PIRAEUS BANK

SEE Economic Review

ECONOMIC ANALYSIS & MARKETS DIVISION

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Executive Summary: **Blue But Cloudy Skies in SEE**

As usual in the Q1 issue of our SEE Review, we publish our macroeconomic outlook for the countries in the region. Before we elaborate more on our 2012 projections it's always worthwhile to provide a critical assessment on developments that took place in the course of 2011. Looking back in 2011(although the final figures for the year are not yet available), it becomes obvious that the priorities of the countries in the region have shifted from a growth at-all-costs attitude towards an effort for a more balanced approach to economic development. This is primarily evident in the significant improvement of the current account balances in the region. The most impressive improvement has been that of Bulgaria's that has managed to shift from a CA deficit of 1.3% in 2010 to an estimated surplus of 1.2% last year. The second area of improvement was the fiscal balances of the SEE economies where most governments managed to achieve deficits very close to their targets, even though extra measures were often required. Such an effort of course came at the price of positive yet below our expectations GDP growth. Most economies undershot our estimates and only Romania seems to be providing a positive surprise. One outlier in all directions appears to be Cyprus. The Cypriot economy underperformed versus our expectations in GDP growth, fiscal balances and current account deficit. Without any attempt to underestimate the structural issues of the Cypriot economy we can not ignore the substantial impact that the destruction of the Vassilikos power plant had on economic activity, tax revenues and government expenditure. As the situation normalizes we expect a substantial reversal of this trend going forwards.

Turning now our attention to 2012, we maintain our positive stance towards the region. Nevertheless this should be seen as a relative assessment i.e. positive compared to our view for the Euroarea as a whole and especially the EU-periphery, rather than an absolute one i.e. not against their past performance or their growth potential. In an apparent reversal of roles developments in the Euroarea have stopped acting as a paragon of stability and growth for the region. Instead, we estimate that a mild recession in the Euroarea over the course of the year coupled with renewed pressure on EU banks to deleverage will be the two key negative factors affecting the prospects in the SEE region. As a result, we expect Albania to grow by 2.7% (vs. 2.6% expected GDP growth in 2011), Serbia by 1%(vs. 1.5% expected GDP growth in 2011), Bulgaria by 0.7% (vs. 2.5% expected GDP growth in 2011), Cyprus by -0.7% (vs. 0.4% expected GDP growth in 2011) and Romania by 1.4% (vs. 3% expected GDP growth in 2011).

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1. The SEE Outlook

The 2008 – 2009 financial crisis as well as the more recent eurozone public debt crisis have underlined the risks inherent in any attempt to provide a meaningful macroeconomic outlook. The extent to which past correlations will hold in the future and the effect of major shocks with a world-wide impact are two facts that demand even more rigorous analysis of data and willingness to look in areas that were previously less well analyzed.

Therefore, in determining our outlook for all the countries studied, we examined the economic situation in these countries throughout the last decade. However, special emphasis was placed on a multitude of more recent data and the search for leading indicators widened to include many figures. Still, the relationships found were sometimes counter-intuitive and thus further explanations were sought as factors related to austerity programs and special conditions in each economy played a determining role.

It is thus our view that the cohesive picture presented here offers a good perspective on these countries' economies. Seasonally adjusted quarterly data were used on all projections in order to incorporate the latest 2011 data available for every country. However, risks to the baseline scenario remain high and thus our analysis will also point out the qualitative factors that may affect the outcome.

1.1 Bulgaria

In Bulgaria's case, the decade up to 2009 has been one of high growth, increasing GDP per capita, rapidly decreasing unemployment and positive fiscal balances. At the same time, the current account deficit increased tremendously (becoming one of the highest in the region) with imports rising much faster than exports. At the start of 2009 a quick reversal of the trends described was evident. Growth turned negative, unemployment started a quick climb and, at the same time, imports plummeted at a rate much higher than that of exports. Investment also sharply contracted and public finances took a serious hit.

An export-led recovery is what followed. Since 2010H1 exports have picked up substantially, a change that became even more pronounced in 2010H2 and 2011H1. Thus, an export-led growth was witnessed in the whole of 2011 for Bulgaria that was followed by smaller but positive changes in public and private consumption. However, the contraction in gross fixed capital formation continued in 2010 and public finances are still strained despite some very positive developments.

Our view for 2012, based on recent developments in the entire European Union and the Eurozone in particular, is that although public and private consumption will continue to

exhibit a modest growth, exports will stagnate leading to a GDP growth much lower than that forecasted for 2011. For the whole 2012 we expect a modest GDP growth of 0.7% annually vis-à-vis a 0.3% contraction that we forecast for the Euroarea economies.

Specifically looking at the GDP components, private consumption during the first three quarters of 2011 started increasing again after two years of declines. We expect this trend to continue in 2011Q4 and up to 2012Q3, and thus expect private consumption to be an important driving factor behind the positive rate of GDP growth forecasted for 2012. Public consumption, on the other hand, after almost four years of declines has picked up once again in 2011, a trend we expect to continue in 2012.

Gross Fixed Investment has fallen off substantially in 2009 and 2010. The rise of private and public consumption, as well as the substantial increases in industrial production in 2010 and 2011 led to a modest increase in 2011. The same factors (industrial production, private and public consumption) seem to drive gross capital formation to grow impressively by 6.8% YoY in 2012. Finally, the export story has been one of continued increases in 2010 and 2011. In 2012 we expect exports to come to a standstill leading to an actual contraction as Bulgaria's main exports markets are faced with the prospect of low or negative growth. Imports are still rebounding after a big drop from their 2008 highs and we expect a large increase in 2011 and a smaller one in 2012 corresponding to the changes in private consumption.

In terms of inflation the 2011 Harmonized Index of Consumer Prices (HICP) yearly change was 3.4% while for 2012 a similar rate of change is forecasted. The underlying forces that drive Bulgarian inflation are not expected to change substantially as the worldwide economic slowdown is expected to cause only marginal changes in oil and food prices as is also evident by their respective futures' prices.

The current account situation in Bulgaria during the last few quarters has shown a reversal of the previous decades' trend. We expect 2011 to be the first year this century where Bulgaria exhibits a positive current account balance, however, weaker exports and increases in imports will lead to a small (but not negligible) deficit in 2012.

The fiscal deficit in Bulgaria has been a relative success story, as the high deficit of 2009 has been slowly but steadily decreasing. The government's adoption of a Financial Stability Pact and the resulting limits in expenditures bode well for the future. Developments in 2011 have been positive in the privatizations front as the successful sale of Bulgartabak is a positive sign for the future.

	2010	2011	2012
Real GDP % YoY	0.2	2.5	0.7
Private Consumption	-1.3	1.8	0.6
Public Consumption	-2.1*	0.9	1.1
Gross Fixed Investment	-16.5	2.0	6.8
Exports	16.2	9.6	-0.9
Imports	4.5	6.7	2.6
HICP % YoY	3.0	3.4	3.3
Current Account Balance % of GDP	-1.3	1.2	-1.5
Fiscal Balance % of GDP	-4.0	-2.1	-1.3

**based on SA quarterly data*

Source: Piraeus Bank Research, National Sources, Eurostat

1.2 Cyprus

Cyprus in the last decade has seen a rise in its status as a major financial center in the region combined with high growth rates and relatively solid fundamentals. However, its reliance on financial activities and the high exposure of its banks to the Greek economy, both in terms of Greek Government Bonds and it terms of businesses and consumers has put a strain both on the country's current macro-economic situation (high current account and fiscal deficits, low growth) as well as on its future prospects.

