

ECB May Buy Low-Rated ABS

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

Summary

ECB to consider buying ABS purchases with ratings below the current collateral eligibility threshold of single A, *Die Welt* reports. Comment: the article suggests that the lower rating threshold is to apply to senior tranches, not the junior tranches for which the ECB has called for government guarantees.

ECB to redraft confidentiality agreements with banks for Comprehensive Assessment in coming days, following complaints by banks that a requirement to keep details confidential indefinitely may infringe national laws.

ECB's Liikanen reaffirms ECB's willingness to do more – saying that the ECB was hoping for a “sizeable” impact from recently announced measures on the ECB's balance sheet, and he confirmed that the ECB would buy “transparent ABS products when familiar with the risks”.

Germany – Finance Minister Schäuble sees no need to correct fiscal policy in light of worse economic outlook.

Germany – ZEW survey continues to decline in September, with the current situation component falling to 25.4 (consensus: 40.0), down 18.9 points from August, and the expectations measure at 6.9 (Consensus: 5.0), down 1.7 from August.

France – PM Valls wins confidence vote, with narrowing majority, with 269 votes in favour to 244 votes against, while 53 lawmakers (32 of which Socialist MPs) abstained. Mr. Valls called for “the pace of deficit reduction in Europe to be adapted” requiring “using all of the flexibility allowed by the Stability and Growth Pact” and added that it was necessary for the euro to weaken further.

Italy – Confindustria slashes GDP forecasts to -0.4% for 2015 and +0.5% in 2015, predicts the fiscal deficit to stay close to the 3% of GDP until 2015.

Italy – labour market reform to be approved by 30 October, PM Renzi pledges, threatening early elections if Parliament does not proceed quickly on the reform agenda.

Italy – FinMin Padoa-Schioppa rules out VAT rate hike, predicts €37bn TLTRO take-up by Italian banks, lower than previous estimates, less than 50% of total amount available.

Greece – Syriza's economic programme to cost €17.2bn (or 10% of GDP), according to Finance Ministry estimates, not €11.4bn as estimated by Syriza.

Slovenia - Fiscal update before new Finance Minister takes office.

17 September 2014

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With thanks to Antonio Montilla and Ann O'Kelly

Economics

Western Europe

Industrialised G7 Countries

Recent Research

Slovenia Macro Flash — Fiscal update before new Finance Minister takes office

17 September 2014

The state deficit in July is not far from the target of a €1bn deficit approved for this year. However, the dynamics of the state budget are not all that bad. We estimate the government has kept a large cash buffer. The coalition treaty envisages fiscal consolidation and Monday's speech by forthcoming Finance Minister did not change our view that the privatization of 15 companies “on the list” will most likely continue, though there may be some obstacles. Confidence vote for the gov't of PM Cerar (SMC) is expected on Thursday.

Jaromir Sindel

UK — Drop in Food Prices Brings CPI Inflation Down

16 September 2014

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

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Today's News In Detail

ECB to consider buying ABS purchases with ratings below current collateral eligibility threshold. *Die Welt* reports that the ECB may purchase ABS with ratings that are below the current threshold for collateral for its lending facilities to banks, citing unnamed “people familiar with the discussions”. The current rating threshold for accepting ABS as collateral is ‘A’ according to the article, but proponents of the purchase programme see a need to lower the rating limit to help fight deflation. Bloomberg reports that an ECB spokesman declined to comment on the newspaper article and said that the details of the purchase program will not be decided until early October. Comment: the article suggests that the lower rating threshold is to apply to senior tranches, not the junior tranches for which the ECB has called for a guarantee by member states.

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ECB to redraft confidentiality agreements with banks for Comprehensive Assessment. Bloomberg reports that the ECB will rewrite a confidentiality agreement it had asked the banks participating in its Comprehensive Assessment to sign, after fewer than half the institutions agreed to the terms. The ECB said it is working closely with the banks and will address the feedback it received from them in a revised version in the coming days. Previously, the ECB received complaints from banks that the terms of the agreement could infringe national laws governing securities disclosure, as the confidentiality agreement had asked banks to commit to secrecy about the Assessment process without time limitation.

