South Eastern Europe and Mediterranean Emerging Market Economies

Weekly Report

28 June – 4 July 2016

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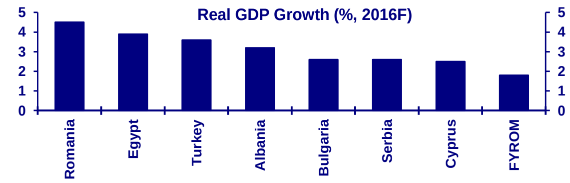
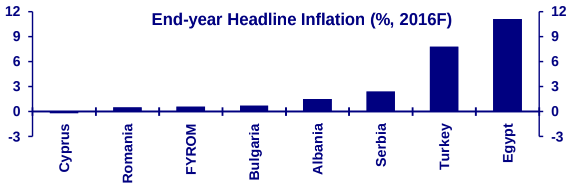
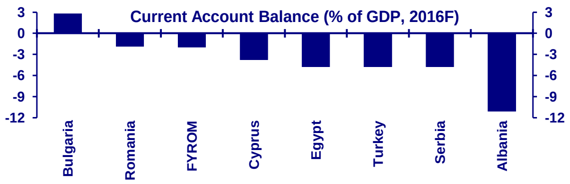
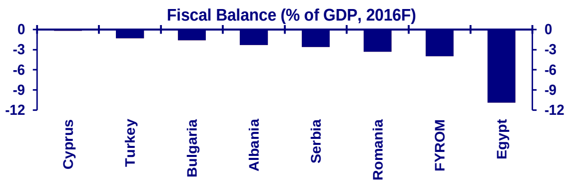


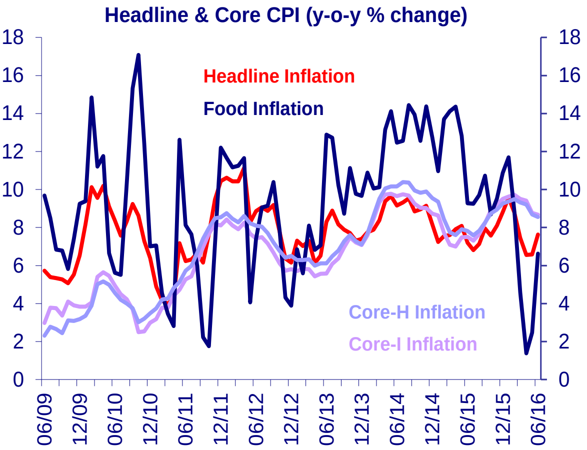


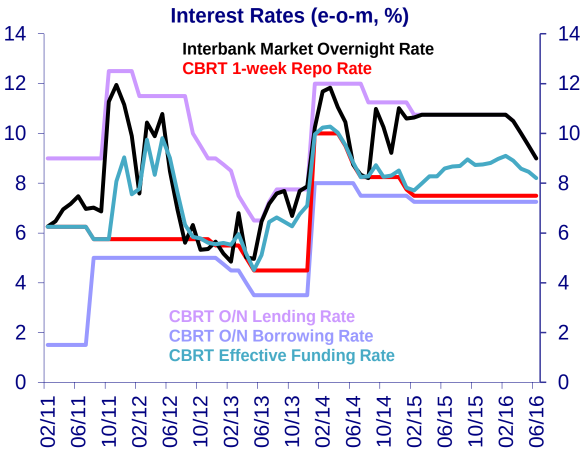


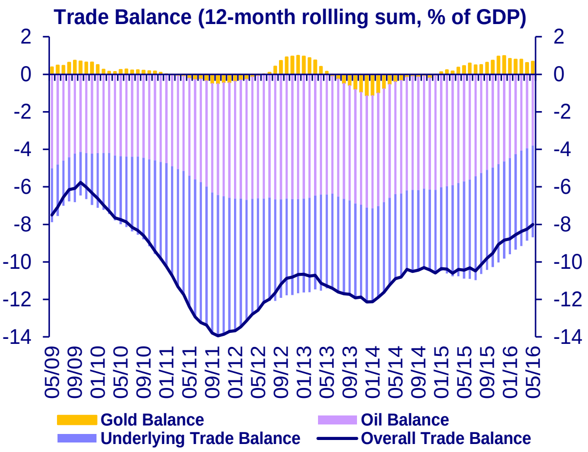


Turkey

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







	4 July	3-M F	6-M F	12-M F
1-m TRIBOR (%)	9.6	10.5	10.2	9.8
TRY/EUR	3.24	3.35	3.32	3.30
Sov. Spread (2019, bps)	200	212	190	170

	4 July	1-W %	YTD %	2-Y %
ISE 100	78,388	4.3	7.1	1.1

	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

Headline inflation rose to 7.6% y-o-y in June from a 3-year low of 6.6% y-o-y in May, due to higher food prices. Food inflation (comprising 24.2% of the CPI basket) rose to 6.6% y-o-y in June from 2.5% y-o-y in May and 1.4% y-o-y in April (the lowest level since the inception of the 2003-based CPI time series), with the increase reflecting ongoing normalization and the Ramadan effect.

Headline inflation would have been even higher in June had core inflation not continued its downward trend, initiated in March following seven consecutive months of increase. The CBRT's favourite core inflation measures, i.e., CPI-H and CPI-I moderated to 8-month lows of 8.6% y-o-y and 8.7% y-o-y, respectively, in June from 8.7% and 8.8% in May, supported by a milder depreciation of the domestic currency (the weakening of the TRY against the basket of "50%*EUR/TRY + 50%*USD/TRY" eased to -7.4% y-o-y in June from -10.8% in May).

Looking ahead, we expect headline inflation to end the year slightly above its June level, as increasing inflationary pressures should be contained by the fading impact of the exchange rate depreciation and the anticipated weakening in domestic demand. Inflationary pressures in H2:16 should result from: i) a continued normalization in food prices and the resumption of agricultural exports to Russia (bringing cumulative food inflation from 1.6% in H1:16 to 6.0% in FY:16); ii) less favourable global oil prices; and iii) second-round effects from the 30% hike in the minimum wage from January 1st. Overall, we see headline inflation ending the year at 7.8% y-o-y, below the end-2015 outcome of 8.8% but above the CBRT's target of 5.0% and slightly above its forecast of 7.5%.

In view of the CBRT easing bias and the improved core inflation outlook, and barring any notable deterioration in global risk appetite, we expect the CBRT to cut the upper bound of the interest rate corridor (overnight lending rate) by 50 bps (half of which at the July 19th MPC meeting) to 8.5%. Subsequently, the CBRT may unify policy rates at c. 8.0%, as was recently hinted by the CBRT, and could be achieved through the reduction of the effective funding rate (currently at 8.2%) and subsequently the hike of the 1-week repo rate (currently at 7.5%).

The trade balance improved significantly in the first 5 months of the year, on the back of a favourable energy bill and, to a lesser extent, an improved underlying balance. The cumulative trade deficit declined significantly by 0.8 pps y-o-y (USD 5.7bn y-o-y) to 2.9% of GDP (USD 21.4bn) in 5M:16. Specifically, a marked adjustment in the energy balance (by 0.9 pps of GDP y-o-y), in line with global oil price developments, combined with an improved underlying trade balance (excluding energy and gold, by 0.3 pps of GDP y-o-y, see below) 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.

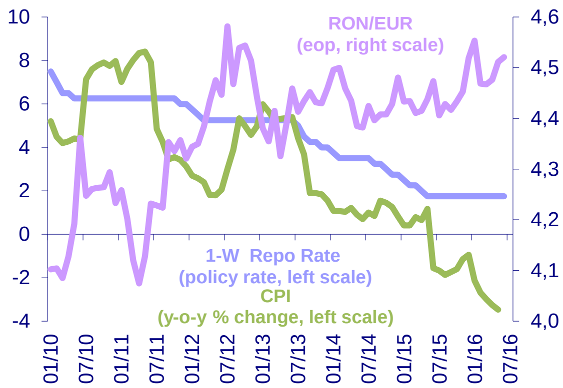
Importantly, despite persisting geopolitical setbacks, the underlying trade balance improved in 5M:16 following a marked deterioration in FY:15 (0.8 pps of GDP y-o-y), largely supported by improved competitiveness of Turkish goods in global markets (the CPI-based REER depreciated by c. 12.0% over the past 3 years) and strengthening growth momentum in the EU-28 (2.0% q-o-q saar in Q1:16 against 1.6% q-o-q saar in Q4:15).

Going forward, we expect the trade balance to deteriorate during the rest of the year, partly reversing its 5M:16 gains, mainly due to unfavourable global oil prices and further normalization of the gold balance. We foresee the 12-month rolling trade deficit widening from a 6-year low of USD 57.7bn (8.0% of GDP) in May to c. USD 60.bn (8.3% of GDP) in December – still below the December 2015 level of USD 63.4bn (8.8% of GDP).

