Europe Economic Weekly

Did we just skip autumn?

20 October 2023

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Weekly View: no news isn't always good news

Long (and not exhaustive) list of concerns: higher energy prices, higher real yields, perhaps the ECB has gone more than a little too far, the usual Italian weaknesses and the continued radio silence on budget rule reform or 2024 fiscal stance from Brussel.

Euro area: ECB preview – two sided risks

Next week's meeting is not one for big decisions. The deteriorated risk balance should feature. The minimum reserve discussion should be put in a very confined range. And we doubt the ECB wants to rock the rates boat further with musings on PEPP reinvestment.

UK: hard yards ahead

Inflation held at 6.7% in Sept. and should drop below 5% next month as last year's utility hike drops out. Goods inflation annualising close to zero but services elevated. Hard yards of getting inflation down to target lie ahead. BoE likely to hold rates at next month's meeting. Headline, core and services inflation weaker than BoE forecast."

Hot Topic: Italy - unstable equilibrium

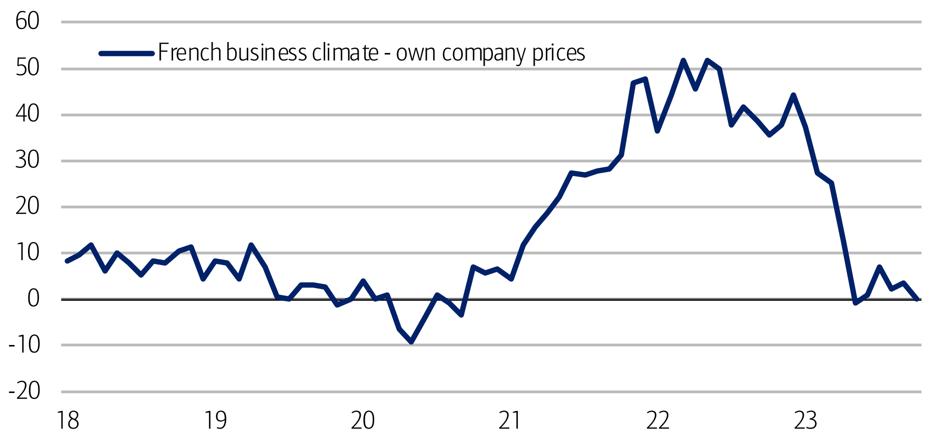
Our updated debt-trajectories show that Italy is one shock away from debt sustainability conditions being at risk. While 2024 budget is a mark-to-market exercise, , Italy is back under the full scrutiny of the markets (and rating agencies).

Next week:

Big data Tuesday: October PMIs, UK Labour Force Survey, ECB Bank Lending Survey. Wed: Ifo. All week: consumer confidence data. Thu: ECB meeting.

Exhibit 1: French INSEE business climate – own company price expectation

Food for ECB thougt: Surveys show declining activity and price expectations at pre-inflation surge level.



Source: INSEE, BofA Global Research

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Weekly View

No news is not always good news

Year-end is approaching and the newsflow on budget rule reform in Europe has ebbed entirely. We had hoped for at least some headlines on the topic after this week's Eurogroup or Ecofin meeting, but beyond approval of amended Recovery and Resilience Plans by a small number of countries (Czechia, Spain, Netherlands, Portugal and Slovenia), and an arguably important long-waited for compromise on the reform of the electricity market reform, radio silence on budget matters is what we got.

The discussion has been needed for years. Its completion is becoming particularly pressing now, we would argue. Since Covid, the escape clause has paused the application of the existing set of rules, but as of today, they will be applied again next year. Of course, reform in all but name for the sake of box-ticking, or a simpler but thereby also possibly tighter set of rules, won't help either (especially if paired with the desire to actually to enforce the rules).

But if we can't agree on new rules now, we at least need to agree on how to use the wiggle room in the existing framework next year. European Parliament elections in spring 2024 will likely delay any reform ambitions by at least another year. Meanwhile, fiscal policy might have to be tighter, and hence more growth-constraining, over the coming years than we (and many others) assume.

Italy questions in theory, but not (yet) in market practice

Italy is still the protagonist in market concerns about public finance trajectories. While the budget plan for 2024 has prompted some client questions, it didn't affect Italian financing costs. Our colleagues in European rates strategy argue that the rise in Italian yields is compatible the rise in German ones, without an idiosyncratic Italian factor at this stage.

In our base case, Italy looks ok. But that assumes rates normalisation, a timely and full implementation of the recovery and resilience plan, no additional growth shock, a decent outcome from the fiscal rule reform discussion, no standoff between Rome and Brussels - and no unforeseen non-linearities from a considerably deteriorated monetary and fiscal policy mix. That is a long list of conditions to arrive at a debt sustainability calculation that shows a robust decline in the debt ratio over the next decade.

It doesn't take much to think of less favourable outcomes. Current forward-based rate scenarios would require tangible consolidation efforts to maintain a downward sloping debt trajectory, but it's not obvious that there would be political will or capital to deliver that. Any additional shock and/or (partial) deviation from recovery fund plans could actually mean a renewed rise in debt ratios before they settle somewhere around 150% over the next 10 years – more details in our Italy Hot Topic this week.

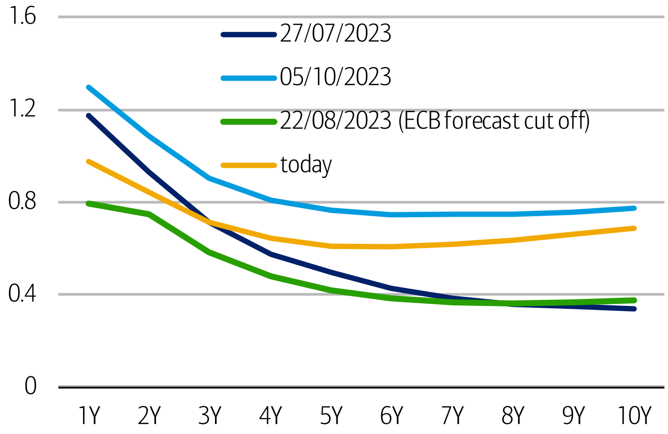
ECB: next week should be a placeholder

The ECB would probably not mind skipping next week's meeting, to our mind. It's not the moment to revisit the September message. True, energy prices have risen. But so have real yields (Exhibit 2). And looking at our measure of seasonally adjusted bottom-up monthly core inflation (Exhibit 3), the question of whether the central bank has tightened too much already actually looks a very valid one. The ECB is treading an increasingly fine line.

So our expectations into next week are confined to clarification on the state of play in the minimum reserve requirement and PEPP reinvestment discussion. Neither is probably for the prepared statement, but for the more informal Q&A. We would expect ECB President Lagarde to say that the minimum reserve requirement discussion is confined to "normalisation" (ie 2% or close to that) in the context of the operational framework review. If this were part of the prepared statement, it would be a much firmer signal. Meanwhile, we would expect Lagarde to be very non-committal on the

PEPP reinvestment discussion. Acknowledging the discussion in the prepared statement would actually be a hawkish signal, which we expect the Governing Council to shy away from in the context of recent market moves.

Exhibit 2: OIS spot real yield curve (%)
Real rates have tightened a lot since the ECB's forecast cut-off



Source: Bloomberg, BofA Global Research

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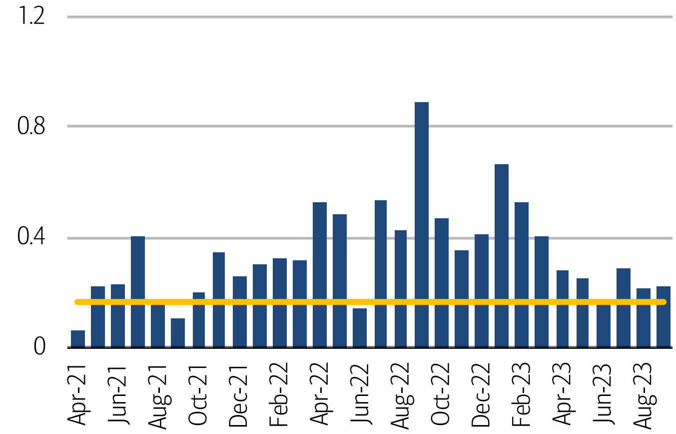
Exhibit 3: Core inflation, bottom-up SA
Still a lot more disinflation that the raw data suggests



Source: BofA Global Research

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UK: comforting week for our call of a loooooong BoE hold

We expect both the ECB and the BoE to be done with hikes. But to dare a comparison, it would now take bigger inflation surprises to get the BoE to hike again than the ECB. That is not to say the UK's inflation problem is fixed and the Euro area's isn't. Rather the opposite, we would argue, reflected in our view that the BoE will be on hold until 2025 while the ECB should start to cut mid-24, and in our inflation forecast that is well above 2% for the UK still in 2025 but well below for the Euro area.

Back to the shorter term, this week's UK data release doesn't challenge that view. UK inflation may have surprised consensus to the upside but not us, and turned out lower than the BoE had thought. So not much to deter the central bank from their hold here. And while the delay of the Labour Force Survey release to next Tuesday somewhat muddies the view on employment dynamics, payrolls suggest a softening labour market and wage growth that has likely peaked (especially headline wage growth as one-off payments will fall out of the yoy comparison over the coming months).

Next week: every week is sentimental

Business sentiment could improve, but the consumer climate is likely to remain weak. We expect a small retracement in Euro area consumer confidence (Mon), followed by national consumer confidence in Germany (Tue), France and Italy (Fri). Meanwhile, we expect preliminary October PMIs to show a further shallow improvement across (most) sectors and countries (Tue), and the German Ifo to follow ZEW signals higher.

The ECB meeting on Thursday obviously means no prior speaking engagements, but the bank lending survey (Tue) will be interesting given actual new lending has slowed basically to zero and interest rates have increased very far very fast.

In the UK, the delayed Labour Force Survey will perhaps throw more light on the labour market. PMIs are expected to move sideways (both Tue). No BoE speaker on the agenda at the time of writing.

