Europe Economic Weekly

Coming, just not right now

Weekly View: In confidence we trust

Mixed evidence from latest soft data suggest that short-term growth improvements for the Euro atra are not yet clear. We get more questions on potential US spillovers to Europe. We don't think the ECB has the luxury to wait for the Fed. And a proper foreign demand impulse for Europe needs a pickup in US and Chinese growth, probably.

Euro area: ECB Preview - almost there

We expect unchanged ECB guidance in the press release, but soft guidance that cuts are coming very soon at the press conference. ECB forecasts are likely to show 2.0% core in late 2026. Confidence will be the missing ingredient, the next few months' data crucial. We stick to our call that cuts are likely to start in June.

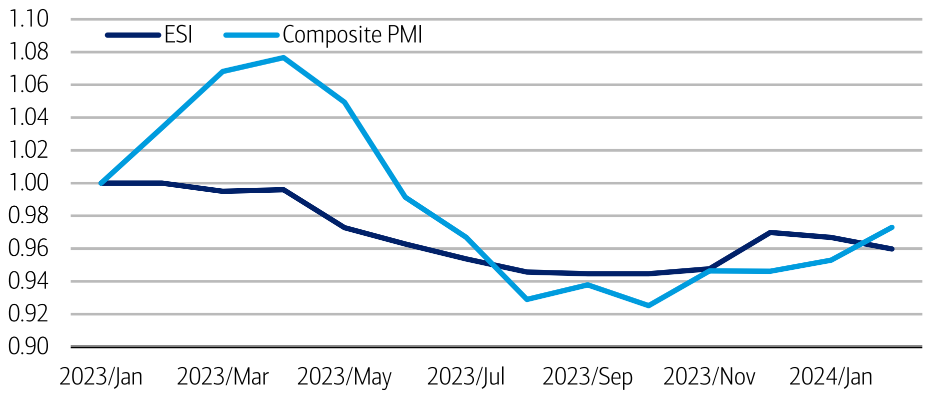
UK: Budget preview - a bit more headroom

In the UK, the Spring budget will be the highlight of the week. We expect the government to stretch the somewhat higher headroom with new measures, supporting our view of a patient BoE. The Gilt issuance maturity split should mean fewer long and index-linked, more short and (quite a lot more) medium Gilts.

Next week:

Focus will be on final service and composite PMIs for Feb (Tue) and national industrial production data for France (Tue), Spain (Thu) and Germany (Fri). German factory orders should fall to November levels (Thu). Lastly, the final releases of 4Q Euro area growth will shed light on the contributions of GDP drivers at the end of 2023 (Fri).

Exhibit 1: Economic sentiment indicator vs Euro area composite PMI (Jan 2023=1)
Jan/Feb composite PMI improvement contrasts with EC's ESI deterioration



Source: S&P/HCOB, EC, BofA Global Research

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Weekly view

In confidence we trust

All eyes on the ECB press conference next week, of course. Communication over the last two weeks has been fairly clear that the central bank is not ready to cut rates imminently, or ready to pre-commit firmly to a cut in June. Incoming February inflation data (suggesting a potential upward surprise in consensus expectations for core) doesn't create a last-minute sense of urgency, either. As a consequence, we expect no change to the written policy guidance, but perhaps soft guidance towards a cut in June (whilst not ruling out April entirely) during the press conference.

What is the ECB waiting for? Confidence, we would argue. The forecast update will be under close scrutiny, but all the ingredients are in place to keep core inflation changes to a minimum. Perhaps the ECB might lower the very end-point to core inflation forecasts from 2.1% to 2.0%, as a nod to rate cuts coming closer, provided incoming data doesn't challenge the forecast to the upside.

We stick to our call that the cutting cycle is likely to start in June. Risks to our expectations of three (quarterly) cuts this year are for one additional cut in October. However, compared to market pricing, we continue to see the bigger dichotomy in 2025, when we expect the ECB to cut at a pace of one per meeting, at least, until 2% is reached by mid-2025 at the latest. In our view, the price of the ECB's desire to have almost perfect proof that inflation is going back to target is an undershoot of the target, eventually.

Spillovers from elsewhere?

Over the last few weeks, we have been receiving more questions on the Euro area implications from (upside) risks to the US outlook. What if the US economy doesn't slow as expected, and what if the Fed cuts later than we assume? Recall that our US team expects quarterly Fed cuts to start in June, as disinflation progresses in spite of recent real economy strength (largely attributed to supply-side gains).

All else equal, better-than-expected US growth should help the Euro area, but possibly not enough to change the narrative on our side of the Atlantic sufficiently. In 2H23, US growth persistently surprised to the upside, while that of the Euro area didn't. For a proper foreign demand-driven Euro area growth boost that spills over into domestic demand, we would probably need to see accelerating US growth, paired with stronger-than-expected Chinese growth, a combination that currently seems unlikely.

We also doubt that the ECB has the luxury of waiting for the Fed, should cuts from the latter be delayed. We are often confronted with the view that the ECB cannot deviate from the Fed, but there are enough references that would challenge that argument. The ECB hiked in 2011 and then had to cut much further, while the Fed remained on hold. The Fed started hiking in 2015 and the ECB moved the other way, with cuts and the launch of QE.

Come June, and absent significant surprises, Euro area disinflation should be so obvious that the ECB won't be able to delay rate cuts anymore, we think. We argued a while ago – and we stick to this view – that eventually the ECB might be forced "kicking and screaming" into the cutting cycle by inflation dynamics.

Short-term growth improvement not yet clear

Meanwhile, data flow in the Euro area is mixed. As we flagged last week, the improvement in January and February Euro area PMIs is certainly welcome, but almost a seasonal phenomenon now – the same happened in 2022/23, before starting to deteriorate over the remainder of the year from around April/May. So, basically, we should worry if PMIs have deteriorated, but we cannot conclude much from any improvement.

