Europe Economic Weekly

A slow pivot all around

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Europe

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Weekly View: The legal definition of summer

Focus to the Red Sea risks to the outlook: shipping costs remain a potentially big inflation upside and growth downside risk. Quantification is still highly uncertain. Beyond that, we are vigilant also on non-geopolitical disinflation risks to growth.

Euro area: ECB Review: not in a rush

The ECB is on its way to cuts but without rushing or pre-committing. Lack of explicit pushback on an April cut makes it live. But we stick to our call of a first cut in June, and faster cuts after that is the more likely alternative scenario.

UK: BoE Preview – starting a pivot

We expect the Bank of England to keep Bank Rate unchanged next week, with a 1-7-1 vote in favour. Guidance will change slightly, starting a slow pivot towards cuts down the line, but not imminently. At the same time, forecasts should still show sticky inflation.

Hot Topic 1: Greece: overperformance to stay

We retain the view that the Greek economy is on track to overperform the Euro area average in 2024/25. This view reflects positive momentum for capex, milder monetary policy pass-through and continued fiscal prudence.

Hot Topic 2: Norges Bank review - little new

Norges' Jan meeting was in line with our expectations. We continue to expect no cuts in 1H and two cuts in 2H starting in Sep.

Hot Topic 3: Riksbank preview: fragile path ahead

We think the hiking cycle is over. The data wouldn't support further tightening and Riskbank speakers have been quite clear in taking that off the table. We see the Riksbank starting the cutting cycle right after the ECB, in the June meeting.

Next week

We expect Euro area GDP growth at 0.0% qoq in 4Q23 (Wed) and headline inflation at 2.8% in January - with core stuck at 3.4% (Thu). BoE and Riksbank meetings should be non-events, with central banks on hold. Fairly long list of ECB speakers, too.

Weekly view

The legal definition of summer

The ECB was the expected non-event this week. No meaningful change to the prepared statement, and no big deviations in the press conference, either. The ECB is in wait-and-see mode. ECB President Lagarde reiterated (though in a somewhat convoluted way) her Davos comments of rate cuts being likely by the summer (or in data rather than data-dependent terms, data is likely to be where they want it by then).

We also got pushback on market pricing, but markets will certainly want to read it as softer than before – particularly since Lagarde did not push back explicitly against earlier cuts when asked about whether April was live. However, she also argued that a debate on cuts was seen as premature at the Governing Council. The ECB is on its way to cuts but without rushing or pre-committing. The lack of explicit pushback on an April cut makes it live. Too keep our conclusion short: we stick to our call of a first cut in June, and faster cuts after that is the more likely alternative scenario.

Back to the Red Sea and shipping cost risks to the outlook

There were questions in the press conference on potential ramifications of geopolitical developments in the Red Sea. The ECB seems to share our view here: qualitatively, upside risks are clear. Quantitatively, there is a lot of uncertainty, especially as the macro backdrop now is so different from 2021/22. As of today, price implications could be contained. But the duration of the conflict and/or a potential intensification keep uncertainty elevated (we first discussed this here: Europe Economic Weekly: Back to school: it's really never easy 12 January 2024.

Meanwhile, we have asked our Transportation Research colleagues for help to understand their data better. For those interested in details, see their report: Shipping - Global: Red Sea disruption FAQs 08 January 2024. Here are some nuggets:

On prices: The Shanghai Containerized Freight Index (SCFI) from China to Europe is a spot price. The China Containerized Fright Index (CCFI) is the average shipping price, a better guide to shipping cost increases faced by firms. The SCFI between China and Europe is up c.190% yoy in the first three weeks of January, or 240% in comparison to the 2023 average. Though it has not inflected, it has shown tentative signs of plateauing in the last two weeks, so perhaps this is the upper bound unless the situation worsens.

The CCFI, meanwhile, is up 60% yoy or 41% vs the 2023 average at this stage. Like in other markets, spot prices tend to lead average costs, in this case by perhaps a month. But the relationship isn't perfect, so unless spot prices remain stuck at current (or higher) levels, average prices are probably not going to follow the same trajectory.

On bottlenecks: our colleagues point to a one-off 1-2 week supply delivery delay, but given spare capacity after excess deliveries last year, further disruptions could be limited. Given the ongoing inventory unwind, a one-off delay doesn't strike us as a particular risk to production chains and as a source for a severe supply-demand imbalance price pressures (beyond shipping costs) at the aggregate economy level.

Exogenous inflation upside risks are also downside risks to growth

As a reminder, estimates of the inflationary impact have wide intervals. For instance, our global team estimates that the shipping cost increases we have seen so far could push Euro area inflation c 100bp higher (Global Watch: A Sea of Red 25 January 2024). ECB's Lane referred to a 30bp increase in European output prices from a >300% increase in shipping costs from China in the past. If we use Lane's elasticity as a benchmark, current spot prices would point to roughly 2/3rd of that shock, average shipping prices to much less. And as we previously argued, passthrough from output to consumer prices could now be very different from 2021/22: policy is tight, goods demand has weakened. Energy prices (gas in particular) were actually down in January. And Chinese producer prices were on a downward trajectory into end-2023.

Focusing on inflation, only, would also miss growth risks. Exogenous price shocks to the upside could actually weaken the demand backdrop further – mechanically, a surge in headline inflation by 100bp could actually reduce real income gains this year meaningfully and mechanically reduce growth by c 50-60bp. That could eventually result in even bigger demand-driven disinflationary pressures at the same time.

So far, data is not showing any evidence

The reference to Red Sea developments in the German "flash" PMI this week caught our attention. But a closer look at surveys leaves us unconvinced. Yes, manufacturing PMI's "supply delivery times" have dropped 5.1 points mom in Germany or 4.6 points in the Euro area. But at least in Germany, we have seen monthly changes in 2023, too. Meanwhile, input price PMIs have risen 0.8 points in Germany or 0.1 points in the Euro area as a whole, which doesn't really suggest acute price pressures. At this stage, the combination of a bigger change in delivery times and a small change in input price changes doesn't ring any alarm bells.

What if we are missing non-geopolitical disinflation risks to growth?

Our regular readers know that flagging upside risks to growth isn't easy for bears like us. But, as we mentioned in our "Back to School" piece a couple of weeks ago, faster-than-expected disinflation actually helps purchasing power.

For the Euro area, these risks are still relatively small. But for the UK, they are starting to look a bit more important. Press reports suggest that Ofgem (Office of Gas and Electricity Markets) could cut the electricity price cap by as much as 16% in April. That could mechanically reduce headline inflation by 60bp, and bring UK inflation back to target at the same time. Purchasing power gains for the consumer could mean GDP upside of 20-30bp from the electricity price cut alone. We will be working through our numbers carefully over coming weeks. At this stage, the potential growth implications are arguably not enough to change the domestic inflation story but could at least put an end to a rather long cycle of 2024 growth forecasts downgrades.

BoE: It's starting

The BoE will be aware of the prospective cut to electricity prices bringing the inflation target back within reach very soon. That might not make its life much easier next week. On the one hand, the central bank is probably eager to pivot guidance towards rate cuts this year. On the other, it probably wants to push back on markets pricing cuts too early. A 1-7-1 vote pattern would be symptomatic of that fine line the BoE is going to tread.

Domestic inflation and wage growth are still too high, even if the headline now drops faster than thought a few months ago. To us, that is still compatible with the BoE cutting later and less than its peers; so we stick to our call for a first cut in August.

Next week:

It's a busy Euro area data calendar with following highlights: The Survey of Professional Forecasters is due for release today (Fri 26 Jan). We expect Euro area GDP growth at 0.0% qoq in 4Q23 (Wed). Our -0.1% qoq forecast for Germany (Tue) is subject to acute downside risks given Destatis' guidance that 4Q contracted by 0.3% qoq, potentially enough to push the Euro area aggregate into a small negative and hence "technical recession", unless France (expected at 0.1% qoq) or Italy (0.0%) surprise to the upside (or Ireland generates one of its by now customary GDP surprises, due today).

We expect Euro area headline inflation at 2.8% in January with core stuck at 3.4% (Thu). As usual in January, there is a lot of uncertainty to that print from changes in weights, administered prices and taxes. As a consequence, we would refrain from putting too much weight on any potential upward or downward surprise.

BoE and Riksbank are on the central bank calenda; both are expected to sound similar to the ECB this week. The ECB speaker calendar starts with Panetta, Kazaks and Vujcic today (Fri, 26 Jan), Guindos (Mon), Vujcic and Vasle (Tue), Centeno and Lane Thu).

Euro Area

ECB Review: not in a rush

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- The ECB is on its way to cuts but without rushing or pre-committing. Lack of explicit pushback on an April cut makes it live.
- But we stick to our call of a first cut in June, and faster cuts after that is the more likely alternative scenario.
- Rates rally amid modest ECB pushback to the pricing of 1H cuts. EUR lower, consistent with rates, but not sustained.

Guiding to cuts, without rushing or pre-committing

The latest ECB meeting was probably the most uneventful in a long while. We expected no policy changes, none to the outlook, or to guidance in general. And broadly, this is what we got. We also got pushback on market pricing, but markets will certainly want to read it as softer than before – particularly since Lagarde did not push back explicitly against earlier cuts when asked about whether April was live. However, she also argued that a debate on cuts was seen as premature at the Governing Council.

Our key takeaway is that Lagarde, during the press conference, stood by her words at Davos a week before (i.e., cuts in the summer). To us, the emphasis was on highlighting data dependence and trying to avoid rushing or pre-committing – hence, the lack of an explicit pushback on March or April. It will be up to the data. But, by construction, the ECB looks at the data with a backward looking bias. They want to be sure. They want to see wages and margins, among other data. The economy is not putting pressure on them, and the ECB is starting to see signs of an acceleration, which would further remove any pressure to act quickly.

Hence, we stick to our call of a first cut in June, and we view more frequent than quarterly 25bp cuts in 2024 as the more likely alternative scenario to earlier cuts or bigger increments. But by clearly leaving the door open to earlier cuts this week, markets will have to continue to price some risks.

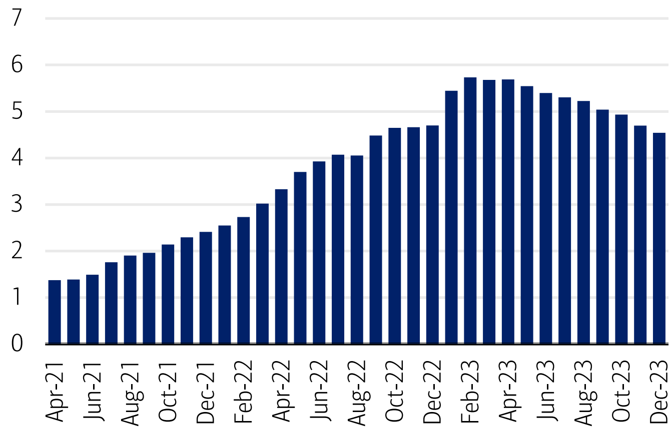
Finally, we got some guidance on the potential timing of the outcome of the framework review, with late spring being likely, which we read as by the June meeting.

Risks a bit more balanced on the inflation outlook

Despite a barely unchanged outlook, we perceived the (subjective) balance of risks around inflation as marginally more balanced. There was a long list of upside risks but an equally long one of downside risks. Even when talking about shipping costs, Lagarde was quite cautions on arguing that initial conditions matter in terms of the impact on inflation, and what we had seen so far is likely to have a moderate impact. Still, she flagged this as a key development to follow. We would agree with all those points.

The emphasis was still though on domestic inflation and the smaller progress there. As we argued last week (see Europe Economic Weekly: The goalpost keeps moving 19 January 2024 - and we include again the charts below), the renewed focus on wages and domestic inflation are more reflective of a still quite backward-looking central bank compared with what the data says. Yes, in yoy terms, domestic inflation is improving slowly, but momentum is now not far from target.

