# South Eastern Europe and Mediterranean Emerging Market Economies

## *Weekly Report*

***5 – 11 July 2016***


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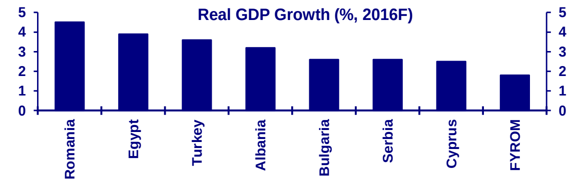
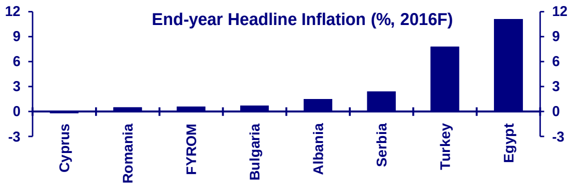
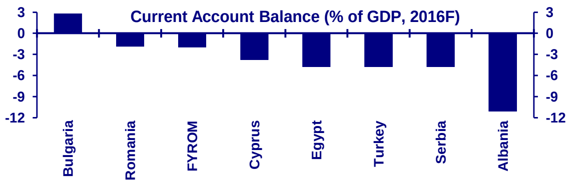
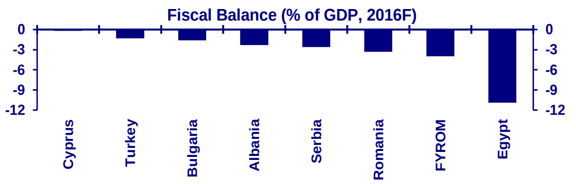


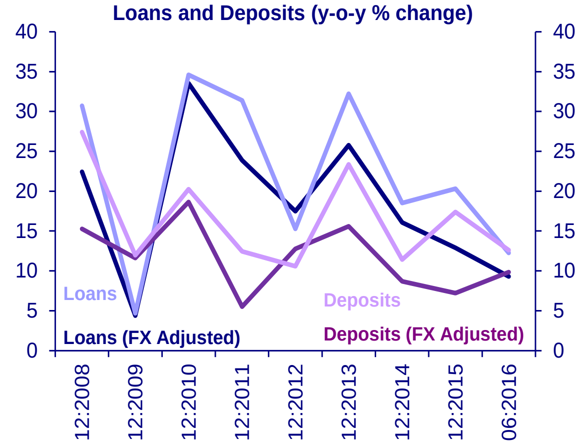



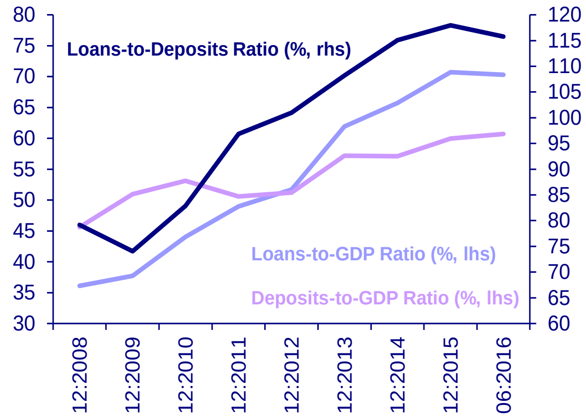
# Turkey

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

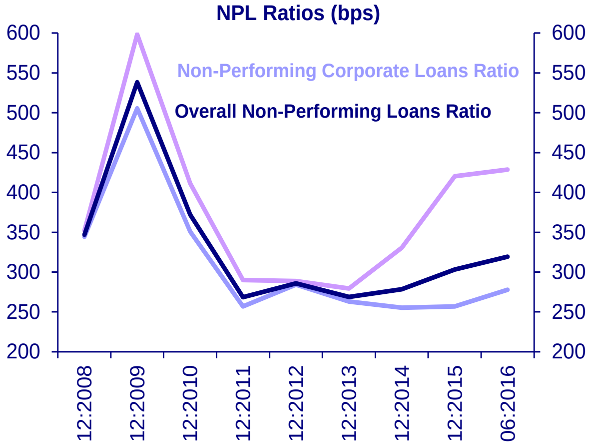
**Loans and Deposits (y-o-y % change)**




**Penetration and Liquidity Indicators**




**NPL Ratios (bps)**




| | 11 July | 3-M F | 6-M F | 12-M F |
|---|---|---|---|---|
| 1-m TRIBOR (%) | 9.6 | 10.5 | 10.2 | 9.8 |
| TRY/EUR | 3.21 | 3.35 | 3.32 | 3.30 |
| Sov. Spread (2019, bps) | 198 | 212 | 190 | 170 |

| | 11 July | 1-W % | YTD % | 2-Y % |
|---|---|---|---|---|
| ISE 100 | 79,235 | 1.1 | 8.2 | -0.2 |

| | 2013 | 2014 | 2015 | 2016F | 2017F |
|---|---|---|---|---|---|
| Real GDP Growth (%) | 4.2 | 3.0 | 4.0 | 3.6 | 3.8 |
| Inflation (eop, %) | 7.4 | 8.2 | 8.8 | 7.8 | 7.0 |
| Cur. Acct. Bal. (% GDP) | -7.7 | -5.5 | -4.5 | -4.8 | -5.2 |
| Fiscal Bal. (% GDP) | -1.2 | -1.3 | -1.2 | -1.3 | -1.0 |

**Customer deposits (FX-adjusted) gained momentum in H1:16, underpinned by higher TRY remuneration rates.** Growth in customer deposits adjusted for FX variations, accelerated to 9.8% y-o-y at end H1:16 from 7.2% at end-2015, in view of the relatively large share of FX-denominated deposits in total deposits (42.4% at end-2015) and the weaker depreciation of the TRY against the USD (by 6.8% y-o-y at end-June against 20.0% at end-December). However, the unadjusted numbers slowed to 12.6% y-o-y at end-June from 17.4% at end-December. From a currency perspective, the acceleration in overall deposits (FX-adjusted) appears to have largely been driven by a more attractive remuneration of TRY-denominated deposits (interest rates on new TRY deposits rose by 1.3 pps y-o-y to 10.7% in H1:16), reflecting tight TRY liquidity conditions (the TRY loan-to-deposit ratio stood at a record high of 138.3% at end-2015), with TRY deposits expanding by 14.9% y-o-y at end-June against a rise of 7.5% y-o-y at end-December. Overall deposits (FX-adjusted) would have accelerated at a faster pace had FX-denominated deposits not slowed down (down 0.3% y-o-y at end-June following a rise of 6.8% y-o-y at end-December), on the back, *inter alia*, of a less attractive remuneration compared with TRY-denominated deposits (interest rates on new EUR deposits declined by 0.3 pps y-o-y to 1.2%, while those on new USD deposits rose by 0.2 pps y-o-y to 1.9%, in H1:16).

**Lending activity (FX-adjusted) slowed in H1:16, due to tighter credit conditions.** Lending growth, adjusted for FX movements, moderated to a slower pace of 9.3% y-o-y at end-June from 12.9% at end-December -- well below the CBRT's implicit reference level of 15.0%. The unadjusted numbers were 12.3% y-o-y at end-June and 20.3% at end-December. The deceleration was largely driven by higher lending interest rates (interest rates on new TRY loans for households and corporates rose by 2.9 pps and 2.7 pps y-o-y, respectively, to 16.7% and 15.8% in H1:16), reflecting higher funding costs and deteriorating bank asset quality. Indeed, the overall NPL ratio deteriorated for a tenth successive quarter, reaching a 4-year high of 3.2% in June, with the NPL ratios for the retail and corporate segments rising to multi-year highs of 4.3% and 2.8%, respectively, at end-H1:16 from 4.2% and 2.6% at end-2015. Note that in H1:16, for the first time in 3 years, the corporate segment contributed to the deterioration of the overall NPL ratio, mainly due to SME lending, including the exacerbating crisis in the tourism sector. The latter started in summer 2015, 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, and was aggravated by Russian sanctions after the downing of a Russian military jet in late-November. Specifically, growth in corporate lending (representing 72.0% of total lending at end-2015) eased to 10.6% y-o-y at end-June from 14.4% at end-December, while that in retail lending slowed to 6.4% y-o-y at end-June from 9.6% at end-December. The latter continued to be negatively affected by the maintenance of the previous years' macro-prudential measures.

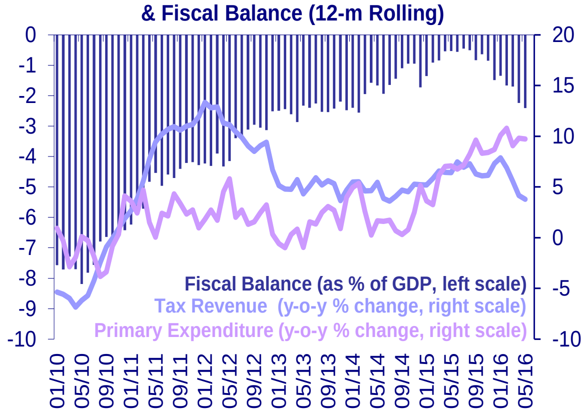
As a result mainly of FX movements, the lending penetration rate (loans-to-GDP ratio) declined to 70.3% at end-H1:16 from a high of 70.7% at end-2015. Moreover, liquidity pressures eased, with the gross loan-to-deposit ratio moderating to 115.8% at end-H1:16 from an all-time high of 118.0% at end-2015. From a currency perspective, the FX deposit base remained more than adequate to meet the FX funding needs (the FX loan-to-deposit ratio declined to 89.8% at end-H1:16 from 90.4% at end-2015). Moreover, albeit narrowing, the mismatch on the TRY side remained large, with the TRY loan-to-deposit ratio declining to 134.5% at end-H1:16 from a high of 138.3% at end-2015.

