# Economic Analysis Division

## Emerging Markets Research

## *Bi-Weekly Report*

*7 – 20 March 2017*


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

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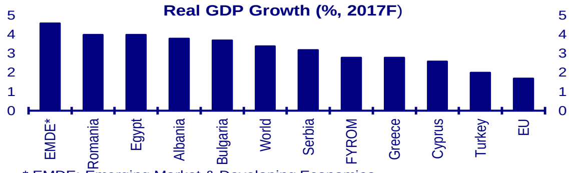
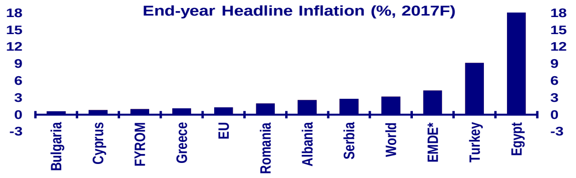
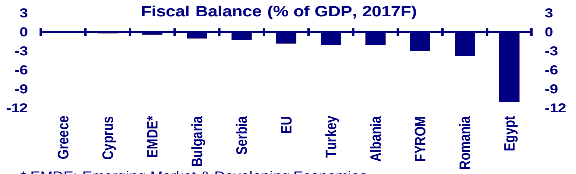



* EMDE: Emerging Market & Developing Economies

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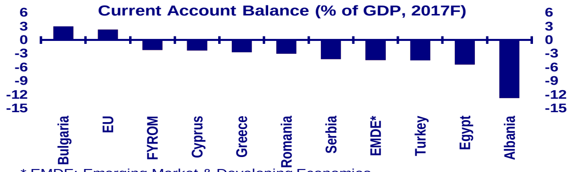



* EMDE: Emerging Market & Developing Economies



The CBRT proceeded with further monetary policy tightening -- attempting to reduce risks of excessive TRY volatility ahead of the mid-April referendum

Unemployment rose for a fourth consecutive year in 2016 -- reaching a 6-year high of 10.9%



GDP growth accelerated in Q4:16



The BSP and GERB parties are broadly neck and neck in the polls ahead of the March 26th parliamentary elections

Economic growth gained momentum in Q4:16



PM A. Vucic is the clear favourite to win the April Presidential elections in the 1st round

The unemployment rate declined for a 4th successive year to an 8-year low of 15.3% in FY:16



Banking sector bottom line reaches a post-crisis high in 2016, despite strong domestic headwinds



Fiscal consolidation continued in FY:16



The pace of economic expansion rose to an 8-year high of 2.8% in FY:16 from 1.7% in FY:15 – well above the EA-19 average of 1.7%

S&P upgraded Cyprus' long-term sovereign debt rating by one notch to BB+ -- one notch below investment grade -- with a stable outlook

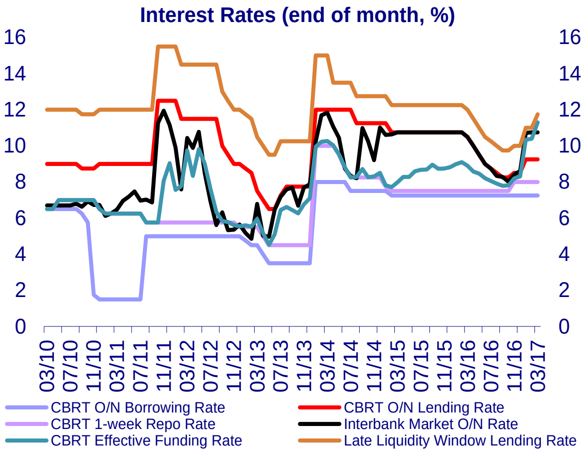


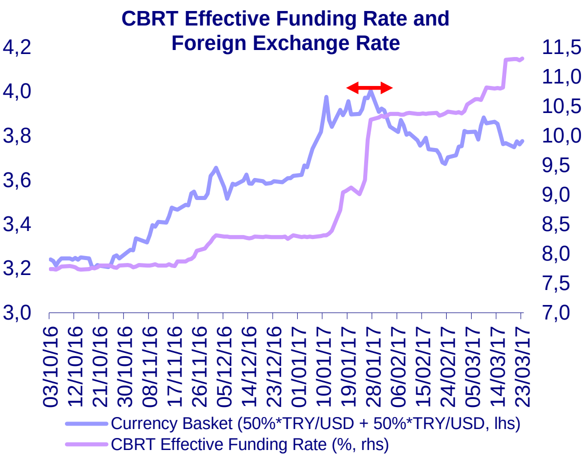
The quarterly current account deficit stabilised on an annual basis in Q2:16/17, after 10 consecutive quarters of deterioration, due to a rebound in workers' remittances

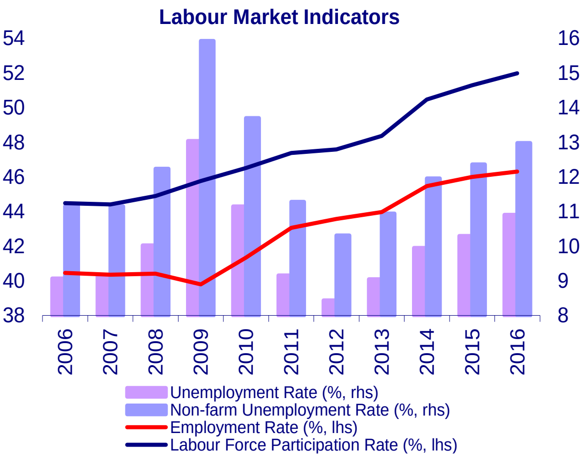
The quarterly capital and financial account balance improved markedly to a multi-year high of 3.6% of GDP in Q2:16/17, due to the return of foreign investor confidence following the signing of the loan agreement with the IMF

# Turkey

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




| | 20 Mar. | 3-M F | 6-M F | 12-M F |
|---|---|---|---|---|
| 1-m TRIBOR (%) | 12.3 | 12.5 | 11.5 | 10.5 |
| TRY/EUR | 3.88 | 4.00 | 3.90 | 3.80 |
| Sov. Spread (2019, bps) | 190 | 220 | 210 | 200 |

| | 20 Mar. | 1-W % | YTD % | 2-Y % |
|---|---|---|---|---|
| ISE 100 | 90,902 | 1.6 | 16.3 | 10.2 |

| | 2014 | 2015 | 2016E | 2017F | 2018F |
|---|---|---|---|---|---|
| Real GDP Growth (%) | 5.2 | 6.1 | 2.1 | 2.0 | 2.8 |
| Inflation (eop, %) | 8.2 | 8.8 | 8.5 | 9.2 | 7.8 |
| Cur. Acct. Bal. (% GDP) | -4.7 | -3.7 | -3.8 | -4.5 | -4.5 |
| Fiscal Bal. (% GDP) | -1.1 | -1.0 | -1.1 | -2.0 | -1.5 |

**The CBRT proceeded with further monetary policy tightening -- attempting to reduce risks of excessive TRY volatility ahead of the mid-April referendum.** The CBRT raised the late liquidity window (LLW) lending rate (a facility available between 4:00 pm and 5:00 pm, designed for banks who need a lender of last resort) by 75 bps to 11.75%. This facility has effectively become the main funding source since the CBRT provides hardly any minimal funding through its more traditional windows. Less significantly, it kept its overnight lending rate, one-week repo rate, and overnight borrowing rate unchanged at 9.25%, 8.0% and 7.25%, respectively. The Bank justified its decision by the need to contain the deterioration in the inflation outlook, as it anticipates the recent significant rise in inflation to continue in the short term due to "*lagged FX pass-through and base effects in food prices*". Note that headline inflation and end-year inflation expectations have increased significantly over the past 3 months, reaching 10.1% and 8.9% y-o-y, respectively, in February – both above the upper bound of the CBRT's target range of 3.0%-7.0% and the CBRT's recently-revised end-year forecast of 8.0% (from 6.5% previously).

Importantly, the CBRT stated that the tight monetary policy stance will be maintained until the inflation outlook displays a significant improvement, while it kept the door open for further tightening if deemed necessary. With inflation unlikely to return to single digits before July, this suggests that the CBRT will maintain its effective funding rate (EFR) at least at its current high level of 11.3% for another 3-4 months (still not too high in real terms; 1.7%).

Note that the CBRT's EFR has been increased by 3.3 pps y-t-d to 11.3%, in an effort to dampen increasing depreciation pressures on the TRY in an adverse domestic and external environment. Indeed, the TRY reached a record low against the basket of "50%*TRY/USD + 50%*TRY/EUR" on January 27th – down c. 20% between end-October and end-January, but has since appreciated by c. 7.0%. The rise in the CBRT's EFR has been delivered through:

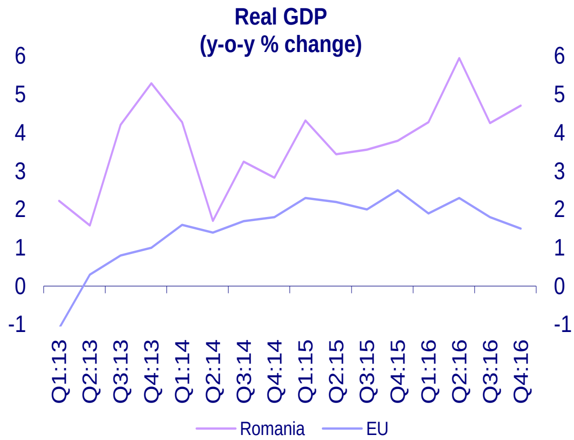
i) *Liquidity management.* On January 11th, funding through the least expensive 1-week repo facility (currently at 8.0%) was eliminated and funding through the overnight lending facility (currently at 9.25%) was reduced to TRY 11bn from TRY 22bn. Moreover, funding through the Borsa Istanbul (BIST)-Repo facility (currently at 9.25%) was gradually reduced from a high of TRY 56bn on January 25th to zero on March 9th, before its restoration on March 17th at the low level of TRY 5bn. As a result of these moves, banks were forced to cover most of their financing needs through the expensive LLW facility (currently at 11.75% cost). Currently banks receive TRY 67bn from this facility.

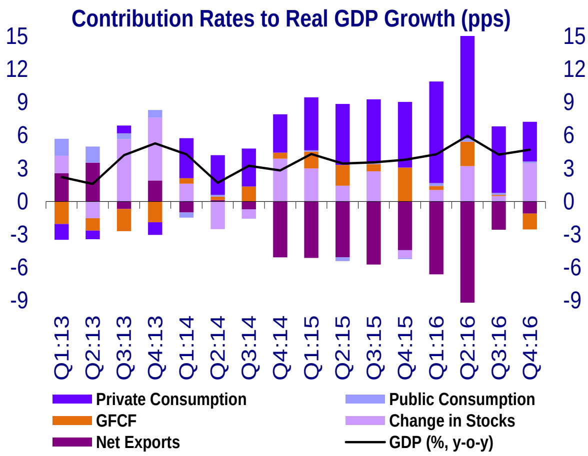
ii) *Policy rate hikes.* The overnight lending rate and the LLW lending rate have been hiked by 75 bps and 175 bps, respectively, to 9.25% and 11.75% since the beginning of the year.

