

Europe Economic Weekly

The devil will be in the details

Weekly view: Quantity vs quality

We await the outcome of the EU Council. We reiterate our assumptions. For now, we can count on whatever Germany does on defence and a large part of the EUR150bn loan that's part of RearmEU. A larger response will take time to materialize.

Euro area: Germany – how to spend it

Germany's fiscal rethink will take time to affect the real economy. Spending choices and reform are crucial for the outcome. Particularly optimal implementation with structural reform could bring debt ratios back to 60% in the early 2030s.

UK: BoE Review - Cautious hold

The BoE was on hold as expected with a hawkish vote (8-1). Gradual guidance with some hawkish hints and increased flexibility amid uncertainty. We expect the next cut in May and quarterly cuts, with risks of less cuts than more.

Hot Topic 1: Impressions from Rome

Our impression is that the current period of domestic calm on the macro front is set to continue. Re defence, we heard a message of prudence amid Italy fragile fiscal equation.

Hot Topic 2& 3: SNB and Riksbank Review

Both as we expected: the SNB cut by 25bp and the Riksbank was on hold.

Hot topic 4: Norges Preview

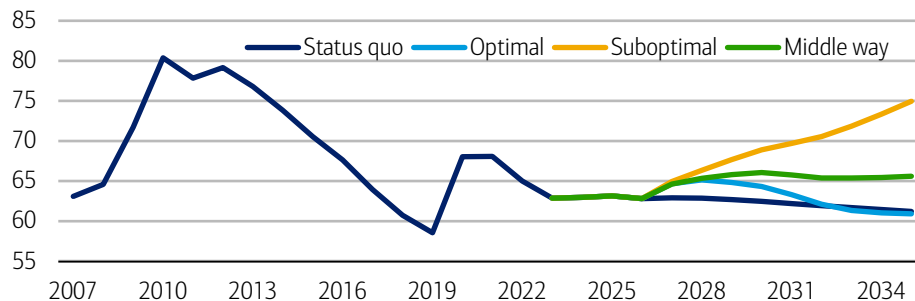
Very close call, but we think Regional Network Survey tipped balanced towards a hold.

Next week:

All eyes on March soft data, with flash PMIs (Mon), German Ifo (Tue), and ESI (Fri). Also: French and Spanish March HICP, UK inflation and retail sales, and ECB credit data.

Exhibit 1: The German fiscal push could quickly be self-financing if spent well paired with reform

Debt-to-GDP ratio under different spending and growth assumptions



Source: BofA Global Research, Eurostat

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21 March 2025

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Timestamp: 21 March 2025 02:30AM EDT

Weekly view

Quantity vs quality

Last week, we fine-tuned our forecasts taking on board even more persistent uncertainty but also positive fiscal news. This week, with the German fiscal package almost through parliamentary approvals, we dig deeper into why it's unlikely to deliver much in terms of growth in the near-term and into what we need to see in the medium-term for strong and persistent growth. Beyond Germany, we await the outcome of the EU Council. We reiterate our assumptions. For now, we can count on whatever Germany does on defence (and some smaller states) and a large part of the EUR150bn loan that's part of RearmEU. A larger response will take time to materialize.

Germany: how to spend it?

The German fiscal package is expected to pass the last legislative hurdle in the upper house today (Fri 21st). Approval will (probably) have been very swift, but it will take time to affect the economy in a tangible way. We still assume 2025 effects will be negligible. A swift increase in defence spending is likely to come with high import content. Infrastructure spending will probably take until 2H26 to translate into growth. We expect 0.1% in 2025 and 0.8% in 2026, with 4Q26 annualised quarterly growth reaching 1.5%, with the public deficit widening to 3.3-3.5%.

Medium-term effects on growth and debt ratios will depend on spending patterns (Exhibit 1). A smooth and almost optimal use of fiscal space could imply average growth of 1.5% for 2027-30 vs 0-0.5% under the status quo ex ante. The stimulus would self-finance and return the debt ratio to close to 60% in the early 2030s. Very suboptimal spending would deliver much smaller growth gains and lead to steadily rising debt ratios to above 70% over the next decade (without a peak in sight). A middle way is perhaps likely – with growth just above 1% and debt ratios stabilising around 66%, but with a risk of a gentle rise again towards the mid-2030s as some structural issues would remain unresolved.

The middle way is a useful reminder that while the medium term is likely to benefit from the fiscal rethink, its very long-term success depends on accompanying structural reform and fiscal correction elsewhere. But again, even under this less optimal use of fiscal firepower, we would still argue the German economy could be socio-economically better off than under the status quo (not least because the geopolitical context of the status quo ex ante no longer seems available, anyway).

UK: BoE did a cautious hold, Spring statement will need to face the constraints

The BoE kept rates unchanged as expected, with a hawkish vote. We had flagged that the Committee has shifted less dovish since February, but the vote was even more hawkish than we were expecting. The BoE stuck to its cautious guidance, emphasizing a “careful”, gradual and meeting-by-meeting approach as well as a need for policy to remain restrictive, amid greater uncertainty. At the same time, there were slight hawkish elements. Putting it all together, we continue to expect the next cut in May on the back of continued progress in domestic inflation and stick with our quarterly cutting path. By May we would likely have more clarity on fiscal policy ahead of the Spring Statement next week, global environment and tariffs as well as potential early signs on the passthrough of higher employment costs in April to inflation, jobs and wages. As before, we judge that risks are for fewer cuts than more, and the BoE's cautious hold today increases those risks.

After the BoE this week, the focus next week will be on the Spring forecasts. As we noted in [UK Viewpoint: Spring forecasts: Hitting the ceiling 06 March 2025](#), weaker growth and higher yields imply that the Chancellor's headroom is likely to turn to a small deficit of £5bn, but this will be highly dependent on the OBR's medium-term growth forecasts. As a result, we expect £15bn of fiscal consolidation to be announced by 2029-30 to restore headroom – £5bn in the near term and the rest in later years, all in the



form of spending cuts (rather than tax rises). These measures would likely act as a small drag to growth. The government already announced welfare cuts this week, the bulk of which are expected to fall on health and disability-related spending, which are expected to save £5bn a year by 2030. FY25E borrowing is likely to rise by £10bn.

Italy: For once, the main risks come from abroad

We hosted a trip with investors in Italy to meet, among others, policymakers, politicians and institutions. We left with the impression that the current period of domestic calm on the macro front is set to continue, with an ongoing cyclical recovery, commitment to fiscal prudence and limited risks to government stability. Yet the list of external risks is long, with many clearly skewed to the downside in the short term. The most frequently asked question was about the ability/appetite for Italy to increase defence spending at a national level, given the country's fragile fiscal equation. Overall, we heard reluctance to add to the burden on the debt-to-GDP profile.

SNB: the end of a cycle

As expected, the SNB cut by 25bp yesterday and lowered the policy rate to 0.25%. Also as we anticipated, the central bank left unchanged the reference to willingness "to be active in the foreign exchange market as necessary" as well as the reference that it "will adjust its monetary policy if necessary to ensure inflation remains within the range consistent with price stability over the medium term". We stick to our call that this was the last SNB move of this cutting cycle. SNB President Schlegel's comment that the probability for further easing has reduced cements our view that policy rate will stay at terminal level of 0.25% in 2025/26. Back to "low for long".

Riksbank: Almost at the end of the cycle

The Riksbank remained on hold at 2.25% with a flat policy rate path ahead, as expected. The Board reiterated that they stand ready to act in any direction and Governor Thedéen confirmed that he sees the risks to the outlook as balanced. Where do we go from here? Sweden's recovery is fragile and the signals for the economy in 1Q25 are still very mixed. The revisions in past data indicate a stronger performance than expected in 2H24, but the available forward-looking data remains weak. In the near term, the Riksbank has to weigh the weak economy against higher inflation – we think this week's meeting shows that the Board is still keeping the focus on growth and the labour market, which creates downside risks to the path. And, while we acknowledge that our base case of one further cut this year (we had pencilled in that June) is under increasing pressure and a long-term pause is getting more and more likely, we think some clearer evidence on the growth side is needed.

Next week

Today (Friday 21st), watch for the Bundesrat vote in Germany and headlines from the ongoing EU summit on defence.

Next week, we expect the Euro area composite PMI to move slightly lower to 50.0, but the conviction level is low – it's the time of year when PMIs typically follow a seasonal upward trend (Mon). Germany's Ifo should slightly improve on expectations (Tue), and the European Commission's Sentiment Indicator likewise (Fri). We expect a small rise in French March HICP on base effects (1.1% yoy) but a drop in Spain on energy (2.0% yoy, both Fri). Keep an eye also on ECB M3 and bank lending flows (Thu) as well as the ECB's consumer expectation survey (Fri).

In the UK, we expect an unchanged composite PMI (Mon), a small decline in headline inflation to 2.9% yoy (Wed) and a 0.5% drop in retail sales (Fri). Central banks: Norges expected on hold (Wed). Nine ECB speakers with a slightly hawkish sample bias are on the speaker agenda, incl Schnabel (Thu). BoE speakers: Bailey (Mon), Dhingra (Thu).

Euro area

Germany: how to spend it

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- Germany's fiscal paradigm shift has generated an immediate market response but the real economy will take longer. We work through the numbers.
- Optimal spending could push growth to 1.5% for 2027-30 and reduce debt ratios to the status quo again in the early 2030s.
- Suboptimal spending means small growth gains and a steady rise in debt ratios. A middle way with debt ratios stabilising well below 70% seems likely.

We dare to be optimistic on the medium-term outlook, at least by our standards

The German fiscal policy packages going through parliamentary approvals this week are a game changer for the outlook ([Euro Area Watch: Germany: game changer 04 March 2025](#)). But while the market response was immediate and sizeable, the impact on the economy will crucially depend on spending choices and timelines. To us, the German fiscal paradigm shift is a change to the economic outlook for 2H26 at the earliest, and more tangibly for 2027-30, provided spending is even remotely productive.

