

Southeastern Europe

Economic & Financial Outlook



Our Views in a Nutshell...

Romania: *The National Bank of Romania has room to lower its key rate in November meeting. The fiscal performance of 9M 2014 suggests that budget deficit may decline towards -2.2% of GDP in the end of 2014, thus achieving the set target.*

Cyprus: *Assuming that H2 2014 evolves like H1 2014, GDP fall may reach -2.5% based on a possible decline of final consumption by -1.2% y/y with a decline in investment by -7.3% y/y.*

Bulgaria: *The current account adjustment which started during debt crisis is expected to remain in place this year and the current account balance to post a small surplus of 0.1% of GDP.*

Serbia: *Investors are on wait and see mood as the new IMF deal is pending. NBS's key rate to remain at 8.5% until the end of 2014.*

Albania: *The deceleration of economic activity is considered to be temporary. The candidate status granted by the European Union is expected to have a favourable impact on foreign investments and job creation in the country.*

FYROM: *GDP growth so far is justifying the expectations for solid recovery of the domestic economy.*

1. ROMANIA

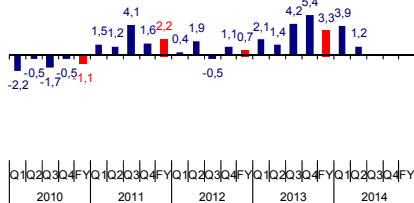
ECONOMIC OVERVIEW: According to National Statistical Office (INS) and Eurostat, **Romanian GDP** (seas. adjusted) expanded slower, by 1.5% y/y in Q2 2014 after rising by 3.7% y/y in Q1 2014 (Eurostat). Therefore, in H1 2014 GDP rose by 2.6% y/y. On the other hand, GDP in Q2 2014 fell by -1.0% q/q after also having fallen by -0.2% in Q1 q/q, suggesting some weakness in the GDP formation during 2014 compared to the unexpectedly big rise of GDP during 2013. According to updated data released by the National Statistical Office (INS), GDP expanded by 3.5% in 2013 compared to 2012 more than market expectations. Romanian GDP growth in 2013 was one of the highest among EU countries. Industry contributed by 2.2% to the 2013 GDP growth rate, followed by agriculture contributing by 1.1% and services by 0.1%, whereas construction had a 0% contribution. From the view point of GDP 2013 formation, based on the volume of gross value added activities, there was a considerable increase in the volume of industry (+8.0%), agriculture (+23.4%), real estate transactions (+2.0%), information and communications (+1.8%), professional activities (+1.1%) and even construction (+0.4%). GDP formation was negatively influenced by financial intermediation (-5.6%), health (-1.1%) and hotels and restaurants (-0.2%). From the view point of the evolution of 2013 GDP based on its final uses, we see a strong rise in exports of goods and services by +13.5% which covered the decrease in domestic demand by -0.8%. Imports rose by +2.4% and net exports contributed by 4.4% in the 2013 GDP growth with private consumption contributing by +0.7%, government consumption by -0.1%, investment by -0.9% and inventory changes by -0.6%. Economic recovery started gaining momentum in H2 2013 given the favourable trend in the agricultural sector, improving economic and business climate in Europe (the major trading partner of Romania), increasing absorption of EU structural and cohesion funds and a more expansionary monetary policy. Improvement in employment and low inflation supported final consumption in 2013, with public consumption lagging and investment sentiment remaining weak. In 2013, nominal GDP amounted to RON 628,581.3 million up from RON 586,749.9 million in 2012 (up 7.1%). According to the Ministry of Finance, nominal GDP in 2014 is expected to reach RON 662.3 billion up by 5.5% from 2013 (RON 628.6 billion.)

The International Monetary Fund (IMF) upgraded its 2014-2015 GDP growth forecast for Romania in October 2014. Particularly, IMF predicts that Romania's GDP will rise by 2.4% in 2014 and by 2.5% in 2015. Also, European Bank for Reconstruction and Development (EBRD) (September 2014) upgraded Romania's GDP growth to 2.6% in 2014 while for 2015 expects GDP to rise by 2.8%. The Government and the National Bank of Romania (NBR) expect GDP to rise by 2.8% and 3.0% respectively in 2014. We foresee economy to grow by 2.5% in 2014 and by 2.6% in 2015.

In March 2014, IMF concluded its first and second review of the precautionary Stand-By Arrangement (SBA). In April 2014, IMF stated that the Romanian program is on track and the structural reform agenda progresses well in the energy and transport sectors. According to the IMF, despite 2014 is an election year for Romania, it expects fiscal deficit to remain at 2.2% of GDP. In June 2014, joint teams from IMF and the European Commission (EC) visited Romania to conduct discussions on the third review under the IMF Stand-By Arrangement and on the first review of Romania's precautionary balance of payments program with the European Union. The mission noted that the Romanian economy continued to recover, fiscal imbalances were reduced and the current account deficit remained low.

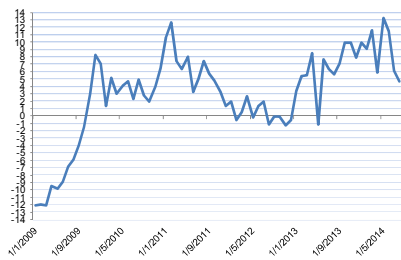
FISCAL POLICY: According to the Ministry of Finance, the 9M 2014 **consolidated budget turned into a surplus** of RON 419 million (€ 95 million) or 0.06% of the GDP projected for 2014 from a deficit of RON -8.143 billion (€ -1.837 billion) in 9M 2013 or 1.3% of GDP. Budget revenues rose by 5.5% in 9M 2014 y/y to RON 155.4 billion and budget expenditures fell by -0.3% to RON 155.0 billion. In 2013 consolidated budget deficit rose to RON -15.8 billion (€ -3.6 billion) or -2.3% of GDP for 2013, against RON -14.8 billion (€ -

Real GDP (%Δ y/y, unadjusted data)



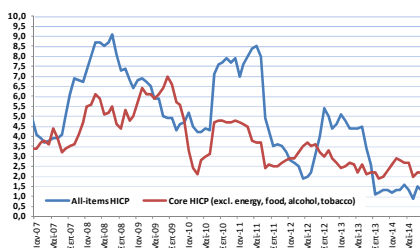
Source: Eurostat, National Statistical Office

Industrial production (%Δ y/y)



Source: National Statistical Office

Harmonized Consumer Price Inflation (%Δ y/y)



Sources: Eurostat, National Statistical Office

3.3 billion) or -3.0% of GDP the corresponding period in 2012. Recent Eurostat figures (ESA95 definition) show that Romanian **general government deficit** in 2013 came to RON -14,308 million, or at -2.3% of GDP, down from RON -17,548 million or at -3.0% of GDP in 2012. For 2014 and 2015 the European Commission expects deficit to GDP to fall to -2.2% and to -1.9% of respective GDP (EC Spring 2014). Also, based on Eurostat figures, **public debt** in 2013 stood at 38.4% of GDP while in Q2 2014 stood at 38.5% of GDP and according to the IMF (October 2014), it is expected to grow to 39.9% and to 39.6% of GDP in 2014 and 2015 respectively.

INFLATION: Harmonised Consumer Price Inflation (HCPI) stood at 1.8% y/y in September 2014 compared to 1.3% y/y in December 2013, while on average stands at 1.4% in the 9M 2014 compared to 3.2% in the corresponding period of 2013. HCPI inflation fell to its lowest level in June 2014 at 0.9% and since August 2013 is remaining below 2.0%.

Headline inflation (CPI) also remained low at 1.5% in September 2014 from 1.6% in December 2013 and 4.4% in July 2013 after peaking at 6.0% in January 2013. The headline inflation recorded a historical low of 0.7% in June 2014. During Q2 2014 and Q3 2014, headline inflation remained below the lower bound of the +/-1% variation band of the 2.5% set target. The inflation readings in Q3 2014 were below those expected by BNR as expressed in the August 2014 Inflation Report. According to BNR, 'the temporarily very low inflation levels are the result of overlapping favourable supply-shocks which also manifest themselves in the Balkan region' in addition to the appreciation of RON in Q2 and Q3 2014, the good weather conditions in H1 2014 and the low inflation in the Eurozone. BNR expects CPI inflation to reach 2.2% at the end of 2014 and 3.0% at the end of 2015. The rapid disinflation process was supportive of the current monetary policy which drove key rate to a historic low level of 3.00%. IMF (October 2014) envisages HICP average 2014 inflation at 1.5% and at 2.9% in 2015.

Unemployment rate in Romania increased to an average of 7.0% in 2013 compared to 6.9% in 2012 and 7.1% in 2011 and moreover remained steady at 7.0% in 9M 2014 (average unemployment rate). In Sept. 2014 unemployment rate slightly declined to 6.9% from 7.1% in June 2014. Labour market did not benefit from the high growth of GDP in 2013 and 2014 and according to IMF (October 2014) unemployment rate is expected to average 7.1% in 2014-2015.

BALANCE OF PAYMENTS: Romania's current account posted a deficit of € -945 million in 8M 2014 compared to a deficit of € -489 million in 8M 2013. This came as a result of a negative income balance of € -2,408 million in 8M 2014 compared to a negative figure of € -1,371 million in 8M 2013, thus resulting to an increase in the income deficit by € -1,037. Goods and services balance was positive at €346 million in 8M 2014 compared to a deficit of € -529 million in 8M 2013 aided by a good performance of the services' balance. In 8M 2014, exports rose by 7% y/y while imports also rose by 6% y/y. It should be noted that in August exports rose by 0.6% y/y and imports fell by -3.5% y/y showing some weakness. Romania's current account balance posted a deficit of €-1,505 million in 2013 (-1.1% of GDP), versus a deficit of €-5,843 million in 2012 (-4.5% of GDP) due to the decrease in trade balance deficit by € 3,956 million, and also due to a surplus in services balance of € 2,587 million from a surplus of just € 1,129 million, the corresponding period a year earlier. The trade balance deficit was reduced to € -3,423 million in 2013 (-2.4% of GDP) from a deficit of €-7,379 million in 2012 (-5.7% of GDP), due to robust exports. Romania's exports rose by 10.0% y/y to € 49.6 billion in 2013 and imports rose by +0.3% y/y to € 55.3 billion in the same period, according to the National Bank of Romania. The current transfers balance rose by 8.4% y/y while the net foreign direct investment amounted to € 2,713 million in 2013 from € 2,140 million in 2012. It should be noted that, current account balance ended 2013 at an 23-year low of -1.1% of GDP after peaking at -13.4% of GDP in 2007. According to the IMF (October 2014), the current account deficit is expected to reach -1.2% of GDP in 2014 and -1.7% in 2015.

