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ECONOMIC RESEARCH DEPARTMENT

Eco WEEK

Summary

United States

If labour was the only criterion…

The Fed faces a dilemma: the labour market conditions and the outlook for inflation call for the monetary policy normalization to keep going. Still, persisting stress on financial markets could jeopardise the outlook.

► Page 2

Portugal

Still needs to prove its worth

On 5 February, the European Commission accepted Portugal's 2016 budget proposal after the government agreed to make changes. Even so, Portugal remains under tight surveillance.

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Also in :

Eco TV WEEK

Disproportionate sentence

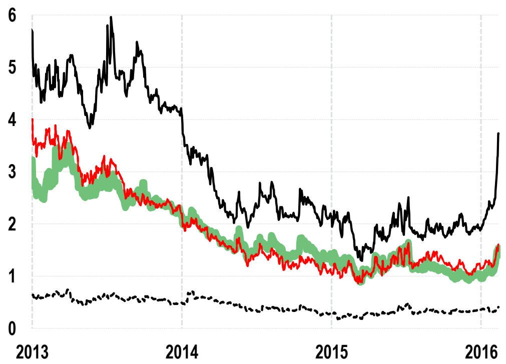
■ Eurozone growth in line with expectations ■ After Spain and Italy, Portugal is easing the fiscal pressure

Financial turbulence has spread to the Eurozone and rekindled some pressure pushing up sovereign spreads within the Eurozone. This week, the 10-year yield spread between Italian and Spanish government bonds, and Bunds rose by close to 30 basis points, with Portugal's yield spread against Bund widening by 110 basis points. This type of tension was thought to have been kept firmly in check by the European Central Bank, together with the prospect of a recovery in the Eurozone economies and improvements in European budgetary governance.

The latest growth figures published by Eurostat were in line with expectations – uninspiring, but not terrible, either. Eurozone GDP grew by 0.3% q/q in the final quarter of 2015, as in the previous period. Spain remains an engine of growth (0.8% q/q), Germany and the Netherlands lie in the middle of the pack (0.3% q/q), and France, Portugal (0.2% q/q) and Italy (0.1% q/q) are slight laggards. Portugal has grabbed most of the attention of late (see focus on page 4) for political and fiscal reasons. The government has found common ground with the European Commission. It has ultimately given the green light to an amended budget plan – but only just. Fiscal policy – neutral in Spain, expansionary in Italy – will be broadly neutral in Portugal next year. This is good news for (the sluggish) growth in Portugal.

SOVEREIGN SPREADS

Spreads with Bund, %, 10 years yields



Source: Datastream

THE WEEK ON THE MARKETS

Week 8-2 16 > 11-2-16

↘	**CAC 40**	4 201	► **3 897**	**-7.2**	%
↘	**S&P 500**	1 880	► **1 829**	**-2.7**	%
↗	Volatility (VIX)	23.4	► 28.1	+4.8	%
↘	**Euribor 3M** (%)	-0.17	► **-0.18**	**-1.2**	bp
↘	Libor $ 3M (%)	0.62	► 0.62	-0.2	bp
↘	OAT 10y (%)	0.64	► 0.59	-5.8	bp
↘	Bund 10y (%)	0.30	► 0.18	-12.4	bp
↘	US Tr. 10y (%)	1.85	► 1.64	-20.5	bp
↗	**Euro vs dollar**	1.11	► **1.13**	**+1.8**	%
↗	Gold (ounce, $)	1 155	► 1 248	+8.1	%
↘	**Oil (Brent, $)**	34.6	► **30.2**	**-12.5**	%

Source: Thomson Reuters

United States

If labour was the only criterion…

- **Janet Yellen made note of the financial market turmoil, but sought to put it into perspective while highlighting the dynamic job market.**
- **The Fed maintains its analysis: growth will remain strong enough to absorb residual underemployment while inflation will gradually return towards the Fed's 2% target. Global growth trends are the main downside risk to this scenario.**
- **The Fed does not seem to have changed its plans. By reiterating that its decisions are data-dependent, Ms. Yellen did not close the door on any options for the March FOMC meeting. So will the Fed raise its key rates or not?**

Fed Chair Janet L. Yellen spoke this week before the Congressional financial committees of both houses[1]. This long-awaited speech was the first time she had spoken since the press conference following December's rate increase, and since the financial market turmoil of early 2016.

Ms. Yellen's opening statements did not suggest a paradigm shift: the Fed continues to expect that growth will be strong enough to absorb residual underemployment and that inflation will return towards its 2% target in the medium term. The exceptional factors of low energy prices and the dollar's appreciation would gradually put less of a strain on inflation trends, which are also likely to get support from the dynamic job market. This has been the Fed's analysis for several months, and there is nothing new about the downside risks to this "ideal" scenario either. Indeed, global growth trends are the main risk factor.

