South Eastern Europe and Mediterranean Emerging Market Economies

Weekly Report

12 – 18 July 2016

NBG - Economic Analysis Division

Paul Mylonas, ***NBG Group Chief Economist***
☎ : +30 210 33 41 521
✉ : pmylonas@nbg.gr

Emerging Markets Research

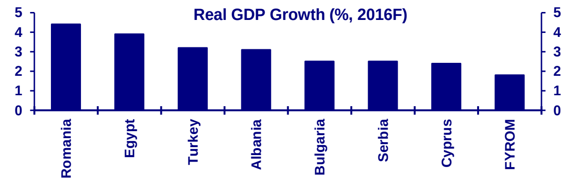
Head: **Michael Loufir**
☎ : +30 210 33 41 211
✉ : mloufir@nbg.gr

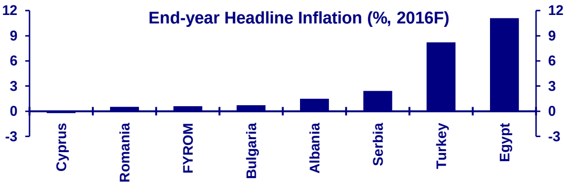
Analysts:

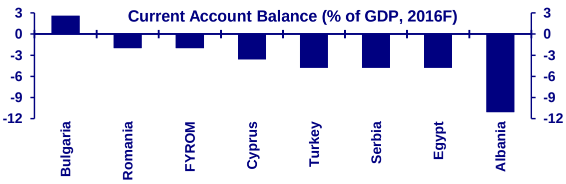
Evlabia Fetsi
☎ : +30 210 33 41 667
✉ : efetsi@nbg.gr

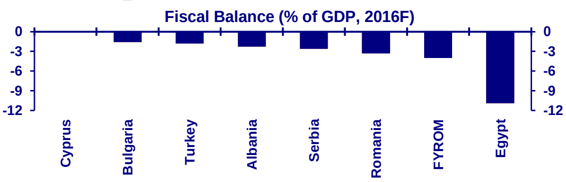
Konstantinos Romanos-Louizos
☎ : +30 210 33 41 225
✉ : romanos.louizos.k@nbg.gr

Louiza Troupi
☎ : +30 210 33 41 696
✉ : troupi.louiza@nbg.gr





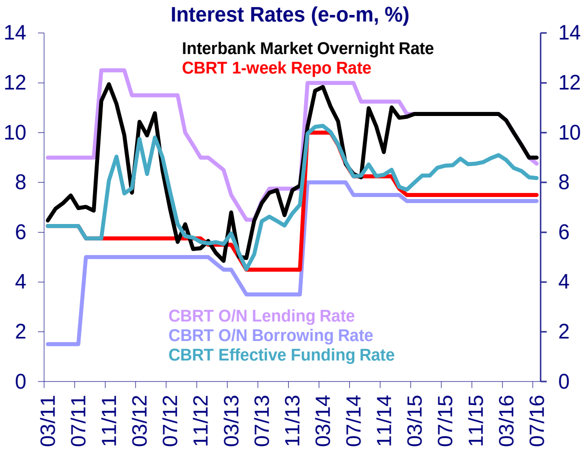


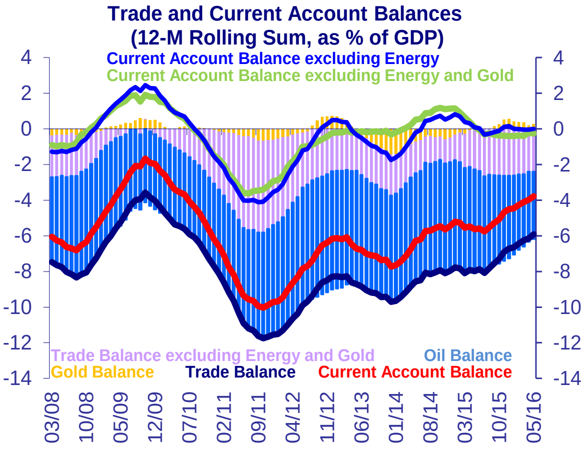


Turkey

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

Key Indicators Forecasts				
	Pre-Coup Attempt		Post-Coup Attempt	
	2016F	2017F	2016F	2017F
Real GDP Growth (%)	3.6	3.8	3.2	3.0
Inflation (%)	7.8	7.0	8.2	7.5
Fiscal Balance (% GDP)	-1.3	-1.0	-1.8	-2.0
Current Account Balance (% GDP)	-4.4	-4.8	-4.8	-5.2





	18 July	3-M F	6-M F	12-M F
1-m TRIBOR (%)	9.6	10.5	10.2	9.8
TRY/EUR	3.30	3.36	3.32	3.30
Sov. Spread (2019, bps)	230	240	220	200

	18 July	1-W %	YTD %	2-Y %
ISE 100	76,658	-2.9	5.1	-6.5

	2013	2014	2015	2016F	2017F
Real GDP Growth (%)	4.2	3.0	4.0	3.2	3.0
Inflation (eop, %)	7.4	8.2	8.8	8.2	7.5
Cur. Acct. Bal. (% GDP)	-7.7	-5.5	-4.5	-4.8	-5.2
Fiscal Bal. (% GDP)	-1.2	-1.3	-1.2	-1.8	-2.0

A 3-month state of emergency was declared following a failed military coup on July 15th. An attempted coup by a group within the military collapsed quickly after it began on July 15th. The lack of support for the coup is reflected in the response to President Erdogan urging the people to "take to the streets" to defend democracy.

The failed coup could have serious political and economic implications. Indeed, Erdogan declared a state of emergency for 3 months, under which he will chair the cabinet and can largely rule by decree. Moreover, more than 50,000 people, believed to be linked to the coup attempt, have been fired or suspended, raising concerns over the country's institutional capacity. President Erdogan could now be tempted to call for snap elections to capitalize on his popularity and gain the two thirds parliamentary majority necessary to directly change the constitution and therefore to shift from a parliamentary to a presidential system. These developments are widely expected to lead to a re-pricing of Turkey risk and a significant deterioration in investor confidence. Indeed, in the four days following the failed coup, the TRY depreciated by 6.3% against the USD, the 5-year CDS spread widened by 56 bps, and the equity market lost 13.6% of its value. Note that S&P have already downgraded the country's sovereign rating by one notch to BB (two notches below investment grade) with a negative outlook.

The coup attempt could have a meaningful impact on Turkey's macroeconomic performance (see Table). Economic growth and the country's external position could be hurt by a further weakening of the already ailing tourism industry and declining capital inflows (down from 3.8% to 3.0% in 2017). Inflation could turn higher than expected, due to a significant weakening of the domestic currency (by about ½ pp to 7.5% at end 2017). The fiscal deficit, currently around 1.0% of GDP, could widen, to contain the slowdown in economic activity, as there would be no room for monetary policy easing (by around 1 pp of GDP).

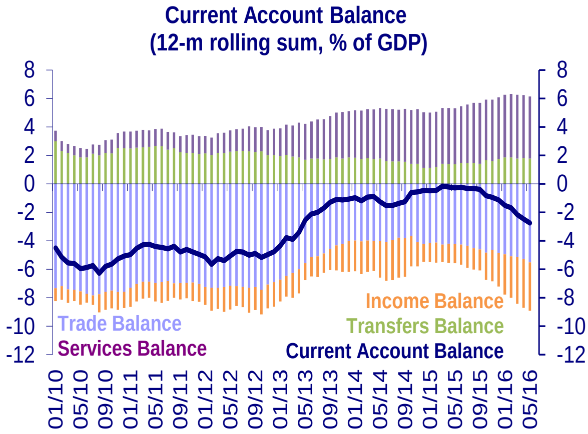
The CBRT cut its overnight lending rate further, by 25 bps, to 8.75%. The CBRT cut the upper bound of the interest rate corridor (the overnight lending rate) by 25 bps to 8.75%, following four cuts in the previous four months totaling 175 bps. Moreover, the central policy rate (1-week repo rate) as well as the lower bound of the interest rate corridor (the overnight borrowing rate) were maintained unchanged for a 17th consecutive month, at 7.5% and 7.25%, respectively, thus continuing to implement a policy of gradually converging to one policy rate, within a narrow band. Going forward, in view of the CBRT easing bias and continued improvement in core inflation, and barring any notable increase in market volatility, we expect the CBRT to proceed with a final cut of the overnight lending rate by 25 bps to 8.5%, before unifying policy rates at c. 8.0%.

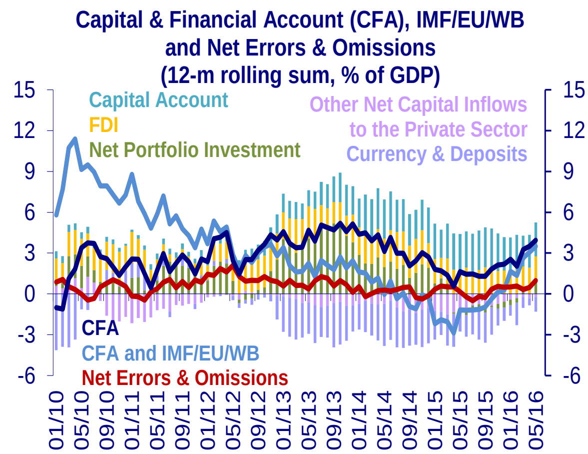
External rebalancing continued in 5M:16, with the 12-month rolling deficit at 3.8% of GDP, mainly on the back of a favourable energy bill. The current account deficit (CAD) narrowed by 0.7 pps y-o-y to 1.9% of GDP in 5M:16. Specifically, a significant adjustment in the energy balance (by 0.9 pps of GDP y-o-y), in line with global oil price developments, combined with a slightly improved underlying current account balance (excluding energy and gold, by 0.1 pp of GDP y-o-y) more than offset a deterioration in the gold balance (by 0.3 pps of GDP y-o-y), reflecting a base effect from a spike in gold exports in 5M:15.

On the financing side, the capital and financial account (CFA) balance improved significantly, by 1.5 pps y-o-y to a surplus of 2.2% of GDP in 5M:16, supported by strengthening global risk appetite in the second half of February. With the CFA surplus more than covering the CAD and positive (net) errors and omissions (0.4% of GDP), the overall balance turned positive in 5M:16 (USD 4.8bn or 0.7% of GDP against -0.5% in 5M:15).

