

### KEY UPCOMING DATA & EVENTS THIS WEEK

#### US

- US-China trade talks set to continue early this week
- Feb 12: Fed Chair Powell speaks
- Feb 13
  - CPI (Jan.)
  - Fed's Mester speaks
  - Fed's George speaks
- Feb 14:
  - Initial jobless claims (Feb. 9)
  - PPI (Jan.)
  - Retail sales (Dec.)
- Feb 15:
  - Empire State Index (Feb.)
  - IP (Jan.)
  - UM Consumer confidence (Feb)

#### EUROZONE

- Feb 13: IP (Dec.)
- Feb 14: German Q4 GDP

#### UK

- Feb 11:
  - IP (Dec.)
  - Q4 GDP (prel.)
- Feb 13: CPI (Jan.)
- Feb 14:
  - Brexit vote
  - Retail sales (Jan.)

#### GREECE

- Feb 12: Building activity (Nov.)
- Feb 14: CPI (Jan.)

#### SEE

##### BULGARIA

- Feb 12:
  - Trade balance (Dec.)
  - Q4 GDP (prel.)
- Feb 15:
  - CPI (Jan.)
  - Unemployment rate (Jan.)

##### CYPRUS

- Feb 14: Q4 GDP (prel.)

##### ROMANIA

- Feb 11: Trade balance (Dec.)
- Feb 13: CPI (Jan.)
- Feb 14: Q4 GDP (advance)

##### SERBIA

- Feb 14: Current account balance (Dec.)

Source: Reuters, Bloomberg,  
Eurobank Research

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** Averting another government shutdown, the US President Donald Trump agreed to sign a spending bill yesterday that envisions around \$1.4bn allocated for a fence and other forms of border security, much less than \$5.7bn he originally demanded for the construction of the wall at the Mexican border. However, news that another government shutdown was avoided were eventually shrugged off as market attention turned to a bulk of poor US data, which raised concerns that the slowing global economy has probably started to take a toll on the US economy. The latest bout of risk aversion favored core government bonds while in FX markets, the EUR/USD gained some ground from yesterday's 1.1245 fresh year-to-date low. Meanwhile, the GBP was little affected by the rejection of the UK PM Theresa May's plea for more time to continue negotiations with the EU on the Irish backstop.

**GREECE:** The government and the four systemic banks have reportedly reached an agreement on the new household insolvency framework. According to press reports, the revised framework foresees that protection to the first residence will be granted if the outstanding debt does not exceed €130,000 and the value of the property is not higher than €250,000. On the economic data front, according to the Hellenic Statistical Authority, the annual rate of change of the CPI in January 2019 was 0.4% while in January 2018 it was -0.2%.

### SOUTH EASTERN EUROPE

**CYPRUS:** According to the flash estimate, real GDP expanded by 1.1% QoQ/3.9% YoY in Q4.

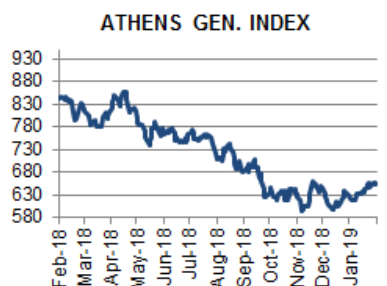
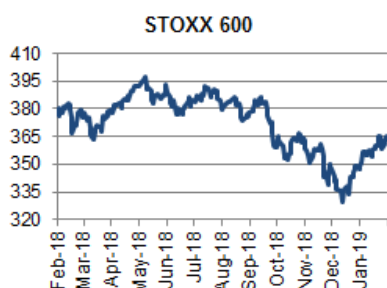
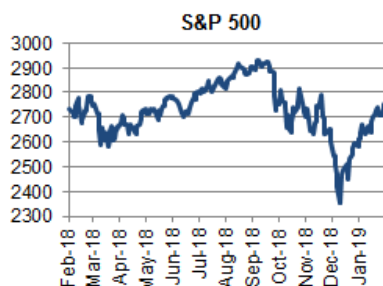
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Friday 15 February 2019

