South Eastern Europe and Mediterranean Emerging Market Economies

Weekly Report

NBG - Economic Analysis Division
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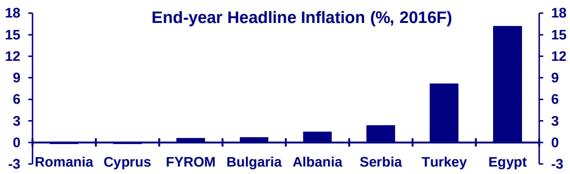
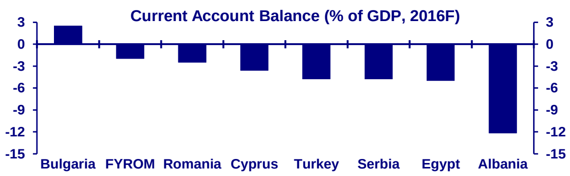
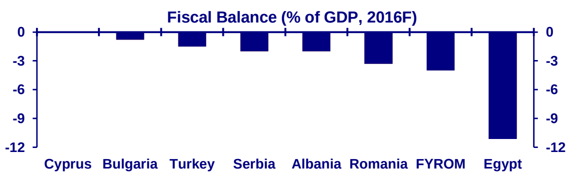


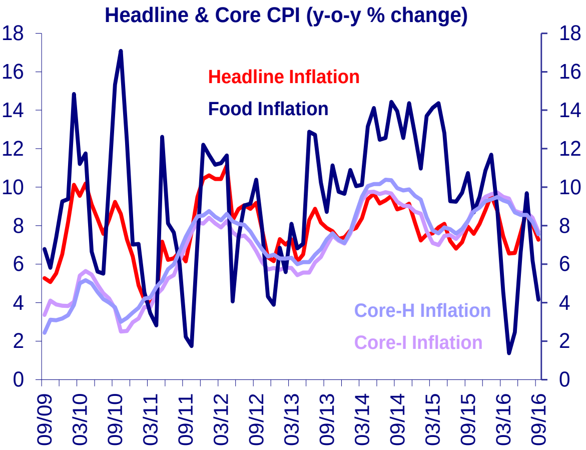


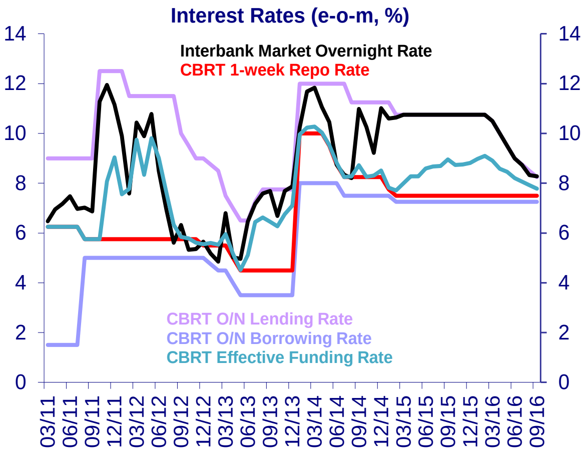


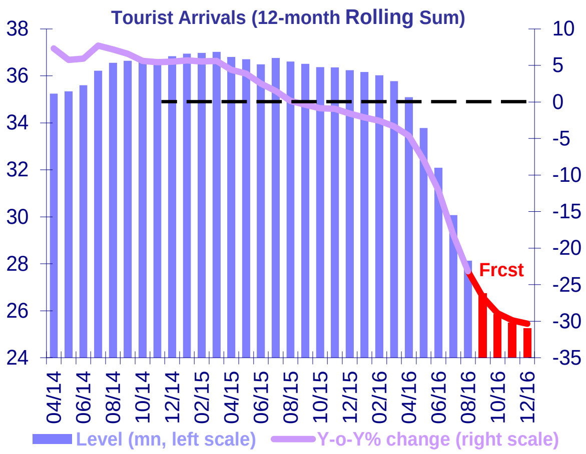
27 September – 3 October 2016

Turkey

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







	3 Oct.	3-M F	6-M F	12-M F
1-m TRIBOR (%)	8.7	9.2	9.5	9.8
TRY/EUR	3.38	3.36	3.32	3.30
Sov. Spread (2019, bps)	266	250	230	200

	3 Oct.	1-W %	YTD %	2-Y %
ISE 100	77,225	0.7	5.5	3.8

	2013	2014	2015	2016F	2017F
Real GDP Growth (%)	4.2	3.0	4.0	3.2	3.0
Inflation (eop, %)	7.4	8.2	8.8	8.2	7.5
Cur. Acct. Bal. (% GDP)	-7.7	-5.5	-4.5	-4.8	-5.2
Fiscal Bal. (% GDP)	-1.2	-1.3	-1.2	-1.5	-1.6

Headline inflation declined by 0.7 pps to 7.3% y-o-y between August and September, due to favourable food prices and lower core inflation. Food inflation (comprising 24.2% of the CPI basket) declined to 4.2% y-o-y in September from 6.2% in August, on the back of a downside correction in volatile unprocessed food prices. Moreover, core inflation continued its downward trend, which started in March following seven consecutive months of increase. Specifically, the CBRT's favourite core inflation measures, i.e., CPI-H and CPI-I declined to 13-month lows of 7.6% y-o-y and 7.7% y-o-y, respectively, in September from 8.2% and 8.4% in August, supported by stronger domestic currency (the TRY appreciated by 1.8% y-o-y in September against the basket of "50%*EUR/TRY + 50%*USD/TRY" following depreciation of 3.7% y-o-y and 9.7% y-o-y, respectively, in August and July).

Looking ahead, despite weaker domestic demand, headline inflation should accelerate in Q4:16, on the back of: i) a normalization in food prices and the resumption of agricultural exports to Russia (bringing food inflation from 4.2% y-o-y in September to 8.0% in December -- in line with the CBRT's revised forecast and slightly below its long-term average of 9.0%); ii) unfavourable global oil prices (we project the price of Brent to increase by c. 12.6% y-o-y in Q4:16 following a decline of 16.1% y-o-y in 9M:16 in TRY terms); and iii) cost-push pressures from the 30% hike in the minimum wage from January 1st (nominal growth of gross wages in the sectors of industry, services & trade, and construction accelerated to 17.9%, 20.8%, and 15.8% y-o-y, respectively, in H1:16 from 13.7%, 12.1%, and 3.4% in FY:15). Overall, we see headline inflation ending the year at 8.2% 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%.

In view of the CBRT easing bias and continued improvement in core inflation, and barring any notable increase in market volatility, we expect the CBRT to proceed with a further cut of the upper bound of the interest rate corridor (overnight lending rate), by 25 bps to 8.0%, at its MPC meeting on October 20th.

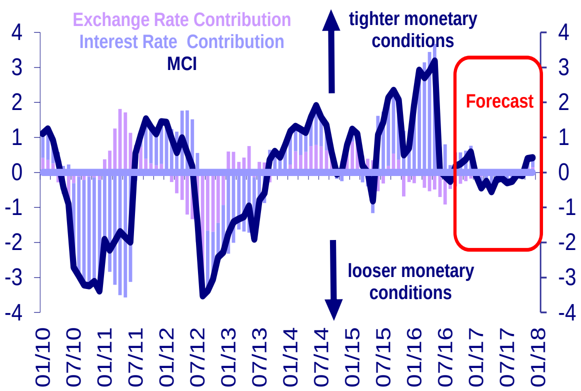
Russia resumes charter flights to Turkey, which should ease the pace of decline in tourist arrivals (-31.8% y-o-y in the first eight months of the year). The marked decline in arrivals by c. 32.0% y-o-y to 17.4mn in 8M:16 was mainly driven by Russia, the second largest source country (c. 10.0% of total arrivals in 2015), whose arrivals were down sharply by 87.9% y-o-y to 0.2mn in 8M:16 (shaving 9.6 pps off overall arrivals growth), primarily reflecting the Russian sanctions following the downing of a Russian military jet in late-November. Moreover, arrivals from other countries also declined sharply (by 25.0% y-o-y to 17.1mn in 8M:16), on the back of heightened domestic security concerns. Indeed, 81 terrorist attacks have been perpetrated since July 2015, including in the capital Ankara and the largest city of Istanbul, killing over 525 people and wounding almost 2,000 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.

Looking ahead, we expect tourist arrivals to continue to decline during the rest of the year, albeit at a slower pace, supported by the gradual return of Russian tourists, following the resumption of Russian charter flights on September 2nd. 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 25.3mn). As a result and in view of the stabilisation of spending per tourist in 7M:16, we expect tourist receipts – a major source of foreign currency – to decline by USD 8.1bn y-o-y (1.3 pps of GDP y-o-y) to a 9-year low of USD 18.5bn (2.5 pps of GDP or 20.0% of end-2015 stock of FX reserves).

