South Eastern Europe and Mediterranean Emerging Market Economies

Weekly Report

29 November – 5 December 2016

NBG - Economic Analysis Division
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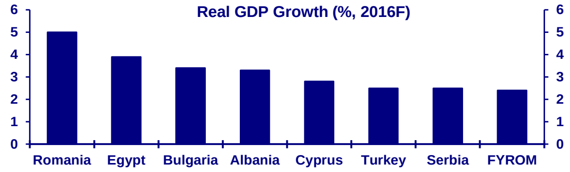
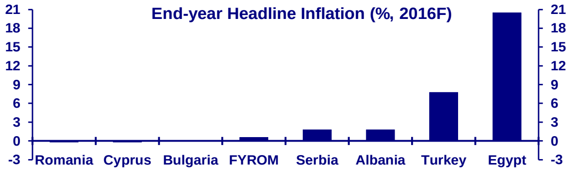
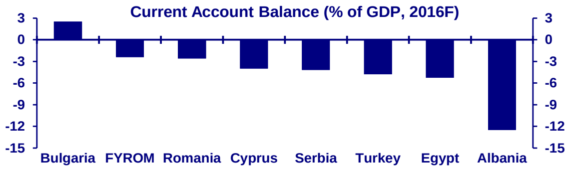
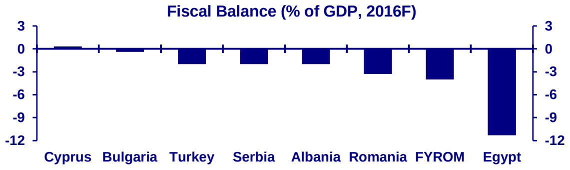


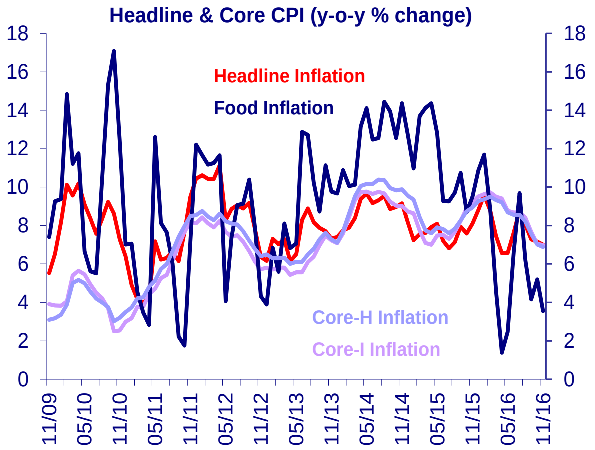


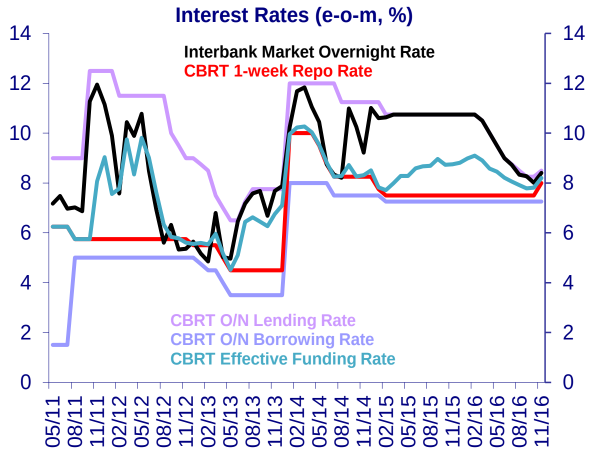


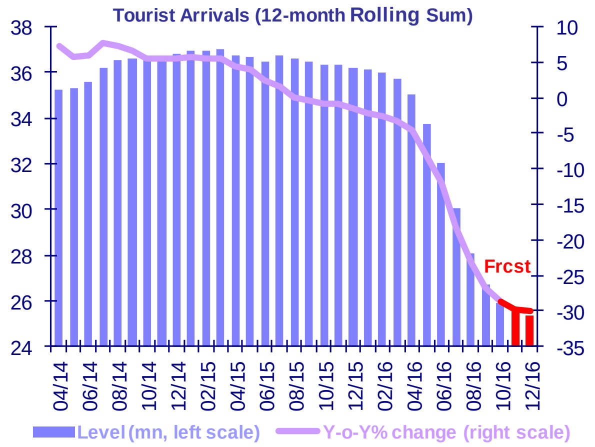


Turkey

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







	5 Dec.	3-M F	6-M F	12-M F
1-m TRIBOR (%)	9.5	9.8	10.0	9.5
TRY/EUR	3.79	3.75	3.60	3.50
Sov. Spread (2019, bps)	280	275	265	220

	5 Dec.	1-W %	YTD %	2-Y %
ISE 100	73,600	-1.9	0.5	-13.7

	2013	2014	2015	2016F	2017F
Real GDP Growth (%)	4.2	3.0	4.0	2.5	3.0
Inflation (eop, %)	7.4	8.2	8.8	7.8	8.2
Cur. Acct. Bal. (% GDP)	-7.7	-5.5	-4.5	-4.8	-5.2
Fiscal Bal. (% GDP)	-1.2	-1.3	-1.2	-2.0	-3.0

Headline inflation declined to 7.0% y-o-y in November from 7.2% in October, on the back of favourable food prices. Food inflation (comprising 24.2% of the CPI basket) slowed to 3.6% y-o-y in November from 5.2% y-o-y in October, mainly on the back of a downside correction in volatile unprocessed food prices. The decline in headline inflation would have been even sharper had the downward trend in core inflation not moderated significantly in November. Indeed, the CBRT's favourite measures, i.e., CPI-H and CPI-I declined by only 0.1 pp between October and November compared with an average decline of 0.5 pps per month between July and October, as a strong FX pass-through to prices from the weaker domestic currency broadly offset the impact from the slowdown in domestic demand.

Looking ahead, despite persistent weak domestic demand, headline inflation should accelerate in December, on the back of: i) tax hikes in tobacco/alcohol products this month, which will add c. 30 bps to inflation; ii) increasing FX pass-through to prices from the weaker currency; and iii) unfavourable global oil prices. 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 upper bound of the CBRT's target range of 3.0%-7.0% and the CBRT's end-year forecast of 7.5%.

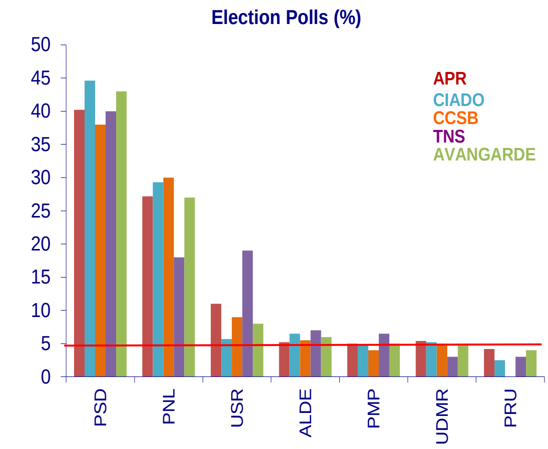
Amid deteriorating global appetite for emerging market assets and heightening domestic political uncertainty, and in an effort to dampen persisting depreciation pressures on the domestic currency and their negative impact on inflation and financial stability, the CBRT is unlikely to refrain from further hikes to its central policy rate (1-week repo rate) in the coming months. We expect an additional 100 bps hike of the 1-week repo rate to 9.0% in the next 12 months, following its increase, for the first time in 3 years, by 50 bps in November, still relatively modest in *ex post*, compounded and real terms (1.2 pps).

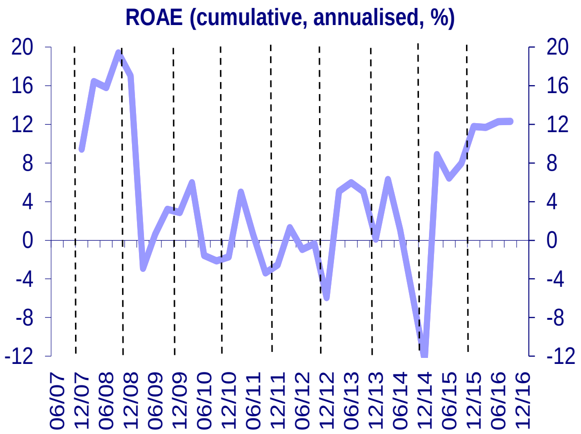
The pace of decline in tourist arrivals slowed for a second consecutive month in October, following the resumption of Russian charter flights. Tourist arrivals declined by 31.3% y-o-y in 10M:16, due to elevated domestic security concerns. Indeed, 104 terrorist attacks have been perpetrated since July 2015, including in the capital Ankara and the largest city of Istanbul, killing over 591 people and wounding 2,189, following the Government's involvement in the war against the ISIS and the collapse of a 2-year ceasefire with the Kurdistan Workers Party militant group. Importantly, the pace of decline in tourist arrivals would have been even sharper in 10M:16 had charter flights from Russia -- the second largest source country (c. 10.0% of total arrivals in 2015) -- not resumed on September 2nd. With the resumption of these flights, the pace of decline in the number of Russian tourists slowed significantly to -43.0% y-o-y in September-October from -88.0% y-o-y in 8M:16, primarily reflecting the Russian sanctions following the downing of a Russian military jet in late-November 2015.

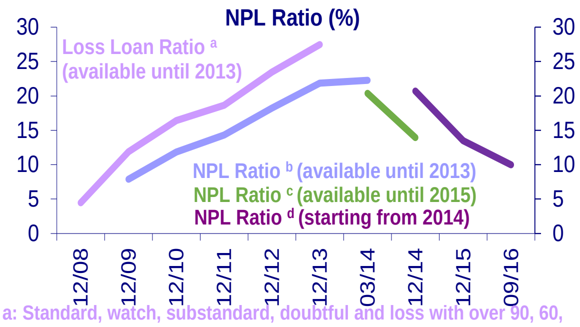
Looking ahead, we expect tourist arrivals to continue to decline at a slower pace during the rest of the year, supported by the gradual return of Russian tourists and a base effect (total arrivals declined by 7.3% y-o-y in December 2015 following a drop of just 1.4% y-o-y in 11M:15). Nevertheless, tourist arrivals this year are expected to post their sharpest decline since 1999 (down by around 30.0% to an 8-year low of c. 25.0mn). As a result and in view of the slight improvement of spending per tourist in 9M:16 (by 2% y-o-y according to balance of payments data), we expect tourist receipts to decline by around USD 8.0bn y-o-y (1.1 pp of GDP y-o-y) to a 9-year low of c. USD 19.0bn (2.6 pps of GDP or 20.3% of end-2015 stock of FX reserves). Overall, the decline in tourism should result in a 0.6 pp drag on GDP in 2016.

