South Eastern Europe and Mediterranean Emerging Market Economies

Weekly Report

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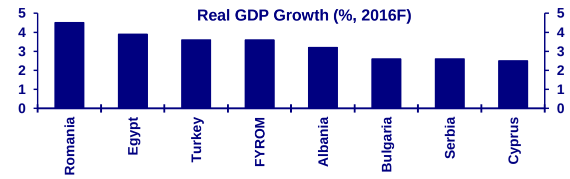
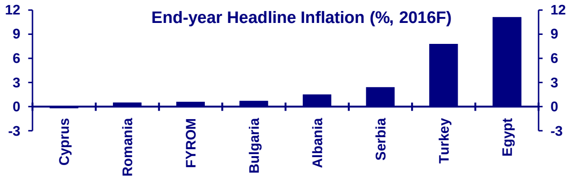
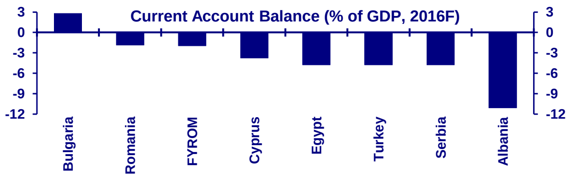
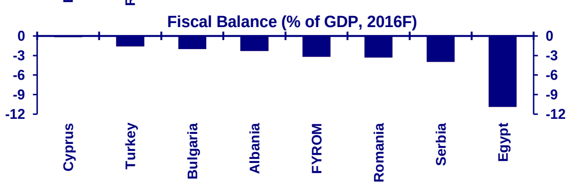








17 – 23 May 2016

Markets were relieved following PM Yildirim's announcement of the new Cabinet

CBRT cuts its overnight lending rate by 50 bps to 9.5%

Primary fiscal balance improves in 4M:16, due to large non-recurring proceeds and capital spending cuts

Underlying growth in credit to the private sector at 9% y-o-y in Q1:16

Deposit growth approaches double digits in March, underpinned by strong economic activity

Lending activity weakens further in March, due to tight credit standards and subdued loan demand

Growth in customer deposits decelerates in March, due to a weaker corporate segment

customer deposit growth (FX-adjusted) moderates slightly to 6.0% y-o-y in Q1:16

Credit activity growth (FX-adjusted) also slows to 0.4% y-o-y in Q1:16

Profitability of the banking system improves significantly in Q1:16

Headline inflation remains at record low in April (0.3% y-o-y), supported by lower food and energy prices

Record-low inflation strengthens the BoA's hand to cut the policy rate by an additional 25 bps in May

A hung Parliament emerges from the May 22nd general elections

Fiscal performance improves significantly in Q1:16, mainly on the back of an early dividend payment by the Central Bank

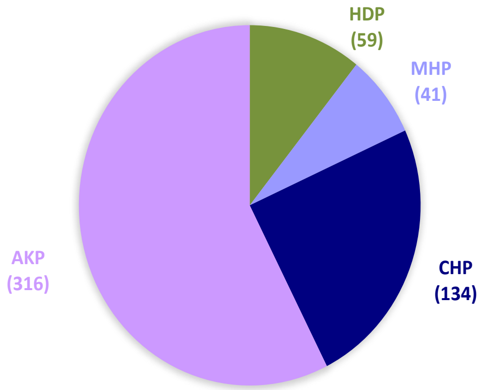
The crash of an Egypt Air flight on May 19th will deal another blow to the tourism industry, already reeling from the terrorist bombing of a Russian plane last October

Suez Canal receipts (SCR) remain resilient in 9M:15/16 in the face of a slowdown in global trade

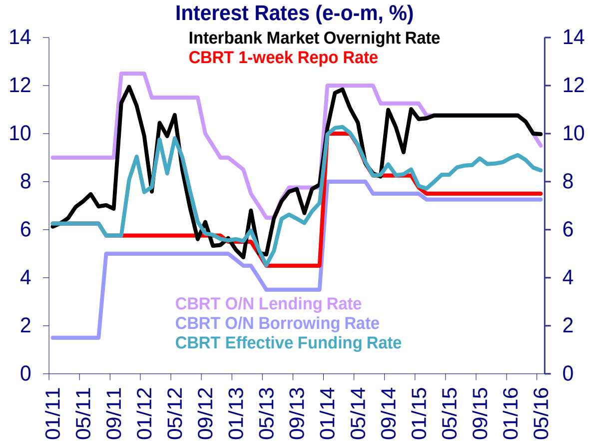
Turkey

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

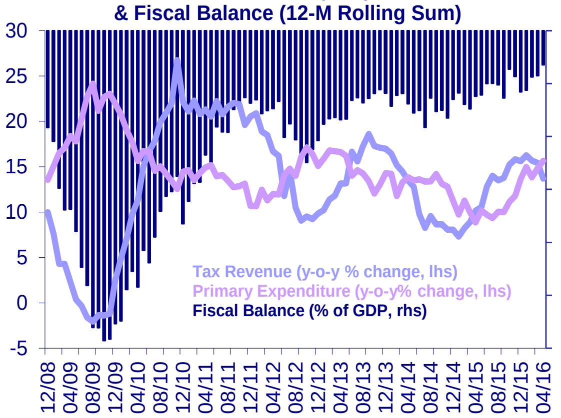
Results of November 2015 General Elections (Number of Seats)



Interest Rates (e-o-m, %)



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



	23 May	3-M F	6-M F	12-M F
1-m TRIBOR (%)	10.6	10.6	10.2	9.8
TRY/EUR	3.36	3.35	3.32	3.30
Sov. Spread (2019, bps)	211	205	190	170

	23 May	1-W %	YTD %	2-Y %
ISE 100	76,766	-0.3	4.9	-1.7

	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	-1.6	-1.2

Markets were relieved following PM Yildirim's announcement of the new Cabinet. The core economic management team was re-appointed, easing market fears of a major shift in policy. Indeed, Simsek, seen as an anchor for investor confidence, was retained as deputy PM in charge of economic affairs and Agbal remains as Minister of finance. The new Cabinet will be approved by Parliament on May 29th, dominated by the AKP (316 seats out of 550).

We expect market relief to be short lived, as political uncertainty is set to heighten, in view of the determination of the new PM to push through the shift to an executive presidency from the current parliamentary system. Such a shift would require a referendum or another election (the third in less than 18 months). Note that the AKP is currently short of the ⅗ majority (at least 330 seats), needed to call a referendum to amend the Constitution, and the ⅔ majority (at least 367 seats) required to directly amend the Constitution. Note that political tensions may be also fuelled in the coming weeks following the recent Parliamentary approval of lifting of immunity of 148 deputies. Should any deputy be sentenced to more than 1 year in prison, he would lose his seat in Parliament. The move is widely believed to target the pro-Kurdish HDP, which is accused of supporting terrorism, with 50 of its 59 deputies losing their immunity, and is expected to heighten security risk in Kurdish regions.

The CBRT cuts its overnight lending rate by 50 bps to 9.5%. The CBRT cut the upper bound of the interest rate corridor (the overnight lending rate) by 50 bps to 9.5%, following two cuts in the previous two months totaling 75 bps. Moreover, the central policy rate (1-week repo rate) as well as the lower bound of the interest rate corridor (the overnight borrowing rate) were maintained unchanged for a 15th consecutive month, at 7.5% and 7.25%, respectively.

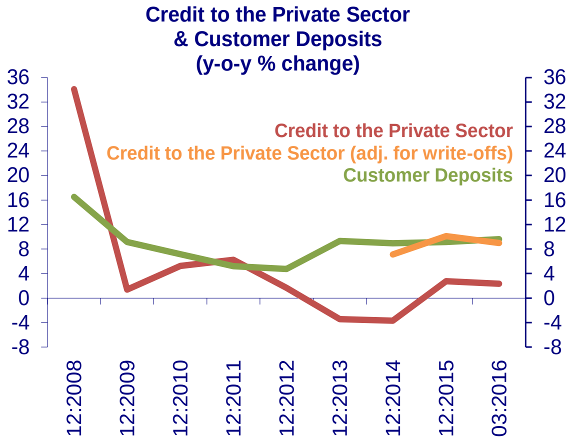
Going forward, in view of the new CBRT management's easing bias and the expected low, albeit increasing, headline inflation in May (we see it at 6.8% y-o-y) and barring any notable deterioration in global risk appetite, we expect the CBRT to reduce the overnight lending rate by a further 25 bps, to 9.25%, at the next MPC meeting on June 21st. Until then, the CBRT should temper depreciation pressures through liquidity management (by increasing its effective funding rate – currently at 8.5% -- through lower use of the less expensive 1-week repo funding facility, and thus forcing increased use of the higher O/N lending rate).

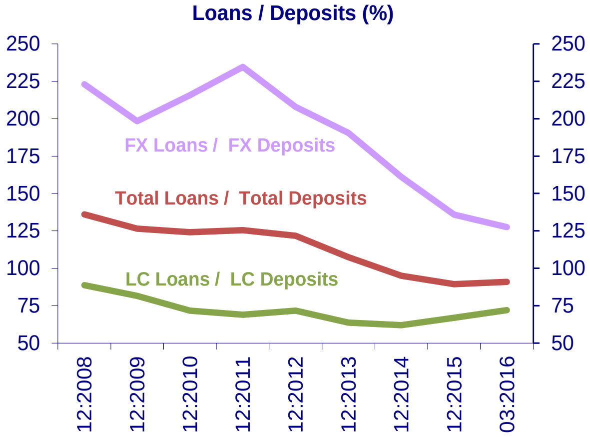
The primary fiscal balance improved in 4M:16, due to large non-recurring proceeds and capital spending cuts. The overall fiscal balance strengthened by 0.5 pps y-o-y to a surplus of 0.2% of GDP in 4M:16, on the back of an improved primary fiscal balance (by 0.1 pp of GDP y-o-y) and, to a large extent, significantly lower interest payments, mainly reflecting their non-uniform distribution throughout the year.

