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

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I. Snapshot

Overview

Macro Picture

- **USA:** Economic growth maintains an above-trend pace, but there are signs of slowing momentum
- **EA:** Growth momentum has slowed markedly, with political uncertainty and the potential for new tariffs weighing on the outlook
- **UK:** Brexit-related uncertainty and slower global growth weigh on economic growth
- **EM:** China's GDP growth slowdown casts a shadow over EM's growth
- **CESEE:** Flash Q4-2018 signal the beginning of the economic slowdown for the broader region

Policy Outlook

- **USA:** Tightening bias removed, data-dependent Fed to assess whether the macro data flow could justify an interest rate hike later this year
- **EA:** No interest rate hike expected in 2019, a new TLTRO by mid-2019 is possible
- **UK**: The BoE retains a mild tightening bias; however, against a backdrop of modest GDP growth and inflation running below target, scope for higher rates near-term appears limited
- **CESEE:** Regional Central Banks remain on hold

Summary

Noticeable loss of global growth momentum, particularly in Europe, Latin America and some of the Asian economies, with elevated trade tensions and prolonged Brexit-related uncertainty. Global real GDP growth for 2019 is projected at 3.5% from 3.7% in 2018

Markets

- **FX:** The end of the US shutdown has allowed economic data to catch up a bit with the US showing resilience and the USD trading like a carry currency
- **Government bonds:** A not so dovish Fed with a simultaneous faster end to balance sheet normalization and EZ's political jitters keep haven flows and cautious markets
- **EM:** Decent volumes along with announcements from the US-China front helped the market to consolidate further. CBs support seen as positive against macro backdrop
- **Credit:** Traded tighter. The dovish rhetoric out of the central banks helped the markets stabilize further and spreads move tighter

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, a huge blow for the fragile Euro area
- **Increased risk of no-deal Brexit:** The UK Parliament votes against an extension to Article 50 in mid-March, increasing substantially the risk of a no-deal Brexit on 29 March
- **EM sensitivity:** The pace of further monetary tightening from major central banks weighs on EMs' capital flows
- **China:** Policy stimulus may not avert a slowdown of the domestic economy

Macro Views

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Latest Macroeconomic Developments & Outlook

World Economic Outlook		Global growth, and mainly global industrial production, have decelerated markedly since mid-2018, on the back of softer growth momentum particularly in Europe, Asia and Latin America, prolonged Brexit-related uncertainty and elevated trade tensions. Recent economic data point to a further loss of momentum at the turn of the year, most notably in Europe and Asia, with global real GDP growth projected at 3.5% in 2019 from 3.7% in 2018. Idiosyncratic factors have weighed on certain countries' economic activity, while weakening financial market confidence, trade policy uncertainty, Brexit woes and worries over the Chinese economic outlook could further disrupt global economic activity through contagion effects.
Developed Economies	**US**	BEA's initial estimate of Q4 GDP reported a 2.6% quarterly growth saar, following a 3.4%QoQ saar in Q3 with much lower government consumption amid the partial federal government shutdown in December. Incoming US economic data are rather mixed at the start of 2019, with real economic activity likely to be on the weak side in Q1 due to the partial federal government shutdown, polar vortex as well as heightened trade policy uncertainty. Overall, real GDP growth is projected to decelerate to 2.5% in 2019 from 2.9% in 2018, with trade war frictions constituting the main headwind to the outlook.
	Euro Area	Real GDP growth increased by 0.2%QoQ sa in Q4, marking a significant deceleration from a quarterly average growth rate of 0.4% and 0.7% in H1 2018 and 2017, respectively. IP is an a recessionary territory, while the PMI services index surpassed market expectations, pointing to increasing signs of divergence between the manufacturing and services sectors. All in all, we expect real GDP growth to decelerate to an average of 1.3% in 2019, following an above potential growth rate of 1.8% in 2018.
	Periphery	Spain continued to outperform its Euro area peers in Q4 2018 with GDP data revealing resilience to external headwinds. On the flip side, Italy was a laggard. Q4 GDP contracted for the second quarter in a row, throwing the economy into a technical recession. High-frequency indicators pertaining to Q1 2019 keep us cautious for a third consecutive contraction while the risk of renewed political jitters, do not bode well for its 2019 growth outlook.
Emerging Economies	**BRICS**	Brazil's GDP growth came in at 0.2% YoY in December, notably down compared to 1.8% YoY in November, resulting in the worst reading in the past seven months. Hence, the FY 2018 growth rate stood at 1.1% YoY vs 0.9% YoY in 2017 while for 2019 a higher GDP growth rate is anticipated mainly on the back of restored confidence, accommodative monetary policy and falling unemployment. According to a preliminary estimate released in February, Russian GDP growth picked up sizably to 2.3% YoY in 2018, well above 2017's 1.6% rate, posting a six year high. In India, the economy expanded by 7.2% YoY in 2018, flat vs. 2017. Finally, following China's soft data regarding GDP growth in Q32018, export and import data released earlier in February surprised the markets positively. The Chinese government is providing as much stimulus as possible, both on the monetary and fiscal front so as to prevent the economy from slowing further.
	CESEE	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. Thirdly, those readings signal the beginning of the economic slowdown for the broader region.

Global Macro Themes & Implications

Theme	Implications
Increased optimism for a US/China trade deal	Recent comments from US high level officials support market optimism that the US and China are close to finalizing a trade agreement at a meeting between US President Donald Trump and Chinese President Xi Jinping in late March. The above followed an announcement by the US President in late February that the US has made substantially progress in trade talks with China and he would postpone the 1 March deadline of imposing tariffs on Chinese goods worth $200bn until further notice. On its part, aiming to facilitate a trade deal, China is reported to be offering to increase imports of US agricultural products and liquefied natural gas as well as other technical measures, including improving protectionism of intellectual property rights, opening up domestic sectors to foreign investors, reducing tariffs on certain items to levels that prevailed before the trade war erupted in early 2018 and not to be engaged in competitive devaluation. In addition, the two sides have reportedly reached a tentative agreement on a mechanism to enforce the trade deal, one of the key issues required for the finalization of the trade negotiations. However, talks are likely to be harder at the final stage. According to some press reports, the US opposes Chinese officials' request for a one-off removal of the tariffs that were implemented in 2018 on imports from China worth $250bn. Instead, the US reportedly prefers some tariffs to remain in place and to potentially lift them gradually as China meets its commitments under the trade agreement. Undoubtedly, a US/China trade deal could prevent a return to a tit-for-tat tariff war, removing a cloud for the global growth outlook.
Noticeable loss of global growth momentum, particularly in Europe and China	Global growth, and mainly global industrial production, have decelerated markedly since mid-2018, particularly in Europe, Asia and Latin America. Recent economic data point to a noticeable further loss of momentum at the turn of the year, most notably in Europe and Asia. In Europe, although there were some signs of stabilization in the services sector in February, the manufacturing sector has entered a recessionary territory, with the PMI manufacturing index plunging below the 50 units' threshold to 49.3 from 50.5 in January, its lowest level since June 2013. In China, weak NBS manufacturing PMIs, along with industrial production and home sales data, point to a modest further deceleration in Q1. Adding to the above, in a report released at the start of the annual National Party Congress, Chinese authorities revised lower the 2019 GDP growth target at a range of 6.0%-6.5% versus a point target of 6.5% previously, while announcing more stimulus measures – including planned cuts in taxes and social security fees, increases in infrastructure investment and lending to small firms – in order to support the slowing economy. In the US, although the manufacturing sector has showed signs of slowing after a period of exceptionally strong growth in late 2017 and early 2018, the US economy has held up relatively better in H2 2018 and at the start of 2019, boosted by the fiscal stimulus, albeit at a slower pace as its effect starts fading. The recent weakness in industrial production and the softening in retail sales data run counter to the strong December employment report that could provide further support to personal consumption spending.

