

### KEY UPCOMING DATA & EVENTS THIS WEEK

#### GLOBAL

##### US

- Dec 5: ISM non-manuf (Nov)
- Dec 6
  - Durable goods (Oct, f)
  - Factory orders (Oct)
  - Trade balance (Oct)
- Dec 8: Jobless claims (weekly)
- Dec 9: UoM consumer sentiment (Dec, p)

##### EUROZONE

- Dec 5: PMI services (Nov, f)
- Dec 6
  - GDP (Q3, f)
  - DE: industrial orders (Oct)
- Dec 8: ECB policy meeting

##### GREECE

- Dec 5: Eurogroup
- Dec 8
  - Labour force survey (Sep)
  - Commercial transactions (Oct, p)
- Dec 9
  - HICP (Nov)
  - Industrial production (Oct)

##### CYPRUS

- Dec 6: HICP (Nov)
- Dec 9: GDP (Q3, f)

##### SEE

##### BULGARIA

- Dec 6: GDP (Q3, f)
- Dec 8
  - Retail sales (Oct)
  - Industrial production (Oct)

##### ROMANIA

- Dec 5
  - Retail sales (Oct)
  - 3.5% 2022 T-Bonds auction
- Dec 6: GDP (Q3, p)
- Dec 8: 2.25% 2020 T-Bonds auction
- Dec 9: Net wages (Oct)

##### SERBIA

- Dec 6
  - EUR 1% 2018 T-Bonds auction
  - EUR 2% 2019 T-Bonds auction
- Dec 8: MPC meeting

Source: Reuters, Bloomberg,  
Eurobank Research

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** With the exception of the JPY and the AUD, major G10 FX currencies remained within tight ranges after a roller-coaster ride earlier this week ahead of Thursday's ECB monetary policy meeting. Political developments also rule market attention. The approval of the 2017 Budget by the Senate later today is expected to open the way for Prime Minister Matteo Renzi's resignation.

**GREECE:** In line with the December 5th Eurogroup decisions, technical teams representing official creditors are expected to return to Athens in the coming days, purportedly with an intention to have all remaining open issues sorted out as soon as possible.

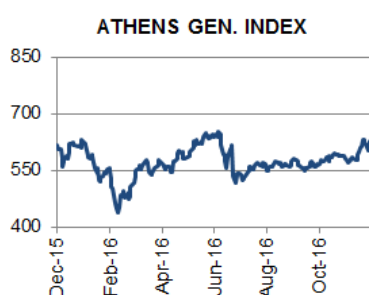
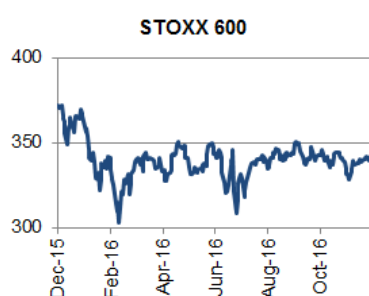
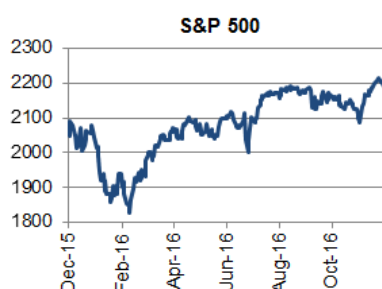
### SOUTH EASTERN EUROPE

**ROMANIA:** The second estimate of the Statistical Service on the seasonally adjusted Q3-2016 GDP reading confirmed the output slowdown implied by the flash estimate released back in September.

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## Latest world economic & market developments