The European Commission's Sentiment Indicator (ESI) for February then challenged the PMIs, with an unexpected deterioration, driven by manufacturing and services. Manufacturing seems to be largely an idiosyncratic German story, again. So while not exactly comforting, at least it matches the underperformance we expect here.

But services sentiment deterioration was broader-based. In some cases (Spain), it was "only" a payback from a particularly strong January print. But across the major Euro area members, services sentiment is, at best, back to December levels. Energy inflation may play a role here (pump prices were up in February). Either way, it suggests that the cyclical recovery we expect to unfold by spring may not be starting early.

Credit cycle: neither fish nor meat

More fundamentally, we discussed the relatively unfavourable Euro area growth composition a couple of weeks ago, with lacklustre capex (outside Italy) in particular. The Bank Lending Survey has, of course, suggested policy transmission may have peaked. But conditions remain tight. So from that perspective, it shouldn't come as a surprise that Euro area bank lending dynamics remain weak.

But the feedback loop to growth is, as a consequence, not favourable at the moment either. Non-financial corporate lending in longer maturities is typically something we watch for signs of capex, and at the moment there is nothing to see there.

UK budget: a bit more headroom

It has been a relatively quiet week for the UK. Focus is shifting to next week's Spring budget, so we provide the customary preview. We would expect new forecasts to show a little more headroom (around £15-20bn) compared to the Autumn statement, potentially enough to cancel the fuel duty rise and deliver some small tax cuts.

We would have argued this budget could be largely a non-event for markets. But if recent press reports about potentially more ambitious tax cuts now and possibly heftier expenditure cuts later prove correct, that could challenge credibility, again.

Next week

Data-wise, the focus will likely be on final service and composite PMIs for Feb (on Tue – they should show improving activity in the Euro area ex core countries) and national industrial production data for France (Tue), Spain (Thu) and Germany (Fri). German factory orders are likely to reverse the big ticket order-driven spike and return to November levels, at best, with a more than 8% mom contraction in our expectation (Thu). Lastly, the final releases of 4Q Euro area growth is subject to a small revision risk higher via French 4Q revisions. But more importantly, it will shed light on the contributions of GDP drivers at the end of 2023 (Fri).

Beyond the ECB meeting (Thu), the central bank agenda is light, with only the ECB's Holzman (Fri). And in the UK, the Spring budget will be the highlight of the week.

Euro Area

ECB Preview: Almost there

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- We expect unchanged ECB guidance in the press release, but soft guidance that cuts are coming very soon at the press conference.
- ECB forecasts are likely to show 2.0% core in late 2026. Confidence will be the missing ingredient, the next few months' data crucial.
- We stick to our call that cuts are likely to start in June. Markets still focus too much on 2024, while pricing too little for 2025, we think.

Not yet ready to firmly pre-commit

We expect unchanged guidance from the ECB in the press release. Soft guidance during the press conference that we are almost there when it comes to ECB cuts is likely though. This could come in the form of a suggestion that, as long as wages and underlying inflation near-term confirm expectations, the conditions will be there to start a cutting cycle. If something along on those lines were to be included in the press release, it would send a stronger signal, but it's not our base case. We would also expect Lagarde to acknowledge they have started to discuss the right conditions for the beginning of the cutting cycle.

A few weeks ago we were contemplating – on the back of forecasts that would likely show the job is pretty much done – a strong signal in the March meeting that a cutting cycle could start in the following two meetings. We were even slightly open to an April cut after Banque de France's Villeroy's interview in Les Echos.

We still think the signal from forecasts will be there (see below for a discussion on ECB forecasts). But recent data printing hawkish on the margin has probably reduced the likelihood that the Governing Council is ready to move partially away from data dependence to some sort of date dependence.

The need for more confidence is a key theme across central banks these days, and the ECB is no exception. We don't think the ECB is ready yet to confidently signal that a cutting cycle is about to start.

We think it's too early to get details on the operational framework review, but we could get news on an announcement coming soon. In line with recent reports, we would expect the ECB to move to a demand-driven framework, with a narrower corridor, a new lending facility with, hopefully, longer maturity than one week, and a small structural portfolio of assets. We work on the assumption of no changes to minimum reserve requirements (MRR), but small (one-off) changes can´t be ruled out.

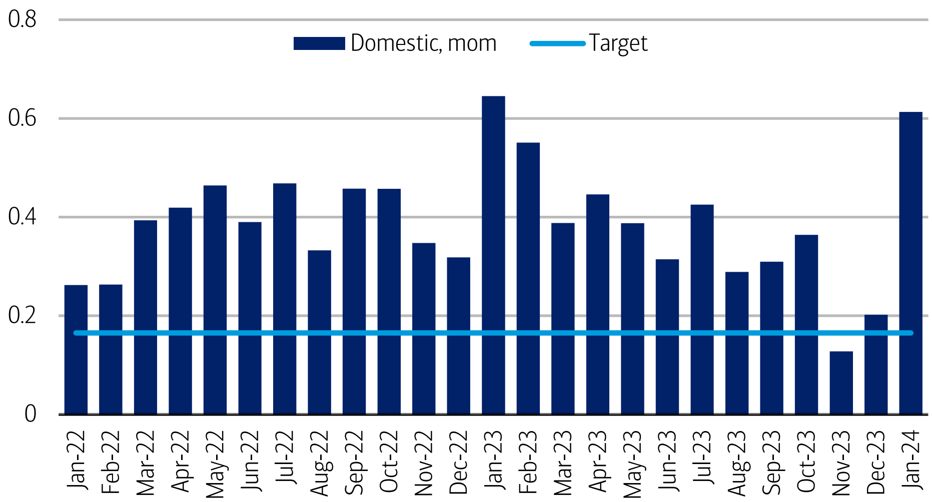
A few reasons to be cautious

As we argued last week, details of the January inflation print, growing signs of an accelerating economy, and the first signals from wages for 1Q, probably do not create a sense of urgency for the ECB to cut before June. We would add that some of the data probably even created more resistance to signal anything too firm next week. This is particularly the case for domestic inflation, a key focus these days. Even in sequential terms the January print is likely to cause some additional caution (Exhibit 2).