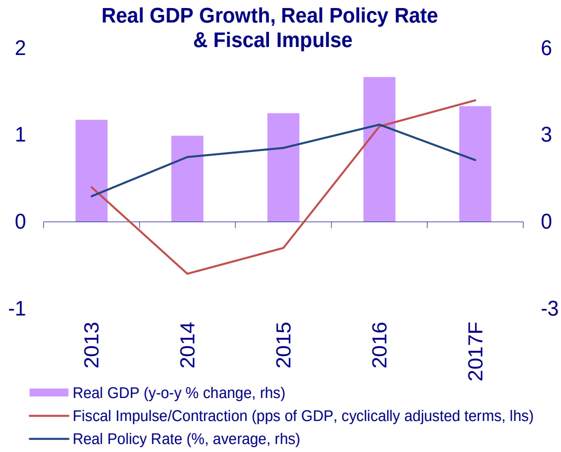
**Unemployment rose for a fourth consecutive year in 2016 -- reaching a 6-year high of 10.9%.** The unemployment rate rose to a 6-year high of 10.9% in FY:16 from 10.3% in FY:15. Non-farm unemployment also increased to 13.0% in FY:16 from 12.4% in FY:15. The negative performance reflects a sharp deterioration in economic activity (growth is estimated to have eased to 2.0% in FY:16 from 6.1% in FY:15), especially after the July 15th failed coup, and to a lesser extent, significant rises in labour costs following the January 2016 sharp hike of the minimum wage (real growth of gross wages in the sectors of industry, services & trade and construction accelerated to 7.6%, 9.6% and 5.3% y-o-y, respectively, in FY:16 from 5.6%, 4.1%, and -4.0% in FY:15).

# Romania

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




| | 20 Mar. | 3-M F | 6-M F | 12-M F |
|---|---|---|---|---|
| 1-m ROBOR (%) | 0.6 | 0.9 | 1.2 | 1.5 |
| RON/EUR | 4.56 | 4.49 | 4.49 | 4.50 |
| Sov. Spread (2024, bps) | 182 | 180 | 165 | 150 |

| | 20 Mar. | 1-W % | YTD % | 2-Y % |
|---|---|---|---|---|
| BET-BK | 1,498 | 1.0 | 11.5 | 14.2 |

| | 2014 | 2015 | 2016E | 2017F | 2018F |
|---|---|---|---|---|---|
| Real GDP Growth (%) | 3.1 | 3.9 | 4.8 | 4.0 | 3.4 |
| Inflation (eop, %) | 0.8 | -0.9 | -0.5 | 2.0 | 2.6 |
| Cur. Acct. Bal. (% GDP) | -0.7 | -1.2 | -2.4 | -3.0 | -3.4 |
| Fiscal Bal. (% GDP) | -1.7 | -1.5 | -2.4 | -3.8 | -3.0 |

**GDP growth accelerates in Q4:16**. Seasonally-adjusted GDP rose by a strong 1.3% q-o-q in Q4:16, against an increase of 0.5% in Q3:16. As a result, the annual pace of economic expansion picked up to 4.7% y-o-y in Q4:16 from 4.3% in Q3:16, bringing FY:16 growth to an impressive 4.8% -- the highest in the EU -- against 3.9% in FY:15, well above the economy's long-term potential of c. 3.0%.

**Improved net exports and stock-rebuilding more than compensate for the slowdown in private consumption and weaker investment activity in Q4:16**. Despite the loose incomes policy (including wage hikes of more than 15.0% in some sectors) and its spillover to the private sector, private consumption weakened in Q4:16 (up 4.1% y-o-y against 6.4% in Q3:16), reflecting: i) a slowdown in job creation (the LFS unemployment rate has been stuck at 4.8% since mid-2016); and ii) the sharp decline in agricultural income (the sector's GVA dropped 16.5% y-o-y in Q4:16, subtracting 1.6 pps of GDP from overall growth). At the same time, with no help from the public sector, fixed investment fell sharply in Q4:16 (by 7.2% y-o-y against a marginal rise of 0.3% in Q3:16). In fact, according to budget data, public investment was down 1.7 pps of GDP y-o-y in Q4:16, following a decline by 0.5 pps in Q3:16, due to strong base effects from the completion of the EU 2007-13 funding cycle at end-2015. Note that the (4-quarter rolling) investment-to-GDP ratio remained at 23% in Q4:16, against a pre-crisis high of c. 40%. The slowdown in domestic absorption was moderated, however, by the continuing build-up in inventories (including statistical discrepancies, adding a sizeable 3.5 pps of GDP to overall growth).

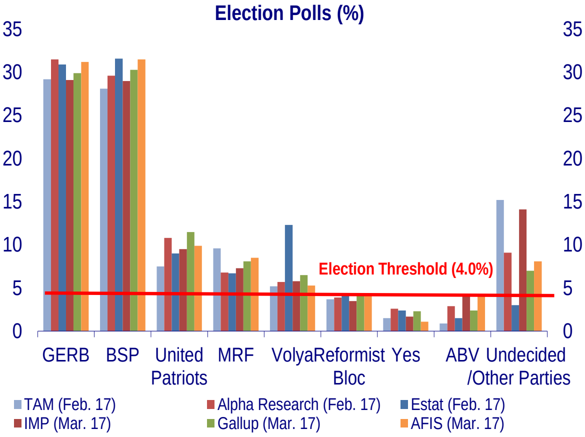
Importantly, the drag from net exports on overall growth diminished in Q4:16 (to -1.1 pp of GDP from -2.6 pps in Q3:16). Indeed, export growth picked up in Q4:16 (by 9.0% y-o-y against 7.9% in Q3:16), due to stronger demand from the EU, Romania's main trade partner (absorbing c. 75% of the country's exports), while import growth declined slightly (to 7.3% y-o-y in Q4:16 from 7.7% in Q3:16), in line with slower domestic absorption.

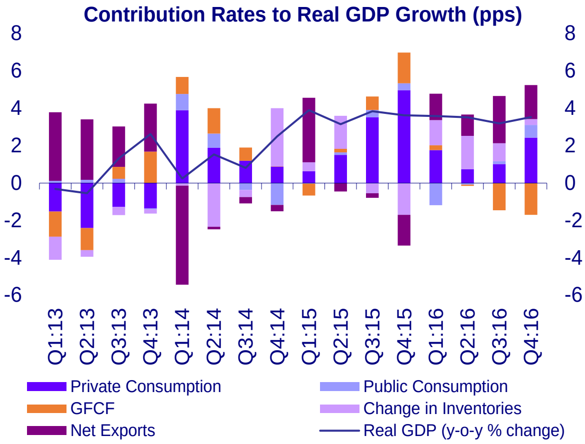
**Real GDP growth is set to ease in FY:17, but become more balanced**. This year will see a new round of fiscal stimulus amounting to a projected 1.4 pps of GDP against 0.9 pps in FY:16. The measures adopted include further tax cuts (i.e., a 1 pp reduction in the standard VAT rate and elimination of the special excise duty on fuels and special property tax) and tax deductions for pensioners as well as targeted hikes in public sector wages and pensions (by 9.0% in July). In this context, private consumption should expand at a solid pace, albeit not as strong as in FY:16, due to base effects and higher inflation (up 1.3% on average in FY:17 against a decline of 1.5% in FY:16). At the same time, fixed investment should pick up, assisted by improving business confidence and stronger absorption of EU funds. This trend could be interrupted in Q1:17, as adverse weather conditions and the delay in the adoption of the FY:17 public investment programme may have hindered fixed investment activity. Worryingly, in view of the moderate recovery in the EU, net exports could remain a drag on overall growth, reflecting strong domestic demand. All said, we see real GDP growth moderating to a still robust 4.0% in FY:17 from 4.8% in FY:16.

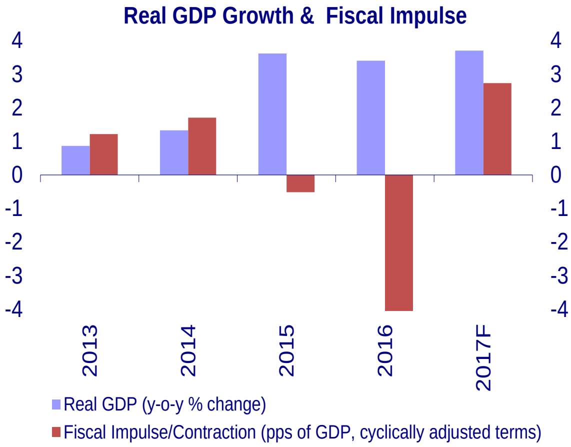
All said, persisting overheating pressures, as suggested by economic growth running above its long-term potential for a 3rd consecutive year and the current account deficit more than quadrupling – albeit from a low base – in just 4 years (projected at 3.0% of GDP in FY:17 against 0.7% in FY:14), should prompt the NBR to tighten its stance in FY:17. Indeed, we see the latter raising its key rate by 225 bps to 4.0% by end-year (implying a real *ex-post* rate of 2.0%).

# Bulgaria

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




| | 20 Mar. | 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) | 120 | 120 | 116 | 110 |

| | 20 Mar. | 1-W % | YTD % | 2-Y % |
|---|---|---|---|---|
| SOFIX | 637 | 2.8 | 8.6 | 26.3 |

| | 2014 | 2015 | 2016E | 2017F | 2018F |
|---|---|---|---|---|---|
| Real GDP Growth (%) | 1.3 | 3.6 | 3.4 | 3.7 | 3.5 |
| Inflation (eop, %) | -0.9 | -0.4 | 0.1 | 0.6 | 1.2 |
| Cur. Acct. Bal. (% GDP) | 0.1 | 0.4 | 3.9 | 3.4 | 2.9 |
| Fiscal Bal. (% GDP) | -3.7 | -2.8 | 1.6 | -1.0 | -0.5 |

**The BSP and GERB parties are broadly neck and neck in the polls ahead of the March 26th parliamentary elections**. According to the latest opinion polls, both the centre-right GERB and the centre-left BSP are set to secure around 30.0% of the vote. The nationalist "United Patriots" coalition is set to come third with 9.0-11.0% of the vote, followed by the Turkish minority party MRF with 7.0-9.0% and the populist "Volya" with 5.0-7-0%. The electoral potential of the remaining parties is limited, with only the centre-right "Reformist Bloc" coalition polling close to the election barrier of 4.0%.

In view of Bulgaria's proportional electoral system, we expect the upcoming elections to result in a hung Parliament. In this context, a GERB-led coalition with the "United Patriots", "Volya" and the Reformist Bloc appears the most likely scenario, as the BSP together with its traditional partner, the MRF, are far from securing an absolute majority. Worryingly, such an outcome could mean another weak coalition that would struggle to meet the country's challenges.

**Economic growth gains momentum in Q4:16**. On a sequential basis, real GDP rose by a solid 0.9% s.a. in Q4:16, following a hike of 0.7% in Q3:16. As a result, the annual pace of economic expansion picked up to 3.5% y-o-y in Q4:16 from 3.2% in Q3:16, bringing FY:16 growth to 3.4%, slightly below its FY:15 outcome of 3.6% but still above its long-term potential of c. 3.0%.

**Stronger private and public consumption sustain real GDP growth in Q4:16**. Private consumption improved strongly in Q4:16 (up 3.3% y-o-y against 1.5% in Q3:16), reflecting, *inter alia*, tight labour market conditions (the LFS unemployment rate fell sharply by 1.2 pps y-o-y to 6.7% in Q4:16, albeit largely due to increased retirements) and improved consumer confidence (the relevant index reached -25.5 in Q4:16 against a 5-year average of -35.5). At the same time, despite a tighter fiscal stance, public consumption increased in Q4:16 (adding 0.7 pps of GDP to overall growth).

On the other hand, fixed investment weakened in Q4:16 further (down 7.4% y-o-y following a decline of 6.9% in Q3:16), driven by the public sector. Indeed, according to budget data, public investment was down 1.3 pps of GDP y-o-y in Q4:16 following a decline of 1.0 pp in Q3:16, reflecting both a weaker base (the 2007-13 programming period was completed at end-2015), as well as lower absorption of EU funds.

