Economic Analysis Division
Emerging Markets Analysis
Bi-Weekly Report

4 – 17 December 2018

NBG - Economic Analysis Division
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Emerging Markets Analysis

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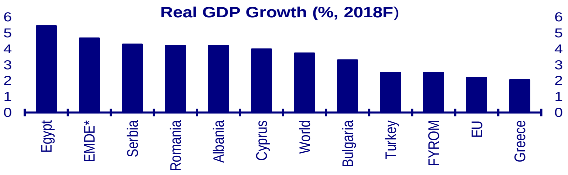
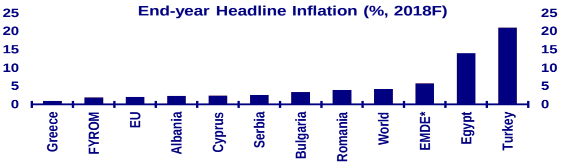


* EMDE: Emerging Market & Developing Economies



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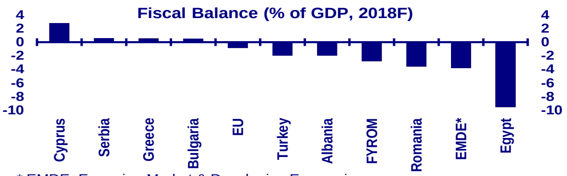

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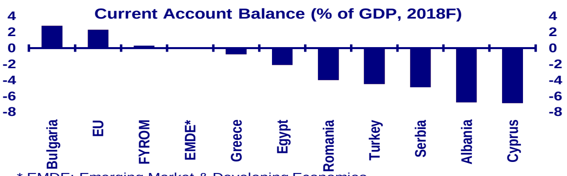
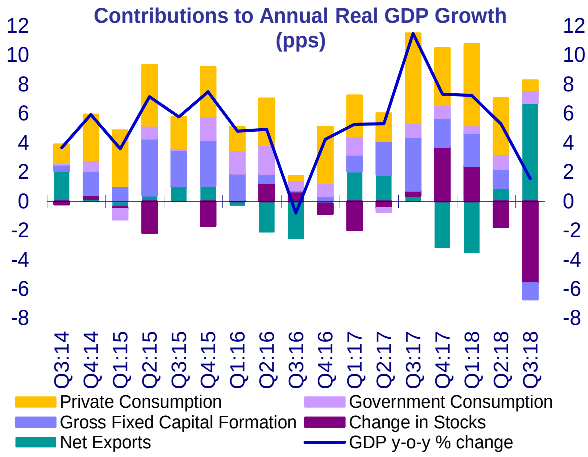
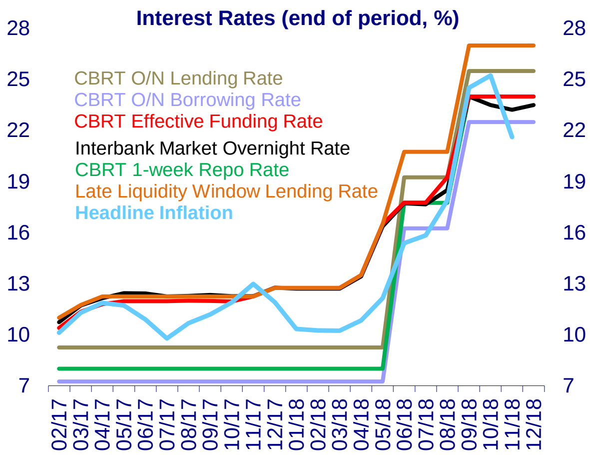


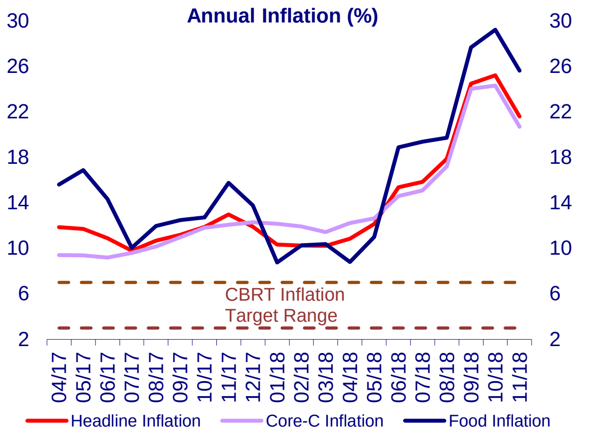
* EMDE: Emerging Market & Developing Economies

Turkey

BB- / Ba2 / BB (S&P/ Moody's / Fitch)







	17 Dec.	3-M F	6-M F	12-M F
1-m TRIBOR (%)	24.7	23.5	22.0	20.0
TRY/EUR	6.09	6.30	6.60	6.80
Sov. Spread (2020, bps)	335	325	310	280

	17 Dec.	1-W %	YTD %	2-Y %
ISE 100	89,962	-2.5	-22.0	15.9

	2016	2017	2018F	2019F	2020F
Real GDP Growth (%)	3.2	7.4	2.5	0.2	3.0
Inflation (eop, %)	8.5	11.9	21.0	14.5	11.5
Cur. Acct. Bal. (% GDP)	-3.8	-5.6	-4.5	-3.0	-3.4
Fiscal Bal. (% GDP)	-1.1	-1.5	-2.0	-2.0	-2.0

Economic activity is set to contract in Q4:18, after having experienced a sharper-than-expected slowdown in Q3:18. GDP growth moderated sharply to 1.6% y-o-y in Q3:18 from 5.3% in Q2:18. The Q3:18 growth rate was lower than the consensus estimate of 2.2% and our more optimistic forecast of 2.6% and the weakest since Q3:16, when a failed coup attempt against President Erdogan hit economic activity. The sharp slowdown is attributed to the currency crisis in August and the subsequent policy tightening to restore confidence.

Importantly, the slowdown in economic activity in Q3:18 was accompanied by a welcome rebalancing. Indeed, domestic demand shaved 5.2 pps off headline growth in Q3:18, after having contributed 4.4 pps in Q2:18, while net exports had seen its contribution to overall growth rising sharply to 6.7 pps in Q3:18 – the highest since the global financial crisis -- from 0.9 pps in Q2:18.

The strong performance in net exports in Q3:18 reflects both an acceleration in exports, mainly due to a sharp improvement in price competitiveness, and a compression in imports, reflecting limited access to external funding and weaker domestic demand.

The sharp deterioration in domestic demand in Q3:18 was broadly based, with a significant slowdown in private consumption, a decline in gross fixed capital formation and a large depletion of inventories. Government consumption was the only component that did not drag down domestic demand in Q3:18.

Looking ahead, in view of the recent high frequency economic indicators, the ongoing tight monetary policy stance (see below), the absence of fiscal policy support and tight external financing conditions, we expect economic activity to contract in Q4:18 (-2.8% y-o-y). Provided that the 9M:18 growth performance (4.5% y-o-y) is not revised, we foresee FY:18 GDP growth at 2.5%.

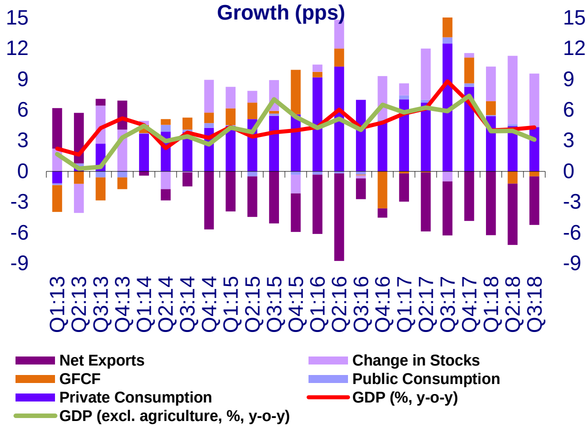
The CBRT is likely to keep its key policy rate unchanged at 24.0% and maintain a tightening bias at least until end-H1:19. Despite the sharp decline in headline inflation in November (to 21.6% y-o-y from a 15-year high of 25.2% in October) and the significant slowdown in economic activity in Q3:18, the CBRT maintained unchanged its central policy rate -- 1-week repo rate -- at 24.0% at its December 13th MPC meeting.

In the statement accompanying the rate decision, the CBRT noted that "*while developments in import prices and domestic demand conditions improved the inflation outlook somewhat, risks on price stability continue to prevail*". Accordingly, it reiterated that a tight monetary policy stance will be maintained until the inflation outlook displays a significant improvement, and emphasized its determination to deliver further tightening, if needed.

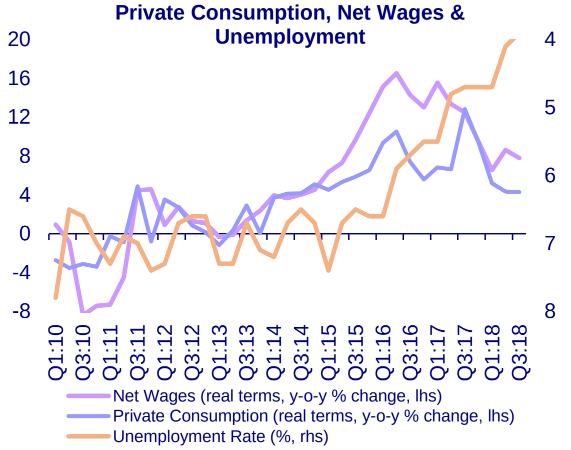
Looking ahead, barring strong political pressures for lower rates in the run-up to the March local elections, we expect the CBRT to refrain from initiating a new cycle of monetary policy loosening at least until June 2019, in view of a challenging inflation outlook (headline inflation is set to remain above 20.0% y-o-y until June 2019) and tight external financing conditions. Note that, in 10M:18, the capital and financial account did not help finance the current account deficit of USD 27.2bn, as it posted a deficit of USD 6.5bn against a surplus of USD 39.7bn a year earlier, while the two gaps were covered through large non-identified capital inflows (errors & omissions, USD 18.4bn) and a significant depletion of FX reserves (USD 15.2bn or 14.1% of end-2017 stock of FX reserves). According to our Taylor rule, assuming, *inter alia*, a softer inflation at end-2019 (c. 15.0% y-o-y against c. 20.0% at end-2018), the CBRT should cut the 1-week repo rate by 400 bps to 20.0% in the last 7 months of 2019.

