Economic Analysis Division
Emerging Markets Analysis

Bi-Weekly Report *11 – 24 September 2018*

NBG - Economic Analysis Division
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Emerging Markets Analysis

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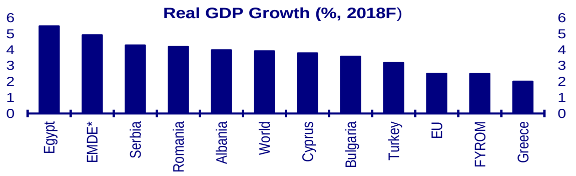
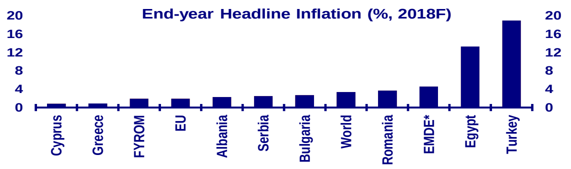


* EMDE: Emerging Market & Developing Economies



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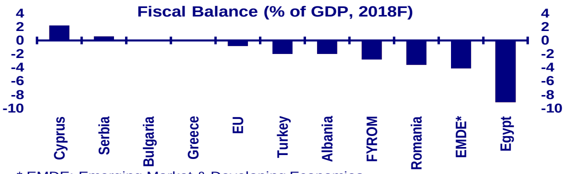

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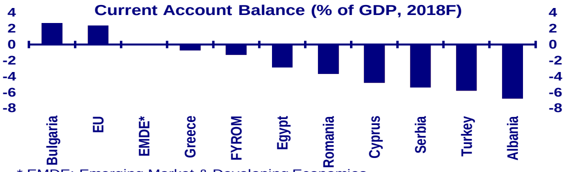


* EMDE: Emerging Market & Developing Economies

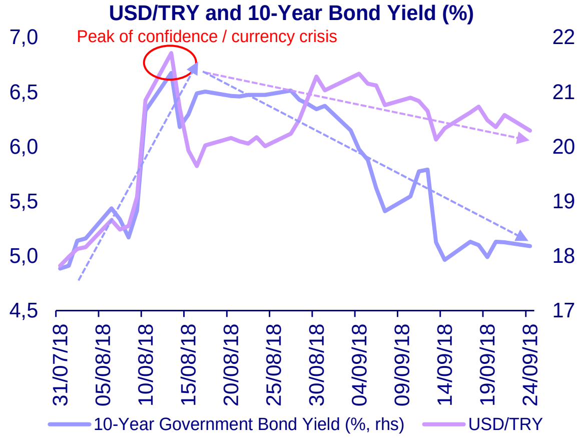
Turkey

BB- / Ba2 / BB (S&P/ Moody's / Fitch)

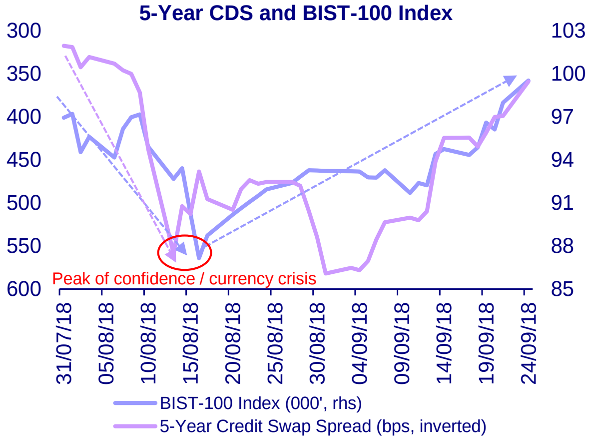
2019-21 New Economic Programme (NEP)	2017 [a]	2018 [b]	2019 [b]	2020 [b]	2021 [b]
Nominal GDP (TRY bn)	3,107	3,741	4,450	5,150	5,742
GDP Growth (%)	7.4	3.8	2.3	3.5	5.0
Inflation (%, eop)	11.9	20.8	15.9	9.8	6.0
Current Account Balance (CAB, USD bn)	-47.4	-36.0	-26.0	-23.5	-24.1
CAB (% of GDP)	-5.6	-4.7	-3.3	-2.7	-2.6
Central Government (CG) Balance (% of GDP)	-1.5	-1.9	-1.8	-1.9	-1.7
CG Expenditure (% of GDP)	21.8	22.0	21.6	21.6	21.4
CG Revenue (% of GDP)	20.3	20.0	19.8	19.7	19.7
CG Primary Balance (% of GDP)	0.3	0.1	0.8	1.0	1.3
CG Interest Payments (% of GDP)	1.8	2.0	2.6	2.9	3.0

a: 2017 Outcomes; b: 2019-2021 NEP Forecasts (September 2018); c: 2019-2021 NEP Projections (September 2018)

USD/TRY and 10-Year Bond Yield (%)



5-Year CDS and BIST-100 Index



	24 Sep.	3-M F	6-M F	12-M F
1-m TRIBOR (%)	25.5	24.0	22.0	20.0
TRY/EUR	7.23	7.00	6.90	6.80
Sov. Spread (2020, bps)	388	350	320	280

	24 Sep.	1-W %	YTD %	2-Y %
ISE 100	99,547	5.5	-13.7	24.8

	2015	2016	2017	2018F	2019F
Real GDP Growth (%)	6.1	3.2	7.4	3.2	1.0
Inflation (eop, %)	8.8	8.5	11.9	19.0	15.2
Cur. Acct. Bal. (% GDP)	-3.7	-3.8	-5.6	-5.8	-3.8
Fiscal Bal. (% GDP)	-1.0	-1.1	-1.5	-2.0	-2.0

The New Economic Programme (NEP) is a welcome response by the Government to the recent market volatility. Following the CBRT's sharp tightening of its monetary policy stance on September 11th (a 6.25 pp hike to the 1-week repo rate, bringing total increases of the CBRT's effective funding rate to 11.25 pps since end-2017), aimed at preserving foreign exchange and price stability amid heightened market volatility, the Government unveiled its NEP for the period 2019-21, envisaging a significant reduction of deteriorating domestic and external imbalances through a tight fiscal policy and structural reforms. The reduction imbalances will, for the first time, be at the expense of strong and stable economic growth. Specifically,

The Government recognised the need for soft landing to stabilise the economy. The government expects GDP growth to decelerate from 7.4% in 2017 to 3.8% in 2018 and 2.3% in 2019. The envisaged slowdown in economic activity assumes softer domestic absorption, both private and public, on the back of a tighter policy mix. In our view, the 2018 forecast is broadly reasonable, but the 2019 projection is over-optimistic as we expect the fiscal-monetary policy mix to remain tight for longer amid a more challenging global backdrop. We see 2018 and 2019 GDP growth at 3.2% and 1.0%, respectively.

Fighting against runaway inflation is a priority for the Government. The NEP foresees inflation dropping from 20.8% in 2018 to 15.9% in 2019. Under a continued tight policy mix and an expected mild depreciation of the TRY by end-2019, we see inflation outperforming its 2018 and 2019 targets, unless the Government proceeds with increases in administrative prices and/or tax hikes. We see inflation easing from 19.0% at end-2018 to 15.2% at end-2019.

The Government projects a sharp external rebalancing this year and next. According to the NEP, the current account deficit (CAD) will drop from 5.6% of GDP in 2017 to 4.7% this year and further to 3.3% in 2019, supported by the slowdown in economic activity, fiscal consolidation and the past years' price competitiveness gains. In our view, the CAD forecast for this year appears very optimistic in view of developments so far this year (the CAD reached a 6-year high of 7.2% of GDP on a 12-month rolling basis in June and the energy bill is set to deteriorate further by end-year on the back of higher global oil prices). We see the CAD narrowing, at a slower pace than expected in the NEP, from 6% of GDP in 2017 to 5.8% this year and further to 3.8% in 2019.

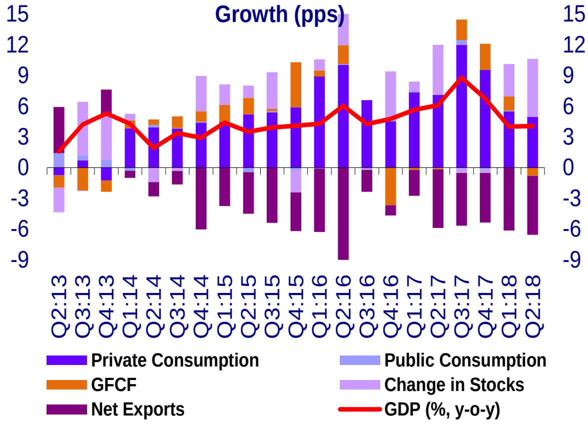
The Government is committed to keep the fiscal deficit in check this year and next, despite a sharp rise in interest payments and a significant slowdown in economic activity. The central government primary balance is targeted to improve from a deficit of 0.1% of GDP in July (on a 12-month rolling basis) to surpluses of 0.1% this year and 0.8% in 2019. The significant improvement in the primary balance next year is expected to result from revenue-enhancing and cost-saving measures (0.3 pps and 1.4 pps of GDP, respectively). However, almost all these projected savings will be allocated to the repayment of rising interest expenditure, leaving the overall fiscal deficit almost unchanged between this year and next (1.9% and 1.8% of GDP, respectively). In our view, the official fiscal deficit target for this year and next will be missed, albeit by a small margin, unless further expenditure cuts are carried out.

Overall, the CBRT's latest move and the Government's commitment to its NEP's targets should help further improve market confidence in the Turkish economy (see charts). Encouragingly, the latter should be enhanced by the forthcoming release of a quarterly report assessing the results of the NEP.

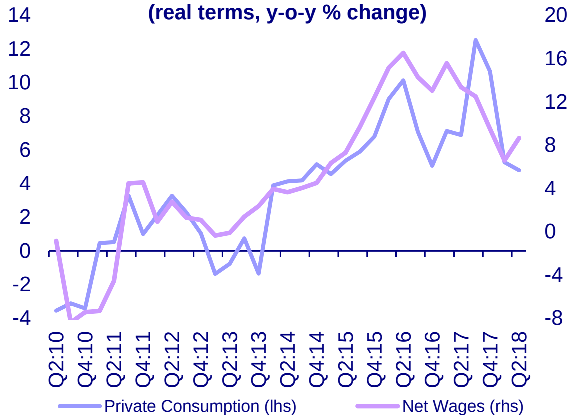
Romania

BBB- / Baa3 / BBB- (S&P / Moody's / Fitch)

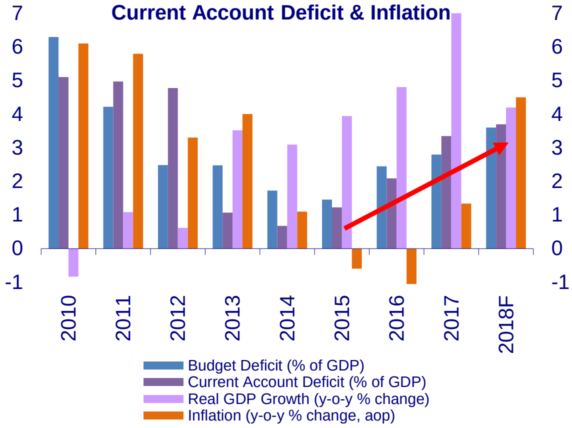
Contribution Rates to Annual Real GDP Growth (pps)



Private Consumption & Net Wages (real terms, y-o-y % change)



Real GDP Growth, Budget Deficit, Current Account Deficit & Inflation



	24 Sep.	3-M F	6-M F	12-M F
1-m ROBOR (%)	3.1	3.2	3.0	3.0
RON/EUR	4.63	4.64	4.65	4.68
Sov. Spread (2024, bps)	113	130	120	110

	24 Sep.	1-W %	YTD %	2-Y %
BET-BK	1,624	0.1	--1.7	23.1

	2015	2016	2017	2018F	2019F
Real GDP Growth (%)	3.9	4.8	7.0	4.2	3.8
Inflation (eop, %)	-0.9	-0.5	3.3	3.7	3.4
Cur. Acct. Bal. (% GDP)	-1.2	-2.1	-3.3	-3.7	-4.5
Fiscal Bal. (% GDP)	-1.5	-2.4	-2.8	-3.6	-3.9

The Romanian economy gained momentum in Q2:18, after a weak start to the year. On a sequential basis, GDP increased by a solid 1.4% q-o-q s.a. in Q2:18 following no change in Q1:18. Nevertheless, due to strong base effects, the annual pace of economic expansion remained broadly flat at 4.1% y-o-y in Q2:18, significantly lower than in H1:17 (up 5.9% y-o-y).