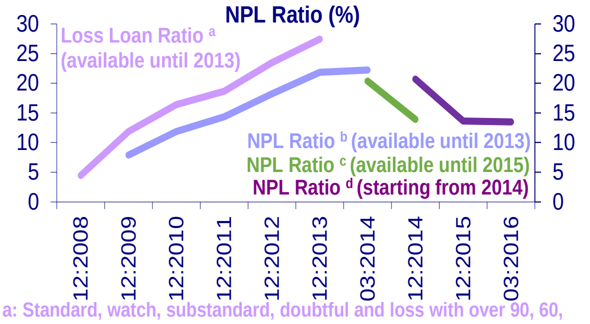
Indeed, overall revenue increased significantly by 16.2% y-o-y in 4M:16, on the back of large non-tax proceeds (up 44.6% y-o-y, reflecting payments from the past year's privatisation transactions and a surge in transfers of the CBRT's profits to the Treasury). Worryingly, tax revenue (up 10.0% y-o-y in 4M:16) not only underperformed its FY:16 target (up 12.7%) but also rose at a slower pace than nominal GDP (up by an estimated 11.8% y-o-y), despite the implementation of a series of revenue-enhancing measures from January 1st. These include hikes in: i) the minimum wage (by 30.0% to TRL1.3k); and ii) taxes on tobacco, alcoholic beverages and mobile phones (up 10%, 15% and 30%, respectively). Moreover, despite large cuts in capital spending (down 35.0% y-o-y), primary spending rose by 15.3% y-o-y in 4M:16, surpassing its FY:16 target (up 13.6%), on the back of strong increases in the wage bill and transfers (to finance the social security deficit).

Romania

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







a: Standard, watch, substandard, doubtful and loss with over 90, 60, 30, 15 and 0 dpd, respectively
b: Sample Banks using standard approach in credit risk assessment
c: All Banks using the standard approach in credit risk assessment
d: EBA definition; exposures more than 90 dpd or unlikely to be collected without use of the collateral regardless of the dpd

	23 May	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)	229	210	180	150

	23 May	1-W %	YTD %	2-Y %
BET-BK	1,168	-1.3	-12.9	-3.0

	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

Underlying growth in credit to the private sector at 9.0% y-o-y in Q1:16. Credit to the private sector expanded by 2.3% y-o-y in March following an increase of 2.7% at end-2015. However, adjusted for large write-offs and NPL sales, which have pushed down the NPL ratio to an estimated 13.5% in March from its peak of 26.8% in early-2014, the pace of expansion in credit to the private sector is estimated to be understated by c. 6.5 pps.

From a currency perspective, despite the large interest rate differential between LC and FX loans (150 bps), FX lending continued to decline sharply in March (down 11.5% y-o-y following a decline of 9.6% at end-2015), reflecting the NBR's measures to curtail FX lending (stress tests for unhedged borrowers and higher down-payments on unhedged FX mortgage loans). At the same time, LC lending maintained its momentum (up 19.3% y-o-y in March against 18.8% at end-2015), on the back of the continuing decline in lending rates (the overall lending rate in RON was down by 55 bps y-o-y in 3M:16 following a drop of 85 bps in FY:15). The latter is attributed to the NBR's accommodative monetary policy stance and ample RON liquidity (see below).

From a segment perspective, retail lending remained the main driver in March (up 5.4% y-o-y against 5.7% at end-2015), supported by mortgage lending (up 16.2% y-o-y in March against 16.5% at end-2015, sustained by the First House government-subsidized programme, under which the state guarantees mortage loans for first-time buyers), while corporate lending tightened again (down -0.7% y-o-y in March following a decline of 0.1% at end-2015).

Deposit growth approached double digits in March, underpinned by strong economic activity. Customer deposits rose by a strong 9.6% y-o-y in March following a rise of 9.1% at end-2015. Specifically, LC deposits (up 11.0% y-o-y in March against 10.1% at end-2015) continued to grow at a faster pace than FX deposits (up 7.0% y-o-y in March following a similar increase at end-2015), in line with the positive, albeit narrow, interest rate differential between LC and FX deposits (30 bps on time deposits). From a segment perspective, corporate deposits continued to overperform (up 15.8% y-o-y in March against 13.9% at end-2015), reflecting abundant liquidity in the sector, with retail deposits growing at a slower pace (up 6.4% y-o-y in March following a similar increase at end-2015).

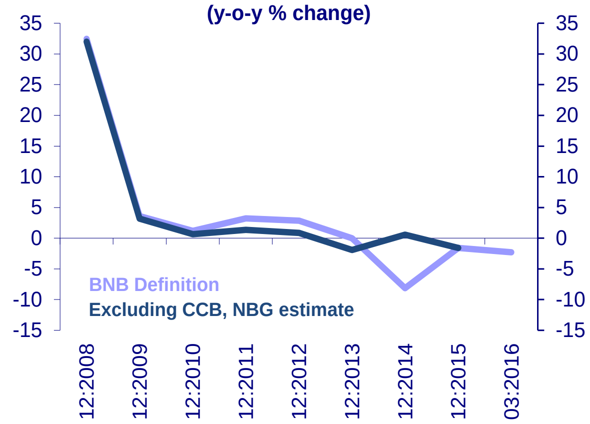
As a result, the gross loan-to-deposit ratio rose slightly to 90.9% in March (78.5% on a net basis) from 89.5% at end-2015, still well below its peak of 126.7% in mid-2012. From a currency perspective, the RON deposit base remained more than adequate to meet the LC funding needs (the LC loan-to-deposit ratio stood at 72.0% in March against 66.9% at end-2015). At the same time, albeit improving, the mismatch on the FX side remained large (the FX loan-to-deposit ratio fell to 127.5% in March from 135.8% at end-2015 and 232.4% in mid-2012).

The recently-adopted "Debt Settlement Law" (DSL) is set to hinder credit activity. The DSL allows debtors to settle debts by giving up their homes (effectively a no-recourse framework). It applies only to individuals and for credits up to EUR 250k, but excludes loans granted under the First House programme (c. 42% of total mortgage loans). The IMF/EU, NBR and commercial banks have opposed the DSL, on the basis that it will make new borrowing more expensive, thus leading to tighter credit standards. Indeed, most banks have already increased the down payment required for mortgage loans to 30%-40% of the loan value from 15% before, while some have also reduced the loan repayment period. As a result, we see credit to the private sector remaining broadly flat in FY:16 (up 4.0% adjusted for write-offs) against an increase of 2.7% in FY:15 (up 9.0% adjusted for write-offs).

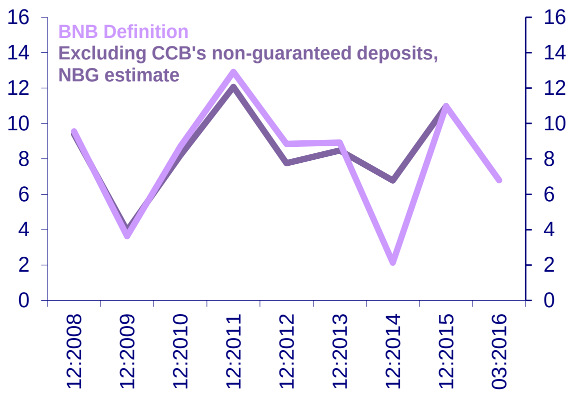
Bulgaria

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

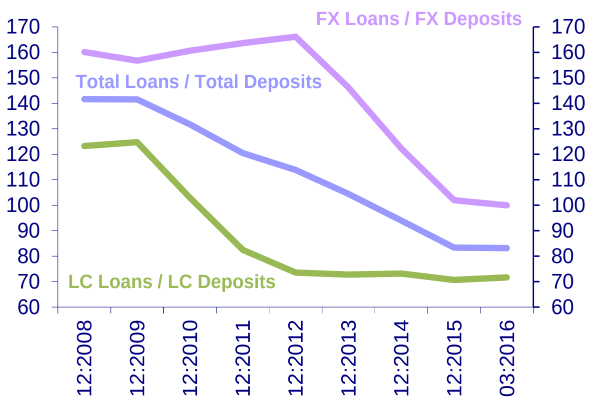
Credit to the Private Sector (y-o-y % change)



Customer Deposits (y-o-y % change)



Loans / Deposits (%)



	23 May	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

	23 May	1-W %	YTD %	2-Y %
SOFIX	439	-0.3	-4.7	-25.7

	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	-2.0	-1.5

Lending activity weakens further in March, due to tight credit standards and subdued loan demand. Credit to the private sector contracted by 2.3% y-o-y in March following a decline of 1.6% at end-2015, marking the 4th consecutive quarter of decline. Note that, adjusting for write-offs and NPL sales, the pace of contraction in credit to the private sector is estimated to be slightly overstated (by 2.0 pps).

Specifically, FX lending continued to decline sharply in March (down 12.5% y-o-y following a decline of 11.4% at end-2015), despite the lower interest rates offered (4.6% for FX loans against 6.8% for LC loans) and the absence of FX risk. At the same time, LC lending growth maintained its momentum (up 10.0% y-o-y in March following 10.5% at end-2014), on the back of ample BGN liquidity (see below). From a segment perspective, lending to both the retail and corporate sectors declined further in March (by 1.5% and 2.7% y-o-y, respectively, against declines of 0.9% and 1.9% at end-2015).

In our view, the sluggish credit activity is due to both tight standards by banks and weak loan demand. Note that the NPL ratio has been falling, but at a relatively slow pace, reaching 15.3% in March against 16.5% a year ago (data prior to 2015 are not available). However, in the context of still uncertain economic and financial conditions, banks continued to hold back credit in view of the need to restore the health of their balance sheets, especially at a time when an asset quality review (AQR) is ongoing. At the same time, loan demand remained subdued, reflecting, *inter alia*, the sizeable debt of the private sector (55.1% of GDP against 33.3% in SEE-4).

