Citi Research
Economics

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Developed Markets
Western Europe

Euro Economics Weekly

France: Will Valls Succeed Where Others Have Failed?

- **Priority to growth (via tax cuts) over deficit reduction** — PM Manuel Valls confirmed that he would quicken the pace of reforms while earmarking €50bn (2.5% of GDP) of expenditure savings to finance the €30bn Responsibility and Solidarity Pact. The announcement of additional corporate and income tax cuts shows that priority is given to GDP growth over budget deficit reduction, with France expected to miss its 3%-of-GDP 2015 budget deficit target.

- **Ambitious reform programme but few details about expenditure cuts** — Very few details are available but the government is responding to the pressure to act. The renewed focus on boosting corporate competitiveness and shrinking the size of the public sector should add to GDP growth in coming years.

- **Implications** — We think that the likelihood of a further rating downgrade is now very small. Implementation risks and the slower pace of budget deficit reduction will probably do little to the OAT/Bund spread. More generally, the shift away from austerity should add to GDP growth and reduce the need for aggressive ECB action

Figure 1. Citi Forecasts

	\$/€	Euro Repo	10-yr Bunds	£/€	UK Bank Rate	10-Yr Gilt-Bund	SKr/€	SEK Policy Rate	NOK/€	NOK Policy Rate	SFr/€	CHF Policy Rate	CHF Spread vsBunds
3Q 14	1.39	0.10	1.70	0.82	0.50	158	8.83	0.75	8.20	1.50	1.24	0.00	-70
1Q 15	1.40	0.10	1.90	0.81	1.25	163	8.79	0.75	8.01	1.50	1.26	0.00	-80

Source: Citi Research

Figure 2. France — OAT/Bund 10-Year Spread, Basis Points, Jan-2011 to Apr-2014

Sources: Bloomberg and Citi Research

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French Reforms: Under the Starter's Gun

Ambitious reform programme, targeting local authorities, and prioritising GDP growth over budget deficit reduction

Last Tuesday, newly appointed French Prime Minister Manuel Valls presented a €50bn (2.5% of GDP) programme of expenditure savings as part of his general policy speech before the Lower House. The content was ambitious, not only because of the number of reforms announced with respect to local authorities, but also because Mr. Valls announced that he would lower corporate taxation and that his government would prioritise GDP growth over budget deficit reduction.

Details on expenditure savings remain few and far between. And the Commission is waiting for the SCP

A lot of uncertainty remains about exactly how the Responsibility and Solidarity Pact will be financed, with details few and far between. Contacts have been initiated with the European Commission and some estimates should be available in the next few days or weeks, certainly before the end of the month when the government will have to present its Stability and Convergence Programme (SCP) to parliament, before submitting it to the European Commission as part of the European Semester.

Rating action is likely to be imminent from Moody's, in our view. Lengthier budget consolidation unlikely to be big driver of the OAT/Bund spread

With GDP growth recovering slowly and a more business-friendly fiscal policy to support employment and competitiveness, we believe that rating agencies will be in wait-and-see mode. We expect Moody's to maintain France's negative outlook until they can review the 2015 budget in the autumn. Yet, we think that the likelihood of a further rating downgrade is now very small. While investors should react positively to Mr. Valls' ambitious reform agenda, implementation risks and the associated slowdown in the pace of budget deficit reduction will probably do little to stop the OAT/Bund spread from trading a narrow range.

No time to waste: tax and expenditure cuts the key agenda items

Shifting gears so as not to be left behind by Italy

The nomination of Matteo Renzi as new Italian PM augurs a possible Italian renaissance. His ambitious 100-day programme focusing on electoral reform, tax cuts and government arrears repayments had put French President François Hollande in an uncomfortable position. Although Mr. Hollande had launched some reforms of the pension system and introduced more flexibility in the labour market, Brussels had been far from convinced that these would be the necessary game-changer. After poor municipal election results, President Hollande decided to shift gears in order to salvage any chance of re-election in 2017.

Ambitious program, heavily skewed to supporting businesses, but only partially financed by expenditure cuts

In his general policy speech to the lower house, new PM Manuel Valls gave priority to GDP growth via tax and expenditure cuts. He confirmed that his government would quicken the pace of reforms, earmarking €50bn of expenditure savings (2.5% of GDP) cumulated over 2015-17 to reduce France's budget deficit. The "Responsibility and Solidarity Pact (RSP) will amount to €30bn, combining an already announced €20bn of corporate tax credits and an extra €10bn to further reduce employers', employees' and independent workers' social security contributions. Mr. Valls also announced plans to reduce taxes on production and to lower the corporate tax rate, while giving low-income households a €5bn tax break. We estimate that the difference between these tax expenditures and the multi-annual path of budget deficit targets amounts to around €20bn or 1% of GDP.

No details yet about how the expenditure savings will be made

However, there are no details yet about how the expenditure savings will be made and a €11bn question-mark hangs over a "*review of the benefits system*". We understand from various press reports that these savings will be found in pensions, family and unemployment benefits. An article in Les Echos suggests that a sizeable part is based on already implemented adjustments lowering pension (€1.5bn), family (€0.3bn) and unemployment (€3.2bn) benefits, meaning that €6bn still need to be specified. Speaking on BFMTV on Wednesday, Mr. Valls suggested that some efficiency savings would be identified in the running of the Social Security system, including staffing levels, while also hinting at some review of the solidarity payments

to the long-term unemployed. In addition, the government is studying a freeze of family benefits (€0.6bn), as well as introducing means-testing for childcare benefits.