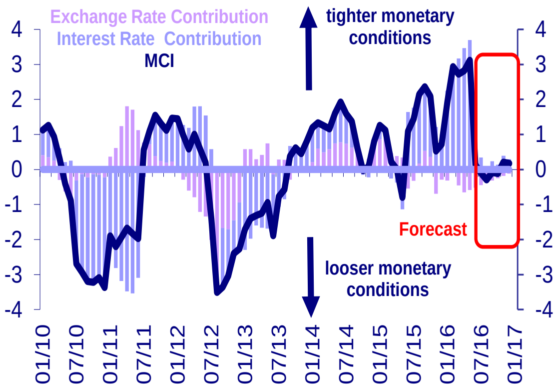
Romania

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

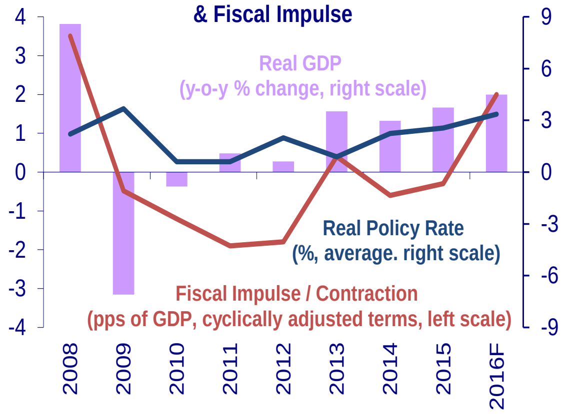
Policy Rate, Exchange Rate & Inflation



Monetary Conditions Index



Real GDP Growth, Real Policy Rate & Fiscal Impulse



	4 July	3-M F	6-M F	12-M F
1-m ROBOR (%)	0.6	0.9	1.2	1.5
RON/EUR	4.51	4.48	4.49	4.50
Sov. Spread (2024, bps)	243	210	180	150

	4 July	1-W %	YTD %	2-Y %
BET-BK	1,202	4.4	-10.4	-5.3

	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	-2.5

The NBR remains on hold, despite the subdued inflation outlook. The NBR Board maintained its 1-week repo rate unchanged at 1.75% for an eighth consecutive meeting on June 30th (as expected). Importantly, monetary conditions (see our MCI) are looser than suggested by the *ex-post* real policy rate (estimated at c. 2.3%, still above its historical average of 1.8%), due to the recent depreciation of the RON in real terms (the CPI-based REER is down by an estimated 3.0% y-o-y). The latter was mainly driven by the 4 pp cut in the standard VAT rate (excluding food items) to 20.0% in January, which has kept headline inflation in negative territory. Note that headline deflation is estimated to have eased sharply to c. -0.5% y-o-y in June from -3.5% in May, due to negative base effects from the 15 pp cut in VAT on food items to 9.0% in June 2015.

The NBR is expected to embark on a tightening cycle later in the year. Despite the subdued inflation outlook (we see headline inflation rising modestly to 0.5% at end-year), we expect the NBR to gradually tighten its monetary policy stance, in an effort to prevent an overheating of the economy. In fact, we see real GDP growth picking up to 4.5% in FY:16 (already up 4.3% y-o-y in Q1:16) from 3.8% in FY:15, markedly higher than its long-term potential of c. 3.0%, supported by a sizeable (pre-election) fiscal stimulus. Recall that the ongoing loosening in incomes policy (with massive hikes in public wages -- exceeding 15.0% in some sectors -- pensions – up 5.0% -- and social benefits) together with a series of tax cuts (also including the reduction in the dividend tax rate by 9 pps to 5.0%, higher personal tax deductions, and tax incentives for SMEs) are set to widen the budget deficit by 1.8 pps to 3.3% of GDP in FY:16 (already up 1.0 pp of GDP y-o-y in 5M:16), above the Government's target of 2.8% of GDP. Such an outcome would also be far higher than the target agreed under Romania's Convergence Programme (1.2% of GDP, consistent with a structural deficit of 1.0%, as required under the European Fiscal Compact). All said, we see the NBR raising its 1-week repo rate to 2.5% (2.0% in real and compounded terms) by end-2016, implying broadly neutral monetary conditions.

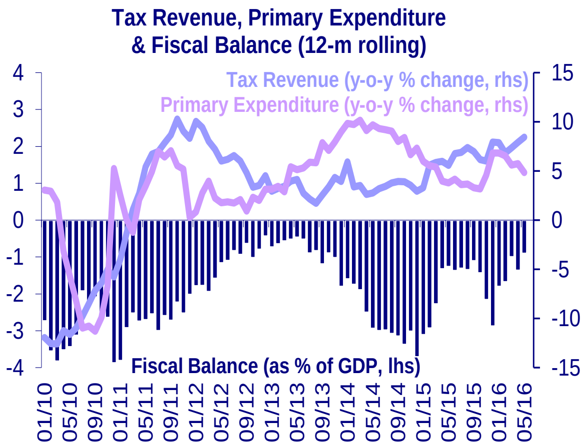
However, we expect interbank rates to converge to the policy rate before a rate hike is considered. Indeed, interbank rates are stuck at the bottom of the NBR's interest rate corridor (defined by the overnight deposit rate and the Lombard rate, currently at 0.25% and 3.25%), reflecting the liquidity surplus in the market following, *inter alia*, the cuts in minimum reserve requirement rates (currently at 8.0% and 12.0% on RON and FX liabilities, down from 10.0% and 14.0%, respectively, a year ago). To this end, Governor Isarescu has hinted that the NBR stands ready to narrow further the interest rate corridor from ±1.50 pps to ±1.0 pp around the policy rate.

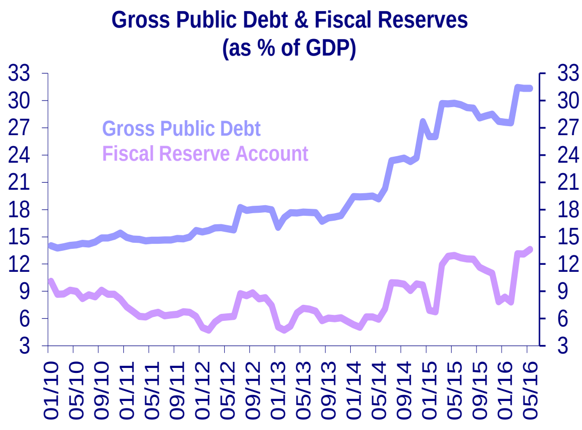
Despite ample liquidity in the banking system, credit activity could be hindered by tighter credit standards, in the aftermath of the adoption of the "Debt Settlement Law" (DSL). The DSL allows debtors to settle debts by giving up their property (effectively a no-recourse framework). The law applies only to individuals and for credits up to EUR 250k, but excludes loans granted under the state-subsidised programme (42% of total mortgage loans). In this context, banks tightened significantly their credit standards. Indeed, most of them have already increased the down payment required for mortgage loans to 30.0-40.0% of the loan value from 15.0% before, while some have also reduced the loan repayment period. All said, despite ample liquidity in the banking system (the loan-to-deposit ratio currently stands at 89.0%), we see credit to the private sector remaining broadly flat in FY:16 (up 4.0% adjusted for write-offs) against a rise of 2.5% in FY:15 (up 9.4% adjusted for write-offs).

Bulgaria

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

Consolidated Budget (% of GDP)					
	2015 Outcome	5M:15	5M:16	2016 Budget	2016 NBG Forecast
Total Revenue	37.3	16.0	16.7	37.2	37.6
Tax Revenue	28.8	11.9	12.8	29.3	29.7
Non-Tax Rev.	4.3	2.0	2.2	5.0	5.0
Grants	4.2	2.1	1.8	2.9	2.9
Total Expenditure	40.2	14.7	13.6	39.2	39.2
Current Spending	32.3	10.6	10.5	32.3	32.3
o/w Wages	5.4	2.2	2.2	5.4	5.4
Goods & Services	5.2	2.0	1.9	5.4	5.2
Subsidies	1.9	0.7	0.7	1.6	1.8
Social Spending	16.1	6.7	6.7	16.2	16.2
Interest Payments	0.8	0.3	0.4	0.9	0.9
Capital Expend.	7.9	1.7	0.8	6.9	6.9
Fiscal Balance	-2.9	1.3	3.1	-2.0	-1.6





	4 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)	207	180	160	130

	4 July	1-W %	YTD %	2-Y %
SOFIX	451	-0.7	-2.2	-20.2

	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

Significant fiscal consolidation in 5M:16, with the 12-month rolling budget deficit narrowing to 0.9% of GDP in May from 2.9% at end-2015. In 5M:16, the consolidated budget surplus widened by a sizeable 1.8 pps y-o-y to 3.1% of GDP. The main factor behind this improvement was tax revenue, which increased sharply in 5M:16 (by 0.9 pps of GDP y-o-y), reflecting the hike in the excise duty on tobacco and fuel, the increase in the (presumptive) insurance income threshold, strong employment growth, as well as base effects from changes in the tax calendar. Non-tax revenue was also up slightly in 5M:16 (by 0.2 pps of GDP y-o-y), almost offsetting the decline in grants from the EU (by 0.3 pps of GDP y-o-y, see below). At the same time, budget spending was contained (by 1.1 pp of GDP y-o-y in 5M:16), but this was largely due to temporary lower capital spending (down 0.9 pps of GDP y-o-y), rather than a sustained decline in current spending.

Although the fiscal performance is set to deteriorate during the remainder of the year, the FY:16 budget should overperform its deficit target of 2.0% of GDP. Tax revenue should weaken during the remainder of the year, reflecting "pay-back" for the positive base effects of 5M:16. Nevertheless, we expect tax revenue to overperform its FY:16 target, in view of the y-t-d performance (up 10.1% y-o-y in 5M:16 against a FY:16 target of 4.6% and a FY:16 nominal GDP growth of just 2.7%) and improving tax compliance as a result of the measures taken (enforced collection of overdue liabilities, reverse VAT charging on cereals, and intensified tax inspections).

On the other side of the budget, the FY:16 current spending target (up 3.2%) appears attainable, in view of the y-t-d performance (up 2.3% y-o-y in 5M:16). Indeed, despite the hike in the minimum wage (by 10.5% to EUR 215 in January) and pensions (by 2.5% in July), social spending should remain contained, in view of tighter means testing and the rise in the retirement age (by 2 months). At the same time, the cut in subsidies is unlikely to be as large as envisaged in the budget, following the granting of fuel vouchers to agricultural producers; nevertheless, we expect this slippage to be offset by lower-than-budgeted public consumption. In our view, the main risk could arise from the healthcare system, which is underfinanced (expenditure on healthcare accounts for c. 4.5% of GDP, well below the EU average).

