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GLOBAL & REGIONAL MONTHLY

The emergence of the Omicron variant has undoubtedly cast a shadow of uncertainty over the short-term path of global economic activity. However, over the medium-term, fundamental conditions for a continuing recovery are still in place, as there is a number of factors that could restrain the drag on the economy. Meanwhile, surveys pertaining to Q4 suggest that growth momentum is picking up, assisted by tentative signs of fading supply constraints. However, price pressures remain elevated, with several major CBs indicating readiness to act, amid concerns that stubbornly high inflation could become entrenched in inflation expectations.

Macro Picture

USA: Incoming data set the stage for a GDP growth rebound in Q4

EA: Growth momentum has likely moderated in Q4 amid a fourth wave of Covid-19 infections

UK: GDP growth is slowing amid supply side constraints and cost pressures

EM: Q3 readings indicate growth divergence among Asia, LatAm and CESEE

CESEE: Q3 GDP prints reveal a mixed trend in the region with leaders and laggards

Markets

FX: USD strength has paused as QE tapering seems priced in for the moment

Rates: EU and US rates remain very volatile, both of the curves flattened vis a vis earlier than expected interest rate hikes

EM: EM assets hit by the strong USD, hawkish FED and the new Omicron variant, with volatility very elevated

Credit: Spreads wider in end November, moderately wider by year-end

Policy Outlook

USA: Risks tilt towards an acceleration in the Fed's monetary-policy normalization process

EA: A lift-off of ECB interest rates still a long way off, in spite of elevated inflationary pressures

UK: A BoE rate hike likely to come shortly, conditional on post-furlough labor market conditions

CESEE: Tightening cycle by Central Banks at full expansion in the effort to combat inflation

Key Downside Risks

DM: Spread of new vaccine-resistant infectious variants, re-imposition of widespread lockdowns, more persistent price increases, de-anchoring of inflation expectations, premature and aggressive withdrawal of policy support

EM: The course of the pandemic and the inflationary outlook; EMs ability to mitigate risks depends on the debt levels and the policy space available in every EM economy

Special Topics in this issue:

⇒ COP26: Good basis for bolder actions in the period ahead

⇒ The meltdown of the turkish lira

Contributing Authors:

Anna Dimitriadou
Economic Analyst
andimitriadou@eurobank.gr

Maria Kasola
Economic Analyst
mkasola@eurobank.gr

Paraskevi Petropoulou
Senior Economist
ppetropoulou@eurobank.gr

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Anna Dimitriadou
Economic Analyst
andimitriadou@eurobank.gr

Maria Kasola
Economic Analyst
mkasola@eurobank.gr

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Senior Economist
ppetropoulou@eurobank.gr

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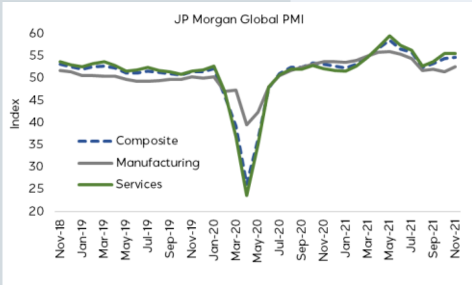
Macro Views

Latest Macroeconomic Developments & Outlook

World Economic Outlook

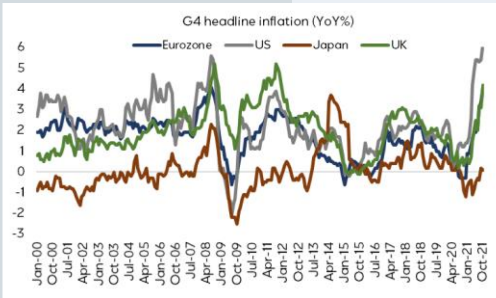
Despite relatively high vaccination rates, a new Covid-19 wave is sweeping across the Northern Hemisphere. New cases are rising sharply across Europe and in the US Midwest States. Hospital capacity has come under increasing pressure, forcing some governments to reintroduce tighter restrictions or even a lockdown (Austria, Latvia, Slovakia), which would result in a reduction in mobility, with negative repercussions on the demand side. The emergence of the Omicron variant also prompted some border restrictions by a number of European countries. However, the risk of stricter measures, even increase of widespread lockdowns, cannot be ruled out entirely, should pandemic-related fears intensify, a development that would result in a further increase in near-term inflation pressures from supply bottlenecks. In any case, the new Covid-19 wave and the Omicron variant have undoubtedly cast a shadow of uncertainty over the short-term path of global economic activity and prices, with the official results over the new variant's transmissibility and virulence as well as the degree of potential resistance to Covid-19 vaccines expected to be publicly announced within the next few weeks. However, over the medium-term, fundamental conditions for a continuing global recovery are still in place, as there is a number of factors that could restrain the drag on the economy. These include, inter alia, peoples' significant degree of adaptation to living alongside Covid-19, the expected re-implementation of certain fiscal support measures, if needed, and still elevated "excess" savings. Meanwhile, surveys pertaining to Q4 suggest that positive growth momentum is picking up, with global economic activity weathering near-term headwinds. The J.P. Morgan Global Composite PMI Index rose in November for the third consecutive month following a solid move up in manufacturing amid signs of fading supply constraints, while the recovery in the service sector slowed on the back of increasing pandemic concerns. Meanwhile, price pressures remain elevated, with several major CBs indicating readiness to act amid concerns that stubbornly high inflation could become entrenched in long-term inflation expectations.

Figure 1: Growth momentum is picking up



Source: Bloomberg, Eurobank Research

Figure 2: Inflationary pressures remain elevated



Source: Bloomberg, Eurobank Research

Developed Economies

US: GDP growth lost steam in Q3, growing by an annual rate of 2.1%QoQ according to the second estimate (upward revised from the advance estimate of 2.0%QoQ), the slowest pace since Q2 2020 and well below the 6.7% print in Q2. The slowdown was mainly driven by personal consumption, which increased by a lackluster 1.7% compared to a 12.0% surge in Q2, amid fading stimulus support, lingering supply-chain disruptions and fears over Covid-19 infection risks. However, high frequency and sentiment indicators pertaining to Q4, support optimism that the soft patch of activity in Q3 has come to an end and economic growth is likely to regain momentum heading into year-end. Meanwhile, inflation increased further in October, reinforcing concerns that supply-driven price pressures will likely remain elevated for longer than previously expected. Growing risks of stubbornly high inflation becoming entrenched in long-term inflation expectation, have prompted a shift in FOMC communication towards a more hawkish direction, with Fed Chair Jerome Powell giving the signal for an accelerated monetary-policy normalization process, barring a significant deterioration in the activity data or virus conditions.

Euro area: A new Covid-19 wave is sweeping across the Euro area, putting considerable pressure on hospital capacity and forcing governments to reintroduce some restrictions. In spite of the virus flare-up, November sentiment surveys, including PMIs and EC Euro area consumer sentiment, surprised to the upside. However, we should take these positive surprises with a pinch of salt, as growth momentum will likely moderate sharply in Q4 following a higher-than-expected GDP growth rate of 2.2%QoQ in Q3. The emergence of the Omicron variant points to increased downside risks to aggregate demand, supply issues are far from resolved, while inflationary pressures continue to rise, leading to a squeeze in household disposable income. Against this background and in spite of concerns that inflation may remain high for a bit longer than previously expected, the ECB is anticipated to retain an overall dovish stance at the next monetary policy meeting on 16 December, reiterating the transitory nature of the inflation spike and stressing once again that initiating a lift-off in interest rates is still a long way off.

Emerging Economies

EM: As we approach the year-end, the divergence among the emerging economies in terms of GDP growth in 2021 has become more apparent. While developing economies in Asia and Europe seem to be approaching the pre-pandemic levels of economic activity, LatAm and Africa will need more time to cover the same distance. Quicker and more efficient access in vaccines but also milder recessions in 2020 in the former two developing areas are rendered the catalysts for the widening division in the emerging world during the last couple of years. That said, in 2021, GDP is expected to come in on average at 6% for the entire EM region with the GDP growth rates in CESEE and LatAm lying around that area. Asian economies - broadly driven by China, which despite its deceleration continues to clearly outperform the region – are expected to post GDP growth rates above 7% on average and Africa will remain the laggard with a GDP growth rate close to 3.5%-4.0%. The growth outlook for 2022 remains extremely fragile; the course of the pandemic and the inflationary outlook imply downside risks to the GDP growth outlook with their severity mitigated relatively to the debt levels and the policy space left in every EM economy.

