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Global Macro Themes & Market Implications for the EA Periphery and the CESEE

March 2019

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I. Snapshot

Overview

Macro Picture

- **USA:** The ongoing slowdown was likely exacerbated by the federal shutdown; Solid domestic demand to continue supporting growth
- **EA:** Economic growth continues to disappoint, but accommodative monetary and fiscal policies could underpin a slight pickup in Q2
- **UK:** January's GDP data surprised to the upside but growth sustainability is called into question amid pronounced Brexit uncertainty
- **EM:** Easing of financial conditions in EM, whose currencies have strengthened against the US dollar
- **CESEE:** Visible signs of a cyclical economic slowdown, with robust domestic demand controlling the brake

Policy Outlook

- **USA:** Tightening bias removed; No anticipated rate changes in 2019
- **EA:** TLTRO III launched earlier than expected; A tiering system announcement is possible by year-end
- **UK:** The BoE is expected to remain in a "wait-and-see" stance awaiting greater Brexit clarity
- **CESEE:** Central Banks confronted with tightening dilemma as major central banks turn more dovish

Summary

The economic slowdown has spilled over into Q1, with trade war tensions, continued policy uncertainty and financial tightening in H2 2018 weighing on industrial activity and investment decisions. Global real GDP growth for 2019 is projected at 3.4% from 3.7% in 2018

Markets

- **FX:** In an uncertain world USD dominated on strong carry, repatriation flows and diminished political risks. The Brexit saga continues with no end in sight hurting GBP
- **Government bonds:** Central bank capitulation on increasing global growth risks has been the main theme for March with core markets rallying as "lower for longer" remains the theme
- **EM:** Decent volumes were not enough to keep the markets calm. EM politics along with FOMC rhetoric increased the volatility levels. It seems that CBs support will be crucial for markets to consolidate at current levels
- **Credit:** Closed the month tighter amid Brexit talks' turmoil, weak European PMIs and Fed dovishness. Cautiously supportive over the next 1-2 months on CB dovishness and additional talks on deposit Tiering, rate cuts etc.

Key Downside Risks

- **Renewed trade jitters:** US & China fail to bridge their differences on core areas of trade dispute or/and the US imposes auto tariffs later this year
- **No-deal Brexit:** Theresa May and Jeremy Corbyn fail to reach compromise & the House of Commons fails to build a majority on an alternative Brexit option
- **EM sensitivity:** Highly debt burdened countries face challenges if sharper-than-expected tightening of financial conditions materialises
- **China:** Policy stimulus may not avert a slowdown of the domestic economy

Macro Views

Latest Macroeconomic Developments & Outlook

World Economic Outlook		The economic slowdown has spilled over into Q1, with trade war tensions, continued policy uncertainty and financial tightening in H2 2018 weighing on industrial activity and investment decisions. Trade growth has decelerated significantly to 3.0% in 2018 from 4.6% in 2017 amid the imposition of new tariffs and retaliatory measures, increased financial market volatility and tighter monetary policy in major advanced economies, while the World Trade Organization (WTO) projects a further deceleration to 2.6% in 2019. Economic growth could benefit in H2 2019 from strong labor markets, increased fiscal support in China and Europe and a more dovish monetary policy stance by major central banks, led by the Fed, but overall real GDP is expected to slow further to 3.4% in 2019 from 3.7% in 2018. Main downside risks to our baseline scenario include trade policy jitters, political uncertainty in Europe and a sharp economic slowdown in China.
Developed Economies	**US**	While Q4 real GDP was revised downwards by four-tenths to 2.2%QoQ saar, high-frequency economic data are expected to remain volatile in the short-term given the impact of the government shutdown. Firm domestic demand and, especially, private consumption should continue supporting the current economic expansion, given the uptrend in wages and personal income combined with the continuous reduction in household liabilities as a share of net worth/disposable income. Overall, real GDP growth is projected to decelerate to 2.4% in 2019 from 2.9% in 2018, with trade frictions constituting the main headwind to the outlook.
	Euro Area	Growth momentum has continued to lose steam, with very few signs of a recovery in Q1, following an average quarterly GDP growth rate of 0.2% in H2 2018. We expect real economic activity to perform somewhat better in Q2, helped by accommodative monetary and fiscal policies, and improved labour market conditions. Overall, we have revised downwards our real GDP growth projection to 1.2% in 2019 from 1.3% previously, with the potential of higher auto tariffs imposed by the US on the European auto sector, the possibility of a no-deal Brexit and Italian political risks posing downside risks to our baseline forecast.
	Periphery	Spain continues to outperform its Euro area peers with the latest available data suggesting that the positive growth momentum has been carried over into the early months of 2019. On the flip side, Italy remains a laggard with incoming indicators pointing to protracted weakness in Q1 2019, keeping us cautious for a third consecutive quarterly contraction. The risks surrounding the growth outlook of all periphery economies are titled to the downside stemming from fears of a no-deal Brexit, higher US tariffs on EU auto sector and a return to a tit-for-tat tariff war.
Emerging Economies	**BRICS**	In Brazil, a series of disappointing economic data, with the most important being economic growth deceleration by 0.4%MoM in January, raises concerns over Brazil's economic recovery and overall 2019 economic performance. In Russia, high frequency data point to a slower growth momentum in Q1 2019, after expanding in 2018 by 2.3% the highest rate since 2012. Estimates regarding India's economic growth in 2019 concentrate around 7.1%YoY from 7.2%YoY in 2018, following disappointing Q4 data. Finally, in China, following the 6.6%YoY economic growth rate in 2018, the official target is set between 6.0% and 6.5% in 2019 supported by as much as possible policy stimulus.
	CESEE	The second Q4 2018 GDP estimates released for a number of economies in the broader CESEE region contained multiple take-aways for analysts. Firstly, those readings underlined its resilience against the weak Euro-area growth momentum. Secondly, those readings confirm the divergent trends between two discrete group of economies within the region. Thirdly, those readings signal the beginning of the economic slowdown for the broader region.

Global Macro Themes & Implications

Theme	Implications
US/China trade talks are progressing but more time may be needed for a final deal	High level trade talks between the US and China are progressing, albeit slowly, with the aim of closing a final deal soon. Discussions continue this week in Washington with a Chinese delegation led by Vice Premier Liu He, after the two sides reported progress in the latest round of talks in Beijing in late March. Both cabinets are working for a 'signing meeting' between US President Donald Trump and his Chinese counterpart Xi Jinping in late April. However, more time may be needed for all open issues to be settled and according to press, a summit between the two leaders for a final trade agreement may be pushed back to June. Apparently one of the main hurdles is an agreement on the mechanism that will enforce the trade deal. To this effect, the US would prefer to keep the tariffs imposed in 2018 on imports from China worth $250bn and to remove them gradually as China meets its commitments under the trade agreement, including intellectual property rights, forced transfer of technology and purchases of US goods. China, on the other hand, requests the one-off removal of those tariffs as a prerequisite for signing a trade agreement. Although a number of issues remain open as trade talks are nearing the final and probably the more challenging stage, we remain confident that a final deal will be reached in the coming months. A failure for a final agreement could trigger anew market worries over a tit-for-tat tariff war with negative repercussions for equity markets and the US economy, a scenario that could be quite damaging for the US President as he is heading to his 2020 election campaign.
ECB launches a comprehensive monetary package earlier than expected	The ECB delivered a dovish surprise at its March meeting, announcing a set of measures earlier than expected in an attempt to counter the Eurozone's economic slowdown and preserve accommodative financial conditions. More specifically, the Governing Council (GC) decided unanimously on three key policy steps: (i) the forward guidance on policy rates was extended by one quarter, with the ECB expecting now interest rates to remain at their present levels "at least through the end of 2019" from "at least through the summer of 2019", previously, amid a weaker growth outlook and subdued inflation pressures; (ii) the launch of a new series of seven quarterly TLTRO III operations with maturity of two years – starting in September 2019 and ending in March 2021 – with an interest rate indexed to the MRO rate over the life of each operation; and (iii) fixed-rate full allotment at the refinancing operations to be extended until March 2021. The new staff projections revealed a downward revision in GDP growth and inflation projections, while the ECB maintained its assessment that risks remain skewed to the downside. The 2019 GDP growth estimate was substantially downgraded to 1.1% from 1.7% previously, while the respective figures for 2020 and 2021 were little changed compared to the December estimates. The inflation path was downgraded throughout the forecast horizon, more significantly in 2019 (by 0.4bps to 1.2%), and to a lesser degree in 2010 and 2021 (by 0.2bps to 1.4% and 1.6%, respectively). Meanwhile, comments from ECB President Mario Draghi, ECB Vice President Luis de Huindos and ECB's Chief Economist Peter Praet at the conference "The ECB and Its Watchers" on 27 March confirmed GC's discussion of a tiering system, highlighting ECB's willingness to act with all its instruments. According to Mario Draghi, "*If necessary, the ECB will reflect on possible measures that can preserve the favourable implications of negative rates for the economy while mitigating the side effects, if any*". That said, the ECB would need to adjust its forward guidance on interest rates before the end of 2019, potentially signaling that the refi rate could be kept at its current level for longer while the depo rate could be increased later in 2020 to mitigate the side effects of a negative deposit rate on banks' profitability. Apart from the technical details of TLTRO III, we do not expect any other ECB action throughout 2019, unless there is a substantial growth deceleration due to a no-deal Brexit or the imposition of car tariffs.

