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GLOBAL & REGIONAL MONTHLY

The Covid-2019, the worst global pandemic in a century, is severely damaging the global economy. Global PMIs fell sharply to a fresh cycle low in March, and GDP forecasts have been repeatedly revised downwards. The world is experiencing a sharp economic recession in H1. For 2020 as a whole, we expect real GDP to decline by about -1.8%, with an aggressive fiscal and monetary policy response from governments and central banks to help contain the rapidly unfolding coronavirus crisis.

Macro Picture

USA: Measures to contain the virus epidemic weigh on labor market and sentiment indicators

EA: March PMIs point to record fall in economic activity

UK: Stringent containment measures in place until early summer, risks of a big drop in H1 GDP

EM: Heading for multi-gear economic recession across emerging Asia, LatAm & EMEA

CESEE: Covid-2019 throws the region into a deep recession in 2020

Markets

FX: Traders market with very large moves. It is all about the USD and the general shortage of the currency in risk off times

Rates: Negative rates not a fantasy anymore in the US. Discussions about EU wide debt instruments

EM: In the eye of the storm with global recession ahead. HY Names in the spotlight and restructuring/defaults in the horizon

Credit: In free fall at the start of the month with IG stabilizing due to CB interventions. Expect defaults and focus on cash rich companies

Policy Outlook

USA: Fed actions aim to enhance liquidity and improve confidence in financial markets

EA: ECB to use the full potential of its policy instruments within its mandate to fight the virus

UK: BoE prepared to take further action against an unwarranted tightening in financial conditions

CESEE: Governments and Central Banks respond immediately with a combination of financial support and stimulus measures

Key Downside Risks

Heightened fears over a prolonged downturn of the global economy: The spread and duration of the COVID-19 outbreak prove larger and longer than currently expected

EM fragility: Extensive lockdown Covid-19 measures will delay the rebound of the most vulnerable EMs

Themes in this issue

Special Topic: Covid-19 and the global economy: Revised 2020 outlook

Key **Policy Responses** to Covid-2019 by region

Contributing Authors:

Ioannis Gkionis
Senior Economist
igkionis@eurobank.gr

Maria Kasola
Economic Analyst
mkasola@eurobank.gr

Olga Kosma
Research Economist
okosma@eurobank.gr

Paraskevi Petropoulou
Senior Economist
ppetropoulou@eurobank.gr

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Contents

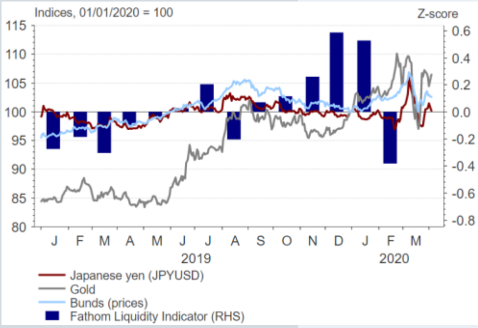
Macro Views

Latest Macroeconomic Developments & Outlook

World Economic Outlook

The economic shock from Covid-2019, the worst global pandemic in a century, has been unprecedented in modern economic history. Although it is a vital importance to protect people's health in the best possible way, social distancing measures and economic lockdowns across the globe - imposed to contain the spread of the virus - lead to pronounced adverse effects on the economy. Coronavirus has dragged the global economy into recession of historic proportions, the extent of which depends primarily on how quickly the containment of the virus outbreak and the gradual resumption of economic activity can be achieved. The Covid-2019 pandemic has halted the longest gaining streak on record for global equities, with equity market volatility being the greatest ever during a recession. Many benchmark indices suffered pronounced losses, shedding over a third of their value over the past month, having reached new record highs as recently as in February. The sell-off was broad-based, with investors scrambling for cash and traditional safe-haven assets such as gold as well as German and Japanese government bond prices surprisingly also losing some ground in the first three weeks of March before partly reversing earlier. Said that, Fathom's monthly liquidity recorded a drop of around 1 standard deviation in February, while the March reading is expected to be even worse (Figure 1).

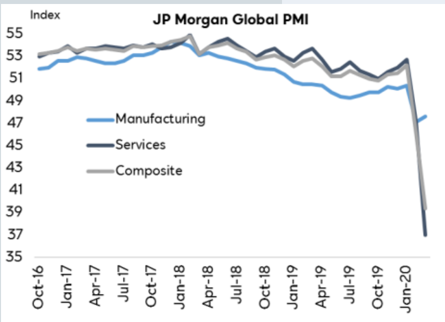
Figure 1: Unprecedented market moves due to illiquidity



Source: Refinitiv Datastream, Fathom Consulting

Global GDP forecasts were subject to significant downwards revisions, as were corporate earnings estimates. Over the last few weeks, both leading and hard economic indicators continued to deteriorate. With the exception of China, March PMIs elsewhere in the world fell sharply to a fresh cycle low. The J.P.Morgan Global Composite Output Index plunged to an 11-year low of 39.4, as the manufacturing downturn continued and services activity declined to the greatest extent in the series history (Figure 2). Consumer confidence indices also trended downwards and employment data reports started to show up considerable job losses amid a full-scale shutdown of airlines, restaurants, retail stores and any part of consumer

Figure 2: Global output drops at fastest pace since 2009 amid COVID-19 outbreak



Source: Refinitiv Datastream, Fathom Consulting spending that involves a high degree of face-to-face interaction. Both Europe and the US already experience a steep decline in output. A massive contraction in the first half of the year is expected; Q1 will be dragged down a fair bit due to the decent growth numbers in the first two months followed by a collapse in March, but Q2 should see huge double-digit declines across the board, before recovering gradually in the second half. For 2020 as a whole, we expect a GDP contraction of about -1.8%, with an aggressive fiscal and monetary policy response from governments and central banks to help contain the rapidly unfolding coronavirus crisis. The risks are skewed to the downside should the coronavirus related disruption continues beyond Q2.

Developed Economies

US: Disruptions to economic activity have started to become evident as the US is now officially the new epicenter of the coronavirus pandemic. Labor market conditions have worsened sharply, with initial jobless claims doubling to 6.6mn and nonfarm payrolls falling by a considerable 701k in March. Intensified efforts to mitigate the spread of COVID-19 in many states are weighing on service industries that are particularly sensitive to social distancing, while other indicators of manufacturing and household sentiment deteriorated significantly. Our baseline scenario, which assumes a gradual recovery in H2 that leaves the US economy to contract by about -4.5% for the whole 2020, includes a forceful fiscal and monetary policy response to partially offset loss in activity.

Euro area: March PMIs exhibit the first COVID-19 outbreak related signs of disruption, pointing to an annualized GDP drop of nearly 10%QoQ. The Composite output PMI registered the largest monthly drop on record as increasingly tough measures to contain the spread of the coronavirus resulted in a hard blow to the services sector. Coronavirus related disruptions were evident in March prices as well, providing an early indication of the virus' deflationary impact. Given the depth of social distancing measures and the magnitude of the shock, we expect GDP to contract by a sharp 6.0% in 2020, on the assumption that the Covid-19 outbreak will peak in Q2 and there is a gradual recovery thereafter.

Periphery: The two biggest EMU peripheral economies, Italy and Spain, are the worst affected by the COVID-19 outbreak. In Italy, the spread of the new virus started in the last week of February, earlier than elsewhere in the Euro area. Aiming to contain its spread, the government implemented drastic measures as of late February that were subsequently intensified in mid-March with all non-essential productive activities suspended. Therefore, the hit of the virus is likely to have already been felt in Q1, while a more pronounced drop in GDP is expected in Q2 before the economy embarks on a decent recovery, assuming that containment measures will be lifted gradually by end-May. Turning to Spain, which in early April became the most severely affected country from the COVID-19 pandemic in the Eurozone, surpassing Italy in the number of confirmed cases for the first time since the onset of the health crisis, is likely to be hit hard. Spain's retail sector, transportation, tourism and restaurants account for around 24% of GDP vs. a 19%

Eurozone average, while the severity of the health crisis in the country suggests a more gradual relaxation of the containment measures.

Emerging Economies

BRIC: Economies will on average stay constant in 2020 but that is broadly attributed to the fact that ca.80% of the BRIC output in PPP terms is attributed to China and India which are expected to still post positive growth rates, albeit diminished and substantially lower compared to 2008, when the Great Financial Crisis burst out. We have downgraded our GDP growth forecast for **Brazil** in 2020 to -1.5%, from 2.1% in the previous month. Since March 20, the country has been put under the state of calamity due to the Covid-19 pandemic in order to override strict fiscal rules and come up with fiscal space to combat it. **Russia**'s 2020 GDP growth forecast for has been revised downwards to -1.7% from 1.7% in March. What started as a form of holiday week announced by President, Vladimir Putin, from March 30 to April 3 in Moscow, has been extended to April 30 and expanded to at least 27 regions. The economy will feel the pressure from the subdued demand due to the lockdowns but also from the plunge in oil prices, as oil and energy exports account for ca 30% of the country's GDP. Regarding **India**, we have downgraded our GDP growth forecast for 2020 to 1.8%, from 5% in the previous month. The government has imposed a 3-week complete shutdown across the country which will be extended if needed. Such a move may prove efficient in the combat of the outbreak but will have a severe impact on GDP growth. Concluding, since late February, when the authorities announced that the virus outbreak was under control and March 23 when zero reported cases were confirmed in Wuhan, **China**'s economic growth outlook has deteriorated. We have lowered our FY2020 GDP growth to 2.5% from 4.5% in the previous month. As key driver of the recession we consider the demand shock the economy will experience internally and externally. Risks are tilted to the downside amid reasonable fears over a second wave of Covid-2019 infections following 130 asymptomatic cases reported on March 31 and 55 on April 1.

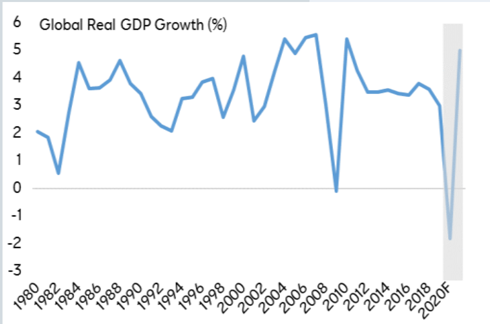
CESEE: The deepening of the Covid19 crisis throws the broader CESEE region into the abyss of a deep recession in 2020. With the number of cases now rising, the governments across the region were inclined to declare a state of emergency and impose a wide range of restrictions. Undeniably, it is a public health crisis which translates into a hard to absorb, broad-based symmetric economic shock with a disproportionally negative impact on every country, every industry and every GDP component. Thus, in the light of the current developments, we are inclined to downgrade our previous forecasts for the economies of our focus to deep negative territory, with the risks remaining pronounced on the downside.

Special Topic

Covid-19 and the global economy: Revised 2020 outlook

The coronavirus outbreak is severely damaging the global economy, with economic forecasts being repeatedly revised downwards amid the explosive spread of the contagion. The world is undoubtedly experiencing a sharp economic recession, expected to last about two quarters. This is actually a shorter expected recession compared to the average duration of the contractionary episodes over the past century[1], which equals 3-4 quarters with an associated contraction ranging between -2% to -5%YoY. Overall, we expect 2020 global growth to fall well below the GFC lows (~-1.8%), which is at the lower end of the range, but the intensity of the H1 contraction is expected to be one of the worst in a century (with GDP contracting by ca. -2.3%YoY and -4.5%YoY in Q1 and Q2, respectively). Our forecasts are based on the assumption that the growth of global new confirmed cases continues to slow with its peak sometime in April/May allowing social distancing and lockdowns to end and GDP to return to positive growth by the fourth quarter of this year reducing the net decline in GDP for 2020. Chinese factories reopened in mid-February to early March, after the virus epidemic curve has reached its peak. In Europe, most lockdowns are officially in place until mid-April but an extension to at least mid-May is highly likely, given the developments around the spread of Covid-2019, as is also the case for the US and the UK. The timely implementation and the effectiveness of the policy response is of vital importance so that unconventional measures by central banks and massive fiscal stimulus by governments prevent the private sector's collapse. In the adverse scenario that there is a second wave of contagion once individuals restart circulation domestically and border controls are lifted, containment measures could be re-imposed in the fall, delivering a more protracted contraction in growth with overall 2020 GDP drop even doubling close to -4.0%.

