ALPHA BANK

Economic Research Division
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Southeastern Europe Economic & Financial Outlook

Executive Summary

1. Romania

- Growth momentum to be maintained in Q4 2013,due to favourable trends in the agricultural sector, improving economic and business climate in Europe, increasing absorption of EU funds and a more expansionary monetary policy.
- Fiscal position follows a stabilizing trend as budget deficit decreased from -3.0% of GDP in 2012 to an expected -2.6% of GDP in 2013, despite slight slippages on budget execution.
- Sizeable correction in the 9M 2013 current account deficit was driven to a large extent by an increase in exports.
- Key rate cutting cycle to continue and to end in Q1 2014 at 3.5%, in line with medium-term inflation projections.

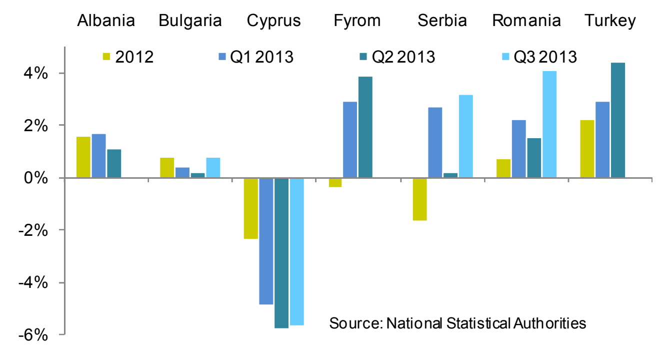
2. Bulgaria

- GDP expanded by 0.8% yoy in Q3 2013 and shrank by -0.6%, compared with Q2 2013, mainly due to stronger export activity.
- In 9M 2013, the general government deficit stood at BGN -361 million, from BGN 248 million surplus in the same period in 2012, due to greater social expenditure and increased wages & salaries in the public sector.
- The current account registered a record high surplus of € 1,385.9 million, or 3.4% of GDP for 2013, in 9M 2013, compared to a negative balance of € -27.8 million, or 0.1% GDP, in the same period last year.

3. Cyprus

- The successful implementation of the Troika programme in order to address financial, fiscal and structural challenges, has managed to improve economic confidence.
- 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 is milder than anticipated, supported by tourist activity and relatively resilient private consumption, as GDP dropped by -5.7% yoy in Q3 2013, following a fall by -5.8% in Q2 2013.

Southeastern Europe - GDP growth (%yoy)



4. Serbia

- GDP grew by 3.2% yoy in Q3 2013, led by increased manufacturing output and strong exports.
- The 10M 2013 budget deficit reached 4.1% of GDP, up 5.2% from a year earlier.
- Bursting remittances flow (up13%yoy) and narrowing foreign trade gap (-30% yoy) underpins improvement in the current account deficit in 9M 2013.

5. Albania

- Economy shows remarkable resilience to the prevailing adverse international economic environment due to external sector performance.
- The budget deficit in the 8M 2013 reached ALL -54.4 billion or 3.8% of GDP, compared to 1.8% of GDP last year affected by the pre-election period, raising concerns about rapid public debt accumulation.
- In H1 2013, the current account deficit reached € -518 million or -5.1% of GDP from a deficit of € -543 million or -5.6% of GDP in H1 2012, mainly due to trade balance developments, as exports increased by 17.0% yoy and imports fell by -5% yoy.

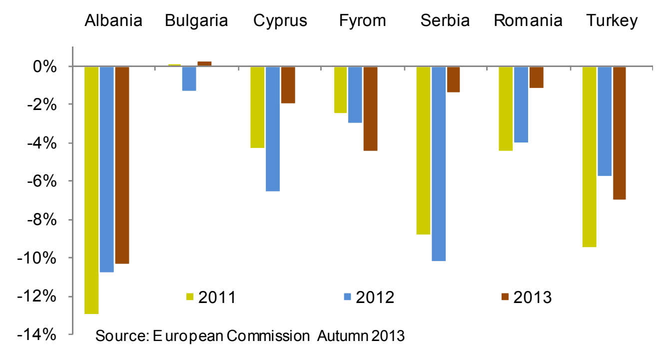
6. Former Yugoslav Republic of Macedonia

- The economy rebounded in Q2 2013, with GDP rising by 3.9% yoy, faster than any time since Q1 2011.
- The current account deficit shrank in 8M 2013 to € -104 million from € -108 million in the same period of 2012. The improvement reflects a narrower trade deficit.

7. Turkey

- The current account balance recorded a deficit of $-49.0 billion in 9M 2013, posting an increase by 27.7% yoy. Though the US Fed's decision to delay tapering may offer support in the short run, any reduction in the appetite for emerging market assets leaves the current account exposed, since its financing relies on foreign inflows.
- Fiscal consolidation continues in 10M 2013 as indicated by the further increase in the primary budget surplus by 57.5% yoy. Budget discipline is expected to be preserved regardless of the electoral process in the next year.

Southeastern Europe – Current account balance (% GDP)



1. ROMANIA

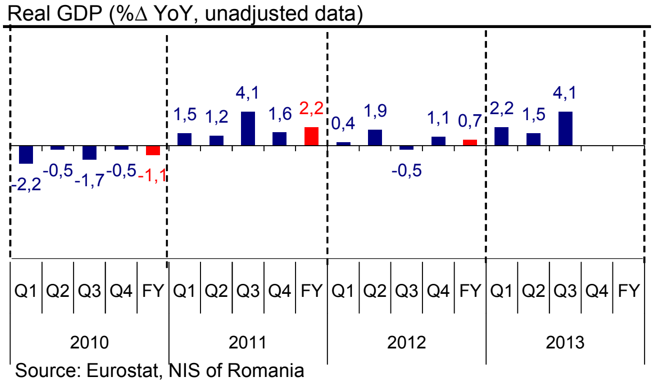
ECONOMIC OVERVIEW: According to updated information released by the National Statistical Office (INS), real GDP expanded by 4.1% yoy in Q3 2013 (unadjusted figures). In 9M 2013, as compared to the same period of 2012, GDP increased by 2.7% both for the unadjusted and seasonally adjusted series. The rise in GDP during Q3 2013 was more than market expected and probably is attributed to the good performance of the exports and the favourable harvest conditions (GDP breakdown to be announced in December). In 2012, real GDP rose by 0.7% (unadjusted figures), as the plunge in agricultural output due to volatile weather conditions (severe winter, summer drought) had a strong impact on it. The seasonally unadjusted GDP (provisional data) in Q2 2013 totaled an estimated RON 145.6 billion (€33.0 billion) at current prices, INS reported.

In Q2 2013, net exports were the main driver of GDP growth by 1.5% yoy. More specifically, net exports contributed on growth by 6.0%, as exports of goods & services expanded by 12.1% yoy and imports of goods & services fell by -1.7% yoy. Domestic demand contributed to growth rate by 0.1% with private consumption adding 0.1%, public consumption remaining flat, whereas investments and inventories affected GDP growth negatively by -1.0% and -3.6% respectively. This reverses the picture seen in 2012, where domestic demand, albeit weak, was the main driver in the anaemic growth observed during 2012 at 0.7% with net exports contributing negatively. The analysis of factors that contributed to the 1.8% of GDP growth in H1 2013 based on the sectors of the economy, points out the prevalent influence of industry, whose contribution to GDP accounted to 1.1%, real estate by 0.3% and agriculture by 0.2% Construction continued to contribute negatively to GDP (-0.2 pps) with activity volume declining by -3.1% yoy. It should be also noted that industrial production rose by 5.4% in 9M 2013 yoy compared to 0.7% rise in the respective period of last year, suggesting relatively good performance during 2013. 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 lower inflation are expected to support domestic demand this year, although public consumption is anticipated to advance a bit faster as a result of the salary increases granted in 2012, while the investment sentiment is likely to remain sour amid fears over the economic developments in Europe. Romania's absorption rate of European funds exceeded 19% as of July 5, 2013, following the latest refund applications submitted to the European Commission. The amount refunded to Romania by the European Commission is currently standing at almost €3 billion, which correspond to 15.3% of the total available funds. The International Monetary Fund (IMF) upgraded its 2013-2014 GDP growth forecast for Romania. According to IMF, Romania’s GDP will rise by 2.0% this year and by further 2.2% in 2014 .The previous forecast of the IMF in its World Economic Outlook- April 2013 were included growth rates of 1.6% for 2013 and 2.0% for 2014. Also both EBRD and EC have upgraded Romania’s GDP growth to 2.2% in 2013 and to 2.1% (EC) and 2.4% in 2014 (EBRD). We also foresee economy, after growing by a meagre 0.7% in 2012 to grow by almost 2.2% in 2013 and at around 2.3% in 2014.

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. On March 25, 2011, the Romanian authorities signed up a 24-month IMF SBA of about € 3.5 billion, which also included additional precautionary support from the EC of € 1.4 billion and a loan of € 0.4 billion from the World Bank. The IMF/EC agreed to extend the SBA programme by three months (from end-March to end-June) to allow the government to meet its overdue commitments. The Executive Board of the IMF approved on March 15, 2013 the three-month extension of Romania’s SBA to June 30, 2013. Over the past year, Romanian authorities have frequently stated their willingness to renew agreements with international creditors once they would have terminated. 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 (subject to approval), and Balance of Payments (BoP) assistance from the European Union (subject to approval by the EU Economic and Financial Committee). 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 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. 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. For example, the government made a second attempt to privatize National Rail Freight Company “CFR Marfă” country’s biggest rail freight operator. Although, Grup Feroviar Roman, GFR, pledged to pay € 202 million for a

51% stake in CFR Marfă and to invest a further € 204 million for the modernization of the company, country's President expressed his doubts about winner's ability to finance the acquisition.

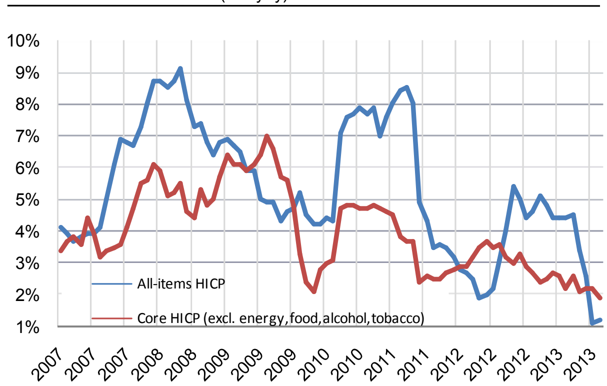
Real GDP (%Δ YoY, unadjusted data)



Source: Eurostat, NIS of Romania

Fiscal policy: In 9M 2013 consolidated budget deficit rose to RON -8.1 billion (€-1.85 billion) or -1.3% of expected GDP for 2013, against RON -7.2 billion (€-1.65 billion) or -1.2% of GDP the corresponding period in 2012. The budget deficit target of the Romanian Government for 2013 stands at 2.3% of GDP revised upwards from 2.1% in July 2013. The fiscal performance of 9M 2013 is attributed mainly to the rise of tax revenues by 6.7% yoy and also to social contributions by 4.7% allowing total revenues to rise by 4.4% to RON 147.3 billion. Expenditures rose by 4.8% yoy to RON 155.4 billion affected by the rise in staff salaries and expenditures on goods and services by 14.7% yoy and 12.1% yoy respectively. The new Socialist-Liberal government decided to raise public wages by 7.4% in January 2013, following an increase of around 8.0% in June 2012, ensuring a return to pre-July 2010 levels. Furthermore, the government increased the state pension by 4%, effective January 2013, in line with its pre-election campaign. The Romanian government in the rest of 2013 will endeavour to keep budget deficit at -2.6% of GDP (accrual terms). Public Finance ministry figures reveal that early payments of profit tax and VAT, as well as, receipts from EU may help to achieve the goal of 2013, however, the targets set by the local authorities sound very promising and for this reason we cannot exclude a slight fiscal slippage.

