May 17, 2016

Ioannis Gkionis
Research Economist
Eurobank Ergasias
+30 210 3371225
igkionis@eurobank.gr

Galatia Phoka
Research Economist
Eurobank Ergasias
+30 210 3718922
gphoka@eurobank.gr

Regional flash GDP estimates in Q1-2016 confirmed a good start in the year

- A number of national statistics offices across the region released last week flash estimates of GDP growth for the Q1-2016. Among them, three economies of our focus Bulgaria, Romania, Cyprus and earlier this month Serbia published bullish flash GDP estimates. Vindicating our and market expectations, those readings confirmed a very good start in the year and serve as a reminder that there are few winner economies in the EM space.

- From a growth point of view, we still anticipate growth to accelerate in the economies of our focus compared to 2015. As things stand at this moment, it would be fair to say that 2016 is braced to prove another very good year for the region, most probably the best since 2008.

- Although we don't have a full detailed break-down for all the economies, domestic demand has been the main driver behind growth in Q1-2016. Lax monetary policies together with lower-on an annual basis- world energy prices continue to provide a positive boost on the growth momentum. Although this boost is destined to eventually fade away as energy prices normalize, it is poised to carry throughout 2016 as well; low energy costs keep inflation pressures subdued, supporting real disposable incomes and providing more flexibility to household, corporate, and sovereign balance sheets. The economic sentiment data published in April were on average better for the region compared to March. Although the indicator has retrenched to lower levels compared to 2H-2015 in some cases, consumer sentiment, services and retail trade are on an improving trend as consumers continue to benefit from rising real wages, firmer labor markets and low inflation.

- **Bulgaria**: Strong growth momentum was sustained in the first quarter. According to the flash estimate, real GDP expanded by +0.7% QoQ/+2.9% YoY in Q1-2016 compared to +0.7% QoQ/+3.0% YoY in Q4-2015 down from +0.7% QoQ/+3.1% YoY in Q3-2015 vs. +0.9% QoQ/+2.6% YoY in Q1-2015. As usual, there will be another estimate of the national accounts data published at a later stage and there will most probably be huge revisions and reallocations within the individual growth drivers' components. However, final consumption appeared to have made a very strong contribution to growth in Q4. Final consumption expanded by +0.5% QoQ/+2.4% YoY in Q1-2016 up from +0.6% QoQ/+1.9% YoY in Q4-2015 compared to +0.8% QoQ/+1.2% YoY in Q3-2015 vs. 0.1% QoQ/-3.6% YoY in Q1-2015. Rising real wages, improving consumer and business sentiment, declining energy prices-Bulgaria has the highest energy consumption intensity in EU-28-and further gains in employment were among the principal drivers of the spending recovery. To some extent, the lagged effect from the increase in government spending mirroring the increased EU funds absorption ahead of the closing of the programming period 2007-2013, must have also helped total spending gain more speed. The improvement of labor market conditions in 2015 and further in Q1-2016 has set the foundations for consumption to have a bigger weight on this year's growth in Bulgaria. Unemployment has declined further to 7.3% in March, from 10.0% a year ago, as the economy adds more jobs in the labor-intensive areas of specialized services. On the negative side, both investments (GFCF:-3.6% QoQ/-3.9% YoY) and net exports turned out weaker (Exports:-0.3% YoY & Imports: -2.8% YoY) - and will most probably weigh negatively on growth.