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

	5 Dec.	3-M F	6-M F	12-M F
1-m ROBOR (%)	0.7	0.9	1.2	1.5
RON/EUR	4.50	4.48	4.49	4.50
Sov. Spread (2024, bps)	210	175	165	150

	5 Dec.	1-W %	YTD %	2-Y %
BET-BK	1,312	1.3	-2.2	-2.2

	2013	2014	2015	2016F	2017F
Real GDP Growth (%)	3.5	3.0	3.8	5.0	3.5
Inflation (eop, %)	1.6	0.8	-0.9	-0.2	2.0
Cur. Acct. Bal. (% GDP)	-1.1	-0.7	-1.2	-2.6	-3.2
Fiscal Bal. (% GDP)	-2.5	-1.7	-1.5	-3.3	-4.0

The centre-left PSD is expected to return to power. According to the latest opinion polls, the PSD is set to come first in the December 11th elections, with over 40% of the vote, followed by the centre-right PNL with less than 30%. The newcomer centrist USR should come third with over 10% of the vote, with the liberal ALDE, which has traditionally been a PSD ally, trailing behind with c. 7%. The electoral potential of the remaining parties is limited, with only the Hungarian minority party UDMR and the centre-right PMP passing the 5% election barrier.

In view of Romania's proportional electoral system, we expect the upcoming elections to result in a hung parliament, thus making the formation of a coalition Government inevitable. A PSD-led coalition with the ALDE would be the most straightforward outcome, in the event that both parties garner the necessary seats. Otherwise, we see a grand-coalition between the PSD and the PNL (as in 2012) as the most likely outcome. Note that President K. Iohannis, who is linked to the PNL, said that he would not appoint anyone as PM who has been indicted in the past, thus ruling out the head of the PSD, L. Dragnea, who is under probation for electoral fraud.

Recall that the PSD was in power until November 2015, when PM V. Ponta was forced to resign in the wake of mass protests over his Government's failure to adopt reforms and fight corruption. A broadly-backed technocratic Government has been in office since then.

The profitability of the banking system improved in 9M:16, due to a slowdown in provisioning. The annualised ROAA and ROAE rose to post-crisis highs of 1.3% and 12.3% in 9M:16, respectively, from 0.8% and 8.0% in 9M:15. This improvement can be mainly attributed to a slowdown in provisioning, in line with the sharp decline in non-performing exposures (NPEs). Indeed, the NPE ratio fell to 10.0% in Q3:16 from 15.7% in Q3:15 and a peak of 26.8% in early-2014, on the back of large write-offs and NPE sales. On the other hand, pre-provision profit were likely held back by weak net interest income, reflecting sluggish credit activity (up 0.5% y-o-y in September) despite an environment of low interest rates. At the same time, operating expenses likely remained in check, due to the continuing – albeit at a slower pace -- downsizing of the banking system. Note that profitability was also helped by gains from the sale of stakes held by Romanian banks in Visa Europe Ltd in 9M:16. Importantly, the system remained well capitalised, with a capital adequacy ratio (CAR) of 18.9%, well above the minimum threshold of 8.0%.

High provisioning ahead of an asset quality review (AQR) could constrain profitability in FY:17. Despite the continuing clean-up of banks' balance sheets, provisioning is unlikely to decelerate next year, due to increased NPE recognition ahead of an AQR. In fact, we see the NPE ratio remaining broadly flat at current levels by end-2017. At the same time, the projected pick-up in credit activity in FY:17 (by 3.0-4.0%), in line with the country's low penetration rate (29.0% of GDP) and abundant liquidity in the system (the loan-to-deposit ratio stands at 87.3%), should sustain profitability. All said, we see ROAE at 12.0% in FY:17, broadly unchanged compared with its projected FY:16 outcome.

The main downside risks to our FY:17 forecast come from the implementation of the Debt Settlement Law, which allows debtors to settle debts by forfeiting their property, and the law on the conversion of CHF loans at historical rates. The verdict of the Constitutional Court on the latter is still pending, while the former will be returned to parliament for revision, as it was found to be partially unconstitutional. Note that full implementation of the two laws could cost up to EUR 1.2bn, which would, in turn, push down the system's CAR to c. 14.0%.

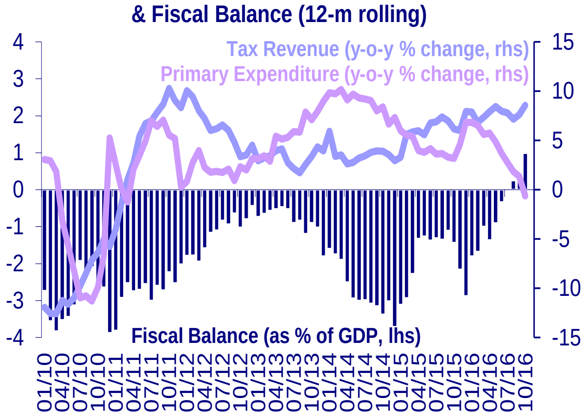
NATIONAL BANK

Bulgaria

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

Consolidated Budget (% of GDP)					
	2015 Outcome	10M:15	10M:16	2016 Budget	2016 NBG Forecast
Total Revenue	36.4	30.0	31.0	37.1	37.0
Tax Revenue	28.1	23.3	24.4	28.4	29.3
Non-Tax Rev.	4.2	3.6	3.9	4.9	4.9
Grants	4.1	3.1	2.7	2.8	2.8
Total Expenditure	39.2	29.9	27.2	38.1	37.4
Current Spending	31.5	25.2	25.3	31.4	31.7
o/w Wages	5.3	4.3	4.3	5.3	5.3
Soc. & Health Cont.	1.6	1.3	1.3	1.6	1.6
Goods & Services	5.1	3.8	3.7	5.2	5.1
Subsidies	1.9	1.4	1.4	1.6	1.8
Social Spending	15.7	13.0	13.1	15.7	15.9
Interest Payments	0.8	0.7	0.7	0.9	0.9
Capital Expend.	7.7	4.7	1.9	6.7	5.7
Fiscal Balance	-2.8	0.1	3.8	-2.0	-0.4

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



Consolidated Budget (% of GDP)				
	2016 Budget	2016 NBG Forecast	2017 Budget	2017 NBG Forecast
Total Revenue	36.1	37.0	37.3	37.6
Tax Revenue	28.4	29.3	29.5	29.8
Non-Tax Rev.	4.9	4.9	5.0	5.0
Grants	2.8	2.8	2.8	2.8
Total Expenditure	38.1	37.4	38.7	39.0
Current Spending	31.4	31.7	32.2	32.5
o/w Wages	5.3	5.3	5.3	5.3
Soc. & Health Cont.	1.6	1.6	1.8	1.8
Goods & Services	5.2	5.1	5.4	5.4
Subsidies	1.6	1.8	1.8	1.8
Social Spending	15.7	15.9	15.7	16.0
Interest Payments	0.9	0.9	0.9	0.9
Capital Expend.	6.7	5.7	6.5	6.5
Fiscal Balance	-2.0	-0.4	-1.4	-1.4

	5 Dec.	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 (2022, bps)	142	130	122	110

	5 Dec.	1-W %	YTD %	2-Y %
SOFIX	561	0.9	21.8	4.8

	2013	2014	2015	2016F	2017F
Real GDP Growth (%)	0.9	1.3	3.6	3.4	3.1
Inflation (eop, %)	-1.6	-0.9	-0.4	0.0	0.6
Cur. Acct. Bal. (% GDP)	1.3	0.1	0.4	2.5	1.3
Fiscal Bal. (% GDP)	-1.8	-3.7	-2.8	-0.4	-1.4

Impressive fiscal consolidation in 10M:16, due to under-execution of capital spending and higher tax revenue. In 10M:16, the consolidated budget surplus improved by a sizeable 3.7 pps y-o-y to 3.8% of GDP. Specifically, tax revenue increased markedly in 10M:16 (by 1.1 pp of GDP y-o-y), reflecting the hike in the excise duty on tobacco and fuel, the rise 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 in 10M:16 (by 0.3 pps of GDP y-o-y), partly offsetting the decline in grants from the EU (by 0.4 pps of GDP y-o-y). At the same time, budget spending fell sharply (by 2.7 pps of GDP y-o-y in 10M:16), but this was almost solely due to lower capital spending, which is expected to subsequently partly reverse.

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. We expect tax revenue to overshoot its FY:16 target, in view of the y-t-d performance (up 8.3% y-o-y in 10M:16 against a FY:16 growth target of 4.6% and a projected FY:16 nominal GDP growth of c. 3.0%) and improving tax compliance as a result of enforced tax collection of overdue liabilities and intensified tax inspections. This overperformance should more than compensate for the envisaged slippage on the spending side of the budget. In fact, we see current spending expanding at a faster pace in 11-12M:16, due to the need to close the financing gap of the pension system, as well as higher social payments. 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 (2.4 pps of GDP); nevertheless, it is unlikely to reach the targeted level. All said, we see the budget deficit narrowing to 0.4% of GDP in FY:16 from 2.8% in FY:15, overperforming with respect to its target of 2.0% of GDP.

Fiscal policy is likely to become expansionary in FY:17. In a bid to ensure fiscal stability ahead of the prolonged pre-election period (as elections cannot be held earlier than March 2017), the Parliament approved the FY:17 budget drafted by the outgoing Government. The FY:17 budget envisages a deficit of 1.4% of GDP against the recently-revised Ministry of Finance FY:16 forecast of 0% of GDP and our forecast of 0.4%.

Specifically, the budget sees current spending rising in FY:17 (by 0.5 pps of GDP against our FY:16 forecast), due to the rising financing needs of the healthcare system and higher public consumption (mainly spending related to defense). Worryingly, however, current spending is unlikely to remain within the budget allocation, in view of a looser incomes policy, the impact of which appears to be underestimated in the FY:17 budget. Indeed, the budget assumes a reduction in social spending in FY:17 (by 0.2 pps of GDP against our FY:16 forecast), despite the hike in pensions (by 2.4% in July) and the minimum wage (by 9.5% to BGN 460 or EUR 230), with the latter weighing on the cost of benefits. All said, we see current spending overshooting its FY:17 budget target by 0.3 pps of GDP.

