NATIONAL BANK

South Eastern Europe and Mediterranean Emerging Market Economies

Weekly Report

6 – 12 September 2016

NBG - Economic Analysis Division
https://www.nbg.gr/en/the-group/press-office/e-spot/reports

Paul Mylonas, PhD
✉ : pmylonas@nbg.gr

Emerging Markets Research

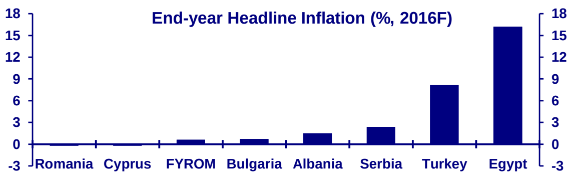
***Head:* Michael Loufir**
☎ : +30 210 33 41 211
✉ : mloufir@nbg.gr

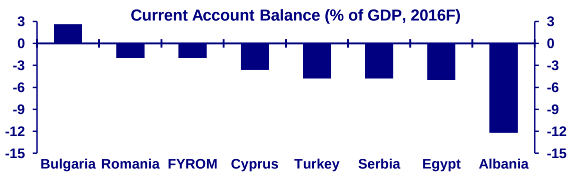
Analysts:

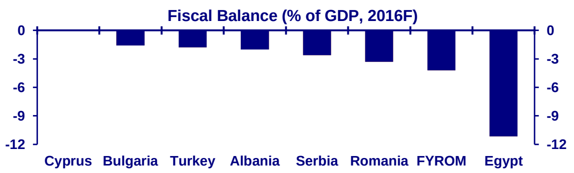
Evlabia Fetsi
☎ : +30 210 33 41 667
✉ : efetsi@nbg.gr

Konstantinos Romanos-Louizos
☎ : +30 210 33 41 225
✉ : romanos.louizos.k@nbg.gr

Louiza Troupi
☎ : +30 210 33 41 696
✉ : troupi.louiza@nbg.gr

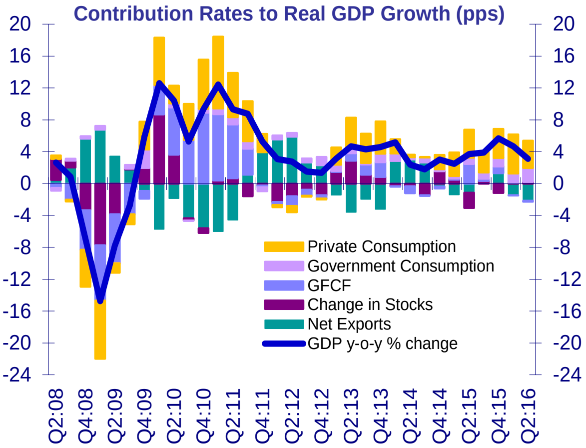


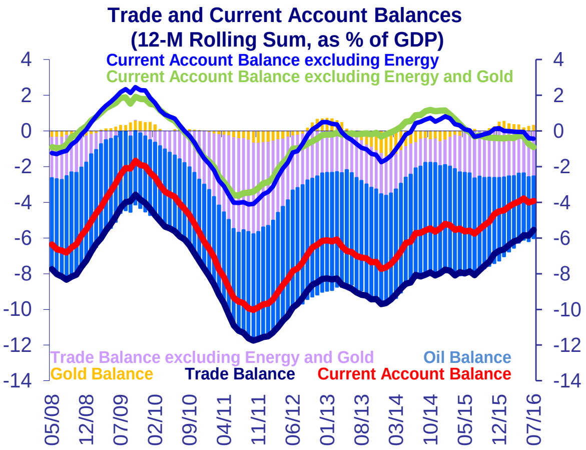


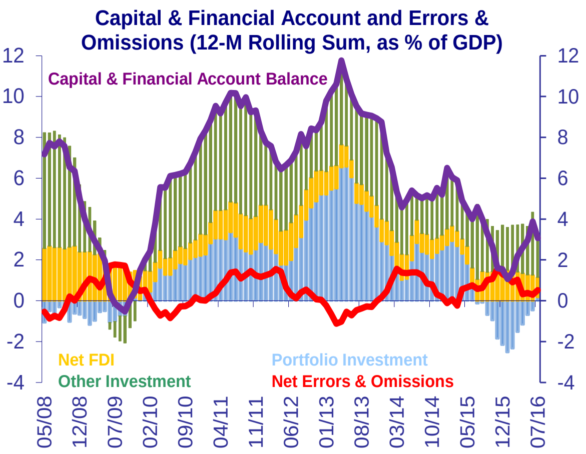


Turkey

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







	12 Sep.	3-M F	6-M F	12-M F
1-m TRIBOR (%)	8.9	9.2	9.5	9.8
TRY/EUR	3.33	3.36	3.32	3.30
Sov. Spread (2019, bps)	244	250	230	200

	12 Sep.	1-W %	YTD %	2-Y %
ISE 100	77,054	-0.9	5.3	-1.0

	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	-1.8	-2.0

GDP growth declined to 3.1% y-o-y in Q2:16 from 4.7% in Q1:16. Domestic demand was the driver of economic growth in Q2:16 (contributing 5.2 pps to overall growth). Specifically, private consumption remained the engine of growth (up 5.2% y-o-y and contributing 3.6 pps to overall growth), mainly supported by sharp hikes in real wages following the 30% increase of the minimum wage on January 1st. Public consumption also supported economic growth in Q2:16 (increasing by a 6½-year high of 15.9% y-o-y and contributing 1.7 pps to overall growth), as the Government continues to deliver on the November 2015 election promises. On a negative note, private investment contracted for a second consecutive quarter in Q2:16 (down 1.6% y-o-y and shaving 0.3 pps off overall growth), hindered, *inter alia*, by heightening domestic political uncertainty (following the unexpected resignation of PM Davutoglu). However, the decline in private investment was broadly compensated by a rise in public investment (up 4.7% y-o-y and contributing 0.2 pps to overall growth).

Unsurprisingly, net exports continued to be a drag on overall economic growth in Q2:16 (subtracting 2.1 pps), as imports of G&S remained robust (up 7.7% y-o-y), while exports of G&S were broadly flat (up 0.2% y-o-y), partly reflecting weaker tourist activity, due to heightening domestic security concerns and Russian sanctions.

Looking ahead, we expect activity to slow further in H2:16, as suggested by leading indicators. The expected slowdown should mainly reflect weaker consumer and business confidence following the mid-July coup attempt, still elevated geopolitical and domestic security risks, and tighter global liquidity conditions ahead of the resumption of interest rate hikes by the Fed at end-Q4:16. The loss of momentum should, however, be tempered by a further easing of the monetary policy stance through additional cuts to the overnight lending rate and reserve requirement ratios (RRRs). Overall, we expect real GDP growth to ease to 2.5% y-o-y in H2:16. As a result and provided that H1:16 outcome is not revised, overall growth should stand at 3.2% in FY:15 -- below the FY:15 outcome of 4.0%.

External rebalancing continued in 7M:16, reflecting a still favourable energy bill. The current account deficit (CAD) narrowed by 0.6 pps y-o-y to 2.9% of GDP in 7M:16. Specifically, a significant adjustment in the energy balance (by 1.2 pps of GDP y-o-y), in line with global oil price developments, more than offset a deterioration in the underlying current account balance (excl. energy & gold, by 0.5 pps of GDP y-o-y), reflecting mainly a decline in tourism receipts (by 0.6 pps of GDP y-o-y), and a weaker gold balance (by 0.1 pp of GDP y-o-y).

On the financing side, despite large capital outflows in the second half of July in the wake of the coup attempt, the capital and financial account (CFA) balance improved significantly, by 1.4 pps y-o-y to a surplus of 3.3% of GDP in 7M:16, supported by strengthening global risk appetite in the second half of February.

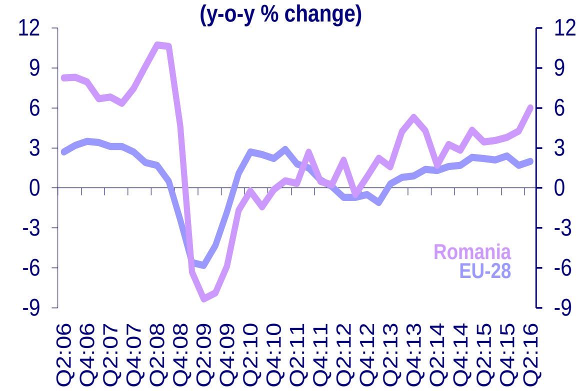
With the CFA surplus more than covering the CAD and positive (net) errors and omissions (0.5% of GDP), the overall balance turned positive in 7M:16 (0.9% of GDP or USD 6.7bn against -0.4% in 7M:15). The latter, along with valuation effects, boosted FX reserves by USD 7.0bn y-t-d to USD 99.9bn at end-July -- c. 5.7 months of imports.

Going forward, we expect the current account to more than reverse its 7M:16 gains during the rest of the year, as the support from the oil balance will cease (we project the price of Brent to increase by 3.5% y-o-y in 8-12M:16 following a decline of 29.1% y-o-y in 7M:16) and tourist receipts will continue to decline (by another 0.6 pps of GDP y-o-y in 8-12M:16). Overall, we see the 12-month rolling CAD widening to USD 35.0bn (4.8% of GDP) in December from USD 28.9bn (3.9% of GDP) in July and USD 32.1bn (4.5% of GDP) a year ago.