Figure 3: Global economy in recession in 2020, sharp but relatively brief drop in activity



Source: IMF, Eurobank Research

Advanced economies

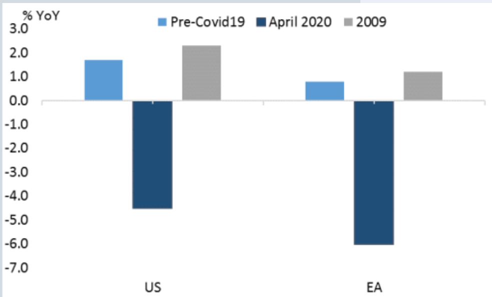
US: Recent high frequency indicators point to a sharp deterioration in service expenditures and labor market indicators in March on the back of social distancing measures and shelter-in-place orders issued by certain states. The implied drop-off in activity in late March is severe enough to drag the entire quarter into negative territory, with real GDP growth expected at -1.5%QoQ saar in Q1 before experiencing a sharper contraction in Q2 (of ca. -30.0%QoQ saar) and a rise in the unemployment rate above 10% from 4.4% in March. Our baseline scenario places the outbreak peak around late April, with social distancing

[1] World War I, the Great Depression, World War II, 1973 and 1980-81 recessions driven by oil shocks, Global Financial Crisis (GFC)

measures expected to start receding in June and the economic activity gradually normalizing in H2 2020. Given that fiscal and monetary policy have responded powerfully to counterbalance the economic contraction, we expect real GDP to contract by -4.5% for the whole year. Indeed, the Fed has been very quick to take action so as to improve liquidity and inject confidence in financial markets, while fiscal measures have already surpassed the scale of actions taken during the first year of the GFC. In the worst case scenario, all the states are hit very hard by the virus outbreak, the Q2 contraction is even sharper and disruptions from the pandemic persist well into Q3. The unprecedented policy measures prove unable to prevent a more protracted slump and the economy is hit by second-round effects on aggregate demand. In that scenario, we see Q2 GDP contraction around -50.0%QoQ saar, followed by declines in Q3 and Q4, albeit at a lesser degree, leaving the economy to contract at an annual average rate of -10.0% in 2020.

Euro area: As Covid-2019 has broadly spread across the continent, governments have adopted strict containment measures to flatten the epidemic curve and diminish the risk of the virus overwhelming healthcare systems. A difficult tradeoff has been brought to the fore between public health and economic costs of the pandemic, with much of the European economy introducing over the last three weeks or so travel bans, regional or country-wide lockdowns and internal border controls that weigh much more heavily on the services sector. Against this backdrop, we have sharply downgraded our 2020 growth forecast for the region, taking into account that several euro area economies (France, Spain) are more services-intensive than China, where PMIs suggest that sectors like catering and accommodation, tourism, household service, and entertainment remain in contractionary territory despite the overall index rebound in March. In our view, GDP growth should record its trough in Q2 (-11.0%QoQ), assuming that the Covid-2019 outbreak definitely peaks by mid-April, and a de-escalation of containment measures at the end of April paves the way for a gradual recovery from early May. Personal consumption expenditures and inventories will likely be severely hit as long as the lockdown persists, but are expected to rebound strongly in Q3 with the free movement of people. Overall, real GDP growth is expected at -6.0% in 2020, with the ECB's flexible pandemic emergency asset purchase facility (€750 bn PEPP), coupled with the additional TLTRO capacity (€1.2 trn) and easier collateral and bank capital rules, providing the conditions for governments to respond to demands for extra stimulus. We estimate a fiscal boost of at least 1.5% of GDP, on top of the 0.6% of GDP coming from the EU budget. On the EU level, the launch of a Coronavirus Response Investment Initiative includes €37bn of unused cohesion funds (€8bn of investment liquidity and €29bn of structural funds). In spite of a much more expansionary fiscal policy, some countries have more limited fiscal space to fight the virus, so there are increasing calls for a centralized EU response to the crisis. The activation of the ESM to fund stronger national responses – potentially resulting in a fiscal package of up to 3.5-4.0% of GDP – could support a stronger fiscal response to the Covid-2019

Figure 4: GDP growth projections revised sharply downwards due to Covid-2019



Source: Bloomberg, Eurobank Research

economic shock. Should the euro area economy fall into a more negative scenario with lockdown leading to a drop in activity that persists until May, then Q2 GDP growth could plunge by ~20%QoQ that could drag overall GDP growth to around -10.0% for 2020 as a whole.

Germany: The containment measures adopted to slow the spread of the new virus including the wide-spread shutdown of "non-essential" parts of the industry, trade and services sector and the slump in demand induced by "social distancing" measures, suggest that Q2 GDP will contract sharply, following a less pronounced contraction in Q1, since hard data for January/February painted a comparatively solid economic activity. What happens after the inevitable recession in H1 2020 will depend crucially on the evolution of the COVID-19 pandemic. Under a baseline scenario, health policy measures will bear fruit over time while the number of new infections is expected to peak towards the end of Q2. Assuming that the worst is over from Q3 onwards, the economy could recover from the middle of the year provided that the government's support measures (easier access to short-time pay, tax deferral, bank loan guarantees) prove effective and a major wave of defaults and lay-offs is avoided. But despite a likely rebound toward the end of the year, German full year GDP could still contract in 2020 for the first time since 2009 to c. 5.5%, down by 5.9pp compared to our forecast in March before the rapid spread of the COVID-19 outbreak in the Euro area. However, it is not certain that the number of new inflections will fall sufficiently by the middle of the year for the government to start lifting restrictions gradually on the economy thereafter. In this adverse scenario, the cumulative hit to GDP could be much larger and lock-down measures may have to be rein-troduced in the winter to avoid a new wave of infections. In this scenario the economy will continue to contract until the end of the year albeit by lower rates and GDP could potentially decline by c. 10%.

France: According to the estimate of France's National Institute of Statistics and Economic Studies (INSEE) on the impact of the COVID-19 pandemic, Q1 GDP will contract on a quarterly basis for the second quarter in a row as a result of the confinement measures the authorities adopted swiftly to curb the spread of the new virus. With the country in a two-month state of health emergency (April-May), contraction could be extended into Q2, followed probably by a rebound in H2, provided that lockdown measures start to ease and firms gradually resume production. For the full year 2020, our baseline scenario is for a GDP contrac-tion of 6.0%, compared to our pre-virus forecast in March for a growth rate of 1.0%, as the government's powerful fiscal response to the COVID-19 crisis will likely fail to fully offset the H1 drop in activity. Risks to our GDP forecast are skewed to the downside, especially if containment measures remain in place for much longer or larger-scale shut downs have to be implemented, resulting in an even broader disruption in eco-nomic activity.

Italy has been at the epicenter of the Covid-2019 outbreak in Europe, with the number of confirmed cases surging to 132,547 Covid-2019 and fatalities reaching 16,523 (as of April 6) since the first reported infections on 23 February in the country's northern regions of Lombardy and Veneto. The coronavirus pandemic has been testing the limits of the national healthcare system, while the economy looks under very severe strain amid the nationwide lockdown. Although the evolution of the virus in the Italian epicenter (Lombardy) has a very similar pattern to the one in the Chinese epicenter (Hubei) in terms of the magnitude and speed, Italy is likely to take a more severe and long-lasting hit than China due to the delay in the implementation of the containment measures. Given that as of today Italy experiences one of the lowest growth rates in fatalities (~4.0%) since numbers first soared and also sees a stabilization of new cases at relatively low levels (~3.0%), we expect 2020 Italian GDP to contract as much as -9.0% with a cumulative drop of ca. -15% in H1 that normalizes only at the very end of Q2. Given that Italy is roughly one week ahead of the other main euro area economies in terms of epidemic curve, our baseline case is based on the assumption that the nationwide lockdown is extended to include the Easter period and possibly even the rest of April, with the containment measures remaining in place thereafter albeit in a softer form as of June. Nevertheless, risks for further contagion or a second wave of contagion do exist, so in such a heavier disruption scenario the nationwide lockdown could be extended beyond April and real GDP could contract even more in Q2 followed by a weaker recovery in Q3. In this case, the associated GDP drop could reach as much as -15% in 2020.

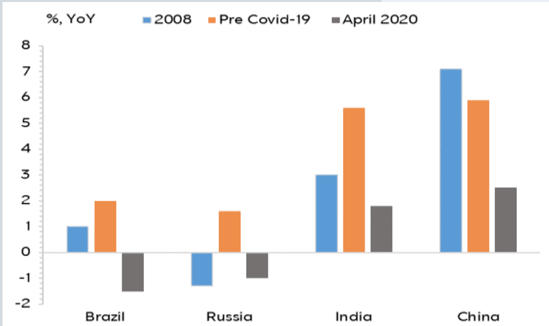
Spain: In an effort to slow the spread of the new virus and ease the congestion in Spanish intensive care units (according to the OECD, among the world's largest advanced economies, Spain has the lowest number of intensive care hospital beds per inhabitant), Spain's Prime Minister Pedro Sanchez imposed strict lockdown. A state of emergency was declared in mid-March and confinement for most residents has been in place since then, with the initial 15-day period having been extended until April 26 (a further extension seems likely). Disappointing March PMIs support expectations for a deep contraction in GDP from late Q1, while tourism, an important growth driver accounting for around of 15% of GDP, is likely to be hit the most from the pandemic, potentially keeping GDP into negative territory into the summer. Assuming the containment of the new virus by the middle of the year and before the end of the tourism peak season, growth could start recovering in late Q3 and return to positive territory in Q4, supported by the recently adopted fiscal measures, with full year GDP contracting by c. 7.5%, compared to our projection for a growth rate of 1.6% in March before the rapid spread of the COVID-19 outbreak in the Euro area. Risks to our 2020 GDP growth forecast are skewed to the downside on the view that the strains on the Spanish health system could require a more gradual relaxation of lockdown measures or ever their extension after the summer, delaying the gradual economic recovery the economy beyond early H2 2020.

UK: The UK has been in a complete lockdown as of 23 March for three weeks, while more stringent containment measures will be in place until early summer and possibly longer, implying risks of a big drop in H1 2020 GDP. In light of the rapid spread of the COVID-19, the BoE and Treasury responded powerfully and in a coordinated manner, aiming to mitigate the risk of a potential credit crunch to businesses and provide reprieve to households so as to prevent the disruption from causing longer-lasting economic harm and allow the economy to bounce back once the pandemic is over. Policy measures could support confidence laying the foundation for a decent recovery, but not until H2 2020 when the effects of the measures take hold and more stringent social distancing measures are anticipated to start easing gradually. For the full year, we expect UK output to shrink by 5.0%, the worst recession in a century, compared to our projection for a growth rate of 1.0% in March, before the rapid spread of the COVID-19 outbreak in the UK. Risks to our 2020 GDP forecast are skewed to the downside on the view that the spread and duration of the virus could prove larger and longer forcing the implementation of containment measures to be more protracted. Uncertainty around the future UK/EU relationship will also continue to act as a drag on GDP growth.