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ECB's Liikanen reaffirms ECB's willingness to do more – Finland's central bank governor Erkki Liikanen indicated on Tuesday when presenting the central bank's quarterly report that “*should it become necessary to further address risks of too prolonged a period of low inflation, the Governing Council has underlined that it is unanimous in its commitment to using additional unconventional instruments*”. Mr. Liikanen repeated that the aim of recent ECB monetary policy decisions was to “*support lending, and enhance transmission*”. Mr. Liikanen noted that the Governing council was hoping for a “*sizeable*” impact of recently announced measures on the ECB's balance sheet, and confirmed that it would buy “*transparent ABS products when familiar with the risks*”. Comment: the last remark probably refers to the fact that the ECB is already accepting a very large proportion of these assets for collateral operations (around 42%, according to our calculations). The problem with this policy is that to increase the size of the ECB's balance sheet, the ECB needs to buy a greater proportion of assets not already used for refinancing operations, either lower-quality ABS or bank debt or loans. A simple solution would be to purchase government debt, a conclusion that we think the ECB will reach later this year or early in 2015 when it recognises that the medium-term inflation trajectory continues to undershoot its mandate.

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Germany – Finance Minister sees no need to correct fiscal policy. Bloomberg reports that German FM Schäuble said in an interview with Reuters that geopolitical risks somewhat weigh on the economic environment and that economic forecasts for Germany have worsened a little. But he added that he did not see a need to correct fiscal policy in light of the changed outlook. Schäuble warned against reading too much into the recent swings in the euro exchange rate, “*in the positive or in the negative sense*”, adding that there is no manipulation of the exchange rate, as the ECB was “*of course sticking to the agreements we have made in the framework of the G7 and G20*”.

CPI inflation edged down to 1.5% YY in August from 1.6% YY in July, in line with the consensus forecast. The split shows further weakness in food prices, which fell 1.2% YY – the sharpest drop since 2002. Core inflation, which we define as CPI inflation excluding food, drink, tobacco and energy, was 1.9% YY in August, slightly up from July (1.8%). The weakness in food prices may in part reflect specific factors such as the expansion of low-cost retailers and surpluses of some fresh food items as a side-effect from restrictions on exports to Russia. But, in our view, the key drivers are the prior strength in sterling plus weakness in global agricultural commodity prices. We look for CPI inflation to stay at about 1½% YY in both Q4-14 and Q1-15 and then (as base effects from food turn adverse) edge up to about 2% YY in late 2015.

Michael Saunders

Sweden — Change Of Government

15 September 2014

Preliminary election results show a change of government, with SocDem leader Löfven likely to become new prime minister. Meanwhile, failing to gain an overall majority, Löfven faces a hard task ahead in forming a government that can pass a budget this autumn. It will probably take a couple of weeks before we will know how the new government will look. Our main scenario remains that the SocDems will form a minority coalition government with the Greens, and to rely on support from the Left Party and some of the three smaller centre-right parties. Although minority governments are far from being unique in Sweden, the combination of cross-block cooperation, an unusually strong kingmaker party and a historically weak SocDem has clearly changed the preconditions for government work. The current situation threatens to produce a period of relative political instability and will likely continue to be an issue for financial markets.

Tina Mortensen

UK Economics Weekly — More Questions Regarding Scottish

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Germany – ZEW survey continues to decline in September. The German ZEW survey of financial analysts continued to decline for both the current situation and the expectations measure, even though the decline in the more forward-looking expectations component was smaller than expected by the consensus. The current situation component fell to 25.4 in September (consensus: 40.0), down 18.9 points from August. This was the third consecutive monthly fall, but still left the index 0.8 SD above its long-term average. The survey expectations measure came in at 6.9 (consensus: 5.0), down 1.7 points from August, and the ninth consecutive monthly fall, leaving the index 0.5 SD below its LT average and at the lowest level since December 2012. The survey expectations measure for the Eurozone also weakened, by 9.5 to 14.2, the lowest level since January 2013.