Albeit easing, private consumption remains the main engine of growth in Q2:18. Against the backdrop of rising inflation (up 5.3% y-o-y in Q2:18 against 4.7% in Q1:18 and just 1.3% on average in FY:17) and somewhat weaker consumer confidence, growth in private consumption decelerated slightly in Q2:18 (to 4.8% y-o-y from 5.3% in Q1:18). Note that, albeit having slowed significantly from the double-digit rates seen last year, growth in private consumption still remains solid, reflecting tight labour market conditions (the LFS unemployment rate currently stands at a historical low of 4.2%) and the loose incomes policy. Regarding the latter, public wages rose by 25% in January, with certain sub-sectors receiving another 20% increase in March. The impact of the loose incomes policy on disposable income has been moderated, however, by the shift in the bulk of the social security contributions' burden onto employees as of the beginning of the year.

Worryingly, fixed investment activity fell sharply in Q2:18 (down 3.0% y-o-y against a rise of 6.3% in Q1:18), with the (4-quarter rolling) investment-to-GDP ratio falling to a low of 26.0% from a pre-crisis high of 40.0%. The decline in fixed investment was more than offset, however, by the sharp increase in inventories (incl. statistical discrepancies, adding a sizeable 5.7 pps to overall growth in Q2:18). The latter was the main factor behind a large drag of net exports' on overall growth in Q2:18 (subtracting as much as 5.8 pps of GDP against 6.1 pps in Q1:18).

Economic activity is set to remain strong in H2:18, supported by stronger investment activity. Fixed investment should rebound during the remainder of the year, driven by the public sector (the budget sees public investment rising by 0.8 pps of GDP y-o-y in H2:18, due, *inter alia*, to better absorption of EU funds). At the same time, private consumption should continue to expand at a solid pace (comparable with that observed in H1:18), helped by a further easing in incomes policy (pensions rose by 10.0% in July). Reflecting the economic imbalances, net exports could remain a drag on growth, albeit less compared with FY:17. Overall, in view of the weaker-than-expected H1:18 outcome, we revise down our FY:18 GDP forecast to 4.2% (from 4.4% previously), still well above its long-term potential of 3.0%.

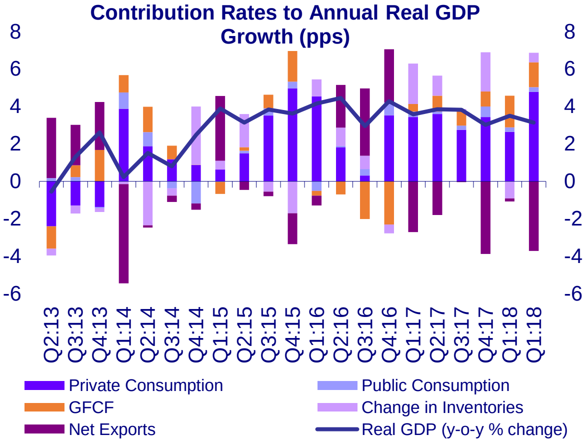
All said, the economy appears to be overheating, with GDP growth well above its long-term potential (of c. 3.0%) for a 4th consecutive year and the current account deficit up sharply (to a projected 3.7% of GDP in FY:18 from a low of 0.4% in FY:14). At the same time, fiscal policy remains expansionary (the budget deficit is projected to widen to 3.6% of GDP in FY:18 -- above the critical EU threshold of 3.0% -- from 2.8% in FY:17 and a low of 1.5% in FY:15).

Against this backdrop, the NBR appears to be significantly behind the curve. Our "Taylor rule" estimates suggest that rates should be raised to 4.5% from 2.5% currently to address these challenges. However, the authorities are reluctant to proceed with aggressive rate hikes, especially in the context of limited or no tightening by other central banks in the region. Overall, we expect the NBR to tighten its stance gradually, raising its key rate by another 25 bps in FY:18 (following 50 bps in 9M:18) and by 75 bps in FY:19.

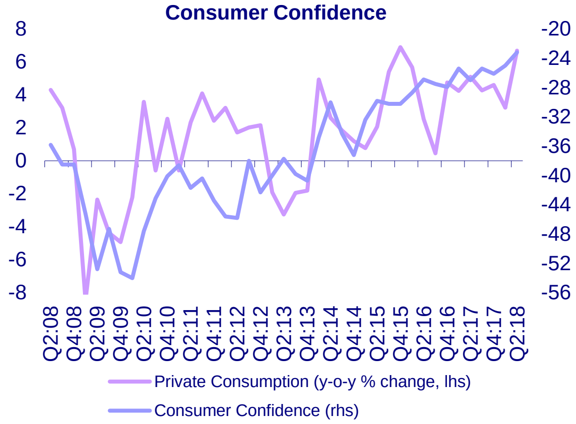
Bulgaria

BB+ / Baa2 / BBB- (S&P / Moody's / Fitch)

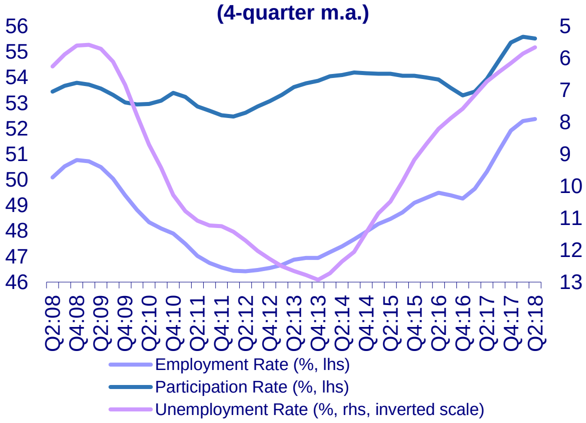
Contribution Rates to Annual Real GDP Growth (pps)



Private Consumption & Consumer Confidence



Labour Market Indicators (4-quarter m.a.)



	24 Sep.	3-M F	6-M F	12-M F
Base Interest Rate (%)	0.0	0.1	0.1	0.2
BGN/EUR	1.96	1.96	1.96	1.96
Sov. Spread (2022, bps)	33	44	42	40

	24 Sep.	1-W %	YTD %	2-Y %
SOFIX	629	-0.2	-7.2	33.2

	2015	2016	2017E	2018F	2019F
Real GDP Growth (%)	3.6	3.9	3.6	3.6	3.4
Inflation (eop, %)	-0.4	0.1	2.8	2.7	2.6
Cur. Acct. Bal. (% GDP)	0.0	2.3	4.5	2.7	1.4
Fiscal Bal. (% GDP)	-2.8	1.6	0.9	0.0	0.2

The Bulgarian economy loses momentum in Q2:18. On a sequential basis, GDP rose by a solid 0.8% q-o-q s.a. in Q2:18, a slower pace compared with the past 5 quarters. As a result, the annual pace of economic expansion eased to 3.2% y-o-y in Q2:18 from 3.5% in Q1:18, bringing H1:18 growth to 3.3% against 3.7% in H1:17.

A boost to private consumption helped moderate the impact of weaker net exports in Q2:18. Despite the stagnation in the labour market (see below), private consumption strengthened in Q2:18 (up 6.7% y-o-y against 3.2% in Q1:18), on the back of stronger consumer confidence and wealth effects (housing prices and the stock market have gained 15% and 25% in real terms, respectively, over the past 2 years). At the same time, fixed investment activity slowed in Q2:18 (up by a still solid 6.3% y-o-y against 10.2% in Q1:18), despite higher public investment (up 0.2 pps of GDP y-o-y). This deterioration was more than offset, however, by the rise in inventories (adding 0.5 pps of GDP to overall growth in Q2:18 against a drag of 0.9 pps in Q1:18). Worryingly, strong domestic demand combined with weaker demand from Bulgaria's non-EU trade partners (especially Turkey and Russia) led to a sharp deterioration in net exports (subtracting 3.7 pps of GDP from overall growth in Q2:18 against just 0.2 pps in Q1:18).

GDP growth set to pick up in H2:18, driven by investment. Looking ahead, fixed investment is due to strengthen, in line with favourable domestic liquidity conditions (the loan-to-deposit ratio stands at 77%), low interest rates and better absorption of EU funds. This improvement should more than compensate for the eventual slowdown in private consumption, due to weaker employment growth. At the same time, despite weak external demand from Bulgaria's non-EU trade partners, the drag from net exports on overall growth should moderate gradually, in view of favourable terms of trade. All said, we see FY:18 GDP growth flat at 3.6% -- above its long-term potential of c. 3.0%.

The labour market shows signs of stagnation. The unemployment rate fell by 0.8 pps y-o-y to a low of 5.5% in Q2:18, marking the 18th consecutive quarter of decline. This time, however, the improvement in the unemployment rate came on the back of the drop in the number of unemployed seeking work, as suggested by the easing participation rate (down 0.3 pps y-o-y to 55.5%), rather than higher employment. Indeed, following a strong rise in the past 4 years (at a CAGR of 1.9%), employment fell slightly in Q2:18 (down 0.5% y-o-y). Nevertheless, the employment rate rose marginally (up 0.3 pps y-o-y to 52.5%), in line with the drop in the working age population (down 0.8% y-o-y). In this context, wage pressures persisted (up 5.4% y-o-y in real terms for a 2nd consecutive quarter in Q2:18 against 7.8% in FY:17). Note that, albeit slowing, real wage growth still surpasses productivity gains (c. 3.0% p.a. over the past 3 years).

Structural problems cloud the outlook for the labour market. Long-term unemployment remains high (60% of people have been unemployed for 12 months or more in Bulgaria -- the 2nd highest in the EU after Greece), reflecting labour market rigidities, skills mismatches and poor activation policies. At the same time, the labour force is shrinking due to migration and ageing. In this context, we expect labour market conditions to improve at a much slower pace, with employment rising by a weak 0.3% on average in FY:18 (against an increase of 4.4% in FY:17) and the unemployment rate falling to 5.5% in FY:18 (from 6.2% in FY:17 and 7.6% in FY:16).

