CEEMarketWatch

Morning Review | Nov 11, 2019

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CGD's profit rises 74% y/y to EUR 640.9mn in Jan-Sep

HIGH State will have to inject minimum EUR 653mn in Novo Banco in 2020 – EC

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KEY STAT Merchandise trade deficit rises by 45.5% y/y to EUR 1.80bn in September

SLOVENIA

Economy to grow by less than initially projected 3.2% in 2019 - Bank of Slovenia

Postal workers go on strike on Monday, Nov 12, in call for higher wages

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HIGH PSOE wins Nov 10 election, but stalemate persists

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Former Catalan politicians Puig and Comin to appear before court on Nov 15

CEE & CIS

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BiH hesitant about regional mini-Schengen initiative

Failure to form governments hinders new investments -- EBRD's Tabak

Arcelor Mittal, BH Gas sign gas delivery contract

FBiH govt to continue talks with Israeli-Chinese consortium over Aluminij

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Society rejects reforms, Bulgaria copes with economy slowdown – economy minister

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Local taxes are low, municipalities should raise property tax – finance minister

Consumer confidence rises by 1.1pts q/q in Q4

Construction output picks up to 6.9% y/y in September

KEY STAT Retail sales growth picks up to 2.6% y/y in September

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CROATIA

Hrvatski suverenisti platform establishes Croatian Sovereigns party

Milanovic pledges to be supreme defender of rights of Croatia, citizens

Former HDZ leader Karamarko likely candidate for chair at intraparty elections

Ruling HDZ to win elections, SDP’s rating increases most y/y – Promocija poll

PRESS Press Mood of the Day

Industrial producers' prices fall by 0.5% y/y in October

KEY STAT Foreign trade deficit narrows by 3.1% y/y to EUR 688mn in September

Vacancy index slumps again falling by 0.5% y/y in October

CZECH REPUBLIC

Largest city halls want lower property taxation

Labour ministry to punish job seekers worse for refusing state-offered jobs

ANO extends lead in October, seven parties to make it to parliament - poll

PRESS Press Mood of the Day

CNB board appears to be on course of keeping interest rates stable

Q&A Excise tax changes

Tourism activity slows down in Q3 2019

Activity in non-financial services falls by 1.1% y/y in Q3 2019

CNB turns more upbeat on public finances in new forecast

KEY STAT Registered unemployment rate eases to 2.6% in October, as expected

GEORGIA

NBG reserves fall by USD 216mn to USD 3.4bn in October

HUNGARY

PRESS Press Mood of the Day

KEY STAT Budget deficit reaches 57.6% of annual target in Jan-Oct

Underlying inflation indicators mostly accelerate in October

KEY STAT Consumer inflation picks up to 2.9% y/y in October

KEY STAT Industrial output growth recovers to 11.1% y/y in September

International reserves fall by 1.4% m/m to EUR 28.0bn at end-October

KAZAKHSTAN

Government ups 2019 oil output forecast to 90.5mn tons

KEY STAT Total FX reserves rise by USD 528mn in October to USD 88.7bn

MONTENEGRO

State railway firm ZPCG to receive EUR 575,000 state support

European Investment Bank to extend EUR 18mn loan for education sector

Dutch DEC International-led group to revamp existing unit at Pljevlja TPP

NORTH MACEDONIA

Education sector wages to increase by 10% from Jan 1

KEY STAT Consumer prices decline by 0.2% y/y in October

POLAND

HIGH PM Morawiecki presents new govt, but control to remain with Kaczynski

Q&A Enterprise Ministry's CPI forecasts and accuracy

Fuel prices hold in first week of Nov, fuel index declines set to widen

PO to hold primary on Dec 14 to choose presidential candidate

FinMin confirms coverage of 2019 borrowing, borrowing hits PLN 144.3bn

ROMANIA

PRESS Press Mood of the Day

HIGH Iohannis expectedly wins first round of presidential election, to face runoff

HIGH Fitch Ratings affirms Romania at BBB-/stable

Fiscal policy to be co-ordinated with monetary policy – PM Orban

NBR governor calls for containment and gradual adjustment

HIGH NBR revises downwards inflation forecasts for end-2019, 2020

Budget deficit in Jan-Oct is 2.8% of GDP, exceeds annual target – Iohannis

RUSSIA

Russian Post wants RUB 40bn from fiscal reserve fund

Gazprom obtains EUR 916mn loans from European banks this autumn

CBR wants more flexibility in sale of rehabilitated banks

PRESS Press Mood of the Day

CBR forex reserves rise by USD 10bn in October to USD 541bn

SERBIA

Q&A One-offs that increase non-tax revenues in 2019

Q&A Breakdown of capital expenditure

Serbia, North Macedonia, Albania agree on free movement of people, goods

Q&A Item pension in 2020 draft budget

Net profit NIS Group more than halves to RSD 10.7bn in January-September

PRESS Press Mood of the Day

Q&A GDP growth in Q3

TURKEY

PRESS Press Mood of the Day

Financial sector launches loan restructuring programme for small firms

Real imports drive foreign trade deficit expansion in September

UKRAINE

Three state-owned banks not ready for privatisation – WB rep Kahkonen

President Zelensky's new decree instructs cabinet on structural reforms

PM Honcharuk set to sell Centerenergo, denies Kolomoysky's influence

PRESS Press Mood of the Day

Core inflation down another 0.7pps to 5.8% y/y in October

KEY STAT Headline CPI inflation slows to 6.5% y/y in October

NBU stress-tests 29 largest banks, finds 11 may need recapitalisation

EURO AREA

SLOVAKIA

Klub 500 calls upon parliament to vote down banking levy bill

Judiciary, corruption, bureaucracy priority issues of SaS in 2020 elections

Smer-SD to win elections, lead over PS-Spolu narrows – Focus poll

PRESS Press Mood of the Day

HIGH Fitch affirms country's A+ rating with stable outlook

Entrepreneurs want changes in education, cleansing public life, and tax cuts

Non-parliamentary PS-Spolu submit two bills to curb power of oligarchs

KEY STAT Foreign trade surplus narrows by 66.4% y/y to EUR 162mn in September

LATIN AMERICA

ARGENTINA

Fernandez to seek budget approval, first steps on debt restructuring in December

Gasoline prices to rise 5-10% before year ends

BRAZIL

Federal Judge decides to release Lula

Moro says STF's decision should be respected

Campos Neto sees room to cut Selic rate by another 50bps

STF overturns mandatory imprisonment for Lula, who could be freed

CHILE

KEY STAT CPI inflation quickens to 0.8% m/m and 2.6% y/y in October

COLOMBIA

President Duque's approval falls to 26%

MEXICO

Analysts see govt facing a spending versus growth dilemma ahead

Private consumption falls 0.5% y/y in August, disappointingly

MIDDLE EAST & N. AFRICA

BAHRAIN

Government sells debt worth BHD 316mn this week

EGYPT

KEY STAT Urban CPI inflation slows to 3.1% y/y in Oct, lowest rate in 14 years

ISRAEL

Blue and White remains biggest party, Netanyahu to win direct PM election – poll

Lieberman might support Netanyahu or Gantz if any of them thwart unity cabinet

Cabinet approves Bennett's appointment as defence minister

PRESS Press Mood of the Day

Netanyahu reportedly authorises interior minister to advance PM direct elections

KUWAIT

CEO of local bourse expects USD 3bn passive inflow in 2020 on MSCI EM inclusion

SAUDI ARABIA

Aramco to start bidding for shares on Nov 17, bidding ends on Dec 4

Chinese entities reportedly plan USD 5-10bn investment in Aramco's IPO

TUNISIA

Ennahda's potential coalition partners will not support PM from its ranks

UNITED ARAB EMIRATES

Foreign investors buy USD 142.5mn shares on DFM Nov 3 - 7

GDP growth to pick up to 3% in 2020 on fiscal stimulus, Expo 2020 – IMF

SUB-SAHARAN AFRICA

ANGOLA

Govt to announce another oil blocks tender in January 2020

GABON

President Bongo makes another mini cabinet reshuffle

GHANA

Gold Fields reports 4.9% y/y growth in gold production in Q3

Parliament approves USD 600mn cocoa loan from AfDB

IVORY COAST

Gbagbo aide and former youth leader Ble Goude faces trial in Abidjan

KENYA

Odinga’s candidate declared winner in Kibra by-election

NIGERIA

Federal government pay NGN 157bn tax arrears to state governments

Bill seeking VAT rate hike scales second reading in Senate

SENEGAL

HCPI inflation edges up to 1.3% y/y in October

New oil exploration licensing process to ensure transparency – oil company

SOUTH AFRICA

PRESS Press Mood of the Day

T-bill yields mostly ease at this week’s primary auction

Eskom implements new load-shedding

ZAMBIA

Government sells T-bills above target at this week’s auction

ASIA

INDIA

BJP declines to form govt in Maharashtra, Governor ask Sena to stake claim

Congress blames BJP for economic slowdown on 3rd anniversary of demonetization

INDONESIA

KEY STAT Current account deficit falls by 9.6% y/y to USD 8.5bn in Q3

Pertamina to increase green fuel production

NasDem aims to challenge PDI-P, Gerindra in 2024 elections

International reserves rise by 1.9% m/m to USD 126.7bn at end-October

MALAYSIA

KEY STAT Industrial production growth remains unchanged at 1.7% y/y in September

HIGH BNM cuts reserve requirement ratio by 0.5pps to 3.0%

PAKISTAN

Govt plans for countrywide tax assessment drive to widen tax base

HIGH IMF concludes review on successful note, asks govt to stick to targets

PHILIPPINES

Vice-President Robredo to discuss war on drugs with US, UN

BSP likely to approve Islamic banking rules in November

SOUTH KOREA

Prosecution, education, and labour reforms key to improve fairness – Moon

Foreign Minister Kang confirms Korea will cancel GSOMIA pact with Japan

KEY STAT Government posts KRW 26.5tn budget deficit in Jan-Sep

THAILAND

Campaign stimulating home purchases to be launched on Nov 11

International reserves rise by USD 2.3bn m/m to USD 222.8bn at end-October

ESTONIA

KEY STAT Merchandise trade deficit widens by 91.0% y/y to EUR 157.4mn in September

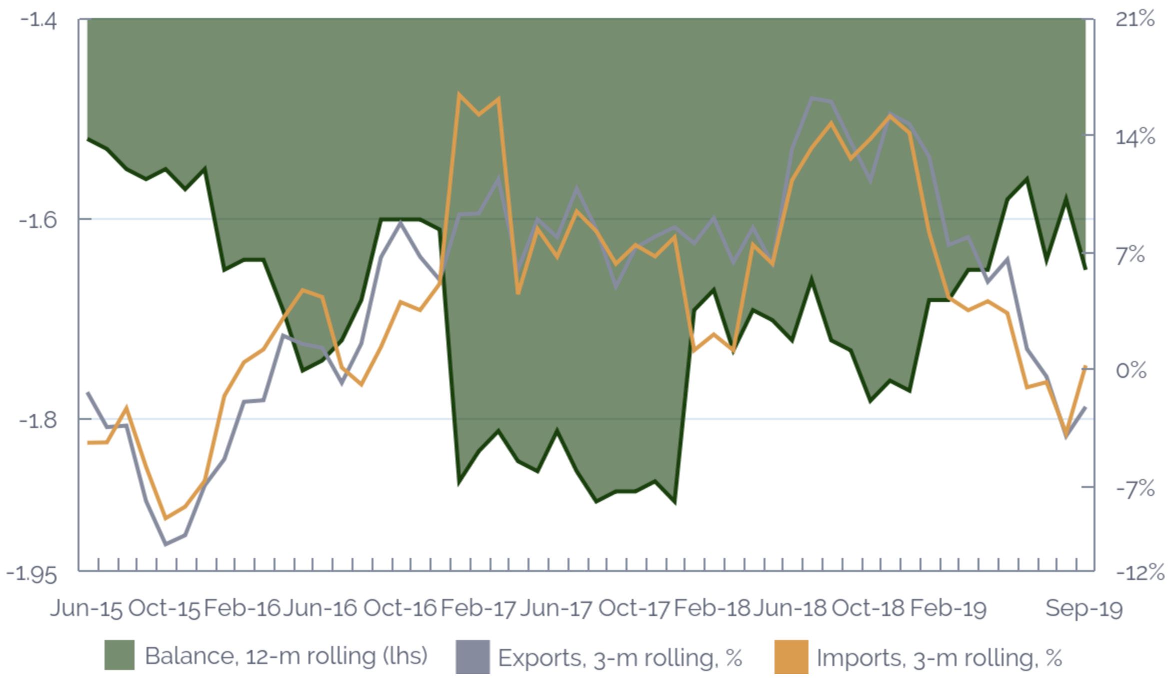
Estonia | Nov 11, 06:45

- **Exports decline for fourth consecutive month, down by 2.4% y/y in September**
- **Imports increase following drop in August, supported by agricultural, chemical, transport products**
- **Exports to be affected by moderating external demand, imports to be supported by household consumption**

The merchandise trade deficit widened by 91.0% y/y to EUR 157.4mn in September, according to figures of the statistical office, published on Monday. Exports continued to decline for the fourth consecutive month, down by 2.4% y/y in September, from a drop of 2.5% y/y in August. Top destination countries of Estonia's exports in September were Finland (17% of total), Sweden (10%) and Latvia (9%). The most considerable decrease was registered by exports to the US and Singapore driven by electrical equipment and mineral products, respectively. On a more positive note, the most notable increase was marked by agricultural products and food preparations, partially supported by favorable crop yield this year, in our view.

External trade of goods, EUR bn

Source | Stat office



Meanwhile, imports increased by 3.4% y/y, following a notable drop in August. The increase is likely partially supported by strong domestic demand, which has been fueled by the strong labour market. Key trading partners in terms of imports were Finland (13%), Germany and Lithuania (each 10%). Imports increased the most from Latvia, Germany and the US, driven by mineral products, transport equipment and electrical equipment, respectively. Meanwhile, imports from Russia decreased the most, driven by mineral products. Regarding commodity groups, the most considerable increase was marked by imports of agricultural products, chemicals and transport equipment.

Looking ahead, exports will likely continue to be negatively affected by moderating demand among trading partners, while lower investment demand due to uncertainties of the external environment will likely put downward pressure on imports. On the other hand, household consumption should continue to support import growth, which has been driven by the strong labour market.

External trade in goods

	Sep-19			Jan-Sep 19	
	EUR mn	% y/y	Contribution pps	EUR mn	% y/y
Exports	**1 198,9**	**-2,4%**	**-2,4**	**10 831,3**	**2,2%**
Foodstuff	47,1	18,6%	0,6	408,1	8,3%
Mineral products	143,2	-31,7%	-5,4	1 356,0	-16,4%
Chemical products	67,9	7,3%	0,4	567,4	5,1%
Wood	130,0	-0,2%	0,0	1 140,7	1,6%

Base metals	87,7	-15,4%	-1,3	874,5	4,6%
Machinery	255,5	-12,8%	-3,0	2 615,9	3,1%
Vehicles	83,4	28,1%	1,5	777,6	14,0%
Others	927,7	4,0%	2,9	927,7	4,0%
Imports	**1 356,4**	**3,4%**	**3,4**	**12 021,3**	**1,0%**
Foodstuff	76,0	22,5%	1,1	644,6	7,0%
Mineral products	163,6	-23,0%	-3,7	1 501,7	-15,9%
Chemical products	131,3	22,6%	1,8	1 094,0	10,3%
Wood	46,9	2,9%	0,1	417,0	-1,5%
Base metals	121,7	-3,0%	-0,3	1 157,8	7,0%
Machinery	308,6	-1,1%	-0,3	2 771,6	-4,0%
Vehicles	139,7	18,2%	1,6	1 363,6	8,4%
Others	36,7	9,1%	0,2	310,8	9,8%
Balance	**-157,5**	**90,9%**	**-**	**-1 190,1**	**-9,2%**
12-m rolling balance	-1 650,1	-4,8%	-	-	-

Source: Statistical Office

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FRANCE

KEY STAT CA deficit narrows by 7.8% m/m (sa) to EUR 2.7bn in September

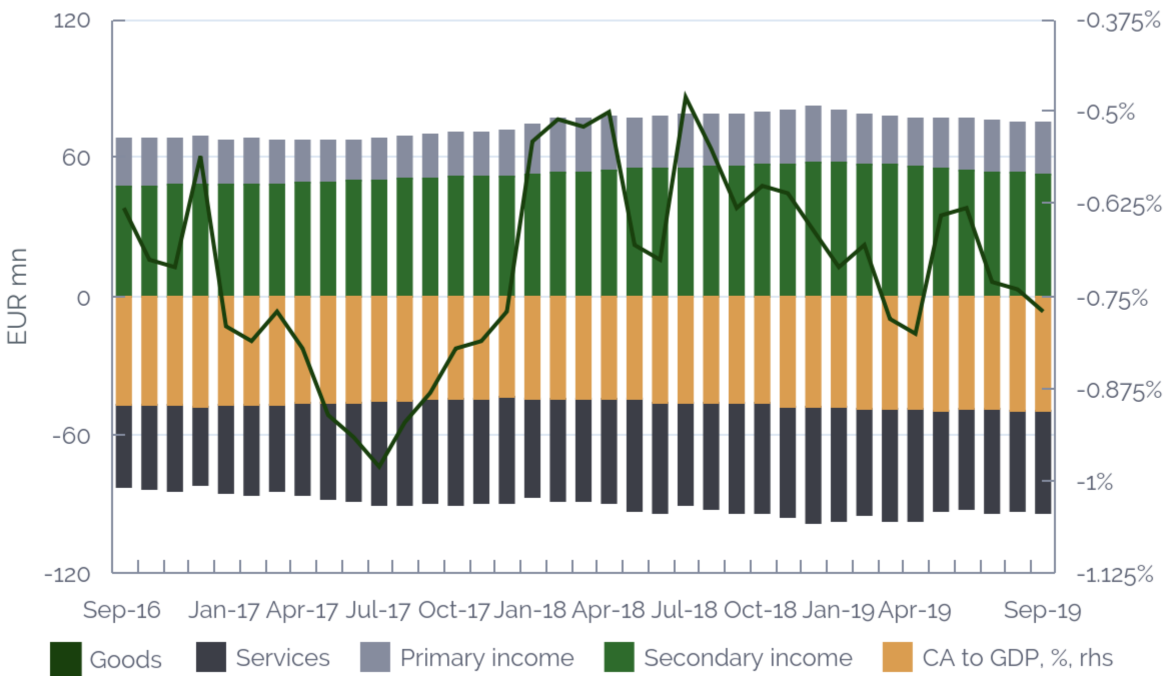
France | Nov 08, 17:10

- **Non-travel surplus widens, offsetting weaker tourist sector performance**
- **Financial account registers EUR 18.2bn net inflow, compared to EUR 10.2bn in August**
- **12-m rolling CA deficit widens as primary account surplus falls, secondary income deficit widens**

The current account deficit narrowed by 7.8% m/m (sa) to EUR 2.7bn in September, data of the Bank of France showed on Friday. This came on the back of significant widening of non-travel service surplus, which reached EUR 1.3bn. In contrast, the tourist sector had somewhat negative impact on the current account balance as it was possibly affected by the recent terrorist acts and stalling GDP growth in some major economies. The merchandise trade deficit widened by 10.5% m/m, affected by the weak external demand. The primary account surplus and the secondary account deficit were largely unchanged during the month.

Current account, 12m rolling, sa

Source | Bank of France



The financial account registered EUR 18.2bn net inflow (non-sa) compared to EUR 5.1bn net inflow a year ago and EUR 10.2bn net outflow in Sep 2018. The monthly decrease was driven by other investments, which turned to EUR 3.5bn net inflow from EUR 16.0bn in August.

As far as the 12-monht rolling figures are concerned, the current account deficit widened by 28.5% y/y to EUR 18.5bn (0.8% of GDP). The primary account surplus narrowed noticeably, whereas the secondary income deficit widened tangibly. Moreover, the travel service trade surplus also reported a noticeable decline. On the financing side, the financial account net inflow increased to EUR 69.2bn from EUR 38.3bn a year ago. This reflected significant decline of FDI net outflow to EUR 8.2bn.

Balance of payments, EUR mn

			Monthly			**12m rolling**
	Aug-19	Sep-19	Change	Sep-18	Sep-19	Change
Current account	**-2,981**	**-2,749**	**232**	**-14,407**	**-18,507**	**-4,100**
Goods	-4,636	-5,123	-487	-47,482	-44,528	2,954
Services	1,567	2,350	783	22,704	22,832	128
travel	1,142	1,079	-63	15,265	12,504	-2,761
non-travel	425	1,271	846	7,439	10,327	2,888
Primary income	4,171	4,107	-64	56,354	52,587	-3,767
Secondary income	-4,083	-4,083	0	-45,983	-49,398	-3,415
Capital account	**273**	**203**	**-70**	**1,762**	**2,501**	**739**
Financial account	**-5,060**	**-18,200**	**-13,140**	**-38,349**	**-69,185**	**-30,836**

Direct investment	-1,596	2,244	3,840	67,628	8,190	-59,438
Assets	223	7,320	7,097	96,020	75,801	-20,219
Liabilities	1,819	5,076	3,257	28,392	67,612	39,220
Portfolio investment	-14,894	-14,444	450	-56,960	-33,020	23,940
Assets	-8,344	-1,104	7,240	-4,196	67,910	72,106
Liabilities	6,551	13,340	6,789	52,764	100,931	48,167
Financial derivatives	-5,415	1,431	6,846	-15,726	-10,110	5,616
Other investment	16,019	-3,479	-19,498	-39,178	-38,064	1,114
Reserve assets	826	-3,951	-4,777	5,888	3,821	-2,067
Net errors and omissions	**-604**	**-14,795**	**-14,191**	**-24,345**	**-50,188**	**-25,843**

Note: CA data are seasonally adjusted

Source: Bank of France

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Private sector employment growth edges up to 0.3% q/q in Q3 – flash

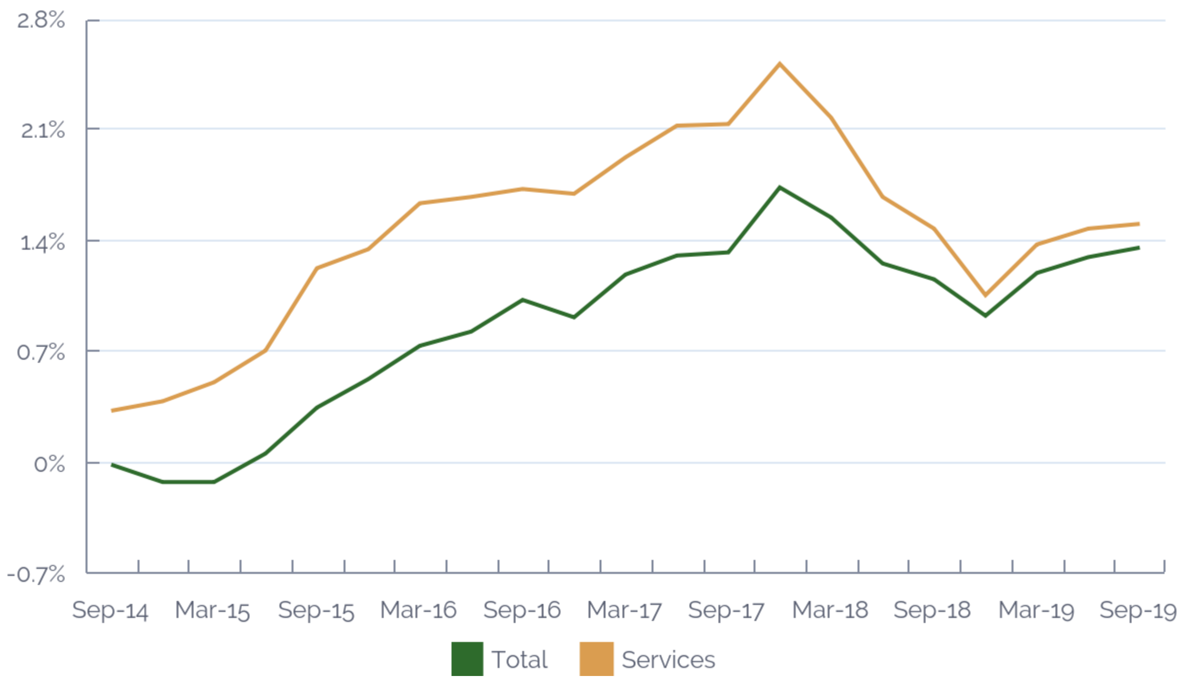
France | Nov 08, 09:20

- **Increase broad-based with industry registering biggest rise - 0.7% q/q**
- **We expect job creation to continue, but weak external conditions to keep it contained**

Private sector employment growth edged up to 0.3% q/q in Q3, according to a flash estimate published on Friday. The strongest increase was in industry, where the number of workers rose by 0.7% q/q, likely boosted by the high capacity utilization and expectations about improving domestic demand. Moreover, there was increase in payrolls in agriculture, services and construction. This all reflected rising permanent contracts as temporary employment declined further by 0.5% q/q.

Private sector payrolls, % y/y - flash estimate

Source | INSEE



Looking ahead, we expect job creation to continue, aided by the economic growth and reforms previously implemented by the government. However, the weaker external environment would keep the payroll increase contained. Therefore, the unemployment rate should remain above 8% for the time being.

Payrolls, private sector - flash estimate, %

	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19
% q/q					
Total	**0.2%**	**0.3%**	**0.5%**	**0.2%**	**0.3%**
Industry	0.0%	0.3%	0.2%	0.0%	0.2%
Construction	0.4%	0.7%	1.3%	0.5%	0.7%
Services	0.3%	0.3%	0.6%	0.3%	0.3%
Agriculture	0.1%	0.3%	0.4%	0.7%	0.3%
Temporary employment	0.1%	-1.9%	1.4%	-0.3%	-0.5%
% y/y					
Total	**1.2%**	**0.9%**	**1.2%**	**1.3%**	**1.4%**
Industry	0.3%	0.4%	0.6%	0.6%	0.8%
Construction	2.3%	2.1%	2.8%	2.9%	3.2%
Services	1.5%	1.1%	1.4%	1.5%	1.5%
Agriculture	1.4%	2.0%	1.5%	1.5%	1.7%
Temporary employment	3.1%	-3.2%	-1.7%	-0.7%	-1.2%

Source: INSEE

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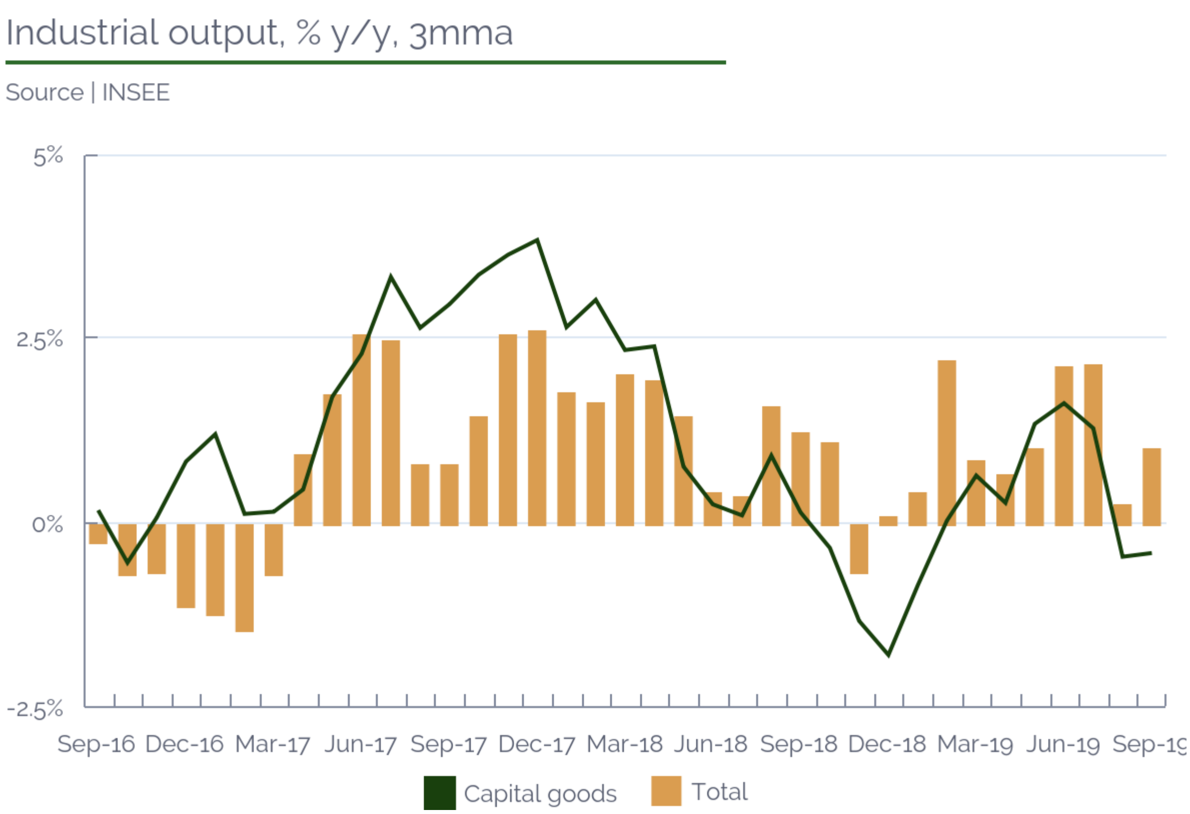
KEY STAT **Industrial output turns to 0.3% m/m growth in September**

France | Nov 08, 08:50

- **Machinery output turns to 3.8% m/m increase, likely on back of corporate investments**
- **Mining and utility production fall with electricity output likely affected by warmer weather**
- **Industrial output to continue to rise, but not at very significant pace**

Industrial output turned to 0.3% m/m (sa&wda) from 0.9% m/m contraction in August, data of the stat office (INSEE) showed on Friday. Strong contribution came from the 3.8% m/m expansion of machinery and equipment production likely supported by some increase of domestic investments as capacity utilization remains high. Moreover, food production swang to 0.6% m/m increase. On the other hand, production of transport equipment turned to 0.6% m/m decline as the auto sector continues to struggle amid the new regulations. Coke and refined petroleum output recorded 10.8% m/m fall, affected by the lower oil prices.



Mining and utilities output continued to fall and given the warmer weather October, we believe that the lower demand for electricity will remain a factor. At the same time, construction production turned to 1.8% m/m rise.

Looking ahead, we believe that industrial production could continue to register growth as indicated by manufacturing PMI. However, the boost from the rising household consumption and some aeronautics deliveries in Q4 should partly be offset by the weak external demand and thus we do not expect the overall growth to be very significant.

Industrial output, %

	Sep-18	Jul-19	Aug-19	Sep-19
% m/m				
Total	**-1.2%**	**0.2%**	**-0.9%**	**0.3%**

Manufacturing	-1.2%	0.3%	-0.8%	0.6%
Utilities	-1.0%	0.0%	-1.4%	-1.5%
% y/y 3mma				
Total	**0.2%**	**1.3%**	**-0.4%**	**-0.4%**
Manufacturing	0.2%	0.9%	-0.7%	-0.4%
Utilities	0.0%	3.5%	1.0%	-0.3%
Intermediate goods	-2.2%	-0.2%	-1.0%	-1.2%
Capital goods	1.2%	2.1%	0.3%	1.0%
Consumer durables	-6.2%	2.3%	0.5%	2.2%
Consumer non-durables	2.1%	0.9%	-0.9%	-0.5%
Energy	-0.3%	3.3%	0.3%	-1.1%

Note: All series are calendar and seasonally adjusted

Source: INSEE

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GREECE

Credit ratings of Eurobank, NBG and Alpha Bank to B- with positive outlook – S&P

Greece | Nov 11, 06:29

- **Rating of Piraeus maintained at B, with an upgraded positive outlook now**
- **Greek economy is improving overall thanks to structural reforms in recent years**

Ratings agency Standard & Poor's has upgraded the credit rating of Eurobank, Alpha Bank and National Bank of Greece, the agency announced in a press release. The long-term debt rating of all three banks has been upgraded to B- with a positive outlook, while Piraeus' debt rating was maintained at B now with a positive outlook, up from a stable outlook previously. S&P said that the Greek economy is improving thanks to solid domestic demand, falling unemployment, increased investor interest, removal of capital controls. Combined with the recovery in property prices these factors are expected by S&P to improve the credit profiles of banks.

The agency also notes that the fundamentals of Greek banks have been improving after the completion of the stability program in August last year. S&P said that the commitment of the current and previous Greek governments to structural reforms is the main factor behind the improvement in overall macroeconomic conditions. The agency believes that rising real estate prices can help Greek banks clear out their non-performing exposures, which is why it points to the real estate market as an important factor in the recovery.

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PRESS Press Mood of the Day

Greece | Nov 11, 06:28

Bad quality loans in EU halved since 2015, but Greece and Cyprus stockpile still large (Kathimerini)

ATHEX: Bourse slides 1.78 percent over the week (Kathimerini)

Significant reductions for households and businesses, incentives to invest in new tax bill (Amna)

New banks on the market after a decade of sharp contraction in the domestic banking system (Amna)

Deflation threatens GDP (Naftemporiki)

Chr. Staikouras: We want surpluses to fall to 2% by 2021 (Naftemporiki)

Mitarakis: Possible increase in national pension (Euro2day)

Staikouras: New tax cuts in 2020 (Euro2day)

EY: Greece's investment profile improved (Capital)

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ITALY

PRESS Press Mood of the Day

Italy | Nov 11, 06:31

Gualtieri: "The markets are afraid that Salvini will return" (La Repubblica)

A meeting between the government and ArcelorMittal [may] take place on Tuesday (Il Sole 24 Ore)

[CGIL secretary] Maurizio Landini: "Mittal needs to change his mind" (HuffPost)

Di Maio: "If the PD presents the amendment [of reinstating ArcelorMittal's legal shield], it would be a problem" (La Repubblica)

ArcelorMittal has a convenient alibi for leaving Italy (Reuters Italia)

Lega will also be in the streets of Milan [during the Dec 10 demonstration] (Ansa)

Mattarella: "Europe without walls is a great opportunity" (Ansa)

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Di Maio wants a new M5S-PD “pact” to give direction to government

Italy | Nov 08, 13:37

- **Work on the pact is to start "after the final approval of the 2020 budget"**
- **It is still unclear whether such an initiative would include Renzi's IV**

Luigi Di Maio has stated that the M5S and the PD need to agree on "a new pact" that can help rekindle the yellow-red government, local media reports. We expect the PD to be generally receptive of such an initiative, despite the fact that it will probably come short of Zingaretti's views of a strategic long-term partnership. Rather, we believe that Di Maio's idea is to set in writing a number of new goals for the government to pursue, as much of the more "popular" measures of the initial PD-M5S agreement have failed to raise trust in the government. With the VAT hike repelled, the tax wedge cut confirmed and the lower number of MPs already settled, there is little for M5S voters (in particular) to look forward to.

Finally, Di Maio has also struck against IV leader Matteo Renzi, claiming that he adopts an unclear rhetoric, which does not help ensure public trust in the sustainability of the government. While Renzi keeps insisting that the government has to last until the end of its legislature, he has already been accused of acting as if he was opposition, thus scoring political points at the expense of M5S and the PD. Work on the pact is to start "after the final approval of the 2020 budget" and it would be interesting to see whether such a "pact" would include IV and if so, in what capacity.

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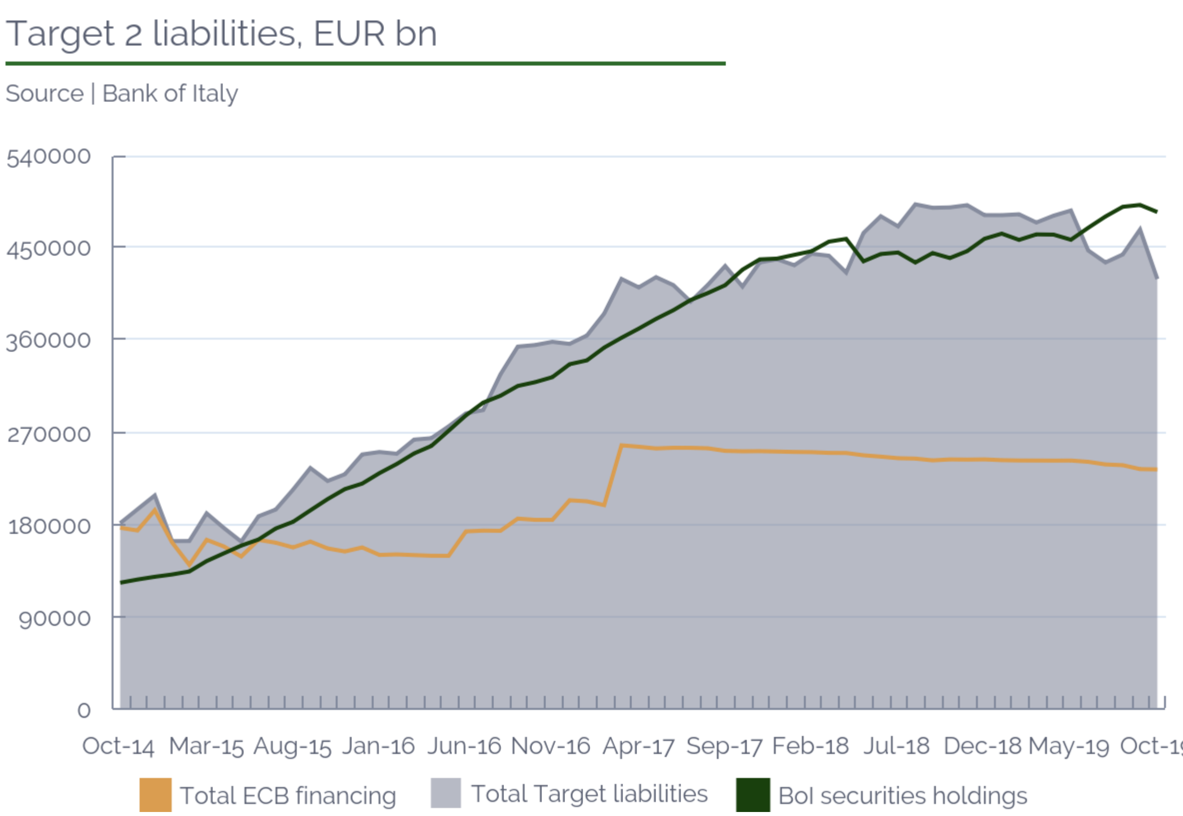
Target 2 liabilities decrease to a 2-year low of EUR 419.8bn in October

Italy | Nov 08, 11:26

- **Target 2 liabilities register their most significant m/m decline since Jan 2015**
- **Liabilities are now some 14.9% below their EUR 492.5bn peak in August 2018**

Bank of Italy's Target 2 liabilities declined by 10.3% m/m to EUR 419.8bn in October, registering their largest m/m decrease in nearly 5 years, according to Bank of Italy balance sheet data. Thus, Target 2 liabilities are now at their lowest level in the last 2 years and some 14.9% below their EUR 492.5bn peak in August 2018. We associate these latest developments with ongoing net capital outflows, as well as the continuing increase of the share of Italian public securities, held by non-residents.



Meanwhile, the value of the total securities holdings of Bank of Italy retreated by 1.4% m/m from their record high of EUR 491.9bn in September. The stock of cheap long-term loans provided to Italian banks by the ECB declined for the fifth consecutive month, albeit only marginally - by 0.1% m/m to EUR 234.0bn. They are now some 9.2%

below the Mar 2017 peak and we expect Italian banks to continue to take their time in repaying these loans and make further use of such opportunities for assessing liquidity.

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LATVIA

KEY STAT CPI inflation decelerates to 2.2% y/y in October

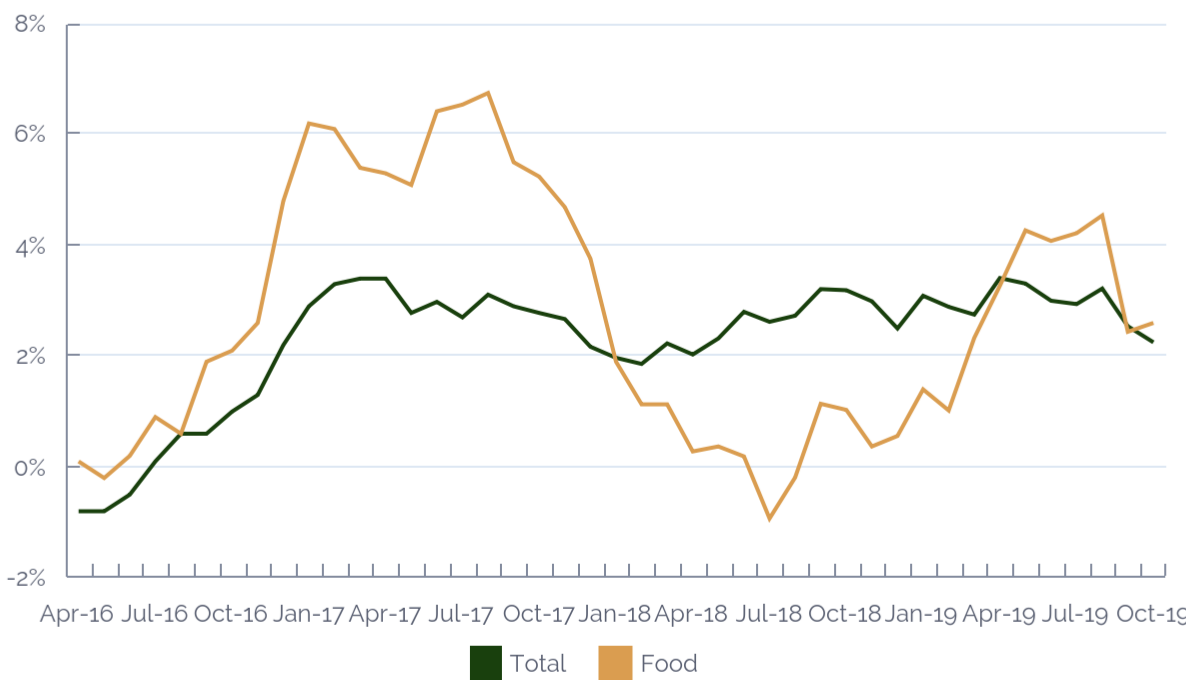
Latvia | Nov 08, 11:34

- **Deceleration is driven by alcohol prices due to cut of excise duty**
- **Transport and utility and housing sectors also contribute to deceleration**
- **Average CPI in Jan-Oct comes in at 2.9% y/y**

CPI inflation decelerated to 2.2% y/y in October, from 2.5% y/y in September, according to figures of the statistical office, published on Friday. The deceleration was driven by alcohol and tobacco where prices declined further to 3.4% y/y, likely due to the cut of the excise duty on alcohol. The transport sector also contributed as price decline deepened further to 1.0% y/y, affected by international oil prices. Some downward pressure on the headline index was also exerted by the housing and utilities sector as price growth eased down to 3.5% y/y

CPI inflation, % y/y

Source | Latvian Statistical Office



Average consumer price growth in January-October came in at 2.9% y/y. To remind, the government expects average annual CPI at 2.8% in 2019, which was revised upwards by 0.3pps in August, due to a weaker euro.

Consumer price index, % y/y

	Oct-18	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
Total	**3.2%**	**3.3%**	**3.0%**	**2.9%**	**3.2%**	**2.5%**	**2.2%**

Food and non-alcoholic beverages	1.0%	4.3%	4.1%	4.2%	4.5%	2.4%	2.6%
Alcohol and tobacco	5.2%	-0.3%	-0.7%	0.3%	0.4%	-1.7%	-3.4%
Clothing and footwear	1.1%	-1.2%	1.0%	2.9%	5.4%	1.9%	2.6%
Housing and utilities	5.7%	5.1%	4.3%	2.6%	3.8%	4.0%	3.5%
Household goods	0.9%	0.8%	2.6%	2.8%	1.8%	2.2%	2.9%
Health	2.5%	1.8%	1.9%	2.2%	1.6%	2.1%	2.3%
Transport	6.6%	3.7%	0.7%	-0.2%	0.4%	-0.1%	-1.0%
Communication	1.7%	1.3%	1.9%	2.1%	1.7%	1.8%	1.8%
Recreation, entertainment	1.6%	3.2%	3.0%	3.1%	3.5%	4.6%	3.0%
Education	1.4%	2.9%	2.7%	2.7%	2.6%	-0.4%	-0.5%
Hotels, cafes, restaurants	4.1%	4.7%	4.7%	4.8%	4.4%	3.7%	3.5%
Miscellaneous goods and services	2.0%	-0.1%	1.8%	1.4%	0.8%	1.0%	0.8%

Source: Latvian Statistical Office

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LITHUANIA

KEY STAT Merchandise trade deficit narrows to EUR 52.0mn in September

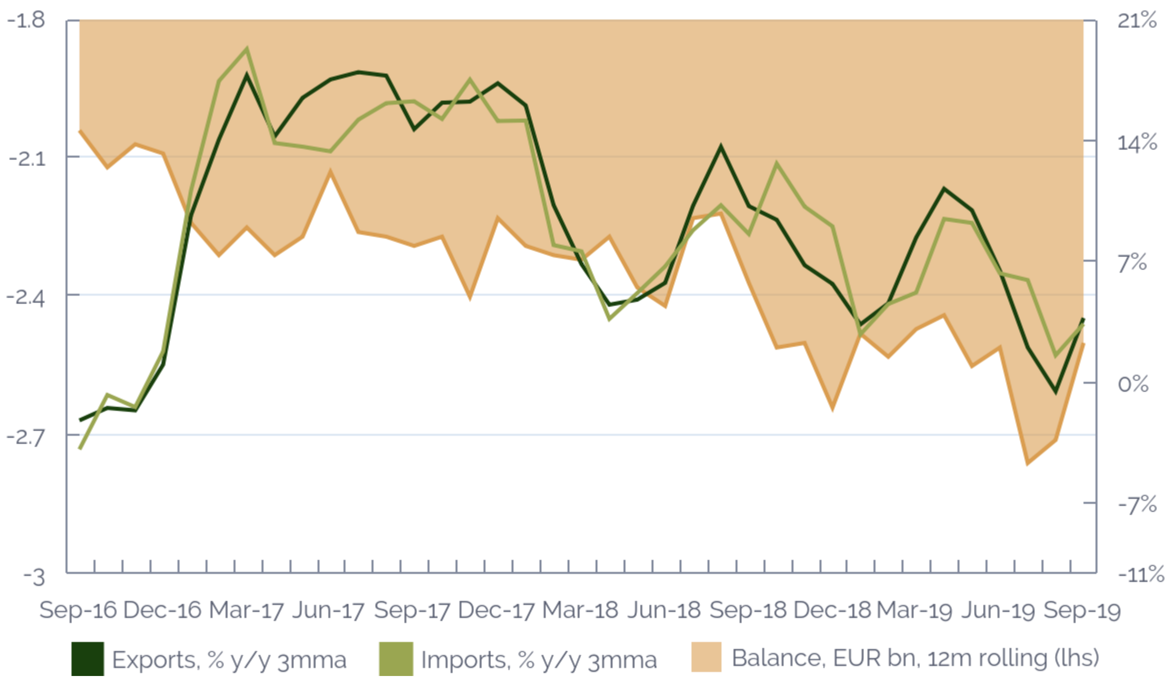
Lithuania | Nov 08, 13:36

- **Exports increase by 10.6% y/y likely reflecting one-off event**
- **Import expand by 1.2% y/y, possibly due to easing investment increase**
- **Merchandise deficit narrows to EUR 1.9bn in Jan-Sep due to rising exprots**

The merchandise trade deficit narrowed to EUR 52.0mn in September from EUR 263.7mn a year ago, data of the stat office showed on Friday. This came on the back of 10.6% y/y increase of exports, which likely reflects some one-off event which affects the monthly economic data of a small country like Lithuania relatively easy. Given the weak external environment we expect to see slower rates of export growth or even its return to negative territory. Imports rose by 1.2% y/y possibly affected by weakening of corporate investments due to the external uncertainty. Still, more indicators should be seen in order to be confirmed whether there is indeed noticeable easing of domestic demand.

Merchandise trade

Source | Stat office



As far as the cumulative figures are concerned, the merchandise deficit narrowed by 7.0% y/y to EUR 1.9bn in Jan-Sep, because exports rose by 6.2% y/y, aided by some stockpiling related to Brexit. In the meantime, imports increased by 5.0% y/y as household consumption and investments exerted upward pressure on them at least in H1.

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KEY STAT **LFS unemployment rate increases to 6.1% in Q3**

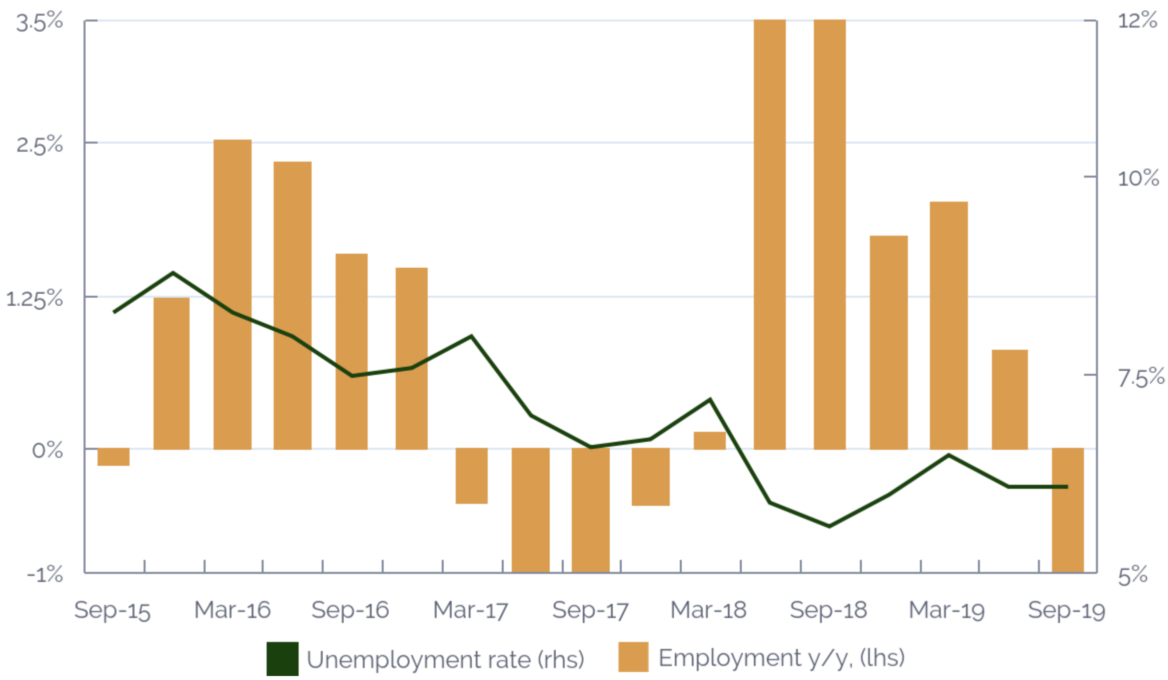
Lithuania | Nov 08, 13:18

- **Employment shrinks likely hit by weak external environment**
- **Data contradicts falling registered unemployment, high economic sentiment**

The LFS unemployment rate increased to 6.1% in Q3 from 5.6% a year ago, data of the stat office showed on Friday. It was unchanged in q/q terms. The growth of jobseekers quickened to 7.2% y/y, while the number of employed turned to 1.9% q/q decline. The labour force shrank by 1.4% q/q, while the number of inactive people reported an increase for a first time in a long time.

Labour Market, %

Source | Stat office



Overall, the LFS data contradicts the registered unemployment figures, which showed fewer jobseekers, higher economic sentiment and still strong GDP growth. In our view, the external uncertainty related to trade tensions and Brexit started to be felt and made companies hesitant about making new investments and hire new people.