Our outlook for Cyprus is based on the assumption that Cyprus is primarily a service economy, highly integrated with the global system, and in particular with Europe as a whole and especially with Russia, a major trading partner and recently a contributor to the public sector through the loan agreement of December 2011. The EU's growth profile also has a great impact not only on Cypriot exports but also on its imports and the behavior of its consumers. Moreover, the prospects of banking and real estate in Cyprus were taken into account in order to arrive at our forecasts.

In particular our view on GDP growth is marginally positive for 2011 and marginally negative for 2012. The growth drivers of the previous decade are not expected to reach their pre-crisis levels soon. However, the economy seems to be adjusting to the new realities and a new level for all figures seems to be emerging.

Consumption will not be a major driver of GDP growth in the foreseeable future. Although private consumption is expected to grow at a very low pace in both 2011 and 2012, public consumption will certainly take a dive as measures, both implemented and announced, will have a severe impact on public finances. Fixed investment has been on a downward spiral since 2009 and this trend is expected to continue well into 2012 and beyond. In 2011 some relief has been provided by exports but in 2012 we anticipate a very slight negative change in export volume. The growth rate of imports, on the other hand, declined in 2011 and we expect it to turn negative during 2012.

Inflation has increased in 2011, with HICP for 2011 ending with an average increase of 3.5%, while in 2012 we expect this figure to go down, alongside inflation in most advanced economies. Finally, fiscal imbalances have recently been the focus of much discussion among Cyprus' politicians and public and a major reduction in deficit is forecasted for 2012.

Looking forward, the question of whether Cyprus will be able to attract the kind and magnitude of foreign investment and financial flows it has attracted in the past remains critical. Wage rigidities and administrative inefficiencies in some sectors of the Cypriot economy as well as the low levels of technological innovation represent some of the major threats to Cyprus' profile as a high-value-added services exporter. On the other hand, public financial management risks and the dependence of the Cypriot banking system on non-Cypriot external sources of funds and income put further strains on our short-term view of the Cypriot economy.

	2010	2011	2012
Real GDP % YoY	1.1	0.4	-0.7
Private Consumption	2.4	0.7	0.3
Public Consumption	0.6	-3.3	-4.2
Gross Fixed Investment	-6.9	-9.0	-8.1
Exports	6.1	4.1	-0.2
Imports	5.1	0.5	-2.7
HICP % YoY	2.6	3.5	2.4
Current Account Balance % of GDP	-7.8	-7.2	-5.0
Fiscal Balance % of GDP	-4.9	-7.0	-4.0

Source: Piraeus Bank research, Eurostat

1.3 Romania

Romania has been the hardest hit among the countries of South Eastern Europe by the 2008–2009 crisis, leading to a precautionary agreement with the IMF. After a tough austerity program that included cuts in the number and the salaries of public sector employees, as well as a reduction in social benefits and the freezing of pensions, living standards have been affected considerably. More recently, a controversial health reform has forced people to protest in large numbers, sometimes with violent outcomes. Tensions in the country continue to run high and the positive signs that have appeared on many fronts do not seem to quell the public' discontent over the stabilization measures already taken or announced.

On the growth front, after a two-year period of negative growth, 2011 sees a reversal of the downward trend in 2011, with solid growth numbers through Q3 that we expect to continue in 2011Q4 and through 2012H1. Thus, we expect a healthy 3% annual GDP growth in 2011 followed by a lower but still positive 1.4% YoY growth in 2012. The slower growth for 2012 can be partly attributed to the expected slowdown in export growth, after two phenomenal years in 2010 and 2011, while special attributes of the Romanian economy (such as the

presence of a large agricultural sector) seem to be working in its favour in the current climate.

In terms of GDP components, private consumption is edging up after many quarters of negative growth and we expect that to continue during most of 2012. Public consumption has been on a downward slope, given the country's fiscal difficulties, and, although we predict smaller decreases in 2011 and 2012, the contraction will continue. Gross fixed investment (and especially real estate) has been a driving force behind Romania's GDP growth up to 2008. After two years of significant declines, we expect 2011 and 2012 to signal stabilization in the level of investment. Finally, the exports and imports situation is tricky, as in recent years exports and imports have tended to rise or fall simultaneously. For, 2012, we predict a slight decoupling of the two figures, as exports are expected to rise (even slightly), while imports are expected to decrease.

The HICP in Romania has been climbing fast in the past, while the pace has slowed down more recently. In 2011, the change from the previous year's number is small (5.8% vs. 6.1% in 2010) however during 2012 we will see a more marked decline to a number close to 2.8%. In fact the numbers for 2011Q3 and 2011Q4 already point towards such a shift as they are markedly lower than the first two quarters of 2011.

The current account situation has been steadily improving since 2007 and we expect the same trend to continue manifesting in both 2011 and 2012. Thus, the current account deficit is expected to close at 3.3% of GDP in 2011 and decrease even further, to 1.7% of GDP in 2012.

In terms of the fiscal balance, the government is closely monitored by the EU and the IMF and has begun a trajectory leading to diminished deficits. However, the need to placate certain groups in the Romanian society and alleviate the effects of the probable deleveraging of foreign-owned banks might lead the government to a more relaxed stance in 2012. Next year is also an election year and given the power of the opposition coalition, the government is expected to take some popular measures. Nevertheless, the deficit is still expected to shrink in 2012 to levels at or below 3%.

	2010*	2011	2012
Real GDP % YoY	-1.6	3.0	1.4
Private Consumption	-1.7	0.5	1.7
Public Consumption	-3.5	-1.9	-0.7
Gross Fixed Investment	-15.0	1.2	0.6
Exports	14.5	10.1	0.3
Imports	12.3	5.9	-5.2
HICP % YoY	6.1	5.8	2.8
Current Account Balance % of GDP	-4.1	-3.3	-1.7
Fiscal Balance % of GDP	-6.5	-4.4	-3.0

*based on SA quarterly data

Source: Piraeus Bank research, Eurostat

1.4 Albania

Albania during the last decade has seen what can only be called an explosive growth, for many years since 2000. With a steady growth of about 6% during this period and a lower level of integration with the rest of Europe than other countries in the region, the 2008 – 2009 crisis left Albania relatively unscathed. Being the only country in the region that continued to grow, quarter after quarter throughout 2009 and 2010, Albania has been in a unique position. However, several of the problems that plagued the region in 2009 and 2010 (rising unemployment, fiscal imbalances) were also present in Albania.

The rapid rise in per capita GDP has slowed down somewhat and, despite the clever use of fiscal and monetary policy the private sector of the economy has faced some problems. Going forward, we foresee that although the challenges are great, there are many positive signs that point towards developments that are in line with the country's progress so far.

Specifically, we expect Albanian GDP to grow by 2.6% YoY and 2.7% for 2011 and 2012, respectively. Manufacturing industry and the services sector are still growing, while construction has slowed down since late 2008, a trend that is hard to reverse. Consumer prices are forecasted to rise 3.5% in 2011 and 3.2% in 2012. The current account balance situation is forecasted to improve in both 2011 and 2012 with the major reduction in the deficit occurring in 2012. Finally, the fiscal balance situation is expected to worsen in 2011 and improve in 2012 bring the budget deficit to its pre-2008 levels.