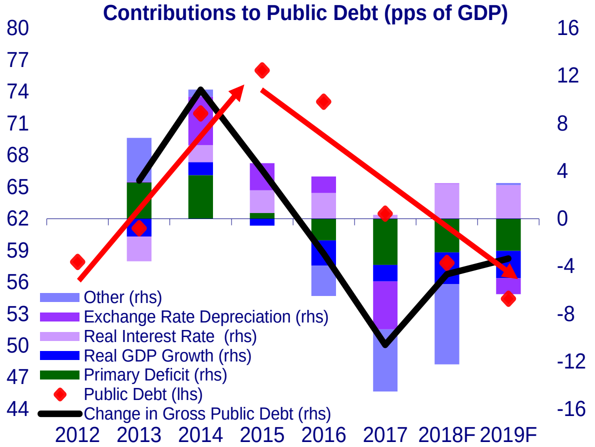
Concomitantly, wage pressures are set to persist in FY:18. However, this is not a major cause for concern. Indeed, with total hourly costs being one-sixth of the EU-28 average, competitiveness remains strong as reflected in the large current account surplus (see table).

Serbia

BB / Ba3 / BB (S&P / Moody's / Fitch)

Consolidated Fiscal Balance (% of GDP)	2017	7M:17	7M:18	2018 Budget	2018F NBG
Revenue	44.2	25.4	25.0	42.3	43.3
Tax Revenue	38.5	22.1	21.7	37.3	38.0
PIT	3.8	2.1	2.0	3.6	3.7
CIT	2.5	1.7	1.6	2.0	2.1
VAT	10.7	6.2	5.9	10.6	10.7
Excises	6.3	3.6	3.5	6.0	6.1
Customs	0.9	0.5	0.5	0.9	0.9
Other taxes	1.6	0.9	0.9	1.6	1.6
Soc. Contrib.	12.7	7.1	7.3	12.7	12.9
Non-Tax Rev.	5.5	3.2	3.2	4.7	5.0
Grants	0.2	0.1	0.1	0.3	0.3
Expenditure	43.0	23.8	23.9	43.0	42.7
Current Exp.	39.1	21.9	21.8	38.8	38.5
Personnel	9.5	5.5	5.7	9.8	9.8
Goods & Services	6.8	3.5	3.8	6.9	7.0
Subsidies	2.5	1.1	1.1	2.4	2.4
Social Assist.	16.1	9.2	8.9	15.7	15.7
o/w Pensions	11.2	6.5	6.4	11.1	11.1
Other	1.4	0.7	0.7	1.4	1.4
Int. Payments	2.7	1.8	1.6	2.5	2.2
Capital Exp.	3.0	1.3	1.7	3.6	3.6
Activated Guarant.	0.6	0.3	0.3	0.4	0.4
Net Lending	0.3	0.2	0.1	0.1	0.2
Fiscal Balance	1.2	1.7	1.1	-0.7	0.6
Primary Balance	3.9	3.5	2.6	1.9	2.8

Contributions to Public Debt (pps of GDP)



	24 Sep.	3-M F	6-M F	12-M F
1-m BELIBOR (%)	2.6	2.9	3.1	3.5
RSD/EUR	118.1	117.9	117.6	117.4
Sov. Spread (2021, bps)	123	132	126	120

	24 Sep.	1-W %	YTD %	2-Y %
BELEX-15	731	0.8	-3.8	14.2

	2015	2016	2017	2018F	2019F
Real GDP Growth (%)	0.8	2.8	1.9	4.3	4.0
Inflation (eop, %)	1.5	1.6	3.0	2.5	2.8
Cur. Acct. Bal. (% GDP)	-3.7	-3.1	-5.7	-5.4	-5.2
Fiscal Bal. (% GDP)	-3.7	-1.3	1.2	0.6	0.4

The fiscal policy stance turned expansionary in 7M:18, with the 4-quarter rolling fiscal surplus declining by 0.5 pps y-o-y to 0.6% of GDP. The cumulative consolidated fiscal surplus moderated by 0.6 pps y-o-y to 1.1% of GDP in 7M:18, reflecting both lower revenue and higher expenditure. Indeed, overall revenue declined on an annual basis in 7M:18, due to a deterioration in: i) VAT revenue (by 0.3 pps of GDP y-o-y in 7M:18), reflecting the postponement of refund payments (of RSD 12bn, or 0.3% of GDP) to January 2018; and ii) personal income tax (down 0.1 pp of GDP y-o-y), due to the negative impact from the drop in the non-taxable salary (by RSD 3.2k to RSD 15.0k as of January 2018, with an estimated cost of 0.3 pps of GDP in FY:18). Note, however, that the revenue performance was supported by the increase in social contributions (up 0.2 pps of GDP y-o-y in 7M:18), in line with the improvement in (formal) employment and increasing wages (reinforced by the 10% rise in the minimum wage).

On the other hand, the rise in spending in 7M:18 resulted from: i) higher capital expenditure (up 0.4 pps of GDP y-o-y), in view of the country's large infrastructure needs; and ii) a rise in personnel expenditure (up by 0.2 pps of GDP y-o-y), partly due to the targeted 5-10% hike in public sector wages (with a fiscal impact of 0.5 pps of GDP in FY:18). The rise in outlays in 7M:18 was, however, held back by lower interest payments (down 0.2 pps of GDP y-o-y), due to the decline in public debt, lower interest rates and a stronger RSD.

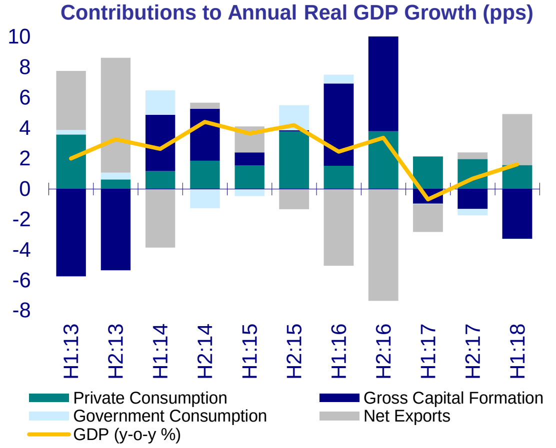
A weaker-than-budgeted expansionary fiscal stance in sight this year. The 2018 Budget envisages an expansionary fiscal stance, targeting a fiscal deficit of 0.7% of GDP -- 1.9 pps above the FY:17 outcome.

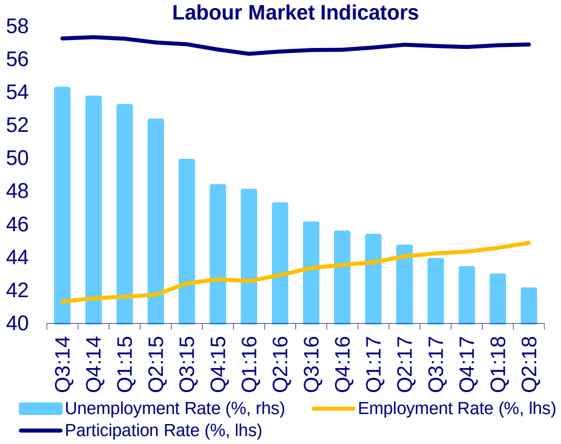
In our view, the y-t-d performance and recent trends suggest that the 2018 deficit is set to overperform its target (of 0.7% of GDP), for a 4th successive year, by a wide margin. In fact, we expect a neutral fiscal stance during the rest of the year, following an expansionary fiscal stance in 7M:18. Specifically, we foresee overall revenue weakening by 0.5 pps of GDP y-o-y in 8-12M:18, due to: i) weaker non-tax revenue, reflecting large once-offs in 2017; ii) weaker corporate income tax that reached a record high in 2017; and iii) a milder boost from collection efficiency (that supported the revenue performance in FY:17). On the other hand, we expect expenditure to decline by 0.5 pps of GDP y-o-y in 8-12M:18 (after a slight rise by 0.2 pps of GDP y-o-y in 7M:18), despite the above-mentioned public sector wage hikes and a 5% increase in pensions (with a fiscal impact of 0.4 pps of GDP in FY:18). The decline in expenditure in 8-12M:18 should result from the continued drop in interest payments, lower social assistance outlays (following the sharp decline in the unemployment rate), a base effect from a (once-off) pension and public sector wage bonuses (of 0.3% of GDP at end-2017), as well as lower net lending (reflecting the ongoing restructuring of SOEs) and the continued public sector employment ban.

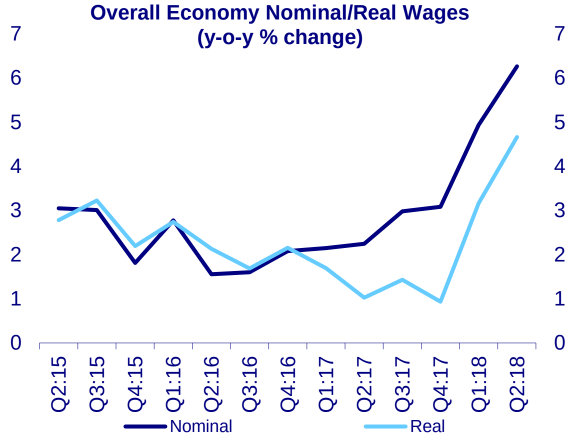
Overall, we see the FY:18 fiscal balance posting a surplus (for a 2nd consecutive year) of 0.6% of GDP -- overperfoming its deficit target of 0.7% of GDP and resulting in a fiscal impulse of 0.6 pps of GDP (for the first time in 4 years). Should our FY:18 fiscal deficit forecast materialise, the public debt-to-GDP ratio would decline further for a 3rd successive year to (a 7-year low of) 57.8% of GDP from 62.5% in FY:17 and a 13-year high of 76.0% at end-2015. The drop in the public debt should be supported by: i) the repayment of a USD 1.0bn Eurobond (or 2.0% of GDP), maturing in November that is not expected to be rolled over; and ii) the early repayment of the EUR 138.8mn (0.3% of GDP) London Club debt in June.

F.Y.R.O.M.

BB- / NR / BB (S&P / Moody's / Fitch)







	24 Sep.	3-M F	6-M F	12-M F
1-m SKIBOR (%)	1.2	1.8	2.3	2.8
MKD/EUR	61.3	61.3	61.3	61.3
Sov. Spread (2021. bps)	211	210	190	160

	24 Sep.	1-W %	YTD %	2-Y %
MBI 100	3,439	0.3	35.5	77.3

	2015	2016	2017	2018F	2019F
Real GDP Growth (%)	3.9	2.9	0.0	2.5	3.8
Inflation (eop. %)	-0.3	-0.2	2.4	1.9	2.0
Cur. Acct. Bal. (% GDP)	-1.9	-2.7	-1.3	-1.3	-1.8
Fiscal Bal. (% GDP)	-3.5	-2.7	-2.7	-2.8	-2.8

Opinion polls ahead of the September 30th referendum show the majority are in favour of the "name" agreement. The Government must now secure a turnout of more than 50% -- needed for the validation of the vote. The acceptance of the new name, "*the Republic of North Macedonia (RNM)*", in the forthcoming referendum will pave the way for constitutional revisions in RNM (i.e. removing anything deemed as expressing irredentist ambitions over Greece's northern province of Macedonia) before the ratification of the "name" agreement by Greece's Parliament in Q1:19. The successful completion of the agreement will allow RNM to begin negotiations for EU membership and join NATO.