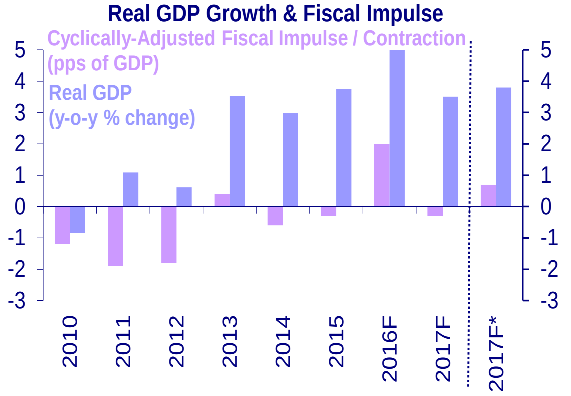
Romania

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

Monetary Conditions Index

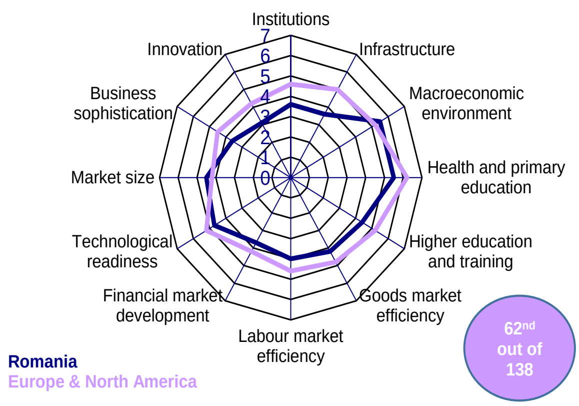


Real GDP Growth & Fiscal Impulse



*Assuming that the proposed cuts in social security contributions get passed by the Parliament

Global Competitiveness Index 2016-2017



	3 Oct.	3-M F	6-M F	12-M F
1-m ROBOR (%)	0.6	0.9	1.2	1.5
RON/EUR	4.45	4.48	4.49	4.50
Sov. Spread (2024, bps)	179	180	170	150

	3 Oct.	1-W %	YTD %	2-Y %
BET-BK	1,313	0.5	-2.2	0.6

	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	-1.1	-2.5	-3.1
Fiscal Bal. (% GDP)	-2.5	-1.7	-1.5	-3.3	-3.0

The NBR kept rates unchanged, but reduced further its minimum reserve requirement rate (RRR) on FX liabilities. The NBR Board maintained unchanged its 1-week repo rate at 1.75% in late-September. At the same time, it reduced its RRR on FX liabilities by 2 pps to 10%, while maintaining that on RON liabilities at 8%. In our view, since new lending is predominantly RON-denominated, the liquidity freed up by the RRR cut is unlikely to affect monetary conditions and will probably be used for the purchase of future euro-denominated sovereign bond issues. In fact, monetary conditions remain broadly neutral, with the impact of the high *ex-post* real policy rate (estimated at 2.0% against a historical average of 1.7%), offsetting that of the weak RON in real terms (the CPI-based REER is down 2.0% y-o-y). The latter can be attributed to persistent deflation (-0.2% y-o-y in August) on the back of the 4 pp cut in the standard VAT rate (excl. food items) to 20.0% in January and low imported food and fuel inflation.

The NBR is likely to embark on a tightening cycle. We expect the NBR to tighten its stance, in an effort to prevent an overheating of the economy. In fact, we see GDP growth picking up to 5.0% in FY:16 (already up 5.2% y-o-y in H1:16) from 3.8% in FY:15, markedly higher than its long-term potential of 3.0%, supported by a large fiscal stimulus. Recall that the looser incomes policy together with the VAT cut are set to widen the budget deficit by 1.8 pps to 3.3% of GDP in FY:16 (already up 1.2 pps of GDP y-o-y in 7M:16), above the EU threshold (3.0%). As a result, we see the NBR Board raising its key rate by 25 bps to 2.0% at its last meeting on November 4th (2.3% in real and compounded terms).

Furthermore, the projected pick-up in headline inflation (to 2.0% at end-2017), combined with persistent fiscal imbalances, should prompt the NBR to maintain its tightening bias. Recall that the already approved 1 pp cut in the VAT rate to 19%, together with the abolition of the special property tax and reductions in excise duties, are set to keep the budget deficit high at 3.0% of GDP in FY:17. Worryingly, in the event the Parliament passes the proposed cuts in social security contributions for employers and employees (by 2 pps and 3 pps, respectively), the FY:17 budget deficit could reach up to 4.0% of GDP. All said, we see the NBR hiking its key rate by a further 200 bps to 4.25% by end-2017 (2.3% in real and compounded terms).

However, we expect interbank rates to converge to the policy rate through liquidity management before a rate hike is considered. Indeed, interbank rates are stuck at the bottom of the NBR's interest rate corridor (currently at ±1.5 pps around the policy rate), reflecting the large liquidity surplus in the market, on the back, *inter alia*, of increased government spending. In this context, Governor Isarescu has hinted that the NBR stands ready to narrow further the interest rate corridor to ±1.0 pp around the policy rate.

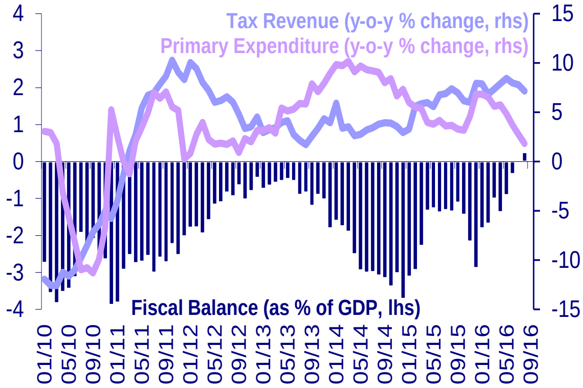
Romania falls to 62nd place in the World Economic Forum's Global Competitiveness Index. Despite the favourable macroeconomic environment, Romania slipped 9 places from last year -- following 4 years of improvement -- recording the largest drop among SEE-5 countries. This deterioration can be mainly attributed to poor financial market development. Indeed, financial services are rated as inefficient and expensive, the local equity market remains relatively small and venture capital is lacking. Other factors include low business sophistication in its supply and distribution networks and the low quality of its higher education system. All said, Romania is currently the 2nd most competitive economy in the SEE-5 -- after Bulgaria (ranking 50th) but ahead of FYROM, Albania and Serbia (in 68th, 80th and 90th place, respectively).

Bulgaria

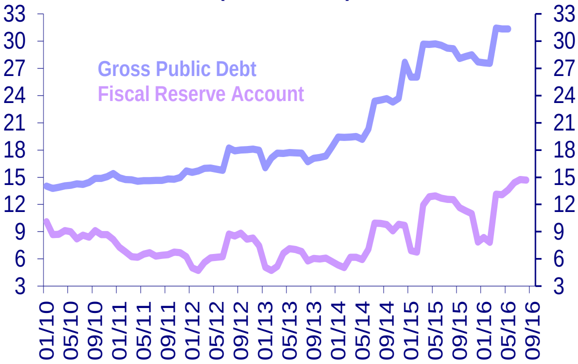
BB+ / Baa2 / BBB- (S&P / Moody's / Fitch)

Consolidated Budget (% of GDP)					
	2015 Outcome	8M:15	8M:16	2016 Budget	2016 NBG Forecast
Total Revenue	37.3	24.9	25.9	37.2	38.4
Tax Revenue	28.8	19.2	20.2	29.3	30.5
Non-Tax Rev.	4.3	2.9	3.2	5.0	5.0
Grants	4.2	2.8	2.5	2.9	2.9
Total Expenditure	40.2	24.2	22.2	39.2	38.8
Current Spending	32.3	20.7	20.7	32.3	31.9
o/w Wages	5.4	3.5	3.5	5.4	5.4
Goods & Services	5.2	3.1	3.0	5.4	5.2
Subsidies	1.9	1.1	1.2	1.6	1.8
Social Spending	16.1	10.7	10.8	16.2	16.2
Interest Payments	0.8	0.6	0.6	0.9	0.9
Capital Expend.	7.9	3.5	1.5	6.9	6.5
Fiscal Balance	-2.9	0.7	3.7	-2.0	-0.4

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



Gross Public Debt & Fiscal Reserves (as % of GDP)



	3 Oct.	3-M F	6-M F	12-M F
1-m SOFIBOR (%)	0.1	0.1	0.1	0.1
BGN/EUR	1.96	1.96	1.96	1.96
Sov. Spread (2022, bps)	125	128	125	120

	3 Oct.	1-W %	YTD %	2-Y %
SOFIX	507	4.0	10.0	-5.4

	2013	2014	2015	2016F	2017F
Real GDP Growth (%)	1.3	1.5	3.0	2.8	2.3
Inflation (eop, %)	-1.6	-0.9	-0.4	0.7	1.4
Cur. Acct. Bal. (% GDP)	1.3	0.1	0.4	2.5	1.3
Fiscal Bal. (% GDP)	-1.8	-3.7	-2.9	-0.4	-0.0

Energy company, NEK, receives state aid for debt payment. Parliament approved, in the past week, financial aid worth EUR 620mn (1.4% of GDP) to the state-owned energy company NEK. The aid will be used to repay the debt to Russia's Rosatom after an arbitration court ruled in June that NEK should pay for equipment produced for the cancelled Belene nuclear project. The project was abandoned by the Bulgarian authorities in 2012 due to financial constraints and EU/US concerns over the country's energy dependence on Russia. Bulgaria plans to repay EUR 400mn to Rosatom by end-year, with the remaining amount to be paid in several tranches over the coming years. The disbursement will be made from the fiscal reserve (currently at EUR 6.6bn or 14.7% of GDP), thus leaving the cash budget unaffected but adding to the accrual (ESA 2010) budget. Note that EC approval for the state aid is still pending.

Higher tax revenue and lower capital spending push the 12-month rolling budget to a 7-year high surplus of 0.3% of GDP in August from a deficit of 2.9% of GDP at end-2015. In 8M:16, the consolidated budget surplus improved further by a sizeable 3.0 pps y-o-y to 3.7% of GDP. Specifically, tax revenue increased sharply in 8M:16 (by 1.0 pp of GDP y-o-y), reflecting the hike in the excise duty on tobacco and fuel, the increase in the presumptive insurance income threshold, strong employment growth, as well as base effects from changes in the tax calendar. Non-tax revenue was also up in 8M:16 (by 0.3 pps of GDP y-o-y), offsetting the decline in grants from the EU (see below). At the same time, budget spending declined sharply (by 2.0 pps of GDP y-o-y in 8M:16), but this was solely due to lower capital spending, which would subsequently reverse.