Consumer Price Inflation - (%Δ yoy)



Source: Eurostat, National Statistical Office

Inflation: Harmonized consumer price (HCPI) inflation stood at 1.2% in October 2013 from 1.1% in September 2013 and 2.6% yoy in August 2013 averaging 3.7% over the last 12 months (September 2012-October 2013). Romanian inflation fell sharply since June 2013 when it was 4.5% and converged very fast to October 2013 EU average of 0.9% from being one of the highest inflation countries before. The annual average inflation, measured by HCPI, in 2012 was 3.4% compared to 5.9% in 2011 and may be at 3.2% in 2013. HCPI inflation drifted up during the first half of 2013 amid a further rise in the electricity tariffs and the prices of vegetables & fruits but slowed since July 2013 dropping markedly especially since August 2013. Dropping food prices, RON's appreciation and a reduction in electricity tariffs, kept inflation pressures away. HCPI excluding energy, food, alcohol and tobacco decelerated to 1.9% in October 2013 from 2.2% in September 2013. The key drivers behind the fall in overall consumer prices in October 2013 yoy were the fall in food prices (-1.2% yoy) and the transport prices (-1.8% yoy). We are expecting the downward trend for food prices to continue in the next months due to the outstanding performance of the agricultural sector, while the cut in the VAT on bread from 24% to 9% should support lower inflation rate in later part of 2013. Headline inflation (CPI) also fell to 1.9% in October of 2013 from 1.9% in September 2013 and 2.5% in September of 2013 after peaking at 6.0% in January 2013. The average price increase based on the CPI was 4.4% over the last 12 months (November 2012 - October 2013) compared to the previous 12 months (November 2011-October 2012). Headline inflation rate should be within the 1.5-3.5% target band as set by the National Bank of Romania at the end of Q3 2015. However, it is expected to fall most probably below 1% in Q1 2014. It is the fourth downward revision during the current year of the inflation forecasts issued by NBR. The revisions explain the cuts of its key monetary policy rate and signal that disinflation might be stronger in the coming months. The rapid disinflation process will be supportive of the current monetary policy easing cycle. Following NBR guidance, we may assume that HICP inflation during 2014 may be in the region of 2.5% rising to over 3% in 2015.

Balance of Payments: Romania's current account balance posted a deficit of €-595 million in 9M 2013 (-0.4% of GDP), versus a deficit of €-4,800 million in the same period of 2012 (-3.6% of GDP) due to the decrease in trade balance deficit by € 3,057 million, as well as thanks to a surplus in services balance of € 2,126 million from a surplus of just € 634 million, the corresponding period a year ago. The trade balance deficit was reduced to € -2,482 million in 9M 2013 from a deficit of €-5,539 million the corresponding period a year ago, due to robust exports. Romania's exports rose by 8.8% yoy to € 36,480 million and imports decreased by -0.3% yoy to € 38,962 million in the first nine months of this year, according to the National Bank of Romania. The current transfers balance dropped by 2.8% yoy while the net foreign direct investment amounted to € 1,047 million in 9M 2013 from € 1,783 million in the same period of 2012. Looking forward, we expect the trade deficit to fall to around to 2.2% of GDP in 2013, in line with a moderate recovery in external demand and rather weak domestic demand. According to European Commission 'Economic Forecast Autumn 2013', the current account deficit is expected to reach -1.2% of GDP in 2013 and -1.5% in 2014. The current account balance ended 2012 at a 10-year low of 4.0% of GDP.

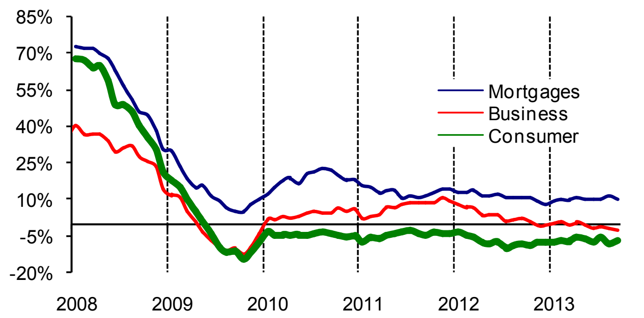
Current Account: January - September 2013 (€ million)			
	Jan.-Sep.2013	Jan.-Sep. 2012	%Δ
Exports (fob)	36.480	33.521	8,8%
Imports (fob)	38.962	39.060	-0,3%
Trade Balance	-2.482	-5.539	-55,2%
Services Balance	2.126	634	235,3%
-Tourism-travel	-220	-220	0,0%
Income Balance	-2.722	-2.450	11,1%
Current Transfers Balance	2.483	2.555	-2,8%
Current Account Balance	-595	-4.800	-87,6%
Source: National Bank of Romania			

EXTERNAL DEBT: Total external debt marginally fell at the end of September 2013 and it was standing at €98.5 billion from €99.7 billion in December 2012. In terms of GDP, total external debt stood at 69.2% from 75.1% in December 2012 and 74.4% at end-2011. Medium & long-term external debt service ratio was at 35.4% in 9M 2013 against 33.5% in 2012. Borrowing from the IMF decreased to € 5.9 billion at end-September 2013 from € 8.7 billion at end-2012. Finally, at end October 2013, the National Bank of Romania's foreign exchange reserves stood at € 34.6 billion, up from € 31.2 billion at end-December 2012.

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 10M 2013 by 3.5% and 0.2%, 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 so far in 2013 stood at 4.4363 slightly stronger than the average rate of full year 2012, while the average exchange rate RON/USD in 2013 stood at 3.3372. Note that in times of tension, the exchange rate RON/EUR went up to 4.5837 (7.6.2013). The Bloomberg consensus sees the exchange rate of RON/EUR against euro at 4.43 in Q4 2013, at 4.40 in Q1 2014 and at 4.37 in Q2 2014. On the other hand, the forward market rates stand at 4.45 in Q4 2013, rising to 4.48 and 4.51 in Q1 2014 and Q2 2014 correspondingly. The adequate FX reserves make NBR's any potential currency action job less painful. This will be also supported by the recent announcement of a 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. Rating agency Standard & Poor's in November 2013, upgraded Romania's outlook from neutral to positive indicating a high possibility to lift the country's sovereign rating in the second half of 2014. According to agency's statement the upgrade would take place if the government performs in line with expectations on three issues: a) The planned schedule of budgetary consolidation, b) The public finance reforms and c) The public enterprise restructuring.

The National Bank of Romania (NBR) commenced the monetary policy easing cycle in March 2013 by easing the control over liquidity conditions in the money market which drove interbank interest rates to substantially low levels (ROBOR 3M stood at 2.5% in October 2013, down from 4.4% in June 2013). The NBR cut again on the 5th of November 2013 its monetary policy rate by 25 bps to 4.00% from 4.25% on 30 September 2013. Interbank interest rates are now trading as if the monetary policy rate is below 4.0%. We expect the key rate cutting cycle to continue and to end in Q1 2014 at 3.5% following the expected favourable medium-term inflation projections. Outstanding daily average volume of repo operations stood at RON 59 million in October 2013 from RON 10 million in September 2013 and 110 million in August 2013, when in July 2013 it was 1.3 billion and RON 3.9 billion in December 2012.

Credit Growth (%Δ YoY)



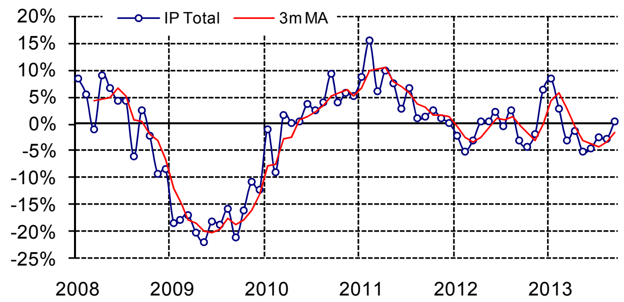
Source: National Bank of Romania, ALPHA BANK Reasearch

Credit expansion (in euro terms) to the private sector exhibited a deceleration in the first nine months of 2013. In particular, credit expansion stood at -1.7% yoy in September 2013 (businesses: -2.5% yoy, households: -0.6% yoy) from -1.4% y/y in December 2012. Households continued to prefer foreign currency loans. Non-performing loans (NPLs) remained on a clear upward trend in the first nine months of the current year reaching 21.6% in September 2013 from 18.2% at the end of 2012 and 14.3% at the end of 2011.The commercial banks remain well capitalized and liquid, with the capital adequacy (CAR) and loans to deposits (LtD) ratios at 13.9% and 111.5% in September 2013 respectively (December 2012; CAR 14.9% LtD 114.5%).

2. BULGARIA

ECONOMIC OVERVIEW: The Gross Domestic Product (GDP) expanded by 0.8% (preliminary data) in Q3 2013 over the same quarter of the previous year and shrank -0.6% compared with Q2 2013. The GDP performance of Q3 2013 was mainly attributed to stronger exporting activity to 6.7% yoy compared to 4.5% yoy in Q2 2013. The Gross Value Added (GVA) at current prices amounted to BGN 18,076 million. The services sector has the largest share (61.2%) in total value added, followed by industrial sector (29.9%) and agricultural sector (8.9%). More specifically, the GDP at current prices in Q3 2013 amounted to BGN 21,215 million or € 10,847 million. In 2012 GDP at current prices amounted to BGN 77,582 million or € 39,667 million. On the supply side, growth rate in Q3 2013 was determined mainly by the increase registered in the agricultural sector 3.4% yoy in industry 0.8% and services 1.0% yoy. The GDP performance of 9M 2013 was attributed to weaker industrial production activity. Although, in Q1 2013 industrial production rose compared to the corresponding period a year earlier, in Q2 2013 industrial performance was deteriorated. On average in Q2 2013 industrial production declined by -3.6% on an annual basis after having recorded an average increase 2.7% in Q1 2013. In Q3 2013 industrial production decreased also on average by -1.7%. The decline observed in Q2 2013 was mainly due to the statistical base effect rather than a result of a change in the trend. In September 2013, industrial production marked an increase of 0.5% yoy but a marginal decline by -0.1% mom. Manufacturing was the key contributor to the negative figure. Industrial production is expected to be volatile for the rest of the year.

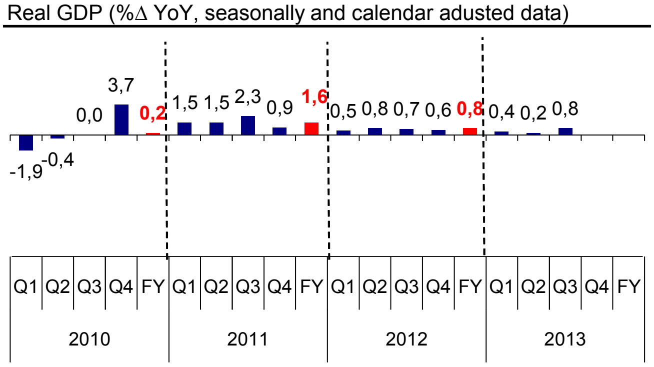
Industrial Production - (%Δ yoy swda)



Source: Bloomberg

Exports growth increased to 6.7% yoy in Q3 2013 after a slowdown of 4.5% yoy in Q2 2013. Imports also increased by 5.0% yoy in Q3 2013, after registering a 2.0% yoy rise in Q2 2013. ***The recent positive signs for return to economic growth in Eurozone, suggest Bulgarian exports may strengthen in the second half of the year.*** Additionally to the external demand, a positive contribution to GDP growth in Q3 2013 was brought by gross fixed capital formation, whose growth rate rose by 1.2% yoy. The social protests as well as the newly elected government had a partial impact on economic activity. Due to unfavourable labour market developments, personal consumption dropped by -1.0% yoy in Q3 2013. The number of unemployed in Bulgaria were 411.6 thousands persons in September 2013, with unemployment rate to 12.0% from 11.5% in September 2012.

Real GDP (%Δ YoY, seasonally and calendar adusted data)



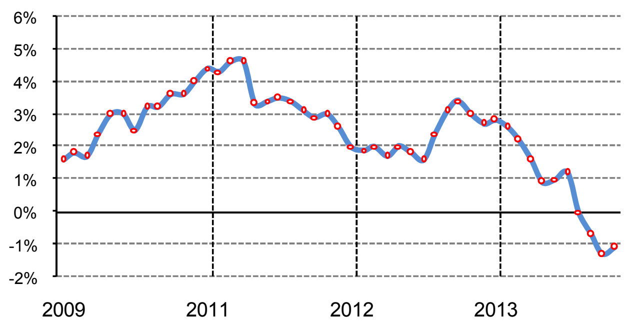
Source: National Statistical Institute

During June 27–July 3, 2013, an International Monetary Fund (IMF) mission visited Bulgaria to discuss economic developments and government policies with the Bulgarian authorities. The IMF expects GDP to expand by 0.5% in 2013 and by 1.6% in 2014 thanks to stronger export activity and higher absorption of European Union funds. We foresee Bulgaria's GDP growth to expand by 0.8% in 2013 unchanged from the prior year, mainly supported by domestic demand and to rise further by 1.6% in 2014. The European Commission (Autumn 2013 Forecasts) expects growth to reach 0.5% in 2013 and to rise at 1.5% in 2014.