A gradual economic recovery continued in H1:18. Economic activity expanded by 1.6% y-o-y in H1:18 following a weak rise of 0.7% in H2:17 and a contraction of -0.7% in H1:17.

The improved growth performance in H1:18 was mainly driven by strong external demand. Indeed, net exports contributed 3.4 pps to headline growth in H1:18, reflecting a strong export performance (up 12.2% y-o-y), mainly on the back of a buoyant production in the country's industrial zones, and a subdued increase in imports (up 4.5% y-o-y), in line with weaker domestic demand.

On the other hand, gross capital formation (GCF, including gross fixed capital formation, changes in inventories and statistical discrepancies) was the only drag on headline growth in H1:18, subtracting a sizeable 3.3 pps. We estimate the decline in GCF in H1:18 to have resulted mainly from a sharp drop in public investment. In fact, fiscal accounts show that capital spending declined by c. 54% y-o-y in H1:18, due not only to unsupportive base effects, but also to delays in the clearance of "*administrative obstacles*" to the resumption of country's key infrastructure projects.

Looking ahead, we expect GDP growth to strengthen further during the rest of the year (up 3.4% y-o-y in H2:18 from 1.6% in H1:18), mainly on the back of firming domestic demand. The latter should result mainly from: i) stronger economic confidence, stemming from the Government's commitment to secure a starting date for EU accession talks next year; ii) a rebound in public investment; iii) a more accommodative monetary policy; and, iv) stronger real disposable income, benefiting from subdued inflation and tighter labour market conditions. Overall, we see FY:18 real GDP growth at 2.5% -- well above the FY:17 outcome of 0.0%.

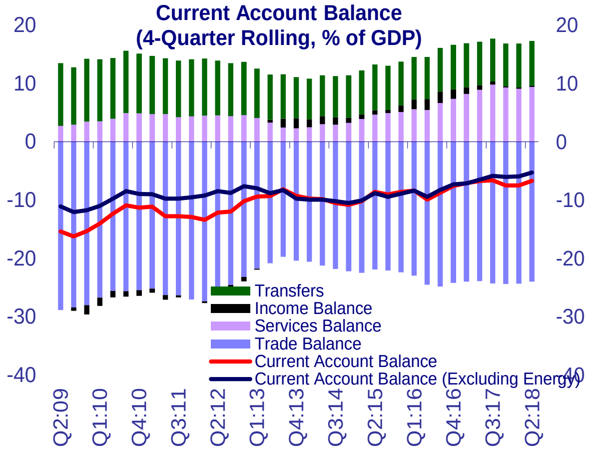
Labour market conditions tightened further in Q2:18, supported by active labour market policies and solid economic growth. The unemployment rate declined by 1.4 pps y-o-y to a historical low of 21.1% in Q2:18, exclusively due to an increase in the employment rate (up 0.8 pps y-o-y to 44.9%). Importantly, employment continued to grow at a solid pace in Q2:18 (up 2.1% y-o-y), benefiting from country's improved economic prospects and continued government-subsidised employment programmes.

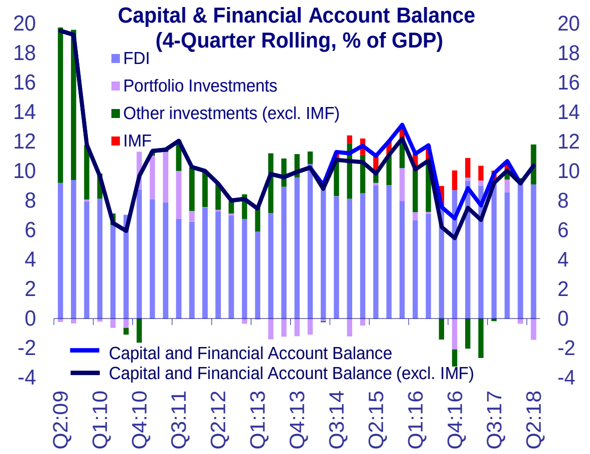
Against this backdrop, wage pressures intensified in Q2:18, with nominal wages rising sharply by 6.3% y-o-y (following rises of 4.9% in Q1:18 and 3.1% in Q4:17), mainly reflecting a significant hike to the minimum wage (up 19% to MKD 12k or c. EUR 200 -- effective from September 2017).

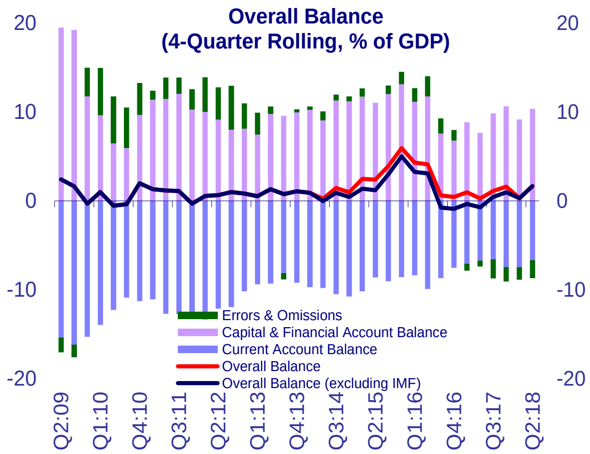
Looking ahead, with the support of a strong rebound in economic activity during the rest of the year (see above), the unemployment rate is set to moderate to 21.0% in FY:18 from 22.4% in FY:17. Moreover, an unsupportive base effect from September (see above) should limit nominal wage growth to 4.7% in FY:18 -- still above the FY:17 outcome of 2.6%.

Albania

B+ / B1 / NR (S&P / Moody's / Fitch)







	24 Sep.	3-M F	6-M F	12-M F
1-m TRIBOR (mid, %)	1.4	2.2	2.2	2.2
ALL/EUR	126.1	132.0	131.3	130.0
Sov. Spread (bps)	215	210	200	180

	24 Sep.	1-W %	YTD %	2-Y %
Stock Market	- - -	- - -	- - -	- - -

	2015	2016	2017	2018F	2019F
Real GDP Growth (%)	2.2	3.4	3.8	4.0	4.0
Inflation (eop, %)	2.0	2.2	1.8	2.3	2.5
Cur. Acct. Bal. (% GDP)	-8.6	-7.5	-7.5	-6.8	-5.8
Fiscal Bal. (% GDP)	-4.1	-1.8	-2.0	-2.0	-1.9

External adjustment continued in H1:18, with the 4-quarter rolling current account deficit (CAD) moderating to 6.7% of GDP in Q2:18 from 7.5% in Q4:17. The CAD declined by 0.9 pps y-o-y to 2.6% of GDP in H1:18, due to a narrower trade deficit (by as much as 1.0 pp of GDP y-o-y in H1:18), reflecting both a strong export performance, as well as lower investment-related imports.

In fact, exports continued to record double-digit growth (up 24.8% y-o-y, in EUR terms in H1:18 compared with a rise of 11.7% in FY:17), reflecting: i) a recovery in exports of construction material and metals, supported by rising metal prices; as well as ii) a rebound in oil and electricity exports (mainly to Spain), after 4 consecutive years of sharp decline. Note that electricity exports rose sharply in H1:18, in line with electricity production, due to abundant rainfall, following a drought throughout FY:17.

On the other hand, imports rose at a slower pace (up 6.8% y-o-y in H1:18, compared with an increase of 9.2% in FY:17), despite the rebound in private consumption. The slowdown in imports can be attributed to lower imports related to energy projects (namely TAP and the Statkraft/Devoll hydropower projects) -- contributing 1.6 pps of GDP to the FY:18 CAD against 2.3 pps in FY:17, according to the IMF -- as the largest part of TAP was completed in FY:17.

The capital and financial account (CFA) surplus, excluding IMF disbursements, narrowed slightly in H1:18, but fully covered the CAD. The CFA surplus (excluding the disbursement of the last two tranches from the IMF, totalling EUR 73.2mn, or 0.6% of GDP, in H1:17) declined by 0.2 pps y-o-y (to 3.7% of GDP) in H1:18. The deterioration reflects (net) portfolio outflows (of 0.9% of GDP) in H1:18 against inflows (of 1.4% of GDP) in H1:17 attracted by a spike in domestic paper yields. On a positive note, (net) FDIs strengthened (up 0.3 pps y-o-y reaching 4.0% of GDP in H1:18), covering 153% of the H1:18 CAD. Moreover, the disbursement of the first tranche of EUR 118mn (0.9% of GDP) of a total loan of EUR 218mn from the EBRD to the state-owned electricity producer, KESH, broadly offset net deposit outflows from commercial banks (of c. 1.0% of GDP in H1:18).

Although the CFA surplus more than covered the CAD, the overall balance turned negative (-0.4% of GDP in H1:18), due to (unusual) large negative net errors and omissions (-1.5% of GDP, likely reflecting unclassified imports). As a result, FX reserves declined (by EUR 40mn, or 0.3% of GDP in H1:18) to a still comfortable level of EUR 3.0bn, covering an adequate 6.4 months of GNFS imports.

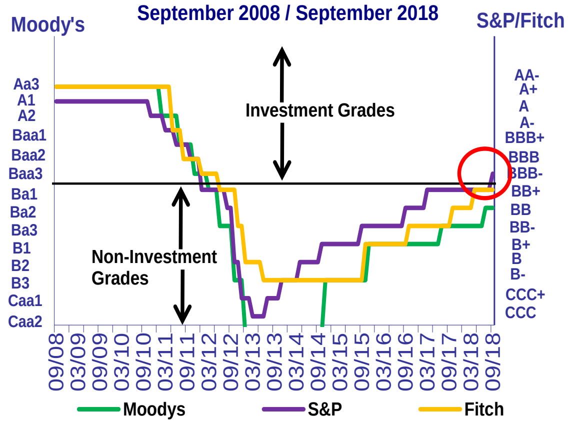
The CAD is set to widen marginally in H2:18, but will be fully covered through large FDI and concessional loans. The expected slight deterioration in H2:18 (by c. 0.3 pps of GDP y-o-y) -- reversing ⅓ of the H1:18 gains -- should occur despite: i) lower investment-related imports, following the completion of high import-content energy projects; and ii) lower electricity imports on an annual basis in H2:18, following a drought-related spike in H2:17. The deterioration should result mainly from stronger consumption-related imports and higher repatriation of profits and dividends. Overall, we expect the CAD to continue on its downward trend, for a 4th consecutive year, narrowing to a 12-year low of 6.8% of GDP in FY:18 from 7.5% in FY:17.

Regarding financing, we expect the FY:18 external financing gap to reach EUR 79.6mn (0.6% of GDP). This gap should be largely covered by a modest drawdown in FX reserves (c. EUR 70mn). However, FX reserves would increase should the Government proceed with the expected issuance of a new 7-year Eurobond (of EUR 0.5bn or 3.9% of GDP) by end-year, amid still favourable global market conditions and the country's bright economic prospects.

