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

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I. Snapshot

Overview

Macro Picture

- **USA:** Growth expected to be supported by looser fiscal policy, robust private consumption and a cyclical recovery in inventories
- **EA**: Steady pace of growth, with soft data shrugging off political uncertainty
- **UK:** Growth loses momentum mainly due to the negative effects of the fall in sterling and rising inflation on household spending
- **Japan**: External demand & fiscal policy support growth
- **EM:** Growth pickup, especially in LatAm as Brazil emerges out of recession
- **CESEE:** The region appears to be in the best shape in the post Lehman period

Policy Outlook

- **USA:** Two more Fed rate hikes by end-2017, with a passive balance sheet reduction towards year-end
- **EA:** Changes in ECB forward guidance to shift market focus to future exit strategy
- **Japan:** BoJ on hold amid subdued inflationary pressures
- **UK:** BoE to retain a slight hawkish stance but likely to stay put against a backdrop of a slowing economy, looming Brexit negotiations
- **CESEE:** Limited room for further monetary easing, more growth supportive fiscal policy

Summary

Global economic recovery is still on track, but inflation pressures have been receding. Political jitters in Europe come to the fore again, with the biggest concern being Italy. Political woes over the US administration spark investor concerns about possible delay/cancellation of certain campaign promises

Markets

- **FX:** EUR well supported post French elections. We favor further upside towards 1.15 to 1.16 area before a deeper correction takes place.
- **Government bonds:** USTs, Bunds to remain range bound at current levels until the reflation trade gains momentum again. We favor selling the rallies.
- **EM:** Performed well in a low volatility environment and global fundamentals remain supportive. We favour taking profit on long held external debt positions.
- **Credit:** Tight spreads and low yields signal for caution ahead, but YTD performance has been stellar against our original view.
- **Commodities:** We remain bullish commodities and in particular energy and base metals

Key Risks

- **Trump disappointment:** Trump's fiscal stimulus falls short of expectations
- **US aggressive trade protectionism:** Trade & currency war likely, jeopardizing anemic global trade and, hence, weighing on the global growth momentum
- **Renewed EU political risks:** Early elections in Italy and Austria, populist parties join coalition government
- **UK:** Inconclusive outcome of the June 8th general elections. The Conservative Party wins but fails to secure a majority in parliament; significant impact on the government's Brexit negotiating position

Macro Views

Latest Macroeconomic Developments & Outlook

World Economic Outlook		The positive global growth momentum remains on track, amid a cyclical recovery in manufacturing and trade. Emerging market and developing economies should continue benefitting from higher commodity prices, while Chinese growth seems to have stabilized. For advanced economies, projected 2017 growth in the US reflects the anticipated fiscal policy easing, while the outlook in Europe and Japan has also improved on the back of the global recovery in manufacturing and trade. Overall, global GDP growth is expected to accelerate to c. 3.5% in 2017 from 3.1% in 2016.
Developed Economies	**US**	With another weaker-than-expected Q1 growth behind us, real economic activity is expected to accelerate to 2.2% in 2017 from 1.6% in 2016, boosted by solid consumer fundamentals and a more robust expansion in business fixed investment. Leading indicators suggest that firms plan to increase capex in the future, while spending in the energy sector is finally bouncing back in line with the oil price uptrend over the past year. A looser fiscal policy stance and a cyclical recovery in inventory accumulation also constitute supportive factors for real GDP growth.
	Euro Area	Recent leading indicators have been relatively strong, suggesting that households and companies have so far shrugged off political uncertainty. Modest economic recovery with a growth rate of around 1.7% is expected to continue over the next couple of years, supported by a modestly expansionary fiscal policy. The strength of private consumption, the main driver of GDP growth, will be largely dependent on the extent to which the negative impact of rising prices on real disposable income will be offset by a further improvement in labor market conditions.
	Periphery	Periphery euro area economies retained a positive momentum in Q1 2017. Private consumption remained among the key growth drivers while soft and hard data pertaining to the first two months of Q2 2017 suggest that the improving economic momentum has remained intact. Portugal was again among the main outperformer mainly supported by increased investment and a positive contribution from the external sector. On the flipside, Greece and Italy were the main laggards.
	Japan	Export volumes and industrial activity have been boosted by a steady upward trend in the global manufacturing sector, while domestic demand has remained subdued. Looking ahead, weak wage growth and unfavorable demographic dynamics should entail a modest private consumption growth, with the economy's momentum expected to be underpinned by external trade and expansionary fiscal policy. Real GDP growth is expected to accelerate marginally to 1.2% in 2017 from 1.0% in 2016.
Emerging Economies	**BRICS**	In China, hard landing concerns have been largely mitigated, with economic activity likely to slow down only modestly this year. Among commodity exporters, the Russian economy has returned to positive growth readings since Q416 following two years in recession amid higher global oil prices and strengthening domestic demand. Brazil is expected to also return to positive growth rates after a 2-year recession as export receipts improve, but recovery is expected to be gradual with main supporters being monetary policy relaxation and further reform progress, while domestic political uncertainty poses a key risk to the country's economic rebound. Despite downward revisions in recent forecasts, India's real GDP growth is anticipated to remain robust in 2017, with structural reforms and favorable demographics to provide economic impetus in the medium-term.
	CESEE	From a growth point of view, the economies of our focus (Bulgaria, Romania, Cyprus, and Serbia) and the broader CESEE region appear to be in the best shape in the post-Lehman period. Growth dynamics are broadly driven by the improving private consumption. Consumer related indicators are still on an improving trend as consumers continue to benefit from rising sentiment, improved real wages, firmer labor markets, record low interest rates.

Global Macro Themes & Implications

Theme	Implications
Global economic recovery still on track	After a weak patch in 2015-16, a cyclical recovery in manufacturing and trade is under way, supported partially by a rebound in commodity prices. Global manufacturing confidence is bucking the upward trend, amid a stabilization in manufacturing confidence in the US and China coupled with a notable improvement in the euro area PMIs which stand at nearly six-year highs. Global growth has accelerated across a wide range of economies. In the US, after a marked weakness in the first quarter, real economic activity is rebounding markedly in Q2. Furthermore, Japan reported its fifth consecutive quarter of growth, the longest rising streak in 11 years, while euro area activity indicators have continued to move on the positive side.
Political turbulence around US President Donald Trump policies	Recent political developments concerning allegations that US President Donald Trump tried to interfere with a federal investigation and discussed classified national security information with the Russian Foreign Minister have increased worries over his ability to push through a string of major campaign promises, including tax reform and infrastructure spending plans. Adding to this, market focus has turned to the risk of the US President be impeached should that allegations are verified. Meanwhile, US administration's first full budget plan envisioned a $3.6 trillion cut in government spending over the next 10 years, with the biggest savings coming from Medicaid healthcare and food assistance programs for the poor. Concerning the proposed tax cuts, US Treasury Secretary Steven Mnuchin noted that he hopes to get tax reform passed this year, but it could be rather difficult to happen before August.
Uncertainty over UK PM May's ability to deliver a landslide victory in the June 8th snap election	Recent polls suggest that the Conservative Party is likely to secure a bigger majority than 17 it currently enjoys in the 650-seat parliament in the June 8th snap elections but its size is likely to be less than 100+ predicted when elections were called. Undoubtedly, the outcome of the general elections is likely to have an effect on the upcoming Brexit negotiations. An increased majority for the Conservative party would mean a stronger mandate for UK PM Theresa May allowing the government to press ahead with its Brexit plans. On the flipside, a Labour win or a hung parliament, would increase concerns about whether a deal with the EU could be reached in a smooth way and within the two years period envisaged by Article 50.

Global Macro Themes & Implications

Theme	Implications
Political risk in the euro area come to the fore again	The defeat of far-right Norbert Hofer's for the Austrian presidency late last year, the defeat of Eurosceptic Geert Wilders' PVV in the Netherlands in the general election in March and Emmanuel Macron's victory over Marine Le Pen in the French presidential election more than a month ago, eased concerns about political risks in Europe. However, political jitters came to the fore again over the last couple of weeks amid concerns that Eurosceptic parties may have another chance of forming a governmental in Italy or/and Austria. Expectations for a snap election in Italy this autumn have increased significantly while the collapse of the grand coalition in Austria opened the way for an early election in October. **Italy:** The likelihood of early elections this autumn– before the budget season commences in mid-October- has recently increased, as the four major political parties reached an agreement on reforming the voting system, similar to a German-style proportional representation electoral law. Against a background of poor economic performance, high sovereign debt levels and persistent problems in the Italian financial sector, recent polls suggest that the likelihood of euro-sceptic parties (5SM and the Northern League) joining forces and securing an outright majority, at least in the lower house, cannot be ruled out completely. **Austria:** Austria will hold a general election on October 15th after "grand coalition" between centre-left Social Democrats (SPO) and the centre-right People's Party (OVP), collapsed. Foreign minister Sebastian Kurz who run on the promise of terminating the coalition's agreement and pledging a snap election, was elected as the new OPV leader, replacing Reinhold Mitterlehner who resigned after months of in-fighting within the party. Admittedly, Kurz is widely seen as the best hope in reviving OVP fortunes with some recent opinion polls suggesting that, under his leadership, the conservative party would jump from third to first in the next general elections. Austria's parliamentary elections are held under a proportional system, encouraging coalition governments. As such, a strike between at least two of the three major parties SPO, OPV and populist right-wing FPO will be unavoidable while Kurz, who takes a tough stance on immigration, has already left he door open for a post-election coalition with FPO.
ECB: "substantial" stimulus is still warranted	Speaking before the EU Parliament, ECB President Mario Draghi reiterated that while downside risks for the euro area economy are diminishing, the Committee is convinced that an extraordinary amount of monetary policy stimulus is still needed for inflation to return to levels close to the ECB's 2.0% medium-term target. By doing so, Mario Draghi downplayed speculation that the ECB will start discussing unwinding its bond-purchase program any time soon. Meanwhile, the recent appreciation of the euro does not bode well for the inflation target. Final April inflation data point to a continuation of the moderate underlying inflation recovery over the medium-term. All in all, we do not expect any significant change in the forward guidance at June ECB meeting so as to prevent an unwarranted tightening of financial conditions. Instead, the ECB could change its growth outlook highlighting that the risks to growth are largely balanced instead "to the downside".