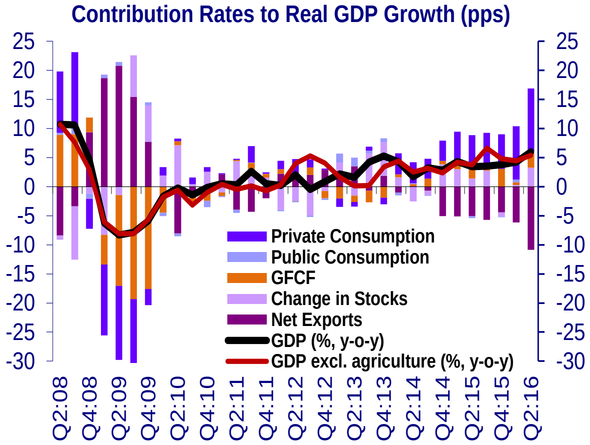
Romania

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

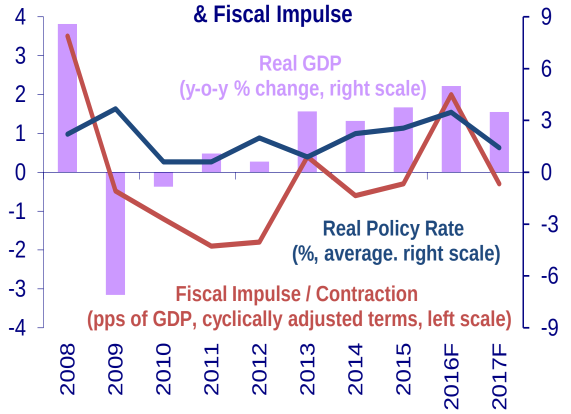
Real GDP (y-o-y % change)



Contribution Rates to Real GDP Growth (pps)



Real GDP Growth, Real Policy Rate & Fiscal Impulse



	12 Sep.	3-M F	6-M F	12-M F
1-m ROBOR (%)	0.5	0.9	1.2	1.5
RON/EUR	4.44	4.48	4.49	4.50
Sov. Spread (2024, bps)	178	180	170	150

	12 Sep.	1-W %	YTD %	2-Y %
BET-BK	1,301	-1.1	-3.0	0.1

	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	-0.5	-1.1	-2.0	-2.8
Fiscal Bal. (% GDP)	-2.5	-1.7	-1.5	-3.3	-3.0

Real GDP growth reaches a post-crisis high of 6.0% y-o-y in Q2:16. On a sequential basis, real GDP maintained its strong momentum, growing by 1.5% q-o-q s.a. for a 2nd consecutive quarter in Q2:16. As a result, the annual pace of economic growth rose sharply to 6.0% y-o-y in Q2:16 (the best performance in the EU) from 4.3% in Q1:16. Note that the agricultural sector recovered strongly from the previous year's drought, adding 0.9 pps to annual real GDP growth in Q2:16.

Domestic demand surged in Q2:16, more than offsetting the sharp decline in net exports. Against the backdrop of deflation (-2.5% y-o-y in Q2:16), following the 4 pp cut in the VAT rate in January (to 20.0%, excl. food items), private consumption strengthened further in Q2:16 (up by a sizeable 10.7% y-o-y compared with 9.0% in Q1:16), also supported by a looser incomes policy (a 10.0% hike in public sector wages at end-2015 was followed by a 5.0% rise in pensions and targeted increases in wages in the broader public sector and benefits in January) and its spillover to the private sector. At the same time, with no help from the public sector (according to budget data, public investment in Q2:16 was flat compared with Q2:15), fixed investment rebounded surprisingly in Q2:16 (by 10.6% y-o-y against 2.3% in Q1:15). In addition, the build-up in inventories continued at a fast pace in Q2:16 (adding 3.3 pps of GDP to overall growth), though this item also contains statistical discrepancies and could reflect even stronger domestic absorption. All in all, domestic demand (incl. inventories) contributed a stunning 17 pps y-o-y to overall growth.

Unsurprisingly, the drag from net exports on overall growth increased markedly in Q2:16 (to 10.9 pps of GDP from 6.1 pps in Q1:16). Indeed, import growth accelerated in Q2:16 (to 12.1% y-o-y from 9.7% in Q1:16), in line with stronger domestic demand, while export growth declined slightly (to 4.0% y-o-y in Q2:16 from 5.3% in Q1:16), reflecting the sluggish recovery in the country's main trade partner, the EU.

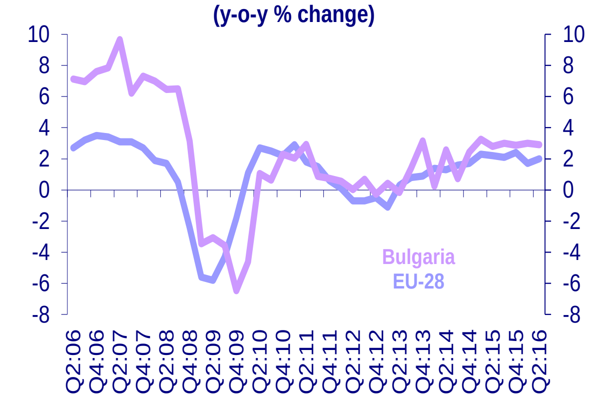
Economic growth to remain strong in H2:16, but increasingly unbalanced. Looking ahead, private consumption should maintain momentum, reflecting: i) a further easing in incomes policy (including additional targeted increases in public sector wages and benefits in August); and ii) tighter labour market conditions in the context, *inter alia*, of a continuous decline in the working-age population. At the same time, fixed investment should continue to expand at a solid pace (albeit not as strong as in Q2:16), assisted by improving business confidence, despite the decline in EU funds available in FY:16. We project the contribution of domestic demand to overall growth to remain in double digits throughout the remainder of the year. Worryingly, despite signs of overheating, the policy mix should remain supportive of growth, in view of the expected large fiscal impulse (0.7 pps of GDP y-o-y in H2:16 following 1.1 pp in H1:16) and relatively looser monetary conditions (we see the *ex-post* real policy rate easing to 2.5% in H2:16 from 4.4% in H1:16). On the other hand, in view of stagnant growth in the EU, net exports will continue to place a large drag on overall growth, in line with robust domestic demand. All said, in light of the stronger-than-expected Q2:16 outcome, we revise our FY:16 real GDP forecast to 5.0% (from 4.7% previously), much higher than the FY:15 outcome of 3.8% and its long-term potential of c. 3.0%.

Risks to the economic outlook are broadly balanced. Indeed, a stronger-than-expected recovery in the EU and faster absorption of EU funds could boost Romania's economic growth. On the other hand, renewed political instability could hurt investor confidence. Note that a broadly-backed technocrat Government is currently in office, but tensions between the two largest parties, i.e. the centre-left PSD and the centre-right PNL, could rise ahead of the December parliamentary elections.

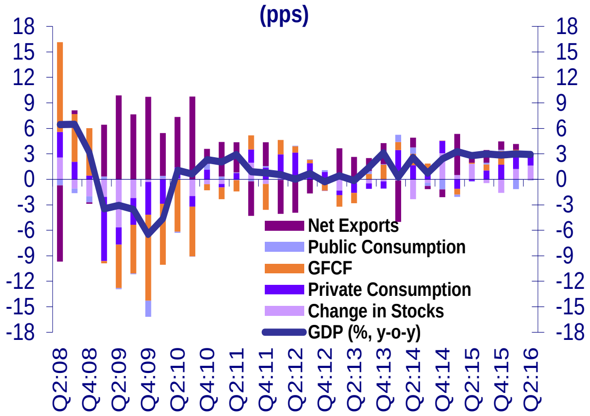
Bulgaria

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

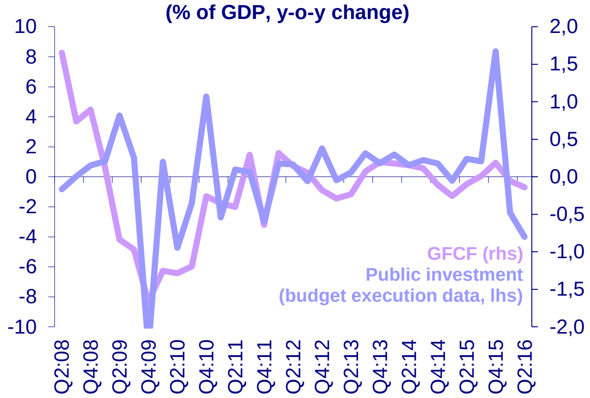
Real GDP (y-o-y % change)



Contribution Rates to Real GDP Growth (pps)



Gross Fixed Capital Formation & Public Investment (% of GDP, y-o-y change)



	12 Sep.	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)	124	136	135	130

	12 Sep.	1-W %	YTD %	2-Y %
SOFIX	471	-0.2	2.2	-14.7

	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	0.9	1.4	2.6	1.5
Fiscal Bal. (% GDP)	-1.8	-3.7	-2.9	-1.6	-1.2

Economic growth maintains momentum in Q2:16 (2.9% y-o-y). On a sequential basis, real GDP rose by a solid 0.7% q-o-q s.a. for a 5th consecutive quarter in Q2:16. As a result, the annual pace of economic expansion was 2.9% y-o-y in Q2:16, broadly unchanged from Q1:16.

Stock-rebuilding and the halt in the decline in public consumption broadly compensate for the slowdown in private consumption and weaker investment activity in Q2:16. Amid persistent deflation (-1.8% y-o-y in Q2:16), private consumption continued to expand in Q2:16, albeit at a slower pace (up 1.6% y-o-y against 2.6% in Q1:16), in line with a slowdown in job creation (employment rose by 0.7% y-o-y in Q2:16 following increases of 0.9% in Q1:16 and 1.7% in FY:15). The deceleration in private consumption was offset, however, by the halt in the decline in public consumption (subtracting just 0.1 pp from overall growth in Q2:16 against a sizeable deduction of 1.2 pps in Q1:16), on the back of a relatively looser fiscal stance (the budget surplus, excluding capital spending, narrowed by 0.2 pps of GDP y-o-y in Q2:16 after having widened by 0.8 pps in Q1:16).

At the same time, fixed investment fell marginally in Q2:16 (by 0.3% y-o-y against a rise of 1.4% in Q1:16), driven by the public sector. Indeed, according to budget data, public investment was down by 0.8 pps of GDP y-o-y in Q2:16, due to lower absorption of EU funds following the completion of the 2007-13 programming period in FY:15. Again, the drop in fixed investment was broadly compensated by the replenishment of inventories (incl. statistical discrepancies, adding 1.6 pps of GDP to overall growth in Q2:16 following 1.2 pps in Q1:16).