CESEE: As of early December 2021, the epidemiological situation seems to be differentiating across the Central, Eastern and Southeastern Europe (CESEE). Countries with relatively higher vaccination rates such as Croatia (fully vaccinated 50%), Poland (54%), the Czech Republic (60%) and Hungary (60%) continue to post high number of infections on a daily basis, while those with lower vaccination rates, namely Serbia (45%), Romania (39%), and to a bigger extent Bulgaria (26%), post sharper reductions of daily cases, which, strangely, cannot be attributed to more restrictive measures in the latter group of countries. Along these lines, the region embraced the news on the new Omicron strain in a rather indifferent way with the Economic Sentiment Index in November showing tepid fluctuations in all countries. With all economies having by now published their Q3-2021 GDP growth readings, Croatia (+10.6% YoY), Estonia (+8.6 YoY), Serbia (+7.7% YoY), Hungary (+7.3% YoY) and Romania (7.0% YoY) have a lead in terms of GDP growth in the first nine months of 2021, while Slovakia (+3.7% YoY), Bulgaria (+3.5% YoY) and the Czech Republic (+3.1% YoY) appear as the laggards of the group. Despite the wide range in the economic performance among the aforementioned economies and with the Baltics and Poland standing close to the EA and EU 9M2021 GDP growth average at 5.8% YoY and 5.7% YoY respectively, the common denominator for the entire region is the uncertainty of the Covid-19 impact in the last quarter of the year. The pandemic course comes with continuing inflationary pressures that have already pushed the majority of the regional Central Banks into tightening through interest rate hikes with the hawkish stance expected to intensify further in the near future.

Special Topics

I. COP26: An important step forward and a basis for bolder actions in the period ahead

About COP26

The "Conferences of the Parties[1]", also known as COPs, are global annual climate summits held by the UN for nearly three decades bringing together almost every country on earth. COP26, held in Glasgow from 31 October to 12 November 2021, was the 26th COP and was attended by almost 200 countries as well as a plethora of negotiators, government representatives, businesses and citizens. Unlike previous climate summits, COP26 had a distinctively urgent character, as the impact of climate change is increasingly visible, devastating and unpredictable.

At the historic 2015 conference in Paris, a target was set to reduce global warming to well below 2°C, preferably 1.5°C compared to pre-industrial levels and achieve a climate neutral world by 2050. To limit warming to 1.5°C, global emissions must be reduced by 45% until 2030. To this effect, countries agreed to reduce greenhouse gas emissions, adapt to changing climate conditions and allocate financial resources available to deliver on these goals. Furthermore, under the Paris Agreement, countries committed to submit national plans setting out how much they would reduce their emissions, or Nationally Determined Contributions (NDCs), while every five years they would bring forward updated plans, which should reflect the most ambitious goals at that time. The run-up to the Paris agreement, when the updated plans had to be brought forward, was COP26, which was delayed by one year due to the pandemic.

The main goals of COP26

1. Mitigation – reducing emissions. As things stand, the world is currently not on track to limit global warming to 1.5°C, rather the targets announced in Paris would result in warming well above 3°C by 2100 compared to pre-industrial levels. As a result, it is imperative that global net-zero be secured by mid-century so that the 1.5°C target can be kept within reach. This requires concerted action to enhance NDCs, phase down coal power, halt and reverse deforestation, accelerate the switch to electric vehicles and reduce methane emissions. Progress of varying degrees has been achieved in these areas:
   I. NDCs. Although 120 parties submitted new or updated NDCs, the new targets only narrow the gap to 1.5°C by 15-17% and, if fully implemented, which is not certain, are projected to result in warming of 2.4°C by the end of the century. In order to achieve the objective of keeping the temperature increase below 1.5°C, the additional reductions before 2030, above the present NDC commitments should be equal to an emissions reduction equivalent to two years of the current, annual emissions. The Glasgow Climate Pact requires parties to revisit and enhance their 2030 targets before the end of 2022 to align them with the Paris Agreement temperature goal.

[1] Parties are the signatories of the United Nations Framework Convention on Climate Change (UNFCCC) – a treaty agreed in 1994, which has 197 Parties (196 countries and the EU).

II. Coal power. Coal is the single biggest contributor to human-created climate change, hence keeping the 1.5°C alive requires stopping building new coal power plants, scaling up clean power and withdrawing coal fleets by 2030 in advanced economies and by 2040 globally. COP26 marks the first time ever that reducing fossil fuels are referred to in a COP decision. At COP26, 23 new countries committed to phasing coal out and 28 new countries joined the Powering Past Coal Alliance (PPCA). Furthermore, all major coal financing countries pledged to end international coal finance by the end of 2021, while over USD20bn has been committed for a just and inclusive transition from coal to green energy. Finally, 34 countries and 5 public finance institutions committed to end direct public support (c.USD24 billion annually) for the international unabated fossil fuel energy sector by the end of 2022, including major international lenders like HSBC, Fidelity International and Ethos.

III. Deforestation. At COP26, 137 countries, covering 91% of the world's forests, pledged to end deforestation by 2030, while 28 countries launched a roadmap towards a global shift to sustainable development and trade of agricultural commodities. Additionally, significant funds in the order of c. USD22.5bn have been pledged for various causes concerning mitigation.

IV. Switch to electric vehicles. More than 30 countries, six major vehicle manufacturers and other actors, like cities, proclaimed their intention for zero-emission vehicles by 2040 globally and by 2035 in the leading markets. Phase-out dates for internal combustion engines have also been set by a number of major manufacturers.

V. Reducing methane emissions. At COP26, over 100 countries[2] signed up to the Global Methane Pledge to reduce by 2030 global methane emissions by 30%, which corresponds to 46% of global methane emissions and is critical for keeping the 1.5°C target feasible.

2. Adaptation - helping those already impacted by climate change. The effects of climate change are becoming more and more apparent to many people around the world, many of whom have a minimal share of responsibility for it. As the climate continues to change, countries need to collaborate to protect and restore ecosystems, build defenses, put warning systems in place and make infrastructure and agriculture more resilient to avoid loss of homes, livelihoods and lives. The [Paris Agreement] called for the establishment of a Global Goal on Adaptation, the adaptation equivalent of the global mitigation goal to limit temperature rise to 1.5°C and an important means for tracking countries' adaptation progress. Although a Global Goal on Adaptation was not made operational during COP26, there was modest progress in this area with the launch of the two-year Glasgow-Sharm el-Sheik Work Programme on the Global Goal or Adaptation. Beyond that, however, considerable progress was made in mobilizing significant amounts of funding to promote various adaptation-related objectives, through organisations such as the Coalition of Disaster Resilient Infrastructure, the Climate Adaptation & Resilience research framework programme, the Least Developed Countries initiative for Effective Adaptation and Resilience, the Community Resilience Partnership Programme and Financing Locally-Led Climate Action. Finally, the Adaptation Research Alliance was established, the first such organization, with the participation of 60 organizations from 30 countries, which aims to strengthen the resilience of vulnerable communities.
3. Finance - enabling countries to deliver on their climate goals. To achieve the first two goals, developed countries must deliver on their promise to raise at least USD100bn per year in climate finance. The scale

[2] Among the countries that signed the Global Methane Pledge are six of the world's top 10 methane emitters, namely the US, Brazil, EU, Indonesia, Pakistan and Argentina.

and speed of the changes that need to be made require public finance for the development of the necessary infrastructure to transition to a greener and more climate-resilient economy and private finance to fund technology and innovation, and to help turn the billions of public money into trillions of total climate investment. During the conference, new commitments were made to provide funding that make the goal of USD100bn achievable by 2023, while it is now possible to mobilize USD500bn during the period 2021-2025. Financial institutions have also announced initiatives to strengthen climate and sustainable development actions and share risk with developing countries. Meanwhile, these actions would lose their meaning if, at the same time, public funding for fossil fuels continued. At COP26, 34 countries – including all of the G7 except Japan – and 5 public finance institutions committed to ending new direct public support for international fossil fuel extraction and the unabated fossil fuel energy sector by the end of 2022. Finally, some progress has been made in monitoring the implementation of commitments as well as in transparency and information regarding green investments, so that investors may better assess risk.

4. Collaboration - working together to deliver even greater action. Among the main objectives of COP26 was to finalize the 'Paris Rulebook', which describes in detail the rules and systems that will underpin the Paris Agreement. COP26 succeeded in bridging disputes that had so far been insurmountable and reaching an agreement on the following issues: 1) the three constituent parts of Article 6, covering voluntary cooperation, a new carbon crediting mechanism, and non-market approaches, 2) common timeframes for emissions reductions targets (NDCs), and 3) the detailed tables of the Enhanced Transparency Framework to ensure a common approach for tracking and communicating emissions, support and action. Another important step was the endorsement of the Breakthrough Agenda by 40 countries representing 70% of global GDP. This initiative aims to accelerate the development and deployment of clean technologies and sustainable solutions in the high emitting sectors of power, road transport, steel and hydrogen. In addition to the above, the conference initiated or strengthened many other collaborations with the participation of national, public and private actors to promote various objectives such as clean energy, forest protection, decarbonisation of shipping and aviation and the just transition.