We work through the numbers: we still assume 2025 effects will be negligible. A swift increase in defence spending is likely to come with high import content. Infrastructure spending will probably take until 2H26 to translate into growth. We expect Germany to grow by 0.1% in 2025 and 0.8% in 2026 with 4Q26 annualised quarterly growth reaching 1.5%, with the public deficit widening to 3.3-3.5% in both years (Exhibit 2, [Europe Economic Weekly: Hoping for the best, preparing for the worst 14 March 2025](#)).

Medium-term effects will depend on spending patterns. A smooth and almost optimal use of created fiscal space could imply average growth of 1.5% for 2027-30 vs 0-0.5% under status quo ex ante. The stimulus would self-finance and return the debt ratio to close to 60% in the early 2030s. Very suboptimal spending would deliver much smaller growth gains and lead to steadily rising debt ratios to above 70% over the next decade. A middle way is perhaps likely – with growth just above 1% and debt ratios stabilising around 66%, but a risk of gentle rise again towards mid-2030s as some structural issues would remain unresolved.

Quantities are clearer, but spending composition is not

As a reminder, the German fiscal paradigm shift leaves intact the federal budget brake of no structural deficit north of 0.35% of GDP, but creates substantial space around it. First, defence spending above 1% of GDP will be excluded from the calculation. In practice, we assume “unlimited” spending to imply a short-term ramp-up in defence spending to 3-3.5% of GDP vs 2% in the pipeline for 2025/26E and 1-1.5% from 2027E.

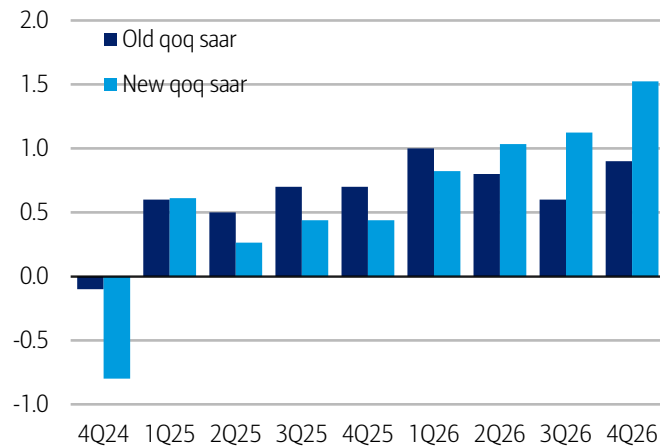
The EUR500bn Special Purpose Vehicle for domestic infrastructure is equivalent to c 12% of GDP, spent over the next 12 years. EUR 100bn of that will go to states, EUR 100bn to the climate transformation fund for more climate-specific policies. A more precise allocation of spending across infrastructure (rail, roads, digital), the energy transition and education is subject to political negotiations and will take time. We assume that it gets implemented gradually starting in 2H26E and then spread relatively evenly over the next decade with c 1% of spending per year.

The relaxation of the debt brake at state level to allow deficits of 0.35% of GDP creates EUR 16bn of wiggle room in theory, although we would argue that to be a relatively smaller detail with fewer growth implications.



Exhibit 2: German growth acceleration in the making, but with delays

Old and new German GDP forecasts, annualized % qoq growth

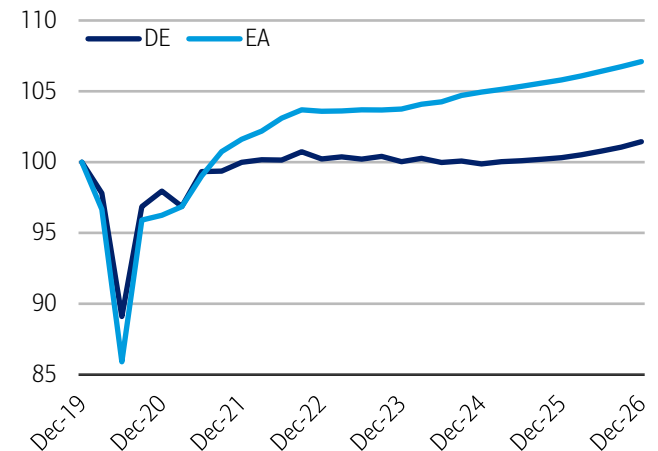


Source: BofA Global Research, Destatis

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Exhibit 3: At least in growth terms, the gap to the Euro area closes

German vs Euro area GDP level (4Q19=100)



Source: BofA Global Research, Eurostat

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Multipliers depend crucially on how it is spent

In our initial reaction to the announcements on 4 March, we argued that the fiscal firepower created could catapult medium-term German growth prospects from the 0-0.5% range to 1.5-2% if the extra is spent productively. That growth stands to benefit is likely, but the magnitude may not quite be as great. We may have gotten a little carried away in the moment.

Today, we work through the numbers more carefully - in terms of what they mean for growth, but also deficit and debt trajectories. Fiscal multiplier assumptions are crucial. Here are a few references we bear in mind for our scenario analysis:

- Standard fiscal multipliers are assumed to be around 0.6 (ie a 1% generic rise in public expenditure raises GDP by 0.6%)¹.
- For capex, these multipliers can grow to 1 and, in case of successful crowding in of private investment, and even to 2 in a 2-5y period in economies that are in recession².

For defence, multipliers are also a function of the composition in spending³:

- If spending concentrates on military staff (ie expansion of armed forces), multipliers tend to be close to unity short term.
- For equipment, they tend to be below 0.5 – possibly because of Europe's traditionally pronounced reliance on foreign production. The impact of Germany's initial EUR 100bn defence spending Special Purpose vehicle for 2022-26 may be symptomatic here (it lifted public consumption and imports alike).
- Alternative estimates suggest that an R&D intense defence structure could raise medium-term multipliers close 1.5 or higher, if successfully generating productivity spillovers into the rest of the economy.

¹ Batini et al, "Fiscal multipliers: Size, Determinants and Use in Macroeconomic Projections", IMF technical paper, Sep 2014

² Espinoza et al "The Fiscal Multiplier of Public Investment: The Role of Corporate Balance Sheet", IMF Working Paper WP/20/199, Sep 2020

³ Ilzetzki "Guns and Growth: The Economic Consequences of Defense Buildups", Kiel Institute for the World Economy, Report No 2, Feb 2025

Quantifying the impact: status quo ex ante vs three alternative scenarios

We work through four scenarios (one of them is the status quo ex ante as a benchmark) to show the potential medium-term effects of the fiscal rethink on growth, deficit and debt ratios for Germany.

Status quo ex ante : low growth, stable debt ratios

The obvious starting point is the status quo ex ante, ie what would have happened without the German fiscal rethink? As we argued in our pre-election discussion, demographics, capex developments and other structural forces probably meant structural growth in the 0-0.5% range. That didn't make a cyclical recovery with close to 1% in 2026 impossible but short-lived. National fiscal rules would force a gradual deficit reduction though at federal and state level that would have meant a gradual general government deficit narrowing to c 1% of GDP (dark blue line in Exhibit 4). That scenario, to us, was compatible with inflation undershoot and therefore a GDP deflator well below 2%, with 10y Bund yields steadily declining towards 1% over the next decade. Under these conditions, the debt-to-GDP ratio would have very gently drifted lower from 63% in 2024 to 61% or so over the next decade (Exhibit 5).

“Optimal” spending and other adjustments

A relatively optimal implementation of the fiscal capacity could mean fiscal multipliers grow from 0.5 in the first year to 1.3 the year after and close to 2 thereafter. We assume “phasing in” of infrastructure spending with c 0.25% of GDP in 2026, 0.75% in 2027 and 1% per year thereafter. For defence, we would assume the share of domestic capex efficient spending to grow over a five-year period (including gradual spillovers of defence R&D in the rest of the economy), starting 2026 with similar multipliers to infrastructure spending. Deficit correction on other components could progress at a pace of c 0.2% per year, select structural reforms including reduction of bureaucracy that allows smooth infrastructure spending would come on top.

GDP growth could average 1.5% over 2027-30, ie 100-150bp higher than under the status quo ex ante. Potential growth gains could stretch beyond that, probably not sufficient to keep such high growth rates forever, but perhaps to keep structural growth closer to 0.5% than zero under the status quo. GDP levels could be c 6% higher than under the status quo by mid-2030. In such a scenario, we would assume German inflation (the GDP deflator here) to average just above 2% rather than just below).

Deficits would rise substantially over the next 2-3 years and peak just north of 4.5% of GDP before reducing closer to 1% by the end of the decade (with 10y Bunds assumed to be close to the 3% our strategy team now expects for a few years, before adjusting lower again on the pack of fading stimulus effects on growth into the 2030s). The debt ratio would peak close to 65% but then fall back towards the status quo ex ante trajectory, if not even slightly below that in the early 2030s, ie back to just above 60% (light blue lines in Exhibit 4 and Exhibit 5).

Suboptimal spending

Of course, alternative outcomes exist. Spending choices have yet to be laid out. If defence and infrastructure spending are sub-optimal (perhaps because defence remains import-oriented or the definition of infrastructure gets so blurred that eventually expenditures are essentially consumptive in nature), growth effects would not be nil but much shorter-lived. We would then assume growth closer to 1% for 2027-30, resuming the path to zero structural growth quickly thereafter. Deficits to retrace just below 3% in the medium term but the debt ratio to continue rising to 75% over the next decade (and beyond thereafter, yellow lines in Exhibit 4 and Exhibit 5).