Romania

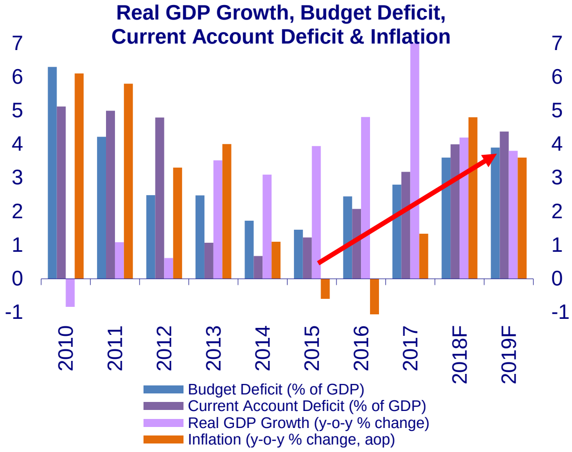
BBB- / Baa3 / BBB- (S&P / Moody's / Fitch)



Contribution Rates to Annual Real GDP Growth (pps)



Private Consumption, Net Wages & Unemployment



Real GDP Growth, Budget Deficit, Current Account Deficit & Inflation

	17 Dec.	3-M F	6-M F	12-M F
1-m ROBOR (%)	2.7	3.2	3.0	3.0
RON/EUR	4.65	4.67	4.68	4.68
Sov. Spread (2024, bps)	127	130	120	110

	17 Dec.	1-W %	YTD %	2-Y %
BET-BK	1,616	-0.4	-2.2	21.2
	2016	2017	2018F	2019F	2020F
Real GDP Growth (%)	4.8	7.0	4.2	3.8	3.4
Inflation (eop, %)	-0.5	3.3	3.9	3.3	3.0
Cur. Acct. Bal. (% GDP)	-2.1	-3.2	-4.0	-4.4	-4.7
Fiscal Bal. (% GDP)	-2.4	-2.8	-3.6	-3.9	-4.1

The Romanian economy gained further momentum in Q3:18. GDP increased by a solid 1.9% q-o-q s.a. in Q3:18 following a rise of 1.5% in Q2:18 and a weak 0.3% in Q1:18. As a result, the annual pace of economic expansion picked up slightly to 4.3% y-o-y in Q3:18, bringing 9M:18 growth to 4.2% y-o-y, still below its 9M:18 outcome of 7.1%.

Private consumption remained the main engine of growth in Q3:18. Private consumption continued to expand at a strong pace (up 4.3% y-o-y for a 2nd consecutive quarter in Q3:18), sustained by higher agricultural income (the sector added 1.6 pps of GDP to overall growth). Note that, albeit having slowed significantly from the double-digit rates witnessed last year, growth in private consumption remains solid, reflecting tight labour market conditions (the LFS unemployment rate currently stands at a historical low of 4.1%), strong consumer confidence and the loose incomes policy. Regarding the latter, public wages rose by 25% in January, with certain sub-sectors receiving another 20% increase in March, and pensions were raised by 10% in July. The PIT was also cut by 6 pps to 10%. The impact of the loose incomes policy on disposable income was moderated, however, by the shift in the bulk of the social security contributions' burden onto employees as of the beginning of the year.

Worryingly, fixed investment continued to drop in Q3:18 (down 1.6% y-o-y following a decline of 4.8% in Q1:18). Note that the (4-quarter rolling) investment-to-GDP ratio fell to a low of 25.1% in Q3:18 from a pre-crisis high of 40.0%. This deterioration was more than offset, however, by the build-up in inventories (incl. statistical discrepancies, adding a sizeable 5.2 pps to overall growth in Q3:18).

Against the backdrop of strong domestic demand, net exports remained a drag on overall growth in Q3:18 (shaving 4.7 pps off headline growth against 6.0 pps in Q2:18).

Economic growth is set to ease slightly in FY:19. Looking ahead, in view of negative base effects and better absorption of EU funds, fixed investment should gain momentum, driven by the public sector. At the same time, despite gradually easing inflation, private consumption is expected to slow, as nominal wage growth moderates on the back of a far more modest incomes policy (pensions are due to rise by 15% in September, while public sector wages are expected to be frozen at their current levels). Reflecting the economic imbalances, net exports are due to remain a large drag on overall growth. All said, assuming normalization in agricultural production, we see FY:19 GDP growth easing to 3.8% from 4.2% in FY:18 (an implied 4.2% in Q4:18).

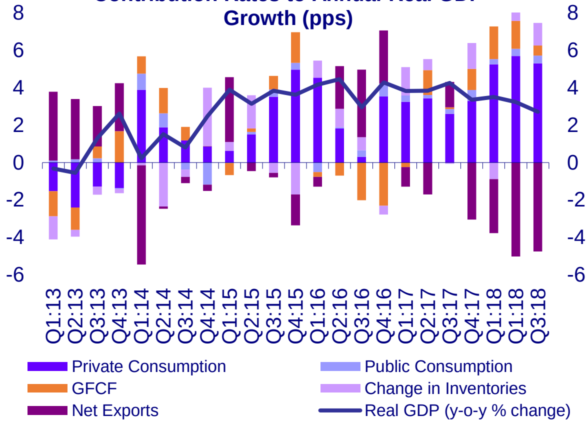
Worryingly, overheating concerns remain, with GDP growth well above its long-term potential (of c. 3.0%) for a 7th consecutive year and the current account deficit up sharply (to a projected 4.4% of GDP in FY:19 from a low of 0.4% in FY:14). At the same time, fiscal policy remains expansionary (under no policy change, the budget deficit is set to widen to 3.9 of GDP in FY:19 -- above the critical EU threshold of 3.0% -- from 3.6% in FY:18 and a low of 1.5% in FY:15).

Against this backdrop, the NBR appears to be significantly behind the curve. Our "Taylor rule" estimates suggest that rates should be raised to 4.5% from 2.5% currently, to address these challenges. However, with headline inflation projected to fall within its target range (2.5±1%), the authorities appear reluctant to proceed with aggressive rate hikes, especially in the context of limited or no tightening by other central banks in the region. Overall, we expect the NBR to continue to tighten its stance gradually, raising its key rate by another 50 bps to 3.0% in FY:19 (following 75 bps of hikes in FY:18).

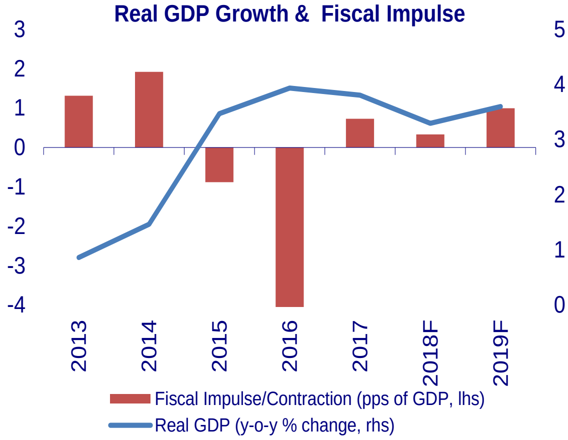
Bulgaria

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

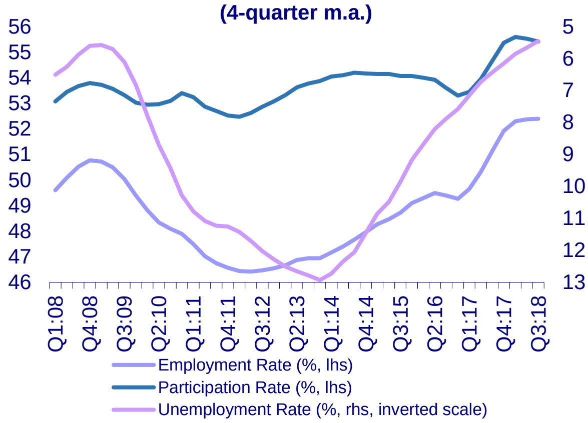
Contribution Rates to Annual Real GDP Growth (pps)



Real GDP Growth & Fiscal Impulse



Labour Market Indicators (4-quarter m.a.)



	17 Dec.	3-M F	6-M F	12-M F
Base Interest Rate (%)	0.0	0.1	0.1	0.2
BGN/EUR	1.96	1.96	1.96	1.96
Sov. Spread (2022, bps)	69	56	45	40

	17 Dec.	1-W %	YTD %	2-Y %
SOFIX	591	-0.3	-12.7	2.2

	2016	2017	2018F	2019F	2020F
Real GDP Growth (%)	3.9	3.8	3.2	3.6	3.2
Inflation (eop, %)	0.1	2.8	3.3	3.0	2.8
Cur. Acct. Bal. (% GDP)	2.6	6.5	2.8	0.7	-0.6
Fiscal Bal. (% GDP)	1.6	0.8	0.5	-0.5	-0.5

The Bulgarian economy lost momentum in Q3:18. The annual pace of economic expansion slowed to 2.7% y-o-y (up 0.7% q-o-q s.a.) in Q3:18 from 3.1% (up 0.8% q-o-q s.a.) in Q2:18, bringing 9M:18 growth to 3.1% y-o-y against 4.0% in 9M:17.

Private consumption continued to provide the main impetus to economic growth, while investment decelerated further. Notwithstanding the stagnation in the labour market (see below), private consumption expanded at a solid pace in Q3:18 (up 7.6% y-o-y following 8.0% in Q2:18), sustained by the pick-up in consumer lending (up 9.9% y-o-y in real terms in Q3:18 against just 1.5% in Q4:17) and wealth effects (housing prices gained 15% in real terms over the past 2 years). On the other hand, amid poor business confidence, fixed investment weakened in Q3:18 (up 3.0% y-o-y against 7.0% in Q2:18), despite higher public investment (up 0.3 pps of GDP y-o-y). Worryingly, net exports remained a large drag in Q3:18 (subtracting 4.7 pps from headline growth against 5.0 pps in Q2:18), due, *inter alia*, to weaker external demand from Bulgaria's non-EU trade partners. The latter is attributed to the appreciation of the EUR against the USD (up 5.5% y-o-y in real terms on average in 9M:18).

GDP growth is set to rebound in FY:19, fueled by a looser fiscal stance. We expect private consumption to strengthen in FY:19, reflecting a looser incomes policy (public wages are due to rise by 10% in January, with the education sector receiving an extra 10% raise, and pensions will rise by 4.6% in July) and its spillover to the private sector. Fixed investment is also set to gain momentum, driven by the public sector (according to the FY:19 budget, public investment is due to rise by 1.4 pps of GDP). At the same time, favorable domestic liquidity conditions (the loan-to-deposit ratio stands at 76%) and low interest rates should sustain private investment. Against the backdrop of strong domestic absorption, net exports should remain a drag on overall growth, albeit smaller compared with FY:18, mainly due to positive base effects. All said, we see FY:19 GDP growth improving to 3.6% from 3.2% in FY:18 -- above its long-term potential of c. 3.0%.

