

FIGURE  
OF THE WEEK

+3.6%

Poland's 2015  
GDP growth

## In the Headlines



### Eurozone: More will soon follow, but how much?

The ECB left the door open for further policy action amid renewed weakness in oil prices and increasing deflationary pressures. We believe a move will occur as soon as March, including an extension by six months to September 2017 of the EUR60bn monthly asset purchase programme and a further cut in the deposit rate (from the current -0.3%). However, an increase in the size of the monthly purchases (to EUR80bn) will be a positive; it was already priced in for last December. The main concern relating to additional monetary easing is that core inflation has remained very low for too long. Indeed, apart from a four-month period in 2011, it has been below 2% since 2008. A marked pick-up in inflation is unlikely (oil prices will remain low for longer and the regional economy is in slow recovery mode). We expect inflation will be 0.8% on average in 2016 and that, at its March meeting, the ECB will lower its current forecast of 1%. Additional monetary support will further weaken the EUR (we expect EUR/USD1.05 on average in 2016) and slightly improve 2016 GDP growth from +1.7% currently. In terms of financing, interest rates on bank loans for SMEs have reached a nine-year low and credit supply and demand have both improved considerably.



### Argentina: Full of hope...and patience

After one month in office, President Mauricio Macri introduced significant measures in an attempt to revitalise the economy afflicted by soaring inflation, anaemic growth and non-access to global capital markets. In particular, capital controls were lifted in mid-December 2015 and most export taxes were curbed. This led to a sharp depreciation of the currency, which immediately lost -40% against the USD, although the exchange rate has been broadly stable at around 13.8ARS/USD since then. Also, Macri resumed talks in January with the "vulture" funds in order to reach an agreement on the outstanding defaulted debt. Meanwhile, stringent cuts in public spending and subsidies were announced, with a target of limiting the fiscal deficit to -1% of GDP this year, compared with a 30-year record of -5.8% in 2015. These economic adjustments and reforms will be painful in the short term. Higher inflation because of the ARS depreciation and less fiscal and monetary support will weigh against economic activity. Indeed, we expect GDP will contract by -1.5% in 2016.



### Canada: BoC on hold

November 2015 retail sales increased faster than expectations of +0.2% m/m, gaining +1.7%, and bolstering Q4 GDP. The gains were broad based as virtually every sector improved except gasoline sales, which were hit by falling prices. The gains were also widespread geographically as all 10 provinces recorded increases. Retail sales were up a solid +3.2% y/y nationwide and only the provinces of Alberta and Saskatchewan were down, at -4.1% and -1%, respectively, and elsewhere sales increased by +5.1% y/y. Manufacturing sales increased +1% m/m in November, the first gain in four months, putting the y/y rate at -0.5%, an improvement after -3.5% the previous month. New orders also rose for the first time in four months, gaining +3.5% m/m. Motor vehicles were once again a standout, rising +3.8% to a robust +18% y/y. The BoC left its overnight interest rate unchanged at 0.5%, probably in part to put a floor under the declining CAD, but also because of the notion that deflationary (falling oil prices) and inflationary (weakening CAD) pressures are coming into balance.



### Ukraine: Recession is slowing but risks remain high

Contraction in industrial production decelerated to an estimated -4% y/y in Q4 2015 from -8% in Q3 and compared with an average -13.4% in 2015 as a whole. Construction output was down -15% in 2015, although it rebounded at year-end, rising by +10% y/y in December. Retail turnover is recovering much slower, declining by -21% in 2015 and still by -13% y/y in December, reflecting the ongoing slump in private consumption. External trade activity has remained very weak, with both exports and imports contracting by -31% y/y in the first 11 months of 2015, after -14% and -28% in full-year 2014, respectively. Meanwhile, the USD17.5bn IMF Extended Fund Facility programme is off track. Completion of the second review (scheduled for September) and the third review (December) and the disbursement two USD1.7bn tranches were delayed pending agreement on the 2016 budget, which is subject to an ongoing internal government dispute. Even if the budget is agreed eventually in the coming weeks, there is a high likelihood of further IMF programme disruption in the course of 2016.