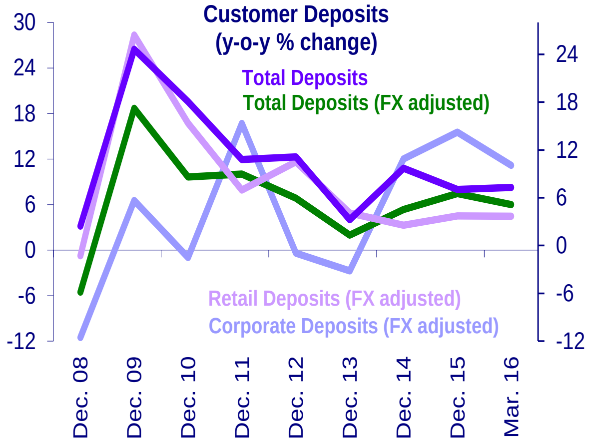
Growth in customer deposits slows in March, due to a weaker corporate segment. Growth in customer deposits eased markedly to 6.8% y-o-y in March from 11.0% at end-2015. The slowdown in overall deposit growth is mainly driven by the corporate segment (up 10.7% y-o-y in March against 18.9% at end-2015), with the latter likely due to base effects from changes in the tax calendar. At the same time, retail deposits continued to expand, albeit at a modest pace (up 5.2% y-o-y in March against 7.8% at end-2015). From a currency perspective, LC deposits continued to overperform in March (up 11.5% y-o-y against 14.4% at end-2015), in line with the higher rates offered (1.1% for LC time deposits versus 0.9% for FX time deposits), with FX deposits growing at a slower pace (up 0.6% y-o-y in March against 6.3% at end-2015). Importantly, competition among banks for deposits has come down. Indeed, deposit spreads moderated further in Q1:16 (to -31 bps and -71 bps for LC and FX deposits, respectively, from -54 bps and -105 bps in Q1:15).

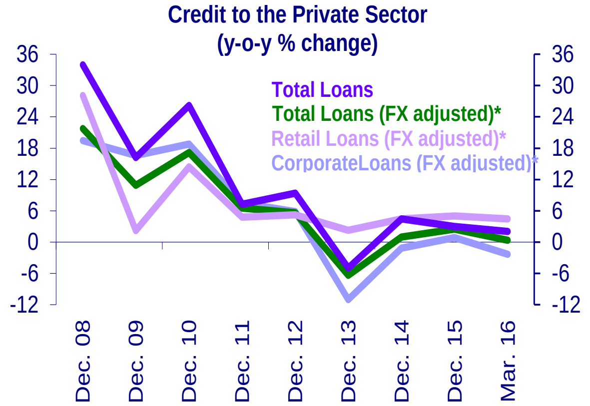
As a result, the gross loan-to-deposit ratio for the banking system stood at 83.2% in March (c. 76.0% on a net basis), broadly unchanged compared with end-2015, but well below its record-high of 146.7% in mid-2009. Importantly, the loan-to-deposit ratio in the FX segment fell marginally below the 100% threshold in March for the first time since early-2007. At the same time, liquidity in the LC segment remained ample (the LC loan-to-deposit ratio stood at 71.7% in March).

Credit activity is set to improve slowly throughout the remainder of the year. Looking ahead, we expect credit activity to recover moderately, supported by: i) the continuing, albeit modest, economic recovery; and ii) easing credit standards, in view of the decline in NPLs. The envisaged portfolio clean-up, in the aftermath of the AQR, should also encourage banks to increase lending, as should the introduction of negative interest rates on excess reserves by the BNB. All said, we expect credit to the private sector to expand by 0.0-2.0% in FY:16, still below deposit growth (up 7.0%).

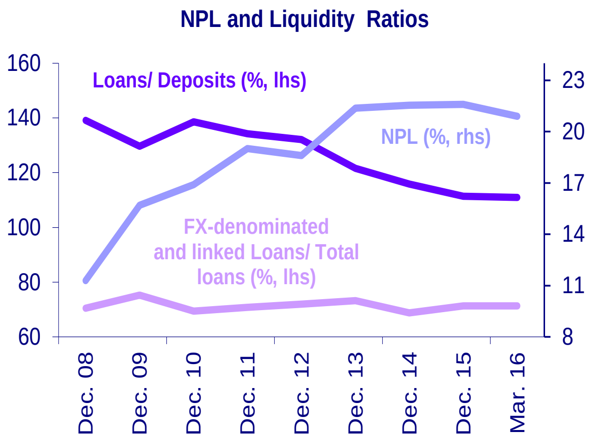
Serbia

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





* NBG estimates before 2009
** FX loans include FX denominated and linked Loans



	23 May	3-M F	6-M F	12-M F
1-m BELIBOR (%)	3.1	3.2	3.4	3.8
RSD/EUR	122.7	123.2	124.0	125.0
Sov. Spread (2021, bps)	294	250	220	180

	23 May	1-W %	YTD %	2-Y %
BELEX-15	622	1.2	-1.5	6.4

	2013	2014	2015	2016F	2017F
Real GDP Growth (%)	2.6	-1.8	0.7	2.6	3.0
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	-4.0	-3.0

Customer deposit growth (FX-adjusted) moderated slightly, to 6.0% y-o-y in March 2016. Customer deposit growth remained broadly flat (slowing marginally, to 7.3% y-o-y in March from 7.5% at end-2015). However, adjusted for FX variations, deposit growth slowed to (a still robust) 6.0% y-o-y in March from a 3-year high 7.5% at end-2015, in view of the relatively large share of FX-denominated deposits in total deposits (74.7%) and the sharper depreciation of the RSD against the EUR (by 2.1% y-o-y against the EUR in March).

The weakening in overall deposits (FX adjusted) was driven solely by the slowdown in the corporate segment (accounting for ⅓ of total deposits, and up 11.2% y-o-y in March against a rise of 15.5% at end-2015, FX adjusted). The deceleration in corporate deposits, *albeit* to a still strong pace, was due to the slowdown in the LC component (up 9.5% y-o-y in Q1:16 against a rise of 18.7% at end-2015), reflecting mainly the sharp decline in interest rates. The latter was driven by the NBS' policy rate cuts and an increase in bank liquidity through the reduction in RRRs on FX liabilities (by 6 pps through February).

Retail deposits (accounting for a sizeable ⅔ of total deposits) maintained their momentum (up 3.7% y-o-y in Q1:16, as in Q4:15, FX adjusted), supported by the rebound in LC retail deposits, in line with the sharp increase in wages (up 4.4% y-o-y in Q1:16 following a decline of 0.2% in FY:15, following cuts in pensions and public sector wages).

Credit activity growth (FX-adjusted) weakened slightly 0.4% y-o-y in Q1:16. The LC loan book slowed to 2.1% y-o-y in March from 3.0% at end-2015. However, lending activity, adjusted for the positive impact of FX movements, slowed at a faster pace, to a 6-quarter low of 0.4% y-o-y in Q1:16 from 2.5% at end-2015.

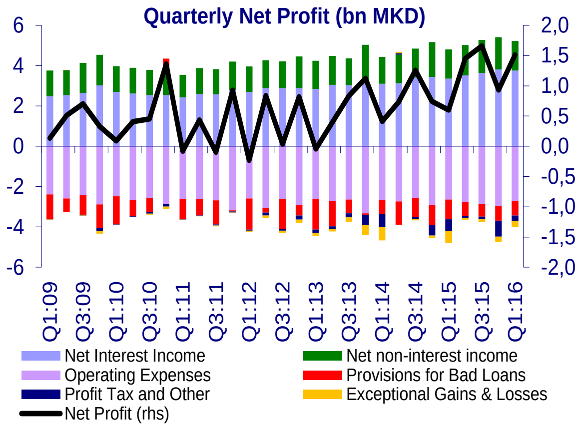
The moderation in lending activity (FX-adjusted) reflects solely the weakening in FC credit (FC-denominated and indexed loans -- accounting for 71.3% of total loans -- rose by 2.3% in Q1:16 against a 3½-year high rise of 6.7% y-o-y at end-2015). The deceleration is due to a negative base effect, stemming from the gradual rebound in FC lending since Q1:15, following the phasing-out of the state subsidised credit support programme in FY:14 (that targeted LC-denominated loans) and their substitution with lower interest-bearing FC loans since Q1:15. On the other hand, the growth in the LC loan book, although remaining negative, eased to -3.4% y-o-y in Q1:16 from -5.4% at end-2015. The milder contraction in the LC lending occurred despite the easing of the monetary policy stance and the concomitant decline in LC lending interest rates (RSD lending rates on new loans declined sharply, by 660 bps y-o-y to a historical low of 9.4% in Q1:16 from 12.7% in FY:15). The drop in LC lending also reflects: i) the phasing-out of the state subsidised loans, implemented in Q2-Q4:14, that boosted LC credit growth in Q1:15; as well as ii) the maturation of the subsidised loans provided in 2014.

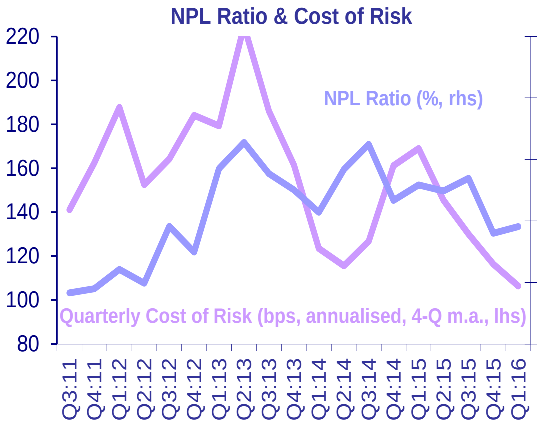
With deposits increasing at a faster pace than loans (for a 6th successive year), the (gross) loan-to-deposit ratio moderated further to (a still high) 111.0% in Q1:16 from 111.4% at end-2015 -- well below the peak of 146.5% in Q1:09.

