ALPHA BANK

Economic Research Division
May 2014 - No 85

Southeastern Europe Economic & Financial Outlook

Executive Summary

1. Romania

- Economic activity maintains its upward trend as real GDP expanded by 3.8% y/y in Q1 2014, driven by a strong industrial output and a revival of domestic demand.
- Despite low budget deficit in Q1 2014, target for the whole 2014 might be missed as the government plans to trim VAT rate for some products and social security contributions, as well as to increase public sector's salaries.
- Romania's current account balance moved in the negative territory, in Q1 2014, posting a deficit amounting to € -261 million.
- Growing tensions in neighboring Ukraine and an expected acceleration in inflation in H2 2014 are the main factors that could influence Central Bank's monetary stance.

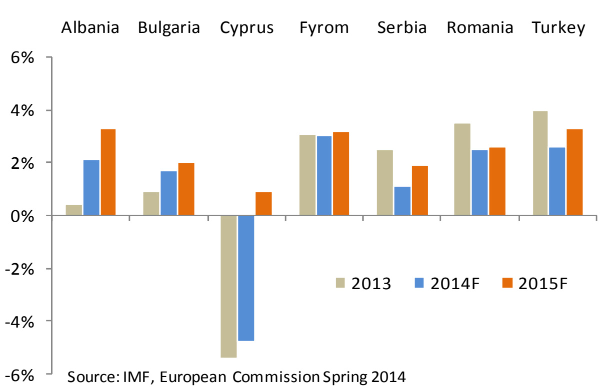
2. Bulgaria

- GDP expanded by 1.1% y/y in Q1 2014 and by 0.3%, compared with Q4 2013, mainly due to an increase recorded in industry and services sector.
- In Q1 2014 the current account registered a deficit of € -82.6 million or -0.2% of GDP for 2014, compared to a negative balance of € -411.6 million or -1.0% of GDP in Q1 2013. The current account adjustment which started during debt crisis is to remain in place this year as well.
- Inflation has decelerated sharply and is projected to remain low.

3. Cyprus

- The successful implementation of the Troika programme in order to address financial, fiscal and structural challenges, has managed to improve economic confidence and lead to an upgrade to country's credit status. Fiscal adjustment in 2013 was above all expectations and is expected to be the same story in 2014.
- Authorities aim at quickly restoring financial stability and achieving sustainable public finances over the medium term in order to support the speedy recovery of economic activity.
- The recession was much milder than originally anticipated, supported by strong tourist activity and relatively resilient private consumption, as GDP dropped by -5.4% y/y in 2013. In 2014 GDP may drop by less than -4.0% growing again in 2015 by almost 1.0%.

Southeastern Europe - GDP growth (%y/y)



4. Serbia

- GDP grew by 2.5% yoy in 2013, led by increased manufacturing output and strong exports. Slower growth by less than 1.5% is envisaged for 2014 as the country embarks to reforms under the auspices of IMF.
- The 2013 budget deficit reached -5.0% of GDP from -6.5% a year earlier.
- Accelerating remittances flow and narrowing foreign trade gap underpins improvement in the current account deficit in 2013 to -5.2% of GDP from -10.6% a year before.

5. Albania

- Strong signs of recovery become more evident as GDP grew by 1.1% y/y in Q4 2013 mainly due to an increase in industry.
- The budget deficit in Q1 2014 decreased to ALL -6.3 billion from ALL -14.6 billion in Q1 2013, as a result of the increase in tax revenues.
- External imbalances continued in Q1 2014 due to the positive growth of imports. Exports remained strong albeit at a moderate pace.

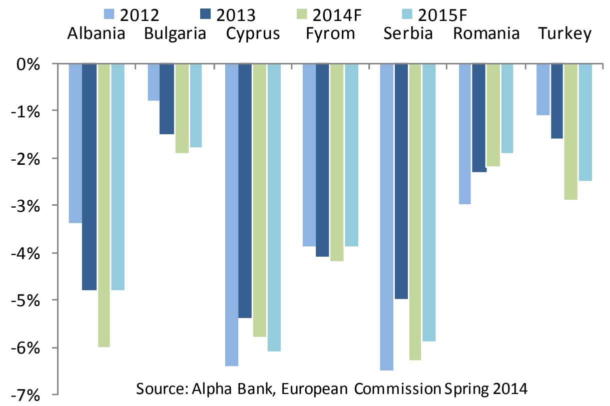
6. Former Yugoslav Republic of Macedonia

- The economy rebounded in 2013, with GDP rising by 3.1% y/y mainly driven by household consumption.
- The budget deficit in Q1 2014 slightly decreased to MKD -11.1 billion from MKD -11.4 billion in Q1 2013 as a result of an increase in personal income tax and VAT receipts.
- The current account deficit decreased in Jan.-Feb. 2014 to € -67.9 million from € -75.9 million in Jan.-Feb. 2013 mainly due to a lower trade deficit.

7. Turkey

- GDP rose by 4.0% y/y in 2013 due to an increase in investments and household final consumption.
- The budget surplus decreased to TRY 3.6 billion in Jan.-Feb. 2014 from TRY 4.5 billion in Jan.-Feb. 2013 as expenditures rose more than revenues due to an increase in non-interest expenditures.
- The current account deficit declined to $-11.5 billion in Q1 2014 from $ -16.5 billion in Q1 2013 mainly due to a decrease in the trade deficit.

Southeastern Europe – Fiscal balance (% GDP)



1. ROMANIA

ECONOMIC OVERVIEW: According to the provisional data announced by the National Statistical Office (INS), GDP expanded by 3.5% on annual basis in 2013, and well above market expectations. Romanian GDP growth in 2013 was one of the highest amongst EU countries. In particular, the industry contributed by 2.3% to GDP growth rate, followed by agriculture contributing by 1.1% and services by 0.1%, whereas construction had a negative contribution. From the viewpoint of GDP 2013 formation, based on the volume of gross value added activities, there was a considerable increase in the volume of industry (+8.1% y/y), agriculture (+23.4% y/y), real estate transactions (+2.2% y/y) and information & communications (+1.8% y/y). From the viewpoint of the evolution of 2013 GDP based on its final uses, exports of goods & services expanded by +12.8% y/y while imports rose by +2.3% y/y and net exports contributed by 4.1% y/y in the 2013 GDP growth, with private consumption by +0,9% y/y, government consumption by -0.6% y/y, and inventory changes by 0.6% y/y. Economic recovery started gaining momentum in H2 2013 given the favourable trend in the agricultural sector, improving economic and business climate in Europe (the major trading partner of Romania), increasing absorption of EU structural and cohesion funds and a more expansionary monetary policy. Improvement in employment and low inflation supported final consumption in 2013, with public consumption lagging and investment sentiment remaining weak. In 2013, nominal GDP amounted to RON 631,130.1 million. According to the Ministry of Finance, nominal Romanian GDP in 2014 is expected to RON 662,769.0 million up by 5.0% from 2013. Romania's absorption rate of European funds was 33.47% at the end of 2013, a clear increase compared to previous years following the latest refund applications submitted to the European Commission. The amount refunded to Romania by the European Commission was standing at €6.43 billion at the end-2013. Overall, Romania was earmarked €19.2 billion for the years 2007-2013. The intermediary payments in 2013 were € 2,886 million while the funds absorbed €3,564 million. Economic growth remains on an upward trend. Real GDP expanded by 3.8% y/y in Q1 2014, driven by a strong industrial output and a revival of domestic demand. Romania's GDP advanced 3.8% in both unadjusted terms and when adjusted for seasonality in Q1 2014, compared with the corresponding period a year ago, according to flash estimates of the INS. This is the second quarter in a row, with the largest annual increase recorded by a European Union (EU) member state, according to preliminary data announced by Eurostat. In real terms, the Q1 2014 GDP was up 0.1% from Q4 2013 in seasonally adjusted terms.

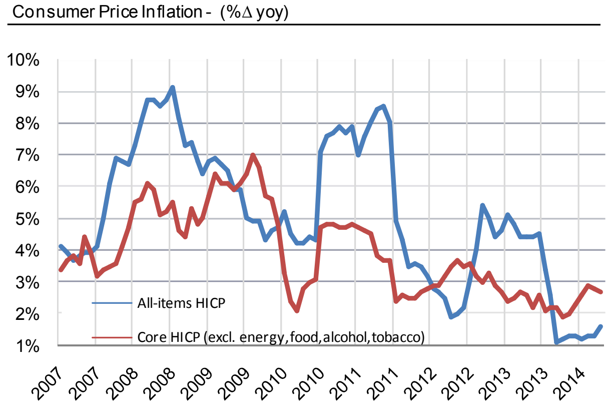
In April 2014, the International Monetary Fund (IMF) upwardly adjusted its 2014-2015 GDP growth forecast for Romania. According to IMF, Romania's GDP will rise by 2.2% this year and by further 2.5% in 2015. Also, both EBRD and European Commission (Economic Forecast Spring 2014) have upgraded Romania's GDP growth to 2.4% and 2.5% in 2014 respectively with European Commission expecting growth by 2.6% in 2015. According to European Commission, economic growth of such magnitude in the period 2014-2015 is above potential output growth. Finally, the Government expects GDP to rise by 2.3% in 2014, 2.5% in 2015, 3.0% in 2016 and by 3.3% in 2017. We also foresee economy, after growing by 3.5% in 2013 to expand by 2.9% in 2014 and at around 3.1% in 2015.

Following a 3-month extension, Romania effectively ended the 2-year precautionary Stand-By Arrangement - SBA (March 2011 – March 2013) with the IMF in June 2013. During July 17–31, a joint team from the International Monetary Fund (IMF), the European Commission (EC) and the World Bank visited Romania in order to conduct discussions on a new SBA. Finally, the mission reached a staff-level agreement with the local authorities on a new economic program that could be supported by a 24-month Stand-By Arrangement (SBA) with the IMF Management, and Balance of Payments (BoP) assistance from the European Union. The new financial assistance would total € 4 billion, equally split between the IMF and the EU. On September 29, the Executive Board of the International Monetary Fund (IMF) approved the new SBA of SDR 1.75 billion or about €1.98 billion. The authorities intend to treat the arrangements as precautionary. The Romanian authorities are treating the Stand-By Arrangement (SBA) as precautionary, thus they do not aim to draw on the available resources. According to IMF and EU delegates, the Romanian government under the new economic programme will carry on its gradual fiscal consolidation, targeting a deficit target of -2.3% of GDP in cash terms in 2013 and -2.4% of GDP in European System of Accounts (ESA) terms going lower to -2.0% in 2014 in both cash and ESA terms and achieving a structural deficit of not more than -1.0% of GDP by 2015. On the other hand, institutional reforms are needed in order to ensure i) advance medium-term planning, ii) strengthening of administrative capacity, iii) increasing the absorption rate of EU funds and iv) enhancement of tax administration & fiscal governance. A key priority of the government is to improve budgetary planning and project prioritization to increase absorption of EU funds with a view to creating fiscal space and supporting economic growth. The authorities also plan to advance the health care reform agenda, which is vital to improve the quality of health services, and raise efficiency of spending. Other structural reforms would focus on reforming inefficient state-owned entities (SOEs) and promoting investment and efficiency in the energy and transportation sectors, which are valuable in order the country to increase its international competitiveness and enhance long-term growth. Looking backwards, implementing structural reforms seems to be a difficult and time consuming process for Romanian authorities. Late in March 2014, IMF concluded the first and second reviews of the SBA with Romania. IMF also states (April 2014) that the Romanian program is on track and the structural reform agenda progresses well in the energy and transport sectors. Despite 2014 is an election year for Romania, IMF expects fiscal deficit to stay at -2.2% of GDP.

FISCAL POLICY: According to the Romanian Ministry of Finance, in 2013 consolidated budget deficit rose to RON -15.8 billion (€ -3.6 billion) or -2.5% of GDP for 2013, against RON -14.8 billion (€ -3.3 billion) or -2.5% of GDP the corresponding period in 2012. The budget deficit target of the Romanian Government for 2013 stood at -

2.3% (-2.6% in accrual terms) of GDP although it was revised upwards from -2.1% in July 2013. The fiscal performance of 2013 was attributed mainly to the rise of tax revenues by 6.7% y/y and also of social contributions by 4.7% y/y allowing total revenues to rise by 3.6% y/y to RON 200.0 billion. Expenditures rose by 3.8% y/y to RON 215.8 billion affected by the rise in staff salaries and expenditures on goods and services by 13.5% y/y and 12.0% y/y respectively. Furthermore, in Q1 2014, consolidated budget deficit fell to RON -929.7 million (-0.14% of GDP) compared to a similar deficit of RON -4,188.7 million in Q1 2013 (-0.67% of GDP). This came on the back of a rise in total revenues by 3.8% y/y reaching RON 47,037.6 million in the end of Q1 2014, whereas at the same time total expenditures fell by -2.9% y/y in Q1 2014 reaching RON 51,226.3 million. This year budget deficit target was set at 2.2% of GDP, but recent performance of public revenues implies it might be missed.As the government plans to trim VAT rate for some products and social security contributions paid by employers, as well as to increase salaries in public sector, it is likely the deficit target to be missed slightly for the whole 2014. Recent Eurostat figures, show that Romanian general government deficit in 2013 came to RON -14,308 million or at -2.3% of GDP down from RON -17 548 million or at -3.0% of GDP in 2012. For 2014 and 2015 EC expects deficit to GDP to fall to -2.2% and to -1.9% of respective GDP (EC Spring 2014). Also, based on Eurostat figures, Romanian public debt in 2013 stood at 38.4% of GDP and is expected to grow to 39.9% and to 40.1% in 2014 and 2015 respectively.