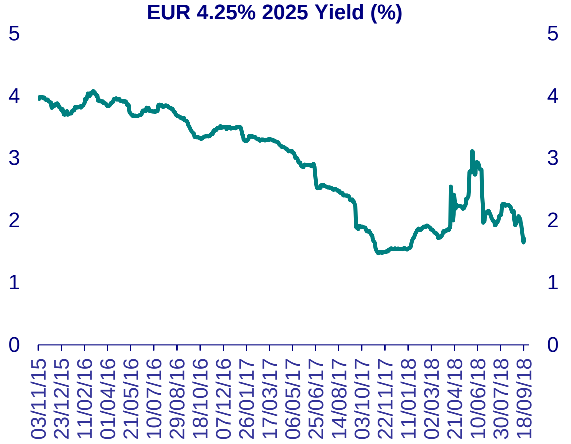
Cyprus

BBB- / Ba2 / BB+ (S&P / Moody's / Fitch)

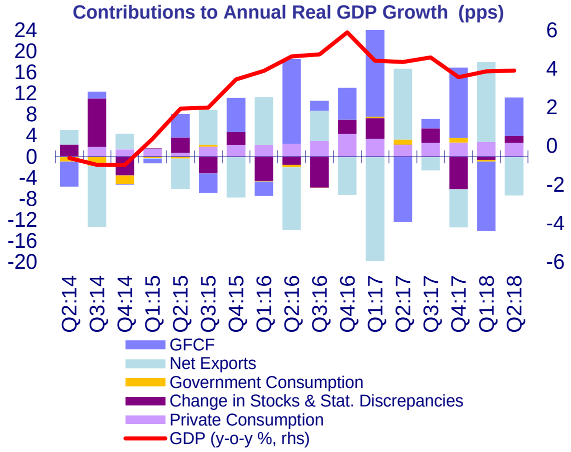
Foreign Currency LT Debt Rating
September 2008 / September 2018



EUR 4.25% 2025 Yield (%)



Contributions to Annual Real GDP Growth (pps)



	24 Sep.	3-M F	6-M F	12-M F
1-m EURIBOR (%)	-0.37	-0.37	-0.37	-0.37
EUR/USD	1.17	1.22	1.24	1.26
Sov. Spread (2020. bps)	70	55	52	50

	24 Sep.	1-W %	YTD %	2-Y %
CSE Index	74	0.0	5.8	8.8

	2015	2016	2017	2018F	2019F
Real GDP Growth (%)	2.0	4.8	4.2	3.8	3.6
Inflation (eop. %)	-1.0	-0.3	-0.6	0.8	1.0
Cur. Acct. Bal. (% GDP)	-1.5	-4.9	-6.7	-4.8	-4.5
Fiscal Bal. (% GDP)	-1.2	0.5	1.8	2.2	1.9

S&P upgraded Cyprus to investment grade (BBB-) for the first time in 6 years. The move was motivated by the Government's recent measures to reduce the banking sector's non-performing assets through the carve-out of Cyprus Cooperative Bank's (CCB, the second largest bank) NPLs (which is set to contribute largely to the reduction of the banking sector's NPE ratio to 34% this year from 51% in 2017, according to the agency) and amendments in the insolvency & foreclosure frameworks. In addition, the agency expects solid GDP growth rates and fiscal prudence to continue in the medium term, helping the public debt-to-GDP ratio to resume its downward trend in 2019, following a temporary rise this year due to the government's issuance of bonds to CCB (worth EUR 3.2bn or 15.6% of GDP).

However, S&P changed the outlook from "positive" to "stable", stressing the positive macroeconomic prospects are clouded by high public and private debt, as well as elevated, albeit declining, stocks of NPLs. Importantly, the country's return to investment grade allows access to international capital markets on more favourable terms and makes government securities usable as collateral in Eurosystem credit operations and the ECB's asset purchasing programme.

Cyprus raised EUR 1.5bn (7.4% of GDP) in Eurobond markets at a historically-low yield of 2.4%, benefiting from its recent rating upgrade and a benign global backdrop. Cyprus issued a 10-year EUR 1.5bn (7.4% of GDP) Eurobond at a yield of 2.4% (193 bps over the German benchmark and 144 bps over mid-swaps), as part of its EUR 9.0bn Euro Medium Term Note programme. Importantly, the issue was more than five times oversubscribed (inducing the government to raise 50% more than initially planned), achieving the lowest yield ever paid by the country for such maturity in Eurobond markets. Recall that in October 2015 -- six months before exiting the 3-year economic adjustment programme -- the island had issued a 10-year Eurobond (EUR 1.0bn) at a yield of 4.25%.

The improved yield of the new issue was supported by country's return to investment grade by S&P a few days earlier (see above) and, to a lesser extent, favourable global market conditions. The new bond proceeds will largely be used to repay more expensive outstanding debt maturing in 2018 and 2019.

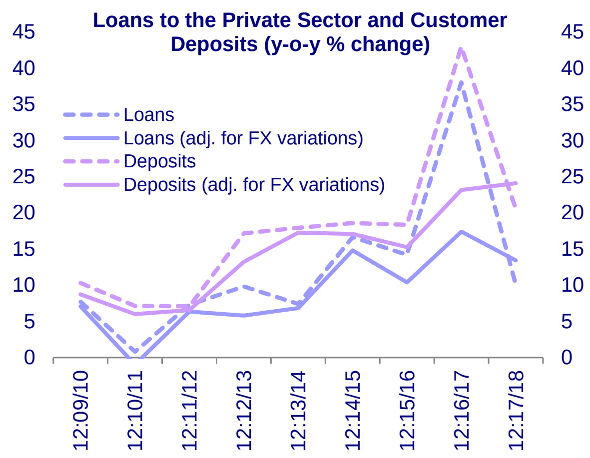
Economic activity maintained its momentum in Q2:18 (up 3.9% y-o-y). The annual pace of economic expansion stood at a solid 3.9% y-o-y in Q2:18, unchanged from Q1:18, and down slightly from an upwardly-revised 4.2% in FY:17 (from 3.9%).

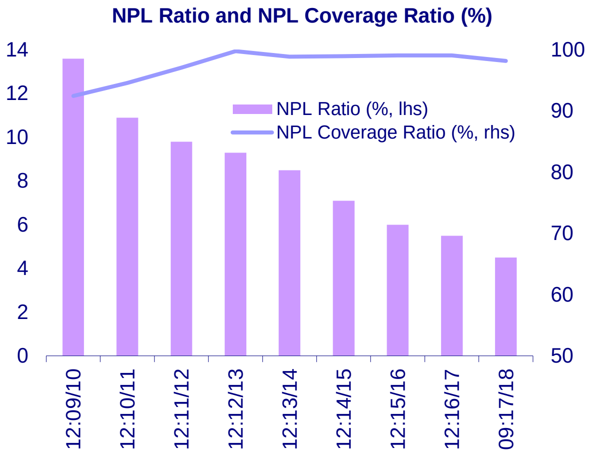
Gross fixed capital formation (GFCF) was the main driver of growth in Q2:18 (contributing 7.3 pps to headline growth), on the back of higher mostly-imported (net) investments in shipping. Moreover, private consumption remained strong (adding 2.6 pps to overall growth), as it continued to benefit from higher real disposable income, in line with subdued inflation and tightening labour market conditions. On the other hand, net exports were a drag on Q2:18 GDP growth, exclusively due to higher imports (up 12.7% y-o-y), reflecting stronger domestic demand and higher imports of ships.

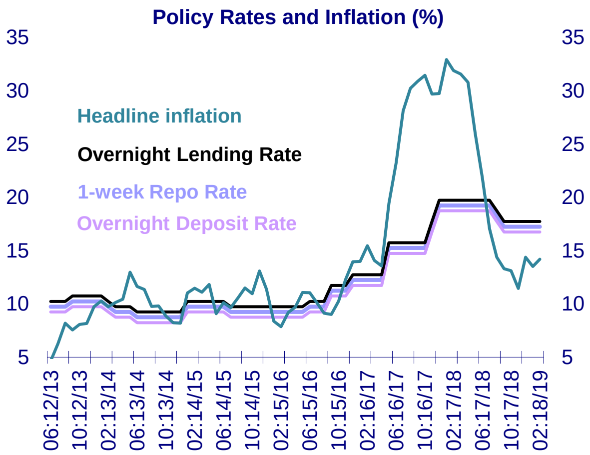
Looking ahead, we expect GDP growth to decelerate slightly in H2:18 to 3.7% y-o-y from 3.9% in H1:18, bringing the FY:18 outcome to a still robust 3.8%. The deceleration should reflect a slowdown in private consumption and tourist activity. The former will be driven by increased household debt servicing, in line with banks' more aggressive debt recovery following legislative changes, while the latter will be affected by a reduction in tourist arrivals from Russia and the UK (main source countries), due to higher competition from Turkey and Egypt.

Egypt

B / B3 / B (S&P / Moody's / Fitch)







	24 Sep.	3-M F	6-M F	12-M F
O/N Interbank Rate (%)	16.9	18.0	17.0	15.0
EGP/USD	17.9	17.8	18.0	18.0
Sov. Spread (2020. bps)	224	168	152	140

	24 Sep.	1-W %	YTD %	2-Y %
HERMES 100	1,347	-4.1	-6.2	90.3

	14/15	15/16	16/17	17/18E	18/19F
Real GDP Growth (%)	4.4	4.3	4.2	5.2	5.8
Inflation (eop. %)	11.4	14.0	29.8	12.8	14.2
Cur. Acct. Bal. (% GDP)	-3.7	-6.0	-6.5	-2.8	-3.0
Fiscal Bal. (% GDP)	-11.4	-12.5	-10.9	-9.8	-8.4

Customer deposits (FX-adjusted) rose by 24.1% in FY:17/18, underpinned by strengthening confidence in the Egyptian economy and higher EGP remuneration rates. Adjusted for FX fluctuations, growth in customer deposits accelerated slightly to a multi-year high of 24.1% y-o-y at end-2017/18 (June 2018) from 23.3% at end-2016/17, reaching 68.4% of GDP.

The strong performance of (FX-adjusted) overall deposits was supported by strengthening confidence in the domestic economy following the solid implementation of the loan agreement with the IMF and a more attractive remuneration of deposits (average interest rates on 1 to 3 months, 4 to 6 months and 7 to 12 months EGP-denominated deposits rose by 3.1, 3.7 and 2.7 pps y-o-y, respectively, to 12.9%, 13.8% and 13.1% in FY:17/18).

A recovery in workers' remittances from abroad and tourist receipts also contributed to the strong performance of overall deposits (FX-adjusted). Indeed, workers' remittances increased by c. 48% y-o-y to an all-time high of USD 21.9bn (8.7% of GDP) in 10M:17/18, continuing on the upward trend started in Q2:16/17, when the Central Bank floated the domestic currency. Moreover, tourist receipts rose by an estimated 123% y-o-y to a 7-year high of USD 9.8bn (3.9% of GDP) in FY:17/18, due not only to more competitive prices (the EGP had depreciated against the USD by c. 16% y-o-y in FY:17/18 and c. 50.0% since the flotation), but also to the removal of travel bans and/or warnings by key source countries following a significant improvement in security conditions.