The middle way (perhaps the most likely)

At the time of writing, we have little information on how precisely the new fiscal firepower will get spent. Some of the infrastructure envelope may inevitably have to go into building public sector capacity to run infrastructure projects, again. Such

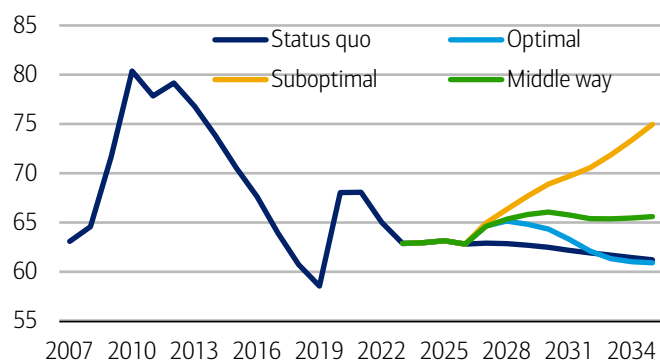
“suboptimal” features in theory may be inevitable in practice given the starting point in the economy. As a consequence, a kind of “middle way scenario” (light green lines in below charts) is probably the more likely one.

We assume infrastructure multipliers to get stuck at 1.3 after a couple of years, and half of the defence spending to remain import-oriented and/or less productive (perhaps because it includes select foreign aid for aggressed allies, information agency financing, etc, as now agreed to be included in the defence category). Growth would average 1.2-1.3% over 2027-30 and, unlike in the more optimal scenario, not “get stuck” at 0.5% beyond that but gradually reduce towards the zero-ish trajectory under the status quo again. Cumulative GDP gains over the next decade would amount to c 4% vs status quo.

The public deficit would reduce to just below 2% of by the early 2030s and debt ratios at c 66%. There is a risk that deficit and debt ratios start to rise again gently towards the end of that sample, as positive growth effects start to fade and underlying structural weaknesses remain untackled. That is a useful reminder that while the medium term is likely to benefit from the fiscal rethink, its very long term success depends on accompanying structural reform and fiscal correction elsewhere. But again, even under this less optimal use of fiscal firepower, we would still argue the German economy could be socio-economically better off than under the status quo (not least because the geopolitical context of the status quo ex ante no longer seems available, anyway).

Exhibit 4: The fiscal package could be self-financing within a few years

Debt-to-GDP ratio under different spending and growth assumptions

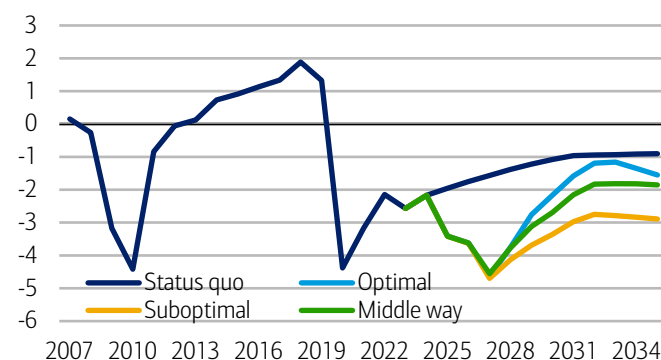


Source: BofA Global Research, Eurostat

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Exhibit 5: Deficits could quickly fit EU rules again

Budget balance (% of GDP) under different spending assumptions



Source: BofA Global Research, Eurostat

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The European dimension in all of this will still keep us busy

There are natural follow-up questions that we will over the coming weeks. First, would Germany’s fiscal trajectories be compatible with EU fiscal rules or potentially incentivise a softer German stance on the EU beyond just defence spending? Our initial verdict would be that in an optimal or even middle-way scenario, compliance with the EU fiscal rules could be tight but not fully impossible for the next 3-4 years. If the currently proposed EU fiscal rule relaxation on defence were to become more generous than 1.5% of GDP of extra space vs 2021 thresholds, compliance would become less of a hassle.

Second, mechanically better German GDP growth by c 80-100bp vs the status quo over 2027-30 would lift the Euro area growth trajectory by c 20-30bp per year. On the one hand, better German domestic demand would naturally generate more export growth traction to EU partners, too, potentially accentuating the Euro area growth effects. C 3% of GDP in France, Italy and Spain is directed towards Germany (gross exports), and c 2/3rd of that is for German final domestic demand (OECD TiVA database, 2019 reference). On the other hand, the tightening of financial conditions delivered by the idiosyncratic German fiscal move could reduce the positive demand spillovers elsewhere. We will work through these numbers carefully over coming weeks.

UK

BoE review: Cautious hold

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Hold with a hawkish vote pattern

The BoE kept rates unchanged as expected. The voting pattern of 8-1 was hawkish, with one vote (Dhingra) for a 25bps cut, compared to our expectation of a 7-2 vote. We had flagged that the Committee has shifted less dovish since February, but the vote was even more hawkish than we were expecting. The surprise was that Mann who voted to cut rates by 50bps in February voted for unchanged rates in this meeting, a sign that her 50bps February cut vote isn't a signal of a continued dovish bias.

Gradual guidance amid high uncertainty

The BoE stuck to its gradual guidance, emphasizing a "careful", gradual and meeting-by-meeting approach as well as need for policy to remain restrictive, amid greater uncertainty. The BoE said that global trade uncertainty has intensified since February and risks to growth in a number of advanced economies are to the downside. The BoE said they will assess trade policies further at the May forecasts. At the same time, there is greater uncertainty on inflation persistence and whether growth weakness is supply or demand driven. In May we may also see a more formal inclusion of cases of growth weakness being supply or demand driven and the impact on inflation pressures in the scenarios that the BoE looks at.

With slight hawkish elements

At the same time there were slight hawkish elements. First the voting pattern. Second, the BoE upgraded their Q1 GDP growth forecast from 0.10% to 0.25% (though remains weak) and CPI inflation was still projected to rise to around 3¼% in 2025 Q3, despite the fall in energy prices. While there were concerns about growth weakness, there were also concerns on persistence of inflation. Third, the members who voted to keep rates on hold said "There was no presumption that monetary policy was on a pre-set path over the next few meetings" implying greater flexibility. At the same time, the minutes noted that domestic wage and price pressures are elevated but moderating and Bailey continued to stress that rates are on a gradually declining path.

We continue to expect the next cut in May

We continue to expect the next cut in May on the back of continued progress in domestic inflation (the latest labour market report showed some signs of moderation in monthly pay rises) and stick with our quarterly cutting path (three more quarterly 25bp cuts in 2025 and one in 2026). By May we would likely have more clarity on future fiscal policy ahead of the Spring Statement next week, global environment and tariffs as well as potential early signs on the passthrough of higher employment costs in April to inflation, jobs and wages.

As before, we judge that risks are for less cuts than more, and the BoE's cautious hold today increases those risks. We continue to think that the BoE is unlikely to switch to back-to-back cuts given inflation persistence risks, recent stabilization in growth and no signs of a sharp slowdown in the labour market (see [UK Watch: UK Labour market: Hanging in there 20 March 2025](#)), which we expect to continue.



Rates: Mann-oeuvres

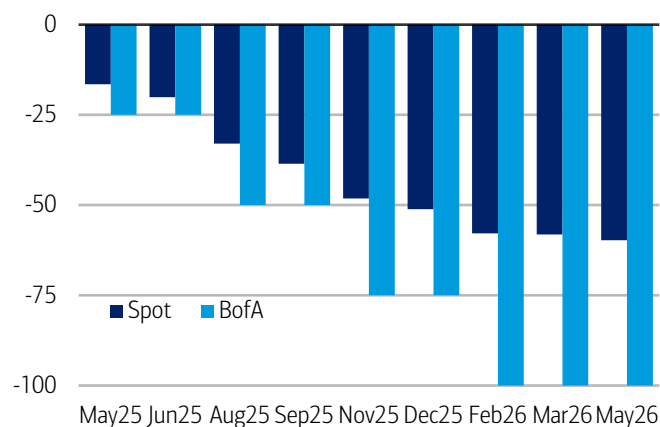
The two-year Sonia rate moved about 3bp higher immediately after the BoE's March Bank Rate decision and release of minutes of the MPC, suggesting the market viewed the statement and the 8-1 vote split as slightly hawkish. This interpretation is in line with our own read of the meeting as having some slight hawkish elements, but nothing that would change our expectation of three more quarterly 25bp Bank Rate cuts in 2025 and one in 2026, with risks to the upside. At the time of writing, the market is pricing in 16bp of Bank Rate cuts by May and 51bp by end-2025 (Exhibit 1).

We continue leaning towards receiving MPR dated meetings in the latter part of 2025, although the bar for entering received expressions has risen marginally once again after today's meeting. But we still see 50bp (or less) priced in for the rest of 2025 as a good threshold to monitor. We expect the market pricing of Bank Rate cuts in 2025 to remain in a tight 50-60bp range while uncertainty around domestic macro remains high.

Developments abroad will remain important also, with many investors formulating Bank rate views with the historical relationship to Fed Funds in mind. With BoE's Bank Rate rarely trading below Fed Funds historically, a further rethink of the Fed Funds path lower (for example, if the labour market collapses) would allow more space for Bank Rate cut pricing in the UK, we think. But UK rates should already have some more space to reprice lower even if the Fed is expected to stay on hold with the current proxy terminal rate spread having risen by 60bp since early February (Exhibit 2).

