ECO EMERGING

1st quarter 2019

Editorial

Eco EMERGING

ECONOMIC RESEARCH DEPARTMENT

BNP PARIBAS

The bank for a changing world

Editorial

Debt, a still debated issue

In emerging and developing countries, debt has become a recurrent theme that pops up whenever financial conditions tighten and/or economic activity slows. The IMF recently published a blog post on the subject with a rather alarming title. Granted, the combined impact of several factors, namely the downward revision of growth forecasts, a stronger dollar and the normalisation/tightening of monetary policies that have been rather accommodating until now, will increase the weight of the debt burden. Yet not very many countries are at high risk of debt distress, and there is little probability that debt will trigger a systemic credit crisis, even though the risk has increased for the most vulnerable countries.

Debt in emerging and developing countries has become a recurrent theme that pops up whenever financial conditions tighten and/or economic activity slows, as is currently the case[1]. The major international financial institutions continue to revise downwards their growth forecasts.

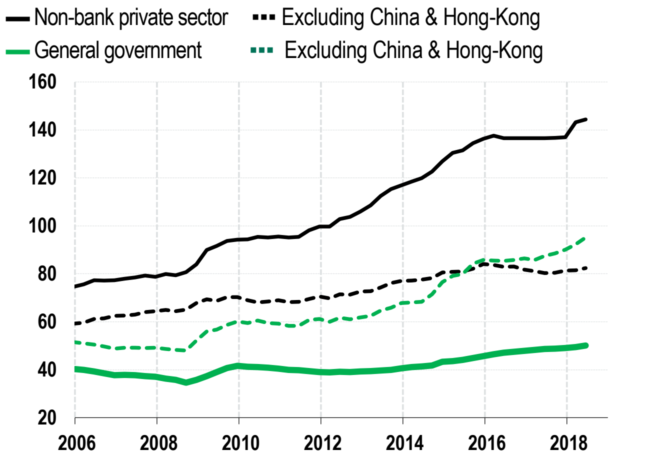
The slowdown has been confirmed

Compared to its June 2018 outlook, the World Bank lowered its growth forecasts for emerging and developing countries as a whole by 0.6 percentage points in 2019 (to 4.2% from 4.8%) and by 0.2 pp in 2020 (to 4.5% from 4.7%). The IMF also revised its 2019 forecast, for the second time, to 4.5%, from 5.1% in June 2018 (which is equivalent to the World Bank's downward revision). In 2020, in contrast, the IMF expects growth to rebound a little more strongly than the World Bank, to 4.9%.

The rather small downward revision of Chinese growth since the mid-2018 outlook (-0.2 pp for the IMF, -0.1 pp for the World Bank) explains only about 10-15% of the revision for the emerging and developing countries as a whole (Chinese GDP accounts for about 30% of the GDP of the emerging and developing countries). The remaining 85-90% can be attributed to the spill-over effects of the Chinese slowdown on the countries of Asia, as well as the painful recovery of the Russian economy despite the upturn in oil prices (see below). We must also factor in the severe slowdowns in South Africa and Mexico, and the recessions in Argentina, Iran, Turkey and Venezuela.

The downward revision of growth estimates for emerging and developing countries as a whole is based mainly on survey data and the usual cyclical indicators (industrial production, exports, and retail sales) which have levelled off or deteriorated since mid-2018. From a more fundamental perspective, these revisions are justified by 1) the slowdown in world trade in 2019, by 0.6 pp compared to the mid-2018 forecasts (for both the IMF and the World Bank), and 2) the tightening of financial conditions, both external (rise in risk premiums, currency depreciation against the USD) and internal (normalisation or tightening of monetary policies, notably for the countries whose currencies have come under tense pressure, during summer 2018 like Argentina and Turkey).

1- Debt in the main emerging countries (% GDP)



Source: BIS

Private debt is higher, but sustainable

The combined impact of these two factors will increase the weight of the debt burden in the emerging and developing countries. According to the IMF and the Institute of International Finance (IIF), the private non-financial sector in the emerging and developing countries has not deleveraged since the 2008-2009 crisis. This is true but only at the aggregate level as China alone explains the ongoing increase in the private sector debt/GDP ratio in recent years. Excluding China, the ratio has been fairly stable since 2016 (chart 1). Yet even excluding China, private debt is significantly higher than it was before the 2008-2009 crisis (82% of GDP in Q3 2018 vs 64% at year-end 2007). An aggravating factor is that foreign currency debt has increased sharply in recent years, especially excluding China. According to the IIF, in the emerging countries excluding China, foreign currency debt in the non-bank sector (including sovereign debt in foreign currencies) has swelled from 14% to 20% of GDP since 2015, and it is currently higher than the previous peak at the end of the 1990s, prior to the Asian financial crisis.

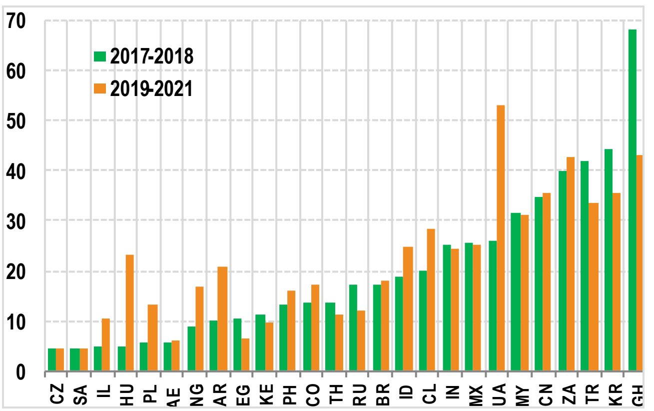
[1] The IMF recently published a blog post by Martin Muhselsein and Mark Flanagan with a rather alarming title: "Three steps to avert a debt crisis". Drawing on the IMF database covering 190 countries, the authors focus on emerging market debt. The IIF did the same in its latest update of the Global Debt Monitor entitled "Devils in the details". Lastly, in the World Bank's latest edition of Global Economic Prospects released in January, a chapter is devoted to debt in low-income countries ("Debt in low-income countries: Evolution, Implications and Remedies").

Debt raises at least two questions. Which countries will face a sharp increase in market debt servicing in the years ahead? Could the increased debt burden trigger a credit crisis?

The answer to the first question is that few countries are at high risk of debt distress, even though the aggregate amount of maturing bond debt and syndicated loans is rising year after year; according to the IIF, the annual redemption will average USD 1,949 bn in 2019-2020 (with a peak of USD 2,16 bn this year) compared to a 2017-2018 average of USD 1,639 bn. At the country level, however, if we compare repayments to official foreign reserves at year-end 2018, Ukraine is the only country that stands out for a high and rapidly rising debt ratio (chart 2). Among the countries with a high debt ratio, we must distinguish between those in healthy macroeconomic situations (China, South Korea, Malaysia) and the more vulnerable countries (South Africa, Turkey and especially Ghana), which must be monitored. On the whole, however, the emerging and developing countries are not backed up against a wall of maturing market debt, at least not in the short term.

The response to the second question was recently provided by the economists at the European Central Bank (ECB)[2]. Like most recent academic research on the vulnerability of the emerging countries, they conclude that there is much less risk that a financial shock will trigger a balance of payments crisis or systemic credit crisis than in the past. The vast majority of emerging countries are better armed to cope: adequate external solvency and liquidity, flexible forex regimes, credible monetary policies, and no major mismatches in banks' balance sheets.

2- EM bond debt and syndicated loans (% official fx reserves [1])



1) Sovereign net foreign assets for the United Arab Emirates

AE : United Arab Emirates, AR : Argentina, BR : Brazil, CZ : Czech Rep, CL : Chile, CO : Colombia, CN : China, EG : Egypt, GH : Ghana, HU : Hungary, IL : Israël, ID : Indonesia, IN : India, KE : Kenya, KR : South Korea, MX : Mexico, MY : Malaysia, NG : Nigeria, PH : Philippines, PL : Poland, RU : Russia, SA : Saudi Arabia, TH : Thailand, TR : Turkey, UA : Ukraine, ZA : South Africa.

Sources : IIF - BNP Paribas

By comparing a few basic macroeconomic variables for a selection of 20 emerging countries before the Asian crisis of 1997-1998 with today's figures, the authors only identified three countries that now have a significantly higher probability of experiencing a banking crisis. Unsurprisingly, the three countries are those with the highest external vulnerability: Argentina, Turkey and Ukraine. Argentina and Ukraine benefit from IMF programmes, which for the moment are providing financial stability (sustainable in Ukraine's case, which has been in the programme since 2014). In Turkey's case, the consolidation of public finances and the banking sector in the 2000s have enabled the economy to absorb a series of financial shocks, including the recent increase in the cost of credit risk for banks.

François Faure
francois.faure@bnpparibas.com

[2] Livia Chitu and Dominic Quint, *Emerging market vulnerabilities – a comparison with previous crises*, ECB Economic Bulletin – December 2018

China

Fiscal stimulus: the best option

Economic growth slowed to 6.6% in 2018 from 6.8% in 2017 and should continue to decelerate in the short term. The extent of the slowdown will depend on the still highly uncertain evolution of trade tensions between China and the United States as well as on Beijing's counter-cyclical policy measures. However, the central bank's manoeuvring room is severely constrained by the economy's excessive debt burden and the threat of capital outflows. Moreover, whereas Beijing has pursued efforts to improve financial regulation and the health of state-owned companies over the past two years, its new priorities increase the risk of interruption in this clean-up process. Faced with this situation, the central government will have to make greater use of fiscal stimulus measures.

In Q4 2018, real GDP growth slowed to 6.4% year-on-year (y/y), down from 6.8% in Q1 2018. The Chinese slowdown has thus been confirmed and is bound to continue in the short term. The size of the slowdown will depend on the evolution of China's trade relations with the United States, as well as on the authorities' actions to stimulate domestic demand. Although uncertainty persists over the signing of a trade agreement between Washington and Beijing anytime soon, the orientation of Chinese economic policy has become much clearer in recent weeks: counter-cyclical measures will be given priority in the short term.

Industry facing difficulties due to declining demand

The slowdown in the industrial sector worsened towards the end of the year. Industrial production slowed from 6.9% y/y in January-May to 6% in June-August and 5.7% in September-December (chart 2). The poor performance of exports and retail sales (especially in the automobile sector) continue to darken prospects in the very short term. In December, manufacturing PMI dropped below 50, notably due to the sharp drop-off in the "new orders" and "export orders" components. The industry must also deal with the rapid decrease in producer price inflation (+0.9% y/y in December, compared to +4.7% in June), in line with the decline in commodity prices and with the reduction in demand and production capacity utilisation rates. As a result, growth in profits of industrial enterprises has deteriorated sharply since Q3 2018.

Performance in the services sector is stronger. After losing momentum in Q1 2018, services growth has recovered slightly, bringing full-year 2018 growth to 7.6%. The PMI indexes also picked up towards the end of the year.

Exports levelled off recently, notably due to higher US trade tariffs[1]. After a Q3 rebound, fuelled in part by the acceleration of shipments to the United States in anticipation of higher tariffs and by the yuan's depreciation, sales of Chinese products slowed sharply in November (+5% y/y in value, after averaging +13% in the first 10 months of 2018) and contracted in December (-5%). Imports have followed the same trends. Foreign trade should continue to deteriorate at least through the first part of 2019. Thereafter, trends will largely depend on the result of current trade negotiations between Washington and Beijing.

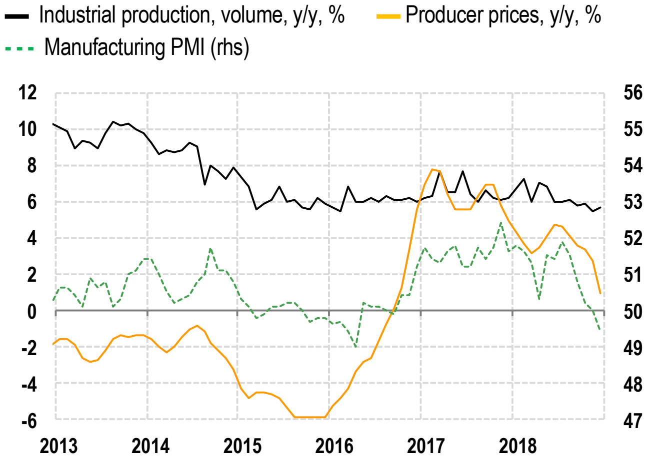
Household consumption growth is slowing. Retail sales growth dropped to an all-time low in Q4 2018 (+8.3% y/y in value), hit by the downturn in durable goods purchases (reflecting the decline in housing sales) and the contraction in automobile sales (in line with the expiration of fiscal incentives and the structural slowdown in the sector). Online sales have also slowed but remain buoyant (+25% in

1- Forecasts

	2017	2018e	2019e	2020e
Real GDP growth (%)	6.8	6.6	6.2	6.0
Inflation (CPI, year average, %)	1.6	2.1	1.9	2.5
Actual fiscal balance / GDP (%)	-3.7	-3.8	-4.0	-4.5
Central government debt / GDP (%)	16.4	16.5	19.2	22.0
Current account balance / GDP (%)	1.3	0.2	-0.4	-0.8
Total external debt / GDP (%)	14.0	14.2	14.0	14.0
Forex reserves (USD bn)	3 140	3 073	2 950	3 100
Forex reserves, in months of imports	17.0	14.6	13.0	13.0
Exchange rate USDCNY (year end)	6.5	6.9	6.9	6.5

e: BNP Paribas Group Economic Research estimates and forecasts

2- Worsening slowdown in the industrial sector



Source: NBS

[1] About half of exports of Chinese goods to the US (USD 250 bn) is actually hit by tariff hikes of between 10% and 25%. The latest 10% increase was introduced in September on about USD 200 bn in merchandise sales. If Beijing and Washington fail to reach an agreement by March (the end of the truce), tariffs could be raised by 25% on these USD 200 bn in goods, or even extended to cover all Chinese exports. If an agreement is reached and Beijing makes concessions on the purchase of US goods (which is now our central scenario), the status quo could be maintained or recent tariff increases could be revised downwards.

2018), and the same can be said for the consumption of services. Recent downward trends can also be blamed on the moderation of consumer credit (in a tighter regulatory environment), the erosion of household confidence, and another drop in income growth after the improvement of 2017. Weaker wage dynamics can be attributed to the troubles in the industry. In the short term, only stimulus measures can bolster household demand.

Economic policy easing is beginning to boost investment in infrastructure projects. Investment in this sector picked up in Q4 2018 after local governments were authorised to make more bond market issues for project financing. However, already heavy debt will continue to restrict severely their manoeuvring room. In the manufacturing sector, investment recovered in 2018 despite rising trade tensions, but should weaken again in early 2019 as a result of weakening exports and the deterioration in corporate profits. Real estate investment is unlikely to make a notable rebound, since volumes of transactions have declined since September 2018 and because the authorities should avoid overly easing the prudential regulations in the property sector. As a matter of fact, promoting a balanced and healthy development of the housing market and the combat against speculation remain top priorities of the government. All in all, the rebound in total investment (to 7.9% y/y in value terms in October-November 2018, from 5.4% in the first 9 months of the year) is likely to be mild in the short term.