Exhibit 1: Euro area, domestic inflation measure, yoy%
Far from target, but mostly due to base effects



Source: BofA Global Research, Eurostat

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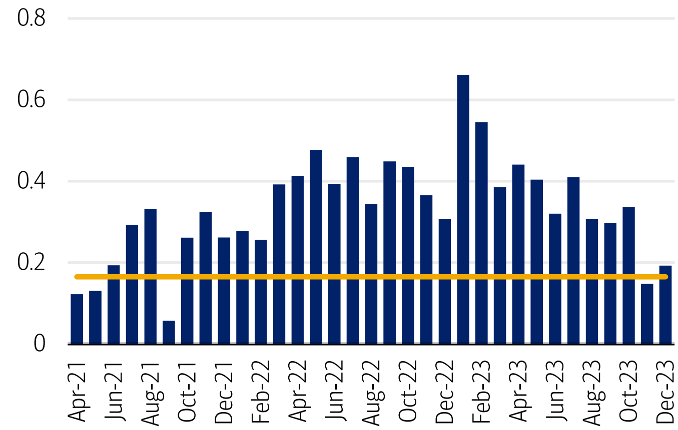
Exhibit 2: Euro area, domestic inflation measure, mom%
Very significant deceleration, now close to target



Source: BofA Global Research, Eurostat

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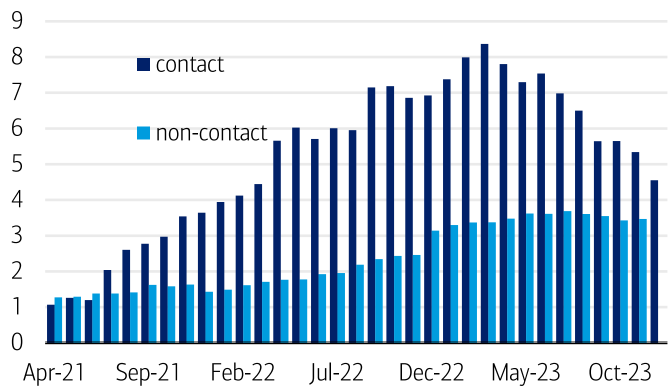
Exhibit 3: Contact vs non-contact services inflation, yoy%
Improvement has been driven by contact services



Source: BofA Global Research, Eurostat. Contact intensive sectors include Transport services, Recreational and cultural services, Package holidays, Restaurants and hotels, Hairdressing salons and personal grooming establishments. Non-contact intensive services include the rest of services.

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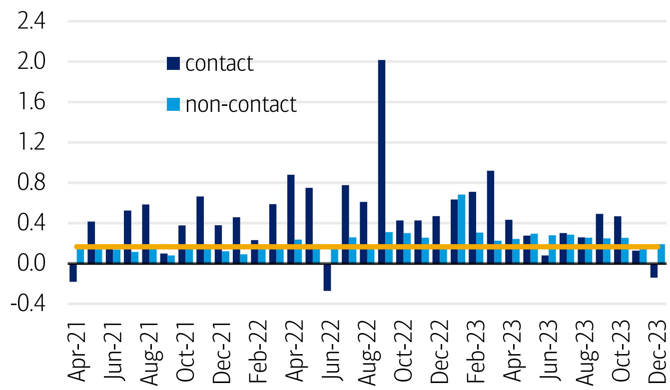
Exhibit 4: Contact vs non-contact services inflation, mom%
But, even in non-contact services, monthly rates have normalized



Source: BofA Global Research, Eurostat. Contact intensive sectors include Transport services, Recreational and cultural services, Package holidays, Restaurants and hotels, Hairdressing salons and personal grooming establishments. Non-contact intensive services include the rest of services.

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Rates: rally as Lagarde delivers only modest pushback to the pricing of 1H cuts

Bonds have rallied on the back of the ECB statement and press conference. The market is now pricing in 8bp more cuts for the April meeting (23bp of cuts priced by then), and c.15bp more for the year as a whole (to total of 143bp of cuts for 2024). We see 5 reasons for that:

1. The policy statement didn't include any new elements that would serve as pushback to the pricing of early ECB rate cuts in Mar-Apr.

2. When asked about market pricing, president Lagarde flagged that consensus at the ECB council was on rate cut discussions being premature, but she went on to add that the ECB was "data" dependent rather than "date" dependent, which we would view as weakening the pushback against pricing of early cuts.

3. Lagarde stated that she stood by what she had said in Davos, but she didn't reiterate explicitly the idea that market pricing of cuts could endanger the disinflation process. This was arguably another opportunity to pushback against market pricing.

4. When explicitly asked about the March forecasts and the possibility of an April cut, she argued that it was premature to anticipate what the March projections would look like. As highlighted above, this could be taken as not closing the door to a potential April cut.

5. Comments on the macro outlook were also mildly dovish, with the ECB still seeing risks to growth as skewed to the downside, while inflation risks appear to be more balanced, with several downside risks to counter upside from wages and Red Sea developments.

We remain neutral on duration for the short term. Bond supply over the next few weeks could still create upside pressure on yields in an environment where duration positioning is mildly overweight and conviction levels are low. We expect duration to be more supported from the second half of February when these supply pressures diminish. The front-end of the curve can remain quite volatile however, as the range of possible outcomes for 2024 cuts is very large. GDP and inflation data next week will be the next key drivers.

FX: Weaker EUR, but not sustained

The FX market took the ECB meeting today as somewhat dovish, consistent with rates. Although the tone was well-balanced, the market was expecting a stronger pushback against market pricing for an April cut, consistent with the message in Davos. The market may have also reacted with some delay to the very strong US growth data for Q4, published just before the ECB press conference.

Still, the ECB message remains that they are data dependent and that the data so far suggests that it is "premature to discuss rate cuts." This is still more hawkish than the Fed's message. Our economists expect the ECB to start cutting rates in June, compared with market pricing for April. The ECB needs more data to cut rates, while the Fed is willing to cut rates unless the data prevents them to do so. As we have been arguing, both central banks cannot be right; either the ECB is too cautious, or the Fed is not cautious enough, particularly taking into account the much stronger US data—and both can be wrong.

Keeping everything else constant, the more hawkish ECB compared with the Fed should be positive for EURUSD, but this has not been the case so far. Fed repricing, from very aggressive cuts last December, and still strong US data have been supporting the USD. Our baseline remains that US soft landing and Fed cuts will support EURUSD, but we have also been arguing that it will take longer than markets expect. Our EURUSD forecasts remains 1.07 for Q1, appreciating to 1.15 by year-end.

UK

Bank of England preview: starting a pivot

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How to balance a pivot while pushing back

We expect the Bank of England (BoE) to keep the Bank Rate unchanged at next week's policy meeting with a 1-7-1 vote in favour. Guidance will change slightly, starting a slow pivot towards cuts down the line, but not imminently. At the same time, forecasts should still show sticky inflation. While we would expect the hiking bias to go away, we think the BoE is likely to maintain that "monetary policy would need to be sufficiently restrictive for sufficiently long".

The beginning of it all

Indeed, next week's Bank of England's meeting should mark the beginning of a slow pivot towards a cutting cycle that should start in August and proceed slowly. We would argue that the BoE is unlikely to find that " material progress had been made in returning inflation to the 2% target sustainably" and hence it is unlikely to pivot strongly towards a cut. Still, latest data since the BoE's last meeting suggest significant progress in returning inflation to target and this is likely to be reflected in the new forecasts, near term, and with slight changes in guidance.

It should also be reflected in the vote. While it is a close call, on the margin, we would still expect one vote for a hike and a first vote for a cut. Small deviations from that are also likely.

A gentle pushback

The inflation forecasts should come down in a clear way for this year and next, mainly due to much lower energy prices. But medium term, BoE inflation forecasts may need to remain stickier, to show some (gentle) rebuff vs early cuts. This would signal that market pricing may not be consistent with inflation reaching the target at the traditional two-year horizon for monetary policy. At the same time, with constant interest rates, we would expect some undershoot to target. The implicit signal would be one of a market that has moved too fast.

Small changes to guidance

We would expect guidance to move away, even if at least partially, from a hiking bias. The easiest way would be to remove the following phrase: "Further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures. " Alternatively, the language could be softened or qualified.

On the other hand, we would still expect the following phrase to be maintained in the minutes as a way of additionally pushing back towards too-aggressive a loosening of financial conditions: "Monetary policy would need to be sufficiently restrictive for sufficiently long to return inflation to the 2% target sustainably in the medium term".

Still the last, still slow

Remember we still expect the BoE to keep the Bank Rate on hold at 5.25% until August, and we expect a cutting cycle of 25bp per quarter from there. The UK will be the last of the major central banks to start and it is likely to move more slowly, at least compared with the ECB. The UK still has a bigger persistent inflation problem, despite recent improvements.

BoE forecasts: energy prices to the rescue

The February MPR inflation forecasts should come down in a clear way this year and the next, mainly due to much lower energy prices (Exhibit 5). We assume that the BoE would incorporate some significant adjustments in the Ofgem caps in April/July (press reports suggest a 16% drop in April, followed by an additional drop in July too).

Lower headline inflation should also boost consumer balances and growth – we see 1Q25 growth being upgraded to 0.8% yoy, with the 1Q26 forecasts at 1.1% yoy. Medium term, BoE inflation forecasts may need to remain stickier (both in 2025 and 2026), to show some (gentle) rebuff vs early cuts. For 1Q27, we pencil in 1.4% growth (broadly consistent with trend) and inflation still slightly above the target (2.1%).

Exhibit 5: Lower inflation near-term, sticky medium-term
BofA forecasts of mean BoE forecasts in November Monetary Policy Report

BofA forecast for Feb MPR (Nov MPR figures in parentheses)

	GDP % yoy	Inflation
2024 1Q	0.1 (0.2)	3.7 (4.4)
2025 1Q	0.8 (0.0)	2.3 (2.8)
2026 1Q	1.1 (0.6)	2.2 (2.2)
2027 1Q	1.4	2.1

Source: BofA Global Research, BoE

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FX: It's all relative

One of the main narratives behind this year's strong performance for the pound has been carry. At a time where many central banks have been guiding markets towards the possibility of a near-term rate cuts, the BoE has been steadfast in its view that rates will need to stay higher for longer and rates cuts will be later rather than sooner. Despite our view that the tightening cycle is now at an end and the February meeting will begin the pivot towards an easing bias, we do not think that this will be enough for investors to conclude that rate cuts are imminent. Indeed, we continue to believe that the UK rates markets remains overly optimistic in its expectation for a 25bps rate cut in May. As our UK economists opine above, we would expect the BoE to lean on language that pushes back on current market pricing. Admittedly, the BoE has been remarkably quiet since the start of the year in comparison to its peers, so there is a smaller body of evidence to suggest how forceful that push back will be. We will look to the Bank's forecasts projections under the assumption of current market rates as a guide to how far the MPC is willing to push back on current pricing.

In terms of GBP reaction, with the market still pricing in the chance of early rate hikes, we think the risks are skewed asymmetrically. We doubt that the MPC will validate current market pricing so an unwind of front-end cuts should be constructive for the GBP outlook. Though date remains soft in broader terms, we note the divergence between softer EZ PMI vs stronger UK PMI. UK lead indicators and housing data have in particular shown signs of improvement. Furthermore, developments in the Red Sea are likely to be an unwelcome dynamic for a country already being buffeted by a number of structural inflationary issues. Caution is thus warranted with the bottom line being a supportive backdrop for further GBP gains.