Global Macro Themes & Implications

Theme	Implications
Fed should remain more patient on future rate hikes; tightening bias removed	The minutes from the 29-30 January meeting released on 20 Feb. reiterated that the Committee's decision to be patient on the prospect of further policy tightening came on the back of easing global growth momentum, tighter financial conditions, US/China trade tensions and muted inflation pressures. In addition, several participants argued that rate hikes would be necessary only in case inflation rises more than in their baseline outlook while, as regards the balance sheet normalization, the minutes supported the view that the Fed will halt its programme sometime later this year. Adding to the above, in his testimony before the House Financial Services Committee on 26 Feb., Fed Chairman Jerome Powell reaffirmed the Central Bank's willingness to remain more "patient" regarding future rate hikes. Mr. Powell reiterated that Fed's policy decisions will continue to be data dependent and that the Central Bank is "in no rush to make a judgment about changes in policy" amid easing inflation pressures and slower economic growth in other major countries, notably China and Europe. He also highlighted increased government policy uncertainty surrounding Brexit negotiations as well as trade talks. Mirroring scaled back short-term Fed rate tightening expectations, Fed Fund Futures price currently zero hikes for 2019 versus expectations of about 40bps cumulative tightening in late December 2018. In view of these developments, Fed is expected to pause its hiking cycle at least in Q1 2019, assessing whether the macroeconomic data flow towards Q2 could justify an interest rate hike to 2.50-2.75% at its June meeting.
Diminishing risk of no-deal Brexit on 29 March	With just three weeks to go until the UK is due to exit the EU on 29 March, the Brexit impasse has yet to be resolved. Following the rejection on 15 January of the Brexit plan by 432 votes to 202 in the House of Commons —the biggest government defeat since 1924— and the EU's reluctance so far to provide further legal guarantees on the temporary nature of the controversial Irish backstop that could potentially satisfy the majority of the UK MPs, Prime Minister Theresa May committed to a three-step process planned for mid-March: (i) a second 'meaningful' vote on her Brexit plan by 12 March; (ii) if her plan is rejected, MPs would be invited to vote by 13 March on whether the UK should leave the EU with no deal; and (iii) if both her Brexit plan and a 'no-deal' Brexit are rejected, MPs will vote by 14 March on a "short and limited" extension to Article 50, an option that would reduce the risk of a disorderly Brexit in late March. Many take Theresa May's comments for a short and limited extension to mean at most 3 months (i.e. to end-June). That is because, any extension beyond 1 July —a day before the term of the new EU Parliament starts— would require the UK to participate in the next European Parliament elections. The most recent press reports suggest that EU officials continue to oppose material concessions that could satisfy Theresa May's DUP coalition partner and the majority of the anti-EU Conservatives. As such, for the Brexit deal to pass in the second 'meaningful' vote in mid-March, the UK PM would place her hopes on Labour dissidents. However, their support seems highly unlikely given that her Brexit plan was overwhelmingly rejected in mid-January. If the Brexit plan fails again to pass and the Remain-leaning majority in parliament rejects a no-deal Brexit, an extension of Article 50 will be the next option. However, this requires the unanimous approval of the remaining EU 27 Member States that are expected to discuss the issue at the 21/22 EU March summit. As regards the duration of the extension, pro-EU MPs may force the government to request a longer extension on the view that things could not change dramatically in just three months. On its part, the EU is also likely to insist on a longer extension, arguing that a divided House of Commons is unlikely to find in just three months the consensus on the Brexit process that has eluded MPs for more than two and a half years. But the combination of additional time and the lack of a majority in the UK Parliament for a Brexit scenario, could potentially open the way for early elections or a second Brexit referendum, and thus, could lead to a softer Brexit and possibly even, the UK remaining in the EU. Under such a scenario, the choice for anti-EU Conservative MPs and the DUP would be between PM Theresa May's deal and soft Brexit/no Brexit at all. Under such a threat for anti-EU Conservatives and the DUP, Theresa May is likely to secure a majority for her Brexit deal eventually, in late March or later, depending on the duration of the extension.

Macro Themes & Implications in CESEE

Theme	Implications
Flash Q4-2018 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, those readings signal the beginning of the slowdown. The Q4-2018 GDP figures were the lowest or among the lowest in the past two years signaling increasingly that these economies have already passed beyond their cyclical peak. Although the breakdown is still not available, 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.
Economic Outlook 2019: The CESEE region's resilience challenged by external and internal risks	The CESEE region will continue expanding in 2019 at a more moderate -yet still healthy pace- than in previous years in response to rising external and internal headwinds. A less favorable growth outlook for the EA-19, the main trade and capital flows generator for the broader region, the threat of protectionism which has a negative impact on business sentiment and subsequently investment decisions, mounting political tensions globally (US-Russia, Brexit, the rise of populism, Middle East) and the risk of higher commodity and global energy prices on top of the cyclical slowdown weigh on the growth prospects of the CESEE region.
Economic Outlook 2019: Three key factors to watch in each country against the inevitable slowdown	With the inevitable global growth slowdown ante-portas, there are three key mitigating factors that may differentiate the prospects of the broader CESEE region against the EM universe. Firstly, EU funds absorption could make the difference in 2019. With the end of the programming period 2014-2020 approaching, governments will need to step up spending for a number of mature projects. Secondly, the domestic credit conditions have turned more growth supportive in most economies of the region in recent years. Banks are less reluctant to channel credit helped by the favorable liquidity conditions and the still relatively low credit penetration rates. Thirdly, the degree of differentiation of each country's exports portfolio from a product and geographical destination perspective. Conventional wisdom suggests that intensifying trade protectionism would have a more detrimental impact on CEE-4 economies which specialize on automotive industry, than in the rest of the CESEE economies.

CESEE Markets Developments & Outlook

Country	CESEE Markets Developments & Outlook
Bulgaria	• Bulgarian Eurobond yields dropped modestly in February across the board ranging from 4 bps for the 2024 tenor, to 17 bps for the longest maturity, namely the 2035 paper. The Bulgarian Ministry of Finance continued its recent policy and did not hold any auctions in January. Local bond yields also dipped for the majority of tenors, though to a lesser extent, i.e. within a range of 4 to 7 bps. • The regional stock market has not seen any significant changes over the past weeks. However, talks have resumed related to the so called "waking up" of idle equity shares, which were distributed to shareholders during the mass privatization in the late 1990s. Once a relevant bill is passed through the parliament and the non-trading equity shares are back on trading, it is estimated that equity shares worth from €0.5bn to €1.0bn could enter into circulation. • The ECB has officially started conducting asset quality reviews on the balance sheets of the six systemic banks in Bulgaria, with results expected to be released within Q3 2019.
Serbia	• As being envisaged earlier, the intervention of National Bank of Serbia (NBS) slowed down as we approached the end of January. The NBS intervened substantially within January by selling €130mn in its effort to support the dinar. The respective sales occurred broadly when the EUR/RSD was hovering around 118.40-50, thus providing clear support to the dinar and aiming to keep the long-term range intact, within the annual range of 118.00 – 118.50. Given the liquidity shortages in January, stemming from limited liquidity trade off among Serbian Banks, BELIBOR short-term rates spiked at 2.5%. In order to stabilize the interest rate market, NBS organized an extraordinary two-week swap auction to regulate temporary imbalances infusing RSD22.5bn into the system, sending, thus, short term rates (overnight up to 1 week) back to 2.35% and Reverse Repo rates from 2.38 to 2.09%. January's intervention spree has no specific pattern and is considered more as a series of one-off transactions. As such, interventions in the EUR selling side are expected to fade out in the near future. Furthermore, in the absence of sustainable pressure to the upside as oil companies issued invoices instead of paying in cash, the EUR/RSD may probably stand to the lower band of the EUR/RSD range. If so, the NBS may have to switch side and end up in defending the Serbian dinar from over-appreciation tendencies. • Given the imminent EU slowdown and the respective inflation anchored around 2%, NBS's accommodative policy stance will most probably stay as such for a bit longer. The first interest rate hike since April 2018 is not visible before Q1 2020. The current account deficit may weigh on the currency, but at the time of writing, the trajectory of the FDI inflows provides with the needed counterweight for FX stability.

Markets View

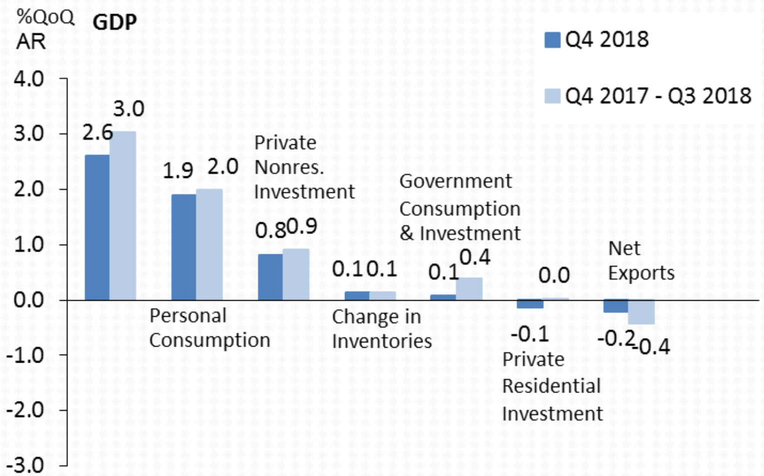
Asset Class	Outlook
Foreign Exchange	**EUR/USD:** The Fed minutes were not as dovish as markets may have expected, but dovish enough. The headlines on the US-China trade discussions suggest that, although there is no deal yet, work is ongoing, and a deal is likely probably after a 60-days extension. The USD has done well and has acted like a carry currency. Signals remain mixed for EUR. A no-deal Brexit and the discussion on auto tariffs could weaken EUR/USD substantially. **USD/JPY:** Price action appears to have been inconsistent with the prevailing bearish medium-term USD/JPY view since the flash crash on 4 January, as JPY is trading more and more like a funding currency sensitive to risk sentiment. Hedge funds have been sellers of JPY from mid-January to early February while real money continued buying JPY. Longs have been squeezed lately as the market has priced out negative scenarios on the US government shutdown and US-China trade war. Implied volatility has fallen to recent lows around 6.5-7.0. **GBP/USD:** GBP remains in the middle of a possibly wide range, depending on the Brexit outcome. Even after a short extension of Article 50, at some point this year the UK Parliament will have to accept a deal, or else let the UK crash out of the EU. The meaningful vote has been shifted until the 12th March. But there isn't an EU Council until the 21st, so it not clear how legally binding changes to the backstop can be reached by that point. An extension could actually reduce the pressure for a deal by end-March, keeping however uncertainty high.
Government Bonds	**EU:** Bunds saw buying interest during February on Brexit fears and a mixed bag of economic data. The published notes stated that "while any decisions (about TLTROs) should not be taken too hastily, the technical analysis required to prepare policy options for future liquidity operations needed to proceed swiftly." Curves are generally steeper on the rally with volatility lower. EMMI's publishing of the hybrid Euribor methodology spurred tightening of the 6m/OIS and 3s/6s basis. Headlines on Brexit, US-China trade deal and US Congress with debt ceiling and shutdown should continue driving asset prices. **US:** Recent Fed communications have shifted forward the expected timing of the Fed's balance sheet unwind end, which seems set for the second half of this year. The key question facing the Fed still surrounds the minimum quantity of reserves in the system and how the Fed will control MM in the future ("ceiling floors"). The earlier Fed balance sheet end, SOMA portfolio changes, and "ceiling" will favor richer front-end USTs and wider front-end swap spreads. Volatility remains subdued with the 10yr yield range trading between the 2.32%-2.33% support and 2.80% resistance levels as global growth worries lurk on the sidelines.
EM hard currency debt	Markets continued January's rally until first week of the month, when spreads widened up to mid-month, but recovered most of macro widening, ending the month even higher. Turkey began the month with local and RM buying, particularly out of the US, before widening due to Albayrak comments "mulls sale of 30Y Eurobonds". Turkey 5Y CDS widened around 25bps, on new issuance, in line with sovereign bond moves of +20bps across the curve to finish the month almost unchanged. Russian CDS had a volatile month, with 5Y closed almost unchanged on a monthly basis, in line with cash, since Moody's sovereign upgrade, was balanced with new US sanctions fears. Overall EM traded well apart from idiosyncratic stories, on weaker USD, lower bond yields, and easier CB monetary policies. We favor a constructive stance as FED pause potentially leaves room for further consolidation, over the next 2-3 months, preferring short duration positioning, on any weaker macro data.
Corporate credit	USD and EUR credit spreads traded tighter despite weaker macro concerns, following CBs cautious stance, (FED Pause and discussions about potential TLTRO in EUR), as well as in line, with revised expectations, earnings releases by most corporates reported so far. High beta paper and fins performed well, with CDS indices both in Europe and US further recovering from Dec18 wides. Demand for new paper remained strong as investors are still underweight and NIP are in favorable levels. Bearing in mind the still considerable negative CDS-Cash basis, primary issuance in many cases is a good opportunity to buy secondary market paper upon new issue repricing. Fins space in particularly, both cash and synthetics have benefited by the lack of primary issuance until now, especially out of UK banks. Despite the weaker macro environment, we expect spreads to consolidate further/range trade over the next few months, since CBs seem ready to provide support upon weaker market action. Further support might be warranted by US-China trade deal and a Brexit deal.