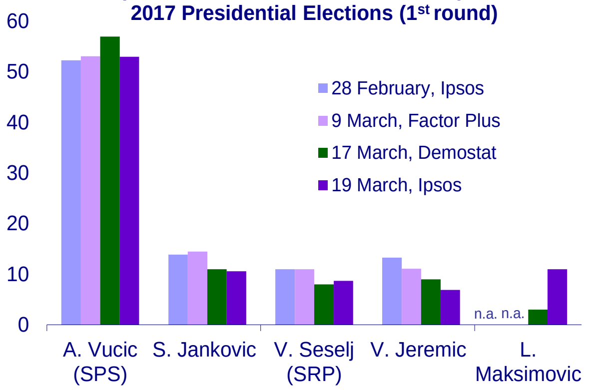
Unsurprisingly, net exports' contribution to overall growth eased in Q4:16 (to 1.8 pps of GDP from 2.5 pps in Q3:16), in line with stronger domestic absorption (1.4 pps of GDP against -0.3 pps in Q3:16).

**Real GDP growth set to remain strong in FY:17, with a shift from private consumption to investment.** Private investment should strengthen in FY:17, in line with the low investment-to-GDP ratio (20.4% against a pre-crisis high of 32.0%) and favourable domestic liquidity conditions (the loan-to-deposit ratio stands at 79.5%). At the same time, public investment is set to rise sharply. Indeed, we project the budget turning into a deficit of 1.0% of GDP in FY:17 from a surplus of 1.6% in FY:16, providing a fiscal impulse of 2.6 pps vs a fiscal contraction of 4.4 pps in 2016. On the other hand, we expect private consumption to slow, due to weaker employment growth, on the back of structural problems in the labour market (high long-term unemployment, skills mismatches), and slightly higher inflation. Importantly, despite the slow recovery in the EU, net exports should continue to support overall growth, reflecting the improving competitiveness of the economy (real GDP per employee has risen by 9.5% since end-2011, while the BGN was stable in real terms in the same period). Overall, we expect real GDP growth to rise slightly to 3.7% in FY:17 from 3.4% in FY:16.

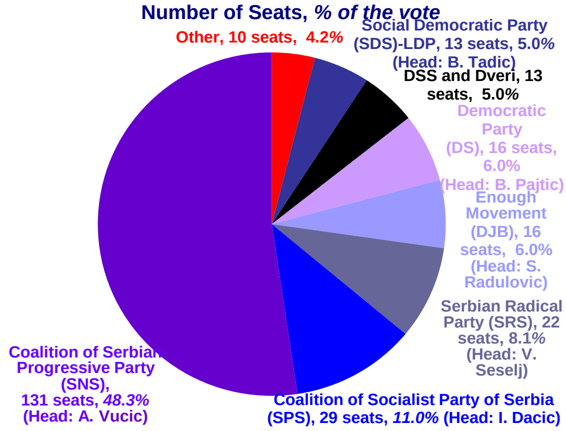
# Serbia

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

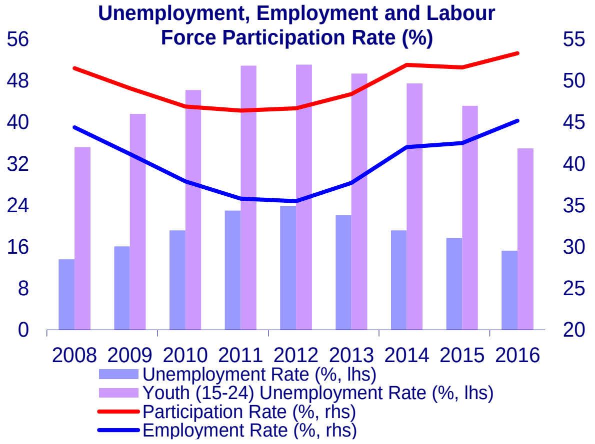
**Opinion Poll Results, ahead of the April 2$^{nd}$ 2017 Presidential Elections (1$^{st}$ round)**




**Results of 2016 Parliamentary Elections**
**Number of Seats, *% of the vote***




**Unemployment, Employment and Labour Force Participation Rate (%)**




| | 20 Mar. | 3-M F | 6-M F | 12-M F |
|---|---|---|---|---|
| 1-m BELIBOR (%) | 3.3 | 3.4 | 3.5 | 3.8 |
| RSD/EUR | 123.8 | 124.3 | 124.7 | 125.0 |
| Sov. Spread (2021, bps) | 202 | 220 | 190 | 180 |

| | 20 Mar. | 1-W % | YTD % | 2-Y % |
|---|---|---|---|---|
| BELEX-15 | 746 | 0.7 | 4.0 | 14.0 |

| | 2014 | 2015 | 2016 | 2017F | 2018F |
|---|---|---|---|---|---|
| Real GDP Growth (%) | -1.8 | 0.8 | 2.8 | 3.2 | 3.6 |
| Inflation (eop, %) | 1.7 | 1.5 | 1.6 | 2.8 | 3.0 |
| Cur. Acct. Bal. (% GDP) | -6.0 | -4.7 | -4.0 | -4.2 | -4.2 |
| Fiscal Bal. (% GDP) | -6.6 | -3.7 | -1.4 | -1.2 | -1.0 |

**PM A. Vucic is the clear favourite to win the April Presidential elections in the 1$^{st}$ round.** According to recent polls, PM A. Vucic could secure around 53% of votes in the 1$^{st}$ round of the Presidential elections, to be held on April 2$^{nd}$, outpacing his competitors by a wide margin. PM Vucic's strong personal popularity has benefited from his pro-EU agenda (that led to the opening of 8 negotiating Chapters since end-2015), while retaining close ties with Russia, the efforts in the fight against corruption and tax evasion, as well as the successful track record in cooperating with the IMF. Vucic's high popularity and comfortable lead over the other contenders (see below) suggests that he will secure a five-year term as President.

Recall that, in an attempt to avoid a run-off, Vucic was nominated in mid-February as the SNS presidential candidate, instead of his ally and incumbent President T. Nikolic, capitalising on his strong personal popularity, and in view of Nikolic's weak standing. Importantly, Vucic managed to secure Nikolic's support and thus the party's unity (with Nikolic announcing that he will not run in the presidential race as an independent candidate). Vucic also has the support of all the parties of the SNS-led ruling coalition, including the junior Socialist Party (SPS).

On the contrary, the main opposition parties are fragmented and their candidates lag far behind Vucic. Indeed, the former Ombudsman, S. Jankovic, and the former Foreign Affairs Minister, V. Jeremic, are endorsed by different pro-EU opposition parties with similar political platforms, securing only around 11% and 7% of the vote, respectively. Moreover, the recently-acquitted war-crimes suspect, V. Seselj, head of the Serbian Radical Party (SRD) -- one of the two nationalist parties that re-entered parliament in the 2016 legislative elections -- has c. 9% support. Surprisingly, in the latest opinion poll, a political activist, the 26-year old comedian L. Maksimovic, emerged as the 2$^{nd}$ favourite in the electoral race, with 11% support.

**In view of PM Vucic's strong influence over the Serbian Progressive Party (SNS), the widely commended policy drive should be sustained.** Although the successor of Vucic once he steps down as PM has not yet been announced, Vucic as the SNS leader is widely expected to continue to effectively control the parliamentary majority. Recall that the SNS secured an absolute parliamentary majority a year ago (131 seats in the 250-seat assembly) and can, on its own, approve the new PM and coalition Government.

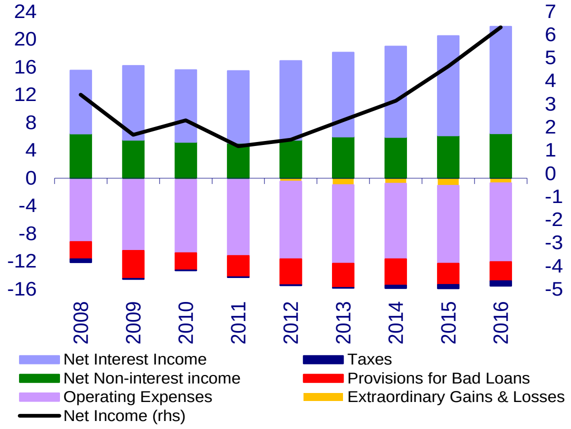
**The unemployment rate declined for a 4$^{th}$ successive year to an 8-year low of 15.3% in FY:16.** The unemployment rate declined markedly by 2.4 pps y-o-y to a still high 15.3% in FY:16 -- its lowest level since 2009 -- following an average decline of 2.1 pps per year in 2013-15. This improvement was mainly driven by the continued recovery in employment, for a 4$^{th}$ successive year, despite the downsizing in the public sector. In fact, employment rose by 5.6% y-o-y in FY:16, following an average rise of 5.0% in 2013-15. The sustained rise was driven by the services and industry sectors (representing 56.1% and 19.9% of total employment, respectively, and up by 7.2% and 6.9% y-o-y in FY:16). Employment has been boosted by strengthening economic growth (up 2.8% y-o-y in FY:16 from 0.5% in 2013-15). Note that a large part of employment remains informal (22.0% of total employment), mainly in the agricultural sector (accounting for ⅔ of the informal employment).

Importantly, labour market slack has declined significantly during the past 4 years. In fact, the employment rate improved further, rising to 45.2% in FY:16 from 42.5% in FY:15 and a trough of 35.5% in FY:12. Moreover, the labour force participation rate rose to 53.3% in FY:16 from 51.6% in FY:15, well above a trough of 46.4% in FY:11.

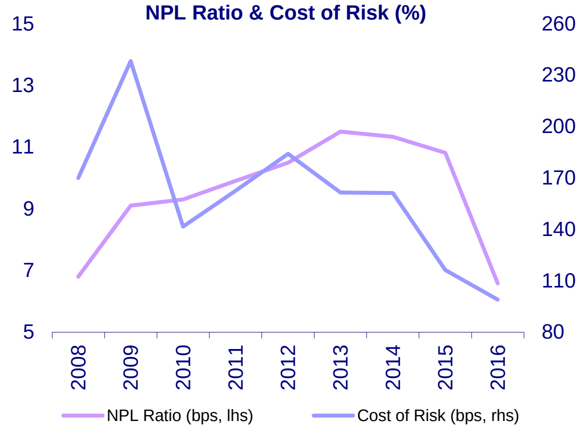
# F.Y.R.O.M

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

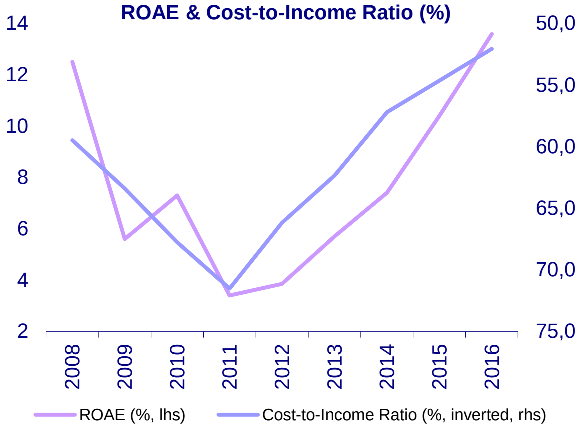
**Quarterly Net Profit (bn MKD)**




**NPL Ratio & Cost of Risk (%)**




**ROAE & Cost-to-Income Ratio (%)**




| | 20 Mar. | 3-M F | 6-M F | 12-M F |
|---|---|---|---|---|
| 1-m SKIBOR (%) | 1.4 | 1.7 | 1.7 | 1.7 |
| MKD/EUR | 61.3 | 61.3 | 61.3 | 61.3 |
| Sov. Spread (2021. bps) | 409 | 475 | 450 | 350 |

| | 20 Mar. | 1-W % | YTD % | 2-Y % |
|---|---|---|---|---|
| MBI 100 | 2,277 | 1.5 | 6.7 | 28.4 |

| | 2014 | 2015 | 2016E | 2017F | 2018F |
|---|---|---|---|---|---|
| Real GDP Growth (%) | 3.5 | 3.8 | 2.4 | 2.8 | 3.4 |
| Inflation (eop. %) | -0.5 | -0.3 | -0.2 | 1.0 | 2.0 |
| Cur. Acct. Bal. (% GDP) | -0.5 | -2.1 | -3.1 | -2.9 | -2.8 |
| Fiscal Bal. (% GDP) | -4.2 | -3.5 | -2.6 | -3.0 | -2.8 |

**Banking sector bottom line reached a post-crisis high in 2016, despite strong domestic headwinds.** Banking sector net profit (after tax) continued its upward trend for a fifth successive year in 2016, rising sharply by 36.3% to EUR 103.2 mn or 1.0% of GDP. The strong performance was driven by higher gains from core and non-core activities, as well as cost containment. As a result, ROAE and ROAA improved to post-global crisis highs of 13.6% and 1.5%, respectively, in FY:16 from 10.4% and 1.1% in FY:15.