Macro Themes & Implications in CESEE

Theme	Implications
Consumption-driven growth across the region	From a growth point of view, the economies of our focus (Bulgaria, Romania, Cyprus, and Serbia) and the broader CESEE region appear to be in the best shape in the post-Lehman period. Growth dynamics are broadly driven by the improving private consumption, assisted by the recovery of EU funds-related investments mirroring the beginning of the new programming period plus the satisfactory growth performance of the EA, key trade partner and capital flows generator for the broader region. Consumer related indicators are still on an improving trend as consumers continue to benefit from rising sentiment, improved real wages, firmer labor markets, record low interest rates.
Challenging policymaking outlook	The outlook looks more challenging from a policymaking point of view, as lax monetary policies from both major and regional central banks may have already bottomed-out, the Fed tightening cycle has kicked off for about a year now and energy prices have embarked on a normalization course. Moreover, fiscal policy is now expected to be more growth supportive given the targets' overachievement of the past year in some cases (Bulgaria, Serbia and Cyprus) which allows more flexibility in 2017, or the expansionary policies followed stretching budgets' capacity (Romania).
Inflation pressures building up, but monetary policies to remain accommodative this year	This year's headline inflation data across the region has both exceeded expectations and reached multi-month highs, reflecting the pass through of rising world commodity prices, base effects and rising price pressures globally. Adverse weather conditions earlier in 2017 also appeared to inflate CPI readings in several cases. To this end local yields have mostly moved higher so far this year. Despite this up-move in CPIs and yields alike, the waning impact of temporary inflationary factors may keep CPI readings within targets in the coming months, still allowing local Central Banks to maintain an accommodative stance and delay the tightening process further.
Heavy regional political calendar behind - European political events had no meaningful impact so far	The region has left behind a heavy political calendar in Q1-2017: snap parliamentary elections in Bulgaria in late March, political upheaval in Romania in February, presidential elections in Serbia in early April. A series of key political events in Europe this year, mostly concentrated in the first half, had no meaningful impact on the region's growth prospects and asset performance so far (Brexit, elections in Netherlands, France, Germany). Geopolitical tensions in the Middle East, and potential noise in the Balkans (e.g. related to the Kosovo issue) or frictions due to the ongoing refugee crisis are among other possible risk sources.

CESEE Markets Developments & Outlook

Country	CESEE Markets Developments & Outlook
Bulgaria	• Domestic equities have staged a strong rally in recent months, trailing gains in major global bourses. The mitigation of political uncertainty, improving domestic macroeconomic fundamentals and upbeat corporate earnings results have pushed the main SOFIX index 10% higher on a year to June 2 basis as well as near recent 8 ½ year highs hit in early May • Despite an up-tick over the last month or so, in view of rising inflation pressures, local currency government bond yields remain near recent lows reached over recent months, thanks to relatively scarce supply and an improving fiscal position
Cyprus	• Divergent views of the ratings agencies on the sovereign rating of Cyprus. Currently, the distance from investment grade ranges from one to four notches. • The real estates prices trajectory and transactions in combination with other high frequency data from the construction industry point to further stabilization in the property market • Co-operatives bank to be listed in the Cyprus Stock Exchange
Romania	• Domestic markets seem not pay attention to the IMF and EU Commission assessments of elevated fiscal risks. Appetite for local bonds in auctions remained strong and yields were trending lower in May. • NBR continues to be on a wait-and-see mode, looking for the right timing to increase the interest rate corridor. • EUR/RON has been testing the 4.57 level in the past month. Risks skewed to the upside
Serbia	• EUR/RSD recently breached a strong support level of 123.0 established over the past twelve months, on the back of persistent selling pressure of hard currency, mainly due to large loan disbursements that were scheduled for the end of the month. The National bank of Serbia intervened in the FX market, but total purchases in the amount of EUR120mn were enough just to avert sharp one-day rises of the dinar. Consequently, further decline down to 122.0 could be expected in June. • NBS kept its policy rate unchanged, at 4.00% at its meeting held in May. In making that decision, NBS was guided by the effects of past rate cuts, as well as the fact that, since the start of the year, inflation has returned within the target tolerance band of 3±1.5% and it is expected to continue moving within the band in the next two years.

The Trader's View

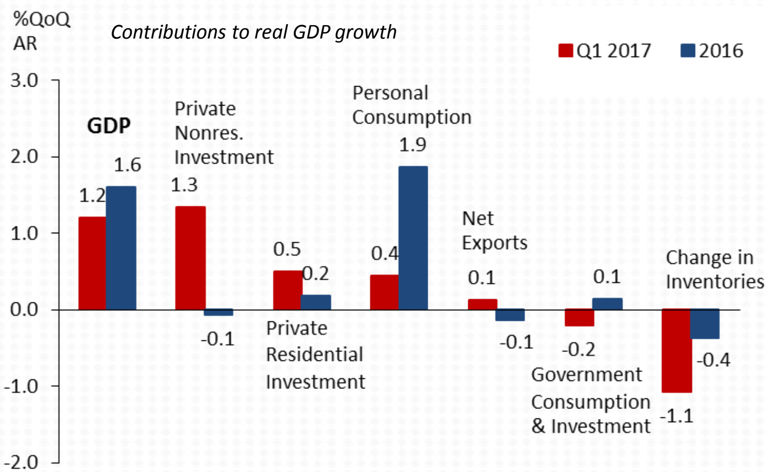
Asset Class	Outlook
Foreign Exchange	**EUR/USD:** The positive outcome of the French elections led to quick relief rally up to 1.1270 followed by a collapse in volatility to levels not seen for the last 3 years. The pair has now paused ahead of the June ECB meeting but the fundamental and technical picture remains constructive. Should it manage to break the significant resistance levels of 1.1300 – 1.1400, a new leg higher can develop which can lead us to 1.1500 to 1.1600 area in the immediate future. **USD/JPY:** Despite the favourable risk environment and the collapse in volatility, USD/JPY is still struggling closer to the bottom of this year's trading range. The dominant factor has been the underperforming US yields and the range of 110 - 113 is expected to hold in the immediate future. **GBP/USD:** Despite the political noise and uncertainties GBP/USD managed to reach the 1.30 handle mainly due to USD weakness than GBP strength. The Brexit process is expected to be long and uncertain, putting a lid on significant GBP appreciation. However, as further USD weakness cannot be ruled out, we might see GBP/USD breaking higher and above the 1.30 level.
Government Bonds	**US:** The possibility of impeachment has pushed the breaks on the much anticipated tax reforms and pro-growth agenda. US yields have fallen with the curve flatter as a June hike is largely priced in but weak inflation numbers and a reduced term premium have failed to support a selloff in longer tenors. Rising yields remains the path of least resistance with the 10y UST trading in a range between 2.10% and 2.35% and a clean break above 2.46% needed to see a resumption of the upward trajectory. Saying that, a fragile political environment looks set to stay driving us to revise our view to a more gradual path of rising rates and a 10y UST approaching 2.70% by year end, with the current market implied forward at 2.36%. **EU:** ECB QE tapering talk provided mild support to EUR rates despite the Fed driven impetus fading. Consensus is that the ECB will make the announcement in its September meeting. This should steepen the short end of the curve with the 5y underperforming. Continued buying interest from pension funds and insurance companies, should exert flattening pressure on the long end as yields rise, driving 10s/30s lower. For now we expect 10 and 30 year EUR rates to reduce their difference with the equivalent USD. Bund yields have tested 0.40% multiple times failing to hold above. We expect an eventual break higher that will open the way for a move towards 0.59%/0.62%. Italian jitters, Greece uncertainty and Trump politics present downside risk to our view for a year end close towards 0.70% (current market implied forward is at 0.54%).
EM hard currency debt	EM external debt has continued to act as a safe haven, so far this year. The profit taking we were expecting at the end of the first quarter did not materialize and spreads have remained stable if not rallied as global fundamentals continue to improve. We are inclined to take profit at current levels and wait for better entry levels. Idiosyncratic risks will remain a key driver for name selection and tactical entry points.
Corporate credit	Performance has been stellar to say the least, given the tight starting point at the beginning of the year with subordinated debt (corporates and financials) and HY outperforming. Curve wise the long end (10yr+) has amassed the best total return so far this year. Rising rates in the US and tapering discussion in Europe make us cautious on corporate credit at current levels as we believe there is little space for further spread compression.
Commodities	We maintain our view that commodities are bottoming out. Medium term WTI sell offs remain a buy with a view to break on the upside of the recent range. Industrial metals will see increased demand as global growth picks up and the reflation trade gets back on track. Overall energy and base metals should perform well in a rising rates environment. Precious metals on the other hand, in the absence of any risk off events, should see lower prices from current levels.