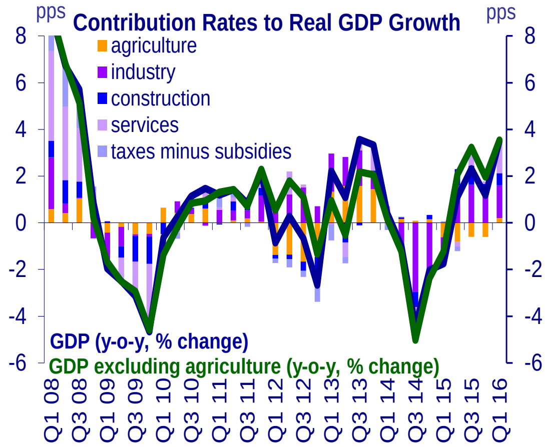
Public investment is also expected to accelerate during the remainder of the year, in view, *inter alia*, of the large discrepancy between the y-t-d absorption of EU funds and the execution of the investment programme. Note that EU fund allocations amount to 2.9% of GDP in FY:16, significantly lower compared with FY:15 (4.2%), as the authorities forfeited unused funding allocated for use during 2007-13.

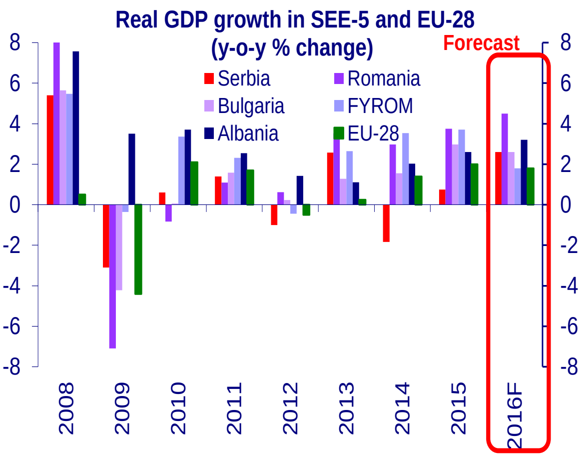
All said, we see the FY:16 budget deficit narrowing to 1.6% of GDP from 2.9% in FY:15, overperforming its target of 2.0%. Importantly, excluding receipts from the concession of Sofia and Plovdiv airports (expected in Q3:16 and projected at 0.7% of GDP), the envisaged fiscal consolidation should be smaller than suggested by headline figures (c. 0.6 pps of GDP y-o-y).

Bulgaria's sovereign debt issue in March provides adequate financing until end-year. Bulgaria raised EUR 2.0bn (4.4% of GDP) from international capital markets in March, pushing up its fiscal reserves (currently at 13.6% of GDP, still lower than a pre-crisis high of c. 17.0%). The proceeds of the issue will help meet the sovereign's funding needs (estimated at EUR 1.4bn, including debt repayments worth EUR 0.7bn) and build a liquidity buffer ahead of the completion of the asset quality review and stress tests, which the BNB has recently launched. Overall, we project gross public debt to rise to 32.0% of GDP at end-2016 from 27.7% at end-2015, still far below the EU-28 average (c. 87.0% of GDP).

Serbia

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





UK and EU excl. UK Economic Relations with Serbia					
FY:15		Level	% of GDP	% of Total
Exports (EUR mn)	UK	177	0.5	1.5
	EU excl. UK	7,719	23.4	64.2
Remittances (USD mn)	UK	0.0	0.0	0.0
	EU excl. UK	2,061	5.6	61.4
Tourism Receipts (EUR mn)	UK	56	0.2	5.9
	EU excl. UK	388	1.2	41.1
FDI Inflows (EUR mn)	UK	20	0.1	1.0
	EU excl. UK	1,510	4.6	71.4
Foreign Bank Claims (USD mn)	UK	36	0.1	0.2
	EU excl. UK	20,065	54.9	96.6

	4 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)	307	250	220	180

	4 July	1-W %	YTD %	2-Y %
BELEX-15	610	1.7	-3.3	5.7

	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	-5.3
Fiscal Bal. (% GDP)	-5.5	-6.6	-3.8	-2.6	-2.8

Activity accelerates to a 10-quarter high of 3.5% y-o-y in Q1:16. Real GDP rose sharply to 3.5% y-o-y in Q1:16, continuing to accelerate from a modest rise of 1.5% y-o-y in Q2-Q4:15 and four successive quarters of decline.

A broad-based recovery in activity in Q1:16. Strong growth in the services sector (accounting for a sizeable 51.4% of GDP) was the main driver of the improvement in Q1:16. In fact, output in the services sector accelerated significantly, by 2.3% y-o-y in Q1:16 following a weak rise of 0.2% in Q2-Q4:15. The acceleration reflects the waning negative impact of austerity measures implemented in FY:15 that weighed on both private and public consumption. The strong rise in the output in the services sector is also attributed to the positive impact from a looser monetary policy stance (an average *ex-post* real policy rate of 2.9% in Q1:16, far below 4.0% in Q2-Q4:15), combined with a continuing sharp decline in oil prices and higher tourism inflows.

The normalization in agricultural output also provided a significant boost to activity in Q1:16. In fact, growth in the primary sector turned positive (up by an 8-quarter high of 3.0% y-o-y, contributing 0.2 pps to real GDP growth in Q1:16), after having remained in negative territory throughout 2015 (declining by 7.3% y-o-y and subtracting 0.7 pps, on average, from real GDP growth in Q2-Q4:15). Excluding agriculture, the rebound in real GDP growth would have been milder (up 3.5% y-o-y in Q1:16 against an increase of 2.4% y-o-y in Q2-Q4:15).

Albeit moderating, the industrial sector remained the main growth driver (up 6.6% y-o-y in Q1:16 against a rise of 7.6% y-o-y in Q2-Q4:15, contributing 1.4 pps to GDP growth in Q1:16 against 1.5 pps, on average, in Q2-Q4:15). Although a detailed breakdown is not available, industrial production figures suggest a broad-based strengthening in the manufacturing sector, supported by: i) higher export growth (picking up to 13.4% y-o-y, in EUR terms, in Q1:16 from 6.6% in FY:15); ii) lower production costs (in line with declining oil prices); and iii) stronger confidence, in view of the expected re-election of the ruling party in the April 24th parliamentary elections. The improvement in industrial production was held back by the moderation in electricity supply and mining production, following a strong recovery in Q2-Q4:15 that reflected strong positive base effects from the full restoration of production following the devastating May 2014 floods.

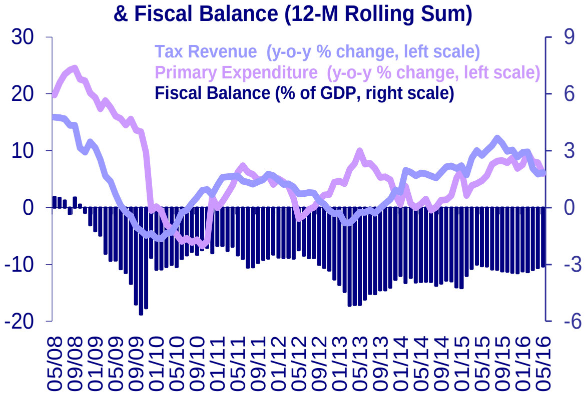
Economic activity is set to reach 2.6% in FY:16. Looking ahead, output growth is set to strengthen to 1.9% y-o-y in Q2-Q4:16 compared with 1.5% y-o-y in Q2-Q4:15, supported by improved agricultural production -- that was a drag on overall growth in FY:15 (excluding agriculture, real GDP growth should be milder, up 1.7% y-o-y in Q2-Q4:16, moderating from 2.4% y-o-y in Q2-Q4:15). Moreover, consumption is set to post positive growth (after 4 consecutive years of decline), on the back of a favourable fiscal stance and significant monetary policy easing. Activity is, however, set to be held back by negative base effects from the flood-induced recovery in industrial production in Q2-Q4:15. Note that the impact from the Brexit vote on Serbia's economy is expected to be marginal this year and more pronounced in FY:17 (subtracting 0.1 pp and 0.3 pps, respectively, from Serbia's real GDP growth in FY:16 and FY:17). Importantly, the direct impact is expected to be insignificant, in view of the limited economic relations between the UK and Serbia (see table). However, a headwind will be the indirect effects from the Brexit vote on the other EU countries -- Serbia's main economic and financial partner (see table). Overall, we revise down our FY:16 real GDP growth to a still high 2.5% from 2.6% previously -- up from the FY:15 outcome of 0.7%.

F.Y.R.O.M.

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

Consolidated Fiscal Balance (% of GDP)	2015	5M:15	5M:16	2016 Rev. Budget	NBG 2016 Forecast
Revenue	28.8	11.8	11.7	29.7	28.4
Tax Revenue	25.2	10.3	10.4	- - -	24.8
Personal Inc.	2.3	0.9	0.9	- - -	2.3
Corporate Inc.	2.2	1.2	0.9	- - -	1.8
VAT	7.4	3.0	3.4	- - -	7.8
Excises	3.5	1.4	1.4	- - -	3.4
Import Duties	0.8	0.3	0.3	- - -	0.8
Other Taxes	0.4	0.1	0.1	- - -	0.4
Soc. Contrib.	8.6	3.3	3.4	- - -	8.3
Non-Tax revenue	3.6	1.5	1.3	- - -	3.6
Expenditure	32.2	13,2	12,8	33.3	32.4
Cur. Expenditure	28.9	12,0	11,9	- - -	29.1
Personnel	4.4	1,8	1,8	- - -	4.4
G. & Services	3.2	1,4	1,1	- - -	3.2
Transfers	20.1	8,5	8,7	- - -	20.3
Int.Payments	1.2	0.3	0.3	- - -	1.3
Capital Expend.	3.3	1.2	0.9	- - -	3.2
Fiscal Balance	-3.5	-1.4	-1.1	-3.6	-4.0
Primary Balance	-2.3	-1.1	-0.8	-2.6	-2.7

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



	4 July	3-M F	6-M F	12-M F
1-m SKIBOR (%)	1.7	1.7	1.7	1.7
MKD/EUR	61.3	61.3	61.3	61.3
Sov. Spread (2021. bps)	546	520	450	350

	4 July	1-W %	YTD %	2-Y %
MBI 100	1,760	2.8	-4.0	7.1

	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

Fiscal consolidation continued in 5M:16, with the 12-month rolling budget deficit narrowing to 3.1% of GDP in May from 3.5% at end-2015. The fiscal deficit receded by 0.3 pps y-o-y to 1.1% of GDP in 5M:16, following a decline of 0.7 pps of GDP in FY:15. The improvement in 5M:16 was driven by a significant drop in capital expenditure (down 0.3 pps of GDP y-o-y), reflecting under-execution of the public investment programme and, to a lesser extent, lower current spending (down 0.1 pp of GDP y-o-y), due to a decline in spending on goods and services.

