Eurobank Research
www.eurobank.gr/research
research@eurobank.gr

Eurobank EFG

NEW EUROPE
ECONOMICS & STRATEGY

Issue 15 | September 2011

Written By:

Gikas Hardouvelis:
Chief Economist & Director of Research

Platon Monokrousos:
Head of Financial Markets Research Division

Tasos Anastassatos:
Macro Strategist

Ioannis Gkionis:
Research Economist Coordinator of Macro Research

Stella Kanellopoulou:
Research Economist

Galatia Phoka:
Emerging Markets Analyst

SPECIAL CONTRIBUTION:
Mihai Patrulescu
Junior Economist

Dimitris Georgiou
Junior Economic Analyst

DISCLAIMER
This report has been issued by EFG Eurobank Ergasias S.A. (Eurobank EFG), and may not be reproduced or publicized in any manner. The information contained and the opinions expressed herein are for informative purposes only and they do not constitute a solicitation to buy or sell any securities or effect any other investment. EFG Eurobank Ergasias S.A. (Eurobank EFG), as well as its directors, officers and employees may perform for their own account, for clients or third party persons, investments concurrent or opposed to the opinions expressed in the report. This report is based on information obtained from sources believed to be reliable and all due diligence has been taken for its process. However, the data have not been verified by EFG Eurobank Ergasias S.A. (Eurobank EFG), and no warranty expressed or implicit is made as to their accuracy, completeness, or timeliness. All opinions and estimates are valid as of the date of the report and remain subject to change without notice. Investment decisions must be made upon investor's individual judgement and based on own information and evaluation of undertaken risk. The investments mentioned or suggested in the report may not be suitable for certain investors depending on their investment objectives and financial condition. The aforesaid brief statements do not describe comprehensively the risks and other significant aspects relating to an investment choice. EFG Eurobank Ergasias S.A. (Eurobank EFG), as well as its directors, officers and employees accept no liability for any loss or damage, direct or indirect, that may occur from the use of this report.

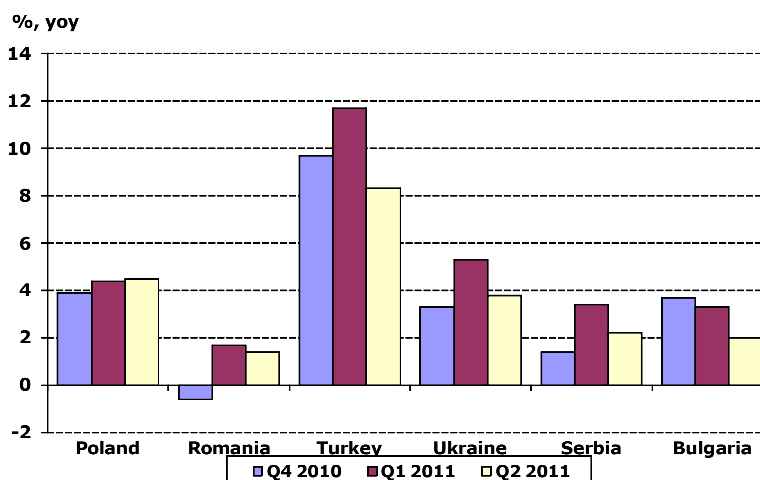
Growth outlook deteriorates as global economy slows, euro area sovereign debt crisis woes linger

- **Bulgaria:** Softer than expected GDP growth in the second quarter
- **Poland:** GDP growth remained robust in Q2, driven by solid domestic demand
- **Romania:** Softer GDP growth in Q2 yet still in line with our full-year forecast
- **Serbia:** New precautionary IMF agreement
- **Turkey:** Economic activity remained robust in H1, but slowdown looms ahead
- **Ukraine:** Economy continues to expand, albeit at a slower pace

New Europe market strategy highlights

In FX markets, although the recent weakening of the Turkish lira may eventually prove overdone, we prefer to stay sidelined on the EUR/TRY and USD/TRY crosses as heightened risk aversion may instigate further dollar gains against high-yielding currencies in the period ahead. Elsewhere, we suggest **short €/PLN** positions at current levels around 4.40, with a stop loss at 4.47 and a target of 4.10. As regards to the Serbian dinar, **long €/RSD** positions may bear some value at entry levels of 101, targeting the 102.5-103.0 area (and a stop loss at 100). In view of the recent deterioration in risk sentiment over the last month or so, the Romanian leu also came under pressure. Given that a **€/RON** spike towards 4.35-4.40 levels is likely to elicit new NBR interventions, we favor selling spikes towards 4.35 targeting levels near 4.27 (stop loss @ 4.42). **In the sovereign credit space,** we favor going **long Turkish risk via 5-year CDSs** (entry level: 290bps, target: 220bps, stop loss: 340bps). Elsewhere, we maintain our **short Romanian 1-year CDS** position to maturity. Separately, we recommend entering **long 5-year Russian CDS vs. short 5-year Polish** at levels around +20bps, targeting +100bps, with a stop loss at -10bps. In the **local rates markets,** we position for a 2s10s flattener with entry at 38bps, stop loss at 48bps and target at 25bps, aiming to capitalize on a possible market rebalancing in the period ahead.

Growth slowed down in New Europe in Q2-2011



Source: National Statistics, Eurobank EFG

Table of contents

Introductory Comment 3

Eurobank EFG Research Forecasts 5

I. Overview 6

II. New Europe - Country Analysis

a. Bulgaria:	Bulgaria: Softer than expected GDP growth in the second quarter	9
b. Poland:	Second quarter GDP growth remained robust at 4.3% yoy driven by solid domestic demand on the back of accelerating investment growth	12
c. Romania:	Softer GDP growth in Q2 yet still in line with our full-year forecast	15
	Focus: Latest economic developments in the Romanian economy	17
	Focus: Latest credit developments in Romania	19
d. Serbia:	New precautionary IMF agreement	21
e. Turkey:	Economic activity remained robust in H1 2011, but slowdown looming ahead	24
f. Ukraine:	Ukrainian economy continues to expand, albeit at a slower pace, despite IMF loan freeze	27

Introductory Comment

Dear Reader,

The second quarter GDP readings across New Europe confirmed a slowdown in economic activity in the region after a strong start this year. Weakening external demand, particularly from the euro area, had a negative impact on regional manufacturing activity. In addition, domestic demand in most economies has yet to reveal convincing signs of sustainable recovery so as to provide a more meaningful support to the economic recovery. Turkey and Poland remain notable exceptions, with both countries continuing to exhibit strong domestic consumption and investment dynamics.

Since the summer months, we have witnessed a renewed deterioration in investor sentiment, amid increasing signs of slowing economic activity in major economies and rising market pressure due to the lingering euro area debt crisis. At the current juncture, uncertainty remains high and risks to the global economic outlook are heavily skewed to the downside. Against this backdrop, we have lowered our 2011-2012 GDP growth forecasts for a number of individual economies in the region.

On a more positive note, the inflationary impact of higher commodity prices is already fading away, providing some relief to household balance sheets. Moreover, H2 GDP readings will likely derive additional support from exceptionally strong agricultural and tourism season across the region. Yet, these factors are not likely to prevent a further slowdown in GDP growth in coming quarters, if only as a result of the global economic slowdown and negative base effects.

Looking at each country separately, we observe substantial cross-country differentiation.

Real GDP growth in **Bulgaria** slowed to 2% yoy in Q2 2011, from 3.3% yoy in the prior quarter, but remained higher than the corresponding EU-27 average (+1.7%yoy in Q2) for the third consecutive quarter. Net exports were again the main contributor to output growth, while domestic demand gained some further ground reflecting stabilizing private consumption dynamics and higher investment. Even so, the deterioration in the global macroeconomic environment has increased the downside risks to our earlier growth forecasts for Bulgaria. We now expect a full-year real GDP growth of 2.9% in 2011 (vs. 3.2% previously), followed by an uptick to 3.5% next year (vs. 4% seen earlier).

Q2 GDP expanded at a softer pace in **Romania** compared to the prior quarter on weaker net exports and still negative domestic demand growth. Real GDP growth came in at 1.4% yoy in Q2 2011, down from 1.7% yoy in Q1 2011 and against -0.4% yoy in the same quarter a year earlier. However, even in a global context of rising risk aversion, several Romanian asset classes continue to outperform some of their regional peers on a year to date basis. This relatively strong performance can be explained by at least two main reasons: the new precautionary IMF agreement and a steady improvement in domestic macroeconomic imbalances.

Serbia's real GDP growth slowed to 2.2% yoy in Q2, from 3.4% yoy in the prior quarter. Furthermore, recent readings in a range of higher-frequency indicators point to a softening domestic economic activity in the period ahead. In view of the economic slowdown and in tandem with gradually easing inflation pressures, NBS cut rates by another 50bps to 11.25% in early September, having so far reduced its key policy interest rate by a cumulative 125bps since the beginning of its easing cycle in early June. It is also worth noting that the Serbian government reached an agreement with the IMF on a new precautionary arrangement, envisaging available official funding of €1bn over the next 18 months.

Real GDP growth in **Turkey** remained impressive in Q2, though slowing significantly from what appeared to be unsustainable levels in the prior quarter (+8.8% yoy vs. +11.6% yoy in Q1). However, against a background of weakening external demand dynamics, the CBT unexpectedly cut its key policy rate by 50bps to 5.75% in August, in a move to support the domestic economy. Yet, concerns regarding mounting external imbalances remain.

The pace of output recovery is slowing down in **Ukraine.** Real GDP growth came in at 3.8% yoy in the second quarter vs. 5.3% yoy in Q1 2011, mainly reflecting the impact of slowing external growth on Ukraine's export-oriented economy. Another area of concern is the still-frozen IMF loan agreement, with the government continuing to try to strike a balance between the benefits of the programme and its potential (negative) impact on the ruling party's political prospects ahead of the October 2012 parliamentary elections.

With parliamentary elections just around the corner in early October, the **Polish economy** expanded at a real rate of 1.1%qoq/+4.3%yoy in the second quarter. Domestic demand, particularly fixed investment, was the main driver of growth. Growth slowed down from 4.4% yoy in Q1, partly due to a lower net exports contribution. However, full year-growth in expected to hold up around current levels. On a rather negative note, the quality of current account financing has deteriorated lately with inward portfolio investments now dominating FDI inflows.

In view of the recently escalating concerns regarding global growth and the Euro Area debt crisis, regional financial markets came under pressure in recent weeks. All major stock indices in New Europe currently stand in a negative territory year-to-date, with Ukraine's and Hungary's main stock indices underperforming their peers.

In a similar vein, regional FX markets came under renewed pressure in September. A recent reversal of monetary tightening expectations in a number of economies of New Europe has also weighed on regional currencies. Against a backdrop of heightened risk aversion, regional FX markets are unlikely to embark on a sustainable uptrend near-term, especially in view of the lingering euro area debt crisis and deteriorating global growth prospects. Inflation does not appear to pose a major risk at the current trajectory, allowing many central banks in the region to maintain an easing bias, so as to cushion slowing domestic economic activity. However, weaker currencies limit the room for significant monetary policy maneuvering as excessive depreciation may threaten financial stability, especially in the countries with high external borrowing needs.

Local rates markets have lately come under pressure in view of heightened risk aversion, though waning monetary policy tightening expectations are likely to provide some support near-term. Elsewhere, external debt markets in New Europe weakened significantly in recent weeks as euro area sovereign debt risks intensified. Five-year CDS spreads for most countries in the region widened by 30-70ppts since the end of August.

All in all, we expect investor sentiment towards the region to remain fragile in the short term, amid lingering euro area debt worries and deteriorating prospects for the global economy.

Professor Gikas A. Hardouvelis

Group Chief Economist & Director of Research

Summary of key macroeconomic indicators

Realizations and forecasts

	Real GDP (yoy)			Consumer Prices (p.a.)			Fiscal Balance (%GDP)		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
Bulgaria	0.2	2.9	3.5	3.0	4.5	3.5	-3.9	-2.5	-2.0
Poland	3.8	4.0	3.8	2.6	4.1	3.4	-7.9	-5.6	-5.0
Romania	-1.3	1.7	3.0	6.1	7.0	4.5	-6.5	-4.4	-3.0
Serbia	1.8	2.5	3.0	6.5	11.0	7.5	-4.7	-4.4	-4.0
Turkey	9.0	6.0	4.0	8.6	6.0	6.8	-3.6	-2.7	-2.6
Ukraine	4.3	4.5	4.6	9.4	9.8	9.5	-6.5	-3.5	-2.5
New Europe	5.2	4.5	3.9	6.4	6.1	5.8	-5.6	-4.3	-3.9
Euro area	1.7	1.6	1.1	1.6	2.6	1.8	-6.0	-4.5	-3.5
USA	3.0	1.5	2.0	1.6	3.1	2.3	-10.5	-10.0	-7.5

	Current Account (%GDP)			Policy Rate (e.o.p.)			FX* (e.o.p.)		
	2010	2011	2012	2010	current	2011	2010	current	2011
Bulgaria	-1.3	-1.5	-2.0	currency board			1.96	1.96	1.96
Poland	-4.5	-4.8	-4.7	3.50	4.50	4.50	3.96	4.40	4.10
Romania	-4.1	-4.5	-5.0	6.25	6.25	6.25	4.28	4.31	4.35
Serbia	-7.2	-7.5	-8.5	11.50	11.25	10.50	106.1	101.8	103.0
Turkey	-6.7	-9.5	-7.4	6.50	5.75	5.75	1.54	1.84	1.78
Ukraine	-2.1	-3.4	-4.5	7.75	7.75	7.75	7.96	7.98	7.95
New Europe	-5.0	-6.4	-5.8	-	-	-	-	-	-
Euro area	-0.4	-0.4	0.0	1.00	1.50	1.25	1.34	1.35	1.34
USA	-3.2	-3.1	-2.9	0.250	0.250	0.250	0.75	0.74	0.75

Source: National statistics, IMF, EC, Eurobank Research forecasts
vs. EUR (TRY and UAH vs. USD)

I. Overview

Euro area debt jitters, global growth concerns weigh on sentiment

Market fears over the global economic outlook and the lingering euro area debt crisis have escalated recently. An ongoing streak of macroeconomic data from both sides of the Atlantic has intensified worries about a faltering economic recovery in the US and Europe. The downbeat tone of the latest FOMC policy statement added to double-dip recessionary concerns in the US economy. Separately, uncertainty surrounding the timely implementation of the July 21 Council decisions and the ratification process of the proposed EFSF reforms in national parliaments weighed on market sentiment. As a result, the ECB abandoned its tightening bias at the early September policy meeting, signaling a shift to a 'wait-and-see' stance. As a result, market interest rates have erased earlier policy tightening expectations, with the euribor strip now discounting 25-50bps cumulative ECB rate easing of by the end of this year. Against this background, economic growth prospects in New Europe have deteriorated lately with regional financial markets registering hefty losses in recent weeks.

