ISSN: 2241-4851

Eurobank Research

GLOBAL & REGIONAL MONTHLY

Most recent economic data mirror the negative impact from the latest Covid-19 waves, with restrictions leading to a downturn in global economic activity at the end of 2020. We foresee GDP weakness to persist in many advanced economies through most of the winter with wide divergences across sectors and regions, before wide-spread vaccinations and warmer weather in mid-2021 lead to the lifting of lockdowns, bolstering business and consumer confidence more broadly in H2 2021. Our view is consistent with the market's consensus for a robust global GDP rebound of 5.0% in 2021, following a -3.8% contraction in 2020.

Macro Picture

USA: GDP weakness through the winter gives way to an expected bounce-back in the spring

EA: After a possible technical recession at the turn of the year, economic growth is set to be solid in H2 2021 due to the vaccine rollout

UK: Beyond Q1, rapid vaccine rollout and eased Brexit-related disruption to support recovery

EM: Back to growth in 2021, with divergence among regions; Asia frontrunners, EMEA & Latam laggards

CESEE: The launch of vaccinations has spurred optimism for growth prospects of 2021 but challenges for full recovery lie ahead

Markets

FX: USD weakness to persist medium-term but short-term we are looking for EURUSD to retest 1.20. GBPUSD lower despite removed Brexit uncertainties

Rates: EU rates to remain range-bound while US rates expected to trend higher as US inflation expectations rebound

EM: Spreads tightened in December driven by further improvement in global risk sentiment

Credit: Tighter spreads across ratings spectrum with USD outperforming EUR and any widening should be capped by further CB support

Policy Outlook

USA: Fed's commitment to zero rates; monetary policy action tied to economic developments

EA: Extension of ECB's policy support via existing tools at its December meeting

UK: Further BoE policy accommodation conditional on negative growth surprises

CESEE: The adoption of the long-term EU budget paves the way for the timely disbursement of the much needed funds

Key Downside Risks

Covid-19 vaccine rollout delayed/ impact of vaccination falls short of expectations: Stricter measures to be adopted

Fiscal gridlock in US Congress: Could hamper effective US fiscal policy; shallower US recovery

Slower rollout of vaccination in EM: Distribution of temperature-sensitive vaccines comes with constraints due to lack of necessary infrastructure, while delays are expected in low income EMs

Special Topic in this issue

Global Economic Outlook in 2021

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

Special thanks to the Global Markets team (Global_Markets_Trading@eurobank.gr), Eurobank Bulgaria and Eurobank Serbia, as well as Economic Analyst Mrs. Anna Dimitriadou, for their invaluable contribution in this issue

January 2021

Eurobank

Eurobank Research

Contents

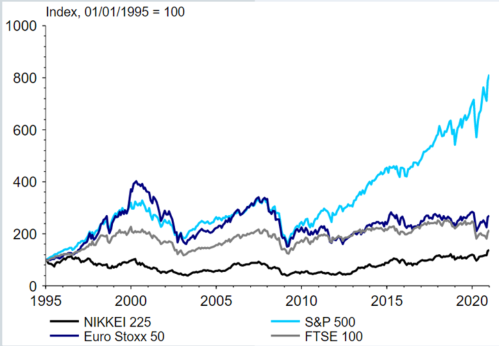
Macro Views

Latest Macroeconomic Developments & Outlook

World Economic Outlook

Optimism on a US stimulus package, increased hopes for a post-Brexit deal and ongoing progress in the COVID-19 vaccine front proved strongly supportive for risk assets in December 2020, with major equity indices hitting new historic/post-pandemic highs. Indeed, the $2.3 trn omnibus spending bill, including $900bln in Covid-19 relief, was finally signed into law. Direct $600 stimulus checks will likely remain at this level rather than be raised to $2,000 as recently proposed by US President Donald Trump, in line with predominant market expectations. Meanwhile, the EU/UK Trade and Cooperation agreement, which came into force on 1 January 2021 when the Brexit transition period ended, means that the two parties avoided a cliff-edge scenario sparking a massive market relief rally. On the coronavirus front, while cases have risen globally to 83,322,449 and fatalities to 1,831,412[1] (Figure 2), several countries around the world have begun to approve and distribute vaccines at the end of 2020 and at the start of 2021 bringing hopes of reopening and returning to normal, with Israel, Bahrain, the UK and the US leading the vaccine race in terms of vaccinations per capita.

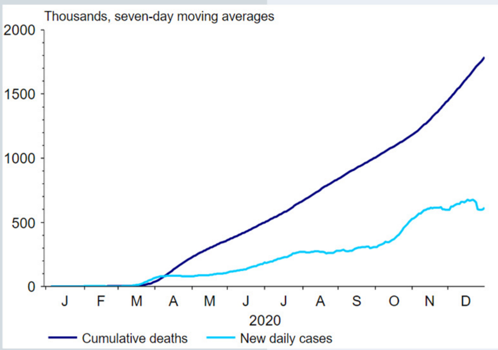
Figure 1: Equities in local currency



Source: Refinitiv Datastream, Fathom Consulting

Incoming economic data mirror the negative impact from the latest Covid-19 wave, with restrictions to contain the virus' spread leading to a downturn in global economic activity at the end of 2020. Although the US has so far shown remarkable resilience against an escalating third wave, high-frequency indicators in other advanced economies point to broad-based weakness in November. Nevertheless, recent PMI data for December were more encouraging, showing that service activity is generally holding up and beginning to flatten, following sharp declines in the wake of last month's tighter lockdown restrictions. Manufacturing PMIs generally remained at levels consistent with firm growth, mirroring the ongoing strength of global goods demand. Market consensus is for a robust global economic recovery in 2021, with China - most probably the only major economy with positive growth in 2020 – being the growth leader in 2021. We expect a global GDP growth rebound of 5.0% in 2021, following a 3.8%

Figure 2: Global Covid-19 cases and deaths



Source: AAII, Refinitiv Datastream, Fathom Consulting

[1] Based on World Health Organization (WHO) data as of 3 January 2021.

contraction in 2021, with the outlook highly dependent on the global inoculation pace in order for the countries to benefit from a vaccine-induced reduction in hospitalizations and fatalities.

Developed Economies

US: High frequency indicators suggest that the US economy has likely lost momentum in November and December as coronavirus cases have recently soared and many states re-imposed restrictive measures. We expect a further deceleration in January given the recent Covid-19 trends, before we see the positive growth impact from broader vaccines' distribution and the new spending package. Indeed, US administration finally signed into law a $900bln Covid-19 spending package as part of a $2.3trn spending bill, with direct payments to individuals totaling $286bln through additional unemployment benefits and $600 stimulus checks to individuals making less than $75K per year. Prospects for further fiscal stimulus depend partly on the US Senate runoff elections in Georgia on Jan 5, which seem to be close and uncertain. A democratic sweep could bring much larger fiscal stimulus in 2021, while Senate Republicans seem to downplay the urgency to deliver another stimulus package. Overall, we expect GDP to increase by 3.8% in 2021, following an upwards revised contraction of -3.7% in 2020 on the back of stronger-than-expected data flow in Q4 2020.

Euro area: Following solid momentum across countries and sectors, manufacturing activity has likely decelerated in November due to a worsening epidemiological picture and national lockdowns. Although most recent business surveys point to a better-than-expected growth momentum at the end of 2020, as consumers seem to have adapted to the restrictions during the pre-festive period, the surveys do not account for the latest decisions to extend/tighten restrictions, hence we continue to expect a negative GDP print in Q4 2020, leaving 2020 GDP falling by 7.3% before rebounding by 4.5% in 2021. The approval of the Pfizer/BioNTech vaccine by the European Commission for use in the EU should help governments gradually relax social distancing measures, but the economic bounce back is not expected before Q2 2021, when vaccines become widely available and recovery plans backed by the EU financing begin to take effect. In fact, with the approval of the 2021-2027 EU budget by the European Parliament, the disbursement of funds is expected to start in the first months of 2021, and euro area countries are bound to receive €33.7bn in 2021 (out of €39.8bn in total), with Italy (€11.3bn) and Spain (€10.9bn) being the bigger beneficiaries.

EMU periphery: Economic activity in Italy and Spain, the two largest Southern European economies, bounced back strongly in Q3 2020, with a record 15.9%QoQ and 16.4%QoQ growth rate, respectively, supported by the gradual lifting of the first-wave restrictions and the fast resumption of economic activity. However, in reaction to the virus resurgence in late Q3 2020, both countries were forced to escalate their policy response to the pandemic, with more restrictive measures in order to timely flatten the new cases curve ahead of the Christmas season. Stricter measures imply that the recovery will be stalling in Q4 2020, with both countries expected to experience a renewed contraction, taking the annual rate for the full year to -9.0% for Italy and -11.8% for Spain. Admittedly, Spain is expected to be the euro area laggard in 2020 for a number of idiosyncratic factors, including the economy's relatively higher dependency on tourism, one of the sectors most affected by the pandemic. With stricter measures still in place, GDP growth in both countries is expected to remain weak in the early part of this year and we do not anticipate a significant rebound in economic recovery before immunization rates allow for a widespread lifting of restrictions, probably not before late Q2.

Emerging Economies

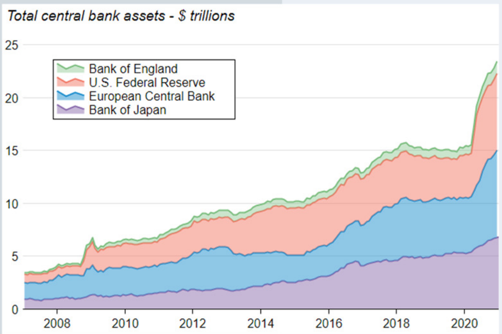
BRIC: December's Manufacturing PMIs for all four BRIC countries point to three of them (Brazil, India, China) recovering and expanding in the manufacturing sector, against one, Russia, that remains in contractionary territory. **Brazil**'s economic policy response to the pandemic is considered extraordinarily forceful based on emerging market standards. Taking into account that the current level of the key policy rate stands at 2%, compared to the 10-year average of 10%, the monetary easing was perhaps the mightier in EM. On the fiscal front, the needed increased public spending along with countercyclical-related limitations in tax collection will take their toll on the budget deficits of both 2020 and 2021. GDP in 2020 is anticipated to shrink by -4.5% and kick back by +3.5% in 2021. The **Russian** economy contracted by -8% YoY in Q2 and -3.4% YoY in Q3 and this negative momentum is expected to continue in Q4 amidst the pick-up of infections since early December and the containment measures still in force to tame the resurgence. Despite the positive news from the vaccine ''in-house'' production and the beginning of the immunization campaign across the country, geopolitical risks and uncertainty over the course of the pandemic weigh on the country's economic outlook. GDP in 2020 is anticipated to shrink by -3.8% and rebound by +3.0% in 2021. While the rest of the world continues to struggle with the Covid-19 pandemic**, China** appears to have left it behind for good with comparatively fewer human losses. December's official PMIs steadily remain in expansionary grounds, i.e. above 50.0 since March, but prints inched down standing below market consensus and thus pointing to a plateau that the economy may be reaching after recovering steadily since Q1's bottoming out. China, under targeted policy mix and priorities, will extend the positive momentum and is expected to expand its output by 8.2% in 2021 from 2.0% in 2020 while **India**'s economy, assisted by 2020's low base effect (it is anticipated to post a -7.5% recession in 2020) is forecast to gallop at a 10.0% rate in 2021, in an effort to win back the lost ground.

