



Summary

China

Public finances under pressure

The authorities are broadening their scope of action on the fiscal policy front in order to stimulate domestic demand. Government deficit and debt have increased, and if the sovereign risk remains very good, it is under mounting pressure due to the slowdown and the rise in contingent risks.

► Page 2

United States

Stripped to the core

In March, core inflation slowed a bit, for reasons that remain hard to be definitive about. Some factors plead for inflation to stabilise (oil prices, past appreciation of the USD, expectations). Others call for further improvement (the narrowing output gap, the normalising labour market).

► Page 4

Market overview

► Page 6

Summary of forecasts

► Page 7

Also in :



Explanations

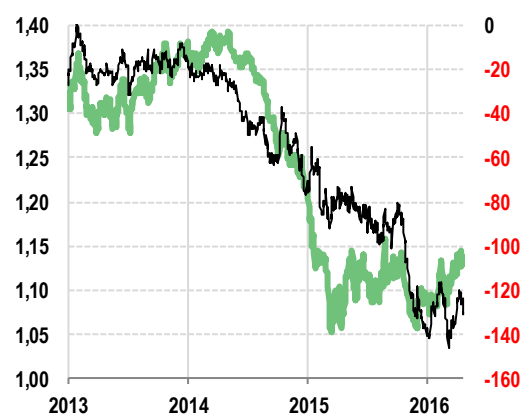
■ Mario Draghi's refutes criticism from Germany ■ "Monetary policy has been the only policy in the last four years to support growth"

Just six weeks after the ECB announced a series of large-scale measures, expectations were not particularly high concerning this week's Governing Council meeting. As it turns out, however, repeated statements by several members of the Merkel government and the Bundestag in recent days criticising ECB monetary policy and its allegedly harmful effects on the German economy and savings investors arrived just in time to liven up the press conference. Although Mario Draghi had little to say about the concept of helicopter money ("We have never discussed it within the Governing Council"), he was much vocal about the Central bank's independence and the rationale for its monetary policy. He made five points that refuted German criticism:

1) ECB policy aims to preserve price stability for the whole of the eurozone, and must not be influenced by the situation of a single country, 2) the ECB is independent and does not obey politicians, 3) all of the major economic regions responded to the economic crisis by adopting policies of very low interest rates, 4) this policy has been even longer and more aggressive in the eurozone because governments failed to shoulder their share of responsibility and undertake the necessary fiscal and structural policies leaving monetary policy to be "the only policy in the last four years to support growth", and lastly 5) whereas a polite and lively debate helps the ECB explain its policy, attempts to undermine its credibility harms the effectiveness of its actions, forcing it to extend and amplify monetary easing. A word to the wise...

SUPPORT

— EUR/USD [l.h.s.] — 2-y yield spread, Bund vs US Treasuries, basis points



Source: Thomson Reuters

THE WEEK ON THE MARKETS

Week 18-4 16 > 21-4-16

↗ CAC 40	4 495	► 4 583	+2.0 %
↗ S&P 500	2 081	► 2 091	+0.5 %
↗ Volatility (VIX)	13.6	► 14.0	+0.3 %
↗ Euribor 3M (%)	-0.25	► -0.25	+0.0 bp
↗ Libor \$ 3M (%)	0.63	► 0.64	+0.2 bp
↗ OAT 10y (%)	0.40	► 0.48	+8.1 bp
↗ Bund 10y (%)	0.13	► 0.23	+9.9 bp
↗ US Tr. 10y (%)	1.75	► 1.87	+11.8 bp
↘ Euro vs dollar	1.13	► 1.13	-0.1 %
↗ Gold (ounce, \$)	1 230	► 1 250	+1.6 %
↗ Oil (Brent, \$)	43.0	► 45.4	+5.6 %

Source: Thomson Reuters



China

Public finances under pressure

- The authorities continue to ease their monetary policy stance cautiously and broaden their scope of action on the fiscal policy front in order to stimulate domestic demand.
- Growth in investment in infrastructure projects will reaccelerate this year, especially thanks to the recovery in local governments' revenues and financing sources. Some tax cuts should help revive household consumption and corporate demand.
- Fiscal deficits have widened in recent years and public debt has increased, as the result of the growth slowdown and countercyclical policy measures.
- China's sovereign risk remains very good. Yet it is coming under mounting pressure given the country's lessening economic dynamism and the rise in contingent risks.

Economic growth has continued to slow down in early 2016 and real GDP growth stood at 6.7% year-on-year in Q1, down from 6.8% in Q4 2015. The official target range for this year's real GDP growth has been set up at 6.5% to 7%. By announcing this target at the National People's Congress (NPC) in early March, Beijing clearly expressed its intention to stabilise (and therefore boost) economic growth this year. Structural reforms aiming to improve the quality of supply, to rebalance China's growth engines and to promote more harmonious economic development are still medium-term priorities. In the short term, however, the authorities intend to foster demand through a "cautious" monetary policy easing and a more "proactive" fiscal policy¹.

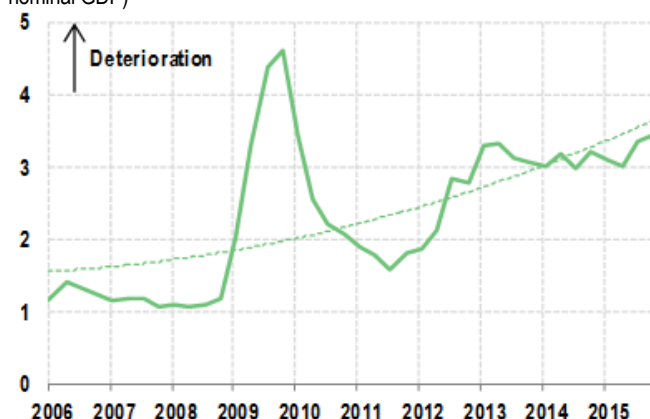
A resolutely accommodating fiscal policy

When defining countercyclical policies, the Chinese authorities have most often placed emphasis on changes in the monetary and credit policy stance, as well as on public infrastructure spending. Fiscal policy is now being given a bigger role in response not only to the severe, sustained slowdown in activity, but also to the growing risks associated with monetary easing. Corporates and local governments are already excessively indebted, and banks have had to cope with an increasingly rapid rise in non-performing loans since 2012. Consequently, the monetary authorities have to pursue a very cautious stimulus policy. They are likely to continue to prefer targeted measures aimed at directing credit towards certain sectors. Yet even a mild growth acceleration in total social financing will lead to further increase in the total domestic debt-to-GDP ratio (already above 200% at year-end 2015). This will prevent any clean-up efforts in the corporate sector (especially by state-owned enterprises) and any reduction in credit risks in the financial system, especially if the monetary policy stimulus is accompanied by another deterioration in credit efficiency (see graph 1).