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

Market is pricing in 16bp of Bank Rate cuts by May and 51bp by year-end

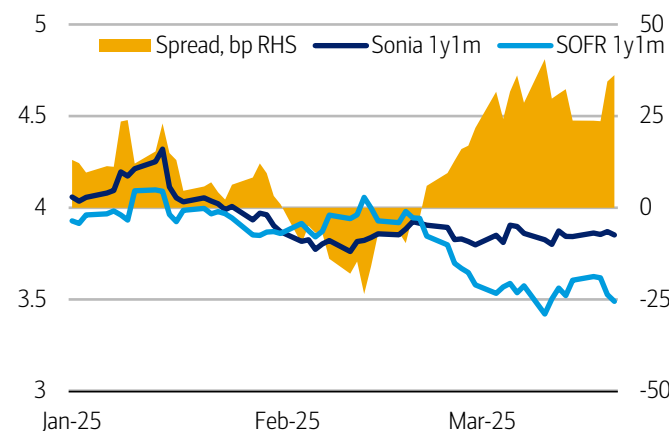


Source: Bloomberg, BofA Global Research

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Exhibit 7: Terminal rate pricing proxied by 1y1m OIS rates, %

Proxy terminal rate spread has risen by 60bp since early February



Source: Bloomberg, BofA Global Research

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GBP: Onto the Spring Statement

We had highlighted that that coming weeks were key in the near-term GBP outlook. With the employment report and BoE now out of the way, focus now shifts to the Spring Statement and inflation print next week.

On the margins, the March BoE meeting was slightly hawkish but in line with other central banks, uncertainty rules and the outlook is cloudy. The key buzz words that the MPC has leveraged increasingly in recent weeks were front and centre and confirms the quarterly approach to easing.

For GBP, a slight bid in the back of the labour market report and the BoE was perhaps expected but we think that caution will prevail at least into next week and with markets in consolidation mood ahead of month-end. We remain structural GBP bulls as the bearish consensus continues to be challenged and as the likelihood of enhanced UK-EU relations appears to be the direction of travel particularly around security and defence. We continue to favour GBP longs vs CHF and EUR

Inflation preview

We expect inflation to fall slightly from 3.0% to 2.9% in February, 10bps higher than the BoE's forecast with a fall in core inflation from 3.7% to 3.6%. We expect RPI inflation to rise from 3.6% to 3.7%.

Services inflation is likely to fall slightly from 5.0% to 4.9%, 20bps lower than the BoE's forecast. Risks to services inflation are to the upside given packaged holidays and accommodation price changes have been weak for the past few months and there is some risk of a bounce back. Core goods inflation is likely to fall from 1.6% to 1.5%.

We expect energy inflation to fall from -6.6% to -6.8%. Weekly petrol prices rose in February, but less than last year. Food inflation should rise slightly from 3.3% to 3.4%, reflecting the pick-up in BRC food inflation in February. The big jump in food price inflation from 2.0% in December to 3.3% could reflect some passthrough of higher employment costs (higher National Insurance Contributions/National Living Wage and lower NICs thresholds) to food prices. The rise in alcohol duties in February is likely to add ~2-3bps to headline inflation.

Focus next week will also be on the Spring forecasts- our expectations are in this note:

[UK Viewpoint: Spring forecasts: Hitting the ceiling 06 March 2025.](#)

Hot Topic 1

Impressions from Rome: multiple moving targets

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- Our impression is that the current period of domestic calm on the macro front (incl domestic politics) is set to continue.
- In the context of the EU debate for higher defence spending, we heard a message of prudence amid Italy fragile fiscal equation.

Macro: main risks stem from abroad

We hosted a trip with investors in Italy to meet, among others, with policymakers, politicians and institutions. We left with the impression that the current period of domestic calm on the macro front is set to continue, with an ongoing cyclical recovery, commitment to fiscal prudence and limited risks to government stability. Yet the list of external risks is long, with many clearly skewed to the downside in the short term. In the context of the EU debate for higher defence spending, despite recent headlines suggesting different positions across ruling parties, we welcomed the message of government unity in our discussions with political representatives.

DSA considerations weigh on defence spending debate

The most frequently asked question was about the ability/appetite for Italy to increase defence spending at a national level, given the country's fragile fiscal equation. Overall, we heard reluctance to add to the burden on the debt-to-GDP profile. Moreover, the composition of the "defence spending basket" will be key not only for the fiscal multiplier but also the "political multiplier". What was clear is that Italy dismisses the idea of reallocating existing EU funds (under NGEU and/or cohesion funds) to defence. This fits with our a priori view that relaxing fiscal rules for countries with little fiscal space is unlikely to boost defence expenditure immediately (see [Europe Economic Weekly: Paradigm shift](#)).

Overall message consistent with our macro outlook...

The overall message tallies with our newly revised EA macro outlook (see [Europe Economic Weekly: Hoping for the best, preparing for the worst](#)). We forecast GDP growth at 0.6% this year (-20bp) and 0.9% (-10bp) next. The 2025 annual average reflects mark-to-market after 4Q data as well as a weaker capex recovery amid high policy uncertainty and a tightening of financial conditions. For 2026, lower carryovers from 2H25 actually mask an acceleration in sequential growth, especially in 2H. Our forecasts assume also only a minor increase in defence spending, mostly in 2026. Embedding the above-described cyclical deterioration as well, we now anticipate a fiscal deficit north of 3% of GDP in both years, with debt-to-GDP reaching 141.4% by 2026.

... and point to a 2-phase move in BTP-Bunds

The downside pressures on 2025 growth and uncertain environment can justify wider 10y BTP-Bund spreads near term, possibly up to 130bp. However, more medium term, we see 3 factors that can allow the spread to tighten towards 100bp or less: (1) hopes of improved Euro Area potential growth, driven by Germany, (2) continued progress in developing joint European instruments, and (3) strong demand for BTPs from banks (benefiting from cheapness versus swaps) and foreign investors (for carry purposes) (see [Global Rates Weekly: Everything happens for a Riesling, 14 March 2025](#)).



Government stability to continue until 2027

Our meetings with political representatives revealed a widespread consensus that the current government would continue until 2027 (when the next general election will take place). This reflects: i) a lack of political alternatives to the ruling coalition (with opposition parties still searching for a strategy to build a left-leaning coalition) and ii) incentives to remain united in the ruling coalition for both PM Meloni's party and its junior partners (though growing approval ratings in the polls for Brothers of Italy could increase appetite for a government reshuffle).

Also, risks to the current political stability seem limited. First, despite different positions within the ruling coalition on defence matters, this week's hearing PM Meloni in Parliament confirmed a willingness for political unity on the matter. Second, the few local/regional elections this year as well as the League party's national congress in the first week of April are unlikely to have any national implications. Third, approval for constitutional reform of the "premiership" (one of PM Meloni's flagship proposals, with a confirmatory referendum likely needed to pass it) no longer appears a top priority for the government.

Defence is not an "easy" political topic

What we learnt in Rome on the defence topic was confirmed this week by PM Meloni's comments addressing the Parliament. The position of the Italian government can be summarized as follows: 1) extra defence spending should be financed with new money and not via a reallocation of existing EU or national money, 2) higher defence spending should not jeopardise public finances (and Italy will carefully assess the measures proposed by the EC under "ReArmEU", including the SAFE-loan scheme), and consequently 3) Finance Minister Giorgetti's proposal of a public guarantee aimed at mobilizing private defence investments is a preferred option to complement ReArmEU tools (i.e. relaxed national spending limits and additional EU loans).

At the time of our meetings, details on the categories for which extra fiscal resources might be destined (defence equipment vs R&D and technology) were scarce. But clearly those matter to i) frame the need for defence spending to the electorate (back in 2022 defence spending was not a big electoral campaign topic), and ii) complement deficit-eroding fiscal commitments (if any) with domestic growth considerations. Recall that Italy's defence spending stands at ca 1.5% of GDP (as per NATO's definition for 2024). For reference, reaching a defence spending-to-GDP ratio of 2%/2.5%/3% would require additional spending of ca EUR11bn, EUR22bn and EUR32bn, respectively.

Exhibit 1: Sensitivity to interest rate shocks

Given the current debt structure, the Treasury's rate sensitivity to a 100 bps parallel shift in the yield suggests limited impact

Interest expenditure/GDP (%)

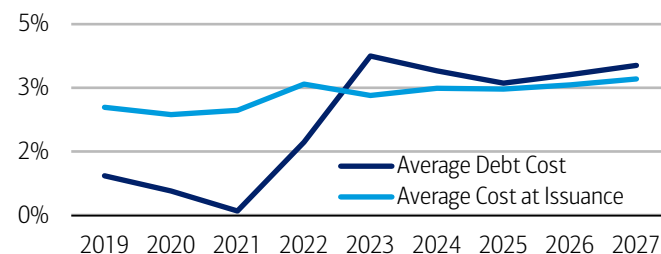
	Update Apr. 23	Update Apr. 24	Update Sep. 24	Update Jan. 25
t+1	0.14	0.14	0.12	0.12
t+2	0.34	0.34	0.31	0.31
t+3	0.51	0.51	0.45	0.46

Source: MEF, Italian Public Debt Department

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Exhibit 9: Average Debt Cost vs Average Cost at Issuance

Average debt cost rather stable despite increases in the cost at issuance in 2022-23



Source: MEF, Italian Public Debt Department. Note Average cost at issuance with SURE and NGEU loans from 2020. Forecasts consistent with Italy's MT Fiscal Structural Plan (FSP) Sept. 2024.

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April fiscal update will come with the Annual Progress Report

Italy will publish its Annual Progress Report (APR) around 10th April. The document (which replaces the old Stability Law in line with the guidelines of the new EU fiscal framework) will update short-term deficit and debt projections. Recall that Italy's Medium-term Fiscal-Structural Plan assumes that deficit-to-GDP will dip below 3% by 2026 (with



deficit forecasts at 3.3% in 2025 and 2.8% in 2026) while the debt ratio should remain on an upward trend until 2027 (given the legacy of the Superbonus). Despite the very cautious message from the Treasury on a defence-related deficit deterioration at least this year and next, we anticipate small downward revisions to deficit targets, not least because of the EUR3bn energy support package announced earlier in March for low-income households.

On interest rate front, risks on fiscal equation from the increase in yields following German fiscal plans looks contained for now (Exhibit 1 and Exhibit 2).