Romania

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





Romania's Economic Relations with the UK and EU				
FY:15		Level	% of GDP	% of Total
Exports (EUR mn)	UK	2,380	1.4	4.4
	EU excl. UK	37,852	22.9	69.3
Remittances (USD mn)	UK	97	0.1	3.0
	EU excl. UK	2,639	1.5	82.3
Tourism Arrivals ('000)	UK	122	- - -	1.3
	EU excl. UK	5,224	- - -	56.0
FDI Stock (EUR mn, FY:14 data)	UK	1,509	1.0	2.5
	EU excl. UK	52,748	35.1	87.6
Foreign Bank Claims (USD mn)	UK	25	0.0	0.0
	EU excl. UK	73,985	41.6	96.3

	18 July	3-M F	6-M F	12-M F
1-m ROBOR (%)	0.6	0.9	1.2	1.5
RON/EUR	4.47	4.48	4.49	4.50
Sov. Spread (2024, bps)	224	210	180	150

	18 July	1-W %	YTD %	2-Y %
BET-BK	1,233	1.9	-8.1	-0.2

	2013	2014	2015	2016F	2017F
Real GDP Growth (%)	3.5	3.0	3.8	4.4	3.1
Inflation (eop, %)	1.6	0.8	-0.9	0.5	2.0
Cur. Acct. Bal. (% GDP)	-1.1	-0.5	-1.1	-2.0	-2.8
Fiscal Bal. (% GDP)	-2.5	-1.7	-1.5	-3.3	-2.5

The current account deficit (CAD) rose to 2.7% of GDP on a 12-month rolling basis in May from 1.1% at end-2015, mainly due to higher income outflows (albeit subsequently reinvested). The current account turned to a deficit of 1.6% of GDP in 5M:16 from a balanced position in 5M:15. The main factor was the income deficit, which widened in 5M:16 (by 1.0 pp y-o-y to 1.8% of GDP), due to base effects from deferred EU subsidies and, to a lesser extent, higher profit outflows, which were, however, largely reinvested in the country. Moreover, the trade deficit widened in 5M:16 (by 0.7 pps y-o-y to 2.1% of GDP), in line with stronger private consumption, on the back of large tax cuts and a looser incomes policy.

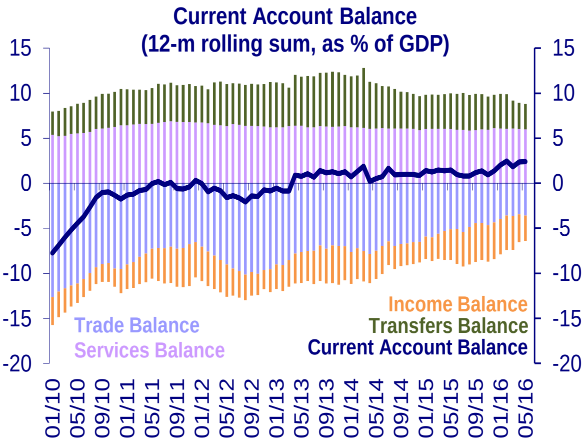
Eurobond proceeds push up FX reserves in 5M:16. Net portfolio investment inflows accelerated in 5M:16 (to 0.5% of GDP from outflows of 0.9% in 5M:15), but this was mostly due to base effects (net sovereign eurobond proceeds amounted to 0.4% GDP in 5M:16 against net debt repayments of 0.6% in 5M:15). On the other hand, capital outflows from the banking system continued in 5M:16 (reaching 1.1% of GDP, unchanged compared with 5M:15), while net loan repayments by the non-financial private sector remained broadly unchanged compared with 5M:15 (at 0.6% of GDP). Importantly, net FDI inflows remained stable compared with the same period in the previous year (at 0.6% of GDP in 5M:16), but their structure has changed, with higher reinvested earnings and equity investments compensating for the drop in intercompany lending. As a result, the overall balance improved (by 0.7 pps y-o-y) to a surplus of 0.2% of GDP in 5M:16, with FX reserves rising to EUR 32.7bn in May from EUR 32.2bn at end-2015.

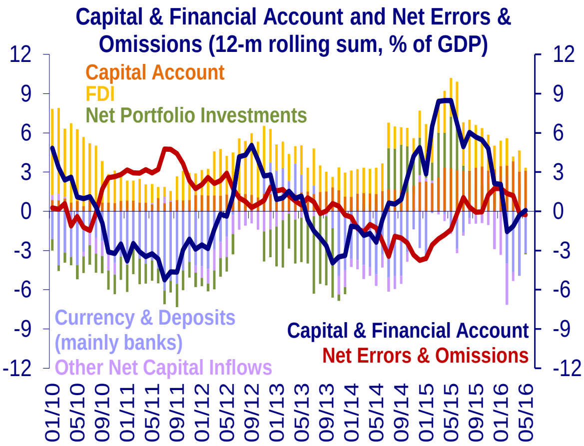
The 12-month rolling CAD is set to narrow to 2.0% of GDP by end-2016, due to a sharp improvement in the income balance. Looking ahead, despite the deterioration in the trade deficit during the rest of the year, we expect the 12-month rolling CAD to narrow to 2.0% by end-year from 2.7% currently (May), due to the improvement in the income balance, reflecting strong base effects. Pressures on the trade deficit should increase, in view of a further build-up in domestic demand, on the back of a sizeable fiscal stimulus (up 0.8 pps of GDP y-o-y in 6-12M:16). Importantly, the direct impact of Brexit on Romania's external accounts should be marginal, in view of the limited economic relations between the UK and Romania (see Table). However, indirect effects from weakening growth in the EU, Romania's main trading and financing partner, due to spillovers from the expected sharp economic slowdown in the UK, could be significant, especially next year. Overall, Brexit is expected to add 0.1 pp and 0.4 pps of GDP, respectively, to Romania's CAD in FY:16 and FY:17 (the negative impact on real GDP growth is estimated at 0.1 pp and 0.3 pps, respectively, in FY:16 and FY:17).

With virtually no debt repayments to IFIs in FY:16 (against 1.9% in FY:15), filling the external financing gap should not be a problem. Note that the direct impact of Brexit on Romania's external financial position should be negligible, in view of the small stock of FDI held by UK companies and the minimal exposure of UK banks to the country. Nevertheless, heightened global uncertainty following the Brexit vote has increased short-term external financing risks. According to our baseline scenario, projecting that: i) net FDI inflows remain broadly unchanged compared with FY:15 (at 1.9% of GDP); ii) the rollover of maturing sovereign external debt (1.9% of GDP) contains net portfolio investments to zero for a 2nd consecutive year in FY:16; and iii) the maturing private external debt rollover rate declines slightly (to 90% in FY:16 from 95% in FY:15), we see FX reserves falling by EUR 0.5bn to a still comfortable level of EUR 31.7bn at end-2016 (5 months of GNFS imports and 170% of short-term external debt, excluding trade credits).

Bulgaria

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





Bulgaria's Economic Relation with the UK and EU				
FY:15		Level	% of GDP	% of Total
Exports (EUR mn)	UK	587	1.3	2.5
	EU excl. UK	14,272	32.3	61.4
Remittances (USD mn)	UK	62	0.1	4.3
	EU excl. UK	528	1.1	36.6
Tourism Arrivals ('000)	UK	250	- - -	2.7
	EU excl. UK	4,993	- - -	53.6
FDI Stock (EUR mn)	UK	2,341	5.3	6.2
	EU excl. UK	26,414	59.8	70.2
Foreign Bank Claims (USD mn)	UK	7	0.0	0.0
	EU excl. UK	28,957	59.1	97.6

	18 July	3-M F	6-M F	12-M F
1-m SOFIBOR (%)	0.0	0.1	0.1	0.1
BGN/EUR	1.96	1.96	1.96	1.96
Sov. Spread (2017, bps)	193	180	160	130

	18 July	1-W %	YTD %	2-Y %
SOFIX	451	-0.1	-2.2	-16.5

	2013	2014	2015	2016F	2017F
Real GDP Growth (%)	1.3	1.5	3.0	2.5	2.2
Inflation (eop, %)	-1.6	-0.9	-0.4	0.7	1.4
Cur. Acct. Bal. (% GDP)	1.3	0.9	1.4	2.6	1.5
Fiscal Bal. (% GDP)	-1.8	-3.7	-2.9	-1.6	-1.2

A better trade performance and lower income outflows push up the current account surplus (CAS) to 2.4% of GDP on a 12-month rolling basis in May from 1.4% at end-2015. The current account balance turned to a surplus of 0.6% of GDP in 5M:16 from a deficit of 0.4% in 5M:15. Specifically, the trade deficit narrowed in 5M:16 (by 0.8 pps y-o-y to 1.1% of GDP), reflecting favourable oil prices (the energy trade deficit was down by an estimated 0.5 pps of GDP y-o-y in 5M:16) and gains in competitiveness (see below). Moreover, following its sharp widening in FY:15, the income deficit narrowed in 5M:16 (by 1.3 pps y-o-y to 0.6% of GDP), on the back of lower profit outflows. These developments were partly offset, however, by (temporarily) lower transfers from the EU (down 0.9 pps y-o-y to 1.5% of GDP in 5M:16).

Sovereign eurobond proceeds keep the capital and financial account "in the black" in 5M:16, despite tighter external financing conditions for the private sector. Continued sovereign debt issuance in global capital markets kept portfolio investments high in 5M:16 (at 2.4% of GDP against 3.8% in 5M:15, with net Eurobond proceeds amounting to 4.4% of GDP in 5M:16 and 4.8% of GDP in 5M:15). Nevertheless, the outlook for the private sector was less favourable. Indeed, capital outflows from the banking system resumed in 5M:16 (reaching 3.7% of GDP against inflows of 0.2% in 5M:15), due to the placement of deposits abroad, and net FDI inflows fell (to 1.1% of GDP in 5M:16 from 1.8% in 5M:15), on the back of lower intercompany lending. All said, the overall balance deteriorated (by 3.1 pps y-o-y in 5M:16), but remained in surplus (2.9% of GDP), with FX reserves rising to EUR 20.3bn in May from EUR 19.0bn at end-2015.

Bulgaria to remain the best performer in the region in FY:16, with the CAS strengthening to 2.6% of GDP. For the remainder of the year, we expect lower profit outflows and the recovery in tourism activity to support the CAS. At the same time, assuming broadly flat global oil prices (against a decline of 33.1% in 5M:16), and thus no help from the energy bill, we expect the trade deficit to continue to decline, albeit at a slower pace, reflecting improved productivity (real GDP per employee is up 7% since end-2011, with the BGN remaining stable in real terms during the same period).