II. Advanced Economies

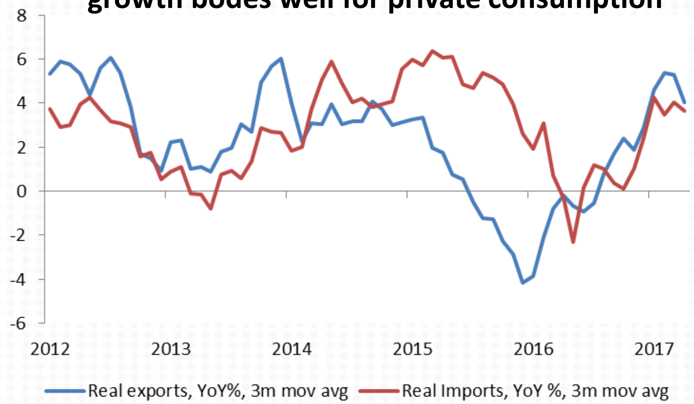
- USA
- Euro Area
  - ❖ Periphery (Italy, Spain, Portugal, Cyprus)
- Japan
- UK

USA: political uncertainty weighs on US economic outlook

Q1 softness partly on residual seasonality



Export growth still a headwind for growth, while import growth bodes well for private consumption



Source: US BEA, US Census Bureau, Eurobank Economic Research

Latest Economic Developments

According to the second BEA's estimate, real GDP growth decelerated to 1.2%QoQ saar in Q1 2017 from 2.1% in Q4 2016, mainly on the back weaker consumer spending which rose merely 0.6%QoQ from 3.5%QoQ in the prior quarter. Although much of the Q1 slowing was due to winter storm Stella and the timing of the Easter holiday, the San Francisco Fed has stated that there is significant residual seasonality in the BEA's GDP estimates that tends to lead to weak Q1 readings over the last five years. Nevertheless, business investment rebounded as equipment spending grew 7.2%QoQ saar, its best performance in 1.5 years, after averaging a mere 0.1% in 2015 and 2016. Adding to this, business structures increased at their fastest pace since Q1 2014 (+28.4%QoQ saar), taking advantage of higher energy prices. Residential investment also reported a hefty rise of 13.8%QoQ saar, having its best quarter of growth since Q2 2015. Recent strong readings on University of Michigan consumer sentiment for May, as well as retail sales and industrial production for April, suggest that real economic activity will rebound in Q2 from Q1. However, the external sector should continue acting as a drag, given the recent softness in export growth.

Central Bank Watch

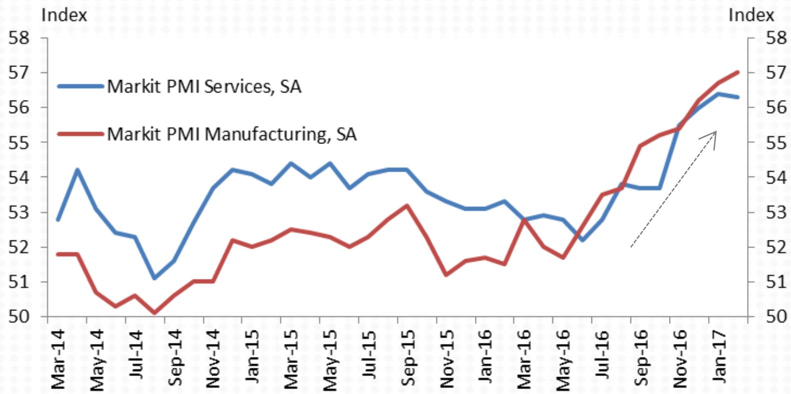
At its May monetary policy meeting, the Fed acknowledged that labor market conditions have improved further despite growth deceleration in Q1 which was characterized as temporary, given that the fundamentals underpinning private consumption and disposable income growth remain solid. Adding to this, the Fed revised upwardly its assessment on business investment while "most participants" viewed the recent fall in March core prices as "primarily reflecting transitory factors", highlighting that inflation has been running close to the Committee's 2.0% longer-term target on a 12-month basis. Fed Funds futures currently point to two more 25bps rate increases in 2017, in June and December FOMC meetings that are accompanied by the updated Summary of Fed's Economic Projections, with the target range reaching 1.25-1.50% by year-end. In our view, the softness in May employment growth should not prevent the Fed from a June rate hike. The announcement for the beginning of a gradual phasing out the reinvestments of its balance sheet will likely come towards year-end, possibly in December. Fed officials have hinted their desire to move passively to a balance sheet reduction (via phasing out reinvestments vs selling outright a portion of Fed's holdings), using the fed funds rate as the primary tool for changes in monetary policy. The minutes of the May FOMC meeting stated that the Committee is likely to "provide additional details about the operational plan to reduce the Federal Reserve's securities holdings over time" relatively soon, so the said information could possibly come either in the press conference or in the minutes of the June FOMC meeting.

Risks

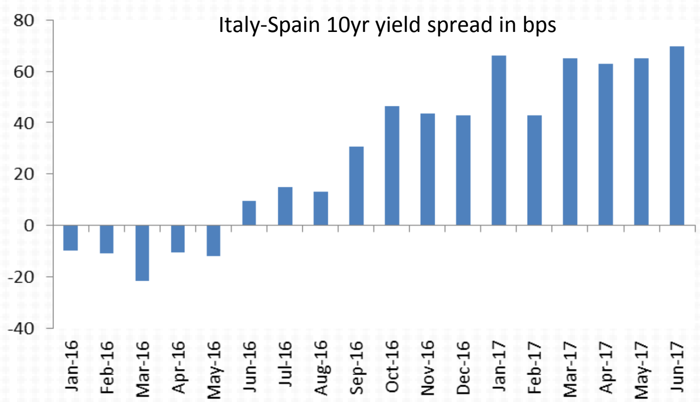
Recent developments in the US political scene, including the impending public testimony of sacked FBI director James Comey, the appointment of a Special Prosecutor and accusations that US President Donald Trump revealed classified information to the Russians, have increased the pressure on Trump's administration and sparked investor concerns for possible delay/cancelation in the legislative process of campaign promises on fiscal policy, particularly tax reform.

Euro area: despite political uncertainty, economic expansion continues in early months of 2017

Soft data point to upward growth momentum



Italy's risk come to the fore again



Source: Markit, Bloomberg, Bank of Italy, Bank of Spain, Eurobank Economic Research

Latest Economic Developments

Euro area GDP growth increased by 0.5%QoQ in Q1 2017, unchanged compared to Q4 16. Growth has likely been driven by solid private consumption growth, followed by a positive contribution from business investment as well. Forward looking indicators point to a sustained positive momentum in real economic activity in the months ahead, with the flash May PMI composite index standing at a six-year high of 56.8. In Germany, the upside surprise to 57.3 from 56.7 in April was driven by the strongest manufacturing reading in six years, coupled with a surge in Ifo business climate index to its highest level since the 1970s. The PMI index surprised to the upside in France as well, mainly due to a jump in the services sector after the market-friendly Presidential election results. Although political uncertainty in Europe is far from over, it has somewhat eased after Emanuel Macron's victory in the French presidential elections, failing to have any meaningful adverse effect on investors confidence.

Central Bank Watch

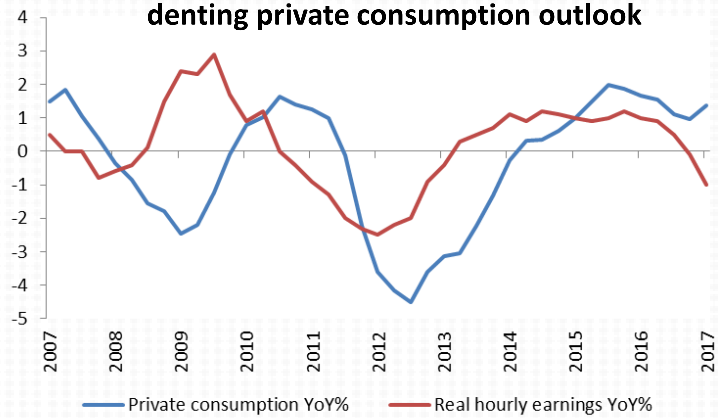
The accounts of the April monetary policy meeting highlighted that downside risks to growth are less prominent because of improved domestic factors, expecting the gradual recovery to continue and inflation to proceed further on its path towards the GC's target. Meanwhile, ECB's Benoit Coeure said at a conference in Paris that the ECB is not about to change policy exit sequencing from that communicated previously and that the ECB would start hiking interest rates "well beyond the horizon" of asset purchases. Furthermore, ECB President Mario Draghi downplayed speculation that the ECB will start discussing unwinding its bond-purchase program anytime soon, highlighting that an extraordinary amount of monetary policy stimulus is still needed for inflation to return to levels close to the ECB's 2.0% medium-term target. We do not expect any significant change in the forward guidance at the June meeting to prevent an unwarranted tightening of financial conditions, given that the recent euro appreciation does not bode well for the inflation target. Instead, the ECB could change its economic growth outlook highlighting that risks are largely balanced instead "to the downside".