Yet Ms. Yellen's speech did not overlook the turmoil in the financial markets. Still, the main downward risk on her outlook is about the external environment. She spent more time spelling out the chain of events that could end up undermining the US recovery rather than the factors likely to fuel stronger growth (i.e. support from low oil prices). Yet she also put into perspective the tightening of financial conditions caused by the equity market correction, wider corporate spreads and the strong dollar, which could undermine growth prospects if it were to persist. Ms. Yellen noted that low long-term rates and oil prices could also be expected to provide support.

Ms. Yellen's speech leaves the impression that the Fed has not revised its intentions to continue gradually normalising monetary policy – at least not yet. By restating that the Fed's decisions would remain data-depend and that the Fed would keep on closely monitoring "measures of labour market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments". Ms. Yellen did not close the door on any options for the next FOMC meeting, which will be held in just over a month. So, will the Fed raise its key rates or not?

The labour market conditions clearly support another rate increase. In January, the unemployment rate dropped below 5% (to 4.9%) and wage growth was relatively strong (+0.3% for production and non-supervisory employees). Contrasting with survey data, the manufacturing sector not only added jobs (+29k for the month), but also the number of hours worked increased. The upturn in the index of aggregated hours in January (+0.5%) could foreshadow a rebound in manufacturing activity. Two factors lend credibility to this hypothesis: the strong increase in overtime work (+2.4%) and the "new orders" component of the ISM index (+2.7 points to 51.5, the highest score since summer 2015).

Tighter financial conditions…

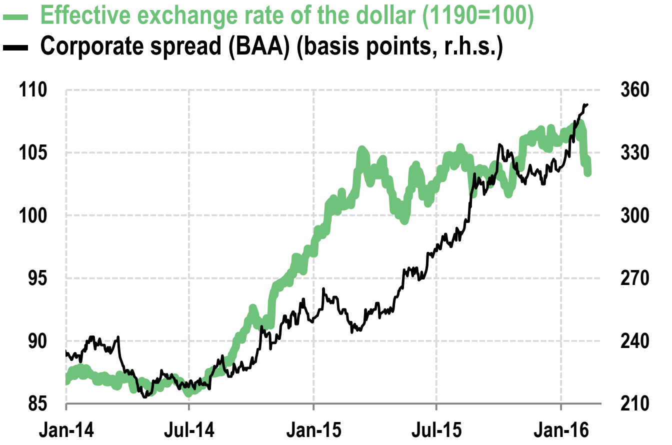


Chart 1 — Sources: Bank of England, Federal Reserve

…must be kept in perspective

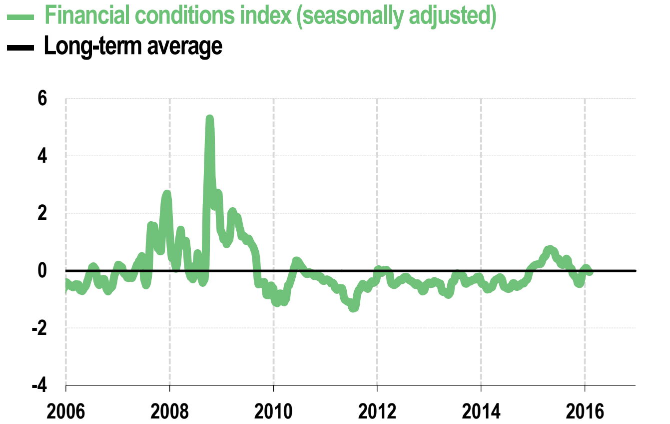


Chart 2 — Source: Federal Reserve Bank of Chicago

[1] Twice a year, the Fed Chair is testimony before the House Committee on Financial Services and the Senate Committee on Banking, Housing and Urban Affairs. These hearings coincide with the release of the Monetary Policy Report as required by the Humphrey-Hawkins law of 1978.

Underemployment also contracted much more sharply, as illustrated by the latest JOLTS data[2]. It is especially worth noting the strong rebound in the quits rate in the private sector (2.4%, the highest rate since summer 2007), which indicates that Americans have regained confidence in the quality of the job market.

Yet the improvement is more far-reaching than just this one statistic, as confirmed by our SLACK index[3] (chart 3). If this measure of underemployment continues to improve at the same pace as over the past three years, it will return within its "normal" fluctuation band by next August and swing into positive territory in fall 2017.