The FY:16 budget deficit should overperform compared with its target (2.0% of GDP), reaching 0.4% of GDP. Tax revenue will likely weaken slightly during the remainder of the year, reflecting "pay-back" for the positive base effects of 8M:16. Nevertheless, we expect tax revenue to overperform its FY:16 target, considering the y-t-d performance (up 8.2% y-o-y in 8M:16 against a FY:16 target of 4.6% and projected FY:16 nominal GDP growth of 3.0%) and improving tax compliance as a result of enforced collection of overdue liabilities, reverse VAT charging on cereals and intensified tax inspections.

On the other side of the budget, the FY:16 current spending target (up 3.2%) appears attainable, in view of the y-t-d performance (up 3.4% y-o-y in 8M:16). Indeed, despite the hike in pensions in July (by 2.5%), social spending should remain contained, in view of tighter means testing and the rise in the retirement age (by 2 months). At the same time, the cut in subsidies is unlikely to be as large as envisaged in the budget, following the granting of fuel vouchers to agricultural producers; nevertheless, we expect this slippage to be offset by lower-than-budgeted public consumption.

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 (1.7 pps of GDP). Note that EU fund allocations amount to 2.9% of GDP in FY:16, significantly lower compared with FY:15 (4.2%), as the authorities forfeited unused funding allocated during 2007-13.

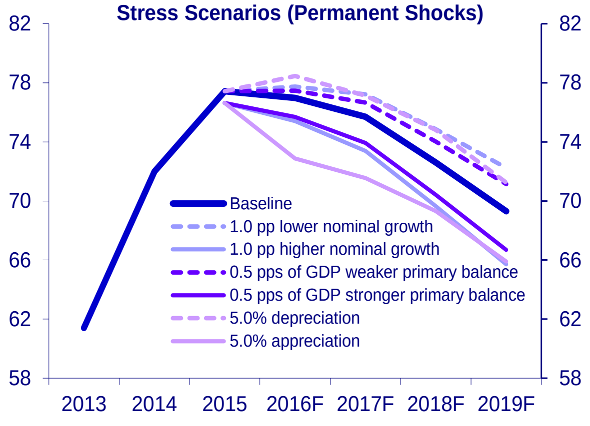
All said, in light of the sizeable y-t-d budget overperformance, we revise down our FY:16 budget deficit forecast to 0.4% of GDP (from 1.6% previously), well below the FY:15 outcome of 2.9% and the FY:16 target of 2.0%. Importantly, excluding receipts from the concession of Sofia and Plovdiv airports (expected to yield 0.7% of GDP in Q4:16), the envisaged fiscal consolidation should be 1.8 pps of GDP y-o-y, smaller than suggested by headline figures (c. 2.5 pps of GDP y-o-y).

Serbia

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

Consolidated Fiscal Balance (% of GDP)					
	2015	8M:15	8M:16	2016 Budget	2016F NBG*
Revenue	42.7	27.6	29.1	41.3	44.0
Tax Revenue	36.8	23.9	25.2	36.6	38.4
PIT	3.7	2.3	2.4	3.6	3.7
CIT	1.6	1.2	1.4	1.6	1.9
VAT	10.5	6.8	7.2	10.3	11.0
Excises	5.9	3.7	4.3	6.1	6.7
Customs	0.8	0.5	0.6	0.8	0.9
Other taxes	1.6	1.1	1.1	1.6	1.6
Soc. Contrib.	12.7	8.2	8.2	12.5	12.7
Non-Tax Rev.	5.6	3.6	3.8	4.5	5.2
Grants	0.2	0.1	0.1	0.3	0.2
Expenditure	46.4	28.7	28.9	45.2	46.0
Current Exp.	42.7	26.7	26.4	41.6	42.0
Personnel	10.6	6.8	6.5	10.4	10.2
Goods & Services	6.5	3.9	4.2	6.4	6.5
Subsidies	3.4	1.5	1.3	2.7	3.0
Social Assist.	17.9	11.6	11.2	17.4	17.2
o/w Pensions	12.3	8.2	7.9	12.3	12.0
Other	1.1	0.7	0.8	1.2	1.4
Int. Payments	3.3	2.3	2.3	3.5	3.5
Capital Exp.	2.9	1.4	1.8	2.8	3.1
Activated Guarant.	0.8	0.5	0.6	0.8	0.8
Net Lending	0.1	0.0	0.1	0.1	0.1
Fiscal Balance	-3.8	-1.1	0.2	-4.0	-2.0
Primary Balance	-0.5	1.2	2.5	-0.5	1.5
Fiscal Bal. excl. once-off	-3.0	-1.1	0.2	-4.0	-2.0

Public Debt (% of GDP)
Stress Scenarios (Permanent Shocks)



	3 Oct.	3-M F	6-M F	12-M F
1-m BELIBOR (%)	3.3	3.4	3.5	3.8
RSD/EUR	122.9	125.1	125.4	125.7
Sov. Spread (2021, bps)	244	230	220	180

	3 Oct.	1-W %	YTD %	2-Y %
BELEX-15	636	-0.2	0.8	-6.4

	2013	2014	2015	2016F	2017F
Real GDP Growth (%)	2.6	-1.8	0.7	2.5	2.7
Inflation (eop, %)	2.2	1.7	1.5	2.4	2.8
Cur. Acct. Bal. (% GDP)	-6.1	-6.0	-4.8	-4.8	-5.0
Fiscal Bal. (% GDP)	-5.5	-6.6	-3.8	-2.0	-2.0

The fiscal performance improved markedly in 8M:16, with the 12-month rolling deficit narrowing to 2.4% of GDP in August from 3.8% of GDP at end-2015. In 8M:16, the consolidated fiscal balance turned positive at 0.2% of GDP from a deficit of 1.1% in 8M:15, due to a strong rise in revenue (by 1.5 pps of GDP y-o-y in 8M:16).

Indeed, overall revenue increased markedly by 9.9% y-o-y in 8M:16, significantly overperforming its FY:16 target (of 0.9%), largely supported by stronger tax revenue. The large increase in tax revenue 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 in 8M: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 4.9% y-o-y (up 0.2 pps of GDP y-o-y in 8M:16) in 8M:16 -- above the FY:16 target of 3.4% (excluding once-off expenditure in FY:15). The rise in spending in 8M:16 was due to: i) a rise in purchases of goods & services (by 0.3 pps of GDP y-o-y), partly boosted by pre-election spending (general and local elections took place at end-April); and ii) higher capital expenditure (up 0.4 pps of GDP y-o-y). The rise in outlays in 8M:16 was, however, held back by expenditure-saving measures (estimated at 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 8M:16.

The 2016 Budget is set to overperform, by a wide margin, its target of 4.0% of GDP. 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 2008.

Looking ahead, we expect fiscal consolidation to continue broadly at the same pace during the rest of the year (0.6 pps of GDP y-o-y in 9-12M:16, following an improvement of 1.3 pps y-o-y in 8M:16). Unlike the y-t-d performance, the improvement in 9-12M:16 is set to result from a decline in expenditure (by 0.8 pps of GDP y-o-y), on the back of a base effect from the once-off expenses in December 2015 (0.8% of GDP). These 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.

On the other hand, revenue is set to decline slightly (by 0.2 pps of GDP y-o-y), despite the expected continued improvement in tax revenue (set to rise by a further 0.3 pps of GDP y-o-y in 9-12M:16, assuming a continued improvement in revenue collection). The weaker overall revenue performance in 9-12M:16 should be driven by non-tax revenue, which is set to fall by 0.5 pps of GDP y-o-y in 9-12M:16, following (unusually large) dividends and other (once-off) proceeds from state-owned companies in 9-12M:15.

There is, however, an upside risk to our fiscal deficit forecast, stemming from a possible (unbudgeted) once-off debt repayment of the state-owned petrochemical producer, Petrohemija, to its oil-supplier, NIS (estimated at EUR 100mn, or 0.3 pps of GDP) by the Government -- considered as subsidy in the Budget.

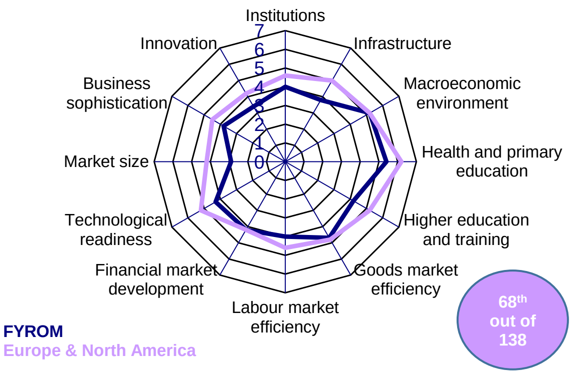
Should our FY:16 fiscal deficit forecast materialise, the public debt-to-GDP ratio should embark on a downward trend this year, to a still high 76.8% of GDP (against an initially-expected 78.1%), from a 13-year high of 77.4% at end-2015.

F.Y.R.O.M.