Labour Market

	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19
thousands					
Labour force	1,487.8	1,463.4	1,469.1	1,472.5	1,466.9
Employed	1,404.9	1,376.0	1,374.0	1,382.2	1,378.1
Unemployed	-13.2%	-10.0%	-8.5%	4.9%	7.2%
Inactive	-5.9%	-3.1%	-3.8%	-2.9%	1.2%
Unemployment rate, %	**5.6%**	**6.0%**	**6.5%**	**6.1%**	**6.1%**
% y/y					
Labour force	2.3%	1.0%	1.2%	1.1%	-1.4%
Employed	17.4%	1.8%	2.0%	0.8%	-1.9%
Unemployed	82.9	87.4	95.1	90.2	88.9
Inactive	890.0	911.7	900.5	895.7	900.8

Source: Lithuanian Statistics Department

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PORTUGAL

CGD's profit rises 74% y/y to EUR 640.9mn in Jan-Sep

Portugal | Nov 11, 06:59

- **Growth driven in large part from sales of CGD's units in Spain and South Africa**

The profit of Caixa Geral de Depositos rose 74% y/y to EUR 640.9mn in Jan-Sep, according to the bank's latest financial results. The strong rise in profits is mainly due to gains obtained from sales of the bank's units in Spain and South Africa. However, even excluding non-recurring effects, the bank's profit has increased 30% y/y to EUR 481.4mn in Jan-Sep. The net interest income slightly fell by 2.2% y/y to EUR 851.5mn in Jan-Sep, due to the very low interest rate environment this year, the bank said. Income from commissions however rose by 1.4% y/y domestically and 2% y/y on a consolidated basis.

The customer loan portfolio of the bank fell by 3.8% y/y to EUR 49.18bn in Jan-Sep, while deposits rose by 3.0% y/y. Overall, CGD's financial situation continues to improve, according to the latest data. We remind that the bank has expressed intention in charging negative interest on large corporate deposits, along with other Portuguese banks, which has been ruled out as a possibility by the central bank and the finance ministry. Now CGD is continuing to lobby for this idea, saying that it would only charge negative interest on large deposits of other financial entities (such as banks).

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HIGH State will have to inject minimum EUR 653mn in Novo Banco in 2020 – EC

Portugal | Nov 11, 06:51

- **PFC estimates total cost of capital injections to NB between 2018 and 2021 to become EUR 2.94bn**
- **Novo Banco's loss rose 46% y/y to EUR 572.3mn in Jan-Sep**
- **Left Block called on the government to not inject any more money until it knows what it going on**

The European Commission estimates that the government will have to inject a minimum of EUR 653mn in Novo Banco in 2020 due to this year's losses, local media reported. This will be necessary to balance the bank's capital ratios. Bank in April the finance minister Centeno said he expects the government will have to inject EUR 600mn in Novo Banco in 2020. Thus the total cost of the state's capital injections to the bank between 2018 and 2021 will come up to EUR 2.94bn, according to estimates by the Public Finance Council.

Novo Banco published its financial results last weekend, but has not disclosed how much money it will need from the state's Resolution Fund in order to maintain stable capital ratios. According to the data, Novo Banco's loss for Jan-Sep is EUR 572.3mn, by far the largest loss out of any of the largest five banks in Portugal. This marks an increase of 46% y/y compared to the same period in 2018. The data shows that since the resolution of BES five years ago, the financial results of Novo Banco have only progressively deteriorated.

The Left Block have called on the government to not inject any new money into Novo Banco "without knowing what is going on". Catarina Martins, the leader of the party, said that a public administrator should be appointed who supervises the bank on behalf of the government.

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PRESS Press Mood of the Day

Portugal | Nov 11, 06:41

Montenegro wants to be a leader in gaining local government and lowering taxes (Publico)

Five largest banks in Portugal cut profits by more than 400 million euros (Publico)

Luis Montenegro assures that "Rio is condemned to mediocre results" (Correio da Manha)

Novo Banco leaves open how much money it will ask from the Resolution Fund (Correio da Manha)

BE against employers: "Increasing minimum wage with workers' money is unacceptable"(Expresso)

Block: Government should not pay Novo Banco more "without knowing what's going on" (Expresso)

New Bank State aid rises to 650 million by 2020 (Dinheiro Vivo)

Montenegro wants to be PSD leader for 12 years (Jornal de Negocios)

Caixa only wants to charge commission on deposits to "banks and financial institutions: (Jornal de Noticias)

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KEY STAT Merchandise trade deficit rises by 45.5% y/y to EUR 1.80bn in September

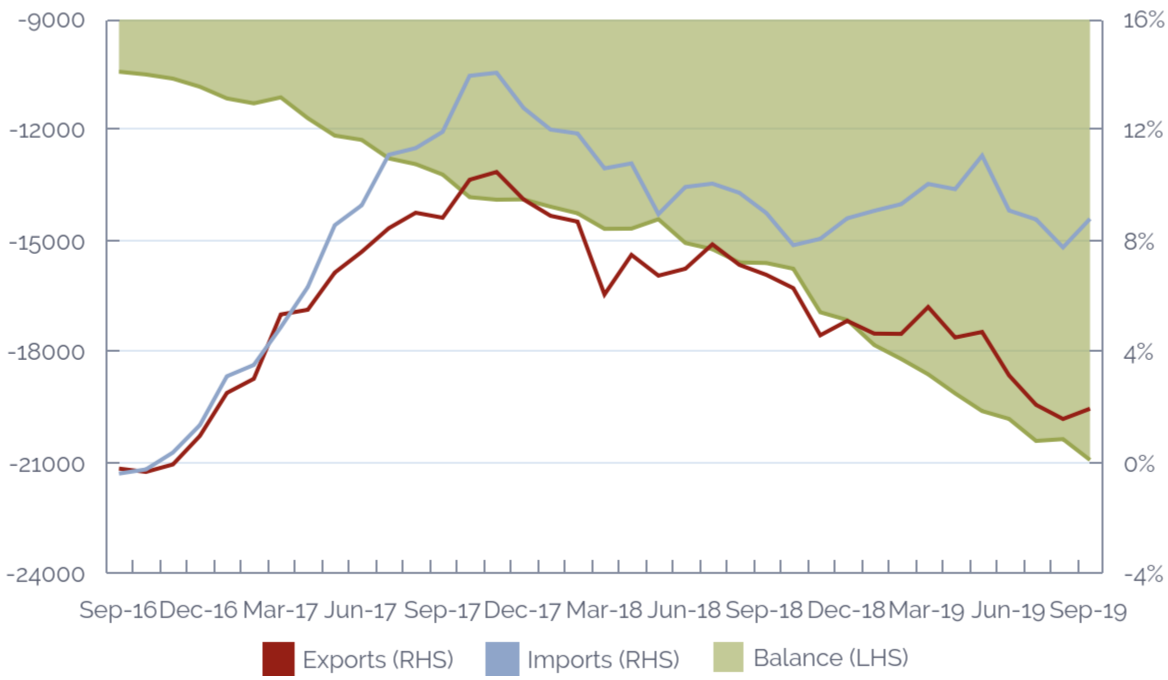
Portugal | Nov 08, 15:35

- **Both exports and imports recover and grow after falling in August**
- **Imports grow by 13.9% y/y, while exports by 5.6% y/y**
- **Exports and imports grew both to/from EU and non-EU states**

The merchandise trade deficit rose by 45.5% y/y to EUR 1.80bn in September, up from EUR 1.24bn a year ago, according to the latest data published by the stat office INE. Both export and import growth recovered after falling in August, but the growth in imports was substantially higher at 13.9% y/y in September. Meanwhile, export growth reached 5.6% y/y, after falling by nearly 5% y/y in August.

External trade of goods, 12m rolling

Source | INE



Import growth was driven by a broad-based recovery across all goods categories. The most significant contributor was the recovery in imports of fuels and lubricants, which is one of the largest goods categories. Imports of transport equipment, as well as capital goods also rose at a notably faster pace in September, compared to august. On the side of exports there was also a broad-based recovery, although fuels and lubricants continued to fall by 20.9% y/y in September, compared to 45.4% y/y in August. Exports of both transport equipment and capital goods grew at a faster pace, however.

The recovery was broad-based on a geographical basis as well. Exports to EU member-state grew by 5.5% y/y in September, after slightly falling in August, while exports to non-EU states rose by 5.9% y/y after declining by 16.0% y/y. A similar dynamic was observed on the side of imports, with the recovery of imports from non-EU states also being the more significant one. The 12-month rolling trade deficit reached EUR 20.9bn in September, and overall the latest data shows that its upward trend continued unabated. We expect this to continue to be the case, at least in the near-term.

External trade, goods

	Sep-19			Jan-Sep	
	EUR mn	**%, y/y**	**Contribution (pps)**	**EUR mn**	**%, y/y**
EXPORTS	**4 960**	**5.6**	**5.6**	**44 551**	**2.2**
EU	3 854	5.5	4.2	34 285	3.4
Non-EU	1 106	5.9	1.3	10 266	-1.7
Food and beverages	546	6.3	0.7	4 456	1.0
Industrial supplies	1 508	1.8	0.6	14 313	2.8
Fuels and	214	-20.9	-1.2	2 444	-22.8

lubricants					
Capital goods	682	7.3	1.0	5 972	4.2
Transport equipment	1 137	19.9	4.0	8 993	11.7
Consumer goods	871	2.8	0.5	8 284	0.7
				13.0	
IMPORTS, CIF	**6 762**	**13.9**	**13.9**	**34 036**	**-38.6**
EU	5 144	14.0	10.6	52 040	25.0
Non-EU	1 618	13.6	3.3	27 970	102.9
Food and beverages	839	10.4	1.3	10 268	47.2
Industrial supplies	1 817	3.2	0.9	13 071	-18.5
Fuels and lubricants	820	40.2	4.0	10 896	61.6
Capital goods	1 082	10.0	1.7	8 586	-0.8
Transport equipment	1 219	30.3	4.8	10 654	20.6
Consumer goods	982.9	9.5	1.4	9 421	20.0
BALANCE, FOB/CIF	**-1 802**	**45.5**	**n.m.**	**-15 603**	**32.0**
BALANCE (12m)	-20 916.0	34.2	n.m.	n.m.	n.m.

Source: INE

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SLOVENIA

Economy to grow by less than initially projected 3.2% in 2019 - Bank of Slovenia

Slovenia | Nov 11, 05:14

- **Governor Vasle says deceleration is attributed to global economic slowdown**
- **CB expected to published updated GDP growth forecasts in coming weeks**
- **IMAD argues export growth slows down due to moderating demand among partners**

In 2019 the economy will grow by less than the 3.2% projected earlier this year by the Bank of Slovenia, CB Governor Bostjan Vasle announced on Friday, November 8, the Slovenian press agency reported. The slowdown will be driven by the global economic slowdown, Vasle argued, without digging into further details, but new GDP growth forecasts for both this and next year are expected to be released by the central bank in coming weeks.

Meanwhile, the IMAD, the think-tank at the finance ministry that prepares the government's macroeconomic projections, said that export growth has slowed down this year due to moderating foreign demand, while on the other hand household spending has continued to grow, supported by the strong labour market.

To remind, the European Commission cut its forecast for Slovenia's 2019 GDP growth by 0.6pps to 2.6%, according to its autumn economic forecast, published last week. The Commission argued growth in H1 2019 slowed down due to moderating demand among trading partners. Looking ahead, the EC expects growth is to be driven by domestic demand, aided by growing wages and employment, in addition to favourable bank lending.

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Postal workers go on strike on Monday, Nov 12, in call for higher wages

Slovenia | Nov 11, 05:13

- **Trade union and management of postal company fail to reach common ground**
- **Employees demand increase in number of workers and 10% wage hike**
- **Management says additional wage hike to have significant impact on operations of company**

Postal workers are going on strike on Monday, November 11, in a call for higher wages, after their trade union and the management of national postal company Posta Slovenije failed to reach common ground on the demands of workers, the Slovenian press agency reported. The strike will be launched in postal and logistics centres, while all postal services the company is required to provide under the relevant law and the strike act will be provided. Meanwhile, a new round of negotiations has been planned for later this week. The union demands the number of employees to be increased by 300 so that the postal service could meet its obligations and workers could perform under a normal number of hours.

The union also demanded a 10% wage hike, arguing current wages are too low considering the nature and conditions of work. In response, the management of Posta Slovenije said a wage increase for this and next year was already agreed in February and that another raise would have a significant financial impact on the operations of the company. In particular, labour costs in 2020 would increase by additional EUR 12mn, while the February agreement would increase operating costs by EUR 17.7mn already. The strike is expected to be felt when it comes to shipping of advertisements, parcels heavier than 10kg, payments services and other services, such as sale of goods, management of Posta Slovenije informed.

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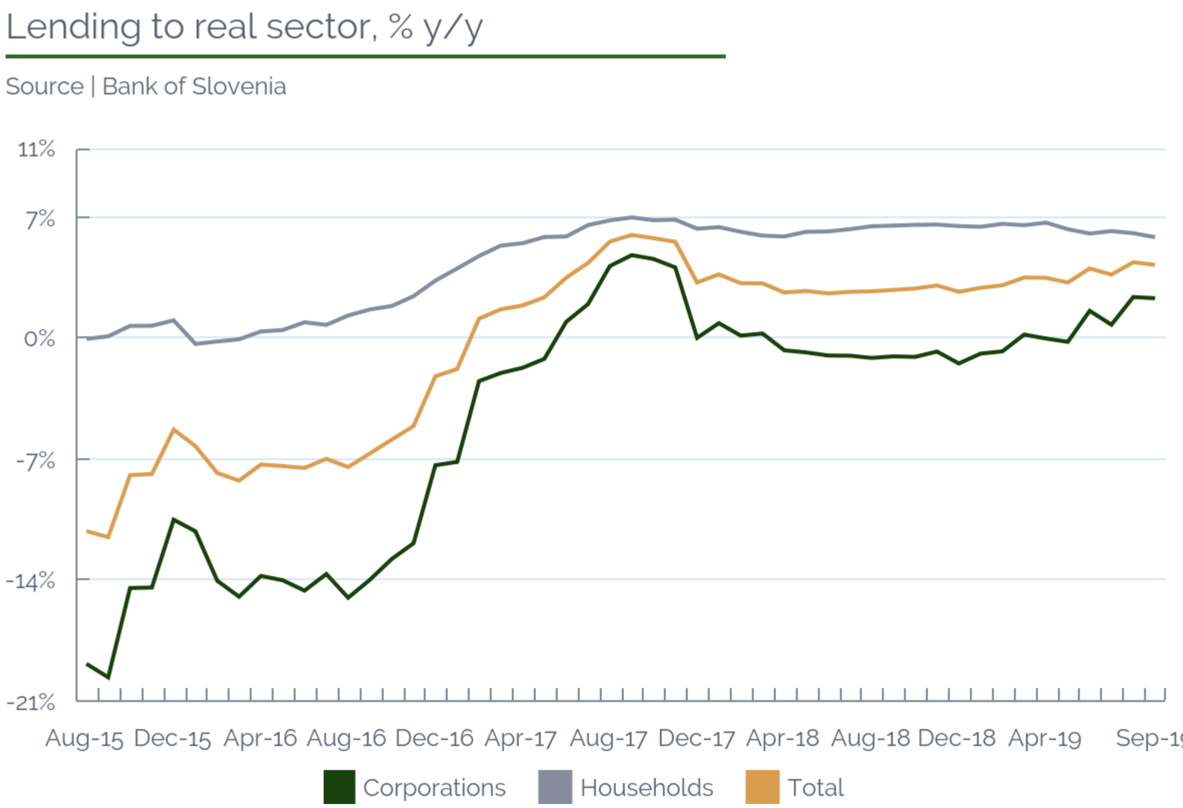
KEY STAT Credit growth decelerates further to 1.7% y/y in September

Slovenia | Nov 11, 05:13

- **Lending to real sector edges down marginally to 4.3% y/y, remains comparatively strong**
- **Corporate lending growth edges down to 2.3% y/y, driven by short and medium term loans**
- **Growth of household lending edges down slightly, mainly driven by loans other than consumer and housing ones**

Credit growth eased down to 1.7% y/y in September, from 2.0% y/y in August, according to the latest figures of the Bank of Slovenia. Lending to the real sector eased down only marginally to 4.3% y/y, remaining comparatively strong. The share of fx-loans continued to decline and remained at its lowest level since Slovenia has adopted the euro.



Corporate lending growth edged down marginally to 2.3% y/y, which was mainly attributed to short-term loans. In particular, the decline of loans up to one year deepened further to 8.1% y/y and so did that of loans over one year and up to five. On the other hand, long-term lending saw its growth pick up to 8.3% y/y. As a result, we expect that corporate investment should be aided by credit growth in the long term.

Meanwhile, the growth of household lending eased down to 5.9% y/y in September, from 6.1% y/y in August. The growth of consumer credits eased down slightly to 10.9% y/y, while that of housing loans remained unchanged in monthly terms. Despite the slight deceleration, we expect that household consumption should continue to be supported by lending. On the other hand, the growth of loans other than consumer and housing ones decelerated tangibly to 0.8% y/y, down to its lowest level since February 2017.

Looking ahead, the growth of household lending will likely be somewhat affected by new restrictions imposed by the Bank of Slovenia on consumer loans in order to reduce excessive credit growth and potential financial risks. The move aims to prevent excessive crediting, excessive debt and the easing of credit standards, deputy central bank governor Primoz Dolenc explained, arguing credit growth is unequally distributed among segments and that the growth of consumer loans exceeds 10%.

Bank lending, % y/y

	Sep-18	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
TOTAL	**5.6%**	**1.8%**	**3.0%**	**2.6%**	**2.6%**	**2.0%**	**1.8%**
in domestic currency	6.1%	2.2%	3.5%	3.1%	2.9%	2.3%	2.1%
in foreign currency	-15.1%	-15.7%	-18.5%	-21.4%	-14.9%	-14.5%	-15.1%
Non-financial corporations	**-1.0%**	**0.0%**	**-0.2%**	**1.6%**	**0.8%**	**2.4%**	**2.3%**
in domestic currency	-1.0%	0.1%	-0.1%	1.9%	1.0%	2.6%	2.5%
in foreign currency	-10.0%	-43.5%	-45.8%	-67.6%	-51.9%	-48.1%	-55.6%

up to 1 year	13.2%	0.3%	0.7%	3.9%	-0.8%	-0.1%	-8.1%
over 1 and up to 5 years	-12.6%	-8.7%	-8.6%	-11.0%	-7.6%	-7.7%	-8.1%
over 5 years	0.3%	3.0%	2.5%	5.5%	4.1%	6.4%	8.3%
Households and NPISHs	**6.5%**	**6.7%**	**6.3%**	**6.1%**	**6.2%**	**6.1%**	**5.9%**
in domestic currency	7.6%	7.5%	7.2%	6.8%	7.0%	6.9%	6.6%
in foreign currency	-13.0%	-10.8%	-12.6%	-11.2%	-10.8%	-11.9%	-11.8%
consumer credits	11.3%	12.1%	11.7%	11.1%	11.1%	11.2%	10.9%
housing loans	4.3%	5.0%	4.8%	5.0%	5.1%	5.0%	5.0%
other loans	8.2%	4.3%	3.2%	1.7%	2.2%	1.7%	0.8%
Lending to real sector	2.8%	3.5%	3.2%	4.1%	3.7%	4.4%	4.3%
Share of fx household loans	4.0%	3.5%	3.5%	3.5%	3.5%	3.4%	3.4%

Source: Bank of Slovenia

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KEY STAT Industrial production grows by 1.9% y/y in September

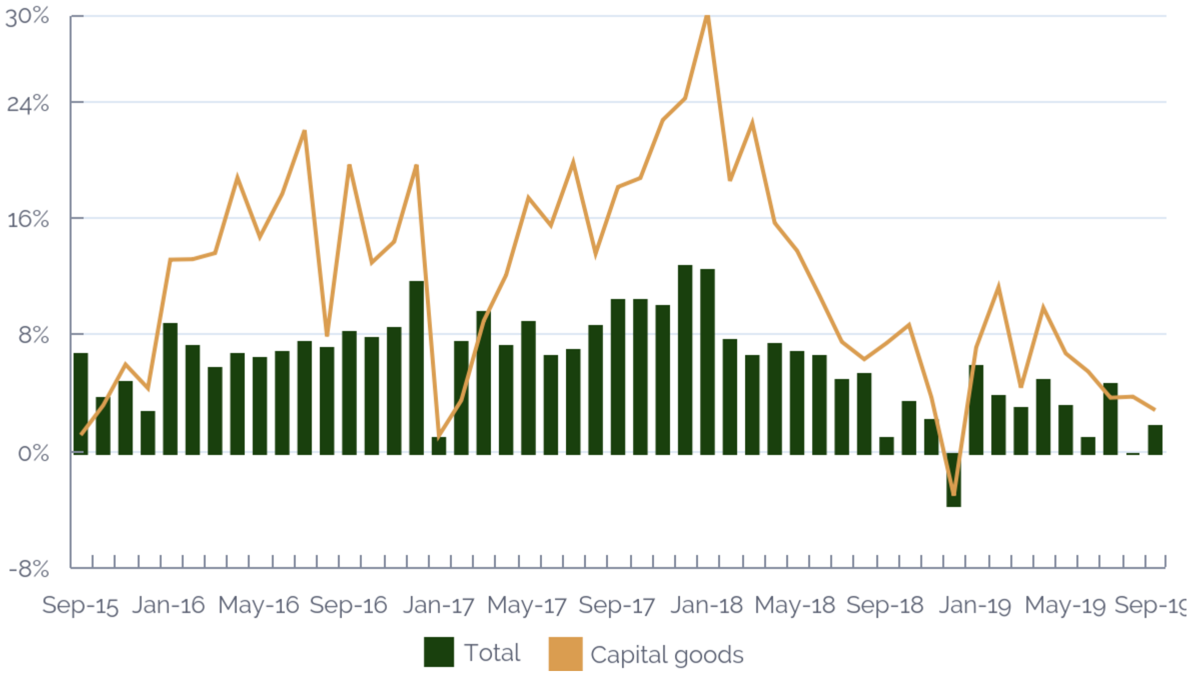
Slovenia | Nov 08, 10:36

- **Increase is attributed to manufacturing sector, where output rises by 2.4% y/y**
- **Production growth of intermediate and capital goods grows by 1.3% y/y and 2.9% y/y, respectively**
- **In Q3 average industrial production growth comes in at 2.2% y/y, compared to 3.1% y/y in Q2**

Industrial production grew by 1.9% y/y in September, after registering no annual change in August, figures of the statistical office, published on Friday showed. The increase was attributed to the manufacturing sector where output grew by 2.4% y/y. In addition, the decline of output in the utility sector eased down to 3.2% y/y.

Industrial output, % y/y wda

Source | SURS



Looking at the alternative data breakdown, the production of intermediate goods increased by 1.3% y/y, while that of capital goods increased by 2.9% y/y, which bodes well for exports of high value-added goods. Furthermore, the production of consumer products picked up growth to 2.2% y/y, driven by durables, the output of which rose by 2.1% y/y. On the other hand, the production of non-durable goods eased down to 2.0% y/y.

Regarding Q3, average industrial production growth came in at 2.2% y/y, compared to 3.1% y/y in Q2, meaning the sector's contribution to growth has likely decreased. Looking ahead, we expect that industrial production growth will likely remain moderate, considering projections for easing demand among trading partners.

Industrial production, % y/y (wda)

	Sep-18	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
Total	**0.9%**	**5.1%**	**3.1%**	**1.1%**	**4.8%**	**0.0%**	**1.9%**
Mining and quarrying	6.7%	-11.3%	-7.7%	1.1%	-7.7%	-12.8%	-13.0%
Manufacturing	0.9%	5.8%	3.2%	0.6%	5.4%	0.7%	2.4%
Utilities	-0.7%	-0.9%	3.5%	5.6%	-1.8%	-3.9%	-3.2%
Intermediate goods	-0.8%	2.2%	0.5%	-0.9%	-0.7%	-2.5%	1.3%
Energy	-1.2%	-4.8%	4.2%	4.9%	-2.7%	-4.9%	-4.6%
Intermediate goods (except energy)	-0.6%	2.6%	-0.4%	-2.1%	-0.2%	-1.9%	2.0%
Capital goods	7.5%	9.9%	6.8%	5.6%	3.8%	3.8%	2.9%
Consumer goods	-1.9%	8.3%	4.1%	0.8%	17.0%	1.2%	2.2%
Durable	3.8%	0.0%	-5.0%	-2.7%	6.5%	-7.9%	2.1%
Non-durable	-3.0%	9.8%	5.7%	0.9%	18.4%	2.8%	2.0%
Total, m/m sa	**-1.4%**	**1.4%**	**-0.8%**	**-1.7%**	**2.5%**	**-2.5%**	**0.4%**

Source: Statistical office

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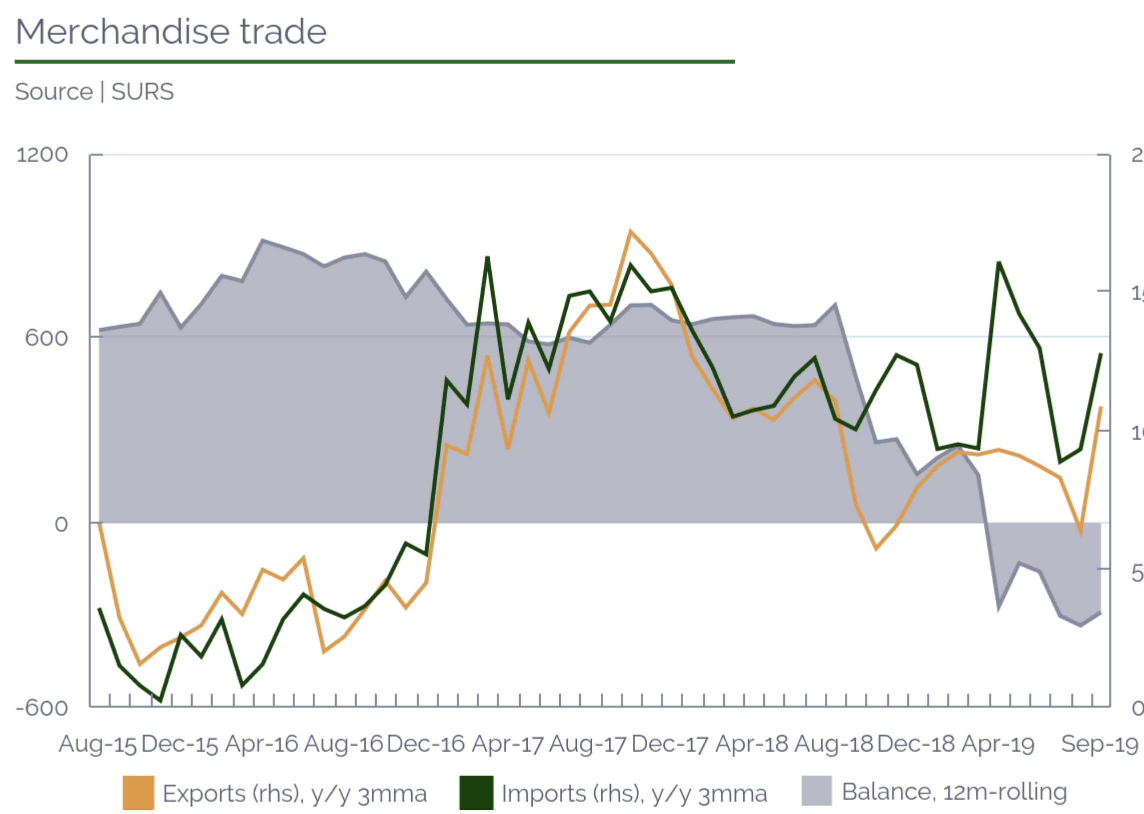
KEY STAT **Merchandise trade balance turns to surplus of EUR 29mn in September**

Slovenia | Nov 08, 10:36

- **Export growth accelerates to 15.3% y/y, supported by trade with both EU and non-EU countries**
- **Import growth strengthens to 13.4% y/y, which is also broad-based**
- **In Jan-Sep Slovenia posts merchandise trade deficit of EUR 35.2mn**

The merchandise trade balance turned to a surplus of EUR 29mn in September, which compares to a deficit of EUR 14mn in the same period last year, figures of the statistical office, published on Friday showed.



Export growth accelerated strongly to 15.2% y/y, which was broad based. Exports to EU member states rose by 5.6% y/y, following a drop in August, while export growth to non-EU countries picked up tangibly to 48.3% y/y. The growth of trade with EU countries was mostly affected by increased exports to Croatia and France, while in terms of third countries, trade with Switzerland which was Slovenia's most important trade partner outside the EU in September contributed most tangibly in addition to Serbia and Russia.

Meanwhile, import growth also strengthened notably to 13.4% y/y, supported by imports from both EU and third countries. Growth of imports from the EU were mainly affected by increased imports from Italy and Austria, while in terms of third countries imports from Turkey and China increased most considerably. In the first nine months of the year, Slovenia's exports rose by 9.6% y/y and imports by 11.8% y/y, while a combined deficit of EUR 35.2mn was generated.

Looking ahead, export growth might decelerate somewhat in the coming months, given projections for moderating demand among Slovenia's trading partners.

Merchandise trade, % y/y

	Sep-18	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
Exports	**-0.8%**	**13.4%**	**10.8%**	**2.3%**	**11.8%**	**4.8%**	**15.1%**
EU	1.9%	11.3%	7.1%	-2.6%	5.9%	-2.5%	5.6%
Non-EU	-9.4%	21.2%	23.4%	18.3%	32.1%	28.5%	48.3%
Imports	**8.7%**	**31.7%**	**5.5%**	**3.5%**	**17.8%**	**6.2%**	**13.4%**
EU	3.2%	10.8%	5.9%	-4.8%	6.3%	0.9%	8.4%
Non-EU	31.4%	129.2%	3.9%	33.3%	62.4%	27.5%	29.6%
Trade balance, EUR mn	**-14.0**	**-341.8**	**110.7**	**94.1**	**-39.7**	**-26.5**	**29.0**
Balance, 12m rolling	478.2	-271.3	-130.2	-158.0	-301.5	-333.0	-290.0

Source: Stats office

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SPAIN

HIGH PSOE wins Nov 10 election, but stalemate persists

Spain | Nov 11, 06:19

- **PSOE lost 3 MPs, as Sanchez's gamble of forcing repeat elections does not pay off**
- **Support for centre-right parties increases only marginally, as Citizens collapse below 7%**
- **Vox almost doubles its representation in Congress and is now the third-largest party**
- **Only two absolute majorities are possible - a grand coalition or a left-wing government supported by multiple regional parties**
- **We expect Pedro Sanchez to push for a minority PSOE-led government, but a return to the polls remains likely**

PSOE won the repeat elections on Nov 10, but the stalemate seems set to continue, according to the official election results. The leading left-wing party received 28.0% of the votes, which will give it 120 MPs in the next Congress, compared to 123 in the Apr 28 snap election. This puts PSOE leader Pedro Sanchez in an arguably more difficult position to search for an absolute majority than after the Apr 28 elections, as the rest of the left-wing parties struggled - Podemos lost 7 of its previous 42 MPs and Mas Pais barely made it into Congress with just 3 MPs.

At the same time, cumulative support for the centre-right rose only slightly, as the rebound of the PP (up 22 seats to 88 MPs) and the triumph of Vox (up 28 seats to 52 MPs) barely managed to offset the collapse of Cs. Albert Rivera's party seems to be the main loser of the election, as it got just 6.85% of the votes, thus losing 47 of its previous 57 deputies. The breakdown of the election result implies that the Cs was the main victim of lower electoral activity, while also losing voters to both the PP and Vox. As a result, Cs now ranks sixth in terms of MPs, behind Catalan ERC, which makes the party all but irrelevant in upcoming coalition negotiations.

Election results - Nov 10

	% of votes	**MPs (Nov 10)**	MPs (Apr 28)	Difference
PSOE	28.0	**120**	123	-3

PP	20.8	**88**	66	22
Vox	15.1	**52**	24	28
Podemos	12.8	**35**	42	-7
ERC	3.6	**13**	15	-2
Citizens	6.8	**10**	57	-47
JxCat	2.2	**8**	7	1
PNV	1.6	**7**	6	1
EH Bildu	1.1	**5**	4	1
Mas Pais	2.3	**3**	-	3
CUP	1.0	**2**	-	2
Others	4.7	**7**	6	1

Source: El Pais

Catalan ERC was the only leading regional party to lose 2 MPs in Congress, as their coalition partner in the local parliament JxCat got one more MP, while first-time runners CUP (the far-left Catalan party) will have 2 MPs. The Basque parties PNV and EH Bildu also increased their presence in Congress, by a single MP each. Thus, after concentrating some 6% of the vote, the five largest regional parties will have a total of 35 MPs in the next Congress, which is equal to the representation of the fourth largest party - Podemos.

Possible outcomes

There are only two possible options for the formation of a coalition that will enjoy an absolute majority in the next parliament - a grand PSOE-PP coalition, or a left-wing government supported by multiple regional parties. However, even a PSOE-Posemos-MP-ERC coalition will come 5 MPs short of securing an absolute majority, which means that Pedro Sanchez will have to look for even more regional support. In light of the secessionist views of the Catalan parties, we do not believe that this will be the case, as a majority, secured by such a governing coalition, will be quite vulnerable and will probably only serve to fuel Vox's rise further.

While a potential grand PP-PSOE coalition agreement may have the same effect (in terms of increasing support for Vox), it will enjoy a stable majority, provided the two leading parties can agree on a common ruling program. Spain does not have any prior tradition in the implementation of such coalitions, which is the main reason why we still see it as a relatively unlikely turn of developments.

This leaves Pedro Sanchez's preferred governing formulae - a minority PSOE-only, or PSOE-led government, that relies on other parties accepting the role of the PSOE as the party, which should get the chance to move the country forward after winning consecutive elections. While such a development is quite possible, we are not sure if Sanchez would find it as appealing as he previously did, in light of the fact that the centre-left actually took a step back at the Nov 10 elections in terms of electoral support and the resulting seat distribution in Congress.

Provided Sanchez is unable to convince the other parties of the necessity of ending the political standoff, Spaniards will have to once again make a trip to the polls. This time, it might be centre-right parties that actively push for repeat elections, as the PP and Vox are clearly in the driver's seat, as far as recent polling trends go. At the same time, the collapse of Cs takes away much of the momentum of the centre-right, as it seems that the three right-wing parties rather exchange voters than attract new ones. As a result, the achievement of a centre-right absolute majority in the short term is quite unlikely, in our view.

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PRESS **Press Mood of the Day**

Spain | Nov 11, 06:11

The PP wins 22 seats more and Casado does not close any door: "Let's see what Sanchez does" (El Pais)

Independents are again essential for a leftist government (eldiario)

Sanchez failed, it's time for a great coalition (El Mundo)

PSOE loses 31 seats and the absolute majority in the Senate (ABC)

Santiago Abascal takes advantage of the gift from the left (El Mundo)

The challenge of unlocking [the government]: The Cs "harakiri", or the hand of separatism (La Razon)

The repeat elections give wings to the extreme right and preserve the difficulties to unblock government (Publico)

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Former Catalan politicians Puig and Comin to appear before court on Nov 15

Spain | Nov 08, 14:19

- **Sources indicate a postponement is unlikely, while Puigdemont got until Dec 16 to prepare his defence**
- **The case, along with potential appeals will probably drag on well into 2020**

Former Catalan politicians Lluis Puig and Toni Comin will appear before the Belgian courts on Nov 15 for what will be their first hearing regarding the European arrest warrant issued against them by the Spanish Supreme Court, local media reports. Similarly to former Catalan President Puigdemont, Comin has claimed immunity from prosecution, due to having been elected as MEP, but the investigating judge has reportedly dismissed this as a factor that can help him escape the process, after consulting with the EP.

The lawyers of Puig and Comin have already implied that they too will ask for the hearing to be delayed, so that they have time to prepare their case, but unlike Puigdemont, who got until Dec 16 to prepare, sources indicate that the two councillors may not receive the required postponement. While the first hearings of the three self-exiled Catalan politicians will take place by the end of 2019, potential appeals in front of the Court of Cassation will probably drag the process further into 2020. Additionally, even if an extradition order is eventually issued, extraordinary cases like that of the Catalan leaders are likely to not only push the regular 60 day limit (for detainees) but take even longer to resolve.

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ALBANIA

Q&A **Albania's and North Macedonia's external debt issue plans in 2020**

Albania | Nov 08, 15:24

Question:

Are you aware of any plans for Albania or Macedonia to issue external debt in 2020?

Answer:

The Albanian government has not approved the budgetary framework for 2020 yet, but preliminary information showed that it plans foreign borrowing at about 0.8% of GDP, which will likely include both loans and Eurobond issue. The foreign borrowing in 2020 will thus amount to approximately ALL 14.5bn or some EUR 117.5mn, according to our calculations. Albania last raised a EUR 500mn seven-year Eurobond on Oct 2, 2018.

The North Macedonian government has not yet announced any intentions to issue debt on the global capital markets next year. We note that the government will resign on Jan 3 next year to be replaced by a transitional cabinet, which will oversee the Apr 12 snap parliamentary election. The government last issued a EUR 500mn seven-year Eurobond in January 2018.

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BOSNIA-HERZEGOVINA

BiH hesitant about regional mini-Schengen initiative

Bosnia-Herzegovina | Nov 11, 06:40

- **BiH wants to decide only after analysis of initiative**
- **Country wants to be certain initiative will not substitute EU integration, derogate from regional agreements**

BiH is hesitant whether it would join the initiative called mini-Schengen agreed upon by the political leaders of Serbia, North Macedonia and Albania, despite the fact that it is committed to strengthening of the regional cooperation. Chairman of BiH Council of Ministers Denis Zvizdic said that BiH would proceed to a serious analysis before taking position on the initiative. Zvizdic also noted that they have received guarantees that the initiative is not an attempt to substitute the EU integration nor derogates from regional agreements such as CEFTA.

Note that political leaders of Serbia, North Macedonia and Albania have agreed over the weekend on details of an initiative called mini-Schengen that foresees measures to enable free movement of people, goods, services and capital within the three countries. The initiative is open to all countries Western Balkan countries. Albanian PM Edi Rama estimated that Kosovo should also be included in the mini-Schengen, which we consider problematic given Serbia's stance against its recognition. The measures foreseen in the initiative include: free movement only with ID cards; possibility for foreigners to travel to the member states of the initiative without additional visas once they enter one of them; joint work permits and recognition of qualifications and diplomas without additional procedures; exchange of students; joint R&D projects; 24-hour shifts for all border inspection services with a focus on phytosanitary and veterinary inspection; joint set of documentation needed for the transit of goods; amendments to the laws referring to the capital market, tax and financial system in all three countries in order to create conditions for a smooth flow of capital; further strengthening of cross-border cooperation in the field of combating transnational crime and terrorism. These are part of the measures whose implementation should be defined in an action plan that will be drafted by the next meeting of the initiative in Durres at the end of December.

Failure to form governments hinders new investments -- EBRD's Tabak

Bosnia-Herzegovina | Nov 08, 10:38

- **Progress in reforms and growth could suffer**

A failure to form governments at BiH and FBiH level could affect implementation of new public investments because of the inability to ratify new major projects, Peter Tabak, Regional Lead Economist for the Western Balkans at EBRD, told the daily Nezavisne Novine. He highlighted that new large-scale infrastructure projects such as roads and energy are essential for the development of the private sector and acceleration of development. Tabak also noted that a delay to form the authorities could also have negative impact on reform progress and growth. This could lead to less investments and less new employment in the private sector, he warned.

More than a year after the general elections the formation of the Council of Ministers of BiH still remains blocked because the largest Bosniak SDA and Bosnian Serb SNSD cannot overcome their differences regarding NATO integration, whereas HDZ BiH conditions its support for the government formation at FBiH level with changes to election law.

The EBRD kept its 2019 GDP growth forecast for BiH at 3.0%, unchanged from May, according to its latest Regional Economic Prospects report. The Bank also kept the forecast for 2020 at 3.0%. It noted that risks to the projection are titled to the downside and are associated mainly with uncertainty about reforms in terms of improving the business climate and standards of governance, and advancing the country's EU approximation agenda, as well as with the EU economic slowdown.

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Arcelor Mittal, BH Gas sign gas delivery contract

Bosnia-Herzegovina | Nov 08, 08:27

- **FBiH energy minister expects gas prices to fall by up to 10% as of Jan 1**

Arcelor Mittal and gas supplier BH Gas have signed a five-year contract on gas delivery worth USD 43mn. The previous 20-year contract has expired and the companies had intense negotiations in the past six months. FBiH Energy Minister Nermin Dzindic said at a press conference after the signing ceremony on Thursday that the deal was important for the stabilisation of gas supply to FBiH industry. The amount of gas that Arcelor Mittal and the new company Toplana Zenica will use will enable BH Gas to reduce further gas prices for citizens of Sarajevo and all distributors. The minister said that gas prices should fall by up to 10% as of Jan 1. Toplana Zenica will operate a new combined heat and power plant that will supply power to the city of Zenica and the ArcelorMittal steel plant.

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FBiH govt to continue talks with Israeli-Chinese consortium over Aluminij

Bosnia-Herzegovina | Nov 08, 07:50

- **Government, potential investor disagree on 10 points, including electricity prices**

The FBiH government has tasked PM Fadil Novalic to continue the talks with M.T. Abraham Group S.A. in partnership with China Machinery Engineering Corporation & China Nonferrous Metal Industry's Foreign Engineering & Construction Co., Ltd, that are interested in aluminium smelter Aluminij, Energy Minister Nermin Dzindic said on Thursday. The minister noted that there were 10 disputed points that need further negotiations, including on freezing of total debt for a certain period, which will enable the potential investor to consider some other steps and financial package of entry. He added that the potential investor has asked electricity price to be fixed at EUR 40 per MWh for a ten-year period but the government responded that it could not guarantee that. They have also requested the government's approval to participate in a joint project for construction of a TPP that will supply Aluminij with electricity. Among other requests were also loan guarantees, which the government cannot provide either, he informed.

The indebted aluminium smelter was disconnected from the grid in mid-July after strategic partnership talks between the FBiH government and a consortium led by global commodity trader Glencore failed. The entity government said that talks with potential strategic partners will continue. The multinational company WAQT Trade LLC from Dubai is also interested in the company. The FBiH government owns a 44%-stake in the company, small shareholders - further 44%, while the Croatian government - 12%.

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BULGARIA

Society rejects reforms, Bulgaria copes with economy slowdown – economy minister

Bulgaria | Nov 11, 06:38

- **Bulgaria has stable economic performance, sufficient to economic deterioration**

Reform implementation requires willingness by both the government and the society but a large part of the general public does not want reforms, economy minister Emil Karanikolov said in an interview for the local BNR. Karanikolov talked about the feasibility of the new 2020 budget and added that the budget framework is not per se sufficient to make a reform, thus responding to the criticisms that the budget for next year simply allocates more funding to sectors. Nevertheless, Karanikolov said that the projected higher revenues and expenditure in the budget should be seen as a reform and that the overall budget guaranteed that Bulgaria could deal with the economy cooling which started in the past few months.

There is no economic crisis yet and a future crisis will be due to the uncertainties and tension in the international geopolitical relations and Brexit, not due to conditions pertaining to the Bulgarian environment, Karanikolov said. Bulgaria's economic indicators are stable and it can respond to whatever economic slowdown but the country is vulnerable to external shocks. In case of a crisis, the first sign will be the start of job lay-offs but Bulgaria has a buffer to cope with such a development, the minister also said.

Domestic consumption remains the main growth engine but export performance is also improving, according to Karanikolov. At present, legislation for the industrial zones in Bulgaria is being drafted to attract higher number of investors, he added. The talks with German car manufacturer Volkswagen made it clear for other investors that Bulgaria is a potentially attractive place for investments but Bulgaria needs to let Volkswagen decide on its own whether it will build a plant here or in another country, the minister continued.

PRESS Press Mood of the Day

Bulgaria | Nov 11, 06:36

30 years after Nov 10, 1989 [when communist regime fell]: What we believed in, what happened (Capital Daily)

New working group to discuss scope and fees of toll system (Sega)

[Ruling] GERB to be in isolation in many municipality councils (Sega)

PM Borissov: Gas interconnector between Greece and Bulgaria is among our key priorities (24 Chasa)

Sofia Airport with third terminal by 2030 (24 Chasa)

Economy minister Karanikolov: No income freezing to take place before crisis occurs (Trud)

According to BNB data: Highest growth is registered in mortgage lending (Trud)

Economy minister Karanikolov: Budget 2020 is better than that for 2019 (Monitor)

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Local taxes are low, municipalities should raise property tax – finance minister

Bulgaria | Nov 08, 15:17

- **Municipalities need to raise real estate taxes in case of financial difficulties, finance minister suggests**
- **Allocation of pension bonuses for Christmas is very likely but no information on their size is available yet**

The local taxes in Bulgaria are excessively low, thus hampering infrastructure development, finance minister Vladislav Goranov said in an interview for the local Nova TV. The municipality infrastructure funding should come from real estate taxes, the finance minister said, reiterating his position from the previous year that municipalities' fiscal decentralisation should take place through the hikes of the property tax. The state will have no capacity to transfer additional funding to the municipalities' budgets so if they face financial problems, they are entitled to raising the real estate taxes, Goranov suggested. He noted that the newly elected mayors will make their own decisions on what tax policy they should undertake but if they prefer to maintain the local taxes and fees low, they should not rely on state transfers in case of budget deficits. Goranov, however, refused to confirm whether the ruling GERB mayors plan to raise taxes in their respective municipalities.

The finance minister also said that the state budget execution for 2019 is not put at risk and that the data for collected revenues so far suggests that the government will be able to deliver the already traditional Christmas bonuses to pensioners. He said that no preliminary estimates on the pension allocations size can be made at present. We note that in the previous few years the cabinet allocated some BGN 50mn for Christmas bonuses from the budget and another BGN 50mn for pension allocations before Easter holidays, so we expect a similar amount to be allocated in December. Goranov also added that the pension hikes are dependent on rising employees' wages, highlighting that the government has been active in its efforts to raise public wages and pressured the private sector to do the same.

Consumer confidence rises by 1.1pts q/q in Q4

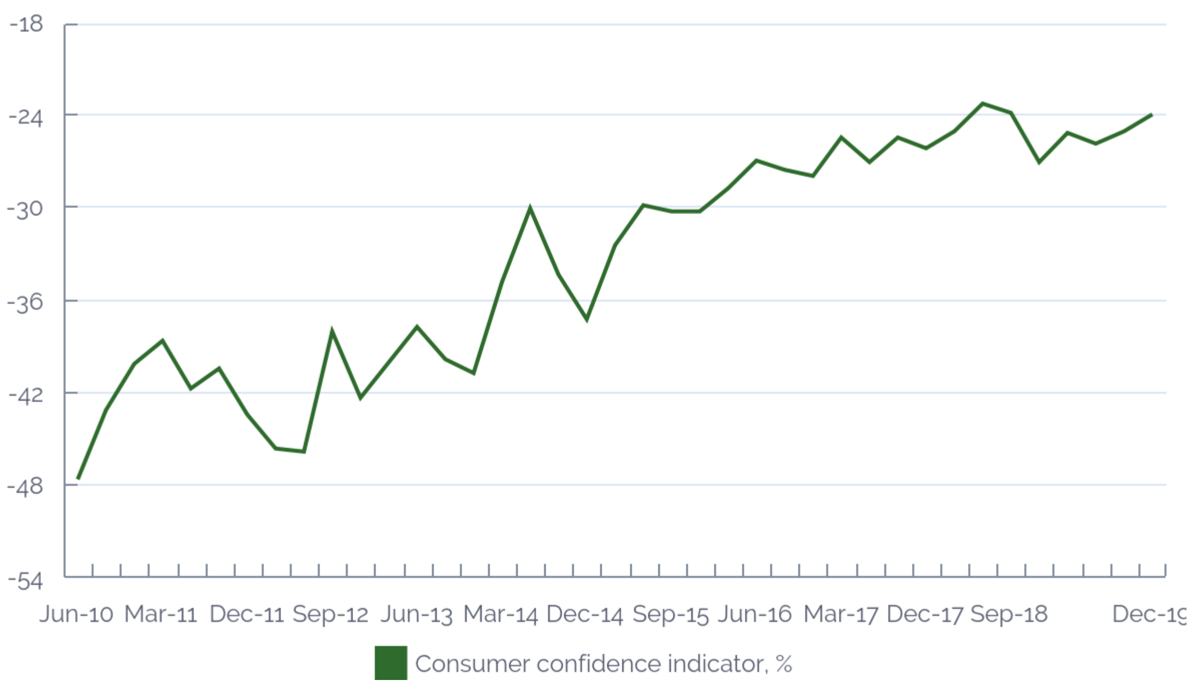
Bulgaria | Nov 08, 11:25

- **Improvement supported by households' more optimistic assessment of general economic situation and their financial situation**
- **Consumers cut back intentions for major durable goods' purchases but remain inclined to buying new housing**

The consumer confidence index rose by 1.1pts q/q in Q4, the statistical institute (NSI) reported. The index improved for a second consecutive quarter, mostly reflecting more optimistic opinions of the general economic situation in the country in the past and next twelve months. Consumers were also optimistic about their financial situation in the next twelve months, which we think was related to the easing inflation and the government's plans to increase public sector wages and the minimum wage. Another factor supporting consumer confidence is the renewed domestic political stability after ruling GERB regained some public confidence after a corruption scandal in the early spring and after the junior ruling partner, the nationalist alliance United Patriots stabilised, in our view.

Consumer confidence (pts)

Source | National Statistical Institute (NSI), Bulgaria



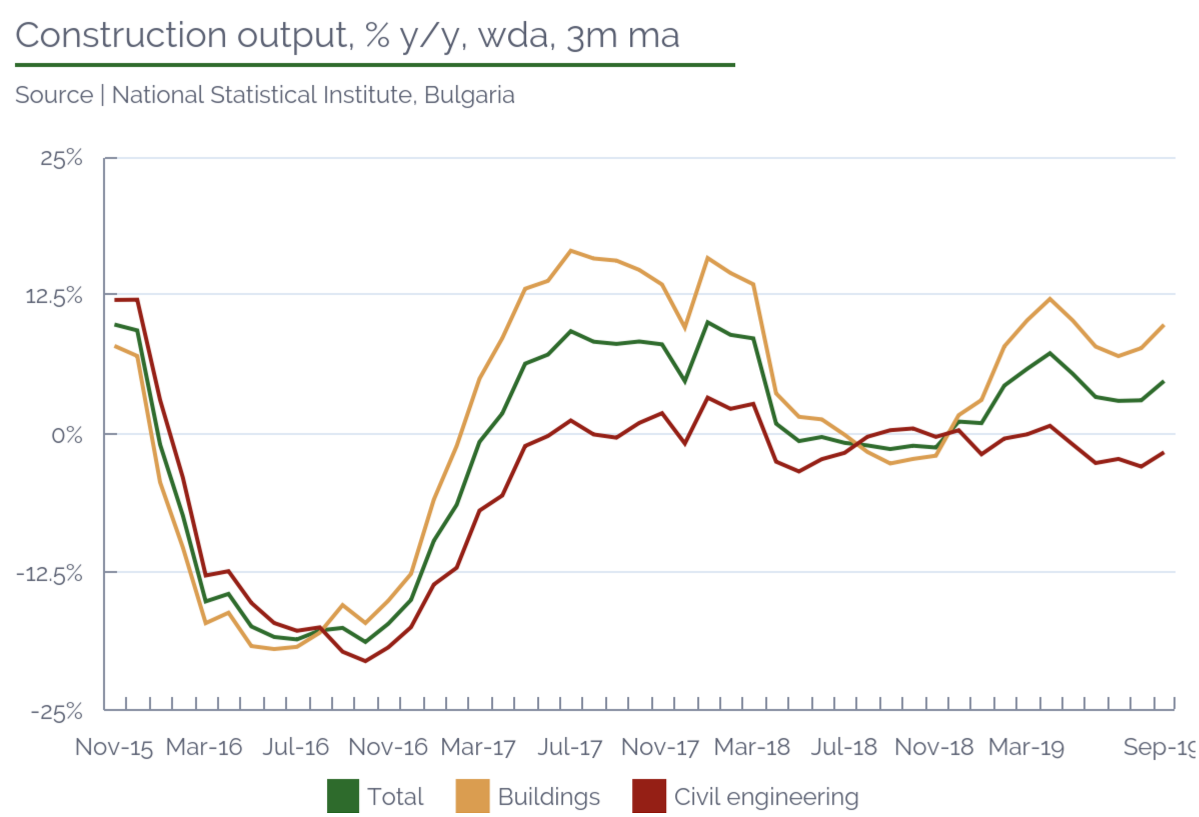
Consumers considered the upcoming twelve months as a good period for savings accumulation and gave a positive assessment of the households' budget prospects. They also reported increased intentions to spend large amounts on home improvements and renovation, as well as on purchasing a new home in the next twelve months, which we think was largely related to the historic low interest rates on mortgage and consumer loans. Consumers expected lower inflation in the next twelve months. On the downside, consumers curtailed their plans to make major purchases of durable goods in the next twelve months as they considered the period unfavourable.