Economic activity in New Europe is slowing down

Recent real activity data and sentiment indicators suggest that the pace of economic recovery in the region has already started to lose steam. Our economists have trimmed their growth forecasts for a number of economies in New Europe. Our view is that the slowdown will be more pronounced in 2012, as base effects will also kick in. The impact of the lingering euro area debt crisis and the global economic slowdown will impact the region through three main channels. Namely, the financial channel, the trade channel and via foreign investment. Although the entire area is exposed to weakening external demand risks, steaming e.g. from the euro area, export-oriented economies, such as Hungary, are likely to be hurt the most. Hungary as well as Romania and Bulgaria are highly vulnerable through the financial channel as a large number of foreign (European) bank subsidiaries are located domestically, having in recent years provided a large volume of FX-denominated loans to domestic borrowers. Meanwhile, Turkey is highly exposed to a potential sudden stop in portfolio inflows, which currently act as the main source of external financing. With public finances in the region having not yet been fully repaired following the 2009 recession and most governments remaining in a fiscal consolidation mode, monetary policy is likely to remain the primary growth-enhancing policy tool for some time to come. Yet, the room for policy maneuvering is limited by depreciating currencies, especially in the cases where financial stability appears threatened by high external sector exposures.

Markets reverse earlier monetary policy tightening expectations in the region

Against the background of slowing economic activity in New Europe, inflation risks have moved to the backseat and monetary policy expectations have recently been readjusted. Poland's central bank, which delivered 100bps of cumulative rate hikes earlier this year, has already halted its policy tightening cycle with the FRA's strip now pricing in fully a 25bps cut over the next twelve months. That said, the sharp weakening of the zloty over the last few months may discourage the NBP from reversing course and cutting rates any time soon. Notably, the Polish Central Bank intervened in FX markets earlier this month to halt the pace of zloty depreciation. Separately, recent comments from a number of MPC members point to stable policy interest rates in the foreseeable future. In Hungary, the September Central Bank MPC meeting confounded earlier rate easing expectations, with MNB Board discussing a 25bps rate hike option, before deciding to leave its key policy rate unchanged for the eighth month running. Concerns over high private sector external funding needs have been aggravated lately, in view of the HUF's recent sharp depreciation and worries over deteriorating domestic financial stability. Presently, the Hungarian FRAs strip prices in some 100bps of cumulative rate hikes over the next three months. In Romania, our baseline scenario is that NBR will leave interest rates unchanged this year. However, monetary easing as soon as in November can not be ruled out, especially if growth expectations continue to deteriorate. Meanwhile in Turkey, the CBT adopted a dovish policy stance and unexpectedly cut its key policy rate by 50bps at an extraordinary meeting in August in order to cushion rising external risks. Further monetary easing by the Central Bank can not be ruled out. Nevertheless, we assign a higher-than-even probability for stable rates until year-end. Serbia's Central Bank was a frontrunner in Emerging Europe to reverse its monetary policy tightening cycle earlier this year. Since the inception of its rate easing cycle in June, the NBS has cut rates by 125bps, with the latest cut (50bps) taking place in September. The new IMF precautionary agreement and the rapid scaling down of inflation expectations (thanks to lower food and energy prices), leave room for additional monetary easing before year-end.

Escalating global growth concerns and growing worries over the euro area's sovereign debt crisis take a toll on regional stock markets

Equity markets in New Europe have suffered significant losses in recent weeks in view of mounting fears over the global economic outlook and escalating concerns about the euro area's sovereign debt crisis. Against this background, the *MSCI Emerging Europe Equity* index sank ca 19% in September reversing all of this year's gains to stand in a negative territory year-to-date (-28% on September 29). In New Europe, Ukraine's main stock index **PFTSI** is the worst performer so far this year, having encountered losses

in excess of 40%. The frozen $15bn IMF Stand-By Arrangement and rising political tensions in view of former Prime Minister Yulia Tymoshenko's trial are exacerbating the index's downtrend which reached a near 2-year trough in early August. Bulgaria's **SOFIX**, which until recently posed as a major outperformer in the region so far this year, swung into red earlier this month. Nevertheless, it continues to fare better than most of its regional peers.

In a similar vein, regional FX markets come under renewed pressure

Regional currencies plummeted to new lows in recent days amid growing EMU jitters and rising global growth concerns. The Turkish lira features as the region's worst performer so far this year. Its losses have been recently intensified due to tensions between Turkey and Israel over last year's Turkish flotilla incident and escalating feuds over gas exploration in Block 12 near Cyprus. A broadly "unorthodox" policy mix being applied by the CBT since late 201o has not so far favored the TRY outlook either, especially in view of persisting inflation concerns and rising external imbalances. The CBT's *unexpected* decision to cut its key policy rate at an extraordinary meeting in early August also weighed on the currency. The **USD/TRY** hit record highs beyond 1.90 in early October to stand more than 20% higher from its levels in last 2010. Separately, the Polish zloty is the runner up in the losers' pack. Although worries over Poland's fiscal outlook and external position linger, the country's overall fundamental backdrop do not quite justify such battering, in our view. The currency's recent sharp weakening may be partly attributed to the weaker euro, which the zloty trails closely being the region's most liquid currency. Another factor is the recent reversal of earlier monetary policy tightening expectations. Following cumulative rate hikes of 100bps earlier this year, expectations for further NBP policy tightening in the period ahead waned recently as a result of rising global growth concerns and lingering EMU jitters. A high private sector exposure to swiss franc loans may be another factor reinforcing the currency's recent downtrend. Along these lines, the **EUR/PLN** touched 27-month highs of 4.5276 on September 22, prompting Central Bank market interventions. The Hungarian forint which in H1:2011 fared better than most of its regional peers, has embarked on a sharp depreciation trend since July after the government announced plans to cushion risks associated with the household sector's high exposure to CHF-denominated credit. Effectively, the government allowed households to repay early FX mortgage loans at a big discount to market exchange rates, so as to prevent a further significant deterioration in household balance sheets. The announcement stirred heavy criticism from commercial banks, which are expected to bear the financial brunt of the controversial scheme. Hungary's Banking Association cautioned that the legislation may seriously damage the economy, while the MNB warned that it could jeopardize financial stability and promised to provide commercial banks with adequate FX liquidity. Against this background, the **EUR/HUF** bounced as far as a 2-½-year peak of 300 in early October. Elsewhere, the Romanian leu has depreciated recently against a background of rising external worries, especially given the high exposure of the domestic economy to the European banking system. The **EUR/RON** touched a 15-month peak of 4.3725 on September 30 before recovering modestly on rumored NBR intervention. The Serbian dinar is the only currency in New Europe to stand firmer year-to-date, with the **EUR/RSD** hovering around levels of 101-102 in early October and standing ca 4% lower since the end of 2010. The government's fiscal consolidation efforts, the agreement of a €1bn precautionary deal with the IMF and improved EU accession prospects after the capture of war crime fugitives are currently supporting sentiment towards the currency.

Heightened risk aversion weighs on regional bond markets

Local rate markets came under pressure in recent weeks as global risk sentiment deteriorated. Turkey is among the region's underperformers, with a late July rally reversing its course in recent weeks. Losses were exacerbated by lingering market uncertainty over the CBT's policy deliberations in the period ahead. Indicatively, the 2-year benchmark bond stood at 8.6% on October 4, not far off a 2 month high of 8.85% touched on September 23 and within distance from a 1-year peak of 9.29% hit on June 23. In Hungary, local rates markets have been under pressure lately, as the government's plan to assist highly indebted households raised concerns about ensuing losses in the domestic banking system. As a result, 2- and 10-year government bond yields rose by 80bps-100bps since late August, reaching respective levels of 7.35% and 8.42% on October 4. Polish government bonds followed suit, but their losses were limited compared to regional peers. A recent reversal of policy rate tightening expectations and better macro fundamentals compared to regional peers helped to partly offset potential spillovers from a deteriorating external environment. As a result, the 2-year Polish benchmark bond yield stood at 4.46% in early October, broadly unchanged from its late-August level. On the other hand, the 10-year benchmark yield rose by some 35bps over the same period to stand currently at ca 5.97%.

External debt markets succumb to rising global growth and financial stability concerns

External debt markets in New Europe lost significant ground in recent weeks, succumbing to EMU and global growth jitters, after exhibiting remarkable resilience earlier this year. Bulgaria and Ukraine underperformed, with five year CDS spreads widening around 60-70ppts each over the last few weeks with the former reaching a 2-½-year peak of 440bps and the latter a 1-½-year high near 900bps. Elsewhere, spreads in Hungary spiked to a 2-½-year peak of 550bps on October 4, while Poland's rose to 316bps in late September, their highest level since March 2009. In Turkey spreads have widened ca 30% since the end of August, touching a 2-½-year peak of 325bps. Nevertheless, the country's external

debt outperformed most regional peers since early August as it had already come under pressure earlier in the summer amid heightened concerns about a deteriorating external position and the CBT's unorthodox policy mix.

Strategy - Emerging New Europe Markets

Regional FX markets: Although the recent weakening of the Turkish lira may eventually prove overdone, we prefer to stay sidelined on the EUR/TRY and USD/TRY crosses as heightened risk aversion may instigate further dollar gains against high-yielding currencies in the period ahead. Elsewhere, the zloty's recent depreciation seems to have been driven primarily by twin deficit concerns and waning NBP policy tightening expectations. Poland's 12x15 FRA currently prices in a 25bps rate cut, with earlier rate hike expectations having been fully reversed. However, the recent sharp weakening of the zloty seems rather unjustified by domestic fundamentals, which remain strong, especially compared with regional peers. As such, we suggest **short €/PLN** positions at current levels around 4.40, with a stop loss at 4.47 and a target of 4.10. As regards to the Serbian dinar, the market has been very quiet lately, with investors appearing reluctant to initiate new positions. Given ongoing external risks, a further depreciation of the currency can not be ruled out in the short-term. An easing policy bias by the NBS and, traditionally, high FX demand from corporates in Q4 may also exert downward pressures on the currency. **Long €/RSD** positions may bear some value at entry levels of 101, targeting the 102.5-103.0 area (and a stop loss at 100). In view of the recent deterioration in risk sentiment over the last month or so, the Romanian leu also came under pressure, with the EUR/RON rate hitting a 15-month high of 4.3725 on September 30 before easing towards 4.32 following Central Bank intervention. Given that a spike towards 4.35-4.40 levels is likely to elicit new NBR interventions, we favor selling spikes towards 4.35 targeting levels near 4.27 (stop loss @ 4.42).

In the sovereign credit space, Turkey's 5-year CDS spreads spiked to 2-½-year highs above 325bps in late September before narrowing again to stand at ca 300bps at the time of writing. We favor going **long Turkish risk via 5-year CDSs (**entry level: 290bps, target: 220bps, stop loss: 340bps). Elsewhere, we maintain our short Romanian 1-year CDS position to maturity. Our earlier long Polish 5-year CDS vs. short Russian 5-year CDS position hit its target of 30bps in early August. We would currently reverse our view due to the deteriorating global growth outlook, closely linked to Russia's economic performance. As such, we recommend entering **long 5-year Russian CDS vs. short 5-year Polish** at levels around +20bps, targeting +100bps, with a stop loss at -10bps.

In the **local rates markets,** our earlier 2/10 steepener position in Polish cross currency swaps (entry level: 26bps), hit the recommended target in August and we took profit at 50bps. After the recent violent steepening trend in 2s10s we position for a 2s10s flattener with entry at 38bps, stop loss at 48bps and target at 25bps, aiming to capitalize on a possible market rebalancing in the period ahead.

Written by

Platon Monokroussos
Assistant General Manager
Head of Financial Markets Research
pmonokrousos@eurobank.gr

Galatia Phoka
Emerging Markets Analyst
gphoka@eurobank.gr

Special thanks to:
Costas Katsileros
Konstantinos Dimaresis
Bilge Gonen
Zoran Korac
Florin Cioaca
Konstantinos Dimaresis

II. New Europe – Country Analysis: **Bulgaria**

Bulgaria: Softer than expected GDP growth in the second quarter

- GDP growth slowed at 2.0% yoy in the second quarter compared to 3.3% yoy in the first quarter
- Net exports were again the component with the largest contribution to GDP growth in the second quarter; Domestic demand is gaining more pace as private consumption stabilized further and investments rebound
- Headwinds in the international macroeconomic environment have prompted us to revise downwards our earlier GDP forecast to 2.9%

GDP growth decelerated to 2% yoy in the second quarter compared to 3.3% in the first, yet it remained above the EU-27 average for a second consecutive quarter

After a very dynamic start in the first quarter, growth slowed in the second quarter. Real GDP growth came in at 2.0% yoy, from 1.9% yoy originally in the flash estimate, down from 3.3% in the first quarter. On a quarter-on-quarter seasonally adjusted basis, real GDP slowed down to 0.3% in Q2:2011, from 0.5% qoq in Q1:2011. From a sectoral standpoint, agriculture and construction still recorded negative annualized growth in Q2. However, the pace of contraction slowed down sharply for both of them compared to their first quarter performance. Agriculture contracted by 0% qoq/ -2.5% yoy in Q2 vs. -3.8% qoq/-1.4% yoy in Q1. Construction was still in red, contracting by +4.4% qoq/-0.4% yoy in Q2 compared to -24.9% qoq/-13.7% yoy in Q1. On the other hand, the industrial sector expanded on a yoy basis, although its gross value added slowed to +1.4% qoq/+7.7% yoy, from 1.5% qoq/+11.6% yoy in the prior quarter. Moreover, services were still in positive territory yet they slowed down to -1.2% qoq/+1.3% yoy, from 1.7% qoq/+3.6% yoy in the prior quarter. However, the picture within individual categories of services is diverse. Wholesale and retail trade was in red, contracting by -3.5% qoq/-2.7% yoy in Q2 for the first time since Q1:2010 due to the high base effect (+28.2% yoy in Q2:2010). Two of the key services sectors-financial services (+3.3% qoq/-0.1% yoy vs. -4.7% qoq/-2.7% yoy) and real estate services (+4.5% qoq/+1.8% yoy vs. -0.5% qoq/-7.9% yoy) improved compared to the first quarter.