Euro area

ECB preview: two-sided risks

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- This is a meeting to discuss the complicating risk balance from higher energy prices and the rise in real yields, but not for policy action.
- Questions on PEPP reinvestment and TPI are likely and symptomatic for the fragile market environment. We expect no actionable news on either.
- At least the minimum reserve debate should be put to sleep until the framework review, in a bid to avoid further damage to lending.

We expect no policy changes from the ECB next week. The meeting next week should be about flagging risks that have emerged since the last one and putting in a placeholder for the December meeting when a new set of forecasts would allow, if anything, a reconfiguration of policy. For now, we would expect the ECB to maintain that "the Governing Council considers that the key ECB interest rates have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to the target. The Governing Council's future decisions will ensure that the key ECB interest rates will be set at sufficiently restrictive levels for as long as necessary." That should come with the usual emphasis on data dependence and the three key ingredients for that assessment (forecasts, underlying inflation, and transmission).

Additionally, we would expect a clear signal that changes to mandatory reserves, if any, would need to wait until the conclusion of the operational framework review next spring. We think there is probably a majority willing to stop this debate for now, to avoid a proper credit crunch (see Wage spirals that don't happen, policy debates that shouldn't happen). Adding a clear reference to this in the written statement would be a strong message. Alternatively (and more likely), Lagarde will probably clarify so during the press conference.

Beyond mandatory reserves, and given the evolution of rates and spreads, we would expect very little appetite to rock the boat on PEPP next week. Hence, we think Lagarde will be very non-committal on the PEPP reinvestment discussion during the press conference. At most, we would expect some vague reference to a discussion having happened with no immediate implications.

As a reminder, our call for the ECB is for no further hikes and a first cut by June 2024 at the earliest, one cut per quarter from there, a stop to full PEPP reinvestments also in June 2024, and mandatory reserves moving to 2-3% after the operational framework review is finalised.

Something for everyone

We would expect the discussion on the economic outlook to centre on the two most important developments since the last meeting in September. First, the move in energy prices, which risks leading to higher headline inflation than the ECB is forecasting for the later part of the year and early 2024. Second, the movement in yields and, more importantly, real yields.

Indeed, as we have flagged before, higher energy prices create some residual probability that the ECB will be tempted to hike again in December. But unless the move is wider, we remain comfortable with the ECB being done, for now. As we argued last week, the accounts of the ECB meeting in September highlighted two important points. First, as we have discussed before, that the last hike was seen as giving some safety margin in the case of additional shocks. That leaves some room for headline inflation to surprise on the upside without creating the need for more. Second, and very importantly, "turning to the assessment of monetary policy transmission, members noted that ample evidence could now be found that this was proceeding strongly, more so than expected". We would read that as implying that the ECB went too far, but that is our take. For the ECB this likely also raises the bar for another hike.

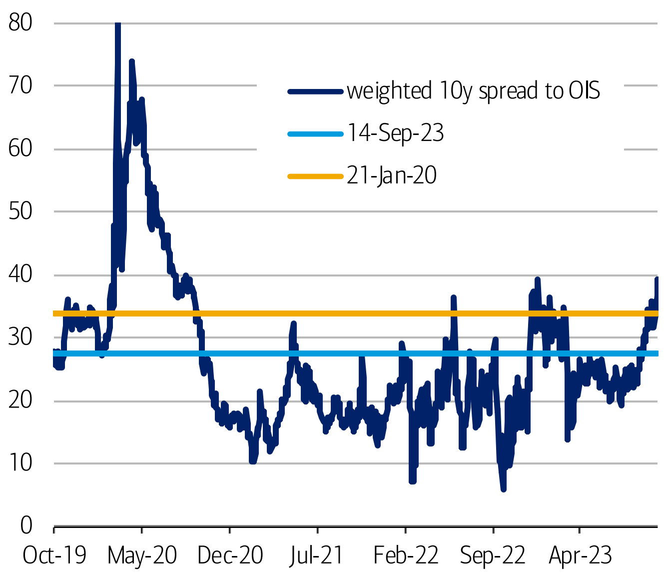
On top of transmission being too strong, the move in real yields since the September meeting (see Exhibit 4 and Exhibit 5) risks breaking something properly. Indeed, our (and the ECB's) forecasts could become old very quickly if the move were to persist. As we wrote two weeks ago, something has to give: the market reprices some of the recent moves since they do not look consistent with fundamentals this side of the Atlantic, or something other than the economy "breaks", or the economy ends up being the thing that properly breaks.

So, for now, while acknowledging both developments (oil and real rates), we would expect Lagarde to put a placeholder in the December forecasts as a way of understanding how recent developments affect the economic and policy outlook.

To TPI, or not to TPI

Given the move in BTP spreads, Lagarde is likely to be asked about TPI. We are not expecting surprises here. We would expect Lagarde to flag that PEPP reinvestments are the first line of defence, that TPI is a tool that will be available to use when they judge it necessary. But as we have heard from many ECB speakers, we would expect, if anything, the message that recent moves in spreads do not suggest fragmentation is at play.

Exhibit 4: Euro Area 10y bond spreads to OIS highest since Oct-20 (bp)
Euro Area GDP weighted 10y bond spreads to Overnight Indexed Swaps (OIS)



Source: Bloomberg, BofA Global Research

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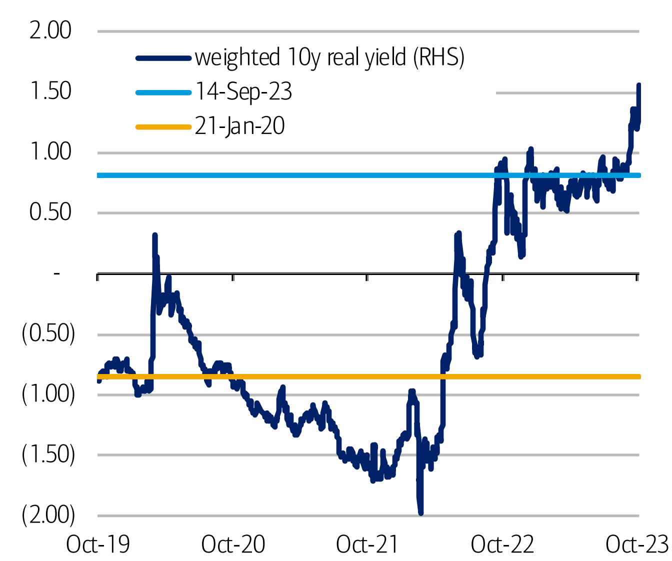
Exhibit 5: EA GDP weighted 10y real rate surged 75bp since Sep ECB
Euro Area GDP weighted 10y real rate (*)



Source: Bloomberg, BofA Global Research. (*) Calculated using nominal 10y bond yields for each Euro Area country and subtracting 10y German breakeven level.

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UK

Inflation forecast update: hard yards ahead

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Inflation holds at 6.7% as services strengthen

Although headline inflation held at 6.7% in September data published today, surprising consensus on the upside, we still expect it to drop below 5% next month as utility price inflation drops. Getting inflation below 5% will have been the easy part. If our forecast for October CPI inflation turns out to be right almost all of the 620bp inflation drop from the peak last October will have been driven by utilities, petrol and food (-420bp, -60bp, -90bp), as last year's commodity shocks faded from the inflation figures. The hard yards lie ahead. Core inflation of 6.1% is only 43bp down since October.

Goods inflation over, services stickier

CPI inflation surprised consensus 10bp on the upside but was in-line with our call of 6.7%. Core slowed to 6.1%, surprising consensus 10bp on the upside and us 10bp on the downside. The surprise for us came in non-energy industrial goods inflation (19bp weaker than expected), specifically audio-visual and household goods. Services inflation rose 10bp to 6.9%, surprising consensus, but was very close to our forecast (3bp below). A clear dichotomy between goods and services inflation has emerged. Monthly non-energy goods fell close to zero from June. The 6-month annualised rate of inflation is down to 3.4% now (Exhibit 20). Further falls are likely given weak input price inflation. Services inflation remains altogether stickier. At 8.6% the latest seasonally adjusted monthly services inflation figure is higher than 6.9% yoy rate of services inflation. Six-month annualised services rose slightly to 8% (Exhibit 21). This reflects the different shocks. Goods driven more by global supply chain disruptions that faded some time ago, services more by wage growth and energy, where the former remains elevated.

BoE on track to hold... for the long haul

The BoE set a high bar to react to data surprises in our view. Neither today's data or yesterday's labour market numbers breach that bar. The BoE, in our view, is likely to hold rates at next month's policy meeting. Despite the surprise to consensus, headline core and services inflation remains below the BoE's call. The BoE expects services inflation to remain stubbornly high this year.

Exhibit 6: BofA and BoE inflation forecasts
Updated forecasts

	Headline		Services	
	BoEf	Data/BofAf	BoEf	Data/BofAf
Jun-23	7.9	7.9	7.2	7.2
Jul-23	6.8	6.8	7.3	7.4
Aug-23	7.1	6.7	7.2	6.8
Sep-23	6.9	6.7	7.0	6.9
Oct-23	5.0	4.9	6.8	6.8
Nov-23	4.8	4.7	6.8	6.8
Dec-23	5.0	4.6	6.9	6.8

Source: BofA Global Research, ONS, BoE

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Hot Topic

Italy: unstable equilibrium

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Extract from Euro Area Watch: Italy: unstable equilibrium 19 October 2023

Back to debt sustainability concerns

Italy remains a long-time worry for investors. Past-peak fiscal support (with the phasing out of emergency packages), coupled with the sustained tightening of monetary policy, poses clear headwinds to an economy on track for close-to-zero GDP growth in the next quarters. True, positive drivers of market perception stem from the national recovery and resilience plan (RRP) and a growth performance expected to remain above pre-Covid levels in 2024/25. That said, the current rates environment keeps debt-sustainability (DS) concerns well and truly alive.