Supplementary budget to be reviewed by parliament before the summer recess

To demonstrate fiscal responsibility, Mr. Valls announced that a supplementary budget would be presented in late June or early July, partly to correct the projected budget deficit overshoot of the 3.6% of GDP target for 2014. We expect that €7bn currently sitting in the budgetary reserve will be used to show some intent to lower the budget deficit trajectory, but that the 3%-of-GDP target for 2015 will not be met.

What did not feature in the policy speech?

Politically sensitive topics were not discussed, but will probably re-emerge in coming months

There was nothing about the possibility of a downward adjustment to public sector hiring targets or a more ambitious reform of social security and pensions. We suspect that this was designed to keep the parliamentary majority on side after clear warnings from a group of around 100 Socialist MPs that they would support ‘justified’ expenditure savings but would oppose any retrenchment in 'social acquis'.

These could be unveiled later, as part of the Stability and Convergence Programme

Business daily Les Echos highlighted on 7 April some areas of possible savings, suggesting that the final breakdown would be made along the lines of each segment’s respective share of public outlays: 47% social security, 26% central government, 20% local authorities and 7% others. **Within the social security budget**, the €10bn of savings are likely to require €4bn of new measures (to complement the existing €6bn), or €1bn per year for 2014-17. This is likely to be found from a downward revision in the rate of expansion of healthcare spending to 2% or even 1.75%, from additional restructuring in hospitals, from falls in the price of prescriptions and from greater reliance on generics. **Within the central government budget** which also includes its 550 public sectors agencies, the €19bn of savings is likely to require at the minimum a freeze in nominal outlays (excluding debt servicing and pensions), and a €1bn reduction over three years in the budget for subsidised employment. The government is targeting a quasi-stable payroll, requiring an extension of the freeze in pay at least for 2 years (2015-16). Government agencies’ budgets are likely to be trimmed by €3bn. **From the local authority budget**, the €10bn of savings for 2015-17 will require the government to double the pace of the planned reduction of transfers from the previously announced €1.5bn for 2015 to €3bn, and for the trend to be maintained in 2016-17.

A few more days, but probably a few more weeks before all is revealed

PM Valls indicated on BFM TV on Wednesday that “*we will detail our budget trajectory in the next few days*". Other press and newswires sources have indicated that the government was planning to delay the release of the SCP by around one week to 22/23 April, given the time lost with the recent government reshuffle.

How likely is France to obtain a delay?

France has been there before, successfully negotiating budget deficit target extensions

France has been successful in the past in obtaining delays to reduce its budget deficit. Two occasions spring to mind:

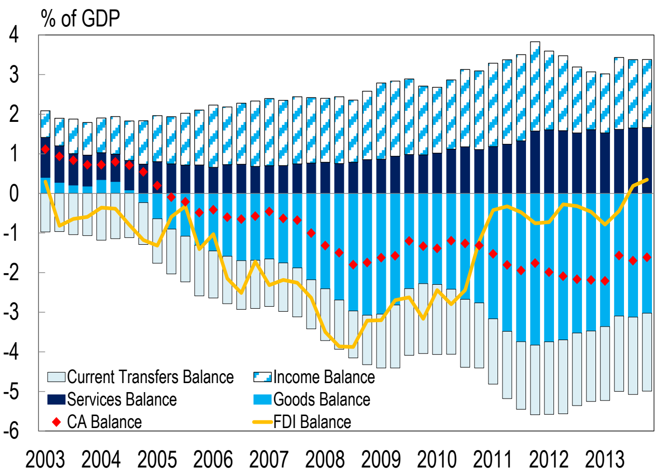
- A first Excessive Deficit Procedure (EDP) was launched in June 2003, calling on France to reduce its budget deficit to less than 3% of GDP in 2004. The Council agreed to grant France one more year to 2005, when Germany and France loosened the Stability Pact rules. The EDP ended in 2007.

- A second EDP was opened in April 2009, but as early as December 2009, the target date was pushed back to 2013 after President Sarkozy argued before the Eurogroup that it would be in the euro area's interests to grant France more time with its budget consolidation efforts while carrying out (painful) structural reforms. In May 2013, the Commission proposed to grant France two more years, setting deficit targets of 3.9% of GDP in 2013, 3.6% in 2014 and 2.8% in 2015.

The EC estimated that France will run a budget deficit of 3.9% of GDP in 2015

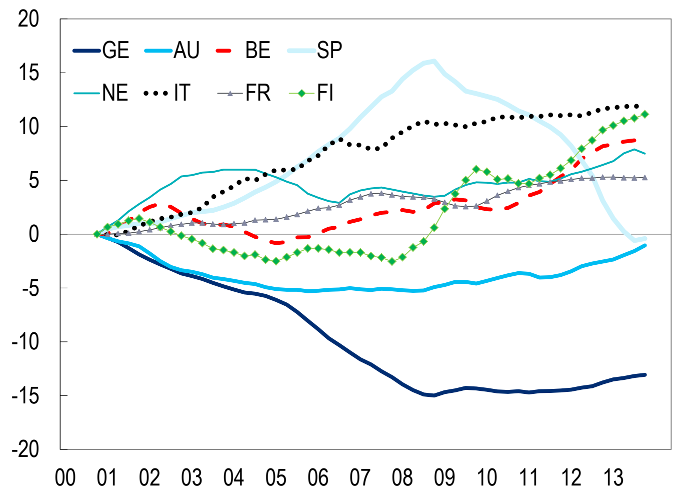
In its winter 2013 forecasts, the European Commission (EC) estimated that France will run a budget deficit of 3.9% of GDP in 2015. Based on the new budgetary rules, a member state can obtain a new delay if it can demonstrate that it delivered the required structural budget deficit reduction and an *'unexpected deterioration in the economic environment leading to adverse consequences on public finances'*. This is obviously not the case for France, with GDP growth once again on an upward trajectory. Moreover, France was placed under "enhanced surveillance" in March, having been found by the EC to be experiencing "*macroeconomic imbalances, which require specific monitoring and decisive policy action*"[1]. The EC argued that France's trade balance and its ability to compete have deteriorated, noting that "*rigidities in the wage setting system result in difficulties for firms to adjust wages to productivity*", while public debt is growing. EC Vice-President and Economic and Monetary Affairs Commissioner Olli Rehn called on the French government to focus its efforts on reducing spending.