CESEE: As of early January, with a few notable exceptions, the epidemiological situation in many countries of the Central, Eastern and South-eastern Europe (CESEE) is on an improving path in the past weeks. Having been confronted with an exponential rise in new infections, hospitalizations and fatalities during October and November, the situation started improving in December. The sharp deterioration has put the CESEE region in the epicenter of media attention during the "second wave", because some of these countries have been hit disproportionally harder than their Western Europe peers. Even though the picture is not homogeneous across countries, the worsening of the epidemiological situation has prompted governments to reinstate health and social distancing measures and restrictions on public and economic activities, initially at the local level but soon at the national level. Even though lower mobility is broadly considered to be negatively correlated with economic activity, the impact of the restrictions in Q4 could turn out to be less detrimental than in Q2. Although the rollout of vaccinations across the countries of the CESEE region has spurred more optimism, full return to normal conditions may take more time to materialize.

Special Topic
Global Economic Outlook in 2021

The Covid-19 pandemic has been the largest exogenous shock to the world economy in modern history, with a global economic expansion turning into the deepest contraction in over seven decades. Strict containment measures and heightened uncertainty restricted economic activity globally in H1 2020, while the strong start of the recovery in Q3 2020 amid unprecedented policy easing and adaptation allowed global GDP to recover to around 95% of its pre-pandemic level. Fiscal easing supported real disposable income in most developed economies, and monetary easing contributed to the stabilization of financial markets bringing the most accommodative financial conditions on record (Figure 3).

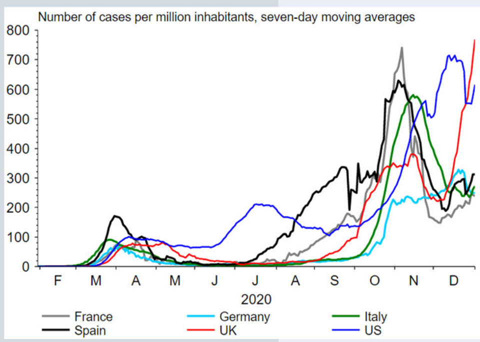
Figure 3: G4 central banks' balance sheets



Source: Refinitiv Datastream

The second wave of the pandemic (Figure 4) and the subsequent necessary lockdowns have resulted in a renewed global growth deceleration in Q4 2020, making it difficult to return to the pre-pandemic growth path in H1 2021. We predict GDP weakness to persist in many advanced economies through most of the winter with wide divergences across sectors and regions, before warmer weather and the expected roll-out of several Covid-19 vaccines next summer lead to the lifting of lockdowns and bolster business and consumer confidence more broadly. Front-line essential workers and people 75 years and older that are the most vulnerable will get the Coronavirus vaccine first in Q1 2021, before mass vaccination around mid-2021 paves the way for a genuine economic recovery during H2 2021. Following the most severe global GDP contraction during peacetime history of ca. 3.8% in 2020, the world economy is expected to grow by about 5.0% in 2021 and reach its pre-pandemic level in early 2022. Emerging and developing Asia is expected to contribute the most to the global economic recovery, given that Asia dealt with the Covid-19 crisis earlier and more efficiently than the rest of the world. Labour market conditions are projected to remain subdued, with the unemployment rate moderating only gradually over the next two years and, hence, remaining well above pre-pandemic levels in 2021. High unemployment rates, along with heightened uncertainty and increased levels of precautionary saving should dominate the inflation outlook, with price pressures remaining subdued and well below central banks' targets over the next couple of years.

Figure 4: Covid-19 new daily cases

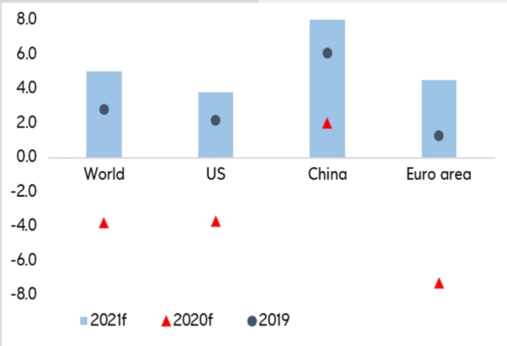


Source: Refinitiv Datastream, Fathom Consulting

The overall fiscal policy stance in advanced and emerging market economies should turn significantly less accommodative in 2021 as a result of the unwinding of nearly half of the 2020 stimulus[2] that produces a 'fiscal cliff' in 2021 of about 2.0-2.5% of global GDP. Nevertheless, extensions of fiscal countermeasures would constitute an upside risk to our global GDP growth projection in 2021. Monetary policy is likely to remain very loose keeping financial conditions broadly at current levels, with major central banks maintaining extremely accommodative monetary policy stances as inflation undershoots target levels and economies struggle to close the substantial output gaps generated during the coronavirus pandemic.

In the **US**, following a less severe GDP contraction of 3.7% in 2020 than in the euro area, economic activity will probably experience a more modest bounce in 2021 of ca. 3.8% reaching pre-Covid levels by the end of the year. Although the US economy will likely decelerate further in Q1 2021 owing to the recent surge of Covid-19 infections, broader availability of Covid-19 vaccines coupled with a more supportive fiscal policy should lead to a GDP rebound in Q2 2021. Vaccine-induced immunity should help more vulnerable sectors like travel and dining-out to return to more normal activity levels in H2 2021, while the $900bn Covid-19 spending package signed into law at the end of December 2020, amounting to about 4.0% of GDP, should help support personal spending and provide a significant boost to overall growth in 2021.

Figure 5: GDP growth forecasts (%)



Source: Bloomberg, Eurobank Research

In the **euro area**, the Covid-19 data suggest that the second wave of infections has been flattening out, but European governments will likely maintain a cautious stance in early 2021 with a gradual lifting of restrictions. Given that it will take time for vaccines to be produced and widely distributed in order to offset the risks of a third coronavirus wave, herd immunity is expected to be achieved around end-2021, with economic activity reaching its pre-virus level towards mid-2022. Southern Europe will likely reach its pre-pandemic level of economic activity somewhat later compared to Northern Europe, mirroring Southern Europe's greater reliance on tourism and the higher negative effect of the pandemic in the region. Overall, we expect GDP to grow by about 4.8% in 2021, following a contraction of 7.3% in 2020.

Germany: After two consecutive quarterly declines including the unprecedented plunge of -9.8%QoQ in Q2 that reflected the full impact of the first Covid-19 wave and the associated containment measures, Germany's Q3 GDP rose by a pronounced 8.5%QoQ primarily supported by surging private consumption, while new restrictions to contain the spread of the second wave could drag GDP growth again in Q4.

[2] Direct tax and fiscal spending measures announced and implemented worldwide so far in response to the crisis are estimated around $6 trillion.

However, sizable stimulus packages to mitigate the economic impact of the crisis thanks to Germany's ample fiscal space that allowed the government to support the economy meaningfully and the economy's reliance on manufacturing, which has been less severely affected by restrictions — potentially partially offsetting the services-led weakness — are expected to allow Germany to weather the pandemic much better than its major EA peers. For the full year, GDP is seen contracting by 5.6%, far less markedly than the projected EA average.

In turn, the expected 2021 rebound will likely be less pronounced than in the rest of the EA at 4.0%, partially affected by the end of the temporary VAT cut on 1 January, while economic recovery is anticipated to return to its pre-crisis levels by early 2022, earlier than in the other EA countries. Continued fiscal support and resumed employment growth once warmer temperatures and large-scale vaccination rollout from Q2 onwards, will allow for the withdrawal of the containment measures, leaving potential for pent-up demand to materialize, supported by the extra savings that were built up during the lockdown. The export-oriented German economy should also benefit from a more predictable trade environment under US President Elect Joe Biden, China's next phase of recovery and a normalization in global demand benefitted from ample fiscal and monetary support. On the political front, the centre-right CDU elects on 16 January its new leader who will potentially succeed Angela Merkel after the next federal elections that are scheduled for autumn, as she has vowed to step down after 16 years as Chancellor.

France: After a severe contraction in H1 2020 that took the economy near 19% below the Q4 2019 pre-crisis level, domestic activity bounced back in Q3 by a record 18.7%QoQ, the second highest pace in the EA after Ireland, mainly supported by a sharp increase in consumer and public-sector spending, while a renewed contraction is widely expected in Q4 because of the imposition of another lockdown against the second wave of the Covid-19 pandemic.

For the full year, GDP is expected to fall by 9.2%, before economic activity starts recovering from early 2021, with the annual growth rate rising by 6.1%, assuming that the year-end holidays will not lead to a fresh spike in infection cases and the vaccination strategy will go as planned, boosting sentiment and favoring a process of gradual normalization in economic activity (bear in mind that France is among the countries with the highest degree of Covid-19 vaccine skepticism). As outlined in the "France Relance" recovery plan — the €100bn four-year normalization plan announced in September — fiscal policy will remain supportive, while the potential for a rebound in consumer spending driven by the accumulated savings build up during the crisis, would also support economic growth. However, the expected upturn in 2021 will be gradual, taking probably until mid-2022 for growth to reach its pre-crisis levels, mostly because of the economy's high reliance on services — which have been harder hit than manufacturing by the pandemic — and the time required to adapt to the structural changes that have occurred. Politics will come back into focus this year, as the parties gear up for the announcement of the candidacies for the May 2022 presidential elections. With the next presidential contest approaching, policy initiatives to counter the negative effects of Covid-19, will likely continue to dominate the agenda of President Emmanuel Macron, leaving little (if any) room for further progress on any of his major pending reforms.

Italy: The Covid-19 crisis has weighed on economic activity in H1 2020, with real output contracting by 18%. After a strong economic bounce-back in Q3 2020 amid easing lockdown measures, real GDP growth is expected to fall back into negative territory in Q4 due to the reintroduction of regional restrictions during the holiday season along with prolonged uncertainty regarding their actual duration. Looking ahead in 2021, we envisage an economic recovery powered by improving confidence amid the roll out of the Covid-19 vaccine, and the expected boost from national fiscal policy (~4% of GDP in 2021) as well as the rising inflows of EU funds. Italy's participation in the Next Generation EU (NGEU) program represents a great opportunity, as Italy is one of the main beneficiaries in terms of the magnitude of the support they will receive. However, grants from the recovery and resilience facility are expected to have a rather small positive impact on 2021 GDP growth (~ 0.2pp), before doubling their GDP boost in 2022. Overall, we project real GDP to increase by about 5.1% in 2021, following a contraction of 9.0% in 2020. Risks are skewed to the downside, including a potentially slow vaccine rollout, subdued domestic and external demand and elevated public debt levels.

Spain: After being the star performer among all EU periphery economies and the fastest growing economy among the euro area's four biggest economies in recent years, Spain is expected to be the euro area laggard in 2020. Idiosyncratic factors have made Covid-19 particularly tough for the Spanish economy, with GDP projected to fall by an unprecedented 11.8%, the worst among all advanced economies. The aforementioned idiosyncratic factors include Spain's reliance on tourism — a sector among the most gravely hit by the pandemic —, a significant rise in unemployment mainly due to the high incidence of temporary contracts, and poor policy implementation given the minority coalition government's struggle to secure the necessary parliamentary support to pass measures intended to support the most affected by the pandemic. Looking into 2021, improved weather conditions, large scale Covid-19 vaccinations and the expected lifting of containment measures in late Q2 should provide a strong impetus to tourism, allowing for the economy to rebound robustly, especially in H2. Pent-up demand backed by increased savings accumulated during the lockdowns and the EU Recovery Fund — Spain is among the main beneficiaries — should also support growth, with GDP expected to rebound by 5.4%. However, due to the scarring effects of the pandemic, the Spanish economy is not likely to recovery to its pre-crisis level before late 2022, later relative to the rest of the EA.