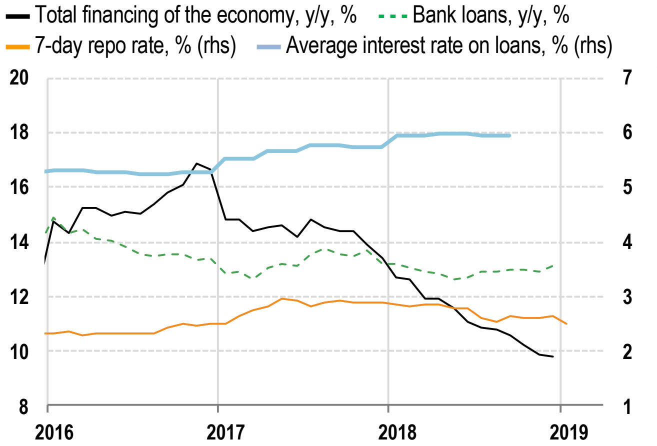
The authorities must give preference to fiscal stimulus

In recent months, the authorities have launched a series of contra-cyclical policies that should help contain the slowdown in economic growth. Monetary policy has been eased very cautiously. A new "targeted" financing facility has just been announced, essentially aimed at encouraging bank lending to small and mid-sized enterprises, and reserve requirement ratios continue to be lowered (to 13.5% in January 2019, down from 17% in March 2018). Net liquidity injections via open-market operations have also increased in recent days (but one of their main objectives is to prepare to respond to peak seasonal demand for liquidity).

The authorities are seeking to lower credit costs for corporates, stimulate lending and facilitate financing of local government investment projects. So far, money market rates have not decreased much (the 7-day repo rate has averaged 2.49% since early January, down from 2.63% in Q4 2018) and the average lending rate barely declined in 2018, after reaching 5.94% at the end of September (chart 3). The acceleration in inflation helped ease real interest rates through October, but this trend has since been reversed. Moreover, the increase in total credit to the economy continued to slow through the end of 2018 (reaching 9.8% y/y, down from 11.1% in mid-2018). This nonetheless masks a slight upturn in bank loan growth and bond financing in Q4 2018, which was more than offset by the contraction in shadow banking activities.

The timid easing of credit conditions reflects several problems. First, the debt excess of the economy and the low efficiency of new credit severely restrict the manoeuvring room of the monetary authorities and the banks. Moreover, over the past two years, Beijing has

3- The easing in credit conditions remains timid



Source: Central bank

pursued efforts to reinforce financial regulation, improve the health of state-owned corporates and clean-up the real estate sector. It probably wants to avoid disrupting this process despite the redefinition of its priorities. Monetary policy is also constrained by the risk of capital flight and downward pressure on the yuan, at a time when 1) China's external constraint is already being tightened due to the substantial narrowing in the current account surplus, and 2) currency depreciation would further feed trade tensions with the United States.

Faced with this situation, the central government will have to make more use of fiscal measures to stimulate demand without aggravating financial instability risks. It has the capacity to act, given the moderate level of its deficits and debt (estimated at 16% of GDP at the end of September 2018). Household and corporate income tax cuts have already come into effect since 1 January 2019, and other measures are likely to be announced soon, notably a lower VAT rate and new fiscal incentives for household purchases of cars and durable goods.

Yet, if the economic slowdown were to continue in the very short term, the authorities probably wouldn't hesitate to ease further monetary policy and to accelerate the implementation of infrastructure projects. More time will thus be needed to absorb the excessive debt burden of corporates and local governments.

Christine PELTIER
christine.peltier@bnpparibas.com

India

Mixed performance for the end of Narendra Modi's mandate

India's economic growth slowed between July and September 2018, hard hit by the increase in the oil bill. The sharp decline in oil prices since October will ease pressures, at least temporarily, on public finances and the balance of payments, and in turn on the Indian rupee (INR), which depreciated by 9% against the dollar in 2018. In a less favourable economic environment, Narendra Modi's BJP party lost its hold on three states during recent legislative elections.

Growth slows but prospects remain upbeat

In fiscal Q2 2018/19 (July-September 2018), India's GDP growth slowed to 7.2% year-on-year (y/y). The slowdown is mainly due to the negative contribution of net exports to growth, which was induced by a sharp rise in imports (oil and capital goods). Domestic demand was still dynamic even though it slowed slightly from the previous quarter. Household consumption was lifted by the easing of inflationary pressures (even though the decline in agricultural prices strained household revenues in rural areas). Investment growth remained buoyant for the third consecutive quarter (+12.5% y/y) due to the increase in government spending on infrastructure, an upturn in bank lending and the increase in production capacity utilisation rates in the manufacturing sector.

Against all expectations, the sharp rise in fuel prices was more than offset by the decline in food prices (-2.6% y/y in November), which still account for a very big share of the total consumption basket of Indian households (39%). Consequently, the increase in the general price index was limited to 2.3% y/y at the end of November, which is much lower than the target set by the monetary authorities (4% +/- 2 percentage points).

Despite the upturn in lending (+13% y/y), India's central bank decided to maintain its key rates at 6.5% at the December monetary policy committee meeting at a time of less volatility for the rupee (INR). Even so, interest rates on new loan production increased slightly in the third quarter (+20bp), reflecting the tightening of monetary policy in June and August.

Growth prospects are still looking upbeat. For full-year 2018/19, growth is expected to near 7.4% before gradually accelerating over the next two years, despite the slowdown in foreign demand. Robust domestic demand will drive growth. The banking sector clean-up will favour a rebound in private investment in industry, even though interest rates are expected to continue rising slightly.

Central government budget overruns in the first 7 months of the fiscal year

After five years of fiscal consolidation, the central government should not meet its deficit reduction target for the second consecutive year (from 3.5% of GDP in 2017/2018 to 3.3% of GDP in 2018/2019). Fiscal revenues, and VAT revenues in particular, will fall far short of the government's targets.

In the first 7 months of fiscal year 2018/2019, which will end on 31 March 2019, the fiscal deficit reached 104% of the annual target.

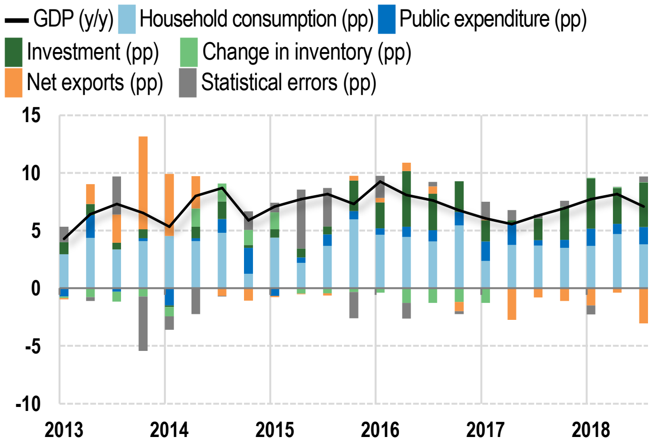
1-Forecasts

	2017	2018e	2019e	2020e
Real GDP growth(1) (%)	6.7	7.4	7.6	7.8
Inflation (1) (CPI, year average, %)	3.6	3.8	4.0	4.1
Central Gov. Balance(1) / GDP (%)	-3.5	-3.5	-3.3	-3.0
Central Gov. Debt(1)/ GDP (%)	46.9	46.1	45.7	45.2
Current account balance(1) / GDP (%)	-1.9	-2.7	-2.5	-0.8
External debt(1)/ GDP (%)	20.4	19.4	19.2	19.1
Forex reserves (USD bn)	409	393	410	418
Forex reserves, in months of imports	11.5	9.1	9.3	9.5
Exchange rate USDINR (year end)	63.9	69.8	72.0	73.5

(1): Fiscal year from April 1st of year n to March 31st of year n+1

e: BNP Paribas Group Economic Research estimates and forecasts

2- Economic slowdown in Q2-FY19



Source: CEIC

The government did not want to exceed 75% of its target during this period to avoid having to revise downwards the expenditures planned for the second half of the fiscal year. During the same period last year, the deficit amounted to 96% of its full-year target. The budget overrun is mainly due to revenues, which fell short of targets. Although fiscal revenues were up 8.2% compared to the previous year, they accounted for only 45.7% of the target in the first 7 months of this year, compared to 48.1% last year and an average of 50% over the past three years. Although VAT revenues increased significantly, they were still far below the finance ministry's forecast (35% of the full-year target).

In the first 7 months of the fiscal year, public spending was relatively in line with fiscal targets: it amounted to only 59.6% of full-year spending, slightly less than the previous year despite the increase in the cost of gasoline price subsidies (+7.2%). One positive point is that investment spending, which is vital for supporting medium-term growth, increased by nearly 9% compared to the same period last year and amounted to 58.9% of the full-year target.

Even so, it will be hard for the government to meet its 0.2 point deficit reduction target without significantly cutting back investment spending in the second part of the fiscal year. The decline in oil prices since mid-October should nonetheless help reduce gasoline subsidies and the shortfall in import taxes[1].

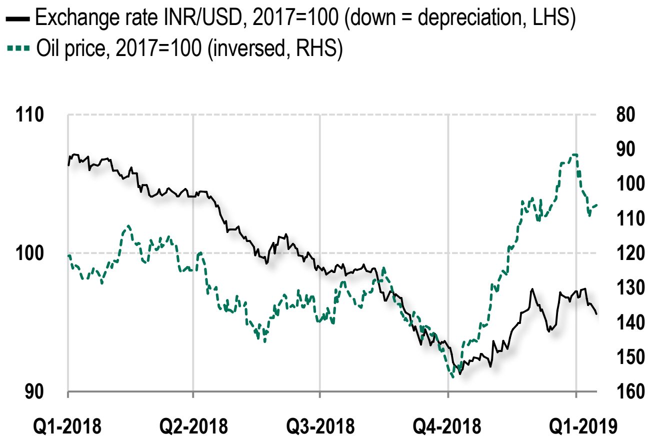
Contrary to the central government, the states managed to limit their fiscal deficit in the first half of the current fiscal year, which accounted for 35% of the full-year target of 2.6% of GDP (vs. 3.1% of GDP in 2017/18)[2]. This strong performance, like the one last year, mainly reflects the increase in revenues induced by central government transfers to offset the loss of revenues following the introduction of VAT. Unlike the central government, however, the states will concentrate most of their spending in the fiscal second half. Moreover, following changes of government after the 11 December elections, three states (Madhya Pradesh, Rajasthan and Chhattisgarh) announced additional spending measures. The new governors (members of the Congress Party) decided to cancel certain loans taken out by farmers (as was already the case in seven other states) and to increase the minimum selling prices of certain crops in addition to those announced by the Modi government last summer. For some states, such as Madhya Pradesh, the cost of loan cancellation can account for as much as 20% of their budget, and will thus have to be spread out over several years. Although there is only limited risk of budget overruns by the states, debt cancellations, like those benefiting public electrical utilities, are not favourable for implementing good governance and management of the country's credit risks.

Despite the risk of budget overruns, in October the IMF forecast a decline in the public debt to GDP ratio. Over the past five years, this ratio has risen by more than two percentage points according to the central bank, and remains much higher than the ratio for the other Asian countries (68.9% of GDP in March 2018 according to the central bank). A simple levelling off seems more probable.

State-owned banks: the situation stabilises

The situation of banks has stopped deteriorating but remains very fragile. In Q2 2018/2019, the doubtful loan ratio declined for the first time since mid-2014 to 10.8% (14.8% for state-owned banks).

3- Appreciation of the rupee (INR) and the decline in oil prices



Source: CEIC

Although the provisioning rate is still far too low, it rose to 52.4% in September, up from 48.1% in March 2018. At the same time, solvency ratios deteriorated slightly. In order for the most fragile banks to meet the target ratio of 9% at 31 March 2019, the government announced that it would inject an additional INR 410 bn by the end of the fiscal year. Given their financial difficulties, the state-owned banks only managed to raise INR 240 bn of the needed INR 580 bn. Government support will amount to INR 1060 bn in fiscal year 2018/19. The central bank also announced that it would postpone by one year the 0.625% increase in the Capital Conservation Buffer to 2.5%.

Johanna Melka
johanna.melka@bnpparibas.com

[1] To limit the impact of higher oil prices on purchasing power, in October the government lowered its import taxes on petroleum-based products and asked local governments to reduce the VAT rate on these products. Moody's estimates that the fiscal cost will be small (0.05% of GDP by the end of the current fiscal year).

[2] Monthly Bulletin of the Reserve Bank of India, December 2018

Brazil

A new era

The election of Jair Bolsonaro at the presidency of Brazil has marked a swing to the right, the weakening of traditional political parties and a return of the military to national politics. The new administration faces the challenges of rapidly engaging its fiscal reform, gaining the trust of foreign investors while reconciling ideological differences across its ranks. How society will adjust to a new era of liberal economic policy remains the greatest unknown. Meanwhile, the economy is still recovering at a slow pace. Supply-side indicators continue to show evidence of idle capacity while labour market conditions have yet to markedly improve. Sentiment indicators have shown large upswings in recent months which should help build some momentum in economic activity over Q1 2019.

Tricephalic leadership?

Since the nomination of Jair Bolsonaro as Brazil's new president, the composition of the cabinet has seen the emergence of three distinctive groups within the administration: the economic technocrats, the military and the anti-globalist nationalists primarily embodied by the minister of Foreign Affairs, Ernesto Araujo, a stanch admirer of President Donald Trump's nationalistic rhetoric.

Leading the economic technocrats' contingent is Paulo Guedes who was confirmed at the head of a "super ministry" made up of the ministry of the Economy, the Ministry of Planning and the Ministry of Industry and Trade. Roberto Campos Neto, a previous executive at Banco Santander will be the next Central Bank governor while Joaquim Levy, another graduate from the University of Chicago – along with Guedes – and former Finance Minister under the 2nd Rousseff administration will head the third largest national development bank in the world, BNDES. Roberto Castello Branco, an economist by training and third "Chicago Boy" has been appointed as the new CEO of oil giant Petrobras following previous stints at mining company Vale and at the Central Bank. The leading agro-business lobbyist at the Chamber of Deputies, Tereza Cristina and one of only two women in cabinet will be heading the Minister of Agriculture while Ricardo Salles a lawyer and strong supporter of economic liberalism as well as a fervent critic of Presidents Lula and Rousseff was appointed Minister of the Environment. Moving to deliver on his law and order platform President Bolsonaro appointed former anti-corruption judge Sergio Moro as Minister of Justice and saluted the nomination of Mauricio Valeixo as Brazil's Head of Federal Police. Both men were prominent figures in the "*Car Wash*" investigation and instigated the police operation that led to the detention of former President Lula in April 2018.

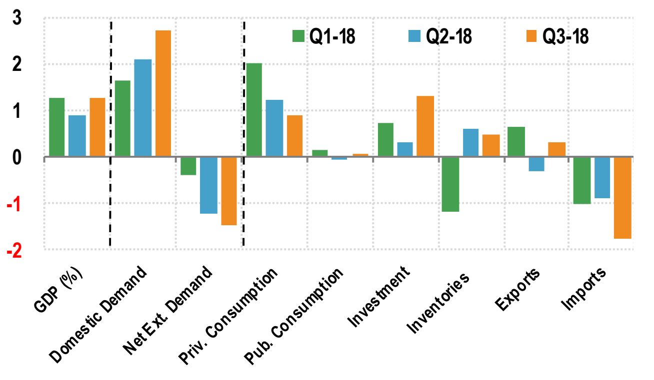
Military figures are also largely represented in the new administration making up more than one third of the new cabinet, a record for Brazil since its transition to a democratic regime[1]. Issues likely to steer up tensions between the three groups include: relations with China, the extent of privatizations and the rules for foreign investment, pulling out of the Paris climate change accords and its implication for a Mercosur-EU trade deal.[2] Many of these tensions are likely to be further exacerbated when the new Congress reconvenes in February. President Bolsonaro's unwillingness to build a stable coalition in exchange for political appointments may render policy-making more challenging down the line.

