



Summary

Germany

Infrastructure under threat

The quality of Germany's infrastructure is deteriorating because of lack of spending. In particular, the municipalities have reduced their investments.

► Page 2

Greece

Another try

The Eurogroup meeting held earlier this week failed to reach a political agreement. A solution will eventually be found as each party makes concessions, although the size of these efforts has yet to be determined.

► Page 4

Market overview

► Page 6

Summary of forecasts

► Page 7

A retrouver dans



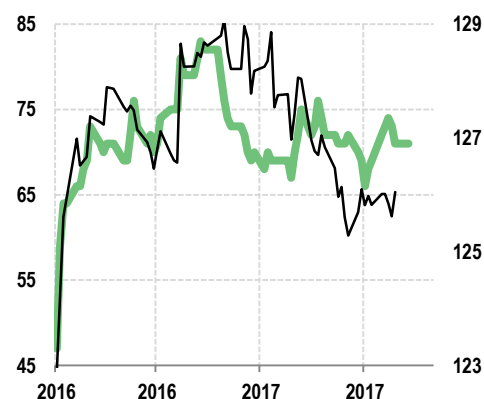
The Fed knows it knows nothing

■ FOMC members underscore the uncertainty looming over fiscal policy ■ When in doubt, abstain?

Reading the minutes of FOMC meetings often gives rise to semantic debate: does "many" mean more than "several"? Does the word "participants" encompass more people than "members"? These are legitimate questions. Keep in mind that the responses given by "Fed watchers", including ourselves, are subjective. For example, the minutes of the January meeting released this week led many commentators to underscore the following sentence: "many participants expressed the view that it might be appropriate to raise the federal funds rate again fairly soon". But the sentence doesn't stop there, and goes on to place conditions on any such rate increase: "if incoming information on the labor market and inflation was in line with or stronger than their current expectations". Reading the rest of the minutes, we can see that there is tremendous uncertainty over fiscal policy: not only the content, but the size, timing, and net effect on the economy. A "couple of participants" argued that fiscal policy wasn't everything, and that other factors should be taken into account. Other participants cautioned against adjusting monetary policy in anticipation of policy changes that might not be enacted. They would prefer to know the actual facts before taking action, and disregard their distant cousins, alternative facts.

INTEREST RATES AND EXCHANGE RATE

— Spread between 2-year and 5-year Treasuries (basis points)
— Broad index of dollar effective exchange rate
(January 1997 = 100, r.h.s.)



Source : Federal Reserve

THE WEEK ON THE MARKETS

Week 17-2 17 > 23-2-17

➤ CAC 40	4 868	➤ 4 891	+0.5 %
➤ S&P 500	2 351	➤ 2 364	+0.5 %
➤ Volatility (VIX)	11.5	➤ 11.7	+0.2 %
➤ Euribor 3M (%)	-0.33	➤ -0.33	+0.0 bp
➤ Libor \$ 3M (%)	1.05	➤ 1.05	+0.2 bp
➤ OAT 10y (%)	1.04	➤ 0.99	-4.8 bp
➤ Bund 10y (%)	0.30	➤ 0.23	-6.3 bp
➤ US Tr. 10y (%)	2.44	➤ 2.39	-5.4 bp
➤ Euro vs dollar	1.06	➤ 1.06	-0.3 %
➤ Gold (ounce, \$)	1 238	➤ 1 249	+0.9 %
➤ Oil (Brent, \$)	55.5	➤ 56.7	+2.2 %

Source: Thomson Reuters



Germany

Infrastructure under threat

- The quality of Germany's infrastructure is deteriorating because of lack of spending.
- In particular, the municipalities have reduced their investments, because of increased social spending and financial problems.
- The *Länder* are also cutting back on capital spending in preparation of tighter budget rules that will come into force in 2020.

Germany's infrastructure is one of the best in the world. In the WEF Global Competitiveness Report 2016-2017, its infrastructure ranked eighth just behind France, but before the UK (9th) and the US (11th). However, the country is falling behind in this area. In the 2009-2010 Competitiveness Report, its infrastructure came in first. The decline is in particular noticeable in the quality of road infrastructure. It tumbled from the fifth position in the 2009-2010 report to the 16th place in the latest.

The reason for Germany's relative decline is the lack of investment spending on infrastructure. Following the reunification-related investment boom in the early 1990s, public capital spending has settled at around 2.2% of GDP (chart 1). This is one of the lowest in the EU. For example, in France, public investment amounted to 3.5% in 2015. The gap can be partly attributed to differences in definitions. Moreover, the increase in the public investment rate elsewhere in Europe in the run-up to the financial crisis was related to the boom in real estate prices. The differences have clearly narrowed in the aftermath of the crisis.