As a reminder, we still expect the first (25bp) cut from the ECB in June this year. We have 75bp of cuts in 2024E and 125bp in 2025E (one per quarter in 2024, accelerating to one per meeting in December). By June, we expect data to sufficiently comfort the

ECB that disinflation has legs. Data will eventually push the ECB to speed up the cutting cycle by more than they currently expect. Hence, our call for the ECB depo to be at 2% by mid-2025. And we have been flagging the risk of earlier acceleration of the cutting cycle than we expect now (by September). But that implies at most 100bp of cuts in 2024 and a lot more than is priced in for 2025.

Exhibit 2: Euro area, domestic inflation, mom%
The January print gives a reason to wait



Source: Eurostat, BofA Global Research

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April or June?

While our base case is June, we would not expect any clear pushback from ECB President Lagarde on an April cut. Rather, we would expect her to reiterate what she said in the last ECB meeting, emphasising data dependence rather than date dependence. We would not be surprised if she stands by her words in Davos earlier this year when asked about the timing of cuts, without providing specifics.

In our view, absent any major surprises on the very little data we (and they) will have between the March and April meetings, we doubt they can build consensus for an April cut if they are not ready to provide firmer guidance next week.

ECB projections: the price of confidence

In December, the ECB surprised with a very hawkish set of inflation forecasts, with core inflation, in particular, still at 2.1% on average in 2026E. Three months later, it will be tough to avoid cuts to the whole inflation trajectory, given the almost 10% decline in the (weighted) average of gas and oil prices over the forecast horizon. The ECB's own sensitivity analysis in the June 2023 forecast would suggest c 20-30bp of headline inflation at risk in 2024/25 and c 10bp in 2026 via energy prices alone. Food prices should compensate partly, but a mild downward revision even in 2025/26 is likely.

The ramifications for core inflation are not so obvious. Lower headline inflation and looser financing conditions (the 10y government bond yield moved down c 40bp between the forecast cut-off dates) will probably bring better growth forecasts once the 2023/24 winter lull is passed. A cut to 2024 growth by 20-30bp to 0.5-0.6% is likely, followed by upward revisions of 10-20bp per year in 2025/26.

Compensation per employee growth may have ended 2023 a tad weaker than the ECB initially expected, but paired with weaker growth in the short term, unit labour cost pressures remain (at least) as expected.

All combined, we expect only marginal changes to core inflation forecasts. The path in 2024-25 might be 10bp lower (at most 20bp), and we think there is a possibility of the ECB adjusting the back-end to the 2026 core inflation forecast by 10bp to 2%. It is unclear if that would be enough to push the 2026 average to 2%, but it strikes us as unlikely that the ECB will forecast an undershoot in this round.

Why not normalise rates when the target is reached in the relevant monetary policy horizon? The argument would be that reaching 2% is still so far off that the option value of waiting for further confirmation of the disinflation process is low (whether we subscribe to that argument is a different matter).

Exhibit 3: ECB projections – GDP and inflation
Path to target is created, confidence in it is missing

	Dec-23				Mar-24 (exp)			
	2023	2024	2025	2026	2023	2024	2025	2026
Real GDP	0.6	0.8	1.5	1.5	0.5	0.5-0.6	1.6-1.7	1.5-1.6
HICP	5.4	2.7	2.1	1.9	8.4	2.3-2.4	2.0-2.1	1.8-1.9
ex food & energy	5	2.7	2.3	2..1	5	2.6-2.7	2.1-2.2	2.0-2.1

Source: BofA Global Research, ECB staff projections

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Exhibit 4: ECB projections – technical assumptions
Gas and oil prices are on average almost 10% below Dec forecasts

	Dec-23				Mar-24 (exp)			
	2023	2024	2025	2026	2023	2024	2025	2026
Oil (USD/barrel)	84	80.1	76.5	73.6	82.5	79.2	74.8	72.1
Gas (EUR/MWh)	42	47	44	37	41.4	29.4	30.8	28.6
USD/EUR	1.08	1.08	1.08	1.08	1.08	1.08	1.08	1.08
NEER (1999Q1=100)	121.9	123.5	123.5	123.5	122.3	123.1	123.1	123.1

Source: BofA Global Research, ECB staff projections

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Getting there on the new operational framework

A story from an ECB source out this week suggested consensus is slowly building on the new operational framework. A demand-driven framework seems to be the choice, with liquidity operations set, eventually, at market prices within a smaller corridor and, perhaps, a structural bond portfolio. The story lacks details on whether a new liquidity facility would be created and its potential maturity. It also suggests some national central banks are still pushing the idea of a higher minimum reserve requirement.

We don't think the ECB will be ready to unveil such a framework next week: key details are yet to be determined, according to the story, and those won't be easy to settle. We work on the assumption that there will be a new facility, hopefully with a maturity all the way to one year. That would facilitate a smooth transition from the current situation to one in which demand for liquidity for regulatory reasons can be met without heightened uncertainty. We also work on the assumption that the corridor will eventually (not necessarily immediately) be narrowed to 25bp. That would reduce the stigma of such a new facility.

Finally, as we have been flagging, changes to the MRR, if any (we don't have a strong view), would be likely to be small and one-offs, although we work on the assumption of no change.

UK

Budget preview: a bit more headroom

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- We expect the government to stretch the somewhat higher headroom with new measures, supporting our view of a patient BoE.
- The Gilt issuance maturity split should mean fewer long and index-linked, more short and (quite a lot more) medium Gilts.
- GBP: Spring Budget could be the trigger for further cyclical outperformance.

Some more headroom in the new forecasts

New forecasts in next week's Budget will in our view show some more headroom relative to the Autumn statement before new measures are factored in. We would expect somewhere around £15-20bn headroom (probably closer to the upper bound), potentially enough to cancel the fuel duty rise and implement additional small tax cuts. We work on the assumption that 1p off the basic rate of Income Tax is one of those cuts. Borrowing is likely to be marginally lower for '24-25 before potential new measures are factored in.

