Economic Analysis Division

Emerging Markets Research

Bi-Weekly Report

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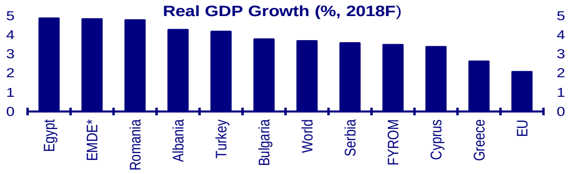
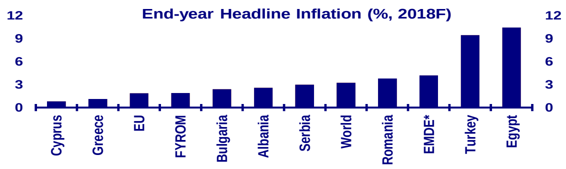


* EMDE: Emerging Market & Developing Economies



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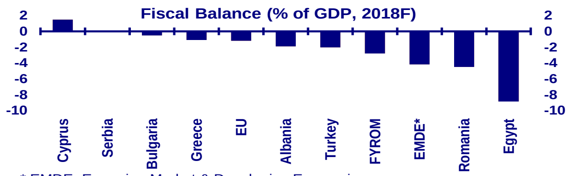

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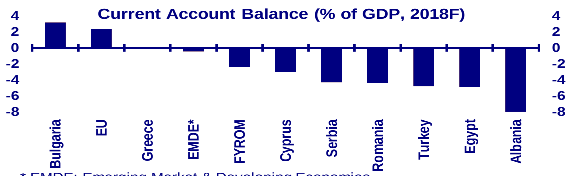


* EMDE: Emerging Market & Developing Economies

- The 2017 Budget outperformed its target, supported by spending restraint and stronger-than-initially-expected GDP growth in H2:17, with a full-year deficit of 1.5% of GDP
- The current account deficit is estimated to have widened by 1.7 pps to a 4-year high of 5.5% of GDP in FY:17, on a sharp rise in gold imports and an unfavourable energy bill

- A new PM, V. Dancila, to take office, ending a crisis within the senior party of the coalition Government
- Headline inflation rose to a 4-year high of 3.3% y-o-y at end-2017 from -0.5% at end-2016

- Headline inflation rose sharply to 2.8% y-o-y at end-2017 from 0.1% at end-2016, on the back of higher energy prices and stronger domestic demand
- Bulgaria to apply to enter the Exchange Rate Mechanism (ERM-2) during H1:18

- Serbia's EU accession pace is set to slow temporarily, due to the assassination of a prominent Kosovo Serb leader
- Following a temporary weather-related slowdown in FY:17, the pace of GDP growth is set to accelerate to a post-global crisis high of 3.6% in FY:18

- Tensions between President Ivanov and the coalition Government escalated, with no risk to political stability
- A new sovereign bond issue at a historically-low interest rate (3%), due to improved investor confidence in the domestic economy and a benign global backdrop
- End-year headline inflation rose to 2.4% y-o-y

- Headline inflation declined to 1.8% y-o-y at end-2017 from 2.2% at end-2016, due to softer food inflation
- The BoA is set to initiate a cycle of monetary policy tightening in H2:18

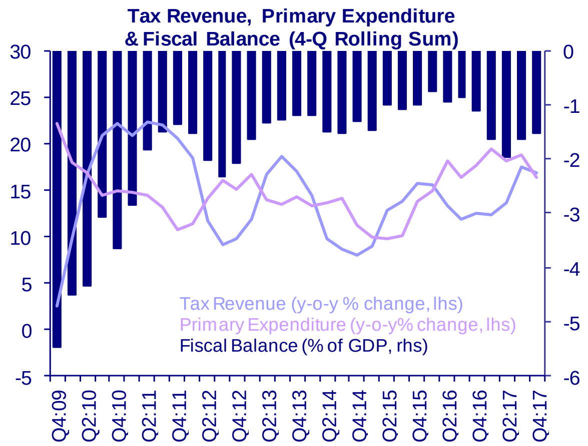
- Upcoming Presidential elections to maintain the Government's reform drive
- Banks' elevated loan loss provisions weighed on 9M:17 bottom line

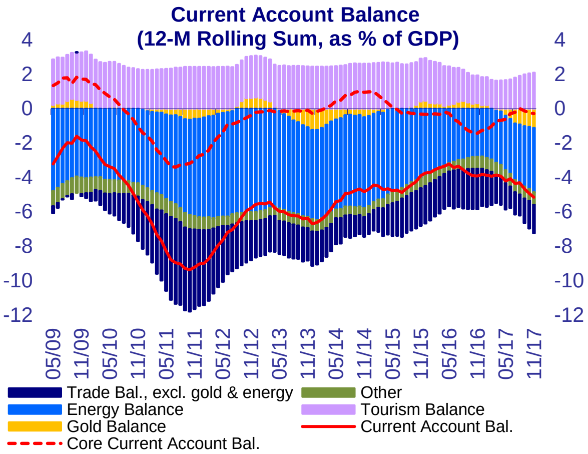
- Outgoing President el-Sissi is widely expected to win the upcoming March-April presidential elections
- Headline inflation declined at a faster pace in November-December (8.9 pps between October and December), on the back of a strong base effect from the flotation of the domestic currency and the rise in regulated fuel prices a year earlier

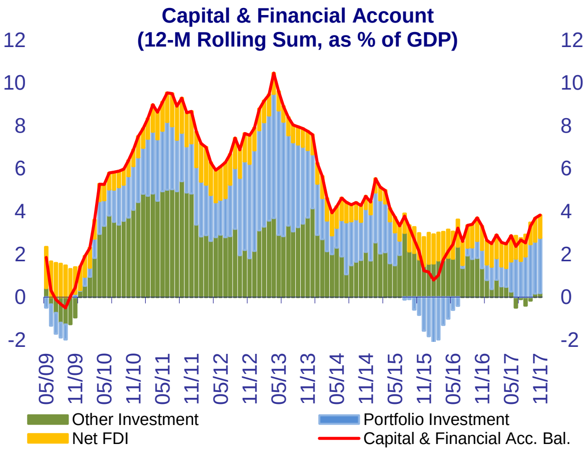
Please see disclosures on page 14

Turkey

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







	22 Jan.	3-M F	6-M F	12-M F
1-m TRIBOR (%)	13.9	13.5	13.0	12.0
TRY/EUR	4.63	4.45	4.40	4.36
Sov. Spread (2020, bps)	165	170	160	150

	22 Jan.	1-W %	YTD %	2-Y %
ISE 100	117,235	4.5	1.6	66.9

	2015	2016	2017E	2018F	2019F
Real GDP Growth (%)	6.1	3.2	6.9	4.2	3.8
Inflation (eop, %)	8.8	8.5	11.9	9.5	8.2
Cur. Acct. Bal. (% GDP)	-3.7	-3.8	-5.5	-4.8	-4.6
Fiscal Bal. (% GDP)	-1.0	-1.1	-1.5	-2.0	-2.2

The 2017 Budget outperformed its target, supported by spending restraint and stronger-than-initially-expected GDP growth in H2:17, with a full-year deficit of 1.5% of GDP. The fiscal balance improved by 0.5 pps of GDP y-o-y in H2:17, partly compensating for a sharp deterioration of 0.9 pps of GDP y-o-y in H1:17, reflecting the Government's efforts to boost economic growth ahead of the mid-April referendum. Recall that activity had decelerated sharply to a post global crisis low of 3.2% in FY:16 from 6.1% in FY:15 following the July 2016 failed coup.

The improvement in H2:17 was driven by a weaker rise in primary expenditure (up 13.1% y-o-y against 20.2% y-o-y in H1:17), as well as a stronger increase in tax revenue (up 19.8% y-o-y against 13.6% y-o-y in H1:17). Specifically, the deceleration in primary spending in H2:17 reflects less generous transfers and contained capital expenditure. On the other hand, the acceleration in tax revenue in H2:17 resulted mainly from stronger-than-initially-expected GDP growth (nominal GDP growth rose sharply to 24.2% y-o-y in Q3:17 and is estimated to have reached c. 18.0% y-o-y in Q4:17) and the expiry of other budget-related stimulus measures (a tax cut on consumer durables and furniture purchases expired at end-Q3:17 and firms' postponed Q1:17 social security premiums took place in Q4:17).

With the H1:17 outturn, the 4-quarter rolling budget deficit narrowed to 1.5% of GDP in Q4:17, after reaching 2.0% in Q2:17 from 1.1% in Q4:16, and outperformed, by a wide margin, its target of 2.0% of GDP.

For this year, the fiscal deficit target of 1.9% of GDP should not be difficult to meet as it is based on under-estimated FY:17 revenue (by 0.2 pps of GDP), over-estimated FY:17 expenditure (by 0.3 pps of GDP), and a new set of revenue-enhancing and expenditure-saving measures (totaling 0.8 pps of GDP).

The current account deficit (CAD) is estimated to have widened by 1.7 pps to a 4-year high of 5.5% of GDP in FY:17, due to a sharp rise in gold imports and an unfavourable energy bill. The CAD rose by 1.3 pps y-o-y to 4.6% of GDP in 11M:17. Specifically, a deterioration in energy and gold balances (by 1.0 pp and 1.3 pps of GDP y-o-y, respectively) more than offset a significant improvement in the underlying (core) current account balance (excluding gold and energy).

Importantly, the underlying current account balance improved by 1.0 pp y-o-y, to a deficit of 0.2% of GDP in 11M:17, mainly on the back of the continued recovery in exports (up 14.2% y-o-y in USD terms), reflecting stronger competitiveness of Turkish goods in global markets and stronger global growth, notably in the country's main trading partner, the EU-28. A strong recovery in the tourism sector, supported by the return of Russian tourists, the easing of domestic security concerns and the depreciated TRY, also contributed to the improvement in the underlying current account.

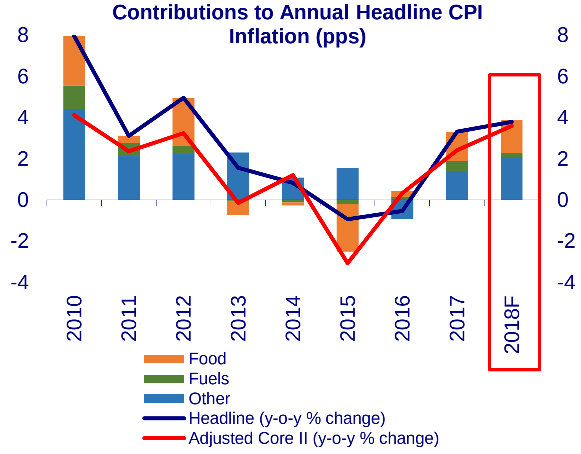
Based on preliminary December trade statistics, we estimate that the CAD widened by 0.4 pps of GDP y-o-y in December and reached a 4-year high of 5.5% of GDP in FY:17.

