Economic Analysis Division
Emerging Markets Research

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NBG - Economic Analysis Division
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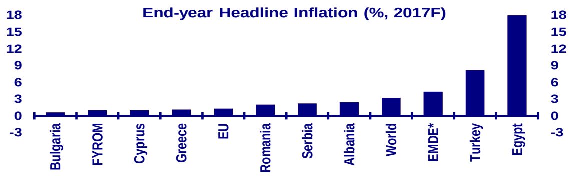
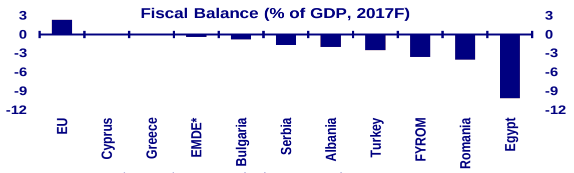
* EMDE: Emerging Market & Developing Economies





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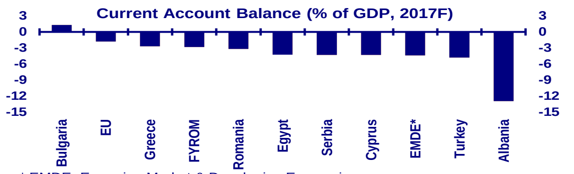
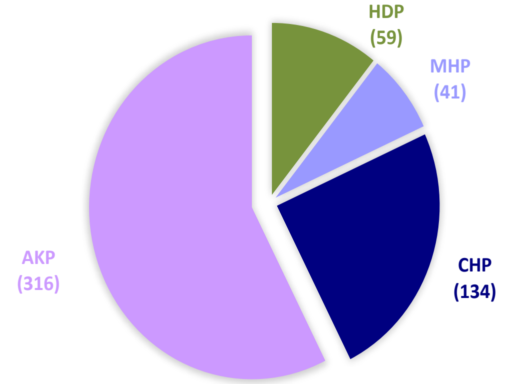


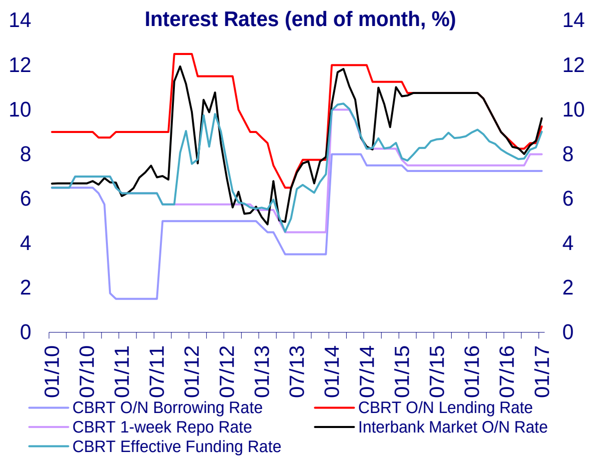
* EMDE: Emerging Market & Developing Economies

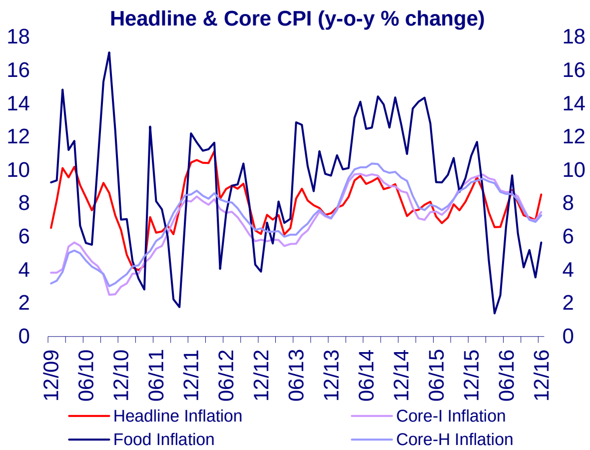
Turkey

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

Results of November 2015 General Elections (Number of Seats)







	23 Jan.	3-M F	6-M F	12-M F
1-m TRIBOR (%)	10.4	10.8	10.0	9.5
TRY/EUR	4.04	4.10	3.90	3.70
Sov. Spread (2019, bps)	229	275	265	240

	23 Jan.	1-W %	YTD %	2-Y %
ISE 100	83,048	1.6	6.3	-8.5

	2013	2014	2015	2016E	2017F
Real GDP Growth (%)	8.5	5.2	6.1	2.1	2.0
Inflation (eop, %)	7.4	8.2	8.8	8.5	8.2
Cur. Acct. Bal. (% GDP)	-6.7	-4.7	-3.8	-4.2	-4.8
Fiscal Bal. (% GDP)	-1.0	-1.1	-1.0	-1.1	-2.0

Political and economic uncertainty to intensify ahead of a referendum on a contentious constitutional reform package. Parliament approved a constitutional amendment bill that would allow a shift to an executive presidency from the current parliamentary system, with 339 votes in favour (versus a required qualified majority of 330 votes). The amendment bill will now be put to a referendum, likely in early-April. According to the constitutional reform package, the President will: i) be the head of state and head of government and can also be head of a political party; and ii) have the power to dissolve the national assembly, appoint cabinet ministers without requiring a confidence vote from parliament, impose states of emergency, propose budgets, and nominate more than half the members of the country's highest judicial body. The nationalist party, MHP, which largely backed the amendment bill, will be campaigning for a "Yes" vote, along with the ruling party, AKP, while the secularist party, CHP, with the pro-Kurdish party, HDP, will launch a "No" campaign. Recall that the co-leaders and 9 other MPs of the HDP have been jailed since November in the context of a "terrorism investigation".

Implicit tightening to continue at least until the early-April referendum. The CBRT hiked its overnight lending rate by 75 bps to 9.25% and its late liquidity window rate (a facility only available after 4:00 pm, designed for banks who need a lender of last resort) by 100 bps to 11.0%, while it maintained unchanged its central 1-week rate and its overnight borrowing rate at 8.0% and 7.25%, respectively. The Bank justified its decision by the need to contain the deterioration in the inflation outlook, due to "*excessive fluctuations in exchange rates since the previous meeting and volatility in food prices*". It kept the door open for further tightening if deemed necessary.

In our view, against a backdrop of a challenging inflation outlook, heightening domestic political uncertainty, slowing domestic economic activity, and tightening global liquidity conditions, the CBRT's decision is unlikely to reassure investors, who had anticipated a conventional rate hike (the central 1-week rate) -- long opposed by President Erdogan. Ahead of the early-April referendum and in the event of mounting pressure on the TRY, we expect the CBRT to continue with its implicit monetary tightening through hikes of the overnight lending rate -- at which it funded the market in the past two weeks. Indeed, the effective policy rate rose to 10.3% from a low of 8.0% in mid-2016.

Headline inflation to remain stubbornly high, ending 2017 at 8.2% y-o-y. Headline inflation rose to 8.5% y-o-y in December from 7.0% in November. The deterioration was broad based, with rises in food prices, energy prices, and core inflation accelerating to 5.7%, 8.7%, and 7.5% y-o-y, respectively, in December from 3.6%, 6.2%, and 7.0% in November. The acceleration was largely driven by a surge in global oil prices and a sharp depreciation of the TRY amid the deteriorating political and economic outlook.

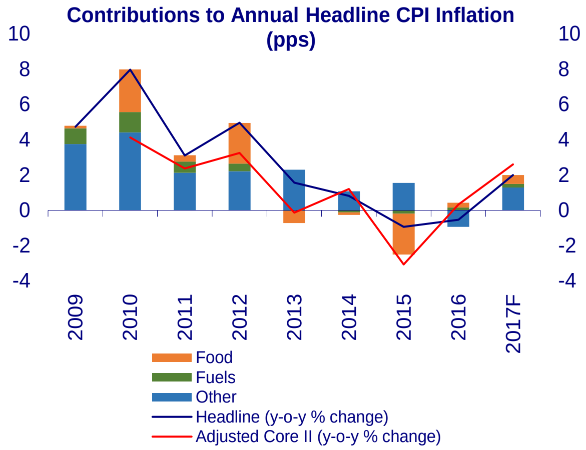
Overall, headline inflation eased slightly to 8.5% y-o-y at end-2016 from 8.8% at end-2015, supported by a downside correction in food prices and lower core inflation, reflecting a milder depreciation of the TRY and weaker private consumption. The annual decline in headline inflation at end-2016 would have been even sharper had energy prices not risen sharply (up 8.7% y-o-y against a rise of 3.0% in December 2015), mainly reflecting a softer decline in global enrgy prices in TRY terms.

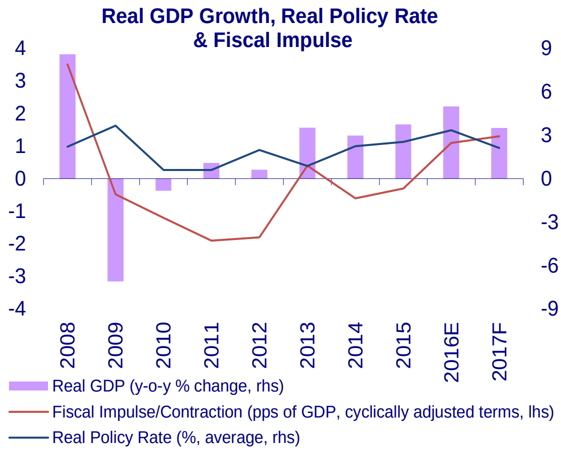
Looking ahead, we expect mounting inflationary pressures arising from a normalization in food prices and more unfavourable global oil prices to be more than offset by a smaller depreciation of the TRY and a negative output gap. Overall, we foresee end-year headline inflation declining modestly to 8.2% y-o-y in 2017 from 8.5% in 2016.