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France – PM Valls wins confidence vote, with narrowing majority. French PM Manuel Valls won the confidence vote in the lower house of parliament on Tuesday, with 269 votes in favour to 244 votes against, while 53 lawmakers (32 of which Socialist MPs) abstained. Mr. Valls confirmed that he would stick to his supply-side reforms and deliver the pre-announced €50bn of expenditure cuts by 2017, but that the government would not increase taxes, leading to some overshooting in the budget deficit compared to the previously agreed deficit reduction trajectory. Mr. Valls argued that the difficult economic situation required exceptional measures, but stressed that *“reform does not mean destroying our social model”*. Mr. Valls called for *“the pace of deficit reduction in Europe to be adapted”* requiring *“using all of the flexibility allowed by the Stability and Growth Pact”* and added that it was necessary for the euro to weaken further. Comment: Mr. Valls’ reduced majority means that passing the 2015 budget in the autumn will be difficult, but should be manageable. The possibility of an increase in VAT rates remains on the table, we think, as part of the possible *quid pro quo* with the European Commission, alongside changes in rules on workers’ representation, and additional reforms to labour laws to increase flexibility.

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Italy – Confindustria slashes GDP forecasts to -0.4% for 2015 and +0.5% in 2015. In its latest quarterly report, the main Italian business association revised its Italian GDP growth forecasts to -0.4% for the 2014 average, from +0.2% in June, while 2015 growth was halved to 0.5% relative to the previous estimate. Fixed investment is still seen as the major drag on GDP growth, expected to fall by 2.3% in 2014, while private consumption is seen roughly flat on 2013 (+0.1%). Confindustria sees the public deficit remaining close to the 3% threshold this year and next (at 2.9%), and it expects the public debt ratio to GDP to continue rising to 137.9% by the end of 2015. Comment: the weaker-than-expected Q2 GDP figure, together with preliminary indications for Q3 that growth may remain in negative territory also in H2 14, [has led forecasters to slash their 2014 and 2015 growth estimates for Italy](#).

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Italy – labour market reform approved by 30 October, pledged PM Renzi, speaking in front of Parliament during the presentation of his political agenda for the next three years. The PM threatened MPs that the government is ready to push through his Jobs Act via decree laws, rather than going through the longer parliamentary approval process for standard laws. The PM promised to scrap the infamous Article 18 of the Labour statute, which makes firing highly difficult, but also to remove the bureaucratic impediments which lift firms’ non-wage costs. Renzi also called on Parliament to quickly approve the electoral law and hinted at the possibility of early elections if Parliament is unable to deliver the government’s reform agenda. Comment: Renzi is keen to keep driving reform

Independence

12 September 2014

We still lean to a “No” vote (ie against independence) as the most likely outcome in the Scottish referendum, but the polls are too close to call the outcome with any confidence. This note addresses some particular issues that have arisen most often over recent days. How long would the transition to independence take? How would this affect BoE monetary policy? Could “sterlingisation” work? Is the SNP’s threat to walk away from part or all of its share of the UK national debt credible? Would “Scexit” make “Brexit” more likely?

Michael Saunders | Ann O’Kelly

Euro Economics Weekly — Euro Area: Housing Sector Close to a Turnaround

12 September 2014

We present evidence of house price valuations for the EA – and individual countries – across a range of measures. For the EA, house prices appear around fair value of our preferred gauge, although some indicators suggest prices are still slightly over-valued. In our view, EA real house prices may be near the trough, but a strong rebound in house prices and activity (as in Ireland and the UK) is unlikely. We find upside potential in real house prices in Portugal, Italy, Greece, and Spain, while in Germany and Ireland house prices will continue to rise. Conversely, we see sizeable risks of further corrections in house prices in Belgium, France, and Finland. In our view, the housing sector is unlikely to be the spark that could ignite the economic recovery in the EA. We expect the ECB to launch a QE programme later in 2014 or in early 2015.

