Interest Rate Outlook Eurozone, USA

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Analyst:
Rainer Singer
rainer.singer@erstegroup.com

Markets will have to adjust

After a major shake-out in December last year, financial markets staggered rather than slid into the new year. This was caused by fears over an imminent large economic downturn. It was difficult to discern a catalyst for these fears and they were by no means in keeping with economic data released in the US, which was the epicenter of the market turmoil. When the Fed stated that it didn't agree with the opinion of market participants and held out the prospect of further rate hikes, a panic ensued, at least in the short term. The safest assets – i.e., the highest rated government bonds – benefited the most from these developments.

Is there anything to these fears? It is true that the environment is becoming more challenging. The most favorable phase, when households and above all companies enjoyed both low interest rates and strong economic growth, is over. However, that should not be a surprise to anyone, as it was always clear that the strong economic performance seen in 2017 and in the case of the US primarily in 2018 would not be sustainable. Economic growth rates were simply at levels in excess of long-term potential growth. The fact that interest rate hikes were used to gently counteract this wasn't exactly news either. A slowdown was inevitable. However, this is not tantamount to entering a recession or even the next crisis. Rather, a slowdown in growth is a relatively normal process. Financial markets will have to adjust to this new stage and can no longer blindly rely on low interest rates and a surfeit of excess liquidity.

This adjustment process is not only affecting financial markets, but borrowers all over the world. We have therefore, apart from our outlook for monetary policy in the euro zone and the US as well as government bonds in both economic areas, chosen global debt as a focus topic of this report. Without claiming to present a complete picture, we are highlighting weaknesses one should pay attention to.

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Monetary policy

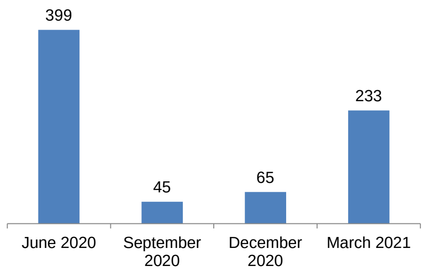
Euro Zone - ECB can adopt wait-and-see stance

Interest Rates	current	Mar-19	Jun-19
ECB MRR	0.00	0.00	0.00
3M Euribor	-0.31	-0.30	-0.30

While the ECB may express concern over the volatile environment, it should not alter its monetary policy stance for the time being.

By providing guidance that it would leave interest rates unchanged at least through the summer of 2019, the ECB Council bought itself plenty of time to await developments. In light of the deteriorating environment in recent weeks and months, this leeway should be taken advantage of and a wait-and-see stance should be maintained. This does not rule out that the ECB Council will express growing concern, as it already did at the December meeting.

Maturities of TLTROs, in EUR bn.



Source: ECB, Erste Group Research

One open question for the coming months concerns liquidity provisions by the ECB. The ECB's TLTROs through which funding totaling EUR 742bn was made available to commercial banks will begin to mature from the summer of 2020 onward. However, the remaining term to maturity of TLTROs already begins to slip below one year in June of this year. As a result, these funds may no longer be applied to the calculation of the net stable funding ratio (liquidity reserve). Banks will therefore require new funding with longer maturities. Whether this will be provided by the ECB should be revealed by March at the latest. So far the ECB has not issued any statements on the matter. However, it appears likely to us that the ECB will want to prevent a decline in liquidity and higher funding costs for the banking sector. At the same time the ECB will have to ponder a medium-term exit from the flood of excess liquidity and may therefore shy away from once again making long-term liquidity available at zero cost. A possible solution could be additional liquidity provided at conditions more closely aligned with market-based ones.

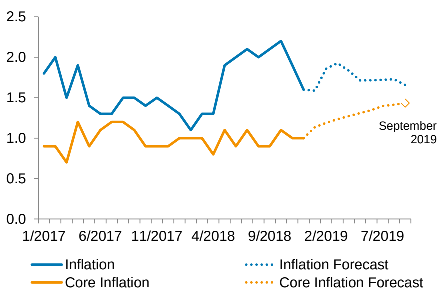
Negotiated wages, euro zone, y/y in %

Source: ECB, Erste Group Research

The timing of the first rate hike will likely remain the most important issue for the markets. The ECB Council is waiting for the economic recovery to be mirrored by higher inflation rates. The focus is on core inflation, which excludes food and energy prices and therefore best reflects domestically generated price inflation. There has been no movement in core inflation since the end of 2017. At the same time, wage trends have begun to stir in the course of 2018. Wage growth rates have risen significantly and should provide the basis for higher inflation rates.

Is core inflation going to accelerate? We are forecasting that it will. It remains indisputable that inflation was stuck below expectations for a long time, including those of the ECB. However, as long as the economic recovery continues, price pressures will continue to build and this should eventually have an impact. In our view the stronger wage growth rates mentioned above represent an important milestone supporting our forecast. We therefore expect that rates on the ECB's deposit facility will be raised in September followed by a hike in the main refinancing rate in December. However, uncertainty remains high. Should there be no noticeable increase in core inflation rates in the first half of the year, the implementation of the first rate hike would be delayed further.