Was COP26 successful?

The Glasgow Climate Pact can be considered successful overall, as the main goal of keeping the temperature below 1.5°C above pre-industrial levels was kept alive, while for the first time fossil fuels were targeted as the main source of overheating and progress was made on rules for carbon and methane emissions. Many countries have raised their ambitions, with India among several large economies, strengthening its 2030 targets and pledging to hit net zero emissions by 2070. The need for additional financing from developed countries was also greatly emphasized, while significant funds were pledged for a number of causes such as clean energy, the protection of forests, just transition, agriculture, etc.

Nevertheless, the COP26 results were less ambitious than expected. The pledges on emissions cuts fell short of those required for the 1.5°C target and, instead, countries simply limited themselves to reviewing their targets by the end of 2022, instead of every five years as previously planned. On unabated coal power, while the original goal was for the countries to agree on phasing it out, they eventually compromised on phasing it down to get India on board the agreement. As regards carbon pricing, which refers to applying direct and explicit costs on greenhouse gas emissions to encourage practices and investments towards decarbonization, no conclusive decisions were made in establishing a uniform carbon pricing mechanism for all nations. On climate finance, it remains unclear when the USD100bn annual climate finance pledge through to 2025 will be raised in full, while regarding adaptation, more financing needs to be raised by developed countries to address the needs of developing countries exposed to climate-change risks. With regard to the various multilateral agreements and dialogue frameworks on issues such as deforestation and the phasing out of fossil fuels, there is a need for monitoring and accountability mechanisms. Finally, as a general comment, many observers at the summit were left with the impression that there was too much reliance on new technologies to tackle climate change - many of which are still in their infancy - rather than changing behaviors, which raises concerns as to the effectiveness of the proposed solutions.

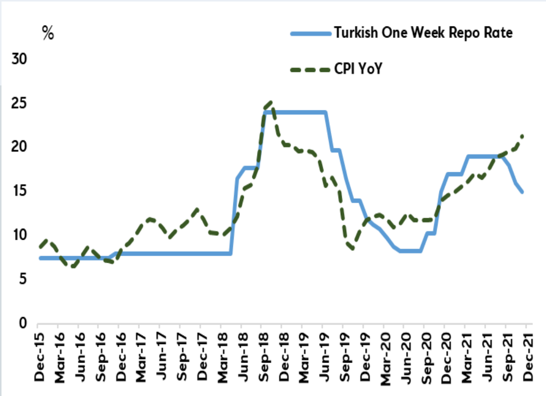
What lies ahead?

If some were disappointed with the mixed results of the Glasgow summit, they could be encouraged by viewing it as a necessary preparatory stage for bolder decisions at the COP27 in Egypt next year. But for this to happen, it is imperative that in the meantime countries bring forward more ambitious NDCs to keep the 1.5°C within reach and lay the groundwork for policy and regulatory changes that will allow implementation, monitoring and accountability of the various agreements and commitments. Governments should also build further on solidarity and trust and ensure that developed countries take concrete action to support developing countries. Finally, if the effects of climate change become even more pronounced in the near future, public pressure to take more effective measures is expected

II. The meltdown of the Turkish lira

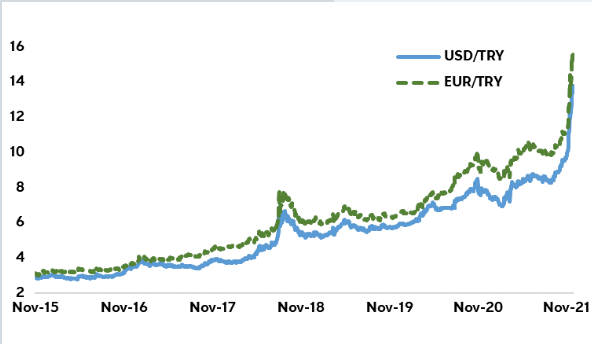
The Turkish lira suffered an historic crash on November 23 sliding by more than 15% intraday against the dollar and the euro. The lira has depreciated against these two major currencies by more than 35% since the beginning of the year and more than 20% only in November, resulting in the biggest depreciation year-to-date that an emerging currency has ever experienced against any strong currency. The recent havoc, which is still at play, was triggered, inter alia, by the speech President Recep Tayyip Erdogan gave on November 22, in which he defended the monetary policy of the Central Bank of Turkey (CBRT), despite the fact that market consensus appears to read this policy as rather unorthodox. The turmoil is still far from subsiding as President Erdogan continues to fuel market worries with repetitive statements that defend a low interest rate policy at a moment when inflation is above 20% YoY (as of November) and the key policy rate has been reduced to 15% from 16% in the last Monetary Policy Committee (MPC) held by the Central Bank of Turkey in mid-November. In our view, as things stand, a resolution to the monetary deadlock Turkey has entered is considered extremely difficult for the following reasons:

Figure 3 : Unorthodox monetary policy...



Source: Bloomberg, Eurobank Research

Figure 4 : ..brought the Turkish Lira on the verge



Source: Bloomberg, Eurobank Research

- ✓ The shaped economic landscape keeps investors away from Turkey. Indicatively, FDIs directed towards the Turkish economy stood at ca. USD8bn in 2020 vs ca USD20bn in 2007.
- ✓ By the end of 2021, maturing private and public external debt amounts to USD13bn, of which more than half, i.e. USD8bn is due in November. The said figure is the highest for the next 10 months and considerable amounts of USD will be demanded in the following months by selling TRY, increasing the already high pressure on the local currency.
- ✓ Additionally, as we go through the winter season, additional funds in dollars will be asked for natural gas supplies increasing the pressure on the lira. The country has already increased its purchases from the US in order to get through the winter.

Where is Turkey heading to?

The next stage of the current foreign exchange crisis could be episodes of credit suffocation with consequent credit downgrades and debt restructurings. Already, Fitch Ratings downgraded the outlook on Turkey's sovereign credit rating to negative, grounding its decision to a deterioration in the domestic confidence as a result of the unorthodox monetary easing. The outlook change came the next day after President Recep Tayyip Erdogan replaced the Minister of Finance, given the latter's opposition against the economic policy followed at the time. Exports may have gotten cheaper due to the severe depreciation of the local currency but imports have gotten more expensive and while these opposite dynamics improve the figures in the current account balance of Turkey, which has diachronically been one of the soft underbellies of the Turkish economy, the effect is rather ostensible. The imposition of maximum quantities to imported goods under purchase by Turkish citizens who rushed to buy i.e. coffee and sugar are quite self-explanatory over the economic circumstances currently prevailing in Turkey and their impact on the living standards of the Turkish people. As things stand, the situation will get worse before it starts to get better as the ending of this vicious cycle is still far from sight.

What could have an alleviating impact?

- ✓ The statement of the CBRT that the easing cycle is coming to an end, with the Central Bank, however, lacking the required credibility. Note that the current Governor of the CBRT, Şahap Kavcıoğlu, is the third in office in the last 12 months, as the former two, Murat Uysal and Naci Ağbal, were ousted from the Central Bank with their replacement being read by the market as political interference in the, traditionally, independent conduct of monetary policy.
- ✓ Investments from the United Arab Emirates (UAE), mostly in energy projects of a total consideration of ca USD10bn could act as a temporary injection of liquidity. The interesting part of this recently sealed deal is that it came after 10 years of a chill in the relations between the Sheikh of Abu Dhabi (Mohammed Bin Zayed Al Nahyan) and President Erdogan. While the lira has slid for 11 consecutive days in November against the USD and the EUR, losing more than 40% of its value, the announcement of the deal with the UAE a couple of weeks ago erased some losses giving back 15% of the lira's value against the USD. Having noticed that such deals support the currency, albeit temporarily, President Erdogan is currently in the process of touching base with other states of the Gulf, such as Qatar, in order to attract additional funds. Geopolitical analysts expect that such approaches on behalf of Turkey toward the wider area will follow in the coming year.

Concluding, the severe depreciation of the lira and the soaring inflation have pushed a substantial part of the Turkish people into poverty and such an adverse development will come at a high social and political cost, taking also into account that presidential elections are scheduled for 2023. Until then and throughout 2022, Turkey will be closely monitored by investors and analysts who will try to timely guess the way the crisis will end; will there be an IMF intervention? Will loose or even strict capital controls be imposed? Will there be a change in the geopolitical agenda of Turkey with financial assistance in exchange? One thing is for sure, "erdoganomics" are about to be continued with one or a combination of the aforementioned options, continuing to send worrying signals to markets over contagion risks.