The labour market is showing signs of stagnation. The unemployment rate fell by 0.8 pps y-o-y to a low of 5.0% in Q3:18, a 19th consecutive quarter of decline. However, for a 2nd consecutive quarter, the improvement in the unemployment rate was due to the decline in the number of unemployed seeking work, as suggested by the easing participation rate (down 0.4 pps y-o-y to 56.1%), rather than higher employment. Indeed, after a strong rise in 2014-17 (at a CAGR of 1.9%), employment has begun to decline, albeit slowly (down 0.6% y-o-y for a 2nd consecutive quarter in Q3:18). In this context, wage pressures eased (up 4.0% y-o-y in real terms in Q3:18 against hikes of 5.2% in H1:18 and 7.8% in FY:17). Albeit slowing, real wage growth still surpasses productivity gains (c. 3.0% p.a. over the past 4 years).

Structural problems cloud the outlook for the labour market. Long-term unemployment remains high (60% of people have been unemployed for 12 months or more in Bulgaria -- the 2nd highest in the EU after Greece), reflecting labour market rigidities and skills mismatches. At the same time, the labour force is shrinking due to migration and ageing (down c. 1.0% p.a. over the past 8 years). In this context, we expect the labour market to remain stagnant in FY:19, with employment falling marginally against broadly no change on average in FY:18 and the unemployment rate stabilising at c. 5.3%. As a result, and in view of the looser incomes policy, wage pressures are set to persist in FY:19. However, this is still not a major concern. Indeed, with total costs being 1/6th of the EU average, competitiveness remains strong as reflected in the large current account surplus (see table).

Serbia

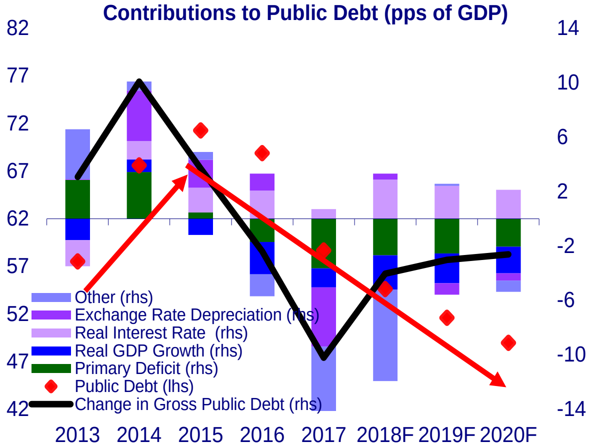
BB / Ba3 / BB (S&P / Moody's / Fitch)

Consolidated Fiscal Balance (% of GDP)

	2017	9M:17	9M:18	2018* Budget	2018F NBG
Revenue	41.5	30.5	30.4	39.8	40.8
Tax Revenue	36.1	26.7	26.5	35.1	35.7
PIT	3.5	2.6	2.5	3.4	3.5
CIT	2.4	1.9	1.8	1.9	2.2
VAT	10.1	7.5	7.4	9.9	9.7
Excises	5.9	4.4	4.2	5.7	5.7
Customs	0.8	0.6	0.6	0.8	0.8
Other taxes	1.5	1.1	1.1	1.5	1.5
Soc. Contrib.	11.9	8.7	8.9	11.9	12.3
Non-Tax Rev.	5.2	3.7	3.8	4.4	4.9
Grants	0.2	0.1	0.1	0.3	0.2
Expenditure	40.4	28.8	29.3	40.4	40.2
Current Exp.	36.7	26.5	26.4	36.5	36.2
Personnel	9.0	6.7	6.9	9.2	9.2
Goods & Services	6.3	4.3	4.6	6.5	6.6
Subsidies	2.4	1.4	1.4	2.2	2.3
Social Assist.	15.1	11.1	10.8	14.8	14.8
o/w Pensions	10.5	7.8	7.7	10.4	10.4
Other	1.3	0.9	0.9	1.4	1.3
Int. Payments	2.5	2.2	1.9	2.4	2.1
Capital Exp.	2.8	1.6	2.4	3.4	3.4
Activated Guarant.	0.6	0.4	0.3	0.4	0.4
Net Lending	0.3	0.2	0.1	0.1	0.2
Fiscal Balance	1.1	1.7	1.1	-0.6	0.6
Primary Balance	3.6	3.9	2.9	1.8	2.7

*The rise in spending in FY:18 is a result of large fiscal space following stronger-than-expected consolidation under the IMF programme in 2015-17 (that led to a structural adjustment of 6.0 pps of GDP against 4.0 pps projected under the programme).

Contributions to Public Debt (pps of GDP)



	17 Dec.	3-M F	6-M F	12-M F
1-m BELIBOR (%)	2.7	2.9	3.1	3.5
RSD/EUR	118.2	116.5	116.0	115.0
Sov. Spread (2021, bps)	166	150	130	120

	17 Dec.	1-W %	YTD %	2-Y %
BELEX-15	747	0.7	-1.7	3.6

	2016	2017	2018F	2019F	2020F
Real GDP Growth (%)	3.3	2.0	4.3	4.0	3.8
Inflation (eop, %)	1.6	3.0	2.5	2.8	3.0
Cur. Acct. Bal. (% GDP)	-2.9	-5.3	-4.9	-4.6	-4.1
Fiscal Bal. (% GDP)	-1.2	1.1	0.6	0.4	-0.2

The fiscal policy stance turned expansionary in 9M:18. The cumulative consolidated fiscal surplus moderated by 0.8 pps y-o-y to 1.1% of GDP in 9M:18, reflecting both lower revenue (by 0.2 pps of GDP y-o-y) and higher expenditure (up 0.5 pps of GDP y-o-y).

The weaker revenue performance in 9M:18 resulted mainly from: i) lower excises (down by 0.2 pps of GDP y-o-y in 9M:18); and ii) lower VAT revenue (by 0.1 pp of GDP y-o-y), reflecting postponed 2017 refund payments (of RSD 12bn, or 0.2% of GDP) to January 2018.

On the other hand, the rise in spending in 9M:18 resulted from: i) higher capital expenditure (up 0.8 pps of GDP y-o-y), in view of the country's large infrastructure needs; and ii) a rise in personnel expenditure (up by 0.2 pps of GDP y-o-y), partly due to the targeted 5-10% hike in public sector wages (with a fiscal impact of 0.5 pps of GDP in FY:18). The rise in outlays in 9M:18 was, however, held back by lower interest payments (down 0.3 pps of GDP y-o-y), due to the decline in public debt, lower interest rates and a stronger RSD.

The FY:18 deficit is set to overperform its target for a 4th successive year by a wide margin. The 2018 Budget envisages an expansionary fiscal stance, targeting a fiscal deficit of 0.7% of GDP -- 1.9 pps above the FY:17 outcome. In our view, the y-t-d performance and recent trends suggest that the 2018 deficit is set to overperform its target. In fact, we expect a slight fiscal tightening in Q4:18, following an expansionary fiscal stance in 9M:18. Specifically, we foresee overall revenue weakening by 0.5 pps of GDP y-o-y in Q4:18, due to: i) weaker non-tax revenue, reflecting large once-offs in 2017; ii) lower corporate income tax that reached a record high in 2017; and iii) a milder boost from collection efficiency (that supported the revenue performance in FY:17). On the other hand, we expect expenditure to decline by 0.7 pps of GDP y-o-y in Q4:18, despite the above-mentioned public sector wage hikes and a 5% increase in pensions (with a fiscal impact of 0.4 pps of GDP in FY:18). The decline in expenditure in Q4:18 should result from the continued drop in interest payments and a base effect from (once-off) pension and public sector wage bonuses (of 0.3% of GDP at end-2017).

Overall, we see the FY:18 fiscal balance posting a surplus (for a 2nd consecutive year) of 0.6% of GDP -- overperforming its deficit target of 0.7% of GDP and resulting in a fiscal impulse of 0.6 pps of GDP (for the first time in 5 years).

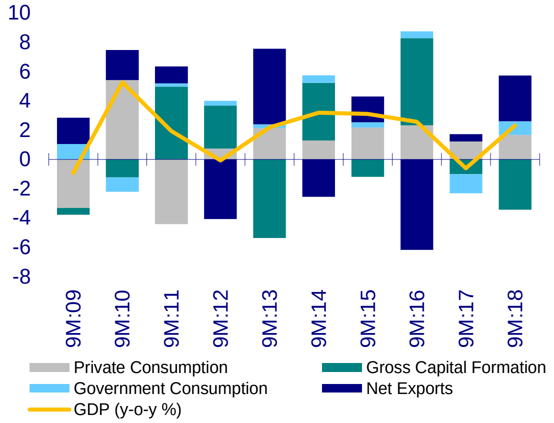
The expected FY:18 fiscal surplus, along with the repayment of a USD 1.0bn Eurobond (or 2.0% of GDP) and the early repayment of the EUR 138.8mn (0.3% of GDP) London Club debt, should help reduce the public debt-to-GDP ratio for a 3rd successive year to 54.6% of GDP from 58.7% in FY:17 and a 12-year high of 71.3% at end-2015.

The 2019 Budget is set to meet its deficit target of 0.5% of GDP. The 2019 Budget envisages an expansionary fiscal stance, targeting a fiscal deficit of 0.5% of GDP -- 1.1 pp above the expected FY:18 outcome. The FY:19 deficit target is attainable, in view of both the FY:19 tax revenue and expenditure growth targets (of 4.6% and 6.0%, respectively). Note that the FY:19 tax revenue growth target -- adjusted for the abolition of the 0.75% unemployment benefit contribution (with a fiscal impact of 0.2 pps of GDP in FY:19) -- is broadly in line with our nominal GDP growth forecast of 6.7%, while the FY:19 expenditure growth target is inflated by the impact of the abolishment of the temporary pension reductions (introduced in 2014) and a 7%-12% rise in public sector wages (each with an estimated fiscal impact of 0.6% of GDP in FY:19). Importantly, and despite the expansionary fiscal stance, the public debt-to-GDP ratio is set to ease further to c. 51.5% of GDP in FY:19.