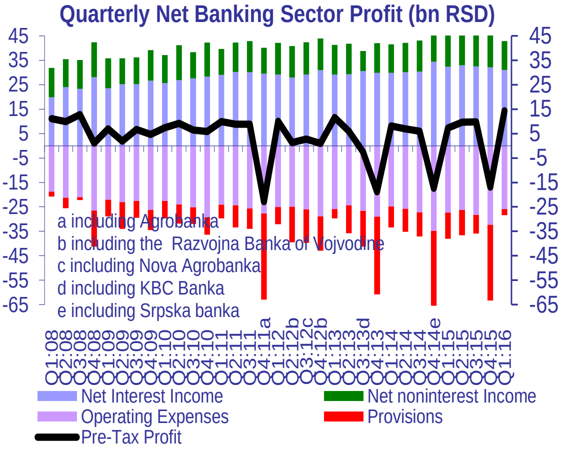
Lastly, the contribution of net exports to overall growth, albeit still positive, moderated further in Q2:16 (to 0.3 pps of GDP from 0.6 pps in Q1:16). Indeed, the pick-up in export growth in Q2:16 (to 5.1% y-o-y from 3.5% in Q1:16), reflecting the improving competitiveness of the economy (see below) and a rebound in tourism activity, was more than offset by the acceleration in import growth (to 4.6% y-o-y in Q2:16 from 2.4% in Q1:16), on the back of still solid domestic demand.

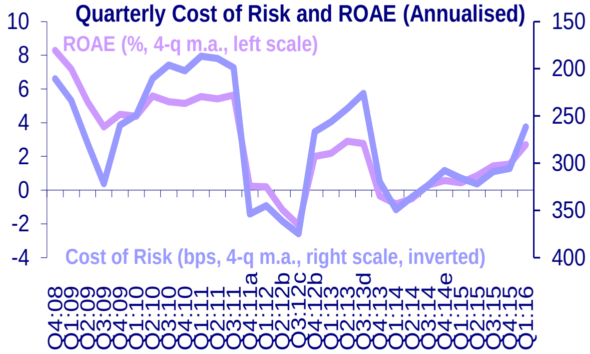
Growth momentum to ease in H2:16, with a shift from private consumption to investment. Considering the low investment-to-GDP ratio (21.1% against a pre-crisis high of 32.0%) and the increasing capacity utilization rate (74.0% against a historical average of 69.0%), as well as favourable domestic liquidity conditions (the loan-to-deposit ratio stands at 82.7%), we expect fixed investment to gain momentum in H2:16, despite the slowdown in the implementation of EU co-financed projects. On the other hand, private consumption should weaken gradually, in view of slower employment growth, on the back, *inter alia*, of structural problems in the labour market (persistently high long-term unemployment, skills mismatches). Importantly, despite stagnant growth in the EU, net exports should support overall growth, reflecting the improving competitiveness of the economy (real GDP per employee has risen by 7.0% since end-2011, while the BGN has been stable in real terms in the same period). Overall, in view of the better-than-expected H1:16 performance and the envisaged large fiscal impulse in H2:16 (1.2 pps of GDP y-o-y), we revise FY:16 real GDP growth to 2.8% (from 2.5% previously), slightly lower than the FY:15 outcome of 3.0%.

Risks to the economic outlook are to the downside, reflecting political uncertainty. Recall that the ruling coalition, led by the GERB and comprising the Reformist Bloc, has lost its majority in the Parliament after the ABV withdrew its support in May. As a result, PM Borissov is seeking parliamentary support on a case-by-case basis. Worryingly, tensions within the ruling coalition and its supporters (Patriotic Front, Democratic Centre) could escalate ahead of the October Presidential elections.

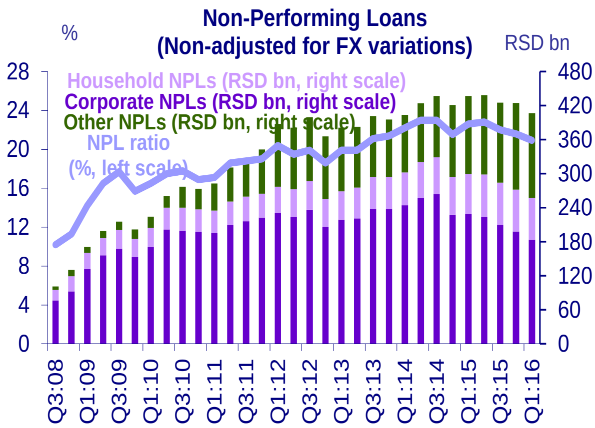
Serbia

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





a including Agrobanka, b including Razvojna Banka Vojvodine, c including Nova Agrobanka, d including KBC Banka, e including Srpska banka



	12 Sep.	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)	249	240	220	180

	12 Sep.	1-W %	YTD %	2-Y %
BELEX-15	634	0.8	0.5	-0.4

	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	-2.6	-2.8

The profitability of the banking system improved significantly in Q1:16. Pre-tax profits in the banking sector rose to a record high of RSD 14.3bn (0.3% of GDP) in Q1:16 -- twice their level in Q1:15. The strong improvement in bank profitability was mainly driven by a sharp fall in provisioning. As a result, ROAE and ROAA rose to highs of 9.2% and 1.9%, respectively, in Q1:16 from 4.7% and 1.0% in Q1:15, and 1.6% and 0.3% in FY:15.

The cost of risk fell sharply in Q1:16, reflecting improving asset quality. P/L provisions recorded a sharp decline in Q1:16 (amounting to just ¼ of their level in Q1:15), absorbing a mere 15.1% of net operating income in Q1:16 compared with a sizeable 59.6% in Q1:15 and 86.0% in FY:15. Reflecting lower formation as well as write-offs, the NPL ratio declined by 1.7 pps y-o-y in Q1:16 to a 3-year low of 20.2% of total gross loans from a peak of 23.0% in Q3:14. Moreover, the provision coverage improved to 63.5% in Q1:16 after having surged to 62.3% in Q4:15 from 55.4% in Q1:15, on the back of large pre-emptive provisioning in Q4:15 (see below). As a result, the cost of risk declined (by 172 bps y-o-y) to a record low of 52 bps (annualised) in Q1:16 from 306 bps in FY:15. On another positive note, capital buffers remained high, with the CAR standing at 21.5% in Q1:16.

Pre-provision earnings deteriorated slightly in Q1:16, due to lower net interest income (NII). Pre-provision income (PPI) declined by 6.0% y-o-y in Q1:16 -- for the first time since Q4:13 -- dragged down by a drop in both NII and net non-interest income (NNII).

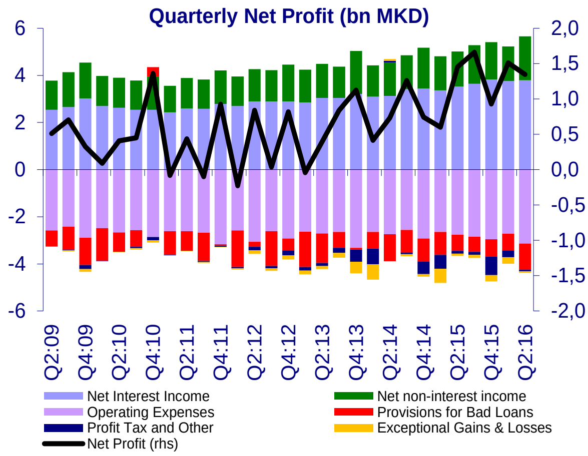
Indeed, NII (accounting for a sizeable 72.6% of gross operating income) declined by 4.0% y-o-y in Q1:16 -- for a 2nd successive quarter -- as higher average interest earning assets (up 3.2% y-o-y in Q1:16) was more than offset by the compression in the NIM (down by 32 bps y-o-y to 419 bps annualised in Q1:16, below the FY:15 outcome of 445 bps). The decline in the NIM was driven by the drop in the non-core NIM, in line with the fall in T-bill rates (with the 12-month T-bill rate declining by 4.4 pps y-o-y to a record low of 4.1% in Q1:16).

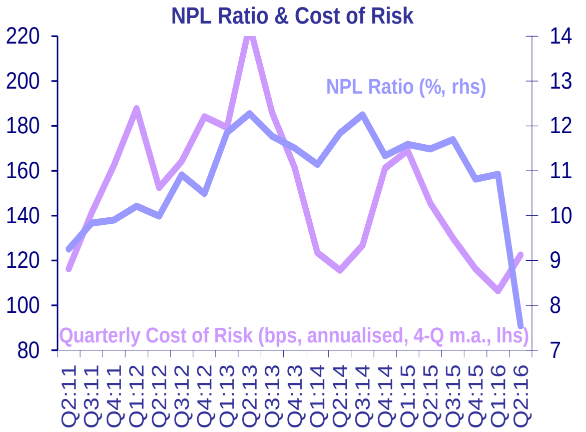
The drop in top-line revenue was partly offset by the fall in operating expenses (by 5.4% y-o-y in Q1:16), due to lower "other expenditure", reflecting base effects from the NBS decision in Q1:15, that required banks to offer favourable terms to holders of CHF-denominated mortgage loans, in an effort to limit the rise in CHF-related NPLs. Meanwhile, personnel costs were contained (up 1.3% y-o-y in Q1:16 compared with an average inflation of 1.5%), as the number of employees and branches continued to decline by 2.3% and 2.7% y-o-y, respectively, in Q1:16. As a result, the cost-to-income ratio remained broadly unchanged on an annual basis, at (a high) 60.6% in Q1:16, yet below 62.2% in FY:15.