The major risk factor for these projections is the country's dependence on foreign trade and remittances for a large part of its growth. Linkages to Greece and Italy represent a major threat in the current environment although Albania has opened up other export markets and is also trying to attract foreign investment from a multitude of sources.

	2010	2011	2012
Real GDP % YoY	3.9	2.6	2.7
Consumer Prices % YoY	3.6	3.5	3.2
Current Account Balance % of GDP	-11.6	-11.7	-9.7
Fiscal Balance % of GDP	-3.1	-4.2	-3.7

Source: Piraeus Bank research, National Sources

1.5 Serbia

Serbia's growth in the past decade has been relatively high until 2009 with growth rates as high as 9.3%. However, this growth did not affect substantially the unemployment situation, while inflation was continuously high and the current account balance deteriorated year after year. As a result, the onset of the 2008 – 2009 found Serbia ill-prepared to deal with its effects and the external imbalances necessitated for an exceptional access SBA with the IMF. GDP growth turned negative, unemployment soared once again (reversing the small gains of the 2007 – 2008 period) and fiscal imbalances were accentuated. More recently, the data are pointing to an improvement however, critical indicators remain problematic. This dichotomy is also reflected in our forecasts for 2011 and 2012 that paint a mixed picture.

Specifically, although exports and investment continue to grow, other indicators paint a less rosy picture. Unemployment, in particular, is a major concern as it keeps rising undaunted by the government's efforts and despite the fact that unlike other SEE countries Serbia has not seen a substantial reduction in public sector employment.

The other major concern is inflation that is rising, with some relief coming in the final months of 2011. Despite our forecast of 5.4% we see a substantial risk for average 2012 inflation to end up even higher. High inflation and a slow adoption of fiscal austerity measures have put pressure on public finances. Fiscal Balance has been deteriorating the past few years and we predict just a mild positive change for 2012. Structural reforms have also slowed down in 2011, while the current account deficit has been increasing.

In terms of growth, the numbers are still on the positive side with mild increases in 2011 and 2012. Exports will still be a driving force for growth, while domestic demand does not seem to pick up. Overall, it seems that agriculture will still be a positive influence and the availability of IMF's financing seems to guarantee a measure of stability for the Serbian economy despite the global economic headwinds.

Political stability is also a key component in any future developments. The elections in 2012 may bring about some tensions, given the country's history of governments with thin parliamentary majorities. However, the plans to cut public expenditures provide some level of confidence for fiscal developments.

	2010	2011	2012
Real GDP % YoY	1.0	1.5	1.0
Consumer Prices % YoY	6.2	11.0	5.4
Current Account Balance % of GDP	-7.2	-7.5	-8.5
Fiscal Balance % of GDP	-3.4	-4.6	-4.4

Source: Piraeus Bank research, National Sources

2. Table of Forecasts

Table of Economic Forecasts								
	Real GDP (% YoY)		Inflation		Fiscal Balance (% GDP)		Current Account Balance (% GDP)	
	2011	2012	2011	2012	2011	2012	2011	2012
Albania	2.6	2.7	3.5	3.2	-4.2	-3.7	-11.7	-9.7
Bulgaria	2.5	0.7	3.4	3.3	-2.1	-1.3	1.2	-1.5
Cyprus	0.4	-0.7	3.5	2.4	-7.0	-4.0	-7.2	-5.0
Romania	3.0	1.4	5.8	2.8	-4.4	-3.0	-3.3	-1.7
Serbia	1.5	1.0	11.0	5.4	-4.6	-4.4	-7.5	-8.5

Source: Piraeus Bank Research

3. Conjunctural Analysis

3.1 Albania

The annual growth of economic activity in 2011Q2 took a plunge

Although Albania has weathered the global crisis of 2008 well, the need for restructuring the local economy has increased. The annual growth of economic activity in 2011Q2 took a plunge as real GDP slowed down to 0.5% YoY from 3.8% in 2011Q1 and 2.8% in the corresponding quarter of 2010, mainly due to a contraction in the industrial and construction sectors. Specifically, the industrial sector – which was the main growth driver of real GDP in the last six quarters – decreased for the first time since 2007 by 8.5% YoY in 2011Q2 following an increase by 13.4% in the previous quarter and 21.3% in 2010Q2. Accordingly, the construction sector returned to contraction in 2011Q2 at 1.7% YoY after a one-off increase recorded in 2011Q1 at 4.8% and compared to a decline by 30.1% the same quarter in 2010. On the other hand, the main growth drivers in 2011Q2 were the agricultural and transport sectors. In the agricultural sector, due to a favourable crop season, the annual growth rate accelerated to 3.4% in 2011Q2 from 2.8% in the previous quarter and 9.2% in 2010Q2. Additionally, output in the transport sector rose by 14.9% in 2011Q2 from 13.8% in 2011Q1 and 5.7% in the corresponding quarter in 2010. In quarterly terms, real GDP (seasonally adjusted) contracted by 1.7% in 2011Q2 down from 1.4% growth in the previous quarter.

A decrease in aggregate demand and private consumption is expected

Looking at the available leading economic indicators we note that retail sales in June contracted for the seventh consecutive month by 3.2% YoY from 5.9% in May, while all sub-indices show signs of moderation, signaling a decrease in aggregate demand and private consumption. Further, the unemployment rate in 2011Q2 slowed down marginally to 13.26% from 13.49% in 2011Q1 and the construction cost index in 2011Q1 increased by 0.4% YoY from 0.1% in 2011Q2. The Economic Sentiment Indicator in 2011Q3 improved moderately to 87.9 from 87.4 in 2011Q2 and 89.5 in the same quarter in 2010. This improvement however is well below the level of 100 that separates the positive from the negative future expectations, signaling that consumers and businesses expect a deterioration of economic activity.

BoA decided to cut the interest rate by 50bps since September

Inflationary pressures have been subdued as food prices decelerated in November for a sixth consecutive month and a stronger currency contained imported inflation. Following the historic low of the last eleven months in September at 2.8%, inflation in November slowed down at 2.9% from 3.0% in October, while on monthly terms the consumer price index rose 0.1% from 0.4% in the previous month. Food prices accordingly increased at a slower rate in November by

3.6% YoY from 3.9% in October. Following the downward trend of the inflationary pressures and the expectation of a more prudent fiscal policy, the Bank of Albania (BoA) has decided to cut the key interest rate, by 50bps in total, to 4.75%. On the supply-side, the producers' price index continued its slow decline that started in February 2011. Specifically, the index in September was 0.92% YoY from 0.93% in August.