Consumer Price Inflation - (%Δ yoy)



Source: Eurostat, National Statistical Office

INFLATION: Harmonised consumer price (HCPI) inflation stood at 1.3% in December 2013 same level as in September 2013 but down from 2.6% y/y in August 2013 averaging 3.2% in 2013 compared to 3.4% in 2012 and 5.9% in 2011. Romanian inflation fell sharply since June 2013 when it was 4.5% and converged very fast to December 2013 EU average of 1.0% from being one of the highest inflation countries before. Dropping food prices, RON's appreciation and a reduction in electricity tariffs, kept inflation pressures away. The key drivers behind the fall in overall consumer prices in December 2013 y/y were the fall in food prices (-1.5% y/y) and the communication prices (-0.4% y/y). Headline inflation (CPI) also fell to 1.55% in December of 2013 from 1.8% in November 2013 and 3.7% in August of 2013 after peaking at 6.0% in January 2013. The average price increase based on the CPI was 4.15% in 2013 compared to 3.3% in 2012 and 6.0% in 2011. During Q1 2014, headline inflation further declined from 1.55% in December 2013 to 1.04% in March 2014 and averaged 1.05% for the quarter. In the first four months of 2014 harmonised consumer price (HCPI) inflation averaged to 1.4% and in April 2014 stood at 1.6%. Headline inflation rate should be within the 1.5-3.5% variation band (+/- 1pp 2.5%) at the end of Q3 2015 as set by the National Bank of Romania. NBR expects inflation to end in 2014 and in 2015 at 3.3%, averaging in each of these two years to c.2.5%, which is the central value of the target band 1.5%-3.5%. The rapid disinflation process was supportive of the current monetary policy easing cycle which resulted to a historic low policy rate level of 3.5%.

Unemployment rate in Romania increased to an average of 7.3% in 2013 compared to 7.0% in 2012 and 7.4% in 2011 and moreover remained steady at 7.3% in Q1 2014. The total number of unemployed persons in Romania stood at 724,000 in the end of March 2014 compared to 732,000 persons in December 2013 and 718,000 in March 2013. Labour developments in 2013 show a weak labour market since during 2013 employment fell despite the very good performance of the Romanian economy. According to EC 'Economic Forecast Spring 2014' unemployment rate is expected to average 7.2% in 2014 and 7.1% in 2015.

BALANCE OF PAYMENTS: Romania's current account balance posted a deficit of €-1,505 million in 2013 (-1.1% of GDP), versus a deficit of €-5,843 million in 2012 (-4.5% of GDP) due to the decrease in trade balance deficit by € 3,956 million, as well as thanks to a surplus in services balance of € 2,587 million from a surplus of € 1,129 million, the corresponding period a year ago. The trade balance deficit was reduced to € -3,423 million in 2013 (-2.4% of GDP) from a deficit of €-7,379 million in 2012 (-5.7% of GDP), due to robust exports. Romania's exports rose by 10.0% y/y to € 49.6 billion in 2013 and imports rose by +0.3% y/y to € 55.3 billion in the same period, according to the National Bank of Romania. The current transfers balance rose by 8.4% y/y while the net foreign direct investment amounted to € 2,713 million in 2013 from € 2,140 million in 2012. In Q1 2014, exports of goods remained on an upward trend and increased faster (+10.1% y/y) than imports (9.6% y/y) and this resulted in a small decrease in trade deficit as compared with the corresponding period a year ago. Current account balance moved in the negative territory, posting a deficit amounting to € -261 million. In Q1 2014 the current account covered by net FDIs and capital transfers. In particular, FDIs in Romania totaled € 570 million (+30.1% y/y), of which equity stakes (including reinvested earnings) amounted to € 514 million and intra-company loans to €56 million. We envisage that the current account balance would post a deficit in 2014 (-1.8% of GDP) due to higher imports of goods as a result of higher domestic demand. According to EC 'Economic Forecast Spring 2014', the current account deficit is expected to reach -1.2% of GDP in 2014 and -1.6% in 2015. It should be noted that, current account balance ended 2013 at an 11-year low of -1.1% of GDP.

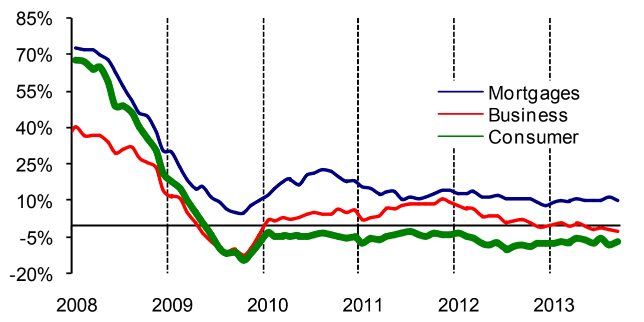
Current Account: January - March 2014 (€ million)			
	Jan.-Mar.2014	Jan.-Mar.2013	%Δ
Exports (fob)	12.754	11.582	10,1%
Imports (fob)	13.300	12.136	9,6%
Trade Balance	-546	-554	-1,4%
Services Balance	744	586	27,0%
-Tourism-travel	-101	-92	9,8%
Income Balance	-1.548	-831	86,3%
Current Transfers Balance	1.089	805	35,3%
Current Account Balance	-261	6	-4450,0%
Source: National Bank of Romania			

EXTERNAL DEBT: Total external debt fell at the end of 2013 standing at € 96.4 billion from € 99.7 billion in December 2012. In terms of GDP, total external debt stood at 67.9% from 75.1% in December 2012 and 74.4% at December 2011. Medium & long- term external debt service ratio was at 41.4% in 2013 against 34.9% in 2012. Borrowing from the IMF decreased to € 5.0 billion at end-2013 from € 10.8 billion at end-2012. More recent data, referring to March 2014, show that gross external debt declined and amounted to € 93.2 billion compared to a revised figure of € 96.1 billion in the end of 2013 or 67.5% of GDP. The large picture of gross external debt evolution points to the fact the peak of gross external debt relative to GDP took place in 2012 at around 76% and since then began to decline. Finally, at the end of December 2013, the National Bank of Romania's foreign exchange reserves stood at € 32.5 billion, up from € 31.2 billion at end-December 2012, whereas in the first four months of 2014 they remained stable amounting to € 32.4 billion as of end of April 2014.

MONEY & FINANCIAL MARKETS: Following the sell-off of Emerging Markets assets in May-June 2013, the RON started its gradual rebound in July 2013 as investors re-considered their risk appetite. The domestic currency (RON) appreciated in nominal terms against the US Dollar and the Euro in 2013 by 4.1% and 0.9%, respectively (average levels) while in 2012 the local currency had depreciated by 13.8% against US Dollar and 5.2% against Euro. The average exchange rate RON/EUR in 2013 stood at 4.4180 slightly stronger than the average rate of full year 2012, while the average exchange rate RON/USD in 2013 stood at 3.3370. Note that in times of high volatility, the exchange rate RON/EUR went up to 4.5837 (7.6.2013) and 4.5695 (28.1.2014). In the first four months of 2014 (end of April 2014 compared to the end of December 2013), RON appreciated against USD and EUR by 1.3% and by 1.1% respectively. The market consensus sees the exchange rate of RON/EUR at 4.48 in Q2 2014 and at 4.45 in Q4 2014. On the other hand, the forward market rates stand at 4.44 in Q2 2014, and at 4.50 in Q2 2014. The adequate FX reserves make NBR's any potential currency action job less painful. This will be also supported by the new SBA, allowing Romania to get a protection facility of € 4 billion by international creditors and alleviating fears on the currency front. However, we could not rule out a major shock for the domestic currency if investors change their risk profile for Emerging Market assets especially in Eastern Europe if events in Russia-Ukraine dispute move out of control. Rating agency Standard & Poor's in May 2014 raised Romania's rating to a notch above junk status, citing the country's progress in reducing its external indebtedness. S&P raised its long- and short-term foreign and local-currency sovereign credit ratings on Romania to BBB-/A-3 from BB+/B. It also revised its outlook on Romania to stable from positive. In a statement the ratings agency noted that Romania will maintain steady GDP growth, averaging 3% over 2014-2017. This underlines the return of relatively healthy fundamentals, even if Romania's national income per capita in 2014 is still roughly equal to its 2008 high. Recently, Romania's Minister of Finance Romania announced that his country aims to join Eurozone in January 2019, as it meets almost all Maastricht criteria with the exception of inflation which will be also met given the major progress that has been recorded in the last few years.

The National Bank of Romania (NBR) commenced the monetary policy easing cycle in March 2013 by lessening the control over liquidity conditions in the money market, which drove interbank interest rates to substantially low levels (ROBOR 3M stood at an average of 2.7% in April 2014 from 2.3% in December 2013 and 4.3% in April 2013). The NBR cut again on the 5th of February 2014 its monetary policy rate by 25 bps to 3.50% from 3.75% on 9th January 2014 and 4.00% on 6th November 2013. Interbank interest rates currently suggest that NBR is expected to keep the monetary rate at 3.5% by the end of 2014. Outstanding daily average volume of repo operations performed by BNR fell further in April 2014 to almost RON 1 million from RON 59 million in October 2013 and RON 3.9 billion in December 2012.

Credit Growth (%Δ YoY)



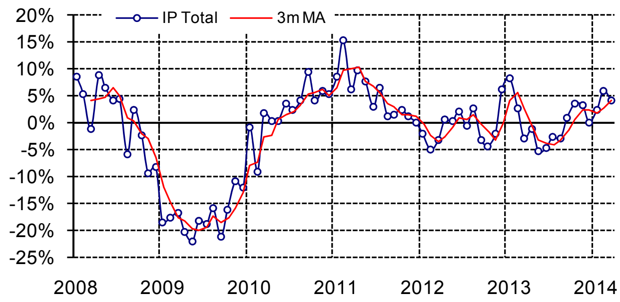
Source: National Bank of Romania, ALPHA BANK Reasearch

Credit expansion (in euro terms) to the private sector exhibited a deceleration during 2013. In particular, credit expansion stood at -2.4% y/y in December 2013 (businesses: -4.2% y/y, households: -0.3% y/y) from -1.4% y/y in December 2012. Households continued to prefer foreign currency loans. Deposits by the private sector rose by 10.3% y/y in December 2013, helped mainly by the rise in RON-denominated deposits, with household deposits rising by 7.1% and business deposits by 15.5%. Non-performing loans (NPLs) seemed to have stabilized in the last quarter of 2013 reaching 21.9% in December 2013 from 21.6% in September 2013 compared to 18.2% in the end of 2012 and 14.3% in the end of 2011. In December 2013, the commercial banks remained well capitalized and liquid, with the capital adequacy (CAR) and loans to deposits (LtD) ratios at 15.0% and 104.6% respectively (December 2012: CAR 14.9%, LtD 117.4%). Recent figures, referring to Q1 2014, show that credit expansion (in euro terms) to the private sector declined by -3.7% in March 2014 y/y due to a fall in businesses´ credit by -5.0% y/y and households' credit by -2.2% y/y. Deposits from the private sector rose in March 2014 by 5.8% y/y due to a rise in household deposits by 2.7% y/y and also a rise in business deposits by 11.0% y/y. Finally, figures referring to Q1 2014 show that NPLs rose to 22.3% of gross loans as of the end of March 2014, whereas CAR improved to 15.9%.

2. Bulgaria

Economic Overview: Gross Domestic Product (GDP) expanded by +0.9% in 2013, marginally above the rise by +0.6% in 2012 and below +1.8% growth in 2011, still well below potential growth estimated to be around +3.0% (IMF, January 2014). The rise in GDP during 2013, especially in H2 2013 (GDP grew by +1.2% y/y compared to +0.5% y/y growth in H1 2013), is attributed to the good performance of net exports contributing to +2% of 2013 GDP growth as domestic demand (negative private consumption and investment growth) fell and contributed negatively i.e. by -1.2% to Bulgarian GDP growth. The return to positive economic growth in Eurozone, suggest Bulgarian exports benefited during 2013 especially in the second half of the year. Stronger GDP growth could be achieved by a better exploitation of available European Union funds, which can add to GDP up to extra 3 percentage points on the medium-term (IMF, February 2014). Bulgarian GDP at current prices in 2013 amounted to BGN 78,115 million or € 39,940 million compared to BGN 78,079 million or € 39,926 million in 2012. Industrial production (seasonally and working say adjusted) marginally rose by +0.1% in 2013 after declining by -0.2% in 2012. This was due to the rise in the product of the manufacturing and also the product of the electricity-gas-water sector covering the loss of output in the mining and quarrying sector. More specifically, the manufacturing sector, in 2013, grew by an average of +0.8% compared to a rise by +0.2% during 2012 and the electricity-gas-water sector also rose by +1.5% compared to a decline by -0.9% in 2012. Finally the mining and quarrying sector declined by -5.8% in 2013 after also declining by -2.0% in 2012. According to the flash estimates for the first quarter of 2014, the GDP expanded by +1.1% over the same quarter of the previous year and by +0.2% compared to Q4 2013. An increase was recorded in industry (+3.4% y/y) and the services sector (+1.2% y/y), while agricultural sector posted a decrease of -0.4% y/y. As regards the expenditure components of GDP, the final consumption posted a positive economic growth of the individual and the collective consumption by 2.0% y/y and 1.5% y/y respectively. Gross fixed capital formation recorded an increase by 3.2% y/y. Exports and imports of goods and services increased by 0.7% y/y and 5.1% y/y. Industrial production rose by +4.2% y/y in Q1 2014 assisted by a +4.0% y/y rise in the manufacturing production and by a rise by +3.8% y/y in the electricity-gas-water sector plus a rise by +7.9% y/y in the mining and quarrying sector.