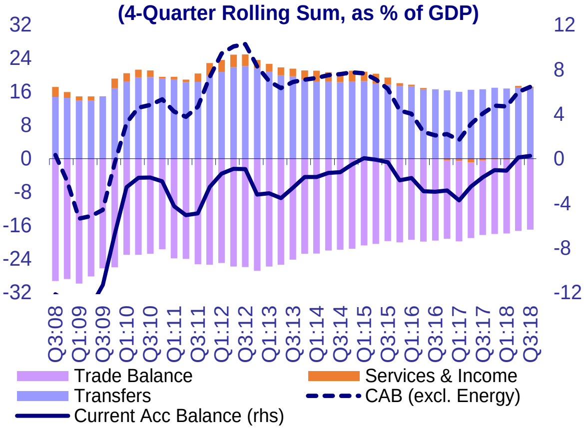
F.Y.R.O.M

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

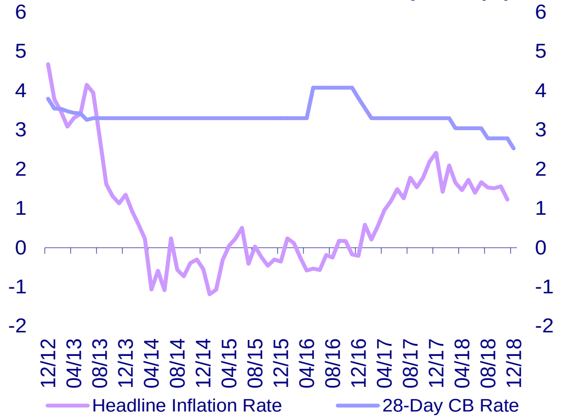
Contributions to Annual Real GDP Growth (pps)



Current Account Balance (4-Quarter Rolling Sum, as % of GDP)



Headline Inflation & Nominal Policy Rate (%)



	17 Dec.	3-M F	6-M F	12-M F
1-m SKIBOR (%)	1.2	1.8	2.3	2.8
MKD/EUR	61.3	61.3	61.3	61.3
Sov. Spread (2021. bps)	258	210	190	160

	17 Dec.	1-W %	YTD %	2-Y %
MBI 100	3,467	0.8	36.6	62.8

	2016	2017	2018F	2019F	2020F
Real GDP Growth (%)	2.8	0.2	2.5	3.8	4.0
Inflation (eop. %)	-0.2	2.4	1.9	2.0	2.0
Cur. Acct. Bal. (% GDP)	-2.8	-1.0	0.3	-1.0	-2.2
Fiscal Bal. (% GDP)	-2.7	-2.7	-2.8	-2.8	-2.7

GDP growth rebounded to 2.3% y-o-y in 9M:18 from -0.6% a year earlier. Economic activity expanded by a solid 2.3% y-o-y in 9M:18, following a small decline of 0.6% in 9M:17 and a subdued rise of 0.2% in FY:17. The main driver of growth in 9M:18 was external demand. Indeed, net exports contributed 3.1 pps to headline growth, reflecting a strong export performance (up 12.9% y-o-y), mainly on the back of increased production in industrial zones and a subdued rise in imports (up 5.7% y-o-y). On the other hand, domestic demand was a drag on overall growth in 9M:18, as strengthening private and government consumption were more than offset by a drop in gross capital formation (which includes gross fixed capital formation, changes in inventories and statistical discrepancies). The latter subtracted a sizeable 3.4 pps from 9M:18 growth, mainly due to a sharp decline in public investment, reflecting delays in the clearance of "*administrative obstacles*" to the resumption of key infrastructure projects.

Looking ahead, in view of recent trends, we expect the economic recovery to strengthen in Q4:18 (up 3.0% y-o-y from 2.3% in 9M:18), which will bring FY:18 growth to a 2-year high of 2.5%. For 2019, GDP growth is set to accelerate to 3.8%, mainly on the back of firming domestic demand. The latter should reflect strengthening confidence in the domestic economy, with the finalisation of the name change agreement with Greece in Q1:19, which will open the door for the country to start EU accession talks and join NATO.

The 4-quarter rolling current account balance (CAB) turned into a surplus of 0.2% of GDP in Q3:18 from a deficit of 1.0% in Q4:17, due to a favourable balance of goods & services. The latter improved by 1.4 pps of GDP y-o-y in 9M:18, as a sharp rise in exports (up 14.6% y-o-y) outpaced that of imports (up 9.8% y-o-y). The positive CAB performance would have been even stronger had energy imports not increased (up 0.5 pps of GDP y-o-y), in line with global oil price developments.

The capital & financial account (CFA) balance posted a surplus of 3.0% of GDP in 9M:18 against a deficit of 1.9% in 9M:17. The improvement was due to a sharp rise in (net) portfolio investments (up 3.4 pps of GDP y-o-y), following the placement of a EUR 0.5bn (4.7% of GDP) Eurobond in January, and a significant rise in net FDI inflows (up 2.8 pps of GDP y-o-y), reflecting increased investor confidence stemming from the country's improved economic prospects. As a result, and accounting for valuation effects, FX reserves rose by EUR 373mn y-t-d to EUR 2.7bn in September (4.4 months of imports).

The Central Bank lowered its key rate for the third time this year, by 25 bps, to an all-time low of 2.5%. The NBRM proceeded with an additional 25 bp cut to its key 28-day CB bill rate at its December MPC meeting, to a record low of 2.5%, bringing total cuts to 150 bps since the initiation of the cycle of monetary policy easing in December 2016. The rate cut was motivated by: i) positive inflation developments (headline inflation is projected to ease to 1.9% y-o-y in December from 2.4% a year earlier); ii) a still negative output gap (-1.0% on a 4-quarter rolling basis in Q4:18); iii) the absence of pressures on external accounts; and iv) continued fiscal prudence.

Looking ahead, in view of a persistently negative, albeit closing, output gap and relatively stable inflation (up slightly to 2.0% y-o-y at end-2019 from 1.9% at end-2018) and barring a political crisis ahead of the April Presidential elections, we expect the CB to maintain its central rate unchanged at least until Q3:19, when the ECB and most neighbouring countries are set to embark on a new cycle of monetary policy tightening. Overall, we expect the CB to hike its policy rate by 25-50 bps to 2.75-3.0% in Q4:19.

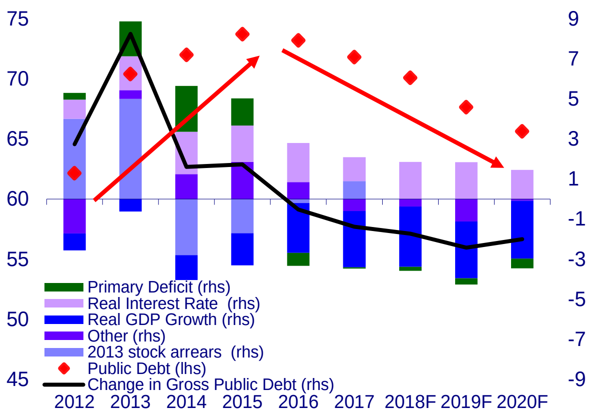
Albania

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

Consolidated Fiscal Balance (% of GDP)	2017	10M:17	10M:18	2018 Revised Budget	NBG 2018F
Revenue	27.7	22.9	22.4	28.1	27.2
Tax Revenue	25.7	21.3	21.0	25.7	25.3
o/w VAT	9.0	7.4	7.2	9.0	8.8
Grants	0.7	0.5	0.3	0.9	0.5
Non-Tax Rev.	1.3	1.2	1.2	1.6	1.4
Expenditure	29.7	23.2	22.3	30.1	29.2
Current Exp.	24.6	19.9	19.3	24.7	24.3
o/w interest	2.1	1.6	1.8	2.5	2.3
Capital Exp.	4.4	3.0	3.0	5.2	4.9
Net Lending	0.6	0.3	0.0	-0.1	0.0
Contingency	0.0	0.0	0.0	0.2	0.0
Fiscal Bal.	-2.0	-0.2	0.1	-2.0	-2.0
Primary Bal.	0.1	1.3	1.9	0.6	0.3

Consolidated Fiscal Balance (% of GDP)	2017	2018 Revised Budget	NBG 2018E	2019 Budget	NBG 2019F
Revenue	27.7	28.1	27.2	27.7	26.8
Tax Revenue	25.7	25.7	25.3	25.5	24.9
o/w VAT	9.0	9.0	8.8	8.7	8.5
Grants	0.7	0.9	0.5	0.9	0.7
Non-Tax Rev.	1.3	1.6	1.4	1.4	1.2
Expenditure	29.7	30.1	29.2	29.6	28.7
Current Exp.	24.6	24.7	24.3	24.3	23.9
Capital Exp.	4.4	5.2	4.9	5.1	4.8
Net Lending	0.6	-0.1	0.0	0.0	0.0
Contingency	0.0	0.2	0.0	0.2	0.0
Fiscal Bal.	-2.0	-2.0	-2.0	-1.9	-1.9
Primary Bal.	0.1	0.6	0.3	0.5	0.3

Contributions to Public Debt (pps of GDP)



	17 Dec.	3-M F	6-M F	12-M F
1-m TRIBOR (mid, %)	1.3	1.5	1.7	2.0
ALL/EUR	122.9	123.8	123.5	122.0
Sov. Spread (bps)	238	215	200	180

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

	2016	2017	2018F	2019F	2020F
Real GDP Growth (%)	3.4	3.8	4.2	4.0	4.2
Inflation (eop, %)	2.2	1.8	2.3	2.5	2.8
Cur. Acct. Bal. (% GDP)	-7.5	-7.5	-6.8	-5.7	-5.3
Fiscal Bal. (% GDP)	-1.8	-2.0	-2.0	-1.9	-1.8

The fiscal balance improved in 10M:18, due to expenditure restraint. The cumulative fiscal balance turned into a surplus of 0.1% of GDP in 10M:18 from a deficit of 0.2% in 10M:17, as lower revenue (down 0.6 pps of GDP y-o-y in 10M:18) was more than offset by expenditure restraint (down 0.9 pps of GDP).

The poor revenue performance resulted from: i) lower grants (down 0.2 pps of GDP y-o-y in 10M:18); as well as ii) lower VAT and excise revenue (each down by 0.2 pps of GDP), mainly due to the ALL appreciation. The revenue performance would have been worse in 10M:18 had revenue-enhancing measures not been introduced (c. 0.2 pps of GDP in FY:18, including a hike in excises on cigarette) and had the PIT and social contributions not increased, on the back of strong economic activity and tightening labour market conditions, as well as the Government's campaign against informal employment.

On the other hand, the decline in expenditure in 10M:18 occurred on the back of lower net lending for the energy sector (that reflected high energy imports in FY:17, following a prolonged drought that limited hydropower production), as well as lower social transfers (each down by 0.3 pps of GDP).

As a result, the 12-month rolling fiscal deficit shrank to 1.7% of GDP in October from its level of 2.0% at end-2017.

Fiscal prudence to be observed in 2018. The 2018 (revised) Budget envisages a neutral fiscal stance, targeting a deficit of 2.0% of GDP, unchanged from the FY:17 outcome. In view of the y-t-d performance and recent trends, the FY:18 deficit target should be attained.