Euro Zone inflation, y/y in %



Source: Bloomberg, Erste Group Research

US – Federal Reserve takes a time-out

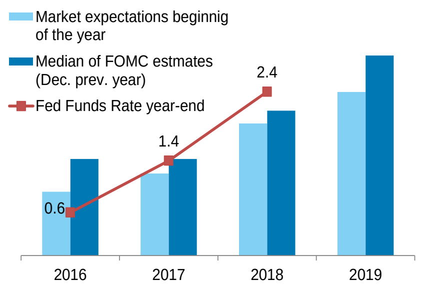
Interest Rates	current	Mar-19	Jun-19
Fed Funds Rate*	2.40	2.38	2.63
3M Libor	2.79	2.70	2.90

*Mid of target range

We expect the next interest rate hike in the US to be announced in June, which should be followed by two further hikes before the end of the year.

The most recent meeting of the Federal Open Market Committee (FOMC) in December triggered chaos in the markets. The reason was the outlook for further rate hikes and Fed chair Jerome Powell's failure to clearly hold out the prospect for a pause in the rate hike cycle. Statements conveying a softening of the Fed's stance have been made in the meantime, presumably in view of the market reaction. For example, the minutes of the FOMC meeting revealed that the Fed believes it can afford to be patient with a further tightening of monetary policy – in an environment characterized by heightened uncertainty. The significant economic slowdown in important economic areas (euro zone, China) and volatile financial markets were cited as downside risks in this context. Upside risks were seen to consist of fiscal stimulus (tax cuts, spending) having a stronger than expected impact and more favorable developments on the trade front and in the global economy.

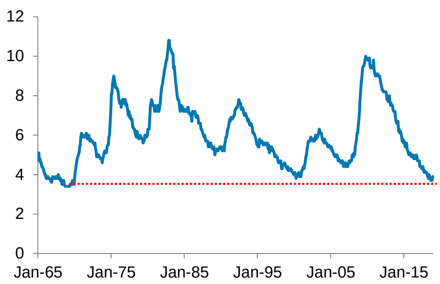
Expected Federal Funds rate, in %



Source: Bloomberg, Federal Reserve, Erste Group Research

Overall, the path of US monetary policy is becoming more uncertain this year. Financial markets are accordingly agitated. The environment has become more challenging and policy rates have reached levels which require fine-tuning from here on out. The FOMC minutes also contained a proposal to alter communication further by no longer providing guidance on interest rates but pointing solely to the data dependence of future rate decisions. While this proposal was not adopted, we believe it does reflect the FOMC's attitude quite well.

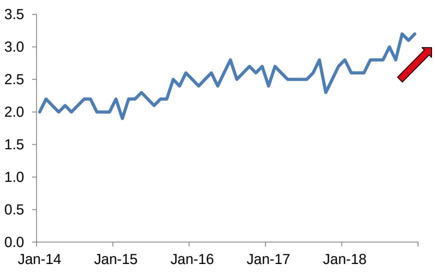
US unemployment rate, in %



Source: Bureau of Labor Statistics, Erste Group Research

We expect that the above mentioned dangers for the economy ultimately won't trigger a sizable slowdown in the US economy. Hence further adjustments in the level of base rates will become necessary and we expect three further rate hikes this year, with the first one implemented in June. With that our forecast is just slightly above the median projection of the FOMC, which forecasts two rate hikes, but significantly above the expectations of the markets, which are pricing in no further rate hikes by the Fed this year (and thereafter).

Average hourly wages, y/y in %



Source: Bureau of Labor Statistics, Erste Group Research

We expect the US economy to continue to perform solidly, with growth in 2019 once again exceeding potential growth, i.e., growth that will be stronger than is sustainable in the long term. This will keep demand for labor high, at a time when the unemployment rate has already declined to the lowest level in fifty years. Thus the labor market is getting tighter and that implies a high probability that the acceleration in wage growth that is already underway will continue. This should lead to further Fed rate hikes, as the current level of interest rates is not exerting a dampening effect yet. It is not even clear whether it no longer has a stimulative effect. The FOMC considers the current level of interest rates to be at or close to the lower boundary of the range of estimates for the neutral rate. Thus further rate hikes would merely make it more certain that a neutral level has been reached. In the environment discussed above the Fed should at least want to advance more deeply into neutral rate territory. This would make it possible to respond more effectively to rising inflationary pressures, although such pressures are not discernible yet.

Sovereign bonds

Germany – the environment will become less favorable

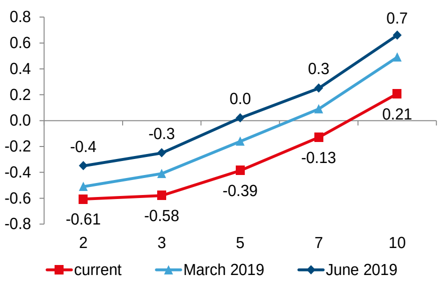
Yields	current	Mar-19	Jun-19
Germany 2y	-0.61	-0.50	-0.40
Germany 5y	-0.39	-0.20	0.00
Germany 10y	0.21	0.50	0.70

We believe fears of a severe economic slump and the associated significant decline in yields in recent weeks were overblown and accordingly expect a counter-trend move to take shape.

Political issues will continue to play a role, but economic expectations will remain the most important factor determining the future trend in German Bunds. Current yields reflect deep-seated uncertainty, which includes expectations of a potentially continuing economic downswing. However, we believe that upcoming data releases will indicate a stabilization of economic growth rates in the euro zone at moderate levels, which should serve to slowly remove the fear premium from bond markets. While weakness in foreign trade should persist, domestic demand should stabilize economic growth. Declining unemployment rates and low energy prices are positive factors driving the economy.

