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Solid regional growth in Q4 sends an optimistic message for the prospects of 2016

- A number of national statistics offices across the region released earlier today flash estimates of GDP growth for the Q4-2015. Among them, three economies of our focus Bulgaria, Romania, Cyprus and earlier this month Serbia published flash estimates more or less in line with our expectations. Those readings confirm our earlier full year forecasts stipulated in the Regional Economics& Strategy edition of January and serve as a reminder that there are few winners' economies in the EM space. From a growth point of view, it would be fair to say that 2015 has been a very good year for the region, most probably the best since 2008.

- Although we don't have a full detailed break-down for all the economies, domestic demand has been the main driver behind growth in Q4. Lax monetary policies together with low world energy prices continue providing a positive boost on growth momentum. Although, this boost is destined to eventually fade away as energy prices normalize, it is poised to carry on in 2016 as well. For the time being, low energy costs keep inflation pressures subdued, supporting real disposable incomes and provide more flexibility to household, corporate, and sovereign balance sheets. Economic sentiment is at its highest or in some cases close to the highest level since 2008, as consumers benefit from rising real wages, firmer labor markets and low inflation.

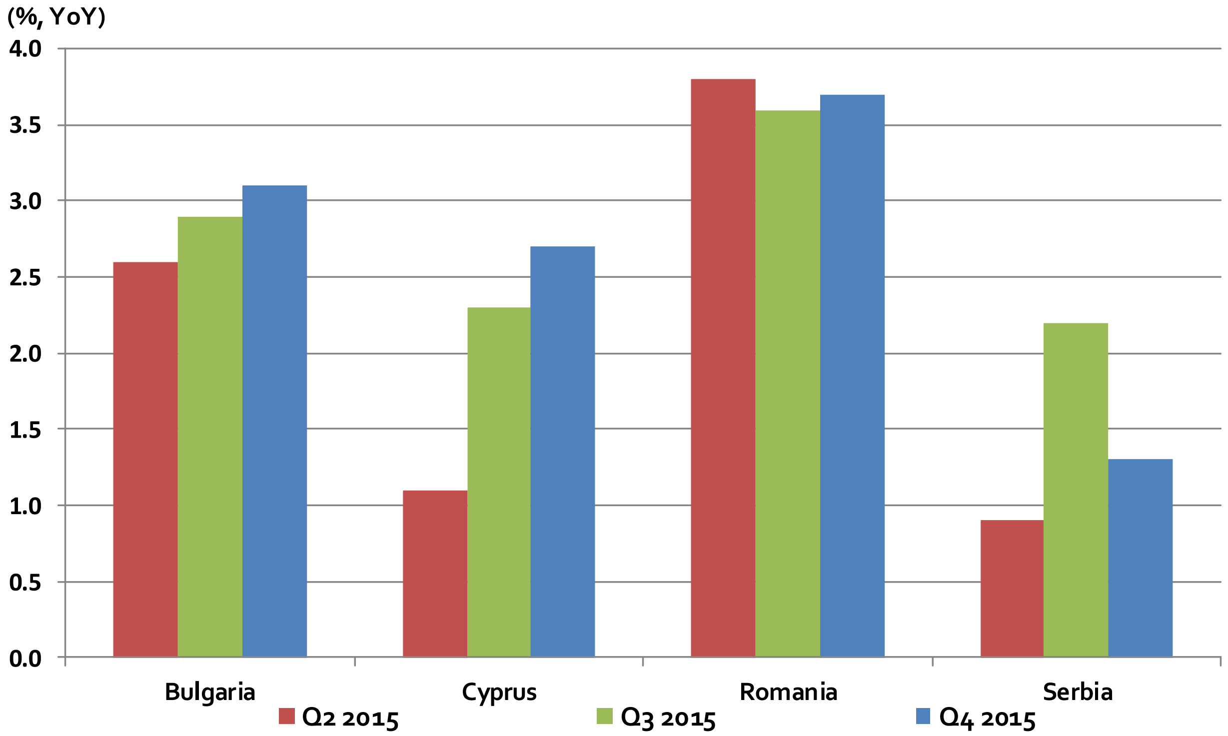
- **Bulgaria**: The economy picked up pace in the last quarter of the year, growing at the strongest rate since Q2-2011. According to the flash estimate, real GDP accelerated by +0.8% QoQ/+3.1% YoY in Q4-2015 up from +0.7% QoQ/+2.9% YoY in Q3-2015 vs. +0.6% QoQ/+1.8% YoY in Q4-2014.The released flash estimate brings full year output performance at an estimated +2.8% in 2015 up from +1.6% in 2014. As usual, there will be another estimate of the national accounts data published at a later stage and there will most probably be huge revisions and reallocations within the individual growth drivers' components. However, final consumption appeared to have made a very strong contribution to growth in Q4. Final consumption expanded by +0.7% QoQ/+2.5% YoY in Q4-2015 up from +1% QoQ/+1% YoY in Q3-2015 vs. -0.8% QoQ/+1.1% YoY in Q4-2014. The spending recovery was mainly driven by the increase in government spending mirroring the increased EU funds absorption ahead of the closing of the programming period 2007-2013 by year end. In addition, rising real wages, improving sentiment, declining energy prices-Bulgaria has the highest energy consumption intensity in EU-28-and further modest gains in employment must have helped private spending gain more speed in the last quarter.