**Pre-provision earnings (before tax) strengthened in FY:16, on the back of significant increases in both net interest income (NII) and non-interest income (NNII), as well as strict cost control.** Pre-provision earnings (before tax) rose by 12.6% in FY:16, mainly due to strong NII (up 7.2% and contributing 20 pps to net income growth). The latter reflects a significant increase in interest-earning assets (up 5.1% in FY:16), on the back of strong credit growth to households (up 7.1% in FY:16) and, to a lesser extent, a rise in the NIM (up 5 bps to 369 bps in FY:16), due to a wider loan-deposit interest rate spread (average interest rates for outstanding (long-term) LC retail deposits and loans moderated by 0.6 pps and 0.3 pps, respectively, to 3.3% and 7.8% in FY:16) and higher domestic public debt yields (12-month T-bill yields rose by 67 bps to 2.2% in FY:16).

The rise in the top line was also underpinned by higher NNII (up 4.9% contributing 5.8 pps to net income growth), reflecting, *inter alia*, large payments of penalties on early deposit withdrawals, especially in Q2:16 when the domestic political crisis culminated. Moreover, the top line performance was supported by strict cost control, with operating expenses rising by only 1.5% in FY:16.

**Net profit also benefited from a 36.4% decline in impairments for non-financial assets in FY:16.** The latter reflects the reduction in the regulatory charge -- imposed since 2014 and comprising a 20% haircut on banks' foreclosed assets per year so as to incentivise the sale of foreclosed assets. As total operating income grew at a faster pace than operating expenses, the banking sector's efficiency improved further in 2016, with the cost-to-income ratio declining by 2.6 pps to a post-crisis low of 52.1%.

**NPL provisions declined significantly in 2016, in line with a sharp fall in the NPL ratio.** Bank provisioning declined by 9.8% in FY:16, as the NPL ratio dropped by 423 bps to a post-crisis low of 6.8% of total loans, making FYROM the "best-in-class" among the SEE-5 (Romania: 9.5%, Bulgaria: 15.9%, Serbia: 17.0%, and Albania: 18.3%). The decline in the NPL ratio was supported by a Central Bank regulation issued at end-2015, which required banks to write-off their fully-provisioned loans held in "loss" category for more than two years within H1:16. Note that the clean-up in banks' loan books was broad-based, with the ratios of non-performing corporate loans and retail loans moderating by 513 bps and 254 bps, respectively, to 10.2% and 2.6% at end-2016. With total private sector credit growth broadly flat in FY:16, the cost of risk (the ratio of P/L provisions-to-average-gross loans) narrowed by 17 bps to a post-crisis low of 99 bps.

**For 2017, there is significant potential for higher profitability, provided that the domestic political situation normalizes soon.** A further improvement in the bottom line should be supported by: i) easing credit standards by banks following the significant clean-up of their balance sheets; ii) adequate domestic sources of financing, especially in local currency (the LC loan-to-LC deposit ratio stood at a comfortable level of 90.2% at end-2016); and iii) a strong capital base (the capital adequacy ratio stood at 15.2% in FY:16, well above the statutory limit of 8%).

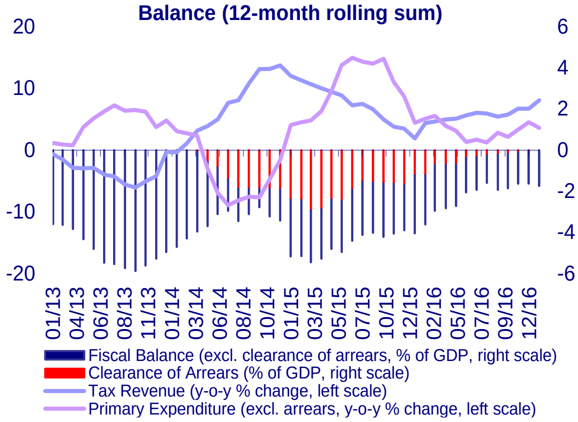
# Albania

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

| Consolidated Fiscal Balance (% of GDP) | 2015 | 2016 | 2016 Budget | 2017 Budget | NBG 2017F |
|---|---|---|---|---|---|
| Revenue | 26.4 | 26.9 | 27.6 | 27.4 | 27.2 |
| Tax Revenue | 23.8 | 24.6 | 25.0 | 25.0 | 24.9 |
| PIT | 2.1 | 2.1 | 2.1 | 2.3 | 2.3 |
| CIT | 1.7 | 1.9 | 1.6 | 1.8 | 2.2 |
| VAT | 8.8 | 8.7 | 9.2 | 8.9 | 8.6 |
| Excises | 2.7 | 2.8 | 3.0 | 2.9 | 2.8 |
| Customs | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Other taxes | 8.2 | 8.6 | 8.7 | 8.7 | 8.7 |
| Grants | 0.8 | 0.8 | 0.9 | 0.9 | 0.9 |
| Non-Tax Rev. | 1.8 | 1.5 | 1.7 | 1.5 | 1.3 |
| Expenditure | 30.5 | 28.7 | 29.9 | 29.3 | 28.4 |
| Current Exp. | 24.4 | 24.5 | 25.4 | 24.5 | 23.9 |
| Personnel | 5.0 | 4.5 | 4.7 | 4.7 | 4.6 |
| Operational | 3.0 | 2.9 | 2.9 | 2.8 | 2.9 |
| Subsidies | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Social Insur. | 9.8 | 10.1 | 10.1 | 10.2 | 10.3 |
| Local Budget | 2.4 | 2.9 | 3.2 | 2.6 | 2.3 |
| Other Exp. | 1.4 | 1.5 | 1.6 | 1.5 | 1.4 |
| Int. Payments | 2.7 | 2.4 | 2.9 | 2.6 | 2.3 |
| Capital Exp. | 4.4 | 3.8 | 3.9 | 4.7 | 4.4 |
| Net Lending/Arrears | 1.3 | 0.4 | 0.3 | 0.1 | 0.1 |
| Contingency Reser. | 0.3 | 0.0 | 0.3 | 0.1 | 0.0 |
| Fiscal Bal. | -4.1 | -1.7 | -2.4 | -2.0 | -1.2 |
| Primary Bal. | -1.4 | 0.7 | 0.5 | 0.7 | 1.1 |
| Fiscal Bal. [a] | -2.8 | -1.7 | -2.4 | -2.0 | -1.2 |
| Primary Bal. [a] | -0.1 | 0.7 | 0.5 | 0.7 | 1.1 |

a: excluding the clearance of arrears

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




| | 20 Mar. | 3-M F | 6-M F | 12-M F |
|---|---|---|---|---|
| 1-m TRIBOR (mid, %) | 1.8 | 2.2 | 2.2 | 2.2 |
| ALL/EUR | 135.2 | 138.5 | 138.7 | 138.0 |
| Sov. Spread (bps) | 316 | 340 | 320 | 300 |

| | 20 Mar. | 1-W % | YTD % | 2-Y % |
|---|---|---|---|---|
| Stock Market | - - - | - - - | - - - | - - - |

| | 2014 | 2015 | 2016E | 2017F | 2018F |
|---|---|---|---|---|---|
| Real GDP Growth (%) | 1.8 | 2.6 | 3.4 | 3.8 | 4.2 |
| Inflation (eop, %) | 0.7 | 2.0 | 2.2 | 2.6 | 2.8 |
| Cur. Acct. Bal. (% GDP) | -12.9 | -10.7 | -11.0 | -12.6 | -12.1 |
| Fiscal Bal. (% GDP) | -5.2 | -4.1 | -1.7 | -1.2 | -1.2 |

**Fiscal consolidation continued in FY:16, due to a strong tax revenue performance and expenditure restraint.** The fiscal deficit (excluding the repayment of arrears) narrowed to 1.7% of GDP in FY:16 from 2.8% in FY:15, supported by both higher revenue (up 0.5 pps of GDP) and lower expenditure (down 0.6 pps of GDP).

The strong revenue performance was mainly supported by the success of the Government's large-scale campaign against tax evasion, launched in September 2015, which targeted companies that are unregistered, understating payrolls, not using cash registers or not issuing invoices. This campaign is estimated to have boosted social contributions and profit revenue (together up 0.5 pps of GDP y-o-y in FY:16). On the expenditure side, spending restraint resulted mainly from weaker capital and interest expenditure (down 0.6 pps and 0.3 pps of GDP y-o-y, respectively, in FY:16).

Note that the fiscal deficit, including the clearance of accumulated arrears (of 1.2% of GDP in FY:15) narrowed at a faster pace (by 2.3 pps y-o-y in FY:16). The fiscal deficit (excluding the repayment of arrears) also outperformed its (revised) target of 2.4% of GDP.

Importantly, fiscal consolidation helped put public debt on a downward trend. Indeed, we estimate the public debt-to-GDP ratio to have narrowed, for the first time in 6 years, to 71.6% in 2016 from its peak of 73.7% in 2015.

**Fiscal prudence is expected in this election year.** The 2017 Budget envisages an expansionary fiscal stance, targeting a deficit of 2.0% of GDP compared with a gap of 1.7% in FY:16. In our view, the FY:17 deficit target is over-estimated, as it is based on over-estimated FY:16 spending (see table).

In addition, we foresee FY:17 revenue growth at 7.0% y-o-y, below the target of 7.8% (a revenue shortfall of 0.2 pps of GDP in FY:17). Our revenue projection is broadly in line with our nominal GDP growth (of 6.0%) and should be boosted by revenue-enhancing measures of 1.0 pp of GDP. The latter includes once-off revenue (0.8 pps of GDP), consisting of delays in TAP VAT reimbursements, collection of excise debt on diluent for oil extraction, and higher tax income on the back of incentives for compliance (yielding 0.3 pps, 0.2 pps and 0.2 pps of GDP, respectively, according to the IMF).