UK: After a 12.1% drop below its pre-crisis is level in H2 2020 following a relatively long lockdown in Q2, the UK economy bounced by a record 15.5%QoQ in Q3 on eased lockdown measures and the subsequent improvement in business and consumer sentiment. However, the introduction of a national lockdown in November to counter the Covid-19 resurgence and strict restrictions in late December to contain the latest surge in virus infections partly due to a new strain of Covid-19, are anticipated to push economic growth back into contractionary territory in Q4. For the full year, we expect output to shrink by 11.3%, as uncertainty around the future UK/EU relationship and the UK's heavy reliance on the services sector (c. 80% of its total output), which has been hit particularly hard by the pandemic, were also a drag on growth.

In response to a continuing spike in virus cases that took the 7-day new cases average above 50k for the first time, PM Boris Johnson announced on January 4 a new nationwide lockdown, the third since March

2020. It will be in place at least until February 15, as the government aims to vaccinate the majority of vulnerable residents. Against this background, a renewed GDP contraction in Q1 2021 seems highly likely, as some temporary stockpiling ahead of the Brexit transition period deadline at the end of December 2020, will likely also weigh. In addition, some economic disruption is expected over the early months of Q1 2021, as the UK left the EU single market and the customs union on 1 January 2021 and both the public and the private sector need some time to adjust to the new post-Brexit trading agreement that was reached in late December. The UK economy is expected to start recovering around mid-2021, benefitted by supportive monetary and fiscal policies and the government's rapid vaccination program, which is expected to lead to a widespread easing of local restrictions in the spring. The ensuing bounce-back in consumer spending thanks to higher savings and pent-up demand as well as eased Brexit-related fears as businesses adjust to the new trading arrangement, are also expected to favor economic recovery. Assuming that the vaccination programme will go as planned, a point will be reached in the autumn when more than half of the UK population will have been vaccinated and the pandemic could come under control, resulting to the lifting of all restrictions and pushing output up by 4.9% for the full year. However, the scarring effects of the pandemic and the reduced openness to trade and inward migration following the UK/EU post-Brexit agreement, will likely serve as headwinds to the UK's medium-term growth prospects. Under such a scenario, the UK's recovery path is expected to be a protracted one and economic output may not return to pre-crisis levels before 2023. On the monetary policy front, the BoE, which has extended its bond buying programme into 2021, will likely stay on hold this year, retaining a dovish stance and looking through bouts of higher inflation as the economy faces a long way to economic recovery. However, the prospect of further monetary policy accommodation cannot be ruled out, if fiscal policy is tightened prematurely and economic growth disappoints.

Emerging Markets Outlook

2020 has been an extremely challenging year from a holistic perspective and 2021 should prove similarly complicated. The Covid-19 pandemic is the third great crisis of the 21st century, following the terror attacks in the twin towers in 2001 and the Global Financial Crisis (GFC) in 2009 and has inevitably scathed the global economy. World GDP is expected to have shrunk by -3.8% in 2020, while the emerging economies GDP is anticipated to have shrunk more modestly, i.e. by ca -2.5%, mainly due to the V-shape recovery that China's economic activity has apparently achieved and which accounts for almost one fifth of the global and half of the emerging world GDP in PPP terms. Under our baseline scenario, we assume that EMs will kick off 2021 on a positive footing, posting an annual GDP growth rate at the range of 6.0%. The key drivers of this forecast are China and India that jointly account for more than half of the total EM output. Also, Taiwan and South Korea performed well in 2020 and are expected to continue on this path in 2021 as well, as they both managed to tame the pandemic sooner than other emerging and developed economies. China, under targeted policy mix and priorities, will extend the positive momentum since early 2020 and is expected to expand its output by 8.0% while India's economy, assisted by 2020's low base effect (-7.5%), is forecast to gallop at a 10.0% rate, in efforts to win back 2020's lost ground. Latam is anticipated to be a laggard due to its reliance on tourism, which will be one of the last sectors to recover and idiosyncratic factors such as social unrest and elections (Chile, Bolivia) and incautious handling of the pandemic (Brazil). While the beginning of vaccination in many EMs allows for some optimism, uncertainty continues to prevail. In the following lines, we attempt to identify the key determinants that will shape, to a great extent, the outlook of 2021.

- **Vaccines Rollout**

For obvious reasons, the rollout of vaccinations will determine the taming of another pandemic wave and, consequently, the speed of the economic recovery. European EMs will benefit from their EU membership or even candidateship, such as Serbia, as the supply of vaccines is centrally planned, at EC level, and therefore a quicker supply and distribution is anticipated. Israel and Chile are also stand-alone cases of countries that have already preordered a plethora of vaccines and are therefore expected to reach a satisfactory level of immunity sooner than other economies. Russia and China produced ''in-house'' vaccines, making their people's immunity an internal matter, which could be solved autonomously. However, many other EMs that also happen to be of low income and/or lack the necessary public health infrastructure for the vaccines distribution (especially those that are sensitive to temperature) will encounter hardships and delays in obtaining the herd immunity that will pave the way for return to normality.

- **US presidency under Joe Biden**

With regard to the US-Sino relations, the US stance towards China is broadly based on a bipartisan consensus, therefore the rivalry between the two countries is expected to last. In this context, the Biden campaign has avoided detailed commitments on the matter. While the rhetoric may change towards a more conventional and diplomatic approach, the US-China trade relations agenda is expected to remain unchanged in terms of substance. However, when it comes to the rest and smaller, compared to China, EMs, Joe Biden's victory is positively embraced by markets; EM assets reacted positively to the news of his win with equities, bonds and currencies all registering strong gains. While he is not expected to be a soft touch and his agenda has not been unfolded, the end of the ''social media diplomacy'' and the anticipated return to more traditional and predictable policymaking in matters of international trade and foreign relations will most probably continue to improve investors' sentiment and risk appetite toward EM assets.

- **Expectations of a softer dollar in 2021**

With the DXY 8% lower at the end of 2020 and the US dollar kicking off 2021 with a weak start, amid expectations for a post-pandemic global economic rebound, appetite for riskier assets has increased, shifting focus to EM assets. Historically, the USD and EM assets values share an inverse relationship, therefore demand for EMs is expected to pick up.

- **Debt levels & fiscal profile**

In a period when the availability of fiscal space and the ability to raise additional funds so as to adopt countercyclical measures and contain the repercussions of the pandemic is considered of utmost importance, the public debt, fiscal and income profiles of a country largely determine the speed and magnitude of its economic recovery. According to a recent publication by the IMF[3], developing economies have endured periods of volatility during the current wave of debt accumulation[4] that started in 2010 after the GFC, but widespread and severe financial stress emerged only after the COVID-19 pandemic hit. Already leveraged developing economies, especially low income ones, are facing the recession from a disadvantaged position than when the GFC hit. That said, risks of credit rating downgrades and repayment difficulties going forward are tilted to the upside, particularly in Latam, Africa and Central Asia and requests to developed countries for debt relief, over and above the pledge of the G20 in October to extend debt repayment for vulnerable countries until mid-2021 are highly probable.

- **Geopolitics**

Geopolitical risks are diachronically hard to measure and assess. We consider the rising Indo-Pacific competition, following the Regional Comprehensive Economic Partnership (RCEP) trade agreement, signed in November, a hard to predict factor with implications at a global scale. Apart from the existing trade competition between China and India, which is expected to intensify vigorously as the RCEP starts to obtain flesh and bones, the two countries are also tangled in territorial disputes, with the recent conflict between them involving military action. Other significant EMs currently active in the geopolitical arena are Russia and Turkey as the US decided in December additional sanctions against both of them. Those against Russia were imposed, among others, because of its aggression against Ukraine, cyber and disinformation activities aimed at affecting US domestic politics, and support for Syria and Venezuela. The sanctions against Turkey concern the purchase of Russian S-400 missiles. Even though the aforementioned sanctions were enforced at the end of the Trump presidency, they were ratified with a bipartisan bill, therefore no radically different approach should be anticipated under the new presidency of Joe Biden. Last but definitely not least, the evolution of the US-Sino relations should be closely monitored as their battlefield extends beyond technological intelligence and trade. Their in-between turmoil looks set to remain a core theme and tensions are unlikely to cool as China grows and threatens the US's global hegemony.

---

[3]https://www.imf.org/external/pubs/ft/fandd/2020/06/pdf/COVID19-and-debt-in-developing-economies-kose.pdf
[4]First wave between 1970-1989, second wave between 1990-2001, third wave between 2002-2009, current and fourth wave 2010-. Further analysis is presented in the link of footnote #1

Central, Eastern and South-eastern Europe (CESEE) Outlook 2021

The past year has proved to be one of the most challenging for the broader Central, Eastern and South-eastern Europe (CESEE) region in the three decades following the post-communism transition. The regional economies have suffered a Covid19 pandemic-induced recession in 2020, deeper than the Great Recession of 2008-2009. On the positive side, taking into account the high-frequency indicators releases in Q4 and the output performance recorded in the first three quarters of 2020, it would be fair to say that on average, all economies have outperformed the initial pessimistic official and international organizations forecasts.

This outperformance is rooted in two factors. Firstly, the pandemic outbreak found the broader CESEE region in the best shape in the post-Lehman period. Having recovered from the previous world recession in 2008-2009, most countries have had enough time and have put a lot of effort to rebuild their fiscal and external buffers. As a result, even though the pandemic hit at a time when the regional economies had passed the peak of the cycle, it found them in a relatively strong position from a growth point of view. Secondly, the countries of the CESEE region coped very well during the first phase of the pandemic. The lock-downs that were rapidly imposed and efficiently enforced by the authorities, more rapidly than in Western Europe, took their toll on economic activity but were successful in containing the pandemic and averted a public health system collapse. Thirdly, the policy response both on an individual country level and on the multilateral level has been unprecedented and to a high degree well-orchestrated and coordinated. Most of the economies who are EU member states were able to benefit directly or indirectly from the ECB-EU Commission catalytic intervention.

Turning to the growth outlook of 2021, we anticipate the incoming year to be a year of broad-based recovery. That said, even though economic growth is poised to resume after the relaxation of restrictions, the course to full-recovery will most probably turn out to be incomplete and bumpy. The resurgence of infections threatens the rebound effort of the broader CESEE region in 2021-22. The second wave of infections will most probably put a break on the pace of recovery - not limited to the services sector - rendering the full recovery slower than anticipated and, most likely, not possible before 2022.

There are many factors to watch in each country. Firstly, the implementation speed and efficiency of the vaccination programs across the region. The logistics of the production, distribution and execution of the vaccinations on such a massive scale are complicated, potentially requiring additional investments and effort, which entails further delays. Secondly, the ability and willingness of governments to impose restrictions to address a third wave of infections. Third, the institutional and administrative capacity of the countries to absorb and efficiently use the designated funds from the EU's multi-year budget for 2021-27 (€1.8trn) and the Recovery Fund initiative (€750bn).

On a country level for the economies of our focus:

- **Bulgaria:** Having expanded by 3.4% in 2019, the economy of Bulgaria was broadly expected to continue growing before the onset of the Covid-19 crisis. Capitalizing on its strong fiscal profile and healthy external position as well as the ERM II entry, which anchor investors' expectations plus the country's access to ECB tools, the economy is expected to have contracted by -4.5% in 2020 outperforming the Euroarea average. Looking ahead, the economy is forecasted to rebound by around 3.7% in 2021. Additionally, the latest EU Council decision foresees Bulgaria receiving €29bn or 47.5% of 2019 GDP from EU support (€16.7bn non-reimbursable funds from the MFF for the period 2021-2027 and €12.3bn from the NGEU), placing it among the countries benefitting the most from EU support.