Some tailwinds, but not large ones

We would expect the nominal GDP profile to be moved marginally lower (Exhibit 1). We think there will be some reduction in the OBR's GDP growth forecasts near term, too, since growth has surprised to the downside. We also expect inflation forecasts to be revised down (mostly through less imported inflation). On the other hand, debt interest cost should move lower, but by less than we would have anticipated a few weeks back given the repricing of the Bank of England cutting cycle (Exhibit 2). Finally, we would expect a smaller indexation cost only in the current fiscal year to add to the headroom.

Broadly unchanged borrowing pre-measures

Given the discussion above, and with the current fiscal year going broadly to plan, changes in borrowing will be mostly down to Budget measures. We would expect the government to stretch the headroom with new measures, but remain agnostic on their size and composition.

A non-event?

Stretching the headroom now with the hope – perhaps not politically feasible – that real expenditure cuts in the future take the debt profile lower comes with risks. But this has been the norm for quite some time and largely anticipated for this budget. As long as any announcement stays within the margins of what we discuss above, we would not expect a large reaction from markets.

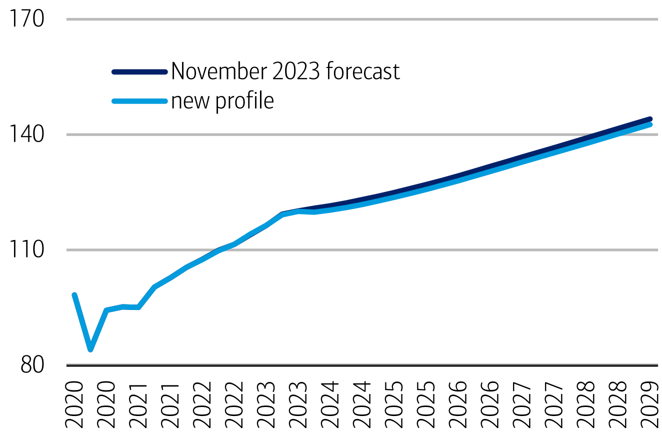
But with some risks

But given recent press reports we worry about potential announcements that deliver more ambitious tax cuts now on the back of backloaded and very politically challenging real expenditure cuts in the future. The government has already pencilled in a 1% annual real terms spending increase for all departments. But in light of existing commitments for some (NHS, defence, foreign aid or childcare), that means more than a 2% drop in real spending for all other departments from April 2025. Going further in that direction ahead of an election could clearly question credibility.

Likely to feed a cautious BoE

Given our expectation of additional measures we think the Budget will be mildly inflationary, adding another reason for the Bank of England to be patient and cautious when starting a cutting cycle. We think the budget next week should reinforce our view that a slow cutting cycle is unlikely to start before August this year.

Exhibit 5: Nominal GDP profile
Nominal GDP profile likely to be slightly lower



Source: OBR, BofA Global Research

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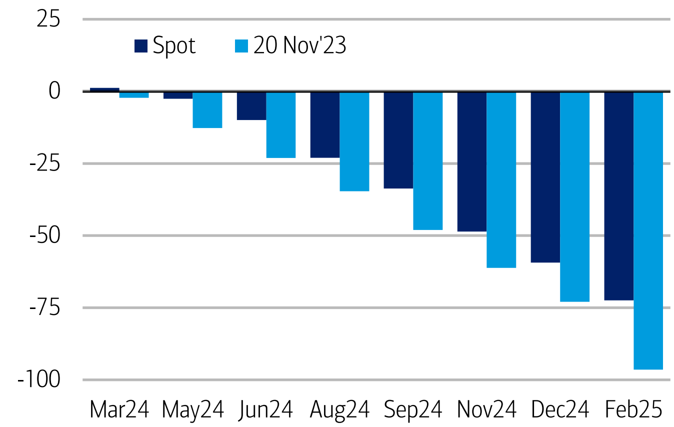
Exhibit 6: Market pricing of BoE cuts
Clear repricing since November



Source: Bloomberg, BofA Global Research

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Rates: Nothing to nudge the Budget

Our working assumption is that the Debt Management Office (DMO) will aim to meet any upside in the financing need via net T-bill issuance and National Savings and Investment (NS&I), minimising the need for material Gilt Remit changes. This would not be unprecedented; the net contribution of T-bills has been quite variable in recent years, with the DMO pencilling as much as £40bn in September 2022 (Exhibit 7).

We expect the Gilt issuance maturity split to mean fewer long and index-linked, more short and (quite a lot more) medium Gilts. Assuming the remaining unallocated portion of current Remit is used for the last linker syndication, this year's split will be 36% shorts, 29% mediums, 22% longs and 12% linkers.

For 2024/25, we pencil in 5% for unallocated, the same share as at the start of the current fiscal year. In line with late feedback from Gilt Edged Market Makers (GEMMs) and investors, we expect the shares of longs and linkers to be reduced to 17% and 10%, from 21.1% and 10.9% in March 2023, respectively. This allows shorts and mediums' weightings to be lifted to 37% and 31%, respectively (Exhibit 8 and Exhibit 9). A skew shorter *within* the long and linker buckets is also likely, meaning that the effective skew shorter will be greater than the simple bucket weights show.