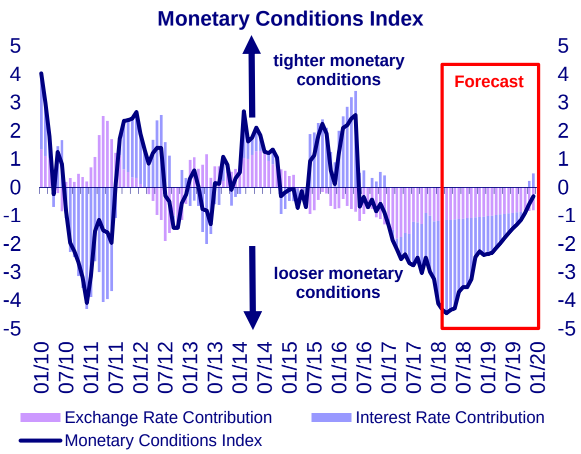
The capital and financial account (CFA) surplus fell short of covering the rising CAD in 2017. In view of the recently-released end-2017 FX reserves (down 0.9 pps of GDP or USD 7.9bn to USD 84.1bn), it appears that the CFA surplus was not sufficient to cover the CAD in 2017. The resulting drawdown in FX reserves is estimated to have brought down the FX coverage of imports of GNFS to a 6-year low of 4.1 months in 2017 from 5.2 in 2016.

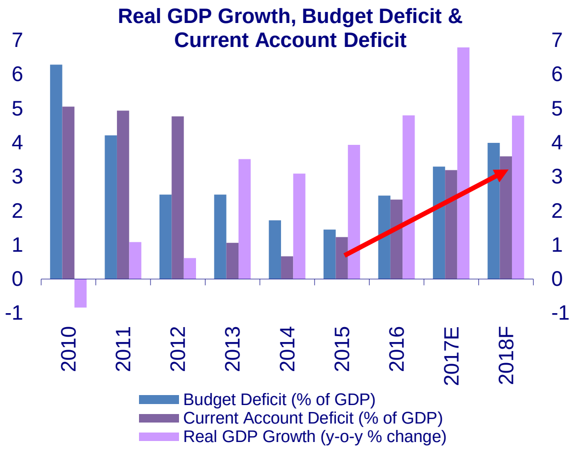
For this year, we expect the CAD to narrow to 4.8% of GDP, supported by a gradual normalization in the gold balance, buoyant external demand, and a slowdown in domestic demand.

Romania

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







	22 Jan.	3-M F	6-M F	12-M F
1-m ROBOR (%)	1.6	2.4	2.6	2.8
RON/EUR	4.66	4.63	4.62	4.60
Sov. Spread (2024, bps)	101	114	112	110

	22 Jan.	1-W %	YTD %	2-Y %
BET-BK	1,796	3.1	8.8	45.8

	2015	2016	2017E	2018F	2019F
Real GDP Growth (%)	3.9	4.8	6.8	4.8	3.8
Inflation (eop, %)	-0.9	-0.5	3.3	3.8	3.4
Cur. Acct. Bal. (% GDP)	-1.2	-2.1	-3.6	-4.4	-4.7
Fiscal Bal. (% GDP)	-1.5	-2.4	-3.3	-4.5	-4.8

A new PM, V. Dancila, to take office, ending a crisis within the senior party of the coalition Government. PM M. Tudose stepped down after the PSD withdrew its support, becoming the second PM to be ousted in 7 months. Tensions had escalated between Tudose and the party's powerful leader, L. Dragnea, after Tudose (unsuccessfully) sought the resignation of the Interior Minister (who is linked to Dragnea).

V. Dancila, Member of the European Parliament and an ally of Dragnea, was nominated as PM. Her appointment is expected to be overwhelmingly endorsed by Parliament, where the PSD-ALDE coalition holds a relatively comfortable majority (243 out of 464 seats). We assume no material change in policies by the new Government.

In our view, Tudose's dismissal consolidates further Dragnea's grip on power. Recall that Dragnea is barred from becoming PM after receiving a suspended sentence for voter manipulation. At the same time, however, it leaves the PSD in a weaker position than before (note that several members of its Executive Committee were against Tudose's dismissal). All said, political uncertainty is unlikely to subside soon, hindering policy implementation and hurting investor confidence.

Headline inflation rose to a 4-year high of 3.3% y-o-y at end-2017 from -0.5% at end-2016. The sharp rise in headline inflation in 2017 was driven by: i) the "fading out" of the base effect from the 4 pp cut in the VAT rate in January 2016; ii) a higher energy bill, mainly due to a series of hikes in administered electricity and gas prices (adding 0.9 pps to headline inflation); and iii) strengthening domestic demand (as suggested by adjusted core II inflation rising to 2.4% y-o-y at end-2017 from 0.3% at end-2016). The latter was fueled by the looser incomes policy (with wage hikes of more than 20% in some public sectors and a 14.8% rise in pensions) and its spillover to the private sector and, to a far lesser extent, the depreciation of the RON (down 3.0% y-o-y against the EUR at end-2017), on the back of fiscal concerns.

Inflation is set to continue on its upward trend until mid-2018. Robust domestic demand, on the back of a further easing in fiscal policy, should continue to fuel inflationary pressures throughout H1:18, with headline inflation reaching a high of c. 4.5% y-o-y in mid-year. Tighter monetary conditions and positive base effects from the aforementioned hikes in administered prices in H2:17 should, however, lead to a deceleration in headline inflation in H2:18, ending the year at 3.8%, above the NBR's target range (2.5±1%). Worryingly, adjusted core II inflation should gradually converge towards headline inflation.

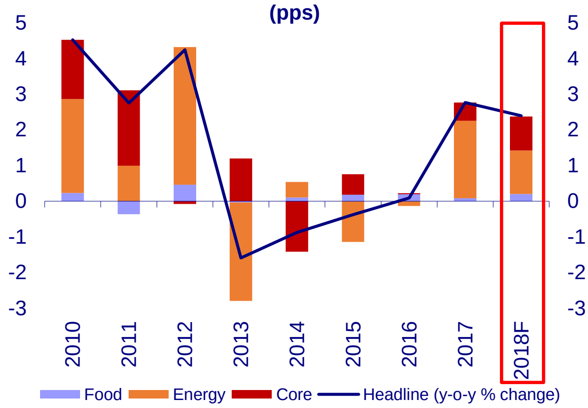
The NBR is set to continue to hike rates to address overheating. The economy appears to be overheating, with GDP growth (projected at 4.8% in FY:18 against an estimated 6.8% in FY:17) well above its long-term potential (of 3.0%), and the current account deficit rising sharply (to a projected 4.4% of GDP in FY:18 from an estimated 3.6% in FY:17 and a low of 0.7% in FY:14). At the same time, fiscal imbalances are widening (the budget deficit is projected to rise to 4.5% of GDP in FY:18 from an estimated 3.3% in FY:17 and 2.4% in FY:16, well above the EU threshold of 3.0%).

Against this backdrop, the NBR appears to be significantly behind the curve (see our MCI). In fact, our "Taylor rule" estimates suggest that the policy rate should be raised to 4.5% to address these challenges from 2.0% currently. However, in view of the NBR's reluctance to proceed with aggressive hikes, mainly stemming from the need to prevent an appreciation of the RON, we believe that the central bank will tighten its stance in a gradual manner (another 125 bps in FY:18 -- following the first 25 bp hike implemented earlier this month -- and 125 bps in FY:19).

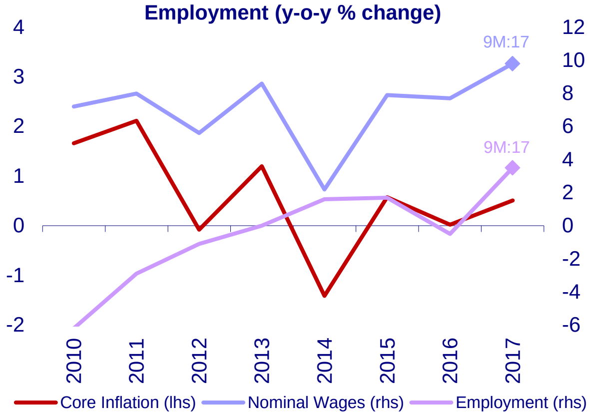
Bulgaria

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

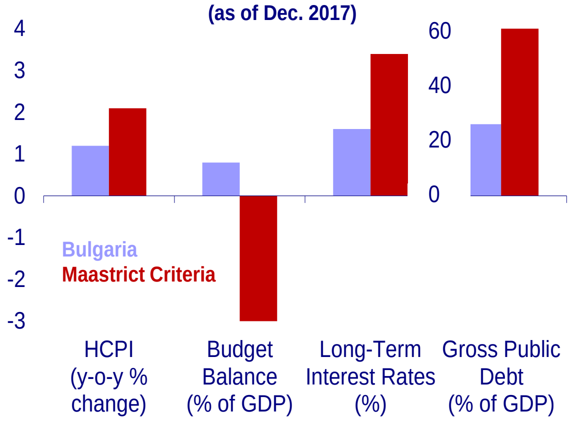
Contribution to Annual Headline CPI Inflation (pps)



Headline CPI Inflation, Nominal Wages & Employment (y-o-y % change)



Maastricht Criteria (as of Dec. 2017)



	22 Jan.	3-M F	6-M F	12-M F
1-m SOFIBOR (%)	-0.1	0.1	0.1	0.2
BGN/EUR	1.96	1.96	1.96	1.96
Sov. Spread (2022, bps)	39	42	41	40

	22 Jan.	1-W %	YTD %	2-Y %
SOFIX	708	-0.9	4.5	59.3

	2015	2016	2017E	2018F	2019F
Real GDP Growth (%)	3.6	3.9	3.8	3.8	3.3
Inflation (eop, %)	-0.4	0.1	2.8	2.4	2.6
Cur. Acct. Bal. (% GDP)	0.0	5.3	4.5	3.2	2.0
Fiscal Bal. (% GDP)	-2.8	1.6	0.8	-0.5	-0.3

Headline inflation rose sharply to 2.8% y-o-y at end-2017 from 0.1% at end-2016, on the back of higher energy prices and stronger domestic demand. Energy inflation rose to 6.2% y-o-y at end-2017 from -0.4% at end-2016, reflecting the lagged pass-through of global oil prices to domestic prices, as well as a series of hike prices in administered electricity, gas and heating (adding 0.6 pps to headline inflation). Excluding volatile food and energy prices, core inflation (accounting for c. 75% of the CPI basket) rose to 0.9% y-o-y at end-2017 from 0% at end-2016, on the back of stronger private consumption (according to the latest available data, employment expanded by a significant 4.1% y-o-y on average in 9M:17, with nominal wage growth standing at 9.8% y-o-y at the same time).