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

Norway — Norges Bank Forecast: Stable Rates, More Gradual Pace Of Tightening

12 September 2014

Despite signaling a 28% probability of near-term easing in the June MPR, we expect Norges Bank to confirm its wait-and-see stance at the upcoming 18

momentum amid rising discontent among the Italian business community regarding the policy measures delivered since he became PM earlier this year. The urgency is also dictated by the need to negotiate with Europe wider fiscal deficit targets in exchange for reform implementation.

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Italy – FinMin Padoan rules out VAT rate hike, predicts €37bn TLTRO take-up by Italian banks. In a TV interview last night, Mr Padoan denied that the EU Commission is putting pressure on Italy to increase the reduced VAT rate (currently at 4% and applied to food and certain other products) in the 2015 Budget. *//Sole24ore* newspaper reports that Padoan said the government's intention is to reduce the overall tax burden and to make permanent the tax rebates introduced in May (€80/month), although he admitted the weaker economy has reduced the resources available for the 2015 budget. Padoan said GDP growth could be negative in 2014. The FinMin also noted that "*it is realistic*" that Italian banks will ask for €37bn in the TLTROs this year. Comment: the estimate for the TLTRO take-up is quite low compare with previous estimates (around €52bn reported by *//Sole24ore* in August) and would amount to around 50% of the total amount available for take-up by Italian lenders in the first two TLTRO rounds.

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Greece –Syriza's economic programme to cost €17.2bn (or 10% of GDP), according to Finance Ministry estimates. The Ministry issued a note yesterday saying that the economic programme detailed on Sunday by opposition leader Tsipras would cost the public coffers some €17.2bn (around 10% of GDP), instead of €11.4bn estimated by Syriza. For the first time Syriza detailed its planned economic policies, including restoring the minimum wage to €751/month, raising the tax-free threshold to €12,000 and a 13th monthly pension payment for retirees. Syriza proposed to cover these measures by settlements on tax arrears and clamping down on tax evasion as well as accessing €3bn from the bank recapitalization fund (HFSF), *Ekathimerini* reported. The Finance Ministry also said that the proposal to write off the bank debts of those living in poverty would cause losses for the banks close to €10bn, rather than €2bn estimated by the opposition party. Overall, the government estimates that the fiscal deficit would rise by 9pp of GDP if the Syriza programme were implemented.

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Latest Issues of Sovereign Debt Update

OECD Downgrades Eurozone Outlook, Calls for QE

16 September 2014

OECD says QE warranted in Euro area, cuts GDP forecasts. Regulators discuss changes to ABS rules. EU banks object to ECB stress test confidentiality agreement. German deputy FinMin says ECB policy relies on reforms being effective. France: confidence vote today after PM Valls' policy speech. OECD and S&P cut Italy's GDP forecast for 2014-15. Spain: Catalonia may hold early regional election if referendum called off. Catalonia regional govt. not to comply with 2015 fiscal target says PM Mas.

Ebrahim Rahbari | Guillaume Menuet | Giada Giani

Eurogroup Disagrees on Mezzanine ABS Guarantees

15 September 2014

Eurogroup disagrees on mezzanine ABS guarantees, agrees on structural reform agenda, investment plans. Eurosceptic AfD does well in two regional elections in Germany. German govt plans to lower tax on patent receipts. Upcoming week pivotal in French politics. Spain's public debt level rises due to ESA2010, banks

September monetary policy meeting (i.e. keep the sight deposit rate stable at 1.50%). Clearly, the surprise cut from the ECB earlier this month will put Norges Bank in a difficult situation, however, with upside surprises in domestic growth, inflation and labour market indicators, we do not reckon this will be sufficient to trigger a rate cut. Meanwhile, there is little doubt that lower foreign interest rates, in isolation, will lower the conditional interest rate path. History, meanwhile, suggests it primarily will affect the long-end of the path. Hence, Norges Bank will likely signal an even more gradual pace of tightening in 2016-17, and will probably also refrain from appearing too hawkish. Still, we do expect a somewhat more balanced statement in September compared to June.