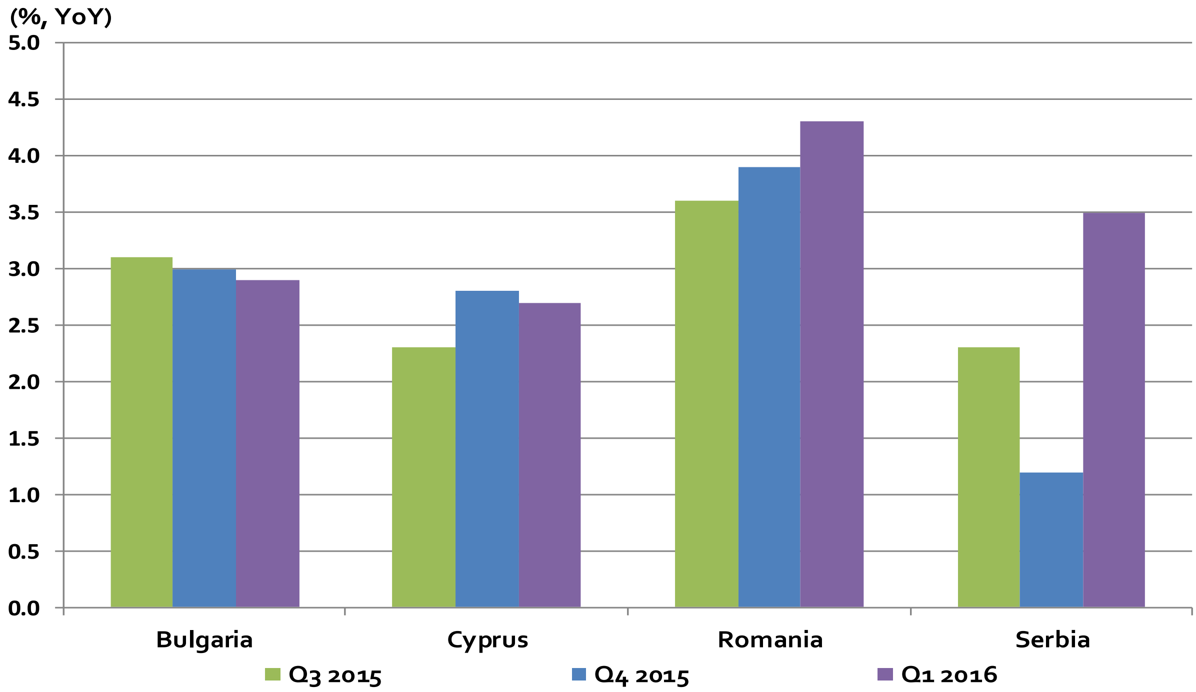
- **Cyprus:** The flash estimate of the last quarter- the fifth consecutive positive on both quarterly and an annual basis after a three year recession- proves that the economy is finally out of the woods. On a seasonally adjusted basis, growth expanded by +0.9% QoQ/+2.7%YoY in Q1-2016 compared to +0.4% QoQ/+2.8% YoY in Q4-2015, up from +0.5% QoQ/+2.3% YoY in Q3-2015 vs. +1% QoQ/+0.1% YoY in Q1-2015. Although the components of growth have not been known yet, it is highly likely that the consumption rebound has continued in Q1-2016 driven by strong sentiment improvement as a result of compliance with programme's conditionalities, a flourishing tourism sector, lower energy prices on an annual basis, lower unemployment and a rise in real incomes. Overall, the Economic Sentiment Index (ESI) reached a new post-Lehman high in April and has been on an improving trend in the past twelve months. In fact, the improvement recorded – a total of 10.5 points since May 2015- is the second highest in EU-28, after Luxemburg. Cyprus has become the third country after Portugal and Ireland to have made a clean exit from the economic adjustment program in March 2016. Still, after the prospective parliamentary elections of May, 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 NPLs stock together with a still relatively high ELA exposure (€3.3bn in March 2016 or 18.7% of projected GDP, albeit down from €11.4bn in March 2013) and maintaining high primary surpluses at the same time. The banking system-wide NPEs ratio- a more conservative asset quality EBA methodology, which inflates NPLs numbers by including restructured loans for a probation period of at least 12 months-edged up to 48.9% in February 2016, up from 45.8% in December 2015, compared to 47.8% in December 2014.