FISCAL POLICY: The government's budget balance posted a deficit of BGN -360.5 million in September 2013. The 9M 2013 budget deficit resulted from a national budget deficit of BGN -216 million and an EU funds deficit of BGN -144 million. The 9M 2012 government budget balance was a surplus of BGN 248 million. The main reasons behind the deficit increase were the greater social expenditure and higher wages & salaries in public sector. Consolidated Budget revenue in January-September 2013 stood at BGN 21.3 billion. Tax revenue was up 3.3% compared to the same period of 2012. Value-added tax (VAT) revenue offset some of the decreases in other areas and stood at BGN 5.48 billion or 4.6% higher than in the same period of last year and accounting for 71.6% of the amount targeted for 2013. VAT accounted for 47.5% of total tax revenue, compared to 46.0% in the same period of 2012. Consolidated Budget expenditure, in January-September 2013 stood at BGN 20.9 billion, registering an annual increase of 9.4%. Interest payments during the same period stood at BGN 628 million or about 74.6% of the amount estimated for 2013. Bulgaria's parliament overturned a presidential budget veto, allowing Prime Minister's new 10-week Government to raise the debt ceiling after two months of public protests in Bulgaria. The government plans to use extra BGN 1.0 billion (€ 511.3 million) of new borrowing in order to fulfil promises to improve the standards of living in Bulgaria, repay owed amounts to businesses (estimated around BGN 200.4 million), maintaining a fiscal reserve above the BGN 4.5 billion minimum requirement, thus avoiding higher borrowing costs in 2014. Although Bulgaria's economic fundamentals are sound, the political fragile environment causes a concern for the fiscal discipline. The adopted budget revision widens the fiscal deficit up to -2.0% GDP from -1.3% GDP originally pledged in the Budget of 2013. The Bulgarian PM announced that no more budget revisions will be done until the end of the year. Regarding 2014, the Bulgarian government pledged for a budget deficit of less than -2.0% of GDP, which is the same target for 2013. Meanwhile, Moody's rating agency on July 18, 2013, adjusted Bulgaria's long-term foreign and local-currency bond ceilings to A3 from Aa3. The ceiling for local-currency deposits has been adjusted to A3 from Baa2, while the foreign-currency deposit ceiling remained unchanged at Baa2. The short-term foreign-currency bond ceiling has been changed to P-2 from P-1. The short-term foreign-currency deposit ceiling remains unchanged at P-2. The fiscal reserve, which Bulgaria is obliged to keep under its currency board regime, stood at BGN 4.97 billion in September 2013 from BGN 4.2 billion in March 2013. In particular, compared to August 2013, fiscal reserve increased by BGN 248 million, mainly due to financing of the budget deficit. However, the level of the fiscal reserve remains above the projected minimum amount in the budget law for the entire year. Bulgaria has pledged to maintain fiscal discipline in order to avoid pressure on its currency regime.

INFLATION: The harmonised consumer price index (HICP) HICP increased in October by 0.2% mom but fell by -1.1% yoy, from -1.3% in September 2013 and -0.7% yoy in August 2013, averaging in the ten months of the current year to 0.6%. In a similar manner, CPI inflation increased in October by 0.5% mom and fell by -1.4% yoy, when in September 2013 declined by -1.6% yoy and -0.7% yoy in August 2013, averaging in the ten months of the current year to 1.4%. The increase of consumer prices during October 2013, compared to the previous month, is attributed mainly to the rise of costs for clothing & footwear by 4.9% and the increase of food and non-alcoholic beverages prices (strong weight in the index), by 0.9% mom. The above increases fully offset the declining prices in the transportation (0.9% mom) and the housing, water & electricity (0.1% mom). The overall picture so far in 2013 leads to lower inflation compared to 2012 (average 0.4% based on HICP and 2.3% based on CPI). This is also supported by the desire of the Bulgarian government not to raise gas prices up to the end of the year. The European Commission's Autumn-2013 forecast predicted HICP inflation to be at 0.5% on average in 2013 and to rise at 1.4% in 2014. At the end of 2012, the annual headline inflation reached 4.2% from 2.8% in December 2011, while the annual average inflation for the whole 2012 totalled 3.0%.

Harmonised Index of Consumer Prices (HICP) - (%Δ yoy)



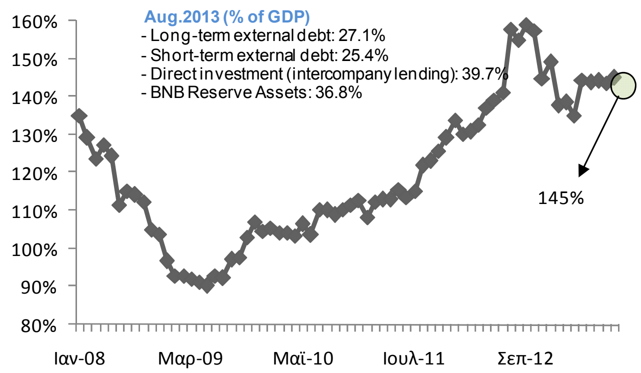
Source: Eurostat

BALANCE OF PAYMENTS: The current account showed a surplus of € 1,385.9 million or 3.4% of forecasted GDP for 2013, in 9M 2013 compared to a negative balance of € -27.8 million or -0.1% GDP) in the same period a year ago. The current account recorded a surplus of €155.5 million in September 2013, compared with a positive balance of € 251.4 million in September 2012. The current account surplus in 9M 2013 was the result of the positive balance on services (€ 1,946 million), as well as on current transfers (€ 1,965 million). However, a positive reading in the current account balance should not be overestimated as it is related at the greater extent to the summer seasonal pattern. In particular, the trade balance registered a deficit in 9M 2013 amounting to € -1,616 million (4.0% of GDP), compared with a deficit of € -2,623 million in 9M 2012 (-6.6% of GDP). In 9M 2013 exports reached €16,623 million (up 8% yoy), while imports reached € 18,239 million (up 1% yoy). The data for the current account balance reveal the bad economic environment in the country and the fairly positive environment for exports. On average, the biggest contribution for the growth of the exported products in 9M 2013 was made by petrol goods and raw materials for food products. Moreover, the services surplus decreased to € 1,946 million (4.8% of GDP) in 9M 2013, against a surplus of € 2,105.8 million (5.3% of GDP) in the same period a year before. In the capital account, the net foreign direct investment (FDI) decreased to € 786 million in 9M 2013 from € 1,524 million in the same period of 2012.

Current Account: January-September 2013 (€ million)			
	Jan.-Sep. 2013	Jan.-Sep.2012	%Δ
Exports	16.623	15.427	8%
Imports	18.239	18.050	1%
Trade Balance	-1.616	-2.623	-38%
Services Balance	1.946	2.106	-8%
Income Balance	-909	-1.091	-17%
Current Transfers Balance	1.965	1.580	24%
Current Account Balance	1.386	-28	-5103%
Source: Bulgarian National Bank			

EXTERNAL DEBT & INT. RESERVES: Total gross external debt stood at € 37.3 billion at the end of August 2013 (92.2% of GDP) from € 37.6 billion (94.9% of GDP) at the end 2012. The ratio of foreign reserves with the Central Bank to short-term debt was 145.0% at end of August 2013 from 144.7% at the end of December 2012.

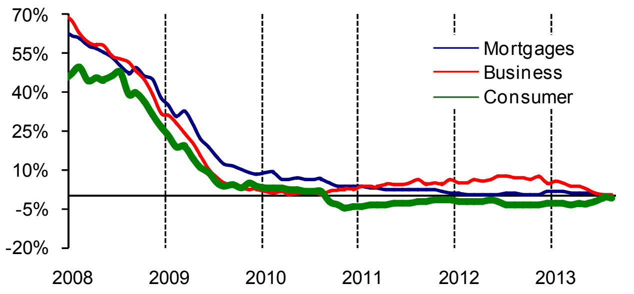
Central Bank reserve Assets/Short-term External Debt



Source: Bulgarian National Bank, MoF

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. Bulgaria announced its intention to raise about €400 million by the end of the year in the form of Eurobond or syndicated loan. Domestic demand for credit remained subdued amid rising unemployment. In September 2013 credit expansion rose marginally by 0.2% on annual basis, from 2.8% yoy in December 2012. Business financing grew by 0.6% yoy in September 2013 and credit to households declined by -0.6% yoy. Consumer credit declined by -0.8% yoy and mortgages by -0.3% yoy. Deposits grew by 7.4% yoy in September 2013 via strong growth of household deposits (+8.1% yoy). As a result, the loan to deposit ratio fell to 101.3% from 102.0% a month earlier. Furthermore, the banking system showed signs of stabilization in the NPLs ratio at 17.1% in Q2 2013 from 16.6% in the end of 2012 and 16.9% in Q1 2013.

Credit Growth (%Δ yoy)

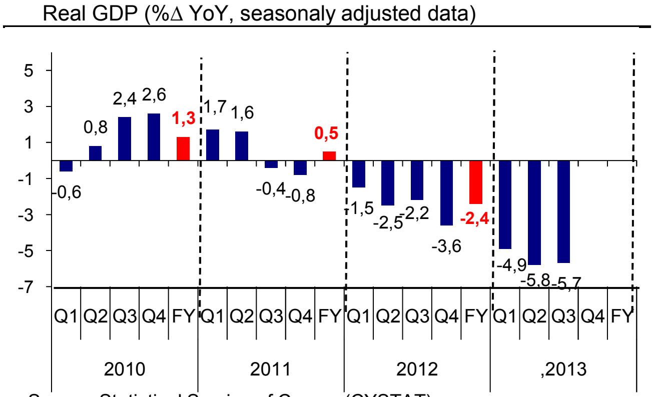


Source: National Bank of Bulgaria

3. CYPRUS

ECONOMIC OVERVIEW: The recession in the Cyprus economy was milder than anticipated during the third quarter of 2013, supported by the tourist activity and relatively resilient consumption, as GDP dropped by -5.7% yoy following a fall by -5.8% in the second quarter of 2013 and a fall by -4.9% in the first quarter of 2013. The new dip marks the 9th successive quarter in which Cyprus' economy has been in negative territory. Cypriot economy contracted in Q3 2013 by -0.8% qoq lower than the drop by -1.8% in Q2 2013 and -1.7% in Q1 2013. In 9M 2013 Cyprus GDP fell by -5.5% yoy with IMF/EC predicting a full year drop by -8.7% and by -3.9% in 2014 and now revised to a drop by -7.7% in 2013 and by -4.8% in 2014. Negative growth rates were recorded by the secondary sector of the economy (Construction, Manufacturing), as well as in the sectors of Tourism, Banking, Trade, Transport and other Services. However, economy is anticipated to continue its contraction for the remaining of 2013. We envisage that Cyprus economy may fall in 2013 by up to -6.2% and further drop by less than -5.0% in 2014, before returning into growth during 2015.

Real GDP (%Δ YoY, seasonaly adjusted data)



Source: Statistical Service of Cyprus (CYSTAT)

The Troika programme (2013-2016) addressing the short & medium-term financial, fiscal and structural challenges and it is under 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 € 4.7 billion out of the € 10 billion (€ 9 billion by EU and € 1 billion by IMF) and another € 180 million are expected by end of this year. In 2014 the Cyprus financing needs will be covered via the programme provision of € 2.8 billion, which will fully cover the expected Cyprus budget deficit of around € 1.3 billion or 7.4% of GDP plus maturing bonds in 2014. The front-loaded program practically disburses the owed amount up to 2015 (almost € 9.7 billion) and entails a big drop of GDP in 2013-2014 with a small recovery 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.