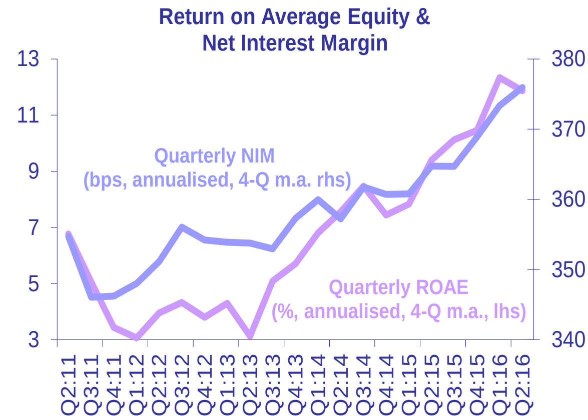
The banking sector bottom line is set to strengthen further this year. Profitability is set to improve on an annual basis in Q2-Q4:16, with the ROAE rising to an estimated 3.0% from 0.5% in Q2-Q4:15. Profitability is expected to be supported by lower provisioning, reflecting large pre-emptive provisions in Q4:15 in the aftermath of the asset quality Special Diagnostic Studies of banks' portfolios that prompted the reclassification of certain loans as NPLs. Lower provisioning should also be driven by the continued improvement of the NPL ratio, supported by the rebound in activity (we expect real GDP growth to rise to 2.5% this year from 0.7% in FY:15) and the past years' cleaning-up of the banking sector's balance sheet. The PPI will also be underpinned by continued expenditure restraint as well as a further easing of the monetary policy stance and the rebound in credit activity. Overall, we see ROAE reaching an 5-year high 4.5% in FY:16 -- above the FY:15 outcome of 1.6%, yet still below the pre-crisis high of 9.7% in FY:06.

F.Y.R.O.M.

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







	12 Sep.	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)	450	430	400	350

	12 Sep.	1-W %	YTD %	2-Y %
MBI 100	1,968	-0.4	7.3	15.3

	2013	2014	2015	2016F	2017F
Real GDP Growth (%)	2.7	3.5	3.7	1.8	3.6
Inflation (eop. %)	1.4	-0.5	-0.3	0.6	1.3
Cur. Acct. Bal. (% GDP)	-1.6	-0.8	-1.4	-2.0	-2.5
Fiscal Bal. (% GDP)	-3.8	-4.2	-3.5	-4.2	-3.5

The profitability of the banking sector deteriorated slightly in Q2:16, due to higher provisioning. Net profit (after tax) declined by 7.3% y-o-y to a still strong EUR 22.0mn or 0.2% of GDP in Q2:16 -- broadly equal to the Q1:16 gain of EUR 24.7mn (0.3% of GDP) and above the quarterly average profit of EUR 18.9mn (0.2% of GDP) in FY:15. As a result, cumulative and (annualized) ROAE and ROAA improved to 12.2% and 1.4%, respectively, in H1:16 -- well above the corresponding levels of 9.4% and 1.0% in H1:15 and 10.4% and 1.1% in FY:15.

NPL provisions rose sharply in Q2:16, despite a sharp drop in the NPL ratio. The NPL ratio (comprising loan balances 90 dpd) declined by 394 bps y-o-y to a 7-year low of 7.5% in Q2:16 -- the lowest in SEE-5. The sharp decline in the NPL ratio was supported by a Central Bank regulation, issued last December, obliging banks to write off their fully-provisioned loans held in "loss" category for more than two years within H1:16. Note that the decline in the NPL ratio in Q2:16 was largely driven by the corporate segment. Indeed, non-performing corporate loans declined by 26.6% y-o-y compared with a broadly flat performance in overall corporate loans (-0.6% y-o-y), resulting in a decrease in the non-performing corporate loan ratio by 420 bps y-o-y to 11.5%. On the other hand, non-performing retail loans declined by 46.4% y-o-y compared with a rise of 8.8% in overall retail loans, bringing the non-performing retail loan ratio to 2.8% in Q2:16 from 5.6% a year earlier.

As a result of the write-offs, banks increased sharply provisions for NPLs in Q2:16 (up by a 6-quarter high of 63.8% y-o-y against 28.2% in Q1:16 and 32.7% in FY:15). The increase in provisions may also be precautionary, in view of the negative impact of the protracted domestic political crisis on the operating environment (we foresee FY:16 real GDP growth declining to 1.8% from 3.7% in FY:15). As a result, the annualized cost of risk increased by 64 bps y-o-y to a 3-year high of 170 bps in Q2:16.

Despite higher operating expenses, pre-provision earnings strengthened in Q2:16, on the back of higher net non-interest income (NNII). Pre-provision earnings increased by 12.2% y-o-y in Q2:16 (contributing 18.9 pps to net profit growth), largely due to strong NNII (up 24.7% y-o-y in Q2:16). The latter was supported, *inter alia*, by large payments of penalties on early withdrawals of deposits, especially in April, when the domestic crisis culminated. Net interest income (NII) also continued to rise in Q2:16 (up 7.8% y-o-y), due to higher interest earning assets (up 3.5% y-o-y in Q2:16) and an improved net interest margin (up 10 bps y-o-y to 376 bps in Q2:16). The increase in the NIM was supported by a significant increase in CB bill rates (up 75 bps y-o-y to 4% in Q2:16) and government domestic debt yields (the 6-month T-bill rate rose by 105 bps to 2.3% in Q2:16), following the monetary policy tightening initiated in early-May.

On a negative note, gross operating expenses increased significantly in Q2:16 (up 13.3% y-o-y). As operating expenses increased at a faster pace than gross operating income, the banking sector's efficiency deteriorated slightly, with the cost-to-income ratio increasing by 26 bps y-o-y to 55.4% in Q2:16.

Profitability is set to weaken during H2:16, due to negative spillovers from the protracted domestic political crisis. Profitability is set to deteriorate on an annual pace in H2:16, with the ROAE easing to an estimated 7.5% in H2:16 from 12.2% in H1:16. This should be primarily driven by higher NPL provisions, in view of persisting domestic political uncertainty, ahead of the December 11th legislative elections. Overall, we foresee the banking system's ROAE remaining broadly unchanged this year from the FY:15 outcome of 10.4%.

Albania

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

External Financing (EUR mn)	2014	2015	2016F
Current Account Deficit	1,287	1,154	1,312
FDI	812	871	840
Other (net) inflows	353	547	198
Financing Gap	123	-264	274
IFI Financing	220	346	262
IMF	54	96	144
WB, EU, EBRD	166	250	118
Change in FX Reserves	97	610	-12

Key Dates in Albania's Path towards EU Membership	
Jun. 2014	European Council grants Albania the status of candidate country for EU membership
Oct. 2013	European Commission (EC) identifies 5 key priorities for opening accession negotiations
Oct. 2013	EC recommends Tirana EU candidate status on the understanding that Albania continues to take action in the fight against organised crime and corruption
Oct. 2012	EC recommends Tirana EU candidate status subject to completion of key measures in certain areas
Oct. 2011	EC again denies Tirana EU candidate status
Dec. 2010	Entry into force of the Visa liberalisation
Nov. 2010	EC denies Tirana EU candidate status
May 2010	EC starts "Opinion process" on Albania's EU membership application
Apr. 2010	Albania files the questionnaire on its readiness to join the EU
Dec. 2009	EC hands Albania questionnaire in order to assess country's readiness for EU membership
Nov. 2009	EU Foreign Ministers agree to proceed with Albania's membership application
Apr. 2009	Albania submits its application for EU membership
Apr. 2009	Entry into force of the SAA
June 2006	Signing of the SAA
Jan. 2003	EC launches the negotiations for a SAA between the EU and Albania
2001	EC recommends the start of negotiations on Stabilisation and Association Agreement (SAA) with Albania

	12 Sep.	3-M F	6-M F	12-M F
1-m TRIBOR (mid, %)	1.6	2.2	2.2	2.2
ALL/EUR	137.4	138.5	138.7	139.0
Sov. Spread (bps)	400	430	400	350

	12 Sep.	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	1.5	2.0
Cur. Acct. Bal. (% GDP)	-10.9	-12.9	-11.2	-12.2	-12.4
Fiscal Bal. (% GDP)	-5.0	-5.2	-3.6	-2.0	-2.0

The IMF Board approves the 8th review of Albania's Extended-Fund Facility (EFF). The IMF Board confirmed Albania's economic programme is on track, with all end-April quantitative targets met with comfortable margins. Strong progress under the EFF is reflected in:

i) strengthening economic recovery. Real GDP is set to reach a 6-year high of 3.4% this year, up from 2.8% in FY:15, supported by energy-related projects (especially the ongoing Trans-Adriatic Pipeline and the Statkraft/Devoll hydropower plants construction) and the gradual recovery in domestic demand.

ii) large (non-debt generating) FDI inflows, especially in the energy sector. However, import-intensive FDIs should prompt a continued widening in the current account deficit.

iii) well-anchored inflation. Though gradually picking up from low levels (reaching 2.0% y-o-y in August, up from a record low of 0.2% in February), inflation was revised down to 1.8% y-o-y from its initial forecast of 2.2% -- well below the BoA's target of 3.0%. Meanwhile, core inflation remains weak (at 0.5% y-o-y in August), due to the persistent negative output gap and low imported inflation.

iv) sustained fiscal consolidation. Continued fiscal adjustment is needed in order to lower the public debt. The adjustment should focus on the revenue side, in view of the limited scope for expenditure cuts. It should be achieved through: i) the broadening of the tax base, the improvement in tax compliance and the strengthening of tax administration; and ii) implementation of structural reforms, specifically enabling a valuation-based property tax and strengthening public financial management.

v) appropriate monetary policy stance. The IMF Board supports the BoA's monetary policy easing through conventional policy tools, in view of the nascent recovery in demand and below-target inflation.

vi) satisfactory progress on implementing structural reforms, including the submission to Parliament of the new Bankruptcy and Private Bailiffs legislation in June (important to tackle NPLs).

The approval of the 8th review by the Executive Board enabled the disbursement of a tranche of EUR 35.9mn (0.3% of GDP), bringing total disbursements to EUR 298.3mn since the approval of the 36-month EUR 370.0mn EFF at end-February 2014. Continued good relations with the Fund pave the way for additional financing from other IFIs, needed to fill the sizeable external financing gap (see table).

The parliamentary approval of the vetting bill -- key to the implementation of the country's judiciary reform -- increases the country's chances to open EU accession talks. Parliament passed the vetting bill, at an extraordinary session at end-August. The new law is important for the enactment of the justice reform. The law, drafted with the assistance of the EU and US, allows the assessment of property holdings of judges and prosecutors and their professional efficiency, in an attempt to remove corrupt judges. It is set to eradicate bribery and corruption, reinforce independence, efficiency and accountability of judges as well as enhance decision enforcement.