In fact, we expect an expansionary fiscal stance during the rest of the year (0.3 pps of GDP y-o-y in 11-12M:18), offsetting the tightening in 10M:18. Specifically, we expect expenditure to rise (by 0.4 pps of GDP y-o-y in 11-12M:18), due to a strong increase in capital expenditure (up 0.5 pps of GDP y-o-y in 11-12M:18), and the payment of a bonus to pensioners (adding 0.2 pps of GDP to the fiscal deficit). Moreover, we expect revenue to remain broadly unchanged in 11-12M:18 from its level in in 11-12M:17.

Overall, we see the FY:18 fiscal deficit at 2.0% of GDP. Importantly, even with a neutral fiscal stance, the public debt-to-GDP ratio is set to decline further, to a 6-year low of 70.0% of GDP in FY:18.

The 2019 Budget is set to meet its deficit target of 1.9% of GDP. The 2019 Budget envisages a slightly tighter fiscal stance, targeting a deficit of 1.9% of GDP, 0.1 pp of GDP below the expected FY:18 outcome.

In our view, the FY:19 deficit target appears challenging, as it is based on over-estimated FY:18 revenue (28.1% of GDP against an expected outcome of 27.2%).

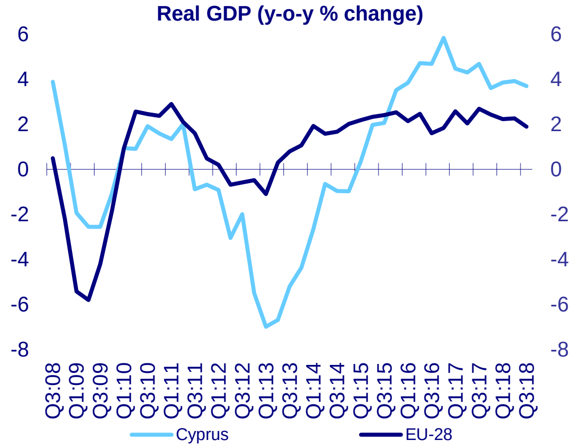
In fact, in the absence of new tax measures, we expect FY:19 revenue growth at 4.6% y-o-y (below our nominal GDP growth forecast of 6.3%) -- underperforming its target of 8.2% and resulting in a revenue shortfall of 0.9 pps of GDP in FY:19.

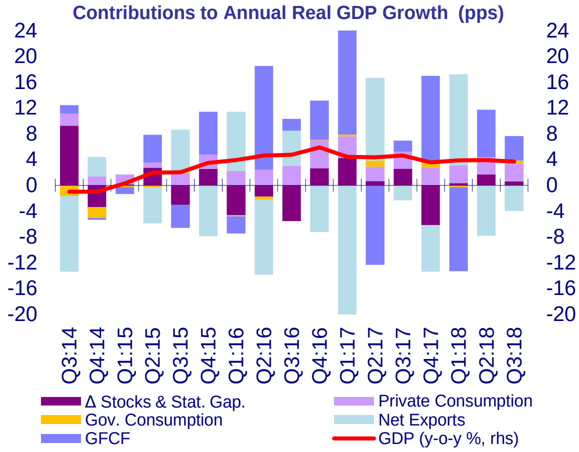
Therefore, meeting the FY:19 fiscal deficit target will require, once again, a significant under-execution of spending. In fact, in order to compensate for the expected revenue shortfall, FY:19 expenditure growth should be contained at 5.4% -- below its target growth of 7.0%. The achievement of the required moderate expenditure growth will be facilitated by lower-than-projected interest payments -- which were over-estimated in FY:18 (by 0.2 pps) and met through lower capital spending (0.3 pps) and the saving of contingency reserves (0.2 pps).

Importantly, even with a broadly neutral fiscal stance, the public debt-to-GDP ratio is set to narrow further, to a 7-year low of 67.6% of GDP in FY:19.

Cyprus

BBB- / Ba2 / BBB- (S&P / Moody's / Fitch)





Revised "Estia" subsidy scheme	
Overview	Provides state financial assistance, in the form of debt reduction subsidies, to eligible distressed borrowers with loans secured with their primary residence
Eligibility criteria	- **Borrowers**: Households and micro companies residents in Cyprus with: a) at least 20% of outstanding loan balance more than 90 days past due (90+ DPD) as of end-Q3:17, and b) market value of primary residence pledged as collateral not exceeding EUR 350k - **Income**: between EUR 20k for households with one member and EUR 60k for households with at least 4 dependent family members (in total 6 income brackets) - **Wealth (excl. primary residence)**: Up to 80% of market value of primary residence (max EUR 250k)
Terms & conditions	- **Duration**: max 25 years (depends on borrower's age) - **Interest rate**: 6M Euribor + premium of 2.5% during first 7 years (max 3.5%); 6M Euribor + 2.0% thereafter - **Subsidy**: fixed at 1/3 of restructured loan installment conditional that borrower is current on his obligation

	17 Dec.	3-M F	6-M F	12-M F
1-m EURIBOR (%)	-0.37	-0.37	-0.37	-0.37
EUR/USD	1.13	1.22	1.24	1.26
Sov. Spread (2020. bps)	94	80	65	50

	17 Dec.	1-W %	YTD %	2-Y %
CSE Index	66	0.5	-5.4	0.9

	2016	2017	2018F	2019F	2020F
Real GDP Growth (%)	4.8	4.2	4.0	3.6	3.2
Inflation (eop. %)	-0.3	-0.6	2.4	2.0	2.0
Cur. Acct. Bal. (% GDP)	-5.1	-8.4	-6.9	-8.0	-7.4
Fiscal Bal. (% GDP)	0.3	1.8	2.8	3.0	3.0

Economic activity posted solid growth of 3.7% y-o-y in Q3:18. The annual pace of economic expansion stood at a solid 3.7% y-o-y in Q3:18, down slightly from 3.9% y-o-y in H1:18 and comparing favourably with the EU-28 Q3:18 outcome of 1.9% y-o-y.

The strong growth performance in Q3:18 was driven by an across-the-board improvement in domestic demand. Indeed, gross fixed capital formation (GFCF) contributed 3.8 pps to overall growth in Q3:18, mainly on the back of higher mostly-imported (net) investment in shipping (see below) and double-digit growth in residential and tourism infrastructure investment.

Moreover, both private and public consumption supported domestic demand in Q3:18 (contributing 2.7 pps of GDP and 0.5 pps of GDP, respectively). The former continued to benefit from rising real disposable income, in line with strong employment growth (broadly unchanged at a solid 5.5% y-o-y since the beginning of the year) and higher real wages, reflecting mainly the resumption of the Cost of Living Allowance and automatic wage increments for public sector employees last January. Government consumption saw its contribution to overall growth turning positive for the first time this year in Q3:18, in line with a slight easing of the fiscal policy stance.

Not surprisingly, net exports were a drag on headline growth in Q3:18 (subtracting 4.0 pps of GDP), mainly on the back of a sharp decline in exports of ships (reflecting de-registration of ships) which outpaced that of imports of ships. However, excluding ships, the drag from net exports on Q3:18 overall growth was milder (1.2 pps of GDP), mainly due to a weaker tourism sector, reflecting declining support from the island's main source countries -- the UK, Russia and Israel.

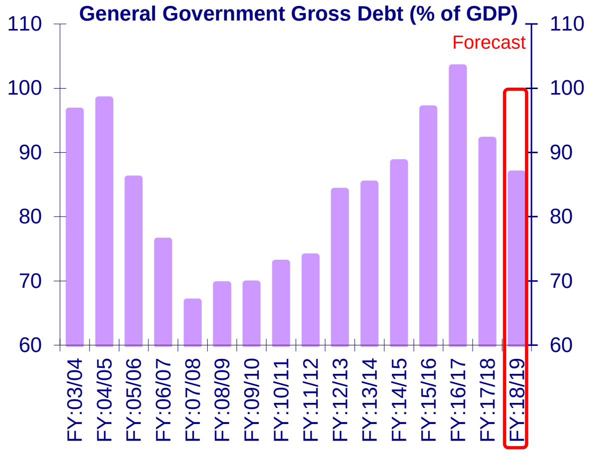
Looking ahead, we expect Q4:18 GDP growth to rebound to 4.4% y-o-y, on the back of a supportive base effect, bringing FY:18 GDP growth to 4.0% -- well above the long-term growth potential of 2.5% for a third consecutive year. For FY:19, GDP growth is set to decelerate to a still strong 3.6%, due to a normalization in GFCF and, to a lesser extent, weaker private consumption in line with increased household debt servicing following the recent efforts to reduce banks' stocks of non-performing exposures (see below).

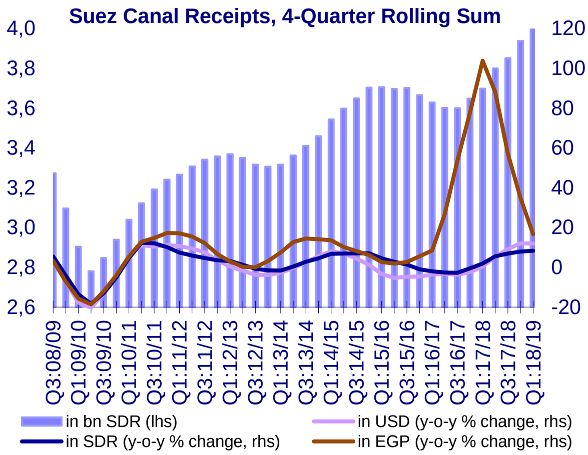
The European Commission for Competition (ECC) approved the revised subsidy scheme "Estia" -- set to provide support to "vulnerable" distressed borrowers with loans secured with their primary residence. Recall that, along with the privatisation of Cyprus Cooperative Bank and amendments to the foreclosure and insolvency, the House of Parliament approved in mid-July an initial draft of the "Estia" scheme, aimed at providing financial assistance to "vulnerable" (subject to wealth and income criteria) distressed borrowers to start servicing their debt secured with their primary residence. The initial draft of the scheme was later revised in line with the ECC's recommendations to address moral hazard and fairness problems (through tighter wealth and income criteria). The ECC approved the revised scheme as being "*well-targeted, and limited in time and scope*" and concluded that it "*does not involve any state aid*" to borrowers. In its final form, the scheme grants an annual subsidy payment amounting to ⅓ of entitled borrowers' principal and interest payments subject to strict performance, wealth and income criteria (see table). "Estia" is expected to be implemented within H1:19, at an annual budget cost of EUR 33mn (0.2% of GDP in FY:19). Importantly, the scheme will contribute to the acceleration of the reduction of banks' high stock of non-performing exposures (standing at 38.9% of gross loans at end-H1:18) and thus ease pressures on banks' profitability and improve their lending capacity.