The original projection provided by the international lenders suggests a contraction of Cyprus GDP by -8.7% in 2013 and by -3.9% in 2014 with a drop of private consumption by -12.3% in 2013 and by -5.5% in 2014. Net exports are anticipated to add to GDP growth 5.0 pps in 2013 and 1.6 pps in 2014. The projections are based on the assumption that exports of goods and services will be reduced by -5.0% in 2013 and by -2.5% in 2014, compared to an increase of 2.3% in 2012. The domestic demand, a fundamental pillar of the economic growth in the period 2000-2008, which shrank by -6.6% in 2012, following a drop by -1.6% in 2011 continue to be in a very bad shape due to the tightening of fiscal policy, worsening of credit conditions and increasing unemployment. Headline inflation continued to decline over the last few months. Inflation declined to –1.6% in October 2013 and average inflation in 10M 2013 stood at 0%, whereas the average HCPI for the first ten months of the current year stood at 0.7% yoy falling to -0.1% in October 2013. The most recent data figures from Eurostat show that unemployment rate reached 17.1% in September 2013, up from 12.7% in September 2012 and 16.3% in June 2013, with the number of unemployed persons at 76,000 from 56,000 a year ago. On the other hand, job vacancies dropped substantially in H1 2013 reaching 2,616 from 4,610 in the corresponding period a year earlier. Significant deterioration compared to 2012 is also recorded in retail sales which fell by -10.5% in H1 2013 smoothing their fall up to August 2013 by -7.2% when for the whole year in 2012 the drop was only -3.8%. Additionally, the value of credit cards transactions fell by -5.0% in the period January-October 2013 compared with an increase of 7.5% the same period in 2012. Other significant developments were posted in car registrations which dropped by -31.9% in 9M 2013, while the decrease for the same period of 2012 was -26.6%. Moreover, tourist arrivals were down 2.5% in 10M 2013 yoy from being up 4.1% in the same period last year and tourist receipts rose 10.5% in 9M 2013 yoy compared to a rise by 6.5% in the same period last year.

The construction sector continues to struggle as the sales of cement revealed. In particular, local sales of cement shrank by -32.6% in the first eight months of the current year when the annual drop in 2012 was -32.5% and building permits fell by 25% in 8M 2013 yoy.

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 8,825 in 10M 2013 from 17,999 in 2012 as a whole and 19,538 in 2011. This might be result of the restrictions imposed on the movement of capital which undoubtedly affected at the greater extent the services sector

On the fiscal front, Cyprus central government budget execution (on a cash basis) performed satisfactory during 9M 2013, with budget deficit falling to € 383.0 million

(2.3% of GDP) from € 582.3 million (3.3% of GDP) in the same period a year earlier. This development comes from a fall of revenues by -2.3% and expenditures by -6.3%. In 9M 2013 budget had a primary surplus of € 96.5 million from a primary deficit of €-56.6 million a year ago. According to EC (Autumn 2013) the general government budget deficit of 2013 is expected to be at -8.3% of GDP, including the 1.8% of GDP support to CPB and at -8.4% of GDP in 2014.

A joint team from the European Commission (EC), European Central Bank (ECB), and the International Monetary Fund (IMF) visited Cyprus during July 17-31 for the first 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 31 July 2013 noted the positive progress made by the Cypriot authorities. The lenders realized that Cyprus programme is on track with fiscal targets to have been accomplished due to significant fiscal consolidation measures undertaken and prudent budget execution. The Cypriot authorities have taken very crucial measures to stabilize the banking sector and have already been gradually relaxing deposit restrictions and capital controls. 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.

Cyprus have already taken measures to restore the soundness of the banking sector and rebuild depositors' and market's confidence including the disinvestment of the Greek operations of the three largest domestic banks, the resolution of the Cyprus Popular Bank (CPB) by transferring assets, insured deposits, interbank liabilities and Emergency Liquidity Assistance (ELA) to Bank of Cyprus (BoC), the imposition of temporary and proportionate restrictions on financial flows and the recapitalisation of BoC.

The Central Bank of Cyprus and the Ministry of Finance at 30 July 2013 acknowledged the completion of the resolution process for BoC. The end of the resolution process for BoC came four months after Cyprus agreed on a rescue package from IMF/ECB/EU. In exchange for a €10 billion loan, deposits worth more than the insured limit of €100,000 at the BoC and CPB were used (bail-in) to prop up the country's ailing banking sector. 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 recapitalisation, 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.

The share structure of BoC was amended so that all shareholders hold ordinary shares. The new structure is compliant with the European Capital Requirements Regulation. CPB depositors have been compensated through shares in BoC, amounting to around 18% of share capital in the combined group. The recapitalisation of the rest of the commercial banks and cooperative credit institutions (Coops) were determined by the capital needs identified by the due diligence exercise conducted by PIMCO. The uninsured depositors in other commercial banks and Coops were not forced to participate in bank's recapitalisation process which was accomplished through private or public funds. Coops recapitalisation needs amounted to € 1.5 billion while the private bank, Hellenic Bank, was successfully recapitalized by own means raising € 358 million and bringing Core Tier 1 το 9.5%. The achieved exodus of BoC from the resolution process combined with the full 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.

Recently, Moody's pointed out that the outlook of the Cypriot banking system remains negative, due to asset-quality deterioration, intense funding and liquidity pressures and continued concerns over their solvency. Moreover, Moody's projected that under a negative economic scenario, banks will need additional €1.5-2.5 billion over the amount foreseen by the international lenders. Additionally, the European Commission (Autumn 2013 Forecasts) has projected an increase in the general government deficit to -8.3% of GDP in 2013, adjusted to -6.5% for CPB support (2012: -6.4%) and to -8.4% in 2014, with the general government debt reaching 124.4% of GDP in 2014. According to MoF, the general government debt rose to € 18.40 billion or 112.1% of GDP in the end of September 2013 up from € 15.35 billion in the end of 2012 or 85.8% of GDP, up from 71.1% in the end of 2011 and also up from 61.3% in the end of 2010. MoF expects public debt to rise to € 19.8 billion in the end of 2015 or 121.0% of GDP topping there but EE raises this figure to 127.4% of GDP or close to € 20.8 billion. On the other hand, IMF expects debt to GDP to peak in 2015 at € 20.6 billion or 125.7% before declining gradually towards 105% by 2020. According to Eurostat, in Q2 2013, Cyprus General Government debt stood at € 16.91 billion up 14.1% yoy or 98.3% of GDP, whereas its structure was 44.7% bonds and 53.6% loans.

More recent data on the Central Government debt, which may be regarded as a proxy of General Government Debt, showed that in Q3 2013 debt rose to € 18.08 billion (+23% yoy) or 110.2% of GDP from € 15.05 billion or 84.1% of 2012 GDP.

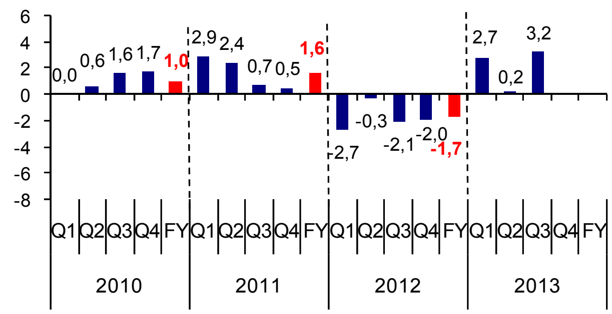
The debt of Cyprus as of September 2013 was held externally at over 62% and internally at less than 38%. Fitch Ratings in July 2013, upgraded Cyprus Long-term local currency rating from 'Restricted Default' (RD) to 'CCC' following the nation's domestic debt exchange, but did not exclude the possibility for further downgrades. The credit ratings company upgraded Cyprus long-term local currency rating seven steps into junk territory while the outlook remained negative reflecting the high implementation risk for the program and more recently expressed reservation regarding the possibility Cyprus entering into growth as early as 2015. The Cypriot government rolled over € 1 billion of bonds for longer-dated maturities to facilitate its cash-flow management, in line with a previous commitment that is part of its fiscal adjustment programme. Fitch Ratings noted that deep recession and rising unemployment may also make it more difficult to implement the fiscal consolidation programme. S&P Ratings agency earlier at a similar move it had raised Cyprus sovereign credit rating to 'CCC+' a highly speculative rating seven notches into junk territory, following the completion of Cyprus debt exchange. The exchange of domestic law government bonds maturing during the IMF/EU programme period for new bonds maturing in 2019-23 was considered a distressed debt exchange (DDE) by the rating agencies. Domestic law bonds represent 26% of the stock of general government debt and foreign law bonds 14%.

The banking system in Cyprus continued to contract after March 2013 crisis and recent figures by Central Bank of Cyprus reveal that deposits in Cyprus fell by -22.9% yoy in September 2013 and loans by -12.2% whereas the Loan/Deposit ratio stood at 134.8% from 103.3% in December 2012. Deposits and loans have fallen from their highs by -34.8% and by -12.1% respectively.

4. Serbia

Economic Overview: Serbia's GDP grew by 3.2% in Q3 2013 (flash estimate) compared to Q3 2012 led by the increased manufacturing and agricultural output and net exports. The unexpectedly high economic growth can be explained by a base effect and strong exports. The detailed GDP figures will be released on 30 December 2013.According to the National Bank of Serbia's estimates, total demand increased by 1.1% in Q3 2013 boosted by net exports that rose by 8.2%, while domestic demand decreased by 0.4%. On a yearly basis, total demand rose by 3.2% in Q3 2013, driven by the strong growth in exports (33.5%) that offset the fall in domestic demand (3.7%). Private consumption fell by 2.3% yoy in Q3 2013 mainly due to high unemployment and low household income as wages and pensions dropped in real terms. Private investment declined by 11.3% yoy in Q3 2013. Government consumption increased by 1.4% yoy, while government investment fell by 13.5% yoy in Q3 2013. Exports increased by 34.6% yoy and imports increased by 10.6% yoy in Q3 2013 and net external demand rose by 33.5% yoy.

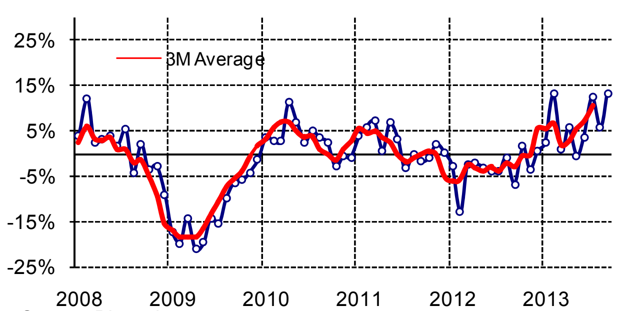
Real GDP (%Δ,yoy unadjusted data)



Source: Statistical Office of the Republic of Serbia, Bloomberg

Exports (+9.1% yoy) were the key driver of GDP's growth in Q2 2013, offsetting falling household (-1.2% yoy) and government consumption (-6.6% yoy) and shrinking investments (-18.5% yoy). The agriculture sector registered the strongest annual increase in Q2 2013 increasing by 20.5% after falling throughout 2012 due to severe drought. The manufacturing sector, which adds about 15% to the country's GDP, grew by 1.0% yoy in Q2 2013, decelerating from a 2.4% yoy rise in Q1 2013. We expect domestic demand to remain weak throughout the rest of the year, reflecting falling real wages and budget austerity measures. Serbia's GDP contracted by -1.7% in 2012 compared with a 1.6% real growth in 2011 due to falling household consumption and investments. Economy is expected to bounce this year registering an average annual growth of 1.7%, thanks to normalization in agricultural output, the higher production by carmaker FIAT in Kragujevac, the new highways, the railways modernization, the increased production by NIS oil refinery (controlled by Russia's Gazprom Neft), and the construction of the Serbian part of South Stream gas pipeline. The annual rise of industrial production by 0.7% in December 2012 from a drop of -3.4% yoy in November 2012, as well as, the monthly and seasonally adjusted increase by 2.0% in December 2012, from 0.5% m/m in November 2012, outlined a positive development for the future trend of industrial production in 2013. In September 2013, the industrial production in Serbia has increased by 13.4% compared to the same month a year ago. The industrial production in the 9M 2013, compared to the same period in 2012, increased by 6.4%. Sector-wise, electricity, gas, steam and air conditioning supply sector registered the highest annual increase (19.8% yoy) followed by manufacturing rise by 12.2% yoy.