Tina Mortensen

Norway — RNR Points to Ongoing Moderate Growth, in line with NB Forecast

12 September 2014

Norges Bank's Regional Network Report showed a slight deterioration in output in the Norwegian economy over the past three months. Meanwhile, the expectation indicator was revised a tad higher, but still continues to point to below-trend mainland GDP growth ahead of around 0.5% Q/Q in 3-4Q 2014, i.e. in line with Norges Bank's 3Q forecast. The RNR is a very important input for NB ahead of its 18 Sep monetary policy meeting. As today's report is well in line with Norges Bank's forecast of moderate growth and lower capacity utilization, it should, in isolation, not change the Central Bank's view on monetary policy. Still, with the strong 2Q mainland GDP outcome, Norges Bank will likely have to lift its full-year 2014 growth forecast.

Tina Mortensen

UK — Scotland YouGov Poll Shows 4-Point Lead for "No" Vote

12 September 2014

Excluding the "don't knows" and "won't votes", the "No" vote leads by 52% to 48%, whereas the prior YouGov poll put the "Yes" vote two points ahead. The 5-poll average of all polls puts the "No"

increase ECB borrowing. S&P ups Greece rating one notch. Greece's Syriza leader calls for large debt write-off. Euro Area house prices.

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

Draghi Calls for Fiscal and Monetary Policy Joint Actions

12 September 2014

Draghi says efforts should focus on raising investment. ECB: Constancio on buying govt bonds, Visco on risk of inflation expectations becoming de-anchored, Noyer says value of euro still needs to come down. Italy: FinMin says 2014 fiscal target based on outdated forecasts. Italian firms' inflation expectations ease further, IP falls in July. Huge Catalan protest in favour of independence. ECB says Spain's 2015-16 fiscal targets difficult to meet. Belgium's Planning Bureau lowers GDP forecasts.

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

ECB's Mersch Explains Hurdles To QE

11 September 2014

ECB: Mersch on conditions for QE, Coeure on negative depo rate, Praet on risk of de-anchoring inflation expectations. Dijsselbloem says ECB MonPol approaching limits. EBA on possible junior debt rule for banks. Buba's Dombret says EU needs growth for bank repair. German politicians against Moscovici for EU Mon&Econ role. France targets 3% deficit in 2017. Spanish data show pickup in economic activity. Greek treasury offers to exchange Tbills for bonds. Deflation eases in Greece, Portugal.

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

France: 2015 Deficit Target Raised to 4.3% of GDP

10 September 2014

French govt raises deficit target amid lower growth. ECB's Coeuré: strong euro needs loose monetary policy, last week's measures are not QE. ECB's Liikanen: no decision yet on ABS scale. German EconMin on 2H GDP growth. French-German proposal to revive securitisation market. Italy: nominal GDP revised by ESA2010. Italy's Renzi announces tax and spending cuts. Catalonia watches Scottish referendum. Spain: rising support for ruling PP. Portugal may follow Ireland's lead to repay IMF loan early.

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Macroeconomic Forecasts

Europe: Monthly Inflation Profiles For Selected Countries

5 September 2014

Updated monthly inflation forecasts for Euro Area, Germany, France, Italy, and Spain.

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

Global Economic Forecasts — August 2014

26 August 2014

This file shows summary forecasts, as published in Citi's Global Economic Outlook and Strategy, and their evolution from January 2014.