In terms of components of GDP, the preliminary signs of a mild recovery in private consumption we discussed in our previous issue of New Europe Economics & Strategy are becoming more visible. Private consumption expanded by +0.5% qoq/1.4% yoy in Q2 compared to 0.3%qoq/+1.5% yoy. In addition, public consumption, a drag on economic activity until now, had a less negative contribution to GDP growth in the second quarter.

Bulgaria: Eurobank EFG Forecasts				
	2009	**2010**	**2011f**	**2012f**
Real GDP (yoy%)	-5.5	0.2	2.9	3.5
Final Consumption	-7.3	-1.1	1.1	3.0
Gross Capital Formation *(Fixed)*	-17.6	-16.5	4.5	6.5
Exports	-11.2	16.2	12.5	7.5
Imports	-21.0	4.5	8.5	7.0
Inflation (yoy%)				
HICP (annual average)	2.5	3.0	4.5	3.5
HICP (end of period)	1.6	4.4	3.0	3.0
Fiscal Accounts (%GDP) - *Cash Basis*				
General Government Balance	-0.9	-3.9	-2.5	-2.0
Gross Public Debt	15.6	16.7	19.5	21.5
Primary Balance	-0.2	-3.3	-2.0	-1.0
Labor Statistics - *National Definitions*				
Unemployment Rate (registered, %)	9.1	9.2	9.3	8.5
Wage Growth *(total economy)*	11.7	6.2	5.5	5.0
External Accounts				
Current Account (% GDP)	-8.9	-1.3	-1.5	-2.0
Net FDI (EUR bn)	2.4	1.8	1.0	2.5
FDI / Current Account (%)	78.2	374.0	165.0	85.0
FX Reserves (EUR bn)	12.9	13.0	13.5	15.0
Domestic Credit	**2008**	**2009**	**2010**	**Q1 11**
Total Credit (%GDP)	75.2	79.2	76.4	75.5
Credit to Enterprises (%GDP)	47.8	49.4	48.2	47.6
Credit to Households (%GDP)	26.0	28.2	26.4	25.9
FX Credit/Total Credit (%)	57.2	58.6	61.3	61.6
Private Sector Credit (yoy)	32.3	4.5	2.1	2.9
Loans to Deposits (%)	119.3	120.5	112.9	109.7
Financial Markets	**Current**	**3M**	**6M**	**12M**
Policy Rate		Currency Board		
EUR/BGN	1.96	1.96	1.96	1.96

Source: National Statistics, Eurobank Research

Public consumption contracted by +0.5% qoq/-1.3% yoy against +0.3% qoq/-4.3% yoy in the first quarter. The positive surprise came from the investments side, which finally exited recession after 7 quarters of negative readings. Gross fixed capital formation registered a positive reading for a second consecutive quarter after the upward revision of Q1 figures. Gross fixed capital formation accelerated to +3.0% qoq/+8.4% yoy in Q2 compared to 0.8% qoq/+1.6% yoy in Q1. However, inventories had another quarter of negative contribution. As a result, gross capital formation still contracted by -5.1% yoy compared to -

12.3% yoy in the prior quarter. On the negative side, net exports showed less strength in the second quarter. Exports showed some signs of slowing down on a quarterly basis, expanding by -1.3% qoq/+12.2% yoy in Q2 compared to +5.6% qoq/+21.6% yoy in Q1. On a similar trend, imports inched down to +0.8% qoq/+7.5% yoy in Q2 vs. +0.1% qoq/+10% yoy.

Net exports were again the component with the largest contribution to GDP growth in the second quarter on a year on year basis; Domestic demand is gaining more pace as private consumption stabilized further and investments rebound

In terms of contribution to GDP growth, net exports were again the driver of growth in the second quarter. However, the contribution of net exports to GDP growth in the second quarter was half than that in the first.

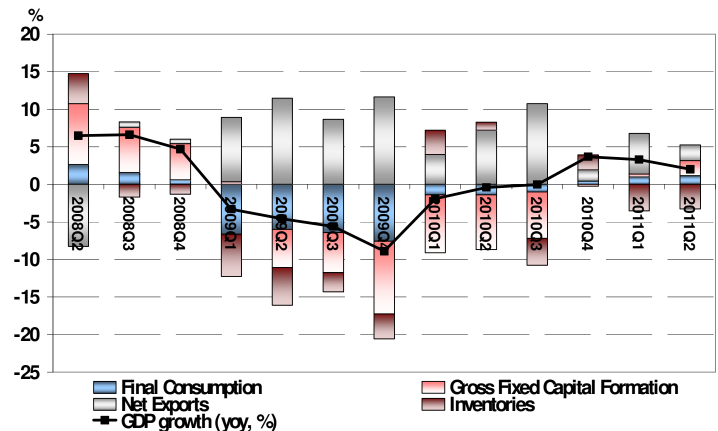
Net exports contributed 2.1pps to the GDP growth rate in Q2 down from 5.4pps in Q1. As we had pointed in our previous issue of New Europe Economics & Strategy, the contribution of net exports is expected to remain positive throughout 2011, yet its boost is expected to start fading away gradually, because a slowdown in exports is expected to come into play in the 2H on deteriorating sentiment in the main EU market.

Our second observation focuses on the role of domestic demand. It is important to note that domestic demand gained pace in the second quarter. Private consumption registered positive performance for another quarter-for a third consecutive quarter. Its contribution to growth has remained almost unchanged at 1.1pps, which in turn increases the relative share in the lower growth rate. We anticipate that private consumption, having bottomed out in Q3 2010, will continue to grow mildly in the 2H. There are some reasons to be relatively optimistic about that:

- The increase of the minimum wage by 12.5% since early June. The deceleration of inflation towards 3% by year-end on lower food and energy prices will allow real wages to become positive and put less strain on household budgets
- The solid agricultural season is going to boost self-consumption (recorded in official statistics)
- On the other hand, tight labor market (registered unemployment still at 9.5% marginally down from the beginning of the year),and restricted credit conditions (consumer credit still flat on a year to date basis -0.2% year to July) will not allow a more upbeat reading in private consumption

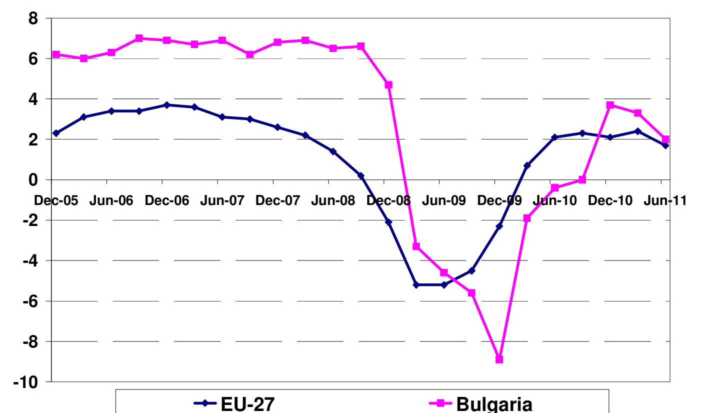
More importantly, investments have also made a dynamic comeback in Q2. Investments are going to receive support from the improvement in the EU funds absorption and the government's privatization program. The government targets EU funds absorption, mainly headed towards infrastructure projects, to double to 20% by the end of 2011. The privatization program is also anticipated to attract more investments. Privatizations have already kicked off with the sale of the tobacco state owned company "Bulgartabac Holding". Some other privatization projects are already on the pipeline and are expected to be completed until the end of the year (e.g. electricity distribution companies)

Figure1
The contribution of net exports to GDP growth in the second quarter was half than in the first



Source: National Statistics, Eurobank Research

Figure2
GDP growth in Q2-2011 was stronger than EU-27 average for a third consecutive quarter



Source: National Statistics, Eurobank Research

All in, our impression from the second quarter data is mixed. The good news is that the Bulgarian economy continues recovering, even at a slower pace, but still growing above the EU-27 average for a third consecutive quarter. Moreover, private consumption has stabilized further while investments are no longer a drag on economic activity. Looking ahead, we anticipate growth to hold up relatively well in the third quarter:

- A number of traditional industries (tourism, agriculture and mining) with a meaningful share in the local economy have performed very well in Q3. Overall, according to the latest estimates, income from tourism is expected to rise by 4.5% and the number of tourists is expected to grow by 14% in 2011.
- Business confidence is maintained at high levels: The business confidence index has improved by 1.2 points mom driven primarily by those industries related to domestic demand (e.g. retail trade) -are more optimistic than before.
- Exports were still expanding at 37.2% yoy in Jan-July 2011 (exports to non-EU markets are still outperforming, have reached 40% of total exports portfolio). However, industrial production and industrial sales have been on a slowing down trend recently. Industrial sales have slowed down to 14.8% yoy in July compared to 32.8% yoy in Q1. Industrial production slowed down to 6.5% yoy in Q2 compared to 10.9% yoy in Q1.

On the other hand, headwinds in the both the domestic and international macroeconomic environments have increased. Signs of a slowdown in external demand have shown up worldwide both in advanced and emerging economies as growth is losing steam in US and EU. On top of that, financial markets have come under stress worldwide over fiscal and debt sustainability concerns. At the current juncture, uncertainties are very high and risks are heavily skewed to the downside. Bulgaria has escaped unscathed from unfavorable financial market spillovers from the deepening Euroarea sovereign crisis. In fact, Bulgaria was among those few countries whore sovereign rating was upgraded by Moody's. At best, a slowdown in the Euroarea is likely to put a lid on the strength of Bulgarian exports. In conclusion, the deterioration in the economic environment during the third quarter has led us to revise our earlier GDP forecasts (3.2% since our trip to Sofia last March) down to 2.9% in 2011.

Written by

Ioannis Gkionis
Research Economist
Coordinator of Macro Research
igkionis@eurobank.gr

II. New Europe – Country Analysis: **Poland**

Second quarter GDP growth remained robust at 4.3% yoy driven by solid domestic demand on the back of accelerating investment growth

- October's parliamentary elections outcome will likely be a coalition government with the ruling party in the lead
- GDP growth remained robust; it stood at 4.3% yoy in Q2-11 driven by domestic demand on the back of accelerating investment growth
- Despite August inflation rise to 4.3% yoy weaker growth should ease inflationary pressures
- Monetary policy likely to stay on hold for the reminder of this year amid concerns of zloty's weakness
- The CHF appreciation weights on household disposable income since 30% of household debt is denominated in CHF.

October's parliamentary elections outcome will most likely be a coalition government with the ruling party in the lead

Parliamentary elections will take place on October 9, 2011. According to opinion polls held in September, the ruling (PO) party will most likely win the elections, but it will need a coalition partner to form a government. If this happens, the current government will be the first to secure a re-election in the post-communist era. One of the key questions for investors is to what extent the new Cabinet will adhere to the fiscal consolidation path declared by the current government (which envisages a fiscal deficit of ca. 3.6% of GDP in 2012).

GDP growth still robust driven by solid domestic demand

GDP growth remained robust in the second quarter; the Polish economy expanded by 4.3% yoy in Q2-11 (vs. 4.4% yoy in Q1-11) and by 1.1% qoq for the second successive quarter. Moreover, Poland was the only country in the region where output did not slow markedly in the second quarter (unlike Czech Republic, Hungary and Slovakia). Domestic demand rose 2.4% on the quarter (4.3% yoy). Private consumption grew by 3.5% yoy and 0.9% qoq in Q2-11 vs. 3.9% yoy and 0.7% qoq in Q1-11, but the largest contribution came from investment spending. Gross fixed capital formation accelerated to 7.8% yoy in Q2-11 from 6.0% yoy recorded a quarter earlier. This acceleration was supported by preparations for the 2012 European Football Championship coupled with inflows of EU structural funds. Meanwhile, net exports were neutral for growth (vs. -0.1% negative contribution in Q1-11) after subtracting from overall growth in each of the preceding four quarters.

Poland: Eurobank EFG Forecasts

	2009	2010	2011f	2012f
Real GDP (% yoy)	1.6	3.8	4.0	3.8
Private Consumption	2.0	3.2	3.5	3.4
Government Consumption	2.0	3.9	1.0	2.0
Gross Capital Formation	-13.7	7.8	6.5	4.5
Exports	-6.8	10.2	6.2	6.0
Imports	-12.4	11.6	6.1	5.8
Inflation (% yoy)				
CPI (annual average)	3.5	2.6	4.1	3.4
CPI (end of period)	3.5	3.1	3.8	3.2
Fiscal Accounts (% GDP)				
General Government Balance	-7.3	-7.9	-5.6	-5.0
Gross Public Debt (ESA95 definition)	50.9	55.0	54.8	55.0
Gross Piblic Debt (national definition)	49.9	53.0	54.0	55.0
Labor Statistics (%)				
Unemployment Rate (% of labor force)	11.0	12.1	12.2	11.8
Wage Growth *(private sector - average)*	4.2	3.6	4.9	4.3
External Accounts				
Current Account (% GDP)	-3.9	-4.5	-4.8	-4.7
Net FDI (bn EUR)	6.1	7.5	8.0	9.0
FDI / Current Account (%)	90.6	65	75	70
FX Reserves (bn EUR)	54.8	70	60	65
Domestic Credit	**2009**	**2010**	**Q1 11**	**Q2 11**
Total Credit (% GDP)	53.1	55.4	55.0	56.3
Credit to Enterprises (% GDP)	16.1	15.2	15.3	15.8
Credit to Households (% GDP)	31.6	34.2	33.7	34.5
FX Credit/Total Credit (%)	30.2	30.8	30.1	30.6
Private Sector Credit (% yoy)	7.2	8.9	10.6	9.0
Loans to Deposits (%)	102.6	102.4	99.5	104.6
Financial Markets	**Current**	**3M**	**6M**	**12M**
Policy Rate	4.50	4.50	4.25	4.25
EUR/PLN	4.40	4.10	4.00	4.10

Source: NBP, EcoWin, Bloomberg, Eurobank Research

These encouraging Q2-11 growth figures indicate that so far Poland once again manages to avoid deceleration in growth although Euro area growth recedes. This is partly due to Poland's large domestic sector which makes the economy less vulnerable to the slowdown in export markets such as Germany. Moreover, the recent zloty's depreciation will help make Polish exports more competitive abroad while at the same time will render imports less attractive, thus helping domestic manufacturers. However, the economic deceleration in the Euro area (notably Germany, Italy and France, which are Poland's biggest export markets) is expected to take its toll on Poland's exports, initially affecting manufacturing, as evidenced by the recent PMI slowdown (51.8 in August vs. 52.9 recorded in July). On the consumption front, private consumption is set to decelerate as the sharp depreciation of the zloty against the Swiss franc (CHF), in which most mortgages are denominated, results in higher debt serving costs and hence weighs on household disposable income. Furthermore, wage growth is limited, albeit positive in real terms, (it stood at 5.4% yoy in August up from 5.2% yoy in July) but not to the extent of boosting private consumption. Recent employment growth slowdown (it stood at 3.0% yoy in August from a peak of 4.0% yoy in March) is not supportive either.