Credit to the private sector (FX-adjusted) lost momentum in FY:17/18, on the back of higher lending interest rates. Adjusted for FX movements, lending growth eased to 13.4% y-o-y at end-2017/18 from 17.4% a year earlier. The deceleration in (FX-adjusted) overall lending was mainly due to a further increase of already prohibitive lending interest rates (average rates on up to 12 months EGP-denominated loans rose by 3.4 pps y-o-y to 19.2% in FY:17/18) arising from a tighter monetary policy stance. As a result, bank liquidity conditions eased further, with the loan-to-deposit ratio declining to 35.7% at end-2017/18 from 39% a year earlier.

Looking ahead, lending activity is set to re-accelerate, mainly supported by banks' ample liquidity (see above), good asset quality metrics (see chart) and a strong capital base (the capital adequacy ratio reached a multi-year high of 15.2% at end-2017/18), as well as a brighter economic outlook.

The CBE is likely to adopt a "wait-and-see" stance at its September 27th MPC meeting. We expect the CBE to maintain its overnight deposit, 1-week repo, and overnight lending rates unchanged at 16.75%, 16.25%, and 17.75%, respectively, at its September 27th MPC meeting, in its efforts to dampen depreciation pressures on the EGP and anchor inflation expectations. Note that amid a broader global sell-off in emerging markets, foreign holdings of Egyptian T-bills had declined by c. 30% to EGP 269bn (c. USD 15bn) from March to July and the EGP has lost c. 2% of its value against the USD since end-March. Moreover, headline inflation accelerated to 14.2% y-o-y in August after having eased to 13.5% in July from a 4-month high of 14.4% in June, reflecting the implementation of a new series of subsidy cuts (through price increases) in mid-June.

Looking ahead, despite a still negative output gap and continued fiscal consolidation, we do not expect the CBE to resume its cycle of monetary policy loosening, started last February (with a total cut of 200 bps of its key interest rates), until the ongoing emerging market volatility subsides.

FOREIGN EXCHANGE MARKETS, SEPTEMBER 24TH 2018

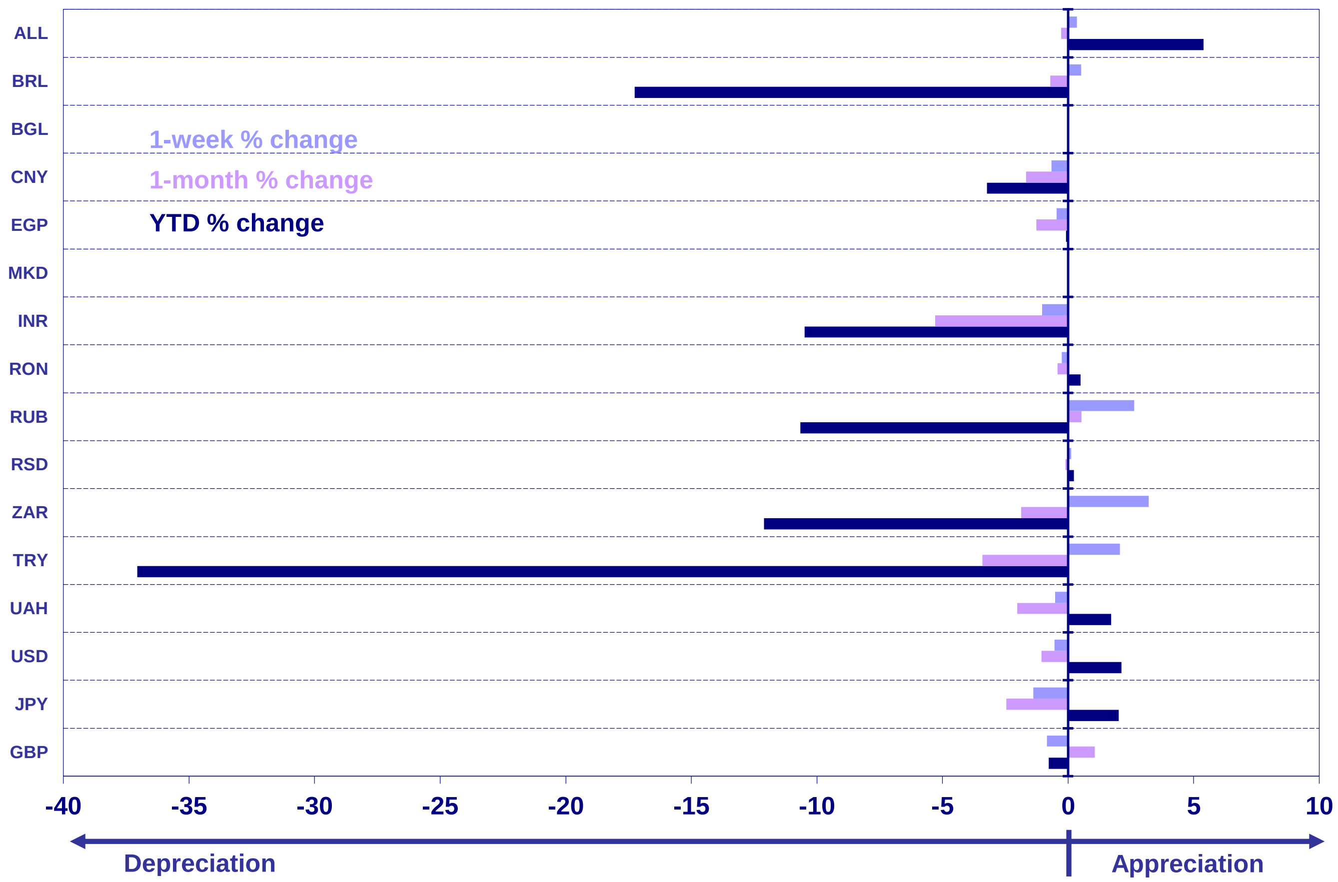
Against the EUR

	Currency	2018										2017	2016
		SPOT	1-week %change	1-month %change	YTD %change*	1-year %change	Year-Low	Year-High	3-month Forward rate**	6-month Forward rate**	12-month Forward rate**	% change*	% change*
Albania	ALL	126.1	0.4	-0.3	5.4	6.0	124.5	134.0	126.3	126.3	125.7	1.9	1.2
Brazil	BRL	4.80	0.5	-0.7	-17.3	-22.1	3.85	4.93	5.14	5.16	5.20	-13.9	25.7
Bulgaria	BGL	1.96	0.0	0.0	0.0	0.0	1.96	1.96	1.96	1.96	1.96	0.0	0.0
China	CNY	8.06	-0.7	-1.7	-3.2	-2.8	7.39	8.07	8.08	8.08	8.07	-6.0	-4.0
Egypt	EGP	20.85	-0.5	-1.3	-0.1	0.3	19.50	22.13	- - -	- - -	- - -	-9.4	-55.0
FYROM	MKD	61.3	0.0	0.0	0.0	0.0	61.3	61.3	61.3	61.3	61.3	0.0	0.0
India	INR	85.6	-1.0	-5.3	-10.5	-9.8	75.9	85.8	92.4	- - -	- - -	-6.7	0.4
Romania	RON	4.65	-0.2	-0.4	0.5	-1.2	4.62	4.68	4.70	4.74	4.80	-3.0	-0.4
Russia	RUB	77.4	2.6	0.5	-10.7	-12.0	67.7	81.9	78.7	80.1	83.4	-6.8	22.9
Serbia	RSD	118.1	0.1	-0.1	0.2	0.9	117.6	119.1	118.4	118.7	- - -	4.2	-1.5
S. Africa	ZAR	16.9	3.2	-1.9	-12.1	-6.5	14.18	18.12	17.2	17.5	18.3	-2.7	16.2
Turkey	YTL	7.23	2.1	-3.4	-37.1	-41.8	4.48	8.21	7.72	8.24	9.40	-18.4	-14.7
Ukraine	UAH	33.0	-0.5	-2.0	1.7	-5.1	30.18	36.11	39.3	- - -	- - -	-15.2	-8.6
US	USD	1.17	-0.5	-1.1	2.1	0.9	1.1	1.3	1.18	1.19	1.21	-12.4	3.3
JAPAN	JPY	132.5	-1.4	-2.5	2.0	-0.1	124.6	137.5	132.5	132.6	132.7	-8.9	6.0
UK	GBP	0.90	-0.8	1.1	-0.8	-1.7	0.9	0.9	0.90	0.90	0.91	-4.1	-13.5

* Appreciation (+) / Depreciation (-)

** Forward rates have been calculated using the uncovered interest rate parity for Brazil, China, Egypt, India and Ukraine

Currencies against the EUR (September 24th 2018)



MONEY MARKETS, SEPTEMBER 24TH 2018

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine	EU	US
O/N	1.2	6.4	- - -	2.5	- - -	16.9	- - -	- - -	2.6	7.8	- - -	24.8	7.2	17.3	- - -	1.9
T/N	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	2.6	7.8	2.3	- - -	8.0	- - -	- - -	- - -
S/W	1.3	6.4	- - -	2.7	-0.4	- - -	1.0	- - -	- - -	6.5	2.3	- - -	7.5	17.6	-0.4	2.1
1-Month	1.4	6.4	0.0	2.8	-0.4	- - -	1.2	7.2	3.1	8.0	2.6	25.5	7.6	18.7	-0.4	2.2
2-Month	- - -	6.5	- - -	- - -	-0.3	- - -	- - -	- - -	- - -	8.1	2.8	25.9	7.3	- - -	-0.3	2.3
3-Month	1.7	6.7	- - -	2.8	-0.3	- - -	1.5	7.6	3.1	8.3	2.9	26.5	7.8	18.8	-0.3	2.4
6-Month	1.9	7.2	- - -	3.2	-0.3	- - -	1.7	- - -	3.4	6.9	3.1	26.6	7.6	- - -	-0.3	2.6
1-Year	2.1	8.1	- - -	3.5	-0.2	- - -	2.1	- - -	3.5	8.0	- - -	27.8	7.9	- - -	-0.2	2.9

*For Bulgaria, the Base Interest Rate (BIR) is reported. For Egypt, the O/N Interbank Rate is reported.