Headline inflation is set to remain subdued throughout 2018. Looking ahead, strong domestic demand, on the back, *inter alia*, of a significant fiscal impulse (1.3 pps of GDP in FY:18), and tighter profit margins (note that the CPI-PPI gap stood at -2.9 pps on average in FY:17 against 2.2 pps in FY:16) should put upward pressure on headline inflation. This pressure should be more than offset, however, by more favourable energy prices (we see the price of Brent in EUR terms broadly flat at current levels until end-year). Note that headline inflation could decline temporarily in Q1:18, due to positive base effects from a weather-related agriculture supply shock in Q1:17. The impact of the January hike in excise duty on tobacco should be minimal (0.1 pp). All said, we see headline inflation declining to 2.4% y-o-y at end-2018 from 2.8% at end- 2017. At the same time, core inflation should gradually converge towards headline inflation.

Upside risks to our forecast include hikes in administered utility prices in H2:18, in view of the large debt accumulated by state-owned enterprises in the sector.

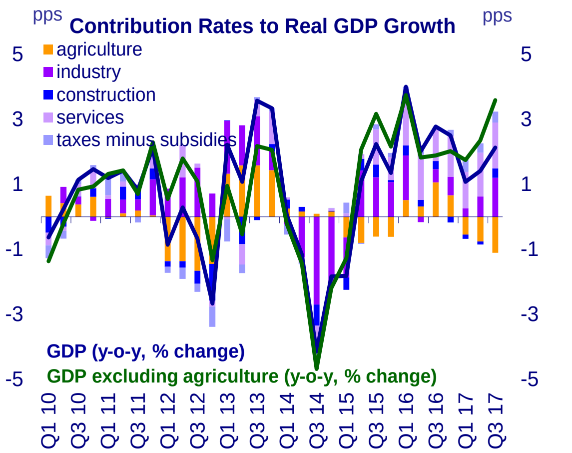
Bulgaria to apply to enter the Exchange Rate Mechanism (ERM-2) during H1:18. ERM-2 is a precursor to adopting the euro. It involves maintaining the domestic currency within a ±15% fluctuation band around an agreed exchange rate against the EUR. Note that formal entry requirements to ERM-2 are not specified; in fact, it is mostly considered to be a political decision. Assuming Bulgaria is granted entry to ERM-2, it must participate successfully for a minimum period of 2 years before becoming eligible for the adoption of the euro. This should not be a problem since Bulgaria operates under a currency board since 1997.

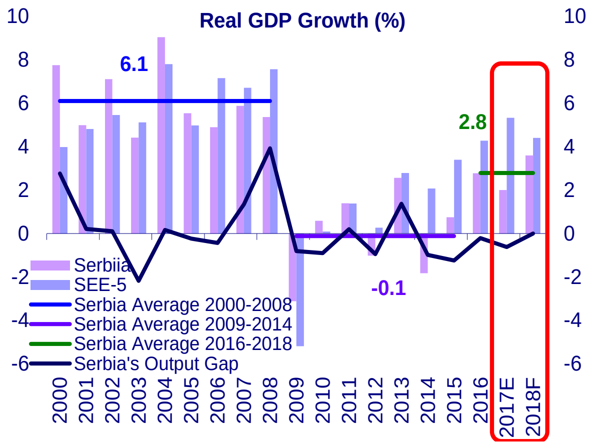
In our view, joining the euro area could prove problematic as some member states have voiced concerns over the wide gap in terms of economic development between Bulgaria and the euro area (Bulgaria's GDP per capita accounts for just 21% of the euro area average). Recall, however, that Baltic countries were broadly in a similar situation when they joined ERM-2. Other stumbling blocks to Bulgaria's entry into the euro area could include the country's poor performance in fighting against corruption and organized crime (note that the EU's Cooperation and Verification Mechanism is still in place, 11 years after its initiation).

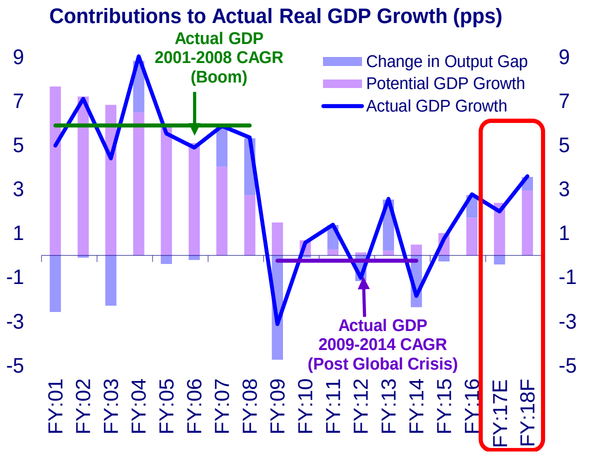
Besides exchange rate stability, other convergence criteria must be fulfilled to adopt the euro, including: price stability, soundness and sustainability of public finances, and durability of convergence. Based on Bulgaria's current solid macroeconomic position (the budget is broadly balanced, the debt-to-GDP ratio is very low, and the inflation rate remains relatively contained -- see chart), we believe that the country would easily meet these criteria.

Serbia

BB / Ba3 / BB (S&P / Moody's / Fitch)







	22 Jan.	3-M F	6-M F	12-M F
1-m BELIBOR (%)	2.8	3.2	3.4	3.8
RSD/EUR	118.7	118.6	118.6	118.5
Sov. Spread (2021, bps)	98	105	112	120

	22 Jan.	1-W %	YTD %	2-Y %
BELEX-15	776	1.1	2.2	34.7

	2015	2016	2017E	2018F	2019F
Real GDP Growth (%)	0.8	2.8	2.0	3.6	3.6
Inflation (eop, %)	1.5	1.6	3.0	3.0	3.0
Cur. Acct. Bal. (% GDP)	-4.7	-3.1	-4.4	-4.3	-4.1
Fiscal Bal. (% GDP)	-3.7	-1.3	0.0	0.0	0.7

Serbia's EU accession pace is set to slow temporarily, due to the assassination of a prominent Kosovo Serb leader. Following the murder in Kosovo of Serb politician, O. Ivanović, Serbian officials requested the suspension of the EU-facilitated dialogue with Kosovo that was due to resume on January 16th after a 13-month break (owing to parliamentary elections in Kosovo). The EU-mediated talks aimed at normalizing Serbia's relations with Kosovo (a decade after the latter's unilateral declaration of independence from Serbia) is a key condition for Serbia's EU accession talks. Despite the temporary delay, Serbia is expected to remain committed to its EU membership path.

Activity accelerated to 2.1% y-o-y in Q3:17, as the negative effect of temporary supply shocks in H1:17 faded. GDP growth rebounded to 2.1% y-o-y in Q3:17 from 1.2% in H1:17, bringing 9M:17 GDP growth to a weak 1.6% y-o-y -- below the 9M:16 outcome of 2.9%. The poor H1:17 growth performance was mainly the result of weather shocks (an unusually cold winter that was followed by months of drought), which weighed heavily on the primary and construction sectors and the electricity sub-sector in H1:17.

The strengthening growth in Q3:17 was broad based, with the agricultural sector a notable exception. In fact, growth in the industrial sector accelerated to 6.1% y-o-y in Q3:17 from a weak 2.1% in H1:17 (contributing a sizeable 1.2 pps to GDP growth in Q3:17 against 0.4 pps in H1:17). Industrial production figures suggest a broad-based strengthening supported by: i) a rebound in power generation and mining in Q3:17, following a (temporary) sharp decline in Q1:17 due to adverse weather conditions; as well as ii) the continued recovery in the manufacturing sub-sector, driven by higher export growth, lower oil prices, strong FDI inflows and strengthening confidence.

Growth in the construction sector also turned positive, up by 6.1% y-o-y in Q3:17 against a drop of 2.7% in H1:17 (contributing 0.3 pps to growth in Q3:17, after subtracting 0.1 pp from GDP growth in H1:17). The improvement reflects the waning negative impact of the prolonged cold weather that disrupted construction activity in H1:17.

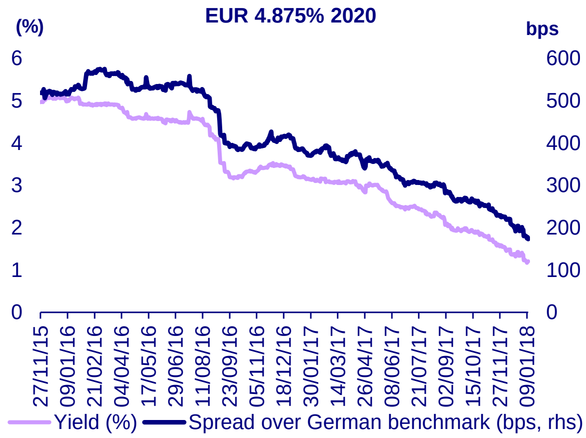
Nevertheless, the decline in agricultural production growth was sharper in Q3:17, down by 11.1% y-o-y following a drop of 9.1% in H1:17 (subtracting 1.1 pp from headline growth in Q3:17 against 0.7 pps in H1:17), as the negative impact of an unusually cold winter was exacerbated by months of summer drought. Excluding agriculture, the rebound in GDP growth was stronger, reaching a 6-quarter high of 3.6% y-o-y in Q3:17 from 2.1% in H1:17.

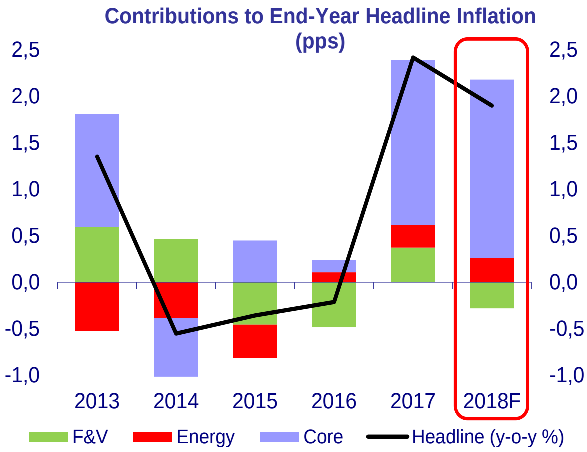
Following a temporary weather-related slowdown in FY:17, the pace of GDP growth is set to accelerate to a post-global crisis high of 3.6% in FY:18. GDP growth is estimated to have strengthened to 3.1% y-o-y in Q4:17 compared with 1.6% in 9M:17 and 2.5% y-o-y in Q4:16, supported by the continued rebound in the industry, construction and services sectors. Overall, we estimate FY:17 GDP growth at 2.0% -- still below the past year's post-global crisis high of 2.8%. Importantly, excluding agriculture, GDP growth is estimated to have strengthened to a post-crisis high of 2.9% in FY:17 from an already solid pace of 2.3% in FY:16.