Importantly, this slippage should be offset by the envisaged overperformance in tax revenue. Indeed, we expect tax revenue to overshoot its FY:17 budget target (up by just 0.2 pps against our FY:16 forecast), in view of the hike in excise duty on tobacco (expected to yield 0.2% of GDP) and social security contributions for pensions (0.2% of GDP) as well as improving tax compliance. As a result, the FY:17 budget should observe its target of 1.4% of GDP, implying a fiscal impulse of c. 1.0 pp of GDP in cyclically-adjusted terms.

Serbia

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

Consolidated Fiscal Balance (% of GDP)					
	2015*	10M:15	10M:16	2016 Budget	2016F NBG**
Revenue	42.7	34.7	36.5	41.4	44.3
Tax Revenue	36.8	29.9	31.5	36.6	38.4
PIT	3.7	3.0	3.0	3.6	3.8
CIT	1.6	1.4	1.7	1.6	1.9
VAT	10.5	8.7	9.1	10.3	11.0
Excises	5.9	4.6	5.3	6.1	6.6
Customs	0.8	0.7	0.7	0.8	0.9
Other taxes	1.6	1.3	1.3	1.6	1.6
Soc. Contrib.	12.7	10.3	10.4	12.5	12.8
Non-Tax Rev.	5.6	4.6	4.8	4.5	5.6
Grants	0.2	0.1	0.2	0.3	0.3
Expenditure	46.4	36.2	36.7	45.2	46.4
Current Exp.	42.7	33.7	33.4	41.6	42.2
Personnel	10.6	8.6	8.3	10.4	10.2
Goods & Services	6.5	4.9	5.2	6.4	6.7
Subsidies	3.4	2.0	1.7	2.7	3.0
Social Assist.	17.9	14.5	14.2	17.4	17.4
o/w Pensions	12.3	10.2	10.1	12.3	12.3
Other	1.1	0.9	1.1	1.2	1.3
Int. Payments	3.3	2.9	2.9	3.5	3.5
Capital Exp.	2.9	1.9	2.4	2.8	3.3
Activated Guarant.	0.8	0.6	0.8	0.8	0.8
Net Lending	0.1	0.1	0.1	0.1	0.1
Fiscal Balance	-3.8	-1.6	-0.1	-4.0	-2.0
Primary Balance	-0.5	1.3	2.7	-0.5	1.5
Fiscal Bal. excl. once-off	-3.0	-1.6	2.7	-4.0	-1.4
Public debt (% of GDP)					
Public debt w/o restitution debt	77.4	76.5	73.2	79.7	74.0
Public debt incl. restitution debt ***	83.5	81.6	79.4	- - -	80.0

* Once-off expenses in December 2015 (0.8% of GDP) entail the payment of: i) arrears in military pensions of 0.3 pps of GDP, following a Constitutional Court ruling; and ii) the debt of the state-owned Srbijagas to NIS, amounting to 0.5 pps of GDP.

** Once-off expenses in November-December 2016 (0.6% of GDP) entail: i) the repayment of arrears of the state-owned petrochemical producer, Petrohemija, to its oil-supplier, NIS, by the Government (0.3 pps of GDP); and ii) the payment of a bonus for pensioners (0.3 pps of GDP).

*** Assuming the eventual payment of the restitution debt (for confiscated assets during World War II) that will add EUR 2.0bn (c. 6 pps of GDP) to the public debt.

	5 Dec.	3-M F	6-M F	12-M F
1-m BELIBOR (%)	3.3	3.4	3.5	3.8
RSD/EUR	123.2	125.1	125.4	125.7
Sov. Spread (2021, bps)	273	230	220	180

	5 Dec.	1-W %	YTD %	2-Y %
BELEX-15	705	1.9	11.7	-0.1

	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	1.8	2.2
Cur. Acct. Bal. (% GDP)	-6.1	-6.0	-4.8	-4.2	-4.4
Fiscal Bal. (% GDP)	-5.5	-6.6	-3.8	-2.0	-1.7

The fiscal performance improved markedly in 10M:16, with the 12-month rolling deficit narrowing to an 8½-year low of 2.4% of GDP in October from 3.8% of GDP at end-2015. In 10M:16, the consolidated fiscal deficit reached a mere 0.1% of GDP against 1.6% in 10M:15, due to a strong rise in revenue (by 1.9 pps of GDP y-t-d).

Indeed, overall revenue increased markedly by 9.2% y-o-y in 10M:16, significantly overperforming its FY:16 growth target (of 0.9%), largely supported by stronger tax revenue. The large increase in tax revenue (by 1.6 pps of GDP y-o-y in 10M:16) was driven by: i) the improvement in tax collection, reflecting the Government's efforts to fight the grey economy; ii) the strong rebound in private consumption (on the back of the fading out of the impact of public sector wage and pension cuts in FY:15); and iii) the introduction of the electricity excise duty (in August 2015), and the increase in oil excise duties (in January 2016). Moreover, non-tax revenue was higher (by 0.3 pps of GDP y-o-y in 10M:16), due to the (unbudgeted) once-off sale of 4G telecommunication frequencies (for RSD 12.8bn, or 0.3% of GDP).

On the other hand, expenditure increased, by 4.8% y-o-y in 10M:16 (up 0.4 pps of GDP y-o-y in 10M:16) -- above the FY:16 growth target of 3.4% (excluding once-off expenditure in FY:15, see table). The rise in spending in 10M:16 was due to: i) increased purchases of goods & services (up by 0.3 pps of GDP y-t-d), partly boosted by pre-election spending (general and local elections took place at end-April); and ii) higher capital expenditure (up 0.5 pps of GDP y-t-d). The rise in outlays in 10M:16 was, however, held back by expenditure-saving measures (c. 1.0 pp of GDP), consisting of: i) lower subsidies (0.3 pps of GDP in FY:16); and ii) the continued suspension of the indexation of public sector wages and pensions. In fact, personnel and pension expenditure declined by 0.6 pps of GDP y-o-y in 10M:16.

The 2016 Budget is set to overperform by a wide margin its target of 4.0% of GDP, due to stronger-than-projected revenue. In view of the y-t-d performance and the recent trends, we expect significantly higher-than-budgeted full-year revenue (a sizeable positive impact of 2.8 pps of GDP). Furthermore, we expect measured spending slippage in FY:16 (0.9 pps of GDP), stemming mainly from (unbudgeted): i) a once-off repayment of arrears of the state-owned petrochemical producer, Petrohemija, to its oil-supplier, NIS, by the Government (estimated at EUR 100mn, or 0.3 pps of GDP); ii) higher-than-planned capital expenditure (by c. 0.4 pps of GDP); and iii) a once-off bonus for pensioners (0.3 pps of GDP). Thus, the fiscal deficit is set to significantly overperform its target, for a 2nd successive year, reaching 2.0% of GDP this year, half the budgeted 4.0% and well below the FY:15 outcome of 3.8% -- its lowest level since 2007.

Should our FY:16 fiscal deficit forecast materialise, this would lead to a lower-than-expected public debt-to-GDP ratio, and, more importantly, to the reversal of its upward trend a year ahead of schedule (down to 74.0% of GDP this year from a 13-year high of 77.4% at end-2015).

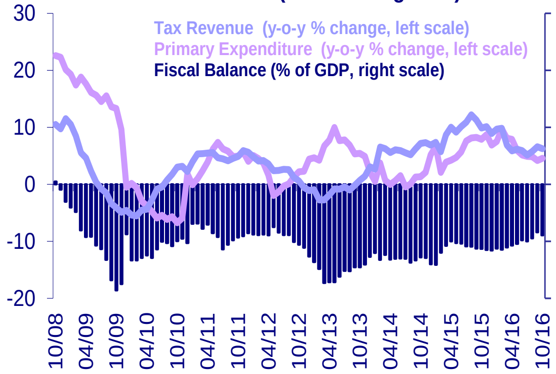
Further fiscal consolidation is envisaged in 2017. The 2017 draft Budget (details of which have not yet been disclosed) envisages further fiscal tightening, targeting a consolidated fiscal deficit of 1.7% of GDP, 2.3 pps lower than the FY:16 budget target and 0.3 pps below our FY:16 forecast. Despite the absence of 2017 budget details, except for the envisaged increase in public sector wages and pensions, agreed with the IMF, with a fiscal impact of 0.23% of GDP and 0.17% of GDP, respectively, we expect the 2017 deficit outcome to be in line with its target and below the 2016 outcome, in view of the ongoing IMF programme. The underlying assumptions of our estimate are revenue growth in line with nominal GDP (5.2%) and milder expenditure growth (4.5%), implying a saving of 0.3 pps of GDP.

F.Y.R.O.M.

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

Consolidated Fiscal Balance (% of GDP)					
	2015	10M:15	10M:16	2016 Rev. Budget	NBG 2016 Forecast
Revenue	28.9	23.5	23.8	29.6	29.1
Tax Revenue	25.2	20.8	21.2	25.4	25.5
Personal Inc.	2.3	1.8	1.9	2.4	2.4
Corporate Inc.	2.2	1.9	1.5	1.7	1.7
VAT	7.5	6.3	6.7	8.0	8.0
Excises	3.5	2.9	3.2	3.4	3.5
Import Duties	0.8	0.6	0.7	0.8	0.8
Other Taxes	0.4	0.3	0.3	0.6	0.6
Soc. Contrib.	8.6	7.0	7.0	8.5	8.5
Non-Tax revenue	3.7	2.7	2.6	4.2	3.6
Expenditure	32.4	26.2	25.7	33.6	33.1
Cur. Expenditure	29.0	23.9	23.6	29.8	29.3
Personnel	4.4	3.7	3.7	4.5	4.5
G. & Services	3.2	2.6	2.2	3.7	3.4
Transfers	20.2	16.7	16.8	20.4	20.4
Int.Payments	1.2	1.0	0.9	1.2	1.0
Capital Expend.	3.3	2.3	2.1	3.8	3.8
Fiscal Balance	-3.5	-2.7	-1.9	-4.0	-4.0
Primary Balance	-2.3	-1.7	-1.0	-2.8	-3.0

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



	5 Dec.	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)	436	400	380	350

	5 Dec.	1-W %	YTD %	2-Y %
MBI 100	2,207	-1.2	20.4	20.6

	2013	2014	2015	2016F	2017F
Real GDP Growth (%)	2.7	3.5	3.7	2.4	3.6
Inflation (eop. %)	1.4	-0.5	-0.3	0.6	1.3
Cur. Acct. Bal. (% GDP)	-1.6	-0.5	-2.1	-2.4	-2.8
Fiscal Bal. (% GDP)	-3.8	-4.2	-3.5	-4.0	-3.2

The 12-month rolling budget deficit narrowed significantly to 2.7% of GDP in October from 3.5% in December, mainly due to, at least temporarily, lower capital spending. In 10M:16, the fiscal deficit narrowed by 0.8 pps y-o-y to 1.9% of GDP. The improvement was primarily driven by a significant decline in total expenditure (down 0.5 pps of GDP y-o-y), reflecting lower current expenditure (down 0.3 pps of GDP y-o-y, see table), and, to a lesser extent, by the under-execution of capital expenditure (down 0.2 pps of GDP y-o-y).