LOCAL DEBT MARKETS, SEPTEMBER 24TH 2018

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine	EU	US
3-Month	- - -	- - -	- - -	- - -	- - -	19.6	- - -	7.1	- - -	7.5	- - -	23.2	- - -	- - -	-0.6	2.2
6-Month	- - -	- - -	- - -	- - -	- - -	19.7	- - -	7.3	3.2	7.9	3.3	24.8	- - -	- - -	-0.6	2.4
12-Month	1.7	- - -	-0.1	2.8	- - -	19.6	1.0	8.0	3.4	7.2	3.3	27.2	- - -	18.0	-0.6	2.6
2-Year	2.2	- - -	- - -	3.2	- - -	- - -	- - -	8.0	3.9	7.9	- - -	24.7	7.9	- - -	-0.5	2.8
3-Year	- - -	- - -	0.1	3.4	0.8	- - -	- - -	8.1	4.0	8.2	- - -	25.4	8.2	- - -	-0.4	2.9
5-Year	4.8	11.0	- - -	3.5	1.1	18.9	- - -	8.2	4.4	8.2	3.7	21.8	8.7	16.0	-0.1	3.0
7-Year	- - -	- - -	0.7	- - -	1.8	18.8	- - -	8.2	4.4	8.4	- - -	- - -	- - -	- - -	0.1	3.0
10-Year	- - -	11.8	1.0	3.7	- - -	18.7	- - -	8.1	4.8	8.6	- - -	17.9	9.2	- - -	0.5	3.1
15-Year	- - -	- - -	- - -	- - -	- - -	- - -	3.0	8.3	- - -	8.7	- - -	- - -	9.9	- - -	0.8	- - -
25-Year	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	10.1	- - -	- - -	- - -
30-Year	- - -	- - -	- - -	- - -	- - -	- - -	- - -	8.3	- - -	- - -	- - -	- - -	10.1	- - -	1.1	3.2

*For Albania. FYROM and Ukraine primary market yields are reported

CORPORATE BONDS SUMMARY, SEPTEMBER 24TH 2018

		Currency	Rating S&P / Moody's	Maturity	Amount Outstanding (in million)	Bid Yield	Gov. Spread	Asset Swap Spread
Bulgaria	**Bulgaria Energy Hld 4.875% '21**	EUR	NA/NA	2/8/2021	550	2.2	261	227
South Africa	**FirstRand Bank Ltd 4.25% '20**	USD	BBB-/Baa2	30/4/2020	500	4.6	173	159
	FirstRand Bank Ltd 2.25% '20	EUR	NA/NA	30/1/2020	100	1.2	176	145
Turkey	**Arcelik AS 3.875% '21**	EUR	BB+/NA	16/9/2021	350	5.5	586	518
	Garanti Bank 5.25% '22	USD	NA/Ba3	13/9/2022	750	7.8	483	439
	Turkiye Is Bankasi 6% '22	USD	NA/B2	24/10/2022	1,000	14.8	1,184	964
	Vakifbank 5.75% '23	USD	NA/Ba3	30/1/2023	650	10.2	722	633
	TSKB 5.5% '23	USD	NA/Ba3	16/1/2023	350	11.5	853	724
	Petkim 5.875% '23	USD	NA/B1	26/1/2023	500	8.5	558	506
	KOC Holding 5.25% '23	USD	BB+/Ba1	15/3/2023	750	7.3	435	397

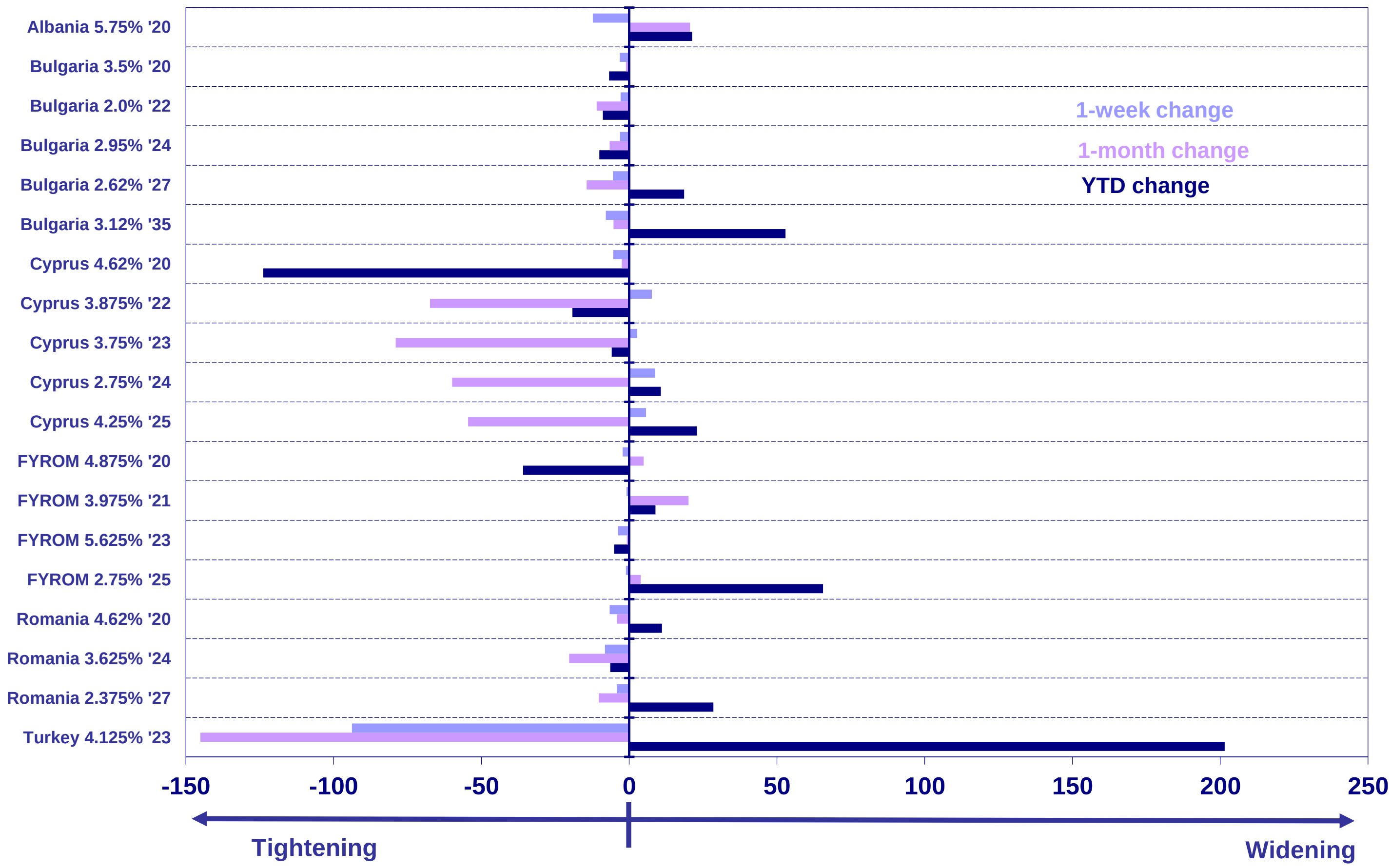
CREDIT DEFAULT SWAP SPREADS. SEPTEMBER 24TH 2018

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine
5-Year	- - -	265	71	59	152	354	- - -	80	96	153	116	359	205	514
10-Year	- - -	349	103	103	171	395	- - -	89	134	215	147	379	269	540

EUR-Denominated Sovereign Eurobond Summary. September 24th 2018

	Currency	Rating S&P / Moody's	Maturity	Amount Outstanding (in million)	Bid Yield	Gov. Spread	Asset Swap Spread
Albania 5.75% '20	EUR	B+/B1	12/11/2020	450	1.6	215	181
Bulgaria 3.5% '20	EUR	NA/NA	16/1/2020	145	0.0	60	27
Bulgaria 2.0% '22	EUR	BBB-/Baa2	26/3/2022	1,250	0.0	28	-11
Bulgaria 2.95% '24	EUR	BBB-/Baa2	3/9/2024	1,493	0.5	51	4
Bulgaria 2.62% '27	EUR	BBB-/Baa2	26/3/2027	1,000	1.3	88	47
Bulgaria 3.12% '35	EUR	BBB-/Baa2	26/3/2035	900	2.6	183	124
Cyprus 4.62% '20	EUR	BBB-/Ba2	3/2/2020	668	0.2	70	43
Cyprus 3.875% '22	EUR	NA/Ba2	6/5/2022	1,000	0.8	106	70
Cyprus 3.75% '23	EUR	NA/Ba2	26/7/2023	1,000	1.1	120	88
Cyprus 2.75% '24	EUR	NA/Ba2	27/6/2024	850	1.4	139	96
Cyprus 4.25% '25	EUR	NA/Ba2	4/11/2025	1,000	1.8	166	124
FYROM 4.875% '20	EUR	BB-/NA	1/12/2020	178	1.1	158	119
FYROM 3.975% '21	EUR	BB-/NA	24/7/2021	500	1.7	211	447
FYROM 5.625% '23	EUR	BB-/NA	26/7/2023	450	2.5	264	235
FYROM 2.75% '25	EUR	BB-/NA	18/1/2025	500	3.1	302	241
Romania 4.62% '20	EUR	BBB-/BBB-	18/9/2020	2,000	0.1	62	23
Romania 3.625% '24	EUR	BBB-/BBB-	24/4/2024	1,250	1.0	99	60
Romania 2.375% '27	EUR	BBB-/BBB-	19/4/2027	2,000	2.3	193	145
Turkey 4.125% '23	EUR	NR/Ba3	11/4/2023	1,000	4.4	452	401

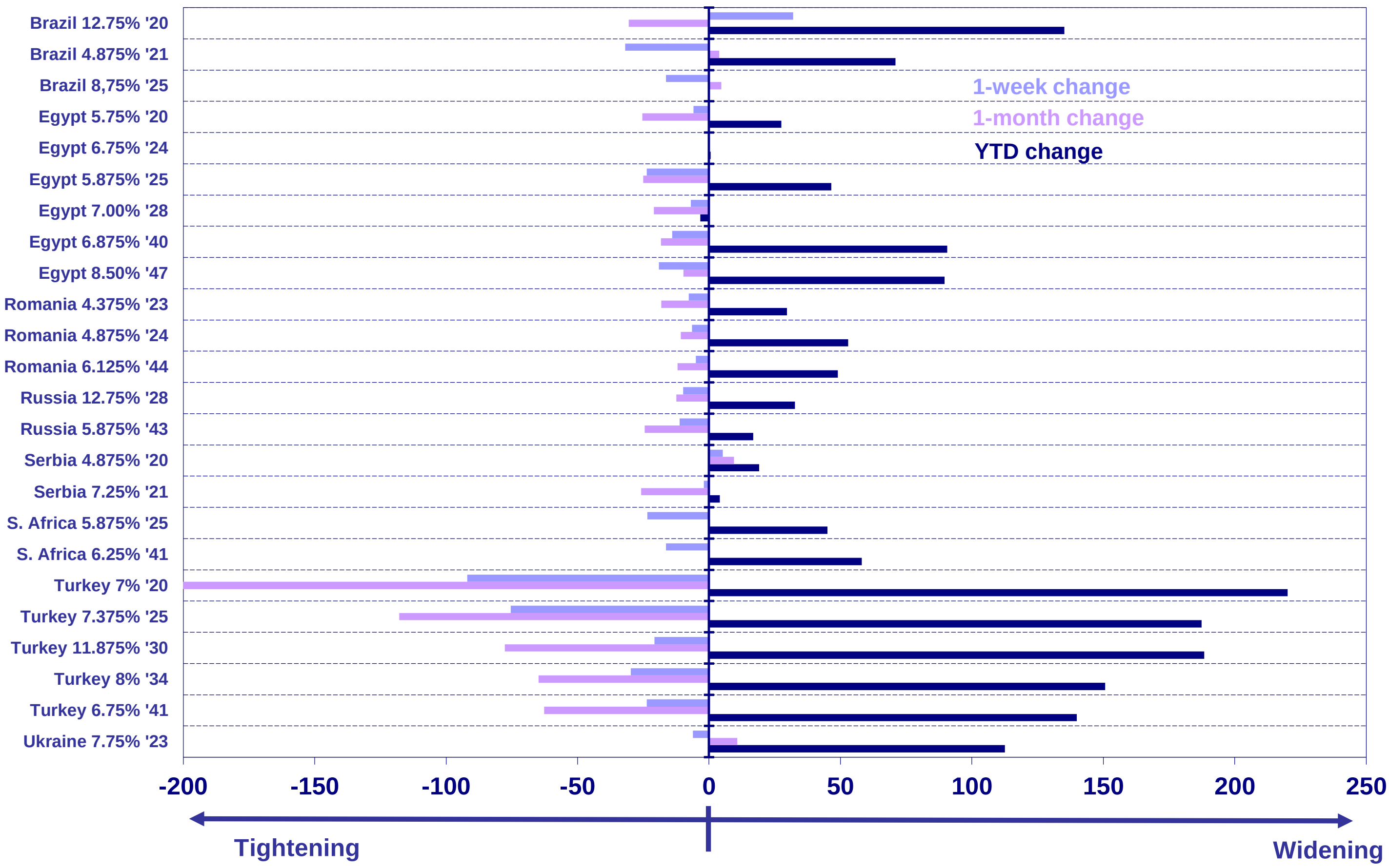
EUR-Denominated Eurobond Spreads (September 24th 2018)



