Economic Analysis Division

Emerging Markets Analysis

Bi-Weekly Report

26 June – 9 July 2018

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

Emerging Markets Analysis

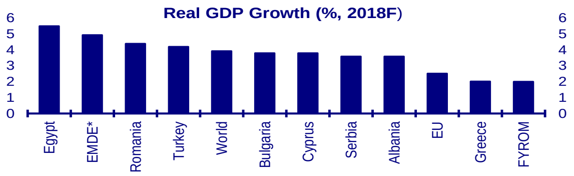
Head: **Michael Loufir**
☎ : +30 210 33 41 211
✉ : mloufir@nbg.gr

Analysts:

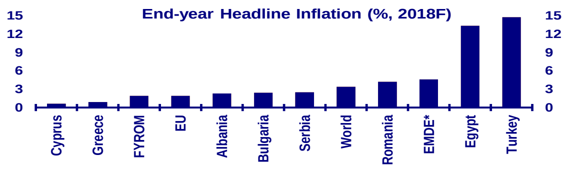
Konstantinos Romanos-Louizos
✉ : romanos.louizos.k@nbg.gr

Louiza Troupi
✉ : troupi.louiza@nbg.gr

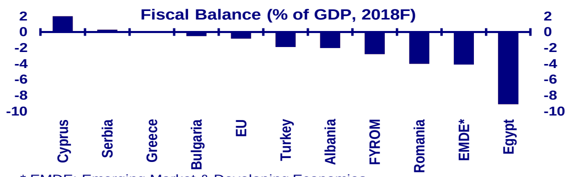
Athanasios Lampousis
✉ : lampousis.athanasios@nbg.gr



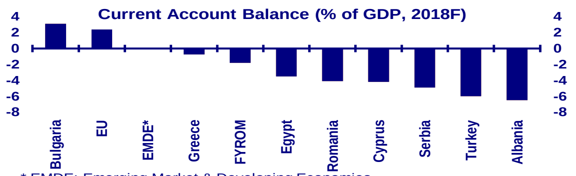
* EMDE: Emerging Market & Developing Economies



* EMDE: Emerging Market & Developing Economies



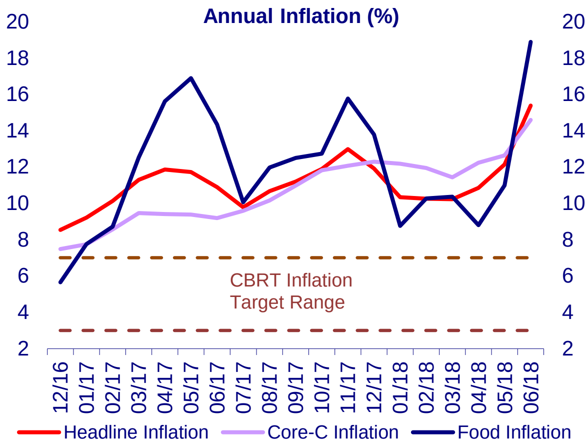
* EMDE: Emerging Market & Developing Economies

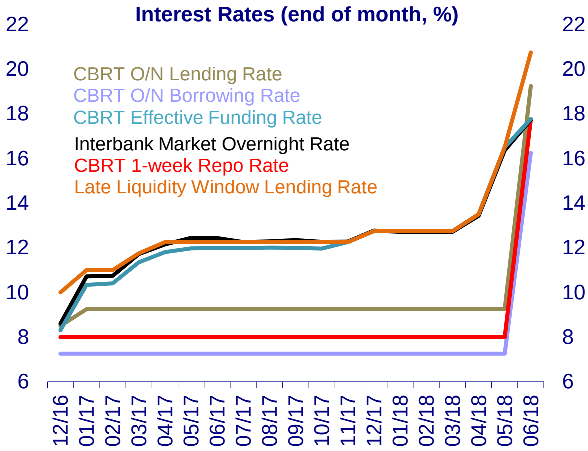


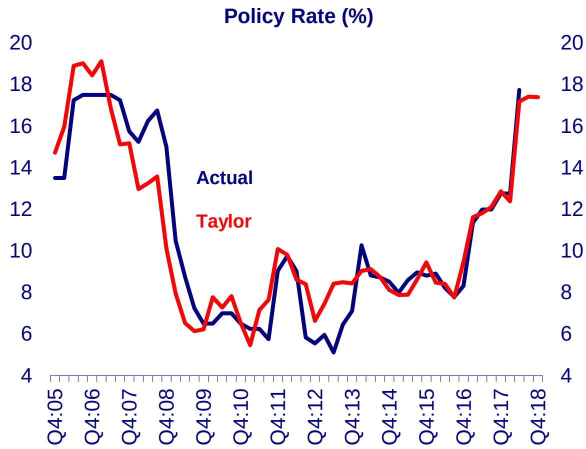
* EMDE: Emerging Market & Developing Economies

Turkey

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







	9 July	3-M F	6-M F	12-M F
1-m TRIBOR (%)	19.3	17.8	17.5	16.5
TRY/EUR	5.57	5.30	5.20	5.30
Sov. Spread (2020, bps)	293	280	250	180

	9 July	1-W %	YTD %	2-Y %
ISE 100	99,253	2.6	-13.9	27.2

	2015	2016	2017	2018F	2019F
Real GDP Growth (%)	6.1	3.2	7.4	4.2	4.4
Inflation (eop, %)	8.8	8.5	11.9	14.8	12.0
Cur. Acct. Bal. (% GDP)	-3.7	-3.8	-5.6	-6.0	-5.4
Fiscal Bal. (% GDP)	-1.0	-1.1	-1.5	-1.9	-1.5

President Erdogan was sworn in for another five-year term, with substantially expanded powers. In accordance with the April 2017 referendum, endorsing the shift to an executive presidency from a parliamentary system, President Erdogan, who took 52.5% of the vote in the June 24th presidential election, will: i) not only be the head of state but also the head of government; and ii) have the power to dissolve the national assembly, appoint cabinet ministers without parliamentary approval, impose states of emergency, propose budgets, and nominate 12 out of 15 Supreme Court judges.

President Erdogan names a new cabinet as Turkey moves to an executive presidency. Erdogan announced a streamlined government, comprising 16 ministers (against 26 before), of whom 12 are bureaucrats not formally belonging to any political party. The other 4 ministers are members of Erdogan's AK Party and former ministers in the outgoing Government. Gul, Soylu and Çavugoglu retained their respective positions as Ministers of Justice, Interior and Foreign Affairs, while Albayrak, former Energy Minister and Erdogan's son-in-law, was appointed to head the Treasury & Finance Ministry.

Not surprisingly, markets have so far reacted negatively to the announcement of the new cabinet, as the former deputy PM in charge of the economy, Simsek, and the former Finance Minister, Agbal, who had been avid defenders of economic orthodoxy, were sidelined.

Headline inflation rose sharply to a 14-year high of 15.4% y-o-y in June, mainly due to stronger food inflation and weaker domestic currency. Headline inflation rose to 15.4% y-o-y in June from 12.1% in May. Food prices (comprising c. 23% of the CPI basket) was the major driver of the sharp rise in headline inflation between May and June (3.4 pps), increasing by 18.9% y-o-y in June compared with a rise of 11.0% in May, mainly due to Ramadan effects and supply shortages of certain products. Moreover, core inflation reached an all-time high since the inception of the series in 2003, mainly on the back of a strong pass-through from a weaker TRY, rising wage pressures and Ramadan effects. The CBRT's favourite core inflation measure, i.e., CPI-C, rose sharply to 14.6% y-o-y in June from 12.8% in May.

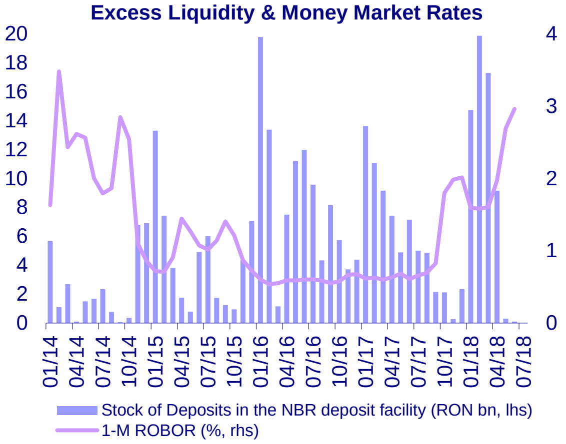
Looking ahead, according to our baseline scenario, projecting the commitment of the new Government to a consistent policy mix and bold structural reforms, headline inflation is set to slow throughout the rest of the year. The deceleration should be driven mainly by: i) a normalization in food inflation; ii) a milder depreciation of the TRY; iii) a sharp slowdown in economic activity; and iv) a continued tight monetary policy stance (see below). Overall, we see headline inflation ending 2018 at 14.8% y-o-y -- well above the end-2017 outcome of 11.9%, the upper bound of the CBRT's target range of 3.0%-7.0% and the CBRT's upwardly-revised forecast of 8.4%.

The CBRT is likely to keep its key policy rate on hold at 17.75% throughout the rest of the year. According to our Taylor rule (see chart), projecting: i) a declining positive output gap (from 0.8% in Q2:18 to 0.4% in Q4:18); ii) moderating headline inflation (from 15.4% in June to 14.8% at end-Q4:18); iii) easing TRY depreciation (from 24.2% in June to 17.2% at end-Q4:18 against the equally-weighted USD/EUR basket – consensus forecast); and iv) a further rise in the FED rate (from 1.9% in June to 2.4% at end-Q4:18 – consensus forecast), the CBRT should maintain its key policy rate (1-week repo rate) on hold at 17.75% at least until the end of the year. However, should the risk of policy slippage materialise ahead of the March 2019 local elections, the CBRT would be forced to tighten its stance to preserve macroeconomic and financial stability.