Romania

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

2016 Parliamentary Elections					
		Chamber of Deputies		Senate	
	Party	% of Vote	Seats	% of Vote	Seats
Ruling Coalition	PSD	45.5	154	45.7	67
	ALDE	5.6	20	6.0	9
	PNL	20.0	69	20.4	30
	USR	8.9	30	8.9	13
	UDMR	6.2	21	6.2	9
	PMP	5.4	18	5.7	8
	Minorities	1.3	17	- - -	- - -
	Other	7.3	0	7.0	0
Total		100	329	100	136





	23 Jan.	3-M F	6-M F	12-M F
1-m ROBOR (%)	0.6	0.9	1.2	1.5
RON/EUR	4.50	4.48	4.49	4.50
Sov. Spread (2024, bps)	192	180	165	150

	23 Jan.	1-W %	YTD %	2-Y %
BET-BK	1,383	0.8	2.9	3.8

	2013	2014	2015	2016E	2017F
Real GDP Growth (%)	3.5	3.0	3.8	5.0	3.5
Inflation (eop, %)	1.6	0.8	-0.9	-0.5	2.0
Cur. Acct. Bal. (% GDP)	-1.1	-0.7	-1.2	-2.6	-3.2
Fiscal Bal. (% GDP)	-2.5	-1.7	-1.5	-2.4	-3.8

A new Government takes office. The centre-left Social Democratic Party (PSD), which emerged as the strongest force in the December 11th elections, albeit short of an outright majority, formed a coalition Government with the Alliance of Liberals and Democrats (ALDE). The new Government, headed by Sorin Grindeanu, former Communications Minister, holds a relatively comfortable majority of 250 seats in the bicameral 465-seat Parliament. Note that Grindeanu's cabinet also received a vote of confidence from the Hungarian minority party, UDMR, and several representatives of other national minorities, together holding 45 seats. Importantly, the new Government needs to immediately focus on enforcing budgetary restraint (see below) and implementing the long-overdue structural reforms, especially in the deficit-plagued state-owned enterprises and the healthcare system.

Tax cuts keep headline inflation in negative territory for a second consecutive year in 2016 (-0.5% y-o-y at end-year against -0.9% at end-2015). Headline deflation eased slightly to -0.5% y-o-y in December from -0.7% in November. The main factor was the pick-up in fuel inflation (to 1.9% y-o-y in December from -0.5% in November), in line with developments in global oil markets (the price of Brent rose sharply by 46.1% y-o-y in RON terms in December following a rise of 3.3% in November).

Note that Romania experienced deflation for a 2nd consecutive year in 2016. This can be mainly attributed to the 4 pp cut in the standard VAT rate to 20% in January, shaving c. 1.4 pps off headline inflation, which more than offset the impact of stronger domestic demand, fueled by a looser fiscal stance. Recall that the VAT rate on food items had been reduced by 15 pps to 9% in June 2015, deducting c. 2.8 pps from headline inflation.

Inflation is set to pick up rapidly in FY:17, despite further tax cuts. Looking ahead, stronger domestic demand, on the back of a further easing in fiscal policy (see below), together with higher global commodity prices (excluding energy), should put pressure on inflation. This trend could be interrupted this month, due to the cut in the standard VAT rate by a further 1 pp to 19% and the elimination of the special excise duty on fuels (worth EUR 0.07/lt) -- together shaving c. 0.6 pps off headline inflation. Overall, we see headline inflation rising to 2.0% at end-2017, still within the NBR's target range (2.5±1%). Adjusted core II inflation could rise even further to 2.6% at end-2017.

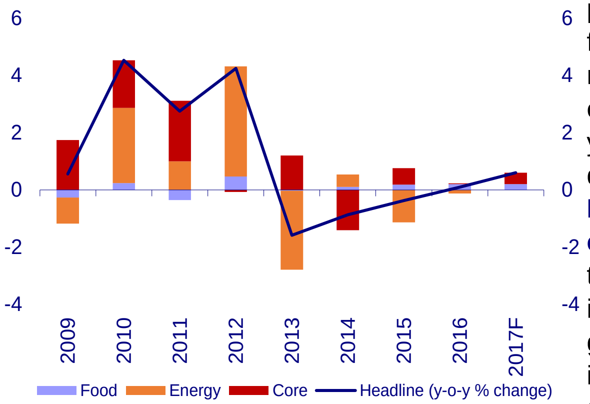
The NBR is set to embark on a tightening cycle later in the year. The projected pick-up in headline inflation, combined with a looser fiscal policy, should prompt the NBR to tighten its policy stance. Indeed, the budget deficit is set to widen significantly in FY:17, fueled by tax cuts and a looser incomes policy. The tax cuts include -- in addition to the aforementioned -- the elimination of the special property tax and several small taxes, as well as tax deductions for low-income pensioners. At the same time, the targeted hikes in public sector wages at end-2016, together with a 20% increase in wages in local administration and a 5.3% rise in pensions in February, should boost personnel costs and social spending. All said, we see the budget deficit widening to 4.0% of GDP in FY:17 from 2.4% in FY:16, breaching the EU threshold of 3.0%. As a result, we expect the NBR to raise its key rate by 225 bps to 4.0% (2.0% in real terms) by end-2017.

Importantly, interbank rates should converge to the policy rate, to increase the effectiveness of a rate hike. Indeed, interbank rates are stuck at the bottom of the NBR's interest rate corridor (IRC, ±1.5 pps around the policy rate), reflecting the liquidity surplus in the market. In this context, Governor Isarescu has hinted that the NBR stands ready to narrow its IRC.

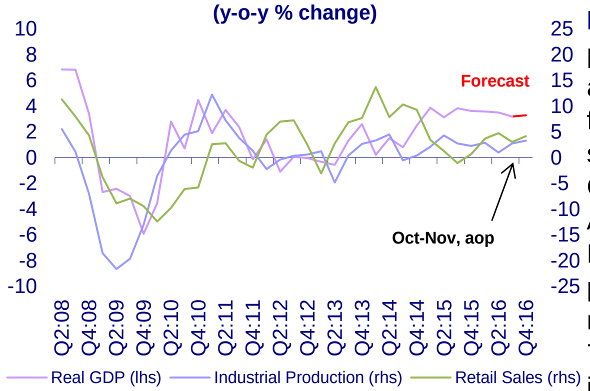
Bulgaria

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

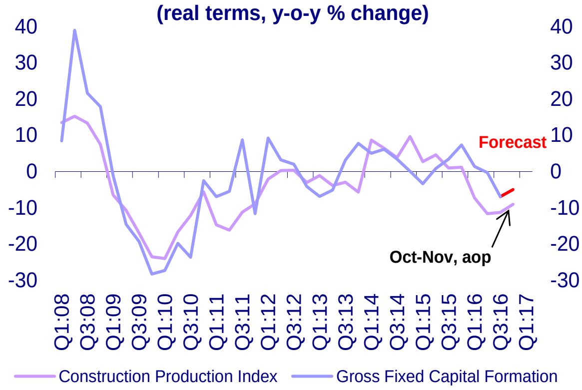
Contribution to Headline CPI Inflation (pps)



Real GDP, Industrial Production & Retail Sales (y-o-y % change)



Gross Fixed Capital Formation & Construction Production Index (real terms, y-o-y % change)



	23 Jan.	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)	128	125	122	110

	23 Jan.	1-W %	YTD %	2-Y %
SOFIX	605	-0.4	3.2	21.7

	2013	2014	2015	2016E	2017F
Real GDP Growth (%)	0.9	1.3	3.6	3.4	3.1
Inflation (eop, %)	-1.6	-0.9	-0.4	0.1	0.6
Cur. Acct. Bal. (% GDP)	1.3	0.1	0.4	2.5	1.3
Fiscal Bal. (% GDP)	-1.8	-3.7	-2.8	1.6	-0.8

Weak domestic demand contains headline inflation in 2016. Headline inflation rose to 0.1% y-o-y in December from -0.5% in November, on the back of higher volatile food and energy prices. Indeed, volatile food inflation rose sharply in December (to 3.5% y-o-y from -1.9% in November), mainly due to stronger-than-usual seasonal patterns, while energy deflation moderated (to -0.4% y-o-y in December from -0.8% in November), in line with developments in global oil markets. On the other hand, core inflation (excluding volatile food and energy and accounting for c. 76% of the CPI basket) declined to 0% y-o-y at end-2016 from 1.0% at end-2015, reflecting weak domestic demand and, to a lesser extent, low imported inflation.

External factors to increase headline inflation modestly by end-2017. Despite weak domestic demand (the output gap is projected to remain broadly stable at c. -0.2% in FY:17), we expect headline inflation to embark on a mild upward trend, mainly reflecting higher global commodity prices (excluding energy) and imported inflation. The impact of the January hike in excise duty on tobacco should be minimal (0.1 pp). All said, we see headline inflation ending 2017 at 0.6%, still below its long-term average. Core inflation should remain depressed at 0.2% at end-2017.

Leading indicators point to sustained growth in Q4:16. Industrial production rose by a solid 3.3% y-o-y in October-November, following an increase of 2.8% in Q3:16, underpinned by external demand, mainly from the EU. Note that the competitiveness of the Bulgarian industrial sector has improved markedly, in line with the rise in productivity (the GVA per employee in the sector has risen by 9.5% since end-2011). At the same time, retail sales picked up by 4.2% y-o-y in October-November, following an increase of 3.1% in Q3:16, pointing to stronger private consumption. The latter was supported by a tighter labour market (the LFS unemployment fell by 0.8 pps y-o-y to a 7-year low of 7.0% in November) and strong consumer confidence (the relevant index was up 3.8 points y-o-y to -26.6 in Q4:16 against a historical average of -36.1).