EXTERNAL DEBT: Total external debt at the end of August 2014 fell to € 96.75 billion compared to € 98.1 billion at the end of 2013. Medium and long-term external debt at the end of August 2014 stood at 77.4 billion or 80.0% of total external debt. Borrowing from the IMF decreased to € 437 million at the end of August 2014 from € 1.1 billion at end-2013. Total external debt fell at the end of 2013 to € 96.1 billion from €99.7 billion in December 2012. In terms of GDP, total external debt in September 2014 stood at 64.1%

Current Account: January-August 2014 (€ mn)

	Jan.-Aug.2014	Jan.-Aug.2013	%Δ
Exports (fob)	30.297	28.304	7,0%
Imports (fob)	33.801	31.874	6,0%
Trade Balance	-3.504	-3.570	-1,8%
Services Balance	3.850	3.041	26,6%
-Tourism-travel	-91	-215	-57,7%
Income Balance	-2.408	-1.371	75,6%
Current Transfers Balance	1.117	1.411	-20,8%
Current Account Balance	-945	-489	93,3%

Source: National Bank of Romania

Macro Indicators

Romania	2012	2013	2014 (f)	2015 (f)
Real GDP (%)	0.6	3.5	2.1	2.8
Prices				
HICP Inflation (%Avg)	3.4	3.2	1.6	2.5
General Government (%GDP)				
Overall Balance	-3.0	-2.3	-2.5	-2.0
Balance of Payments (% GDP)				
Current Account Balance	-4.4	-1.1	-1.8	-2.0

Source: Alpha Bank-Economic Analysis

Euro against RON


Source: Bloomberg

from 67.8% in December 2013 and 74.5% in December 2012. The reduction of external imbalances was one of the main reasons Fitch's recent affirmation of Romania's credit rating as BBB- with a Stable Outlook. Medium and long-term external debt service ratio was at 37.0% in January-August 2014 against 42.9% in 2013. External debt seemed to have peaked in Romania during 2012 and since then started to decline gradually. Finally at the end of September 2014, the National Bank of Romania's foreign reserves (excl. gold) stood at € 31.1 billion from 32.5 billion in December 2013 and € 31.2 billion at end-December 2012.

MONEY & FINANCIAL MARKETS: In 10M 2014 RON slightly depreciated against Euro on average to 4.44 compared to an average 4.41 in 10M 2013. In particular, the domestic currency depreciated in nominal terms against Euro by 0.7% y/y in 10M 2014 on average, while it appreciated against the US Dollar by 1.0%. In 2013, RON appreciated against the US Dollar and the Euro by 4.1% and 0.9%, respectively (average levels), while in 2012 it had depreciated by 13.8% against the US Dollar and 5.2% against Euro. Note that in times of tension, the exchange rate RON/EUR went up to 4.5837 (7.6.2013) and 4.5695 (28.1.2014). The Bloomberg consensus foresees the exchange rate of RON/EUR at 4.42 in Q4 2014, at 4.42 in Q1 2015 and at 4.40 in Q2 2015. On the other hand, the forward market rate stands at 4.43 in Q4 2014, rising to 4.45 in Q2 2015. The adequate FX reserves make NBR's any potential currency action job less painful. This will be also supported by the new SBA, allowing Romania to get a protection facility of € 4 billion by international creditors and alleviating fears on the currency front. However, we could not rule out a major shock for the domestic currency if investors change their risk profile for Emerging Market assets especially in Eastern Europe if events in Russia-Ukraine dispute move out of control. It should be mentioned that during the last three years average RON parity against EUR stood at 4.4391, thus, showing an effort by Romanian monetary authorities to keep domestic currency stable.

The National Bank of Romania intensified the monetary policy easing cycle since March 2013 by easing the control over liquidity conditions in the money market which drove interbank interest rates to substantially low levels. More specifically, NBR cut again the base rate (key rate) by 25 bps on the 30th of September 2014 to the historical low of 3.00% from 3.25% when it was cut again in August 2014. NBR justified this action by the fact that inflation rate remained on a downward trend path and temporarily running below the lower bound set for the inflation target but also the updated projected inflation path by NBR was below the one envisaged by the Bank in May 2014. The then leading candidate for the Presidency of Romania Mr. Ponta, currently the Prime Minister, urged the NBR to reduce its base rate further pointing to 2.75%. It should be noted that the market sees the key rate to rise up to 3.50% by 2015. Interbank rates followed the decline in the base rate. ROBOR 3M stood at an average rate of 2.44% in 10M 2014 compared to an average figure of 3.97% in 2013 and an average rate of 5.10% in 2012. Currently, on 31.10.2014, ROBOR 3M stands at the very low level of 1.82% suggesting the possibility of another cut in the base rate of Romania. Outstanding daily average volume of repo operations performed by NBR stood at RON 1,249 million in September 2014 from RON 1,907 million in September 2013 and RON 1,591 million in December 2013.

Recent figures, referring to 9M 2014, show that domestic **credit expansion** (in Euro terms) to the private sector (NFCs, households and financial entities other than MFIs) declined by -4.0% in September 2014 y/y due to a fall in businesses credit by -5.7% y/y and another fall in credit to households by -2.1% y/y. Deposits by the resident private sector (in Euro terms) rose in August 2014 by 6.7% y/y due to a rise in household deposits by 4.5% y/y and also a rise in business deposits (NFCs and other financial entities other than MFIs) by 10.2% y/y. Finally, figures referring to Q2 2014 show that NPLs rose to 22.3% of gross loans as of the end of March 2014 up from 21.9% in December 2013 and 18.2% in December 2012. The banking system in Romania is well capitalized with solvency ratio at 16.95% as of the end-June 2014 (min. 8%), while NPLs (using the standard approach and internal rating models) at the end of June 2014 stood at 19.2% down from 20.4% in March 2014 and kept falling in the subsequent months to 17.2% in August 2014 with a comfortable coverage ratio of 67.8%. Banks in Romania showed net profitability in 2013 as well as up to 7M of 2014, following three years of net losses, thanks to a slowdown of NPL formation coupled by enhanced operating profitability. The Romanian banking sector is to undergo an extensive assessment following the Romanian authorities' decision to

BUBOR 3M


Source: Bloomberg

join the Banking Union and all necessary assessments (risk assessment, stress tests and Asset Quality Review) will take place during 2015. The banking system is less exposed to parent undertakings to their subsidiaries, since such exposure declined by 28% since December 2012 up to August 2014. Furthermore, loan to deposit ratio adjusted to a comfortable 100.3% in August 2014 from 117.4% in December 2012 with the help of rising deposits and a decrease in foreign currency lending. According to the BNR (Financial Stability Report, 2014) the economy has an important and viable potential for lending ton NFCs.

2. CYPRUS

ECONOMIC OVERVIEW: The Gross Domestic Product, based on seasonally adjusted figures, fell by less than expected in H1 2014 by -3.2% on an annual basis, while the Troika (July 2014) expected GDP to drop by -4.2% for the whole 2014. This development is attributed to a smaller than anticipated decline of final consumption in H1 2014 by -2.4% y/y, of investments by -2.5%, while exports of goods and services grew by +0.8% y/y and imports by +1.0% y/y.

Among sectors which show weakness, the construction sector which has continuously been declining since 2009. Cement sales, which is an indicator of the sector's production, declined by -17.7% in 9M 2014 y/y reaching 330 K tones compared to 402 K tones in 9M 2013. The decline in 9M 2014 was smaller compared to that in 9M 2013 which stood at -32.2%. In September 2014, the decline was much lower at -10.8% y/y.

Based on the information available so far, and taking into consideration the fragile economic environment in the Euro area during H2 2014, GDP decline may reach -2.5% based on a possible decline of final consumption by -1.2% y/y and of investment by -7.3% y/y under the assumption of the Troika's Programme being followed.

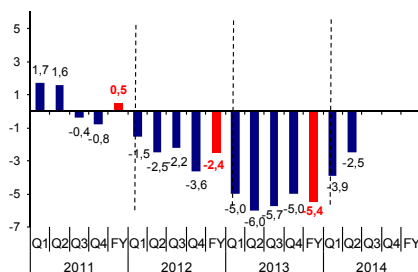
It should be noted that the Ministry of Finance during the presentation of the Budget for 2015 foresees a decline of GDP by -3.0% in 2014, while the IMF (October 2014) changed its GDP forecast to -3.2%. In Sept. 2014, the EBRD forecasted a GDP decline by -3.5% and the University of Cyprus- Economic Research Center also forecasted a decline of GDP by -2.5% in 2014 (decline by -1.9% in Q3 2014 and by -1.4% in Q4 2014) and a smaller decline by -0.4% in 2015. Finally, Bloomberg consensus expects GDP to decline by -2.8% in 2014 (-2.2% in Q3 2014 and -1.9% in Q4 2014).

Optimism is provided regarding GDP developments in Q3 2014 by released figures regarding tourism, retail sales, the unemployment rate being stabilized, successes in the fiscal front plus the successful completion of banks' recapitalization via private funds.

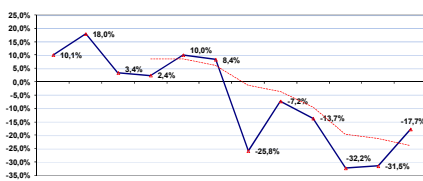
Recently, the Eurostat revision of EU GDP figures, based on ESA 2010 methodology, which replaced the older one ESA95, resulted to a substantial upwards revision of the nominal Cyprus' GDP without affecting real GDP based on 2005 figures. More specifically, the nominal GDP of 2010 rose by +9.5% compared to that reported under ESA95 and is the highest rate in EU (+3.7% in the case of EU and +3.5% in the case of the Euro area). Also, the nominal GDP of 2013 under ESA 2010 is higher by 9.5% or by 1.6 billion compared to the corresponding figure of 2013 under ESA95 and the same is true for 2012 where GDP is higher by +9.5% under the new methodology or by € 1.7 billion.

Eurostat and Cystat figures indicate that GDP in Cyprus since 2008 and up to 2014 taking in to account the Troika forecast of GDP for 2014, is by a cumulative figure of -11.9% and since Cyprus entered to the Adjustment Program the cumulative decline is estimated to -9.3% (2012-2014).