# Romania

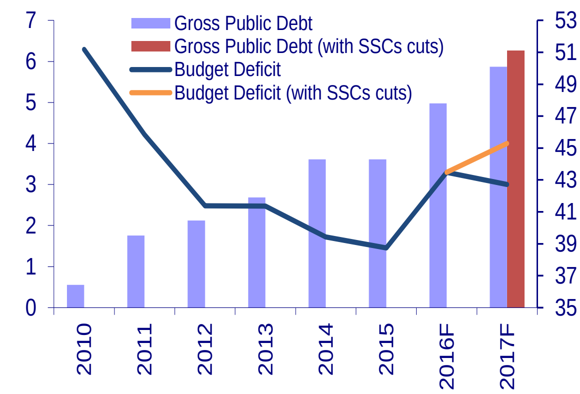
**BBB- / Baa3 / BBB- (S&P / Moody's / Fitch)**

| Consolidated Budget (% of GDP) | 2015 Outcome | 5M:15 | 5M:16 | 2016 Budget | 2016 NBG Forecast |
|---|---|---|---|---|---|
| Total Revenue | 32.8 | 13.1 | 12.3 | 31.0 | 31.3 |
| Tax Revenue | 27.5 | 11.5 | 11.1 | 26.5 | 26.7 |
| o/w PIT/CIT | 5.7 | 2.4 | 2.5 | 5.4 | 5.5 |
| VAT | 8.0 | 3.4 | 3.0 | 7.0 | 7.2 |
| Excise Duties | 3.6 | 1.4 | 1.4 | 3.7 | 3.7 |
| Soc. Sec. Contr. | 8.1 | 3.2 | 3.2 | 8.3 | 8.2 |
| Non-Tax Revenue | 5.3 | 1.6 | 1.2 | 4.5 | 4.5 |
| Total Expenditure | 34.2 | 12.2 | 12.4 | 33.8 | 34.6 |
| Current Spending | 28.1 | 11.1 | 11.2 | 28.9 | 29.6 |
| o/w Wages | 7.3 | 2.9 | 3.1 | 7.7 | 7.9 |
| Social Spending | 10.7 | 4.4 | 4.5 | 10.7 | 11.1 |
| Other Transfers | 1.6 | 0.7 | 0.5 | 1.7 | 1.7 |
| Goods & Services | 5.7 | 2.0 | 2.0 | 5.8 | 5.8 |
| Interest Paym. | 1.3 | 0.5 | 0.5 | 1.5 | 1.5 |
| Capital Expend. | 6.1 | 1.1 | 1.2 | 4.9 | 4.9 |
| Fiscal Balance | -1.5 | 0.9 | -0.1 | -2.8 | -3.3 |

Tax Revenue, Primary Expenditure & Fiscal Balance (12-m Rolling)




Budget Deficit & Gross Public Debt (% of GDP)




| | 11 July | 3-M F | 6-M F | 12-M F |
|---|---|---|---|---|
| 1-m ROBOR (%) | 0.6 | 0.9 | 1.2 | 1.5 |
| RON/EUR | 4.49 | 4.48 | 4.49 | 4.50 |
| Sov. Spread (2024, bps) | 230 | 210 | 180 | 150 |

| | 11 July | 1-W % | YTD % | 2-Y % |
|---|---|---|---|---|
| BET-BK | 1,211 | 0.7 | -9.8 | -1.9 |

| | 2013 | 2014 | 2015 | 2016F | 2017F |
|---|---|---|---|---|---|
| Real GDP Growth (%) | 3.5 | 3.0 | 3.8 | 4.5 | 3.4 |
| Inflation (eop, %) | 1.6 | 0.8 | -0.9 | 0.5 | 2.0 |
| Cur. Acct. Bal. (% GDP) | -1.1 | -0.5 | -1.1 | -1.9 | -2.4 |
| Fiscal Bal. (% GDP) | -2.5 | -1.7 | -1.5 | -3.3 | -3.0 |

**The 12-month rolling budget deficit widened markedly to 2.4% of GDP in May from 1.5% in December.** The consolidated budget turned to a deficit of 0.1% of GDP in 5M:16 from 0.9% in 5M:15. Specifically, tax revenue weakened in 5M:16 (by 0.4 pps of GDP y-o-y), on the back of sharp tax cuts (the VAT rate on food and non-food items was reduced by 4 pps to 20% and 15 pps to 9%, respectively, in January 2016 and June 2015). Non-tax revenue also declined in 5M:16 (by 0.4 pps of GDP y-o-y), mainly due to lower grants from the EU.

On the other hand, current spending remained contained in 5M:16. Indeed, cuts in discretionary transfers and subsidies broadly offset higher personnel expenses and social spending, on the back of a looser incomes policy. Recall that, following a 10.0% hike in public sector wages at end-2015, targeted increases in wages in the broader public sector were made in January. At the same time, pensions were raised (by 5.0%) and benefits were increased. Note that the rise in personnel expenses would have been larger in 5M:16 had a court-mandated reinstatement of certain wages in the public sector not taken place in March 2015 (0.2 pps of GDP), creating a negative base effect.

**The fiscal performance is set to deteriorate further during the remainder of the year, pushing the FY:16 budget deficit above its target of 2.8% of GDP**. The main concern is the ongoing easing in incomes policy, the cost of which appears to be understated in the budget. Indeed, personnel expenses and social spending are already up 0.3 pps of GDP y-o-y in 5M:16 compared with a targeted FY:16 increase of just 0.4 pps. Worryingly, the authorities hiked the minimum wage in May (by 19.0%), which is set to weigh on outlays for social benefits, and plan to proceed with further targeted increases in public sector wages in August. The cost of these initiatives, neither of which is included in the original budget, is estimated at 0.3 pps of GDP. Overall, we see current spending overshooting its FY:16 budget target by 0.7 pps of GDP.

Importantly, tax revenue should overperform slightly, partly offsetting the expected slippage in current spending. Indeed, despite large tax cuts (also including the reduction in the dividend tax rate by 9 pps to 5% and higher personal tax deductions), we expect the drop in tax revenue to be smaller than envisaged in the FY:16 budget, reflecting stronger-than-budgeted second-round effects of the tax cuts on consumption and improved tax compliance. As a result, we see tax revenue overperforming its FY:16 target by 0.2 pps of GDP.

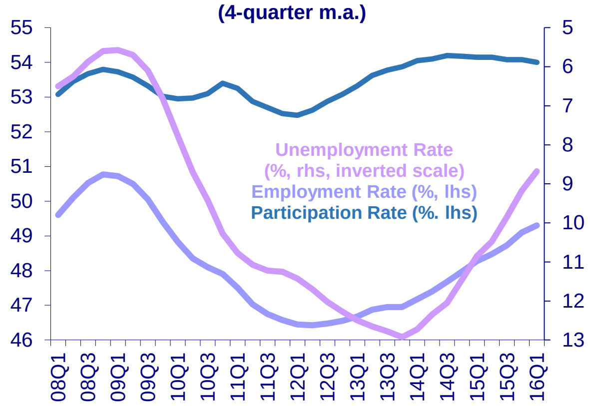
All said, unless corrective measures are adopted, the FY:16 budget deficit could widen to 3.3% of GDP from 1.5% in FY:15, surpassing the EU threshold (3.0%). However, with general elections due at year-end, it is unlikely that the Government will reverse policy.

**Proposed cuts in social security contributions (SSCs) would push the budget deficit to 4.0% of GDP in FY:17.** The Senate recently approved a 2 pp cut in SSCs for employers and a 3 pp cut in SSCs for employees, effective from January 2017. Note that the lower house of the Parliament has the final say on the issue, with a vote scheduled for September. According to the authorities, the cost of the measure is estimated at c. 1.0% of GDP. Recall that Parliament has already approved a 1 pp cut in the VAT rate to 19% in 2017, as well as reductions in excise duties and the abolition of the special property tax. In the event the cuts in SSCs are endorsed, we see the budget deficit widening to 4.0% in FY:17, with the gross public debt rising to 51.0% of GDP from our forecast of 47.7% for FY:16, putting at risk the country's economic and financial stability. All said, the Government that will emerge from the upcoming elections will need to take corrective measures so as to bring the budget deficit into line with EU requirements.

# Bulgaria

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

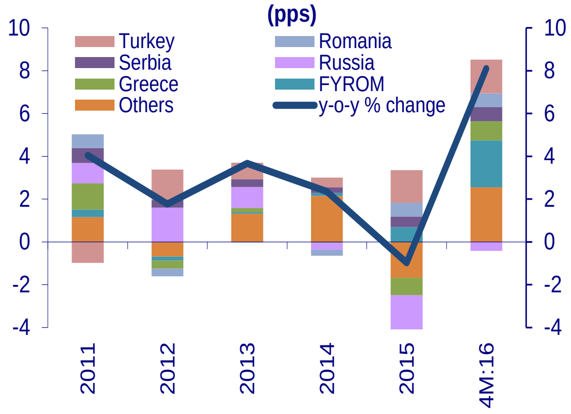
**Labour Market Indicators (4-quarter m.a.)**




| Labour Market Indicators in SEE-5 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Employment Rate (%) | | Employment Growth (%) | | Unemployment Rate (%) | | Participation Rate (%) | |
| | FY:15 | Q1:16 | FY:15 | Q1:16 | FY:15 | Q1:16 | FY:15 | Q1:16 |
| **Bulgaria *** | 49.1 | 48.5 | 1.7 | 0.9 | 9.1 | 8.6 | 54.1 | 53.1 |
| **Albania** | 52.9 | 54.8 | 5.1 | 5.7 | 17.5 | 16.9 | 64.2 | 65.9 |
| **FYROM *** | 42.1 | 42.6 | 2.3 | -1.4 | 26.1 | 24.5 | 57.0 | 56.4 |
| **Romania** | 61.4 | 59.8 | -0.9 | 0.2 | 6.8 | 6.6 | 66.1 | 64.2 |
| **Serbia** | 52.0 | 52.1 | 0.7 | 0.6 | 18.2 | 19.7 | 63.6 | 64.9 |

* Working age population covers ages 15 years and over (unlike standard definition of 15-64 years)

**Contribution Rates to Tourist Arrivals Growth (pps)**




| | 11 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)** | 198 | 180 | 160 | 130 |

| | 11 July | 1-W % | YTD % | 2-Y % |
|---|---|---|---|---|
| **SOFIX** | 451 | 0.1 | -2.1 | -16.4 |

| | 2013 | 2014 | 2015 | 2016F | 2017F |
|---|---|---|---|---|---|
| **Real GDP Growth (%)** | 1.3 | 1.5 | 3.0 | 2.6 | 2.6 |
| **Inflation (eop, %)** | -1.6 | -0.9 | -0.4 | 0.7 | 1.4 |
| **Cur. Acct. Bal. (% GDP)** | 1.3 | 0.9 | 1.4 | 2.8 | 2.1 |
| **Fiscal Bal. (% GDP)** | -1.8 | -3.7 | -2.9 | -1.6 | -1.2 |

**Labour market conditions tighten further in Q1:16.** The unemployment rate (Labour Force Survey data) fell sharply by 2.0 pps y-o-y to 8.6% in Q1:16 (7.9% in seasonally-adjusted terms, still above its pre-crisis levels of 6.0%). The improved performance is mainly attributed to solid economic activity (annual real GDP growth hovered around 3.0% for a 5th consecutive quarter in Q1:16).

Specifically, the decline in the unemployment rate in Q1:16 reflects the increase in the employment rate (up 0.8 pps y-o-y to a 48.5%) and, to a lesser extent, the slight decline in the participation rate (down 0.3 pps y-o-y to 53.1% in Q1:16). Indeed, employment rose for a 9th consecutive year in Q1:16, albeit at a slower pace (up 0.9% y-o-y against 1.7% in FY:15), while the working-age population continued to decline steadily (down 0.8% y-o-y in Q1:16, see below). Employment growth was mainly driven by the services and industrial sectors (up 1.6% and 1.7% y-o-y in Q1:16, respectively, and accounting for 57% and 20% of total employment).

**Structural problems cloud the outlook for the labour market**. Long-term unemployment (i.e. more than 12-months) remains persistently high (at c. 6.0%, above the EU average of 4.5%), reflecting high skills mismatch and labour market rigidities, as well as poor activation policies. At the same time, the labour force is shrinking due, *inter alia*, to outward migration and ageing. On top of these factors, the share of undeclared work remains high (estimated at over 20.0%), distorting the labour market and reducing fiscal revenue. In this context, and in view of the anticipated slight moderation in economic activity this year (real GDP growth is projected at 2.6% against 3.0% in FY:15), labour market conditions should continue to improve, albeit at a slower pace compared with previous years. Specifically, we see employment increasing by 0.6% in FY:16 following a rise of 1.7% in FY:15, and the unemployment rate declining by 1.0 pp -- much less than the 2.1 pps in FY:15 -- to 8.1%.