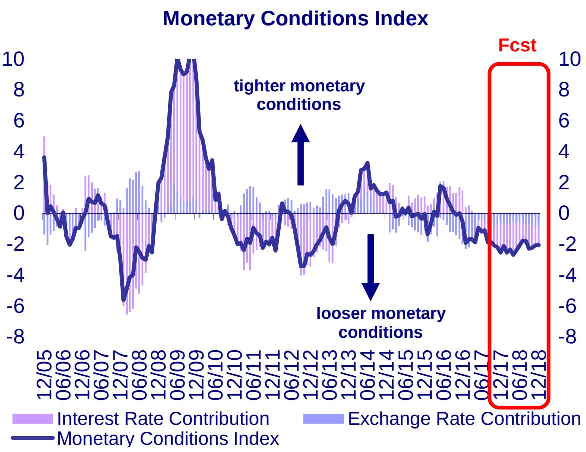
For 2018, we expect a further acceleration in activity, underpinned by: i) the normalization in agricultural output; ii) strong exports, reflecting the past years' large FDIs and the recovery in external demand; and iii) improved market confidence. Activity in 2018 should be also supported by stronger consumption, on the back of the increase in public sector wages and pensions and their spillover to the private sector. Overall, we see FY:18 GDP growth rising to a 10-year high of 3.6% and the FY:18 output gap turning positive for the first time in 4 years.

F.Y.R.O.M

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







	22 Jan.	3-M F	6-M F	12-M F
1-m SKIBOR (%)	1.5	1.8	2.3	2.8
MKD/EUR	61.3	61.3	61.3	61.3
Sov. Spread (2021. bps)	174	170	165	160

	22 Jan.	1-W %	YTD %	2-Y %
MBI 100	2,689	1.5	5.9	48.6

	2015	2016	2017E	2018F	2019F
Real GDP Growth (%)	3.9	2.9	0.5	3.5	3.7
Inflation (eop. %)	-0.3	-0.2	2.4	1.9	2.0
Cur. Acct. Bal. (% GDP)	-1.9	-2.7	-2.2	-2.4	-2.5
Fiscal Bal. (% GDP)	-3.5	-2.7	-2.9	-2.8	-2.8

Tensions between President Ivanov and the coalition Government escalated, with no risk to political stability. President Ivanov refused to sign the decree on the "*Law on the Use of Languages*", extending the official use of the Albanian language from areas where Albanians comprise at least 20% of the population to the whole country, on the grounds that it would threaten the country's "*unity and sovereignty*".

The bill was adopted on January 11th by the coalition government (comprising the SDSM and the largest ethnic Albanian party, DUI) and two other ethnic Albanian parties (AA and BESA) -- a total of 69 out of 120 votes -- in the absence of MPs from the main opposition party, the nationalist VMRO-DPMNE.

Despite the veto, lawmakers are expected to bypass the President and approve the bill once it returns to Parliament.

A new sovereign bond issue at a historically-low interest rate (3%), due to improved investor confidence in the domestic economy and a benign global backdrop. On January 11th, FYROM issued a 7-year EUR 500mn (4.8% of GDP) Eurobond at a yield of 3.0% (280 bps over the German benchmark). The issue was more than seven times oversubscribed and, more importantly, it carried the lowest yield ever paid by the country for any maturity.

The relatively low yield of the new issue reflects favourable global market conditions and strengthening investor confidence in the domestic economy. The latter is the result of easing of political tensions and a brighter economic outlook since end-May, when the new reformist Government took office.

The Eurobond proceeds will be used to cover this year's budget deficit (projected at 2.8% of GDP) and repay more expensive debt outstanding. Note that EUR 92.0mn was already allocated to a partial buyback of a higher-yield Eurobond (4.875%) maturing in 2020, resulting in an estimated saving of c. EUR 2mn in the interest bill.

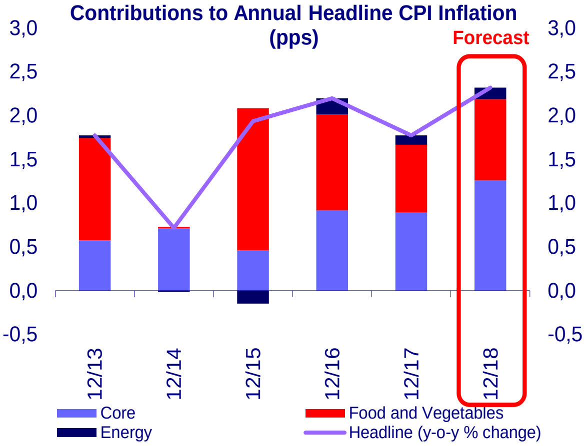
End-year headline inflation rose to 2.4% y-o-y. Headline inflation rose to a 5-year high of 2.4% y-o-y in December from -0.2% y-o-y in the same month a year earlier. The increase was driven by an across-the-board deterioration in its main components. Core inflation accelerated to 2.2% y-o-y at end-2017 from 0.2% y-o-y at end-2016, reflecting, *inter alia*: i) accelerating wages (up 2.6% y-o-y in 10M:17 following an increase of 1.9% in nominal terms in 10M:16); ii) robust employment growth (up 2.5% y-o-y in 9M:17 following a rise of 2.6% in 9M:16); and iii) solid consumer credit growth (up 11.8% y-o-y in November). Headline inflation was also pushed up by a correction in the prices of fruit & vegetables and higher energy prices (contributing 0.9 pps and 0.1 pp, respectively, to the overall increase).

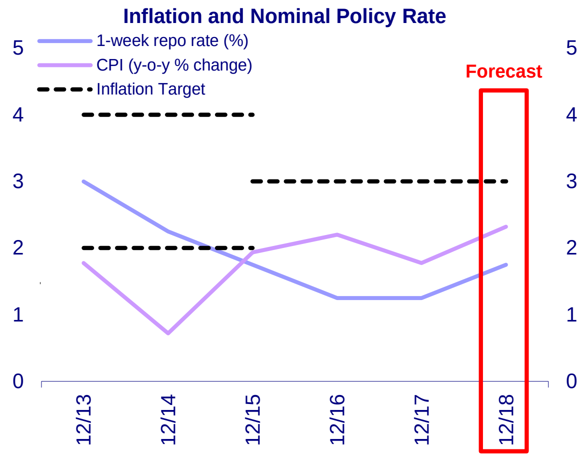
Looking ahead, inflationary pressures are set to persist in 2018 due to stronger domestic demand, reflecting a rebound in economic activity as well as a pick-up in energy prices, in line with global oil price developments and a hike in excise taxes on fuel on January 1st (by MKD 3/lt, adding an estimated 0.2 pps to headline inflation). These pressures should, however, be tempered by a downside correction in the prices of volatile food. Overall, we see headline inflation moderating to 1.9% y-o-y at end-2018 after having peaked at 2.9% in April (on base effects) from 2.4% at end-2017.

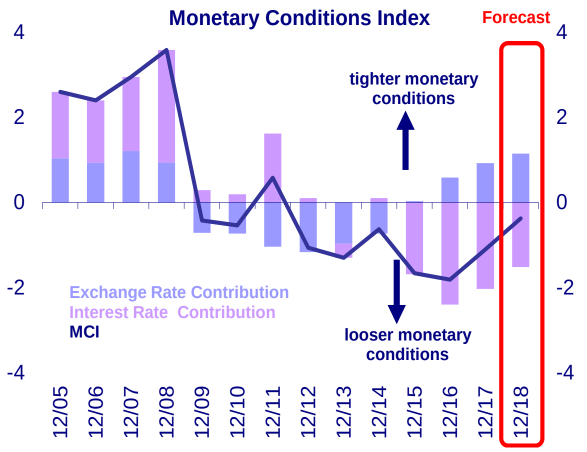
The central bank (CB) to maintain on hold its key rate (the 28-day CB bill) at 3.25% until end-year. Despite persisting inflationary pressures, the CB is set to maintain its current accommodative monetary conditions (see our MCI) in view of the still negative output gap (-0.3% in FY:18), the expected prudent fiscal stance and the absence of pressures on the balance of payments.

Albania

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







	22 Jan.	3-M F	6-M F	12-M F
1-m TRIBOR (mid, %)	1.6	2.2	2.2	2.2
ALL/EUR	133.5	132.0	131.3	130.0
Sov. Spread (bps)	175	174	172	170

	22 Jan.	1-W %	YTD %	2-Y %
Stock Market	- - -	- - -	- - -	- - -

	2015	2016	2017E	2018F	2019F
Real GDP Growth (%)	2.2	3.4	4.0	4.3	4.2
Inflation (eop, %)	2.0	2.2	1.8	2.3	2.5
Cur. Acct. Bal. (% GDP)	-8.6	-7.6	-8.5	-8.0	-6.9
Fiscal Bal. (% GDP)	-4.1	-1.8	-2.0	-1.9	-1.8

Inflation declined to 1.8% y-o-y at end-2017 from 2.2% at end-2016, due to softer food inflation. After rising for two successive years, end-year inflation moderated to 1.8% y-o-y in 2017 from 2.2% in 2016 -- remaining broadly subdued and well below the BoA's target of 3.0%. The decline was almost solely driven by a significant moderation in volatile vegetable prices (contributing 0.2 pps to headline inflation at end-2017 against a high of 1.0 pp at end-2016, stemming from the November 2016 floods).

End-year inflation was also contained by low core inflation (that excludes prices of fruit & vegetables and energy, and accounts for 85.8% of the CPI basket). Core inflation stood at just 1.1% at end-2017, unchanged from its end-2016 level, as pressures from the gradual recovery in domestic demand were broadly offset by: i) low imported inflation (supported by low international commodity prices and relatively low inflation in the country's main trading partners), combined with the appreciation of the ALL (by 1.9% y-o-y against the EUR at end-2017); and ii) a persistent negative (yet closing) output gap (-0.2% in FY:17).

Headline inflation to embark on a mild upward trend, rising to 2.3% y-o-y at end-2018, moving closer to the BoA's target. We expect headline inflation to accelerate, reaching a 6-year high of 2.3% at end-2018 -- 0.5 pps y-o-y above its end-2017 outcome. Despite the pick-up, it should remain well anchored and far below the BoA's target throughout 2018 for an 8th successive year.