Construction output picks up to 6.9% y/y in September

Bulgaria | Nov 08, 10:56

- **Acceleration driven by strong y/y growth in building construction segment, easing y/y decline in civil engineering output**
- **Prospects to construction output remain tilted to downside given newly issued permits' decline in Q3, in our view**

Construction output growth picked up to 6.9% y/y in September, up from 3.0% y/y in the previous month, the statistical institute (NSI) reported. In seasonally- and calendar-adjusted terms, construction output went up by 1.1% m/m. The y/y improvement in the construction production was mostly due to accelerating 12.4% y/y growth in the building construction segment. Civil engineering output continued to fall y/y, but at easing pace of 0.1% y/y during the month.



Overall, we think that the construction output growth in September was in particular underpinned by the strong housing demand as households seek to benefit from the still low mortgage loan interest rates. Nevertheless, the newly issued building permits in Q3 fell by 2.1% y/y, which signal that construction output will decelerate in the short run. In addition, the construction entrepreneurs reported worsening expectations in October for their expected business condition and output in the upcoming months. We think that the pessimism in the construction sector was mostly due to cautious businesses' plans to invest in logistic and office buildings, while we think that the housing construction will remain comparatively stable in the short run.

We view positively the easing civil engineering output growth in September but we remain sceptic that the civil engineering production performance improvement will be sustained in the next months, as the EU funds absorption for infrastructure has been persistently undermined by different project delays over the past few years.

Construction output (% y/y, 3m ma)

	Jun-19	Jul-19	Aug-19	Sep-19
Total	**3.3%**	**3.0%**	**3.0%**	**4.8%**
Buildings	7.9%	7.0%	7.7%	9.9%
Civil engineering	-2.6%	-2.2%	-2.9%	-1.6%

Source: National Statistical Institute (NSI), Bulgaria

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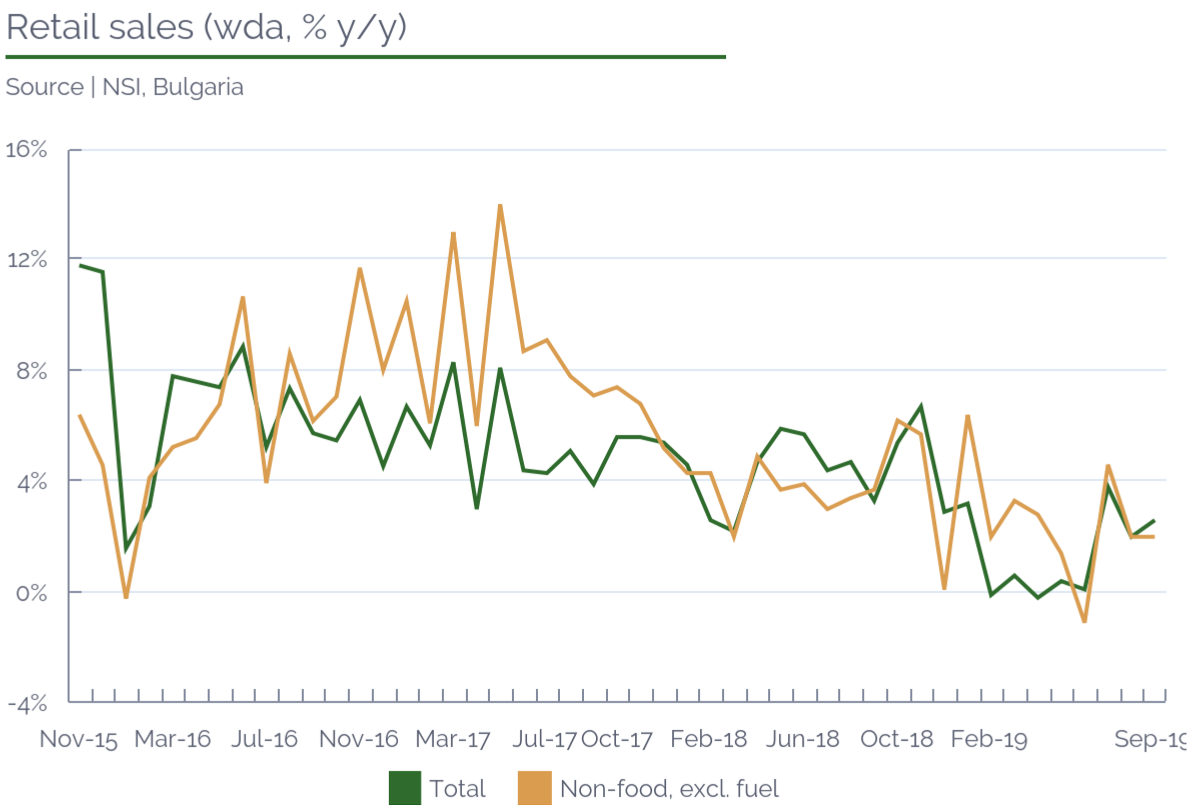
KEY STAT Retail sales growth picks up to 2.6% y/y in September

Bulgaria | Nov 08, 10:32

- **Seasonal-adjusted sales rise by 0.3% m/m**
- **Acceleration of y/y retail sales growth on back of higher sales of food and fuel**
- **We think upcoming wage increases as of 2020 to remain supportive of retail sales but risks to consumption arising from expected economic slowdown remain**

Retail sales rose by 2.6% y/y in calendar-adjusted terms in September, accelerating from 2.0% y/y in August, according to the latest statistical institute (NSI) release. In seasonally-adjusted terms, retail sales returned to the positive territory and went up by 0.3% m/m.

We view positively the retail sales acceleration in September as the data suggested that domestic consumption remains resilient to the signals for slowing economic activity and rising uncertainties. The record low interest rates, rapid wage growth and solid employment will likely remain supportive of private consumption in the short run, in our view. We note that the government plans to raise public sector wages by 10% and the minimum wage by 8.9% as of Jan 2020, which will further support households' disposable income, in our view. Still, we think the risks to the domestic consumption remain significant over the mid-run given the projections for gradual economic cooling next year and retailers already projected deteriorating sales volumes and orders by the end of 2019 in the October business climate survey.



The acceleration of the retail sales in September was on account of food and fuel sales. Food sales' growth picked up to 1.3% y/y, likely boosted by the easing food inflation during the month. The growth of non-food sales, including fuel, accelerated to 3.3% y/y, mostly reflecting the stronger 6.9% y/y increase in fuel sales. Excluding fuel, the growth of non-food sales remained at 2.0% y/y, similarly to the previous month.

Retail sales (wda, % y/y)

	May-19	Jun-19	Jul-19	Aug-19	Sep-19
Retail sales	**0.4%**	**0.1%**	**3.8%**	**2.0%**	**2.6%**
Food	-2.7%	-0.9%	1.2%	0.9%	1.3%
Non-food, excl fuel	1.4%	-1.1%	4.6%	2.0%	2.0%
Fuel	4.7%	5.1%	6.9%	3.6%	6.9%
Retail trade, m/m sa	**-0.3%**	**1.0%**	**0.7%**	**-0.3%**	**0.3%**

Source: NSI, Bulgaria

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KEY STAT Industrial output decline eases to 0.1% y/y in September

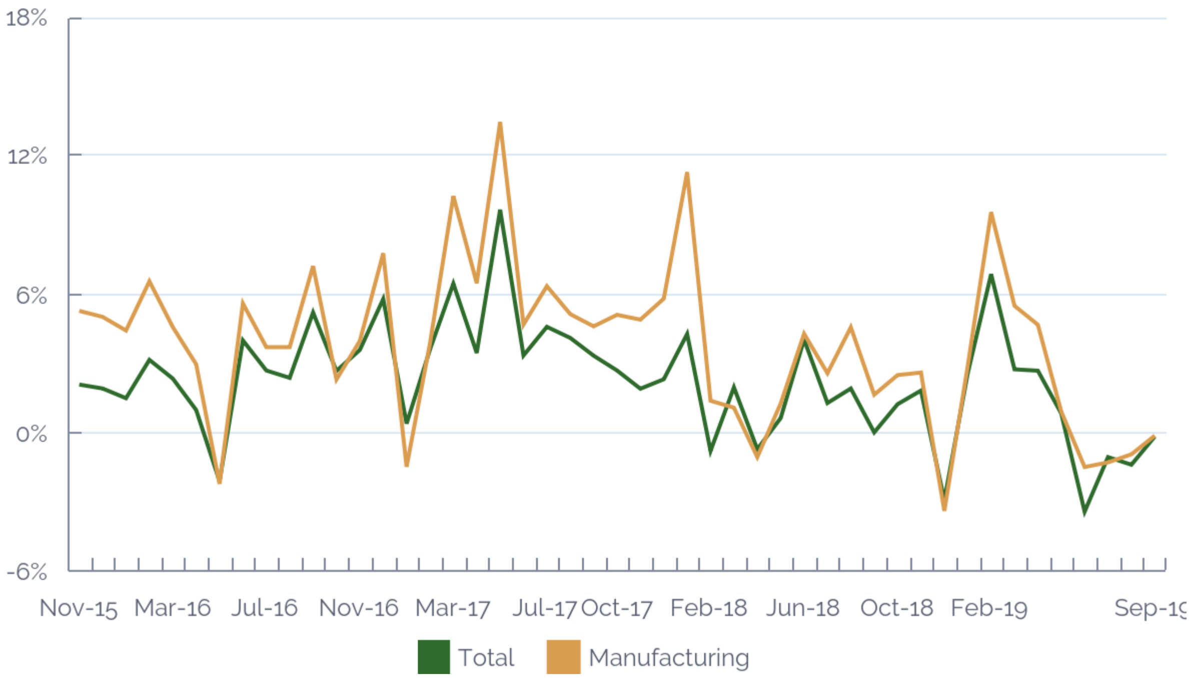
Bulgaria | Nov 08, 10:03

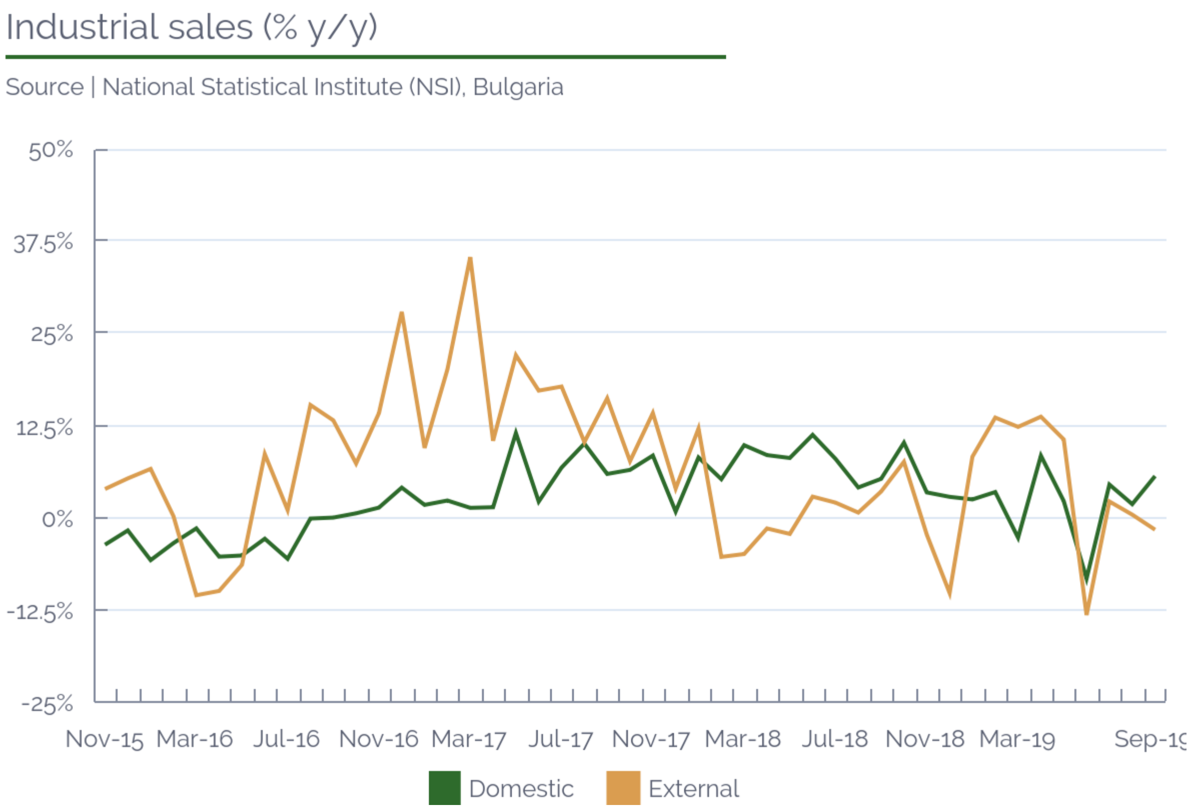
- **Easing of contraction on back of growing mining output, easing y/y drop in manufacturing and utility production**
- **Domestic industrial sales pick up supported by solid domestic consumption but external sales decline by 1.5% y/y**

The industrial output declined in calendar-adjusted terms in September for a fourth straight month, but its decrease eased to 0.1% y/y compared to the 1.3% y/y drop in August, the stat office (NSI) data showed. In seasonally-adjusted terms, industrial output rose by 0.3% m/m. Overall, we think the headline industrial print will remain pressured downward by the slowing demand from main trading partners, in particular from the eurozone, in the next few months. The latest business climate survey from October showed that the industrial sector reported worsening expectations and was in particular concerned with lower orders and the economic uncertainties. Nevertheless, we do not expect sharp slump in the industrial output in the short run as the downward risks to the economic activity have not fully materialised for the moment. In addition, domestic consumption remains stable for the time being, which should serve as cushion to the industrial sector in the upcoming few months, in our view.

Industrial output (wda, % y/y)

Source | National Statistical Institute (NSI), Bulgaria





The easing decline in the headline industrial output in September was broad-based as the mining output returned to the positive territory, posting a 4.7% y/y growth, and the production y/y decline in the other main segments, manufacturing and utilities, decelerated. Manufacturing output fell at decelerating pace of 0.1% y/y on the back of stronger domestic sales, which was in line with indicators that private consumption remained solid. The breakdown data showed that output volumes of textile, chemical products, non-metal and metal goods, electric appliances improved y/y. On the downside, the y/y growth of food, computers and vehicles eased, and the y/y drop in medicines, paper and furniture deepened during the month.

Utilities' output fell by 3.8% y/y in September, at slower pace from the 4.5% y/y drop in the previous month. We think the easing decline was likely related to the domestic utility services' consumption, which remained in the positive territory, while external sales of the utility sector plunged by 15.8% y/y during the month. We think that electricity output might remain subdued in October and November given the favourable weather conditions but a new increase might be expected afterwards with the lifting of the fees on electricity sales abroad as of mid-July.

Total industrial sales growth accelerated to 2.5% y/y in September, entirely on the back of speeding 5.7% y/y increase in domestic sales. External sales, however, went down by 1.5% y/y, in our view confirming that the expectations for worsening export performance due to the easing economic activity in eurozone, have started to materialise. Accordingly, we expect the industrial external sales' deterioration to continue over the mid-run.

Industrial output and sales (% y/y)

	May-19	Jun-19	Jul-19	Aug-19	Sep-19
Industrial output (working-day adjusted)	**0.9%**	**-3.4%**	**-1.0%**	**-1.4%**	**-0.1%**
Mining	9.8%	-19.8%	4.7%	-1.1%	4.7%
Manufacturing	0.9%	-1.5%	-1.3%	-0.9%	-0.1%
Metals	-16.8%	-20.6%	-5.1%	-10.4%	-8.0%
Utilities	-3.5%	-5.2%	-2.9%	-4.5%	-3.8%

Industrial output (m/m, seasonally adjusted)	**-0.4%**	**-1.8%**	**0.7%**	**0.0%**	**0.3%**
Industrial sales	5.8%	-10.4%	3.6%	1.3%	2.5%

Source: NSI, Bulgaria

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CROATIA

Hrvatski suverenisti platform establishes Croatian Sovereigns party

Croatia | Nov 11, 06:26

- **New party open to other parties, associations, civil initiatives, prominent individuals**

Hrast and HKS political parties, representatives of associations and civic initiatives The Truth About Istanbul and The Croatian Rampart, which were formerly united in the political platform Croatian Sovereigns - formed the party of the same name on Sunday. They said that since they represented ideas and a political approach that was extremely important to a large part of the Croats, they believed that they would achieve an even more significant result in the parliamentary elections than in the European elections, and that this will be the beginning of long-awaited and real changes in Croatia. They also point out that the objective of the Croatian Sovereigns party is not to be unitarian, but to further foster the unity of different entities - parties, associations, civic initiatives and prominent individuals. They say that the their party will be characterised by the same principles - clear sovereign views, a willingness to be together and any personal ambition, adding that they remain open to new people and organisations.

The Platform of Croatian Sovereigns was established in 2019 as a coalition of Croatian right-wing political parties, comprising: Hrast, the Croatian Conservative Party, the Croatian Party of Rights of Dr. Ante Starcevic and the United Croatian Patriots, and Croatian Citizens' Initiatives: The Truth About Istanbul and the Croatian Rampart. In the 2019 European Parliament elections, they received 8.52% of the vote and received one seat in the EP. Candidate Ruza Tomasic (HKS) received 69,989 votes (76.45%).

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Milanovic pledges to be supreme defender of rights of Croatia, citizens

Croatia | Nov 11, 05:49

- **Presidential candidate Kolakusic claims Croats are apolitical and politically illiterate**

Presidential candidate of the opposition SDP and 12 other liberal-left parties Zoran Milanovic said on Saturday that if elected president, he would be a supreme defender of the rights of Croatia and its citizens. According to Milanovic, the president can do the most by tirelessly warning about the problems of ordinary people who live off their work, adding that if he or she is not convincing, nothing can help, particularly not greater powers. Along with the slogan "A president with attitude", another key slogan of Milanovic's campaign focuses on the term normality. He underlined that he wants to create a normal state and focus on improving judiciary as in Croatia there is no trust in the judiciary and people are exposed to power-wielders, which has been witnessed for 30 years. He said that he would cooperate with the government but would not exceed his powers. Describing his vision of the president's role in foreign policy, he said that he would do his best to protect Croatia's interests in cooperation with the government. He also noted that life should be protected with all means available but that women's rights should be protected as well.

Milanovic's presidential candidacy is for now supported by 13 political parties - the SDP, the HSS, GLAS, the IDS, the HSU, the Democrats, SNAGA, the PGS, the Reformists, the SU, the Croatian Labour Party (HL), the Medjimurje Democratic Alliance, and the Green Pula. They believe that he could offer experience and dignity, agreeing that their support was the foundation of their cooperation in the next parliamentary election. SDP leader Davor Bernardic said that this alliance can make the necessary changes and the parties party of it were open to cooperation with all progressive forces that wish Croatia well and to move forward, adding that the presidential elections are the beginning of the changes, and parliamentary elections are their continuation," said Social Democratic Party (SDP) leader.

On a related note, presidential candidate Mislav Kolakusic said on Sunday that Croats are apolitical and politically illiterate, and if he failed in the forthcoming presidential election, he would return to his duties as MEP. He nevertheless stated that the important issues should be decided in referendums. He said he was in favour of a system that would allow holding several offices at once, adding that this would make it possible for the people to know who was responsible. He said that if the citizens voted for HDZ or SDP at the next parliamentary election, it would mean they did not want change. Kolakusic said that the Croatian parliamentary system is irreparable because political parties are financed from the state budget, which he would abolish and introduce financing through contributions by members. Commenting on other presidential candidates, he described Miroslav Skoro as a reserve candidate of the HDZ, while accusing the SDP's Milanovic of being responsible for 300,000 citizens with blocked bank accounts during his premiership. Kolakusic said he would sort out the lack of money for pensions by removing false pensioners, false war veterans and false disabled persons from the system. He believes that at least half of the veterans in the system are fake. He also believes that counties should be abolished or reduced to only symbolic functions, that the government should have only ten ministries and not more than five agencies, and that the number of judges should be halved.

The presidential election should be held sometime between Dec 21, 2019 and Jan 20, 2020. A second round, if necessary, it is to take place on a date between Jan 4, 2020 and Feb 3, 2020. Sources from HDZ claim the first round of the presidential election is likely to be held on Dec 22, while the second one, if necessary - on Jan 5, 2020 - these dates are not quite favourable in terms of election turnout as that for the first round is shortly before Christmas, while that for the second round fall during the school holidays when many are skiing. So far, polls indicate that the battle for the presidential seat would be among incumbent President Kolinda Grabar-Kitarovic, Milanovic and pop singer Miroslav Skoro. However, as long as Grabar-Kitarovic's lead over both Milanovic and Skoro has narrowed of late and is close to the share of the undecided voters, the election result will be highly uncertain depending not only on their decision, but also on the second round date, in our view. In any way, the presidential election will thus be a test for the political parties before the parliamentary elections that must be held on or before Dec 23, 2020.

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Former HDZ leader Karamarko likely candidate for chair at intraparty elections

Croatia | Nov 11, 05:43

- **Plenkovic says any HDZ member can participate in party elections**

Former HDZ leader Tomislav Karamarko on Saturday indicated that he could run again for party president in elections to be held in the spring of 2020, local media reported. Judging by statements they have given so far, other possible rivals to HDZ leader Andrej Plenkovic at the party elections are MPs Miro Kovac and Davor Ivo Stier, as well as Vukovar Mayor Ivan Penava.

Plenkovic commented that any HDZ member could take part in party elections. Yet, he noted that currently the HDZ had a different matter on the agenda - the presidential elections, adding that he expected incumbent President Kolinda Grabar-Kitarovic to win.

While Plenkovic has strong position within the party, he has many opponents as well. Therefore, Plenkovic's attitude and way of solving the current coalition crisis related to the demands by teachers for wage hike, will be crucial for his position in the party after the intraparty elections, we think.

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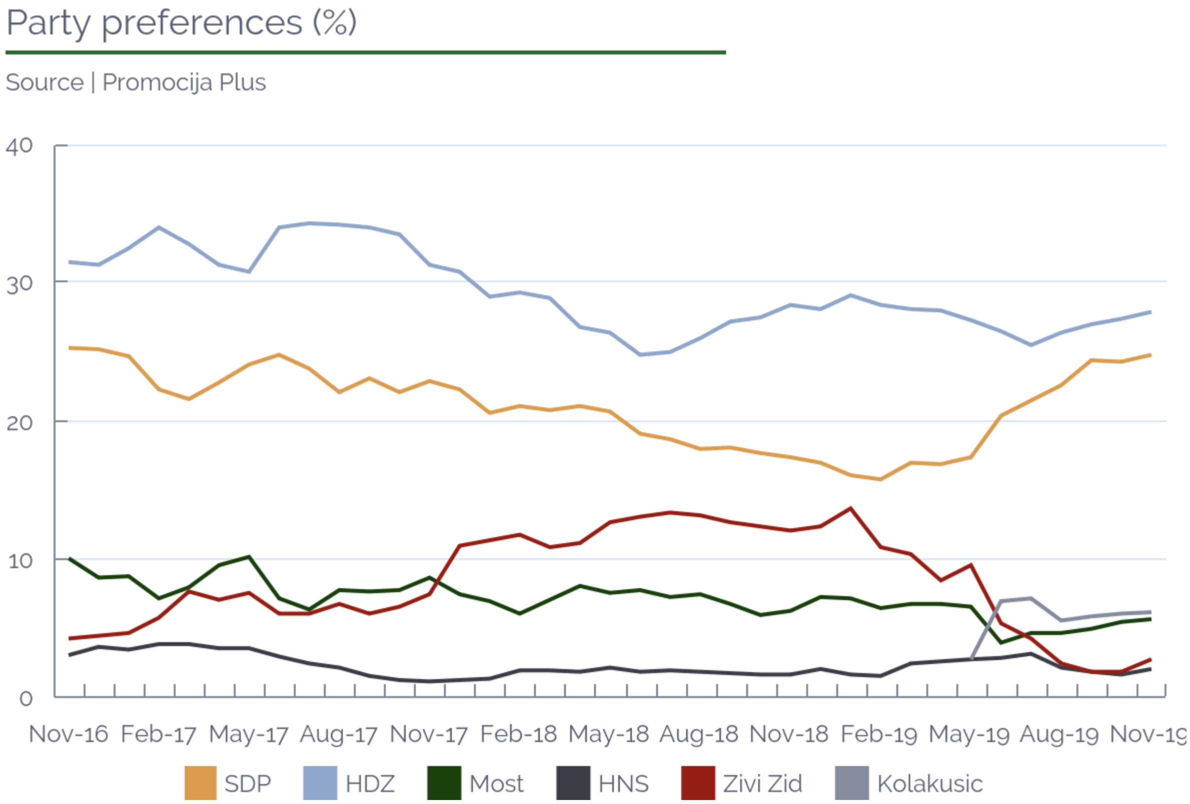
Ruling HDZ to win elections, SDP's rating increases most y/y – Promocija poll

Croatia | Nov 11, 05:31

- **HDZ ratings supported by back-paddling on pension reform, minimum wage hike, offered hike of base pay of civil servants, public sector employees**
- **Support for SDP continues to slowly increase**
- **Independent list of former judge Kolakusic remains third strongest, reformist Most regains some backing, Zivi Zid also grows**
- **President Grabar-Kitarovic remains second most positively assessed politician after PM Plenkovic, premier remains most negatively assessed politician as well**

Voters' support for the ruling HDZ increased by further 0.5pps m/m to 27.9% in November, the results of the latest Promocija Plus poll (+/-2.77% statistical error) conducted on Oct 4-8 for RTL and considering Croatia as a single constituency and published by local media on Sunday showed. HDZ backing has thus increased for the fourth consecutive month, which in our view reflects the HDZ-led government decision to back-paddle on the enacted in January pension reform by accepting all demands by trade unions that collected twice as much the least needed number for calling a referendum on the issue. The offered minimum wage hike, as well as increase of base pay of civil servants and public sector employees must have also supported the party's rating. A negative impact must have been played by the HDZ refusal to instantly increase the job complexity indices for teachers as they demand, which has triggered protests continuing since Oct 10. Despite the monthly increase, HDZ would gain well below the voters' support reported around and immediately after the 2016 early general election.



The support for the second strongest party - the opposition SDP, also increased by 0.5pps m/m with the party reporting the strongest annual increase in preferences. The party has experienced renaissance since its chairperson Davor Bernardic persuaded SDP's former chairperson and PM Zoran Milanovic to run as the party's presidential candidate in the forthcoming in late-December presidential election. The third most supported party would be the independent list of Mislav Kolakusic with 6.2% backing, up from 6.1% in October, 5.9% in September and 5.6% in August. The populist rhetoric of former judge Kolakusic, his endeavours to become president, but also premier and interior minister simultaneously, have obviously won him a strong support initially, but it seems that this effect has exhausted, which possibly enabled reformist Most to regain some backing. At the same time, populist Zivi Zid fortified its defeat reporting quite low support as compared to a year ago - we believe that the hurt trust of its voters following the internal scandal within the party over who is to take the one MEP seat the party won in the May EP elections is unlikely to be cured any time soon. The support for HNS also increased in the month to reflect its insistence on satisfying teachers' demands, also at the cost of blackmailing senior ruling HDZ. The support for most of the other parties included in the survey broadly did not change m/m, while the share of undecided voters increased by 0.5pps m/m to 11.5%, the poll showed.

In terms of politicians' rating, President Grabar-Kitarovic remained the second most popular politician in November after in October she slid to second place to the benefit of HDZ chairperson and PM Andrej Plenkovic, who simultaneously remained the most negatively assessed politician. In particular, Grabar-Kitarovic is considered the most positive politician by 9.4% of the respondents, down from 10.4% in October (11.2% in September, 11.8% in August, 12.2% in July, 15.3% in June, 15.7% in May and 19.6% in December 2018). We believe that her rating is negatively influenced by several developments - her delaying for long the announcement whether she would seek a re-election, the technical errors of her media team during the long-waited official announcement of her candidature, as well as her refusal to respond to journalist questions. Thus, PM Plenkovic remained at the first place being considered as the most positive politician by 11.3% of those polled, up from 11% in October and 10.9% in September, but remaining below the 12.1% positive assessment in August. As mentioned above, his decision to accept the demands by trade unions for reversal of the pension reform, the decision to increase the minimum wage, as well as the offered 6.12% hike of base pay of civil servants and public sector employees, including teachers, must have supported his rating as politician as well. Similarly to the previous several polls, next came Milanovic with 7.6% support, same as in October, but up from 6.4% in September, 6.3% in August, 5.9% in July, 3.8% in June and 3.5% in May. Surprisingly, the fourth most appreciated politician is Kolakusic with 6.3% of those polled seeing him positively, up from 2.6% in November and 3.2% in September, followed by presidential candidate Miroslav Skoro with 2.8%, up by 0.1pp m/m, Bernardic (2.3%, unchanged m/m). The positive assessment for deputy PM and FinMin Zdravko Maric slid to 2.1% in November from 3.6% in October and 5.2% in September - this decline probably reflects his refusal to easily give health workers and teachers the demanded by them wage hikes. This is however understandable from budget point of view as well as the country's plan to maintain healthy public finances in order to be able to adopt the euro. Ivan Pernar, who left Zivi Zid, lost 1.1pps to 1.8%. Although with little support, Vukovar Mayor Ivan Penava, who expressed ambitions to take over the HDZ, also made it to the top ten most positively assessed politicians. Yet, the category 'nobody' remains the most often chosen answer for 22.5% of those polled, up from 22% in October, but from 23.3% in September. In the meantime, PM Plenkovic also remains the most negatively assessed politician with 20.6% of those polled, up from 19.7% in October, 19% in September, but lower than 21.1% in August, 21% in July, 22.8% in June, 21.5% in May, 22.3% in April. Surprisingly, the second most disliked politician is Zoran MIlanovic (12.2%, up from 9% in October and 6.3% in September), followed by Grabar-Kitarovic, who is negatively assessed by 8.5% of those polled, up from 7% in October, 4.8% in September and 3.3% in August. Altogether 12.1% of the respondents assess all politicians negatively in November, up from 9.8% in October, the poll has shown.

The poll also showed that the top three constitutional institutions are poorly assessed - in terms of school grades, the most positively assessed is the presidential institution with 2.88 grade, unchanged m/m but down from 2.96 in September, followed by the government with 2.2 (up from 2.18 in October and 2.17 in September) to reflect in our view the government accepting the demands by trade unions regarding the pension reform, as well as offering pay hikes, while the parliament gets only 1.9, still up from 1.86 in October and 1.88 in September.

Political preferences, %

	Nov-18	Aug-19	Sep-19	Oct-19	Nov-19
HDZ	**28.4**	**26.4**	**27.0**	**27.4**	**27.9**
SDP	**17.4**	**22.6**	**24.4**	**24.3**	**24.8**
Mislav Kolakusic	-	5.6	5.9	6.1	6.2
Most	6.3	4.7	5.0	5.5	5.7
HSS	3.2	3.4	3.3	3.5	3.4
Zivi zid	12.1	2.5	1.9	1.9	2.8
HNS	1.7	2.2	1.9	1.7	2.1
Ruza Tomasic party	-	-	-	-	-
Milan Bandic 365	2.1	1.9	1.9	2.0	2.0
START	-	-	-	-	-
IDS	1.9	-	-	-	1.3
HSU	0.6	-	-	-	-
HDSSB	0.6	-	-	-	-
HSLS	0.6	-	-	-	-

HSP	-	-	-	-	-
Other or will not vote	16.7	14.9	15.2	13.1	13.4

Source: Promocija Plus, local media

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PRESS Press Mood of the Day

Croatia | Nov 11, 05:30

HDZ and SDP are growing, Kolakusic List is the third choice (Vecernji List)

Salaries are low for foreigners as well, 50% of them do not want to extend their work permit (Vecernji List)

SDP: There will be 13 ministers in our government, the ministry of veterans affairs is to be abolished (Vecernji List)

Changes to the law: In the event of bankruptcy, the protection of workers will continue for 5 months (Poslovni Dnevnik)

Consolidation of [financial] infrastructure: The state has never before had a stake in the ZSE (Poslovni Dnevnik)

New poll: HDZ first and grows further, SDP also slightly up, only another two parties to cross electoral threshold (Jutarnji List)

They announced savings, this is the result: Instead of 88 assistants, government will have 97 directors (Jutarnji List)

Closed HDZ group calls for boycotting [party's chairperson] Plenkovic, supports [presidential candidate] Skoro (Jutarnji List)

HDZ is growing slightly, but the SDP is on its heels: The Social Democrats have recovered, jumping more than any party in a year (Slobodna Dalmacija)

[Presidential candidate] Mislav Kolakusic: Croats are politically illiterate, media are poor, counties should be abolished" (Novi List)

Poll: HDZ and SDP are growing slightly, as is the government, and the president is no longer the most positively assessed politician (Novi List)

[Incumbent President] rabar-Kitarovic presents the programme [for second term] today (Novi List)

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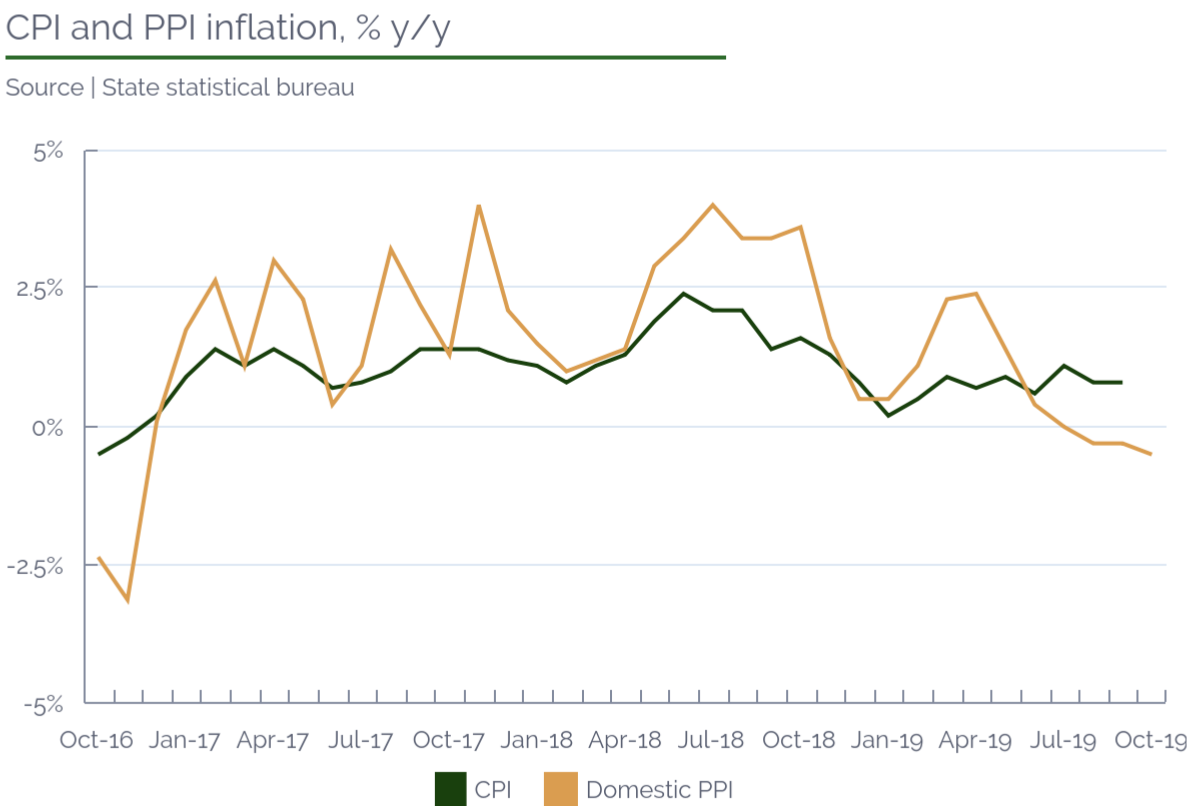
Industrial producers’ prices fall by 0.5% y/y in October

Croatia | Nov 08, 11:18

- **Markets projected stronger 0.6% y/y drop in the month**
- **Fall reported by industrial producers' prices energy and manufacturing**
- **Energy prices main driver of producers' prices in October as non-energy PPI increases by 0.9% y/y in the month**

Industrial producers' price index (PPI) decreased by 0.5% y/y in October with the fall deepening fro 0.4% y/y in

September, according to the stats office latest data published today. Note that industrial producers' price inflation has been on decelerating path since August 2018 until December 2018 and the April print was the strongest since October 2018 (3.4% y/y). The industrial producers' prices fall was driven by both external and domestic industrial producers' prices as both of them fell by 0.5% y/y in October, after the former contracted by 0.7% y/y in September, while the latter by 0.3% y/y. In monthly terms, PPI increased by 0.3% m/m in October.



The fall of the overall industrial producers' price inflation in October was mostly driven by the energy goods as their prices fell by 5.2% y/y in the month after 4.3% y/y contraction reported in September. The latter in our view reflects the developments of global oil prices that continued to decrease in annual comparison. As global oil prices annual fall continued in the first days of November (although in monthly comparison they were growing), we may expect energy prices to report even stronger annual decrease in November. The other types of goods prevented a stronger PPI index fall as their increase either speeded up or stagnated. In terms of sectors, a downward influence was played solely by industrial producers' prices in manufacturing as their annual fall deepened.

Energy prices excluded, total industrial PPI increased by 0.9% y/y in October, speeding up from 0.7% y/y in September, which indicates that energy prices continue to be the main contributor to industrial producers' prices changes in the month. Non-energy goods prices contribution has been substantially limited in the past few months, possibly due to moderating domestic demand. Global oil prices remained on a downward trend in the first days of November and therefore we may expect energy prices contribution to producers' prices growth to remain negative. We think that the slowing economic growth in the euro area is likely to also have a containing effect on the domestic prices and the PPI impact on the headline CPI inflation will remain moderate in the short run, in our view.

PPI by components, % y/y

	Jul-19	Aug-19	Sep-19	Oct-19
PPI	**0.3%**	**-0.3%**	**-0.4%**	**-0.5%**

Domestic PPI	0.0%	-0.3%	-0.3%	-0.5%
External PPI	0.5%	-0.3%	-0.7%	-0.5%
Mining	-8.6%	-9.0%	-10.0%	-9.9%
Manufacturing	0.1%	-0.5%	-0.6%	-0.7%
Utilities	3.8%	3.6%	4.0%	4.1%
Energy	1.3%	-3.3%	-4.3%	-5.2%
Intermediate goods	0.6%	0.5%	0.5%	0.8%
Capital goods	0.4%	0.3%	0.3%	0.3%
Durable consumer goods	0.9%	0.0%	0.1%	0.6%
Non-durable consumer goods	0.9%	0.9%	1.2%	1.3%

Source: Stat office

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KEY STAT Foreign trade deficit narrows by 3.1% y/y to EUR 688mn in September

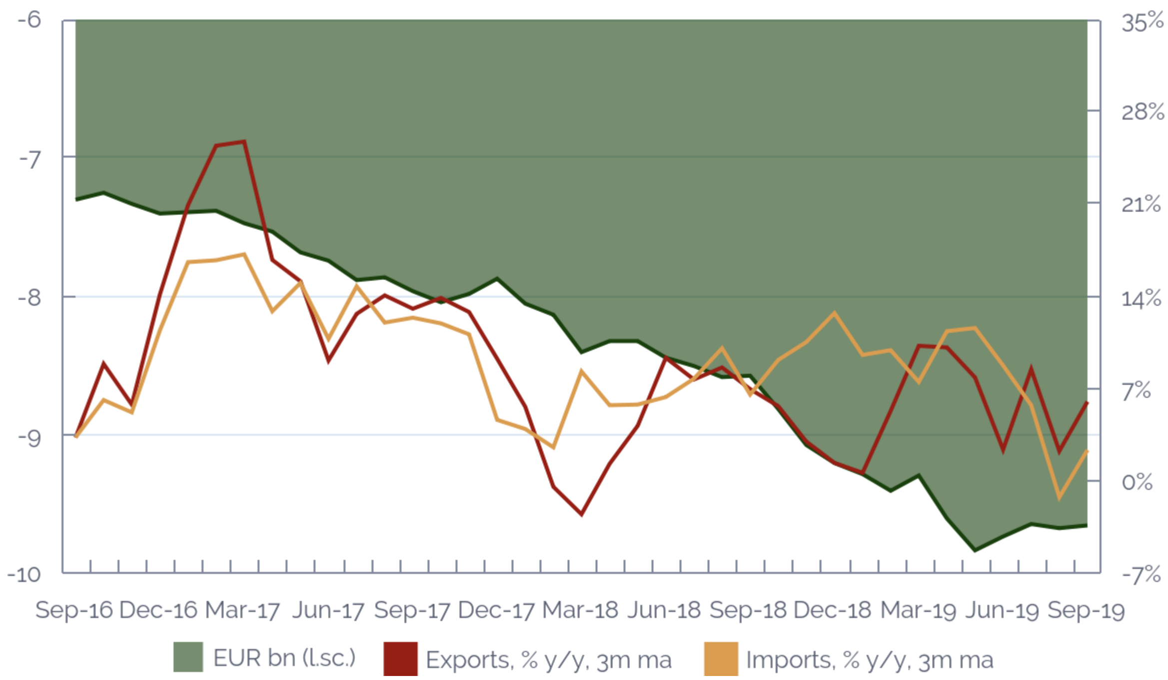
Croatia | Nov 08, 11:03

- **Exports recover growing by 5.3% y/y in September, imports' growth slower at 2.2% y/y**
- **Given average July-September foreign trade data, net exports must have had positive contribution to GDP growth in Q3**
- **Exports outlook overall negative given labour shortages, crisis in ailing dock Uljanik, looming economic slowdown in Europe, recession in Italy**
- **Outlook on imports overall balanced**

The merchandise foreign trade deficit narrowed by 3.1% y/y to EUR 688mn in September and improved from the downwards revised EUR 743mn gap in August, our calculations based on the latest data by the stat office released on Friday showed. The annual narrowing was on the back of exports expanding at faster pace than imports - by 5.3% y/y and 2.2% y/y, respectively. Nevertheless, the foreign trade gap to GDP ratio stagnated at 18% for the 12-month period ending in September.

External trade

Source | State statistical bureau



We believe that the export recovery in September reflects the end of the summer outages in the country's main producers, as well as the execution of orders received in the past. The September print is also positive surprise in view of the continued slowdown of the economic activity in Europe, especially the fact that Italy is in recession, while Germany is on the brink of a recession. Given average July-September foreign trade developments, we may expect net exports to have had positive contribution to GDP growth in Q3. The stats office is to release Q3 GDP data on Nov 27.

In January-September, exports rose by 6.1% y/y, while imports -- by slightly stronger 6.2% y/y - as imports continued to exceed exports, the deficit widened by 6.4% y/y in the period. The increase in exports was on account of higher export sales to both EU and non-EU countries. Imports from the EU rose by 9.6% y/y while those from third countries were lower by 5.8% y/y. The deterioration in the overall gap ytd was on account of the EU market, which is consistent with the moderation of the economic activity in Europe.

Going forward, exports growth might again moderate in October as economic sentiments among industrialists and in the EU deteriorated in the month with those among local industrialists worsening on the back of less upbeat production and selling price expectations, more downbeat assessment of order books, including for exports. The continuing crisis in major shipbuilding Uljanik group that has been put into bankruptcy procedure and has been failing to deliver the ordered ships due to lack of money for materials and leaving employees might also have a negative impact on industrial production in the next months, hence on exports. The gradual easing of the economic activity in the country's main trading partners, the EU in particular, specifically Italy and Germany, might additionally constrain exports' expansion going forward. The outlook on imports is overall balanced. On the one hand, we may expect them to remain relatively strong in the next months on the back of the likely to remain overall strong domestic activity. In addition, mounting upward wages pressured by labour shortages, the administrative 9% hike of the minimum wage in 2019 (it is to grow further in 2020), the hike of base pay of civil servants and public sector employees will continue to favour domestic demand and, respectively, import growth over the short run, in our view. At the same time, the worsening sentiments among industrialists and the cooling global activity might result in them delaying their investment and expansion plans, thus reducing the imports of investment goods and materials as well, we think.

Merchandise foreign trade, January-September 2019

	EUR mn	% y/y
Exports	**11,329.5**	**6.1**
EU	7,671.6	4.7
non-EU	3,658.0	9.2
Imports	**18,768.3**	**6.2**
EU	15,104.8	9.6
non-EU	3,663.5	-5.8
Balance	**-7,438.8**	**6.4**

Source: Stats office

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Vacancy index slumps again falling by 0.5% y/y in October

Croatia | Nov 08, 08:56

- **Seasonally-adjusted index grows by 1.2% m/m**
- **Labour demand has been stagnating for almost two years, its seasonality becomes more pronounced**
- **We may expect labour demand to slow down further over cooling economic activity abroad**

The Online Vacancy Index (OVI) slumped again in October falling by 0.5% y/y in the month after growing by 2.4% y/y in September, the Institute of Economics, Zagreb (EIZ) announced on Friday. The seasonally-adjusted index grew by 1.2% m/m in October indicating little changed demand for labour, which is in line with the general slowdown in economic momentum, EIZ said.

According to the Institute, if a longer period is analysed, the seasonally adjusted index values (and trend) show that job advertisements have been stagnating for almost two years following their sharp growth up until 2018. In addition to this stagnation, there is also a growing oscillation in labour demand evident from the trend values-labour demand resulting from the tourist season is becoming more pronounced. Such an interpretation is backed by the fact that nearly half of all job advertisements offer fixed-term contracts, while a decade ago this type of employment accounted for 20-25% of online job advertisements. EIZ added that although it might be too early to claim that the labour market is transforming toward a stagnant labour demand with a growing proportion of jobs of limited duration, the fact that a significant increase in the number of job advertisements in the last two years was not observed, and that those two years have seen a record share of fixed-term contracts in total labour demand, is supportive of such a conclusion.

The cooling down economic activity in Europe will gradually affect also the local economy, thus preventing strong demand for labour going forward, in our view. This expectation has been already confirmed by the latest survey carried out by the Manpower consultancy agency, which showed worsening net employment outlook for Q4 in both annual and quarterly comparison with the share of firms planning to cut staff growing, while those to increase staff numbers - falling.

CZECH REPUBLIC

Largest city halls want lower property taxation

Czech Republic | Nov 11, 06:50

- **Mayors want real estate deals to be taxed with VAT at super reduced rate (10%) rather than reduced rate (15%)**
- **PM Babis may oblige, as he is already promising tax cuts by the end of his term**

The mayors of the three largest cities in the country - Zdenek Hrib (Prague, Pirates), Marketa Vankova (Brno, ODS) and Tomas Macura (Ostrava, ANO) - proposed a reduction of taxation on property as a measure to counteract property price hikes, they told the state TV channel on Sunday (Nov 10). Their idea applies mostly to property purchases, where they want real estate deals to be subject to the super reduced VAT rate (10%), rather than the reduced one (15%). The Prague city council, which has legislative initiative and can submit bills to the Chamber of Deputies, intends to take the lead on this. There is support from the Pirates and the union of right-leaning forces (TOP 09 and STAN), which should provide enough votes in the Prague city council so that the initiative could pass.

Given that the three mayors come from the three largest parties in the country - ANO, the Pirates and the ODS - there is a chance that the proposal might go through. We doubt it will be as of 2020, but there is a non-negligible chance that it could happen in 2021, which happens to be an election year. PM Andrej Babis (ANO) is already promising tax cuts by the end of his term, so this would be a good opportunity to oblige city halls and take the spotlight for it.

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Labour ministry to punish job seekers worse for refusing state-offered jobs

Czech Republic | Nov 11, 06:40

- **Currently, allowance can be denied for 3-6 months; labour ministry reportedly wants to increase penalty to a year**
- **ANO supports approach, Pirates are against, particularly because of possibility to deny housing allowance**
- **Measure likely to bring down number of registered job seekers next year**

The labour ministry intends to punish job seekers more severely for refusing state-offered jobs, according to sources of the state TV channel. Labour minister Jana Malacova told MPs last week she intended to increase the maximum period for which job seekers can be denied living and housing allowance from the current 3-6 months to 6-9 months. However, the state TV channel claims options for extending the penalty to a year are currently being discussed. Malacova was clear that the labour ministry would no longer tolerate occasions when job seekers apply for social assistance and then abuse the system but refusing offered positions. Her argument is that there are wealthy enough people who only register as job seekers to benefit from social allowance, which also includes free health insurance, as job seekers are exempt from health insurance contributions.

The labour ministry has now turned to local authorities to make sure that the new system is applied smoothly. Local authorities are better equipped to supervise job seekers and when they seek informal employment. ANO is behind that approach, while the Pirates are against it, as they consider the approach too harsh. The most controversial measure is taking away housing allowance, which in some places could put unemployed in a very precarious situation. Given that ANO and the CSSD are behind the measure, however, the odds are that it will pass. Thus, we can expect that registered job seekers will eventually decrease in 2020, but primarily due to administrative reasons.

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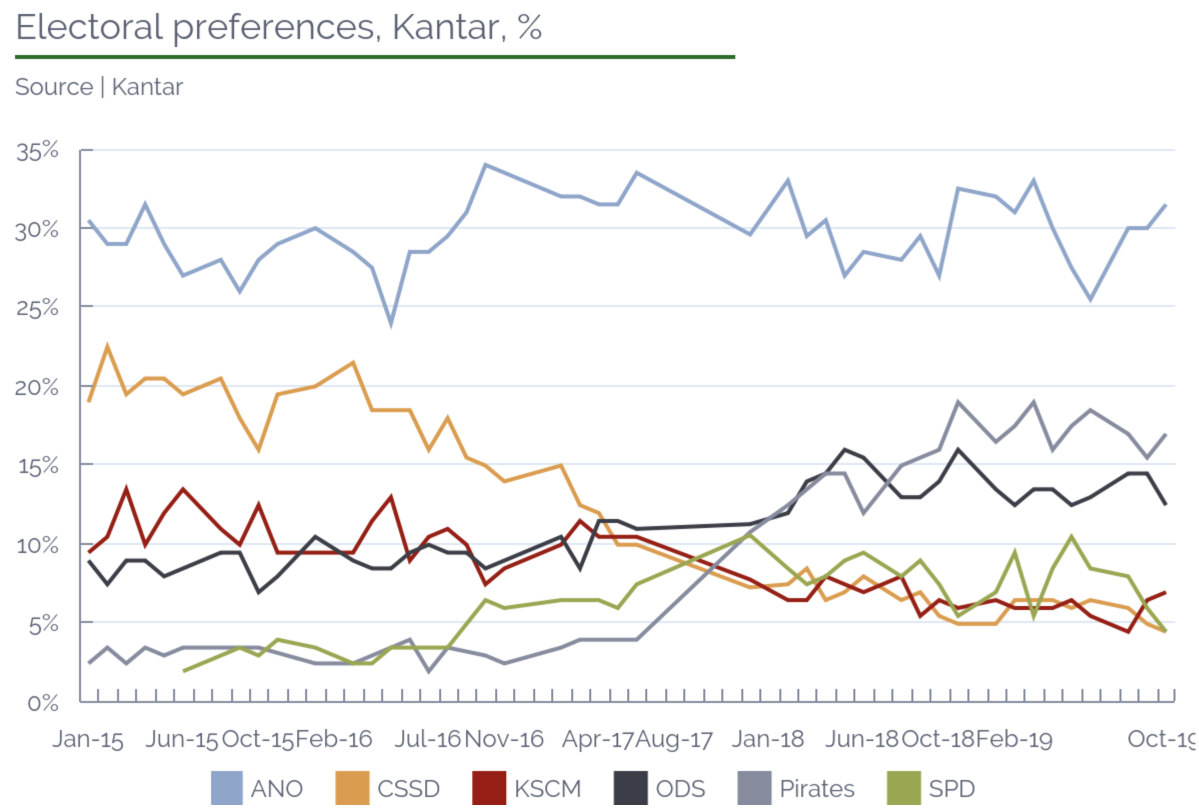
ANO extends lead in October, seven parties to make it to parliament - poll

Czech Republic | Nov 11, 06:19

- **ANO has almost a 15pp to Pirates, who break ahead of ODS**
- **CSSD and SPD seen not to make it to next parliament, which we see as an outlier**
- **ANO dominates among oldest voters, Pirates are most popular among those under 30**

ANO, the senior government partner, extended its lead in October, up 1.5pps m/m to 31.5% of the vote, according to the latest opinion poll of Kantar. The party has an almost 15pp lead to the Pirates, the second-largest party, which added 1.5pps m/m to 17%. The Pirates are now more notably ahead of the ODS, which lost 2pps m/m to 12.5%, though to be fair, this result as an outlier, as most other pollsters put the two parties virtually tied. Yet, all polls over the recent months put the Pirates in second place, so there is at least that. No other party made it above 7%, according to the poll, which is also a kind of an outlier, as parties like the KSCM and the SPD are polling around 8-10% in most other polls. Kantar goes further, claiming that the CSSD and the SPD would not even make it past the 5% electoral threshold, which we also consider is odd, since both parties are put well above the 5% line by other pollsters. Under this scenario, seven parties would make it to parliament, which gives ANO an opportunity to no longer need two coalition partners, but only one.