With respect to political risks, the dispute over Italy's budget has ceased to be a factor for now. How and whether the Brexit will take place remains a completely open question. A vote over the exit agreement negotiated with the EU is planned for January 15. It is difficult to imagine that a majority of MPs will support it. Thereafter the government has three days to present a plan B. It appears to us that a new referendum and hence a temporary postponement of the exit date is the most likely scenario. Markets should respond positively to such a development, as there would at least be a chance that the United Kingdom will remain a member of the EU. Should a hard Brexit actually happen, it would generate renewed uncertainty and consequently lead to lower yields than we are currently expecting.

German Yield Curve, in %



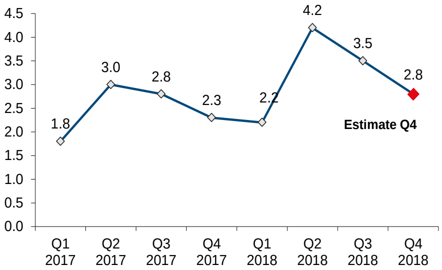
Sources: Bloomberg, Erste Group Research

In our view the most likely scenarios is that economic conditions will brighten over coming months. That would not be positive for German sovereign bonds and should lead to rising yields particularly in medium to long-term maturities – the very market segments that have benefited the most in recent weeks. With respect to short term maturities, everything will depend on the ECB and inflation data will therefore be the decisive driver. Financial markets should only slowly begin to price in movement in this segment. Short-term bonds even with negative yields to maturity thus appear more attractive to us than long-term bonds.

With respect to spread markets, the news-flow could deteriorate for France in particular. Up-to-date calculations are not yet available, but after the recent government concessions after wide spread demonstrations the deficit could exceed the Maastricht limit of 3% of GDP this year. A period of political squabbling with the EU Commission could follow. However, we do not expect much of an impact on French OATs. Italy cannot serve as a template in this case. Contrary to Italy, no-one doubts the pro-European stance of the French government. With respect to credit spreads the highest risks are political risks, see our focus topic “Debt levels to come under scrutiny”.

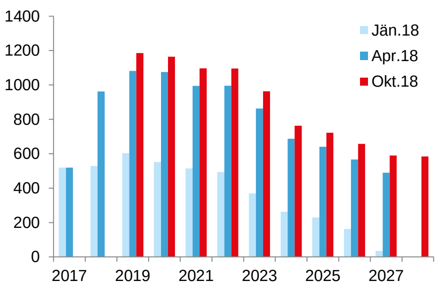
Yields	current	Mar-19	Jun-19
USA 2J	2.52	2.70	2.90
USA 5J	2.50	2.80	3.00
USA 10J	2.69	2.90	3.10

US GDP growth, q/q annual. in %



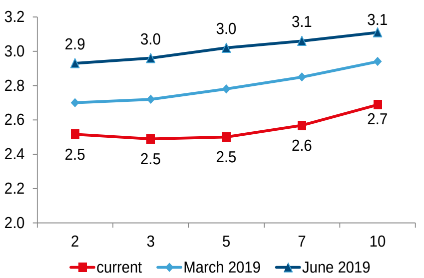
Source: Bureau of Economic Analysis, Federal Reserve Bank of Atlanta, Erste Group Research

Planned issuance of treasury debt, in USD bn.



Source: US Treasury, Erste Group Research

US Yield Curve, in %



Sources: Bloomberg, Erste Group Research

US – bond markets should correct

From the perspective of the markets, the outlook for the US economy has deteriorated significantly in the final few months of 2018. As a result yields on US treasuries declined markedly. We believe that market concerns over an economic slump are overblown and expect that market expectations will be corrected.

The debate over the performance of the US economy already started in the summer in light of the flattening yield curve. Some observers considered this to be the harbinger of an economic slowdown that would soon morph into a recession. Monthly economic indicators indeed weakened in the fourth quarter, pointing clearly to a slowdown in economic growth. While this weaker economic performance is sustainable, it is not the first step toward a recession. It rather represents a slowdown from unsustainable growth rates and does not come as a surprise. It was always clear that the tax cuts and the increases in public spending enacted in late 2017/ early 2018 would exert their strongest effects immediately after their implementation.

What is in our opinion decisive is the fact that while the US economy will grow more slowly this year than in 2018, its growth will still be strong enough to exert pressure on the labor market. One reason why one should continue to expect a solid economic expansion in the US are the ongoing effects of fiscal stimulus. Apart from the lagged effects of the tax cuts, public spending is going to support the economy with an even larger increase than in 2018. This should show that market fears were exaggerated. On the contrary, we think that the already obvious acceleration in wage growth should continue and the risk of rising inflation rates should once again become an issue.

Moreover, the supply of treasury bonds will continue to increase. The US Treasury will keep issuing large amounts in order to fund the high budget deficit. In addition to this, the Fed will continue with the reduction of its securities portfolio by USD 50bn every month, around half of which comprises treasuries.

All in all we therefore expect yields on treasuries to rise. The most convincing estimate regarding the steepness of the yield curve in coming months is that it won't change much. As noted above, we expect a correction of negative market expectations on the economy to be the dominant driver of the treasury market. As the negative sentiment that developed in the course of recent months led to a parallel shift to the downside in the yield curve (based on the interim peak in yields on 08 November), we see the correction in yields to take the same path. Hence we expect a parallel shift in the yield curve to the upside. We would therefore recommend sticking to short-term maturities.

