% increase of the regulated part of the electricity bill is part of the government's efforts to reduce the €3.6bn energy sector tariff deficit.

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**Portugal – Draghi's comment on the need for a second programme sparks domestic debate.** ECB President Draghi said on Monday to the EU Parliament that Portugal will have a programme after the completion of the current bailout in June 2014, but said the shape of the programme remains undefined. Portuguese opposition parties asked for explanations from the government on whether talks for a new bailout programme are under way. Yesterday Mr. Draghi said it is exclusively up to the Portuguese government to decide on a new programme, while EU Commissioner Olli Rehn said it is still too early to decide on whether a new programme is needed. Comment: while speculation around the need for additional financial help is bound to increase in coming months, we doubt a final decision will be taken until the very last minute before the expiry of the current programme in June 2014. A precautionary credit line still looks the most likely scenario, although a new full bailout programme is still a clear possibility, in our view. The outcome will likely depend on the economic developments in the next

few months as well as the ability of the government to deliver the sizable fiscal consolidation measures included in the 2014 Budget. The Constitutional Court is reportedly expected this week to rule on one of the measures (the reduction in public sector pensions by up to 10%). Other measures of the budget could still be referred to the Court for reviewing.

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**Portugal – state guarantees for banks' debt issuance extended until June 2014.** The European Commission authorized the extension of the state guarantee scheme for debt issuance by Portuguese banks until the end of June 2014, an official press release stated yesterday. The state guarantee scheme was initially approved in Oct 2008 and was then extended several times since, the last extension taking place in Aug 2013. The EC said the extension obeys state-aid rules and represents an appropriate means of supporting the Portuguese economy.

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## Latest Issues of Sovereign Debt Update

### New German Government to be Formed Today

17 December 2013

ECB's Draghi mindful of inflation dynamics, concerned about banking union. Outcome of EBA's 2013 Transparency Exercise. German government to be formed today. Bundesbank's Weidmann calls on governments to do more. Bundesbank warns of risks to repo market from financial transaction tax. Spain's banking sector aid programme to end next month. IMF concludes 10th review of Portugal's programme. Troika reportedly concludes mission to Greece without deals on foreclosures and restaurant VAT reduction.

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

### Successful SPD Party Referendum Clears Way for New German Government

16 December 2013

Merkel due to be re-elected German Chancellor tomorrow, parties present new govt ministers. Asmussen leaves ECB, joins German govt. Deal on SRM expected this week. ECB's Draghi says France needs to do more. S&P confirms Italy's BBB rating. Italy's PD party gains in polls after Renzi become leader. Polls suggest Catalans favour independence. Spain's public debt soars, Spanish banks reduce ECB borrowing. Greek PM calls for debt relief before EU elections. Austria gets new Grand Coalition govt.

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### Catalonia to Hold Independence Referendum in Nov 2014

13 December 2013

Catalonia announces referendum on independence. ECB's Asmussen highlights limitations of monetary policy, Asmussen and Hansson say ECB ready to act again. Germany: Results due Saturday afternoon of SPD vote on coalition agreement. German banks complain to EC. French fiscal reform creates angst in Cabinet. Bank of Italy share capital revaluation from 1 Jan 2014. Greece: Central govt primary surplus in Jan-Nov. Portugal's 10th Troika review. Slovenia: results of AGR and Stress Test.

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

### ECB's Praet Suggests Risk Weights on Sovereign Bonds

12 December 2013

ECB's Praet suggests introducing risk weights on sovereign bonds in upcoming

AQR - FT interview. Debate continues on single bank resolution. Italy's government passes another confidence vote in both chambers. Spain to report primary surplus in 2015 says FinMin. Moody's changes outlook to stable on all Spanish sub-sovereigns. Portugal's 2013 fiscal deficit may beat target, says UTAO. HICP inflation in Portugal and France. Slovenia: results of bank AQR and stress tests this morning.

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

## **Ecofin Strikes Minimal Deal on Bank Resolution**

**11 December 2013**

Euro area FinMins strike deal in principle on SRM. Germany: strong participation in SPD member referendum on coalition agreement. ECB's Coeure says new LTRO only when banks in position to lend to private economy. IMF's Lagarde says EA debt crisis not over. Italy's industrial production better than expected. Spain's population continues to shrink in 1H13. Spanish electricity prices may rise 10% in Jan 2014. Bank of Portugal raises GDP forecast for 2014.

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## **Macroeconomic Research**

### **European Economic Forecast Highlights — December 2013**

**5 December 2013**

This companion to Global Economic Outlook and Strategy - Prospects for Economies and Financial Markets in 2014 and Beyond 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.

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

### **Global Economic Outlook and Strategy — Prospects for Economies and Financial Markets in 2014 and Beyond**

Global, Americas, GEMS, Pan Asia, EMEA, Asia, Western Europe, North America, Latin America, Australia

**2 December 2013**

In this "Prospects" edition, Citi's research team presents updated forecasts for economies, policy, commodity prices and sovereign ratings around the world for 2014 and beyond, along with Overview essays on EMU banking union, world trade growth, global imbalances, challenges facing emerging markets, political risks and long-run projections for the size of major economies.

[Willem Buiter](#) | [Guillermo Mondino](#) | [Nathan Sheets](#) | [Michael Saunders](#) | [Robert V DiClemente](#)

### **Emerging Markets Macro and Strategy Outlook — Prospects for 2014 and beyond**

GEMS, Asia, Latin America, CEEMEA, Global

**2 December 2013**

Three questions are likely to dominate investors' thinking about EM in 2014. The first is about the future of capital flows to EM: will Fed 'tapering' and the prospect of US monetary tightening cause sustained outflows from EM? The second is about EM's export recovery: will EM's recent export slump ever reverse? And the third is about China: will 'China risk' re-emerge as a threat to EM growth? These three questions were very broadly discussed among investors during the course of 2013, and so in a sense 'nothing's new' as we go into the New Year. Overall we find it difficult to come up with optimistic answers to any of these questions, and so we think it makes sense to be quite cautious about the

environment facing emerging markets.

**Guillermo Mondino | David Lubin | Johanna Chua**

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# Appendix A-1

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