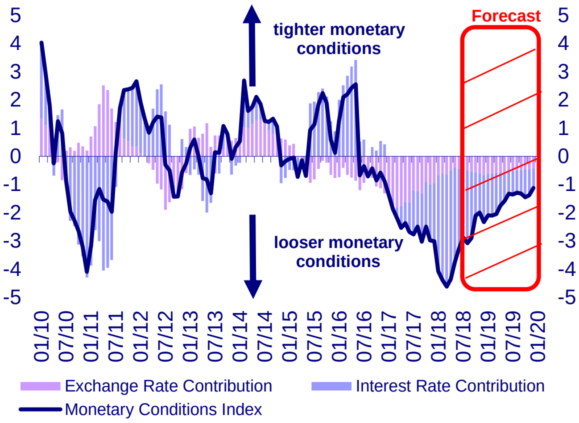
Romania

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

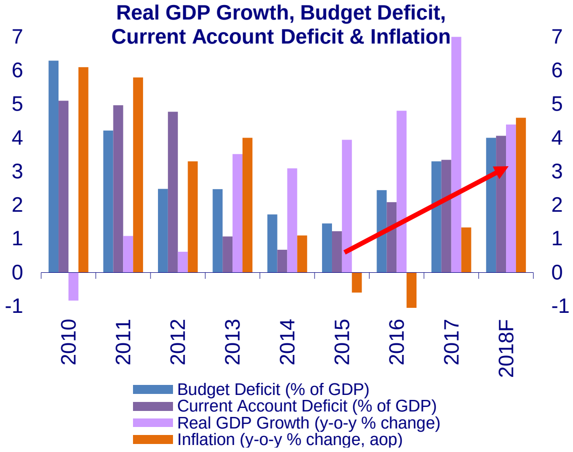
Excess Liquidity & Money Market Rates



Monetary Conditions Index



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



	9 July	3-M F	6-M F	12-M F
1-m ROBOR (%)	2.8	2.9	2.9	3.0
RON/EUR	4.64	4.64	4.65	4.68
Sov. Spread (2024, bps)	132	125	120	110

	9 July	1-W %	YTD %	2-Y %
BET-BK	1,619	-0.4	-2.0	37.9

	2015	2016	2017	2018F	2019F
Real GDP Growth (%)	4.0	4.8	7.0	4.4	3.8
Inflation (eop, %)	-0.9	-0.5	3.3	4.2	3.7
Cur. Acct. Bal. (% GDP)	-1.2	-2.1	-3.3	-4.1	-4.5
Fiscal Bal. (% GDP)	-1.5	-2.4	-2.8	-4.0	-4.3

Political uncertainty increases. In a controversial move, Parliament adopted changes in the Criminal Code that decriminalize several graft offenses, sparking massive protests domestically and drawing strong condemnation internationally. Critics say that the adopted changes would benefit the leader of the ruling PSD party and the "real power" behind PM Dancila's Government, L. Dragnea, who was recently found guilty of abuse of office and was sentenced to 3½ years in prison. This is not the first time the Government has attempted to relax anti-corruption legislation. Similar attempts in the past had failed, leading to the departure of two PMs.

The bill will be now sent to the President for promulgation. The latter, who is linked to the opposition, has already expressed his opposition to the amendments, saying that he will challenge them at the Constitutional Court.

The eventual adoption of the bill would further strain the country's relations with the EU. Note that Romania has yet to comply with the benchmarks set 11 years ago by the EU's Cooperation and Verification Mechanism (focusing on judicial reform and fight against corruption).

All said, political uncertainty is unlikely to ease soon. Indeed, the Government's controversial initiatives in the aftermath of Dragnea's conviction could take their toll on the popularity of the PSD. Note that the ruling coalition's parliamentary majority has already been eroded by the defection of a number of its MPs to the newly-formed Pro Romania Party. At the same time, we expect tensions between the PSD and opposition to escalate. Against this backdrop, we expect policy implementation to be affected and economic sentiment to deteriorate, threatening macroeconomic and financial stability.

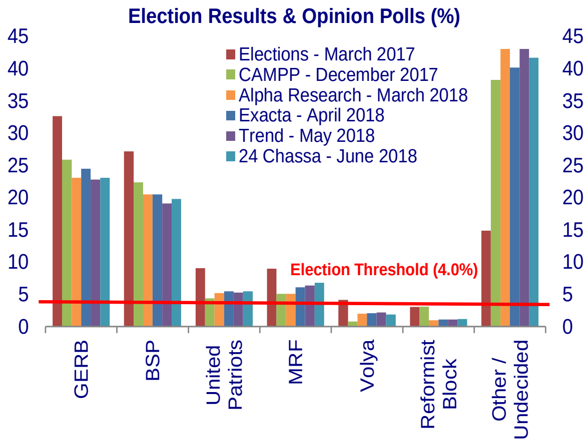
The NBR maintained its key rate flat at 2.5%. Recall that the NBR has raised its 1-week repo rate by 75 bps since the beginning of the year. The extent of the monetary policy tightening carried out is, however, much larger. It amounts to c. 180 bps, considering the hike in money market rates (MMRs), following the absorption of excess liquidity in the market by the NBR, in April, through deposit taking operations and, more recently, through large FX interventions (estimated at c. EUR 3.5bn in May-June). The latter were aimed at sustaining the RON, which has remained broadly unchanged against the EUR since the beginning of the year compared with losses of c. 5% for the Hungarian forint and the Polish zloty. Overall, monetary conditions still remain loose, with the *ex-post* real 1-month MMR estimated at -2.0%, well below its 7-year average of 0.8%.

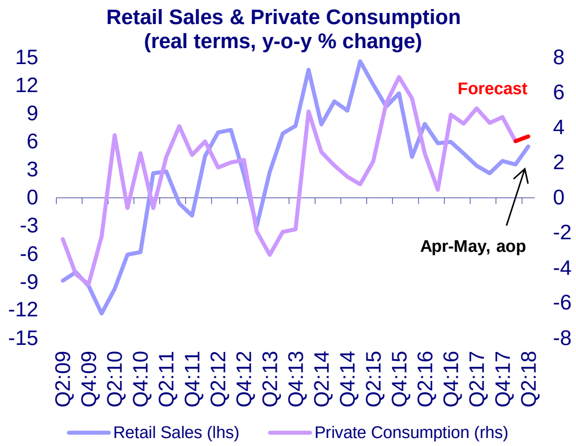
The NBR is set to continue to raise rates in an effort to attenuate overheating pressures. The economy appears to be overheating, with GDP growth (projected at 4.4% in FY:18) well above its long-term potential (of c. 3.0%) for a 4th consecutive year, headline inflation at high levels (projected at 4.2% at end-2018, above the target of 2.5±1%) and the current account deficit up sharply (to a projected 4.2% of GDP in FY:18 from 3.3% in FY:17). At the same time, fiscal policy remains expansionary (the budget deficit is set to rise to 4.0% of GDP in FY:18 from 2.8% in FY:17, above the EU threshold of 3.0%).

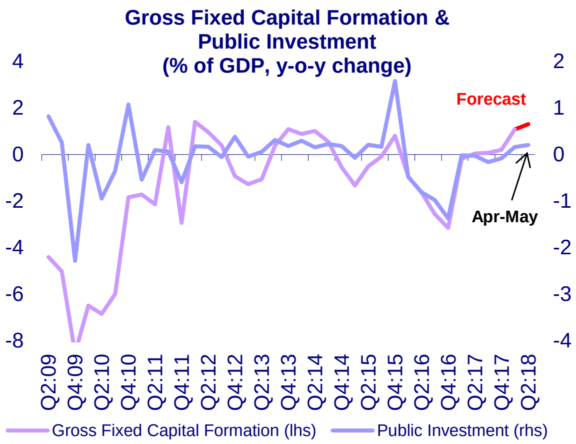
Against this backdrop, the NBR appears to be behind the curve. Our "Taylor rule" estimates suggest that rates should be raised to at least 4.5% to address these challenges. However, in view of the authorities' reluctance to proceed with aggressive rate hikes, especially in the context of limited or no tightening by other central banks in the region, we believe the NBR will tighten its stance gradually. All said, we see the NBR raising its key rate by another 25 bps in FY:18 and by 75 bps in FY:19.

Bulgaria

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







	9 July	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)	62	52	48	40

	9 July	1-W %	YTD %	2-Y %
SOFIX	639	-1.1	-5.6	45.6

	2015	2016	2017E	2018F	2019F
Real GDP Growth (%)	3.6	3.9	3.6	3.8	3.5
Inflation (eop, %)	-0.4	0.1	2.8	2.4	2.6
Cur. Acct. Bal. (% GDP)	0.0	2.3	4.5	3.1	1.7
Fiscal Bal. (% GDP)	-2.8	1.6	0.9	-0.5	-0.3

United Patriots (UP): the weakest link in the ruling coalition. Tensions have been rising recently, both within the UP's ranks as well as between the latter and the leading partner in the ruling coalition, the centre-right GERB, suggesting that political uncertainty is on the rise. Indeed, the UP alliance, comprising three far-right, nationalist parties, is mired in a struggle over its leadership. At the same time, disagreements between the UP and the GERB have arisen over a series of issues, including the long-awaited reform of the electoral code (recall that a referendum in 2016 voted in favour of the replacement of the current proportional system with a majoritarian one), immigration policy and minority rights, as well as the orientation of Bulgaria's foreign policy (the UP has a pro-Russian stance, which is in contrast to the GERB's firm pro-EU position).

All said, although political noise is set to persist, we do not see elections taking place soon. The latest opinion polls imply no changes in the relative positions of the parties compared with the March 2017 elections, except for a large increase in the undecided vote, suggesting that no party would benefit from snap elections. In any case, even if the UP alliance (holding 27 seats in the 240-seat Parliament) were to withdraw its support to the Government or collapse, the GERB (95 seats) could still remain in power with backing from the Turkish minority party (MRF, 25 seats) and the Volya (12 seats), both of which have supported the Government in the past.

Leading indicators point to stronger economic growth in Q2:18. Retail sales strengthened in April-May (up 5.5% y-o-y in real terms against a rise of 3.6% in Q1:18), pointing to increased private consumption. In view of the slowdown in employment and wage growth (up 2.1% and 5.0% y-o-y in real terms in Q1:18 against rises of 5.2% and 8.0% in H2:17), this improvement should be attributed to stronger consumer confidence (the relevant index hit a high of -23.2 in Q2:18 against -25.0 in Q1:18 and a 3-year average of -28.2) and wealth effects (housing prices and the stock market have gained 15% and 25% in real terms, respectively, over the past 2 years).