Industrial Production - (% Δ yoy)



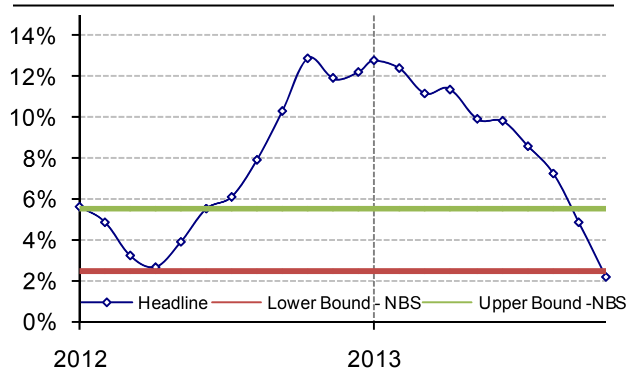
Source: Bloomberg

The local authorities envisage a GDP growth around 2.0% in 2013 powered mainly by the recovery in agricultural (+1.5 pp) and industrial production (+0.7 pp), while a sharp drop in the construction sector will have an adverse effect (-1.2 pp). Our growth scenario incorporates the signing of a new SBA with the IMF, although Serbia admitted it will not be able to sign an agreement with the IMF by year end, since it is not ready to meet some required conditions. Recall that Serbia's current SBA, worth EUR 1.1 billion, expired in March 2013 and has been suspended since February 2012, after the country didn't keep its promises to reduce the fiscal deficit to 4.25% of GDP. Fitch expects a precautionary agreement (SBA) would promote investor confidence and would protect country against external shocks. According to Fitch Ratings agency, the GDP will be expanded by 1.5% in 2013 and 2014 and by 2% in 2015. European Commission in Autumn 2013 forecasts expects GDP to grow by 1.7% yoy in 2013 and by 1.5% yoy in 2014 while IMF (October 2013) expects a growth rate of 2.0% yoy for each year. However, domestic demand is expected to be subdued due to fiscal consolidation measures and a weak labour market. Unemployment rate is expected to remain unchanged in 2013 (24%) against 23.9% in 2012. Fitch said that Serbia's long term growth potential still depends on the political resolve to implement unpopular structural reforms. This presents implementation risks, which may be heightened if unresolved political tensions result in early elections. The agency added that previously announced plans to restructure 179 state-owned enterprises are already underway. Fitch does not expect this restructuring to have a major fiscal impact in the short-term, though it should increase economic efficiency in the medium term. The finance minister also pledged to reform labour laws to speed up growth and curb the shadow economy.

FISCAL POLICY: Serbia's general government budget deficit rose by 5.2% yoy to RSD 155.6 billion (€ 1,380 million) in 10M 2013 as low revenue growth did not offset a stronger expenditure rise. The 10M 2013 budget deficit accounted for around 4.1% of the full-year GDP forecast, down from 4.4% a year earlier and it covered all the 2013 originally set target of RSD 122 billion, which later in summer was revised to RSD 178 billion. The budget revenue increased by 0.7% yoy to RSD 659.7 billion in 10M 2013 mainly due to higher tax revenue by 4.0%. Expenditure rose by 1.6% yoy to RSD 815.2 billion due to higher wages and salaries (up 6% yoy). VAT grew 5.0% to RSD 318.3 billion in 10M 2013, reflecting the 2 pps rise in non-food VAT to 20% in October 2012 and excises rose by 7% to RSD 165.0 billion. Additionally, income from profit tax rose by 3.2% yoy to RSD 44 billion, reflecting the weak economic environment. Expenditure growth was also affected by rising by 37.5% yoy interest expenditure to RSD 77.6 billion. Serbia's Parliament endorsed on July 5, the revised budget 2013 aiming to prevent the budget gap to exceed 5.2% of GDP. The revised Budget 2013 sees revenue at RSD 873.4 billion and expenditure at RSD 1,051.7 billion and also envisages selling or closing of 179 companies, employing 54,000 persons. We foresee this year's fiscal deficit to reach 5.6% of GDP if financial aid to steel industry or subsidies to IT companies are included. The biggest items regarding expenditures are salaries and transfers to social insurance funds such as the Fund for Pension and Disability Insurance (PIO), the Serbian Health Insurance Office (RZZO), and the National Employment Service. According to IMF, Serbia's 2013 budget deficit (including public bank resolution costs, arrears and payments of called guarantees) will rise to 7.5% of GDP amid the absence of additional budget consolidation measures, lower tax revenue and unbudgeted spending. It should be noted that Serbia's Financial Council warned of a budget deficit topping RSD 200 billion in the end of 2013 if measures are not taken. The deficit reduction is necessary in order to halt the public debt growth. As of end of October 2013, according to Serbian MoF, public debt amounted to €19.3 billion (RSD 2,177 billion) or 58.5% of GDP compared to €17.7billion or 59.3% of GDP in end-12.The public debt is expected to reach 62.7% of GDP in 2013 according to European Commission from 59.3% in 2012 and 48.2% in 2011. According to Moody's ratings Serbia's government debt has risen to 59% of GDP in 2012 from 33.4% in 2011, and is expected to rise to 63% of GDP in 2013. Large portion of government debt is denominated in foreign currencies, so the debt-servicing costs are vulnerable to exchange-rate fluctuations. At the same time IMF pessimistically expects, public debt to increase by 66.6% of GDP in 2013 from 61.8% a year before, well above the legal ceiling of 45% of GDP.

INFLATION: Serbia's annual CPI inflation decelerated to 2.2% in October 2013 from 4.9% in September 2013 and from 12.8% in January 2013. On a monthly basis, consumer prices rose by 0.2% in October 2013. The greatest monthly increases were registered in the groups of restaurants and hotels (+4.6%), recreation and culture (+2.5%), clothing and footwear (+1.2%), and alcoholic beverages & tobacco (+0.6%). On the other hand, decreases were noted in the groups of transport (-0.7%), food and non-alcoholic beverages (-0.3%), and communication (-0.1%). We expect inflation to continue moderately decelerate in the coming period mainly reflecting high comparison base and low agriculture product prices.

Consumer Price Inflation - (%Δ yoy)



Source: Statistical Office of the Republic of Serbia

Inflation will continue staying outside National Bank's (NBS) targeted band (4% ±-1.5%) for the rest of the year. According to European Commission (Autumn 2013 forecasts) average inflation is expected to accelerate to 8.2% in 2013 from 7.3% in 2012 before drop to 4.9% in 2014.

BALANCE OF PAYMENTS: In 9M 2013 the current account deficit decreased by 56% on a yearly basis due to positive foreign trade trends, higher inflow of remittances and lower interest payments. Exports increased by 27% yoy to € 8.1 billion and imports by 5.0% to €10.9 billion. Exports increased due to continuing expansion of the automobile industry, substitution of petroleum product imports and fiscal consolidation measures. Net inflow from FDI amounted to € 518.1 million in 9M 2013. The current account balance as a percentage of GDP was at -1.4% from -3.6%in Q2 2013. The current account deficit is expected to reach 4-5% of GDP in 2013 driven by a higher export activity mainly from automobile industry. The European Commission envisages (Autumn 2013) the current account deficit to reach -4.9% of GDP in 2013 from -10.2% of GDP in 2012.

Current Account: January-September 2013 (€ million)			
	Jan.-Sep. 2013	Jan.-Sep. 2012	%Δ
Exports	8.072	6.381	27%
Imports	10.909	10.410	5%
Trade Balance	-2.837	-4.030	-30%
Services Balance	202	63	223%
Income Balance	-805	-596	35%
Current Transfers Balance	2.357	2.102	12%
Current Account Balance	-1.083	-2.461	-56%
Source: National Bank of Serbia			

External Debt & Int. Reserves: In Q3 2013 the stock of external debt fell by -1.6% ytd to € 25.7 billion compared to Q2 2013. The split between public and private sector debt, as a percent of the total, stands at 49.8% and 50.2% respectively. The level of National Bank of Serbia's (NBS) foreign exchange reserves stood at € 10.4 billion in Q3 2013, down by € 229 million from Q2 2013. Short term Debt/ Fx reserves stood at 1.7% in September 2013 while short term debt/total debt at 0.7%.

Stock of External Debt as of 30.9.2013 (in million of EUR)	
Total External Debt	**25.686**
Public Sector External Debt	**12.786**
Medium and long-term debt	**12.786**
of which IMF SBA	890
Short-term Debt	**0**
Private Sector External Debt	**12.900**
Medium and long-term debt	**12.719**
of which Banks	3.463
of which Enterprises	9.256
Short-term Debt	**181**
of which Banks	135
of which Enterprises	45
Source: National Bank of Serbia	

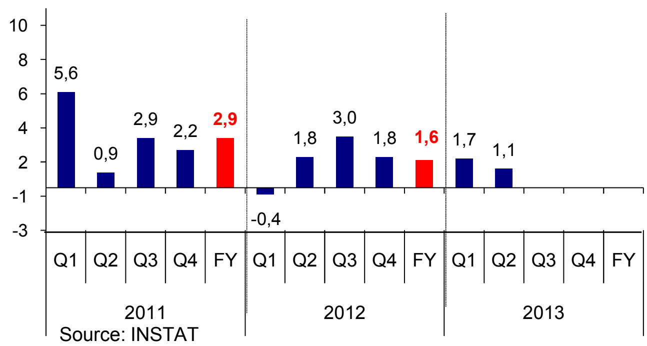
Money & Financial Markets: The National Bank of Serbia (NBS) decided to cut the key policy rate by 0.25% to 10.00% in November 2013 from 10.25% in October 2013, taking into account the weakening of inflationary pressures and the reduced balance of risks related to fiscal movements. According to Fitch, 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. Fitch affirmed Serbia's BB- rating. However, failure to adopt a credible plan to reduce the deficit and stabilise debt could lead to a downgrade, while doing so in a manner that put public debt on a sustainable path would alleviate pressure on the rating.

Credit expansion to the private sector decreased by -4.5% yoy in September 2013 from a rise of 2.7% yoy in September 2012 (in euro terms). Loans to businesses fell by -8.1% yoy whereas loans to households increased by 2.7% yoy. On the other hand, private sector deposits rose by 9.6% yoy in September 2013 from 0.2% yoy increase in December 2012. The loan to deposit ratio stood at 116.9% in September 2013 from 127.8% in December 2012, whereas NPL ratio rose to 21.1% in September 2013 from 20.0% in June 2013.

5. Albania

Economic Overview: Albanian GDP continued its positive performance for a fifth consecutive quarter rising in Q2 2013 by 1.1% yoy on an unadjusted basis after increasing by 1.7% yoy in Q1 2013. Positive growth rates in Q2 2013 registered in the sectors of construction (+16.0 yoy), industry (+1.3% yoy) and agriculture (+3.0%). On the other hand, in the same period, transport fell by -5.3%, trade by -2.8% yoy, post & communication by -4.6% and other services by -0.4% yoy. First signs of possible stabilization in the construction fall came in during this quarter as this sector registered a rise of 9.1% qoq. For 2013, we forecast a GDP growth at 1.6% the same rate that was registered in 2012, mainly driven from higher government spending. The European Commission recommended in October of 2012 that Albania should be granted EU candidate status, subject to completion of key measures in certain areas. 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. As a potential EU candidate Albania will receive EU support of €95.35 billion in 2013. According to IMF economy is expected to expand by 1.7% in 2013 and by 2.1% in 2014. EBRD forecasts GDP to rise by 1.2% in 2013 and by 2.0% in 2014. On the other hand, market consensus sees GDP rising from 1.4-2.0% in 2013 and from 1.8-3.1% in 2014 with median forecast at 1.8% for 2013 and 2.8% in 2014.