Rates: dovish interpretation possible

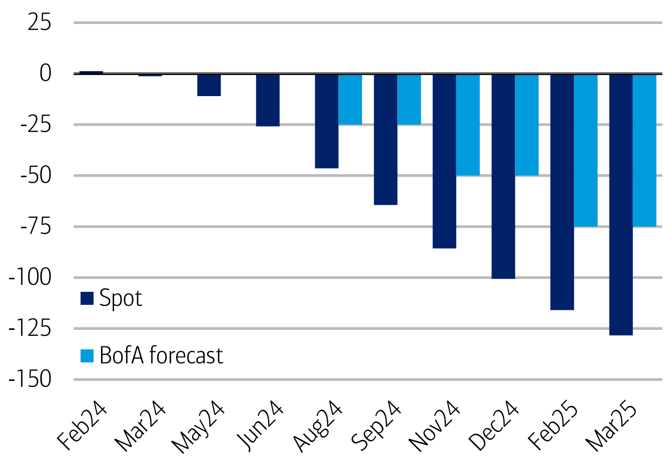
Following a strong rally into the end of 2023, UK rates have retraced partially since the start of the year, with the latest leg on the back of last Wednesday's upside surprise in inflation. The market priced out more than one 25bp Bank rate cut post-inflation, bringing more balance to the front-end and Monetary Policy Committee (MPC)-dated Sonia pricing closer to our economists' base case. The market is currently pricing in a cumulative 100bp of cuts by December 2024 vs. our base case of 50bp (Exhibit 2).

We do not expect a May cut, but the market prices in around 11bp of cuts for May MPC (Exhibit 3). We believe this may reflect (1) the market believing the BoE will need to cut sooner than its latest guidance: the BoE is viewed as the second most likely central bank to surprise on the dovish side by the end of 2024. A sharp Ofgem price cap fall in April could push the headline inflation to target in April/May, but April's inflation data to be released on 22 May will not be available in time for the 9 May MPC meeting. (2) a large probability of a cut in June following this inflation drop, were the drop to occur, would mechanically lead to some probability of cuts priced for April through interpolation.

Our expectations for next week imply bias for the market to interpret things on the dovish side. With more balanced market pricing of BoE and ECB cuts vs. our economists' expectations, we think the course for our view to fade market pricing of BoE Bank rate cuts in 2024 against ECB rate cut pricing in 2025 has now largely run its course.

Exhibit 6: MPC-dated Sonia Bank Rate hike exp. vs. BofA f'casts, bp

First 25bp cut priced in by June MPC



Source: Bloomberg, BofA Global Research

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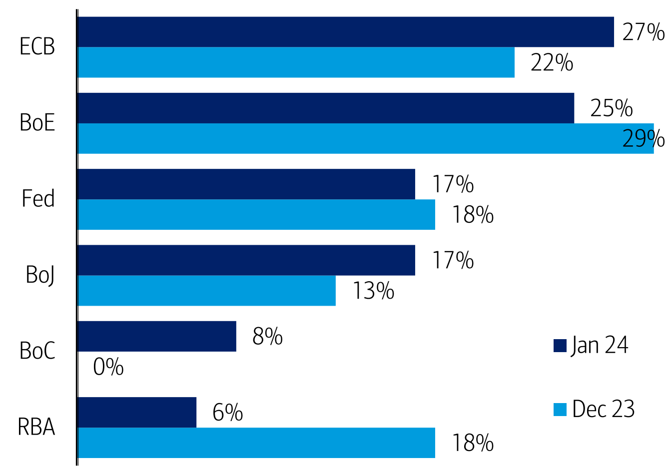
Exhibit 7: Which central bank is most likely to deliver a more dovish outcome by YE 2024 than current market pricing:

BoE seen as second most likely to surprise dovishly



Source: BofA Global Research FX and Rates Sentiment Survey

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Hot Topic 1

Greece: overperformance to stay

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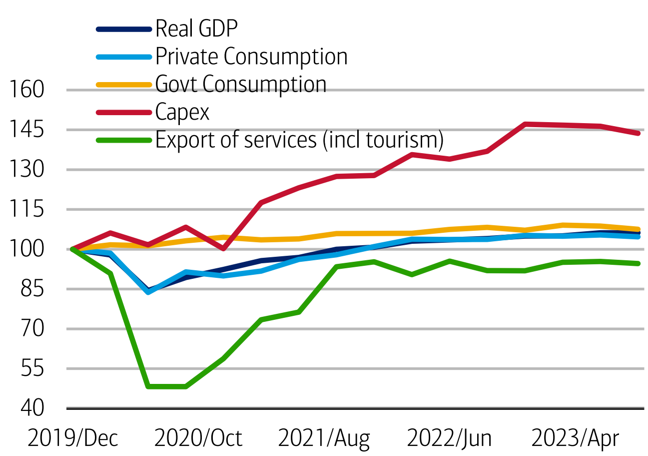
- We retain the view that the Greek economy is on track to overperform the Euro area average in 2024/25.
- This view reflects positive momentum for capex, milder monetary policy pass-through and continued fiscal prudence.
- On rates, we expect up to another 30bp of tightening in the 10y GGB from here.

Since our Year Ahead publication (Europe Economic Weekly: Year Ahead: fragile and weak growth, a lot of disinflation and reluctant cuts, 24 November 2023), we retain the view that the Greek economy is on track to overperform the Euro area average in 2024/25. This view reflects three factors: 1) positive momentum for capex, after years of underinvestment and amid full absorption of EU funds; 2) more moderate monetary policy pass-through given the country-specific structure of Recovery and Resilience Plan (RRP) and of domestic indebtedness; and 3) fiscal prudence and structural reform commitment. That said, some long-standing structural challenges are yet to be tackled. Also, while country-specific risks are limited, Greece remains vulnerable to external shocks. On rates, as macro and technical fundamentals remain constructive, we think the 10y GGB-DBR spread could trade between Bonos and PGBs in the 10y. We expect up to another 30bp of tightening from here.

Exhibit 8: GDP and its main components (4Q19=100)
Investment and services activity have been the main drivers of post-Covid/energy shock recovery



Source: Eurostat, BofA Global Research

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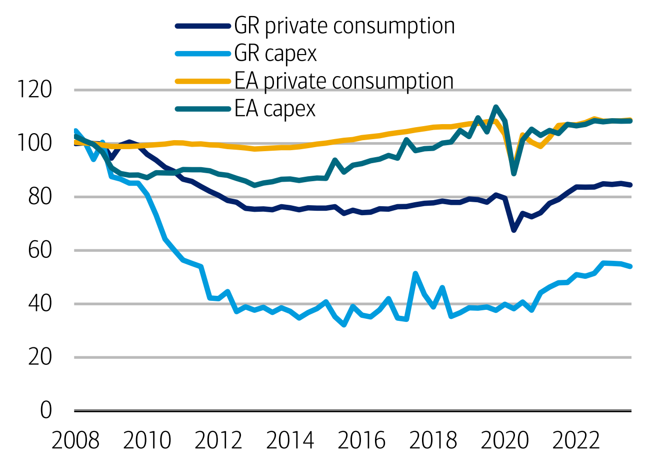
Exhibit 9: Capex and consumption – Greece vs Euro area (2008=100)
After years of underinvestment, domestic demand (and capex in particular) has plenty of room to catch up



Source: Eurostat, BofA Global Research

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Greece Year Ahead 2024: overperforming the Euro area

We expect growth at 1.1% in 2024 and 1.7% in 2025. With our Euro area growth projections at 0.4%/1.1%, respectively, we maintain the view that Greece will outperform the regional average within the forecast horizon. That said, our forecasts remain below market consensus for 2024/25, at 1.5% and 2.3% respectively.

After solid growth in 1H23, driven primarily by consumption and net exports (amid a strong recovery in tourism), the economy stagnated in 3Q23, entering a phase of unspectacular growth momentum, we think. For the following three quarters, we expect private consumption to lose traction as well as more downbeat capex and net trade dynamics, courtesy of the lagged impact of ECB tightening, the poor external backdrop and modest fiscal policy tightening. That would be consistent with average growth at 0.2% qoq. When the ECB starts to cut rates, lower inflation allows real income recovery and the external environment improves, Greek growth should re-accelerate in 2H24 (to 0.4% qoq on average) before converging to an average pace of 0.5% qoq in 2025.

Capex, more moderate ECB pass-through, fiscal prudence and structural reform

We identify three main drivers behind Greek overperformance vs the rest of the region:

1) Investment, which should remain the main engine of growth, building from a narrowing of the gap vs the Euro area (Exhibit 9) and supported by the full implementation of Greece's RRP (Greece 2.0).

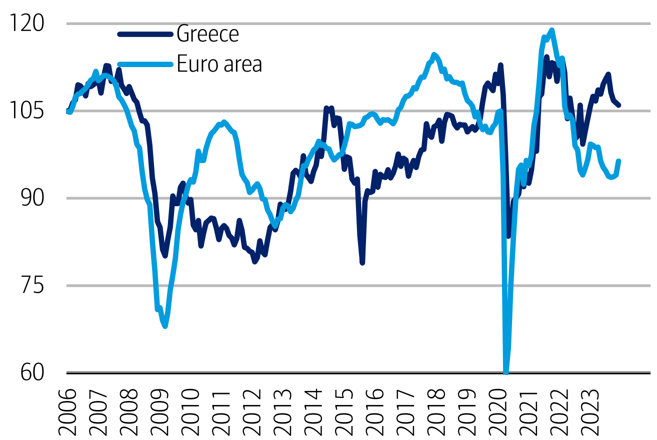
2) A more mitigated pass-through of monetary policy given the country-specific structure of RRP but also of domestic indebtedness, and given Greek banking sector's focus on limiting risks around non-performing exposures.

3) Fiscal prudence and structural reform commitment, which we see being facilitated by the current phase of political stability after June 2023 elections and by boosted sentiment after the recent rating upgrades to investment grade by S&P and Fitch in Autumn 2023.

These drivers will help to keep domestic confidence more upbeat vs Euro area levels (Exhibit 10), feeding into spending plans and more resilient domestic demand dynamics, as in our outlook.

Exhibit 10: Economic sentiment indicator – Euro area vs Greece

In the aftermath of the two shocks (Covid/energy) domestic confidence has been consistently higher than in the Euro area



Source: Eurostat, BofA Global Research

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Exhibit 11: "Greece 2.0" for 2021-26 – changes in the past 2 years (EUR bn)

The modified Greek RRP comprises ca EUR36bn, of which 18.2bn in grants and 17.7bn in loans support.

	2021	2022	2023
Tot RRF envelope	30.5	30.5	35.9
grants	17.8	17.8	18.2
loans	12.7	12.7	17.7
private sector involvement	57.5	59.0	32.0

Source: Stability Plans for 2021, 2022, 2023, BofA Global Research

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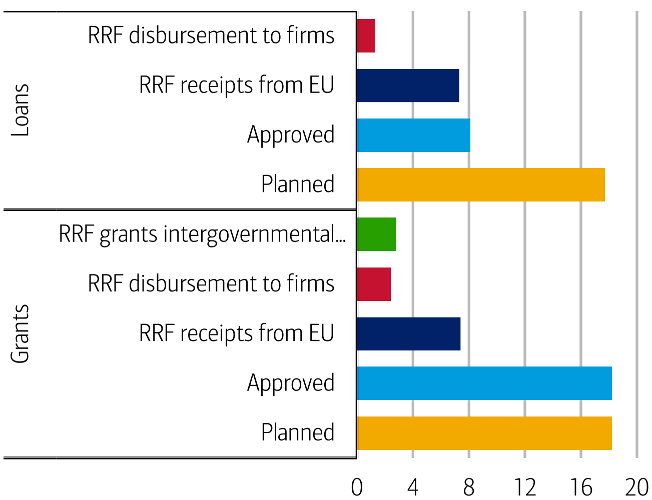
Capex supported by continued fund absorption under Greece 2.0

We think Greece has space to leverage EU funding and reduce the investment gap with the rest of the Euro area. On that, full absorption of EU funds under the national recovery plan is a key assumption for our view on Greek capex dynamics. Where do we stand on Greece 2.0?