II. Advanced Economies

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

USA: Economic growth maintains an above-trend pace, but there are signs of slowing momentum

US GDP growth contributions



Weaker global demand has weighed on production and exports

Latest Economic Developments

BEA's initial estimate of Q4 GDP reported a 2.6% quarterly growth saar, following a 3.4%QoQ saar in Q3 with much lower government consumption amid the partial federal government shutdown in December. The recent weakness in industrial production, personal income and ISM manufacturing index, as well as the dramatic softening in retail sales -the sharpest monthly drop since 2009- run counter to the strong December employment report that revealed continued job creation and steady income growth that could lead to further gains in personal consumption spending. That said, incoming US economic data continue to be rather mixed, with real economic activity likely to be on the weak side in Q1 due to the partial federal government shutdown, polar vortex as well as heightened uncertainty about trade policy. Meanwhile, consumer and business sentiment indicators leveled off their several-decade peak, albeit still remaining at historically high levels. Overall, real GDP growth is projected to decelerate to 2.5% in 2019 from 2.9% in 2018, with trade war frictions constituting the main headwind to the outlook.

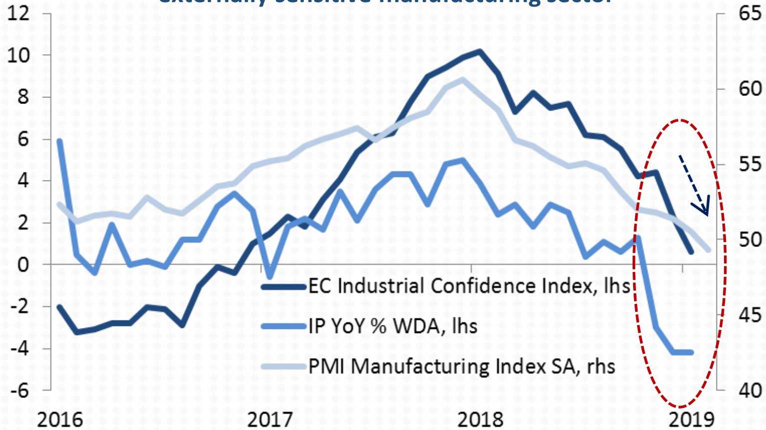
Central Bank Watch

The minutes from the 29-30 January meeting released on 20 Feb. reiterated that the Committee's decision to be patient on the prospect of further policy tightening came on the back of weaker global growth momentum, tighter financial conditions and an easing in inflationary pressures. In addition, several participants argued that rate hikes would be necessary only in case inflation rises more than in their baseline outlook while, as regards the balance sheet normalization, the minutes supported the view that the Fed will halt its programme sometime later this year. Adding to above, in his testimony before the House Financial Services Committee on 26 Feb., Fed Chairman Jerome Powell reaffirmed that Fed's policy decisions will continue to be data dependent, with "no rush to make a judgment about changes in policy". In view of these developments, Fed is expected to pause its hiking cycle at least in Q1 2019, assessing whether the macroeconomic data flow towards Q2 could justify an interest rate hike to 2.50-2.75% at its June meeting.

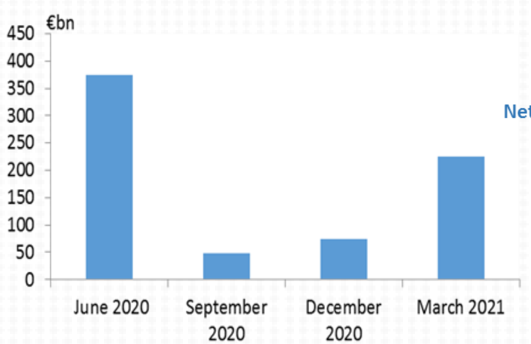
Source: US Census Bureau, Institute for Supply Management, Bloomberg, Eurobank Research

Euro area: Growth momentum has slowed markedly, with political uncertainty and the potential for new tariffs weighing on the outlook

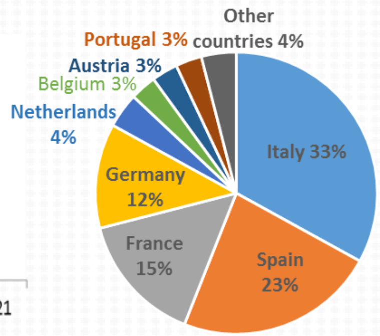
Weaker external demand bodes ill for the externally sensitive manufacturing sector



Four TLTRO-II tranches by maturity date



Italy and Spain most heavily exposed to TLTRO-II liquidity



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

Latest Economic Developments

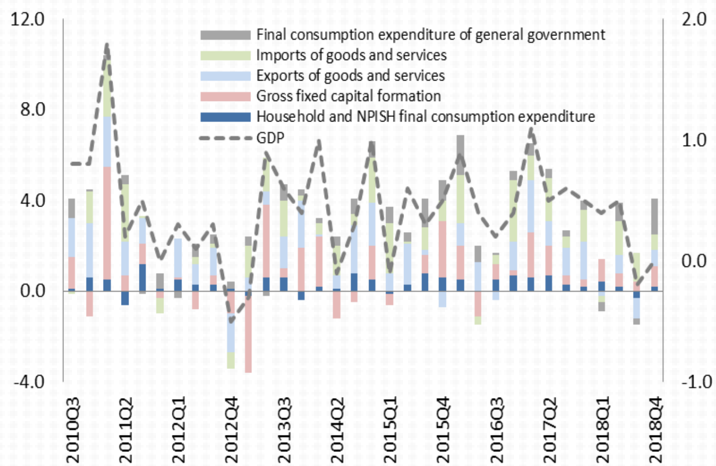
Real GDP growth increased by 0.2%QoQ sa in Q4 (1.2%YoY), following 0.2% growth in Q3, but marking a significant deceleration from a quarterly average growth rate of 0.4% and 0.7% in H1 2018 and 2017, respectively. IP is an a recessionary territory, having contracted by 0.1% in Q3 and by 1.3% in Q4 2018. Meanwhile, the PMI manufacturing index slipped into contractionary space in February (to 49.3 below the 50-threshold from 50.5 in the prior month), the lowest level since June 2013. Nevertheless, the PMI services index surpassed market expectations in February coming in at 52.8 from 51.2 in January, pointing to increasing signs of divergence between the manufacturing and services sectors. With the latest high frequency indicators mirroring continued weak momentum at the start of 2019, we expect real GDP growth to decelerate to an average of 1.3% in 2019, following an above potential growth rate of 1.8% in 2018. Personal spending, albeit not having increased in line with rising income growth, is expected to capitalize on firm employment growth, stronger wage growth, falling inflation and a moderate boost from fiscal policy. Trade war frictions and political uncertainty in Europe pose downside risks to our forecast.

