NATIONAL BANK OF GREECE

Economic Analysis Division

Emerging Markets Research

Bi-Weekly Report

15 – 28 August 2017

NBG - Economic Analysis Division
https://www.nbg.gr/en/the-group/press-office/e-spot/reports

Paul Mylonas, PhD
✉ : pmylonas@nbg.gr

Emerging Markets Research

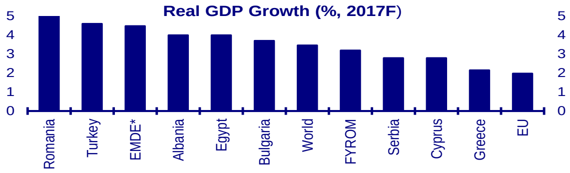
***Head:* Michael Loufir**
☎ : +30 210 33 41 211
✉ : mloufir@nbg.gr

Analysts:

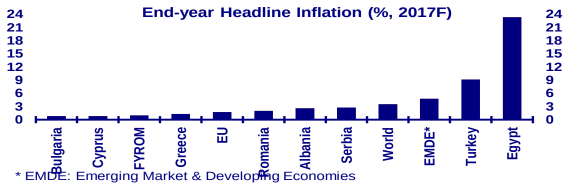
Konstantinos Romanos-Louizos
✉ : romanos.louizos.k@nbg.gr

Louiza Troupi
✉ : troupi.louiza@nbg.gr

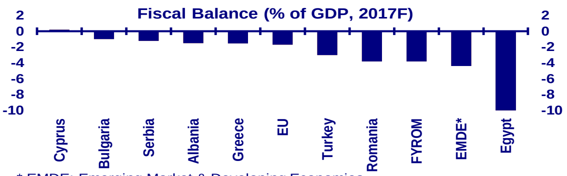
Athanasios Lampousis
✉ : lampousis.athanasios@nbg.gr



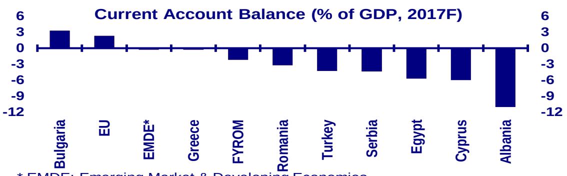
* EMDE: Emerging Market & Developing Economies



* EMDE: Emerging Market & Developing Economies



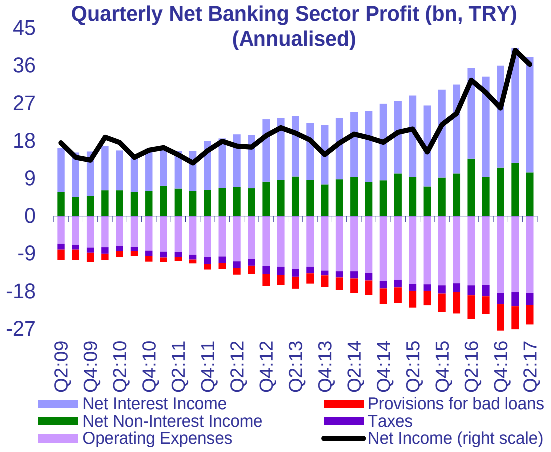
* EMDE: Emerging Market & Developing Economies

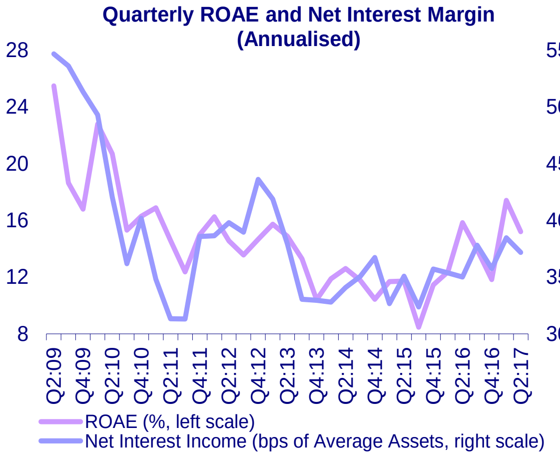


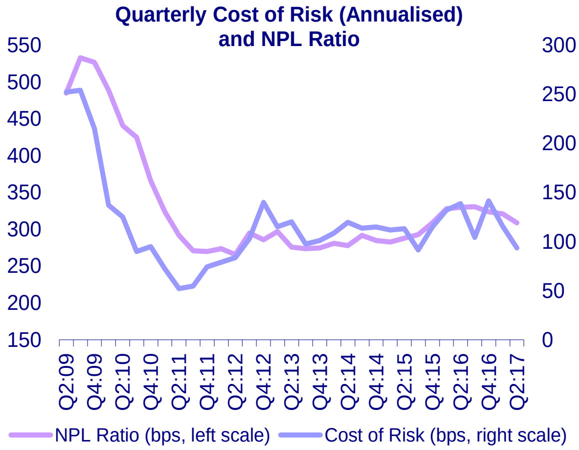
* EMDE: Emerging Market & Developing Economies

Turkey

BB / Ba1 / BB+ (S&P/ Moody's / Fitch)







	28 Aug.	3-M F	6-M F	12-M F
1-m TRIBOR (%)	13.0	12.5	12.0	11.0
TRY/EUR	4.13	4.18	4.24	4.32
Sov. Spread (2020, bps)	177	172	165	160

	28 Aug.	1-W %	YTD %	2-Y %
ISE 100	110,340	1.6	41.2	47.8

	2014	2015	2016	2017F	2018F
Real GDP Growth (%)	5.2	6.1	2.9	4.6	4.2
Inflation (eop, %)	8.2	8.8	8.5	9.2	7.8
Cur. Acct. Bal. (% GDP)	-4.7	-3.7	-3.8	-4.3	-4.2
Fiscal Bal. (% GDP)	-1.1	-1.0	-1.1	-3.0	-2.5

Banking sector bottom line posted double-digit growth in Q2:17, despite strong headwinds from non-core activities. Banking sector net profit (after tax) rose by a 7-quarter low of 11.8% y-o-y to TRY 12.1bn in Q2:17 (EUR 3.1bn or 0.4% of projected 2017 GDP), set back by larger losses from securities trading and, to a smaller extent, an unfavourable base effect from one-off gains from the sale of shares in Visa Europe in Q2:16. As a result, (annualised) quarterly ROAA and ROAE declined to 1.6% and 15.2%, respectively, in Q2:17 from 1.8% and 15.8% in the same quarter a year ago, bringing the (annualised) cumulative ROAA and ROAE to 1.7% and 16.6%, respectively, in H1:17.

Pre-provision earnings (before tax) recorded the weakest growth in 7 quarters in Q2:17 (up 4.5% y-o-y to TRY 19.7bn), mainly on the back of a significant decline in net non-interest income (NNII). NNII declined by 24.0% y-o-y to TRY 10.4bn in Q2:17, mainly due to larger losses from securities trading (up 430.0% y-o-y to TRY 8.0bn) and an unfavourable base effect from large non-disclosed one-time gains from the sale of shares in Visa Europe in Q2:16 (estimated at TRY 2.0bn).

On a positive note, net interest income (NII) rose significantly by 27.4% y-o-y to TRY 27.6bn in Q2:17, due to strong average asset growth (up 20.0% y-o-y) and higher net interest margin (over average assets, up 22 bps y-o-y to 372 bps annualised). Note that the rise in average gross loans was even sharper (up 21.9% y-o-y), supported by the BRSA's loosening of macro-prudential measures and the Government's credit guarantees, aimed at reviving economic activity, which had slowed sharply in the wake of the mid-July failed coup. Indeed, the BRSA increased the term limits for consumer loans and credit cards and lowered the provisioning on unsecured retail loans, while the Government established the Credit Guarantee Fund (CGF) to stimulate lending to SMEs. The improvement in the NIM was largely underpinned by higher CPI-linker gains (average inflation rose by 4.6 pps y-o-y to 11.5% in Q2:17) and would have been higher had the CBRT effective funding rate not increased (up 3.3 pps y-o-y to 11.8% in Q2:17) and had TRY deposit interest rates not reversed their 3-quarter downward trend (up 0.8 pps y-o-y to 11.3% in Q2:17).

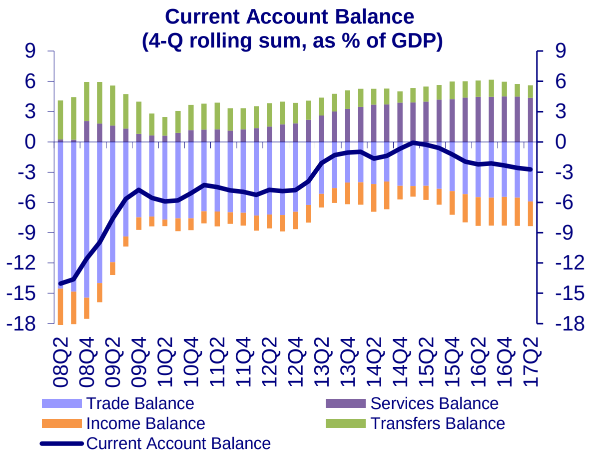
The positive performance of pre-provision earnings in Q2:17 was also supported by a relatively mild increase in operating expenses (up 10.8% y-o-y to TRY 18.4bn), indicating continued cost control, especially as inflation averaged 11.5% y-o-y during Q2. Note that the headcount as well as the number of bank branches were reduced by 2.4% and 4.1% y-o-y, respectively, to 4-year lows of 210.4k and 11.7k in Q2:17.

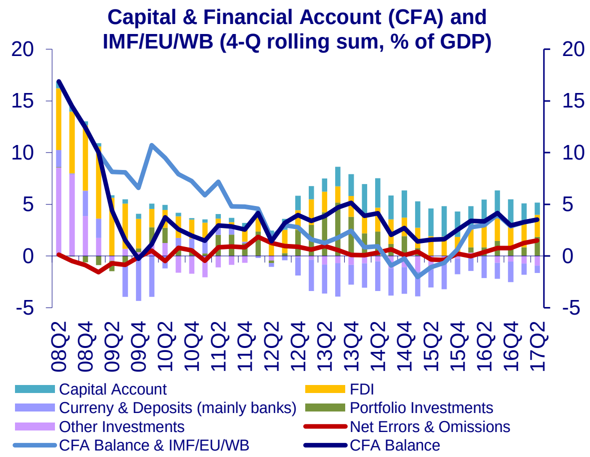
As a result, banking sector cost-efficiency improved significantly, with the cost-to-income ratio declining by 7.1 pps y-o-y to a multi-year low of 37.6% in Q2:17.