¹ See « China: Priority on stabilising growth », EcoWeek, 18 March 2016.

■ Deterioration in the efficiency of domestic credit*

— Credit efficiency (change in the stock of total social financing / change in nominal GDP)



* Amount of credit (social financing) needed to generate one point of GDP.

Chart1

Sources: NBS, BNP Paribas

Faced with this situation, the government broadened its scope of action on the fiscal policy front. Growth in investment in infrastructure projects, which has long played a macroeconomic stabilising role in China, is likely to accelerate in 2016. In 2015, the financial difficulties of local governments contributed to the slowdown in infrastructure investment (+17% in nominal terms, down from 20% in 2014). This year, local governments should benefit from a rebound in revenues from land sales (following their collapse in 2015), from lower debt servicing charges (thanks to programmes to swap bank loans for less costly bond issues), and from a better access to financing sources (after the period of tightening that followed the adoption of the new budget law in late 2014). The government also intends to promote financing of infrastructure projects via public policy banks as well as via public-private partnerships.

In addition, some tax cuts have already been introduced and other measures are planned in the short term, in order to stimulate household consumption and reduce corporate costs. The government is also continuing a reform to gradually introduce VAT in all sectors. By replacing the current sales-based tax system with one based on value-added, the reform should encourage the search for profits, and at the same time reduce the tax burden on corporates.

Widening fiscal deficits...

During the NPC, the authorities unveiled a series of economic policy objectives for 2016. On the fiscal front, they are calling for an increase in the "target" fiscal deficit to CNY 560 bn, or 3% of GDP. By announcing the largest fiscal deficit ever targeted in China, the government is clearly signalling its determination to make greater use of its fiscal manoeuvring room. Actually, the new tax measures combined with the strengthening in infrastructure spending will



further strengthen the easing of the fiscal policy stance, which has already been in expansionary mode since 2012 (fiscal policy was tightened in 2010-2011 after a huge stimulus package was implemented in response to the late 2008 global shock). As a result, the fiscal deficit target, which is announced at the beginning of each year and signals the policy stance, has been gradually increased, from 1.5% of GDP for 2012 to 3% for 2016.

An “actual” fiscal deficit is also reported (its definition is not exactly identical to the “target” deficit, which limits comparisons between the two). The actual fiscal deficit rose from 1.6% of GDP in 2012 to 3.5% in 2015. Growth in fiscal revenues has continuously slowed down since 2012 and reached 8.4% in 2015. This figure includes certain special state funds, previously considered off budget and now integrated in government accounts, and without which it would have been lower. Fiscal revenues (over 80% of which come from taxes) remained close to 22% of GDP in 2015 (which is very moderate compared to advanced economies). Growth in total government expenditure also slowed down in 2012-2014, but to a lesser extent than revenues. Growth in infrastructure investment (which is largely off budget) picked up at the same time. In 2015, growth in government expenditure included in the official budget rebounded (+15.8%, vs. 8.3% in 2014), as the government partially compensated for the financial troubles of local governments (traditionally responsible for infrastructure projects) in order to support continued public investment growth (which yet decelerated last year).

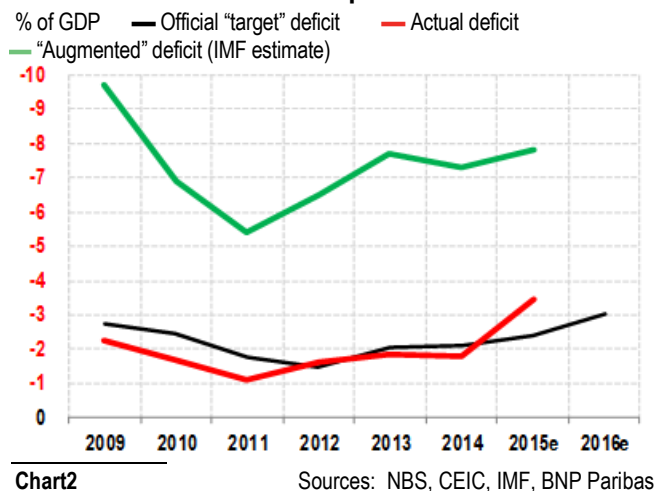
Official budget statements published by the authorities in fact report only part of local governments’ activities. The IMF publishes its estimate of China’s “augmented” fiscal deficit, which probably provides a better picture of the country’s actual fiscal performance. The IMF revises the official targeted fiscal balance by adding state and social security funds, and then “off-budget” revenues and expenditures of local governments (land sales, infrastructure investment). In the end, the total augmented deficit, i.e. the net financing needs of the entire general government, was estimated at 7.3% of GDP in 2014, compared to 6.5% in 2012. It is likely to near 8% in 2015 (see graph 2). This highlights China’s rather poor fiscal performance of local governments on the whole.

... increasing public debt and rising contingent risks

Public finances have been hit by the economic slowdown and the countercyclical fiscal policy implemented over the past four years. Deficits have risen and the total general government debt has swelled. However, a distinction must be made between the central government and local governments. Central government debt is still very moderate at about 20% of GDP, and debt dynamics are not worrying. Local government debt, in contrast, is much more alarming.

It has increased rapidly in recent years, first in 2009 due to the post-crisis stimulus package, and then since 2012 due to the strong rise in infrastructure investment (largely debt financed). Local government debt rose from less than 20% of GDP in 2007-2008 to an estimated 38% in 2015. At the same time, the debt servicing capacity of local governments has eroded, as the projects that have been financed proved to be either not profitable enough or not profitable early enough. Local governments’ revenues have also eroded due to the

A rather mediocre fiscal performance



economic slowdown and to the downturn in the real estate market from late 2013 to 2015.