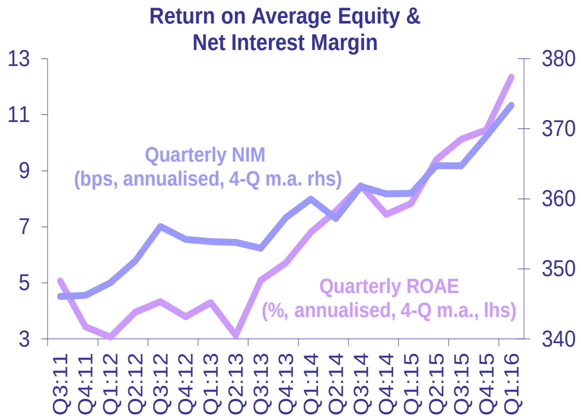
Growth in credit activity to accelerate to around 5.5% this year (FX-adjusted). Credit growth should be supported by the continued decline in LC lending interest rates, the rebound in activity and stronger demand for loans. The envisaged partial implementation of the NBS recommendation to banks to reclassify some loans into NPLs, in the aftermath of the asset quality Special Diagnostic Studies for the 14 largest Serbian banks (88% of the sector's total assets) conducted in Q4:15, should also encourage banks to increase lending.

F.Y.R.O.M.

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







	23 May	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)	547	520	450	350

	23 May	1-W %	YTD %	2-Y %
MBI 100	1.736	-0.5	-5.3	5.4

	2013	2014	2015E	2016F	2017F
Real GDP Growth (%)	2.7	3.5	3.7	3.6	3.4
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	-3.2	-3.0

The profitability of the banking system improved significantly in Q1:16. Net profit after tax increased by an impressive 154% y-o-y in Q1:16, to EUR 24.7mn or 0.3% of GDP. The strong performance was driven by a significant increase in pre-provision earnings as well as sharp declines in impairment charges on foreclosed non-financial assets and NPL provisions (contributing 56.3 pps, 52.3 pps and 45.6 pps, respectively, to net profit growth). As a result, ROAE and ROAA (annualised) improved to 13.0% and 1.4%, respectively, in Q1:16 from 5.5% and 0.6% in Q1:15 and 10.4% and 1.1%, in FY:15.

Pre-provision earnings (before tax) strengthened in Q1:16, on the back of a significant increase in net interest income (NII). Pre-provision earnings increased by 15.6% y-o-y in Q1:16, following a rise of 14.5% in FY:15, largely due to strong NII (up 11.6% y-o-y in Q1:16 and contributing 65.3 pps to net profit growth). The latter reflects: i) higher average interest earning assets (up 6.1% y-o-y in Q1:16); as well as ii) an improved net interest margin (up 18 bps y-o-y to 369 bps in Q1:16). Note that average interest rates for outstanding LC deposits and loans moderated by 0.7 pps y-o-y and 0.5 pps, respectively, in Q1:16 to 2.52 and 6.74% in Q1:16.

The improvement in pre-provision earnings would have been sharper had operating expenses not increased significantly in Q1:16 (by 2.9% y-o-y compared with an average inflation of 0.0% y-o-y), on the back of a surge in personnel expenses (up 5.2% y-o-y).

As gross operating income increased at a faster pace than operating expenses, the banking sector's efficiency improved, with the cost-to-income ratio declining by 255 bps y-o-y to a record low of 52.0% in Q1:16.

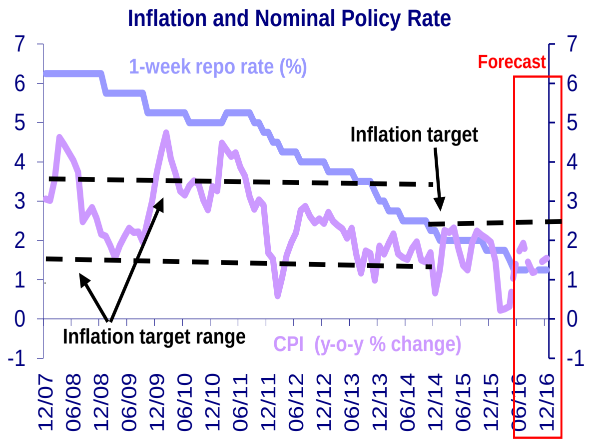
Impairment charges on foreclosed non-financial assets declined sharply in Q1:16. Banking sector net profit (after tax) also benefited from a sharp decline in a regulatory impairment charge on foreclosed non-financial assets (down 53.1% y-o-y to EUR 4.5mn) imposed since Q1:14 -- a 20% haircut on bank foreclosed assets per year (acting as an incentive to the sale of foreclosed assets). The decline was also supported by progress in collateral enforcement and out-of-court restructuring procedures.

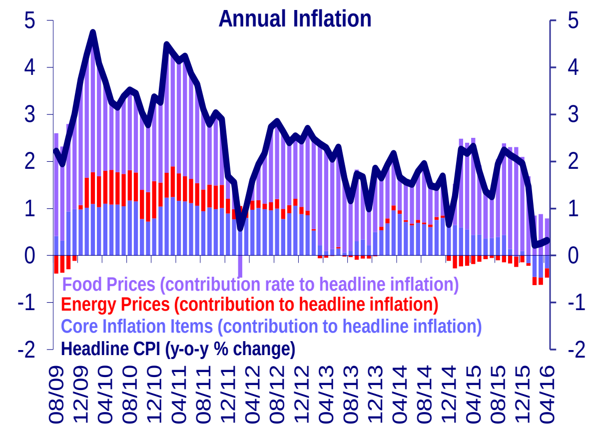
The cost of risk declined on a y-o-y basis in Q1:16. P/L provisions declined by 28% in Q1:16, due to the improving quality of banks' loan portfolios. Indeed, the NPL ratio (comprising loan balances 90 dpd) declined by 68 bps y-o-y (of total loans) to 10.9% in Q1:16, supported by: i) strong economic activity (up 3.6% in FY:15); ii) robust credit activity (average loan balances increased by 8.6% y-o-y in Q1:16); and, to a lesser extent iii) loan restructuring and the facilitation of write-offs. Note that the decline in the NPL ratio was driven by the retail segment – the ratio of non-performing retail loans moderated to 5.0% in Q1:16 from 5.8% in Q1:15 – and the ratio of non-performing corporate loans eased slightly to 15.5% in Q1:16 from 15.6% in Q1:15. As a result, the (annualised) cost of risk (the ratio of P/L provisions-to-average gross loans) declined by 52 bps y-o-y to 104 bps in Q1:16.

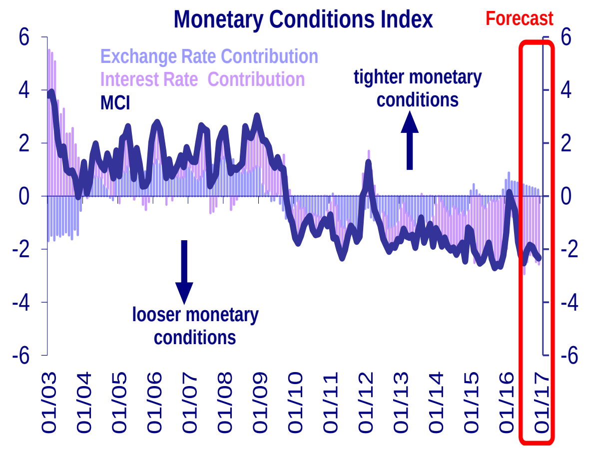
Profitability is set to weaken during the remainder of the year, due to the protracted domestic political crisis. Prolonged domestic political uncertainty, following two postponements of the legislative elections (from April 24th to June 5th and recently from June 5th to an unscheduled date) is set to weaken banking sector performance in Q2-Q4:16. Should a solution to the domestic political crisis not be found before Q3:16, the banking system's ROAE is likely to decline to single digits in FY:16, from 13.0% in Q1:16 (annualised) and 10.4% in FY:15.

Albania

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







	23 May	3-M F	6-M F	12-M F
1-m TRIBOR (mid, %)	1.7	2.2	2.2	2.2
ALL/EUR	138.3	139.2	138.2	139.0
Sov. Spread (bps)	476	500	450	400

	23 May	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

Headline inflation remains at a record low in April (0.3% y-o-y), supported by lower food and energy prices. Headline inflation remained broadly flat, for a third successive month, at a historical low of 0.3% y-o-y in April, as an improvement in food and energy inflation was offset by a deterioration in core inflation. It is important to note that headline inflation has remained well below the BoA's target of 3.0% for almost two successive years.

In fact, food prices (comprising 39.3% of the CPI basket) decelerated to 2.0% y-o-y in April from 2.2% in March, supported by a continued correction in prices of volatile fruit & vegetables (together contributing 1.1 pp to inflation in April against 1.5 pps in March), following a sharp flood-induced rise in H1:15. Food inflation was also contained by continuing favourable global food prices, combined with a relatively stable exchange rate.

Inflationary pressures were also held back by favourable energy prices (comprising 7.5% of the CPI basket), recording a sharper decline of 2.6% y-o-y in April following a drop of 2.1% in March, supported by lower global oil prices (down 33.3% y-o-y, in ALL terms, in April).

Core inflation, although remaining in negative territory, rose to -0.5% y-o-y in April from a historical low of -0.9% in March, in line with the gradual recovery in domestic demand. Core deflation has, so far, been supported by low imported inflation, a persistent negative output gap and spare production capacity.

Headline inflation is set to end 2016 at 1.5% -- below the 2015 outcome and the BoA's target of 3.0%. Inflation is set to gradually embark on a mild upward trend during the remainder of the year, reflecting a recovery in domestic demand (which posted negative growth in FY:15) and less favourable global oil prices (we forecast a 14.8% decline in global oil prices in ALL terms in 5-12M:15 compared with a decline of 35.4% in 4M:15) .

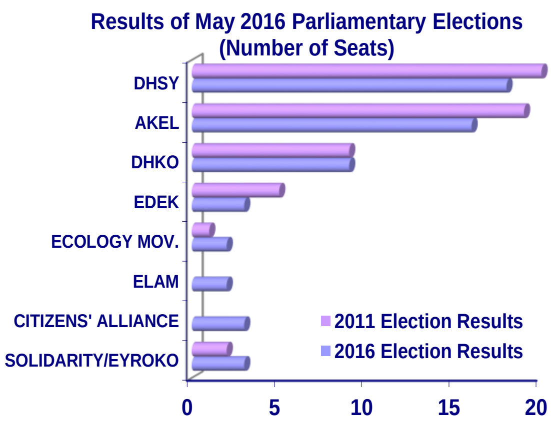
Nevertheless, inflationary pressures in the remainder of the year should be contained by: i) favourable imported inflation, combined with the absence of depreciation pressures on the domestic currency; ii) a persistent negative output gap (-0.4% in FY:16 against -0.6% in FY:15); and iii) a tight fiscal policy stance. Overall, we see headline inflation ending 2016 at 1.5% -- half the BoA's target, and 0.5 pps below the end-2015 outcome.