1- Forecasts

	2017	2018e	2019e	2020e
Real GDP growth (%)	1.1	1.3	3.0	2.5
Inflation (CPI, year average, %)	3.4	3.7	3.8	3.6
Fiscal balance / GDP (%)	-7.8	-7.5	-7.2	-6.6
Gross public debt / GDP (%)	74	77	85	85
Current account balance / GDP (%)	-0.5	-0.9	-1.5	-2.4
External debt / GDP (%)	27	33	35	38
Forex reserves (USD bn)	373	374	375	370
Forex reserves, in months of imports	20.0	18.0	17.0	17.0
Exchange rate USDBRL (year end)	3.3	3.9	3.3	3.2

e: BNP Paribas Group Economic Research estimates and forecasts

2- Contribution (p.p.) of components to GDP (y/y)



Source: IBGE, BNP Paribas

[1] Notable positions occupied by individuals with a military background include the Presidency (Captain), Vice Presidency (General) Ministry of Defense (General), Intelligence Office (General), Ministry in charge of political relations with Congress (General), Ministry of Science and Technology (Air Force senior officer), Ministry of Mining and Energy (Admiral), Ministry of Infrastructure (Military engineer), Ministry of Transparency, Supervision and Control (Captain), Secretary of Communication (General).

[2] Under a new policy, the European Union will refuse to sign trade agreements with countries that do not ratify the Paris climate change agreement.

Rebounding confidence

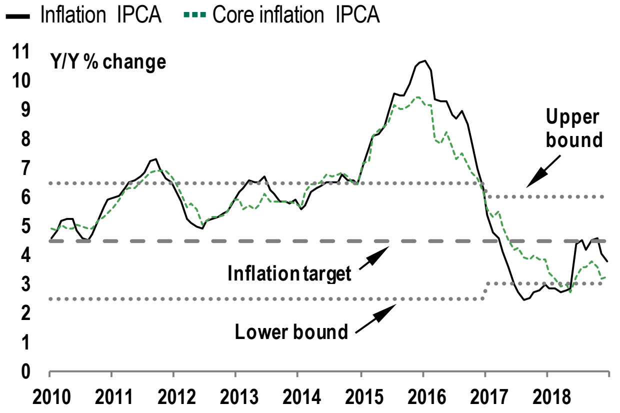
The economy is still recovering at a slow pace. In Q3, the economy expanded by 0.8% q/q and 1.3% y/y in seasonal adjusted terms (s.a). Quarterly data benefitted from a low base effect following a subdued Q2 owing to the truckers' strike. On the demand side, the increase was largely driven by investment and private consumption contributing respectively 1.3 percentage points (pp) and 0.9 pp to the y/y growth rate which was dragged down due to a larger negative contribution of net exports (-1.5 pp) (chart 2). Also as supply continued to outpace demand, the contribution of inventories to y/y GDP variation was again positive (+0.5 pp) for the second consecutive quarter. Revisions to GDP figures were made leading to GDP growing by 1.1% in 2017 vs 1% previously, bringing the statistical carry-over through Q3 2018 to 1.1%.

A number of tailwinds are currently supporting the economy suggesting that a risk of a business cycle reversal is limited. Households are generally better positioned to maintain consumption: real earnings have continuously risen on a y/y basis - albeit at a slow rate - after experiencing negative growth through much of 2016 and household debt relative to disposable income has fallen. Meanwhile, monetary policy is expected to remain accommodative as inflation risk remains subdued (chart 3). Credit to household, which has steadily expanded growing at an average monthly rate of 6.5% y/y through November, will continue to support private consumption while recent regulatory changes in the mortgage market should help boost residential investment.

The post-election phase has also witnessed a bounce back in sentiment indicators. The Consumer Confidence Index (CCI) advanced vigorously through Q4 reaching its highest levels in December since April 2014. Business sentiment also rebounded strongly reflecting the new administration's inclination to implement business friendly policies. The IBRE/FGV Business Confidence Index (BCI) increased by 1 point in December to 95.9 points its strongest rebound since March 2014. The increase was largely driven by optimism in the services, trade and construction sectors as confidence in industry remains subdued for the moment (chart 4). *Markit*'s composite PMI was also back in expansion zone in October (50.5) for the first time since May, ultimately reaching 52.4 in December. Bolsonaro's victory has also triggered a series of initial public offerings (IPO) after months of paralysis. The stock market reached historic highs gaining 12% since the second round of the election and is on course to break the 100.000 point mark. Meanwhile the USDBRL has had somewhat of a roller-coaster ride, strengthening ahead and during the elections, to then see much of its gains erased in the last two months of the year. While the currency has recovered somewhat since Bolsonaro's inauguration (+4%), the currency has yet to bounce back from hitting historical lows in 2018 that saw the BRL depreciate by 15% against the USD.

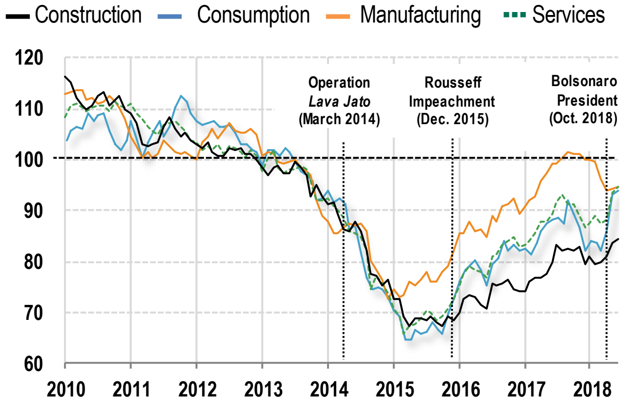
In the shorter term, a new trucker strike represents the greatest downside risk to the growth outlook. Moreover, with capacity utilization in manufacturing remaining far below pre-recession levels, industry still exhibits considerable slack. In line with auto output - which experienced a drop of 14% through H2 2018 – industrial production continues to be weak, essentially stagnating since July.

3- Inflation remains below target



Source: IBGE, BNP Paribas

4- Post-election rebound in confidence indicators



Source: IBRE/FGV, BNP Paribas

Idle capacity is also evident in the labour market: unemployment remains high at 11.6% decreasing only very slowly while underemployment has increased.

Corporate credit has also yet to recover, exhibiting a negative real growth rate since December 2014.

More fundamentally, reduced scope for fiscal policy flexibility limit the ability of the government to jump start the economy. In the medium term, structural impediments – namely low productivity, trade openness and investment combined with high levels of job informality, inequality and corruption – will continue to weight on the economy's medium term growth prospects.

Salim, HAMMAD
salim.hammad@bnpparibas.com

Russia

2019: greater uncertainty

In 2018, Russia swung back into growth and a fiscal surplus, increased its current account surplus and created a defeasance structure to clean up the banking sector. The "new" Putin government affirmed its determination to boost the potential growth rate by raising the retirement age and launching a vast public spending programme for the next six years. Yet the economy faces increasing short-term risks. Monetary tightening and the 1 January VAT increase could hamper growth. There is also the risk of tighter US sanctions, which could place more downward pressure on the rouble.

GDP growth slows in Q3

In Q3 2018, Russian GDP slowed to 1.5% year-on-year (y/y) from 1.9% the previous quarter. Growth averaged 1.6% in the first three quarters of 2018. Oil production rebounded by 5% thanks to a gradual increase in production quotas (+4% in the second half). In the agricultural sector, in contrast, activity contracted. Growth also slowed slightly in industry, but rose strongly in services. Leading indicators are still favourable for both the manufacturing and services sectors, but household consumption could be strained by the slowdown in employee purchasing power since August and the 1 January increase in the VAT rate, from 18% to 20%.

Since the beginning of H2-2018, inflation has accelerated to 3.8% y/y in November, compared to an average of 2.3% in the first six months of the year. For the moment, inflation is still lower than the monetary authorities' target of 4%. The upturn can be attributed to higher prices for food and non-food products as well as services. Three factors are driving inflation: unfavourable base effects (the 2017 harvest was particularly abundant, which helped lower food prices), higher gasoline prices, which carried over to transport costs, and the rouble's depreciation. From a 2-year horizon, growth prospects are still subdued and high risks loom over the economy. In December 2018, Russia agreed to reduce its oil output by 230,000 barrels a day (the equivalent of 2% of current production) starting in January 2019. The VAT hike and any second-round effects it might generate are likely to hamper domestic activity. So far, Russia's central bank is estimating that price inflation could range between 5% and 5.5% in full-year 2019, before falling back to 4% on average in 2020. Yet inflationary risk could be revised upwards if the US Congress decides to impose additional sanctions on Russia, which is likely to place more downward pressure on the rouble. To contain the risks of an inflationary spiral, the monetary authorities raised their key policy rate by 25 basis points to 7.75% last December and announced that further rate increases were now possible. Monetary policy tightening could strain investment, which has already begun to slow in the second quarter.

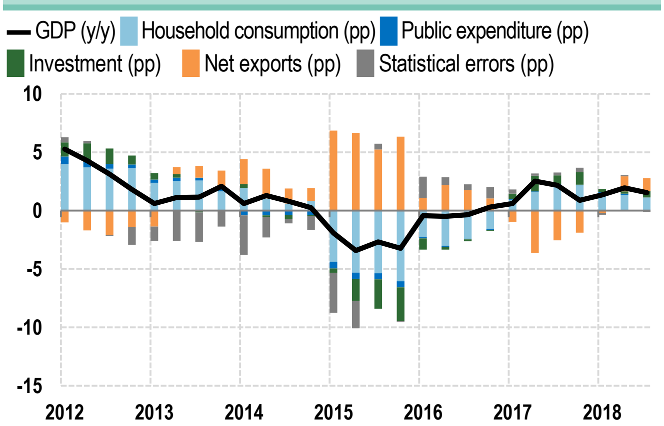
In the longer term, the World Bank estimates that Russia's potential growth rate will continue to erode from 1.5% in 2017 to 1.3% by 2022. Yet the institution esteems that this figure could be revised upwards to 3% if major reforms were implemented[1] to increase the active population (by raising the retirement age and adopting policies that favour immigration) and to encourage the spread of technical advances.

1- Forecasts

	2017	2018e	2019e	2020e
Real GDP growth (%)	1.5	1.7	1.5	1.8
Inflation (CPI, year average, %)	3.7	2.8	5.1	4.1
Central Gov. balance / GDP (%)	-1.5	2.5	0.9	0.5
Public debt / GDP (%)	15.5	14.9	15.8	16.4
Current account balance / GDP (%)	2.2	5.7	2.7	2.3
External debt / GDP (%)	32.9	29.5	27.0	26.5
Forex reserves (USD bn)	347	375	413	446
Forex reserves, in months of imports	10.3	12.8	12.9	13.0
Exchange rate USDRUB (year end)	58.3	69.4	71.0	70.0

e: BNP Paribas Group Economic Research estimates and forecasts

2- Economic slowdown in Q3-2018



Source: CEIC

Fiscal policy aims to stimulate growth

Russia significantly consolidated its public finances in the first 11 months of 2018, thanks to strong revenue growth and tight control over public spending. Yet the government temporarily abandoned its target of maintaining a primary balance over the next six fiscal years, and is now forecasting a primary deficit of 0.5% of GDP.

[1] Russia, Economic Report, November 2018

The government has pledged to increase structural spending to stimulate growth. This "budget overrun" should nonetheless be limited.

In the first 11 months of 2018, the federal government reported a fiscal surplus of 3.7% of GDP, compared to a deficit of 0.7% of GDP in the year-earlier period. The deficit excluding oil and gas revenues was trimmed to 4.9% of GDP, 1 point less than in 2017, thanks to the decline in the public spending to GDP ratio. The government and administrations reported a primary surplus of more than 3% in the first 10 months of the year.

The consolidation of public finances in 2018 should result in a reduction in the public debt to GDP ratio. With the increase in public spending as of 2019, this ratio is expected to rise steadily over the next six years.

In May 2018, the government announced several measures to reverse the country's demographic dynamics, raise potential GDP, reduce poverty and extend life expectancy by 2024. To achieve this, the finance minister pledged to increase spending in numerous areas, including education, healthcare, infrastructure and support for SME. The cost of these measures was estimated at 1.1% of GDP per year over the next six years. The government plans to finance these measures in part by increasing the VAT rate (which will increase revenues by 0.5 to 0.6 points of GDP each year) and by streamlining oil sector taxation by 2024. The remainder will be financed by bonds issued in the domestic market. The increase in public debt is nonetheless expected to be limited to 5 points of GDP.

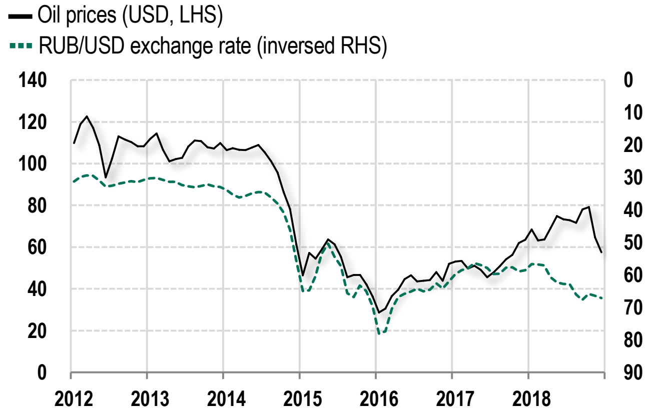
The banking sector is still fragile

The banking sector is still fragile due to its exposure to both credit risk and interest rate risk. Yet several factors should favour its consolidation, including government support, improved macroeconomic fundamentals and recent measures taken by the monetary authorities.

Over the past 12 months, the quality of bank assets has not improved even though companies are in a healthier financial situation since the rebound in economic activity (corporate loans account for 70% of all bank loans). According to the IMF, the share of doubtful loans in the banking sector as a whole has remained virtually flat at 10.7% in Q3 2018, compared to 10.2% at year-end 2017. In contrast, the share of lost or very doubtful loans[2] continued to rise according to the Central Bank of Russia, to 11.9% in October, from 10.5% at year-end 2017. The most fragile business sectors are construction and real estate, where the share of non-performing loans continued to rise over the past 12 months. Companies with foreign currency debt are likely to see their situation deteriorate even further with the rouble's depreciation.

The strong acceleration in household lending over the past 12 months could also become a source of concern. Household lending rose 22.5% y/y in October (up from 10.7% a year earlier). So far, the decline in interest rates on household loans maturing in more than a year (down 165bp in a year) have helped partially contain the

3- The rouble has been disconnected from oil prices since 2017



Source: CEIC

increase in the household debt burden. The ratio of household debt to revenue is on the rise since lending has increased faster than household revenue growth, but it is still very moderate at about 25%. To date, there has not been an increase in late payments on consumer credit or mortgage loans. To contain the risk, however, and to encourage banks to reduce their exposure to households, the central bank took measures in May and September 2018 to boost the weighting of consumer credit and mortgage loans (for those with small instalments) in the calculation of risk-weighted assets. At the end of October 2018, the banks had satisfactory capital adequacy ratios, with CAR and Tier 1 CAR of 12.4% and 9.5%, respectively, in October 2018.

Greater interest rate risk is another source of concern. According to the central bank, the banks' exposure to interest rate risk has increased due to the growing mismatch in maturities between long-term assets and short-term liabilities. In October 2018, assets maturing in less than 1 year covered only 61% of liabilities of less than 1 year (vs 63% in January 2018).

Johanna Melka
johanna.melka@bnpparibas.com

[2] Categories IV and V. These statistics integrate the bad loans that were held by the state-owned banks recapitalised in 2017: Promsvyazbank, Otkritie, B&N.

Turkey

Large-scale manoeuvres

With the approach of municipal elections on 31 March, which will be another key test for the government, major manoeuvres have been launched on both the macroeconomic and geopolitical fronts to stimulate activity and advance a foreign policy agenda (notably in Syria) at the expense of diplomatic tensions with the US. The financial strain has soothed since the currency crisis in August 2018, but cyclical conditions have deteriorated. We seem to be heading for a recession scenario lasting several quarters, with the financial weakness of many non-financial corporates being a main concern. The rapid narrowing in the current account deficit and the disinflationary process initiated in recent months attest to the scope of the macroeconomic currently underway.