Germany's modest capital spending is hardly enough to compensate for the depreciation of the capital stock. Since 2013, net investment, i.e. gross investment minus depreciation, has been even negative (chart 2). This situation is not unique for Germany. Also in Spain and Italy, net investment is currently in negative territory.

In Germany, investment spending by municipalities, which carry out more than 60% of all public investment, has particularly come under pressure (chart 3). It dropped from 17% of their total expenditure in 1995 to only 9.7% in 2015. This is largely a result of the expansion of municipalities' responsibilities in the area of social security. Between 2002 and 2010, municipal social spending doubled. The Federal government has taken measures to reduce the financial pressure on the local authorities, such as taking on the costs of the old-age basic pension. Also outsourcing, for example, in the field of waste management, has played a crucial role. Net capital spending has been in negative territory (chart 4).

The KfW Municipal Survey reports that in particular financially-weak municipalities have been cutting back on capital spending. On average, municipalities with a budget deficit invest one third less than those with a balanced budget or a surplus. This is also confirmed by the statistics. Local authorities in the wealthier *Länder* such as

Gross public investment (as % of GDP)

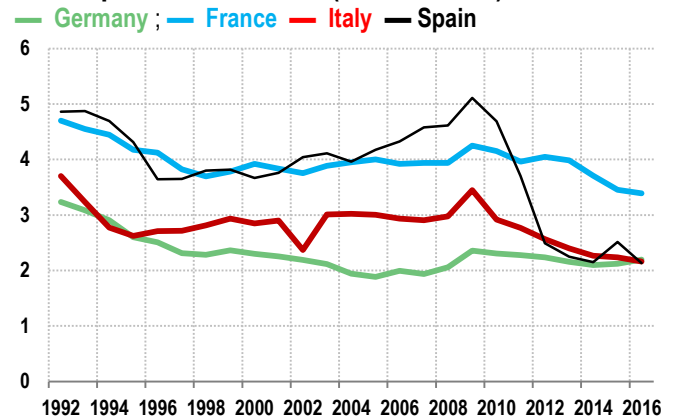


Chart 1

Sources: Eurostat and BNP Paribas

Net public investment (as % of GDP)

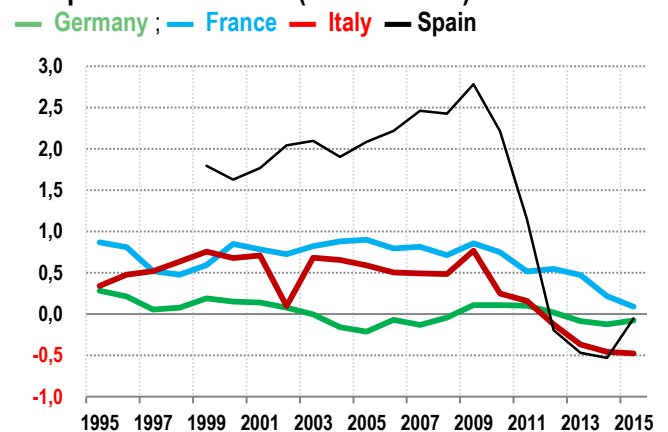


Chart 2

Sources: Eurostat and BNP Paribas

Gross capital formation (as % of total spending)

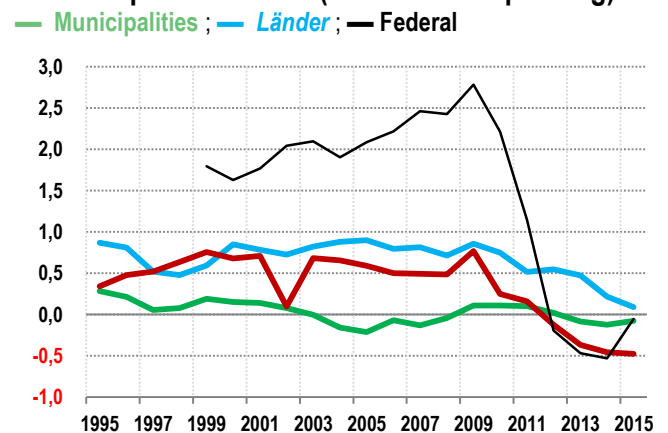


Chart 3

Sources: Eurostat and BNP Paribas



Bavaria and Baden-Württemberg invest considerably more than in the poorer ones (chart 5). In addition, the KfW Survey notes that municipal projects are often not undertaken or with a certain delay because of uncertainty concerning the division of costs between the state and the municipality, and lack of administrative capacity for the planning and implementation.

As a result of weak investment, the local authorities' fixed assets decreased by EUR 60 billion between 2003 and 2015. According to the KfW Survey, the total observed backlog amounted to EUR 136 billion in 2015, EUR 4 billion more than in preceding year. Maintaining the capital stock at the same level requires a permanent increase in spending by at least EUR 4 billion. In order to reduce the backlog, the additional investment would need to rise to close to EUR 8 billion.

