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Global markets

The Eurozone October flash PMIs disappointed, raising market concerns over the risk of a mild recession and supporting the view that the ECB's tightening cycle has already come to an end. The composite PMI unexpectedly dropped to 46.5 from September's 47.2 driven by both services and manufacturing PMIs which came in below expectations. Adding to market worries over the Eurozone's near-term outlook, the ECB's Q3 Bank Lending Survey showed a further tightening in lending standards mainly on the back of heightened risk perception, and a further fall in loan demand amid higher interest rates and low confidence. On the flip side, the US continues to outperform, as the composite PMI remained above the 50 level, though modestly, at 51.0, underlying the divergence between the two economies. Against this backdrop, the EUR/USD retreated below 1.06 ahead of today's German IFO, after temporarily marking a near five-week high close to 1.07 early yesterday, on the view that the ECB may start cutting rates before the Fed.

Greece

According to a report published by the European Commission (EC) yesterday, the VAT compliance gap – an estimate of the overall difference between the expected theoretical VAT revenue and the actual amount collected– dropped to 17.8% of the expected VAT revenue in 2021, from 21.0% in 2020. This marks the fourth consecutive annual decrease, and it is the lowest figure since the EC started applying its current methodology in 2017 (VAT gap at 29.1%). Nevertheless, it remains the third highest in EU27, and significantly higher than the EU27 median of 4.9%. In absolute terms, the VAT revenue foregone by the Greek government in 2021 due to noncompliance (intentional and non-intentional) is estimated at €3.2bn, down from €3.4bn in 2020, and €6.0bn in 2017. In terms of collection efficiency, a more general measure that accounts additionally for VAT revenue losses due to factors such as exemptions and non-uniform application of VAT rates, Greece recorded a score of just 39.9%, the lowest in EU27 (58.1%).

CESEE

As was expected, the Monetary Policy Committee in Hungary cut its policy rate yesterday, after a 12-month period of keeping it stable. The 75bps cut, which brought the key rate to 12.25%, exceeded the market consensus for a 50bps reduction. In its post-meeting press release, the MPC cited the strong headline inflation slowdown in September (-4.2ppts on an annual basis) and weakened domestic vulnerability, as the main reasons behind the downward adjustment. The committee considers that a cautious approach and a slower pace of interest rate cuts are warranted in view of the increasing external risks. Accordingly, milder reductions of the policy rate are expected henceforth. In Turkey, most confidence indicators improved in October. The increase was more pronounced in consumer confidence (+3.1pts, to 74.6), followed by business confidence in construction (+0.8pts, to 89.1) and services (+0.6pts, to 113.6). On the contrary, business confidence in services weakened by 3.8pts, to a 14-month low of 113.9pts.

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