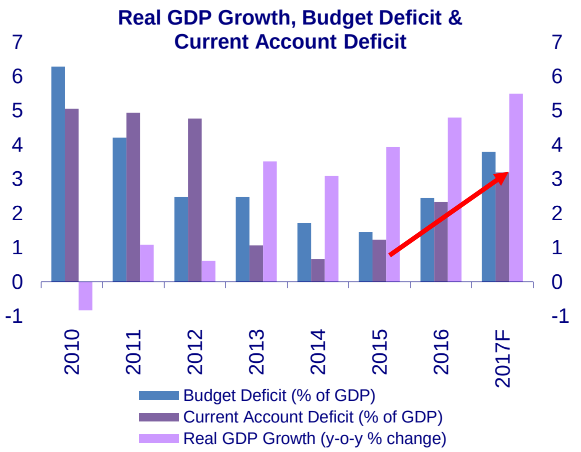
P/L specific provisions declined for the first time in 3½-years in Q2:17 (down 17.7% y-o-y to TRY 4.6bn), as the stock of NPLs posted its slowest growth in 5 years (up 14.3% y-o-y). The slowdown in the stock of NPLs in Q2:17 was mainly supported by: i) relaxed regulations on the restructuring of corporate loans in shipping, tourism and energy industries; ii) a buoyant collection performance; and iii) regular sales of retail unsecured NPLs by private banks. As a result, i) the NPL ratio declined significantly by 21 bps y-o-y to a 1½-year low of 3.1%; ii) the cost of risk was down by 45 bps y-o-y to a 2-year low of 94 bps; and iii) the NPL coverage ratio improved by 180 bps y-o-y to a 5-year high of 78.0% in Q2:17.

Romania

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







	28 Aug.	3-M F	6-M F	12-M F
1-m ROBOR (%)	0.7	1.0	1.3	2.0
RON/EUR	4.59	4.57	4.55	4.55
Sov. Spread (2024, bps)	136	132	128	120

	28 Aug.	1-W %	YTD %	2-Y %	
BET-BK	1,662	1.2	23.7	24.0	
	2014	2015	2016	2017F	2018F
Real GDP Growth (%)	3.1	3.9	4.8	5.5	4.0
Inflation (eop, %)	0.8	-0.9	-0.5	2.0	2.6
Cur. Acct. Bal. (% GDP)	-0.7	-1.2	-2.3	-3.2	-3.6
Fiscal Bal. (% GDP)	-1.7	-1.5	-2.4	-3.8	-4.5

The current account deficit (CAD) widened to 2.7% of GDP on a 4-quarter rolling basis in Q2:17 from 2.3% at end-2016, reflecting sizeable fiscal policy stimulus. In H1:17, the CAD rose by 0.4 pps y-o-y to 1.5% of GDP. Indeed, the trade deficit widened in H1:17 (up 0.5 pps y-o-y to 2.9% of GDP) and the services surplus narrowed (down 0.2 pps y-o-y to 2.1% of GDP), in line with stronger private consumption. Buoyant consumption is due to tax cuts (the VAT rate was reduced by 1 pp to 19% and the special excise duty on fuels was abolished in January), and a looser incomes policy (including hikes of 20% in some public sub-sectors and a 5.3% rise in pensions) and its spillover to the private sector.

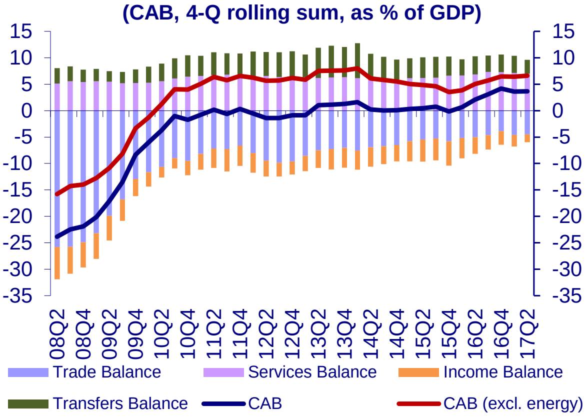
The capital & financial account surplus rose to 3.5% of GDP on a 4-quarter rolling basis in Q2:17 from 3.0% at end-2016, covering the larger CAD. Capital outflows from the banking system decelerated in H1:17 (to 0.6% of GDP from 1.9% in H1:16), reflecting both lower placement of deposits abroad by domestic banks and a slowdown in deleveraging by foreign banks. At the same time, net portfolio investment rose in H1:17 (to 0.9% of GDP from -0.3% in H1:16), but due to base effects (net proceeds from sovereign Eurobond issuance amounted to 1.0% of GDP in H1:17 against net repayments 0.5% in H1:16). These improvements were partly offset, however, by a drop in capital transfers (to 0.2% of GDP in H1:17 from 1.5% in H1:16), mainly on the back of slower absorption of EU funds. All said, the overall balance improved in H1:17 (by 1.0 pp y-o-y) to a surplus of 0.9% of GDP, with FX reserves rising to EUR 35.2bn in June from EUR 34.2bn at end-2016.

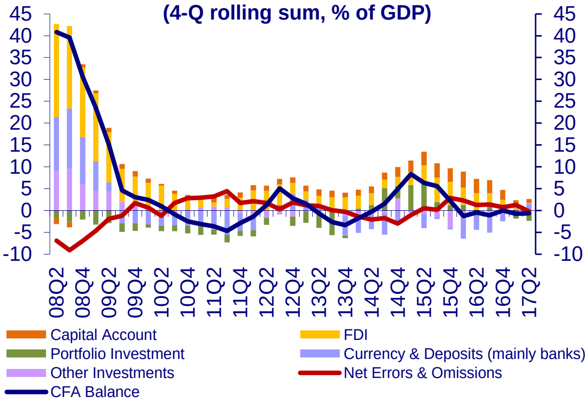
The CAD is set to rise to 3.2% of GDP in FY:17, reflecting stronger domestic demand. The trade deficit is set to widen at a faster pace in H2:17, in view of a further build-up in domestic demand, on the back of a sizeable fiscal stimulus (1.1 pp of GDP y-o-y). Moreover, FX reserves could decline during the remainder of the year, in view of the resumption of debt repayment to IFIs (0.7% of GDP against 0.1% in FY:16) on the one hand, and the wider CAD on the other. Projecting that: i) net FDI remains at FY:16 levels (2.4% of GDP); ii) net portfolio investment picks up (to 1.0% of GDP in FY:17 from 0.7% in FY:16); and iii) the maturing debt rollover rate remains unchanged compared with FY:16 (at c. 90%), we see FX reserves falling to a still comfortable level of EUR 33.6bn at end-2017 from EUR 34.2bn at end-2016 (5 months of GNFS imports).

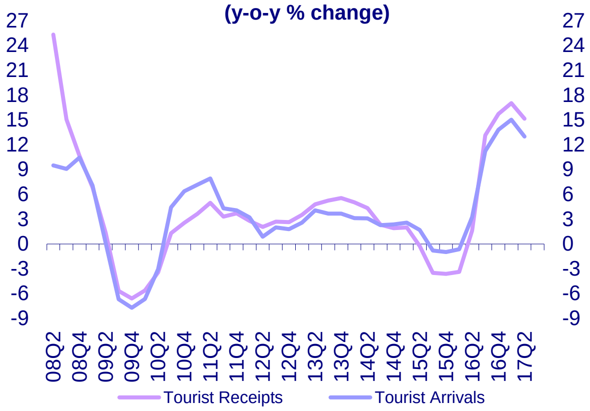
Overheating pressures should prompt the NBR to tighten its stance. Overheating pressures are rising rapidly, as suggested by GDP growth (projected at 5.5% in FY:17) running above its long-term potential (of c. 3.0%) for a 3rd consecutive year, and the CAD more than quadrupling from its FY:14 low (0.7% of GDP). It is worth noting that, despite the need for a tighter monetary policy, the authorities have been dovish (note that the NBR maintained its key rate unchanged at 1.75% -- 0.8% in *ex-post* real terms -- for a 26th consecutive month in August), explicitly linking policy decisions in Romania to those of the ECB and other central banks in the region, so as to avoid an appreciation of the RON against its peers. In this context, we believe that the NBR is unlikely to embark on an aggressive hiking cycle soon but instead cautiously signal its tightening bias. The first step in this direction will be to narrow its interest rate corridor (IRC, ±1.5 pps around the policy rate), so as to push up money market rates. Indeed, money market rates are stuck at the bottom of the IRC, reflecting the large liquidity surplus in the market. All said, we expect the NBR to narrow its IRC by 50-100 bps by end-year, with the first hike in the policy rate in early-2018.

Bulgaria

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







	28 Aug.	3-M F	6-M F	12-M F
1-m SOFIBOR (%)	0.0	0.1	0.1	0.2
BGN/EUR	1.96	1.96	1.96	1.96
Sov. Spread (2022, bps)	54	56	58	60

	28 Aug.	1-W %	YTD %	2-Y %
SOFIX	714	-0.9	21.7	57.2

	2014	2015	2016	2017F	2018F
Real GDP Growth (%)	1.3	3.6	3.4	3.7	3.5
Inflation (eop, %)	-0.9	-0.4	0.1	0.8	1.4
Cur. Acct. Bal. (% GDP)	0.1	-0.1	4.2	3.3	2.5
Fiscal Bal. (% GDP)	-3.7	-2.8	1.6	-1.0	-0.5

The 4-quarter rolling current account surplus (CAS) narrowed to 3.7% of GDP in Q2:17 from 4.2% in Q4:16, due to a higher energy bill. In H1:17, the CAS narrowed by 0.5 pps y-o-y to 1.3% of GDP. The main driver was the trade deficit, which widened in H1:17 (up 0.5 pps y-o-y to 2.3% of GDP), on higher oil prices (the energy trade deficit rose by 0.7 pps of GDP y-o-y in H1:17). The deterioration would have been sharper had non-energy exports not improved in H1:17 (up 2.2 pps of GDP y-o-y), reflecting, *inter alia*, competitiveness gains.

The 4-quarter rolling capital & financial account balance deteriorated to 0.3% of GDP in Q2:17 from 2.2% in Q4:16, largely due to base effects. Capital transfers declined sharply in H1:17 (to 0.4% of GDP from 1.7% in H1:16), mainly reflecting slower absorption of EU funds at the onset of the new EU programming period. At the same time, net portfolio investment declined sharply (recording outflows of 1.2% of GDP in H1:17 against inflows of 2.4% in H1:16, with the latter, however, including proceeds from the issuance of a sovereign Eurobond worth 4.2% of GDP). All said, the overall balance deteriorated markedly in H1:17 (by 3.4 pps y-o-y) to a surplus of just 0.3% of GDP.

Bulgaria is set to remain the best performer in the region in FY:17, despite the easing of the CAS to 3.3% of GDP. Pressures on the trade deficit are set to persist during the remainder of the year, reflecting stronger domestic demand, on the back of a sizeable fiscal impulse (1.1 pp of GDP y-o-y in H2:17). However, this deterioration should be partly offset by lower profit and dividend outflows.