Record-low inflation strengthens the BoA's hand to cut the policy rate by an additional 25 bps in May. The BoA proceeded with a further 25 bp cut in its key policy rate (1-week repo rate) in May, to a record low of 1.25%, following a 25 bp cut in April. This move brought cumulative cuts to 50 bps since the turn of the year. Scope for the loosening was mainly provided by low inflation (far below the BoA's target of 3.0%). Note that since the initiation of the cycle of monetary policy easing in September 2011, the policy rate has been cut by a sizeable 400 bps. The aggressive monetary policy easing has helped: i) lower LC lending rates significantly, boosting LC lending (up 3.2% y-o-y compared with a 5.6% decline in foreign currency lending in March); as well as ii) reduce sharply the funding cost of domestic public debt. Indeed, the average yield of 12-month T-bills had declined by 100 bps since the turn of the year, to a historical low of 1.4% in May (this decline was also reinforced, since November, by ample liquidity provided by the Eurobond issuance in November), and by 630 bps between August 2011 and May 2016.

Looking ahead, the BoA is expected to maintain its 1-week repo rate unchanged by end-2016, in view of the benign inflation outlook, sub-par real GDP growth, low imported inflation and a tight fiscal policy stance. Should our forecasts materialise, the monetary policy stance in 2016 would remain accommodative, as it was in 2015 (see MCI chart).

Cyprus

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



General Government Fiscal Balance (% of GDP)					
	2015	Q1:15	Q1:16	Revised 2016 Target*	NBG 2016 Forecast
Revenue	39.0	8.6	9.2	38.2	38.5
Tax Revenue	33.1	7.8	7.8	32.7	33.0
Indirect Taxes	14.8	3.5	3.4	14.6	- - -
Direct Taxes	9.9	2.2	2.2	9.6	- - -
Soc. Contrib.	8.5	2.1	2.2	8.5	- - -
Non-Tax revenue	5.9	0.8	1.4	5.5	5.5
Expenditure	39.1	8.7	8.3	38.6	38.5
Cur. Expenditure	36.3	8.4	8.1	35.9	36.2
G.& Services	3.7	0.7	0.7	3.6	- - -
Wag.& Salaries	12.8	3.0	2.8	12.6	- - -
Soc. Transfers	14.1	3.1	3.3	14.1	- - -
Int.Payments	2.8	0.6	0.5	2.6	2.6
Subsidies	0.4	0.2	0.2	0.4	- - -
Other	2.4	0.7	0.6	2.6	- - -
Capital Expend.	2.7	0.3	0.3	2.7	2.3
Fiscal Balance	0.0	-0.1	0.8	-0.4	0.0
Primary Balance	2.8	0.5	1.3	2.2	2.6

	23 May	3-M F	6-M F	12-M F
1-m EURIBOR (%)	-0.35	-0.35	-0.35	-0.35
EUR/USD	1.12	1.08	1.06	1.05
Sov. Spread (2020. bps)	310	280	260	250

	23 May	1-W %	YTD %	2-Y %
CSE Index	68	0.2	0.8	-33.4

	2013	2014	2015E	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

A fragmented Parliament emerges from the May 22nd general elections. The election was marked by high abstention (32.6%) and a large proportion of protest votes, which switched from traditional parties to new and small protest parties.

Eight parties entered the 56-seat parliament (the highest number in 15 years). The senior party of the government coalition, the conservative Democratic Rally (DISY), albeit losing popular support, remained as the major political force, gaining 18 out of 56 seats against 20 seats in 2011. The main opposition party, the pro-European Communist Party (AKEL) and the Socialist party (EDEK) also lost ground, securing 16 seats and 3 seats, respectively, versus 19 seats and 5 seats in 2011, while the centrist Democratic Party (DIKO) maintained its seats (9). The Ecology Movement and the junior party in the government coalition, EUROKO, in alliance with the newly-formed Solidarity Movement, increased their number of seats to 2 and 3, respectively, from 1 and 2 in the 2011 elections. Importantly, the far-right ELAM and the center-left Citizens' Alliance, advocating a hard-line nationalist stance in reunification talks with Turkish Cypriots, entered parliament for the first time (winning 2 and 3 seats, respectively).

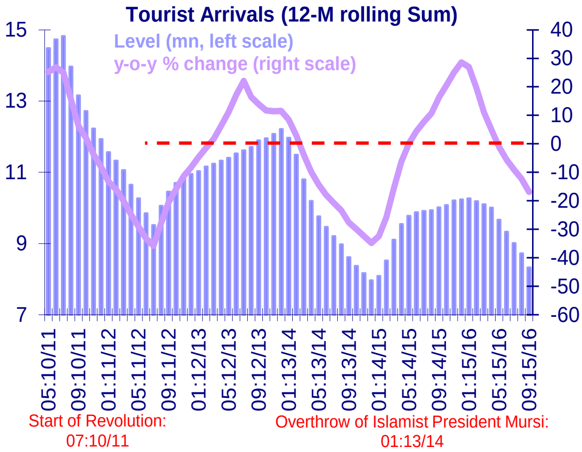
The result of the election is unlikely to lead to a change in Government before the next presidential elections, scheduled for February 2018, as Cyprus operates a presidential political system – i.e. the President appoints the Cabinet. However, the multiplicity of parties in parliament could complicate: i) the passage of reforms, needed to open the country's access to international capital markets, and ii) the ongoing reunification talks. Note that in the past week, President Anastasiades and Turkish Cypriot leader Akinci committed to stepping up talks in the hopes of reaching a resolution by the end of the year, which would then have to be approved in plebiscites by the two communities.

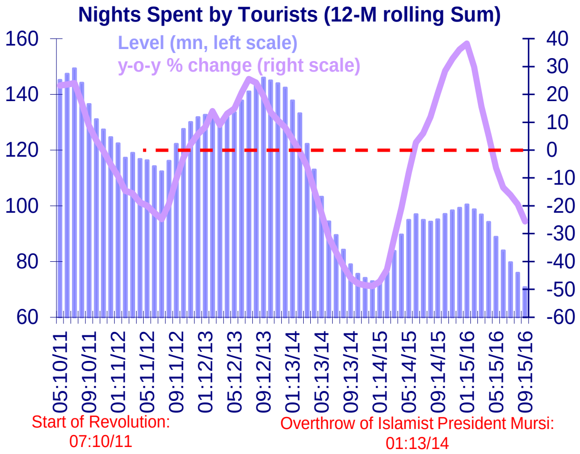
The fiscal performance improved significantly in the first quarter of the year, mainly on the back of an early dividend payment by the Central Bank (CB). The fiscal balance improved by 0.9 pps y-o-y to a surplus of 0.8% of GDP in Q1:16. The impressive Q1:16 performance resulted mainly from an increase in non-tax revenue (up 0.6 pps of GDP y-o-y), reflecting the early dividend payment by the CB (EUR 93mn or 0.5% of GDP in March compared with EUR 133mn or 0.8% of GDP in April 2015). Tax revenue remained flat at 7.8% of GDP, as the increase in social security contributions compensated for the decline in VAT revenue. Encouragingly, the fiscal performance benefited from tight expenditure restraint. Specifically, overall expenditure declined by 0.4 pps y-o-y to 8.3% of GDP in Q1:16, due mainly to: i) lower personnel expenditure, reflecting lower gratuities due to a decline in the number of retirements; and ii) a decrease in social transfers due to a strong base effect from the elimination of once-off expenditure related to the closure of Cyprus Airways in early 2015.

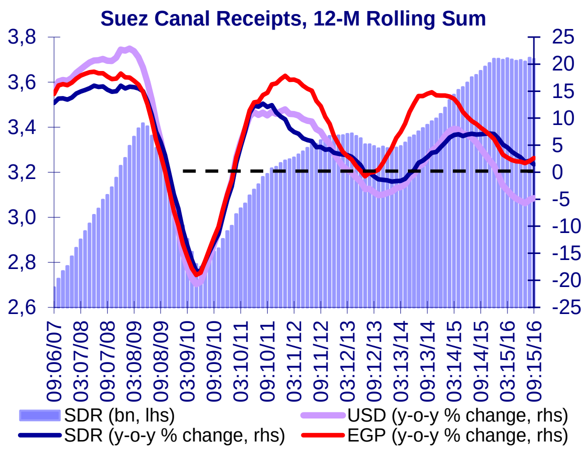
Although the fiscal performance is set to deteriorate during the remainder of the year, the FY:16 fiscal deficit should overperform its revised target of 0.4% of GDP. The FY:16 fiscal balance could outperform its target (recently revised down to -0.4% of GDP from 0% initially), in view of: i) the y-t-d performance (a surplus of 0.8% of GDP in Q1:16); ii) a stronger-than-expected recovery in activity (we see FY:16 real GDP growth at 2.5%, 0.9 pps stronger than consensus forecasts and the 2015 outcome); and iii) continued spending restraint. Overall, we see the fiscal balance at 0% of GDP in FY:16, unchanged from the FY:15 outcome but better than its target of -0.4% of GDP. This positive performance should help the public debt-to-GDP ratio to reverse course, for the first time in 8 years (down to 106.2% in 2016 from 108.7% in 2015).