Another measure – which does not focus solely on the current job market situation but also on prospects – paints a very clear picture. The Janet index, a measure we constructed in 2013 to monitor the progress towards the goals set for the third wave of quantitative easing (QE3)[4], has been in positive territory since last November. Under similar conditions in 2004, the Fed began a new monetary tightening phase. In brief, as much if not even more so than in December, current job market conditions continue to justify the normalisation of monetary policy.

Yet there is a big difference between the current situation and the one that prevailed in 2004, and that has nothing to do with financial market volatility. The inflation outlook is not nearly as solid as it was in the earlier period. Weak inflation can certainly be attributed in part to low energy prices and the strong dollar's impact on the prices of imported goods. According to the Monetary Policy Report, the strong dollar could have accounted for a 0.5-point reduction in the year-on-year rate of increase of private consumer expenditure price index (1.4% in December), while the drop-off in oil prices surely had a non-negligible impact as well (though no precise figure was given). If these assumptions are correct, without those temporary factors artificially lowering inflation, the PCE index would currently run above 2%, i.e. at quite the same rate as in summer 2004, when the previous tightening cycle was initiated.

But hypotheses are only hypotheses, and the picture painted by various measures of inflation expectations is much less serene. According to Ms. Yellen, changes in the risk and liquidity premiums could explain the decline in market expectations. Once again, it is hard to be certain, and if the Fed decides to put off another key rate increase, it is more likely to be due to these trends rather than to financial market fluctuations.

Rapid absorption of underemployment

— SLACK index; — Pre-2007 fluctuation range

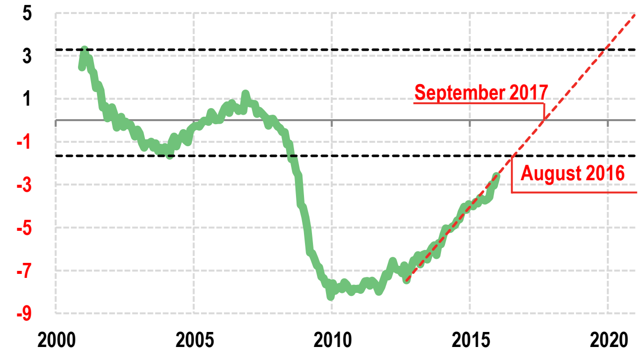


Chart 3 Source: BNP Paribas Economic Research

Normalisation of monetary policy is justified

— Janet index; — 2003-2007 average

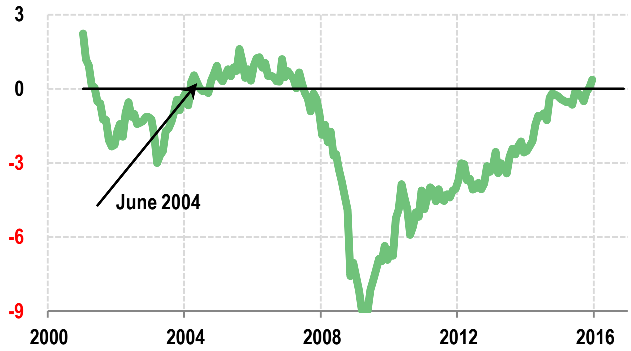


Chart 4 Source: BNP Paribas Economic Research

Disinflation expectations

— Market expectations (5y 5y forward, r.h.s.); — University of Michigan (5y forward); --- New York Fed (3y forward)

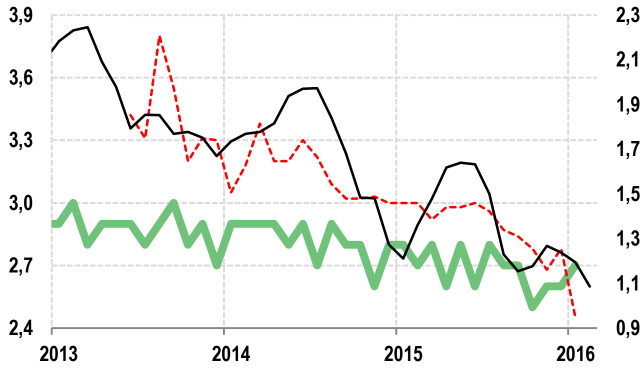


Chart 4 Sources: Federal Reserve, New York Fed, University of Michigan

[2] The Job Opening and Labor Turnover Survey (JOLTS) looks closely at gross job flows, notably hiring, firing, quits and job openings.
[3] The SLACK index is constructed from the sum of standardised indicators. It is read as the standard deviation from the average. Its components are comprised of the underemployment indicators cited by Ms. Yellen ("What the Federal Reserve is Doing to Promote a Stronger Job Market", 2014 National Interagency Community Reinvestment Conference, Chicago, 31 March 2014): number of employees working fewer hours than they would like, the hiring and quitting rates, the labour force participation ratio for the 25-54 age group, the share of long-term unemployed, and wage trends. See "The truth is out there – or why the falling unemployment rate is late accelerating wages", Alexandra Estiot, BNP Paribas Conjoncture, October-November 2014.
[4] See "Map of their heads", Alexandra Estiot, BNP Paribas Eco Week, April 26th 2013.