Covering external financing needs should not be an issue, in view of the large CAS. Projecting that: i) net FDI inflows remain subdued at FY:16 levels (1.0% of GDP); ii) net portfolio investment turns negative (-1.4% of GDP in FY:17 against 1.4% in FY:16), due to the repayment of a sovereign Eurobond (1.9% of GDP) in July; iii) the maturing debt rollover rate remains unchanged compared with FY:16 (at c. 95%); and iv) capital transfers decline (to 1.6% of GDP in FY:17 from 2.3% in FY:16), we see FX reserves rising to EUR 23.4bn at end-2017 from EUR 22.5bn at end-2016 (10 months of GNFS imports).

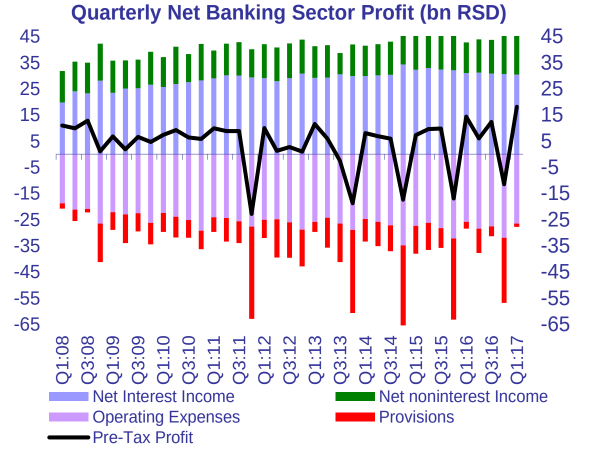
Tourism activity remained strong in H1:17, sustaining economic growth and the CAS. Tourist arrivals rose by 10.9% y-o-y in H1:17 against 13.8% in FY:16. Specifically, tourism activity was sustained by an acceleration in arrivals from Western Europe (accounting for 8.2% of total arrivals in FY:16, up 29.1% y-o-y in H1:17 against 15.6% in FY:16), which partly offset the deceleration in arrivals from the two largest source countries, namely Romania (accounting for 16.1% of total arrivals in FY:16, up 10.6% y-o-y in H1:17 against 16.3% in FY:16) and Greece (accounting for 11.0% of total arrivals in FY:16, up 8.8% y-o-y in H1:17 against 12.9% in FY:16). In fact, Bulgarian tourism appears to have benefited from the security concerns in Turkey. Abundant snow in the winter also boosted skiing tourism in Q1:17. Note that tourism receipts rose by 12.3% y-o-y in H1:17 following a rise of 15.7% in FY:16, confirming the upward trend in spending per tourist.

Looking ahead, in view of the country's price competitiveness, and with security concerns unlikely to ease soon in Turkey, we expect tourist activity to remain buoyant during the remainder of the year, sustaining economic growth (the tourism sector contributes c. 13.0% and 12.0%, respectively, to GDP and employment). Note that strong tourism activity has led to a significant staff shortage in the sector, with the Government having relaxed employment regulations earlier this year so as to attract workers from non-EU countries. All said, we see tourist arrivals rising by 10% to a high of 11.7mn in FY:17, with receipts growing at a slightly faster pace -- up 11.5% to EUR 3.7bn or 7.4% of GDP.

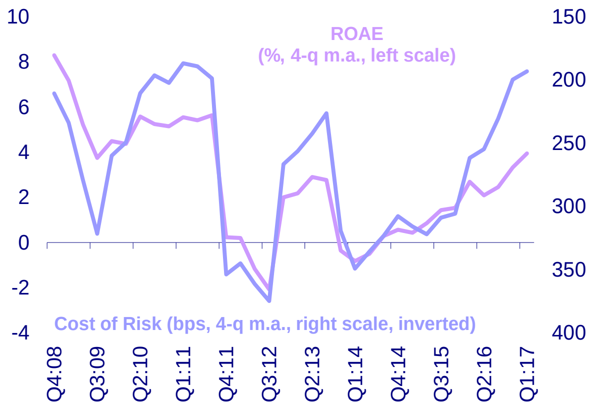
Serbia

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

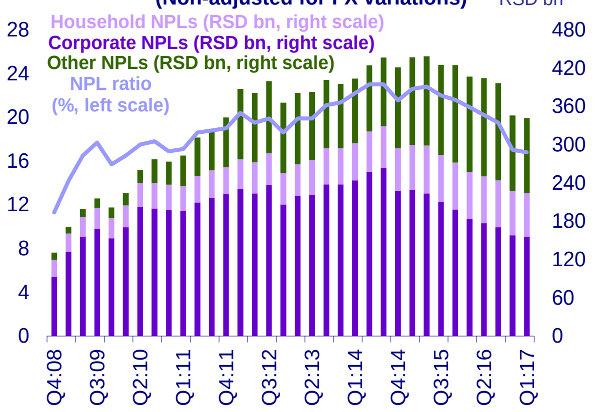
Quarterly Net Banking Sector Profit (bn RSD)



Quarterly Cost of Risk and ROAE (Annualised)



Non-Performing Loans (Non-adjusted for FX variations)



	28 Aug.	3-M F	6-M F	12-M F
1-m BELIBOR (%)	3.3	3.4	3.5	3.8
RSD/EUR	119.0	119.8	120.8	120.3
Sov. Spread (2021, bps)	131	130	126	120

	28 Aug.	1-W %	YTD %	2-Y %
BELEX-15	725	0.2	1.0	13.6

	2014	2015	2016	2017F	2018F
Real GDP Growth (%)	-1.8	0.8	2.8	2.8	3.6
Inflation (eop, %)	1.7	1.5	1.6	2.8	3.0
Cur. Acct. Bal. (% GDP)	-6.0	-4.7	-4.0	-4.4	-4.3
Fiscal Bal. (% GDP)	-6.6	-3.7	-1.3	-1.2	-1.0

The profitability of the banking system improved markedly in Q1:17. Pre-tax profits in the banking sector rose significantly, by 26.5% y-o-y to a record high of RSD 18.1bn (0.4% of GDP) in Q1:17. The strong improvement in bank profitability was driven by a sharp decline in provisioning, as well as a significant once-off rise in net non-interest income (NNII), following the write-off of a part of Marfin Bank's debt in view of its acquisition by the Czech Expobank CZ (see below). As a result, (annualised) ROAE and ROAA rose to 5-year highs of 11.4% and 2.3%, respectively, in Q1:17 from 9.2% and 1.9% in Q1:16, and 3.4% and 0.7% in FY:16. Even excluding this once-off, the (underlying) profitability improved on an annual basis in Q1:17, with (annualised) ROAE and ROAA estimated at 10.2% and 2.0%, respectively.

P/L provisions were reduced significantly in Q1:17, mainly due to a steady decline in the NPL ratio. P/L provisions recorded a sharp drop in Q1:17, amounting to just half of their level in Q1:16 (absorbing just 6.2% of net operating income in Q1:17 compared with 15.1% in Q1:16 and 65.6% in FY:16). The decline in P/L provisions was in line with the decrease in the NPL ratio. In fact, the NPL ratio declined, for a 5th successive quarter, by a sizeable 4.1 pps y-o-y in Q1:17 to a 7-year low of 16.8% from a peak of 23.0% in Q3:14. This positive development reflects lower NPL formation, large write-offs (c. RSD 4bn in Q1:17), and the sale of NPLs to non-banking sector entities. As a result, the cost of risk declined by 69 bps y-o-y to a record low of 193 bps, on a 4-quarter rolling basis, in Q1:17 from 203 bps in Q4:16.

Pre-provision income (PPI) improved in Q1:17, mainly due to non-recurrent revenue. PPI increased by a strong 14.6% y-o-y in Q1:17 -- after declining throughout FY:16 (by 10.7%) -- boosted by higher NNII. The latter rose by 31.6% y-o-y, mainly due to a once-off increase in "other operating income"(exceptional gain), reflecting the write-off of RSD 2.0bn (accounting for 55% of "other operating income" in Q1:17) of Marfin Bank's debt, in view of the sale of Cyprus Popular Bank shares in Marfin to the Czech Expobank CZ. Excluding the once-off item, PPI would have increased by 2.7% y-o-y in Q1:17.

On a negative note, PPI continued to be dragged down by lower net interest income (NII) and higher expenses. In fact, NII (66.4% of gross operating income) continued to decline by 1.8% y-o-y in Q1:17 -- for a 6th successive quarter -- albeit at a slower pace compared with a decline of 4.6% in FY:16. This performance reflects the continued sharp compression in the NIM (down by 31 bps y-o-y to a low of 390 bps annualised in Q1:17, below the FY:16 outcome of 406 bps) that offset the robust rise in average interest earning assets (up 5.1% y-o-y in Q1:17). The decline in the NIM is estimated to have been mainly driven by: i) the drop in non-core NIM, in line with the fall in T-bill rates; and ii) tightening lending-deposit spreads (the drop in interest rates on loans is more pronounced than that on deposits), exacerbated by a faster pace of deposit growth than loan growth.

Operating expenses rose by 2.6% y-o-y in Q1:17, still below an average inflation of 3.1%. Nevertheless, with top-line revenue rising at a faster pace, banking sector efficiency improved, with the cost-to-income ratio declining by 2.7 pps y-o-y to 57.9%.

The banking sector bottom line is set to strengthen further. Profitability is set to improve on an annual basis in Q2-Q4:17, with the ROAE rising to an estimated 6.5% from 1.5% in Q2-Q4:16. Profitability is expected to be supported by lower provisioning, reflecting not only a strong base effect (large provisions in Q2-Q4:16 by two state-owned banks), but also the rebound in activity. Overall, we expect ROAE to reach a post-global crisis peak of c. 8.0% in FY:17 (7.7% excluding the above-mentioned Q1:17 once-off).

F.Y.R.O.M.