Global Macro Themes & Implications

Theme	Implications
Fed drops its tightening bias; No anticipated rate changes at least through 2019	The Fed surprised markets turning even more dovish than expected at its March FOMC meeting. The Committee left the target range for the fed funds rate unchanged at 2.25%-2.50%, emphasizing the data dependence of its monetary policy and its patience "in light of global economic and financial developments and muted inflation pressures". According to the Fed's updated projections, the median dot currently shows no interest rate hike in 2019 in contrast to two rate increases expected in December. It should be noted that 11 out of 17 FOMC members expect unchanged rates throughout this year versus 2 members back in December projecting no rate hike in 2019. The new dot plot also envisages one final hike in 2020, with the target rate peaking at 2.6%, below the estimate for the longer-run natural rate that remained steady at 2.8%, but this expectation is rather marginal given that seven FOMC members expect rates on hold throughout 2020. The downgrade to the dots was driven by a bleaker assessment of economic conditions. According to the updated Summary of Economic Projections, GDP growth projection for both 2019 and 2020 was revised lower by two-tenths to 2.1% and by one-tenth to 1.9%, respectively (2021f unchanged at 2.8%), the unemployment rate is now seen two-tenths higher in 2019 and 2020 (at 3.7% and 3.8%, respectively) and one-tenth higher at 3.9% in 2021, while the inflation rate is not expected to move above the 2.0% target over the three-year forecast period (2019f: 1.8% from 1.9%, 2020f & 2021f: 2.0% from 2.1%). Reiterating that balance sheet policies are not linked to its assessment of the appropriate interest rate path that remains the primary tool of monetary policy, the Committee announced its intention to conclude the balance normalization at the end of September, a bit earlier than previously expected, while, aiming to ensure a smooth transition, it will start as soon as in May to lower the cap on monthly Treasury redemptions to $15bn, from $30bn currently. According to Chairman Jerome Powell's comments at the press conference that followed the conclusion of the meeting, a normalized balance sheet would be somewhat higher than $3.5trn. Following the outcome of the March FOMC meeting and the Committee's reaction function change, we have lowered our projections for the fed funds rate. We anticipate no interest rate adjustments through the remainder of the year, while the projected economic slowdown in the US raises the possibility that the Fed's next move might be an interest rate cut. The fed futures market is currently attaching a probability above 50% for a 25bp cut in Q4 2019 (~65% in December). Nevertheless, in an environment of above-trend economic growth, we cannot entirely rule out a rate hike in the unexpected case we witness a further labor market tightening in combination with a sudden upturn in inflation pressures.

Macro Themes & Implications in CESEE

Theme	Implications
Second Q4-2018 estimates signal the beginning of the economic slowdown for the broader region	The flash Q4-2018 GDP estimates released for a number of economies in the broader CESEE region contained multiple take-aways for analysts. Firstly, those readings underlined its resilience against the weak Euro-area growth momentum. Secondly, those readings confirm the divergent trends between two discrete group of economies within the region. Despite conventional wisdom suggesting that rising external environment headwinds and the slowdown of their main trade partner Germany would have a detrimental impact on their growth prospects, CEE3 (Poland-Hungary-Slovakia) economies were among the most resilient in the CESEE group. The CEE3 economies are leading the pack expanding on average by 4-5% YoY, while the SEE (Bulgaria-Romania-Serbia) economies are lagging behind growing on average by 3-3.5%. Thirdly, the Q4-2018 GDP figures were the lowest or among the lowest in the past two years signaling increasingly that the these economies have already passed beyond their cyclical peak. economic activity was once again driven primarily by domestic demand. In contrast, net exports have most probably been a negative contributor, more than in the previous quarters, driven by higher imports that mirror strong domestic demand but also lower exports in response to the deteriorating external environment.
Credit growth recovery in the CESEE region is supported by the enhanced liquidity conditions, the improvement in macroeconomic fundamentals and the NPLs decline.	Credit growth in the CESEE region seems to have finally recovered after years of deleveraging. Current dynamics appear stronger than in the Eurozone with two main reasons explaining the difference. Firstly, the credit markets in the regional economies are less mature compared to the Euroarea with CESEE banks relying on growth in domestic deposits to fund their operations. Consequently, when counting the credit expansion in these countries, a sizeable base effect should be taken into account. In fact, the total non-bank private sector credit accounted for 110% of GDP in the CESEE countries in 2017 while in the Eurozone the respective figure stands around 195%. Secondly, the improvement in the region's macroeconomic fundamentals is backed by the rapid nominal wage growth and the still robust economic expansion. Regional salaries grew by ca. 8% in the region last year, compared to ca. 3.3% in the Euroarea. Moreover, the CESEE region expanded by more than 4% YoY in 2018, almost at double speed compared to the Euroarea. The benign inflation environment that allows for loose monetary conditions is considered as a key determinant as well. The ongoing credit expansion is accompanied by a plethora of macro prudential measures in order to timely ring fence the expansion and prevent it from turning into a bubble. Most regional central banks have implemented policies to commercial banks for additional capital requirements and systemic risk buffers. At the same time, credit policies have become more standardized as regards specific credit metrics upon new money granting. Finally, according to the latest CESEE Bank Lending Survey, presented in Vienna in the context of the Vienna Initiative Full Forum held in the previous week, in which 15 international banking groups and 85 local subsidiaries of independent local banks participated accounting for more than 50% of banking assets in the CESEE region, credit quality continues to improve with bad debt volumes in CESEE having gradually decreased since 2013. According to relevant data, the fall in NPLs was particularly strong in Albania, Croatia, Hungary, Montenegro and Serbia.

CESEE Markets Developments & Outlook

Country	CESEE Markets Developments & Outlook
Bulgaria	Bulgarian Eurobond yields dropped modestly in March across the board ranging from 5 bps for the 2024 tenor, to 19 bps for the longest maturity, namely the 2035. The Bulgarian Ministry of Finance continued its recent policy and did not hold any auctions in March, in its efforts to gradually decrease the Public Debt/GDP ratio. Local bond yields had a more volatile month with shorter yields dropping within a 5-10 bps range while mid-long term maturity yields dropped in between 15-25 bps.
Serbia	In the past 30 days, the EUR/RSD pushed towards the lower end of 118.0 but the dinar's appreciation against the euro proved feeble as the National Bank of Serbia (NBS) is still keen on preserving FX rate stability and as such urges to leave limited space for excessive swing. That said, we anticipate that the EUR/RSD will most likely stay in the range of 118.0-118.5 for as long as the NBS keeps intervening. In March, the strengthening of the dinar has occurred alongside the economic slowdown in the EU and, to a lesser extent, the US. Moreover, the Fed turned its hiking policy string into a more patient and less urgent tone towards tightening. Referring to the Euroarea, fresh data do not allow for an optimistic view of the economy. Germany's economic slowdown appears imminent with the ZEW economic sentiment and the Markit manufacturing PMI hitting fresh lows. Given the above, the NBS is in no hurry to step into monetary tightening any time soon and under the existing conditions, the dinar will most probably remain stable, suppressing the yields in the Government Bonds further, just as it happened with the peripheral EU countries (Spain, Croatia, Portugal) and their yields after the Euroarea GDP growth forecast revision to 1.1% for 2019 and the introduction of the third TLTRO.

Markets View

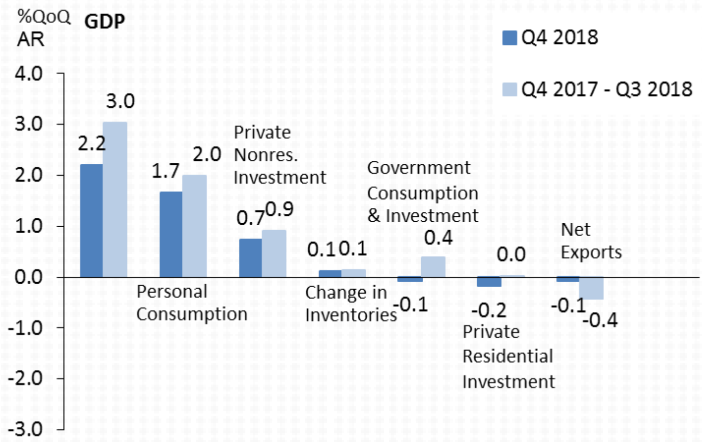
Asset Class	Outlook
Foreign Exchange	**EUR/USD:** The dollar is appreciating despite Fed easing being incrementally priced into markets. The positive USD carry, weak global data, cautious central banks, persistent global risks and eroding US political risk are some of the reasons. US foreign asset liquidation has also been a strong driver of repatriation flows with equities being the biggest beneficiary. Financial market uncertainty may support USD for the time being, but an unexpectedly poor global cyclical outcome could challenge the world's reserve currency resilience. **USD/JPY:** Risk recovered a lot to end-March with most markets reversing partially the risk-off trend we have seen. SHCOMP rallied 2.5% and USDCNH recovered most of the ground lost trading back close to 6.73 on strong Chinese PMISs. Nikkei posted gains supported by Asian equity index rallies in the optimistic views for US China trade talks. The FX market was driven by Japanese flows related to fiscal year end with USDJPY reaching a 111.46 high. **GBP/USD:** Brexit dominated sentiment with market data and the BoE taking the back seat. The UK has now until the 12th of April to decide its future in the EU. The latest vote in the House of Commons saw all four alternatives to PM May's plan being voted down with another attempt to solve the impasse scheduled for Wednesday the 4th of April. Cable which was holding in the 1.3115 area has slipped below 1.3050 with uncertainty rife.
Government Bonds	**EU:** ECB delivered a dovish surprise announcing earlier than expected the TRLTROs details and delaying calendar based forward guidance at least for 2019. The TLTROs will be designed so as not to incentivise carry-trades (reducing potential take ups) while indexation on the refi allows the ECB to keep the option to hike the deposit rate from the end of this year onward. Further dovish comments by Draghi on inflation and the mentioning of the possibility of rates Tiering in order to deal with the side effects of negative rates sent the Bund firmly below 0% with many eyeing a move to -12bps as a distinct possibility as the EUR curve flattened and volatility remains suppressed. EUR 5y5y inflation swaps have repriced from 1.57% at the beginning of the year to 1.35% with risk premia dropping and current market expectations for the first hike pushed to 2020 at the earliest. **US:** Fed's ultra dovish pivot and softer global growth has fueled a 25 bps rally for the 10y UST benchmark, reaching a low of 2.34% with the move exacerbated by convexity hedging flows from mortgage holders and short vol strategies. The dots shifted to show no further hikes this year and only one hike in 2020, signaling that policy will remain accommodative relative to the long-run rate expectation while the expected balance sheet unwind will start in May and last until the end of September. The Fed also underscored patience and a strong desire to allow inflation to run above target. The inversion of the 3m10y segment fueled panic of an impending recession sending vol higher and curves steeper as ED$ price 32bps of rate cuts by Dec 2019, and 62bps by the end of 2020. 2y yields should stabilize from here, albeit still at a 15-20bp premium to IOER as the bar to reverse the current Fed pricing is high.
EM hard currency debt	EM Spreads both in CDS and cash ended in March relatively wider on specific idiosyncratic stories, with range-bound volatility. More specifically, Turkey closed ~25wider on the first week of the month amidst 2-way flows. Financials were hit with issuance as Koc issued $750m 6yr at 6.625%, while Yapi issued $500m 5.5Y at 8.25%. This same pattern continued till month-end on headlines surrounding central bank reserves, a $1bn tap 29s at 7.15% and the elections outcome. Turkey 5Y CDS reached 517bps before closing the month at 450bps from 300bps at the beginning of March. Russia had a volatile month with sanctions headlines being present for another month. Russia 5Y CDS started the month at 128bps, traded up to 143bps before closing the month at 135bps. Mid-month, Russia issued $3bn 16yr at 5.10% (and tap of €750m 24s at 2.375%) that led to a widening across the curve. By month-end the market reacted by retracing part of the widening in high demand mainly in the long end. Overall and despite the high volatility during March we favour a constructive stance as FED's rhetoric potentially leaves room for further consolidation, over the next 1-2 months, preferring short duration positioning, on any weaker macro data.
Corporate credit	USD and EUR credit spreads continued trading tighter amid global growth concerns and weaker European PMI numbers. Moreover, mid-month FOMC delivered another dovish surprise while Brexit woes continued to weigh on risk sentiment. Global yields are back to their lowest levels in a year. Both ITRAX Main and XO had a good month. Main started the month at 70bps, and closed at 64bps on a roll-adjusted basis. XO managed to close marginally tighter despite some volatility (290-265bps range). Overall, with USD rates looking stretched vs fundamentals and pricing for extreme pessimism on global growth we see risk of a near-term pullback on any positive sign for the global outlook. Cautiously supportive of EUR spreads, on better fundamentals than USD paper, and even more so on EUR financials on possible deposits Tiering going forward. However the path for tighter spreads is limited in our view while light positioning will also support any modest widening move on hunt for yield. We favour lower duration exposure, and look for decent carry and roll down exposure between 4-6 years duration.