At the same time, total revenue increased in 10M:16 (up 0.3 pps of GDP), on the back of stronger tax revenue (up 0.4 pps of GDP y-o-y), due to higher VAT revenue stemming from strong base effects from the weak performance in 10M:15 and, to a lesser extent, a rise in excise duties, following a hike in excise duties on cigarettes and tobacco (effective since early-July). The total revenue performance in 10M:16 would have been even stronger had non-tax revenue not declined (down 0.1 pp of GDP y-o-y), reflecting lower dividends from public entities.

The revised 2016 Budget deficit target of 4.0% of GDP is expected to be attained. In mid-September, Parliament approved a new supplementary 2016 Budget, envisaging higher-than-initially-projected expenditure (by 0.4% of GDP), to be used for the compensation of the August flood damages. As a result, the fiscal deficit target was raised to 4.0% of GDP from 3.6% previously and an initial Budget target of 3.2% of GDP.

In our view, despite the strong tax revenue overperformance y-t-d (+7.1% y-o-y in 10M:16 against the FY:16 target of 6.2%), the downwardly-revised FY:16 revenue growth target of 8.1% (from 10.0% in the initial budget) appears unattainable due to an overly-optimistic non-tax revenue target (21.2% compared with a 2.7% y-o-y rise in 10M:16 and a 7-year average of 0%). According to our baseline scenario, which includes a milder-than-budgeted recovery in non-tax revenue in FY:16 (c. 4.5% y-o-y), the revenue shortfall should amount to 0.5 pps of GDP for the full year.
However, in view of the y-t-d expenditure performance (up by only 2.7% y-o-y in 10M:16) and despite the expected FY:16 revenue slippage, the authorities have ample room to increase expenditure in 11-12M:16, ahead of the December 11th parliamentary elections, without missing the FY:16 fiscal deficit target of 4.0% of GDP. Indeed, expenditure could be increased by up to 21.0% y-o-y in 11-12M:16 (compared with a rise of 8.5% y-o-y in 11-12M:15), bringing FY:16 expenditure growth to 6.7% compared with its target of 8.1% y-o-y (excluding the planned 0.4 pps of GDP once-off compensation for flood damages) and achieving the FY:16 fiscal deficit target. Excluding the above-mentioned compensation for flood damages, the fiscal stance will remain broadly neutral this year.
Should our fiscal deficit forecast materialise, the public debt-to-GDP ratio would rise to a 14-year high of c. 40.5% at end-2016 from 38.3% at end-2015 – still comparing favourably with those of "Emerging market and developing economies" (calculated by the IMF) and SEE-5 economies – estimated at 47.0% and 49.0%, respectively.
Covering this year's public sector financing needs is not a cause for concern. The bulk of the 2016 public sector financing needs (estimated at EUR 1.5bn or 15.0% of GDP) is set to be covered mainly through government deposits, which were boosted by the issuance of a EUR 450mn (4.7% of GDP) Eurobond last July and, to a lesser extent, by the domestic debt market.

Albania

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

Consolidated Fiscal Balance (% of GDP)					
	2015	10M:15	10M:16	2016 Rev. B	NBG 2016F
Revenue	26.4	21.7	22.3	27.6	27.1
Tax Revenue	24.0	19.7	15.1	25.0	24.7
PIT	2.0	1.7	1.8	2.1	2.2
CIT	1.7	1.4	1.6	1.6	1.9
VAT	8.7	7.1	7.2	9.2	8.8
Excises	2.7	2.3	2.3	3.0	2.8
Customs	0.4	0.3	0.3	0.4	0.4
Other taxes	8.3	6.9	7.3	8.7	8.7
Grants	0.6	0.5	0.6	0.9	0.8
Non-Tax Rev.	1.8	1.6	1.3	1.7	1.6
Expenditure	30.0	23.1	21.4	30.0	29.1
Current Exp.	24.2	19.3	18.8	25.5	24.9
Personnel	5.0	4.1	3.7	4.7	4.6
Operational	3.0	2.1	2.1	2.9	3.0
Subsidies	0.1	0.1	0.1	0.1	0.1
Social Insur.	9.6	8.0	8.0	10.1	10.1
Local Budget	2.4	1.8	2.0	3.2	3.1
Other Exp.	1.5	1.1	1.1	1.6	1.4
Int. Payments	2.7	2.1	1.9	2.9	2.6
Capital Exp.	4.1	2.7	2.6	4.0	3.8
Net Lending/Arrears	1.3	1.1	0.0	0.3	0.3
Contingency Reser.	0.3	0.0	0.0	0.3	0.0
Fiscal Bal.	-3.6	-1.4	0.9	-2.4	-2.0
Primary Bal.	-0.9	0.7	2.8	0.5	0.7
Fiscal Bal. [e]	-2.4	-0.3	0.9	-2.4	-2.0
Primary Bal. [a]	0.3	1.8	2.8	0.5	0.7
a: excluding the clearance of arrears					

Consolidated Fiscal Balance (% of GDP)				
	2015	NBG 2016F	2017 Draft B	NBG 2017F
Revenue	26.4	27.1	27.5	27.2
Tax Revenue	24.0	24.7	25.1	24.9
o/w VAT	8.7	8.8	8.9	8.5
Grants	0.6	0.9	0.9	0.9
Non-Tax Rev.	1.8	1.6	1.5	1.4
Expenditure	30.0	29.1	29.5	29.2
Current Exp.	24.2	24.9	24.6	24.5
Capital Exp.	4.1	3.8	4.7	4.5
Net Lending / Arrears	1.3	0.3	0.1	0.1
Contingency reserves	0.3	0.0	0.1	0.0
Fiscal Bal.	-3.6	-2.0	-2.0	-2.0
Primary Bal.	-0.9	0.7	0.7	0.7
Fiscal Bal. [e]	-2.4	-2.0	-2.0	-2.0
Primary Bal. [e]	0.3	0.7	0.7	0.7
a: excluding the clearance of arrears				

	5 Dec.	3-M F	6-M F	12-M F
1-m TRIBOR (mid, %)	1.6	2.2	2.2	2.2
ALL/EUR	135.7	138.5	138.7	139.0
Sov. Spread (bps)	368	340	320	300

	5 Dec.	1-W %	YTD %	2-Y %
Stock Market	- - -	- - -	- - -	- - -

	2013	2014	2015	2016F	2017F
Real GDP Growth (%)	1.0	1.8	2.8	3.3	3.7
Inflation (eop, %)	1.9	0.7	2.0	1.8	2.4
Cur. Acct. Bal. (% GDP)	-10.9	-12.9	-10.7	-12.5	-13.0
Fiscal Bal. (% GDP)	-5.0	-5.2	-3.6	-2.0	-2.0

Significant fiscal consolidation in 10M:16, due to a strong tax revenue performance and expenditure restraint. The cumulative fiscal balance (excluding the repayment of arrears) turned into a surplus of 0.9% of GDP in 10M:16 from a deficit of 0.3% in 10M:15, due to both higher revenue (up by 0.6 pps of GDP y-o-y in 10M:16) and lower expenditure (excluding arrears, down 0.6 pps of GDP y-o-y). Specifically, tax revenue increased markedly, by 8.6% y-o-y in 10M:16, yet below the revised target (of 9.2%). The impressive tax revenue performance (up 0.8 pps of GDP y-o-y in 10M:16), was broad-based, mainly supported by the success of the Government's large-scale campaign against tax evasion, launched in September 2015, which targeted companies that are unregistered, understating payrolls, not using cash registers or not issuing invoices. As a result, social contributions, profit and personal income tax revenue increased (together up 0.6 pps of GDP).

On the other hand, spending was lower than planned (a rise of 1.9% y-t-d, well below the growth target of 8.9%, excluding arrears). Expenditure restraint resulted mainly from lower personnel spending (down by 0.4 pps of GDP y-o-y in 10M:16, supported by a freeze in public sector wages and restricted hiring, and lower interest expenditure (down by 0.2 pps of GDP y-o-y in 10M:16).

As a result, the 12-month rolling fiscal deficit (excluding the repayment of arrears) narrowed to a 2-year low of 1.2% of GDP in October from 2.4% at end-2015. Note that, including the clearance of accumulated arrears, the 12-month rolling deficit narrowed at a faster pace, to a 10-year low of 1.3% of GDP in October from 3.6% at end-2015.

The FY:16 fiscal deficit is set to overperform both its revised target and the FY:15 outcome. The 2016 revised Budget envisaged a neutral stance, targeting a deficit of 2.4% of GDP, unchanged from the FY:15 outcome, excluding the repayment of arrears (a contractionary fiscal stance, projecting a deficit of 2.4% of GDP this year against an outcome of 3.6% in FY:15, including the clearance of arrears).

In our view, the FY:16 fiscal deficit is likely to overperform both its target and the FY:15 outcome, reaching 2.0% of GDP in FY:16. In fact, in view of the y-t-d performance, we expect slightly weaker-than-budgeted full-year revenue (a revenue shortfall of 0.5 pps of GDP). The expected revenue underperformance should, however, be more than offset by lower-than-budgeted expenditure. The latter should occur on the back of the continued implementation of discretionary spending, the expected saving of contingency reserves and lower interest payments (each by 0.3 pps of GDP). Should our FY:16 fiscal deficit forecast materialise, the public debt-to-GDP ratio would narrow, for the first time in 6 years, to 71.5% from its peak of 73.0% in 2015.

