

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

- May 26-27: G7 Summit

US

- May 24: New home sales (Apr)
- May 26
 - Jobless claims (weekly)
 - Durable goods orders (Apr)
 - Pending home sales (Apr)
- May 20
 - GDP (2nd est, Q116)
 - UoM consumer sentiment (May)

EUROZONE

- May 23: PMI manufacturing /services (May)
- May 24: DE:
 - GDP (details, Q116)
 - ZEW index (May)
- May 25: DE:
 - Gfk consumer confidence (May)
 - Ifo business climate (May)

GREECE

- May 23: Euro Working Group
- May 24: Eurogroup

SEE

BULGARIA

- May 27: Gross external debt (Apr)
- May 18: CAD (Mar)

ROMANIA

- May 23: 3.25% 2021 T-bond auction
- May 26: 2.5% 2019 T-bond auction

SERBIA

- May 25
 - 3.5% 2026 T-bonds auction
 - Real gross wages (Apr)

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: US macro data continued to surprise positively yesterday, reinforcing expectations that the Fed will likely push interest rates higher in the near future. Looking at today's calendar, focus is on the second estimate of US Q1 GDP which is expected to be revised higher to 1.0%QoQ saar from 0.5%QoQ saar in the advance estimate, following a flurry of encouraging data pertaining to Q1 that were released over the last few weeks.

GREECE: Following the agreement in principle of the May 24th Eurogroup for the release of the next loan tranche to Greece, domestic authorities have intensified their efforts for the completion of all pending issues. According to Greece's Minister of Finance Euclid Tsakalotos, upon fulfilment of all pending issues, an amount of €7.5bn will arrive in state coffers- reportedly expected in the second half of June- out of which €1.8bn will be channeled for the clearance of state arrears.

SOUTH EASTERN EUROPE

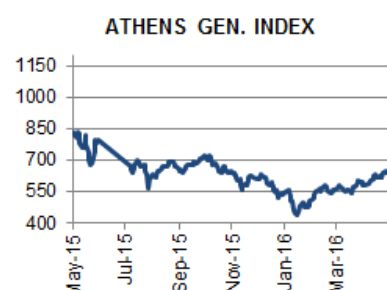
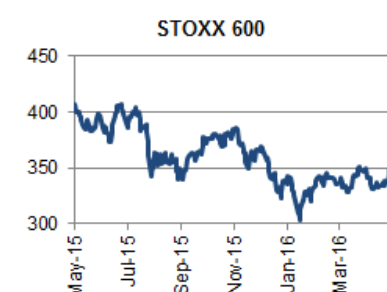
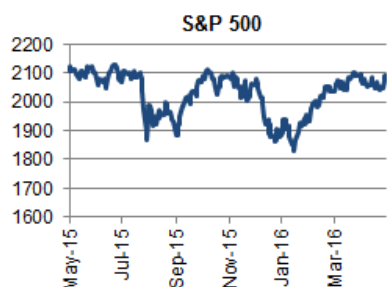
ROMANIA: The budget execution was balanced in the first four months of the year. Credit to the non-government sector dynamics remained relatively unchanged in April.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

US macro data continued to surprise positively yesterday, reinforcing expectations that the Fed will likely push interest rates higher in the near future. Pending home sales rose in April to their highest level in more than a decade supported by low mortgage rates and a continuing improvement in labor market conditions. Additionally, initial jobless claims fell by 10k the week that ended on May 21st remaining below the key psychologically level of 300k for the 64th straight week, the longest stretch since 1973. Separately, capital goods orders increased by 3.4%MoM in April higher than 1.9%MoM expected on strong demand for transportation equipment. However, with market participants eagerly awaiting a speech later today by Fed Chairperson Janet Yellen at Harvard University, the above firmer-than-expected US data failed to exert a significant impact in FX markets. The DXY index was hovering around 95.258 in European trade at the time of writing, not much changed compared to yesterday's levels and not too far from a two-month peak of 95.661 recorded a couple of sessions earlier. Elsewhere, US Treasuries moved higher supported by a well-received 7-year note auction of €28bn yesterday. The 10-yr paper was yielding levels around 1.827% after hitting an intersession high of 1.882% on Thursday, albeit still within a range of 1.70%-1.89% that prevails over the last four weeks or so. Looking at today's calendar, focus is on the second estimate of US Q1 GDP which is expected to be revised higher to 1.0%QoQ saar from 0.5%QoQ saar in the advance estimate, following a flurry of encouraging data pertaining to Q1 that were released over the last few weeks.