Looking ahead, real GDP growth is projected by European Commission to ease to 0.6% qoq and 0.5% qoq in Q3-11 and Q4-11 respectively. We forecast GDP growth at 3.7% yoy in H2-11 after 4.3% yoy in H1-11. Overall, we expect GDP growth to average 4.0% yoy in 2011 as a whole and decelerate to 3.8% yoy in 2012 on the back of the economic activity deceleration in most European countries.

The public debt will remain below 55% of GDP threshold in 2011

Fiscal deficit target of 5.6% of GDP in 2011, from 7.9% of GDP in 2010, appears to be achievable. Strong domestic demand coupled with inflation higher than initially forecasted supported state budget. On the other hand, growth in budget expenditure was restrained at less than 3% yoy. During January-July 2011 the deficit declined to PLN 21.1bn versus PLN 34.9bn during the same period in 2010. Therefore, the government's goal to contain the public debt below the 55% of GDP (according to national definition) threshold in 2011 seems achievable.

Despite August inflation rise weaker growth should ease inflationary pressures

Headline inflation rose to 4.3% yoy in August up from 4.1% yoy recorded in July, yet prices were flat in August from July. The increase was driven by a rise in transport and dwelling prices (7.9% yoy and 5.8% yoy respectively), while food prices slowed to 4.4% yoy from 5.0% yoy in July. Moreover, core inflation (measure which excludes food and energy prices) increased to 2.7% yoy in August which is its highest rate since the end of 2009. Nevertheless, the outlook for inflation is improving as weaker growth and lower commodity prices should ease inflationary pressures. In addition, the monetary tightening implemented this year will be conducive to a fall in inflation. All in all, we anticipate CPI to average ca 4.1% yoy in 2011.

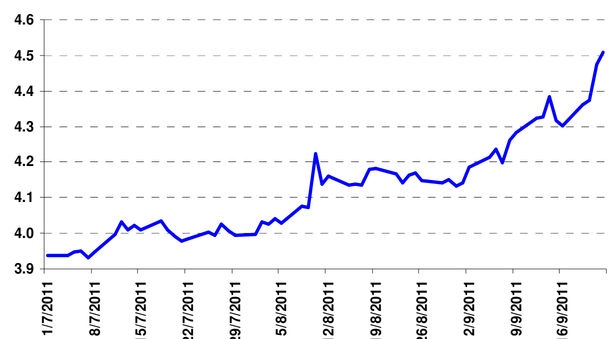
Monetary policy likely to stay on hold for the reminder of this year

As was widely expected, the National Bank of Poland (NBP) kept the policy rate unchanged at 4.50% in its MPC meeting in early September. Arguments supporting this decision included the expected inflation ease in 2011 and 2012 and a weaker growth outlook in the global economy which will weigh on Polish economy as well. Taking into account the front-loaded tightening in H1-11 (by 100bps) the MPC has scope for loosening monetary policy to stimulate growth. However, taking into account the recent zloty sell-off, rate cuts will be off the cards in the near term. We anticipate policy rate to remain at 4.50% in 2011 and monetary policy easing to start early next year.

Recent zloty sell-off largely attributed to external factors

Since the beginning of August, the zloty has weakened significantly; it depreciated by 12.8% until late September (Figure 1). The reason for this depreciation is the increasing global risk aversion. Moreover, the more attractive nature of Polish markets (compared to the region) is not supportive either. In a statement of the Polish President of NBP, Marek Belka, the zloty exchange rate is becoming increasingly detached from the sound foundation of the Polish economy. As a result, on September, 23 the NBP intervened to support the currency by selling a certain amount of foreign currency for zlotys.

Figure 1
Recent zloty weakness on the back of global risk aversion

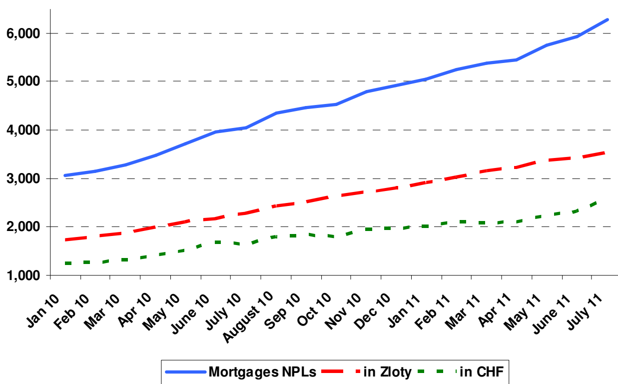


Source: Bloomberg, Eurobank Research

Households with loans denominated in FX are in strain due to CHF recent appreciation

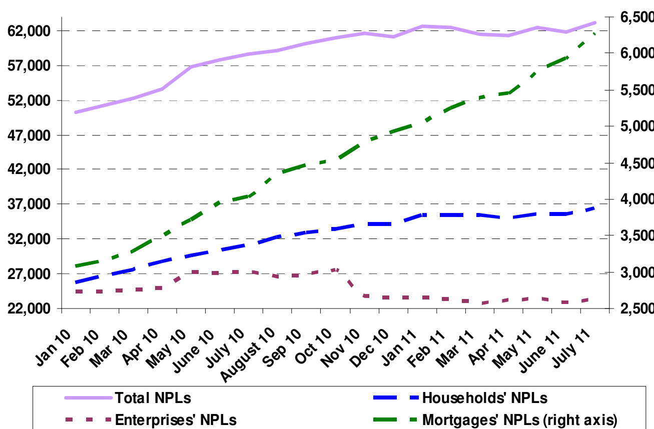
A large share of household and corporate loans is denominated in FX, namely 31.4% of total outstanding loans in July 2011. More precisely, household debt in FX accounts for 38.4% of total household loans in July 2011with 30% of household debt in CHF. Thus, the recent CHF appreciation should weigh on household disposable income. Furthermore, a rise in Non Performing Mortgage Loans denominated in CHF was observed recently; they increased by 11% mom in July and by 30.9% since the beginning of this year (while mortgage debt denominated in zloty increased by 26% year-to-July (Figure 2). Total NPLs are rising; they grew by 3.1% year-to-July with household NPLs growing by 7% year-to-July while mortgages NPLs increasing by 27.6% year-to-July (mortgages account for ca 68% of total household loans) (Figure 3).

Figure 2
Recent surge in mortgages NPLs denominated in CHF



Source: National Bank of Poland, Eurobank Research.

Figure 3
Total NPLs acceleration due to households' NPLs rise on mortgages' NPLs escalation



Source: National Bank of Poland, Eurobank Research.

On a more positive note, total credit was robust in July; it grew by 14.6% yoy and by 8.1% year-to-July. This increase was driven mainly by household credit, which grew by 13.7% yoy in July and in particular by mortgages loans increase, which grew by 19.9% yoy in July. At the same time, total deposits grew by 9.5% yoy in July and by 4.6% year-to-July. Hence, loans to deposit ratio reached 105.6% in July from 102.4% at the end of 2010.

Written by

Dr Stella Kanellopoulou
Research Economist
Skanellopoulou@eurobank.gr

II. New Europe – Country Analysis: **Romania**

Softer GDP growth in Q2 yet still in line with our full-year forecast

- GDP growth slowed to 1.4% yoy in Q2 down from 1.7% yoy in Q1 on weaker net exports performance and still contracting domestic demand figures
- Romanian asset classes outperform their New Europe peers year to date despite sour financial markets sentiment

GDP expanded at a softer pace in the second quarter on weaker net exports while domestic demand was still in red.

Growth softened in the second quarter compared to the first. Real GDP expanded by 1.4% yoy in Q2 down from 1.7% yoy in Q1 2011 against -0.4% yoy in Q2-2010. On a seasonally adjusted basis, the GDP grew marginally by 0.2% qoq, lower than the 0.5% qoq in the first quarter (revised downwards from +0.7% qoq). The estimate came little below analyst expectations (Reuter's poll: +0.3% qoq).

The slowdown was mostly felt in the industrial sector which is export-oriented and thus highly correlated with exports. The industrial sector disappointed expectations of another robust quarter, expanding by -0.4%qoq/+4.9% yoy in Q2, down from +2.5%qoq/+10.1% yoy in Q1. The most representative sector, manufacturing, slowed down to 5.6% yoy in Q2 against 11.3% yoy in Q1 on the back of weaker external demand. This is partially attributed to a slowdown of exports from -5.7%qoq/+6.3% yoy in Q2 compared to +23.6% yoy in Q1). Accordingly, imports' growth slowed down to -1%qoq/+7.7% yoy in Q2 compared to +6.9%qoq/+15.2% yoy in Q1 as domestically manufactured products incorporate a significant amount of imported materials and domestic demand remained contractionary. As a result, the contribution of net exports to growth became negative by 1.1pps compared to 2.2pps positive in the first quarter.

The picture in services, the most labor intensive sector of the economy, improved marginally. Services expanded by +0.3% qoq/-0.8% yoy compared to 0% qoq/-2% yoy in Q1 against +0.5%qoq/-2.2% yoy in Q1 2010. The retail sector, the most important sector of consumption, recorded positive growth on a yearly basis for a second consecutive quarter (Q1 was the first time since the last quarter of 2008). In detail, retail services remained flat at 0%qoq/+0.9% yoy compared to 1.1% yoy in Q1 vs. -2.9% yoy in Q4. The contraction slowed in financial services, which marked an anemic +1.2% qoq/+0.3% yoy growth compared to -0.9% qoq/-3.2% yoy decline in Q1 2011. Agriculture was the sector which outperformed industry and

Romania: Eurobank EFG Forecasts				
	2009	2010	2011f	2012f
Real GDP (yoy%)	-7.1	-1.3	1.7	3.0
Private Consumption	-10.2	-1.7	1.0	2.5
Govern. Consumption	1.6	-3.6	-2.5	1.0
Gross Capital Formation	-26.2	2.7	3.5	5.5
Exports	-5.3	13.1	8.0	6.5
Imports	-20.9	11.6	5.0	7.0
Inflation (yoy%)				
CPI (annual average)	5.6	6.1	7.0	4.5
CPI (end of period)	4.7	8.0	5.4	4.0
Fiscal Accounts (%GDP, Cash Basis)				
General Government Balance	-7.3	-6.5	-4.4	-3.0
Gross Public Debt	29.6	37.7	40.1	40.0
Labor Statistics (annual avg,%)				
Unemployment Rate (% of labor force)	7.8	6.9	7.0	6.5
Wage Growth (total economy)	8.5	2.4	1.4	4.5
External Accounts				
Current Account (%GDP)	-4.2	-4.1	-4.5	-5.0
Net FDI (EUR bn)	3.6	2.7	3.0	5.0
FDI / Current Account (%)	73.5	54.0	50.0	70.0
FX Reserves (EUR bn)	28.3	32.4	38.0	45.0
Domestic Credit *(end of period)*	**2008**	**2009**	**2010**	**Q1 11**
Total Credit (%GDP)	42.7	50.2	52.7	48.8
Credit to Enterprises (%GDP)	18.8	19.6	20.4	19.0
Credit to Households (%GDP)	19.7	20.4	19.9	18.0
FX Credit/Total Credit (%, private)	53.1	60.1	63.0	62.2
Private Sector Credit (yoy)	33.7	0.9	4.7	2.3
Loans to Deposits (%)	131.9	130.6	137.7	136.9
Financial Markets	**Current**	**3M**	**6M**	**12M**
Policy Rate	6.25	6.25	6.25	6.25
EUR/RON	4.31	4.35	4.30	4.25

Source: National Sources, Eurostat, IMF, Eurobank Research & Forecasting

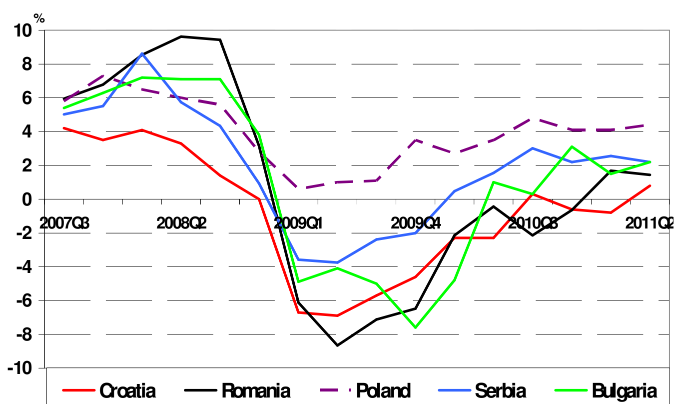
services. Gross value in agriculture expanded by +2.5% qoq/+3.4% yoy registering a strong rebound from -4.4% qoq/-0.4% yoy.

In terms of components of GDP, private consumption and investments remained in negative territory. Households' consumption growth shrank by +0.2% qoq/-0.7% yoy in Q2, almost unchanged compared to Q1. In contrast, government consumption expanded by +8.4% qoq/-0.7% yoy compared to -3.2% qoq/-10.5% yoy in Q1. Overall, total consumption fell by -0.7% yoy, with the contraction narrowing after a -1.7% yoy decline in Q1 2010. The contraction in real gross fixed capital

formation eased to -1.4%yoy compared to -2.2%yoy in Q1. Meanwhile, the rebuilding of inventories pushed gross capital formation higher by 12.1% yoy in Q2 compared to 11.5% yoy in Q1. Growth in construction, remained in negative territory, but with the pace of contraction slowing down even further to -1.9% yoy compared to -2.4% yoy in Q1 against -7% yoy in Q4.