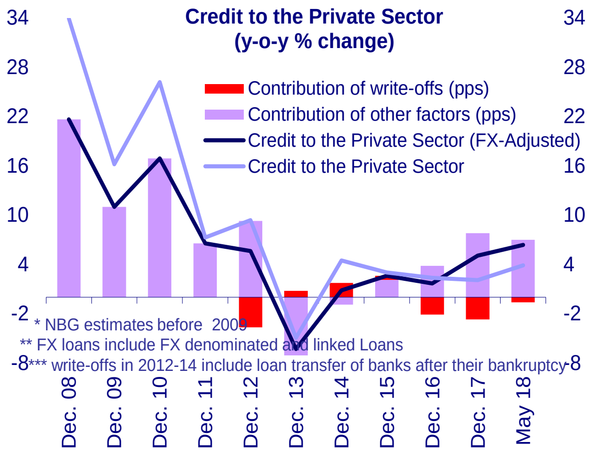
At the same time, we estimate investment activity to have strengthened, driven by the public sector (according to budget data, public investment was up 0.2 pps of GDP y-o-y in April-May). Public investment would have been higher had it not been for the poor absorption of EU funds (down 0.1 pp of GDP y-o-y in 5M:18). Although no data on private investment is available yet, we expect it to have improved in Q2:18, due to solid demand for residential property and improved business confidence (the relevant index rose to 32.1 in Q2:18 from 27.6 in Q1:18 and a 3-year average of 24.0).

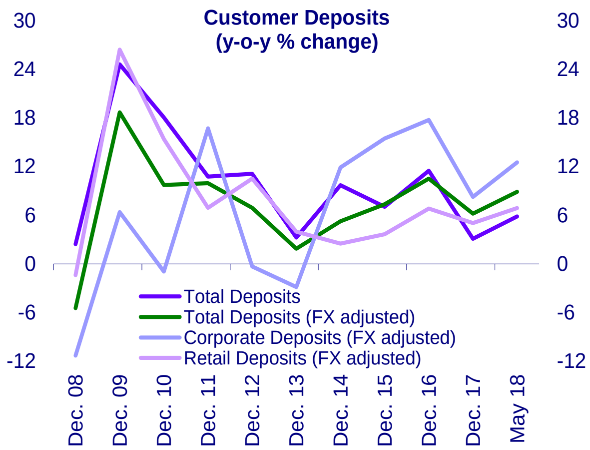
All said, we estimate increased domestic demand has more than offset the deterioration in net exports, due, *inter alia*, to weaker demand from non-EU trade partners (especially Turkey and Egypt). As a result, we see GDP growth firming to 3.8% y-o-y in Q2:18 from 3.5% in Q1:18.

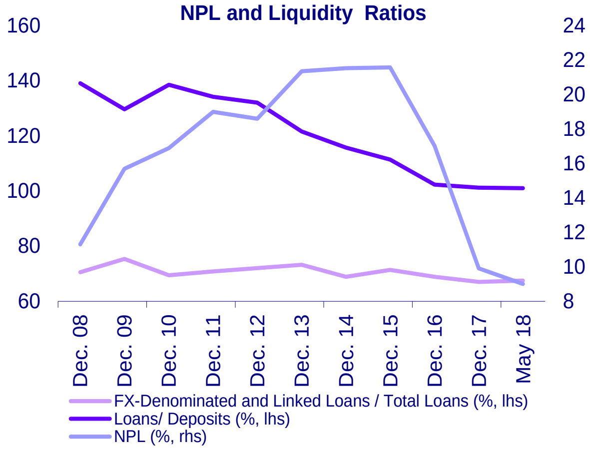
Economic activity to maintain its momentum in H2:18, driven by investment. Looking ahead, we expect fixed investment to strengthen further, in line with favourable domestic liquidity conditions (the loan-to-deposit ratio stands at 76%) and better absorption of EU funds. This improvement should more than compensate for the slowdown in private consumption, due to structural problems in the labour market (high long-term unemployment, skills mismatches, migration). Importantly, net exports should sustain overall growth, reflecting favourable terms of trade (total hourly costs in Bulgaria are $^1/_6$ of the EU average). Overall, we see FY:18 GDP growth at 3.8%, slightly higher than in FY:17 (up 3.6%) and still above its long-term potential of c. 3.0%.

Serbia

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







	9 July	3-M F	6-M F	12-M F
1-m BELIBOR (%)	2.6	2.9	3.1	3.5
RSD/EUR	118.0	117.9	117.6	117.4
Sov. Spread (2021, bps)	144	140	130	120

	9 July	1-W %	YTD %	2-Y %
BELEX-15	732	-0.9	-3.6	21.5

	2015	2016	2017	2018F	2019F
Real GDP Growth (%)	0.8	2.8	1.9	3.6	3.6
Inflation (eop, %)	1.5	1.6	3.0	2.5	2.8
Cur. Acct. Bal. (% GDP)	-3.7	-3.1	-5.7	-4.9	-4.8
Fiscal Bal. (% GDP)	-3.7	-1.3	1.2	0.3	0.1

FX-adjusted customer deposit growth accelerated in 5M:18, reaching 8.9% y-o-y in May, on the back of strengthening confidence in the domestic economy. Adjusted for FX variations, deposits reached 8.7% y-o-y in May up from 6.2% in December. The acceleration reflects strengthening consumer and business confidence, on the back of progress on EU membership talks, continued engagement with the IMF, and political stability.

From a segment perspective, the acceleration in overall (FX-adjusted) deposits was driven by the continued rebound in both retail and corporate deposits. Corporate deposits (accounting for 34% of total deposits) rose by a 2-year high of 12.6% y-o-y (FX adjusted) in May compared with an increase of 8.3% in December, likely reflecting strong exports and rising corporate profits.

Moreover, retail deposits rose by 6.9% y-o-y in May against an increase of 5.1% in December, on the back of stronger real disposable income, as labour market conditions tightened (the unemployment rate eased to 15.5% in Q1:18 from a peak of 24.6% in FY:12, while net wages increased by 5.8% y-o-y in 4M:18 following a robust rise by 4.4% in 5M:17) and inflation eased (standing at 1.3% y-o-y in 4M:18 down from 3.3% in 5M:17). The strengthening of retail deposits was also supported by higher remittances (up 16.0% y-o-y, in EUR terms, in Q1:18 compared with 9.2% in Q1:17) and tourism inflows (up 12.4% y-o-y, in EUR terms, in Q1:18 compared with 8.6% in Q1:17).

Credit growth (adjusted for FX movements) accelerated in 5M:18, reaching a 6-year high of 6.4% y-o-y in May, despite continued large write-offs. Adjusted for FX variations, the loan book expanded by a 6-year high of 6.4% y-o-y in May compared with rises of 5.1% at end-2017 and 1.7% at end-2016. Importantly, the acceleration in credit activity occurred despite continued sizeable write-offs. In fact, write-offs amounted to an estimated RSD 15bn in 5M:18 (or 0.7% of the stock of loans at end-2017) -- exceeding their level of RSD 6.5bn in H1:17. Adjusting for write-offs, the loan book expanded at an even faster pace, by an estimated 7.0% y-o-y in May -- only slightly below an estimated 7.8% at end-2017 (adjusted for FX movements).

The strong lending activity was underpinned by the increase in loan demand (by both corporates and households), supported by low lending interest rates, on the back of increasing bank competition for market shares. Indeed, the average blended lending rate on new loans fell to 5.3% in 5M:18 from 6.9% in 2014-17 and 11.7% in 2010-13.

The robust lending activity could also be attributed to easing credit conditions by banks, on the back of: i) the improving economic outlook; ii) a strong capital base; iii) ample liquidity (see below); as well as iv) improving asset quality (the NPL ratio declined to 9.2% in Q1:18 from a peak of 23.0% in Q3:14, falling below the pre-crisis level of 10.2% in Q3:08). Recall that the sharp drop in the NPL ratio in 2016-18 reflects: i) sizeable write-offs, amounting to RSD 160bn since 2016 (or 3.6% of the 2017 GDP), of which the largest part occurred in 2017 (RSD 102bn or 2.3% of GDP), following the NBS regulation obliging banks to transfer the NPLs that are 100% provisioned to off-balance sheets by end-Q3:17; ii) the sale of NPLs to non-banking sector entities; as well as iii) improved collection and restructuring.

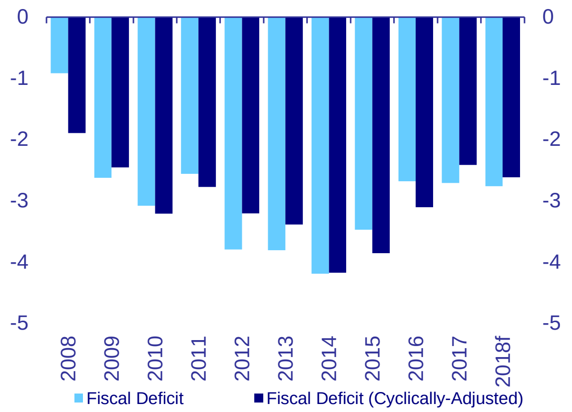
With deposits increasing at a faster pace than loans (since 2011), the loan-to-deposit ratio continued to decline, reaching 101.1% in 5M:18 -- down from a peak of 146.5% in Q1:09. Moreover, the dinarisation has gradually increased (with the ratio of FC loans-to-total loans moderating to 67.4% in May from its pre-crisis high of 75.3% and the ratio of FC deposits-to-total deposits easing to 69.3% in May from a peak of 78.8% in FY:12).

F.Y.R.O.M.