Public investment is likely to come under increased pressure in the coming years because of the application of the so-called debt brake (Schuldenbremse). This policy instrument requires structural balanced budgets at federal and *Länder* level, in accordance with the European Stability and Growth Pact. The debt brake came into force at the federal level in 2016 and from 2020, structural deficits will be forbidden for the *Länder*. As the *Länder* may not borrow anymore for structural purposes, they may have to reduce their investment spending by about EUR 20 billion. This is already affecting their investment spending. Certain *Länder* have even renounced tapping federal or European investment funds because they are unable to contribute their share in the co-financing arrangements.

The policy goes against the recommendations of the international organisations, such as the IMF and the OECD. They have called on Germany to step up public investment, as this would not only stimulate demand in the near term, but would also improve the growth potential of the economy. Moreover, a temporary fiscal stimulus in Germany can support growth in the rest of the eurozone and reduce Germany's current account surplus.

The German government is extremely reluctant to heed this advice, preferring to stick to the tight budget policy. A possible solution for improving the country's infrastructure would be the setting up of public-private partnerships. However, in the case of motorways, such financial construction has been met with great resistance, as the population is fiercely opposed to the introduction of tolls for passenger cars. Moreover, many fear that the involvement of private capital in the provision of public goods will result in these goods being subject to profit considerations.

Net investment (as % of GDP)

— Municipalities ; — *Länder* ; — Federal

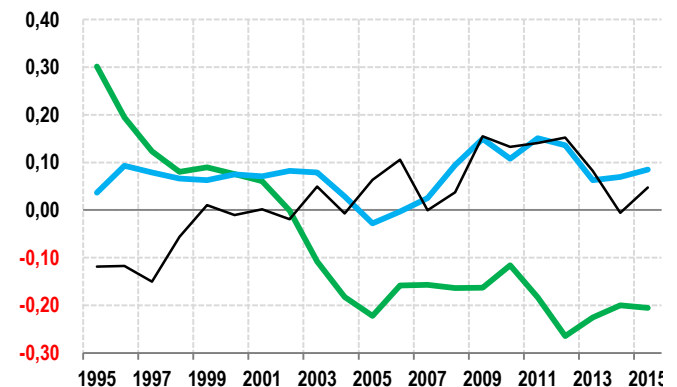


Chart 4

Sources: Eurostat and BNP Paribas

Municipal investment by *Länder*

Euro per capita

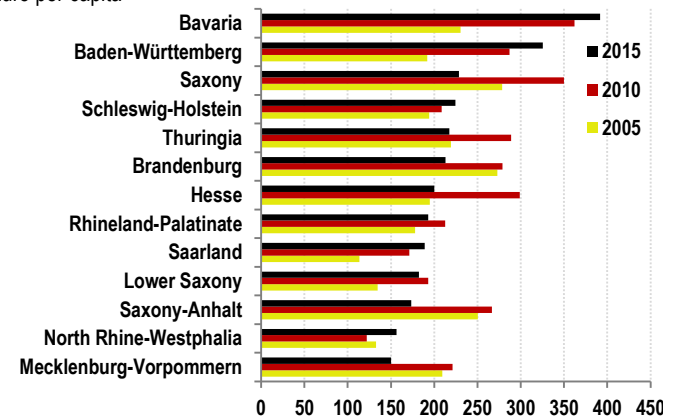


Chart 5

Sources: Destatis and BNP Paribas



Greece

Another try

- Midway through its third adjustment programme, for which it has already received a little more than EUR 30 billion out of a maximum of EUR 86 billion, Greece is seeking to conclude negotiations on the bailout's second review, which would pave the way for the unblocking of a third tranche of funding.
- The Eurogroup meeting held earlier this week failed to reach a political agreement. A solution will eventually be found as each party makes concessions, although the size of these efforts has yet to be determined.
- The country is not threatened with a short-term liquidity crisis. Even so, this latest episode reveals that even though Greece's economic parameters are relatively favourable, from a political standpoint, it is never far from outbreaks of stress and the dramatization of all that is at stake.

The 20 February Eurogroup meeting showed that Greece and its creditors have not given up on the possibility of reaching an agreement, even though they still failed to do so. Although teams from the IMF and the European institutions will be returning to Athens soon to pursue discussions, Eurogroup President Jeroen Dijsselbloem was careful to point out that a "political agreement" had not been reached between the different parties attending the meeting. The goal is still to complete the bailout's second review, which would pave the way for the release of a new tranche of the bailout programme.