Figure 3. France — Current Account and Foreign Direct Investment Balances, Pct. of nominal GDP, 1Q-2003 to 4Q-2013



Note: The zero line represents the euro area average
Sources: Banque de France and Citi Research

Figure 4. Selected Countries — Unit Labour Costs, 1Q-2001 to 4Q-2013, Cumulative Change Versus the Euro Area Average since 2000



Note: The zero line represents the euro area average
Sources: European Central Bank and Citi Research

The government is following the EC's requirement for 'decisive action'

One can argue that a key message of the EC's in-depth review of France had been heeded. If anything, the "*need for decisive action so as to reduce the risk of adverse effects on the functioning of the French economy*" and the need for "*specific focus on spending cuts notably through the search for efficiency gains*" are answered by the nomination of Mr. Valls as PM, and the unveiling of a more ambitious structural reform agenda. But tackling the "*unfavourable business environment and in particular the low level of competition in services*" remains work in progress.

How to deal with France's budgetary situation is dividing the two mainstream parties in the upcoming EP elections

The debate about whether to accommodate France's request is likely to run for some time, in our view. Martin Schulz, leader of the Social Democrats in the upcoming European Parliamentary (EP) elections and President of the EP indicated that he was in favour[2], as did former German Chancellor Gerhard Schroeder. Former Eurogroup president and Luxembourg PM Jean-Claude Juncker, leader of the European conservatives, argued the opposite, stressing that France had to play

[1] Given the need for policy action already called for in the 2013 in-depth review, the Commission will carry out specific monitoring of the policies recommended by the Council to France in the context of the European Semester, and will regularly report to the Council of Ministers and the Eurogroup.

[2] Les Echos, 7 April 2014, page 8

by the same rules as other member states warning that Paris "*would not be given another exemption*". Although the debate seems to be becoming politicised, we believe that the new focus on GDP growth will allow for some slippage versus the 3% budget deficit target in 2015. Note that new data either in terms of the size of output gaps and structural budget deficit positions will likely show that the efforts needed to reach the medium term objectives are less than was believed previously.

What about the euro? And the role of the ECB?

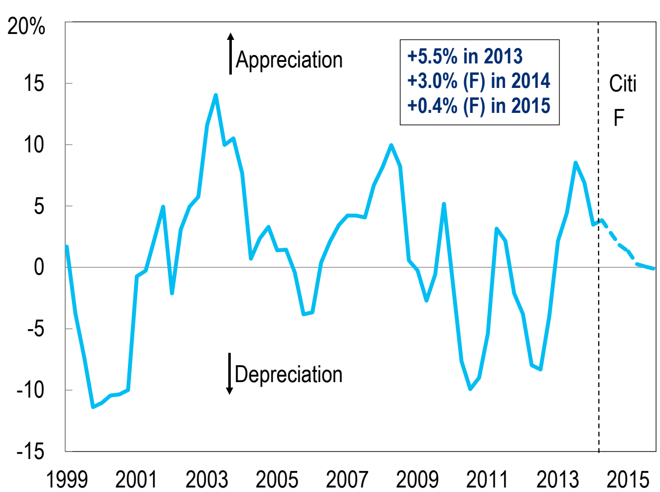
Attacking the strength of the euro is becoming mainstream, and the focus on currency appreciation is one of the arguments to obtain more time

To illustrate concerns around the need to respect nominal budget deficit targets while not paying enough attention to GDP growth, we quote the president of the lower house, Claude Bartolone, who declared last Monday: "*we cannot sacrifice France on the altar of a pro-business Europe*". While PM Valls does not necessarily share the same opinion, he nevertheless made a reference to the level of the euro saying that it had gained around 10% since summer 2012. Unlike Mr. Draghi who referred to the strong euro to explain the low level of headline inflation, Mr. Valls noted the concerns of former Industry Minister Arnaud Montebourg, now promoted to Economy Minister, who repeatedly argued that the strong euro is negating the government's efforts towards deficit reduction, structural reforms and improving firms' competitiveness. Apart from the, in our view, debatable rationale of the argument (at least concerning the first two points), it's possible that Mr. Valls wanted to send a signal to the left wing of the Socialist Party. Rather than throwing his weight behind a strategy of currency depreciation, we think that he would rather seek some "*compensation*" from Brussels in the form of added time.

Taking aim at the ECB can be more dangerous, especially if hoping to rely on a strong Franco-German relationship