**The tourism sector recovered strongly in 4M:16, sustaining economic growth**. Tourism receipts increased by 8.0% y-o-y in 4M:16 against a decline of 3.6% in FY:15. At the same time, tourist arrivals rose by 8.1% y-o-y in 4M:16 against a drop of 1.0% in FY:15, suggesting an increase in spending per tourist compared with FY:15.

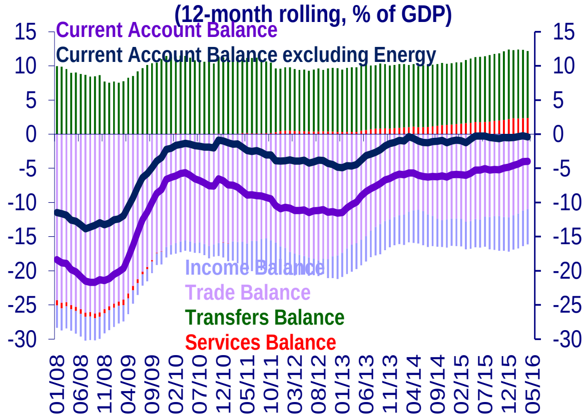
Regarding tourist arrivals, the improved performance was driven by neigbouring countries, namely FYROM and Turkey -- accounting for 5.4% and 13.3%, respectively, of total arrivals in FY:15 -- up 21.6%, and 8.8% y-o-y in 4M:16. These gains more than offset a decline in tourist arrivals from Russia (by 15.3% y-o-y in 4M:16 -- accounting for 5.3% of total arrivals in FY:15 -- despite the reduction in visa fees). Note that Bulgaria's performance still lags behind that of its neighbouring competitors Romania, Serbia and FYROM (up 15.7%, 15.1% and 12.5% y-o-y, respectively, in 4M:16).

Looking ahead, we expect tourist activity to recover at a stronger pace during the remainder of the year, sustaining economic growth (the tourism sector contributes roughly 13.0% and 12.0%, respectively, to GDP and employment). Indeed, Bulgarian tourism should benefit from persisting security concerns in Turkey and Egypt. At the same time, the increase in the number of direct flights, mostly low-cost charters from northern Europe during the upcoming high season, should also help. Importantly, with this season's holidays largely pre-sold, the impact of Brexit should be small (note that arrivals from the UK accounted for just 2.7% of total arrivals in FY:15). All said, we see tourist arrivals rising by 10.0% to a high of 10.2mn in FY:16, with receipts growing at a broadly similar pace -- up 10.5% to EUR 3.1bn or 6.9% of GDP.

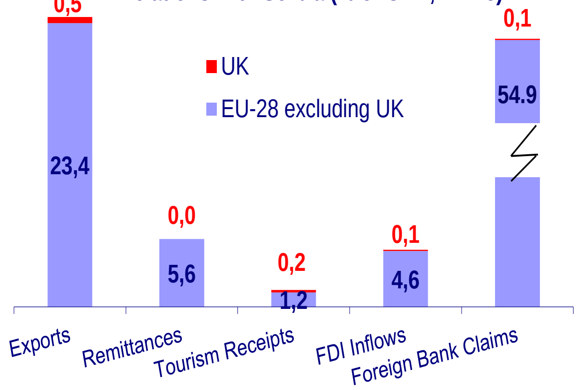
# Serbia

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

**Current Account Balance (12-month rolling, % of GDP)**




**UK and EU-28 excluding UK Economic Relations with Serbia (% of GDP, FY:15)**




| External Financing (EUR bn) | 2015 | 2016F before Brexit | 2016F after Brexit |
|---|---|---|---|
| Financing Needs | 5.1 | 4.8 | 4.8 |
| Current Account Deficit | 1.6 | 1.6 | 1.6 |
| Amortisations + Other | 3.5 | 3.2 | 3.2 |
| Financing Sources | 5.7 | 4.9 | 3.9 |
| FDI | 1.8 | 1.8 | 1.8 |
| Loans & Other | 3.9 | 3.1 | 2.1 |
| External Financing Balance | 0.6 | 0.1 | -1.0 |
| IMF | -0.1 | 0.0* | 0.0* |
| Change in FX Reserves | 0.5 | 0.1 | -1.0 |

* Assuming no disbursements from the IMF

| | 11 July | 3-M F | 6-M F | 12-M F |
|---|---|---|---|---|
| 1-m BELIBOR (%) | 3.3 | 3.2 | 3.4 | 3.8 |
| RSD/EUR | 123.1 | 123.2 | 124.0 | 125.0 |
| Sov. Spread (2021, bps) | 283 | 250 | 220 | 180 |

| | 11 July | 1-W % | YTD % | 2-Y % |
|---|---|---|---|---|
| BELEX-15 | 605 | -0.9 | -4.2 | 4.3 |

| | 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 |

**External rebalancing continued in 4M:16, with the current account deficit (CAD) easing to a 14-year low of 4.0% in April (on a 12-month rolling basis), supported by favourable energy prices and buoyant exports.** The CAD shrank markedly in 4M:16, reaching 0.9% of GDP -- half of its 4M:15 level. The improvement was largely driven by a smaller trade deficit (down by a sizeable 1.1 pp y-o-y to 3.0% of GDP in 4M:16), due to both the strong rebound in exports and a slowdown in energy imports. In fact, exports accelerated strongly (up 13.5% y-o-y in 4M:16 against a rise of 2.7% in 4M:15), supported by: i) vehicle exports (contributing 1.4 pps to export growth in 4M:16 after subtracting 2.3 pps in 4M:15); and ii) electrical equipment (contributing 3.0 pps to export growth in 4M:16 after subtracting 0.5 pps in 4M:15). The narrowing trade deficit was also reinforced by lower energy imports (accounting for 12.8% of total imports), declining by 33.5% y-o-y, in EUR terms, in 4M:16, in line with global oil prices (by 34.4% y-o-y, in EUR terms, in 4M:16), shaving an estimated 0.7 pps of GDP off the CAD in 4M:16. Non-energy imports, however, grew by a robust 8.8% y-o-y in 4M:16, mainly on the back of large intermediate and unclassified item imports, mainly reflecting investment-related imports.

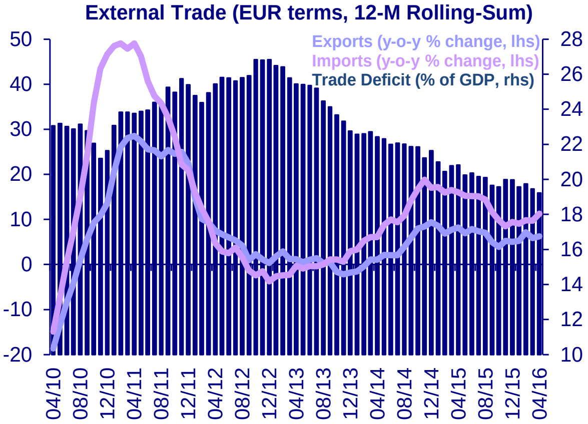
**The capital and financial account (CFA) deteriorated significantly in 4M:16.** The CFA balance turned into a deficit of 2.7% of GDP in 4M:16 from a surplus of 2.3% in 4M:15. The bulk of the CFA deterioration was due to large portfolio outflows, amounting to 1.6% of GDP in 4M:16, against robust inflows of 0.9% of GDP in 4M:15, that reflected the return of confidence following the approval of a new (precautionary) SBA with the IMF in February 2015. Portfolio outflows were also exacerbated by declining T-bill yields (interest rate on 12-month T-bills fell by 425 bps y-o-y to a record low of 4.1% in 4M:16. As a result, and along with (net) positive errors & omissions (c. 0.5% of GDP in 4M:16), the overall balance turned negative in 4M:16 (minus EUR 1.0bn, or -3.1% of GDP), and was fully financed through a drawdown in FX reserves. Nevertheless, the stock of FX reserves remained at the comfortable level of EUR 9.3bn (covering 5.9 months of GNFS imports, down from 6.6 months in FY:15).

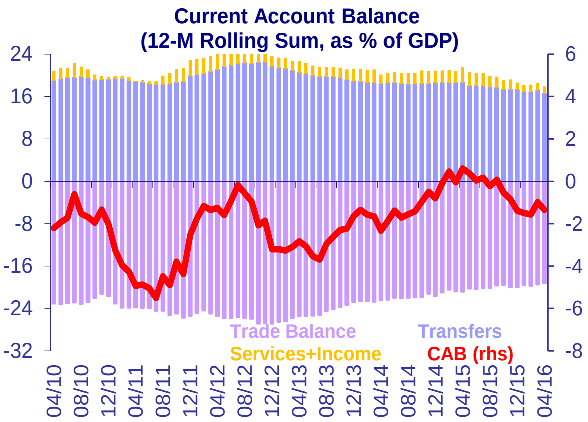
**The CAD is set to reverse its downward trend in early-H2:16.** The CAD should reverse its downward trend in H2:16, due to less favourable global oil prices (an expected rise of 3.9% y-o-y in EUR terms in H2:16), a rebound in imports due to the recovery in consumption, as well as the moderation in exports (reflecting a base effect from their surge in H2:15, supported by the restoration of production and transportation, after a sharp flood-induced decline in 2014). Note that the overall impact from the Brexit vote on Serbia's CAD is expected to be marginal this year. In fact, the direct impact is expected to be insignificant, in view of the limited economic relations between the UK and Serbia (see chart). Indirect effects from the Brexit vote on Serbia's CAD through other EU countries -- Serbia's main economic and financial partner -- should also be limited, as lower exports are set to be broadly offset by weaker imports, reflecting restricted capital inflows (see below). Overall, we see the CAD at 4.8% of GDP FY:16 – unchanged from FY:15.

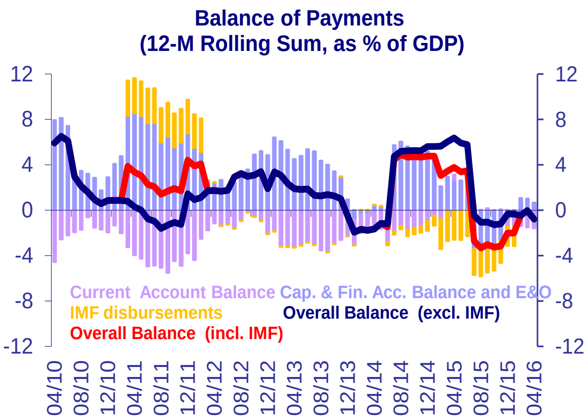
Regarding financing, despite our expectation for lower capital inflows in 5-12M:16 (zero against EUR 1.1bn initially expected), due to further weakening global risk appetite for emerging market assets in the wake of the Brexit vote, we see an external financing gap of EUR 1bn (2.9% of GDP), prompting a drop in FX reserves to a still comfortable 5.7 months of GNFS imports. This could be broadly covered either by: i) the envisaged issuance of a EUR 1bn Eurobond; or ii) the expected EUR 750mn loan from the UAE; or iii) the drawdown of the funds available under the precautionary SBA (totaling EUR 762mn).

# F.Y.R.O.M.

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




| | 11 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) | 549 | 520 | 450 | 350 |

| | 11 July | 1-W % | YTD % | 2-Y % |
|---|---|---|---|---|
| MBI 100 | 1,794 | 1.9 | -2.2 | 10.2 |

| | 2013 | 2014 | 2015 | 2016F | 2017F |
|---|---|---|---|---|---|
| Real GDP Growth (%) | 2.7 | 3.5 | 3.7 | 1.8 | 3.6 |
| 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 |

**The current account deficit (CAD) remained unchanged at 1.1% of GDP, on an annual basis, in 4M:16.** The CAD remained flat on an annual basis, at 1.1% of GDP in 4M:16, following a cumulative deterioration of 0.6 pps y-o-y in FY:15. This performance was supported by a narrowing in the trade deficit (by 0.7 pps of GDP y-o-y), that offset a decline in transfers (by 0.6 pps of GDP y-o-y) and a widening in the income deficit (by 0.1 pp of GDP y-o-y).