The current bout of stress arises from a fundamental disagreement between the Europeans and the IMF. The European Commission has adopted a rather optimistic vision of Greece's economic situation, as illustrated by its winter economic outlook. EC departments highlight Greece's 2016 results, which were better than expected in terms of GDP growth (+0.3%) and public finances (primary surplus of more than 2% of GDP). The Commission is looking for a robust recovery this year (+2.7%) and in 2018 (+3.1%). Under these conditions, it should not be too hard for the country to meet its high primary surplus targets (3.5% of GDP in 2018). European creditors, especially Germany, are quick to use these observations to justify postponing debt restructuring talks. As long as debt relief remains in sight but is not achieved, the Greek authorities remain under pressure. The creditors also hope to put off a very costly political decision as long as possible.

It has been clear for months now that the IMF does not share in this analysis. Although the latest economic statistics show a real but fragile recovery¹, IMF experts point out that one-off revenue made a big contribution to the improvement in public finances. Looking

¹ After only two consecutive quarters of positive GDP growth in the spring and summer, growth slumped again last winter (-0.4% q/q in Q4).

The Commission is confident

Composition of the fiscal balance, in % of GDP

----- headline balance, ----- primary balance
primary structural balance, cyclical contribution, interests

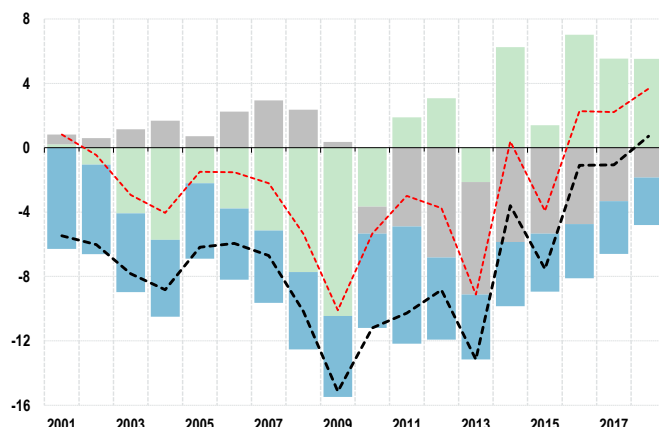


Chart 1

Source: Ameco

beyond a short-term catching-up movement, Greece's growth potential is apparently not very high. Lastly, although they esteem that the pension system is placing an excessive burden on the Greek economy, in terms of fiscal policy, they do not think it would be productive to try to obtain now more than the package of measures already approved at the beginning of the programme. The IMF's position can be summarised as follows: "Greece cannot grow out of its debt problem." This implies that the solvency of the Greek state depends on substantial debt relief provided by its European creditors (ESM, EFSF)².

There is nothing new about this fundamental disagreement. Three solutions have been considered in recent months to break the deadlock:

1. **The European programme continues without the IMF**, based on the European institutions' economic parameters. There are a lot of arguments to support this position. The Washington-based IMF has already lent Greece enormous sums by its own standards, and it is not necessarily "begging" to increase its involvement. As to the Europeans, the funding shortfall would be rather painless considering the amounts at stake: press reports are talking about EUR 5 billion that the IMF might lend to Greece as part of the third bailout package of EUR 86 billion³. Moreover, some stakeholders are not particularly

² For further information on the European Commission and IMF's debt sustainability analyses and their differences, see "Greece: missed opportunity", Conjoncture, July-August 2016, BNP Paribas.

³ Moreover, Greece used only about EUR 5 bn out of a total of EUR 15 bn in funds set aside for the recapitalisation of banks in 2015. Generally speaking, it seems extremely unlikely that the third bailout programme will reach its maximum amount.



in favour of the IMF's implication in the bailout and adjustment mechanisms for the eurozone countries. Considering the firepower of the European Stability Mechanism, and the expertise of the European Commission and the ECB, the Europeans should be able to settle their affairs on their own, perfectly autonomously.

For all these reasons, we have long thought that this would be the most probable outcome: the IMF would continue to provide technical support to the Europeans without entering financially into the third bailout programme. The withdrawal would be discreet as it would be done simply by preserving the *statu quo* (the 3-year programme has been proceeding without the IMF for the past 18 months). Yet it seems we overlooked the tougher stances taken by several European executives, foremost of which is Germany, who affirm that their parliaments will no longer approve the bailout without the IMF's participation. This position is paradoxical since the IMF's quasi-forced participation would hardly strengthen the current programme's credibility in circumstances where fundamental disagreements are patent between the IMF, who esteems that debt relief is essential and urgent, and the German authorities, who find that the timing is inopportune, and might not even be necessary.

2. The IMF bends under European pressure. Since summer 2015, very strong pressure is exerted through the media, which suggest the IMF is the one that is always demanding more austerity during bailout negotiations, and through the European representatives on the IMF's Executive Board⁴. This practice has its limits, however: a press release earlier this month shows that the majority of Board members support the positions of IMF staff. And this is before the Trump administration appointed its Board representative. On the whole, IMF teams have proven to be very resilient so far. If the IMF ends up participating in the programme, it will only be after winning some major concessions. For example, the Europeans might have to agree to quantify future debt relief efforts, on condition, of course, that the programme is successfully completed in 2018.