A tumultuous relationship with the United States

The year 2018 was marked by the chaotic relations between Ankara and Washington: the US lawsuit against Halkbank, the Turkish state-owned bank, for circumventing the Iran embargo, the US refusal to extradite Fethullah Gülen, and the diplomatic crisis over Pasteur Brunson, which triggered US sanctions in August (he was finally liberated on 12 October).

Historical allies as part of NATO, it is in the geopolitical interest of both countries to cooperate in the Syrian conflict. Yet there are still major divergences, not only on the Kurd question, but also on Iran (one of Turkey's main oil supplier) and Saudi Arabia (historical partner of the US). For Turkey, the mid-December announcement that the US planned to withdraw from Syria was seen as a godsend, prompting it to announce a military intervention as part of its strategy of securing its southern border with the creation of a buffer zone and a sanctuary for accommodating millions of Syrian refugees. Reaffirmation that its ultimate goal is to eliminate the Kurdish forces in Syria once again strained relations with the US, leading Donald Trump to threat to *"devastate the Turkish economy"* before new negotiations were launched to find an agreement.

…which makes the financial stabilisation fragile

The aggravation of macroeconomic imbalances, which was fed by pro-cyclical economic policies through the fall, and Turkey's external financial vulnerability have reinforced the country's exposure to geopolitical factors. Since August's forex crisis, economic conditions have deteriorated markedly, including a cyclical downturn and soaring inflation (see below). Municipal elections at the end of March will serve as another test for the government, whose popularity has eroded since June's legislative and presidential elections. On 15 January the Parliament voted to grant president Erdogan full powers to take all necessary measures in case the country's financial stability was threatened.

Financial turmoil has eased since mid-September, following a massive interest rate hike by the Turkish central bank (CBRT) and Pasteur Brunson's liberation. After a precipitous 42% decline against a euro-dollar basket between January and August, half of which occurred in the month of August alone, the Turkish lira (TRY) rebounded in September-October and ended the year 2018 down 27% (year-on-year and average annual rate). The 5-year CDS premium on sovereign bonds in foreign currencies dropped from 580 bp in early September to 350 bp in mid-January. After soaring by 1400 bp between January and August to 27.3%, 2-year bond yields have declined sharply since September to 18% in mid-January. The yield curve has inverted since the 3-month interbank rate has held close to the key policy rate (7-day repo) at 24% since September.

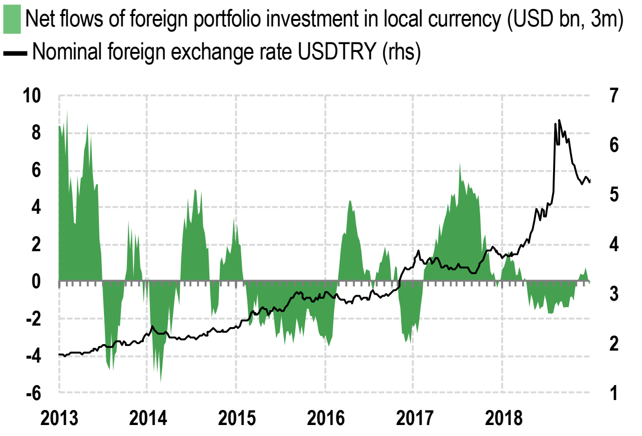
Net outflows of non-resident portfolio investment in local currency finally amounted to only USD 1.9 bn in 2018 (-USD 1 bn from the bond market and –USD 0.9 bn from the equity market). Net flows became positive again between mid-September and the end of November (+USD 0.7 bn). Since December, however, non-resident investors have pulled out of the local bond market again

1- Forecasts

	2017	2018e	2019e	2020e
Real GDP growth (%)	7.4	2.9	2.0	3.3
Inflation (CPI, year average, %)	11.1	16.3	17.1	11.4
Budget balance / GDP (%)	-1.5	-2.0	-2.2	-2.2
Public debt / GDP (%)	28.3	31.1	30.0	29.2
Current account balance / GDP (%)	-5.6	-3.6	-3.3	-3.7
External debt / GDP (%)	53.3	57.4	55.6	56.6
Forex reserves (USD bn)	82.6	72.0	72.0	75.0
Forex reserves, in months of imports	4.0	3.5	3.4	3.2
Exchange rate USDTRY (year end)	3.8	5.3	5.8	6.5

e: BNP Paribas Group Economic Research estimates and forecasts

2- Foreign portfolio investments and FX rate



Source: CBRT, BNP Paribas

(-USD 0.8 bn). They now hold only 15% of domestic public debt (vs. more than 20% through 2014).

Recent portfolio movements are due in part to the Turkish Treasury's strategy to limit calls on the market and to favour debt in foreign currencies. Given the sharp increase in the cost of financing in the local market, it is effectively soliciting the international markets more, with a Eurobond issue at a rate of 7.7% in January. In the first 11 months of 2018, central government external debt increased by TRY 5.7 bn (about USD 1 bn), whereas the annual programme calls for debt reduction of TRY 1.6 bn. By resorting less to the domestic market, however, domestic debt narrowed to TRY 40.6 bn in November, compared to TRY 62.7 bn initially programmed for the year.

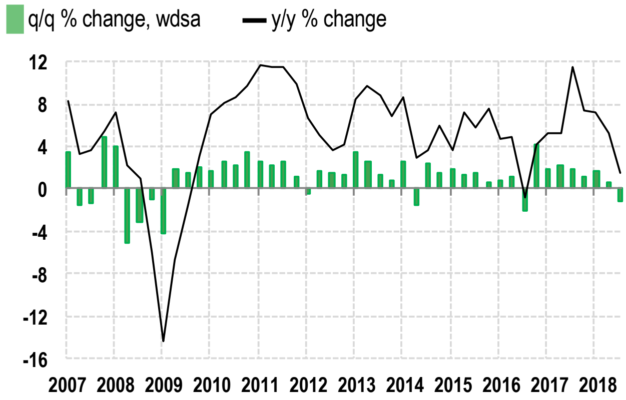
Since September, Turkish banks have managed to turnover about 90% of their external financing in the form of syndicated loans, and the secondary market has picked up again. As the squeeze on liquidity has eased, the banks have been able to rebuild foreign currency deposits, notably via the Reserve Options Mechanism (ROM) with the central bank (CBRT). Foreign deposits had declined by USD 26 bn between March and September. The current account has swung into a surplus since August and financial flows have rebounded (including massive unidentified currency inflows in 2018, which were reported as "errors and omissions"), both of which contributed somewhat to the rebuilding of gross foreign exchange reserves (+USD 7.2 bn between October and mid-January), which had declined by USD 40 bn since 2013. FX reserves cover about 40% of the external debt maturing in 2019 (USD 173 bn for short-term debt and medium and long-term debt to be rolled over) while so-called "free" reserves (i.e. excluding ROM) cover only 15%.

An abrupt macroeconomic adjustment

A recession scenario lasting several quarters seems to be taking shape under the impact of the Turkish lira's sharp depreciation, soaring inflation and interest rates, the contraction of bank lending and the dire financial straits of numerous companies, notably in the construction sector, which has been the main growth engine in recent years. Corporate and household confidence indexes have rebounded slightly since October but are holding at very low levels. The other monthly and leading indicators are still depressed for Q4 2018 and early 2019.

In Q3 2018, real GDP contracted 1.1% q/q using data adjusted for seasonal variations and the number of business days. Real GDP rose only 1.6% y/y, compared to 11.5% in the year-earlier period (a record high since Q3 2011) and 5.3% in Q2. Consumption rose 1.1% y/y in Q3, after 6.4% in Q2. Investment was down 3.8%. Job creations stagnated and the seasonally-adjusted unemployment rate rose from 9.9% in January to 11.5% in October. Net foreign trade made a strongly positive contribution to GDP growth thanks to the dynamic pace of exports (+13.6% y/y in volume) and the drop off in imports (-16.7% y/y in volume). Value added in the construction sector plunged by 5.3% y/y, and industrial production was down by 6.5% y/y in November (down since August). Only services continued to progress (+4.5% y/y in Q3),

3- Real GDP growth



Source: Turkstat

Macroeconomic imbalances are narrowing. Between January and November 2018, the current account deficit shrank to USD 26.2 bn, down USD 13.5 bn from the 2017 figure, thanks to the compression of imports (accentuated by falling oil prices) and the strong performance of export and tourism revenues. Inflation seems to have peaked in October at 25.2% y/y, and the CPI closed the year at 20.3%. Less subject to political pressures, the central bank is unlikely to loosen financing conditions until it has clear confirmation of disinflation.

Economic support, corporates weakened

The increase in the public deficit was relatively mild in 2018, and the primary balance remained very slightly positive. The probable decline in fiscal revenues and non-recurring revenues, as well as the announced stimulus measures (26% increase in the minimum wage, expected wage increases for public-sector employees, and electricity bill rebates for low-income households) should strain public finances in 2019. Other measures could also prove to be an indirect or future liability for the state via public guarantees and contingent liabilities, like the loan guarantee fund that was very active in 2017, and new programmes to bolster real estate and consumer lending via the state-owned banks Ziraat and Halkbank.

Faced with a surge in requests for debt restructuring by non-financial companies (officially 846 *Konkordato* bankruptcy protection procedures were initiated in December 2018) in order to prevent bankruptcies, the banking regulator has asked the commercial banks to honour all of these requests.

Sylvain Bellefontaine
sylvain.bellefontaine@bnpparibas.com

Hungary

Embracing policy contradictions

Hungary's macroeconomic situation provides a good illustration of how Central Europe is flourishing economically, but has jettisoned some of the principles of liberal democracy, which is the crucible of the European Union. Hungary's real GDP growth is estimated at an average of 4.5% in 2018, the highest level since 2004 and higher than its long-term potential. Endogenous and exogenous factors announce a downturn in the economic cycle in the quarters ahead. Yet there is nothing alarming about the expected deterioration in macroeconomic fundamentals in the short to medium term.

Between interventionism and market-friendly policies

The weakening of European institutions since the eurozone crisis has fostered the rise of national populism, notably in Hungary. In power since 2010 and strengthened by the Fidesz's landslide victory in the April 2018 legislative elections, Prime Minister Victor Orban can boast of a favourable macroeconomic situation. He intends to lead a eurosceptic, sovereigntist and anti-immigration revolt during European elections next May, and to weigh on the general orientation of the EU in the years ahead, at a time marked by the weakening of the French-German couple, the traditional motor of EU construction.

From an economic perspective, the Orban model is more pragmatic than dogmatic, striking a fragile balance between interventionism and pro-business measures. It consists of several contradictions. Despite the strong rejection of European institutions, Hungary is fond of EU structural funds. For Central and Eastern European countries, these funds are likely to decline as of 2021, independently of any measures currently being discussed in Brussels to introduce conditionality criteria that would tie the amount and attribution of these funds to upholding the rule of law. Economic patriotism prevails in strategic sectors (energy, telecommunications, finance), but the authorities are pushing to open up labour intensive industrial sectors to non-resident investors. A small, open economy whose exports of goods and services account for 87% of GDP, the Hungarian economy is highly integrated in European and global supply chains. All the German carmakers operate in Hungary and the sector accounts for ¼ of exports with the second lowest labour costs (EUR 8/hr) in the EU behind Romania. In this quest for attractiveness and competitiveness, the corporate tax was lowered from 19% to 9% in 2017, making it the lowest in the UE. Employer social welfare contributions were also lowered by 2.5 percentage points in 2018. In December, a law raising the ceiling on overtime work (from 250 to 400 hours a year, with the possibility of deferring payment for up to three years) triggered popular backlash, which must be monitored.

Cyclical peak

Economic growth continued to accelerate in 2018 thanks to a cocktail of expansionist economic policies, European structural funds and an upturn in domestic lending since year-end 2016. Banks have cleaned up their balance sheets and are now showing satisfactory levels of capitalisation, liquidity and profitability. This has enabled them to pursue a more aggressive lending policy with support from the central bank (low interest rates, SME financing programme). Although barely 30% of European structural funds have been paid out so far (out of a total of EUR 21.9 bn in 2014-2020), the government has already pre-financed quite a few eligible projects (according to the co-financing principle).

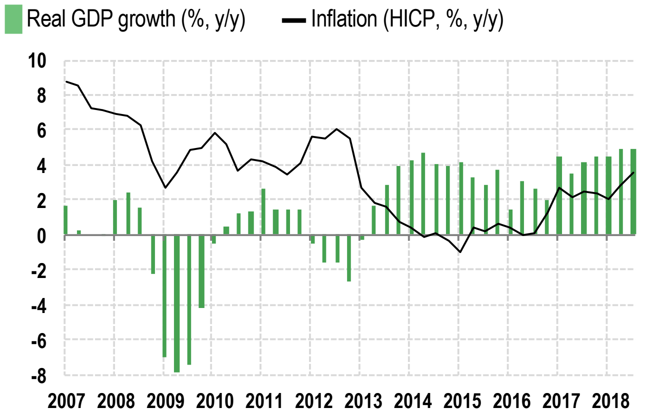
In 2018, real GDP rose 4.8% in the first 9 months compared to the previous year (year-on-year, y/y). Hungary has reported ten consecutive quarters of growth. Household consumption is the main growth engine (+5.5% y/y in the first three quarters of 2018), and retail sales rose 6.3% in the first 11 months of the year. Household spending continues to be supported by strong nominal wage growth,

1- Forecasts

	2017	2018e	2019e	2020e
Real GDP growth (%)	4.1	4.5	3.2	2.8
Inflation (HICP, year average, %)	2.4	2.9	3.3	3.0
Gen. Gov. balance / GDP (%)	-2.2	-2.4	-2.0	-1.8
Gen. Gov. debt / GDP (%)	74.8	74.2	71.7	69.8
Current account balance / GDP (%)	3.2	1.9	0.7	1.1
External debt / GDP (%)	84.6	76.9	70.3	62.2
Forex reserves (USD bn)	23	27	28	28
Forex reserves, in months of imports	2.8	3.1	2.9	2.8
Exchange rate EURHUF (year end)	309	319	330	330

e: BNP Paribas Group Economic Research estimates and forecasts

2- Economic growth and inflation



Source: Eurostat, Hungarian Central Statistical Office (KSH) up 10% for the year, driven up by labour market tensions in an economy operating at quasi-full employment, with an unemployment rate of 3.8%.

Investment surged by 17.4% y/y in the first three quarters of 2018, driven by the construction sector, whose value added has increased 23.8% y/y in the first three quarters. Fiscal incentives for new home purchases that expire in January 2020 continue to boost residential investment. Investment in the industrial sector (machinery and equipment) continued to benefit from favourable financing conditions as well as foreign direct investment (EUR 4.5 bn in the year to Q3 2018, compared to an average of EUR 2 bn a year since 2010, or barely 2% of GDP).

Manufacturing output let up slightly in Q3 (+2.5% y/y), notably due to the slowdown in the automobile sector (sharp decline in car registrations in Germany) owing to new European anti-pollution standards. Yet monthly indicators show a rebound in automobiles and electronics in October. Thanks to very robust domestic demand, net foreign trade has made a negative contribution to GDP over the past two years, with import growth surpassing export growth (+6.8% and +5.4%, respectively, y/y in volume in the first three quarters of 2018).