Focus topics: Debt levels to come under scrutiny

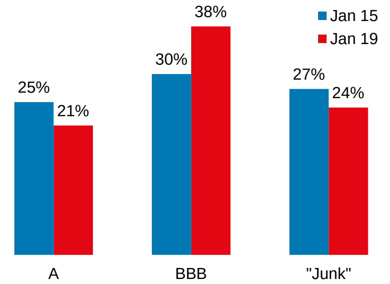
For the first time in a decade, rising US interest rates have claimed victims in 2018. The weakness in emerging market currencies, above all the Turkish lira and the Argentine peso would probably not have occurred to a similar extent if not for the increasing attractiveness of US dollar interest rates. Treasury bond yields of around three percent probably also undermined the attractiveness of US equities and contributed to the stock market sell-off in late 2018. In 2019 US interest rates are likely to rise further. Whether the same will already happen in the euro zone this year remains to be seen. At the same time higher interest rates in the euro zone are “only” a question of time as well.

This raises the question how the transition away from the low interest rate environment will play out. What's more, one must not forget that interest rates are not the only source of pressure. In recent years borrowers in the US and the euro zone (and elsewhere) have benefited from the best of all possible worlds: low interest rates coupled with strong economic growth. That is unlikely to remain the case. We see potential sources of vulnerability in corporate debt in China and to a lesser extent in the US and France. While government debt is on an unsustainable path in the US and several euro zone member countries need to reduce their deficits, there is still time to take corrective measures.

US

How has US indebtedness evolved since 2008? US household debt has been reduced considerably. However, the starting point of this reduction was a level that was bloated by the housing bubble. Overall, US household debt does not appear to represent a problem at the current juncture.

Share of corporate debt securities by rating, in %

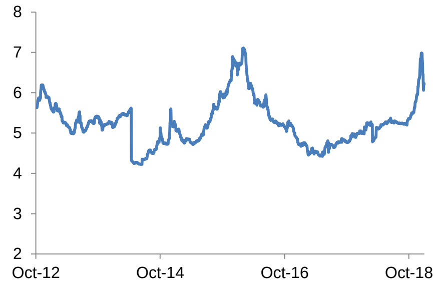


Source: Bloomberg, Erste Group Research

By contrast, corporate debt relative to GDP - after initially declining - is back at the levels of 2008. Moreover, the quality of this debt has deteriorated significantly in recent years. Within the investment grade segment there was a large shift in the distribution of outstanding corporate bonds toward the lower rating boundary, i.e., BBB rated bonds. While the share of junk bonds has concurrently decreased, the increase in the BBB segment was much larger. Many investment funds have a mandate that allows them to hold only investment grade bonds. In an economic downturn the risk is that ratings will be downgraded, which would lead to BBB-rated bonds slipping into junk bond territory. This could trigger a sell-off in BBB-rated US corporate bonds, leading to an increase in funding costs in the segment, which would impact the real economy as well.

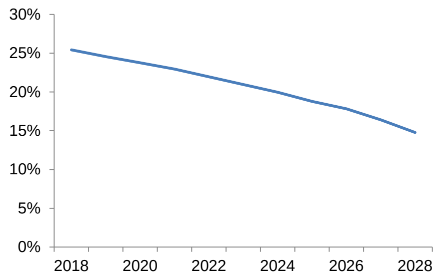
Even more worrisome is the growth of the US leveraged loan market. Outstanding volumes currently amount to USD 1.2 trillion, roughly twice the level recorded in 2011. Most leveraged loans have rather low ratings, usually deep in junk territory. Leveraged loans are mainly used to fund corporate takeovers and dividend payments. Weak borrowers are per experience the first victims of an economic slowdown and/or rising interest rates. Pressure on debtors has already increased, as yields in the leveraged loan segment have risen significantly in recent months and refinancing has accordingly become more expensive. One has to keep in mind though that yields temporarily also reached similar levels at the end of 2015 and the markets were able to cope with the situation. However, should the situation persist or escalate further, the sheer size the market has attained in the

S&P Leveraged Loan Index yield, in %



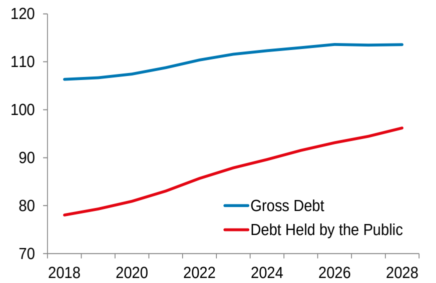
Source: Bloomberg, Erste Group Research

Total trust fund assets, in % of GDP



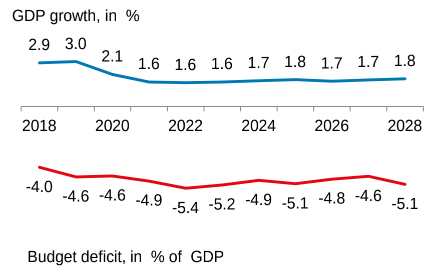
Source: Congressional Budget Office, Erste Group Research

Trends in federal debt growth in % of GDP



Source: Congressional Budget Office, Erste Group Research

CBO estimates of GDP growth budget deficits



Source: Congressional Budget Office, Erste Group Research

meantime suggests that this could become a potential source of nervousness in financial markets.