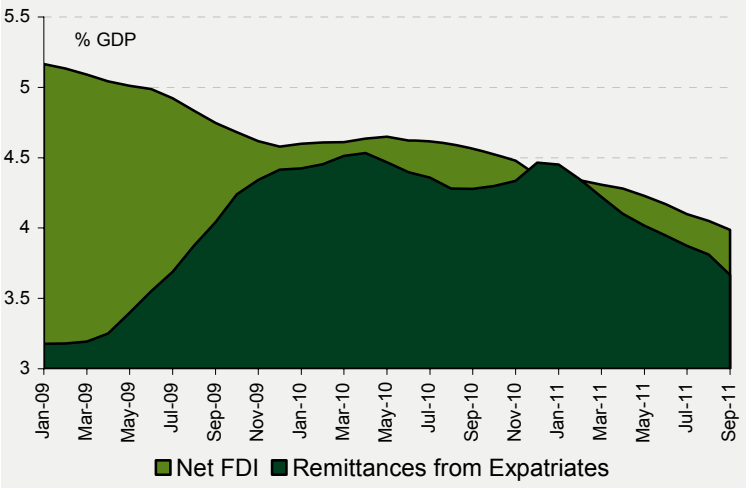
Political polarization in Albania has curtailed the necessary reforms

The political polarization in Albania has curtailed the drive to implement much needed reforms and exercise fiscal prudence. Hence, fiscal finances continue to deteriorate while the target for this year's budget deficit has been revised upwards to 3.5% of GDP from the 3.1% realized in 2010. The Jan-Nov budget deficit widened to 2.9% of the expected annual GDP from 1.9% in Jan-Nov the previous year due to a moderation of budget revenues to 22.4% of GDP from 23.7% in the same period. We must note that one of the main challenges the government faces is the high ratio of interest payments to revenues as well as high government debt. Public expenditures in Jan-Nov slowed down to 25.2% of GDP from 25.6% in the corresponding period of 2010. In view of these facts, Standard & Poor's affirmed Albania's Long- and Short-Term Foreign/Local currency at B+/B with a stable outlook. Further, the government approved the 2012 Budget, aiming at macroeconomic stability, the implementation of infrastructure projects and the increase of incomes. The budget revenues are targeted at EUR 2.5b (2.9% higher that the revised 2011 figure), expenditures are targeted at EUR 2.78bn. (1.15% higher that the revised 2011 figure), while the fiscal deficit is expected to reach the 3.0% of GDP in 2012.

External imbalances persist as current account deficit in Jan-Sep hovered at 8.8% of GDP

External imbalances persist as the current account deficit in the first nine months of the year hovered at 8.8% of the expected annual GDP from 7.4% in Jan-Sep last year. Trade deficit was the main reason for the worsening of the current account deficit for yet another period, as it reached 16.8% of GDP in Jan-Sep from 16.5% the same period of 2010, while services and income surpluses remained at low levels. Current transfers surplus moderated in the first nine months of the current year at 6.6% of GDP from 7.6% in Jan-Sep last year, while the financing of the current account deficit decreased as FDIs in Jan-Sep were 4.6% of GDP compared to 6.4% in the previous year.

Albania – Net FDI & Remittances from Expatriates (12m MA)



Source: Piraeus Bank Research, National Bank of Albania

Local financial system is stable - while liquidity is improving

In the latest Financial Stability Report, the CBA expects that economic activity will slow down in 2011H2 compared to 2011H1 due to the global economic downturn; as a result there will be an increase in savings of Albanian households causing a corresponding drop in consumption. Hence, business activity and investments are expected to moderate, and thus business lending will decrease. The local financial system is stable, while liquidity is improving amidst the increase in savings. NPLs (substandard, doubtful and loss loans) ratio increased in 2011Q3 to 18.03% from 16.6% in 2011Q2 and 13.5% in the same quarter of the previous year, while provisions deteriorated accordingly to 10.2% in 2011Q3 from 8.2% in 2010Q3.

Albania Economic Indicators

	2008	2009	2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011
			% YoY				
GDP	7.8	3.6	3.9	5.6	3.8	0.5	--
Consumer Prices	3.4	2.3	3.6	3.1	4.0	4.1	3.2
Producer Prices	6.6	-1.7	0.3	0.6	3.1	3.3	2.2
Unemployment rate	12.7	13.8	13.5	13.5	13.5	13.3	13.3
Construction Cost Index	1.2	0.0	0.3	0.5	0.5	0.1	0.4
Credit to the Private Sector	34.8	11.1	9.7	9.7	10.6	11.5	14.6
Deposits	2.2	6.9	18.5	18.5	15.2	15.7	13.3
			% of GDP				
Fiscal Balance	-0.9	-0.1	-3.1	-3.1	-0.9	-2.0	-2.4
Current Account Balance	-15.5	-15.1	-11.6	-11.6	-2.4	-5.9	-8.8
FDI	15.9	7.6	9.2	9.2	0.4	2.8	4.6

Albania Banking Indicators

	2006	2007	2008	2009	2010	2011
Bank NPLs to Total Loans	3.1	3.4	6.6	10.5	13.9	14.4
Bank Provisions to NPLs	56.3	47.2	42.8	51.3	52.7	56.8
Return on Assets	1.4	1.6	0.9	0.4	0.7	0.3
Return on Equity	20.2	20.7	11.4	4.6	7.6	2.9
Financial Leverage	14.4	12.9	12.7	11.5	10.9	9.7
Bank Capital to Assets (%)	6.8	7.6	8.6	9.6	8.5	9.1
Bank Regulatory Capital to Risk-Weighted Assets (%)	18.1	17.1	17.2	16.2	15.4	14.8

Source: Piraeus Bank Research, National Sources, IMF

3.2 Bulgaria

Economic recovery in 2011Q3 has slowed to a standstill

Economic recovery in Bulgaria has shown remarkable resilience but since 2011Q3 has started to lose momentum. Real GDP (seasonally adjusted) in 2011Q3 slowed down to 1.6% YoY from 2.0% in 2011Q2 but accelerated compared to 0.0% in the corresponding quarter last year. A drop in investments and exports is the main factor behind this deceleration, given that in the past six quarters exports had driven the economy, while final consumption kept real GDP elevated. Investments in 2011Q3 shrunk by 2.8% YoY from an increase by 8.4% in 2011Q2, while net exports decreased by 6.1% YoY in 2011Q3 compared to an increase by 4.6% in the previous quarter. Final consumption in 2011Q3 increased marginally by 1.6% YoY from 1.4% in the previous quarter. In quarterly terms, real GDP in 2011Q3 increased by 0.3% (same as in 2011Q2) from 0.7% the corresponding quarter in 2010.

Leading economic indicators point to a future marginal slowdown

The available leading economic indicators point to a future marginal slowdown in the economy. Industrial production (seasonally adjusted) in October increased to 2.4% YoY from its 16-month low of 1.8% in September. However, production remains at low levels as manufacturing and energy-supply sectors remain subdued. At the consumers' front, retail trade (seasonally adjusted) in October increased but at a slower pace of 2.8% YoY compared to 3.5% in the previous month. Consumers however have been very cautious lately as the uncertainty over the debt crisis in the Euro-area continues. We must note however that there is a firm medium-term growth prospect assuming that the absorption of the EU funds will improve in the future.

As international prices & aggregate demand remain subdued - inflationary pressures are confined

As international food and commodity prices continue to decelerate and aggregate demand remains subdued, inflationary pressures are contained. Inflation reached 3.1% in November from 3.5% in October and its record high of 5.6% in March this year. In monthly terms the consumer price index increased by 0.3% in November from 0.8% in October. Food prices decelerated to 4.6% YoY in November from 5.3% in the previous month. The housing, water and electricity prices remain almost unchanged in the last months, though transport prices slowed down to 6.9% YoY in November from 7.9% in October. Further, the producer price index increased to 6.4% YoY in October from 6.6% in September signaling that the pass-through effect will lead to a future deceleration in headline inflation.