Egypt

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

Fiscal Accounts (% of GDP)	2017/18 Estimate	Q1: 2017/18 Outcome	Q1: 2018/19 Outcome	2018/19 Budget	NBG 2018/19 Forecast
Revenue	18.2	2.9	3.3	18.8	18.8
Tax Revenue	14.1	2.2	2.6	14.7	14.7
Other Revenue	4.1	0.7	0.7	4.1	4.1
Expenditure	27.9	4.8	5.3	27.2	27.8
Wages & Salaries	5.4	1.4	1.3	5.1	5.1
Purch. of G. & S.	1.1	0.2	0.2	1.1	1.1
Interest Payments	9.8	1.7	2.1	10.3	10.9
Subsidies, grants & social benefits	7.5	0.8	0.8	6.3	6.4
Other Expenditure	4.2	0.8	0.8	4.3	4.3
Fiscal Balance	-9.7	-1.9	-1.9	-8.4	-9.0
Primary Balance	0.1	-0.2	0.1	2.0	1.9





	17 Dec.	3-M F	6-M F	12-M F
O/N Interbank Rate (%)	16.9	16.5	15.5	14.0
EGP/USD	17.9	17.8	18.0	18.0
Sov. Spread (2020. bps)	219	188	162	140

	17 Dec.	1-W %	YTD %	2-Y %
HERMES 100	1.289	5.6	-10.3	26.4

	15/16	16/17	17/18E	18/19F	19/20F
Real GDP Growth (%)	4.3	4.2	5.3	5.6	5.8
Inflation (eop. %)	14.0	29.8	14.4	14.8	12.0
Cur. Acct. Bal. (% GDP)	-6.0	-6.0	-2.4	-1.8	-1.5
Fiscal Bal. (% GDP)	-12.5	-10.9	-9.7	-9.4	-8.2

Fiscal consolidation to continue for a third consecutive fiscal year in 2018/19, but at a slower-than-envisaged pace due to a higher-than-budgeted interest bill. The primary fiscal balance turned into a surplus of 0.1% of GDP in Q1:18/19 from a deficit of 0.2% of GDP a year ago, as a small rise in primary expenditure (up 0.1 pp of GDP y-o-y) was more than offset by a sharp increase in revenue (up 0.4 pps of GDP y-o-y). Specifically, the strong revenue performance was mainly driven by taxes on income and goods & services (each up 0.2 pps of GDP y-o-y), reflecting stronger economic activity and better collection. On the other hand, the increase in primary expenditure reflects exclusively higher purchases of goods & services.

However, the overall fiscal balance did not improve in Q1:18/19, posting a deficit of 1.9% of GDP as in Q1:17/18, due to higher interest payments (up 0.4 pps of GDP y-o-y).

Looking ahead, we expect the primary fiscal balance to improve further during the rest of the fiscal year, mainly on the back of a sharp decline in energy subsidies following the recent correction in global oil prices. Indeed, the average price of Brent for FY:18/19 is set to be in line with the Budget projection of USD 67.0, as its sharp rise of c. 46.0% y-o-y in Q1:18/19 is expected to be followed by a decline by c. 7.0% y-o-y in 4-12/18/19 (consensus forecast). As a result, the primary balance will reach c. 2.0% of GDP in FY:18/19 – in line with its target and well above the estimated FY:17/18 outcome of 0.1% of GDP.

However, the envisaged consolidation of the overall fiscal balance of 1.3 pps of GDP in FY:18/19 is unattainable, due to higher-than-budgeted interest payments (by an estimated 0.6 pps of GDP), reflecting persistent higher-than-envisaged funding costs. Overall, in the absence of corrective fiscal measures, we see the FY:18/19 fiscal deficit at 9.0% of GDP -- above its target of 8.4% but below the FY:17/18 outcome of 9.7%.

SDR-denominated Suez Canal receipts (SCR) are set to post solid growth for a second consecutive fiscal year in 2018/19, provided there is no escalation in the global trade war. On a 4-quarter rolling basis, SCR continued on their upward trend for a 6th consecutive quarter in Q1:18/19, rising by 8.4% y-o-y to an all-time high of SDR 4.0bn, on the back of strong global trade. In fact, growth of world trade volume of goods is expected to reach 4.4% in 2018, after having rebounded to a 6-year high of 5.4% in 2017 from 2.1% in 2016, according to the latest IMF World Economic Outlook -- October 2018. The strong performance of SCR in SDR terms solely reflects developments in (net) tonnage of ships crossing the Canal, as transit tolls have not changed since May 2013.

Looking ahead, barring an escalation in the global trade war, we expect SCR to continue to rise, albeit at a slower pace, during the rest of the fiscal year (ending in June 2019), in view of a further slowdown in global trade in 2019 (according to the latest IMF forecasts, growth of world trade volume of goods is set to decelerate further to 4.1% in 2019 from 4.4% in 2018). We see SCR increasing by c. 6.0% to a record high of SDR 4.2bn in FY:18/19.

Importantly, due to currency valuation effects (the SDR is set to depreciate by c. 1.0% against the EGP and c. 2.0% against the USD in FY:18/19, according to consensus forecasts), the contribution of SCR to: i) budget revenue (through corporate income tax and dividends) should increase by c. 5.0% to c. EGP 73.0bn (1.4% of GDP) in FY:18/19 from an estimated EGP 70.0bn (1.6% of GDP) in FY:17/18; and ii) the current account should rise by c. 4.0% to c. USD 5.8bn (1.9% of GDP) in FY:18/19 from USD 5.6bn (2.2% of GDP) in FY:17/18.

FOREIGN EXCHANGE MARKETS, DECEMBER 17TH 2018

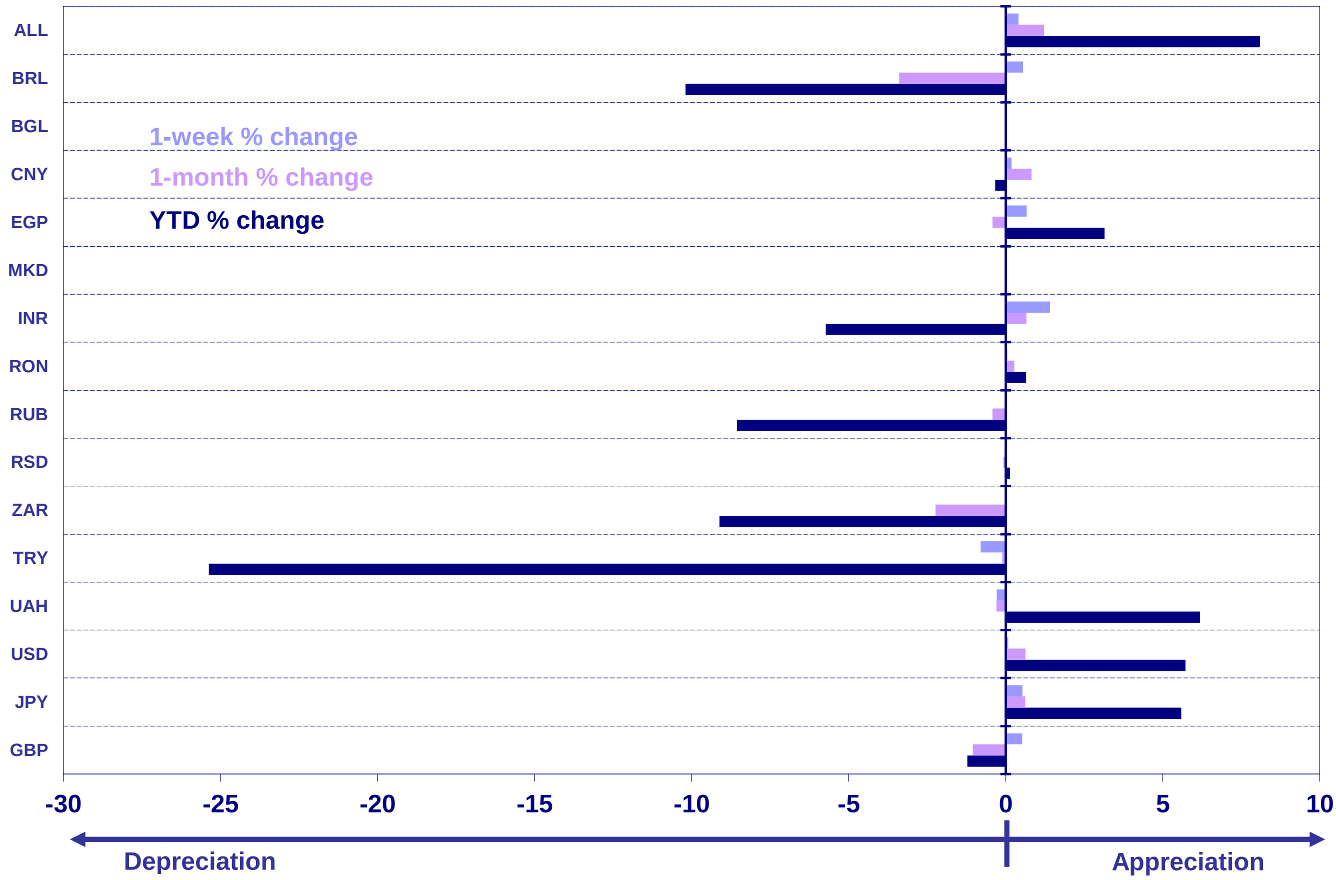
Against the EUR

	Currency	2018 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**	*2017* % change*	*2016* % change*
Albania	ALL	122.9	0.4	1.2	8.1	8.1	123.3	134.0	123.2	123.1	122.2	1.9	1.2
Brazil	BRL	4.42	0.6	-3.4	-10.2	-12.3	3.85	4.93	- - -	- - -	- - -	-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	7.83	0.2	0.8	-0.3	-0.3	7.39	8.11	- - -	- - -	- - -	-6.0	-4.0
Egypt	EGP	20.19	0.7	-0.4	3.2	3.8	19.50	22.13	- - -	- - -	- - -	-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	81.3	1.4	0.7	-5.7	-7.1	75.9	86.0	- - -	- - -	- - -	-6.7	0.4
Romania	RON	4.65	0.1	0.3	0.6	-0.7	4.62	4.68	4.68	4.73	4.83	-3.0	-0.4
Russia	RUB	75.7	0.0	-0.4	-8.6	-8.6	67.7	81.9	77.1	78.7	82.0	-6.8	22.9
Serbia	RSD	118.2	0.0	-0.1	0.1	0.3	117.6	119.1	118.7	118.9	- - -	4.2	-1.5
S. Africa	ZAR	16.3	0.0	-2.2	-9.1	-7.9	14.18	18.12	16.6	17.0	17.6	-2.7	16.2
Turkey	YTL	6.09	-0.8	-0.1	-25.4	-26.0	4.48	8.21	6.45	6.83	7.51	-18.4	-14.7
Ukraine	UAH	31.6	-0.3	-0.3	6.2	3.7	30.18	36.11	- - -	- - -	- - -	-15.2	-8.6
US	USD	1.13	0.1	0.6	5.7	3.8	1.1	1.3	1.14	1.15	1.17	-12.4	3.3
JAPAN	JPY	128.0	0.5	0.6	5.6	3.6	124.6	137.5	128.0	128.0	128.1	-8.9	6.0
UK	GBP	0.90	0.5	-1.0	-1.2	-2.1	0.9	0.9	0.90	0.91	0.91	-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 (December 17th 2018)