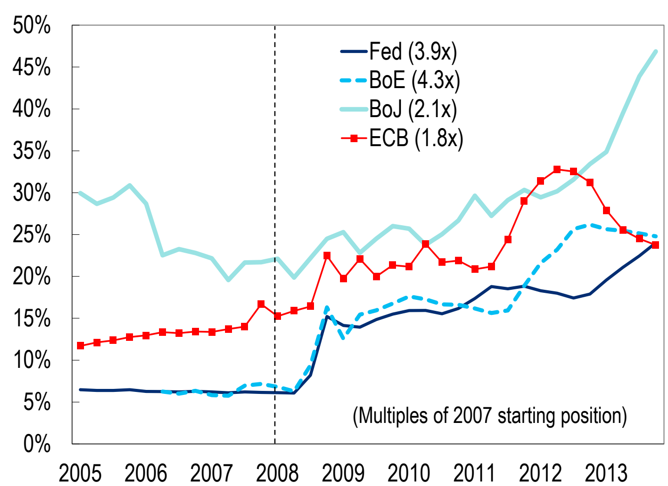
Mr. Valls took aim at the ECB noting that "*the ECB is running a less accommodative monetary policy stance than its American, British or Japanese sister organisations*". As a consequence, said Mr. Valls, "*the euro area is where economic recovery has been the weakest*". Mr. Valls went on to argue that weak GDP growth would be at the heart of the European elections debate. Without growth, Mr. Valls continued, "*efforts to reduce budget deficits would be pointless*". Mr. Valls stressed that the key to foster economic growth would be "*large scale investment programmes and employment policies targeted towards the youth*". He concluded that "*France cannot be without Europe and that Europe cannot be without France*", adding that he would endeavour to maintain "*the solidity of the Franco-German couple*".

Figure 5. Euro Area — Euro Effective Exchange Rate, Pct YY Change, 1Q-1999 to 4Q-2015F



Sources: European Central Bank and Citi Research

Figure 6. Selected Countries — Central Bank Balance Sheet, Pct of Nominal GDP, 1Q-2005 to 4Q-2013



Sources: European Central Bank, Fed, BoE and Citi Research

The political calculus: will the government majority hold?

PM Valls does not have a strong majority and there is a risk of dissent from the left wing of the coalition…

Mr. Valls won the confidence motion on his appointment, gathering 306 votes, 17 in excess of the absolute majority, despite 11 Socialist Party MPs and 6 Green Party MPs abstaining. But there is a risk that more Socialist or Green MPs could decide to vote against the supplementary budget when presented in late June/early July. Or more probably when asked to review the 2015 budget that will contain a number of sizeable cuts to government expenditure in order to finance the announced decline in corporate taxation, only partially balanced by gains in gross disposable income for the less-well off households.

…but low poll ratings for the Socialists mean that an early election would likely translate into a Conservative victory

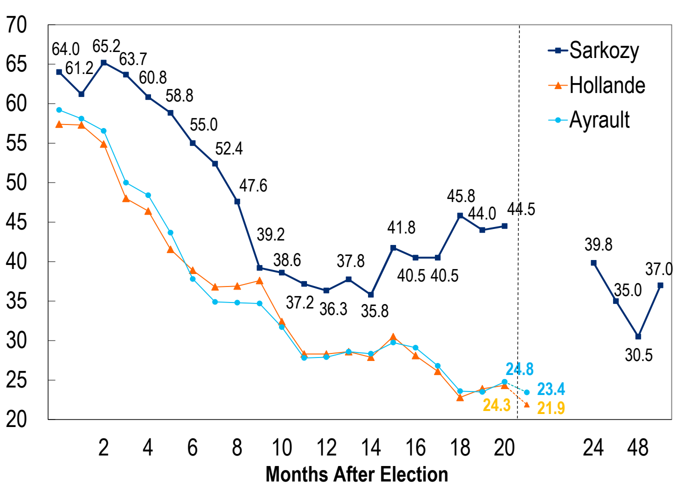
However, the last few days have been particularly difficult for many MPs from the government majority. Most have concluded following the municipal elections that a similarly bad outcome in the EP elections is likely and the risk of voting against the next budget would probably trigger a political crisis that could make the government fall. In the event of President Hollande deciding to dissolve parliament and to hold new elections for the Lower House, most of these MPs would probably lose their seats. As a result, we believe that the government majority will hold.

Can Mr. Valls' popularity help the President's and boost confidence?

Mr. Valls is popular, a lot more than his predecessor and President Hollande

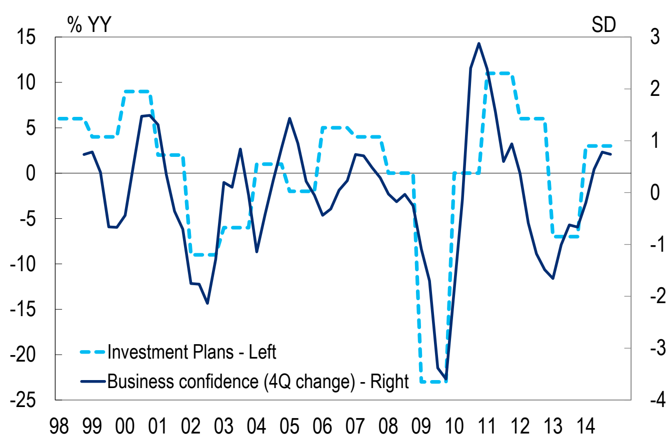
Mr. Valls is popular. A poll by Harris Interactive at the start of April found that 50% of French voters had been satisfied with his nomination as PM, while only 21% had found President Hollande's televised address "*convincing*". Another poll by Ifop found that 61% of voters approved of the nomination of Mr. Valls, but only 33% expect his government to do better than his predecessor, with 58% not expecting much difference. Note that 76% of French voters believe that a sizeable reduction in public sector expenditure will be an effective strategy to stimulate GDP growth according to a BVA poll conducted on 3 April for business daily La Tribune. However, 69% noted that they would oppose a further increase in VAT or the CSG tax to fund a cut in employers' social security contributions for family benefits.