The government is committed to a further budget consolidation

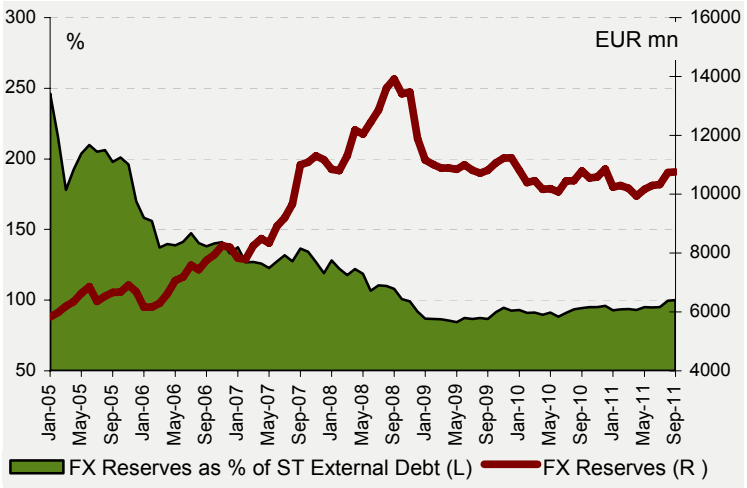
The strong track record of fiscal consolidation that the government followed in 2011 has led to an impressive correction of the fiscal deficit that also pulls the country out of the EU's excessive deficit procedure. The government has committed to a further budget consolidation by freezing wages, reforming the pension system, and increasing the retirement age and extending the working period. The fiscal deficit in the period Jan-Oct reached 1.1% of the expected annual GDP compared to 2.7% in the same period of 2010, as public

revenues remained flat at 27.3% in both 2010 and 2011. Expenditures though decelerated to 27.6% of GDP in Jan-Oct this year compared to 29.2% in Jan-Oct last year. In addition, it is noteworthy that the government has adopted a Financial Stability Pact that is expected to limit expenditures to 40% of GDP and the budget deficit to 2.0% of GDP. This was reflected in Standard & Poor's December release that affirmed the country's Long- and Short-term Foreign Currency ratings to BBB/A-3, with a Stable outlook. Further, the government recently adopted the 2012 Budget aiming at a fiscal deficit of 1.3% of GDP and an economic growth rate of 1.3% YoY.

Current account surplus remained high feeding from low aggregate demand & private consumption

Current account surplus remained high feeding from the low levels of aggregate demand and private consumption. In the period Jan-Oct, the current account surplus reached 3.3% of GDP from a surplus of 0.7% in Jan-Oct last year, as trade deficit has shrunk to 3.1% of GDP from 5.4% in the same period. Further, the services balance has increased in the ten-month period compared to last year. We must, however, stress the improvement of the net FDI after a period of negligible flows in the previous eight months – a fact that allows the comfortable financing of the current account deficit. Net FDIs reached in Jan-Oct 1.7% of GDP from 3.1% in the same period in 2010 though a low average of 0.4% in the first eight months of the current year. Further, the currency board remains adequately supported as foreign exchange reserves in September covered 100.1% of the country's short-term debt, while fiscal reserves at the national bank in October reached BGN 5.3bn. (Government's target set at BGN 4.5bn.).

Bulgaria – Foreign Exchange Reserves & External Debt



Source: Piraeus Bank Research, Bulgaria National Bank, Datastream

The local banking system remains well-capitalized

The local banking system remains well-capitalized as the Tier I Capital Adequacy ratio is 17.8% in 2011Q3, while it also preserves the appropriate liquidity to weather the current headwinds from European banks' deleveraging. Lending in the private sector increased to 2.5% YoY in October from 1.3% in the same month of 2010, while credit in non-financial corporations increased by 4.1% YoY from 2.2% in the same months. Lending to households continued to decrease in October by 0.1% YoY from 0.2% in the same month of 2010.

Bulgaria Economic Indicators							
	2008	2009	2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011
		% YoY					
GDP (non sa)	6.2	-5.5	0.2	3.1	1.5	2.2	2.3
Final Consumption	2.6	-7.3	-1.1	1.0	-1.6	2.5	3.7
Investment	21.9	-17.6	-16.5	3.2	-12.4	-9.1	-3.9
Exports of G&S	3.0	-11.2	16.2	15.8	25.8	12.3	2.3
Imports of G&S	4.2	-21.0	4.5	10.7	10.0	7.5	8.0
Industrial Production (SA)	0.7	-18.1	2.0	0.0	0.7	-0.1	0.0
Unemployment Rate	6.3	9.1	9.2	9.2	10.7	9.7	9.4
Inflation	12.4	2.8	2.4	4.3	5.1	4.8	3.9
		% of GDP					
Current Account Balance	-23.1	-8.9	-1.3	-1.3	0.4	0.6	3.5
FDI	19.0	7.0	4.9	4.9	-0.2	0.3	1.4
External Debt	105.1	108.3	102.8	102.8	92.1	92.7	92.0
Cash Deficit(-)/Surplus(+)	2.9	-0.9	-4.0	-1.8	-1.0	-0.8	-1.1
Base Interest Rate	5.12	2.40	0.20	0.17	0.18	0.21	0.18
EUR/BGN				1.95583			
USD/BGN	1.39	1.36	1.47	1.47	1.38	1.35	1.45
Bulgaria Banking Indicators							
		% YoY					
Private Sector	32.5	3.6	1.2	1.2	1.6	2.3	2.5
Firms	33.1	2.3	2.4	2.4	3.0	4.1	4.1
Households & NPISHs	31.4	5.8	-0.8	-0.8	-0.7	-0.6	-0.2
Private Sector Deposits	14.0	10.9	6.8	6.8	6.5	8.4	11.6
		% of GDP					
Domestic credit	64.3	69.6	71.0	71.0	66.8	66.9	67.9
Claims on government sector	-7.5	-5.9	-3.2	-3.2	-1.1	-1.7	-1.3
Claims on non-government sector	71.7	75.5	74.2	74.2	67.9	68.6	69.2
Claims on households and NPISHs	26.1	28.0	26.9	26.9	24.6	24.6	24.6
		2006	2007	2008	2009	2010	2011
Bank NPLs to Total Loans		2.2	2.1	2.5	6.4	11.9	13.5
Bank Provisions to NPLs		109.9	100.4	109.0	81.0	74.1	71.2
Return on Assets		2.2	2.4	2.1	1.1	0.9	0.9
Return on Equity		25.0	24.8	23.1	10.2	7.9	7.9
Financial Leverage		11.4	10.3	11.0	9.3	8.8	8.8
Bank Capital to Assets (%)		7.3	7.7	8.5	10.8	10.5	10.6
Bank Regulatory Capital to Risk-Weighted Assets (%)		14.5	13.8	14.9	17.0	17.5	17.7

Source: Piraeus Bank Research, National Sources, IMF

3.3 Cyprus

Economic activity in 2011Q3 plummeted for the first time since the previous global financial turmoil

Economic activity in 2011Q3 plummeted as real GDP contracted by 0.5% YoY down from growth of 1.3% in 2011Q2 and 2.2% in the same quarter of 2010. This is the first time real GDP declined since the previous global financial turmoil in 2009/10 as investments and final consumption turned negative. Specifically, investments shrunk for a second consecutive quarter by 15.4% YoY in 2011Q3 from 6.1% in 2011Q2 and a respective decline by 7.8% in 2010Q3, while final consumption decreased by 0.1% YoY in 2011Q3 from 0% the previous quarter and an increase of 3.8% in 2010Q3. This decline reflects the moderation of aggregate demand as the local and European economic environment remained unstable. Exports' growth moderated in 2011Q3 to 5.8% from 7.1% in 2011Q2 and 6.4% in the same quarter of 2010, while imports declined by 1.0% YoY in 2011Q3 from an increase of 1.0% in the previous quarter and 3.8% in 2010Q2. In quarterly terms, real GDP declined by 0.7% in 2011Q3 from an increase of 1.0% in the same quarter last year.