II. Advanced Economies

- USA
- Euro Area
  - Germany
  - France
  - Periphery (Italy, Spain, Cyprus)
- UK

USA: The ongoing slowdown likely exacerbated by the federal shutdown; Solid domestic demand to continue supporting growth

US GDP growth contributions



Economic Projections of Federal Reserve Board Members and Federal Reserve Bank Presidents, March 2019

USA	Median* (percent) 2019	2020	2021	Longer run
Change in real GDP	**2.1**	**1.9**	**1.8**	**1.9**
December projection	2.3	2.0	1.8	1.9
Unemployment rate	**3.7**	**3.8**	**3.9**	**4.3**
December projection	3.5	3.6	3.8	4.4
PCE inflation	**1.8**	**2.0**	**2.0**	**2.0**
December projection	1.9	2.1	2.1	2.0
Core PCE inflation	**2.0**	**2.0**	**2.0**	
December projection	2.0	2.0	2.0	
Fed Funds Rate	**2.4**	**2.6**	**2.6**	2.8
December projection	2.9	3.1	3.1	2.8

Source: US BEA, Federal Reserve, Bloomberg, Eurobank Research

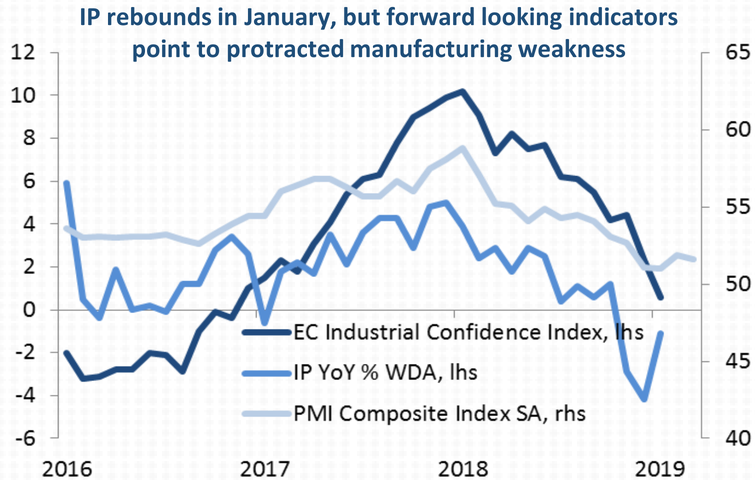
Latest Economic Developments

Q4 real GDP was revised downwards by four-tenths to 2.2%QoQ saar, dragged down by lower personal consumption after the sharp downward revision to Dec retail sales amid disruptions caused by the 35-day partial government shutdown. Business capex and public spending were also revised lower, partly offset by an upwards revised contribution from net trade. Latest leading indicators continue to be rather mixed, with the ISM manufacturing index rising 1.1pts to 55.3 in March while the ISM nonmanufacturing index fell 3.6pts to 56.1, the lowest level since August 2017. Economic data are expected to remain volatile in the short-term given the impact of the government shutdown, while the economy remains supported by firm domestic demand albeit at a lower extent due to the fading effect of the fiscal stimulus. Private consumption should continue supporting the current economic expansion, given the uptrend in wages and personal income combined with the continuous reduction in household liabilities as a share of net worth/disposable income. Overall, real GDP growth is projected to decelerate to 2.4% in 2019 from 2.9% in 2018, with trade frictions constituting the main headwind to the outlook.

Central Bank Watch

The FOMC left the target range for the fed funds rate unchanged at 2.25%-2.50% at its March meeting, with the median dot currently showing no interest rate hike in 2019. The new dot plot also envisages one final hike in 2020, with the target rate peaking at 2.6%, below the estimate for the longer-run natural rate that held steady at 2.8%. The downgrade to the dots was driven by a bleaker assessment of economic conditions, with the GDP growth projection for both 2019 and 2020 revised lower by two-tenths to 2.1% and by one-tenth to 1.9%, respectively. Following the Committee’s reaction function change, we have lowered our projections for the fed funds rate. We anticipate no interest rate adjustments through the remainder of the year, while the projected economic slowdown in the US raises the possibility that the Fed’s next move might be an interest rate cut. The fed futures market is currently attaching a probability above 50% for a 25bp cut in Q4 2019 (~65% in December).

Euro area: Economic growth continues to disappoint, but accommodative monetary and fiscal policies could contribute to a slight pickup in Q2



ECB staff macroeconomic projections for the euro area, March 2019

	2018	2019	2020	2021
Real GDP	**1.9**	**1.1**	**1.6**	**1.5**
December projection	1.9	1.7	1.7	1.5
Unemployment rate	**8.2**	**7.9**	**7.7**	**7.5**
December projection	8.2	7.8	7.5	7.1
HICP	**1.7**	**1.2**	**1.5**	**1.6**
December projection	1.8	1.6	1.7	1.8
Core HICP	**1.0**	**1.2**	**1.4**	**1.6**
December projection	1.0	1.4	1.6	1.8
Budget balance	**-0.4**	**-0.8**	**-1.0**	**-1.2**
December projection	-0.7	-1.0	-1.0	-1.0
Current account balance	**3.0**	**2.4**	**2.3**	2.2
December projection	3.0	2.7	2.6	2.5

Source: ECB, EC, Eurostat, Bloomberg, Eurobank Research

Latest Economic Developments

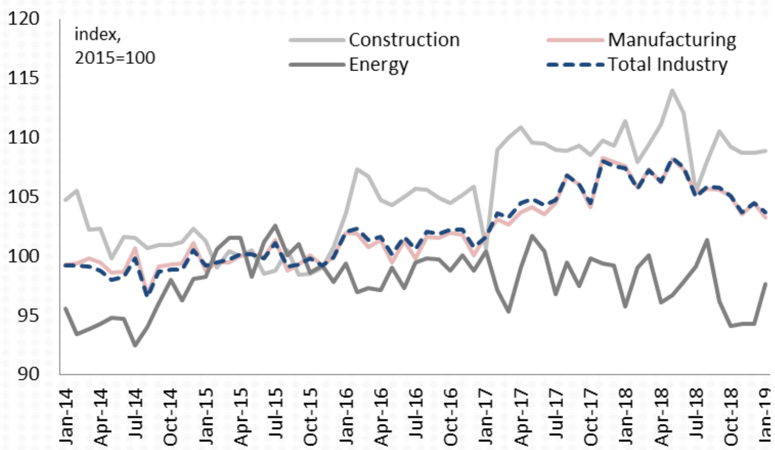
Growth momentum has continued to lose steam, with very few signs of a recovery in Q1, following an average quarterly GDP growth rate of 0.2% in H2 2018. Although January IP data rebounded to 1.4%MoM following a cumulative decline of -2.3% in Q4 2018 and the March final composite PMI was revised upwards by 0.3pts to 51.6 (compared to the flash estimate) from 51.9 in February, soft and hard data are in line with a modest pace of growth of ca. 0.2%QoQ in Q1. The slump in manufacturing weighed particularly on the German economy, while France surprisingly was the weakest performing country, entering a recessionary territory after slight growth in February. Looking ahead, we expect real economic activity to perform somewhat better in Q2, helped by accommodative monetary and fiscal policies and improved labour market conditions. Overall, we have revised downwards our real GDP growth projection to 1.2% in 2019 from 1.3% previously, with the potential of higher auto tariffs imposed by the US on the European auto sector, the possibility of a no-deal Brexit and Italian political risks posing downside risks to our baseline forecast.