Our view on the second quarter is not necessarily negative. Growth has been adversely affected by the slowdown in major exports partners. In addition, domestic demand is slowly -and unsuccessfully thus far- creeping out of recession, with contraction only becoming thinner. The safest conclusion is that even when domestic demand grows out of recession, it will not be able to support in the future as a rapid growth as in the past. On the other hand, the good news is that agriculture is performing well and it will give a solid boost to growth in 2011. In addition, third quarter high frequency indicators signal that a more robust GDP growth reading should be expected for that period. As a result, our full year forecast remains unchanged at 1.7% in 2011. This year's growth prospects looked relatively improved for Romania which lagged behind in 2010. Romania was one of the last countries to exit recession in the New Europe space (Figure 1). Yet, this is short of sustainable growth since this year will be a transitional year for Romania. Inter allia, this means that growth will be negatively impacted from agriculture in 2012 due to the high base effect. For that reason, we have downgraded our forecast for next year to 3% against 3.5% in our previous issue of New Europe Economics & Strategy, with risks skewed to the downside.

Figure 1
Romania was one of the last countries to exit recession in New Europe



Source: National Statistics, Eurobank Research

RON remains relatively stable year to date despite deepening EU sovereign crisis concerns and increased global markets risk aversion

The negative global markets sentiment has had a negative impact on the domestic macroeconomic environment and financial markets since early August. Fears of a slowdown in external demand have shown up worldwide, both in advanced and emerging economies, as growth is losing steam in US and EU. On top of that, financial markets have come under stress worldwide over fiscal and debt sustainability concerns in Euro area periphery.

However, in a global context of risk aversion, Romanian asset classes still outperform their regional peers on a year to date basis:

- **Leu**: The local currency was on a steady appreciation trend until May. The leu reached multi-month highs near 4.07/€ in late April, having appreciated by almost 4% since the beginning of the year. Ever since, leu came under depreciating pressure which intensified in August towards the threshold of 4.3/€ but never surpassed it until September 22. On September 22, Leu stood at 4.308/€ marginally lower (ca. 1%) since the beginning of 2011. In contrast, Turkish lira and Polish Zloty have been the underperformers of the entire region. Turkish Lira and Polish Zloty have depreciated vs. Euro by 19% and 12.7% respectively. The outlook ahead until the end of the year is to trade within 4.25/€-4.35/€ on high volatility given that the Central Bank could intervene to avoid further depreciation.
- **CDS:** Romanian credit has been more resilient than its peers in the recent bout of risk aversion. Romanian 5Y-CDS started climbing since early August from 240bps to above 350bps (373bps on September 22), thinner than Hungary (472bps on September 22) or Croatia (405bps on September 22), which enjoy a better sovereign rating.
- **Yields**: Yields for government paper climbed north, yet they held up relatively well on a regional comparison. The 10yr bond yields increased by 13bps whereas 12 month treasuries by 50bps. The high public financing needs until the end of the year may push the Ministry of Finance to organize another EMTN issue (more extensive coverage on the focus note).

In our view, the better than peers performance of asset classes is not totally unjustified. There are two fundamental drivers behind that. Firstly, the government has made steady progress in promoting important structural reforms and fulfilling IMF requirements, despite increased tension in the domestic political landscape. That progress has been rewarded with a new precautionary IMF agreement. The new agreement (€5bn multilateral lending, duration 24months) serves as an anchor for the implementation of sound policies while providing a safety net for the country's financing needs. Secondly, macroeconomic fundamentals have improved as macroeconomic imbalances

(the twin deficits, current account and fiscal deficits) are on a steady decline in the last three years.

Written by:

Ioannis Gkionis
Research Economist
Coordinator of Macro Research
igkionis@eurobank.gr

Focus: latest economic developments in the Romanian economy

Inflation reverses course in summer months due to sharp consecutive drops in food prices

The dynamics of inflation during the past three months has been very abrupt. CPI recorded a -0.3% mom fall in June, and accelerated to -0.35% m-o-m in both July and August, which were the sharpest monthly falls since 2000. These consecutive monthly drops, coupled with the elimination of the base effect from last year's VAT hike, have resulted in an annualized inflation figure of 4.3% (from 8.4% in May).

Food prices have been the main driver of this decline. A good harvest played a major role, but we believe exogenous factors have also contributed. To be more precise, food disinflation has followed a very singular pattern in 2011. Whereas during other years, we would observe a broad based fall in prices of different product categories (vegetables, fruits, meat, eggs, milk, etc.), current disinflation has been almost entirely driven by vegetable prices. The latter have fallen -14.7% m-o-m in July and -11.2% in the previous month, the highest monthly drops recorded since 2000. Moreover, vegetable prices recorded similarly sharp drops throughout CEE and Eurozone countries. We believe this pattern may be related to a food import ban instated by the Russian Government in June regarding European vegetables. The embargo is currently being lifted and should lead to a normalization in vegetable prices as we exit the third quarter of the year.

Our baseline scenario sees inflation at 4.0% at the end of the year, but the figure may be revised upwards due to changes in administered prices

Taking into account these very sudden changes in inflation, we have revised our baseline estimates downward to *4.0%* for 2011. As a caveat, the figure is bound to change as the effect of alterations in administered prices remains unclear. The Government has recently decided to replace a general heating subsidy with one targeting solely individuals with low incomes. Matters are complicated further by the fact that some local authorities (such as Bucharest or Cluj-Napoca) have decided to offset the effects of the subsidy cuts. Estimates on the impact range from +0.1pp to +0.7pp to the final inflation figure.

The NBR will most likely keep interest rates unchanged in September, but could shift towards a more accomodative policy as early as November

We believe the NBR will not ease its monetary policy in the short term as disinflation is currently driven solely by price changes in volatile goods; we expect a wait-and-see position at the September meeting. Should the growth outlook continue to aggravate, it could trickle down into inflation in 2012 and we may see a rate cut as early as November. Moreover, imported inflation risks are skewed to the downside as sluggish growth in the developed economies will exert downward pressures on the prices of oil and other commodities.

Romanian budget execution remains adequate to meet 2011 deficit target, but Government will face severe headwinds in 2012

The y-t-d budget deficit has remained broadly flat in July at 2.09% of projected GDP vs. 2.07% in June. As a caveat, the attainment was helped by seasonal factors, namely quarterly collection of profit tax. Aggregate budget income increased by RON +3bn. over the previous month, while total spending ebbed down by RON -0.8bn. In spite of the positive headline, the structure of spending remains rather worrying: the reduction in spending was achieved through cuts in capital spending, while signs of public sector inefficiencies remain. Nevertheless, the budget execution remains adequate to meet the 2011 target.

Deteriorating risk environment makes debt servicing more difficult

However, the government is finding it increasingly difficult to service its debt. Local market conditions have deteriorated in August due to a bout of risk aversion at a global level. The yield curve has shifted upward for all maturities. The yield for shorter maturities increased most prominently: 12-month T-bills yield increased by approximately 50bp, while 10-yr. bond yields increased by approximately 13bp. The bid-to-cover ratio has also deteriorated to 1.83 in August (average rate) from 2.73 in July. Moreover, the Government rejected all bids on two separate tenders (a 5-yr T-bonds debt tender worth RON 500mn. and a 1-yr T-bills issue worth RON 900mn.).

The MoF may resort to a new EMTN issue this year

Cumulatively, the MoF has failed to raise the amount of funds it had initially planned and may be forced to resort to another EMTN issue this year. Deputy Finance Minister B. Dragoi has confirmed this intention and mentioned a possible USD issue. Market conditions for this type of issue are currently mixed, with risks of worsening contingent on risk environment. Romania's CDS is higher than it was during the initial EMTN on June 17th 2011 (345bp vs. 254bp). On the positive side, the Euro 5yr IRS has sharply decreased from 2.7 to 1.8, historically low levels. These circumstances make for relatively accommodative conditions in the short term. However, these conditions may deteriorate significantly if the crisis in the Eurozone deepens. This means that the longer the issue will be postponed, the higher the associated risks will be.

The slowdown in economic growth makes the 2012 deficit target increasingly unattainable

The outlook for 2012 is also worsening. The deficit target of 3% looks increasingly unattainable as economic growth seems poised to undershoot the government's forecast of +3.5% (our current baseline scenario sees an expansion of +2.75%). Thus, the Government may be forced to resort to new spending cuts in an electoral year. Nevertheless, should market conditions worsen substantially in 2012, the MoF may fall back to the IMF Precautionary Agreement.

Written by:

Mihai Patrulescu
Junior Economist
Mihai.Patrulescu@bancpost.ro

Focus: Latest credit developments in Romania

Total credit extended increased by +7.1% yoy/0.3% mom in July compared to +6.6% yoy/3.1% mom in June. Private sector credit growth was 4.5% yoy/1.1% mom during the same period (from 1.3% yoy/2.9% mom during June 2011); however, in FX-adjusted terms it expanded by 3.8% yoy in July against 3.1% yoy in June due to the appreciation of leu.

Remarkably, a major part of the increase in total credit is due to the high increase in government credit (including tradable securities). In particular, government credit has reached 23% of total credit, having more than doubled from the beginning of 2009 (when it comprised of only a 10% of the total credit). Government credit maintained in July a high growth of +16.7%yoy/-4.6% mom, supporting the increase in total credit. On the other hand, credit to non-financial corporations soared by 8.8% yoy/1.4% mom in July, notably increased compared to June (5.6% yoy/3.7% mom). Credit to households inched up by 0.7% yoy/0.9% mom in July breaking a four-month row of negative year on year growth.

In terms of currency breakdown, credit in local currency in July rose by 1.8% yoy /1% mom, marginally higher than June (0.9% yoy/1.1% mom) the first two months of positive growth since July 2009. On the other hand, credit in foreign currency in June increased 6.2% yoy/1.1% mom, from 1.6% yoy/ 4.0% mom in June.

Total deposits expanded by 7.2% yoy in July vs. 8.0% yoy in June. This growth has been based partially on the growth of government deposits. The latter soared by 19.7% yoy, on top of a 48.7% increase in June, mostly because of the 1.5 bn Eurobond Romanian government issued in the middle of June. Deposits in local currency run at 11.1% yoy/ 2.2% mom. Deposits in foreign currency fell by -3.7 % yoy/ 0.7% mom, following a downward trend from December of 2010 (-1.7% yoy). As a result, the ratio of deposits in LC to total deposits surpassed 60% from the February of 2011 and now stood at 61%. Deposits in the private sector continued to grow (5.6% real growth in June). However, growth rates are lower than those of previous months, in line with the decline of deposit rates.

On June 29, the Romanian Government approved a program to support small and medium enterprises: "Mihail Kogalniceanu card for SMEs". The program has two functions: i) It will subsidize up to 70% of the rate of the loan and ii) the National Guarantee Fund will guarantee up to 80% of the loan value. (Security may not exceed 100,000 lei). The program was expected to start on September 9; its rigorous implementation could lead to an important growth in corporate loans in local currency and improvement of the NPLs dynamics.

According to the Financial Stability Report of the National Bank of Romania, credit risk is the main weakness of the banking sector. The deterioration of the quality of loan portfolios can be attributed mainly to the worsening of the economic situation and the tight fiscal measures taken. Note that the NPL's ratio (loans in delay for over than 60 days) stood at 21.9% of total loans in June, having reached an all time high two months earlier at 22.4%. On the other hand, nominal NPLs continued to increase, albeit at a slower rate than some months ago. Furthermore, the positive results of NBR's stress tests and banks' average Tier 1 ratio (13.6 % in June) showed that the Romanian banking system exhibits resilience.

Written by

Dimitris Georgiou
Junior Economic Analyst

II. New Europe – Country Analysis: **Serbia**

New precautionary IMF agreement

- The Serbian government reached an agreement with IMF mission on a new €1bn precautionary agreement
- GDP growth slowed to 2.2% yoy in Q2 compared to 3.4% yoy in Q1, an illustration of softer economic activity anticipated in the period ahead
- Inflation scaled down further at 10.5% in August compared to 12.1% in July on declining food and energy prices
- NBS cut rates by another 50bps at 11.25% on September 8th, bringing the cumulative cuts to 125bps from the beginning of the easing cycle in early June

New precautionary €1bn agreement with IMF will shield Serbia in case of a new global downturn

On Aug 31st, the Serbian government reached an agreement with the IMF mission on a new precautionary lending agreement to succeed the expired Stand by Arrangement. The new agreement envisages an €1bn funding available for a period over the next 18 months. The aim of the agreement is threefold: firstly to protect the country against an external shock, secondly to act as an anchor for fiscal policies and thirdly to improve investment climate through better management of state-owned enterprises and improving property rights security.

The fiscal policies were in the epicenter of negotiations between the government and the IMF. Firstly, the weaker economic activity prospects in Europe led the mission to downgrade the GDP growth forecast of 2011 from 3% to 2%. Accordingly, the GDP growth forecast of 2012 was revised downwards from 5% to 3%. The downward revision of growth forecasts led, inter alia, to a revision of the fiscal metrics in 2011-2012. More specifically, the budget deficit target was revised upwards to 4.5% of GDP against the original plan of 4.1% in 2011. This is translated into a revision of the fiscal target from RSD140bn to RSD153bn in nominal terms. The central government deficit was revised from RSD120 bn to RSD132 bn. On the revenues side, the revision of growth forecast resulted in downward revision of budget revenues by RSD 22bn in 2011. On the expenditures side, the indexation of public wages and pensions to inflation, provided by the previous IMF agreement will result in an increase of spending by RSD 13.4bn. In addition, there has been a mutual agreement for a provision of RSD 3.9bn for additional social expenditures.

Serbia: Eurobank EFG Forecasts				
	2009	**2010**	**2011f**	**2012f**
Real GDP (yoy%)	-3.5	1.0	2.5	3.0
Inflation (yoy%)				
CPI (annual average)	8.6	6.8	11.0	7.5
CPI (end of period)	6.6	10.3	7.5	6.5
Fiscal Accounts (%GDP)				
General Government Balance	-4.5	-4.7	-4.4	-4.0
Gross Public Debt	34.1	41.9	41.1	40.2
Labor Statistics (%)				
Unemployment Rate (%of labor force, ILO)	16.9	19.2	20.0	19.0
Wage Growth *(total economy)*	-3.3	7.5	8.3	9.0
External Accounts				
Current Account (% GDP)	-7.2	-7.2	-7.5	-8.5
Net FDI (EUR bn)	1.4	0.9	1.2	2.0
FDI / Current Account (%)	78.7	39.9	45.0	75.0
FX Reserves (EUR bn)	10.6	10.0	11.5	10.5
Domestic Credit	**2008**	**2009**	**2010**	**Q1 11**
Total Credit (%GDP)	41.1	48.7	59.7	58.8
Credit to Enterprises (%GDP)	24.2	27.8	33.4	33.0
Credit to Households (%GDP)	15.7	16.2	18.6	18.0
Private Sector Credit (yoy)	34.9	14.3	26.5	18.1
Loans to Deposits (%)	125.1	127.0	144.6	148.9
Financial Markets	**Current**	**3M**	**6M**	**12M**
Policy Rate	11.75	11.00	10.50	10.50
EUR/RSD	102.90	102.00	102.00	105.00

Source: National Sources, IMF, Eurobank Research & Forecas

Nevertheless, in order to achieve the revised target the government has decided to slash current (subsidies and provisions) as well and capital expenditures in order to save another RSD15-20bn.