RRP implementation: a likely slippage into 2027

Unlike previous fieldtrips to Rome, focus on RRP implementation has faded. That could partially reflect that Italy, relatively speaking, is doing well vs EU peers (Exhibit 3). Equally, it could reflect that the bar for punctual implementation is particularly high this year and next given that deployment of funds has been forwarded more towards the end of the RRP horizon (Exhibit 5) – which could explain a wait-and-see approach among investors (see more details in: Euro Area Viewpoint: Italy in 2025 - average is the new norm, [28 January 2025](#)). Latest data presented by the Treasury also shows that ca 90% of EU funds have already been allocated. That was mentioned as a reason that reallocation of NGEU funds towards new expenditure items (ie like defence) would not be at all straightforward in this phase of RRP implementation (Exhibit 4).

Exhibit 3: National RRP implementation: comparison with other countries

Italy, relatively speaking, is doing well vs EU peers

	BE	BG	CZ	DK	DE	EE	IE	EL	ES	FR	HR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE
Payment Requests	2x	2x	3x	3x	2x	3x	2x	5x	5x	4x	6x	7x	4x	3x	3x	2x		3x	2x	1x	3x	6x	3x	3x	5x	2x	1x
Instalments Paid	1x	1x	3x	2x	2x	2x	1x	4x	4x	3x	5x	6x	2x	2x	3x	1x		2x	1x	1x	3x	5x	2x	3x	4x	1x	

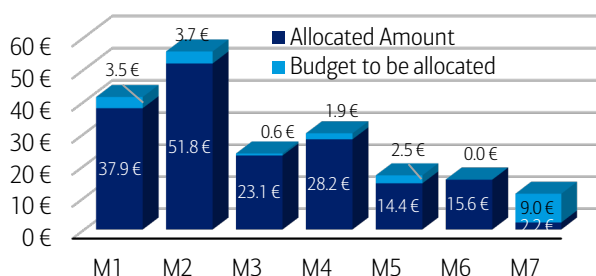
Source: MEF

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As for the latest figures, so far Italy has received EUR122bn, amounting to ca 63% of the total envelope. The latest numbers (as for Nov 2024) show that RRP's actual spending amounts to c.EUR61bn, corresponding to 70% of total funds planned in 2021-24 and 30% of resources planned for 2024. This confirms that actual spending is proceeding more slowly, leaving the risk of slower implementation/an inability to spend all the available envelope intact. Notably, from our discussions with the Treasury, the working assumption is that the first half of 2027 would still be compliant with full spending of EU funds (on the basis of the lags between receiving vs spending the funds across the different tranches). Also, slippage of at least EUR10-12bn into 1H27 seems consistent with today's state of play.

Exhibit 11: Allocated amount per mission under Italian RRP

As of Nov 2024, ca EUR173bn was allocated across RRP missions vs EUR21bn of unallocated funds

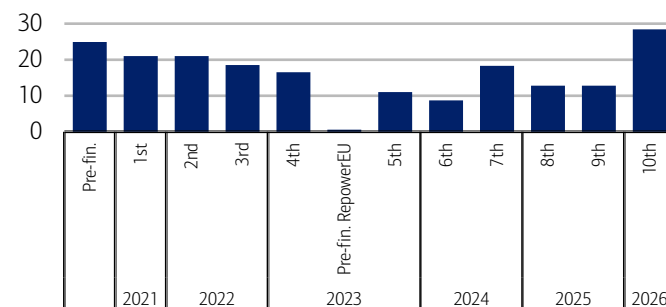


Source: MEF

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Exhibit 12: Planned financial flows (update as of Nov 24)

The latest schedule foresees ca EUR54bn being attached to instalments planned for 2025/2026



Source: MEF

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Hot Topic 2

SNB review: the end of a cycle

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The 25bp cut marks the end of the SNB cutting cycle

As expected, the SNB cut by 25bp yesterday, lowering the policy rate to 0.25%. Also as we anticipated, the central bank kept the reference to its willingness to “*be active in the foreign exchange market as necessary*” as well as “*adjust its monetary policy if necessary to ensure inflation remains within the range consistent with price stability over the medium term*”. We stick to our call that this was the last SNB move of this cutting cycle. SNB President Schlegel said the probability of further easing had reduced, cementing our view that the policy rate will stay at a terminal level of 0.25% in 2025/26.

Optionality needed given the uncertain outlook

The wording from the SNB, stressing the willingness to reassess the monetary policy stance and deploy all SNB tools (policy rate changes and FX interventions) if needed, coupled with the current proximity to the zero lower bound, suggests it is keen to preserve maximum optionality. When asked, SNB President Schlegel also refrained from committing to a future rate path. This reflects considerable uncertainty over the macro outlook (with “*uncertainty*” featuring multiple times in both the statement and the press conference). That said, risks around the macro outlook (note the wording “*given the low inflationary pressure and the heightened downside risks to inflation*”) in turn mean that risks on the policy rate front are skewed to further easing – rather than vice versa.

FX interventions to cope with safe haven flows

Throughout 2024 the SNB refrained from sizable FX interventions. Given its two-sided toolbox, we think discretionary interventions could be the central bank’s additional policy tool of choice, especially in the context of safe-haven flows predominantly driven by geopolitical risks and global policy uncertainty. If needed, the SNB could deploy FX interventions to curb appreciation, especially amid excessive market volatility.

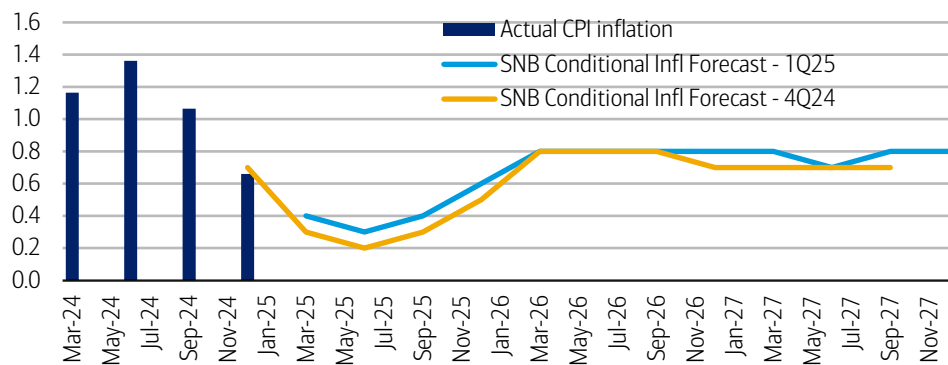
New inflation forecast consistent with no more cuts

Also as expected, new conditional inflation forecasts were little changed vs December, at 0.4% this year and 0.8% for 2026/27 (Exhibit 1). This includes a marginal upward revision from the December forecasts of 10bp this year. The SNB shed no light on the FX impact on inflation in the statement, instead emphasising mainly domestic price developments. Notably, the small upward revision of the medium-term inflation quarterly path from 4Q26 onwards underscores the low probability of the SNB delivering further policy rate easing this year and next, in our view.



Exhibit 13: Swiss inflation vs SNB conditional forecasts

Small revisions in March conditional forecasts for 2025. 2027 inflation forecast consistent with no more cuts down the line



Source: SNB, BofA Global Research

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Rates: market prices in lower trough following cut

After yesterday's 25bp cut, the rates market and the SNB have begun to deviate. Schlegel stated that the cut has an expansionary impact and "in that sense, the probability of additional policy easing is naturally lower". This was, however, met with a front-end rally as the market is now pricing in an implied Saron rate of 0.13% post the September meeting.

If safe-haven flows pick up, as the SNB approaches the zero lower bound, the probability of FX intervention increases. Going forward, to the extent monetary policy conditions may be increasingly loosened via FX rather than interest rate policy, we would expect the SNB to make greater use of liquidity measures to ensure market rates do not detach excessively from policy rates. This may include greater use of liquidity-absorbing tools such as SNB bills and repos.

FX: Lower for longer

FX interventions will now be front and centre as the main policy tool, though we believe this will be used sparingly and in circumstances where the SNB deems CHF moves as sharp and volatile and a threat to price stability.

With policy rates now at terminal, the logical step for rates markets would be to price in the timing of the first hike. However, with inflation forecasts set to be significantly below target, we think lower for longer is perhaps the best characterisation of the rate profile moving ahead. Simply put, whilst other major central banks are grappling with stagflationary risks, the challenge for the SNB is to ensure inflation does not fall even further over the forecast horizon.

As with many central banks who have met in recent weeks, the SNB has taken a risk management approach to policy setting against the backdrop of tariff risks and geopolitical dynamics. We doubt, however, that the CHF will materially react to these events, largely because the currency has been a localised hedge rather than a global one and the correlation between US yields and CHF remains strong,

Instead, we are focusing on the game-changing events in Europe, which we think provide the catalyst for a step adjustment higher in EUR/CHF. In particular, global asset reallocation into European markets is one reason why CHF will likely weaken over the medium term. For this reason, we believe that the direction of travel is for a higher EUR/CHF, as some of the risk premium that has been associated with Eurozone is priced out. We think a meaningful medium-term rally in EUR/CHF is predicated on the view that the fiscal bazooka in Germany will encourage a flight towards EZ. This leaves with us with an upside bias in EUR/CHF.

Hot Topic 3

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Riksbank review: forward-looking on inflation On hold, stable path

The Riksbank remained on hold at 2.25% with flat policy rate path ahead, as expected. Heading into the meeting, the main point of focus for us was the Riksbank's interpretation of the Jan/Feb inflation surprises and the new forecasts. This is the key for the reaction function this year. The Riksbank remained clearly forward-looking this week, as we hoped – they view this as a transitory upside driven mainly by food and basket effects and the forecasts of inflation further out remained unchanged. With CPIF inflation still projected to be slightly below target in 2026 (1.9%, Exhibit 1) discussions on upward adjustments still seem premature. As expected, the Board reiterated that they stand ready to act in any direction and Governor Thedéen confirmed that he sees the risks to the outlook as balanced.