Central Bank Watch

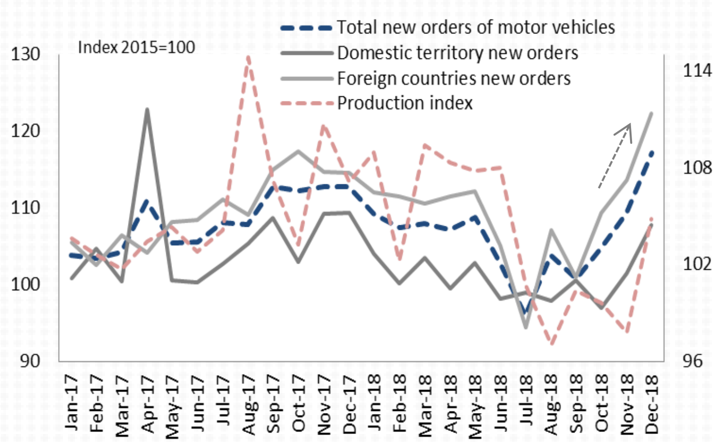
According to the account of the ECB's January meeting, the change of the ECB's assessment of risks surrounding the growth outlook from "broadly balanced" "to the downside" was mainly due to external risks that could affect domestic demand. Meanwhile, there were also some negative "country- and sector-specific factors", the effect of which could be transitory or last longer. On the liquidity operation front, in June 2019, the first TLTRO-II operation with about €380bn of remaining borrowing (~50% of the total TLTRO-II borrowing) enters in the final year of residual maturity. The ECB is likely to announce a new TLTRO by June 2019 in order to continue stimulating credit growth to the private sector and avoid a costly and disorderly deleveraging process that would harm European banks, especially in Italy and Spain, the two countries most heavily exposed to TLTRO-II liquidity.

Germany: Technical recession narrowly avoided at year-end 2018

Germany narrowly avoided a technical recession in late 2018



The burden of one-offs in manufacturing starts fading



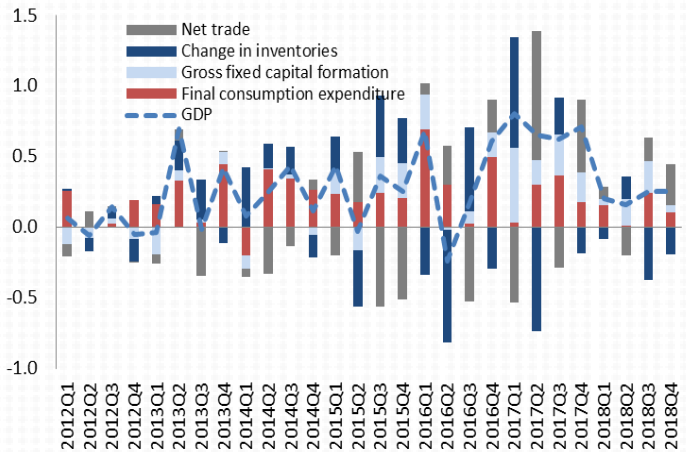
Source: Federal Statistical Office (Destatis), Eurostat, Eurobank Research

Latest Economic Developments

Confounding expectations for slightly positive growth in Q4 2018, real GDP was flat (0.0%QoQ), with the German economy narrowly avoiding a technical recession after a 0.2%QoQ contraction in the prior quarter, the first since Q1 2015. The main positive contributor to Q4 GDP growth was investment, especially in construction but also in machinery and equipment. Government consumption expanded strongly, private consumption rose modestly and net exports were flat. Looking ahead, survey-based sentiment indicators pertaining to the early months of 2019 do not look very encouraging. The PMI Composite output Index improved in February for the second month in a row, coming in at 52.8 from 52.1 in January, supported by the improved performance of the services sector (services PMI at a 5-month high of 55.3). However, manufacturing PMI slipped further into contraction reaching a 6-year low of 47.6, reflecting trade war jitters, ongoing Brexit-related uncertainty, weaker global growth prospects and temporary distortions that weighed on industrial activity in H2 2018 (i.e. the new stricter EU emission tests in the automotive industry & low river water levels). Similarly, the Ifo Business Climate Index fell in February marking the sixth consecutive monthly drop and coming in at 98.5, the lowest level since December 2014. However, on a positive tone, the two sectors in the manufacturing industry that had been heavily affected by one-off factors, started to recover in December, supporting optimism for somewhat stronger growth in Q1 2019. Motor vehicle orders jumped 7.2%MoM in December, standing 22.0% higher compared to late H1-2018, when the new EU emission tests were firstly adopted in the German automotive sector. Similarly, Rhine water levels returned back to normal in early December, resulting in a hefty rise in orders in the chemical sector over that month (according to German economic research institute IfW low water levels of the rivers and the switch to new emission tests in the automotive industry reduced real GDP growth up to 0.5% in Q4 2018). For 2019, GDP growth is expected at 1.1% driven by domestic consumption, with uncertainties stemming from the external side still looming large.

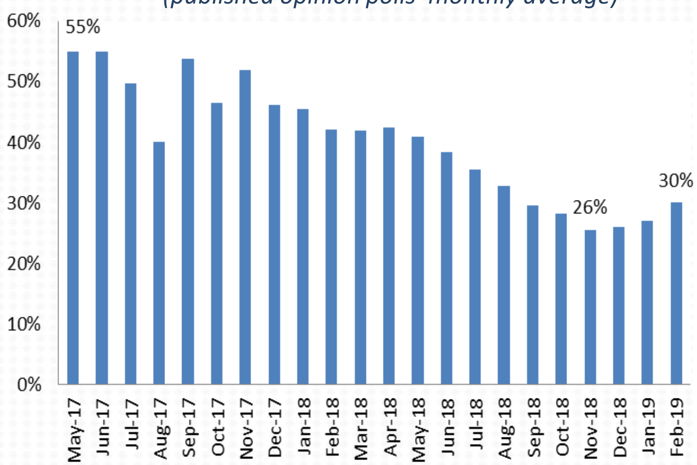
France: Q4 GDP growth not much affected by external and internal headwinds

Contributions to GDP growth (in ppt)



President Emmanuel Macron's popularity rate is improving

(published opinion polls' monthly average)



Source: INSEE, Wiki, Eurobank Research

Latest Economic Developments

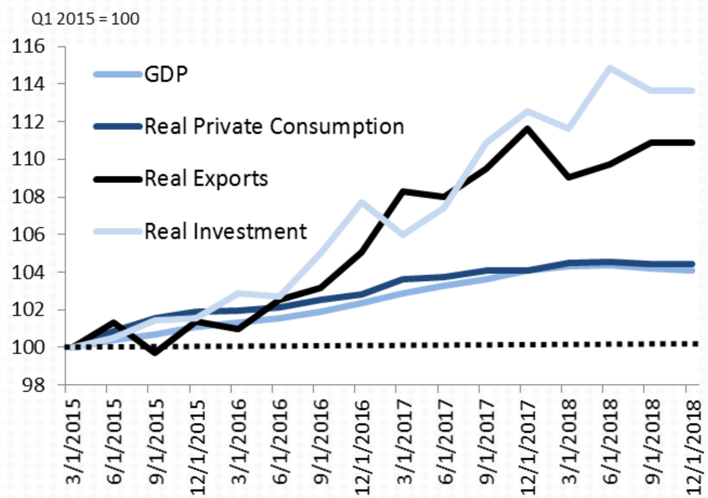
Economic growth held up reasonably well in Q4 2018, in spite of headwinds arising from slowing global growth momentum and social unrest associated with the yellow-vest movement. Real GDP rose by a higher than expected 0.3%QoQ in Q4 2018, the same pace as in the prior quarter, and stronger than 0.2%QoQ in H1 2018. The expenditure breakdown showed that growth was largely driven by net trade which added 0.3pp after 0.2pp in Q3 amid a surge in exports (2.3%QoQ vs. 0.2%QoQ in Q3) that outpaced that of imports (+1.4%QoQ vs.-0.3%QoQ). Domestic demand also contributed positively but less than in Q3, affected by social unrest (0.1pp vs. 0.2pp). On the flip side, gross fixed capital formation decelerated significantly (0.2%QoQ vs 1.0%QoQ) contributing zero to growth, while changes in inventories had a negative contribution for the second consecutive quarter (-0.2pp vs. -0.4pp). Looking ahead, survey data for the early months of this year suggest that the economy is stabilizing, allowing us to maintain our cautiously optimistic outlook for 2019. Halting a two-month falling streak, the Composite PMI Index rose in February by 2.2pts to 50.4. In a similar positive tone, the INSEE consumer confidence indicator rose in February for the second month in a row coming back to October's 95 level — a month before the start of the yellow vests movement — supporting optimism for a rebound in private consumption, partially thanks to Emmanuel Macron's recently announced fiscal measures. With net trade GDP growth contribution likely to turn negative as global trade continues to weaken, France's GDP is expected to expand by 1.3% this year from 1.5% in 2018 and significantly lower from a six-year high of 2.3% in 2017.

President Emmanuel Macron's popularity rate on the way up

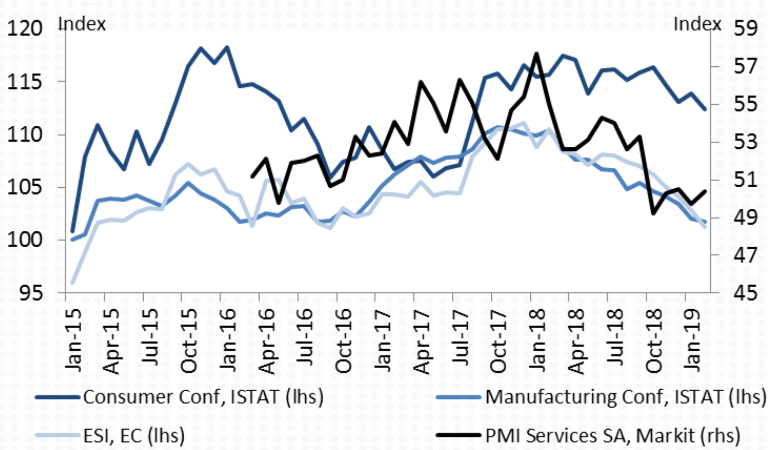
After hitting a record low in November 2018, when yellow-vest protests started, Emmanuel Macron's popularity rating has been rising. Purportedly, his decision in mid-December for a series of measures to boost purchasing power, and his new approach to governance that involves a dialogue with French citizens on the government's 2019 structural reform programme, marked a turning point.