Source: Reuters, Bloomberg, Eurobank Research

### GLOBAL MARKETS

In FX markets, the JPY was among the main underperformers in European trade on Wednesday as the positive tone in the majority of global equity markets dented its safe-haven appeal. The AUD also fared poorly after Australian Q3 GDP surprised negatively by declining -0.5%QoQ, the first quarterly contraction since Q1 2011 compared to a consensus forecast of -0.1%QoQ. All other major G10 FX currencies remained within tight ranges after a roller-coaster ride earlier this week following Italian voters' rejection by a wide margin of the constitutional reforms probed by the government at Sunday's referendum. After testing a multi-month low near 1.05 on Monday, the EUR/USD was hovering around 1.0725/30 in European trade at the time of writing with market participants awaiting the ECB Governing Council meeting on Thursday and upcoming political developments in Italy. The ECB is expected to announce a 6-9 month extension of the QE programme beyond March 2017 at the present monthly pace of €80bn in order to maintain the current "very substantial degree" of monetary accommodation amid subdued underlying inflation pressures and lingering downside risks to the euro area's growth outlook. Though the prospect of announcing a one-step reduction in the pace of monthly purchases this week cannot be ruled out, such a decision is more likely to be postponed at least until March 2017 amid prevailing political risks in the euro area. In Italy, the final approval of the 2017 Budget by the Senate later today is expected to open the way for Prime Minister Matteo Renzi's resignation. President Sergio Mattarella will subsequently begin a round of consultations with political parties to verify potential support for a transition government whose main task would be reforming the voting system and leading the country to snap elections.

### GREECE

In line with the December 5th Eurogroup decisions, technical teams representing official creditors are expected to return to Athens in the coming days, purportedly with an intention to have all remaining open issues sorted out as soon as possible. According to the local press, among the most pending issues in the agenda of official discussions for the completion of the 2nd programme review is the identification of measures for the coverage of a projected FY-2018 budgetary shortfall. EU officials reportedly project a fiscal gap of around c. 0.4%-of-GDP mainly related to the lack of adequate funding for the implementation of the Guaranteed Minimum Income (GMI), scheduled to be launched nationwide in January 2017. Adopting a more stringent stance, the IMF is said to project a shortfall of c. 2%-of-GDP. As a means of addressing the aforementioned shortfall the Fund reportedly demand the Greek side to adopt additional reforms incorporating, inter alia, a lower tax-free threshold to €5,000 from €8,600 currently and a further reduction in existing pensions through the abolishment. Speaking to reports, government spokesman Dimitris Tzanakopoulos noted that the government will seek a holistic agreement by the end of this year and will "under no circumstances" agree on additional austerity measures.

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December 7, 2016

BULGARIA: Indicators	2014	2015	2016f
Real GDP growth %	1.6	3.0	2.6
CPI (pa, yoy %)	-1.4	-0.1	-0.5
Budget Balance/GDP*	-3.7	-2.9	-2.0
Current Account/GDP	0.9	1.4	1.0
EUR/BGN (eop)	1.9558		
	2015	current	2016f
Policy Rate (eop)	N/A	N/A	N/A

\* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

CYPRUS: Indicators	2014	2015	2016f
Real GDP growth %	-2.5	1.6	2.5
HICP (pa, yoy %)	-0.3	-1.5	-0.7
Budget Balance/GDP*	-0.2	0.0	-0.4
Current Account/GDP	-4.6	-3.6	-4.2

\* ESA 2010

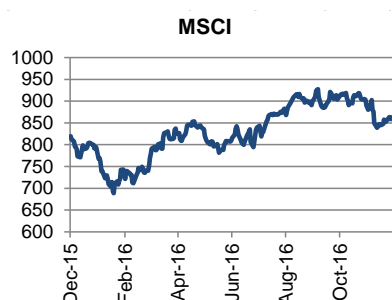
Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

ROMANIA: Indicator:	2014	2015	2016f
Real GDP growth %	2.9	3.8	4.2
CPI (pa, yoy %)	1.1	-0.6	-1.5
Budget Balance/GDP *	-1.9	-1.9	-2.8
Current Account/GDP	-0.4	-1.1	-3.0
EUR/RON (eop)	4.48	4.52	4.60
	2015	current	2016f
Policy Rate (eop)	1.75	1.75	2.00

\* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

SERBIA: Indicators	2014	2015	2016f
Real GDP growth %	-1.8	0.7	1.8
CPI (pa, yoy %)	2.1	1.5	2.8
Budget Balance/GDP	-6.7	-4.1	-4.0
Current Account/GDP	-6.0	-4.7	-4.6
EUR/RSD (eop)	121.38	121.52	125.00
	2015	current	2016f
Policy Rate (eop)	4.25	4.00	4.00

Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

Credit Ratings			
L-T ccy	Moody's	S&P	Fitch
SERBIA	B1	BB-	BB-
ROMANIA	Baa3	BBB-	BBB-
BULGARIA	Baa2	BB+	BBB-
CYPRUS	B1	BB-	B+