One shock away from risks to debt sustainability

We refresh our DS models for Italy. Italy's debt sustainability considerations envisage multiple equilibria. The updated debt trajectories show little room for comfort: debt ratio would fail to correct below pre-pandemic levels for the next 5 years and debt should settle at around 120% by 2032. For now, Italy is in a "patient equilibrium" in which markets are happy to give time. Yet, given significant DS risks, it would not take a huge shock for markets to worry and move to the bad equilibria. In a high-rates scenario – consistent with current market forwards – the 120% threshold no longer seems within reach. Punctual compliance with RRP (recovery and resilience plan) implementation and fiscal prudence would not be then an optionality.

2024 Budget plan in markets' (and Brussels') monitor

More-optimistic official debt projections (vs. ours) yet reveal concerns about the debt burden. We regard to the 2024 budget plan as a mark-to-market exercise confirming a narrower fiscal path ahead. Headroom for fiscal support in 2024 is tiny (a package worth EUR24bn was approved on Monday). Yet, even without idiosyncratic sources of fiscal policy noise, Italy is back under the full scrutiny of the markets (and rating of agencies). With EU fiscal rules back next year, the Italian public finances fail to provide comfort for compliance from Brussels' perspective, too. On that, we suspect RRP implementation – with plenty of risks for the upcoming deliverables – will be the first line of inquiry.

BTP: rope-walking

BTPs find themselves in an unstable equilibrium. Positioning is significantly short and underweight already while the high supply after QT expected next year is mostly absorbed by impressive retail flows that may accelerate from here. If rates start a shallow path of normalisation as per our forecasts, BTP-Bund should head back to 160bp. That is our central scenario.

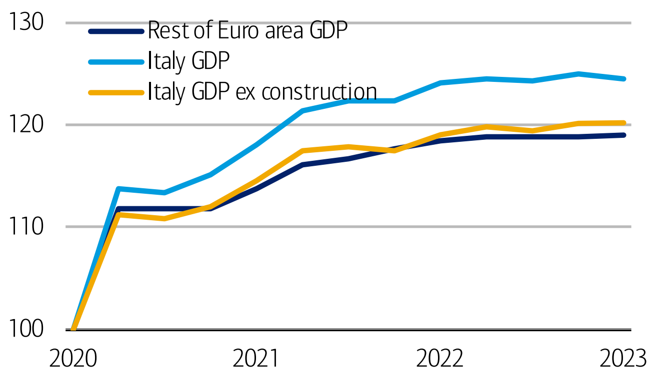
On the other hand, current levels of rates are already tough on debt sustainability and Italy remains, by far, the highest beta asset in EGB space. Further rates increases from here risk getting spreads towards 300bp but, again, this is not our central scenario. We also expect rating agencies to avoid cutting ratings to junk – a junk rating from the average of the top three agencies could have a significant financial impact in Italy and beyond, in our view.

Economic support fading away…

We recently downgraded our already below-consensus GDP growth forecasts for Italy to 0.7% yoy in 2023 and 0.4% in 2024 (Europe Economic Weekly: Tell me why I paused, why I really, really paused 22 September 2023). We see the combination of monetary policy tightening, downbeat demand dynamics, slow Next Generation EU (NGEU) funds' absorption, and weak manufacturing to be paving the way for stagnation until Spring next year. The change in policy mix – with both monetary and fiscal policy now aligning in restrictive territory – complicates Italy's macro picture considerably, we argue. Italy's credit impulse – the proxy for monetary policy transmission – has deteriorated materially since the start of the ECB hiking cycle (Exhibit 8). Adding to this, lately fiscal policy has no longer endeavoured to offset monetary policy tightening. And, with past-peak fiscal help, the phasing out of some support measures (eg, construction spending incentives) will contribute to softening growth momentum.

Exhibit 7: Euro area and Italian GDP growth (2Q20=100)

Italy has outperformed EA average in the aftermath of the Covid shock. Now the economy has entered in a stagnation phase



Source: Eurostat, BofA Global Research

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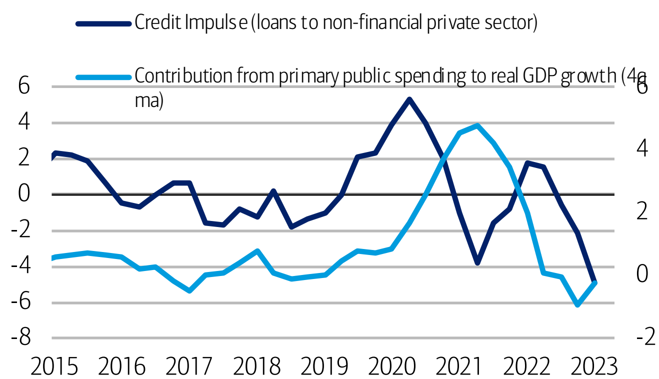
Exhibit 8: Fiscal impulse and credit impulse for Italy

Fiscal and credit impulse aligning in restrictive territory



Source: Eurostat, BofA Global Research. Note: credit impulse is defined as the yoy change in the flow of loans to the non-financial private sector, normalized by GDP

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… while yields are beyond the edge of the "comfort zone"

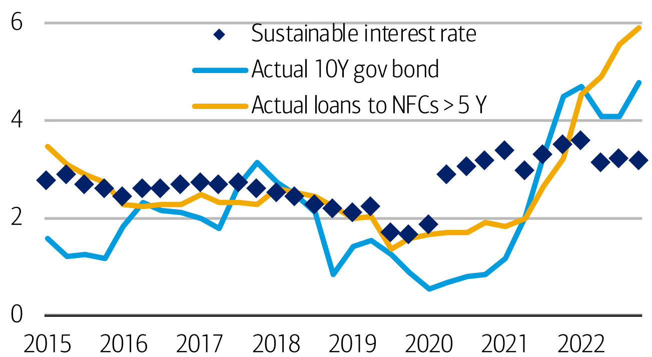
Downbeat growth adds to the current high level of yields. We have made the point before: it is not a matter of spreads, rather outright levels are the issue. The very strong transmission of monetary policy appears clear in Italian data (see Europe Economic Weekly: Something's Gotta Give 06 October 2023). One could argue how sustainable these rate levels actually are. At first glimpse, they seem to have surpassed the edge of the "comfort zone". Exhibit 9 compares current levels of sovereign and lending yields with the so-called "sustainable" long-term interest rate derived from long-term consensus forecasts (as the sum of the average of GDP and CPI forecasts for the next 10 years). In the past four quarters, both sovereign yields and lending conditions for Italian corporates have surpassed the level consistent with nominal long-term average GDP growth of ca 3%. Consequently, debt sustainability concerns have ramped up for Italy.

Debt sustainability: our base case sees debt at ca 140% for the next 5 years

We therefore refresh our debt sustainability analysis for Italy. In our central scenario, GDP growth and inflation reflect our forecasts for 2023/25, while converging to long-term consensus expectations (real growth at 0.6% and inflation at 1.9%) from 2026 onwards. We assume potential growth at 0.6% (10-15bp higher than previous exercises amid potential gains from RRP implementation). We then assume the cyclically-adjusted primary balance to be a consistent structural adjustment of 0.7-0.5% in 2024/25 (within the suggested range of the European Commission's 2023 country recommendations), while converging from 2026 to the 2007/19 average (ca 2.2%). Finally, we run two interest rate scenarios - one with BTP yields converging towards 2.5% in the next ten years (scenario more consistent with rates normalization from here) and the other assumes rates staying around 5% over the same period. We then calculate the passthrough into actual cost of debt after considering existing stocks, issuance of bonds and bills as well as redemptions. We use simplified assumptions for floating debt.

Exhibit 9: Sustainable interest rates vs. 10y sovereign and corporate lending rates

Sovereign yields and corporate lending rates above the levels consistent with long-term nominal growth expectations



Source: ECB, Bloomberg, Consensus Economics, BofA Global Research

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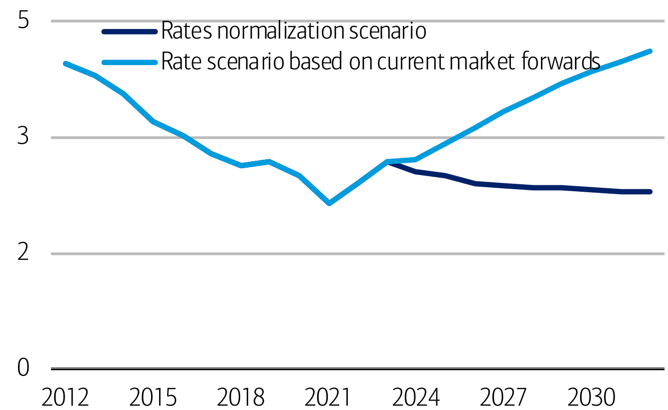
Exhibit 10: Italian cost of outstanding debt scenarios

Our central scenario assumes BTP yields converging towards 2.5% in the next 10 years; the alternative assumes rates staying around 5%



Source: Bloomberg, BofA Global Research

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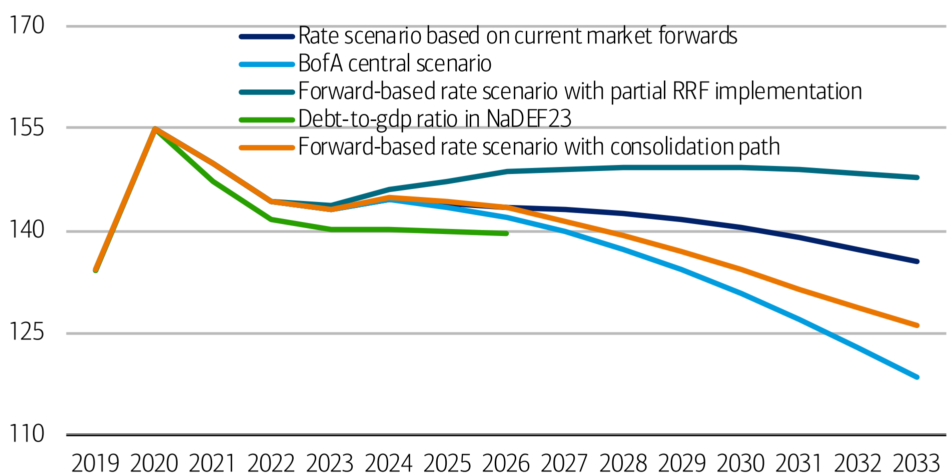
Exhibit 11 shows the updated debt trajectories. In our central scenario, the ratio gets stuck at around 140% until 2027. Also, the profile exhibits a downward path that is too gentle for the ratio to fall below 120% levels within the forecast horizon. The comparison with the alternative rate scenario is then stark, highlighting the vulnerability of Italian public finances to the evolution of rates. In the higher-rates scenario, the 120% threshold is no longer within reach; rather, the debt ratio would be 16ppt higher than in our central scenario (Exhibit 11).