The expenditure restraint was partly offset, however, by a revenue underperformance (down 0.1 pp of GDP y-o-y), due to lower non-tax revenue (down 0.2 pps of GDP y-o-y), mainly on the back of weaker dividends from public entities. On a positive note, tax revenue rose by 0.1 pp of GDP y-o-y in 5M:16, as the increase in VAT revenue (up 0.4 pps of GDP y-o-y) more than offset the decline in corporate income tax (CIT). Note that both developments of VAT revenue and CIT reflect base effects; the former from large VAT refunds in 4M:15 and the latter from the elimination of the tax exemption on undistributed profits, effective since the beginning of 2015. As a result, the 12-month rolling fiscal deficit eased to an 11-month low of 3.1% of GDP in May from 3.5% in December 2015, in line with the initial FY:16 target (3.2%).

The FY:16 fiscal deficit target is likely to be exceeded. In view of the negative impact on the economy from the protracted domestic political crisis, Parliament approved a revised 2016 Budget in late-June, envisaging lower-than-initially-projected revenue (by 0.5 pps of GDP) and expenditure (by 0.1 pp of GDP), thereby bringing the fiscal deficit target up to 3.6% of GDP from 3.2%.

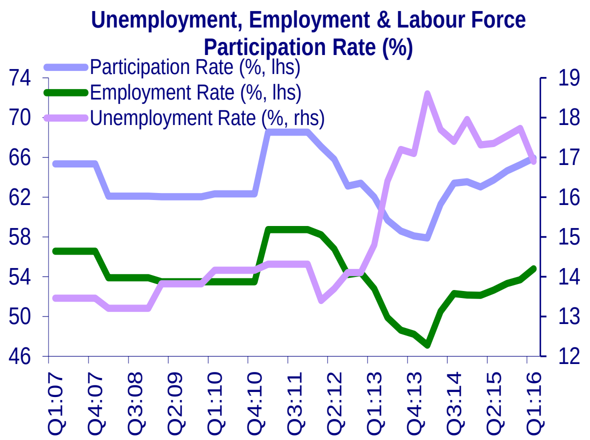
In our view, despite the positive y-t-d fiscal performance, the observance of the revised 2016 Budget target of 3.6% is out of reach. Specifically, the revised revenue growth target of 8.1% (down from 10.0% in the initial budget) appears unattainable, as the economy is set to experience a sharp slowdown (we see FY:16 real GDP growth easing to 1.8% from 3.7% in FY:15). We see a revenue shortfall of 1.3 pps of GDP for FY:16. To make up for this shortfall, expenditure growth should be contained in 6-12M:15 (at 7.7% y-o-y against an implied revised target of 12.5% y-o-y), bringing FY:16 spending growth to 5.2% y-o-y against a revised target of 8.2%. The bulk of spending cuts should come from capital expenditure. However, with the domestic political uncertainty unlikely to dissipate before the end of the year, the Government is unlikely to proceed with the necessary spending cuts during the rest of the year. All said, we project a budget deficit of 4.0% of GDP in FY:16, above its revised target and the FY:15 outcome of 3.6% of GDP and 3.5% of GDP, respectively. In the event our 2016 fiscal deficit forecast materialises, the general government debt will rise to a 13-year high of c. 41.5% of GDP at end-2016 from 38.0% at end-2015 -- still below the SEE-5 average of 50% of GDP.

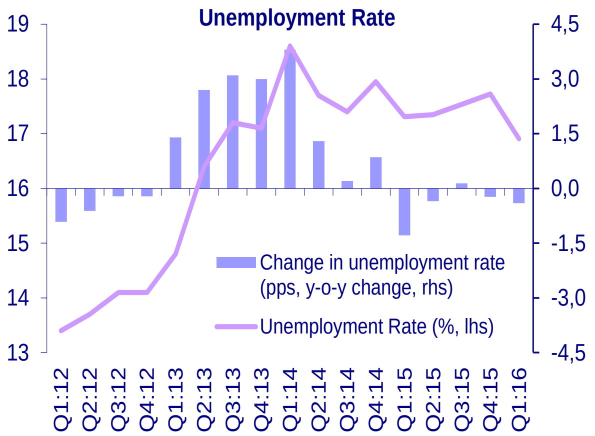
Public sector financing needs for 2016 (estimated at EUR 1.5bn or 15% of GDP) should be covered through the more attractive yields in the domestic debt market and, to a lesser extent, government deposits. Note that the heightened domestic political crisis has increased government borrowing costs. Indeed, following President's Ivanov's pardoning decision in early-April, large withdrawals of deposits from domestic banks and rumours of a sharp devaluation of the MKD prompted the central bank to hike sharply its central rate by 75 bps to 4.0%. As a result, the 3-month, 6-month and 12-month T-bill rates increased by 20 bps, 20 bps and 10 bps, respectively, while the 10-year and 15-year bond rates rose by 40 bps and 30 bps, respectively.

Albania

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

External Financing (EUR bn)	2014	2015	2016F
Current Account Deficit	1.3	1.2	1.3
FDI	0.8	0.9	0.8
Other (net) inflows	0.4	0.6	0.2
Financing Gap	0.0	0.3	-0.3
IFI Financing	0.2	0.3	0.4
IMF	0.1	0.1	0.2
WB, EU, EBRD	0.2	0.3	0.3
Change in FX Reserves	0.2	0.7	0.1





	4 July	3-M F	6-M F	12-M F
1-m TRIBOR (mid, %)	1.7	2.2	2.2	2.2
ALL/EUR	136.7	139.2	138.2	139.0
Sov. Spread (bps)	468	430	400	350

	4 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

An IMF mission reached a staff-level agreement on the 8th review of Albania's Extended Fund Facility (EFF). Following a 2-week visit that ended on June 28th, the IMF mission confirmed that Albania's economic programme is broadly on track, with all quantitative targets met and satisfactory progress on implementing structural reforms, especially on bankruptcy legislation. The mission commended the authorities' efforts to improve tax compliance that offset revenue shortfalls in 2016 stemming from weak oil prices and low inflation. Nonetheless, the IMF mission stressed the need for: i) continued improvement of tax compliance, the strengthening of the tax administration and the broadening of the tax base in order to sustain fiscal consolidation; and ii) avoiding accumulation of new arrears (mainly in public investment projects), partly by improving investment planning, especially ahead of the June 2017 parliamentary elections.

The approval of the 8th review by the Executive Board is expected in August. This would enable the disbursement of a tranche of EUR 35.9mn (0.3% of GDP), bringing total disbursements to EUR 299.6mn since the approval of the 36-month EUR 370.6mn EFF at end-February 2014. Note that large IFI support of 3.7% of GDP this year (including, in addition to EUR 144mn from the IMF, USD 175mn from the World Bank and EUR 100mn from the EBRD) is needed to fill the sizeable external financing gap (see table).

The unemployment rate declined further, to a still high 16.9% in Q1:16. The unemployment rate declined by 0.4 pps y-o-y to an 11-quarter low of 16.9% in Q1:16, following an average quarterly decline of 0.4 pps y-o-y in FY:15, after rising for two successive years (by 1.5 and 2.6 pps y-o-y in FY:14 and FY:13, respectively). This improvement was mainly driven by the continued recovery in employment, for an 8th successive quarter.

In fact, employment rose by 5.7% y-o-y in Q1:16 following a rise of 5.1% in FY:15 and a modest increase of 1.9% in FY:14. This rise was broad based, with employment in the services, industry and construction sectors (representing 40.8%, 12.4% and 7.2% of total employment, respectively) up by 6.2%, 17.0% and 13.5% y-o-y, respectively, in Q1:16. Employment has been boosted by: i) strengthening economic growth (up 2.6% in 2015 from 2.0% in FY:14 and a CAGR of 1.3% in 2012-13); and ii) the Government's large campaign, initiated last August, to minimize large informal employment (estimated by the EC at 40% of employment outside agriculture).

Although the slack in the labour market remains, it has been declining. In fact, the employment rate improved further, reaching 54.8% in Q1:16 from a trough of 47.1% in Q4:14, yet below a peak of 58.7% in Q4:11. Moreover, the labour force participation rate rose to 65.9% in Q1:16 from a trough of 57.9% in Q1:14, close to its high of 68.5% in Q4:11, boosted by: i) the establishment of employment offices in rural areas, facilitating job search; and ii) lower remittances (down to 5.8% of GDP in 2013-15 from 8.0% in 2009-12), whose steady inflow until 2012 had been a disincentive to job search.