The improvement in the trade balance is attributed to a sharp increase in exports (by 0.9 pps of GDP y-o-y in 4M:16), due to the ongoing broadening of the country's export base in the flourishing sector of machinery and transport equipment (accounting for 28.5% of total exports and contributing 1.0 pp of GDP to the 4M:16 increase), and higher exports of chemicals and manufactured products (c. 25.0% of total exports, contributing 0.7 pps of GDP to the annual 4M:16 rise) from the technological industrial development zones, which more than compensated for the decline in traditional export sectors (iron and steel, clothing and textiles). The narrowing in the trade deficit would have been larger had imports not increased (by 0.2 pps of GDP y-o-y in 4M:16), due to a sharp increase in investment-related imports (by 0.8 pps of GDP y-o-y in 4M:16), linked to ⅔ of the economy's exports. The increase in overall imports was, however, contained by a significant decline in imports of energy (by 0.6 pps of GDP y-o-y in 4M:16), in line with global oil price developments.

The deterioration in the transfers balance resulted from a sharp decline in private transfers (by 1.0 pp of GDP y-o-y in 4M:16), mainly due to residents' strong purchases of foreign currency in April (accounted as transfers' outflows by the Central Bank) following rumours of a sharp devaluation of the MKD in the aftermath of President's Ivanov's controversial decision to pardon 56 officials prosecuted over their involvement in a wiretapping scandal.

**The capital and financial account (CFA) surplus declined by a mere 0.1 pp of GDP y-o-y to 0.6% in 4M:16**. The CFA surplus remained broadly unchanged on an annual basis in 4M:16 (declining by just 0.1 pp y-o-y to 0.6% of GDP).

Reflecting CAB and CFA developments in 4M:16, the overall balance recorded a deficit of EUR 64.4mn (or 0.6% of GDP). This, combined with valuation effects, led to a decline in FX reserves by EUR 68mn y-o-y in 4M:16, to EUR 2.2bn, covering 4.4 months of GNFS imports (down from 4.6 months in FY:15).

**The CAD is set to widen significantly in 5-12M:16, ending the year at 2.0% of GDP.** Looking forward, we expect the trade deficit to widen during the remainder of the year, as the expected decline in energy imports will not be sufficient to compensate for continued robust growth in non-energy imports and a further decline in private transfers (i.e. conversion of MKD into EUR due to pending political deadlock). We see the CAD widening for a second successive year, by 0.6 pps of GDP y-o-y to 2.0% of GDP in FY:16.

Importantly, despite no debt repayments to the IMF this year (against 1.8% of GDP in FY:15), filling the external financing gap will not be easy due to the ongoing domestic political crisis. Projecting that: i) net FDI inflows decline (to 1.4% of GDP from 1.9% of GDP in FY:15); ii) net portfolio investment inflows moderate (to c. 0% of GDP from 0.7% of GDP in FY:15); and iii) the maturing external debt rollover rate deteriorates (to 90% from 100% in FY:15), we foresee FX reserves declining significantly, by EUR 180mn y-o-y to EUR 2.0bn at end-2016 (covering 4.0 months of GNFS imports), following a decrease of EUR 175mn in 2015.

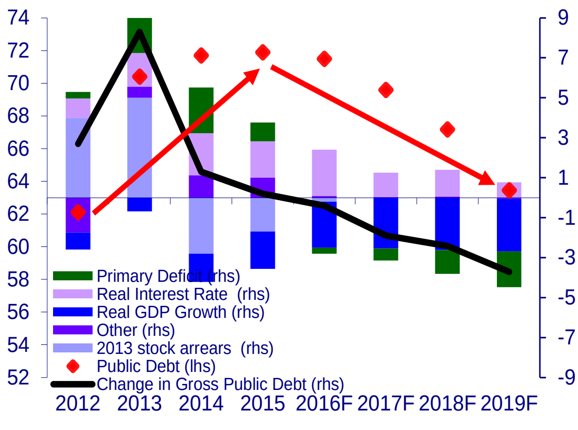
# Albania

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

| Consolidated Fiscal Balance (% of GDP) | 2015 | 5M:15 | 5M:16 | 2016 Budget | NBG 2016F |
|---|---|---|---|---|---|
| Revenue | 26.2 | 10.5 | 10.9 | 27.9 | 26.6 |
| Tax Revenue | 23.8 | 9.3 | 10.0 | 25.1 | 24.4 |
| PIT | 2.0 | 0.8 | 0.9 | 2.1 | 2.0 |
| CIT | 1.7 | 0.8 | 1.0 | 1.6 | 1.7 |
| VAT | 8.7 | 3.3 | 3.4 | 9.2 | 8.8 |
| Excises | 2.7 | 1.0 | 1.1 | 3.0 | 2.6 |
| Customs | 0.4 | 0.1 | 0.2 | 0.4 | 0.4 |
| Other taxes | 8.3 | 3.3 | 3.5 | 8.8 | 8.8 |
| Grants | 0.6 | 0.2 | 0.2 | 0.9 | 0.6 |
| Non-Tax Rev. | 1.8 | 1.0 | 0.7 | 1.9 | 1.6 |
| Expenditure | 29.8 | 11.2 | 9.7 | 30.2 | 28.9 |
| Current Exp. | 24.1 | 9.1 | 8.8 | 25.7 | 25.0 |
| Personnel | 5.0 | 2.0 | 1.8 | 4.8 | 4.8 |
| Operational | 3.0 | 0.9 | 0.8 | 2.9 | 3.0 |
| Subsidies | 0.1 | 0.0 | 0.0 | 0.1 | 0.1 |
| Social Insur. | 9.5 | 3.8 | 3.8 | 10.2 | 9.9 |
| Local Budget | 2.3 | 0.9 | 0.8 | 3.3 | 3.0 |
| Other Exp. | 1.5 | 0.6 | 0.5 | 1.6 | 1.4 |
| Int. Payments | 2.7 | 1.0 | 1.0 | 2.9 | 2.9 |
| Capital Exp. | 4.1 | 1.2 | 0.9 | 4.0 | 3.6 |
| Net Lending/Arrears | 1.3 | 0.8 | 0.0 | 0.3 | 0.3 |
| Contingency Reser. | 0.3 | 0.0 | 0.0 | 0.2 | 0.0 |
| Fiscal Bal. | -3.6 | -0.7 | 1.2 | -2.3 | -2.3 |
| Primary Bal. | -0.9 | 0.3 | 2.2 | 0.6 | 0.6 |
| Fiscal Bal. [a] | -2.4 | 0.2 | 1.2 | -2.3 | -2.3 |
| Primary Bal. [a] | 0.3 | 1.2 | 2.2 | 0.6 | 0.6 |

a: excluding the clearance of arrears

Contributions to Public Debt (pps of GDP)




| | 11 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) | 471 | 430 | 400 | 350 |

| | 11 July | 1-W % | YTD % | 2-Y % |
|---|---|---|---|---|
| Stock Market | - - - | - - - | - - - | - - - |

| | 2013 | 2014 | 2015 | 2016F | 2017F |
|---|---|---|---|---|---|
| Real GDP Growth (%) | 1.1 | 2.0 | 2.6 | 3.2 | 3.6 |
| 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 |

**Significant fiscal consolidation in 5M:16, due to a strong tax revenue performance as well as expenditure restraint.** The cumulative fiscal surplus (excluding the repayment of arrears) increased by 1.1 pp y-o-y to 1.2% of GDP in 5M:16, due to higher revenue (up by 0.4 pps of GDP y-o-y in 5M:16) and lower expenditure (excluding arrears, down 0.7 pps of GDP y-o-y). Specifically, the tax revenue performance was impressive (up 0.7 pps of GDP y-o-y), more than offsetting the decline in non-tax revenue (down 0.3 pps of GDP y-o-y). The improvement in tax revenue in 5M:16 was broad-based, mainly supported by: i) the rebound in private consumption (following a sharp drop in Q1:15, due to payments of electricity bill arrears); and ii) the success of the Government's large-scale campaign against tax evasion. The latter was launched in September 2015 and targeted companies that are unregistered, understating payrolls, not using cash registers or not issuing invoices. As a result, VAT, social contributions, profit and personal income tax revenue increased (together up 0.6 pps of GDP). Moreover, excise tax revenue also increased (by 0.1 pp of GDP y-o-y), due to a surge in tobacco imports (that remained low during the same period a year ago, due to advance imports ahead of the increase in the excise tax on cigarettes from January 1st 2015).

The increase in overall revenue would have been even stronger had non-tax revenue not moderated, due to: i) lower royalties (a drop of 0.1 pp y-o-y to virtually 0.0% of GDP in Q1:16), reflecting the decline in global oil prices and domestic production; and ii) a base effect from the sale of a telecom licence for ALL 1.8bn, or 0.1% of GDP, in early 2015. On the other hand, expenditure restraint resulted mainly from lower capital expenditure (down by 0.3 pps of GDP y-o-y in 5M:16).

As a result, the 12-month rolling fiscal deficit (excluding the repayment of arrears) narrowed to a 20-month low of 1.3% of GDP in May from 2.4% at end-2015. Note that, including the clearance of accumulated arrears (down to 0.0 pps of GDP in 5M:16 from 0.8 pps in 5M:15), the 12-month rolling deficit narrowed at a faster pace, to a 9½-year low of 1.6% of GDP in May from 3.6% at end-2015.

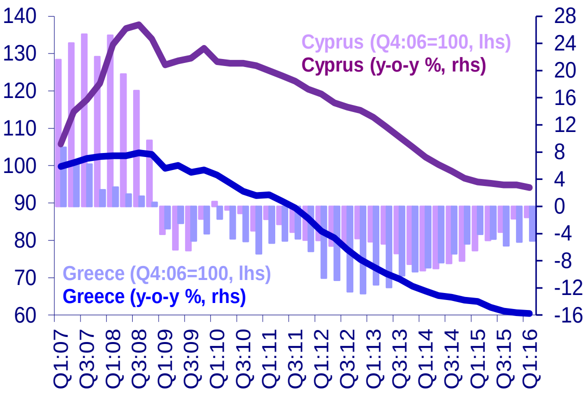
**Meeting the 2016 fiscal deficit target requires further expenditure cuts in 6-12M:16.** The 2016 Budget envisages a broadly neutral stance, targeting a deficit of 2.3% of GDP, 0.1 pp below the FY:15 outcome, excluding the repayment of arrears (a contractionary fiscal stance, projecting a deficit of 2.3% of GDP this year against an outcome of 3.6% in FY:15, including the clearance of arrears).