China’s sovereign risk is seen as very low, notably thanks to the moderate levels of central government deficits and debt, easy access to financing (mostly domestic) and the government’s large asset holdings (including foreign exchange reserves). Yet sovereign risk is coming under increasing pressure due to the economic slowdown and to the rise in contingent risks. These contingent risks can be attributed to the excessive debt of local governments and state-owned enterprises, which the central government may have to support if necessary, and to high credit risks in the financial sector. Moreover, the authorities are giving short-term priority to stabilising growth, at the risk of delaying needed structural reforms aiming to restructure state-owned enterprises, improve the finances of local governments and clean up the financial system. In this context, two main credit rating agencies have recently revised their outlook on China’s long-term foreign-currency sovereign ratings (of Aa3 for Moody’s and AA- for Standards & Poor’s) to negative from stable.



United States

Stripped to the core

- After months of acceleration, core inflation slowed down a bit. On the one hand, it could be the result of base effects. On the other hand, the acceleration period could have been the result of temporary factors.
- In the recent past, inflation already recorded a short-lived acceleration. That experience explains the prudence of the Fed before crying victory.
- Some factors plead for inflation to remain at current levels (oil prices, past appreciation of the USD, expectations). Others call for further improvement (the narrowing output gap, the normalising labour market).

Lately, inflation seems to have accelerated in the US. This is the message from several measures. For Janet L. Yellen, the Fed's Chair, doubts remain about the sustainability of that development: "It is too early to tell if this recent faster pace will prove durable"¹. The challenge is indeed to know whether the acceleration is "the" one that has been awaited for so long – the Fed has been missing its 2% inflation target for the last 46 months² – or if the development only mirrors what happened in 2011-2013, when the upward trend proved short-lived. The question is all the more open as inflation appears to have slowed a bit in March.

Between January 2011 and March 2012, inflation went up from 1% to 2.3% (year-on-year). This acceleration was partially artificial due to weak monthly price inflation in 2010, which illustrates the bell profile of core inflation between 2011 and 2013. Month on month, core prices increased slightly faster in 2011 (and early 2012), but more or less at the same pace as in 2009. Yet monthly trends were so weak in 2010 that they created a strong base effect in 2011, resulting in an apparently strong acceleration in annual inflation. Once these base effects were eliminated, annual inflation decelerated again.

To isolate the trend from fluctuations, economists usually rely on "core" measures. The most used is the one that excludes food and energy, as those prices are both volatile and dependent on factors monetary policy cannot influence. Other measures exist, such as "trimmed-mean" indexes. Such measures do not exclude the same indices from one month to the other, but each month the ones that experience the strongest developments, either up or down. For instance, the trimmed-mean PCE inflation rate from the Dallas Fed excludes 24% of the weight from the lower tail and 31% of the weight in the upper tail. For some years, we have been using our own

¹ "The Outlook, Uncertainty, and Monetary Policy", Janet L. Yellen, Speech at the Economic Club of New York, March 29th, 2016.

² In the US, there are two main sets of inflation data. The Consumer Price Index (CPI) from the US Bureau of Labor Statistics and the price index for Personal Consumption Expenditure (PCE). The latter is the one targeted by the Fed, at 2% in the medium-term.

With or without (y/y, %)

— Consumer price index ; — Excluding food and energy

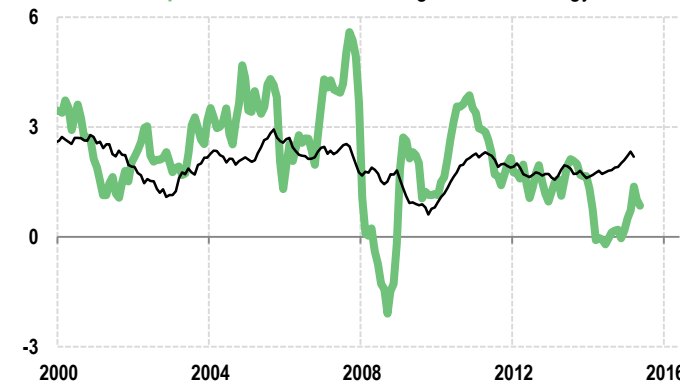


Chart 1

Source: US Bureau of Labor Statistics

Several cores

— Core CPI ; — "Augmented"-core CPI ; — Market-based core PCE

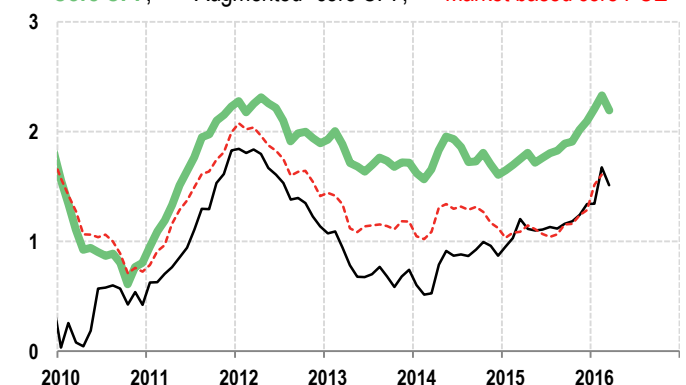


Chart 2

Sources: BEA, BLS, BNP Paribas Economic Research

measure, the "augmented-core", which is built using the Bank of Canada's definition of core inflation with US data³.

A few weeks ago, our London colleagues came up with another idea: the "core-core" index⁴. The idea is to build an index that is mostly driven by domestic demand and wages. Excluding food and energy – which prices are highly dependent on international financial markets, geopolitics and/or the climate – does not completely strip inflation measures from non-domestic developments as some goods have a high import content, some are strongly, even if indirectly, linked to energy prices (transport). Finally, the price of some goods and

³ The index excludes from the CPI price indices of: fruit, vegetables, gasoline, fuel oil, natural gas, homeowner equivalent rent of primary residence, inter-city transportation and tobacco products.

⁴ "Eurozone inflation : at the core of the core", Clemente De Lucia, Gizem Kara and Luigi Speranza, BNP Paribas Global Markets, March 18th, 2016.



services can be influenced by the government (which is probably more the case in Europe than in the US).