FISCAL POLICY: The upward nominal GDP revision of Cyprus, changes the fiscal image of the country to a much better level, especially with respect the public debt time path. Particularly, public debt to GDP at the end of 2013 is estimated to 101.8% from

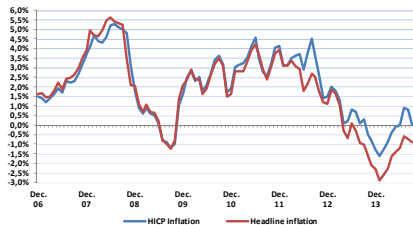
Real GDP (%Δ y/y, seasonally adjusted data)


Source: Eurostat, CYSTAT

Cement sales (%Δ y/y)


Source: CYSTAT

Consumer Price Inflation (%Δ y/y)



Source: Eurostat, CYSTAT

Macro Indicators

Cyprus	2012	2013	2014 (f)	2015 (f)
Real GDP (%)	-2.4	-5.4	-2.8	0.4
Prices				
HICP Inflation (%Avg)	3.1	0.4	-0.2	0.7
General Government (%GDP)				
Overall Balance	-6.4	-4.9	-3.0	-3.0
Balance of Payments (%GDP)				
Current Account Balance	-6.6	-1.4	-1.2	-0.6

Source: European Commission

Unemployment rate (%)



Source: CYSTAT

111.7% estimated previously under the ESA95 GDP estimation. Taking into consideration the EC forecasts (July 2014) for public debt in 2014-2016 and the nominal GDP under ESA95 and assuming revised GDP under ESA 2010, the debt to GDP in 2014 declines to 109.2% from 119.9% estimated in July 2014 by EC and in 2015 declines to 113.3% from 124.4% forecasted earlier.

At the same time, the weighted average duration rose to 7.8 years in June 2014 from 4.7 years in 2012, while 9.4% of total debt matures within one year and was 21.2% in 2012. A large part of debt matures in 2019 (€ 2.3 billion) and in 2020 (€ 2.0 billion) while in 2015 € 1.3 billion debt matures due to the € 1.1 billion Laiki Bank bond. Also, the average weighted interest rate of public debt in Q3 2014 was 2.9% from 4.2% in 2012 and 3.0% in 2014 (MoF, October 2014).

The fiscal balance also appears to be in better shape taking into consideration the upwards revision of nominal GDP. More specifically, fiscal deficit of the General Government of 2013 is now estimated to -5.0% of GDP compared to -5.4% based on GDP figures under ESA95. Taking into consideration EC (July 2014) forecasts regarding the fiscal balance in 2014-2016, it appears that 2014 deficit is going to be reduced to -4.8% of GDP from -5.3% under ESA95 methodology and 2015 deficit falls to -4.7% of GDP from -5.1% whereas the 2015 budget deficit is estimated to -2.2% from -2.4% under the old GDP forecast.

BALANCE OF PAYMENTS: External balance figures appear to be less affected by the nominal GDP revision. More specifically, current account balance of 2013 falls to -1.7% of GDP (ESA 2010) from -1.9% under ESA95, whereas for 2014 the estimate is the same of -0.1% under both GDP measurements. In a similar way, current account balance becomes positive in 2015 and 2016, rising to +0.2% and 0.6% of GDP respectively under both methodologies of GDP measurement.

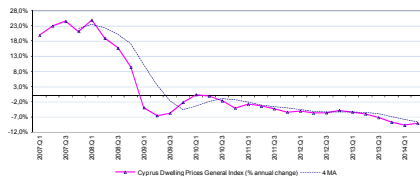
UNEMPLOYMENT: Unemployment rate based on Cystat figures, shows signs of topping during 2014 as average unemployment rate in H1 2014 stood at 16.2% with reasonable prospects of falling to an average rate of less than 16% during 2014, while IMF (October 2014) expects average unemployment rate in 2014 to be at 16.6% and at 16.1% in 2015. The prospects of unemployment in Q3 2014 seem to be rather positive, as registered unemployment figures relating to September 2014, suggest a fall of unemployed persons by -8.4% on a yearly basis (seasonally adjusted data).

Employment during 2014 is declining by lower rates compared to 2013. More specifically, in H1 2014 employment fell by -0.7% on a yearly basis, while in Q2 2014 employment rose by +0.3%. This development suggests that employment in 2014 may decline by less than -2.0% compared to 2013. IMF (October 2014) estimated employment in Cyprus for 2014 to be at 355K persons from 365K persons in 2013 (decline by -2.7%) and for 2015 staying stable at 355K persons. IMF estimates for both unemployment and employment are somewhat less optimistic from those which come from H1 2014 performance.

BANKING SECTOR: The financial system was one of the main sectors alongside with the construction sector most affected by the recent crisis. The financial system contracted significantly during 2013-2014, capital controls were imposed in the movement of capital and substantial amounts were needed to recapitalise the domestic banking sector. The need for recapitalisation became evident as the result of rising NPLs figures and big losses from investments in GGBs affected by the PSI of 2012. Hellenic Bank successfully managed to be recapitalised by own means with funds coming from the private sector, while Bank of Cyprus needed a bail-in in order to be recapitalised by over € 4 billion after having absorbed the "good" part of Laiki Bank. Cooperative banks needed € 1.5 billion to be fully recapitalized and this amount came from the Cyprus Economic Package of € 10 billion allocated by the Troika.

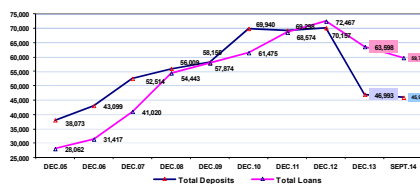
During 2014, Bank of Cyprus, acting proactively, managed to raise from the international markets € 1 billion, while the Hellenic Bank has set forward a plan to raise extra capital to cover whatever is necessary after the announcement of AQR and stress tests. In the share capital of Bank of Cyprus, EBRD has a share of 5.1%,

House Prices ($\Delta\%$ y/y)



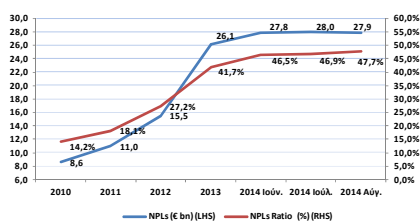
Source: Bank of Cyprus

Deposits and Loans Outstanding (EUR bn)



Source: Bank of Cyprus

Non-performing loans



Source: Bank of Cyprus

contributing with around € 115 million. The successful capital increase of Bank of Cyprus which attracted strong international institutional investors indicates that the confidence to Cyprus' authorities to continue the Adjustment Programme has been restored. Bank of Cyprus will get a new Board of Directors on November 20th, 2014 representing the major change it took place last summer with a new CEO proposal (former CEO of Deutsche Bank) and among the main aims to enlist the company in the Cyprus Stock Exchange, since it was delisted in March 2013. At the same time, Bank of Cyprus tries to reduce Eurosystem dependence successfully so far (€ 8.80 billion in Sept. 2014 from € 9.63 billion in Aug. 2013 and € 11.49 billion in Sept.2013).

Cyprus monetary authorities have focused their attention in reducing NPLs, which reached € 47.9 billion at the end of Aug. 2014 or 47.6% of gross loans. NPLs in Cooperative banks stood at 53.1% of gross loans in June 2014 compared to 44.7% of all other commercial banks and 46.5% for the whole Cyprus banking system.

As far as cooperative banks are concerned, strict conditions were placed for NPLs. The target of NPLs (90 days past due) was set not to exceed 60% up to the end of 2017 and the amount of NPLs to decline to € 4.5 billion from € 6.285 billion in June 2014. Moreover, Core Tier 1 should rise to over 15% in 2017 from 13.6% in June 2014 and leverage ratio to fall to less than 10%. Branch network is envisaged to decline by -13% and the number of employees by -5%. Until mid-2014, the number of Cooperative Banks was reduced to 18 from 93 before the crisis.

The above positive developments in the banking sector coupled by the good results regarding the AQR and stress tests will speed up the capital movement liberalisation. Capital controls have already been abolished inside Cyprus and one reason for the delay in the abolition of capital controls regarding outside the island is the delay in the fulfillment of the Economic Program prerequisite regarding foreclosures, as the fifth Review of the Program was completed in the end of July 2014. The Law governing foreclosures was voted in the Cyprus Parliament on the 6th of September 2014 with an overwhelming majority but Cyprus creditors expressed some objections on certain articles of the Law and therefore the President of the Cyprus Republic sent the Law to the Supreme Court for a final verdict. The objections are the following:

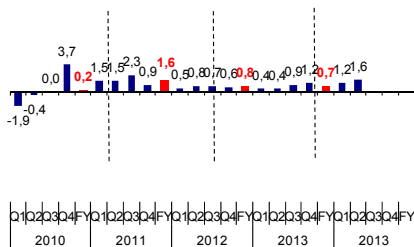
- Certain conditions referring to rescinding from getting due payments, first-home and professional home protection.
- Certain articles referring to the relinquishment of guarantors from the provision of guarantee or due payment even after the sale of mortgaged property.
- Certain articles referring to the relinquishment of debtor and guarantors from the provision of guarantee or due payment even after the sale of mortgaged property.
- Certain articles extending the period of the Starting of the Law referring to Dwelling Mortgaging and Transfer.

The President of the Republic of Cyprus has decided to refer the above legislative proposal to the Supreme Court. Market expects that a compromise will be achieved and the new Law on foreclosures will be accepted by the Troika and will be enforced as of 1.1.2015. This development will unfreeze the disbursement of the amount due to Cyprus by ESM (€ 350 million) and IMF (€ 86 million). Cyprus has received until today a total of € 5,771 million out of the € 10 billion package (€ 5,350 million from ESM and € 421 million from IMF).

