

### KEY UPCOMING DATA & EVENTS THIS WEEK

#### US

- Oct 22:
  - Chicago Fed Economic Activity Index (Sep)
- Oct 23:
  - Richmond Fed Manufacturing Index (Oct)
- Oct 24:
  - Mortgage applications (19/10)
  - New home sales (Sep)
  - Markit PMI Composite index (Oct,p)
- Oct 25:
  - Pending home sales (Sep)
  - Wholesale inventories (Sep,p)
  - Durable goods orders (Sep,p)
  - Initial jobless claims (20/10)
- Oct 26:
  - GDP (Q3,a)
  - GDP deflator (Q3,a)
  - University of Michigan Consumer Sentiment (Oct)

#### EUROZONE

- Oct 23:
  - Consumer confidence (Oct,a)
- Oct 24:
  - Markit PMI Composite index (Oct,p)
  - Money supply (Sep)
- Oct 25:
  - ECB Monetary Policy Meeting
- Oct 26:
  - ECB Survey of Professional Forecasters

#### GREECE

- Oct 22:
  - Current Account (Aug)

#### SEE

##### BULGARIA

- Oct 26: Gross external debt

##### ROMANIA

- Oct 23:
  - Money supply (Sep)

##### SERBIA

- Oct 25:
  - Real gross wages (Aug)

Source: Reuters, Bloomberg,  
Eurobank Research

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** An EU spokesman said that the EU Commission will decide on Tuesday (today) its next steps in the procedure for assessing Italy's 2019 draft budget. On the issue, a number of press reports suggested that the EU Commission will probably reject Italy's 2019 budget plan. Against this background, market euphoria following Moody's decision late on Friday to leave Italy's outlook stable while cutting the country's rating by one notch to Baa3, ran out of steam today. Italy's government bond yields moved higher again and the EUR weakened against the USD. Elsewhere, the GBP remained under pressure amid increased fears that UK Prime Minister Theresa May could face a leadership challenge as a result of political dispute within the Conservative party over the Irish border backstop.

**GREECE:** According to the fiscal data released yesterday by the Hellenic Statistical Authority in the context of the 2<sup>nd</sup> EDP notification for 2018, the general government primary surplus for 2017 is downwards revised to 3.9% of GDP, against 4.0% of GDP in the 1<sup>st</sup> notification while in programme terms, the 2017 primary surplus is estimated at 4.14% of GDP against 4.24% of GDP previously. According to the latest Bank of Greece balance of payment data, in the period January – August 2018, the current account registered a deficit of EUR910 mn, widened by EUR857 mn due to a deterioration in the goods and the primary income balances. The surplus in the services balance rose by EUR754 mn supported by increased travel and transportation receipts.

### SOUTH EASTERN EUROPE

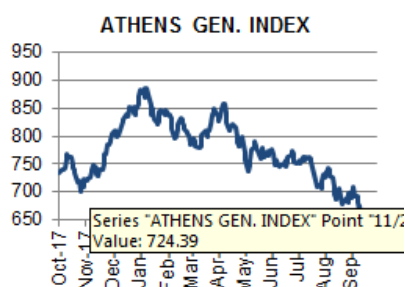
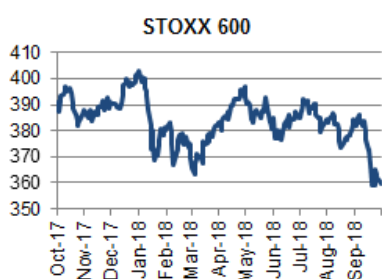
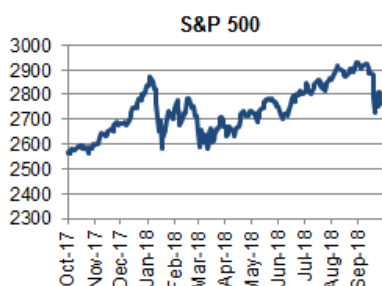
**CESEE MARKETS:** Following the expected downgrade in Italy's sovereign rating by Moody's, CESEE markets gained some ground yesterday, which was not however preserved throughout the day. In other news, Bulgaria's state budget for 2019 came in yesterday with no surprises.