Emerging Markets and Developing Economies

It is less than three months ago that the IMF and the World Bank forecast that EMDE GDP growth in 2020 would lie close to 4%. The Covid-19 pandemic that first appeared in late December in China and now is expanding around the rest of the globe is forcing us to downgrade the economic global growth outlook downwards. In prior stages of the outbreak, it was falsely thought that the pandemic would affect primarily China's and major economies' GDP growth but, evidently, there are repercussions for the entire economy and equivalently its emerging part as well. In our view, the EMDE economies will reach recessionary territories primarily through the domestic and external demand shock the series of lock-downs and social distancing measures will create. Moreover, developing economies with weak public balance sheets and/or limited room for monetary easing will face significant constraints in implementing fiscal and monetary countercyclical policies. The recession will not have the same depth in all emerging regions; Apart from the subdued external and domestic demand, the size of the recession EMDE countries will experience depends on their energy profile. Taking into account the plunge in commodity (LME -20% and copper 3 month forward contract -25% YTD) and oil (-50% YTD) prices since the beginning of the year, commodity exporters such as LatAm countries may suffer more that emerging Asian oil importers, while in EMEA there is no common pattern as the region consists of both net energy exporters and importers. Under our baseline scenario, BRIC economies will on average stay constant in 2020 but that is broadly attributed to the fact that ca.80% of the BRIC output in PPP terms is attributed to China and India which are expected to continue posting positive growth rates, albeit diminished and substantially lower compared to 2008, when the Great Financial Crisis burst out.

Figure 5: GDP growth forecasts in 2020 in BRIC Economies



Source: Bloomberg, Eurobank Research

Brazil: We have downgraded our GDP growth forecast for 2020 to -1.5%, from 2.1% in the previous month. Since March 20, the country has been put under the state of calamity due to the Covid-19 pandemic in order to override strict fiscal rules and come up with fiscal space to combat it. As of April 6, the country counts 11.130 confirmed cases and 486 deaths. Our concerns focus on domestic and external shocks from existing social distancing measures already in place in Brazil (especially in Sao Paulo, Brazil's largest state in which confirmed cases are concentrated) and rest related countries. Risks are tilted to the downside taking into account the political turmoil and the public disapproval of the President, Jair Bolsonaro for his narrative and approach towards the pandemic.

Russia: Our 2020 GDP growth forecast has been revised downwards to -1.7% from 1.7% in March. What started as a form of holiday week announced by President Putin from March 30 to April 3 in Moscow, has been extended to April 30 and expanded to at least 27 regions. Compared to other large countries, the outbreak appears to be in relatively early stages with 6,343 confirmed cases and 47 deaths at the time of writing. The economy will feel the pressure from the subdued demand due to the lockdowns but also from the plunge in oil prices, as oil and energy exports account for ca 30% of the country's GDP. Risks are tilted to the downside, as we find the room for further fiscal maneuvers relatively narrow in case the outbreak is prolonged and lockdowns must be extended. These limitations broadly stem from the oil prices plummet, despite the ample fiscal reserves that partially absorb the adverse effect of shrunk oil prices. Although the government has announced targeted fiscal measures worth 1.2% of GDP, we assume that there will not be additional spending as with oil at $30/bbl, the budget will run a deficit of around 5% of GDP this year vs 1% projected earlier.

India: We have downgraded our GDP growth forecast for 2020 to 1.8%, from 5% in the previous month. The government has imposed a 3-week complete shutdown across the country which will be extended if needed. Such a move may prove efficient in the combat of the outbreak but will have a severe impact on GDP growth. As of April 6, India has recorded total 4,314 confirmed cases compared to only 3 cases reported in early March. There have been 118 deaths so far, while 328 patients have recovered.

China: Since late February, when the authorities announced that the virus outbreak was under control and March 23 when zero reported cases were confirmed in Wuhan, the economic growth outlook has deteriorated. In the baseline scenario, we have lowered our FY2020 GDP growth to 2.5% from 4.5% in the previous month. Q1's GDP growth print in mid-April will reveal a shrinkage between 5% and 10% and although Q2 will rebound, a full recovery is not expected to be seen until Q4 or even 2021. As key driver of the recession we consider the demand shock the economy will experience internally and externally. Risks are tilted to the downside amid reasonable fears over a second wave of Covid-2019 infections following 130 asymptomatic cases reported on March 31 and 55 on April 1.

Snapshot of Key Policy Responses to Covid-19 by region

	Key Policy Measures
US	**Monetary Policy**: The Fed has cut fed funds rate to 0-0.25%, the discount window primary rate by 150bp, the required reserve ratio by 10pts, extended the term of lending at the discount window up to 90 days and opened up swap lines with other major central banks in greater size and lower rate to help USD funding. Furthermore, the Fed announced: (i) QE (open ended) purchases of $500bn of Treasuries and $200bn of agency MBS, (ii) credit facilities to address market dislocations and improve liquidity in markets (Commercial Paper Funding Facility, Primary Dealer Credit Facility, Money Market Mutual Fund Facility, Primary Market Corporate Credit Facility, Secondary Market Corporate Credit Facility, Term Asset-Backed Securities Loan Facility), and (iii) massive repo operations ($1.5tn) at extended terms. **Fiscal Policy** (~10% of GDP): Stimulus package of ~$2tn (~$500bn direct payments, ~$500bn for industries, ~$350bn for small businesses and ~$250bn for unemployment insurance and ~$335bn for healthcare, education etc.), $8.3bn emergency fiscal bill for the crisis, $50bn low-interest loans for impacted companies, $50bn due to national emergency, $100bn fiscal for sick/childcare.
Euro area	**Monetary Policy**: The ECB introduced a Pandemic Emergency Purchase Programme worth €750bn (6.5% of GDP) until year-end and with highly flexible terms, including temporary deviation from capital keys. Purchases will also include non-financial commercial paper and collateral will be expanded to include corporate credits. The central bank also announced more favourable terms on TLTRO3 from June (expanded eligibility, 25bp discount below the depo rate) and offered a series of shorter LTROs to bridge funding gaps until the next TLTRO3 operation in June. Additional QE of €120bn was approved, on top of the existing €20bn of monthly asset purchases. **Fiscal Policy:** (i) The EC to make available €1bn to the European Investment Fund (EIF) in order to guarantee €8bn in working capital financing to at least 100,000 SMEs and small mid-caps. The European Investment Bank (EIB) to mobilise up to EUR 40 billion to fight crisis, (ii) Coronavirus Response €65 billion: €37bn Coronavirus Response Investment Initiative for small businesses and the health care sector (€29bn Structural Funds, €8bn EU Budget), €28bn Unallocated Structural Funds. Eurogroup is due to make a common EU-level response proposal by 9 April. **Italy:** €25bn fiscal package (~1.5% of GDP), additional measures worth no less than €25bn are expected by mid-April. **Germany: Fiscal response**: €122.5bn in additional spending and tax revenues falling by €33.5bn which indicate total borrowing needs of 156bn (c. 4.5% of GDP) in 2020. German parliament approved the suspension of the country's constitutionally enshrined debt break to weather the economic fallout from the COVID-19 outbreak. The measures adopted will focus on providing liquidity to companies, support to the labour market and easier access for impacted families to social benefits. **State guarantees:** Bank loan guarantees to sustain credit for companies c. €1trn (~40% of GDP). **France: Fiscal response:** €45bn (1.9% of GDP), out of which €32bn for corporates hit by the crisis and €8.5bn for workers. **State guarantees:** Bank loan guarantees to sustain credit for companies €300bn (12% of GDP). **Italy:** €25bn fiscal package (~1.5% of GDP), additional measures worth no less than €25bn are expected by mid-April. **State guarantees:** Bank loan guarantees to sustain credit for companies €110bn (6% of GDP). **Spain: Fiscal response**: €18bn (1.5% of GDP) that includes moratorium on mortgage payments, specific measures for tourism and transport sectors and rebates on social security for fixed contracts for the period February-June. **State guarantees**: Bank loan guarantees to sustain credit for companies €100bn (8% of GDP).

	Key Policy Measures (cont.)
UK	**Monetary Policy**: The BoE: (i) cut the bank rate by 65bps to an historic low of 0.10%; (ii) announced a GBP200bn increase in the stock of asset purchases (the increase will mainly be made up of extra gilt purchases, but will also include corporate bonds buying); (iii) cut the countercyclical buffer rate to 0% from 1%; (iv) launched a new term-funding scheme (TFS) with additional incentives for SMEs; (v) announced a Covid Corporate Financing Facility (CCFF) to provide additional help to firms to bridge through COVID-19 related disruption to their cash flows; (vi) activated the Contingent Term Repo Facility (CTRF) that allows participants to borrow central bank reserves (cash) in exchange for other, less liquid assets, in addition to the Bank's regular liquidity insurance facilities including the indexed Long Term-Repo (ILRT) and Discount Window Facility (DWF). **Fiscal Policy**: (i) A Coronavirus Job Retention Scheme that reimburses 80% of wages up to GPB 2,500 per month for three months for workers hit by the crisis; (ii) support for self-employed individuals through a deferral of Income Tax payments (July 2020 -January 2021) and access to HMRC's Time to Pay service, allowing businesses and self-employed individuals in financial distress to receive support with their tax affairs; increased government support for the hospitality sector, with a mix of tax cuts and grants, amounting to a £20bn support package, in addition to an overall support package of government backed and guaranteed loans available to business of £330bn.
BRIC	**Monetary Policy**: **Brazil**'s central bank lowered the policy rate (SELIC) by 50bps to a historical low of 3.75 percent. Measures to increase liquidity in the financial system such as reduction of reserve requirements and capital conservation buffers have been implemented. In **Russia**, while key policy rates remain unchanged for the time being, the Central Bank of Russia (CBR) increased the limit on FX swap operations and increased the liquidity of commercial banks by loosening the provisions criteria and the equivalent reserves they need to withhold. The Reserve Bank of **India** (RBI) reduced the repo and reverse repo rates by 75 and 90 basis points (bps) to 4.4 and 4.0%, respectively, and announced liquidity measures amounting to 3.7 trillion Rupees (1.8 % of GDP). Up to now, People's Bank of **China** (PBoC) has adopted RMB 3.5trn or 3.5% of GDP of new measures in total from which at least RMB2.5trn are targeted at SMEs and small banks. The measures pertain, inter alia, to 20 bps cut of the 7day reverse repo rate to 2.2%, 37bps cut of the interest rate on bank excess reserves to 0.35% from 0.72% previously, 100 bps RRR cut for small banks only, lowered to only 6% for rural banks, and corporate bond issuance cap increase for SMEs by RMB1trn. **Fiscal Policy**: In **Brazil**, fiscal measures up to 3.5% of GDP have been adopted, mostly through reallocations within the 2020 budget. The Congress had first to declare a state of public calamity on March 20, in order to override the government's obligation for compliance with the primary balance target in 2020. **Russia**'s government has announced targeted fiscal measures worth 1.2% of GDP for, inter alia, increased compensation for medical employees, guarantees of unemployment benefits and 3 months standstill for SME payments of social contributions and rents to the public sector. **India**'s Ministry of Finance announced social welfare measures, targeting those who may be the hardest hit during the 21-day national lock-down. The measures, totaling to INR1.7trn or 0.8% of GDP consist of a mix of cash transfers and food supplies. In **China**, fiscal measures of RMB1.3trn or 1.2% of the GDP have been approved fort increased spending on epidemic prevention and production of medical equipment. The Politburo outlined an additional package of fiscal measures to stimulate domestic demand, which will be announced at the National People's Congress (NPC), scheduled to be held between mid-April and early May.
CESEE	**Monetary Policy**: Central Banks' response included traditional policy rate cuts, FX interventions and FX swaps while some regional Central Banks also introduced QEs. Among those, the Turkish and Czech ones were the most aggressive with 100bps, followed by the Polish, Romanian, and Serbian by 50bps. **Fiscal Policy**: Governments introduced fiscal measures (ranging between 1.5%-3.5% of GDP, EU-27: 2.2%) in the form of direct support to vulnerable social groups,private sector employees, and self-employed as well as payment holidays for direct, indirect taxes and other fees. The direct support measures were propped up by liquidity and credit support measures - which have no direct budgetary impact - to encourage banks to provide cheap financing with government guarantees and interest rate subsidies which bring the overall support packages up to 9-18% of GDP (EU-27: 15.9%). On top, regulators imposed a moratorium on loan installments for a limited period of time (6-9 months). Meanwhile, the EBRD has unveiled an initial €1 billion financial package for the region andthe EU Commission has put up a support package of €410mn (€38mn in medical equipment procurement and €374mn in Pre-Accession Assistance (IPA) funds) to help the Western Balkans region.