- **Cyprus:** The flash estimate of the last quarter- the fourth consecutive positive one on both quarterly and an annual basis after a three year recession- proves that the economy is finally out of the woods. On a seasonally adjusted basis, growth accelerated further to +0.4% QoQ/+2.7% YoY in Q4-2015 up from +0.5% qoq/+2.3% yoy in Q3-2015 compared to +0.5% qoq/+0.6% yoy in Q2-2015 compared to -0.1% qoq/-1.6% yoy in Q4-2014. On an annual basis, growth expanded by +1.6% YoY a notch higher than the revised government projection. Although the components of growth have not been known yet, it is highly likely that the consumption rebound has continued in Q4-2015 driven by strong compliance with programme's conditionalities, lower energy prices, sentiment improvement, lower unemployment and a rise in real incomes. If authorities satisfy the conditionalities of the last program review with respect to CYTA-the telecom public utility-Cyprus will become the third country after Portugal and Ireland to have made a clean exit from the economic adjustment program which is about to end in March 2016. In any case, even after the prospective parliamentary elections of May a handful of unfinished structural reforms and the challenge of the high NPLs stock needs to be addressed in order to ensure sustainable growth in the medium-term.

- **Romania:** According to the flash estimate release, real GDP on a seasonally adjusted terms expanded by +1.1% QoQ/+3.8% YoY in Q4-2015, up from +1.5% QoQ/+3.7% YoY in Q3-2015 and +0.9% QoQ/+2.8% YoY in Q4-2014. The Q4 reading brings full year growth performance at 3.7% in 2015 a notch below our 3.8% forecast compared to 3% in 2014 and 3.5% in 2013. Although the components are yet to be known, we anticipate that growth has been primarily domestic demand-driven. Despite the political fall-out, Romania stood out of the pack for a second consecutive year in 2015, and is expected to be a regional outperformer in 2016 as well. Growth is expected to accelerate further to 4.1% in 2016. However, growth dynamics are driven by a private consumption spending boom, fuelled by the unwarranted pro-cyclical fiscal stimulus ahead of the parliamentary elections scheduled in late 2016. Hence, the economy is driven close to, if not above, its potential growth rate at the expense of pushing government finances off consolidation track.

- **Serbia**: According to the latest real GDP data, released earlier this month by the Statistical Office of the Republic of Serbia, economic growth slowed to 1.3%YoY in Q4 2015 from 2.2%YoY in the prior quarter. The detailed breakdown of the data is not yet available and will be released on February 29, 2016. That said, according to a rough approximation - taking into account the latest GDP data release - the full year 2015 reading is estimated at 0.6%. As has been the case over the last few quarters we anticipate the detailed data to show that the main drivers of last year's economic recovery - from a 1.8% contraction in 2014 – have been investments and net exports, while domestic consumption remained weak in view of ongoing fiscal consolidation. Looking into 2016, we continue to anticipate economic activity to further recover thanks to strengthening investments and improving demand from abroad. Although the negative impact from last year's austerity measures is likely to gradually wane in the months ahead, domestic consumption will probably remain weak in view of further planned fiscal consolidation.

Figure 1: Solid growth momentum sustained in Q4-2015



Source: National Statistics, Eurobank Research

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