

FIGURE  
OF THE WEEK

+1.4%

Q2 2017 q/q  
GDP growth  
in Ireland

## In the Headlines



### U.S.: Fed to start cutting balance sheet in October

As expected, the Federal Reserve on Wednesday left interest rates unchanged and announced that it would initiate its balance sheet reduction program in October. The Fed's "dot-plot" also showed that 11 of 16 members believe that interest rates will be raised one more time this year and three times in 2018, and that the forecast for the long term Fed Funds rate was reduced from 3.0% to 2.8%. The Fed also cut its inflation forecast from 1.7% to 1.5%, but raised its GDP forecast for 2017 from 2.2% to 2.4%. The Fed specifically addressed the recent hurricanes, saying that nationwide economic damage would likely be immaterial in the medium term, and that inflationary effects would be temporary, effectively removing any doubt that the storms would deter the Fed from a December hike. Financial markets indicated that the probability of a December hike rose from 58% on Tuesday to 73% Wednesday. It is estimated that the size of the balance sheet will be cut about in half over five years, reversing earlier quantitative easing (QE) programs which were designed to stimulate the economy. The effects of the cuts on the economy will likely be minimal to start.



### Ireland: Economy rebounds in Q2

The economy bounced back in Q2, growing by +1.4% q/q, following a sharp -3.5% q/q contraction in the previous quarter. Annual GDP growth accelerated to +5.8% y/y in the three month from April to June, but the headline figure should be treated with caution given that GDP growth remains heavily distorted by the activities of large multinational corporations – including re-domiciliation and relocation/depreciation of capital assets. Private consumption provides a much more reliable indication of how the Irish economy is faring. Despite a decline of -1.1% q/q in Q2, the outlook for private consumption remains promising given high consumer confidence and robust employment growth. Brexit is the key downside risk for Ireland, however, the economy's flexibility will provide some cushion against the negative economic implications and in some sectors Ireland may actually stand to gain from Brexit with UK-based firms relocating their operations to Ireland. For 2017 we expect full-year GDP growth to come in at +4%, before accelerating to +4.5% in 2018.



### Egypt: Take a walk on the bright side

Strong reforms implemented in Egypt are paying off. The exchange rate was made more flexible and devalued by -50%, public subsidies are progressively unwound and capital controls were partially reduced. A possible negative short-term growth impact was a concern since inflation surged to +31.9% y/y in August. But overall GDP growth figures were not affected; real GDP expanded by +4.9% y/y in Q3 (Q4 of the fiscal year) according to the Finance Ministry. The main contribution to this positive surprise came from net exports since the depreciation helped export competitiveness and increased import costs. Moreover, financing is no longer an issue. Multilateral financing (IMF, African Development Bank) is flowing into Egypt, as well as private financing (a Eurobond issue is set to be launched in November). Foreign direct investment is also increasing, as FDI Markets reported USD40bn of capital investment in Egypt in 2016, more than doubling from 2015 figures. These favorable evolutions bring our GDP growth forecasts to +4% in 2017 and 4.5% in 2018, with upside risks.



### Russia, Turkey, Ukraine: Diverging inflation

The Central Bank of **Russia** (CBR) cut its key policy interest rate by 50bp to 8.50% last week, bringing the cumulative decline this year to 150bp (four cuts since March), noting that inflation expectations resumed their decrease – headline inflation dropped to a record low of 3.3% y/y in August and should meet the CBR's end-2017 target of 4% – while GDP growth in Q2 surprised on the upside (+2.5% y/y).



The Monetary Policy Committee (MPC) of **Turkey** kept its set of policy interest rates unchanged last week (1-week repo rate at 8%), for the third meeting in a row, citing "risks on the pricing behavior" as inflation re-accelerated to 10.7% y/y in August, while GDP growth posted a strong +5.1% y/y in Q2.



Meanwhile, the National Bank of **Ukraine** kept its key policy rate at 12.5%, also last week. Headline inflation has sharply re-accelerated to 16.2% y/y in August from a temporary low of 6.9% in June 2016.

Euler Hermes expects continued gradual monetary easing in Russia while the standby mode in Turkey and Ukraine should continue until inflation slows markedly.



