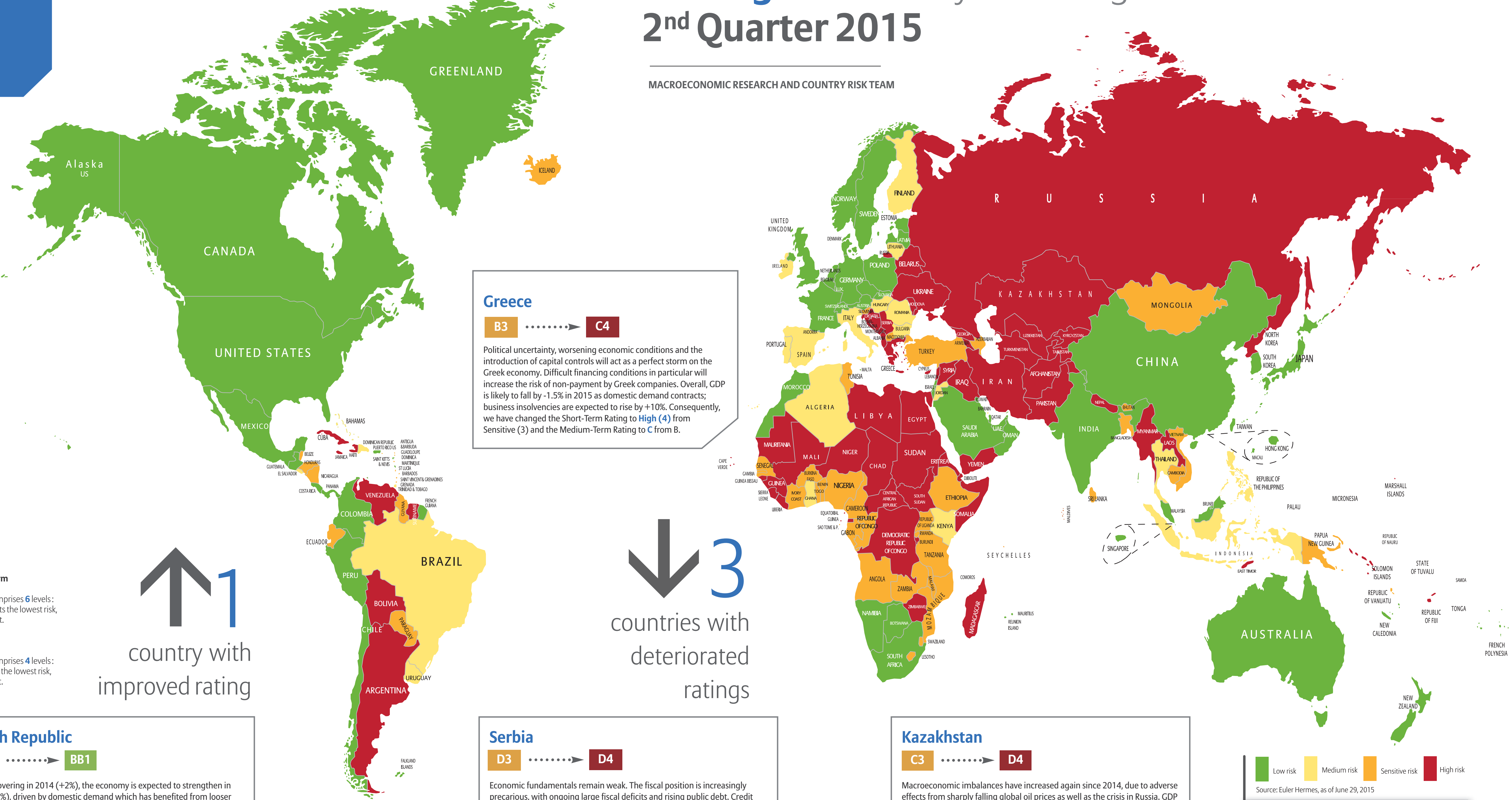
Country Risk Outlook

Q2 2015 — UPDATE

4 changes in country risk ratings
2nd Quarter 2015

MACROECONOMIC RESEARCH AND COUNTRY RISK TEAM



Greece

B3 → C4

Political uncertainty, worsening economic conditions and the introduction of capital controls will act as a perfect storm on the Greek economy. Difficult financing conditions in particular will increase the risk of non-payment by Greek companies. Overall, GDP is likely to fall by -1.5% in 2015 as domestic demand contracts; business insolvencies are expected to rise by +10%. Consequently, we have changed the Short-Term Rating to High (4) from Sensitive (3) and the Medium-Term Rating to C from B.

Medium term risk: the scale comprises 6 levels: **AA** represents the lowest risk, **D** the highest.

Short term risk: the scale comprises 4 levels: **1** represents the lowest risk, **4** the highest.

↑ 1 country with improved rating

↓ 3 countries with deteriorated ratings

Czech Republic

BB2 → BB1

After recovering in 2014 (+2%), the economy is expected to strengthen in 2015 (+3%), driven by domestic demand which has benefited from looser fiscal policy. Nonetheless, the fiscal deficit was contained to -2% of GDP in 2014 and should come in at a similar ratio in 2015-2016. Public debt fell to 43% of GDP in 2014, a very favourable ratio by current EU standards. The central bank continues to support economic activity by keeping its policy interest rate near zero. The exchange rate should remain stable in the longer term. The current account shifted into a small surplus in 2014 and the external debt burden is manageable. FX reserves are adequate, covering around 5 months of imports. On the back of robust macro-economic fundamentals and the sustainable recovery we have changed the Short-Term Rating to Low (1) from Medium (2). The Medium-Term Rating continues to be BB.

Serbia

D3 → D4

Economic fundamentals remain weak. The fiscal position is increasingly precarious, with ongoing large fiscal deficits and rising public debt. Credit growth has shifted from excessive growth in 2012 to contraction in 2013-2014. Poor monetary policy has failed to prevent high exchange rate and inflation volatility over the past decade. Currency risk remains on the cards. The current account deficit will remain elevated at around -5% of GDP in 2015-2016. The external debt burden is high. The economy is also vulnerable to natural disasters. Severe floods in 2014 triggered a recession (GDP down by -1.8%) that will continue into 2015 (GDP forecast to decline by -0.5%). Consequently, we have changed the Short-Term Rating to High (4) from Sensitive (3). The Medium-Term Rating continues to be D.

Kazakhstan

C3 → D4

Macroeconomic imbalances have increased again since 2014, due to adverse effects from sharply falling global oil prices as well as the crisis in Russia. GDP growth is forecast to slow to just +1.8% in 2015; and both the fiscal and current account balance will shift to considerable deficits as oil revenues and exports will drop. The KZT has strongly appreciated against the RUB since 2014, leading to a sharp loss of competitiveness of Kazakh businesses. As a result, downward pressure on the KZT/USD exchange rate has built up and the KZT is susceptible to a marked depreciation in the next year or so. FX reserves have fallen, now covering just 2.7 months of imports. The banking sector crisis that emerged in 2009 is still unresolved. Consequently, we have changed the Short-Term Rating to High (4) from Sensitive (3) and the Medium-Term Rating to D from C.

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