Public debt in the US is on an unsustainable path. However, accumulated reserves will mitigate the effects for many years to come and gross debt relative to GDP will therefore increase comparatively slowly. After an enormous increase in public debt in the wake of the financial crisis, federal debt was by and large kept at a stable level in recent years. That is about to change, as the US administration under President Trump has cut taxes and increased federal spending. Relative to tax revenues the federal debt is already quite high. US public debt amounts to 3.25 times revenues. Leaving Greece aside, only Italy and Portugal are exhibiting similar figures in the euro zone. This ratio is bound to deteriorate along with US public debt in coming years. Calculations by the Congressional Budget Office (CBO) are forecasting an increase in gross federal debt to 114% of GDP by 2028 from the current level of 106%. However, these figures fail to properly reflect the underlying trend. The reason is that shortfalls (primarily in social security and Medicare) can still be offset by reserves in coming years. These reserves (held in various trust funds) will dwindle in coming years though.

The underlying momentum in debt growth is evident in the metric “debt held by the public”, which doesn't take the trust fund reserves into account. Between 2018 and 2028 the share of this debt will increase from 78% of GDP to 96% of GDP. In the chart to the left we compare the trajectories of the two debt metrics. Should the tax cuts which are supposed to expire from 2026 onward be extended, debt held by the public would rise even further to 105 percent of GDP by 2028. The relatively small Medicare trust fund will be exhausted in 2026. The much larger Social Security trust fund for non-government employees will be exhausted in 2031. All in all the US therefore still has time to correct the unsustainable trend in public debt growth.

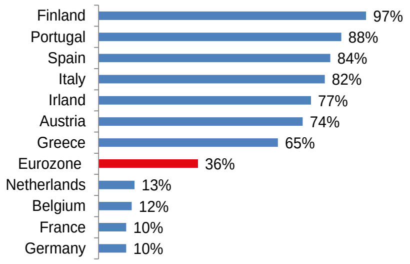
However, it cannot be ruled out that trends in public debt growth will become an issue for the markets at an earlier stage. The CBO's estimates are based on realistic assumptions, but they do not take strong cyclical economic fluctuations into account. The federal deficit is supposed to increase to 4.6% of GDP in the current fiscal year and continue to grow in coming years, reaching a peak of 5.4% in 2022. In the event of a temporary economic slump, annual deficits could therefore easily rise to between 6 to 7% of GDP, which the markets may well react to, especially as budgetary leeway is set to shrink. Interest expenses will increase from 1.6% of GDP in 2018 to 2.8% of GDP within the coming five years.

Euro Zone

If one adds up the debts of the household, corporate (excl. financial sector) and government sectors, the total amount of debt outstanding in the euro zone is almost as high as in the US and stands just slightly below 350% of economic output. However, the composition differs. Public debt and household debt are higher in the US, while the euro zone has taken the lead with respect to corporate debt.

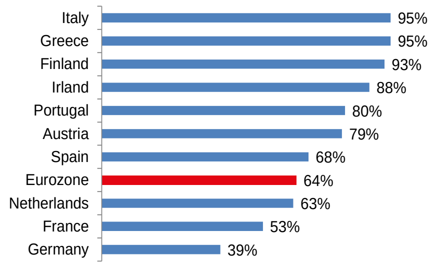
Household debt in the euro area poses no cause for concern. Debt service relative to income has decreased in three of the four largest member countries in recent years. Moreover, the trend has been unspectacular. Since the outbreak of the financial crisis household debt relative to economic output has actually moderately declined and currently stands slightly below 60% of GDP. Among the four largest countries it is lowest in

Variable rate debt owed by households, share in %



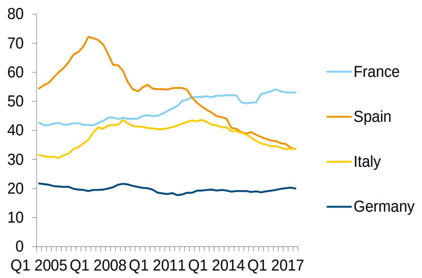
Source: ECB, Erste Group Research

Variable rate debt owed by corporations, share in %



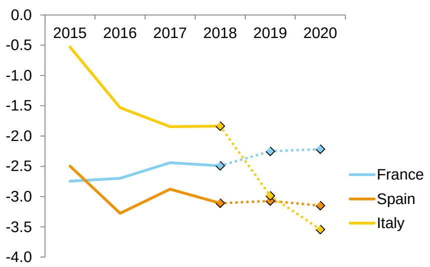
Source: ECB, Erste Group Research

Debt service costs of companies relative to return on capital, in %



Source: Bank for International Settlements, Erste Group Research

Structural deficit in % of GDP



Source: AMECO European Commission, Erste Group Research

Italy at 41% of GDP. How vulnerable are households to rising interest rates? Generally we believe the danger is negligible. This is because an increase in interest rates once it begins it is likely to progress only slowly. However, we can rank countries according to their vulnerability to interest rate risk. For this purpose we have examined the share of outstanding household loans with variable rates.

Generally companies have a much larger share of variable rate debt than households and their exposure to the associated risks is more pronounced. However, in this respect there are also large differences between individual euro zone member countries.

The extent of variable rate loans does not provide any information on the size of corporate debt and France is standing out in this respect. Among the four largest euro zone countries corporate debt is at the highest level in France and the trend continues to point up. It is therefore no big surprise that corporate debt service relative to the return on capital is the highest in France as well. The French debt service ratio is significantly higher than that of Italy or Spain. Moreover, in the latter two countries the trend is pointing down. Contrary to what happened in France, companies in these countries evidently took advantage of the favorable environment in order to lower this credit metric. French companies are set to enter the next economic slump with comparatively high debt levels; that makes them vulnerable and it is to be expected that they will suffer the largest number of defaults.