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

Consolidated Budget (% of GDP)	2017	5M:17	5M:18	2018 Budget	2018 NBG Fcst
Revenue	29.0	11.8	11.8	30.1	29.5
Tax Revenue	25.4	10.4	10.7	26.4	26.0
Personal Inc.	2.5	1.0	1.0	2.6	2.6
Corporate Inc.	1.8	0.9	1.1	2.1	2.0
VAT (Net)	7.7	3.4	3.2	8.0	7.7
Excises	3.7	1.4	1.5	4.0	3.9
Import Duties	0.8	0.3	0.4	0.8	0.8
Other Taxes	0.1	0.0	0.0	0.1	0.1
Soc. Contrib.	8.5	3.4	3.5	8.7	8.7
Non-Tax revenue	3.6	1.4	1.1	3.7	3.5
Expenditure	31.7	12.7	12.5	33.0	32.3
Cur. Expenditure	28.5	11.4	12.0	29.2	28.8
Personnel	4.2	1.8	1.7	4.2	4.2
G. & Services	2.5	1.0	0.9	2.7	2.5
Transfers	20.5	8.3	9.1	20.9	20.7
Int. Payments	1.4	0.3	0.3	1.4	1.4
Capital Expend.	3.2	1.3	0.5	3.8	3.5
Fiscal Balance	-2.7	-0.9	-0.7	-2.8	-2.8
Primary Balance	-1.4	-0.6	-0.4	-1.4	-1.4

Fiscal Balance (% of GDP)



	9 July	3-M F	6-M F	12-M F
1-m SKIBOR (%)	1.3	1.8	2.3	2.8
MKD/EUR	61.3	61.3	61.3	61.3
Sov. Spread (2021. bps)	245	210	190	160

	9 July	1-W %	YTD %	2-Y %
MBI 100	3,345	-1.5	31.7	86.4

	2015	2016	2017	2018F	2019F
Real GDP Growth (%)	3.9	2.9	0.0	2.0	3.8
Inflation (eop. %)	-0.3	-0.2	2.4	1.9	2.0
Cur. Acct. Bal. (% GDP)	-1.9	-2.7	-1.3	-1.8	-2.2
Fiscal Bal. (% GDP)	-3.5	-2.7	-2.7	-2.8	-2.8

FYROM to receive a starting date for EU accession talks in June 2019, conditional on further progress on reforms and the implementation of the name agreement with Greece. On June 28th, the European Council endorsed a recommendation, issued earlier by EU foreign affairs ministers, to grant FYROM a starting date for EU membership talks in June 2019, conditional on "*further tangible and sustainable*" progress on the judicial and rule of law, as well as on intelligence and security services and public administration. The implementation of the name agreement with Greece and the cultivation of good neighbourliness with Bulgaria were also underlined as key factors for securing a starting date. Note that, so far, the name agreement, signed in mid-June, has been ratified by FYROM's Parliament for a second time, following President Ivanov's refusal to sign the accord, paving the way for a referendum at end-September or early-October and constitutional revision in FYROM before the agreement is ratified by the Greek Parliament by early-2019.

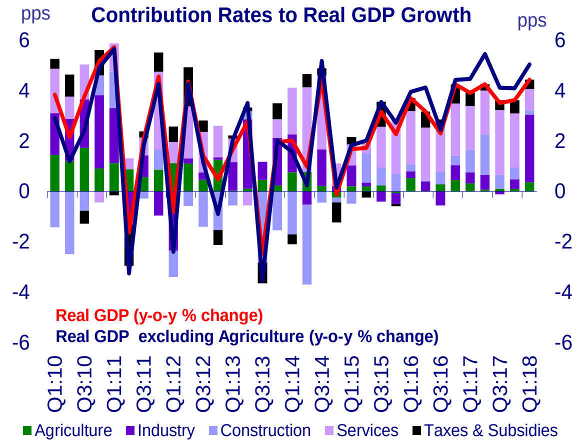
The 12-month rolling fiscal deficit narrowed to 2.5% of GDP in May from 2.8% in December, mainly due to under-executed capital spending. The fiscal deficit narrowed by 0.2 pps y-o-y to 0.7% of GDP in 5M:18, due exclusively to lower primary spending. The latter was mainly driven by weaker capital spending (down 0.8 pps of GDP y-o-y), primarily reflecting delays in the clearance of "*administrative obstacles*" to the resumption of country's key infrastructure projects, originated in the past year's political crisis. The wage bill and public consumption (each down 0.1 pp of GDP y-o-y) also contributed to the containment in primary expenditure in 5M:18. The decline in primary outlays would have been sharper had it not been for higher transfers (up 0.8 pps of GDP y-o-y), reflecting not only base effects from the postponement of payments of social transfers and subsidies during the political vacuum in 5M:17, but also higher farm subsidies, including payments of 0.2% of GDP to tobacco producers.

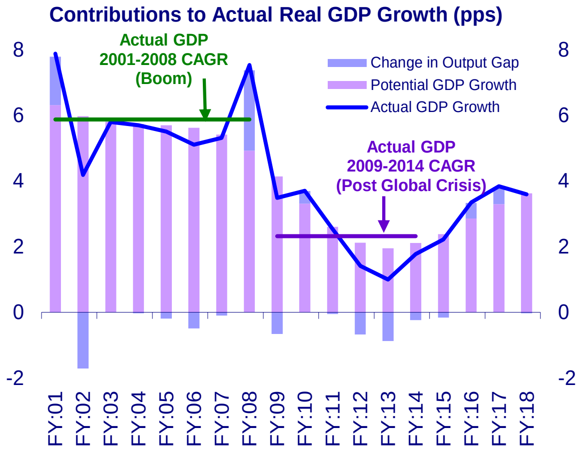
On the other hand, revenue collection was flat on an annual basis in 5M:18, as a broad-based improvement in tax revenue (up 0.3 pps of GDP y-o-y) was offset by a decline in non-tax revenue. The increase in tax revenue was driven by improved tax collection efficiency and would have been stronger had it not been for weaker (net) VAT collection (down 0.2 pps y-o-y), stemming from the clearance of VAT refund arrears. The poor performance of non-tax revenue was due to lower income from "special revenue accounts", reflecting postponed revenue of the Ministry of Transport and Telecommunications.

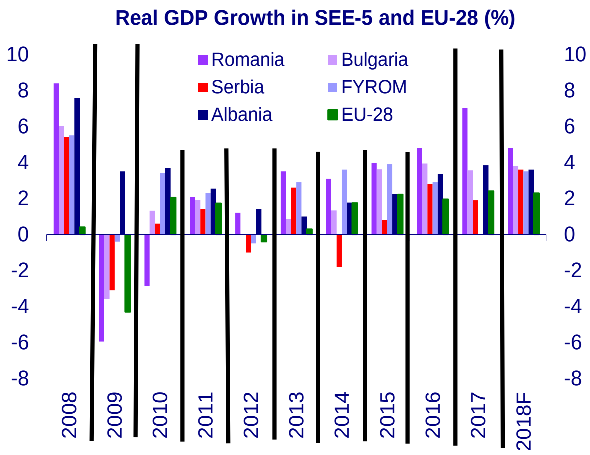
A broadly neutral fiscal stance is in sight this year. The 2018 Budget envisages a deficit of 2.8% of GDP, against an outcome of 2.7% of GDP in FY:17. In our view, despite the positive y-t-d performance, attaining this year's deficit target will not be possible unless the FY:18 expenditure growth target is revised down to compensate for lower-than-targeted revenue. Indeed, with no new measures and weaker-than-projected nominal GDP growth, we see a revenue shortfall of 0.6 pps of GDP. To make up for this shortfall, a downward revision in the FY:18 expenditure growth target by c. 2.2 pps to 5.5% is required. To this end, the IMF recommended a policy mix of "*subsidy rationalization and better targeting of social spending*". Overall, we expect the ruling pro-reform Government to proceed with spending cuts so as to achieve the FY:18 fiscal deficit target of 2.8% of GDP, providing a stimulus of 0.2 pps of GDP in cyclically-adjusted terms. In the event, the public debt-to-GDP ratio would maintain its downward path, moderating for a 2nd consecutive year to c. 47.0% at end-2018, from 47.4% at end-2017 and a peak of 48.4% at end-2016.

Albania

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







	9 July	3-M F	6-M F	12-M F
1-m TRIBOR (mid, %)	1.5	2.2	2.2	2.2
ALL/EUR	125.6	132.0	131.3	130.0
Sov. Spread (bps)	216	210	200	180

	9 July	1-W %	YTD %	2-Y %
Stock Market	- - -	- - -	- - -	- - -

	2015	2016	2017	2018F	2019F
Real GDP Growth (%)	2.2	3.4	3.8	3.6	3.9
Inflation (eop, %)	2.0	2.2	1.8	2.3	2.5
Cur. Acct. Bal. (% GDP)	-8.6	-7.5	-6.9	-6.5	-5.5
Fiscal Bal. (% GDP)	-4.1	-1.8	-2.0	-2.0	-1.9

A starting date for EU accession talks to be granted in June 2019, conditional on continued progress in reforms. The European Council is set to grant Albania -- a candidate country since mid-2014 -- a starting date for EU membership negotiations in June 2019, provided that progress continues in the following areas:

i) judicial reform, by completing the vetting process and finalising the establishment of the independent judicial structures; and

ii) the fight against corruption and organised crime, by creating the specialised institutions (including the Special Anti-Corruption and Organised Crime Structures), and by strengthening the track record of investigations, prosecutions and convictions.

Progress on these reforms will be assessed by the European Commission's annual progress report -- to be published in April 2019. If progress is deemed adequate, the European Council will set a date for the start of talks in June 2019. Note that, although Albania has a long way to go before joining the EU, the accession process should provide an important policy anchor and strengthen the reform drive.

Economic growth strengthened in Q1:18 (up 4.4% y-o-y), mainly due to buoyant electricity production. GDP growth accelerated to 4.4% y-o-y in Q1:18 from 3.9% in Q1:17 and 3.8% in FY:17.

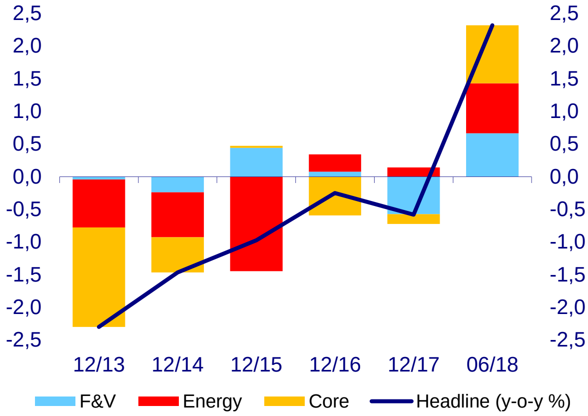
The robust performance in Q1:18 mainly reflects the strengthening in industrial output, expanding by (a 19-quarter high of) 19.9% y-o-y (contributing a sizeable 2.7 pps to GDP growth in Q1:18) compared with rises of 3.2% in Q1:17 and 2.6% in FY:17). The improvement is estimated to have been largely driven by the strong rebound in electricity generation (which is fully based on hydroelectric production), following a drought-induced decline throughout FY:17. In fact, electricity production reached a record high 3.2GWh in Q1:18 -- more than double its level in Q1:17 -- after having declined sharply by 29.1% y-o-y in Q1:17 and 36.2% in FY:17 (it is estimated to have contributed 1.3 pps to overall GDP growth in Q1:18 after subtracting 0.5 pps in Q1:17). Moreover, industrial output has also been supported by the manufacturing sub-sector (contributing 0.6 pps to overall GDP growth in Q1:17 against 0.5 pps in Q1:17), on the back of: i) strong exports of goods (recording double-digit growth of 20.6% y-o-y in Q1:18, according to BoP data); and ii) the rebound in re-exports of textiles and footwear (up 12.0% y-o-y in Q1:18, according to BoP data). The expansion in activity in Q1:18 was, however, held back by the slowdown in the construction sector (up 2.1% y-o-y in Q1:18 against a rise of 12.5% in Q1:17, contributing 0.2 pps to overall GDP growth in Q1:18 compared with 0.9 pps in Q1:17). This occurred due to: i) the completion of the largest part of two major energy projects (i.e. TAP and the Statkraft/Devoll hydropower plant) in FY:17; and ii) lower capital expenditure (up just 0.5% y-o-y in Q1:18 against a pre-election sharp rise of 41.8% in Q1:17).