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CESEE Markets Developments & Outlook

Bulgaria

Eurobond yields dropped across all maturities, with sharp spikes being registered along the mid and long-end of the curve. In detail, the 2027-28 papers slid by 11 bps, followed by the 2030 and 2050 papers with 15 bps each. The short end of the curve was also active, with the 2023 and the 2024 tenors seeing yields dropping by 10 and 2 bps respectively. Local papers on the other hand saw little change within the month, with the exception of the 10-year tenor, which slid by 10 bps. During November, the Ministry of Finance re-opened the 5-year local paper auction and also offered two new tenors, 3.5-year and 7.5-year, raising in total EUR 750mm, exceeding by EUR250mm the amount issued in October. The Ministry of Finance has scheduled another EUR200mm auction for December, which will conclude this year's auctions. Looking ahead, the Ministry has indicated that 2022 will be an active year in terms of Eurobonds placements, as in H2-2022 the two Eurobonds that mature will have to be refinanced. Additionally, approximately EUR2.5bn in local papers are about to be auctioned throughout the year.

Serbia

Local markets remained relatively calm despite the recent turmoil caused by the new Omicron variant and the switch in the FED Chairman Powell's narrative from "transitory" inflation to "more persistent". The Serbian dinar will, most probably, continue to remain stable against the Euro as it is still strongly guarded by the National Bank of Serbia (NBS). Cemented FX rate around the levels of 117.55 – 117.58 will continue to be targeted by the NBS, especially now that high inflation readings have kicked in and a fluctuation in the EUR/RSD rate could increase the already high pressure on the levels of prices. That said, going forward, the NBS, apart from any necessary interventions in the local FX market, may have to proceed with some tightening by rising the Key Policy Rate, which has remained unchanged throughout 2021 (at least for the 11 out of the 12 months) at 1%. On the fixed income space, government bond yields have already reflected the rising inflation over the past 3 months. The yields posted significant increases in October when inflation jumped out of the NBS's target tolerance band (3±1.5%), continuing to extend their upward trend in November. In detail, throughout November, the yields have increased by an average of 30bps on a monthly basis and by 100bps compared to the levels at the end of August.

Markets View

Foreign Exchange

EUR/USD: The pair touched the low level of 1.12, with investors having to deal with a lot of factors during the year's end. The Omicron Variant and the subsequent risk-off sentiment across global markets, the inflation overspreading in a broader than expected pace and the fears that the Fed could be mis-interpreting it as "transitory", while its persistence gets stronger at each new official reading, has led to this jittery pair's movement. In case the Fed's discussion on speeding up the tapering at the December meeting in an effort to balance the inflation shock is materialised, we expect the pair to revert to the 1.13-1.1350 territory, consolidating around this level at least until Q1 2022.

GBP/USD: The same factors and investment sentiment drove the pair's level down to 1.3240. A further decline during year-end could be leading the pair on testing crucial support levels at the zone 1.32-1.3210, currently trading on the SMA (50)'s levels. With the SMA(100) and SMA(200) levels being close to the 1.3275 and 1.33 levels respectively, and following the same retracement logic as in the case of EUR/USD, we target the pair to be fluctuating around the region of 1.33 with the 50 pips zone giving the bandwidth for intra-month trading swings opportunities.

Rates

EU: November was a very volatile month with the short-term interest rates initially rising by almost 15 bps and then retreating, ending the month mostly unchanged. The 10y swap rate also lost almost 15bps and the slope of the curve remained mostly unchanged, with 5s-10s trading at 25bps. Looking forward we expect the rates to remain volatile as we approach the year-end and mostly headline driven, following closely the developments on the pandemic front.

US: US rates remained mostly unchanged in November, with the 10y swap rate trading at 152bps, up from 150bp at the beginning of the month. The slope of the curve decreased sharply, with 5s-10s trading 20bps lower. Looking forward we expect US rates to remain volatile as we approach the end of the year and uncertainty prevails about the timing of the FED hikes and the developments on the pandemic front

Emerging Markets Sovereign credit

The combination of a stronger USD, a hawkish FED and the new Omicron variant has driven EM assets to sell off with heavy outflows from foreign investors. Concerning the FED, Chair Powell now considers appropriate to wrap up the taper of asset purchases a few months sooner and that it might be time to retire the word "transitory" to describe expected inflation developments. The EMBI Global Index closed at 349 bps at the end of September, 23 bps higher on the month. In CEEMEA, Turkish assets continued to suffer from President Erdogan's unorthodox views on monetary policy, something that has led the Turkish lira to a sharp sell-off, while in Hungary, the central bank raised the effective base rate by 40bps. Romanian and Serbian government bonds underperformed. In LATAM, political risks have increased further in Peru, as inconsistent government policies have undermined its stability, while in Mexico monetary policy uncertainty increased after President Lopez Obrador announced that Victoria Rodriguez, the finance undersecretary, will be nominated to lead Banxico instead of former Finance Minister Herrera. In Asia, Chinese sovereign bonds proved to be resilient on this volatile environment, while the Bank of Korea raised rates for a second time since August, taking the policy rate to 1.0%. We remain on the sidelines concerning EM assets, as volatility is elevated and the implications of the omicron variant are still too early to process.

Corporate credit

EUR IG cash corporate spreads were broadly wider in November, especially so in the last week of the month, as the new Omicron variant and a hawkish FED tone, caused the markets to sell off across most assets. Spreads on most rating grades and sectors ended the month +5/+10bps wider, with lower grades, travel and leisure related, and high yield names underperforming the rest of the market. CDS indices spreads were on average +7bps wider in IG and +25bps wider in HY. ECB stance remains supportive for credit, coupled with significant cash balances on the side, which helped to moderate the widening in credit. Sector-wise, in EUR IG, Financials were +8bps wider, Real Estate +10bps wider, Oil & Gas +9.5bps wider, Health Care +4bps wider, Telecoms +6bps wider, Industrials +6.5bps wider, Consumer Goods +7.0bps wider, Utilities +4bps wider, Technology +8bps wider and Basic Materials +5.5bps wider. US IG names spread were +7 to +21bps wider in October, as the rates volatility and FED tone also contributed to their relative underperformance. Financials were +9bps wider, Real Estate +21bps wider, Oil & Gas +15bps wider, Health care +10bps wider, Telecoms +7bps wider, Technology +8.5bps wider, Industrials +8.5bps wider, Consumer Goods +9bps wider, Utilities +10.5bps wider, while Basic Materials were +10bps wider.

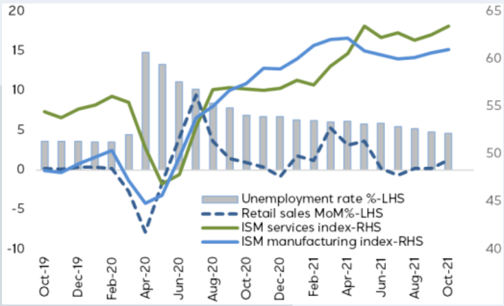
Rating-wise, EUR IG spreads in BBB were +7.5bps wider, in A +6.5bps wider, in AA +6bps wider, and in AAA +7.5bps wider. In the EUR HY universe CCC spreads were +25bps wider, B grade were +18.50bps wider, while BB were +18bps wider. Rating-wise, US IG spreads in BBB were +10.5 bps wider, in A and AA +7.5bps wider, and in AAAs +7bps wider. Technical for cash continues to remain strong in EUR but the US cash is going to be more affected by FED actions in the near future. US Tapering, coupled with inflation persistence, is expected to push spreads progressively wider in the medium term, while the Omicron Variant remains a potential wild card for more abrupt moves if market is caught off guard on negative news items. End-of-year low liquidity is also not going to help in such a scenario. In EUR, ECB remains supportive, but the developments in US and the macro/ covid19 landscape will push valuations and therefore spreads, to levels that will better compensate investors for the increased volatility ahead.