3. BULGARIA

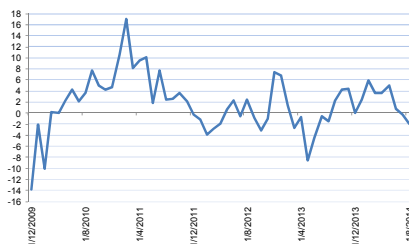
ECONOMIC OVERVIEW: Gross Domestic Product (seasonally adjusted) expanded by +1.8% y/y in Q2 2014 after growing by +1.5% y/y in Q1 2014 thus showing growth by +1.7% y/y in H1 2014. GDP in Q2 2014 rose by 0.3% compared to Q1 2014 suggesting possibly a deceleration of GDP growth during 2014. According to the National Statistical Institute, GDP for Q2 2014 at current prices amounted to BGN 19,215 million whereas the Gross

Real GDP (%Δ y/y, seasonally adjusted data)



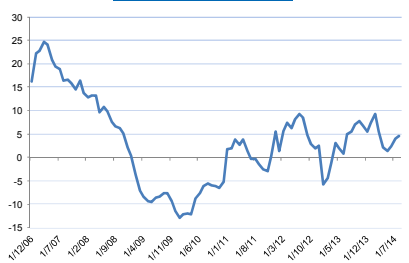
Source: National Statistical Institute

Industrial production (%Δ y/y)



Source: National Statistical Institute

Retail sales (%Δ y/y)



Source: National Statistical Institute

Value Added (GVA) at current prices amounted to BGN 16,423 million. The services sector has the largest share, of 61.2%, in total value added, followed by the industrial sector (34.0%) and the agricultural sector (4.8%). In relation to the seasonally adjusted data, the GDP growth rate in Q2 2014 had an increase of 0.5% compared with the previous quarter. According to flash estimates of GDP by final expenditure in Q2 2014, major contribution to the growth registered was attributed to the export of goods and services which increased by 1.0%, to gross fixed capital formation increasing by 0.8% and to individual consumption increasing by 0.1%. During Q2 2014 GDP at seasonally adjusted figures rose by 1.6% compared to the same quarter of the previous year. On expenditure basis, the final consumption registered an increase as individual and public consumption rose by 1.9% and 0.3% respectively, compared to the same quarter of the previous year. Additionally, gross fixed capital formation recorded an increase by 3.9% compared to the same quarter a year ago while exports & imports of goods and services rose by 2.9% and 1.0% correspondingly. Stronger GDP growth could be achieved by a better exploitation of available European Union funds, which can add to GDP up to extra 3 percentage points on the medium-term (IMF). Bulgarian GDP at current prices in 2013 amounted to BGN 78,115 million or € 39,940 million compared to BGN 78,079 million or € 39,926 million in 2012 and it is expected (IMF, October 2014) to rise to € 40,031 million in 2014.

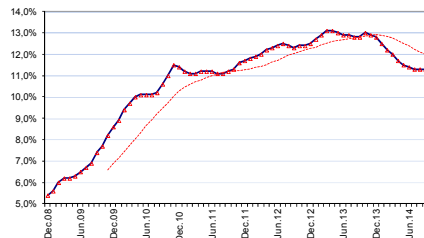
In the first eight months of 2014, industrial production rose strongly by +2.4% y/y compared to a fall by -1.3% y/y in the same period in 2013. This was due to the average rise in the product of the mining and quarrying sector by +4.3% y/y together with a rise in the manufacturing output by 3.45% y/y while the production of electricity and gas sector fell by -0.85% y/y. In the last three months (June-August 2014) industrial production declined by -0.5% y/y suggesting a weak 3Q 2013 and possibly a weak Q4 2014. In 2013, the manufacturing sector grew by an average of +0.8% compared to a rise by +0.2% during 2012 and the electricity-gas-water sector also rose by +1.5% compared to a decline by -0.9% in 2012. Finally the mining and quarrying sector declined by -5.8% in 2013 after also declining by -2.0% in 2012.

The Government of Bulgaria expects GDP to rise by +2.1% in 2014, 2.6% in 2015 and 3.4% in 2016 but according to IMF (October 2014) GDP is expected to grow a bit lower, i.e. by +1.4% in 2014 and faster by +2.0% in 2015 and 2.5% in 2016. Similarly, EBRD (May 2014) expects GDP growing by +1.9% in 2014 and +2.0% in 2015 after growing by +0.9% in 2013. According to EBRD (September 2014), economic growth this year will be lower at 1.5% and at 2.0% in 2015. The European Commission (Spring 2014 Forecasts) expects GDP growth to reach +1.8% in 2014 and rise to +2.0% in 2015, driven by domestic demand as net exports are seen to have a neutral contribution to GDP growth. Bloomberg consensus forecast (October 2014) suggests GDP growth by 1.5% in 2014, rising faster to 2.0% in 2015 and 2.4% in 2016. We foresee Bulgaria's GDP growth to expand by +1.6% in 2014 and by +2.0% in 2015, mainly supported by private consumption. It should be mentioned that the forecasts are subject to a downward revision in case the tension between Russia and Ukraine spills over Europe and generate gas supply disruptions.

UNEMPLOYMENT: According to Eurostat, in September 2014, the number of unemployed people in Bulgaria fell to 377,000 persons down from 432,000 persons in September 2013, whereas unemployment rate was standing at 11.3% in September 2014 down from 12.8% in September 2013. The figures show some decrease in unemployment during the nine-month period 2014. Nevertheless, the labour market in Bulgaria remains fragile as average 9M 2014 unemployment rate stood at 11.7%. The developments in 2014 were better than those forecasted by both EC and IMF. According to EC (Spring 2014 Forecast) unemployment rate will remain high in the period 2014-2015, declining from an average rate of 13.0% in 2013 to 12.8% in 2014 and slightly lower to 12.5% in 2015. IMF (October 2014) also expects average unemployment rate at 12.5% in 2014 and at 11.9% in 2015. The Government (Europe 2020: National Reform Programme) also sees a very gradual fall in the unemployment rate to 10.9% in 2017 from 13.0% in 2013. Based on the information of 9M 2014, average unemployment rate in 2014 may be around 11.6% falling to less than 11% in 2015, which is in line with the Bloomberg October 2014 consensus forecast.

FISCAL POLICY: According to the Ministry of Finance, consolidated budget deficit widened to € -758.3 million in 9M 2014 (-1.9% of GDP) from a deficit of € -226.4

Unemployment rate (%)



Source: National Statistical Institute

Current Account: January-August 2014 (€ mn)

	Jan.-Aug.2014	Jan.-Aug.2013	%Δ
Exports	14,264	14,687	-3%
Imports	16,126	16,086	0%
Trade Balance	-1,861	-1,400	33%
Services Balance	1,885	1,807	4%
Income Balance	-788	-977	-19%
Current Transfers Balance	1,573	1,827	-14%
Current Account Balance	809	1,258	-36%

Source: Bulgarian National Bank

Macro Indicators

Bulgaria	2012	2013	2014 (f)	2015 (f)
Real GDP (%)	0.8	0.9	1.6	2.0
Prices				
HICP Inflation (%AvG)	2.4	0.4	-1.4	0.9
General Government (%GDP)				
Overall Balance	-0.8	-1.5	-2.1	-1.9
Balance of Payments (% GDP)				
Current Account Balance	-1.3	1.9	-0.3	-1.8

Source: Alpha Bank-Economic Analysis

million a year earlier (-0.6% of GDP). Budget revenues fell by 9.2% y/y to € 11 billion and expenditures also fell by 4.6% y/y to € 11.4 billion. According to Eurostat (April 2014) general government budget deficit in 2013 stood at €-602.2 million or at -1.5% of GDP up from €-309.0 million or -0.8% of 2012 GDP. Similarly, the consolidated budget deficit in 2013 on a cash basis rose to € -740 million (-1.8% of GDP) up from €-179 million in 2012 (-0.5% of GDP) and it was negatively affected by an increase of 9.2% in expenditures coupled by a slower rise in revenues by +5.5% though below the ceiling which was set by the Government at -2.0% of GDP or €- 820 million, in the Budget of 2013. On the revenue side, the biggest item, which is tax receipts, stood at € 11.4 billion or -1.9% lower from the Budget set target and this was partially covered by a rise +4.5% of non-tax revenues to € 2 billion, a figure higher than the target set by the State. The Government now expects budget deficit on a cash basis to rise to 4% of GDP in 2014 and on an accrual basis (EU definition) to 3.6% due to the need to recapitalize the failed bank KTB. Note that IMF (Oct.2014) was also expecting a rise of deficit to GDP in 2014 at 2.7% of GDP on a cash basis, a rather low figure compared to the estimate of the Government.

Fiscal reserve in the end of 2013 stood at the satisfactory level of € 2.4 billion above the target of € 2.3 billion set by the Government and in September 2014 further rose to € 4.2 billion from € 3 billion in May 2014 due to EU transfers. Fiscal reserve included receivables by EU stood at € 4.5 billion at the end of September 2014.

According to Eurostat (April 2014), public debt rose to €7,532.9 million in the end of 2013 or to 18.9% of GDP from €7,356.6 million or 18.4% of GDP in 2012. The public debt breached the limit set in the Budget Law of Bulgaria at € 7.5 billion. In fact, public debt further rose to € 8,445 million in Q2 2014 or to 21.1% of GDP according to Eurostat (Oct.2014) and still is the second lowest among EU-28 countries. Public debt is expected to rise further during 2014 due to the cost of supporting KTB and may reach 25.2% of GDP, staying at 25.1% of GDP in 2015 (IMF, Oct.2014).

INFLATION: The harmonized consumer price index (HICP) declined by an average of -1.5% y/y in 9M 2014, and since August 2013, for 14 consecutive months, is on a negative ground suggesting a mild deflation. The harmonised consumer price index (HICP) rose by an average 0.4% y/y, in 2013 from a rise by 2.4% in 2012. In a similar manner, headline CPI inflation increased in 2013 by 0.9% y/y on average from a rise by 3.0% in 2012, being negative since Aug.2013. In September 2014 HICP and CPI inflation stood at -1.4% y/y and -0.8% y/y respectively. Average 9M 2014 inflation based on HICP and CPI indices stood at -1.5% and -1.7% correspondingly. An analysis of CPI figures during 9M 2014 reveals that the decline in the prices during 2014 can be attributed to the drop of food prices by an average of -1.1% y/y as well as the drop of housing, water, electricity & gas by -4.0%, as well as, the decline of transport & communication prices by -2.1% y/y and -2.4% y/y respectively. Positive growth was registered in the alcohol and tobacco prices (+1.2%), as well as, in the education (+1.4%) and alcoholic beverages and tobacco prices (+1.2%). The low-growth environment and decreases in the administratively set energy prices have kept the average annual rate of HICP inflation in a negative territory. The overall picture during 2013 and 9M in 2014 leads to lower inflation estimate for 2014. IMF (Oct.2014) forecasts HICP inflation in 2014 to average at -1.2% and at +0.7% in 2015.

BALANCE OF PAYMENTS: The current account balance adjustment has been sustained over the last five years and is anticipated to remain broadly balanced in the near future. So far in 8M 2014, the current account showed a surplus of € 808.8 million or +2.0% of GDP for 2014, compared to a surplus of € 1,257.7 million or +3.1% of GDP in 8M 2013. This was mainly the result of a larger trade deficit, which rose by +32.9% y/y to €-1.9 billion from €-1.4 billion in 8M 2013. In the capital account, net FDI in Bulgaria in 8M 2014 amounted to € 1,105 million (2.7% of GDP) compared to €1,059 million (2.6% of GDP) in 8M 2013. The largest part of FDI inflows, totaling € 1,221 million, which were higher by 4.0% compared to the same period of last year, came in the form of other capital amounting to € 891.1 million followed by equity capital amounting to € 223.7 million and by reinvested earnings amounting to another € 106.6 million. FDIs during 8M 2014 seem not to have been

affected by political instability in Bulgaria this year compared to the same period of 2013.