[Michael Saunders](#)

European Economic Forecast Highlights, August 2014

21 August 2014

This companion to the August issue of Global Economic Outlook and Strategy

vote 3 points ahead. We lean to a "No" vote as the most likely outcome, but it remains too close to call with confidence. Among the 16-24 year age group (who account for about 15% of those eligible to vote), the "No" vote now leads by 6 points whereas the previous YouGov poll put the "Yes" vote 20 points ahead. The volatility of opinion among younger voters adds to the uncertainty over the outcome in such a close race. Among people born in Scotland and living in Scotland, it is 50:50. Support for independence is markedly lower among people living in Scotland but born outside Scotland.

[Michael Saunders](#)

Sweden — Temporary Dip in Inflation, Strong Labour Market Trends

11 September 2014

Inflation eased in line with expectations in August (CPIF: 0.5% Y/Y, CPI: -0.2% Y/Y), partly due to a strong comparison month in August last year. Compared to the Riksbank's forecast, core inflation was spot on in August, and should, in isolation, be neutral for the monetary policy outlook. On a separate note, the improving labour market trends were confirmed in August; despite a slightly larger-than-expected rise in the LFS unemployment rate (from 7.8% to 8.0%), employment and labour supply continued to increase swiftly, with employment increasing by 94.8k (or 2%) over the year (strongest growth pace in three years) and the labour force participation rate reaching the highest level in more than two decades. Prospects of another rate cut, however, are mainly driven by the outlook for inflation, in our view. That said, the strong labour market will on the margin make the Riksbank more reluctant to cut rates further.

[Tina Mortensen](#)

Scandi Economics Update — Riksbank Minutes on the Agenda

17 September 2014

Sweden — With no reservations made at the September 4 monetary policy meeting, it will be interesting to see where the different board members stand in terms of additional policy

gives more detailed forecasts for the main European countries to 1Q16, together with 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 — August 2014

20 August 2014

We are cutting our global growth forecasts for both 2014 and 2015 by 0.1 percent from last month, to 2.8% and 3.4% respectively. This continues our recent bias to forecast downgrades. This month sees the biggest one-month downgrade to our euro area growth forecast since Jan-2012. We also make downgrades this month to growth forecasts for Japan, Australia, Brazil, South Africa and Sweden. We believe that early easing by both the BoJ and ECB is more likely than the consensus view. By contrast, the UK remains likely to tighten quite soon, with the Fed likely to start to hike rates about a year from now. Special topic: Is globalisation reversing? We discuss recent trends.

[Willem Buiter](#)

Foreign Exchange Forecasts — Lower Yields Delay USD Upside – August 2014

18 August 2014

G10 FX continues to be driven by monetary “surprises”. Recent ambiguous US data have allowed 10y UST yields to break to one year lows. With shorts in the bond market still extended, a move to 2% is possible near term which would almost certainly entail further USD losses over 0-3m. Similarly, delayed tightening in the UK will set back GBP given extended long positioning. Meanwhile, lack of additional stimulus in both Japan and Europe should generate short term JPY and EUR gains. Citi forecasts are still for all of this to reverse over 6-12m. By then the UK and US will be raising rates and both the BoJ and ECB will be expanding balance sheets. In EM, carry/ yield grab dynamics remain prevalent. We project broad stability over 0-3m. Further out, Fed tightening and higher UST yields favour the USD. Our forecasts imply EM depreciation of about 3% over 6-12m.

[Jeremy Hale](#)

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easing in today's minutes. As the ECB rate cut was announced after the Riksbank meeting, today's two speeches may also offer some clues on this.

Sweden — Today at 8.00 UK time, the Speaker of Parliament meets with SocDem leader Löfven and the other party leaders to begin the process of deciding who will form a new government. The Speaker said yesterday that it could probably take more than one round before a candidate that has a reasonable chance of passing as prime minister and later on being able to pass a budget can be appointed.

Sweden — Following the resignation of PM Reinfeldt and FinMin Borg, the hunt has begun for a new Moderate Party leader.

[Tina Mortensen](#)

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Appendix A-1

Analyst Certification

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