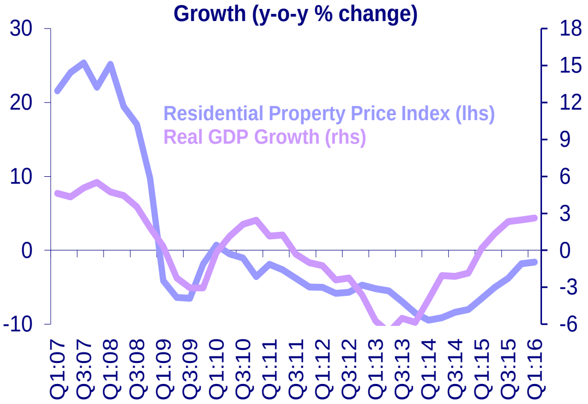
In our view, meeting the FY:16 fiscal deficit target requires lower-than-budgeted expenditure, as the Budget revenue target appears overly optimistic. In fact, in the absence of any major new tax measures and despite the strong performance in 5M:16, we expect overall revenue to undershoot its FY:16 target (by 1.3 pps of GDP). The anticipated weak revenue performance in 6-12M:16 should result mainly from: i) the fading impact of the Government's campaign against the grey economy; and ii) lower royalties, VAT and customs related to the oil sector, due to the continued drop in oil prices and production, as well as lower profit income tax from oil industries. Against this backdrop, meeting the FY:16 fiscal deficit target will, once again, require further under-execution of spending in 6-12M:16. The latter should mainly occur through cuts in capital expenditure and the saving of contingency reserves. Overall, in view of the authorities' track record, we expect the FY:16 deficit to be in line with its target of 2.3% of GDP.

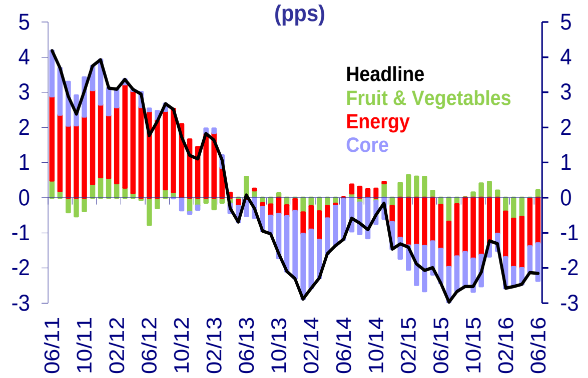
Should our FY:16 fiscal deficit forecast materialise, the public debt-to-GDP ratio would narrow, for the first time in 6 years, to 70.4% from a 15-year high of 71.9% in 2015. Continued fiscal consolidation (c. 1.0 pp of GDP per year during 2016-19) along with improved GDP growth, should bring the public debt-to-GDP ratio below 60.0% by 2020.

# Cyprus

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




| | 11 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) | 333 | 305 | 280 | 250 |

| | 11 July | 1-W % | YTD % | 2-Y % |
|---|---|---|---|---|
| CSE Index | 66 | -0.4 | -3.0 | -42.7 |

| | 2013 | 2014 | 2015 | 2016F | 2017F |
|---|---|---|---|---|---|
| Real GDP Growth (%) | -5.9 | -2.5 | 1.6 | 2.5 | 2.6 |
| Inflation (eop. %) | -2.3 | -1.5 | -1.2 | -0.2 | 1.0 |
| Cur. Acct. Bal. (% GDP) | -4.5 | -4.6 | -3.6 | -3.8 | -4.2 |
| Fiscal Bal. (% GDP) | -4.7 | -0.3 | 0.0 | 0.0 | 0.2 |

**The decline in real estate prices slowed further to 1.8% y-o-y in Q1:16.** The Residential Property Price Index (RPPI) continued to decline, at a slower pace, for an eighth successive quarter in Q1:16 -- down 1.8% y-o-y compared with a decline of 4.3% in FY:15 and a trough of -9.4% in Q1:14. With the Q1:16 outcome, prices reverted to their Q3:06 level -- 31.7% down from their peak in Q3:08.

This moderation reflects, *inter alia*: i) a sharp rise in property sales to domestic buyers (up 26.1% y-o-y to 1,069 in Q1:16), reflecting a brighter economic outlook, in view of the expected "clean exit" of the country from the 3-year adjustment programme at end-Q1:16, as well as a 50% reduction in transfers fees for property purchases starting from July 2015; ii) a significant rise in property sales to overseas buyers (up by 19.2% y-o-y to 298 in Q1:16), partly on the back of a government programme providing (a) permanent residence to foreigners for property purchases exceeding EUR 300k and (b) citizenship for property purchases surpassing EUR 5mn; and iii) the likely continued large FDI inflows to the real estate sector (up 7.1% y-o-y to EUR 194mn or 1.1% of GDP in FY:15).

Going forward, we expect real estate prices to continue to decline at a slower pace during the rest of the year due, *inter alia*, to: i) a smooth implementation of the mortgage foreclosure law, which took effect in June, due to the banks' decision to proceed slowly with house foreclosures -- avoiding an over-supply shock; and ii) the parliamentary approval, on July 14th, of the reduction of the immovable property tax by 72.5%-75.0% for this year and its abolition from 2017 onwards. All said, we foresee real estate prices posting the mildest decline in the past 5 years in FY:16 -- down by c. 1.5% compared with declines of 4.3% in FY:15 and 8.8% in FY:14.

With Cyprus being a popular choice for British holiday home owners, the subsequent marked weakening of the GBP (we expect the depreciation of GBP against the EUR since the June 23rd referendum to accelerate to c. 15.0% at end-year from c.10.0% currently) and, to a lesser extent, the sharp slowdown of the UK economy due to the Brexit vote could contain the ongoing recovery in real estate prices in Cyprus, especially in FY:17.

**Headline deflation remained broadly stable at -2.3% y-o-y in June.** Prices of volatile fruit and vegetables (accounting for 3.5% of the CPI basket) increased by 6.1% y-o-y in June compared with a decrease of 0.1% y-o-y in May. At the same time, the pace of decline in energy prices (accounting for 9.0% of the CPI basket) slowed to -14.6% y-o-y in June from -15.1% y-o-y in May, in line with developments in global oil prices (the price of Brent was down 21.7% y-o-y in EUR terms in June against a decrease of 28.3% y-o-y in May).

However, the increase in prices of volatile fruit and vegetables and the slower decline in energy prices were broadly offset by an acceleration in core deflation (excluding volatile food and energy prices and accounting for 87.6% of the CPI basket and down 1.2% y-o-y in June compared with -0.9% in May), supported by the drop in telecommunication inflation, likely on the back of tighter competition.

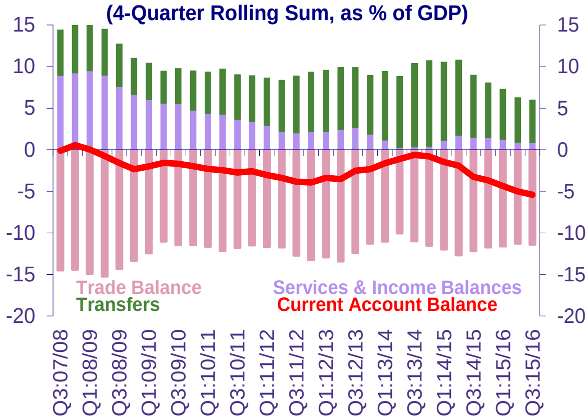
**Deflation set to ease sharply by end-2016.** Looking ahead, inflation should resume its upward trend in July, mainly on the back of: i) the continued recovery in domestic demand (we see real GDP growth accelerating to 2.5% in FY:16 from 1.6% in FY:15); ii) a rise in fuel prices (we project the price of Brent to rise by 3.9% y-o-y in EUR terms in 7-12M:16 against a drop of 31.0% y-o-y in 6M:16); and iii) strong base effects.

Overall, we expect headline and core inflation to end the year at -0.2% and 1.0% y-o-y, respectively, up from -1.2% and -0.4% at end-2015.

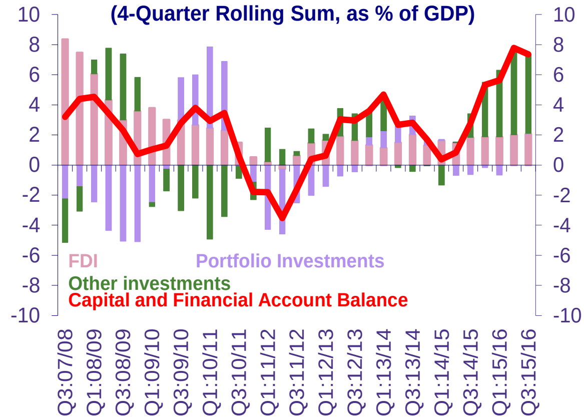
# Egypt

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

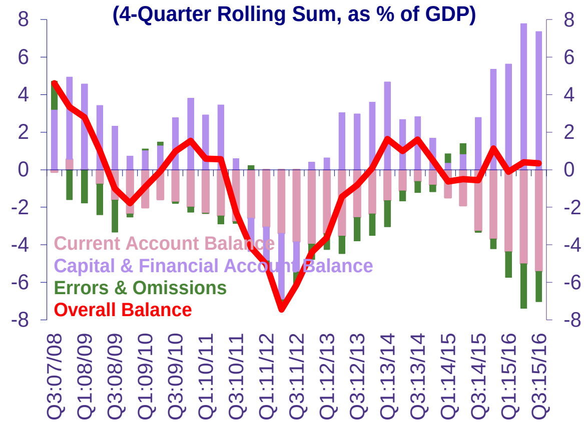
**Current Account Balance (4-Quarter Rolling Sum, as % of GDP)**




**Capital & Financial Account Balance (4-Quarter Rolling Sum, as % of GDP)**




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




| | 11 July | 3-M F | 6-M F | 12-M F |
|---|---|---|---|---|
| O/N Interbank Rate (%) | 12.0 | 11.8 | 12.8 | 11.5 |
| EGP/USD | 8.88 | 10.5 | 10.5 | 11.5 |
| Sov. Spread (2020. bps) | 442 | 400 | 300 | 220 |

| | 11 July | 1-W % | YTD % | 2-Y % |
|---|---|---|---|---|
| HERMES 100 | 686 | 3.7 | 9.0 | -18.8 |

| | 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 |

**The current account deficit (CAD) widened sharply in the first nine months of the fiscal year, due to a sharp decline in both official and private transfers, as well as in tourism receipts.** The CAD rose significantly by 1.7 pps y-o-y (USD 6.1bn y-o-y) to 4.2% of GDP (USD 14.5bn) in 9M:15/16 (July 2015-March 2016). The deterioration in 9M:15/16 was driven by: i) a sharp decline in both cash and commodity grants from Gulf countries (down 0.8 pps of GDP y-o-y or USD 2.6bn y-o-y to USD 0.1bn) and workers' remittances (mostly originating from Gulf countries, down 0.7 pps of GDP y-o-y or USD 2.0bn y-o-y), due to the sharp drop in global oil prices during the past two years; and ii) plummeting tourism receipts (down 40.5% y-o-y or 0.7 pps of GDP y-o-y or USD 2.2bn y-o-y), reflecting heightening domestic security concerns.

The CAD would have been larger in 9M:15/16 had the non-energy trade deficit not narrowed (down 0.5 pps of GDP y-o-y). Specifically, non-energy merchandise imports declined significantly (down 0.9 pps of GDP y-o-y), mainly on the back of a shortage of foreign currency and the CBE's imposition of stricter rules on financing imports in early-Q3:15/16 (January), prioritising the import of basic goods and aiming at reducing the country's import bill by 25% to USD 60bn in 2016. On the other hand, non-energy merchandise exports also declined, albeit at a slower pace than non-energy merchandise imports (down 0.4 pps of GDP y-o-y), reflecting an overvalued domestic currency and the weakening of the export base due to restricted imports.