Importantly, the direct impact of Brexit on Bulgaria's external account should be marginal, in view of the country's limited economic relations with the UK (see Table). However, indirect effects from weaker growth in the EU, Bulgaria's main trade partner, on the back of the expected sharp economic slowdown in the UK, could be more significant, especially next year. Overall, we expect Brexit to subtract 0.2 pps and 0.6 pps of GDP, respectively, from Bulgaria's CAS in FY:16 and FY:17 (the negative impact on real GDP growth is estimated at 0.1 pp and 0.4 pps, respectively, in FY:16 and FY:17).

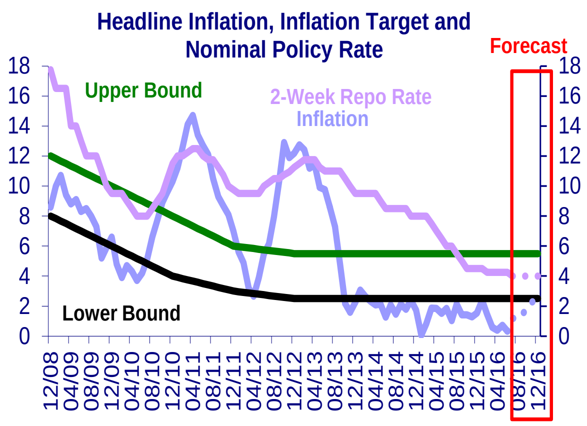
Filling the external financing gap should not be an issue, in view of lower external debt payments (23% of GDP in FY:16 against 33% in FY:15). Note that the direct impact of Brexit on Bulgaria's international investment position should be insignificant, as UK banks have no exposure to the country, while the stock of FDI held by UK investors is relatively small. However, heightened global uncertainty in the wake of Brexit has dented investor sentiment. All said, projecting that: i) FDI inflows moderate in FY:16 (to 2.8% of GDP from 3.4% in FY:15); ii) portfolio investment rises (to 2.0% of GDP from 1.3% in FY:15); and iii) the maturing debt rollover rate returns to normal levels (90% against 105% in FY:15), we see FX reserves rising by EUR 2.8bn to EUR 21.8bn at end-2016 (11 months of GNFS imports and 300% of short-term external debt, excluding trade credits).

Serbia

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

Consolidated Fiscal Balance (% of GDP)	2015	5M:15	5M:16	2016 Budget	2016F NBG*
Revenue	42.7	16.6	17.3	41.3	42.8
Tax Revenue	36.8	14.2	14.9	36.6	37.8
PIT	3.7	1.4	1.4	3.6	3.7
CIT	1.6	0.6	0.6	1.6	1.5
VAT	10.5	4.2	4.5	10.3	10.9
Excises	5.9	2.0	2.4	6.1	6.4
Customs	0.8	0.3	0.3	0.8	0.9
Other taxes	1.6	0.6	0.7	1.6	1.6
Soc. Contrib.	12.7	5.0	5.0	12.5	12.6
Non-Tax Rev.	5.6	2.3	2.3	4.5	4.7
Grants	0.2	0.0	0.1	0.3	0.3
Expenditure	46.4	17.3	17.8	45.2	45.3
Current Exp.	42.7	16.3	16.5	41.6	41.4
Personnel	10.6	4.2	4.0	10.4	10.3
Goods & Services	6.5	2.2	2.5	6.4	6.5
Subsidies	3.4	0.8	0.8	2.7	2.7
Social Assist.	17.9	7.1	7.0	17.4	16.9
o/w Pensions	12.3	5.1	4.9	12.3	12.0
Other	1.1	0.4	0.5	1.2	1.5
Int. Payments	3.3	1.5	1.6	3.5	3.5
Capital Exp.	2.9	0.6	1.0	2.8	3.0
Activated Guarant.	0.8	0.3	0.3	0.8	0.8
Net Lending	0.1	0.0	0.0	0.1	0.1
Fiscal Balance	-3.8	-0.7	-0.6	-4.0	-2.6
Primary Balance	-0.5	0.8	1.0	-0.5	0.9
Fiscal Bal. excl. once-off	-3.0	-0.7	-0.2	-4.0	-2.6

* not including the possible (unbudgeted) once-off loan repayment of the state-owned petrochemical producer, Petrohemija, to the oil-supplier, NIS (c. 0.3 pps of GDP)



	18 July	3-M F	6-M F	12-M F
1-m BELIBOR (%)	3.3	3.2	3.4	3.8
RSD/EUR	123.0	123.2	124.0	125.0
Sov. Spread (2021, bps)	274	250	220	180

	18 July	1-W %	YTD %	2-Y %
BELEX-15	611	1.1	-3.2	4.7

	2013	2014	2015	2016F	2017F
Real GDP Growth (%)	2.6	-1.8	0.7	2.5	2.7
Inflation (eop, %)	2.2	1.7	1.5	2.4	2.8
Cur. Acct. Bal. (% GDP)	-6.1	-6.0	-4.8	-4.8	-5.0
Fiscal Bal. (% GDP)	-5.5	-6.6	-3.8	-2.6	-2.8

The fiscal performance improved slightly in 5M:16, with the 12-month rolling budget deficit narrowing to 3.7% of GDP in May from 3.8% of GDP at end-2015. The consolidated fiscal deficit shrank slightly by 0.1 pp y-o-y to 0.6% of GDP in 5M:16, as a strong rise in revenue (by 0.7 pps of GDP y-o-y) was broadly offset by higher expenditure (up 0.6 pps of GDP y-o-y in 5M:16).

Indeed, overall revenue increased markedly by 8.6% y-o-y in 5M:16, significantly overperforming its FY:16 target (of 1.0%), supported by both stronger tax revenue, due to the improvement in tax collection, and higher non-tax revenue in 5M:16 due to the (unbudgeted) once-off sale of 4G telecommunication frequencies in January (for RSD 12.8bn, or 0.3% of GDP).

On the other hand, expenditure increased by 7.7% y-o-y in 5M:16 -- above the FY:16 target of 3.4%, excluding once-off expenditure in FY:15. The rise in spending in 5M:16 was, however, held back by the continued suspension of the indexation of public sector wages and pensions (started in October 2014). In fact, personnel and pension expenditure declined by 0.4 pps of GDP y-o-y in 5M:16.

The 2016 Budget is set to overperform, by a wide margin, its target of 4.0% of GDP. Looking ahead, we expect fiscal consolidation to pick up during the rest of the year (1.1 pp of GDP y-o-y in 6-12M:16), reflecting a decline in expenditure (by 1.8 pps of GDP y-o-y, in line with the Budget), on the back of: i) a base effect from the once-off expenses that occurred in December 2015 (0.8% of GDP); and ii) the full implementation of the planned expenditure-saving measures (equivalent to 1.0 pp of GDP). These measures consist of: i) the continued suspension of the indexation of public sector wages and pensions (estimated to save 0.4 pps of GDP in FY:16); and ii) lower subsidies (0.3 pps of GDP in FY:16), mainly in agriculture.

On the other hand, revenue is set to decline (by 0.7 pps of GDP y-o-y in 6-12M:16, albeit performing better than the budgeted decline of 2.0 pps), despite the expected continued improvement in tax revenue (set to rise by a further 0.4 pps of GDP y-o-y in 6-12M:16 following a rise of 0.7 pps of GDP in 5M:16). The weaker overall revenue performance in 6-12M:16 should be driven by non-tax revenue, which is set to fall by 0.9 pps of GDP y-o-y in 6-12M:16, following (unusually large) dividends and other (once-off) proceeds from state-owned companies in 2015.

Overall, the fiscal deficit should overperform significantly its target, for a 2nd successive year, reaching 2.6% of GDP this year, well below the budgeted 4.0% and the FY:15 outcome of 3.8%.

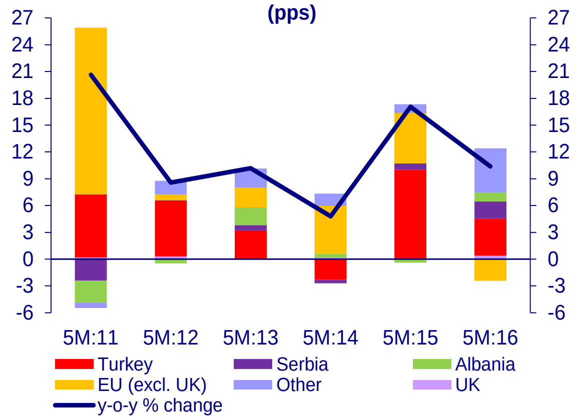
The NBS proceeded with a further rate cut of 25 bps. After a 4-month pause, the NBS cut its 2-week repo rate, by 25 bps, at its July meeting, to a record low 4.0%, despite protracted talks on the formation of a new Government. Scope for the resumption of the loosening was provided by persistently low inflation (at 0.3% y-o-y in June, undershooting the NBS' target of 4±1.5%), the recent resumption of IMF-related reforms, better-than-expected fiscal and real GDP performance, and the recent rating upgrade by Fitch. Going forward, the NBS is set to maintain its policy rate unchanged until end-year, in view of weakening global risk appetite for emerging market assets in the wake of the Brexit vote.

Serbia opens two more Chapters in EU accession negotiations. Chapter 23 on Judiciary and fundamental rights and Chapter 24 on Justice, freedom and security were opened on July 18th, bringing the total of opened Chapters to 4 (out of 35). According to the EU Enlargement Commissioner, J. Hahn, this is a "*well-deserved acknowledgement of Serbia's progress towards the EU*", which should strengthen further the reform momentum and investor confidence.

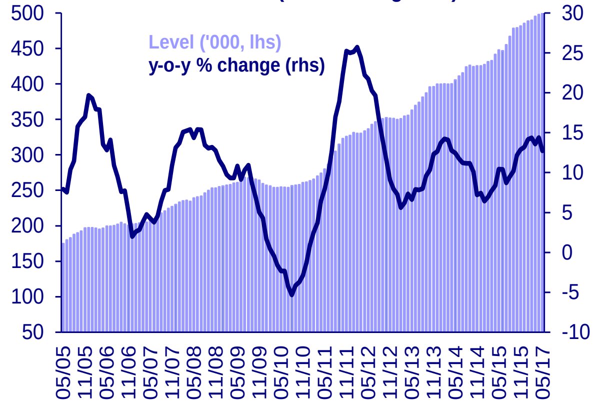
F.Y.R.O.M.

