European Periphery Macro Daily

20 February 2019
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Macro update

What's on?

- **S&P on Spain**. The rating agency S&P stated yesterday that the current A- (Positive Outlook) rating is "not likely to be immediately affected by recent political events". This statement is very much in line with our view (see here "Is winter really coming?" published on 13 February), which is based on the assumption that the snap elections called for 28 April are unlikely to result in a government with a strong mandate to tackle structural reforms in the short-term. S&P is already contemplating a scenario in which a weak government coalition resulting from the next general elections calls Spain's fiscal consolidation into question. On the other hand, S&P puts a strong emphasis on Spain's healthy economic growth which has shown remarkable resilience to the slowdown of the global economy and its closest EMU trading partners, which S&P attributes to the improvements in competitiveness achieved thanks to past reforms, including the labour market reform of 2012. All in all, when assessing future decisions on the Spanish sovereign rating by S&P (the next scheduled decision is on 22 March) it is important to bear in mind that a scenario of a looser fiscal stance and a potentially weak governing coalition resulting from the upcoming elections is already contemplated in the current rating assessment, but that the resilience of Spain's GDP growth is already taken for granted as improvements in competitiveness seem to be assumed.

Yesterday

- **Italy current and financial account (December).** Italy registered a current account surplus of EUR4.2bn for December and EUR45.27bn for 2018 as a whole (or c.5.8% YoY below the cumulative figure recorded in FY17). This slight deterioration was mainly due to the reduction in the trade surplus (down 16%) which outweighed the smaller deficits on the service and income balances.

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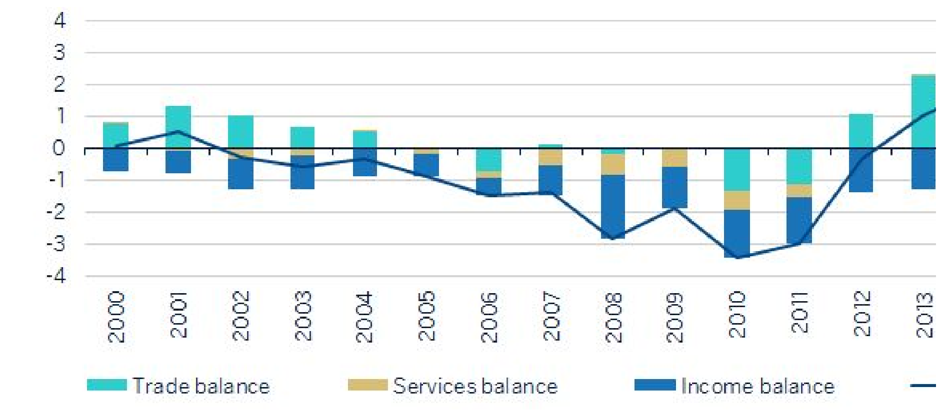
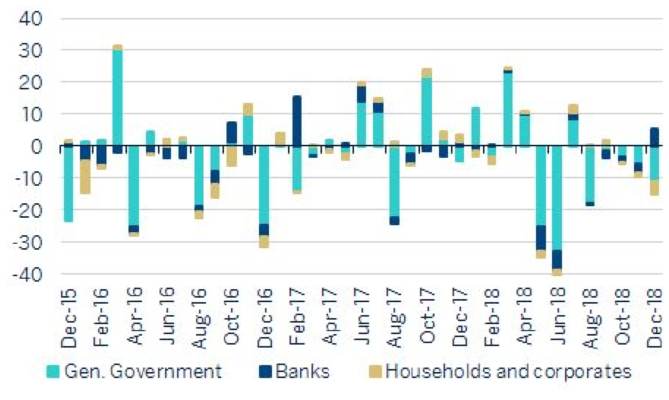
Italy current account and breakdown by balances (% of GDP)



Source: BBVA GMR based on Eurostat

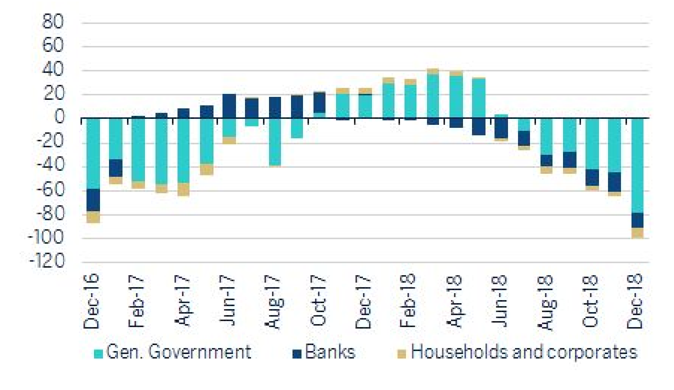
The financial account showed that the net outflow of foreign investment in Italy gathered momentum in December with a net outflow of foreign portfolio investment in Italian public debt securities of around EUR10bn in the month, more than the average net monthly outflow of c.EUR 8.7bn earlier in 2H18. All in all, the total net outflow of foreign portfolio investment in Italian public debt securities since May amounts to c.EUR88bn. Flows to bank debt securities saw some improvement with net inflows of c. EUR5.7bn, whereas flows to non-financial private-sector securities registered a c.EUR4.3bn net outflow (-EUR6.4bn in equity). The net outflow of foreign investment since May amounts to c.EUR1.6bn in the former and c.EUR8bn in the latter.

Foreign portfolio investment in Italy. Net monthly flows (EUR bn)



Source: BBVA GMR based on Bank of Italy

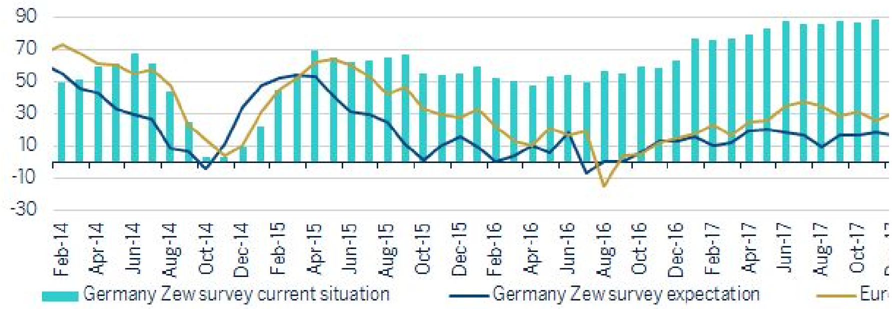
Foreign portfolio investment in Italy. Net flows (9- month cumulative, EUR bn)



Source: BBVA GMR based on Bank of Italy

- **Germany Zew expectations survey (February).** Yesterday the Zew indicator printed some improvement, to -13.4 from -15 in January, above Bloomberg consensus expectations (-13.6). The Zew survey indicator for the EMU also increased slightly, at -16.6 from -20.9 in January. Although these indicators are still well below the average observed in 2018 of -8.7 for Germany and -2.8 for the EMU, this could suggest that we have already reached the bottom of the recent expectations trend, and some improvement may lie ahead for both Germany and for the EMU as a whole. However, the process of recovery may still prove lengthy as the current situation component continues to weigh heavily (decreasing to 15.0 from 27.6 recorded in the previous month).

ZEW indicator (%)



Source: BBVA GMR based on Bloomberg

Today

- **Portugal current account (Dec).** Cumulative EUR1.1bn surplus YtD up to November vs. EUR0.86bn in the same period in 2017.

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