Kantar expects turnout to reach 57.5% (down 1pp m/m), which is somewhat lower than other pollsters, though not that far off. The percentage of of people who are firmly decided to vote is 55%, 18% are leaning towards it but are not certain. The only group where firmly decided voters are above 70% is those with higher education, at 75%, which could explain the higher support for the Pirates, who tend to do well among that group. Regarding voter loyalty, 43% are certain they will repeat their choice, while 30% said they were probably about to do so. The most loyal voters are those of ANO (60%) and the KSCM (64%), while STAN, the Pirates and Tricolours have the lowest number of dedicated voters.

Regarding voter breakdown, ANO is doing the best among people aged 60 or higher, getting 49.5% of that vote, well above anyone else. At the other end, the Pirates have a huge lead among voters aged 18-29, getting 38% of that vote. The downside is that these are the least likely to vote, which explains the low percentage of dedicated voters the party has. The Pirates also gain back their lead in Prague, but it is a very narrow margin with the ODS and ANO, the three parties being within 2pps. ANO dominates in all other population centres, being the most popular in places with population up to 90,000 people.

Electoral preferences, Kantar, %

	May-19	Jun-19	Aug-19	Sep-19	Oct-19
ANO	27.5%	25.5%	30.0%	30.0%	31.5%
Pirates	17.5%	18.5%	17.0%	15.5%	17.0%
ODS	12.5%	13.0%	14.5%	14.5%	12.5%
KSCM	6.5%	5.5%	4.5%	6.5%	7.0%
TOP 09	4.0%	5.0%	4.5%	5.0%	6.0%
STAN	7.0%	6.0%	5.0%	5.5%	5.0%
KDU-CSL	4.5%	4.5%	5.0%	5.0%	5.0%
SPD	10.5%	8.5%	8.0%	6.0%	4.5%

CSSD	6.0%	6.5%	6.0%	5.0%	4.5%
Tricolours	-	3.0%	3.5%	3.5%	3.5%
Other	4.0%	4.0%	2.0%	3.5%	3.5%

Source: Kantar

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PRESS Press Mood of the Day

Czech Republic | Nov 11, 05:35

Babis: We will remove super gross wage and will cut taxes (Pravo)

CSSD and SPD would not enter parliament in October. ANO would win elections, in front of Pirates and ODS (Lidove Noviny)

Seven parties would enter parliament, Social Democrats and SPD would drop out (Mlada Fronta Dnes)

Mayors support lower property taxation (E15)

Those who don't accept an offer job [by state labour bureaus] will remain without benefits longer. Over 66 thousand lost them this year (Hospodarske Noviny)

One of biggest tax changes is getting nearer (Hospodarske Noviny)

Issuing securities for small firms to become cheaper. Thanks to [European] Union (E15)

Beroun: Number of people who are looking for intelligence jobs is growing (Pravo)

Other lives. How we changed for 30 years (Lidove Noviny)

Depression is coming, psychiatrists not (Mlada Fronta Dnes)

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CNB board appears to be on course of keeping interest rates stable

Czech Republic | Nov 08, 11:46

- **Optimistic fiscal projections explained with expected strong impact of adopted tax hikes**
- **CNB governor Rusnok refuses to say whether a rate hike will be discussed at next MPC meeting**
- **Rusnok and CNB chief economist Kral imply revision of fx forecast does not necessarily imply a rate hike is needed**
- **We again expect a split vote at next MPC meeting, but we don't believe there is a majority in favour of a hike**

The CNB board appears to be on course of keeping interest stable in the immediate future, we believe after hearing comments at the traditional meeting with economists that the CNB holds when publishing a new forecast and Inflation Report. CNB governor Jiri Rusnok represented the board this time, and he was evasive when asked whether he expects the next MPC meeting will again debate a rate hike. The tone of the statement from the latest MPC meeting on Nov 7 was less hawkish than before, as the balance of risks to the forecast was seen as anti-inflationary, compared to slightly anti-inflationary in the MPC meeting on Sep 25. Rusnok continued to emphasise on external developments, as external prices are seen as a major disinflationary factor in the latest forecast.

CNB chief economist Petr Kral brought some light into fiscal projections, arguing that the CNB staff expects the adopted tax hikes by parliament will lead to a considerable improvement of revenues. We are somewhat less convinced, given possible second-round consumption effects, as well as risks from lower tax collection, especially from excise tax on tobacco products. Kral added that the child allowance hike by 36.4% was not accounted for in the forecast due to lack of enough information, but the declared impact is only CZK 8.6bn (0.1% of GDP), so we doubt it will have a major effect on the forecast. We continue to believe the CNB remains too optimistic by expecting a general government surplus above 0.5% of GDP in 2020.

There was again a discussion about the exchange rate forecast, which the CNB staff once again downgraded, expecting weaker appreciation than in the previous forecast. Kral said that there were exogenous factors in play that had delayed the expected appreciation, related to foreign developments and less available investment resource to emerging markets. When asked whether slower appreciation would warrant a rate hike, given that a weaker exchange rate is seen as the equivalent of monetary easing, both Kral and Rusnok suggested that due to external factors being in play, the relations between monetary policy and exchange rate was not that strong. There was no outright rejection of that link, however, so we don't rule out other CNB board members to insist on it - Vojtech Benda has certainly done so on many occasions.

Overall, we don't expect a change in the CNB's monetary policy, as the forecast illustrated that the external environment will become even more unfavourable. If external developments have been enough to hold off a rate hike thus far, they should matter even more so after the new forecast. We still expect a split vote at the next MPC meeting, but we don't believe there is a majority on the board in favour of a hike.

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Q&A Excise tax changes

Czech Republic | Nov 08, 10:20

Question:

Are the excise tax hikes proposed here any different from the earlier version?

Answer:

There is no meaningful difference from what the cabinet adopted earlier this year. Technically, there is one change, as MPs threw out taxation of local heating installations. However, it was expected to bring only CZK 40mn anyway, so the finance ministry didn't resist. The Senate will very probably make a lot of changes, but these will be overturned when the bill comes back to the Chamber of Deputies, as the government secured absolute majority through the votes of ANO, the CSSD and the KSCM.

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Tourism activity slows down in Q3 2019

Czech Republic | Nov 08, 09:36

- **Foreign tourists continue to drive overall activity downwards**

Tourism activity slowed down in Q3 2019, according to figures of the statistical office. The number of arrivals rose by 2.6% y/y, easing primarily due to foreign arrivals, which rose by only 2.3% y/y in Q3, down from 4.8% y/y in Q2. The good news is that foreign arrivals are still growing, especially in the quarter they are usually the strongest. However, domestic arrivals also weakened their growth, going slower by 2.1pps q/q to 2.8% y/y.

The number of overnight stays followed a similar path, rising by only 1.7% y/y in Q3, almost three times slower than in Q2. The main driver was still foreign tourists, whose overnight stays rose by only 0.9% y/y, but domestic tourists also reduced their stays, marking their weakest growth over the past five years. The average stays per visit kept falling, this time by 0.9% y/y, as even the average stays of domestic tourists declined. In any case, the average stay duration has never exceeded a long weekend, as the Czech Republic is seen as a short-term holiday destination only.

Tourism, % y/y

	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19
Arrivals	**5.3%**	**5.7%**	**1.8%**	**4.9%**	**2.6%**
Foreign	3.2%	4.6%	-0.2%	4.8%	2.3%
Domestic	7.1%	7.1%	3.8%	4.9%	2.8%
Overnight stays	**3.8%**	**3.0%**	**0.9%**	**4.4%**	**1.7%**
Foreign	1.1%	1.2%	-2.3%	3.2%	0.9%
Domestic	5.7%	5.7%	4.2%	5.7%	2.3%
Stays per visit	**-1.5%**	**-2.5%**	**-0.8%**	**-0.4%**	**-0.9%**
Foreign	-2.0%	-3.3%	-2.1%	-1.5%	-1.4%
Domestic	-1.3%	-1.3%	0.4%	0.7%	-0.6%

Source: Stats office

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Activity in non-financial services falls by 1.1% y/y in Q3 2019

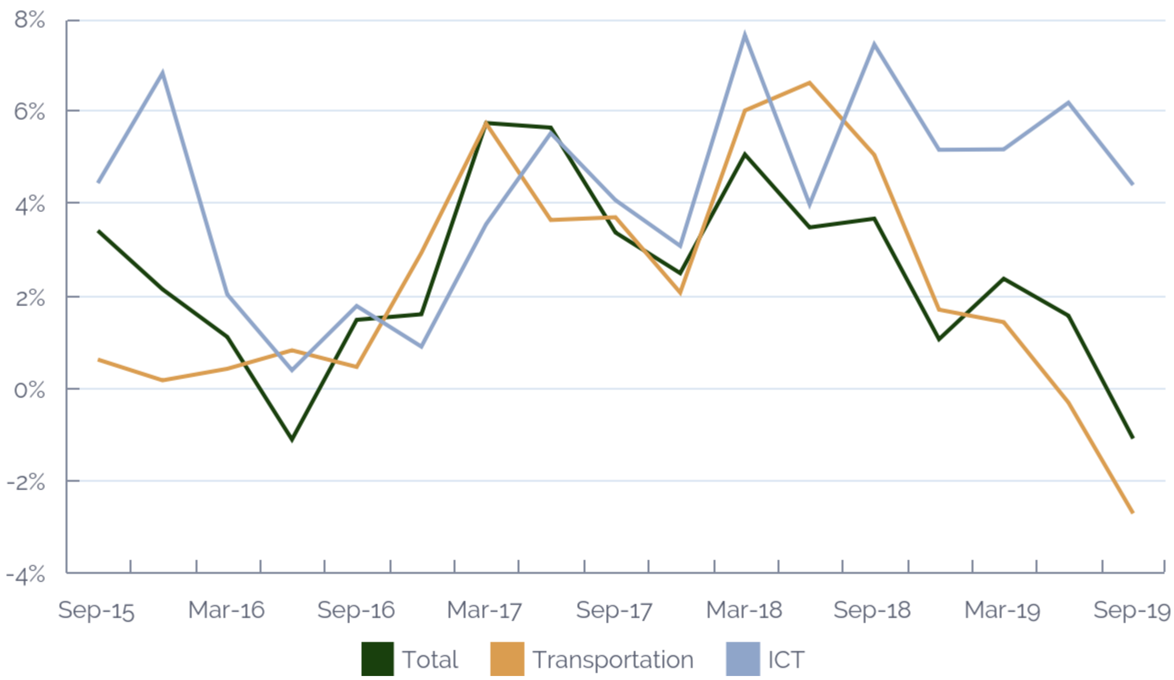
Czech Republic | Nov 08, 09:14

- **Transport and business service drag sector behind**
- **Contribution to GDP growth is likely to be modest in Q3**

Activity in non-financial services fell by 1.1% y/y (wda) in Q3 2019, according to figures of the statistical office. It was the first decline in 13 quarters, which doesn't bode very well for overall economic activity. In seasonally adjusted terms, activity fell by 0.9% q/q.

Services, % y/y wda

Source | Stats office



The biggest deterioration was observed in transportation & storage, where activity was down 2.7% y/y. It is an expected development, since the sector is heavily dependent on external demand, which has been weakening in recent quarters. There was also a decline in professional business services, which we attribute to lower external demand as well, since the outsourcing sector has a non-negligible weight. Administrative services also saw a big retreat, which was primarily due to lower employment activity, in line with lower employment needs in the domestic market. Information & communications also weakened, even though they preserved robust growth, reinforcing the impression that there is an overall slowdown.

Overall, the odds are that services will have lower contribution to GDP growth in Q3, though the report doesn't include the financial sector. What can turn this around is net exports, where goods' trade has been doing well. However, we are not optimistic about the services' trade balance in Q3 2019, which may lead to a lower contribution than anticipated.

Services, % y/y wda

	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19
Total	**3.7%**	**1.1%**	**2.4%**	**1.6%**	**-1.1%**
Transportation and storage	5.1%	1.7%	1.4%	-0.3%	-2.7%
Accommodation and food services	0.7%	-0.4%	2.4%	2.2%	0.1%
Information and communication	7.5%	5.2%	5.2%	6.2%	4.4%
Real estate	-1.2%	-2.0%	0.8%	-1.2%	-1.7%
Professional, scientific and technical activities	1.6%	-1.2%	2.6%	2.2%	-3.1%
Administrative and support services	3.8%	-0.1%	0.8%	-0.5%	-2.4%

Source: Stats office

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CNB turns more upbeat on public finances in new forecast

Czech Republic | Nov 08, 09:03

- **Public finance projections are way more optimistic than those of finance ministry**
- **CNB sees monetary-policy inflation (excl. tax changes) easing markedly in 2020, which we believe reinforces current board stance**
- **GDP growth projection downgraded for 2020, still too optimistic for 2021**
- **CNB staff still expects monetary tightening in late 2019 and early 2020, but we doubt projection will affect CNB board members**

The CNB turned more upbeat on public finances in its latest forecast, according to the latest Inflation Report. The CNB expects hefty surpluses at general government level in 2019-2020, well above the projections of the finance ministry itself, which would be the most interest party in inflating fiscal projections. We believe the discrepancy comes from a better forecast for external balances, as the CNB sees CA surpluses above 1% of GDP in the forecast period, much above what was anticipated in its August forecast. Yet, the CNB forecast has been volatile in that regard, so we won't be surprise of a revision when the next forecast is due.

More importantly, the CNB continues to expect CPI inflation to ease, with monetary-policy inflation to show a more notable easing in 2020. The CNB has already commented on the expected impact of indirect tax changes next year, with second-round effect to provide a relatively constant upward pressure to headline inflation in 2020, at about 0.3pps. This is the purpose why the CNB board is considering an inflation measure eliminating tax changes, and this one will ease more markedly next year. Core inflation (excl. regulated and volatile prices) will remain relatively solid at 2.5% in 2020, reflecting strong domestic inflation pressure. However, the overall trend remains unchanged and the CNB still expects inflation to converge to the target in late 2020 or early 2021. We believe this will reinforce the position of the CNB board majority that no monetary tightening is needed at present.

As we mentioned on Thursday (Nov 7), when the preliminary forecast figures were released, the CNB downgraded its GDP growth forecast for 2020 and 2021, down to 2.4% and 2.8%, respectively. We still believe that the 2021 forecast is on the optimistic side. Our impression was reinforced by the downgrade of the finance ministry's GDP forecast, though the finance ministry has often acted in a more sceptical way than the market average. The CNB clearly expects a negative impact from slowdown in the euro area. Yet, one of the boxes in the new Inflation Report argues that while the Czech economy is closely aligned with the German one in cyclical terms, there is less correlation when potential output is concerned. This implies that while there will be a negative impact from a slowdown or recession in Germany, it won't have a matching effect in the Czech Republic.

Finally, the forecast once again puts some projections about the policy rate that may raise eyebrows. The forecast presumes at least a 25bp hike by the end of 2019 and another 25bp one in Q1 2020, which we don't believe correspondents to what the majority of CNB board members are currently saying. The projection is such that it suggests further monetary tightening in 2020 and easing only in 2021. Yet, as we have pointed out previously, the forecast serves only an information purpose and board members are in no way required to co-ordinate their monetary policy views with it. Some board members rely more on the forecast than others, but as far as the policy rate is concerned, there has been a very low impact, if any, on board member votes. Nevertheless, we expect the projection to be brought up yet again at the meeting with economists that the CNB organises after the publication of a new Inflation Report and forecast.

Main forecasts, detailed presentation

	Nov-19			Aug-19		
	2019	2020	2021	2019	2020	2021
Change, % y/y						
GDP	**2.6**	**2.4**	**2.8**	**2.6**	**2.9**	**3.0**
Consumer prices	2.8	2.7	1.9	2.8	2.3	1.9
Monetary policy inflation*	2.8	2.4	2.0	2.8	2.3	1.9
Brent crude oil	-11.8	-10.5	-1.3	-9.3	-4.6	-2.4
Real wages	4.6	3.0	3.1	4.4	3.2	3.1
Unit labour costs	5.1	3.4	2.3	4.6	2.6	2.2
% of GDP						
General government balance	0.9	0.8	0.5	0.5	0.4	0.2
General government debt	30.3	28.5	27.0	30.7	28.9	27.5
Current account balance	1.0	1.1	1.0	0.3	0.3	0.1
LFS unemployment rate, % of total	2.1	2.1	2.1	2.1	2.2	2.2
EUR/CZK	25.7	25.4	25.1	25.5	24.9	24.5
2-week repo rate, average	2.03	2.18	1.84	2.02	1.82	1.80

Note: * excluding tax changes

Source: CNB

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KEY STAT Registered unemployment rate eases to 2.6% in October, as expected

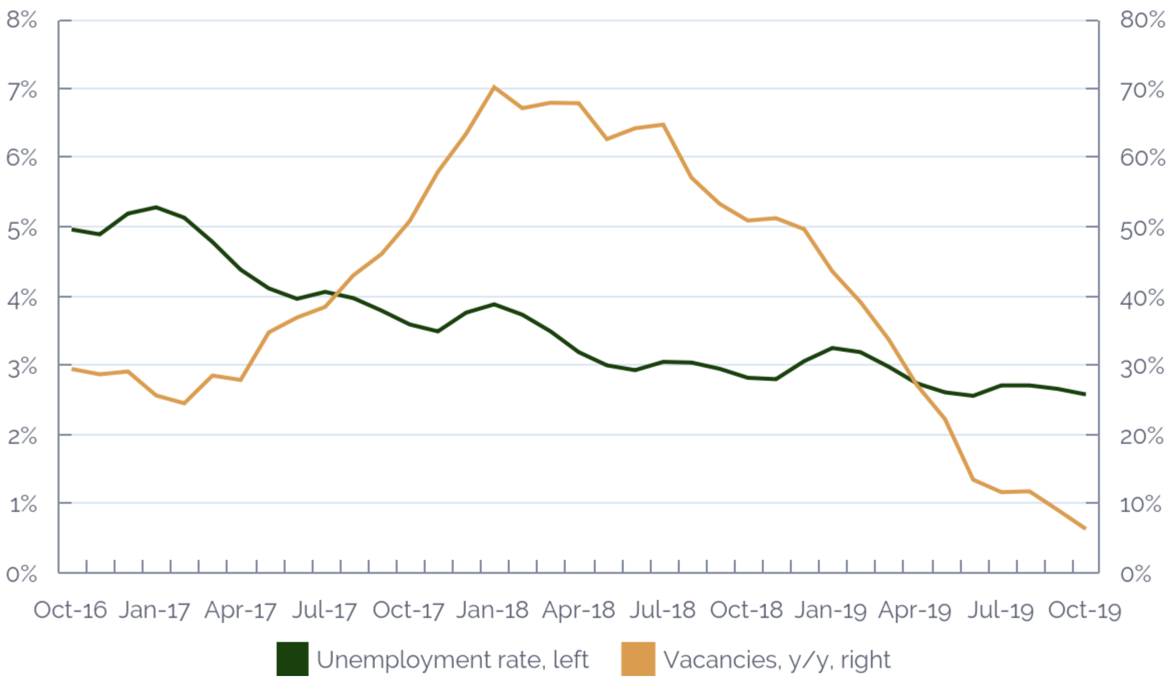
Czech Republic | Nov 08, 08:35

- **Print matches consensus forecast**
- **Decline in job seekers eases further, new vacancies grow slower**
- **Despite that, labour shortages remain acute and situation is unlikely to change soon**

The registered unemployment rate eased from 2.7% in September to 2.6% in October, in line with expectations, according to figures of the labour ministry. In annual terms, the unemployment rate fell by 0.2pps, down to just above its historical low from June. The decline came despite further deceleration of the rate at which job seekers decreased, at 8.9% y/y in October, down to an almost 5-year low. The same was seen with job vacancies, which grew by 6.5% y/y in October, a 5.5-year low. Even then, job seekers covered only 58% of available vacancies, which is close to the historical low.

Registered labour market, %

Source | Ministry of Labour



Newly registered job seekers fell by 4.8% y/y in October, in contrast to the 8% y/y hike seen in September, but we believe it was due to some time lag, like between the moment when people graduate from school and the moment they start looking for work. It is why we consider the boost in September and respectively in Q3 2019, according to the labour force survey, as misleading. On a less positive note, the number of job seekers who found a new job fell by 7.5% y/y, though it can be argued it was because of lower job seekers in the first place. There was still a very strong activity of state employment bureaus, as the number of people who found a job through them jumped 45.3% y/y.

Meanwhile, the number of newly announced vacancies kept falling, down by 14.5% y/y in October, which is in line with lower demand in certain economy sectors, particularly industry. On a negative note, the number of filled-in positions fell by 9.6% y/y, which hasn't happened since 2012, though we believe it reflects labour shortages above anything else. There was also a strong increase in newly vacated positions, regardless whether it is due to changing jobs or retirement, illustrating that turnover remains considerable, making it even harder for employers to find needed personnel.

Overall, the data show yet again that the labour market remains tighter than ever. While there are some signs that certain sectors are dialling down new employment, the overall picture remains unchanged. We haven't expected anything else, given how acute labour shortages have become. As economic activity eases, there will be some readjustment, but we don't expect unemployment rising quickly. What may happen before that is wage growth to start easing, because employers will have more arguments against big wage hikes when activity and orders are lower.

Registered labour market, %

	Oct-18	Jul-19	Aug-19	Sep-19	Oct-19
Unemployment rate (15-64 years)	**2.8%**	**2.7%**	**2.7%**	**2.7%**	**2.6%**
Job seekers per vacancy	0.68	0.59	0.58	0.58	0.58

Change y/y					
Unemployed	-20.5%	-11.4%	-11.2%	-10.0%	-8.9%
Job vacancies	51.0%	11.8%	11.9%	9.2%	6.5%
Newly registered job seekers	1.6%	6.5%	-4.4%	8.0%	-4.8%
Job seekers taken off registry	-8.2%	3.1%	-6.2%	0.4%	-10.7%
o/w: found employment	-9.4%	2.8%	-5.6%	0.4%	-7.5%
Newly announced vacancies	27.1%	22.0%	-2.7%	-10.3%	-14.5%
Filled-in positions	83.1%	32.2%	14.1%	19.6%	-9.6%
Layoffs	26.4%	47.0%	-8.8%	1.6%	12.5%
Newly vacated positions	163.0%	92.2%	85.1%	40.1%	45.7%

Source: Ministry of Labour

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GEORGIA

NBG reserves fall by USD 216mn to USD 3.4bn in October

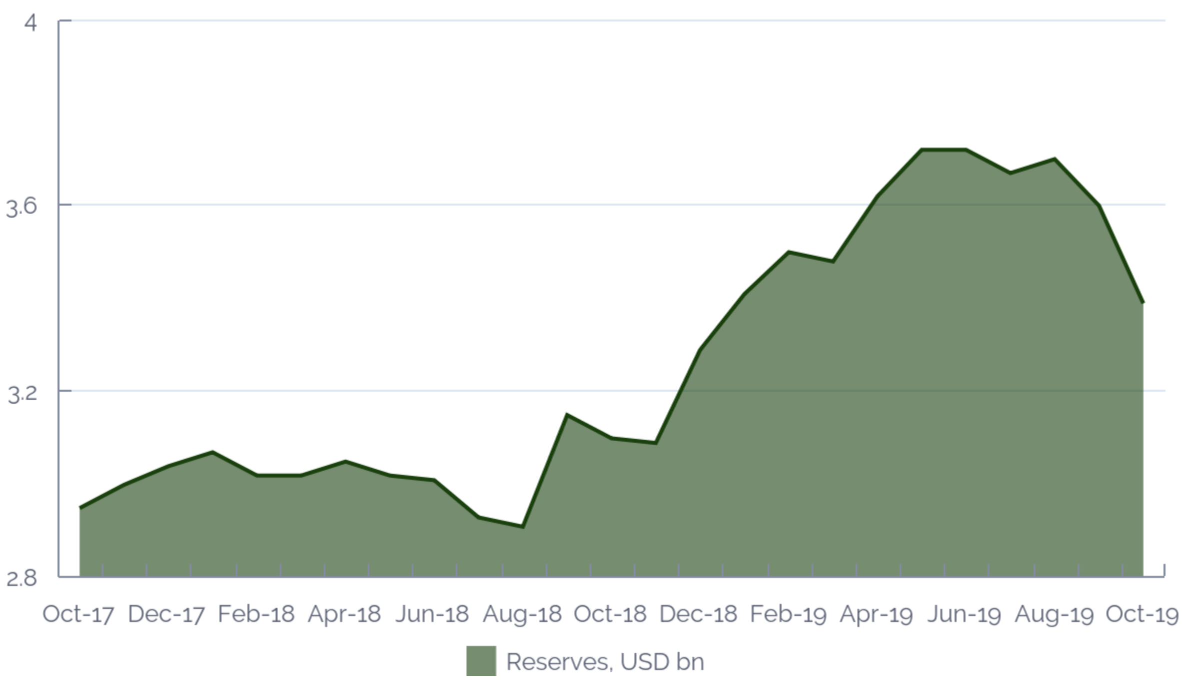
Georgia | Nov 08, 09:33

- **Reserves rise modestly by USD 97mn in January-October**
- **NBG stays out of FX market, as lari weakens mildly against US dollar**

FX reserves of the National Bank of Georgia (NBG) fell by USD 216mn m/m to USD 3.4bn at the end of October, marking the second consecutive month of decline. In January-October, FX reserves rose by USD 97mn, according to data from the NBG. At end-October level, the reserves covered close to four months' worth of imports, our calculations show.

Official reserve assets (USD bn)

Source | NBG



The dip in October could be linked to debt repayment, primarily by the general government, as indicated in the latest debt repayment schedule, released in mid-October. Meanwhile, the NBG did not operate on the FX market in October, having sold a total of USD 72mn in August-September, to mitigate volatility. The USD/GEL averaged 2.97 in October, slightly down from 2.96 in September, marking the eighth straight month of depreciation of the lari. The NBG has maintained it would pursue further monetary tightening in order to curb inflationary pressures coming from the exchange rate dynamics.

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HUNGARY

PRESS Press Mood of the Day

Hungary | Nov 11, 05:59

Government to strengthen protection of agricultural assets (Magyar Nemzet)

Some 40,000 retirees have used new opportunity [to work] so far (Magyar Nemzet)

Opposition mayor candidate wins in Jaszbereny (Magyar Nemzet)

Record turnover is expected around Christmas (Vilaggazdasag)

There will be more effective support for SMEs (Vilaggazdasag)

CIG Pannonia Insurance is forced to prepare recovery plan [for one of its units] (Vilaggazdasag)

[Famour political presenter] Olga Kalman joins [opposition] DK, to be assistant to Budapest deputy mayor (Heti Vilaggazdasag)

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KEY STAT **Budget deficit reaches 57.6% of annual target in Jan-Oct**

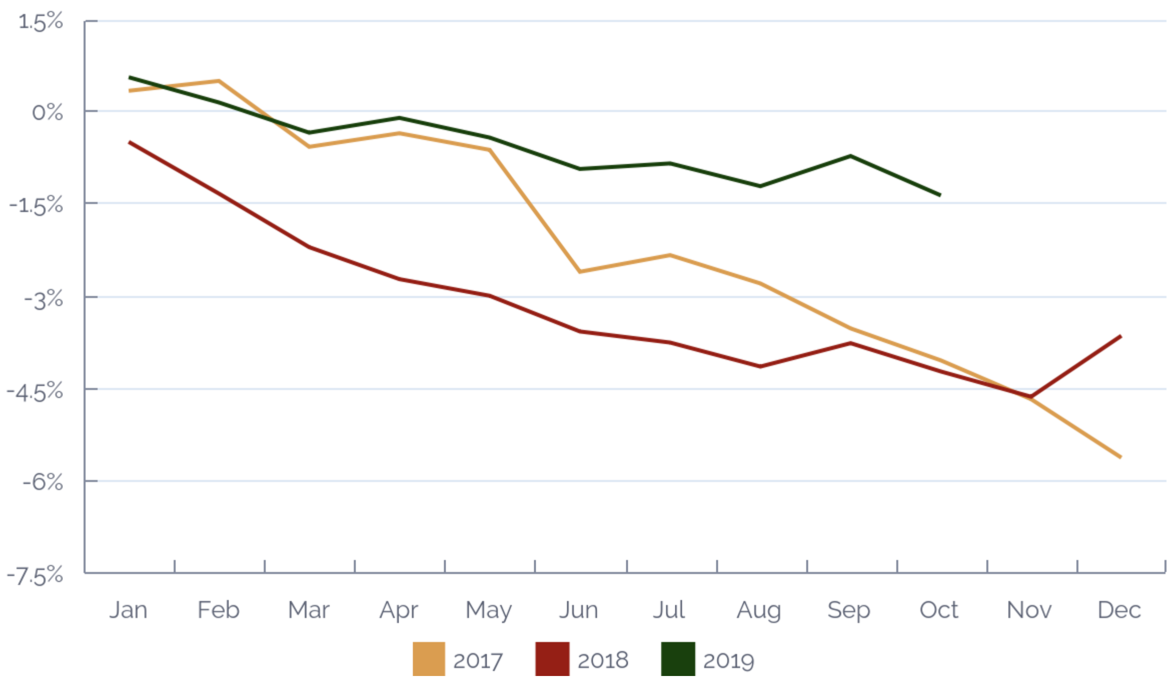
Hungary | Nov 08, 10:47

- **EU flows continue to generate deficit in budget**
- **Full-year deficit target of 1.8% of GDP is achievable, ministry reiterates**
- **Budget deficit rises strongly in October, in our view due to pre-election spending**

The budget deficit of the general government, excluding municipalities, amounted to HUF 575.4bn in Jan-Oct and represented 57.6% of the full-year target, the finance ministry reported preliminary budget execution data. The deficit execution ratio remained considerably better y/y and the deficit itself narrowed by 65.7% y/y for the period, which we think should be partly due to the resumption of EU fund reimbursements.

Budget deficit, ex-municipalities, cumul (% of GDP)

Source | Finance ministry



EU fund revenue amounted to HUF 933.0bn in Jan-Oct, the ministry said, which compares to HUF 472.0bn in the same period of the previous year. The figures suggest that there were also considerable EU fund reimbursements in October as well EU fund pre-financing continued to generate a deficit in the budget though as spending on EU programmes amounted to HUF 1,239.5bn, according to the data.

The budget also spent a significant amount of domestic resources on the modernisation of the road and railway infrastructure, the urban and village development programmes as well as efficiency and job protection investments, the ministry said. It also reminded that most of the elements of the economic protection and demographic programmes already went into effect as of July, in our opinion implying that this factor also boosted budget spending during the period. The ministry still highlighted the usual conclusion that the 1.8% of GDP deficit target for this year is maintained and remained achievable.

The budget generated a HUF 271.8bn deficit in October alone. The deficit expanded by 49.7% y/y, which we think might partly reflect pre-election spending in light of the local elections during the month.

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Underlying inflation indicators mostly accelerate in October

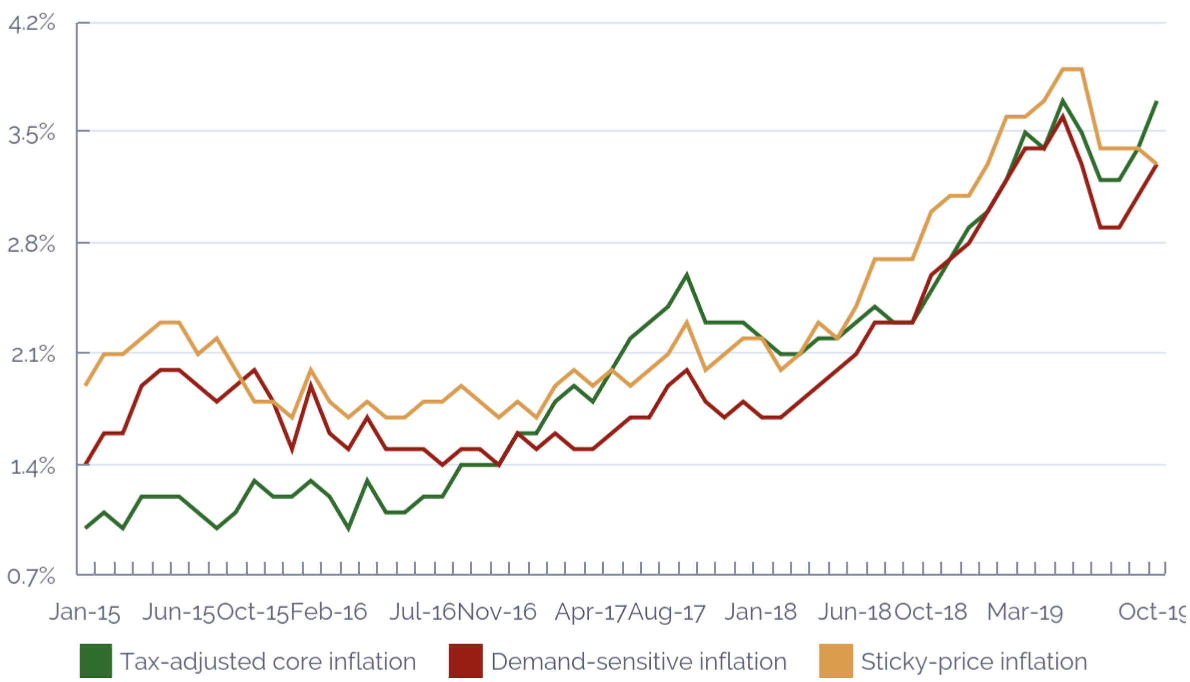
Hungary | Nov 08, 09:26

- **Tax-adjusted core inflation dynamics likely in line with NBH expectations, in our view**
- **Seasonally-adjusted processed and unprocessed food prices increase m/m**

The underlying inflation measures of the National Bank of Hungary (NBH) mostly accelerated in October, the NBH said. Tax-adjusted core inflation picked up to 3.7% y/y and demand-sensitive inflation picked up to 3.3% y/y. On the other hand, sticky-price inflation slowed down slightly to 3.3% y/y. The NBH has signalled that it mostly uses tax-adjusted core inflation as a measure on underlying inflation developments. We think that the strengthening of tax-adjusted core inflation likely still remained in line with the NBH expectations. As we reported, the NBH projected in its latest Inflation Report from September that the indicator will accelerate in the rest of the year. It forecast the tax-adjusted core inflation to be 3.4% on average in 2019 and we think its dynamics so far corresponds to this forecast.

Underlying inflation measures (%, y/y)

Source | National Bank of Hungary (NBH)



The pick-up of the headline and core inflation in October was on account of processed food prices, the NBH said. The contribution of both demand-sensitive and cost-sensitive products to inflation increased slightly compared to the previous month, it added. Prices of durable and non-durable industrial goods were practically unchanged m/m. Seasonally-adjusted processed and unprocessed food prices increased m/m. In the case of processed prices, the increase was due to milk and dairy product prices while the rise in unprocessed food prices was due to pork and fruit prices, the NBH said. Regulated prices were unchanged m/m, it noted.

Household inflation expectations remained moderate in October and consistent with the 3.0% mid-term inflation target, the NBH observed. Inflation expectations seemed to continue trending gradually up though.

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KEY STAT **Consumer inflation picks up to 2.9% y/y in October**

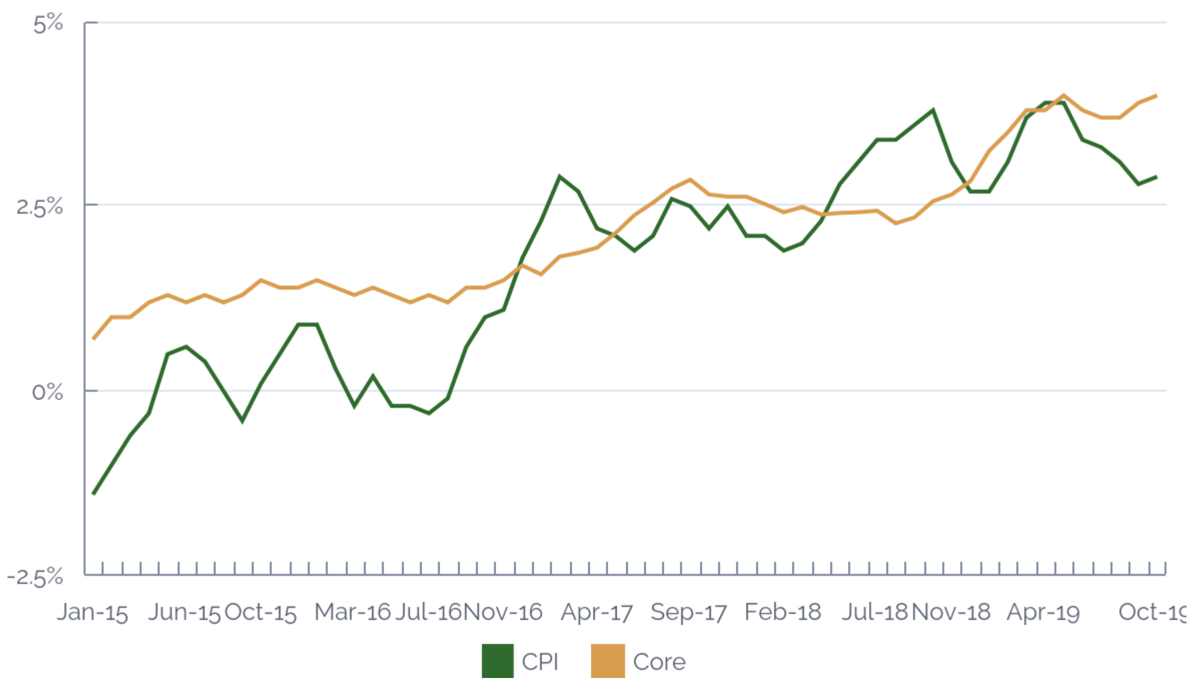
Hungary | Nov 08, 08:51

- **Core inflation accelerates as well**
- **Food prices seem to have largest contribution to stronger headline inflation**
- **Almost no other changes in inflation dynamics among other product categories**

Consumer inflation accelerated to 2.9% y/y in October, up from 2.8% y/y in the previous month, the statistical office (KSH) reported. The stronger inflation seemed mainly on account of food prices although seasonally-adjusted core inflation picked up as well. Core inflation was up to 4.0% y/y in the month, compared to 3.9% y/y in September.

CPI Inflation (%, y/y)

Source | KSH



Food prices rose by 5.4% y/y in October. They accelerated from the previous month but we think that food inflation has been practically stable since February. The pick-up of food prices was on account of processed foods, including meat and dairy products. The rise in meat prices was likely on account of the swine fever problem and related hike in external demand, in our view. We expect that meat prices might rise further in the next months. On the positive side, flour and bread prices as well as unprocessed food prices eased during the month.

Apart from food prices, there were almost no other changes in the dynamics among the other product categories. Fuel prices fell at a slightly slower rate of 4.0% y/y in October and services inflation moderated slightly to 3.3% y/y. This was partly on account of lower freight transport prices, in our opinion possibly reflecting the sustained decline in fuel prices in the past few months. Conversely, the growth of telecom prices, which caused the spike in services in inflation in September, continued in October as well. Telecom prices rose by 0.4% m/m and their y/y growth strengthened further in the month.

Consumer inflation (y/y)

	Jul-19	Aug-19	Sep-19	Oct-19
Total CPI	**3.3%**	**3.1%**	**2.8%**	**2.9%**
Food	6.0%	5.6%	5.1%	5.4%
Alcohol and tobacco	8.5%	8.8%	8.4%	8.4%
Clothing, footwear	1.9%	1.8%	0.6%	0.6%
Consumer durable goods	-1.4%	-1.4%	-1.4%	-1.5%
Fuel and power	1.1%	1.0%	0.7%	0.7%
Other goods, incl. motor fuels	0.4%	0.1%	-1.0%	-0.6%
Services	2.8%	2.8%	3.4%	3.3%
Core inflation (sa)	**3.7%**	**3.7%**	**3.9%**	**4.0%**

Source: KSH

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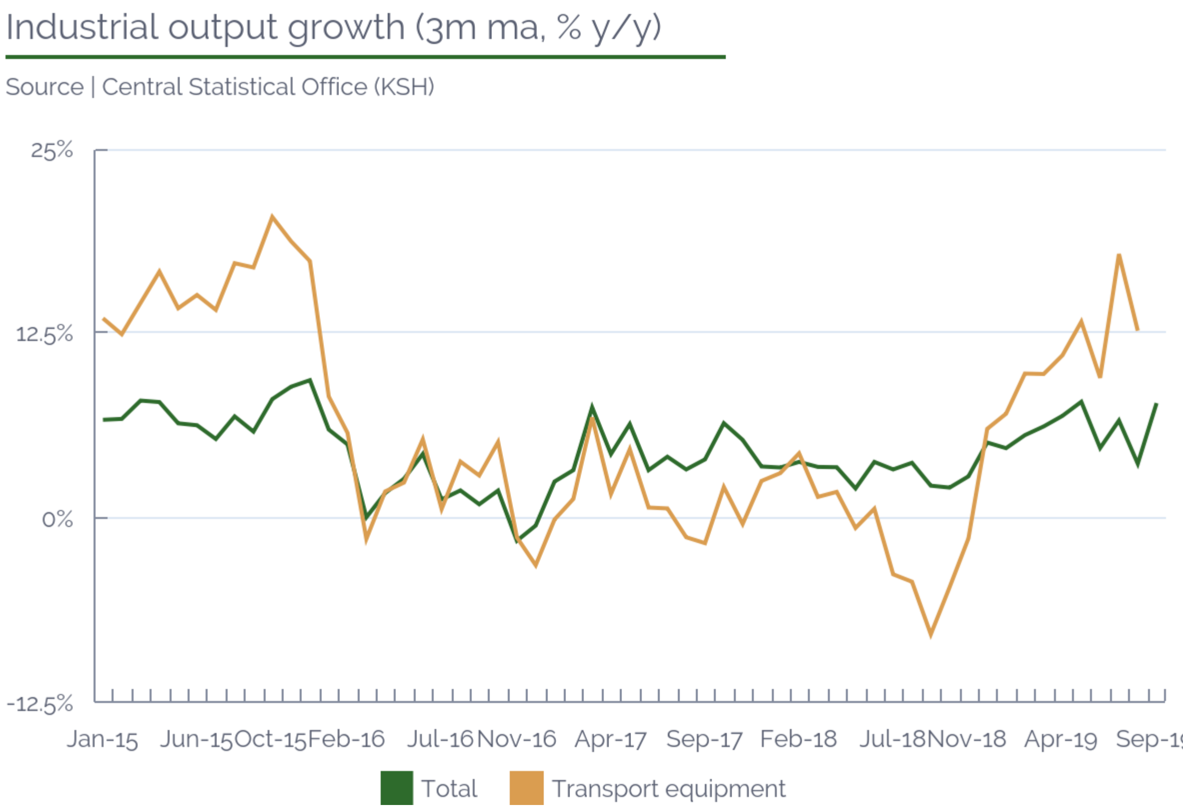
KEY STAT

Industrial output growth recovers to 11.1% y/y in September

Hungary | Nov 08, 08:19

- **Seasonally-adjusted output rises by 3.1% m/m**
- **Output growth related to strongest manufacturing branches including car industry**
- **Eurozone slowdown to catch up with industrial activity in next months, in our view**

Industrial output growth picked up to 11.1% y/y in September compared to the 0.3% y/y growth in the previous month, the statistical office (KSH) published preliminary data. The strengthening of output activity was also visible in calendar-adjusted terms. Calendar-adjusted industrial output rose at an accelerating pace of 9.0% y/y, which was also the highest growth in the past year. On a seasonally-adjusted basis, output expanded by 3.1% m/m.



The data points to undisputed strength of industrial activity in September, in our view. We consider it possible that the strong growth might be again related to base effects related to different timing of summer holidays at some of the local car plants. The KSH confirmed that the output growth was on account of significant increase in transport equipment output as well as the other major manufacturing branches like electronics and the food industry. We still consider the print as positive, suggesting further resilience of the industry against the external headwinds. We think the PMI and other confidence surveys have produced mixed signals about the industry's short-term outlook but we rather expect that the eurozone slowdown is likely to catch up with the industry as favourable base effects related to the local car industry are likely to expire.

The KSH should publish detailed industrial output data for September on Nov 13.

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International reserves fall by 1.4% m/m to EUR 28.0bn at end-October

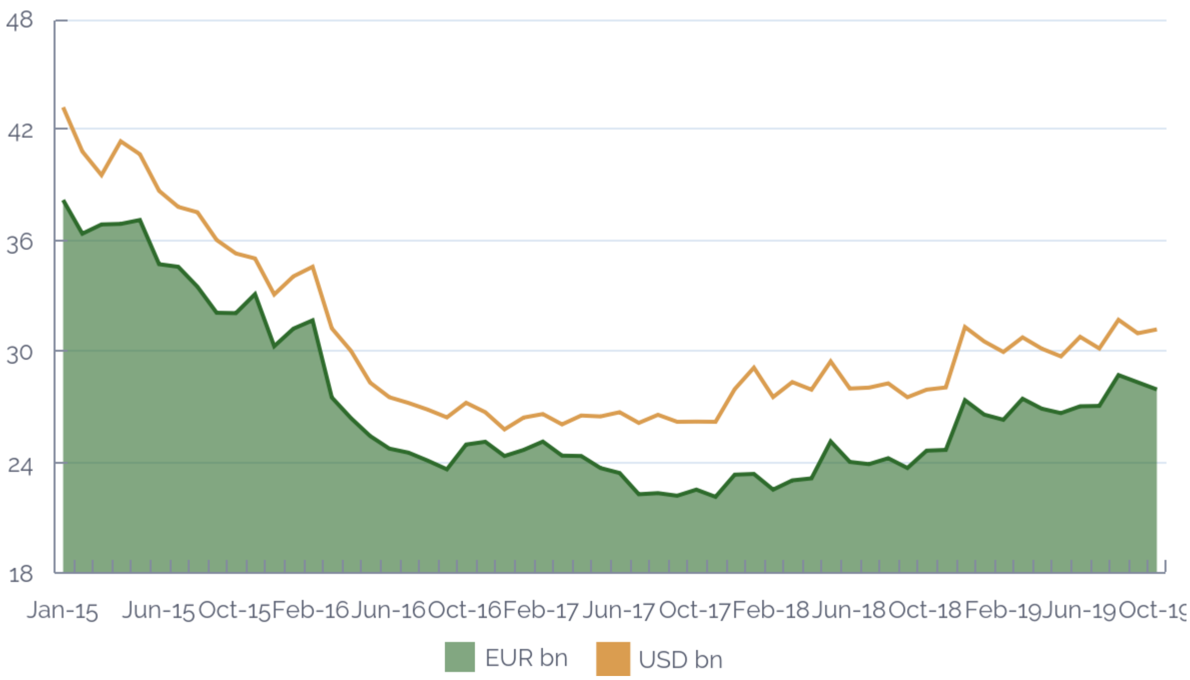
Hungary | Nov 08, 07:54

- **Decline in reserves seems mostly due to exchange rate effects**
- **Reserves likely to increase slightly in next months, in our view**

International reserves of the National Bank of Hungary (NBH) fell by 1.4% m/m to EUR 27,976.9mn at end-October, the NBH reported. The decline in reserves came for the second consecutive month. We think the decline in reserves in September was probably due to early forex bond redemptions by the government while the decline in October appeared partly on account of exchange rate effects. In USD-denominated terms, reserves rose by 0.7% m/m to USD 31,233.6mn at the end of the month. We think the data also suggests that there were no significant EU fund flows during the month.

Reserve assets

Source | National Bank of Hungary (NBH)



We think that reserves might remain on a slight upward trend in the next months. Their level should be boosted by the increase of the forint-liquidity swap stock of the NBH as well as renewed EU fund reimbursements, in our view. Hungary also has no significant maturities of forex debt till the end of the year although we do not rule out if the government makes early forex bond repurchases again in line with the objective to use the strong retail security sales for gradual reduction of the external debt.

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KAZAKHSTAN

Government ups 2019 oil output forecast to 90.5mn tons

Kazakhstan | Nov 11, 06:32

- **Production forecast for Kashagan raised to 14.5mn tons**
- **Kazakhstan over-complied with OPEC+ quota in H1 2019**

The government has raised the 2019 oil output forecast to 90.5mn tons from 89mn tons expected earlier, Interfax.kz reproted today, citing the energy ministry. Thus, the annual output would exceed the 90.4mn tons, produced in 2018. The uptick this year would apparently come on the back of production at the Kashagan deposit, which is seen producing 14.5mn tons, up by 1mn tons compared to the initial annual plan. Oil output at Tengiz should equal 29.6mn tons this year, according to the latest revision, which is up by 0.6mn tons compared to the earlier estimate. The Karachaganak deposit is now expected to put out 11.2mn tons of crude, up by 0.2mn tons. In the ten months of the year, crude production came in at 74.8mn tons, slightly more than the corresponding period of 2018. Reports about an increase in the annual production levels surfaced earlier in the autumn. At the same time, it emerged that Kazakhstan was over-complying with its quota under the OPEC+ deal during H1 2019, extracting 1.79mn bpd whereas the limit stands at 1.86mn bpd. This paved the way for an increase down the line.