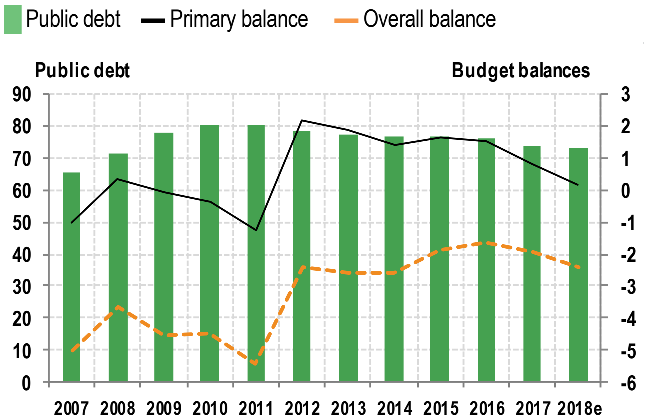
Economic activity is expected to slow in 2019-2020. Consumption and investment should grow at a more subdued pace. Bottlenecks have triggered an upsurge in construction costs, and consumer prices have accelerated (2.7% y/y in December, vs 2.1% in the year-earlier period), which is expected to weigh on household purchasing power. Despite the expansion of production capacity, a less buoyant international environment is likely to undermine industrial exports (notably in the automotive sector).

Nothing alarming about the deterioration in macroeconomic fundamentals

Several factors are expected to strain Hungary's external accounts including the economic slowdown forecast for the EU, the risks associated with trade tensions and Brexit, and the "normalisation" of US and eurozone monetary policies. Despite the downward revision of oil prices, the substantial trade and current account surpluses reported in 2015-2017 are bound to narrow in 2019-2020. At the same time, FDI inflows are also likely to slow given the deterioration in the business climate.

This outlook does not endanger the country's external position in the short and medium term. The external debt, though still substantial, has been reduced sharply since 2010 (from 145% of GDP to below 80% in 2018) thanks to deleveraging by the state and the private sector (although the foreign currency liability of banks increased in 2018). The country's net external position (foreign assets minus foreign liabilities) has improved (-47% of GDP in mid-2018 compared to -105% in 2010). The reduction in government borrowing in foreign currencies has drained foreign reserves in recent years. Yet this trend was reversed by foreign currency inflows in late 2018, thanks to Eurobond issues and European transfers. Although foreign exchange reserves are at the threshold of 3 months of imports, they are not a real source of concern for a

3- Public finances (general government, % GDP)



Source: European Commission

country that is not a commodity exporter and that posts a current account surplus.

The forint (HUF) has been relatively stable for the past three years but it could experience renewed volatility due to greater political risk (European legislative elections in May) and the end of quantitative easing in the eurozone, more so than from the tightening of US monetary policy. In a very agitated year for emerging market currencies, the forint depreciated by only 4% against the euro and 10% against the dollar, which shows that investors are still confident in Hungary and the other Central European economies. The Hungarian central bank (MNB) announced that it intends to maintain its key policy rate unchanged at 0.90% (an historically low rate in place since May 2016) through 2020, even though core inflation (excluding energy, food and regulated prices) is expected to accelerate above the central target of 3%, to an average of 3.5% in 2019 and 3.3% in 2020. Yet the MNB might be forced to raise its key rate during the course of 2019.

As to public finances, the estimates of the Hungarian authorities and international institutions (European Commission, IMF, OECD) converge on a general government deficit of 2.3-2.4% of GDP in 2018. The deficit is expected to widen again due in part to the loss of certain exceptional revenues and fiscal measures, while the strong performance in terms of fiscal revenues was largely eroded by additional spending (wages and investment). The pro-cyclical nature of fiscal policy is illustrated by the high structural deficit (3.8% of GDP in 2018 according to the European Commission). The apparent deficit is expected to narrow slightly, to about 2% of GDP in 2019-2020, based on the introduction of new fiscal incentives, but also on the assumption that wages and social transfers will rise at a slower pace than nominal GDP growth, and that structural funds will be paid out for projects partially pre-financed by the government. Public debt is nonetheless expected to drop below 70% of GDP in 2020.

Sylvain Bellefontaine
sylvain.bellefontaine@bnpparibas.com

Serbia

More progress towards convergence

Economic growth in Serbia has accelerated since 2017, fuelled by consumption and investment. Inflation is still mild thanks to the appreciation of the dinar. This favourable environment has produced a fiscal surplus that gives the government some flexibility. The public debt is narrowing, even though it is still relatively high and vulnerable to exchange rate fluctuations and the appetite of international investors. Several factors continue to strain the potential growth rate of the Serbian economy, including unfavourable demographic trends, the slow pace of public sector reforms, and a tough political environment.

Strong economic rebound

The acceleration in economic growth observed in 2017 was confirmed in 2018. GDP growth reached 3.8% in real terms in Q3 2018. The main growth engine is still domestic demand, and productive investment in particular, which follows its rising trend with growth rate of 6.9% y/y. Investment is buoyant in both the public and private sectors. One of the main beneficiaries is construction, which rose 18% in real terms compared to the same period in 2017. The Serbian economy is still highly attractive for foreign investors. Foreign direct investment (FDI) rose 9% in value in the first 10 months of 2018, and should reach the equivalent of 6% of GDP in 2018. The sector breakdown of FDI is rather diversified, and about a third is devoted to export activities.

Private consumption (+3.3% y/y in Q3 2018) is the other growth engine. The unemployment rate continues to fall, even though it is still relatively high (11.3% in Q3 2018). Meanwhile, real wage growth is averaging above 3% y/y. Remittances from expats are another support factor. Remittances were up 18% y/y in October 2018 and accounted for more than 8% of GDP. Household lending continued to accelerate (+12% y/y in November 2018) and made a favourable contribution to consumer trends. The significant improvement in the public accounts paved the way for a more affirmed increase in public spending (+4% y/y in Q3 2018).

Unsurprisingly, foreign trade continued to make a negative contribution to GDP growth given domestic demand's gearing effect on imports of consumer goods and capital goods. Imports rose 11% y/y in Q3 2018 while exports were up by about 9%. Exports were driven by dynamic sales of intermediate goods (notably metals and plastics) as well as car parts for the automotive industry.

According to the preliminary estimates of the Serbian statistics office, real GDP growth should reach 4.4% in 2018, after 2% in 2017. Although the outlook is somewhat less favourable in the short term, GDP growth is expected to hold above 3.5% in 2019. Favourable labour market trends, purchasing power gains and the decline in real interest rates should boost domestic demand. Yet the slowdown in European growth (to an expected 1.5% in the eurozone in 2019 after an estimated 2.2% in 2018) is likely to hamper exports. The European Union accounts for about two thirds of Serbia's exports.

Cautious monetary policy

Despite buoyant growth, price inflation is still subdued and has fallen compared to 2017. Consumer price inflation averaged 2% in 2018, down from 3.2% in 2017. The main inflation drivers are food and energy prices. Excluding energy and food, core inflation slipped to an average annual rate of 1.3% in 2018. The dinar levelled off against the euro in 2018 (+0.2%), which might have helped hold down inflation.

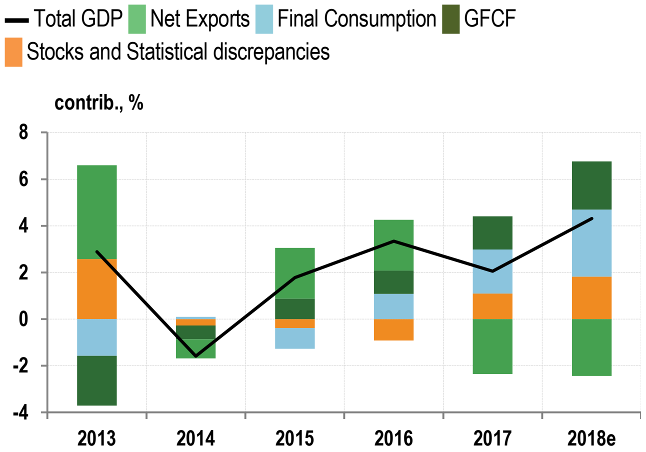
Since 2009, the central bank has officially pursued an inflation-targeting monetary policy. Currently the CPI target is an average annual rate of 3%, with a fluctuation band of +/- 1.5%. Short-term inflation expectations are about 3%. In this environment, and given the uncertainty concerning the pace of eurozone monetary tightening on the one hand and global pricing trends for energy on the other, the central bank decided to maintain the monetary status

1- Forecasts

	2017	2018e	2019e	2020e
Real GDP growth (%)	2.0	4.3	3.8	3.5
Inflation (CPI, year average, %)	3.2	2.0	2.9	3.0
Cent. Gov. balance / GDP (%)	1.2	0.5	-0.3	-0.5
Cent. Gov. debt / GDP (%)	62	56	54	52
Current account balance / GDP (%)	-6.2	-5.9	-7.4	-7.9
External debt / GDP (%)	68	61	57	53
Forex reserves (EUR bn)	10.4	11.3	12	12.5
Forex reserves, in months of imports	4.9	4.7	4.5	4.3
Exchange rate EURRSD (year end)	118.5	118.2	120	123

e: BNP Paribas Group Economic Research estimates and forecasts

2- Real GDP growth



Source: Statistical Office of the Republic of Serbia, BNP Paribas quo at its 10 January monetary policy meeting and held its key policy rate at 3% (unchanged since April 2018). The central bank also intervened in the forex market to reduce the volatility of the exchange rate (albeit without setting a target price). Euroisation of bank balance sheets is high (about 70% of credit and deposits) and a very significant share of the public debt is denominated in foreign currencies.

Cleaning up public finances

Thanks to a fiscal consolidation effort conducted under IMF supervision (*Stand-By Arrangement* completed in February 2018) as well as strong revenue growth, the public accounts reported a surplus for the second consecutive year. After reaching 1.2% of GDP in 2017, the fiscal surplus is expected to narrow to 0.5% of GDP in 2018 due to noticeable increases in both current spending and investment. The primary balance (excluding interest payment) should exceed 3% of GDP. Based on expectations of a slight slowdown in economic growth and ongoing policies to stimulate growth, Serbia is expected to report a slight fiscal deficit in 2019 (0.3% of GDP).

This favourable fiscal environment has helped reduce the public debt ratio. It slipped to 56% of GDP in 2018 (from 69% of GDP in 2016), and is expected to narrow to 54% in 2019. The medium-term risk premium applied to external sovereign debt in foreign currencies has steadily declined. It is currently below 110 bp, down from more than 200 bp at year-end 2016. Yet the composition of government debt is still a source of vulnerability. At year-end 2017, about 42% of total government debt was denominated in euros and 19% in USD. All in all, more than 77% of government debt is denominated in foreign currencies (36% of domestic market issues), even though the government has pursued a debt dinarisation strategy since 2012. Serbia is highly dependent on non-resident investors, which hold more than 70% of the debt.

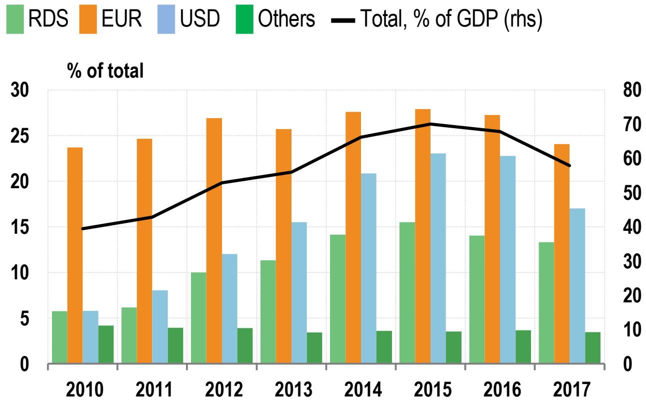
Several factors limit refinancing risk. Thanks to long-term securities issued in the domestic market, the residual maturity of almost half of the locally-issued securities (in foreign currency and dinars) is longer than 3 years. Several factors also limit currency risk, including the central bank's conservative forex policy, the use of hedging products, and the improvement in the external accounts, which supports the dinar's appreciation. In 2018, the central bank increased its foreign reserves by 14% to EUR 11.3 bn, the equivalent of more than 4.7 months of imports of goods and services.

Persistent structural weaknesses

Despite a favourable cyclical environment and rather upbeat growth prospects, a number of structural weaknesses persist that have a negative impact on Serbia's economic growth potential.

With about 7 million inhabitants in 2018, Serbia's population has been shrinking for several years. The population is declining at an annual rate of 0.5%, and the country has lost about 480,000 residents since 2002. Labour productivity is also low compared to the average for other countries in the region, and value added per employee is even lower than in the western Balkans countries.

3- Government debt



Source: Ministry of Finance, BNP Paribas

The restructuring of state-owned companies remains a key factor in the economic transition. Although real progress has been made in this area, it is still insufficient. According to EBRD, state-owned companies (excluding the financial sector) account for about two thirds of GDP and are active in all sectors of the economy. In 2012-15, the average profitability of these companies was barely positive, which represents a potential risk for the consolidation of public finances. Yet given the ongoing privatisation programme (more than 45 companies have been privatised since 2015), their weight on public finances has diminished. Government guarantees amounted to 3.7% of GDP in October 2018, down from 7.8% of GDP in 2013.

Lastly, the political and institutional environment is another factor straining Serbia's growth potential. Indicators of governance are not really good (notably concerning the application of the rule of law and the control of corruption) and the regional political situation could potentially become a major source of tension. All of these factors are holding back the acceleration of Serbia's accession to the European Union.

Pascal Devaux
pascal.devaux@bnpparibas.com

Israel

Still on a solid footing

The strength of internal demand remains the main engine of economic activity, which is growing at over 3% per year. This is feeding through into a resurgence of inflationary pressures, although these have been very modest so far. The budget deficit is growing but it remains within the limits set by the government. International trade is seeing some significant shifts. A loss of momentum in goods exports has reduced Israeli products' market share; at the same time exports of hi-tech services have become the real driving force behind the country's international trade. Changes in oil prices continue to be a key determinant of the current account balance, despite the exploitation of gas resources.

Enviable economic fundamentals

Economic growth slowed slightly in 2018 but remains strong. The first official estimates put GDP growth at 3.2% in real terms, from 3.3% in 2017. Private consumption and productive investment were the two main engines of growth. According to the Bank of Israel (BoI), the economy is close to full employment, which is putting pressure on supply and explains the strong growth in imports and the negative contribution of international trade to growth. This is unlikely to change in 2019, despite accelerating growth of exports of goods and services. In 2019, private consumption is likely to remain strong against a background of pressures in the labour market. The unemployment rate remains low (4.1% in November 2018) and the job vacancy rate remains near record highs. As a result, we are seeing relatively strong growth in real wages (2.5% y/y in October 2018).

Consumer price inflation has accelerated, but remains well under control (0.8% on average over 2018). After the deflationary periods of 2015 and 2016 (-0.6% in both years), prices were more or less stable in 2017 (+0.3%), thanks in particular to the strength of the shekel. Full employment and continued wage growth are likely to feed through into inflationary pressure, but this will remain modest due to the expected further gains by the shekel (inflation expectations remain in a range between 1.3% and 1.6%). Against this background, in December the BoI raised its policy rates to 0.25%, the first increase since February 2015. This normalisation of monetary policy, which took the market somewhat by surprise, was largely preventive and reflects both more inflationary domestic conditions and external uncertainties linked to oil prices and monetary policy in the US and Europe. This said, both actual and expected levels of inflation remain close to the lower end of the BoI's target range (1% to 3%). The tightening of monetary policy will probably therefore remain very gradual.

The budget deficit widened significantly over 2018, and is estimated to have reached 2.9% of GDP, from 1.9% in 2017, but remained in line with the government's ceiling of 2.9% of GDP. The increase in the deficit stemmed from bigger than expected increases in expenditure, notably in the military sector. It was also explained by an absence of exceptional income. 2017 saw significant sales of Israeli assets to foreign investors as well as exceptional levels of dividend tax receipts. The current political uncertainty and the planned parliamentary elections in April look unlikely to help the process of controlling the deficit. As a result, we expect it to grow further, reaching 3.3% of GDP in 2019. Government debt is likely to remain at slightly above 61% of GDP.