Real GDP (%Δ yoy, unadjusted data)



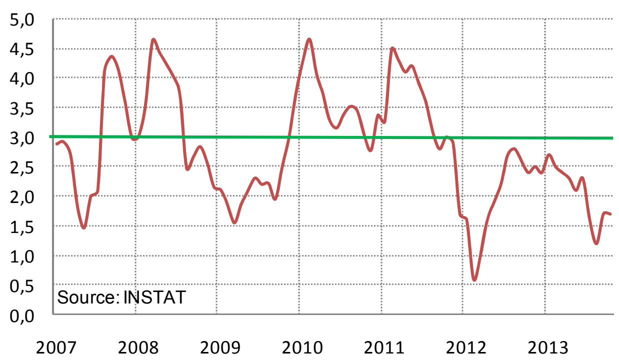
Source: INSTAT

Fiscal Policy: Albanian budget deficit improved during 2012 falling to -3.4% of GDP from -3.5% in 2011. Albania's parliament voted last December the new Budget of 2013 with the underline assumption among others GDP real growth at 4% and projected budget deficit of ALL 48.9 billion (€349.5 million) at 3.4% of 2013 GDP (projected nominal GDP of €10.2 billion). Revenue were also forecasted to rise to ALL 360.7 billion (25.2% of GDP) and expenditure increasing to ALL 402.6 billion (28.6% of GDP). The fiscal developments in the 8M 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. The budget deficit in this period inched up to ALL -54.4 billion or 3.8% of GDP coming to be 129.2% higher than the corresponding figure of 2012 (1.8% of GDP), since expenditure rose by 9.2% yoy to ALL 265 billion from a projected rise by 12.9%, whereas revenue fell by -3.8% to ALL 211 billion from a projected rise by 3.6%. Moreover, the expenditure increased in 8M of 2013 by 9.2% mainly due to a rise of capital expenditures by 33.1% and local government expenditures by 12.1%. Revenue fell in 8M of 2013 by -3.8%, when the corresponding period of last year rose by 3.8% mainly due to a drop by -4.3% in tax revenue (VAT, corporate taxation) despite a rise in personal taxation revenue by 8.4%. The Budget of 2013 was recently revised and envisages a budget deficit of ALL 60.9 billion or 4.3% of GDP up 32.8% yoy from 3.4%

of GDP projected initially due to a faster rise in expenditure by 32.8% yoy to ALL 421.6 billion or 29.5% of GDP keeping the revenue figure the same at ALL 360.7 billion or 25.2% of GDP (up 3.5% yoy). Such development may negatively affect public debt level keeping it above the statutory level of 60% of GDP, which was violated in the end of 2012. Albania's debt figures as of end of June 2013 imply that is domestic at around 57.3% and foreign at 42.8%. According to IMF, around 70% of Albanian debt is held by commercial banks. Debt service in 2012 amounted to ALL 52,166 million or 3.9% of GDP and in H1 2013 was ALL 27,075 million or 1.9% of GDP with repayments taking around 22% of all debt service costs in H1 2013 and interest charges the remaining 78%. International bodies, (IMF, EBRD, etc.) repeatedly warn about the relatively high debt to GDP ratio compared to the other neighbouring countries having a ratio less than 40% suggesting measures to contain debt from rising further. IMF early in 2013 warned that there no fiscal buffers to stimulate the economy in Albania since debt to GDP ratio is almost 60%, the statutory ceiling of the country and therefore the country is in need of fiscal adjustment. Undoubtedly, fiscal discipline is required in order country's credibility to be enhanced and funding costs to be reduced. According to market consensus (July 2013), median forecast for the Albanian deficit to GDP stood at 3.4% for 2013 and 2014 assuming a real GDP growth rate at 1.7% in 2013 and 3.1% in 2014.

INFLATION: According to National Statistical Office (INSTAT) CPI inflation increased to an annual rate of 1.7% in October 2013 against 2.4% in October 2012. Average 10M inflation rate stood at 2.0% compared to 1.9% in the same period of 2012. Inflation rate in Albania fell below lower limit set by the Bank of Albania (BoA) of 2% and is expected to stay inside the official set target zone (3% +/-1%) most of the time in the next months. Looking ahead, we foresee subdued inflationary pressures and the average headline inflation to settle to about 2.2% in 2013, as the economy is in a rather weak cyclical position and import prices remain low. In monthly terms, inflation edged up by 0.1% in October 2013 basically impacted by an increase of in food and non-alcoholic beverages. BoA estimates that the monetary policy will continue to provide a positive contribution to the progress of the economy by targeting an inflation rate around 3.0%.

Consumer Price Inflation - (%Δ yoy)



BALANCE OF PAYMENTS: Albanian current account balance as percent of GDP peaked in 2008 at 15.5% and since then gradually fell to 10.4% in 2012, which still is considered to be very high by international standards. The largest factor affecting negatively current account balance is the trade account deficit which peaked in 2008 at €2.4 billion or at 27.3% of GDP as imports surged and exports performed rather weak. A factor mitigating the trade account performance is the private transfers, which in the end of 2012 amounted to €847 million or 8.6% of GDP and out of them €675 million were remittances of Albanian living abroad amounting to 6.9% of GDP. Since the peak of 2007 for both private transfers and remittances alike, their amount declined especially in 2010-2012, making their contribution as percent of GDP weaker in the formation of current account deficit. In H1 2013, the current account deficit reached € -518 million or -5.1% of projected GDP from a deficit of € -543 million or -5.6% of GDP in H1 2012.The main factor for the narrowing of the current account was the shrinkage of the trade balance, as exports increased by 17.0% yoy and imports fell by -5% yoy. The growth in exports was mainly driven by the group of minerals, fuels, electricity, which advanced by 44.6% yoy in the first six months of 2013. On the import side, the group of minerals, fuels and electricity witnessed the steepest annual fall. At the same time, the services account posted a deficit of € -81 million from a surplus of € 34 million in H1 2012, as the decline of travel outflows surpassed the rise in inbound tourism. In H1 2013, current transfers balance fell by -25.0% yoy. Net inflows of remittances, which represent 70% of current transfers, declined by -33% compared to the same period a year earlier. In particular, net remittances decline in H1 2013 to €226 million from €339 million a year ago. Current account deficit is covered largely by net FDI cover around 83% of current account deficit. Recently net FDI slowed in Albania and accounted for 7.4% of GDP in 2012 down from around 9% in 2010. Based on the evidence of H12013, the picture of 2013 appears to be similar to that of 2012, suggesting a level of FDI close to €750 million for the whole 2013. According to our estimates the current account deficit is expected to settle around -10.0% of projected GDP in 2013, as export activity will decrease due to the economic situation in EU.

Current Account: January- June 2013 (€ mn)			
	H1 2013	H1 2012	%Δ
Exports	841	720	17%
Imports	1.570	1.661	-5%
Trade Balance	-729	-941	-23%
Services Balance	-81	34	-338%
Income Balance	-33	-68	-51%
Current Transfers Balance	325	432	-25%
Current Account Balance	-518	-543	-5%
Source: Bank of Albania			

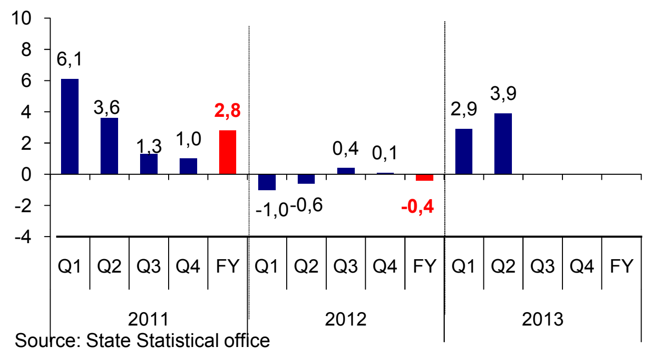
MONEY & FINANCIAL MARKETS: The Albanian Lek (ALL) up to the end of October 2013 and as of end of 2012 depreciated by 0.4% against euro but was appreciated by 2.5% against USD. On average, during the ten eight months of 2013, ALL depreciated by 0.5% against euro and by 0.4% against USD. Basically ALL showed a stable performance against euro during 2013. Amid benign inflation outlook and weak economic activity, the BoA continued its accommodative monetary stance and lowered its key policy rate by 25 bps to a new historical low of 3.5% on the 31st of July 2012 in order to stimulate domestic demand. The cut was the 7th since September 2011. Key repo rate keeps falling gradually since December of 2008 from 6.25% to 3.50% to date. The overnight rate (O/N) averaged 3.08% in Q2 2013, or

0.74pp lower than in Q4 2012 and the 1-week rate dropped to 2.99% from 3.49%. The fall of O/N continued in Q3 2013 at 2.96% whereas the 1-week rate was standing at 3.98%. The fall in capital market rates continued in November 2013 with the coupon on the new fixed-rate bond at 6.54% and on the new floating-rate bond at 5.64%, down from 7.7% and 7.04% respectively from the previous auction. The BoA has so far in 2013 sold ALL 98.7 billion of ALL-denominated bonds, including ALL 19.5 billion in 5-year issues. The BoA continued to carry out its regular open money market operations by injecting liquidity of 1-week and 1-month maturity. In November 2013, the rating agency Moody's released a report on Albania saying that the B1 government bond rating remains constrained, due to subdued economic growth and rising debt levels. More specifically, Moody's has pointed the finger on Albania's fragile funding structure, consisting of low but increasing debt maturity, a narrow investor base via domestic banking system and the significant foreign currency exposure both by the government and the banks. On the positive side the report refers to Albania's stable exchange rate performance, the economy's relative resilience to the crisis and the ongoing FDIs. There are also positive externalities due the fact that Albania may be granted with a EU candidate status in December and the expected construction of the Trans Adriatic Natural Gas pipeline in 2015. The stable outlook on Albania's bond rating somehow incorporates the government's high public debt ratio and fragile debt financing structure with the positive effect of the county's EU candidate status.
Credit expansion in euro terms decreased in September 2013 by -3.8% yoy compared to an increase of 6.8% yoy in September 2012. In particular, loans to households on annual basis dropped marginally by -0.4% yoy, while loans to businesses decreased by -5.0% yoy in September 2013 from an increase 2.0% yoy in December 2012. In Q2 2013 NPLs to total gross loans rose to 24.4% from 24.0% in Q1 2013 and 22.8% in Q4 2012 impacting Albanian bank system profitability. It should be noted that the rise of NPLs in H1 2013 was slower compared to H1 2012.The loans to deposits ratio stood at 57.2% in September 2013 from 60.6% the corresponding month a year ago and 59.5% at the end-December 2012.Going forward, banks expect to relax their lending standards applied to households (mortgages, consumer loans), while the lending standards applied to business to tighten.

6. FYROM

ECONOMIC OVERVIEW: After an a anaemic GDP growth by 0.1% in Q4 2012 and an overall 2012 GDP fall by -0.4%, according to State Statistical Office, FYROM's economy demonstrated a substantial GDP rebound in Q2 2013 growing at 3.9% yoy (fastest rate over the last nine quarters) and by 3.4% yoy in H1 2013. This was based on a sizeable bounce back in construction sector by an annual increase 33.2% because of the low comparison base, as well as, because of the highly construction activity. All other sections turned positive, led by 7.5% rise in the sectors of transport storage & communication, mining & manufacturing & electricity-gas-water by 4.1% as well as financial intermediation & real estate by a lower rate of 1.7%. Household final consumption, increased by 3.5% yoy in current prices and its share in the GDP contribution was 75.9%. In Q2 2013, export of goods and services increased by 1.1% yoy in nominal prices, while import of goods & services also increased by 1.3% yoy. In the short term, a moderate growth can be expected due to some pick up in domestic consumption and the continuing positive contribution of the net exports. In the medium term, growth should accelerate based on the assumption that the economic situation in the Eurozone will be improved. We envisage that GDP growth to be lie around 2.2%. The National Bank of FYROM foresees GDP growth to be around to 2.0% in 2013 and to 3.0% in 2014. IMF (October 2013) projects GDP to rise by 2.2% in 2013 and by 3.2% in 2014 driven by domestic demand with net export contributing negatively to GDP growth in 2013-2014. More conservative estimates by EBRD predict GDP growth in 2013 at 1.5% and at 2.6% in 2014. According to Budget 2014 GDP is projected to rise faster by 3.2% in 2014 and 3.8% in 2015.

Real GDP (%Δ yoy, unadjusted data)



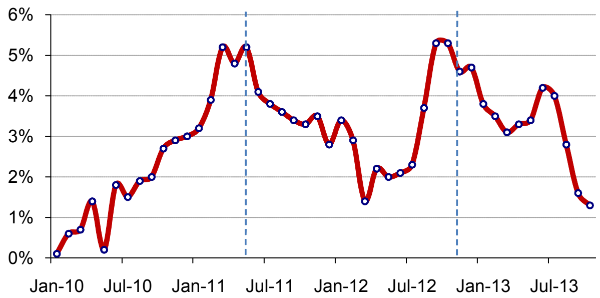
Source: State Statistical office

FISCAL POLICY: In the first nine months of 2013, the budget deficit of central government reached MKD -15.8 billion. In Jan-Sep 2013, total budget revenues increased by 0.6% yoy in real terms to MKD 103 billion, while total expenditures rose by a real 3.8% yoy to MKD 118.8 billion. The January-September 2013 budget deficit already accounts for over 91% of the full-year deficit target of MKD -17.7 billion (€- 288 million). Note, that the local authorities target a budget deficit equivalent to 3.5% of GDP this year. In September 2013, the budget balance recorded a deficit of MKD -1,031 million. Total budget revenues amounted to MKD 11.1 billion and total expenditures to MKD 12.2 billion. The increase in revenues in September came from tax revenues, which amounted to MKD 9.5 billion mainly as a result of growth in personal income tax (+7.3%), VAT (+7.2%) and import duties (3.5%), while a decrease was registered in profit tax (-34.6%) and other taxes (-48%). Government expects a budget deficit of -3.5% GDP in 2014 and debt to GDP ratio to reach 37.6% in 2016.