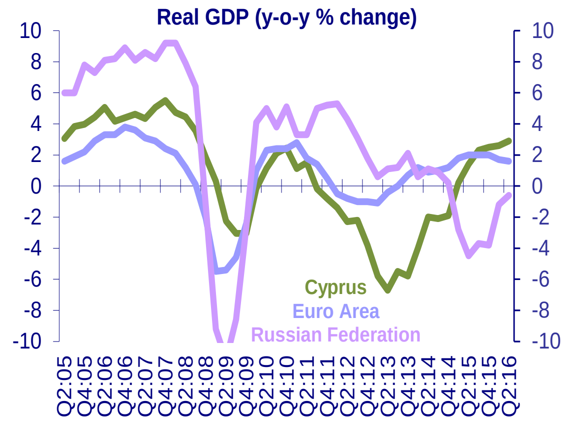
The vetting law -- one of the seven laws required for the enactment of the judiciary reform -- necessitated a qualified majority of three-fifth of votes in the 140-seat assembly. It was passed by 88 votes of the ruling coalition, while the opposition boycotted the vote.

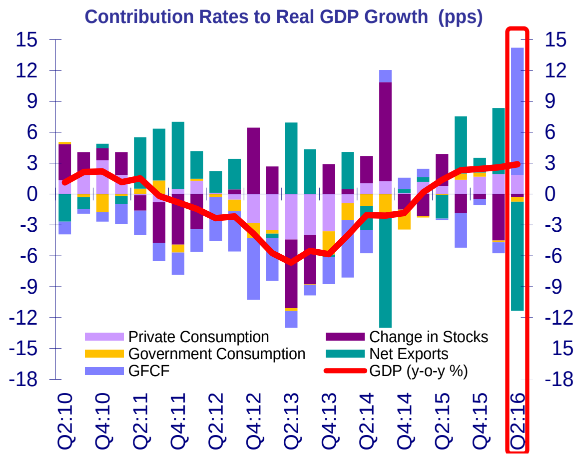
Recall that the (long-awaited) judiciary reform legislation -- seen as Albania's most significant challenge -- was unanimously passed by Parliament on July 22nd, under the pressure of the EU and the US.

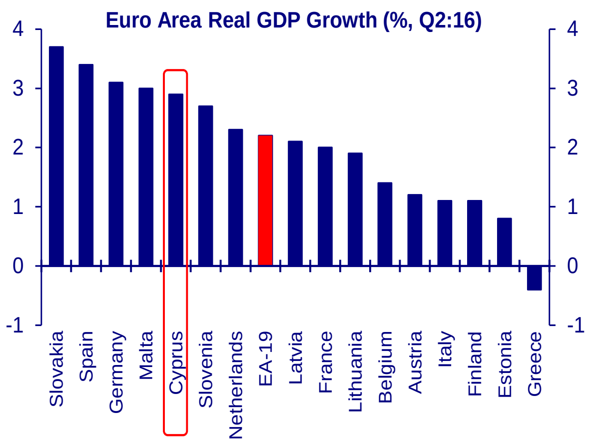
Concrete progress on the enactment of the reform would help Albania (a candidate country since June 2014) secure a positive recommendation from the EC, in October, for the launch of EU membership talks.

Cyprus

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







	12 Sep.	3-M F	6-M F	12-M F
1-m EURIBOR (%)	-0.37	-0.37	-0.37	-0.37
EUR/USD	1.12	1.10	1.08	1.05
Sov. Spread (2020. bps)	324	295	280	250

	12 Sep.	1-W %	YTD %	2-Y %
CSE Index	68	0.1	1.1	-40.6

	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

Real GDP growth reached a 7½-year high of 2.9% y-o-y in Q2:16. Real GDP growth posted positive growth for a 6th successive quarter, on a sequential seasonally-adjusted basis, in Q2:16 (0.7% q-o-q -- in line with the average q-o-q growth recorded over the preceding five quarters). As a result, the annual pace of economic expansion rose to a 7½-year high of 2.9% y-o-y in Q2:16 from 2.6% in Q1:16, bringing real GDP growth to 2.7% y-o-y in H1:16.

The strong growth performance in Q2:16 was driven by domestic demand. Fixed investment rose sharply in Q2:16, expanding by 6.4% y-o-y (contributing 0.8 pps to overall growth) following four successive quarters of contraction. The increase was almost exclusively driven by the construction sector (up 11.6% y-o-y in Q2:16 following an increase of 12.6% y-o-y in Q1:16, contributing 0.8 pps to overall growth).

Private consumption remained robust (up 2.8% y-o-y in Q2:16 and contributing 1.8 pps to overall growth), supported*, inter alia,* by: i) improving labour market conditions (the s.a. unemployment rate declined by 3.4 pps y-o-y to 12.0% in Q2:16); and ii) favourable energy prices (the price of Brent declined by 27.5% y-o-y in EUR terms in Q2:16).

Domestic demand would have been even stronger in Q2:16 had public consumption not declined at a faster rate (down 3.1% y-o-y and shaving 0.5 pps off overall GDP growth) and had a large drawdown in inventories not taken place (subtracting 0.3 pps from overall growth).

Unsurprisingly, net exports' contribution to overall growth moderated in Q2:16 (to 1.0 pp from 6.4 pps in Q1:16), as imports recovered (up 2.4% y-o-y following a decline of 2.9% in Q1:16), in line with the rebound in domestic demand, and export growth eased (up 4% y-o-y against a rise of 10.9% in Q1:16), despite a buoyant tourist activity (tourist receipts rose by an impressive 12.7% y-o-y in nominal terms and 15.3% y-o-y in real terms in Q2:16).

Economic activity is set to accelerate to 2.4% this year -- significantly above the FY:15 outcome of 1.6%. For H2:16, we expect the recovery to ease slightly compared with H1:16, due to strong base effects (economic expansion accelerated to 2.4% y-o-y in H2:15 from 0.8% in H1:15).

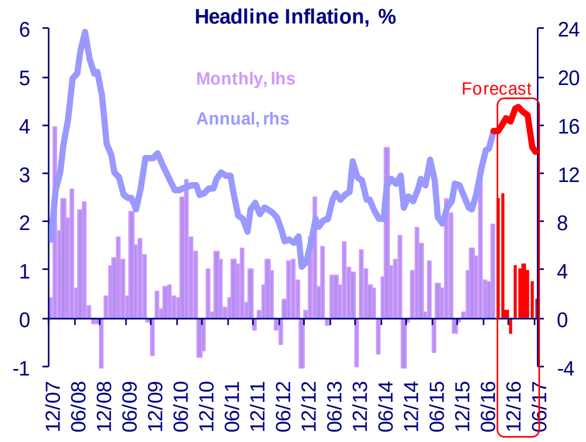
Domestic demand should continue to improve. Indeed, despite the negative impact of higher debt servicing due to the higher pace of NPL restructuring, domestic demand should remain strong, supported by: i) improving labour market conditions (the s.a. unemployment rate declined to a 4-year low of 11.6% in July); ii) strengthening consumer and business confidence, following the country's exit from its 3-year adjustment programme at end-Q1:16 (the Economic Sentiment Indicator (ESI) has increased to a new pre-Lehman high of 116.2 in August from 111.5 in Q2:16 and 104.0 in FY:15); and iii) the ongoing rebound in the construction sector (up 14.3% y-o-y in Q2:16 compared with increases of 14.1% y-o-y in Q1:16 and 5.9% in H2:15, following almost 7 consecutive years of decline).

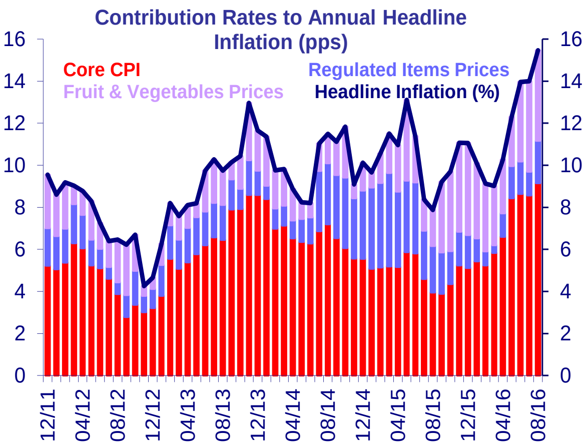
Moreover, external demand should remain solid, supported by buoyant tourist activity, benefiting from heightening security concerns in neighbouring competitors -- Turkey and Egypt. We foresee tourist receipts rising by around 10%, to an all-time high of EUR 2.3bn (13.1% of GDP) in FY:16, from EUR 2.1mn in FY:15.

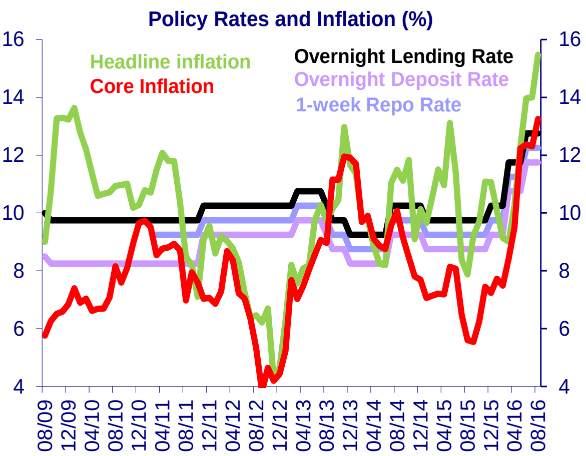
Overall, we see real GDP growth reaching an 8-year high of 2.4% in FY:16 -- up from 1.6% in FY:15. Note that our growth forecast includes the impact of the June 23rd Brexit vote on the island's economic activity (set to shave 0.1 pp this year and 0.5 pps next year off overall GDP growth).