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

	2016	Jan.-July 2016	Jan.-July 2017	Initial 2017 Budget
Revenue	27.9	15.8	16.0	29.7
Tax Revenue	24.8	14.1	14.2	25.4
Personal Inc.	2.3	1.3	1.3	2.4
Corporate Inc.	1.8	1.1	1.2	1.8
VAT	7.6	4.6	4.5	8.2
Excises	3.7	2.0	2.0	3.6
Import Duties	0.8	0.5	0.5	0.8
Other Taxes	0.1	0.1	0.0	0.1
Soc. Contrib.	8.3	4.6	4.7	8.2
Non-Tax revenue	3.1	1.7	1.8	4.2
Expenditure	30.5	17.4	17.8	32.6
Cur. Expenditure	27.7	16.1	16.3	28.3
Personnel	4.3	2.5	2.4	4.2
G. & Services	2.8	1.4	1.4	3.1
Transfers	14.7	11.5	11.6	19.7
Int. Payments	1.1	0.7	0.9	1.3
Capital Expend.	2.8	1.3	1.5	4.3
Fiscal Balance	-2.6	-1.6	-1.8	-2.9
Primary Balance	-1.5	-0.9	-0.9	-1.6

	2016	Initial 2017 Budget	Revised 2017 Budget	NBG 2017 Forecast*
Revenue	27.9	29.7	29.2	28.4
Tax Revenue	24.8	25.4	25.2	25.2
Personal Inc.	2.3	2.4	2.4	2.4
Corporate Inc.	1.8	1.8	1.9	1.8
VAT	7.6	8.2	7.8	7.7
Excises	3.7	3.6	3.7	3.7
Import Duties	0.8	0.8	0.8	0.8
Other Taxes	0.1	0.1	0.1	0.1
Soc. Contrib.	8.3	8.2	8.3	8.4
Non-Tax revenue	3.1	4.2	4.0	3.2
Expenditure	30.5	32.6	32.1	32.1
Cur. Expenditure	27.7	28.3	28.4	28.4
Personnel	4.3	4.2	4.2	4.2
G. & Services	2.8	3.1	2.8	2.8
Transfers	14.7	19.7	20.1	20.1
Int. Payments	1.1	1.3	1.3	1.3
Capital Expend.	2.8	4.3	3.7	3.7
Fiscal Balance	-2.6	-2.9	-2.9	-3.8
Primary Balance	-1.5	-1.6	-1.6	-2.5

*In the absence of corrective measures

	28 Aug.	3-M F	6-M F	12-M F
1-m SKIBOR (%)	1.5	1.8	2.3	2.8
MKD	61.3	61.3	61.3	61.3
Sov. Spread (2021, bps)	308	300	280	260

	28 Aug.	1-W %	YTD %	2-Y %
MBI 100	2,639	1.0	23.6	57.6

	2014	2015	2016	2017F	2018F
Real GDP Growth (%)	3.5	3.9	2.4	3.2	3.6
Inflation (eop, %)	-0.5	-0.3	-0.2	1.0	2.0
Cur. Acct. Bal. (% GDP)	-0.5	-2.1	-3.1	-2.2	-1.9
Fiscal Bal. (% GDP)	-4.2	-3.5	-2.6	-3.8	-2.8

The fiscal deficit widened in the first 7 months of the year, as the new Government started the clearance of accumulated arrears. The fiscal deficit widened by 0.2 pps y-o-y to 1.7% of GDP in 7M:17, reflecting the initiative of the new Government, which took office in late-May, to repay accumulated arrears from last year and the first 5 months of this year. Indeed, primary expenditure rose by 0.2 pps of GDP y-o-y in 7M:17, due exclusively to the payment of postponed transfers mainly to the agricultural sector (0.3 pps of GDP y-o-y). As a result, the 12-month rolling fiscal deficit rose to 2.9% of GDP in July from 2.6% in December -- in line with the revised FY:17 budget target.

The FY:17 fiscal deficit target is set to surpass its target by a wide margin (0.9 pps of GDP), unless some pre-election pledges are postponed and/or capital spending is under-executed. In view of a slowdown in economic activity (GDP growth declined to 0.0% y-o-y in Q1:17 from 2.4% in FY:16 and a 7-year high of 3.9% in FY:15), the new Parliament adopted a supplementary 2017 Budget in early-August, revising down both target revenue and expenditure (each by 0.5 pps of GDP) and leaving unchanged the FY:17 fiscal deficit target at 2.9% of GDP.

The supplementary Budget projects weaker revenue, mainly due to lower VAT receipts reflecting weaker economic activity (the revised Budget forecasts FY:17 GDP growth at 2.2% against 3.0% in the initial Budget). On the other hand, the revised Budget envisages a sharp reduction in capital and goods & services spending (down 0.6 pps and 0.3 pps of GDP, respectively) in order to reduce overall spending, as well as to finance a significant increase in social transfers & subsidies (up 0.4 pps of GDP), in line with pre-election promises. The pre-election pledges include, *inter alia*, a subsidy of the hike in the minimum wage (to EUR 197 from EUR 148) starting in September, financial support to SMEs and financing of new employment (0.1% of GDP), and additional funds for the payment of pensions and other social transfers (0.2% of GDP).

In our view, in light of the y-t-d performance (a deficit of 1.7% of GDP in 7M:17) and the revised revenue and expenditure growth targets, the observance of the revised 2017 Budget target of 2.9% of GDP is out of reach, unless corrective measures are introduced. Specifically, the downwardly-revised revenue growth target of 9.1% (from 10.8% previously) appears unattainable due to the poor y-t-d revenue performance (4.7% y-o-y in 7M:17) and the absence of new tax measures. According to our baseline scenario, which projects revenue growth at 7.7% y-o-y in 8-12M:17 (in line with FY:17 nominal GDP growth of 6.0%) against 15.0% y-o-y in the revised Budget, the revenue shortfall should amount to 0.8 pps of GDP in FY:17.

To make up for this shortfall, expenditure growth should be contained at 8.0% y-o-y in 8-12M:17 against 14.6% y-o-y in the supplementary Budget, through capital under-execution and/or the postponement of some of the new Government's pre-election pledges. Overall, in the absence of corrective fiscal measures, the fiscal deficit should rise to 3.8% of GDP in FY:17 from 2.6% of GDP in FY:16 -- well above the 2017 revised Budget target of 2.9% of GDP.

Should our fiscal deficit forecast materialise, the general government debt-to-GDP ratio will rise to a 15-year high of 40.4% at end-2017 from 39.1% at end-2016 -- still comparing favourably with those of "Emerging market and developing economies" (calculated by the IMF) and SEE-5 economies, estimated at 48.5% and 47.6%, respectively.

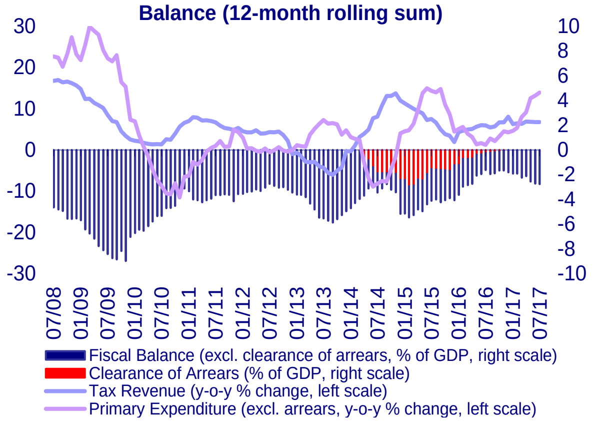
Albania

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

Consolidated Fiscal Balance (% of GDP)

	2016	7M:16	7M:17	2017 Budget	NBG 2017F
Revenue	27.6	15.8	15.9	27.9	27.8
Tax Revenue	25.1	14.5	14.8	25.5	25.5
PIT	2.1	1.3	1.2	2.3	2.3
CIT	2.0	1.2	1.2	1.9	2.3
VAT	8.9	5.0	5.0	9.0	8.7
Excises	2.8	1.6	1.6	3.0	2.8
Customs	0.4	0.2	0.2	0.4	0.4
Other taxes	8.8	5.1	5.5	8.9	8.9
Grants	1.0	0.4	0.2	0.9	0.9
Non-Tax Rev.	1.5	1.0	0.9	1.6	1.4
Expenditure	29.4	14.6	15.7	29.9	29.5
Current Exp.	25.0	13.1	13.7	25.0	24.7
Personnel	4.6	2.6	2.6	4.8	4.7
Operational	3.0	1.3	1.4	2.9	3.0
Subsidies	0.1	0.1	0.1	0.1	0.1
Social Insur.	10.4	5.6	5.8	10.4	10.7
Local Budget	3.0	1.3	1.8	2.6	2.4
Other Exp.	1.5	0.8	0.8	1.5	1.5
Int. Payments	2.5	1.4	1.1	2.7	2.3
Capital Exp.	4.0	1.4	1.9	4.8	4.4
Net Lending	0.4	0.2	0.1	0.1	0.3
Contingency Reser.	0.0	0.0	0.0	0.1	0.3
Fiscal Bal.	-1.8	1.3	0.2	-2.0	-1.7
Primary Bal.	0.7	2.6	1.3	0.7	0.6

Tax Revenue, Primary Expenditure & Fiscal Balance (12-month rolling sum)



	28 Aug.	3-M F	6-M F	12-M F
1-m TRIBOR (mid, %)	1.6	2.2	2.2	2.2
ALL/EUR	132.7	132.3	131.7	130.7
Sov. Spread (bps)	250	240	232	220

	28 Aug.	1-W %	YTD %	2-Y %
Stock Market	- - -	- - -	- - -	- - -

	2014	2015	2016	2017F	2018F
Real GDP Growth (%)	1.8	2.2	3.4	4.0	4.4
Inflation (eop, %)	0.7	2.0	2.2	2.6	2.8
Cur. Acct. Bal. (% GDP)	-12.9	-10.8	-9.6	-11.1	-10.6
Fiscal Bal. (% GDP)	-5.2	-4.1	-1.8	-1.7	-1.6

The fiscal balance deteriorated in 7M:17, due to pre-election expenditure slippage. The cumulative fiscal surplus narrowed to a mere 0.2% of GDP in 7M:17 from 1.3% in 7M:16, due to higher expenditure (up 1.1 pp of GDP y-o-y).

Specifically, spending increased markedly (up 14.3% y-o-y in 7M:17, above the FY:17 growth target of 7.8%). The slippage was driven by higher local government and capital spending (each up by 0.5 pps of GDP y-o-y), ahead of the June 25th legislative elections. Spending was also boosted by higher expenses for property compensation related to the communist era (up 0.2 pps of GDP y-o-y).

On the other hand, revenue rose by a robust 6.5% y-o-y in 7M:17 (up 0.1 pp of GDP y-o-y), yet slightly below the FY:17 target of 7.2%. The improvement was driven by the rise in tax revenue (up 0.3 pps of GDP y-o-y in 7M:17), supported by revenue-enhancing measures (of 0.7 pps of GDP in FY:17). The latter includes once-off revenue (0.5 pps of GDP), consisting of the collection of excise debt on diluent for oil extraction and higher income tax on the back of incentives for compliance (each yielding 0.2 pps of GDP, according to the IMF).