- **Cyprus:** Despite the country's high sensitivity as a small, open and services-oriented economy with tourism being one of its backbone industries, the economic impact has so far turned out less severe than initially anticipated. Thus, the economy is now forecasted to expand by +3.5% in 2021 compared to an expected -6.5% contraction in 2020. In addition, Cyprus has already received the first installment of €250mn in loans from the SURE instrument out of a total €479mn earmarked amount in order to address increased unemployment risks; this places the country among those few that will receive the maximum allowed support (2% of GDP). In addition, Cyprus will become the first country to tap the ESM's Pandemic Crisis Support fund (up to 2% of 2019 GDP) to cover its increased healthcare expenditures. Finally, under the latest EU Council decision in July 2020 for the NGEU and the MFF, Cyprus could have access to more than €2.6bn or 11.7% of 2019 GDP in funds, among them €1.1bn in grants.
- **Serbia:** Having expanded by more than 4% in the two years to 2019, the economy contracted by -1.1% in 2020 making the country a top performer in EU and CESEE, before rebounding by +4.5% in 2021. Serbia entered the Covid-19 crisis with significantly lower imbalances compared to a decade ago allowing the authorities to compile a support package of 11% of GDP (which was among the largest in emerging Europe) to contain the pandemic's negative economic impact. Furthermore, the country's lower exposure to sectors hardest hit by the crisis compared to regional peers and the relatively short duration of the most stringent containment measures back in spring, underpins its over performance in 2020-21.

Macro Themes & Implications in CESEE

The rollout of vaccines across the countries of the CESEE region has spurred more optimism for the growth prospects of 2021 but full return to normal conditions may take more time to materialize

As of early January, with a few notable exceptions, the epidemiological situation in many countries of the Central, Eastern and South-eastern Europe (CESEE) is on an improving path in the past weeks. Having been confronted with an exponential rise in new infections, hospitalizations and fatalities during October and November, the situation started improving in December. The sharp deterioration has put the CESEE region in the epicenter of media attention during the "second wave", because some of these countries have been hit disproportionally harder than their Western Europe peers.

Even though the picture is not homogeneous across countries, the worsening of the epidemiological situation has prompted authorities to reinstate stringent health and social distancing measures and restrictions on public and economic activities. The restrictions were initially imposed at the local level but were soon extended at the national level, while some countries came very close to a national lock-down. The high economic and social cost of a second lock-down, given the output losses incurred in Q2 in most cases, has deterred governments from taking more draconian measures fast enough at the risk of putting more strain on the domestic public health systems. In any case, restrictions resulted in a dramatic decline in mobility, in some cases to levels similar to those in spring.

Even though lower mobility is broadly considered to be negatively correlated with economic activity, the impact of the restrictions in Q4 could turn out to be less detrimental than in Q2. First of all, as of late November, economic sentiment indicators had retrenched back to their June and July levels, when the previous reopening of the economies took place. Despite their deterioration, given the rapid deterioration of the epidemic, it would be fair to say that the decline doesn't reveal a sense of panic as in the first wave. Moreover, the high-frequency indicators show that industry and manufacturing are holding up better than services. In our view, this most probably reflects renewed market concerns regarding the impact of the second wave of the pandemic on services and reveals the higher sensitivity of the sector to the pandemic. Finally, the approval and the distribution of a number of vaccines in December will most likely lift the depressed morale of consumers and corporates and boost optimism for the prospects of the new year. Consequently, even though Q3 GDP readings were on average stronger than expected, Q4 GDP releases are expected to weigh on the full year readings but not derail our earlier forecasts.

More importantly, the resurgence of infections has raised a lot of uncertainty over the economic outlook of the broader CESEE region and a new set of challenges. The severity and duration of the second Covid19 wave have increased the downside risks for GDP growth recovery in Q1-2021 undermining thus the growth rebound prospects of 2021-22. The second wave of infections will most probably put a break on the pace of recovery - not limited to the services sector - and signal that full recovery may take longer than initially anticipated. Under the assumption that the restrictive measures will most probably remain in place in the first months of the new year, the negative impact is expected to extend to the output performance of at least Q1-2021.

In addition, the logistics of the production, distribution and execution of vaccination program on such a massive scale may require additional investments and effort, leading potentially to further delays. Although the rollout of vaccinations across the countries of the CESEE region has spurred more optimism for the growth prospects of 2021, full return to normal conditions may take more time to materialize. In that direction, the aggravation of the epidemiological situation across the board points to an increased probability for the recovery to be W-shaped instead of V-shaped,. Finally, the prolongation of the pandemic impact will most probably keep politicians and policymakers under pressure for more stimulus until uncertainties subside.

On the positive side, the stand-off on the approval of the EU budget was resolved in December allowing for the timely disbursement of the much needed funds for the region. As a reminder, Hungary and Poland had vetoed the EU's multi-year budget for 2021-27 (€1.8trn), thus blocking the Recovery Fund initiative (€750bn), due to their disagreement in linking the disbursement of the funds with compliance with the rule-of-law. But the compromise that was reached prompted both countries to remove their veto at the EU Council on 10-11 December. The agreement still ties disbursements of new EU funds to the rule-of-law conditionality, narrowing however the scope of its use to areas protecting against the potential misuse of the funds. The agreement also foresees the introduction of multi-stage guidelines, comprising of a usage manual that includes timetables and emergency brakes. Finally, sanctions for the breach of the rule of law couldn't be enforced before the European Court of Justice has ruled on the legality of the new rules.

CESEE Markets Developments & Outlook

Bulgaria

Sovereign bond yields exhibited a modest drop across the board, ranging from 2 to 4 bps in December. Local papers with longer tenors followed suit, while 3- and 4-year tenor saw yields rising by 14 and 7 bps respectively.

Serbia

Despite the overwhelming challenges of 2020, it has been a tranquil year for the local FX market. The Central Bank succeeded in keeping the EUR/RSD stable with interventions whenever needed. That said, 2020 was the year with the narrowest annual trading range for EUR/RSD in the spot market. The cross started and ended the year at 117.55 and during the year, it had no deviations from the 117.50 – 117.60 range. The stability is expected to continue in 2021, unless it is disturbed by unforeseeable at the time of writing macro developments, such as inflation and yields heating. Also, political shifts, as we approach the early 2022 elections, remain a potential source of uncertainty, which could infuse volatility to the dinar.

The Covid-19 pandemic triggered an additional round of monetary easing resulting in the Central Bank reducing the key policy rate four times in 2020 from 1.75% to 1.00%. On the same lines, government bond yields followed suit. However, at the early stage of the pandemic, interest rates rose steeply and fell gradually by 20bps thereafter. Referring to auctions held in the primary bond market, the public debt agency kept its auction schedule unchanged at the low end of the curve, while attempting to bring down the upper end of the curve in the third and fourth quarter of 2020.

In case the Central Bank decides not to intervene in the FX market in 2021, some depreciation of the dinar could be anticipated, as the local currency's risk-reward ratio does not make it attractive enough for investors. However, accumulated FX reserves and strong FDI could drive the dinar's stability for another year.

The fixed income space is broadly driven by global trends. For instance, in case of a quicker inflationary surge worldwide, major economies will be forced into a U-turn in terms of policy mix, which will be eventually mirrored in local fixed income markets.

Markets View

Foreign Exchange

EURUSD: The pair traded in the 1.21-1.23 range, but still rising medium-term trend, as stimulus discussions in the US were the key drivers for the pair. As 2021's first insights show, economic activity seems to be getting back on track and market sentiment rebounding even further as vaccination of the population has started. However, we believe that the reaction of ECB relative to Fed on the stimulus packages towards liquidity controlling will be slower and more conservative, and as such there is room for short-term downside movement for the pair to the 1.20 support level, while staying in the 1.20-1.23 range at least for Q1 2021.

GBP/USD: The primary driver of the pair's price dynamics have been the Brexit negotiations. The successful outcome of the Brexit Deal announced before year end, removed the uncertainty about the economic effects that a no-deal would have on the UK, and as such the main focus now for its medium- and long-term level will be the same as for the other majors, i.e. global debt concerns and interest rate differentials. Under this rationale, a safe haven bid for the USD could cause the pair to test support at 1.33.

Rates

EU: The yield curve remained in negative territory. The 10y swap rate currently trades at -29 basis points and the 30y relatively unchanged close to zero. In the same manner, the steepness of the curve remained unchanged with the 30s -5s trading around 42bp. Brexit related risks are finally behind, post the deal agreed before the end of the year. The start of vaccinations globally, despite the increased lock downs, should help in the economic recovery. Despite these positive news EU yields have failed to rise with the ECB remaining dovish. Looking forward we expect the Euro Rates to remain range-bound at current levels as good news are more or less priced and inflation expectations remain low.

US: The level of the US yield curve remained relative stable in December with the 10y swap rate hovering around 90bp. The steepening of the curve continued with 30s -5s also above 95 basis points. Looking forward we expect yields to stay at these levels for a while or marginally lower before moving higher as inflation expectations are rising with the recovering US economy. A blue wave post the Georgia Senate elections is a key risk for rates moving higher quicker than anticipated as more stimulus and spending will be expected from the new US government.

Emerging Markets credit

Emerging market sovereign credit spreads continued to move higher at the end of 2020, amid broad-based optimism about the rollout of COVID-19 vaccines. This optimism seems to be the consensus view also for the start of 2021. Accommodative central bank monetary policy and a weak dollar should continue to support capital inflows, reduce uncertainty and lower volatility that should naturally translate into risk premia compression in EM. The Georgia Senate elections on 5 January along with the potential for vaccines to disappoint in the medium-term could pose some risks, but we expect these risks to be contained. High yield names look more attractive at current levels as credit spreads in investment grade are at or tighter to their pre-COVID levels and US yields are likely to rise as the economy recovers.

Corporate credit

EUR cash corporate and synthetic credit spreads were mostly flat to a few basis points tighter in December, with the exception of the HY space (-12 bps tighter on average, with Financials, TMT and Energy outperforming, -20bps, -15bps, -18bps respectively). A generally quiet month towards year end, and with Brexit saga ending in a deal, activity was subdued with buying interest during sell offs, also helped by the stability in equities and other macro. We saw compression across most sectors throughout the month in absolute levels, with HY compressing further against IG and lower rated credits against higher rated ones. US IG names were in absolute levels the outperformers of the month vs EUR IG names, with broad based tightening of -10bps on average. Basic Materials, Real estate, Oil & Gas and Travel & Leisure were the best performers, -14bps, -17bps, -20bps, and -16bps tighter respectively.

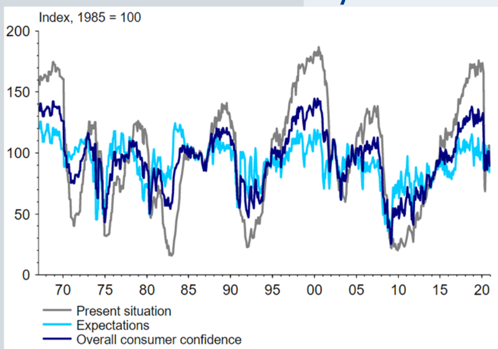
Rating-wise EUR lower rated names were around 9bps better than higher rated ones (BB -9bps, BB+ -10bps, BBB- -7bp tighter, BBB -3, BBB+ -1, A- flat, A flat, A+ +1bps,AA- +1bps, AA +2bps). Technicals for cash remained strong, as lighter supply, year-end subdued activity and Central Bank support continued to be tailwinds. Given the positive vaccine rollout and the absence of major news items early in 2021, we believe that spreads will remain range-bound at current tight levels, despite the increased lockdowns introduced late last year, with limited room for further tightening. Industries affected by Covid19 have further tightened in Dec 2020, and for this to continue, the good scenario has to play out unhindered in our view. Mid-term risks for moderate widening can be higher inflation expectations and discussions on the start of normalization of monetary policies or delays in the vaccination schedules.