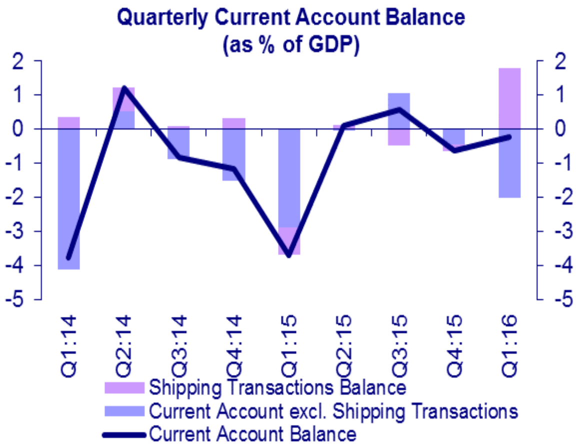
It is important to note that, although declining, the unemployment rate remains above its average level of 13.8% in 2007-12, reflecting the return of Albanian migrants, mainly during 2012-13 (especially from Greece, accounting for c. 46.0% of Albanian migrants in 2012, and 70.8% of returnees in 2009-13).

For 2016, we expect unemployment to decline further, to 16.8%, reflecting: i) stronger economic activity; ii) sustained high FDI inflows, supported by the intensification in construction of three major energy projects, EU membership prospects and efforts to improve the business climate; as well as iii) the ongoing large-scale campaign against informality.

Cyprus

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

Balance of Payments (% of GDP)				
	FY:15A	3M:15A	3M:16A	FY:16F
Current Acc.Balance	-3.6	-3.7	-0.2	-3.6
Trade Balance	-18.2	-4.6	-1.6	-17.8
Exports	14.3	3.5	4,8	- - -
Imports	32.5	8.1	6.4	- - -
Tr. Bal., excl. Ships	-16.8	-3.8	-3.4	-17.8
Exp., excl. Ships	9,2	2.0	2.1	9.2
Imp., excl. Ships	26.0	5.8	5.6	27.0
Ship Balance	-1.4	-0.8	1.8	0.0
Ship Exports	5.1	1.5	2.6	- - -
Ship Imports	6.5	2.3	0.9	- - -
Services Balance	16.8	1.4	2.8	18.2
Tourism	7.3	-0.4	-0.3	7.8
Income Balance	0.3	0.1	-0.8	-1.2
Transfers Balance	-2.6	-0.6	-0.6	-2.8
Capital & Financial	-6.0	2.8	-1.2	-3.6
FDI	-26.8	-2.6	2.4	6.0
Other Investments	20.8	5.4	-3.6	-9.6
Errors & Omissions	3.9	0.8	1.4	0.0
Overall Balance	-5.8	-0.1	0.0	0.0



UK and Cyprus Economic Relations			
FY:15	Level	% of GDP	% of Total
Exports (EUR mn)	120	0.7	6.9
Imports (EUR mn)	451	2.6	8.8
Tourist Arrivals ('000)	1,041	- - -	39.2
Tourist Receipts ('EUR mn)	881	5.0	41.7
UK Bank Claims (USD mn)	957	6.1	3.9

	4 July	3-M F	6-M F	12-M F
1-m EURIBOR (%)	-0.36	-0.36	-0.36	-0.36
EUR/USD	1.12	1.08	1.06	1.06
Sov. Spread (2020. bps)	369	340	300	250

	4 July	1-W %	YTD %	2-Y %
CSE Index	66	0.7	-2.6	-44.2

	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

The current account deficit (CAD), excluding ship transactions, narrowed by 0.9 pps y-o-y to 2.0% of GDP in Q1:16, on the back of a surge in exports of services and a favourable energy bill. Including ships, the CAD narrowed by significantly more (3.5 pps y-o-y to 0.2% of GDP in Q1:16).

The sharp improvement in the overall trade balance in Q1:16 was mainly driven by a very favourable ship trade balance (by 2.6 pps of GDP y-o-y). The trade deficit, excluding ship transactions, also narrowed by 0.4 pps y-o-y to 3.4% of GDP, mainly due to a decline in imports (by 0.2 pps y-o-y to 5.6% of GDP), as a sharp decline in imports of energy (by 0.7 pps of GDP y-o-y), in line with global oil price developments (with the average price of Brent decreasing by 35.2% y-o-y, in EUR terms, in Q1:16) more than offset the increase in non-energy imports (by 0.5 pps y-o-y), reflecting stronger domestic demand. At the same time, the services surplus increased in Q1:16 (by 1.4 pps of GDP y-o-y), reflecting an increase in receipts from business services -- i.e. research & development and consulting (by 0.6 pps y-o-y), financial services (by 0.5 pps y-o-y) and telecommunication and information technology services (by 0.4 pps y-o-y). Tourism receipts, although they rose significantly in absolute terms in Q1:16 (up 17.1% y-o-y), contributed marginally to the improvement of the services surplus (by 0.1 pp of GDP y-o-y), due to a very low base (Q1 tourist receipts amounted to c. 7.0% of full-year receipts in the past 5 years).

The Q1:16 CAD would have been even lower had the income balance not deteriorated significantly by 0.9 pps y-o-y to a deficit of 0.8% of GDP, due to lower repatriation of profits and dividends by Cypriot companies established abroad and, to a lesser extent, higher repatriation of dividends and profits by foreign companies established in Cyprus. As a result, the 4-quarter rolling CAD narrowed sharply to 0.2% of GDP in Q1:16 from 3.6% at end-2015. Excluding ship transactions, the 4-quarter rolling CAD declined at a slower pace to 1.4% of GDP in Q1:16 from 2.3% at end-2015.

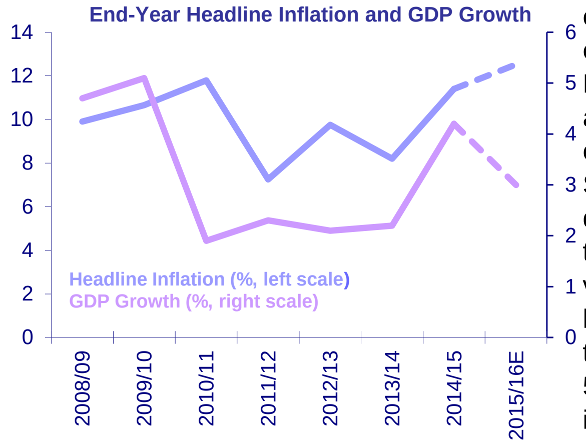
The capital and financial account (CFA) balance turned negative in Q1:16. The CFA balance deteriorated by 4.0 pps y-o-y to a deficit of 1.2% of GDP in Q1:16, as the reversal of the negative trend in FDI was more than offset by the positive trend of in "other net capital outflows". However, both the CAD and the CFA deficits were fully covered in Q1:16 by large positive (net) errors and omissions inflows (c. 1.4% of GDP), likely reflecting unregistered "net capital inflows".

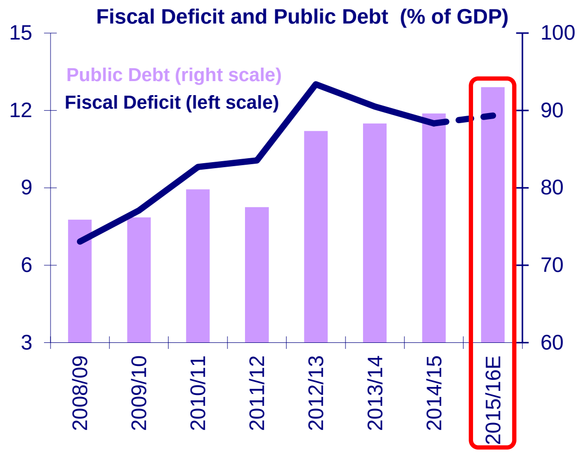
The CAD, excluding ship transactions, is set to widen by 1.2 pps to 3.6% of GDP in FY:16. Looking forward, we expect the gains of the current account, excluding ship transactions, in Q1:16 to be more than offset during the remainder of the year. The deterioration should result mainly from a sharp increase in non-energy imports, in view of a further build-up in domestic demand. Assuming a normalization in ship transactions (balanced full-year ship trade), we see the overall CAD at 3.6% of GDP in FY:16 – unchanged from FY:15.

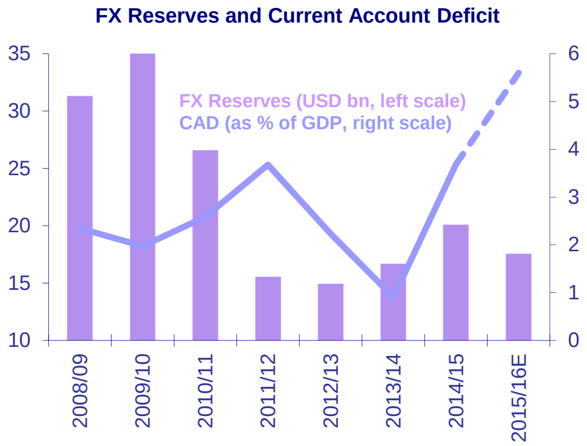
There are, however, risks to our FY:16 CAD forecast, stemming from the Brexit vote. The subsequent sharp slowdown of the UK economy and marked depreciation of the GBP will weigh heavily on the island's economy, as the UK is the country's largest source of tourism (accounting for c. 40.0% of total arrivals in FY:15) and the second largest trading partner, behind Greece. The impact from the Brexit vote is expected to be modest this year and more pronounced in FY:17 (subtracting 0.1 pp and 0.5 pps, respectively, from Cyprus' real GDP growth in FY:16 and FY:17 and adding 0.1 pp and 0.9 pps, respectively, to Cyprus' CAD in FY:16 and FY:17). The limited impact in FY:16 is mainly due to the fact that the season's holidays have largely been pre-sold.

