

## Flash Note 18/05/2018

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### Europe - Sailing through troubled waters. Outlook

#### EU: Brussels to bar European firms from complying with Iran sanctions

- Politico reported that European Commission President Juncker said EU leaders would revive the 1996 'blocking statute' in order to skirt US sanctions on European companies. "The law would forbid European companies from complying with US sanctions in the event they are imposed".
- It seems as if US and EU are heading for showdown over shutting Iran off from finance networks. As the FT said, Washington sanctions on Iran put the Swift payments network in the spotlight. The question is whether the EU will cooperate with the US requests for connections with the payment network to be severed as they were in 2012. Just recall that the US had to push for years to get the Swift sanctions imposed in 2012 and obtaining a deal this time round could be even more difficult.
- In the mean time, the EU leaders agreed on Wednesday to try to keep the Iran nuclear deal alive and maintain their reviving economic cooperation with Tehran. Nevertheless, the 28 EU leaders did not make any quick decisions during their first meeting on the matter, highlighting how US clout in international trade and finance limits the Europeans' scope for action.
- On the side of favorable news for the European markets: (1) German Chancellor Merkel supported a proposal by German Finance Minister Scholz for the Eurozone's bailout fund to become a common backstop for banks but so long as risks in national banks' balance sheets were reduced first. (2) Polls in France show that French President Macron's party is seen easily outperforming its rivals in next year's European Parliament elections.

### **Italy: Populists seal agreement to form government. Collision course with Europe?**

- Italy's populist leaders sealed a coalition agreement that aims to ramp up spending on the poor and slash taxes in a direct challenge to the European Union establishment.
- Five Star and League said that their policy platform is ready for party members to vote on.
- The program demands: (1) A review of EU budget rules, (2) end economic sanctions on Russia and (3) pledges to roll-back pension reforms that raised the retirement age.
- With the populist program up for vote, the coalition government could take office as early as next week, ending 11 weeks of political paralysis.

### **Germany: Economy slows more abruptly than expected**

- German Q1 GDP data showed that the economy slowed more than expected to 0.3% from 0.6% growth in Q4 2017. I
- The slowdown was driven by a drop in government consumption for the first time in five years, though both exports and imports also dropped.
- Geopolitical uncertainty weighs: German economy is suffering from a loss of confidence due to geopolitical uncertainty, with the closely watched Zew economic sentiment index staying at a low minus 8.2 in May.

### **Spain: Downgrading report of inequality**

- The Bank of Spain is debating how to handle an in-house study of wealth and income disparities which risks landing the institution in the middle of a political storm.
- Sources said rather than publish the analysis in its signature annual report, which carries the stamp of the governor and sets out the official view, the central bank is set to release it as a separate research paper.

**Outlook:** Having said all this, our outlook for global growth over the rest of 2018 remains upbeat, meaning that European activity and confidence indices should recover gradually over the coming months.

Best