Hope for the future, but near-term risks to the downside

Sweden's recovery is fragile and the signals on the economy in 1Q25 are still very mixed. The revisions in the past data indicate a stronger performance than expected in 2H24, but the available forward-looking data remains weak. In the near-term, the Riksbank has to weigh the weak economy against higher inflation – we think this week's meeting shows that the Board is still keeping the focus on growth and the labour market, which creates downside risks to the path.

Uncertainty measures are at record-highs, the April tariff deadlines are looming and the domestic demand recovery assumed by the Riksbank is far from granted. While we acknowledge that our base case of one further cut this year (we had pencilled in that June) is under increasing pressure and a long-term pause is getting more and more likely, we think some clearer evidence on the growth side is needed. As for the ECB, we keep our bearish stance vs market pricing. Developments on the defense side are going to be significant for Sweden, so some repricing in markets for the years ahead is understandable, but we doubt any of that will boost growth in the near-term. We will reassess our Swedish outlook in the coming weeks, to fully incorporate the important fiscal/defense developments for the medium-term outlook.

SEK: meeting less hawkish than expected. We are bullish

The Riksbank was slightly less hawkish than markets expected. Markets expected the Riksbank's rate path to be skewed toward hikes; instead, we got a flat path (Exhibit 2), in line with our economists' base case. In addition, the Riksbank was rather reassuring about the recent upside inflation surprises. As a result, SEK traded slightly softer after the Riksbank decision although broad market sentiment also played a key role, we think.

We are very constructive on SEK going forward, looking for EUR-SEK at 10.40 by year-end (USD-SEK 9.04). One reason for this is our expectation of a more hawkish Riksbank stance relative to the ECB given market pricing. But the main reason we are bullish SEK are the game-changing developments in Germany, also given its tight trade relationship to Sweden – they are also a key reason for our 1.15 year-end EUR-USD forecast. SEK also stands to benefit from more defence spending at either the national (Sweden has plenty of fiscal space – media has reported a potential increase to 3-5% of GDP from c. 2.5% this year, with details of course vague) – or the EU level, and from a potential Ukraine peace deal alongside lower energy prices. Meanwhile, SEK positioning has “only” turned neutral from slightly short at the start of the year (Exhibit 3). On NOK-SEK, we see more downside near term – SEK can benefit more than NOK from positive European developments.



Exhibit 1: Riksbank inflation forecasts – March 2025

Riksbank sees the Jan/Feb inflation pick-up as largely temporary

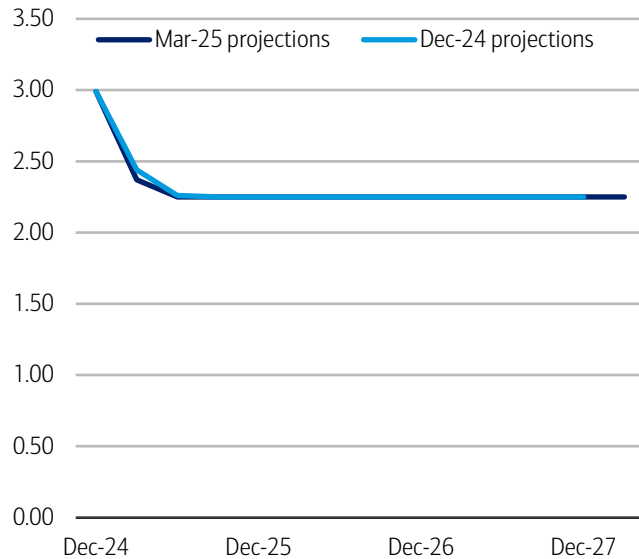
	2024		2025		2026		2027	
	Actual	Previous	Actual	Previous	Actual	Previous	Actual	Previous
CPIF	1.9	(1.9)	2.5	(2.0)	1.9	(1.9)	2.0	(2.0)
CPIF ex. Energy	2.6	(2.7)	2.9	(2.2)	2.0	(2.0)	2.0	(2.0)
CPI	2.8	(2.9)	1.0	(0.6)	1.8	(1.8)	2.1	(2.0)
HICP	2.0	(2.0)	2.3	(1.9)	1.9	(1.9)	2.0	(2.0)

Source: Riksbank

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Exhibit 15: Riksbank policy rate path projections (% , quarterly average)

The Riksbank projects a flat rate path going forward

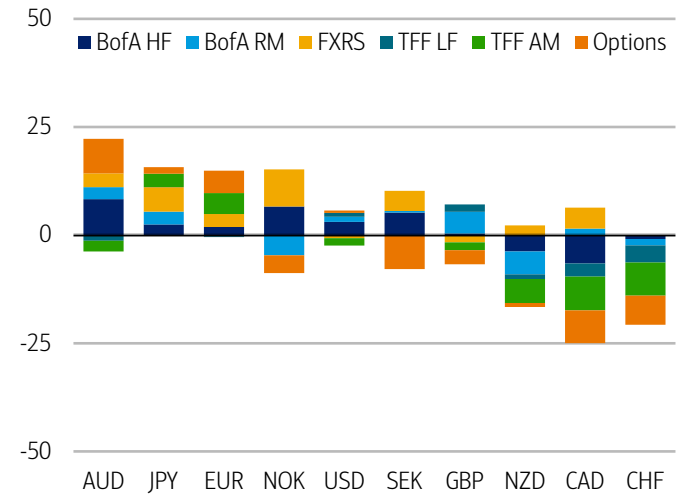


Source: Riksbank

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Exhibit 16: Latest aggregate G10 FX positioning

Market turned neutral SEK overall, from slightly short at the start of the year



Source: BofA Securities, Bloomberg. +50 (-50) represents max long (short) positioning vs history. Aggregate positioning is the unweighted average of BofA HF, BofA RM, FXRS, TFF LF, TFF AM and FX options. HF: Hedge Funds, RM Real Money, FXRS: FX and Rates Sentiment Survey, TFF: Traders in Financial Futures, LF: Leveraged Funds, AM: Asset Managers

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Hot Topic 4

Norges Bank Preview: on the margin, a hold

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- March very close call - we summarize the main arguments for cut/hold. We think yesterday's RNS tipped balance towards a hold.
- If they hold, we expect guidance for between 1 and 2 cuts in total this year. We pencil in cuts in Sep/Dec, Jun likely live.
- NOK: slight upside risks from Norges next week.

Still a very close call, we look into the arguments

Norges Bank's March meeting has attracted a lot of client attention in the last few days – the cut was supposed to be a done deal, but then a very high February inflation print and this week's Regional Networks Survey (RNS) came in the way.

With this uncertainty, we can only take a step back and look at the dataflow. We think there are very valid arguments both ways – we summarize the main ones in this note. Main points for a hold, in our view: 1) big Feb inflation surprise, 2) the upbeat RNS 1Q25 survey, 3) strong wage growth, 4) resilience of the labour market and 5) upbeat house prices. Main arguments for a cut: 1) very clear guidance for a cut, 2) disappointing GDP growth in 2024, especially 4Q24, 3) normalization in the medium-term inflation outlook and 4) stronger NOK and lower oil prices.

We think RNS tipped balance towards a hold

We think the stronger output numbers in Thursday's RNS survey weakened the most pressing argument for a cut this month, ie the weaker growth data in 4Q24. The move lower in wage growth expectations was marginally dovish, but the survey data was collected before the Feb inflation surprise. It remains a close call, but we now think a hold has become more likely than cut.

Regardless of March, upward revision of the path

Regardless of the outcome in March, an upward revision of the rates path is very likely. Before the upside surprise in inflation, we had stated a base case of 3 cuts this year – this has become unlikely. In case of a hold, we would expect them to signal between 1 and 2 cuts for the whole year – we keep two rate cuts this year, tentatively Sep/Dec but June is very much live. In case of a hawkish cut next week, we expect them to signal some probability of one more cut by year-end.

NOK: slight upside risks from Norges

We see slightly upside NOK risks into Norges' meeting. The recent domestic newsflow (Feb CPI and the Regional Network Survey) has been clearly hawkish, but the market already prices a small chance of a cut next week and around 1.5 rate cuts in total. Beyond the near term, we expect Norges Bank's relative stance to support NOK, with carry becoming more attractive over its course. But fewer rate cuts could also mean slower growth down the road. Norges aside, NOK can continue benefitting from positive developments in Europe, even if by less relative to SEK. We forecast EUR-NOK at 11.00 and USD-NOK at 9.57 by year-end. We see fresh NOK-SEK downside in 1H.



European forecasts

Exhibit 6: Euro area economic forecasts

We continue to hold high conviction in 1.5% terminal this year, but less in getting there as early as Sep. A first hike can follow in late-26.