Exhibit 7: Total net contribution of T-bills for debt financing, £bn
Big variation in net contribution of T-bills for debt financing in recent years

	2020/21	2021/22	2022/23	2023/24
March Remit	0	1.8	23.2	5
April revision	6	1.8	30.2	5
Sep'22 update			40.2	
Autumn Statement	-2	-23.2	33.2	-5
Outturn	-2	-23.2	33.2	

Source: BofA Global Research, Debt Management Office

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Exhibit 8: 2023/24 and 2024/25 Gilt Remit splits per "bucket", %
We expect 5% unalloc, 37% shorts, 31% mediums, 17% longs and 10% ILBs

	23/24	23/24	23/24	23/24	24/25 (f)
	Mar'23	Apr'23	Nov'23	Outturn (f)	Mar'24
Short	36.0%	35.6%	36.5%	36.5%	37.0%
Medium	27.1%	27.5%	28.8%	28.8%	31.0%
Long	21.1%	20.9%	21.6%	22.3%	17.0%
ILB	10.9%	11.0%	12.1%	12.4%	10.0%
Unalloc	5.0%	5.0%	1.1%	0.0%	5.0%

Source: BofA Global Research, Bloomberg

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Exhibit 9: UK DMO Remit for fiscal years 2023/24 and 2024/25 including BofA projections, £bn
We expect the DMO to aim to keep Gilt sales broadly unchanged

	FY 2023/24 (DMO - Apr'23)		FY 2023/24 DMO - Nov'23		FY 2024/25 (BofA - Feb'24)	
CGNCR	159.5		150.5		145.0	
Redemptions	117.0		117.0		139.9	
Adj. from prev. FY	-24.6		-24.6		0.0	
Gross Financing Req. (GFR)	251.9		242.9		284.9	
Less:						
NS&I	7.5		7.5		15.0	
Other financing	1.5		3.0		0.0	
Net Financing Req. (NFR)	242.9		232.4		269.9	
To be financed through:						
Gilt sales, through:	237.8		237.3		240.0	
Short	*84.6*	*36%*	*86.6*	*36%*	*88.8*	*37%*
Medium	*65.3*	*27%*	*68.3*	*29%*	*74.4*	*31%*
Long	*49.7*	*21%*	*51.3*	*22%*	*40.8*	*17%*
Index-linked	*26.2*	*11%*	*28.6*	*12%*	*24.0*	*10%*
Unallocated	*12.0*	*5%*	*2.5*	*1%*	*12.0*	*5%*
Net T-bill sales	5.0		-5.0		29.9	
Total financing	242.8		232.3		269.9	
DMO net cash position	2.3		2.3		2.3	

Source: DMO, BofA Global Research

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GBP: Fiscal Tailwinds

We think that the Spring Budget could be the trigger for further cyclical outperformance in GBP. At the start of the year, markets were concerned that the March Budget could precipitate the kind of market response similar to September 2022, as the UK Government stretched public finances to cut taxes ahead of the UK general election. However, as discussed about, the fiscal headspace has assuaged these concerns and with the rates market recalibrating the timing of the first BoE rate cut, fiscal stimulus could add further upward pressure to UK rates. As in September 2022, GBP is likely to take its cue from the reaction in rates market but on the assumption that UK yields rise for the right reasons rather than the wrong ones, this should be supportive for GBP in a market where carry remains a major driver for FX and against the backdrop of a weak vol environment.

Options Market Sanguine Ahead of the Event

Markets remain relaxed that there will not be a “fiscal mistake”. At the time of writing, both GBP/USD and EUR/USD 1wk implied volatility remains well anchored towards the lows for the year. Unsurprisingly, some premium has been placed into the curve given some residual concerns about the outcome, but this is relatively small. Whilst this would indicate that the event does not hold the market focus that it did at the start of the year, we continue to believe that a should the Government deliver the kind of package discussed above, that this will add further weight to the evidence that UK growth pessimism has now passed the trough. Of course, the asymmetry is obvious: should the government surprise with a package that tests the markets resolve. However, a focus on the consumer, against the backdrop of rising real incomes and full employment will be GBP supportive and raises further questions over the timing of the first UK rate cut.

European forecasts

Exhibit 10: Euro area economic forecasts
We expect ECB cuts to start in June 2024

		2022	2023	2024	2025	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
GDP	% qoq					0.1	0.1	-0.1	0.0	0.0	0.2	0.2	0.3	0.3	0.3	0.3	0.3
	% qoq ann.					0.4	0.5	-0.5	0.2	0.1	0.8	0.9	1.2	1.2	1.2	1.3	1.2
	% yoy	**3.4**	**0.5**	**0.4**	**1.1**	1.3	0.6	0.0	0.1	0.1	0.1	0.5	0.7	1.0	1.1	1.2	1.2
Private Consumption	% qoq					0.1	0.0	0.3	0.1	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.3
	% yoy	**4.2**	**0.5**	**0.6**	**1.1**	1.4	0.6	-0.4	0.4	0.4	0.6	0.6	0.8	1.0	1.1	1.2	1.3
Government Consumption	% qoq					-0.5	0.2	0.4	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.2	0.2
	% yoy	**1.6**	**0.2**	**0.8**	**0.9**	-0.2	0.2	0.6	0.3	1.0	0.9	0.7	0.7	0.8	0.9	0.9	1.0
Investment	% qoq					0.4	-0.1	0.0	-0.3	-0.2	0.1	0.2	0.4	0.3	0.4	0.5	0.5
	% yoy	**2.8**	**0.7**	**-0.2**	**1.4**	1.8	1.1	-0.1	0.0	-0.6	-0.4	-0.2	0.4	1.0	1.3	1.5	1.6
Final Domestic Demand[1]	% qoq					0.0	0.0	0.2	0.0	0.0	0.2	0.2	0.3	0.3	0.3	0.3	0.3
	% yoy	**3.1**	**0.4**	**0.5**	**1.1**	1.0	0.6	-0.1	0.3	0.3	0.4	0.4	0.7	0.9	1.0	1.2	1.2
Net exports[1]	% qoq					0.6	-0.6	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
	% yoy	**0.0**	**0.2**	**0.1**	**0.2**	0.6	-0.1	0.4	0.0	-0.5	0.1	0.3	0.3	0.3	0.2	0.1	0.0
Stockbuilding[1]	% qoq					-0.5	0.7	-0.3	0.0	-0.1	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0
	% yoy	**0.3**	**-0.2**	**-0.2**	**-0.1**	-0.4	0.1	-0.3	-0.2	0.2	-0.5	-0.2	-0.3	-0.2	-0.1	-0.1	0.0
Current Account Balance	EUR bn	**-90**	**209**	**209**	**219**	38	61	35	75	55	-6	85	75	55	-6	75	95
	% of GDP	**-0.7**	**1.5**	**1.4**	**1.5**	1.1	1.8	1.0	2.1	1.5	-0.2	2.4	2.1	1.5	-0.2	2.0	2.5
Industrial production	% qoq					-1.3	-1.1	-0.5	-0.4	0.3	0.5	0.7	0.7	0.6	0.6	0.7	0.6
	% yoy	**2.2**	**-2.1**	**0.4**	**2.6**	-0.1	-1.3	-3.8	-3.2	-1.6	-0.1	1.1	2.2	2.5	2.7	2.7	2.6
Unemployment rate [3]	%	**6.8**	**6.6**	**7.1**	**7.1**	6.6	6.5	6.6	6.6	7.0	7.1	7.1	7.1	7.0	7.0	6.9	6.9
CPI (harmonised)[4]	% qoq					0.4	1.6	0.6	0.2	0.3	1.4	0.2	0.0	0.0	1.1	0.1	0.0
	% yoy	**8.4**	**5.5**	**2.3**	**1.4**	8.0	6.2	5.0	2.7	2.7	2.5	2.1	1.9	1.6	1.3	1.2	1.3
CPI (core)[4]	% qoq					0.6	2.4	0.5	0.2	0.1	1.6	0.3	0.1	-0.1	1.5	0.2	0.1
	% yoy	**3.9**	**5.0**	**2.5**	**1.8**	5.5	5.5	5.1	3.7	3.2	2.4	2.2	2.0	1.9	1.8	1.7	1.7
General govt balance	% of GDP	**-3.6**	**-3.4**	**-3.1**	**-3.1**												
General govt debt	% of GDP	**91.0**	**91.0**	**90.3**	**90.1**												
Refinancing rate	%	**2.50**	**4.50**	**3.75**	**2.50**	3.50	4.00	4.50	4.50	4.50	4.25	4.00	3.75	3.25	2.75	2.50	2.50

