

Wednesday 26 September 2018

### KEY UPCOMING DATA & EVENTS THIS WEEK

#### US

- Sep 25:
  - CB consumer confidence (Sep)
- Sep 26:
  - New home sales (Aug)
  - FOMC interest rate decision
- Sep 27:
  - Q2 GDP (3<sup>rd</sup> estimate)
  - Durable goods orders (Aug)
  - Initial jobless claims (Sep 22)
  - Pending home sales (Aug)
- Sep 28:
  - Personal income & personal spending (Aug)
  - Chicago PMI (Sep)
  - UM consumer confidence (Sep)

#### EUROZONE

- Sep 24: IFO business climate (Sep)
- Sep 27:
  - M3 money supply (Aug)
  - Economic sentiment (Sep)
  - Business confidence (Sep)
- Sep 28:
  - CPI (Sep, prel.)

#### GREECE

- Sep 28
  - Retail sales (Jul)
  - PPI (Aug)

#### SEE

##### BULGARIA

- Sep 26:
  - Gross External Debt (Jul)
- Sep 28:
  - PPI (Aug)
  - Budget balance (Aug)
  - BNB committee over target interest rate

##### ROMANIA

- Sep 25:
  - M3 Money supply (Aug)

##### SERBIA

- Sep 28:
  - Industrial output (Aug)
  - Trade balance (Aug)
  - Retail sales (Aug)

Source: Reuters, Bloomberg, Eurobank Research

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** All eyes are on the conclusion of the two-day FOMC policy meeting later today (policy announcement due at 20:00 CET). A 25bps rate hike, the third out of four expected for this year, that will take the target range for the federal funds rate from 1.75%-2.00% to 2.00%-2.25% is almost fully priced-in. No major adjustments expected to the summary of economic projections up to 2020 and focus turns to the newly introduced forecasts for 2021. Awaiting the Fed's verdict, 10-yr UST yields were hovering close to yesterday's four-month intraday high of 3.1% and the DXY index was just 0.3% higher from last week's 2½ month trough. Turning to EMU periphery bond markets, sovereign paper was trading within narrow ranges awaiting the Italian updated Stability Programme for 2018-2021.

**GREECE:** According to the Ministry of Finance available data for the execution of the State Budget on a modified cash basis, the State Budget balance for the period Jan - Aug 2018 recorded a deficit of EUR1,220mn, against a target of a deficit of EUR3,384mn that was incorporated for the same period of 2018 in the MTF5 2019-2022 explanatory report and a realized deficit of EUR1,271mn for the same period of 2017. The State Budget primary balance amounted to a surplus of EUR3,157mn against the primary surplus target of EUR917mn.

### SOUTH EASTERN EUROPE

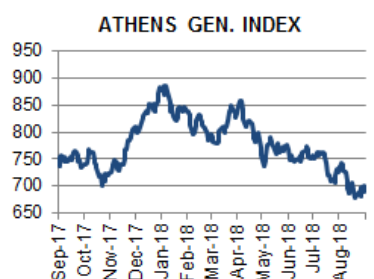
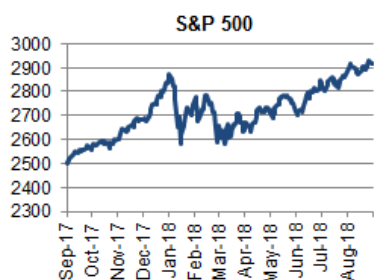
**BULGARIA:** Credit activity expanded by 7.6% YoY in August up from 7.1% YoY in July.

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## Latest world economic & market developments

### GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

All eyes are on the conclusion of the two-day FOMC policy meeting later today (policy announcement due at 20:00 CET). A 25bps rate hike, the third out of four expected for this year, that will take the target range for the federal funds rate from 1.75%-2.00% to 2.00%-2.25% is almost fully priced-in. No major adjustments expected to the summary of economic projections up to 2020 and focus turns to the newly introduced forecasts for 2021. The post-meeting statement will likely support expectations for further gradual rate hikes ahead and much more interesting will be whether the Fed will continue to call its policy stance “accommodative”, an issue that has already been discussed among policymakers. Awaiting the Fed’s verdict, 10-yr UST yields were hovering close to yesterday’s four-month intraday high of 3.1% and the DXY index was just 0.3% higher from last week’s 2½ month trough. Meanwhile, after rising briefly to 0.54% yesterday, the highest since late May, 10-yr Bund yields edged slightly lower in early trade today standing close to 0.53% at the time of writing following comments by the ECB Chief Economist, Peter Praet, suggesting that the market reaction to President Mario Draghi’s remarks on “relatively vigorous” acceleration in underlying inflation, was probably exaggerated and policy normalization will not be any quicker than projected in June. Turning to EMU periphery bond markets, sovereign paper was trading within narrow ranges awaiting the Italian updated Stability Programme for 2018-2021, which will include projections for real and nominal GDP growth, public debt, government deficit and the main spending and revenue components (no official announcement has been made on the timing of the publication). According to press reports, disagreement at the political level about the size and the composition of the 2019 budget remains significant with the Five Star Movement insisting on a budget deficit above 2% of GDP to accommodate its key election pledge for a basic income to all Italians called “citizenship income”.