Egypt

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







	23 May	3-M F	6-M F	12-M F
O/N Interbank Rate (%)	10.9	10.8	10.8	10.5
EGP/USD	8.88	8.95	9.20	9.50
Sov. Spread (2020. bps)	468	400	300	220

	23 May	1-W %	YTD %	2-Y %
HERMES 100	678	0.9	7.7	-21.5

	12/13	13/14	14/15	15/16F	16/17F
Real GDP Growth (%)	2.1	2.1	4.2	3.0	4.5
Inflation (eop. %)	9.8	8.2	11.4	11.5	10.0
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	-10.0

The crash of an Egypt Air flight on May 19th will deal another blow to the tourism industry, already reeling from the terrorist bombing of a Russian plane last October. Tourist arrivals declined sharply, by 43.9% y-o-y during November-March, following the terrorist bombing of a Russian passenger plane on October 31st. The latter led: i) Russia (the largest source country, which accounted for more than 30% of total tourists in 2014) to ban flights to Egypt; ii) the UK (the second largest source country, which accounted for more than 10% of total tourists in 2014) to suspend all flights to Egypt's tourism flagship city of Sharm el-Sheikh; and iii) several other countries to issue warnings against travel to Egypt. More worrying, the decline in the number of nights spent by tourists during November-March (down 62.5% y-o-y) was even sharper than that of arrivals during the same period (down 43.9% y-o-y). As a result, the 12-month rolling sum of tourist arrivals and nights spent by tourists declined by 16.9% and 25.6% y-o-y, respectively, to 8.3mn and 70.8mn in March compared with rises of 4.8% and 5.0% in October.

Looking ahead, despite the Government's ongoing efforts to strengthen security measures, the recent negative trends of tourist arrivals and nights spent are set to worsen during the remainder of this fiscal year (April-June), due to two incidents. Indeed, the hijacking of a domestic flight on March 29th by a passenger wearing a fake suicide belt has raised renewed questions over Egyptian airport security, leading Russia to postpone the resumption of flights to Egypt, just days after it had announced that it would soon restore them. More worryingly, the disappearance of an Egypt Air passenger jet into the Mediterranean on May 19th, carrying 66 people from Paris to Cairo, is expected to deal another blow to the country's vital tourism industry, already suffering its worst crisis in years, especially if it is proved that the crash is the result of a terrorist attack.

Overall, we foresee tourist arrivals and nights spent declining sharply, by around 32.0% and 48.0%, respectively, to 7.0mn and 52.0mn in FY:15/16. Should our forecasts materialise, the tourism sector would: i) shave 1.3 pps off overall GDP growth in FY:15/16 (projected at 3.0%) after having added 0.3 pps to growth in FY:14/15 (4.2%); and ii) see its contribution to FX reserves plunging to a 13-year low of USD 3.9bn in FY:15/16 from USD 7.4bn in FY:14/15.

Suez Canal receipts (SCR) remain resilient in 9M:15/16 in the face of a slowdown in global trade. Total (net) tonnage of ships crossing the Canal remained broadly unchanged in 9M:15/16 (July 2015-March 2016) from a year earlier, supported by tankers and LNG ships (accounting for 35.0% of total net tonnage and up 8.8% y-o-y). With transit tolls unchanged since May 2013, Suez Canal receipts in 9M:15/16 stood at their 9M:14/15 level of SDR 2.8bn. Note that the Canal Authority uses the SDR (which is a basket of currencies) as a currency unit to collect transit fees in order to avoid sharp fluctuations in its revenue.

Looking ahead, in view of the y-t-d performance and recent trends, we expect SCR to remain flat during the rest of the year (April-June) and, therefore, to stand at SDR 3.7bn in FY:15/16, similar to the previous fiscal year's outcome. Importantly, due to currency valuation effects, SCR are set to be less supportive to FX reserves, expressed in USD, but more supportive to the Budget, expressed in EGP. Indeed, based on consensus forecasts for the SDR components and the EGP (a 3.5% depreciation of the SDR against the USD and a 6.6% appreciation of the SDR against the EGP in FY:15/16), we foresee SCR contribution to: i) FX reserves declining, for the first time in 3 years, by around 3.0% or USD 0.2bn to USD 5.2bn (1.5% of GDP), and ii) Budget revenue (through corporate income tax and dividends) increasing by around 8.0% or EGP 2.6bn to EGP 35.2bn (1.3% of GDP).

FOREIGN EXCHANGE MARKETS, MAY 23RD 2016

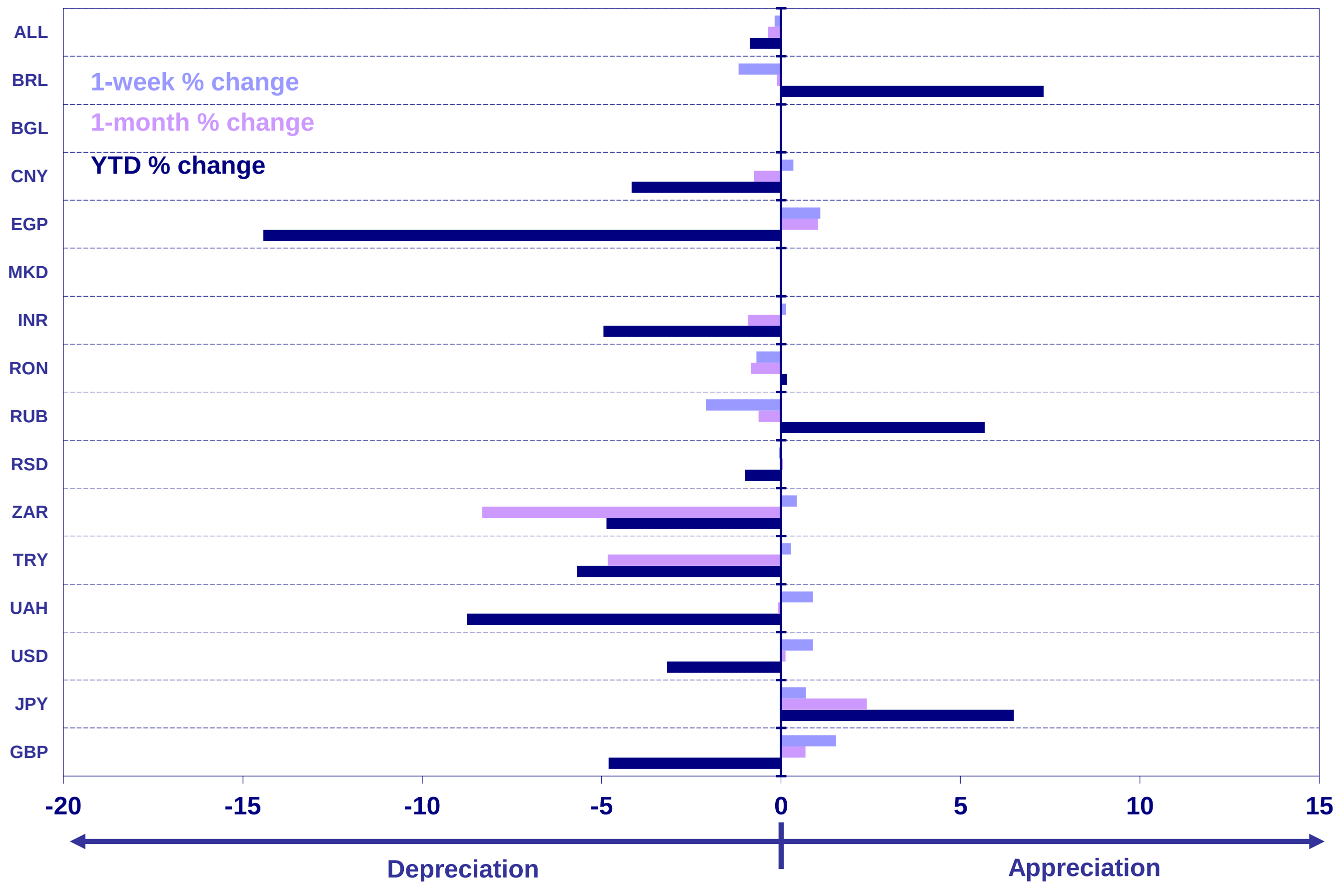
Against the EUR

	Currency	2016										2015	2014
		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	138.3	-0.2	-0.4	-0.9	1.8	137.5	139.5	138.8	138.6	136.9	2.0	0.1
Brazil	BRL	4.01	-1.2	-0.1	7.3	-15.2	3.90	4.55	4.58	4.57	4.54	-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	7.35	0.3	-0.8	-4.2	-7.6	6.99	7.52	7.58	7.58	7.57	6.7	10.8
Egypt	EGP	9.92	1.1	1.0	-14.4	-16.8	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	75.6	0.1	-0.9	-4.9	-7.8	71.3	77.8	81.3	- - -	- - -	6.6	12.3
Romania	RON	4.51	-0.7	-0.8	0.2	-1.3	4.45	4.56	4.51	4.52	4.53	-0.8	-0.5
Russia	RUB	75.0	-2.1	-0.6	5.7	-26.8	72.8	93.8	76.9	79.1	82.6	-15.1	-32.8
Serbia	RSD	122.7	-0.1	0.1	-1.0	-1.4	121.6	123.7	123.1	123.5	- - -	-0.1	-5.6
S. Africa	ZAR	17.6	0.4	-8.3	-4.9	-25.6	16.02	18.58	18.0	18.4	19.2	-16.6	3.0
Turkey	YTL	3.36	0.3	-4.8	-5.7	-14.5	3.12	3.39	3.45	3.54	3.72	-10.8	4.4
Ukraine	UAH	28.5	0.9	-0.1	-8.8	-16.2	25.06	30.16	34.8	- - -	- - -	-27.5	-40.8
US	USD	1.12	0.9	0.1	-3.2	-2.1	1.1	1.2	1.13	1.13	1.14	11.4	13.6
JAPAN	JPY	122.5	0.7	2.4	6.5	8.9	121.5	132.3	122.5	122.5	122.4	11.0	-0.1
UK	GBP	0.77	1.5	0.7	-4.8	-8.3	0.7	0.8	0.78	0.78	0.78	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 (May 23rd 2016)