## Latest world economic & market developments

### GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

Averting another government shutdown, the US President Donald Trump agreed to sign a spending bill yesterday that envisions around \$1.4bn allocated for a fence and other forms of border security, much less than \$5.7bn he originally demanded for the construction of the wall at the Mexican border. However, news that another government shutdown was avoided were eventually shrugged off as market attention turned to a bulk of poor US data which raised concerns that the slowing global economy has probably started to take a toll on the US economy. According to yesterday's data releases, retail sales disappointed dropping by 1.2%mom in December, the largest decline since September 2009, confounding market expectations for a 0.2%mom improvement. In addition, initial jobless claims unexpectedly rose by 4K last week to a seasonally adjusted 239K while the PPI rose by 2.0%YoY in January, the smallest increase since June 2017 following a 2.5%YoY gain in December. Against this background, US equity markets gave up early gains and closed in the red overnight, Asian bourses followed suit earlier today while the bearish tone appeared to have passed on to the majority of European stocks. Market uncertainty over whether the US administration will decide to extend the present March 1 deadline, was another reason behind today's increased risk-off mode. Though the US President said earlier this week that an extension was possible if a trade agreement with China appeared close, White House economic adviser Larry Kudlow said yesterday that there has been not been such a decision. The latest bout of risk aversion favored core government bonds while in FX markets, the EUR/USD gained some ground from yesterday's fresh year-to-date low of 1.1245. Meanwhile, the GBP was little affected by the rejection of the UK PM Theresa May's plea for more time to continue negotiations with the EU on the Irish backstop.

[ppetropoulou@eurobank.gr](mailto:ppetropoulou@eurobank.gr)

### GREECE

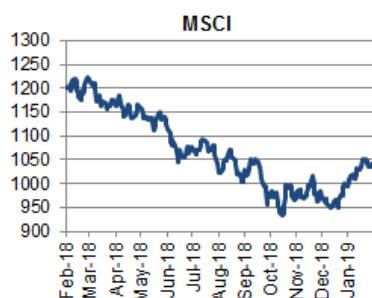
The government and the four systemic banks have reportedly reached an agreement on the new household insolvency framework. According to press reports, the revised framework foresees that protection to the first residence will be granted if the outstanding debt does not exceed €130,000 and the value of the property is not higher than €250,000. Debtors will submit their applications to the electronic platform that will be operated by the Special Secretariat for Private Debt Management and if they are deemed eligible from protection they will be able to settle their debts on the following terms: a) repayment of debt in 25 years maximum, b) fixed interest rate Euribor + 2%, c) a haircut, if any, will be applied based on banking criteria and provided that the outstanding debt does not exceed 120% of the commercial value of the pledged property, d) the settlement may include an installment subsidy by the state if the annual income of the debtor is below a certain threshold (€12,500 for a single person, €21,000 for a couple, additional €5,000 for each child), e) merchandisers may also apply for protection if their first residence has been used as collateral for their non-performing loan. The framework also includes a number of 'safety valves' to guard against strategic defaulters. Once the banks conclude the impact assessment the proposal will be communicated to the institutions for approval. On the economic data front, according to the Hellenic Statistical Authority, the annual rate of change of the CPI in January 2019 was 0.4% while in January 2018 it was -0.2%. The average CPI for the 12 - month period from February 2018 to January 2019, compared with the corresponding index for the period February 2017 to January 2018 increased by 0.7% while the annual rate of change of the average CPI between the 12 - month period February 2017 to January 2018 compared with February 2016 to January 2017 was 1.0%.

[andimitriadou@eurobank.gr](mailto:andimitriadou@eurobank.gr)

Friday 15 February 2019

BULGARIA: Indicators	2016	2017e	2018f
Real GDP growth %	3.9	3.8	3.8
CPI (pa, yoy %)	-0.8	2.1	2.4
Budget Balance/GDP*	1.6	0.8	-1.0
Current Account/GDP	5.4	5.0	4.5
EUR/BGN (eop)	1.9558		
	2016	current	2017
Policy Rate (eop)	N/A	N/A	N/A

\* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

Credit Ratings			
L-T ccy	Moody's	S&P	Fitch
SERBIA	Ba3	BB	BB
ROMANIA	Baa3	BBB-	BBB-
BULGARIA	Baa2	BBB-	BBB
CYPRUS	Ba2	BBB-	BB+