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## Latest world economic & market developments

### GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

In a letter sent to EU Commissioners Pierre Moscovici and Valdis Dombrovkis yesterday in response to the EU's warning that Italy's 2019 draft budget appears to be "particularly serious non-compliance" with EU rules, Italy's Minister of Finance Giovanni Tria acknowledged that the decision for a 2.4%-of-GDP deficit target was not in line with the EU Stability and Growth Pact. However, he noted that it "was a hard, but necessary decision in light of Italy's delay in catching up with pre-crisis levels of GDP and the desperate economic conditions in which the most disadvantaged citizens find themselves". He expressed confidence that Italy will meet the ambitious growth targets outlined in its policy scenario and if growth proves to be weaker than expected, the government would intervene to guarantee fulfilment of the planned targets for the budget deficit/GDP and debt/GDP ratios. An EU spokesman said the EU Commission will decide on Tuesday (today) its next steps in the procedure for assessing Italy's 2019 draft budget. On the issue, a number of press reports suggested that Italy's budget plan will probably be rejected and if Italy fails to submit a compliant budget, then the EU Commission could probably be inclined to recommend opening an Excessive Deficit Procedure by late November. Against this background, market euphoria following Moody's decision late on Friday to leave Italy's outlook stable while cutting the country's rating by one notch to Baa3, ran out of steam today. Italy's government bond yields moved higher again with the 10-yr yield rising to 3.47% after falling to a two-week low of 3.31% on Monday while in FX markets, the EUR/USD retreated to levels around 1.1470/75 following a spike to a multi-session high of 1.1550 yesterday. Elsewhere, the GBP remained under pressure amid increased fears that UK Prime Minister Theresa May could face a leadership challenge as a result of political dispute within the Conservative party over the Irish border backstop.

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### GREECE

According to the fiscal data released yesterday by the Hellenic Statistical Authority in the context of the 2<sup>nd</sup> EDP notification for 2018, GDP at current prices is estimated at EUR180.2 bn for 2017, up from EUR177.7 bn in the 1<sup>st</sup> notification (April 2018). On the basis of ESA 2010, the general government primary surplus for 2017 is downwards revised to 3.9% of GDP, against 4.0% of GDP in the 1<sup>st</sup> notification while the 2016 primary surplus is also revised downwards to 3.7% of GDP from 3.9% of GDP. In programme terms, the 2017 primary surplus is estimated at 4.14% of GDP against 4.24% of GDP previously. Meanwhile, according to the latest Bank of Greece balance of payment data, in the period January – August 2018, the current account registered a deficit of EUR910 mn, widened by EUR857 mn due to a deterioration in the goods and the primary income balances. The net oil import bill increased by EUR559 mn mainly on the back of higher oil prices while the deficit in the balance of goods excl. oil also widened by EUR403 mn. On the other hand, the surplus in the services balance rose by EUR754 mn supported by increased travel (surplus rose by EUR1,036 mn) and transportation receipts (surplus rose by EUR238 mn), which more than offset the deficit in the other services balance (balance deteriorated by EUR519 mn). Finally, the primary income account showed a deficit of EUR632 mn, against a surplus of EUR96 mn in the same period of 2017, mainly due to lower receipts from interest, dividends and profits, while the deficit of the secondary income account declined by EUR78 mn, owing to an improvement in the general government component.

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BULGARIA: Indicators	2016	2017e	2018f
Real GDP growth %	3.9	3.8	3.8
CPI (pa, yoy %)	-0.8	2.1	2.4
Budget Balance/GDP*	1.6	0.8	-1.0
Current Account/GDP	5.4	5.0	4.5
EUR/BGN (eop)	1.9558		
	2016	current	2017
Policy Rate (eop)	N/A	N/A	N/A

\* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

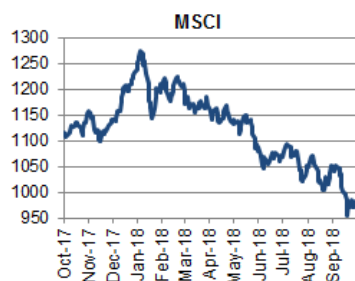
CYPRUS: Indicators	2016	2017e	2018f
Real GDP growth %	3.0	3.8	3.6
HICP (pa, yoy %)	-1.2	0.7	1.0
Budget Balance/GDP*	0.4	0.2	0.4
Current Account/GDP	-5.7	-5.4	-6.2

\* ESA 2010

Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

ROMANIA: Indicator:	2016	2017e	2018f
Real GDP growth %	4.8	7.0	4.0
CPI (pa, yoy %)	-1.6	1.3	3.5
Budget Balance/GDP *	-2.4	-3.0	-4.4
Current Account/GDP	-2.2	-3.5	-4.0
EUR/RON (eop)	4.54	4.67	4.70
	2017	current	2018
Policy Rate (eop)	1.75	2.50	3.00

\* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

Credit Ratings			
L-T ccy	Moody's	S&P	Fitch
SERBIA	Ba3	BB	BB
ROMANIA	Baa3	BBB-	BBB-
BULGARIA	Baa2	BBB-	BBB
CYPRUS	Ba2	BBB-	BB+

## Latest economic & market developments in the CESEE region

### CESEE MARKETS

Following the expected downgrade in Italy's sovereign rating by Moody's by one notch to Baa3 from Baa2 on Friday, CESEE currencies gained some ground yesterday, which was not however preserved throughout the day.

At the same tone and presumably influenced by Chinese equities outperformance by ca 4% on Monday, regional stock markets opened firmer this week but only Prague's and Belgrade's bourses retained the tone across the day. At the time of writing, most equity markets have opened slightly lower as yesterday's Chinese equity markets stimulus has evaporated and Asian equity markets closed generally on the red amid renewed trade tensions fueled by officials' statements that they do not fear a trade war with the US.

This week's CESEE calendar of main events and macroeconomic data releases is relatively thin. Bulgaria is in the forefront with the draft of the state budget for 2019 and the updated medium term budget forecast for 2019-2021 publication released yesterday which, in general terms, came in as expected. Key objectives remain fiscal stability and predictable fiscal policy. Breaking down the numbers, following the expected for 2018 fiscal surplus of 0.5% of GDP, in 2019 a deficit of 0.5% of GDP is projected whereas for 2020 and 2021 the budget is rendered balanced.

On the revenues front, corporate and personal income tax rates will remain flat at 10% in an effort to boost further economic activity (GDP growth for 2019 is expected at 3.7% vs 3.6% in 2018) and thus stimulate, even indirectly, the labor market.

In expenditure terms, government's pillars of action focus on social policy, education, and defense along with income streamlining. As such, the expected fiscal space from the small deficit in 2019 and the balanced budget in the next two years will be directed, inter alia, towards heating and for the disabled allowances and minimum wage increases by ca 25% (+10% by end of 2020 and +16% by end of 2021).

Concluding, the successful absorption of EU funding will remain a priority for Bulgaria in order to achieve sustainable economic growth.

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Tuesday 23 October 2018

**GLOBAL MARKETS**

**Stock markets**

	Last	ΔD	ΔYTD
S&P 500	2755.88	-0.4%	3.1%
Nikkei 225	22010.78	-2.7%	-3.3%
STOXX 600	359.74	-0.4%	-7.6%

**FOREX**

	Last	ΔD	ΔYTD
EUR/USD	1.1461	0.0%	-4.5%
GBP/USD	1.2972	0.1%	-4.1%
USD/JPY	112.35	0.4%	0.3%

**Government Bonds**

(yields)	Last	ΔDbps	ΔYTD bps
UST - 10yr	3.15	-5	74
Bund-10yr	0.43	-2	0
JGB - 10yr	0.15	-1	10

**SERBIA**

**Money Market**

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.31	2	-21
1-week	2.41	1	-20
1-month	2.63	1	-22
3-month	2.94	0	-18
6-month	3.11	1	-13

**RS Local Bonds**

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.17	-1	-111
5Y RSD	3.66	0	-64
7Y RSD	4.15	0	-102