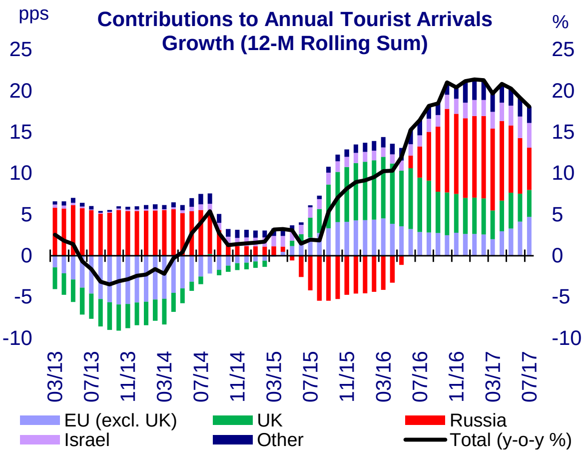
The FY:17 fiscal deficit is set to overperform both its target and the FY:16 outcome, assuming expenditure is brought back on track after the elections. The 2017 Budget envisages a slightly expansionary fiscal stance, targeting a deficit of 2.0% of GDP compared with a deficit of 1.8% in FY:16. In our view, the FY:17 deficit target appears pessimistic, as the 2017 Budget was based on over-estimated FY:16 spending and the new Government is set to make up for the pre-election spending slippage. Recall that the Socialist Party of PM E. Rama secured an outright majority in the elections, and the new Government -- set to be formed in mid-September -- is expected to maintain its commitment to fiscal consolidation, supported by the IMF Post-Program Monitoring (after the completion of the 3-year Extended-Fund Facility in February). Thus, we expect spending to be scaled back by 1.4% in 8-12M:17 -- below the implied target growth of 1.5% in 8-12M:17 (implying savings of 0.4 pps of GDP). Expenditure under-execution should result from lower-than-budgeted capital spending (by 0.3 pps of GDP) and be supported by lower-than-projected interest expenditure (by 0.4 pps of GDP). The impact from moderate increases in public wages and pensions (of 7.0% and 3.0%, respectively, from March) is set to be fully offset by that from the pension reform and the employment freeze regarding vacancies. Note that our forecast for expenditure growth in 8-12M:17 was revised to include the announced (unbudgeted) increase in net lending for energy (due to the unexpected increase in energy imports, following prolonged drought that limited hydropower production) as well as higher contingency reserves (due to the cost of wildfires during the summer), together up 0.2 pps of GDP.

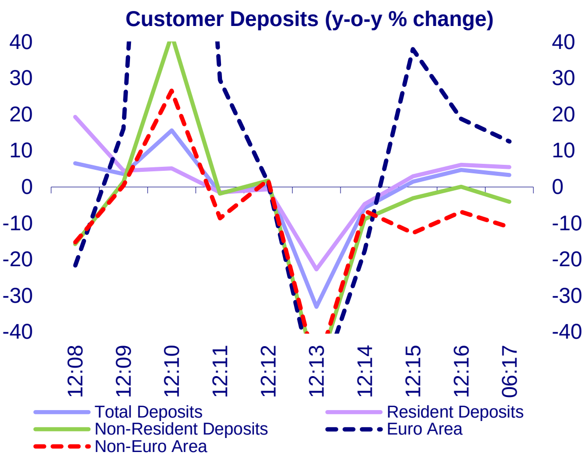
On the other hand, we expect a slight revenue underperformance, despite the anticipated strong tax revenue performance (in line with its target). For the rest of the year, we foresee revenue improving broadly at the same pace as in 7M:17 (up 6.9% y-o-y in 8-12M:17, following 6.5% y-o-y in 7M:17), but weaker than the targeted 8.2% y-o-y in 8-12M:17 (implying a slight revenue shortfall of 0.2 pps of GDP), due to an over-estimated FY:16 non-tax revenue.

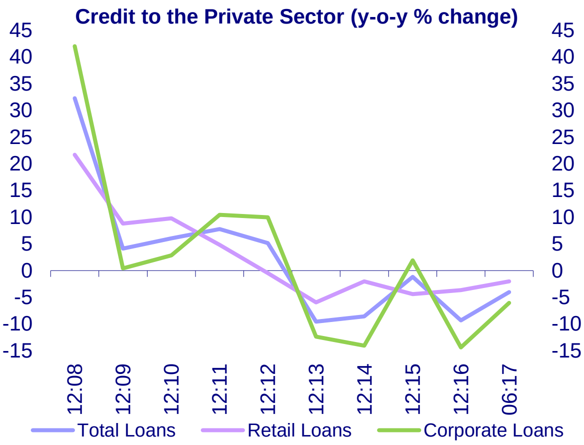
Overall, we expect the FY:17 deficit to outperform both its target and the FY:16 outcome, standing at a record low of 1.7% of GDP -- a fiscal consolidation of 0.1 pp of GDP in this election year. Our forecast was revised up (by 0.2 pps of GDP) to reflect the announced (unbudgeted) rise in expenditure. Should our fiscal deficit forecast materialise, the public debt-to-GDP ratio would continue on its downward trend, initiated in 2016, narrowing by 3.4 pps to 68.7% in 2017.

Cyprus

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







	28 Aug.	3-M F	6-M F	12-M F
1-m EURIBOR (%)	-0.37	-0.37	-0.37	-0.37
EUR/USD	1.20	1.19	1.18	1.20
Sov. Spread (2020. bps)	127	120	110	100

	28 Aug.	1-W %	YTD %	2-Y %
CSE Index	76	-1.6	14.9	-2.8

	2014	2015	2016	2017F	2018F
Real GDP Growth (%)	-1.5	1.7	2.8	3.3	2.5
Inflation (eop. %)	-1.5	-1.0	-0.3	0.8	1.5
Cur. Acct. Bal. (% GDP)	-4.3	-2.9	-5.3	-6.0	-5.8
Fiscal Bal. (% GDP)	-8.8	-1.2	0.4	0.2	0.4

Tourist arrivals growth slowed to a still strong 18.1% y-o-y on a 12-month rolling basis in July from 21.2% in December, mainly due to a slowdown from the UK and Russia. Tourist arrivals from the UK and Russia (the 2 largest source countries, accounting for c. 60.0% of total arrivals in FY:16) rose by 8.6% and 23.0% y-o-y, respectively, on a 12-month rolling basis in July compared with increases of 11.2% and 48.9% in December (together shaving 5.7 pps from total arrivals growth). The slowdown is largely attributed to the gradual return of Russian and UK visitors to neighbouring countries, Turkey and Egypt, due to easing domestic security concerns and more competitive prices. In fact, Turkey has seen a strong rebound in the number of Russian and UK visitors (up 81.8% y-o-y and -23.0% y-o-y, respectively, on a 12-month rolling basis in July, from -76.3% and -31.9% in December), mainly reflecting the resumption of charter flights from Russia in September 2016 following the removal of Russian sanctions and more competitive prices (the TRY depreciated by c. 10% y-o-y against the GBP and by c. 32% y-o-y against the RUB in 7M:17). On the other hand, improved security conditions and a sharp depreciation of the domestic currency in Egypt (c. 50% against the USD since November) may have diverted Russian and UK tourists from Cyprus.

The slowdown in overall tourist arrivals growth in July was, however, tempered by a sharp rise in arrivals from the EU -- excluding the UK and Israel -- (accounting for 23.3% and 4.6%, respectively, of total arrivals in FY:16 and contributing 4.7 pps and 3.0 pps, respectively, to overall growth in July on a 12-month rolling basis, up from 2.6 pps and 1.9 pps in December).

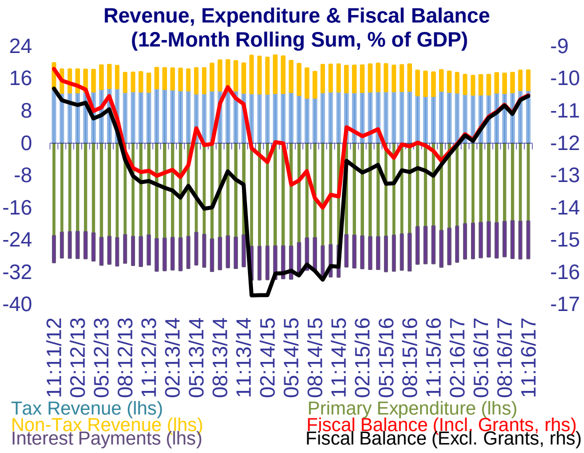
Looking ahead, we expect the gradual return of Russian and UK visitors to Turkey and Egypt to continue to weigh on tourist arrivals growth in Cyprus during the remainder of the year. Overall, we foresee tourist arrivals growth moderating to a still high 14.5% (3.7mn visitors) in FY:17 from a record-high of 21.2% in FY:16. Encouragingly, tourist receipts gained momentum in H1:17, increasing by 14.3% y-o-y on a 12-month rolling basis in June compared with a rise of 11.9% in December, as the slowdown in arrivals over the same period was more than offset by a significant increase in spending per tourist. Should the positive trend of spending per tourist continue in H2:17, tourist receipts would rise by c.12.0% in FY:17 – similar to FY:16. In the event, the tourism sector (accounting for 26.3% of the Cypriot economy according to the World Travel & Tourism Council -- WTTC) should contribute c. 1.0 pp to the upwardly-revised FY:17 GDP growth of 3.3% (from 2.8% previously).

Banking sector deleveraging slowed in H1:17, due to an increase in new loans. Credit to the private sector fell by 4.0% y-o-y in June against a drop of 9.3% in December driven by a milder decline in lending to corporates (down 6.0% y-o-y in June against a drop of 14.4% in December) and, to a lesser extent, to households (down 2.0% y-o-y in June against a decline of 3.7% in December). Importantly, the milder pace of decline of the stock of loans in H1:17 was largely driven by a sharp rise in new loans. According to Moody's, "*new loans excluding debt restructurings totalled EUR 1.6bn in the H1:17* (c. 3.5% of gross loans)*, an amount equal to 67% of new loan volume for all 2016*".

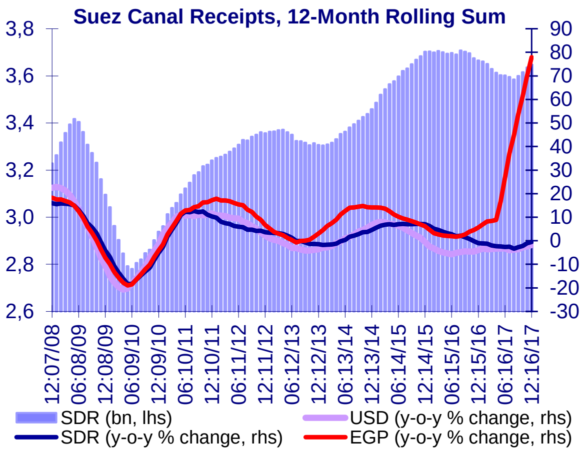
Customer deposit growth declined in H1:17, mainly driven by non-residents. Customer deposit growth slowed to 3.3% y-o-y in June from 4.7% y-o-y in December. The deceleration was driven by non-residents (accounting for 22% of total deposits and down 4.1% y-o-y in June against 0.0% y-o-y in December) and, to a lesser extent, by Cypriot residents (up by a still robust 5.5% y-o-y in June against a rise of 6.1% y-o-y in December).