3. Under the third option, Greece would try to satisfy both the EC and IMF. If push comes to shove, the IMF might agree to participate in a plan in which debt sustainability is assured primarily by very high fiscal surpluses (3.5% of GDP before interest charges, for several years after 2018), rather than substantial debt relief by European creditors. In this case, the IMF might ask the Greek authorities to immediately enact measures designed to sustain the primary surplus at high levels, by emphasising what it sees as the main weak points of the country's public finances: a deficit-ridden pension system and an excessively narrow tax base. So far, Alexis Tsipras has refused to consider reform legislation that would take effect after the European programme closes. Yet a few statements made at the end of this week's Eurogroup meeting suggest that this idea is still on the table. Christine Lagarde's statements after meeting with Angela Merkel mid-week also point in this direction. Although she is still very firm about the need to allow the country to benefit from debt restructuring, the IMF's Managing Director said she is much more confident that an agreement can be reached after seeing the progress the Greek authorities have made towards satisfying the demands of its creditors.

Of the parties present at the meeting, it is in the interest of none to see the situation deteriorate any further, or to replay summer 2015 events. In the end, an agreement will probably be reached. If each party were to make concessions, the agreement could be a synthesis of the three options outlined above, although the mix would still have to be determined. From this perspective, it is worth noting that Alexis Tsipras is undoubtedly in the weakest position⁵.

As to the timing, the Eurogroup president pointed out that even though current delays were harming the country's economic recovery by eroding confidence (and risk fostering another build-up of government arrears to the private sector), the country does not face any major repayment dates before the second half of July, and is still far from a liquidity crisis. The real urgency is much more political.

⁴ France and Germany are permanent members.

⁵ He does not pose a real threat to current negotiations, especially since the latest polls suggest that if early elections were held today, he would lose to the pro-European, centre-right New Democracy movement.



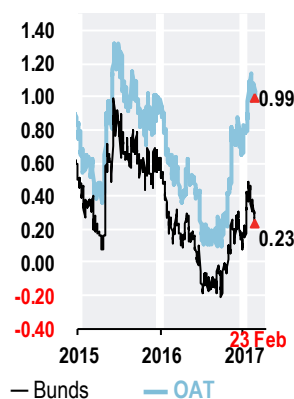
Markets overview

The essentials

Week 17-2-17 > 23-2-17

➤ CAC 40	4 868	➤ 4 891	+0.5 %
➤ S&P 500	2 351	➤ 2 364	+0.5 %
➤ Volatility (VIX)	11.5	➤ 11.7	+0.2 %
➤ Euribor 3M (%)	-0.33	➤ -0.33	+0.0 bp
➤ Libor \$ 3M (%)	1.05	➤ 1.05	+0.2 bp
➤ OAT 10y (%)	1.04	➤ 0.99	-4.8 bp
➤ Bund 10y (%)	0.30	➤ 0.23	-6.3 bp
➤ US Tr. 10y (%)	2.44	➤ 2.39	-5.4 bp
➤ Euro vs dollar	1.06	➤ 1.06	-0.3 %
➤ Gold (ounce, \$)	1 238	➤ 1 249	+0.9 %
➤ Oil (Brent, \$)	55.5	➤ 56.7	+2.2 %

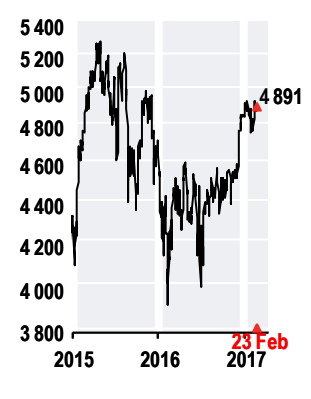
10 y bond yield, OAT vs Bund



Euro-dollar



CAC 40



Money & Bond Markets

Interest Rates		highest' 17		lowest' 17	
€ ECB	0.00	0.00 at 02/01	0.00	0.00 at 02/01	
Eonia	-0.36	-0.35 at 04/01	-0.36	-0.36 at 22/02	
Euribor 3M	-0.33	-0.32 at 02/01	-0.33	-0.33 at 22/02	
Euribor 12M	-0.11	-0.08 at 02/01	-0.11	-0.11 at 21/02	
\$ FED	0.75	0.75 at 02/01	0.75	0.75 at 02/01	
Libor 3M	1.05	1.06 at 16/02	1.00	1.00 at 02/01	
Libor 12M	1.75	1.75 at 22/02	1.68	1.68 at 06/01	
£ BoE	0.25	0.25 at 02/01	0.25	0.25 at 02/01	
Libor 3M	0.35	0.37 at 05/01	0.35	0.35 at 03/02	
Libor 12M	0.74	0.78 at 09/01	0.74	0.74 at 22/02	