Exhibit 11: Alternative debt sustainability scenarios

The alternative debt trajectories prove that DS would be at risk in a high-rates scenario. Fiscal rectitude and timely compliance with RRP deadlines would not be an optionality



Source: Bloomberg, Consensus Forecasts, NaDEF 2023, BofA Global Research

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One shock away from DS risks

The shape of the debt-to-GDP curve clearly reveals worries about debt sustainability conditions not being met in a shock scenario, leading to a real-rate sell-off in line with current market forwards. The source of the shock could vary, either an exogenous surprise (triggering a generalised repricing to risk-free rate) or an idiosyncratic trigger (leading to BTP spread widening) (for the sake of simplicity, we leave shock-driven growth/inflation implications aside). Such a situation would test market nerves on Italy's DS. Fiscal rectitude and punctual compliance with the recovery plan would not be an optionality.

We estimate the debt profile in the case of Italy being unable to meet RRP deadlines, hence failing to use in full the RRF fiscal firepower as planned. In this scenario, we assume an inability to meet the deadline for the 5th tranche scheduled for 2H23 and funds absorption in 2024/26 to be aligned to 2021/23. Without a RRF-fiscal boost to growth, the debt burden would increase again in the short-run and fail to show any downward trend on the forecast horizon.

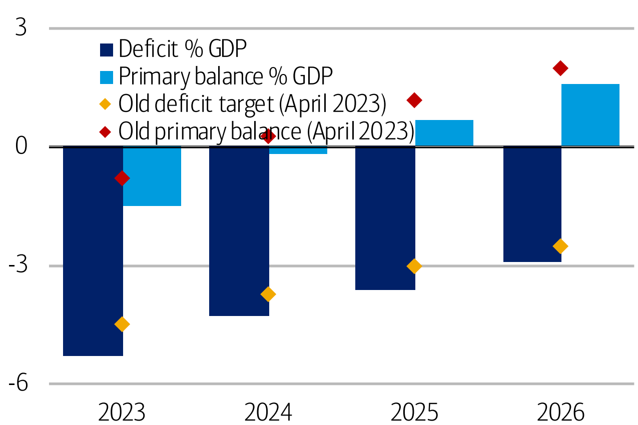
And, even with the RRP on track, a high-rates scenario would require some consolidation effort to realign the debt profile with our more buoyant central rates scenario. We assume a fiscal effort that could achieve a headline deficit below 3% as early as 2025 (consistent with a quick convergence of the cyclically adjusted primary balance to the 2007/19 average in 4 years). Even when taking into account the knock-on effect on GDP growth from fiscal tightening, active fiscal consolidation would put the public debt trajectory on a very similar path to our baseline.

Debt profile is the elephant in the room

How does our debt profile compare with official numbers? We take a look at the latest official macroeconomic projections (published in the so-called update of the Economic and Financial Document (NaDEF)). In the official projections, the debt profile flirts with 140% levels for the next 5 years, too. Yet, the 2024 budget plan envisages a decline of less than 0.5ppt between 2023 and 2026, mostly due to the ambitious privatisation target (1% of GDP (EUR20bn) in 2024-26). This (and our more cautious view on growth) explains their more-optimistic profile debt profile (Exhibit 11).

Exhibit 12: Government budget projections – revisions vs April's Stability Law

The latest budget revised higher deficit estimates. Deficit targets are north of 3% for the whole forecast period



Source: NaDEF 2023, BofA Global Research

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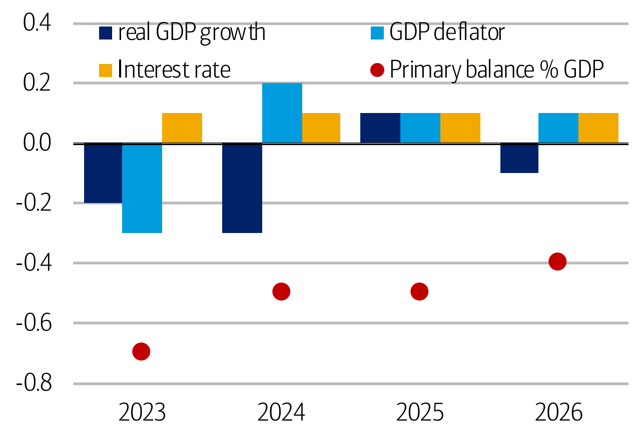
Exhibit 13: Delta in forecasts for the main macro variables - Sept. vs April 2023

Weaker growth and higher rates feed through the new projections



Source: NaDEF 2023, BofA Global Research

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What about the budget? Some commentators have attributed the latest BTP widening to more-than-expected relaxed budget plans. We fail to share this view. True, fiscal deficits were set at 5.3% for 2023 and 4.3% in 2024 (vs April projections at 4.5% and 3.7%) and above-3% deficit targets persist throughout the whole horizon period (Exhibit 12). But we do not see these numbers as an attempt at imprudent fiscal planning by the current government. At the most, we regard the latest fiscal plans as a mark-to-market exercise, with the deterioration of Italy's fiscal equation being the result of the complicated macro backdrop (Exhibit 13).

2024 budget plan: close-to-zero fiscal headroom in 2024E

On the 2024 budget plan, our main takeaways are:

- The 2024 fiscal target points to a tiny fiscal space for fiscal support next year, at 0.7% of GDP. That will be devoted mainly to the reduction of the tax wedge (and remodulation of personal income tax brackets) and the renewal of public administration contracts. Including some spending cuts, the package will be worth EUR24bn, as approved on Monday by the government cabinet. Notably, the tax cuts are budgeted for one year only.

- The statistical treatment of the so-called "Superbonus" tax deductions led to a downward revision of the 2023 deficit. This, together with a higher-than-expected take of ca EUR20bn vs April estimates, led to a deficit deterioration worth 1.1% of GDP for the current year. On the flipside, 2024/25 deficit numbers improved by 0.3% and 0.2%, respectively (Exhibit 14).

- Fiscal stance (proxied by the variation of the structural balance) is planned to turn less supportive, with a 1.1% improvement in 2024. The tightening reflects mostly the phasing-out of energy-crisis related emergency measures (as well as the "Superbonus"). Yet, spending associated to RRP will continue to provide a boost to growth.

- Interest rate expenditure is set on a rising path from 2024E – around EUR12bn of extra expenditure per year vs. April projections (ca 0.1% of GDP). Notably, despite quite upbeat GDP growth forecasts, the higher level of yields implies that the *snowball-effect* will no longer have a debt-reducing impact from 2026E.

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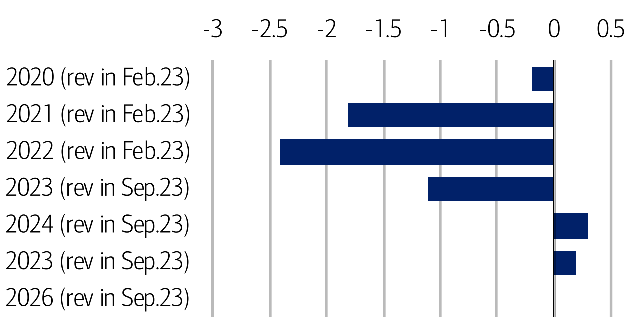
Exhibit 14: Impact of Super bonus statistical revisions on deficit numbers

The classification from payable to non-payable of the tax credit related to the bonuses for the construction sector led to two rounds of statistical revisions over the year



Source: NaDEF 2023, BofA Global Research

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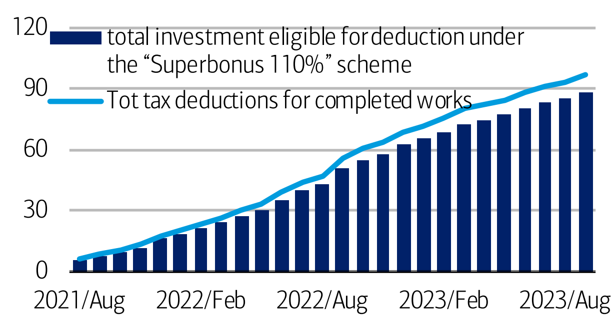
Exhibit 15: Investment eligible under Superbonus scheme

Up to Sept 2023, total investment eligible for deduction under the "Superbonus 110%" scheme exceeded EUR88bn



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Fiscal prudence and punctual RRP implementation: a must-do call from Brussels

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Exhibit 16: Calendar of main macro events for Italy
Rating review will be imminent market catalysts

	Key macro/fiscal events and rating decisions
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Recovery plan implementation: losing momentum

What about the national recovery plan? The plan is approaching the end of the first half of its 6-yeard period. In 2021/22, Italy did relatively well in terms of RRP implementation, with punctuality for the deliverables agreed with the European Commission (albeit it was an easy reach, as in 2022 some RRF-funded interventions originally planned for 2021/22 were pushed forward over the second half of the RRP horizon (Exhibit 18)). So far, Italy has received EUR84.5bn (in prefinancing and three tranches), and an additional EUR16.5bn is expected to flow in as a 4th tranche. For 2023, an extra EUR18bn is attached to the fulfilment of 69 objectives by year-end (Exhibit 17).