USA

Incoming data set the stage for a GDP growth rebound in Q4

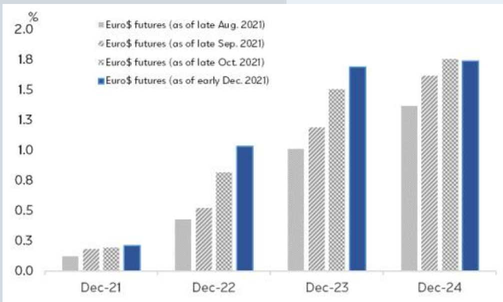
US GDP lost steam in Q3, growing by an annual rate of 2.1%QoQ according to the second estimate (revised slightly higher from the advance estimate of 2.0%QoQ), the slowest pace since Q2 2020 and well below the 6.7% print in Q2. The slowdown was mainly driven by personal consumption which increased by a lackluster 1.7% compared to a 12.0% surge in Q2, amid fading stimulus support, lingering supply-chain disruptions and fears over Covid-19 infection risks. However, high frequency and sentiment indicators pertaining to Q4, support optimism that the soft patch of activity in Q3 has come to an end and economic growth is likely to regain momentum heading into year-end. Reflecting a steady pick up in consumption spending and domestic demand, retail sales rose in October for the third consecutive month by a higher-than-expected 1.7%MoM. Personal spending also surprised to the upside, rising by a hefty 1.3%MoM in October, while personal income increased by 0.5%MoM mainly driven by a robust 0.8%MoM gain in wage and salary compensation that partially offset reduced government transfers. In addition, the Chicago Fed National Activity Index — a good indicator for GDP growth ahead— hit a three-month high of +0.76 in October, while the ISM services PMI improved by a further 2.4pts in November to a fresh record high of 69.1, supported by a substantial improvement in business activity and employment. Meanwhile, non-farm payrolls rose by a disappointing 210k in November, but the household survey presented a different picture, revealing a 1.1mn increase in employment, the largest monthly gain since October 2020 and a 0.4pp decline in the unemployment rate to a 4.2%, in spite of a 0.2pp rise in the participation rate to 61.8%. On the inflation front, pressures remain elevated, with headline CPI increasing further to a 30-year peak of 6.2%YoY in October and core CPI rising to 4.6%YoY from 4.0%YoY, mostly driven by gains in core goods, highlighting risks that price pressures may be more persistent as supply–chain bottlenecks need time to resolve. Concerns of more prolonged inflationary pressures have prompted a shift in FOMC communication towards a more hawkish direction, with Fed Chair Jerome Powell giving the signal for an accelerated monetary-policy normalization process, absent a significant deterioration in the activity data or virus conditions.

Figure 5: Incoming data set the stage for a GDP growth rebound in Q4



Source: Bloomberg, Eurobank Research

Figure 6: Expectations for an earlier Fed interest rate lift-off



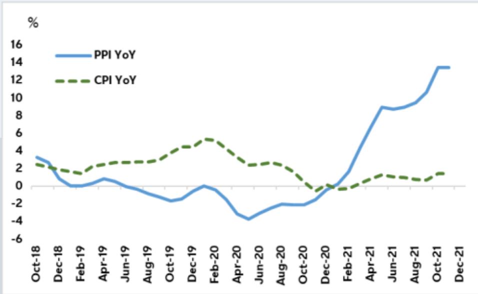
Source: Bloomberg, Eurobank Research

China

As the economy recovers mildly, the jittery real estate sector is under market scrutiny

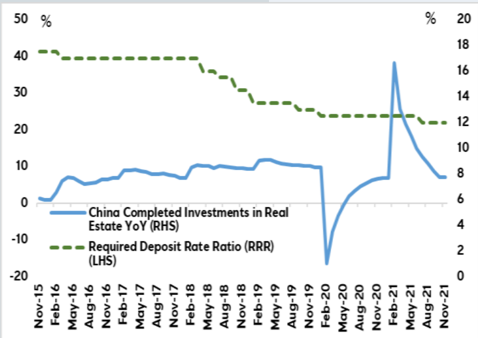
Available hard and soft data as of early December point to a modest, but still uneven, recovery in the economy, following the evident cooling in the Q3-2021 GDP print that came in at 4.9% YoY from 7.4% YoY and 18.3% YoY in Q2-2021 and Q1-2021 respectively and set the 9M2021 growth rate at 10.2% YoY. Retail sales growth picked up from 4.4% YoY in September to 4.9% YoY in October, well above market consensus at 3.7% YoY and so did industrial production from 3.1% YoY in September to 3.5% YoY in October, substantially higher than market expectations at 3.0% YoY. However, continuing pressure on the Producers Price index (PPI) , which came in at 13.5% YoY in October, increased further from a more than 25-year high of 10.7% in September, reveal the stretched conditions in the supply side of the economy. Despite the galloping PPI, the pass-through in the headline inflation remains manageable for the time being, with inflation increasing to 0.7% YoY in November from flat prices on a yearly basis in September. That said, as recent fears over stagflation have started to fade out, focus turns to the worrying outlook of the real estate sector in China, as it constitutes about one quarter of the country's output. With the debt restructuring of the national champion Evergrande ante portas and with Kaisa, another Chinese developer that had defaulted overseas approximately 5 years ago, asking to negotiate with borrowers as its debt maturities approach, October's new home prices that marked the first decline since March 2015 are alarming with regard to the prevailing sentiment and the prospects of this pivotal sector for the economy, which is also burdened with huge amounts of debt. Given our view that the cooling of the economy so far has been broadly policy driven[3], we note Premier Li Keqiang's remarks in early December about reducing banks' required reserve ratio (RRR) before year-end. The People's Bank of China (PBoC) implemented an unexpected cut in the Reserve Requirements Ratio (RRR) in July, leaving the RRRs intact ever since, despite the loss of steam in the economy observed at that time. As the recovery is likely to remain sluggish in the coming months, despite the return of the manufacturing PMI to expansionary territory in November, policy stimulus will be reactivated, given the high challenges lying ahead.

Figure 7: As worries over stagflation ease



Source: Bloomberg, Eurobank Research

Figure 8:...focus turns to the real estate sector and the policy stimulus ahead..



Source: Bloomberg, Eurobank Research

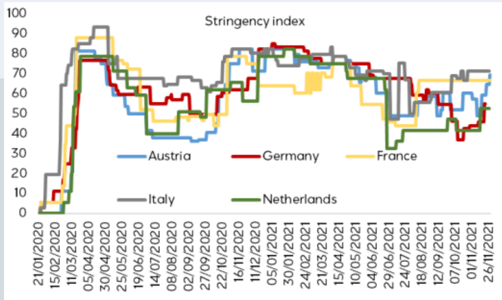
[3] In the issue of the previous month, we stated in the same column that the cooling of the economy is broadly policy driven in the sense that it coincides with a reshuffling in the economic priorities of the policy agenda; ongoing sectoral crackdowns, either on the technology, educational or even real estate sectors of the economy are read as governmental attempts under Xi Jinping's stick to enhance further market and competition dynamics

Euro area

Growth momentum has likely moderated in Q4 amid a fourth wave of infections

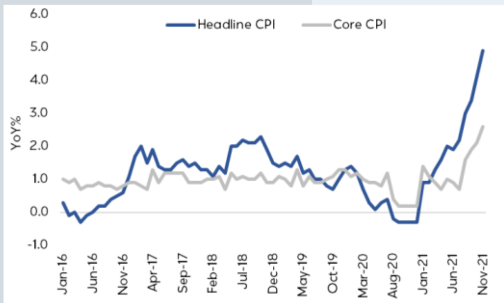
A new Covid-19 wave is sweeping across the Euro area, putting considerable pressure on hospital capacity and forcing governments to reintroduce some restrictions. Responses varied, reflecting differences in vaccination levels across countries. The tightening of the Covid-19 measures has been relatively mild thus far by the majority of core EA countries, mostly involving health pass regulations, mandatory vaccinations and tighter restrictions to hospitality and other public venues for unvaccinated people. However, the possibility of fresh lockdowns cannot be ruled out entirely, if the number of infections continue to rise rapidly and pressures on the hospitality capacity intensify further. This has already been the case in Austria, Latvia and Slovakia (countries with relatively low vaccination rates), which recently announced national lockdowns that would last for a few days. In spite of the virus flare-up, November sentiment surveys surprised to the upside. The composite PMI halted a three-month declining streak and rose by 1.2pts to 55.4, on the back of a modest improvement of supply issues in manufacturing and an ongoing positive momentum in the services sector, while the EC Euro area economic sentiment dropped by a relatively limited 1.1pt to 117.5 after two consecutive increases, still a high level relative to historical standards. Nevertheless, we should take these positive surprises with a pinch of salt, as growth momentum will likely moderate sharply in Q4 following a higher-than-expected GDP growth rate of 2.2%QoQ in Q3. The emergence of the Omicron variant points to increased downside risks to aggregate demand, supply issues are far from resolved, and inflationary pressures continue to rise on the back of supply-side shortages, soaring energy prices and demand-supply imbalances, leading to a squeeze in household disposable income. Rising prices were evident in the November flash HICP releases, as headline increased further to 4.9%YoY, the highest since the Euro area was established in 1999, and core CPI rose by 0.6pts to 2.6%YoY. On the back of lingering downside growth risks and in spite of rising price pressures, the ECB is expected to retain an overall dovish stance at the next monetary policy meeting on 16 December, reiterating the transitory nature of the inflation spike and stressing that initiating a lift-off in interest rates is still a long way off.