Industrial Production - (%Δ y/y swda)



Source: Bloomberg

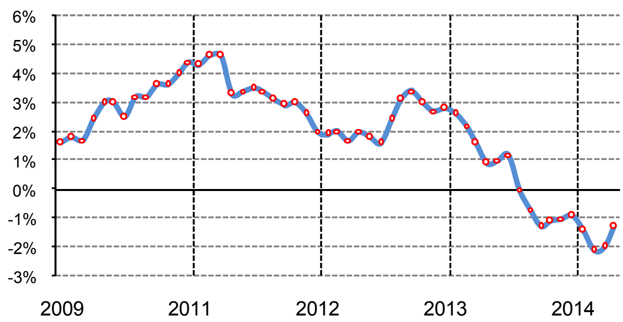
According to Eurostat, in March 2014 the number of unemployed people in Bulgaria were 443 thousands persons down from 445 thousands in December 2013 and up from 440 thousands in March 2013, whereas unemployment rate was standing at 13.1% in March 2014 from 13.2% in December 2013 and 13.0% in March 2013. The labour market is still fragile and according to EC (Spring 2014 Forecast) unemployment rate will stay high in 2014-2015 falling from an average of 13.0% in 2013 to 12.8% in 2014 and slightly lower to 12.5% in 2015. According to IMF (April 2014) GDP is expected to grow by +1.6% in 2014 and faster by +2.5% in 2015. Similarly, EBRD (May 2014) expects GDP growing by +1.9% in 2014 and 2.0% in 2015 after growing by +0.9% in 2013. According to EBRD, economic growth this year will be driven by continual improvement of exports and some recovery in domestic demand. The European Commission (Spring 2014 Forecasts) expects GDP growth to reach +1.7% in 2014 and to rise at +2.0% in 2015 driven by domestic demand as net exports are seen to have neutral contribution to GDP growth. We foresee Bulgaria's GDP growth to expand by +1.7% in 2014 and by +2.3% in 2015, mainly supported by private consumption. It should be mentioned that the forecasts are subject to a downward revision in case the tension between Russia and Ukraine spills over Europe and generate gas supply disruptions.

Fiscal policy: According to Eurostat (April 2014) general government budget deficit in 2013 stood at €-602.2 million or at -1.5% of GDP up from €-309.0 million or -0.8% of 2012 GDP. Similarly, the consolidated budget deficit in 2013 on a cash basis rose to € -740 million (-1.8% of GDP) up from €-179 million in 2012 (-0.5% of GDP) and it was negatively affected by an increase by 9.2% in expenditures coupled by a slower rise in revenues by +5.5% but below the ceiling which was set by the Government at -2.0% of GDP or €- 820 million, in the Budget of 2013. On the revenue side, the biggest item, which is tax receipts, stood at € 11,4 billion or -1.9% lower from the Budget set target and this was partially covered by a rise +4.5% of non-tax revenues to € 2 billion, a figure higher than the target set by the State. Fiscal reserve in end of 2013 stood at the satisfactory level of € 2.4 billion above the target of € 2.3 billion set by the Government. In Q1 2014, consolidated budget deficit amounted to €-447 million compared to €-408 million in Q1 2013 due to higher expenditures under European programs and funds and the effect of pension hike by

9.3% in April 2014. Revenues, in Q1 2014, stood at € 3,362 million or 21.2% of the annual plans for 2014 under the State Budget Law, up 6.9% y/y. In Q1 2013 revenues amounted to 20.3% of the corresponding 2013 annual Budget plan. Also, budget expenditures in Q1 2014 amounted to € 3,809 million, which is 22.9% of the 2014 annual plan and up 7.1% y/y due to the basic effect of the increase of pensions from 1st of April 2014 and the accelerated absorption under European programs and funds. Fiscal reserve rose to € 3.0 billion in the end of Q1 2014.
According to Eurostat (April 2014), public debt rose to €7,532.9 million in the end of 2013 or to 18.9% of GDP from €7,356.6 million or 18.4% of GDP in 2012. The public debt reached the limit set in the Budget Law of Bulgaria at € 7.5 billion. EC (Spring 2014 Forecasts) expects budget deficit to settle to -1.9% of 2014 GDP and to -1.8% of 2015 GDP. In a similar way, IMF (January 2014) expects budget deficit to settle to -1.8% and to -1.5% of 2014 and 2015 GDP respectively. Similarly, according to EC (Spring 2014 Forecasts) public debt to GDP is expected to rise to 23.1% of GDP in 2014 and to fall later in 2015 to 22.7% of GDP, levels which are considered to be low by international standards. Although Bulgaria's economic fundamentals are sound, the political fragile environment causes a concern for the fiscal discipline. Recall that Government backed by the BSP and the MRF parties, has not a parliamentary majority and depends on implied support from the nationalist Ataka party. Regarding 2014, the Bulgarian government pledged for a budget deficit of -1.8% of GDP, which poses significant challenges. Bulgaria has pledged to maintain fiscal discipline in order to avoid pressure on its currency regime.

INFLATION: The harmonised consumer price index (HICP) rose by an average 0.4% y/y, in 2013 from a rise by 2.4% in 2012, and since Aug.2013 for eight consecutive months is in a negative ground suggesting mild deflation. In a similar manner, headline CPI inflation increased in 2013 by 0.9% y/y on average from a rise by 3.0% in 2012, being negative since Aug.2013. In April 2014 HICP and CPI inflation stood at -1.3% y/y and -1.6% y/y respectively, affected by the fall in alcoholic beverages & tobacco prices, communications prices, recreation prices, transport, as well as the stable prices in housing water, electricity & gas. The low-growth environment and decreases in the administratively set energy prices have kept the average annual rate of HICP inflation in a negative territory. The overall picture during 2013 and early in 2014 leads to lower inflation estimate for 2014. The European Commission's Spring-2014 forecast predicts HICP inflation to be at -0.8% on average in 2014 and to rise at 1.2% in 2015. IMF (April 2014) also forecasts HICP inflation in 2014 to average at -0.4% and at 0.9% in 2015. Inflation estimated for 2014-2015 by both EC and IMF are lower than similar estimates provided in their Autumn 2013 Forecasts.

Harmonised Index of Consumer Prices (HICP) - (%Δyoy)



Source: Eurostat

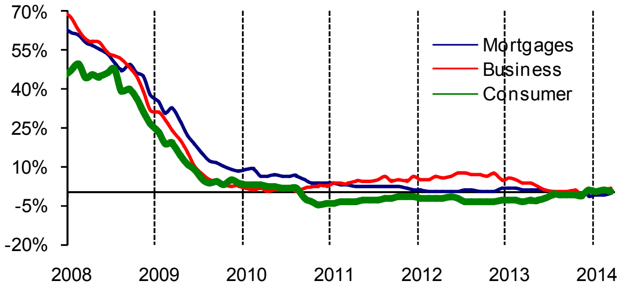
BALANCE OF PAYMENTS: The current account showed a surplus of € 831.3 million or 2.0% of GDP for 2013, compared to a negative balance of € -520.8 million or -0.9% GDP in 2012. The current account surplus in 2013 was the result of the positive balance on services (€ 2,070.8 million), as well as on current transfers (€ 2,327.1 million). In particular, the trade balance registered a deficit in 2013 amounting to € -2,335.6 million (-5.7% of GDP), compared with a deficit of € -3,460.3 million in 11M 2012 (-8.7% of GDP). In 2013 exports reached € 22,199.7 million (up 6.9% y/y), while imports reached € 24,535.4 million (up 1.3% y/y). On average, the biggest contribution for the growth of the exported products in 2013 was made by raw materials, investment goods, as well as, consumer goods. EU accounted for 58.1% of all Bulgarian exports, with Germany leading with 14.0% followed by Italy with 9.7%, Greece with 7.7% and Romania with 5.2%. Also, Bulgarian imports in 2013 came from EU at 46.3% with Germany leading with 9.3%, Italy with 7.0%, Greece with 4.6% and Romania with 4.7%. Imports from Russia mainly in the form of energy products accounted for 20.4% of all Bulgarian imports. Moreover, the services surplus decreased to € 2,070.8 million (5.1% of GDP) in 2013, against a surplus of € 2,327.7 million (5.9% of GDP) in 2012. In the capital account, the net foreign direct investment (FDI) decreased to € 1,115.8 million or 2.8% of GDP in 2013 from € 1,209.0 million or 3.0% of GDP in 2012. The current account balance adjustment has been sustained over the last five years and is anticipated to remain broadly balanced in the near future. So far this first quarter, the current account showed a deficit of € -82.6 million or -0.2% of GDP for 2014, compared to a negative balance of € -411.6 million or -1.0% GDP in Q1 2013. The current account deficit in Q1 2014 was the result of the positive balance on services (€ 70.6 million), as well as on current transfers (€ 727.9 million). In particular, the trade balance registered a deficit in Q1 2014 amounting to € -825.6 million (-2.0% of GDP), compared with a deficit of € -448.9 million (-1.1% of GDP) in Q1 2013. In the capital account, FDIs in Bulgaria in Q1 2014 amounted to € 88.9 million (0.2% of GDP) compared to €372.9 million (0.9% of GDP) in Q1 2013. The largest part of FDI inflows, € 60.2 million came in the form of equity capital. FDIs appear to have benefitted parts of the wholesale & retail trade, construction and real estate-renting & business activities. Wholesale & retail trade attracted the majority of the investment flows. Positive development, the annual increase by 24.1% of the reinvested earnings in Q1 2014, which proves that despite the modest economic growth, the companies maintain their profitability. Although current account posted a deficit in Q1 2014, we anticipate the current account adjustment which started during debt crisis to remain in place this year as well and the current account balance to post a surplus of 0.8% of GDP.

Current Account: January-March 2014 (€ million)			
	Jan.-Mar. 2014	Jan.-Mar. 2013	%Δ
Exports	4.853	5.213	-7%
Imports	5.679	5.661	0%
Trade Balance	-826	-449	84%
Services Balance	71	85	-17%
Income Balance	-55	-353	-84%
Current Transfers Balance	728	305	139%
Current Account Balance	-83	-411	-80%
Source: Bulgarian National Bank			

EXTERNAL DEBT & INT. RESERVES: Total gross external debt stood at € 37,129 million at the end of December 2013 (92.2% of GDP) from € 37,635 million (94.3% of GDP) at the end 2012. The ratio of foreign reserves with the Central Bank to short-term debt was 148.7% at end of 2013 from 144.7% at the end of December 2012. Gross external debt remained almost stable in early 2014, as February 2014 figures show that gross external debt amounted to € 37,415 million or 91.7% of GDP compared to € 37,451 million or 93.8% of GDP in February 2013.

MONEY & FINANCIAL MARKETS: Bulgaria continues the currency board regime, pegging the Bulgarian Lev (BGN) to the Euro at a fixed exchange rate of 1.95583 BGN to 1 Euro. Although, country fulfils the criteria for joining ERM II, the Eurozone waiting room, Bulgaria is not intending to make any move toward the euro adoption within the next years. Domestic demand for credit remained subdued amid rising unemployment. In December 2013 credit expansion rose marginally by 0.2% on annual basis, from 2.8% y/y in December 2012. Business financing grew by 0.1% y/y in December 2013 and credit to households declined by -0.2% y/y. Consumer credit rose by 2.2% y/y and mortgages declined by -1.2% y/y. In March 2014 credit expansion rose by 1.4% on annual basis, from 0.2% y/y in December 2013. Business financing grew by 1.9% y/y in March 2014, credit to households by 0.3% y/y, consumer credit by 0.7% y/y and mortgages remained unchanged. Deposits grew by 7.8% y/y in March 2014 via strong growth of household deposits (+8.7% y/y). As a result, the loan-to-deposit ratio fell to 98.0% in March 2014 from 104.2% one year earlier and 96.6% in December 2013. The banking sector has managed to preserve its stability. The average quality of banks' loan portfolio also remained broadly unchanged, with the non-performing loans (NPLs) ratio standing at 16.9% in Q4 2013 from 16.6% in the end of 2012 and 15.0% in the end of 2011 after peaking at 17.2% in Q3 2013. The stock of NPLs at the end of 2013 was a little lower compared to the end of 2012. Also, coverage ratio (accumulated provisions over total stock of NPLs) improved further during 2013 reaching 72.9% in end of 2013 up from 70.5% in 2012 and 68.8% in 2011. Bank profitability amounted to € 258 million lower by 3.8% from 2012, therefore resulting to a rather low ROE of 4.9% (5.3% in 2012) and also low ROA of 0.6% (0.7% in 2012). Profitability in 2013 was impacted from lower net interest margin falling to 3.3% in 2013 from 3.6% in 2012 and 4.2% in 2011 due to lower loan activity plus rising deposits coupled by sizeable provisioning charges in order to raise coverage ratio. The Bulgarian banking system is well capitalized as regulatory capital adequacy ratio in the end of 2013 reached 17.0% compared to 16.6% in 2012 and 17.6% in 2011. Also, Tier 1 capital ratio standing at 16.0% in 2013 from 15.1% in 2012 and 15.7% in 2011. Finally, liquidity continued to ensure adequate coverage of attracted funds and normal intermediation during 2013, as liquidity ratio stood at 27.0% in the end of 2013 up from 26.0% in 2012 and 25.5% in 2011. The banking sector is under a process of consolidation, as local banks acquired the subsidiaries of two foreign banks in 2013.