Macro Themes & Implications in CESEE

The deepening of the Covid19 crisis throws the broader CESEE region into the abyss of a deep recession, and probably deeper than the Great recession, in 2020.

It was only a matter of time before the rapidly evolving COVID-19 crisis spills over to the broader CESEE region. With the number of cases rising, the governments had to declare a state of emergency and impose a wide range of restrictions. The first restrictions were imposed on traveling with countries closing their borders to keep out potential Covid19 virus infected travelers. Secondly, government introduced tough social distancing measures – some even resorted to a mandatory curfew – and a lock down on domestic residents' activities. Most economic and social activities were suspended with shopping malls, restaurants, stadiums, schools, universities etc. being shut down. Production facilities in several industries also closed, thus putting the broader region's small open economies under severe stress.

Initially, the Covid19 impact had the characteristics of a limited supply-side shock. The coronavirus was broadly expected to disrupt the supply-chains or, at best, be limited to increasing production costs. If factories or services (initially Chinese) remained closed for a prolonged period and unable to deliver on their orders, their customers would have to turn to more expensive substitutes. Initially, the impact was thought to have two components. The direct Chinese-related exposure impact through the channels of trade, investment and tourism and the indirect through the region's integration into the supply chain of Germany.

Yet, the evolution and the spread of the pandemic internationally leaves no room for optimism that the economic shock will be contained to China or Chinese-related activities across the globe. Undeniably, it is a public health crisis, which translates into a hard to absorb, broad-based economic shock that impacts every country in a symmetric way. The CESEE region is confronted with the risk of a deep recession for the first time since 2008-2009. The shock is broad-based but has a disproportionally negative impact on each industry and GDP component. That implies a massive hit on domestic demand and net exports. However, to the extent that freedom of goods movement is not endangered, the economies that are more dependent on services vs. goods and especially those who are even more dependent on the tourism industry are expected to suffer the most. The domestic sectors of the economies take a big hit because of the strict lock-down measures but also the export-oriented sectors because of the impact of COVID19 to the economies of their trade partners, particularly the Euro area, which is the main trade partner for the broader CESEE region.

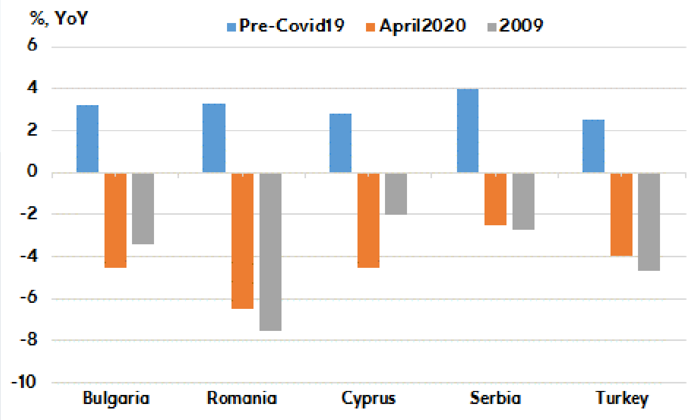
The question is how deep and long-lasting the recession will be and what kind of a rebound each economy will demonstrate. That in turn depends on how quickly the virus spread will peak, which itself is a function of how strict and effective the containment measures prove to be and subsequently how quick and targeted the support measures of each government will be. Nevertheless, it is self-evident that initial conditions matter as well: The state of play for each country and its position in the economic cycle, its buffers and access to international institutions support to alleviate the shock, the degree of trade openness and integration of each economy in the world economic system.

Prior to the Covid2019 outbreak, the state of play of the economies in the broader CESEE region was broadly healthy, which provides a good starting point for addressing the economic fallout. The CESEE region was expanding at a more moderate pace than in previous years in response primarily to rising external and internal headwinds. Having passed their cyclical peak, GDP growth dynamics in the regional economies were expected to slow-down further in most cases due to weaker net exports and domestic demand dynamics. The outbreak of the coronavirus finds the broader region in a position of relatively strong growth but also rising inflationary pressures compared to the rest of the world. In principle, rising inflationary pressures leave less room for regional Central Banks' maneuvers at this point, bringing fiscal policy to the fore. Nevertheless, the response is not limited to rates but their regulatory assignment allows them to also intervene in the banking system. The fiscal position of the economies is broadly sound, yet the room for expansive fiscal policies varies. Bulgaria and Serbia have more flexibility to respond. Cyprus and Romania are in a more disadvantaged position.

Inflation rates have been rising in recent months across the region, with the rise becoming more visible in the CEE-4. The steep decline in commodity prices (e.g. having tumbled to an 18-year low in late March, oil prices trade close to 60% year-to-date as of early April), is highly disinflationary and supportive of disposable incomes, given the high share of energy in the respective consumption basket and provided that they remain at those levels in the foreseeable future. In addition, price pressures coming from the services sector were a key driver of headline inflation readings. The Covid19 hit on the services sector is expected-at least in the short-term to have a negative impact on the services component of the consumption basket most likely pushing down or even leading prices in negative territory. On the other hand, there is widespread concern that food prices – a component with an equally high share in the regional consumption baskets - are going to rise due to shortages resulting from the ban of exports from agricultural commodities producer countries.

As things stand, forecasting economic growth in such a toxic world environment is subject to huge uncertainties and downside risks and as a result, in order to substantiate our updated forecasts, we need to make a number of assumptions. Our baseline scenario assumes the outbreak to peak around late April to May, with social distancing measures expected to start receding in June and economic activity expected to gradually normalize in H2-2020. Given the temporary nature of the shock, the economies should start bouncing back in 2H-2020 and accelerate further in 1H-2021. Nevertheless the speed of recovery remains a key question mark. Thus, in the light of the current developments, we are inclined to downgrade our previous forecasts for the economies of our focus to deep negative territory, with the risks remaining pronounced on the downside, followed by a swift rebound thereafter in 2021 (Figure 1).

Figure 6: GDP growth forecasts revision in 2020 in CESEE economies



Source: National Statistics, Eurobank Research

The economic impact on the broader CESEE region is yet to be seen in official statistical data, which so far cover the period of the first two months of the year. In March, the economic sentiment readings for both advanced and emerging European economies released earlier this month plunged at a shocking extent. At the time of writing, it is not fully clear to what extent the readings reflect the full impact of the Covid19 outbreak on sentiment, given that in many countries the survey responses were collected before the adoption of strict containment and social distancing measures. All sub-indices declined with the consumer and services registering the biggest declines, plummeting to multi-year lows. The picture of the Markit PMI manufacturing releases in March is equally devastating. PMI indices dropped steeply across the board, in some cases the plunge was steeper than that seen in the Great Recession, so we're a step closer to saying that the Covid19-induced recession could turn out to be deeper.

CESEE Markets Developments & Outlook

Bulgaria

Bulgarian Eurobond yields registered recently unseen spikes across all maturities, ranging between 28 and 35 bps. The largest mover was the 2027 tenor, which saw its yield rising by 35 bps, while the longest maturity, namely the 2035 papers, saw their yields rising by 27 bps. Local currency government bond yields were more mixed during March, with notable movers being the 2 year tenor, which rose by 10 bps and the 4 year tenor, with an 11 bps decline. The Ministry of Finance did not hold any auctions in March, which came as no surprise to the market, given the state of emergency called by the government. However, the Ministry has planned an auction on April 6th, offering 5 year local currency denominated bonds.

Serbia

The dinar was remarkably stable, kept within a range of 117.45 – 117.57, amid global turmoil as Covid-19 epidemic has turned into worldwide pandemic. The National Bank of Serbia (NBS), apart from being active on the FX market, has also provided liquidity to the banking system through REPO and SWAP auctions. The NBS has provided RSD21.6bn (€183mn) by organising 3M swap at the favorable RSD rate of 0.85%. On top of that, the NBS "repoed"" RSD4.7bn for a period of seven days and RSD20.5bn for a three month period at the favorable interest rate of 0.75% (RSD rate in the REPO agreement). The NBS pledged to organize these REPO and SWAP auctions on a weekly basis and as such provide all the necessary liquidity during the pandemic.

Markets View

Foreign Exchange

EURUSD: Another roller coaster month with the pair trading as high as 1.1495 on EUR carry trade unwind and as low as 1.0647 due to USD shortage on the back of margin call due to the sell-off. The pair is trading at 1.0801 at the time of writing and it is admittedly tough to predict direction, but given our view of continued risk-off, we would be sellers of any rallies towards 1.10, targeting a break of the recent lows.

GBPUSD: The pair reached 1.32 high before going into free fall to trade at 1.1412 on the back of the laid back approach of the government toward the Covid-19 pandemic. It has recovered since to 1.2269 as strict measures were implemented, but sentiment remains negative on the currency. On the upside 1.25 and 1.2726 remain strong resistances, while on the downside 1.20 is big support and, if broken, a retest of the lows will open up.

USDJPY: Support at 108.50 was broken on the first day of the month and the pair fell as low as 101.19, on the back of the global risk sell-off but recovered on USD strength all the way back to 112 before retracing at 108.55. We think that the bid for safe havens and the extremely low commodity, and energy prices in particular, will support the JPY for a retest of the lows.

Rates

EU: An 80bps trading range for the bund explains what occurred in the past month. Low at -0.91% and high at -0.14%. The safe haven bid during risk-off on one side versus discussions about EU wide debt instruments on the other. ECB amongst other measures announced the PEPP with no single issuer limits that included Greece as well. It is tough to gauge direction here as it will depend on the outcome of the general common response in Europe. Given our view of further risk-off, the downside in German yields seems more appealing. 2-10s moves, in line with the huge market moves, rose from 15bps to 50bps and back to 20bps. Inflation expectations got demolished with 5y5y inflation swaps dropping from 1.10% to 0.66% before retesting 1%.

US: The Fed threw the kitchen sink at the market with rate cuts, quantitative easing and liquidity provisions. Three and six month T-bills traded briefly in negative territory and 10yr treasuries reached a record low of 0.31%, essentially bringing in place the possibility of negative 10yr yields in the US. On the risk rebound US 10yr yields rose to 1.27% before returning again to 0.60%. 2-10s essentially driven purely by the 10yr moves, as the short end is now firmly anchored. Massive swing in inflation expectations as well, with the 5y5y inflation swaps dropping 68bps to 1.20% before recovering to 1.75%.

Emerging Markets credit

The Covid-19 crisis in combination with the Russia/China oil war proved too much to bear for EM sovereign credit, and for the whole market for that matter. The EMBI+ sovereign index widened from 350bps to 655bps, before recovering slightly to its current level of 594bps. We saw a massive underperformance in absolute spread movement of HY names (638 to 1200) compared to IG names (190 to 385) but not in percentage terms, and given higher duration the pain in IG was significant. Region wise, LatAm underperformed Asia and EMEA. Industry wise, oil/commodity names as expected hit the hardest, but really there was no place to hide. Rating agencies were also quick to proceed with downgrades. The upcoming recession is expected to be deep, albeit short-lived. Current levels are attractive for long-term positioning in IG EM names, but volatility is expected to remain high. There is value in the short end of the curve as the latter bear flattened significantly.