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

Consolidated Fiscal Balance (% of GDP)	2015	8M:15	8M:16	2016 Rev. Budget	NBG 2016 Forecast
Revenue	28.8	18.6	18.7	29.5	29.0
Tax Revenue	25.2	16.5	16.7	25.3	25.0
Personal Inc.	2.3	1.4	1.5	2.4	2.4
Corporate Inc.	2.2	1.6	1.2	1.7	1.6
VAT	7.4	4.9	5.3	8.0	7.8
Excises	3.5	2.2	2.4	3.4	3.4
Import Duties	0.8	0.5	0.5	0.8	0.8
Other Taxes	0.4	0.3	0.2	0.6	0.5
Soc. Contrib.	8.6	5.5	5.5	8.5	8.5
Non-Tax revenue	3.6	2.1	2.0	4.2	3.9
Expenditure	32.2	20.9	20.4	33.5	33.0
Cur. Expenditure	28.9	19.0	18.8	29.7	29.5
Personnel	4.4	2.9	2.9	4.5	4.5
G. & Services	3.2	2.0	1.7	3.7	3.4
Transfers	20.1	13.3	13.5	20.3	20.4
Int.Payments	1.2	0.8	0.8	1.2	1.2
Capital Expend.	3.3	1.9	1.6	3.8	3.5
Fiscal Balance	-3.5	-2.3	-1.7	-4.0	-4.0
Primary Balance	-2.3	-1.4	-0.9	-2.8	-2.8

Global Competitiveness Index 2016-2017



	3 Oct.	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)	396	395	380	350

	3 Oct.	1-W %	YTD %	2-Y %
MBI 100	1,961	0.8	7.0	11.2

	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	-0.8	-1.4	-2.0	-2.5
Fiscal Bal. (% GDP)	-3.8	-4.2	-3.5	-4.0	-3.2

The 12-month rolling budget deficit narrowed significantly to 2.8% of GDP in August from 3.5% in December. In 8M:16, the fiscal deficit narrowed by 0.6 pps y-o-y to 1.7% of GDP. The improvement was mainly driven by a significant cut in capital expenditure (down 0.3 pps of GDP y-o-y), reflecting under-execution of the public investment programme as well as lower current expenditure (down 0.2 pps of GDP y-o-y), due to a significant decline in spending on goods and services. At the same time, total revenue increased slightly (up 0.1 pp of GDP), as the increase in tax revenue (up 0.2 pps of GDP y-o-y), mainly due to higher VAT revenue, reflecting strong base effects from the weak performance in 8M:15, compensated for the decline in non-tax revenue (down 0.1 pp of GDP y-o-y), mainly reflecting lower dividends from public entities. With the August performance, the 12-month rolling deficit moderated to 2.8% of GDP from 3.5% of GDP in December.

The observance of the revised 2016 Budget deficit target of 4.0% of GDP appears attainable. In mid-September, Parliament approved a new supplementary 2016 Budget, envisaging a further increase in expenditure by an additional EUR 35mn (or 0.4% of GDP), to be used for the compensation of August flood damages in the affected areas. 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 (+7.3% y-o-y in 8M: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. According to our baseline scenario, which includes a milder-than-budgeted recovery in revenue growth in 9-12M:16 (c. 6.0% y-o-y), the revenue shortfall should amount to 0.5 pps of GDP for the full year. To make up for this shortfall, FY:16 expenditure growth should be contained at 7.9% against its target of 9.3%. This is within reach, in view of the y-t-d expenditure growth (up 3.0% y-o-y in 8M:16) and the authorities' track record. Overall, we expect the FY:16 fiscal deficit to meet its target of 4.0% of GDP -- excluding the planned 0.4 pps of GDP once-off compensation for flood damages, this implies a neutral fiscal stance this year.

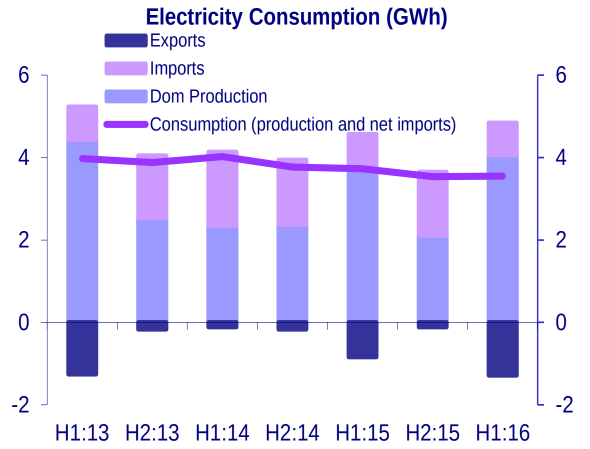
Should our fiscal deficit forecast materialize, the general government debt would rise to a 15-year high of c. 44.0% of GDP at end-2016 from 38.3% at end-2015, due, *inter alia*, to weaker GDP growth (we see FY:16 real GDP growth moderating to a 4-year low of 2.4% from 3.7% in FY:15), higher funding costs and, to a larger extent, the issuance of a EUR 450mn (4.7% of GDP) Eurobond last July -- but would remain below the SEE-5 average of 50% of GDP.

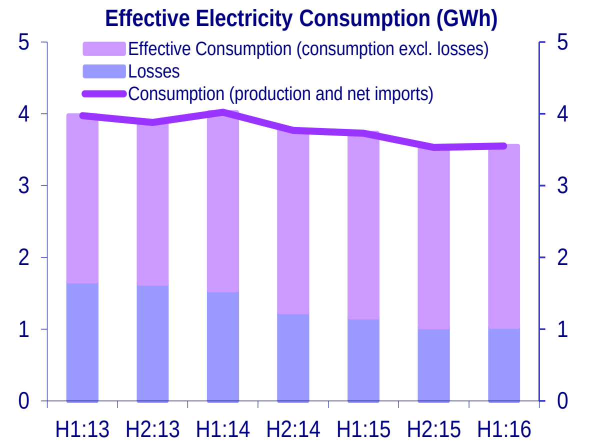
FYROM's competitiveness deteriorated in 2016-17. In the World Economic Forum Global Competitiveness Index for 2016, FYROM fell, for the first time in 3 years, by 8 places to 68th among 138 economies. The deterioration was mainly driven by a negative assessment of the country's institutions, in particular, less transparency of government policymaking and higher business costs of terrorism, crime and violence. This year's negative performance resulted mainly from the protracted domestic political crisis.

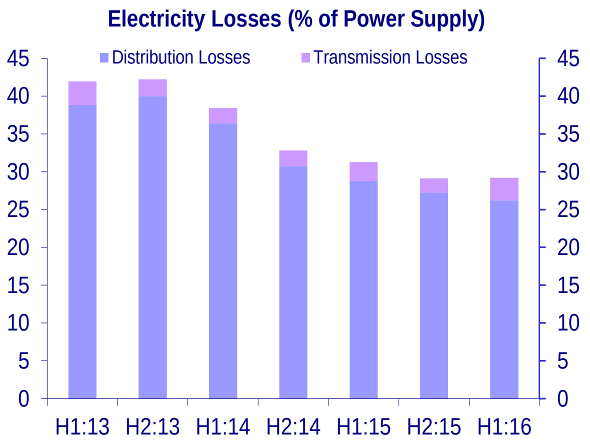
Note that FYROM is still the third most competitive economy in SEE-5, behind Bulgaria (50th) and Romania (62nd) and ahead of Albania (80th) and Serbia (90th). Importantly, according to the WEF, the country is generally in line with Europe and North America in terms of macroeconomic environment and financial market developments, with a significant lag in terms of market size and infrastructure (see chart).

Albania

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







	3 Oct.	3-M F	6-M F	12-M F
1-m TRIBOR (mid, %)	1.6	2.2	2.2	2.2
ALL/EUR	137.1	138.5	138.7	139.0
Sov. Spread (bps)	356	340	320	300

	3 Oct.	1-W %	YTD %	2-Y %
Stock Market	- - -	- - -	- - -	- - -

	2013	2014	2015	2016F	2017F
Real GDP Growth (%)	1.0	1.8	2.8	3.1	3.2
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

Albania's electricity generation rose significantly in H1:16, as a result of abundant rainfall. Domestic electricity production increased considerably in H1:16 (up 8.2% y-o-y to 4.1 GWh), despite strong base effects (a surge of 59.7% y-o-y in H1:15, following Q1:15 floods). This improvement reflects high rainfall that boosted hydropower production. Recall that Albania's electricity generation remains fully based on hydroelectric production (accounting for 100% of total domestic production), with public sector power generation providing 68.4% of production in H1:16. The rise in domestic electricity production in H1:16 led to a marked increase in electricity exports (by 53.3% y-o-y in H1:16), and a decline in imports (by 4.7% y-o-y in H1:16). As a result, imports covered just 21.8% of total consumption in H1:16, down from 32.4% in FY:15, while Albania turned into a net exporter of electricity.

Strong implementation of the electricity sector reform brings about impressive results. Recall that in October 2014, the Government enforced criminal penalties for (widespread) electricity theft and launched a campaign to disconnect power supply for unpaid bills, while, two months later, it provided an 80% discount on fines in return for the full payment of accumulated unpaid bills. Moreover, it has stepped up investments in metering and grid infrastructure.

As a result, large unbilled electricity, reflecting not only technical losses (due to the low quality of the electricity network), but most importantly large non-technical losses, due to extensive electricity theft, has been gradually reduced. Indeed, (unbilled) distribution losses fell further, to a still sizeable 26.2% of total consumption in H1:16 from 28.0% in FY:15 and a peak of 42.0% in FY:13, with non-technical losses declining to 24.5% of total losses in H1:16 from 30.5% in FY:15 and a high 61.0% in FY:13. Moreover, the collection rate of (billed) consumption is also estimated to have reached 100%, against 72% in FY:14, due to sustained increases in bill collection and large payments of past-due electricity bills.

The sustained implementation of the ambitious (and long-delayed) power sector reform supported by IFIs should positively impact the economy as well as the twin deficits. Note that the World Bank provided a USD 150mn loan in September 2014 for energy reforms. In fact, the ongoing power sector reform should dampen the negative impact of adverse weather conditions on:

i) growth, as erratic rainfall affects electricity generation with power shortages damaging growth. The power sector reform will enable increased investments in production capacity (including the ongoing FDIs in the hydropower sector and the TAP gas pipeline), in order to secure electricity supply to meet growing demand without recurrent energy shortages -- a major bottleneck for business growth -- as well as increased diversification of energy supply.

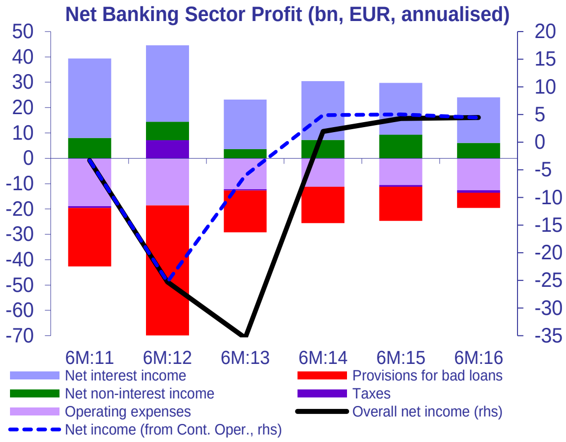
ii) balance of payments, as uncertain energy supply necessitates large (expensive) emergency energy imports (good hydropower conditions shaved 0.4 pps of GDP from the current account deficit in H1:16).