The acceleration should almost exclusively result from the gradual pick-up in core inflation, due to mounting domestic demand pressures, in view of the small positive output gap (with the output gap finally turning positive in Q4:18, on a 4-quarter rolling basis, reaching 0.2%). Inflationary pressures should, however, be held back by: i) lower global food prices and still low inflation in the country's major trading partners; ii) favourable energy prices in line with global oil price developments (set to decline by 2.0% in ALL terms in Q4:18); iii) LEK appreciation (by an expected 2.0% y-o-y against the EUR at end-2018); and iv) a tight fiscal and monetary policy stance.

Upside risks to our end-2018 forecast arise from frequent end-year floods and their impact on volatile food items, as well as a renewed rise in oil prices and international commodity prices.

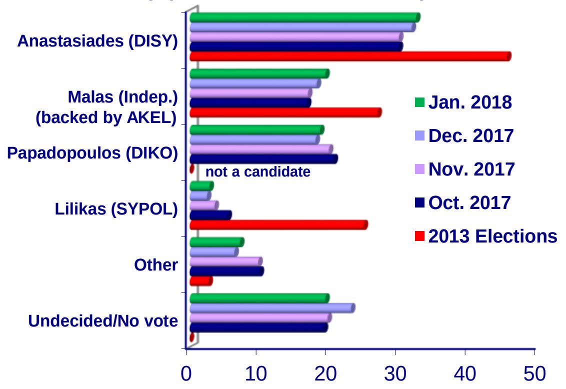
The BoA is set to initiate a cycle of monetary policy tightening in H2:18. The BoA has maintained its key policy rate unchanged since June 2016, at a record low of 1.25%, following two cuts in Q2:16 by a cumulative 50 bps. Recall that, since the initiation of the cycle of monetary policy easing in September 2011, the policy rate has been cut by a sizeable 400 bps.

Looking ahead, in view of low inflationary pressures (with inflation fluctuating around 1.8% y-o-y in H1:18, significantly undershooting its target) and in an effort to support the stagnant credit activity (at -0.2% y-o-y in November 2017), we expect the BoA to maintain its policy rate unchanged in H1:18. With mounting inflationary pressures in H2:18, the BoA is expected to gradually hike its 1-week repo rate by 100 bps to 2.25% in H2:18 -- 0.0% in *ex post*, real and compounded terms, from -0.5% at end-2017, yet still well below that of peer countries -- in an effort to contain the overheating of the economy (GDP growth is set to accelerate to a post-crisis high of 4.3% in 2018 and the output gap is set to turn positive) and temper inflationary pressures (as inflation gradually reaches 2.3% by end-2018). Should our forecasts materialise, the monetary policy stance would tighten for a second consecutive year in 2018 (see our MCI chart). The BoA may need to move more aggressively in tightening monetary policy, if inflation overshoots these projections or the exchange rate depreciates.

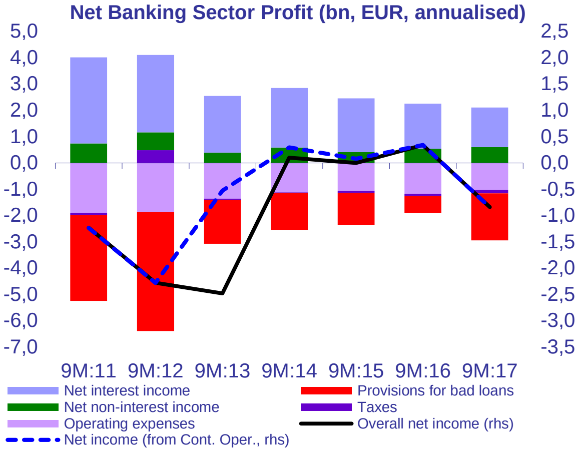
Cyprus

BB+ / Ba3 / BB (S&P / Moody's / Fitch)

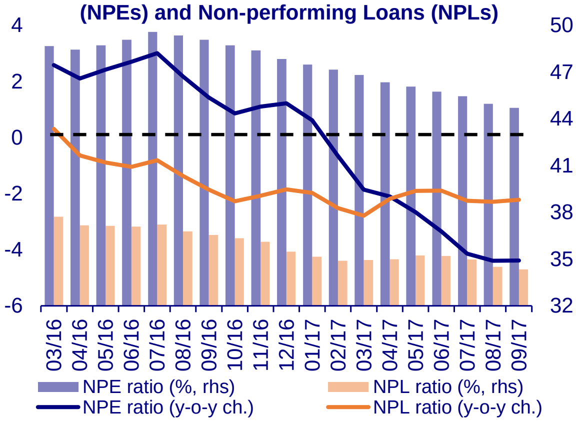
2018 Presidential Elections (Opinion Polls for 1st Round)



Net Banking Sector Profit (bn, EUR, annualised)



4-Quarter Rolling Non-performing Exposures (NPEs) and Non-performing Loans (NPLs)



	22 Jan.	3-M F	6-M F	12-M F
1-m EURIBOR (%)	-0.37	-0.37	-0.37	-0.37
EUR/USD	1.23	1.22	1.25	1.30
Sov. Spread (2020. bps)	113	105	95	80

	22 Jan.	1-W %	YTD %	2-Y %
CSE Index	69	-1.1	-1.1	3.1

	2015	2016	2017E	2018F	2019F
Real GDP Growth (%)	2.0	3.0	3.7	3.4	3.2
Inflation (eop. %)	-1.0	-0.3	-0.6	0.8	1.2
Cur. Acct. Bal. (% GDP)	-1.5	-4.9	-3.8	-3.0	-3.2
Fiscal Bal. (% GDP)	-1.2	0.4	1.5	1.5	1.8

Upcoming Presidential elections to maintain the Government's reform drive. Opinion polls persistently show that the incumbent President, N. Anastasiades, of the ruling conservative party (DISY) has a comfortable lead (with around 33% of the vote) over his two main rivals -- the independent candidate S. Malas, who is backed by the communist party (AKEL), and N. Papadopoulos, the leader of the centre-right party (DIKO), each with around 19% -- ahead of the January 28th presidential elections. However, as no candidate is expected to secure an outright majority in the first round, a run-off will be held on February 4th, which Anastasiades is widely expected to win.

Importantly, as Cyprus operates a presidential political system -- the President appoints the Cabinet -- the outcome of the elections will support the government's push for reforms agreed with international lenders after the 2013 banking crisis. Recall that under Anastasiades' Presidency (since February 2013), the strict implementation of macroeconomic and financial policies and progress on structural reforms have enabled the island to achieve a "clean exit" from the 3-year economic adjustment programme (March 2016) and access international capital markets on increasingly favourable terms, supported by a series of credit rating upgrades closer to investment grade.

Banks' elevated loan loss provisions weighed on 9M:17 bottom line. The banking sector posted losses of EUR 632mn (3.3% of GDP) in 9M:17 against profits of EUR 255mn (1.4% of GDP) in 9M:16, exclusively due to a sharp rise in provisions for problematic loans (up 175% y-o-y or EUR 774mn y-o-y in 9M:17). As a result, the (annualised) ROAE and ROAA deteriorated markedly to -12.5% and -1.3%, respectively, in 9M:17 from 4.8% and 0.5% in 9M:16.

Banks increased sharply NPL provisions in 9M:17, while reducing their NPL ratios and improving coverage. The sharp rise in banks' provisioning charges reflects their updated assessment of collateral recovery-rate performance held against their loan portfolios. As a result, the NPL coverage ratio rose above the EU-average (44.7%) to 45.5% from 40.1% at end-2016, while the (4-quarter rolling) cost of risk rose by 140 bps y-o-y to a 3-year high of 354 bps in Q3:17.

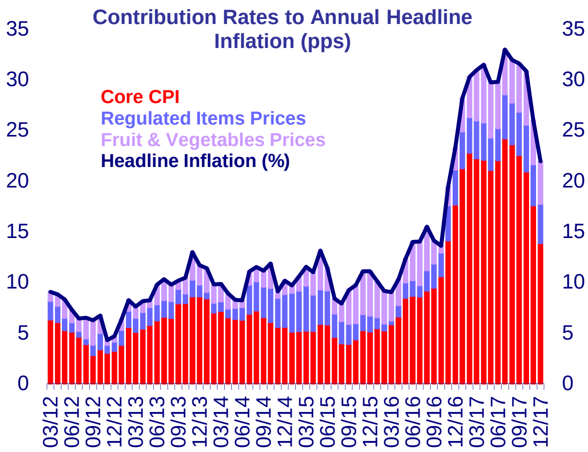
At the same time, banks saw sizeable declines in their stock of NPLs, due to restructuring activity, write-offs and debt-for-asset swaps. The latter fell by 8.3% y-o-y to EUR 16.5bn, reducing the NPL ratio by 2.3 pps y-o-y to a recent low of 33.9%.

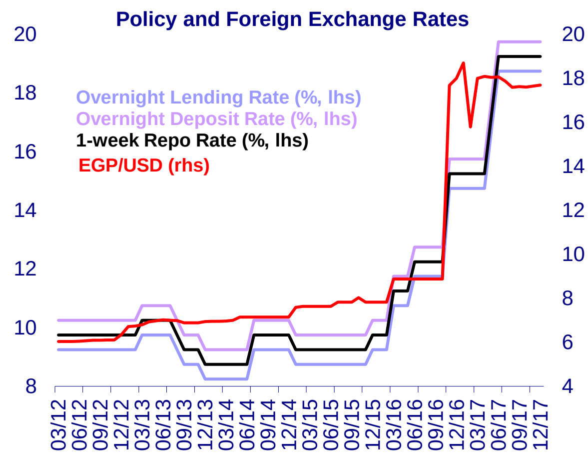
Pre-provision income (PPI) remained almost flat on an annual basis (up 0.7% y-o-y) in 9M:17. NII declined by 12.3% y-o-y in 9M:17, due to: i) lower average interest-earning assets (down 4.9% y-o-y to 334% of GDP from 370% of GDP in FY:16), in line with the ongoing deleveraging; and ii) a weaker net interest margin (NIM down 20 bps y-o-y to 240 bps), reflecting, *inter alia*, increased loan restructurings and tighter lending-deposit spreads in a more competitive interest rate environment.