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### GREECE

According to the Ministry of Finance available data for the execution of the State Budget on a modified cash basis, the State Budget balance for the period Jan - Aug 2018 recorded a deficit of EUR1,220mn, against a target of a deficit of EUR3,384mn that was incorporated for the same period of 2018 in the MTF5 2019-2022 explanatory report and a realized deficit of EUR1,271mn for the same period of 2017. The State Budget primary balance amounted to a surplus of EUR3,157mn against the primary surplus target of EUR917mn and the primary surplus of EUR3,544mn attained in the same period of the previous year. State Budget net revenues amounted to EUR31,869mn, showing an over-performance of EUR937mn or 3.0% against the target. Ordinary Budget net revenues amounted to EUR30,434mn, EUR1,102mn or 3.8%, higher than the target. Tax refunds (excluding those from the arrears clearance programme) amounted to EUR2,564mn, decreased against the target by EUR402mn while PIB revenues amounted to EUR1,435mn, decreased against the target by EUR166mn. Meanwhile, State Budget expenditures for the period Jan - Aug 2018 amounted to EUR33,089mn, EUR1,227mn lower than the target. Specifically, Ordinary Budget expenditures amounted to EUR31,612mn, EUR304mn decreased than the target while PIB expenditure amounted to EUR1,477mn, marking an under-performance of EUR923mn against the target.

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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

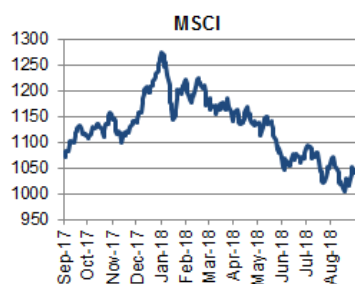
Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

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

SERBIA: Indicators	2016	2017e	2018f
Real GDP growth %	2.7	1.9	3.5
CPI (pa, yoy %)	1.1	3.2	3.0
Budget Balance/GDP	-1.3	0.5	-0.6
Current Account/GDP	-3.1	-5.7	-4.7
EUR/RSD (eop)	123.40	118.2	116.5
	2017	current	2018
Policy Rate (eop)	3.50	3.00	3.00

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

### BULGARIA

Credit to the non-government sector has been expanding briskly throughout 2018. According to the latest data, credit activity expanded by 7.6% YoY in August up from 7.1% YoY in July compared to 4.7% in 2017 vs. only 1.5% YoY in 2016, compared to -1.2% YoY in 2015 and -8.2% YoY in 2014. The data of 2014 reflect the exclusion of assets of Corporate Commercial Bank (KTB) out of the official statistics in the aftermath of the bank run, which eventually resulted in the bankruptcy of the fourth largest bank in terms of assets. Credit to households expanded in double digits for the first time since 2008-2009. It rallied by 10.2% YoY in August marginally up from 10.0% YoY in July, compared to 6.0% YoY in 2017 vs. only 2.0% YoY in 2016, up from -1.3% YoY in 2015 and -1.6% YoY in 2014. Credit to the non-financial corporations has also been growing by 7.6% YoY in August up from 7.1% YoY in July compared to 4.7% YoY in 2017 vs. 3.1% YoY in September, up from 2.0% YoY in 2016 down from -1.7% YoY in 2015 and -11.6% YoY in 2014.

Financial institutions are now less reluctant to lend, as heavy regulatory requirements imposed by the banking system-wide AQR and stress test are behind, and are still confronted by the negative interest rates on excess reserves. The system's total private sector loans-to-deposits ratio and the liquidity coverage ratio stood at 71.4% and 325.9% respectively in August. This, together with the high Tier 1 capital ratio (19.74% in August), illustrates the increased funding capacity and strong capital position of the banking system. The rebound of credit activity is among the key drivers behind GDP growth acceleration in 2017-2018 and is expected to extend in 2019 as well.