**RS Eurobonds**

	Last	ΔDbps	ΔYTD bps
USD Feb-20	3.98	0	98

**CDS**

	Last	ΔDbps	ΔYTD bps
5-year	111	0	-7
10-year	159	0	-4

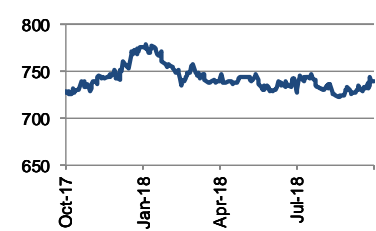
**STOCKS**

	Last	ΔD	ΔYTD
BELEX15	739.5	0.07%	-2.68%

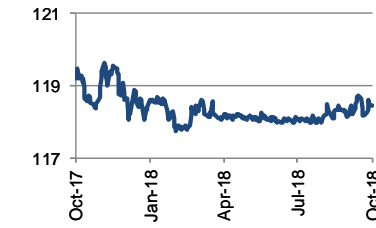
**FOREX**

	Last	ΔD	ΔYTD
EUR/RSD	118.42	0.04%	0.41%

**BELEX15 Index**



**EUR/RSD**



**ROMANIA**

**Money Market**

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	1.71	0	62
1-month	3.32	0	145
3-month	3.3	0	125
6-month	3.52	0	125
12-month	3.62	0	130

**RO Local Bonds**

	Last	ΔDbps	ΔYTD bps
3Y RON	4.49	0	111
5Y RON	4.74	0	96
10Y RON	5.11	0	80

**RO Eurobonds**

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.55	0	0
USD Jan-24	4.37	-1	137

**CDS**

	Last	ΔDbps	ΔYTD bps
5-year	101	0	11
10-year	142	0	9

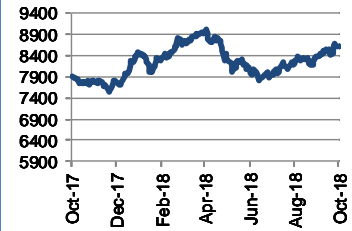
**STOCKS**

	Last	ΔD	ΔYTD
BET	8612.4	-0.04%	11.07%

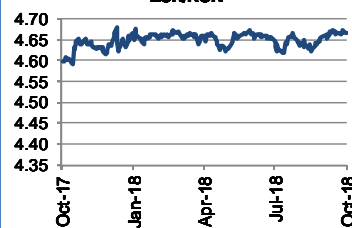
**FOREX**

	Last	ΔD	ΔYTD
EUR/RON	4.6666	-0.03%	-0.04%

**BET Index**



**EUR/RON**



**BULGARIA**

**Money Market**

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	0.01	0	1
1-month	-0.30	0	-5
3-month	-0.23	0	-5
6-month	-0.12	0	-7
12-month	0.22	1	-10

**BG Local Bonds**

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	-0.05	0	1
5Y BGN	0.08	0	-7
10Y BGN	0.78	0	-19

**BG Eurobonds**

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	0.06	2	10
EUR Sep-24	0.60	0	3

**CDS**

	Last	ΔDbps	ΔYTD bps
5-year	79	0	-18
10-year	125	0	-16

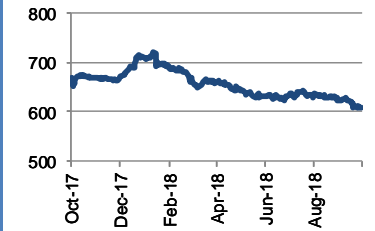
**STOCKS**

	Last	ΔD	ΔYTD
SOFIX	607.0	-0.20%	-10.41%

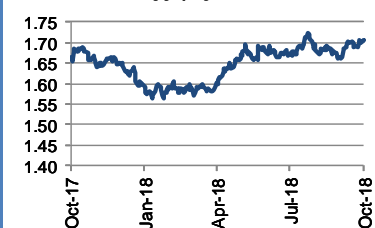
**FOREX**

	Last	ΔD	ΔYTD
USD/BGN	1.7065	-0.04%	-4.52%

**SOFIX Index**



**USD/BGN**



Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research

Data updated as of 10:05 EEST

Tuesday 23 October 2018

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