Risks

Euro area economy continues to be characterized by heterogeneity in terms of growth, with the biggest concern being Italy. Unlike Spain, it has yet not recovered from the financial and sovereign debt crisis, with persistent weakness in its banking sector and lack of structural reforms entailing the risk of a burst of sovereign crisis. On the external front, market worries over the US political developments, as well as the scale and the timing of Donald Trump's promised fiscal stimulus remain highly linked to the global outlook and, consequently, the prospects of the euro area economy. Meanwhile, the uncertainty surrounding the process of the UK leaving the EU poses a downside risk to the UK and to a lesser degree to the euro area economies.

Italy: Uncertainty dominates across the political spectrum

Negative real wages erode purchasing power, denting private consumption outlook



High unemployment constraints wage growth

Source: Bloomberg, Eurostat, ISTAT, Eurobank Economic Research

Latest Economic Developments

In line with expectations, real GDP increased modestly by 0.2%QoQ in Q1 2017, underperforming most of euro zone member states, the same moderate rate as in Q4 2016. On a YoY basis, real GDP growth slowed to 0.8% from 1.0% in Q4 2016, which was the strongest annual rate of growth since 2011. Domestic demand was the main driver of growth, while net trade acted as a drag on activity. Meanwhile, from a value added standpoint, services and agriculture contributed positively, while industry contracted. Overall, hard economic data have so far failed to mirror the same buoyant picture that leading indicators reflect. In more detail, Markit/ADACI Business Activity Index (PMI) for services soared to a ten-year high of 56.2 in April from 52.9 in March, while the respective index for the manufacturing sector surged to a six-year high of 56.2 from 55.7 in March. According to the government, real GDP growth is projected at 1.1% in 2017, up slightly from 0.9% in 2016, leaving Italy among the euro zone economies with the most unsatisfactory performance.

Italian politics

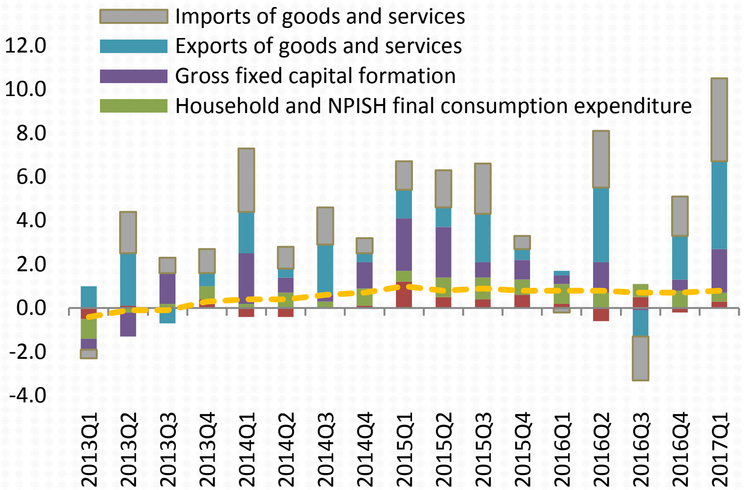
Probability of snap general elections in Italy has increased substantially lately, following the unexpected convergence of the four major political parties on reforming Italy's voting system. The Democratic Party (PD) submitted its proposal for a new electoral law on 31 May, having ensured an agreement with Forza Italia (FI), the anti-establishment Five Star Movement (5SM) and the Northern League. The proposed law is based on the current German electoral pure proportional system, under which political parties running on their own must reach a 5% minimum threshold required to make it to Parliament. Looking ahead, market focus centres on the discussion on the new electoral law by the lower chamber and the senate on June 6 and by July 7, respectively. Given that reforming the electoral law was the only necessary condition for early elections, President of the Republic Sergio Mattarella is likely to dissolve the parliament and call snap elections, to be held in the second half of September at the earliest. Holding elections before FY 2018 budget season of 20 October-31 December, when Italy should approve fiscal policy tightening measures to comply with EU rules, would allow the PD to avoid the potential electoral costs of engaging to a contractionary fiscal policy.

Risks

Political uncertainty is expected to remain elevated in the coming months, while the sluggish adjustment in Italy's banking sector represents downside risks to the country's outlook. Given that Italian potential GDP growth is estimated near zero, any deterioration in real economic activity or any QE tapering by the ECB could raise market concerns about the sustainability of Italy's high debt.

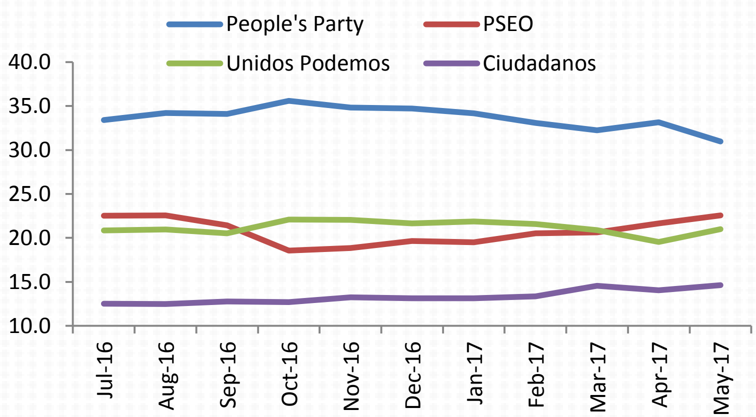
Spain: Q1 GDP growth continued to outperform euro area average

Real GDP growth & contributors (QoQ%)



Opinion polls since June 2016 general election (avg. popularity rate)

PP comfortably in the lead



Source: Eurostat, Wiki, Eurobank Economic Research

Latest Economic Developments

Spanish Q1 2017 GDP surprised positively accelerating at 0.8%QOQ from 0.7%QoQ in Q4 2016, exceeding the euro area average for the 12th consecutive quarter. In spite of rapidly rising inflation (from an average -0.3%YoY in 2016, HICP peaked at a five-year high of 3.0%YoY in February before falling to 1.9%YoY in the following month) private consumption remained the main growth driver, supported by solid employment growth, stronger credit to households and a significant improvement in consumer confidence. The unemployment rate stood at 18.8% in Q1 2017, close to a seven-year low of 18.9% in the prior quarter, albeit still more than double than that of 2007, while employment growth rose close to its highest in more than six years. From the expenditure approach, investment growth recorded in Q1 the highest print in three years. Net exports had a positive growth contribution and general government consumption growth posted a positive figure after a decline in Q4 2016. For the full year 2017, Spain's real GDP growth is expected to slow from 3.2% last year to 2.8%, albeit still higher than a projected 1.7% average for the euro area. Private consumption is expected to remain the main growth driver but to slow down as job creation will likely ease and the positive effect of temporary factors that supported household disposable income gains in recent years, such as a decline in oil prices and reduced income tax rates for 2015 & 2016, are seen gradually waning, while substantially higher headline inflation than last year will probably dent households' purchasing power.

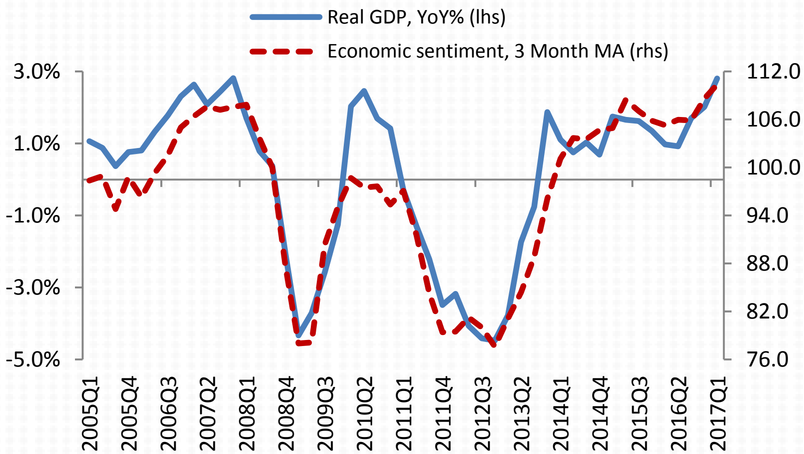
Challenges for Mariano Rajoy's minority government

PM and leader of governing People's Parity (PP) Mariano Rajoy will undergo a no-confidence vote on June 13 tabled by the left-wing Podemos party amid a number of corruption scandals involving PP in recent years. Podemo's leader Pablo Iglesias characterized the no-confidence motion as an "ethnical obligation", acknowledging though that it is unlikely to succeed as high level politicians from major opposition, the Spanish Socialist Workers' party (PSOE) and the centre-right Ciudadanos party, made clear they do not intend to vote in favour. This means that none of the two major opposition parties appears to be clearly in favour of an early vote. More than 100 opinion polls published since the June 26th 2016 general elections signal no meaningful change in the distribution of voters. As such, even if snap elections were to be held any time soon, they would probably lead to a renewed political impasse with PP coming first but short of an absolute parliamentary majority and PSOE having no chance to lead an alternative government as significant differences with Podemos prevail. Opposition could become more vocal after Pedro Sanchez, who positions himself at the left-end of the political spectrum, was re-elected as leader of the PSOE in the May 21st primary elections. Furthermore, the fragmentation of the current parliament will likely prevent the adoption of any significant structural reform. Adding to the minority government's challenges, Catalan regional government remains committed to hold an independence referendum by October 2017, threating to proceed unilaterally and triggering an escalation of tensions with the central government.