Egypt

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







	4 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)	463	400	300	220

	4 July	1-W %	YTD %	2-Y %
HERMES 100	662	4.7	5.1	-19.9

	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	12.5	13.5
Cur. Acct. Bal. (% GDP)	-2.2	-0.9	-3.7	-5.6	-4.0
Fiscal Bal. (% GDP)	-13.0	-12.2	-11.5	-11.8	-11.0

Negotiations with the IMF underway for a USD 10bn loan. Egypt urgently requires a loan from the IMF, in view of: i) its large financing gap (we estimate at USD 25bn over the next two fiscal years); ii) the low level of its FX reserves (down to USD 17.5bn at end-2015/16 -- equivalent to 3.2 months of imports of GNFS -- from USD 20.1bn at end-2014/15 and a peak of USD 36.0bn on the eve of the January 2011 Revolution; iii) a further weakening in risk appetite for emerging market assets since the Brexit vote; and iv) the absence of support from Gulf countries in the context of sharply declining revenue from oil exports. Such an agreement would also help restore investor confidence in the domestic economy, secure additional loans from other IFIs, and allow the return of the country to international capital markets. Note that in view of deteriorating macroeconomic fundamentals (GDP growth, headline inflation, fiscal deficit-to-GDP ratio, and current account deficit-to-GDP ratio are estimated to have reached 3.6%, 12.5%, 11.8%, and 5.6%, respectively, in FY:15/16 against 4.2%, 11.4%, 11.5%, and 3.7% in FY:14/15), Egypt has not succeeded in tapping international bond markets since the issuance of two Eurobonds in June 2015 (a 10-year USD 1bn and a 30-year USD 0.5bn Eurobonds, with respective coupons of 5.75% and 6.875%).

Sealing an agreement with the IMF will, however, require the implementation of a series of recommendations, suggested by a Fund delegation at the end of a recent visit to Cairo. These comprise:

i) additional cuts in energy subsidies. The 2016/17 Budget (effective from July 1st) envisages the resumption of cuts in fuel subsidies, following a pause in 2015/16 due to the general elections. Recall that in the summer of 2014 (early-2014/15), the Government proceeded with a sharp cut in fuel subsidies by 41.0%, mainly through a 78% increase in fuel prices, in an effort to put public finances on a sounder footing (fiscal deficit excluding grants and public debt stood at the unsustainable levels of 17.6% and 96.5% of GDP, respectively, at end-2013/14). The 2016/17 Budget projects a further 43.0% reduction in fuel subsidies; but the Government has not yet specified when and by how much fuel prices will rise.

ii) the long-awaited implementation of the VAT. The VAT, initially expected to take place in July 2014, will replace the current complex sales taxes. It is set at a flat rate of 10% and projected to boost tax revenue by an additional EGP 30bn (1.0% of GDP). It should be introduced soon, following its approval by the National Assembly. Importantly, the entry into force of the VAT is a prior action for the disbursement of the delayed first USD 1bn tranche from the USD 3bn 3-year loan agreement with the World Bank, signed last December.

iii) a gradual move towards a more flexible exchange rate policy, focused on achieving a market-clearing rate. In mid-March, in a bid to reduce a fast-growing black market amid deepening foreign currency shortages, the CBE proceeded with the largest devaluation of the domestic currency in a decade (by c. 12.7% to EGP 8.85 per USD) and announced that it would adopt a "*more flexible exchange rate regime*" -- though without providing further details. Moreover, in its efforts to alleviate pressures on the domestic currency and dampen heightening inflationary pressures, the CBE has increased its key policy rates by 350 bps since the initiation of the cycle of monetary policy tightening last December (the overnight deposit, 1-week repo, and overnight lending rates stand currently at multi-year highs of 11.75%, 12.25%, and 12.75%, respectively), which is more in line with inflation of 12.3% (May outcome).

Overall, we expect the authorities to sign a USD 10bn 3-year loan deal with the IMF at end-Q1:16/17 (end-September).

FOREIGN EXCHANGE MARKETS, JULY 4TH 2016

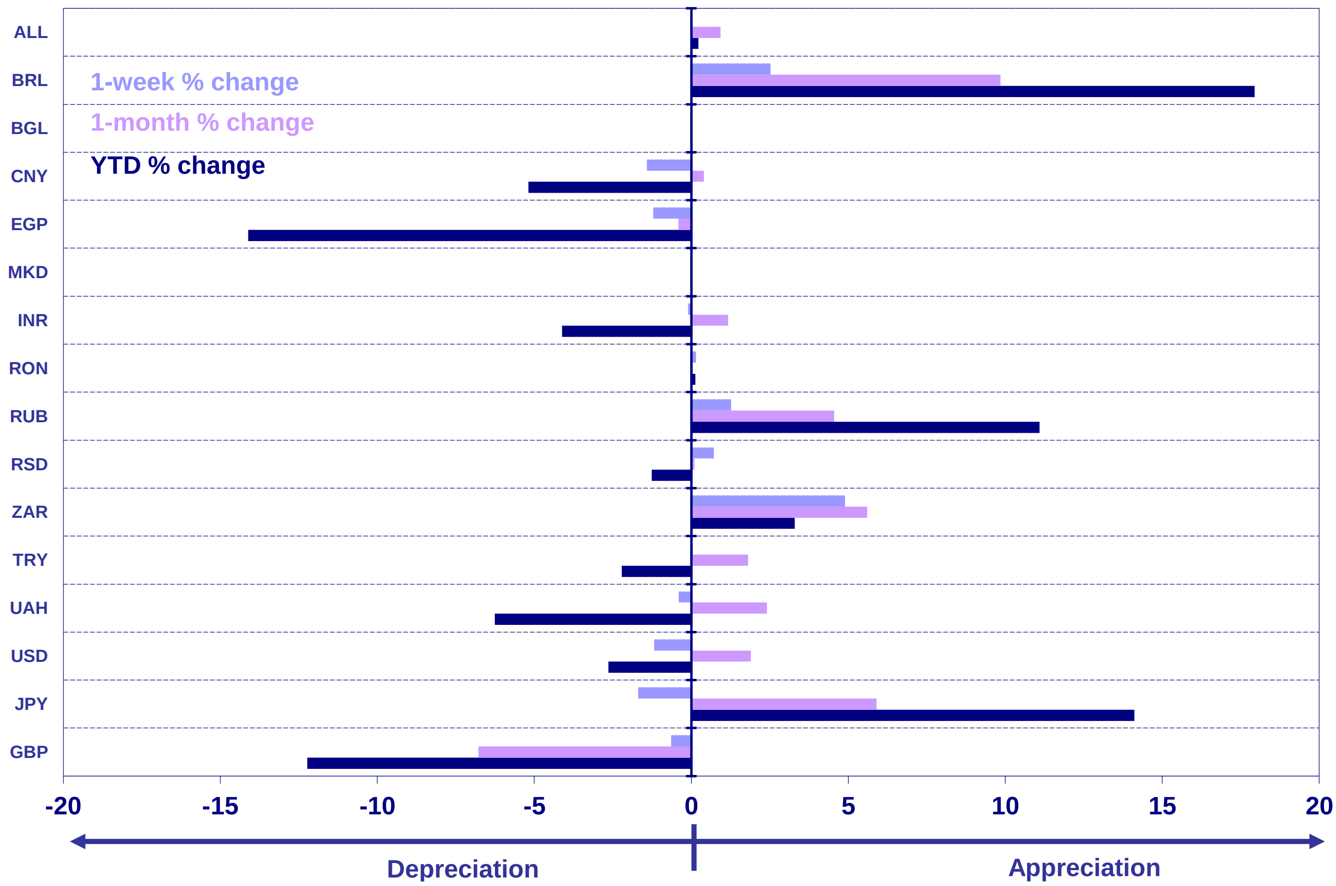
Against the EUR

		2016										2015	2014
Currency		SPOT	1-week %change	1-month %change	YTD %change*	1-year %change	Year-Low	Year-High	3-month Forward rate**	6-month Forward rate**	12-month Forward rate**	% change*	% change*
Albania	ALL	136.7	0.0	0.9	0.2	2.2	137.1	139.5	137.2	136.9	135.4	2.0	0.1
Brazil	BRL	3.65	2.5	9.8	17.9	-4.9	3.52	4.55	4.17	4.16	4.13	-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	7.42	-1.4	0.4	-5.2	-7.7	6.99	7.52	7.67	7.66	7.66	6.7	10.8
Egypt	EGP	9.88	-1.2	-0.4	-14.1	-13.3	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	74.9	-0.1	1.2	-4.1	-6.5	71.3	77.8	80.4	- - -	- - -	6.6	12.3
Romania	RON	4.51	0.2	0.0	0.1	-0.6	4.45	4.56	4.52	4.53	4.54	-0.8	-0.5
Russia	RUB	71.3	1.3	4.5	11.1	-11.8	70.4	71.6	73.0	75.0	77.5	-15.1	-32.8
Serbia	RSD	123.0	0.7	0.1	-1.3	-2.4	121.6	124.3	123.5	123.9	- - -	-0.1	-5.6
S. Africa	ZAR	16.2	4.9	5.6	3.3	-15.7	16.02	18.58	16.6	17.0	17.7	-16.6	3.0
Turkey	YTL	3.24	0.0	1.8	-2.2	-8.6	3.12	3.39	3.32	3.40	3.56	-10.8	4.4
Ukraine	UAH	27.8	-0.4	2.4	-6.3	-15.6	25.06	30.16	33.5	- - -	- - -	-27.5	-40.8
US	USD	1.12	-1.2	1.9	-2.6	-0.9	1.1	1.2	1.12	1.12	1.13	11.4	13.6
JAPAN	JPY	114.3	-1.7	5.9	14.1	18.5	109.6	132.3	114.3	114.3	114.3	11.0	-0.1
UK	GBP	0.84	-0.6	-6.8	-12.2	-15.6	0.7	0.8	0.84	0.84	0.85	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 4th 2016)