Corporate credit

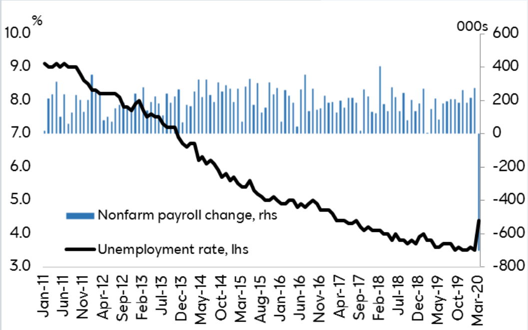
Everything unraveled in the credit market. On the cash side, the market essentially stopped operating, leading to a massive underperformance versus CDS, resulting in significant negative basis forming. HY underperformed IG on an absolute basis, but not on a percentage basis. Sectors hit the hardest were Autos, Industrials, Consumer and Energy. Curves bear flattened across all sectors and in HY we saw significant short term inversions as well. Rating agencies were very quick to respond to market developments with a spat of downgrades. The most prominent amongst them was Ford that dropped to HY and is now the largest issuer in the space. Fallen angels are increasing quickly and the IG market was saved by ECB and particularly Fed interventions, with the latter announcing it will be purchasing corporate credit in its QE program. We expect difficult times for credit ahead, with the number and size of defaults depending on the length of the lock down. IG will outperform HY given the floor by CBs. Within IG, US should outperform EU. Focus needs to be on cash rich IG companies for now and negative basis opportunities that are abundant. The IG corporate market is on fire on both sides of the Atlantic, with significant concessions from issuers.

US

Measures to fight the virus outbreak weigh on soft and labor market indicators

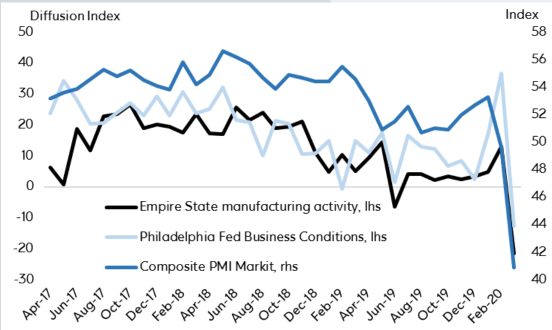
The US is now officially the new epicenter of the coronavirus pandemic, as it became the world's most infected nation with total US Covid-2019 cases surpassing those in China, Spain and Italy. As the virus continues to spread and the number of confirmed cases increases on an exponential path, disruptions to economic activity have started to become evident. The coronavirus seems to be having wide-ranging effects on US labor market conditions, with initial jobless claims skyrocketed to about 6.6mn in the week ending March 28, a historically high reading as the series has never exceeded 700k since it started in 1967, doubling the 3.3mn rise in the previous week. In addition, nonfarm payrolls fell by 701k in March, with a sharp 459k decline in leisure and hospitality, and the unemployment rate increased by 0.9bp to 4.4%. Intensified efforts to mitigate the spread of COVID-19 in many states are weighing on service industries that are particularly sensitive to social distancing, with March Markit PMI registering the steepest decline in business activity on record. Indicators of manufacturing sentiment reported record monthly declines in March as well, with general business conditions from the Empire State Manufacturing declining at its lowest level in the last 11 years (-34.4pts to -21.5) and the business activity indicator from the Philadelphia Fed manufacturing survey declining to the lowest level since July 2012 (-49.4pts, to -12.7). Based on the latest high frequency indicators, the US economy is likely already in the early stages of a recession, with overall 2020 GDP growth highly dependent on the trajectory of the outbreak as well as the effectiveness of policy measures to alleviate the associated economic hit. Our baseline scenario, which assumes a gradual recovery in H2 that leaves the US economy to contract by about -4.5% for the whole 2020, includes a forceful fiscal and monetary policy response to offset any loss in activity. So far, the Fed has acted aggressively, cutting fed funds rates to the 0-0.25% target range and announcing open-ended QE of at least $700bn, combined with many credit and liquidity facilities to improve functioning in asset markets. Apart from liquidity support, direct assistance to businesses and households is of vital importance, with a new fiscal stimulus package of ~$2tn having been passed by both the House and Senate and signed by President Trump.

Figure 7: Covid-2019 weighs on US labor market conditions



Source: Refinitiv Datastream, Eurobank Research

Figure 8: Sentiment manufacturing and services indicators post sharp declines



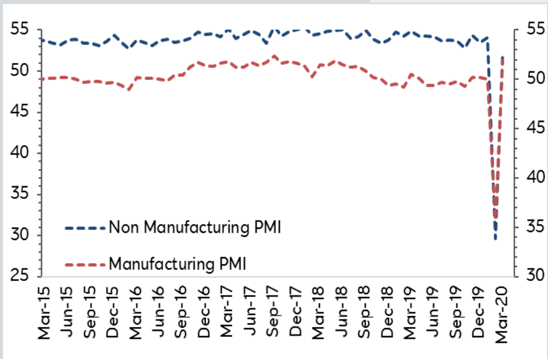
Source: Bloomberg, Eurobank Research

China

Economy moves from supply shock to domestic and external demand jolts

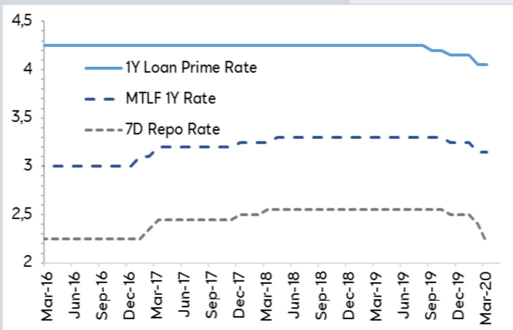
Since late February, when the authorities announced that the virus outbreak was under control, China's growth outlook seems deteriorated. What started as a supply shock for the economy in January and February due to the imposed lockdowns, now has transformed to a demand shock, both internal and external. The official unemployment rate has spiked to 6.2% in February from 5.3% in January and 5.2% in December, in tandem with the sharp decline by 20% in retail sales in February. Moreover, at a moment when Chinese lockdowns are being lifted and the economy starts gradually to warm up again from the near standstill status, the spread of the outbreak to the US and Europe has led to lockdowns and curfews abroad, suppressing China's external demand with negative impact on exports. Specifically, exports that comprise 16-20% of China's annual GDP shrunk by 17.3% YoY in February and so are anticipated to do in March, although at a lesser extent. On a positive note, the official and the Caixin PMIs, both in manufacturing and services, bounced in March from historical lows in February, moving in the opposite direction than the rest of the world. Still, we should not rush into translating them as good news, as PMIs are soft data and it looks inevitable not to register a pick up when from almost total freeze for two months, firms, plants and factory begin gradually to function again. All in all, our forecast for FY2020 GDP growth is lowered to 2.5% with the risks tilted to the downside. The Q1's GDP growth print in mid-April will most probably reveal a shrinkage between 5% and 10%. Although the economy will most probably bottom out in Q2, a full recovery could not be seen until Q4 or even 2021. Concluding, the Politburo, having grasped the above described weakening growth momentum, outlined a package of fiscal measures to stimulate domestic demand at its meeting on 27 March. The package will be announced at the delayed National People's Congress (NPC), scheduled to be held between mid-April and early May. Until then, the PBoC will most likely keep pumping the economy with liquidity using, inter alia, the tools of interest rate and RRR cuts.

Figure 9: PMIs bounce in March from historic lows in February



Source: Bloomberg, Eurobank Research

Figure 10: Monetary easing in support of GDP growth



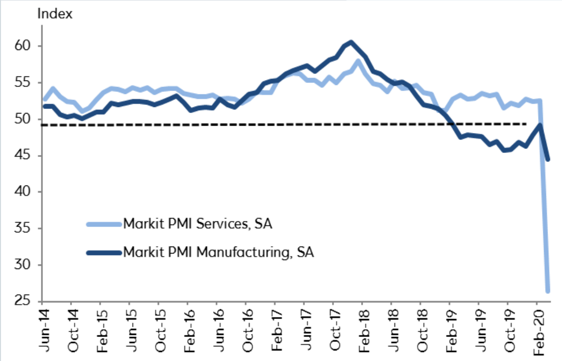
Source: Bloomberg, Eurobank Research

Euro area

PMIs point to record fall in economic activity in March

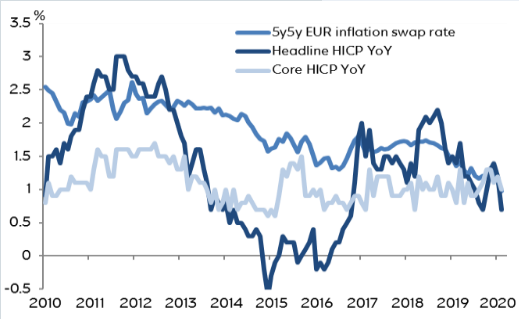
March PMIs exhibit the first COVID-19 outbreak related signs of disruption, with the Composite output PMI plunging to 29.7 from 51.6 in the prior month, registering the largest monthly drop on record. After a modest acceleration in the first two months of the year, increasingly tough measures to contain the spread of the corona-virus resulted in a hard blow to the services sector, especially within consumer-facing industries such as tourism, travel, and restaurants. The decline in the manufacturing sector was less severe, albeit still steep, with the respective index recording the largest monthly contraction of production since April 2009. The March PMI is consistent with an annualized GDP drop of nearly 10%QoQ, with the potential for the slump to deepen even further. Coronavirus related disruptions were evident in March prices as well, providing an early indication of the virus' deflationary impact. Headline HICP inflation fell by 0.5pp to 0.7%YoY in March, primarily driven by the slump in oil prices, while core inflation eased by 0.2pp to 1.0%YoY mainly due to softer dynamics in services prices. The uptrend in food inflation due to robust demand for essentials (food, health goods and services etc.) that leads to price pressures is expected to continue partly offsetting energy and core weakness, with the odds towards an overall deflationary impact over the next couple of months, especially as long as containment measures remain in place. Given the depth of social distancing measures and the magnitude of the shock, we expect GDP to contract by a sharp 6.0% in 2020, on the assumption that the Covid-19 outbreak will peak in Q2 and there is a gradual recovery thereafter. With the disruptive economic shock evident across the continent, the ECB's determined action suggests that euro area policymakers have stepped up their response to minimize the threat of the Covid-2019. The ECB introduced on 18 March a Pandemic Emergency Purchase Programme worth €750bn - on top of the €120bn announced previously at its March meeting (totaling ~7.3% of GDP) - getting as close to a coordinated monetary and fiscal policy as it can. More importantly, the central bank highlighted its commitment to do whatever is necessary to smooth the transmission mechanism in all member states, allowing governments to spend what is necessary to fight the virus crisis without having to worry about the stabilization in financial markets.