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

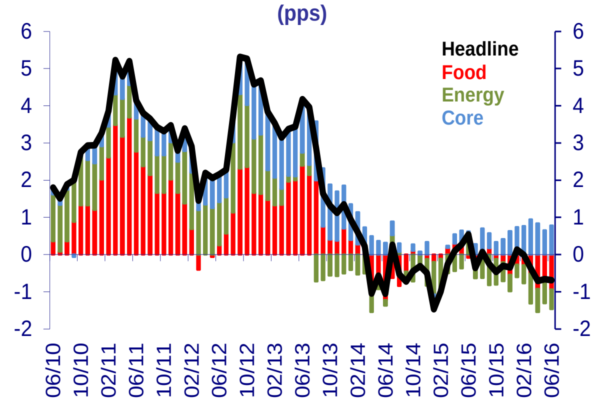
Contribution Rates to Tourist Arrivals Growth (pps)



Tourist Arrivals (12-M Rolling Sum)



Contribution to Annual Headline CPI Inflation (pps)



	18 July	3-M F	6-M F	12-M F
1-m SKIBOR (%)	1.8	1.8	1.8	1.8
MKD/EUR	61.3	61.3	61.3	61.3
Sov. Spread (2021. bps)	554	525	450	350

	18 July	1-W %	YTD %	2-Y %
MBI 100	1,797	0.2	-2.0	12.5

	2013	2014	2015	2016F	2017F
Real GDP Growth (%)	2.7	3.5	3.7	1.8	3.2
Inflation (eop. %)	1.4	-0.5	-0.3	0.6	1.3
Cur. Acct. Bal. (% GDP)	-1.6	-0.8	-1.4	-2.0	-2.5
Fiscal Bal. (% GDP)	-3.8	-4.2	-3.5	-4.0	-3.4

Tourist arrivals rose by 10.4% y-o-y to an all-time high of 172.2k in 5M:16. Tourist arrivals increased by 10.4% y-o-y to a record high 172.2k in the first five months of the year, following a rise of 14.2% in FY:15. The strong performance was driven by a sharp increase in arrivals from: i) Turkey – the main source country, accounting for 18.7% of total tourists in FY:15 -- up 21.3% y-o-y in 5M:16; and ii) neighbouring countries Serbia and Albania -- accounting for 9.0% and 3.8%, respectively, of total tourists in FY:15 -- up 23.4% y-o-y and 21.6% in 5M:16. Arrivals from other non-EU countries rose sharply by 30.0% y-o-y in 5M:16 compared with 5.5% y-o-y in 5M:15, due to a significant increase in arrivals from neighbouring Bosnia-Herzegovina and Kosovo, as well as third countries – USA, Japan, China and Ukraine – all supported by an extensive advertising campaign abroad. These gains more than offset a decline in arrivals from the EU (by 4.1% y-o-y in 5M:16, accounting for 51.3% of total arrivals in FY:15 and shaving 2.0 pps off the 5M:16 increase). The decrease in arrivals from the EU would have been even sharper if arrivals from neighbouring Bulgaria had not increased (up 15.0% y-o-y in 5M:16 and accounting for 6% of total arrivals in FY:15).

Tourist receipts reached EUR 60.4mn (0.6% of GDP) in 4M:16. Tourist receipts rose by 4.2% y-o-y in 4M:16 to EUR 60.4mn or 0.6% of GDP, following increases of 4.8% y-o-y and 8.3%, respectively, in 4M:15 and FY:15. However, tourist receipts rose at a slower pace than arrivals in the same period (12.5% y-o-y in 4M:15), implying a significant decline in spending per tourist (down 7.3% y-o-y to EUR 543 in 4M:15).

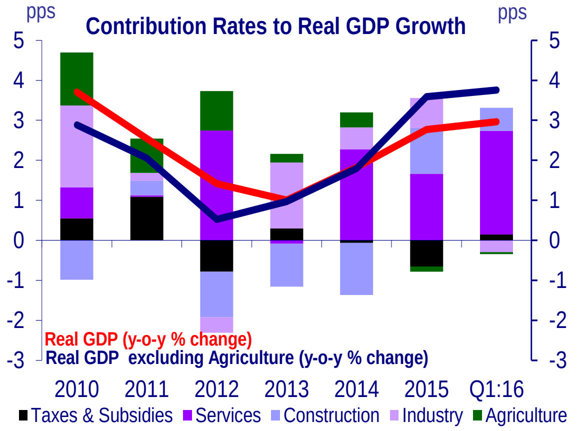
Going forward, we expect tourist arrival growth to return to single digits during the rest of the year, due to base effects from the sharp increase in FY:15, and, to a large extent, a sharp slowdown in arrivals from the largest source country – Turkey – following the July 15th failed coup attempt. All said, we see tourist arrivals rising by 6.0% to 515k in 2016 against an increase of 14.2% (485.5k) in 2015, with receipts increasing at a slower pace -- up c. 2.0% or EUR 5mn to EUR 245mn or 2.7% of GDP -- resulting in a weaker contribution to FX reserves (EUR 13mn less than in FY:15).

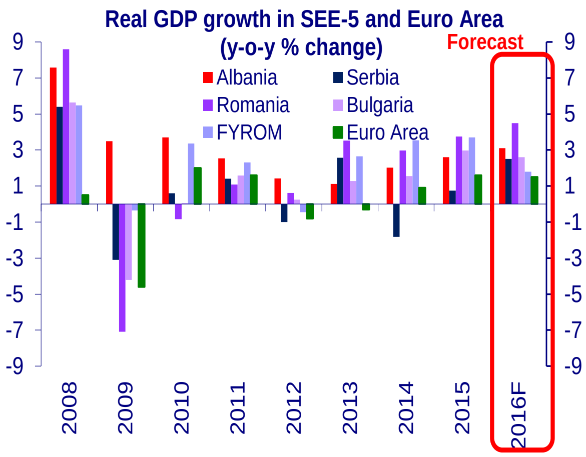
Headline deflation remained stable, for a second successive month, at -0.7% y-o-y in June. Food prices declined by -2.3% y-o-y in June compared with a decrease of 1.5% y-o-y in May, mainly due to a higher decrease in prices of volatile fruit & vegetables, reflecting favourable weather conditions. However, the sharper decline in food prices was offset by: i) a slower decrease in energy prices (down 3.8% y-o-y in June compared with a decrease of 4.9% y-o-y in May), in line with global oil price developments; and ii) stronger core inflation (up 1.8% y-o-y in June against 1.5% in May), reflecting increasing demand-side pressures. The latter reflects, *inter alia,* improving labour market conditions (the unemployment rate declined by 2.9 pps y-o-y to a record low of 24.5% in Q1:15 and employment increased by 2.5% y-o-y in Q1:16 following a rise of 2.3% in FY:15.

Annual headline inflation is expected to rise to 0.6% by end-2016. Looking ahead, inflation should embark on an upward trend in July, on the back of: i) the planned increase in the excise duty on cigarettes from July 1st (by MKD 0.20 per cigarette and expected to add 0.3 pps to headline inflation); ii) unfavourable fuel prices (we project the price of Brent to rise by c. 4% y-o-y in MKD terms in 7-12M:16 against a decline of 31.0% y-o-y in 6M:16); and iii) the gradual normalization of volatile food prices from their current lows. Overall, we expect headline and core inflation to rise throughout the rest of the year, reaching 0.6% and 2.3% y-o-y, respectively, in December -- up from -0.3% and 1.4% at end-2015.

Albania

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





UK and EU excl. UK Economic Relations with Albania			
FY:15		% of GDP	% of Total
Exports	UK	0.0	0.2
	EU excl. UK	12.6	74.9
Remittances	UK	0.1	1.4
	EU excl. UK	8.1	85.9
Tourism Receipts	UK	0.4	3.2
	EU excl. UK	3.9	30.1
FDI Stock (FY:14)	UK	0.2	0.4
	EU excl. UK	30.4	64.4
Foreign Bank Claims	UK	0.1	0.1
	EU excl. UK	34.4	74.7

	18 July	3-M F	6-M F	12-M F
1-m TRIBOR (mid, %)	1.7	2.2	2.2	2.2
ALL/EUR	136.3	139.2	138.2	139.0
Sov. Spread (bps)	464	430	400	350

	18 July	1-W %	YTD %	2-Y %
Stock Market	- - -	- - -	- - -	- - -

	2013	2014	2015	2016F	2017F
Real GDP Growth (%)	1.1	1.8	2.8	3.1	3.2
Inflation (eop, %)	1.9	0.7	2.0	1.5	2.0
Cur. Acct. Bal. (% GDP)	-10.9	-12.8	-11.2	-12.2	-12.0
Fiscal Bal. (% GDP)	-5.0	-5.2	-3.6	-2.3	-2.0

Parliament unanimously passed the judiciary reform legislation, increasing the country's chances to open EU accession talks. This was the result of lengthy negotiations between the two main parties (18 months), mediated by the EU and the US. The legislation -- seen as Albania's most significant challenge -- should, *inter alia*, reinforce independence, efficiency and accountability of judges. Concrete progress on the enactment of the reform would help Albania secure, in October, a positive recommendation from the EC for the launch of EU membership talks, likely to be endorsed later by the European Council.

Economic growth strengthened to 3.0% y-o-y in Q1:16 from 2.8% in FY:15, on the back of a surge in the services sector. Output in the services sector accelerated by 5.6% y-o-y in Q1:16 from 3.6% in FY:15 (contributing 2.6 pps to GDP growth in Q1:16 compared with 1.7 pps in FY:15), due to a rebound in private consumption. Recall that private consumption posted negative growth in FY:15, reflecting the compulsory payment of electricity bills in H1:15 (following the implementation of the power sector reform), and lower remittances from Greece in H2:15. The strong rise of output in domestic demand is also attributed to still favourable oil prices, as well as the continued improvement in the labour market (with the unemployment rate falling to 16.9% in Q1:16 from 17.5% in FY:15 and 17.9% in FY:14).

The expansion in activity in Q1:16 was, however, held back by the contraction of industrial output (down 2.0% y-o-y in Q1:16 against a strong rise of 5.7% in FY:15, subtracting 0.3 pps from overall real GDP growth in Q1:16 after contributing 0.7 pps in FY:15), hindered by a sharp drop in production in the extraction industry -- especially the oil industry, a key growth driver since 2010. In fact, average crude oil production of Bankers Petroleum -- that extracts the bulk of Albania's oil -- fell by 12.2% y-o-y in Q1:16 following a decline of 6.3% in FY:15, due to lower demand for low-quality and high-cost Albanian oil and a sharp fall in global oil prices. Industrial output would have experienced a sharper contraction had the manufacturing sub-sector not improved further (contributing 0.7 pps to overall real GDP growth in Q1:16 against a mere 0.5 pps in FY:15). The increase in manufacturing was supported by the surge in the (low value-added, labour-intensive) re-exporting textile and footwear subsector.