MONEY MARKETS, JULY 4TH 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	- - -	- - -	0.5	10.5	- - -	9.5	8.3	15.9	- - -	0.4
T/N	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	0.5	10.5	3.0	- - -	7.8	- - -	- - -	- - -
S/W	1.4	14.1	-0.1	2.4	-0.4	- - -	1.4	- - -	- - -	9.8	3.0	- - -	8.0	17.0	-0.4	0.4
1-Month	1.7	14.1	0.0	2.9	-0.4	- - -	1.7	6.9	0.6	10.8	3.3	9.6	8.3	19.2	-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	3.0	-0.3	- - -	2.1	7.1	0.8	10.9	3.6	9.7	8.0	20.3	-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	0.9
1-Year	1.9	13.2	0.8	3.1	-0.1	- - -	3.0	- - -	1.2	11.0	- - -	9.9	9.0	- - -	-0.1	1.2

LOCAL DEBT MARKETS. JULY 4TH 2016

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine	EU	US
3-Month	0.9	- - -	- - -	- - -	- - -	13.7	1.5	6.5	- - -	11.0	3.1	8.2	- - -	- - -	-0.6	0.3
6-Month	1.0	- - -	- - -	- - -	- - -	14.8	2.3	6.8	0.7	11.1	3.7	8.3	- - -	- - -	-0.7	0.3
12-Month	1.3	- - -	0.1	2.4	- - -	15.0	2.6	6.9	0.8	9.8	4.7	8.9	- - -	17.5	-0.6	0.4
2-Year	1.5	- - -	- - -	2.5	- - -	- - -	2.0	7.0	0.8	9.3	- - -	8.4	7.5	- - -	-0.7	0.6
3-Year	- - -	- - -	0.6	2.5	2.5	- - -	2.7	7.1	1.8	9.1	- - -	8.6	7.8	- - -	-0.7	0.7
5-Year	- - -	12.0	- - -	2.7	- - -	16.6	2.7	7.3	2.6	8.6	7.0	8.8	8.1	- - -	-0.6	1.0
7-Year	- - -	- - -	2.0	- - -	3.6	17.1	- - -	7.5	3.0	8.4	- - -	- - -	- - -	- - -	-0.5	1.3
10-Year	- - -	12.1	2.6	2.8	3.9	17.6	3.9	7.4	3.4	8.3	- - -	8.9	8.7	- - -	-0.1	1.5
15-Year	- - -	- - -	- - -	- - -	- - -	- - -	4.3	7.8	- - -	8.4	- - -	- - -	9.1	- - -	0.0	- - -
25-Year	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	9.4	- - -	- - -	- - -
30-Year	- - -	- - -	- - -	- - -	- - -	- - -	- - -	7.7	- - -	- - -	- - -	- - -	9.5	- - -	0.4	2.2

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

CORPORATE BONDS SUMMARY. JULY 4TH 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	4.0	472	420
	Bulgarian Telecom. 6.625% '18	EUR	B-/B1	15/11/2018	400	5.0	552	525
Cyprus	**Aroundtown Property 3% '21**	EUR	NA/NA	9/12/2021	200	2.4	301	254
Russia	**Gazprom 8.2% '19**	RUB	BB+/NA	9/4/2019	10,000	10.3	100	- - -
	Gazprom 8.9% '21	RUB	BB+/NA	26/1/2021	10,000	10.6	130	- - -
South Africa	**FirstRand Bank Ltd 4.25% '20**	USD	BBB-/Baa2	30/4/2020	500	3.9	290	298
	FirstRand Bank Ltd 2.25% '20	EUR	NA/NA	30/1/2020	100	0.9	151	112
Turkey	**Vakiflar Bankasi 3.5% '19**	EUR	NA/Baa3	17/6/2019	500	2.6	327	286
	Garanti Bankasi 3.38%'19	EUR	NA/Baa3	8/7/2019	500	2.4	303	262
	Arcelik AS 3.875% '21	EUR	BB+/NA	16/9/2021	350	3.1	384	327
	Turkiye Is Bankasi 6% '22	USD	NA/Ba3	24/10/2022	1,000	5.7	461	451

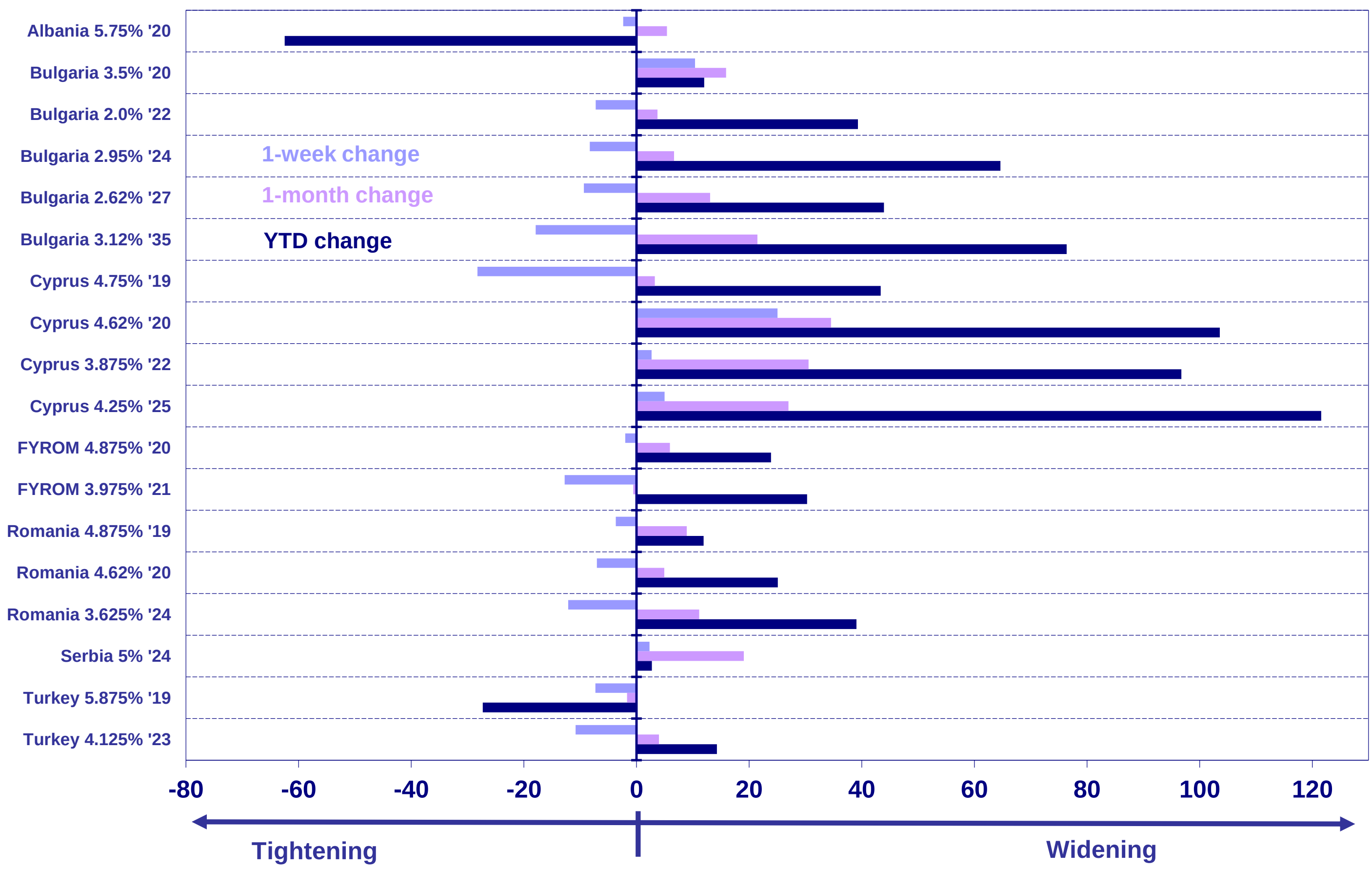
CREDIT DEFAULT SWAP SPREADS. JULY 4TH 2016

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine
5-Year	- - -	304	154	119	294	490	- - -	152	122	226	245	235	271	- - -
10-Year	- - -	376	200	163	318	501	- - -	162	163	277	292	295	327	- - -

EUR-DENOMINATED SOVEREIGN EUROBOND SUMMARY. JULY 4TH 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	468	436
Bulgaria 3.5% '20	EUR	NA/NA	16/1/2020	145	0.9	153	117
Bulgaria 2.0% '22	EUR	BB+/Baa2	26/3/2022	1,250	1.6	207	166
Bulgaria 2.95% '24	EUR	BB+/Baa2	3/9/2024	1,493	2.2	256	211
Bulgaria 2.62% '27	EUR	BB+/Baa2	26/3/2027	1,000	2.6	269	217
Bulgaria 3.12% '35	EUR	BB+/Baa2	26/3/2035	900	3.5	327	265
Cyprus 4.75% '19	EUR	B+/NA	25/6/2019	566	2.5	313	280
Cyprus 4.62% '20	EUR	B+/B3	3/2/2020	770	3.1	369	335
Cyprus 3.875% '22	EUR	NA/B3	6/5/2022	1,000	3.6	412	366
Cyprus 4.25% '25	EUR	NA/B1	4/11/2025	1,000	3.9	415	370
FYROM 4.875% '20	EUR	BB-/NA	1/12/2020	270	4.5	540	471
FYROM 3.975% '21	EUR	BB-/NA	24/7/2021	500	4.5	546	577
Romania 4.875% '19	EUR	BBB-/Baa3	7/11/2019	1,500	0.5	111	76
Romania 4.62% '20	EUR	BBB-/Baa3	18/9/2020	2,000	0.8	139	104
Romania 3.625% '24	EUR	BBB-/Baa3	24/4/2024	1,250	2.1	243	208
Serbia 5% '24	EUR	BB-/NA	11/4/2024	125	3.7	405	373
Turkey 5.875% '19	EUR	NR/Baa3	2/4/2019	1,250	1.4	200	170
Turkey 4.125% '23	EUR	NR/Baa3	11/4/2023	1,000	2.8	322	288