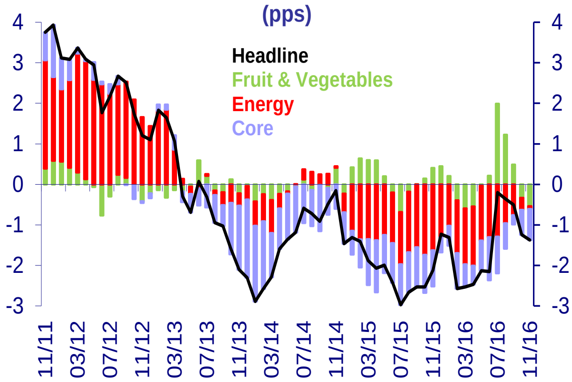
Fiscal prudence to be observed in 2017 -- an election year. The 2017 Draft Budget targets a deficit of 2.0% of GDP -- a neutral stance compared with our projection for FY:16. In our view, howerver, the 2017 Draft Budget is based on over-estimated FY:16 spending, as well as over-estimated FY:16 revenue (see tables), and thus any revenue shortfall could be offset by expenditure containment.

We foresee FY:17 revenue growth at 5.8% y-o-y (broadly in line with our nominal GDP growth of 5.5%), but below the target of 7.1% (a revenue shortfall of 0.3 pps of GDP). We also expect expenditure to increase by 6.0% -- below the target growth of c. 7.0% (implying savings of 0.3 pps of GDP). Overall, we expect the FY:17 deficit to meet its target of 2.0% of GDP -- implying a neutral stance in this election year (legislative elections are scheduled for June 2017). Importantly, even with a neutral fiscal stance, the public debt-to-GDP ratio is set to narrow further, to c. 69.2%.

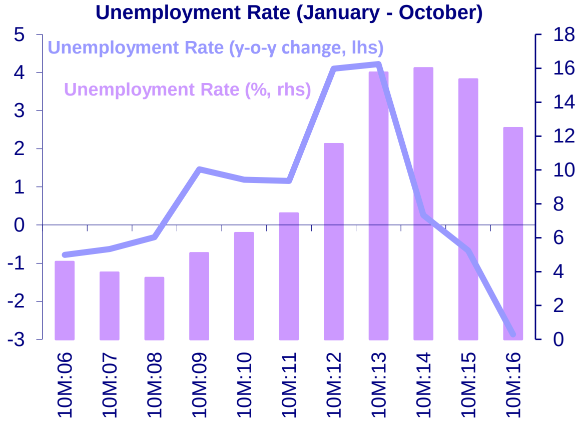
Cyprus

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

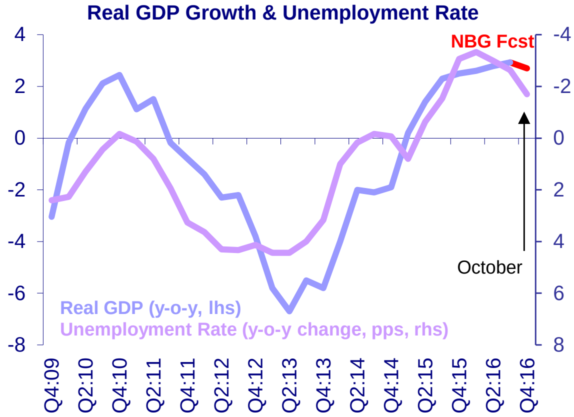
Contribution to Annual Headline CPI Inflation (pps)



Unemployment Rate (January - October)



Real GDP Growth & Unemployment Rate



	5 Dec.	3-M F	6-M F	12-M F
1-m EURIBOR (%)	-0.37	-0.37	-0.37	-0.37
EUR/USD	1.08	1.08	1.08	1.05
Sov. Spread (2020. bps)	279	265	230	200

	5 Dec.	1-W %	YTD %	2-Y %
CSE Index	65	0.0	-4.4	-22.7

	2013	2014	2015	2016F	2017F
Real GDP Growth (%)	-6.0	-1.5	1.7	2.8	2.4
Inflation (eop. %)	-2.3	-1.5	-1.2	-0.4	1.0
Cur. Acct. Bal. (% GDP)	-4.9	-4.3	-2.9	-4.0	-4.3
Fiscal Bal. (% GDP)	-4.7	-0.2	0.0	0.3	0.0

Headline inflation moderated to a 5-month low of -1.4% y-o-y in November from -1.2% in October, mainly due to a sharp decline in the prices of volatile fruit and vegetables. Prices of volatile fruit and vegetables (accounting for 3.5% of the CPI basket) declined by 15.5% y-o-y in November compared with a decrease of 9.6% y-o-y in October. Furthermore, core deflation (excluding volatile food and energy prices and accounting for 87.6% of the CPI basket) accelerated to -0.9% y-o-y in November from -0.7% y-o-y in October, on the back, *inter alia,* of a decline in other food prices (excluding fruit and vegetables), down 0.1% y-o-y in November compared with zero inflation in October.

The increase in headline deflation would have been higher, had the pace of decline in energy prices not decelerated in November (to -0.8% y-o-y from -3.3% y-o-y in October), in line with developments in global oil prices.

CPI to post positive growth at end-2017 -- for the first time in 5 years. We foresee annual headline deflation easing to -0.4% y-o-y in December, mainly on the back of a sharp increase in global oil prices (we project the average price of Brent to rise by c. 36.0% y-o-y in December against a decline of c. 20% in 11M:16 in EUR terms).

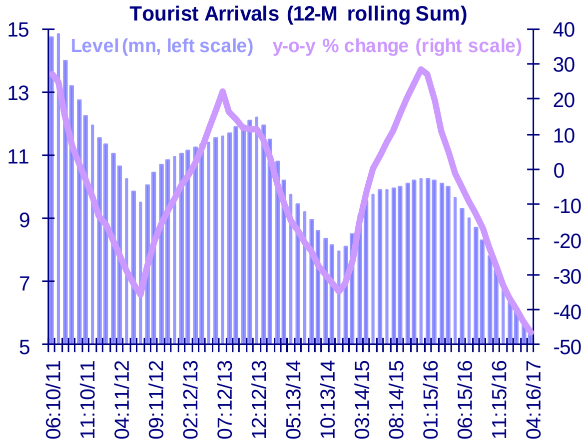
For 2017, inflation is set to turn positive, mainly on the back of: i) higher energy prices (the price of Brent is projected to rise by c. 28.0% y-o-y in EUR terms in FY:17 against a drop of c. 16.0% in FY:16); ii) less favourable imported inflation; and iii) an expected upside correction in volatile food prices due to a poor harvest in FY:16. Inflationary pressures should, however, be tempered on the back of a further narrowing of profit margins -- limiting the pass-through of higher unit labour costs (following the renewal of collective agreements) to consumer prices. Overall, we expect headline inflation to end 2017 at 1.0% y-o-y -- well above our end-2016 forecast of -0.4%. Core inflation is expected at 1.4% y-o-y at end-2017 against our end-2016 forecast of 0.3%.

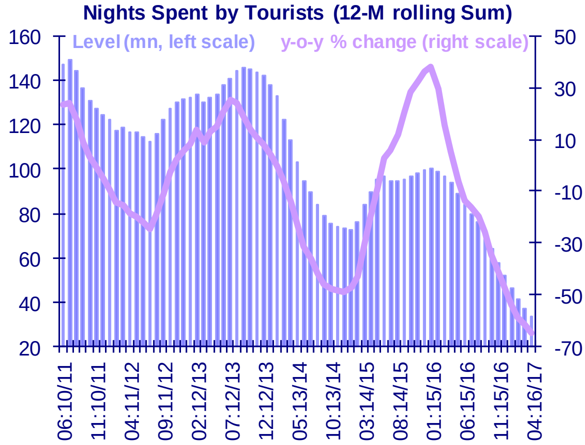
Unemployment rate reached a 4-year low of 12.5% in the first 10 months of this year. The pace of decline in the unemployment rate averaged a high of 2.9 pps y-o-y in 10M:16 compared with a drop of 1.1 pp in FY:15. The improved performance in 10M:16 was largely supported by the recovery in economic activity (up 2.7% in H1:16 against 1.7% in FY:15) and stronger activity in the labour-intensive tourism sector (accounting for c. 20.0% of total employment). Indeed, tourist arrivals rose by a sizeable 20.3% y-o-y, to a record high of 2.97mn in 10M:16, following increases of 7.4% y-o-y in 10M:15 and 8.9% in FY:15, benefiting mainly from heightening security concerns in neighbouring Turkey and Egypt. Furthermore, the construction sector, accounting for c. 8.0% of total employment, also contributed to the decline in the unemployment rate (activity in construction rose sharply by 14.2% y-o-y in H1:16 following a rise of 5.9% in H2:15 and almost 7 consecutive years of decline. Note that, in H1:16, employment in construction and tourism rose by 19.6% y-o-y and 14.6% y-o-y, respectively, more than offsetting the decline in agriculture, industry and other services by 12.0%, 4.0% and 0.5%, respectively.

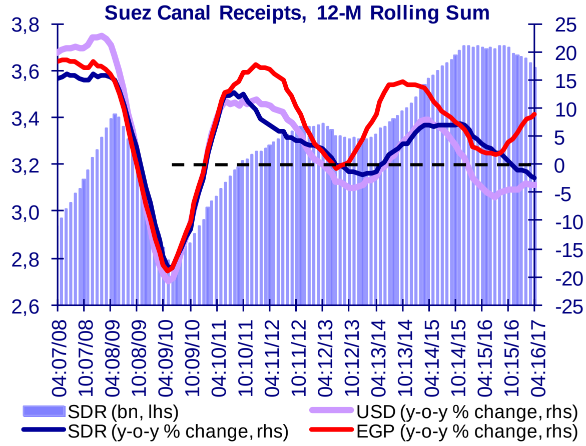
Going forward, in view of the y-t-d performance and recent trends in the tourism and construction sectors, we expect the unemployment rate to decline significantly to 11.2% in FY:16 from 15.0% in FY:15. We also project employment to increase by 2.0% in FY:16, following 4 successive years of decline (CAGR of -2.4%), in line with the recovery in economic activity (we see real GDP growth rebounding to 2.8% this year from 1.7% in FY:15).