The initial plans for Greece 2.0 comprised EU funds worth cEUR30.5bn (of which EUR17.8bn is in grants and EUR12.7bn in loans) and expected a crowding-in effect from public to private capex, with the total amount of mobilized resources at EUR57.5bn. In August, Greece submitted a revised program including an additional EUR5.0bn in loans and EUR0.8bn in grants. As the revision was approved early in December, cumulatively the country should benefit ca EUR36bn of EU funds under NGEU in 2021-26 (Exhibit 11). It is worth noting that the expected private sector participation has been halved (in the Draft Budget Plan 2024) vs the previous plan, accounting (rightly so, in our view) for a macro environment less supportive of animal spirits. As for December 2023, Greece has received the payment of the 1st, 2nd and 3rd instalments, which, with the pre-financing in 2021, amounts to EUR14.7bn. This is consistent with the achievement if ca 26% of Greece 2.0's total objectives.

However, most of the achievements so far were on the reform agenda while RRF fund spending is proceeding more slowly. Of the total grant envelope, cash receipts from the EU amount to EUR7.4bn, of which EUR1.95bn has been disbursed to firms and EUR2.8bn transferred from the state to other general government entities. As for loans, cash receipts from the EU amount to EUR7.3bn, of which EUR1.3bn has been disbursed to firms (Exhibit 12). While the shift from reform towards investment should support capital expenditure, we warn that implementation delays to actual spending tend to be higher than in the phase of structural reform/eligible project approval process.

Exhibit 12: RRF funds (2021-Dec23, EURbn)
Actual disbursements to firms are advancing at a slower pace



Source: Greek Ministry of Finance, BofA Global Research

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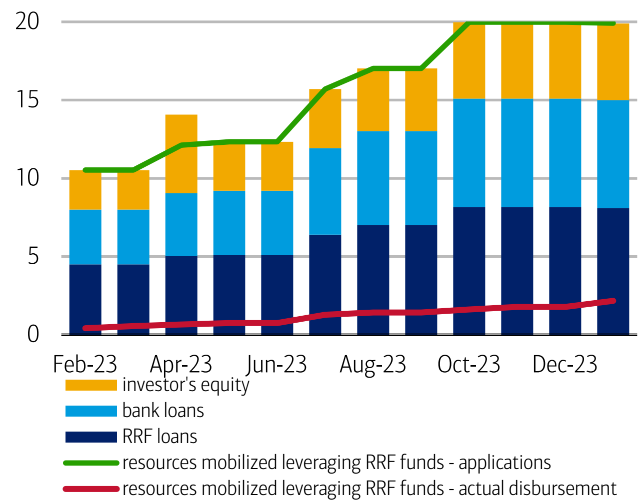
Exhibit 13: RRF loans with leverage (2021-Dec23, EURbn)
Out of applications for projects cum worth EUR20bn, actual disbursement has been so far 2.17bn (of which 1.3bn in RRF loans)



Source: Greek Ministry of Finance, BofA Global Research

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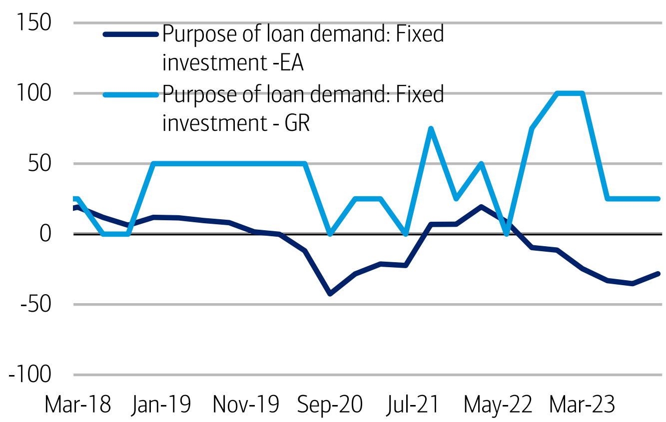
Monetary policy pass-through appears mitigated in Greece

Back in 2021, we highlighted that the private sector involvement factored into Greece 2.0 with respect to the channel for loan usage was peculiar (and very much country-specific). The aim of using RRF loans to leverage bank lending and co-finance loans to the private sector was twofold: on the one hand, to benefit from banks' screening processes; on the other, to limit the crowding-out effect from public capex. Two years (and one energy shock and inflation problem) later, there appears to be another advantage of Greece's RRF loans use: mitigating the tightening in credit conditions related to the ECB's policy pass-through. Within Greece 2.0, investments in prioritized sectors of the economy (like green and digital) are financed up to a maximum of 50% with RRF funds, by ca 30% from the financial institutions participating in the deal and at least 20% from the investor's own funds.

This funding structure is helping to mitigate the ECB pass-through, we think. This adds to two factors in the context of monetary policy transmission channels: 1) the relatively low leverage of Greek households and non-financial corporates (NFCs); and 2) a banking sector in a better shape, with a strong focus on continued asset quality improvements (this year's initiative across the main banks to cap borrowing costs for mortgages for 12 months from May is an example of this). All in all, evidence of a more mitigated impact on credit tightening in Greece vs the rest of the region emerges when it comes to funds availability, credit appetite and borrowing costs.

Looking at ECB surveys of BLS and SAFE, capex purposes (Exhibit 15) remained supportive of credit demand in the latest quarters, while they turned into negative drivers for the Euro area. Also, Greek SMEs appear to benefit from better availability of funds (Exhibit 14) than peers in the rest of the region.

Exhibit 14: Purpose of loan demand: capex
Capex purposes still supportive of Greek credit demand



Source: ECB BLS, BofA Global Research

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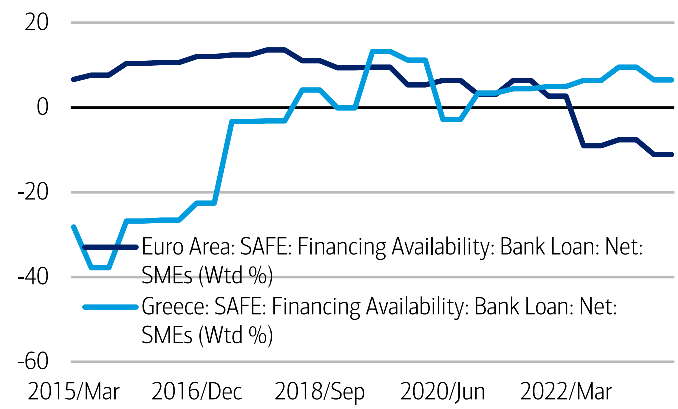
Exhibit 15: Bank loan availability for SMEs
Greek SMEs appear to benefit from better funds availability



Source: ECB SAFE, BofA Global Research

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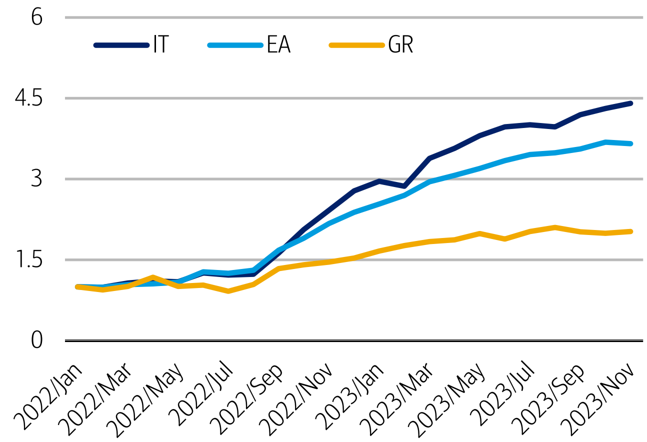
Although borrowing costs are high in absolute terms (the corporate composite rate stood at 6.2% in Nov23), the repricing associated with the ECB hiking cycle has proved to be more moderate than in the rest of the region (Exhibit 16). Finally, credit origination in Feb-Nov23 amounted to ca EUR1.7bn of lending to NFCs – and we estimate ca EUR1.4bn were loans co-financed by the RRF under Greece 2.0 (Exhibit 13).

Exhibit 16: Cost of borrowing for non-financial corporations (Jan 2022=1)

The repricing of borrowing costs associated with the ECB hiking cycle has proved to be more moderate in Greece



Source: ECB, BofA Global Research

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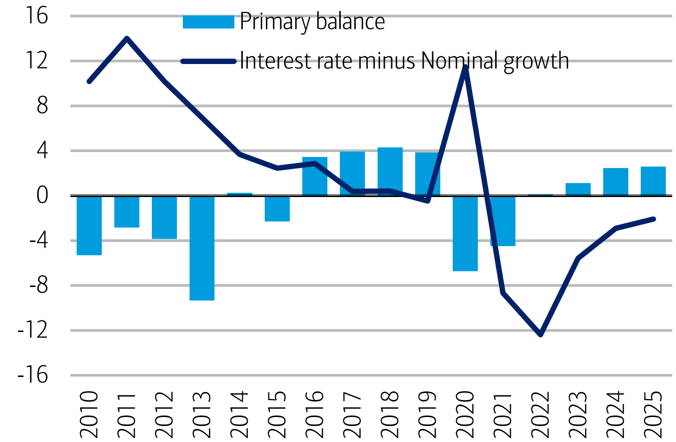
Exhibit 17: Primary balance and "*snowball effect*"

Nominal growth still outpacing interest rates and primary surpluses should guarantee a decline in debt-to-GDP ratio in 2024/25



Source: European Commission, BofA Global Research

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Fiscal prudence set to remain

Our more constructive view also applies to the Greek fiscal outlook. While the combination of softening growth and a higher interest burden complicates fiscal matters, a snowball effect will still reduce debt ratio in 2024/25E (stemming from nominal growth outpacing interest rates). Note that a slow interest rate pass-through reflects the long average debt maturity (close to 20 years) and the structure of Greek public debt. In addition, the latest fiscal plans unveil a commitment to achieve a primary surplus from 2023 onwards. That should guarantee a firm downward trajectory in the debt-to-GDP ratio within the forecast horizon. We expect the ratio to decline significantly from 172.6% of GDP in 2022 to 161.5% in 2023E, 155.2% in 2024E and 152.9% in 2025E (down 54ppt from 2020 highs).

In 2023, the primary surplus of ca 1.1% of GDP reflects as the phasing-out of energy-crisis measures and better-than-expected fiscal revenues (despite one-off expenditure related to natural disasters in the summer, Exhibit 18). According to the 2024 Budget, the primary surplus should further improve this year, to 2.1% of GDP, helped by better tax collection from the ongoing electronic payments reform. The official headline deficit targets are set at 2.1% and 1% in 2023/24E. Note that the EU Commission regarded Greek plans to be in line with the current EU rules.

Primary surplus targets and conservative expenditure assumptions in the fiscal plan send a signal of Greece's continued commitment to fiscal consolidation, we think. This was also one of the rationales for the return to an investment grade rating by S&P and Fitch. We think the rating upgrades will, in turn, cement the government's commitment to consolidation and reform momentum in the near term. The clear majority in the 2023 election should guarantee political stability and policy continuity, too. All in all, we retain the view that short-term public finance risks are limited.

Exhibit 18: General Government fiscal outlook (% of GDP)

2024 Budget plan foresees a 1% of GDP improvement in primary balance per year in 2023/24E

	2021	2022	2023	2024
Deficit	-7.0	-2.3	-2.1	-1
Primary balance	-4.5	0.1	1.1	2.1
Debt	195	172.6	160.3	152.3
Memo items:				
One-off pandemic fiscal package (incl. guarantees without leverage)	8.6	1.6	0.1	0.1
Of which: with effect on budget	8.2	2.1	0.0	0.0

Exhibit 18: General Government fiscal outlook (% of GDP)
2024 Budget plan foresees a 1% of GDP improvement in primary balance per year in 2023/24E

	2021	2022	2023	2024
Energy measures	0.5	5.0	1.2	0.5
Of which: with effect on budget*	0.1	2.2	0.0	0.0

Source: ELSTAT (2021-22) and Ministry of Finance, Budget 2024 (2023-24). * From 2023 they are fully financed by resources of the Green Transition Fund.