Central Bank Watch

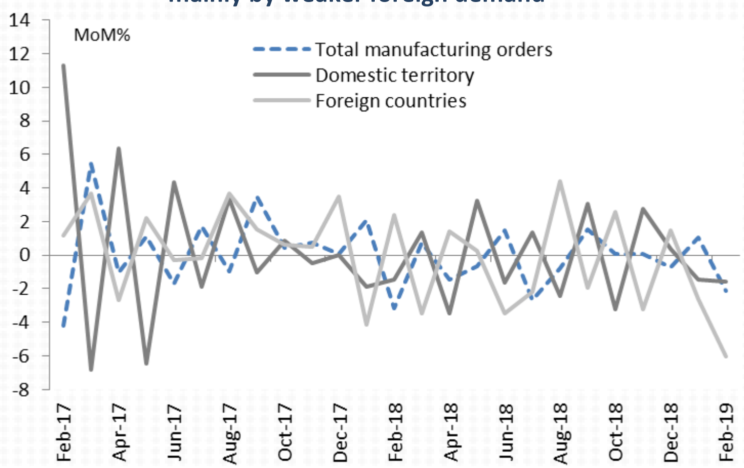
The ECB announced a set of measures earlier than expected, deciding unanimously on three key policy steps: (i) the forward guidance on policy rates was extended, with the ECB expecting now interest rates to remain at their present levels “at least through the end of 2019” from “at least through the summer 2019”; (ii) the launch of a new series of 7 quarterly TLTRO III operations starting in September 2019 and ending in March 2021; and (iii) fixed-rate full allotment at the refinancing operations to be extended until March 2021. The new staff projections revealed a downward revision in GDP growth and inflation projections, while the ECB maintained its assessment that risks remain skewed to the downside. The ECB would need to adjust its forward guidance on interest rates before year end, potentially signaling that the refi rate could remain at its current level for longer while increasing the depo rate later in 2020 to mitigate the side effects of a negative deposit rate on banks’ profitability.

Germany: Weakness in industrial production likely to persist in the coming months

January's industrial production decline solely due to weakness in manufacturing



February's factory orders decline driven mainly by weaker foreign demand



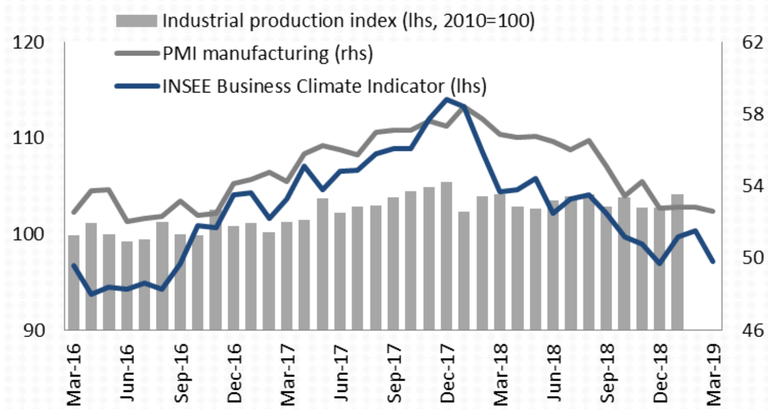
Source: Federal Statistical Office (Destatis), Eurobank Research

Latest Economic Developments

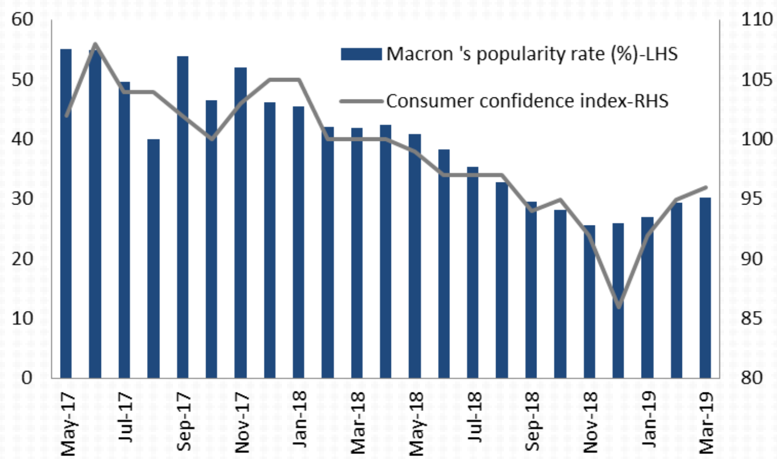
Industrial production dropped unexpectedly by 0.8%MoM in January following an upwards revised gain of 0.8%MoM in the prior month and a 1.1%QoQ decline in Q4 2018. At sectoral level, the January decline was solely due to a 1.1%MoM fall in manufacturing, stemming from the motor vehicle sector where production dropped by 9.2%MoM, the largest monthly fall in the last 4½ years. In contrast, both construction and energy contributed positively, rising by 3.6%MoM and 0.2%MoM, respectively. While slower global growth has probably weighed on motor vehicle output, according to the Federal Ministry for Economic Affairs and Energy, some idiosyncratic factors such as halts to production due to changes in models and strikes in component suppliers — totally irrelevant to the negative impact of the new EU emission tests in the automotive industry— have also had an impact. The January drop puts the Q1 2019 carry-over effect at -0.7%QoQ, pointing to further industrial weakness ahead. Supporting the view that industrial production has not probably bottomed out yet, new factory orders dropped by a surprising 4.2%MoM in February, driven by slower foreign demand in particular, as negative global factors (US/China trade tensions, uncertainty about Brexit, the threat of US tariffs on EU auto imports, China growth slowdown) continue to weigh on the German export-oriented economy (according to WTO, Germany's exports dropped 5.0%YoY in January, the third consecutive monthly decline). In addition, after falling below the 50.0 no-change mark in January for the first time in more than four years, the Markit manufacturing PMI sunk further into contraction territory in March coming in at a 6½-year low of 44.7, mainly pressured by a sharp drop in new exports orders, particularly in the automobile sector, highlighting how the slowing global trade has impacted Germany's industrial sector. Amid looming external uncertainties, domestic demand is expected to be the main growth driver this year underpinned by strong real wage growth (2018 hourly compensation per employee at 2.6%YoY in Germany vs. 1.9% in the euro area) and the deployed fiscal stimulus of c.0.5% of GDP. Overall, 2019 GDP growth is expected at c.1.0%, with risks skewed to the downside.

France: Growth to moderate against a more challenging external environment; Macron's popularity continues to recover

Conflicting signals from business surveys



Improving consumer confidence reflects President Emmanuel Macron's increasing popularity rate



Source: INSEE, Wiki, Eurobank Research

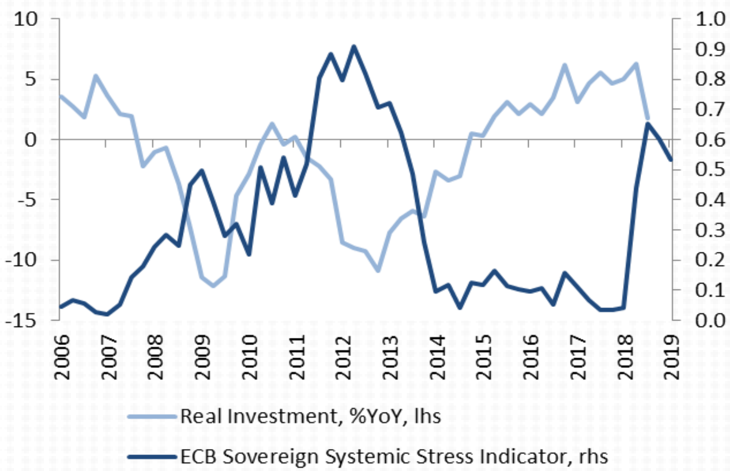
Latest Economic/Political Developments

Industrial production rose in January by a higher than expected 1.3%MoM with the annual rate coming in at a near two year high of 1.7%. In a similar positive tone, the INSEE Business Climate Indicator improved in March for the third consecutive month coming in at 104.5 — slightly above its long-term average of 100— after recording in December the biggest monthly drop in 6½ years (-2.9points). In addition, supported by lower inflation pressures and Emmanuel Macron's fiscal stimulus to ease social tensions, consumer confidence improved in March for the third month in a row, suggesting that the economic impact of the 'yellow vest' protests may have peaked. Specifically, the March consumer confidence index came in at a six-month high of 96 - higher than in November when protests begun– boding well for household expenditure ahead, especially in view of the ongoing improvement in labor market conditions (January's unemployment rate at a 10-yr low of 8.8%MoM & wage growth at a 5-year peak of 2.1%QoQ in Q4 2018). However, on the business side, surveys are sending conflicting signals. The Composite PMI index unexpectedly fell in March by 1.5pts to a two-month low of 48.9 as both services and manufacturing PMI fell back into contractionary territory. However, the INSEE business confidence index continued to stand comfortably above its long-term average of 100 in March.