On the other hand, investment activity likely remained subdued in Q4:16. Indeed, construction activity fell by 9.0% y-o-y in October-November following a decline of 11.2% in Q3:16, reflecting the slump in EU-fund related public investment (according to budget data, down 0.9 pps of GDP y-o-y in October-November, bringing the y-t-d decline to 2.1 pps).

All said, we estimate real GDP growth to have strengthened slightly to 3.4% y-o-y in Q4:16 (up 0.8% q-o-q) from 3.2% in Q3:16 (up 0.7% q-o-q), bringing FY:16 growth to 3.4% against a high of 3.6% in FY:15.

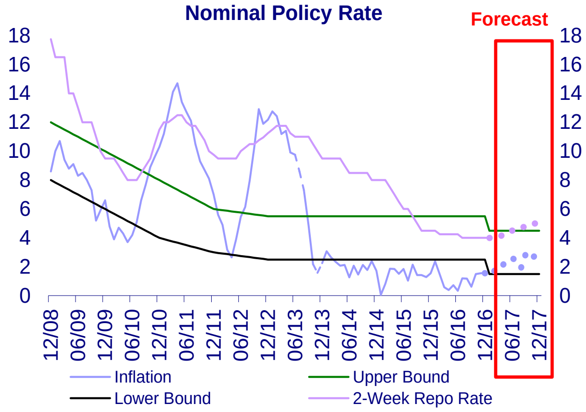
Growth momentum to ease in FY:17, with a shift from private consumption to investment. Fixed investment is expected to strengthen in FY:17, helped by better absorption of EU funds and favourable domestic liquidity conditions (loans account for 81.9% of deposits and lending rates in BGN and EUR are down to 4.1% and 3.6%, respectively, for the average corporate borrower at end-2016, from 5.0% and 4.2% at end-2015)**.** At the same time, private consumption should slow, in view of slowing employment growth. Importantly, net exports should support overall growth, reflecting the improving competitiveness of the economy and stronger demand from Bulgaria's non-EU trade partners.

Overall, we expect GDP growth to ease to 3.1% in FY:17 from an estimated 3.4% in FY:16. However, the balance of risks to the outlook remains on the downside. Indeed, an inconclusive outcome in the upcoming parliamentary elections – likely in March -- would prolong political instability, hurting investor sentiment.

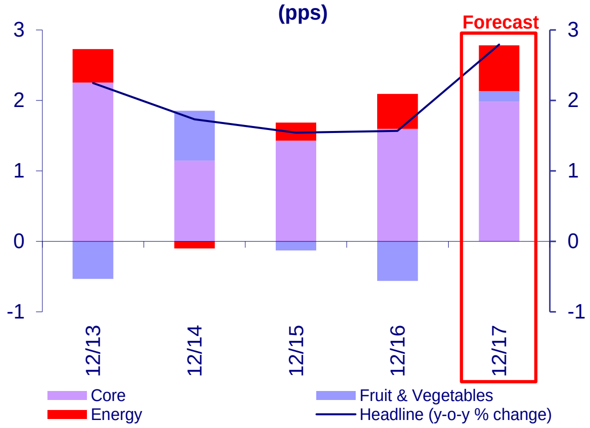
Serbia

BB- / B1 / BB- (S&P / Moody's / Fitch)

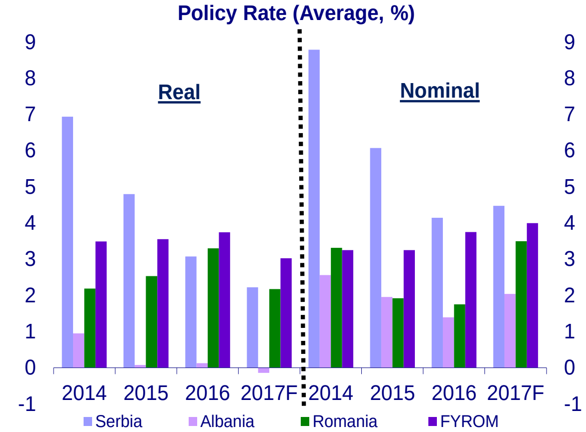
Headline Inflation, Inflation Target and Nominal Policy Rate



Contributions to Annual Headline CPI Inflation (pps)



Policy Rate (Average, %)



	23 Jan.	3-M F	6-M F	12-M F
1-m BELIBOR (%)	3.4	3.4	3.5	3.8
RSD/EUR	123.9	124.3	124.7	125.0
Sov. Spread (2021, bps)	222	220	190	180

	23 Jan.	1-W %	YTD %	2-Y %
BELEX-15	701	-1.6	-2.3	6.4

	2013	2014	2015	2016E	2017F
Real GDP Growth (%)	2.6	-1.8	0.8	2.8	3.0
Inflation (eop, %)	2.2	1.7	1.5	1.6	2.8
Cur. Acct. Bal. (% GDP)	-6.1	-6.0	-4.7	-4.1	-4.3
Fiscal Bal. (% GDP)	-5.5	-6.6	-3.7	-2.0	-1.7

The IMF Executive Board completed the 6th review of the ongoing 3-year EUR 1.2bn precautionary SBA (3.3% of 2017 GDP). The Board commended Serbia's strong progress in 2016 under the SBA, which was approved two years ago. This is reflected in: i) the continued strengthening in economic activity; ii) the significant fiscal consolidation in 2016 and the concomitant improvement in debt dynamics; and iii) the marked improvement in the business environment. Nonetheless, it underlined that in order to safeguard these achievements, further reforms are still needed. Priorities include reforming public administration and the public wage grid and restructuring unviable state-owned enterprises.

Although the completion of the review enables the disbursement of EUR 68.1mn (0.2% of GDP), bringing total funds available to EUR 850.8mn (2.4% of GDP), the Serbian authorities intend to continue to treat the arrangement as precautionary.

Headline inflation remains persistently low, ending-2016 at 1.6% y-o-y, due to favourable prices of fruit and vegetables. Inflation remained broadly unchanged from November, as the acceleration in energy prices (contributing 0.5 pps to December inflation against 0.2 pps in November, due to the recent rise in global oil prices) was offset by a lower hike in regulated tobacco prices in December 2016 (adding 0.2 pps to inflation in December 2016 against 0.6 pps in November).

Overall, end-year headline inflation at end-2016 rose to 1.6% y-o-y in 2016 from 1.5% in 2015. Note that end-year inflation has remained below the lower bound of the NBS target band (of 4±1.5%) for 4 successive years. In 2016, higher transport prices (contributing 0.3 pps to headline inflation at end-2016 after subtracting 0.3 pps at end-2015), in line with the rebound in global oil prices, were offset by favourable fruit & vegetable prices (subtracting 0.5 pps from headline inflation at end-2016), due to a bumper harvest in 2016. Moreover, core inflation (that excludes fruit & vegetables as well as energy prices) remained low, rising only slightly (to 2.1% at end-2016 from 1.9% at end-2015), despite the rebound in domestic demand (up 1.6% y-o-y in 9M:16 from 1.1% in 9M:15). Core inflation was held back by lower regulated prices (contributing 0.5 pps to end-2016 inflation against 1.1 pp at end-2015), as well as RSD stability and favourable imported inflation.

Inflation is set to embark on a steady upward trend, ending 2017 at 2.8%. The NBS lowered its inflation target range to 3 (±1.5%) from 4 (±1.5%) previously. The move reflects strengthened macroeconomic fundamentals (since the previous target was set in 2012), with reduced inflation, sizeable fiscal consolidation and narrowing external imbalances, as well as stronger NBS credibility. The revised target will help support the dinarisation strategy, reinforce confidence, and boost potential growth, while it is converging to that of regional peers.

Looking ahead, inflation is set to move up towards the new NBS target, reaching (a 5-year high of) 2.8% in December. The increase will result from: i) the normalization of fruit & vegetable prices from their end-2016 low; ii) the sustained rebound in domestic demand; and iii) the 10.0% hike in toll rates from January 2017, adding 0.2 pps to inflation.

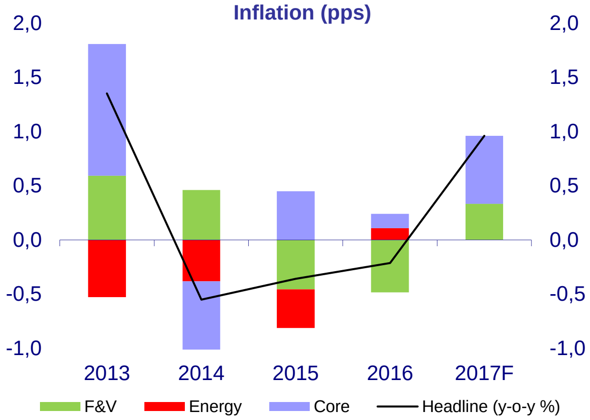
NBS to initiate a new cycle of monetary policy tightening in Q2:17. The NBS maintained its 2-week repo rate unchanged, for a 6th successive month, at its January meeting, at a record low of 4.0% (still by far the highest in SEE-5), reflecting lingering external uncertainties and weak global risk appetite for emerging market assets.

Going forward, the NBS is set to resume monetary policy tightening this year to contain mounting inflationary pressures. We expect the NBS to gradually increase the key policy rate by 100 bps by end-2017, to 5.0% (2.2% in *ex post* compounded real terms).

F.Y.R.O.M.