INFLATION: In October 2013, CPI inflation decreased to 1.3% from 1.6% in September 2013 and 2.8% in August 2013. On a monthly basis, the CPI decreased by 0.1% in October 2013 as a result of lower indices in fruits by 6.3%, fats by 4.6% and alcoholic beverages by 0.8% and other food products by 0.2%. The National Bank of FYROM expects an annual average inflation of 2.8% in 2013, and further drop to 2.3% in 2014, from 3.3% in

2012. Recent data indicate that the average inflation for 2013 will be around 3.1%.

Consumer Price Inflation - (Δ% yoy)



Source: State Statistical Office

BALANCE OF PAYMENTS: The current account deficit shrank by -3.0% in the first eight months of 2013 to € -104 million up from € 108 million in the same period of 2012. The improvement in current account deficit reflects a narrower merchandise trade deficit. In particular, trade deficit shrank by -8.0% yoy in 8M 2013 to € 1,043 million affected by a 2.0% yoy increase of exports and a -1.0% decrease of imports. The improvements of the trade account as well as the income account were counterbalanced by the drop of current transfers by -7.0% in 8M 2013 to € 841million. It should be noted that exports in 8M 2013 covered 66.5% of respective imports up from 64.1% in the same period of 2012, with coverage for all 2012 at 63.4%. Furthermore, net FDI in 8M 2013 rose to €158 million up by 141.4% from 8M 2012. IMF in its report dated July 2013, expects net FDI to rise to € 354 million in 2013 or to 4.5% of GDP from € 111 million or 1.5% of 2012 GDP. At the end of September 2013, foreign currency reserves totalled € 2.1 billion registered an increase by €25.6 million compared to the end of June 2013. The current macroeconomic picture indicates a deterioration of the current account deficit to -4.5% of GDP in 2013 from -3.0% in 2012.

Current Account: January-August 2013		(€ mn)	
	Jan.-Aug.2013	Jan.-Aug.2012	%Δ
Exports	2.074	2.029	2%
Imports	3.117	3.163	-1%
Trade Balance	-1.043	-1.134	-8%
Services Balance	43	51	-16%
Income Balance	-103	-95	8%
Current Transfers Balance	998	1.070	-7%
Current Account Balance	-104	-108	-3%
Source: National Bank of FYROM			

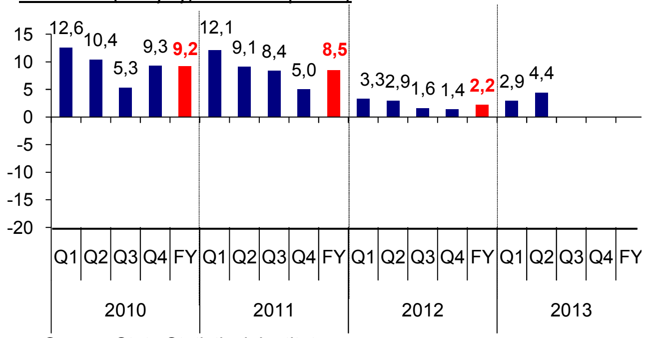
MONEY & FINANCIAL MARKETS: The acceleration of inflation in H2 2012 assisted the National Bank of FYROM to keep its key policy rate stable at 3.75%. Since the beginning of the current year the National Bank has lowered gradually its key policy rate by 50 bps to 3.25% at the end of August. Interest rates on the interbank market fell moderately, following the modest declining in the weighted average interest rate on Central Bank-Bills. In August 2013, the National Bank 28 days-bills weighted average interest rate was at 3.25% from 3.73% in December 2012. We expect the National Bank of FYROM to maintain its basic interest rate steady through H2 2013. The National Bank successfully manages so far the exchange rate of the MKD, maintaining the peg against the euro at its targeted level, supporting by a comfortable level of foreign exchange reserves. ***Credit expansion*** grew by 3.6% yoy in September 2013 from 4.6% y/y in December 2012 (in euro terms). In September 2013 loans to businesses rose by 0.7% yoy whereas to households by 8.0% yoy. Foreign exchange lending continued to have more considerable share to the total loans. The ratio of non-performing loans to total loans accelerated to 11.8% at the end of Q2 2013 from 10.1% at the end of December 2012, whereas the loan to deposit ratio decreased to 88.8% in September 2013 from 89.2% in December 2012, which can be explained by the higher growth of deposits against the growth of loans. ***Deposit growth*** in September 2013 accelerated to 6.4% yoy compared to growth by 4.1% in December 2012. The solvency of the banking sector improved marginally during 2013, with the capital adequacy ratio increasing to 17.3% in Q3 2013 from 17.1% at the end of December 2012.

7. TURKEY

ECONOMIC OVERVIEW: Turkey's gross domestic product (GDP) in 2012 saw a deceleration of economic activity, since it rose by 2.2% from 8.8% growth in 2011. According to data released by the State Statistical Institute (TurkStat), annual GDP in 2012 reached TRY 1,416.8 billion (about $ 782.5 billion), increased by 2.2% from the previous year. The per capita GDP in 2012 was TRY 18,927 and $10,504 at current prices. The deceleration of GDP growth started in Q2 2012 is attributed to the negative contribution of domestic demand despite a positive contribution of net exports.
This trend was reversed in early 2013 as GDP started to expand supported mainly by domestic demand.
In Q2 2013, GDP grew by 4.4% yoy compared to the same period of previous year, after rising by 2.9% yoy in Q1 2013 and thus rising by 3.7% in H1 2013 yoy. According to the Turkish Statistical Service, the rise in household final demand by 5.3% in Q2 2013 yoy and by 4.2% in H1 2013 yoy was the key factor behind the rise of GDP in Turkey during 2013. Also, investments rose by 3.7% in Q2 2013 yoy and by 3.0% in H1 2013 yoy. On the other hand, exports rose slowly by 1.2% in Q2 2013 yoy and imports faster by 11.7% yoy affecting current account balance in a negative manner. According to the Turkish Statistical Institute, manufacturing sector recorded an increase of 3.4% yoy and construction rose by 7.6% yoy. Turkey GDP at current prices rose by 9.7% yoy in H1 2013 yoy and stood at TRY 740,139 million ($408,448 million).
According to World Bank and OECD, the Turkish economy is expected to expand by 3.6% this year, supported by relatively loose macroeconomic policies, whereas GDP growth to accelerate further in the coming years (2014:4.5%, 2015: 4.7% according to World Bank and 3.8% in 2014 and 4.1% in 2015 according to OECD). In October 2013, the IMF revised up its 2013 GDP growth forecast to 3.8% and 2014 to 3.4% with 2015 to 4.3%, while EC is being more conservative places GDP growth in 2013 to 3.5% and 2014 to 3.0% accelerating to 2015 to 4.3%. EBRD also expects GDP to rise by 3.7% in 2013 and by 3.6% in 2014. The recent upheaval in the Middle East, although somehow under control, might pose a risk

factor in terms of growth for the Turkish economy, which may eventually grow by about 3.4% during this year compared to a rise by 3.1% yoy in H1 2013. This estimate is lower to Bloomberg consensus GDP growth for 2013 at 3.6% based on GDP growth during Q3 and Q4 by 3.2% and 3.4% respectively, while 2014 growth is expected higher to 4%

Real GDP (%Δ yoy, constant prices)

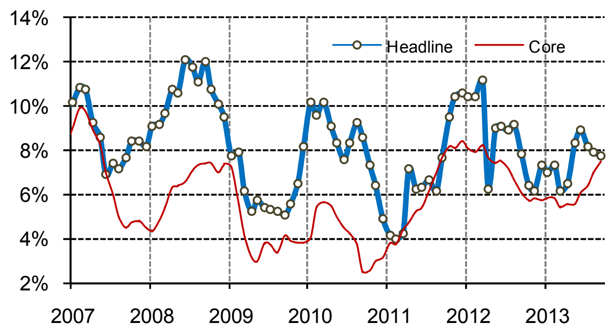


Source: State Statistical Institute

Fiscal Policy: In the first ten months of 2013, Turkeys' Budget performance showed an improvement on an annual basis due to tax hikes taken place in September 2012 and in January 2013, as well as, due to the rise in consumption tax revenues after an improvement of the economic activity. More specifically, there was a budget deficit of TRY -7.7 billion in 10M 2013 from a deficit of TRY -18.8 billion in 10M 2012. Primary surplus in 10M 2013 stood at TRY 38.9 billion (up 58.7% yoy) against a primary surplus of TRY 24.5 billion in 10M 2012. This performance came due to an increase in revenues by 18.1% yoy in 10M 2013 mostly affected by tax revenue rise by 17.7% yoy and expenditure rise by 13.1% yoy. The target for deficit in 2013 stands at TRY -33.95 billion with a primary surplus of TRY 19.05 billion, targets which are highly possibly to be met taking into consideration the good performance so far in the year. According to the published data in 10M 2013, budget revenue accounted for 86.5% of total budgeted figure for 2013, while expenditure accounted for 81.2% of total budgeted 2013 figure, thus contributing in the formation of a budget surplus in 10M 2013. Over the first ten months of this year, revenue was up by 18.1% yoy, at TRY 320.1 billion and expenditure up by 13.1% yoy to TRY 327.7 billion. On the revenue side, tax revenues were up by 17.7% yoy and non-tax revenues were also up 22.7% to TRY 43.4 billion. Total expenditure increased by 13.1% yoy at TRY 327.7 billion while non-interest expenditures rose by 14.2% yoy at TRY 281.5 billion and interest expenditures were up by 6.9% to TRY 46.2 billion. Tax on goods and services as well as foreign trade seems to be the main trigger of tax revenue growth, while expenditures on personnel grew by 11.3% yoy. We anticipate tax revenues to grow moderately the next months thanks to recovering economic activity. Government's budget balance target for end-year remains at TRY -33.9 billion (-2.2% of GDP) from TRY -28.8 billion, or -2.2% of GDP last year, whereas the European Commission expects a budget deficit lower at 1.7% of GDP in 2013 and 2.3% in 2014. We envisage the budget deficit to stay around TRY 18 billion (1.2% of GDP) in 2013.

Inflation: Turkey's Consumer Price Index (CPI) declined by 0.10% mom in October 2013, bringing the annualized CPI to 7.71% from 7.88% annual increase in September 2013. The CPI downtick was attributed mainly to the base effect.

Consumer Price Inflation - (%Δ yoy)



Source: Turkish Statistical Institute

The core inflation, which excluding unprocessed food and energy, declined marginally by 1.78% over the previous month (September 2013: +0.67% mom) while annual core reading increased to 7.5% from 7.0% in September 2013. The marginal fall in headline inflation (-0.1% mom) is attributed to the fall of food and housing prices by 0.2% and 0.1% respectively on a monthly basis, as well as, the fall of transport prices by 0.8% mom, which compensated the rise in clothing and footwear prices by 2% and in the furnishings by 0.1% mom. We anticipate the CPI to decline in the coming months as the low base effect will be incorporated and to reach December-end at 6.4%. The Central Bank of Turkey (CBRT) foresaw inflation to start falling from August 2013 and to end the year at 6.2% and to 5.0% in 2014, while keeps inflation target at 5% ±2 pps for 2013-2015. According to the European Commission forecasts (Autumn 2013) the average inflation in 2013 will drop to 7.7% from 9.0% in 2012 and to 7.2% in 2014. Similarly, IMF predicts inflation of 2013 to 7.7% falling to 6.5% in 2014 and to 6% in 2015. Moreover, Bloomberg consensus sees inflation falling to 7.5% in 2013 and to 6.7% in 2014 going down to 6% in 2016.