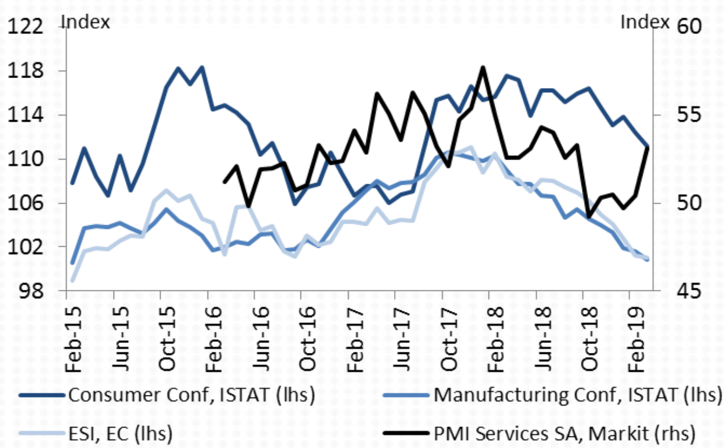
Mainly supported by private consumption on the back of rising wages and stronger fiscal support as part of Emmanuel Macon's new fiscal stimulus, Q1 GDP is expected to grow by 0.3%QoQ for the third consecutive quarter. However, against a more challenging external environment and accelerating domestic demand, the positive contribution of net exports is set to disappear with the average annual growth rate for 2019 likely to moderate to 1.3% from 1.5% in 2018. On the political front, Emmanuel Macron's new approach to governance that involves national debate on the government's 2019 structural reform programme, seems to be paying off ahead of the 26 May European Parliament election. His popularity rating rose in March for the fourth month in a row to c. 30.0% after reaching a trough of c. 25.5% in November.

Italy: H1 2019 growth expected around zero, before bouncing back only slightly on the back of the fiscal measures

Investment, a key recovery driver, has deteriorated



Services rebound, but manufacturing dips further into recession



Source: ECB, Bloomberg, Eurostat, Eurobank Research

Latest Economic Developments

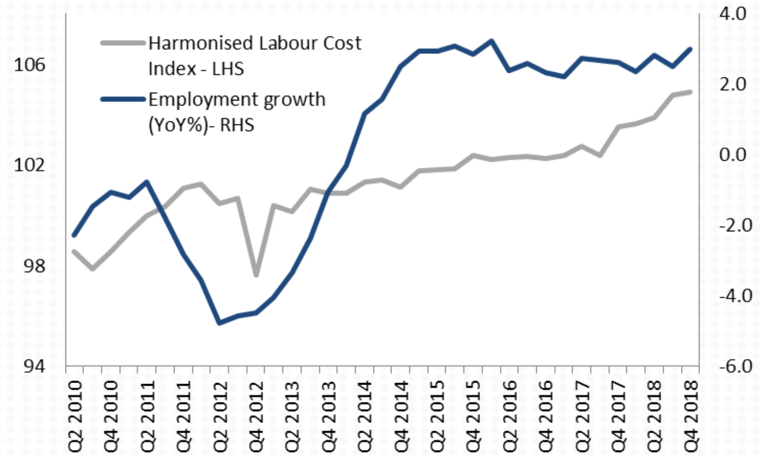
Italy entered a technical recession in Q4 2018, contracting by 0.1%QoQ in Q4 following a similar drop in Q3, its third recession in the past 10 years. The PMI composite index broke above the 50-threshold distinguishing expansion from contraction, rising to a 6-month high of 51.5 in March from 49.6 in the prior month. Although the manufacturing sector dipped further into recessionary territory (to 47.4 from 47.7 in February), the services sector rebound (to 53.1 from 50.4) pushed the composite index higher, pointing to a positive GDP growth rate of 0.1%QoQ in Q1. If this scenario materialises, Italy should be able to exit the technical recession, although growth is expected to hover around zero in the first half of the year, before picking up moderately as the government's fiscal support measures kick in. Overall, we remain cautious about Italy's growth prospects as the weakness in global trade and the manufacturing activity came on top of an already weak domestic economy. We maintain our GDP growth forecast to 0.2% in 2019 from 0.9% in 2018 on the back of a negative carry-over effect from 2018, weak domestic and global growth momentum as well as heightened political uncertainty.

Italian politics update

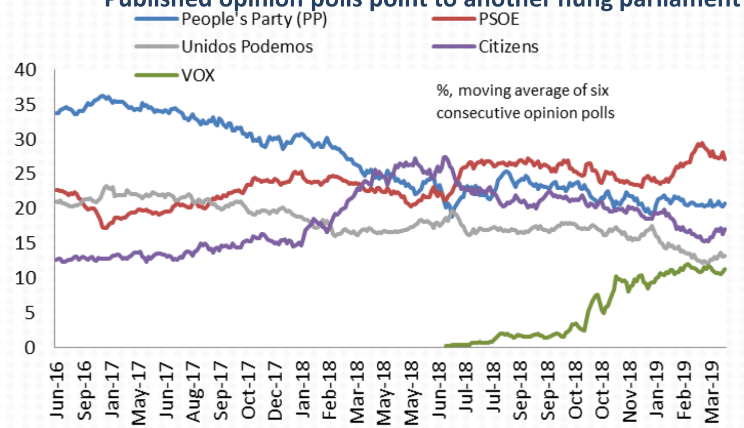
The outcome of the 26 May European elections could have significant implications for the political landscape in Italy, depending on the performance of the two parties of the ruling coalition. If the EU election result confirms the declining trend in 5SM's popularity (21% currently, ~11pp lower since March 2018 elections) and at the same time the League's increased popularity (32% currently, almost having doubled since March 2018 elections), the League could precipitate a government crisis that could lead to a coalition reshuffle (potentially a centre-right coalition between League, FI and BoI) or snap elections in H2 2019. Apart from internal political tensions, the fiscal dispute between the government and the EU ahead of the 2020 budget negotiations in autumn would be challenging given the pressing need to correct fiscal trends, especially now that Italy has entered into a recessionary territory.

Spain: Positive momentum carried over into early 2019; polls point to a hung parliament in 28 April snap election

Employment growth remains solid, wage growth is picking up



Published opinion polls point to another hung parliament



Source: Eurostat, Eurobank Research

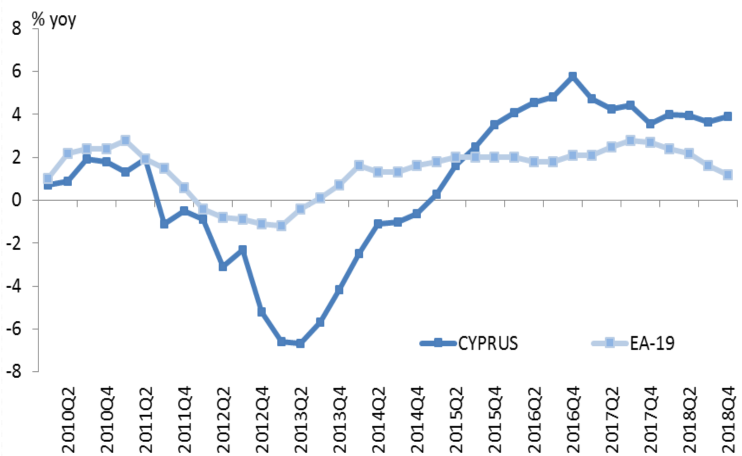
Latest Economic/Political Developments

Following a hefty growth rate of 2.6% in 2018, well above the Eurozone's 1.8% annual average, available data suggest that the positive momentum has been carried over into the early months of 2019. After declining by 5.9%YoY in December, the sharpest contraction in six years, industrial production rebounded in January rising by a near one-year high of 2.4%YoY with output in all major sectors returning to growth. Along these lines, the HIS Markit Manufacturing PMI improved to 50.9 in March mainly supported by gains in both output and new orders after falling below the 50.0 no-change mark in February (49.9) for the first time since November 2013, with the Q1 average coming in at 51.1, a tad lower compared to 51.9 in Q4 2018. The respective figure for the services sector improved to 56.8 from 54.7 in February, the highest in around a year. On the demand front, retail sales rose by a 4-month peak of 1.2%YoY in February supported by contained inflation pressures (HICP at 1.3%YoY in March), solid employment growth and rising wages. Mirroring the above, consumer confidence improved in March for the third consecutive month coming in at a 8-month high of -2. However, in an environment of slowing global growth, net trade will likely be a drag on economic activity this year, contrary to what happened in the last two years. In addition, private consumption is anticipated to moderate amid expectations for slower employment growth following the government's decision late last year for a 22% rise in the minimum wage (from €735 per month to €900), the largest increase since 1977. Undoubtedly, that development could support private consumption, but such a large increase in the minimum wage is likely to affect negatively employment growth, taking into account that Spain creates so many part-time and low-paid jobs. In all, FY-2019 GDP growth is likely to slow for the fourth year in a row to 2.2%, remaining however above a projected euro zone of around 1.2%.

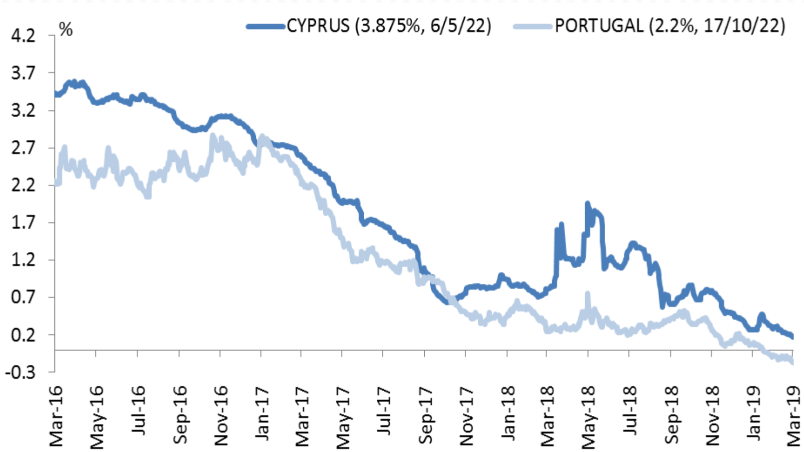
On the political front, snap elections will be held on 28 April with recent polls pointing to another hung parliament. The formation of a coalition is likely to be tough and repeated elections cannot be ruled out.

