BNP PARIBAS

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ECONOMIC RESEARCH DEPARTMENT

Eco WEEK

Summary

Japan

Abenomics: A failure called too early

Over the latest quarters, the Japanese economy sent positive signals. Growth accelerated, supported by domestic demand. The performance is striking, with a potential rate of growth closed to zero.

▶ **Page 2**

France

Labour market: late November update

Unemployment continues to improve timidly, while employment seems to be gaining strength.

▶ **Page 4**

Market overview

▶ **Page 5**

Summary of forecasts

▶ **Page 6**

Also in :

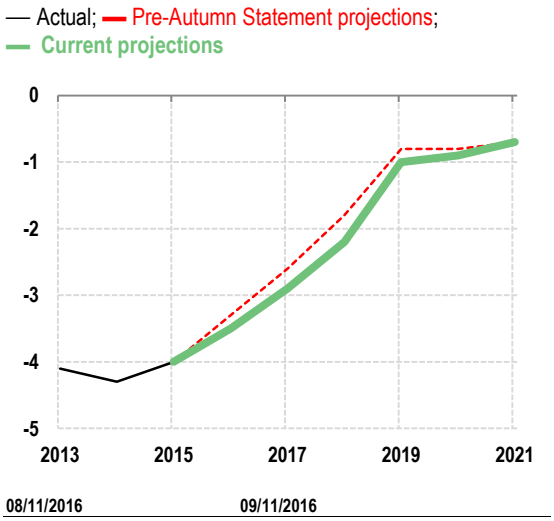
Eco TV WEEK

Less austerity is not easing

■ The UK government plans to borrow more ■ Fiscal austerity is loosened, not abandoned ■ Questions about credibility and opportunity

The UK government announced looser fiscal conditions over the medium-term. The Autumn Statement forecasts greater deficit over the next five years, with additional borrowing of GBP 122 bn. The commitment for a balanced budget is postponed after the current parliament, and the debt-to-GDP ratio will start decreasing later than expected. The main announcements were a higher minimum wage, an infrastructure spending plan and a stronger and faster cut in the corporate tax rate. Doubts over the plan are numerous. First, economic assumptions are quite optimistic, even though both growth forecasts and potential growth rate estimates have been revised down. Second, even if the plan is for more borrowing than previously planned, austerity is not reversed, just softened. The cyclically-adjusted deficit is still planned to be reduced, each year a bit more. Over the next five years, it would be reduced from 3.8% of GDP (FY 2015-16) to 0.7%. This remains a huge drag, especially at a time of turbulences. The question is about the credibility and/or the opportunity of such a policy. The hardest the Brexit will be, the hardest the economy will be hit. As the Bank of England might end up constrained by the value of the pound (too easy a policy would strengthen downward pressures and upward pressures on consumer prices) as its tolerance for inflation overshooting target is not infinite, fiscal policy would prove the only game in town. The choice will be whether to support a weakened economy (and abandon austerity) or to obey the sound-finances dogma and let the economy fall…

UK STRUCTURAL GOVERNMENT DEFICIT (% OF GDP)



Source: Office for Budget Responsibility

THE WEEK ON THE MARKETS

Week 18-11 16 > 24-11-16

↗ **CAC 40**	4 504	▸	**4 543**	**+0.8**	%
↗ **S&P 500**	2 182	▸	**2 205**	**+1.0**	%
↘ Volatility (VIX)	12.9	▸	12.4	-0.4	%
↘ **Euribor 3M** (%)	-0.31	▸	**-0.31**	**-0.1**	bp
↗ Libor $ 3M (%)	0.92	▸	0.93	+1.4	bp
↗ OAT 10y (%)	0.75	▸	0.78	+3.2	bp
↘ Bund 10y (%)	0.20	▸	0.18	-1.9	bp
↗ US Tr. 10y (%)	2.34	▸	2.36	+1.8	bp
↘ **Euro vs dollar**	1.06	▸	**1.06**	**-0.1**	%
↘ Gold (ounce, $)	1 208	▸	1 186	-1.8	%
↗ **Oil (Brent, $)**	46.4	▸	**49.0**	**+5.7**	%

Source: Thomson Reuters