USA

GDP weakness through most of the winter gives way to an expected bounce-back in the spring

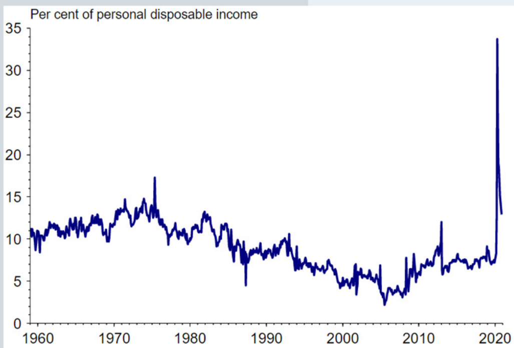
High frequency indicators suggest that the US economy is losing momentum as coronavirus cases have recently soared and many states re-imposed restrictive measures. Personal income declined by 1.1%MoM in November largely due to waning support to income from government transfers, with personal spending losing 0.4%MoM. Headline and core retail sales dropped by 1.1%MoM and 0.5%MoM, respectively, suggesting that much of the holiday sales were pulled-forward to October. Meanwhile, the Conference Board's index of consumer confidence slipped by 4.3pts to 88.6 in December extending November's decline; consumers' assessments of current conditions deteriorated amid rising Covid-19 cases, while the expectations index improved on optimism over Covid-19 vaccinations in the near future (Figure 6). We expect a further deceleration in January given the recent Covid-19 trends, before we see the positive growth impact from broader vaccines' distribution and the new spending package. Indeed, the US administration finally signed into law a $900bln Covid-19 spending package as part of a $2.3trn spending bill, with direct payments to individuals totaling $286bln through additional unemployment benefits ($300/week) and $600 stimulus checks to individuals making less than $75K per year (plus $600 for each minor child). Given that stimulus payments will likely be made through direct deposits in the next few weeks, and that unemployment benefits will probably be paid out in March, there will probably be a direct boost to incomes (~1.3% of GDP) largely concentrated in Q1. Adding to the new stimulus, US households have built up $1.8trn in savings that they could make use of over the course of 2021 (Figure 7), a process that could accelerate as Covid-19 concerns diminish and restrictions are lifted with the acceleration of vaccinations. Overall, we expect GDP to increase by 3.8% in 2021, following an upwards revised contraction of -3.4% in 2020 on the back of stronger-than-expected data in Q4 2020. On the monetary front, following the Fed's December adjustment to forward guidance regarding asset purchases, we expect the Fed to maintain the current QE pace through 2021 until the unemployment rate moves towards 5.0% (1pt above NAIRU) and core PCE inflation increases sustainably closer to 2.0%.

Figure 6: US Conference Board Consumer Surveys



Source: Refinitiv Datastream, Fathom Consulting

Figure 7: US savings ratio



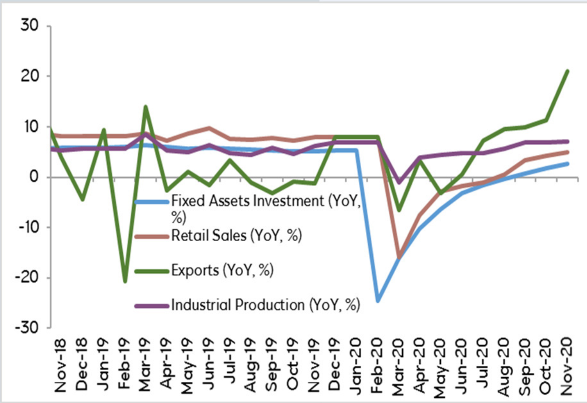
Source: Refinitiv Datastream, Fathom Consulting

China

"First in - first out" from the pandemic and the economy heading for further acceleration in 2021

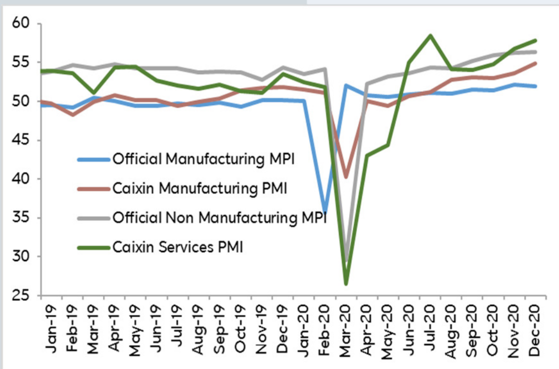
While the rest of the world continues to struggle with the Covid-19 pandemic, China appears to have left it behind for good with comparatively fewer human losses. As of January 2, 24 new cases where reported, 16 of which from overseas. Despite the fact that asymptomatic cases are not officially counted, those were limited only to 8 on the same date. With total infections around the globe having reached 84.5mn and losses 1.84mn in 2020, China, with a population of ca. one fifth of the world's total, managed to contain them to 87,117 and 4,634 respectively. Apparently, the decision to impose draconian lockdown and social distancing measures in order to contain the virus in Q1-2020, may have led to a GDP plunge by -6.8% YoY in Q1, a print unprecedented in the last 40 years. However it can currently only be praised as, since then, the economy keeps recovering steadily. The official manufacturing PMI inched down to 51.9 in December from a three-year high of 52.1 in November, below the consensus, which stood at 52.0. Identical is the trajectory of the non-manufacturing official gauge, which came in at 55.7 in November from the 56.3 consensus and 56.4 in the previous month. However, since March both indices remain in expansionary grounds, i.e. above 50.0, pointing to the economy possibly entering a plateau phase since Q1's bottoming out. In this context, the annual Central Economic Work Conference (CEWC), an annual consultation body setting the country's economic priorities for the coming year, resumed on 18 December 2020. Participating policymakers stressed that the motto of macro policies in 2021 should be "continuity, stability, and sustainability" as lingering uncertainties from both the Covid-19 pandemic and the overall external environment persist, despite the solid recovery in GDP growth. Moreover, eight key policy missions were laid out for next year, such as boosting domestic demand, self-reliance and control over strategic technology, supply chains and food security and fostering green economy, all of them reflecting the medium to long-term policy goals in the 14th Five-Year Plan the period 2021-2025.

Figure 8: Recent hard data point to continuing recovery...



Source: Bloomberg, Eurobank Research

Figure 9: ...mirrored in all PMIs as well



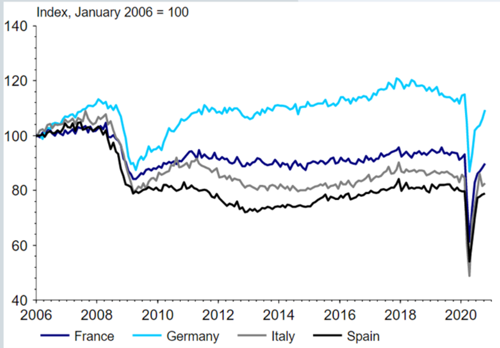
Source: Bloomberg, Eurobank Research

Euro area

A technical recession is possible at the turn of the year; growth is expected to be solid in H2 2021 as vaccinations extend to a larger share of the population

After increasing by 16.5%QoQ in Q3, industrial production expanded by 2.1%MoM in October, standing at about 3.5% from its pre-crisis level (Figure 10). Following solid momentum across countries and sectors, manufacturing activity has likely decelerated in November due to a worsening epidemiological picture and national lockdowns. Nevertheless, most recent business surveys point to a better-than-expected growth momentum at the end of 2020, as consumers seem to have adapted to the restrictions during the pre-festive period. The composite PMI rebounded considerably in December by 4.5pts to 49.8; manufacturing activity continued to improve (+1.7pts to 55.5), while services contracted at a decelerated pace (+5.6pts to 47.3). Nevertheless, the surveys do not account for the latest decisions to extend/tighten restrictions, hence we continue to expect a negative GDP print in Q4 2020, leaving 2020 GDP falling by 7.0% before rebounding by 4.8% in 2021. The approval of the Pfizer/BioNTech vaccine by the EC for use in the EU should help governments gradually relax social distancing measures, but the economic bounce-back is not expected before Q2 2021 when vaccines become widely available and recovery plans backed by the EU financing begin to take effect. In fact, with the approval of the 2021-2027 EU budget by the European Parliament, the disbursement of funds is expected to start in the first months of 2021, and euro area countries are bound to receive €33.7bn in 2021. On the monetary front, the ECB extended its monetary policy support via existing tools at its December meeting in order to preserve accommodative financial conditions, stimulate lending and drive inflation higher towards the 2.0% target. The much anticipated recalibration includes a 9-month extension of the PEPP until March 2022 "and in any case until the GC judges that the coronavirus crisis period is over", along with an additional envelope of €500bn, and a 12-month extension of the PEPP reinvestment period until end-2023. The period over which generous TLTRO III conditions would prevail was also extended to mid- 2022, while three additional operations until end-2021 were announced. The continued inflation undershooting should likely underpin ongoing monetary easing, with the strategy review in 2021 likely to discuss what measures the ECB should take to bring back inflation to target.

Figure 10: Industrial production across EA countries



Source: Refinitiv Datastream, Fathom Consulting

Figure 11: EA economic sentiment shows resilience at the turn of the year

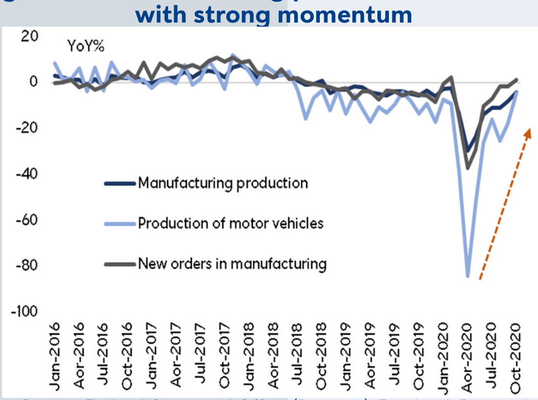
Source: EC, Refinitiv Datastream, Fathom Consulting

Germany

Expected to weather the pandemic more robustly than its major EA peers

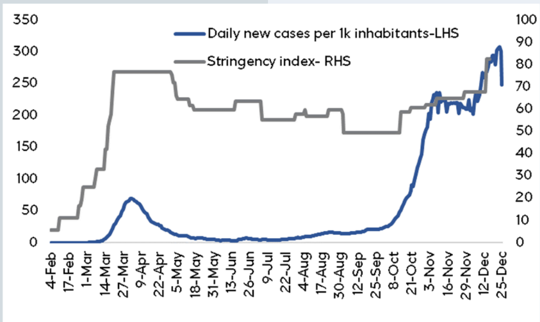
Supported by China's rebound and less affected by lockdown measures introduced to contain the spread of the second Covid-19 wave, Germany's IP gained further momentum in October after a slow start — compared to major EA peers — in the summer (Figure 12). Marking the sixth consecutive monthly increase, the October print advanced by 3.2%MoM, above the Q3 monthly average of 1.3%, taking the annual rate at a seven-month high of -2.7%, coming closer to its pre-crisis February level of -1.6%. The main driver behind the good start of Q4 was a strong increase in manufacturing — a sector on which Germany relies heavily as it accounts for around 20% of GDP — especially in the automotive sector, the single most important industry for Germany's manufacturing. Car production rose by 9.9%MoM, almost in line with the increase suggested by the VDA (German Automobile Association) car production data, pointing to a further recovery in IP in the coming months (assuming no massive cancellation of backlog orders). Supporting the above, October's factory orders advanced by a hefty 5.0%MoM, pushing annual growth back into positive territory for the first time since February (+1.3), primarily thanks to foreign orders outside the EA. Further out, the Manufacturing PMI increased in December to a near three-year high of 58.6 (from 57.8 in November), the IFO business climate index unexpectedly rose over the same month from November's 90.9 to 92.1, supported by encouraging Covid-19 vaccine developments, while the truck toll mileage index advanced in the first half of December some 4.5% above the pre-crisis Jan-Feb average. All these give hope that the expected contraction in economic activity in Q4 2020, due to the impact from the November restrictions and the hard lockdown from 16 December that is due to keep non-essential retail and schools closed until "at least" 10 January, will likely be kept relatively contained. The economy's reliance on manufacturing, which has been less affected by Covid-19 restrictions, and the government's sizable stimulus packages to mitigate the economic impact of the crisis, are expected to allow Germany to weather the pandemic more robustly than its major EA peers, leaving annual growth for the full year at -5.6%, well above the projected EA average contraction. In turn, the expected 2021 rebound will likely be less pronounced than in the rest of the EA at 4.0%, partially affected by the end of the temporary VAT cut on 1 January.