To decide on which prices to exclude from the core CPI, we run regressions for each sub-component. The ones showing the strongest relations with the output gap are then aggregated, using the correlation coefficients to determine the weights. Our core-core CPI covers a bit less of 50% of the overall CPI components, confirming that domestic prices, even if sensitive to the output gap, also are dependent on other factors. They are: 1/ the value of the dollar, which affects the price of imported goods as well as of goods which production, even if domestic, is import-intensive, 2/ the price of energy, 3 /food prices, to a lesser extent.

As for the bell-shape development in prices that occurred between early 2011 and mid-2013, our core-core index suggests the output gap played a key role. Indeed, the narrowing of the output gap markedly accelerated to then slow down abruptly, and the core-core CPI index followed the same path. On top of that phenomenon, oil prices surged in early 2011, pulling inflation expectations. But in the meantime, wages remained soft, and that could be the reason why the acceleration in prices failed to be sustained. During that period, the purchasing power of one hour earnings (of non-supervisory production workers of the private sector) was essentially flat to decelerate markedly in early 2013 when the payroll tax rates gained 2 percentage points.

Thanks to recent monetary policy decisions from both the ECB and the Fed, the appreciation of the dollar did not just stop, it also reversed part of the previous increase, and stabilised. In real trade-weighted terms, the dollar had gained almost 20% between July 2014 and January 2016. As of March 2016, it was down by 3% from its peak. The correction is not huge, but enough to mark the brake of a trend, which is key for exporters and importers to adapt accordingly their pass-through decisions. The price of oil remains a risk, though. Together with the dollar, it seemed having reached a floor in end February. On the 11th, the West Texas Intermediate was at an all-time low of USD 26.14 per barrel (bbl). Since then, it rebounded, reaching USD 42.12/bbl on April the 12th. Still, the outlook is uncertain, as shown by the renewed downward pressures following the inability of the OPEC countries to agree on a production quotas.

As for wages, there has been some acceleration, even if the trend could be running out of steam. Hourly earnings for non-supervisory production workers of the private sector were up by a limited 1.6% y/y in early 2015. A year later, that rate was 2.5%. Still, that momentum was absent of February and March data, and the year-on-year gain slowed to 2.3%. There are, however, reasons for optimism, as the unemployment rate is now within the estimate range for the NAIRU (Non-Accelerating Inflation Rate of Unemployment). Even if the 4%-trend of the late 1990s or early 2000s should not be expected anytime soon, the normalisation of the labour market is indeed getting obvious, as illustrated by our SLACK Index⁵.

⁵ 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

The core of the core

— Output gap (% of potential GDP) ; — Core-core Index (r.h.s., y/y, %)

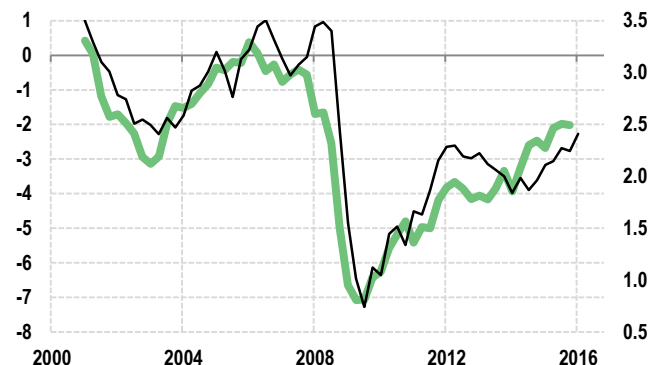


Chart 3

Sources: BLS, CBO, BNP Paribas Economic Research

Income matters

— Purchasing power of 1 hour worked net of the payroll tax (non-supervisory production workers, private sector, 2009 USD)

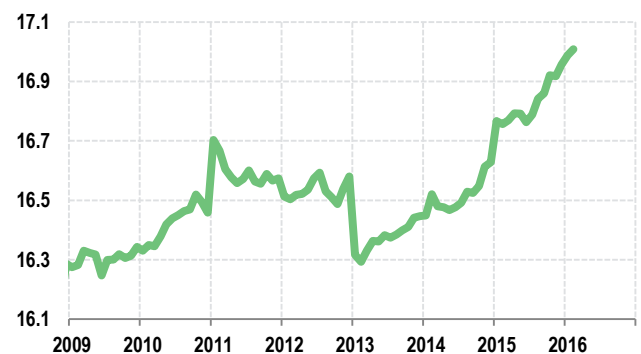


Chart 4

Sources: BEA, BLS, BNP Paribas Economic Research

Normalisation of labour

— SLACK Index ; — Pre-2007 fluctuation range

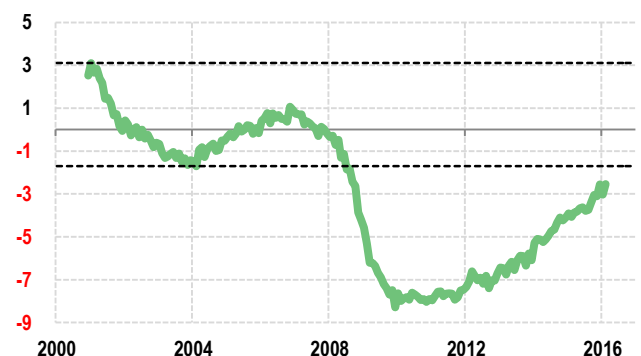


Chart 5

Sources: BLS, BNP Paribas Economic Research

to Promote a Stronger Job Market", 2014 National Interagency Community Reinvestment Conference, Chicago, 31 March 2014): the 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.