USD-DENOMINATED SOVEREIGN EUROBOND SUMMARY. SEPTEMBER 24TH 2018

	Currency	Rating S&P / Moody's	Maturity	Amount Outstanding (in million)	Bid Yield	Gov. Spread	Asset Swap Spread
Brazil 12.75% '20	USD	NA/Ba2	15/1/2020	87	3.9	132	111
Brazil 4.875% '21	USD	NA/Ba2	22/1/2021	2,713	4.4	155	134
Brazil 8.75% '25	USD	NA/Ba2	4/2/2025	688	5.3	221	236
Egypt 5.75% '20	USD	B/B3	29/4/2020	1,000	5.1	224	211
Egypt 6.75% '24	USD	NA/B3	10/11/2024	1,500	6.4	334	326
Egypt 5.875% '25	USD	B/B3	11/6/2025	500	6.9	388	363
Egypt 7.00% '28	USD	NA/B3	10/11/2028	1,000	6.7	365	357
Egypt 6.875% '40	USD	B/B3	30/4/2040	1,500	8.2	498	447
Egypt 8.50% '47	USD	NA/B3	31/1/2047	500	8.6	541	532
Romania 4.375% '23	USD	BBB-/BBB-	22/8/2023	1,500	4.1	114	102
Romania 4.875% '24	USD	BBB-/BBB-	22/1/2024	1,000	4.2	126	114
Romania 6.125% '44	USD	BBB-/BBB-	22/1/2044	1,000	5.2	201	220
Russia 12.75% '28	USD	BBB-/Ba1	24/6/2028	2,500	5.0	196	254
Russia 5.875% '43	USD	BBB-/Ba1	16/9/2043	1,500	5.4	220	231
Serbia 4.875% '20	USD	BB/Ba3	25/2/2020	1,500	3.9	135	102
Serbia 7.25% '21	USD	BB/Ba3	28/9/2021	2,000	4.1	123	113
S. Africa 5.875% '25	USD	BB/Baa3	16/9/2025	2,000	5.7	264	256
S. Africa 6.25% '41	USD	BB/Baa3	8/3/2041	750	6.4	323	317
Turkey 7.00% '20	USD	NR/Ba3	5/6/2020	2,000	6.7	388	370
Turkey 7.375% '25	USD	NR/Ba3	5/2/2025	3,250	7.4	432	419
Turkey 11.875% '30	USD	NR/Ba3	15/1/2030	1,500	7.9	482	553
Turkey 8.00% '34	USD	NR/Ba3	14/2/2034	1,500	7.9	484	469
Turkey 6.75% '41	USD	NR/Ba3	14/1/2041	3,000	7.8	455	392
Ukraine 7.75% '23	USD	B-/Caa2	1/9/2023	1,355	8.3	535	507

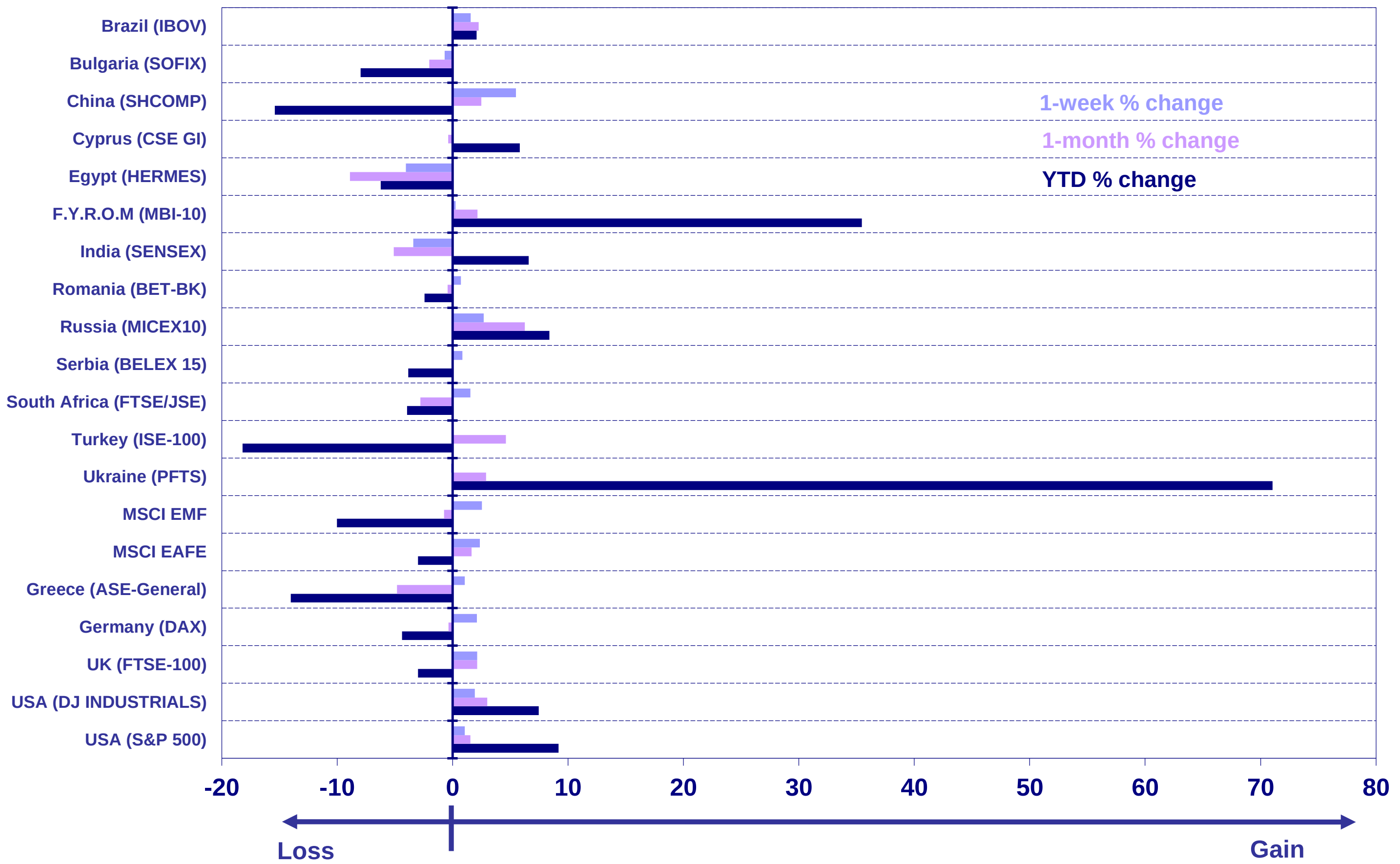
USD-Denominated Eurobond Spreads (September 24th 2018)



STOCK MARKETS PERFORMANCE. SEPTEMBER 24TH 2018

	2018								2017		2016	
	Local Currency Terms							EUR Terms	Local Currency Terms	EUR terms	Local Currency terms	EUR terms
	Level	1-week % change	1-month % change	YTD % change	1-year % change	Year-Low	Year-High	YTD % change	% change		% change	
Brazil (IBOV)	77,984	1.6	2.3	2.1	4.8	69,069	88,318	-15.9	26.9	9.5	38.9	76.2
Bulgaria (SOFIX)	623	-0.7	-2.0	-8.0	-8.4	621	721	-8.0	15.5	15.5	27.2	27.2
China (SHCOMP)	2,797	5.5	2.5	-15.4	-16.3	2,644	3,587	-18.0	6.6	-0.3	-12.3	-15.3
Cyprus (CSE GI)	74	0.0	-0.4	5.8	-0.2	65	77	5.8	4.7	4.7	-2.0	-2.0
Egypt (HERMES)	1,347	-4.1	-8.9	-6.2	7.2	1,332	1,741	-5.7	32.0	18.7	72.7	-21.8
F.Y.R.O.M (MBI)	3,439	0.3	2.2	35.5	27.9	2,536	3,494	35.5	18.9	18.9	16.5	16.5
India (SENSEX)	36,305	-3.4	-5.1	6.6	14.8	31,440	38,990	-4.4	27.9	19.3	1.9	2.6
Romania (BET-BK)	1,611	0.7	-0.4	-2.4	-2.3	1,573	1,802	-1.9	22.8	19.1	0.2	0.0
Russia (RTS)	4,468	2.7	6.3	8.4	1.3	4,017	4,617	-3.2	-16.2	-21.9	24.2	54.3
Serbia (BELEX-15)	731	0.8	0.0	-3.8	0.9	719	785	-3.6	5.9	10.3	11.4	9.7
South Africa (FTSE/JSE)	57,164	1.5	-2.8	-3.9	2.4	53,027	61,777	-15.2	17.5	14.3	-0.1	16.1
Turkey (ISE 100)	94,348	0.0	4.6	-18.2	-7.7	84,655	121,532	-45.7	47.6	20.5	8.9	-7.0
Ukraine (PFTS)	539	-0.1	2.9	71.0	84.6	315	540	74.0	18.8	0.8	10.2	1.0
MSCI EMF	1,042	2.6	-0.7	-10.0	-4.2	999	1,279	-8.1	34.3	17.7	8.6	12.2
MSCI EAFE	1,989	2.4	1.6	-3.0	1.0	1,905	2,187	-0.9	21.8	6.7	-1.9	1.4
Greece (ASE-General)	690	1.1	-4.8	-14.0	-7.1	676	896	-14.0	24.7	24.7	1.9	1.9
Germany (XETRA DAX)	12,351	2.1	-0.4	-4.4	-1.9	11,727	13,597	-4.4	12.5	12.5	11.6	11.6
UK (FTSE-100)	7,458	2.1	-1.6	-3.0	2.2	6,867	7,904	-3.7	7.6	3.2	14.4	-1.0
USA (DJ INDUSTRIALS)	26,562	1.9	3.0	7.5	19.1	22,219	26,769	9.7	25.1	9.6	13.4	16.7
USA (S&P 500)	2,919	1.1	1.6	9.2	16.9	2,533	2,941	11.5	19.4	4.7	9.5	13.2

Equity Indices (September 24th 2018)



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