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# Countries in Focus

## Americas

### Uruguay: Love thy neighbors

Real GDP grew by a strong +2.8% y/y in Q2, while decelerating from its Q1 performance (+4.4%), the highest in 3 years. Uruguay's buoyant activity benefits from the recovery in Brazil and Argentina, which together represent one third of the country's exports. The country paid the price of its neighbors' recession in 2016 when it grew by a modest +1.5%. In Q2, external demand was the main driver of growth, with a contribution of 3.1pp to the total. Domestic demand was mostly weighed down by contracting investment despite the recovery in private consumption (+4.4% y/y). The latter was boosted by the appreciation of the peso against the U.S. dollar. Growth should decelerate in H2, as the base effect should be lower than in H1, and should achieve about +3% for the year 2017. Inflation should reach the target range by end-2017 (5% ± 2pp) as monetary tightening, hampered by high dollarization, should finally bear fruit.



## Europe

### Slovakia: Robust but unbalanced growth in Q2

Real GDP growth picked up to +3.3% y/y in Q2 from +3.1% in Q1. However, the breakdown reveals some weaknesses. Private consumption which increased by a robust +3.6% y/y (up from +3.4% in Q1) thanks to employment gains over recent years and inventories which contributed +2.4pp were the only major growth drivers in Q2. Public spending contracted by -0.1% y/y (after -0.7% in Q1). Fixed investment disappointed the most, contracting by -6.7% y/y in Q2, after it had rebounded to +0.9% y/y in Q1 following the collapse in 2016 (-9.3%). Similarly, foreign trade activity was almost flat in Q2 (exports +0.2% y/y, import -0.2%) after it had gained strong momentum in Q1. We expect the inventory build-up to gradually wane in the course of the year while the average H1 growth pattern should broadly continue otherwise, resulting in full-year growth of +3% in 2017, followed by +3.4% in 2018.



## Africa & Middle East

### Zambia: Doctor Jekyll and Mister Hyde

Zambia was less affected by the commodity price slump than other exporters. The country is the 6<sup>th</sup> copper exporter in the World (with 3.3% market share) and this commodity was less severely affected than other ones (oil or iron ore). Moreover, Zambia benefits from investments since the country has a plan to diversify its economy towards agriculture (25% of land resources are currently used, and water resources are abundant). As a result, investment is supposed to be a growth driver during next years. However, the political risk is still quite strong, since the opposition is still not accepting the result of the 2016's presidential election, and the state of emergency was declared in July 2017. Moreover, official figures show an increase of public debt from 33.6% of GDP in 2014 to 61% in 2017. Leveraging a long-term investment plan with debt can be risky, but short-term prospects are good: EH expects GDP growth to reach +3.8% in 2017 (+3% in 2016).



## Asia Pacific

### Singapore: Fuelled by exports

Non-oil domestic exports expanded by +17% y/y in August (from +7.6% in July) supported by a rise in demand for electronic and non-electronic goods. Exports to Mainland China (+43.2% y/y), Hong Kong (+41.9%) and South Korea (+62%) surged substantially. Advanced indicators suggest a continued momentum in the near term. The Singapore Manufacturing PMI rose to 51.8 in August (from 51.0 in July) with an improvement in new export orders. In the longer term, we expect this momentum to moderate as Chinese demand growth is likely to decelerate. Tightening financing conditions have started to hinder the Chinese economic performance, reflected in the slowdown of industrial production growth to +6% y/y in August (from +6.4% in July). Against this background, we expect the Singaporean economy to expand by +2.3% in 2017 and to accelerate moderately in 2018 (+2.4%).



## What to watch

- September 22 – Eurozone PMIs (flash estimates)
- September 22 – UK keynote Brexit speech of PM May
- September 25 – Germany Ifo Business Climate
- September 25 – Poland August retail sales
- September 25 – Poland Sept. business confidence
- September 25 – Turkey Sept. business confidence
- September 26 – Ukraine August industrial production
- September 26 – U.S. August new home sales
- September 26 – U.S. September consumer confidence
- September 27 – China August industrial profits
- September 27 – Czech Republic Central Bank meeting
- September 27 – U.S. August durable goods orders
- September 28 – U.S. Q2 final GDP estimate
- September 29 – U.S. August personal income and consumption expenditures
- September 29 – Canada July GDP



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