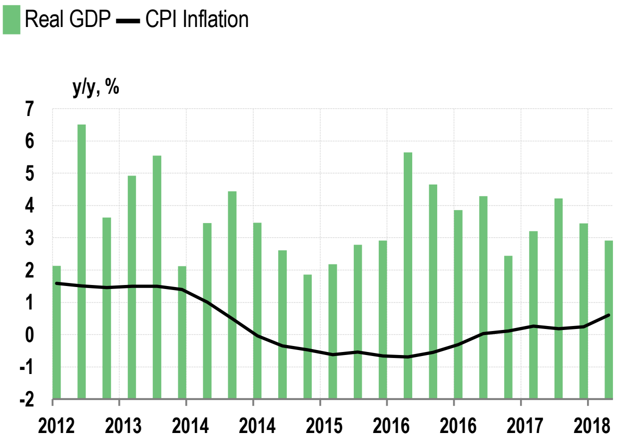
Overall, therefore, economic prospects still look good despite a slight deterioration. As is often the case in this country, a volatile political climate is likely to have only a marginal impact on the economy.

1- Forecasts

	2017	2018e	2019e	2020e
Real GDP growth (%)	3.3	3.2	3.4	3.5
Inflation (CPI, year average, %)	0.3	0.8	1.3	1.8
Cent. Gov. balance / GDP (%)	-1.9	-2.9	-3.3	-3.0
Cent. Gov. debt / GDP (%)	59	61	61	61
Current account balance / GDP (%)	2.8	2.0	2.2	2.5
External debt / GDP (%)	25	25	24	24
Forex reserves (USD bn)	113	115	118	122
Forex reserves, in months of imports	12	13	12	12
Exchange rate USDILS (year end)	3.5	3.7	3.6	3.5

e: BNP Paribas Group Economic Research estimates and forecasts

2- Economic growth and inflation



Sources: Central Bureau of Statistics, BNP Paribas

A loss of competitiveness has had a marginal effect on the current account

External accounts have seen a significant shift over the past few years. The first notable change has been the deterioration of the core trade balance[1]; the trade deficit hit a record level in 2018 at around USD 25 bn, or 6.9% of GDP (from 4.3% of GDP in 2017). Exports of goods are sluggish, whilst imports have followed the rising trend in domestic demand. It is noteworthy that export growth by volume has been negative since 2012. According to IMF estimates, exports fell by an average of 0.4% per year between 2013 and 2017. Since its peak in 2000, Israel's export market share in global trade has fallen steadily (from a high of 0.46% to 0.30% in 2018). The increase in the real effective exchange rate (REER) since 2012 is probably the main explanation for this loss of competitiveness for exported goods. Relative to its long-term trend, the REER[2] is currently overvalued by more than 10%.

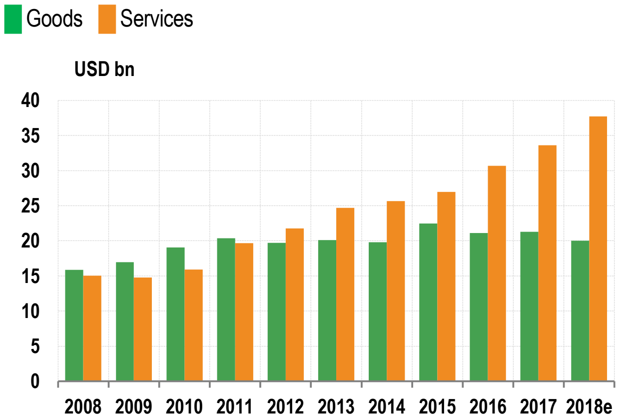
Trends in goods exports (in value) according to their technological content do not show any clear trend. Exports of low-tech goods (7% of the total) have been relatively stable, whilst medium and hi-tech goods (53% and 40% of the total respectively) have been fairly volatile, with no particularly clear trend emerging. It seems however that the fall in hi-tech exports in 2018 (-6% in value y/y) was due primarily to a drop in exports of pharmaceuticals. The split of goods exports by destination has been relatively stable since 2012. Europe and the USA remain Israel's main export markets (35% and 30% of the total respectively), followed by Asia (25%).

In contrast to exports, imports by volume rose by an average of 3.2% between 2012 and 2017, driven by private consumption and investment. The exploitation of substantial gas reserves has not yet reduced the country's dependence on imported hydrocarbons to any significant extent. Thus, for the time being, oil products continue to dominate energy imports and drive the volatility of the trade balance. In 2018, the cost of imported energy was probably more than USD 10 bn, an increase of 35% on 2017. Overall, the trade deficit is likely to persist over the medium term.

The strength of services exports contrasts with the performance of goods and reflects a change in the structure of international trade. In 2017, Israel had a record surplus on trade in services at more than USD 15 bn (11.2% of GDP). Since 2010, exports of high-tech services[3] have transformed the structure of the current account. Such exports generated USD 33.6 bn in 2017, meaning the figure has doubled in less than a decade. In net terms, hi-tech services generated a surplus of more than USD 20 bn in 2017, compared to USD 7.5 bn in 2010.

Tourism has also recovered well since 2016, but its net contribution to trade in services has been negative for the past three years. The number of visitors increased by 25% in 2017 and 14% in 2018. However, given the sharp rise in tourist travel by Israelis over the same period, the net balance on tourism was negative to the tune of nearly USD 1 bn in 2017.

3- Hi-tech exports



Sources : Central Bureau of Statistics, BNP Paribas

Given the stability in the balance of revenue (-USD 3.7 bn in 2017) and transfers (+USD 7.8 bn), the current account surplus remained significant in 2018, at 2% of GDP, even though it contracted slightly in comparison with the two previous years due to higher oil prices. In 2019 the current account surplus is likely to increase slightly, to 2.2% of GDP.

In the short term the main threats to external balances are rising oil prices and security conditions in the country, which could affect tourism. Over the medium term, the competitiveness of services exports and the potential for gas exports (limited for the time being) could help shore up export revenues. Lastly, the exchange rate will remain a key determinant of external accounts. Although the BoI has a number of tools at its disposal to influence exchange rates (interest rates, foreign currency reserves) they continue to be determined largely by structural changes in the Israeli economy which, over and above the current account surplus, continues to attract substantial capital inflows.

Pascal Devaux
pascal.devaux@bnpparibas.com

[1] Excluding ships, planes and diamonds.
[2] Based on consumer price inflation.
[3] Notably in sectors such as communications, security, medicine and computing.

Argentina

A high-risk election year

Calm has returned to Argentina's financial markets since the end of September 2018. The peso has levelled off after depreciating 50% against the dollar in the first 9 months of the year. The central bank finally managed to loosen its grip after raising its key policy rate by 70%. Restored calm can largely be attributed to IMF support, but it comes at a high cost: a strictly quantitative monetary policy and the balancing of the primary deficit as of 2019. The economy slid into recession in Q2 2018 and is likely to remain there through mid-2019. So far, the recession has not eroded the country's fiscal performance, the trade balance has swung back into positive territory and inflation has peaked. Yet will that be enough to restore confidence before October's elections?

Financial tensions ease...

Since the end of September 2018, financial tensions have eased in Argentina. After depreciating by nearly 50% against the dollar in the first 9 months of the year, the peso has levelled off and is now fluctuating at between ARS36 and ARS38 to the dollar. The 7-day liquidity bill rate (Leliq), the central bank's new benchmark interest rate[1], eased from 73.5% to 61%. Yet investors are still wary, and the risk premium on 5-year CDS rose to 750bp in mid-January, a 150bp increase since October.

The first signs of financial stability can be attributed to the 26 October announcement of the revision of the IMF's standby credit facility, which was extended from USD 50 bn to USD 56 bn in October, and the 19 December conclusion of the second review of the standby agreement and the disbursement of USD 7.6 bn, which helped shore up the central bank's foreign reserves (to USD 66 bn at end December, from USD 51 bn at end November). Financial stability can also be attributed to a very restrictive monetary policy, the cost of which was a severe recession.

…thanks to very tight monetary policy

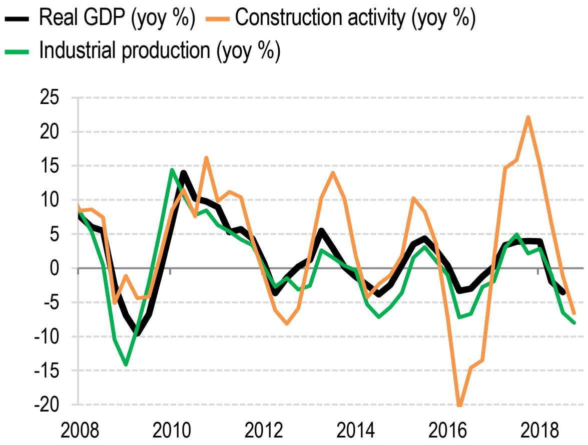
Faced with a self-feeding dynamics between the peso's depreciation and inflation, the monetary authorities have pursued a very strict quantitative monetary policy since September. The central bank (BCRA) temporarily abandoned its inflation target and will target zero nominal growth of the monetary base through June 2019 (with the exception of seasonal increases in December and June). Thereafter, the increase in the monetary base will be limited to 1% a month in H2 2019. At the same time, BCRA is not authorised to intervene to support (or weaken) the peso as long as the currency fluctuate within a rather broad band (20%). In contrast, the upper and lower limits are following a growth rate of 2% a month. This is much lower than observed inflation, which averaged 4.3% over the past 6 months, and is even lower than inflation expectations, which averaged 2.5% in Q1 2019 according to the BCRA's December survey. The BCRA is allowed to intervene when the peso trades outside of these fluctuation bands, although it cannot sterilise its interventions.

1-Forecasts

	2017	2018e	2019e	2020e
Real GDP growth (%)	2.9	-2.5	-1.5	2.5
Inflation (official, annual average, %)	25.2	33.8	37.0	18.0
Fiscal balance/ GDP (%)	-6.0	-5.2	-3.7	-3.0
Public debt/ GDP (%)	57.1	78.0	83.0	87.0
Current account balance / GDP (%)	-4.9	-5.2	-3.0	-2.5
External debt / GDP (%)	37.2	54.7	56.9	51.5
Forex reserves (USD bn)	55	66	60	65
Forex reserves, in months of imports	6.2	7.0	7.3	6.5
Exchange rate USDARS (year end)	18.6	38.5	55.6	57.5

e: BNP Paribas Group Economic Research estimates and forecasts

2- Hard time



Source: INDEC, FIEL

This framework brings to mind a currency board, albeit a more restrictive variant as far as the monetary rule is concerned[2]. The strategy consists of anchoring inflation expectations thanks to a real appreciation of the exchange rate, which is justified *ex post* by the improvement in the ratio between foreign reserves and the monetary base.

[1] Since mid-2018, the Leliq has massively replaced the Lebac, the BCRA's sterilisation instrument, the cost of which had placed too much of a burden on public finances (see "Argentina: a touchy transition" Conjoncture, BNP Paribas - September 2018). The Leliq became the benchmark policy rate on 8 August 2018.

[2] A currency board arrangement does not impose absolute stability but rather relative stability of the monetary base through a constant ratio between the monetary base and foreign reserves. Ordinarily, however, the forex fluctuation band is much narrower.

Although it is too early to evaluate the effectiveness of this monetary and forex policy, inflation has slowed sharply, with headline inflation down from a peak of 6.5% (per month) in September to 3.2% in November, and core inflation easing from 7.6% to 3.3%. The BCRA lowered its intervention rate to 60%, a minimum it intended to maintain as long as survey results did not show a decline in 12-month inflation expectations for two consecutive months (as was the case in November). Thanks to the peso's stability and the downturn in metal and then oil prices, producer prices even declined 0.6% in the month to November, compared to +16.2% in September. Although inflation expectations showed greater rigidity, they also declined.

This monetary and exchange rate strategy is not risk-free. Firstly, prohibition of sterilizing capital flows outside the fluctuation bands may trigger interest rates volatility. Even if monetary policy is credible and thus allows a decline in real interest rates, potentially high volatility of short term rates - when they get close to the limits of the corridor - can deter investment decisions that usually require good predictability of the cost of borrowing. Secondly, the fact that there exist limits on how far the exchange rate can depreciate may result in an overvaluation of the real exchange rate which may harm competiveness. In both case, there is a potentially negative impact on growth.

In the case of Argentina, the aforementioned two risks are not major risks. Corporates are used to live under considerable financial stress and, in a through-the-cycle view, investments decisions are more constrained by macroeconomic policy instability or the business environment than interest rate volatility. On the contrary, the solvency of economic agents indebted in foreign currency (foremost of which is the state) requires the real exchange rate to remain as stable as possible. Indeed, a depreciation of the currency has a mechanical and strong impact on the debt dynamics whereas the impact of the real exchange rate on the current account balance is small[3]. More generally, the priority for supporting growth is to curb inflation in order to give more room of manoeuvre to monetary policy.

The price: a severe recession

Argentina's economy sank into recession in Q2 2018 with real GDP contracting at an annualised quarterly rate of 15.6%. Nothing suggests that the country recovered in Q4, and the recession could extend at least through the first part of 2019.

In Q2 and Q3 2018, the cumulative decline in real GDP is estimated at nearly 5% (-3.9% compared to the same period in 2017). The farm sector (8% of GDP in volume in 2017) largely contributed to the overall decline (-2.8% over 12 months) due to a very poor Q2 performance, which more or less levelled off in Q3. In contrast, in other economic sectors (construction, industry and services), the economy continued to contract, although at a slower pace than in Q2.

The only positive point is that the contribution of net exports turned positive in Q3, thanks not only to the contraction of imports but also to a rebound in exports. Yet industrial output and survey results suggest that GDP declined again in Q4. Household consumption is unlikely to rebound given the contraction in real wages (-11.3% in the year to Q3 2018 vs. +4% in Q4 2017) and the decline in employment (-1.5% year-on-year for the period September-November 2018, vs 2% at year-end 2017). Moreover, the rebound in exports will not prevent investment from declining. Lastly, fiscal policy will continue to be very restrictive given the target of balancing the primary deficit (excluding net interest charge) as of 2019.

For the moment, the recession has not had a perceptible impact on fiscal performances. To the contrary, tight control over spending has reduced the primary deficit to 2.4% in 2018 from 3.8% in 2017. Primary spending was reduced from 23.2% of GDP to 21.2%. The net interest charge, in contrast, rose from 2.2% of GDP to 2.4%. Although the net interest charge has not increased much yet, its relative weight will swell due not only to the revaluation of interest on foreign currency debt, but also to real domestic interest rates, which are much higher than before the 2018 financial shock.

Moreover, the balance of payments equilibrium is still fragile. The current account deficit may have been slashed in half, from USD 31.3 bn in 2017 to USD 15 bn in 2019. But the wait-and-see attitude of investors in the run up to October's elections is likely to reduce the capital account surplus. Net foreign direct investments and non-resident portfolio investment are bound to dry up (USD 8.8 bn and USD 13.3 bn, respectively, in Q1-Q3 2018). The balance of payments equilibrium will depend on resident capital outflows, which have been massive over the past two years (USD 20 bn in 2017 and USD 26 bn in Jan-Nov 2018). Capital outflows could slow if the exchange rate stabilises. Yet nothing is less certain with the approach of the elections. For the moment, thanks to the extension of maturities following the clearance of arrears in 2016, debt servicing on Argentina's international government bond holdings (USD 190 bn) is largely bearable (USD 8.1 bn in 2019). In contrast, debt servicing on the state's total external debt and dollar-denominated domestic debt is massive (USD 37.5 bn), which explains the size of the IMF's credit facility.