At 23-2-17

Yield (%)		highest' 17		lowest' 17	
€ AVG 5-7y	0.49	0.56 at 02/02	0.23	0.23 at 02/01	
Bund 2y	-0.91	-0.66 at 25/01	-0.91	-0.91 at 22/02	
Bund 10y	0.23	0.49 at 26/01	0.09	0.09 at 02/01	
OAT 10y	0.99	1.14 at 06/02	0.67	0.67 at 02/01	
Corp. BBB	1.44	1.65 at 01/02	1.44	1.44 at 23/02	
\$ Treas. 2y	1.18	1.26 at 15/02	1.15	1.15 at 23/01	
Treas. 10y	2.39	2.52 at 15/02	2.33	2.33 at 17/01	
Corp. BBB	3.68	3.81 at 03/01	3.68	3.68 at 17/01	
£ Treas. 2y	0.04	0.22 at 06/01	0.04	0.04 at 23/02	
Treas. 10y	1.16	1.51 at 26/01	1.16	1.16 at 23/02	

At 23-2-17

10y bond yield & spreads

7.34%	Greece	710 pb
4.23%	Portugal	399 pb
2.23%	Italy	199 pb
1.69%	Spain	145 pb
0.99%	France	76 pb
0.99%	Ireland	75 pb
0.77%	Belgium	53 pb
0.52%	Austria	28 pb
0.43%	Finland	19 pb
0.39%	Netherlands	15 pb
0.23%	Germany	

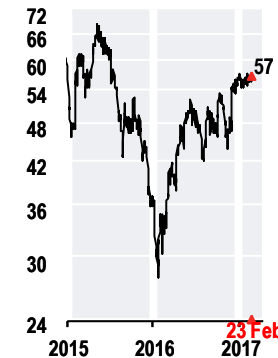
Commodities

Spot price in dollars		lowest' 17		2017(€)	
Oil, Brent	57	54 at 19/01	-0.4%		
Gold (ounce)	1 249	1 156 at 03/01	+7.5%		
Metals, LMEX	2 827	2 639 at 03/01	+5.8%		
Copper (ton)	5 845	5 487 at 03/01	+5.4%		
CRB Foods	346	339 at 02/01	+1.6%		
wheat (ton)	161	146 at 02/01	+9.6%		
Corn (ton)	137	133 at 02/01	+2.5%		

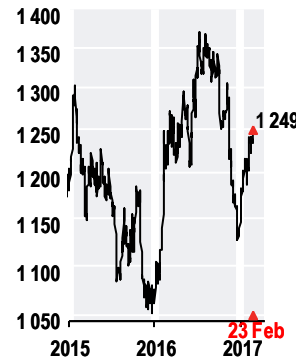
At 23-2-17

Variations

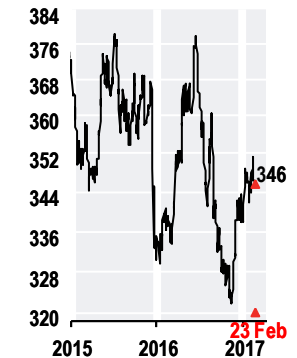
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



Exchange Rates

1€ =		highest' 17		lowest' 17		2017	
USD	1.06	1.08 at 31/01	1.04	1.04 at 03/01	+0.4%		
GBP	0.84	0.88 at 16/01	0.84	0.84 at 23/02	-1.1%		
CHF	1.07	1.07 at 24/01	1.06	1.06 at 08/02	-0.6%		
JPY	119.27	123.21 at 06/01	119.27	119.27 at 23/02	-3.0%		
AUD	1.37	1.46 at 02/01	1.37	1.37 at 23/02	-5.9%		
CNY	7.28	7.43 at 31/01	7.22	7.22 at 03/01	-0.6%		
BRL	3.24	3.44 at 18/01	3.24	3.24 at 15/02	-5.5%		
RUB	61.02	64.95 at 31/01	60.60	60.60 at 15/02	-5.2%		
INR	70.79	73.32 at 31/01	70.51	70.51 at 21/02	-1.1%		

At 23-2-17

Variations

Equity indices

Index		highest' 17		lowest' 17		2017		2017(€)
CAC 40	4 891	4 925 at 15/02	4 749	4 749 at 31/01	+0.6%	+0.6%		
S&P500	2 364	2 365 at 21/02	2 239	2 239 at 02/01	+5.6%	+5.1%		
DAX	11 948	11 999 at 22/02	11 510	11 510 at 06/02	+4.1%	+4.1%		
Nikkei	19 371	19 594 at 04/01	18 788	18 788 at 24/01	+1.3%	+4.5%		
China*	66	66 at 22/02	59	59 at 02/01	+12.8%	+12.3%		
India*	494	494 at 23/02	445	445 at 03/01	+8.9%	+10.1%		
Brazil*	1 978	2 001 at 22/02	1 654	1 654 at 02/01	+11.3%	+17.8%		
Russia*	592	622 at 03/01	589	589 at 23/01	-6.2%	-2.1%		