Investors' interest & confidence is expected to shoot up as conclusions of search for oil & gas deposits were positive

Investors' interest and confidence though is expected to shoot up as the conclusions of the search for oil and gas deposits in Cyprus' Block 12 were far more positive than expected. Initial data from the exploratory drilling and evaluation checks indicate a gas reservoir of a gross mean of 7tcf. In the short-tem though, available leading indicators signal a further decrease in economic activity. Specifically industrial production in September shrunk for yet another month by 11.9% YoY from 11.8% in August as the limited electric power in the country restricted production. On the demand side, retail sales growth slowed down to 3.0% YoY in September from 5.6% in August, while tourism revenues in November increased by 7.5% YoY down from 6.9% in the previous month.

Headline inflation picked up in November

Headline inflation picked up in November at 3.7% from 3.0% in October due to a sharp increase in food prices in the same month by 7.7% YoY from 1.1% in October. On monthly terms, the consumer price index increased by 0.3% in November from 1.5% the previous month. On the supply side, the producer's price index in October increased at the slower rate of 5.8% YoY from 6.0% in September limiting any passing-through effect to the headline inflation.

New loan agreement from Russia will finance the 2012 Budget needs

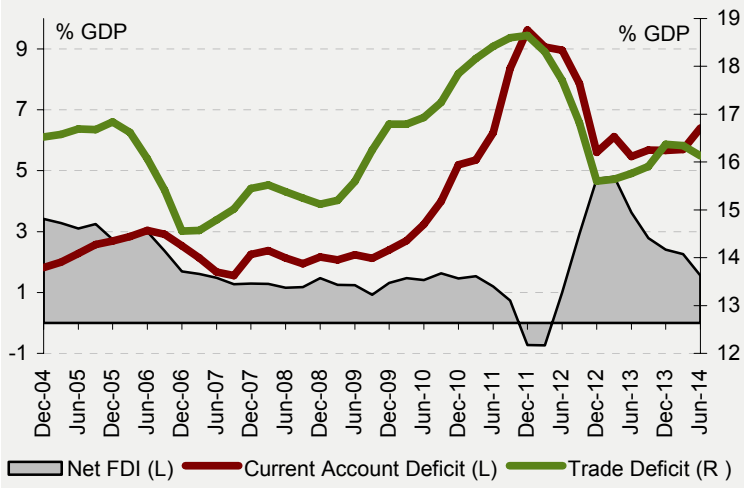
On the fiscal front, the budget deficit continues to widen sharply in the first nine months of the year at 3.3% of the expected annual GDP up from 2.4% the same period in 2010, due to a moderation of public revenues and an increase in expenditures. Specifically, the destruction of the Vasillikos power plant in July that put the economy to a halt and the underlying structural inadequacies of the Cypriot economy led to a deterioration of public revenues at 26.2% of GDP in Jan-Sep from 26.4% in the same period of 2010, as budget expenditures

rose to 29.6% of GDP from 28.8% in the same periods. On a positive note though, the government announced that the first tranche of the loan (EUR 2.5bn in total) to be received from Russia will be disbursed before the 31st December, providing additional liquidity to the country and financing the high budget deficit. This can offset the negative effect the country had from the loss of international capital markets access.

External imbalances worsened in 2011H1

External imbalances worsened in 2011H1 as the current account deficit widened to 7.2% of the expected annual GDP from 4.4% in 2010H1, due to a significant increase in trade deficit to 12.1% of GDP in 2011H1 and a narrowing of the income surplus to 6.5% of GDP in 2011H1 down from 9.2% in the same period of 2010. Further, the surplus in the services balance moderated to 8.0% in 2011H1 from 9.9% in 2010H1, while the financing of the current account surplus worsened, as net FDIs were negative for the first time since 2008Q4.

Cyprus – FDI, Current Account Deficit & Trade Deficit (12m MA)



Source: Piraeus Bank Research, Central Bank of Cyprus, Datastream

The Cypriot banking sector must tackle a number of challenges in the coming period

The Cypriot banking sector must tackle a number of challenges that have surfaced in the second half of the year mainly due to the larger-than-expected write-downs of its exposure to Greek government bonds and expected losses on its loans to the Greek private sector. In this case, the state support must also increase resulting in a worsening of the government debt. This has also resulted in multiple downgrades of the Cypriot government and the local banking system from the international rating agencies in the last four months.

Cyprus Economic Indicators

	2008	2009	2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011
			% YoY				
GDP	3.6	-1.9	1.1	2.6	1.5	1.3	-0.5
Final Consumption	7.4	-4.8	2.0	2.4	1.6	0.0	-0.1
Gross Capital Formation	10.0	-15.0	-3.3	-16.6	7.6	-6.1	-15.4
Exports	-0.1	-11.0	6.1	24.2	2.6	7.1	5.8
Imports	8.6	-18.7	5.1	14.4	5.3	1.0	-1.0
Industrial Production	-0.3	-7.5	-0.6	-1.6	-3.0	-3.6	-12.3
Retail Sales	9.0	-5.6	2.8	4.4	3.8	7.4	3.1
Inflation	4.7	0.3	2.4	2.1	2.8	3.8	3.0
Tourist Arrivals	0.5	-10.8	0.6	0.2	1.6	18.7	11.1
Credit to the Private Sector	32.1	9.7	9.3	9.3	9.4	9.3	13.9
Deposits	6.8	3.8	20.2	20.2	12.8	6.3	4.1
Residents Deposits	8.3	3.3	11.0	11.0	6.6	-1.7	-0.2
Rest of the world deposits	5.3	4.3	28.5	28.5	16.3	16.4	6.9
			% of GDP				
Current Account Balance	-16.8	-7.8	-7.8	-7.8	-3.7	-7.2	-8.9
Direct Ivestment	-1.3	5.9	4.4	4.4	0.4	-1.7	-2.2
Fiscal Deficit(-)/Surplus(+)	0.9	-6.0	-4.9	-4.9	-3.4	-3.6	-3.4

Cyprus Banking Indicators

	2008	2009	2010	2011
Bank NPLs to Total Loans	3.6	4.5	5.6	6.1
Bank Provisions to NPLs	67.9	57.6	49.0	47.0
Return on Assets	1.0	0.8	0.6	0.8
Return on Equity	14.5	14.0	11.0	12.2
Financial Leverage	14.5	17.5	18.3	15.3
Bank Capital to Assets (%)	6.9	4.9	5.9	6.7
Bank Regulatory Capital to Risk-Weighted Assets (%)	11.0	12.1	12.5	13.3