François Faure
francois.faure@bnpparibas.com

[3] According to the IMF, the elasticity of the current account with respect to the real exchange rate is only -0.06 compared with -0.23 for China (which is assessed as small). The very low elasticity reflects the large weight of primary products in total exports.

Thailand

Elections in sight

The elections promised by the military regime ever since it took power in 2014 are finally slated to be held in 2019. Yet this does not mean that the political and social crisis has been resolved: the ruling junta intends to remain in power without providing a veritable solution for "national reconciliation". From an economic perspective, short-term prospects are still upbeat. The Thai economy will be hit by the slowdown in China, but thanks to dynamic domestic demand, growth should approach its long-term potential this year. In the long term, in contrast, the outlook continues to deteriorate as the political environment holds back the economy's growth potential.

Elections at last?

The long-awaited elections promised by the military junta ever since it took power following the May 2014 *coup d'état* are expected to be held between February and May of 2019. Postponed on four occasions since 2015, the elections will be the first held since the promulgation of the new constitution in April 2017. Parliament will now be comprised of an upper house, the Senate, with 250 members elected by a panel of grand electors (all jointly named by the King and the military authorities), and a lower house, the House of Representatives, whose 500 members will be elected every four years.

Holding elections will obviously be a big step forward, but it will not suffice to resolve the country's political and social crisis that has been festering for nearly 15 years. The ban on public meetings – one of the military regime's first decisions on taking power – was partially eased in September to appease popular unrest and allow the various political parties to recruit new members and elect their leaders. The ban was not completely lifted until 11 December, leaving the political parties barely two months to organise themselves and launch their electoral campaigns.

The risks of a popular uprising are still high, as illustrated by the numerous protests that have broken out since the ban was lifted. Protests have intensified since the beginning of January, when the military threatened to postpone the elections initially scheduled for 24 February. Officially, the military does not want the elections to interfere with the preparations for the king's coronation, which is scheduled between 4 and 6 May. The elections might be postponed until after the coronation.

The military does not intend to loosen its grip on power

Looking beyond scheduling issues, the elections themselves will not mark a veritable return to democracy. The military has never implemented the "national reconciliation" that it promised after taking power[1]. The ruling military junta seems to have decided to stay in power and is doing all it can to ensure favourable election results. Since taking power, the military's ambition has been to reduce the influence of Thaksin Shinawatra[2] (who is still very influential) and the anti-monarchists as much as possible. This is surely the real reason why the elections have been repeatedly postponed.

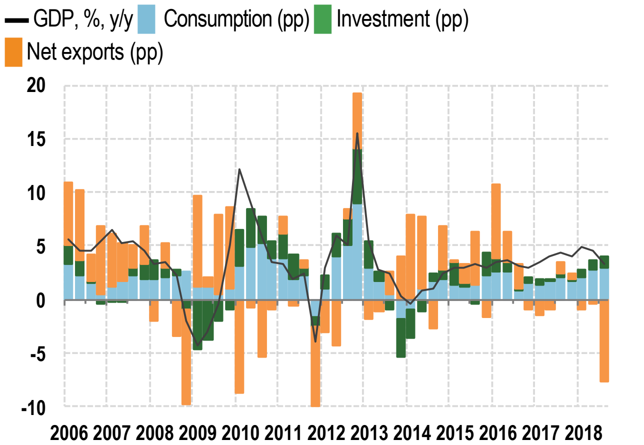
The new constitution was written by the military in its own best interest. Regardless of the election results, the new government will have to comply with a "strategic plan" compiled by the current

1- Forecasts

	2017	2018e	2019e	2020e
Real GDP growth (%)	3.9	4.1	3.7	3.7
Inflation (CPI, year average, %)	0.7	1.1	1.3	1.5
Gen. Gov. balance / GDP (%)	-1.8	-2.1	-2.3	-2.1
Gen. Gov. debt / GDP (%)	41.2	41.8	42.2	42.6
Current account balance / GDP (%)	10.8	8.1	7.3	6.8
External debt / GDP (%)	33.0	32.0	31.5	31.0
Forex reserves (USD bn)	194	197	215	225
Forex reserves, in months of imports	8.5	8.9	9.0	10.1
Exchange rate USDTHB (year end)	32.7	32.4	32.8	32.0

e: BNP Paribas Group Economic Research estimates and forecasts

2- Steady growth



Source: National Accounts

[1] Roughly speaking, power can be divided between the political elite, the bureaucracy and the military – all urban dwellers close to the royal family -- who want to keep an exclusive hold on power, and the more rural Democrats, who believe that power should be exercised by elected political representatives. The new constitution seems to widen the gap further between the two camps, by institutionalising the political presence of the military and the elite.

[2] Prime minister from 2001 to 2006, overthrown by a coup d'etat and in exile ever since to escape corruption charges that he claims are politically motivated.

government and written in the constitution, which provides a framework for the country's political life for the next 20 years. The new government will be restricted by a set of laws that reserves power for the military, the Senate and "independent" agents. The new electoral rules seem to have been designed to encourage the segmentation of the House of Representatives and to prevent the formation of a strong coalition.

Another measure in the new electoral regulations stipulates that an individual who is not a Parliamentary member, but who could be in the military, can apply to be prime minister, if no "natural" candidate emerges from among the MPs. This measure seems to be tailored specifically for Prayuth Chan-o-cha, the acting Prime Minister since the *coup d'état*, so that can remain in his post.

Buoyant growth

From an economic perspective, short-term prospects are still strong despite the expected slowdown in 2019: GDP growth probably exceeded 4% in 2018, the strongest performance since 2012, and is likely to slow to 3.7% in 2019. Regardless of the election results, the new government's economic policy will be tightly framed by the "national strategy", and thus will have little impact on growth.

First, domestic demand will be the main growth engine. Ongoing labour market improvements will boost household consumption. Second, the "Thailand 4.0" strategy, which calls for a transition towards more value-added manufacturing industries, and the various infrastructure projects launched since 2016, notably in the Eastern Economic Corridor (EEC) in the eastern part of the country, will continue to fuel public and private investment. Public investment was already up by more than 4% on average in the first three quarters of 2018.

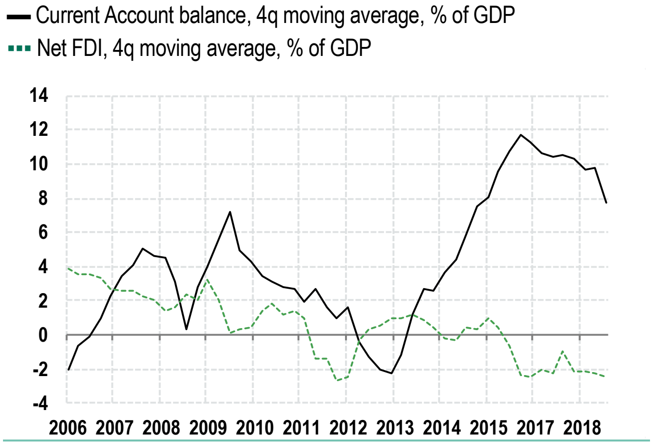
Manufacturing exports, in contrast, which account for more than 50% of GDP, are expected to slow. After growing rapidly in the first 8 months of the year (by more than 10% y/y between January and August 2018), they have slowed sharply since September (increasing less than 1% between September and November 2018). This slowdown will continue in 2019 as Thai exports are hit by the combined impact of the US-China trade war and the Chinese economic slowdown. China and the United States each account for about 12% of Thailand's merchandise exports.

Service exports are also exposed to the Chinese slowdown via tourism revenues (more than 12% of GDP in 2017). Chinese tourists accounted for nearly 30% of the total in first-half 2018.

Medium-term sources of alarm

Naturally, the decline in exports and tourism revenues combined with the increase in imports as part of the advancement of infrastructure projects will strain the current account surplus, which should narrow to 7% of GDP in 2019, from 8% in 2018 and more than 11% in 2016-2017. Even so, the current account surplus is still substantial and will largely offset structural capital outflows (FDI of Thai companies investing abroad).

3- Substantial current account surpluses



Source : Bank of Thailand

Despite a persistently accommodating fiscal policy, the deficit is expected to remain under control. Pre-electoral spending and the various infrastructure projects implemented by the government will add to the public deficit (estimated slightly above 2% of GDP in 2018 and 2019, up from less than 2% of GDP in 2017). The public debt is also expected to increase slightly, but will remain moderate at 42% of GDP in 2019 (up from about 40% of GDP in 2017). The debt profile is also favourable: less than 1% of the debt is denominated in foreign currency, and less than 15% is held by non-residents.

Medium to long-term prospects continue to deteriorate, as they have for the past 10 years. The country is faced with numerous structural challenges (aging population, low level of education and a decline in the country's attractiveness and FDI inflows due to the political crisis). Moreover, these problems are intensifying but no lasting solutions have been found. Assuming they are effectively implemented, the reforms called for in the "national strategy" and the "Thailand 4.0" and EEC plans should increase the country's attractiveness, boost productivity and spark an upmarket shift in industrial supply chains. Yet the lack of political continuity is hampering the implementation of these reforms.

Hélène Drouot
helene.drouot@bnpparibas.com

Taiwan

Exposed to external shocks, but solid

Export and real GDP growth have started to suffer from US-China trade tensions and from the mounting difficulties of China's external trade sector. Taiwan is highly exposed to this type of external shocks due to its heavy reliance on exports of tech products to the Chinese and US markets. However, Taiwan is also well-armed to absorb shocks. External accounts and public finances are strong, and the authorities have a good margin of leeway to act. They are expected to maintain accommodative monetary and fiscal policies in order to stimulate domestic demand in the short term, and should continue some structural reform measures aimed at improving Taiwan's longer-term economic prospects.

Exposed to US-China trade tensions

Economic growth strengthened gradually from 2016 to early 2018 thanks to a more favourable external environment and policy support. The global tech cycle rebounded and boosted exports in 2017, but then lost steam in 2018, while fiscal stimulus measures and the loose monetary conditions have supported domestic consumption. However, real GDP growth slowed again in Q3 2018, reaching +2.3% year-on-year (y/y) vs. 3.2% in H1 2018. Investment rebounded after four consecutive quarters of negative or flat growth, but private consumption growth lowered and government spending contracted. Moreover, export growth slowed rapidly and net exports had a negative contribution to real GDP growth in Q3 2018.

Recent foreign trade and manufacturing PMI data point to further weakening in economic activity in Q4 2018 and early 2019. Exports started to lose steam during the summer (rising by 4.1% y/y in USD value in July-Oct18 vs. 10.7% in H1 2018) and contracted in the last two months of the year (-3.3% y/y). The deterioration has initially stemmed from the slowdown in global trade and, more recently, from the weakening performance of Chinese trade resulting from the US-China dispute (Chart 2).

In the short term, the main uncertainty comes from US-China trade tensions (see note on China, page 4). Taiwan is highly vulnerable to this type of external shocks due to its very high degree of trade openness (exports represented 60% of GDP in 2017), high exposure to the Chinese market (28% of total good exports, or 40% including Hong Kong) and US demand (12% of total exports) and high participation in regional value chains. Its export base is solid but not widely diversified, given the heavy weight of tech products (electronic goods account for 34% of total exports and information & communication goods for another 11%).

Some Taiwanese enterprises are already adjusting their production strategy. Given US tariff hikes on Chinese good imports, added to rising labor costs in China, certain industries have announced partial relocation of production units from the Mainland to Taiwan. Moreover, the authorities have recently announced a plan to assist corporates to return to invest in the island. Some enterprises may also plan to shift production capacity to other countries with lower labor costs such as Vietnam, the Philippines or even Mexico.

The authorities have adopted an accommodative economic policy mix over the past two years and will continue to do so in the short term. Public infrastructure and social spending will be sustained. Meanwhile, monetary policy should remain accommodative despite increasing US interest rates, given both external trade uncertainty and low inflation pressures. Inflation accelerated last year but has abated rapidly since October as a result of lower energy and food prices.

Taiwan's economic growth is affected not only by cyclical factors but also structural constraints, which will contribute to a continued slowdown trend in the coming years. On the internal front, the main constraints come from the decline in the labor force (which started in 2016) and the insufficient diversification of its manufacturing base. Positively, the Tsai government has taken actions to improve

1- Forecasts

	2017	2018e	2019e	2020e
Real GDP growth (%)	2.9	2.8	2.2	2.0
Inflation (CPI, year average, %)	0.6	1.4	1.3	1.3
Budget balance / GDP (%)	-2.0	-2.1	-2.3	-2.3
Gen. Gov. debt / GDP (%)	35.7	34.4	34.6	35.0
Current account balance / GDP (%)	14.5	13.1	12.6	13.0
External debt / GDP (%)	31.8	31.3	31.5	31.0
Forex reserves (USD bn)	452	462	473	486
Forex reserves, in months of imports	16.8	16.0	15.5	15.0
Exchange rate USDTWD (year end)	29.8	30.7	31.0	31.0

e: BNP Paribas Group Economic Research estimates and forecasts

2- Taiwanese exports hit by the fall in Chinese external trade

Source: Ministry of Finance

competitiveness and develop new industrial sectors: in addition to an infrastructure development program for 2018-2021, an industrial innovation plan has been launched, aimed at boosting higher value-added tech sectors. Measures to ease restrictions on employing foreign workers have also been announced.

On the external front, Taiwan faces economic challenges (rising protectionism, uncertain prospects for world demand of tech products) and geopolitical challenges. Cross-Strait tensions have worsened since President Tsai and her DPP government took power in May 2016. Difficult relations with China may dampen the activity of some enterprises, notably in the tourism sector. Most importantly, the strategy of the DPP government to diversify Taiwan's relations away from China (in particular with its "Southbound policy" aimed at developing agreements with South and South-East Asian countries) is threatened by Beijing's pressure on potential economic partners.

Strong cushions

Despite multiple headwinds that will weigh on its future economic growth performance, Taiwan's macroeconomic strength is not threatened. Firstly, external accounts are very strong and should remain so in the coming years. Taiwan's large current account surpluses of more than 10% of GDP, extremely comfortable external liquidity cushions (covering 16 months of imports) and solid net foreign creditor position largely mitigate concerns arising from the island's exposure to trade war risks or other external trade shocks, cross-Strait tensions and diplomatic isolation.

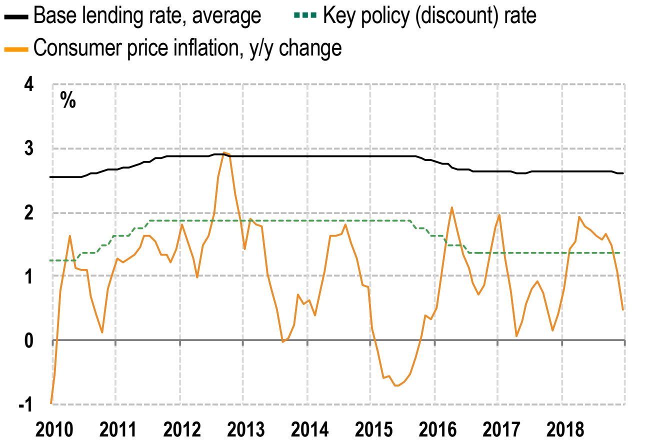
Secondly, Taiwan enjoys solid public finances. The fiscal balance is structurally in deficit and the tax base is narrow, but policy discipline is strong. The deficit of the general government (including social security funds) has averaged a moderate 2.2% of GDP since 2014 (based on IMF estimates). General government debt is moderate, expected at 34% of GDP at the end of 2018. It has declined slightly in the past five years (from 39% in 2013). The government benefits from very low borrowing costs and a large domestic investor base. Moreover, it is little exposed to changes in global financial conditions (it has no foreign currency-denominated debt). All this gives the government ample leeway to act in case in adverse shock, implement counter-cyclical measures and introduce structural reforms to improve long-term prospects.