The endorsement of the supplementary budget by the parliament is an important conditionality for the new SBA to be approved by the IMF board in early October. In addition, the government will have to submit a property restitution bill (properties confiscated during the previous communist regime) in line with the fiscal responsibility legislation during September.

A new precautionary agreement was our main scenario in all previous issues of New Europe & Economics Strategy. In our view, the importance of the agreement is significant. Firstly, it provides a cushion in case of a new global downturn and reduces the sovereign risk premium of the country. Secondly, it increases the credibility of the fiscal policies implemented. It is important to note that the revised targets are in line with the fiscal rule which was recently adopted as part of the expired IMF agreement. Thirdly, the new agreement is a good opportunity to push for long waited structural reforms in the investment climate not completed during the previous program (for example: abolition of red tape in new investments licensing).

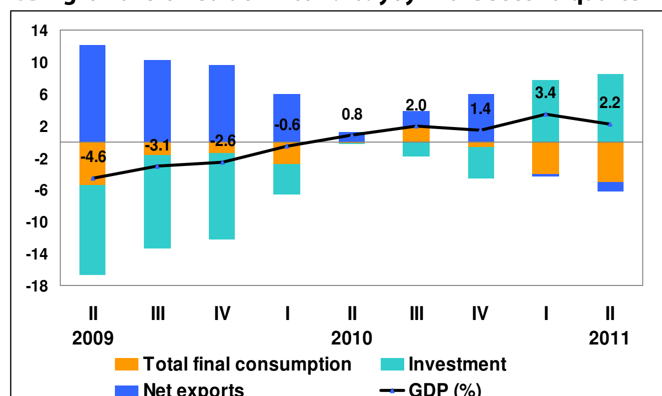
Growth decelerated to 2.2% yoy in the second quarter compared to 3.4% yoy in the first on softer manufacturing readings; Full year forecast is revised downwards

After a very strong start in the first quarter at 3.4% yoy, growth slowed at 2.2% yoy in the second quarter (flash estimate). On a seasonally adjusted basis, GDP remained flat in the second quarter compared to 1.4% yoy in the first. There is no official analytical sectoral breakdown of data at the moment of the writing. However, the Central Bank calculations bring the non-agricultural value added output to have slowed down to 1.4% yoy (-0.6% yoy in seasonally adjusted terms) compared to 3% yoy in the first quarter (+1.1% yoy in seasonally adjusted terms).

In terms of components of GDP, private consumption is exceptionally weak, having a 5.1pps negative contribution to growth. This is also evident in the recession of key retail trade sectors; retail sales have contracted by 14.2% yoy in Jan-July. Household spending (-1.1% qoq in Q2) was constrained by food and energy driven high inflation (average inflation stood at 13% in 1H), as well as the weak labor market conditions (unemployment rose to 22% in last April).

In addition, the contribution of net exports has turned negative in 2011. In fact, net exports' contribution became even more negative from -0.4pps in Q1 to -1.4pps in Q2. In contrast, investments contributed 8.4pps to growth compared to 7.8pps in the prior quarter. Investments have been mainly driven by the rebuilding of inventories (in capital and consumer durables) and to some extent by government infrastructure projects (+0.2% qoq seasonally adjusted). Private investment was still in contraction mode (-9.1% qoq seasonally adjusted) in Q2. However, the FIAT investment in automobile industry is expected to turn around the picture.

Figure 1
GDP growth slowed down to 2.2% yoy in the second quarter



Source: National Bank of Serbia Inflation Report, Eurobank Research

In our view, the second quarter is illustrative of softer growth readings anticipated ahead. The growth recovery which started last year was driven by net exports instead of domestic demand. Moving on to 2011, the dynamics of net exports have been fading away in Q2, influenced by the appreciation trend of the local currency (Dinar shot up on Q2 as much as 98/€ or 7.5% higher than the beginning of 2011 on high portfolio inflows to government T-bills), the slowdown in Europe (EU-27 generates 55% of total Serbian export revenues). To make things worse, industry-specific factors came into play, such as the wheat exports ban during June10-March11. The slowdown of exports was also mirrored in industrial production indicators. Industrial production readings have been volatile throughout the 1H with ups and downs, recording negative readings from time to time. However, the overall performance to date is below expectations (Jan-July: +3.5% yoy).

All in all, recovery stemming from net exports is losing steam. Private consumption has not been a positive contributor to growth even last year. Prospects in the current year are adversely affected by high inflationary pressures. On the other hand, output will receive support from a very solid agricultural season and a good tourist season (1.2 mn tourist visitors in Serbia this summer). This is expected to partially offset the negative trend from the trade flows.

The prospect of a global slowdown worldwide and the shaky recovery from the net exports side compels us to downgrade our forecast for 2011 to 2.5% instead of 3% in our last New Europe Economics & Strategy. The probability of shaky external demand conditions has a negative impact on the domestic growth environment. IMF forecast now stands at 2%, in contrast to the growth forecast of the Central Bank which had maintained its 3% forecast until very recently. In addition, it is important to notice that there has been a major revision in the

GDP calculation methodology. The Statistical Service now incorporates a new classification of activities in the calculation, while there has been a change in the prices deflator. The latter has shifted from constant prices to previous year prices which changes past records significantly. To give an illustrative example of the magnitude of change, GDP growth for 2010 was revised downwards from 1.8% to 1%, while GDP growth for 2009 was revised downwards from -2.9% to -3.5%.

Inflation continues to scale down: Consumer prices decelerated to 10.5% in August compared to 12.1% in July on reduced food and oil prices; NBS cut interest rates by 50bps to 11.25% on September 8th after a short pause in August

After a short pause in August on renewed market concerns over the deepening EMU crisis, the NBS cut interest rates again. On September 8th, the NBS decided to cut its key policy rate by another 50 bps to 11.25%. This is the third rate cut since June 7th when NBS had cut interest rates by 50bps (from 12.5% to 12%) initiating the monetary policy easing cycle. According to the Bloomberg survey conducted ahead of the policy meeting, the majority of participants polled (9 out of 22) expected a 25bps cut; five expected a 50 bps rate cut and seven anticipated a no rate change.

In the statement released, the Central Bank emphasized the strong disinflationary impact of low demand side pressures on headline inflation in the coming period. The latter comes on top of the expected stabilization of food prices and slower growth in regulated prices. More specifically, food inflation (37.8% weight in the consumer basket) has already peaked and is expected to subside further in the coming months. The sharp decline of food prices is driven by favorable base effects and the positive impact of the new agricultural season which started in July. In addition, inflation expectations have stabilized at elevated levels, according to the Bloomberg and Gallup surveys.

Inflation registered a negative month on month reading for a second consecutive month in a row in July. Consumer prices scaled down to +0% mom/+10.5% yoy in August vs. -0.5% mom/+12.1% yoy in July. This represents the lowest reading during 2011, after peaking at 14.7% yoy in April. In our view, inflation is going to retreat further in the coming months. Provided that there are no other supply-side shocks or some undue fiscal relaxation because of the onset of the political cycle, inflation would gradually retreat more visibly towards the targeted band from Q3 2011 onwards on base effects and low domestic demand pressures. However, although year-end inflation will most probably end in single digit, it will still lie significantly above the Central Bank target (4.5%+/-1.5%). In conclusion, we still hold the view that the Central Bank will maintain its easing bias until the end of 2011. For that we still see room for additional 75-100 bps rate cuts from the current levels in line with what we have already described in our previous New Europe Economics & Strategy.

On another note, Dinar started losing ground on concerns over potential spillovers from the ongoing EMU sovereign crisis since mid June. Lower real yields and market contagion fears eliminate most Dinar gains since the beginning of the year. Investors' interest in government securities has weakened on higher country risk premium, after strong portfolio inflows for T-bills in the 1H. Dinar had strengthened as low as 98/€ on June 10th, compared to 105.9/€ at last year end and an historic low of 108.1/€ on October 28th, 2010.

Even though the dinar appreciation is reversing, the Dinar is still holding some of its gains since the beginning of the year. On Sep 20th, dinar stood at 100.94/€, higher by approximately 5% compared to the end of 2010. However, the attractiveness of the Dinar carry trade is fading away. The combination of lower interest rates, the downward revision of several key macro figures and analyst & Markets' concerns over potential spillovers from the ongoing EMU sovereign crisis and global growth slowdown concerns, paint a gloomier outlook for the local currency until the end of the year.

Written by

Ioannis Gkionis
Research Economist
Coordinator of Macro Research
igkionis@eurobank.gr

II. New Europe – Country Analysis: **Turkey**

Economic activity remained robust in H1 2011, but slowdown looming ahead

- CBT keeps its key policy rate at 5.75%, likely to maintain easing bias in Q4
- S&P raised Turkey's local-currency (LC) sovereign ratings to investment grade
- Potential upgrade of Turkey's FC credit rating ahead

Tensions with Israel escalate; EU prospects worsen

Diplomatic relations between Turkey and Israel have been strained lately, after the release of a UN report on Israel's interception of a Turkish aid flotilla in the Gaza Strip in May last year, which resulted to the demise of nine individuals on board. The report ruled that Israel's naval blockage was legal but deemed the force exerted on the incident as "excessive and unreasonable". Turkey demanded an apology and compensations for the families of the deceased, which Israel refused to give. In response, Foreign Minister Ahmet Davutoglu announced on September 2 that Turkey downgraded its relations with Israel, suspended all joint military exercises and defense-related trade agreements, expelled Israeli diplomats from the Embassy in Ankara and warned about additional sanctions as well as legal action against the country. In spite of refusing to provide an apology, Israel officials recently signaled they are not in favour of further deterioration between the two countries' ties. In a separate incident, the collaboration between Israel and Cyprus over the exploration of offshore natural gas resources in Block 12, a region off the southeast coast of the island, also stirred heavy criticism from Turkey. Turkey disputes Cyprus's offshore exploration gas drilling rights and argues that any findings should be shared with the North part of the island, a region inhabited only by Turkish Cypriots with its sovereignty recognized only by Turkey. Turkey is opposing the drilling process saying that a peace settlement on the divided island should have been reached before the initiation of such work. The President of the Republic of Cyprus, Demetris Christofias, recently suggested that the country was willing to share the benefits of a potential gas finds with Turk Cypriots before a deal is reached on the reunification of the island. Turkey has signaled it will closely monitor the process threatening to deploy its navy across the Mediterranean. Cyprus, a euro area member, has warned that it may bloc Turkey's EU accession process as long as Ankara disputes the gas drilling process. It is worth recalling that so far thirteen out of the 35 chapters have been opened since 2005, when accession negotiations began, but only the "Science and Research" has been closed until now (Table 1). The process has been slow lately, with Turkey's refusal to open its ports to the Republic of Cyprus being among the key obstacles in discussions.

Turkey: Eurobank EFG Forecasts

	2009	2010E	2011F	2012F
Real GDP (yoy%)	-4.8	9.0	6.0	4.0
Private Consumption	-2.3	6.7	7.0	4.5
Govern. Consumption	7.8	2.0	4.5	2.0
Gross Capital Formation	-19.0	29.9	15.0	8.0
Exports	-5.0	3.4	5.0	8.0
Imports	-14.3	20.7	14.6	10.0
Inflation (yoy%)				
CPI (annual average)	6.3	8.6	6.0	6.8
CPI (end of period)	6.5	6.4	7.5	6.0
Fiscal Accounts (%GDP)				
Central Government Balance	-5.5	-3.6	-2.7	-2.6
Gross Public Debt	45.4	42.5	41.5	40.0
Primary Balance	0.1	0.8	1.5	2.0
Labor Statistics (%)				
Unemployment Rate (%of labor force)	13.5	12.0	10.0	9.0
External Accounts				
Current Account (% GDP)	-2.3	-6.7	-9.5	-7.4
Net FDI (USD)	6.9	7.3	10.0	10.0
FDI / Current Account	46.9	12.0	14.0	16.0
FX Reserves (USDbn)	69.0	79.0	90.0	90.0
Domestic Credit	**Q3 10**	**Q4 10**	**Q1 11**	**Q2 11**
Total Credit (%GDP)	38.5	43.0	41.4	45.9
Credit Private Sector (%GDP)	36.6	40.8	39.7	44.2
FX Credit/Total Credit (%)	18.8	21.0	22.2	22.5
Private Sector Credit (%yoy)	36.7	44.0	44.8	43.3
Loans to Deposits	84.3	85.7	89.5	93.8
Financial Markets	**Current**	**3M**	**6M**	**12M**
Policy Rate	5.75	5.75	5.50	6.50
USD/TRY (where applicable)	1.84	1.78	1.75	1.70

Source: National Sources, Eurostat, IMF, Eurobank Research & Forecasting

Economic activity remained robust in H1 2011…

Real economic activity jumped 8.8%yoy in the second quarter of the year in Turkey, confounding expectations for a sharper slowdown, to 6.3%yoy, from an upwardly revised rise of 11.6%yoy in Q1 (11.0% initially announced). For the whole of the first six months of the year, real GDP grew by 10.2% on an annual basis. Domestic demand remained the main driver of growth throughout H1. In detail, investments soared by 31.1%yoy, being primarily driven by a 35.6%yoy jump in the private sector gross fixed capital formation, while total

Table 1

Latest Status of EU Accession Negotiations: Progress Monitor

#	Chapter	Status	Date
1	Free Movement of Goods	F	Dec-06
2	Freedom of Movement For Workers	F	Dec-09
3	Right of Establishment For Companies & Freedom To Provide Services	F	Dec-06
4	Free Movement of Capital	O	Dec-08
5	Public Procurement		
6	Company Law	O	Jun-08
7	Intellectual Property Law	O	Jun-08
8	Competition Policy		
9	Financial Services	F	Dec-06
10	Information Society & Media	O	Dec-08
11	Agriculture & Rural Development	F	Dec-06
12	Food Safety, Veterinary & Phytosanitary Policy	O	Jun-10
13	Fisheries	F	Dec-06
14	Transport Policy	F	Dec-06
15	Energy	F	Dec-09
16	Taxation	O	Jun-09
17	Economic & Monetary Policy	F	Jun-07
18	Statistics	O	Jun-07
19	Social Policy & Employment		
20	Enterprise & Industrial Policy	O	Mar-07
21	Trans-European Networks	O	Dec-07
22	Regional Policy & Coordination of Structural Instruments	F	Jun-07
23	Judiciary & Fundamental Rights	F	Dec-09
24	Justice, Freedom & Security	F	Dec-09
25	Science & Research	C	Jun-06
26	Education & Culture	F	Dec-09
27	Environment	O	Dec-09
28	Consumer & Health Protection	O	Dec-07
29	Customs Union	F	Dec-06
30	External Relations	F	Dec-06
31	Foreign, Security & Defence Policy	F	Dec-09
32	Financial Control	O	Jul-07
33	Financial & Budgetary Provisions	F	Jun-07
34	Institutions		
35	Other Issues		
	Chapters Opened	13	
	Chapters Closed	1	
	Chapters Frozen (on Cyprus)	17	
	Chapters not opened	5	
	Total # of Chapters	35	

Notes:
O: Chapter opened, under negotiation
C: Chapter provisionally closed
F: Chapter frozen

Source: Ministry for EU affairs

consumption bounced 10.3%yoy, mainly boosted by a 10.8%yoy spike in households' expenditure. Net exports' contribution remained negative as imports' growth of 22.7%yoy sharply outpaced a meager 3.9%yoy increase in exports, with the latter totaling TRY12.4bn and the former TRY16.6bn.