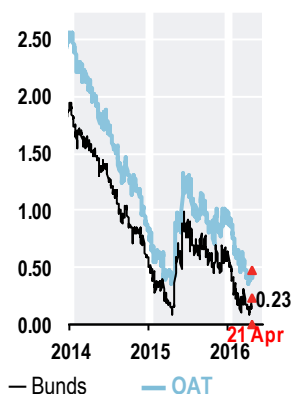
Markets overview

The essentials

Week 18-4-16 > 21-4-16

➤ CAC 40	4 495	➤ 4 583	+2.0 %
➤ S&P 500	2 081	➤ 2 091	+0.5 %
➤ Volatility (VIX)	13.6	➤ 14.0	+0.3 %
➤ Euribor 3M (%)	-0.25	➤ -0.25	+0.0 bp
➤ Libor \$ 3M (%)	0.63	➤ 0.64	+0.2 bp
➤ OAT 10y (%)	0.40	➤ 0.48	+8.1 bp
➤ Bund 10y (%)	0.13	➤ 0.23	+9.9 bp
➤ US Tr. 10y (%)	1.75	➤ 1.87	+11.8 bp
➤ Euro vs dollar	1.13	➤ 1.13	-0.1 %
➤ Gold (ounce, \$)	1 230	➤ 1 250	+1.6 %
➤ Oil (Brent, \$)	43.0	➤ 45.4	+5.6 %

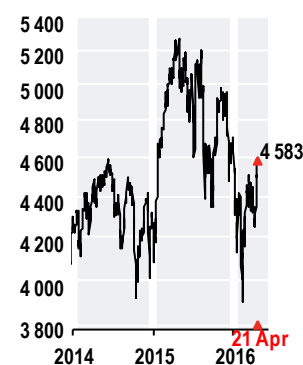
10 y bond yield, OAT vs Bund



Euro-dollar



CAC 40



Money & Bond Markets

Interest Rates		highest' 16		lowest' 16	
€ ECB	0.00	0.05	at 01/01	0.00	at 16/03
Eonia	-0.34	-0.13	at 01/01	-0.35	at 24/03
Euribor 3M	-0.25	-0.13	at 01/01	-0.25	at 11/04
Euribor 12M	-0.01	0.06	at 01/01	-0.03	at 04/03
\$ FED	0.50	0.50	at 01/01	0.50	at 01/01
Libor 3M	0.64	0.64	at 15/03	0.61	at 04/01
Libor 12M	1.22	1.24	at 16/03	1.12	at 12/02
£ BoE	0.50	0.50	at 01/01	0.50	at 01/01
Libor 3M	0.59	0.59	at 15/02	0.58	at 08/03
Libor 12M	1.02	1.07	at 01/01	0.98	at 12/02

At 21-4-16

Yield (%)		highest' 16		lowest' 16	
€ AVG 5-7y	0.26	0.49	at 12/01	0.16	at 01/03
Bund 2y	-0.49	-0.34	at 01/01	-0.56	at 03/03
Bund 10y	0.23	0.63	at 01/01	0.09	at 07/04
OAT 10y	0.48	0.98	at 01/01	0.36	at 05/04
Corp. BBB	1.76	2.50	at 20/01	1.74	at 20/04
\$ Treas. 2y	0.82	1.06	at 01/01	0.64	at 11/02
Treas. 10y	1.87	2.27	at 01/01	1.64	at 11/02
Corp. BBB	3.72	4.50	at 12/02	3.71	at 19/04
£ Treas. 2y	0.46	0.65	at 01/01	0.28	at 08/02
Treas. 10y	1.58	1.96	at 01/01	1.28	at 11/02

At 21-4-16

10y bond yield & spreads

8.79%	Greece	855 pb
3.03%	Portugal	279 pb
1.60%	Spain	136 pb
1.53%	Italy	129 pb
0.67%	Ireland	43 pb
0.60%	Belgium	36 pb
0.53%	Finland	29 pb
0.48%	France	24 pb
0.44%	Netherlands	20 pb
0.41%	Austria	18 pb
0.23%	Germany	

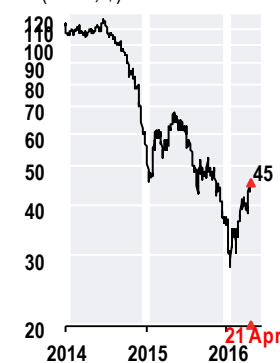
Commodities

Spot price in dollars		lowest' 16		2016(€)	
Oil, Brent	45	28	at 20/01	+22.2%	
Gold (ounce)	1 250	1 062	at 01/01	+13.2%	
Metals, LMEX	2 377	2 049	at 12/01	+3.8%	
Copper (ton)	5 014	4 328	at 15/01	+2.5%	
CRB Foods	364	329	at 11/01	+4.6%	
wheat (ton)	185	146	at 04/01	+15.5%	
Corn (ton)	146	134	at 31/03	+1.9%	

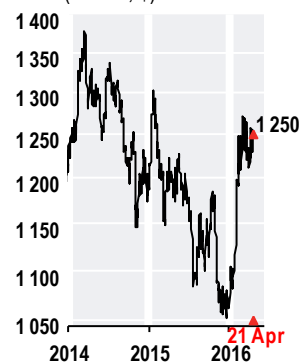
At 21-4-16

Variations

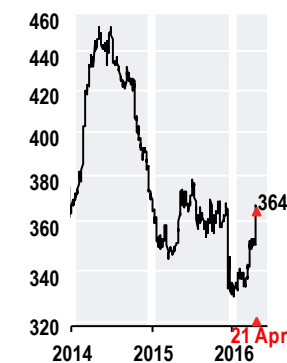
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



Exchange Rates

1€ =		highest' 16		lowest' 16		2016	
USD	1.13	1.14	at 11/04	1.07	at 05/01	+3.9%	
GBP	0.79	0.81	at 08/04	0.73	at 05/01	+6.8%	
CHF	1.10	1.11	at 04/02	1.08	at 29/02	+1.0%	
JPY	123.57	131.84	at 01/02	122.54	at 24/02	-5.4%	
AUD	1.45	1.60	at 11/02	1.45	at 20/04	-2.7%	
CNY	7.31	7.45	at 11/02	6.99	at 05/01	+3.7%	
BRL	3.98	4.53	at 16/02	3.94	at 14/04	-7.3%	
RUB	74.48	91.22	at 11/02	73.98	at 13/04	-6.1%	
INR	74.92	77.50	at 11/02	71.42	at 05/01	+4.3%	