Source: IMF, EC, Reuters, Bloomberg, National  
Authorities, Eurobank Research

## Latest economic & market developments in the CESEE region

### ROMANIA

The second estimate of the Statistical Service on the seasonally adjusted Q3-2016 GDP reading confirmed the output slowdown implied by the flash estimate released back in September. According to the release, real GDP on an unadjusted basis slowed to +4.4% YoY in Q3-2016 down from +6.0% YoY in Q2-2016 vs +3.6% in Q3-2015. On a seasonally adjusted basis, growth slowed to +0.6% QoQ/ +4.6% YoY in Q3-2016 – below a market consensus of +1.0% QoQ/+5.0% YoY- down from +1.5% QoQ/+5.8% YoY in Q2-2016 compared to +1.5% QoQ/+4.1% YoY in Q1-2016, up from +1.8% QoQ/+3.7% YoY in Q3-2015.

The third quarter GDP reading came out below market expectations, raising fresh concerns over the sustainability of the growth acceleration in 2016-2017. Softer retail sales in Q3 had predisposed for a slowdown in the private consumption rally and thus a lower contribution to growth. After jumping by +3.3% QoQ/+10.4% YoY in Q2, private consumption slowed down to -1.5% QoQ/+6.1% YoY making a contribution of 4.0pps to growth in Q3 down from 7.5 pps in the previous quarter. In addition, lower EU funds absorption compared to last year as well as QoQ public spending mirroring local elections in June were most probably accountable for the contraction in investments on a quarterly basis (-6.5% QoQ). Nevertheless, gross fixed capital formation still expanded on an annual basis by +2.8% YoY, making a 0.8pps contribution to growth, which was only partially offset by the negative contribution of inventories (-0.2pps). On the other hand, net exports made a small negative contribution of -0.2pps-mirroring the flat quarterly performance of exports (+0.0% QoQ/+6.3% YoY) vs. the small decrease of imports (-3.0% QoQ/+6.7% YoY).

So far, growth dynamics were driven by a private consumption spending boom, fuelled by the unwarranted pro-cyclical fiscal stimulus ahead of the parliamentary elections scheduled for late 2016. Hence, the economy is driven close to, if not above, its potential growth rate at the expense of pushing government finances off consolidation track and deteriorating the external position. The current account deterioration is one of those warning signs that macroeconomic imbalances are reemerging as a result of the expansionary policy. In support of the aforementioned, the current account deficit jumped to 1.6% of GDP in Jan-Sep 2016 compared to 0.7% of GDP in the same period a year ago. All in, GDP growth came at 4.8% in the first three quarters of the year, little below our FY16 projection of 5.0%. Looking ahead, a soft landing in 2017 seems to be on the cards. Growth is expected to slow down to 3% next year. The incoming government, that will come in office after the parliamentary elections scheduled for December 11th, will most probably need to adopt a more conservative stance in order to bring the projected fiscal deficit below 3.0% (assuming no policy change the deficit is expected to surpass 3.7% of GDP in 2017), which will have a material decelerating impact on the economy next year.

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December 7, 2016

**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	2206.28	0.1%	7.9%	EUR/USD	1.0739	-0.2%	-1.1%	UST - 10yr	2.39	-1	12	GOLD	1174	0.3%	10.6%
Nikkei 225	18360.54	0.5%	-3.5%	GBP/USD	1.2742	0.1%	-13.5%	Bund-10yr	0.36	3	-27	BRENT CRUDE	54	-2.5%	43.7%
STOXX 600	343.18	0.6%	-6.2%	USD/JPY	113.88	0.0%	5.4%	JGB - 10yr	0.05	1	-22	LMEX	2842	2.6%	29.0%

**CESEE MARKETS**

**SERBIA**

**Money Market**

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	296	-2	-7
1-week	3.09	-2	-10
1-month	3.28	-1	-23
3-month	3.45	4	-38
6-month	3.64	4	-39