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

Contributions to End-Year Headline CPI Inflation (pps)



Consolidated Fiscal Balance (% of GDP)					
	2015	11M:15	11M:16	2016 Rev. Budget	NBG 2016 Estimate
Revenue	28.9	26.0	26.1	29.6	29.1
Tax Revenue	25.2	22.9	23.2	25.4	25.6
Personal Inc.	2.3	2.0	2.1	2.4	2.4
Corporate Inc.	2.2	2.0	1.7	1.7	1.9
VAT	7.5	6.9	7.3	8.0	7.9
Excises	3.5	3.3	3.5	3.4	3.6
Import Duties	0.8	0.7	0.7	0.8	0.8
Other Taxes	0.4	0.4	0.3	0.6	0.4
Soc. Contrib.	8.6	7.7	7.7	8.5	8.6
Non-Tax revenue	3.7	3.1	2.9	4.2	3.5
Expenditure	32.4	28.9	28.4	33.6	32.7
Cur. Expenditure	29.0	26.2	26.1	29.8	29.3
Personnel	4.4	4.0	4.0	4.5	4.5
G. & Services	3.2	2.8	2.5	3.7	3.2
Transfers	20.2	18.4	18.5	20.4	20.4
Int. Payments	1.2	1.0	1.1	1.2	1.2
Capital Expend.	3.3	2.7	2.4	3.8	3.4
Fiscal Balance	-3.5	-2.9	-2.3	-4.0	-3.6
Primary Balance	-2.3	-1.9	-1.2	-2.8	-2.4

	23 Jan.	3-M F	6-M F	12-M F
1-m SKIBOR (%)	1.7	1.7	1.7	1.7
MKD/EUR	61.3	61.3	61.3	61.3
Sov. Spread (2021. bps)	404	400	370	350

	23 Jan.	1-W %	YTD %	2-Y %
MBI 100	2,222	0.2	4,1	19.0

	2013	2014	2015	2016E	2017F
Real GDP Growth (%)	2.7	3.5	3.7	2.4	3.6
Inflation (eop. %)	1.4	-0.6	-0.4	-0.2	1.0
Cur. Acct. Bal. (% GDP)	-1.6	-0.5	-2.1	-2.4	-2.8
Fiscal Bal. (% GDP)	-3.8	-4.2	-3.5	-3.6	-3.6

End-year headline inflation to enter positive territory for the first time in 4 years in 2017. Headline inflation stood at -0.2% in December, unchanged from November, as a sharp decline in the prices of volatile fruit and vegetables (down 6.2% y-o-y) was offset by an increase in core inflation (up 0.2% y-o-y) and higher energy prices (up 0.8% y-o-y).

Overall, headline inflation rose slightly to -0.2% y-o-y at end-2016 from -0.4% at end-2015. The increase is attributed to higher energy prices (accounting for 14% of the CPI basket and up 0.8% y-o-y at end-2016 compared with a decline of 2.4% y-o-y at end-2015). The annual rise in headline inflation at end-2016 would have been even sharper had core inflation not slowed (accounting for c. 78% of the CPI basket and up 0.2% y-o-y against a rise of 0.6% in December 2015), reflecting moderating demand-side pressures (domestic demand slowed to 2.5% y-o-y in 9M:16 from 3.2% in FY:15), hindered by an adverse political environment and favourable imported inflation.

Looking ahead, we foresee end-year headline inflation rising to 1.0% y-o-y in 2017 from -0.2% at end-2016. The rise will be driven by: i) a normalization of volatile food prices (following sharp declines by 6.2% y-o-y at end-2016 and 5.7% y-o-y at end-2015); ii) firming global commodity prices (excluding energy); iii) unfavourable import prices; and iv) a recovery in domestic demand (we see real GDP growth picking up to 3.6% in FY:17 from an estimated 2.4% in FY:16), underpinned by the restoration of consumer and business confidence after two consecutive years of political instability.

The 2016 Budget likely outperformed its target, despite large election-related slippage in December. The fiscal deficit narrowed by 0.6 pps y-o-y to 2.3% of GDP in 11M:16. The improvement was primarily driven by a significant decline in total expenditure (down 0.5 pps of GDP y-o-y), reflecting the under-execution of capital expenditure (down 0.3 pps of GDP y-o-y) and, to a lesser extent, lower government consumption (down 0.3 pps of GDP y-o-y).

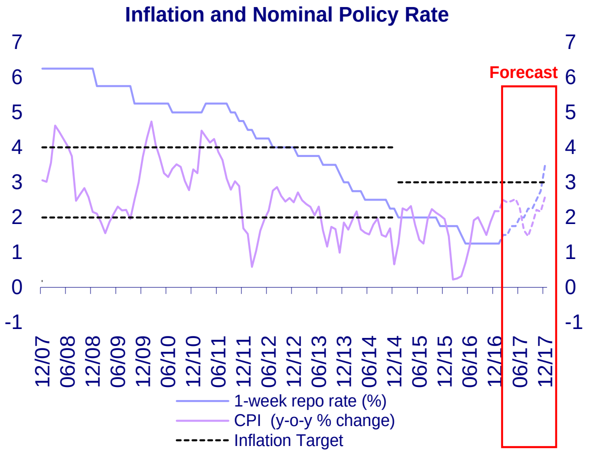
At the same time, total revenue increased marginally in 11M:16 (up 0.1 pp of GDP), on the back of stronger tax revenue (up 0.3 pps of GDP y-o-y), due to higher VAT revenue stemming from strong base effects from the weak performance in 11M:15 and, to a lesser extent, a rise in excise duties, following a hike of excise duties rates on cigarettes and tobacco (effective since July 2015). Total revenue performance in 11M:16 would have been even stronger had non-tax revenue not declined (down 0.2 pps of GDP y-o-y), reflecting lower dividends from public entities.

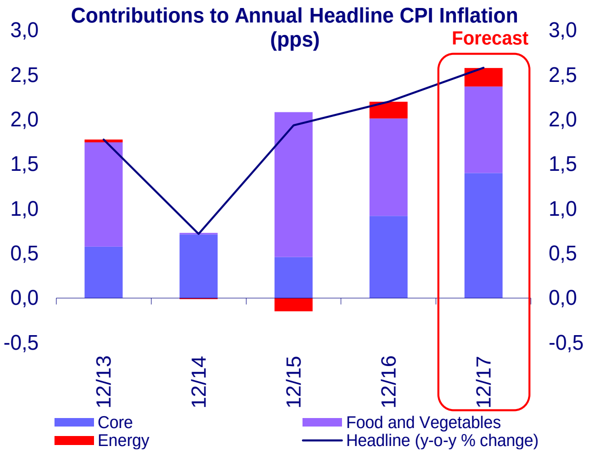
Looking ahead, we estimate the fiscal deficit widened significantly in December (by 1.3% of GDP y-o-y), due to a surge in government consumption and capital spending linked to the early elections in that month. Overall, we estimate the FY:16 fiscal deficit reached 3.6% of GDP -- below its revised target of 4.0% of GDP and broadly unchanged from the FY:15 outcome.

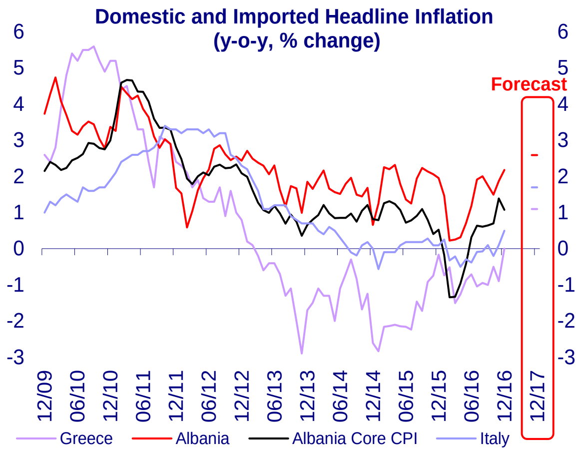
For 2017, the Budget envisages a tight fiscal stance, targeting a deficit of 3.0% of GDP -- 1.0 pp below the FY:16 target and 0.6 pps below our FY:16 estimate. In our view, the FY:17 fiscal deficit target is challenging, and requires the FY:17 expenditure growth target to be revised down to 5.2% from 7.2%. Otherwise, the FY:17 fiscal deficit is likely to stand at 3.6% of GDP -- unchanged from the FY:16 outcome.

Albania

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







	23 Jan.	3-M F	6-M F	12-M F
1-m TRIBOR (mid, %)	1.8	2.2	2.2	2.2
ALL/EUR	136.7	138.5	138.7	138.0
Sov. Spread (bps)	358	340	320	300

	23 Jan.	1-W %	YTD %	2-Y %
Stock Market	- - -	- - -	- - -	- - -

	2013	2014	2015	2016E	2017F
Real GDP Growth (%)	1.0	1.8	2.6	3.3	3.7
Inflation (eop, %)	1.9	0.7	2.0	2.2	2.6
Cur. Acct. Bal. (% GDP)	-10.9	-12.9	-10.7	-12.4	-12.8
Fiscal Bal. (% GDP)	-5.0	-5.2	-3.6	-2.0	-2.0

The Constitutional Court (CC) ruling paves the way for the implementation of the vetting law in early-February, increasing Albania's chances to open EU accession talks by end-2017. The CC upheld the vetting law -- key to the enactment of the judiciary reform -- which was suspended following the challenge of its constitutionality by the main opposition party. The CC ruling comes after the *amicus curiae* opinion of the Venice Commission that confirmed its constitutionality. The law, drafted with the assistance of the EU and US, allows the assessment of property holdings and professional efficiency of judges and prosecutors, in an attempt to eradicate corruption and reinforce independence. Recall that, in November, the European Commission granted Albania (a candidate country since June 2014) a conditional recommendation to open EU membership talks, subject to concrete progress on the enactment of the judiciary reform, especially the re-evaluation of judges and prosecutors.