Figure 9 : Tightening of restrictions in core EA countries relatively mild thus far



Source: Our World In Data, Eurobank Research

Figure 10: Inflationary pressures continue to rise



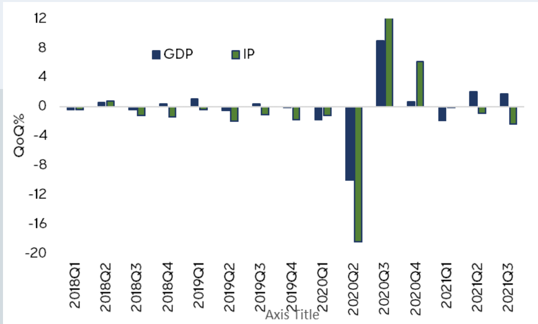
Source: Eurostat, Eurobank Research

Germany

Persistent supply shortages are dragging down the economy

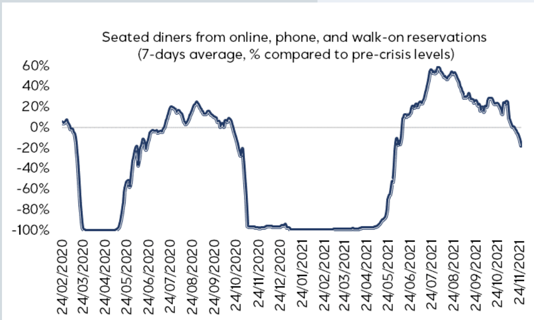
German Q3 GDP was revised marginally downwaqrds to 1.7%QoQ in the final estimate from 1.8%QoQ previously, taking economic activity at 1.1% below pre-crisis levels, following an upwards revised growth rate of 2.0%QoQ in Q2 (vs. 1.9%QoQ previously). Private consumption was the growth engine (+6.2%QoQ), approaching pre-crisis levels (97%) and contributing 3.0ppts to headline GDP growth, thanks to the widespread relaxation of Covid-19 restrictions in the summer. Government consumption dropped (-2.2%QoQ), likely reflecting lower Covid-19 related spending (many vaccination centres closed in late summer). In addition, gross fixed investment declined (-2.2%QoQ) as industrial production was severely hit by serious supply material shortages, falling in Q3 by the highest pace in more than a year (-2.4%QoQ) and marking the third consecutive quarterly decline. Exports and imports also dropped in Q3 (-1.0%QoQ and -0.6%QoQ, respectively) partially due to supply issues, leading to a 0.3ppts subtraction to headline GDP growth from net trade. According to recent surveys, supply chain bottlenecks are expected to prevail in the winter months as they need time to resolve, boding particularly ill for near-term growth prospects. That said, leading indicators point to a slower growth momentum in Q4. The IFO business climate index fell in November for the fifth consecutive month (to a six-month low of 96.5), in light of the resurgence in Covid-19 infections and serious supply shortages, while the composite PMI, in spite of the pick up to 52.2 in November, averaged 52.1 in the first two months of Q4, sharply lower from 59.3 in Q3. Furthermore, price pressures are soaring (CPI at 5.2%YoY in November, the highest level in 29 years and HICP at a record peak of 6.0%YoY), while support to GDP growth from private consumption is expected to fade in Q4, due to the nearly completed catch-up process in the services sector, the risk of adverse confidence effects on consumers from the sharp increase in infection cases in recent weeks and the recent introduction of more stringent measures for the non-vaccinated (so-called 3G rules). Against this background, we expect the German economy to near stagnate in Q4, with full-year GDP growing by around 2.7%, before picking up speed to 4.3% in 2022, amid expectations for a gradual recovery in industrial production.

Figure 11: In Q2 & Q3, GDP and IP have decoupled on the back of serious material shortages



Source: Eurostat, Eurobank Research

Figure 12: People have become more cautious consuming services due to rising infection cases



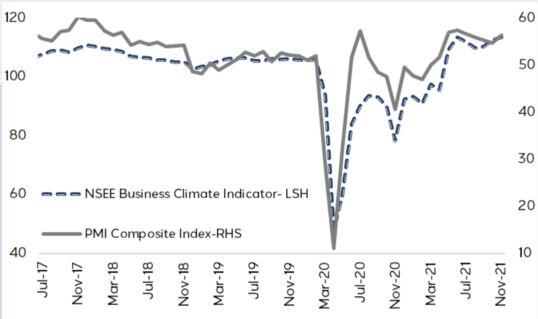
Source: Open Table, Eurobank Research

France

Underlying growth momentum remained solid at the start of Q4

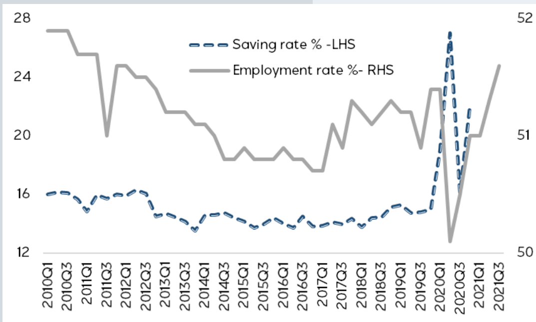
France's GDP grew by a more than three decades high pace of 3.0%QoQ in Q3, up from an average growth rate of less than 1.0% in H1 2021, narrowing the gap relative to Q4 2019 pre-pandemic levels to just 0.1% from 3.0% in the prior quarter. Favored by the full reopening of the economy in Q3 and strong pent-up demand, private consumption was the main growth driver, while public consumption had also had a strong contribution to GDP growth, along with net exports, which benefitted from a significant pick in foreign tourist arrivals this summer. Going into Q4, economic activity is likely to lose some momentum due to waning reopening effects, though, economic growth is anticipated to remain reasonably solid, thanks to the strong performance of the labor market and the ongoing recovery in the services sector, as suggested by the latest business sentiment surveys. Ending a four-month period of slowing growth, the composite PMI rose by 1.4pts to 56.1 in November driven by the services sector, where the activity index reached a five-month high of 57.4. The manufacturing PMI rose by 2.3pt to a two-month high of 55.9 on the back of increased new orders, while supply shortages continued and backlogs of works increased further. Along similar lines, the INSEE's business climate index rose by 1.1pts to 113.5 in November, the highest level since mid-2007, following a cumulative move up of 2.5pts in the prior two months. We expect GDP to rise by 0.6%QoQ in Q4, while, for the whole year, we revised our forecast upwards to 6.6% from 6.1% previously and retain our growth forecast of 4.1% for 2022 amid likely prolonged supply side constraints. However, downside risks prevail, mostly related to: (i) the risk of the French government imposing tougher activity restrictions in an effort to contain the spread of the emerging fifth Covid-19 wave, (ii) continued supply bottlenecks, and (iii) rising energy prices that could limit the consumer spending recovery, in spite of the government's measures worth €3.8bn (1.5% of 2019 GDP) aiming to support the purchasing power of lower-and middle-class households. On politics, recent opinion polls suggest a strong first-round lead for President Emmanuel Macron at next April's presidential election and a comfortable runoff victory in the second round, with Marin Le Pen, her far-right rival Eric Zemmour and the candidate from centre-right Les Républicains challenging for the second place.

Figure 13: Business sentiment surveys suggest solid underlying growth momentum in early Q4



Source: INSEE, Bloomberg, Eurobank Research

Figure 14: Hefty accumulated savings & rising employment bode well for France's growth outlook