Portugal

Still needs to prove its worth

- **The Socialist Party managed to win the parliamentary support of the far left parties only by agreeing to a major easing of fiscal policy.**
- **The government then had to propose corrective measures before the European Commission would validate Portugal's budget proposal on 5 February.**
- **Even so, Portugal remains under tight surveillance. With its new fiscal priorities, the government will not be able to meet the Commission's structural deficit reduction targets in 2016.**

Portugal's budget proposal of 22 January failed to convince the European Commission, which found the government's growth assumptions to be overly optimistic. The Commission also disagrees with the government's estimate of the structural balance. On 5 February, the European Commission finally accepted Portugal's 2016 budget proposal with reservations, after the government agreed to make changes to the proposal presented on 22 January. Even so, Portugal remains under tight surveillance. With its new fiscal priorities, the Socialist government will not be able to meet the Commission's structural deficit reduction targets in 2016.

No government, no budget

The European Commission's recommendation comes much later than usual. Each EU member country was supposed to submit its 2016 budget proposal before 15 October 2015 to give the Commission time to assess whether or not it complies with European fiscal rules. Yet with Portugal holding general elections on 4 October, the Commission granted the country extra time to present its proposal.

The complications of forming a new government further delayed the filing of a budget proposal with the European Commission. The new government did not take power until 26 November. Coming in second behind an alliance comprised of the Popular Party and the Social Democrats, the Socialist Party had to negotiate long and hard before winning the support of the other left-wing parties[1]. In the end, it managed to win the parliamentary support of the United Democratic Coalition, comprised of the Portuguese Communist Party and the Greens, as well as the radical Left Block (which will not participate in the new government), but only after agreeing to a major easing of fiscal policy.

Although vital for forming a government, this support did not make the new Socialist government's task any easier. The budget proposal submitted to the European Commission on 22 January tried to meet both the demands of the radical left-wing parties and the fiscal requirements of the European Commission.

Cumbersome public debt

% of GDP

Public debt; — Budget balance (RHS)

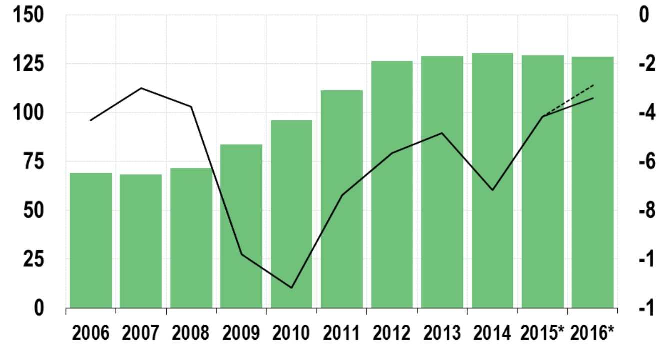


Chart 1 Source: Ameco
*European Commission forecast

A new government, new priorities

In its initial budget proposal, the government planned to gradually reverse past public-sector wage cuts and to return to a 35-hour workweek in this sector. It also called for eliminating part of the surtax on personal income, to raise certain social welfare benefits (minimum income protection scheme, solidarity allowance for the elderly, family benefits) and pensions of less than EUR 628.82, and to lower the social security tax rate on low-wage earners by 1.5 points. Public investment was also to be increased by 4% compared to the 2015 level, while the VAT rate on restaurant services would be reduced to 13% (from 23% currently). Estimated at 0.7% of GDP, the negative impact of these measures on public finances would be offset by placing a lid on intermediate public consumption, by a pledge not to increase the number of civil servants and by higher stamp duties and taxation on oil and tobacco products. The government estimated that the later measures would have a positive impact on the public deficit estimated at the equivalent of 0.5% of GDP.

All in all, the budget proposal of 22 January would reduce the budget deficit to 2.6% of GDP in 2016, from 4.2% in 2015[2], and the public debt to 126% of GDP, from 128.7% in 2015 (Chart 1).