Headline inflation continues on its upward trend for a second successive year, reaching 2.2% y-o-y in December; but remains below its target of 3.0%. Inflation recovered from low levels, accelerating to 2.2% y-o-y in December from 1.9% in November and a record low of 0.2% in February. The rise was solely driven by higher vegetable prices. Although embarking on an upward trend, inflation has remained well-anchored (far below BoA's target of 3.0% for 6 years).

Overall, end-year headline inflation accelerated slightly in 2016, and stood 0.2 pps y-o-y above its 2015 outcome, on the back of the gradual acceleration in core inflation and unfavourable energy prices. In fact, core inflation (that excludes fruit & vegetable and energy prices, and accounts for 85.8% of the CPI basket) rose to 1.1% at end-2016 from a record low of 0.5% at end-2015, in line with the gradual recovery in domestic demand (up 3.9% y-o-y in 9M:16 from 0.7% in FY:15). Importantly, albeit rising, core inflation remains subdued, supported by low imported inflation, combined with a relatively stable exchange rate, a persistent negative output gap, and a tight fiscal policy stance.

Moreover, inflationary pressures were also reinforced by a deterioration in energy prices (5.8% of the CPI basket), recording positive growth of 3.2% at end-2016 against a drop of 2.4% at end-2015, in line with global oil price developments.

Inflationary pressures were, however, contained by easing fruit & vegetables prices (contributing 1.1 pp to headline inflation at end-2016 against a high of 1.6 pps at end-2015, stemming from the 2015 floods).

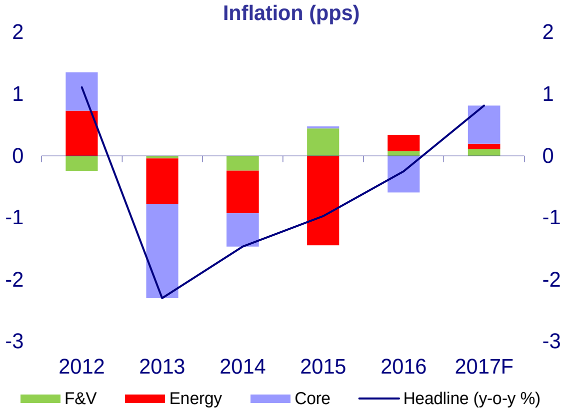
Inflation is set to move closer to the BoA's target by end-2017. We expect headline inflation to pick up gradually, reaching a 7-year high of 2.6% at end-2017, but remaining well anchored and below the BoA's target for a 7th successive year. The acceleration should result from: i) the sustained recovery in domestic demand; ii) higher imported inflation, due to rising global food prices and rising inflation in major trading partners (see chart); and iii) a closing output gap (0% in FY:17).

The BoA is set to initiate a cycle of monetary policy tightening. The BoA has kept its key policy rate unchanged since May 2016, at a record low of 1.25%, following two cuts in Q2:16 by a cumulative 50 bps. Since the initiation of the cycle of monetary policy easing in September 2011, the policy rate has been cut by a sizeable 400 bps. Looking ahead, we expect the BoA to hike its 1-week repo rate by 225 bps by end-2017, in its efforts to contain increasing inflationary pressures and prevent an overheating of the economy (real GDP growth is set to accelerate to a 9-year high of 3.7% in 2017). Should our forecasts materialise, the *ex post* real policy rate should increase to 0.9% at end-2017 from -0.9% at end-2016, moving towards its 2004-16 average of 1.6%, but remaining well below that of peer countries.

Cyprus

BB / B1 / BB- (S&P / Moody's / Fitch)

Contributions to End-Year Headline CPI Inflation (pps)



Balance of Payments (% of GDP)				
	FY:15A	9M:15A	9M:16A	FY:16E
Current Acc.Balance	-2.9	-1.8	-0.4	-2.0
CAB, excl. Ships	-1.5	-0.6	0.6	-2.8
Trade Balance	-18.0	-13.5	-13.8	-19.6
Exports	14.1	11.1	10.8	- - -
Imports	32.0	24.7	24.6	- - -
Tr. Bal., excl. Ships	-16.6	-12.4	-14.8	-19.2
Exp., excl. Ships	9.0	6.7	6.7	- - -
Imp., excl. Ships	25.6	19.1	21.5	- - -
Ship Balance	-1.4	-1.2	1.0	0.8
Ship Exports	5.1	4.4	4.1	- - -
Ship Imports	6.4	5.6	3.0	- - -
Services Balance	18.3	14.2	17.4	21.4
Tourism	7.3	6.1	6.8	8.1
Income Balance	-0.4	-0.5	-2.4	-2.4
Transfers Balance	-2.9	-1.9	-1.7	-2.7
Capital & Financial Account (excl. IMF)	-7.5	-7.8	-0.1	2.0
FDI	-48.4	-16.3	-7.6	-6.0
Other Investments	41.4	8.5	7.5	8.0
Errors & Omissions	4.7	6.7	0.4	0.0
Overall Balance	-5.8	-2.9	-0.1	0.0

	23 Jan.	3-M F	6-M F	12-M F
1-m EURIBOR (%)	-0.37	-0.37	-0.37	-0.37
EUR/USD	1.07	1.07	1.06	1.06
Sov. Spread (2020. bps)	238	220	190	150

	23 Jan.	1-W %	YTD %	2-Y %
CSE Index	70	1.6	5.9	-11.6

	2013	2014	2015	2016E	2017F
Real GDP Growth (%)	-6.0	-1.5	1.7	2.8	2.4
Inflation (eop. %)	-2.3	-1.5	-1.0	-0.3	0.8
Cur. Acct. Bal. (% GDP)	-4.9	-4.3	-2.9	-2.0	-3.5
Fiscal Bal. (% GDP)	-4.7	-0.2	0.0	0.3	0.0

End-year headline inflation to turn positive for the first time in 5 years in 2017. Headline inflation rose sharply to -0.3% y-o-y in December from -1.4% in November, driven by a significant correction in the prices of volatile fruit and vegetables (up 2.1% y-o-y in December against a decline of 17.1% in November), and higher energy prices (up 3.2% y-o-y in December against a decline of 0.8% in November), in line with global oil prices (up c. 44.0% y-o-y in EUR terms in December against a rise of 1.8% in November).

Overall, headline inflation rose to -0.3% at end-2016 from -1.0% at end-2015, exclusively on the back of higher energy prices (accounting for 9% of the CPI basket and up 3.2% y-o-y at end-2016 compared with a decline of 15.0% at end-2015). The annual rise in headline inflation at end-2016 would have been even sharper had core inflation not eased (down 0.7% y-o-y against a zero balance at end-2015), reflecting moderate demand-side pressures (domestic demand slowed to 1.3% y-o-y in 9M:16 from 3.0% in FY:15) driven, *inter alia*, by a tighter fiscal policy stance and by the ongoing deleveraging and continued loan restructuring activities of banks amid a stabilizing economy. The annual rise in headline inflation at end-2016 was also tempered by favorable prices of volatile fruit & vegetables (accounting for 4% of the CPI basket and up 2.1% y-o-y at end-2016).

Looking ahead, we foresee end-year headline inflation rising to 0.8% y-o-y in 2017 from -0.3% at end-2016. The rise will be driven by: i) an increase in global commodity prices (excluding energy); ii) lower imported deflation; and iii) a positive output gap for the first time in 5 years (0.4% in FY:17).

The current account deficit (CAD) narrowed significantly by 1.4 pps y-o-y to 0.4% of GDP in 9M:16, on the back of a sharp improvement in the balances of ships and services. The services surplus rose sharply (by 3.2 pps of GDP y-o-y in 9M:16), mainly due to increases in receipts from: i) business services, i.e. research & development and consulting (by 0.9 pps y-o-y), in line with stronger entrepreneurial activity (registrations of new companies increased by 24% y-o-y in 9M:16), and ii) tourism (by 0.7 pps y-o-y). The latter reflects strong tourism activity -- tourist arrivals and receipts rose by 18.8% y-o-y and 12.0% y-o-y, respectively, in 9M:16, benefiting mainly from heightening security concerns in neighbouring competitors -- Turkey and Egypt. The positive CAD performance in 9M:16 was also largely supported by a significant improvement in the ship trade balance (by 2.2 pps of GDP y-o-y) to a surplus of 1.0% of GDP, due to lower imports of ships (by 2.6 pps of GDP y-o-y).

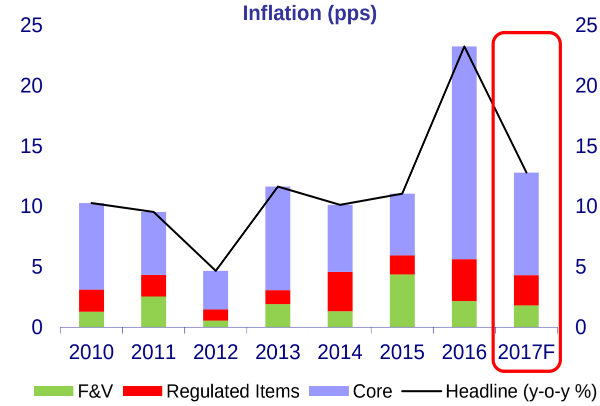
The improvement in the CAD in 9M:16 was, however, tempered by wider income and trade deficits (excluding ship transactions), by 1.9 pps of GDP y-o-y and 2.4 pps of GDP y-o-y, respectively. The deterioration in the income deficit can be attributed to higher repatriation of dividends and profits by foreign companies established in Cyprus. On the other hand, the deterioration in the overall trade deficit was driven by a sharp rise in imports, excluding energy and ship transactions (up 27.5% y-o-y or 3.6 pps of GDP y-o-y in 9M:16), reflecting stronger domestic absorption (up 3.2% y-o-y in real terms in 9M:16 compared with a rise of 2.9% in 9M:15).