		2023	2024	2025	2026	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26
GDP	% qoq					0.3	0.2	0.4	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
	% qoq ann.					1.3	0.7	1.7	0.9	0.7	0.8	0.8	0.9	1.1	1.2	1.2	1.4
	% yoy	0.5	0.8	0.9	1.1	0.5	0.5	1.0	1.2	1.0	1.0	0.8	0.8	0.9	1.0	1.1	1.2
Private Consumption	% qoq					0.5	0.0	0.6	0.4	0.2	0.2	0.3	0.3	0.3	0.2	0.3	0.3
	% yoy	0.6	1.0	1.2	1.1	1.0	0.6	1.1	1.5	1.2	1.5	1.2	1.0	1.1	1.1	1.1	1.0
Government Consumption	% qoq					0.3	1.1	0.9	0.4	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3
	% yoy	1.4	2.8	1.6	1.1	2.2	3.0	3.1	2.8	2.7	1.7	1.1	0.9	1.0	1.1	1.2	1.2
Investment	% qoq					-2.0	-2.5	1.8	0.6	0.2	0.1	0.0	0.0	0.3	0.4	0.5	0.6
	% yoy	2.0	-2.0	1.0	1.0	-1.0	-3.2	-1.6	-2.1	0.0	2.7	0.9	0.3	0.4	0.7	1.2	1.8
Final Domestic Demand ¹	% qoq					-0.1	-0.3	0.9	0.5	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
	% yoy	1.0	0.7	1.2	1.0	0.7	0.3	0.9	0.9	1.2	1.7	1.0	0.8	0.9	1.0	1.1	1.2
Net exports ¹	% qoq					0.6	0.3	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	% yoy	0.3	0.4	-0.3	0.0	0.4	1.1	0.0	0.0	-0.6	-0.8	0.1	0.1	0.0	0.0	0.0	0.0
Stockbuilding ¹	% qoq					-0.2	0.2	0.4	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	% yoy	-0.8	-0.3	0.0	0.0	-0.7	-0.8	0.0	0.2	0.3	0.2	-0.3	-0.1	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	241	419	411	415	108	134	84	93	108	97	99	107	110	99	99	107
	% of GDP	1.6	2.8	2.6	2.6	2.9	3.6	2.2	2.4	2.8	2.5	2.5	2.7	2.8	2.5	2.5	2.6
Industrial production	% qoq					-0.6	-0.3	-0.3	-0.4	-0.2	0.6	0.5	0.5	0.7	1.0	0.8	0.8
	% yoy	-1.6	-3.0	0.0	2.8	-4.6	-4.0	-1.6	-1.6	-1.3	-0.4	0.4	1.4	2.3	2.7	3.0	3.3
Unemployment rate ³	%	6.5	6.6	7.0	6.8	6.8	6.8	6.7	6.7	7.0	7.1	7.1	7.2	7.2	7.2	7.1	7.1
CPI (harmonised) ⁴	% qoq					0.2	1.5	0.2	0.2	0.3	1.0	0.1	0.1	0.0	1.4	0.2	0.1
	% yoy	5.5	2.4	1.8	1.6	2.6	2.5	2.2	2.2	2.3	1.8	1.7	1.5	1.2	1.6	1.7	1.7
CPI (core) ⁴	% qoq					0.0	2.1	0.5	0.2	-0.2	1.6	0.1	0.1	-0.2	1.9	0.1	0.0
	% yoy	5.0	2.7	1.9	1.8	3.1	2.8	2.8	2.7	2.5	2.1	1.6	1.5	1.6	1.9	1.9	1.8
General govt balance	% of GDP	-3.5	-3.0	-3.0	-2.9												
General govt debt	% of GDP	87.4	87.7	88.9	90.1												
Deposit rate		4.00	3.00	1.50	1.75	4.00	3.75	3.50	3.00	2.50	2.00	1.50	1.50	1.50	1.50	1.50	1.75

Source: BofA Global Research, Notes: 1 Contribution to GDP growth 2 Excluding construction, sa, quarterly averages 3 Period averages 4 Period averages, quarterly change

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Exhibit 7: UK economic forecasts

Entrenched inflation, slow BoE

		2023	2024	2025	2026	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26
GDP	% qoq					0.8	0.4	0.0	0.1	0.4	0.4	0.4	0.4	0.3	0.2	0.3	0.3
	% qoq ann.					3.4	1.8	-0.1	0.4	1.8	1.8	2.3	1.8	1.2	0.8	1.4	1.4
	% yoy	0.4	0.9	1.4	1.4	0.5	0.9	1.0	1.4	1.0	1.0	1.6	1.9	1.8	1.5	1.3	1.2
Private Consumption	% qoq					0.8	0.1	0.6	-0.1	0.2	0.2	0.3	0.4	0.4	0.4	0.4	0.4
	% yoy	0.5	0.7	1.0	1.4	0.3	-0.1	1.3	1.3	0.8	1.0	0.8	1.3	1.4	1.5	1.5	1.4
Government Consumption	% qoq					0.3	0.8	0.3	0.8	0.6	0.6	0.5	0.4	0.4	0.2	0.3	0.4
	% yoy	1.0	2.0	2.4	1.6	3.2	1.8	0.9	2.1	2.5	2.3	2.6	2.3	2.0	1.6	1.4	1.4
Investment	% qoq					0.9	0.7	1.0	-0.9	0.3	0.6	0.9	1.0	0.7	0.3	0.3	0.3
	% yoy	0.3	1.3	1.5	2.6	-1.0	0.9	3.5	1.7	1.1	1.0	0.9	2.9	3.2	3.0	2.4	1.7
Final Domestic Demand ¹	% qoq					0.7	0.3	0.6	0.0	0.3	0.4	0.5	0.5	0.4	0.3	0.3	0.4
	% yoy	0.6	1.1	1.4	1.7	0.7	0.5	1.6	1.6	1.2	1.3	1.2	1.8	1.8	1.8	1.6	1.5
Net exports ¹	% qoq					0.3	-2.2	0.6	-1.5	0.6	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
	% yoy	0.5	-1.3	-0.8	-0.3	0.3	-1.4	-1.1	-2.7	-2.4	-0.3	-1.0	0.4	-0.3	-0.3	-0.3	-0.3
Stockbuilding ¹	% qoq					-0.2	2.3	-1.3	1.6	-0.5	0.1	0.2	0.0	-0.1	-0.1	0.1	0.1
	% yoy	-0.7	1.1	0.8	0.0	-0.5	1.9	0.5	2.5	2.2	1.9	1.4	-0.2	0.2	0.0	-0.1	0.0
Current Account Balance	% of GDP	-2.2	-3.0	-3.5	-3.7	-1.7	-3.5	-2.6	-4.1	-3.4	-3.5	-3.5	-3.6	-3.6	-3.7	-3.7	-3.8
Manufacturing output	% qoq					0.6	-0.8	0.0	-0.8	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6
	% yoy	1.0	-0.7	0.5	2.4	1.2	-1.3	-1.4	-1.1	-1.3	0.2	0.8	2.2	2.4	2.4	2.4	2.4
Unemployment rate ²	%	4.1	4.3	4.5	4.6	4.3	4.2	4.3	4.4	4.5	4.5	4.5	4.5	4.6	4.6	4.6	4.6
RPI Inflation ²	% yoy	9.7	3.6	4.1	3.1	4.6	3.0	3.3	3.5	3.6	4.5	4.8	3.7	3.5	2.9	2.9	2.9
CPI Inflation (harmonised) ²	% yoy	7.3	2.5	3.1	2.2	3.5	2.1	2.0	2.5	2.9	3.4	3.5	2.8	2.5	2.0	2.1	2.2
CPI (core) ²	% yoy	6.2	3.7	3.2	2.3	4.6	3.6	3.3	3.3	3.7	3.4	3.1	2.8	2.6	2.2	2.2	2.2
General govt balance ⁵	% of GDP	-4.5	-4.6	-3.7	-3.0												
General govt debt ^{3,5}	% of GDP	97.1	98.5	96.8	97.0												
General govt debt	% of GDP	101.3	102.7	104.0	104.4												
Bank Rate ⁴	%	5.25	4.75	3.75	3.50	5.25	5.25	5.00	4.75	4.50	4.25	4.00	3.75	3.50	3.50	3.50	3.50

Source: BofA Global Research. Notes: 1 Contribution to GDP growth 2 Period averages 3 Excludes Nationalised banks, and thus is not on Maastricht basis 4 End period, 5 Fiscal years