At 23-2-17

Variations

* MSCI index



Economic forecasts

En %	GDP Growth			Inflation			Curr. account / GDP			Fiscal balances / GDP		
	2016 e	2017 e	2018 e	2016 e	2017 e	2018 e	2016 e	2017 e	2018 e	2016 e	2017 e	2018 e
Advanced	1.6	2.0	2.1	0.8	2.0	1.9						
United States	1.6	2.4	2.7	1.3	2.5	2.7	-2.5	-2.4	-2.4	-3.4	-4.2	-5.0
Japan	1.0	1.1	0.9	-0.1	1.1	1.0	3.8	4.2	4.6	-4.7	-4.4	-4.1
United Kingdom	1.8	1.8	1.1	0.6	2.7	2.7	-4.7	-4.1	-3.2	-3.0	-2.7	-3.1
Euro Area	1.7	1.6	1.6	0.2	1.7	1.3	3.4	3.0	3.1	-1.7	-1.4	-1.2
Germany	1.8	1.8	2.0	0.4	2.0	1.6	8.8	8.3	8.5	0.6	0.7	0.6
France	1.1	1.3	1.5	0.3	1.4	1.0	-1.2	-0.9	-1.1	-3.3	-3.0	-2.7
Italy	0.9	0.6	0.6	-0.1	1.3	1.0	2.1	2.2	2.1	-2.4	-2.4	-2.5
Spain	3.3	2.6	2.0	-0.3	2.6	1.5	1.8	2.1	2.1	-4.6	-3.6	-3.0
Netherlands	2.1	2.1	1.6	0.1	1.2	1.4	8.7	8.7	8.3	-0.5	0.0	0.3
Belgium	1.2	1.4	1.5	1.8	2.1	1.9	0.7	0.5	0.5	-3.0	-2.3	-2.2
Emerging	4.2	4.5	5.0	4.8	4.6	4.4						
China	6.7	6.2	6.4	2.0	2.7	2.5	1.9	1.6	1.4	-2.9	-3.5	-3.3
India	7.0	7.3	8.0	4.9	4.7	5.5	-1.1	-0.8	-1.5	-3.8	-3.5	-3.2
Brazil	-3.5	1.0	3.0	8.8	4.1	4.3	-1.2	-1.4	-2.1	-8.9	-9.6	-8.3
Russia	-0.6	1.2	2.0	7.1	4.2	4.3	1.7	2.4	2.0	-3.5	-3.1	-2.8
World	3.1	3.4	3.8	3.1	3.5	3.4						

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

Financial forecasts

Interest rates		2016				2017						
End period		Q1	Q2	Q3	Q4	Q1e	Q2e	Q3e	Q4e	2016	2017e	2018e
US	Fed Funds	0.25-0.5	0.25-0.5	0.25-0.5	0.5-0.75	0.50-0.75	0.75-1.00	1.00-1.25	1.25-1.50	0.5-0.75	1.25-1.50	2.25-2.50
	3-month Libor \$	0.63	0.65	0.85	1.00	1.05	1.25	1.50	1.75	1.00	1.75	2.50
	10-year T-notes	1.79	1.49	1.61	2.45	2.60	3.00	3.25	3.50	2.45	3.50	4.00
EMU	Refinancing rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25
	3-month Euribor	-0.24	-0.29	-0.30	-0.32	-0.33	-0.33	-0.30	-0.30	-0.32	-0.30	-0.05
	10-year Bund	0.16	-0.13	-0.19	0.11	0.30	0.50	0.75	1.00	0.11	1.00	1.60
	10-year OAT	0.41	0.20	0.12	0.69	0.95	0.95	1.15	1.45	0.69	1.45	2.00
	10-year BTP	1.23	1.35	1.19	1.84	2.10	2.20	2.60	3.00	1.84	3.00	3.40
UK	Base rate	0.50	0.50	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
	3-month Libor £	0.59	0.56	0.38	0.37	0.40	0.40	0.40	0.40	0.37	0.40	0.40
	10-year Gilt	1.42	1.02	0.76	1.24	1.25	1.55	1.75	1.90	1.24	1.90	2.50
Japan	Overnight call rate	-0.00	-0.06	-0.06	-0.06	-0.10	-0.10	-0.10	-0.10	-0.06	-0.10	-0.10
	3-month JPY Libor	0.10	0.06	0.06	0.06	0.05	0.05	0.05	0.05	0.06	0.05	0.05
	10-year JGB	-0.04	-0.23	-0.08	0.05	0.10	0.10	0.10	0.30	0.05	0.30	0.40