Egypt

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







	12 Sep.	3-M F	6-M F	12-M F
O/N Interbank Rate (%)	11.9	13.8	13.8	12.0
EGP/USD	8.88	10.5	10.5	11.5
Sov. Spread (2020. bps)	420	400	300	220

	12 Sep.	1-W %	YTD %	2-Y %
HERMES 100	732	-1.0	16.2	-19.8

	12/13	13/14	14/15	15/16E	16/17F
Real GDP Growth (%)	2.1	2.1	4.2	3.0	4.5
Inflation (eop. %)	9.8	8.2	11.4	14.0	13.8
Cur. Acct. Bal. (% GDP)	-2.2	-0.9	-3.7	-6.0	-4.0
Fiscal Bal. (% GDP)	-13.0	-12.2	-11.5	-11.8	-10.5

Headline inflation rose sharply by 1.5 pps to a 7-year high of 15.5% y-o-y between July and August, due to higher core inflation and a significant adjustment in regulated electricity prices. Core inflation rose to a 7-year high of 13.3% y-o-y in August from 12.3% in July, reflecting a continued pass-through from the mid-March devaluation of the domestic currency and, to a larger extent, exacerbating supply shortages. Recall that amid a severe USD shortage, the Central Bank of Egypt (CBE) imposed stricter rules on financing imports in early-January (prioritising the import of basic goods), aimed at reducing the country's import bill by 25% to USD 60bn in 2016. Moreover, in its efforts to reduce a fast-growing black market amid deepening foreign currency shortages, the CBE devalued the EGP against the USD by 12.7% to EGP 8.85 per USD in mid-March.

Moreover, regulated prices rose at a faster pace in August (up 10.6% y-o-y against 5.9% in July), following a sharp increase in electricity prices. Indeed, under a Government's 5-year programme, aiming to phase out power subsidies by 2019, electricity tariffs for household consumers were raised by 20-40% in early-August.

Headline inflation would have been even higher in August had volatile prices of fruit & vegetables not eased (up 36.2% y-o-y against a 7-month high of 38.4% in July).

Headline inflation set to peak at 17.5% in February 2017. Looking ahead, we expect headline inflation to continue on its upward trend until February, mainly due to: i) the entry into force of the new value added tax at a rate of 13% on September 9th (replacing complex sales taxes and set to add 1.2 pps to headline inflation); and ii) a further sharp devaluation of the domestic currency, likely in October (by c. 12.5% to EGP 10.5 per USD and set to add 1.8 pps to headline inflation). Note that these moves are envisaged in the Government's 3-year economic programme, which started on July 1st and has led, in mid-August, to a preliminary agreement between the Government and the IMF on a much-needed USD 12bn (SDR 8.6bn or 422% of Egypt's quota) 3-year extended fund facility (EFF).

Overall, we foresee headline inflation peaking at 17.5% y-o-y in February 2017 and embarking on a downward trend thereafter, supported by favourable base effects. We expect headline inflation to end the current fiscal year (June 2017) at 13.8% y-o-y -- slightly below the end-2015/16 outcome of 14.0%. Core inflation should end 2016/17 at 14.0% y-o-y -- well above the end-2015/16 outcome of 12.4%.

The CBE to proceed with measured hikes of its policy rates by end-H1:16/17 (December 2016), in an effort to contain the sharp economic slowdown. In a bid to curb inflationary pressures from the replacement of sales taxes by a VAT in September and a further sharp devaluation of the domestic currency in October, as well as to enhance demand for the EGP, the CBE is set to increase its policy rates further by end-H1:16/17. However, the hike could be constrained by the ongoing slowdown of the domestic economy. Indeed, real GDP growth is estimated to have declined significantly to 3.0% in FY:15/16 from 4.2% in FY:14/15.

We expect the CBE to hike its policy rates by 200 bps by December and remain on hold at least until June (end-2016/17), bringing total hikes to 500 bps since the initiation of the cycle of monetary policy tightening last December. As a result, the overnight deposit, 1-week repo, and overnight lending rates should stand at multi-year highs of 13.75%, 14.25%, and 14.75%, respectively, during H2:16/17 (0.9%, 1.3% and 1.9% in *ex post*, real and compounded terms at end-H2:16/17 (June 2017) -- up from -2.6%, -2.1%, and -1.6% in August).

FOREIGN EXCHANGE MARKETS, SEPTEMBER 12TH 2016

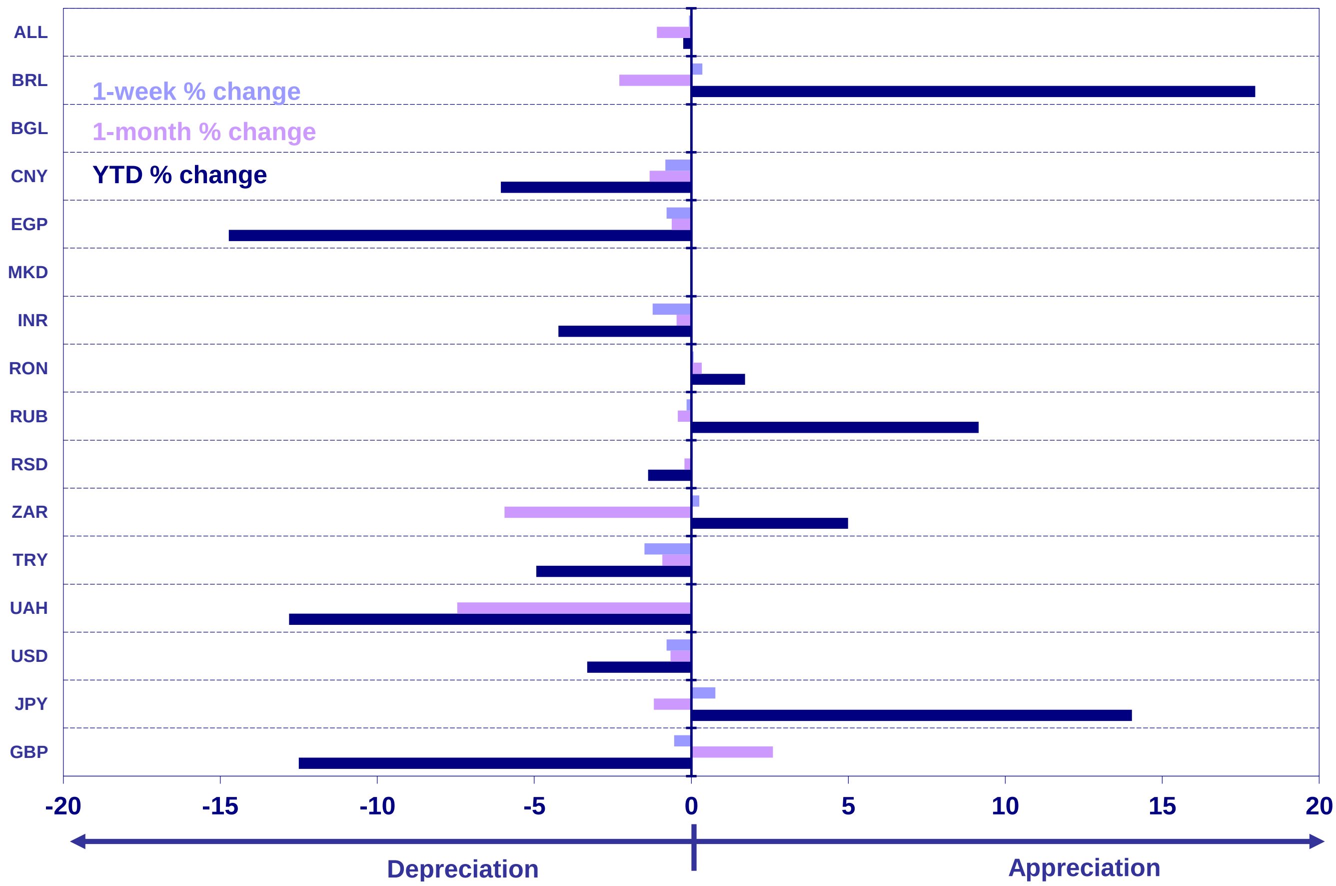
Against the EUR

	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	137.4	-0.1	-1.1	-0.3	1.5	135.9	139.5	137.8	137.5	136.4	2.0	0.1
Brazil	BRL	3.65	0.4	-2.3	18.0	18.4	3.48	4.55	4.17	4.15	4.12	-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	7.49	-0.8	-1.3	-6.1	-3.8	6.99	7.56	7.73	7.73	7.73	6.7	10.8
Egypt	EGP	9.95	-0.8	-0.6	-14.7	-11.4	8.26	10.23	- - -	- - -	- - -	2.1	10.6
FYROM	MKD	61.3	0.0	0.0	0.0	0.0	61.3	61.3	61.3	61.3	61.3	0.0	0.0
India	INR	75.0	-1.2	-0.5	-4.2	0.0	71.3	77.8	80.4	- - -	- - -	6.6	12.3
Romania	RON	4.44	0.1	0.3	1.7	-0.7	4.44	4.56	4.45	4.46	4.49	-0.8	-0.5
Russia	RUB	72.6	-0.2	-0.4	9.2	5.1	69.4	75.1	74.3	75.7	79.7	-15.1	-32.8
Serbia	RSD	123.2	0.0	-0.2	-1.4	-2.3	121.6	124.3	123.7	124.1	- - -	-0.1	-5.6
S. Africa	ZAR	16.0	0.3	-6.0	5.0	-4.5	14.77	18.58	16.3	16.7	17.4	-16.6	3.0
Turkey	YTL	3.33	-1.5	-0.9	-4.9	3.8	3.12	3.41	3.41	3.49	3.65	-10.8	4.4
Ukraine	UAH	29.9	0.0	-7.5	-12.8	-17.2	25.06	30.32	35.7	- - -	- - -	-27.5	-40.8
US	USD	1.12	-0.8	-0.7	-3.3	0.8	1.1	1.2	1.13	1.13	1.14	11.4	13.6
JAPAN	JPY	114.4	0.8	-1.2	14.0	18.9	109.6	132.3	114.4	114.3	114.2	11.0	-0.1
UK	GBP	0.84	-0.5	2.6	-12.5	-12.9	0.7	0.9	0.84	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 (September 12th 2016)