Figure 11: PMIs indicate that the economy is already contracting by ~10%



Source: IHS Markit, Bloomberg, Eurobank Research

Figure 12: Inflation data reflect the impact of the COVID-19 related activity disruptions



Source: Bloomberg, Eurobank Research

Germany

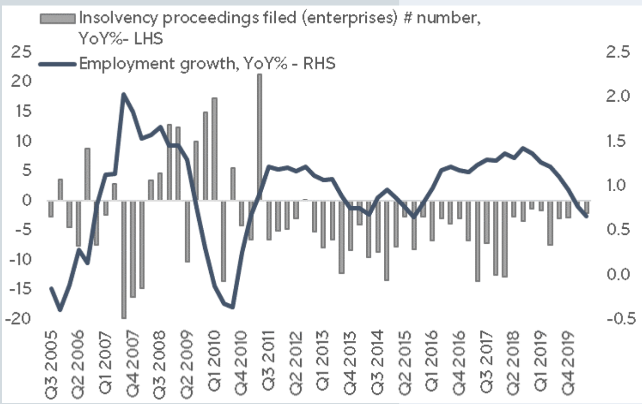
2020 real GDP likely to contract sharply for the first time since 2009

Closely-watched sentiment surveys for March and April deteriorated sharply, supporting the view that Germany is facing a deep contraction from March onwards, with the COVID-19 outbreak cancelling out what looked like a strong recovery in the first two months of the year. The IFO business expectations index plunged to 79.7 in March from February's 93.1, within distance from the low-point of 79.1 recorded in December 2008 (Figure 13), while GfK consumer confidence plummeted to a near 11-year trough of 2.7 in April from a downwards revised 8.3 in the prior month, marking the biggest monthly decline in the 20 year-history of the survey. In addition, the flash composite PMI for March contracted by 16pts, its biggest monthly drop ever, coming in at 35.0, a level previously seen at the height of the global financial crisis in early-2009. The main driver behind the March sharp drop was the services sector sentiment which plunged to 31.7 (-20.8pts), the lowest ever, while manufacturing PMI fared relatively better (-2.6pts at 45.4) supported by the dubious impact of supply-chain disruptions. The containment measures adopted to contain the COVID-19 outbreak including the widespread shutdown of "non-essential" parts of the industry, trade and the service sector, and the slump in demand induced by "social distancing" measures, suggest that Q2 GDP will contract sharply, following a less pronounced contraction in Q1 since hard data for January/February painted a comparatively solid economic activity. What happens after the inevitable recession in H1 2020 will depend crucially on the evolution of the COVID-19 pandemic. If health policy measures cause the pandemic to ebb around the middle of the year, the government's support measures will likely trigger some recovery in H2 2020. Nevertheless, full year GDP is still expected to contract for the first time since 2009 by around 5.5%.

Figure 13: IFO business expectations index plunged close to all-time lows in March

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

Figure 14: The post-COVID 19 growth outlook will depend on the damage the crisis has caused on employment & insolvencies



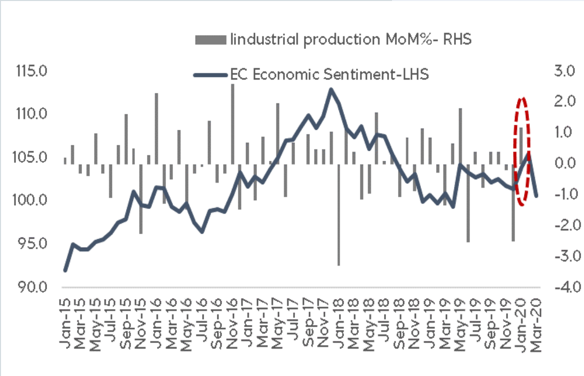
Source: Federal Statistical Office (Destatis), Eurobank Research

France

Economic impact from COVID-19 likely to be "severe"

Despite a positive start in 2020 following a surprise 0.1%QoQ contraction in Q4 2020 (Figure 15), the rapid spread of COVID-19 is taking a heavy toll on economic activity, with French Finance Minister Bruno Le Maire admitting publicly that the impact is likely to be "severe". Mirroring the unprecedented hit on the economy, the INSEE business climate fell by 10.3pts in March, the biggest monthly drop since the series began in 1980, to a five-year low of 94.7 (Figure 16), with services and retail trade being the sectors most heavily affected, following the containment measures adopted by the French authorities to curb the spread of the new virus (e.g. the closure of non-essential businesses as well as all nurseries, schools and universities as of mid- March until further notice). In addition, the March flash composite PMI plunged by 23.1pts, the sharpest drop in more than two decades, to a new all-time low of 28.9, mainly driven by a 25.1pts decline in the services sector, the biggest fall since the series began in May 1998 .The INSEE published in late March an estimate of the impact of the COVID-19 pandemic on economic activity, the first time that a statistics office in the Euro area presented a detailed assessment, arguing that it is running 35% below its normal level as a result of the confinement measures.

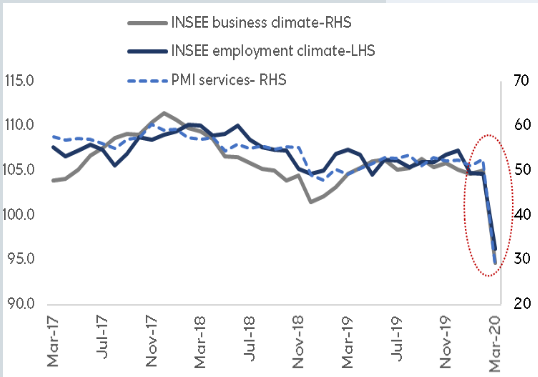
Figure 15: January data -before the rapid spread of COVID-19- pointed to a likely rebound after a surprising Q4 2019 GDP contraction



Source: France's INSEE, European Commission, Eurobank Research

Against this background, a renewed contraction in Q1 seems unavoidable, extending into Q2, followed probably by a rebound in H2 provided that the confinement measures start to ease and firms gradually resume production. For the full year 2020, our baseline scenario is for a GDP contraction of 6.0%, as the government's fiscal response to the COVID-19 crisis, albeit powerful, may not fully offset the H1 drop in activity. Risks to our GDP forecast are skewed to the downside, especially if containment measures remain in place for much longer and economic activity remains anemic following a H1-2020 recession.

Figure 16: The economic impact on French activity from COVID-19 may be "severe" in 2020



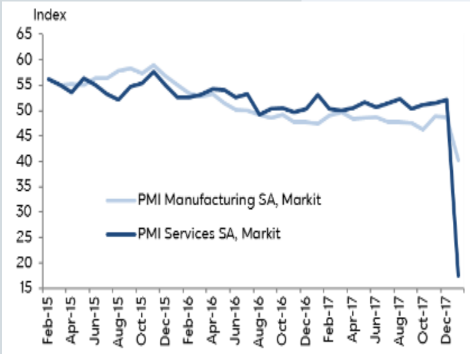
Source: France's INSEE, Bloomberg, Eurobank Research

Italy

Record drop in business activity due to the Covid-19 related lockdown

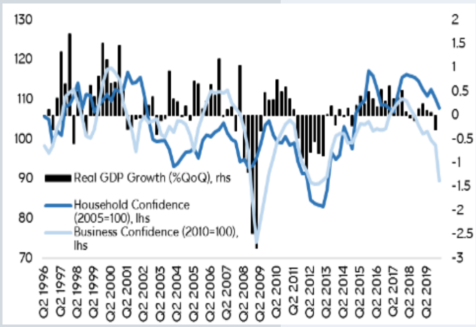
The imposition of restrictive measures to combat the Covid-2019 pandemic has taken its toll on Italian economic activity during March, with the IHS Markit Services PMI plunging the most since data collection started to 17.4 from 52.1 in February, signaling a contraction in Italian service sector activity for the first time since January 2019. In addition, the respective manufacturing index deteriorated for the eighteenth month in a row to 40.3 from 48.7 in the prior month. Operating conditions worsened at their sharpest pace for almost 11 years amid COVID-19 related shutdowns, while output contracted at the highest rate since the series started in mid-1997, due to the fastest decline in total order book volumes for 11 years. Severe coronavirus disruptions, emergency measures and heightened uncertainty surrounding the evolution of the pandemic dented sentiment in March. Italian business confidence fell sharply to 81.7 from 97.8 in Feb, reporting the largest monthly fall on record. With the government's decision to proceed with a lockdown of non-essential productive activities and allow only online smart working, we expect further deterioration in the months ahead. The degree to which economic activity can be maintained with online work, and the duration for which non-essential businesses will remain closed are far from certain. Overall, we envisage an unprecedented contraction in H1, expecting a 4.0%QoQ contraction in Q1 followed by a 10%QoQ slump in Q2 before returning to positive growth rates in H2, and leaving the 2020 GDP growth to drop by a hefty 8.5%. The risk is tilted to the downside, given the wide scope of the quarantine to combat the rapid increase in Covid-19 cases and associated deaths. The Italian government has already announced that it is working on a 2nd fiscal package that will at least double the size of the first one (€25bn, i.e. ~1.5% of GDP) to help mitigate the impact of COVID-19. The lower growth trajectory, coupled with the government's fiscal stimulus, point to considerably worse public finance dynamics, with the 2020 general budget deficit and debt expected to surge around -6.0% and 150% of GDP, respectively. This deterioration in public finances, driven mainly by one-off expenditures needed to support businesses and households, should be only temporary, provided that as the ECB does whatever is necessary to put a cap on government debt yields and the ESM programme is finally activated.

Figure 17: PMI services contract at the quickest pace since 1998



Source: Bloomberg, Markit, Eurobank Research

Figure 18: Sharp drop in confidence points to rapid and strong GDP contraction



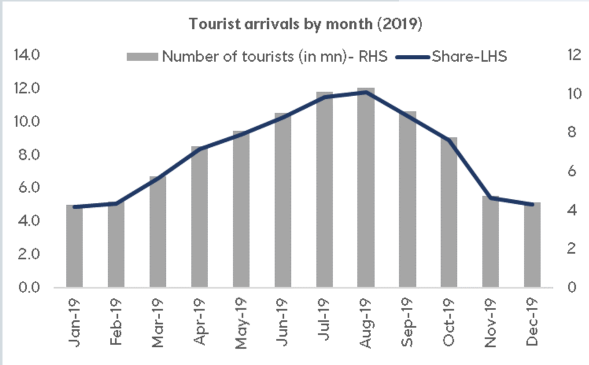
Source: Istat, Refinitiv Datastream, Eurobank Research

Spain

Likely to be hit by COVID-19 comparatively more than the rest of the Eurozone

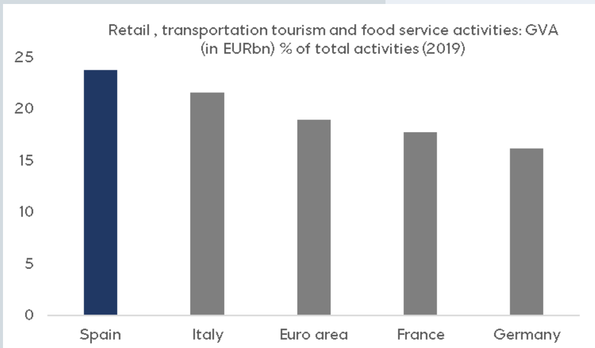
In early April, Spain is the most severely affected country in the Eurozone from the COVID-19 pandemic, surpassing Italy in the number of confirmed cases for the first time since the onset of the health crisis. Not surprisingly, Prime Minister Pedro Sanchez imposed strict lockdown to slow the spread of the new virus and ease the congestion in Spanish intensive cares, including, shutting down schools (only in certain parts of the country including the capital Madrid), suspending all non-essential economic activities and banning social gatherings. A state of emergency was declared in mid-March and confinement for most residents has been in place since then, with the initial 15-day period having been extended until April 26 (while a further extension seems likely). There is still little statistical data catching the impact of the COVID-19 outbreak on the domestic economic activity. The most important release so far is the March PMI survey, which showed a plunge of 25.1pt in the composite output to 26.7, pointing to a deep contraction in GDP from late Q1. The said drop was driven by a 29.1pts decline in services, while manufacturing output also fell substantially to 45.7 (4.7pts). Among the sectors of the economy, tourism which is an important growth driver accounting for around of 15% of GDP, is likely to be hit the most from the pandemic, potentially keeping GDP into negative territory into the summer (Figure 19). Moreover, lockdown measures are likely to hit Spain comparatively more than other big euro area economies, taking into account that retail, transportation, tourism and restaurants account for around 24% of Spain's GDP compared to a 19% Eurozone average (Figure 20). Assuming a containment of the new virus from the middle of the year and before the end of the tourism summer period, growth could start recovering in Q3 and return to positive territory in Q4 supported by the recently adopted fiscal measures, with full year GDP contracting by 7.5%.