Exhibit 17: Timeline of RRF milestones and targets - Italy
In August Italy proposed to revise 144 objectives. The Commission endorsed the revised plan in September

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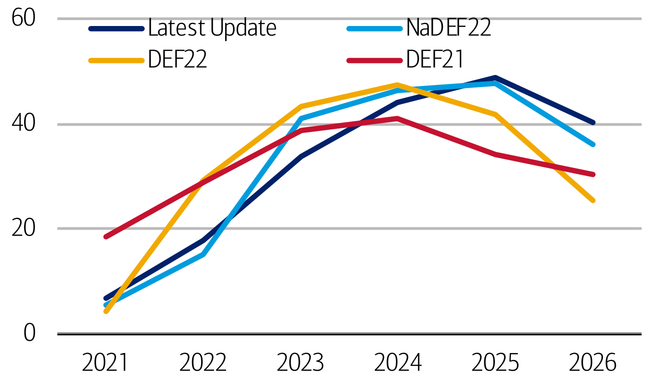
Exhibit 18: Updated timeline of national RRP allocation
Some of the interventions planned in the first 3 years of the plan have been delayed to the final period of the plan



Source: MEF, Corte dei Conti. BofA Global Research.

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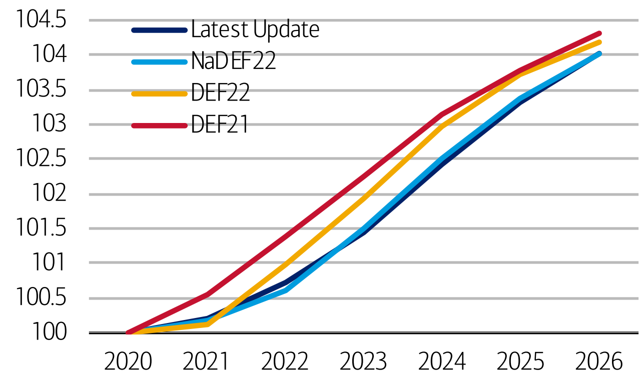
Exhibit 19: Impact on GDP levels of the different RRF planned allocation
The sooner funds will be deployed within the next 3 years, the better is.



Source: MEF, Corte dei Conti. BofA Global Research

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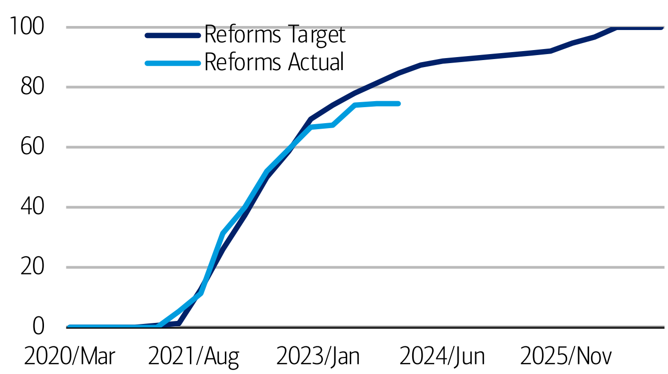
First, RRP "backlogs" keep accumulating. The most up-to-date timeline of RRF fund allocation (June 2023) further reduces the total funds planned for 2023/24 and concentrates even more resources in 2025/26 (Exhibit 17). This raises the bar for full deployment of funds in the remainder of the time horizon. An ambitious acceleration in fund absorption is needed to preserve the do-ability of the plan within the 6-year timespan. Also timely deployment matters to maximise RRP's fiscal firepower. Exhibit 19 shows the GDP boost from RRP implementation consistent with the different timelines of RRF fund deployments. GDP gains would have been higher with more front-loaded RRP usage in 2021/23 (assuming fiscal multiplier are higher in proximity of the shock). Conversely, the sooner funds are deployed in the next 3 years, the better.

Exhibit 20: Percentage of completion of reforms under RRP
The updated census of the Regis platform counts ca 74% of regulatory reforms to be completed



Source: Openpolis data

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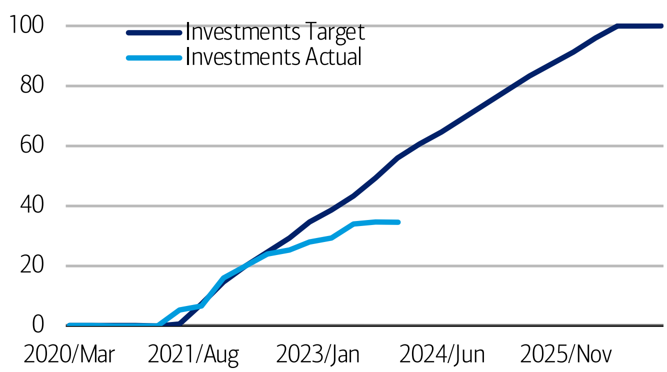
Exhibit 21: Percentage of completion of investments under RRP
The percentage falls to 33% when looking at completed investments



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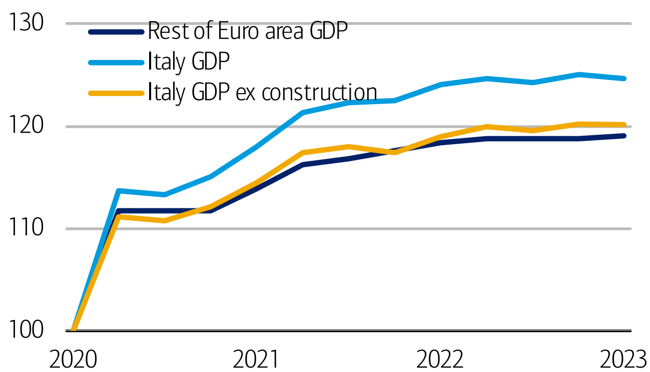
Second, so far, delays have been more material for investments than for the reform pipeline (Exhibit 20 and Exhibit 21). And, now the plan is reaching a stage in which the number of targets (mostly associated with implementation and proper investment spending) will be higher than the one of milestones (Exhibit 17). Third, for some projects, actual spending requires private sector involvement for RRF funds to be enhanced. In the current rates environment, that might just not happen with capex being financed at 6%.

Economic support fading away…

We recently downgraded our already below-consensus GDP growth forecasts to 0.7% yoy in 2023 and 0.4% in 2024 (Europe Economic Weekly: Tell me why I paused, why I really, really paused 22 September 2023). We see the combination of monetary policy tightening, downbeat demand dynamics, slow NGEU absorption, and weak manufacturing to be paving the way for stagnation until Spring next year. The change in policy mix – with both monetary and fiscal policy now aligning in restrictive territory – complicates Italy's macro picture considerably, we argue. Italy's credit impulse – the proxy for monetary policy transmission – has deteriorated materially since the start of the ECB hiking cycle (Exhibit 8). Adding to this, lately fiscal policy has no longer endeavoured to offset monetary policy tightening. And, with past-peak fiscal help, the phasing out of some support measures (eg, construction spending incentives) will contribute to softening growth momentum.

Exhibit 22: Euro area and Italian GDP growth (2Q20=100)

Italy has outperformed EA average in the aftermath of the Covid shock. Now the economy has entered in a stagnation phase



Source: Eurostat, BofA Global Research

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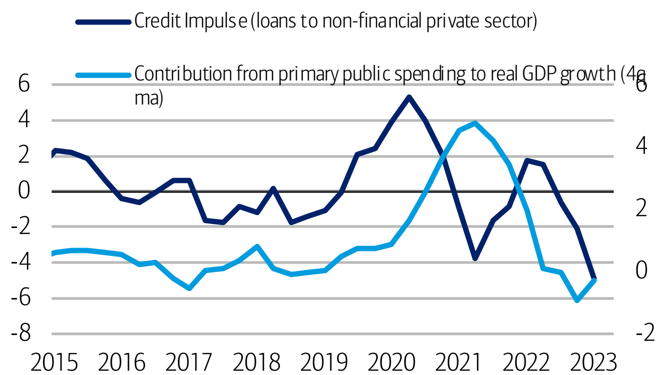
Exhibit 23: Fiscal impulse and credit impulse for Italy

Fiscal and credit impulse aligning in restrictive territory



Source: Eurostat, BofA Global Research. Note: credit impulse is defined as the yoy change in the flow of loans to the non-financial private sector, normalized by GDP

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… while yields are beyond the edge of the "comfort zone"

Downbeat growth adds to the current high level of yields. We have made the point before: it is not a matter of spreads, rather outright levels are the issue. The very strong transmission of monetary policy appears clear in Italian data (see Europe Economic Weekly: Something's Gotta Give 06 October 2023). One could argue how sustainable these rate levels actually are. At first glimpse, they seem to have surpassed the edge of the "comfort zone". Exhibit 9 compares current levels of sovereign and lending yields with the so-called "sustainable" long-term interest rate derived from long-term consensus forecasts (as the sum of the average of GDP and CPI forecasts for the next 10 years). In the past four quarters, both sovereign yields and lending conditions for Italian corporates have surpassed the level consistent with nominal long-term average GDP growth of ca 3%. Consequently, debt sustainability concerns have ramped up.

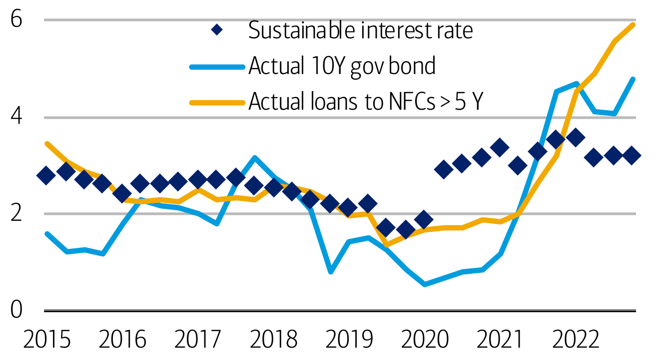
Debt sustainability: our base case sees debt at ca 140% for the next 5 years

We therefore refresh our debt sustainability analysis. In our central scenario, GDP growth and inflation reflect our forecasts for 2023/25, while converging to long-term consensus expectations (real growth at 0.6% and inflation at 1.9%) from 2026 onwards. We assume potential growth at 0.6% (10-15bp higher than previous exercises amid potential gains from RRP implementation). We then assume the cyclically-adjusted primary balance to be a consistent structural adjustment of 0.7-0.5% in 2024/25 (within the suggested range of the European Commission's 2023 country recommendations), while converging from 2026 to the 2007/19 average (ca 2.2%). Finally, we run two interest rate scenarios

- one with BTP yields converging towards 2.5% in the next 10 years (scenario more consistent with rates normalization from here) and the other assumes rates staying around 5% over the same period. We then calculate the passthrough into actual cost of debt after considering existing stocks, issuance of bonds and bills as well as redemptions. We use simplified assumptions for floating debt.