Portugal: Growth momentum gains pace in Q1 2017

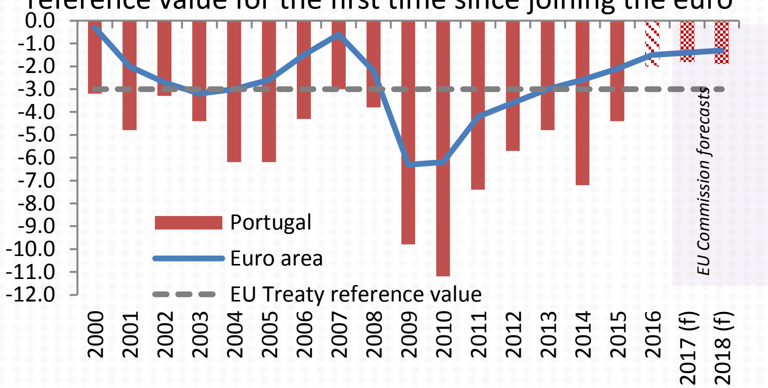
Eurobank

Real GDP growth vs. economic sentiment



General government balance (% of GDP)

Portugal brings its deficit below the 3%-of-GDP EU Treaty reference value for the first time since joining the euro



Source: Eurostat, EU Commission, Eurobank Economic Research

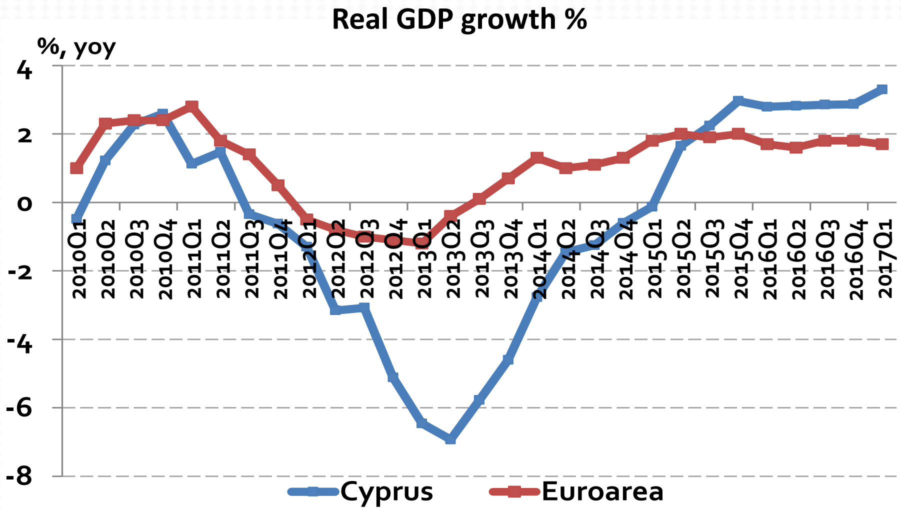
Latest Economic Developments

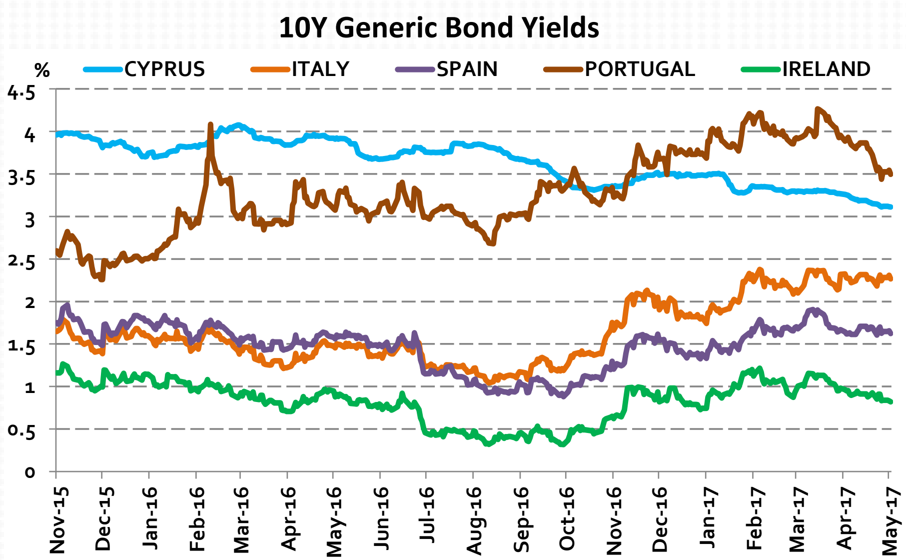
Portugal's real GDP growth accelerated in Q1 2017 increasing by 1.0%QoQ, the highest in six years, after 0.7%QoQ in the prior quarter, clearly outpacing the euro area's average pace of economic recovery. The annual rate accelerated to 2.8%, the highest since Q4 2007, from 2.0% in Q4 2016, mainly supported by investment and net trade with export growth outpacing import growth as firms likely benefited from stronger demand from European trading partners. 2016 GDP grew by 1.4% and the positive carry over is expected to improve the growth rate in 2017 to 1.8%, 0.4ppts higher from our estimate earlier this year. The tourism sector is expected to continue exerting a positive impact on Portuguese recovery for the fourth consecutive year while, supported by the minimum wage increase and robust employment growth, private consumption should continue exerting a positive impact. Economic sentiment remained in an improving trend in the first quarter of this year reaching a 8½ year high, the unemployment rate fell below 10% for the first time in the last seven years from a peak of 17.5% in early 2013, while employment growth marked a multi-year high in Q1 2017. However, private consumption growth should slow down from a pace of 2.3%YoY in 2016, mainly on the back of higher inflation and limited room for a further drawdown on households' savings. Overall, growth risks remain titled to the downside, stemming mainly from the high level of private indebtedness and the poor health of the banking sector.

Reduced risk for a sovereign credit rating downgrade by DBRS

Portugal's fiscal performance in 2016 surprised positively, with the general government deficit improving from 4.4%-of-GDP in 2015 to 2.0%-of-GDP, coming in below the EU Treaty reference value of 3.0%-of-GDP for the first time since joining the EU. Outperformance relative to the Portuguese budget target was mainly due to improving economic growth, as well as an overall containment of budget expenditure, in particular public investment. According to its latest forecast (Spring 2017), the EU Commission projects Portugal's general government deficit to drop further to 1.8%-of-GDP in 2017, before rising modestly to 1.9%-or-GDP 2018, remaining though below the 3.0% Maastricht threshold in the forecast period. Based on these projections, the EU Commission recommended the EU Excessive Deficit procedure, which the country has been in since 2009, to be closed. The above is positive from a rating agencies perspective, reducing the risk of a rating downgrade by DBRS. A potential downgrade by DBRS, which is currently the only of the four major rating agencies to rate Portugal in investment grade and is scheduled to review Portugal's sovereign credit rating on October 20th 2017, could render PGBs ineligible for collateral in the ECB's regular refinancing operations and QE programme, creating liquidity pressures on the domestic banking system and potentially forcing Portugal into an ESM programme.

Cyprus: Rating agencies views divergence on the sovereign rating





Source: Eurobank Research, National Authorities, Bloomberg

Latest Economic Developments

The Q1-2017 flash estimate of GDP growth was the strongest since 2008. On a seasonally adjusted basis, growth expanded by +0.6% QoQ/+3.3% YoY compared to +0.7% QoQ/+2.9% YoY in Q4 vs. +0.3% QoQ/+2.8% YoY in Q1-2016. The consumption rebound most probably continued in Q1 driven by strong sentiment improvement, a flourishing tourism sector, improved labor market conditions, further property market stabilization, the impact from the envisaged fiscal relaxation, and the further normalization of banking sector conditions. The strong sentiment improvement-the highest in EU-28 in the last three years-mirrors the lasting progress within the expired adjustment program. Tourist arrivals expanded by +19.9% YoY in Jan-Apr2017, heading for a new all-time record high in the history of the Republic. Unemployment in seasonally adjusted terms resumed its downward trend declining further to 12.5% in March2017 vs. 13.3% in March2016. The real estates prices trajectory and transactions in combination with other high frequency data from the construction industry point to further stabilization in the property market. The number of sale contracts in the domestic real estate market has risen by c. 25% YoY in the four months to April 2017, reaching c. 2k contracts. The respective reading for March 2017 was the highest in the last six years. Property prices have been in a broadly stabilization path throughout H2-2016, with the Residential Property Price Index (RPPI) recording in Q3-2016 its first quarterly increase since 2009. After a three year recession, between 2012-14 , and a cumulative drop of 10.5% in GDP, the economy expanded by +1.7% YoY in 2015, +2.8% YoY in 2016, above all initial official forecasts. In our view, solid real GDP growth performance - on average 3% per year - is expected to continue in 2017-18 driven by the recovering consumption dynamics.

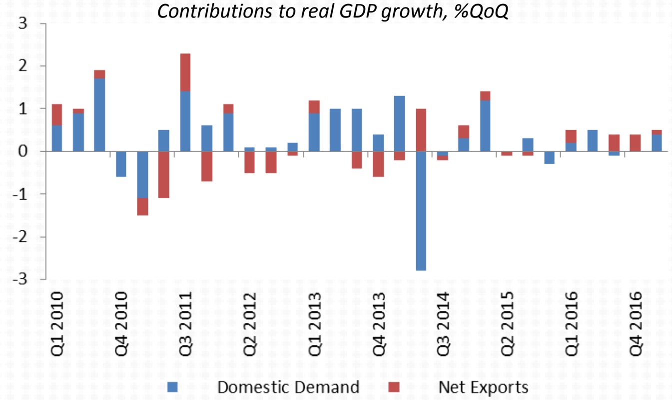
Risks & Challenges

Following the latest round of sovereign rating assessments, major rating agencies appear to continue having divergent views on Cyprus. Currently, the distance from investment grade status is: one notch for S&P (currently at BB+, last upgrade in mid-March), four notches for Moody's (currently at B1), and three notches for Fitch (currently at BB-). The lack of investment grade status currently prevents Cyprus from joining the ECB's PSPP program. Yet, Cypriot bond yields are on a declining trend since mid-2016 outperforming those of Portugal in the Euroarea periphery. On the domestic front, the reform momentum seems to have stalled ahead of the Presidential elections in 2018. Still, a handful of unfinished structural reforms need to progress in the areas of privatizations, public and health sectors, while addressing the challenges of a still high bad loans stock (NPEs ratio at 47% in Dec2016, the second highest in EA).