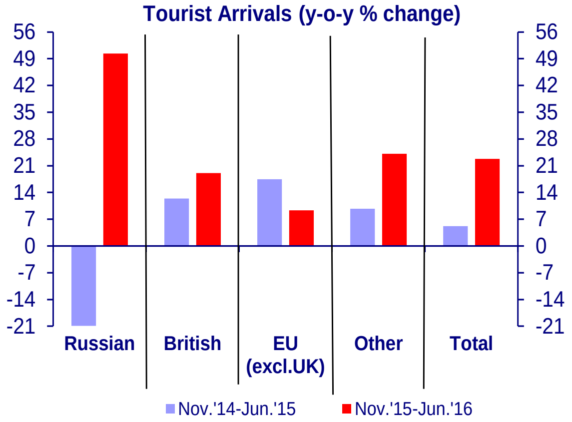
Economic growth is set to reach a 6-year high of 3.1% in FY:16, despite strong external headwinds. Despite an adverse external environment, we expect activity to strengthen further, to 3.2% y-o-y in Q2-Q4:16 compared with 2.8% y-o-y in in Q2-Q4:15, supported by: i) the intensification in construction of two major energy projects, i.e. TAP and the Statkraft/Devoll hydropower plant; ii) gradually strengthening domestic demand; iii) a rebound in agricultural production (set to contribute 0.2 pps to GDP after subtracting 0.2 pps in FY:15); along with iv) improved confidence in the domestic economy on the back of large external financial support and EU membership prospects.

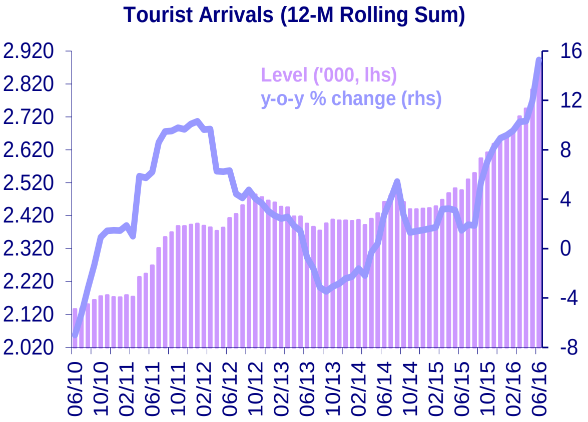
The impact from the Brexit vote on Albania's economy is expected to be marginal this year and more pronounced in FY:17 (subtracting 0.1 pp and 0.4 pps, respectively, from Albania's real GDP growth in FY:16 and FY:17). The direct impact is expected to be insignificant, in view of the limited economic relations between the UK and Albania (see table). However, the indirect impact from the Brexit vote through the other EU countries -- especially Italy and Greece -- could be significant. In fact, Italy and Greece accounted for: i) 55.0% of Albania's exports (or 9.2% of GDP, in FY:15, including re-exporting textile and footwear subsector); ii) 37.2% of the stock of FDIs (or 16.9% of GDP) in FY:14; and iii) c. 80.4% of remittances inflows (or 6.8% of GDP).

Overall, we revise down slightly our FY:16 real GDP growth to a still high 3.1% from 3.2% previously -- up from the FY:15 outcome of 2.8%.

Cyprus

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





UK and EU (excl. UK) Economic Relations with Cyprus				
FY:15		Level	% of GDP	% of Total
Exports (EUR mn)	UK	120	0.7	6.9
	EU excl. UK	648	3.7	37.3
Remittances (USD mn)	UK	117	0.7	44.9
	EU excl. UK	33	0.2	12.5
Tourism Receipts (EUR mn)	UK	827	4.7	39.2
	EU excl. UK	539	3.1	25.5
FDI Inward Stock (EUR mn)	UK	3,211	18.1	2.6
	EU excl. UK	47,585	267.7	38.7
Foreign Bank Claims (USD mn)	UK	957	6.1	3.9
	EU excl. UK	20,394	130.0	83.8

	18 July	3-M F	6-M F	12-M F
1-m EURIBOR (%)	-0.37	-0.37	-0.37	-0.37
EUR/USD	1.11	1.08	1.06	1.06
Sov. Spread (2020. bps)	328	300	280	250

	18 July	1-W %	YTD %	2-Y %
CSE Index	65	-0.6	-3.6	-44.0

	2013	2014	2015	2016F	2017F
Real GDP Growth (%)	-5.9	-2.5	1.6	2.4	2.1
Inflation (eop. %)	-2.3	-1.5	-1.2	-0.2	1.0
Cur. Acct. Bal. (% GDP)	-4.5	-4.6	-3.6	-3.6	-4.5
Fiscal Bal. (% GDP)	-4.7	-0.3	0.0	0.0	0.2

Tourist arrivals rose sharply in November-June, mainly due to heightening security concerns in neighbouring competitors -- Turkey and Egypt. Tourist arrivals rose by an impressive 22.8% y-o-y during November-June. This strong performance was mainly due to a sharp increase in arrivals from Russia -- the second largest source country with a share of 20.0% in FY:15 -- and the UK -- the main source country, accounting for c. 39.0% in FY:15. Indeed, the number of Russian and British tourists increased by 50.3% y-o-y and 19.1%, respectively, in November-June, contributing 9.3 pps and 7.3 pps to the overall annual rise in the corresponding period.

The sharp increase in Russian and British tourists came in the aftermath of: i) the terrorist bombing of a Russian passenger plane in the Sinai Peninsula in late October, which led Russia to ban flights to Egypt, the UK to suspend all flights to Egypt's tourism flagship city of Sharm el-Sheikh and several other countries to issue warnings against travel to Egypt; ii) Russian sanctions against Turkey following the downing of a Russian warplane by the Turkish air force near Syria's border in late November; and iii) persisting security concerns in Turkey, with 54 deadly terrorist attacks in the past 12 months, following the Government's involvement in the war against the ISIS and the collapse of a 2-year ceasefire with the Kurdistan Workers Party militant group last July. Note that Russian arrivals to Turkey fell sharply by 80.7% y-o-y, while Russian arrivals to Cyprus rose by 53.1% y-o-y during December-May.

Tourist arrivals, excluding British and Russians, also increased significantly (up 14.3% y-o-y in November-June), supported by a strong performance in arrivals from third countries (excluding the EU and Russia) – up 24.1% y-o-y in November-June, reflecting the island's reputation as a safe destination. As a result, the 12-month rolling sum of tourist arrivals increased by 15.3% y-o-y to 2.9mn in June compared with a rise of 7.1% October.

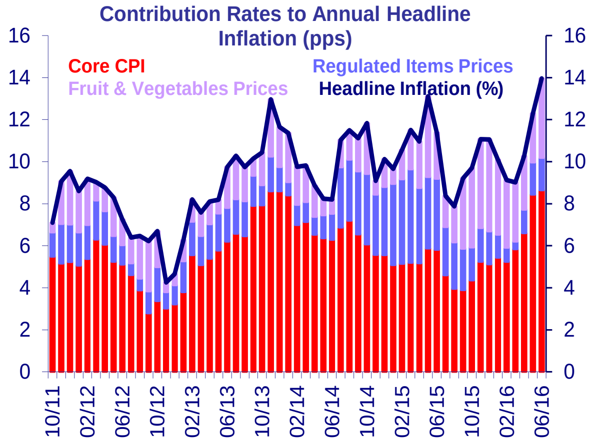
Tourist receipts strengthened in November-April, but at a slower pace than arrivals. Available figures for tourist receipts show a sharp increase in November-April -- up 15.5% y-o-y. However, the performance of tourist receipts was weaker than that of arrivals in the same period (up 25.3% y-o-y in November-April), implying lower average spending per tourist (down 7.8% y-o-y to EUR 633 in November-April), mainly reflecting a sharp increase in low-spending Russian tourists. Indeed, Russian arrivals increased sharply by 63.2% in November-April, while spending per Russian tourist declined by 22.4% in the same period.

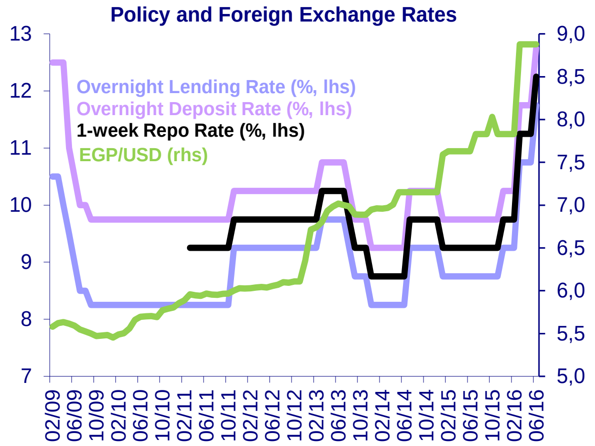
Tourist arrival growth is set to reach c. 20% in 2016. Looking ahead, in view of the y-t-d performance (up 21.2% y-o-y to a record high of 1,255k in H1:16) and recent trends, we expect the positive momentum in tourist arrivals to continue during the remainder of the year, mainly on the back of significant gains from heightening security concerns in neighbouring countries – Turkey and Egypt. Note that, although the UK is the country's second largest source of tourism, the impact from the Brexit vote is expected to be modest this year due to the fact that the season's holidays have largely been pre-sold. Overall, we foresee tourist arrivals rising by around 20.0% to an all-time high of 3.2mn in FY:16, from a 14-year high of 2.7mn in FY:15.

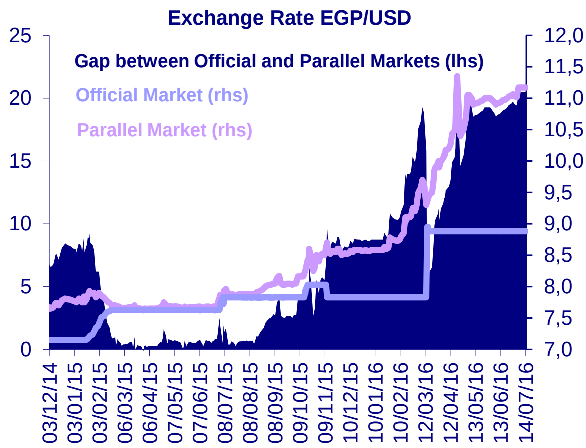
Note that, in view of Cyprus' strong economic and financial relations with the UK (see Table) and based on this week's IMF revised growth forecasts for the UK (FY:16 and FY:17 growth forecasts were reduced by 0.2 pps and 0.9 pps, respectively, to 1.7% and 1.3%), we revised down our FY:16 and FY:17 growth forecasts for Cyprus by 0.1 pp and 0.5 pps, respectively, to 2.4% and 2.1%.