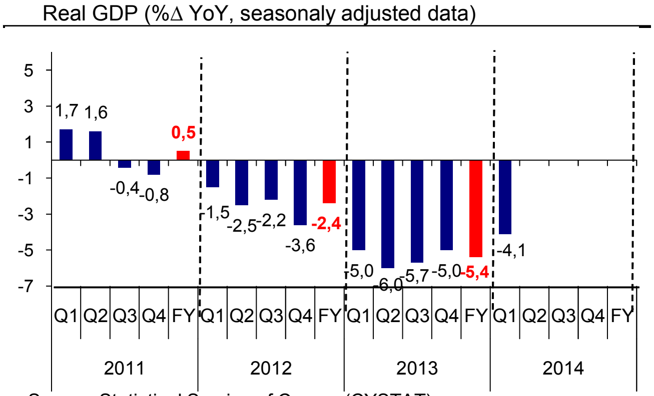
Credit Growth (%Δ yoy)



Source: National Bank of Bulgaria

3. CYPRUS

ECONOMIC OVERVIEW: The recession in Cyprus economy was milder than anticipated during the 2013, supported by robust tourist activity and relatively resilient consumption, as GDP contracted by -5.4% following a drop by -2.4% in 2012. More specifically, Cyprus GDP fell by -5.0% y/y in Q4 2013 and by -0.8% q/q after dropping by -5.7% y/y in Q3 2013. The fall in 2013 was much lower than originally projected by IMF/EC in summer 2013 (-8.7%) and revised later to -7.7%. According to National Statistical Authorities (Cystat) in 2013 negative growth rates were recorded by the secondary sector of the economy (construction, manufacturing), as well as, in the sectors of banking, trade, transport and other services. On the contrary, positive growth was registered in the tourism sector. According to Cystat, GDP (preliminary data) continued its shrinkage in the first quarter of 2014. In particular, GDP fell by -4.1% y/y and by -0.7% q/q after it declined by -5.0% y/y in Q4 2013. The new dip marks the 11th successive quarter in which Cyprus' economy has been in negative territory. The above developments allowed Troika to revise the GDP forecast for 2014 to -4.2% from -4.8% and for 2015 to +0.4% from +0.9%. Also, both the rating agencies Fitch and S&P expect GDP to contract by around -3.9% in 2014 diverging in their 2015 forecast, as S&P expects growth by +0.7% while Fitch expects a decline by -1.0%. We envisage that Cyprus economy will continue its contraction but at a smaller pace in 2014 (-3.8%) stabilizing in 2015 and even showing a modest growth up to +1.0%.



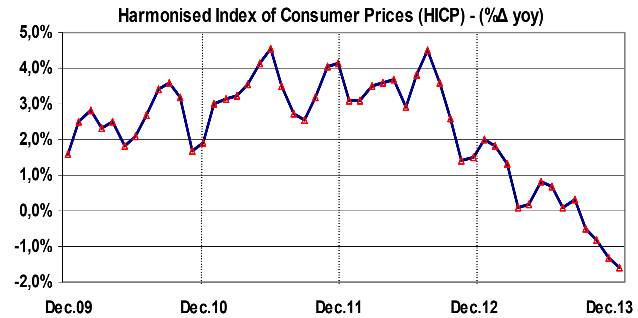
Source: Statistical Service of Cyprus (CYSTAT)

The Troika programme (2013-2016) addressing the short & medium-term financial, fiscal and structural challenges, is under full implementation. The recession is lower than anticipated by the programme and the full recapitalization of the banking system has been completed. The country has already received € 5,083 million out of the total € 9.97 billion (€ 8.94 billion by EU and € 1.03 billion by IMF). EU has provided until today € 4.75 billion and IMF another € 333.2 million. In 2014 the Cyprus financing needs will be covered via the programme provision of € 2.5 billion, which will fully cover the expected Cyprus budget deficit of around € 1,050 million or 6.6% of GDP plus maturing bonds in 2014 provided the €1.9 billion bond towards Laiki Bank (now Bank of Cyprus) is rolled over for another year in July 2014. The front-loaded program practically disburses the owed amount up to 2015 (almost € 9.5 billion) and assumes a big drop of GDP of around -11% in 2013-2014 with a small recovery (+0.9%) in 2015 and stronger recovery in 2016 aiming for first time to a primary surplus of 1.6% in 2016 rising to 3% in 2017 and to 4% from 2018 onwards.

€ mln	2013 May-Dec.	2014	2015	2016
Official financing sources	**4,843.4**	**2,494.5**	**2,194.5**	**436.1**
ESM	4,585.0	2,150.0	1,850.0	350.0
IMF	258.4	344.5	344.5	86.1
Source: IMF				

According to EC, (European Economic Forecast, Spring 2014, May 2014) private consumption fell in 2014 by -5.7% compared to an estimated larger fall by -7.5% expected by the EC in the Third Review Cyprus Economic Programme (Winter 2014), thus affecting to a large extent the smaller fall of GDP in 2013. Private consumption may further fall by -6.3% in 2014 in line to an expected fall of GDP by -4.8% in 2014 and rise by 0.7% in 2015. Net exports, which have added to 2013 GDP growth 4.8 pps may add another 1.9 pps in 2014 and 0.8 pps in 2015. These estimates are based on the assumption that imports of goods and services will further fall by -7.2% in 2014 rising by 0.2% in 2015, whereas exports of goods and services are expected to fall by -2.7% in 2014 rising by 1.8% in 2015. These developments may allow GDP to grow in 2015 by an estimated +0.9%, via a return to growth by private consumption (+0.7%), the largest component of GDP, contributing to the marginal rise of domestic demand by 0.1% in 2015 after a large decline by -7.9% in 2013 and also by -6.8% in 2014. The domestic demand, a fundamental pillar of the economic growth in the period 2000-2008, which also shrank by -5.1% in 2012, following a drop by -0.8% in 2011 will continue to be in a weak shape especially in 2014 due to the tightening of fiscal policy, tight credit conditions and increasing unemployment.

Headline inflation continued to decline over the last few months. Headline inflation declined to -1.6% y/y in April 2014 from -2.3% y/y in December 2013 and average inflation in Q1 2014 stood at -2.4%. The drop in prices during April 2014 was due to the fall of food prices by -4.1% as well as the fall in utility prices by -9.3%. Also the average HICP in Q1 2014 stood at -1.1% falling to -0.4% in March 2014 from -1.3% in December 2013. EC (Spring 2014 Report) expects HICP inflation to be on average at 0.4% in 2014, like in 2013, and rise to 1.4% in 2015.



Source: EUROSTAT

The most recent data figures from Eurostat show that **unemployment rate** reached 17.4% in March 2014, up from 16.9% in December 2013 and 14.8% in March 2013, with the number of unemployed persons at 78,000 from 65,000 a year ago. According to EC, average unemployment rate is expected to rise from 15.9% in 2013 up to 19.2% in 2014 before declining to 18.4% in 2015. Also job vacancies dropped substantially in 2013 reaching 4,120 from 6,884 in 2012 and 12,872 in 2011. Significant deterioration during 2013 is also recorded in the volume of retail sales, which fell by -6.8% in 2013 compared to 2012, a year when retail sales also fell by -3.8%. Additionally, the value of credit cards transactions fell by -5.8% in 2013 compared with an increase of +6.0% in 2012. Q1 2014 figures also suggest a fall by -5.0% in the value of card transactions on an annual basis. Other significant developments were posted in car registrations, which dropped by -28.1% in 2013 to 18,567, while the decrease in 2012 was of the same order i.e. -28.8%. On the other hand, during Q1 2014, there was a rise in car registrations in Cyprus to 5.201 vehicles up 11.1% compared to Q1 2013. Moreover, **tourist arrivals** were down +2.4% in 2013 to 2,405,390 from being up +3.0% in 2012 but **tourist receipts** rose to € 2,082.4 million up +8.0% compared to 2012 when they rose by +10.2%. In Q1 2014 tourist arrivals were down -7.8% y/y to 163,435 persons particularly due to weak March 2014 arrivals, while in 2M 2014 tourist revenues were up +4.7% y/y to totaling € 62 million. Russia-Ukraine problems, if persist, may be a factor which in turn can affect tourist arrivals in Cyprus from these two countries, which over the past few years exhibited a rapid rise.

The construction sector in Cyprus continues to struggle. For the fifth year running, production in construction declined by -31.1% in 2013 reaching levels almost 60% lower than the peak of 2008. Local sales of cement reveal a fall by -31.8% in 2013, when the annual drop in 2012, was -32.5% and a further fall by -20.7% in Q1 2014 y/y. Also, building permits fell by -28.3% in 2013 and by -16.9% in 2M 2014 y/y after falling by -4.5% in 2012.

Although, the services sector was a traditional engine of economic growth, the latest figures by the Registrar of Companies reveal a gloomy picture. The new company registrations fell to 10,847 in 2013 from 17,999 in 2012 and 19,538 in 2011. This might be a result of the restrictions imposed on the movement of capital which undoubtedly affected at the greater extent the services sector. In Q1 2014 3,476 new companies were registered in Cyprus, thus suggesting a possible stabilization of the number of new company registrations during 2014 to the low 2013 levels.

A joint team from the European Commission (EC), European Central Bank (ECB), and the International Monetary Fund (IMF) completed in March 2014 the **third quarterly review** of country's economic program, which is supported by financial assistance from the European Stability Mechanism (ESM) and the IMF. The international lenders in a common statement on 28th of March 2014 noted that 'the Cypriot authorities are to be commended for keeping program implementation on track, meeting their fiscal targets with significant margins, advancing fiscal structural reforms, and completing the recapitalization of the financial system'. The lenders noted the significant progress in the financial sector with the proper recapitalization and consolidation in the cooperative sector. The lenders also pointed to the need on reducing non-performing loans by adopting a strong insolvency framework. The removal of deposit restrictions and capital controls is moving gradually to the right direction and the Cyprus authorities expect them to be abolished by the end of the year. Over the longer run, the fiscal policy remains anchored in achieving a primary fiscal surplus of 4.0% of GDP by 2018 and place public debt on a firmly downward path. Upon completion of the third review, ESM disbursed to Cyprus € 150 million, making its contribution since May 2013 to € 4.75 billion and at the same time IMF disbursed its own due amount of € 83.3 million bringing IMF total support until today to € 333.2 million. The fourth quarterly review of the Cyprus economic program is underway and the results will be known in June 2014.

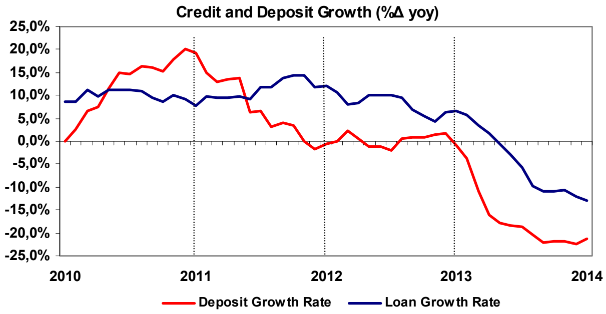
In the **financial sector**, the cooperative sector was fully recapitalized with €1.5 billion from the € 10 billion economic package and its consolidation was completed. Another € 1 billion was left just in the case any Cyprus banking institution needs it in the future. Hellenic Bank, was successfully recapitalized by own means raising € 358 million and bringing Core Tier 1 το 9.5%. The bail-in which was applied in the case of Bank of Cyprus which took over Laiki Bank, effectively recapitalized the new bank restoring Core Tier 1 to 9.5%. The achieved exodus of BoC from the resolution process as of end-July 2013, combined with the Cyprus banks' recapitalization was a crucial factor for the restoration of confidence and as a consequence to the economic recovery despite the fact that capital restrictions are still in place. The bail-in prompted Cypriot authorities to impose restrictions on money withdrawals and transfers for all banks to avoid a bank run. The 47.5% of uninsured deposits was converted into share capital achieving a Tier 1 Equity ratio of 12%, well above the minimum of 9% and one of the highest in Europe. Authorities initially converted 37.5% of deposits exceeding €100,000 into equity, and held an additional 22.5% as a buffer in the event of further needs. Following the recapitalization, 12% of deposits that were previously blocked will be released (i.e. 5% of the 42.5%).The remaining frozen funds would be equally divided and placed in 6-, 9- and 12-month time deposits with the BoC retaining the right to renew the time deposits once more for the same time duration. Interest paid on the time deposits would be higher than the corresponding market rates offered by the BoC. In order to address future additional capital needs in BoC, an additional uninsured deposit buffer has been set aside. Cyprus authorities pledged to remove capital controls during 2014 and such action is expected to restore confidence to the banking system in full. BoC Eurosystem funding still remains high and as of end of March 2014 such support amounted to c. €11 billion or 36% of the Bank's assets or 66.7% of Cyprus Republic nominal 2013 GDP.