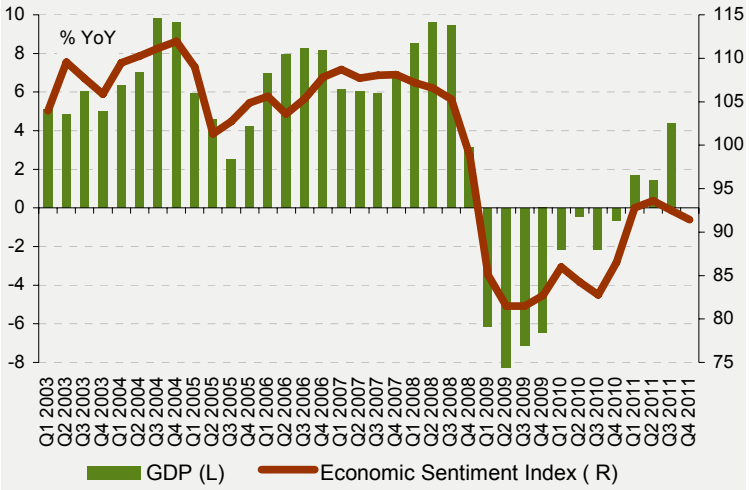
Source: Piraeus Bank Research, National Sources, IMF

3.4 Romania

Economic growth in 2011Q3 picked up impressively – compared to the rest of the EU

Economic growth in 2011Q3 picked up impressively – compared to the rest of the EU – to 4.4% YoY from 1.9% in 2011Q2 and a decrease by 1.5% the corresponding quarter of 2010. The low base effect from last year and the favorable agricultural production boosted real GDP, while final consumption and investments increased for the fist time after 11 recessionary quarters. Specifically, final consumption in 2011Q3 increased by 2.4% YoY from a decrease of 0.1% in 2011Q2 and -1.4% the same quarter in 2010. Accordingly, investments rose by 13.3% YoY in 2011Q3 compared to -0.4% in 2011Q2 and -15.6% in 2010Q2 signaling an improvement of investors' confidence in the country as the Stand-By Arrangement with the IMF and the EU is being implemented successfully. Net exports continue to improve for yet another quarter in 2011Q3 weathering the global and European economic downturn. Net exports recorded an increase in 2011Q3 of 13.3% YoY from 8.1% in 2011Q2 and 4.6% in the same quarter of 2010. In quarterly terms, real GDP in 2011Q3 increased by 1.8% from 0.8% the previous quarter.

Romania – Real GDP & Economic Sentiment Index



Source: Piraeus Bank Research, Datastream

Leading indicators signal a marginal economic slowdown

The available leading indicators point to a marginal slowdown of economic activity in the following months. Specifically, industrial production's annual growth moderated to 4.8% YoY in October from 5.6% in September, as manufacturing production grew by 4.9% from 5.2% in the same months. That is mainly due to a steep deceleration in new orders in manufacturing to 1.0% YoY in October from 14.8% in the previous month, while the turnover in production index also decelerated to 14.7% YoY in October after a peak in August at 19.5%. On

the demand side though, along with the pick up of aggregate demand, retail sales increased in October, for the first time since May 2010, by 2.1% YoY from a decline of 4.7% in September. Finally, the unemployment rate increased to 5.1% in November after remaining flat at 4.9 for the past three months.

NBR decided to further relax its monetary policy in November by 25bps at 6.0%

Inflationary pressures continue to abate as inflation approaches the National Bank of Romania's (NBR) target for 2011 at 3.0% (+/- 1.0%). In November, inflation stood at 3.4% from 3.6% in October driven by subdued food prices that decelerated to 1.4% from 1.7% over the same period, and VAT base effects. On monthly terms, the consumer price index increased by 0.4% in November from 0.6% in October as food prices increased by 0.5% in November from 0.8% in the previous month. The indices for core inflation also point to a deceleration of prices in the following months, while NBR decided to further relax its monetary policy in November by 25bps at 6.0% in order to continue supporting economic growth. The falling headline inflation creates room for further cuts in 2012.

Risks have risen due to the financial turbulence in the Euro area in the fiscal sector

The government's and IMF's target for a 3% fiscal deficit in 2011 looks feasible, as the latest figures for Jan-Oct indicate a deficit of 2.5% of the expected annual GDP from 4.6% in the same period of 2010. Budget revenues increased to 27.4% of GDP in Jan-Oct from 26.6% in Jan-Oct last year, while public expenditures moderated to 29.8% of GDP from 31.3% over the same period. The IMF made available another tranche of the SBA of EUR 507mn (of total EUR 1.6bn since March 2011) in December, though the authorities have decided to keep it as precautionary and only draw the funding in case of need. However, it is noted that risks now have risen significantly due to the financial turbulence in the Euro area, while further reforms and privatizations will be needed. On the other hand, the EU disbursed EUR 383mn of EU funds to the country in December after the freeze of the funds in June.

External imbalances seem to deteriorate

External imbalances seem to deteriorate as the current account deficit in Jan-Oct moderated to 3.1% of the expected annual GDP from 3.7% in the same period of 2010, due to a narrowing of the trade deficit to 3.7% of GDP in Jan-Oct from 4.4% in Jan-Oct of the previous year. Income balance deficit remained flat at 1.4% of GDP in Jan-Oct compared to the same period of 2010, a trend also exhibited by the 0.5% deficit in the services balance. The transfers' surplus narrowed marginally to 1.9% of GDP in Jan-Oct from 2.0% in the same period last year. Net FDIs continue to deteriorate making the financing of the current account deficit trickier, reaching 1.0% of GDP in Jan-Oct from 1.9% the same period in 2010.

FX exposure risks remain elevated as the level of eurization of credit is high

In the banking sector, foreign exchange exposure risks remain elevated as the level of euroization of credit is very high in the country. In addition to that, the NPLs ratio continued to deteriorate (according to NBR methodology) in October to 23.5% from 23.0% in September and 20.8% in the same month of 2010.

Romania Economic Indicators							
	2008	2009	2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011
			% YoY				
GDP	7.7	-7.1	-1.3	-0.6	1.7	1.4	4.4
Consumer Prices	7.9	5.6	6.1	7.9	7.5	8.2	4.2
Industrial Production	2.8	-5.2	5.5	6.5	11.5	4.1	5.8
Retail Sales	21.1	-9.7	-5.7	-8.5	-5.7	-6.6	-3.6
Credit to the Private Sector	33.7	0.9	5.0	5.0	2.3	1.3	6.5
Credit in Local Currency	23.6	-4.7	-3.0	-3.0	-2.4	0.9	3.5
Credit in Foreign Currency	42.2	5.0	9.8	9.8	5.4	1.6	8.3
Deposits	24.0	10.8	5.8	5.8	2.6	2.5	6.6
Unemployment rate	4.0	6.3	7.6	7.0	6.5	5.1	4.9
			% of GDP				
Current Account Balance	-11.6	-4.2	-4.1	-4.1	-0.5	-2.2	-3.2
Fiscal Surplus (+) /Deficit (-)	-5.3	-7.3	-6.5	-6.5	-1.0	-2.1	-2.5
EUR/RON Spot Rate	4.014	4.237	4.233	4.233	4.120	4.232	4.353