MONEY MARKETS, MAY 23RD 2016

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine	EU	US
O/N	1,5	14,1	0.0	2,0	- - -	10,9	- - -	- - -	0,4	11,0	- - -	10,5	8,0	18,3	- - -	0,4
T/N	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	0,5	11,0	2,9	- - -	8,0	- - -	- - -	- - -
S/W	1,5	14,1	0.0	2,3	-0,4	- - -	1,3	- - -	- - -	11,3	2,9	- - -	7,8	19,0	-0,4	0,4
1-Month	1,7	14,1	0.0	2,8	-0,3	- - -	1,6	7,0	0,6	11,2	3,1	10,6	8,1	21,0	-0,3	0,4
2-Month	- - -	14,1	0,1	- - -	-0,3	- - -	- - -	- - -	- - -	11,3	3,2	10,6	8,2	- - -	-0,3	0,5
3-Month	1,9	14,1	0,1	2,9	-0,3	- - -	2,0	7,3	0,8	11,4	3,3	10,7	8,3	21,7	-0,3	0,7
6-Month	1,9	13,9	0,4	3,0	-0,1	- - -	2.4	- - -	1,0	11,5	3,5	10,7	8,1	- - -	-0,1	1,0
1-Year	2,0	13,2	0,8	3,1	0,0	- - -	3.0	- - -	1,2	11,4	- - -	10,7	9,2	- - -	0,0	1,3

LOCAL DEBT MARKETS, MAY 23RD 2016

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine	EU	US
3-Month	0.9	- - -	- - -	- - -	- - -	12.3	1.5	6.8	- - -	11.4	2.9	8.8	- - -	- - -	-0.5	0.3
6-Month	1.0	- - -	- - -	- - -	- - -	13.4	2.3	6.9	0.7	11.5	3.3	9.2	- - -	- - -	-0.6	0.5
12-Month	1.4	- - -	0.1	2.3	- - -	13.9	2.6	7.0	0.8	9.6	4.1	10.5	- - -	16.9	-0.5	0.7
2-Year	1.6	- - -	- - -	2.6	- - -	- - -	2.0	7.1	0.8	9.4	- - -	9.5	8.0	- - -	-0.5	0.9
3-Year	- - -	- - -	0.5	2.6	2.4	- - -	2.7	7.2	1.9	9.4	- - -	9.6	8.4	18.7	-0.5	1.1
5-Year	- - -	12.6	- - -	2.8	- - -	15.8	2.7	7.4	2.7	9.1	7.0	10.0	8.7	- - -	-0.3	1.4
7-Year	- - -	- - -	1.6	- - -	3.4	17.0	- - -	7.6	3.2	9.1	- - -	- - -	- - -	- - -	-0.2	1.7
10-Year	- - -	12.9	2.4	3.0	3.8	17.2	3.9	7.5	3.6	8.9	- - -	10.1	9.4	- - -	0.2	1.8
15-Year	- - -	- - -	- - -	- - -	- - -	- - -	4.3	7.9	- - -	8.9	- - -	- - -	9.8	- - -	0.5	- - -
25-Year	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	10.1	- - -	- - -	- - -
30-Year	- - -	- - -	- - -	- - -	- - -	- - -	- - -	7.9	- - -	- - -	- - -	- - -	10.1	- - -	0.9	2.6

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

CORPORATE BONDS SUMMARY, MAY 23RD 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	5.0	558	498
	Bulgarian Telecom. 6.625% '18	EUR	B-/B1	15/11/2018	400	5.1	561	529
Cyprus	**Aroundtown Property 3% '21**	EUR	NA/NA	9/12/2021	200	2.5	296	253
Russia	**Gazprom 8.2% '19**	RUB	BB+/NA	9/4/2019	10,000	10.5	100	- - -
	Gazprom 8.9% '21	RUB	BB+/NA	26/1/2021	10,000	10.6	121	- - -
South Africa	**FirstRand Bank Ltd 4.25% '20**	USD	BBB-/Baa2	30/4/2020	500	4.1	271	281
	FirstRand Bank Ltd 2.25% '20	EUR	NA/NA	30/1/2020	100	1.0	147	112
Turkey	**Vakiflar Bankasi 3.5% '19**	EUR	NA/Baa3	17/6/2019	500	3.0	354	313
	Garanti Bankasi 3.38%'19	EUR	NA/Baa3	8/7/2019	500	2.6	308	268
	Arcelik AS 3.875% '21	EUR	BB+/NA	16/9/2021	350	3.5	410	347
	Turkiye Is Bankasi 6% '22	USD	NA/Ba3	24/10/2022	1,000	6.2	484	466

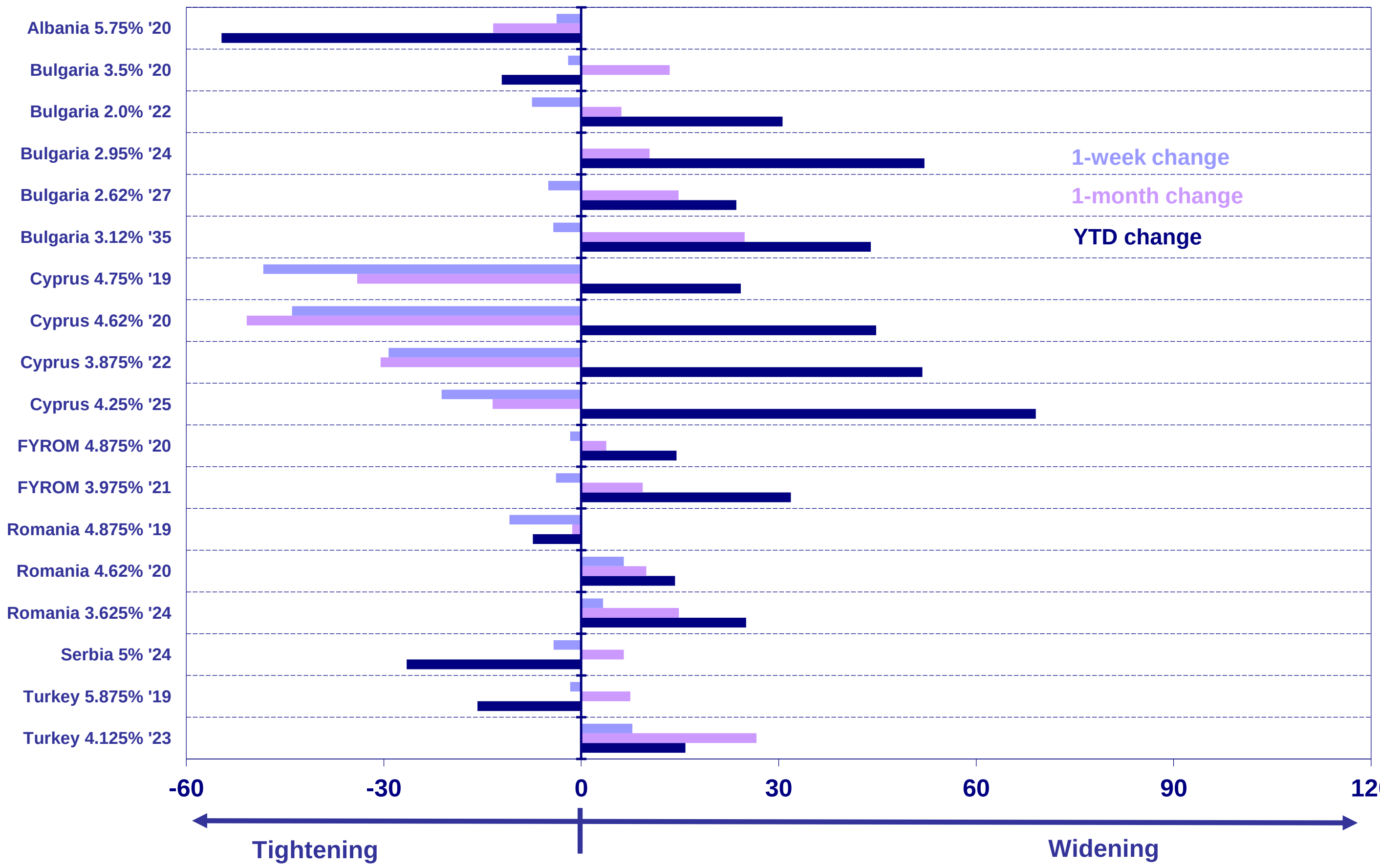
CREDIT DEFAULT SWAP SPREADS, MAY 23RD 2016

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine
5-Year	- - -	353	155	124	- - -	495	- - -	- - -	115	265	253	277	313	- - -
10-Year	- - -	421	200	170	- - -	506	- - -	- - -	156	315	299	331	369	- - -

EUR-DENOMINATED SOVEREIGN EUROBOND SUMMARY, MAY 23RD 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	4.2	476	431
Bulgaria 3.5% '20	EUR	NA/NA	16/1/2020	145	0.8	129	97
Bulgaria 2.0% '22	EUR	BB+/Baa2	26/3/2022	1,250	1.7	198	161
Bulgaria 2.95% '24	EUR	BB+/Baa2	3/9/2024	1,493	2.4	243	200
Bulgaria 2.62% '27	EUR	BB+/Baa2	26/3/2027	1,000	2.7	249	197
Bulgaria 3.12% '35	EUR	BB+/Baa2	26/3/2035	900	3.7	295	243
Cyprus 4.75% '19	EUR	B+/NA	25/6/2019	566	2.4	294	263
Cyprus 4.62% '20	EUR	B+/B3	3/2/2020	770	2.6	310	276
Cyprus 3.875% '22	EUR	NA/B3	6/5/2022	1,000	3.4	367	329
Cyprus 4.25% '25	EUR	NA/B1	4/11/2025	1,000	3.8	362	331
FYROM 4.875% '20	EUR	BB-/NA	1/12/2020	270	4.7	531	463
FYROM 3.975% '21	EUR	BB-/NA	24/7/2021	500	4.7	547	556
Romania 4.875% '19	EUR	BBB-/Baa3	7/11/2019	1,500	0.5	92	61
Romania 4.62% '20	EUR	BBB-/Baa3	18/9/2020	2,000	0.8	128	95
Romania 3.625% '24	EUR	BBB-/Baa3	24/4/2024	1,250	2.2	229	197
Serbia 5% '24	EUR	BB-/NA	11/4/2024	125	3.7	376	348
Turkey 5.875% '19	EUR	NR/Baa3	2/4/2019	1,250	1.6	211	184
Turkey 4.125% '23	EUR	NR/Baa3	11/4/2023	1,000	3.1	324	291