Regarding **fiscal developments**, we had also a positive surprise in the fiscal performance of 2013. **Budget deficit** of the general government fell to €-896.9 million or to -5.4% of GDP from €-1,134.9 million or -6.4% of GDP in the end of 2012. Also primary deficit declined to -2.0% of GDP in 2013 from -3.2% of GDP in 2012. This result came from the fall of budget expenditures by -6.9% in 2013 reaching € 7,552.7 million when at the same time budget revenues fell by -4.6% to € 6,655.8 million. **Public debt** of the general government rose to € 18,442 million in the end of 2013 or to 111.7% of GDP from € 15,350 million or 86.6% of GDP in the end of 2012, especially affected by the high cost of financial system recapitalization. IMF in its Report on Cyprus (April 2014) estimates budget deficit in the period 2014-2015 at -5.2% and primary deficit stable at -2.0% of GDP expecting public debt to peak at 125.8% of GDP in 2015 before declining afterwards. Both Fitch and S&P expect Cyprus budget deficit performing better in 2014 being at -5% of GDP and falling to c.-4.5% of GDP in 2015, while in the case of debt they adopt similar view with that of the Troika.

Recently, in April 2014, **S&P** upgraded Cyprus long-term foreign and local currency credit rating to 'B' from previous 'B-', giving also a 'positive' outlook. In April 2014, **Fitch** also upgraded Cyprus long-term local currency credit rating to 'B-', from previous 'CCC' providing also a 'stable' outlook. Both agencies cited better GDP performance in 2013 coupled by better fiscal achievements and adherence to the agreed economic program 2013-2016. Previously, in March 2014, **Moody's** revised upwards the long-term foreign currency rating of Cyprus to 'Caa1' from previous 'Caa2' providing also a 'positive' outlook. Moreover, Moody's raised the outlook of local currency long-term bonds to 'positive' from previous 'negative' still keeping the rating to Caa3 citing the favorable Cyprus GDP developments and fiscal success.

The **banking system** in Cyprus continued to contract after March 2013 crisis and figures by the Central Bank of Cyprus reveal that deposits in Cyprus fell by -22.3% in 2013 and also loans by -12.2% whereas the Loan/Deposit ratio rose to 134.5% from 103.3% in December 2012. March 2014 figures show some stabilization in the deposit and lending pattern with deposits falling by -15.3% y/y to € 46.18 billion and loans by -10.6% y/y to € 62.04 billion keeping the loan-to-deposit ratio at 134.3%.

NPLs during the first two months of 2014 show some signs of stabilization being at high levels circa 45% of gross loans.



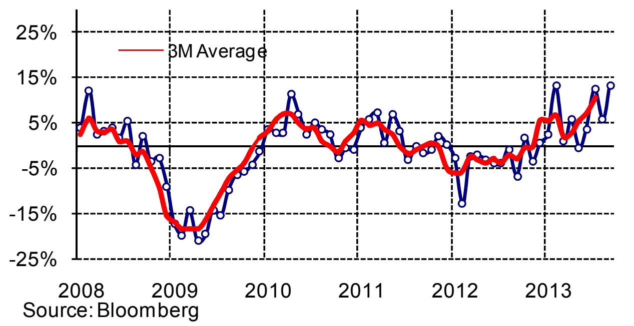
Source: Central Bank of Cyprus

4. SERBIA

ECONOMIC OVERVIEW: Serbia's GDP grew by +2.5% in 2013 after a decline by -1.5% in 2012 and a rise by +1.6% in 2011. The unexpectedly high economic growth in 2013 was above market expectations even Government estimates of +2% and comes solely on the robust performance of exports, since net exports contributed to GDP growth by 5.5 pps while domestic demand contributed by -3.1 pps. Private consumption declined by -1.5% in 2013, public consumption by -1.7% and investment also fell by -7.7%. On the other hand exports of goods and services rose by +16.6% while imports rose by +2%. It should be noted that since 2009, when GDP rose by an average of +0.9% p.a., consumption was growing with negative rates since private consumption in Serbia was declining at c.-1.3% p.a. on average with public consumption growing slowly by c.+0.5% p.a. GDP growth is expected to be slower in 2014 compared to 2013 as fiscal consolidation takes place in Serbia. Evidence of slow GDP growth in 2014 is the estimate by the Government of Q1 2014 GDP growth by 0.4% y/y. Serbian nominal GDP in 2013 stood at € 32 billion or RSD 3,620,904 million (average RSD/EUR parity at 113.14 in 2014).

The industrial production in Serbia increased by 5.5% in 2013 compared to a fall by -3.5% in 2012. During 2013 Serbia's, manufacturing production rose by +4.9% y/y after declining by -0.9% in 2012 and electricity, gas etc. production rose by +8.1% after declining by -7.1% in 2012 whereas mining output grew by +5.5% after being stagnant in 2012. According to the National Statistical Service of Serbia the largest influence on industrial production growth in 2013 compared to 2012 had the divisions of: manufacture of motor vehicles and trailers, manufacture of refined petroleum products, generation of electricity and manufacture of chemicals and chemical products. In the first 2M of 2014 industrial production rose by 1.2% y/y driven primarily by a rise in manufacturing production by 2.2% y/y.

Industrial Production - (% Δ yoy)



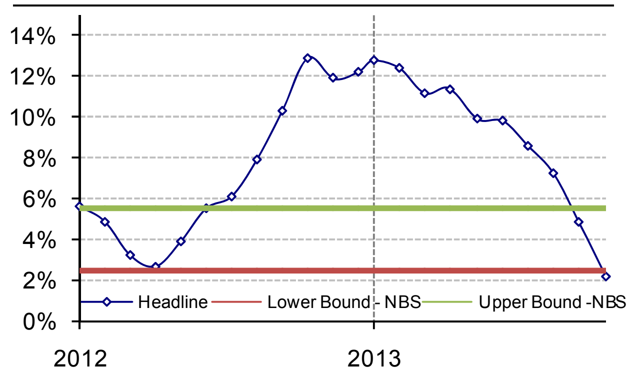
Source: Bloomberg

Serbian elections, which took place in March 2014, allowed Progressives Party to be the winner with an absolute majority in the Parliament and the aim now is to speed up reform. Serbia is expected to follow a fiscal consolidation program with the assistance of IMF and EU as the country aims to be an EU member by 2020. Fiscal austerity is expected to follow and therefore GDP may grow by a slower rate in both 2014 and 2015 compared to 2013. The Central Bank of Serbia recently (Inflation Report, February 2014) downgraded its estimate for GDP growth in 2014 to just +1% in 2014 and +1.4% in 2015 from +2.5% in 2013. On the other hand, MoF expects GDP to rise a bit higher by 1.8% in 2015. This projection is based on an average agricultural season, leading to a fall in agricultural production relative to last year, and a slower industrial production growth (due to the gradual waning of the effects of the automobile industry expansion) and a better performance of the construction sector. On the expenditure side, net exports are seeing contributing most in the GDP growth in 2014 whereas final consumption is expected to be negative due to fiscal consolidation and a weak labour market. IMF (April 2014) downgraded GDP expansion in 2014-2016 and now expects GDP to expand by up to +1% in 2014 and by +1.5% in 2015 and 2.0% in 2016. Fitch expects a precautionary agreement (SBA) would promote investor confidence and would protect country against external shocks. Fitch said that Serbia's long term growth potential still depends on the political resolve to implement unpopular structural reforms. According to Fitch Ratings agency, the GDP will grow by 1.5% in 2014 and by 2% in 2015. EC (Spring 2014 Economic Forecasts) expects GDP to grow by 1.1% yoy in 2014 and by 1.9% in 2015 while EBRD (May 2014) expects GDP growth by 1.0% in 2014 and also by 1.0% in 2015. Our growth scenario incorporates the signing of a new SBA with the IMF and sees GDP growing by 1.2% in 2014 and faster by 1.5% in 2015.

FISCAL POLICY: Serbia's consolidated general government budget deficit declined by 17.9% y/y to RSD 178.7 billion (€ 1,580 million) in 2013 as revenue growth partly offset expenditure rise. According to MoF, the 2013 budget deficit accounted for -4.9% of GDP, down from -6.5% a year earlier and it covered all the 2013 revised set target of RSD 178 billion (RSD 122 billion originally). The budget gap ceiling set by Serbia's Parliament last July not to exceed 5.2% was met by the final budget outcome of 2013.The budget revenue increased by 4.4% y/y to RSD 1,467.9 billion in 2013 mainly due to higher tax revenue by 5.8%. Expenditure rose by 1.4% in 2013 to RSD 1,646.5 billion due to higher wages and salaries (up 4.8% y/y). VAT grew 3.6% to RSD 380.6 billion in 2013, reflecting the 2 pps rise in non-food VAT to 20% in October 2012 and excises rose by 13.1% to RSD 204.8 billion. Additionally, income from profit tax rose by 10.6% y/y to RSD 60.7 billion. Expenditure growth was also affected by rising by 38.6% interest expenditure to RSD 94.5 billion. In the Fiscal Strategy for 2014-2016, MoF assuming consolidation measures are taken, expects budget deficit to be at -5.5% of 2014 GDP going lower to -4.2% in 2015 and to -2.3% in 2016. NBS, in the Inflation February 2014 Report, says that budget deficit in 2014 may be even higher at -7.1% of GDP if “below-the-line expenses” are included. The MoF projections assume GDP rising by +1% in 2014, +1.8% in 2015 and 2% in 2016 with end-period inflation at +5.5% in 2014, +5.0% in 2015 and +4.5% in 2016. We also foresee this year’s fiscal deficit to reach -5.0% of GDP assuming consolidation starts immediately after recent elections. According to IMF, Serbia’s budget deficit (including public bank resolution costs, arrears and payments of called guarantees) will rise to an average -6.6% of GDP in 2014-2016 amid the absence of additional budget consolidation measures, lower tax revenue and unbudgeted spending. As of end of 2013, according to Serbian MoF, public debt amounted to € 20.3 billion or 63.6% of GDP compared to € 17.8 billion or 60.0% of GDP in the end of 2012 and € 15.2 billion or 48.2% of GDP in 2011, a year when the legal ceiling of 45% was breached. The public debt is expected to reach 70.7% of GDP in 2014 and 74.4% in 2015 according to EC (Spring 2014 Economic Forecast) from 63.6% in 2013. Similar to EC is the assessment of IMF regarding the debt trajectory of Serbia in the years 2014-2015 which demand consolidation measures. Assuming successful fiscal consolidation measures are taken, Serbian MoF expects that debt to GDP ratio will peak to the lower level of 69.8% of 2015 GDP from 67.2% expected in 2014 and then slow to 69.7% in 2016.

INFLATION: Serbia's annual CPI inflation decelerated to 2.2% in December 2013 from 4.9% in September 2013 and from 12.8% in January 2013. The fall in inflation during 2013 is attributed to the fall of food prices (-2.5%) and also to a fall in transport prices (-1.2%) coupled by a limited rise in the administered prices (+2.1%). In 2013 average inflation stood at 7.9% from 7.3% in 2012 affected mainly by high prices in H1 2013 due to the bad agricultural season of 2012. Average inflation in 4M 2014 stood at 2.5% just on the lower bound of the target tolerance band (4±1.5%). Under the NBS estimate, y-o-y inflation will continue to move around the lower bound of the target tolerance band (4±1.5%) in the months to come. This will be due not only to monetary policy measures, but also to low aggregate demand. According to NBS, the main disinflationary factor will be low aggregate demand, while upward pressure will be coming from administered price growth especially in 2014 and the impending increase in the special VAT rate. Food prices are not expected to exert inflationary pressures. Recently, in February 2014, NBS reduced inflation projections for the years 2014-2015 due to expected lower GDP projections for these two years to +1.0% and +1.4% respectively as well as due to weak low inflation expectations in the Eurozone. We expect inflation in 2014 to return within the target tolerance level (2.5% to 5.5%) and will most probably trend below 4% central target of NBR. NBR also expects inflation to stay within the tolerance band 2.5%-5.5% in 2014-2015. EC (Spring 2014 Economic Forecast) also expects average inflation in 2014 at 3.8% and at 4.5% in 2015. Similarly, IMF (April 2014) expects inflation rate at 4% in each of the years 2014 and 2015. Inflation will probably stay inside National Bank's (NBS) targeted band (4% ±-1.5%) for the rest of the year.