MONEY MARKETS, SEPTEMBER 12TH 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	2.1	- - -	11.9	- - -	- - -	0.4	10.5	- - -	8.7	7.8	16.0	- - -	0.4
T/N	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	0.4	10.5	3.0	- - -	7.7	- - -	- - -	- - -
S/W	1.1	14.1	0.0	2.4	-0.4	- - -	1.3	- - -	- - -	10.1	3.0	- - -	7.9	16.5	-0.4	0.4
1-Month	1.6	14.1	0.0	2.7	-0.4	- - -	1.7	6.9	0.5	10.9	3.3	8.9	8.3	17.9	-0.4	0.5
2-Month	- - -	14.1	0.1	- - -	-0.3	- - -	- - -	- - -	- - -	10.9	3.5	9.2	8.3	- - -	-0.3	0.7
3-Month	1.7	14.1	0.2	2.8	-0.3	- - -	2.1	6.9	0.7	11.0	3.6	9.3	8.3	19.0	-0.3	0.9
6-Month	1.8	13.7	0.4	2.9	-0.2	- - -	2.4	- - -	1.0	11.1	3.9	9.7	8.6	- - -	-0.2	1.3
1-Year	1.9	12.9	0.8	3.0	-0.1	- - -	3.0	- - -	1.1	11.1	- - -	9.8	9.1	- - -	-0.1	1.6

LOCAL DEBT MARKETS. SEPTEMBER 12TH 2016

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine	EU	US
3-Month	0.9	- - -	- - -	- - -	- - -	14.2	1.6	6.5	- - -	10.1	3.3	8.2	- - -	- - -	-0.7	0.4
6-Month	0.9	- - -	- - -	- - -	- - -	15.8	2.3	6.7	0.4	10.0	3.3	8.2	- - -	- - -	-0.7	0.5
12-Month	1.6	- - -	0.1	2.2	- - -	16.3	2.6	6.8	0.7	9.2	3.8	8.5	- - -	15.6	-0.6	0.6
2-Year	1.7	- - -	- - -	2.4	- - -	- - -	2.0	6.8	0.6	8.7	- - -	8.8	7.8	- - -	-0.6	0.8
3-Year	- - -	- - -	0.3	2.4	2.3	- - -	2.7	6.8	1.6	8.6	- - -	8.5	8.0	- - -	-0.6	0.9
5-Year	- - -	12.0	- - -	2.6	- - -	17.4	2.7	6.9	2.2	8.3	7.0	9.3	8.1	- - -	-0.5	1.2
7-Year	- - -	- - -	1.3	- - -	3.5	17.5	- - -	7.1	2.6	8.2	- - -	- - -	- - -	- - -	-0.4	1.5
10-Year	- - -	12.3	2.0	2.8	3.9	17.6	3.8	7.1	3.1	8.1	- - -	9.5	8.7	- - -	0.0	1.7
15-Year	- - -	- - -	- - -	- - -	- - -	- - -	4.3	7.3	- - -	8.3	- - -	- - -	9.1	- - -	0.2	- - -
25-Year	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	9.3	- - -	- - -	- - -
30-Year	- - -	- - -	- - -	- - -	- - -	- - -	- - -	7.2	- - -	- - -	- - -	- - -	9.3	- - -	0.6	2.4

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

CORPORATE BONDS SUMMARY. SEPTEMBER 12TH 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	331	291
	Bulgarian Telecom. 6.625% '18	EUR	B-/B1	15/11/2018	400	5.7	619	586
Cyprus	**Aroundtown Property 3% '21**	EUR	NA/NA	9/12/2021	200	2.1	267	222
Russia	**Gazprom 8.2% '19**	RUB	BB+/NA	9/4/2019	10,000	9.9	117	- - -
	Gazprom 8.9% '21	RUB	BB+/NA	26/1/2021	10,000	9.9	118	- - -
South Africa	**FirstRand Bank Ltd 4.25% '20**	USD	BBB-/Baa2	30/4/2020	500	3.6	240	246
	FirstRand Bank Ltd 2.25% '20	EUR	NA/NA	30/1/2020	100	0.5	115	73
Turkey	**Vakiflar Bankasi 3.5% '19**	EUR	NA/Baa3	17/6/2019	500	3.3	397	351
	Garanti Bankasi 3.38%'19	EUR	NA/Baa3	8/7/2019	500	3.0	361	316
	Arcelik AS 3.875% '21	EUR	BB+/NA	16/9/2021	350	3.5	415	358
	Turkiye Is Bankasi 6% '22	USD	NA/Ba3	24/10/2022	1,000	6.1	487	470

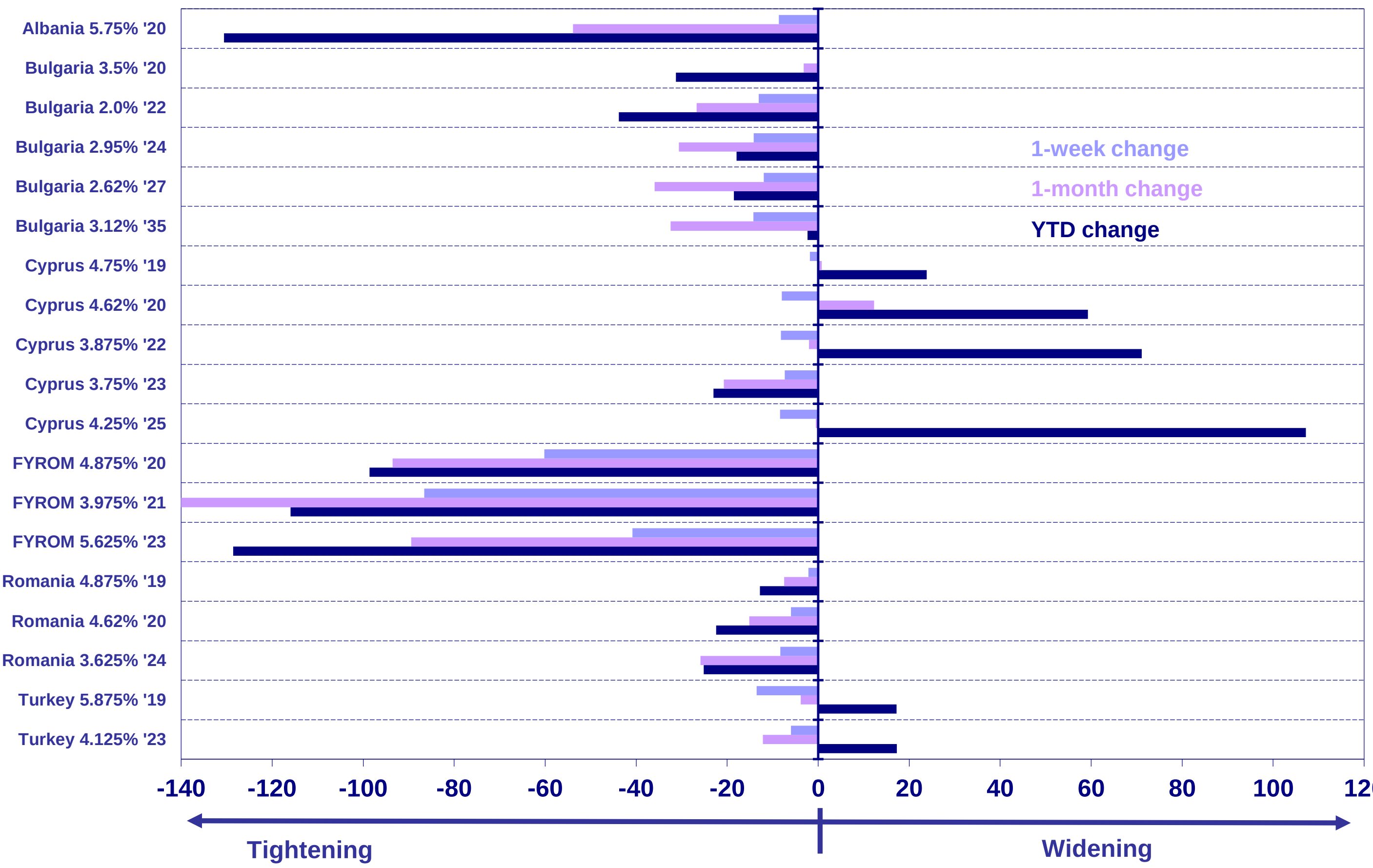
CREDIT DEFAULT SWAP SPREADS. SEPTEMBER 12TH 2016

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine
5-Year	- - -	249	139	100	267	478	- - -	134	110	203	202	242	242	- - -
10-Year	- - -	326	185	148	309	489	- - -	144	151	262	258	300	304	- - -

EUR-DENOMINATED SOVEREIGN EUROBOND SUMMARY. SEPTEMBER 12TH 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	3.4	400	371
Bulgaria 3.5% '20	EUR	NA/NA	16/1/2020	145	0.5	110	69
Bulgaria 2.0% '22	EUR	BB+/Baa2	26/3/2022	1,250	0.8	124	89
Bulgaria 2.95% '24	EUR	BB+/Baa2	3/9/2024	1,493	1.5	173	138
Bulgaria 2.62% '27	EUR	BB+/Baa2	26/3/2027	1,000	1.9	207	157
Bulgaria 3.12% '35	EUR	BB+/Baa2	26/3/2035	900	2.9	249	210
Cyprus 4.75% '19	EUR	BB-/NA	25/6/2019	566	2.3	294	259
Cyprus 4.62% '20	EUR	BB-/B1	3/2/2020	770	2.6	324	289
Cyprus 3.875% '22	EUR	NA/B1	6/5/2022	1,000	3.4	386	348
Cyprus 3.75% '23	EUR	NA/NA	26/7/2023	1,000	3.5	389	344
Cyprus 4.25% '25	EUR	NA/B1	4/11/2025	1,000	3.9	400	362
FYROM 4.875% '20	EUR	BB-/NA	1/12/2020	270	3.6	418	379
FYROM 3.975% '21	EUR	BB-/NA	24/7/2021	500	3.3	400	514
FYROM 5.625% '23	EUR	BB-/NA	26/7/2023	450	4.4	476	447
Romania 4.875% '19	EUR	BBB-/Baa3	7/11/2019	1,500	0.2	86	47
Romania 4.62% '20	EUR	BBB-/Baa3	18/9/2020	2,000	0.3	92	53
Romania 3.625% '24	EUR	BBB-/Baa3	24/4/2024	1,250	1.5	178	151
Turkey 5.875% '19	EUR	NR/Baa3	11/4/2023	1,000	1.8	244	213
Turkey 4.125% '23	EUR	B+/B1	12/11/2020	450	2.9	325	295