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Long-standing structural challenges and risks to the outlook

The more buoyant short-term macro picture should not eclipse the long-standing structural vulnerabilities. Improving productivity through structural reforms and more efficient resource allocation, strengthening competitiveness and shifting towards a more resilient growth model remain pending challenges. In the medium term those should drive a current account adjustment. However, in the short term, current account deficit is likely to remain among the highest in the Eurozone and leave the economy exposed to external risks. Note that the high import content of capex is also likely to offset the net trade gains from better global demand in 2H24 and thus to slow down the adjustment within the forecast horizon.

While country-specific risks to the outlook are limited (and mainly clustered around the punctual implementation of the national RRP), the list of exogenous risks is long, from geopolitics (including Ukraine/Israel situations and more recent Red Sea disruptions) and their impact on prices (energy/shipping costs) to weaker-than-expected global growth backdrop (see Europe Economic Weekly: Back to school: it's really never easy 12 January 2024). On the flipside, faster-than-expected disinflation would support a quicker purchasing power recovery, All in all, despite short-term overperformance, we warn that the Greek economy and assets remain highly vulnerable to external shocks.

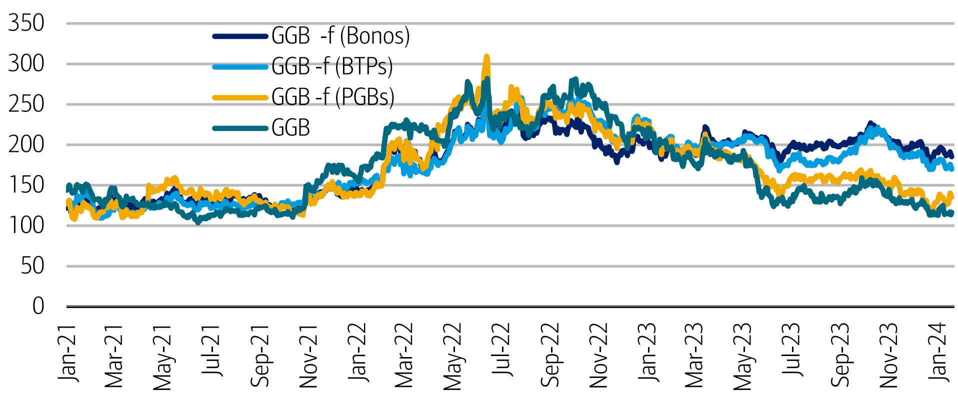
GGBs: more resilient, more tightening

Since our investor trip to Greece on 6-October, GGB yields have tightened by about 38bp relative to Germany. This is 2.5x/4x the move we saw in Bonos and PGBs respectively over the same period of time.

Macro and technical fundamentals remain constructive. Positioning is still essentially short GGBs from real money investors, and the recent inclusion to IG indices (in the January rebalancing) is adding sticky investor positioning in the order of €10-16bn.

This narrative also means that directionality of GGB spreads to risk on/off gyrations is now much softer. The main risk short-term is the potential of (short-lived) underperformance driven by fast money offloading residual in the money positions perhaps faster than market liquidity allows.

Exhibit 19: 10y GGB-DBR spread level actual vs regression value vs Bonos, BTPs, PGBs
GGBs have significantly outperformed peers since 2022 outright and in directionality-adjusted terms



Source: Bloomberg. GGB-f are the values of GGB-DBR 10y spread obtained by the regression of the Bonos, PGB, BTP spreads in basis points

Exhibit 19: 10y GGB-DBR spread level actual vs regression value vs Bonos, BTPs, PGBs

GGBs have significantly outperformed peers since 2022 outright and in directionality-adjusted terms

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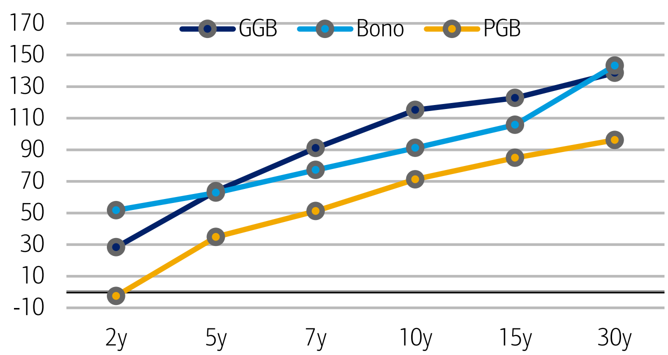
All in all, we think the 10y GGB-DBR spread could trade between Bonos and PGBs in the 10y. We expect up to another 30bp of tightening from here (current level: 115bp). YTD changes indicate a similar such dynamic already at play in the front-end, while the 10y sector is likely discounting concession from the front-loading of supply such issuers typically see in January/February.

Exhibit 20: Greek, Spanish, Portuguese spread to Germany curves

Greek front-end richening relative to the 10y



Source: Bloomberg. Values in basis points. Interpolated rates

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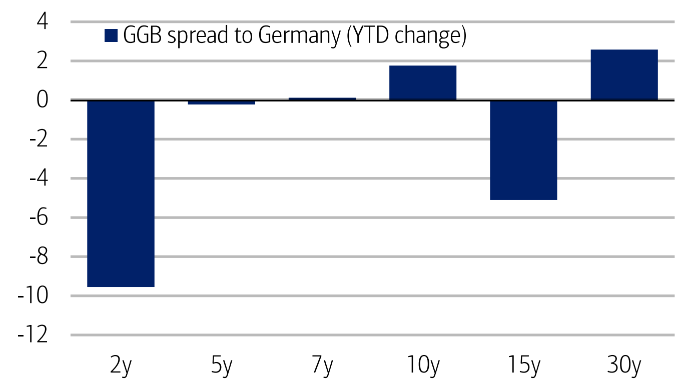
Exhibit 21: YTD GGB-Germany changes by tenor

Front-end dominating GGB spread tightening YTD



Source: Bloomberg. Values in basis points. Interpolated rates

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Hot Topic 2

Norges Bank review: little new

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- Norges' Jan meeting was in line with our expectations. We continue to expect no cuts in 1H and two cuts in 2H starting in Sep
- Markets found Norges a non-event to slightly hawkish, given the number of rate cuts priced. We maintain our bullish NOK bias

Norges December guidance & outlook stand

Norges Bank January meeting was largely a non-event and in line with our expectations (see Norges Jan preview 17 Jan 24).

More confident in no need for hikes but risks still 2-sided

A small (dovish) change relative to December is that Norges is now more confident in its current policy rate being "sufficiently high to return inflation to target within a reasonable time horizon".

However, like then, Norges Bank discussed both hawkish and dovish risks to its outlook, having started by acknowledging that its "[December] forecast indicated that the policy rate would lie around 4.5 percent until autumn 2024 before gradually moving down."

We still expect the first Norges Bank cut in September

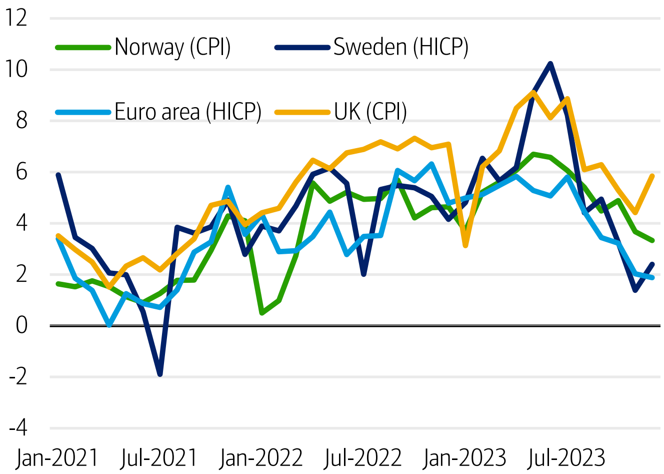
In our base case, we continue to expect no further rate hikes in this cycle. Our baseline remains for two cuts by Norges Bank this year – the first one in September.

NOK: Norges remains a reason we like NOK

Markets found Norges' January meeting to be marginally hawkish, which we find reasonable given the (excessive, we think) number of rate cuts already priced for Norges this year. But, by and large, today's decision was as expected and largely a non-event.

We remain constructive on NOK this year—despite energy prices likely offering limited support—expecting it to benefit from: (1) a softer USD and positive risk sentiment; (2) a relatively hawkish Norges amid a resilient – by the European standards – domestic economy and slow improvements on the inflation front; (3) meaningfully reduced Norges Bank NOK selling. In the near term, we are cautious vs EUR & USD and favour crosses (for details, please see Constructive Scandies in '24, with a preference for NOK 24 Jan 24).

Exhibit 22: Services inflation, instantaneous tracker (yoy%)
Norway's services price pressures are high, but some encouraging signs



Source: BofA Global Research, national statistical offices. Note: original methodology from Eeckhout (2023).

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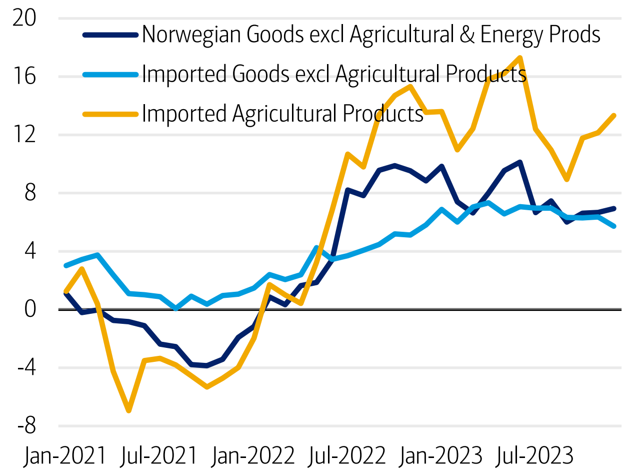
Exhibit 23: Goods inflation, yoy%
Non-energy goods prices have not slowed much yet



Source: BofA Global Research, Statistics Norway

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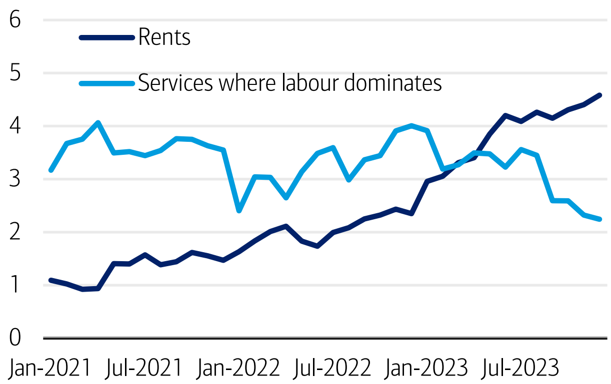
Exhibit 24: Services inflation yoy%
Rent inflation is driving services prices high



Source: BofA Global Research, Statistics Norway

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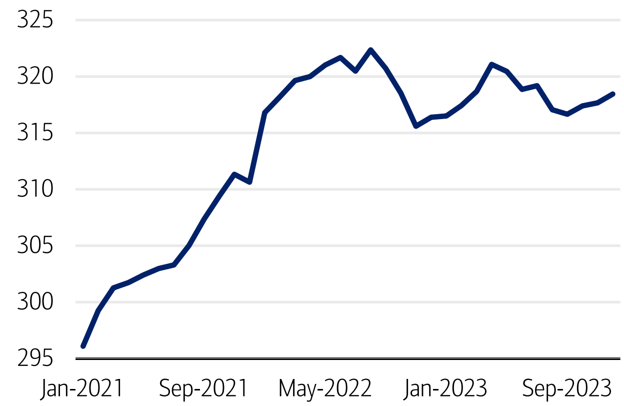
Exhibit 25: House price index (Jan-03=100)
Housing prices remain resilient, despite the tightening



