Forecast Note

Countries with ISP Subsidiaries

September 2015

Quarterly note

Intesa Sanpaolo

International Research Network

GDP growth revised upwards in 2015 and confirmed in 2016 in CEE/SEE areas. Loan dynamics still contained by demand and supply factors.

Business cycle indicators are supporting recovery in both the CEE and SEE areas, with Serbia also coming out of recession in 2015. Compared to the June scenario, we revise our GDP growth estimate upwards in 2015 (to 2.8% from 2.7% in CEE and to 2.3% from 2.0% in the SEE area) and leave it at 2.4% in both cases in 2016, notwithstanding a slight downward revision of the Euro Area GDP growth rate in the same year to 1.7% from previous 1.8%.

We see CEE and SEE economies benefitting from exceptionally favourable external conditions (lower profile of oil price than previously expected and more flexible, if necessary, ECB QE Programme) and only marginally affected by the slowdown of emerging countries. CEE and SEE areas are also starting to take advantage of a recovery of domestic demand, whose pace of growth, however, is still contained by the ongoing deleveraging process in the private sector.

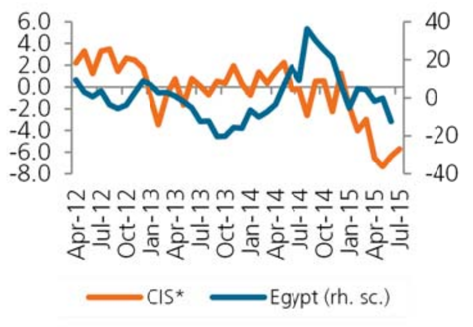
In the CIS Area, our June 2015 GDP forecasts are confirmed for Russia (-3.5%) while we see a slightly deeper fall in Ukraine (-11% vs -10% previously). We see both countries possibly returning to a modest positive growth in 2016, on the assumptions of an at least partial recovery of the oil price cycle from recent lows and of a gradual easing of geopolitical tensions. We expect a progressive acceleration of GDP growth in Egypt.

The lower than expected inflation path in 2015 and 2016 in a more uncertain global scenario, while supporting a more flexible ECB Asset Purchase Programme, is sustaining a prolonged accommodative tone of monetary policy in the CEE/SEE countries. On financial markets we see long rates, after a possible partial correction from the recent surge, moving upwards again in 2016 in presence of cyclical recovery and inflation increase in Europe, notwithstanding an expected narrowing of the risk component. We forecast exchange rates in the CEE/SEE area remaining broadly stable at current levels in 2015-2016.

In the CIS countries, we see money market rates to fall further in 2016 in the wake of easing inflationary pressures and less volatile currencies. Falling inflation and progress towards financial stabilisation should also favour a narrowing risk premium. Room for a gradual reduction of money market interest rates is also expected in Egypt.

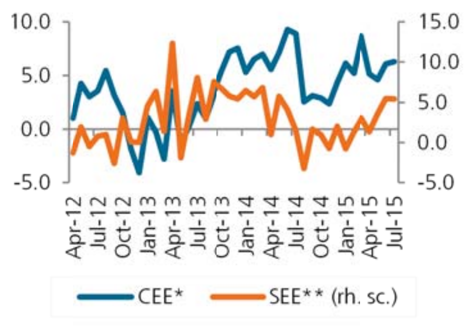
Nominal loans growth to the private sector in CEE/SEE countries should be positive in 2015 in Slovakia, Bosnia, Romania and Serbia but remain negative in Croatia, Slovenia and Hungary, due to the contribution of exceptional factors in these last cases. The trend in loans is expected to pick up in 2016 (still modestly, albeit with positive values for all countries). Loans-to-GDP and Loans-to-Deposits ratios are likely to fall annually in various countries, with assets and the structure of internal funding compared to foreign liabilities being rebalanced.

Industrial production % yoy



Sources: National Statistics Offices; note * weighted average on Russia and Ukraine data

Industrial production % yoy



Sources: National Statistics Offices; note * weighted average on Slovakia, Slovenia and Hungary data; ** weighted average on Bosnia, Croatia, Romania and Serbia data

The figures in this document have been updated to 18 September 2015.
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This note has been coordinated by Gianluca Salsecci. The names of the authors are reported in the single sections.