Egypt

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



Fiscal Accounts (% of GDP)					
	2015/16 Outcome	2016/17 Budget	NBG 2016/17 Estimate	2017/18 Budget	NBG 2017/18 Forecast
Revenue	18.1	19.6	18.9	20.3	19.8
Tax Revenue	13.0	12.7	13.4	14.7	14.2
Grants	0.1	0.1	0.0	0.0	0.0
Other Revenue	5.0	6.9	5.4	5.6	5.6
Expenditure	30.7	29.0	29.4	29.4	29.4
Wages & Salaries	7.9	6.7	6.5	5.8	5.8
Purch. of G. & S.	1.3	1.2	1.2	1.3	1.3
Interest Payments	9.0	8.6	8.9	9.3	9.3
Subsidies, grants & social benefits	7.4	6.1	8.2	8.1	8.1
Other Expenditure	5.1	6.4	4.6	4.9	4.9
Fiscal Balance	-12.5	-9.4	-10.5	-9.0	-9.5
Primary Balance	-3.5	-0.8	-1.6	0.2	-0.2



	28 Aug.	3-M F	6-M F	12-M F
O/N Interbank Rate (%)	18.9	19.0	18.0	17.0
EGP/USD	17.6	17.5	17,8	18.0
Sov. Spread (2020. bps)	264	260	250	240

	28 Aug.	1-W %	YTD %	2-Y %
HERMES 100	1,182	-0.7	8.5	84.5

	13/14	14/15	15/16	16/17E	17/18F
Real GDP Growth (%)	2.9	4.4	4.3	3.5	4.5
Inflation (eop. %)	8.2	11.4	14.0	29.8	13.5
Cur. Acct. Bal. (% GDP)	-0.8	-3.7	-5.5	-6.0	-5.0
Fiscal Bal. (% GDP)	-12.2	-11.5	-12.5	-10.5	-9.5

The IMF-supported programme has started to bear fruit, with the fiscal deficit narrowing by an estimated 2.0 pps to a still high 10.5% of GDP in FY:16/17. The fiscal deficit narrowed significantly by 2.0 pps y-o-y to 9.5% of GDP in 11M:16/17 (July 2016-May 2017), on the back of a sharp decline in expenditure (down 1.4 pps of GDP y-o-y) and, to a lesser extent, a mild increase in revenue (up 0.6 pps of GDP y-o-y). This impressive performance resulted from the implementation of a series of revenue-enhancing and expenditure-saving measures, largely adopted ahead of the IMF Executive Board's approval of a USD 12bn 3-year extended fund facility (EFF) for Egypt last November. The key measures include the introduction of a VAT, the reduction of the public sector wage bill and the cut in energy subsidies (through price increases).

We estimate the FY:16/17 fiscal deficit to have reached 10.5% of GDP – well below the FY:15/16 outcome of 12.5% but above its target of 9.4%. The estimated underperformance of the FY:16/17 fiscal deficit target (by 1.1 pp of GDP) was mainly due to: i) higher-than-budgeted food and energy subsidies (by 2.2 pps of GDP), reflecting over-optimistic Budget projections for the exchange rate (EGP 9.0 per USD compared with the outcome of EGP 15.4 per USD) and the price of Brent/barrel (USD 40.0 compared with the outcome of USD 50.9) and ii) lower-than-expected non-tax revenue (by 1.5 pps of GDP). This underperformance would have been even higher (at 4.8 pps of GDP) had capital spending not been under-executed (by 1.8 pps of GDP) and tax revenue not been higher than budgeted (by 0.9 pps of GDP).

The envisaged fiscal consolidation of 1.5 pps of GDP for 2017/18 is unlikely to be achieved in this election year, as it requires additional corrective measures. The 2017/18 Budget (started on July 1st) envisages further fiscal tightening, targeting a deficit of 9.0% of GDP compared with our FY:17/18 deficit estimate of 10.5%.

In our view, the fiscal deficit target is set to be missed in FY:17/18, due to an over-optimistic revenue growth target (up 29.6%). The latter should be underperformed by c. 3.0 pps, in view of weaker nominal GDP growth (projected at c. 21.0%) and insufficient revenue-enhancing measures. The only significant revenue-enhancing measure in the new Budget is the 1 pp rise in the VAT rate to 14.0% (from July 1st). We expect a revenue shortfall of 0.5 pps of GDP.

Overall, we see the fiscal deficit narrowing to 9.5% of GDP in FY:17/18 from an estimated outcome of 10.5% of GDP in FY:16/17; but missing its target of 9.0% of GDP in the absence of additional corrective fiscal measures. Indeed, with the presidential election set to take place in Q4:17/18 (May 2018), additional austerity measures are unlikely to be introduced.

SDR-denominated Suez Canal receipts (SCR) boosted budget revenue by an estimated 0.4 pps of GDP in FY:16/17, on the back of large currency valuation effects. SCR declined by a mere 0.5% to SDR 3.6bn in FY:16/17, as losses in 8M:16/17 were almost reversed in 9-12M:16/17, on the back of the ongoing recovery in global trade is the currency unit used by the Canal Authority to collect transit fees in order to avoid sharp fluctuations in its revenue. The weak SCR performance in SDR terms in FY:16/17 reflects exclusively developments in (net) tonnage of ships crossing the Canal, as transit tolls have not been changed since May 2013. Importantly, due to currency valuation effects (the SDR appreciated by 75.8% against the EGP in FY:16/17), the contribution of SCR to Budget revenue, through corporate income tax and dividends, is estimated to have risen sharply to c. EGP 52.0bn (1.5% of GDP) from EGP 29.7bn (1.1% of GDP) in FY:15/16.

FOREIGN EXCHANGE MARKETS, AUGUST 28TH 2017

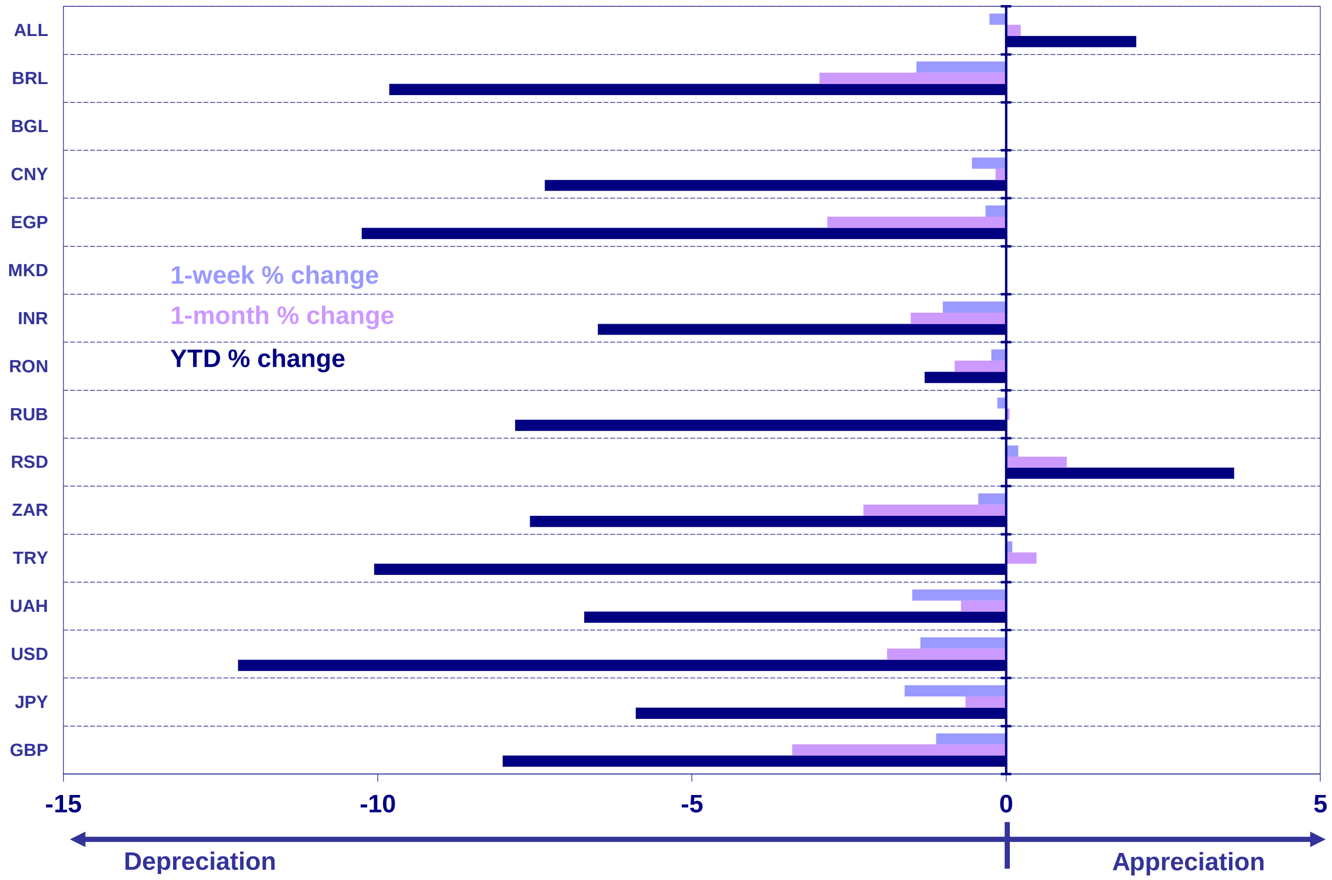
Against the EUR

	Currency	2017										2016	2015
		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	132.7	-0.3	0.2	2.1	3.5	132.1	137.3	133.0	133.0	132.5	1.2	2.0
Brazil	BRL	3.79	-1.4	-3.0	-9.8	-4.7	3.23	3.81	4.11	4.10	4.09	25.7	-25.2
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	7.91	-0.5	-0.2	-7.3	-5.7	7.20	7.99	8.29	8.28	8.28	-4.0	6.7
Egypt	EGP	21.02	-0.3	-2.8	-10.3	-52.9	16.62	21.19	- - -	- - -	- - -	-55.0	2.1
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	76.5	-1.0	-1.5	-6.5	-1.9	68.2	76.9	81.6	- - -	- - -	0.4	6.6
Romania	RON	4.59	-0.2	-0.8	-1.3	-3.2	4.49	4.60	4.60	4.61	4.63	-0.4	-0.8
Russia	RUB	69.9	-0.1	0.1	-7.8	3.6	59.5	72.1	71.6	73.1	76.1	22.9	-15.1
Serbia	RSD	119.0	0.2	1.0	3.6	3.5	119.1	124.1	119.5	120.0	- - -	-1.5	-0.1
S. Africa	ZAR	15.6	-0.4	-2.3	-7.6	3.1	13.38	15.94	15.9	16.2	16.8	16.2	-16.6
Turkey	YTL	4.13	0.1	0.5	-10.1	-20.0	3.70	4.21	4.25	4.38	4.64	-14.7	-10.8
Ukraine	UAH	30.5	-1.5	-0.7	-6.7	-6.9	27.22	30.84	35.5	- - -	- - -	-8.6	-27.5
US	USD	1.20	-1.4	-1.9	-12.2	-6.6	1.0	1.2	1.20	1.21	1.22	3.3	11.4
JAPAN	JPY	130.9	-1.6	-0.6	-5.9	-12.9	114.9	131.4	130.8	130.8	130.8	6.0	11.0
UK	GBP	0.93	-1.1	-3.4	-8.0	-7.8	0.8	0.9	0.93	0.93	0.93	-13.5	5.3