Japan: firming external demand and expansionary fiscal policy to support growth momentum in the months ahead

Q1 2017: Fifth positive quarter of growth in a row for the first time in 11 years

Contributions to real GDP growth, %QoQ



Upward momentum in exports thanks to the global manufacturing recovery

Source: Economic & Social Research Institute Japan, Ministry of Internal Affairs & Communications, Bloomberg, Eurobank Economic Research

Latest Economic Developments

Real GDP growth grew by a stronger-than-expected 2.2%QoQ saar in Q1, marking the fifth consecutive quarter of growth in a row for the first time in almost 11 years. Both external and domestic demand contributed positively to real economic activity, with the largest contribution coming from private consumption amid an upsurge in semi-durables spending, coupled with the ongoing recovery in durables over the past year. Meanwhile, private capex increased for a second consecutive quarter, while public investment marked its third quarterly decline in a row. Nevertheless, public investment's contribution is likely to turn positive in Q2 as the effects of the current fiscal support programme, under the FY16 second supplementary budget, gradually unfold, estimated to add a total of 0.6pps to overall GDP growth in 2017.

Central Bank Watch

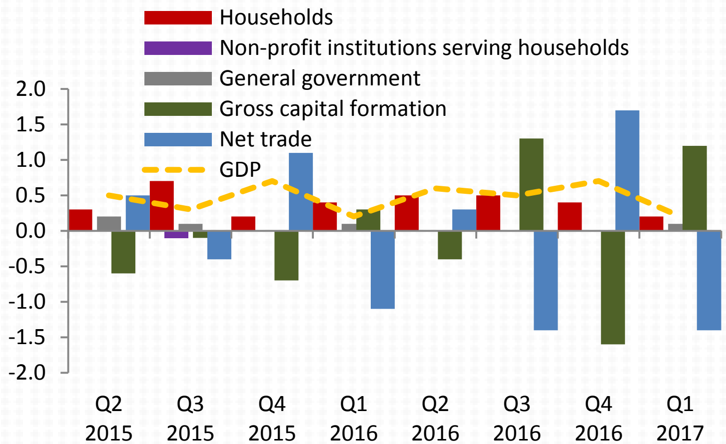
The BoJ has maintained its unprecedented monetary easing program for the past four years, modifying its policy of "quantitative and qualitative monetary easing" in September 2016 by introducing yield curve control (YCC), under which the central bank commits to keep the 10-yr JGB yield at zero until inflation rises above 2.0%. Although recent activity and labor indicators appear pretty strong, the said improvement has not been translated into accelerating underlying prices as headline CPI inflation has remained well below the BoJ's 2.0% target. Adding to this, the recent depreciation of the JPY (~4.0% on a trade-weighted basis since mid-April) should allow the BoJ to be patient for now, and retain its accommodative monetary policy stance in the near-term. Nevertheless, investors' focus is expected to turn towards whether the Central Bank can keep the YCC framework unchanged, given the wider yield spread versus the US.

Risks

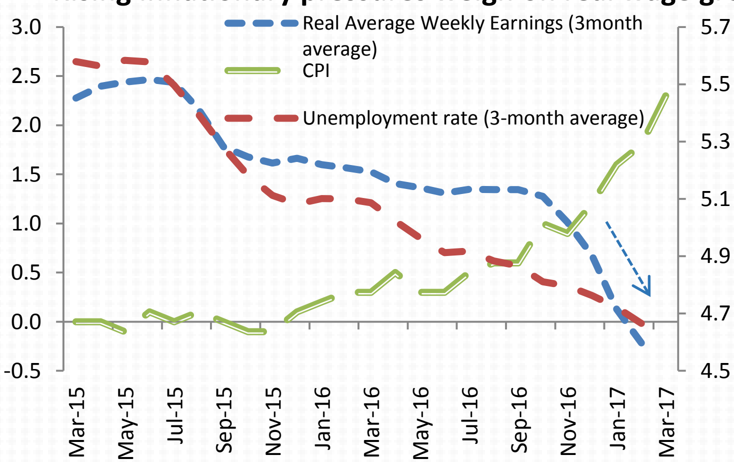
The recent acceleration in real economic activity in Japan has been mainly driven by sharply higher export volumes amid accelerating global demand whereas compensation and private consumption growth has domestically slowed down. This illustrates the Japanese economy's vulnerability to potential external disturbances, such as growing protectionist US policies, currently being discussed in the form of a border adjustment tax (BAT).

UK: Services sector's contribution to Q1 growth slowed to the lowest in two years

UK GDP: Expenditure components percentage contribution, QoQ



Rising inflationary pressures weigh on real wage growth



Source: ONS, Eurobank Economic Research

Latest Economic Developments

Confounding BoE expectations for an upward revision from a preliminary estimate of 0.3%QoQ from 0.7%QoQ in Q4 2016, Q1 GDP 2017 slowed to 0.2%QoQ according to the second estimate . The unexpected lower reassessment was mainly due to broad-based downward revisions within the services sector, which contributed 0.2%QoQ to GDP growth, the slowest in two years. The expenditure breakdown revealed that consumer spending growth slowed from 0.7%QoQ in Q4 2016 to 0.3%QoQ in Q1 2017, the lowest since Q4 2014, as rising inflation weighed on real income. Accordingly, the contribution of household spending to GDP growth dropped from 0.4%QoQ in Q4 2016 to 0.2%QoQ, the lowest since Q4 2015. The biggest positive contribution to Q1 GDP growth came from gross capital formation, which added 1.2ppts, partially offsetting a 1.4ppts subtraction from net trade. The trade deficit widened in Q1 to the second highest print since Q4 2013, suggesting that GBP weakness has failed to deliver big competitiveness gains for UK exporters. While imports rose by 2.7%QoQ, exports dropped by 1.6%QoQ raising questions over the BoE's judgment that a projected slow down in consumption this year will be "largely balanced" by a pickup in other components of demand, in particular higher net trade and investment.

On the inflation front, pressures continued to build with CPI inflation rising from 2.3%YoY in March to 2.7% in April, the highest in around two years and well above the BoE's 2.0% target, mainly due to the difference in the timing of Easter. Rising inflation pressures continued to dent households' purchasing power. Real wage growth shrunk in the three months to March for the first time in 2 ½ years, eventhough labor market conditions continued to improved with the unemployment rate falling to 4.6%, just 0.1pp above the BoE's estimate of the long-term equilibrium unemployment rate.

BoE May Inflation Report: slight tightening bias on the assumption of a smooth Brexit

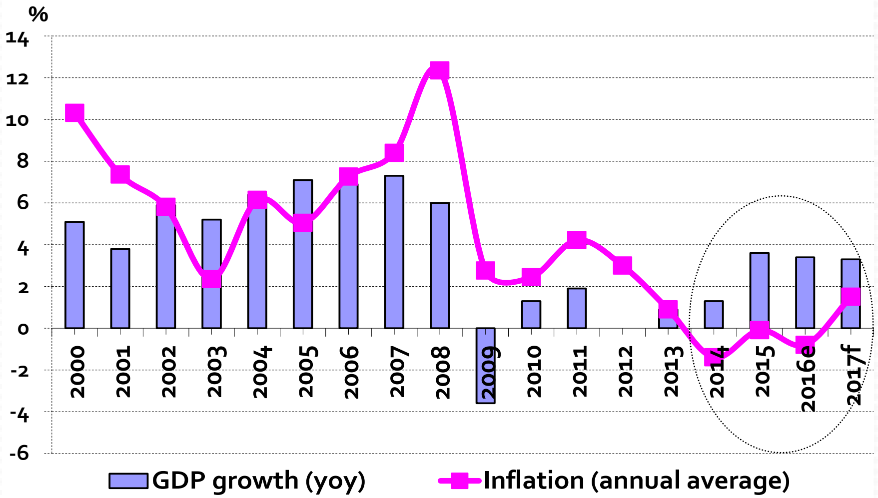
In its March Inflation Report, the BoE adopted a slight tightening basis stating that interest rates may need to rise by a "somewhat greater extent than implied by markets". On GDP growth, the BoE revised lower its 2017 forecast by 0.1ppts to 1.9% and reassessed higher its projections for 2018 and 2019 both by 1.ppts to 1.7% and 1.8%, respectively. Meanwhile, the Central Bank revised down its inflation forecast for the period between Q1 2018 and mid-2019, expecting though to remain above the 2.0% target throughout the forecast period. The BoE revealed that its forecasts are based on the assumption of a smooth UK exit from the EU, a development that will undoubtedly take some time to know whether it is justified. That said, even though the BoE may continue to talk up the prospect of higher interest rates as long as inflation is above target and economic data do not yield major negative surprises, it is expected to remain on hold in the foreseeable future amid uncertainty over the evolution of Brexit-related discussions expected to commence in June 19, after the June 8th UK snap elections. In all, we are of the view that rising inflationary pressures should be accompanied by a significant pick up in wage growth to support the case for higher BoE interest rates.