Figure 12: Manufacturing production entered Q4 with strong momentum



Source: Federal Statistical Office (Destatis), Eurobank Research

Figure 13: November's "light lockdown" failed to curb virus cases



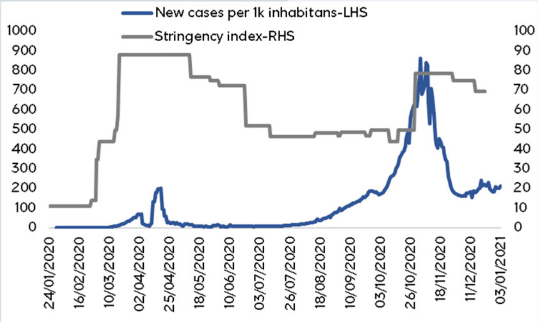
Source: Oxford Covid-19 Government Response Tracker, Eurobank Research

France

Still far from President Emmanuel Macron's target for lifting the remaining restrictive measures

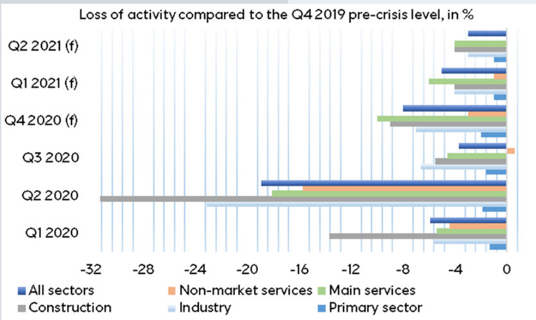
After a severe contraction in H1 2020 that took the French economy near 19% below the Q4 2019 pre-crisis level, activity bounced back by a record pace of 18.7%QoQ in Q3 2020 — the second highest in the EA over that period after Ireland — mainly supported by a sharp increase in consumer and public-sector spending. However, recent leading indicators, such as business and consumer surveys, suggest that domestic activity is set to deteriorate again in Q4, perhaps experiencing a renewed contraction, because of the imposition of another lockdown to tackle the second wave of the Covid-19 pandemic. The said lockdown lasted from 30 October until 15 December, when it was officially lifted (although a nationwide night-time curfew has been in force, except on 24 December) as it appeared to have brought down the number of new infections, but still far from President Emmanuel Macron's "ambitious" target of less than 5k new cases per day for lifting the remaining restrictive measures (Figure 14). Supporting the view for a renewed GDP contraction, the INSEE business climate index averaged 87.0 in Q4, some 1.8pts below the Q3 average in spite of the increase in December to a three-month high of 91.5. The INSEE household confidence declined to a near two-year low of 90.0 in November likely pressured by rising Covid-19 cases and renewed restrictions. Finally, the Composite PMI Q4 average stood at 45.0, below the Q3 average of 49.2, even though the flash December print moved close to the expansionary territory at 49.6 (+8.9pts), led by a surprisingly strong bounce in services (49.2, +10.3pts) and a notable improvement in manufacturing output (51.3, +2.7pts). However, the expected contraction in Q4 should be smaller than in Q2 as restrictions have been less stringent than in the spring, the range of businesses required to close was much narrower, households and businesses have become somewhat accustomed to living with Covid-19 (Figure 15). The above appear broadly in line with the INSEE's estimate that the economy was running 92% of its normal rate in December after 88% in November and 97% in October, as opposed to 69% in April (first lockdown). For the whole Q4, INSEE estimates GDP decline of 4.0%QoQ, leading to an overall 9.2% contraction in 2020. Provided that the 2020 year-end holidays do not lead to a renewed spike in infection cases and the vaccination strategy will go as planned, economic activity is expected to rebound by 6.1% in 2021, also supported by the deployment of the "France Relance" recovery plan.

Figure 14: New cases still above Emmanuel Macron's target



Source: Oxford Covid-19 Government Response Tracker, Eurobank Research

Figure 15: GDP contraction in Q4 should be smaller than in Q2



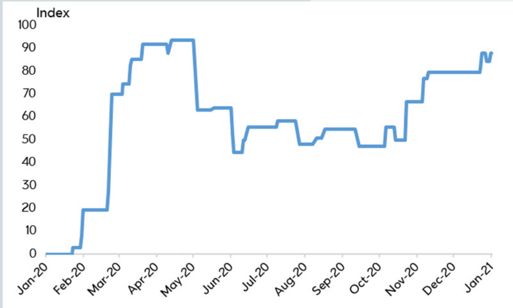
Source: INSEE, Eurobank Research

Italy

After GDP contraction at the turn of the year, a recovery is expected amid the vaccine rollout and boost from fiscal policy and EU funds

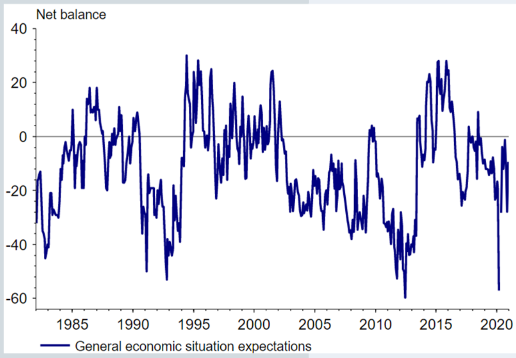
Following a strong rebound in Q3 2020 amid easing lockdown measures, real GDP growth is expected to fall back into negative territory in Q4 due to the reintroduction of regional restrictions during the holiday season along with prolonged uncertainty regarding their actual duration. EC Consumer Confidence Indicator took a further hit in November, falling to -19.6 from -17.2 in October and -15.1 in September, while the business climate indicator dropped to a four-month low of -16.0 in November. In terms of sectors, although manufacturing activity showed some resilience in October and November, renewed restrictive measures have weighed on the services sector. Hence, transportation, trade and the hospitality sectors, which are highly sensitive to significant shocks like the Covid-19 lockdowns, will likely decline in Q4 2020 and possibly in Q1 2021 as well. Nevertheless, optimism over the Covid-19 vaccines has led to a marginal improvement in consumer and business confidence in December. According to the National Institute of Statistics, consumers became more optimistic again, with the respective index rising to 102.4 from 98.4 in November. Moreover, the economic climate index increased to 86.0 from 79.8, and the business confidence climate index improved to 87.7 from 83.3. Looking ahead, we envisage an economic recovery powered by improving confidence amid the roll out of the Covid-19 vaccine, and the expected boost from national fiscal policy (~4% of GDP in 2021) as well as the rising inflows of EU funds. Italy's participation in the Next Generation EU (NGEU) program represents a great opportunity, as Italy is one of the main beneficiaries in terms of the magnitude of the support they will receive. However, grants from the recovery and resilience facility are expected to have a rather small positive impact on 2021 GDP growth (~ 0.2pp), before doubling their GDP boost in 2022. Overall, we project real GDP to increase by about 5.1% in 2021, following a contraction of 9.0% in 2020. Risks are skewed to the downside, including a potentially slow vaccine rollout, subdued domestic and external demand and elevated public debt levels. The government's 2021 budget, passed by the Italian Senate last week, envisages public debt-to-GDP ratio to fall to 155.6% from 158.0% in 2020, based on a GDP rebound of 6.0% after a 9.0% contraction in 2020.

Figure 16: Italian Stringency Index increased further but remains below March/April levels



Source: Oxford University, Bloomberg, Eurobank Research

Figure 17: Italian consumer confidence takes a further hit at the end of year



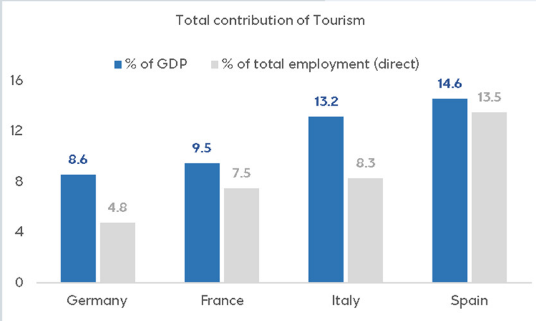
Source: Refinitiv Datastream, Fathom Consulting

Spain

The hardest hit EA economy by the Covid-19 pandemic

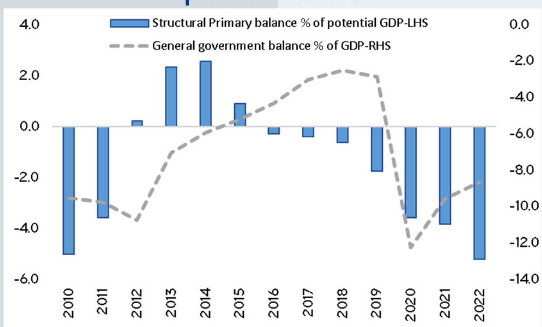
After a pronounced drop in H1 2020, GDP bounced back by 16.4%QoQ in Q3 (revised from 16.7%QoQ initially). Despite the sizable rebound, GDP was still some 9.5% below its pre-crisis Q4 2019 level, pointing to a smaller recovery in Q3 compared to other major EA peers, reflecting the sharp drop in tourism, which is among the sectors most gravely hit by the pandemic, accounting for a large share of Spain's GDP and employment (Figure 18). It is worth noting that, as of October, foreign tourism receipts stood at €18.5bn cumulatively compared to €82bn over the same period last year, some 5.0% of 2019 GDP lower. Aiming to contain the spread of the second Covid-19 wave, Spain introduced a nationwide 11pm to 6am curfew from 25 October, along with several restrictions, largely decided by regional governments, before some regions started loosening those measures in December as infection rates stabilized and the pressure on the health care system eased slightly. However, as reflected in November PMIs, restrictive measures have taken a toll on economic activity, particularly on the services sector, with the respective figure falling deeper into contractionary territory (39.5, -1.9pts), remaining though well above the lows recorded in the spring, thanks to the more localized nature of the restrictions. In a similar note, retail sales dropped in October for the eighth consecutive month (-2.1%MoM) as, despite the furlough scheme (ERTE) being extended to end-January, the unemployment rate edged up in Q3 for the third quarter in a row to 16.3%, the highest level in more than two years and confidence deteriorated, with the respective EC figure dropping in November for the second month in a row to the lowest level since May (-29.0). We expect GDP to contract by around 3.0%QoQ in Q4, taking full-year contraction to 11.8%, among the steepest GDP decline in EA, before rebounding by c. 5.4% in 2021, supported by the EU Recovery Fund. As suggested by the 2021 Budget that was approved in November, the first budget to be endorsed by the Spanish Congress in three years, fiscal policy will remain highly expansionary and the budget deficit elevated, representing downside risks for Spain's sovereign credit rating. According to the European Commission's November forecasts, Spain's structural primary deficit is projected to widen sharply from -1.8% of GDP in 2019 to -3.6% in 2020 and -3.8% in 2021, before reaching -5.2% of GDP in 2022, the largest in the EA and more than twice the EA average of -2.3% (Figure 19).