Cyprus: Lower ship registration had a negative impact on investments in Q4-2018

Cyprus turn-around growth story has been impressive so far



Cypriot medium term bond yields have improved in recent months after CCB's market exit



Source: Eurobank Research, National Authorities, Bloomberg

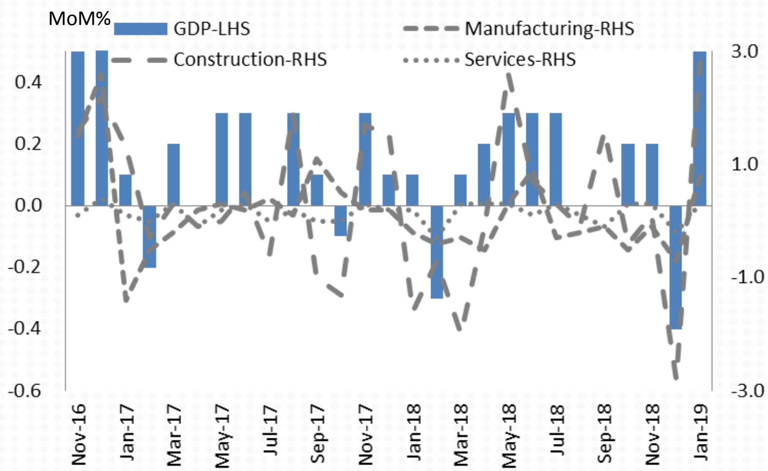
Latest Political & Economic Developments

The second estimate of CYSTAT on the seasonally adjusted Q4-2018 GDP-reading, trimmed 0.1ppts off the flash. Real GDP expanded by 1.0% QoQ/3.8% YoY in Q4-2018 flat compared to Q3-2018. Final consumption expanded by 2.7% QoQ/5.3% YoY in Q4-2018, the highest reading in the post-Lehman period, up from 1.0% QoQ/3.8% YoY in Q3-2018, making the strongest contribution. Investments (-11.1% QoQ/-16.5% YoY in Q4) were not as buoyant as in the previous quarters, thus making a negative contribution to this quarter's GDP. Investments received strong support from the stream of ongoing residential (+17.7% YoY in Q4) and tourism infrastructure construction projects (+27.1% YoY). However lower investments in transportation equipment (-31.1% YoY in Q4), the latter most probably due to lower registration activity of ships, was the main culprit behind sluggish gross fixed capital formation performance. The concomitant imports decline on an annual basis (-6.3% YoY in Q4 vs. 5.9% YoY in Q3), if combined with the mediocre exports performance (-0.9% YoY in Q4 vs. -7.2% YoY in Q3) resulted in net exports contribution becoming positive (+4.2ppts) partially offsetting that of investments.

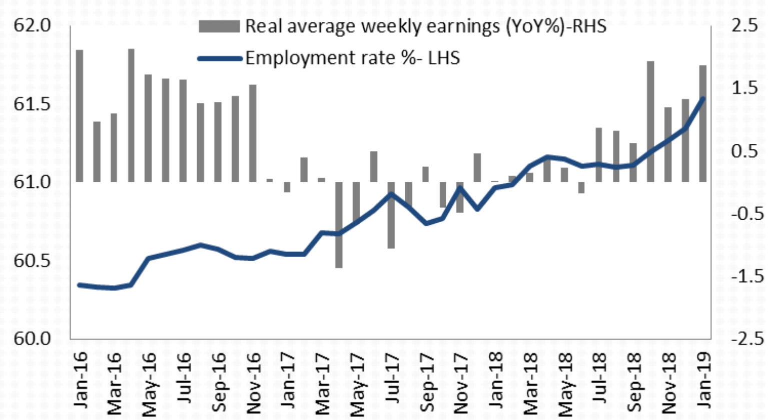
Factoring in the performance of Q4, real GDP expanded by 3.9% in 2018 compared to 4.5% in 2017 (from 4.2% previously), 4.8% in 2016 and only 2.0% in 2015. Looking ahead, growth dynamics are expected to remain relatively strong- yet still lower than last year. However, there is an increasing number of downside external and internal environment risks. The external risks stem from the slowing Euro area growth performance, a the possibility of a hard Brexit and lower tourism arrivals as a result of the increasing competition from the re-opening of neighbor markets, where safety concerns are abating. The internal risks are not only concentrated around the systemic financial risks posed by the still large amount of NPEs. Large fiscal risks are also looming from the court rulings' outcome on past measures to reign in the public sector wage bill.

UK: January's hard data resilient to Brexit uncertainty but growth sustainability is called into question

UK economy gains momentum at the start of the year



Labor market remains strong despite Brexit uncertainty



Source: ONS, Eurobank Research

Latest Economic Developments

According to the ONS monthly release, GDP rose by a higher than expected 0.5%MoM in January, the highest pace of growth since December 2016, with the annual rate gaining momentum of 1.4% from 1.0% in the prior month. Output across all sectors rebounded. Manufacturing grew by 0.8%MoM, the first increase in the last seven months, construction reversed fully December's 2.8%MoM fall and the services sector, which accounts for c. 80% of GDP, rose by 0.3%MoM after falling 0.2%MoM in the prior month. January was also a strong month for the labor market. Employment grew by a 3-year high of 222k in the three months to January, taking the employment rate to a fresh record high of 61.5% while real weekly average earnings rose by a 3-year peak of 1.9%YoY. However, weighed down by mounting Brexit-related uncertainty, consumer confidence remains weak dropping further in March to a 5 ½ year low of -12. Meanwhile, property market continues to slow down, mainly in the south and east of England. The average house price has been on a steady declining trend over the past two and a half years, increasing by 1.7%YoY in January, the slowest pace in 5½ years. Undoubtedly, a smooth Brexit scenario would suggest scope for recovery. Yet, any boost is likely to be limited due to slower global growth, while uncertainty about the future UK/EU relationship is likely to cast its shadow for a protracted period of time. At its February Inflation Report, the BoE revised sharply lower its 2019 GDP growth estimate by a hefty 0.5pp to 1.2% from 1.4% in 2018.

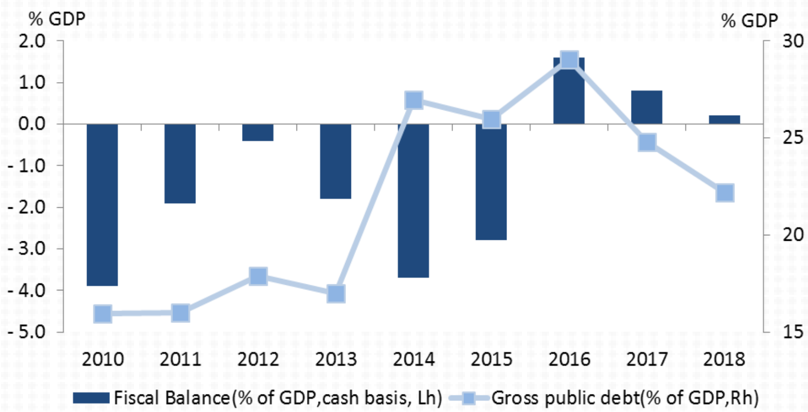
Against a backdrop of prolonged Brexit uncertainty, the BoE is likely to stay put on monetary policy throughout this year. Besides ongoing Brexit jitters, inflation is expected to remain relatively subdued with CPI projected to stay slightly under the BoE's 2.0% target in the period ahead, partially due to the lack of a strong link between wages and prices lately. In addition, recent survey indicators (including March PMIs) signal risks of a significant slowdown in employment in the coming months. Meanwhile, the Brexit impasse has yet to be resolved with EU leaders scheduled to discuss the issue at an extraordinary meeting on 10 April.

III. Selected CESEE economies

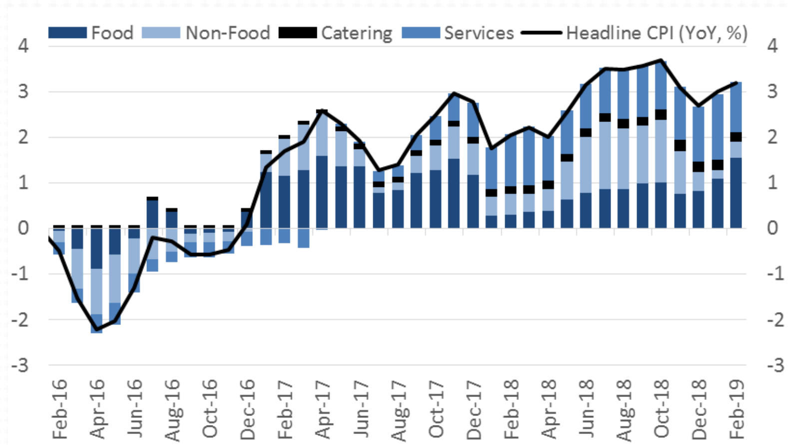
- Bulgaria
- Serbia
- Turkey

Bulgaria: Strong domestic demand supports GDP growth

Bulgaria's fiscal position is sound



Headline inflation rebounded in January on higher food prices



Source: Eurobank Research, National Authorities

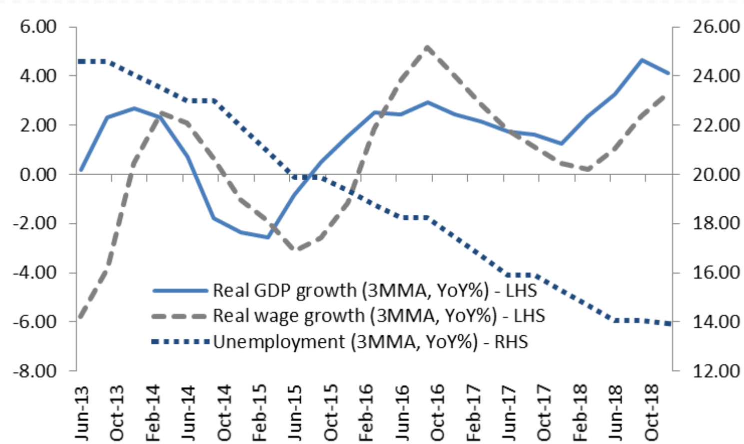
Latest Political & Economic Developments

According to the latest IMF Article IV consultation report on Bulgaria, GDP growth is now expected to reach 3.3% in 2019, 0.2ppts higher than in the WEO autumn forecast, up from 3.2% in 2018. The report underlined that capacity constraints are becoming more binding yet inflationary pressure has eased after peaking in August last year, reflecting developments in commodity and tourism-related prices. The unemployment rate has reached a historical low and wages are rising rapidly amid increasing skill shortages. The CA surplus remained sizable at 4.6% of GDP in 2018 but is projected to decline to 2.2% in 2019. Risks are tilted to the downside especially from weaker-than-expected growth of trading partners. The main challenge is to translate the recent recovery into sustained and inclusive growth and convergence with other EU countries. Bulgaria's per capita income is only half of the EU average and income inequality is higher than EU average.