In terms of sovereign debt the picture in the euro zone is quite uneven as well. While the trend is on average encouraging and public debt is on the retreat, this masks the lack of effort displayed by the biggest member countries in particular. Italy has barely escaped being subjected to an excessive deficit procedure (EDP), the French deficit in 2019 seems set to rise above the Maastricht limit of 3% of GDP after the concessions to the "yellow vests" and the progress achieved by Spain with respect to budget consolidation is not visible.

We expect that none of the countries cited above will succeed in lowering their structural deficit by 2020. In short, the favorable economic environment was not used for implementing fiscal adjustments. Currently available estimates of the European Commission are taking neither France's higher expenditures in response to the yellow vest protests into account, nor the concessions made by Italy's government to the EC in order to prevent an EDP. We estimate that in the former case the originally expected moderate improvement in the structural deficit will come to naught, while in Italy's case the originally budgeted massive increase in the structural deficit will merely be reduced somewhat.

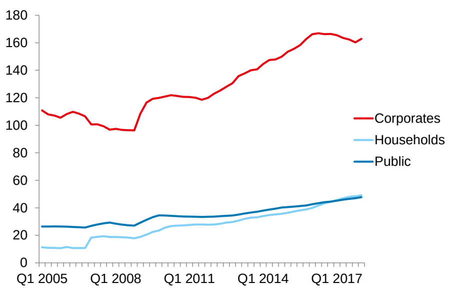
Even after a recalculation it is likely that France will still post the lowest structural deficit among these countries, but overall, all three countries are ill-prepared for both an economic downturn and rising financing costs, which leaves them in a rather vulnerable position. In our opinion pressures would have to emanate from both sources in order to trigger a crisis though. Only political decisions are thinkable as a catalyst for such a development – such as e.g. questioning membership in the currency union; this would precipitate a sell-off in financial markets amid a loss of confidence.

However, under normal circumstances it is unlikely that a country will face a weak economy and higher sovereign funding costs at the same time. With only one of these factors deteriorating, the trend in public debt growth should not get out of control. We refer to studies of the European Commission in this context, in which the impact of higher funding costs and lower nominal growth were calculated. While the most recent calculations were made in early 2018, the fundamental insights are unlikely to have materially changed. For instance, a general increase in the level of interest rates by 1 percentage point would imply an increase in Italy's public debt by 9 percentage points of GDP in the space of 10 years. The respective figures for France and Spain are 5.6% and 6.3%. A decline in nominal economic growth by 0.5 percentage points per year would boost public debt in these countries by 7.7, 5.4 and 5.4 percentage points of GDP within 10 years compared to a base case scenario. Thus both weaker growth and higher interest rates represent risk factors. However, the increase in public debt would happen relatively slowly, which would provide an opportunity to take timely countermeasures.

Emerging Markets

While debt levels in developed countries (all figures excl. the financial sector) since the outbreak of the financial crisis have nominally increased by roughly 30%, they have more than doubled in emerging markets in the same time period. This development was primarily driven by China, the debt of which has more than quadrupled since September 2008. China's share of global debt thus amounts to 18%, which is only slightly lower than the 20% share of the euro zone. Hence China's has reached a globally relevant magnitude with respect to debt as well and is an emerging market economy with the size of a mature economy.

Debt levels of China in % of GDP



Source: IIF Global Debt Monitor, Erste Group Research

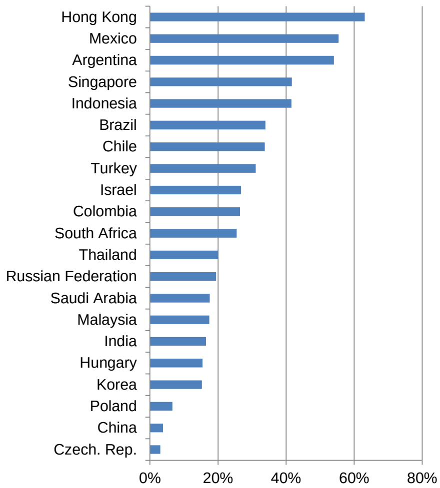
The strong growth in indebtedness merits even more consideration in view of its composition. While the biggest relative growth was seen in household debt, it remains quite low compared to corporate debt. The outstanding debt of companies on the other hand has in the meantime increased to 160% of China's annual economic output. That is significantly above the corresponding figures in the euro zone (102%) and the US (72%). Among countries of global economic relevance only Belgium, Sweden and a number of micro-states come close to this figure.

The rapid growth in China's corporate debt since around 2011 should per se invite caution. The question whether there were really that many investment opportunities generating appropriate returns available in such a brief time period will probably only be conclusively answered in coming years. It certainly seems doubtful. The fact that corporate debt has already stabilized relative to economic output since 2016 is a sign that a soft landing may be possible. However, the real test of this is yet to come. 2017 and 2018 were years of very strong economic growth, which is neither likely to continue in China's largest export markets (US, euro zone), nor in China itself. Uncertainty over whether highly indebted Chinese companies will be able to handle a weaker economy is probably one of the reasons why financial markets are responding with such nervousness to the trade dispute with the US. In our view one important argument that militates against the notion of an economic crisis in China is the still very low level of public debt. This creates leeway to lend support to the economy, a process that is already underway.