III. Selected CESEE economies

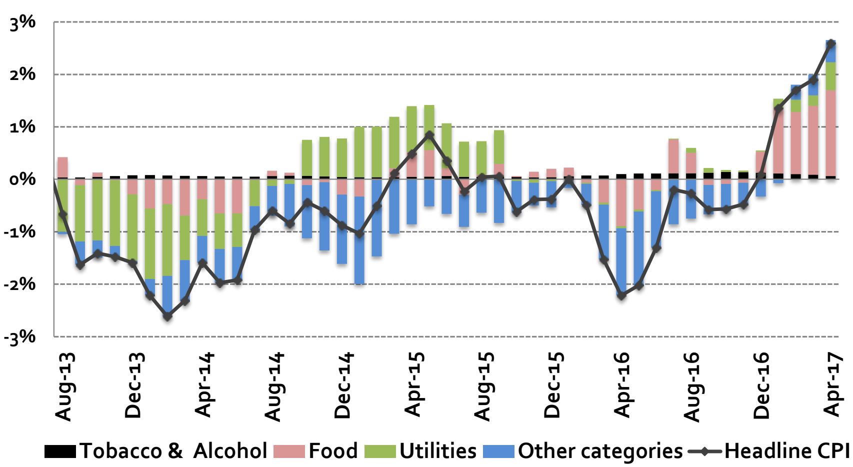
- Bulgaria
- Romania
- Serbia

Bulgaria: Incoming government coalition signals policy continuity

GDP Growth & Inflation



Inflation components



Source: Eurobank Research, National Authorities

Latest Economic Developments

The flash GDP estimate (+0.8% QoQ/+3.4% YoY) demonstrated that growth remained on track in Q1-2017. At first sight, private consumption appeared very strong, while the contribution of net exports turned negative. On the negative side, investments were in red territory for yet another quarter, the rate of decline (-1.3% QoQ/-5.4% YoY) was the largest in the last three years mirroring the lingering political uncertainty ahead of the elections, the under-execution of public investment program which is traditionally skewed to the last quarter of the year. Having emerged out of a three year deflation, consumer prices are now on upward trend (+2.6% YoY in Apr2017 vs. +0.1% YoY in Dec2016), reflecting the normalization of world energy prices, the adjustment of regulated gas prices and the volatile component of food prices.

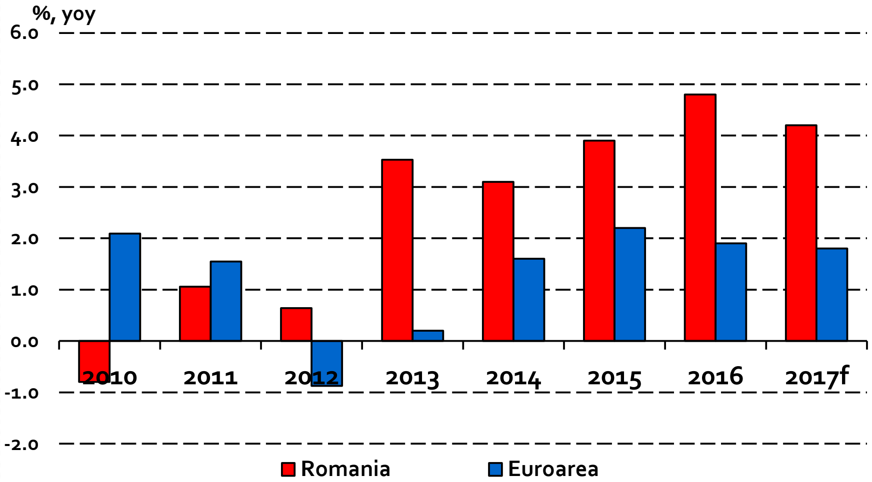
Bulgaria is expected to register a second consecutive year of strong-above potential- growth in 2017. Private consumption dynamics are broadly set to remain strong as the economy benefits from a more expansionary fiscal policy stance, an improving labor market, catching up wages and still relatively low energy prices. Investments are going to receive support from improved EU funds absorption in the new programming period while a vibrant export oriented manufacturing sector and an emerging tourism industry boosts net exports.

Risks &Challenges

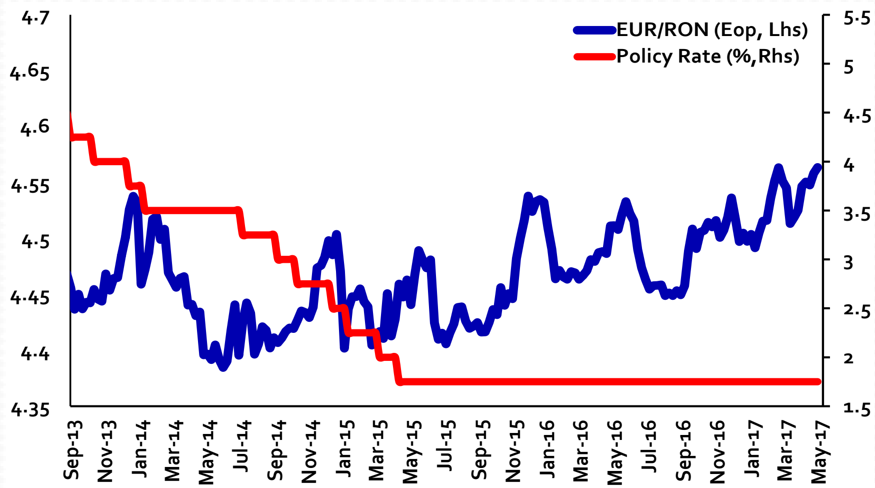
GERB won the snap parliamentary elections in late March but failed to win an outright majority. In line with expectations, GERB formed an alliance with United Patriots. The government coalition was endorsed by 132 MPs of both parties and VOLYA, a newly formed party. The new GERB-led administration signals internal and external policies continuity. However, the participation of other smaller parties in such an alliance will likely cast a populist tone. The new government pledges to increase wages, raise pensions and continue infrastructure development which may translate in moderate fiscal easing. One of the key challenges for the new administration will be to balance between deepening Bulgaria's integration in the European structures (Schengen area & Euroarea membership) and the Eurosceptic stance of its minor coalition partner. In any case, the key challenge for the new government will be to push for the so much needed but so politically sensitive structural reforms in the economy that will accelerate living standards' convergence with EU-28. The GDP per capita, in PPS terms, stood at 47% of the EU-28 average in 2015, compared to 45% in 2010, still remaining the lowest among EU members.

Romania: Official EU warning on fiscal slippage

GDP growth



Monetary Policy & FX Rate



Source: Eurobank Research, National Authorities, Bloomberg

Latest Economic Developments

The flash Q1-2017 GDP estimate was a huge upward surprise. On a seasonally adjusted basis, real GDP growth stepped up to +1.7% QoQ/+5.6% YoY in Q1 –above analyst call for +1.0% QoQ/+4.5% YoY- up from +1.5% QoQ/+5.0% YoY in Q4-2016 compared to +1.1% QoQ/ +4.0% YoY in Q1-2016. It is common knowledge that growth is largely driven by private consumption, financed by an unsustainable overly expansionary fiscal policy, and leads to a revival of macroeconomic imbalances. Hence, the economy is driven close to, if not above, its potential growth rate at the expense of pushing government finances off consolidation track and deteriorating the external position. As a result, the CAD is expected to jump close to 3% of GDP in 2017 up from 2.4% in 2016, and only 0.4% in 2014. Looking ahead, a soft landing scenario is the most likely outcome in 2017-18. Even though the additional fiscal stimulus impulse provided by incoming government in order to fulfill its pre-electoral promises will boost consumption in the short-term, its impact is poised to wear out in the medium term. Moreover, the overreliance on consumption occurs at the expense of neglecting investment-which is negative for potential output- and turning the contribution of net exports neutral if not negative.

Central Bank Watch

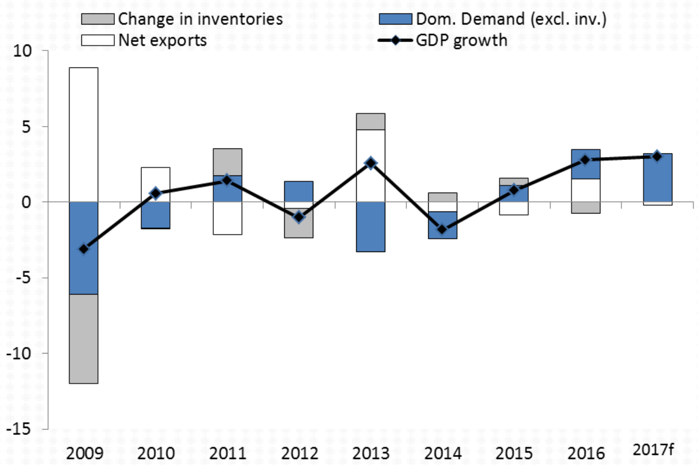
NBR continues to be on wait-and-see mode, leaving the KPR unchanged at 1.75% but trimmed MRRs on FX denominated liabilities by 2ppts so that both (with those on RON) stand at 8%. There are still a number of elevated risks, mainly domestic fiscal related, that NBR is increasingly aware of and will specify the timing of the initiation of the tightening cycle. For the time being, underlying inflationary pressures remain relatively contained yet slowly building up: adjusted Core2 inflation edged up to 1.1% YoY in April up from 0.5% in January. The NBR has signaled that monetary policy normalization could start by narrowing the interest rate corridor to ±100bp from ±150bp currently.