Exhibit 24: Sustainable interest rates vs. 10y sovereign and corporate lending rates

Sovereign yields and corporate lending rates above the levels consistent with long-term nominal growth expectations



Source: ECB, Bloomberg, Consensus Economics, BofA Global Research

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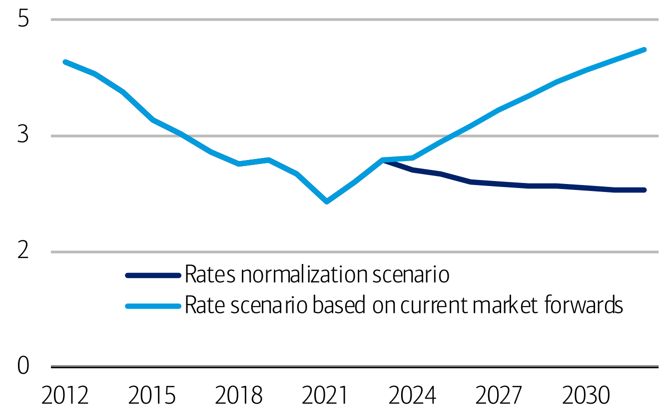
Exhibit 25: Italian cost of outstanding debt scenarios

Our central scenario assumes BTP yields converging towards 2.5% in the next 10 years; the alternative assumes rates staying around 5%



Source: Bloomberg, BofA Global Research

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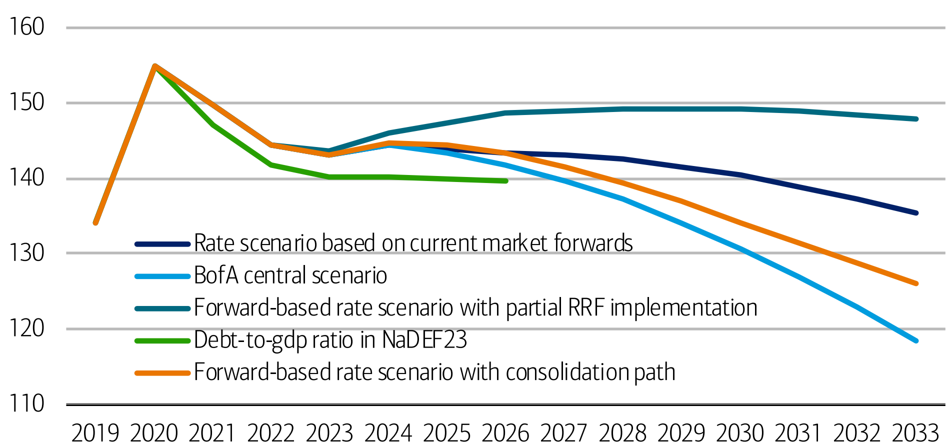
Exhibit 11 shows the updated debt trajectories. In our central scenario, the ratio gets stuck at around 140% until 2027. Also, the profile exhibits a downward path that is too gentle for the ratio to fall below 120% levels within the forecast horizon. The comparison with the alternative rate scenario is then stark, highlighting the vulnerability of Italian public finances to the evolution of rates. In the higher-rates scenario, the 120% threshold is no longer within reach; rather, the debt ratio would be 16ppt higher than in our central scenario (Exhibit 11).

Exhibit 26: Alternative debt sustainability scenarios

The alternative debt trajectories prove that DS would be at risk in a high-rates scenario. Fiscal rectitude and timely compliance with RRP deadlines would not be an optionality



Source: Bloomberg, Consensus Forecasts, NaDEF 2023, BofA Global Research

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One shock away from a DS threat

The shape of the debt-to-GDP curve clearly reveals worries about debt sustainability conditions not being met in a shock scenario, leading to a real-rate sell-off in line with current market forwards. The source of the shock could vary, either an exogenous surprise (triggering a generalised repricing to risk-free rate) or an idiosyncratic trigger (leading to BTP spread widening) (for the sake of simplicity, we leave shock-driven growth/inflation implications aside). Such a situation would test market nerves on Italy's DS. Fiscal rectitude and punctual compliance with the recovery plan would not be an optionality.

We estimate the debt profile in the case of Italy being unable to meet RRP deadlines, hence failing to use in full the RRP fiscal firepower as planned. In this scenario, we assume an inability to meet the deadline for the 5th tranche scheduled for 2H23 and funds absorption in 2024/26 to be aligned to 2021/23. Without a RRP-fiscal boost to growth, the debt burden would increase again in the short-run and fail to show any downward trend on the forecast horizon (Exhibit 11).

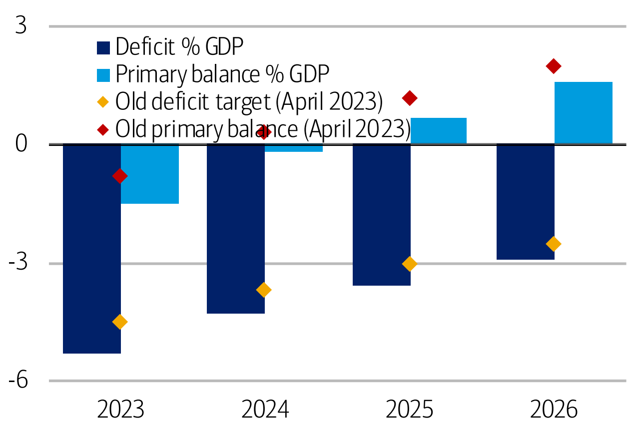
And, even with the RRP on track, a high-rates scenario would require some consolidation effort to realign the debt profile with our more buoyant central rates scenario. We assume a fiscal effort that could achieve a headline deficit below 3% as early as 2025 (consistent with a quick convergence of the cyclically adjusted primary balance to the 2007/19 average in 4 years). Even when taking into account the knock-on effect on GDP growth from fiscal tightening, active fiscal consolidation would put the public debt trajectory on a very similar path to our baseline.

Debt profile is the (big) elephant in the room

How does our debt profile compare with official numbers? We take a look at the latest official macroeconomic projections (published in the so-called update of the Economic and Financial Document (NaDEF)). In the official projections, the debt profile flirts with 140% levels for the next 5 years, too. Yet, the 2024 budget plan envisages a decline of less than 0.5ppt between 2023 and 2026, mostly due to the ambitious privatisation target (1% of GDP (EUR20bn) in 2024-26). This (and our more cautious view on growth) explains their more-optimistic profile debt profile (Exhibit 11).

Exhibit 27: Government budget projections – revisions vs April's Stability Law

The latest budget revised higher deficit estimates. Deficit targets are north of 3% for the whole forecast period



Source: NaDEF 2023, BofA Global Research

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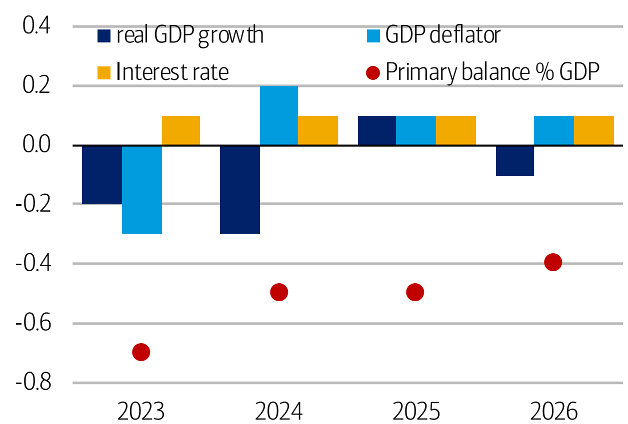
Exhibit 28: Delta in forecasts for the main macro variables - Sept. vs April 2023

Weaker growth and higher rates feed through the new projections



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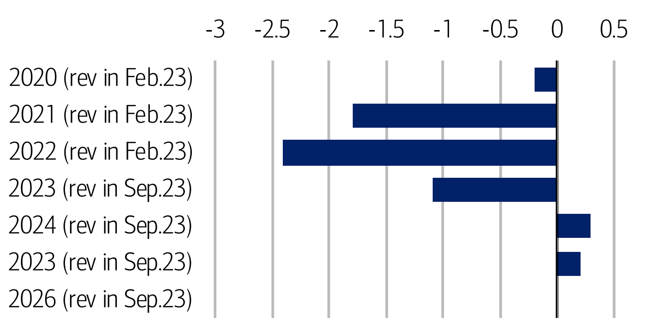

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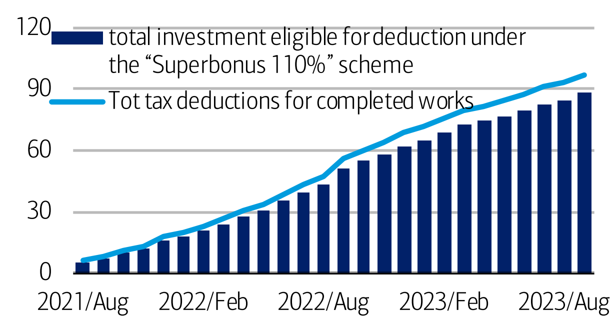

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Source: Bloomberg, BofA Global Research. RRF stands for Recovery and Resilience Facility

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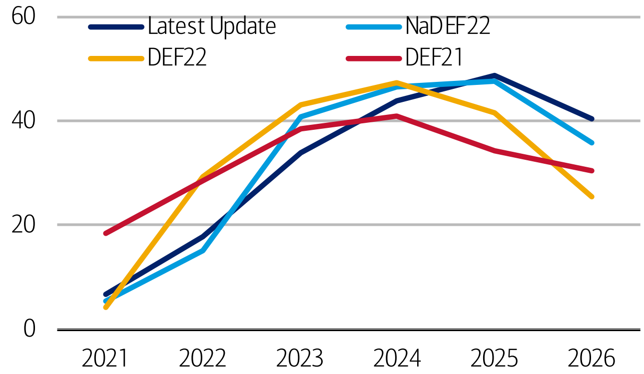
Exhibit 33: Updated timeline of national RRP allocation
Some of the interventions planned in the first 3 years of the plan have been delayed to the final period of the plan



Source: MEF, Corte dei Conti. BofA Global Research.