**The capital and financial account (CFA) balance improved significantly in 9M:15/16, mainly on the back of unsustainably large short-term inflows.** The CFA balance strengthened to USD 13.9bn (4.1% of GDP) in 9M:15/16 from USD 6.6bn (2.0% of GDP) a year earlier, on the back of larger short-term deposits at domestic banks, (net) short-term trade credit and (net) FDI inflows (up USD 7.1bn y-o-y, USD 1.8bn y-o-y, and USD 0.8bn, respectively).

However, the CFA surplus fell short of covering the CAD. The resulting gap, combined with large negative net errors & omissions (minus USD 3.1bn or minus 0.9% of GDP), led to a negative overall balance in 9M:15/16 (USD 3.6bn or 1.1% of GDP). The large negative errors and omissions likely reflect unrecorded non-energy imports financed through the flourishing foreign currency black market. As a result and accounting for valuation effects, FX reserves declined by USD 3.5bn to USD 16.6bn (or 3.2 months of imports of goods and non-factor services) between end-Q4:14/15 and end-Q3:15/16.

**We estimate the CAD to have reached a high of 6.0% of GDP in FY:15/16.** In view of the 9M:15/16 performance, recent trends, and the negative impact of mid-March devaluation of the domestic currency (by 12.7% to EGP 8.85 per USD) on the trade balance in the short term (J-curve effect), we estimate the CAD to have widened significantly to a 3-decade high of 6.0% of GDP in FY:15/16 from 3.7% of GDP in FY:14/15. Worryingly, recently-released end-2015/16 FX reserves (down USD 2.6bn y-o-y) suggest that the bulk of our estimated FY:15/16 CAD (USD 20.4bn) was filled through unsustainably high short-term inflows. Encouragingly, ongoing negotiations with the IMF on a 3-year USD 10bn agreement are likely to be completed successfully, in view of the authorities' commitment to implement a series of reforms recommended by a Fund delegation some months ago, including: i) the long-awaited replacement of the current complex sales' taxes by a VAT; ii) additional cuts in energy subsidies; and iii) a gradual move towards a more flexible exchange rate policy. Such an agreement would ease significantly the country's external imbalances and financing pressures, amid a more adverse external environment.

## FOREIGN EXCHANGE MARKETS, JULY 11TH 2016

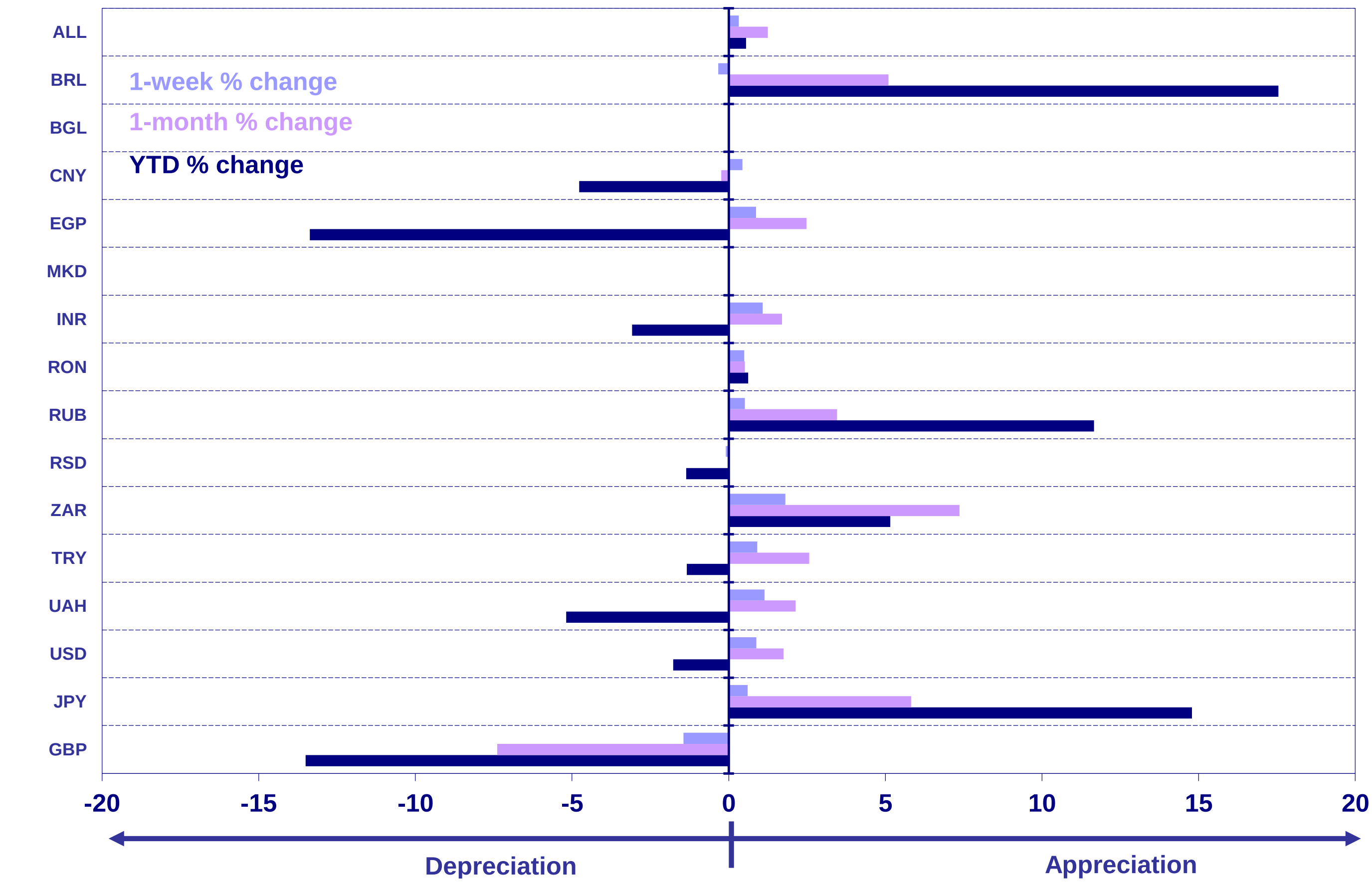
*Against the EUR*

| | Currency | 2016 SPOT | 1-week %change | 1-month %change | YTD %change* | 1-year %change | Year-Low | Year-High | 3-month Forward rate** | 6-month Forward rate** | 12-month Forward rate** | 2015 % change* | 2014 % change* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Albania** | ALL | 136.3 | 0.3 | 1.2 | 0.6 | 2.6 | 136.6 | 139.5 | 136.7 | 136.5 | 135.0 | 2.0 | 0.1 |
| **Brazil** | BRL | 3.66 | -0.3 | 5.1 | 17.5 | -5.8 | 3.52 | 4.55 | 4.19 | 4.17 | 4.14 | -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 | 7.39 | 0.4 | -0.2 | -4.8 | -7.7 | 6.99 | 7.52 | 7.63 | 7.63 | 7.62 | 6.7 | 10.8 |
| **Egypt** | EGP | 9.80 | 0.9 | 2.5 | -13.4 | -11.8 | 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 | 74.1 | 1.1 | 1.7 | -3.1 | -5.6 | 71.3 | 77.8 | 79.5 | - - - | - - - | 6.6 | 12.3 |
| **Romania** | RON | 4.49 | 0.5 | 0.5 | 0.6 | -1.6 | 4.45 | 4.56 | 4.50 | 4.50 | 4.51 | -0.8 | -0.5 |
| **Russia** | RUB | 71.0 | 0.5 | 3.5 | 11.7 | -12.4 | 70.3 | 72.0 | 72.6 | 74.2 | 77.2 | -15.1 | -32.8 |
| **Serbia** | RSD | 123.1 | -0.1 | 0.0 | -1.4 | -2.5 | 121.6 | 124.3 | 123.7 | 124.1 | - - - | -0.1 | -5.6 |
| **S. Africa** | ZAR | 16.0 | 1.8 | 7.4 | 5.2 | -14.2 | 15.92 | 18.58 | 16.3 | 16.6 | 17.4 | -16.6 | 3.0 |
| **Turkey** | YTL | 3.21 | 0.9 | 2.6 | -1.3 | -9.4 | 3.12 | 3.39 | 3.29 | 3.37 | 3.52 | -10.8 | 4.4 |
| **Ukraine** | UAH | 27.5 | 1.1 | 2.1 | -5.2 | -11.8 | 25.06 | 30.16 | 33.0 | - - - | - - - | -27.5 | -40.8 |
| | | | | | | | | | | | | | |
| **US** | USD | 1.11 | 0.9 | 1.7 | -1.8 | -0.5 | 1.1 | 1.2 | 1.11 | 1.11 | 1.12 | 11.4 | 13.6 |
| **JAPAN** | JPY | 113.7 | 0.6 | 5.8 | 14.8 | 19.4 | 109.6 | 132.3 | 113.7 | 113.6 | 113.5 | 11.0 | -0.1 |
| **UK** | GBP | 0.85 | -1.4 | -7.4 | -13.5 | -16.6 | 0.7 | 0.9 | 0.85 | 0.85 | 0.86 | 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 11th 2016)



## MONEY MARKETS, JULY 11TH 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 | - - - | 12.0 | - - - | - - - | 0.4 | 10.5 | - - - | 9.5 | 8.3 | 15.7 | - - - | 0.4 |
| **T/N** | - - - | - - - | - - - | - - - | - - - | - - - | - - - | - - - | 0.4 | 10.5 | 3.0 | - - - | 8.0 | - - - | - - - | - - - |
| **S/W** | 1.4 | 14.1 | -0.1 | 2.3 | -0.4 | - - - | 1.4 | - - - | - - - | 10.1 | 3.0 | - - - | 8.4 | 16.9 | -0.4 | 0.4 |
| **1-Month** | 1.7 | 14.1 | 0.0 | 2.8 | -0.4 | - - - | 1.7 | 6.8 | 0.6 | 10.8 | 3.3 | 9.6 | 8.3 | 19.3 | -0.4 | 0.5 |
| **2-Month** | - - - | 14.1 | 0.1 | - - - | -0.3 | - - - | - - - | - - - | - - - | 10.9 | 3.5 | 9.6 | 8.3 | - - - | -0.3 | 0.6 |
| **3-Month** | 1.8 | 14.1 | 0.1 | 2.9 | -0.3 | - - - | 2.1 | 7.0 | 0.8 | 10.9 | 3.6 | 9.6 | 8.6 | 19.9 | -0.3 | 0.7 |
| **6-Month** | 1.8 | 13.9 | 0.3 | 3.0 | -0.2 | - - - | 2.5 | - - - | 1.1 | 10.9 | 3.8 | 9.8 | 8.4 | - - - | -0.2 | 1.0 |
| **1-Year** | 1.9 | 13.2 | 0.8 | 3.1 | -0.1 | - - - | 3.0 | - - - | 1.2 | 11.0 | - - - | 9.9 | 9.0 | - - - | -0.1 | 1.3 |