* Appreciation (+) / Depreciation (-)

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

Currencies against the EUR (August 28th 2017)



MONEY MARKETS, AUGUST 28TH 2017

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine	EU	US
O/N	1.3	9.1	0.0	2.9	- - -	18.9	- - -	- - -	0.6	8.7	- - -	12.9	7.8	12.8	- - -	1.2
T/N	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	0.6	8.8	3.0	- - -	7.3	- - -	- - -	- - -
S/W	1.3	9.0	0.0	2.9	-0.4	- - -	1.2	- - -	- - -	8.3	3.0	- - -	7.4	13.2	-0.4	1.2
1-Month	1.6	8.6	0.0	3.9	-0.4	- - -	1.5	6.2	0.7	9.2	3.3	13.0	7.5	14.3	-0.4	1.2
2-Month	- - -	8.3	0.1	- - -	-0.3	- - -	- - -	- - -	- - -	9.2	3.4	13.0	7.5	- - -	-0.3	1.3
3-Month	1.9	8.1	0.1	4.4	-0.3	- - -	1.8	6.3	0.9	9.3	3.6	13.1	7.5	15.8	-0.3	1.3
6-Month	2.2	7.7	0.3	4.4	-0.3	- - -	2.0	- - -	1.1	9.2	3.8	13.1	7.5	- - -	-0.3	1.5
1-Year	2.8	7.6	0.7	4.4	-0.2	- - -	2.4	- - -	1.3	8.8	- - -	13.3	7.7	- - -	-0.2	1.7

LOCAL DEBT MARKETS, AUGUST 28TH 2017

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine	EU	US
3-Month	- - -	- - -	- - -	- - -	- - -	19.4	- - -	6.1	- - -	8.8	3.5	10.9	- - -	- - -	-0.7	1.0
6-Month	1.7	- - -	- - -	- - -	- - -	19.3	1.6	6.2	0.6	8.7	3.9	11.3	- - -	- - -	-0.7	1.1
12-Month	2.3	- - -	-0.1	3.4	- - -	19.0	1.9	6.3	0.9	7.9	4.1	11.8	- - -	13.9	-0.7	1.2
2-Year	2.5	- - -	- - -	3.5	- - -	- - -	- - -	6.4	1.5	7.8	- - -	11.3	7.0	- - -	-0.7	1.3
3-Year	- - -	- - -	0.1	3.6	0.8	- - -	- - -	6.4	1.9	7.8	- - -	11.0	7.3	14.5	-0.7	1.5
5-Year	- - -	9.8	- - -	3.7	1.7	16.8	- - -	6.5	2.7	7.9	5.4	10.8	7.5	- - -	-0.3	1.7
7-Year	- - -	- - -	1.1	- - -	- - -	16.8	- - -	6.7	3.4	7.9	- - -	- - -	- - -	- - -	-0.1	2.0
10-Year	- - -	10.1	1.7	3.7	- - -	16.8	- - -	6.6	4.0	7.8	- - -	10.3	8.6	- - -	0.4	2.2
15-Year	- - -	- - -	- - -	- - -	- - -	- - -	3.8	7.2	- - -	7.9	- - -	- - -	9.2	- - -	0.6	- - -
25-Year	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	9.7	- - -	- - -	- - -
30-Year	- - -	- - -	- - -	- - -	- - -	- - -	- - -	7.2	- - -	- - -	- - -	- - -	9.8	- - -	1.1	2.8

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

CORPORATE BONDS SUMMARY, AUGUST 28TH 2017

		Currency	Rating S&P / Moody's	Maturity	Amount Outstanding (in million)	Bid Yield	Gov. Spread	Asset Swap Spread
Bulgaria	**Bulgaria Energy Hld 4.25% '18**	EUR	NA/NA	7/11/2018	500	1.1	178	138
	Bulgarian Telecom. 6.625% '18	EUR	B-/B1	15/11/2018	400	0.3	208	179
Cyprus	**Aroundtown Property 3% '21**	EUR	NA/NA	9/12/2021	200	- - -	- - -	- - -
Russia	**Gazprom 8.2% '19**	RUB	BB+/NA	9/4/2019	10,000	8.4	48	- - -
	Gazprom 8.9% '21	RUB	BB+/NA	26/1/2021	10,000	8.8	96	- - -
South Africa	**FirstRand Bank Ltd 4.25% '20**	USD	BBB-/Baa2	30/4/2020	500	3.3	194	164
	FirstRand Bank Ltd 2.25% '20	EUR	NA/NA	30/1/2020	100	1.0	172	119
Turkey	**Vakiflar Bankasi 3.5% '19**	EUR	NA/Baa3	17/6/2019	500	2.1	288	238
	Garanti Bankasi 3.38%'19	EUR	NA/Baa3	8/7/2019	500	1.3	206	156
	Arcelik AS 3.875% '21	EUR	BB+/NA	16/9/2021	350	2.2	279	225
	Turkiye Is Bankasi 6% '22	USD	NA/Ba3	24/10/2022	1,000	5.6	386	378

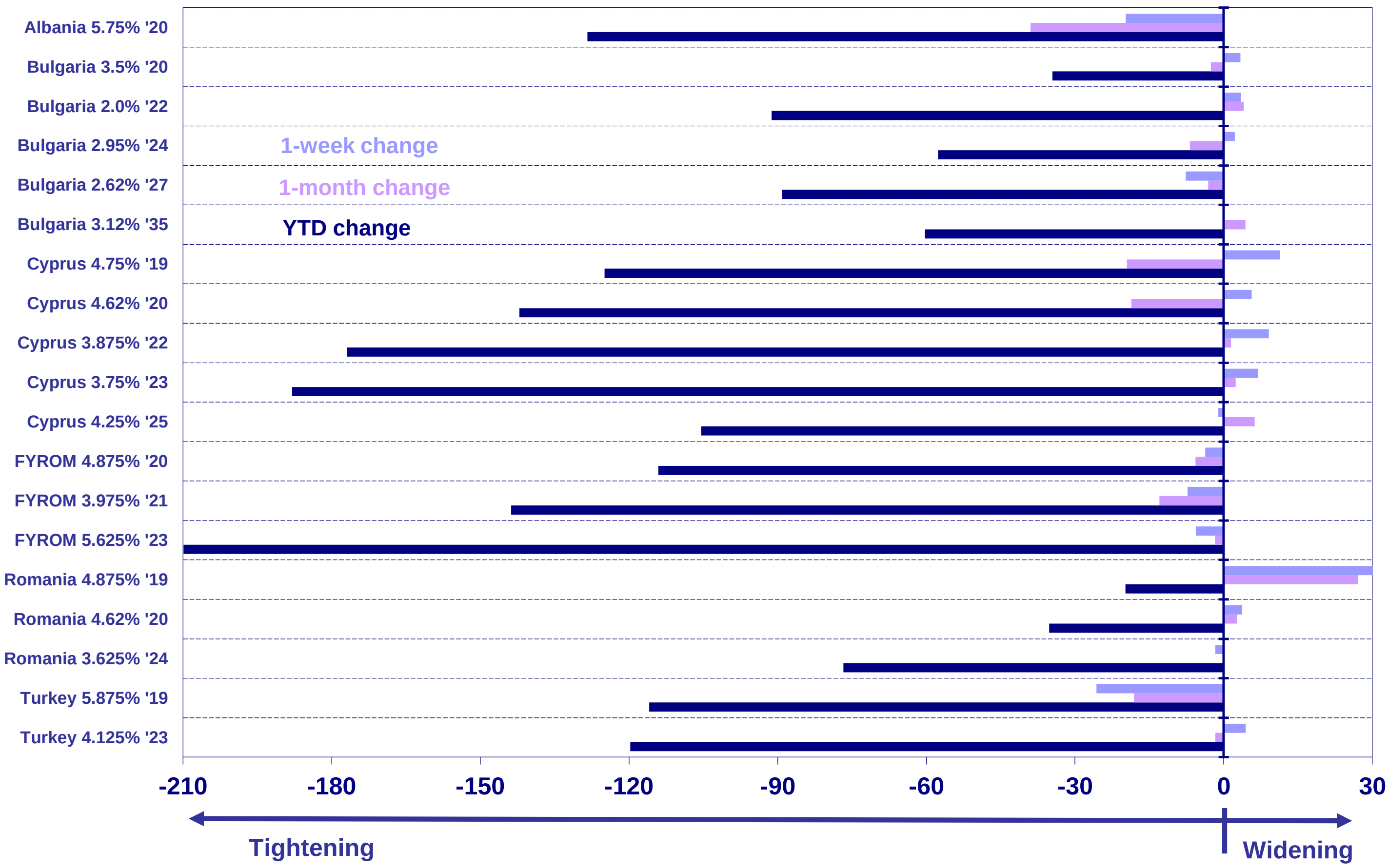
CREDIT DEFAULT SWAP SPREADS, AUGUST 28TH 2017

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine
5-Year	- - -	198	110	63	188	379	- - -	80	99	147	144	174	176	- - -
10-Year	- - -	306	155	110	221	414	- - -	89	139	220	185	260	249	- - -

EUR-DENOMINATED SOVEREIGN EUROBOND SUMMARY, AUGUST 28TH 2017

	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	1.8	250	202
Bulgaria 3.5% '20	EUR	NA/NA	16/1/2020	145	0.2	88	35
Bulgaria 2.0% '22	EUR	BB+/Baa2	26/3/2022	1,250	0.2	54	11
Bulgaria 2.95% '24	EUR	BB+/Baa2	3/9/2024	1,493	1.0	113	65
Bulgaria 2.62% '27	EUR	BB+/Baa2	26/3/2027	1,000	1.6	119	85
Bulgaria 3.12% '35	EUR	BB+/Baa2	26/3/2035	900	2.7	187	143
Cyprus 4.75% '19	EUR	BB/NA	25/6/2019	566	0.2	98	50
Cyprus 4.62% '20	EUR	BB/B1	3/2/2020	770	0.6	127	77
Cyprus 3.875% '22	EUR	NA/B1	6/5/2022	1,000	1.7	207	169
Cyprus 3.75% '23	EUR	NA/B1	26/7/2023	1,000	2.0	224	176
Cyprus 4.25% '25	EUR	NA/B1	4/11/2025	1,000	2.4	238	197
FYROM 4.875% '20	EUR	BB-/NA	1/12/2020	270	2.3	298	245
FYROM 3.975% '21	EUR	BB-/NA	24/7/2021	500	2.5	308	458
FYROM 5.625% '23	EUR	BB-/NA	26/7/2023	450	3.7	394	358
Romania 4.875% '19	EUR	BBB-/Baa3	7/11/2019	1,500	0.2	97	42
Romania 4.62% '20	EUR	BBB-/Baa3	18/9/2020	2,000	0.0	68	10
Romania 3.625% '24	EUR	BBB-/Baa3	24/4/2024	1,250	1.3	136	95
Turkey 5.875% '19	EUR	NR/Ba1	11/4/2023	1,250	0.6	131	89
Turkey 4.125% '23	EUR	NR/Ba1	12/11/2020	1,000	2.5	275	235