Figure 18: Tourism accounts for a large share of Spain's GDP & employment



Source: OECD, Eurobank Research

Figure 19: Dramatic deterioration in public finances

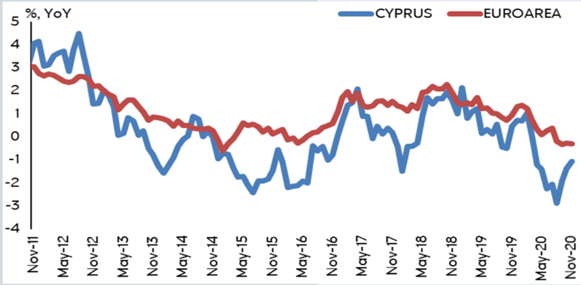


Source: Ameco, Eurobank Research

Cyprus

State Budget of 2021 rejected by the parliament

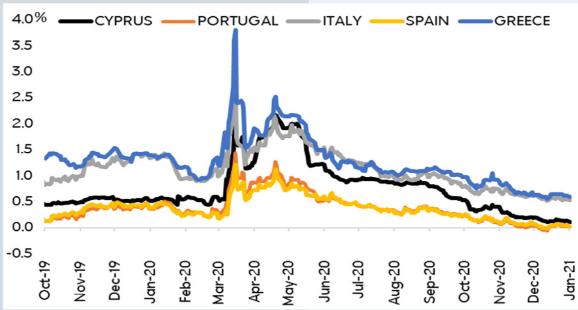
Figure 20: HICP inflation has been in negative territory since April



Source: Eurostat, Eurobank Research

In late December, the government suffered the most serious setback in its term so far. With a majority of 29 MP votes against from five political parties vs. 23 MP votes in favor from four parties, the parliament rejected the state budget for the first time in the history of the Republic. Although the rejection doesn't lead to the toppling down of the cabinet because of the Presidential system, it is still a blow to its credibility and reputation and will most probably undermine its efficiency. The ruling party DISY was already dependent on smaller parties to pass legislation in the parliament given that it doesn't enjoy a majority in the MPs. Given the non-negligible electoral casualties of the ruling party in the previous parliamentary and euro parliamentary elections, we had long argued that smaller parties were highly likely going to be progressively less friendly to the ruling party. On the positive side, the parliament approved a plan for contingency expenditures (known as "twelfths") for the month of January, which caps spending at the previous year's corresponding monthly level to avoid a government shut-down. On the negative side, that means that a number of public investment projects (including those related to public health, which are the most necessary) will be delayed. The government is expected to table an amended version in the parliament by the end of January. The rejection illustrates the ongoing political turmoil that erupted from the abrupt termination of the Cypriot Investment Programme in November in the aftermath of an Aljazeera controversial report, which filmed allegedly high ranking officials making abusive use of the scheme. The refusal of the government to grant the auditor-general access to the programme application files has sparked a fierce political debate with opposition parties. Despite its sensitivity as a small, open and services-oriented economy, with tourism making an important direct and indirect contribution (13.8% of GDP, 13.2% of total employment according to WTTC), Cyprus is outperforming initial market and international organizations forecasts and Euroarea peers so far. However, given the sharp deterioration in the epidemiological situation as of late Q3-early Q4, the downside risks to the outlook of 2021 have increased. In its revised baseline growth scenario, the Central Bank forecasts that GDP will shrink by -6.2% in 2020, followed by a rebound of 4.1% (vs. 5.6% in June) and 3.4% (vs. 4.1% in June) in 2021 and 2022 respectively. As a result, the Central Bank anticipates GDP to reach its pre-crisis levels in Q3-2022.

Figure 21: Long-term Cypriot government bond yields declined on ECB intervention



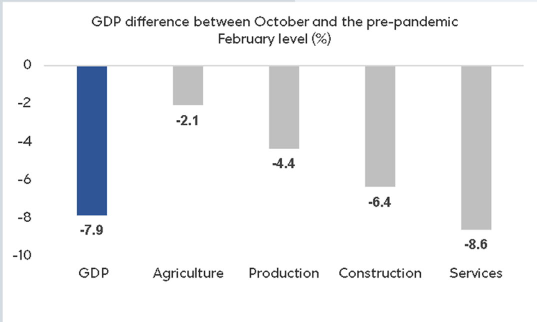
Source: Bloomberg, Eurobank Research

UK

New nationwide lockdown in response to a record-high in virus cases

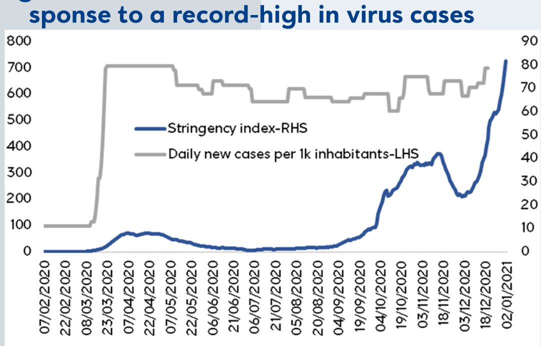
After a near 22% drop in H1 2020, following a relatively long lockdown in Q2, the UK economy bounced by a record 15.5%QoQ in Q3 on eased lockdown measures. Looking into Q4 2020, according to the most recent data, GDP rose by 0.4%MoM in October, below September's 1.1%MoM and a 5.8%MoM average over the summer months, as newly introduced tier-based local restrictions that were in place for at least part of the month, started to take a toll. The biggest negative contribution to October's GDP growth came from hospitality (-0.4pp), whereas the biggest growth driver was manufacturing (+0.2pp) along with health and education services (+0.2pp cumulatively), leaving GDP growth 7.9% below its pre-pandemic February level (Figure 22). Looking ahead, economic activity is likely to face a further significant setback in November driven by hospitality, as England entered its second nationwide lockdown over that month in response to a resurgence in Covid-19 cases. Output is likely to fall further in the last month of the year after England returned to a three-tier system on 2 December and authorities further tightened restrictions in certain parts of the country on 20 December, including London (subject to newly created Tier 4 restrictions), in response to the recent resurgence in new cases, partly due to a new strain of Covid-19. Against this background, GDP growth is expected to move back into contractionary territory in Q4 (c. -2.0%QoQ), bringing the annual growth rate for the full year to -11.3%. However, due to a continuing spike in virus cases that took the 7-day new cases average above 50k for the first time, PM Boris Johnson announced on January 4 a new lockdown, the third since March 2020 (Figure 23). It will be in place at least until February 15, as the government aims to vaccinate the majority of vulnerable residents. Against this background, a renewed GDP contraction in Q1 2021 seems highly likely, as some temporary stockpiling ahead of the Brexit transition period deadline, will likely also weigh. In addition, some economic disruption is expected over the early months of Q1, as the UK left the EU single market and the customs union on 1 January 2021 and both the public and the private sector need some time to adjust to the new post-Brexit trading agreement that was reached in late December. The economy is expected to start recovering from around mid-2021, as sufficient immunization should allow a widespread easing of restrictions, raising output by 4.9% for the full year.

Figure 22: October's 0.4%MoM GDP growth left output c. 8.0% below pre-pandemic level



Source: ONS, Eurobank Research

Figure 23: New nationwide lockdown in response to a record-high in virus cases



Source: Oxford Covid-19 Government Response Tracker, Eurobank Research

Bulgaria

Robust recovery in 2021, supported by expansive fiscal space and structural reforms

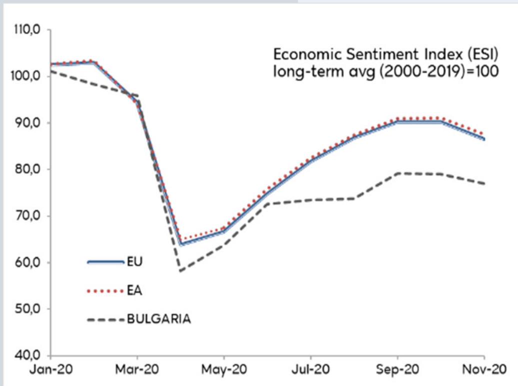
Fears of a pandemic resurgence, if the recently imposed restrictive measures were loosened, as was the case in many parts of the globe, did not leave room for any such relaxation in December. On the contrary, in mid-December, the extension of restrictions until the end of January was announced, allowing only for a few social functions to continue, among which, nurseries and primary schools. Apparently, the decision has assisted in the recent decompression of the pandemic status, which started to pick up in November, with the country ending 2020 with 202,266 cases and 7,576 casualties. In view of the above, the fiscal target was set at a -4.4% of GDP deficit in 2020, envisaging a similar level of discretionary anti-pandemic measures. However, it turns out that the 2020 budget execution has resulted in a smaller fiscal deficit of EUR1.8bn, i.e. -3% of GDP, as stated by the Finance Minister, Kiril Ananiev, on the first day of the year. The GDP rebounded by +4.3%QoQ in Q3, compared to a -9.8%QoQ contraction in the previous quarter, albeit on an annual basis it continued to shrink by -5.2%YoY vs -8.2%YoY in Q2, bringing the GDP recession in the first nine months of 2020 at -3.8% YoY. While official forecasts for 2020 stand at a -3% GDP contraction and a +5% GDP expansion in 2021, we keep our view unchanged for a -5% recession for 2020 and a +3.5% TO +4% recovery in 2021, with risks appearing broadly balanced. We consider the beginning of the vaccination on 29/12 a strong push for the economic recovery along with the healthy fiscal position, which may allow for additional supportive measures in case of a third wave in Q1-2021, when the vaccination process will still be in an early stage and the weather conditions could foster possible Covid-19 resurgence. Scheduled elections at the end of March may add to the existing uncertainty due to Covid-19, with polls at the time of writing, predicting that the parliament will continue to be split among several parties, with no clear alternative to the existing cabinet coalition between the GERB and the United Patriots party.

Figure 24: Moderate sovereign credit risk is reflected in all recent ratings with stable outlook...

Agency	Evaluation	Action	Rating	Outlook
S&P	Nov-20	Affirmation	BBB/A-2	Stable
Moody's	Oct-20	Upgrade	Baa1	Stable
Fitch	Aug-20	Affirmation	BBB	Stable

Source: S&P, Moody's, Fitch, Eurobank Research

Figure 25: ...but economic sentiment lags sizably form the EU & EA average..