## Latest economic & market developments in the CESEE region

### CYPRUS

The flash estimate of Q4-2018 confirmed that economic activity remained strong in the last quarter of the past year. Real GDP expanded by 1.1% on a quarterly basis bringing the annual rate of expansion at 3.9% YoY in Q4-2018 on a seasonally adjusted basis compared to 3.7% YoY in Q3-2018 vs. 3.5% YoY in Q4-2017. Although the components are not known yet, we expect no major breakthrough in the trends witnessed so far. Sustained sentiment improvement, a flourishing tourism sector (arrivals 7.8% YoY in 2018), improved labor market conditions (unemployment at 8.7% in Q4-2018, now standing very close to EA-19 levels), further property market stabilization (RPPI index in positive territory in the last six quarters) and the impact from fiscal relaxation after the graduation from the programme are among the main drivers behind final consumption revival. Investments received strong support from the stream of ongoing residential and tourism infrastructure construction projects. The program "citizenship through inward investment" has helped to attract foreign investment in the real estate sector in the form of high-rise residential towers, particularly in the Limassol & Paphos areas.

Factoring in the performance of Q4, real GDP is expected to have expanded by 3.9% in 2018 compared to 4.2% in 2017, 4.8% in 2016 and only 2.0% in 2015. The full year output reading vindicated our earlier forecasts and expectations that the solid performance of the Cypriot economy would continue and upside risks to the consensus forecasts existed because of the outstanding investments performance. Looking ahead, the growth trajectory suggests that the economic cycle peak is most probably behind us. The growth dynamics are expected to remain relatively strong – yet still lower than last year – at 3.6% in 2019 driven primarily again by buoyant foreign-funded investments and solid private consumption. However, there is an increasing number of downside external and internal environment risks to our forecast. The external risks stem from the slowing Euro area growth performance, a potentially hard Brexit and lower tourism arrivals as a result of the increasing competition from the re-opening of neighbor markets, where safety concerns are abating. The internal risks are concentrated around the systemic financial risks posed by the still large amount of NPEs. Decisive government action on the resolution of the Cyprus Co-operative Bank (CCB) allow for an important – but one-off – decline in the NPEs ratio from 40% to the much lower 30%. However, NPEs remain in the broader economy despite their removal from the banking system's balance sheet. The removal of a big component of NPEs from the balance sheet of the banks removes pressure from their back and creates more space for them to focus on their traditional markets but generates a set of new challenges. Yet to relieve the economy permanently from this problem, the recoverability of the outstanding non-performing loans – not an easy task – has to be maximized.

[igkionis@eurobank.gr](mailto:igkionis@eurobank.gr)

Friday 15 February 2019

**GLOBAL MARKETS**

Stock markets	FOREX	Government Bonds	Commodities													
<table border="1"> <thead> <tr> <th></th> <th>Last</th> <th>ΔD</th> <th>ΔYTD</th> </tr> </thead> <tr> <td>S&amp;P 500</td> <td>2745.73</td> <td>-0.3%</td> <td>9.5%</td> </tr> <tr> <td>Nikkei 225</td> <td>20900.63</td> <td>-1.1%</td> <td>4.4%</td> </tr> <tr> <td>STOXX 600</td> <td>363.80</td> <td>-0.3%</td> <td>7.7%</td> </tr> </table>		Last	ΔD	ΔYTD	S&P 500	2745.73	-0.3%	9.5%	Nikkei 225	20900.63	-1.1%	4.4%	STOXX 600	363.80	-0.3%	7.7%
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 |         | Last   | ΔD    | ΔYTD  | |---------|--------|-------|-------| | EUR/USD | 1.1278 | -0.2% | -1.7% | | GBP/USD | 1.281  | 0.0%  | 0.4%  | | USD/JPY | 110.32 | 0.1%  | -0.6% | | | (yields)   | Last  | ΔDbps | ΔYTD bps | |------------|-------|-------|----------| | UST - 10yr | 2.65  | -1    | -4       | | Bund-10yr  | 0.10  | 0     | -14      | | JGB - 10yr | -0.02 | -1    | -2       | | |             | Last | ΔD    | ΔYTD  | |-------------|------|-------|-------| | GOLD        | 1316 | 0.2%  | 2.6%  | | BRENT CRUDE | 65   | 0.3%  | 20.4% | | LMEX        | 2894 | -0.1% | 3.3%  | |