Egypt

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







	5 Dec.	3-M F	6-M F	12-M F
O/N Interbank Rate (%)	14.9	17.0	17.0	16.5
EGP/USD	17.9	17.5	17.0	16.5
Sov. Spread (2020. bps)	446	350	300	220

	5 Dec.	1-W %	YTD %	2-Y %
HERMES 100	1,019	2.2	61.9	14.0

	13/14	14/15	15/16	16/17F	17/18F
Real GDP Growth (%)	2.2	4.4	4.3	3.5	4.5
Inflation (eop. %)	8.2	11.4	14.0	18.0	13.5
Cur. Acct. Bal. (% GDP)	-0.8	-3.7	-5.5	-5.0	-3.5
Fiscal Bal. (% GDP)	-12.2	-11.5	-11.8	-10.8	-9.5

The tourism crisis may have reached its peak in October. On a 12-month rolling basis, tourist arrivals declined by a record high of 46.6% y-o-y to a multi-year low of 5.3mn in October (04:16/17). The deterioration is mainly attributed to the terrorist bombing of a Russian passenger plane in the Sinai Peninsula on October 31st 2015. 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 arrivals was compounded by the shortening of the duration of tourist stay (down 3.2 overnight stays per tourist y-o-y to 6.2 in October on a 12-month rolling basis), resulting in a sharper drop in the number of nights spent by tourists (by an all-time high of 64.7% y-o-y to a multi-year low of 33.3mn in October, on a 12-month rolling basis).

Looking ahead, the tourism crisis may have started to ease from November, on the back of the flotation of the domestic currency in early-November, the removal of travel bans by some key source countries, and a base effect (arrivals and overnight stays declined by 1.2% and 6.4% y-o-y, respectively, on a 12-month rolling basis, in November 2015 following increases of 4.8% and 5.0% a month earlier). Indeed, Egypt has become a more attractive destination, following the sharp depreciation of the domestic currency (by c. 50% to EGP 17.6 per USD since early-November). Moreover, in view of a significant improvement of security conditions in Egyptian airports, Germany and the UK resumed their charter flights, respectively, to Sharm-el-Sheikh and Luxor, in mid-October. The return of Russian flights to Egypt is expected next January.

Suez Canal receipts (SCR) weakened in 4M:16/17, due to the slowdown in global trade. SCR declined by 4.1% y-o-y to SDR 1,229mn in 4M:16/17 (July-September 2016), in line with the slowdown in global trade. Note that the Canal Authority uses the SDR as a currency unit to collect transit fees in order to avoid sharp fluctuations in its revenue. Importantly, the decline in SCR in 4M:16/17 reflects exclusively a decline in total (net) tonnage of ships crossing the Canal, as transit tolls have not been changed since May 2013.

Looking ahead, we expect SCR to more than reverse their y-t-d losses during the rest of the fiscal year (ending in June 2017), in view of the anticipated rebound in global trade in 2017 (according to the latest IMF forecasts, the world trade volume of goods and services is set to accelerate to 3.8% in 2017 from 2.3% in 2016). We see SCR increasing by c. 2% to SDR 3,750mn in FY:16/17, following a decline of 1% to SDR 3,660mn in FY:15/16. Importantly, due to currency valuation effects (a 2% depreciation of the SDR against the USD and a 65% appreciation of the SDR against the EGP in FY:16/17, according to consensus forecasts), the contribution of FY:16/17 SCR to: i) FX reserves should remain stable at USD 5,125mn (c. 30% of end-2015/16 stock of FX reserves) after having declined -- for the first time in 3 years -- by 4.6% (or USD 247mn) in FY:15/16; and ii) budget revenue (through corporate income tax and dividends) should rise sharply to EGP 60bn (1.8% of GDP) from an estimated EGP 35bn (1.3% of GDP) in FY:15/16. There is an upside risk to our forecast stemming from advanced toll payments. Indeed, the Suez Canal Authority (SCA) is currently negotiating an agreement with 3 of the world's largest shipping groups whereby the carriers would pay tolls 3 years in advance but in return receive rebates. Reportedly, the companies are seeking a rebate of 8%-9%, while the SCA is offering a 3% discount for the next 3 to 5 years.

FOREIGN EXCHANGE MARKETS, DECEMBER 5TH 2016

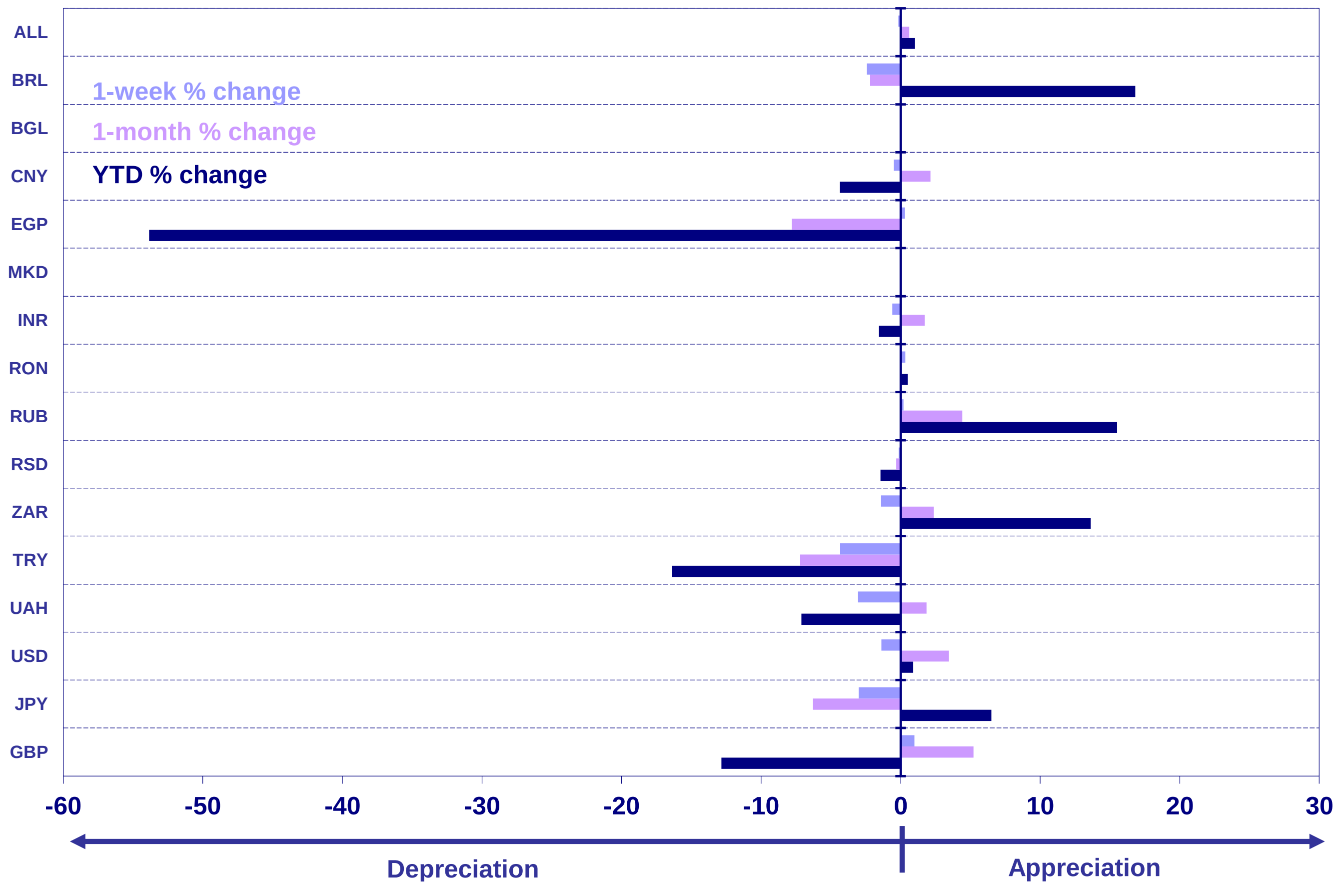
Against the EUR

	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	135.7	-0.2	0.6	1.0	1.6	135.5	139.5	136.0	136.2	135.3	2.0	0.1
Brazil	BRL	3.68	-2.4	-2.2	16.8	10.9	3.38	4.55	4.19	4.17	4.14	-25.2	1.0
Bulgaria	BGL	1.96	0.0	0.0	0.0	0.0	1.96	1.96	1.96	1.96	1.96	0.0	0.0
China	CNY	7.36	-0.5	2.1	-4.4	-5.8	6.99	7.64	7.61	7.61	7.60	6.7	10.8
Egypt	EGP	18.39	0.3	-7.8	-53.9	-54.2	8.26	19.85	- - -	- - -	- - -	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	72.9	-0.6	1.7	-1.5	-0.9	71.3	77.8	77.8	- - -	- - -	6.6	12.3
Romania	RON	4.50	0.3	0.0	0.5	-0.4	2.26	4.56	4.51	4.51	4.52	-0.8	-0.5
Russia	RUB	68.6	0.2	4.4	15.5	9.4	67.3	75.1	70.3	71.3	75.2	-15.1	-32.8
Serbia	RSD	123.2	-0.1	-0.3	-1.4	-1.2	121.6	124.3	123.6	124.0	- - -	-0.1	-5.6
S. Africa	ZAR	14.8	-1.4	2.4	13.6	6.7	14.50	18.58	15.1	15.4	16.1	-16.6	3.0
Turkey	YTL	3.79	-4.3	-7.2	-16.4	-16.7	3.12	3.82	3.89	4.00	4.25	-10.8	4.4
Ukraine	UAH	28.0	-3.0	1.9	-7.1	-11.2	25.06	30.32	33.3	- - -	- - -	-27.5	-40.8
US	USD	1.08	-1.4	3.5	0.9	0.7	1.1	1.2	1.08	1.09	1.10	11.4	13.6
JAPAN	JPY	122.5	-3.0	-6.3	6.5	9.1	109.6	132.3	122.5	122.4	122.4	11.0	-0.1
UK	GBP	0.85	1.0	5.2	-12.8	-14.8	0.7	0.9	0.85	0.85	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 (December 5th 2016)