Balance of Payments: Current account balance widened during Q3 2013 and recorded a deficit of $-49.0 billion in the period January-September 2013, posting an increase by 27.7% from a year ago. Exports of goods increased by only 0.6% and imports by 6.1% in annual terms. Export/Import coverage ratio was standing at 66.6% in the first nine months of 2013 from 70.8% a year before. Services balance improved (up 18.5% yoy) due to the rise of net tourism revenues by 11.7% yoy in 9M 2013. On the financing side, there was a $7,109 million foreign direct investment (FDI) inflow towards mainly equity capital in 9M 2013 from $8,400 million a year before. Net FDI in Turkey decreased by 8% from $7,368 million in 9M 2012 to $6,779 million in 9M 2013. The biggest fall in FDI in Turkey occurred in the industrial sector with 56.8%, decreasing from $4,566 million in the first nine months of 2012 to $ 2,593 million in the same period of 2013. The net FDI to current account deficit stood at 13.8% in 9M 2013 from 19.2% the same period a year earlier. After narrowing from 9.9% of GDP in 2011 to

5.8% of GDP in 2012, thanks mainly to very strong growth in net exports, we envisage the current account deficit to widen to about 6.9% of GDP in 2013 as import growth (goods & services) is likely to outpace export growth. The World Bank sees in its latest issue of the Global Economic Prospects report, Turkey's current account deficit to widen further to 6.9% of its GDP in 2013, while the forecasts for 2014 and 2015 are 7.1% of GDP and 7.2%, respectively. Similar estimates are provided by IMF and EC (Autumn Report) as well as by Bloomberg consensus forecasting current account deficit to GDP c.7% in 2014 and 2015.

Current Account: January-September 2013 ($ mln)			
	Jan.-Sep.2013	Jan.-Sep.2012	%Δ
Exports	120.862	120.138	1%
Imports	181.462	170.981	6%
Trade Balance	-60.600	-50.843	19%
Services Balance	18.272	17.231	6%
Income Balance	-7.434	-5.716	30%
Current Transfers Balance	762	958	-20%
Current Account Balance	-49.000	-38.370	28%
Source: Central Bank of Turkey			

MONEY & FINANCIAL MARKETS: The Central Bank (CBRT) decided for a second time at its meeting in August 2013, to raise short term rates further to counter the currency pressures. In particular, CBRT retained its O/N borrowing at 3.50%-the floor of the interest rate corridor- while increased its O/N lending rate from 7.25% to 7.75%, raising the ceiling of its interest-rate corridor. CBRT has dropped the top end of its interest rate corridor by 475 basis points since September 2012. Late liquidity lending rate was kept at 10.25%, while borrowing rate at 0%. At the same time, key monetary 1-week repo rate was remained at 4.50%.

Although the central bank move surprised markets and briefly helped shore up Turkish lira (TRY), it is unlikely to have permanent impact. Hours after the interest-rate announcement, CBRT sold $200 million through auction in order to halt the lira's slide. The sale amount was 4 times the ordinary daily foreign exchange interventions since July 11, 2013 when CBRT trim down its daily auctions at the 1-week repo to $50 million. During June-September 2013, CBRT has sold $7.25 billion to aid the national currency almost 15% of its total available amount for currency support. In 10M 2013, TRY depreciated (average level) against US Dollar by 3.7% yoy and against Euro by 7.4% yoy. The market consensus, foresees little change in the parity of lira against USD expecting USD/TRY at 2.02 in Q4 2013 (or 2.71 against EUR) and at 2.03 in Q2 2014 (or 2.64 against EUR). Although, US Fed's recent decision to delay tapering its quantitative easing programme may support temporarily Turkey's current account deficit but any reduction on appetite for emerging market assets, leaves current account exposed, since its financing is relied on foreign inflows. Real interest rates are too low and the current account deficit is too high making Turkish lira vulnerable to a currency attack. Standard & Poor's rating agency, affirmed Turkey's long-term foreign currency rating at BB+ and short-term foreign currency rating at B while it also affirmed local currency ratings at BBB/A-2. Outlook remains stable, as strong growth performance stabilizes any risk. Turkish FX reserves (excl. gold) as of 1st of November 2013 stood at USD 112.4 billion and despite their size any significant lira depreciation would hurt the balance sheets of companies the most given their very large unhedged foreign exchange positions around $148 billion in September 2013 from $140 billion at the end of 2012. In contrast to companies, banks do not face significant unhedged foreign exchange positions. However, the banking sector is called to cope with the rising credit risk. According to CBRT, the banking sector's assets grew by 12.6% in 2012 to TRY 1371 billion or to 96.8% of GDP and in Q1 2013 further to TRY 1,428 billion. As of March 2013, loan to assets ratio stood at 58% and deposit to assets at 55% with loan to deposits close to 104%. Loan growth in Q1 2013 stood at 19.2%. Retail loans accounted 33.6% of total lending in Q1 2013, corporate loans 66.4%, whereas foreign currency loans amounted for 69.6% of total lending. CBRT expects credit expansion to fall around 15% by mid 2014. 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-Q1 2013. In Q1 2013 NPLs stood at 3%. Turkish bank profitability remained resilient in Q1 2013, as net profits rose by 16.3% yoy due to the rise in net interest income, affected by falling interest rates. ROE in 2012 was at 14.5% and ROA at 1.8% with ROE in Q1 2013 at 14.3% affected by adequate interest margin still being at over 4%. Capital adequacy ratio was high at 17.4% in Q1 2013. Stress tests conducted in Turkey suggest that in a potential adverse macroeconomic situation, similar to that of 2008, NPLs will not deteriorate significantly (NPLs ratio may rise up to 4.5%) with capital adequacy ratio falling up to 15.3% and therefore the banking sector is expected to remain well capitalized.

8. ECONOMIC DATA – SOUTHEASTERN EUROPE

Romania	2009	2010	2011	2012	2013 (f)	2014 (f)
Real Economy						
Real GDP	-6.6	-1.6	2.2	0.7	2.2	2.3
Private Consumption	-10.1	-0.4	1.1	1.1	0.4	1.7
Government Consumption	3.1	-4.4	0.2	1.7	0.2	1.7
Gross Fixed Investment	-28.1	-2.1	7.3	4.9	-2.1	3.7
Exports (Goods & Services)	-6.4	14.0	10.3	-3.0	9.4	4.8
Imports (Goods & Services)	-20.5	11.9	10.0	-0.9	0.6	4.9
Prices						
HICP Inflation (%Avg)	5.6	6.1	5.8	3.4	3.4	2.5
General Government (%GDP)						
Overall Balance	-9.0	-6.8	-5.6	-2.9	-2.5	-2.1
Balance of Payments (% GDP)						
Current Account Balance	-4.2	-4.4	-4.5	-4.0	-1.3	-1.5

Bulgaria	2009	2010	2011	2012	2013 (f)	2014 (f)
Real Economy						
Real GDP	-5.5	0.2	1.7	0.8	0.8	1.6
Private Consumption	-7.6	-1.2	-0.6	2.6	-0.1	1.3
Government Consumption	-6.5	-1.0	0.5	-1.4	3.0	2.5
Gross Fixed Investment	-17.6	-16.5	-9.7	0.8	2.3	2.6
Exports (Goods & Services)	-11.2	16.2	12.8	-0.4	4.5	3.9
Imports (Goods & Services)	-21.0	4.5	8.5	3.7	4.0	3.6
Prices						
HICP Inflation (%Avg)	2.5	3.0	3.4	2.4	0.5	1.6
General Government (%GDP)						
Overall Balance	-4.3	-3.1	-2.0	-0.8	-2.1	-1.9
Balance of Payments (% GDP)						
Current Account Balance	-9.0	-0.4	0.1	-1.1	0.7	0.2

Cyprus	2009	2010	2011	2012	2013 (f)	2014 (f)
Real Economy						
Real GDP	-1.9	1.3	0.5	-2.4	-8.7	-3.9
Private Consumption	-7.5	1.3	0.2	-2.5	-12.4	-5.7
Government Consumption	6.8	0.8	-4.4	-3.1	-8.9	-3.7
Gross Fixed Investment	-9.7	-1.7	-13.8	-19.6	-29.5	-11.9
Exports (Goods & Services)	-10.7	3.7	3.6	-2.7	-5.4	-2.5
Imports (Goods & Services)	-18.6	4.9	-5.0	-6.4	-16.5	-6.7
Prices						
HICP Inflation (%Avg)	0.2	2.6	3.5	3.1	1.0	1.2
General Government (%GDP)						
Overall Balance	-6.1	-5.3	-6.3	-6.4	-8.3	-8.4
Balance of Payments (% GDP)						
Current Account Balance	-10.7	-9.2	-4.8	-6.6	-2.0	-0.6

Serbia	2009	2010	2011	2012	2013 (f)	2014 (f)
Real Economy						
Real GDP	-3.5	1.0	1.6	-1.7	1.7	1.8
Private Consumption	-2.3	-3.8	-0.5	-1.9	-1.5	1.0
Government Consumption	-5.1	-2.4	-0.9	1.8	-2.8	-1.0
Gross Fixed Investment	-9.1	2.0	9.3	-3.4	2.5	7.5
Exports (Goods & Services)	-14.9	19.1	7.1	4.5	13.1	5.0
Imports (Goods & Services)	-22.9	4.1	7.4	4.2	3.8	4.2
Prices						
Consumer Price Inflation (%Avg)	8.1	6.1	11.1	7.3	8.3	5.0
General Government (%GDP)						
Overall Balance	-4.5	-4.7	-4.9	-6.4	-5.6	-5.5
Balance of Payments (% GDP)						
Current Account Balance	-7.2	-7.4	-8.8	-10.6	-4.9	-4.6

Albania	2009	2010	2011	2012	2013 (f)	2014 (f)
Real Economy						
Real GDP	3.3	3.5	3.0	1.6	1.6	2.0
Private Consumption	-	-	-	-	-	-
Government Consumption	-	-	-	-	-	-
Gross Fixed Investment	-	-	-	-	-	-
Exports (Goods & Services)	-	-	-	-	-	-
Imports (Goods & Services)	-	-	-	-	-	-
Prices						
Consumer Price Inflation (%Avg)	2.3	3.6	3.4	2.4	2.2	2.9
General Government (%GDP)						
Overall Balance	-7.4	-3.7	-3.5	-3.4	-5.3	-6.0
Balance of Payments (% GDP)						
Current Account Balance	-14.0	-11.4	-12.7	-10.4	-10.0	-9.7

FYROM	2009	2010	2011	2012	2013 (f)	2014 (f)
Real Economy						
Real GDP	-0.9	2.9	2.8	-0.4	2.2	2.5
Private Consumption	-4.7	1.3	2.9	-1.2	1.0	2.1
Government Consumption	0.5	-2.0	0.6	-2.2	0.4	0.8
Gross Fixed Investment	-4.3	-2.7	12.3	16.0	11.0	12.0
Exports (Goods & Services)	-15.8	23.6	10.5	0.0	5.0	8.5
Imports (Goods & Services)	-14.3	9.5	10.4	4.2	4.0	5.3
Prices						
Consumer Price Inflation (%Avg)	-0.8	1.6	3.9	3.3	3.0	2.7
General Government (%GDP)						
Overall Balance	-2.7	-2.5	-2.5	-4.0	-3.6	-3.3
Balance of Payments (% GDP)						
Current Account Balance	-6.8	-2.5	-2.5	-3.0	-4.5	-5.0

Turkey	2009	2010	2011	2012	2013 (f)	2014 (f)
Real Economy						
Real GDP	-4.8	8.9	8.5	2.2	3.4	3.2
Private Consumption	-2.3	6.6	7.7	-0.6	3.6	1.8
Government Consumption	7.8	2.0	4.5	6.1	7.0	5.9
Gross Fixed Investment	-19.0	29.9	18.3	-2.7	2.1	3.5
Exports (Goods & Services)	-5.0	3.4	6.5	16.7	2.0	6.9
Imports (Goods & Services)	-14.3	20.7	10.6	-0.3	7.8	6.1
Prices						
HICP Inflation (%Avg)	6.3	8.6	6.5	9.0	7.4	7.1
General Government (%GDP)						
Overall Balance	-6.9	-2.6	-2.2	-2.4	-1.8	-2.3
Balance of Payments (% GDP)						
Current Account Balance	-2.2	-6.4	-9.9	-5.8	-6.9	-6.5

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