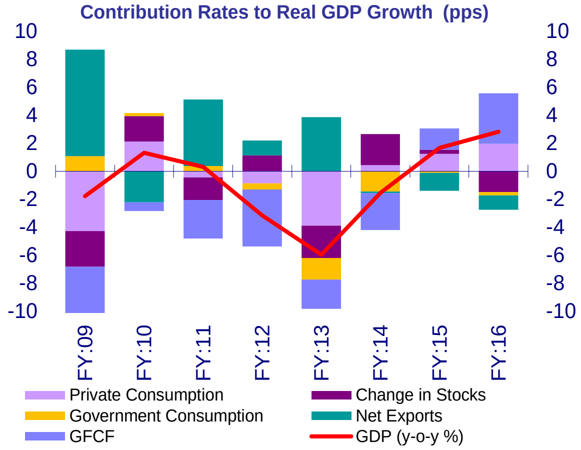
The expected revenue underperformance should, however, be more than offset by lower-than-budgeted expenditure. In fact, due to base effects from FY:16, we expect expenditure to increase by only 5.0% -- below the target growth of 8.4% (implying savings of 1.0 pp of GDP), including moderate increases in public wages and pensions (of 7.0% and 3.0%, respectively, from March).

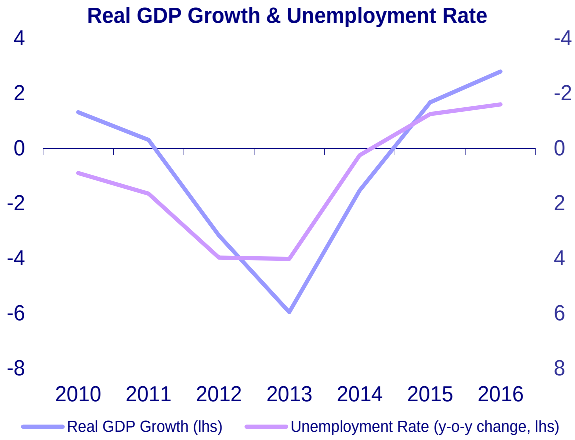
Overall, we expect the FY:17 deficit to outperform both its target and the FY:16 outcome, standing at a record low of 1.2% of GDP -- implying fiscal consolidation of 0.5 pps of GDP y-o-y in this election year. Should our fiscal deficit forecast materialise, the public debt-to-GDP ratio would narrow further to 68.6%.

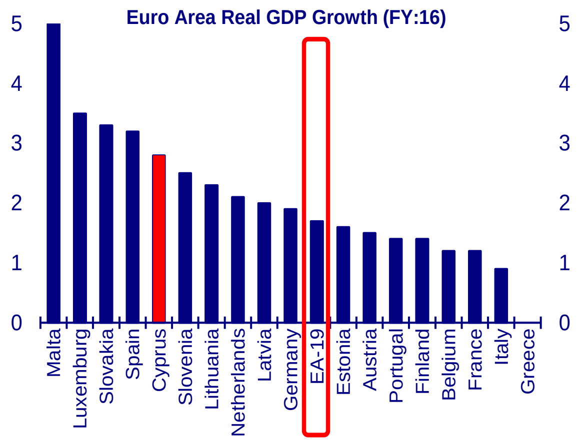
Our forecasts assume that any fiscal slippage ahead of the June 18th parliamentary elections will be corrected in H2:17 and the reform momentum will be reinvigorated after the formation of the new Government. Note that the opposition Democratic Party continues its protests and boycott of Parliament, both started in February, while threatening to also boycott the elections, unless a caretaker Government is appointed to ensure free and fair elections, effectively stalling reforms. The past week's partial government reshuffle -- widely seen as a move to satisfy the opposition's demand -- failed to end the political deadlock.

# Cyprus

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




| | 20 Mar. | 3-M F | 6-M F | 12-M F |
|---|---|---|---|---|
| 1-m EURIBOR (%) | -0.37 | -0.37 | -0.37 | -0.37 |
| EUR/USD | 1.07 | 1.09 | 1.08 | 1.05 |
| Sov. Spread (2020. bps) | 241 | 260 | 250 | 230 |

| | 20 Mar. | 1-W % | YTD % | 2-Y % |
|---|---|---|---|---|
| CSE Index | 67 | 0.3 | 0.9 | -15.7 |

| | 2014 | 2015 | 2016E | 2017F | 2018F |
|---|---|---|---|---|---|
| Real GDP Growth (%) | -1.5 | 1.7 | 2.8 | 2.6 | 2.4 |
| Inflation (eop. %) | -1.5 | -1.0 | -0.3 | 0.8 | 1.5 |
| Cur. Acct. Bal. (% GDP) | -4.3 | -2.9 | -2.0 | -2.3 | -2.3 |
| Fiscal Bal. (% GDP) | -8.8 | -1.1 | 0.1 | -0.2 | 0.4 |

**The pace of economic expansion rose to an 8-year high of 2.8% in FY:16 from 1.7% in FY:15 – well above the EA-19 average of 1.7%.** The acceleration in economic activity in FY:16 was driven by a further strengthening of domestic absorption and, to a lesser extent, by a milder drag from net exports.

Private consumption accelerated further in 2016 (up 2.9% compared with a rise of 1.9% in 2015), supported, *inter alia*, by strengthening consumer and business confidence, following the conclusion of the 3-year adjustment programme at end-Q1:16; improving labour market conditions; and favourable energy prices.

Fixed investment rose sharply in FY:16, expanding by a record-high of 25.9% from 12.0% a year earlier. The increase was mainly driven by a sharp rise in investment in transport equipment (mainly ships and aircrafts), which also reflects higher imports (see below). Fixed investment was also underpinned by the construction sector, which posted positive growth for the first time since the crisis (up 8.8% in FY:16), in line with a stabilising real estate market.

Domestic absorption would have been even stronger in FY:16 had public consumption not declined at a faster rate (down 1.4% compared with a drop of 0.6% in 2015 and shaving 0.2 pps off overall growth), in line with the fiscal drag (a balanced budget in FY:16 against a deficit of 1.1% of GDP in FY:15).

Importantly, net exports also contributed to the acceleration of economic activity in FY:16, despite stronger domestic demand. Indeed, their drag on overall growth eased to -1.0 pp in FY:16 from -1.3 pps in FY:15, on the back of a significant recovery in exports of goods and services (up 3.6% in FY:16 against a stabilisation in FY:15), reflecting exclusively a sharp rise in tourist activity. Excluding imports of transport equipment, the contribution of net exports to overall growth improved by 1.2 pps in FY:16 compared with the headline figure of 0.3 pps.

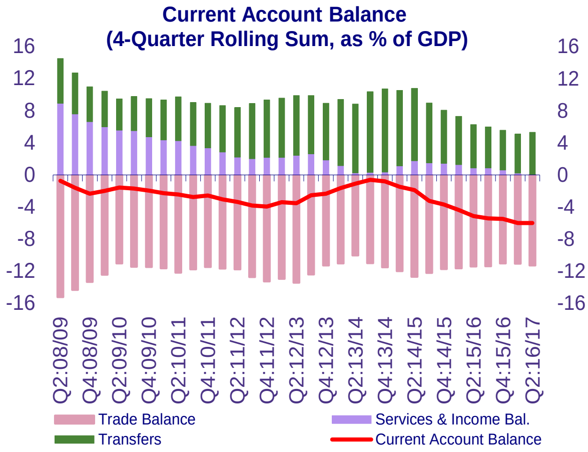
**For 2017, we see economic activity moderating slightly to a still strong 2.6%.** This slowdown will be driven, *inter alia*, by less buoyant tourist activity, due to the negative impact of a further depreciation of the GBP (the UK is the island's main source country) and the gradual return of Russian tourists to Turkey and Egypt (Russia is the second largest source country). On the other hand, domestic demand should remain robust, mainly supported by private consumption, reflecting strong real disposable income and positive wealth effects from the expected recovery in the real estate market (real estate prices rose by 0.1% y-o-y in 9M:16 following seven consecutive years of decline).

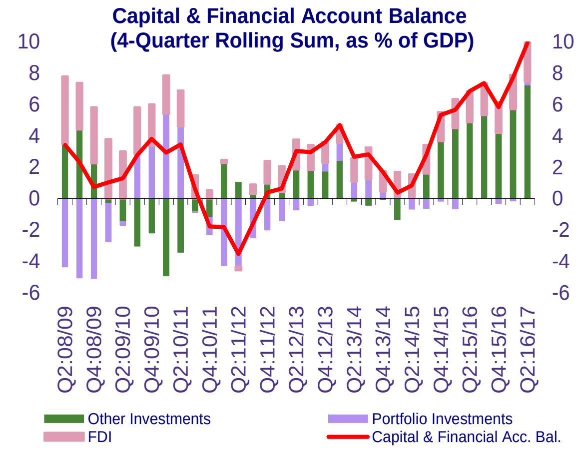
**S&P upgraded Cyprus' long-term sovereign debt rating by one notch to BB+ -- one notch below investment grade -- with a stable outlook.** On March 17th, S&P upgraded the country's long-term sovereign debt rating by one notch to BB+, the second upgrade since last September. As a result, the agency currently rates Cyprus three notches above Moody's (B1) and two notches above Fitch (BB-). The move reflects the agency's view of "*stronger-than-expected economic growth and fiscal progress*". Specifically, the agency: i) expects the economy to expand by 2.7% this year and maintain average growth of just under 2.5% in 2018-20; ii) projects the unemployment rate to fall below 12.0% by 2018; iii) expects the fiscal performance to exhibit a small surplus over 2018-20; and iv) sees public debt declining to below 90% of GDP by end-2018.

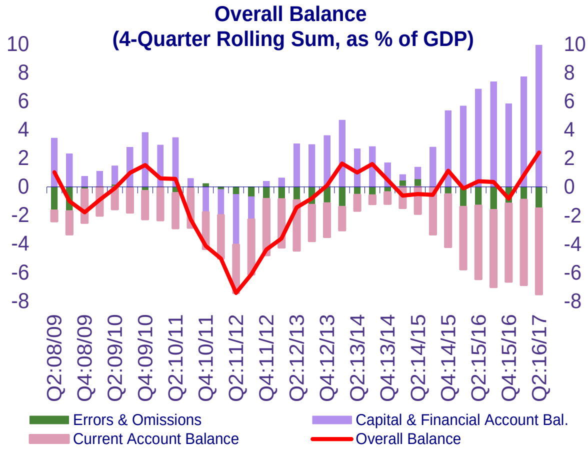
On the other hand, the outlook was revised to "stable" from "positive", reflecting the "*unusually high levels of non-performing loans*" (the NPL ratio (90+ dpd) stood at 33.9% of gross loans in December) and the risk of a loosening of fiscal stance ahead of the 2018 presidential elections.

# Egypt

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




| | 20 Mar. | 3-M F | 6-M F | 12-M F |
|---|---|---|---|---|
| O/N Interbank Rate (%) | 15.6 | 17.0 | 17.0 | 16.5 |
| EGP/USD | 18.2 | 17.5 | 17.0 | 16.5 |
| Sov. Spread (2020. bps) | 286 | 270 | 265 | 240 |

| | 20 Mar. | 1-W % | YTD % | 2-Y % |
|---|---|---|---|---|
| HERMES 100 | 1,169 | 1.2 | 7.4 | 36.3 |

| | 13/14 | 14/15 | 15/16 | 16/17F | 17/18F |
|---|---|---|---|---|---|
| Real GDP Growth (%) | 2.1 | 4.2 | 3.8 | 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 | -6.1 | -5.0 |
| Fiscal Bal. (% GDP) | -12.2 | -11.3 | -12.1 | -10.0 | -8.1 |

**The quarterly current account deficit (CAD) stabilised on an annual basis in Q2:16/17 (October-December 2016) after 10 consecutive quarters of deterioration, due to a rebound in workers' remittances.** The CAD remained unchanged at 1.8% of GDP in Q2:16/17 compared with the same quarter a year earlier, after 10 successive quarters of deterioration (totalling 5.3 pps of GDP). The positive performance was driven by a recovery in workers' remittances from abroad, which offset a deterioration in the trade and income balances. Specifically, following the flotation of the domestic currency in early-November, ahead of the signing of the IMF-supported 3-year economic programme, workers' remittances recovered for the first time in 7 quarters by 0.4 pps of GDP y-o-y in Q2:16/17. In fact, before the flotation of the EGP, remittances through the banking sector had been hindered by the attractive rates offered in the flourishing parallel FX market (where the USD was traded at a premium of c. 40.0% over its official rate of EGP 8.88 in early-November).