At 21-4-16

Variations

Equity indices

Index		highest' 16		lowest' 16		2016	2016(€)
CAC 40	4 583	4 637	at 01/01	3 897	at 11/02	-1.2%	-1.2%
S&P500	2 091	2 102	at 20/04	1 829	at 11/02	+2.3%	-1.5%
DAX	10 436	10 743	at 01/01	8 753	at 11/02	-2.9%	-2.9%
Nikkei	17 364	19 034	at 01/01	14 953	at 12/02	-8.8%	-3.5%
China*	58	59	at 01/01	48	at 12/02	-1.7%	-5.5%
India*	454	460	at 01/01	393	at 11/02	-0.9%	-4.9%
Brazil*	1 414	1 414	at 21/04	860	at 21/01	+21.8%	+31.3%
Russia*	496	501	at 20/04	331	at 20/01	+13.0%	+18.0%

At 21-4-16

Variations

* Indices MCSI



Economic forecasts

En %	GDP Growth			Inflation			Curr. account / GDP			Fiscal balances / GDP		
	2015	2016 e	2017 e	2015	2016 e	2017 e	2015	2016 e	2017 e	2015	2016 e	2017 e
Advanced	1.9	1.6	1.4	0.3	0.6	1.7						
United States	2.4	1.6	1.5	0.1	1.3	2.1	-2.7	-2.8	-2.9	-2.5	-3.2	-3.2
Japan	0.5	0.3	0.2	0.5	0.1	1.8	3.3	3.6	3.3	-4.6	-3.7	-3.2
United Kingdom	2.3	1.7	2.0	0.1	0.6	1.8	-4.5	-4.8	-3.8	-4.1	-3.0	-2.2
Euro Area	1.5	1.3	1.4	0.0	-0.1	1.1	3.0	2.6	2.5	-2.2	-2.0	-1.7
Germany	1.4	1.4	1.5	0.1	-0.1	1.4	8.1	7.7	7.6	0.7	0.3	0.3
France	1.2	1.2	1.3	0.1	0.2	1.1	-0.1	-0.1	-0.8	-3.5	-3.4	-3.2
Italy	0.6	1.0	0.9	0.1	-0.0	0.9	2.1	2.0	2.0	-2.7	-2.8	-2.3
Spain	3.2	2.6	2.1	-0.6	-0.8	1.0	0.9	0.6	0.5	-5.2	-3.8	-2.7
Netherlands	2.0	1.8	1.6	0.2	0.3	1.1	9.6	8.7	8.5	-1.8	-2.0	-1.8
Belgium	1.4	1.3	1.6	0.6	0.5	1.6	0.8	1.4	1.7	-2.7	-2.7	-2.5
Portugal	1.5	1.5	1.5	0.5	0.3	1.2	1.0	1.2	1.4	-4.1	-3.0	-2.5
Emerging	4.1	4.1	4.6	6.0	6.4	5.4						
China	6.9	6.4	6.1	1.4	1.5	1.7	2.8	3.1	2.2	-2.4	-3.0	-3.3
India	7.3	7.9	8.1	4.9	5.8	5.2	-1.3	-0.6	-0.6	-4.1	-3.9	-3.5
Brazil	-3.8	-4.0	0.0	9.0	9.1	7.3	-3.3	-1.0	-1.1	-10.3	-8.4	-8.2
Russia	-3.7	-1.8	0.6	15.6	7.9	6.8	5.4	2.8	7.4	-3.7	-5.3	-4.7
World	3.1	3.0	3.2	3.6	3.9	3.8						

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

Financial forecasts

Interest rates		2015				2016						
End period		Q1	Q2	Q3	Q4	Q1	Q2e	Q3e	Q4e	2015	2016e	2017e
US	Fed Funds	0.25	0.25	0.25	0.5	0.5	0.25-0.50	0.25-0.50	0.25-0.50	0.01	0.25-0.50	0.25-0.50
	3-month Libor \$	0.27	0.28	0.33	0.61	0.63	0.70	0.70	0.70	0.61	0.70	1.05
	10-year T-notes	1.93	2.35	2.03	2.27	1.79	1.75	1.65	1.50	2.27	1.50	1.75
EMU	Refinancing rate	0.05	0.05	0.05	0.05	0.00	0.00	0.00	0.00	0.05	0.00	0.00
	3-month Euribor	0.02	-0.01	-0.04	-0.13	-0.24	-0.30	-0.30	-0.30	-0.13	-0.30	-0.30
	10-year Bund	0.18	0.77	0.59	0.63	0.16	0.20	0.00	-0.20	0.63	-0.20	-0.20
	10-year OAT	0.42	1.20	0.90	0.98	0.41	0.50	0.30	0.10	0.98	0.10	0.10
	10-year BTP	1.29	2.31	1.73	1.60	1.23	1.45	1.25	0.95	1.60	0.95	0.80
UK	Base rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	1.00
	3-month Libor £	0.57	0.58	0.58	0.59	0.59	0.75	0.75	0.75	0.59	0.75	1.25
	10-year Gilt	1.58	2.03	1.77	1.96	1.42	1.40	1.47	1.50	1.96	1.50	1.80
Japan	Overnight call rate	0.02	0.01	0.01	0.04	-0.00	-0.30	-0.30	-0.30	0.04	-0.30	-0.50
	3-month JPY Libor	0.17	0.17	0.17	0.17	0.10	-0.30	-0.30	-0.30	0.17	-0.30	-0.50
	10-year JGB	0.40	0.44	0.35	0.25	-0.04	-0.35	-0.35	-0.35	0.25	-0.35	-0.50

Exchange rates		2015				2016						
End period		Q1	Q2	Q3	Q4	Q1	Q2e	Q3e	Q4e	2015	2016e	2017e
USD	EUR / USD	1.07	1.11	1.12	1.09	1.14	1.16	1.15	1.14	1.09	1.14	1.05
	USD / JPY	120	122	120	120	112	108	110	115	120	115	124
EUR	EUR / GBP	0.72	0.71	0.74	0.74	0.79	0.77	0.74	0.72	0.74	0.72	0.68
	EUR / CHF	1.04	1.04	1.09	1.09	1.09	1.14	1.14	1.16	1.09	1.16	0.01
	EUR/JPY	129	136	134	131	128	125	127	131	131	131	130