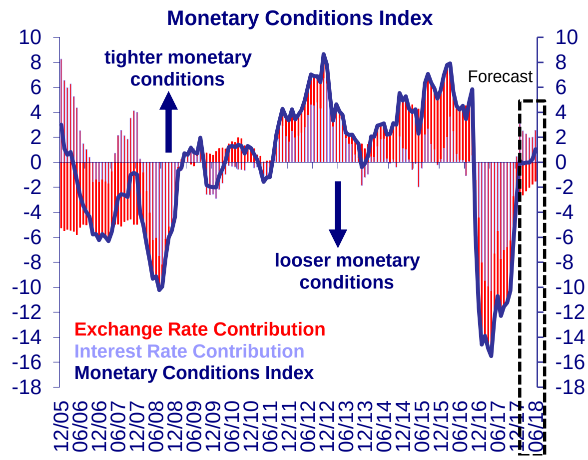
The impact of NII on PPI in 9M:17 was tempered by both higher NNII and lower operating expenses. Indeed, NNII rose by 12.2% y-o-y, despite unfavourable base effects from sizeable once-off gains from the sale of banks' shares in Visa Europe in 9M:16 (EUR 78.4mn). The increase was supported, *inter alia*, by higher net fees & commission income and gains from the disposal of property assets held for sale as part of customers' debt settlement. On the other hand, operating expenses declined by 12.9% y-o-y in 9M:17, exclusively due to lower staff costs (-18.8% y-o-y), reflecting exclusively base effects from the once-off cost of the voluntary retirement schemes of Bank of Cyprus, Alpha Bank and Cooperative Central Bank in 9M:16.

Egypt

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







	22 Jan.	3-M F	6-M F	12-M F
O/N Interbank Rate (%)	19.0	18.0	17.0	15.0
EGP/USD	17.7	17.8	18.0	18.0
Sov. Spread (2020. bps)	150	148	145	140

	22 Jan.	1-W %	YTD %	2-Y %
HERMES 100	1,489	1.4	3.7	186.0

	14/15	15/16	16/17E	17/18F	18/19F
Real GDP Growth (%)	4.4	4.3	4.2	4.6	5.2
Inflation (eop. %)	11.4	14.0	29.8	13.5	9.8
Cur. Acct. Bal. (% GDP)	-3.7	-6.0	-6.6	-5.4	-4.4
Fiscal Bal. (% GDP)	-11.4	-12.5	-10.9	-9.5	-8.2

Outgoing President el-Sissi is widely expected to win the upcoming March-April presidential elections. The National Elections Authority (NEA) announced that the presidential elections will take place on March 26th-28th and if no candidate secures more than 50% of the vote, a run-off will be held on April 24th-26th.

Besides the incumbent President el-Sissi, the presidential hopefuls who have announced their intention to run are the leftist human rights lawyer, Ali; the lawyer and MP, Mansour; and former Army Chief of Staff, Anan. El-Sissi's sole competitor at the 2014 presidential elections, the veteran Nasserite politician, Sabahi, said earlier this month that he will not run in this year's elections.

In the absence of serious contenders and in view of his achievements during his first 4-year term, outgoing President el-Sissi is widely expected to be reelected. Indeed, since July 2014, security concerns have eased, economic growth has strengthened (CAGR of 4.3% in 2014/15-2016/17 against 2.6% in 2010/11-2013/14), unemployment has declined (down to 12.1% in 2016/17 from an all-time high of 13.4% in 2013/14), and assistance to the poor has been expanded (including the increased allocations to the Takaful and Karama social solidarity programme by 30% and pensions by 15%).

Headline inflation declined at a faster pace in November-December, on the back of a strong base effect from the flotation of the domestic currency and the rise in regulated fuel prices a year earlier. Headline inflation eased for a fifth consecutive month in December – down to 21.9% y-o-y from a 3-decade high of 33.0% y-o-y in July. The 11.1 pp decline in headline inflation between July and December was driven almost exclusively by core inflation (down to 19.9% y-o-y in December from 35.3% in July). The decline in core inflation has been supported by sharp policy rate hikes (up 700 bps between November 2016 and June 2017), the absorption of excess liquidity through open market operations, the increase in the bank reserve requirement ratio (up 4 pps to 14.0% in October) and the stabilisation of the EGP against trading partner currencies.

Importantly, the bulk of the 11.1 pp decline took place between October and December (8.9 pps), mainly reflecting the fading impact of the flotation of the EGP and the hike in fuel prices ahead of the signing of a USD 12bn loan deal with the IMF in early-November 2016. Note that the domestic currency had depreciated by c. 50.0% against the USD following its flotation, and fuel prices were increased by 30%-50% as a result of a sharp cut in energy subsidies in November 2016.

Headline inflation to continue on its downward trend throughout the rest of the current fiscal year, reaching 13.5% y-o-y in June (end-2017/18). Assuming no further regulated price adjustments this fiscal year -- in view of the upcoming presidential elections – and a continued tight policy mix, headline inflation is set to continue to decline during the rest of the fiscal year. We foresee headline inflation reaching a 3-year low of 13.5% y-o-y in June (end-2017/18) – well within the CBE's Q2:18/19 target range of 10%-16%.

The positive inflation outlook and the stabilisation of the domestic currency strengthen the CBE's hand to initiate a new cycle of monetary policy loosening at its upcoming February 15th MPC meeting. We expect the CBE to cut its policy rates by 500 bps by end-H2:17/18 (June 2018), bringing down the overnight deposit, 1-week repo, and overnight lending rates to 13.75%, 14.25%, and 14.75%, respectively. With the domestic currency likely to remain stable at around EGP 18.0 per USD, our MCI (see chart) shows that our forecasts for policy rate cuts should not lead to looser monetary conditions.

FOREIGN EXCHANGE MARKETS, JANUARY 22ND 2018

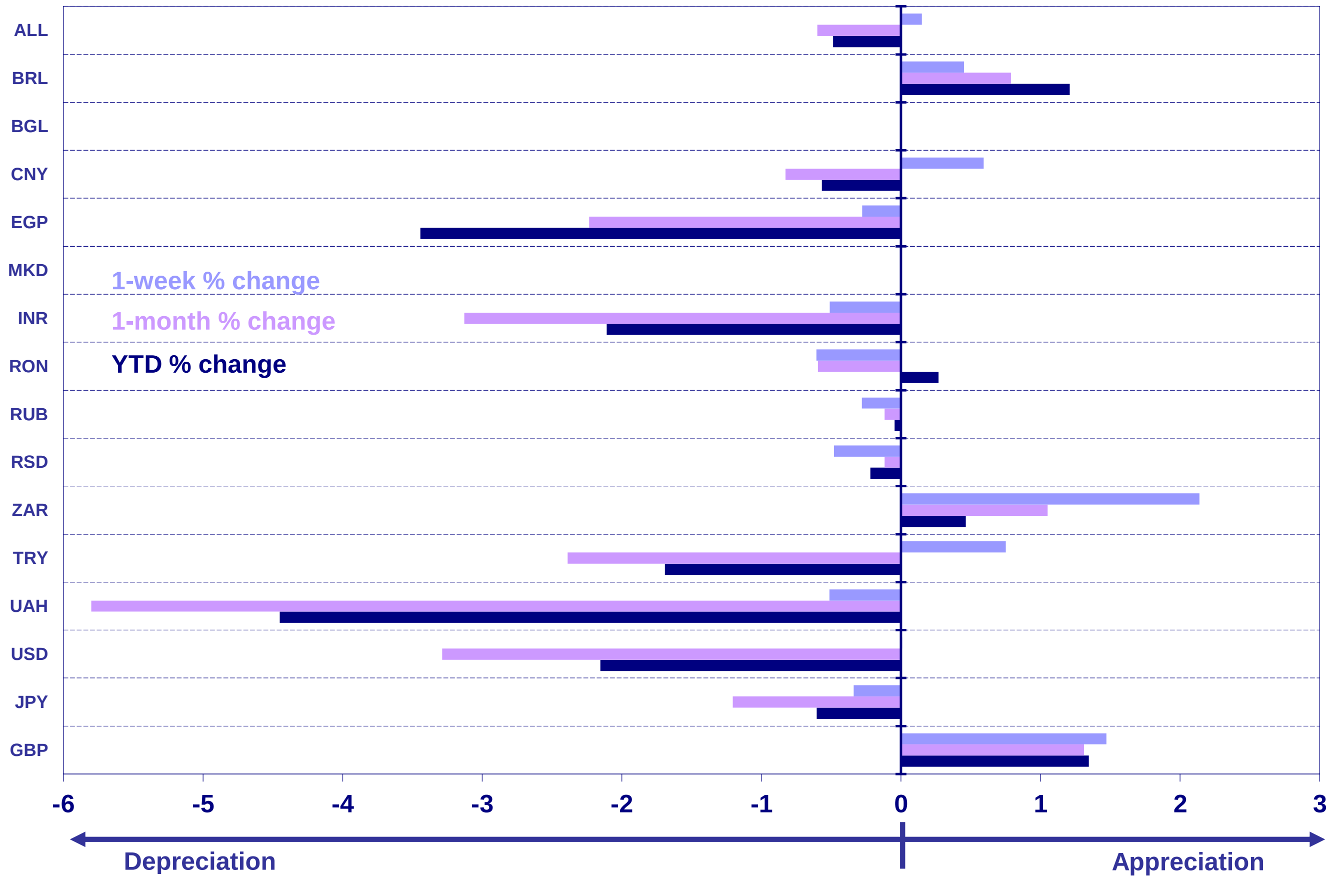
Against the EUR

	Currency	2018 SPOT	2018 1-week %change	2018 1-month %change	2018 YTD %change*	2018 1-year %change	2018 Year-Low	2018 Year-High	2018 3-month Forward rate**	2018 6-month Forward rate**	2018 12-month Forward rate**	2017 % change*	2016 % change*
Albania	ALL	133.5	0.1	-0.6	-0.5	2.2	133.0	134.0	133.9	134.1	134.1	1.9	1.2
Brazil	BRL	3.93	0.5	0.8	1.2	-13.3	3.85	4.00	4.20	4.20	4.21	-13.9	25.7
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	7.84	0.6	-0.8	-0.6	-6.2	7.77	7.92	8.24	8.24	8.23	-6.0	-4.0
Egypt	EGP	21.57	-0.3	-2.2	-3.4	-7.1	20.59	21.72	- - -	- - -	- - -	-9.4	-55.0
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	78.3	-0.5	-3.1	-2.1	-6.6	75.9	78.4	84.0	- - -	- - -	-6.7	0.4
Romania	RON	4.66	-0.6	-0.6	0.3	-3.6	4.62	4.67	4.69	4.73	4.82	-3.0	-0.4
Russia	RUB	69.2	-0.3	-0.1	0.0	-7.5	67.7	69.6	70.4	71.6	74.1	-6.8	22.9
Serbia	RSD	118.7	-0.5	-0.1	-0.2	4.4	118.1	119.1	119.0	119.3	- - -	4.2	-1.5
S. Africa	ZAR	14.8	2.1	1.1	0.5	-1.7	14.67	15.16	15.0	15.3	15.9	-2.7	16.2
Turkey	YTL	4.63	0.8	-2.4	-1.7	-12.6	4.48	4.70	4.79	4.95	5.31	-18.4	-14.7
Ukraine	UAH	35.1	-0.5	-5.8	-4.5	-16.6	33.49	35.42	41.3	- - -	- - -	-15.2	-8.6
US	USD	1.23	0.0	-3.3	-2.2	-12.2	1.2	1.2	1.23	1.24	1.26	-12.4	3.3
JAPAN	JPY	136.0	-0.3	-1.2	-0.6	-10.8	133.1	136.6	136.1	136.2	136.3	-8.9	6.0
UK	GBP	0.88	1.5	1.3	1.3	-2.1	0.9	0.9	0.88	0.88	0.89	-4.1	-13.5