Growth to moderate slightly to 3.6% in FY:18 from a post-global crisis high of 3.8% in FY:17, as large energy projects come to an end. The temporary slowdown in FY:18 should be driven by the large energy-related projects, as they approach their completion. This impact should by partly offset by: i) stronger agricultural output, following a weather-related weak performance in FY:17; and ii) a continued rebound in electricity production, following a drought-induced sharp drop in FY:17. Activity in FY:18 should also be underpinned by the improved confidence in the domestic economy, political stability, the expected acceleration in structural reforms and strong commitment to economic reforms, in view of both the expected launch of EU accession talks by end-2019 and the continued engagement with the IMF under the Post-Programme Monitoring process.

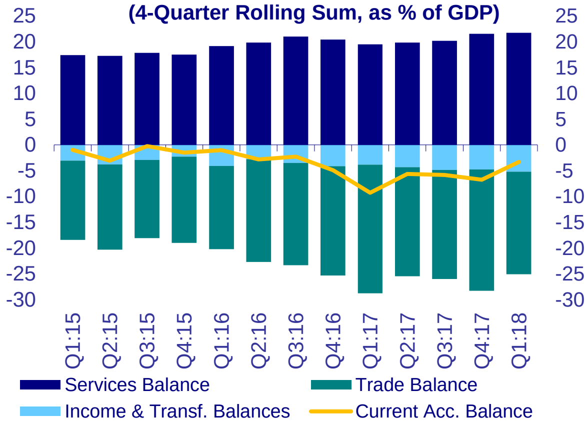
Cyprus

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

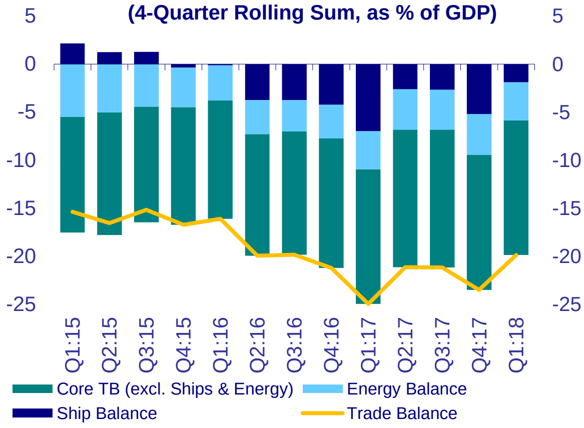
Contributions to Headline Inflation (pps)



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



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



	9 July	3-M F	6-M F	12-M F
1-m EURIBOR (%)	-0.37	-0.37	-0.37	-0.37
EUR/USD	1.17	1.22	1.24	1.26
Sov. Spread (2020. bps)	108	55	52	50

	9 July	1-W %	YTD %	2-Y %
CSE Index	75	-1.0	8.1	15.8

	2015	2016	2017	2018F	2019F
Real GDP Growth (%)	2.0	3.4	3.9	3.8	3.6
Inflation (eop. %)	-1.0	-0.3	-0.6	0.8	1.0
Cur. Acct. Bal. (% GDP)	-1.5	-4.9	-6.7	-4.8	-4.5
Fiscal Bal. (% GDP)	-1.2	0.5	1.8	2.0	1.9

Headline inflation rose temporarily to a 5¾-year high of 2.3% y-o-y in June from -0.6% at end-2017. The acceleration was driven by an across-the-board deterioration in its main components. Core inflation (which excludes fruit & vegetables and energy prices) rose to 1.0% y-o-y in June from -0.2% y-o-y in December (contributing 1 pp to the overall increase between end-2017 and June), reflecting, *inter alia*, elevated prices of tourism-related services, higher imported inflation and accelerating wages. The latter increased by 1.2% y-o-y in nominal terms in Q1:18 compared with a subdued rise of 0.1% y-o-y in Q1:17, mainly driven by the public sector. Headline inflation was also pushed up by a significant upward correction in the volatile prices of fruit & vegetables and higher energy prices (contributing 1.2 pps and 0.7 pps, respectively, to the overall increase).

Looking ahead, we expect inflationary pressures to ease by end-year. The deceleration should mainly be driven by lower energy inflation, in line with developments in global oil price markets (we project the increase in the price of Brent to ease to c. 5.0% y-o-y by December from c. 54.0% y-o-y in June in EUR terms). End-year headline inflation should also be tempered by a reversal in prices of fruit & vegetables and softer core inflation, in line with milder demand-side pressures. The latter will be driven by weaker private consumption, reflecting increased household debt servicing, as a result of more aggressive loan restructuring by banks, which will, however, be attenuated by a further rise in the public sector wage bill and its spillover to the private sector. Note that the Government recently agreed with labour unions to a gradual reversal of public sector payroll cuts imposed in the wake of the crisis, starting this month. Overall, we foresee end-year headline inflation turning positive for the first time in six years, reaching 0.8% y-o-y.

The current account deficit (CAD) narrowed sharply to 3.3% of GDP on a 4-quarter rolling basis in Q1:18 from a 7-year high of 6.7% in Q4:17, mainly due to an improvement in the ship trade balance. The CAD moderated by a sizeable 3.4 pps y-o-y to 0.4% of GDP in Q1:18. The improvement was mainly driven by the volatile ship trade balance, which turned into a surplus of 1.8% of GDP in Q1:18 from a deficit of 1.5% of GDP in Q1:17, exclusively on the back of larger exports of ships.

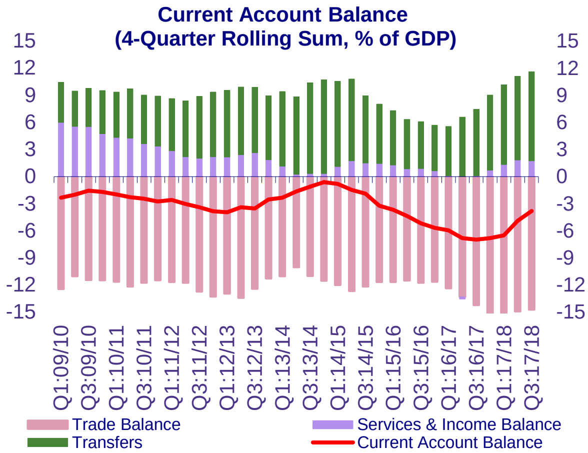
The positive CAD performance in Q1:18 was also underpinned by: i) a smaller energy deficit (down 0.2 pps of GDP y-o-y), mainly due to lower imports of energy; ii) a narrower underlying (core) trade deficit (excluding ship transactions and energy -- down 0.1 pp of GDP y-o-y), driven by stronger exports; and iii) a larger services surplus (up 0.3 pps of GDP y-o-y), reflecting higher receipts from tourism and other business services. Note that both tourist arrivals and receipts posted double-digit growth in Q1:18 (up 29.3% y-o-y and 19.6% y-o-y, respectively), despite strong base effects and increasing competition from neighbouring Turkey and Egypt.

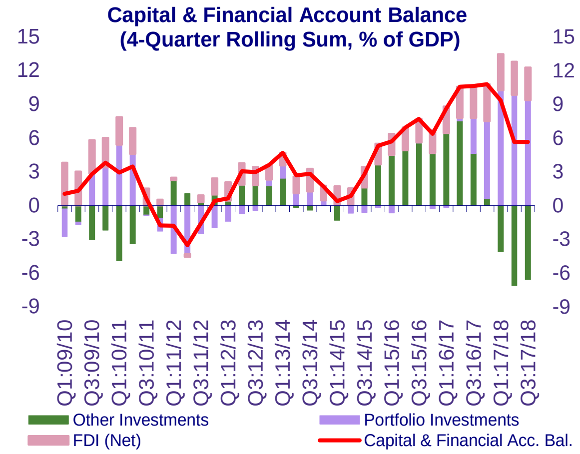
The Q1:18 CAD would have been lower had the primary deficit not widened (up 0.3 pps of GDP y-o-y), on the back of higher profits and dividend outflows. With the Q1:18 outturn, the 4-quarter rolling CAD slowed to 3.3% of GDP from a 7-year high of 6.7% of GDP in Q4:17. However, excluding ships and energy, the 4-quarter rolling current account balance remained flat at a surplus of 2.7% of GDP in Q1:18.

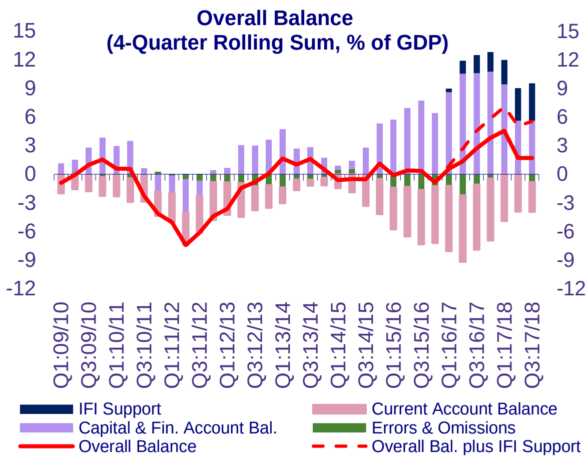
Looking ahead, we expect a small improvement in the core current account balance during the remainder of the year, stemming mainly from the core trade balance, in line with softer domestic demand. Overall, we see the core current account balance improving by 0.2 pps to a surplus of 2.9% of GDP in FY:18.