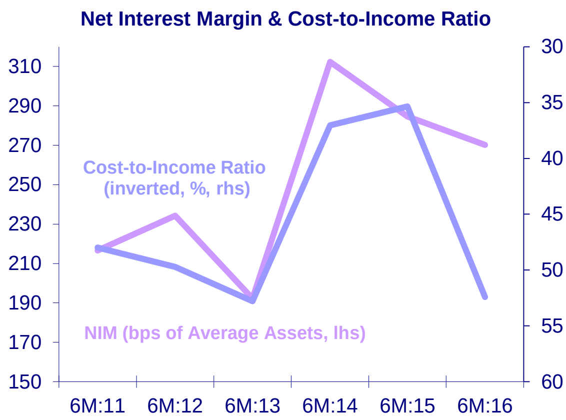
iii) public finances, as the energy sector relies heavily on public financial support, through subsidies, net lending, compensation for the poor (together set to decline to 0.3% of GDP this year from 0.8% in FY:15 and be phased out by 2020).

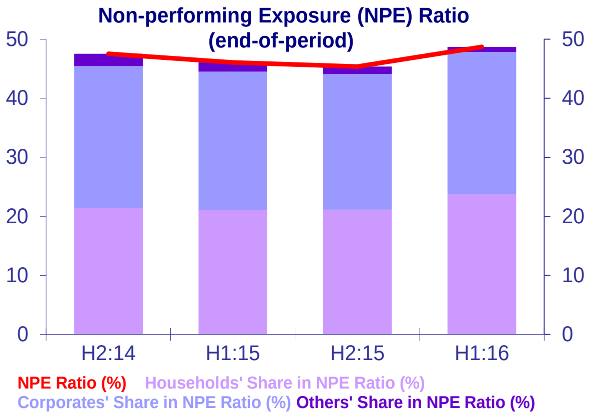
To advance reforms, the Government needs to: i) continue investments in metering and grid infrastructure; ii) increase the frequency of tariff adjustments, and further deregulate prices for commercial consumers; iii) strengthen corporate governance in the sector; and iv) develop a power exchange and pursue integration with neighbouring countries' electricity markets in order to enhance cross-border capacities (in fact, a transmission line with Kosovo went live in June 2016 and another interconnection line with FYROM is currently under construction).

Cyprus

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







	3 Oct.	3-M F	6-M F	12-M F
1-m EURIBOR (%)	-0.37	-0.37	-0.37	-0.37
EUR/USD	1.12	1.11	1.08	1.05
Sov. Spread (2020. bps)	311	290	260	250

	3 Oct.	1-W %	YTD %	2-Y %
CSE Index	66	-1.3	-1.9	-41.1

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

Banking sector bottom line remained broadly unchanged on an annual basis in H1:16. Net profit (after tax) increased slightly by 3.9% y-o-y or EUR 8.4mn y-o-y to EUR 222.8mn or 1.3% of GDP in H1:16, as an improvement in net income from discontinued operations (no losses in H1:16 against losses of EUR 36.1mn in H1:15, following the disposal of Russian assets of Bank of Cyprus and Hellenic Bank) more than offset a deterioration in net income from continued operations (down 11.1% y-o-y or EUR 27.7mn y-o-y to EUR 222.8mn). The deterioration in bank profitability from continued operations was driven by a contraction in pre-provisions earnings before tax, and would have been sharper had provisions for problematic loans not receded. As a result, (annualised) overall ROAE and ROAA stood at 6.4% and 0.6%, respectively, in H1:16 – broadly unchanged from their H1:15 levels. Excluding discontinued operations, ROAA and ROAE retreated to 6.5% and 0.6%, respectively, in H1:16 from 6.8% and 0.7% in H1:15.

Pre-provision earnings (before tax) from continued operations declined significantly in H1:16. Pre-provision earnings (before tax) fell sharply in H1:16 (down 40.5% y-o-y), reflecting lower NII and net non-interest income (NNII) -- down 11.9% y-o-y and 35.1% y-o-y, respectively -- and higher operating expenses.

The negative performance of NII in H1:16 was mainly driven by: i) a decline in average interest-earning assets (down c. 7.4% y-o-y in H1:16), in line with the ongoing deleveraging (interest-earning assets-to-GDP ratio declined to 356% in H1:16 from 410% in H1:15 and 780% in FY:10); and ii) a weaker net interest margin (NIM, down 14 bps y-o-y to 270 bps), reflecting, *inter alia,* tightening lending-deposit spreads, in a more competitive interest rate environment. The deterioration in the NIM in H1:16 would have been sharper had the expensive ELA funding not been significantly reduced (down by EUR 3.5bn y-o-y to EUR 2.4bn at end-H1:16).

Moreover, despite a decline in the number of employees and branches in H1:16 (down 8.0% and 3.1%, respectively), operating expenses increased sharply (up 19.9% y-o-y in H1:16 compared with decreases of 0.3% and 19.9%, respectively, in FY:15 and FY:14). The surge was exclusively driven by personnel expenditure (up 28.8% y-o-y in H1:16), reflecting the once-off cost of the voluntary retirement schemes of Bank of Cyprus, Alpha Bank and the cooperative central bank.

With operating expenses rising and top-line revenue declining, banking sector efficiency deteriorated significantly, with the cost-to-income ratio rising by 17 pps y-o-y to 52.4% in H1:16 -- still below the EU-average (66.0% in Q1:16).

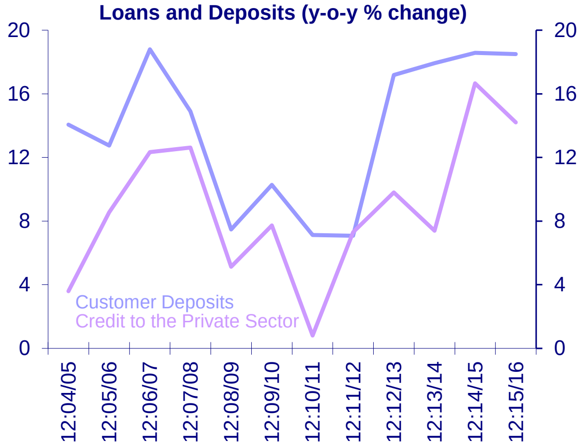
P/L provisions declined in H1:16, following a long period of over-provisioning. Non-performing exposures (NPEs), mainly comprising loan balances (90 dpd), restructured loan balances (60 dpd), as well as all performing restructured balances for a 1-year probation period after the restructuring date, declined by 10.0% y-o-y in H1:16 to EUR 25.3bn (or 143.5% of GDP), with the drop being more pronounced in corporates (down 12.8% y-o-y) compared with households (down 3.9% y-o-y). However, due to a faster decline in gross loans (down 15% y-o-y -- in line with the ongoing extensive deleveraging), the NPE ratio increased by 2.7 pps y-o-y to a high of 48.7% at end-H1:16.

Despite the annual increase in the NPE ratio, banks decreased the pace of provisioning. In fact, P/L provisions were reduced by a sizeable 55.7% y-o-y in H1:16, reflecting the past quarters' over-provisioning, pushing down the (annualised) cost of risk by 115 bps y-o-y to 98 bps in H1:16. However, the NPL coverage ratio improved significantly, by 4.4 pps y-o-y to 38.8% in H1:16 -- still below the EU average (43.8% in Q1:16).

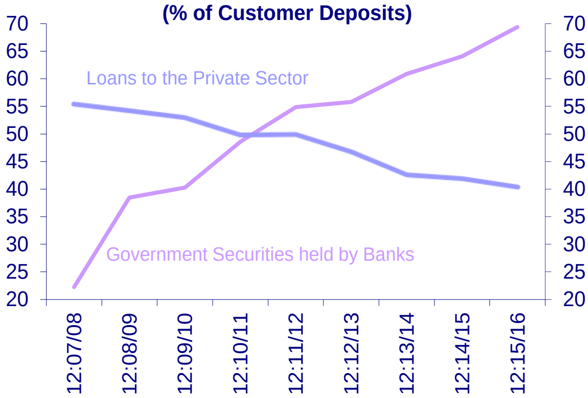
Egypt

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

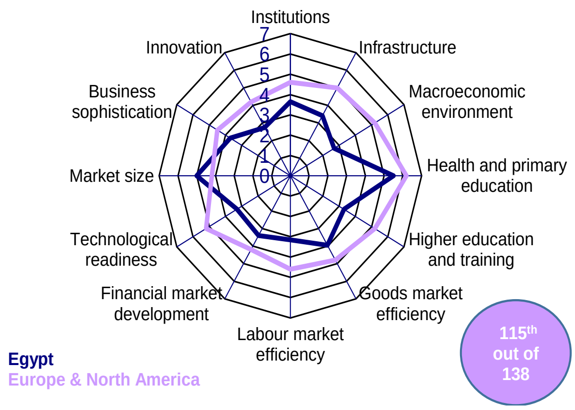
Loans and Deposits (y-o-y % change)



Government Securities held by Banks & Loans to the Private Sector (% of Customer Deposits)



Global Competitiveness Index 2016-2017



	3 Oct.	3-M F	6-M F	12-M F
O/N Interbank Rate (%)	11.8	13.8	12.8	11.5
EGP/USD	8.88	10.5	10.5	11.5
Sov. Spread (2020. bps)	403	350	300	220

	3 Oct.	1-W %	YTD %	2-Y %
HERMES 100	726	2.2	15.3	-21.9

	12/13	13/14	14/15	15/16E	16/17F
Real GDP Growth (%)	2.1	2.2	6.2	4.2	5.0
Inflation (eop. %)	9.8	8.2	11.4	14.0	13.8
Cur. Acct. Bal. (% GDP)	-2.4	-0.8	-3.7	-5.5	-4.0
Fiscal Bal. (% GDP)	-13.0	-12.2	-11.5	-11.8	-10.5

Customer deposits up 18.5% in FY:15/16, supported by the return of confidence. Customer deposits rose by a high 18.5% in FY:15/16 (July 2015-June 2016) – similar to FY:14/15 -- underpinned by the return of confidence in the Egyptian economy since President el-Sissi was elected in May 2014. Specifically, the retail segment (representing 80% of total deposits) rose sharply (by 18.8% in FY:15/16 compared with an increase of 13.9% in FY:14/15), compensating for the sharp slowdown in the corporate sector (up 17.5% in FY:15/16 compared with a large rise of 35.7% in FY:14/15).