Figure 7. France — Approval Ratings of President and Prime Minister, May-12 to Dec-13



Sources: Various French polling institutes and Citi Research

Figure 8. France — Business Confidence (3-quarter lead) and Industrial Investment Intentions, 1Q-1998 to Q4-2014



Sources: INSEE, Haver, European Commission and Citi Research

We believe that the added reform impetus and strong support to the corporate sector will boost confidence

The key question for France in the next few quarters is whether Mr. Valls will be more successful than his predecessors by quickening the tempo of reforms and by making sufficiently visible cuts in public spending to push business confidence meaningfully above its long-term average. By insisting that the government needed to tell the truth to the French public about the difficulties that the country is facing, we believe that Mr. Valls is following the right strategy. The key reservations we have are i) that the territorial reform will take some time, allowing its opponents to mobilise and ii) the undisclosed efforts needed for social security savings will mean that a significant number of households might feel worse off.

Adding to GDP growth

We add 0.2ppt to GDP growth in 2016 and 2017, to 1.8% and 1.9%

Yet, in light of the government's decision to earmark an extra €10bn (0.5% of GDP) to lower labour costs for employers, and €4.5bn in income tax cuts for lower income households, we believe that the fiscal policy mix is turning more supportive of GDP growth, providing a little boost to household expenditure and more jobs. With corporate taxation set to fall from 2016, coinciding with the reform of regions (that will reduce their number and should lower taxes accordingly), we see room for higher corporate investment spending. The fiscal stance becomes more supportive of GDP growth, amounting to a modest tightening of 0.3ppt per year in 2015-2017. We raise our 2015, 2016 and 2017 GDP forecasts by 0.1%, 0.2% and 0.2% to 1.3%, 1.7% and 1.9%, respectively.

Conclusion

The pressure is on, forcing the government to focus its efforts on boosting corporate competitiveness and shrinking the size of the public sector

France's strategy is to improve corporate profit margins, having finally recognised that it suffers from an excess of taxes and regulations. The renewed focus on boosting the corporate sector's competitiveness stems from two key considerations: i) that the government does not have the financial capacity and willingness to subsidise low qualified and often temporary contracts, requiring the private sector to do the heavy lifting, ii) that other member states have been very active in reforming their labour markets, lowering their unit labour costs and attracting FDIs, putting pressure on France to change.

While implementation risks remain significant, the reform impetus should ultimately benefit the sovereign rating

With GDP growth recovering slowly and a more business-friendly fiscal policy to support employment and competitiveness, we believe that rating agencies will be in wait-and-see mode. We expect Moody's to maintain France's negative outlook until they can review the 2015 budget in the autumn. Yet, we think that the likelihood of a further rating downgrade is now very small. While investors should react positively to Mr. Valls' ambitious reform agenda, implementation risks and the associated slowdown in the pace of budget deficit reduction will probably do little to stop the OAT/Bund spread from trading a narrow range.

Figure 9. France — Economic Forecasts, 2013-15F

		History	Forecast		History				Forecast							
		2013	2014	2015	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
Real GDP	YY	0.3	1.0	1.3	-0.4	0.5	0.3	0.8	1.1	0.8	1.2	1.1	1.2	1.3	1.3	1.4
	QQ SAAR				0.0	2.3	-0.2	1.2	1.0	1.4	1.1	1.0	1.5	1.6	1.3	1.4
Final Domestic Demand	YY	0.3	0.7	0.8	-0.3	0.3	0.3	0.8	0.8	0.6	0.8	0.5	0.6	0.8	0.9	1.0
	QQ SAAR				0.1	1.2	0.1	1.8	0.3	0.5	0.5	0.6	1.0	1.0	1.0	1.0
Private Consumption	YY	0.4	0.6	1.0	-0.3	0.5	0.4	0.8	0.7	0.6	0.7	0.4	0.7	0.9	1.1	1.2
	QQ SAAR				0.5	1.2	0.0	1.6	0.2	0.4	0.6	0.6	1.2	1.2	1.2	1.2
Public Consumption	YY	1.8	0.9	0.1	1.6	1.9	1.7	1.8	1.6	1.0	0.8	0.4	0.3	0.2	0.1	0.0
	QQ SAAR				1.5	2.9	1.1	2.0	0.4	0.4	0.4	0.4	0.0	0.0	0.0	0.0
Fixed Investment	YY	-2.1	0.5	1.3	-2.6	-2.6	-2.2	-0.8	0.0	0.5	0.9	0.7	1.0	1.2	1.5	1.7
	QQ SAAR				-2.9	-1.2	-1.2	2.1	0.2	0.9	0.6	1.0	1.5	1.5	1.8	1.8
-- Businesses	YY	-2.3	1.0	1.8	-3.3	-2.9	-2.4	-0.4	0.6	1.0	1.5	1.0	1.4	1.6	2.0	2.2
	QQ SAAR				-3.4	-0.5	-1.1	3.5	0.4	1.2	0.8	1.6	2.0	2.0	2.4	2.4
-- Households	YY	-3.8	-0.8	0.8	-2.7	-4.2	-4.4	-3.9	-2.6	-0.9	-0.1	0.5	0.7	0.7	0.9	1.0
	QQ SAAR				-5.1	-5.7	-2.8	-1.7	0.0	0.8	0.4	0.6	0.8	0.8	1.2	1.2
Stocks (Contrib. to YY GDP Growth)		0.1	0.3	0.2	0.1	0.1	0.5	-0.3	0.1	0.1	0.1	0.0	0.1	0.1	0.0	0.0
Exports of Goods and Services	YY	0.8	2.3	2.6	-0.5	1.4	0.0	2.1	3.0	1.3	2.8	2.2	2.3	2.4	2.7	2.9
	QQ SAAR				-1.8	9.7	-4.2	5.3	1.8	2.6	1.7	2.6	2.5	2.6	3.0	3.3
Imports of Goods and Services	YY	0.8	1.9	1.5	-1.1	0.1	1.0	3.0	3.3	2.0	1.4	1.0	1.2	1.4	1.6	1.8
	QQ SAAR				-0.4	5.9	3.7	2.7	0.8	0.8	1.2	1.2	1.6	1.6	2.0	2.0
Net Exports (Contrib. to YY GDP Growth)		0.0	0.1	0.3	-0.1	0.2	-0.6	0.2	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Consumer Prices	YY	1.0	0.9	1.2	1.2	0.9	1.1	0.8	0.9	0.9	0.8	1.0	1.1	1.1	1.1	1.2
Average Monthly Wages	YY	1.9	2.0	2.0												
Employment Growth (Private-Sector)	YY	-0.8	0.4	1.5												
Unemployment Rate	%	9.9	9.8	9.5	9.9	9.9	9.9	9.8	9.9	9.8	9.7	9.8	9.7	9.6	9.4	9.3
Current Account Balance	€ bn	-33.9	-19.7	-6.5												
	% GDP	-1.6	-0.9	-0.3												
General Government Balance	€ bn	-87.6	-79.0	-71.1												
	% GDP	-4.3	-3.8	-3.3												
Primary Balance	% GDP	-1.6	-1.1	-0.7												
General Government Debt	€ bn	1933.5	2019.7	2090.9												
	% GDP	93.9	96.3	97.5												
Gross Trading Profits	YY	1.1	3.4	3.2												