Looking ahead, we estimate the CAD widened by 0.5 pps of GDP y-o-y in Q4:16, on the back of a deterioration in the trade deficit reflecting a further build-up in domestic demand. Overall, we see the CAD narrowing to 2.0% of GDP in FY:16 from 2.9% of GDP in FY:15. Excluding ship transactions, we see the CAD widening to 2.8% of GDP in FY:16 from 1.5% in FY:15.

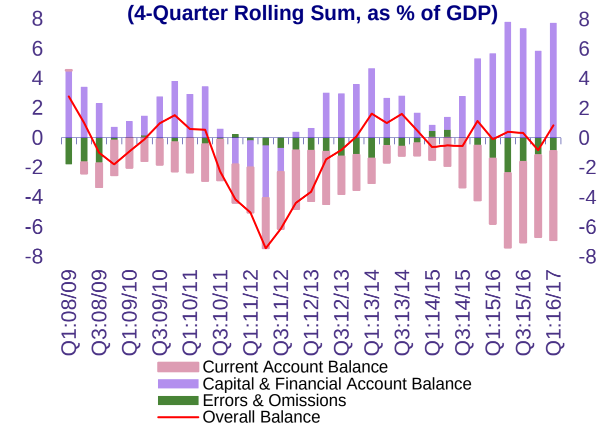
Egypt

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

Contributions to End-Year Headline CPI Inflation (pps)



Overall Balance (4-Quarter Rolling Sum, as % of GDP)



External Financing (USD bn)	2015/16	2016/17F
Financing Needs	**24.1**	**22.9**
Current Account Deficit	18.7	14.9
Amortisations + Other	5.4	8.0
Financing Sources	**21.6**	**13.4**
FDI	6.7	9.4
Loans & Other	14.9	4.0
External Financing Balance	**2.5**	**-9.5**
IMF, Other IFIs, China & Other	0.0	-16.0
Change in FX Reserves	-2.5	6.5

	23 Jan.	3-M F	6-M F	12-M F
O/N Interbank Rate (%)	15.3	17.0	17.0	16.5
EGP/USD	18.8	17.5	17.0	16.5
Sov. Spread (2020. bps)	375	350	300	240

	23 Jan.	1-W %	YTD %	2-Y %
HERMES 100	1,144	-2.1	5.1	26.0

	13/14	14/15	15/16	16/17F	17/18F
Real GDP Growth (%)	2.2	4.4	4.3	3.5	4.5
Inflation (eop. %)	8.2	11.4	14.0	18.2	13.5
Cur. Acct. Bal. (% GDP)	-0.8	-3.7	-5.5	-5.2	-3.5
Fiscal Bal. (% GDP)	-12.2	-11.5	-11.8	-10.8	-9.5

End-year headline inflation rose to a 3-decade high of 23.3% y-o-y in 2016 from 11.1% in 2015, mainly due to the flotation of the domestic currency and cuts in energy subsidies. Headline inflation rose sharply by 12.2 pps to 23.3% y-o-y between December 2015 and December 2016, due to a rise in core inflation and, to a lesser extent, higher regulated prices. Indeed, core inflation (excluding fruit & vegetables as well as regulated items) rose sharply to 25.9% y-o-y in December from 7.2% a year earlier, reflecting mainly the pass-through of a weaker currency to prices. Recall that the CBE devalued the EGP against the USD by 11.8% in mid-March and decided to fully float it on November 3rd, leading to a further sharp depreciation (c. 56% to EGP 18.0 per USD between end-2015 and end-2016).

Looking ahead, inflation is set to ease very slowly until October, due to continued FX pass-through from a weaker currency and second-round effects from higher energy prices, before declining sharply in November-December on the back of the fading impact of end-2016 EGP depreciation and energy price increases. Overall, we foresee headline inflation moderating from a peak of c. 24.0% y-o-y this month (January) to 18.5% in October and 12.8% in December, as policy will aim not to validate inflation expectations.

Should inflation developments be in line with our forecasts and the exchange rate stabilise, the CBE could have room to cut its policy rates gradually from their Q4:16 multi-year high levels (the overnight deposit rate, the overnight lending rate and the 1-week repo rate stand currently at 14.75%, 15.75% and 15.25%, respectively), likely towards the end of the year, to make sure to brake second round effects. Recall that the CBE increased preemptively its rates by 300 bps last November in anticipation of mounting inflationary pressures, bringing total hikes to 600 bps since the initiation of the cycle of monetary policy tightening in December 2015.

The quarterly current account deficit (CAD) widened sharply in Q1:16/17 (July-September 2016 to 6% of GDP on a 12-month rolling basis); but was more than covered by a stronger capital and financial surplus (CFAS). The CAD rose significantly by 0.5 pps y-o-y to 1.7% of GDP in Q1:16/17, due to lower tourism receipts, reflecting persisting security concerns and, to a lesser extent, weaker workers' remittances from Gulf countries. On the other hand, the CFAS strengthened significantly by 2.0 pps y-o-y to 2.5% of GDP in Q1:16/17, mainly supported by larger new deposits from Gulf countries at the CBE and short-term deposits at domestic banks by foreign banks. As a result, and accounting for negative net errors & omissions (-0.1% of GDP) and valuation effects, FX reserves rose by USD 2.0bn q-o-q to USD 19.5bn in Q1:16/17 (up 0.4 months of imports of GNFS q-o-q to 3.8). Without the support of Gulf countries, FX reserves would have declined by USD 1.5bn q-o-q to USD 18.0bn in Q1:16/17.

Looking ahead, the negative CAD trend is set to reverse during the remainder of the fiscal year (Q2-Q4:16/17, down 0.8 pps y-o-y to 3.5% of GDP), mainly supported by a recovery in tourism activity following the lift of travel bans by most source countries in late-September and a rebound in private transfers through the banking system in the wake of the elimination of the parallel FX market. It should reach 5.2% of GDP for the FY:16/17.

Importantly, projecting a timely and full implementation of the 3-year extended arrangement under the Extended Fund Facility, approved last November, the expected FY:16/17 gross financing needs should be fully covered and FX reserves should increase by USD 6.5bn to USD 24.0bn (c. 4.5 months of imports of GNFS), more than reversing the past fiscal year's loss of USD 2.5bn (see Table).