**RS Local Bonds**

	Last	ΔDbps	ΔYTD bps
3Y RSD	5.07	0	-34
5Y RSD	5.68	0	-143
7Y RSD	5.73	0	-5

**RS Eurobonds**

	Last	ΔDbps	ΔYTD bps
USD Nov-17	2.48	-3	-68
USD Nov-24	6.47	2	6

**CDS**

	Last	ΔDbps	ΔYTD bps
5-year	208	0	-67
10-year	255	1	-84

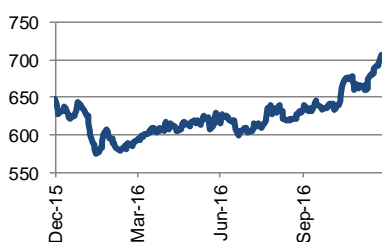
**STOCKS**

	Last	ΔD	ΔYTD
BELEX15	714.5	1.34%	10.93%

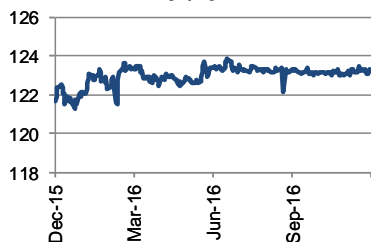
**FOREX**

	Last	ΔD	ΔYTD
EUR/RSD	123.27	0.01%	-1.36%

**BELEX15 Index**



**EUR/RSD**



**ROMANIA**

**Money Market**

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.5	-2	-3
1-month	0.64	-1	-5
3-month	0.81	1	-21
6-month	1.05	0	-29
12-month	1.17	0	-35

**RO Local Bonds**

	Last	ΔDbps	ΔYTD bps
3Y RON	1.55	4	-38
5Y RON	2.41	-1	-39
10Y RON	3.50	0	-28

**RO Eurobonds**

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	2.32	-2	-25
USD Jan-24	3.91	-2	13

**CDS**

	Last	ΔDbps	ΔYTD bps
5-year	113	0	-20
10-year	158	-1	-14

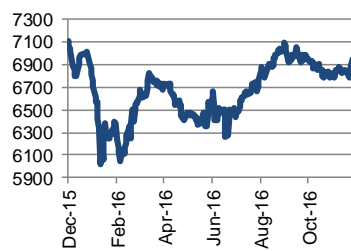
**STOCKS**

	Last	ΔD	ΔYTD
BET	6866.6	-0.71%	-1.97%

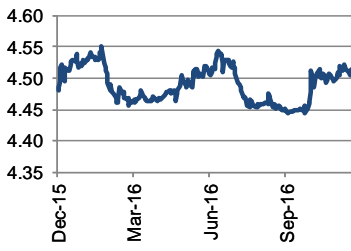
**FOREX**

	Last	ΔD	ΔYTD
EUR/RON	4.4995	0.03%	0.32%

**BET Index**



**EUR/RON**



**BULGARIA**

**Money Market**

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	-0.13	0	-14
1-month	-0.16	0	-32
3-month	-0.07	0	-33
6-month	0.08	0	-45
12-month	0.41	0	-57

**BG Local Bonds**

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	0.23	0	-37
5Y BGN	0.65	1	-62
10Y BGN	2.01	0	-65

**BG Eurobonds**

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	-0.11	3	-18
EUR Sep-24	1.91	7	-51

**CDS**

	Last	ΔDbps	ΔYTD bps
5-year	155	4	-16
10-year	188	0	-28

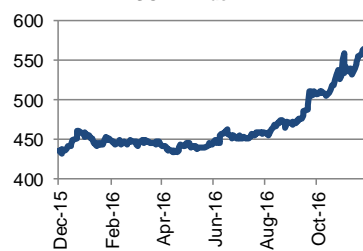
**STOCKS**

	Last	ΔD	ΔYTD
SOFIX	567.4	1.08%	23.12%

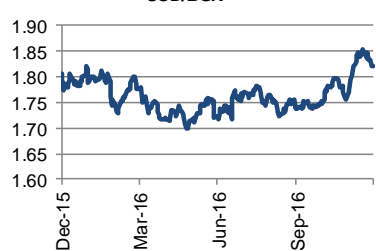
**FOREX**

	Last	ΔD	ΔYTD
USD/BGN	1.8213	-0.24%	-1.15%

**SOFIX Index**



**USD/BGN**



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

Data updated as of 16:50 EET of previous session

December 7, 2016

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