Italy entered a technical recession in H2 2018, with political uncertainty coming on top of domestic and global weakness

Having been a key recovery driver, investment has decelerated significantly



Signs of stabilization in services, but manufacturing keeps contracting



Source: ECB, Bloomberg, Eurostat, Eurobank Research

Latest Economic Developments

Italy has finally entered a technical recession in H2 2018, contracting by 0.1%QoQ in Q4 following a similar drop in Q3. The second quarterly contraction in a row was mainly attributed to inventories, as -excluding inventories- both domestic and external demand had a positive contribution to growth. Nevertheless, we remain cautious about Italy's growth prospects, as the economic deterioration is not only attributed to the new car regulation given Italy's linkage to Germany's production chain, but also to weak external demand that come on top of an already weak domestic economy. Although there were some signs of stabilization in the services sector, falling manufacturing confidence will probably continue acting as a drag on business investment, a key driver of the Italian recovery since 2015. Overall, we have revised downwards our GDP growth forecast from 0.9% in 2018 to 0.2% in 2019 (vs. 0.7% previously) on the back of a negative carry-over effect from 2018, weak domestic and global growth momentum as well as heightened political uncertainty.

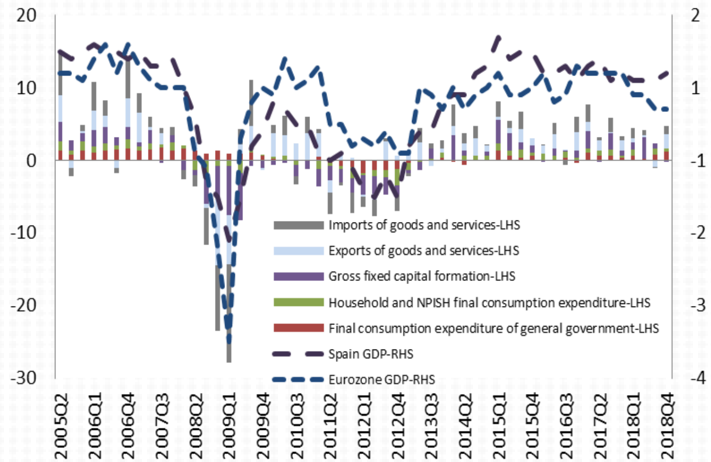
Italian politics update

The Italian government based its fiscal targets on 2019 GDP growth of 1.0%. Nevertheless, real GDP growth projection for 2019 has been revised downwards to 0.2% by the European Commission, hence translating into a higher fiscal deficit and debt-to-GDP ratio and possibly forcing Italy to implement additional austerity measures in the spring or/and urging the rating agencies for an Italian downgrade. In the meantime, the Italian government should find additional resources (eg. spending cuts) of more than 1.0% of GDP for the 2020 budget negotiations in the autumn, otherwise the planned VAT hike will be enacted on 1/1/2020 (worth €23bn in 2020 and an additional €6bn in 2021). A VAT hike would be politically damaging for the Italian government, but it will be very difficult as well for the two ruling parties that have conflicting priorities to find the necessary resources. The fiscal dispute with the EU might have only been postponed until H2 2019. With a significant lead of the League in the polls ahead of the European Parliamentary elections in May 2019 and the 2020 budget talks in the autumn, snap elections in H2 2019 could not ruled out.

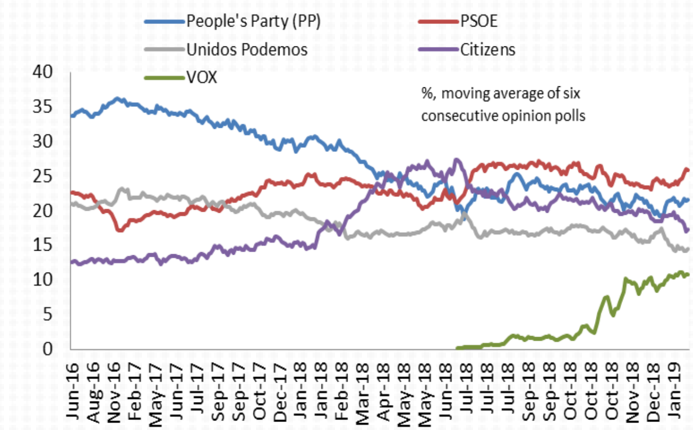
Spain continues to outperform Euro area peers; PM calls snap general election for 28 April

Spain continues to outperform Euro area peers

GDP & expenditure side components (QoQ%)



Recent opinion polls point to another hung parliament



Source: Eurostat, Wiki, Eurobank Research

Latest Economic Developments

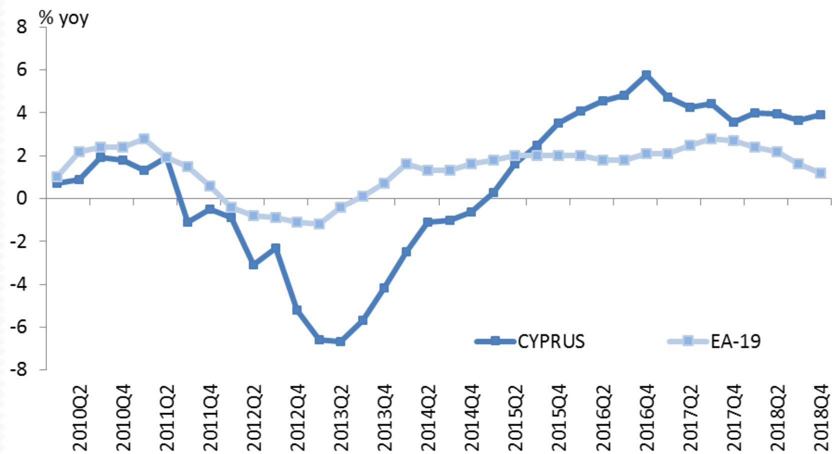
Spanish economic growth gained momentum in Q4 2018 with GDP accelerating from an average 0.6%QoQ in the first three quarters of the year to 0.7%QoQ, continuing to outperform Euro area peers. From the expenditure side, external demand was the main positive contributor. Exports rebounded sharply rising by a two-year high of 1.9%QoQ, while imports advanced by a relatively lower pace of 1.1%QoQ, more than offsetting a 0.2%QoQ contraction in investment, the first in the last six quarters. On the domestic side, public consumption performed strongly, rising by 1.2%QoQ, the highest pace in nearly four years, while private consumption eased to 0.5%QoQ from 0.8%QoQ in the prior quarter, albeit still in line with the H1 2018 average. For FY-2018, GDP growth reached 2.5%, decelerating from 3.0% in 2017. Looking ahead, sentiment indicators pertaining to the early months of 2019 suggest that economic recovery will continue, albeit at a more moderate pace than in Q4 2018. The manufacturing PMI unexpectedly fell below 50.0 in February for the first time since November 2013 (49.9), mainly due to a decline in sales to China and weak demand in European countries. Meanwhile, economic sentiment was unchanged in February at 104.4, remaining close the December's reading which was the lowest in more than two years (104.3). For FY-2019, GDP growth is likely to slow further to 2.2%, as private consumption is anticipated to moderate due to slower employment growth while, in an environment of slowing global growth, net trade will likely be a drag on economic activity.

PM calls snap general election for 28 April

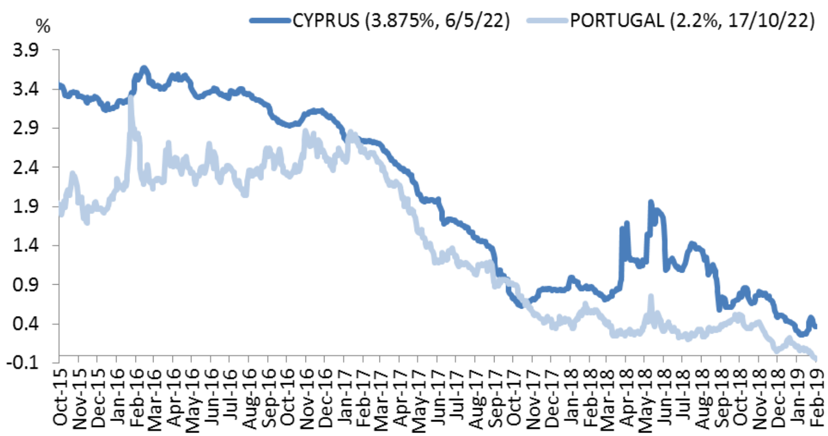
PM Sanchez called a snap election for 28 April after the parliament rejected the 2019 budget. The latest polls point to another hung government. Ruling PSOE leads, but it will probably be unable to forge alliances and secure an absolute majority in parliament. A combination of right/centre-right parties (PP, Citizens & Vox) will likely have a better chance in forming a coalition government that could be viewed as more market-friendly and more stable than the current Socialist minority administration.