Source: BofA Global Research, Statistics Norway

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Exhibit 26: Norges Bank policy rate path projections
Norges Bank high for much longer than markets expect

	Q3 - 23	Q4 - 23	Q1 - 24	Q2 – 24	Q3 - 24	Q4 - 24	Q1 - 25	Q2 - 25	Q3 - 25	Q4 - 25	Q1 - 26	Q2 - 26	Q3 - 26	Q4 - 26
Dec-23	3.89	4.3	4.52	4.55	4.44	4.29	4.14	3.97	3.8	3.6	3.44	3.28	3.13	2.97
Sep-23	3.89	4.31	4.44	4.44	4.41	4.33	4.22	4.09	3.96	3.8	3.65	3.5	3.35	3.2

Source: Norges Bank (Monetary Policy Report 4/23)

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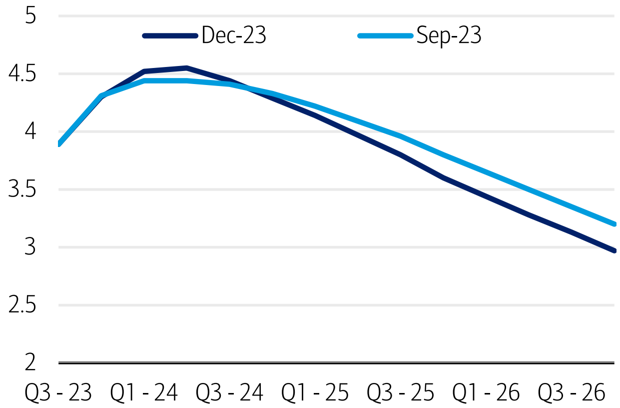
Exhibit 27: Norges Bank policy rate path projections
Norges' rate path through end-2024 close to the Sep forecast



Source: Norges Bank (Monetary Policy Report 4/23)
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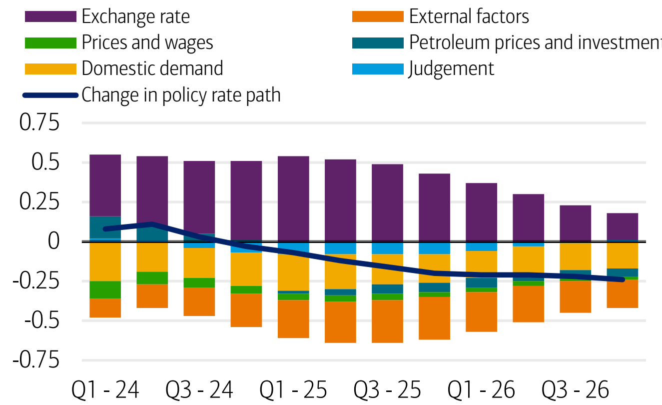
Exhibit 28: Decomposition of policy rate path change
NOK weakness likely behind today's hike



Source: Norges Bank (Monetary Policy Report 4/23)
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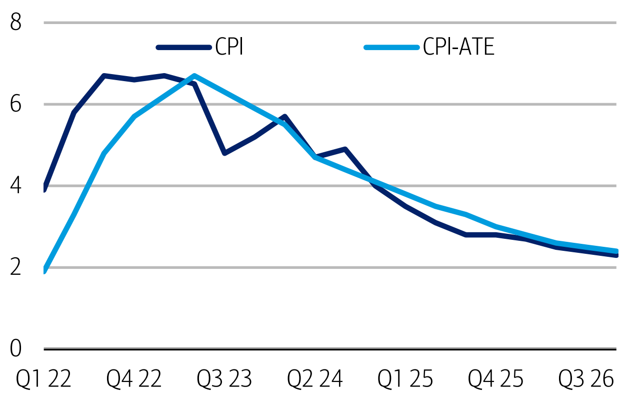
Exhibit 29: Norges Bank's inflation forecasts
CPI ATE above 4% through 2024, above 3% through 2025



Source: Norges Bank (Monetary Policy Report 4/23)
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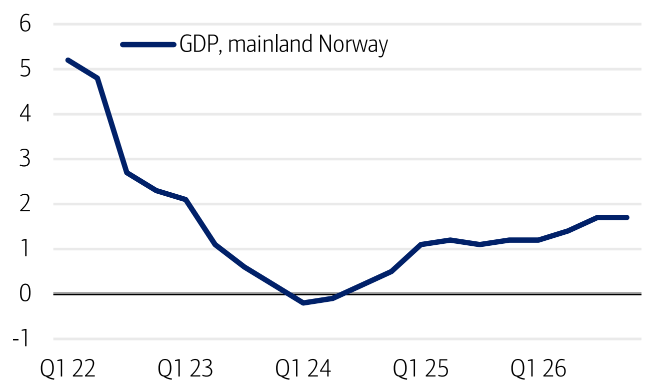
Exhibit 30: Norges Bank's mainland GDP forecast (4-quarter change)
Clear deterioration in economic growth over 2024



Source: Norges Bank (Monetary Policy Report 4/23)
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Exhibit 31: Norges Bank's key forecasts as of Dec-2023 (in brackets changes vs Sep-23 forecasts)
Norway's outlook remains resilient…

	2022	2023E	2024E	2025E	2026E
CPI	5.8	5.5 (-0.3)	4.4 (-0.4)	2.8 (-0.3)	2.5 (0.0)
CPI-ATE	3.9	6.2 (-0.1)	4.8 (0.1)	3.5 (0.1)	2.5 (-0.1)
Annual wages	4.3	5.5 (0.0)	5.0 (-0.2)	4.3 (-0.3)	3.7 (-0.2)
GDP, Mainland Norway	3.7	1.0 (-0.3)	0.1 (-0.2)	1.2 (0.4)	1.5 (0.1)
Output gap, mainland Norway (level)	1.8	0.8 (0.0)	-0.4 (-0.1)	-0.7 (0.1)	-0.7 (0.0)
Unemployment rate	1.8	1.8 (0.0)	2.1 (-0.1)	2.3 (-0.1)	2.3 (-0.1)
Mainland demand	5.1	-0.3 (0.0)	-0.2 (-0.1)	1.8 (0.0)	2.2 (0.1)
Petroleum investment	-7.2	8.0 (2.0)	7.0 (1.0)	-1.0 (-3.0)	-2.0 (-1.0)
House prices	4.9	-0.2 (0.1)	1.0 (0.2)	5.1 (0.8)	6.5 (0.5)
Real disposable income excl. dividend income	1.7	-1.5 (0.6)	0.8 (0.1)	2.5 (0.2)	3.1 (0.2)

Source: Norges Bank, MPR 4/23. Note: Projections show percentage change from the previous year unless otherwise specified. In brackets is the change in projections relative to the June 2023 Monetary Policy Report. GDP figures are working-day adjusted. The output gap denotes the percentage deviation between actual and potential mainland GDP according to Norges Bank's estimates.
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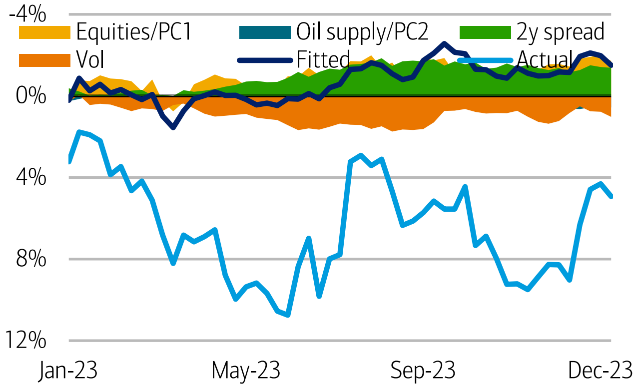
Exhibit 32: Fitted vs. actual NOK I-44 (inverted values)

NOK still 6-7% weaker than its recent history would suggest



Source: BofA Global Research, Bloomberg. Weekly data through Jan 5. Lower values of import-weighted krone (NOK I-44) show stronger NOK. Regression estimates are for Jan 18- Dec 22. We regress changes in (log) NOK I-44 on: proxies for (1) demand- and (2) supply-driven changes in Brent crude spot; (3) changes in Norway's 2-year trade-weighted swap spread; and (4) changes in our preferred NOK implied-vol spread measure. We use the first principal component of changes in MSCI Global, Brent crude spot, and VIX as proxy for demand-driven oil-price changes, and the second principal component as proxy for supply-driven oil-price changes.

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Hot Topic 3

Riksbank preview: fragile path ahead

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The economy would say "cut soon"

Sweden is in a (mild) recession – despite buoyant net export, weak consumer demand and depressed investment keep growth in negative territory (Exhibit 33. We expect the recession to continue over 1H24, allowing a gradual weakening of the labour market. For a clear recovery, we'll need to wait for the second half of the year, when lower inflation, a better external demand backdrop and some relaxation of monetary policy should help - monetary pass-though is likely to be relatively fast, also in the easing phase.

On the inflation side, we think signs are broadly encouraging. CPIF ex energy has surprised the Riskbank to the downside since the November meeting and our trackers of near-term inflationary dynamics look encouraging (Exhibit 34). The December print showed an upside on core prices (mainly due to goods), but favourable base effects should soften core dynamics going forward. This week's Prospera survey showed, once again, well-anchored inflation expectations.

But Riksbank remains constrained by SEK

We think the hiking cycle is over. The data wouldn't support further tightening and Riskbank speakers have been quite clear in taking that off the table, at least near-term. We don't expect a big change in the communication next week – the board will probably remain careful, as currency-related concerns are still dominant. Next week, some attention will be on the balance sheet, with a high chance of a speed-up in government bond sales (currently at SEK 5bn), as flagged in November.

When will they start cutting? We doubt they could ease before the ECB opens the way. Our call for the first ECB cut is June - we see the Riksbank starting the cutting cycle right after, at their June meeting, with then two more cuts in 2024 and five cuts in 2025 (back to 2%). But the progress on inflation and the fragile state of the economy tilt the balance of risks towards more/faster easing.

SEK - meeting likely non-event with some hawkish risks

The upcoming Riksbank meeting will likely largely be a non-event for SEK, but we see risks tilting slightly hawkish around it. The Riksbank could remain cautious given the high number of rate cuts already priced and them wanting to prevent fresh SEK weakness in case, of course, markets listen.

To be sure, we do feel markets could reprice the Riksbank lower vs. both the ECB (and Norges Bank) later this year. The markets' bias remains for fewer Riksbank rate cuts vs the ECB, whereas our economists expect parallel paths from the two central banks.

Granted, Sweden's higher rate sensitivity means fewer rates cuts are needed, all else equal. But all else is not equal: our economists forecast weaker Swedish growth vs the Eurozone and see CPIF ex energy below 2% y/y in July (see Nordics YA 24 8 Dec 23). Swedish services inflation has a softer momentum vs that in the Euro area. And, not to forget, last year's Swedish wage agreement was for two years (4.1% in the 1st year, 3.3% in the 2nd) and the Swedish inflation expectations have been very well anchored.

However, first, the Riksbank's upcoming meeting will only include a monetary policy update and no new forecasts, so the bar to a dramatic shift in guidance is probably high.

Second, given's SEK vulnerability and the Riksbank's stated intention to ensure inflation returns to target in a reasonable amount of time and in a sustainable manner, we think they will err on the side of caution, especially with the ECB still cautious. Per Jansson may have sounded relatively dovish to us in his last speech, but the other Riksbank speakers have been cautious vs markets and eager to avoid fresh SEK weakness.