From the production side, growth was broad-based with manufacturing, wholesale & retail trade and, transport & communication being the main proponents of growth over the January-June period (Table 2). On a quarter-on-quarter basis, seasonally adjusted data showed a 1.3% expansion in Q2 after growth of 1.7%qoq a quarter earlier.

Table 2

Turkey: GDP	YoY growth (ppts)		Contributions (ppts)	
	H1 '11	2010	H1 '11	2010
GDP	10.2	9.0	-	-
Expenditure-side				
Domestic Demand	15.0	13.4	15.5	13.4
Consumption				
Private Consumption	10.8	6.7	7.6	4.7
Govern. Consumption	7.3	2.0	0.7	0.2
Investment	31.1	29.9	7.1	6.0
Private Investment	35.6	33.5	6.9	5.4
Govern. Investment	6.9	15.1	0.2	0.6
Change in stocks	-	-	0.0	2.4
Net exports	-	-	-5.3	-4.4
Exports	3.9	3.4	1.0	0.9
Imports	27.2	20.7	-6.3	-5.2
Production-side				
Agriculture, hunting and forestry	6.4	2.4	0.4	0.2
Fishing	16.1	1.7	0.0	0.0
Mining and quarrying	5.4	4.7	0.0	0.0
Manufacturing	10.7	13.3	2.7	3.1
Electricity, gas and water	8.8	7.3	0.2	0.2
Construction	13.9	17.1	0.8	0.9
Wholesale and retail trade	15.2	13.5	2.0	1.6
Hotels and Restaurants	7.0	0.3	0.1	0.0
Transport, storage and comm.	12.3	10.5	1.8	1.5
Financial intermediation	11.7	7.2	1.4	0.9
Ownership and dwelling	2.0	1.8	0.1	0.1
Real estate, renting & business	9.2	7.6	0.4	0.3
Public administration & defence	3.9	0.5	0.1	0.0
Education	4.2	0.6	0.1	0.0
Health and social work	2.5	1.2	0.0	0.0
Other community, social & pers. act.	0.8	0.9	0.0	0.0
Private household with empl. Indiv	6.9	5.4	0.0	0.0
Sectoral total	10.3	9.0	10.2	8.9
Financial intermediation	16.0	12.6	1.2	1.0
Taxes-Subsidies	13.8	13.0	1.2	1.1

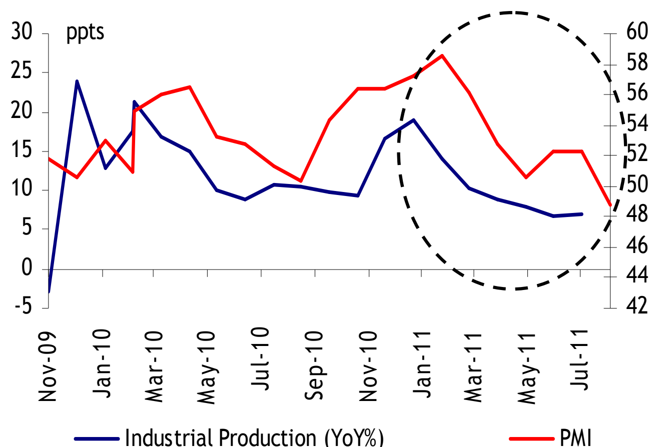
Source: Turkish Statistical Institute

… but slowdown looming ahead

Going forward, recent evidence suggests that further deceleration in domestic economic activity is looming ahead. A slowdown in global growth, the lingering euro area sovereign debt crisis and fiscal as well as monetary tightening measures employed since late last year in order to alleviate widening pressures on the current account defici,t are all expected to take a toll on the Turkish economy. In support of the aforementioned are the latest readings by most recent higher-frequency indicators. In August, manufacturing PMI slid to 48.8 in August from 52.3 in July, moving below the 50-level indicating contraction in the sector for the first time since the 2009 recession (Figure 1). The breakdown of the data showed contraction in output, new orders and input stocks, as well as a weaker increase in employment. Over the same month, although continuing to point to optimism in the manufacturing sector, confidence worsened with the corresponding index sliding to a 7-month low of 109.8 points. Separately, consumer confidence index slid to 91.74 in August, its lowest level since January, while industrial production growth of 6.9%yoy in July

remained within distance from a 19-month trough. The pace of annual increase in tourism arrivals slowed to 5.49% in July, after registering a 12.58%yoy increase in H1. Meanwhile, automotive sales dropped 5.6%yoy in August, bringing the annual rate of increase over the first eight months of the year to 35.1%. In all, we expect H2 real GDP growth towards 2.5%yoy and bring the full-year pace of increase near 6%yoy. We anticipate a further slowdown in 2012 towards 3-4%, primarily on strong base effects.

Figure 1
Evidence of deceleration in Real GDP Growth in H2



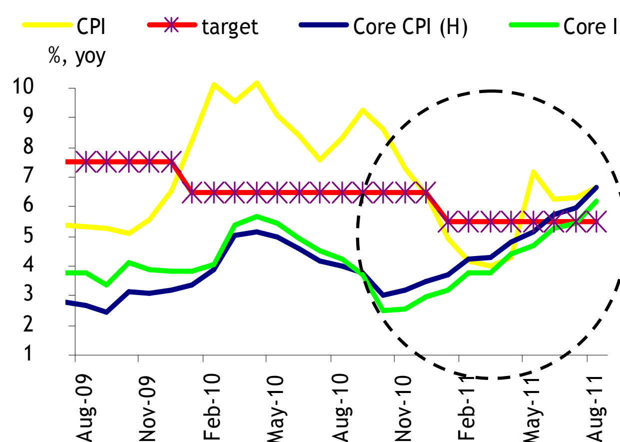
Source: Reuters, Turkish Statistical Institute

CBT keeps its key policy rate at 5.75%, in line with expectations

Turkey's Central Bank decided on September 20 to keep its key 1-week repo rate unchanged at 5.75%. The CBT also kept reserve requirement ratios (RRRs) stable and maintained its dovish tone adopted in August. The Bank highlighted anew concerns about the domestic and external macro environment and signaled its readiness to ease monetary policy further if global risks intensify and the economic slowdown proves deeper than currently expected. The CBT acknowledged that core inflation may remain on an uptrend (Figure2) in the short-term. However, it added that a weakening domestic demand outlook would likely offset the lira depreciation pass-through and reiterated that the 2012 inflation outlook remains consistent with its 5% target. Furthermore, the Central Bank expressed confidence about an imminent *significant* (changed from *notable* in the prior month's statement) improvement in Turkey's current account deficit.

It is worth recalling that at its extraordinary policy meeting on August 4, the CBT surprised markets by delivering a 50bps cut in its key policy rate to a lifetime trough of 5.75% in tandem with a 350bps hike in its overnight borrowing rate to 5.00%. The overnight lending rate was kept stable at 9.00%. Back then, the Bank cited rising global risks behind its policy move. The decision confounded expectations that the CBT would soon resort to a (more conventional) policy tightening mode and exacerbated market concerns about a *behind-the-curve* policy in addressing domestic inflation / overheating risks. At its August 4 meeting, the CBT also cut FX RRRs, halted FX buying auctions and initiated FX selling tenders in order to support the domestic currency, which lost more than 15% against the USD so far this year, in view of the deteriorating global sentiment environment, CBT's unorthodox policy mix and a worsened external position. The surprise rate cut decision at August's extraordinary meeting and the recently intensified tensions between Turkey and Israel over last year's Turkish flotilla incident and an escalating feud over gas exploration in Block 12 near Cyprus aggravated the TRY's losses. It is worth noting that at the scheduled meeting on August 23 the CBT stayed put on rates, saying that the measures employed earlier that month had balanced downward risks to the domestic economy.

Figure 2
Core inflation on the rise



Source: Turkish Statistical Institute

CBT likely to maintain easing bias in Q4: 2011

We expect the CBT to stay put on policy interest rates throughout this year, though additional cuts in its RRRs (or even in its key policy rate) as a means of supporting the domestic economy can not be entirely ruled out, especially in case of additional QE measures by the Fed and /or a significant worsening in the macro environment in the period ahead. However, taking into account lingering inflation risks and ongoing depreciation pressures on the TRY, we see a rather limited room for much additional policy easing at this stage. In any case, the CBT's recent switch from FX buying to FX selling auctions signals worries over further significant lira depreciation.

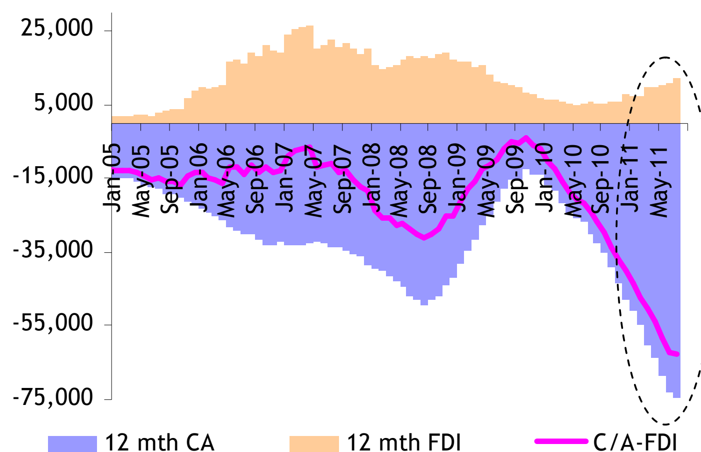
S&P raised Turkey's local-currency (LC) sovereign ratings to investment grade

On September 20, S&P raised Turkey's long and short term local-currency (LC) sovereign ratings to investment grade "BBB-/A-3" from "BB+/B". The agency affirmed the country's foreign-currency (FC) sovereign ratings at "BB/B", noting external position risks. It also assigned a positive outlook for both long-term FC and LC ratings. S&P cited "continuing improvements in Turkey's financial sector and the deepening of local markets" as well as the CBT's track record of independent monetary policy and a free floating FX regime. The agency also argued that the current two-notch difference between LC and FC ratings reflects revised rating criteria for central governments. At present, S&P and Moody's rate Turkey's long-term FC debt two notches below investment grade, at "BB" and "Ba2" respectively, while Fitch rates it only one notch lower at "BB+".

Potential upgrade of Turkey's FC credit rating ahead

As recently signaled by S&P, the key obstacle for an upgrade in Turkey's FX sovereign ratings currently is the current account deficit. Indicatively, July's current account deficit widened nearly 50% yoy, reaching $5.3bn (Figure 3). On a positive note, the deficit shrunk from a $7.7bn shortfall in the prior month (and an $8bn record hit in May) on the back of rising tourism revenues, weakening domestic demand and a depreciating lira. Note that the impact of these drivers was reflected in July's external trade data (deficit eased to $9.01bn from a lifetime peak of $10.2bn a month earlier). Nevertheless, according to our calculations the 12-month trailing current account deficit already reached in July a record 9.3 percent of projected full-year GDP. The shortfall is broadly anticipated to narrow as domestic demand cools down, strengthening the case for a FC sovereign credit upgrade at some point down the road. In support of the latter view, in its September 2011 assessment S&P left the door open for such an upgrade, provided that domestic demand cools down further, the current account deficit narrows, the fiscal position strengthens and credit activity decelerates. Although a FC rating upgrade would likely be more favorably perceived by financial markets, as it constitutes a better gauge of the country's sovereign outlook relative to international peers, S&P's latest decision could be regarded as a precursor of such a move at some point over the next twelve months.

Figure 3
Current account deficit marginally improves in July



Source: CBT, Eurobank EFG

.

Written by

Galatia Phoka
Emerging Markets Analyst
gphoka@eurobank.gr

II. New Europe – Country Analysis: **Ukraine**

Ukrainian economy continues to expand, albeit at a slower pace, despite IMF loan freeze

- Ukrainian economy grew by 4.4% yoy in H1-11; in Q2-11 real GDP growth slowed to 3.8% yoy after having grown by 5.3% yoy in Q1-11
- Inflation easing in recent months on robust grain harvest
- IMF loan is still frozen with no urgent need for its resumption; next IMF visit has been rescheduled for late October
- Credit growth on an upward trend boosted by corporates' lending while household loans show signs of slight growth.