MONEY MARKETS, DECEMBER 17TH 2018

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine	EU	US
O/N	1.2	6.4	- - -	2.6	- - -	16.9	- - -	- - -	1.7	8.0	- - -	24.3	5.0	18.9	- - -	2.2
T/N	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	1.7	8.0	2.4	- - -	6.4	- - -	- - -	- - -
S/W	1.3	6.4	- - -	2.7	-0.4	- - -	1.0	- - -	- - -	7.8	2.4	- - -	6.9	19.2	-0.4	2.3
1-Month	1.3	6.4	0.0	3.0	-0.4	- - -	1.2	7.2	2.7	8.5	2.7	24.7	7.3	20.0	-0.4	2.5
2-Month	- - -	6.4	- - -	- - -	- - -	- - -	- - -	- - -	- - -	8.5	2.8	24.7	7.3	- - -	- - -	2.6
3-Month	1.5	6.4	- - -	3.2	- - -	- - -	1.5	7.5	3.0	8.5	3.1	24.7	7.5	20.5	- - -	2.8
6-Month	1.7	6.4	- - -	3.3	- - -	- - -	1.7	- - -	3.3	8.1	3.2	24.7	7.8	- - -	- - -	2.9
1-Year	1.8	6.6	- - -	3.5	-0.1	- - -	2.0	- - -	3.5	8.4	- - -	24.7	8.2	- - -	-0.1	3.1

*For Bulgaria, the Base Interest Rate (BIR) is reported. For Egypt, the O/N Interbank Rate is reported.

LOCAL DEBT MARKETS, DECEMBER 17TH 2018

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine	EU	US
3-Month	- - -	- - -	- - -	- - -	- - -	19.8	- - -	6.7	- - -	7.7	- - -	20.6	- - -	- - -	-0.8	2.4
6-Month	1.3	- - -	- - -	- - -	- - -	20.0	- - -	7.0	2.8	7.9	3.3	20.9	- - -	- - -	-0.7	2.5
12-Month	1.5	- - -	-0.1	2.6	- - -	20.0	1.0	7.0	3.2	7.8	2.8	21.1	- - -	18.9	-0.6	2.7
2-Year	2.0	- - -	- - -	2.8	- - -	- - -	- - -	7.2	3.5	8.0	- - -	20.2	6.2	- - -	-0.6	2.7
3-Year	- - -	- - -	0.1	2.9	0.8	- - -	- - -	7.2	3.5	8.4	- - -	18.6	7.3	18.5	-0.5	2.7
5-Year	3.8	8.7	- - -	3.1	1.0	18.4	- - -	7.4	4.2	8.4	3.7	18.0	8.4	- - -	-0.3	2.7
7-Year	5.0	- - -	0.7	- - -	1.7	18.2	- - -	7.4	4.3	8.6	- - -	- - -	- - -	- - -	0.0	2.8
10-Year	6.5	9.7	0.9	3.4	- - -	18.1	- - -	7.5	4.8	8.7	- - -	17.0	9.2	- - -	0.3	2.9
15-Year	- - -	- - -	- - -	- - -	- - -	- - -	3.0	7.6	- - -	8.8	- - -	- - -	9.9	- - -	0.5	- - -
25-Year	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	10.3	- - -	- - -	- - -
30-Year	- - -	- - -	- - -	- - -	- - -	- - -	- - -	7.7	- - -	- - -	- - -	- - -	10.2	- - -	0.9	3.1

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

CORPORATE BONDS SUMMARY, DECEMBER 17TH 2018

		Currency	Rating S&P / Moody's	Maturity	Amount Outstanding (in million)	Bid Yield	Gov. Spread	Asset Swap Spread
Bulgaria	**Bulgaria Energy Hld 4.875% '21**	EUR	NA/NA	2/8/2021	550	2.1	262	224
South Africa	**FirstRand Bank Ltd 4.25% '20**	USD	BBB-/Baa2	30/4/2020	500	4.4	173	154
	FirstRand Bank Ltd 2.25% '20	EUR	NA/NA	30/1/2020	100	0.9	153	116
Turkey	**Arcelik AS 3.875% '21**	EUR	BB+/NA	16/9/2021	350	4.3	487	431
	Garanti Bank 5.25% '22	USD	NA/Ba3	13/9/2022	750	7.3	460	423
	Turkiye Is Bankasi 6% '22	USD	NA/B2	24/10/2022	1,000	11.7	903	784
	Vakifbank 5.75% '23	USD	NA/Ba3	30/1/2023	650	9.9	716	636
	TSKB 5.5% '23	USD	NA/Ba3	16/1/2023	350	10.7	803	698
	Petkim 5.875% '23	USD	NA/B1	26/1/2023	500	8.6	585	533
	KOC Holding 5.25% '23	USD	BB+/Ba1	15/3/2023	750	7.2	445	410

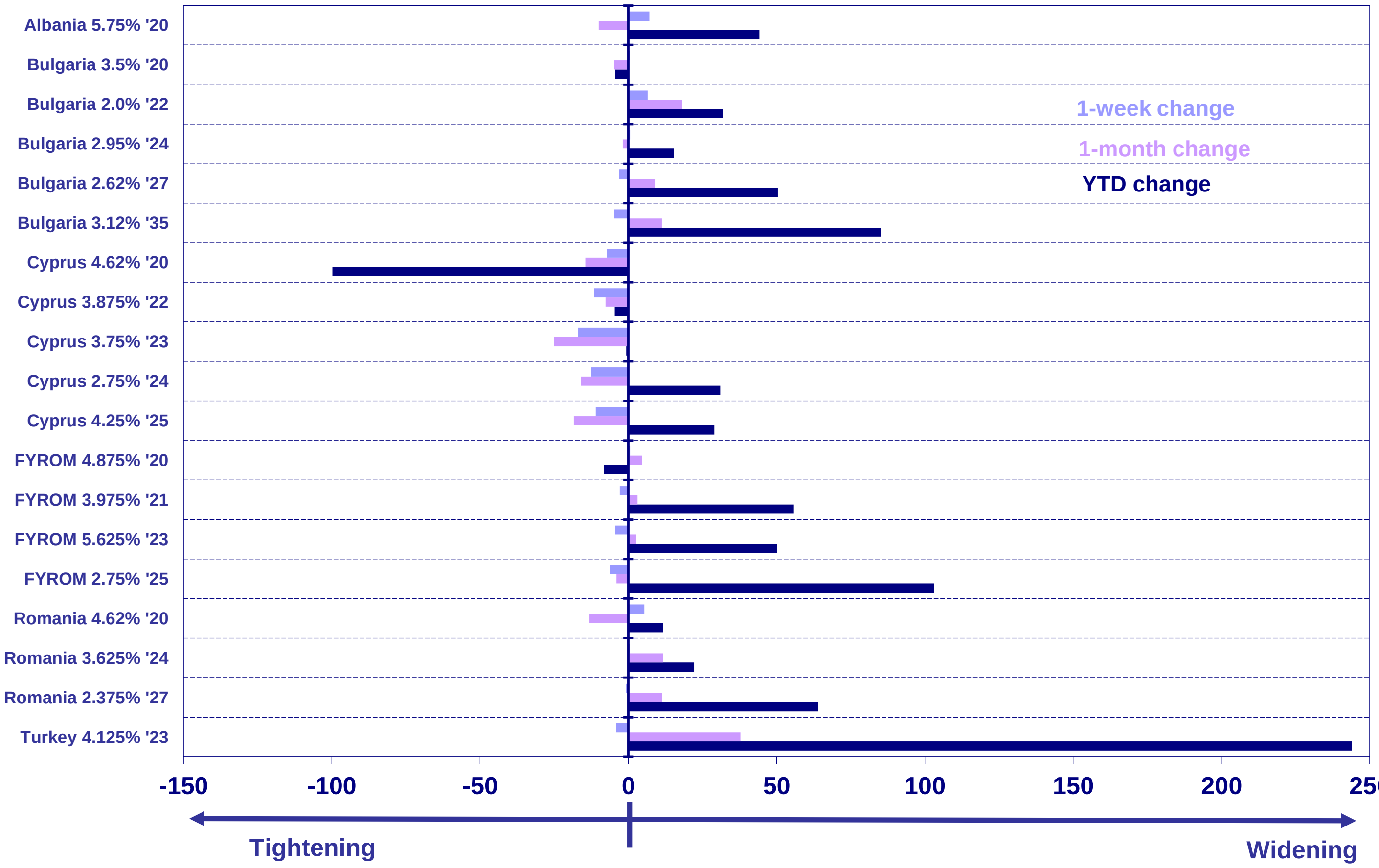
CREDIT DEFAULT SWAP SPREADS. DECEMBER 17TH 2018

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine
5-Year	- - -	195	71	64	139	369	- - -	80	104	146	116	375	220	598
10-Year	- - -	267	103	109	154	411	- - -	89	143	203	147	407	280	623

EUR-Denominated Sovereign Eurobond Summary. December 17th 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	1.8	238	204
Bulgaria 3.5% '20	EUR	NA/NA	16/1/2020	145	0.0	63	27
Bulgaria 2.0% '22	EUR	BBB-/Baa2	26/3/2022	1,250	0.2	69	16
Bulgaria 2.95% '24	EUR	BBB-/Baa2	3/9/2024	1,493	0.6	77	29
Bulgaria 2.62% '27	EUR	BBB-/Baa2	26/3/2027	1,000	1.3	120	69
Bulgaria 3.12% '35	EUR	BBB-/Baa2	26/3/2035	900	2.7	216	144
Cyprus 4.62% '20	EUR	BBB-/Ba2	3/2/2020	668	0.3	94	61
Cyprus 3.875% '22	EUR	NA/Ba2	6/5/2022	1,000	0.7	121	70
Cyprus 3.75% '23	EUR	NA/Ba2	26/7/2023	1,000	1.0	125	88
Cyprus 2.75% '24	EUR	NA/Ba2	27/6/2024	850	1.3	159	103
Cyprus 4.25% '25	EUR	NA/Ba2	4/11/2025	1,000	1.7	172	129
FYROM 4.875% '20	EUR	BB-/NA	1/12/2020	178	1.2	185	147
FYROM 3.975% '21	EUR	BB-/NA	24/7/2021	500	2.0	258	500
FYROM 5.625% '23	EUR	BB-/NA	26/7/2023	450	2.9	319	289
FYROM 2.75% '25	EUR	BB-/NA	18/1/2025	500	3.2	340	274
Romania 4.62% '20	EUR	BBB-/BBB-	18/9/2020	2,000	0.0	62	24
Romania 3.625% '24	EUR	BBB-/BBB-	24/4/2024	1,250	1.0	127	76
Romania 2.375% '27	EUR	BBB-/BBB-	19/4/2027	2,000	2.4	228	170
Turkey 4.125% '23	EUR	NR/Ba3	11/4/2023	1,000	4.5	494	425