* Appreciation (+) / Depreciation (-)

** Forward rates have been calculated using the uncovered interest rate parity for Brazil, China, Egypt, India and Ukraine

Currencies against the EUR (January 22nd 2018)



MONEY MARKETS, JANUARY 22ND 2018

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine	EU	US
O/N	1.4	6.9	-0.1	2.8	- - -	19.0	- - -	- - -	1.1	7.5	- - -	13.3	8.3	13.6	- - -	1.4
T/N	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	1.1	6.2	2.5	- - -	6.9	- - -	- - -	- - -
S/W	1.5	6.9	-0.1	2.9	-0.4	- - -	1.2	- - -	- - -	6.7	2.5	- - -	7.1	14.4	-0.4	1.5
1-Month	1.6	6.8	-0.1	4.1	-0.4	- - -	1.5	6.4	1.6	6.7	2.8	13.9	7.2	15.9	-0.4	1.6
2-Month	- - -	6.8	-0.1	- - -	-0.3	- - -	- - -	- - -	- - -	8.5	3.0	14.1	7.2	- - -	-0.3	1.6
3-Month	2.2	6.7	0.0	4.7	-0.3	- - -	1.7	6.9	2.0	7.4	3.1	14.6	7.7	17.2	-0.3	1.7
6-Month	2.6	6.7	0.2	4.7	-0.3	- - -	2.0	- - -	2.2	7.5	3.2	14.8	7.4	- - -	-0.3	1.9
1-Year	3.2	7.0	0.6	4.7	-0.2	- - -	2.4	- - -	2.4	7.6	- - -	15.1	7.6	- - -	-0.2	2.2

LOCAL DEBT MARKETS, JANUARY 22ND 2018

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine	EU	US
3-Month	1.5	- - -	- - -	- - -	- - -	18.4	- - -	6.4	- - -	7.1	3.3	12.6	- - -	- - -	-0.7	1.4
6-Month	2.0	- - -	- - -	- - -	- - -	18.4	1.5	6.4	2.1	7.1	3.3	13.1	- - -	- - -	-0.7	1.6
12-Month	2.7	- - -	-0.1	3.6	- - -	17.5	1.9	6.6	2.3	6.7	3.5	13.6	- - -	14.7	-0.6	1.8
2-Year	3.2	- - -	- - -	3.6	- - -	- - -	- - -	6.9	2.8	6.8	- - -	13.1	7.1	- - -	-0.6	2.1
3-Year	- - -	- - -	0.1	3.7	0.8	- - -	2.4	7.1	3.5	6.8	- - -	12.9	7.3	14.9	-0.5	2.2
5-Year	- - -	9.5	- - -	3.9	1.1	15.5	- - -	7.2	4.0	7.0	4.7	12.4	7.7	- - -	-0.1	2.5
7-Year	- - -	- - -	0.4	- - -	- - -	15.4	- - -	7.5	4.3	7.2	- - -	- - -	- - -	- - -	0.1	2.6
10-Year	- - -	9.9	1.2	4.1	- - -	15.4	- - -	7.5	4.4	7.4	- - -	11.8	8.4	- - -	0.6	2.7
15-Year	- - -	- - -	- - -	- - -	- - -	- - -	3.8	7.8	- - -	7.7	- - -	- - -	9.9	- - -	0.7	- - -
25-Year	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	9.5	- - -	- - -	- - -
30-Year	- - -	- - -	- - -	- - -	- - -	- - -	- - -	7.7	- - -	- - -	- - -	- - -	9.5	- - -	1.3	2.9

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

CORPORATE BONDS SUMMARY, JANUARY 22ND 2018

		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	1,8	242	210
	Bulgarian Telecom. 6.625% '18	EUR	B-/B1	15/11/2018	400	6,8	742	713
Russia	**Gazprom 8.2% '19**	RUB	BB+/NA	9/4/2019	10,000	8,2	156	- - -
	Gazprom 8.9% '21	RUB	BB+/NA	26/1/2021	10,000	9,1	224	- - -
South Africa	**FirstRand Bank Ltd 4.25% '20**	USD	BBB-/Baa2	30/4/2020	500	3,4	131	108
	FirstRand Bank Ltd 2.25% '20	EUR	NA/NA	30/1/2020	100	0,4	102	57
Turkey	**Vakiflar Bankasi 3.5% '19**	EUR	NA/Baa3	17/6/2019	500	1,9	248	217
	Garanti Bankasi 3.38%'19	EUR	NA/Baa3	8/7/2019	500	0,9	147	115
	Arcelik AS 3.875% '21	EUR	BB+/NA	16/9/2021	350	2,0	224	187
	Turkiye Is Bankasi 6% '22	USD	NA/Ba3	24/10/2022	1,000	5,9	342	332

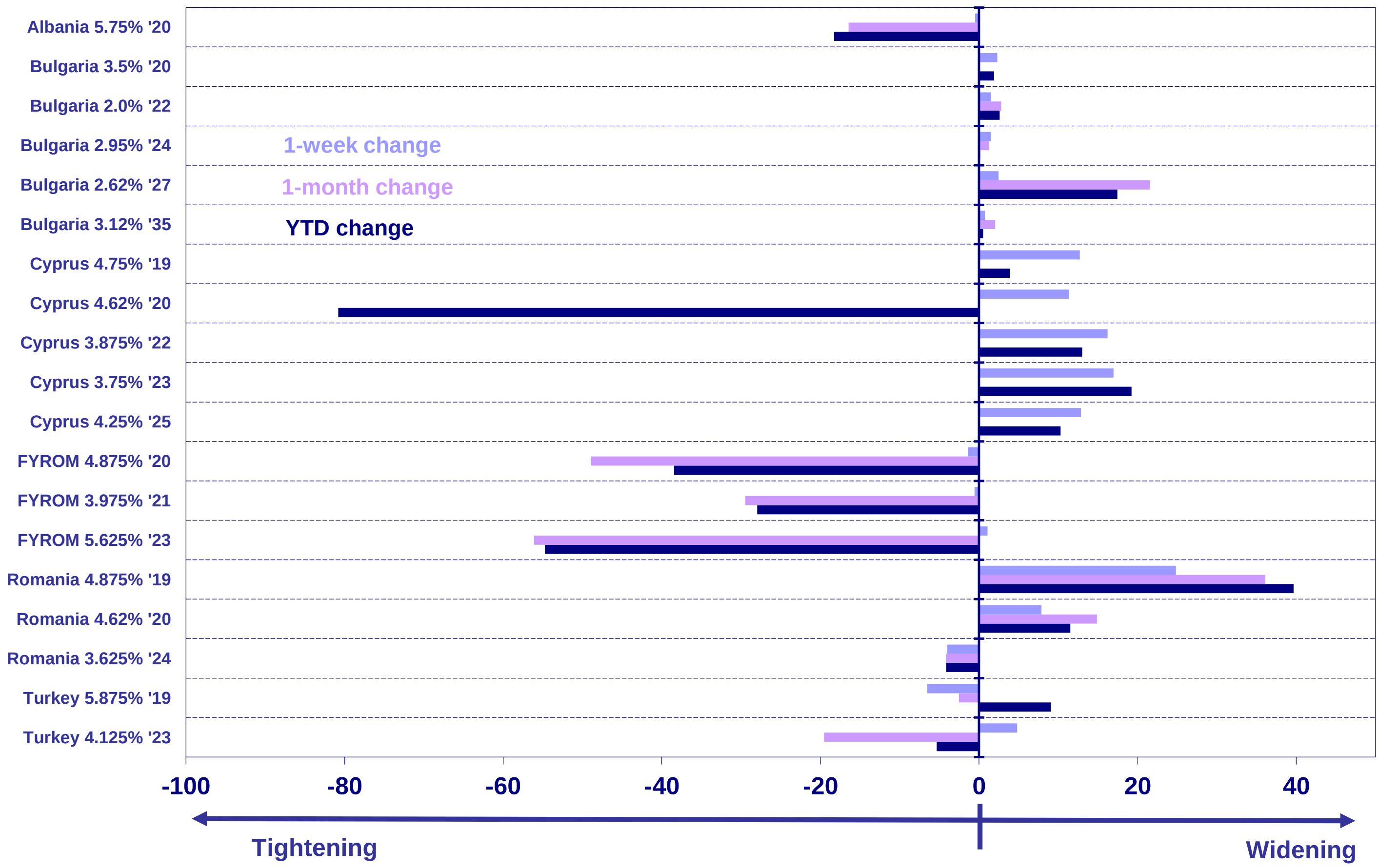
CREDIT DEFAULT SWAP SPREADS, JANUARY 22ND 2018

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine
5-Year	- - -	147	66	50	115	343	- - -	80	86	112	119	164	144	- - -
10-Year	- - -	236	110	88	162	394	- - -	89	130	182	155	253	237	- - -