Cyprus: Strong flash Q4-2018 GDP estimate

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

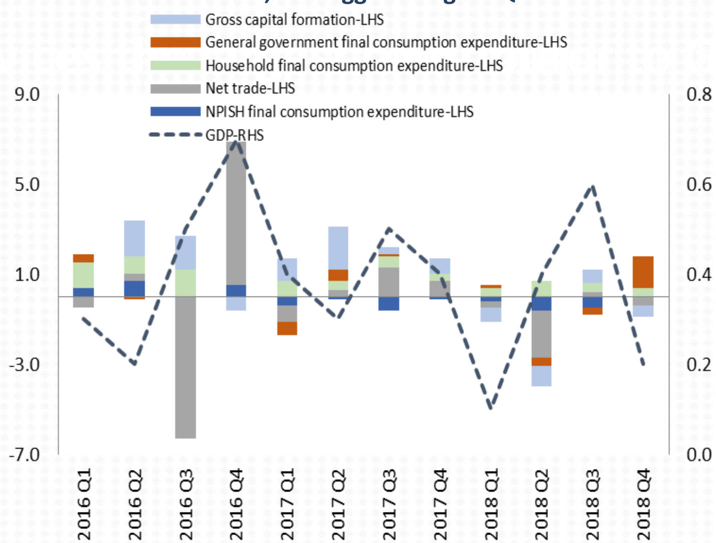
Latest Political & Economic Developments

Real GDP expanded by 1.1% on a quarterly basis bringing the annual rate of expansion at 3.9% YoY in Q4-2018 on a seasonally adjusted basis compared to 3.7% YoY in Q3-2018 vs. 3.5% YoY in Q4-2017. Although the components are not known yet, we expect no major breakthrough in the trends witnessed so far. Sustained sentiment improvement, a flourishing tourism sector (arrivals 7.8% YoY in 2018), improved labor market conditions (unemployment at 8.7% in Q4-2018, now standing very close to EA-19 levels), further property market stabilization (RPPI index in positive territory in the last six quarters) and the impact from fiscal relaxation after the graduation from the programme are among the main drivers behind final consumption revival. Investments received strong support from the stream of ongoing residential and tourism infrastructure construction projects. The program "citizenship through inward investment" has helped to attract foreign investment in the real estate sector in the form of high-rise residential towers, particularly in the Limassol & Paphos areas.

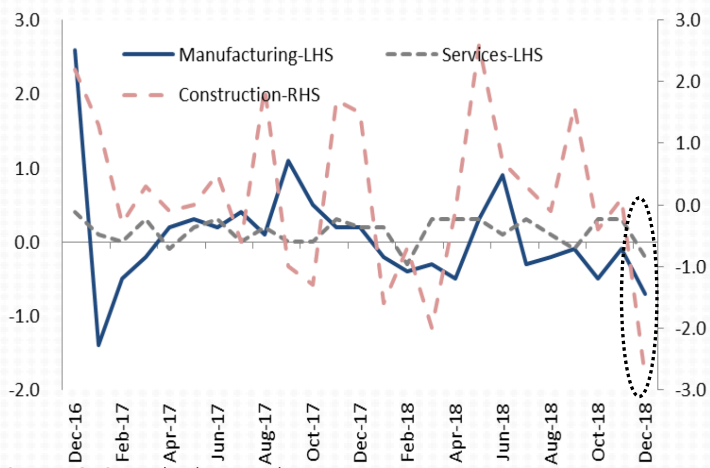
Factoring in the performance of Q4, real GDP is expected to have expanded by 3.9% in 2018 compared to 4.2% in 2017, 4.8% in 2016 and only 2.0% in 2015. Looking ahead, the growth trajectory suggests that the economic cycle peak is most probably behind us. The growth dynamics are expected to remain relatively strong- yet still lower than last year- at 3.6% in 2019 driven primarily again by buoyant foreign-funded investments and solid private consumption. 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 concentrated around the systemic financial risks posed by the still large amount of NPEs. The removal of a big chunk of NPEs from the banks creates more space for them to focus on their traditional markets but generates a set of new challenges because those remain in the broader economy. Yet to remove the problem off the back of the economy, the recoverability of the outstanding non-performing loans - not an easy task- has to be maximized.

UK: Prolonged Brexit uncertainty and slower global growth weigh on economic activity

Total investment, the biggest drag on Q4 2018 GDP



Broad-based fall in monthly output in December 2018 (MoM%)



Source: ONS, Eurobank Research

Latest Economic Developments

Following a pickup in economic activity over the summer months thanks to one-off factors (warm weather & the World Cup), growth slowed significantly in Q4 with GDP rising by a lower than expected 0.2%QoQ from 0.6%QoQ in the prior quarter. Both private consumption and government consumption held up well, while gross capital formation and net trade had a negative contribution, weighed down by prolonged Brexit uncertainty and slower global growth. Net trade contracted 0.4%QoQ after growing 0.2%QoQ in Q3, subtracting 0.1pp from Q4 GDP growth, as imports rose by a higher pace than that of exports (1.3%QoQ vs. 0.9%QoQ). The biggest drag, though, came from total investment (-0.5%QoQ) mainly due to another drop in business investment (-1.4%QoQ), the fourth consecutive quarter fall and the first such occurrence since 2009. Worryingly, in December alone, GDP shrank by 0.4%MoM, the highest contraction since March 2016, driven primarily by weak construction. However, services and industrial production also contracted, marking the first time since September 2012 we witness such a broad-based fall in monthly output. In FY 2018, GDP grew by 1.4%, the weakest pace since 2009, while there is little evidence in the early months of this year that the economic momentum could reverse. Assuming a soft Brexit scenario, UK activity is likely to gain some momentum, but 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%, as Brexit uncertainty has been more prolonged and its effects more profound.

Brexit Update

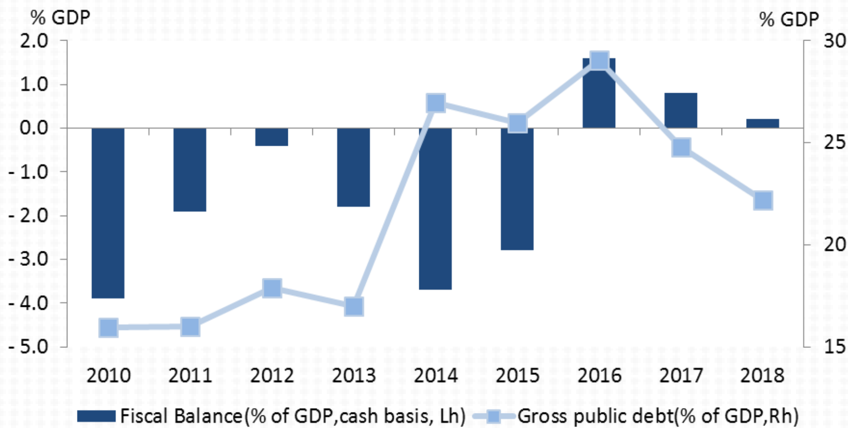
Following UK PM Theresa May's commitment for three important Brexit-related votes in mid-March, including a vote on a short one-off extension, the risk of a no-deal Brexit in the near-term appears to have diminished. However, even in case of an extension, it is far from certain that the Brexit impasse will be resolved.

III. Selected CESEE economies

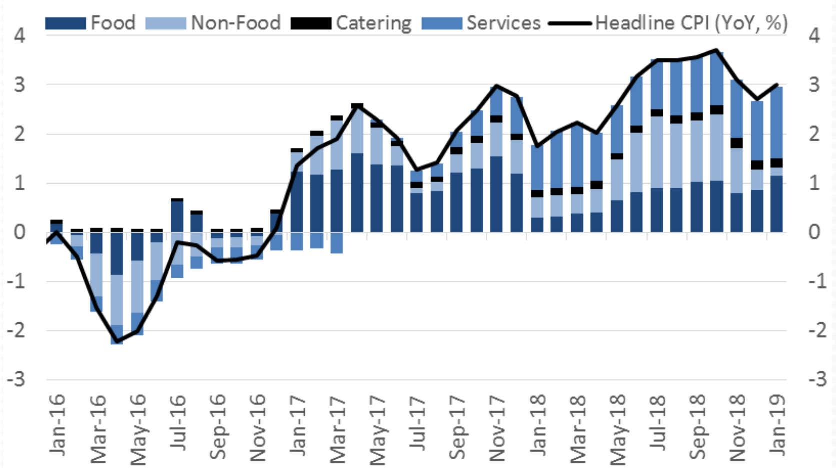
- Bulgaria
- Serbia
- Turkey

Bulgaria: Steady GDP growth in Q4-2018

Bulgaria's fiscal position is sound



Headline inflation rebounded in January on higher food prices



Source: Eurobank Research, National Authorities

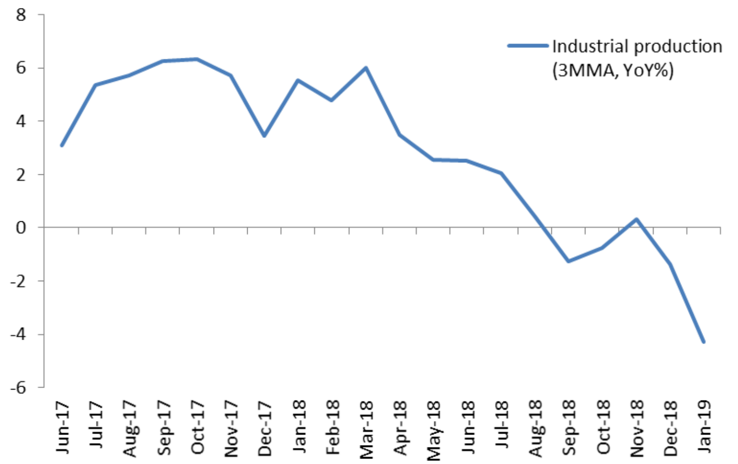
Latest Political & Economic Developments

According to the flash estimate, real GDP growth remained flat both on an quarterly and an annual basis at 0.7% QoQ/3.2% YoY in Q4-2018 vs. 0.7% QoQ/3.5% YoY in Q4-2017, bringing the full year performance at 3.3% in 2018 down from 3.8% in 2017. Translating this positive momentum into faster per capita income convergence toward EU continues to be the key policy challenge. For that to be achieved, continued and broad-based structural reforms are required. ERM2 & Banking Union application entry preparations are underway and include several commitments to strengthen banking supervision by entering in close cooperation with the ECB with the latter conducting a comprehensive assessment of six Bulgarian banks, to enhance the supervision of the non-banking financial sector, to address gaps in the insolvency framework, to strengthen the anti-money laundering framework, to improve the governance of state-owned enterprises.