Note: Percentage changes unless indicated. Annual data are period averages.
Sources: ECB, Eurostat, INSEE and Citi Research forecasts

Key Economic Indicators (14 April – 18 April 2014)

Monday 14 April		Forecast	Last
09:00	Italy: Consumer Prices, Mar Final		
10:00	Euro Area: Industrial Production, Feb	0.5% MM	-0.1% MM
11:00	Ireland: Merchandise Trade, Feb		
Tuesday 15 April		**Forecast**	**Last**
08:15	Switzerland: Producer & Import Prices, Mar		
08:30	Netherlands: Retail Sales, Feb		
09:30	UK: Consumer Prices, Mar	0.2% MM, 1.6% YY	0.5% MM, 1.7% YY
	CPI Ex Food, Drink, Tobacco, Energy, Mar	0.3% MM, 1.6% YY	0.7% MM, 1.7% YY
	Retail Prices, Mar	0.3% MM, 2.5% YY	0.6% MM, 2.7% YY
	RPIX – Excludes Mortgages, Mar	0.3% MM, 2.6% YY	0.7% MM, 2.7% YY
09:30	UK: Producer Input Prices, Mar	-0.3% MM, -6.2% YY	-0.4% MM, -5.7% YY
09:30	UK: Producer Output Prices, Mar	0.2% MM, 0.4% YY	0.0% MM, 0.5% YY
	Output Prices Ex Tax, Mar	0.2% MM, 0.6% YY	0.1% MM, 0.6% YY
	Excluding Food, Drink, Tobacco, Energy, Mar	0.1% MM, 0.9% YY	0.1% MM, 1.1% YY
10:00	Euro Area: Trade Balance, Feb		
10:00	Germany: ZEW Current Situation, Apr	50.3	51.3
	ZEW Economic Sentiment, Apr	48.6	46.6
Wednesday 16 April		**Forecast**	**Last**
09:00	Norway: Trade Balance, Mar		
09:00	Italy: Trade Balance, Feb		
09:30	UK: LFS Unemployment, 3-Month Average, Dec-Feb	-10,000 QQ, 7.1% Rate	-63,000 QQ, 7.2% Rate
	LFS Unemployment, Single Month, Feb	7.3% Rate	6.9% Rate
	Claimant Count Unemployment, Mar	-30,000 MM, 3.4% Rate	-34,600 MM, 3.5% Rate
	Average Earnings Ex Bonuses, Feb	2.0% YY	1.8% YY
10:00	Euro Area: HICP, Mar Final	0.5% YY	0.7% YY
10:00	Italy: Current Account, Feb		
	Spain: Trade Balance, Feb		
Thursday 17 April		**Forecast**	**Last**
07:00	EU-27: New Car Registrations, Mar		
07:00	Germany: Producer Prices, Mar	0.0% MM, -0.9% YY	0.0% MM, -0.9% YY
08:30	Netherlands: Unemployment, Mar		
09:00	Euro Area: Balance of Payments, Feb		
14:00	Belgium: Consumer Confidence, Apr		
	Greece: Current Account, Feb		
Friday 18 April		**Forecast**	**Last**
08:30	Netherlands: Consumer Confidence, Apr		
09:00	Italy: Industrial Orders, Feb		
10:00	Italy: Negotiated Wages, Mar	1.4% YY	1.4% YY
	UK: Good Friday Holiday		

Sources: National statistical offices, central banks and Citi Research

Economic Indicators

Euro Area

Apr 14 10:00 London Time	***Industrial Production, Feb***	**Forecast: 0.5% MM**	**Prior: -0.1% MM**
	Industrial output likely rebounded in February, after two small contractions in Dec and Jan. The annual rate likely picked up from 1.6% in Jan to 1.8% YY, although remaining broadly in line with the average of the previous three months. The level of the manufacturing PMI, at 53.0 in March, suggests further room for expansion in industrial production in coming months.		
Apr 16 10:00 London Time	***HICP F, Mar***	**Forecast: 0.5% YY**	**Prior: 0.7%YY**
	Headline inflation dropped to 0.5% YY in March, down from 0.7% YY in Feb, according to the flash estimate, slightly lower than general expectations, on the back of core inflation (ex-food, tobacco and energy) declining from 1.0% to 0.8% YY and food HICP inflation falling from 1.5% to 1.0% YY. We estimate the later timing of Easter relative to last year may have shaved around 0.1pp off the headline inflation rate in March and we expect this effect to be more than reversed in April. We expect these readings to be confirmed in the final report, pointing to still-very subdued price dynamics. We expect headline inflation to rebound back to 0.7%-0.8% YY in April.		