Consumer Price Inflation - (%Δ yoy)



Source: Statistical Office of the Republic of Serbia

BALANCE OF PAYMENTS: In 2013 the current account deficit decreased by -50.1% on a yearly basis due to positive foreign trade trends, higher inflow of remittances and lower interest payments. Exports increased by +25.6% y/y to € 11.0 billion and imports by +5.1% to €14.9 billion. Exports to EU-28 account for 62.8% of all Serbian exports and increased due to continuing expansion of the automobile industry, chemical products, mineral fuels and lubricants. Imports from EU-28 account for 61.8% of all Serbian imports and the increase came from imports of intermediate goods such as machinery, apparatus and transport equipment as well as commodities. Net inflow from FDI amounted to € 768.5 million in 2013 compared to € 241.9 million a year earlier. In 2M 2014 current account deficit further declined by -51.5% y/y to €-141.4 million affected by continued export activity (rise in exports by +13.9% y/y) and subdued imports (rise by +1.9%). Current account deficit as a percent of GDP fell to -5.0% in 2013 from -10.7% in 2012. The European Commission envisages (Spring 2014) the current account deficit to reach -4.6% of GDP in 2014 and -4.4% of GDP in 2015. IMF also sees current account deficit in 2014 at -4.7% of GDP and at -4.6% of GDP in 2015.

Current Account January - February 2014 (€ million)			
	Jan-Feb. 2013	Jan-Feb. 2014	% Δ
Exports	1.395	1.589	14%
Imports	-2.100	-2.127	1%
Trade Balance	-705	-538	-24%
Services Balance	23	50	118%
Income Balance	-36	-82	127%
Current Transfers Balance	427	429	1%
Current Account Balance	-292	-141	-52%
Source: National Bank of Serbia			

EXTERNAL DEBT & INT. RESERVES: In 2013 the stock of external debt rose by +0.5% from 2012 to € 25.8 billion or to 80.7% of GDP down from 86.9% of 2012 GDP. The split between public and private sector debt, as a percent of the total, stands at 50-50. The level of National Bank of

Serbia's (NBS) foreign exchange reserves stood at € 11.2 billion in Q4 2013, up by € 274 million from Q4 2012. Short term Debt/ Fx reserves stood at 0.4% in December 2013 while short term debt/total debt at 13.9%. Foreign reserves remained steady in Q1 2014 at their December 2013 levels i.e. at € 11.2 billion. Recent figures regarding Q1 2014 show that external debt, as of end of March 2014, stood at € 25.5 billion or at 80.0% of GDP, having a similar structure as of end of 2013. Also, foreign reserves, in the end of March 2014, stood at € 10.4 billion, somehow lower compared to the end of 2013.

Stock of External Debt as of 31.3.2014 (in million of EUR)	
Total External Debt	25.504
Public Sector External Debt	**12.975**
Medium and long-term debt	**12.975**
of which IMF SBA	563
Short-term Debt	**0**
Private Sector External Debt	**12.529**
Medium and long-term debt	**12.377**
of which Banks	3.021
of which Enterprises	9.355
Short-term Debt	**152**
of which Banks	115
of which Enterprises	37
Source: National Bank of Serbia	

MONEY & FINANCIAL MARKETS: The National Bank of Serbia (NBS) decided (unexpectedly) in May 2014, to cut the key policy rate to 9% after cutting it again in December 2013 by another 0.50% to 9.50% from 10.00% in November 2013. NBS took into account the weakening of inflationary pressures and the reduced balance of risks related to fiscal movements. During 2013, policy rate fell from 11.25% to 9.50% with the biggest fall taking place since September 2013. According to NBR 'this action was guided by the fact 'that year-on-year inflation has been moving around the lower bound of the target tolerance band and that inflationary pressures have subsided significantly. Also, medium-term inflation expectations term inflation expectations of financial and real sectors are stable and within the band'. BNR also remarks 'strong disinflationary pressures in the coming period will be generated by low aggregate demand, arising from, among other things, the credit downturn and adverse developments in the labour market'. The continuing low food production costs will also have a disinflationary effect. Trends in the foreign exchange market are stable, due not only to monetary policy measures, but the low current account deficit as well'. According to Fitch, the Serbian government's recent plans to stabilise public finances show a commitment to fiscal consolidation and structural economic reform. But weak economic growth and implementation risks pose significant challenges to meet targets. The cuts in the policy rate allowed both loan and deposit rates to gradually de-escalate during 2013 and early 2014. In January 2014, Fitch downgraded Serbia's rating to 'B+' from previous 'BB-' with a 'Stable' Outlook. Fitch worries from the continuous worsening of public finances, expecting budget deficit to rise to -7.1% of 2014 GDP from -6.5% in 2013 in an environment of weak GDP growth during 2014-2015. Also Fitch expects debt to GDP to rise to 70% in 2015 from current level of 63%.

Credit expansion to the private sector decreased by -4.5% y/y in December 2013 from a fall by -1.4% y/y in December 2012 (in euro terms). Loans to businesses fell by -8.7% y/y whereas loans to households increased by 3.2% y/y. In the first four months of 2014 credit expansion to the private sector (in euro terms) fell by -8.7% y/y compared to an increase by 0.6% y/y in the same period in 2013, affected mainly by a fall of credit towards business by -13.7% despite a small rise of credit to households by +0.9% y/y. On the other hand, private sector deposits in April 2014 slowed to 0.7% y/y from an increase of 1.5% y/y in December 2013. The loan-to-deposit ratio fell to 115.3% in April 2014 from 117.6% in December 2013, affected by weak lending activity and a rise in deposits. According to NBR, the banking sector in Serbia had an exceptionally high liquidity despite deleveraging which continued to be a risk in 2013 due to the high share of foreign banks (mainly EU banks) in the system, which is reducing cross-border exposure. At the same time, the local banking system responded by increasing the share of domestic sources of funding via deposits in order to bridge the financing gap. In the end of 2013, Serbian banking system assets amounted to € 25.2 billion or 78.9% of GDP with foreign owned banks taking up 68.7% of total banking assets. Greek banks had 13.3% of all banking assets in Serbia, Italian banks 22.0% and Austrian banks 13.9%. Profitability was weak in 2013 after a weak Q4 2013 as ROA stood at -0.02% in the end of 2013 from 1.0% in the end of 2012 with ROE being also lower at -0.1% from 4.9% in 2012 affected by low lending activity and more provisioning. NPLs ratio rose to 20.9% in December 2013 (23.5% in the corporate sector and 9.3% in the household sector) from 19.9% in December 2012 showing some signs of stabilization especially during H2 2013. Coverage ratio of NPLs stood at 50.9% in December 2013 up from 50.0% in December 2012 and the Serbian banking system remained well capitalized with capital adequacy ratio close to 20.9% in December of 2013 up from 19.9% in December 2012.

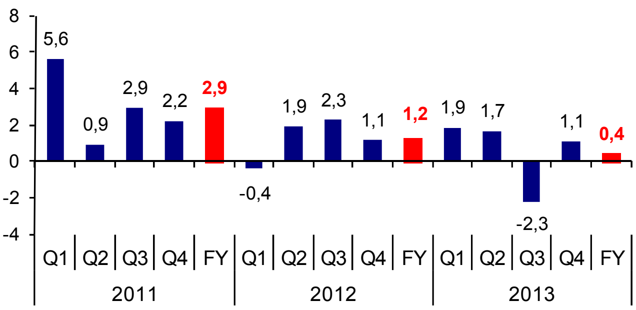
5. ALBANIA

ECONOMIC OVERVIEW: Albanian GDP expanded by 1.1% y/y in Q4 2013 on an unadjusted basis after decreasing by -2.3% y/y in Q3 2013. In Q4 2013, an increase was registered in industry by 7.2% y/y, in construction by 3.7% y/y, in trade, hotels and restaurants by 3.1% y/y and in agriculture by 1.2% y/y. On the other hand, in Q4 2013, a decrease was registered in transport by -27.9% y/y, in post and communication by -8.4% y/y and in other services by -1.8% y/y. The EU candidate status of the country, which was recommended by the European Commission in October 2012 to be granted subject to completion of key measures in certain areas, will be examined again in June 2014 as it was denied in December 2013. Albania is therefore in a transition period to adjust to the rest of EU members receiving substantial assistance by EU and hoping to make use of it to support GDP growth. Growth will also be aided by significant energy-related investments such as the recently agreed Trans Adriatic Pipeline (TAP) designed to transport gas from Azerbaijan via Greece and Albania and across the Adriatic Sea to Italy and Western Europe, as well as foreign investment in new hydropower production. In

February 2014, IMF approved a 36-month SDR 295.42 million (€330.9 million) arrangement under the Extended-Fund Facility (EFF) in support of the authorities' program to boost growth and support macroeconomic stability.

Standard & Poor's affirmed Albania's B/B long and short term sovereign credit ratings and revised the outlook to stable from negative citing reduced financing pressure. This revision reflects Standard & Poor's view that the recently signed agreement with the IMF will serve as a policy anchor for fiscal consolidation and support the sustainability of Albania's high government debt. According to IMF (April 2014), economy is expected to expand by 2.1% y/y in 2014 and by 3.3% y/y in 2015. World Bank (January 2014) forecasts GDP to grow by 2.1% y/y in 2014 and by 3.0% y/y in 2015. EBRD (January 2014) is more pessimistic and forecasts GDP to rise by 1.7% y/y in 2014. For 2014, we envisage a GDP growth at 2.0%, mainly driven from infrastructure projects.

Real GDP (%Δ yoy, unadjusted data)



Source: INSTAT

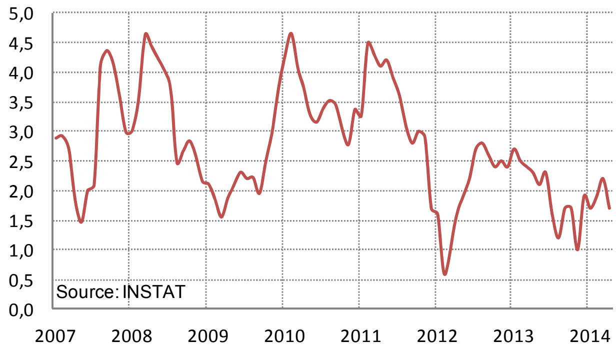
Fiscal Policy: Albanian budget deficit of 2013 increased to -4.8% of GDP to ALL -65.4 billion (€ -466 million) from ALL -61.7 billion or by 42.7% y/y. This is compared with a projected budget deficit in the Budget of 2013 voted by Albania's parliament in December 2013 of ALL -48.9 billion (€ -349.5 million) at -3.4% of 2013 GDP. Revenue, that was forecasted to rise to ALL 360.7 billion (25.2% of GDP), declined to ALL 328.6 billion from ALL 330.4 billion in 2012 or by -0.5% y/y. Expenditure, that was forecasted to increase to ALL 402.6 billion (28.6% of GDP), increased to ALL 394.1 billion from ALL 376.2 billion in 2012 or by 4.7% y/y. The fiscal developments in 2013 were affected by the pre-election period in Albania, as elections took place in June 23, 2013 and the new Government took office in September 2013. Moreover, the expenditure increased in 2013 by 4.7% y/y mainly due to a rise of capital expenditures by 6.1% y/y and local government expenditures by 5.1% y/y. Revenue fell in 2013 by -0.5% y/y mainly due to a drop by -3.1% y/y in tax revenue (VAT, corporate taxation) despite a rise in personal taxation revenue by 5.6% y/y.

The Budget of 2014 envisages a budget deficit of ALL -91.7 billion up 40.2% y/y or -6.6% of GDP from -4.8% of GDP in 2013 with expenditure rising by 15.8% y/y to ALL 456.4 billion or 32.7% of GDP and revenue rising by 11.0% y/y to ALL 364.7 billion or 26.1% of GDP. Such development may negatively affect public debt level keeping it above the statutory level of 60% of GDP, which was violated at the end of 2012.

In Q1 2014, budget deficit decreased to ALL -6.3 billion, from ALL -14.6 billion in Q1 2013 due to the performance of tax revenues. Budget deficit was financed through Government debt instruments issued in the domestic securities market and foreign borrowing. New borrowing consisted in the issue of 2, 5, 7 and 10-year bonds. Budget expenditure amounted to ALL 88.4 billion in Q1 2014, down -2.4% y/y mainly to the decrease in capital expenditure by -26.7% y/y. Budget revenues recorded a growth of 8.2% y/y to ALL 82.1 billion. VAT revenues made a major contribution to the increase in total revenues by around 6.3 percentage points increasing by 20% y/y. IMF stressed that, given Albania's high debt, fiscal consolidation should aim to lower the public debt ratio to below 60% of GDP in the medium term. Achieving this objective requires significant further tax and expenditure policy measures, supplementing the steps taken in late 2013 and in the 2014 budget, supported by extensive public financial management and tax administration reforms.

Inflation: According to National Statistical Office (INSTAT), CPI inflation decreased to 1.7% in April 2014 against 2.2% in March 2014, standing below the lower bound of the Bank of Albania's (BoA) target zone (3% +/-1%). In monthly terms, inflation was negative at -0.6% in April 2014 basically impacted by a decrease in food and non-alcoholic beverages. BoA estimates that inflationary pressures, during the monetary policy relevant horizon, are expected to be moderate but upward. IMF forecasts inflation to be 2.6% in 2014 and 3.0% in 2015.

Consumer Price Inflation - (%Δ yoy)



Balance of Payments: In 2013, current account balance recorded a deficit that increased to € -1,026.2 million from € -978.0 million in 2012. That was the result of a decrease in the surplus of private transfers, which mainly consist of remittances of Albanian living abroad, to € 681.4 million from € 846.7 million in 2012 and in the services account surplus to € 8.8 million from € 213.3 million in 2012. On the other hand, the trade balance deficit decreased to € -1,728.6 million from € -1,999.2 million in 2012 as exports increased by 13.5% y/y and imports fell by -1.8% y/y. Current account deficit is covered at 87.0% by net FDIs that increased by 37.8% y/y in 2013.