So, even though, we do think the Riksbank's language on FX will ease in the coming months as ex energy inflation continues falling, this will likely be a gradual process.

The Riksbank's FX hedging operations could continue at a slower pace
As for the Riksbank's FX hedging operation—its current phase will likely be largely complete by the time the Riksbank meets. The Riksbank has been clear this operation is not an FX intervention, but it solely on risk management purposes and consistent with the Riksbank's forecast that SEK could strengthen.

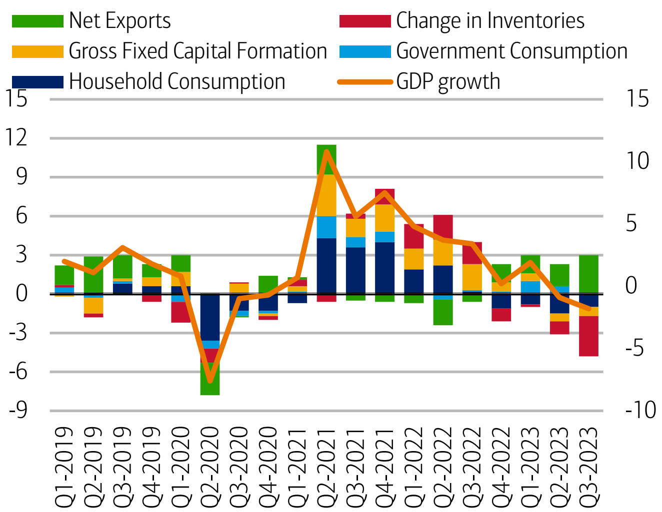
But the side-effects of this operation have likely been welcome to the Riksbank, and we indeed think this operation—mainly via second-order beliefs—offered some support to SEK, especially in October when it needed it the most. Meanwhile, it helped the Riksbank's financial results in Q4, which was the Riksbank's aim in the first place.

While it is not clear whether the Riksbank will make an announcement next week, we think the Riksbank could announce an extension of its FX hedging operations but likely end up proceeding at a slower pace this time. It is not obvious to us that the side effects of this operation would be as desirable as they were in Q4 down the road.

Beyond the upcoming meeting: bearish SEK near term, constructive for the year
A softer USD, lower Swedish hard landing risks, and the short SEK positioning are the main reasons we think SEK will finish this year stronger despite us being relatively bearish on the Swedish economy.

But, in the near term we are cautious on SEK, partly because we see room for markets to reprice the Riksbank closer to the ECB. To us, a dovish Riksbank on downside inflation misses remains a near-term SEK negative but a longer-term positive via lower "hard landing" risks (see Constructive Scandies in '24, with a preference for NOK 24 Jan 24).

Exhibit 33: Sweden, GDP breakdown
Net exports shielded the economy



Source: Statistics Sweden, BofA Global Research

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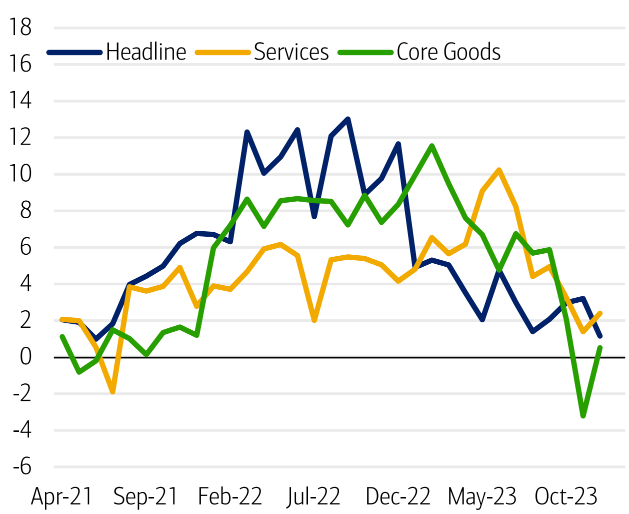
Exhibit 34: Sweden, instantaneous inflation tracker, %
Our trackers of near-term inflationary dynamics look encouraging



Source: Statistics Sweden, BofA Global Research

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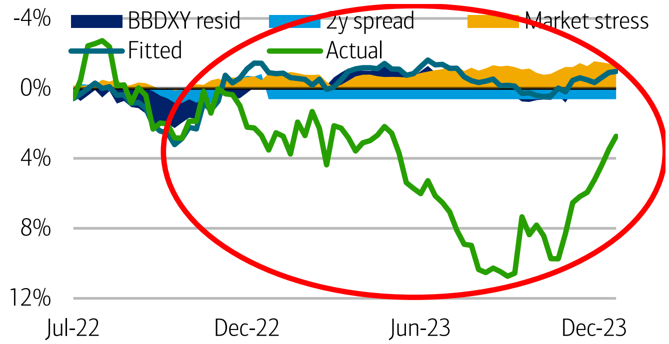
Exhibit 35: Fitted vs. actual Swedish krona index

In Q4 SEK closed a good part—but not all—of its valuation gap



Source: BofA Global Research, Bloomberg, Lower values of the trade-weighted krona index (KIX) show a stronger SEK. Weekly data through Dec 29. Fitted values are based on regression estimates for Jan 2018- June 2022. We regress changes in log KIX (trade-weighted krona index) on 1) residual changes in the (log) Bloomberg Dollar Index (see below for details); 2) changes in the trade-weighted 2-year SEK swap spreads; 3) changes in the first principal component of VIX, the MOVE Index and the US Corporate BAA 10-year spread, which we interpret as a proxy for market stress. The residual changes of the Bloomberg Dollar Index are changes in the Bloomberg Dollar Index unaccounted for by changes in market stress conditions.

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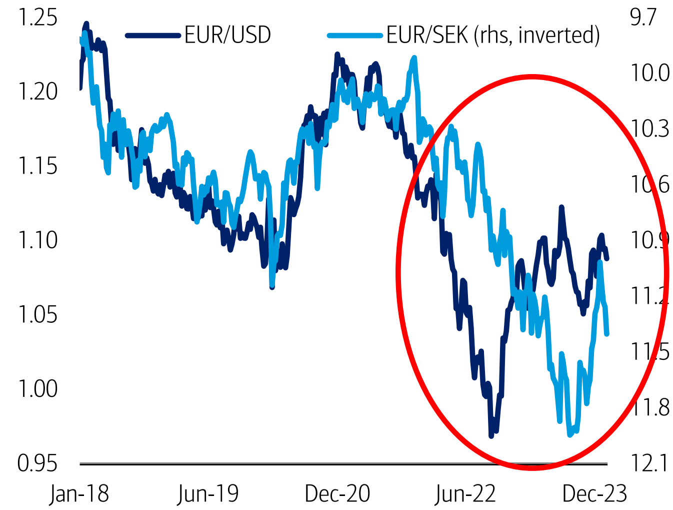
Exhibit 36: EURUSD vs EURSEK (inverted)

EURSEK and EURUSD largely re-aligned in Q4



Source: Bloomberg, BofA Global Research

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European forecasts

Exhibit 37: Euro area economic forecasts

We see the ECB stopping at a refi terminal of 4.50%.

		2022	2023	2024	2025	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
GDP	% qoq					0.0	0.2	-0.1	0.0	0.0	0.2	0.2	0.3	0.3	0.3	0.3	0.3
	% qoq ann.					0.2	0.6	-0.4	0.2	0.0	0.7	0.9	1.3	1.2	1.2	1.3	1.2
	% yoy	**3.4**	**0.5**	**0.4**	**1.1**	1.2	0.5	0.1	0.2	0.1	0.1	0.5	0.7	1.0	1.1	1.2	1.2
Private Consumption	% qoq					0.2	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**	**0.7**	**1.1**	1.3	0.4	-0.3	0.5	0.4	0.7	0.7	0.8	1.0	1.1	1.2	1.3
Government Consumption	% qoq					-0.6	0.4	0.5	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.2	0.2
	% yoy	**1.6**	**0.3**	**0.9**	**0.9**	-0.4	0.2	0.8	0.5	1.2	1.0	0.7	0.7	0.8	0.9	0.9	1.0
Investment	% qoq					0.4	0.1	0.1	0.0	-0.2	0.1	0.2	0.4	0.3	0.4	0.5	0.5
	% yoy	**2.8**	**1.1**	**0.1**	**1.4**	1.9	1.4	0.4	0.7	0.0	0.0	0.1	0.4	1.0	1.3	1.5	1.6
Final Domestic Demand[1]	% qoq					0.1	0.1	0.3	0.1	0.0	0.2	0.2	0.3	0.3	0.3	0.3	0.3
	% yoy	**3.1**	**0.5**	**0.6**	**1.1**	1.0	0.5	0.1	0.5	0.5	0.6	0.5	0.7	0.9	1.0	1.2	1.2
Net exports[1]	% qoq					0.5	-0.4	0.1	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
	% yoy	**0.0**	**0.4**	**0.1**	**0.1**	0.6	0.0	0.7	0.2	-0.2	0.3	0.2	0.3	0.3	0.2	0.1	0.0
Stockbuilding[1]	% qoq					-0.5	0.5	-0.1	0.0	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
	% yoy	**0.3**	**-0.2**	**-0.1**	**-0.1**	-0.4	0.0	-0.2	-0.1	0.3	-0.2	-0.3	-0.3	-0.2	-0.1	0.0	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	0.4	1.2	0.1	0.3	0.1	1.0	-0.1	0.2
	% yoy	**8.4**	**5.5**	**2.3**	**1.4**	8.0	6.2	5.0	2.7	2.8	2.4	1.9	2.0	1.7	1.4	1.2	1.1
CPI (core)[4]	% qoq					0.6	2.4	0.5	0.2	0.2	1.6	0.1	0.3	0.0	1.4	0.0	0.3
	% yoy	**3.9**	**5.0**	**2.5**	**1.8**	5.5	5.5	5.1	3.7	3.3	2.5	2.1	2.2	2.0	1.8	1.7	1.8
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 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					0.3	0.0	-0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.3
	% qoq ann.					1.0	0.2	-0.5	0.2	0.1	0.0	0.4	0.4	0.4	0.8	0.8	1.2
	% yoy	**4.3**	**0.3**	**0.1**	**0.6**	0.4	0.3	0.3	0.2	0.0	-0.1	0.2	0.2	0.3	0.5	0.6	0.8
Private Consumption	% qoq					0.8	0.5	0.0	0.1	-0.1	-0.1	-0.1	0.0	0.2	0.2	0.2	0.2
	% yoy	**5.0**	**0.8**	**0.0**	**0.4**	0.2	0.3	1.2	1.4	0.5	-0.1	-0.2	-0.3	0.0	0.3	0.6	0.8
Government Consumption	% qoq					-1.1	2.6	0.9	0.4	0.1	0.3	0.3	0.3	0.3	0.5	0.5	0.5
	% yoy	**2.3**	**0.5**	**1.9**	**1.5**	-3.7	1.4	1.8	2.8	4.0	1.7	1.0	0.9	1.2	1.4	1.7	1.8
Investment	% qoq					2.4	-1.0	-1.3	-0.6	-0.5	-0.2	0.1	0.0	-0.1	0.0	0.0	-0.2
	% yoy	**8.0**	**2.3**	**-1.9**	**-0.1**	5.3	3.8	0.7	-0.5	-3.3	-2.6	-1.2	-0.5	-0.2	0.0	-0.1	-0.3
Final Domestic Demand[1]	% qoq					0.7	0.6	0.0	0.1	-0.1	0.0	0.0	0.1	0.2	0.2	0.2	0.2
	% yoy	**5.0**	**1.0**	**0.0**	**0.6**	0.3	1.1	1.2	1.4	0.5	-0.2	-0.1	-0.1	0.2	0.5	0.7	0.8
Net exports[1]	% qoq					-1.5	-0.8	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
	% yoy	**-1.7**	**0.3**	**-0.1**	**0.0**	3.8	2.0	-2.4	-2.3	-0.8	0.0	0.1	0.2	0.1	0.0	-0.1	-0.2
Stockbuilding[1]	% qoq					1.1	0.2	-0.1	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.1
	% yoy	**1.1**	**-1.0**	**0.2**	**0.0**	-3.7	-2.9	1.4	1.1	0.3	0.1	0.1	0.2	-0.1	0.1	0.0	0.1
Current Account Balance	% of GDP	**-3.1**	**-3.5**	**-3.7**	**-3.6**	-2.3	-3.9	-3.8	-3.8	-3.8	-3.7	-3.6	-3.6	-3.6	-3.6	-3.6	-3.7
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**	**4.9**	3.9	4.2	4.2	4.4	4.5	4.7	4.8	4.9	4.9	4.9	4.9	4.8
RPI Inflation[2]	% yoy	**11.6**	**9.8**	**4.6**	**3.6**	13.6	11.1	9.0	5.8	5.2	4.3	4.5	4.6	4.2	3.6	3.5	3.4
CPI Inflation (harmonised)[2]	% yoy	**9.1**	**7.3**	**3.0**	**2.6**	10.2	8.4	6.7	4.1	3.6	2.5	2.9	3.2	3.1	2.5	2.4	2.4
CPI (core)[2]	% yoy	**5.9**	**6.2**	**3.8**	**3.0**	6.1	6.9	6.4	5.3	4.6	3.6	3.4	3.6	3.6	2.9	2.9	2.7
General govt balance [5]	% of GDP	**-5.0**	**-4.9**	**-4.3**	**-3.9**												
General govt debt [3,5]	% of GDP	**97.1**	**98.7**	**101.2**	**103.0**												
General govt debt	% of GDP	**101.0**	**100.5**	**102.8**	**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 39: Euro area, GDP and CPI profiles
Euro area member states profiles