US Dollar

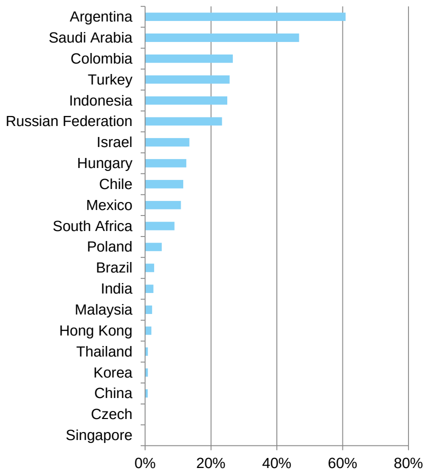
The prospect of higher US interest rates was certainly a factor leading to the weakening of emerging markets currencies in 2018. A weaker domestic currency represents a burden for US dollar debtors. However, the overall

Share of corporate debt denominated in USD, in %



Source: IIF Global Debt Monitor, Erste Group Research

Share of public debt denominated in USD, in %



Source: IIF Global Debt Monitor, Erste Group Research

impact is difficult to assess. For companies exporting to the US, a stronger dollar can even mean higher sales and an improvement in their competitive position. In the best case scenario, this can more than compensate for the burdens of higher debt repayments. The revenues of commodity exporting countries benefit from a stronger dollar.

By contrast, business activity cannot protect against an increase in US dollar interest rates. Various emerging markets are exposed to this risk to a very different extent. Generally companies are affected more by this risk than the public sector or households. The latter have – apart from a few exceptions – a very small share of foreign currency debt. Among companies, those domiciled in Latin and South American countries as well as in South-East Asia are exposed to the greatest risks. With respect to sovereign debt Argentina and Saudi Arabia are standing out.

Forecasts[1]

GDP	2017	2018	2019	2020
Eurozone	2.4	1.9	1.5	1.4
US	2.3	2.9	2.3	2.1

Inflation	2017	2018	2019	2020
Eurozone	1.5	1.7	1.7	1.7
US	2.2	2.4	1.8	1.9

Interest rates	current	Mar.19	Jun.19	Sep.19	Dec.19
ECB MRR	0.00	0.00	0.00	0.00	0.25
3M Euribor	-0.31	-0.30	-0.30	-0.10	0.10
Germany Govt. 10Y	0.21	0.50	0.70	0.80	1.00
Swap 10Y	0.78	0.80	1.00	1.10	1.30

Interest rates	current	Mar.19	Jun.19	Sep.19	Dec.19
Fed Funds Target Rate*	2.40	2.38	2.63	2.88	3.13
3M Libor	2.79	2.70	2.90	3.20	3.40
US Govt. 10Y	2.69	2.90	3.10	3.30	3.50
EURUSD	1.14	1.11	1.12	1.14	1.16

*Mid of target range

Prices from January 15, 2019

Source: Bloomberg, Erste Group Research

[1] Note: By regulations we are obliged to issue the following statement: Forecasts are no reliable indicator of future performance.

Contacts

Group Research

Head of Group Research	
Friedrich Mostböck, CEFA	+43 (0)5 0100 11902
Major Markets & Credit Research	
Head: Gudrun Egger, CEFA	+43 (0)5 0100 11909
Ralf Burchert, CEFA (Agency Analyst)	+43 (0)5 0100 16314
Hans Engel (Senior Analyst Global Equities)	+43 (0)5 0100 19835
Margarita Grushanina (Economist AT, Quant Analyst)	+43 (0)5 0100 11957
Peter Kaufmann, CFA (Corporate Bonds)	+43 (0)5 0100 11183
Stephan Lingnau (Global Equities)	+43 (0)5 0100 16574
Carmen Riefler-Kowarsch (Covered Bonds)	+43 (0)5 0100 19632
Rainer Singer (Senior Economist Euro, US)	+43 (0)5 0100 17331
Bernadett Povazsai-Römhild (Corporate Bonds)	+43 (0)5 0100 17203
Elena Statelov, CIIA (Corporate Bonds)	+43 (0)5 0100 19641
Gerald Walek, CFA (Economist Euro, CHF)	+43 (0)5 0100 16360
Macro/Fixed Income Research CEE	
Head CEE: Juraj Kotian (Macro/FI)	+43 (0)5 0100 17357
Zoltan Arokszallasi, CFA (Fixed income)	+43 (0)5 0100 18781
Katarzyna Rzentarzewska (Fixed income)	+43 (0)5 0100 17356
CEE Equity Research	
Head: Henning Eßkuchen	+43 (0)5 0100 19634
Daniel Lion, CIIA (Technology, Ind. Goods&Services)	+43 (0)5 0100 17420
Michael Marschallinger	+43 (0)5 0100 17906
Christoph Schultes, MBA, CIIA (Real Estate)	+43 (0)5 0100 11523
Vera Sutedja, CFA, MBA (Telecom, Steel)	+43 (0)5 0100 11905
Thomas Unger, CFA (Banks, Insurance)	+43 (0)5 0100 17344
Vladimira Urbankova, MBA (Pharma)	+43 (0)5 0100 17343
Martina Valenta, MBA	+43 (0)5 0100 11913
Editor Research CEE	
Brett Aarons	+420 956 711 014
Research Croatia/Serbia	
Head: Mladen Dodig (Equity)	+381 11 22 09178
Head: Alen Kovac (Fixed income)	+385 72 37 1383
Anto Augustinovic (Equity)	+385 72 37 2833
Mate Jelić (Fixed income)	+385 72 37 1443
Magdalena Dolenec (Equity)	+385 72 37 1407
Ivana Rogic (Fixed income)	+385 72 37 2419
Davor Spoljar, CFA (Equity)	+385 72 37 2825
Research Czech Republic	
Head: David Navratil (Fixed income)	+420 956 765 439
Head: Petr Bartek (Equity)	+420 956 765 227
Jiri Polansky (Fixed income)	+420 956 765 192
Michal Skorepa (Fixed income)	+420 956 765 172
Jan Sumbera (Equity)	+420 956 765 218
Jan Žemlička (Fixed income)	+420 956 765 456
Research Hungary	
Head: József Miró (Equity)	+361 235 5131
András Nagy (Equity)	+361 235 5132
Orsolya Nyeste (Fixed income)	+361 268 4428
Zsombor Varga (Fixed income)	+361 373 2830
Tamás Pletser, CFA (Oil&Gas)	+361 235 5135
Research Poland	
Director of Research: Tomasz Duda (Equity)	+48 22 330 6253
Cezary Bernatek (Equity)	+48 22 538 6256
Konrad Grygo (Equity)	+48 22 330 6254
Mateusz Krupa (Equity)	+48 22 330 6251
Emil Poplawski (Equity)	+48 22 330 6252
Research Romania	
Head: Horia Braun-Erdei	+40 3735 10424
Caius Rapanu (Equity)	+40 3735 10441
Eugen Sinca (Fixed income)	+40 3735 10435
Dorina Ilasco (Fixed Income)	+40 3735 10436
Research Slovakia	
Head: Maria Valachyova, (Fixed income)	+421 2 4862 4185
Katarina Muchova (Fixed income)	+421 2 4862 4762
Research Turkey	
Ender Kaynar (Equity)	+90 212 371 2530
Umut Cebir (Equity)	+90 212 371 2537