**SERBIA**

**Money Market**

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.32	1	-12
1-week	2.47	0	-9
1-month	2.66	-2	-7
3-month	2.99	-2	-4
6-month	3.13	-1	-5

**RS Local Bonds**

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.16	1	9
5Y RSD	3.78	0	27
7Y RSD	4.17	1	1

**RS Eurobonds**

	Last	ΔDbps	ΔYTD bps
USD Feb-20	3.74	1	-26

**CDS**

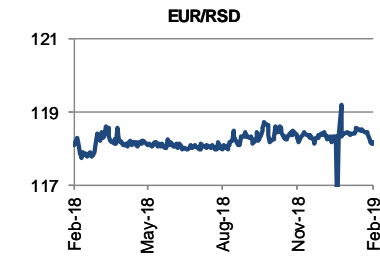
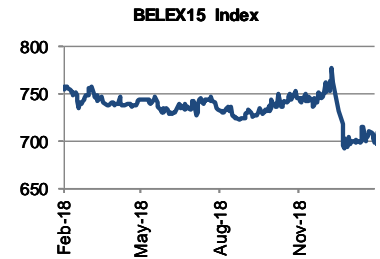
	Last	ΔDbps	ΔYTD bps
5-year	107	0	-11
10-year	154	1	-8

**STOCKS**

	Last	ΔD	ΔYTD
BELEX15	697.8	-0.63%	-8.39%

**FOREX**

	Last	ΔD	ΔYTD
EUR/RSD	118.08	0.08%	0.13%



**ROMANIA**

**Money Market**

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	3.68	0	259
1-month	3.31	0	144
3-month	3.17	0	112
6-month	3.34	0	107
12-month	3.52	0	120

**RO Local Bonds**

	Last	ΔDbps	ΔYTD bps
3Y RON	3.80	0	-23
5Y RON	4.18	0	-17
10Y RON	4.81	0	0

**RO Eurobonds**

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.53	-	0
USD Jan-24	3.69	0	-54

**CDS**

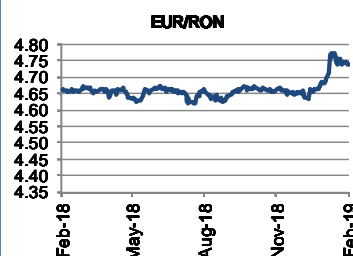
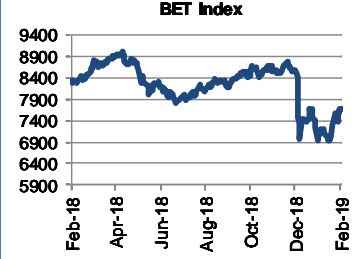
	Last	ΔDbps	ΔYTD bps
5-year	104	0	14
10-year	148	0	15

**STOCKS**

	Last	ΔD	ΔYTD
BET	7659.6	0.23%	3.74%

**FOREX**

	Last	ΔD	ΔYTD
EUR/RON	4.7394	0.01%	-1.80%



**BULGARIA**

**Money Market**

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	0.01	0	1
1-month	-0.22	8	3
3-month	-0.14	9	4
6-month	-0.02	10	3
12-month	0.36	14	4

**BG Local Bonds**

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	-0.17	-1	-11
5Y BGN	0.05	0	-6
10Y BGN	0.73	0	-2

**BG Eurobonds**

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	-0.07	0	-2
EUR Sep-24	0.25	0	-23