Egypt

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







	18 July	3-M F	6-M F	12-M F
O/N Interbank Rate (%)	11.9	11.8	12.8	11.5
EGP/USD	8.88	10.5	10.5	11.5
Sov. Spread (2020. bps)	439	400	300	220

	18 July	1-W %	YTD %	2-Y %
CSE Index	65	-0.6	-3.6	-44.0

	12/13	13/14	14/15	15/16E	16/17F
Real GDP Growth (%)	2.1	2.1	4.2	3.0	4.5
Inflation (eop. %)	9.8	8.2	11.4	14.0	12.5
Cur. Acct. Bal. (% GDP)	-2.2	-0.9	-3.7	-6.0	-4.0
Fiscal Bal. (% GDP)	-13.0	-12.2	-11.5	-11.8	-11.0

Headline inflation rose sharply by 1.7 pps to a 7½-year high of 14.0% y-o-y between May and June, mainly due to higher prices of fruit and vegetables. Following 5 consecutive months of deceleration, volatile prices of fruit and vegetables rose in June (up 33.6% y-o-y versus a rise of 19.0% in May and accounting for 94% of the rise in headline inflation between May and June), due to the Ramadan effect and an unfavourable base (monthly prices of fruit and vegetables rose by 2.1% m-o-m in June and declined by 9.1% m-o-m a year ago compared with their seasonal average drop of 1.8% m-o-m).

Core inflation rose moderately to 12.4% y-o-y in June from 12.2% in May (accounting for only 6% of the rise in headline inflation between May and June), suggesting that the pass-through from the mid-March devaluation of the domestic currency has almost been completed and the ongoing monetary policy tightening has helped contain inflationary pressures. Recall that in its efforts to reduce a fast-growing black market amid deepening foreign currency shortages, the CBE devalued the EGP against the USD by 12.7% to EGP 8.85 per USD on March 14th. Moreover, in a bid to temper heightening inflationary pressures, the CBE initiated a cycle of monetary policy tightening last December, hiking its key policy rates by 300 bps since then.

Headline inflation to end the year at around 16.0%. Looking ahead, despite the anticipated normalization in prices of fruit and vegetables, we expect headline inflation to rise further during the rest of the year, due to: i) the long-awaited replacement of the current complex sales taxes by a VAT (set to add 1.2 pps to headline inflation); ii) the resumption of cuts in energy subsidies after a 1-year pause due to the general elections; and iii) another sharp devaluation of the domestic currency (by c. 12.5% to EGP 10.5 per USD), aiming at eliminating the gap between the official and parallel foreign exchange markets (currently at around 20%). Note that these moves are envisaged in the Government's 3-year programme – effective from this month (July) -- and are prior actions for the signing of a much-needed agreement with the IMF. Overall, we foresee headline inflation ending 2016 at 16.0% y-o-y -- well above the end-2015 outcome of 11.1%. Core inflation should end 2016 at 16.5% against the end-2015 outcome of 7.2%.

The CBE to proceed with measured hikes of its policy rates in H2:16, in an effort to contain inflation. In its efforts to contain inflationary pressures from the replacement of sales taxes by a VAT, the cut in energy subsidies, and the devaluation of the EGP, as well as to enhance demand for the domestic currency, the CBE is set to increase its policy rates further in H2:16. However, the hike would be constrained by the ongoing slowdown of the domestic economy. Indeed, we estimate real GDP growth to have eased significantly to 3.0% in FY:15/16 from 4.2% in FY:14/15, due, *inter alia*, to: i) the expected sharp decline in tourism activity (with a total contribution of 11.4% to GDP in 2015 according to the World Travel & Tourism Council), due to persisting security concerns (we estimate the number of nights spent by tourists to have declined sharply by c. 50.0% in FY:15/16); ii) the difficult access to international capital markets; and iii) the absence of financial support from Gulf countries.

Thus, we expect the CBE to increase its policy rates by 200 bps by end-H2:16, bringing total hikes to 500 bps since the initiation of the cycle of monetary policy tightening last December. As a result, the overnight deposit, 1-week repo, and overnight lending rates should stand at multi-year highs of 13.75%, 14.25%, and 14.75%, respectively, at end-2016 (-1.1%, -0.6% and -0.1% in *ex post*, real and compounded terms, as at end-2015). With real interest rates in negative territory, further hikes are likely next year if inflation does not decline as forecast to 12.5% by end-year.

FOREIGN EXCHANGE MARKETS, JULY 18TH 2016

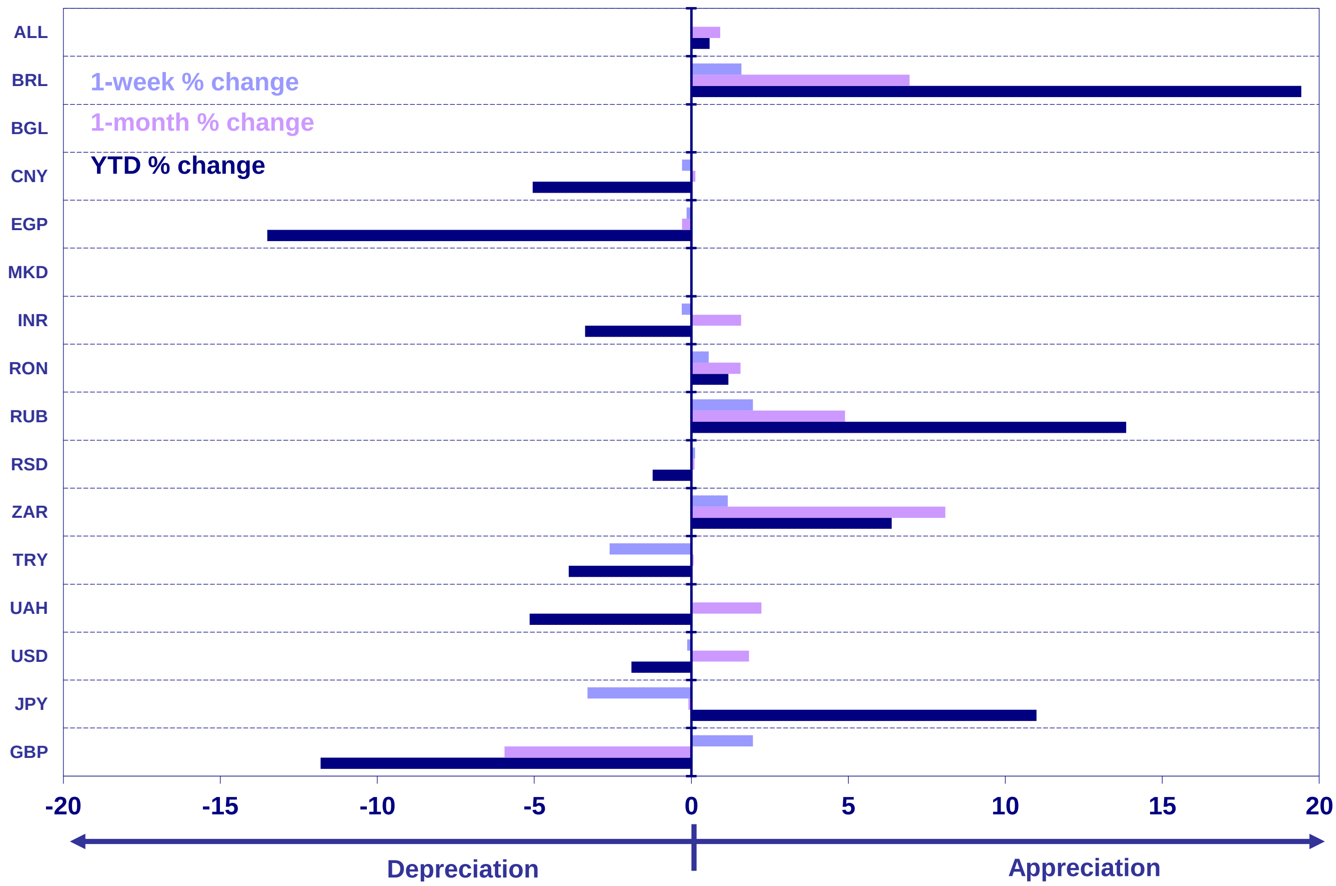
Against the EUR

	Currency	SPOT (2016)	1-week %change (2016)	1-month %change (2016)	YTD %change* (2016)	1-year %change (2016)	Year-Low (2016)	Year-High (2016)	3-month Forward rate** (2016)	6-month Forward rate** (2016)	12-month Forward rate** (2016)	2015 % change*	2014 % change*
Albania	ALL	136.3	0.0	0.9	0.6	2.3	136.6	139.5	136.6	136.4	134.9	2.0	0.1
Brazil	BRL	3.60	1.6	6.9	19.4	-3.9	3.52	4.55	4.12	4.11	4.08	-25.2	1.0
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	7.41	-0.3	0.1	-5.1	-9.4	6.99	7.52	7.65	7.65	7.64	6.7	10.8
Egypt	EGP	9.81	-0.2	-0.3	-13.5	-13.7	8.26	10.23	- - -	- - -	- - -	2.1	10.6
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	74.3	-0.3	1.6	-3.4	-7.1	71.3	77.8	79.8	- - -	- - -	6.6	12.3
Romania	RON	4.47	0.6	1.6	1.2	-1.3	4.45	4.56	4.47	4.48	4.49	-0.8	-0.5
Russia	RUB	69.6	2.0	4.9	13.9	-11.4	69.5	72.0	71.1	73.0	76.6	-15.1	-32.8
Serbia	RSD	123.0	0.1	0.1	-1.2	-2.4	121.6	124.3	124.0	124.0	- - -	-0.1	-5.6
S. Africa	ZAR	15.8	1.2	8.1	6.4	-14.7	15.75	18.58	16.1	16.5	17.2	-16.6	3.0
Turkey	YTL	3.30	-2.6	0.1	-3.9	-11.4	3.12	3.39	3.38	3.46	3.62	-10.8	4.4
Ukraine	UAH	27.5	0.0	2.2	-5.1	-13.9	25.06	30.16	33.0	- - -	- - -	-27.5	-40.8
US	USD	1.11	-0.1	1.8	-1.9	-2.2	1.1	1.2	1.11	1.12	1.12	11.4	13.6
JAPAN	JPY	117.6	-3.3	-0.1	11.0	14.5	109.6	132.3	117.6	117.5	117.4	11.0	-0.1
UK	GBP	0.84	2.0	-5.9	-11.8	-16.8	0.7	0.9	0.84	0.84	0.84	5.3	7.0