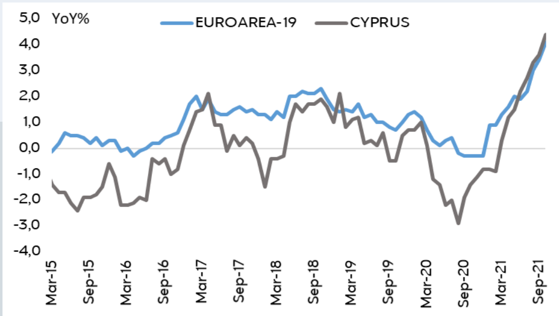
Source: INSEE, Eurobank Research

Cyprus

Tourism supported the Q3 print, setting the ground for a robust FY GDP growth

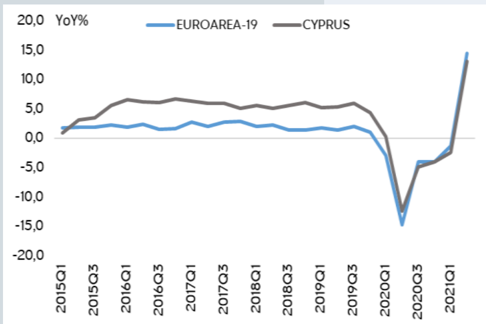
As of early December 2021, the economic impact has so far turned out less severe than initially anticipated despite the country's high sensitivity as a small, open and services-oriented economy, with tourism being one of its core industries (13.4% of GDP, 13.4% of total employment according to WTTC[4]). From a -5.2% recession in 2020, the economy has performed well so far, posting a +5.6% YoY GDP growth rate for the first nine months of 2021, which breaks down into +5.5% YoY in Q3, +12.8% YoY in Q2 and -1.6% in Q1. Regarding the GDP performance in Q3, growth may have moderated on an annual basis due to less supportive base effects, however it surpassed that of the Eurozone with the cooling down in Q3 evident in the latter area as well (+3.7% YoY in Q3 vs +14.2% YoY in Q2 and -1.2% YoY in Q1). The Q3 reading was broadly supported by the tourist arrivals in the summer, when the pandemic impact on the economy had softened. Moving into Q4, the economic landscape appears more challenging given the prevailing uncertainty over the impact of the new Covid-19 Omicron variant and the inflationary pressures present in the economy since the beginning of 2021, which will trim the positive pent up demand dynamics. Indicatively, CPI spiked to 5% in August from -1.6% in January, only to cool down to 4.3% in November, aligned, however, throughout these 11 months with the global inflationary dynamics. As regards the pandemic, tamed by a rate of vaccination higher than the EU average (67.5% in Cyprus vs 66.2% in the EU), the fourth wave appears currently less severe in Cyprus than in the rest of the EU, explaining, inter alia, the improvement in the Economic Sentiment Indicator (ESI), that reached in October its highest level since the pandemic start and with the modest drop observed in November mirroring the concerns over the new Omicron strain. Taking into account the above, we stick to our GDP growth 5.5% forecast for 2021 with the EC Autumn forecast - released in late November and considerably upgraded since the summer - standing only a tad lower, i.e. at +5.4%. For 2022 we anticipate some cooling to 4.0%, with reviving domestic demand, investments mobilized by the RRF funds and the gradual recovery of tourism (as in 2021 the recoup was only partial, compared to the 2019 levels) considered as key GDP growth drivers.

Figure 15: HICP inflation on an upward trend since March 2021



Source: Eurostat, Eurobank Research

Figure 16: with the economy rebounding in line with the EA-19



Source: Eurostat, Eurobank Research

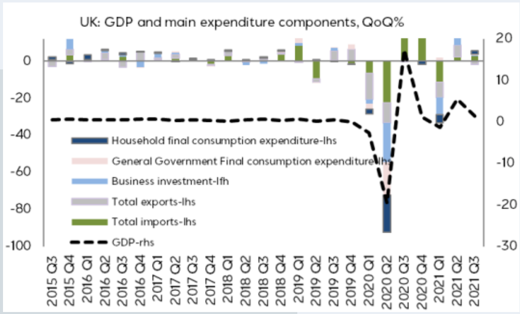
[4] [4] Based on 2019 data, as those of 2020 are not representative due to the pandemic structural break.

UK

Growth momentum likely to slow further in Q4 amid ongoing supply constraints

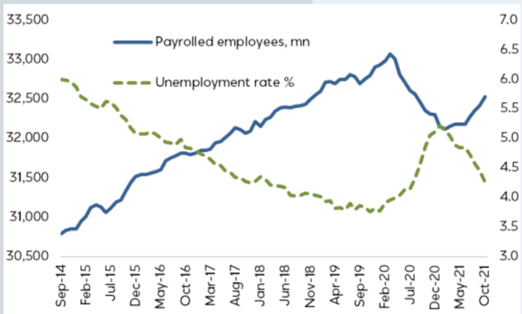
UK GDP grew by a solid 0.6%MoM in September, supported by a 1.3%MoM gain in construction output and a 0.7%MoM rise in services sector growth driven largely by increased GP appointments that more than offset a 0.4% MoM drop in industrial production. However, GDP growth in July and August was revised lower by 0.1ppt and 0.2ppts to -0.2%MoM and 0.2%MoM, respectively, mainly due to downward revisions in services, despite the further easing of restrictions and the reopening of the economy in the summer. As a result, Q3 GDP expanded by 1.3%QoQ, below the BoE's projection of 1.5%QoQ (November MPR) and sharply lower from 5.2%QoQ in Q2. Looking at the expenditure components, the Q3 GDP growth slowdown was mostly driven by household consumption which grew by 2.0%QoQ (+1.14pp) following a 7.2%QoQ jump in Q2, reflecting a 4pts drop in GfK consumer confidence over that period amid heighted inflation worries and reduced fiscal support, as well as some normalization in spending patterns away from core goods and towards hospitality and transport. Government spending also slowed markedly to 0.9%QoQ (+0.22pp) from 8.1%QoQ in the prior quarter, on sharply lower Covid-19 related spending. Business investment was weak, growing by just 0.4%QoQ (+0.03pp) amid ongoing supply disruptions, while net exports was a drag on headline growth (-1.13pp, exports: -1.9%QoQ vs. imports: +2.5%QoQ). Turning to Q4, the composite PMI gained ground, averaging 57.7 in October-November vs. 54.9 in Q3, while the labor market continued to improve, in spite of the recent end of the government's furlough scheme, with total payroll employees increasing further in October (albeit still some 500k below the pre-pandemic level). However, despite hints of some firming in momentum, Q4 GDP is likely to slow further, likely below 1.0%QoQ, amid lingering supply constraints, waning fiscal support and squeezing purchasing power due to rising prices (October CPI at 4.2%YoY, above the BoE's forecast of 3.9%YoY). However, in spite of the slowing GDP growth momentum, the BoE has signaled that it is inclined to hike interest rates over the coming months due to increasing concerns about high inflation, on the condition that the labor market continues to strengthen, in line with its forecasts, and the Omicron variant will hopefully be under control.

Figure 17: UK Q3 GDP slowed markedly



Source: ONS, Eurobank Research

Figure 18: The labor market continues to strengthen, shrugging off the end of the furlough scheme



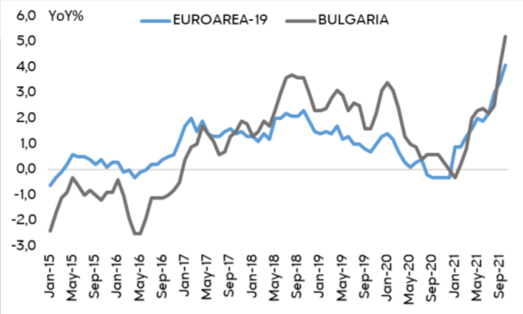
Source: ONS, Eurobank Research

Bulgaria

Election outcomes pave the way for return to political stability, but low vaccination rates and pandemic uncertainties cast shadows on the last quarter.

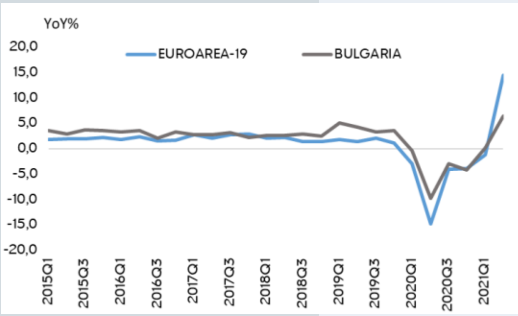
Political developments were centre-stage in Bulgaria in November, with the conduct of double elections, parliamentary and presidential. The incumbent President Rumen Radev, supported by three out of the four parties that are in talks for the formation of a coalition government (WCC, BSP, TISP), won the second round of the presidential election on November 21 and secured a second term in office with 66.7% of the votes, albeit at a very low turnout close to 34%. On the parliamentary front, a new centrist political party came first in the election by gathering 25.5% of the votes, with a - similarly to the presidential elections - very low turnout of ca 40%. The 'We Continue the Change' party (WCC) was founded just two months ago by two Harvard-alumni entrepreneurs who both served as interim ministers in the caretaker government. Despite the promising anti-corruption agenda manifested as its flagship, the party was not granted absolute majority by the voters and is ,consequently, negotiating with the 'Bulgarian Socialist Party' (BSP), the 'There Is Such People' (TISP) and the 'Democratic Bulgaria' (DB) party. Assuming there is a new government in the very near future, the political uncertainty that has weighed substantially on the GDP growth in 2021 will come to an end and the outlook for 2022 can be more optimistic. That said, based on the Q3 GDP growth print, the economy lost steam, growing by 3.9% YoY from 6.5% YoY in Q2 and 0.2% YoY in Q1. The 9M2021 GDP growth print, given the aforementioned readings, came in at 3.5% YoY, which is below those of the regional peers and the EU. We revise downwards our annual forecast for 2021 to 4.0% from 4.2% and keep our forecast for 2022 unchanged at 4.1%. We ground our decision not only on the evident cooling of the economy in Q3 but also on the negative prospects for the current quarter, given the low vaccination rate, which is by far the lowest in the EU (25.4% in Bulgaria vs 66.2% in the EU). On the same footing and broadly based on the same reasoning, major economic institutions such as the EC and the OECD considerably cut in November their forecast for 2021, the former to 3.8% from 4.6% in July and the latter to 3.2% from 3.8%

Figure 19: Amid a challenging inflationary outlook...