Unsurprisingly, in line with the "J-curve effect", according to which the depreciation of the domestic currency should result in the short term in more costly imports and less valuable exports, the trade deficit widened by 0.3 pps of GDP y-o-y in Q2:16/17.

Furthermore, the income deficit increased for the first time in 4 quarters by 0.2 pps of GDP y-o-y, on the back of a sharp rise in profit transfers by both oil and non-oil foreign companies operating in Egypt.

The positive performance of the current account in Q2:16/17 was also supported by the stabilisation of tourist receipts for the first time in 5 quarters. Indeed, the tourism crisis begun to ease from last November, underpinned by more competitive prices following the sharp depreciation of the EGP and the removal of travel bans and/or warnings by some source countries, following a significant improvement in security conditions in Egyptian airports.

**The quarterly capital and financial account (CFA) balance improved markedly by 2.3 pps y-o-y to a multi-year high of 3.6% of GDP in Q2:16/17, on the return of foreign investor confidence following the signing of the loan agreement with the IMF.** There was an across-the-board improvement in the CFA in Q2:16/17. Specifically, net non-debt generating foreign direct investment inflows, net portfolio investments (particularly net purchases of treasury bills and shares in the stock market) and other net inflows (excluding IFI support) rose by 0.3 pps, 0.4 pps, and 0.3 pps of GDP y-o-y, respectively. IFI assistance stood at 1.3 pps of GDP in Q2:16/17, following: i) the disbursement of an initial USD 2.8bn by the IMF as part of the USD 12.0bn loan in November; and ii) the release of the second USD 1bn tranche from a USD 3bn World Bank loan in December.

As a result and accounting for valuation effects, FX reserves rose to a 4-year high of USD 24.3bn at end-Q2:16/17 from USD 19.5bn at end Q1:16/17 and USD 17.5bn at end-2015/16 – covering 4.8 months of imports of GNFS.

Looking ahead, we expect the Q2:16/17 CAD developments to continue during the remainder of the fiscal year (H2:16/17), leading to a FY:16/17 CAD of 6.0-6.2% of GDP. Importantly, in view of the FY:16/17 external financing gap, estimated at c. USD 11.5bn, the pledged large international support to the IMF-supported programmer, and the successful issuance of USD 4.0bn in Eurobonds in mid-Q3:16/17 (February), we foresee FX reserves rising to c. USD 25.0bn (or 4.8 months of imports of GNFS) at end-2016/17 (June 2017) from USD 17.5bn (3.4 months of imports of GNFS) at end-2015/16 -- more than reversing the past fiscal year's loss of USD 2.5bn.

## FOREIGN EXCHANGE MARKETS, MARCH 20TH 2017

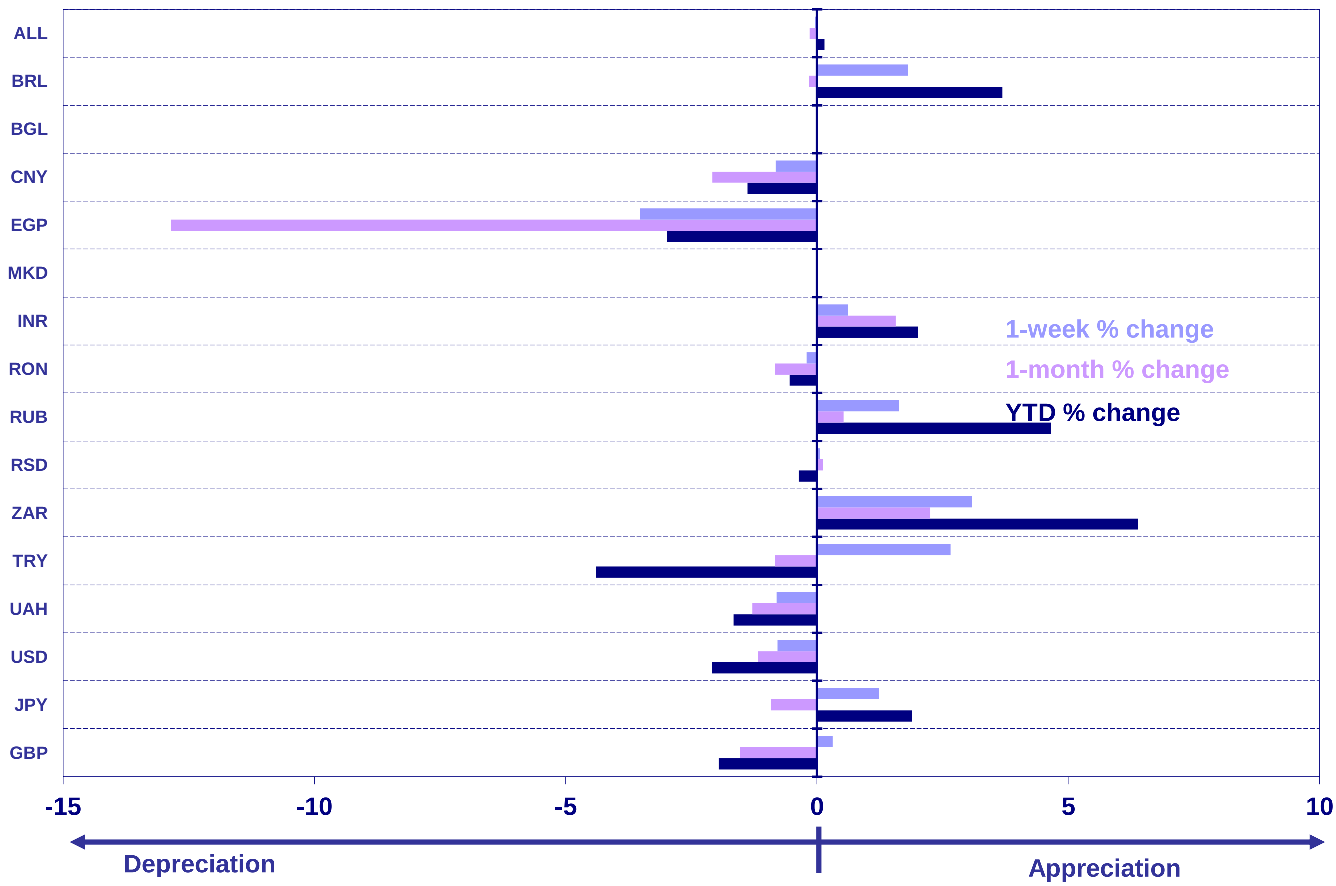
*Against the EUR*

| | 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 | 135.2 | 0.0 | -0.1 | 0.1 | 2.2 | 134.8 | 137.3 | 135.5 | 135.7 | 135.2 | 1.2 | 2.0 |
| **Brazil** | BRL | 3.30 | 1.8 | -0.2 | 3.7 | 23.2 | 3.23 | 3.46 | 3.68 | 3.66 | 3.63 | 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 | 7.43 | -0.8 | -2.1 | -1.4 | -2.1 | 7.20 | 7.44 | 7.79 | 7.77 | 7.75 | -4.0 | 6.7 |
| **Egypt** | EGP | 19.45 | -3.5 | -12.9 | -3.0 | -48.6 | 16.62 | 20.32 | - - - | - - - | - - - | -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 | 70.1 | 0.6 | 1.6 | 2.0 | 6.7 | 69.6 | 73.3 | 74.9 | - - - | - - - | 0.4 | 6.6 |
| **Romania** | RON | 4.56 | -0.2 | -0.8 | -0.5 | -2.1 | 4.49 | 4.57 | 4.57 | 4.59 | 4.63 | -0.4 | -0.8 |
| **Russia** | RUB | 61.6 | 1.6 | 0.5 | 4.7 | 23.8 | 59.8 | 65.1 | 63.2 | 64.6 | 67.3 | 22.9 | -15.1 |
| **Serbia** | RSD | 123.8 | 0.1 | 0.1 | -0.4 | -0.8 | 123.3 | 124.1 | 124.3 | 124.7 | - - - | -1.5 | -0.1 |
| **S. Africa** | ZAR | 13.6 | 3.1 | 2.3 | 6.4 | 25.9 | 13.54 | 14.64 | 13.9 | 14.1 | 14.7 | 16.2 | -16.6 |
| **Turkey** | YTL | 3.88 | 2.7 | -0.8 | -4.4 | -17.1 | 3.70 | 4.17 | 4.00 | 4.13 | 4.38 | -14.7 | -10.8 |
| **Ukraine** | UAH | 29.0 | -0.8 | -1.3 | -1.7 | 2.1 | 27.22 | 29.47 | 34.3 | - - - | - - - | -8.6 | -27.5 |
| | | | | | | | | | | | | | |
| **US** | USD | 1.07 | -0.8 | -1.2 | -2.1 | 4.7 | 1.0 | 1.1 | 1.08 | 1.08 | 1.10 | 3.3 | 11.4 |
| **JAPAN** | JPY | 120.9 | 1.2 | -0.9 | 1.9 | 4.1 | 118.2 | 123.7 | 120.9 | 120.9 | 120.9 | 6.0 | 11.0 |
| **UK** | GBP | 0.87 | 0.3 | -1.5 | -2.0 | -10.0 | 0.8 | 0.9 | 0.87 | 0.87 | 0.88 | -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 (March 20th 2017)



## MONEY MARKETS, MARCH 20TH 2017

| | Albania | Brazil | Bulgaria | China | Cyprus | Egypt | FYROM | India | Romania | Russia | Serbia | Turkey | S. Africa | Ukraine | EU | US |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **O/N** | 1.3 | 12.1 | 0.0 | 2.6 | - - - | 15.6 | - - - | - - - | 0.4 | 10.0 | - - - | 12.2 | 7.2 | 13.0 | - - - | 0.9 |
| **T/N** | - - - | - - - | - - - | - - - | - - - | - - - | - - - | - - - | 0.4 | 10.2 | 3.0 | - - - | 7.3 | - - - | - - - | - - - |
| **S/W** | 1.4 | 12.1 | 0.0 | 2.7 | -0.4 | - - - | 1.2 | - - - | - - - | 10.1 | 3.0 | - - - | 7.6 | 14.1 | -0.4 | 0.9 |
| **1-Month** | 1.8 | 11.9 | 0.0 | 4.3 | -0.4 | - - - | 1.4 | 6.6 | 0.6 | 10.3 | 3.3 | 12.3 | 7.6 | 16.6 | -0.4 | 1.0 |
| **2-Month** | - - - | 11.6 | 0.0 | - - - | -0.3 | - - - | - - - | - - - | - - - | 10.3 | 3.4 | 12.3 | 7.6 | - - - | -0.3 | 1.0 |
| **3-Month** | 2.4 | 11.3 | 0.1 | 4.4 | -0.3 | - - - | 1.8 | 6.5 | 0.8 | 10.0 | 3.5 | 12.4 | 7.6 | 17.9 | -0.3 | 1.2 |
| **6-Month** | 2.7 | 10.6 | 0.2 | 4.3 | -0.2 | - - - | 2.0 | - - - | 1.1 | 10.0 | 3.7 | 12.5 | 7.8 | - - - | -0.2 | 1.4 |
| **1-Year** | 3.4 | 9.8 | 0.7 | 4.1 | -0.1 | - - - | 2.4 | - - - | 1.3 | 10.0 | - - - | 12.9 | 8.2 | - - - | -0.1 | 1.8 |