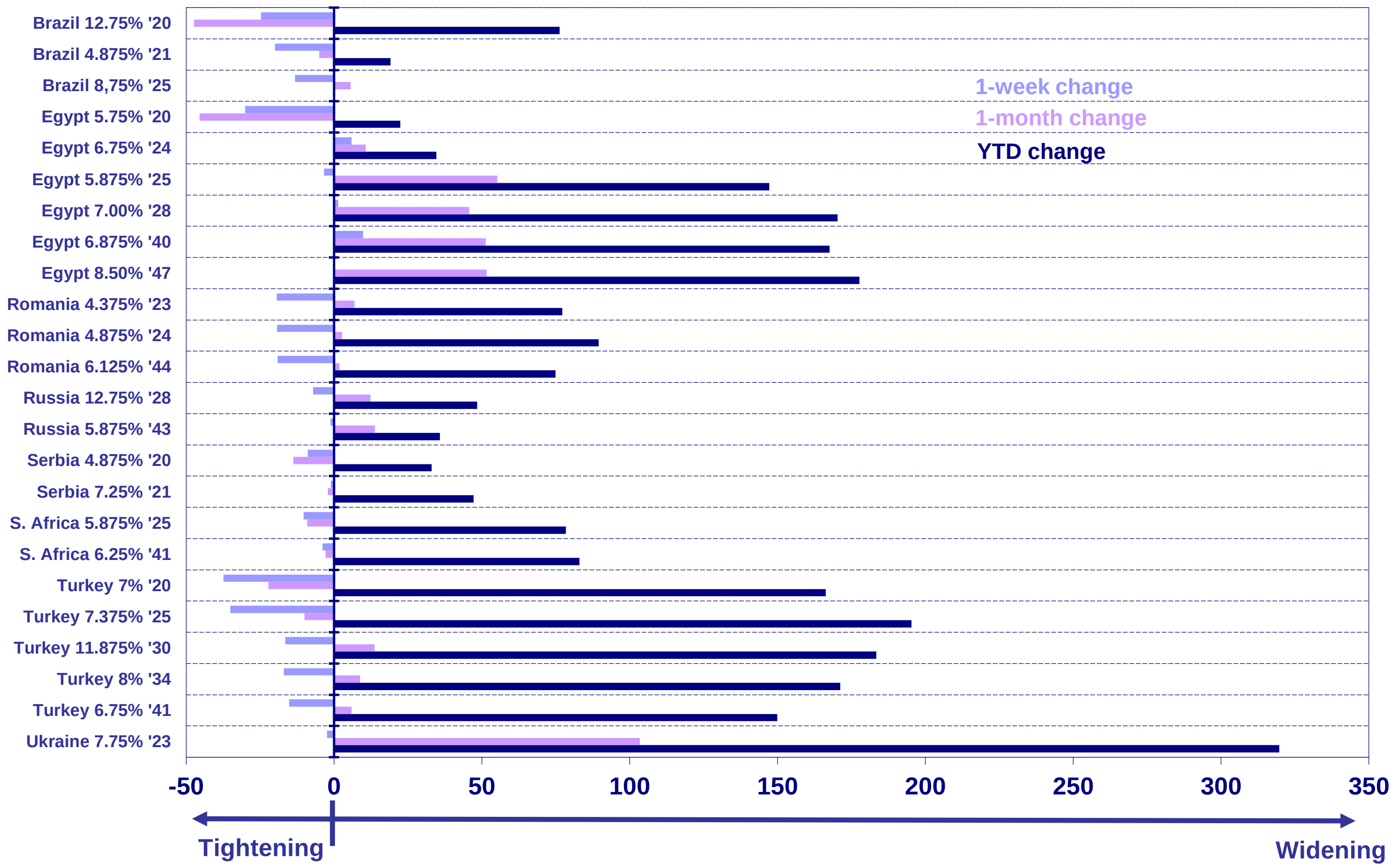
EUR-Denominated Eurobond Spreads (December 17th 2018)



USD-Denominated Sovereign Eurobond Summary. December 17th 2018

	Currency	Rating S&P / Moody's	Maturity	Amount Outstanding (in million)	Bid Yield	Gov. Spread	Asset Swap Spread
Brazil 12.75% '20	USD	NA/Ba2	15/1/2020	87	3.4	73	56
Brazil 4.875% '21	USD	NA/Ba2	22/1/2021	2,713	3.7	103	88
Brazil 8.75% '25	USD	NA/Ba2	4/2/2025	688	4.7	186	201
Egypt 5.75% '20	USD	B/B3	29/4/2020	1,000	4.9	219	197
Egypt 6.75% '24	USD	NA/B3	10/11/2024	1,500	6.4	368	354
Egypt 5.875% '25	USD	B/B3	11/6/2025	500	7.7	488	450
Egypt 7.00% '28	USD	NA/B3	10/11/2028	1,000	8.2	538	498
Egypt 6.875% '40	USD	B/B3	30/4/2040	1,500	8.9	575	500
Egypt 8.50% '47	USD	NA/B3	31/1/2047	500	9.4	629	587
Romania 4.375% '23	USD	BBB-/BBB-	22/8/2023	1,500	4.3	162	149
Romania 4.875% '24	USD	BBB-/BBB-	22/1/2024	1,000	4.3	163	152
Romania 6.125% '44	USD	BBB-/BBB-	22/1/2044	1,000	5.4	227	252
Russia 12.75% '28	USD	BBB-/Ba1	24/6/2028	2,500	5.0	212	278
Russia 5.875% '43	USD	BBB-/Ba1	16/9/2043	1,500	5.5	239	256
Serbia 4.875% '20	USD	BB/Ba3	25/2/2020	1,500	4.2	149	126
Serbia 7.25% '21	USD	BB/Ba3	28/9/2021	2,000	4.3	166	158
S. Africa 5.875% '25	USD	BB/Baa3	16/9/2025	2,000	5.7	297	289
S. Africa 6.25% '41	USD	BB/Baa3	8/3/2041	750	6.6	348	344
Turkey 7.00% '20	USD	NR/Ba3	5/6/2020	2,000	6.1	335	315
Turkey 7.375% '25	USD	NR/Ba3	5/2/2025	3,250	7.2	439	431
Turkey 11.875% '30	USD	NR/Ba3	15/1/2030	1,500	7.6	477	554
Turkey 8.00% '34	USD	NR/Ba3	14/2/2034	1,500	7.9	505	488
Turkey 6.75% '41	USD	NR/Ba3	14/1/2041	3,000	7.8	465	408
Ukraine 7.75% '23	USD	B-/Caa2	1/9/2023	1,355	10.1	743	681

USD-Denominated Eurobond Spreads (December 17th 2018)



STOCK MARKETS PERFORMANCE. DECEMBER 17TH 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)	86,400	0.6	-2.4	13.1	18.2	69,069	91,242	1.1	26.9	9.5	38.9	76.2
Bulgaria (SOFIX)	591	-0.3	-0.7	-12.7	-10.7	582	721	-12.7	15.5	15.5	27.2	27.2
China (SHCOMP)	2,598	0.5	-3.0	-21.4	-20.5	2,449	3,587	-21.6	6.6	-0.3	-12.3	-15.3
Cyprus (CSE GI)	66	0.5	-1.1	-5.4	-5.1	64	77	-5.4	4.7	4.7	-2.0	-2.0
Egypt (HERMES)	1,289	5.6	-2.1	-10.3	-9.7	1,187	1,741	-6.9	32.0	18.7	72.7	-21.8
F.Y.R.O.M (MBI)	3,467	0.8	-3.0	36.6	38.6	2,536	3,692	36.6	18.9	18.9	16.5	16.5
India (SENSEX)	36,270	3.7	2.3	6.5	7.9	32,484	38,990	0.4	27.9	19.3	1.9	2.6
Romania (BET-BK)	1,616	-0.4	-0.9	-2.2	-1.2	1,573	1,802	-1.5	22.8	19.1	0.2	0.0
Russia (RTS)	4,228	-1.5	-1.0	2.6	0.4	4,017	4,617	-6.2	-16.2	-21.9	24.2	54.3
Serbia (BELEX-15)	747	0.7	0.2	-1.7	0.1	719	785	-1.6	5.9	10.3	11.4	9.7
South Africa (FTSE/JSE)	51,560	2.2	-1.0	-13.4	-10.7	50,033	61,777	-21.0	17.5	14.3	-0.1	16.1
Turkey (ISE 100)	89,962	-2.5	-3.9	-22.0	-18.4	84,655	121,532	-41.8	47.6	20.5	8.9	-7.0
Ukraine (PFTS)	566	-1.6	-3.0	79.7	82.8	315	609	90.8	18.8	0.8	10.2	1.0
MSCI EMF	968	0.5	-1.9	-16.5	-14.4	930	1,279	-11.7	34.3	17.7	8.6	12.2
MSCI EAFE	1,748	0.9	-3.6	-14.8	-14.2	1,732	2,187	-9.9	21.8	6.7	-1.9	1.4
Greece (ASE-General)	632	-1.0	1.0	-21.2	-19.4	593	896	-21.2	24.7	24.7	1.9	1.9
Germany (XETRA DAX)	10,772	1.4	-5.0	-16.6	-19.1	10,586	13,597	-16.6	12.5	12.5	11.6	11.6
UK (FTSE-100)	6,773	0.8	-3.4	-11.9	-10.1	6,674	7,904	-13.0	7.6	3.2	14.4	-1.0
USA (DJ INDUSTRIALS)	23,593	-3.4	-7.2	-4.6	-4.8	23,345	26,952	0.9	25.1	9.6	13.4	16.7
USA (S&P 500)	2,546	-3.5	-7.0	-4.8	-5.4	2,533	2,941	0.7	19.4	4.7	9.5	13.2

Equity Indices (December 17th 2018)