The note considers the countries with Intesa Sanpaolo Subsidiaries and in particular: Slovakia, Slovenia and Hungary among CEE Countries, Albania, Bosnia, Croatia, Serbia and Romania among SEE Countries, Russia and Ukraine among CSI Countries and Egypt among MENA Countries

Cross-country Forecast

Recent developments

Gianluca Salsecci, Giancarlo Frigoli, Antonio Pesce and Davidia Zucchelli

In the CEE/SEE countries with ISP Subsidiaries, GDP performance in 2Q15 consolidated the cyclical recovery overall. In the CEE area in 2Q15 GDP growth remained quite strong both in Hungary (+2.7% yoy) and Slovenia (2.6%), albeit slightly slower than in 1Q215 (3.5% and 2.8%, respectively). In Slovakia the 2Q15 GDP growth rate (3.2% yoy) remained in line with 1Q15 (3.1%). In the SEE countries, GDP accelerated in Croatia (1.2% yoy) after a positive but still weak figure in 1Q15 (0.5% yoy), and maintained a strong dynamic in Romania (3.2% yoy after 4.3% in the previous quarter); in Serbia in 2Q15 the GDP growth rate was in positive territory (1.0% yoy) after five quarters of decline.

Real cyclical indicators confirm the stabilisation of the economic cycle for CEE countries and a recovery in SEE countries

The most recent high frequency data point to a stabilisation of the recovery cycle seen so far in the CEE and SEE countries. In July industrial production went up in Hungary (3.4% yoy) – below the average for 2Q15 (6.3%) but still healthy. In the same month, exports increased by 6.1% on an annual basis (with respect to an average of 8.1% in the second quarter). In Slovakia the Economic Sentiment Indicator (ESI) improved to 98.7 in August from 95.7 the previous month, and industrial production went up by 11.9% in July, broadly above the average for 2Q15. In July, exports improved in Slovenia (4.8% yoy), where in August the ESI reached its maximum of the last years at 112.5.

In April industrial production also increased in the SEE Area. In Croatia, the increase was 3.9% yoy and in Bosnia it was 2.4%. Industrial production growth in Romania (3.0% in June) was stronger than in 2Q15 (1.5%), but in August the ESI stayed close to the historical maximum. In July exports also generally recorded a positive trend in the area, with the only exception being Albania, where they fell by 2.6% yoy.

In all CEE/SEE countries, consumer price dynamics were below the targeted inflation rates of the Central Banks due to the hindering effect of weak wage performance and modest energy prices, as well as the absence of significant pressure on prices regarding both domestic and external demand. In July inflation was still negative in Slovakia, Slovenia, Bosnia and Croatia, with positive figures recorded in Serbia and in August, in Albania too. Consumer prices were stagnant in Hungary in August. Faced with weaker than expected inflation and easy monetary policy in the Euro area, the monetary policy stance has remained expansionary in CEE and SEE countries. In September, the Central Bank of Serbia lowered rates by 50 bps to 5.0%.

In Russia, the latest activity data showed that the economy continued to contract in 3Q. Industrial production fell by 4.6% yoy in July, slightly below that seen in 2Q (-4.8% yoy) even if, seasonally adjusted, it stalled with respect to the previous month. Retail sales also dropped in yoy terms (-9.2%) but not in seasonally adjusted terms. Fixed investment contracted, however, by 8.5% yoy in the same month. This was the sharpest drop in five years. Forward looking indicators such as the services PMI and the manufacturing PMI, equal to 49.1 and 47.9, respectively, in August, point to persisting weakness in the economy in 3Q.

With the conflict in the East lingering on and the fiscal adjustment measures agreed with the IMF taking their toll, the Ukraine economy remains extremely weak. Industrial production fell by 13.4% in July, following the 19.9% slide recorded in 2Q. Nominal exports tumbled by 35.4% in June and by 35.5% in 2Q. Meanwhile runaway inflation (the annual rate was 52.8% in August) continues to dent the purchasing power of households. Retail sales were down by 24.2% in July and by 25.7% in 2Q. The Ukraine government reached a preliminary agreement with creditors about the restructuring of its foreign debt. The deal includes a 20% haircut on USD18bn of government's Eurobonds as well as maturity extension and a moratorium on principal repayments on this debt for four years. As compensation, creditors have been offered GDP-linked warrants, with coupons paid between 2021-2040 in years when annual (real) GDP growth exceeds 4%. Ukraine's bond markets rallied at the news and at the end of August the Central bank cut its reference rate to 27%, from 30%.