## LOCAL DEBT MARKETS, MARCH 20TH 2017

| | Albania | Brazil | Bulgaria | China | Cyprus | Egypt | FYROM | India | Romania | Russia | Serbia | Turkey | S. Africa | Ukraine | EU | US |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **3-Month** | - - - | - - - | - - - | - - - | - - - | 19.4 | - - - | 5.9 | - - - | 10.0 | 3.4 | 11.1 | - - - | - - - | -1.0 | 0.7 |
| **6-Month** | 1.7 | - - - | - - - | - - - | - - - | 19.4 | - - - | 6.0 | 0.6 | 9.9 | 3.5 | 11.0 | - - - | - - - | -0.9 | 0.9 |
| **12-Month** | 2.5 | - - - | 0.2 | 2.9 | - - - | 19.2 | 1.8 | 6.3 | 1.1 | 9.2 | 4.0 | 11.3 | - - - | 15.0 | -0.8 | 1.0 |
| **2-Year** | 3.0 | - - - | - - - | 2.9 | - - - | - - - | 2.1 | 6.5 | 1.6 | 8.3 | - - - | 11.4 | 7.4 | - - - | -0.8 | 1.3 |
| **3-Year** | - - - | - - - | 0.5 | 3.0 | 0.9 | - - - | - - - | 6.7 | 1.7 | 8.3 | - - - | 11.1 | 7.5 | 15.5 | -0.7 | 1.6 |
| **5-Year** | - - - | 10.0 | - - - | 3.0 | - - - | 17.2 | - - - | 7.1 | 3.0 | 8.1 | 5.6 | 11.1 | 7.6 | - - - | -0.3 | 2.0 |
| **7-Year** | - - - | - - - | 1.1 | - - - | 3.1 | 17.2 | - - - | 7.1 | 3.6 | 8.0 | - - - | - - - | - - - | - - - | -0.1 | 2.3 |
| **10-Year** | - - - | 10.3 | 1.9 | 3.3 | 3.4 | 17.2 | - - - | 6.9 | 4.1 | 8.0 | - - - | 10.7 | 8.5 | - - - | 0.4 | 2.5 |
| **15-Year** | - - - | - - - | - - - | - - - | - - - | - - - | 3.8 | 7.6 | - - - | 8.2 | - - - | - - - | 8.9 | - - - | 0.6 | - - - |
| **25-Year** | - - - | - - - | - - - | - - - | - - - | - - - | - - - | - - - | - - - | - - - | - - - | - - - | 9.2 | - - - | - - - | - - - |
| **30-Year** | - - - | - - - | - - - | - - - | - - - | - - - | - - - | 7.5 | - - - | - - - | - - - | - - - | 9.2 | - - - | 1.2 | 3.1 |

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

## CORPORATE BONDS SUMMARY, MARCH 20TH 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 | 2.1 | 286 | 233 |
| | **Bulgarian Telecom. 6.625% '18** | EUR | B-/B1 | 15/11/2018 | 400 | 4.1 | 500 | 428 |
| **Cyprus** | **Aroundtown Property 3% '21** | EUR | NA/NA | 9/12/2021 | 200 | 2.2 | 266 | 205 |
| **Russia** | **Gazprom 8.2% '19** | RUB | BB+/NA | 9/4/2019 | 10,000 | 9.8 | 61 | - - - |
| | **Gazprom 8.9% '21** | RUB | BB+/NA | 26/1/2021 | 10,000 | 9.7 | 46 | - - - |
| **South Africa** | **FirstRand Bank Ltd 4.25% '20** | USD | BBB-/Baa2 | 30/4/2020 | 500 | 3.4 | 184 | 157 |
| | **FirstRand Bank Ltd 2.25% '20** | EUR | NA/NA | 30/1/2020 | 100 | 0.5 | 113 | 47 |
| **Turkey** | **Vakiflar Bankasi 3.5% '19** | EUR | NA/Baa3 | 17/6/2019 | 500 | 2.9 | 367 | 293 |
| | **Garanti Bankasi 3.38%'19** | EUR | NA/Baa3 | 8/7/2019 | 500 | 2.2 | 296 | 224 |
| | **Arcelik AS 3.875% '21** | EUR | BB+/NA | 16/9/2021 | 350 | 2.9 | 338 | 273 |
| | **Turkiye Is Bankasi 6% '22** | USD | NA/Ba3 | 24/10/2022 | 1,000 | 6.1 | 415 | 391 |

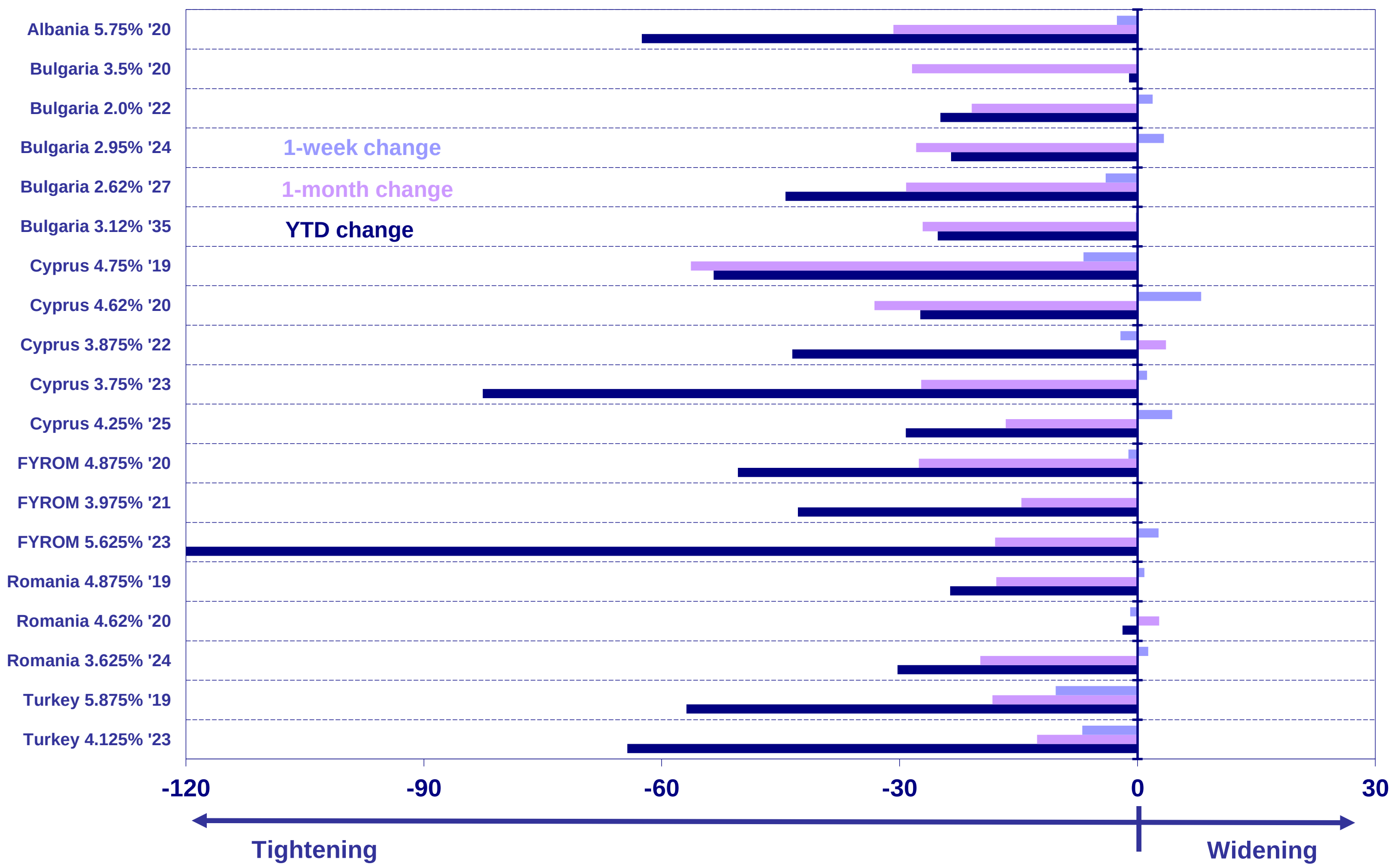
## CREDIT DEFAULT SWAP SPREADS, MARCH 20TH 2017

| | Albania | Brazil | Bulgaria | China | Cyprus | Egypt | FYROM | India | Romania | Russia | Serbia | Turkey | S. Africa | Ukraine |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **5-Year** | - - - | 229 | 115 | 87 | 225 | 299 | - - - | 136 | 104 | 170 | 206 | 233 | 193 | - - - |
| **10-Year** | - - - | 308 | 160 | 137 | 248 | 321 | - - - | 144 | 143 | 244 | 245 | 313 | 261 | - - - |

## EUR-Denominated Sovereign Eurobond Summary, March 20th 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 | 2.7 | 316 | 271 |
| **Bulgaria 3.5% '20** | EUR | NA/NA | 16/1/2020 | 145 | 0.6 | 121 | 57 |
| **Bulgaria 2.0% '22** | EUR | BB+/Baa2 | 26/3/2022 | 1,250 | 0.9 | 120 | 62 |
| **Bulgaria 2.95% '24** | EUR | BB+/Baa2 | 3/9/2024 | 1,493 | 1.6 | 147 | 105 |
| **Bulgaria 2.62% '27** | EUR | BB+/Baa2 | 26/3/2027 | 1,000 | 2.1 | 164 | 124 |
| **Bulgaria 3.12% '35** | EUR | BB+/Baa2 | 26/3/2035 | 900 | 3.1 | 222 | 177 |
| **Cyprus 4.75% '19** | EUR | BB/NA | 25/6/2019 | 566 | 0.9 | 170 | 103 |
| **Cyprus 4.62% '20** | EUR | BB/B1 | 3/2/2020 | 770 | 1.7 | 241 | 181 |
| **Cyprus 3.875% '22** | EUR | NA/B1 | 6/5/2022 | 1,000 | 3.1 | 340 | 282 |
| **Cyprus 3.75% '23** | EUR | NA/B1 | 26/7/2023 | 1,000 | 3.1 | 329 | 269 |
| **Cyprus 4.25% '25** | EUR | NA/B1 | 4/11/2025 | 1,000 | 3.4 | 314 | 276 |
| **FYROM 4.875% '20** | EUR | BB-/NA | 1/12/2020 | 270 | 3.1 | 362 | 310 |
| **FYROM 3.975% '21** | EUR | BB-/NA | 24/7/2021 | 500 | 3.6 | 409 | 445 |
| **FYROM 5.625% '23** | EUR | BB-/NA | 26/7/2023 | 450 | 4.6 | 484 | 427 |
| **Romania 4.875% '19** | EUR | BBB-/Baa3 | 7/11/2019 | 1,500 | 0.3 | 93 | 31 |
| **Romania 4.62% '20** | EUR | BBB-/Baa3 | 18/9/2020 | 2,000 | 0.4 | 101 | 31 |
| **Romania 3.625% '24** | EUR | BBB-/Baa3 | 24/4/2024 | 1,250 | 1.8 | 182 | 131 |
| **Turkey 5.875% '19** | EUR | NR/Ba1 | 11/4/2023 | 1,250 | 1.1 | 190 | 129 |
| **Turkey 4.125% '23** | EUR | NR/Ba1 | 12/11/2020 | 1,000 | 3.1 | 331 | 275 |