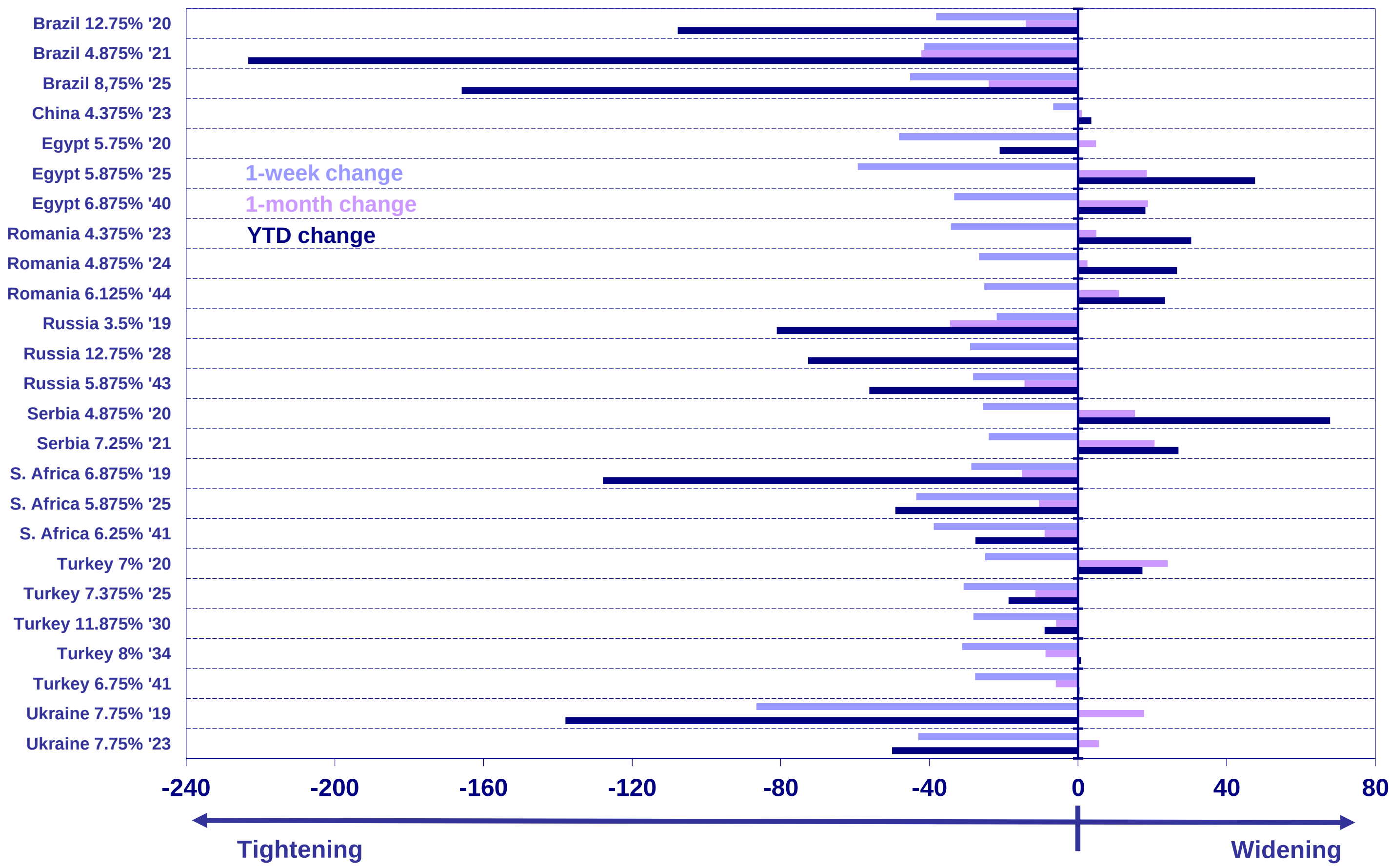
EUR-Denominated Eurobond Spreads (July 4th 2016)



USD-DENOMINATED SOVEREIGN EUROBOND SUMMARY. JULY 4TH 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	3.3	258	282
Brazil 4.875% '21	USD	BB+/Baa3	22/1/2021	2,988	3.6	256	265
Brazil 8.75% '25	USD	BB+/Baa3	4/2/2025	969	4.9	342	415
China 4.375% '23	USD	AA-/Aa3	2/5/2023	500	3.3	181	219
Egypt 5.75% '20	USD	B-/B3	29/4/2020	1,000	5.3	463	441
Egypt 5.875% '25	USD	B-/B3	11/6/2025	1,500	7.6	619	583
Egypt 6.875% '40	USD	B-/B3	30/4/2040	500	8.3	605	577
Romania 4.375% '23	USD	BBB-/Baa3	22/8/2023	1,500	3.2	191	209
Romania 4.875% '24	USD	BBB-/Baa3	22/1/2024	1,000	3.2	193	212
Romania 6.125% '44	USD	BBB-/Baa3	22/1/2044	1,000	4.4	220	309
Russia 3.5% '19	USD	BB+/Ba1	16/1/2019	1,500	2.2	147	139
Russia 12.75% '28	USD	BB+/Ba1	24/6/2028	2,500	4.5	304	441
Russia 5.875% '43	USD	BB+/Ba1	16/9/2043	1,500	4.7	247	324
Serbia 4.875% '20	USD	BB-/B1	25/2/2020	1,500	3.9	317	301
Serbia 7.25% '21	USD	BB-/B1	28/9/2021	2,000	4.1	307	329
S. Africa 6.875% '19	USD	BBB-/Baa2	27/5/2019	2,000	2.7	201	200
S. Africa 5.875% '25	USD	BBB-/Baa2	16/9/2025	2,000	4.3	280	314
S. Africa 6.25% '41	USD	BBB-/Baa2	8/3/2041	750	5.0	279	360
Turkey 7% '20	USD	NR/Baa3	5/6/2020	2,000	3.3	256	252
Turkey 7.375% '25	USD	NR/Baa3	5/2/2025	3,250	4.0	258	315
Turkey 11.875% '30	USD	NR/Baa3	15/1/2030	1,500	4.4	297	421
Turkey 8% '34	USD	NR/Baa3	14/2/2034	1,500	4.9	348	398
Turkey 6.75% '41	USD	NR/Baa3	14/1/2041	3,000	5.1	283	355
Ukraine 7.75% '19	USD	B-/Caa3	1/9/2019	1,744	8.2	751	720
Ukraine 7.75% '23	USD	B-/Caa3	1/9/2023	1,355	8.5	720	704

USD-Denominated Eurobond Spreads (July 4th 2016)



STOCK MARKETS PERFORMANCE. JULY 4TH 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)	52,569	6.7	3.9	21.3	0.8	37,046	54,978	43.9	-13.3	-35.3	-2.9	-2.0
Bulgaria (SOFIX)	451	-0.7	1.8	-2.2	-6.0	432	462	-2.2	-11.7	-11.7	6.2	6.2
China (SHCOMP)	2,989	3.2	1.7	-16.4	-20.9	2,638	3,539	-20.2	9.4	16.5	52.9	69.5
Cyprus (CSE GI)	66	0.7	-5.1	-2.6	-14.9	64	70	-2.6	-20.9	-20.9	-17.0	-17.0
Egypt (HERMES)	662	4.7	-5.0	5.1	-6.4	521	716	1.9	-24.4	-25.7	23.5	36.6
F.Y.R.O.M (MBI)	1,760	2.8	3.3	-4.0	8.8	1,699	1,842	-4.0	-0.6	-0.6	6.1	6.1
India (SENSEX)	27,279	3.3	1.6	5.1	-3.3	22,495	28,578	1.8	-5.0	0.7	29.9	44.7
Romania (BET-BK)	1,202	4.4	-0.3	-10.4	-10.8	1,150	1,329	-10.2	2.6	1.6	3.7	3.5
Russia (RTS)	4,257	3.7	1.3	7.5	16.5	3,509	4,393	20.7	30.3	9.5	-6.9	-37.4
Serbia (BELEX-15)	610	1.7	-2.3	-3.3	-4.1	570	637	-4.4	-3.4	-3.5	19.5	12.8
South Africa (FTSE/JSE)	52,454	4.7	-3.3	3.2	2.1	45,976	54,704	8.0	1.9	-15.1	7.6	10.9
Turkey (ISE 100)	78,388	4.3	0.3	7.1	-4.8	68,230	86,931	5.5	-16.3	-25.4	26.4	32.0
Ukraine (PFTS)	225	2.1	1.6	-6.4	-35.3	215	256	-12.0	-37.8	-54.8	28.7	-24.2
MSCI EMF	843	6.1	3.3	6.6	-10.6	687	856	4.4	-17.0	-7.5	-4.6	8.2
MSCI EAFE	1,619	6.5	-3.1	-6.3	-11.0	1,492	1,717	-8.1	-3.3	7.7	-7.3	5.8
Greece (ASE-General)	540	3.9	-16.8	-11.6	-32.3	421	659	-11.6	-23.6	-23.6	-28.9	-28.9
Germany (XETRA DAX)	9,709	4.8	-3.9	-9.6	-10.8	8,699	10,486	-9.6	-4.9	-4.9	2.7	2.7
UK (FTSE-100)	6,522	9.0	5.0	4.0	-0.2	5,500	6,587	-8.7	-4.9	0.1	-2.7	4.1
Japan (NIKKEI-225)	15,776	3.0	-5.2	-17.1	-21.6	14,864	18,951	-4.5	9.1	20.2	7.1	7.0
USA (DJ INDUSTRIALS)	17,949	4.7	0.8	2.0	1.5	15,370	18,168	0.1	-2.2	9.3	7.5	22.2
USA (S&P 500)	2,103	5.1	0.2	1.9	1.7	1,810	2,133	0.0	-0.7	10.9	11.4	26.6

Equity Indices (July 4th 2016)