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Global markets

The EC published its 2024 European Semester Spring Package yesterday which included a recommendation to open the excessive deficit procedure against eight EU countries, including France, for running budget deficits above the threshold of 3% of GDP. This development comes at a critical juncture for France as the country heads for snap elections. Polls suggest that a minority government led by the far-right Rassemblement National (RN) is one of the most likely outcomes. Such a scenario would likely have significant implications for the France-EU relationship, as the RN has indicated it will take a more assertive stance against the EU, raising the risk of clashes over fiscal rules. European assets came under pressure particularly in France, with the 10-yr OAT/Bund yield spread closing at 79.4bps yesterday, the widest since November 2012, before narrowing modestly close to 78bps earlier today. In FX, the EUR/USD continued to consolidate above 1.07, while the EUR/CHF spiked close to 0.9550 after the SNB unexpectedly cut rates earlier today.

Greece

Aiming to boost productivity and encourage innovation in the SME-dominated economy, Finance Minister Costis Hatzidakis announced yesterday a bill that will facilitate firms M&As and provide financial incentives for R&D investments to the merged entities. The new framework, to be in place by this fall, will be financed by ESPA funds and the Hellenic Development Bank. Note that according to European Commission data, micro firms (up to 9 persons employed) contributed only 17.5% of gross value added (GVA) in the Greek economy in 2022 despite accounting for almost half of total employment (46.6%), while micro firms in EU27 produced 18.6% of GVA with less than a third (29.4%) of total employment. On socio-economic data, actual individual consumption –a measure capturing both purchased and provided for goods and services– in Greece stood at 79% of the EU27 average in 2023, ranking 21st in the bloc, according to Eurostat. The share of households at risk of poverty was also virtually unchanged, at 18.9%, remaining the 8th highest in EU27.

CESEE

According to the Spring 2024 European Semester Package, the EC stated that it would propose launching the EDP triggered by an excessive deficit against Poland and five other countries among which Hungary, and Slovakia. Poland's candidateship in the EDP comes on the back of its general government deficit that exceeded the deficit of 3% of GDP in 2023, coming in 5.1% of GDP and heading for another year of fiscal slippage in 2024. Hungary did not either fulfil the deficit criterion of the EU treaties, as the deficit was above the 3% of GDP threshold in 2023 and is expected to remain above this level up to 2025 as well. The EC projected a government deficit of 5.4% in 2024 and 4.5% in 2025, significantly above the official deficit targets of 4.5% and 3.7% respectively. Czechia is expected to comply with the EDP criteria as its main difference from Poland or Hungary is that the Czech budget in 2024 contains considerable consolidation measures not seen in either of the other two countries.

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