EXTERNAL DEBT & INT. RESERVES: Total gross external debt stood at € 37,335 million at the end of December 2013 (93.6% of GDP) from € 37,635 million (94.3% of GDP) at the end of 2012. In the end of August 2014, total gross external debt amounted to € 38,202 million (94.3% of GDP) up by 2.3% from end 2013. The ratio of foreign reserves with the Central Bank to short-term debt was 148.7% at end of 2013 from 144.7% at the end of December 2012. Gross external debt practically remained almost stable up to August 2014.

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 the country fulfils the criteria for joining ERM II, the Eurozone waiting room, Bulgaria is not intending to make any move towards Euro adoption within the next years. Domestic demand for credit remained subdued amid high unemployment and weak GDP growth. In September 2014, credit expansion rose faster, by +2.7% y/y, compared to a marginal rise by +0.2% y/y in December 2013 and +2.8% annual growth in December 2012. Business financing grew by +4.0% y/y in September 2014 from a rise by +0.1% y/y in December 2013 and credit to households also rose by +0.1% y/y from a marginal decline by -0.2% y/y in December 2013. In September 2014, consumer credit remained unchanged from a rise by +2.2% y/y in December 2013 and mortgages also grew by +0.2% after declining by -1.2% y/y in December 2013. Deposits grew by 6.9% y/y in August 2014 via strong growth of household deposits (+7.8% y/y). As a result, the loan to deposit ratio rose to 97.8% in August 2014 from 96.6% in December 2013. The banking sector has managed to preserve its stability until mid-June 2014. The sudden collapse of the fourth largest domestic lender, Corporate Commercial Bank (KTB), and the subsequent pressures on the First United Bank (third largest lender in Bulgaria) affected market confidence towards the Bulgarian banking system. BNB decided to temporarily close KTB and transfer its healthy assets and deposits to another bank of the KTB group, Credit Agricole Bulgaria. Also, BNB promised to recapitalise the bank with € 1.4 billion and this will affect budget deficit and debt of 2014. Based on information regarding 2013, the average quality of banks' loan portfolio also remained broadly unchanged, with the non-performing loans (NPLs) ratio standing at 16.9% in Q4 2013 from 16.6% in the end of 2012 and 15.0% in the end of 2011 after peaking at 17.2% in Q3 2013. The stock of NPLs at the end of 2013 was roughly lower compared to the one at the end of 2012. Also, coverage ratio (accumulated provisions over total stock of NPLs) improved further during 2013 reaching 72.9% in end of 2013 up from 70.5% in 2012 and 68.8% in 2011. Bank profitability amounted to € 258 million lower by 3.8% from 2012, therefore resulting to a rather low ROE of 4.9% (5.3% in 2012) and also low ROA of 0.6% (0.7% in 2012). Overall banking profitability in 2013 was impacted from lower net interest margin falling to 3.3% in 2013 from 3.6% in 2012 and 4.2% in 2011 the result of lower loan activity plus rising deposits coupled by sizeable provisioning charges introduced in order to raise coverage ratio. The Bulgarian banking system was well capitalised as regulatory capital adequacy ratio in the end of 2013 reached 17.0% compared to 16.6% in 2012 and 17.6% in 2011. Also, Tier 1 capital ratio was standing at 16.0% in 2013 from 15.1% in 2012 and 15.7% in 2011. Finally, liquidity continued to ensure adequate coverage of attracted funds and normal intermediation during 2013, as liquidity ratio stood at 27.0% in the end of 2013 up from 26.0% in 2012 and 25.5% in 2011. More recent figures referring to Q2 2014 did not show any significant change in the Bulgarian banking system. Total capital adequacy stood at 21.2% in Q2 2014 and Tier 1 ratio at 19.2%. Pre-provision results showed profitability and stability in the provision charges, thus suggesting increase profit potential in the future. In fact, ROE stood at 4.9% and ROA at 0.6% in H1 2014 excl. KTB. Also NPLs (excl. KTB) in Q2 2014 stood at 18% with provision coverage at 55.8%. Until recently the banking sector was under a process of consolidation, as local banks acquired the subsidiaries of two foreign banks in 2013 and this trend may accelerate in the light of recent developments. Note that as of end of March 2014, based on assets, 67.8% of the Bulgarian banking system was controlled by EU banking institutions, leaving 30.8% to

Harmonized Index of Consumer Prices
($\Delta\%$ y/y)



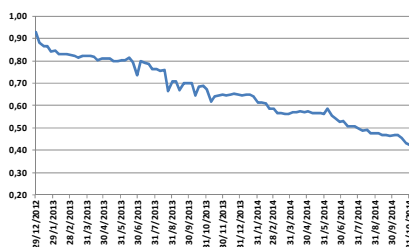
Source: Eurostat

House Price Index



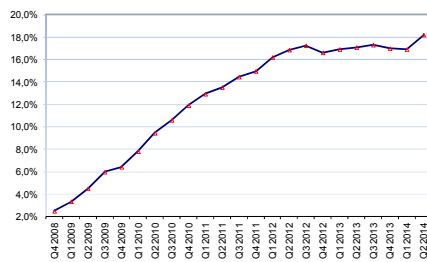
Source: National Statistical Institute

SOFIBOR 3M



Source: Bloomberg

Non-performing loans



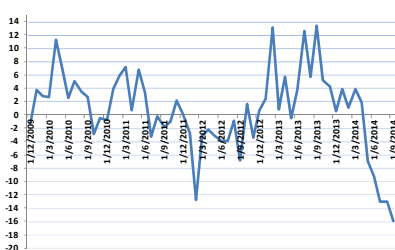
Source: Bulgarian National Bank

Real GDP (%Δ y/y, unadjusted data)



Source: National Statistical Office

Industrial production (%Δ y/y)



Source: National Statistical Office

domestic banks. Finally, according to BNB, at the end of September 2014 the Bulgarian banking system (excl. KTB) remained stable registering growth and good financial results. Liquidity (liquidity ratio) reached 29.84% and net profit in the 9M 2014 rose to € 316 million with ROA at 1.03%. The Bulgarian monetary authorities will try to tackle the KTB problem in a decisive manner in the immediate future with the help of EBA and EU so that the Bulgarian banking system is repaired from the damage coming from the failure of KTB.

4. SERBIA

ECONOMIC OVERVIEW: An IMF team is due to arrive in Serbia to review economic and fiscal policies, paving the way for a new standby precautionary loan for 3-4 years. Serbia wants to sign an agreement with IMF as soon as possible according to Serbia's PM. The PM stressed the need for Serbia to put reforms into place in the next three years with the high-impact package of measures in 2015. The Government is trying hard to restore production levels to those experienced in last June and intends to fiscal consolidation aiming to stronger FDIs. According to the PM, Serbia has struck agreement on most economic issues with IMF and now the IMF team will have no major problems in dealing with Serbia's issues. Serbian elections, which took place in March 2014, allowed Progressives Party to be the winner with an absolute majority in the Parliament and the aim now is to speed up reforms. The formation of the new Government was delayed as the winning party took the opportunity to form a broader coalition Government so as to conclude the negotiations with IMF early in autumn 2014. Serbia is expected to follow a fiscal consolidation program with the assistance of IMF and EU as the country aims to be an EU member by 2020.

GDP declined by -3.7% y/y in Q3 2014 affected by the severe floods and political indecision, following a shallower decline by -1.1% in Q2 2014 y/y and a marginal growth by +0.1% in Q1 2014 y/y. Therefore, the overall decline of GDP during 9M 2014 is estimated to -1.6% y/y, a figure which is higher than the recently forecasted (by IMF, EBRD and the Serbian Government) full-year 2014 GDP decline by -0.5%. It should be noted that, the Serbian economy expanded by real 2.7% y/y in Q4 2013, with the revised full-year growth figure at 2.6% following a decline by -1% in 2012. The Serbian Government expects GDP to remain stagnant in 2015 and IMF (October 2014) appears to be more optimistic suggesting a growth rate of +1% with EBRD being even more optimistic (+2.0%). Also, Bloomberg consensus (October 2014) expects GDP to decline by -0.9% in 2014 and grow by +1% in 2015 and faster, by +1.9%, in 2016. The 2014 GDP estimate, reported by Bloomberg, seems to be closer to the outcome of the year, which may show a GDP decline by -1%, a new estimate also adopted by the Government following the release of Q3 2014 GDP figures. According to the National Bank of Serbia (NBS), the total damage to the economy from the floods during last May is estimated to be around € 1.5 million with a heavy toll on electricity production, mining and agriculture. This translates to a 0.9 pp negative contribution to GDP but on the other hand the reconstruction of damaged infrastructure will add another 0.3 pp to GDP and thus will result in an overall GDP decline by -0.5% for the whole 2014. The new agricultural season that followed the floods and the government's program to subsidise interest on bank loans for those companies that suffered from the natural disaster, might both be a temporary relief in the economy.

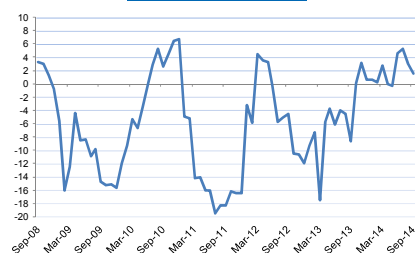
The industrial production fell by -5.3% y/y on average in 8M 2014 underpinned by the flood disaster that occurred in mid-May. The damage in the mining sector was sizeable; its output fell by -13.9% y/y in 8M 2014 with manufacturing output also down by -0.9% y/y in the same period. The natural disaster in Serbia was so strong and resulted to a fall in industrial production during May-August 2014 by -11.7% y/y dragging down the positive (+2.7% y/y) industrial performance registered in the period up to May 2014. A number of companies reduced their production capacity (electrical machinery, FIAT automobiles, coke) although some others (tobacco, wood, leather) kept a decent performance. It should be noted that, the industrial production increased by +5.5% in 2013 compared to a fall by -3.5% in 2012. During 2013, manufacturing production rose by +4.9% y/y after

having declined by -0.9% in 2012 and electricity and gas production rose by +8.1% after having declined by -7.1% in 2012 whereas mining output grew by +5.5% after being stagnant in 2012.