Risks &Challenges

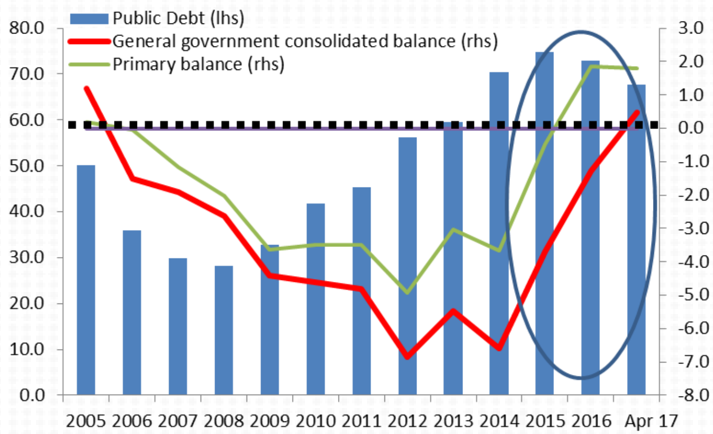
Given the confrontational relationship between the President and the Prime Minister, political tensions could resurface again. However, the focus now shifts to the budget execution, where downside risks - the 2017 budget assumptions are overly optimistic - may put the government on a collision course with EU institutions. Assuming no policy change, the projected fiscal deficit is expected to swell to 3.7% and further to 3.9% in 2018, above the 3% threshold. The government has downplayed those concerns. The EU Commission has already issued an official warning to Romania, on the existence of a significant deviation of the structural public budget balance (-2.6% of GDP in 2016) from the medium-term budgetary objective (-1% of GDP).

Serbia: Economic recovery and fiscal consolidation to continue in 2017

Economic recovery to pick up further pace in 2017



Fiscal consolidation continues in early 2017



Source: Eurobank Research, National Authorities

Economic Outlook

Final national accounts data showed real economic activity grew by 1.2%YoY in Q1, revised from a preliminary 1.0%YoY. Nonetheless, the data marks a significant slowdown from recent quarters. The breakdown of the data vindicated our expectations that adverse weather conditions weighed on agriculture and construction. Base effects may also be partly to blame as the Q1 2016 reading was exceptionally strong. From the expenditure side, household consumption gained momentum, while growth in investments slowed down further and net exports' contribution turned negative on accelerating imports' growth amid strengthening domestic demand and higher energy imports due to cold weather. Economic activity is likely to pick up additional pace towards 3.0% this year and accelerate slightly further in 2018, from an 8-year high growth of 2.8% in 2016, as last year's positive trends are likely to continue. On the fiscal front, data showed that last year's strong performance continued in early 2017. The general government budget swung into a RSD 21.5bn surplus in Jan-Apr from a RSD 26.8bn deficit over the same period in 2016, beating an IMF-backed deficit target of ca RSD 53-54bn thanks to increased revenue collection and spending reductions. With these positive developments already evident early in 2017, the deficit is likely to narrow to around 0.5% of GDP in 2017 from last year's 1.3% shortfall and possibly register a small surplus in 2018, in tandem with a further decline in public debt that period.

Central Bank Watch

CPI rose further in April, with the headline index reaching a 4-year high of 4.0%YoY and moving further above the mid-point of the 3.0% ± 1.5 target tolerance band. The increase was primarily influenced by the recovery on global oil prices and fresh vegetables, fruit and fresh meat amid an unusually cold weather for the season. Indicating the temporary nature of the recent rise in headline CPI, the core index continued to hover around 2.0%YoY in May. NBS reiterated its view that that inflation will remain within the target band in the period ahead, as the impact of one-off factors gradually fades. Also taking into account the effects of past monetary easing and lingering external risks the MPC held the key policy rate unchanged at a record low level of 4.00% at its meeting in May, a level where we expect it to remain throughout this year.

Risks &Challenges

One of this year's main risks domestically, April's Presidential elections, are already behind us. Former PM Aleksandar Vucic's landslide victory in the 1st round was positively received by financial markets, reflecting continuation of pro-reform and EU policies. Some uncertainty still remains on the newly incumbent President's successor. However, the new PM will probably be a close ally of Vucic. Ivica Dacic, incumbent first deputy PM and Foreign Minister, is among those named for the PM post, while the names of Ana Brnabic, who holds the state administration and local self-government portfolio, and current FinMin Dusan Vujovic have also been speculated. Putting the political risk aside, the domestic economy remains vulnerable to swings in global investor sentiment, changes in major central banks' monetary policies and fluctuations in global commodity prices. Geopolitical tensions and delays in the implementation of reforms and potential fiscal slippages domestically also pose risks for the domestic economy.

IV. Eurobank Macro Forecasts

Eurobank Macro Forecasts

	GDP (YoY%)			CPI (YoY%)			Current Account (% of GDP)			General Budget Balance (% of GDP)		
	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
World	3.1	3.5	3.6	2.9	3.5	3.4						
USA	1.6	2.2	2.4	1.3	2.4	2.5	-2.6	-2.7	-3.3	-4.4	-4.0	-4.4
Eurozone	1.8	1.7	1.7	0.2	1.6	1.3	3.4	3.0	2.9	-1.5	-1.4	-1.3
Germany	1.9	1.6	1.9	0.4	1.7	1.4	8.5	8.0	7.6	0.8	0.5	0.3
France	1.2	1.4	1.7	0.3	1.4	1.3	-2.3	-2.4	-2.5	-3.4	-3.0	-3.2
Periphery												
Cyprus	2.8	3.0	3.0	-1.2	1.2	1.7	-5.3	-5.7	-5.9	0.4	0.2	0.7
Greece	0.0	1.7	2.3	0.0	1.0	1.0	-0.6	-0.2	0.0	0.7	-1.0	0.6
Italy	0.9	0.9	1.1	-0.1	1.5	1.3	2.6	1.9	1.7	-2.4	-2.2	-2.3
Portugal	1.4	1.8	1.6	0.6	1.4	1.5	0.5	0.5	0.5	-2.0	-1.8	-1.9
Spain	3.2	2.8	2.4	-0.3	2.0	1.4	1.9	1.6	1.6	-4.5	-3.2	-2.6
UK	1.8	1.7	1.3	0.7	2.6	2.6	-4.5	-3.9	-3.2	-3	-3.0	-2.3
Japan	1.0	1.2	0.6	-0.1	0.4	1.0	3.9	4.1	4.2	-3.7	-4.2	-3.6
Emerging Economies												
BRIC												
Brazil	-3.6	0.2	1.8	8.7	4.4	4.3	-1.3	-1.3	-1.7	-9	-9.1	-7.5
China	6.7	6.6	6.2	2.0	2.4	2.3	1.7	1.3	1.2	-3.7	-3.7	-3.4
India	6.8	7.2	7.7	4.9	4.8	5.0	-0.9	-1.5	-1.6	-6.6	-6.4	-6.3
Russia	-0.3	1.4	1.4	7.1	4.5	4.2	1.7	3.3	3.5	-3.7	-2.6	-1.9
CESEE												
Bulgaria	3.4	3.3	3.0	-0.8	1.5	1.8	4.2	1.4	1.2	1.6	-1.4	-0.7
Romania	4.8	4.2	3.6	-1.5	1.7	3.1	-2.4	-3.0	-2.8	-2.4	-3.7	-3.9
Serbia	2.7	3.0	3.5	1.2	3.3	3.5	-4.0	-4.0	-4.0	-1.3	-0.5	0.0
Turkey	2.9	2.5	3.3	7.8	10.1	9.1	-3.8	-4.7	-4.6	-2.7	-3.0	-2.0

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

Eurobank Fixed Income Forecasts

	2017 (eop)				
	Current	**June**	**September**	**December**	**March (2018)**
USA					
Fed Funds Rate	0.75-1.00%	1.00-1.25%	1.00-1.25%	1.25-1.50%	1.25-1.50%
1 m Libor	1.08%	1.12%	1.24%	1.31%	1.47%
3m Libor	1.22%	1.25%	1.35%	1.43%	1.52%
2yr Notes	1.30%	1.40%	1.50%	1.60%	1.65%
10 yr Bonds	2.22%	2.40%	2.50%	2.70%	2.80%
Eurozone					
Refi Rate	0.00%	0.00%	0.00%	0.00%	0.00%
3m Euribor	-0.33%	-0.33%	-0.33%	-0.31%	-0.29%
2yr Bunds	-0.72%	-0.70%	-0.60%	-0.55%	-0.50%
10yr Bunds	0.30%	0.40%	0.60%	0.70%	0.70%
UK					
Repo Rate	0.25%	0.25%	0.25%	0.25%	0.25%
3m	0.29%	0.29%	0.33%	0.34%	0.38%
10-yr Gilt	1.07%	1.10%	1.20%	1.30%	1.30%
Switzerland					
3m Libor Target	-0.73%	-0.73%	-0.74%	-0.75%	-0.74%
10-yr Bond	-0.19%	-0.15%	-0.10%	-0.10%	-0.05%

Source: Bloomberg (market implied forecasts)

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