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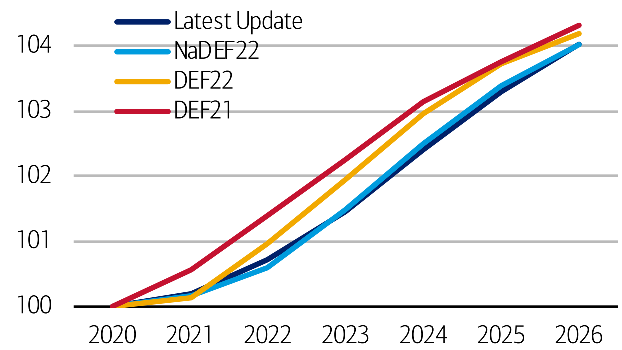
Exhibit 34: Impact on GDP levels of the different RRF planned allocation
The sooner funds will be deployed within the next 3 years, the better is.



Source: MEF, Corte dei Conti. BofA Global Research

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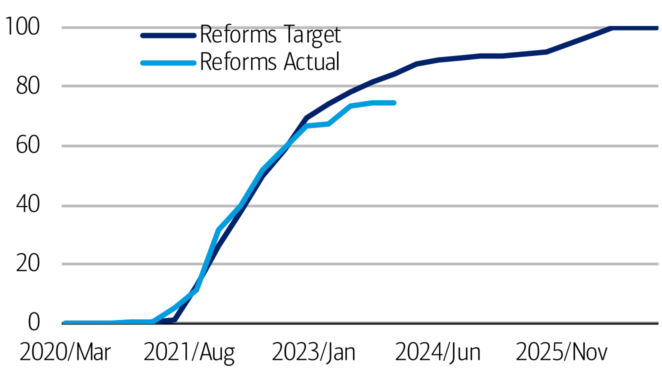
First, RRP "backlogs" keep accumulating. The most up-to-date timeline of RRP allocation (June 2023) further reduces the total funds planned for 2023/24 and concentrates even more resources in 2025/26 (Exhibit 17). This raises the bar for full deployment of funds in the remainder of the time horizon. An ambitious acceleration in fund absorption is needed to preserve the do-ability of the plan within the 6-year timespan. Also timely deployment matters to maximise RRP's fiscal firepower. Exhibit 19 shows the GDP boost from RRP implementation consistent with the different timelines of fund deployments. GDP gains would have been higher with more front-loaded RRP usage in 2021/23 (assuming fiscal multiplier are higher in proximity of the shock). Conversely, the sooner funds are deployed in the next 3 years, the better.

Exhibit 35: Percentage of completion of reforms under RRP
The updated census of the Regis platform counts ca 74% of regulatory reforms to be completed



Source: Openpolis data

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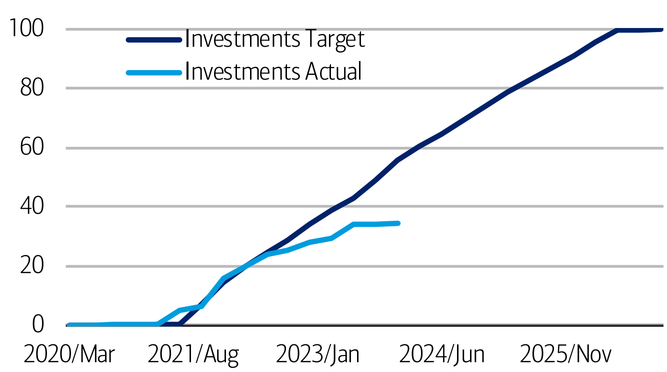
Exhibit 36: Percentage of completion of investments under RRP
The percentage falls to 33% when looking at completed investments



Source: Openpolis data

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Second, so far, delays have been more material for investments than for the reform pipeline (Exhibit 20 and Exhibit 21). And, now the plan is reaching a stage in which the number of targets (mostly associated with implementation and proper investment spending) will be higher than the one of milestones (Exhibit 17). Third, for some projects, actual spending requires private sector involvement for RRF funds to be enhanced. In the current rates environment, that might just not happen with capex being financed at 6%.

European forecasts

Exhibit 37: Euro area economic forecasts
We see the ECB stopping at a refi terminal of 4.50%.

		2021	2022	2023	2024	2025	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24
GDP	% qoq						0.1	0.1	0.0	0.1	0.1	0.2	0.3	0.3
	% qoq ann.						0.3	0.5	-0.1	0.2	0.3	1.0	1.0	1.3
	% yoy	**5.6**	**3.4**	**0.5**	**0.5**	**1.3**	1.1	0.5	0.1	0.2	0.3	0.4	0.6	0.9
Private Consumption	% qoq						0.0	0.0	0.1	0.1	0.2	0.3	0.3	0.3
	% yoy	**4.1**	**4.3**	**0.3**	**0.7**	**1.1**	1.4	0.2	-0.6	0.2	0.4	0.6	0.9	1.0
Government Consumption	% qoq						-0.6	0.2	0.2	0.2	0.2	0.3	0.2	0.2
	% yoy	**4.1**	**1.4**	**0.0**	**0.9**	**1.0**	-0.4	0.1	0.3	0.0	0.9	0.9	0.9	1.0
Investment	% qoq						0.3	0.3	0.2	0.1	0.0	0.2	0.3	0.4
	% yoy	**3.6**	**2.9**	**1.1**	**0.7**	**1.6**	1.9	1.3	0.6	0.9	0.6	0.5	0.6	0.9
Final Domestic Demand[1]	% qoq						0.0	0.1	0.1	0.1	0.2	0.2	0.3	0.3
	% yoy	**3.9**	**3.1**	**0.4**	**0.7**	**1.1**	1.0	0.4	-0.1	0.3	0.5	0.6	0.8	0.9
Net exports[1]	% qoq						0.6	-0.4	-0.1	0.0	0.1	0.0	0.1	0.1
	% yoy	**1.4**	**-0.1**	**0.4**	**0.0**	**0.3**	0.5	0.2	0.7	0.1	-0.5	0.0	0.1	0.3
Stockbuilding[1]	% qoq						-0.5	0.4	-0.1	0.0	-0.1	0.0	-0.1	0.0
	% yoy	**0.3**	**0.4**	**-0.3**	**-0.2**	**-0.1**	-0.4	-0.1	-0.5	-0.2	0.2	-0.3	-0.3	-0.3
Current Account Balance	EUR bn	**278**	**-149**	**147**	**209**	**219**	74	-36	35	75	55	-6	85	75
	% of GDP	**2.3**	**-1.1**	**1.1**	**1.4**	**1.5**	2.1	-1.0	1.0	2.1	1.5	-0.2	2.4	2.0
Industrial production	% qoq						-0.3	-1.0	0.2	0.5	0.4	0.5	0.7	0.7
	% yoy	**8.8**	**2.1**	**-0.9**	**1.5**	**2.6**	0.1	-1.1	-2.1	-0.6	0.1	1.6	2.1	2.3
Unemployment rate[3]	%	**7.7**	**6.8**	**6.7**	**7.0**	**6.9**	6.6	6.6	6.7	6.7	7.0	7.0	7.0	6.9
CPI (harmonised) [4]	% qoq						0.4	1.6	0.6	0.9	0.4	1.1	-0.1	0.3
	% yoy	**2.6**	**8.4**	**5.7**	**2.7**	**1.5**	8.0	6.2	5.0	3.6	3.6	3.1	2.4	1.8
CPI (core) [4]	% qoq						0.6	2.4	0.5	0.6	0.1	1.5	-0.1	0.3
	% yoy	**1.5**	**3.9**	**5.0**	**2.6**	**1.8**	5.5	5.4	5.1	4.2	3.7	2.8	2.2	1.8
General govt balance	% of GDP	**-5.3**	**-3.6**	**-3.9**	**-3.0**	**-2.6**								
General govt debt	% of GDP	**95.5**	**91.6**	**90.0**	**89.7**	**88.3**								
Refinancing rate	%	**0.00**	**2.50**	**4.50**	**3.75**	**2.75**	3.50	4.00	4.50	4.50	4.50	4.25	4.00	3.75