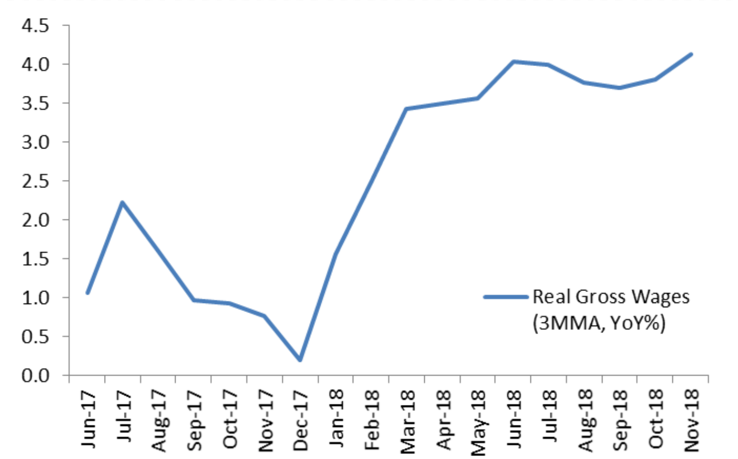
In our view, solid growth momentum continues in 2019- our forecast stands at 3.5% currently-on sound domestic demand dynamics. Private consumption will be in the driver's seat, receiving support from a tighter labor market, relatively low energy prices, convergence of wages towards EU average, a vibrant manufacturing sector despite the increasing world trade tensions and an emerging tourism destination. 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 7.7% YoY in December- at the highest rate since June 2009-up from 7.2% YoY in November. The December reading is favorably compared to 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 improved economic fundamentals matched by banking sector abundant liquidity.

Serbia: GDP growth pace remained solid but at a slower gear

GDP growth lost some steam in Q4 from the supply side…



…but increases in public wages support private consumption



Source: Bloomberg, Eurobank Research

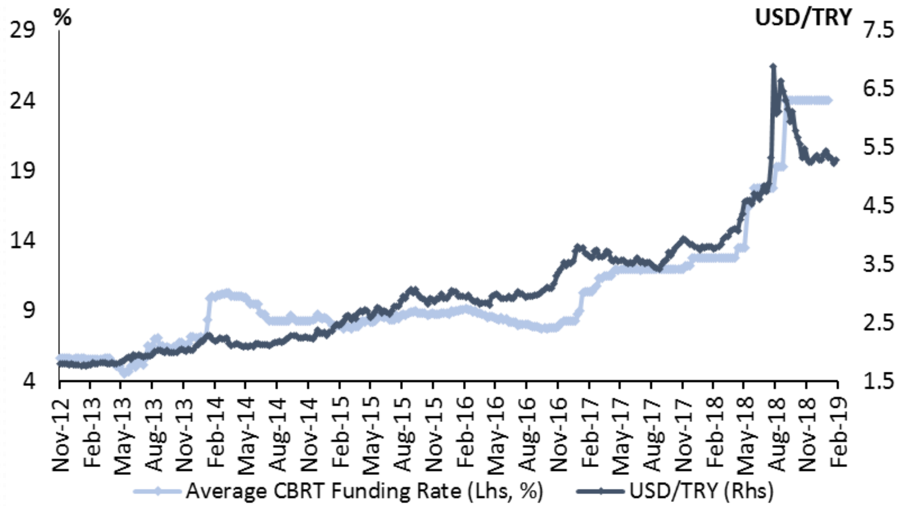
Latest Economic Developments

According to the final estimate, Q4 GDP grew by 3.4% YoY in Q4 2018, slightly lower compared to the flash estimate of 3.5% released in January. Serbia's GDP growth pace remained on a solid trajectory but slower compared to the previous quarters of 2018 (Q1-Q3 average at 4.6%YoY), due to base effects as well as subdued industrial production. The industrial output in December 2018 slowed down to -6.3% YoY, attributed to output shortfalls across all industrial sectors with the pattern looking similar in January, (+5.5% YoY). From the expenditure side, all other GDP components, apart from net exports, contributed positively to the Q4 reading, setting the full year's growth at 4.3%YoY. In detail, private consumption and investments increased by 3.2% YoY and public expenditure by 3.3% YoY. According to the National Bank of Serbia (NBS), GDP growth is expected at 3.5% YoY in 2019, driven by domestic demand. Private consumption will remain one of the pivotal growth pillars in Serbia, following the public wages and pensions' increases in recent months. That said, according to official statistical data released within the previous week, the average net salary in the public sector for FY2018 increased by 4.4%YoY in real and 6.5%YoY in nominal terms. The disposable income in Serbia will most probably continue its positive footing in 2019 driven by further wage and pension increases as the fiscal budget for 2019 envisaged back in November a deficit ca 0.5% of the projected for 2019 GDP in order for fiscal space to be created.

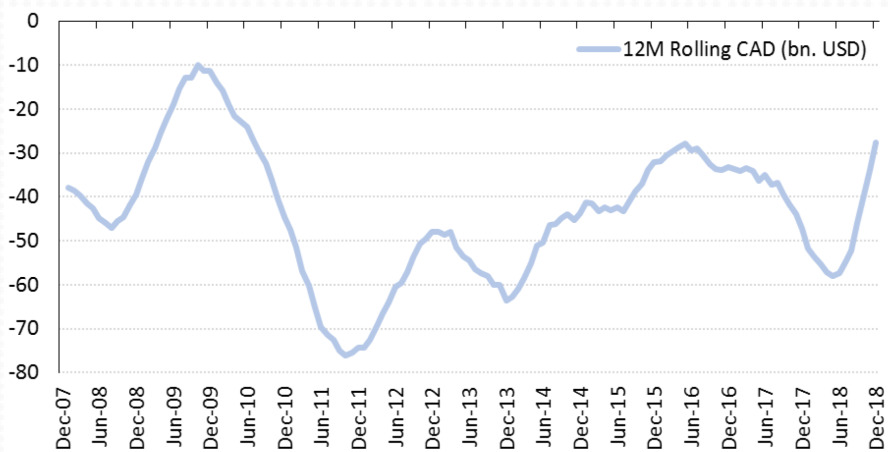
At its meeting on February 7th, the National Bank of Serbia (NBS) kept the key policy rate unchanged at 3.00%, where it has been for the past eleven months. The decision was fully anchored with market consensus, as inflationary pressures remain subdued, as has been the case for the last five years, despite robust economic growth. Headline inflation came in at 2.1% YoY in January compared to 2.0% YoY in December, and 3.0% YoY in January 2018, the highest reading in 2018. Looking ahead, the NBS is expected to keep the key interest rate at the current levels for most of 2019 and synchronize its policy stance with that of the ECB.

Turkey: Jumping food prices maintain inflation high in January

Turkish Lira continued strengthening in Q1-2019



Macroeconomic imbalances have been unwinding rapidly in 2018



Latest Political & Economic Developments

Headline inflation inched up to 20.4% YoY in January up from 20.3% YoY in December in line with analysts' consensus expectations (Actual: +1.1% MoM vs Reuters:+1.% MoM). Jumping food prices on a monthly basis (+6.4% MoM/+31.0% YoY in January, the highest reading since 2004) themselves driven by the volatile fruit & vegetables component which skyrocketed by +12.7% MoM, as a result of poor weather conditions, were the main culprit. In order to combat rising food prices, the cabinet decided to explore measures to shorten the unprocessed food supply chain as part of its ongoing strategy to reform the wholesale food market. A benign reading in the segment of transportation prices (+0.2% MoM/+14.7% YoY), the monthly drop in clothing prices (-8% MoM/+12.5% YoY) and a sharp decline in utilities prices (-3.1% MoM/+17.2% YoY) reflecting the government's price cuts by 10% in electricity, gas and water for consumers helped offset the rally in food prices.

Despite the supply side shock, headline and core inflation metrics are still on a downward trend. Headline inflation has retreated from its historic highs in recent months ending at 20.3% YoY in December down from 21.6% YoY in November. Core inflation (which excludes food, alcohol, tobacco, energy and gold prices) eased further to 19.0% YoY in January down from 19.5% YoY in December vs. 20.7% YoY in November. The most important driver behind this improvement is the sharp decline of the international energy prices in Q4-2018, the weak domestic demand conditions, but more importantly, the stabilization of the domestic currency reversing some of its heavy losses in the 2H-2018 on the back of easing investors' concerns over the Central Bank's independence and deteriorating diplomatic and economic ties with the US administration. Having tightened by a cumulative 1025bps in 2018, CBRT is widely expected to remain on hold until at least the end of 1H-2018. In its forward guidance, the CBRT has maintained its tightening bias underlining its intention to tighten further if needed on the back of inflationary pressures.