[1] *The alliance comprised of the CDS-People's Party (CDS-PP) and the Social Democratic Party (PSD) obtained 38.6% of the vote and 107 seats (out of a total of 230). The Socialist party won 32.3% of the vote and 86 seats. The Left Bloc (BE) and the Unitary Democratic Coalition (CDU) won 19 seats and 17 seats, respectively.*

[2] *Portuguese government's and European Commission's forecast. The deficit should be 1.5 points higher than the one in the 2015 Stability Programme due to the government bailout of the Portuguese bank Banif, estimated at 1.2% of GDP. The state provided public funds to cover future liabilities unexpected at the time of the bank's sale.*

First draft falls short of expectations

Yet the European Commission was not convinced by the initial proposal, claiming that its growth assumptions were overly optimistic. The Portuguese government and the European Commission both expect domestic demand to make a major contribution to growth, as it did in 2015 (Chart 2). Extremely low inflation, job creations, monetary policy easing and the government's call for a higher minimum wage should boost consumption. Yet the European Commission fears that slowing growth in certain emerging countries will place a bigger strain on exports and corporate investment. The Commission also expects to see a bigger slowdown in the pace of job creations. The government's budget proposal was based on 2016 GDP growth estimated at 2.1% (after +1.5% in 2015), compared to the Commission's estimate of 1.6%. With its more optimistic assumptions, the government thus expects a bigger increase in fiscal revenues than those estimated by the Commission, and a bigger reduction in welfare benefits, mainly due to a steeper reduction in the unemployment rate (which the government estimates at 11.2% in 2016, compared to 11.7% for the Commission). The Commission also found some of the government's estimates to be too approximate. For example, it did not provide sufficient arguments on how it intended to control intermediate public consumption.

The Commission also questioned the government's estimate of Portugal's structural balance [3], claiming that the improvement between 2015 and 2016 was due to the erroneous classification of certain fiscal measures as exceptional items. These measures, which were exceptional for the government but not for the Commission, accounted for 0.5% of GDP in 2015 and 1.1% in 2016. After reclassifying these measures according to its own criteria, the Commission estimated that the Portuguese budget proposal would raise the structural deficit from 1.7% of GDP in 2015 to 2.2% in 2016. The budget resulted in a 0.5 points deterioration in the structural deficit, whereas the Commission called for a 2016 improvement of 0.6 points! It is this severe shortfall that led the Commission to ask the government to adopt corrective measures.

Portugal under tight surveillance

The Portuguese government was thus caught in a difficult position. The country remains under tight surveillance. In 2014, it managed to exit the European bailout programme launched in 2011, but it will continue to face excessive deficit procedures as long as the deficit holds above 3% of GDP. It is also under Post-Programme Surveillance (PPS) until at least 75% of the financial assistance received has been repaid. An outright rejection of the budget would have dealt a serious blow to the government's credibility and would have risked driving up government bond yields.

The Portuguese government agreed to modify its budget proposal and has proposed several corrective measures equivalent to EUR 1.125 bn in 2016. This adjustment is based primarily on fiscal revenues. New measures include higher taxes on purchases of automobiles, tobacco and oil products, the elimination of local tax exemptions on investment and pension funds, and an extra

[3] *The structural balance equals the balance that would have occurred if GDP had been equal to its long-term growth potential, adjusted for exceptional factors.*

Domestic demand drives growth

Contribution to GDP growth (percentage points)
Private consumption; Foreign trade; GFCF; Public consumption; Stocks; — GDP

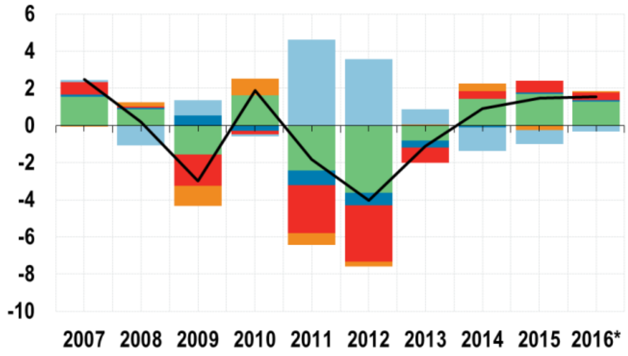


Chart 2 Source: INE
*European Commission forecast

contribution by banks to the Resolution Fund. The government also decided to forego reducing the social security tax rate on low-wage earners.

According to the Commission, the impact of these corrective measures on the budget deficit is estimated at 0.5 points of GDP, including a structural improvement of 0.45 points (EUR 845 m). In the end, Portugal's nominal deficit, which the Commission estimated at 3.4% of GDP in its winter outlook, could come in at just below 3% of GDP this year, assuming the measures are fully implemented.