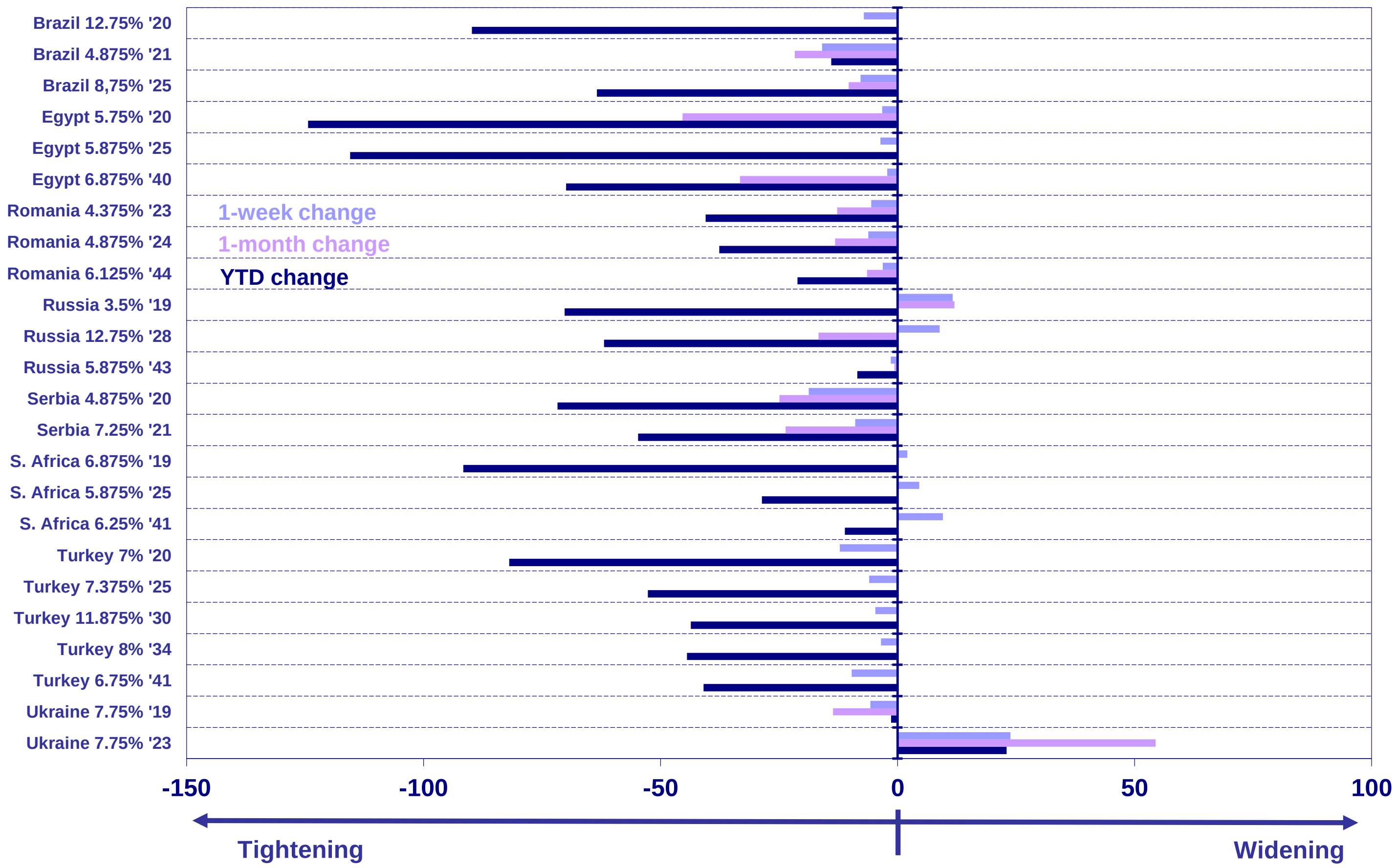
### EUR-Denominated Eurobond Spreads (March 20th 2017)



## USD-DENOMINATED SOVEREIGN EUROBOND SUMMARY, MARCH 20TH 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 | 2.9 | 129 | 124 |
| Brazil 4.875% '21 | USD | BB/Ba2 | 22/1/2021 | 2,988 | 3.6 | 198 | 162 |
| Brazil 8.75% '25 | USD | BB/Ba2 | 4/2/2025 | 969 | 4.7 | 243 | 274 |
| Egypt 5.75% '20 | USD | B-/B3 | 11/6/2025 | 1,000 | 4.4 | 286 | 260 |
| Egypt 5.875% '25 | USD | B-/B3 | 30/4/2040 | 1,500 | 6.1 | 385 | 369 |
| Egypt 6.875% '40 | USD | B-/B3 | 22/8/2023 | 500 | 7.4 | 434 | 445 |
| Romania 4.375% '23 | USD | BBB-/Baa3 | 22/1/2024 | 1,500 | 3.6 | 129 | 137 |
| Romania 4.875% '24 | USD | BBB-/Baa3 | 22/1/2044 | 1,000 | 3.6 | 132 | 139 |
| Romania 6.125% '44 | USD | BBB-/Baa3 | 16/1/2019 | 1,000 | 4.8 | 172 | 235 |
| Russia 3.5% '19 | USD | BB+/Ba1 | 24/6/2028 | 1,500 | 2.0 | 71 | 41 |
| Russia 12.75% '28 | USD | BB+/Ba1 | 16/9/2043 | 2,500 | 4.3 | 179 | 259 |
| Russia 5.875% '43 | USD | BB+/Ba1 | 25/2/2020 | 1,500 | 5.1 | 198 | 251 |
| Serbia 4.875% '20 | USD | BB-/B1 | 28/9/2021 | 1,500 | 3.7 | 208 | 185 |
| Serbia 7.25% '21 | USD | BB-/B1 | 27/5/2019 | 2,000 | 4.0 | 202 | 209 |
| S. Africa 6.875% '19 | USD | BBB-/Baa2 | 16/9/2025 | 1,748 | 2.5 | 118 | 84 |
| S. Africa 5.875% '25 | USD | BBB-/Baa2 | 8/3/2041 | 2,000 | 4.7 | 220 | 240 |
| S. Africa 6.25% '41 | USD | BBB-/Baa2 | 5/6/2020 | 750 | 5.4 | 236 | 291 |
| Turkey 7% '20 | USD | NR/Ba1 | 5/2/2025 | 2,000 | 4.0 | 238 | 217 |
| Turkey 7.375% '25 | USD | NR/Ba1 | 15/1/2030 | 3,250 | 5.4 | 310 | 324 |
| Turkey 11.875% '30 | USD | NR/Ba1 | 14/2/2034 | 1,500 | 5.9 | 338 | 438 |
| Turkey 8% '34 | USD | NR/Ba1 | 14/1/2041 | 1,500 | 6.2 | 374 | 394 |
| Turkey 6.75% '41 | USD | NR/Ba1 | 1/9/2019 | 3,000 | 6.3 | 316 | 342 |
| Ukraine 7.75% '19 | USD | B-/Caa3 | 1/9/2023 | 1,744 | 7.3 | 604 | 553 |
| Ukraine 7.75% '23 | USD | B-/Caa3 | 15/1/2020 | 1,355 | 9.0 | 670 | 639 |

### USD-Denominated Eurobond Spreads (March 20th 2017)



## STOCK MARKETS PERFORMANCE, MARCH 20TH 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)** | 64,884 | -1.0 | -4.2 | 7.7 | 26.8 | 59,371 | 69,488 | 11.5 | 38.9 | 76.2 | -13.3 | -35.3 |
| **Bulgaria (SOFIX)** | 637 | 2.8 | 6.6 | 8.6 | 42.3 | 583 | 637 | 8.6 | 27.2 | 27.2 | -11.7 | -11.7 |
| **China (SHCOMP)** | 3,251 | 0.4 | 1.5 | 4.7 | 7.7 | 3,044 | 3,274 | 3.1 | -12.3 | -15.3 | 9.4 | 16.5 |
| **Cyprus (CSE GI)** | 67 | 0.3 | 0.6 | 0.9 | -1.8 | 65 | 71 | 0.9 | -2.0 | -2.0 | -20.9 | -20.9 |
| **Egypt (HERMES)** | 1,169 | 1.2 | 3.2 | 7.4 | 74.5 | 1,071 | 1,183 | 3.4 | 72.7 | -21.8 | -24.4 | -22.8 |
| **F.Y.R.O.M (MBI)** | 2,277 | 1.5 | -0.7 | 6.7 | 27.1 | 2,135 | 2,316 | 6.7 | 16.5 | 16.5 | -0.6 | -0.6 |
| **India (SENSEX)** | 29,519 | 2.0 | 3.7 | 10.9 | 16.7 | 24,523 | 29,825 | 12.9 | 1.9 | 2.6 | -5.0 | 0.7 |
| **Romania (BET-BK)** | 1,498 | 1.0 | 2.2 | 11.5 | 18.2 | 1,365 | 1,499 | 10.9 | 0.2 | 0.0 | 2.6 | 1.6 |
| **Russia (RTS)** | 4,434 | 2.5 | -6.6 | -9.9 | 3.7 | 4,243 | 5,089 | -5.7 | 24.2 | 54.3 | 30.3 | 9.5 |
| **Serbia (BELEX-15)** | 746 | 0.7 | 5.1 | 4.0 | 22.8 | 694 | 753 | 3.6 | 11.4 | 9.7 | -3.4 | -3.5 |
| **South Africa (FTSE/JSE)** | 52,754 | 1.7 | 1.0 | 4.1 | -2.0 | 50,338 | 53,738 | 10.8 | -0.1 | 16.1 | 1.9 | -15.1 |
| **Turkey (ISE 100)** | 90,902 | 1.6 | 2.3 | 16.3 | 9.0 | 75,657 | 91,438 | 11.2 | 8.9 | -7.0 | -16.3 | -25.4 |
| **Ukraine (PFTS)** | 274 | -0.1 | 0.4 | 3.3 | 10.0 | 265 | 276 | 1.6 | 10.2 | 1.0 | -37.8 | -54.8 |
| **MSCI EMF** | 972 | 3.6 | 3.5 | 12.8 | 17.3 | 858 | 968 | 10.4 | 8.6 | 12.2 | -17.0 | -6.9 |
| **MSCI EAFE** | 1,799 | 1.5 | 2.5 | 6.8 | 8.8 | 1,677 | 1,799 | 4.6 | -1.9 | 1.4 | -3.3 | 7.7 |
| **Greece (ASE-General)** | 644 | -1.1 | 0.7 | 0.1 | 18.9 | 602 | 670 | 0.1 | 1.9 | 1.9 | -23.6 | -23.6 |
| **Germany (XETRA DAX)** | 12,053 | 0.5 | 2.5 | 5.0 | 21.2 | 11,415 | 12,156 | 5.0 | 6.9 | 6.9 | 4.9 | 4.9 |
| **UK (FTSE-100)** | 7,430 | 0.9 | 1.8 | 4.0 | 20.1 | 7,094 | 7,447 | 2.0 | 14.4 | -1.0 | -4.9 | 0.1 |
| **USA (DJ INDUSTRIALS)** | 20,906 | 0.1 | 1.4 | 5.8 | 18.6 | 16,166 | 21,169 | 3.6 | 13.4 | 16.7 | -2.2 | 9.3 |
| **USA (S&P 500)** | 2,373 | 0.0 | 0.9 | 6.0 | 15.7 | 2,245 | 2,401 | 3.8 | 9.5 | 13.2 | -0.7 | 10.6 |

### Equity Indices (March 20th 2017)