Treasury – Erste Bank Vienna

Group Markets Retail Sales	
Head: Christian Reiss	+43 (0)5 0100 84012
Markets Retail Sales AT	
Head: Markus Kaller	+43 (0)5 0100 84239
Group Markets Execution	
Head: Kurt Gerhold	+43 (0)5 0100 84232
Retail & Sparkassen Sales	
Head: Uwe Kolar	+43 (0)5 0100 83214
Corporate Treasury Product Distribution AT	
Head: Christian Skopek	+43 (0)5 0100 84146

Fixed Income Institutional Sales

Group Securities Markets	
Head: Harald Müller	+43 (0)5 0100 84890
Institutional Distribution non CEE	
Head: Jaromir Malak	+43 (0)5 0100 84254
Bernd Bollhof	+49 (0)30 8105800 5525
Charles-Henry La Coste de Fontenilles	+43 (0)5 0100 84115
Rene Klasen	+49 (0)30 8105800 5521
Christopher Lampe-Traupe	+49 (0)30 8105800-5507
Thomas Rakosi	+43 (0)5 0100 84116
Karin Rattay	+43 (0)5 0100 84118
Bernd Thaler	+43 (0)5 0100 84119
Bank Distribution	
Head: Marc Friebertshäuser	+49 (0)711 810400 5540
Sven Kienzle	+49 (0)711 810400 5541
Michael Schmotz	+43 (0)5 0100 85542
Ulrich Inhofner	+43 (0)5 0100 85544
Klaus Vosseler	+49 (0)711 810400 5560
Andreas Goll	+49 (0)711 810400 5561
Mathias Gindele	+49 (0)711 810400 5562
Institutional Distribution CEE	
Head: Jaromir Malak	+43 (0)5 0100 84254
Institutional Distribution PL and CIS	
Pawel Kielek	+48 22 538 6223
Michal Jarmakowicz	+43 50100 85611
Institutional Distribution Slovakia	
Head: Sarlota Sipulova	+421 2 4862 5619
Monika Smelikova	+421 2 4862 5629
Institutional Distribution Czech Republic	
Head: Ondrej Cech	+420 2 2499 5577
Milan Bartos	+420 2 2499 5562
Barbara Suvadova	+420 2 2499 5590
Institutional Asset Management Czech Republic	
Head: Petr Holecek	+420 956 765 453
Martin Perina	+420 956 765 106
Petr Valenta	+420 956 765 140
David Petracek	+420 956 765 809
Blanca Weinerova	+420 956 765 317
Institutional Distribution Croatia	
Head: Antun Buric	+385 (0)7237 2439
Željko Pavičić	+385 (0)7237 1494
Natalija Zujic	+385 (0)7237 1638
Institutional Distribution Hungary	
Head: Peter Csizmadia	+36 1 237 8211
Attila Hollo	+36 1 237 8209
Gabor Balint	+36 1 237 8205
Institutional Distribution Romania and Bulgaria	
Head: Ciprian Mitu	+43 (0)50100 85612
Crisitan Adascalita	+40 373 516 531
Group Institutional Equity Sales	
Head: Brigitte Zeitlberger-Schmid	+43 (0)50100 83123
Werner Fürst	+43 (0)50100 83121
Josef Kerekes	+43 (0)50100 83125
Cormac Lyden	+43 (0)50100 83120
Business Support	
Bettina Mahoric	+43 (0)50100 86441

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