# Countries in Focus

## Americas



### U.S.: Weak activity, hints of inflation

Three regional Fed surveys all showed unexpected weakness in manufacturing and business activity. Weekly jobless claims are rising and, on a four-week average basis, are now at their highest level since last April. Energy prices pushed consumer inflation down -0.1% m/m to +0.7% y/y in December 2015 but prices excluding food and energy gained 0.1% to 2.1% y/y, the highest in over three years. Similarly, house prices showed a hint of inflation, rising a very strong +0.9% m/m in November to 5.8% y/y. Other housing data have been erratic. Existing home sales have been distorted by a change in mortgage lending rules, which caused November sales to drop -10.5% m/m only to be offset by a rebound of +14.7% m/m in December. Taken together the m/m rate is only +1.3%. December housing starts and permits fell -2.5% m/m and -3.9% m/m, respectively. Consumer confidence was resilient in January, rising to a strong 98.1 from 96.3, although actual spending remains tepid.

## Europe



### Poland: Robust growth in 2015 to continue in 2016

Preliminary estimates show that real GDP growth accelerated to +3.6% in 2015 from +3.3% in 2014. Demand-side details are only partly available as yet but indicate that growth was mainly driven by domestic uses (+3.3pps) while net exports made only a small positive contribution (+0.3pps). Private consumption increased by +3.1%, up from +2.6% in 2014 and fixed investment by +6.1% (down from +9.8% in 2014). However, a decrease in inventories reduced overall investment growth to +4.2% in 2015. Data for Q4 are not provided, as yet, but the full-year figure suggests that Q4 growth picked up slightly from an average +3.5% y/y in Q1-Q3. Euler Hermes expects the momentum will continue and forecasts full-year growth of around +3.5% in 2016 as domestic demand should remain robust, supported by continued low energy prices and some fiscal loosening, which should offset any negative impact from recent legislative measures in the short term (see also [WERO 20 January 2016](#)).

## Africa & Middle East



### Tunisia: The struggle continues

Several towns and cities experienced demonstrations and some violence, with protestors claiming that job availability and the general state of the economy have not improved since the toppling of President Ben Ali in 2011. The army was deployed to secure stability and a national curfew imposed. The protests are particularly strident in the governorate of Kasserine and the south and west in general. Offices of the political party, Nidaa Tounes, have been targeted but the protests, at this stage, are unlikely to undermine government stability. In particular, the powerful UGTT labour union has a vested interest in preserving the new political system. However, the latest protests have some echoes of the 2011 revolution and will be negative for investment prospects and the tourism sector. In 2015, tourist attractions were terrorist targets and visitor arrivals and tourist receipts fell by -25% and -35%, respectively. EH expects GDP growth of around +2.5% in 2016 (+1% in 2015), with downside risks.

## Asia Pacific



### South Korea: Below trend growth

GDP growth slowed to +0.6% q/q in Q4 2015 (+1.3% in Q3). Net exports remained a drag on growth with imports (+2.8%) outpacing exports (+2.1%) but domestic demand was resilient, with private consumption increasing by +1.5%. Warning signals come from construction investment, which contracted by -6.1%. Full-year growth was +2.6% (down from +3.3% in 2014), with deceleration resulting from lower export growth (+0.4%, +2.8% in 2014). However, domestic demand remained firm, with a rise in both government (+3.3% from +2.8% in 2014) and consumer (+2.1% from +1.8%) spending. Going forward, we expect a modest acceleration to +2.7% in overall growth in 2016. Weak order books and modest demand growth from main trading partners, particularly China, suggest a limited recovery in exports but domestic demand will strengthen gradually as consumers benefit from cheap commodity prices and as authorities remain in easing mode in terms of both fiscal and monetary policy.



## What to watch

- January 28 – Spain 2015 unemployment
- January 28 – UK Q4 2015 GDP
- January 28 – Germany January CPI
- January 28 – South Africa interest rate decision
- January 28 – Saudi Arabia Dec. SAMA foreign assets
- January 28 – Philippines Q4 2015 GDP
- January 28 – Ukraine interest rate decision
- January 29 – Spain & Mexico 2015 GDP
- January 29 – Austria & France Q4 2015 GDP
- January 29 – Latvia & Lithuania Q4 GDP flash est.
- January 29 – Spain January CPI
- January 29 – U.S. Q4 GDP
- January 29 – France Jan. CPI & December PPI
- January 29 – France December consumer spending
- January 29 – Taiwan Q4 GDP
- January 29 – Russia interest rate decision
- January 29 – Turkey December trade balance
- February 01 – U.S. Dec. personal income & outlays
- February 01 – U.S. January manufacturing ISM
- February 02 – Brazil December IP
- February 02 – France, Germany, Italy Jan. manuf. PMI

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