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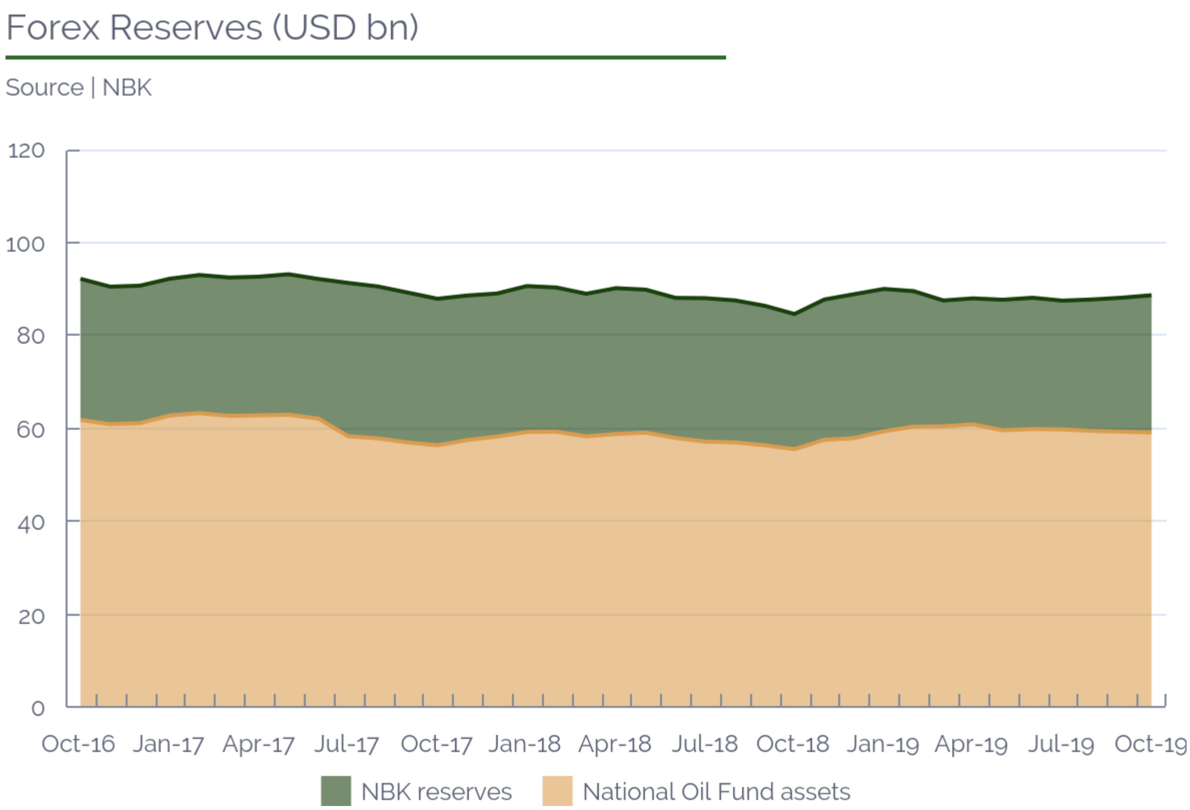
KEY STAT Total FX reserves rise by USD 528mn in October to USD 88.7bn

Kazakhstan | Nov 08, 14:46

- **NBK reserves grow m/m, while oil fund reserves decline due to modest oil revenue and more budget transfers**
- **FX reserves likely to continue rising mildly over short term, in our view**

Total FX reserves rose by USD 528mn m/m to USD 88.7bn at the end of October, according to new figures from the NBK today. This followed USD 386mn m/m rise in September, marking also the third straight month of increase. For comparison, reserves stood lower at USD 84.7bn a year earlier. Total FX reserves comprise those of the NBK and of the National Oil Fund.



The increase in October was the result of USD 705mn m/m growth in NBK's FX reserves to USD 29.5bn. This was partly offset by USD 177mn m/m decrease in the oil fund FX reserves to USD 59.2bn in October. In turn, the outcome for the oil fund mirrored modest USD 172mn oil revenue, received during the month, which was outpaced by USD 433mn outflows on budget transfers. Oil revenues were most likely hurt by the dip in the average crude prices in October, Budget transfers, particularly guaranteed ones, will increase slightly in the coming months as the oil fund should provide KZT 2.7tn to the coffers this year, while so far the fund has allocated KZT 2.4tn

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State railway firm ZPCG to receive EUR 575,000 state support

Montenegro | Nov 08, 15:31

- **Company needs state support to repay arrears, avoid bankruptcy, maintain its rolling stock**
- **ZPCG significantly cuts net loss to EUR 61,933 in Jan-Sep from EUR 935,391 in Jan-Sep 2018**

The government plans to extend EUR 575,000 support for the state railway operator ZPCG to help it repay its arrears and maintain its rolling stock, the state TV reported. ZPCG CEO Nenad Babic earlier said he expects support from the government as the company faces bankruptcy after failing to repay EUR 5.3mn worth of tax debt. The cabinet said that the railway operator has to optimize its operations and reduce the number of employees in return for the funding. It noted that the greatest responsibility before the company's management is to reduce costs and help preserve the country's rail transport. The government added that the state support is in line with its policy to pursue the public interest and allow the transportation of passengers by rail in the future.

We note that ZPCG significantly cut its net loss to EUR 61,933 in Jan-Sep from EUR 935,391 in the same period of 2018, according to a Friday statement. The company said that its revenues climbed by 16.2% y/y to EUR 6.6mn and its expenditures declined by 1.1% y/y to EUR 6.5mn in the period, which resulted into an operating profit of EUR 124,956 compared to operating loss of EUR 865,635 in the first nine months of 2018. The company's accumulated losses amounted to EUR 26.94mn, long-term provisions and liabilities to EUR 7.26mn and short-term provisions and liabilities to EUR 15.23mn as of end-H1 this year. ZPCG is 90.79%-owned by the government of Montenegro.

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European Investment Bank to extend EUR 18mn loan for education sector

Montenegro | Nov 08, 15:07

- **Loan to cover part of costs related to construction, refurbishment of schools, kindergartens**

The European Investment Bank (EIB) will extend EUR 18mn loan to the Montenegrin government to implement upgrades in the country's education system, according to a bank statement. The loan will cover part of the costs for the construction of three primary schools, the construction of a secondary school, the renovation of three kindergartens and the refurbishment of ten vocational schools. The costs for the entire project are estimated at EUR 40mn. EIB Vice-President Dario Scannapieco commented that the loan aims to help the development of the education sector in Montenegro, which will in turn help boost the country's competitiveness.

The project also includes the provision of ICT equipment and new furniture for schools, as well as the delivery of special equipment for vocational schools. The project will cover schools in the capital Podgorica and nine other municipalities across the country. It aims to increase the capacity of local schools by 2,070 places and create 530 full-time jobs, mainly for teachers.

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Dutch DEC International-led group to revamp existing unit at Pljevlja TPP

Montenegro | Nov 08, 14:47

- **Consortium offered to implement ecological revamp of the unit for EUR 54.4mn**
- **Revamp aims to bring unit in line with EU environmental acquis, extend its life for 20-30 years**

State utility EPCG has picked a consortium led by the Dutch company DEC International, which includes local companies Bemax BB Solar and Permonte, to implement the ecological reconstruction of the first unit at the Pljevlja thermal power plant (TPP), according to a Friday statement. The utility said that the DEC International-led group submitted the best offer worth EUR 54.4mn to implement the project. It noted that China's Shanghai Electric Group Company offered to revamp the unit for EUR 97.9mn and the German-Slovenian consortium Hamon-Rudis for EUR 72.5mn. The EPCG decision can be appealed within 10 days. The preliminary project for the ecological reconstruction of the unit was developed by Germany's Steag Energy Services in cooperation with the plant's management.

EPCG issued a EUR 45mn tender for the ecological revamp of the unit in July but the actual revamp cost is higher when VAT is included. The revamp of the unit is expected to be completed by 2021 and will involve the development of a desulphurization system, a denitrification system and wastewater treatment system. The ecological reconstruction aims to bring the unit in line with the EU acquis on environmental protection and allow it to continue operations for 20-30 more years.

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NORTH MACEDONIA

Education sector wages to increase by 10% from Jan 1

North Macedonia | Nov 08, 14:02

- **Government on target to raise wages in education sector by 21.3% by end of its term**
- **Previous wage hikes were implemented in September 2018 and September this year**

The salaries of employees in the primary, secondary and higher education sectors will increase by 10% from Jan 1, Education Minister Arber Ademi said on Friday after reaching a deal with representatives from the trade union of education, science and culture workers. Ademi noted that the increase is the third after the wage hikes in September 2018 and September 2019, pointing out that the government is on target to reach its goal to raise the wages in the sector by 21.3% by the end of its term. He said that additional MKD 1.4bn from the state budget will be allocated for the implementation of the wage hike. The minister added that teachers deserve even higher remunerations but the available resources are limited for now.

Trade union head Jakim Nedelkov said that negotiations with the government were successful and that the union will not launch strikes planned for Nov 11. Still, he explained that the deal does not resolve all problems in the sector and that further meetings with ministry officials will be needed to tackle issues, such as the reduced number of vacation days for workers, transportation costs, salaries of teachers in combined classes and remunerations of teaches for extracurricular classes.

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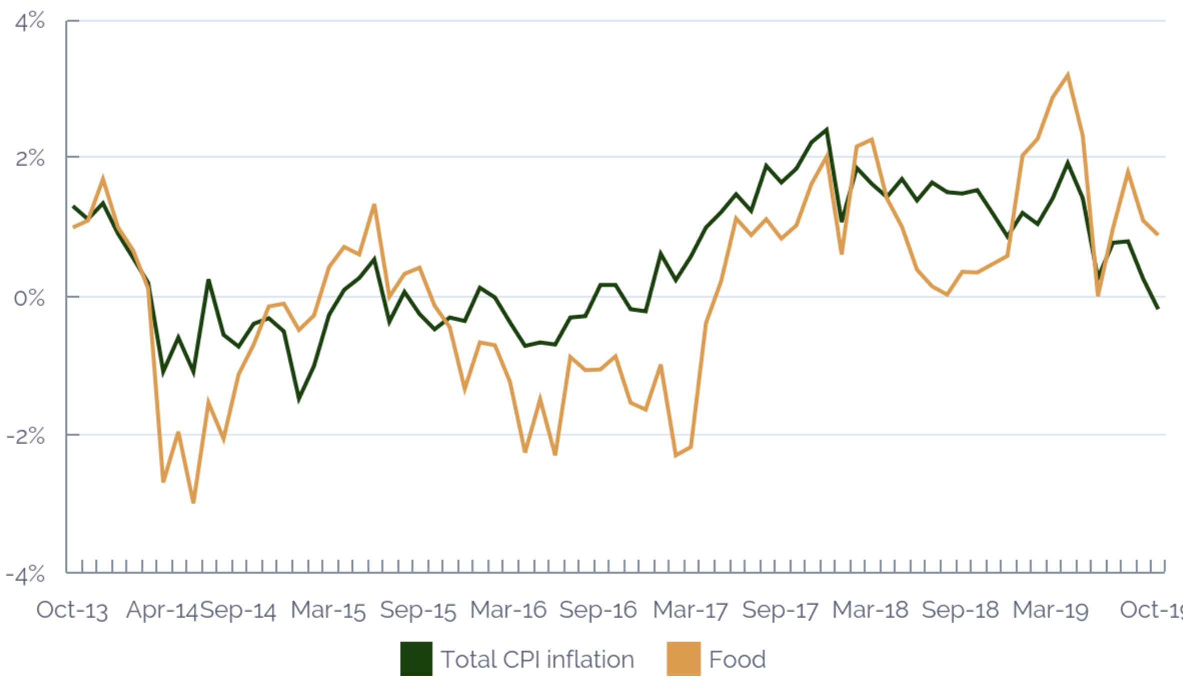
KEY STAT Consumer prices decline by 0.2% y/y in October

- **Consumer prices drop mainly due to sharp decline in global oil price-related transport prices**
- **Sharper annual drop in clothing prices, food inflation slowdown also contribute to CPI decline**
- **CPI Inflation averages 0.9% y/y in Jan-Oct, below central bank's 1.5% y/y forecast for 2019**

Consumer prices declined by 0.2% y/y in October after increasing by 0.3% y/y in the previous month, according to the latest data from the stats office. The decline was the first since December 2016 and came largely on the back of the oil price-related transport charges. We note that the international oil prices in October were considerably lower compared to the same month of 2018, which led to a sharp 7.1% y/y decline in transport charges in the month. The rate of decline deepened from 3.5% y/y in the month before. Housing and electricity prices also remained in the negative territory for a ninth month in a row, mainly due to the declining fuel prices but the decline eased slightly to 0.1% y/y in October from 0.3% y/y in the previous month.

Consumer prices, y/y %

Source | State Statistical Office



Food price growth also eased to 0.9% y/y in October from 1.1% y/y in the month before and the growth rate was weaker compared to the average for Q3. The slowdown came mainly on the back of vegetable prices, which declined by sharper 9.5% y/y in October compared to 5.9% y/y drop in September. The growth in cereal and fish prices also eased on annual basis in October compared to the previous month and helped reduce the headline food inflation print. Prices of non-durable goods also grew by slower 0.3% y/y in the month compared to 0.5% y/y increase in September, partly on the back of the lower food inflation. The sharper annual decline in clothing prices in October compared to September also exerted some downward pressure on the headline inflation.

The central bank (NBRSM) has lowered its 2019 CPI inflation forecast to 1.5% y/y from 2.0% y/y in the beginning of the year. It earlier said that its projections reflect expectations for foreign inflationary pressures, coming mainly from food and energy import prices. Yet, the CPI inflation averaged 0.9% y/y in Jan-Oct, below the central bank forecast. NBRSM expects that the inflationary pressures from the improving domestic demand will be moderate.

The IMF and the World Bank expect the CPI inflation to remain at a level similar to the previous year with the IMF projecting 1.3% y/y average annual CPI inflation and the World Bank putting the print at 1.6% y/y, according to their latest forecasts released this autumn.

CPI inflation, % y/y

	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
Total CPI inflation	**1.42%**	**1.93%**	**1.42%**	**0.27%**	**0.78%**	**0.80%**	**0.26%**	**-0.18%**
Food	2.88%	3.20%	2.32%	0.01%	0.99%	1.80%	1.10%	0.89%
Utilities	-0.08%	-0.07%	-0.07%	-0.16%	-0.11%	-0.22%	-0.28%	-0.09%
Transport	-2.76%	1.07%	1.00%	-1.11%	0.99%	-1.65%	-3.47%	-7.08%
Non-durable goods	2.28%	2.63%	1.86%	0.08%	0.71%	1.17%	0.52%	0.34%
Semi-durable goods	-1.64%	-1.26%	-0.72%	-0.62%	-1.03%	-1.89%	-2.20%	-2.63%
Durable goods	0.90%	0.96%	1.06%	1.51%	2.16%	2.11%	2.59%	3.18%
Services	-0.02%	1.26%	0.96%	1.01%	1.51%	0.43%	-0.15%	-1.79%

Source: Stats office

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POLAND

HIGH PM Morawiecki presents new govt, but control to remain with Kaczynski

Poland | Nov 08, 21:28

- **New FinMin is Deputy FinMin Koscinski, a close ally of Morawiecki**
- **New Treasury Ministry to be controlled by Kaczynski ally Sasin, putting direct PiS control over state companies**
- **Security services coordinator Kaminski remains interior minister, ensuring PiS domination**
- **Only 4 women among 23 named ministers**

PM Mateusz Morawiecki presented his new cabinet early Fri. evening, but we believe the announcement is less important than is the fact he was kept by Law and Justice (PiS) leader Jaroslaw Kaczynski, who will in the end keep control over the government. To repeat, no key policy decision can be taken without Kaczynski's approval, though it can of course happen that lesser policies are pushed without Kaczynski's deep involvement. Morawiecki will remain second most important and will likely continue to be the main face of the government as well as the main driver of economy-related policy, which will in part be executed by his close ally, Tadeusz Koscinski, who used to work with Morawiecki when he was a top Polish banker and will become finance minister.

Morawiecki will have face pressure, though, as Justice Minister Zbigniew Ziobro, Morawiecki's bitter rival in the government and leader of Solidarna Polska, a United Right coalition member, is now a deputy PM. Kaczynski will seek to retain ultimate control through close allies in the government like Jacek Sasin, who will take over the new Treasury Ministry (yet unnamed) and Mariusz Kaminski, who will remain interior minister and special services coordinator. Sasin being named the head of state-company control clearly shows PiS's desire to have more influence on the decisions of state companies. That is a relative downgrade for Morawiecki and Ziobro, who fought over this in the outgoing government.

The government has undergone changes, which appear to have left Jerzy Kwiecinski, who was investment and growth minister as well as finance minster by the wayside. The new Investment Ministry, which will combine Building and Tourism, will be led by Jadwiga Emilewicz, the enterprise and tech minister in the outgoing government and from to the Alliance, the third United Right coalition member and whose leader, Jaroslaw Gowin, remains a deputy PM and higher education minister.

The Environment Ministry was split into two, with a new Climate Ministry to be led by an EU-friendly technocrat, Michal Kurtyka. The environment is increasingly an issue in Poland, particularly as dangerously high levels of smog have become a year occurrence across the country. The new environment minister is just 28 years old, and is a close ally of Ziobro.

The foreign minister will remain Jacek Czaputowicz, but its EU division is being hived off and will be led by Konrad Szymanski, the deputy minister who spearheads everything EU. The PM's Chancellery will have the final say here, meaning Morawiecki is taking more direct control over the government's EU policy.

Of the other ministries, it is surprising that Krzysztof Tchorzewski has remained in control since he is constantly rumoured to be about to go. Tchorzewski is the one that helped cap power prices and his staying on means this policy is likely to be continued. We still believe power prices will be capped in 2020, though the fact is power prices fell in 2019 due to a base effect and thus will rise in 2020 even if they are held. To note is that no sport minister was named.

Morawiecki's new govt (new names in bold)

Position	Candidate	Comment
PM	Mateusz Morawiecki	Kaczynski fight for him despite pressure to ditch him, moderate face
Deputy PM, science and higher education minister	Jaroslaw Gowin	Gowin leads the Alliance, part of PiS-led United Right coalition, more pro-business
Deputy PM, justice minister	Zbigniew Ziobro	Head of Solidarna Polska (3rd member of United Right), hardliner, bitter rival of Morawiecki
Deputy PM, culture minister	Piotr Glinski	Deputy PM, moderate face, largely irrelevant
Finance minister	Tadeusz Koscinski	Deputy minister in various ministries since 2015, from Morawiecki's old bank, London experience
Defence minister	Mariusz Blaszczak	Right-hand of Kaczynski, influential, top PiS member
Interior minister, special services coordinator	Mariusz Kaminski	Kaczynski's right-hand, has hand in dodgy spying affairs
Investment minister	Jadwiga Emilewicz	Ministry combines Building and Tourism Ministries, Emilewicz is from the coalition member Alliance
State ownership ministry	Jacek Sasin	New Treasury, name to be decided, Sasin is close to Kaczynski
Environment minister	Michal Wos	Solidarna Polska rep in govt, gets ministry due to United Right coalition, just 28
Climate minister	Michal Kurtyka	Environment Ministry split, Kurtyka was deputy environemnt minister, technocratic
Energy minister	Krzysztod Tchorzewski	Big surprise, he was expected to be fired
Minister to manage funds	Malgorzata Jarosinska-Jedynak	New ministry, was deputy investment and growth minister
Labour, social policy minister	Marlena Malag	PiS MP elected on Oct 13, seems close to Morawiecki
Foreign minister	Jacek Czaputowicz	Many reports said he would not remain, is relatively moderate
European minister	Konrad Szymanski	EU team in ForMin to move to PM Chancellery control, expert

Infastructure minister	Andrzej Adamczyk	Often rumoured set to leave, has old ties to Kaczynski
Farm minister	Jan Krzysztof Ardanowski	Farm minister since 2018, had ties to Lech Kaczynski
Health minister	Lukasz Szumowski	Minister since 2018, has tricky job
Education minister	Dariusz Piontkowski	Long-term PiS politician, was deputy committee head
Maritime economy minister	Marek Grobarczyk	Not really important
Sport minister	Not yet decided	Not really important
Digitisation minister	Marek Zagorski	Long-time PiS-tied minister or deputy minister
Minister w/o brief	Michal Dworczyk	Head of PM's chancellery, Morawiecki ally, stays in place

Source: PiS, media

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Q&A Enterprise Ministry's CPI forecasts and accuracy

Poland | Nov 08, 14:22

Question:

What is the track record of the Enterprise and Tech Ministry's CPI inflation forecasts?

Answer:

Well, actually they aren't amazing great in their forecasts, but it is usually one of the first and I report it as giving some sort of benchmark for forecasts and perhaps to sketch out what part of the government at least sees. There is still nothing as accurate as the FinMin's old CPI forecasts.

Please see the attached excel file for a direct comparison.

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Fuel prices hold in first week of Nov, fuel index declines set to widen

Poland | Nov 08, 14:14

- **Fuel index set to fall 5.8% y/y in November, widening from 4.7% estimated drop in October**

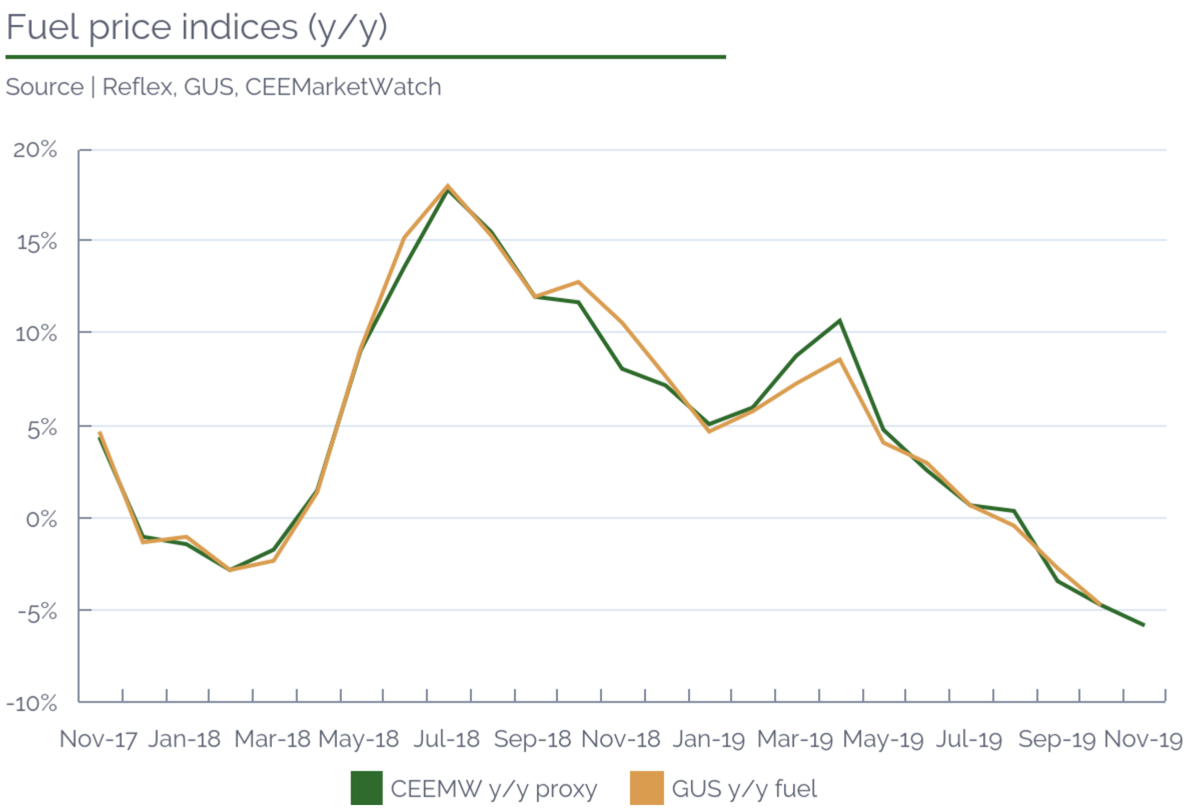
Fuel prices held steady in the first week of November, setting the stage for a 5.8% y/y decline of the passenger fuel index in the month as a whole, according to weekly figures released by Reflex on Fri. The Euro95 unleaded price held at PLN 4.94 a litre on Nov 7, the same as on Oct 30. The diesel price held at PLN 4.94 a litre on Nov 7, the same as the previous week.

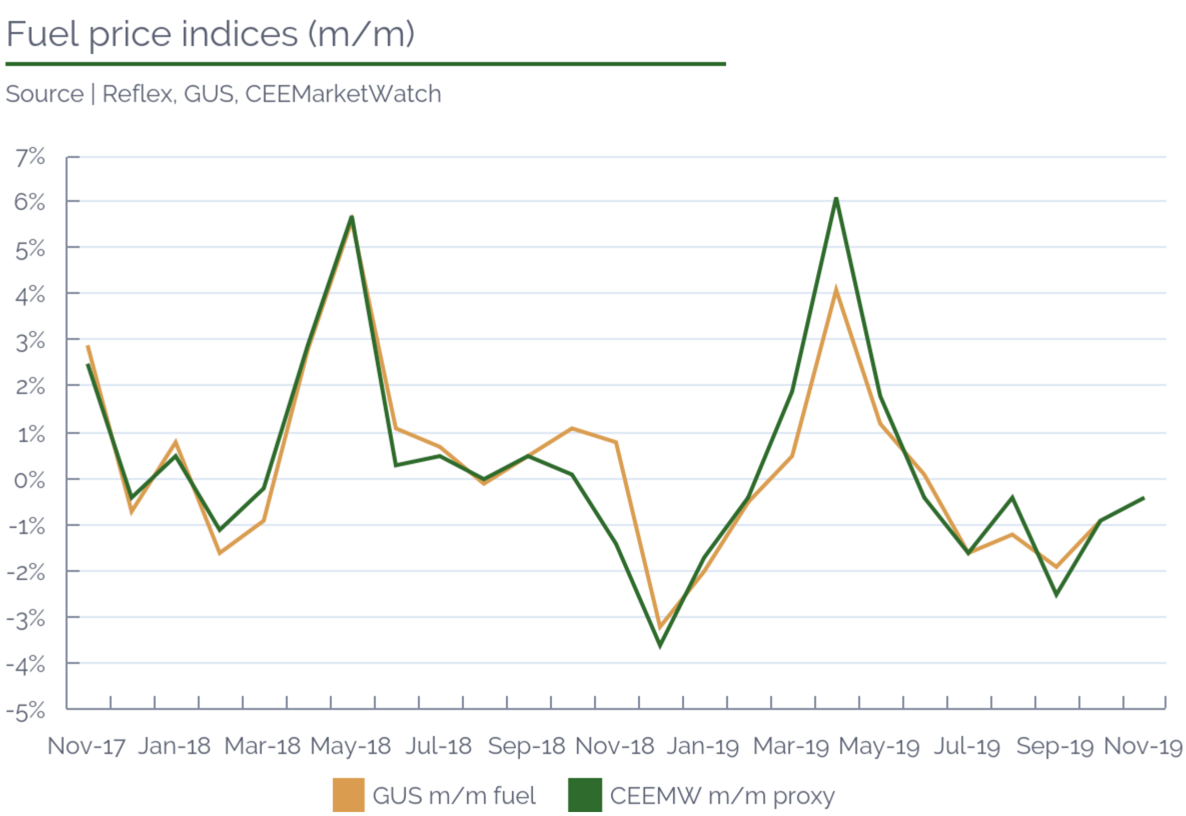
The Central Statistical Office (GUS) estimated preliminarily that the passenger fuel index in CPI inflation fell by 4.7% y/y in October, the decline widening from the 2.7% fall confirmed for September. The contribution to overall inflation was -0.3pp in October, down from -0.1pp in September. For November, the fuel index fall is set to widen to 5.8% y/y in the biggest drop since August 2016.

The one-month decline is set to be 0.4% m/m in November, compared to a 0.9% drop in October.

Reflex said fuel prices could remain stable next week, though rises on wholesale markets could also lead to slight price gains.

Overall, fuel prices will contribute a negative 0.1-0.3pp until December, after which it will have a neutral contribution in Q1. The fuel index will help take down CPI inflation by some 0.1-0.3pp from April 2020 through to September.





Polish fuel prices (PLN, % change w/w)

	Euro95	Change	Diesel	Change
19-Sep-2019	4.98	-0.2%	5.00	0.0%
26-Sep-2019	4.97	-0.2%	5.00	0.0%
3-Oct-2019	4.97	0.0%	4.98	-0.4%
10-Oct-2019	4.94	-0.6%	4.96	-0.4%
17-Oct-2019	4.94	0.0%	4.96	0.0%
24-Oct-2019	4.93	-0.2%	4.94	-0.4%
30-Oct-2019	4.92	-0.2%	4.94	0.0%
7-Nov-2019	4.92	0.0%	4.94	0.0%

Source: Reflex, CEEMarketWatch

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PO to hold primary on Dec 14 to choose presidential candidate

Poland | Nov 08, 12:45

- **Candidacies can be announced until Nov 19**
- **PO doesn't have a clear presidential candidate after Tusk said he would not run**
- **Kidawa-Blonska and Warsaw mayor Trzaskowski are top names likely to contest**

The Civic Platform (PO) said Fri. that it would hold a primary on Dec 14 to choose its candidate for the presidential election to be held this May, according to comments made by the party's spokesperson. Interested individuals will have until Nov 19 to announce their candidacies. The PO was left without a natural candidate that most of the party could have gotten behind when Donald Tusk, the soon-to-depart European Council president, said earlier this week that he would not run for the presidency. Though the decision was mostly expected, it still left the PO in something of a lurch as President Andrzej Duda and some contenders are already de facto campaigning.

Malgorzata Kidawa-Blonska, who was the PO's PM candidate for the Oct 13 general election, has already confirmed she will contest and is probably the likeliest candidate. She is a moderate who could be a counter to Duda's mostly pro-PiS presidency, but there are questions about her achievements as well. She will be named a deputy Sejm speaker, which will help her candidacy. Another likely candidate is Warsaw Mayor Rafal Trzaskowski, who shot to prominence when he won the Warsaw mayoral race in autumn 2018 outright in a surprisingly big win. He is a young gun in the party. Other potential candidates are Radoslaw Sikorski, who would probably have too much baggage to win and would likely be defeated if chosen, and Bartosz Arlukowicz, a former health minister but also a former leftist.

Overall, we think it is most likely Kidawa-Blonska will be chosen, though Trzaskowski would be a favourite too. One wonders, though, whether Trzaskowski might be better saved up for a future political battle, say, when Duda can't run or Poles are perhaps less happy with the ruling Law and Justice (PiS)-led government. All opinion polls show that Duda will win the first round of the election, but that in the runoff things could be much closer. The opposition parties together continue to have more potential votes than does PiS, so the question will be whether a candidate can rally opposition votes and get them to turn out. Kidawa-Blonska probably has a better chance of that than any other PO candidate, though beating Duda will still be challenging since the economy remains solid and income continues to grow.

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FinMin confirms coverage of 2019 borrowing, borrowing hits PLN 144.3bn

Poland | Nov 08, 12:21

- **Ministry covers 88% of original borrowing target, but 107% of downwardly revised target**
- **FinMin's cash balances total PLN 55.3bn at end-Oct, down from PLN 68.3bn at end-Sep**
- **Pre-financing total of 2020 needs could exceed 50% by year-end**

Poland's Finance Ministry confirmed Fri. it fully covered its revised borrowing target of PLN 134.6bn, and in fact now covered 107% of it with borrowing of PLN 144.3bn, according to its monthly debt report. The ministry has covered some 88% of its original borrowing target of PLN 163.7bn. The ministry said it raised PLN 32.1bn in foreign financing and PLN 112.2bn in domestic financing.

The breakdown saw domestic T-bond sales add up to PLN 49.7bn, switch auctions in 2019 to PLN 29.1bn, switch auctions in 2018 to PLN 28.3bn, T-bond sales on foreign markets to PLN 8.5bn, loans from IFIs to PLN 0.8bn, and T-bond buybacks on foreign markets in 2018 to PLN 0.8bn. Higher-than-planned financial resources at end-2018 amounted to PLN 27.0bn [this latter is what will boost pre-financing of 2020 borrowing needs].

Cash balances totaled some PLN 55.3bn at end-October, the ministry said. That is down from PLN 68.3bn at end-September and PLN 63.3bn a year earlier. For September (latest breakdown), the ministry said PLN 59.4bn of the total was in PLN (up from PLN 56.8bn the month before) and PLN 8.9bn was in foreign currency (down from PLN 10.4bn the month before). The total in foreign currencies has fallen sharply in recent months.

The FinMin also said that remaining debt redemptions for 2019 totalled some PLN 6.2bn. The redemptions comprise PLN 1.5bn in T-bonds and PLN 4.7bn of foreign bonds and loans.

In terms of foreign holdings of domestic T-bonds, the total decreased PLN 2.8bn in September (latest data) to PLN 163.2bn. The outflow was boosted to PLN 28.3bn for Jan-Sep as a whole. That is worse than the PLN 12.8bn outflow seen at the same time of 2018.

Overall, the Finance Ministry's covering of its 2019 borrowing was done relatively early, meaning it has had time to pre-finance 2020 borrowing needs put at a preliminary PLN 137.4bn. After a switching bond auction earlier this week, the pre-financing total was lifted to 30%. If one uses the higher-than-planned financial resource total for end-2018 of PLN 27.0bn to the current pre-financing total, then that gives some PLN 68bn, which is nearly 50% of the total. However, one more switching bond auction is planned for Nov 21 and a bond auction is planned for Dec 13, meaning the pre-financing total could actually exceed 50% this year.

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ROMANIA

PRESS Press Mood of the Day

Romania | Nov 11, 06:23

PNL is not joking with wiping off all PSD people in government (Ziarul Financiar)

NBR governor says situation is not scary and manageable: economy is not in collapse, not even on verge of it (Ziarul Financiar)

International hotel chains open more than 600 rooms in past two years in Romania (Ziarul Financiar)

Agriculture needs technology but farmers must be educated (Ziarul Financiar)

Election: PSD does not obtain highest number of votes in first round for first time (Ziarul Financiar)

Election result shows Dancila goes to runoff with a lower score than in polls (Adevarul)

[USR leader] Barna admits failure but will continue to fight (Adevarul)

Record high turnout in abroad voting (Adevarul)

PM Orban hopes to grab part of PSD voters in presidential election runoff (Gandul)

Partial votes count in election: Iohannis has 36.6%, Dancila 23.7% and Barna 13.9% (Gandul)

Alliance between ALDE and Pro Romania ends (Gandul)

Different times, other type of election (Bursa)

Partial result of abroad voting: Barna is on second place with 23.55% (Bursa)

Stable outlook on Romania's rating (Romania Libera)

Orban promises no tax next year (Romania Libera)

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HIGH **Iohannis expectedly wins first round of presidential election, to face runoff**

Romania | Nov 11, 05:59

- **PSD Dancila follows him at far distance, USR's Barna is at third place**
- **Dancila wins big, strengthens PSD in opposition to PNL's minority government**
- **Barna marks notable failure, USR to temper down discourse regarding snap election**

President Klaus Iohannis expectedly won the first round of the presidential election held yesterday (Nov 10) with about 38-39% of the vote, according to exit polls. PSD leader and former PM Viorica Dancila follows him far behind with around 22%, while USR president Dan Barna obtained a little above 16%. Exit polls do not account votes of Romanians living abroad, a segment where Dancila has very weak popularity, so the gap between her and Iohannis may increase. However, in spite of a record high turnout (0.7mn), expatriate votes could bring only about 2-3pps to Iohannis and Barna each, according to our calculations. Domestic turnout reached a record high as well, with almost 48% of registered voters (8.7mn) going to the polls.

Iohannis will almost certainly face Dancila in a runoff scheduled for Nov 24, according to exit polls. Partial counting also confirms that scenario. Under outcome, Iohannis is almost certain to win a second term, as Barna's voters will very probably back him in the second round. There has been scarcely been any polling, but the only poll we have (from early September) puts Iohannis into a big lead to Dancila, in an approximately 2:1 ratio.

Dancila seems to have scored more than simply a runoff spot, as she her position as PSD leader. Her result will also likely to strengthen the party, which will most likely make life more difficult for the minority PNL government. At the same time, Barna is the main loser, obtaining well below his party's score in polls. Although his result might improve after accounting expatriate votes, there is a weak (almost non-existent, in fact) chance for him to outpace Dancila. The USR took a major hit in this election and will perhaps temper down its discourse for a while, especially with regard to calling an early election.

Overall, Iohannis will probably remain president for the next 5 years, continuing the fight with the PSD, side by side with the PNL. Nevertheless, we should remind that the PNL has only about 20% in parliament, even if being in power. Meanwhile, the PSD controls more than 43% of parliamentary seats. The new government could not exceed the PSD, even if allying with the USR, which is why the USR has been obsessively calling for a snap election. Yet, the presidential election result diminishes the probability of that scenario, as we explained in this story. The PNL could still try to pull off a general election along with the local elections next June, but we doubt it will come earlier than that.

HIGH Fitch Ratings affirms Romania at BBB-/stable

Romania | Nov 11, 05:13

- **Rating backed by moderate debt, GDP per capita and human development indicators**
- **Fitch Ratings estimates budget deficit in 2019 only slightly above 3% of GDP, EDP can be avoided**
- **Major fiscal challenges as of 2020, rating is at risk in absence of corrective measures**
- **CA gap to flatten around 5% of GDP, coverage with non-debt flows to diminish**

Fitch Ratings affirmed on Friday (Nov 8) the BBB- long-term foreign currency sovereign credit rating on Romania, with a stable outlook. The agency explained that the ratings were sustained by moderate government debt, GDP per capita and human development indicators that are above BBB-rated peers. However, twin deficits, net external indebtedness and pro-cyclical fiscal policy still raise risks to macroeconomic stability, Fitch Ratings added.

Fitch Ratings expects the public finances to continue gradually weakening over the short to medium term, because major corrective measures are unlikely in elections year. Also, the agency sees higher political uncertainty due to the new government's minority support in the parliament. the budget deficit might only slightly exceed the 3%-of-GDP threshold in 2019, which means that the EDP could be avoided, according to Fitch Ratings. Yet, the fiscal outlook becomes more challenging in 2020-2021 due to weaker growth and the planned pension hikes and the gap is seen to rise to 4% of GDP by 2021, but only assuming that some offsetting measures to the pension increase are found. If corrective measures are not implemented, Romania's rating is at risk, Fitch warned.

The current account deficit remains under pressure and will flatten at around 5% of GDP, considering a gradual recovery in external demand and no severe fiscal deterioration. With FDI inflows seen to stagnate, the current account deficit coverage through non-debt flows will decrease to 60% in 2019-2021 from 74% in 2018, leading to a modest widening of the net external debt position. The upside is that the foreign reserve coverage is comfortable and the exchange rate flexibility can partly buffer external volatility.

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Fiscal policy to be co-ordinated with monetary policy – PM Orban

Romania | Nov 08, 14:55

- **He says govt and central bank work on solutions to fix imbalances**

The government's fiscal policy will be coordinated with the central bank's monetary policy, announced PM Ludovic Orban today, after a meeting with NBR representatives. He went to the meeting with Finance Minister Florin Citu and discussions focused on the widening twin deficits, inflation, rates and lending. Orban said that some solutions for fixing public finance damages were identified, without providing any more details. He only mentioned that the government's target is to improve tax collection and diminish tax evasion. Citu announced he and the tax authority's chief were working on a report that would be presented next week. NBR Governor Isarescu previously expressed hope for a better cooperation with the government and seemed ready with advice and solutions on correcting economic imbalances. Both Orban and Isarescu said that the budget deficit might exceed 3% of GDP this year, but expressed doubts that the EC's deficit forecast in 2021 (6.1% of GDP) would materialise.

In the meantime, the Official Gazette published dismissal decisions for 75 state secretaries and Orban said more would follow. He promised even from the first day of his mandate he would clean-up the central administration of useless staff and civil servants hired on nepotism grounds by former PSD officials. The dismissed state secretaries were from all ministries, not only from the merged ones. Three of them are from the finance ministry, as Citu said he could work well with only one for now.

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NBR governor calls for containment and gradual adjustment

Romania | Nov 08, 12:29

- **Relaxation must be contained; corrective measures are necessary but only gradual and wisely chosen**
- **He commits to working with new govt on finding best solutions to fix imbalances; he probably looks to wage policy**

"Contain and gradually adjust" is the reiterated advice of NBR Governor Mugur Isarescu for the new government in correcting Romania's macroeconomic imbalances. Isarescu sees it necessary to restrain fiscal relaxation, while being against harsh correction measures when the economy is already slowing down. In fact, he warned that taking corrective measures in times of economic moderation would only continue pro-cyclical policies. The relaxation implemented in the past three years has led to some severe imbalances, so some measures are necessary, he admitted. However, the government should adjust gradually and chose wisely only those which would affect economic growth the least.

The economy is not in collapse and not even on the edge of collapse, he emphasised. Yet, it has a major fiscal problem. Isarescu pledged to work with the new government on finding the best solutions and hoped to reach an agreement on avoiding discretionary fiscal policies. He mentioned wage policy a few times, which makes up think that he was considering some adjustment measures in that area. Although agreeing wage increases were necessary, Isarescu seemed to disapprove the increase pace. Isarescu also expressed concern again over the tight labour market and the CA gap, which would exceed the 4%-of-GDP threshold this year. Yet, he looked rather satisfied with the local currency's quasi-stability.

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HIGH NBR revises downwards inflation forecasts for end-2019, 2020

- **Downward revision in 2019 is due to vegetable prices drop, weaker-than-expected core inflation**
- **Only core inflation triggers downgrade in 2020, over high base**
- **Economic growth is seen to slow in H2 2019, 2020, mainly over weaker growth of private consumption**
- **Upward risks to forecast persist, new domestic risk occurred from administered price developments**

Romania's central bank revised downwards its end-2019 inflation forecast by 0.4pps to 3.8%, according to the latest Inflation Report published today. The inflation forecast for end-2020 was downgraded by 0.3pps to 3.1%. The downward revision in 2019 was driven by a weaker inflationary pressure for volatile prices and a slower-than-expected increase in core inflation. The most significant revision was made in volatile price developments, which were affected by recent drops in vegetable prices amid better crops in Europe. The downward revision in 2020 was exclusively on the back of a lower adjusted CORE2 inflation, which should come with disinflationary pressure in H1 chiefly over high-base effects.

Hence, the NBR still sees inflation remaining way above the target interval (2.5%+/-1pp) this year, but dropping in the upper band in 2020, over core inflation slowdown. That reflects that the NBR expects the excess demand to keep on narrowing. Economic growth moderated in Q2, mainly due to a slowdown in household consumption, reflecting that demand has already started to cool off. Indeed, gross fixed capital formation rebounded and had a substantial contribution to the economic growth in Q2, but the central bank thinks that was occasional. Thus, the monetary authority sees GDP growth to keep on slowing down in H2 2019 and 2020, as the effects of relaxation policies gradually fade and foreign partners' outlook gets gloomier. Although on moderation trend, private consumption will remain the major growth driver for GDP growth in 2019, net exports' contribution will remain negative while the contribution of investment should be substantial. The output gap is anticipated to relatively flatten by end-H1 2020, but would resume rising afterwards on the back of a substantial fiscal stimulus coming from the pension law implementation (a new pension point hike is scheduled in September 2020).

The balance of risks to the inflation forecast is assessed as being to the upside and are mainly due to domestic factors, even though the external ones remain relevant, but with a rather disinflationary potential. Some domestic risks have changed since the August report. Specifically, uncertainty on administered price developments increased after the new government announced the elimination of price cap on internal gas to population. Additionally, the government fiscal and income policies remain a major source of risks, especially because elections are approaching. Risks associated with the still tight labour market are highly relevant, as well, especially due to lack of structural reforms to correct imbalances, the NBR said.

NBR projection on CPI contributions, pps

	2019	2020
Tobacco and alcoholic beverages	0.5	0.3
Fuels	0.4	0.2
Food (volatile prices)	0.5	0.2
Administered	0.2	0.4
Adjusted CORE2	2.1	2.0
CPI	**3.8**	**3.1**

Source: NBR Inflation Report

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Budget deficit in Jan-Oct is 2.8% of GDP, exceeds annual target – Iohannis

Romania | Nov 08, 09:20

- **Current target is 2.72% of GDP, numerous forecasts point gap exceeding 3% of GDP by end-2019**
- **PM Orban complains about poor financial situation left by PSD**
- **Orban may exaggerate some issues, probably preparing ground to blame PSD heritage for unpopular measures**

The PSD government has left the budget on RON 29bn deficit at end-October, said President Klaus Iohannis, quoted by Mediafax. The amount represents 2.8% of GDP, which is above the 2.72%-of-GDP target set by the former cabinet. Thus, the official fiscal target in 2019 was already exceeded by end-October, while many economists see the gap jumping above 3% of GDP in the entire 2019.

Iohannis made that comment at a business event, following a meeting he had with PM Ludovic Orban, during which they discussed the worrying state public finances were left in by the PSD government. Besides, Orban has been often complaining these days about the very poor financial situation of numerous authorities and state-owned companies. His cabinet is currently assessing the state of facts, preparing data for the finance ministry's second budget revision. FinMin Citu previously pledged to have the budget bill ready by the end of November. Orban has only announced that the deficit at the state pension fund reached RON 2bn, while its budget provides for a RON 2.4bn deficit in 2019. Also, he said that the public healthcare fund gap was about RON 3bn, meaning that many public healthcare programmes will remain without financing and there was even a risk of insufficient funds to pay all wages in the sector.

Iohannis is obviously campaigning, but we cannot say that figures are not indeed worrying. When looking at the budget gap in January-September (2.62% of GDP, almost RON 27bn), we have strong doubts that the annual deficit of the general government budget could remain below 3% of GDP, let alone be lower than the official target. Although we see a very high probability for the deficit to go above 3% this year, PM Orban's concern that some wages in healthcare might not be paid seems rather exaggerated. This attitude makes us think about a strategy of the new government to overstate bad issues left behind by the PSD for scoring image points ahead of the local election scheduled for mid-2020. In fact, the PNL might probably be rather comfortable with the budget deficit exceeding 3% of GDP, because it could use that to blame the PSD for unpopular measures necessary for avoiding an EDP opening next year.

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RUSSIA

Russian Post wants RUB 40bn from fiscal reserve fund

Russia | Nov 11, 06:30

- **Money has been allocated to Russian Railways, but remains unused**
- **We expect to see intense lobbying for NWF funds next year**

Russian Post wants RUB 39.8bn financing from the National Wealth Fund (NWF) for infrastructure development, according to a letter sent by the company CEO Podguzov and the head of VTB bank Kostin to PM Medvedev.

According to Interfax, Medvedev has instructed the ministries of finance, economy, transportation and digital economy to look into the issue. We remind that money from the NWF cannot be used for financing of new projects until its liquid part exceeds 7% of GDP, which will happen in mid-2020. Meanwhile, the fund is allowed to continue work on already approved projects. Russian Post wants to receive RUB 39.8bn allocated to Russian Railways, but not used yet. In 2014 the FinMin placed RUB 100bn subordinated loan with VTB, of which RUB 60.2bn was lent to Russian Railways while the remaining part is placed with the CBR.

The government is yet to decide on the exact mechanism for financing new projects out of NWF and we expect that there will be a number of candidates for support and intense lobbying. The FinMin has vowed to limit the amount of investments from the NWF to RUB 1tn over the next three years, which translates into spending of 0.3% of GDP per year. This will reduce CBR concerns about the inflationary effect of this quasi-fiscal spending, although it is still seen as de facto softening of the fiscal rule.

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Gazprom obtains EUR 916mn loans from European banks this autumn

Russia | Nov 11, 06:14

- **New loans mature in 2021 and 2024**

Gazprom has attracted loans for EUR 916mn from European banks this autumn, Interfax reports based on company data. This includes EUR 146mn obtained in September and maturing in 2021, as well as EUR 500mn loan in October maturing in 2024. In another deal, Gazprom received EUR 270mn syndicated loan maturing in 2021. Real sector companies have stepped up foreign borrowing recently, stabilizing their overall foreign liabilities. At the same time deleveraging in the banking sector continues, which reduces overall external debt.

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CBR wants more flexibility in sale of rehabilitated banks

Russia | Nov 11, 05:59

- **New rules may simplify return of rescued banks to the private sector**
- **Weak demand is likely to be the main problem for CBR**

The CBR wants to expand its options for the sale of rehabilitated banks and insurance companies, Kommersant daily writes today. Last week a new version of the bill on rehabilitation of private pension funds was published and the CBR reportedly wants the same rules to apply also in the sale of banks and insurance companies. The bill gives much more options to the CBR apart from the public auction in the previous version. Under the new rules, the CBR can sell the asset even if there is only one interested buyer at the auction, sell a stake in an IPO or negotiate directly with potential buyers. There is also more freedom regarding the price, which needs not be based on the own funds of the entity.

We remind that the CBR acquired several large banks as part of rehabilitation procedures, but selling them back to the private sector is likely to be a challenge. The CBR tried selling the Asian Pacific Bank this year, but the two interested buyers did not turn up at the auction and the sale was delayed to 2020. The CBR has also completed the restructuring of Otkritie Bank (merged with Binbank) and Promsvyazbank (which will remain state-owned), while the rehabilitation of Moscow Industrial Bank continues. Overall, we expect that there will be weak demand for these institutions and they may end up in the hands of large state-owned banks, which will be against the goal of strengthening competition and the share of private banks.

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PRESS

Press Mood of the Day

Russia | Nov 11, 05:22

FinMin wants to relieve business from criminal prosecution for forex violations (Vedomosti)

Duma wants to change bill on Promsvyazbank as key bank for defense industry (Vedomosti)

Ruble weakening helped Rosneft fill budget (Vedomosti)

Russians withdraw almost RUB 80bn from Sberbank for a month (Vedomosti)

CBR plans to simplify for itself sale of rehabilitated assets (Kommersant)

SMEs do not take advantage of state support due to complex procedures (Kommersant)

Investors return to Europe [Russian funds see USD 50mn inflows] (Kommersant)

Russia seeks salvation in euro while Europe is preparing for crisis, (Nezavisimaya Gazeta)

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CBR forex reserves rise by USD 10bn in October to USD 541bn

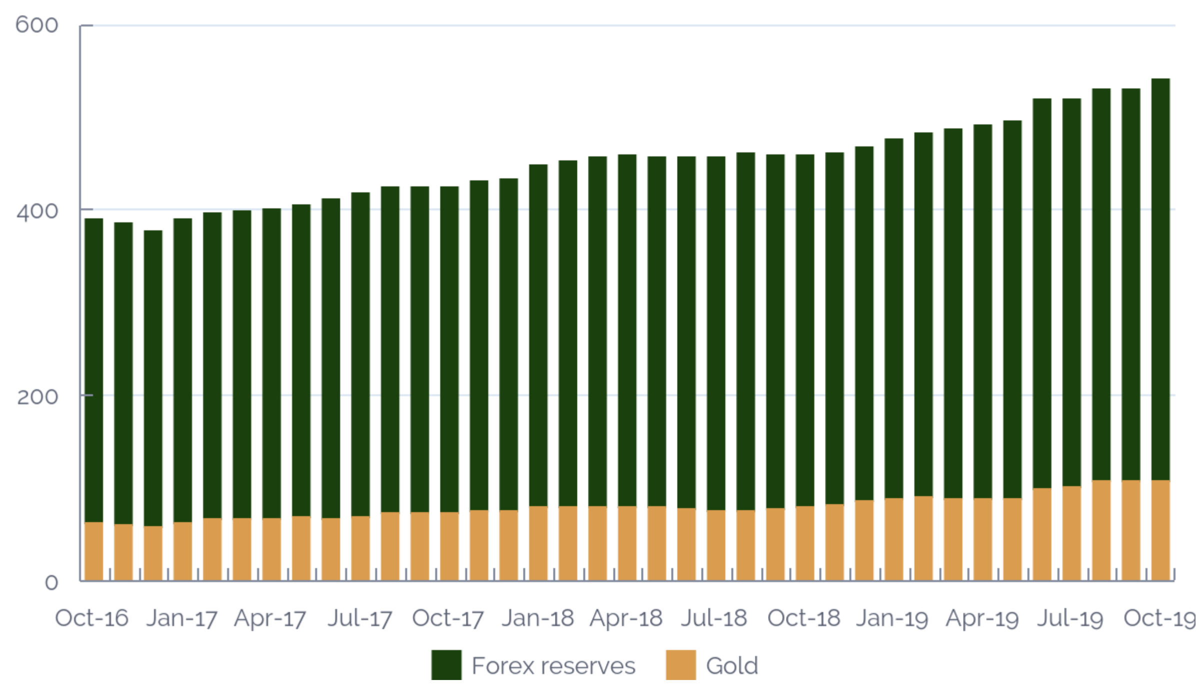
Russia | Nov 08, 14:37

- **Reserves grow due to combined effect of forex purchases and exchange rate changes**
- **CBR reserves are up by USD 72bn so far this year**

Forex and gold reserves of the CBR increased by USD 10bn in October to USD 541bn at the end of the month, according to figures published by the central bank on Friday. This is the largest monthly gain since June and it comes due to the combined influence of forex purchases and exchange rate effects. Transactions added USD 5.2bn to reserves in October, similar to the USD 5.7bn in September. This reflects primarily the forex purchases on account of the FinMin, which reached around USD 4bn during the month. Valuation changes contributed another USD 4.3bn to reserve growth despite the negative effect from the fall of gold prices.