FISCAL POLICY: Serbia's consolidated general government deficit rose by 25.7% y/y to RSD 103.8 billion (€ 896 million) in H1 2014 and revenues rose by 4.2% to RSD 721.7 billion and expenditures by 6.5% to RSD 825.5 billion. The rise in expenditures can be attributed to higher interest payments, which rose by 38.2% y/y or by almost RSD 20 billion as well as by capital expenditures which rose by 26.8% y/y or by almost RSD 10 billion. On the revenue side, tax revenues rose by 5.2% y/y to RSD 649.9 billion positively affected by corporate taxation revenues which rose by 53.9% or by almost RSD 16 billion and also by increased social contributions which rose by 8.3% y/y or by almost RSD 16 billion. According to the NBS (Inflation Report, August 2014), Serbia's budget deficit as percent of GDP stood at -6.0% in H1 2014, compared to -5.0% of GDP in 2013 as a whole and given the flood damage effects on the budget deficit in 2014 will rise further if no consolidating measures are not taken soon. According to the Minister of Finance, Serbia will take three years to get its budget and public debt on a sustainable track. Serbia's consolidated general government budget deficit declined by 17.9% y/y to RSD 178.7 billion (€ 1,580 million) in 2013 as revenue growth partly offset expenditure rise. According to the Ministry of Finance (MoF), the 2013 budget deficit accounted for -5.0% of GDP, down from -6.6% a year earlier and it covered all the 2013 revised set target of RSD 178 billion (RSD 122 billion originally). The budget gap ceiling set by the Parliament at 5.2% was met by the final budget outcome of 2013. The budget revenue increased by 4.4% y/y to RSD 1,467.9 billion in 2013 mainly due to higher tax revenue by 5.8%. Expenditure rose by 1.4% in 2013 to RSD 1,646.5 billion due to higher wages and salaries (up 4.8% y/y). VAT grew by 3.6% to RSD 380.6 billion in 2013, reflecting the 2 pps rise in non-food VAT to 20% in October 2012 and excises rose by 13.1% to RSD 204.8 billion. Additionally, income from profit tax rose by 10.6% y/y to RSD 60.7 billion. Expenditure growth was also affected by rising interest expenditure by 38.6% to RSD 94.5 billion. In the Fiscal Strategy for 2014-2016, the MoF having assumed consolidation measures are taken, expects budget deficit to be at -5.5% of 2014 GDP going lower to -4.2% in 2015 and to -2.3% in 2016. IMF (October 2014) also expects budget deficit to GDP to be at -5.6% in 2014 going down to -4.9% in 2015 and to -3.6% in 2016. The October 2014 budget revision assumed budget deficit to GDP to be at -7.6% in line with the Fiscal Council estimate provided for the consolidated budget deficit of 2014, which include many one-off items. Given the new estimates for GDP developments during 2014 we also foresee this year's fiscal deficit to be at over -7.0% of GDP assuming consolidation measures start to operate as soon as from autumn of 2014. As of end of September 2014, according to the MoF, public debt amounted to € 22.1 billion or 66.8% of GDP compared to € 20.1 billion or 59.6% of GDP in the end of 2013 and € 17.7 billion or 56.2% of GDP in the end of 2012. According to the Fiscal Council, public debt in 2014 may rise to € 23 billion or to around 70% of GDP. Also, public debt is expected to reach 70.7% of GDP in 2014 and 74.4% in 2015 according to EC (Spring 2014) up from 59.6% in 2013. Similar assessment is provided by IMF (October 2014) expecting Serbia's debt to GDP to rise to 75.6% in 2014 and to 79.6% in 2015. The recent floods and the delays in the new Government decisions point to a higher debt to GDP in 2014 even to 71% and further higher to 75% in 2015 before the effects of the measures start to take place in a meaningful way.

INFLATION: Serbia's annual CPI inflation decelerated to 2.2% in December 2013 from 4.9% in September 2013 and 12.8% in January 2013. The deceleration of inflation continued in the first nine months of 2014 and in June 2014 reached the 50-year historic low rate of 1.3%, averaging in 9M 2014 at 2.1%. In fact, since March 2014 inflation is below the lower limit of inflation set by NBS which is at 2.5% with upper limit 5.5% and central value at 4.0%. The fall in inflation during 2013 and 2014 is attributed to the fall of food and transport prices coupled by a limited rise in the administered prices. In 2013 average inflation stood at 7.9% from 7.3% in 2012. The average inflation in 9M 2014 standing at 2.1%, below the lower bound of the target tolerance band (4% ±1.5%). Under the NBS estimate, annual inflation will continue to move around the lower bound of the target tolerance band in the months to come. This will be due not only to monetary policy measures, but also to low aggregate demand. According to the NBS, the main disinflationary factor will be low aggregate demand, while upward pressure will be coming

Retail sales (%Δ y/y)



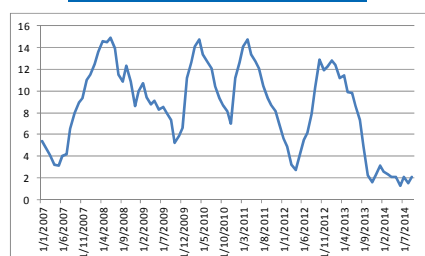
Source: National Statistical Office

Macro Indicators

Serbia	2012	2013	2014 (f)	2015 (f)
Real GDP (%)	-1.7	2.5	-0.4	0.3
Prices				
Consumer Price Inflation (%Avg)	7.3	7.8	3.6	4.5
General Government (%GDP)				
Overall Balance	-6.4	-5.0	-7.1	-5.8
Balance of Payments (% GDP)				
Current Account Balance	-10.6	-5.2	-5.8	-6.5

Source: Alpha Bank-Economic Analysis

Consumer Price Inflation (%Δ y/y)



Source: National Statistical Authority

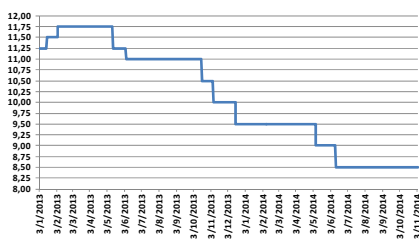
Current Account: January-August 2014 (€ mn)

	Jan.-Aug. 2014	Jan.-Aug. 2013	%Δ
Exports	6.995	6.669	5%
Imports	9.555	9.394	2%
Trade Balance	-2.560	-2.725	-6%
Services Balance	233	166	40%
Income Balance	-744	-783	-5%
Current Transfers Balance	1.992	2.106	-5%
Current Account Balance	-1.079	-1.236	-13%

Source: National Bank of Serbia (NBS)

Euro against RSD


Source: Bloomberg

2W Repo


Source: Bloomberg

from administered price growth especially in 2014 and the impending increase in the special VAT rate. Food prices are not expected to exert inflationary pressures. In August 2014, the NBS reduced inflation projections for the years 2014-2015 due to expected lower GDP projections for these two years to -0.5% and +0% respectively as well as due to weak low inflation expectations in the Eurozone. NBS expected inflation in Q3 2014 to remain below the lower bound of the target tolerance band and start growing in Q4 2014 stabilising to 4% in mid-2015. We also expect inflation in late 2014 to return within the target tolerance level (4%±1.5%) and will most probably trend below 4%, the central target of NBS. Similarly, IMF (October 2014) expects average inflation rate at 2.3% and 3.4% in each of the years 2014 and 2015. These estimates are considered to be on the high side given Serbia's inflation performance during 9M 2014, when average inflation stood at 2.1% with NBS expecting inflation staying below the lower limit of 2.5%. It appears most probably that average inflation in 2014 will be circa 2.3% assuming that in late Q4 inflation approaches NBS central value of 4%.

BALANCE OF PAYMENTS: Based on new methodology revised data, during 8M 2014 the current account deficit declined by -12.6% on a yearly basis or by € -156 million reaching € -1.079 billion from € -1.235 billion in 8M 2013 supported by better performance in the trade balance. Trade balance in 8M 2014 amounted to € -2.561 billion from € -2.725 billion in the same period of 2013. Based on the revised data, in 2013 the current account deficit decreased by -42.5% on a yearly basis due to positive foreign trade trends, higher inflow of remittances and lower interest payments. Net inflow from FDI amounted to € 768.5 million in 2013 compared to € 241.9 million a year earlier. In H1 2014 current account deficit rose by +20.8% y/y to € -1,044.0 million affected by lower export activity (fall in exports by -10.4% y/y) and subdued imports (fall by -2.3%). Current account deficit as a percent of GDP fell to -6.5% in 2013 from -12.3% in 2012 and according to the NBS is expected to narrow to -5.9% of 2014 GDP with market consensus forecast at -5.2%. NBS also predicts current account deficit to GDP to further fall to -3.8% 2015 compared to the Bloomberg consensus forecast of -6.1%. IMF also sees current account deficit in 2014 higher at -6.1% of GDP and at -5.1% of GDP in 2015.

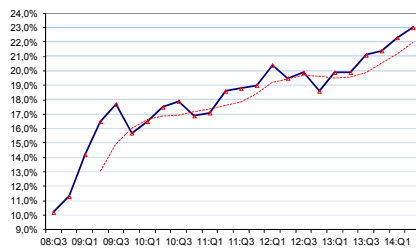
EXTERNAL DEBT & INT. RESERVES: According to the NBS external debt in Serbia remained almost unchanged during H1 2014 standing at € 25.4 billion or 79.9% of GDP compared to € 25.8 billion in the end of 2013 or 80.6% of GDP. In 2013, the stock of external debt rose by +0.5% from 2012 to € 25.6 billion down from 86.6% of 2012 GDP. The split between public and private sector debt, as a percent of the total, stands at 50-50. The level of National Bank of Serbia's foreign exchange reserves stood at € 11.2 billion in Q4 2013, up by € 274 million from Q4 2012 and in Q2 2014 their level was lower at € 10.1 billion. Short term Debt/Fx reserves stood at 1.6% in June 2014 while short term debt/total external debt at 0.6%. More recent external debt figures suggest external debt in the end of August 2014 stood at € 26.1 billion or at 82% of GDP showing stability around the H1 figure.