Figure 19: Long tourism season in Spain



Source: Spanish Statistical Office (INE),, Eurobank Research

Figure 20: The COVID-19 pandemic likely to hit the Spanish economy comparatively more than the rest of the Euro area



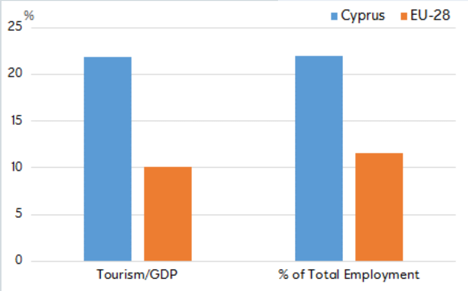
Source: Spanish Statistical Office (INE), Eurobank Research

Cyprus

Economy confronted with the biggest shock since 2013

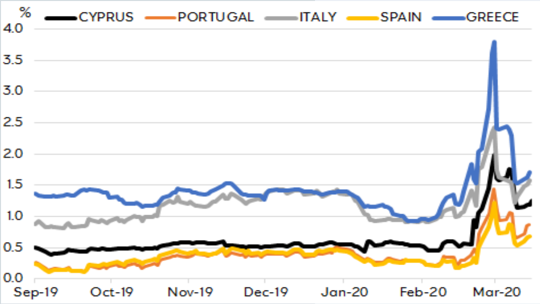
In response to the rapidly unfolding Covid19 outbreak, the government introduced a financial support package of €2.8bn, an equivalent of 12.8% of GDP. The package comprises of €813 in fiscal measures including direct support, deferred government income in the form of payment suspension of direct and indirect taxes and other fees, as well as government guarantees and interest rate subsidies of €2bn to banks so that they provide cheap financing for SMEs, self-employed and large corporations who had no NPEs at the end of 2019. Upon parliamentary endorsement, the package is widely expected to come into force in early April and last until the end of the year. To that end, in late-March, the government submitted a supplementary budget of €369mn with a fiscal impact of 2.0% of GDP. The supplementary budget aims to support vulnerable social groups, private companies, self-employed and the economy in general. In addition, the Cyprus Electricity Authority announced that electricity prices will be reduced by 10% for a period of two months. The move came on top of the Central Bank's decision to relax banks' capital requirements by an additional €100mn, on top of the SSM recent decision, bringing the total amount released to €1.4bn. The measures aim to encourage banks to continue lending. The deepening of the Covid19 crisis – the second economic shock in less than seven years – finds Cyprus at a position of relative strength but will most probably push the economy to outright recession. Having peaked in 2016, growth prospects were already decelerating towards more sustainable levels in 2019-2020. To that end, GDP growth slowed to 3.2% in 2019 down from 4.1% in 2018 vs. 6.7% in 2016. Although uncertainties are still very high at the time of the writing, the impact of the COVID 19 pandemic is expected to be more detrimental, with stricter lock-down regulations and social distancing measures putting the economy increasingly under stress. Consequently, it would be hard to see how Cyprus could escape the shock – which is comparable only to that in 1974 when Turkey invaded the island or during the banking crisis and bail-in events of 2012-2013 – given that it is a small, open and services oriented economy with tourism, professional services, maritime transport and logistics constituting the backbone industries. According to the WTCC data, tourism and travel direct and indirect contribution to the economy, accounted for 21.9% of GDP and 22% of total employment in 2018.

Figure 21: The contribution of tourism industry is pivotal to the economy



Source: WTCC, Eurobank Research

Figure 22: Long-term Cypriot government bond yields declined on ECB intervention



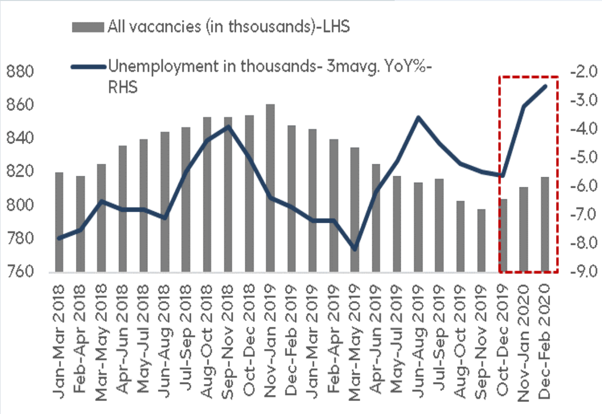
Source: Bloomberg, Eurobank Research

UK

Likely to face this year the worst recession in a century

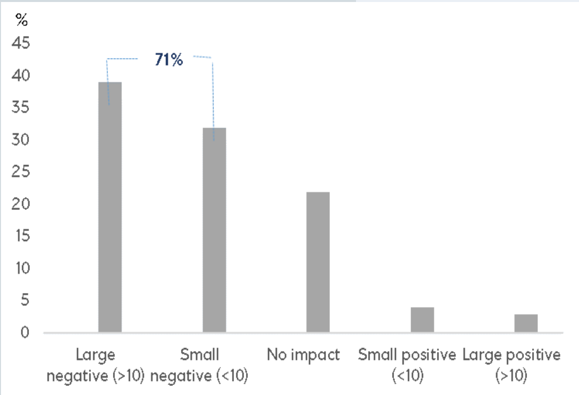
Closely–watched UK soft data have taken a decisive turn for the worse, leaving no doubt that the hit on economic activity from the COVID-19 outbreak will be sizable. The flash composite PMI for March, based on survey data collected between 12 and 20 March, plunged to a fresh record low of 37.1 from February's 53.0, exceeding the previous trough of 38.1 in November 2008, driven by disappointing services which fell by almost 18pts to a new all-time low of 35.7. However, since 20 March, the UK government has adopted more stringent containment measures for roughly 12 weeks, with an intention to contain the spread of the COVID-19 and push the peak of its impact to summer when health services typically have more capacity. In this direction, PM Boris Johnson announced on 23 March a three-week complete lockdown, indicating increased downside risks to H1 2020 economic activity. Further downside risks stem from the fact that the UK is heading into the virus-impacted period with less growth momentum than expected, after January GDP print surprised to the downside (0.0%MoM), refuting initial expectations for a post-election bounce. In light of the rapid spread of the COVID-19, the BoE and Treasury responded powerfully and in a coordinated manner, aiming to prevent the disruption from potential longer-lasting economic harm and assist the economy to bounce back once the pandemic is over. Policy measures could support confidence, laying the foundation for a decent recovery, but not until H2 2020 when the effects of the measures take hold and more stringent social distancing measures are anticipated to start easing gradually. For the full year we expect UK output to shrink by 5.0%, the worst recession in a century, with risks skewed to the downside if the spread and duration of the virus prove larger and longer forcing the implementation of containment measures dispute resolution.

Figure 23: Lower GDP is accompanied with a rise in unemployment



Source: ONS, Bloomberg, Eurobank Research

Figure 24: COVID-19 is expected to have a large negative impact on the sales of UK businesses



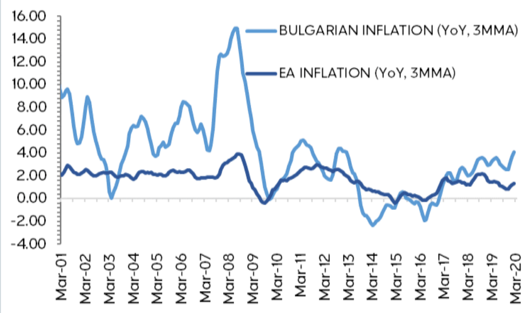
Source: BoE, Eurobank Research

Bulgaria

Amid Covid-19 outbreak, the ERM II accession may have to be delayed

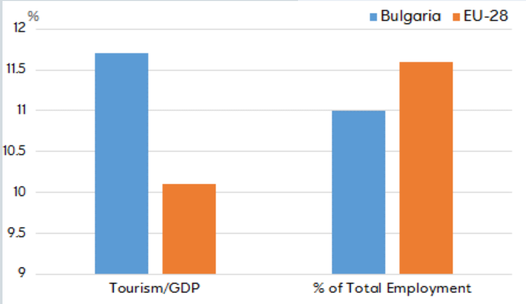
Following Q4GDP growth print that came in at 2.9% YoY, economic growth in FY2019 is set at 3.4% YoY. While we projected that economy would lose some steam on the back of weakening domestic demand resulting in a 3.2% YoY economic growth rate, developments related to the Covid-19 outbreak force us to revise our forecasts to the downside. With incidents counting above 500 at the time of writing, in a 7mn population country, there is already a plethora of containment measures in place that will dent primarily private consumption, accounting to ca 70% of GDP expenditure wise, and humper services, among which tourism that accounts for ca.10% of GDP. That said, GDP is expected to shrink at the range of 4.5% in 2020 and recover relatively stronger in 2021. In terms of urgent measures, the government has approved a budget revision, raising the target to a BGN3.5bn deficit or ca 3% of the projected GDP, compared to the balanced target in the initial 2020 budgetary law in order to cover partially wages subsidies (the state's 60% wage coverage for three months) and deter enterprises from firing employees. The government also raised the ceiling on debt issuance to BGN10bn for 2020, up from the previous limit of BGN2.2bn. The increase of the ceiling will finance the aforementioned BGN3.5bn deficit, the BGN 0.7bn capital increase for the Bulgarian Development Bank, as well as additional needs if a more negative economic scenario than the currently anticipated is realised. On the monetary front, the banking system's full profit amounting to BGN1.6bn will be capitalised while the liquidity of commercial banks will be increased by BGN 7bn through the reduction of their foreign exposures. One of the drawbacks that Bulgaria will encounter due to the virus outbreak is related with the ERM II accession. Specifically, the Central Bank (BNB) Governor, Dimitar Radev stated that the ERM II and the EU's Banking Union accession in the summer of 2020 is no longer realistic taking into account the impact from the Covid19 spread. Nevertheless, he added that the authorities should not stop working towards this direction as the disadvantages of being under a currency board but not in a full-fledged monetary union as the euro area (EA), are now visible

Figure 25: Gap between EA's and Bulgaria's inflation widens



Source: Bloomberg, Eurobank Research

Figure 26: Tourism's contribution to economic activity stands below EU28 average



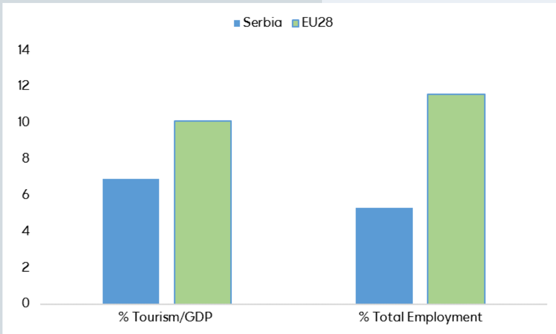
Source: WTCC, Eurobank Research

Serbia

Heading towards an unavoidable recession, albeit at a milder pace compared to its CESEE peers