FOREIGN EXCHANGE MARKETS, JANUARY 23RD 2017

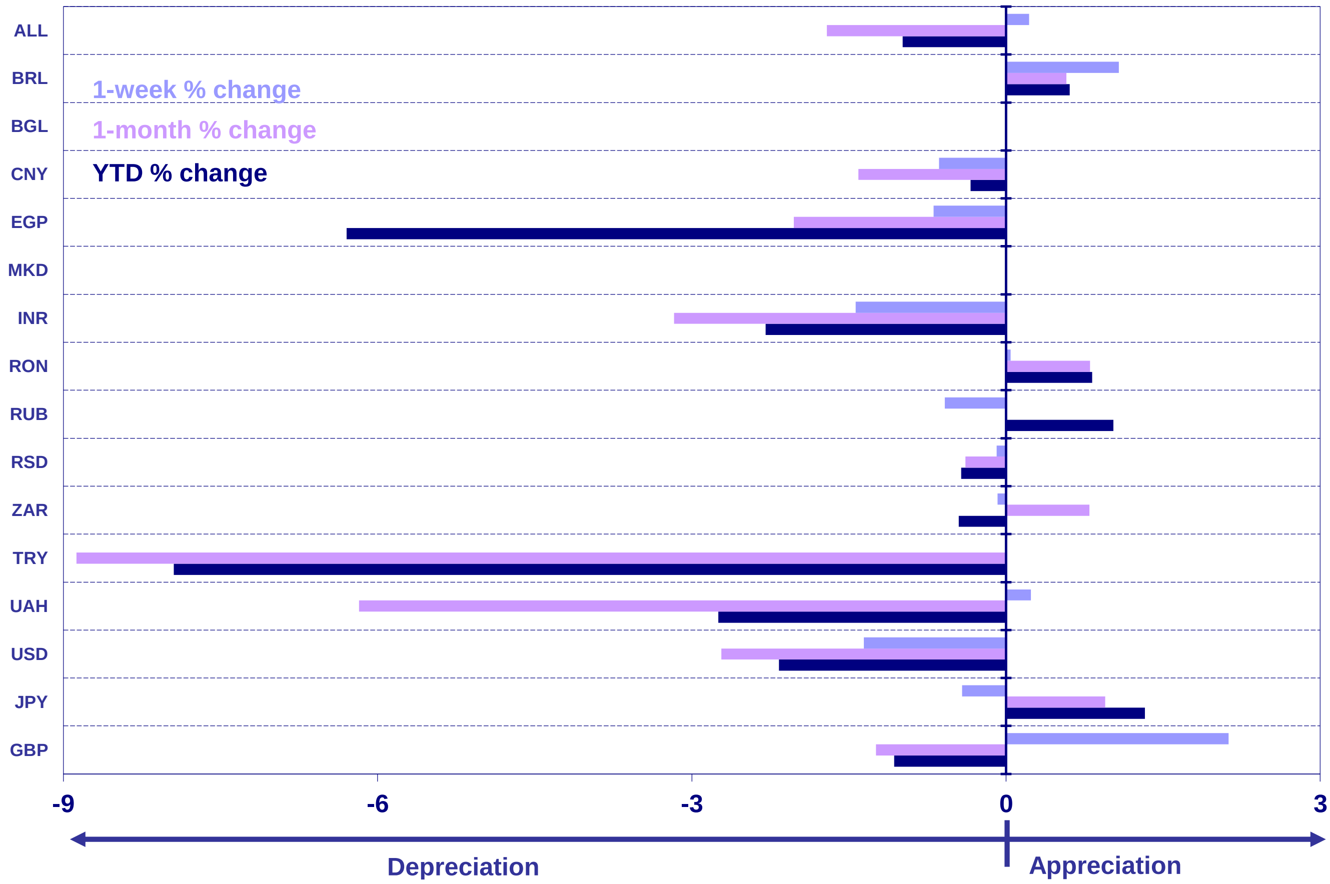
Against the EUR

	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	136.8	0.2	-1.7	-1.0	0.2	135.6	137.3	137.1	137.4	137.6	1.2	2.0
Brazil	BRL	3.40	1.1	0.6	0.6	30.0	3.36	3.46	3.83	3.81	3.77	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	7.36	-0.6	-1.4	-0.3	-3.5	7.20	7.39	7.66	7.65	7.63	-4.0	6.7
Egypt	EGP	20.14	-0.7	-2.0	-6.3	-58.2	18.91	20.30	- - -	- - -	- - -	-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	73.2	-1.4	-3.2	-2.3	-0.5	70.8	73.2	78.3	- - -	- - -	0.4	6.6
Romania	RON	4.50	0.0	0.8	0.8	0.7	4.49	4.54	4.51	4.52	4.56	-0.4	-0.8
Russia	RUB	63.8	-0.6	0.0	1.0	32.1	62.3	64.7	65.4	66.9	69.8	22.9	-15.1
Serbia	RSD	123.9	-0.1	-0.4	-0.4	-0.8	123.3	124.0	124.4	124.8	- - -	-1.5	-0.1
S. Africa	ZAR	14.5	-0.1	0.8	-0.5	22.4	14.19	14.64	14.8	15.1	15.8	16.2	-16.6
Turkey	YTL	4.03	0.0	-8.9	-7.9	-19.6	3.70	4.17	4.15	4.27	4.54	-14.7	-10.8
Ukraine	UAH	29.3	0.2	-6.2	-2.7	-9.7	27.22	29.47	34.6	- - -	- - -	-8.6	-27.5
US	USD	1.07	-1.4	-2.7	-2.2	0.4	1.0	1.1	1.08	1.08	1.10	3.3	11.4
JAPAN	JPY	121.5	-0.4	0.9	1.3	5.5	120.6	123.7	121.5	121.5	121.5	6.0	11.0
UK	GBP	0.86	2.1	-1.2	-1.1	-12.1	0.8	0.9	0.86	0.86	0.87	-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 (January 23rd 2017)



Money Markets, January 23rd 2017

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine	EU	US
O/N	1.4	12.9	0.0	2.4	- - -	15.3	- - -	- - -	0.4	10.4	- - -	10.1	7.0	13.8	- - -	0.7
T/N	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	0.5	10.5	3.0	- - -	7.3	- - -	- - -	- - -
S/W	1.4	12.9	0.0	2.6	-0.4	- - -	1.3	- - -	- - -	9.8	3.0	- - -	7.7	14.5	-0.4	0.7
1-Month	1.8	12.9	0.0	3.8	-0.4	- - -	1.7	6.4	0.6	10.8	3.4	10.4	7.8	16.6	-0.4	0.8
2-Month	- - -	12.7	0.1	- - -	-0.3	- - -	- - -	- - -	- - -	10.8	3.4	10.7	8.0	- - -	-0.3	0.9
3-Month	2.5	12.4	0.1	3.8	-0.3	- - -	2.0	6.6	0.8	10.8	3.5	11.0	8.4	17.9	-0.3	1.0
6-Month	2.8	11.8	0.3	3.7	-0.2	- - -	2.3	- - -	1.1	10.2	3.7	11.3	8.6	- - -	-0.2	1.4
1-Year	3.5	10.9	0.8	3.7	-0.1	- - -	2.8	- - -	1.2	10.4	- - -	11.9	9.0	- - -	-0.1	1.7

Local Debt Markets, January 23rd 2017

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine	EU	US
3-Month	- - -	- - -	- - -	- - -	- - -	0.0	1.6	6.2	- - -	0.0	3.1	10.2	- - -	- - -	-0.9	0.5
6-Month	2.3	- - -	- - -	- - -	- - -	20.0	2.3	6.2	0.8	0.0	3.4	10.5	- - -	- - -	-0.9	0.6
12-Month	3.2	- - -	0.0	2.7	- - -	20.2	2.6	6.3	1.1	8.4	4.0	10.9	- - -	15.3	-0.6	0.8
2-Year	3.4	- - -	- - -	2.8	- - -	- - -	2.8	6.3	0.7	8.0	- - -	11.0	7.8	- - -	-0.7	1.2
3-Year	- - -	- - -	0.3	2.8	1.2	- - -	2.7	6.4	1.7	8.0	- - -	10.9	8.0	- - -	-0.7	1.4
5-Year	- - -	10.6	- - -	3.0	- - -	0.0	2.7	6.6	2.6	8.0	5.6	11.0	8.1	- - -	-0.4	1.9
7-Year	- - -	- - -	1.2	- - -	3.1	0.0	- - -	6.6	3.2	8.0	- - -	- - -	- - -	- - -	-0.1	2.2
10-Year	- - -	10.9	2.0	3.3	3.3	0.0	3.9	6.5	3.5	8.1	- - -	10.9	8.8	- - -	0.4	2.4
15-Year	- - -	- - -	- - -	- - -	- - -	- - -	4.3	7.1	- - -	8.4	- - -	- - -	9.2	- - -	0.6	- - -
25-Year	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	9.5	- - -	- - -	- - -
30-Year	- - -	- - -	- - -	- - -	- - -	- - -	- - -	7.0	- - -	- - -	- - -	- - -	9.5	- - -	1.1	3.0

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

Corporate Bonds Summary, January 23rd 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	2.3	299	260
	Bulgarian Telecom. 6.625% '18	EUR	B-/B1	15/11/2018	400	4.4	522	470
Cyprus	**Aroundtown Property 3% '21**	EUR	NA/NA	9/12/2021	200	2.8	335	275
Russia	**Gazprom 8.2% '19**	RUB	BB+/NA	9/4/2019	10,000	9.8	123	- - -
	Gazprom 8.9% '21	RUB	BB+/NA	26/1/2021	10,000	9.5	122	- - -
South Africa	**FirstRand Bank Ltd 4.25% '20**	USD	BBB-/Baa2	30/4/2020	500	3.7	218	191
	FirstRand Bank Ltd 2.25% '20	EUR	NA/NA	30/1/2020	100	0.4	103	47
Turkey	**Vakiflar Bankasi 3.5% '19**	EUR	NA/Baa3	17/6/2019	500	3.8	443	382
	Garanti Bankasi 3.38%'19	EUR	NA/Baa3	8/7/2019	500	3.1	376	321
	Arcelik AS 3.875% '21	EUR	BB+/NA	16/9/2021	350	3.4	378	326
	Turkiye Is Bankasi 6% '22	USD	NA/Ba3	24/10/2022	1,000	7.4	549	505

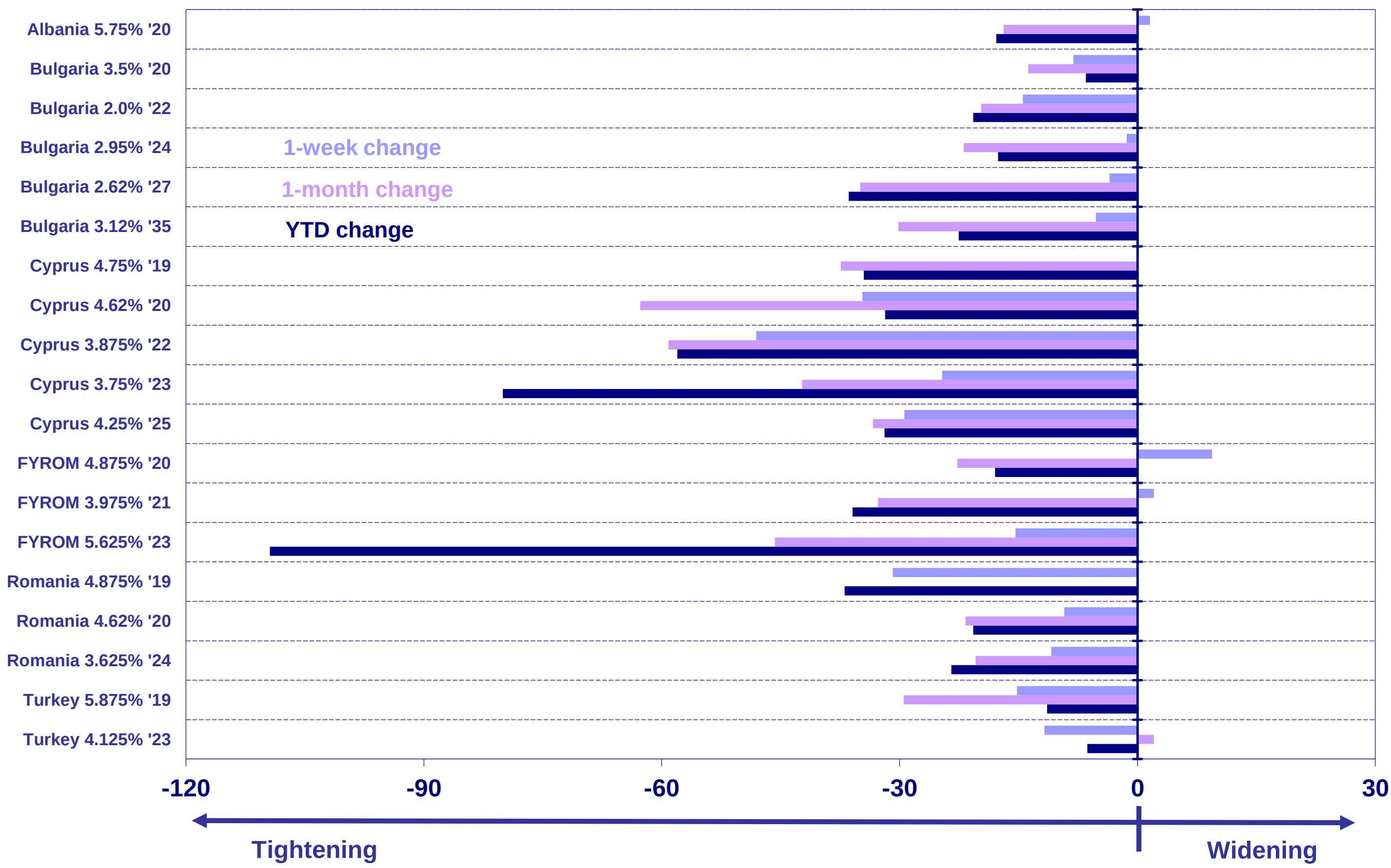
Credit Default Swap Spreads, January 23rd 2017