- **Romania:** According to the flash estimate release, real GDP on a seasonally adjusted terms accelerated further to +1.6% QoQ/+4.3% YoY compared to +1.1% QoQ/+3.9% YoY in Q4-2015, up from +1.5% QoQ/+3.6% YoY in Q3-2015 and +1.2% QoQ/+3.9% YoY in Q1-2015. Although the components are yet to be known, we anticipate that growth has been primarily domestic demand-driven. Despite the political fall-out, Romania stood out of the pack for a second consecutive year in 2015, and is expected to be a regional outperformer in 2016 as well. Growth is expected to accelerate further to 4.2% in 2016 up from 3.8% in 2015. However, growth dynamics are driven by a private consumption spending boom, fuelled by the unwarranted pro-cyclical fiscal stimulus ahead of the parliamentary elections scheduled in late 2016. Hence, the economy is driven close to, if not above, its potential growth rate at the expense of pushing government finances off consolidation track.

- **Serbia:** Real GDP growth picked up pace in Q1 2016, coming in at 3.5%YoY more than double a market median forecast of 1.4%YoY. This compares with contraction of 1.8%YoY over the same period of 2015, a 1.2%YoY advance in Q4 2015 and growth of 0.7%YoY for the whole of 2016. Reflecting the ongoing improvement in domestic economic activity after the 2014 floods, it marks the highest annual rate of increase since Q4 2013 and the fourth consecutive quarter of positive annual growth rates. The breakdown of the data and the QoQ print are not yet available and are scheduled for release on May 31. That said, last year's positive trends seem to have continued into early 2016, with the recovery likely to have been driven by investments and exports. Looking ahead, real GDP growth is expected to accelerate to around 2.0% this year. Investments are anticipated to continue leading the recovery in view of improving business climate and higher public capital expenditure. Lower primary commodities prices – compared to last year - are also likely to continue favoring gross fixed capital formation as well as private spending. Cheaper debt servicing costs and subdued inflation pressures will also likely provide an additional lift to disposable income. Growth in private consumption is expected to return to positive annual rates as the impact of fiscal consolidation gradually wanes and private sector employment recovers. On the other hand, the net exports' contribution will likely become more neutral as the recovery in domestic demand backs a concomitant growth in imports.

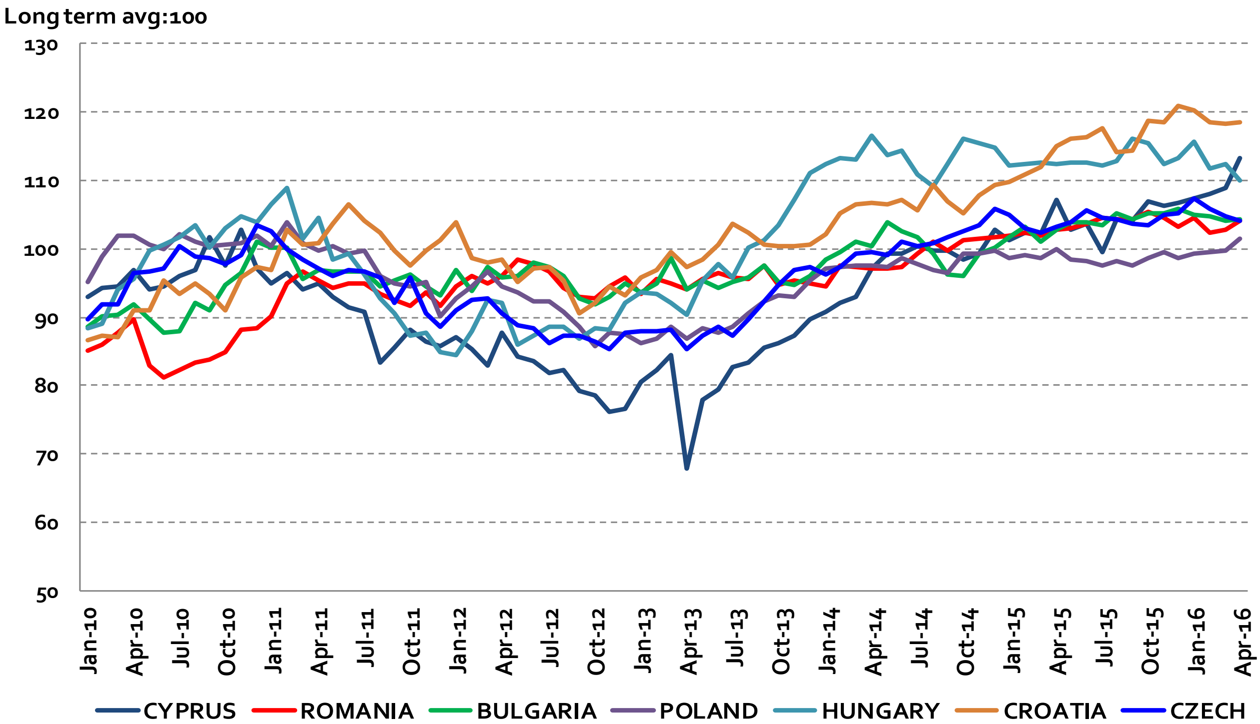
- Regarding other economies in the region, Poland's real GDP growth came in at 3.0%YoY, disappointing expectations for a smaller slowdown to 3.5%YoY from 4.3%YoY in the prior quarter. Meanwhile, Hungary's economy recorded a weak start in the year with real GDP growth slowing to 0.9%YoY from 3.2%YoY in Q4 2016 and 2.4%YoY expected.