MONEY MARKETS, DECEMBER 5TH 2016

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine	EU	US
O/N	1.3	13.6	0.0	2.3	- - -	14.9	- - -	- - -	0.5	10.5	- - -	8.9	7.8	14.4	- - -	0.4
T/N	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	0.5	10.5	3.0	- - -	7.0	- - -	- - -	- - -
S/W	1.4	13.6	0.0	2.5	-0.4	- - -	1.3	- - -	- - -	9.2	3.0	- - -	7.3	15.3	-0.4	0.5
1-Month	1.6	13.6	0.0	2.9	-0.4	- - -	1.7	6.3	0.7	10.8	3.3	9.5	7.2	16.9	-0.4	0.7
2-Month	- - -	13.5	0.1	- - -	-0.3	- - -	- - -	- - -	- - -	10.8	3.4	9.9	8.4	- - -	-0.3	0.8
3-Month	1.8	13.4	0.1	3.1	-0.3	- - -	2.0	6.3	0.8	10.8	3.4	10.2	8.8	18.3	-0.3	0.9
6-Month	2.1	13.0	0.3	3.1	-0.2	- - -	2.4	- - -	1.1	10.2	3.6	10.9	8.1	- - -	-0.2	1.3
1-Year	2.6	12.3	0.8	3.2	-0.1	- - -	2.9	- - -	1.2	10.3	- - -	11.4	9.3	- - -	-0.1	1.6

LOCAL DEBT MARKETS, DECEMBER 5TH 2016

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine	EU	US
3-Month	1.3	- - -	- - -	- - -	- - -	17.6	1.6	5.9	- - -	10.1	3.5	8.8	- - -	- - -	-0.9	0.5
6-Month	1.6	- - -	- - -	- - -	- - -	18.0	2.3	6.0	0.8	10.1	3.4	9.5	- - -	- - -	-0.8	0.6
12-Month	2.6	- - -	0.2	2.4	- - -	18.6	2.6	6.2	1.0	9.0	4.0	10.2	- - -	15.3	-0.8	0.8
2-Year	2.5	- - -	- - -	2.7	- - -	- - -	2.0	6.1	0.9	8.8	- - -	11.1	7.9	- - -	-0.7	1.1
3-Year	- - -	- - -	0.6	2.6	1.5	- - -	2.7	6.0	1.6	8.8	- - -	10.5	8.2	15.8	-0.6	1.4
5-Year	- - -	12.0	- - -	2.8	- - -	16.6	2.7	6.2	2.5	8.8	5.6	11.0	8.4	- - -	-0.4	1.8
7-Year	- - -	- - -	1.5	- - -	3.4	16.7	- - -	6.3	3.2	8.8	- - -	- - -	- - -	- - -	-0.1	2.2
10-Year	- - -	12.1	2.2	3.0	3.6	16.7	3.8	6.2	3.6	8.7	- - -	11.1	9.0	- - -	0.3	2.4
15-Year	- - -	- - -	- - -	- - -	- - -	- - -	4.3	6.7	- - -	8.9	- - -	- - -	9.4	- - -	0.6	- - -
25-Year	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	9.7	- - -	- - -	- - -
30-Year	- - -	- - -	- - -	- - -	- - -	- - -	- - -	6.7	- - -	- - -	- - -	- - -	9.7	- - -	1.0	3.1

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

CORPORATE BONDS SUMMARY, DECEMBER 5TH 2016

		Currency	Rating S&P / Moody's	Maturity	Amount Outstanding (in million)	Bid Yield	Gov. Spread	Asset Swap Spread
Bulgaria	**Bulgaria Energy Hld 4.25% '18**	EUR	NA/NA	7/11/2018	500	3.3	398	347
	Bulgarian Telecom. 6.625% '18	EUR	B-/B1	15/11/2018	400	5.3	582	534
Cyprus	**Aroundtown Property 3% '21**	EUR	NA/NA	9/12/2021	200	2.8	329	273
Russia	**Gazprom 8.2% '19**	RUB	BB+/NA	9/4/2019	10,000	10.3	126	- - -
	Gazprom 8.9% '21	RUB	BB+/NA	26/1/2021	10,000	10.6	156	- - -
South Africa	**FirstRand Bank Ltd 4.25% '20**	USD	BBB-/Baa2	30/4/2020	500	3.9	248	227
	FirstRand Bank Ltd 2.25% '20	EUR	NA/NA	30/1/2020	100	0.6	130	76
Turkey	**Vakiflar Bankasi 3.5% '19**	EUR	NA/Baa3	17/6/2019	500	4.0	469	403
	Garanti Bankasi 3.38%'19	EUR	NA/Baa3	8/7/2019	500	3.7	438	379
	Arcelik AS 3.875% '21	EUR	BB+/NA	16/9/2021	350	3.9	430	379
	Turkiye Is Bankasi 6% '22	USD	NA/Ba3	24/10/2022	1,000	7.7	589	542

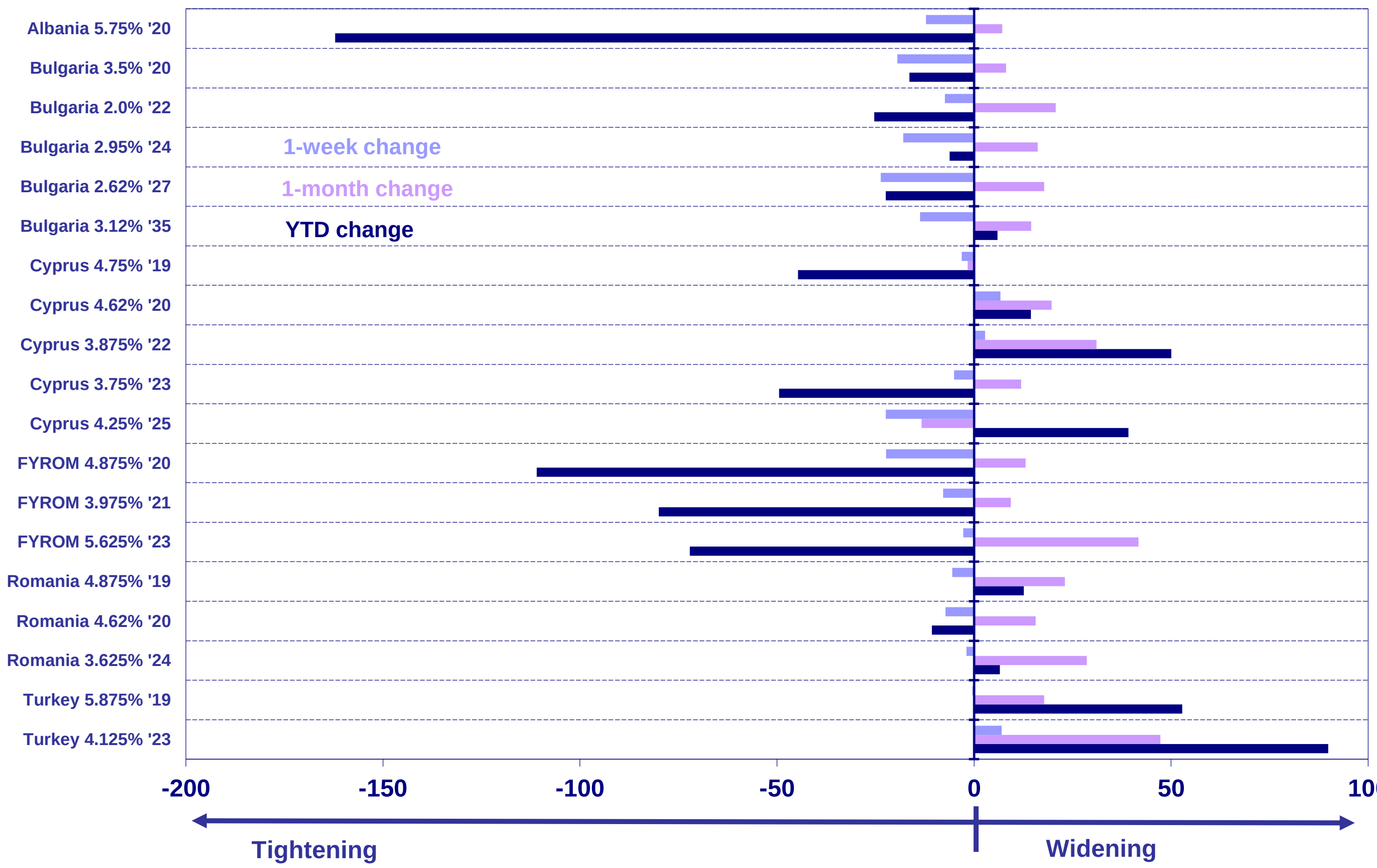
CREDIT DEFAULT SWAP SPREADS, DECEMBER 5TH 2016

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine
5-Year	- - -	298	147	117	251	445	- - -	136	110	213	209	292	235	- - -
10-Year	- - -	371	192	165	278	464	- - -	144	151	272	251	353	296	- - -

EUR-DENOMINATED SOVEREIGN EUROBOND SUMMARY, DECEMBER 5TH 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	3.1	368	332
Bulgaria 3.5% '20	EUR	NA/NA	16/1/2020	145	0.6	125	73
Bulgaria 2.0% '22	EUR	BB+/Baa2	26/3/2022	1,250	1.0	142	92
Bulgaria 2.95% '24	EUR	BB+/Baa2	3/9/2024	1,493	1.9	185	152
Bulgaria 2.62% '27	EUR	BB+/Baa2	26/3/2027	1,000	2.4	203	162
Bulgaria 3.12% '35	EUR	BB+/Baa2	26/3/2035	900	3.3	257	209
Cyprus 4.75% '19	EUR	BB/NA	25/6/2019	566	1.5	225	175
Cyprus 4.62% '20	EUR	BB/B1	3/2/2020	770	2.1	279	233
Cyprus 3.875% '22	EUR	NA/B1	6/5/2022	1,000	3.3	365	312
Cyprus 3.75% '23	EUR	NA/B1	26/7/2023	1,000	3.4	362	315
Cyprus 4.25% '25	EUR	NA/B1	4/11/2025	1,000	3.6	332	303
FYROM 4.875% '20	EUR	BB-/NA	1/12/2020	270	3.5	405	359
FYROM 3.975% '21	EUR	BB-/NA	24/7/2021	500	4.0	436	505
FYROM 5.625% '23	EUR	BB-/NA	26/7/2023	450	5.1	532	483
Romania 4.875% '19	EUR	BBB-/Baa3	7/11/2019	1,500	0.5	112	63
Romania 4.62% '20	EUR	BBB-/Baa3	18/9/2020	2,000	0.5	104	59
Romania 3.625% '24	EUR	BBB-/Baa3	24/4/2024	1,250	2.0	210	170
Turkey 5.875% '19	EUR	NR/Ba1	11/4/2023	1,250	2.1	280	235
Turkey 4.125% '23	EUR	NR/Ba1	12/11/2020	1,000	3.8	398	351