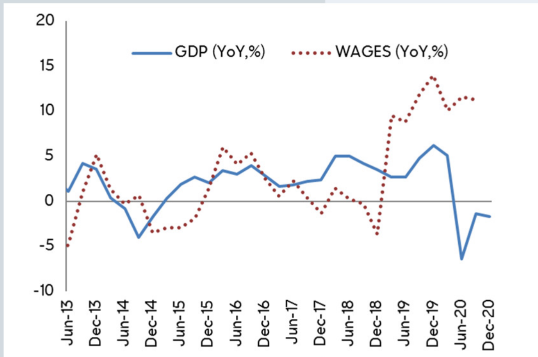
Source: Eurostat, Eurobank Research

Serbia

Top performer in the broad CESEE region in terms of containing the GDP recession in 2020

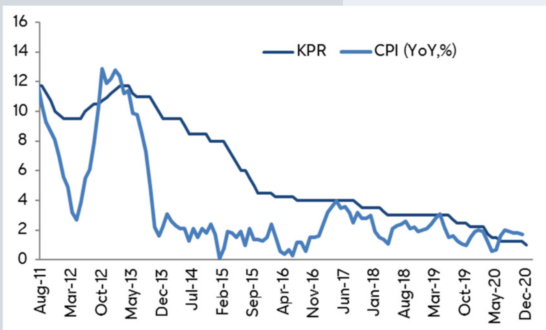
The year ended with an ambitious political and economic agenda for 2021, presented in the New Year's press conference of the President Aleksandar Vucic. As the 18-month Policy Coordination Instrument terminates in early January, a new arrangement with the IMF will be pursued, aiming to lead to "a better sovereign rating of the country" in early 2022. At present, the rating stands one notch below from investment grade as Standard and Poor's confirmed the current credit rating at BB+ in mid-December, keeping the stable outlook unchanged. Most probably, Serbia will rank as top performer this year, not only in the CESEE region but also in the EU, in terms of its GDP contraction in 2020, which was contained at around -1.1%, according to an official statistical estimate, with a robust GDP recovery expected thereafter. The GDP overperformance is broadly backed by buoyant public spending, created by the prudent fiscal policies of the past 4 years. Apart from the ad-hoc fiscal support measures at ca 11% of GDP, adopted in an effort to contain the economic repercussions of the pandemic and which are calculated, public wage increases at play since March 2019 continue at an average pace of ca 10% YoY. It is a governmental goal to lift the average salary to EUR560-570 by the end of 2021, from EUR511 in October so as for domestic demand to be supported and living standards to be improved. While the increases are positively correlated with the solid GDP growth in the past 5 years, concerns have begun to surface over their aggregate size over the past 20 months and how this could affect the competiveness of the economy. Moreover, the Fiscal Council of the country embraced the government's medium term fiscal strategy until 2023, which assumes GDP growth rates of 6% in 2021 and 4% in 2022 and 2023 but at the same time called upon the prevailing uncertainty over the global economy that could result in a higher than 60% of GDP public debt in the respective period in order for the increased wages to be sustained. On the monetary front, at December's regular MPC meeting, the National Bank of Serbia (NBS) unexpectedly, cut interest rates by 25bps from 1.25% to 1.00%, which is the lowest level in the inflation targeting regime history.

Figure 26: GDP recession contained amid firm labor market conditions...



Source: European Commission, Eurobank Research

Figure 27: ...and lack of inflationary pressures and further monetary easing



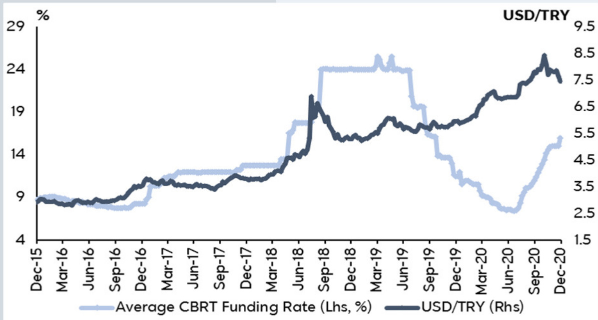
Source: Eurostat, Eurobank Research

Turkey

Market sentiment shift continues on further monetary policy tightening

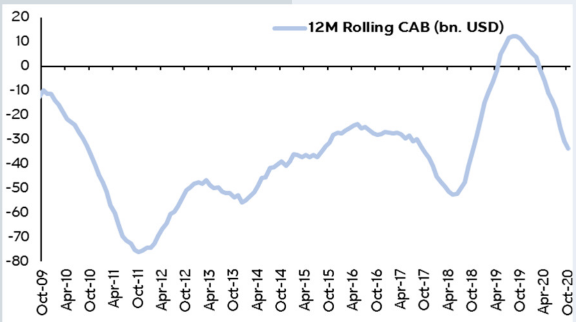
The Central Bank of Turkey (CBRT), under the leadership of the recently appointed governor Naci Agbal, surpassed markets' expectations for a sizeable interest rate increase in late December. The CBRT increased its key policy rate (KPR – the 1-week repo rate – by another 200bps to 17.0%, above market consensus for 150bps. More importantly, in the accompanying statement, CBRT reiterated its commitment to sustain the tightness of the monetary policy stance in the period ahead until strong indicators point to a permanent fall in inflation in line with the targets and price stability. In our view, the interest hike is another step in the right direction to restore policy credibility, increase transparency and predictability, address financial stability risks but also attract portfolio inflows to finance the current account deficit and restore the relatively low, by any metric, FX reserves capacity of CBRT (FX reserves at USD41.1bn in November). The aggressive monetary policy stance of the previous administration had pushed real interest rates into deep negative territory, stoking concerns for the lira and for a resurgence in inflation at a later stage. Inflation has jumped to 14.6% YoY in December compared to 11.9% YoY in October, against a 9.4% YoY year-end target in 2021 and a 5% mid-term target. Factoring in the latest inflation developments, the latest hike should be enough to soothe market concerns and offer a decent rate premium reward to satisfy investors' appetite. Nevertheless, in order to succeed from a medium-term perspective, it also needs to be accompanied by a more conventional free markets oriented economic policy. To this effect, there have been many verbal messages from the new leadership, which need, however, to translate into more concrete action. In his speech to an international forum, the recently appointed Minister of Finance, Lutfi Elvan, reiterated the government's will to fight inflation and improve the investment environment through the implementation of economic and judicial reforms. In addition, he advocated that the country offers significant opportunities for investors looking for a new and safe haven amid the potential shift in global supply chains in the post-Covid19 pandemic period. The market sentiment has shifted significantly across Turkish assets over the past two months. Having plunged to an all-time low at 8.52/$ on November 7, the lira rebounded to 7.83/$ at the end of November and continued its year-end rally trading at 7.45/$ in late December.

Figure 28: Lira rebound continued in December upon the change of leadership in key posts



Source: Bloomberg, Eurobank Research

Figure 29: Macroeconomic imbalances have been unwinding rapidly in 2018-20



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	2.8	-3.8	5.0	3.5	2.6	2.7									
Advanced Economies															
USA	2.2	-3.7	3.8	1.8	1.2	2.0	3.7	8.2	6.5	-2.2	-2.3	-2.3	-6.3	-16.5	-9.5
Eurozone	1.3	-7.3	4.5	1.2	0.3	1.0	7.6	8.0	9.0	2.3	2.0	2.3	-0.6	-9.0	-6.0
Germany	0.6	-5.6	4.0	1.4	0.5	1.3	3.2	4.0	4.0	7.6	6.2	6.6	1.4	-6.5	-4.0
France	1.3	-9.2	6.1	1.3	0.5	0.8	9.2	8.5	9.9	-0.8	-1.9	-1.5	-2.8	-11.3	-7.5
Periphery															
Cyprus	3.2	-6.5	3.5	0.5	-1.0	1.0	7.1	8.0	7.5	-7.1	-10.0	-9.0	2.8	-4.5	-2.0
Italy	0.3	-9.0	5.1	0.6	-0.2	0.4	9.9	9.5	11.4	2.7	2.6	2.7	-1.6	-11.4	-7.0
Spain	2.0	-11.8	5.4	0.8	-0.3	0.6	14.1	16.2	17.7	2.0	1.6	2.2	-2.8	-11.9	-8.0
Portugal	2.2	-8.8	4.8	0.3	-0.1	0.6	6.5	7.8	8.4	-2.0	-1.4	-0.5	-0.3	-8.2	-5.5
UK	1.4	-11.3	4.9	1.8	0.6	1.5	3.8	4.8	6.8	-4.3	-3.0	-3.4	-2.5	-16.5	-9.0
Japan	0.7	-5.4	2.6	0.6	-0.1	0.0	2.4	2.9	3.1	3.6	2.8	3.1	-3.9	-13.0	-7.5
Emerging Economies															
BRICs															
Brazil	1.1	-4.5	3.5	3.7	3.2	3.5	14.0	13.5	14.5	-2.7	-0.4	-1.1	-1.7	-15.8	-7.5
China	6.1	2.0	8.2	2.8	2.6	1.6	3.6	3.8	3.6	1.2	1.7	1.4	-4.9	-6.7	-5.7
India	6.1	-7.5	10.0	3.7	5.5	4.2		*NA*		-0.9	0.9	-0.9	-0.2	-8.0	-6.0
Russia	1.3	-3,8	3.0	4.5	3.4	3.7	4.6	5.9	5.6	4.8	1.9	2.0	1.5	-2.5	-1.0
CESEE															
Bulgaria	3.4	-4.5	3.7	2.5	1.8	2.2	4.2	6.0	5.6	4.0	2.0	3.0	-1.0	-3.0	-3.9
Romania	4.1	-5.0	4.0	3.8	2.8	3.3	3.9	5.5	5.0	-4.6	-5.5	-4.5	-4.1	-9.0	-7.0
Serbia	4.8	-1.1	4.5	2.2	1.5	1.9	13.4	10.3	11.0	-5.8	-6.4	-5.6	0.2	-8.0	-2.9
Turkey	0.9	0.5	4.0	15.2	12.5	12.0	13.8	14.5	14.0	1.1	-4.5	-1.5	-3.0	-7.0	-4.0

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

Eurobank

Eurobank Fixed Income Forecasts

	Current	March 2021	June 2021	September 2021	December 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	0.14%	0.15%	0.15%	0.16%	0.18%
3m Libor	0.24%	0.26%	0.26%	0.27%	0.30%
2yr Notes	0.12%	0.20%	0.24%	0.28%	0.33%
10 yr Bonds	0.93%	0.96%	1.07%	1.14%	1.24%
Eurozone					
Refi Rate	0.00%	0.00%	0.00%	0.00%	0.00%
3m Euribor	-0.55%	-0.49%	-0.48%	-0.47%	-0.46%
2yr Bunds	-0.72%	-0.68%	-0.64%	-0.61%	-0.60%
10yr Bunds	-0.59%	-0.49%	-0.41%	-0.34%	-0.33%
UK					
Repo Rate	0.10%	0.10%	0.10%	0.10%	0.15%
3m	0.03%	0.09%	0.10%	0.13%	0.13%
10-yr Gilt	0.19%	0.25%	0.33%	0.38%	0.48%
Switzerland					
3m Libor Target	-0.77%	-0.74%	-0.74%	-0.74%	-0.75%
10-yr Bond	-0.61%	-0.48%	-0.42%	-0.39%	-0.41%

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 Rapanos
Economic Analyst
v-trapanos@eurobank.gr
+ 30 214 40 59 711

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

More available research at: https://www.eurobank.gr/en/group/economic-research
Subscribe electronically at: https://www.eurobank.gr/el/omilos/oikonomikes-analuseis/forma-ekdilosis-endiaferontos
Follow us on twitter: https://twitter.com/Eurobank_Group
Follow us on LinkedIn: https://www.linkedin.com/company/eurobank