MONEY & FINANCIAL MARKETS: The National Bank of Serbia (NBS) decided unexpectedly to cut its key policy rate in June 2014 by 0.50% to 8.50% for a second time this year and since that time remained at 8.50%. In total, the NBS cut the key rate by 100bps in May and June. For its decision the NBS took into account the weakening of inflationary pressures and the reduced balance of risks related to fiscal movements. During 2013, policy rate fell from 11.25% to 9.50% with the biggest fall taking place since September 2013. NBS quotes persistent low inflationary pressures over the last 18 months due to low aggregate demand and no major cost-push pressures. Geopolitical risks and the need to keep stable the national currency did not allow further cut in the key policy rate. The medium-term inflation expectations are stable and suggest that inflation in Serbia will remain within the band. NBS expects inflation to return within the tolerance band limits by Q4 2014 and remain within the band during 2015. Provided, that the trends in the foreign exchange market show signs of stability, the NBS may decide to cut rates again until the end of 2014, to 7.50%, cutting them further during 2015. Fitch downgraded Serbia's rating to 'B+' from previous 'BB-' with a 'Stable' Outlook. S&P's rating is BB- as of April 2014 and Moody's rating is B1. The Outlook provided by Fitch and Moody's is Stable while the Outlook by S&P is Negative. RSD depreciated by 3.3% against Euro during 10M 2014 reaching an average level of 116.5657. During October 2014 RSD fell to the weakest level

against Euro at 119.5155 and now is around 119.1. Once an agreement is reached with IMF, the sliding of RSD against Euro is going to cease and perhaps RSD may even appreciate with respect to Euro.

Credit expansion to the private sector decreased by -4.5% y/y in December 2013 from a fall by -1.4% y/y in December 2012 (in Euro terms). Loans to businesses fell by -8.7% y/y whereas loans to households increased by 3.2% y/y. In September 2014, credit expansion to the private sector (in Euro terms) fell by -4.6% y/y affected mainly by a fall of credit towards business by -8.3% y/y despite a small rise of credit to households by +2.0% y/y. On the other hand, private sector deposits in August 2014 accelerated by +2.5% y/y from an increase of +5.5% y/y in December 2013. The loan-to-deposit ratio fell to 113.0% in August 2014 from 117.6% in December 2013, affected by weak lending activity and a rise in deposits. According to the NBS, the banking sector in Serbia had an exceptionally high liquidity despite deleveraging which continued to be a risk in 2013 due to the high share of foreign banks (mainly EU banks) in the system, which is reducing cross-border exposure. At the same time, the local banking system responded by increasing the share of domestic sources of funding via deposits in order to bridge the financing gap. In the end of 2013, Serbian banking system assets amounted to € 25.2 billion or 78.9% of GDP with foreign owned banks taking up 68.7% of total banking assets. Greek banks had 13.3% of all banking assets in Serbia, Italian banks 22.0% and Austrian banks 13.9%. Profitability was weak in 2013 after a weak Q4 2013 as ROA stood at -0.1% in the end of 2013 from 0.4% in the end of 2012 with ROE being also low at -0.4% from 2.0% in 2012 affected by low lending activity and more provisioning. NPLs ratio in June 2014 went up to 23.0% rising from 22.3% in the end of March 2014. In June 2014, corporate NPLs stood at 27.4% up from 26.5% in March 2014 and household sector NPLs also rose to 10.2% from 9.6% in March 2014. Coverage of NPLs as of end of June 2014 stood at 54.4%. Note that NPLs ratio stood at 21.4% in December 2013 (23.5% in the corporate sector and 9.3% in the household sector) up from 18.8% in December 2012, while coverage ratio of NPLs stood at 50.9% in December 2013 up from 50.0% in December 2012. The banking system remained well capitalised with capital adequacy ratio at 20.4% in Q2 2014 up from 20.9% in December of 2013 and 19.9% in December 2012. Tier 1 capital ratio stood at 17.6% in Q2 2014 from 19.3% in December 2013 and 19% in December 2012.

NPL ratio

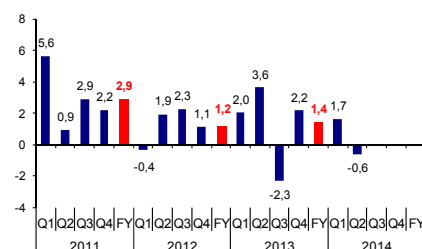


Source: National Bank of Serbia

5. ALBANIA

ECONOMIC OVERVIEW: Albanian GDP decreased by -0.6% y/y in Q2 2014 on an unadjusted basis, compared to an expansion of 1.7% y/y in Q1 2014. This outcome interrupted the growth dynamics of the previous quarters. According to the Bank of Albania, the deceleration of the economic activity is considered to be temporary and may reflect a more pronounced weakness of aggregate demand and stronger or longer lasting supply-side shocks. In terms of aggregate demand, the economy contracted mostly due to the negative fiscal stimulus and the negative impact from net exports. Private investments and consumption provided a large positive contribution, reflecting the improvement of confidence in the economy and the easing of lending standards. To this decrease construction contributed by -2.79 pp, transport by -0.73 pp and industry by -0.20 pp while a positive contribution had other services by +1.23 pp, agriculture, hunting and forestry by +0.95 pp, and trade, hotels and restaurants by +0.95 pp. In Q2 2014, an increase was registered in trade, hotels and restaurants by 7.1% y/y, in other services by 4.6% y/y and in agriculture by 3.2% y/y. On the other hand, in Q2 2014, a decrease was posted in transport by -23.1% y/y, in construction by -22.4% y/y, in industry by -1.3% y/y, and in post and telecommunications by -1.0% y/y. On the 24th of June 2014, Albania was granted the candidate status by the European Union and this is expected to have a favourable impact on foreign investments and job creation in the country. As regards to EU financial assistance, along with the access to the EU Instrument for Pre-Accession Assistance Albania will also be able to benefit from the participation in EU programs as well. Growth will also be supported by significant energy-related projects, such as the recently agreed Trans Adriatic Pipeline (TAP) designed to transport gas from Azerbaijan via Greece and Albania and across the Adriatic Sea to Italy and Western Europe, as well as foreign investment in a new hydropower production unit. During August 26th to September 9th,

Real GDP (%Δ y/y, unadjusted data)



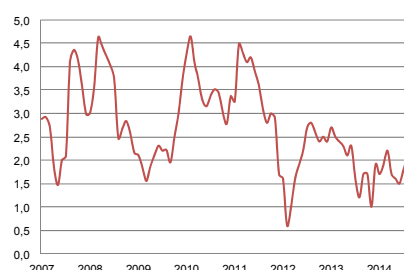
Source: INSTAT

Macro Indicators

Albania	2012	2013	2014 (f)	2015 (f)
Real GDP (%)	1.6	0.4	1.9	2.9
Prices				
Consumer Price Inflation (%Avg)	2.4	1.9	1.9	2.5
General Government (%GDP)				
Overall Balance	-3.4	-4.8	-6.2	-5.0
Balance of Payments (% GDP)				
Current Account Balance	-10.4	-10.4	-11.0	-12.0

Source: Alpha Bank-Economic Analysis

Consumer Price Inflation (%Δ y/y)



Source: INSTAT

Current Account: January-June 2014 (€ mn)

	6M 2014	6M 2013	%Δ
Exports	479	500	-4%
Imports	1.412	1.321	7%
Trade Balance	-933	-821	14%
Services Balance	34	-2	3400%
Income Balance	-35	-1	3069%
Current Transfers Balance	316	316	0%
Current Account Balance	-618	-508	22%

Source: Bank of Albania

2014 a staff team from IMF conducted discussions on the second review of the arrangement under the Extended Fund Facility of 36 months and SDR 295.42 million (€ 330.9 million) approved by IMF in February 2014, in order to support local authorities' efforts to boost growth and macroeconomic stability. The discussions included the 2015 government budget, structural reforms and the Bank of Albania's governance and policy framework. According to the Bank of Albania, preliminary data from the National Statistical Office (INSTAT) point to positive economic growth in Q3 2014 mainly driven by the expansion of consumption and private investment. According to IMF (October 2014) and World Bank (June 2014), economy is expected to expand by 2.1% y/y in 2014, fuelled by external drivers and a modest recovery in domestic demand and by 3.3% y/y in 2015. EBRD (September 2014) is more pessimistic and forecasts GDP to rise by 1.7% y/y in 2014 and by 2.5% in 2015. For 2014, we envisage a GDP growth at 1.4%, mainly driven from infrastructure projects.

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

In 8M 2014, budget deficit decreased by -43.7% y/y to ALL -30.9 billion, from ALL -54.9 billion in 8M 2013 due to the increase in tax revenues. In 8M 2014, budget revenues recorded a growth of 12.5% y/y to ALL 236.4 billion as tax revenues increased by 12.2% y/y and budget expenditure increased marginally by 0.8% y/y to ALL 267.3 billion. VAT revenues made a major contribution to the increase in total revenues increasing by 16.3% y/y in 8M 2014. During H1 2014 the budget deficit was financed through domestic resources as the Government issued short-term instruments (3M T-bills) and long-term bonds (7-year and 10-year). IMF pointed out that fiscal consolidation is on track with no additional revenue or expenditure measures needed in 2014 and that a public debt target below 60% of GDP in the medium term appears attainable. IMF (October 2014) forecasts that budget deficit, from -5.2% of GDP in 2013, will increase to -6.7% of GDP in 2014 and then decrease to -4.7% of GDP in 2015.

INFLATION: According to the National Statistical Office, CPI inflation decreased to 1.5% in September 2014 (3-month low) against 2.0% in August 2014 (6-month high), remaining below the lower bound of the Bank of Albania's target zone (3% ±1%). To CPI inflation mainly contributed food and non-alcoholic beverage by +0.83 pp that increased by 2.1% y/y with vegetables including potatoes having increased by 20.1% y/y, goods and different services by 0.43 pp having increased by 8.7% y/y, and alcoholic beverages and tobacco by 0.25 pp having increased by 6.8% y/y with tobacco alone having increased by 11.7% y/y. On a monthly basis, inflation increased to 0.3% in September 2014 basically impacted by an increase in recreation and culture from 0.1% in August 2014. According to the Bank of Albania, the low inflation rate continues to reflect mostly the existence of the spare production capacity that has contributed to low growth of labour and production costs. Furthermore, the low inflation rate has been affected by low inflation rates in Albania's trade partners, decreasing inflation expectations and weak pressures from liquidity in the economy. According to the Bank of Albania, inflation will rise gradually, converging to the target set for the medium term helped by the current monetary policy stance. IMF (October 2014) also forecasts inflation to rise, to 1.8% in 2014 and to 2.7% in 2015.

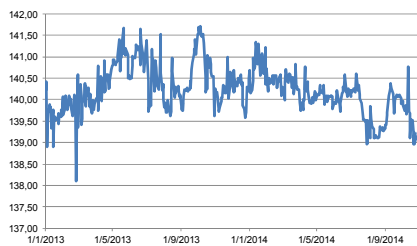
BALANCE OF PAYMENTS: In Q2 2014, current account balance deficit increased by 20.6% y/y to € -343.7 million from € -285.0 million in Q2 2013. That was mainly the result of an increase in the deficit of trade balance by 17.7% y/y to € -507.3 million in Q2 2014 from € -431.1 million in Q2 2013. Exports decreased by -5.8% y/y, while imports increased by 8.4% y/y due to the intensification of imported goods for investment purposes driven by the improvement of the consumer and business confidence. IMF (October 2014) forecasts the current account deficit to widen in 2014 to -11.0% of GDP and in 2015 to -12.7% of GDP from -10.4% of GDP in 2013.