Source: Eurobank Research, National Authorities, Bloomberg

IV. Special Focus: China

Special Focus: China

The official growth target for 2019 is set between 6.0% and 6.5%, the lowest in 30 years

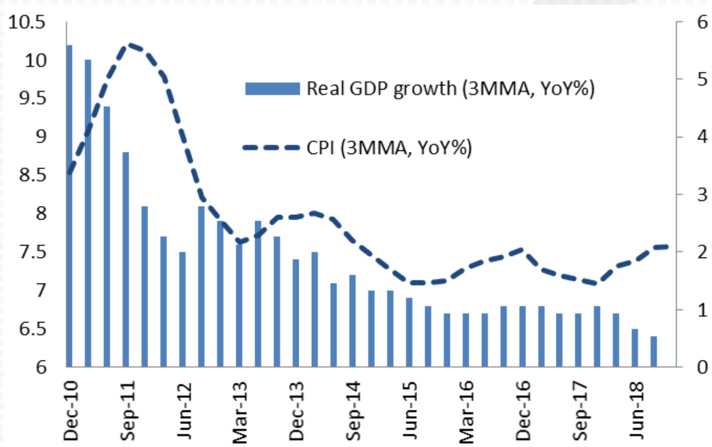
China's GDP growth trajectory: Losing some steam in efforts to rebalance from a centrally planned and investment focused economy to an open and more consuming one	The Chinese economy has grown in the past forty years so much as to become the world's second largest economy after the US. However, in recent years, signs of a slowdown are observed, spurring concerns of a hard landing. The average GDP growth rate stood at 7.4% in 2011-2018, substantially lower from 10.3% YoY in 2000 – 2010. Furthermore, in 2015, the Chinese economy expanded by 6.9% YoY, marking the first time in twenty years that economic growth has come in below the official target of around 7.0%. Following a softer Q3 2018 GDP growth reading (6.4% YoY in Q4 vs 6.5% YoY in Q3), the economy continues to deal with slower growth dynamics. Compared to the 2017 GDP growth rate of 6.8% YoY, GDP expanded in FY 2018 by 6.6% YoY, which is the slowest pace since 1990. The Chinese economy is expected to lose further steam this year on the back of an ambitious reform agenda towards a more sustainable economic model, envisaged back in 2012, when President Xi Jinping took the reins of the country, but also as it takes a toll from the US - China trade jitters that have been at play since late 2017. At the National People's Congress (NPC) in Beijing that began on March 5th and will close on March 15th, China's Premier Li Keqiang stated that the GDP growth rate target for 2019 is set within the range of 6.0% and 6.5% YoY, down from a firm target of 6.5% YoY over the past two years.
There is visible progress in the trade negotiations between US and China with high chances of inking an agreement within March. Still, concerns over its enforceability are looming	The key issues in the US-China trade dispute in the past 12 months pertain to the reduction of the US trade deficit, the intellectual property rights (IPR) protection, the reduction of Chinese government subsidies to state-owned enterprises (SOEs) and the elimination of policies and practices by Chinese companies against US ones with respect to technology transfer. Recently, US President Donald Trump set an additional matter on the negotiations table. He requests that the Chinese Government do not devalue its currency in an effort to offset or mitigate the cost of US tariffs on Chinese imports. From the US perspective, a new foreign currency arrangement between the US and China could allow for a softer dollar and a stronger yuan thus giving the US a competitive trade advantage. With progress varying among the aforementioned issues in the negotiations agenda, there seems to be strong momentum for inking an agreement by late March, which will consist of multiple Memoranda of Understanding, which are currently being drafted. It would be fair to state that as things stand, the US has extracted a solid commitment from China that the latter will substantially increase agricultural products and natural gas imports from the US so as to reduce the well-established trade deficit, under the condition that the tariffs on imports by the US amounting to USD200bn (out of USD250bn) will be lifted immediately. Equivalently, China is willing to reduce tariffs on autos, currently standing at 15%, below pre-trade war levels. Apart from the agreed extension of the truce regarding additional tariffs after 1 March, the extent and the timing of the existing tariffs lift is not yet clear as there are competing voices inside the US cabinet on how the US could maintain substantial leverage and how an incremental tariffs lift could secure China's discipline for a considerable amount of time following the agreement's signature.

Special Focus: China

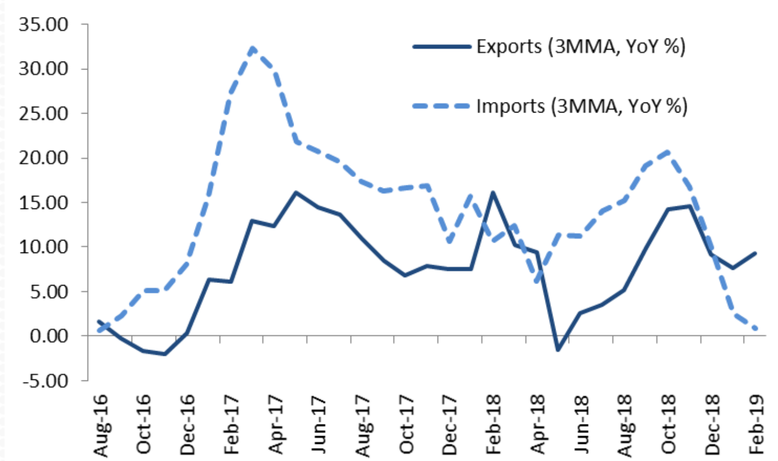
Premier Li Keqiang announced further easing measures and warned on “tough economic battle”

China seems to have taken timely grasp of the challenges it is facing amid slowing growth	Chinese authorities are willing to take all the required policy measures to prevent the economy from slowing further but will avoid “a deluge of stimulus”. China will continue with a prudent approach which will be either eased or tightened as necessary. Along with policy easing, China will push forward the reform agenda pertaining to, inter alia, market access facilitation and IP protection enhancement, covering that way two of the most crucial issues in the trade talks with the US.
All necessary measures, both on the monetary and the fiscal front, will be adopted to ensure China’s economy avoids a hard landing	• On the fiscal front, the budget deficit target as a percentage of the projected GDP in 2019 was set at 2.8%, 2ppts higher than in 2018, providing the required fiscal space for a reduction in corporate tax and social security contributions of up to CNY2trn. • Total social financing in January skyrocketed at CNY4.64trn from CNY1.58trn in December. Such credit expansion is broadly attributed to a series of monetary and credit measures. The most important one is the Reserve Requirement Ratio (RRR) cut for banks by 100bps cumulatively in January. Currently, the RRR stands at 13.5% for large financial institutions compared to 17% in mid-2018. Market consensus anticipates a further reduction in the range of 200 to 300 bps in 2019. • The aforementioned measures are anticipated to boost the economy, which will become more visible, most probably, in Q2 2019.

Within the past 10 years GDP growth is gradually losing steam



Trade activity is shrinking amid trade conflicts with the US



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)		
	2018e	2019f	2020f	2018e	2019f	2020f	2018e	2019f	2020f	2018e	2019f	2020f	2018e	2019f	2020f
World	3.7	3.5	3.5	3.3	3.1	3.2									
Advanced Economies															
USA	2.9	2.5	1.9	2.4	2.0	2.2	3.9	3.6	3.5	-2.4	-2.6	-2.6	-3.8	-5.0	-5.0
Eurozone	1.8	1.3	1.5	1.7	1.4	1.5	8.2	8.0	7.8	3.0	2.9	2.8	-0.8	-0.9	-1.0
Germany	1.4	1.1	1.5	1.9	1.5	1.6	3.4	3.2	3.2	7.8	7.0	6.8	1.6	1.0	0.8
France	1.5	1.3	1.4	2.1	1.4	1.6	9.1	8.8	8.7	-0.7	-0.5	-0.5	-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	19.4	18.0	16.6	-2.8	-2.5	-2.2	0.6	0.6	0.6
Italy	1.0	0.2	0.8	1.3	1.0	1.2	10.6	10.4	10.2	2.6	2.5	2.2	-2.0	-2.6	-2.6
Portugal	2.1	1.7	1.7	1.2	1.3	1.6	7.0	6.4	6.2	-0.6	-0.2	-0.2	-0.8	-0.6	-0.6
Spain	2.5	2.2	1.9	1.7	1.3	1.6	15.3	13.9	12.8	0.8	1.0	0.9	-2.7	-2.2	-2.0
UK	1.4	1.2	1.6	2.5	2.1	2.1	4.1	4.2	4	-3.5	-3.3	-3	-1.4	-1.4	-1.7
Japan	0.7	0.8	0.6	1.0	0.9	1.0	2.4	2.4	2.3	3.6	3.4	3.4	-3.1	-3.0	-2.8
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				
	Current (as of 5 March)	March	June	September	December
USA					
Fed Funds Rate	2.25-2.50%	2.25-2.50%	2.50-2.75%	2.50-2.75%	2.50-2.75%
1 m Libor	2.48%	2.56%	2.55%	2.59%	2.63%
3m Libor	2.61%	2.60%	2.62%	2.62%	2.65%
2yr Notes	2.56%	2.56%	2.53%	2.52%	2.52%
10 yr Bonds	2.74%	2.76%	2.78%	2.80%	2.85%
Eurozone					
Refi Rate	0.00%	0.00%	0.00%	0.00%	0.00%
3m Euribor	-0.31%	-0.30%	-0.29%	-0.28%	-0.25%
2yr Bunds	-0.50%	-0.50%	-0.45%	-0.43%	-0.40%
10yr Bunds	0.18%	0.21%	0.22%	0.25%	0.35%
UK					
Repo Rate	0.75%	0.75%	0.75%	0.75%	1.00%
3m	0.85%	0.85%	0.88%	0.94%	0.98%
10-yr Gilt	1.28%	1.30%	1.35%	1.40%	1.45%
Switzerland					
3m Libor Target	-0.75%	-0.75%	-0.75%	-0.75%	-0.75%
10-yr Bond	-0.26%	-0.25%	-0.22%	-0.20%	-0.15%

Source: Bloomberg (market implied forecasts)

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