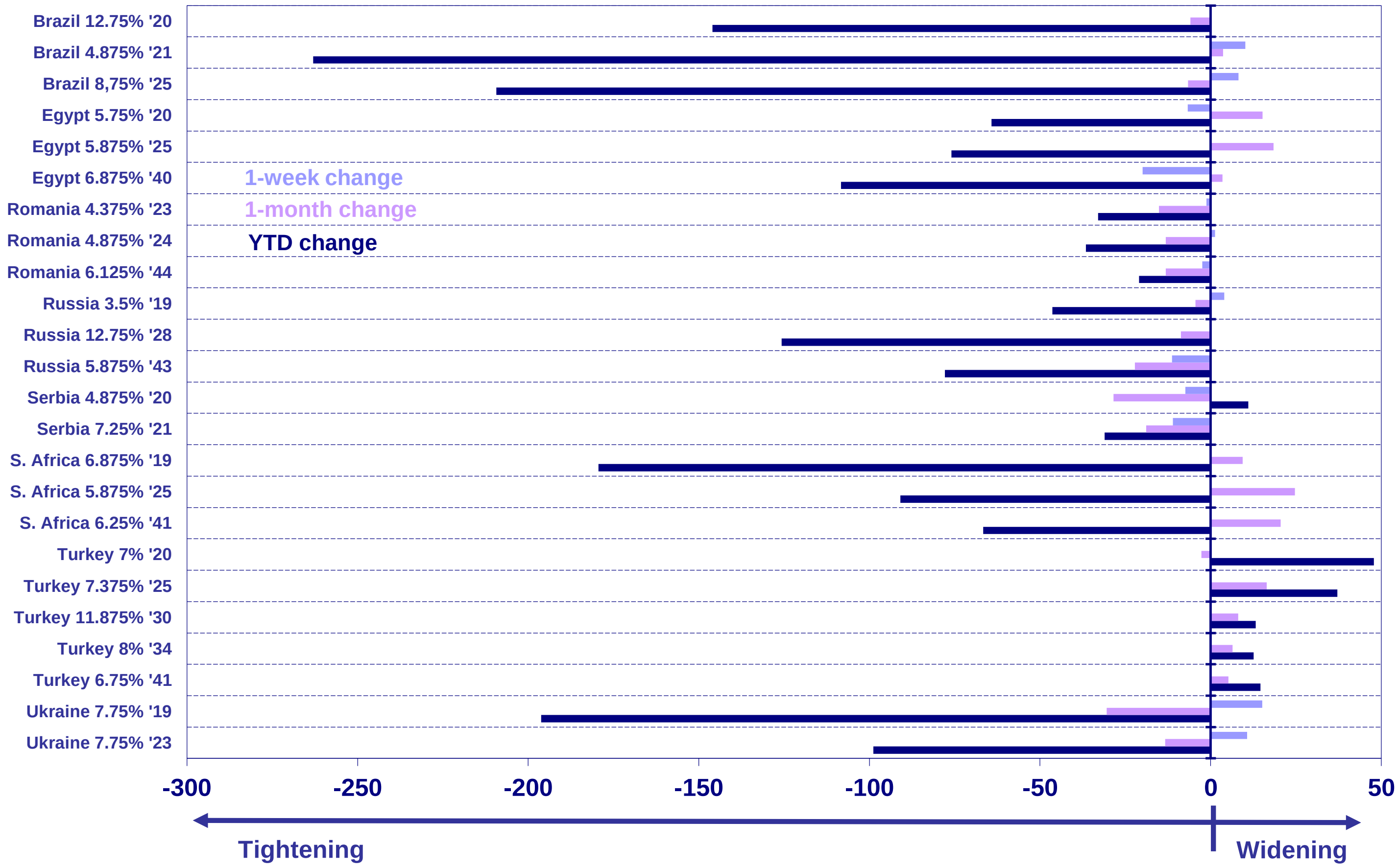
EUR-Denominated Eurobond Spreads (September 12th 2016)



USD-DENOMINATED SOVEREIGN EUROBOND SUMMARY. SEPTEMBER 12TH 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	3.1	220	232
Brazil 4.875% '21	USD	BB/Ba2	22/1/2021	2,988	3.4	216	223
Brazil 8.75% '25	USD	BB/Ba2	4/2/2025	969	4.5	298	353
Egypt 5.75% '20	USD	B-/B3	11/6/2025	1,500	5.1	420	397
Egypt 5.875% '25	USD	B-/B3	30/4/2040	500	6.6	496	494
Egypt 6.875% '40	USD	BBB-/Baa3	22/8/2023	1,500	7.2	478	514
Romania 4.375% '23	USD	BBB-/Baa3	22/1/2024	1,000	2.8	127	149
Romania 4.875% '24	USD	BBB-/Baa3	22/1/2044	1,000	2.8	129	151
Romania 6.125% '44	USD	BB+/Ba1	16/1/2019	1,500	4.1	175	276
Russia 3.5% '19	USD	BB+/Ba1	24/6/2028	2,500	2.6	182	154
Russia 12.75% '28	USD	BB+/Ba1	16/9/2043	1,500	4.2	251	379
Russia 5.875% '43	USD	BB-/B1	25/2/2020	1,500	4.7	225	311
Serbia 4.875% '20	USD	BB-/B1	28/9/2021	2,000	3.5	260	243
Serbia 7.25% '21	USD	BBB-/Baa2	27/5/2019	2,000	3.7	249	268
S. Africa 6.875% '19	USD	BBB-/Baa2	16/9/2025	2,000	2.4	149	141
S. Africa 5.875% '25	USD	BBB-/Baa2	8/3/2041	750	4.0	238	276
S. Africa 6.25% '41	USD	NR/Baa3	5/6/2020	2,000	4.8	240	334
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	314	351
Turkey 11.875% '30	USD	NR/Baa3	14/2/2034	1,500	4.9	319	451
Turkey 8% '34	USD	NR/Baa3	14/1/2041	3,000	5.3	360	416
Turkey 6.75% '41	USD	B-/Caa3	1/9/2019	1,744	5.4	297	369
Ukraine 7.75% '19	USD	B-/Caa3	1/9/2023	1,355	7.9	693	662
Ukraine 7.75% '23	USD	BB/Ba2	15/1/2020	234	8.2	671	666

USD-Denominated Eurobond Spreads (September 12th 2016)



STOCK MARKETS PERFORMANCE. SEPTEMBER 12TH 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)	58,586	-1.6	0.5	35.1	23.9	37,046	60,311	60.4	-13.3	-35.3	-2.9	-2.0
Bulgaria (SOFIX)	471	-0.2	2.6	2.2	4.1	432	475	2.2	-11.7	-11.7	6.2	6.2
China (SHCOMP)	3,022	-1.6	-0.9	-15.4	-3.0	2,638	3,539	-20.0	9.4	16.5	52.9	69.5
Cyprus (CSE GI)	68	0.1	1.4	1.1	-11.4	64	70	1.1	-20.9	-20.9	-17.0	-17.0
Egypt (HERMES)	732	-1.0	-1.8	16.2	13.7	521	750	12.7	-24.4	-25.7	23.5	36.6
F.Y.R.O.M (MBI)	1,968	-0.4	4.2	7.3	17.8	1,699	1,990	7.3	-0.6	-0.6	6.1	6.1
India (SENSEX)	28,354	-0.6	0.7	9.2	9.7	22,495	29,077	5.9	-5.0	0.7	29.9	44.7
Romania (BET-BK)	1,301	-1.1	2.4	-3.0	-3.2	1,150	1,329	-1.2	2.6	1.6	3.7	3.5
Russia (RTS)	4,583	0.2	3.8	15.7	18.5	3,509	4,688	27.7	30.3	9.5	-6.9	-37.4
Serbia (BELEX-15)	634	0.8	-0.1	0.5	0.5	570	647	-0.8	-3.4	-3.5	19.5	12.8
South Africa (FTSE/JSE)	52,802	-1.5	0.0	3.9	7.0	45,976	54,704	10.5	1.9	-15.1	7.6	10.9
Turkey (ISE 100)	77,054	-0.9	-1.5	5.3	8.1	68,230	86,931	0.7	-16.3	-25.4	26.4	32.0
Ukraine (PFTS)	228	0.5	2.6	-5.2	-32.3	215	256	-17.1	-37.8	-54.8	28.7	-24.2
MSCI EMF	889	-2.2	-2.3	12.4	10.1	687	930	9.3	-17.0	-7.5	-4.6	8.2
MSCI EAFE	1,689	-1.6	-1.3	-2.2	-0.5	1,492	1,735	-4.9	-3.3	7.7	-7.3	5.8
Greece (ASE-General)	557	-3.6	-3.3	-8.8	-17.2	421	659	-8.8	-23.6	-23.6	-28.9	-28.9
Germany (XETRA DAX)	10,432	-2.3	-2.6	-2.9	3.0	8,699	10,802	-2.9	-4.9	-4.9	2.7	2.7
UK (FTSE-100)	6,701	-2.6	-3.1	6.8	10.1	5,500	6,955	-6.5	-4.9	0.1	-2.7	4.1
Japan (NIKKEI-225)	16,673	-2.1	-1.5	-12.4	-7.2	14,864	18,951	0.9	9.1	20.2	7.1	7.0
USA (DJ INDUSTRIALS)	18,325	-0.9	-1.4	4.1	11.9	15,451	18,668	1.3	-2.2	9.3	7.5	22.2
USA (S&P 500)	2,159	-1.0	-1.1	4.6	10.5	1,810	2,194	1.8	-0.7	10.9	11.4	26.6

Equity Indices (September 12th 2016)