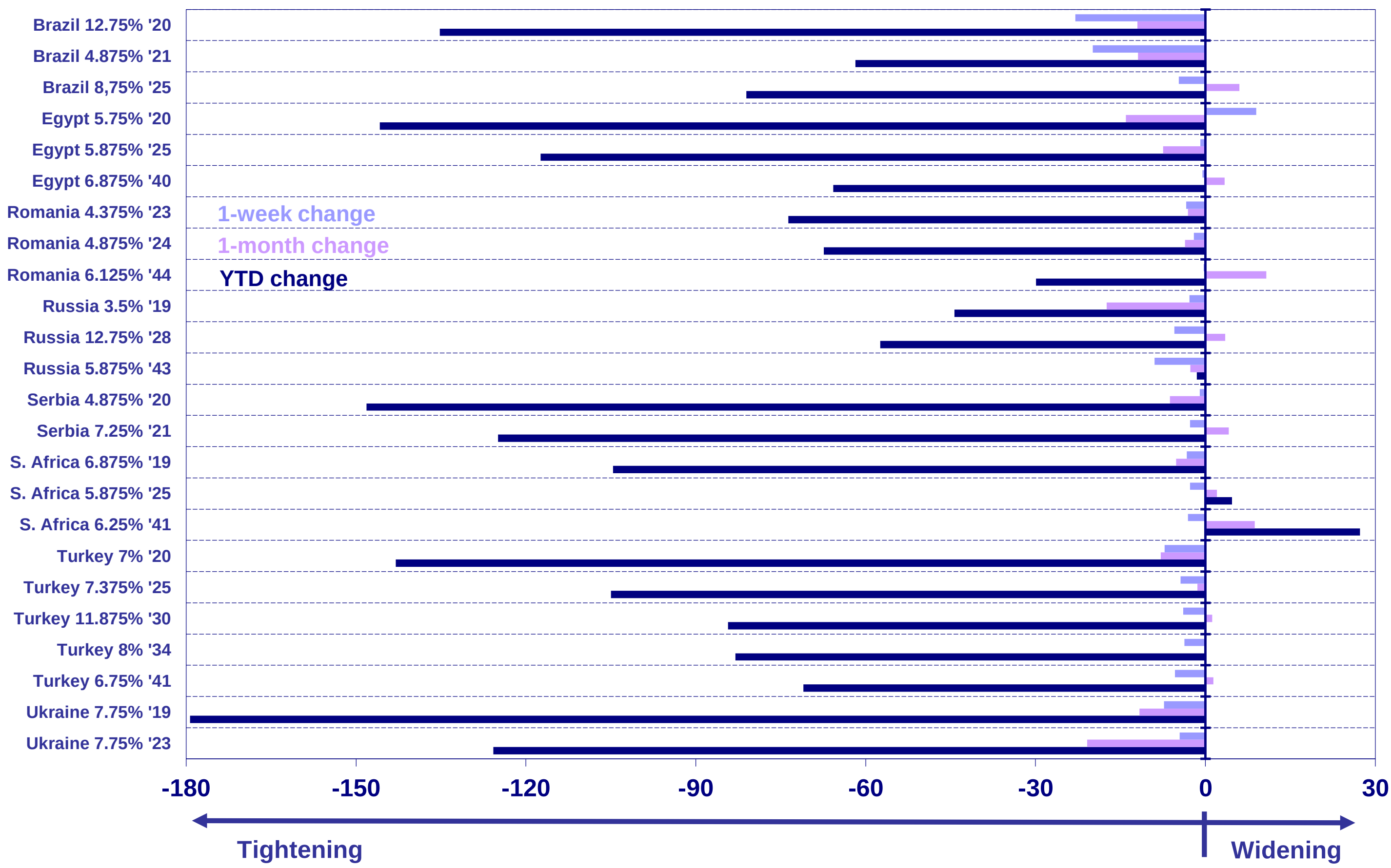
EUR-Denominated Eurobond Spreads (August 28th 2017)



USD-DENOMINATED SOVEREIGN EUROBOND SUMMARY, AUGUST 28TH 2017

	Currency	Rating S&P / Moody's	Maturity	Amount Outstanding (in million)	Bid Yield	Gov. Spread	Asset Swap Spread
Brazil 12.75% '20	USD	BB/Ba2	15/1/2020	234	2.2	83	66
Brazil 4.875% '21	USD	BB/Ba2	22/1/2021	2,988	3.0	150	130
Brazil 8.75% '25	USD	BB/Ba2	4/2/2025	969	4.2	226	263
Egypt 5.75% '20	USD	B-/B3	11/6/2025	1,000	4.1	264	252
Egypt 5.875% '25	USD	B-/B3	30/4/2040	1,500	5.8	383	378
Egypt 6.875% '40	USD	B-/B3	22/8/2023	500	7.2	438	458
Romania 4.375% '23	USD	BBB-/Baa3	22/1/2024	1,500	3.0	96	112
Romania 4.875% '24	USD	BBB-/Baa3	22/1/2044	1,000	3.0	102	116
Romania 6.125% '44	USD	BBB-/Baa3	16/1/2019	1,000	4.4	163	232
Russia 3.5% '19	USD	BB+/Ba1	24/6/2028	1,500	2.2	97	71
Russia 12.75% '28	USD	BB+/Ba1	16/9/2043	2,500	4.0	183	271
Russia 5.875% '43	USD	BB+/Ba1	25/2/2020	1,500	4.8	205	263
Serbia 4.875% '20	USD	BB-/B1	28/9/2021	1,500	2.8	132	120
Serbia 7.25% '21	USD	BB-/B1	27/5/2019	2,000	3.1	131	145
S. Africa 6.875% '19	USD	BBB-/Baa2	16/9/2025	1,748	2.4	105	89
S. Africa 5.875% '25	USD	BBB-/Baa2	8/3/2041	2,000	4.5	254	261
S. Africa 6.25% '41	USD	BBB-/Baa2	5/6/2020	750	5.5	274	327
Turkey 7% '20	USD	NR/Ba1	5/2/2025	2,000	3.2	177	168
Turkey 7.375% '25	USD	NR/Ba1	15/1/2030	3,250	4.6	258	282
Turkey 11.875% '30	USD	NR/Ba1	14/2/2034	1,500	5.1	298	401
Turkey 8% '34	USD	NR/Ba1	14/1/2041	1,500	5.5	335	370
Turkey 6.75% '41	USD	NR/Ba1	1/9/2019	3,000	5.6	286	328
Ukraine 7.75% '19	USD	B-/Caa3	1/9/2023	1,744	5.6	426	407
Ukraine 7.75% '23	USD	B-/Caa3	15/1/2020	1,355	7.2	521	532

USD-Denominated Eurobond Spreads (August 28th 2017)



STOCK MARKETS PERFORMANCE, AUGUST 28TH 2017

	2017								2016		2015	
	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)	71,017	3.5	8.4	17.9	21.2	59,371	71,506	6.1	38.9	76.2	-13.3	-35.3
Bulgaria (SOFIX)	714	-0.9	0.4	21.7	51.5	583	733	21.7	27.2	27.2	-11.7	-11.7
China (SHCOMP)	3,363	2.3	3.4	8.3	9.5	3,017	3,375	-0.1	-12.3	-15.3	9.4	16.5
Cyprus (CSE GI)	76	-1.6	-0.4	14.9	12.9	65	79	14.9	-2.0	-2.0	-20.9	-20.9
Egypt (HERMES)	1,182	-0.7	-3.9	8.5	64.4	1,071	1,255	-3.3	72.7	-21.8	-24.4	-22.8
F.Y.R.O.M (MBI)	2,639	1.0	6.3	23.6	34.5	2,135	2,644	23.6	16.5	16.5	-0.6	-0.6
India (SENSEX)	31,751	1.6	-1.7	19.2	13.8	25,718	32,686	11.3	1.9	2.6	-5.0	0.7
Romania (BET-BK)	1,662	1.2	2.9	23.7	27.5	1,365	1,665	22.1	0.2	0.0	2.6	1.6
Russia (RTS)	4,255	1.8	2.2	-13.5	-5.0	3,838	5,089	-20.3	24.2	54.3	30.3	9.5
Serbia (BELEX-15)	725	0.2	-0.6	1.0	16.5	694	753	4.7	11.4	9.7	-3.4	-3.5
South Africa (FTSE/JSE)	56,556	2.0	3.0	11.7	5.6	50,338	56,897	3.2	-0.1	16.1	1.9	-15.1
Turkey (ISE 100)	110,340	1.6	2.5	41.2	45.0	75,657	110,531	27.0	8.9	-7.0	-16.3	-25.4
Ukraine (PFTS)	286	0.0	-0.4	8.0	28.5	265	289	0.8	10.2	1.0	-37.8	-54.8
MSCI EMF	1,085	2.0	2.1	25.8	21.1	858	1,089	10.5	8.6	12.2	-17.0	-6.9
MSCI EAFE	1,931	0.7	0.0	14.7	14.4	1,677	1,955	0.6	-1.9	1.4	-3.3	7.7
Greece (ASE-General)	838	1.5	2.2	30.3	49.3	602	860	30.3	1.9	1.9	-23.6	-23.6
Germany (XETRA DAX)	12,123	0.5	-0.3	5.6	15.0	11,415	12,952	5.6	6.9	6.9	4.9	4.9
UK (FTSE-100)	7,401	1.1	0.4	3.6	8.2	7,094	7,599	-4.7	14.4	-1.0	-4.9	0.1
USA (DJ INDUSTRIALS)	21,808	0.5	-0.1	10.4	17.9	17,884	22,179	-3.1	13.4	16.7	-2.2	9.3
USA (S&P 500)	2,444	0.7	-1.1	9.2	12.1	2,245	2,491	-4.2	9.5	13.2	-0.7	10.6

Equity Indices (August 28th 2017)