EUR-DENOMINATED SOVEREIGN EUROBOND SUMMARY, JANUARY 22ND 2018

	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	1.3	175	139
Bulgaria 3.5% '20	EUR	NA/NA	16/1/2020	145	0.1	69	25
Bulgaria 2.0% '22	EUR	BB+/Baa2	26/3/2022	1,250	0.1	39	-12
Bulgaria 2.95% '24	EUR	BB+/Baa2	3/9/2024	1,493	0.7	62	19
Bulgaria 2.62% '27	EUR	BB+/Baa2	26/3/2027	1,000	1.3	87	40
Bulgaria 3.12% '35	EUR	BB+/Baa2	26/3/2035	900	2.3	131	98
Cyprus 4.75% '19	EUR	BB/NA	25/6/2019	199	0.2	81	50
Cyprus 4.62% '20	EUR	BB/B1	3/2/2020	668	0.5	113	70
Cyprus 3.875% '22	EUR	NA/B1	6/5/2022	1,000	1.1	138	91
Cyprus 3.75% '23	EUR	NA/B1	26/7/2023	1,000	1.4	145	105
Cyprus 4.25% '25	EUR	NA/B1	4/11/2025	1,000	1.8	153	117
FYROM 4.875% '20	EUR	BB-/NA	1/12/2020	270	1.1	155	115
FYROM 3.975% '21	EUR	BB-/NA	24/7/2021	500	1.5	174	390
FYROM 5.625% '23	EUR	BB-/NA	26/7/2023	450	2.1	215	187
Romania 4.875% '19	EUR	BBB-/Baa3	7/11/2019	1,500	0.3	90	52
Romania 4.62% '20	EUR	BBB-/Baa3	18/9/2020	2,000	0.2	62	20
Romania 3.625% '24	EUR	BBB-/Baa3	24/4/2024	1,250	1.1	101	66
Turkey 5.875% '19	EUR	NR/Ba1	11/4/2023	1,250	0.8	141	110
Turkey 4.125% '23	EUR	NR/Ba1	12/11/2020	1,000	2.4	245	212

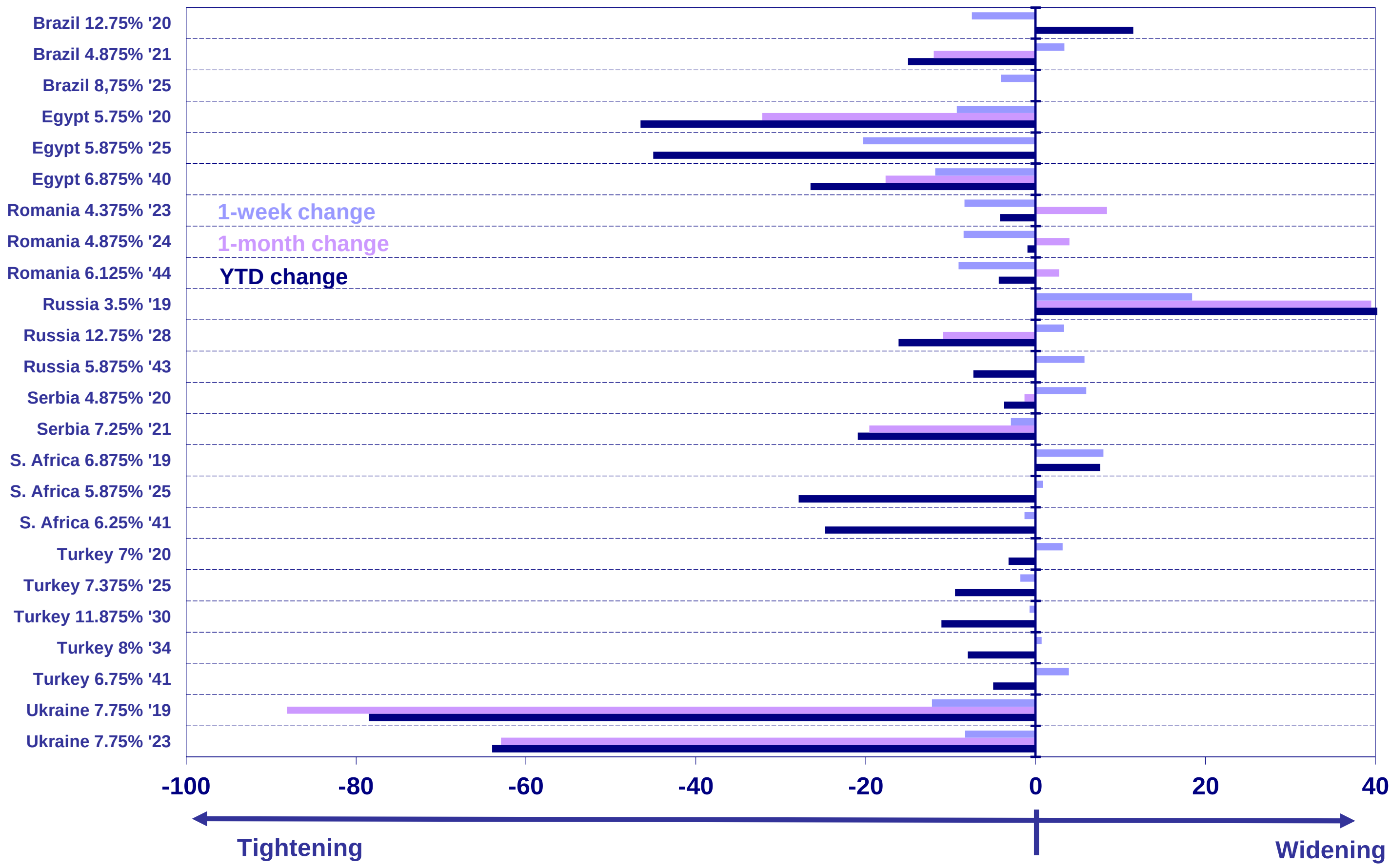
EUR-Denominated Eurobond Spreads (January 22nd 2018)



USD-Denominated Sovereign Eurobond Summary, January 22nd 2018

	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	87	2.2	- - -	- - -
Brazil 4.875% '21	USD	BB/Ba2	22/1/2021	2,713	2.9	69	51
Brazil 8.75% '25	USD	BB/Ba2	4/2/2025	688	4.0	145	166
Egypt 5.75% '20	USD	B-/B3	11/6/2025	1,000	3.6	150	129
Egypt 5.875% '25	USD	B-/B3	30/4/2040	1,500	5.5	296	291
Egypt 6.875% '40	USD	B-/B3	22/8/2023	500	6.7	381	390
Romania 4.375% '23	USD	BBB-/Baa3	22/1/2024	1,500	3.3	80	72
Romania 4.875% '24	USD	BBB-/Baa3	22/1/2044	1,000	3.3	72	77
Romania 6.125% '44	USD	BBB-/Baa3	16/1/2019	1,000	4.4	148	185
Russia 3.5% '19	USD	BB+/Ba1	24/6/2028	1,500	3.0	120	95
Russia 12.75% '28	USD	BB+/Ba1	16/9/2043	2,500	4.1	147	204
Russia 5.875% '43	USD	BB+/Ba1	25/2/2020	1,500	4.9	196	224
Serbia 4.875% '20	USD	BB-/B1	28/9/2021	1,500	3.2	112	92
Serbia 7.25% '21	USD	BB-/B1	27/5/2019	2,000	3.2	98	80
S. Africa 6.875% '19	USD	BBB-/Baa2	16/9/2025	1,748	3.1	130	97
S. Africa 5.875% '25	USD	BBB-/Baa2	8/3/2041	2,000	4.5	191	193
S. Africa 6.25% '41	USD	BBB-/Baa2	5/6/2020	750	5.3	240	267
Turkey 7% '20	USD	NR/Ba1	5/2/2025	2,000	3.7	165	145
Turkey 7.375% '25	USD	NR/Ba1	15/1/2030	3,250	4.9	235	248
Turkey 11.875% '30	USD	NR/Ba1	14/2/2034	1,500	5.5	283	363
Turkey 8% '34	USD	NR/Ba1	14/1/2041	1,500	5.9	325	349
Turkey 6.75% '41	USD	NR/Ba1	1/9/2019	3,000	6.0	310	314
Ukraine 7.75% '19	USD	B-/Caa3	1/9/2023	661	4.0	191	181
Ukraine 7.75% '23	USD	B-/Caa3	15/1/2020	1,355	6.0	359	359

USD-Denominated Eurobond Spreads (January 22nd 2018)



Stock Markets Performance, January 22nd 2018

	2018								2017		2016	
	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)	81,675	2.4	8.6	6.9	24.2	76,403	81,675	7.7	26.9	9.5	38.9	76.2
Bulgaria (SOFIX)	708	-0.9	5.4	4.5	17.0	677	718	4.5	15.5	15.5	27.2	27.2
China (SHCOMP)	3,501	2.7	6.2	5.9	11.6	3,314	3,503	5.3	6.6	-0.3	-12.3	-15.3
Cyprus (CSE GI)	69	-1.1	-0.3	-1.1	-2.2	68	70	-1.1	4.7	4.7	-2.0	-2.0
Egypt (HERMES)	1,489	1.4	5.4	3.7	30.2	1,429	1,502	0.7	32.0	18.7	72.7	-21.8
F.Y.R.O.M (MBI)	2,689	1.5	7.6	5.9	21.0	2,536	2,699	5.9	18.9	18.9	16.5	16.5
India (SENSEX)	35,798	2.7	5.5	5.1	32.0	27,590	35,828	2.8	27.9	19.3	1.9	2.6
Romania (BET-BK)	1,796	3.1	8.3	8.8	29.9	1,675	1,798	9.1	22.8	19.1	0.2	0.0
Russia (RTS)	4,454	0.5	8.1	8.0	-7.6	4,128	4,480	8.0	-16.2	-21.9	24.2	54.3
Serbia (BELEX-15)	776	1.1	4.6	2.2	10.8	743	784	1.9	5.9	10.3	11.4	9.7
South Africa (FTSE/JSE)	61,060	1.4	3.8	2.6	15.1	59,009	61,309	3.1	17.5	14.3	-0.1	16.1
Turkey (ISE 100)	117,235	4.5	5.5	1.6	41.2	111,107	118,395	-0.1	47.6	20.5	8.9	-7.0
Ukraine (PFTS)	332	-0.8	6.4	5.3	22.6	315	334	0.6	18.8	0.8	10.2	1.0
MSCI EMF	1,239	2.3	8.5	6.9	37.3	1,158	1,234	4.6	34.3	17.7	8.6	12.2
MSCI EAFE	2,160	0.7	6.3	5.3	25.3	2,051	2,152	3.1	21.8	6.7	-1.9	1.4
Greece (ASE-General)	858	1.2	6.7	6.9	34.2	802	859	6.9	24.7	24.7	1.9	1.9
Germany (XETRA DAX)	13,464	2.0	3.0	4.2	16.6	12,745	13,470	4.2	12.5	12.5	11.6	11.6
UK (FTSE-100)	7,715	-0.7	1.6	0.4	7.9	7,624	7,793	1.7	7.6	3.2	14.4	-1.0
USA (DJ INDUSTRIALS)	26,215	1.6	5.9	6.0	32.4	19,732	26,153	3.8	25.1	9.6	13.4	16.7
USA (S&P 500)	2,833	1.7	5.6	6.0	25.1	2,682	2,810	3.7	19.4	4.7	9.5	13.2

Equity Indices (January 22nd 2018)