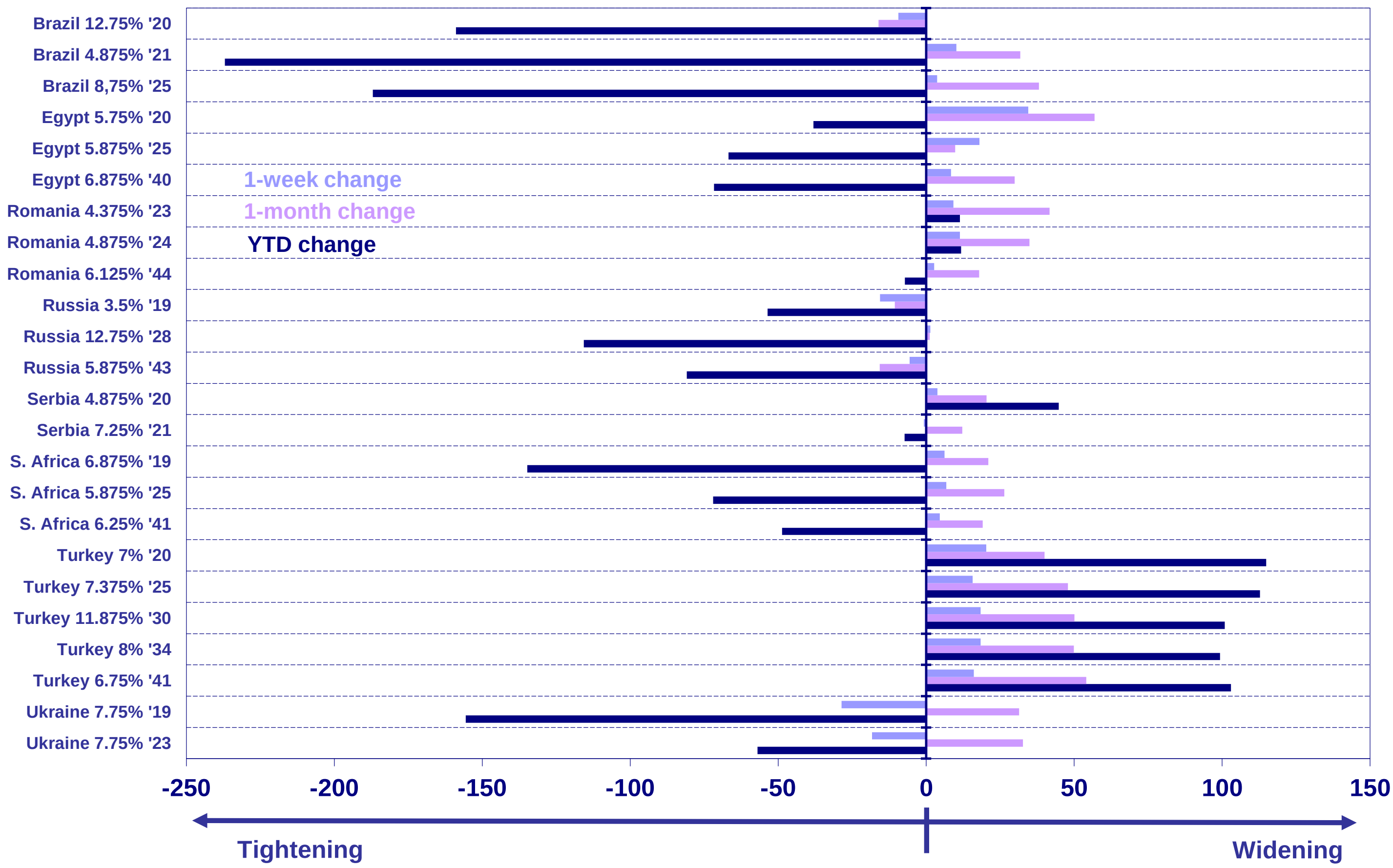
EUR-Denominated Eurobond Spreads (December 5th 2016)



USD-DENOMINATED SOVEREIGN EUROBOND SUMMARY, DECEMBER 5TH 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/Ba2	15/1/2020	234	3.5	207	222
Brazil 4.875% '21	USD	BB/Ba2	22/1/2021	2,988	4.3	242	254
Brazil 8.75% '25	USD	BB/Ba2	4/2/2025	969	5.4	321	366
Egypt 5.75% '20	USD	B-/B3	11/6/2025	1,000	5.9	446	419
Egypt 5.875% '25	USD	B-/B3	30/4/2040	1,500	7.4	505	489
Egypt 6.875% '40	USD	B-/B3	22/8/2023	500	8.2	515	505
Romania 4.375% '23	USD	BBB-/Baa3	22/1/2024	1,500	3.9	172	190
Romania 4.875% '24	USD	BBB-/Baa3	22/1/2044	1,000	4.0	178	196
Romania 6.125% '44	USD	BBB-/Baa3	16/1/2019	1,000	5.0	189	268
Russia 3.5% '19	USD	BB+/Ba1	24/6/2028	1,500	2.9	174	151
Russia 12.75% '28	USD	BB+/Ba1	16/9/2043	2,500	5.0	261	380
Russia 5.875% '43	USD	BB+/Ba1	25/2/2020	1,500	5.3	222	288
Serbia 4.875% '20	USD	BB-/B1	28/9/2021	1,500	4.4	294	276
Serbia 7.25% '21	USD	BB-/B1	27/5/2019	2,000	4.6	273	291
S. Africa 6.875% '19	USD	BBB-/Baa2	16/9/2025	1,748	3.3	194	199
S. Africa 5.875% '25	USD	BBB-/Baa2	8/3/2041	2,000	5.0	257	286
S. Africa 6.25% '41	USD	BBB-/Baa2	5/6/2020	750	5.6	258	325
Turkey 7% '20	USD	NR/Ba1	5/2/2025	2,000	4.9	354	340
Turkey 7.375% '25	USD	NR/Ba1	15/1/2030	3,250	6.1	390	409
Turkey 11.875% '30	USD	NR/Ba1	14/2/2034	1,500	6.4	406	527
Turkey 8% '34	USD	NR/Ba1	14/1/2041	1,500	6.8	447	467
Turkey 6.75% '41	USD	NR/Ba1	1/9/2019	3,000	6.9	386	401
Ukraine 7.75% '19	USD	B-/Caa3	1/9/2023	1,744	8.7	733	702
Ukraine 7.75% '23	USD	B-/Caa3	15/1/2020	1,355	9.3	713	684

USD-Denominated Eurobond Spreads (December 5th 2016)



Stock Markets Performance, December 5TH 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)	59,832	-4.8	-2.9	38.0	32.3	37,046	65,291	62.3	-13.3	-35.3	-2.9	-2.0
Bulgaria (SOFIX)	561	0.9	5.9	21.8	29.0	432	565	21.8	-11.7	-11.7	6.2	6.2
China (SHCOMP)	3,205	-2.2	2.5	-10.3	-9.4	2,638	3,539	-14.1	9.4	16.5	52.9	69.5
Cyprus (CSE GI)	65	0.0	-3.0	-4.4	-4.0	64	70	-4.4	-20.9	-20.9	-17.0	-17.0
Egypt (HERMES)	1,019	2.2	30.0	61.9	66.0	521	1,034	-24.7	-24.4	-25.7	23.5	36.6
F.Y.R.O.M (MBI)	2,207	-1.2	6.0	20.4	24.8	1,699	2,273	20.4	-0.6	-0.6	6.1	6.1
India (SENSEX)	26,349	0.0	-3.4	1.5	3.2	22,495	29,077	0.7	-5.0	0.7	29.9	44.7
Romania (BET-BK)	1,312	1.3	1.7	-2.2	-3.2	1,150	1,329	-1.6	2.6	1.6	3.7	3.5
Russia (RTS)	4,751	3.4	8.7	20.0	20.1	3,509	4,756	40.0	30.3	9.5	-6.9	-37.4
Serbia (BELEX-15)	705	1.9	5.7	11.7	9.0	570	709	10.3	-3.4	-3.5	19.5	12.8
South Africa (FTSE/JSE)	49,714	-1.0	0.1	-2.1	-0.3	45,976	54,704	12.6	1.9	-15.1	7.6	10.9
Turkey (ISE 100)	73,600	-1.9	-0.9	0.5	-0.4	68,230	86,931	-15.3	-16.3	-25.4	26.4	32.0
Ukraine (PFTS)	267	0.4	-0.6	10.7	10.5	215	269	3.2	-37.8	-54.8	28.7	-24.2
MSCI EMF	854	-1.1	-3.0	7.9	5.7	687	930	9.6	-17.0	-7.5	-4.6	8.2
MSCI EAFE	1,637	0.5	-0.1	-5.2	-5.6	1,492	1,735	-3.8	-3.3	7.7	-7.3	5.8
Greece (ASE-General)	620	2.7	8.1	1.5	1.9	421	659	1.5	-23.6	-23.6	-28.9	-28.9
Germany (XETRA DAX)	10,685	1.0	4.1	-0.5	-1.8	8,699	10,828	-0.5	-4.9	-4.9	2.7	2.7
UK (FTSE-100)	6,747	-0.8	0.8	7.5	8.4	5,500	7,130	-6.2	-4.9	0.1	-2.7	4.1
Japan (NIKKEI-225)	18,275	-0.4	8.1	-4.0	-7.2	14,864	18,951	3.3	9.1	20.2	7.1	7.0
USA (DJ INDUSTRIALS)	19,216	0.6	7.4	9.2	8.4	15,451	19,275	10.9	-2.2	9.3	7.5	22.2
USA (S&P 500)	2,205	0.1	5.7	6.9	6.1	1,810	2,214	8.5	-0.7	10.9	11.4	26.6

Equity Indices (December 5th 2016)