CBR forex and gold reserves (USD bn)

Source | CBR



CBR reserves are already up by USD 72bn since the start of the year and account for 33% of the GDP. They also exceed by a large margin Russia's entire gross external debt, providing a strong cushion in case of external shocks. The CBR had earlier said that it viewed USD 500bn as an adequate level for reserves, but the application of the fiscal rule suggests that they will continue to grow as long as oil prices remain above the reference oil price (USD 42.4).

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SERBIA

Q&A One-offs that increase non-tax revenues in 2019

Serbia | Nov 11, 06:47

Question:

What are all the one-offs that increased non-tax revenues in 2019?

Answer:

The largest one-offs that increased non-tax revenues in 2019 were the concession fee for the Belgrade airport and NBS profit for 2018.

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Q&A Breakdown of capital expenditure

Question:

Do you have a breakdown of the various items of capital expenditure (for both 2019 supplementary budget and draft 2020)?

Answer:

The breakdown for the various items of capital expenditure in the 2020 draft budget are the following:

Infrastructure and other construction - 58.3%

Machines and equipment - 26.4%

Acquisition of non-tangible assets - 5.3%

Stocks - 2.5%

Land expropriation - 6.6%

Other - 0.9%

You may find the breakdown on p. 253 of the the draft budget, where the government also provides a list of the major projects that will be financed next year and the respective cost. As for the 2019 supplementary budget, it does not provide such a breakdown. The government has said that it will allocate more funds for construction of Pojate-Preljina highway section and Belgrade-Sarajevo highway.

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Serbia, North Macedonia, Albania agree on free movement of people, goods

Serbia | Nov 11, 06:43

- **Action plan including concrete measures to be drafted by end-December**
- **Mini-Schengen is open to all Western Balkan countries**

Political leaders of Serbia, North Macedonia and Albania have agreed over the weekend on details of an initiative called mini Schengen that foresees measures to enable free movement of people, goods, services and capital within the three countries.

These measures include: free movement with ID cards only; possibility for foreigners to travel to the member states of the initiative without additional visas once they enter one of them; joint work permits and recognition of qualifications without additional procedures; exchange of students; joint R&D projects; 24-hour shifts for all border inspection services with a focus on phytosanitary and veterinary inspection; joint set of documentation needed for the transit of goods; amendments to the laws referring to the capital market, tax and financial system in all three countries in order to create conditions for a smooth flow of capital; further strengthening of cross-border co-operation to combat transnational crime and terrorism.

These are part of the measures whose implementation should be defined in an action plan that will be drafted by the next meeting of the initiative in Durres, Albania at the end of December.

The initiative is open to all Western Balkan countries. Albanian PM Edi Rama estimated that Kosovo should also be included in the mini-Schengen area, which we consider problematic, given Serbia's stance against its recognition. BiH is also hesitant, although it said it was committed to strengthening regional co-operation. Chairman of BiH Council of Ministers Denis Zvizdic said that his country will proceed to a serious analysis before taking position. Zvizdic noted that they have received guarantees that the initiative is not an attempt to substitute the EU integration nor derogates from regional agreements, such as CEFTA.

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Q&A Item pension in 2020 draft budget

Serbia | Nov 11, 06:43

Question:

You mention in the text that pensions will increase by 5.4% according to the Swiss formula but in the table there is a decline for the item pension. What is the reason?

Answer:

Our guess is that this is due to the one-off bonuses of RSD 5,000 that were disbursed to the pensioners in early November (included in the budget revision) but also because the government is counting on higher social contribution collection next year.

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Net profit NIS Group more than halves to RSD 10.7bn in January-September

Serbia | Nov 11, 06:00

- **Financial indicators improve in Q3 2019**
- **NIS is one of the largest contributors to Serbian budget**

Net profit of oil and gas company NIS Group fell by 50.7% y/y to RSD 10.7bn in January-September because of the strong investment spending, the company said. It noted that financial indicators improved in Q3 2019, when the profit amounted to RSD 7.5bn compared to RS 3.2bn profit in H1 2019. EBITDA stood at RSD 31.2bn, down by 25.7% y/y. The company said that refining volume amounted to 2.3mn, down from 2.7mn last year, while sales of petroleum products were up by 5.0% y/y to 2.6mn tonnes.

NIS, one of the largest contributors to the Serbian budget, is majority owned by Russian Gazprom Neft that holds a 56.15% stake. The Serbian government controls 29.87% of the company's shares. In September the budget received RSD 1.9bn in dividends from NIS 2018 profit.

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PRESS Press Mood of the Day

Serbia | Nov 11, 05:25

Important agreement signed in Ohrid: Easier and cheaper for business and citizens (Blic)

Faktor plus poll: Most of people are against boycott of elections (Blic)

Mini Schengen is not new Yugoslavia (Vecernje Novosti)

New Balkan union (Danas)

People think that electricity price hike is unjustified (Danas)

PM Brnabic expects more Chinese investment in Serbia (Danas)

No passport will be needed for North Macedonia and Albania (Politika)

Dialogue between ruling and opposition parties on elections to continue this week (Politika)

Last section of Corridor 10 is inaugurated (Politika)

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Q&A GDP growth in Q3

Serbia | Nov 08, 09:54

Question:

Did you see the announcement that Vučić made, that 3Q GDP was 4.7% in 3Q. According to SEENEWS: Serbia's gross domestic product (GDP) growth quickened to 4.7% in the third quarter of 2019 from 4.4% in the previous quarter, president Aleksandar Vucic said. Real GDP in 2Q19 was 2.9%, and perhaps it was revised up to 4.4%, but this is a big revision. Have you heard anything locally about this announcement? And do you think the 4.7% he announces indeed is real GDP in 3Q19?

Answer:

We've listened to the interview of President Vucic for Pink TV but he only mentioned the Q3 GDP flash estimate of 4.7% and said nothing about the Q2 print. In a fresh comment FinMin Mali also mentioned the Q3 flash estimate saying that GDP growth this year could even reach 3.8%, up from earlier projected 3.5%. I cannot say for sure whether they cite estimates of the finance ministry or data obtained in advance from the statistics office RZS, which did not publish the flash estimate. Note that the RZS did not publish GDP flash estimate for Q2 either attributing this to problems in obtaining necessary data and apparently they faced the same situation for the third quarter. The detailed Q3 GDP print should be released on Dec 2, according to the calendar of the statistics office.

Honestly, we would be surprised to see such a big revision for Q2 GDP print given that overhauls at oil and chemical industries (that were implemented in March and April) led to slowdown in H1, while the food industry is still suffering from the customs tariffs imposed by Kosovo. The authorities have earlier said that they expected economic growth to accelerate in H2 so there could be indeed quickening of the economic activity with the waning of the effects of the above mentioned one-off factors.

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TURKEY

PRESS Press Mood of the Day

Turkey | Nov 11, 06:09

We will not leave neither Ataturk nor Republic to exploiters, Erdogan says [on 81st anniversary of Ataturk's death] (Sabah)

Ninety-five [hydrocarbon] exploration wells to be drilled in 2020 - Energy Minister Donmez (Sabah)

8,400 public personnel, previously dismissed via statutory decrees, reinstated so far - parliamentary commission chair (Sabah)

Defaming Ottoman Empire is ignorance - Erdogan (Turkiye)

Target: Local industry to meet 75% of defence needs by 2023 (Turkiye)

Nothing [positive] to come out of Erdogan's US visit - CHP leader Kilicdarolu (Sozcu)

AKP to distribute TRY 12bn among municipalities [Opposition concerned Ilbank's potential new resources to go only to AKP municipalities] (Sozcu)

Two people get unemployed per minute in 2018 (Sozcu)

Ask the editor Back to contents

Financial sector launches loan restructuring programme for small firms

Turkey | Nov 08, 15:14

- **Programme encompasses firms with less than TRY 25mn debt to financial sector**

The Banks' Association of Turkey (TBB) has launched a programme for restructuring debt of small-scale firms to the financial sector after it obtained the necessary approvals, the Bloomberg HT reported citing a statement by the TBB. The programme encompassed firms with less than TRY 25mn debt to the financial sector. The association did not disclose further details of the programme. The loan restructurings for small-scale firms will most probably be based on a framework deal of banks and non-bank financial institutions and exclude bankrupt companies, based on the previously launched loan restructuring programmes towards larger firms. In a similar vein, individual lenders will likely have some flexibility to make own decisions on loan restructuring applications.

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Real imports drive foreign trade deficit expansion in September

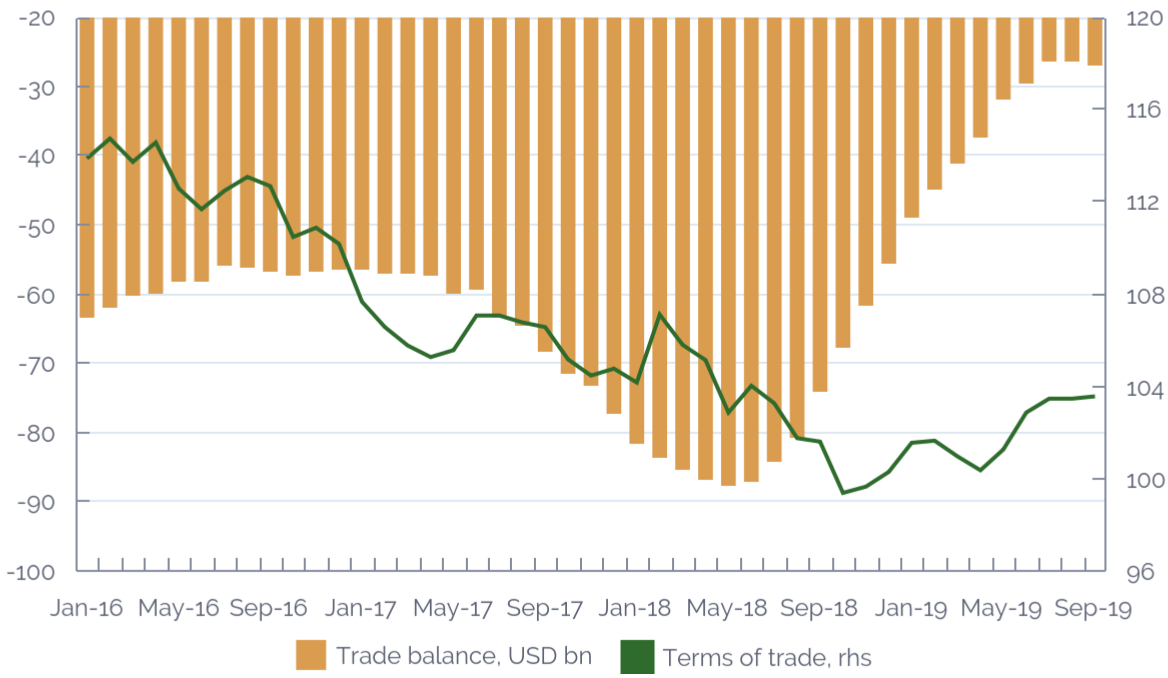
Turkey | Nov 08, 07:41

- **Import volume up by 6.6% y/y thanks to recovering industry, household demand**
- **Real exports rise by 3.8% y/y, export trend slowing gradually**
- **Terms of trade improve by 1.9% y/y due partly to high base from oil prices**

The mild annual expansion of the external trade deficit in September was driven by real imports, according to Turkstat's foreign trade indices. The import volume index rose by 6.6% y/y. The real import increase came for the second month in a row. Its growth moderated slightly from the previous month, also in calendar-adjusted terms. The improvement in import demand owed to input needs of the recovering industry and households, as signalled by the detailed data. Real imports of crude materials except fuels rose by 19.4% y/y. Imports of manufactured goods increased by 3.6% y/y seemingly on account of imports of consumption goods. Imports of machinery and transport equipment fell y/y but the rate of decline kept easing.

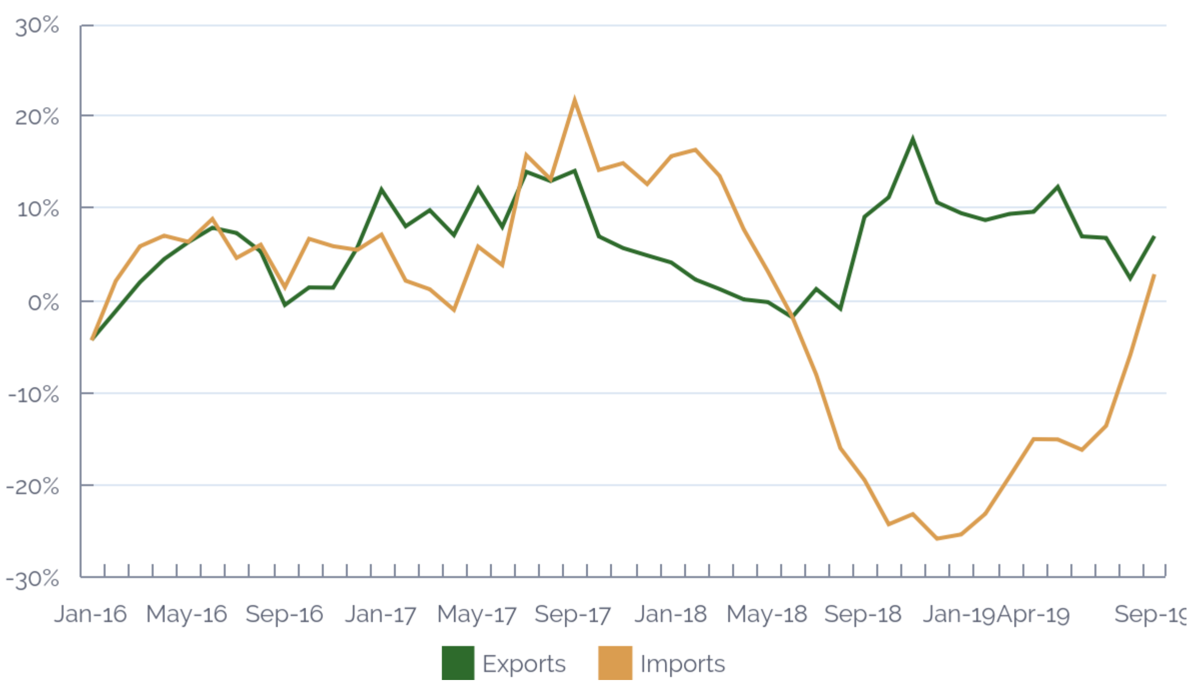
Trade balance and terms of trade

Source | Turkstat



Real export, import growth (3m ma, % y/y)

Source | Turkstat



The export volume index rose by 3.8% y/y in September, compared to a 5.3% y/y increase in August. The loss of pace in real exports was entirely on calendar effects. In unadjusted terms, exports of manufactured goods expanded by 4.6% y/y with a broad contribution from sub-groups. Exports of food, beverages and tobacco rose by 8.3% y/y and recovered visibly from the previous month. The real export performance has been highly volatile over the past couple of months due to working-day effects but the data indicated a gradually slowing trend due mainly to the European demand, in our view. We expect the stabilisation of the lira exchange rate and firms' increased export orientation following last year's currency crisis to mitigate repercussions from the global trade slowdown on Turkish exports.

The terms of trade (ToT) increased by 1.9% y/y to 103.6pts in September. The unit value of imports fell by 5.3% y/y and weighed over a 3.4% y/y decline in the unit export value. Last year's high base from global oil price developments played a significant role in the annual improvement in the ToT, judging by the high share of energy goods in Turkey's imports, in our view. The ToT was up by 0.1% m/m in the month.

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UKRAINE

Three state-owned banks not ready for privatisation – WB rep Kahkonen

Ukraine | Nov 11, 06:55

- **Share of NPLs too high for investors**

The smallest state-owned bank, Ukrgasbank, has been prepared for privatisation better than other banks, World Bank local representative Satu Kahkonen has said. Speaking in an interview with Zerkalo Nedeli, she said the three other state-owned banks were not ready for privatisation. These are Oshchadbank, Ukreximbank and Ukraine's largest bank, Privatbank, which was nationalised in 2016. Kahkonen noted that since Privatbank's takeover the state has controlled more than half of the banking sector, which is too much. She said the government understands that the state share of the sector has to be cut. However, she said, investors would not be interested in banks where NPLs stand at 65%-70% of credit portfolios. Kahkonen said the government should adopt measures to allow the managers of the state-owned banks to use more tools to resolve the problem of NPLs.

IFC, a member of World Bank Group, is expected to buy into Ukrgasbank soon. Ukrgasbank was nationalised in 2009. The problem of NPLs is especially significant at Privatbank, and those were issued mainly to firms linked to former owners of the bank.

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President Zelensky's new decree instructs cabinet on structural reforms

Ukraine | Nov 11, 06:38

- **Zelensky may get rid of Honcharuk's cabinet if his instructions are not implemented**

President Volodymyr Zelensky has signed a decree instructing the government on priorities in structural reforms. In line with the decree, by the end of this year the cabinet of PM Oleksy Honcharuk has to submit to parliament bills aimed to foster competition in railway transportation and improve its quality, develop the domestic maritime sector, streamline waste management, counteract illegal amber extraction, streamline payments on the wholesale power market, liberalise the production of spirits, and modernise labour legislation.

Zelensky also expects the cabinet to come up with regulations for launching a two-year moratorium on the tax inspections of individual entrepreneurs, to draw a plan of measures aimed to improve Ukraine's standing in the World Bank's Doing Business ranking, complete the unbundling of Naftogaz Ukrainy state oil and gas firm, prepare a mass-scale privatisation campaign and come up with a list of five big assets to be sold first, and draft the bills necessary to start farmland sales. The decree also sets a number tasks in the security, healthcare and other sectors.

Zelensky's new decree was apparently designed as a means to measure the efficiency of Honcharuk's cabinet. Zelensky hinted recently that the cabinet could be dismissed after the Christmas holidays if deemed inefficient. Zelensky cannot dismiss the cabinet by decree, but he can get rid of it with the help of parliament which is controlled by Zelensky's party, Servant of the People.

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PM Honcharuk set to sell Centerenergo, denies Kolomoysky’s influence

Ukraine | Nov 11, 06:15

- **Honcharuk admits there are groups of influence in power sector**

Centerenergo regional energy company tops the list of the assets to be privatised, PM Oleksy Honcharuk told an economic forum in Kiev on Nov 9. He said he wanted a foreign company to buy Centerenergo. Honcharuk denied rumours about oligarch Ihor Kolomoysky's influence on President Volodymyr Zelensky and on decisions regarding Centerenergo in particular. He said that if certain people linked to Centerenergo worked against the state, they should be replaced. At the same time, Honcharuk admitted that certain informal groups of influence have been active in the power sector.

Ukraine has several times postponed Centerenergo's privatisation, although it was agreed with the IMF. It has been rumoured that Centerenergo was taken over by managers linked to Kolomoysky after Zelensky's presidential election victory last spring. Kolomoysky's media backed Zelensky's campaign. Centerenergo consists of three thermal power plants accounting for some 14% of Ukraine's power generation capacities.

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PRESS Press Mood of the Day

Ukraine | Nov 11, 05:30

Full, but not last victory: What UN court decision on Donbass and Crimea means (Ukrainska Pravda)

Zelensky signs decree on urgent measures in economy: Details (Segodnya)

Explosive growth strategy: Ukraine in 2030 (Novoye Vremya)

How to make Ukraine energy independent: Government and businesses discuss new strategy (Delo)

The party needs to be sexy: Six conclusions about congress of Servant of the People (Liga)

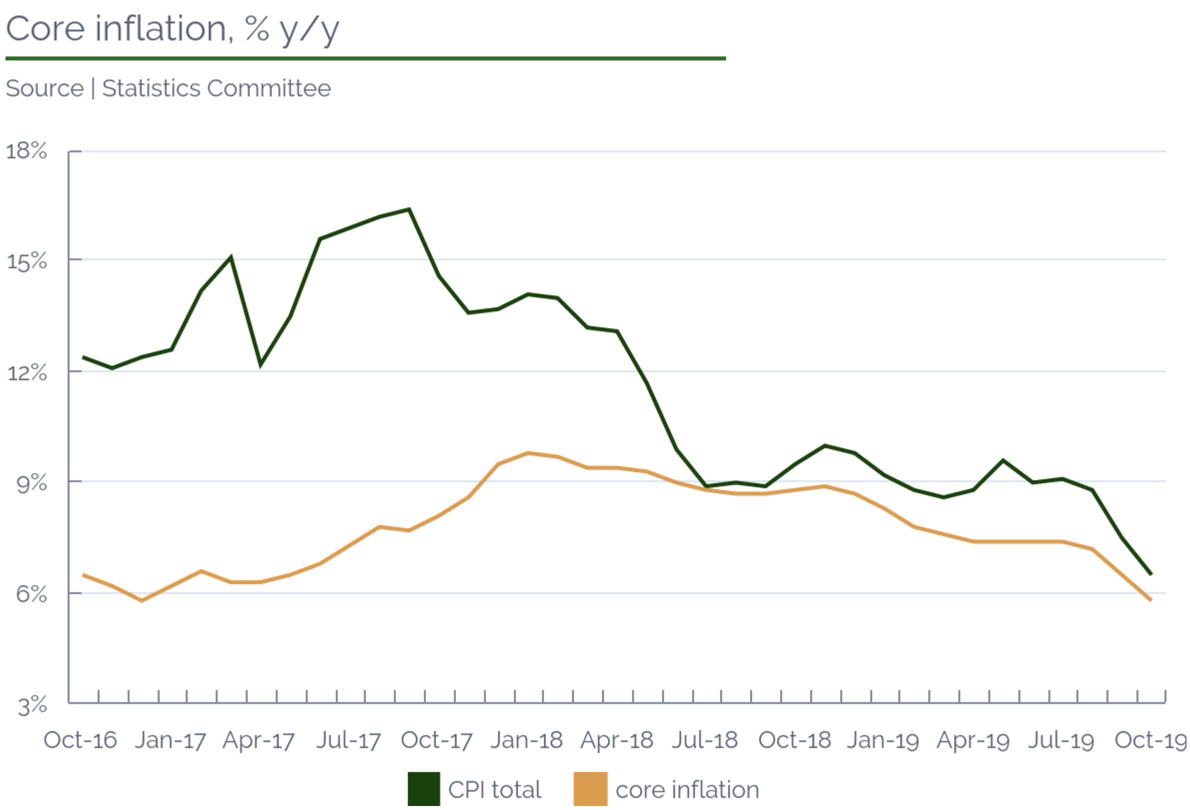
[WB rep] Satu Kahkonen: State should guarantee non-interference to businesses (Zerkalo Nedeli)

Core inflation down another 0.7pps to 5.8% y/y in October

Ukraine | Nov 08, 15:25

- **Core prices up 0.7% m/m, compared to 1.3% growth a year earlier**

Core price inflation equalled 5.8% y/y in October, according to figures published by the statistics committee today. This is down from 6.5% in September and 7.2% in August, and this is the lowest figure since December 2016, according to our records. Compared to the previous month, core prices grew by 0.7% m/m in October. A year earlier, in October 2018, core prices jumped 1.3% m/m. The spread with headline inflation, which continued to slow much faster, this time to 6.5% y/y, on lower food, fuel and utility prices, narrowed further in October.



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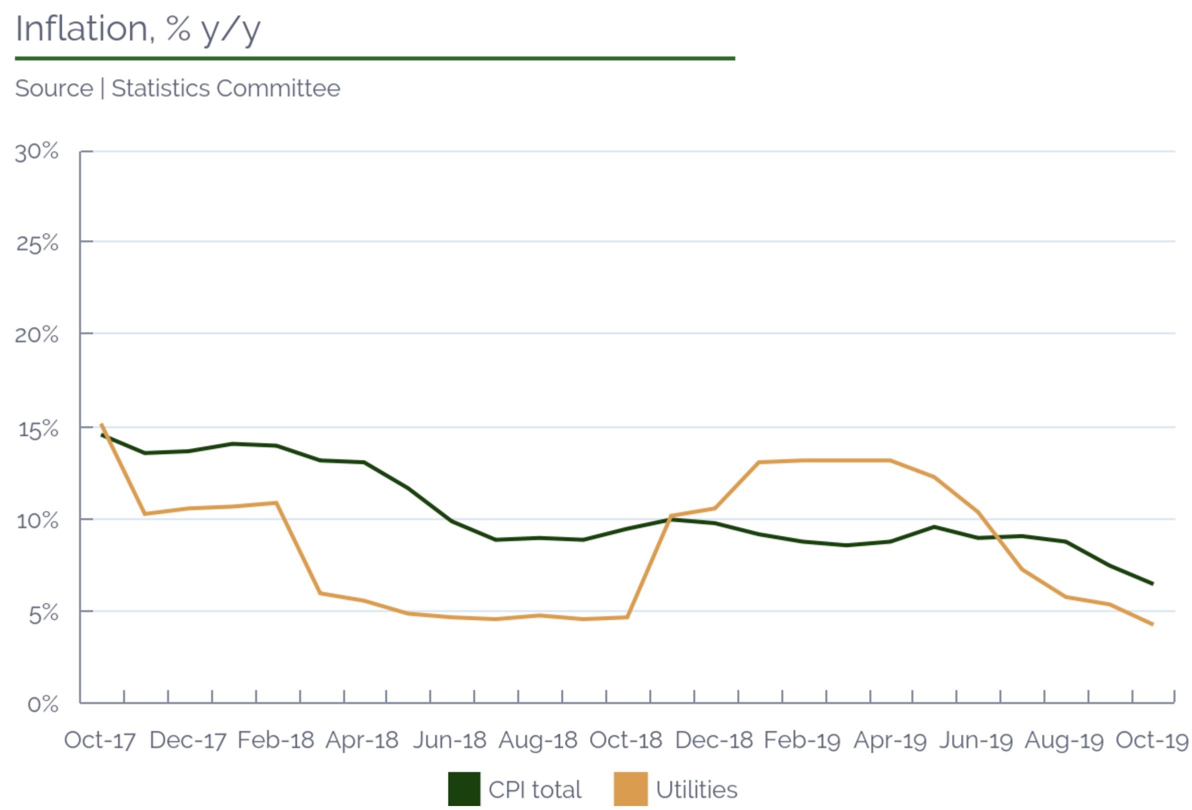
KEY STAT Headline CPI inflation slows to 6.5% y/y in October

Ukraine | Nov 08, 15:08

- **Cheaper food, fuel, utilities continue to be behind disinflation**
- **Another rate cut likely in December**

Headline CPI inflation slowed further to 6.5% y/y in October from 7.5% in September and 8.8% in August, according to figures reported by the statistics committee today. That's the lowest figure since early 2014, according to our records. The slowdown had been anticipated by the central bank, which cut its benchmark rate by 100bps to 15.5% last month, but that's probably still too high to sustain growth. Another cut is very likely at the NBU's next rate-setting meeting, which is scheduled for Dec 11. The NBU expects inflation to slow to 6.3% y/y by end-

December.



Compared to September, consumer prices grew by 0.7% in October. That's much slower than a year earlier, when prices were up 1.7% m/m. Disinflation in annual terms was observed across the board in October, except communications and education, where price growth picked up, and clothing and footwear, as well as transport, where deflation was registered. Fuel price deflation in particular deepened to 13.5% y/y in October, on the back of the hryvnia appreciation. Food price inflation slowed further to 8.6% y/y, as meat price inflation slowed to 5.1%, and vegetable price growth slowed to 23.1%. At the same time, fruit price growth accelerated further to 19.4%, on a relatively poor harvest. Utility price inflation slowed further to 4.3% y/y, as gas prices in particular fell by 12.5% y/y, in line with global trends.

CPI Inflation (% y/y)

	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
TOTAL	9.6%	9.0%	9.1%	8.8%	7.5%	6.5%
Food and non-alcoholic beverages	9.2%	8.5%	9.9%	10.2%	8.8%	8.2%
Alcoholic beverages, tobacco	16.4%	15.9%	15.2%	15.0%	15.3%	13.6%
Clothing and footwear	0.7%	0.1%	0.2%	0.0%	0.1%	-0.6%
Furnishings, household equipment	3.6%	3.1%	3.1%	2.6%	2.1%	1.1%
Housing, water, electricity, gas	12.3%	10.4%	7.3%	5.8%	5.4%	4.3%
Healthcare	7.1%	7.4%	7.5%	7.4%	6.2%	5.5%
Transport	9.0%	8.7%	6.8%	4.6%	1.3%	-2.4%
Education	13.3%	13.2%	13.2%	13.4%	13.3%	13.7%
Restaurants and hotels	11.7%	11.6%	11.7%	11.7%	11.3%	10.0%

Source: Statistics Committee

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NBU stress-tests 29 largest banks, finds 11 may need recapitalisation

Ukraine | Nov 08, 13:40

- **Five banks looked worse than others, one of them already merged**

The central bank (NBU) has completed the stress tests of 29 banks accounting for 93% of the banking system assets. The tests were started in May. The NBU found that 11 banks might need to be recapitalised to the tune of UAH 35.2bn (USD 1.4bn), while in the worst-case scenario those plus another seven banks would need to be recapitalised for a total of UAH 73.8bn. The banks will need to meet NBU criteria for capital adequacy or restructure their assets by the end of September 2020. Details of the stress tests are to be published next month.

Five out of the 11 banks were found to be potentially more vulnerable than others, Finclub reported, citing NBU deputy governor Kateryna Rozhkova. Those are the two state-owned banks Oshchadbank and Ukreximbank, the local subsidiaries of the Russian banks Sberbank and VEB (Prominvestbank), and Ukrsotsbank, which after the stress tests was merged with the local subsidiary of Russia's Alfa Bank. The two state-owned banks have a very large share of NPLs in their portfolios, while the two Russian-owned banks were affected by sanctions. As to the largest state-owned bank, Privatbank, which was nationalised in 2016, Rozhkova said it was stable, having posted the biggest profit in the banking system. We recall that Privatbank's profit grew more than five-fold to UAH 27.4bn in January-September.

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SLOVAKIA

Klub 500 calls upon parliament to vote down banking levy bill

Slovakia | Nov 11, 05:49

- **Large employers concerned bank levy may threaten their bank financing**

Employers association Klub 500 called upon lawmakers to vote down the bill introducing a special levy for selected financial institutions. Klub 500 also warns that changes to be introduced under the new legislation might be unconstitutional and jeopardise the financing of Slovak business sector. Furthermore, the special banking levy hike would burden mostly people and entrepreneurs at the end of the day. The employers, whose firms employ more than 500 people, also claim that the amendment on the banking levy is being approved in a rushed manner and at the very end of the election term - without being submitted for comments or discussed with social partners. The employers concur with the central bank NBS Governor Peter Kazimir (former FinMin) that the decision to hike the banking levy is designed with no other purpose in mind than to finance social programmes and undermines the financial stability. Seeing as they believe it violates the constitutional principles of legal certainty and the right to ownership, Klub 500 also finds it unconstitutional.

The bank levy has been in effect since 2012 - until 2015, it was 0.4% and since 2015 it has been reduced to 0.2%. Adopted in 2016 amendment left the special levy rate of banks for 2017-2020 at 0.2%, while since 2021 the rate was to become 0%. Recall that last week the government approved the proposal by FinMin Ladislav Kamenicky (leftist senior ruling party Smer-SD) that the special levy on selected financial institutions, currently at 0.2% of the value of their liabilities, is doubled to 0.4%, effective as of 2020. The measure, which is to be discussed by the parliament in shortened legislative procedure, is to bring EUR 260mn to general government budget in 2020, EUR 265.2mn in 2021, EUR 270.5mn in 2022 and EUR 275.9mn in 2023. FinMin Kamenicky has said that his primary objective was the next year's budget to be approved with a general government budget deficit that does not exceed 0.49% of GDP in 2020. We believe that the bank levy hike is being proposed to replace Kamenicky's original plan to raise the excise tax on tobacco (estimated to bring EUR 100mn) as the latter was strongly objected by the nationalist junior ruling party SNS. The IMF has previously recommended that the levy is halved as originally planned, while the Slovak Banking Association SBA pointed out that the extension of the levy would jeopardise the financial stability of the sector. NBS expressed similar stance and warned that an increase in the bank levy will affect the profitability of the entire banking sector, especially if an economic crisis occurs.

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Judiciary, corruption, bureaucracy priority issues of SaS in 2020 elections

Slovakia | Nov 11, 05:43

- **SaS also wants to reduce regional disparities**
- **We Are Family presents nine-point election programme to help families**

The judiciary, corruption and bureaucracy are priority issues that liberal SaS election programme aims to tackle, SaS chairperson Richard Sulik announced on Friday. According to the SaS head, the current state of the judiciary traumatises the public. He added that regarding red tape, this sphere also includes excessive number of regulations, norms and needless rules that complicate life for employers while running of businesses and employing people as well as for common people - due to a surfeit of paperwork that must be done at offices. Sulik claimed that the party's objective is to make Slovakia a country where it's worthwhile to work, live and run a business, adding that the party wanted to reduce regional disparities with eastern Slovakia being especially important for SaS. To this end, the party calls for completion of important infrastructure, which will also enable a big investor to be attracted in lagging behind regions and to create large number of jobs. Note that recent polls indicate that SaS may fail to win sufficient vote in the upcoming election due on Feb 29, 2020, with its preferences being hurt mainly by the internal disputes of late, but also the emergence of For the People party of former President Andrej Kiska.

On a different note, opposition We Are Family party presented a nine-point election programme to help families at its programme conference held on Saturday. According to We Are Family, the programme reacts on the most pressing challenges of today and offers real solutions to them. The party declared it was ready to take over responsibility for Slovakia. Party leader Boris Kollar said that the party wants to look at people 'through the heart' and not 'through the wallet'. According to him, politicians now only care about how to rob ordinary people and get them into trouble, and that there was nothing left for those people. The programme's priorities is to give EUR 200 to each family budget, make public transport free of charge also for secondary school students, introduce the right for a state rental apartment from EUR 119 per month, scrap additional payments for drugs for children and pensioners and increase women's pensions by EUR 30 per each child. We Are Family wants to continue to address the distraint amnesty, the state to rent cars to each family for EUR 100 per month and contribute with EUR 100 for school aids to elementary school pupils. The party also wants to level up incomes of women on maternity leave. The support for We Are Family is about 6-7% - because of the quite fragmented political scene, We Are Family may appear to be the trump card for both the leftist senior ruling party Smer-SD and the other parliamentary and non-parliamentary parties to form a majority government after the elections, in our view.

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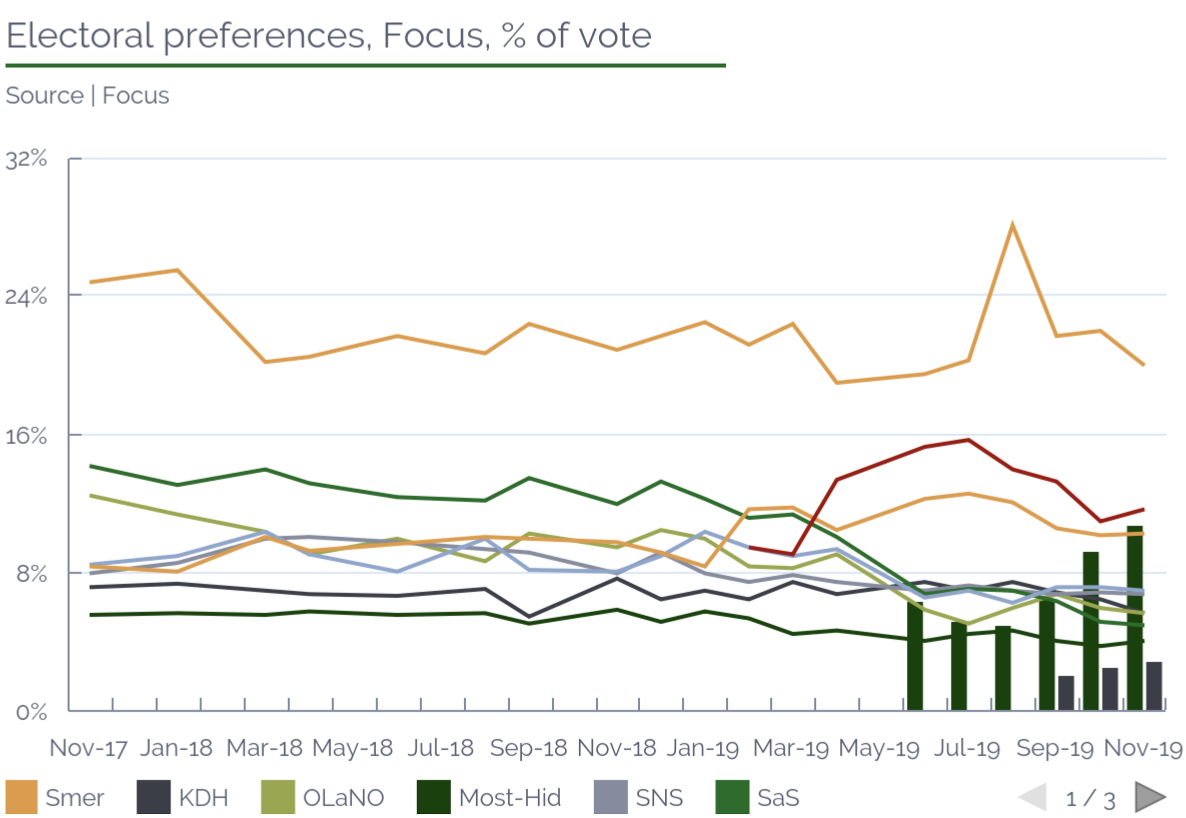
Smer-SD to win elections, lead over PS-Spolu narrows – Focus poll

Slovakia | Nov 11, 05:30

- **PS-Spolu coalition to come second, but Smer-SD lead narrows**
- **For the People party of ex-president Kiska to win third biggest vote to the detriment of opposition parties, outperforms far-right L'SNS for the first time**
- **Current main opposition party SaS may fail to enter parliament with only 5 % of vote, no ethnic-Hungarian party to be represented in parliament unless they run in coalition**
- **Neither Smer-SD, nor opposition parties likely to be able to form stable majority; opposition We Are Family may be decisive for future cabinet of opposition**
- **Poll indicates 2020 elections to bring significant political instability**

The leftist senior ruling party Smer-SD would win the elections if held at the turn of October and November with 20% of the vote, but it would almost certainly not be able to return to power, a poll by the Focus agency carried out on Oct 30 - Nov 7 among 1,020 respondents for TV Markiza showed as local media reported. As Smer-SD's support has decreased m/m, it remains significantly lower than that achieved at the 2016 general election. Its current junior coalition partners, the nationalist SNS and the centre-right ethnic-Hungarian Most-Hid, would also have much lower support and, as indicated by the poll, Most-Hid may not even make it to the parliament and the ethnic-Hungarian minority would fail to be represented in the House as it remains fragmented and fails to join forces. We see the odds for the same coalition to return to power next year negligible.



Similarly to the previous poll by Focus as well as the surveys of other agencies, the coalition of non-parliamentary parties Progressive Slovakia and Spolu (Together) would be the second strongest party with its support growing and the lead of Smer-SD narrowing m/m. For the first month since included in the agency's polls, For the People party of former President Andrej Kiska would rank third with its support increasing the most among the parties included in the polls. As we have argued before, Kiska's party not only additionally fragmented the Slovak political scene, but has also hurt massively the current parliamentary and non-parliamentary opposition parties. The far-right L'SNS would rank only fourth. The preferences of the main parliamentary opposition party SaS continue to affected by its internal disputes, which, if are not resolved in due time, may push the party out of the parliament as the poll showed that SaS would have won only 5% of the vote, namely the electoral minimum. Stefan Harabin's Homeland is to win 3% of the vote, up by 1.2pps m/m, Drobra Volba (Good Choice) of former health minister Drucker is to win 2.9% of the vote, while We've Had Enough of This! - 1%. The poll showed that more than 75% of the respondents would participate in the elections next February, while 14.5% - not.

The results of the poll continue to indicate that general elections, which are to be held on Feb 29, 2020, will result into a significant political instability as the new government formation is likely to be extremely difficult and long process, in our view. On the one hand, the incumbent ruling coalition does not stand a chance to form a new majority government. Even potentially including the far-right L'SNS in the coalition, although some of its top officials, including Smer-SD election leader and PM Peter Pellegrini, have rejected it, would not be sufficient either. Then the votes of We Are Family may appear decisive. Given the success of the opposition in the presidential elections that was more like a protest vote against Smer-SD and the ruling coalition, we cannot expect the support for Smer-SD to recover any time soon unless major reform is carried out, links with L'SNS firmly rejected and new chairperson elected, the latter specifically being quite unlikely. However, we overall think that there is no sufficient time for this. On the other, much more would be needed for the opposition parties to be able to form a stable government as, given the results of the poll, it would have to comprise of at least six political entities (without SNS and the L'SNS), with none of them to be having sufficient lead over the others to secure a common direction of the future rule, in our view.

Election preferences

	Oct-Nov 2019		Oct-19		Sep 13-18, 2019		Mar 2016 elections	
Party	**% of vote**	**Seats**	**% of vote**	**Seats**	**% of vote**	**Seats***	**Vote**	**Seats**
Smer-SD	20.0%	36	22.0%	39	21.9%	38	28.28%	49
PS-Spolu	11.7%	21	11.0%	20	13.4%	23	-	-
For the People	10.6%	19	9.1%	16	7.0%	12	-	-
L'SNS	10.3%	19	10.2%	18	11.5%	20	8.04%	14
We are family - Boris Kollar	7.0%	13	7.2%	13	6.8%	11	6.62%	11
SNS	6.8%	13	6.9%	12	6.8%	12	8.64%	15
KDH	5.7%	10	6.5%	12	6.3%	11	4.94%	-
OLaNO	5.7%	10	6.0%	11	6.3%	11	11.20%	19
SaS	5.0%	9	5.2%	9	6.0%	10	12.10%	21
Most-Hid	4.1%	-	3.8%	-	4.1%	-	6.50%	11
SMK	3.5%	-	3.2%	-	3.1%	-	4.04%	-
Dobra volba (Good choice)	2.9%	-	2.4%	-	2.5%	-	-	-
Siet'	-	-	-	-	-	-	5.60%	10

Note: *CEEMW calculations

Source: Focus pollster, media

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PRESS **Press Mood of the Day**

Slovakia | Nov 11, 05:28

[Far-right L'SNS head] Kollar rejects government with Smer, and has a problem with the opposition parties (SME)

Coalition MPs defend the [extended] moratorium [on polls] (SME)

[Leftist senior ruling] Smer-SD will again back a longer moratorium, seeking support (SME)

[Supreme Court Judge] Harabin invited Kotleba to a meeting, to discuss possible cooperation (SME)

[Nationalist junior ruling SNS head] Danko wants to further indebt the state, Slovaks are clearly against (SME)

The ministry will compensate the price of electricity for 76 companies (SME)

[SNS deputy head] Paska: [Ethnic-Hungarian junior ruling Most-Hid head] Bugar broke down relations in coalition with messages through media (Pravda)

A change in pension valorisation since 2022. They will be up for pensioner inflation (Pravda)

Smer-SD admits that the moratorium will not pass (Hospodarske Noviny)

Focus survey: The state should not be indebted, seven out of ten people think (Dennik N)

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HIGH **Fitch affirms country’s A+ rating with stable outlook**

Slovakia | Nov 09, 07:32

- **High exposure to car industry remains one of key factors constraining ratings**
- **Government to be unable to meet 2019-2020 fiscal targets given slowing down growth**
- **2020 general election to result into significant political uncertainty**
- **Public debt-to-GDP fall, GDP per capita growth, economic diversification to support rating**
- **Public debt-to-GDP increase beyond debt brake limits, structural shock to car sector, net external debt position worsening can trigger negative rating action**

Fitch Ratings on Friday confirmed Slovakia's A+ rating with a stable outlook saying that the rating mirrored the country's competitive exports-based economic growth, stable FDI and EU inflows, as well as EU and euro area membership. However, the agency said that the rating was limited by potential vulnerabilities resulting from the country's high dependence on the car industry, weaker structural indicators, high household lending growth, as well as relatively weaker external debt dynamics. According to Fitch, the worsening of the external environment, in particular further easing of the economic activity in Germany, to which about a fifth of Slovak exports are directed, as well as sluggish growth prospects for the euro area, will continue to be a drag on the pace of economic expansion - thus, the agency has cut its GDP growth forecast for 2019 to 2.5% (from 3.5% projected in May), that for 2020 - to 2.7% (from 3.4%) and now expects 2.5% growth in 2021. The agency believes that the near-term risks to the car industry, including strong linkages with German supply chain, Brexit and potential US tariffs seem manageable, but notes that in the longer term the sector will face increasing risks from potentially stricter EU environmental regulations (for diesel cars mainly) and jobs automation. Fitch pointed that as the automotive industry slows, the unemployment rate might increase to about 5.3% in 2020-21, adding that despite the strong wage growth, the overall wage level is still low by regional standards, which will allow the country to largely retain its competitiveness, specifically in the car sector.

Fitch expects that the government will be unable to meet its fiscal targets for 2019 (balanced budget, note that in October the government revised the target to 0.68% of GDP deficit) and 2020 (0.49% gap) given the downside risks to growth and the likely to moderate tax revenue growth (from 6.3% in 2017-18 to about 2.1% in 2019-21), the latter also due to the influence of the enacted tax reforms. Thus, the agency has worsened its fiscal balance forecast for the two years - to 0.6% gap (from 0.5% gap previously) in 2019 (the budget responsibility council RRZ is much more downbeat estimating the fiscal gap at about 1.2% of GDP this year) and to 0.8% deficit in 2020 (from previously expected 0.6% gap). Still, the agency expects the general government debt to continue to decline slowly to some 46% of GDP by 2021, thus remaining well below the upper debt brake limit of 56% for that year.

According to Fitch, the general election on Feb 29, 2020 is likely to result into significant political uncertainty as no party is likely to win sufficient votes to get majority in the parliament, an opinion we fully share.

The agency said that a positive rating action could result from a sustained fall in public debt-to-GDP ratio on the back of sustained fiscal consolidation, sustained GDP per capita growth without build-up of significant macroeconomic imbalances, economic diversification and effective response to expected structural changes in the car industry. At the same time, a negative rating action could result from sustained government debt-to-GDP ratio increase, especially if it breached the debt brake limit, structural shock undermining car sector, substantial deterioration of the net external debt position, the agency said.

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Entrepreneurs want changes in education, cleansing public life, and tax cuts

Slovakia | Nov 08, 14:44

- **Business complain that politicians always forget of their needs and problems**

Improving education, cleansing public life, and lower taxes and payroll levies are the three most important demands of entrepreneurs from politicians to improve economic and social conditions from 2020, the Business Alliance of Slovakia PAS has said in a press release as local media reported. PAS explained that, as the general election is approaching, political parties need to be reminded of the problem areas in the society that entrepreneurs perceive, because it appears as if this was not clear to the political parties. Entrepreneurs want to adapt the educational content and form of teaching, education, training, and remuneration of teachers, as well as the assessment of educational outcome to the needs of real life. They propose to introduce the possibility of collecting tuition fees in higher education along with the establishment of a scholarship programme. The Alliance would welcome a fundamental reform of the work of the Public Prosecutor's Office, the management and work of the police and the strengthening of the independence of the police inspection. Other measures to purify public life include the introduction of at least a two-year ban on transition from top-level politics to leading positions of independent public authorities, including prosecutor's offices, armed corps, or judiciary. Entrepreneurs also demand from politicians a flat income tax on natural and legal persons.

Non-parliamentary PS-Spolu submit two bills to curb power of oligarchs

Slovakia | Nov 08, 12:04

- **First bill concerns prevention of oligarchy in healthcare sector, second to address conflict of interest in media**

Representatives of the Progressive Slovakia (PS)-Spolu (Together) coalition will submit to the parliament two laws that should curb the power of oligarchs, calling them Lex Hascak, party leaders Michal Truban and Miroslav Beblavy announced on Friday. They are submitting the laws t along with cndependent MPs Lucia Zitnanska, Martin Poliacik and Alan Suchanek. Note that all recent polls suggest that PS-Spolu is to gain the second highest share of votes in the general election scheduled for Feb 29, 2020, but it would be nevertheless some 10pps below the share of leftist senior ruling party Smer-SD.

The first draft law stipulates that one owner cannot concurrently run a health insurance company, a pharmacy and a health-care provider. Beblavy said that one would have to choose one of them, adding that they also expect the law to limit the power of the Penta financial group that currently controls a large part of the health-care sector in the country.

The second bill addresses the conflict of interests in the media. All media with turnover of over EUR 1mn should be inscribed in the anti-letter box register so that their actual owner is identifiable. The law also deals with big media with turnovers of over EUR 5mn that trade with the state or are engaged in the health-care sector. Beblavy explained that they would either give up control over media, or they would have to give up state money. The conflict of interests should be judged by the anti-monopoly office.

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KEY STAT Foreign trade surplus narrows by 66.4% y/y to EUR 162mn in September

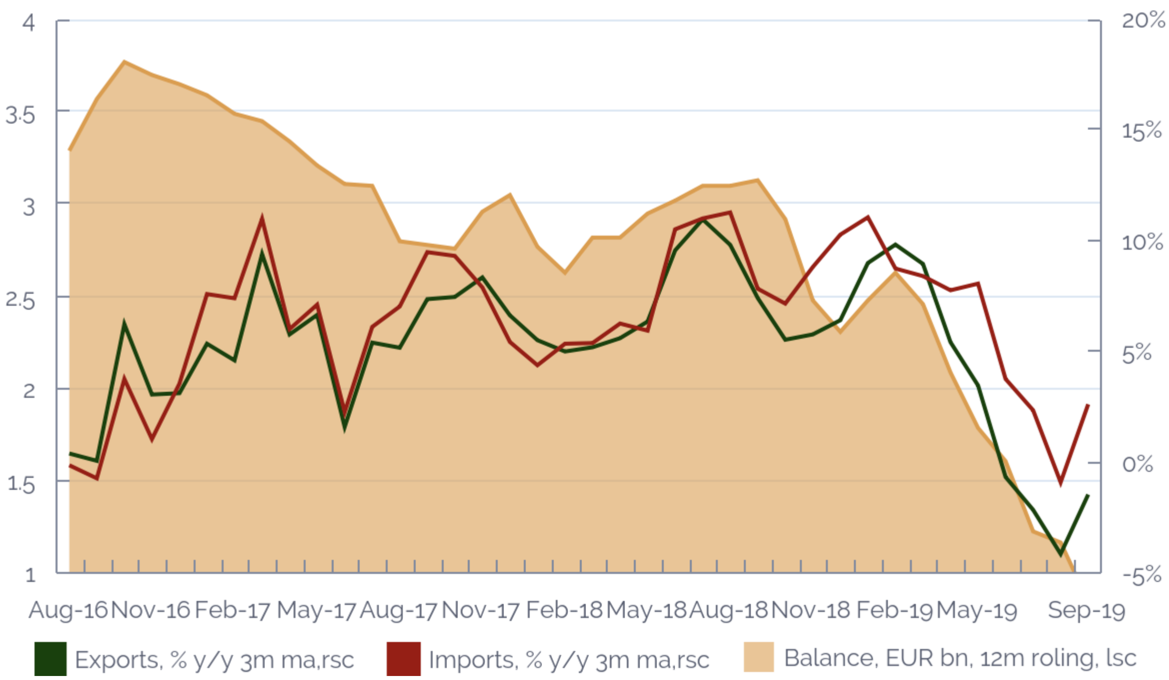
Slovakia | Nov 08, 10:18

- **Exports rise by only 0.7% y/y, but imports' 5.7% y/y robust growth bring deterioration in foreign trade balance**
- **Merchandise trade balance turns to surplus from downwards revised EUR 165.8mn deficit in August**
- **Exports' recovery likely to be short-lived in view of continued EU economic cooling**
- **Imports may remain relatively strong, net exports must have had negative contribution to Q3 GDP growth**

The external merchandise trade reported EUR 162mn surplus in September following downwards revised EUR 165.8mn deficit in August, but narrowed by 66.4% y/y, the stats office reported on Friday. The September print overall came into positive surprise to markets as the consensus put the surplus at a lower EUR 128mn in the month. On a cumulative basis, the trade balance remained in a surplus of EUR 716mn in January-September, but it was 67% lower than the EUR 2.17bn surplus a year ago.