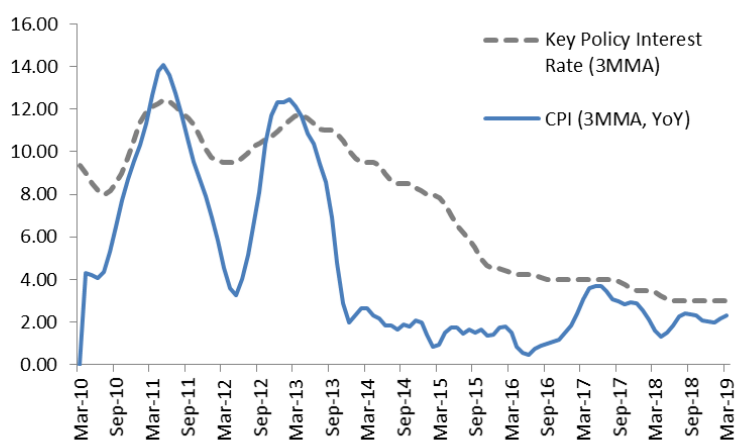
In our view, solid growth momentum continues in 2019- our forecast stands at 3.5% currently-on sound domestic demand dynamics. Private consumption will be in the driver's seat, receiving support from a tighter labor market, relatively low energy prices, convergence of wages towards EU average, a vibrant manufacturing sector despite the increasing world trade tensions and increased tourism flows. Investment, especially public investment which has not been impressive in the last two years, will receive a boost from improved EU funds absorption. With the end of the programming period 2014-2020 approaching, the government will need to step up spending for a number of mature projects. Moreover, domestic credit conditions have turned more growth supportive. Credit activity expanded by 8.7% YoY in February- at the highest rate since June 2009-up from 8.5% YoY in January. The February reading is favorably compared to 7.7% in 2018, 4.7% in 2017 vs. only 1.5% in 2016, and -1.2% in 2015. Appetite for credit will increase further on the back of sentiment improvement and better economic fundamentals matched by banking sector abundant liquidity.

Serbia: Modest GDP growth in 2019 amid price stability

Solid GDP growth and firm labor market…



…amid price stability and firm interest rate environment



Source: Bloomberg, Eurobank Research

Latest Economic Developments

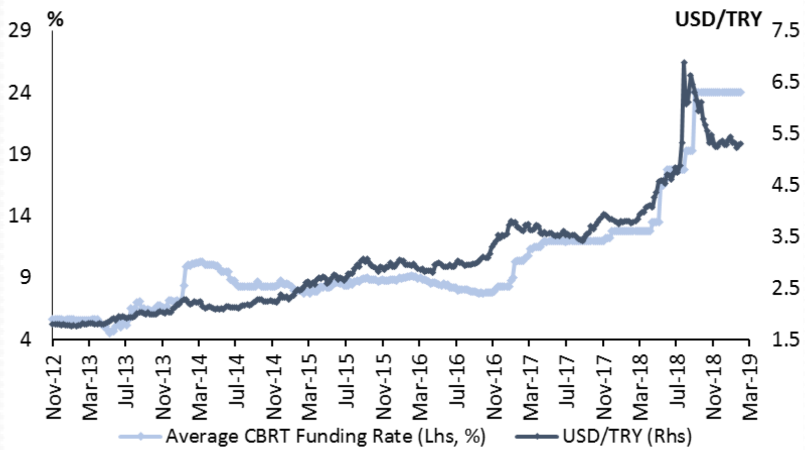
Following a weak performance in the post crisis period, Serbia's economy expanded by 4.3% YoY in 2018, which is the highest pace since 2008. In 2019, economic growth will most probably decelerate slightly, mainly due to the deteriorating outlook in the EU, which is the country's main trading partner. Nevertheless, the developments in the labor market with wage increases underway since late 2017 along with the ambitious array of reforms the country has adopted under the collaboration with the IMF will provide the economy with the required fuels and resilience in order to attain a GDP growth rate no less than 3.5% YoY for 2019, which is considered among the highest in the CESEE region. Still, we focus on the domestic and international risks, which if tilted to the upside may weigh on the country's FDI flows. FDIs are vital for the Serbian economy, financing fully the current account deficit for the past 5 years. On the monetary front, inflation picked up to 2.4% YoY in February from 2.1% YoY in January. The vegetables price increase by 33.7% YoY and to a lesser extent the increase in the tobacco products prices by 7.9% YoY resulted in February's higher reading. Core inflation remained broadly stable at 1.3% YoY in February from 1.2% YoY in January, implying subdued inflationary pressures. Consequently, expectations over the inflation prices within 2019 are well anchored somewhere below the central midpoint of the inflation target, i.e. 3.0% YoY. In the near future, we anticipate some further upside pressure from the demand side, stemming from wages and pension increases, which, however, are not expected to push inflation readings in the coming months above the 3.0% midpoint target.

Serbian Politics Update

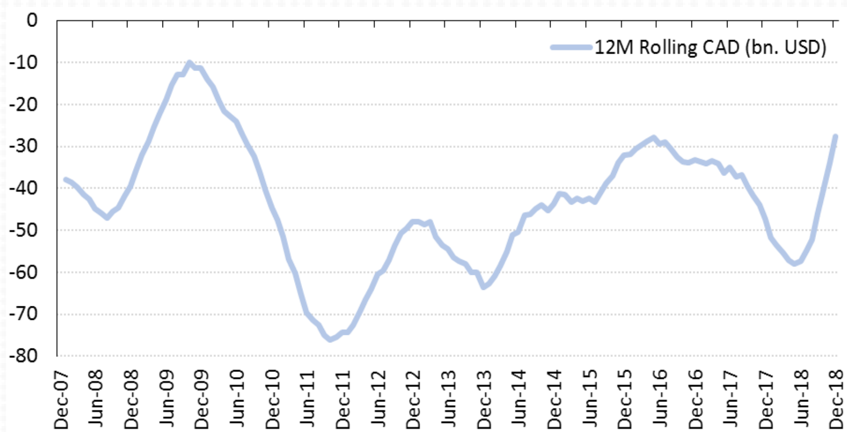
In late March the ruling Progressive Party (SNS) has shown willingness to hold early parliamentary elections in June following months of anti-government protests across many cities in Serbia. However, President Aleksandar Vucic stated that he is still undecided on the matter and that elections could be held anytime between as early as June 2019 and spring 2020, when the term of the current government expires.

Turkey: Officially in technical recession as of Q4-2018

Turkish Lira continued strengthening in Q1-2019



Macroeconomic imbalances have been unwinding rapidly in 2018



Source: Eurobank Research, National Authorities, Bloomberg

Latest Political & Economic Developments

The official national accounts release of the Q4-2018 data confirmed that the economy is in technical recession. GDP contracted by -3.0% YoY in Q4-2018 sharply down from 1.8% YoY in Q3-2018, 5.3% YoY in Q2-2018 and 7.4% YoY in Q1-2018, bringing the FY2018 performance at only 2.6%. The aforementioned growth performance-significantly below the government target of 3.8%-is unfavorable and disproportionate compared to 7.4% in FY2017, one year ago, which was the highest since 2013. The currency crisis in Q3 undermined business and consumer confidence resulting in a domestic demand collapse in Q4, which shaved 11.4ppts off the headline GDP figure. In more detail, private consumption and gross fixed capital formation declined by -8.9% YoY and -12.9% respectively. On the positive side, strong net exports data averted a growth crash adding 8.4ppts to quarterly GDP. That was the combined result of exports double digits expansion by 10.6% YoY and imports impressive contraction by -24.4% YoY. The 12M-rolling current account deficit ended at USD21.6bn in January2019 less than half the amount recorded a year ago (USD 51.7bn in January 2018). Looking ahead, there are some timid signs of a rebound in Q1-2019, with the recent announcements of leading indicators such as PMI and sentiment pointing to a bottoming out. Despite the supply side shock from rising food prices, headline inflation has retreated to 19.7% YoY in February from its historic highs in recent months.

Meanwhile, the Turkish lira has come under renewed depreciation pressures since the week ahead of the municipal elections, echoing last year's currency crisis, which intensified in the aftermath of the results' announcement. In the latter, the ruling AKP party candidates have been defeated across many cities including Ankara, for the first time since the party's founding in 2001 and Istanbul. Even though the alliance AKP-MHP won more than 50% of the popular vote nationwide, the loss of major cities could increase political uncertainty thus deterring appetite for further reform and accelerating dollarization further.