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Calendar for the week ahead

Exhibit 8: European Economic calendar

Key data for the next week

	GMT	Country	Data/Event	For	BofAe	Cons.†	Previous	Comments
27 March - 2 April								
★★★	07:00	Germany	Retail Sales (mom)	Feb	-0.1%	--	0.2%	
Monday, 24 Mar								
★★★	08:15	France	Manufacturing PMI (P)	Mar	45.6	--	45.8	
★★★	08:15	France	Services PMI (P)	Mar	46.0	--	45.3	
★★★	08:15	France	Composite PMI (P)	Mar	45.3	--	45.1	
★★★	08:30	Germany	Manufacturing PMI (P)	Mar	46.3	--	46.5	
★★★	08:30	Germany	Services PMI (P)	Mar	51.3	--	51.1	
★★★	08:30	Germany	Composite PMI (P)	Mar	50.4	--	50.4	
★★★	09:00	Euro area	Manufacturing PMI (P)	Mar	47.4	--	47.6	
★★★	09:00	Euro area	Services PMI (P)	Mar	50.4	--	50.6	
★★★	09:00	Euro area	Composite PMI (P)	Mar	50.0	--	50.2	
★★★	09:30	UK	Manufacturing PMI (P)	Mar	46.5	--	46.9	
★★★	09:30	UK	Services PMI (P)	Mar	51.5	--	51.0	
★★★	09:30	UK	Composite PMI (P)	Mar	50.5	--	50.5	
Tuesday, 25 Mar								
★★★	09:00	Germany	IFO Business Climate	Mar	85.7	--	85.2	
★★★	09:00	Germany	IFO Current Assessment	Mar	84.5	--	85.0	
★★★	09:00	Germany	IFO Expectations	Mar	87.0	--	85.4	
★★	11:00	UK	CBI Total Dist. Reported Sales	Mar	n.a.	--	-26.0	
★★	11:00	UK	CBI Retailing Reported Sales	Mar	n.a.	--	-23.0	
★★★	09:00	Germany	IFO Business Climate	Mar	85.7	--	85.2	
★★★	09:00	Germany	IFO Current Assessment	Mar	84.5	--	85.0	
★★★	09:00	Germany	IFO Expectations	Mar	87.0	--	85.4	
★★	11:00	UK	CBI Total Dist. Reported Sales	Mar	n.a.	--	-26.0	
★★	11:00	UK	CBI Retailing Reported Sales	Mar	n.a.	--	-23.0	
Wednesday, 26 Mar								
★★	05:30	Netherlands	GDP (qoq, F)	4Q	0.4%	--	0.4%	
★★	05:30	Netherlands	GDP Constant Price (nsa, yoy, F)	4Q	1.8%	--	1.8%	
★★★	07:00	UK	CPI (mom)	Feb	n.a.	--	-0.1%	
★★★	07:00	UK	CPI (yoy)	Feb	2.9%	--	3.0%	
★★★	07:00	UK	CPI Core (yoy)	Feb	3.6%	--	3.7%	
★★★	07:00	UK	CPI Services (yoy)	Feb	4.9%	--	5.0%	
★★★	07:00	UK	Retail Price Index	Feb	n.a.	--	391.7	
★★★	07:00	UK	RPI (mom)	Feb	n.a.	--	-0.1%	
★★★	07:00	UK	RPI (yoy)	Feb	3.7%	--	3.6%	
★★★	07:00	UK	RPI Ex Mort Int. Payments (yoy)	Feb	n.a.	--	3.2%	
★★	07:45	France	Consumer Confidence	Mar	93.0	--	93.0	
★★★	08:00	Spain	GDP (qoq, F)	4Q	0.8%	--	0.8%	
★★★	08:00	Spain	GDP (yoy, F)	4Q	3.5%	--	3.5%	
★★★	09:30	UK	House Price Index (yoy)	Jan		--	4.6%	
Thursday, 27 Mar								
★★★	08:00	Spain	Retail Sales (sa, yoy)	Feb	2.0%	--	2.2%	
★★★	09:00	Norway	Deposit Rates	27-Mar	4.50%	--	4.50%	
★★★	09:00	Euro area	M3 Money Supply (yoy)	Feb	3.6%	--	3.6%	
Friday, 28 Mar								
★★★	07:00	UK	GDP (qoq, F)	4Q	0.1%	--	0.1%	
★★★	07:00	UK	GDP (yoy, F)	4Q	1.4%	--	1.4%	
★★★	07:00	UK	Private Consumption (qoq, F)	4Q	0.0%	--	0.0%	
★★★	07:00	UK	Government Spending (qoq, F)	4Q	0.8%	--	0.8%	
★★★	07:00	UK	Gross Fixed Capital Formation (qoq, F)	4Q	-0.9%	--	-0.9%	
★★★	07:00	UK	Exports (qoq, F)	4Q	-2.5%	--	-2.5%	
★★★	07:00	UK	Imports (qoq, F)	4Q	2.1%	--	2.1%	
★★★	07:00	UK	Total Business Investment (qoq, F)	4Q	-3.2%	--	-3.2%	
★★★	07:00	UK	Total Business Investment (yoy, F)	4Q	-0.7%	--	-0.7%	
★★	07:00	Germany	GfK Consumer Confidence	Apr	-25.0	--	-24.7	
★★★	07:00	UK	Retail Sales Ex Auto Fuel (mom)	Feb	n.a.	--	2.1%	
★★★	07:00	UK	Retail Sales Ex Auto Fuel (yoy)	Feb	n.a.	--	1.2%	
★★★	07:00	UK	Retail Sales Inc Auto Fuel (mom)	Feb	-0.5%	--	1.7%	
★★★	07:00	UK	Retail Sales Inc Auto Fuel (yoy)	Feb	n.a.	--	1.0%	
★★★	07:00	UK	Visible Trade Balance GBP/Mn	Jan	n.a.	--	-17.4bn	
★★★	07:00	UK	Trade Balance GBP/Mn	Jan	n.a.	--	-2.8bn	



Exhibit 8: European Economic calendar

Key data for the next week

	GMT	Country	Data/Event	For	BofAe	Cons.†	Previous	Comments
☆☆☆	07:45	France	Consumer Spending (mom)	Feb	0.2%	--	-0.5%	
☆☆☆	07:45	France	Consumer Spending (yoy)	Feb	n.a.	--	0.4%	
☆☆☆	07:45	France	CPI EU Harmonized (mom, P)	Mar	0.4%	--	0.1%	
☆☆☆	07:45	France	CPI EU Harmonized (yoy, P)	Mar	1.1%	--	0.9%	
☆☆☆	07:45	France	CPI (mom, P)	Mar	0.3%	--	0.0%	
☆☆☆	07:45	France	CPI (yoy, P)	Mar	0.8%	--	0.8%	
☆☆☆	08:00	Spain	CPI (mom, P)	Mar	-0.1%	--	0.4%	
☆☆☆	08:00	Spain	CPI (yoy, P)	Mar	2.1%	--	3.0%	
☆☆☆	08:00	Spain	CPI Core (yoy, P)	Mar	2.1%	--	2.2%	
☆☆☆	08:00	Spain	CPI EU Harmonised (mom, P)	Mar	0.4%	--	0.4%	
☆☆☆	08:00	Spain	CPI EU Harmonised (yoy, P)	Mar	2.0%	--	2.9%	
☆☆☆	08:55	Germany	Unemployment Change (000's)	Mar	8K	--	5k	
☆☆☆	08:55	Germany	Unemployment Claims Rate (sa)	Mar	6.2%	--	6.2%	
☆☆	09:00	Italy	Consumer Confidence Index	Mar	98.5	--	98.8	
☆☆	09:00	Italy	Manufacturing Confidence	Mar	86.8	--	87.0	
☆☆	09:00	Italy	Economic Sentiment	Mar	95.1	--	94.8	
☆☆☆	10:00	Euro area	Consumer Confidence (F)	Mar	n.a.	--	--	
☆☆☆	10:00	Euro area	Economic Confidence	Mar	96.0	--	96.3	
☆☆☆	10:00	Euro area	Industrial Confidence	Mar	-11.5	--	-11.4	
☆☆☆	10:00	Euro area	Services Confidence	Mar	6.1	--	6.2	
☆☆☆	10:00	Italy	Industrial Sales (mom)	Jan	n.a.	--	-2.7%	
☆☆☆	10:00	Italy	Industrial Sales (wda, yoy)	Jan	n.a.	--	-7.2%	

Source: BofA Global Research, Bloomberg, Reuters, Central banks. Notes: †Bloomberg consensus; μ = level of importance; A = advanced; F = final; P = preliminary; sa = seasonally adjusted; nsa = not seasonally adjusted; wda = working-day adjusted; n.a. = not available; mom = month-on-month; qoq = quarter-on-quarter; yoy = year-on-year. *Refers to previous period, not preliminary release. BofA GLOBAL RESEARCH

Acronyms and abbreviations

Exhibit 9: Common acronyms/abbreviations used in our reports

This list is subject to change

Acronym/Abbreviation	Definition	Acronym/Abbreviation	Definition
1H	First Half	IT	Italy
2H	Second Half	Jan	January
1Q	First Quarter	Jul	July
2Q	Second Quarter	Jun	June
3Q	Third Quarter	lhs	left-hand side
4Q	Fourth Quarter	m	month
ann	annualized	MA	Moving Average
APP	Asset Purchase Programme	Mar	March
Apr	April	Eonia	Euro overnight indexed average
AS	Austria	mom	month-on-month
Aug	August	Mon	Monday
BdF	Banque de France (Bank of France)	MPC	Monetary Policy Committee
BE	Belgium	MWh	Megawatt-hour
BEA	Bureau of Economic Analysis	NGEU	NextGenerationEU
BLS	Bank Lending Survey	NE	Netherlands
BoE	Bank of England	Nov	November
BofA	Bank of America	NADEF	Nota di Aggiornamento al Documento di Economia e Finanza
Bol	Banca d'Italia (Bank of Italy)	NSA	Non-seasonally Adjusted
BoJ	Bank of Japan	OAT	Obligations assimilables du Trésor
BoS	Banco de España (Bank of Spain)	OBR	Office for Budget Responsibility
bp	basis point	Oct	October
BTP	Buoni Poliennali del Tesoro	OECD	Organisation for Economic Co-operation and Development
Buba	Bundesbank	ONS	Office for National Statistics
c	circa	p	preliminary/flash print
CA	Current Account	PBoC	People's Bank of China
CPI	Consumer Price Index	PEPP	Pandemic Emergency Purchase Programme
CSPP	Corporate Sector Purchase Programme	PMI	Purchasing Managers' Index
d	day	PSPP	Public Sector Purchase Programme
GE	Germany	PT	Portugal
Dec	December	QE	Quantitative Easing
DS	Debt sustainability	qoq	quarter-on-quarter
EA	Euro area	QT	Quantitative Tightening
EC	European Commission	RBA	Reserve Bank of Australia
ECB	European Central Bank	RBNZ	Reserve Bank of New Zealand
ECJ	European Court of Justice	rhs	right-hand side
EFSF	European Financial Stability Facility	RPI	Retail Price Index
EGB	European Government Bond	RRF	Recovery and Resilience Facility
DM	Developed Markets	SA	Seasonally Adjusted
EMOT	Economic Mood Tracker	SAFE	Survey on the access to finance of enterprises
EP	European Parliament	Sat	Saturday
SP	Spain	Sep	September
ESI	Economic Sentiment Indicator	SMA	Survey of Monetary Analysts
ESM	European Stability Mechanism	SNB	Swiss National Bank
EU	European Union	SPF	Survey of Professional Forecasters
f	final print	Sun	Sunday
Feb	February	SURE	Support to mitigate Unemployment Risks in an Emergency
Fed	Federal Reserve	S&P	Standard & Poor's
FR	France	Thu	Thursday
Fri	Friday	TLTRO	Targeted Longer-term Refinancing Operations
GC	General collateral	TPI	Transmission Protection Instrument
GDP	Gross Domestic Product	TTF	Title Transfer Facility
GNI	Gross National Income	Tue	Tuesday
GR	Greece	UK	United Kingdom
HICP	Harmonised Index of Consumer Prices	US	United States
HMT	His Majesty's Treasury	WDA	Work-day Adjusted
IMF	International Monetary Fund	Wed	Wednesday

Source: BofA Global Research

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