Exchange rates		2016				2017						
End period		Q1	Q2	Q3	Q4	Q1e	Q2e	Q3e	Q4e	2016	2017e	2018e
USD	EUR / USD	1.14	1.11	1.12	1.05	1.04	1.02	1.02	1.00	1.05	1.00	1.06
	USD / JPY	112	103	101	117	118	121	124	128	117	128	130
EUR	EUR / GBP	0.79	0.83	0.87	0.85	0.83	0.82	0.82	0.80	0.85	0.80	0.82
	EUR / CHF	1.09	1.08	1.09	1.07	1.08	1.10	1.12	1.12	1.07	1.12	1.15
	EUR/JPY	128	114	114	123	123	123	126	128	123	128	138

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



Most recent articles

FEBRUARY	17 February	17-07	Etats-Unis: Reflation? France: Significantly more jobs, a little less unemployment in 2016
	10 February	17-06	Emerging: Justified caution Turkey: A complex equation
	03 February	17-05	Eurozone: Four inflation criteria China: The threat of capital outflows
JANUARY 2017	27 January	17-04	Global: 2017 outlook France: Could growth be stronger in 2017 than in 2016? Brazil: A slow recovery in the making
	20 January	17-03	Global: Focus on a classical nexus United States: Ceasing purchases is the plan Italy: Monte dei Paschi: What's next?
	13 January	17-02	United Kingdom: London Bridge Is Falling Down European Union: Dealing with Chinese competition France: Towards a net rebound in Q4 growth
	6 January	17-01	Global: A weak euro for long Global: 2017: A critical year for the climate negotiations Eurozone: Characteristics of a healthier job market
DECEMBER	16 December	16-44	United States: A bird in the hand is worth two in the bush Netherlands: Government faces disgruntled voters
	09 December	16-43	Eurozone: ECB: "A sustained presence on the markets" Eurozone: The European Commission's case Italy: Referendum: limited consequences for banks
	02 December	16-42	France: Inflation picks up slightly Portugal: The European Commission shows some flexibility
NOVEMBER	25 November	16-41	Japan: Abenomics: A failure called too early France: Labour market: Late November update
	18 November	16-40	Global: Youth unemployment: an important ongoing policy challenge Ireland: Beyond revisions
	10 November	16-39	United States: The day after tomorrow France: A closer look at weak Q3 growth Finland: Slow motion turnaround
	04 November	16-38	United States: Time to spend China: No rest for credit risks
OCTOBER	28 October	16-37	United States: The sin of certainty Russia: A budget constrained
	21 October	16-36	Eurozone: ECB: Waiting for December Austria: Worrisome trends
	14 October	16-35	United States: In the name of credibility, but which one ? France: The CICE tax credit must still prove its worth
	07 October	16-34	Eurozone: Budget season France: Economic indicators are turning green
SEPTEMBER	30 September	16-33	Germany: Slowing growth but peaking confidence France: A constrained budget
	23 September	16-32	United States: Rich, deep, serious Eurozone: ECB: The PSPP parameters Japan: Monetary policy: let's give it another try France: Growth prospects and confidence
	16 September	16-31	United States: The meaning of prudence France: Labour market: a mild but virtuous improvement
	09 September	16-30	United States: Who pays the ferryman? On the disappearance of the treasury market risk premium Eurozone: ECB: the status quo, for the time being Emerging countries: Is the restart of portfolio investments justified?
	02 September	16-29	United States: Jackson Hole 2016 : conventional monetary policy redefined Eurozone: Summer's end France: Growth hits another snag



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

■ **Manuel NUNEZ**

Japan, Ireland - Projects

+33.(0)1.42.98.27.62

manuel.a.nunez@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.rharab@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

■ **Thomas HUMBLLOT**

+33.(0)1.42.98.44.24

thomas.humbloit@bnpparibas.com

■ **Laurent NAHMIA**

+33.(0)1.40.14.30.77

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

■ **Valérie PERRACINO-GUERIN**

Africa (English and Portuguese speaking countries)

+33.(0)1.55.77.80.60

valerie.perracino@bnpparibas.com

■ **Pascal DEVAUX**

Middle East, Balkan countries - Scoring

+33.(0)1.43.16.95.51

pascal.deviaux@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



CONJUNCTURE

Structural or in 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



ECOFASH

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



ECOWEEK

Weekly economic news and much more...



ECOTV

In this monthly web TV, 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.

© 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.group.bnpparibas.com - www.economic-research.bnpparibas.com

Publisher: Jean Lemierre
Editor : William De Vijlder

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



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