Romania Banking Indicators						
	2006	2007	2008	2009	2010	2011
Bank NPLs to Total Loans	1.8	2.6	2.8	7.9	11.9	13.4
Bank Provisions to NPLs	51.4	61.6	60.3	50.6	55.0	58.6
Return on Assets	1.3	1.0	1.6	0.2	-0.1	0.1
Return on Equity	10.2	9.4	17.0	2.9	-1.0	0.6
Financial Leverage	7.8	9.4	10.6	14.5	10.0	6.0
Bank Capital to Assets (%)	12.9	10.7	9.0	8.6	8.9	7.8
Bank Regulatory Capital to Risk Weighted Assets (%)	18.1	13.8	13.8	14.7	14.7	14.2

Source: Piraeus Bank Research, National Sources, IMF

3.5 Serbia

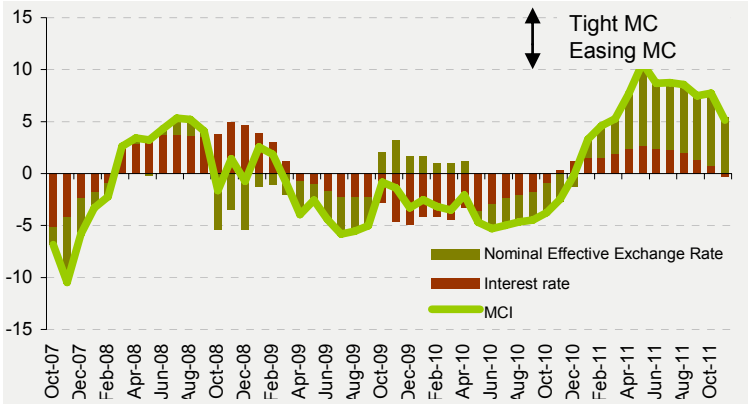
Economic activity in 2011Q3 decelerated sharply

According to the National Statistical Institute, economic activity in 2011Q3 decelerated sharply to 0.5% YoY from 2.5% in 2011Q2 and 1.6% in the same quarter last year. The main reason for this slowdown is the moderation of the contribution of investments and a further decrease in final consumption in 2011Q3, while there was an upturn in the contribution of net exports. According to the leading economic indicators, growth will moderate in the following months, as industrial production decreased by 1.0% YoY in October from 1.8% in September, while retail trade decreased by 16.2% in October from 18.3% in September. Although, a marginal recovery is observed in the last months, the weak domestic demand keeps retail trade at low levels.

Inflationary pressures are subdued as inflation continues to range at single digits

Inflationary pressures are decreasing as inflation continues to range at single digits in the last eight months leading the National Bank of Serbia (NBS) to relax its monetary policy rate since June by a total of 275bps to 9.75%. Inflation stood at 8.1% in November from 8.7% in September due to a corresponding deceleration in food prices to 8.8% from 9.9% in the same months. On monthly terms the consumer price index increased to 0.9% in November from 0.4% in the previous month. The NBS has indicated that inflation will enter its tolerance band in 2012H1, hence any further cuts on the key policy rate will depend on the future economic and fiscal prospects in the domestic economy and the Euro-area. Further, the RSD continues to appreciate relative to its regional peers.

Serbia – Monetary Conditions Index



Note: The index is a weighted average of the annual change in policy rate(60% weight) and the nominal wighted fx rate (Nominal Effective Exchange Rate - NEER, 40% weight)

Source: Piraeus Bank Research, National Bank of Serbia, Datastream

Fiscal deficit has increased but remains in target

The fiscal deficit in the period Jan-Oct increased compared to the same period last year, however it remains within the target agreed by the government and the International Monetary Fund. Specifically, the fiscal deficit in Jan-Oct reached 3.6% of the expected annual GDP from 2.8% in Jan-Oct in 2010. Budget revenues moderated to 20.0% of GDP in the first ten months of the year as opposed to 21.2% the same period in 2010, while public expenditures reached 23.6% of GDP in Jan-Oct from 23.9% in Jan-Oct of the previous year. The fiscal deficit target for 2012 has been set at 4.25% of GDP, however it might be revised upwards depending on the economic outcome. At the same time, the decision on the EU candidate status of Serbia has been postponed until February as the trade conflict with Kosovo has not been resolved. Further, public debt is close to 45% of GDP, specifically in November public debt reached 44.8% of GDP according to the National Methodology and 42.2% according to the EU Methodology/EU Maastricht criteria.

The level of foreign exchange reserves remains satisfactory

In the external sector, the current account balance widened marginally in Jan-Oct to 7.4% of the expected annual GDP from 7.3% in the same period of 2010, mainly due to a moderation of the transfers' surplus to 7.6% of GDP from 8.5% in the respective periods. The trade deficit was 13.1% of GDP in Jan-Oct from 13.7% in Jan-Oct of the previous year, while the income deficit remained flat at 1.8% of GDP. Net FDIs though showed a significant improvement in the fist ten months of the year reaching 4.8% of GDP, as opposed to 2.3% in the same period of 2010, and financed comfortably the current account deficit. Moreover, we note that the level of the foreign exchange reserves is satisfactory, while the precautionary Stand-By Arrangement with the IMF of EUR 1.1bn will be drawn only if necessary.

NBS took measure to decrease the cost of bank lending

The banking sector remains well-capitalized, while a decision was taken by the NBS to change the classification of the bank's balance-sheet assets and off-balance-sheet items. This action will decrease the cost of bank lending and provide additional liquidity to the system.

Serbia Economic Indicators							
	2008	2009	2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011
			% YoY				
GDP	3.8	-3.5	1.0	1.7	3.7	2.5	0.5
Industrial Production	-2.5	-12.8	17.3	12.5	1.4	0.5	-4.4
Retail Trade	3.4	-11.4	-0.7	5.8	-8.1	-15.4	-18.7
Inflation	12.5	8.2	6.2	9.6	12.6	13.6	10.6
			% of GDP				
Current Account Balance	-18.5	-6.8	-7.2	-7.2	-2.3	-4.2	-6.3
FDI	5.6	4.5	3.0	3.0	0.9	1.7	3.8
Cash Deficit(-)/Surplus(+)	-1.8	-3.4	-3.4	-3.4	-0.8	-2.0	-2.9
Base Interest Rate	17.75	9.5	11.5	11.5	12.25	12.0	11.3
EUR/RSD	89.48	95.88	105.93	105.93	103.41	100.67	100.98

Serbia Banking Indicators							
			% YoY				
Credit in the Private Sector	34.7	14.1	26.1	26.1	25.2	17.7	13.8
Other Enterprizes Credit	39.7	16.9	25.5	25.5	12.8	6.3	1.8
Households Credit	25.0	9.5	26.1	26.1	27.5	19.1	14.1
		2006	2007	2008	2009	2010	2011
Bank NPLs to Total Loans		--	--	11.3	15.5	16.9	18.6
Bank Provisions to NPLs		--	--	187.8	168.1	149.4	141.5
Return on Assets		1.7	1.7	2.1	1	1.1	1.4
Return on Equity		9.7	8.5	9.3	4.6	5.4	7.0
Financial Leverage		5.7	5.0	4.4	4.6	4.9	5.0
Bank Capital to Assets (%)		18.5	21.0	23.6	21.0	19.7	21.0
Bank Regulatory Capital to Risk-Weighted Assets (%)		24.7	27.9	21.9	21.3	19.9	19.7

Source: Piraeus Bank Research, National Sources, IMF