The improvement in the structural deficit is estimated at between 0.1 and 0.2 points between 2015 and 2016. This still falls short of the Commission's target, but the shortfall is less than 0.5 points. The Commission thus validated the revised budget proposal. Nonetheless, it intends to closely monitor its implementation. Next spring, it will examine whether or not the budget complies with the stability and growth pact.

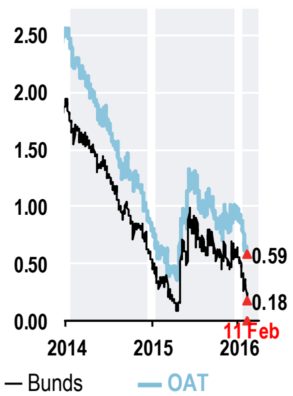
Markets overview

The essentials

Week 8-2 16 > 11-2-16

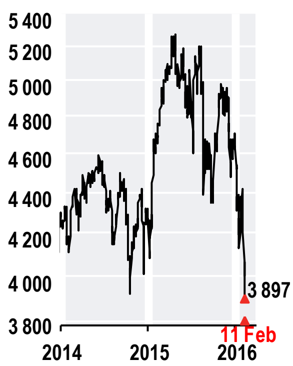
↘ **CAC 40**	4 201	▸	**3 897**	**-7.2**	%
↘ **S&P 500**	1 880	▸	**1 829**	**-2.7**	%
↗ Volatility (VIX)	23.4	▸	28.1	+4.8	%
↘ **Euribor 3M** (%)	-0.17	▸	**-0.18**	**-1.2**	bp
↘ Libor $ 3M (%)	0.62	▸	0.62	-0.2	bp
↘ OAT 10y (%)	0.64	▸	0.59	-5.8	bp
↘ Bund 10y (%)	0.30	▸	0.18	-12.4	bp
↘ US Tr. 10y (%)	1.85	▸	1.64	-20.5	bp
↗ **Euro vs dollar**	1.11	▸	**1.13**	**+1.8**	%
↗ Gold (ounce, $)	1 155	▸	1 248	+8.1	%
↘ **Oil (Brent, $)**	34.6	▸	**30.2**	**-12.5**	%

10 y bond yield, OAT vs Bund



Euro-dollar

CAC 40



Money & Bond Markets

Interest Rates		highest' 16		lowest' 16	
€ ECB	**0.05**	0.05	at 01/01	0.05	at 01/01
Eonia	**-0.24**	-0.13	at 01/01	-0.25	at 06/01
Euribor 3M	**-0.18**	-0.13	at 01/01	-0.18	at 11/02
Euribor 12M	**-0.01**	0.06	at 01/01	-0.01	at 11/02
$ FED	**0.50**	0.50	at 01/01	0.50	at 01/01
Libor 3M	**0.62**	0.62	at 19/01	0.61	at 04/01
Libor 12M	**1.13**	1.18	at 01/01	1.13	at 04/02
£ BoE	**0.50**	0.50	at 01/01	0.50	at 01/01
Libor 3M	**0.59**	0.59	at 22/01	0.59	at 12/01
Libor 12M	**0.99**	1.07	at 01/01	0.99	at 10/02

At 11-2-16

Yield (%)		highest' 16		lowest' 16	
€ AVG 5-7y	**0.32**	0.49	at 12/01	0.25	at 01/02
Bund 2y	**-0.52**	-0.34	at 01/01	-0.52	at 11/02
Bund 10y	**0.18**	0.63	at 01/01	0.18	at 11/02
OAT 10y	**0.59**	0.98	at 01/01	0.59	at 11/02
Corp. BBB	**2.40**	2.50	at 20/01	2.22	at 06/01
$ Treas. 2y	**0.64**	1.06	at 01/01	0.64	at 11/02
Treas. 10y	**1.64**	2.27	at 01/01	1.64	at 11/02
Corp. BBB	**4.41**	4.47	at 21/01	4.30	at 06/01
£ Treas. 2y	**0.30**	0.65	at 01/01	0.28	at 08/02
Treas. 10y	**1.28**	1.96	at 01/01	1.28	at 11/02

At 11-2-16

10y bond yield & spreads

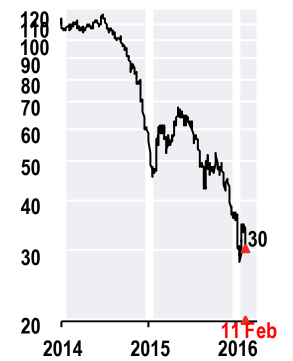
11.39%	Greece	1121 pb
3.89%	Portugal	371 pb
1.87%	Spain	169 pb
1.71%	Italy	153 pb
0.75%	Ireland	56 pb
0.73%	Belgium	55 pb
0.59%	France	40 pb
0.51%	Austria	33 pb
0.43%	Finland	25 pb
0.34%	Netherland	16 pb
0.18%	Germany	