**CDS**

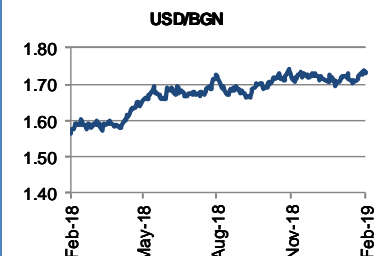
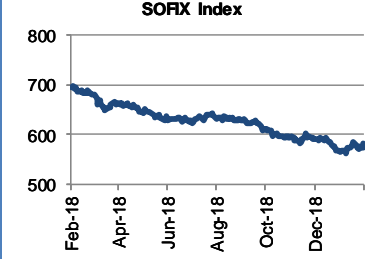
	Last	ΔDbps	ΔYTD bps
5-year	79	0	-17
10-year	122	-1	-20

**STOCKS**

	Last	ΔD	ΔYTD
SOFIX	580.9	1.22%	-2.28%

**FOREX**

	Last	ΔD	ΔYTD
USD/BGN	1.7342	-0.23%	-1.65%



Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research  
Data updated as of 9:10 EEST

Friday 15 February 2019

## Contributors

**Paraskevi Petropoulou**  
Senior Economist, Eurobank  
Ergasias  
+30 210 3718991  
[ppetropoulou@eurobank.gr](mailto:ppetropoulou@eurobank.gr)

**Ioannis Gkionis**  
Senior Economist, Eurobank  
Ergasias  
+30 210 3337305  
[igkionis@eurobank.gr](mailto:igkionis@eurobank.gr)

**Anna Dimitriadou**  
Economic Analyst, Eurobank  
Ergasias  
+30 210 3718793  
[andimitriadou@eurobank.gr](mailto:andimitriadou@eurobank.gr)

**Olga Kosma**  
(Special Contributor)  
Research Economist, Eurobank  
Ergasias  
+30 210 3371227  
[okosma@eurobank.gr](mailto:okosma@eurobank.gr)

**Stelios Gogos**  
(Special Contributor)  
Economic Analyst, Eurobank  
Ergasias  
+30 210 3371226  
[sgogos@eurobank.gr](mailto:sgogos@eurobank.gr)

**Theodoros Stamatou**  
(Special Contributor)  
Senior Economist, Eurobank  
Ergasias  
+30 210 3371228  
[tstamatou@eurobank.gr](mailto:tstamatou@eurobank.gr)

**Maria Kasola**  
(Special Contributor)  
Economic Analyst, Eurobank  
Ergasias  
+30 210 3371224  
[mkasola@eurobank.gr](mailto:mkasola@eurobank.gr)

## Eurobank Economic Analysis and Financial Markets Research

**Dr. Tasos Anastasatos: Group Chief Economist**  
[tanastasatos@eurobank.gr](mailto:tanastasatos@eurobank.gr), +30 210 33 71 178

## Research Team

**Anna Dimitriadou: Economic Analyst**  
[andimitriadou@eurobank.gr](mailto:andimitriadou@eurobank.gr), +30 210 3718 793

**Marisa Yiannisis: Administrator**  
[magiannisi@eurobank.gr](mailto:magiannisi@eurobank.gr), +210 3371242

**Ioannis Gkionis: Senior Economist**  
[igkionis@eurobank.gr](mailto:igkionis@eurobank.gr), +30 210 33 71 225

**Dr. Stylianos Gogos: Economic Analyst**  
[sgogos@eurobank.gr](mailto:sgogos@eurobank.gr), +30 210 33 71 226

**Maria Kasola: Economic Analyst**  
[mkasola@eurobank.gr](mailto:mkasola@eurobank.gr), +30 210 3371224

**Olga Kosma: Research Economist**  
[okosma@eurobank.gr](mailto:okosma@eurobank.gr), +30 210 33 71 227

**Paraskevi Petropoulou: Senior Economist**  
[ppetropoulou@eurobank.gr](mailto:ppetropoulou@eurobank.gr), +30 210 37 18 991

**Dr. Theodoros Stamatou: Senior Economist**  
[tstamatou@eurobank.gr](mailto:tstamatou@eurobank.gr), +30 210 3371228

**Elia Tsiampaou: Economic Analyst**  
[etsiampaou@eurobank.gr](mailto:etsiampaou@eurobank.gr), +30 210 3371207

Eurobank Ergasias S.A, 8 Othonos Str, 105 57 Athens, tel: +30 210 33 37 000, fax: +30 210 33 37 190, email: [Research@eurobank.gr](mailto:Research@eurobank.gr)

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