* Appreciation (+) / Depreciation (-)

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

Currencies against the EUR (July 18th 2016)



Money Markets, July 18th 2016

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine	EU	US
O/N	1.4	14.1	-0.1	2.0	- - -	11.9	- - -	- - -	0.4	11.3	- - -	9.5	8.3	16.0	- - -	0.4
T/N	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	0.4	10.5	3.0	- - -	7.9	- - -	- - -	- - -
S/W	1.4	14.1	-0.1	2.3	-0.4	- - -	1.3	- - -	- - -	10.1	3.0	- - -	8.1	16.8	-0.4	0.4
1-Month	1.7	14.1	0.0	2.8	-0.4	- - -	1.7	6.8	0.6	11.8	3.3	9.6	8.3	19.0	-0.4	0.5
2-Month	- - -	14.1	0.1	- - -	-0.3	- - -	- - -	- - -	- - -	11.8	3.5	9.7	8.3	- - -	-0.3	0.6
3-Month	1.8	14.1	0.1	2.9	-0.3	- - -	2.1	7.0	0.8	11.8	3.6	9.7	8.5	19.8	-0.3	0.7
6-Month	1.8	13.8	0.3	3.0	-0.2	- - -	2.5	- - -	1.1	10.9	3.8	9.7	8.5	- - -	-0.2	1.0
1-Year	1.9	13.2	0.8	3.0	-0.1	- - -	3.0	- - -	1.2	11.3	- - -	9.8	9.1	- - -	-0.1	1.3

Local Debt Markets. July 18th 2016

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine	EU	US
3-Month	0.9	- - -	- - -	- - -	- - -	13.5	1.5	6.6	- - -	10.9	3.0	8.1	- - -	- - -	-0.7	0.3
6-Month	0.9	- - -	- - -	- - -	- - -	14.9	2.3	6.7	0.7	11.0	3.7	8.1	- - -	- - -	-0.6	0.4
12-Month	1.3	- - -	0.2	2.3	- - -	15.2	2.6	6.8	0.8	9.9	4.1	9.0	- - -	16.6	-0.6	0.5
2-Year	1.5	- - -	- - -	2.5	- - -	- - -	2.0	6.9	0.8	9.2	- - -	8.7	7.8	- - -	-0.6	0.7
3-Year	- - -	- - -	0.4	2.5	2.3	- - -	2.7	7.0	1.7	9.1	- - -	8.7	8.0	- - -	-0.7	0.8
5-Year	- - -	12.0	- - -	2.7	- - -	16.9	2.7	7.1	2.5	8.8	7.0	9.5	8.3	- - -	-0.6	1.1
7-Year	- - -	- - -	1.7	- - -	3.7	17.4	- - -	7.3	2.8	8.6	- - -	- - -	- - -	- - -	-0.4	1.4
10-Year	- - -	12.0	2.5	2.9	3.8	17.7	3.9	7.3	3.3	8.5	- - -	9.5	8.8	- - -	0.0	1.6
15-Year	- - -	- - -	- - -	- - -	- - -	- - -	4.3	7.6	- - -	8.6	- - -	- - -	9.3	- - -	0.1	- - -
25-Year	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	9.5	- - -	- - -	- - -
30-Year	- - -	- - -	- - -	- - -	- - -	- - -	- - -	7.6	- - -	- - -	- - -	- - -	9.5	- - -	0.5	2.3

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

Corporate Bonds Summary. July 18th 2016

		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	3.4	411	366
	Bulgarian Telecom. 6.625% '18	EUR	B-/B1	15/11/2018	400	3.6	425	393
Cyprus	**Aroundtown Property 3% '21**	EUR	NA/NA	9/12/2021	200	2.2	284	240
Russia	**Gazprom 8.2% '19**	RUB	BB+/NA	9/4/2019	10,000	10.5	134	- - -
	Gazprom 8.9% '21	RUB	BB+/NA	26/1/2021	10,000	10.5	130	- - -
South Africa	**FirstRand Bank Ltd 4.25% '20**	USD	BBB-/Baa2	30/4/2020	500	3.7	257	267
	FirstRand Bank Ltd 2.25% '20	EUR	NA/NA	30/1/2020	100	0.9	151	113
Turkey	**Vakiflar Bankasi 3.5% '19**	EUR	NA/Baa3	17/6/2019	500	2.8	344	302
	Garanti Bankasi 3.38%'19	EUR	NA/Baa3	8/7/2019	500	2.5	316	274
	Arcelik AS 3.875% '21	EUR	BB+/NA	16/9/2021	350	3.5	427	362
	Turkiye Is Bankasi 6% '22	USD	NA/Ba3	24/10/2022	1,000	5.5	433	426

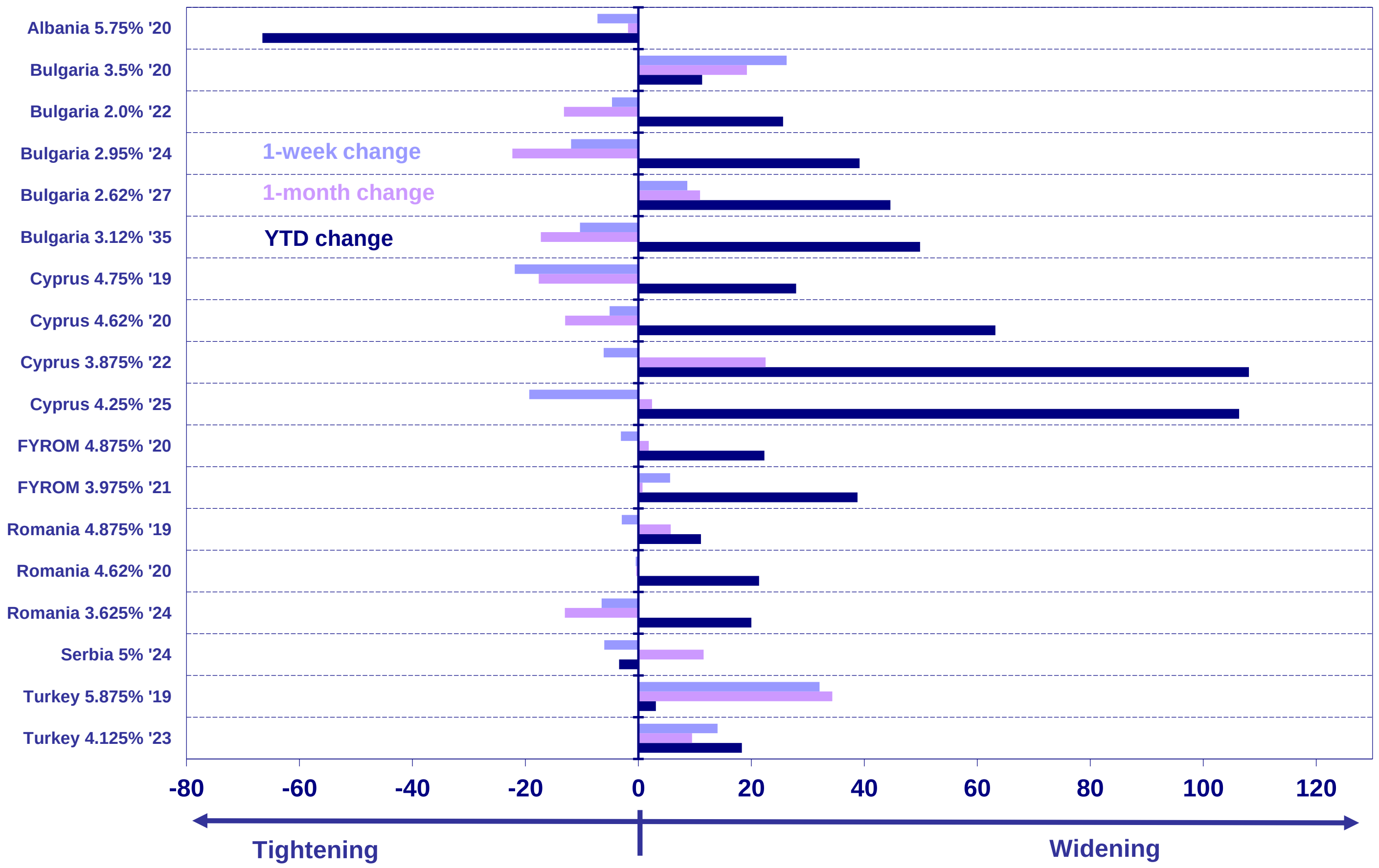
Credit Default Swap Spreads. July 18th 2016

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine
5-Year	- - -	284	149	108	278	490	- - -	152	120	227	243	246	248	- - -
10-Year	- - -	357	195	150	302	501	- - -	162	161	281	290	306	305	- - -

EUR-DENOMINATED SOVEREIGN EUROBOND SUMMARY. JULY 18TH 2016

	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	4.0	464	432
Bulgaria 3.5% '20	EUR	NA/NA	16/1/2020	145	0.7	153	116
Bulgaria 2.0% '22	EUR	BB+/Baa2	26/3/2022	1,250	1.4	193	153
Bulgaria 2.95% '24	EUR	BB+/Baa2	3/9/2024	1,493	2.0	230	192
Bulgaria 2.62% '27	EUR	BB+/Baa2	26/3/2027	1,000	2.4	270	203
Bulgaria 3.12% '35	EUR	BB+/Baa2	26/3/2035	900	3.3	301	249
Cyprus 4.75% '19	EUR	B+/NA	25/6/2019	566	2.3	298	263
Cyprus 4.62% '20	EUR	B+/B3	3/2/2020	770	2.7	328	296
Cyprus 3.875% '22	EUR	NA/B3	6/5/2022	1,000	3.7	423	378
Cyprus 4.25% '25	EUR	NA/B1	4/11/2025	1,000	3.8	400	360
FYROM 4.875% '20	EUR	BB-/NA	1/12/2020	270	4.5	538	470
FYROM 3.975% '21	EUR	BB-/NA	24/7/2021	500	4.6	554	546
Romania 4.875% '19	EUR	BBB-/Baa3	7/11/2019	1,500	0.4	110	73
Romania 4.62% '20	EUR	BBB-/Baa3	18/9/2020	2,000	0.7	136	100
Romania 3.625% '24	EUR	BBB-/Baa3	24/4/2024	1,250	1.9	224	195
Serbia 5% '24	EUR	BB-/NA	11/4/2024	125	3.7	399	374
Turkey 5.875% '19	EUR	NR/Baa3	2/4/2019	1,250	1.6	230	199
Turkey 4.125% '23	EUR	NR/Baa3	11/4/2023	1,000	2.9	326	295