External imbalances continued in Q1 2014 due to the positive growth of imports by 10.1% yoy. The increase of imports reflects the improvement of the consumer and business confidence after a long period of political and economic uncertainty and was mainly driven by the group of minerals, fuels and electricity that increased by 17%

yoy. Exports remained strong albeit at a moderate pace and increased by 11.6% yoy mainly driven by the group of textile and footwear that increased by 31% yoy. The trade balance deficit in Q1 2014 increased by 8.4% yoy to € -405.8 million accounting for -4.1% of the projected 2014 GDP. The current account deficit is expected to widen further during the rest of the year and to reach -11.0% of GDP in 2014 from -10.4% of GDP in 2013.

Current Account: January- December 2013 (€ mn)			
	12M 2013	12M 2012	%Δ
Exports	1.732	1.526	13%
Imports	3.460	3.525	-2%
Trade Balance	-1.729	-1.999	-14%
Services Balance	9	213	-96%
Income Balance	-9	-72	-88%
Current Transfers Balance	702	880	-20%
Current Account Balance	-1.026	-978	5%
Source: Bank of Albania			

MONEY & FINANCIAL MARKETS: In 2013, the Albanian Lek (ALL) depreciated by 0.9% y/y against euro but it appreciated by 3.3% y/y against USD. Basically ALL showed a stable performance against euro during 2013. On the 30th of April 2014, the BoA decided to keep the interest rate unchanged at 2.75%, as it had done in March 2014, after having cut it on the 26th of February 2014 by 0.25 percentage points from 3.00%, deeming that increasing the monetary stimulus creates proper conditions to meet inflation target in the medium term by boosting aggregate demand and anchoring inflation expectations.
Credit expansion in euro terms decreased in February 2014 by -2.0% y/y at a higher rate than -1.2% y/y in December 2013. In particular, loans to businesses decreased by -2.8% y/y in February 2014 from a decrease of -1.7% y/y in December 2013 due to the poor performance of Albania's economic activity and the tight lending standards. Loans to households increased by 0.5% y/y from an increase of 0.3% y/y in December 2013. NPLs to total gross loans decreased to 23.2% in Q4 2013 from 24.3% in Q3 2013 impacting Albanian banking system profitability. The loans to deposits ratio decreased to 57.1% in February 2014 from 57.7% in December 2013. In Q1 2014, banks expect lending standards to ease on businesses and households, in light of the weak demand for loans.

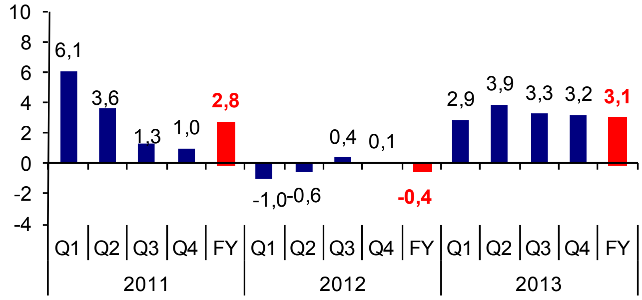
6. FYROM

ECONOMIC OVERVIEW: According to State Statistical Office, FYROM's GDP grew by 3.1% y/y in 2013, compared with a decrease of -0.4% y/y in 2012. Household consumption increased by 4.2% y/y, fuelled by rising pensions and other entitlement spending, while investment spending declined by -11.5% y/y. On the production side, the construction sector increased by 33% y/y, compared with 4.8% y/y in 2012.

In Q4 2013, GDP growth rate was 3.2% y/y, compared with 3.3% y/y in Q3 2013. Household consumption increased by 2.4% y/y in current prices and its share in GDP was 70.7%. Furthermore, in Q4 2013, exports of goods and services increased by 5.2% y/y in nominal prices, while imports of goods & services decreased by -2.3% y/y. On the production side, the construction sector increased by 32.1% y/y, while hotels and restaurants increased by 4.4% y/y, mining and quarrying, manufacturing and electricity, gas and water supply increased by 2.6% y/y.

Growth is expected to be driven by a renewed pick-up in investment and household consumption, while net exports will negatively affect growth. European Commission (May 2014) projects GDP to grow by 3.0% y/y in 2014 and by 3.2% y/y in 2015. IMF (April 2014) projects GDP to rise by 3.2% y/y in 2014 and by 3.4% y/y in 2015. EBRD (January 2014) foresees GDP growth in 2014 at 3.0% y/y. World Bank (January 2014) forecasts GDP growth at 3.0% y/y in 2014 and at 3.5% y/y in 2015. According to Budget 2014, GDP is projected to rise by 3.2% y/y in 2014 and by 3.8% y/y in 2015.

Real GDP (%Δ yoy, unadjusted data)



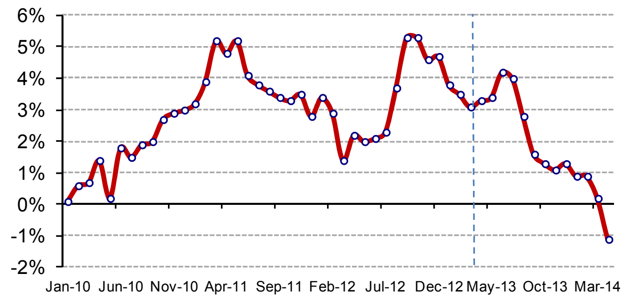
Source: State Statistical office

FISCAL POLICY: In 2013, the budget deficit of central government reached MKD -19.2 billion and met the target. Total budget revenues increased by 1.6% y/y in real terms to MKD 140.3 billion, while total expenditures rose by 2.4% y/y to MKD 159.5 billion. The increase in revenues came from taxes, mainly as a result of growth in personal income tax and VAT.

In Q1 2014, the Budget recorded a deficit of MKD -11.1 billion, compared with MKD -11.4 billion in Q1 2013. Total budget revenues amounted to MKD 32.3 billion up by +7.9% y/y as a result of growth in revenues from taxes and particularly in personal income tax and VAT, while total expenditures increased to MKD 43.4 billion or by +5.0% y/y. The negative fiscal performance in Q1 2014 is due to higher social transfers ahead of the Presidential and early parliamentary elections that took place in April 2014.

INFLATION: In April 2014, the consumer price index registered a decrease by -1.1% compared to an increase by 0.2% in March 2014. On a monthly basis, the CPI remained stable in April 2014 as a result of an increase in fresh fruit by 5.7% and in fresh vegetables by 3.1% and a decrease in eggs by 1.0%, in other food products by 0.9% and in fresh milk by 0.8%. The National Bank of FYROM expects a drop in the annual average inflation in 2014 to 2.3% from 2.8% in 2013.

Consumer Price Inflation - (%Δ yoy)



Source: State Statistical Office

Balance of Payments: In 2013, the current account deficit shrank by -35.1% to € -146.6 million down from € -225.7 million in 2012. The improvement in current account deficit reflects a narrower merchandise trade deficit. In particular, trade deficit shrank by -9.8% y/y in 2013 to € -1,584.4 million affected by a 3.2% y/y increase of exports and a -1.5% y/y decrease of imports. The improvement of the trade account was counterbalanced by the drop of current transfers by -5.5% y/y in 2013 to €1,542.1 million. It should be noted that exports in 2013 covered 66.9% of respective imports up from 63.9% in 2012. Furthermore, net FDI in 2013 rose to €252.7 million up by 223.6% from 2012.
In the period Jan.-Feb. 2014, the current account deficit decreased to € -67.9 million or by -10.5% from € -75.9 million in Jan.-Feb. 2013. The trade deficit decreased slightly by -0.5% y/y to € -249.9 million. Exports increased by 10.9% y/y and imports increased at a slower rate by 6.9% y/y. Export/Import coverage ratio increased to 67.1% in the period Jan.-Feb. 2014 from 64.7% in Jan.-Feb. 2013. Net FDI fell to €42.5 million in Jan.-Feb. 2014 or by -29.5% from €60.3 million a year before.

Current Account: January-February 2014			(€ mn)
	Jan.-Feb.2014	Jan.-Feb.2013	%Δ
Exports	511	460	11%
Imports	760	711	7%
Trade Balance	-250	-251	-1%
Services Balance	22	9	134%
Income Balance	-31	-34	-10%
Current Transfers Balance	191	200	-4%
Current Account Balance	-68	-76	-11%
Source: National Bank of FYROM			

Money & Financial Markets: The National Bank of FYROM kept its key policy rate stable at 3.25% in March 2014 for the 6th consecutive session after July 2013 when it had lowered it from 3.50%. The National Bank will continue to closely monitor the future macroeconomic developments and the possible materialization of risks and will adjust monetary policy accordingly.

Credit expansion grew by 7.5% y/y in March 2014 from 6.4% y/y in December 2013 (in euro terms) mainly due to the increase of Denar loans. The ratio of non-performing loans to total loans was 11.4% in Feb. 2014 from 11.3% in Jan. 2014. The loan-to-deposit ratio decreased to 89.3% in March 2014 from 89.5% in December 2013. Deposit growth in March 2014 accelerated to 6.2% y/y compared to growth by 5.5% y/y in December 2013 mainly due to the increase in Denar deposits that accounted for 50.5% of total deposits. The solvency of the banking sector deteriorated in Q4 2013, with the capital adequacy ratio decreasing to 16.8% from 17.3% in Q3 2013.

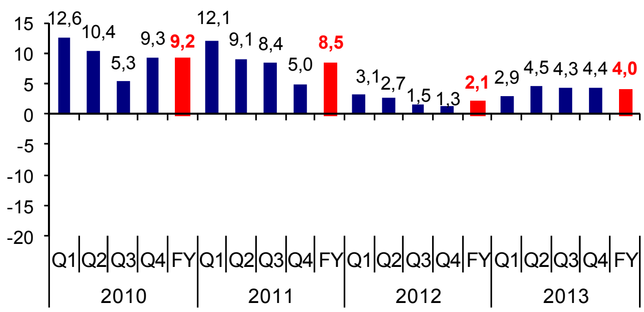
7. Turkey

Economic Overview: Turkey's gross domestic product (GDP) increased by 4.0% y/y in 2013, at a higher rate than 2.1% y/y in 2012 and somewhat stronger than expected. According to data released by the State Statistical Institute (TurkStat), annual GDP in 2013 reached TRY 1,561.5 billion (about $ 820.0 billion) and the per capita GDP was TRY 20,531 and $10,782 at current prices. In 2013, investments increased by 5.9% y/y, household final consumption increased by 4.6% y/y, gross fixed capital formation increased by 4.3% y/y, while exports increased by only 0.1% y/y. On the other hand, imports increased by 8.5% y/y.

In Q4 2013, GDP grew by 4.4% compared to the same period of the previous year, after rising by 4.3% y/y in Q3 2013. In Q4 2013, government final consumption increased by 6.8% y/y, investments increased by 6.4% y/y and household final consumption increased by 5.3% y/y, fuelled by higher bank lending and substantial employment growth. On the other hand, exports decreased by -1.5% y/y and imports increased by 9.3% y/y due to a sharp turnaround in Turkey's trade in non-monetary gold.

According to World Bank (January 2014), the Turkish economy is expected to expand by 3.5% y/y in 2014 and 3.9% y/y in 2015. OECD expects GDP growth in Turkey at 3.8% y/y in 2014 and 4.1% y/y in 2015. EBRD (January 2014) expects GDP to rise by 3.3% y/y in 2014. IMF (April 2014) is more conservative and places GDP growth for 2014 at 2.3% y/y and for 2015 at 3.1% y/y. The European Commission (May 2014) is also more conservative and expects GDP growth in 2014 at 2.6% y/y and in 2015 higher at 3.3% y/y. In April 2014, Moody's changed the outlook on Turkey' s Baa3 rating, that was affirmed, to negative from stable, in a context of a slowing near-term outlook for GDP growth and growing uncertainty about medium-term growth trend because the prospects for growth-enhancing structural reforms may be diminished in the more uncertain policy environment that is accompanying the domestic political turbulence. The Bloomberg consensus for GDP growth is for 2014 2.3% y/y and for 2015 3.7% y/y.

Real GDP (%Δ yoy, constant prices)



Source: State Statistical Institute

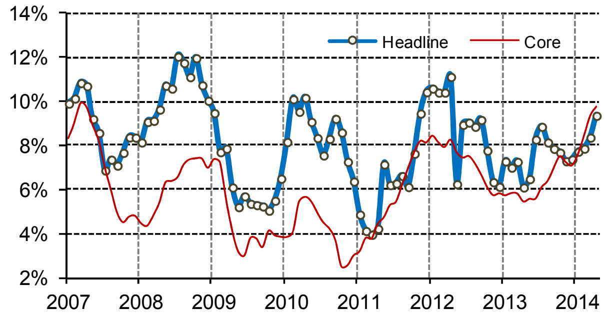
Fiscal Policy: In 2013, the Budget ran a deficit of TRY -18.4 billion or -1.2% of GDP (down -37.3% y/y) from a deficit of TRY -29.4 billion in 2012 and compared with the target for a budget deficit of TRY -33.9 billion (-2.2% of GDP). Revenues increased to TRY 389.4 billion or by 17.1% y/y as a result of the rise in tax revenues and mainly income tax, VAT and special consumption tax. Expenditures rose to TRY 407.9 billion or by 12.7% y/y while non-interest expenditures rose by 14.2% y/y and interest expenditures increased by 3.2% y/y.