Commodities

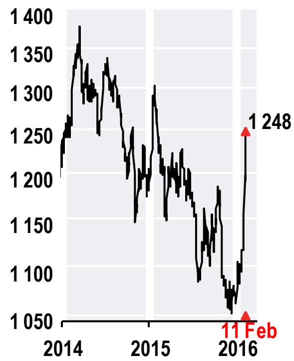
Spot price in dollars		lowest' 16			2016(€)
Oil, Brent	**30**	28	at	20/01	**-18.9%**
Gold (ounce)	**1 248**	1 062	at	01/01	**+12.5%**
Metals, LMEX	**2 133**	2 049	at	12/01	**-7.3%**
Copper (ton)	**4 454**	4 328	at	15/01	**-9.4%**
CRB Foods	**338**	329	at	11/01	**-3.4%**
wheat (ton)	**172**	146	at	04/01	**+6.5%**
Corn (ton)	**139**	135	at	11/01	**-3.1%**

At 11-2-16 *Variations*

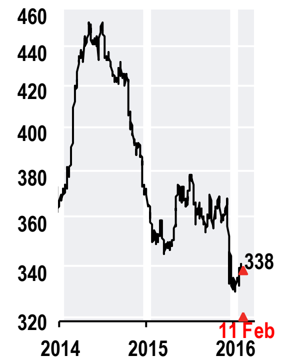
Oil (Brent, $)



Gold (Ounce, $)



CRB Foods



Exchange Rates

1€ =		highest' 16			lowest' 16			2016
USD	**1.13**	1.13	at	11/02	1.07	at	05/01	**+4.4%**
GBP	**0.79**	0.79	at	11/02	0.73	at	05/01	+6.6%
CHF	**1.10**	1.11	at	04/02	1.08	at	06/01	+1.5%
JPY	**126.91**	131.84	at	01/02	126.68	at	20/01	-2.9%
AUD	**1.60**	1.60	at	11/02	1.49	at	01/01	+7.3%
CNY	**7.45**	7.45	at	11/02	6.99	at	05/01	+5.6%
BRL	**4.50**	4.50	at	21/01	4.30	at	01/01	+4.6%
RUB	**91.22**	91.22	at	11/02	78.65	at	05/01	+15.0%
INR	**77.50**	77.50	at	11/02	71.42	at	05/01	+7.8%

At 11-2-16 *Variations*

Equity indices

	Index	highest' 16			lowest' 16			2016	2016(€)
CAC 40	**3 897**	4 637	at	01/01	3 897	at	11/02	-16.0%	**-16.0%**
S&P500	**1 829**	2 044	at	01/01	1 829	at	11/02	-10.5%	**-14.3%**
DAX	**8 753**	10 743	at	01/01	8 753	at	11/02	-18.5%	**-18.5%**
Nikkei	**15 713**	19 034	at	01/01	15 713	at	10/02	-17.4%	**-15.0%**
China*	**48**	59	at	01/01	48	at	11/02	-18.2%	**-22.0%**
India*	**393**	460	at	01/01	393	at	11/02	-11.7%	**-18.1%**
Brazil*	**943**	1 036	at	01/01	860	at	21/01	-8.8%	**-12.8%**
Russia*	**356**	405	at	01/01	331	at	20/01	-4.8%	**-15.7%**