Figure 1: Flash GDP estimates in Q1-2016, a good start in the year



Source: National Statistics, Eurobank Research

Figure 2: Economic Sentiment Index on an improving trend in the region



Source: European Commission, Eurobank Research

Eurobank Economic Analysis and Financial Markets Research

Dr. Platon Monokroussos: *Group Chief Economist*
pmonokrousos@eurobank.gr, + 30 210 37 18 903

Dr. Tassos Anastasatos: Deputy Chief Economist
tanastasatos@eurobank.gr, + 30 210 33 71 178

Research Team

Anna Dimitriadou: *Economic Analyst*
andimitriadou@eurobank.gr, + 30 210 37 18 793
Ioannis Gkionis: *Research Economist*
igkionis@eurobank.gr + 30 210 33 71 225
Stylianos Gogos: *Economic Analyst*
sgogos@eurobank.gr + 30 210 33 71 226
Olga Kosma: *Research Economist*
okosma@eurobank.gr + 30 210 33 71 227

Arkadia Konstantopoulou: *Research Assistant*
arkonstantopoulou@eurobank.gr + 30 210 33 71 224
Paraskevi Petropoulou: *G10 Markets Analyst*
ppetropoulou@eurobank.gr, + 30 210 37 18 991
Galatia Phoka: *Research Economist*
gphoka@eurobank.gr, + 30 210 37 18 922
Theodoros Stamatiou: *Senior Economist*
tstamatiou@eurobank.gr, + 30 210 33 7 1 228

Eurobank Ergasias S.A, 8 Othonos Str, 105 57 Athens, tel: +30 210 33 37 000, fax: +30 210 33 37 190, email: EurobankGlobalMarketsResearch@eurobank.gr

Eurobank Economic Analysis and Financial Markets Research

More research editions available at http://www.eurobank.gr/research

- **Daily Overview of Global markets & the SEE Region:** Daily overview of key macro & market developments in Greece, regional economies & global markets
- **Greece Macro Monitor:** Periodic publication on the latest economic & market developments in Greece
- **Regional Economics & Market Strategy Monthly**: Monthly edition on economic & market developments in the region
- **Global Economy & Markets Monthly**: Monthly review of the international economy and financial markets

Subscribe electronically at http://www.eurobank.gr/research
Follow us on twitter: http://twitter.com/Eurobank