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



Most recent articles

APRIL	15 April	16-15	United States: Potential problem France: Fiscal targets maintained Brazil: Rebuilding confidence for a fresh start
	08 April	16-14	United States: Already over? Japan: Gloomy Tankan
	01 April	16-13	United States: You don't change a winning team Japan: The year starts off slowly France: Significant reduction in the 2015 fiscal deficit
MARCH	25 March	16-12	France: A slow but unobstructed recovery Netherlands: Getting its house in order
	18 March	16-11	China: Priority on stabilising growth United States: Safety first Spain: Deadlocked
	11 March	16-10	United States: Risk management Eurozone: The ECB changes gear
	04 March	16-09	Germany: Inflation back in negative territory France: Unemployment declines: the first in a series?
FEBRUARY	26 February	16-08	United States: Household blues? Germany: Businesses on red alert France: Confidence shaken
	19 February	16-07	United States: Positive signs Eurozone: A lower growth profile Ireland: General election against a background of economic recovery
	12 February	16-06	United States: If labour was the only criterion... Portugal: Still needs to prove its worth
	05 February	16-05	Eurozone: Oil and inflation: between rounds United Kingdom: With love from him to them Saudi Arabia: Time to accelerate reforms
JANUARY	29 January	16-04	Germany: A sluggish start France: Investment, the new growth engine? Brazil: No remission expected in the short term
	22 January	16-03	China: Put to the test United States: What about inflation? Greece: When can we expect to see growth?
	15 January	16-02	United States: If wishes were horses... Eurozone: Negative deposit facility rate and lending France: Growth blew hot and cold in late 2015
	08 January	16-01	United States: Cool Hand Stan Emerging countries: Country risk mapping
DECEMBER	18 December	15-45	United States: The Force awakens Eurozone: ECB: Calibrating support Global: COP21, key points of a historic climate agreement
	11 December	15-44	United States: Janet's wager France: Inflation is not responding
	04 December	15-43	United States: Rhythm Matters France: Unemployment keeps rising Argentina: Towards a responsible management
NOVEMBER	27 November	15-42	United States: Consumers strike back France: Confidence held up in November Germany:
	20 November	15-41	United States: Slow and steady wins the race France: The growth rebound is confirmed but it lacks momentum Turkey: Corporates: the weak link
	13 November	15-40	Eurozone: Fiscal tensions Poland: Conservative right promises



BNP PARIBAS

The bank
for a changing
world

Group Economic Research

■ **William DE VIJDER**
Chief Economist

+33(0)1 55 77 47 31

william.devijlder@bnpparibas.com

ADVANCED ECONOMIES AND STATISTICS

■ **Jean-Luc PROUTAT**
Head

+33(0)1 58.16.73.32

jean-luc.proutat@bnpparibas.com

■ **Alexandra ESTIOT**

Works coordination - United States - United Kingdom - Globalisation

+33(0)1 58.16.81.69

alexandra.estiot@bnpparibas.com

■ **Hélène BAUDCHON**

France (short-term outlook and forecasts) - Labour markets

+33(0)1 58.16.03.63

helene.baudchon@bnpparibas.com

■ **Frédérique CERISIER**

Euro Area - European Institutions and governance - Public finances

+33(0)1 43.16.95.52

frederique.cerisier@bnpparibas.com

■ **Thibault MERCIER**

France (structural reforms) - European central bank

+33(0)1 57.43.02.91

thibault.mercier@bnpparibas.com

■ **Caroline NEWHOUSE**

Japan, Ireland, Scandinavia - Ageing, pensions - Consumption

+33(0)1 43.16.95.50

caroline.newhouse@bnpparibas.com

■ **Catherine STEPHAN**

Spain, Portugal - World trade - Education, health, social conditions

+33(0)1 55.77.71.89

catherine.stephan@bnpparibas.com

■ **Raymond VAN DER PUTTEN**

Germany, Netherlands, Austria, Switzerland - Energy, climate - Long-term projections

+33(0)1 42.98.53.99

raymond.vanderputten@bnpparibas.com

■ **Tarik RHARRAB**

Statistics and Modelling

+33(0)1 43.16.95.56

tarik.rharrab@bnpparibas.com

BANKING ECONOMICS

■ **Laurent QUIGNON**

Head

+33(0)1 42.98.56.54

laurent.quignon@bnpparibas.com

■ **Céline CHOULET**

+33(0)1 43.16.95.54

celine.choulet@bnpparibas.com

■ **Laurent NAHMIA**

+33(0)1 42.98.44.24

laurent.nahmias@bnpparibas.com

EMERGING ECONOMIES AND COUNTRY RISK

■ **François FAURE**
Head

+33(0)1 42 98 79 82

francois.faure@bnpparibas.com

■ **Christine PELTIER**

Deputy Head - Greater China, Vietnam - Methodology

+33(0)1 42.98.56.27

christine.peltier@bnpparibas.com

■ **Stéphane ALBY**

Africa (French-speaking countries)

+33(0)1 42.98.02.04

stephane.alby@bnpparibas.com

■ **Sylvain BELLEFONTAINE**

Turkey, Brazil, Mexico, Central America - Methodology

+33(0)1 42.98.26.77

sylvain.bellefontaine@bnpparibas.com

■ **Sara CONFALONIERI**

Africa (English and Portuguese speaking countries)

+33(0)1 42.98.74.26

sara.confalonieri@bnpparibas.com

■ **Pascal DEVAUX**

Middle East, Balkan countries - Scoring

+33(0)1 43.16.95.51

pascal.devaux@bnpparibas.com

■ **Anna DORBEC**

CIS, Central European countries

+33(0)1 42.98.48.45

anna.dorbec@bnpparibas.com

■ **Hélène DROUOT**

Asia

+33(0)1 42.98.33.00

helene.drouot@bnpparibas.com

■ **Johanna MELKA**

Asia, Russia

+33(0)1 58.16.05.84

johanna.melka@bnpparibas.com

■ **Alexandra WENTZINGER**

South America, Caribbean countries

+33(0)1 42 98 74 26

alexandra.wentzinger@bnpparibas.com

■ **Michel BERNARDINI**
Public Relation Officer

+33(0)1 42.98.05.71

michel.bernardini@bnpparibas.com



BNP PARIBAS

The bank
for a changing
world

OUR PUBLICATIONS



CONJONCTURE

Structural or in the news flow, two issues analysed in depth



EMERGING

Analyses and forecasts for a selection of emerging economies



PERSPECTIVES

Analyses and forecasts for the main countries, emerging or developed



ECOFLASH

Data releases, major economic events. Our detailed views...