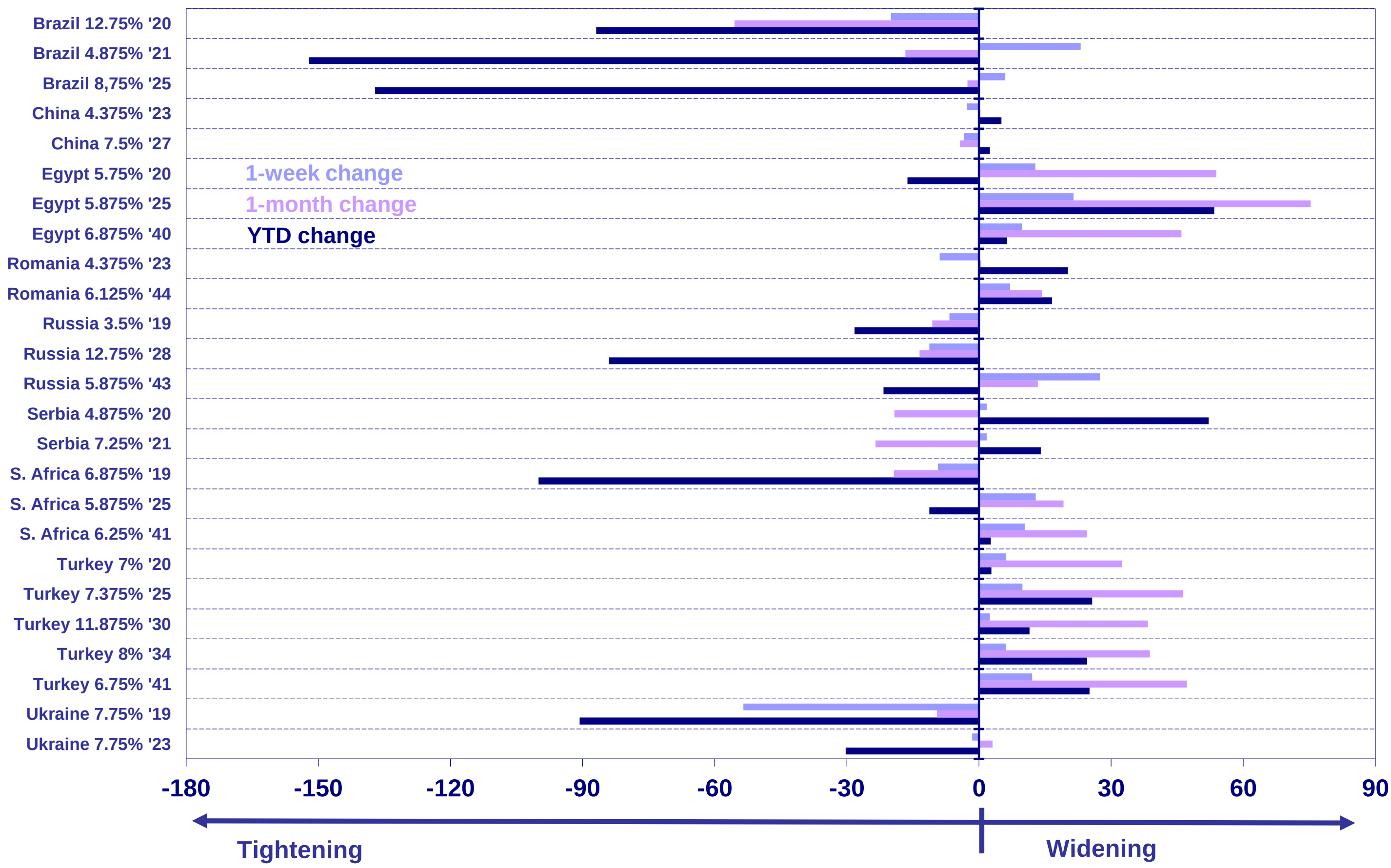
EUR-Denominated Eurobond Spreads (May 23rd 2016)



USD-Denominated Sovereign Eurobond Summary, May 23rd 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	3.9	279	307
Brazil 4.875% '21	USD	BB+/Baa3	22/1/2021	2,988	4.6	327	331
Brazil 8,75% '25	USD	BB+/Baa3	4/2/2025	969	5.6	371	438
China 4.375% '23	USD	AA-/Aa3	2/5/2023	500	3.7	182	219
China 7.5% '27	USD	AA-/Aa3	28/10/2027	100	3.0	117	156
Egypt 5.75% '20	USD	B-/B3	29/4/2020	1,000	5.7	468	443
Egypt 5.875% '25	USD	B-/B3	11/6/2025	1,500	8.1	625	580
Egypt 6.875% '40	USD	B-/B3	30/4/2040	500	8.6	593	556
Romania 4.375% '23	USD	BBB-/Baa3	22/8/2023	1,500	3.5	180	198
Romania 6.125% '44	USD	BBB-/Baa3	22/1/2044	1,000	4.8	213	295
Russia 3.5% '19	USD	BB+/Ba1	16/1/2019	1,500	3.1	200	193
Russia 12.75% '28	USD	BB+/Ba1	24/6/2028	2,500	4.8	293	424
Russia 5.875% '43	USD	BB+/Ba1	16/9/2043	1,500	5.5	281	339
Serbia 4.875% '20	USD	BB-/B1	25/2/2020	1,500	4.1	302	285
Serbia 7.25% '21	USD	BB-/B1	28/9/2021	2,000	4.3	294	315
S. Africa 6.875% '19	USD	BBB-/Baa2	27/5/2019	2,000	3.3	229	230
S. Africa 5.875% '25	USD	BBB-/Baa2	16/9/2025	2,000	5.0	318	344
S. Africa 6.25% '41	USD	BBB-/Baa2	8/3/2041	750	5.7	310	372
Turkey 7% '20	USD	NR/Baa3	5/6/2020	2,000	3.8	242	268
Turkey 7.375% '25	USD	NR/Baa3	5/2/2025	3,250	4.9	303	354
Turkey 11.875% '30	USD	NR/Baa3	15/1/2030	1,500	5.0	317	440
Turkey 8% '34	USD	NR/Baa3	14/2/2034	1,500	5.6	372	413
Turkey 6.75% '41	USD	NR/Baa3	14/1/2041	3,000	5.7	308	363
Ukraine 7.75% '19	USD	B-/Caa3	1/9/2019	1,646	9.1	798	756
Ukraine 7.75% '23	USD	B-/Caa3	1/9/2023	1,330	9.1	740	710

USD-Denominated Eurobond Spreads (May 23rd 2016)



STOCK MARKETS PERFORMANCE, MAY 23RD 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)	49,330	-4.8	-6.8	13.8	-9.7	37,046	54,978	22.9	-13.3	-35.3	-2.9	-2.0
Bulgaria (SOFIX)	439	-0.3	0.7	-4.7	-8.8	432	462	-4.7	-11.7	-11.7	6.2	6.2
China (SHCOMP)	2,844	-0.3	-3.9	-20.4	-40.9	2,638	3,539	-23.2	9.4	16.5	52.9	69.5
Cyprus (CSE GI)	68	0.2	1.8	0.8	-12.6	64	70	0.8	-20.9	-20.9	-17.0	-17.0
Egypt (HERMES)	678	0.9	-4.2	7.7	-16.2	521	716	7.7	-24.4	-25.7	23.5	36.6
F.Y.R.O.M (MBI)	1,736	-0.5	-0.9	-5.3	4.8	1,735	1,842	-5.3	-0.6	-0.6	6.1	6.1
India (SENSEX)	25,230	-1.6	-2.4	-2.8	-8.7	22,495	28,578	-6.6	-5.0	0.7	29.9	44.7
Romania (BET-BK)	1,168	-1.3	-5.9	-12.9	-15.7	1,165	1,329	-12.6	2.6	1.6	3.7	3.5
Russia (RTS)	4,131	-1.7	-5.3	4.3	9.6	3,509	4,393	11.4	30.3	9.5	-6.9	-37.4
Serbia (BELEX-15)	622	1.2	2.2	-1.5	-13.9	570	637	-2.4	-3.4	-3.5	19.5	12.8
South Africa (FTSE/JSE)	52,629	0.4	-0.6	3.6	-2.5	45,976	54,039	-0.2	1.9	-15.1	7.6	10.9
Turkey (ISE 100)	76,766	-0.3	-10.6	4.9	-9.2	68,230	86,931	-0.4	-16.3	-25.4	26.4	32.0
Ukraine (PFTS)	219	-0.2	-5.7	-8.9	-38.3	219	256	-16.7	-37.8	-54.8	28.7	-24.2
MSCI EMF	789	-1.1	-6.7	-0.3	-23.8	687	856	-2.9	-17.0	-7.5	-4.6	8.2
MSCI EAFE	1,629	-0.5	-4.4	-5.7	-15.9	1,492	1,717	-8.1	-3.3	7.7	-7.3	5.8
Greece (ASE-General)	649	4.6	7.1	6.2	-20.3	421	652	6.2	-23.6	-23.6	-28.9	-28.9
Germany (XETRA DAX)	9,842	-1.1	-5.1	-8.4	-16.7	8,699	10,486	-8.4	-4.9	-4.9	2.7	2.7
UK (FTSE-100)	6,136	-0.2	-2.8	-2.2	-12.7	5,500	6,427	-6.8	-4.9	0.1	-2.7	4.1
Japan (NIKKEI-225)	16,655	1.1	-5.2	-12.5	-18.4	14,866	18,951	-5.9	9.1	20.2	7.1	7.0
USA (DJ INDUSTRIALS)	17,493	-1.2	-2.8	-0.6	-4.1	15,370	18,230	-3.2	-2.2	9.3	7.5	22.2
USA (S&P 500)	2,048	-0.9	-2.1	-0.7	-3.7	1,810	2,133	-3.3	-0.7	10.9	11.4	26.6

Equity Indices (May 23rd 2016)