Source: BofA Global Research, Notes: 1 Contribution to GDP growth 2 Excluding construction, sa, quarterly averages 3 Period averages 4 Period averages, quarterly change

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Exhibit 11: UK economic forecasts
Low growth, entrenched inflation

		2022	2023	2024	2025	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
GDP	% qoq					0.2	0.0	-0.1	-0.3	0.1	0.2	0.3	0.3	0.2	0.2	0.1	0.1
	% qoq ann.					0.9	0.0	-0.5	-1.4	0.6	1.0	1.4	1.2	0.7	0.6	0.5	0.5
	% yoy	**4.3**	**0.1**	**0.3**	**0.8**	0.3	0.3	0.2	-0.2	-0.3	-0.1	0.4	1.0	1.1	1.0	0.8	0.6
Private Consumption	% qoq					0.9	0.5	-0.8	-0.1	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.1
	% yoy	**5.0**	**0.4**	**-0.2**	**0.7**	0.3	0.4	0.5	0.4	-0.5	-0.9	0.2	0.5	0.7	0.8	0.8	0.7
Government Consumption	% qoq					-0.8	2.4	1.1	-0.3	0.1	0.3	0.3	0.3	0.3	0.5	0.5	0.5
	% yoy	**2.3**	**0.6**	**1.4**	**1.6**	-3.5	1.5	2.1	2.4	3.3	1.1	0.3	1.0	1.2	1.5	1.7	1.8
Investment	% qoq					2.5	-0.9	-1.4	1.4	0.3	-0.1	-0.8	0.1	0.0	0.0	0.0	-0.2
	% yoy	**8.0**	**2.9**	**0.0**	**-0.4**	5.4	4.0	0.8	1.7	-0.5	0.3	0.8	-0.4	-0.8	-0.7	0.1	-0.2
Final Domestic Demand[1]	% qoq					0.9	0.6	-0.5	0.1	0.1	0.1	0.0	0.2	0.2	0.2	0.2	0.1
	% yoy	**5.0**	**0.9**	**0.2**	**0.7**	0.4	1.3	0.9	1.0	0.3	-0.2	0.3	0.4	0.5	0.7	0.8	0.7
Net exports[1]	% qoq					-1.7	-0.9	0.4	-0.6	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
	% yoy	**-1.7**	**0.1**	**-0.5**	**0.0**	3.7	1.8	-2.2	-2.8	-1.2	-0.3	-0.5	0.1	0.1	0.0	-0.1	-0.2
Stockbuilding[1]	% qoq					1.0	0.3	0.1	0.2	0.1	0.1	0.2	0.1	0.0	0.0	0.0	0.0
	% yoy	**1.1**	**-0.9**	**0.5**	**0.2**	-3.8	-2.8	1.6	1.5	0.6	0.4	0.6	0.5	0.4	0.4	0.0	0.0
Current Account Balance	% of GDP	**-3.1**	**-3.4**	**-4.0**	**-3.9**	-2.3	-3.9	-3.5	-4.1	-4.1	-4.0	-3.9	-3.9	-3.9	-3.9	-3.9	-4.0
Manufacturing output	% qoq					0.5	1.9	0.0	-0.3	0.1	0.3	0.5	0.6	0.6	0.6	0.6	0.6
	% yoy	**-3.3**	**1.1**	**1.0**	**-3.3**	-1.6	1.2	2.9	2.0	1.7	0.1	0.6	1.5	2.0	2.3	2.4	2.4
Unemployment rate [2]	%	**3.7**	**4.1**	**4.7**	**4.8**	3.9	4.2	4.2	4.4	4.6	4.7	4.8	4.9	4.8	4.8	4.8	4.7
CPI Inflation (harmonised)[2]	% yoy	**9.1**	**7.3**	**2.4**	**2.3**	10.2	8.4	6.7	4.2	10.2	8.4	6.7	4.2	3.4	2.0	1.9	2.3
CPI (core)[2]	% yoy	**5.9**	**6.2**	**3.7**	**2.8**	6.1	6.9	6.4	5.3	4.5	3.6	3.3	3.4	3.5	3.0	2.6	2.4
General govt balance [5]	% of GDP	**-5.0**	**-4.9**	**-4.3**	**-3.9**												
General govt debt [3,5]	% of GDP	**97.1**	**98.9**	**101.1**	**103.3**												
General govt debt	% of GDP	**101.0**	**100.7**	**102.9**	**104.8**												
Bank Rate [4]	%	**3.50**	**5.25**	**4.75**	**3.75**	4.25	5.00	5.25	5.25	5.25	5.25	5.00	4.75	4.50	4.25	4.00	3.75