Credit to the private sector up 14.2% y-o-y in FY:15/16, on the back of improving loan demand and supply. It appears that both households and corporates, which were the main buyers of the Suez Canal certificates in September 2014, continued to use the accompanying right to contract a loan worth up to 90% of their certificates' value. Recall that, in view of fully financing the ambitious Suez Canal expansion project from domestic sources, the authorities collected EGP 64bn or 2.6% of GDP in summer 2014 through the sale of attractive tax-free investment certificates to Egyptian individuals, corporations and legal entities.

Moreover, the significant improvement in bank asset quality metrics during the past four years also appears to have encouraged banks to ease their credit conditions. In fact, available Central Bank data show that between June 2011 and December 2015, the NPL ratio declined by 3.7 pps to 6.8% and the provision coverage of NPLs rose by 4.5 pps to 99.0%.

With credit growth continuing to lag behind deposit growth, mainly due to banks' increased investments in high-yielding domestic public debt (which stood at 80.9% of GDP at mid-2015/16), the share of government securities held by banks and overall loans in total deposits stood at 69.4% and 40.4%, respectively, at end-2015/16 (June 2016) compared with 23.2% and 62.1% twelve years ago.

Egypt's competitiveness remained broadly unchanged in 2016-17. Egypt rose by just one place to 115th among 138 economies in the World Economic Forum's Global Competitiveness Index for 2016. Recall that the past year's significant improvement followed 5 successive years of decline and was the result of dissipating domestic political instability and security concerns, as well as the launch of a 3-year reform programme (including a reduction of energy subsidies and the introduction of new taxes to put public finances on a strong footing) following the election of President el-Sissi in May 2014. The small improvement this year mainly reflects the stalled reform programme in FY:15/16, due to the October-December 2015 parliamentary elections.

The report outlined that provided Egypt steps up its reform efforts and address the major rigidities that plague its goods, labour and financial markets (where it ranks 112th, 135th, and 111th, respectively), it should experience faster growth and job creation in view of its large market size, promising business sector and geographical proximity to the large European market. Encouragingly, the Government resumed its reform programme since the beginning of this fiscal year, started in July (by reducing electricity subsidies in August and implementing the long-awaited VAT in September), in view of the approval of a much-needed USD 12bn 3-year extended fund facility (EEF) by the IMF Executive Board.

FOREIGN EXCHANGE MARKETS, OCTOBER 3RD 2016

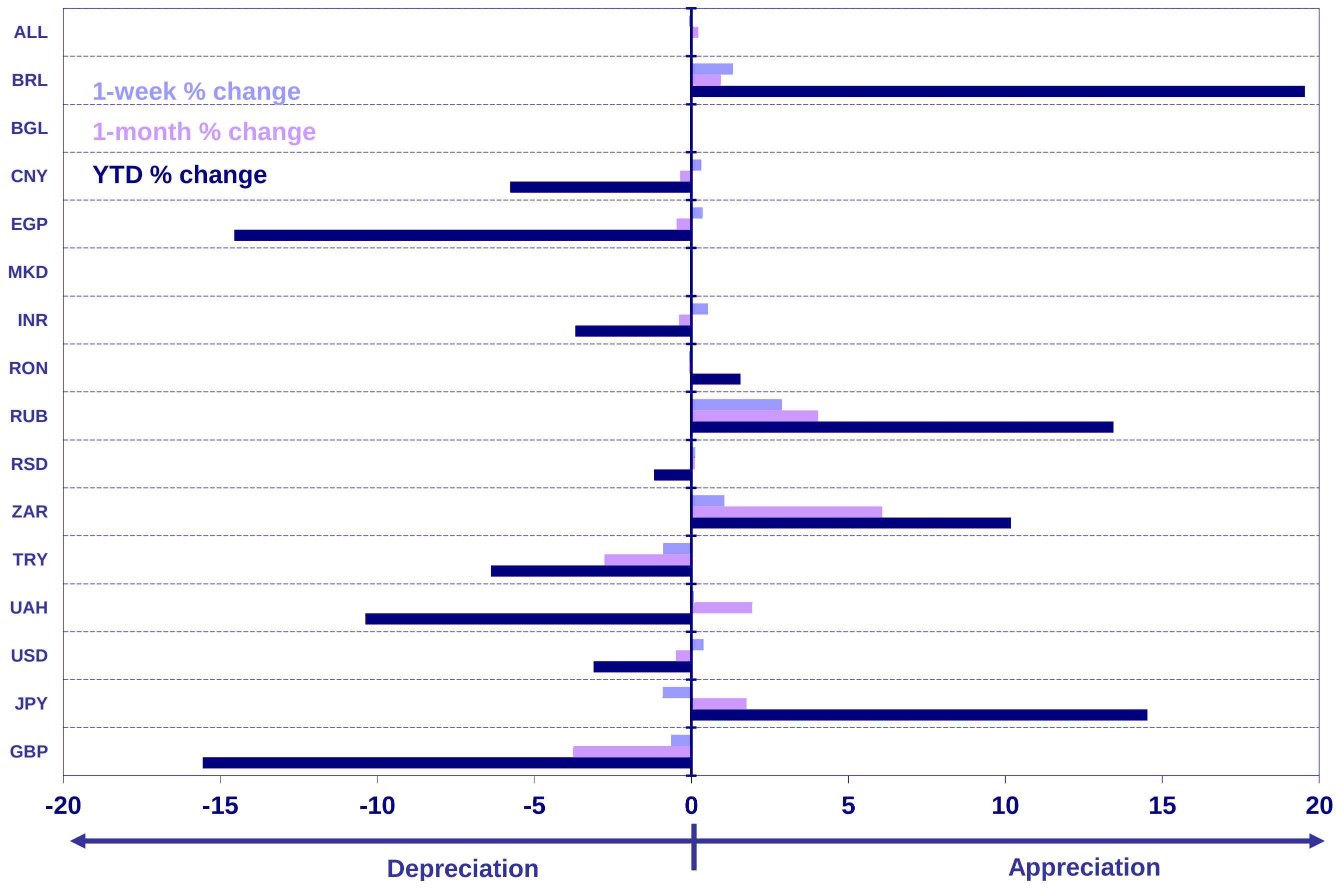
Against the EUR

	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	137.1	-0.1	0.2	0.0	1.6	135.9	139.5	137.5	137.3	136.1	2.0	0.1
Brazil	BRL	3.60	1.3	0.9	19.5	21.6	3.48	4.55	4.10	4.08	4.05	-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	7.47	0.3	-0.4	-5.8	-4.9	6.99	7.56	7.70	7.70	7.70	6.7	10.8
Egypt	EGP	9.93	0.4	-0.5	-14.6	-12.0	8.26	10.23	- - -	- - -	- - -	2.1	10.6
FYROM	MKD	61.3	0.0	0.0	0.0	0.0	61.3	61.3	61.3	61.3	61.3	0.0	0.0
India	INR	74.6	0.5	-0.4	-3.7	-2.2	71.3	77.8	79.9	- - -	- - -	6.6	12.3
Romania	RON	4.45	-0.1	-0.1	1.6	-0.8	4.44	4.56	4.46	4.47	4.49	-0.8	-0.5
Russia	RUB	69.9	2.9	4.0	13.4	3.1	69.4	75.1	71.7	73.3	76.8	-15.1	-32.8
Serbia	RSD	122.9	0.1	0.1	-1.2	-2.5	121.6	124.3	123.4	123.8	- - -	-0.1	-5.6
S. Africa	ZAR	15.2	1.1	6.1	10.2	-0.1	14.77	18.58	15.6	15.9	16.6	-16.6	3.0
Turkey	YTL	3.38	-0.9	-2.8	-6.4	-1.4	3.12	3.41	3.46	3.53	3.69	-10.8	4.4
Ukraine	UAH	29.1	0.1	1.9	-10.4	-18.6	25.06	30.32	34.6	- - -	- - -	-27.5	-40.8
US	USD	1.12	0.4	-0.5	-3.1	-0.2	1.1	1.2	1.13	1.13	1.14	11.4	13.6
JAPAN	JPY	113.9	-0.9	1.8	14.5	18.2	109.6	132.3	113.9	113.9	113.9	11.0	-0.1
UK	GBP	0.87	-0.6	-3.8	-15.6	-15.3	0.7	0.9	0.87	0.88	0.88	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 (October 3rd 2016)