IV. Special Focus: The Brexit impasse

Special Focus: The Brexit impasse

Searching for a compromise towards softer versions of Brexit

PM Theresa May opens the door to a softer Brexit	Nearly three years after the UK voted to leave the EU with a narrow majority of 51.9%, UK politics is in crisis as it is still unclear when and how the government will deliver the Brexit referendum outcome. Aiming to break the Brexit impasse and allow for an orderly exit as the new deadline on 12 April is approaching, UK Prime Minister Theresa May made a significant shift in her Brexit strategy offering a formal cross-party approach. After a marathon meeting with her cabinet on 2 April, Theresa May announced her intention to ask the EU27 leaders for a further short extension that should, however, be "as short as possible". Making clear that a no deal Brexit is not an acceptable option, she offered to hold discussions with the leader of the Labour Party, Jeremy Corbyn, to try to find common ground on a plan for the political declaration on the UK/EU future relationship that could receive the support of the House of Commons. A vote on such a deal would be held before the EU Summit scheduled for 10 April. If the two leaders fail to reach a compromise, she offered as an alternative the adoption of any alternative Brexit plan backed by MPs in a new round of indicative votes.
…following repeated rejection of her Brexit deal by the House of Commons and the lawmakers' failure to display a consensus on an alternative Brexit path	The shift in Theresa May's Brexit strategy came about after her Brexit plan was thrice clearly rejected by the House of Commons (on 15 January, 12 March & 29 March) with the Northern Ireland backstop remaining one of the most contentious issues in the Withdrawal Agreement. Furthermore, UK MPs have failed twice to build a majority on alternatives to Theresa May's Brexit plan.
Theresa May's shift in her Brexit strategy raises the risk of a split in the Conservative party or/and collapse of the government	In the most recent round of "alternative votes" on 1 April, all four alternatives to a Brexit plan that were put for vote were rejected. The proposal which called for a permanent customs union between the UK and the EU after the end of the transition period (31 December 2020) attracted the most in-favour votes (273 vs 276 against votes and up from 264 in the first round of indicative votes on 27 March), meaning that it was rejected by just three votes. A customs union between the UK and the EU means that no tariffs or quotas would be applied on trade in goods (although the UK would still be subject to regulatory checks suggesting that, unlike the Norway+ option, the customs union would not remove the need for the Irish border backstop). In addition, the UK would apply the EU's Common External Tariff and rules of origin regulations. The main benefit of a permanent customs union is that UK exporters to the EU (and EU exporters to the UK) would avoid customs declarations and rules of origin checks. However, a key disadvantage is that the UK would not be free to sign trade deals with other countries outside the EU, crossing hard Brexiteers' red line in the Brexit campaign on having an independent trade policy after the UK's exit from the EU. Taking into account that the main supporter of the permanent customs union option in the two rounds of indicative votes was the Labour Party, Theresa May's appeal for Corbyn's help to break the Brexit impasse, potentially paves the way for a softer Brexit (*continued on the next page*).

Special Focus: The Brexit impasse

Searching for a compromise towards softer versions of Brexit

	Hard Brexiteers are clearly discontented and the risk of the Conservative party splitting in two seems real. According to some press reports, several Brexit-leading Conservative MPs threatened to vote against the government in a no confidence vote if Theresa May strikes a deal with the Labour Party or extends the Article 50 deadline beyond 22 May obliging the UK to participate in the 23-26 May European elections. That said, any agreement with the Labour Party leader on a Brexit plan could potentially involve the opposition party to withhold tabling a no confidence motion in Theresa May until after the withdrawal process has been brought to an end. Adding to mounting political jitters, as part of any Brexit deal with the Labour Party leader, the UK PM has pointed out that the Withdrawal Agreement that covers the UK's separation issues from the EU, including the Irish border backstop, would need to be passed through parliament to avoid a no-deal Brexit on 12 April or 22 May (if the UK presents a clear way forward at the 10 April EU summit). The junior coalition partner, the DUP, has repeatedly made clear that it opposes the backstop and has threatened to vote for no confidence in the government if the Withdrawal Agreement passes without its consent. That said, the risk of early elections or even an "accidental" no deal Brexit, seems possible.
The road to an orderly Brexit remains bumpy	Additional hurdles that have to be addressed in the way towards an orderly Brexit include: ➢ *Will the Labour Party leader be willing to reach a compromise with Theresa May?* While Jeremy Corbyn appeared open to hold discussions with Theresa May, it is unclear whether he will be willing to agree to a grand-coalition style Brexit plan and drop his demand for a new referendum. ➢ *Will the House of Commons reach consensus on an alternative Brexit option?* If the two leaders fail to reach a compromise, Theresa May has offered to adopt any alternative Brexit plan that is backed by the majority MPs. But after the two rounds of indicative votes failed to yield a majority for any Brexit version, the risk of yet another inconclusive outcome, cannot be ruled out. ➢ *Will the EU and the UK agree on an extension?* Unless a Brexit deal is quickly passed through parliament, the EU is likely to insist on a longer extension of the Article 50 process beyond 22 May. Should this be the case, the UK will have to participate in the European elections with a political cost for the government on the way to local elections scheduled for 2 May. ➢ *Will the House of Commons approve Theresa May's Withdrawal Agreement?* Assuming a cross-party consensus, the House of Commons is expected to approve Theresa May's Withdrawal Agreement but accidents cannot be excluded. Overall, Theresa May's shift in her Brexit strategy suggests reduced, but not negligible, risk of a no-deal Brexit. UK political developments ahead of the 10 April EU Summit are of critical importance.

V. Eurobank Forecasts

Eurobank Macro Forecasts

	Real GDP (YoY%)			CPI (YoY%, avg)			Unemployment rate (% of total labor force)			Current Account (% of GDP)			General Budget Balance (% of GDP)		
	2018	2019f	2020f	2018	2019f	2020f	2018	2019f	2020f	2018	2019f	2020f	2018	2019f	2020f
World	3.7	3.4	3.5	3.3	3.1	3.1									
Advanced Economies															
USA	2.9	2.5	2.0	2.4	1.9	2.2	3.9	3.7	3.6	-2.4	-3.0	-3.0	-3.8	-4.8	-4.8
Eurozone	1.8	1.2	1.4	1.8	1.3	1.5	8.2	7.8	7.7	3.0	2.8	2.7	-0.8	-1.0	-1.0
Germany	1.4	1.0	1.4	1.9	1.5	1.6	3.4	3.2	3.2	7.6	7.3	6.6	1.6	1.0	0.8
France	1.5	1.3	1.4	2.1	1.3	1.6	9.1	8.8	8.7	-0.5	-0.6	-0.4	-2.7	-3.2	-2.5
Periphery															
Cyprus	3.9	3.6	2.6	0.8	1.0	1.6	8.7	8.0	8.3	-4.0	-7.1	-7.0	2.8	3.0	2.9
Greece	1.8	1.9	2.0	0.8	1.0	1.5	19.3	17.2	16.0	-2.9	-2.6	-2.4	0.6	0.6	0.6
Italy	0.9	0.2	0.7	1.3	1.1	1.2	10.6	10.5	10.4	2.5	2.4	2.3	-2.1	-2.4	-2.4
Portugal	2.1	1.6	1.5	1.2	1.0	1.5	7.0	6.5	6.2	-0.6	-0.2	-0.2	-0.8	-0.6	-0.6
Spain	2.6	2.2	1.9	1.7	1.3	1.6	15.3	13.9	12.8	0.9	1.0	0.9	-2.7	-2.2	-2.0
UK	1.4	1.2	1.5	2.5	2.0	2.0	4.1	4.2	4.1	-3.5	-3.3	-3.2	-1.4	-1.5	-1.3
Japan	0.8	0.6	0.5	1.0	0.9	0.9	2.4	2.4	2.3	3.4	3.7	3.9	-3.2	-3.0	-2.5
Emerging Economies															
BRICs															
Brazil	1.3	2.5	2.5	3.7	3.9	4.0	12.2	11.5	10.6	-0.8	-1.4	-1.7	-7.3	-6.4	-5.8
China	6.6	6.2	6.0	2.1	2.1	2.3	3.8	4.0	4.0	0.4	0.1	0.0	-3.9	-4.0	-4.0
India	7.2	7.3	7.5	4.0	3.6	4.3		*NA*		-2.5	-2.4	-2.2	-3.5	-3.3	-3.0
Russia	2.3	1.5	1.7	2.9	5.0	4.0	4.8	4.8	4.9	7.1	5.4	4.2	2.6	1.8	1.0
CESEE															
Bulgaria	3.2	3.5	2.8	2.6	2.8	2.5	5.5	5.3	5.7	4.6	1.0	1.0	0.1	-0.5	0.0
Romania	3.8	3.4	3.2	4.7	3.6	3.0	4.2	4.0	4.4	-4.6	-4.2	-4.5	-2.9	-3.4	-4.7
Serbia	4.2	3.5	3.8	2.1	2.6	2.8	12.7	11.0	10.5	-5.2	-5.1	-4.8	0.5	-0.5	-0.5
Turkey	3.3	-1.5	3.0	16.3	16.0	12.5	10.9	13.0	12.5	-3.5	-2.5	-3.0	-2.1	-2.3	-2.0

Source: EU Commission, IMF, OECD, Bloomberg, Eurobank Research

Eurobank Fixed Income Forecasts

	2019				2020
	Current (as of 2 April)	June	September	December	March
USA					
Fed Funds Rate	2.25-2.50%	2.25-2.50%	2.25-2.50%	2.25-2.50%	2.25-2.50%
1 m Libor	2.49%	2.45%	2.35%	2.32%	2.25%
3m Libor	2.60%	2.55%	2.47%	2.43%	2.33%
2yr Notes	2.30%	2.28%	2.25%	2.25%	2.20%
10 yr Bonds	2.48%	2.50%	2.52%	2.55%	2.57%
Eurozone					
Refi Rate	0.00%	0.00%	0.00%	0.00%	0.00%
3m Euribor	-0.31%	-0.31%	-0.31%	-0.31%	-0.29%
2yr Bunds	-0.60%	-0.60%	-0.60%	-0.60%	-0.60%
10yr Bunds	-0.03%	0.00%	0.02%	0.05%	0.10%
UK					
Repo Rate	0.75%	0.75%	0.75%	0.75%	0.75%
3m	0.84%	0.83%	0.83%	0.83%	0.83%
10-yr Gilt	1.02%	1.09%	1.12%	1.15%	1.18%
Switzerland					
3m Libor Target	-0.75%	-0.75%	-0.75%	-0.75%	-0.75%
10-yr Bond	-0.37%	-0.35%	-0.32%	-0.30%	-0.25%

Source: Bloomberg (market implied forecasts)

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