Source: BofA Global Research. Notes: 1 Contribution to GDP growth 2 Period averages 3 Excludes Nationalised banks, and thus is not on Maastricht basis 4 End period, 5 Fiscal years

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Exhibit 12: Euro area, GDP and CPI profiles

Euro area member states profiles

						HICP				
	2021	**2022**	**2023F**	**2024F**	**2025F**	**2021**	**2022**	**2023**	**2024F**	**2025F**
Euro area	5.9	3.4	0.5	0.4	1.1	2.6	8.4	5.5	2.3	1.4
Austria	4.4	4.8	-0.7	0.0	1.5	2.8	8.6	7.7	2.7	2.1
Belgium	6.9	3.0	1.4	0.9	1.2	3.2	10.3	2.2	1.5	1.7
Finland	2.8	1.6	-0.4	0.2	1.0	2.1	7.2	4.3	0.9	1.2
France	6.4	2.5	0.8	0.7	1.3	2.1	5.9	5.7	2.9	2.0
Germany	3.1	1.9	-0.1	-0.2	0.9	3.2	8.6	6.0	2.7	1.4
Greece	8.1	5.7	2.0	1.1	1.7	0.6	9.3	4.2	2.0	1.7
Ireland	14.8	9.5	-1.4	2.7	2.0	2.4	8.1	5.8	2.9	1.6
Italy	8.3	3.9	0.7	0.5	1.1	1.9	8.7	6.0	1.8	1.5
Netherlands	6.2	4.4	0.0	0.3	1.1	2.8	11.6	4.1	1.7	1.6
Portugal	5.7	6.8	2.2	1.0	1.4	0.9	8.1	5.4	2.5	1.1
Spain	6.4	5.8	2.4	1.3	1.5	3.0	8.3	3.4	2.6	1.1

Source: BofA Global Research, Eurostat

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Calendar for the week ahead

Exhibit 13: European Economic calendar

Key data for the next week

	GMT	Country	Data/Event	For	BofAe	Cons.†	Previous	Comments
Monday, 4 Mar								
✪✪	09:30	Euro area	Sentix Investor Confidence	Mar	n.a.	--	-12.9	
Tuesday, 5 Mar								
✪✪	00:01	UK	BRC Sales Like-For-Like (yoy)	Feb	n.a.	--	1.4%	
✪✪✪	07:45	France	Industrial Production (mom)	Jan	0.2%	--	1.1%	
✪✪✪	07:45	France	Industrial Production (yoy)	Jan	n.a.	--	0.9%	
✪✪✪	07:45	France	Manufacturing Production (mom)	Jan	-0.1%	--	1.2%	
✪✪✪	07:45	France	Manufacturing Production (yoy)	Jan	n.a.	--	0.9%	
✪✪✪	08:15	Spain	Services PMI	Feb	52.5	--	52.1	
✪✪✪	08:15	Spain	Composite PMI	Feb	52.0	--	51.5	
✪✪✪	08:45	Italy	Composite PMI	Feb	51.2	--	50.7	
✪✪✪	08:45	Italy	Services PMI	Feb	51.8	--	51.2	
✪✪✪	08:50	France	Services PMI (F)	Feb	48.0	--	48.0	
✪✪✪	08:50	France	Composite PMI (F)	Feb	47.7	--	47.7	
✪✪✪	08:55	Germany	Services PMI (F)	Feb	48.2	--	48.2	
✪✪✪	08:55	Germany	Composite PMI (F)	Feb	46.1	--	46.1	
✪✪✪	09:00	Euro area	Services PMI (F)	Feb	50.0	--	50.0	
✪✪✪	09:00	Euro area	Composite PMI (F)	Feb	48.9	--	48.9	
✪✪✪	09:00	Italy	GDP (wda, yoy, F)	4Q	0.5%	--	0.5%	
✪✪✪	09:00	Italy	GDP (wda, qoq, F)	4Q	0.2%	--	0.2%	
✪✪✪	09:30	UK	Official Reserves Changes	Feb	n.a.	--	-0.6bn	
✪✪✪	09:30	UK	Services PMI (F)	Feb	54.3	--	54.3	
✪✪✪	09:30	UK	Composite PMI (F)	Feb	53.3	--	53.3	
✪✪✪	10:00	Euro area	PPI (mom)	Jan	n.a.	--	-0.8%	
✪✪✪	10:00	Euro area	PPI (yoy)	Jan	n.a.	--	-10.6%	
Wednesday, 6 Mar								
✪✪✪	09:30	UK	Construction PMI	Feb	n.a.	--	48.8	
✪✪✪	10:00	Euro area	Retail Sales (mom)	Jan	0.5%	--	-1.1%	
✪✪✪	10:00	Euro area	Retail Sales (yoy)	Jan	n.a.	--	-0.8%	
Thursday, 7 Mar								
✪✪✪	07:00	Germany	Factory Orders (mom)	Jan	-8.2%	--	8.9%	Return to November levels after significant one-off aircraft orders in December
✪✪✪	07:00	Germany	Factory Orders (wda, yoy)	Jan	n.a.	--	2.7%	
✪✪✪	08:00	Spain	Industrial Output (nsa, yoy)	Jan	n.a.	--	-4.0%	
✪✪✪	08:00	Spain	Industrial Output (sa, yoy)	Jan	n.a.	--	-0.2%	
✪✪✪	08:00	Spain	Industrial Production (mom)	Jan	0.4%	--	-0.3%	
✪✪	10:00	Greece	GDP (sa, yoy)	4Q	n.a.	--	2.1%	
✪✪	10:00	Greece	GDP (qoq)	4Q	n.a.	--	0.0%	
✪✪✪	13:15	Euro area	ECB Main Refinancing Rate	07-Mar	4.50%	--	4.50%	
✪✪✪	13:15	Euro area	ECB Marginal Lending Facility	07-Mar	4.75%	--	4.75%	
✪✪✪	13:15	Euro area	ECB Deposit Facility Rate	07-Mar	4.00%	--	4.00%	Not yet ready to cut or pre-commit, expect soft guidance to cut soon
Friday, 8 Mar								
✪✪✪	07:00	Germany	Industrial Production (sa, mom)	Jan	0.2%	--	-1.6%	
✪✪✪	07:00	Germany	Industrial Production (wda, yoy)	Jan	n.a.	--	-3.0%	
✪✪✪	10:00	Euro area	GDP (sa, qoq, F)	4Q	0.0%	--	0.0%	
✪✪✪	10:00	Euro area	GDP (sa, yoy, F)	4Q	0.1%	--	0.1%	
✪✪✪	10:00	Euro area	Govt Expend (qoq)	4Q	n.a.	--	0.3%	
✪✪✪	10:00	Euro area	Gross Fix Cap (qoq)	4Q	n.a.	--	0.0%	
✪✪✪	10:00	Euro area	Household Cons (qoq)	4Q	n.a.	--	0.3%	
✪✪✪	10:00	Euro area	Employment (qoq, F)	4Q	0.3%	--	0.3%	
✪✪✪	10:00	Euro area	Employment (yoy, F)	4Q	1.3%	--	1.3%	
✪✪	10:00	Greece	CPI EU Harmonised (yoy)	Feb	n.a.	--	3.2%	
✪✪	10:00	Greece	CPI (yoy)	Feb	n.a.	--	3.1%	