## LOCAL DEBT MARKETS. JULY 11TH 2016

| | Albania | Brazil | Bulgaria | China | Cyprus | Egypt | FYROM | India | Romania | Russia | Serbia | Turkey | S. Africa | Ukraine | EU | US |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **3-Month** | 0.9 | - - - | - - - | - - - | - - - | 13.8 | 1.5 | 6.6 | - - - | 10.9 | 3.0 | 8.3 | - - - | - - - | -0.7 | 0.3 |
| **6-Month** | 0.9 | - - - | - - - | - - - | - - - | 14.9 | 2.3 | 6.7 | 0.7 | 11.0 | 3.7 | 8.0 | - - - | - - - | -0.7 | 0.4 |
| **12-Month** | 1.3 | - - - | 0.1 | 2.3 | - - - | 15.3 | 2.6 | 6.9 | 0.8 | 9.9 | 4.7 | 8.3 | - - - | 16.6 | -0.6 | 0.5 |
| **2-Year** | 1.5 | - - - | - - - | 2.5 | - - - | - - - | 2.0 | 7.0 | 0.8 | 9.3 | - - - | 8.3 | 7.5 | - - - | -0.7 | 0.7 |
| **3-Year** | - - - | - - - | 0.4 | 2.5 | 2.5 | - - - | 2.7 | 7.0 | 1.7 | 9.2 | - - - | 8.3 | 7.8 | - - - | -0.7 | 0.8 |
| **5-Year** | - - - | 12.0 | - - - | 2.7 | - - - | 16.6 | 2.7 | 7.2 | 2.6 | 8.8 | 7.0 | 8.8 | 8.1 | - - - | -0.6 | 1.0 |
| **7-Year** | - - - | - - - | 1.7 | - - - | 3.7 | 17.1 | - - - | 7.4 | 2.9 | 8.6 | - - - | - - - | - - - | - - - | -0.5 | 1.3 |
| **10-Year** | - - - | 12.1 | 2.5 | 2.8 | 4.0 | 17.6 | 3.9 | 7.4 | 3.2 | 8.4 | - - - | 8.9 | 8.6 | - - - | -0.2 | 1.4 |
| **15-Year** | - - - | - - - | - - - | - - - | - - - | - - - | 4.3 | 7.7 | - - - | 8.5 | - - - | - - - | 9.1 | - - - | 0.0 | - - - |
| **25-Year** | - - - | - - - | - - - | - - - | - - - | - - - | - - - | - - - | - - - | - - - | - - - | - - - | 9.3 | - - - | - - - | - - - |
| **30-Year** | - - - | - - - | - - - | - - - | - - - | - - - | - - - | 7.7 | - - - | - - - | - - - | - - - | 9.4 | - - - | 0.4 | 2.2 |

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

## CORPORATE BONDS SUMMARY. JULY 11TH 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 | 3.8 | 456 | 404 |
| | **Bulgarian Telecom. 6.625% '18** | EUR | B-/B1 | 15/11/2018 | 400 | 4.9 | 547 | 517 |
| **Cyprus** | **Aroundtown Property 3% '21** | EUR | NA/NA | 9/12/2021 | 200 | 2.4 | 306 | 259 |
| **Russia** | **Gazprom 8.2% '19** | RUB | BB+/NA | 9/4/2019 | 10,000 | 10.8 | 151 | - - - |
| | **Gazprom 8.9% '21** | RUB | BB+/NA | 26/1/2021 | 10,000 | 10.7 | 136 | - - - |
| **South Africa** | **FirstRand Bank Ltd 4.25% '20** | USD | BBB-/Baa2 | 30/4/2020 | 500 | 3.7 | 266 | 275 |
| | **FirstRand Bank Ltd 2.25% '20** | EUR | NA/NA | 30/1/2020 | 100 | 0.9 | 154 | 113 |
| **Turkey** | **Vakiflar Bankasi 3.5% '19** | EUR | NA/Baa3 | 17/6/2019 | 500 | 2.3 | 300 | 259 |
| | **Garanti Bankasi 3.38%'19** | EUR | NA/Baa3 | 8/7/2019 | 500 | 2.0 | 273 | 232 |
| | **Arcelik AS 3.875% '21** | EUR | BB+/NA | 16/9/2021 | 350 | 2.9 | 364 | 310 |
| | **Turkiye Is Bankasi 6% '22** | USD | NA/Ba3 | 24/10/2022 | 1,000 | 5.5 | 443 | 437 |

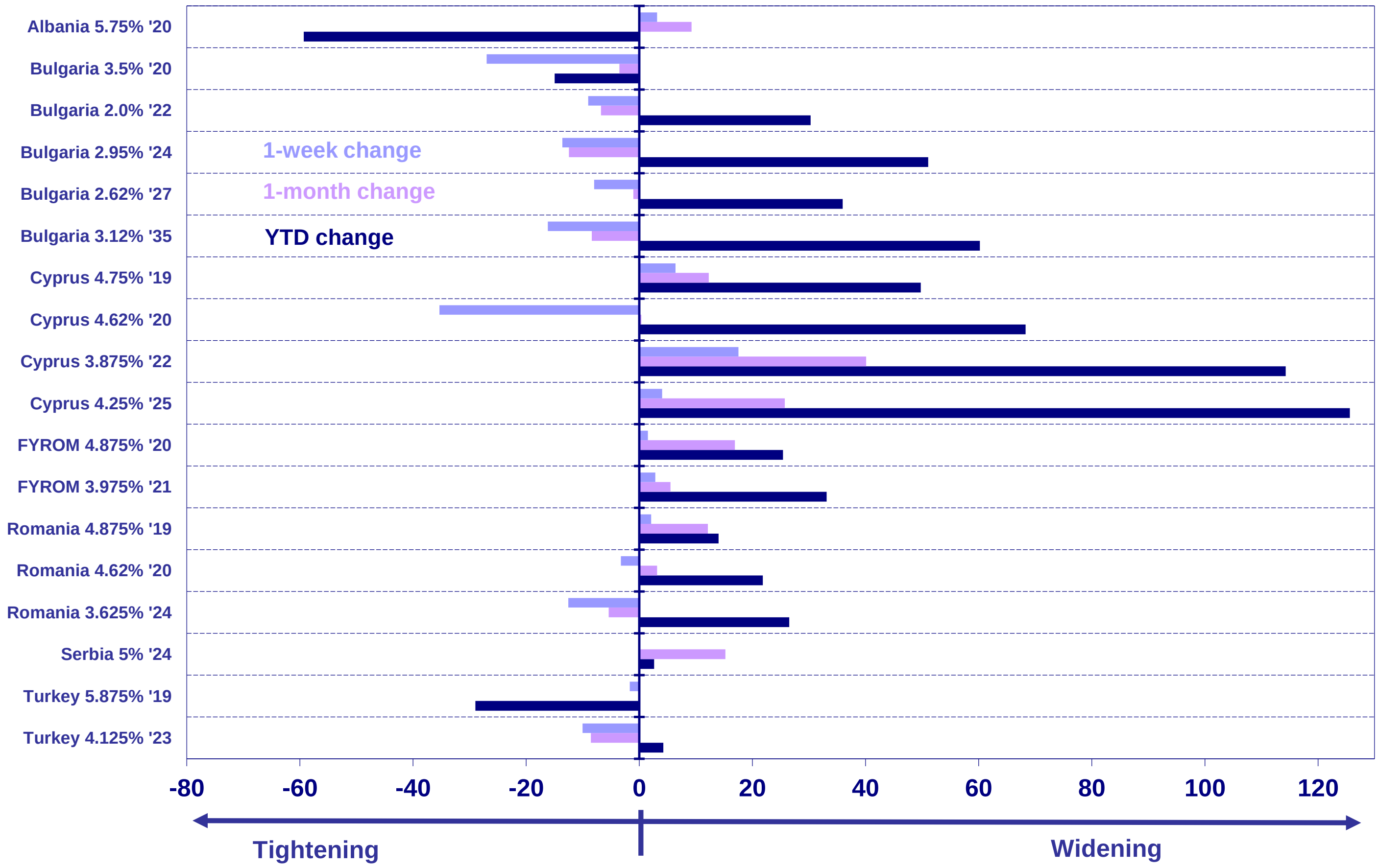
## CREDIT DEFAULT SWAP SPREADS. JULY 11TH 2016

| | Albania | Brazil | Bulgaria | China | Cyprus | Egypt | FYROM | India | Romania | Russia | Serbia | Turkey | S. Africa | Ukraine |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **5-Year** | - - - | 298 | 152 | 116 | 289 | 490 | - - - | 152 | 122 | 218 | 245 | 218 | 247 | - - - |
| **10-Year** | - - - | 371 | 197 | 162 | 313 | 501 | - - - | 162 | 163 | 273 | 292 | 279 | 304 | - - - |

## EUR-DENOMINATED SOVEREIGN EUROBOND SUMMARY. JULY 11TH 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 | 471 | 438 |
| **Bulgaria 3.5% '20** | EUR | NA/NA | 16/1/2020 | 145 | 0.6 | 126 | 88 |
| **Bulgaria 2.0% '22** | EUR | BB+/Baa2 | 26/3/2022 | 1,250 | 1.4 | 198 | 156 |
| **Bulgaria 2.95% '24** | EUR | BB+/Baa2 | 3/9/2024 | 1,493 | 2.1 | 242 | 202 |
| **Bulgaria 2.62% '27** | EUR | BB+/Baa2 | 26/3/2027 | 1,000 | 2.5 | 261 | 210 |
| **Bulgaria 3.12% '35** | EUR | BB+/Baa2 | 26/3/2035 | 900 | 3.3 | 311 | 254 |
| **Cyprus 4.75% '19** | EUR | B+/NA | 25/6/2019 | 566 | 2.5 | 320 | 284 |
| **Cyprus 4.62% '20** | EUR | B+/B3 | 3/2/2020 | 770 | 2.7 | 333 | 300 |
| **Cyprus 3.875% '22** | EUR | NA/B3 | 6/5/2022 | 1,000 | 3.7 | 429 | 382 |
| **Cyprus 4.25% '25** | EUR | NA/B1 | 4/11/2025 | 1,000 | 4.0 | 419 | 374 |
| **FYROM 4.875% '20** | EUR | BB-/NA | 1/12/2020 | 270 | 4.5 | 542 | 472 |
| **FYROM 3.975% '21** | EUR | BB-/NA | 24/7/2021 | 500 | 4.5 | 549 | 568 |
| **Romania 4.875% '19** | EUR | BBB-/Baa3 | 7/11/2019 | 1,500 | 0.4 | 113 | 75 |
| **Romania 4.62% '20** | EUR | BBB-/Baa3 | 18/9/2020 | 2,000 | 0.7 | 136 | 99 |
| **Romania 3.625% '24** | EUR | BBB-/Baa3 | 24/4/2024 | 1,250 | 2.0 | 230 | 200 |
| **Serbia 5% '24** | EUR | BB-/NA | 11/4/2024 | 125 | 3.7 | 405 | 377 |
| **Turkey 5.875% '19** | EUR | NR/Baa3 | 2/4/2019 | 1,250 | 1.3 | 198 | 165 |
| **Turkey 4.125% '23** | EUR | NR/Baa3 | 11/4/2023 | 1,000 | 2.6 | 312 | 279 |