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine
5-Year	- - -	249	133	112	241	445	- - -	136	105	182	202	274	207	- - -
10-Year	- - -	330	179	161	268	464	- - -	144	146	249	244	340	268	- - -

EUR-DENOMINATED SOVEREIGN EUROBOND SUMMARY, JANUARY 23RD 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	3.1	361	321
Bulgaria 3.5% '20	EUR	NA/NA	16/1/2020	145	0.5	116	61
Bulgaria 2.0% '22	EUR	BB+/Baa2	26/3/2022	1,250	0.8	125	68
Bulgaria 2.95% '24	EUR	BB+/Baa2	3/9/2024	1,493	1.6	153	119
Bulgaria 2.62% '27	EUR	BB+/Baa2	26/3/2027	1,000	2.1	172	136
Bulgaria 3.12% '35	EUR	BB+/Baa2	26/3/2035	900	3.1	224	184
Cyprus 4.75% '19	EUR	BB/NA	25/6/2019	566	1.2	189	140
Cyprus 4.62% '20	EUR	BB/B1	3/2/2020	770	1.7	237	186
Cyprus 3.875% '22	EUR	NA/B1	6/5/2022	1,000	2.8	326	270
Cyprus 3.75% '23	EUR	NA/B1	26/7/2023	1,000	3.1	332	275
Cyprus 4.25% '25	EUR	NA/B1	4/11/2025	1,000	3.3	311	279
FYROM 4.875% '20	EUR	BB-/NA	1/12/2020	270	3.4	394	346
FYROM 3.975% '21	EUR	BB-/NA	24/7/2021	500	3.7	415	475
FYROM 5.625% '23	EUR	BB-/NA	26/7/2023	450	4.7	495	446
Romania 4.875% '19	EUR	BBB-/Baa3	7/11/2019	1,500	0.1	80	26
Romania 4.62% '20	EUR	BBB-/Baa3	18/9/2020	2,000	0.3	83	33
Romania 3.625% '24	EUR	BBB-/Baa3	24/4/2024	1,250	1.8	189	146
Turkey 5.875% '19	EUR	NR/Ba1	11/4/2023	1,250	1.7	236	192
Turkey 4.125% '23	EUR	NR/Ba1	12/11/2020	1,000	3.6	389	337

EUR-Denominated Eurobond Spreads (January 23rd 2017)



USD-Denominated Sovereign Eurobond Summary, January 23rd 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	3.3	182	186
Brazil 4.875% '21	USD	BB/Ba2	22/1/2021	2,988	3.9	198	206
Brazil 8.75% '25	USD	BB/Ba2	4/2/2025	969	5.1	280	318
Egypt 5.75% '20	USD	B-/B3	11/6/2025	1,000	5.2	374	345
Egypt 5.875% '25	USD	B-/B3	30/4/2040	1,500	7.2	474	461
Egypt 6.875% '40	USD	B-/B3	22/8/2023	500	7.8	473	475
Romania 4.375% '23	USD	BBB-/Baa3	22/1/2024	1,500	3.7	144	158
Romania 4.875% '24	USD	BBB-/Baa3	22/1/2044	1,000	3.7	148	162
Romania 6.125% '44	USD	BBB-/Baa3	16/1/2019	1,000	4.8	176	247
Russia 3.5% '19	USD	BB+/Ba1	24/6/2028	1,500	2.4	125	96
Russia 12.75% '28	USD	BB+/Ba1	16/9/2043	2,500	4.6	216	317
Russia 5.875% '43	USD	BB+/Ba1	25/2/2020	1,500	5.0	194	257
Serbia 4.875% '20	USD	BB-/B1	28/9/2021	1,500	3.9	239	217
Serbia 7.25% '21	USD	BB-/B1	27/5/2019	2,000	4.1	217	230
S. Africa 6.875% '19	USD	BBB-/Baa2	16/9/2025	1,748	3.0	180	149
S. Africa 5.875% '25	USD	BBB-/Baa2	8/3/2041	2,000	4.6	219	246
S. Africa 6.25% '41	USD	BBB-/Baa2	5/6/2020	750	5.3	227	292
Turkey 7% '20	USD	NR/Ba1	5/2/2025	2,000	4.6	316	296
Turkey 7.375% '25	USD	NR/Ba1	15/1/2030	3,250	5.9	362	379
Turkey 11.875% '30	USD	NR/Ba1	14/2/2034	1,500	6.2	379	491
Turkey 8% '34	USD	NR/Ba1	14/1/2041	1,500	6.6	415	438
Turkey 6.75% '41	USD	NR/Ba1	1/9/2019	3,000	6.6	354	374
Ukraine 7.75% '19	USD	B-/Caa3	1/9/2023	1,744	7.8	629	603
Ukraine 7.75% '23	USD	B-/Caa3	15/1/2020	1,355	8.4	617	606

USD-Denominated Eurobond Spreads (January 23rd 2017)

STOCK MARKETS PERFORMANCE, JANUARY 23RD 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)	64,817	1.5	11.9	7.6	70.4	59,371	64,694	8.0	38.9	76.2	-13.3	-35.3
Bulgaria (SOFIX)	605	-0.4	4.3	3.2	36.2	583	614	3.2	27.2	27.2	-11.7	-11.7
China (SHCOMP)	3,137	1.1	0.9	1.1	7.6	3,044	3,175	0.2	-12.3	-15.3	9.4	16.5
Cyprus (CSE GI)	70	1.6	7.0	5.9	5.4	65	71	5.9	-2.0	-2.0	-20.9	-20.9
Egypt (HERMES)	1,144	-2.1	3.4	5.1	113.8	1,088	1,178	-2.0	72.7	-21.8	-24.4	-22.8
F.Y.R.O.M (MBI)	2,222	0.2	2.5	4.1	22.8	2,135	2,231	4.1	16.5	16.5	-0.6	-0.6
India (SENSEX)	27,117	-0.6	4.1	1.8	11.0	22,495	29,077	-0.6	1.9	2.6	-5.0	0.7
Romania (BET-BK)	1,383	0.7	3.5	2.9	12.2	1,365	1,391	3.7	0.2	0.0	2.6	1.6
Russia (RTS)	4,819	-1.7	0.8	-2.0	26.0	4,798	5,089	-1.1	24.2	54.3	30.3	9.5
Serbia (BELEX-15)	701	-1.6	-1.6	-2.3	21.6	701	722	-2.7	11.4	9.7	-3.4	-3.5
South Africa (FTSE/JSE)	53,040	-0.2	7.4	4.7	11.3	50,338	53,189	4.3	-0.1	16.1	1.9	-15.1
Turkey (ISE 100)	83,048	1.6	7.9	6.3	18.2	75,657	83,318	-2.3	8.9	-7.0	-16.3	-25.4
Ukraine (PFTS)	271	1.4	2.3	2.1	12.9	265	271	-0.7	10.2	1.0	-37.8	-54.8
MSCI EMF	893	0.5	6.1	3.6	25.7	858	900	1.8	8.6	12.2	-17.0	-6.9
MSCI EAFE	1,720	0.2	2.7	2.1	9.6	1,677	1,728	0.3	-1.9	1.4	-3.3	7.7
Greece (ASE-General)	639	-0.9	1.4	-0.7	19.6	636	670	-0.7	1.9	1.9	-23.6	-23.6
Germany (XETRA DAX)	11,546	-0.1	0.8	0.6	18.2	11,415	11,692	0.6	6.9	6.9	4.9	4.9
UK (FTSE-100)	7,149	-2.4	1.1	0.1	21.2	7,143	7,354	-1.0	14.4	-1.0	-4.9	0.1
USA (DJ INDUSTRIALS)	19,760	-0.6	-0.9	0.0	22.8	15,503	20,000	-1.4	13.4	16.7	-2.2	9.3
USA (S&P 500)	2,263	-0.5	0.0	1.1	18.7	2,245	2,282	-0.3	9.5	13.2	-0.7	10.6

Equity Indices (January 23rd 2017)