Ukrainian economy continues to expand but at a slower pace

Ukrainian economy grew by 4.4% yoy in the first semester of 2011. In Q2-11 real GDP continued to expand but at a slower pace of 3.8% yoy, down from 5.3% yoy recorded in Q1-11. The second quarter's slowdown was expected due to unfavourable base effects given the 5.5% yoy GDP growth in Q2-10. (Table 1)

Table 1
Ukrainian real GDP growth, % yoy, rebounds from the steep 2009 slowdown

	Q1	Q2	Q3	Q4
2008	8.5	6.2	4.3	-7.8
2009	-19.6	-17.3	-15.7	-6.7
2010	4.8	5.5	3.6	3.3
2011	5.3	3.8	n/a	n/a

Source: National Statistics, Eurobank Research

First quarter's data showed that the economic expansion was broad-based with agriculture, utilities and construction all growing solidly. Namely, there was an upsurge in house building which pushed construction growth to 7.8% in Q1-11 from negative territory until the end of 2010. However, downside risks to growth come from weaker global growth prospects, including weaker steel prices. Even though the Q2-11 GDP breakdown has not been released yet, the second quarter's deceleration most likely was due to base effects coupled with weaker external demand while household demand probably continued to grow strongly (suggested by the double digit figures of retail sales). More precisely, industrial production averaged to 7.5% yoy in Q2-11 down from 9.7% yoy in Q1-11; in July it stood at 8.7% yoy and moved up to 9.6% yoy in August.

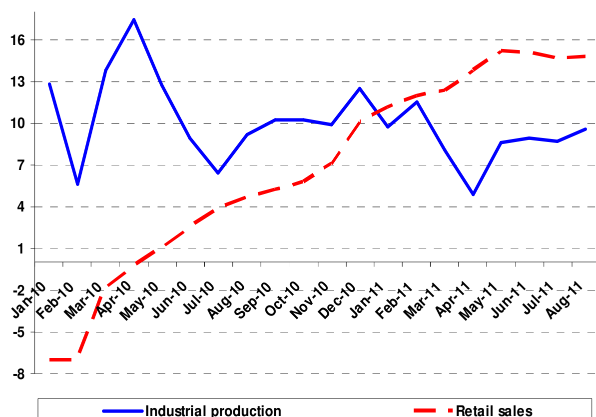
Ukraine: Eurobank EFG Forecasts

	2009	2010	2011f	2012f
Real GDP (% yoy)	-14.8	4.3	4.5	4.6
Private Consumption	-14.9	7.0	5.0	5.2
Government Consumption	-2.4	2.7	2.0	1.6
Gross Capital Formation	-53.4	15.4	7.5	8.0
Exports	-20.1	4.5	8.0	9.0
Imports	-37.1	10.9	11.0	10.5
Inflation (% yoy)				
CPI (annual average)	16.0	9.4	9.8	9.5
CPI (end of period)	12.3	9.1	9.4	9.2
Fiscal Accounts (% GDP)				
General Government Balance	-8.7	-6.5	-3.5	-2.5
Gross Public Debt	35.3	41.7	42.4	44.0
Labor Statistics (%)				
Unemployment Rate (% of labor force)	9.4	8.4	8.0	7.9
Wage Growth *(real - private sector)*	-9.8	6.7	9.0	8.0
External Accounts				
Current Account (% GDP)	-1.5	-2.1	-3.4	-4.5
Net FDI (bn USD)	4.8	6.5	7.5	7.0
FDI / Current Account	268.7	199.6	100.0	90.0
FX Reserves (bn USD)	26.5	34.6	39.0	38.0
Domestic Credit	**2008**	**2009**	**2010**	**Q1 11**
Total Credit (% GDP)	77.3	79.1	66.9	66.0
Credit to Enterprises (% GDP)	46.7	50.5	45.8	45.8
Credit to Households (% GDP)	29.5	26.4	19.1	18.2
FX Credit/Total Credit (%)	59.0	50.8	46.0	45.7
Private Sector Credit (% yoy)	68.5	-3.1	0.4	2.3
Loans to Deposits	204.0	215.9	175.9	169.7
Financial Markets	**Current**	**3M**	**6M**	**12M**
Policy Rate	7.75	7.75	7.75	7.75
USD/UAH	7.99	7.95	7.90	7.90

Source: NBU, IMF, Bloomberg, Eurobank Research

At the same time, retail sales grew in average by 11.8% yoy in Q1-11 and by 14.7% yoy in Q2-11 while in July and August continued their upward trend. (Figure 1)

Figure 1
Industrial production more vulnerable to global economic slowdown while retail sales suggest strong private consumption



Source: National Statistics, Eurobank Research

All in all, we lowered our GDP growth projection to 4.5% yoy in 2011 (from 4.7% yoy estimated previously) and 4.6% yoy in 2012 (down from 4.8% yoy) on the back of weaker global growth prospects coupled with weaker steel prices. Yet, we expect further robust growth in investments due to EURO 2012 (European Football Championship) ongoing preparations.

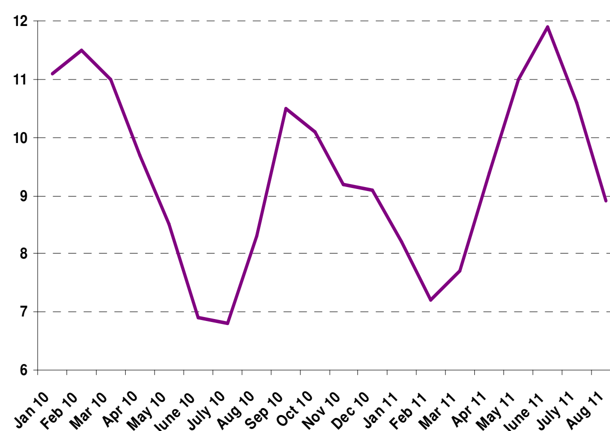
Inflation easing on robust grain harvest

Ukraine's headline inflation slowed to 8.9% yoy in August. What's more, it declined by 0.4% mom for a second month in a row (from -1.3% mom recorded in July). The mom deceleration observed in the two previous months stems from food prices decrease due to seasonal decline related to robust grain harvest. Furthermore, the yoy deceleration was widely expected due to base effects (since August 2010 CPI was elevated on 50% gas tariff hike). We expect inflation to slow further in September, but we see a pick-up towards the end of the year given a hike in domestic gas tariffs before year-end (which is a prerequisite condition for resumption of the IMF loan). Although, inflationary pressures were building up in 2011 on commodity prices surge, the recent drop in food prices should contain part of the upward strain on inflation and hence we expect headline inflation to average at 9.8% yoy in 2011. (Figure 2)

IMF loan is still frozen without any pressing need for its resumption

In late August, Ukraine's Prime Minister, Nikolay Azarov, said that the country has no urgent need for financing from the IMF which goes to the Central Bank's reserves, given favourable developments on the balance of payments; in July reserves amounted to $37.8bn from $34.6bn in 2010.

Figure 2
Inflationary pressure were building up in 2011 after having bottomed in 2010



Source: National Statistics, Eurobank Research

However, an IMF lending programme on track is necessary to ensure favourable terms in external financing (as form of market reassurance) taking into account that the government will need to borrow more by year-end to finance the budget deficit. Yet, Ukraine's authorities are balancing between the benefits of the IMF programme and the potential negative impact of IMF prerequisite unpopular conditions on the ruling party's political prospects ahead of the October 2012 parliamentary elections.

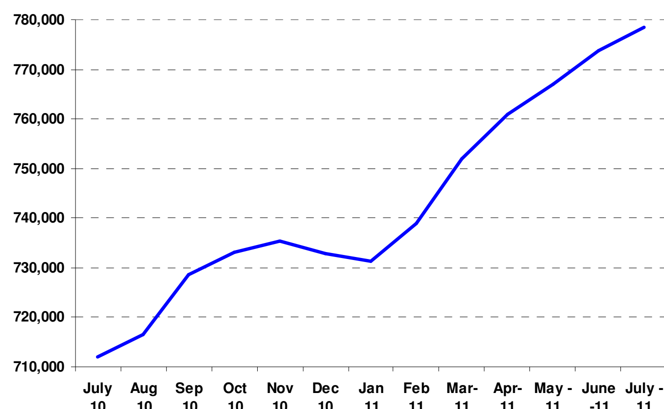
The IMF mission was due to return in late August but their visit has been rescheduled for late October in order to provide additional time to the government to push through reforms. In the meantime, the Ukrainian Parliament passed and the President signed the pension reform which envisages a gradual increase in the pension age for women to 60 and other long-term savings measures, coming into effect on October, 1. Although this development is definitely positive (since pension reforms was one point of disagreement), the IMF insists on Ukraine raising household gas rate before loan resumption. Moreover, cooperation also hinged on the 2012 state budget with the IMF asking for a deficit of 2.5% of GDP vs. 3.5% of GDP planned for 2011.

Credit growth on an upward trend boosted by corporates' lending

Credit expansion continued in July (0.6% mom) albeit at a lower pace (0.9% mom recorded in June). Since the beginning of 2011 credit growth has a clear upward trend fuelled by corporate lending (Figure 3). Meanwhile, household credit continued to contract until April 2011, but it started to record a slight growth

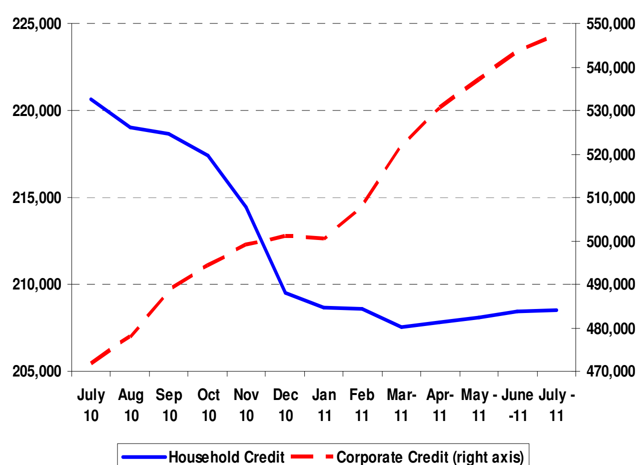
afterwards; it decelerated by 0.5% year-to-July but it grew by 0.03% mom in July. (Figure 4)

Figure 3
Lending activity on a clear upward trend since the beginning of 2011



Source: National Bank of Ukraine, Eurobank Research

Figure 4
Corporate lending drive credit expansion while household loans are still in the red albeit with signs of improvement

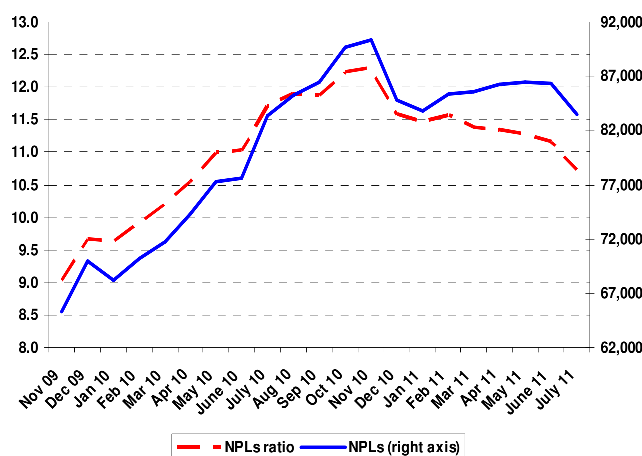


Source: National Bank of Ukraine, Eurobank Research

Total deposits continue to grow; they grew by 11.5% year-to-July and by 22.6% yoy in July boosted both by corporates (10.1% year-to-July) and household (9.8% year-to July) deposits. Hence, loan to deposit ratio dropped to 167.5% in July from 175.9% at the end of 2010.

According to National Bank of Ukraine, Non Performing Loans (NPLs) to total loans ratio stood at 10.7% in July down from 11.2% recorded in June. However, this year NPLs ratio drop is due to growth of total loans rather than significant drop of NPLs (Figure 5).

Figure 5
NPLs to total loans ratio deceleration mainly due to credit growth



Source: National Bank of Ukraine, Eurobank Research

Written by

Dr Stella Kanellopoulou
Research Economist
Skanellopoulou@eurobank.gr

A few words about Eurobank EFG Group

A European banking group that actively supports the economy.

Eurobank EFG group is a European banking organization with total assets of €86.5 bn, employing over 22,500 people and offering products and services through a network of more than 1,600 branches, business centres and points of sale, as well as through alternative distribution channels.

Eurobank EFG group has a systemic presence in 10 countries: Greece, Bulgaria, Serbia, Romania, Turkey, Poland, Ukraine, the UK, Luxembourg and Cyprus. It is a member of the EFG Group, an international banking group present in 40 countries.

Our strategy as a European banking group is mirrored in our history, our financial strength and our steady business expansion in the wider region of Central and South – eastern Europe, where we offer responsible banking based on innovative products and quality service. The performance of the Eurobank EFG people is recognized through numerous awards and distinctions that the Group receives at a local and international level.

Strong capital position and liquidity, vigilant risk management, a successful track record of steady growth, efficiency and solid profitability, as well as top quality personnel ensure the creation of value to the benefit of our clients and shareholders.

More information about Eurobank EFG Group can be found at http://www.eurobank.gr

Research Team

Editor, Professor **Gikas Hardouvelis**
Chief Economist & Director of Research Eurobank EFG Group

Financial Markets Research Division
Platon Monokroussos, *Head of Financial Markets Research Division*
Paraskevi Petropoulou, *G10 Markets Analyst*
Galatia Phoka, *Emerging Markets Analyst*

Sales Team
Nikos Laios, *Head of Sales*
Vassilis Gioulbaxiotis, *Head of International Sales*
Yiannis Seimenis, Ioannis Maggel, *Corporate Sales*
Stogioglou Achilleas, *Private Banking Sales*
Alexandra Papathanasiou, *Institutional Sales*

Economic Research & Forecasting Division
Dimitris Malliaropulos, *Economic Research Advisor*
Tasos Anastasatos, *Senior Economist*
Ioannis Gkionis, *Research Economist*
Vasilis Zarkos, *Economic Analyst*
Stella Kanellopoulou, *Research Economist*
Olga Kosma, *Economic Analyst*
Maria Prandeka, *Economic Analyst*
Theodosios Sampaniotis, *Senior Economic Analyst*
Theodoros Stamatiou, *Research Economist*

Eurobank EFG, 20 Amalias Av & 5 Souri Str, 10557 Athens, tel: +30.210.333 .7365, fax: +30.210.333.7687, contact email: Research@eurobank.gr

Eurobank EFG Economic Research

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

- **New Europe**: Economics & Strategy Monthly edition on the economies and the markets of New Europe
- **Economy & Markets**: Monthly economic research edition
- **Global Economic & Market Outlook**: Quarterly review of the international economy and financial markets

Subscribe electronically at http://www.eurobank.gr/research