Merchandise trade

Source | SUSR



The annual narrowing of the foreign trade surplus reflected the much stronger pace of increase of imports than that of exports. However, the exports' weakness remained as in seasonally-adjusted terms, they fell by 1.3% y/y in September, with the fall reported for the fifth month already and deepening from 1.2% y/y decline in August. The increase of the non-adjusted exports was on account of those to the EU that grew by 2.9% y/y in the month, recovering from 1.8% y/y fall reported in August, as meanwhile exports to non-EU countries contracted by 10.7% y/y. Yet, we believe that the September improvement in the exports performance is to be overall short-lived as the unfavourable economic developments abroad, in particular the country's main trading partner Germany and the euro area in general, continue. Global trade restrictions, as well as existing labour shortages and decreasing industrial production, are also to play a negative impact on exports, in our view.

Machinery and transport equipment remained the largest export item in September. Unlike in August, exports of machinery and transport equipment recovered growing by 1.4% y/y in the month. We believe that the recovery reflected the end of the summer holidays in the country's carmakers and the renewed full operations in their factories, which hopefully will be demonstrated in the September industrial production data due on Nov 11. As the new EUR 1.4bn car plant of Jaguar Land Rover is gearing up for full capacity and employment, we may expect it to support car exports. And yet, the declining demand for cars in Europe and the reported economic slowdown there will most likely severely hit car exports going forward. Moreover, once the Jaguar plant, which launched operations in October 2018, enters the base, we would expect a more pronounced weakening of machinery and transport equipment exports, respectively total exports as well. Exports of manufactured goods, the second largest exporting item, continued falling, by 5.7% y/y in September.

Imports also recovered growing by 5.7% y/y in September following 3.1% y/y fall in August. Seasonally-adjusted imports increased by 3.3% y/y in September, recovering from 0.1% y/y decline in August. Imports of manufactured goods, which were the second largest import item in the month, declined by 4.8% y/y. On the other hand, the most heavily-weighted purchases of machinery and equipment rose by 9.4% y/y in September, likely supported by the stocking by the Jaguar Land Rover plant and also resumption of full operations of the other three carmakers in the country, in our view. Imports are likely to continue growing. On the one hand, imports of investment goods for the public investments related to the intensifying EU funds drawing and major infrastructure projects such as the Bratislava bypass are to continue. The imports of materials and semi-finished products for the new automotive production are also to support their expansion going forward. On the other, however, we may expect slower pace of expansion of imports of consumer goods as it seems that households are gradually entering 'a savings mode' and are becoming more cautious as witnessed by recent disappointing retail sales data. Therefore, we are more inclined to expect that net exports have had a negative contribution to GDP growth in Q3. The stat office is to release Q3 GDP growth flash estimate on Nov 14, while detailed data are due on Dec 5.

Foreign trade, by SITC category

	Sep-19		Jan-Sep 2019	
	EUR mn	% y/y	EUR mn	% y/y
Exports	**6,973.5**	**0.7**	**59,461.4**	**2.3**
Food and live animals	203.0	-0.5	1,755.1	3.7
Beverages and tobacco	10.5	16.7	91.8	3.0
Crude materials, inedible, except fuels	115.0	-2.8	1,094.1	-4.4
Mineral fuels, lubricants and related materials	268.9	32.7	1,725.0	0.5
Animal and vegetable oils, fats and waxes	3.8	-40.6	35.4	-34.5
Chemicals and related products, nec	273.0	-6.3	2,494.7	-2.9
Manufactured goods classified chiefly by material	1,033.4	-5.7	9,615.2	-4.1
Machinery and transport equipment	4,364.6	1.4	36,949.4	5.3
Miscellaneous manufactured articles	677.1	-0.1	5,513.9	-1.9
Commodities and transactions nec	24.1	36.2	186.8	30.6
Imports	**6,811.3**	**5.7**	**58,745.6**	**4.9**
Food and live animals	304.5	7.6	2,725.1	3.7
Beverages and tobacco	47.3	-7.8	449.1	4.4
Crude materials, inedible, except fuels	160.3	-5.3	1,503.5	-1.3
Mineral fuels, lubricants and related materials	497.0	6.6	4,661.5	3.4
Animal and vegetable oils, fats and waxes	10.0	-23.1	95.1	-10.5
Chemicals and related products, nec	528.7	-0.8	4,777.5	0.3
Manufactured goods classified chiefly by material	931.2	-4.8	8,552.3	-2.5
Machinery and transport equipment	3,495.2	9.4	29,353.9	8.5
Miscellaneous manufactured articles	813.7	11.2	6,413.5	6.4
Commodities and transactions nec	23.5	3.1	214.0	25.1
BALANCE	**162.2**	**-66.4**	**715.8**	**-67.1**

Source: SUSR

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ARGENTINA

Fernandez to seek budget approval, first steps on debt restructuring in December

Argentina | Nov 08, 15:30

- **Fernandez to call for extraordinary Congress sessions in December and January**
- **Fernandez to completely amend budget bill, seek full approval in December**
- **FPV reportedly to start talking debt restructuring bill in December, but negotiations with creditors not expected to end until January**
- **Fernandez said to ponder bill to gain exceptional powers on tax and spending decisions**

Presidet-elect Alberto Fernandez intends to summon Congress for extraordinary sessions through the end of December and then again in January to approve urgent bills like the 2020 budget, the debt restructuring, and possibly an economic emergency bill giving him exceptional powers to make revenue and spending decisions, the website La Politica Online reported Fri. Fernandez allegedly wants the budget bill, which will be completely amended to reflect the incoming government's priorities, to be fully approved in December. Also in December, the Front for Victory (FPV) intends to give the first steps towards the approval of the bill on debt restructuring, though the coalition doesn't expect the negotiations with creditors to be finished until January at the earliest.

Fernandez is said to be pondering the merits of sending a bill to declare an economic emergency and gain exceptional powers to modify tax and spending rules with executive decisions. The argument would be that with the economy in a very bad shape, the government may need the ability to move quickly and bypass Congress on some occasions. However, since the FPV has a minority in the lower house and opposition MPs are unlikely to support giving Fernandez exceptional powers as soon as he takes office, we assume the bill will not be sent to Congress.

Overall, it is typical for an incoming government to call for extraordinary Congress sessions since the office change happens Dec 10, just a few days before Congress is scheduled to close for more than two months. Congress activity will probably be frantic in the first few months of the Fernandez administration, as the FPV tries to undo some of Let's Change's policies while trying to solve the economic crisis. The budget will probably take priority, and it should provide a much needed insight into the next government's fiscal policy plans.

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Gasoline prices to rise 5-10% before year ends

Argentina | Nov 08, 14:15

- **Gasoline to rise due to tax hike and adjusting after three-month price freeze**
- **Inflation likely to hover around 4.0-5.0% m/m in both November and December**

Gasoline prices could rise some 5-10% in what remains of 2019 as oil companies update their tariffs after a three-month price fix and accommodate a fuel tax hike, the daily El Cronista reported. On Nov 14, the government's three-month gasoline and diesel price freeze will end, and companies could look to raise prices around 5% to account for how the depreciation of the currency during that period raised production costs. Another rise of around 5% could be coming in early December, when the fuel tax lump sum is set to rise 12.6%, mirroring the inflation rate in Q3. According to El Cronista, government officials could decide to postpone a share of the tax hike to prevent a big inflation spike, but have not decided on the matter yet.

Overall, the Macri administration applied some price controls during the election cycle trying to prevent the spiraling of inflation in a context of sharp depreciation, and most of those prices stand to be adjusted in November and December. Inflation looks bound to remain around 4.0-5.0% m/m until the end of the year, which will put even more pressure on domestic demand. President-elect Alberto Fernandez will try to reduce inflation through a "social pact" between unions and businessmen to stagger wage and price revisions. Though we have no confidence the social pact can work beyond a few months, in the beginning the plan will be helped by the stability of the official exchange rate.

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BRAZIL

Federal Judge decides to release Lula

Brazil | Nov 08, 20:42

- **Federal Judge Pereira Jr complied with the request made by Lula's lawyers**
- **Petition was based on the decision taken by the STF**

The Federal Judge of the Twelfth Federal Court in Curitiba, Danilo Pereira Jr, complied with the request made by former President Luiz Inacio Lula da Silva's lawyers and decided to free Lula from jail, according to local magazine Veja and local legal site Jota. The petition was based on the decision taken by the Federal Supreme Court (STF) that overturned Thurs. evening a three-year-old rule about imprisoning an individual convicted after a first appeal is lost.

The Worker's Party (PT) members and movements close to Lula are planning a movement for his release in Curitiba and across the country.

Overall, Lula is still ineligible to run for office under the Clean Record Law, but he can play a vocal political role. Local newspaper Folha de S.Paulo said Fri. that Lula has told political allies he will continue touring Brazil to help put an end to the climate of hostility that intensified during the 2018 elections. PT leader Gleisi Hoffmann said Lula plays a relevant role not only for the party but also for Brazil. Brazilians have confidence in Lula, especially the poor, she said. Lula can run in the presidential candidate in 2022 only if his bribery conviction is overturned. Nonetheless, the party will almost surely work to strengthen his image to show him as an alternate leader to President Jair Bolsonaro's often controversial rule.

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Moro says STF’s decision should be respected

Brazil | Nov 08, 19:31

- **Moro recognizes that Congress can change the Constitution to permit again mandatory imprisonment**

Justice Minister Sergio Moro said Tues. the Federal Supreme Court's (STF) decision should be respected, according to a statement cited by local media. On Thurs. evening, the STF overturned a three-year-old rule about the imprisonment of a person convicted after they lose the first appeal. The decision restores the previous judgment that those convicted should be allowed to exhaust all appeal options before being considered guilty and jailed. The ruling could free former President Luiz Inacio Lula da Silva. Still, Moro recognized that Congress can change the Constitution to permit again mandatory imprisonment. "After all, judges interpret the law, but Congress makes the law, each in their own competence," he said.

The Senate's Constitution, Justice, and Citizenship Committee could talk about the case during its next meeting, which generally meets on Wednesdays, CCJ head Simone Tebet said Fri.

Moro, also the former head judge of the Car Wash corruption probe, criticized overturning the law several times. He warned that overturning the rule would be an obstruction in the fight against corruption. Lula's lawyers filed a request on Fri. to free Lula immediately. The Brazilian Report cited sources saying that Lula's release from jail is imminent.

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Campos Neto sees room to cut Selic rate by another 50bps

Brazil | Nov 08, 15:33

- **Campos Neto recognizes interest rates have not fallen for 90% of credits despite the Selic rate being at a record low**

BCB Governor Roberto Campos Neto said Fri. he sees room for the BCB's rate-setting Copom to cut the Selic rate by another 50bps on Dec 11 after it cut by 50bps to a new record low of 5.00% on Oct 30. That brought the scale of easing since July to 150bps. At the same time, Campos Neto recognized that interest rates have not fallen for 90% of credit despite the Selic rate being lowered to a record low level. Campos Neto said the country must solve the problem of asymmetric information. It needs to implement an open banking system, which would give customers the power of their financial information. Finally, he added that loan guarantees need to be enhanced as the credit recovery is still slow.

Overall, Campos Neto gave clear signs that the Copom will cut its Selic rate by 50bps at its meeting in December. Inflation remains well below the BCB's target for this year and economic activity remains weak despite the government's stimulus steps. On the other hand, the BCB continues to work on the so-called Agenda BC+ designed to help bring spreads down, lower borrowing costs, and increase lending.

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STF overturns mandatory imprisonment for Lula, who could be freed

Brazil | Nov 08, 14:22

- **Ruling restores previous judgment that those convicted should be allowed to exhaust all appeal options before being considered guilty and jailed**
- **National Council of Judiciary says around 4,895 convicts could potentially benefit from the decision, including Lula**
- **Lula's lawyers will request on Fri. that the ex-president be immediately released by the lower court that convicted him**

The Federal Supreme Court overturned a three-year-old rule about the imprisonment of a person convicted after they lose the first appeal, according to a 6-5 vote taken Thurs. evening. The decision restores the previous judgement that those convicted should be allowed to exhaust all appeal options before being considered guilty and jailed. The ruling could free former President Luiz Inacio Lula da Silva. The National Council of Judiciary said around 4,895 convicts could potentially benefit from the decision, which was criticized by Sergio Moro, the current justice minister and the former head judge of the Car Wash corruption probe. Moro warned that overturning the rule would be an obstruction in the fight against corruption. Prosecutors say the ruling will increase impunity in Brazil due to "excessive" appeals' processes.

Lula's lawyers will request on Fri. that Lula be released immediately by the lower court that convicted him.

Overall, Lula has been in prison since Apr 7, 2018, on a guilty corruption verdict. The Fifth Panel of the Superior Court of Justice (STJ) voted on Apr 23, 2019, to reduce ex-President Luiz Inacio Lula da Silva's sentence to 8 years and 10 months from 12 years and 1 month. The verdict made him ineligible to run in the presidential election in October 2018 or to help the Workers' Party (PT) candidate Fernando Haddad, who lost to President Jair Bolsonaro in a runoff held in late October 2018. The release of Lula will increase political turmoil in an already polarized country. Lula continues to be popular due to the social policies he implemented when president and which lifted scores from poverty. Others say he ruined the country by allowing for more corruption and helped ruin public finances.

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CHILE

KEY STAT CPI inflation quickens to 0.8% m/m and 2.6% y/y in October

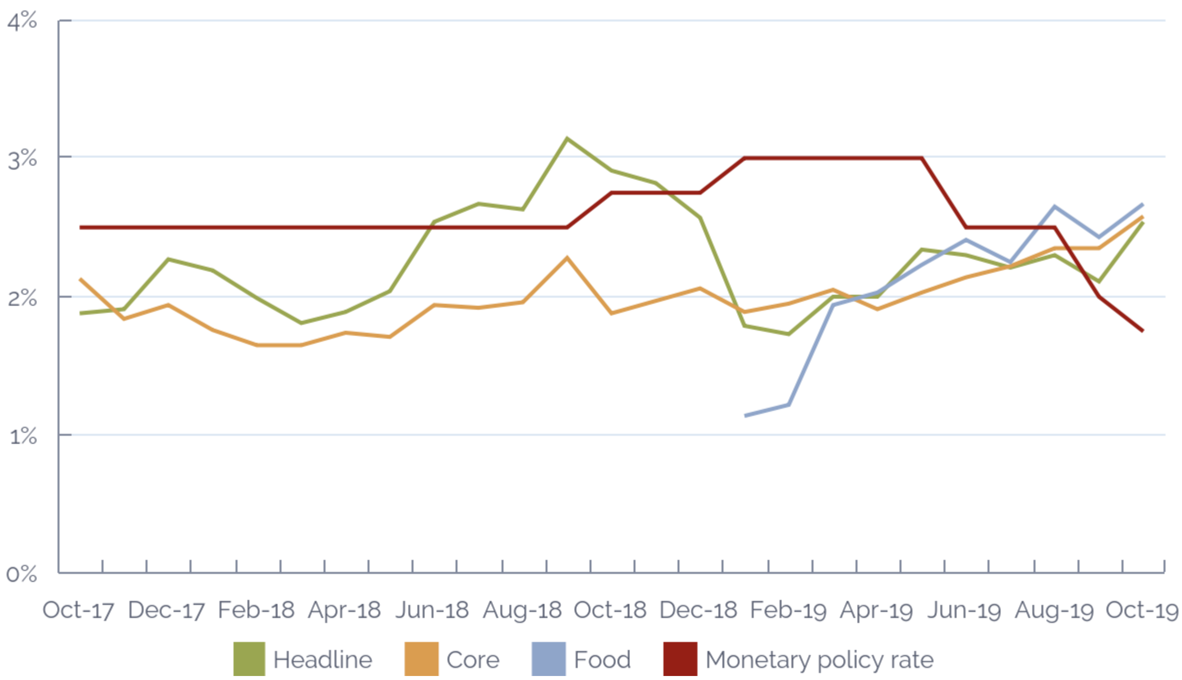
Chile | Nov 08, 17:27

- **October reading shows first signs of pass-through from currency hitting six-year low**
- **But monthly inflation spike includes electricity hike already rolled back, seasonal fruits and vegetables increase**
- **Depreciation pass-through and possible impact of vandalism on inflation add to uncertain inflation outlook moving forward**

CPI inflation accelerated to a five-year high 0.8% m/m in October after a flat September, the stats office INE said Fri. In annual terms, inflation quickened 0.4pps to 2.5% from 2.1% a month earlier. The reading was expected to be high, reflecting the impact of the currency's depreciation, the social protests, seasonal variations, and an electricity hike that was walked back in November. But the result was still significantly above the 0.5% consensus forecast.

CPI inflation (y/y)

Source | INE



Food inflation was 0.8% m/m in October, exceeding the 0.6% m/m reading scored in the same month last year. Fruit and vegetable prices had a big influence with a 2.3% increase, but this matched how much these prices rose in October 2018. Thus, food prices not tied to seasonal effects seem to be showing faster inflation, which can potentially be attributed to the impact of the currency's depreciation in recent months. We are hesitant to say the social crisis that erupted around Oct 14 had a big impact already, but it is possible.

Energy prices increased 2.9% m/m in October, reflecting a 4.4% raise to electricity bills. But this raise was walked back in November amid the government's attempts to answer the demand of social protesters, and measures will be taken to ensure electricity tariffs don't react as violently to exchange rate variations in the future. In annual terms this component shows only 1.9% inflation because gasoline prices have declined from the highs reached last year.

Tradable goods and services registered 1.2% m/m inflation in October, which is the highest monthly reading in the last two years. So far tradables were showing very low inflation despite the currency depreciating to five or six-year lows, probably because this depreciation was seen as transitory. However, this evaluation could be changing as the social protests are forcing the government to evaluate reforms that could hurt the economy's performance moving forward, thus making a weak exchange rate a necessity for longer.

Overall, the acceleration of inflation in October highlights the challenges the Monetary Policy Council will face in the coming months. Though the consensus is that inflation will slow, giving room for the MPC to keep relaxing monetary policy, the outlook is highly uncertain due to the difficulties to anticipate how the vandalism of the social protests will affect price decisions. October also provided the first signs suggesting that the depreciation of the Chilean peso can pass through to inflation at least partially. The minute for the previous MPC sitting that is coming out Nov 11 will be important to see how council members plan to balance the desire to give the economy more stimulus with the need to prevent a potential spike in inflation.

CPI inflation (y/y)

	Aug-19	Sep-19	Oct-19
Headline	**2.3%**	**2.1%**	**2.5%**
Core inflation	2.3%	2.3%	2.6%
Energy	1.0%	-0.8%	1.9%
Food	2.7%	2.4%	2.7%
Goods	1.0%	0.9%	1.1%
Services	3.7%	3.3%	4.0%
Fruits and vegetables	0.2%	-1.8%	-1.8%
Tradable	1.7%	1.7%	2.5%
Non-tradable	3.0%	2.6%	2.6%

Source: INE

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COLOMBIA

President Duque’s approval falls to 26%

Colombia | Nov 08, 15:14

- **69% disapprove of his administration**
- **Security concerns fail to skyrocket despite recent chaos in the region of Cauca**

President Iván Duque's approval fell to 26% in October, according to the latest poll by Invamer. This puts him with a massive deficit, with 69% of those polled disapproving his administration. This is the worst position posted by President Duque during his time in office, again showing the inexistent future of his pro-market reformist agenda.

Interestingly, only 19% of society say public safety is the main issue faced by Colombia, up only 2pps y/y. This shows the recent security crisis recorded in the region of Cauca hasn't affected the perception across the country.

Overall, the president's political weakness is disappointing, as it hinders his reformist agenda. However, this is no surprise, with the president's approval suffering since December 2018, after he took a blow because of his failed attempt to eliminate VAT exemptions as part of the tax reform. This combined with a perception of weakness, with the bulk of society seeing ex-President Álvaro Uribe above President Duque, have held the president's approval low, despite a solid and accelerating economy. It seems unlikely this trend will turn around in the short to mid-term, hindering the conservative's chances in the 2022 presidential election.

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MEXICO

Analysts see govt facing a spending versus growth dilemma ahead

Mexico | Nov 09, 00:24

- **Experts see economy needing fiscal stimulus to abandon its current stagnation**
- **But increasing spending would diverge from the country's fiscal consolidation path**

- **Worries will increase as the 2021 intermediate election nears**

Analysts from a number of financial groups are wary of the dilemma soon to be faced by the government of either boost public spending or remain content with the economy's stagnation, according to a report by Bloomberg posted on Friday. Bloomberg cites Morgan Stanley, UBS Group AG, and Societe Generale SA among the experts warning the government may abandon its fiscal responsibility to boost economic growth. We remind the administration has been hawkish on the fiscal front, despite its otherwise unsound economic policy, looking to run a primary surplus again in 2020. However, the government may eventually favor a fiscally flexible posture if the economy's stagnation persists.

Societe Generale's Bertrand Delgado warns the main risk may come towards 2020-end, as the administration is politically pressured by the looming mid-2021 intermediate elections. On this, we remind the president insists on being on the ticket in that mid-term election, having the voters choose if he should conclude his term in 2024, as voted in 2018. This is an effort to strengthen the chances of the candidates running with the ruling National Regeneration Movement party (PMRN).

The report warns foreign holdings of Mexican domestic debt have continuously fallen recently, showing investor's discomfort with the economy's outlook. Bloomberg points out foreigners hold some 55% of the total outstanding domestic debt, down from the 66% peaked in 2017.

Overall, analysts are right to worry on the future of the economy and of the country's fiscal position, given the government's unsound economic policies, mounting chances of a sovereign rate cut coming because of the state-owned oil firm PEMEX's crisis, and because of the economy's stagnation. In this context a laxer fiscal position seems warranted; however, considering the government's welfare spending programs would probably absorb most of the injection, analysts will be right to warn the economy's context is deteriorating.

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Private consumption falls 0.5% y/y in August, disappointingly

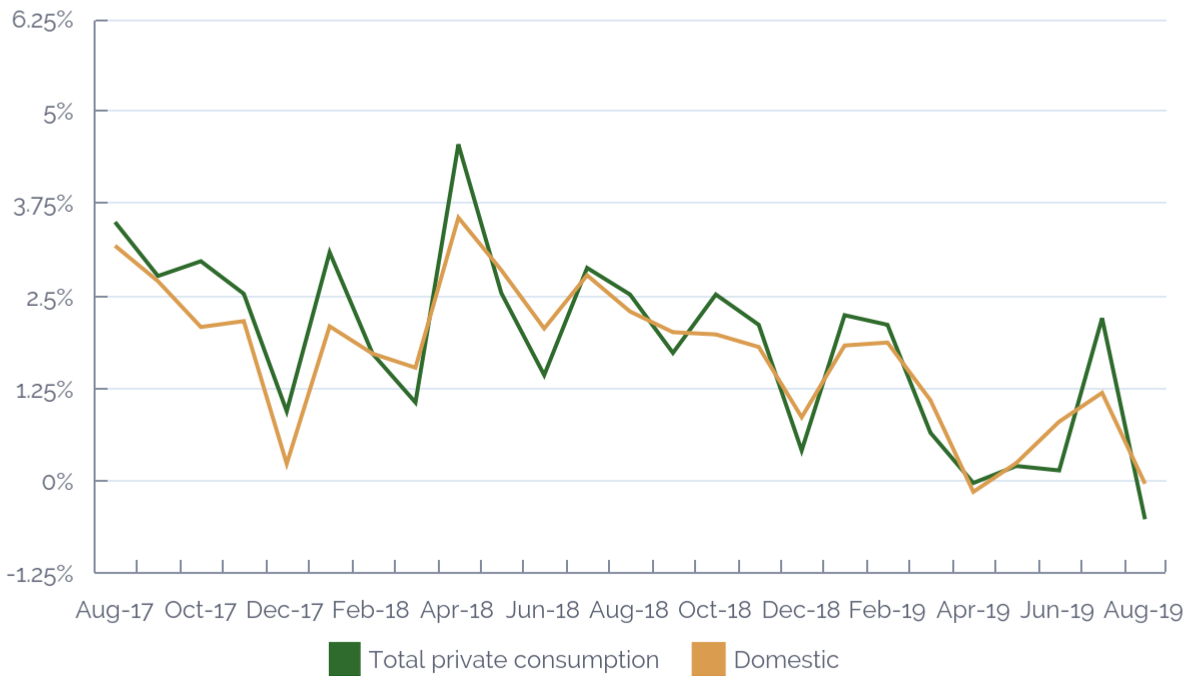
Mexico | Nov 08, 14:46

- **Domestic private consumption falls minimally, behind the demand for services 0.5% y/y fall**
- **Consumption of imported goods falls 4.3% y/y, with negative results across the board**
- **Weakening domestic demand is in line with a stagnant labor market, hurts growth outlook**

Private consumption in the country fell by 0.5% y/y in August, posting its first negative result since the calendar-driven insignificant decline posted in April, the stats office INEGI informed on Friday. This decline is most concerning and disappointing, swinging from a 2.2% y/y hike scored in July. However, this divergence is partially explained by a calendar effect, with working days adjusted figures showing a 0.1% y/y hike in August, holding on positive ground, and slowing only from a 1.0% y/y wda hike in July.

Private consumption growth (% y/y)

Source | INEGI



The decline was importantly driven by a 4.3% y/y decline on the consumption of imported goods. This component showed weakness across the board, with consumption of durable, semi-durable and non-durable imported goods falling y/y in August, swinging after across the board strong growth in July. This may be transitory, as the consumption of imported goods has posted high volatility in recent months.

Consumption of domestic goods grew 0.5% y/y in August, posting small but positive results across the board. However, this was offset by a 0.5% y/y decline in the consumption of domestic services, holding consumption of domestic goods and services stagnant y/y.

Overall, private consumption disappointed in August, showing grave weakness that hurts the growth outlook in the context of falling investment, declining public spending and the expectation of slowing global demand. However, although disappointing, the result can't be taken as fully unexpected, with conditions for private demand being adverse too, given a long-standing stagnation in the labor market and uncertainty because of the government's unsound economic policies.

Private demand growth (% y/y)

	Jul-18	Aug-18	May-19	Jun-19	Jul-19	Aug-19
Total private demand	**2.89%**	**2.53%**	**0.21%**	**0.16%**	**2.21%**	**-0.51%**
Total, sa (m/m)	0.29%	0.59%	-0.14%	0.73%	-0.02%	-0.29%
Domestic	2.79%	2.30%	0.25%	0.81%	1.20%	-0.03%
Imported	3.84%	4.43%	-0.12%	-5.83%	11.40%	-4.27%
Goods	1.94%	1.58%	-0.23%	-0.14%	2.06%	0.47%
Services	3.58%	2.98%	0.71%	1.71%	0.41%	-0.50%
Total, wda	2.16%	2.60%	0.28%	1.37%	1.02%	0.11%

Source: INEGI

BAHRAIN

Government sells debt worth BHD 316mn this week

Bahrain | Nov 09, 08:39

- **Interest rates decrease**

The Central Bank of Bahrain (CBB) sold debt worth BHD 316mn (USD 838.3mn) during the week that ended November 8, the institution said. This week's BHD 70mn issue of three-month government treasury bills was oversubscribed by 156%. The weighted average rate of interest was 2.65%, down from 2.79% for the previous issue on October 30. Similarly, the monthly issue of six-month Islamic leasing bonds, Sukuk Al-Ijara, worth BHD 26mn was oversubscribed by 468%. The expected return on the issue was 2.65%, down from 2.86% for the previous issue on Oct 10. Meanwhile, the BHD 35mn monthly issue of six-month government treasury bills was oversubscribed by 226%. The weighted average rate of interest was 2.63%, down from 2.85% for the previous issue on Sep 29.

Separately, the central bank also sold a five-year government development bond worth BHD 185mn that was subscribed by 100%. The expected interest rate on the issue is 4.00%.

Interest rates for the country's debt have been decreasing almost without interruption since the start of 2019. Rates increased generally without interruption from 2016 until the end of 2018. The recent decreases are due to the fact that in October, 2018, Bahrain was promised USD 10bn (about 26% of 2018 GDP) of financial support from Kuwait, Saudi Arabia, and United Arab Emirates. Bahrain received the first instalment of USD 2.3bn before the end of 2018 and subsequently interest on the country's debt began decreasing in 2019. Bahrain will receive an instalment of USD 2.28bn in 2019.

Debt issues during week ended November 8

Auction	BHD mn	% yield
3M T bills	70	2.65
6M Islamic bonds	26	2.65
6M T_bills	35	2.63
60 M T-bills	185	4.00
Total	**316**	
Average Yield		2.9825
Weighted Yield		3.44
Weighted Yield		3.44
Weight 3M		22%
Weight 6M		8%
Weight 6M		11%
Weight 60M		59%

Source: Central Bank of Bahrain

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EGYPT

KEY STAT **Urban CPI inflation slows to 3.1% y/y in Oct, lowest rate in 14 years**

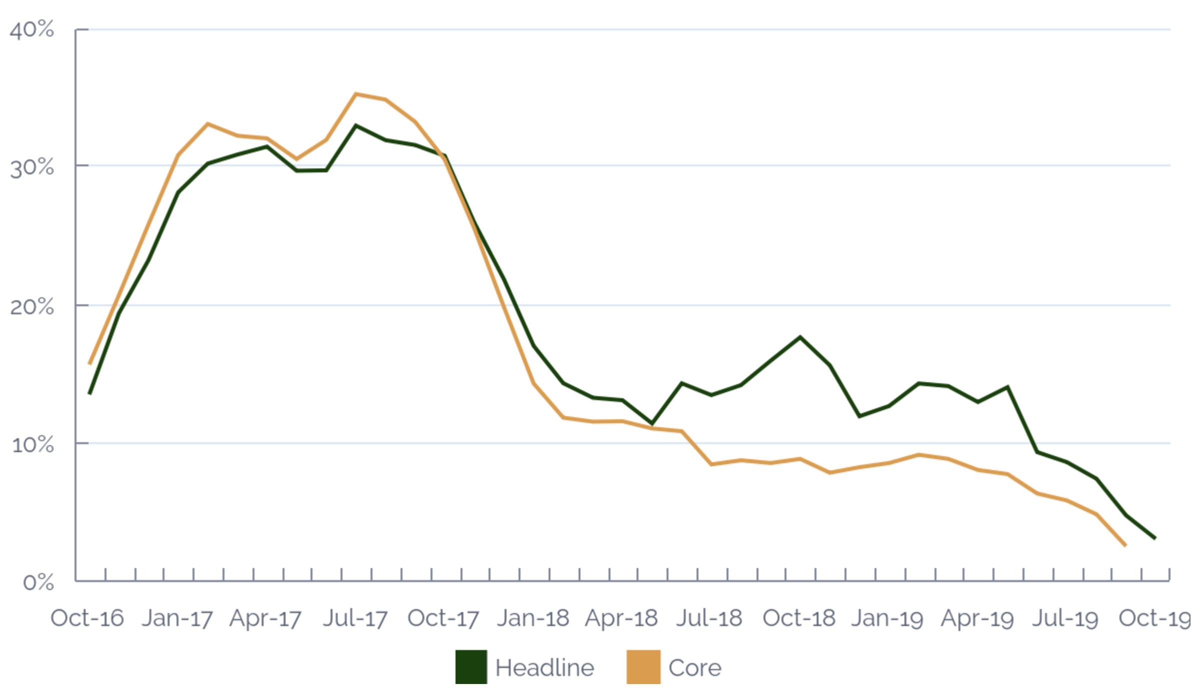
Egypt | Nov 11, 05:30

- **Inflation has slowed sharply despite fuel price hikes implemented in July**
- **Deceleration reflects subdued demand-side pressure, firmer pound and weaker oil prices**
- **Food has been major driver of inflation, together with utilities and transport**
- **Continuous disinflation leaves room for further rate cut on Nov 14**

Urban CPI inflation decelerated to 3.1% y/y in October from 4.8% y/y in September, which is the lowest print since Oct 2005 (3.0% y/y), according to stats office Capmas. The deceleration was due to sharp 4.8% y/y drop in food prices, which offset sharp y/y increase in transport and light-weight education costs. The drop in food prices was underpinned by second consecutive drop in prices on monthly terms, which is most likely due to vegetable prices. Utilities and housing inflation was relatively stable at 4.4% y/y, despite recent electricity tariff adjustments. Food, utilities and housing and transport are the three major drivers of inflation in Egypt, which had a combined weight of nearly two-thirds in the basket. The subdued utilities inflation and relatively muted acceleration in transport inflation following the fuel price hike in July, suggest the underlying inflationary pressures have moderated. Food inflation is traditionally driven by structural inefficiencies in the domestic agricultural sector, reflecting low yields, limited storage capacity and transportation costs.

Urban and Core CPI (% y/y)

Source | CAPMAS



In m/m terms, the general price level rose 1.0% after holding steady in the preceding month. As noted, food prices fell for second month in a row, by 1.8% m/m following 1.7% m/m decline previously, due to seasonal effects.

Utilities charges inched up 0.1% after a surprising drop of 3.4% m/m. We had expected the removal of tap water subsidies and electricity price adjustments earlier this year would put inflationary pressure on the consumers, while rents have been on the rise following limited increase in supply. It seems the category reflects weaker energy prices, as oil and gas are the primary sources of electricity in the country. Transport prices dropped 0.4% m/m following strong 7.6% m/m increase previously, which we had attributed to the protests that erupted in major cities in September and probably fuelled panic buying. Most of the remaining categories exhibited seasonal price movements. Overall, despite the fuel price hikes, the continuous moderations in food and core inflation suggest urban inflation will remain contained in Q4.

Tight monetary stance has helped tame inflation, and risks to the inflation outlook appear to have eased. The continuous disinflation should reflect private consumption that is still under pressure, the appreciation of the Egyptian pound and weaker commodity prices. Money supply growth has decelerated due to fiscal consolidation. External risks have eased recently as oil prices fell and portfolio investors have returned to the debt market seeking attractive yields. Thus, the continuous disinflation leaves room for further rate cuts following the cumulative 250bps cut in August and September. Many analysts expect the MPC to cut rates by 100bps on Nov 14 and another 150-300bps during 2020.

Consumer Price Index, % y/y

	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
CPI (y/y)	**9.4%**	**8.7%**	**7.5%**	**4.8%**	**3.1%**
Food, beverages	10.4%	9.0%	6.9%	0.3%	-4.8%
Tobacco, related	10.1%	2.5%	2.1%	2.1%	1.6%
Clothing, footwear	8.4%	7.0%	6.9%	6.5%	6.1%
Housing, water, gas, etc.	7.6%	9.8%	8.2%	4.3%	4.4%
Furnishings, household equip.	3.6%	1.6%	1.2%	1.6%	1.9%
Medical care	5.7%	5.5%	7.5%	11.3%	11.6%
Transport	2.1%	8.7%	8.9%	16.7%	16.3%
Communications	0.1%	0.1%	0.2%	2.0%	2.0%
Recreation, culture	17.8%	14.0%	14.1%	7.3%	15.3%
Education	14.7%	14.7%	14.7%	14.5%	21.9%
Hotels, restaurants	12.9%	10.7%	10.0%	9.8%	11.5%
Other goods, services	8.2%	6.7%	6.8%	6.1%	5.9%
CORE (y/y)	**6.4%**	**5.9%**	**4.9%**	**2.6%**	**-**
CPI (m/m)	-0.8%	1.8%	0.7%	0.0%	1.0%

Source: Capmas

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ISRAEL

Blue and White remains biggest party, Netanyahu to win direct PM election – poll

Israel | Nov 11, 06:57

- **to win narrowly in direct PM elections**

A new poll for the Channel 13 has found that Blue and White has remained the largest party, able to garner support equal to gaining 35 seats in the Knesset, one more than the rightist Likud. There is no major change in the rating of other parties either pointing that if another election is held, the result would be again inconclusive. As for third elections, the majority of respondents or 41% would blame Netanyahu in case of new elections and other 31% would blame Avigdor Lieberman, whose party has become a kingmaker after both April and September elections, and only 7% will blame Blue and White leader Benny Gantz.

The poll also asked who is more preferred in direct PM elections and the results were similar to other two surveys from last week. The respondents would elect Netanyahu for PM with 40% of the votes but Benny Gantz comes close with 37%.

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Lieberman might support Netanyahu or Gantz if any of them thwart unity cabinet

Israel | Nov 11, 06:48

- **Lieberman was until now supporting only unity cabinet with Likud, Blue and White**
- **Move aims to avoid going to third election**

Avigdor Lieberman, the leader of the Yisrael Beiteinu which has become the kingmaker after the two general elections held this year, said over the weekend that he would support either Benjamin Netanyahu (Likud) or Benny Gantz (Blue and White) to become PM if the other thwarts a unity government by not supporting the outline presented by President Reuven Rivlin, local media reported. This means that Lieberman will support Netanyahu if Gantz continues not to agree Netanyahu to be PM first. On the other hand, if Netanyahu keeps insisting to negotiate with the other rightist parties as a bloc, Lieberman will back Gantz for premier. Lieberman explained that he took this decision to avoid a third election in less than a year.

Recall that Lieberman was insisting until now that he would support only a unity government comprising his party, Likud and Blue and White. His unwillingness to compromise on issues of religion and state were seen as a catalyst for the fall of the last government and the major impediment for Netanyahu not to be able to form a coalition government after the elections in April and September. Thus, Lieberman would have to find a way to scale down his demands related to religious issues, mainly the drafting of Haredi into the army, if he is to support a government led by Netanyahu. We think that this is a more likely scenario though than sitting in government with Gantz, which has to be supported by the Arab parties. There were already statements from Arab lawmakers that they would not support such a government even if seeking to unseat Netanyahu, labelling Lieberman a 'racist'.

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Cabinet approves Bennett’s appointment as defence minister

Israel | Nov 11, 06:21

- **Bennett to step down if new defence minister appointed in new government**

The cabinet approved in its regular meeting on Sunday the appointment of Naftali Bennett as defence minister. We remind that the appointment was announced on Friday. Bennett agreed to step down if a new defence minister is appointed after a new government is formed. We remind also that until now PM Benjamin Netanyahu was holding the portfolio since end 2017 when Avigdor Lieberman left the post and his party left the government, being one of the catalysts for snap elections. It is widely believed that Netanyahu is seeking to consolidate support for his party and prevent dissolution of the rightist-Haredi bloc. The rightist Hayamin Hehadash party, which Bennett co-leads, was the only not to sign an agreement granting support for Netanyahu explaining that there is no need for such.

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PRESS Press Mood of the Day

Israel | Nov 11, 06:13

Lieberman resets political clock, reducing likelihood of 3rd election (Haaretz)

In appointing Bennett as defence chief, Netanyahu only has one thing on his mind (Haaretz)

Replacing Netanyahu critical, but not by working with a 'racist', Arab lawmakers say (Haaretz)

Another Israeli election, unity or a palace coup: What could follow Lieberman's ultimatum (Haaretz)

Half of Israelis think Diaspora Jews should be taken into account in policy decisions (Jerusalem Post)

Poll: Blue and White biggest party, Netanyahu wins in direct election (Jerusalem Post)

What will Naftali Bennett do as defence minister? - analyses (Jerusalem Post)

[Competition chief] Halperin will decide whether credit companies will be allowed to market insurance (Calcalist)

By 2020 we will pay less for electricity? The tariff update hearing - within a few weeks (Calcalist)

The solution to wage and poverty gaps: Voucher distribution for vocational training (TheMarker)

Why is the mayor of Jerusalem hovering over the corruption case in the local authorities? (TheMarker)

It's not just the 4000 case, Netanyahu was almost in control of Walla (TheMarker)

Tesla on the way to activity in Israel: Seeking local CEO (TheMarker)

The heads of major law firms against Justice Minister Amir Ohana (Globes)

Netanyahu: "The Ultimatum is for Likud. Lieberman seeks left government" (Globes)

Assessment: Lieberman has not yet decided, but tends to favor minority government with the support of Arab MKs (Israel Hayom)

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Netanyahu reportedly authorises interior minister to advance PM direct elections

Israel | Nov 08, 15:06

- **Bennett returns to cabinet as defence minister**
- **Likud and Hayamin Hehadash to serve on joint list in current Knesset**

Outgoing PM Benjamin Netanyahu has reportedly authorised interior minister Aryeh Deri to go ahead with the launching of direct PM elections between Netanyahu and Blue and White leader Benny Gantz, local media reported on Friday. The possibility for such an initiative was announced earlier this week but Netanyahu reportedly disagreed and continued declaring he was for a unity government. There were two polls conducted, which showed Netanyahu is leading by a narrow margin of 3-4pps ahead of Gantz. We also note that Netanyahu was the most preferred for PM ahead of the Sep 17 elections, and in that polls his lead was higher at some 10pps or even more.

Other media reports indicated that the co-leader of Hayamin Hehadash Naftali Bennett has agreed to take the post of defence minister in the current government and to resign if another person is appointed to the position once a new cabinet is formed. We remind that Bennett was education minister in the incumbent government until July when he was dismissed after Hayamin Hehadash failed to enter the Knesset in the April election. Bennett's appointment should be approved in the next cabinet meeting. Also, Netanyahu and Bennett agreed Likud and Hayamin Hehadash to form a joint list and act as a single party in the current Knesset. Thus, Likud would become the largest Knesset faction counting on 35 seats against 32 for Blue and White. According to political sources, Netanyahu is likely expecting the two-parties union to take votes from other rightist parties or Hayamin Hehadash to join forces with the Blue and White.

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KUWAIT

CEO of local bourse expects USD 3bn passive inflow in 2020 on MSCI EM inclusion

Kuwait | Nov 08, 09:51

- **Kuwait will be included in MSCI EM equity index in June 2020 with 0.5% weight**

The CEO of Boursa Kuwait, Mohammad Al Osaimi expects USD 3bn passive inflows when the country is included in the MSCI emerging market equity index in June 2020. Kuwait was upgraded from frontier market and nine blue chip companies will join the index with 0.5% weight. The upgrade is expected to boost liquidity, improve corporate governance and earnings growth in the equity market. The stock exchange's main equity index has risen 17% since the start of the year, making it the top performer in MENA region. Osaimi further said he expects the IPO of Boursa Kuwait to oversubscribed. The IPO was launched in October and will end on Dec 1. It follows the sale of 44% of the bourse to a consortium of local and foreign investors earlier this year.

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SAUDI ARABIA

Aramco to start bidding for shares on Nov 17, bidding ends on Dec 4

Saudi Arabia | Nov 11, 06:51

- **IPO prospectus did not reveal size of stake to be floated nor price range**
- **Aramco lists risks including terrorist attacks, international trade litigation, disputes or agreements**

Saudi Aramco will start the bidding for shares on Nov 17 and will close it on Dec 4 for institutional investors and on Nov 28 for retail and individual investors, according to the IPO Prospectus issued on Sunday. Analysts think the long-delayed IPO would value Saudi Aramco at around USD 1.5tn. Investors hoped the prospectus will throw some light on the size of the stake to be floated. The document however does not reveal that, nor does it specify price range. It said Aramco would allocate up to 0.5% of the stock to individual investors. Overall, the prospectus revealed few details, and listed potential risks related to the company's operations (namely volatile oil market), regulatory environment and the IPO. Saudi Aramco's list of risks include terrorist attacks, international trade litigation, disputes or agreements, regulatory changes, political and social instability and unrest in the MENA region.

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Chinese entities reportedly plan USD 5-10bn investment in Aramco’s IPO

Saudi Arabia | Nov 08, 07:56

- **China yet to make final decision**
- **Saudi Arabia is reportedly seeking commitment from its wealthiest citizens for investment in Aramco's IPO**

The Silk Road fund, the state oil company Sinopec and the sovereign wealth fund China Investment Corp are reportedly considering investing USD 5-10bn in Saudi Aramco's IPO, unnamed sources closed to the matter told Bloomberg earlier this week. No final decision has been made yet, and the size of the investment will be decided by the Chinese government.

In related news, Saudi Arabia is reportedly negotiating commitments from its wealthiest citizens to buy stock in the Aramco IPO, unnamed sources told Trade Arabia. Among the names mentioned are members of the Olayan family, Prince Alwaleed Bin Talal as well as lower-profile tycoons in the oil sector.

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TUNISIA

Ennahda’s potential coalition partners will not support PM from its ranks

Tunisia | Nov 08, 09:27

- **Insist on a consensus figure with economic background**
- **Party has two months to form a govt, which is difficult in fragmented parliament**

Potential coalition partners of the Islamist Ennahda will not support prime minister from its ranks, the parties have said. Ennahda, being the largest party in the country's fragmented parliament with 52 out 217 seats, is expected to name a prime minister and to try to establish a coalition government. Ennahda maintains the PM must be one of its leaders since it was the party, which won the election. The party has 2 months to form a government. If it fails, the president can ask another party (such as Qalb Tounes) to try to consolidate support for a government. Otherwise, a new election has to be called.

Ennahda's potential coalition partners include Attayar (22 seats), Al Karama (21 seats), Achaab's Movement (16 seats) and Tahya Tounes (14 seats). Of these only Al Karama, also an Islamist party, has said it could consider joining an Ennadha-led government, while the other three have rejected such possibility. Attayar officials said the new PM should be a consensus figure from outside Ennadha's ranks, while Thaya Tounes urged for a government of national interest. Both parties also urge for a focus on economic reforms, with Attayar therefore also suggesting the country's next PM should have an economic background.

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UNITED ARAB EMIRATES

Foreign investors buy USD 142.5mn shares on DFM Nov 3 - 7

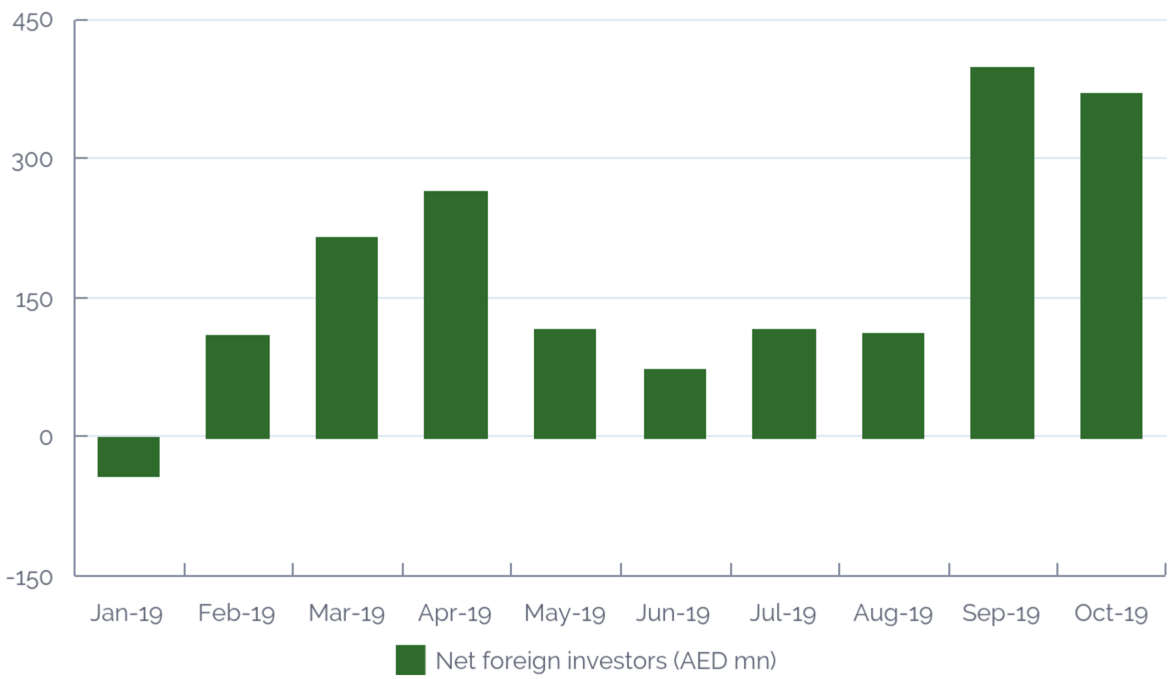
United Arab Emirates | Nov 09, 09:24

- **Foreign investors purchased shares worth USD 6bn in Jan - Oct**

Foreign investors purchased shares worth AED 523.2mn (USD 142.5mn) on the Dubai Financial Market (DFM) during the week ended November 7, and sold shares worth AED 507.8mn, according to weekly DFM data. Consequently, net foreign investment was an inflow of AED 15.4mn.

Net foreign investment on DFM (AED mn, 3m ma)

Source | DFM, own calculations



The total value of equity deals was AED 1.03bn during the review week. Thus, the value of shares bought and sold by foreign investors accounted for 52.6% and 51.1% of the total value of shares traded during the week, respectively. Institutional investors bought and sold shares accounting for 52.4% and 47% of the total value of equity purchases during the week, with individual investors accounting for the balance.

During the first ten months of 2019, foreign investors purchased shares worth AED 22bn (USD 6bn) and sold shares worth AED 19.8bn. Consequently, net foreign investment was an inflow of AED 2.3bn. By comparison, net foreign investment during the first ten months of 2018 was an outflow of AED 1.2bn.

Meanwhile, the three-month moving average (including data from October) shows that foreign investors purchased shares worth AED 2.1bn (USD 578mn) and sold AED 1.8bn, meaning net foreign investment was an inflow of AED 370mn.

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GDP growth to pick up to 3% in 2020 on fiscal stimulus, Expo 2020 – IMF

United Arab Emirates | Nov 08, 07:37

- **Sustaining robust non-oil growth remains key priority**
- **UAE should allow 100% foreign ownership in selected sectors to boost FDIs, IMF recommends**

GDP growth is recovering and may even pick up to 3% next year from 1% in 2019, driven by fiscal stimulus and Expo 2020, the IMF said at the conclusion of an Article IV mission. The IMF said sustaining non-oil growth after 2020 remains a priority, especially given the expectations for reduced global demand for oil. In order to maintain healthy growth of the economy, the IMF recommends two key policies - boosting non-oil growth, especially through SMEs, and strengthening fiscal savings. In order to boost FDI inflows, the UAE should allow 100% foreign ownership in selected sectors, the IMF recommended. The IMF commended the government for taking steps in implementing a comprehensive national SME development strategy. The IMF added the government needs to scale down its involvement in nonstrategic sectors of the economy, which will open room for more competition and private sector led growth. On the fiscal side, the IMF said a fiscal framework is needed which focuses on savings to ensure both sufficient saving of oil wealth for future generations and smoothing of short-term fluctuations.

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ANGOLA

Govt to announce another oil blocks tender in January 2020

Angola | Nov 08, 07:46

- **Country plans to tender 55 oil blocks in next 6 years with next licensing rounds planned for 2021, 2023 and 2025**
- **Ongoing tender of 10 oil blocks in Namibe and Benguela should be completed by April 2020**

The Angolan govt plans to launch another oil blocks tender in 2020, top official from the National Agency of Petroleum, Gas and Biofuels was cited saying. The official announcement will be made in January, submission and opening of the proposals should be around July, and contracts with winning bidders may be signed in December, ANGP said. The tender will cover all onshore blocks, according to the reports. The country further plans to hold licensing rounds in 2021, 2023 and 2025. The ongoing tender for 9 oil blocks in Namibe and 1 in Benguela should be finalized by April, as planned, ANGP said.

We recall this year's tender is the country's first in close to 8 years. The govt has been restructuring the oil sector to address problems, that led to gradual decline in oil production from a peak of 1.9mn bpd in 2008 to below 1.5mn bpd due to maturing fields and little investment. ANGP itself was established earlier this year as part of the re-organization and should oversee the tendering of a total of 55 oil blocks between 2019-25.