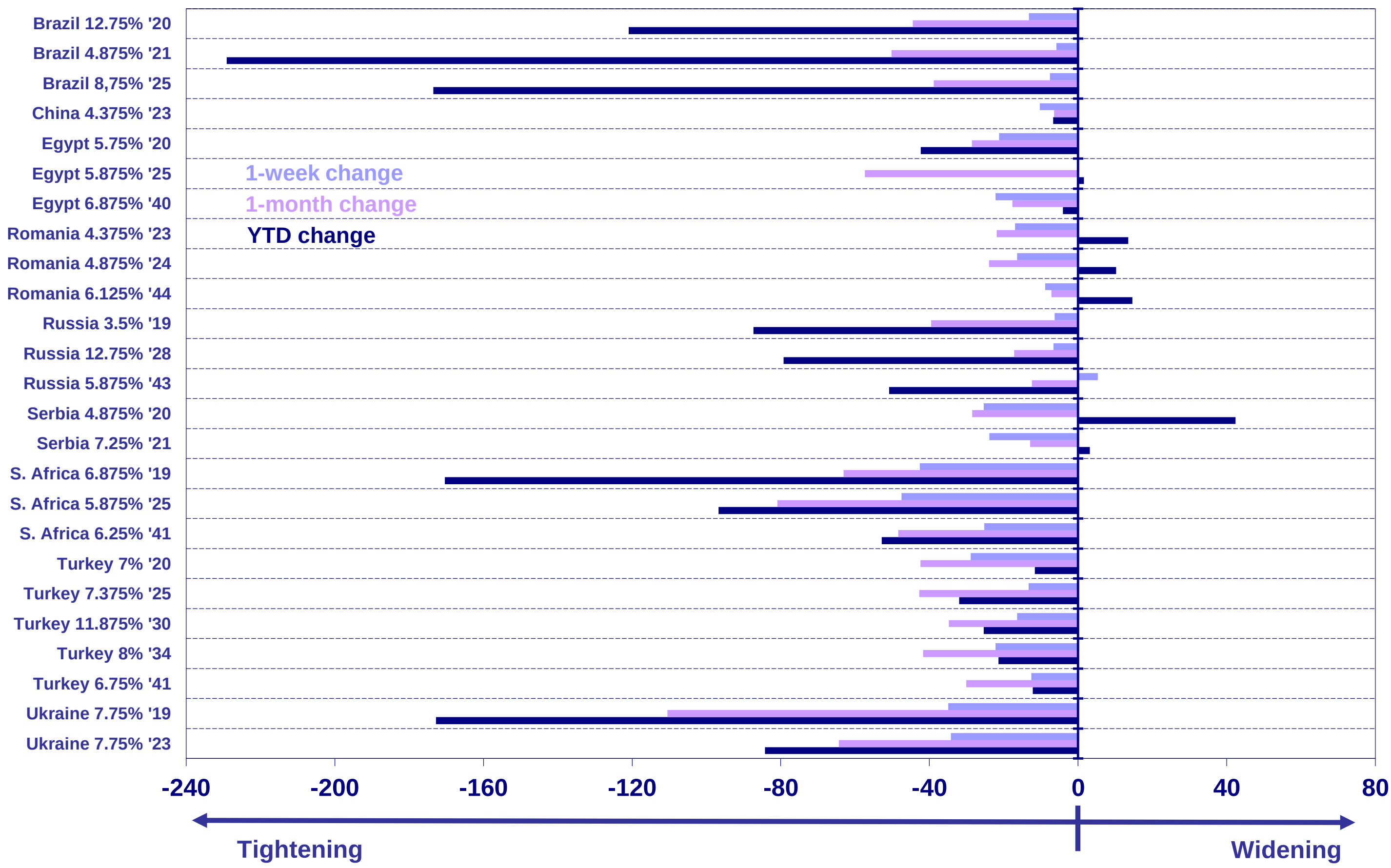
### EUR-Denominated Eurobond Spreads (July 11th 2016)



## USD-Denominated Sovereign Eurobond Summary. July 11th 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 | 245 | 269 |
| **Brazil 4.875% '21** | USD | BB+/Baa3 | 22/1/2021 | 2,988 | 3.5 | 250 | 259 |
| **Brazil 8.75% '25** | USD | BB+/Baa3 | 4/2/2025 | 969 | 4.7 | 334 | 405 |
| **China 4.375% '23** | USD | AA-/Aa3 | 2/5/2023 | 500 | 3.1 | 170 | 207 |
| **Egypt 5.75% '20** | USD | B-/B3 | 29/4/2020 | 1,000 | 5.2 | 442 | 424 |
| **Egypt 5.875% '25** | USD | B-/B3 | 11/6/2025 | 1,500 | 7.2 | 573 | 552 |
| **Egypt 6.875% '40** | USD | B-/B3 | 30/4/2040 | 500 | 8.0 | 583 | 568 |
| **Romania 4.375% '23** | USD | BBB-/Baa3 | 22/8/2023 | 1,500 | 3.0 | 174 | 192 |
| **Romania 4.875% '24** | USD | BBB-/Baa3 | 22/1/2024 | 1,000 | 3.0 | 176 | 196 |
| **Romania 6.125% '44** | USD | BBB-/Baa3 | 22/1/2044 | 1,000 | 4.3 | 211 | 301 |
| **Russia 3.5% '19** | USD | BB+/Ba1 | 16/1/2019 | 1,500 | 2.2 | 141 | 132 |
| **Russia 12.75% '28** | USD | BB+/Ba1 | 24/6/2028 | 2,500 | 4.4 | 297 | 434 |
| **Russia 5.875% '43** | USD | BB+/Ba1 | 16/9/2043 | 1,500 | 4.7 | 252 | 327 |
| **Serbia 4.875% '20** | USD | BB-/B1 | 25/2/2020 | 1,500 | 3.7 | 292 | 278 |
| **Serbia 7.25% '21** | USD | BB-/B1 | 28/9/2021 | 2,000 | 3.9 | 283 | 306 |
| **S. Africa 6.875% '19** | USD | BBB-/Baa2 | 27/5/2019 | 2,000 | 2.3 | 158 | 156 |
| **S. Africa 5.875% '25** | USD | BBB-/Baa2 | 16/9/2025 | 2,000 | 3.7 | 233 | 269 |
| **S. Africa 6.25% '41** | USD | BBB-/Baa2 | 8/3/2041 | 750 | 4.7 | 254 | 340 |
| **Turkey 7% '20** | USD | NR/Baa3 | 5/6/2020 | 2,000 | 3.0 | 227 | 224 |
| **Turkey 7.375% '25** | USD | NR/Baa3 | 5/2/2025 | 3,250 | 3.9 | 245 | 300 |
| **Turkey 11.875% '30** | USD | NR/Baa3 | 15/1/2030 | 1,500 | 4.2 | 280 | 404 |
| **Turkey 8% '34** | USD | NR/Baa3 | 14/2/2034 | 1,500 | 4.7 | 326 | 382 |
| **Turkey 6.75% '41** | USD | NR/Baa3 | 14/1/2041 | 3,000 | 4.8 | 271 | 346 |
| **Ukraine 7.75% '19** | USD | B-/Caa3 | 1/9/2019 | 1,744 | 7.9 | 716 | 690 |
| **Ukraine 7.75% '23** | USD | B-/Caa3 | 1/9/2023 | 1,355 | 8.1 | 686 | 679 |

### USD-Denominated Eurobond Spreads (July 11th 2016)



## STOCK MARKETS PERFORMANCE. JULY 11TH 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)** | 53,960 | 2.6 | 9.2 | 24.5 | 1.6 | 37,046 | 54,978 | 47.2 | -13.3 | -35.3 | -2.9 | -2.0 |
| **Bulgaria (SOFIX)** | 451 | 0.1 | 1.3 | -2.1 | -4.2 | 432 | 462 | -2.1 | -11.7 | -11.7 | 6.2 | 6.2 |
| **China (SHCOMP)** | 2,995 | 0.2 | 2.3 | -16.2 | -24.6 | 2,638 | 3,539 | -19.6 | 9.4 | 16.5 | 52.9 | 69.5 |
| **Cyprus (CSE GI)** | 66 | -0.4 | -6.1 | -3.0 | -16.1 | 64 | 70 | -3.0 | -20.9 | -20.9 | -17.0 | -17.0 |
| **Egypt (HERMES)** | 686 | 3.7 | -3.0 | 9.0 | 0.8 | 521 | 716 | 5.7 | -24.4 | -25.7 | 23.5 | 36.6 |
| **F.Y.R.O.M (MBI)** | 1,794 | 1.9 | 2.3 | -2.2 | 10.6 | 1,699 | 1,842 | -2.2 | -0.6 | -0.6 | 6.1 | 6.1 |
| **India (SENSEX)** | 27,627 | 1.3 | 3.7 | 6.4 | -1.2 | 22,495 | 28,578 | 4.2 | -5.0 | 0.7 | 29.9 | 44.7 |
| **Romania (BET-BK)** | 1,211 | 0.7 | 2.9 | -9.8 | -12.2 | 1,150 | 1,329 | -9.1 | 2.6 | 1.6 | 3.7 | 3.5 |
| **Russia (RTS)** | 4,329 | 1.7 | 1.1 | 9.3 | 16.7 | 3,509 | 4,393 | 23.3 | 30.3 | 9.5 | -6.9 | -37.4 |
| **Serbia (BELEX-15)** | 605 | -0.9 | -3.2 | -4.2 | -6.8 | 570 | 637 | -5.4 | -3.4 | -3.5 | 19.5 | 12.8 |
| **South Africa (FTSE/JSE)** | 52,170 | -0.5 | -1.9 | 2.7 | -0.6 | 45,976 | 54,704 | 9.4 | 1.9 | -15.1 | 7.6 | 10.9 |
| **Turkey (ISE 100)** | 79,235 | 1.1 | 3.1 | 8.2 | -5.0 | 68,230 | 86,931 | 7.6 | -16.3 | -25.4 | 26.4 | 32.0 |
| **Ukraine (PFTS)** | 224 | -0.8 | 1.3 | -7.1 | -35.2 | 215 | 256 | -11.7 | -37.8 | -54.8 | 28.7 | -24.2 |
| **MSCI EMF** | 847 | 0.4 | 2.8 | 7.0 | -10.2 | 687 | 856 | 5.8 | -17.0 | -7.5 | -4.6 | 8.2 |
| **MSCI EAFE** | 1,619 | -0.1 | -1.4 | -6.3 | -13.1 | 1,492 | 1,717 | -7.4 | -3.3 | 7.7 | -7.3 | 5.8 |
| **Greece (ASE-General)** | 548 | 1.5 | -11.4 | -10.3 | -31.3 | 421 | 659 | -10.3 | -23.6 | -23.6 | -28.9 | -28.9 |
| **Germany (XETRA DAX)** | 9,833 | 1.3 | 0.0 | -8.5 | -14.4 | 8,699 | 10,486 | -8.5 | -4.9 | -4.9 | 2.7 | 2.7 |
| **UK (FTSE-100)** | 6,683 | 2.5 | 9.3 | 6.5 | -0.8 | 5,500 | 6,612 | -7.8 | -4.9 | 0.1 | -2.7 | 4.1 |
| **Japan (NIKKEI-225)** | 15,709 | -0.4 | -5.4 | -17.5 | -21.8 | 14,864 | 18,951 | -4.3 | 9.1 | 20.2 | 7.1 | 7.0 |
| **USA (DJ INDUSTRIALS)** | 18,227 | 1.5 | 2.0 | 3.5 | 1.4 | 15,370 | 18,284 | 2.3 | -2.2 | 9.3 | 7.5 | 22.2 |
| **USA (S&P 500)** | 2,137 | 1.6 | 2.0 | 3.6 | 1.8 | 1,810 | 2,133 | 2.4 | -0.7 | 10.9 | 11.4 | 26.6 |

### Equity Indices (July 11th 2016)