Money Markets, October 3rd 2016

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine	EU	US
O/N	1.1	14.1	0.0	2.3	- - -	11.8	- - -	- - -	0.5	10.0	- - -	8.4	7.8	15.8	- - -	0.4
T/N	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	0.5	10.0	3.0	- - -	7.1	- - -	- - -	- - -
S/W	1.2	14.1	0.0	2.5	-0.4	- - -	1.3	- - -	- - -	9.1	3.0	- - -	7.8	16.5	-0.4	0.5
1-Month	1.6	14.0	0.0	2.7	-0.4	- - -	1.7	6.8	0.6	10.3	3.3	8.7	8.1	17.8	-0.4	0.5
2-Month	- - -	13.9	0.1	- - -	-0.3	- - -	- - -	- - -	- - -	10.4	3.4	8.9	8.2	- - -	-0.3	0.6
3-Month	1.7	13.8	0.1	2.8	-0.3	- - -	2.1	6.9	0.7	10.4	3.5	9.0	8.4	18.8	-0.3	0.9
6-Month	1.7	13.3	0.3	2.9	-0.2	- - -	2.4	- - -	0.9	10.4	3.7	9.3	8.6	- - -	-0.2	1.2
1-Year	1.9	12.5	0.7	3.0	-0.1	- - -	3.0	- - -	1.1	10.4	- - -	9.5	9.0	- - -	-0.1	1.6

Local Debt Markets, October 3rd 2016

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine	EU	US
3-Month	0.9	- - -	- - -	- - -	- - -	13.9	1.6	6.5	- - -	10.0	3.6	7.7	- - -	- - -	-0.8	0.3
6-Month	0.9	- - -	- - -	- - -	- - -	15.4	2.3	6.5	0.5	10.0	3.1	8.1	- - -	- - -	-0.6	0.5
12-Month	1.7	- - -	0.0	2.2	- - -	16.2	2.6	6.7	0.7	9.3	3.9	8.4	- - -	15.6	-0.7	0.6
2-Year	1.9	- - -	- - -	2.4	- - -	- - -	2.0	6.6	0.7	8.7	- - -	8.5	7.6	- - -	-0.7	0.8
3-Year	- - -	- - -	0.3	2.4	2.1	- - -	2.7	6.7	1.5	8.5	- - -	8.3	7.8	16.1	-0.7	0.9
5-Year	- - -	11.4	- - -	2.6	- - -	17.4	2.7	6.8	2.1	8.3	5.5	9.0	8.0	- - -	-0.6	1.2
7-Year	- - -	- - -	1.1	- - -	3.3	17.4	- - -	6.9	2.6	8.2	- - -	- - -	- - -	- - -	-0.5	1.5
10-Year	- - -	11.5	1.9	2.8	3.5	17.5	3.8	6.9	2.9	8.1	- - -	9.4	8.6	- - -	-0.1	1.6
15-Year	- - -	- - -	- - -	- - -	- - -	- - -	4.3	7.2	- - -	8.2	- - -	- - -	9.0	- - -	0.0	- - -
25-Year	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	9.2	- - -	- - -	- - -
30-Year	- - -	- - -	- - -	- - -	- - -	- - -	- - -	7.1	- - -	- - -	- - -	- - -	9.3	- - -	0.5	2.3

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

Corporate Bonds Summary, October 3rd 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	2.7	337	292
	Bulgarian Telecom. 6.625% '18	EUR	B-/B1	15/11/2018	400	5.4	603	554
Cyprus	**Aroundtown Property 3% '21**	EUR	NA/NA	9/12/2021	200	1.9	264	214
Russia	**Gazprom 8.2% '19**	RUB	BB+/NA	9/4/2019	10,000	10.4	179	- - -
	Gazprom 8.9% '21	RUB	BB+/NA	26/1/2021	10,000	9.7	106	- - -
South Africa	**FirstRand Bank Ltd 4.25% '20**	USD	BBB-/Baa2	30/4/2020	500	3.3	212	219
	FirstRand Bank Ltd 2.25% '20	EUR	NA/NA	30/1/2020	100	0.5	118	72
Turkey	**Vakiflar Bankasi 3.5% '19**	EUR	NA/Baa3	17/6/2019	500	3.2	393	342
	Garanti Bankasi 3.38%'19	EUR	NA/Baa3	8/7/2019	500	3.0	374	323
	Arcelik AS 3.875% '21	EUR	BB+/NA	16/9/2021	350	3.4	398	355
	Turkiye Is Bankasi 6% '22	USD	NA/Ba3	24/10/2022	1,000	6.2	504	485

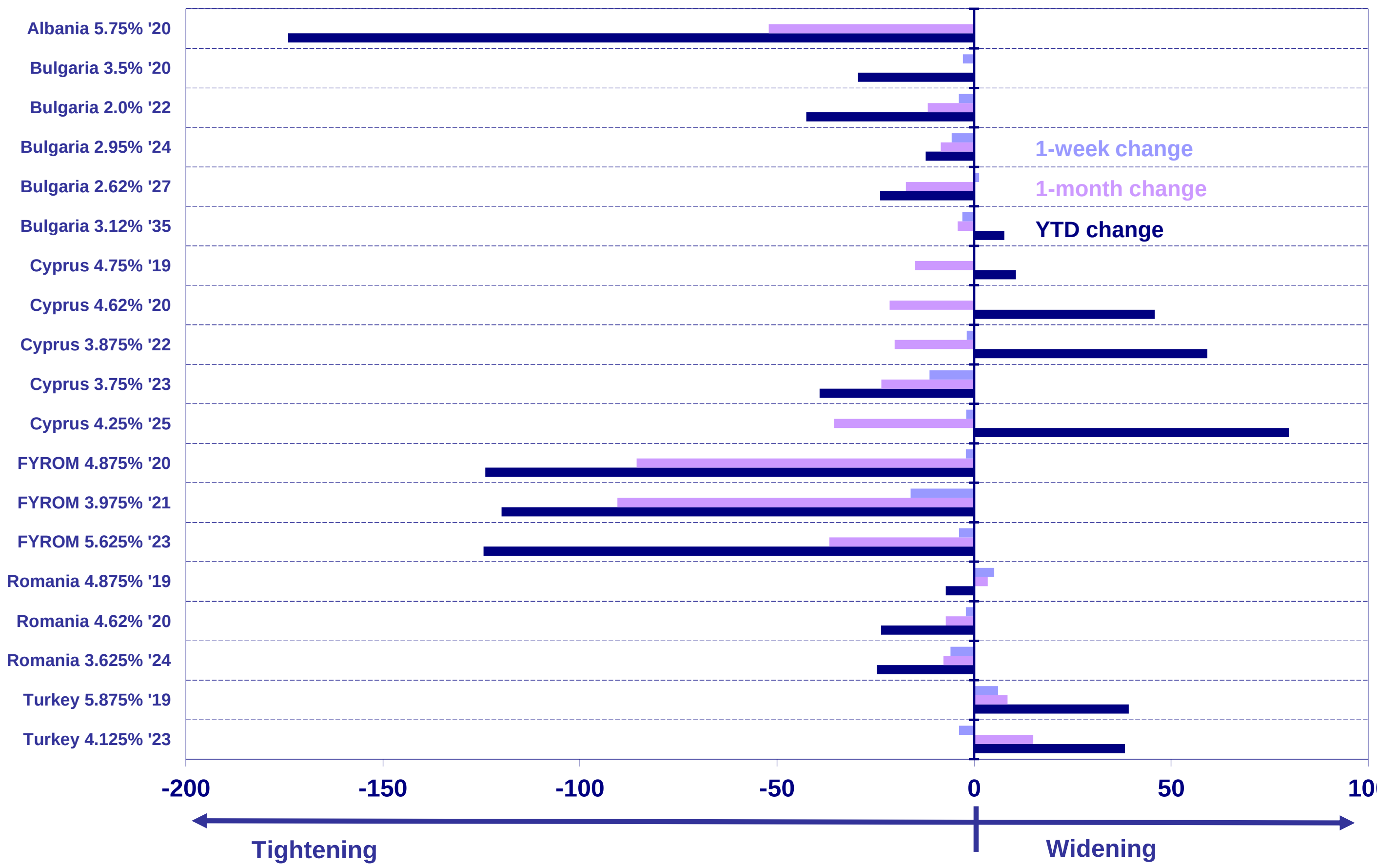
Credit Default Swap Spreads, October 3rd 2016

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine
5-Year	- - -	260	139	105	259	480	- - -	136	105	217	197	250	246	- - -
10-Year	- - -	328	185	153	286	490	- - -	144	146	273	248	307	302	- - -

EUR-DENOMINATED SOVEREIGN EUROBOND SUMMARY, OCTOBER 3RD 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	2.9	356	323
Bulgaria 3.5% '20	EUR	NA/NA	16/1/2020	145	0.4	112	66
Bulgaria 2.0% '22	EUR	BB+/Baa2	26/3/2022	1,250	0.7	125	86
Bulgaria 2.95% '24	EUR	BB+/Baa2	3/9/2024	1,493	1.4	179	141
Bulgaria 2.62% '27	EUR	BB+/Baa2	26/3/2027	1,000	1.9	201	163
Bulgaria 3.12% '35	EUR	BB+/Baa2	26/3/2035	900	2.9	259	216
Cyprus 4.75% '19	EUR	BB-/NA	25/6/2019	566	2.1	280	240
Cyprus 4.62% '20	EUR	BB-/B1	3/2/2020	770	2.4	311	271
Cyprus 3.875% '22	EUR	NA/B1	6/5/2022	1,000	3.2	374	334
Cyprus 3.75% '23	EUR	NA/NA	26/7/2023	1,000	3.3	373	329
Cyprus 4.25% '25	EUR	NA/B1	4/11/2025	1,000	3.5	373	335
FYROM 4.875% '20	EUR	BB-/NA	1/12/2020	270	3.2	392	351
FYROM 3.975% '21	EUR	BB-/NA	24/7/2021	500	3.4	396	520
FYROM 5.625% '23	EUR	BB-/NA	26/7/2023	450	4.3	480	448
Romania 4.875% '19	EUR	BBB-/Baa3	7/11/2019	1,500	0.2	92	47
Romania 4.62% '20	EUR	BBB-/Baa3	18/9/2020	2,000	0.2	91	46
Romania 3.625% '24	EUR	BBB-/Baa3	24/4/2024	1,250	1.4	179	148
Turkey 5.875% '19	EUR	NR/Baa3	11/4/2023	1,000	2.0	266	229
Turkey 4.125% '23	EUR	B+/B1	12/11/2020	450	3.0	346	311