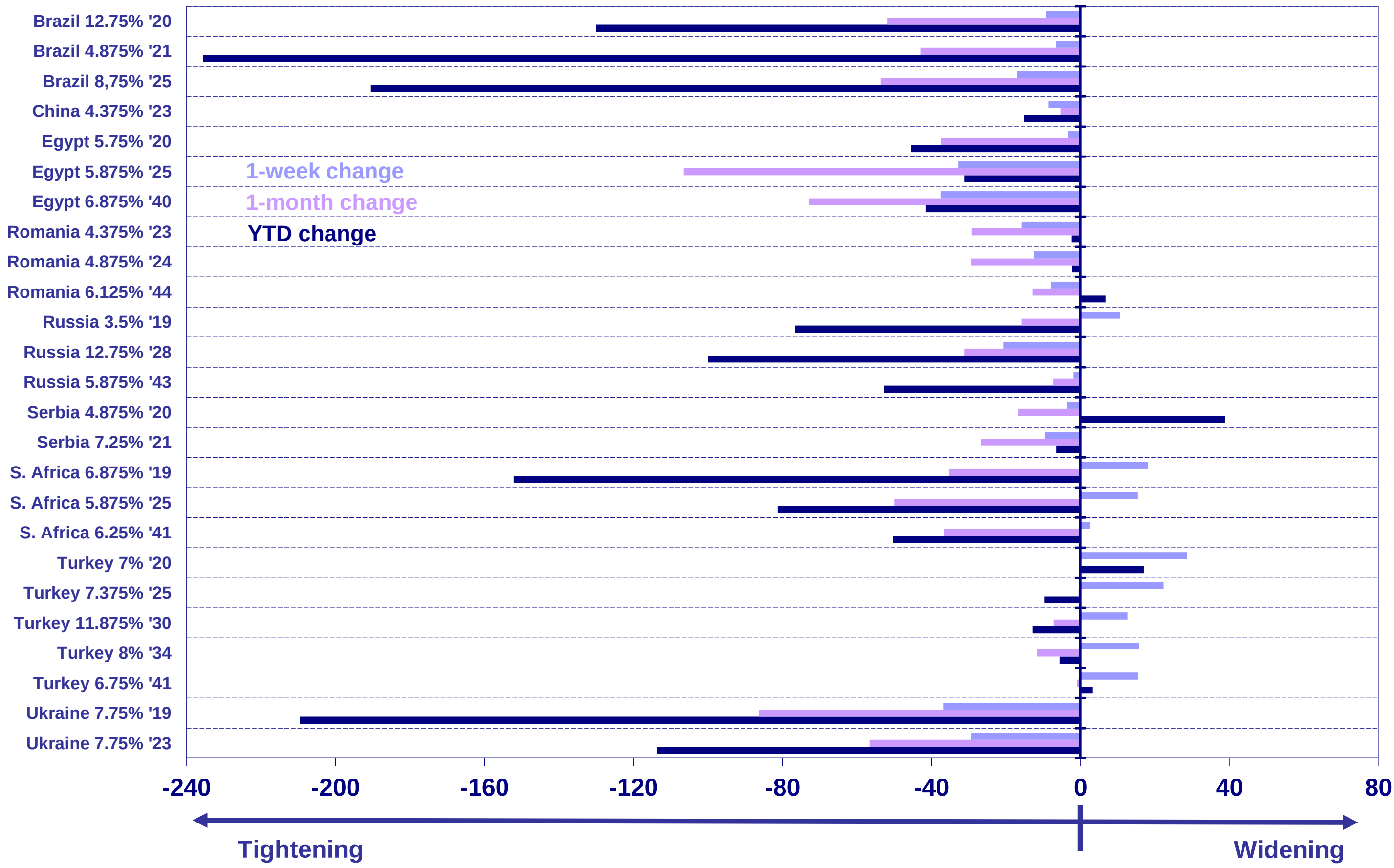
EUR-Denominated Eurobond Spreads (July 18th 2016)



USD-DENOMINATED SOVEREIGN EUROBOND SUMMARY. JULY 18TH 2016

	Currency	Rating S&P / Moody's	Maturity	Amount Outstanding (in million)	Bid Yield	Gov. Spread	Asset Swap Spread
Brazil 12.75% '20	USD	BB+/Baa3	15/1/2020	234	3.2	236	257
Brazil 4.875% '21	USD	BB+/Baa3	22/1/2021	2,988	3.6	243	252
Brazil 8.75% '25	USD	BB+/Baa3	4/2/2025	969	4.8	317	391
China 4.375% '23	USD	AA-/Aa3	2/5/2023	500	3.2	162	201
Egypt 5.75% '20	USD	B-/B3	29/4/2020	1,000	5.2	439	420
Egypt 5.875% '25	USD	B-/B3	11/6/2025	1,500	7.0	541	528
Egypt 6.875% '40	USD	B-/B3	30/4/2040	500	7.8	545	546
Romania 4.375% '23	USD	BBB-/Baa3	22/8/2023	1,500	3.0	158	179
Romania 4.875% '24	USD	BBB-/Baa3	22/1/2024	1,000	3.0	164	185
Romania 6.125% '44	USD	BBB-/Baa3	22/1/2044	1,000	4.3	203	295
Russia 3.5% '19	USD	BB+/Ba1	16/1/2019	1,500	2.4	151	144
Russia 12.75% '28	USD	BB+/Ba1	24/6/2028	2,500	4.4	277	411
Russia 5.875% '43	USD	BB+/Ba1	16/9/2043	1,500	4.8	250	325
Serbia 4.875% '20	USD	BB-/B1	25/2/2020	1,500	3.7	288	274
Serbia 7.25% '21	USD	BB-/B1	28/9/2021	2,000	3.9	274	296
S. Africa 6.875% '19	USD	BBB-/Baa2	27/5/2019	2,000	2.6	177	175
S. Africa 5.875% '25	USD	BBB-/Baa2	16/9/2025	2,000	4.1	248	285
S. Africa 6.25% '41	USD	BBB-/Baa2	8/3/2041	750	4.9	257	341
Turkey 7% '20	USD	NR/Baa3	5/6/2020	2,000	3.4	256	252
Turkey 7.375% '25	USD	NR/Baa3	5/2/2025	3,250	4.2	267	323
Turkey 11.875% '30	USD	NR/Baa3	15/1/2030	1,500	4.5	293	421
Turkey 8% '34	USD	NR/Baa3	14/2/2034	1,500	5.0	342	397
Turkey 6.75% '41	USD	NR/Baa3	14/1/2041	3,000	5.2	286	356
Ukraine 7.75% '19	USD	B-/Caa3	1/9/2019	1,744	7.7	679	657
Ukraine 7.75% '23	USD	B-/Caa3	1/9/2023	1,355	8.0	656	655

USD-Denominated Eurobond Spreads (July 18th 2016)



STOCK MARKETS PERFORMANCE. JULY 18TH 2016

	2016								2015		2014	
	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)	56,484	4.7	14.0	30.3	9.5	37,046	55,649	56.6	-13.3	-35.3	-2.9	-2.0
Bulgaria (SOFIX)	451	-0.1	-1.3	-2.2	-5.5	432	462	-2.2	-11.7	-11.7	6.2	6.2
China (SHCOMP)	3,044	1.6	5.5	-14.8	-23.8	2,638	3,539	-18.6	9.4	16.5	52.9	69.5
Cyprus (CSE GI)	65	-0.6	-5.3	-3.6	-15.9	64	70	-3.6	-20.9	-20.9	-17.0	-17.0
Egypt (HERMES)	700	1.7	3.0	11.1	-2.1	521	716	7.8	-24.4	-25.7	23.5	36.6
F.Y.R.O.M (MBI)	1,797	0.2	4.0	-2.0	7.8	1,699	1,842	-2.0	-0.6	-0.6	6.1	6.1
India (SENSEX)	27,747	0.4	4.2	6.9	-2.4	22,495	28,418	4.5	-5.0	0.7	29.9	44.7
Romania (BET-BK)	1,233	1.9	4.4	-8.1	-13.3	1,150	1,329	-6.9	2.6	1.6	3.7	3.5
Russia (RTS)	4,321	-0.2	3.2	9.1	18.8	3,509	4,415	25.5	30.3	9.5	-6.9	-37.4
Serbia (BELEX-15)	611	1.1	-1.4	-3.2	-6.8	570	637	-4.3	-3.4	-3.5	19.5	12.8
South Africa (FTSE/JSE)	53,046	1.7	1.7	4.4	0.1	45,976	54,704	12.5	1.9	-15.1	7.6	10.9
Turkey (ISE 100)	76,958	-2.9	2.0	5.1	-5.4	68,230	86,931	1.7	-16.3	-25.4	26.4	32.0
Ukraine (PFTS)	224	0.3	1.9	-6.8	-33.6	215	256	-11.4	-37.8	-54.8	28.7	-24.2
MSCI EMF	870	2.8	7.9	9.9	-7.0	687	870	8.5	-17.0	-7.5	-4.6	8.2
MSCI EAFE	1,653	2.1	3.6	-4.3	-12.7	1,492	1,717	-5.5	-3.3	7.7	-7.3	5.8
Greece (ASE-General)	555	1.3	-5.3	-9.1	-30.4	421	659	-9.1	-23.6	-23.6	-28.9	-28.9
Germany (XETRA DAX)	10,063	2.3	4.5	-6.3	-14.3	8,699	10,486	-6.3	-4.9	-4.9	2.7	2.7
UK (FTSE-100)	6,695	0.2	11.2	6.7	-1.4	5,500	6,743	-5.8	-4.9	0.1	-2.7	4.1
Japan (NIKKEI-225)	16,498	5.0	5.8	-13.3	-20.1	14,864	18,951	-1.2	9.1	20.2	7.1	7.0
USA (DJ INDUSTRIALS)	18,533	1.7	4.9	5.3	2.4	15,370	18,557	3.9	-2.2	9.3	7.5	22.2
USA (S&P 500)	2,167	1.4	4.6	5.0	1.8	1,810	2,169	3.7	-0.7	10.9	11.4	26.6

Equity Indices (July 18th 2016)