Egypt

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







	9 July	3-M F	6-M F	12-M F
O/N Interbank Rate (%)	17.0	18.0	17.0	15.0
EGP/USD	17.9	17.8	18.0	18.0
Sov. Spread (2020. bps)	224	168	152	140

	9 July	1-W %	YTD %	2-Y %
HERMES 100	1,525	-3.7	6.1	130.4

	14/15	15/16	16/17	17/18E	18/19F
Real GDP Growth (%)	4.4	4.3	4.2	5.2	5.8
Inflation (eop. %)	11.4	14.0	29.8	12.8	14.2
Cur. Acct. Bal. (% GDP)	-3.7	-6.0	-6.5	-2.8	-3.0
Fiscal Bal. (% GDP)	-11.4	-12.5	-10.9	-9.8	-8.4

The current account deficit (CAD) is estimated to have narrowed sharply to 2.8% of GDP in FY:17/18 (July 2017-June 2018) from a 2½-decade high of 6.5% of GDP a year earlier. The CAD declined significantly, by 3.4 pps y-o-y to 2.1% of GDP in 9M:17/18 (July 2017-March 2018), largely supported by the flotation of the domestic currency in mid-Q2:16/17 ahead of the signing of the IMF-supported 3-year economic programme.

The significant improvement in the current account in 9M:17/18 was mainly driven by tourist receipts and workers' remittances from abroad. Indeed, tourist receipts rose by 1.7 pps y-o-y to a post-January 2011 Revolution high of 2.9% of GDP in 9M:17/18, due not only to more competitive prices (the EGP had depreciated against the USD by c. 23.0% y-o-y in 9M:17/18 and c. 50.0% since the flotation), but also to the removal of travel bans and/or warnings by key source countries – with the exception of Russia and the UK -- following a significant improvement in security conditions. The tourism balance improved further on the back of a decline in Egyptian tourists' spending abroad (down 0.2 pps of GDP y-o-y), due to the sharp depreciation of the EGP and restricted e-card payments abroad.

Moreover, workers' remittances increased by 1.5 pps y-o-y to an all-time high of 7.8% of GDP in 9M:17/18, continuing on the upward trend started in Q2:16/17, when the Central Bank decided to float the EGP. In fact, before the flotation, remittances through the banking sector had been hindered by the attractive rates offered in the flourishing parallel FX market (where the USD was traded at a premium of c. 40.0% over its official rate of EGP 8.88 in early-Q2:16/17).

On another positive note, the trade deficit narrowed by 0.8 pps y-o-y to 11.2% of GDP in 9M:17/18, as exports rose (up 17.6%) at a faster pace than imports (up 6.0%).

For Q4:17/18, we estimate the external adjustment continued, albeit at a slower pace, due to the gradual normalization of workers' remittances, tourism receipts and merchandise exports, as well as higher repatriation of profits by both oil and non-oil foreign companies operating in Egypt. Overall, we estimate the CAD to have eased to 2.8% of GDP in FY:17/18 from a 2½-decade high of 6.5% in FY:16/17.

The capital and financial account (CFA), excluding IFI support, is estimated to have comfortably covered the CAD and boosted FX reserves in FY:17/18. The CFA balance, excluding IFI support, posted a surplus of 5.8% of GDP in 9M:17/18, underpinned by the return of foreign investor confidence in the Egyptian economy following the solid implementation of the loan agreement with the IMF. The bulk of the surplus resulted from net portfolio investment inflows, which rose by 2.6 pps y-o-y to 5.9% of GDP in 9M:17/18, due almost exclusively to large investment by foreigners in the very attractive domestic debt market. As a result and accounting for (negative) net errors & omissions (NEO, -1.1% of GDP), the overall balance recorded a surplus of 2.6% of GDP in 9M:17/18. This, combined with IFI support (USD 3.3bn from the IMF and USD 1.2bn from the WB) and valuation effects, brought FX reserves to an all-time high of USD 42.6bn at end-Q3:17/18 (7.9 months of imports of GNFS) – well above the pre-Revolution high of USD 36.0bn (in December 2010).

For Q4:17/18, June FX reserves released to date indicate that the CFA was in surplus and more than covered the CAD. As a result, FX reserves rose by USD 13.0bn to an all-time high of USD 44.3bn (8.0 months of imports of GNFS) in FY:17/18. Importantly, the sound level of FX reserves and the flexible exchange rate regime in place since Q2:16/17 should help the authorities well manage the increasingly less-friendly global environment for emerging markets.

FOREIGN EXCHANGE MARKETS, JULY 9TH 2018

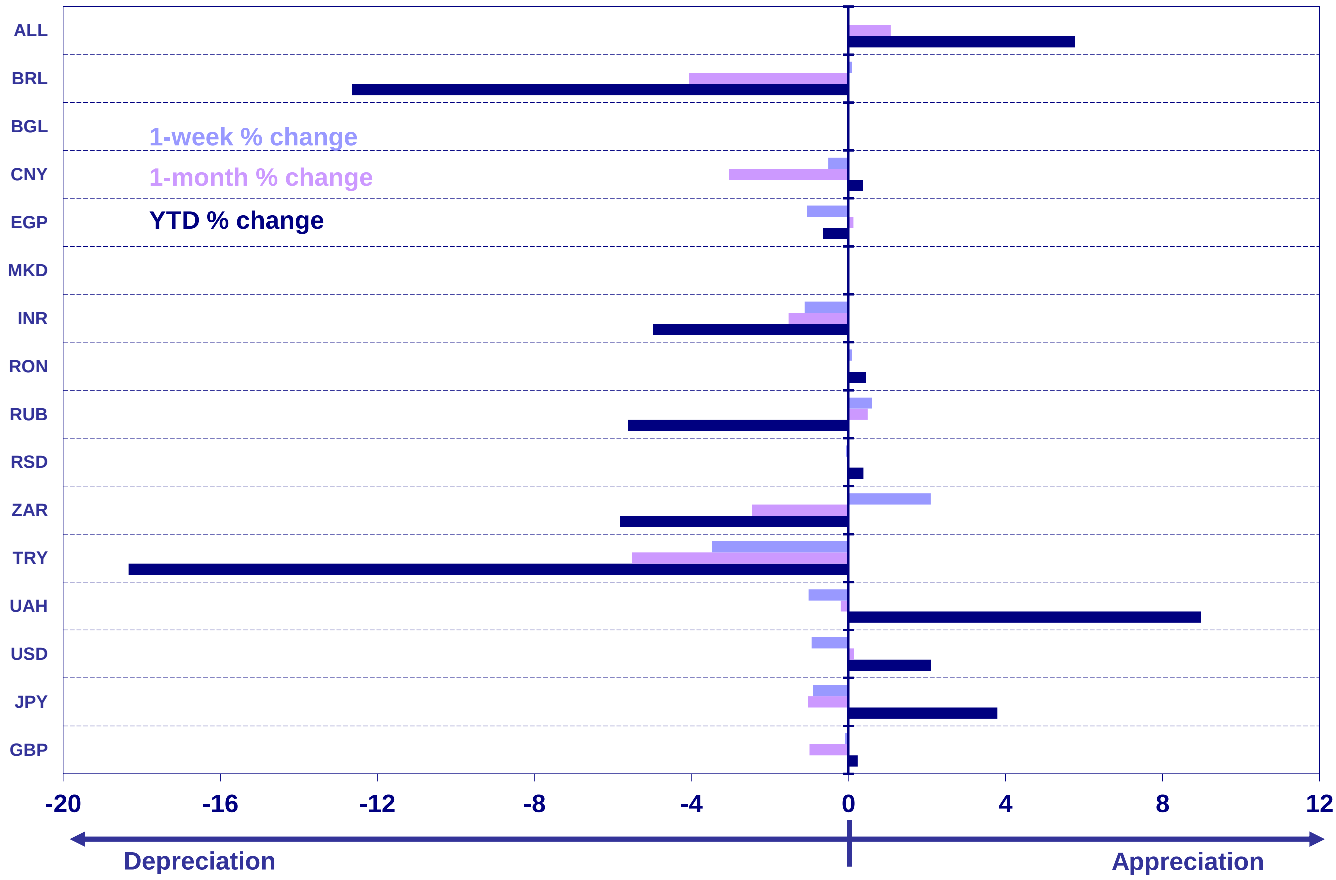
Against the EUR

	Currency	2018										2017	2016
		SPOT	1-week %change	1-month %change	YTD %change*	1-year %change	Year-Low	Year-High	3-month Forward rate**	6-month Forward rate**	12-month Forward rate**	% change*	% change*
Albania	ALL	125.6	0.0	1.1	5.8	5.3	124.5	134.0	125.9	125.9	125.3	1.9	1.2
Brazil	BRL	4.55	0.1	-4.1	-12.6	-18.4	3.85	4.68	4.86	4.88	4.91	-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	7.77	-0.5	-3.0	0.4	-0.5	7.39	7.96	8.12	8.12	8.12	-6.0	-4.0
Egypt	EGP	20.96	-1.1	0.1	-0.6	-3.4	20.59	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	80.7	-1.1	-1.5	-5.0	-8.9	75.9	81.8	86.9	- - -	- - -	-6.7	0.4
Romania	RON	4.66	0.1	0.0	0.4	-1.9	4.62	4.68	4.70	4.75	4.84	-3.0	-0.4
Russia	RUB	73.3	0.6	0.5	-5.6	-6.3	67.7	80.5	74.4	75.8	78.1	-6.8	22.9
Serbia	RSD	118.0	-0.1	0.0	0.4	1.8	117.6	119.1	118.3	118.5	- - -	4.2	-1.5
S. Africa	ZAR	15.8	2.1	-2.5	-5.8	-2.5	14.18	16.17	16.1	16.4	17.0	-2.7	16.2
Turkey	YTL	5.57	-3.5	-5.5	-18.3	-26.1	4.48	5.76	5.84	6.11	6.68	-18.4	-14.7
Ukraine	UAH	30.8	-1.0	-0.2	9.0	-3.6	30.18	36.11	30.9	- - -	- - -	-15.2	-8.6
US	USD	1.17	-0.9	0.1	2.1	-3.0	1.2	1.3	1.18	1.19	1.21	-12.4	3.3
JAPAN	JPY	130.2	-0.9	-1.0	3.8	-0.2	124.6	137.5	130.3	130.3	130.4	-8.9	6.0
UK	GBP	0.89	-0.1	-1.0	0.2	-0.2	0.9	0.9	0.89	0.89	0.90	-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 (July 9th 2018)