	GDP						HICP					
	2020	2021	2022	2023F	2024F	2025F	2020	2021	2022	2023F	2024F	2025F
Euro area	-6.2	5.9	3.4	0.5	0.4	1.1	0.3	2.6	8.4	5.5	2.3	1.4
Austria	-6.7	4.4	4.8	-0.7	0.0	1.5	1.4	2.8	8.6	7.7	2.7	2.1
Belgium	-5.3	6.9	3.0	1.4	0.9	1.2	0.4	3.2	10.3	2.2	1.5	1.7
Finland	-2.4	2.8	1.6	-0.4	0.2	1.0	0.4	2.1	7.2	4.3	0.9	1.2
France	-7.7	6.4	2.5	0.8	0.7	1.3	0.5	2.1	5.9	5.8	3.1	1.9
Germany	-4.2	3.1	1.9	-0.1	-0.1	0.9	0.4	3.2	8.6	6.3	3.6	1.5
Greece	-9.0	8.1	5.7	2.0	1.1	1.7	-1.3	0.6	9.3	4.2	2.0	1.7
Ireland	5.8	14.8	9.5	-1.4	2.7	2.0	-0.5	2.4	8.1	5.8	2.9	1.6
Italy	-9.0	8.3	3.9	0.7	0.3	1.1	-0.1	1.9	8.7	6.0	1.7	1.4
Netherlands	-3.9	6.2	4.4	0.0	0.3	1.1	1.1	2.8	11.6	4.1	1.7	1.6
Portugal	-8.3	5.7	6.8	2.2	1.0	1.4	-0.1	0.9	8.1	5.4	2.5	1.1
Spain	-11.2	6.4	5.8	2.4	1.3	1.5	-0.3	3.0	8.3	3.4	2.6	0.9

Source: BofA Global Research, Eurostat

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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
29 Jan-5 Feb								
✪✪✪	-	Germany	Retail Sales (mom)	Dec	0.8%	--	-2.5%	
✪✪	-	UK	Nationwide House PX (mom)	Jan	n.a.	--	0.0%	
✪✪	-	UK	Nationwide House Px (nsa, yoy)	Jan	n.a.	--	-1.8%	
Monday, 29 Jan								
✪✪	10:00	Belgium	GDP (sa, qoq, P)	4Q	0.1%	--	0.4%	
✪✪	10:00	Belgium	GDP (sa, yoy, P)	4Q	1.2%	--	1.4%	
Tuesday, 30 Jan								
✪✪	00:01	UK	BRC Shop Price Index (yoy)	Jan	n.a.	--	4.3%	
✪✪✪	06:30	France	Consumer Spending (mom)	Dec	0.5%	--	0.7%	
✪✪✪	06:30	France	Consumer Spending (yoy)	Dec	n.a.	--	-1.1%	
✪✪✪	06:30	France	GDP (qoq, P)	4Q	0.1%	--	-0.1%	
✪✪✪	06:30	France	GDP (yoy, P)	4Q	0.7%	--	0.6%	
✪✪✪	08:00	Spain	GDP (qoq, P)	4Q	0.2%	--	0.3%	
✪✪✪	08:00	Spain	GDP (yoy, P)	4Q	1.6%	--	1.8%	
✪✪✪	08:00	Spain	CPI (mom, P)	Jan	-0.2%	--	0.0%	
✪✪✪	08:00	Spain	CPI (yoy, P)	Jan	3.1%	--	3.1%	
✪✪✪	08:00	Spain	CPI EU Harmonised (mom, P)	Jan	-0.2%	--	0.0%	
✪✪✪	08:00	Spain	CPI EU Harmonised (yoy, P)	Jan	3.5%	--	3.3%	
✪✪✪	08:00	Spain	CPI Core (yoy, P)	Jan	3.7%	--	3.8%	
✪✪✪	09:00	Italy	GDP (wda, yoy, P)	4Q	0.0%	--	0.1%	
✪✪✪	09:00	Italy	GDP (wda, qoq, P)	4Q	0.3%	--	0.1%	
✪✪✪	09:00	Germany	GDP (sa, qoq, P)	4Q	-0.1%	--	-0.1%	
✪✪✪	09:00	Germany	GDP (nsa, yoy, P)	4Q	n.a.	--	-0.8%	
✪✪✪	09:00	Germany	GDP (wda, yoy, P)	4Q	-0.1%	--	-0.4%	
✪✪✪	09:30	UK	Net Consumer Credit	Dec	n.a.	--	2.0bn	
✪✪✪	09:30	UK	Consumer Credit (yoy)	Dec	n.a.	--	8.6%	
✪✪✪	09:30	UK	Net Lending Sec. on Dwellings	Dec	n.a.	--	0.0bn	
✪✪✪	09:30	UK	Mortgage Approvals	Dec	n.a.	--	50k	
✪✪✪	09:30	UK	Money Supply M4 (mom)	Dec	n.a.	--	-0.1%	
✪✪✪	09:30	UK	M4 Money Supply (yoy)	Dec	n.a.	--	-2.3%	
✪✪✪	09:30	UK	M4 Ex IOFCs 3M Annualised	Dec	n.a.	--	-2.7%	
✪✪	09:30	Portugal	GDP (qoq, P)	4Q	0.3%	--	-0.2%	
✪✪	09:30	Portugal	GDP (yoy, P)	4Q	1.6%	--	1.9%	
✪✪✪	10:00	Euro area	Consumer Confidence (F)	Jan	-16.1	--	-16.1	
✪✪✪	10:00	Euro area	Economic Confidence	Jan	96.6	--	96.4	
✪✪✪	10:00	Euro area	Industrial Confidence	Jan	-9.0	--	-9.2	
✪✪✪	10:00	Euro area	Services Confidence	Jan	8.3	--	8.4	
✪✪✪	10:00	Euro area	GDP (sa, qoq)	4Q	0.0%	--	-0.1%	
✪✪✪	10:00	Euro area	GDP (sa, yoy)	4Q	0.2%	--	0.0%	
Wednesday, 31 Jan								
✪✪	00:01	UK	Lloyds Business Barometer	Jan	n.a.	--	35.0	
✪✪✪	07:45	France	CPI EU Harmonized (mom, P)	Jan	-0.3%	--	0.1%	
✪✪✪	07:45	France	CPI EU Harmonized (yoy, P)	Jan	3.4%	--	4.1%	
✪✪✪	07:45	France	CPI (mom, P)	Jan	-0.2%	--	0.1%	
✪✪✪	07:45	France	CPI (yoy, P)	Jan	3.1%	--	3.7%	
✪✪✪	08:55	Germany	Unemployment Change (000's)	Jan	18k	--	5k	
✪✪✪	08:55	Germany	Unemployment Claims Rate (sa)	Jan	5.9%	--	5.9%	
✪✪✪	09:00	Italy	Unemployment Rate	Dec	7.5%	--	7.5%	
✪✪✪	11:00	Italy	Industrial Sales (wda, yoy)	Nov	n.a.	--	-1.7%	
✪✪✪	11:00	Italy	Industrial Sales (mom)	Nov	n.a.	--	0.1%	
✪✪✪	13:00	Germany	CPI (yoy, P)	Jan	2.8%	--	3.7%	
✪✪✪	13:00	Germany	CPI (mom, P)	Jan	0.1%	--	0.1%	
✪✪✪	13:00	Germany	CPI EU Harmonized (mom, P)	Jan	0.1%	--	0.2%	
✪✪✪	13:00	Germany	CPI EU Harmonized (yoy, P)	Jan	3.4%	--	3.8%	
Thursday, 1 Feb								
✪✪✪	08:15	Spain	Manufacturing PMI	Jan	47.0	--	46.2	
✪✪✪	08:30	Sweden	Riksbank Policy Rate	Feb	4.00%	--	4.00%	
✪✪✪	08:45	Italy	Manufacturing PMI	Jan	46.0	--	45.3	
✪✪✪	08:50	France	Manufacturing PMI (F)	Jan	43.2	--	43.2	
✪✪✪	08:55	Germany	Manufacturing PMI (F)	Jan	45.4	--	45.4	
✪✪✪	09:00	Euro area	Manufacturing PMI (F)	Jan	46.6	--	46.6	

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

	GMT	Country	Data/Event	For	BofAe	Cons.†	Previous	Comments
✪✪✪	09:30	UK	Manufacturing PMI (F)	Jan	47.3	--	47.3	
✪✪✪	10:00	Euro area	CPI Estimate (yoy)	Jan	2.8%	--	2.9%	
✪✪✪	10:00	Euro area	CPI (mom, P)	Jan	-0.3%	--	0.2%	
✪✪✪	10:00	Euro area	CPI Core (yoy, P)	Jan	3.4%	--	3.4%	
✪✪✪	10:00	Euro area	Unemployment Rate	Dec	6.5%	--	6.4%	
✪✪✪	10:00	Italy	CPI EU Harmonized (yoy, P)	Jan	0.7%	--	0.5%	
✪✪✪	10:00	Italy	CPI EU Harmonized (mom, P)	Jan	n.a.	--	0.2%	
✪✪✪	10:00	Italy	CPI NIC incl. tobacco (yoy, P)	Jan	n.a.	--	0.6%	
✪✪✪	10:00	Italy	CPI NIC incl. tobacco (mom, P)	Jan	n.a.	--	0.2%	
✪✪✪	12:00	UK	Bank of England Bank Rate	Feb	5.25%	--	5.25%	
Friday, 2 Feb								
✪✪✪	07:45	France	Industrial Production (mom)	Dec	0.3%	--	0.5%	
✪✪✪	07:45	France	Industrial Production (yoy)	Dec	n.a.	--	0.6%	
✪✪✪	07:45	France	Manufacturing Production (mom)	Dec	0.1%	--	0.3%	
✪✪✪	07:45	France	Manufacturing Production (yoy)	Dec	n.a.	--	-0.9%	

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 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
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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