GREECE

Following the agreement in principle of the May 24th Eurogroup for the release of the next loan tranche to Greece, domestic authorities have intensified their efforts for the completion of all pending issues. According to comments by Greece's Minister of Finance Euclid Tsakalotos at a press conference yesterday, these issues include, inter alia, the following: (i) acceleration of the process for the finalization of the privatization plan of Elliniko. In an interview yesterday the Chairman of the Hellenic Republic Asset Development's Board of Directors (HRADF) Stergios Pitsiorlas expressed his optimism that the said plan will have been concluded by end- June; (ii) technical amendments to the legislation related to the NPL resolution framework so that it applies also to NPLs collateralized with Greek State guarantees; and (iii) operation and legal issues related to the establishment of the new Privatization Fund. According to the finance minister, upon fulfilment of all pending issues, an amount of €7.5bn will arrive in state coffers- reportedly expected in the second half of June- out of which €1.8bn will be channeled for the clearance of state arrears. Subject to completion of additional prior actions that were laid out in the May 24th Eurogroup statement, Greece will receive in September another €2.8bn, out of which €1.7bn will be directed for clearing arrears. According to Alternate Minister of Finance Giorgos Houliarakis, upon completion of the 2nd programme review, expected in November or December 2016, Greece will receive an additional amount of €1.4bn in official funding. Minister of Finance Euclid Tsakalotos expressed his hope that, following the successful completion of the 1st programme review, Greece could swiftly qualify for the inclusion of GGBs in the ECB's QE programme adding that the ECB could also soon decide the re-introduction of Greek collateral waiver.

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May 27, 2016

BULGARIA: Indicators	2014	2015e	2016f
Real GDP growth %	1.6	2.9	3.0
CPI (pa, yoy %)	-1.4	-0.1	1.0
Budget Balance/GDP*	-3.7	-3.3	-2.0
Current Account/GDP	0.9	1.5	1.0
EUR/BGN (eop)	1.9558		
	2015	current	2016f
Policy Rate (eop)	N/A	N/A	N/A

* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

CYPRUS: Indicators	2014	2015e	2016f
Real GDP growth %	-2.5	1.5	1.8
HICP (pa, yoy %)	-0.3	-1.5	0.5
Budget Balance/GDP*	-0.2	-0.9	-0.1
Current Account/GDP	-5.1	-5.5	-4.5

* ESA 2010

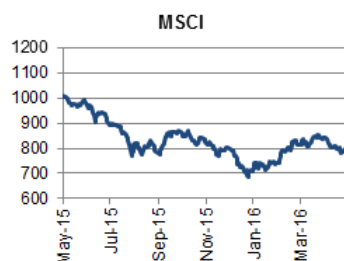
Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

ROMANIA: Indicator:	2014	2015e	2016f
Real GDP growth %	2.9	3.8	4.1
CPI (pa, yoy %)	1.1	-0.4	-0.1
Budget Balance/GDP *	-1.9	-1.9	-2.8
Current Account/GDP	-0.4	-1.0	-2.0
EUR/RON (eop)	4.48	4.52	4.35
	2015	current	2016f
Policy Rate (eop)	1.75	1.75	2.00

* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

SERBIA: Indicators	2014	2015e	2016f
Real GDP growth %	-1.8	0.7	1.8
CPI (pa, yoy %)	2.1	1.5	2.8
Budget Balance/GDP	-6.7	-3.7	-4.0
Current Account/GDP	-6.0	-4.7	-4.6
EUR/RSD (eop)	121.38	121.52	125.00
	2015	current	2016f
Policy Rate (eop)	4.25	4.25	4.00

Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

L-T ccy	Moody's	S&P	Fitch
SERBIA	B1	BB-	B+
ROMANIA	Baa3	BBB-	BBB-
BULGARIA	Baa2	BB+	BBB-
CYPRUS	B1	BB-	B+

Source: IMF, EC, Reuters, Bloomberg, National
Authorities, Eurobank Research

Latest world economic & market developments in the CESEE region

ROMANIA

The consolidated government in cash terms recorded a negligible surplus of RON127mn or 0.02% of projected GDP in January-April 2016 down from a surplus of RON5.96bn or 0.8% of GDP in the same period of 2015. The budget recorded a very poor result- a deficit of RON2.9bn in April only compared to a surplus of RON1.1bn in April 2015. The poor budget performance in April alone was the combined result of a contraction in total revenues (-2.8% YoY) coupled with an acceleration in total expenditure (+5.3% YoY). The slump in total revenues was driven by lower VAT revenues (-28.7% YoY in April only double than the contraction of March) mirroring the impact of the headline VAT rate cut by 4ppts effective from January 1st. In addition, the collapse of EU funds inflows as a result of the closing of the previous program period weighted further negatively (down by 87.7% YoY to RON 313.9mn in Jan-Apr).

On the other hand, total expenditure spiked by +5.3% YoY in January-April 2016 driven by the generous wages increases in the public sector. Staff costs were up by +8.4% YoY reflecting not only the wage hikes that were previously approved by the parliament for all public sector employees but also the rise of the minimum wage. Pension expenses were also up by +7.3% YoY in the same period. Overall, the risks of fiscal slippage in 2016-2017 have risen substantially. The unwarranted pro-cyclical fiscal stimulus ahead of the parliamentary elections this year, induced by the amended Fiscal Code tax-cuts and the wide-spread public sector wage rises threaten to push the fiscal deficit in cash terms above the 2.8% of GDP target (2.95% in ESA2010) in 2016 and further above the 3% threshold in 2017.