MONEY & FINANCIAL MARKETS: On the 27th of October 2014, the Bank of Albania decided to keep the interest rate unchanged at 2.50%, deeming that the monetary policy stance and current financial conditions are adequate to ensure the return of the inflation to the target in medium term. The last time that the BoA lowered its interest rate it was on the

30th of May 2014 to 2.50% from 2.75%, aiming at creating more favourable conditions for inflation to return to the BoA' s target in the medium term by boosting domestic consumption and investments.

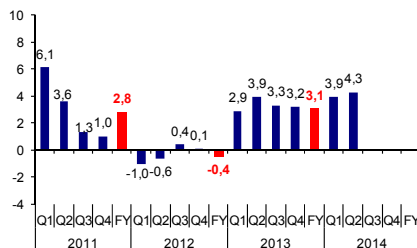
Credit expansion increased in September 2014 (for the third month in a row) by 1.6% y/y at a lower rate than 2.1% y/y in August 2014 and compared with a decrease of -1.2% y/y in December 2013. In particular, loans to businesses, that accounted for 73.2% of total loans, increased by 2.0% y/y in September 2014, due to the easing of lending standards and the improvement of credit supply down from an increase of 2.6% y/y in August 2014 and a decrease of -1.7% y/y in December 2013. Loans to households, that accounted for 26.8% of total loans, increased by 0.5% y/y in September 2014 from an increase of 0.9% y/y in August 2014 and no change y/y in December 2013. According to the Bank of Albania, credit demand remains moderate and will continue to define a sluggish credit growth in the quarters ahead. The loan portfolio quality worsened as NPLs to total gross loans increased to 24.1% in Q2 2014 from 23.2% in Q4 2013 impacting the banking system's profitability. The loan loss provisioning ratio increased to 66.3% in June 2014 from 65.2% in December 2013. According to the Bank of Albania's Bank Lending Survey, lending standards eased during Q2 2014 for both businesses, for the first time since Q1 2011, and households for the third consecutive quarter. Bank of Albania's easing policy, liquidity level and the banking system's competitiveness are the main factors affecting easing of credit standards to businesses and households. The government and the World Bank signed two agreements worth of \$ 220 million aiming (a) to boost the public financial management in the treatment of arrears, to promote reforms in taxation, pension and energy and (b) to modernise the financial sector through the reform of the regulatory and supervisory regime. The Albanian banking system is still well capitalised as the capital adequacy ratio was 17.5% in Q2 2014 compared with 18.0% in Q4 2013.

Euro against ALL



Source: Bloomberg

Real GDP (%Δ y/y, unadjusted data)



Source: State Statistical Office

Macro Indicators

FYROM	2012	2013	2014 (f)	2015 (f)
Real GDP (%)	-0.4	3.1	3.5	3.6
Prices				
Consumer Price Inflation (%Avg)	3.3	2.8	1.0	1.6
General Government (%GDP)				
Overall Balance	-4.0	-4.1	-3.8	-3.1
Balance of Payments (% GDP)				
Current Account Balance	-3.0	-1.9	-3.5	-3.4

Source: Alpha Bank-Economic Analysis

6. FYROM

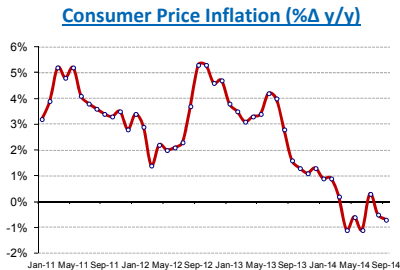
ECONOMIC OVERVIEW: According to the State Statistical Office, FYROM's GDP grew by 4.3% y/y in Q2 2014, higher than expected, compared with 3.9% y/y in Q1 2014, justifying the expectations for solid recovery of the domestic economy. In Q2 2014, household consumption increased by 2.5% y/y compared with 2.3% y/y in Q1 2014 and investment increased by 15.3% y/y compared with 17.1% y/y in Q1 2014. Furthermore, in Q2 2014 exports increased by 14.2% y/y compared with 14.3% y/y in Q1 2014, while imports increased by 10.7% y/y compared with 9.8% in Q1 2014. On the production side, the biggest increase was recorded in wholesale and retail trade, repair of motor vehicles and motorcycles, transportation and storage, accommodation and food service activities by 5.0% y/y and in financial and service activities by 4.1% y/y.

The competitiveness of the economy will be boosted by the National and Regional Rehabilitation Project under the Partnership Strategy with the World Bank. Within this project, FYROM will receive a loan of \$ 400 million for the construction and reconstruction of roads in the county. In October 2014, € 52 million were received under the first phase of the project.

According to the available data for Q3 2014, GDP growth continued, but at a slower pace compared to Q2 2014 due to weaker performance of most of the important economic sectors. According to the 2014 Budget, GDP is projected to rise by 3.2% y/y in 2014 and by 3.8% y/y in 2015. European Commission (May 2014) projects GDP to grow by 3.0% y/y in 2014 and by 3.2% y/y in 2015. EBRD (September 2014) foresees GDP growth in 2014 and in 2015 at 3.0% y/y. World Bank (June 2014) forecasts GDP growth at 3.0% y/y in 2014 and at 3.5% y/y in 2015. IMF (October 2014) is more optimistic and projects GDP to rise by 3.4% y/y in 2014 and by 3.6% y/y in 2015.

FISCAL POLICY: In 9M 2014, the budget of central government recorded a deficit of MKD - 17.4 billion, compared with MKD -15.8 billion in 9M 2013. Total budget revenues amounted to MKD 104.6 billion up by 1.5% y/y in 9M 2014 from MKD 103.0 billion in 9M 2013, as a result of the growth in revenues from taxes and particularly in personal income tax and VAT. Total expenditures increased to MKD 122.0 billion or by 2.7% y/y in 9M 2014 from MKD 118.8 billion in 9M 2013, including the higher social transfers in Q1 2014 ahead

of the Presidential and early Parliamentary elections that took place in April 2014. In July 2014, the government approved a revision to the State budget for this year, raising the projected deficit to 3.9% of GDP. The revision mostly aims to provide MKD 1.43 billion (\$ 31.4 million/€ 23.2 million) as additional funding for Corridor X motorway projects. The 2014 State budget sets deficit at 3.5% of GDP. The 2015 Draft Budget was voted by the Parliament on October 20th, 2014 and according to it the revenues are projected at MKD 163.3 billion and expenditures are projected at MKD 181.8 billion, while the budget deficit is projected at MKD -18.5 billion or -3.5% of GDP.



Source: State Statistical Office

INFLATION: In September 2014, the CPI was negative (for the second month in a row) at -0.7% y/y compared to -0.5% y/y in August 2014. On a monthly basis, the CPI remained at the same level in September 2014 compared to -0.5% y/y in August 2014. On a monthly basis, the biggest increase was registered in telephone and telefax equipment by 10.4%, financial services by 9.4%, oil and fats by 3.5% and eggs by 1.7%, while the biggest decrease was registered in passenger transport by 13.3% and liquid fuels and lubricants by 2.1%. The National Bank of FYROM expects a significant drop in the annual average inflation to 1.0% in 2014 from 2.8% in 2013 and an increase to 2.0% in 2015.

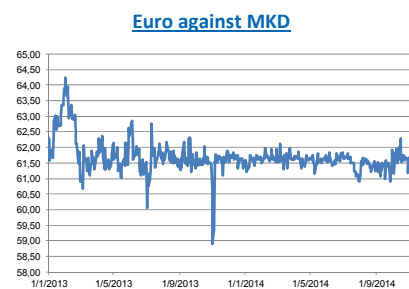
Current Account: January-August 2014 (€ mn)

	Jan.-Aug.2014	Jan.-Aug.2013	%Δ
Exports	1.738	1.526	14%
Imports	2.981	2.762	8%
Trade Balance	-1.243	-1.236	1%
Services Balance	219	243	-10%
Income Balance	-130	-116	12%
Current Transfers Balance	1.017	993	2%
Current Account Balance	-136	-116	18%

Source: National Bank of FYROM

BALANCE OF PAYMENTS: In 8M 2014 the current account deficit increased to € -136.1 million or by 17.5% from € -115.8 million in 8M 2013. The increase in current account deficit reflects the decrease in services surplus by -9.8% to € 219.3 million from € 243.2 million in 8M 2013, the increase in primary income deficit by 11.9% to € -129.7 million from € -115.9 million in 8M 2013 and the increase in trade deficit by 0.6% to € -1,243.0 million from € -1,235.9 million in 8M 2013 as exports increased by 13.8% y/y and imports increased by 7.9% y/y, while current transfers surplus increased by 2.5% to € 1,017.1 million from € 992.7 million in 8M 2013. It should be noted that exports in 8M 2014 covered 58.3% of respective imports up from 55.3% in 8M 2013..

MONEY & FINANCIAL MARKETS: On the 14th of October 2014, the National Bank of FYROM kept its key policy rate stable at 3.25% for the 10th consecutive session after July 2013 when it had lowered it from 3.50% as there are no price pressures, the economic growth is solid and there are positive developments in the credit market. The National Bank of FYROM will continue to closely monitor the macroeconomic developments and the possible materialisation of the risks and it will adjust monetary policy accordingly.



Source: Bloomberg

In Q3 2014, the growth of activities of banks continued as a result of the increasing level of financial intermediation and support for the economy. Credit expansion (in Euro terms) grew by 8.5% y/y in September 2014, from 9.0% y/y in August 2014 and 7.5% y/y in December 2013. In September 2014, loans to households increased by 11.5% y/y higher than loans to enterprises that increased by 6.4% y/y. The ratio of NPLs to total loans increased to 11.9% in August 2014 from 11.4% in July 2014 and 11.3% in December 2013. The loan-to-deposit ratio decreased to 89.5% in July 2014 from 91.3% in June 2014 and 89.5% in December 2013. Deposit growth (in Euro terms) stood at 8.0% y/y in September 2014 compared to 8.4% y/y in August 2014 but it was higher than 7.2% y/y in December 2013. The solvency of the banking sector further increased in Q2 2014, with the capital adequacy ratio increasing to 16.9% in Q2 2014 from 16.7% in Q1 2014 and 16.8% in Q4 2013. In June 2014, banks were using the deposit facility with the National Bank of FYROM for overcoming the short-term liquidity fluctuations.