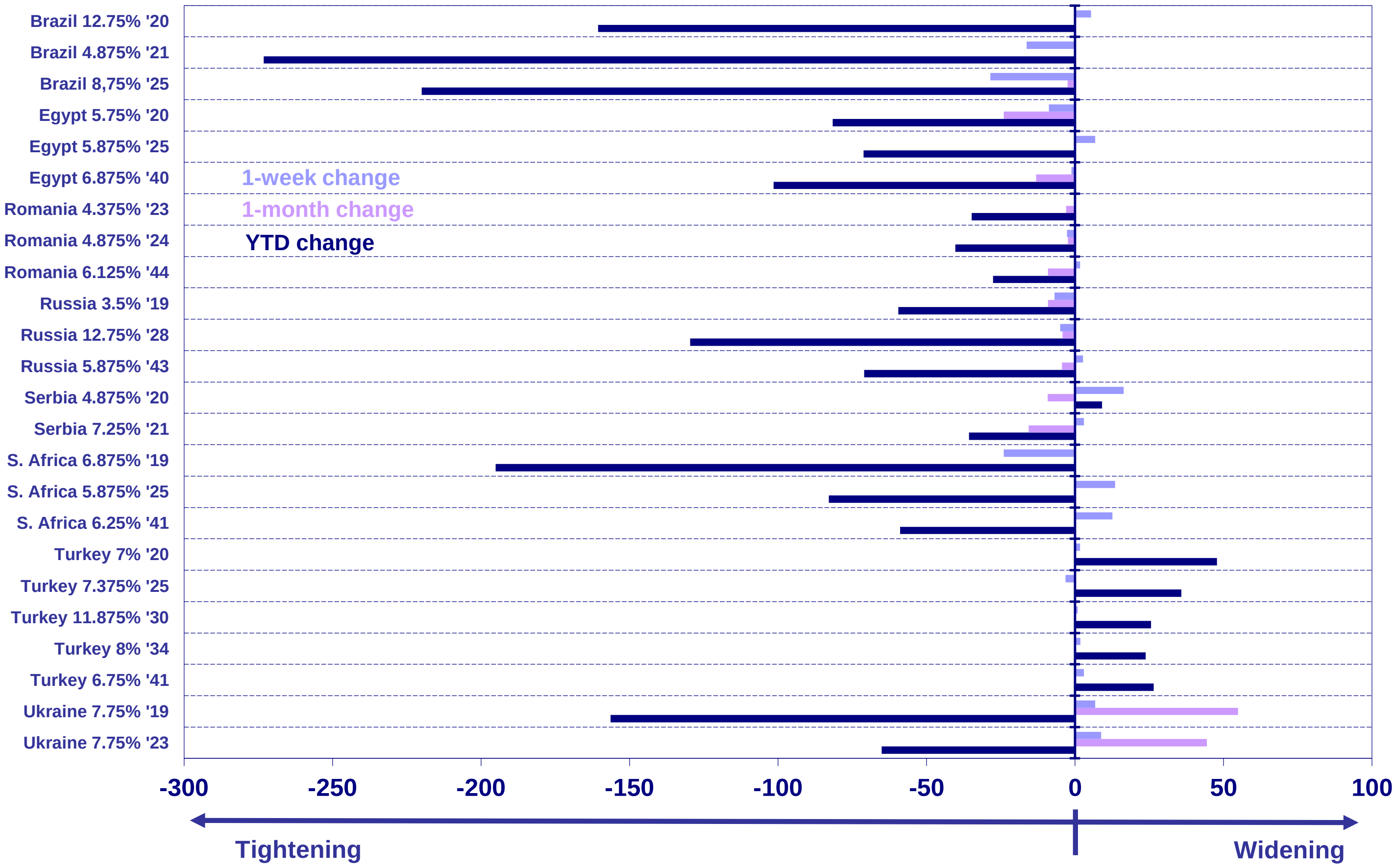
EUR-Denominated Eurobond Spreads (October 3rd 2016)



USD-Denominated Sovereign Eurobond Summary, October 3rd 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	2.9	205	217
Brazil 4.875% '21	USD	BB/Ba2	22/1/2021	2,988	3.2	206	212
Brazil 8.75% '25	USD	BB/Ba2	4/2/2025	969	4.3	288	342
Egypt 5.75% '20	USD	B-/B3	11/6/2025	1,500	4.9	403	382
Egypt 5.875% '25	USD	B-/B3	30/4/2040	500	6.6	500	498
Egypt 6.875% '40	USD	BBB-/Baa3	22/8/2023	1,500	7.2	485	520
Romania 4.375% '23	USD	BBB-/Baa3	22/1/2024	1,000	2.7	125	146
Romania 4.875% '24	USD	BBB-/Baa3	22/1/2044	1,000	2.7	126	146
Romania 6.125% '44	USD	BB+/Ba1	16/1/2019	1,500	4.0	168	270
Russia 3.5% '19	USD	BB+/Ba1	24/6/2028	2,500	2.5	169	144
Russia 12.75% '28	USD	BB+/Ba1	16/9/2043	1,500	4.1	247	373
Russia 5.875% '43	USD	BB-/B1	25/2/2020	1,500	4.7	232	318
Serbia 4.875% '20	USD	BB-/B1	28/9/2021	2,000	3.5	259	241
Serbia 7.25% '21	USD	BBB-/Baa2	27/5/2019	2,000	3.6	244	262
S. Africa 6.875% '19	USD	BBB-/Baa2	16/9/2025	2,000	2.2	134	125
S. Africa 5.875% '25	USD	BBB-/Baa2	8/3/2041	750	4.1	246	283
S. Africa 6.25% '41	USD	NR/Baa3	5/6/2020	2,000	4.8	248	340
Turkey 7% '20	USD	NR/Baa3	5/2/2025	3,250	3.8	287	278
Turkey 7.375% '25	USD	NR/Baa3	15/1/2030	1,500	4.6	313	349
Turkey 11.875% '30	USD	NR/Baa3	14/2/2034	1,500	4.9	331	464
Turkey 8% '34	USD	NR/Baa3	14/1/2041	3,000	5.3	371	427
Turkey 6.75% '41	USD	B-/Caa3	1/9/2019	1,744	5.4	309	378
Ukraine 7.75% '19	USD	B-/Caa3	1/9/2023	1,355	8.2	733	698
Ukraine 7.75% '23	USD	BB/Ba2	15/1/2020	234	8.5	705	691

USD-Denominated Eurobond Spreads (October 3rd 2016)



Stock Markets Performance, October 3rd 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)	59,461	2.4	-0.3	37.2	24.9	37,046	60,311	65.0	-13.3	-35.3	-2.9	-2.0
Bulgaria (SOFIX)	507	4.0	7.5	10.0	14.3	432	520	10.0	-11.7	-11.7	6.2	6.2
China (SHCOMP)	3,005	0.8	-2.0	-15.9	-1.6	2,638	3,539	-20.4	9.4	16.5	52.9	69.5
Cyprus (CSE GI)	66	-1.3	-3.2	-1.9	-10.4	64	70	-1.9	-20.9	-20.9	-17.0	-17.0
Egypt (HERMES)	726	2.2	-0.4	15.3	13.0	521	750	11.8	-24.4	-25.7	23.5	36.6
F.Y.R.O.M (MBI)	1,961	0.8	-1.1	7.0	14.1	1,699	1,990	7.0	-0.6	-0.6	6.1	6.1
India (SENSEX)	28,243	-0.2	-1.0	8.8	5.4	22,495	29,077	6.0	-5.0	0.7	29.9	44.7
Romania (BET-BK)	1,313	0.5	-0.1	-2.2	-2.4	1,150	1,329	-0.5	2.6	1.6	3.7	3.5
Russia (RTS)	4,505	-1.1	-0.6	13.8	19.5	3,509	4,688	30.4	30.3	9.5	-6.9	-37.4
Serbia (BELEX-15)	636	-0.2	0.9	0.8	1.6	570	647	-0.2	-3.4	-3.5	19.5	12.8
South Africa (FTSE/JSE)	51,659	0.3	-3.4	1.7	-0.8	45,976	54,704	13.5	1.9	-15.1	7.6	10.9
Turkey (ISE 100)	77,225	0.7	0.4	5.5	0.4	68,230	86,931	-0.5	-16.3	-25.4	26.4	32.0
Ukraine (PFTS)	240	0.2	6.3	-0.4	-20.8	215	256	-10.5	-37.8	-54.8	28.7	-24.2
MSCI EMF	912	0.7	1.3	15.2	11.0	687	930	12.3	-17.0	-7.5	-4.6	8.2
MSCI EAFE	1,703	0.1	-0.4	-1.4	0.1	1,492	1,735	-3.9	-3.3	7.7	-7.3	5.8
Greece (ASE-General)	570	1.1	-2.1	-6.8	-14.6	421	659	-6.8	-23.6	-23.6	-28.9	-28.9
Germany (XETRA DAX)	10,511	1.1	-1.6	-2.2	7.1	8,699	10,802	-2.2	-4.9	-4.9	2.7	2.7
UK (FTSE-100)	6,984	2.4	1.3	11.3	10.9	5,500	6,955	-5.9	-4.9	0.1	-2.7	4.1
Japan (NIKKEI-225)	16,599	0.3	-1.9	-12.8	-7.8	14,864	18,951	0.9	9.1	20.2	7.1	7.0
USA (DJ INDUSTRIALS)	18,254	0.9	-1.3	3.7	8.8	15,451	18,668	1.1	-2.2	9.3	7.5	22.2
USA (S&P 500)	2,161	0.7	-0.9	4.7	8.8	1,810	2,194	2.1	-0.7	10.9	11.4	26.6

Equity Indices (October 3rd 2016)