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GABON

President Bongo makes another mini cabinet reshuffle

Gabon | Nov 08, 16:24

- **Changes see demotion of former presidential chief of staff, exit of his close aide**

President Ali Bongo made another minor cabinet reshuffle with the main change being that Brice Laccruche Alihanga was moved from his position as president's chief of staff to a newly created ministry, in charge of monitoring the human investment strategy and sustainable development objectives. The reassignment is seen as demotion for Laccruche Alihanga, moreover as the changes also include the dismissal of his close ally Justin Ndoundangoye from his position as minister of transport, equipment, infrastructure and public works. Another one of Laccruche Alihanga's aides, Emmanuel Norbert Tony Ondo Mba, retained his ministerial post but his portfolio was reduced to just energy and hydraulic resources, excluding mines (or valorization and industrialization of mineral resources). Laccruche Alihanga was replaced by the former deputy general manager of Olam, Théophile Ogandaga, while Ndoundangoye was replaced by new entrant Hugues Mbadinga Madiya.

Among the other changes was the replacement of Arsene Edouard Nkoghe as minister-delegate to the minister of interior and justice by Christian Menvie M'obame, and the entry of Gisèle Akoghet as Minister-delegate to the minister of employment, public service, labour and vocational training in charge of social dialogue, which is a newly created position. We also note that the mines portfolio was added to the ministry of oil, gas and hydrocarbons headed by Noel Mboumba.

While it was not immediately clear what the reason behind the changes was, it has been reported that Bongo does not view positively the political ambitions of Laccruche Alihanga, who heads the political association AJEV.

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GHANA

Gold Fields reports 4.9% y/y growth in gold production in Q3

Ghana | Nov 08, 16:59

- **Cumulative production grows by 17% in Jan-Sep thanks to addition of Asanko asset**

Gold Fields released its Q3 financial results showing that its gold production in Ghana increased by 4.9% y/y to 205,100 ounces. In q/q terms, production decreased by 5.4% as it was impacted by the lower feed grade at the Damang and Tarkwa projects. At the same time, production from the Asanko project increased slightly in Q3. In Jan-Sep, Gold Fields' gold production in Ghana rose by 17.0% y/y to 642,900 ounces which was thanks to the addition of Asanko to the company's assets following a joint venture agreement signed in March 2018. Gold Fields owns 90% of the Damang and Tarkwa projects and 45% of the Asanko one.

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Parliament approves USD 600mn cocoa loan from AfDB

Ghana | Nov 08, 09:28

- **Funds to be used to invest in processing, fight against diseases, farm rehabilitation and new**

warehouse capacity
- **Programme aims to boost cocoa output to 1.5mn tonnes by 2027**

The parliament expectedly approved the USD 600mn loan agreement with AfDB that will finance a number of initiatives in the cocoa sector under the Cocoa Productivity Enhancement Programme (CPEP). The details provided earlier by the government revealed that of the borrowed funds, USD 200mn will be invested in cocoa processing facilities, USD 140.2mn will be used to fight the swollen shoot disease on cocoa plantations, USD 82.7mn will go for rehabilitation of moribund farms, USD 61.1mn will be used to finance hand pollination techniques, USD 50mn for expansion of warehouse capacity, USD 40.6mn for cocoa farm irrigation, USD 10.6mn to build farmer database and USD 7.5mn to promote consumption of cocoa products. The CPEP will be implemented over a period of seven years, with the ultimate target to boost cocoa production to 1.5mn tonnes by 2027 from projected 850,000 tonnes in 2019/20.

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IVORY COAST

Gbagbo aide and former youth leader Ble Goude faces trial in Abidjan

Ivory Coast | Nov 08, 09:22

- **Ble Goude was acquitted of war crimes in The Hague earlier this year but still faces other charges at home**
- **Opposition claims authorities seek to prevent Ble Goude and Gbagbo from returning home ahead of 2020 elections**

Former youth leader and close aide to ex-president Laurent Gbagbo, Charles Ble Goude, will face charges in Ivory Coast over his role in the 2010-2011 post-election violence in Ivory Coast, the prosecutor general at the Court of Appeal in Abidjan, Marie-Leonard Lebry, said. Ble Goude was earlier this year acquitted of war crimes by the ICC in The Hague but is now staying in the Netherlands during the appeals process. Leonard Lebry warned that he would still face allegations of torture, murder and rape in Abidjan, noting that the prosecution in Ivory Coast was wider and covered different events that the ICC one.

The opposition has claimed that the authorities want to prevent Gbagbo, who was also acquitted together with Ble Goude, from returning to the country ahead of the 2020 elections. Gbagbio is current in Belgium where he waits the appeals process. Gbagbo has been a key political figure in his country and has seemingly joined forces with other opposition leaders such as Henri Konan Bedie (PDCI) and Guillaume Soro to try to remove Ouattara and RDR from power in 2020.

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KENYA

Odinga’s candidate declared winner in Kibra by-election

Kenya | Nov 08, 08:48

- **Says he is the first handshake MP**

- **by-election was considered test of current political alignment**
- **ruling party candidate was said to be linked to VP Ruto**

Raila Odinga's ODM party candidate Imran Okoth was declared the winner in the by-election in Kibra, a constituency in the capital Nairobi, which took place on 7 November. The voting day passed peacefully though voter turned out remained low, at about 35% of the 120,000 registered voters, and there were reports of voter bribery and intimidation. Okoth gathered 24,600 votes of the 42,000 votes cast, followed by the ruling party candidate Macdonald Mariga with 11,000 votes. Mariga officially conceded defeat early on in the process when only about a fifth of the polling stations had announced results.

We recall the seat, traditionally held by Odinga's ODM party, fell vacant after the death of MP Ken Okoth in July. Following flawed primaries ODM picked late Okoth's brother, Imran, to run on its ticket. The ruling party on the other hand chose former football player Mariga, said to be linked to vice president Ruto. Though president Kenyatta attended the rally that announced Mariga's candidature, he since stayed away from the campaign with Jubilee's decision to field a candidate already seen as going against the handshake pact, in which the two sides had allegedly agreed to refrain from contesting each other in by-elections. In addition, some ruling party officials expressed support for ODM's candidate. The outcome of the poll was thus seen as a test of the ongoing realignments on the political scene. Following the announcement of the results Imran Okoth proclaimed himself as the first handshake MP.

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NIGERIA

Federal government pay NGN 157bn tax arrears to state governments

Nigeria | Nov 08, 09:12

- **Amount represents outstanding liabilities of PAYE by federal MDAs to states from 2002 to 2016**

The federal government paid NGN 157bn Pay-As-You-Earn (PAYE) tax liabilities owed by federal ministries, departments and agencies to the state governments, the head of the inland revenue agency FIRS, Babatunde Fowler said on Thursday. Fowler said the backlog was accumulated from 2002 to 2016. Fowler was optimistic the remittance to states would encourage state governments to reciprocate and promptly remit all withholding taxes and VAT to the federation account.

State governments and state-controlled entities (local governments) collect and control all revenues generated from personal income tax, property tax, road tax, radio and television tax among others. On average, however, the states' internally generated revenues remain very weak and the states depend on FAAC allocations. Some states had resorted to issuing debt and taking bank loans in order to cover the shortfall from weaker FAAC allocations and poor IGRs. The total debt stock of the states has jumped to NGN 5.15tn as of end-2018 from NGN 1.79tn in 2012, which has outpaced the growth in IGR over the period. Clearly, the states must try to rein in spending, slow debt accumulation and focus more on improving internally generated revenue in order to achieve fiscal sustainability.

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Bill seeking VAT rate hike scales second reading in Senate

Nigeria | Nov 08, 08:37

- **VAT rate to be increased to 7.5% from 5% as Nigeria struggles to increase non-oil revenue**
- **Senators complain no details were given to them regarding the bill**

The bill seeking to make changes in the tax and fiscal law, including VAT rate hike to 7.5% from 5.0% at present, scaled second reading in Senate on Thursday. Interestingly, the Senators complained no details were given to them regarding the changes, but the passed the bill anyway. The head of the Senate, Ahmad Lawan said the details would be revealed during the committee considerations. Nigeria has been struggling to boost non-oil revenues as the wage bill is set to increase and debt service costs remain high. The 2.5pps rate hike however is unlikely to make a significant difference, especially given the low rate of compliance (below 20%).

Some details on the new VAT rate were revealed during the 2020 budget presentation in October. Back then, President Buhari said the budget would raise the threshold for VAT registration to NGN 25mn in turnover per year, so that the revenue authorities could focus their compliance efforts on larger businesses thereby bringing relief for MSMEs. The VAT Act already exempts pharmaceuticals, educational items, and basic commodities, and the list of exemptions is expanded to include the following:

- Brown and white bread;
- Cereals including maize, rice, wheat, millet, barley and sorghum;
- Fish of all kinds;
- Flour and starch meals;
- Fruits, nuts, pulses and vegetables of various kinds;
- Roots such as yam, cocoyam, sweet and Irish potatoes;
- Meat and poultry products including eggs;
- Milk;
- Salt and herbs of various kinds; and
- Natural water and table water.

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SENEGAL

HCPI inflation edges up to 1.3% y/y in October

Senegal | Nov 08, 09:59

- **Largely reflecting seasonal fluctuations in fresh product prices, though other components exert upward pressure as well**

Senegal's HCPI inflation edged up to 1.3% y/y in October from 0.7% in September, according to the latest release of the statistics office ANSD. The major contributor to the increase were seasonal fluctuations in the price of fresh products, which rose by 1.7% y/y in October after contracting in the preceding two months. Consequently food price inflation printed at 0.7% y/y in October, up from 0.1% y/y in September. The rise in food inflation was coupled with upward pressure from other components of the index, particularly clothing and footwear, communication, and - to a lesser extent - utility and transport prices. The core inflation rate (excluding fresh products and energy) stood at 1.1% y/y in the month under review, marginally up from 1.0% in the preceding month. Senegal's HCPI is compiled according to a methodology harmonised for all WAEMU countries. The index was earlier this year rebased to 2014 from 2008, and expanded to include data from the whole country, rather than only from the capital Dakar as was the case previously, while the national CPI publication seems to have been discontinued. The authorities see inflation increasing slightly in 2019 but remaining below the union's 3% threshold.

HCPI inflation, y/y

		May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
OVERALL	**100%**	**1.5%**	**2.1%**	**1.1%**	**1.3%**	**0.7%**	**1.3%**
Food and Non-Alcoholic Beverages	50%	2.1%	3.4%	1.2%	0.8%	0.1%	0.7%
Clothing and Footwear	7%	-0.2%	-0.2%	0.3%	1.3%	0.9%	1.0%
Housing, Water, Electricity, Gas and other Fuels	12%	0.4%	0.1%	0.2%	0.2%	0.0%	0.2%
Transport	6%	0.4%	0.6%	1.8%	1.9%	1.9%	1.9%
CORE (w/o fresh products & energy)	**69%**	**1.1%**	**1.4%**	**1.1%**	**1.1%**	**1.0%**	**1.1%**
Fresh products	25%	3.0%	5.8%	1.4%	-1.9%	-3.4%	1.7%
Energy	6%	-0.2%	-0.1%	1.5%	1.2%	1.0%	1.0%

Source: ANSD

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New oil exploration licensing process to ensure transparency – oil company

Senegal | Nov 08, 09:54

- **Govt recently announced plans to hold licensing round for 12 deep water blocks next year**
- **Major oil and gas discoveries were made in recent years with country expected to start gas production by 2022**
- **Meanwhile president Sall's brother has been alleged in illegally benefiting from previous oil deals**

The authorities will ensure full transparency in the new oil exploration licensing process, the state oil company Petrosen said cited by the media. The company pledged to avoid direct negotiations, which have in the past been seen as a possibility for corruption, though it noted this was not the case. The latter comment seems to refer to the ongoing investigation of previous deals between the state and oil explorers, particularly the Petro-Tim saga, in which president Sall's brother, Aliou Sall, has been alleged in tax avoidance and benefiting from bribes. While the allegations date back to 2015-16, following a BBC documentary of this June, the affair was ultimately brought to the courts.

The transparency pledge follows the recent launch of a marketing campaign on the planned licensing round for the exploration of 12 deep water oil blocks. When making the announcement at the annual Africa Oil Week conference Petrosen said it expects to conclude the campaign end-January 2020 and interested companies will be given 6 months till end-July 2020 to purchase technical data packages, assess the potential of the blocks they are interested in, and submit their offers to the government. The government is then to establish a special committee that will proceed with the opening and evaluation of the bids. We recall major oil and gas discoveries were made in the country in recent years, with the country expected to start producing gas as soon as 2022.

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SOUTH AFRICA

PRESS Press Mood of the Day

South Africa | Nov 11, 06:53

Plan for low rainfall and hot weather: Weather SA (Times Live)

Tipped as new Eskom CEO, Calitz would face SA's worst job (Times Live)

Seriti coal deal a game changer (Times Live)

Sars tries to keep public protector away from Jacob Zuma's tax returns (www.businesslive.co.za)

Steinhoff may issue shares to settle multibillion-rand lawsuits (www.businesslive.co.za)

Scrapping of unabridged birth certificate requirement to boost tourism, says minister (www.businesslive.co.za)

'Disturbing' failure by employers to pay pension fund contributions - report (www.fin24.com)

Ferial Haffajee: Is the business investment strike finally over? (www.fin24.com)

VBS liquidator accepts claims from SARB, PIC and a few municipalities (www.fin24.com)

Eskom should pay fair price for coal, says deputy president (www.fin24.com)

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T-bill yields mostly ease at this week’s primary auction

South Africa | Nov 08, 11:05

- **Yield on 91-day bill is only one to stay flat at 7.1%**
- **Treasury sells T-bill in line with target as demand increases**

T-bill yields mostly declined at the primary auction on Friday, according to results released by the central bank. The yield on the 91-day T-bill was the only one to stay flat at 7.1% while the yields on the 182-day, 273-day and 364-day maturities decreased by between 3bps and 5bps to 7.36%, 7.53% and 7.6%, respectively. The Treasury sold a total of ZAR 11,020mn T-bills, in line with the target as the demand increased w/w.

We recall that the Treasury opted to accept T-bill below the target last week, despite the sufficient demand, which was probably due to its unwillingness to accept higher yields on the short end given the higher event risk during the week (the release of the MTBPS on Wednesday and Moody's rating review on Friday).

Treasury bill auction results

	Nov 08				Nov 01			
	91-day	**182-day**	**273-day**	**364-day**	**91-day**	**182-day**	**273-day**	**364-day**
Offer, ZAR mn	2,400	2,445	2,950	3,225	2,400	2,445	2,950	3,225
Bid, ZAR mn	4,138	4,811	4,660	6,649	3029	3217	3525	5305
Allotted, ZAR mn	2,400	2,445	2,950	3,225	2,019	1,717	2,950	3,225

Average yield, %	7.10	7.36	7.53	7.60	7.09	7.41	7.56	7.63
Bid-to-cover	1.72	1.97	1.58	2.06	1.50	1.87	1.19	1.64
Yield change	0.01	-0.05	-0.03	-0.03	0.07	0.08	0.12	0.14

Source: SARB

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Eskom implements new load-shedding

South Africa | Nov 08, 08:54

- **Seven-hour power cuts follow loss of three generating units**
- **Emergency response command to meet on Friday to decide on load-shedding over weekend**
- **Power supply disruptions are key factor for weak business confidence**

Power utility Eskom announced stage 2 load-shedding from 22:00 on Thursday (Nov 7) until 5:00 on Friday (Nov 8). In the statement, Eskom explained that the power cuts were necessitated by the loss of three additional generating units which forced the company to use emergency reserves to meet the demand throughout the day on Thursday. This depleted the reserves and the power cuts were needed to allow for their replenishment. The company said early this morning that the situation had improved a bit with two of three generating units now back into operation. The likelihood of load-shedding during the weekend will be announced after a meeting of the emergency response command on Friday afternoon. The power cuts will further worsen the business confidence which eased to 91.7 points in October.

In related news, public enterprises minister Pravin Gordhan said in parliament that neighbouring countries owed Eskom ZAR 632mn for electricity supplies. The biggest share of this, ZAR 322mn, is owed by the Zimbabwe Electricity Supply Authority, while the Mozambican utility EDM owes ZAR 221mn and Zambia's Zesco owes ZAR 89mn.

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ZAMBIA

Government sells T-bills above target at this week’s auction

Zambia | Nov 08, 09:10

- **Yields remain flat amid strong increase in demand**
- **Yields have generally been on rise on weak investor confidence, low liquidity**

The government sold T-bills above target at the primary auction held on Nov 7 as demand increased markedly. The total bids submitted (at par value) rose by 263% from the preceding auction two weeks earlier to ZMW 1,462mn and of them ZMW 1,397mn was accepted. At The amount sold at cost was ZMW 1,140mn, which is well above the ZMW 950mn target (the treasury sets the target at cost not par value). The yields remained unchanged across the board ranging from 16.5% for the 91-day T-bill to 27.5% for the 364-day T-bill.

Treasury yields have generally been on the rise over the past year or so reflecting the low liquidity, increased borrowing requirements and weak investor confidence amid continued delays in IMF programme talks, fiscal slippage and high debt levels, and subsequent rating downgrades. The next T-bill auction offering ZMW 950mn will be held on Nov 21.

T-bill auction results

	Nov 07			
	91-day	182-day	273-day	364-day
Offer (cost, ZMW mn)	75.0	160.0	240.0	475.0
Bids (par value, ZMW mn)	64.8	116.4	375.9	904.8
Allocated (par value, ZMW mn)	64.8	116.4	375.9	839.4
Allocated (cost, ZMW mn)	62.2	106.3	312.8	658.8
Cut-off yield, %	16.5002	19.1499	26.9999	27.5001
Weighted ave discount rate	15.8482	17.4807	22.4635	21.5814

Source: Bank of Zambia

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INDIA

BJP declines to form govt in Maharashtra, Governor ask Sena to stake claim

India | Nov 11, 06:45

- **The governor has given Shiv Sena time until Monday evening to prove its ability to form a government**
- **We see a high probability of the imposition of President's rule in Maharashtra as the Shiv Sena will have a tough time securing the required number of seats**

The Bharatiya Janata Party (BJP) declined to form government in Maharashtra on Sunday after Governor Bhagat Singh Koshyari invited the party to show its 'willingness and ability' to form the government in the state, a development that has inched the state closer to the President's rule, media reported. Consequently, following the procedure, the governor asked the Shiv Sena, the second-largest party, to indicate its 'willingness and ability' to stake claim to power.

The BJP and its decades-old ally Shiv Sena together won 161 seats in the 288-member Maharashtra assembly, well above the halfway mark of 145. However, soon after election results were announced on Oct 24 differences arose between the allies with the BJP refusing to accept Shiv Sena's persistent demand for rotational chief ministership. Shiv Sena did not hold talks with the BJP even once regarding government formation.

We do not completely rule out President's rule in Maharashtra as Shiv Sena will have a tough time securing the required number of seats to form the government. The governor has given Shiv Sena time until the evening to prove its ability to form a government. The Congress is currently holding consultations but has so far remained wary of making concrete comments, although its Maharashtra leaders have shown intent for an alliance. The National Congress Party (NCP) has also conveyed mixed signals on government formation with Shiv Sena.

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Congress blames BJP for economic slowdown on 3rd anniversary of demonetization

India | Nov 11, 06:33

- **The Modi government's demonetization policy failed to achieve most of its intended objectives while disrupting India's broader economy**

The Congress on Friday lambasted in a series of tweets the Modi government over its 2016 move of demonetization with former party president Rahul Gandhi terming it a terror attack that devastated the country's economy, wiped out SMEs and increased unemployment. The third anniversary of the government's demonetization policy coincided with Moody's decision to downgrade India's outlook to negative from stable due to the government's inability to deal with the country's economic slowdown.

On Nov 8, 2016, PM Modi announced that INR 500 and INR 1,000 currency notes would be demonetized with the aim to remove black money from the economy, combat domestic terrorism, expand the tax base and shift to a cashless economy. While the negative impact of the demonetization policy is hard to ascertain, it indeed played a significant part in the overall economic slowdown of the country. The policy badly hit the SMEs since the sector deals largely in cash, thus, the withdrawal of currency eased the overall pace of job creation, which decelerated the private consumption growth. Consequently, the economic growth moderated from 8.2% y/y in FY17 to 7.2% y/y and 6.8% y/y in FY18 and FY19, respectively. The growth is projected to slow down further in the current fiscal year.

The demonetization policy also failed to achieve its intended objectives. Domestic terrorism continues to pose a threat and the economy did not shift to the digital economy as the overall currency in circulation reached INR 22.3tn in Oct 2019 compared with INR 17.6tn in Oct 2016. However, the number of total taxpayers did rise by 37.7% to 84.5mn from FY16 to FY19, according to the Central Board of Direct Taxes.

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INDONESIA

KEY STAT Current account deficit falls by 9.6% y/y to USD 8.5bn in Q3

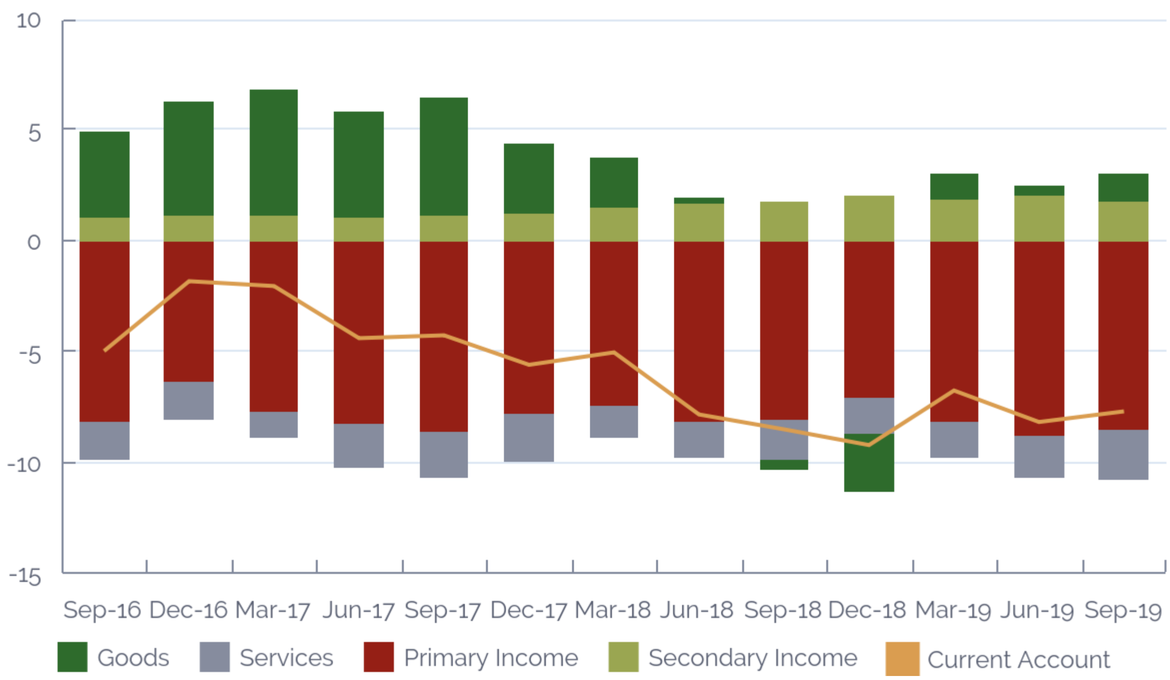
Indonesia | Nov 08, 14:50

- **Import decline outpaced the export decline as oil prices fell y/y**
- **CA deficit increased in Jan-Sep due to higher primary income deficit and services trade deficit**
- **CA deficit accounted for 8.1% of GDP in Jan-Sep**

The current account deficit fell by 9.6% y/y to USD 8.5bn in Q3, according to Bank Indonesia data. The decline came almost solely on the back of the merchandise trade balance, which turned to a surplus in Q3 compared to a small deficit a year ago. The improvement came solely on the back of the sharp import decline, which far outpaced the export contraction during the quarter, on the back of the declining oil and gas prices. In addition, the secondary income surplus rose marginally as well. On the other hand, the services trade deficit expanded at a double-digit pace, while the primary income deficit increased as well. The CA deficit accounted for 2.7% of GDP in Q3, down from 3.2% a year ago.

Balance of payments (USD bn)

Source | Bank Indonesia



In cumulative terms, dynamics were different as the current account deficit expanded by 5.9% y/y to USD 22.5bn on the back of higher primary income deficit and services trade deficit. On the other hand, the merchandise trade deficit contracted in the period as again the import decline far outpaced the export contraction. The cumulative current account deficit accounted for 8.1% of GDP in Jan-Sep.

On the financial side, FDI inflows fell by 20.6% y/y in Q3, but residents' investment abroad declined at a rapid pace as well. As a result, the net FDI inflows actually increased slightly in Q3. Portfolio investments posted EUR 4.8bn net inflows, which were partially offset by net other investment outflows. In Jan-Sep, FDI inflows actually increased at a double-digit pace, while residents' investment abroad fell by more than a third.

Balance of Payments (USD mn)

	Q3 2019	Q3 2018	% y/y	Jan-Sep 2019	Jan-Sep 2018	% y/y
I. Current Account	**-7,665.3**	**-8,476.7**	**-9.6%**	**-22,544.5**	**-21,297.1**	**5.9%**
A. Goods	1,255.2	-454.5	-376.2%	2,925.2	2,145.9	36.3%
Exports, fob	43,636.8	47,706.9	-8.5%	125,055.3	135,821.4	-7.9%
Imports, fob	-42,381.6	-48,161.4	-12.0%	-122,130.2	-133,675.5	-8.6%
B. Services	-2,273.7	-1,822.6	24.7%	-5,791.9	-4,869.7	18.9%
C. Primary Income	-8,428.2	-7,977.1	5.7%	-25,288.1	-23,427.0	7.9%
Inflows	1,635.8	1,763.3	-7.2%	5,376.5	6,331.6	-15.1%
Outflows	-10,063.9	-9,740.5	3.3%	-30,664.6	-29,758.6	3%
D. Secondary Income	1,781.4	1,777.6	0.2%	5,610.4	4,853.7	15.6%
Inflows	3,147.1	3,005.3	4.7%	9,354.9	8,999.0	4%
Outflows	-1,365.7	-1,227.7	11.2%	-3,744.5	-4,145.3	-9.7%
II. Capital Account	**1.4**	**7.7**	**-81.9%**	**6.8**	**68.0**	**-90.0%**

III. Financial Account	**7,628.0**	**3,979.7**	**91.7%**	**24,159.5**	**9,238.8**	**161.5%**
1. Direct Investment	4,801.0	4,500.5	6.7%	16,069.3	11,667.8	37.7%
Assets	-602.3	-2,306.3	-73.9%	-3,031.5	-4,686.7	-35.3%
Liabilities	5,403.3	6,806.8	-20.6%	19,100.8	16,354.5	16.8%
2. Portfolio Investment	4,807.0	-135.3	n.m.	14,570.0	-1,143.7	n.m.
3. Financial Derivatives	134.8	90.9	48.3%	218.5	163.1	34%
4. Other Investment	-2,114.8	-476.4	343.9%	-6,698.3	-1,448.4	362.5%
IV. Total (I + II + III)	-35.9	-4,489.3	-99.2%	1,621.8	-11,990.2	n.m.
V. Net Error and Omissions	**-9.9**	**103.0**	**n.m.**	**-1,225.0**	**-559.4**	**119%**
VI. Overall Balance (IV + V)	-45.9	-4,386.3	-99.0%	396.8	-12,549.7	n.m.
VII. Reserves and Related Items	45.9	4,386.3	-99.0%	-396.8	12,549.7	n.m.
- Current Account (% GDP)	**-2.7%**	**-3.2%**		**-8.1%**	**-8.1%**	

Source: Bank Indonesia

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Pertamina to increase green fuel production

Indonesia | Nov 08, 07:55

- **Pertamina to launch B30 biodiesel from Jan 1, 2020, save USD 3bn fx reserves**

The state oil company Pertamina will increase the production of green fuel, its processing director Budi Santoso Syarif said. The first step will be the launch of production of B30 biodiesel from Jan 1, 2020, which is a blend of 30% crude palm oil and 70% regular diesel, Syarif added. So far, Pertamina has been producing B20 biodiesel since 2016. The move will help Indonesia save about USD 3bn foreign exchange reserves due to lower oil imports, Syarif concluded.

We remind that Indonesia plans to increase the use of renewable energy's share in the total energy mix to 23% by 2025. In this regard, the government also announced strategies to streamline renewable energy development and cut the red tape for such projects. Apart from biodiesel, geothermal energy development is also high on the government's agenda.

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NasDem aims to challenge PDI-P, Gerindra in 2024 elections

Indonesia | Nov 08, 07:36

- **NasDem mull nominating Jakarta governor Anies Baswedan for Indonesian president**

NasDem, Indonesia's fourth largest political party, aims to challenge the two biggest parties PDI-P and Gerindra at the presidential election in 2024, The Jakarta Post reported. NasDem leader Surya Paloh has reportedly started probing for a coalition among opposition parties, while he mulls nominating Jakarta governor Anies Baswedan for president in a bid to topple Joko Widodo.

At present, NasDem is part of Joko Widodo's governing coalition, though the incumbent president managed to form quite a broad coalition and left only three opposition parties. At any rate, NasDem reportedly plans to follow

Jokowi's rise to power as he was previously also a Jakarta governor. This seems a far call at present, given the overwhelming support for Jokowi, in our view.

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International reserves rise by 1.9% m/m to USD 126.7bn at end-October

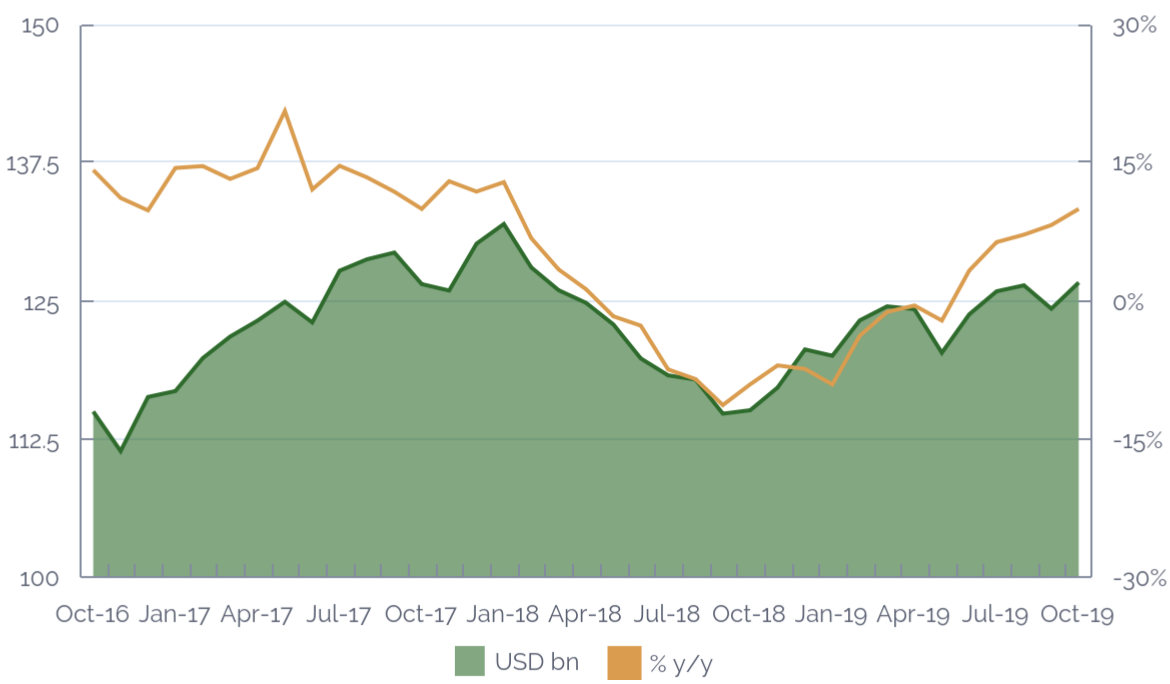
Indonesia | Nov 08, 07:29

- **International reserves rose by 10% y/y, boosted by bond issuance and rising gold holdings**

The international reserves increased by 1.9% m/m to USD 126.7bn at end-October, according to Bank Indonesia data. The increase came almost solely on the back of foreign currency reserves, though the value of gold holdings, SDRs and the IMF reserve position increased all marginally as well.

International reserves

Source | Bank Indonesia



In annual terms, the international reserves increased by 10.0% y/y, again almost solely on the back of foreign currency reserves, though the value of gold holdings increased by more than 20% y/y as well. The international reserves now cover 7.4 months of imports, well above the 3-month benchmark.

International reserves

	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
Official Reserve Assets, USD mn	**123,823.3**	**125,900.0**	**126,441.5**	**124,332.3**	**126,693.8**
Foreign Currency Reserves	117,031.4	119,076.9	119,322.7	117,351.1	119,664.5
IMF Reserves position in the fund	1,095.8	1,084.3	1,079.8	1,075.4	1,085.2
SDRs	1,551.1	1,534.8	1,527.9	1,521.7	1,535.5
Gold	3,541.5	3,600.6	3,889.2	3,762.2	3,783.6

Other Reserve Assets	603.5	603.5	621.9	621.9	625.0

Source: Bank Indonesia

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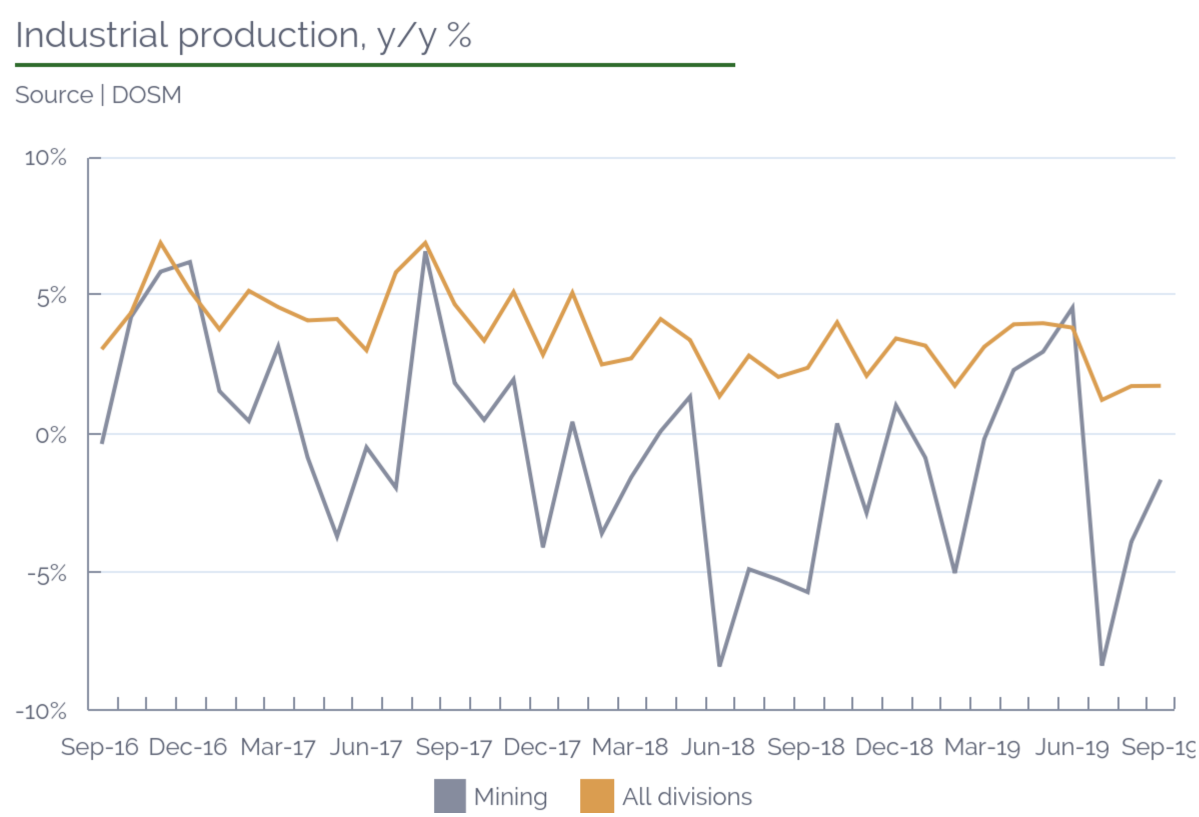
MALAYSIA

KEY STAT Industrial production growth remains unchanged at 1.7% y/y in September

Malaysia | Nov 11, 06:52

- **Manufacturing production growth slows down to 2.5% y/y**
- **Electrical and electronics products output suffers in particular**

Industrial production growth remained unchanged at 1.7% y/y in September, according to data released by DOSM. In seasonally, adjusted terms, industrial production fell by 0.3% m/m after rising by 0.8% m/m in August. On the positive side, the decline in mining output decelerated to 1.6% y/y from 3.9% y/y as crude petroleum production is ramped up again after a period of scheduled maintenance at one of the largest oil fields in Malaysia. However, manufacturing output growth slowed down to 2.5% y/y from 3.8% y/y in August which stems from softness in external demand. The electrical and electronics sector in particular weighed on growth, with output rising by just 0.8% y/y compared to 3.1% y/y in August. Thus, Malaysia is finally becoming affected by the downturn in the semiconductor market as other East Asian states.



The strongest performing sector was transport equipment where production rose by 6.3% y/y, the highest pace in 4 months. In addition, wood products and furniture output also rose quite strongly by 5.8% y/y. Elsewhere, food, beverages and tobacco production rose at a weaker pace by 1.5% y/y, as well as petroleum chemical and rubber products which rose by 2.1% y/y. In terms of the latter, the recent ban on the imports of Malaysian rubber gloves to the US for one company due to the alleged use of forced labour might be affecting production as manufacturing of rubber gloves rose by just 4.8% y/y (the slowest in 6 months). In terms of the food production, crude and refined palm oil production remained on the back foot falling by 0.6% y/y and 26.7% y/y, respectively. That being said, the recent deterioration in India-Malaysia relations could impact palm oil production significantly in the future as India is mulling over the introduction of additional levies on refined palm oil or could even straight up refrain from purchasing Malaysian palm oil.

Industrial production, y/y %

	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
All divisions	**4.0%**	**4.0%**	**3.8%**	**1.2%**	**1.7%**	**1.7%**
Mining	2.3%	3.0%	4.6%	-8.4%	-3.9%	-1.6%
Electricity	5.8%	5.7%	1.7%	2.0%	0.3%	4.1%
Manufacturing	4.3%	4.2%	3.8%	4.0%	3.6%	2.5%
Food, Beverages and Tobacco	4.2%	4.4%	3.8%	0.8%	2.4%	1.5%
Textiles, Wearing Apparel	5.7%	5.8%	5.5%	5.8%	6.0%	4.0%
Wood Products, Furniture, Paper	5.2%	6.5%	4.7%	5.6%	5.6%	5.8%
Petroleum, Chemical, Rubber and Plastic	3.6%	3.2%	3.0%	3.4%	3.0%	2.1%
Non-metallic Mineral Products, Metals	4.0%	3.8%	4.8%	4.4%	4.1%	3.8%
Electrical and Electronics Products	4.1%	3.7%	3.5%	4.9%	3.1%	0.8%
Transport Equipment and Other	7.2%	6.9%	5.6%	5.8%	5.9%	6.3%

Source: DOSM

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HIGH BNM cuts reserve requirement ratio by 0.5pps to 3.0%

Malaysia | Nov 08, 16:02

- **BNM explains move is aimed at shoring up liquidity at local banks**

BNM cut the statutory reserve requirement (SRR) to 3% from 3.5% effective from Nov 15, a statement on its website showed. The move is aimed at shoring up liquidity in the domestic banking system and is not a signal on the monetary policy stance, the statement said. We remind that the BNM decided to keep its overnight policy rate (OPR) unchanged at 3% in the last meeting for the year on Nov 5 after cutting it by 25bps in May 2019. BNM stressed that the OPR remains the only indication about the monetary policy stance. We should note that the last time BNM reduced the SRR was in Feb 2016 when it cut from 4% to 3.5%.

Overall, we think that the BNM has shown that its bias remains towards cutting rates and boosting credit activity. The modest inflation outlook and the looming global uncertainties certainly remain supportive of further cuts. We note that the BNM continues to deem that the current monetary stance remains accommodative and has expressed positive comments about domestic economic activity in its latest MPC statement. However, we think that further cuts are possible in 2020 if the external environment remains uncertain and trade war remain elevated.

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PAKISTAN

Govt plans for countrywide tax assessment drive to widen tax base

Pakistan | Nov 11, 05:44

- **PM Khan tasked the FBR to submit the proposal till Nov 30 which will be implemented by June 2020**
- **Increasing tax collection efforts are crucial for the government to meet the IMF's revenue collection target**
- **The World Bank also provided USD 400mn loan to create a sustainable increase in the country's tax revenue**

The government decided to develop a comprehensive plan for countrywide tax assessment and documentation drive to widen tax net and check evasion, including the digital survey of properties to evaluate the wealth parked in the real estate sector, media reported. PM Imran Khan tasked the Federal Board of Revenue (FBR) to submit a detailed proposal in this regard by Nov 30 with June 2020 set as a deadline for adoption of the proposal.

The government under the IMF's Extended Facility Fund has set an ambitious revenue collection target of PKR 5.5tn for FBR in this fiscal year and as it missed the first quarter (Jul-Sep) target by PKR 108bn we believe the government has limited room not to double up its revenue collection efforts. Nevertheless, it is worth mentioning that China in 2017 had proposed the government for conducting digital cartography or digitized land survey of entire country, which is still pending, casting a shadow of doubt on the government's seriousness to implement the latest decision.

We remind that the government in June signed a USD 400mn loan project with the World Bank to strengthen the FBR, simplify the country's tax regime and create a sustainable increase in the country's domestic tax revenue, raising the tax-to-GDP ratio to 17% and increasing the tax filers to 3.5mn from the current 1.2mn by fiscal year 2023-24.

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HIGH IMF concludes review on successful note, asks govt to stick to targets

Pakistan | Nov 08, 07:57

- **The IMF did not revise revenue targets or provided relaxation in any other way**
- **Under the EFF, the government managed to bring down the twin deficits**
- **The government expects the disbursement of second tranche of IMF loan in Dec**
- **The success of the IMF review mission means that the government will not bring out a mid-year budget**

The IMF mission concluded its first quarterly performance review of the USD 6bn Extended Fund Facility (EFF) on a successful note, a development that will ensure the disbursement of second tranche of USD 453mn in December, media reported. Dismissing any possibility of providing waiver or relaxation to Pakistan under the bailout program as the macro adjustment policies have taken a toll on the country's economic growth and increased inflation, the IMF asked the government to continue with the fiscal consolidation and monetary tightening.

Under the IMF's EFF, the government maintained strict fiscal discipline in the first quarter of the current fiscal year as fiscal deficit came down to 0.7% of GDP, compared to 1.4% of GDP during previous year, according to the government figures. Although the government missed the tax collection target for the quarter, higher non-tax revenues helped the government's primary account to close in PKR 290bn surplus. Moreover, the country's current account deficit dropped by 64% y/y in Q1 FY20.

The successful conclusion of IMF review mission will allay the concerns that the government will not bring out a mid-year budget wherein more taxes could be levied to meet the IMF's targets. It will also mean that the government will have to stick to PKR 1.6tn worth of sovereign guarantees limit during this fiscal year.

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PHILIPPINES

Vice-President Robredo to discuss war on drugs with US, UN

Philippines | Nov 11, 06:59

- **Meeting with US embassy officials to coordinate cooperation**
- **UN has a lot of knowledge about fighting illegal drugs, Robredo points out**
- **She is waiting for the document defining her responsibilities as ICAD co-chair**

Vice-President Leni Robredo will meet officials of the US and the UN, among others, to discuss the government's war on drugs campaign, the Philippine Star reported on Sunday. She thanked US ambassador to the Philippines Sung Kim for his commitment to partner with the government in this area. Robredo said that this week they will meet US embassy officials to coordinate the flow of cooperation and information. She will also meet the UN officers in the Philippines on Monday. She noted that the UN has lots of research about best practices, and lessons from other countries concerning the fight against illegal drugs. On Friday, when asked whether she would back an international investigation into the drug war, she said, 'I think it is only fair to the agencies involved that I talk to them directly about it before deciding what to do next.'

Meanwhile, Robredo said she is still waiting for the document that would determine her responsibilities as co-chair of the inter-agency committee on anti-illegal drugs (ICAD). She noted that the position is non-existent in the original executive order that created the body in March 2017. Last week, Vice-President Robredo accepted President Rodrigo Duterte's offer to become a co-chair of ICAD. The police report they have killed over 6,700 suspected drug dealers since Duterte took office in 2016. At the same time, the rights groups estimate that there have been 27,000 drug-related deaths.

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BSP likely to approve Islamic banking rules in November

Philippines | Nov 11, 06:34

- **Several local, foreign players interested in Philippine Islamic banking market**
- **Muslims account for about 10% of the country's population**

The BSP will likely approve this month the rules for conducting Islamic banking in the Philippines, BSP managing director Arifa Ala said on the sidelines of an Islamic finance conference on Friday as quoted by BusinessWorld.

The rules concern the licensing framework and the Shari'ah governance, she said. The draft rules have been given to the banking sector for feedback, and their final version will be subject to approval by BSP's monetary board. Several local and foreign players, including Dubai Islamic Bank, have expressed interest in the country's Islamic banking market. However, decisions will be made after the approval of the rules.

In August, President Rodrigo R. Duterte signed into law an act providing for the regulation and organization of Islamic banks. The law mandates the BSP to regulate and supervise Islamic banks and to issue the implementing rules and regulations. An interagency working group had been tasked with the development of the regulatory framework for Islamic banking and finance. BSP governor Benjamin E. Diokno said that the new law 'will unlock the full potential of Islamic financing in fostering inclusive economic growth.' Inclusive finance will hence become available to people who avoid using existing conventional banking services because of their faith. The potential market for Islamic banking services mostly comprises the Muslim population that is about 10% of the Filipinos. In addition, investors looking for new asset classes, instruments and products may also be interested.

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SOUTH KOREA

Prosecution, education, and labour reforms key to improve fairness – Moon

South Korea | Nov 08, 16:42

- **Moon continues to push for establishment of independent body to investigate politicians**

President Moon Jae-in stated that construction of a fair society and fighting corruption are the key priorities for the government and they can be achieved through the prosecution, labour and education reforms outlined by the government, according to statements he made during a governmental meeting on Friday. The establishment of a committee to investigate corrupt politicians, which is included in the divisive prosecution reform, symbolizes the government's drive to correct wrongs, Moon stated. We note that prosecution reform is still pending approval by parliament and Moon is expected to try to persuade political parties to back the proposal at a meeting on Sunday. Moon also pinpointed the enactment of a labour reform and an education reform as also overdue. Particularly, the government wants to fight unfair practices in the private education sector and improve job prospects for young people.

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Foreign Minister Kang confirms Korea will cancel GSOMIA pact with Japan

South Korea | Nov 08, 16:27

- **Korea can only reverse decision if Japan decides to lift exports restrictions**

Foreign Minister Kang Kyung-wha remained adamant that Korea will cancel the military information sharing pact known as GSOMIA with Japan regardless of the recent attempts made by the US to reverse the decision, local media reported. US defence secretary Mark Esper is expected to visit Seoul next week in order to try to persuade Korea to renew the GSOMIA agreement which expires on Nov 22. Kang stated that Korea can only reverse its decision regarding GSOMIA if it Japan removes its "unfair" export restrictions placed earlier this year. We note that Korea and Japan are expected to start a second round of talks on Nov 19 as part of the WTO regulations to settle trade disputes. We think that Korea is trying to GSOMIA agreement as a bargaining chip to strike a deal with Japan, so it is unlikely to make compromise on GSOMIA unless Japan shows willingness to wind down the export restrictions as well.

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KEY STAT

Government posts KRW 26.5tn budget deficit in Jan-Sep

South Korea | Nov 08, 07:56

- **Tax revenues fall by 5.6% y/y in Jan-Sep**
- **Total expenditure rises by 11.2% y/y**
- **Fiscal performance deteriorates compared to last year**

The government posted a KRW 26.5tn budget deficit in Jan-Sep, the highest on record, according to monthly fiscal trends data released by the finance ministry. In comparison, the government reported a KRW 14.0tn budget surplus in Jan-Sep 2018. The budget deficit excluding the surpluses of social security funds increased to KRW 57tn in Jan-Sep from KRW 17.3tn in the same period last year. The deterioration in fiscal performance is explained by a rather large increase in total expenditures by 11.2% y/y to KRW 386tn, whereas on the other hand total revenues essentially stayed flat y/y at KRW 369.5tn. The government noted a significant increase in the provision of earned income tax credit and child tax credit from KRW 1.9tn last year to KRW 5tn this year. Thus, total tax revenues fell by 5.6% y/y to KRW 228.1tn.

Overall, fiscal performance has definitely deteriorated compared to last year. Not only is the government target a smaller fiscal surplus this year, the progress rate in the first 9 months of the year is worse compared to last year. The government has collected 75.5% of overall revenues allotted in the budget compared to 80.2% at the same of the last year. On the other hand, 81.2% of all expenditures in the budget have already been made, compared to 79.8% at the same time last year.

Consolidated government budget (KRW tn)

			2019			2018
	Jan-Sep	Budget plan	Progress rate	Jan-Sep	Budget plan	Progress rate
Revenues	359.5	476.4	75.5	359.2	447.7	80.2
Expenditure	386.0	475.4	81.2	345.2	432.7	79.8
Budget balance	26.5	1.0	-	14.0	15.1	-

Source: FinMin

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THAILAND

Campaign stimulating home purchases to be launched on Nov 11

Thailand | Nov 08, 16:13

- **Government Housing Bank earmarks up to THB 50bn for mortgage loans at preferential terms**
- **Campaign ends on Dec 31**

A campaign stimulating home purchases will be launched by the finance ministry, the Government Housing Bank (GHB), three real estate associations and several small property companies, the Nation reported on Friday. The campaign will take place from Nov 11 to Dec 31. The GHB will offer mortgage loans with a fixed annual interest rate of 2.5% over three years. These loans will be worth a total of THB 50bn (USD 1.6bn). The home buyers will be also exempted from transfer and mortgage fees. Furthermore, the participating developers will provide promotional offers and discounts. Properties worth up to THB 3mn will be covered by the campaign. A senior official from the prime minister's office said that developers across the country are welcome to join the campaign.

The relatively slow economic growth in the first half of this year is a major concern for the government, which has been implementing various economic stimulus measures. Earlier this week, IMF managing director Kristalina Georgieva said that now is a good time for Thailand to implement stimulus measures to boost its economic growth, given the available policy space, the Bangkok Post reported. The IMF has cut its 2019 and 2020 GDP growth forecasts for Thailand to 2.9% and 3.0%, respectively, according to the Fund's World Economic Outlook released in October. Compared to the April WEO, the two growth rates have been reduced by 0.6pps and 0.5pps, respectively.

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International reserves rise by USD 2.3bn m/m to USD 222.8bn at end-October

Thailand | Nov 08, 09:58

- **Monthly increase driven mainly by foreign currency reserves and gold**

The international reserves increased by USD 2.3bn m/m to USD 222.8bn at end-October, after rising by USD 361.0mn m/m at end-September, the BOT said on Friday. The latest monthly gain was driven mainly by foreign currency reserves and gold. The former rose by 1.0% m/m to USD 213.1bn at end-October. The latter climbed 2.8% m/m to USD 7.5bn. Furthermore, both SDRs and the reserve position in the IMF increased by 1.3% m/m, to USD 1.4bn and USD 838.9mn, respectively. On a related note, the net forward position rose by 3.9% m/m to USD 34.4bn.

International reserves, USD mn

Source | BOT

The IMF concluded the 2019 Article IV consultation with Thailand at end-September. The IMF forecasts that the country's gross official reserves (including net forward position) will stand at USD 251.1bn at end-2019. This level covers 12.4 months of the following year's imports and is also equal to 307.0% of short-term debt, the Fund estimated.

International reserves, USD mn

	Aug-19	Sep-19	Oct-19
Gold	7,519	7,282	7,485
SDRs	1,350	1,344	1,362
Reserve position in the IMF	832	828	839
Foreign currency reserves	210,468	211,076	213,097
TOTAL	**220,170**	**220,531**	**222,783**
Net Forward Position	32,276	33,138	34,427

Source: BOT

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