At 11-2-16 *Variations*

* Indices MCSI

Economic forecasts

	GDP Growth			Inflation			Curr. account / GDP			Fiscal balances / GDP		
En %	2015 e	2016 e	2017 e	2015 e	2016 e	2017 e	2015 e	2016 e	2017 e	2015 e	2016 e	2017 e
United States	**2.3**	**1.7**	**1.9**	**0.1**	**1.4**	**2.3**	**-2.6**	**-2.8**	**-3.2**	**-2.5**	**-2.4**	**-2.5**
Japan	0.6	0.7	0.4	0.8	0.5	1.9	3.2	2.9	2.8	-4.4	-3.9	-3.2
United Kingdom	2.7	1.8	1.9	0.0	0.9	2.1	-4.8	-4.3	-3.4	-4.0	-2.9	-2.2
Euro Area	**1.5**	**1.6**	**1.8**	**0.0**	**0.5**	**1.5**	**3.1**	**2.8**	**2.6**	**-2.0**	**-1.8**	**-1.3**
Germany	1.5	1.6	2.0	0.1	0.6	1.7	8.1	8.3	8.4	0.9	0.5	0.7
France	1.1	1.4	1.6	0.1	0.6	1.3	0.1	-0.3	-0.9	-3.8	-3.4	-3.0
Italy	0.7	1.3	1.2	0.1	0.4	1.3	1.9	1.7	1.6	-2.6	-2.5	-1.6
Spain	3.1	2.2	2.7	-0.6	0.0	1.2	0.6	0.3	0.4	-4.6	-3.7	-2.3
Netherlands	1.8	1.8	1.9	0.3	1.0	1.3	10.7	9.9	9.3	-2.1	-1.8	-1.6
Belgium	1.2	1.3	1.5	0.6	1.5	1.5	0.4	0.6	0.0	-3.0	-2.7	-2.3
Portugal	1.5	1.5	1.4	0.6	1.0	1.2	1.3	1.5	1.8	-3.0	-2.3	-1.9
Emerging	**3.7**	**3.8**	**4.5**									
China	6.9	6.3	6.1	1.4	1.8	2.0	3.5	3.5	3.3	-2.5	-3.1	-3.0
India	7.3	7.3	8.0	4.9	5.9	5.4	-1.3	-0.8	-0.9	-4.1	-3.9	-3.5
Brazil	-3.8	-4.0	0.0	9.0	9.0	7.0	-3.4	-2.3	-3.0	-12.0	-10.9	-9.8
Russia	-3.8	-2.0	0.5	15.6	8.5	7.0	5.5	1.5	3.5	-5.0	-4.3	-3.0
World	**2.9**	**3.1**	**3.5**									

Source : BNP Paribas Group Economic Research / GlobalMarkets (e: Estimates & forecasts)

Financial forecasts

Interest rates		**2015**				**2016**						
End period		Q1	Q2	Q3	Q4	Q1e	Q2e	Q3e	Q4e	**2015**	**2016e**	**2017e**
US	Fed Funds	0.25	0.25	0.25	0.5	0.50-0.75	0.75-1.00	1.00-1.25	1.00-1.25	0.01	1.00-1.25	2.00-2.25
	3-month Libor $	0.27	0.28	0.33	0.61	0.88	1.13	1.25	1.38	0.61	1.38	2.25
	10-year T-notes	1.93	2.35	2.03	2.27	2.55	2.75	2.75	2.75	2.27	2.75	2.75
EMU	Refinancing rate	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
	3-month Euribor	0.02	-0.01	-0.04	-0.13	-0.20	-0.20	-0.20	-0.20	-0.13	-0.20	-0.20
	10-year Bund	0.18	0.77	0.59	0.63	0.40	0.45	0.50	0.70	0.63	0.70	1.20
	10-year OAT	0.42	1.20	0.90	0.98	0.65	0.70	0.75	1.00	0.98	1.00	1.45
	10-year BTP	1.29	2.31	1.73	1.60	1.20	1.25	1.35	1.60	1.60	1.60	2.30
UK	Base rate	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25	0.50	1.25	2.00
	3-month Libor £	0.57	0.58	0.58	0.59	0.75	1.00	1.25	1.50	0.59	1.50	2.25
	10-year Gilt	1.58	2.03	1.77	1.96	2.10	2.20	2.25	2.30	1.96	2.30	2.50
Japan	Overnight call rate	0.02	0.01	0.01	0.04	0.10	0.10	0.10	0.10	0.04	0.10	0.10
	3-month JPY Libor	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.20
	10-year JGB	0.40	0.44	0.35	0.25	0.50	0.60	0.65	0.70	0.25	0.70	0.90

Exchange rates		**2015**				**2016**						
End period		Q1	Q2	Q3	Q4	Q1e	Q2e	Q3e	Q4e	**2015**	**2016e**	**2017e**
USD	EUR / USD	1.07	1.11	1.12	1.09	1.04	1.02	1.00	1.02	1.09	1.02	1.10
	USD / JPY	120	122	120	120	128	130	134	134	120	134	135
EUR	EUR / GBP	0.72	0.71	0.74	0.74	0.69	0.69	0.67	0.67	0.74	0.67	0.73
	EUR / CHF	1.04	1.04	1.09	1.09	1.12	1.14	1.14	1.16	1.09	1.16	0.01
	EUR/JPY	129	136	134	131	133	133	134	137	131	137	149

Source : BNP Paribas Group Economic Research / GlobalMarkets (e: Estimates & forecasts)

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