Source: BofA Global Research, Bloomberg, Reuters, Central banks. Notes: †Bloomberg consensus; μ = level of importance; A = advanced; F = final; P = preliminary; sa = seasonally adjusted; nsa = not seasonally adjusted; wda = working-day adjusted; n.a. = not available; mom = month-on-month; qoq = quarter-on-quarter; yoy = year-on-year. *Refers to previous period, not preliminary release. BofA GLOBAL RESEARCH

Acronyms and abbreviations

Exhibit 14: Common acronyms/abbreviations used in our reports
This list is subject to change

Acronym/Abbreviation	Definition	Acronym/Abbreviation	Definition
1H	First Half	IT	Italy
2H	Second Half	Jan	January
1Q	First Quarter	Jul	July
2Q	Second Quarter	Jun	June
3Q	Third Quarter	lhs	left-hand side
4Q	Fourth Quarter	m	month
ann	annualized	MA	Moving Average
APP	Asset Purchase Programme	Mar	March
Apr	April	Eonia	Euro overnight indexed average
AS	Austria	mom	month-on-month
Aug	August	Mon	Monday
BdF	Banque de France (Bank of France)	MPC	Monetary Policy Committee
BE	Belgium	MWh	Megawatt-hour
BEA	Bureau of Economic Analysis	NGEU	NextGenerationEU
BLS	Bank Lending Survey	NE	Netherlands
BoE	Bank of England	Nov	November
BofA	Bank of America	NADEF	Nota di Aggiornamento al Documento di Economia e Finanza
BoI	Banca d'Italia (Bank of Italy)	NSA	Non-seasonally Adjusted
BoJ	Bank of Japan	OAT	Obligations assimilables du Trésor
BoS	Banco de España (Bank of Spain)	OBR	Office for Budget Responsibility
bp	basis point	Oct	October
BTP	Buoni Poliennali del Tesoro	OECD	Organisation for Economic Co-operation and Development
Buba	Bundesbank	ONS	Office for National Statistics
c	circa	p	preliminary/flash print
CA	Current Account	PBoC	People's Bank of China
CPI	Consumer Price Index	PEPP	Pandemic Emergency Purchase Programme
CSPP	Corporate Sector Purchase Programme	PMI	Purchasing Managers' Index
d	day	PSPP	Public Sector Purchase Programme
GE	Germany	PT	Portugal
Dec	December	QE	Quantitative Easing
DS	Debt sustainability	qoq	quarter-on-quarter
EA	Euro area	QT	Quantitative Tightening
EC	European Commission	RBA	Reserve Bank of Australia
ECB	European Central Bank	RBNZ	Reserve Bank of New Zealand
ECJ	European Court of Justice	rhs	right-hand side
EFSF	European Financial Stability Facility	RPI	Retail Price Index
EGB	European Government Bond	RRF	Recovery and Resilience Facility
DM	Developed Markets	SA	Seasonally Adjusted
EMOT	Economic Mood Tracker	SAFE	Survey on the access to finance of enterprises
EP	European Parliament	Sat	Saturday
SP	Spain	Sep	September
ESI	Economic Sentiment Indicator	SMA	Survey of Monetary Analysts
ESM	European Stability Mechanism	SNB	Swiss National Bank
EU	European Union	SPF	Survey of Professional Forecasters
f	final print	Sun	Sunday
Feb	February	SURE	Support to mitigate Unemployment Risks in an Emergency
Fed	Federal Reserve	S&P	Standard & Poor's
FR	France	Thu	Thursday
Fri	Friday	TLTRO	Targeted Longer-term Refinancing Operations
GC	General collateral	TPI	Transmission Protection Instrument
GDP	Gross Domestic Product	TTF	Title Transfer Facility
GNI	Gross National Income	Tue	Tuesday
GR	Greece	UK	United Kingdom
HICP	Harmonised Index of Consumer Prices	US	United States
HMT	His Majesty's Treasury	WDA	Work-day Adjusted
IMF	International Monetary Fund	Wed	Wednesday

Source: BofA Global Research

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