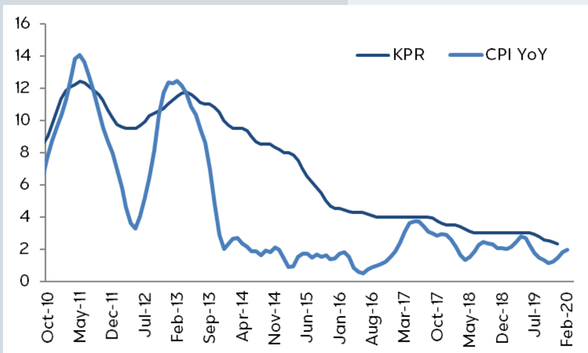
While the Q4 GDP print in early March at 6.2% YoY was the highest since 2008, Serbia's economy, just like almost every other country confronted with the Covid-19 pandemic, will most probably enter into recession in 2020, making a U-turn in its growth trajectory after almost 5 years of continuous economic growth at an average rate of 3.1% YoY. With more than 1,500 confirmed cases in a 7mn population country, there is already a plethora of containment measures in place, such as closing borders, curfew between 5pm and 5am (total ban for senior citizens) and closing of education centers and shopping malls (except grocery stores and pharmacies). Consequently, we expect domestic demand to plunge in Q2 and become the key channel through which GDP will contract by ca 2% in 2020,when only a month ago ours and the consensus view was for economic growth at 4%, set to continue with a similar pace in 2021. On the policy front, the National Bank of Serbia (NBS) was among the first in the region to proceed with a 50bps cut on March 11 setting the key policy rate at 1.75, one day ahead of the scheduled meeting, catching the market off guard. Since the outbreak, the NBS has provided the money market with more than RSD40bn with repo and swap facilities, securing substantial liquidity. On the fiscal front, the Ministry of Finance has decided to support the economy with a brave economic package of EUR5.1bn (ca 11% GDP), primarily focused on i. tax alleviations, ii. direct financial support to SMEs so as to divert enterprises from cutting off wages or laying off employees, iii. providing liquidity mainly to SMEs and agricultural producers either in the form of direct financial support or state guarantees for financing from the banking system. Concluding concerns are rising over the negative impact of the aforementioned measures on the country's public finance, as 2020's budget execution is expected to conclude with a deficit close to 5% of the projected GDP, from 0.5% as initially planned, and as such financing needs and public debt will spike as well

Figure 27: Tourism's contribution to economic activity stands below EU average



Source: WTTC, Eurobank Research

Figure 28: Monetary easing in efforts to contain the recession



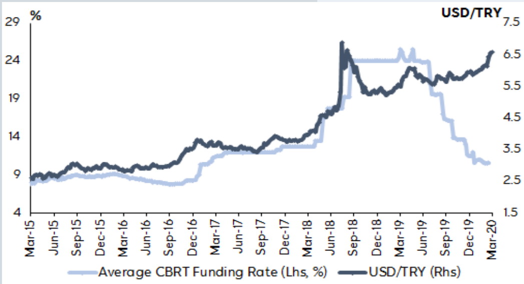
Source: Bloomberg, Eurobank Research

Turkey

Central Bank cut rates and introduced extraordinary liquidity measures to contain the negative impact of Covid19

On March 17th, in an emergecy meeting, the Central Bank of Turkey (CBRT) cut its key policy rate (KPR), the 1-week repo rate, by 100bps from 10.75% to 9.75% in mid-January, bringing the cumulative easing since July to 1,375bps. The CBRT meeting minutes left it open for further cuts depending upon the impact of the measures against Covid19 on economic activity. Further cuts are also warranted by increased downside inflation risks stemming from sharply lower energy prices and weakened demand for services. Secondly, the CBRT introduced a number of extraordinary liquidity measures in an attempt to enhance the flexibility of the banks to manage their liquidity in FX and lira, secure uninterrrupted credit flow to the corporate sector and finally boost cash flow of exporting firms through arrangements on rediscount credits.

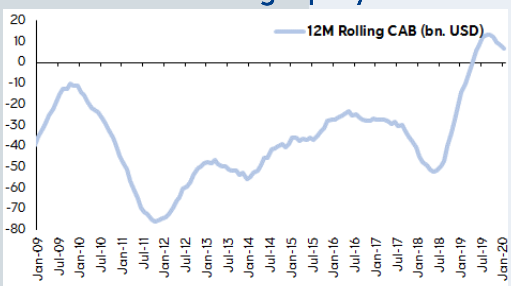
Figure 29: Lira on a weakening trend in recent months, trading at multi-month lows



Source: Bloomberg, Eurobank Research

Meanwhile, the deepening of the Covid19 crisis finds the economy in a very fragile position. Fiscal, credit and monetary stimulus had pushed earlier the economy out of a technical recession. Underpinned by strong fiscal, credit and monetary stimulus, GDP growth jumped by 6.0% YoY in Q4-2019, at the strongest pace since Q1-2018, compared to only 1.0% in Q3-2019 bringing the FY2019 reading at 0.9%. Notwithstanding the latest developments, leading indicators were pointing to further macroeconomic improvement in January and February. The PMI index had reached 52.4 in February, the highest point in two year. In March, the pandemic began to weigh on the economy but the full impact remains to be seen in the coming months. In that direction, sentiment indicators' deterioration signal the change of direction of agents' expectations. The seasonally adjusted manufacturing confidence index decreased by 8.1pts to 98.6pts, which is the steepest decline since August-September 2018. Accordingly, the services confidence index declined by 6.0pts to 92.5pts. Although the retail trade confidence index fell by 1.2pts to 101.2pts, it remained in the optimistic territory, above 100pts. The seasonally adjusted capacity utilisation rate also fell by 0.4pps m/m to 76.2% in March. On the positive side, the consumer confidence index rose marginally by 0.9pts on a monthly basis to 58.2pts on improved financial situation and employment outlook assessments, not yet reflecting the impact of the COVID-19 pandemic, possibly because of the delayed adoption of containment measures by the government.

Figure 30: Macroeconomic imbalances have been unwinding rapidly in 2018-19



Source: National Authorities, Eurobank Research

Eurobank Macro Forecasts

	Real GDP (YoY%)			CPI (YoY%, avg)			Unemployment rate (% of total labor force)			Current Account (% of GDP)			General Budget Balance (% of GDP)		
	2019	2020f	2021f	2019	2020f	2021f	2019	2020f	2021f	2019	2020f	2021f	2019	2020f	2021f
World	3.1	-1.8	5.0	3.2	2.8	2.8									
Advanced Economies															
USA	2.3	-4.5	4.0	1.8	1.0	1.5	3.7	9.0	6.5	-2.3	-2.5	-2.6	-4.6	-15.0	-9.0
Eurozone	1.2	-6.0	4.5	1.2	0.6	1.4	7.6	8.2	8.0	3.0	3.5	3.7	-0.7	-6.7	-3.7
Germany	0.6	-5.5	6.0	1.4	0.4	1.5	3.2	3.8	3.5	7.0	7.3	7.2	1.2	-6.5	-1.5
France	1.3	-6.0	6.5	1.3	0.4	1.2	8.5	8.7	8.4	-0.5	-0.3	-0.3	-3.1	-8.4	-4.2
Periphery															
Cyprus	3.2	-7.5	5.0	0.5	-0.5	0.5	7.1	10.0	9.0	-7.1	-10.0	-9.0	2.8	-4.0	0.0
Italy	0.3	-8.5	3.5	0.6	0.0	1.0	10.0	10.4	10.0	2.9	3.2	3.4	-1.6	-9.0	-6.0
Portugal	2.2	-6.0	5.2	0.3	0.3	0.5	6.6	10.0	9.0	-0.2	-0.6	-0.8	0.2	-4.0	-1.4
Spain	2.0	-7.5	6.0	0.8	0.1	1.1	14.1	14.4	14.4	2.4	1.9	1.7	-2.3	-8.5	-5.0
UK	1.4	-5.0	6.5	1.8	0.8	1.5	3.8	5.0	4.3	-4.3	-1.3	-1.3	-1.9	-9.0	-7.0
Japan	0.7	-2.5	1.1	0.6	0.0	-0.2	2.4	2.7	2.9	3.6	3.2	3.2	-3.9	-8.0	-3.0
Emerging Economies															
BRICs															
Brazil	1.1	-1.5	2.5	3.7	3.5	3.7	11.9	11.6	10.8	-2.7	-2.8	-3.1	-5.9	-6.5	-5.8
China	6.1	2.5	6.0	2.9	3.3	2.1	3.6	4.1	4.0	1.2	0.8	0.6	-4.9	-5.2	-4.6
India	6.1	1.8	5.0	3.7	4.8	4.0		*NA*		-0.9	-1.0	NA	-3.8	-3.5	-3.4
Russia	1.3	-1.7	2.0	4.5	3.2	4.0	4.6	4.7	4.6	4.8	2.9	2.9	1.5	-5.0	0.5
CESEE															
Bulgaria	3.4	-4.5	3.0	2.5	1.5	2.0	4.2	7.5	6.5	4.0	-2.0	0.0	-1.0	-4.0	0.0
Romania	3.8	-6.5	5.0	3.8	2.5	3.5	3.9	8.5	6.0	-4.7	-4.0	-3.5	-4.1	-7.5	-4.0
Serbia	4.8	-2.5	4.0	2.2	1.0	3.0	13.1	14.0	13.0	-5.8	-6.5	-5.0	0.2	-5.0	-0.5
Turkey	0.7	-4.0	3.0	15.2	10.0	9.0	13.8	13.7	12.9	0.5	-1.0	-1.5	-3.0	-5.0	-4.5

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

Eurobank Fixed Income Forecasts

Current	Current	June 2020	September 2020	December 2020	March 2021
USA					
Fed Funds Rate	0.00-0.25%	0.00-0.25%	0.00-0.25%	0.00-0.25%	0.00-0.25%
1 m Libor	0.99%	0.45%	0.44%	0.49%	0.54%
3m Libor	1.39%	0.64%	0.62%	0.69%	0.76%
2yr Notes	0.26%	0.40%	0.53%	0.62%	0.70%
10 yr Bonds	0.66%	0.73%	0.94%	1.10%	1.23%
Eurozone					
Refi Rate	0.00%	0.00%	0.00%	0.00%	0.00%
3m Euribor	-0.34%	-0.49%	-0.48%	-0.47%	-0.47%
2yr Bunds	-0.65%	-0.76%	-0.72%	-0.69%	-0.66%
10yr Bunds	-0.42%	-0.56%	-0.50%	-0.42%	-0.36%
UK					
Repo Rate	0.10%	0.15%	0.20%	0.20%	0.20%
3m	0.64%	0.26%	0.26%	0.27%	0.31%
10-yr Gilt	0.34%	0.33%	0.40%	0.51%	0.56%
Switzerland					
3m Libor Target	-0.61%	-0.82%	-0.82%	-0.82%	-0.82%
10-yr Bond	-0.33%	-0.81%	-0.78%	-0.73%	-0.68%

Source: Bloomberg (market implied forecasts)

Eurobank

Eurobank Research

Research Team

Dr. Tasos Anastasatos | Group Chief Economist
tanastasatos@eurobank.gr | + 30 214 40 59 706

Anna Dimitriadou
Economic Analyst
andimitriadou@eurobank.gr
+ 30 210 37 18 793

Ioannis Gkionis
Senior Economist
igkionis@eurobank.gr
+ 30 214 40 59 707

Dr. Stylianos Gogos
Economic Analyst
sgogos@eurobank.gr
+ 30 210 37 18 733

Maria Kasola
Economic Analyst
mkasola@eurobank.gr
+ 30 210 33 18 708

Olga Kosma
Research Economist
okosma@eurobank.gr
+ 30 210 37 18 728

Paraskevi Petropoulou
Senior Economist
ppetropoulou@eurobank.gr
+ 30 210 37 18 991

Dr. Theodoros Stamatiou
Senior Economist
tstamatiou@eurobank.gr
+ 30 214 40 59 708

Elia Tsiampaou
Economic Analyst
etsiampaou@eurobank.gr
+ 30 214 40 59 712

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