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**GLOBAL MARKETS**

Stock markets				FOREX				Government Bonds				Commodities			
	Last	ΔD	ΔYTD		Last	ΔD	ΔYTD	(yields)	Last	ΔDbps	ΔYTD bps		Last	ΔD	ΔYTD
S&P 500	2915.56	-0.1%	9.0%	EUR/USD	1.1764	0.0%	-2.0%	UST - 10yr	3.09	-1	68	GOLD	1200	-0.1%	-7.9%
Nikkei 225	24033.79	0.4%	5.6%	GBP/USD	1.3162	-0.2%	-2.7%	Bund-10yr	0.54	-1	11	BRENT CRUDE	82	0.3%	22.8%
STOXX 600	383.63	-0.1%	-1.4%	USD/JPY	112.81	0.1%	-0.1%	JGB - 10yr	0.13	-1	8	LMEX	3000	-0.4%	-12.3%

**SERBIA**

**Money Market**

	Last	ΔDbps	ΔYTD bps
BELIBOR			
T/N	2.28	-1	-24
1-week	2.38	-1	-23
1-month	2.61	-1	-24
3-month	2.92	0	-20
6-month	3.09	0	-15

**RS Local Bonds**

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.28	0	-100
5Y RSD	3.73	0	-56
7Y RSD	4.27	0	-91

**RS Eurobonds**

	Last	ΔDbps	ΔYTD bps
USD Feb-20	3.82	-1	83

**CDS**

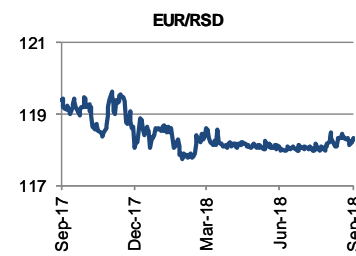
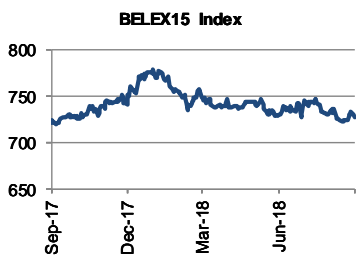
	Last	ΔDbps	ΔYTD bps
5-year	112	0	-6
10-year	160	0	-2

**STOCKS**

	Last	ΔD	ΔYTD
BELEX15	727.8	-0.38%	-4.22%

**FOREX**

	Last	ΔD	ΔYTD
EUR/RSD	118.35	0.03%	0.47%



**ROMANIA**

**Money Market**

	Last	ΔDbps	ΔYTD bps
ROBOR			
O/N	2.66	0	157
1-month	3.05	0	118
3-month	3.14	0	109
6-month	3.38	0	111
12-month	3.52	0	120

**RO Local Bonds**

	Last	ΔDbps	ΔYTD bps
3Y RON	3.99	0	61
5Y RON	4.31	0	53
10Y RON	4.98	0	66

**RO Eurobonds**

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.57	0	-3
USD Jan-24	4.18	0	118

**CDS**

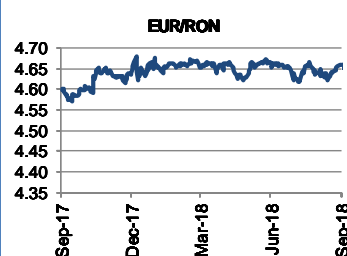
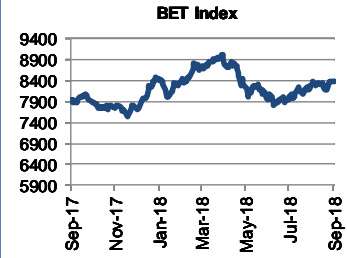
	Last	ΔDbps	ΔYTD bps
5-year	99	0	9
10-year	142	0	9

**STOCKS**

	Last	ΔD	ΔYTD
BET	8367.0	-0.13%	7.91%

**FOREX**

	Last	ΔD	ΔYTD
EUR/RON	4.6594	0.00%	0.12%



**BULGARIA**

**Money Market**

	Last	ΔDbps	ΔYTD bps
SOFIBOR			
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	-0.03	-1	3
5Y BGN	0.13	-1	-2
10Y BGN	0.85	0	-12

**BG Eurobonds**

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	-0.02	0	6
EUR Sep-24	0.47	0	-11

**CDS**

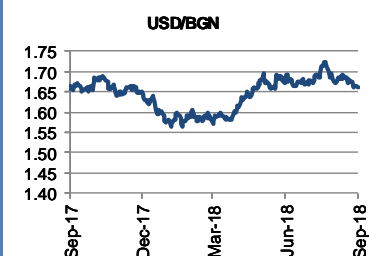
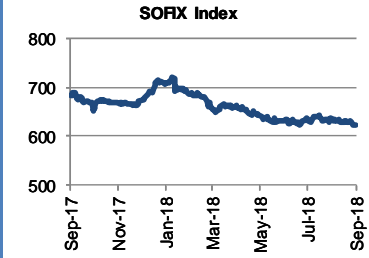
	Last	ΔDbps	ΔYTD bps
5-year	79	-2	-17
10-year	125	1	-17

**STOCKS**

	Last	ΔD	ΔYTD
SOFIX	623.9	0.06%	-7.91%

**FOREX**

	Last	ΔD	ΔYTD
USD/BGN	1.6627	-0.02%	-2.00%



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

Data updated as of 10:42 EEST

Wednesday 26 September 2018

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