MONEY MARKETS, JULY 9TH 2018

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine	EU	US
O/N	1.1	6.4	-0.2	2.0	- - -	17.0	- - -	- - -	3.2	7.2	- - -	18.5	7.0	16.3	- - -	1.9
T/N	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	3.2	7.3	2.3	- - -	6.5	- - -	- - -	- - -
S/W	1.3	6.4	-0.2	2.6	-0.4	- - -	1.1	- - -	- - -	6.0	2.3	- - -	6.9	16.7	-0.4	2.0
1-Month	1.5	6.4	-0.1	3.3	-0.4	- - -	1.3	6.8	3.4	7.4	2.6	19.3	6.9	17.7	-0.4	2.1
2-Month	- - -	6.5	-0.1	- - -	-0.3	- - -	- - -	- - -	- - -	6.2	2.7	19.4	7.1	- - -	-0.3	2.2
3-Month	1.7	6.6	0.0	3.7	-0.3	- - -	1.5	7.3	3.4	6.4	2.9	19.6	7.2	17.8	-0.3	2.3
6-Month	2.1	6.9	0.1	3.9	-0.3	- - -	1.8	- - -	3.5	6.5	3.0	20.1	7.6	- - -	-0.3	2.5
1-Year	2.3	7.8	0.5	4.0	-0.2	- - -	2.2	- - -	3.5	7.0	- - -	21.0	7.8	- - -	-0.2	2.8

LOCAL DEBT MARKETS, JULY 9TH 2018

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine	EU	US
3-Month	- - -	- - -	- - -	- - -	- - -	19.7	- - -	6.4	- - -	7.1	- - -	0.0	- - -	- - -	-0.7	2.0
6-Month	- - -	- - -	- - -	- - -	- - -	19.7	- - -	6.9	3.4	7.1	3.3	0.0	- - -	- - -	-0.6	2.1
12-Month	1.9	- - -	-0.2	3.1	- - -	19.5	1.0	7.2	3.6	6.6	3.0	19.0	- - -	16.1	-0.7	2.3
2-Year	- - -	- - -	- - -	3.2	- - -	- - -	- - -	7.7	4.0	7.0	- - -	19.1	7.4	- - -	-0.7	2.6
3-Year	- - -	- - -	0.1	3.3	0.9	- - -	- - -	7.8	4.4	7.3	- - -	18.4	7.7	16.0	-0.6	2.7
5-Year	- - -	10.9	- - -	3.4	1.2	17.8	- - -	8.0	4.8	7.3	3.9	17.4	8.1	- - -	-0.3	2.8
7-Year	- - -	- - -	0.7	- - -	1.7	17.8	- - -	8.2	5.0	7.5	- - -	- - -	- - -	- - -	-0.1	2.8
10-Year	6.7	11.8	1.0	3.5	- - -	17.7	- - -	7.9	5.2	7.6	- - -	16.5	8.6	- - -	0.3	2.9
15-Year	- - -	- - -	- - -	- - -	- - -	- - -	3.0	8.1	- - -	7.8	- - -	- - -	9.9	- - -	0.6	- - -
25-Year	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -	9.5	- - -	- - -	- - -
30-Year	- - -	- - -	- - -	- - -	- - -	- - -	- - -	8.1	- - -	- - -	- - -	- - -	9.5	- - -	1.0	3.0

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

CORPORATE BONDS SUMMARY, JULY 9TH 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	2.2	280	234
South Africa	**FirstRand Bank Ltd 4.25% '20**	USD	BBB-/Baa2	30/4/2020	500	4.3	173	148
	FirstRand Bank Ltd 2.25% '20	EUR	NA/NA	30/1/2020	100	1.2	186	144
Turkey	**Arcelik AS 3.875% '21**	EUR	BB+/NA	16/9/2021	350	3.1	372	315
	Garanti Bank 5.25% '22	USD	NA/Ba1	13/9/2022	750	6.5	379	348
	Turkiye Is Bankasi 6% '22	USD	NA/Ba3	24/10/2022	1,000	8.9	610	550
	Vakifbank 5.75% '23	USD	NA/Ba1	30/1/2023	650	8.0	527	477
	TSKB 5.5% '23	USD	NA/Ba1	16/1/2023	350	8.5	571	510
	Petkim 5.875% '23	USD	NA/B1	26/1/2023	500	8.2	545	494
	KOC Holding 5.25% '23	USD	BBB-/Baa3	15/3/2023	750	6.3	362	332

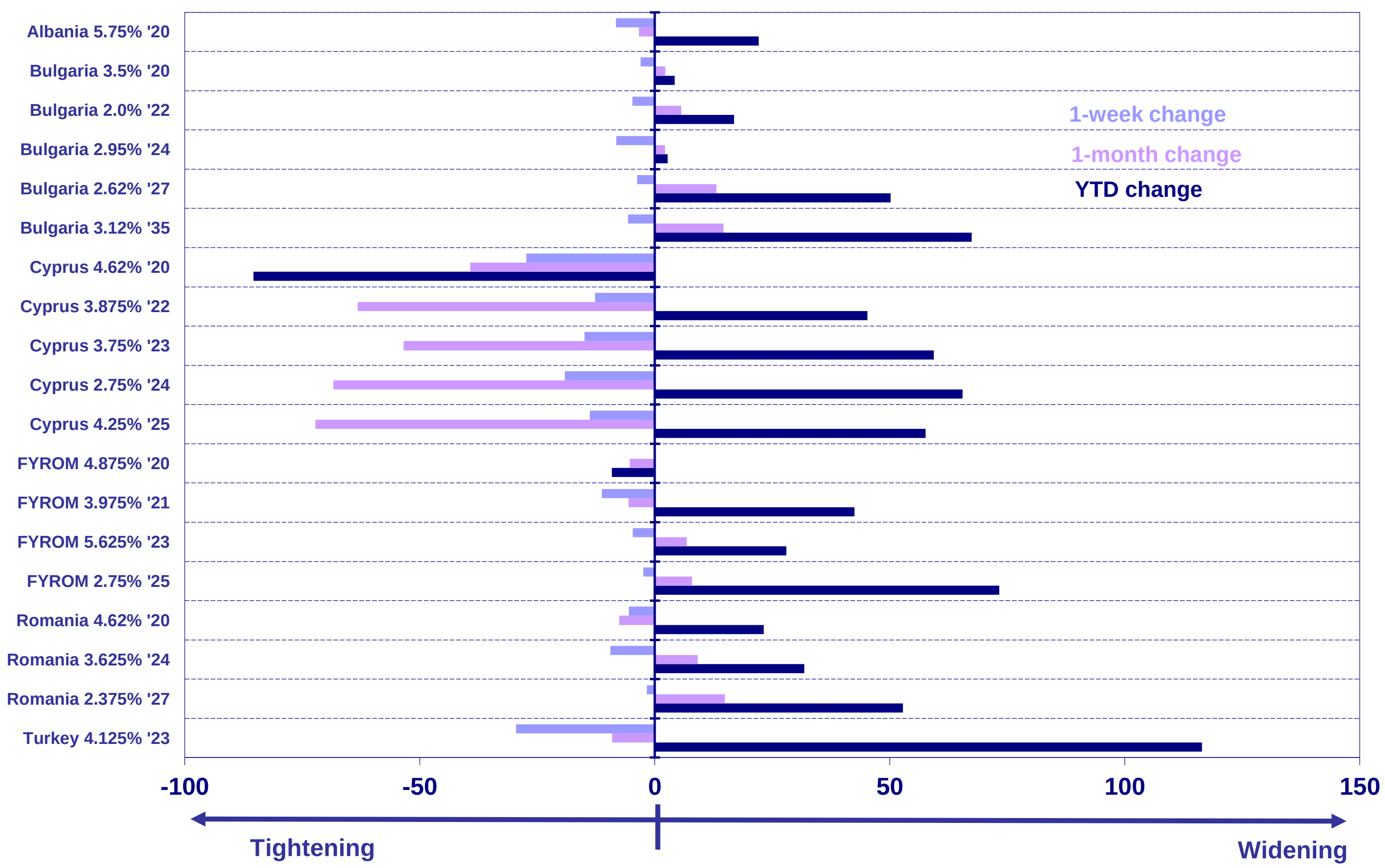
CREDIT DEFAULT SWAP SPREADS, JULY 9TH 2018

	Albania	Brazil	Bulgaria	China	Cyprus	Egypt	FYROM	India	Romania	Russia	Serbia	Turkey	S. Africa	Ukraine
5-Year	- - -	244	66	70	144	351	- - -	80	92	129	110	272	190	495
10-Year	- - -	335	102	116	167	395	- - -	89	131	194	146	355	279	524

EUR-DENOMINATED SOVEREIGN EUROBOND SUMMARY, JULY 9TH 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	1.6	216	180
Bulgaria 3.5% '20	EUR	NA/NA	16/1/2020	145	0.0	71	31
Bulgaria 2.0% '22	EUR	BBB-/Baa2	26/3/2022	1,250	0.1	54	2
Bulgaria 2.95% '24	EUR	BBB-/Baa2	3/9/2024	1,493	0.6	64	20
Bulgaria 2.62% '27	EUR	BBB-/Baa2	26/3/2027	1,000	1.4	120	70
Bulgaria 3.12% '35	EUR	BBB-/Baa2	26/3/2035	900	2.6	198	137
Cyprus 4.62% '20	EUR	BB+/Ba3	3/2/2020	668	0.4	108	70
Cyprus 3.875% '22	EUR	NA/Ba3	6/5/2022	1,000	1.2	171	122
Cyprus 3.75% '23	EUR	NA/Ba3	26/7/2023	1,000	1.6	185	150
Cyprus 2.75% '24	EUR	NA/Ba3	27/6/2024	850	1.7	194	138
Cyprus 4.25% '25	EUR	NA/Ba3	4/11/2025	1,000	2.1	201	162
FYROM 4.875% '20	EUR	BB-/NA	1/12/2020	178	1.3	185	145
FYROM 3.975% '21	EUR	BB-/NA	24/7/2021	500	1.9	245	450
FYROM 5.625% '23	EUR	BB-/NA	26/7/2023	450	2.7	297	260
FYROM 2.75% '25	EUR	BB-/NA	18/1/2025	500	3.0	310	251
Romania 4.62% '20	EUR	BBB-/Baa3	18/9/2020	2,000	0.1	74	23
Romania 3.625% '24	EUR	BBB-/Baa3	24/4/2024	1,250	1.2	137	88
Romania 2.375% '27	EUR	BBB-/Baa3	19/4/2027	2,000	2.4	217	160
Turkey 4.125% '23	EUR	NR/Ba1	11/4/2023	1,000	3.4	367	318