Germany

Apr 15 10:00 London Time	***ZEW Current Situation, Apr*** ***ZEW Economic Sentiment, Apr***	**Forecast: 50.3** **Forecast: 48.6**	**Prior: 51.3** **Prior: 46.6**
	We expect the ZEW index of financial market analysts to stabilise in March. For the current conditions component, we expect a small decline after four consecutive monthly increases that left the index at its highest level since mid-2011. For the expectations component, we expect a small increase after two large falls, which were likely at least in part to have been related to tensions in Russia and Ukraine. Both components remain comfortably (more than 1 std) above their LT averages.		
Apr 17 07:00 London Time	***Producer Prices, Mar***	**Forecast: 0.0% MM, -0.9% YY**	**Prior: 0.0% MM, -0.9% YY**
	We expect German producer prices to be stable on a monthly basis and remain more than 0.5% lower than a year before, as energy price increases in particular as well as import prices in general remain moderate.		

Italy

Apr 18 10:00 London Time	***Negotiated Wages, Mar***	**Forecast: 1.4% YY**	**Prior: 1.4% YY**
	We expect contractual wage inflation to have remained unchanged at 1.4% YY in March, in line with the average of the previous 12 months. Monitoring wage growth at this junction is quite important as it signals the extent to which a low inflation environment may or may not be feeding into lower wage agreements. Of course, these would also reflect the large amount of slack in the labour market. Although negotiated wage growth has been slowing down quite significantly in 2010-2011 in Italy, since 2012 it has hovered around the 1.5% YY area, suggesting a quite high degree of downward rigidity in wage setting mechanism.		

United Kingdom

Apr 15 09:30 London Time	***Consumer Prices, Mar*** ***CPI Ex Food, Drink, Tobacco, Energy, Mar*** ***Retail Prices, Mar*** ***RPIX – Excludes Mortgages, Mar***	**Forecast: 0.2% MM, 1.6% YY** **Forecast: 0.3% MM, 1.6% YY** **Forecast: 0.3% MM, 2.5% YY** **Forecast: 0.3% MM, 2.6% YY**	**Prior: 0.5% MM, 1.7% YY** **Prior: 0.7% MM, 1.7% YY** **Prior: 0.6% MM, 2.7 YY** **Prior: 0.7% MM, 2.7% YY**
	We expect a further drop in CPI inflation this month, taking the YY rate to the lowest since Oct-09. This expected decline mainly reflects base effects from a rise in petrol prices a year ago, plus the downward effect on core inflation from recent declines in import prices. The relatively late Easter may also help cap air fares although this effect probably will reverse next month.		
Apr 15 09:30 London Time	***Producer Input Prices, Mar***	**Forecast: -0.3% MM, -6.2% YY**	**Prior: -0.4% MM, -5.7% YY**
	Although agricultural commodity prices picked up quite sharply in March, declines in metals and oil prices, along with lagged effects of previous sterling appreciation, may produce yet another decline in input prices – the tenth in the past twelve months. This decline will help cap CPI inflation in coming months.		
Apr 15 09:30 London Time	***Producer Output Prices, Mar*** ***Output Prices Ex Tax, Mar*** ***Excluding Food, Drink, Tobacco, Energy, Mar***	**Forecast: 0.2% MM, 0.4% YY** **Forecast: 0.2% MM, 0.6% YY** **Forecast: 0.1% MM, 0.9% YY**	**Prior: 0.0% MM, 0.5% YY** **Prior: 0.1% MM, 0.6% YY** **Prior: 0.1% MM, 1.1% YY**
	Output price inflation is likely to remain subdued for now – and indeed, our forecast would put the overall rate of output price inflation at the lowest since 2009. However, surveys suggest that manufacturers' price expectations are picking up, which may signal that the decline in output price inflation is near its end.		
Apr 16 09:30 London Time	***LFS Unemployment, 3-Mo Avge, Dec-Feb*** ***LFS Unemployment, Single Month, Feb*** ***Claimant Count Unemployment, Mar*** ***Average Earnings Ex Bonuses, Feb***	**Forecast: -10,000 QQ, 7.1% Rate** **Forecast: 7.3% Rate** **Forecast: -30,000 MM, 3.4% Rate** **Forecast: 2.0% YY**	**Prior: -63,000 QQ, 7.2% Rate** **Prior: 6.9% Rate** **Prior: -34,600 MM, 3.5% Rate** **Prior: 1.8% YY**
	We expect the trend in unemployment will continue to be downwards, with the three-month average edging down to 7.1% from 7.2%, but that the "cohort" effect will produce a higher single month figure in February than in January. The single month figures are not based on a statistically representative sample (it only becomes representative when averaged over three months). The February survey will largely cover the same people as the November survey – and that survey showed a notably higher single month jobless rate than the surrounding months. Average earnings growth is likely to tick higher again, reflecting higher pay deals plus base effects.		

Sources: National Statistical Offices, National Central Banks, Bloomberg, and Citi Research forecasts.