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 38: 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					0.1	0.2	0.4	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.3
	% qoq ann.					0.6	0.8	1.6	0.0	0.0	0.0	0.4	0.4	0.4	0.8	0.8	1.2
	% yoy	**4.1**	**0.6**	**0.3**	**0.6**	0.2	0.4	0.9	0.8	0.6	0.4	0.1	0.2	0.3	0.5	0.6	0.8
Private Consumption	% qoq					0.0	0.6	0.4	0.0	-0.1	-0.1	-0.1	0.0	0.2	0.2	0.2	0.2
	% yoy	**5.6**	**0.7**	**0.1**	**0.4**	0.3	0.5	1.2	0.9	0.8	0.2	-0.3	-0.3	0.0	0.3	0.6	0.8
Government Consumption	% qoq					1.7	1.2	0.9	0.4	0.1	0.3	0.3	0.3	0.3	0.5	0.5	0.5
	% yoy	**1.8**	**1.4**	**2.1**	**1.5**	-2.2	2.6	2.8	2.7	4.6	1.7	1.0	0.9	1.2	1.4	1.7	1.8
Investment	% qoq					2.4	0.0	-1.2	0.1	0.0	-0.2	-0.2	0.0	0.1	0.2	0.3	0.4
	% yoy	**8.6**	**2.0**	**-0.8**	**0.4**	1.5	3.8	1.4	1.3	-1.1	-1.3	-0.2	-0.4	-0.2	0.2	0.6	1.0
Final Domestic Demand[1]	% qoq					0.1	1.0	0.2	0.1	0.0	0.0	0.0	0.1	0.2	0.3	0.3	0.3
	% yoy	**5.4**	**1.1**	**0.3**	**0.7**	0.0	1.5	1.5	1.3	1.2	0.2	0.0	-0.1	0.2	0.5	0.8	1.1
Net exports[1]	% qoq					-1.0	-1.1	-0.1	-0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
	% yoy	**-1.2**	**0.2**	**-0.3**	**0.0**	4.1	1.7	-2.6	-2.2	-1.2	-0.1	0.1	0.1	0.1	0.0	-0.1	-0.2
Stockbuilding[1]	% qoq					1.1	0.3	0.3	-0.1	0.1	0.0	0.1	0.0	-0.1	0.0	0.0	0.0
	% yoy	**-0.1**	**-0.8**	**0.3**	**-0.1**	-3.8	-2.9	1.9	1.6	0.6	0.3	0.1	0.1	0.0	0.3	-0.2	-0.1
Current Account Balance	% of GDP	**-3.8**	**-3.5**	**-3.8**	**-3.7**	-2.3	-3.8	-3.9	-3.9	-3.9	-3.8	-3.7	-3.7	-3.7	-3.7	-3.7	-3.8
Manufacturing output	% qoq					0.7	1.6	1.5	0.0	0.1	0.3	0.5	0.6	0.6	0.6	0.6	0.6
	% yoy	**-3.7**	**1.8**	**1.9**	**-3.7**	-1.7	0.8	4.3	3.8	3.2	1.9	0.9	1.5	2.0	2.3	2.4	2.4
Unemployment rate [2]	%	**3.7**	**4.1**	**4.6**	**4.8**	3.9	4.2	4.2	4.3	4.4	4.6	4.7	4.8	4.8	4.8	4.8	4.7
RPI Inflation[2]	% yoy	**11.6**	**9.8**	**4.5**	**3.5**	13.6	11.1	9.0	6.0	5.2	4.2	4.4	4.2	4.0	3.4	3.4	3.4
CPI Inflation (harmonised)[2]	% yoy	**9.1**	**7.4**	**3.4**	**2.5**	10.2	8.4	6.7	4.7	4.1	3.0	3.3	3.0	2.9	2.4	2.5	2.5
CPI (core)[2]	% yoy	**5.9**	**6.3**	**4.2**	**3.0**	6.1	6.9	6.4	5.8	5.4	4.1	3.9	3.6	3.3	2.9	2.9	2.9
General govt balance [5]	% of GDP	**-5.6**	**-4.7**	**-3.2**	**-2.8**												
General govt debt [3,5]	% of GDP	**96.2**	**97.0**	**98.4**	**98.5**												
General govt debt	% of GDP	**101.0**	**100.1**	**100.8**	**101.7**												
Bank Rate [4]	%	**3.50**	**5.25**	**5.25**	**4.25**	4.25	5.00	5.25	5.25	5.25	5.25	5.25	5.25	5.00	4.75	4.50	4.25

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 39: Euro area GDP and CPI forecasts
Euro area member states profiles

	GDP						HICP					
	2020	2021	2022.0	2023F	2024F	2025F	2020	2021	2022	2023F	2024F	2025F
Euro area	-6.3	5.6	3.4	0.5	0.5	1.3	0.3	2.6	8.4	5.7	2.7	1.5
Austria	-6.5	4.7	4.9	0.1	0.4	1.3	1.4	2.8	8.6	7.6	3.6	2.4
Belgium	-5.4	6.3	3.2	0.9	0.6	1.2	0.4	3.2	10.3	2.8	3.4	1.9
Finland	-2.4	3.2	1.6	0.3	0.5	1.0	0.4	2.1	7.2	4.5	1.7	1.5
France	-7.7	6.4	2.5	0.9	0.8	1.3	0.5	2.1	5.9	5.9	2.9	1.6
Germany	-4.2	3.1	1.9	-0.4	0.3	1.3	0.4	3.2	8.6	6.5	3.4	2.0
Greece	-8.7	8.1	5.9	2.1	1.0	1.7	-1.3	0.6	9.3	4.2	1.9	1.7
Ireland	5.8	14.8	7.1	1.3	2.4	2.0	1.1	1.2	5.1	5.4	2.2	1.6
Italy	-9.0	7.0	3.8	0.7	0.4	1.2	-0.1	1.9	8.7	6.6	2.4	1.4
Netherlands	-3.9	6.2	4.4	0.3	0.3	1.6	1.1	2.8	11.6	4.9	3.3	1.6
Portugal	-8.3	5.5	6.7	2.2	1.1	1.5	-0.1	0.9	8.1	5.8	2.7	1.3
Spain	-11.3	5.5	5.5	2.1	1.1	1.5	-0.3	3.0	8.3	3.7	2.6	1.2

Source: Eurostat, BofA Global Research

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Calendar for the week ahead

Exhibit 40: European Economic calendar
Key data for the next week

	GMT	Country	Data/Event	For	BofAe	Cons.†	Previous	Comments
27 Oct – 2 Nov Oct								
Monday, 23 Oct								
✪✪	10:00	Euro area	Govt Debt/GDP Ratio (F)	2022	n.a.	--	91.6%	
✪✪✪	15:00	Euro area	Consumer Confidence (P)	Oct	-18.0	--	-17.8	
Tuesday, 24 Oct								
✪✪✪	07:00	UK	Claimant Count Rate	Sep	n.a.	--	4.0%	
✪✪✪	07:00	UK	Jobless Claims Change	Sep	4k	--	1k	
✪✪✪	07:00	UK	ILO Unemployment Rate 3Mths	Aug	4.3%	--	4.3%	
✪✪✪	07:00	UK	Employment Change 3M/3M	Aug	-165k	--	-207k	
✪✪	07:00	Germany	GfK Consumer Confidence	Nov	-26.6	--	-26.5	
✪✪✪	08:15	France	Manufacturing PMI (P)	Oct	44.5	--	44.2	
✪✪✪	08:15	France	Services PMI (P)	Oct	44.6	--	44.4	
✪✪✪	08:15	France	Composite PMI (P)	Oct	44.3	--	44.1	
✪✪✪	08:30	Germany	Manufacturing PMI (P)	Oct	40.0	--	39.6	
✪✪✪	08:30	Germany	Services PMI (P)	Oct	49.9	--	50.3	
✪✪✪	08:30	Germany	Composite PMI (P)	Oct	46.6	--	46.4	
✪✪✪	09:00	Euro area	Manufacturing PMI (P)	Oct	44.3	--	43.4	
✪✪✪	09:00	Euro area	Services PMI (P)	Oct	49.0	--	48.7	
✪✪✪	09:00	Euro area	Composite PMI (P)	Oct	48.0	--	47.2	
✪✪✪	09:30	UK	Manufacturing PMI (P)	Oct	44.3	--	44.3	
✪✪✪	09:30	UK	Services PMI (P)	Oct	49.3	--	49.3	
✪✪✪	09:30	UK	Composite PMI (P)	Oct	48.5	--	48.5	
✪	11:00	UK	CBI Trends Total Orders	Oct	n.a.	--	-18.0	
✪	11:00	UK	CBI Trends Selling Prices	Oct	n.a.	--	14.0	
✪✪	11:00	UK	CBI Business Optimism	Oct	n.a.	--	--	
Wednesday, 25 Oct								
✪✪✪	09:00	Germany	IFO Business Climate	Oct	86.3	--	85.7	
✪✪✪	09:00	Germany	IFO Current Assessment	Oct	88.5	--	88.7	
✪✪✪	09:00	Germany	IFO Expectations	Oct	83.6	--	82.9	
✪✪✪	09:00	Euro area	M3 Money Supply (yoy)	Sep	-1.5%	--	-1.3%	
Thursday, 26 Oct								
✪✪✪	08:00	Spain	Unemployment Rate	3Q	11.8%	--	11.6%	
✪✪	11:00	UK	CBI Total Dist. Reported Sales	Oct	n.a.	--	-14.0	
✪✪	11:00	UK	CBI Retailing Reported Sales	Oct	n.a.	--	-14.0	
✪✪✪	13:15	Euro area	ECB Main Refinancing Rate	26-Oct	4.50%	--	4.50%	
✪✪✪	13:15	Euro area	ECB Marginal Lending Facility	26-Oct	4.75%	--	4.75%	
✪✪✪	13:15	Euro area	ECB Deposit Facility Rate	26-Oct	4.00%	--	4.00%	
Friday, 27 Oct								
✪✪	07:45	France	Consumer Confidence	Oct	82.0	--	83.0	
✪✪✪	08:00	Spain	GDP (qoq, P)	3Q	0.1%	--	0.5%	
✪✪✪	08:00	Spain	GDP (yoy, P)	3Q	1.5%	--	2.2%	
✪✪✪	08:00	Spain	Retail Sales (sa, yoy)	Sep	n.a.	--	7.2%	
✪✪	09:00	Italy	Consumer Confidence Index	Oct	105.2	--	105.4	
✪✪	09:00	Italy	Manufacturing Confidence	Oct	96.0	--	96.4	
✪✪	09:00	Italy	Economic Sentiment	Oct	104.6	--	104.9	
✪✪✪	11:00	Italy	Industrial Sales (wda, yoy)	Aug	n.a.	--	-1.6%	
✪✪✪	11:00	Italy	Industrial Sales (mom)	Aug	0.3%	--	-0.4%	

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

Exhibit 41: 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
EIB	European Investment Bank	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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Disclosures

Important Disclosures

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