ECOWEEK

Weekly economic news and much more...



ECOTV

In this monthly webTV, our economists make sense of economic news



ECOTV WEEK

What is the main event this week? The answer is in your two minutes of economy

The information and opinions contained in this report have been obtained from, or are based on, public sources believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate, complete or up to date and it should not be relied upon as such. This report does not constitute an offer or solicitation to buy or sell any securities or other investment. It does not constitute investment advice, nor financial research or analysis. Information and opinions contained in the report are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient; they are subject to change without notice and not intended to provide the sole basis of any evaluation of the instruments discussed herein. Any reference to past performance should not be taken as an indication of future performance. To the fullest extent permitted by law, no BNP Paribas group company accepts any liability whatsoever (including in negligence) for any direct or consequential loss arising from any use of or reliance on material contained in this report. All estimates and opinions included in this report are made as of the date of this report. Unless otherwise indicated in this report there is no intention to update this report. BNP Paribas SA and its affiliates (collectively "BNP Paribas") may make a market in, or may, as principal or agent, buy or sell securities of any issuer or person mentioned in this report or derivatives thereon. BNP Paribas may have a financial interest in any issuer or person mentioned in this report, including a long or short position in their securities and/or options, futures or other derivative instruments based thereon. Prices, yields and other similar information included in this report are included for information purposes. Numerous factors will affect market pricing and there is no certainty that transactions could be executed at these prices. BNP Paribas, including its officers and employees may serve or have served as an officer, director or in an advisory capacity for any person mentioned in this report. BNP Paribas may, from time to time, solicit, perform or have performed investment banking, underwriting or other services (including acting as adviser, manager, underwriter or lender) within the last 12 months for any person referred to in this report. BNP Paribas may be a party to an agreement with any person relating to the production of this report. BNP Paribas may, to the extent permitted by law, have added upon or used the information contained herein, or the research or analysis on which it was based, before its publication. BNP Paribas may receive or intend to seek compensation for investment banking services in the next three months from or in relation to any person mentioned in this report. Any person mentioned in this report may have been provided with sections of this report prior to its publication in order to verify its factual accuracy.

BNP Paribas is incorporated in France with limited liability. Registered Office: 16 Boulevard des Italiens, 75009 Paris. This report was produced by a BNP Paribas group company. This report is for the use of intended recipients and may not be reproduced (in whole or in part) or delivered or transmitted to any other person without the prior written consent of BNP Paribas. By accepting this document you agree to be bound by the foregoing limitations.

Certain countries within the European Economic Area:

This report has been approved for publication in the United Kingdom by BNP Paribas London Branch. BNP Paribas London Branch is authorised and supervised by the Autorité de Contrôle Prudentiel and authorised and subject to limited regulation by the Financial Services Authority. Details of the extent of our authorisation and regulation by the Financial Services Authority are available from us on request.

This report has been approved for publication in France by BNP Paribas SA. BNP Paribas SA is incorporated in France with limited liability and is authorised by the Autorité de Contrôle Prudentiel (ACP) and regulated by the Autorité des Marchés Financiers (AMF). Its head office is 16, boulevard des Italiens 75009 Paris, France.

This report is being distributed in Germany either by BNP Paribas London Branch or by BNP Paribas Niederlassung Frankfurt am Main, a branch of BNP Paribas S.A. whose head office is in Paris, France. BNP Paribas S.A. – Niederlassung Frankfurt am Main, Europa Allee 12, 60327 Frankfurt is authorised and supervised by the Autorité de Contrôle Prudentiel and it is authorised and subject to limited regulation by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

United States: This report is being distributed to US persons by BNP Paribas Securities Corp., or by a subsidiary or affiliate of BNP Paribas that is not registered as a US broker-dealer. BNP Paribas Securities Corp., a subsidiary of BNP Paribas, is a broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority and other principal exchanges. BNP Paribas Securities Corp. accepts responsibility for the content of a report prepared by another non-U.S. affiliate only when distributed to U.S. persons by BNP Paribas Securities Corp.

Japan: This report is being distributed in Japan by BNP Paribas Securities (Japan) Limited or by a subsidiary or affiliate of BNP Paribas not registered as a financial instruments firm in Japan, to certain financial institutions defined by article 17-3, item 1 of the Financial Instruments and Exchange Law Enforcement Order. BNP Paribas Securities (Japan) Limited is a financial instruments firm registered according to the Financial Instruments and Exchange Law of Japan and a member of the Japan Securities Dealers Association and the Financial Futures Association of Japan. BNP Paribas Securities (Japan) Limited accepts responsibility for the content of a report prepared by another non-Japan affiliate only when distributed to Japanese based firms by BNP Paribas Securities (Japan) Limited. Some of the foreign securities stated on this report are not disclosed according to the Financial Instruments and Exchange Law of Japan.

Hong Kong: This report is being distributed in Hong Kong by BNP Paribas Hong Kong Branch, a branch of BNP Paribas whose head office is in Paris, France. BNP Paribas Hong Kong Branch is registered as a Licensed Bank under the Banking Ordinance and regulated by the Hong Kong Monetary Authority. BNP Paribas Hong Kong Branch is also a Registered Institution regulated by the Securities and Futures Commission for the conduct of Regulated Activity Types 1, 4 and 6 under the Securities and Futures Ordinance.

Some or all the information reported in this document may already have been published on <https://globalmarkets.bnpparibas.com>

© BNP Paribas (2015). All rights reserved.

You can read and watch our analyses
on Eco news, our iPad and Android application



<http://economic-research.bnpparibas.com>

© BNP Paribas (2015). All rights reserved.

Prepared by Economic Research – BNP PARIBAS
Registered Office: 16 boulevard des Italiens – 75009 PARIS
Tel : +33 (0) 1.42.98.12.34
Internet : www.bnpparibas.com - www.economic-research.bnpparibas.com

Publisher: Jean Lemerre
Editor: William De Vijlder