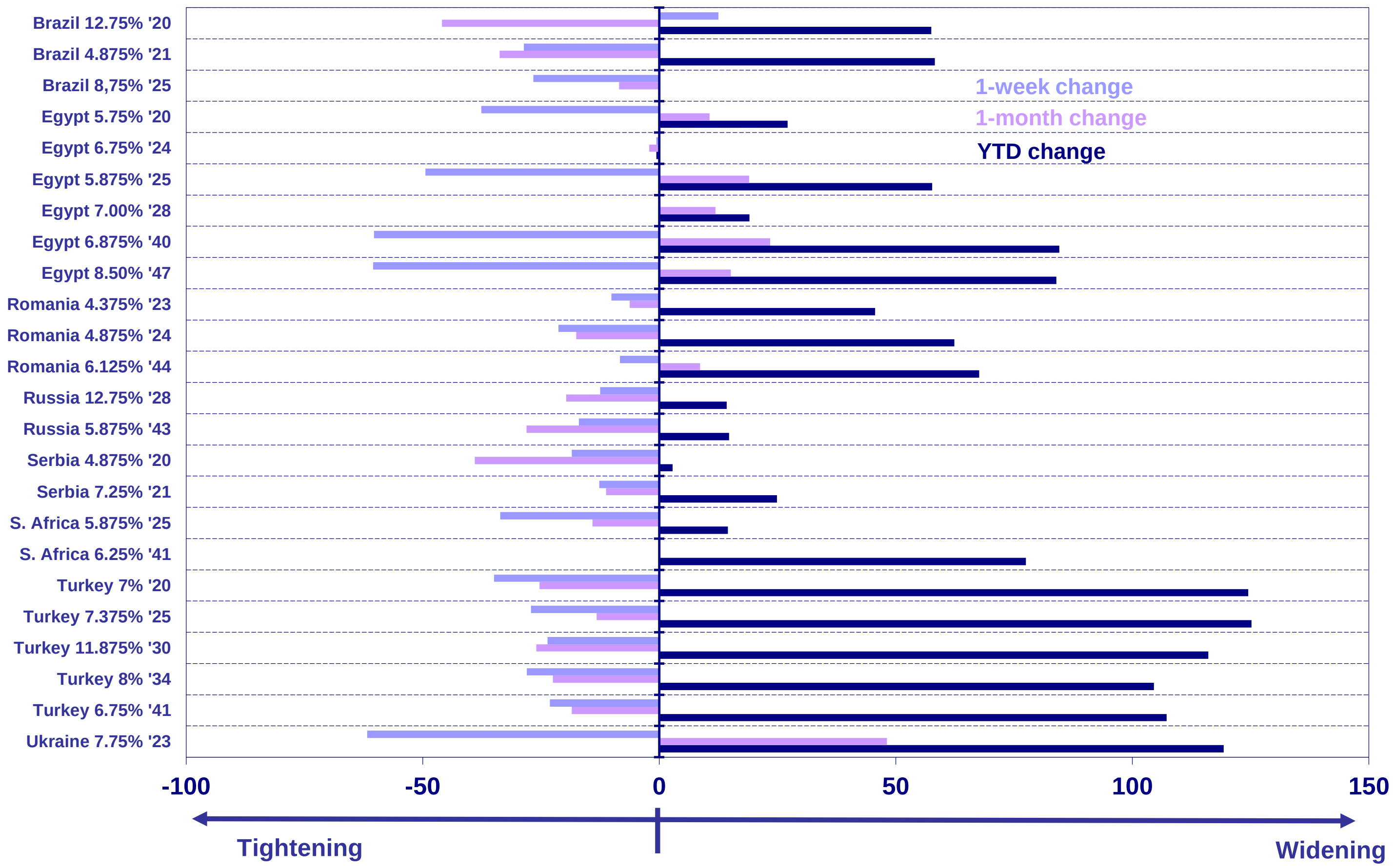
EUR-Denominated Eurobond Spreads (July 9th 2018)



USD-DENOMINATED SOVEREIGN EUROBOND SUMMARY, JULY 9TH 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-/NA	15/1/2020	87	3.1	54	41
Brazil 4.875% '21	USD	BB-/NA	22/1/2021	2,713	4.1	142	123
Brazil 8.75% '25	USD	BB-/NA	4/2/2025	688	5.1	226	240
Egypt 5.75% '20	USD	B-/B3	29/4/2020	1,000	4.8	224	201
Egypt 6.75% '24	USD	NA/B3	10/11/2024	1,500	6.2	333	325
Egypt 5.875% '25	USD	B-/B3	11/6/2025	500	6.8	399	372
Egypt 7.00% '28	USD	NA/B3	10/11/2028	1,000	6.7	387	377
Egypt 6.875% '40	USD	B-/B3	30/4/2040	1,500	7.9	492	450
Egypt 8.50% '47	USD	NA/B3	31/1/2047	500	8.3	535	537
Romania 4.375% '23	USD	BBB-/Baa3	22/8/2023	1,500	4.0	130	115
Romania 4.875% '24	USD	BBB-/Baa3	22/1/2024	1,000	4.1	135	121
Romania 6.125% '44	USD	BBB-/Baa3	22/1/2044	1,000	5.2	220	238
Russia 12.75% '28	USD	BB+/Ba1	24/6/2028	2,500	4.6	178	232
Russia 5.875% '43	USD	BB+/Ba1	16/9/2043	1,500	5.1	218	232
Serbia 4.875% '20	USD	BB-/B1	25/2/2020	1,500	3.8	118	98
Serbia 7.25% '21	USD	BB-/B1	28/9/2021	2,000	4.1	144	127
S. Africa 5.875% '25	USD	BBB-/Baa2	16/9/2025	2,000	5.2	233	227
S. Africa 6.25% '41	USD	BBB-/Baa2	8/3/2041	750	6.4	343	335
Turkey 7.00% '20	USD	NR/Ba1	5/6/2020	2,000	5.5	293	270
Turkey 7.375% '25	USD	NR/Ba1	5/2/2025	3,250	6.5	369	365
Turkey 11.875% '30	USD	NR/Ba1	15/1/2030	1,500	7.0	410	488
Turkey 8.00% '34	USD	NR/Ba1	14/2/2034	1,500	7.2	438	440
Turkey 6.75% '41	USD	NR/Ba1	14/1/2041	3,000	7.2	422	378
Ukraine 7.75% '23	USD	B-/Caa3	1/9/2023	1,355	8.2	542	513

USD-Denominated Eurobond Spreads (July 9th 2018)



STOCK MARKETS PERFORMANCE, JULY 9TH 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)	75,010	3.0	2.8	-1.8	19.0	69,069	88,318	-14.4	26.9	9.5	38.9	76.2
Bulgaria (SOFIX)	628	0.2	-0.5	-7.2	-11.4	625	721	-7.2	15.5	15.5	27.2	27.2
China (SHCOMP)	2,815	1.4	-8.2	-14.9	-12.4	2,691	3,587	-14.5	6.6	-0.3	-12.3	-15.3
Cyprus (CSE GI)	75	-1.0	8.3	8.1	-1.4	65	76	8.1	4.7	4.7	-2.0	-2.0
Egypt (HERMES)	1,525	-3.7	-1.7	6.1	23.9	1,429	1,741	6.1	32.0	18.7	72.7	-21.8
F.Y.R.O.M (MBI)	3,345	-1.5	5.7	31.7	46.4	2,536	3,494	31.7	18.9	18.9	16.5	16.5
India (SENSEX)	35,935	1.9	1.4	5.5	13.3	31,082	36,444	0.2	27.9	19.3	1.9	2.6
Romania (BET-BK)	1,584	-1.7	-2.2	-4.1	-0.2	1,574	1,802	-3.7	22.8	19.1	0.2	0.0
Russia (RTS)	4,609	2.3	4.6	11.8	8.4	4,017	4,612	5.5	-16.2	-21.9	24.2	54.3
Serbia (BELEX-15)	732	-0.9	-0.5	-3.6	2.2	725	785	-3.2	5.9	10.3	11.4	9.7
South Africa (FTSE/JSE)	58,220	1.9	0.0	-2.2	11.6	53,027	61,777	-7.9	17.5	14.3	-0.1	16.1
Turkey (ISE 100)	99,253	2.6	3.5	-13.9	-1.8	92,289	121,532	-29.7	47.6	20.5	8.9	-7.0
Ukraine (PFTS)	487	5.1	10.9	54.7	70.9	315	492	68.6	18.8	0.8	10.2	1.0
MSCI EMF	1,076	1.6	-5.3	-7.1	6.6	1,039	1,279	-5.2	34.3	17.7	8.6	12.2
MSCI EAFE	1,984	2.8	-1.3	-3.2	5.5	1,930	2,187	-1.2	21.8	6.7	-1.9	1.4
Greece (ASE-General)	750	0.2	-3.0	-6.6	-11.1	736	896	-6.6	24.7	24.7	1.9	1.9
Germany (XETRA DAX)	12,544	2.5	-1.7	-2.9	0.8	11,727	13,597	-2.9	12.5	12.5	11.6	11.6
UK (FTSE-100)	7,688	1.9	0.1	0.0	4.3	6,867	7,904	0.2	7.6	3.2	14.4	-1.0
USA (DJ INDUSTRIALS)	24,777	1.9	-2.1	0.2	15.7	21,279	26,617	2.3	25.1	9.6	13.4	16.7
USA (S&P 500)	2,784	2.1	0.2	4.1	14.7	2,533	2,873	6.3	19.4	4.7	9.5	13.2

Equity Indices (July 9th 2018)