In Jan.-Feb. 2014, the Budget ran a surplus of TRY 3.6 billion down from a surplus of TRY 4.5 billion in Jan.-Feb. 2013. Revenues increased to TRY 72.3 billion or by 4.3% y/y mostly affected by tax revenue rise by 11.1% y/y. Expenditures rose to TRY 68.8 billion or by 6.0% y/y, while non-interest expenditures rose by 10.5% y/y and interest expenditures were down by -18.4% y/y.

The European Commission (May 2014) expects a budget deficit for 2014 at -2.9% of GDP and at -2.5% of GDP for 2015.

Inflation: Turkey's Consumer Price Index (CPI) increased by 1.34% mom in April 2014, bringing the annualized CPI to 9.38% from 8.39% in March 2014. The CPI increase was attributed mainly to food prices. The core inflation, which excludes unprocessed food and energy, increased to 9.74% from 9.32% in March 2014.

Consumer Price Inflation - (%Δ yoy)



Source: Turkish Statistical Institute

The Central Bank of Turkey (CBRT) keeps inflation target at 5% ± 2 pps for 2014-2016. According to the European Commission forecasts (May 2014), the average inflation in 2014 will be 8.6% and 7.4% in 2015. Similarly, IMF (April 2014) predicted inflation of 2014 to 8.0% falling to 6.0% in 2015. OECD expects inflation in Turkey to be 6.1% in 2014 and 5.8% in 2015. Moreover, Bloomberg consensus sees inflation at 8.2% in 2014 and at 6.8% in 2015.

Balance of Payments: Current account balance recorded a deficit of $-65.0 billion in the period Jan.-Dec. 2013, posting an increase by 34.0% from a year ago. Exports of goods increased by only 0.1% y/y and imports by 6.4% y/y. Export/Import coverage ratio was standing at 67.2% in the twelve months of 2013 from 71.4% a year before. Services balance improved slightly (up 2.2% y/y). On the financing side, there was a $10,189 million foreign direct investment (FDI) inflow towards mainly equity capital in 12M 2013 from $10,759 million a year before. Net FDI in Turkey increased by 4.7% from $9,150 million in 12M 2012 to $9,579 million in 12M 2013. The net FDI to current account deficit stood at 14.7% in 12M 2013 from 18.9% the same period a year earlier.

Current Account: January-February 2014 ($ mln)			
	Jan.-Mar. 2014	Jan.-Mar. 2013	%Δ
Exports	43.566	39.696	10%
Imports	55.553	56.911	-2%
Trade Balance	-11.987	-17.215	-30%
Services Balance	2.676	2.447	9%
Income Balance	-2.314	-2.035	14%
Current Transfers Balance	165	252	-35%
Current Account Balance	-11.460	-16.551	-31%
Source: Central Bank of Turkey			

In the period Jan.-Mar. 2014, current account balance recorded a deficit of $-11.5 billion, down from $-16.5 billion in the period Jan.-Mar. 2013. Exports of goods increased by 9.7% y/y, and imports of goods decreased by -2.4% y/y. Export/Import coverage ratio increased to 78.4% in the period Jan.-Mar. 2014 from 69.7% a year before. Services balance improved by 9.4% in the period Jan.-Mar. 2014 on an annual basis.Turkey's current account deficit as a % of its GDP is forecasted by the World Bank (January 2014) at 7.1% in 2014 and at 6.8% in 2015, by IMF (April 2014) at 6.3% for 2014 and at 6.0% for 2015 and by the European Commission (May 2014) at 6.0% for 2014 and at 3.9% for 2015. Bloomberg consensus forecasts current account deficit to GDP at 6.1% in 2014 and at 6.3% in 2015.

Money & Financial Markets: The Central Bank (CBRT) decided at its meeting on May 22, 2014 to reduce the one-week repo rate from 10.0% to 9.5%, and keep the overnight marginal funding interest rate at 12.0%, the overnight interest rate on borrowing facilities provided for primary dealers via repo transactions at 11.5%, the overnight borrowing rate at 8%, the late liquidity window borrowing interest rate at 0%, and the late liquidity lending interest rate at 13.5%.

This decision of CBRT, that was put off for a long time, was made in an emergency policy meeting on Jan.28th a few days after its regular meeting as the central bank aims at bolstering the Turkish lira that reached its lowest at late January having lost about 14% of its value in the previous two months. A weak lira raises the cost of imported goods like oil, pushing up inflation and hurting growth. Right after the CBRT's decision, to which Prime Minister R.T. Erdogan was opposed, the lira strengthened against the US dollar, although it is unclear whether this interest rates' raise will be enough to satisfy international investors. Over the following three months, financial markets and the lira have first stabilized and then regained some ground. Following the increase in the rates in January 2014, the CBRT did not change them again in its next three meetings. Standard & Poor's rating agency cut its outlook to negative on its unsolicited Turkey's BB+ long-term foreign currency rating and BBB long-term local currency rating.

According to CBRT, the banking sector's assets grew by 12.6% y/y in 2012 to TRY 1,371 billion or to 96.8% of GDP and in Q3 2013 they rose further to TRY 1,649 billion or by 27% y/y. As of September 2013, loan-to-assets ratio stood at 60% and deposit-to-assets ratio at 55% with loan-to-deposits close to 120%. Loan growth in

Q3 2013 stood at 25.4%. Retail loans rose by 26.6% y/y and accounted for around 36% of total loans in Q3 2013 and corporate loans increased by 24.8% y/y and accounted for around 64% of total loans in Q3 2013. World financial crisis in 2008 affected Turkish bank NPLs, which rose to their highest level of around 5% in 2009 and then gradually fell to the low range of 2.5-3% in the period of Q1 2011-Q3 2013 and in Q3 2013 NPLs stood at 2.8%. Turkish banks' ROA was at 1.8% in 2012 and ROE was at 14.5% in 2012, while in Q3 2013 ROA was at 1.8% and ROE was at 14.2% affected by adequate interest margin being at 4.9% in Q3 2013. Capital adequacy ratio was high at 15.7% in Q3 2013. The strong position of the Turkish banking sector's capital level is confirmed by the scenario analyses that test the resilience of banks against shocks originating from credit and market movements. In only one of the eight different scenario analyses the sector's CAR dropped to 7%.

8. Economic Data – Southeastern Europe

Romania	2010	2011	2012	2013	2014 (f)	2015 (f)
Real Economy						
Real GDP	-1.6	2.2	0.6	3.5	2.9	3.1
Private Consumption	-0.4	1.1	1.5	1.3	3.0	3.3
Government Consumption	-4.4	0.2	1.2	-1.8	1.8	2.1
Gross Fixed Investment	-2.1	7.3	3.8	-3.3	4.2	4.8
Exports (Goods & Services)	14.0	10.3	-1.5	13.5	7.2	6.3
Imports (Goods & Services)	11.9	10.0	-0.2	2.4	6.7	7.5
Prices						
HICP Inflation (%Avg)	6.1	5.8	3.4	3.2	2.5	3.3
General Government (%GDP)						
Overall Balance	-6.8	-5.5	-3.0	-2.3	-2.2	-1.9
Balance of Payments (% GDP)						
Current Account Balance	-4.4	-4.5	-4.4	-1.1	-1.3	-1.7

Bulgaria	2010	2011	2012	2013	2014 (f)	2015 (f)
Real Economy						
Real GDP	0.4	1.8	0.8	0.9	1.8	2.4
Private Consumption	0.1	1.5	2.6	-2.3	1.4	2.2
Government Consumption	1.9	1.6	-1.4	2.5	1.6	2.8
Gross Fixed Investment	-18.3	-6.5	0.8	-0.3	5.8	2.8
Exports (Goods & Services)	14.7	12.3	-0.4	8.9	5.1	7.0
Imports (Goods & Services)	2.4	8.8	3.7	5.7	4.5	6.9
Prices						
HICP Inflation (%Avg)	3.0	3.4	2.4	0.4	1.0	1.2
General Government (%GDP)						
Overall Balance	-3.1	-2.0	-0.8	-1.5	-2.1	-1.9
Balance of Payments (% GDP)						
Current Account Balance	-0.4	0.1	-1.3	1.9	0.7	0.2

Cyprus	2010	2011	2012	2013	2014 (f)	2015 (f)
Real Economy						
Real GDP	1.3	0.5	-2.4	-5.4	-4.8	0.9
Private Consumption	1.3	0.2	-2.5	-5.7	-6.3	0.7
Government Consumption	0.8	-4.4	-3.1	-5.0	-1.5	-2.7
Gross Fixed Investment	-1.7	-13.8	-19.6	-21.6	-18.1	1.3
Exports (Goods & Services)	3.7	3.6	-2.7	-4.2	-2.7	-1.8
Imports (Goods & Services)	4.9	-5.0	-6.4	-14.1	-7.2	0.2
Prices						
HICP Inflation (%Avg)	2.6	3.5	3.1	0.4	0.4	1.4
General Government (%GDP)						
Overall Balance	-5.3	-6.3	-6.4	-5.4	-5.8	-6.1
Balance of Payments (% GDP)						
Current Account Balance	-9.2	-4.8	-6.6	-1.4	0.0	0.4

Serbia	2010	2011	2012	2013	2014 (f)	2015 (f)
Real Economy						
Real GDP	1.0	1.6	-1.7	2.5	1.2	2.1
Private Consumption	-3.8	-0.5	-1.9	-1.5	-1.0	1.0
Government Consumption	-2.4	-0.9	1.8	-1.7	-1.1	-1.0
Gross Fixed Investment	2.0	9.3	-3.4	-7.7	5.7	7.5
Exports (Goods & Services)	19.1	7.1	4.5	16.6	5.8	5.5
Imports (Goods & Services)	4.1	7.4	4.2	2.0	2.9	4.2
Prices						
Consumer Price Inflation (%Avg)	6.1	11.1	7.3	7.8	3.8	4.5
General Government (%GDP)						
Overall Balance	-4.7	-4.9	-6.4	-5.0	-6.4	-5.8
Balance of Payments (% GDP)						
Current Account Balance	-7.4	-8.8	-10.6	-5.2	-4.9	-4.6

Albania	2010	2011	2012	2013	2014 (f)	2015 (f)
Real Economy						
Real GDP	3.5	3.0	1.6	0.4	1.9	2.9
Private Consumption	-	-	-	-	-	-
Government Consumption	-	-	-	-	-	-
Gross Fixed Investment	-	-	-	-	-	-
Exports (Goods & Services)	-	-	-	-	-	-
Imports (Goods & Services)	-	-	-	-	-	-
Prices						
Consumer Price Inflation (%Avg)	3.6	3.4	2.4	1.9	2.5	2.9
General Government (%GDP)						
Overall Balance	-3.7	-3.5	-3.4	-4.8	-5.8	-5.0
Balance of Payments (% GDP)						
Current Account Balance	-11.4	-12.7	-10.4	-10.4	-11.0	-12.0

FYROM	2010	2011	2012	2013	2014 (f)	2015 (f)
Real Economy						
Real GDP	2.9	2.8	-0.4	3.1	3.0	3.3
Private Consumption	1.3	2.9	-1.2	4.2	3.0	2.9
Government Consumption	-2.0	0.6	-2.2	-3.6	3.1	2.5
Gross Fixed Investment	-2.7	12.3	16.0	-11.5	10.6	11.0
Exports (Goods & Services)	23.6	10.5	0.0	4.5	6.8	7.8
Imports (Goods & Services)	9.5	10.4	4.2	-2.1	7.4	6.9
Prices						
Consumer Price Inflation (%Avg)	1.6	3.9	3.3	2.8	2.5	2.3
General Government (%GDP)						
Overall Balance	-2.5	-2.5	-4.0	-4.1	-3.9	-3.1
Balance of Payments (% GDP)						
Current Account Balance	-2.5	-2.5	-3.0	-1.9	-3.4	-3.5

Turkey	2010	2011	2012	2013	2014 (f)	2015 (f)
Real Economy						
Real GDP	9.2	8.8	2.1	4.0	2.7	3.8
Private Consumption	6.7	7.7	-0.5	4.6	0.4	1.8
Government Consumption	2.0	4.7	6.1	5.9	3.3	2.9
Gross Fixed Investment	30.5	18.0	-2.7	4.3	1.7	3.5
Exports (Goods & Services)	3.4	6.5	18.3	-0.3	7.6	9.2
Imports (Goods & Services)	20.7	10.9	-0.5	8.4	0.9	3.5
Prices						
HICP Inflation (%Avg)	8.6	6.5	8.9	7.5	8.4	7.3
General Government (%GDP)						
Overall Balance	-2.9	-0.8	-1.1	-1.6	-2.5	-2.4
Balance of Payments (% GDP)						
Current Account Balance	-6.3	-9.5	-5.9	-7.6	-6.6	-4.5

Source: Central Banks, National Statistical Institutes, IMF, Economist Intelligence Unit, Eurostat, World Bank, Alpha Bank Economic Research

(f): Forecast Alpha Bank Economic Research