Key Economic Indicators (21 April – 25 April 2014)

		Forecast	Last
During The Week		**Forecast**	**Last**
07:00	Germany: Import Prices, Mar (by Apr 29)		
Monday 21 April		**Forecast**	**Last**
UK	Easter Monday Holiday		
Tuesday 22 April		**Forecast**	**Last**
08:30	Sweden: Unemployment Rate, Mar	8.7% NSA, 8.2% SA	8.5% NSA. 8.1% SA
10:00	Euro Area: Construction Output, Feb		
15:00	Euro Area: Consumer Confidence, Apr Flash	-8.5	-9.3
Wednesday 23 April		**Forecast**	**Last**
09:00	Euro Area: Manufacturing PMI, Apr Flash	52.7	53.0
	Services PMI, Apr Flash	52.5	52.2
	Composite PMI, Apr Flash	53.1	53.1
09:30	UK: Public Sector Net Borrowing (Ex RM, APF & Fin. Intervention), Mar	£9.5 Billion Deficit	£11.4 Billion Deficit
	Fiscal Year, Apr13-Mar14	£108.8 Billion Deficit	Apr12-Mar13: £115.2 Billion Deficit
009:30	UK: MPC Minutes		
10:00	Euro Area: General Government Deficit & Debt, 2013 – 1st Notification		
11:00	UK: CBI Quarterly Industrial Confidence, Apr	+30%	Jan: +21%
	CBI Monthly Output Expectations, Apr	+20%	Mar: +19%
	CBI Order Books, Apr	0%	Mar: +6%
	CBI Selling Prices, Apr	+10%	Mar: +12%
Thursday 24 April		**Forecast**	**Last**
07:00	Switzerland: Trade Balance, Mar		
07:45	France: Industrial Confidence, Apr		
08:30	Netherlands: Consumer Spending, Feb		
08:30	Netherlands: Producer Confidence, Apr		
09:00	Norway: Survey of Bank Lending, 1Q		
09:00	Germany: ifo Business Climate, Apr		
10:00	Euro Area: Quarterly Data on Government Deficit, 4Q		
11:00	UK: CBI Retail Survey, Apr		
Friday 25 April		**Forecast**	**Last**
08:00	Spain: Producer Prices, Mar		
09:30	UK: Retail Sales Volumes, Mar	0.3% MM, 4.4% YY	1.7% MM, 3.7% YY
09:30	UK: BBA Mortgage Advances, Mar		
14:00	Belgium: Business Confidence, Apr		
17:00	France: Jobseekers, Apr		

Sources: National statistical offices, central banks and Citi Research

Publication Title	Author	Date
Euro Area — Sovereign Debt Update		
Draghi Sees Room for Slowing Down on Fiscal Austerity	European Economics Team	Apr 11, 2014
ECB's Bonnici on the Euro, Negative Depo Rate and QE	European Economics Team	Apr 10, 2014
Italy and France Step Up Calls for Less Austerity, More Focus on Growth	European Economics Team	Apr 9, 2014
The ECB and the "Long Way" to QE	European Economics Team	Apr 8, 2014
ECB on QE	European Economics Team	Apr 7, 2014
Euro Area		
Euro Area - ECB Bulletin Highlights: Slack, Recovery And Fiscal Multipliers	Guillaume Menuet	Apr 10, 2014
Spain - What's Next For Catalonia Following Congress Rejection?	Giada Giani	Apr 8, 2014
Greece - Two Years After the Biggest Sovereign Debt Restructuring in History	Giada Giani	Apr 8, 2014
France - Tax cuts and reforms, but little on savings and budget targets	Guillaume Menuet	Apr 8 2014
ECB - Dovish Draghi Signals Unanimous Commitment To Act	Guillaume Menuet	Apr 3, 2014
Spain - Labour Market Recovery Strengthens In Q1	Giada Giani	Apr 2, 2014
France Macro View - Manuel Valls Tasked To Prioritise Growth Over Deficit Reduction	Guillaume Menuet	Apr 1, 2014
Euro Area - Inflation Falls to 0.5% YY in March	Giada Giani	Mar 31, 2014
ECB - Likely To Stay Put in April Despite Room To Ease	Guillaume Menuet	Mar 28, 2014
European Economic Forecast Highlights - March 2014	Ann O'Kelly	Mar 27, 2014
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The Rise of The Output Gap	Ebrahim Rahbari	Apr 4, 2014
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ERS: An Alternative Solution to OMT?	Guillaume Menuet	Feb 7, 2014
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Germany 2014 Outlook: Recovery And Rebalancing	Ebrahim Rahbari	Jan 10, 2014
2014 Outlook: GDP Risks, Credit Dynamics and Inflation Update	European Economics Team	Jan 6, 2014
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Global Economic Outlook and Strategy - March 2014	Willem Buiter	Mar 26, 2014
How Could The EM Turmoil Affect The Advanced Economies?	Willem Buiter/Ebrahim Rahbari	Mar 17, 2014
Scandi		
Scandi Economics Update	Tina Mortensen	Apr 11, 2014
Sweden - Large Inflation Undershoot in March	Tina Mortensen	Apr 10, 2014
Norway - Core CPI Above 2.5% Inflation Target (for CPI)	Tina Mortensen	Apr 10, 2014
Switzerland		
Switzerland - SNB Keeps Policy On Hold	Michael Saunders	Mar 20, 2014
UK		
UK - RICS Survey Suggests Housing Still Booming	Michael Saunders	Apr 10, 2014
UK - Treasury Survey On Economy	Michael Saunders	Apr 9, 2014
UK - Opinion Polls Update Ahead of Three Key Political Hurdles	Michael Saunders	Apr 9, 2014
UK - IP Data Point to Very Strong Q1 GDP Growth	Michael Saunders	Apr 8, 2014
UK Economics Weekly		
CPI Disinflation and RPI Reflation	Michael Saunders	Mar 28, 2014
Raising UK Growth Forecasts Again	Michael Saunders	Mar 21, 2014
Policy Continuity and Flexibility	Michael Saunders	Mar 14, 2014
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Source: Citi Research

Appendix A-1

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