Credit to the non-government sector dynamics remained relatively unchanged in April. Driven by the robust local currency dynamics, non-government credit edged up to +0.1% MoM/+3.0% YoY in April up from 0.5% MoM/+2.8% YoY in March compared to -0.4% MoM/+2.4% YoY in February. RON denominated credit recorded a new post-crisis high at +1.7% MoM/+21.1% YoY in April compared to +2.3% MoM/+20.2% YoY in March up from 1.2% MoM/+20.7% YoY in February. FX denominated lending continued shrinking by 1.7% MoM/-12.0% YoY in April down from -1.4% MoM/-11.5% YoY in March compared -2.1% MoM/-11.9% YoY in February, which reflects the lack of new FX-lending as a result of the macro-prudential regulations in place but also the disposal of NPLs by the domestic banking sector at the end of last year. Summing up, lax monetary and credit conditions together with strong households' appetite for the state guaranteed mortgages scheme have supported the dynamic recovery in domestic credit expansion.

In other news, The Ministry of Finance sold at an auction on Thursday RON500mn of 3 Year T-bonds at an average accepted yield of 1.81%, marginally lower than the 1.85% achieved at a prior tender of the same maturity paper on April 21th. The amount of total bids came at RON 1.1bn, thus pushing the bid to cover ratio at 2.2.

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May 27, 2016

GLOBAL MARKETS

Stock markets	FOREX	Government Bonds	Commodities																																																																
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CESEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	287	1	-16
1-week	2.98	1	-21
1-month	3.12	2	-39
3-month	3.29	0	-54
6-month	3.54	0	-49

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.36	0	-23
5Y RSD	5.29	0	16
7Y RSD	6.09	-5	-161

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	2.69	-1	-48
USD Nov-24	6.22	0	-20

CDS

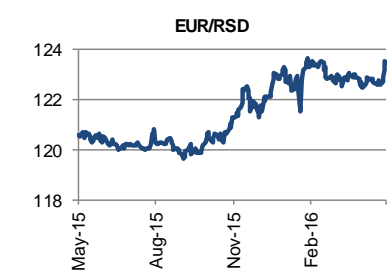
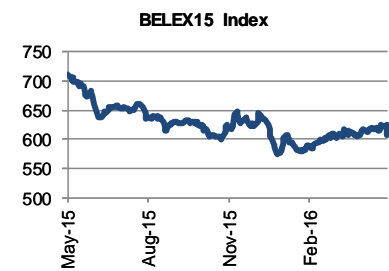
	Last	ΔDbps	ΔYTD bps
5-year	250	0	-24
10-year	291	0	-48

STOCKS

	Last	ΔD	ΔYTD
BELEX15	607.4	-0.12%	-5.69%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	123.40	0.09%	-1.47%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.44	0	-9
1-month	0.58	2	-11
3-month	0.75	2	-27
6-month	1.01	1	-33
12-month	1.17	2	-35

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.81	0	-12
5Y RON	2.68	0	-12
10Y RON	3.58	0	-20

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	2.47	N/A	-10
USD Jan-24	3.43	-9	-36

CDS

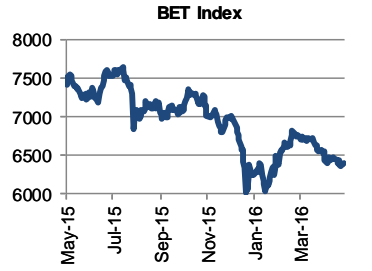
	Last	ΔDbps	ΔYTD bps
5-year	115	0	-18
10-year	155	0	-16

STOCKS

	Last	ΔD	ΔYTD
BET	6476.6	0.55%	-7.53%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.5084	-0.03%	0.12%



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	-0.40	0	-41
1-month	-0.15	0	-30
3-month	-0.03	0	-29
6-month	0.11	0	-42
12-month	0.45	0	-52

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	0.41	0	-20
5Y BGN	1.13	-1	-15
10Y BGN	2.42	0	-23

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	0.08	-4	1
EUR Sep-24	2.32	-5	-11

CDS

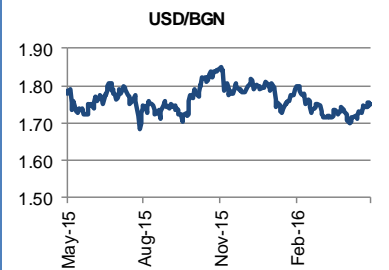
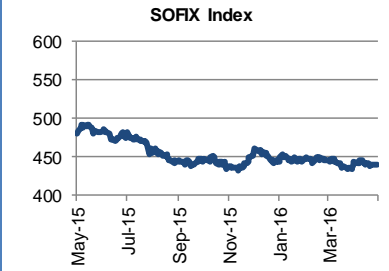
	Last	ΔDbps	ΔYTD bps
5-year	153	0	-19
10-year	198	0	-18

STOCKS

	Last	ΔD	ΔYTD
SOFIX	440.1	0.09%	-4.51%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7498	-0.13%	2.89%



Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research

Data updated as of 11:40 EEST of May 27, 2016

May 27, 2016

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