Fiscal policy: a combination of stimulus and reform

As a matter of fact, the Tsai administration has been active in trying to find solutions to stimulate domestic demand, strengthen Taiwan's economic growth potential, and anticipate the ageing of the population.

Fiscal policy has become more expansionary since 2016. The Tsai government has launched a four-year infrastructure program since 2017, with additional budget funding equivalent to 2.4% of GDP. Other increases in government spending are focused on social welfare programs, education, science and culture, and national defence; they are expected to remain of reasonable extent.

3- Accommodative monetary conditions



Source : DGBAS, Central bank

The government has also introduced important reforms of the tax system. Tax reforms enacted at the beginning of 2018 raised the corporate income tax rate to 20% from 17% and cut individual income taxes. The changes in the tax structure are unlikely to address much the problem of the narrow tax base, and are rather aimed at stimulating private consumption while maintaining moderate fiscal deficits. In fact, the general government deficit is projected to deteriorate only slightly to 2.3% in 2019 and 2020 from 2.0% in 2017.

Last but not least, a reform of the public service pension system was approved in 2017. Taiwan officially became an "aged society" in early 2018, i.e. its population aged 65 and over started to make more than 14% of the total population (United Nations definition). Its dependency ratio (elderly people as a percentage of the working-age population) is approaching 20% (vs. 14% ten years ago) and could reach an extremely high 64% by 2050 according to United Nations projections. In response to fast ageing and its impact on long-term fiscal sustainability, the government set up a pension reform committee in 2016. Reforms that were approved in 2017 have led to substantial cuts in the pension benefits of civil servants, state school teachers and military personnel. According to official projections, the pension fund for teachers was projected to go bust by 2030 before the reform and the fund for military personnel by 2020. The government now estimates that, thanks to the reforms, the viability of the public pension system is ensured for at least 30 years.

Christine Peltier
christine.peltier@bnpparibas.com

Algeria

Unconventional financing: a strategy under control

In late 2017, the authorities decided to resort to direct financing of the Treasury by the central bank to stabilise a dangerously deteriorating macroeconomic situation. The injection of funds helped rebuild bank liquidity via the reimbursement of the debt of state-owned companies. In the absence of a real fiscal impulse, and thanks to prudent monetary policy, inflation remains under control. Without structural adjustments, however, the situation could become very risky.

No inflationary shock

In late 2017, the government announced that the Treasury would resort to direct central bank financing to cover a 25% budget increase. The decision was prompted by the depletion of the oil stabilization fund. Consequently, the central bank massively injected money into the Treasury's account: a total of DZD 4005 billion in September, the equivalent of 19% of GDP. Yet the much feared inflationary shock did not occur. In the first 11 months of 2018, inflation averaged only 4.4%, compared to 6.4% in 2016 and 5.6% in 2017. More significantly, non-food inflation decelerated sharply after peaking in late 2016 and early 2017. Two factors help explain part but not all of this trend: subsidies were maintained after a few cutbacks in 2016/17 (administered prices account for 26% of the consumption basket), and the dinar has held steady against the euro and the US dollar. In the end, a large part of the unconventional financing was allocated to state-owned companies, especially those in the energy sector (Sonatrach, Sonelgaz). These flows were sterilised by the central bank. Fiscal policy also proved to be more conservative than expected.

Fiscal policy aims for stability rather than growth

According to our estimates, the fiscal deficit was two times smaller than the figure in the 2018 financing law. With Brent crude oil averaging USD 72 a barrel over the full year, compared to a budget assumption of USD 50 a barrel, the government benefited from a major increase in hydrocarbon revenues. Dividend transfers from the central bank to the budget remained sizeable, reaching for the first time DZD 1000 billion (about 5% of GDP). These dividends correspond to the exchange rate gains that the monetary institution has reported since 2016 following the sharp depreciation of the dinar against the US dollar between mid-2014 and year-end 2015. Although the sustainability of this source of revenue is questionable, for the moment it is making a significant contribution to the budget (a quarter of non-fiscal revenues since 2017).

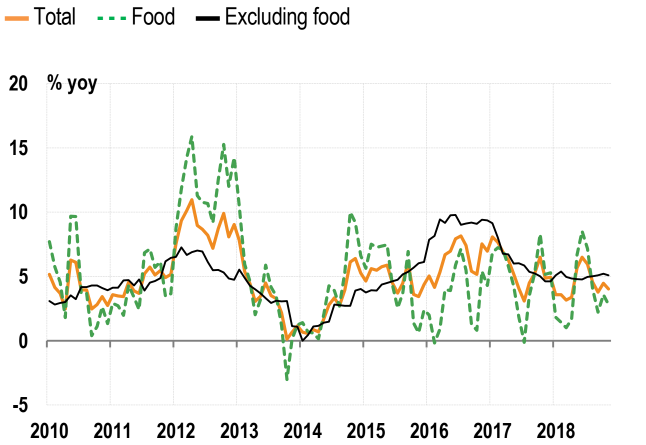
Yet several factors also suggest that there has been less pressure on spending. The bulk of the increase in the budget was attributed to higher capital spending (+76%), especially the "capital transactions" item due to special allocations to the National Social Insurance Fund (CNAS) to absorb the losses of the National Pension Fund (CNR) and settle the arrears accumulated since 2017. Public investment was also expected to increase (+35%). Yet in the first 9 months of the year, imports of industrial capital goods declined 10%, which points to another fall in public investment.

1- Forecasts

	2017	2018e	2019e	2020e
Real GDP growth (%)	1.4	2.5	2.8	2.2
Inflation (CPI, year average, %)	5.6	4.4	5.0	5.0
Gen. Gov. balance / GDP (%)	-6.4	-5.2	-7.7	-7.0
Central. Gov. debt / GDP (%)	31.6	42.9	47.9	54.9
Current account balance / GDP (%)	-12.4	-7.6	-10.9	-11.1
External debt / GDP (%)	2.6	2.3	2.6	2.8
Forex reserves (USD bn)	97	83	66	48
Forex reserves, in months of imports	19.7	16.2	12.7	9.2
Exchange rate USDDZD (year end)	114.7	119.0	121.7	126.0

e: BNP Paribas Group Economic Research estimates and forecasts

2- Inflation



Source: ONS, BNP Paribas calculations

Moreover, current spending, though elevated, is generally kept under tight control. All of this leads us to conclude that the authorities are seeking above all to stabilise a financial situation that deteriorated dangerously in 2017, instead of providing firm support for domestic demand. In other words, Algeria's fiscal policy can hardly be called expansionist.

Central bank vigilance

The central bank's cautious approach faced with the inflow of liquidity in the banking sector has also played a key role. The aggregate of liquidity withdrawals and sight deposits of banks at the central bank, which had dropped to a low of DZD 500 billion in

October 2017, compared to nearly DZD 3000 billion in mid-2014, returned to DZD 1500 billion in 2018 thanks to the payment of government debt due to state-owned companies (about 40% of total banking system deposits).

At the same time, to ensure price stability the central bank has used three instruments to actively manage interbank liquidity. As of January 2018, it resumed liquidity withdrawal operations in the form of short-term deposit facilities. The reserve requirement ratio was also raised to 10%, from 4% in August 2017, at the height of the squeeze on domestic liquidity. Lastly, the central bank isolated part of the surplus liquidity furnished by Sonatrach, the national oil and gas company, which can use these funds according to its investment needs.

By doing so, the central bank has successfully anchored the interbank rate to its key policy rate. Monetary policy transmission channels had long been weakened by the excessive abundance of liquidity in the banking sector. Yet with the launch of open-market operations in early 2017, it was able to introduce a benchmark rate, set at 3.5%, which the central bank uses to steer the banks' needs. For the moment, this system seems to be working. After peaking at 4.2% in November 2017, the interbank rate has been fluctuating between 1.5% and 3.5% ever since. Moreover, the easing in the banks liquidity pressure helped maintain lending growth at a rather high level (+12.5% at the end of September 2018) without generating inflation.

We must nonetheless add some nuance. Although the loan-to-deposit ratio is now fluctuating at around 95%, after having hit the 100% threshold when unconventional financing was first launched, it is still 20 points above the level prior to the oil shock. Moreover, with bank loans outstanding equivalent to 47% of GDP (25% if we exclude loans to state-owned companies), compared to 80% for Morocco, the risks of overheating due to domestic factors generally seem limited.

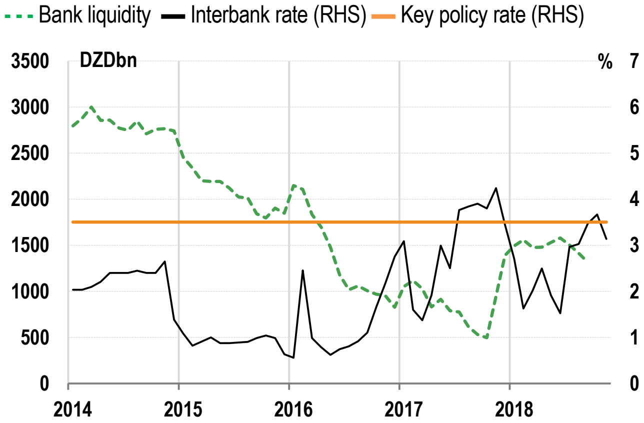
Latent risks

Although inflationary pressures have been contained so far, this strategy is not without risk. By turning to unconventional financing to cover the fiscal deficit, the authorities have bought some time – 5 years to be exact – to readjust the Algerian economic model to the new oil market situation. For the moment, however, the status quo seems to predominate.

The 2019 budget follows along the same lines as that of 2018. The subsidy system was maintained and no new taxes are planned. Once again, public investment might serve as the adjustment variable. Brent crude oil prices would have to surpass USD 90 a barrel to balance public finances, a level that seems unreachable in the current context. According to our estimates, the budget deficit would be substantial at nearly 8% of GDP in 2019.

The level of public debt offers some manoeuvring room, but it must be monitored closely, since government support to state-owned companies is driving public debt up rapidly. The dynamics of the external accounts is the main source of concern. Algeria is one of the region's few hydrocarbon producers that has not rebalanced its

3- Liquidity in the banking system and interbank rate



Source: Bank of Algeria, IMF

external position. The current account deficit is estimated to have reach USD 12 billion in 2018, and the 2019-2020 outlook is for a further widening due to downward pressure on global oil prices. The external position is hit not only by the downturn in hydrocarbon export volumes (down 9% in the first 9 months of 2018, after contracting 25% between 2005 and 2017), but also by the low level of capital inflows. The chances that this situation will improve are slim, at least in the short term, given Algeria's rather unattractive business climate and the authority's refusal to borrow externally. In this environment, foreign reserves are bound to erode further. They could reach less than USD 50 billion by year-end 2020 (9 months of imports of goods and services), compared to USD 195 billion at year-end 2013. Here too, Algeria enjoys comfortable manoeuvring room, but it is dwindling fast.

Algeria is running the risk of a painful medium-term macroeconomic adjustment, either via the exchange rate or the compression of imports. Given the weakness of the industrial base, both options would have a severe impact on inflation. One positive point is that the authorities have made statements showing that are fully aware of the situation. Yet we must wait until the presidential elections due to be held in April to know more about their reform intentions.

Stéphane Alby
stephane.alby@bnpparibas.com

Economic Research Department

William DE VIJLDER Chief Economist	+33(0)1 55 77 47 31	william.devijlder@bnpparibas.com

ADVANCED ECONOMIES AND STATISTICS

Jean-Luc PROUTAT Head	+33.(0)1.58.16.73.32	jean-luc.proutat@bnpparibas.com
Alexandra ESTIOT Works coordination - United States - United Kingdom - Globalisation	+33.(0)1.58.16.81.69	alexandra.estiot@bnpparibas.com
Hélène BAUDCHON France (short-term outlook and forecasts) - Labour markets	+33.(0)1.58.16.03.63	helene.baudchon@bnpparibas.com
Louis BOISSET European central bank watch, Euro area global view, Japan	+33.(0)1.57.43.02.91	louis.boisset@bnpparibas.com
Frédérique CERISIER Euro Area (European governance and public finances),Spain, Portugal	+33.(0)1.43.16.95.52	frederique.cerisier@bnpparibas.com
Catherine STEPHAN Nordic countries - World trade - Education, health, social conditions	+33.(0)1.55.77.71.89	catherine.stephan@bnpparibas.com
Raymond VAN DER PUTTEN Germany, Netherlands, Austria, Switzerland - Energy, climate - Long-term projections	+33.(0)1.42.98.53.99	raymond.vanderputten@bnpparibas.com
Tarik RHARRAB Statistics and Modelling	+33.(0)1.43.16.95.56	tarik.rharrab@bnpparibas.com

BANKING ECONOMICS

Laurent QUIGNON Head	+33.(0)1.42.98.56.54	laurent.quignon@bnpparibas.com
Laure BAQUERO	+33.(0)1.43.16.95.50	laure.baquero@bnpparibas.com
Céline CHOULET	+33.(0)1.43.16.95.54	celine.choulet@bnpparibas.com
Thomas HUMBLOT	+33.(0)1.40.14.30.77	thomas.humblot@bnpparibas.com

EMERGING ECONOMIES AND COUNTRY RISK

François FAURE Head	+33.(0)1 42 98 79 82	francois.faure@bnpparibas.com
Christine PELTIER Deputy Head - Greater China, Vietnam, other North Asian countries, South Africa	+33.(0)1.42.98.56.27	christine.peltier@bnpparibas.com
Stéphane ALBY Africa (French-speaking countries)	+33.(0)1.42.98.02.04	stephane.alby@bnpparibas.com
Sylvain BELLEFONTAINE Turkey, Ukraine, Central European countries	+33.(0)1.42.98.26.77	sylvain.bellefontaine@bnpparibas.com
Sara CONFALONIERI Africa (Portuguese & English-speaking countries)	+33.(0)1.42.98.43.86	sara.confalonieri@bnpparibas.com
Pascal DEVAUX Middle East, Balkan countries	+33.(0)1.43.16.95.51	pascal.devaux@bnpparibas.com
Hélène DROUOT Korea, Thailand, Philippines, Mexico, Andean countries	+33.(0)1.42.98.33.00	helene.drouot@bnpparibas.com
Salim HAMMAD Latin America	+33.(0)1.42.98.74.26	salim.hammad@bnpparibas.com
Johanna MELKA India, South Asia, Russia, Kazakhstan, CIS	+33.(0)1.58.16.05.84	johanna.melka@bnpparibas.com

Michel BERNARDINI Public Relation Officer	+33.(0)1.42.98.05.71	michel.bernardini@bnpparibas.com

OUR PUBLICATIONS

CONJONCTURE

Structural or in the news flow, two issues analysed in depth

EMERGING

Analyses and forecasts for a selection of emerging economies

PERSPECTIVES

Analyses and forecasts for the main countries, emerging or developed

ECOFLASH

Data releases, major economic events. Our detailed views…

ECOWEEK

Weekly economic news and much more…

ECOTV

In this monthly webTV, our economists make sense of economic news

ECOTV WEEK

What is the main event this week? The answer is in your two minutes of economy

YOU WANT TO RECEIVE OUR PUBLICATIONS?

SUBSCRIBE ON OUR WEBSITE
http://economic-research.bnpparibas.com

AND

FOLLOW US ON LINKEDIN
https://www.linkedin.com/showcase/bnp-paribas-economic-research/
OR TWITTER
https://twitter.com/EtudesEco_BNPP

© BNP Paribas (2015). All rights reserved.

Prepared by Economic Research – BNP PARIBAS

Registered Office: 16 boulevard des Italiens – 75009 PARIS

Tél : +33 (0) 1.42.98.12.34

Internet : www.group.bnpparibas.com - www.economic-research.bnpparibas.com