Source: Politico, Eurobank Research

Figure 20: ..the economy rebounds in line the EA-19



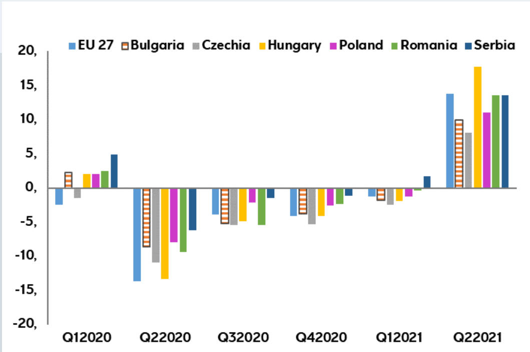
Source: Eurostat Eurobank Research

Serbia

Following the brisk Q3-2021 GDP print, Serbia is set to achieve among the highest FY GDP growth performances in the region

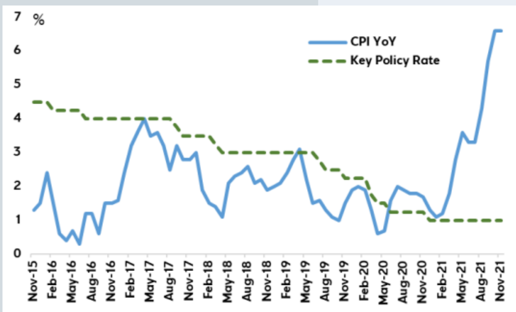
The final Q3-2021 GDP print for the Serbian economy came in at 7.7%YoY vs 13.7%YoY and 1.3%YoY in Q2-2021 and Q1-2021 respectively. The figure surpassed the recent flash estimate of 7.4%YoY and set the 9M2021 GDP growth rate at 7.6%, rendering the official target of 7% for 2021 set by the Ministry of Finance achievable, subject to a Q4 print in the area of 5% YoY. The key growth driver in the last two quarters was private consumption with investments being materially supportive since the beginning of the year. Looking ahead, the solid economic performance is expected to keep up in the last quarter of the year assisted by the two aforementioned expenditure pillars. Taking into account the above, we revise upwards our forecast for 2021, i.e. at 6.8% from 6.5% and, had it not been for the uncertainty of the new Covid-19 omicron strain and its unknown repercussions, we would not hesitate to align our view with that of the Serbian Ministry of Finance at 7.0%. On the fiscal front, the latter revised downwards the fiscal deficit target at 3.0% of the projected GDP from 4.9% previously, on the assumption that the impact of the pandemic will be milder in the coming year and as such less fiscal support will be required in order for the economy to grow by 4.5% YoY, as envisaged in the budget. On the same footing, the National Bank of Serbia (NBS), in the recently released Inflation Report, anticipates the same growth rate for 2022 adding that inflationary pressures will recede from the second half of 2022 onwards, when the headline figure is expected to return to the targeted corridor of 3%±1.5pps. Under this prism, the NBS has held so far throughout 2021 the Key Policy Rate unchanged at 1% despite the visible pressure at price levels since the beginning of the year. That said, headline inflation from 1.1% in January has been hiking ever since, reaching 6.6% in October, with the respective core reading, however, standing at sizably lower levels of 2.7%. Given the resilience of the core print during the largest part of 2021, the NBS, unlike the majority of regional central banks, will most probably hold fire in the last KPR meeting for the year, as it has stressed out sporadically during this year.

Figure 21: GDP growth momentum among the most brisk in the region...



Source: Eurostat, Eurobank Research

Figure 22:...but persistent inflationary pressures will call for monetary tightening



Source: Bloomberg 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)		
	2020	2021f	2022f	2020	2021f	2022f	2020	2021f	2022f	2020	2021f	2022f	2020	2021f	2022f
World	-3.1	5.9	4.5	3.2	3.7	3.5									
Advanced Economies															
USA	-3.4	5.7	4.0	1.2	4.6	3.7	8.1	5.4	4.0	-2.9	-3.5	-3.3	-15.6	-13.5	-6.5
Eurozone	-6.4	5.0	4.1	0.3	2.5	2.3	7.9	7.8	7.5	2.0	2.7	2.5	-7.2	-7.3	-4.0
Germany	-4.6	2.7	4.3	0.4	3.1	2.5	5.9	5.7	5.2	6.2	6.8	6.6	-4.3	-5.5	-2.5
France	-7.9	6.6	4.1	0.5	2.0	2.1	8.0	8.0	7.8	-2.0	-1.3	-1.4	-9.1	-8.3	-5.0
Periphery															
Cyprus	-5.1	5.5	4.0	-1.1	1.8	1.5	7.8	7.5	6.7	-11.4	-10.0	-8.0	-5.7	-5.0	-2.5
Italy	-8.9	6.2	4.5	-0.2	1.8	2.0	9.3	9.6	9.1	3.4	3.5	2.8	-9.9	-9.4	-5.5
Spain	-10.8	4.8	5.8	-0.3	2.8	2.5	15.5	15.2	14.6	0.8	2.0	2.5	-11.0	-8.4	-5.8
Portugal	-8.4	4.4	5.1	-0.1	1.2	1.3	7.0	6.9	6.7	-1.1	-0.7	-0.3	-5.8	-6.2	-6.5
UK	-9.7	6.9	4.9	0.9	2.4	3.6	4.4	4.8	4.7	-2.7	-2.3	-2.8	-14.3	-7.6	-4.1
Japan	-4.7	1.7	2.6	0.0	-0.2	0.6	2.8	2.8	2.5	2.9	2.7	2.2	-13.0	-9.9	-6.2
Emerging Economies															
BRICs															
Brazil	-4.0	3.9	1.4	3.2	7.5	5.5	13.4	14.4	13.4	-0.8	-1.2	-1.4	-14.9	-6.5	-6.3
China	2.3	8.0	5.5	2.5	1.5	2.3	4.2	3.9	3.6	1.5	1.7	1.3	-6.9	-4.8	-4.3
India	-7.7	9.0	7.1	6.2	5.5	4.8		*NA*		0.9	-0.8	-1.2	-9.3	-6.8	-6.0
Russia	-3.0	3.8	2.5	3.4	5.5	4.0	5.8	5.5	5.0	2.2	5.5	5.0	-4.3	0.5	0.3
CESEE															
Bulgaria	-4.2	4.0	4.1	1.7	2.5	2.3	5.1	4.8	4.5	1.2	2.0	1.5	-3.0	-4.4	-2.5
Romania	-3.9	7.0	4.5	2.3	4.5	3.8	5.0	5.3	4.8	-5.0	-6.5	-5.5	-9.0	-8.0	-6.0
Serbia	-1.0	6.8	4.5	1.6	3.1	2.2	9.7	11.5	10.4	-4.3	-4.5	-4.7	-8.1	-4.8	-3.0
Turkey	1.8	8.0	3.5	12.3	17.0	17.6	15.8	12.5	12.0	-5.5	-2.7	-2.5	-4.5	-3.5	-3.6

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

Eurobank Fixed Income Forecasts

	Current	December 2021	March 2022	June 2022	September 2022
USA					
Fed Funds Rate	0.00-0.25%	0.00-0.25%	0.00-0.25%	0.00-0.25%	0.05-0.30%
1 m Libor	0.10%	0.09%	0.11%	0.14%	0.20%
3m Libor	0.20%	0.17%	0.22%	0.27%	0.39%
2yr Notes	0.67%	0.44%	0.57%	0.67%	0.79%
10 yr Bonds	1.46%	1.64%	1.73%	1.82%	1.90%
Eurozone					
Refi Rate	0.00%	0.00%	0.00%	0.00%	0.00%
3m Euribor	-0.57%	-0.53%	-0.53%	-0.51%	-0.49%
2yr Bunds	-0.70%	-0.66%	-0.63%	-0.61%	-0.58%
10yr Bunds	-0.36%	-0.18%	-0.08%	-0.01%	0.06%
UK					
Repo Rate	0.10%	0.20%	0.35%	0.45%	0.55%
3m	0.09%	0.23%	0.39%	0.48%	0.59%
10-yr Gilt	0.75%	1.02%	1.12%	1.25%	1.29%
Switzerland					
3m Libor Target	-0.78%	-0.72%	-0.72%	-0.71%	-0.68%
10-yr Bond	-0.32%	-0.09%	-0.04%	-0.01%	0.03%

Source: Bloomberg (market implied forecasts)

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

Dr. Stylianos Gogos
Research Economist
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

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