In **Egypt** business activity in the private sector excluding oil grew in August at the fastest pace of 2015. The PMI index for the non-oil private sector rose to 51.2 in August, its highest level since December last year. This strong reading suggests that the slowdown witnessed in 1H15 will not persist through H2. Much of the improvement was spurred by an increase in output and new domestic orders. Reflecting the phasing out of last year's cut in subsidies, annual inflation slowed to 7.9% in August, its lowest level in more than two years. Easing inflationary pressures open the door for a rate cut by the Central bank before the end of this year.

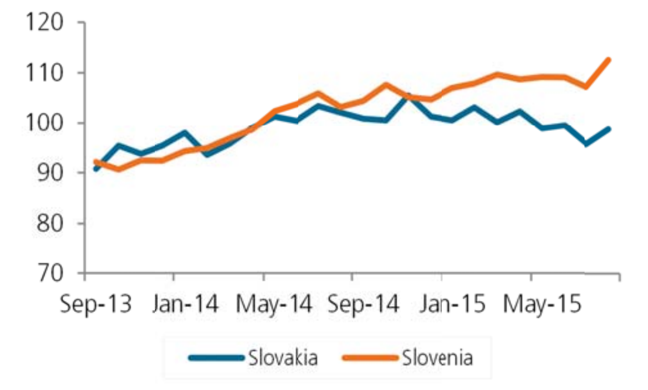
With reference to **banking aggregates**, loans continue to be weak in both the **CEE** and **SEE** areas, in a context which is still positive for deposits. In Hungary loans fell by 8.4% in July (from -8.3% in June) because of the prolonged effect of the Government's measures on mortgages, and in Slovenia by 11.4% in July (from -11.1% in June) where the rebalancing of the accounts of public banks continued. In Croatia as well, the fragile trend was confirmed in July (-1.6% yoy, from -0.6% in June). The growth of loans in local currency in the households sector has been particularly strong in Serbia (+11.6% yoy in July) where it led to an increase in loans to the private sector equal to +4%. Deposits were resilient, in particular in Serbia, even if they showed a lower rate in July (6.4% yoy from 8.4% the previous month) and in Bosnia and Romania (both with an increase of +7.9% yoy).

In the **CIS** area, positive changes in banking aggregates were due to the accounting effects of depreciation in the exchange rate. In Russia, loans went up by approximately 14%, which - net of the exchange rate - is a more modest figure of +1.4%, and negative in real terms.

In Ukraine, the banking sector is in considerable difficulty. Loans increased nominally by 5.9% in June and NPLs increased to 24.3% putting further pressure on capital. Deposits went up slightly (+1.4%) but net of depreciation this figure fell considerably due to a decrease in remittances and lack of confidence from savers. Further capital injections could be necessary.

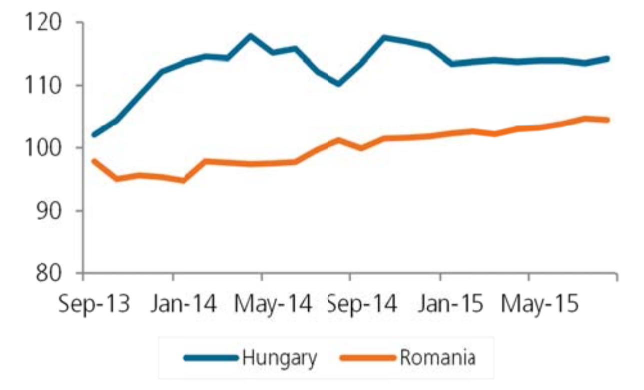
In several cases the resilience of deposits partly offset the decrease in foreign funding. In June, foreign liabilities continued the declining trend, which was still considerable in CEE countries (in Slovenia -25.5%) and in SEE countries (in Romania -15.3% and in Albania -11.6%). On the other hand, the trend of foreign liabilities in Slovakia was particularly dynamic (+13.3%). In Hungary, foreign liabilities signed a slight, albeit slower, increase (2.5% yoy from 6.1% in June). In Russia foreign liabilities increased nominally (+16.6%) even though, net of the exchange rate effect, this is a decrease of 34%. The decrease in foreign funding, combined with withdrawals from deposits, contributed to generating tensions on the liquidity front in the system. In Ukraine, the trend of foreign liabilities was buoyant in nominal terms (22.5%), but concealed a strong decrease net of the exchange rate effect (approximately -56%).

Economic Sentiment Indicator



Source: European Commission

Economic Sentiment Indicator



Source: European Commission

The International Outlook underlying the Scenario

Performance of major economies. Global GDP growth is expected to slow slightly in 2015 compared to last year and to post weaker than previously forecast acceleration in 2016, reflecting a more moderate cycle among BRICS countries and more generally among the emerging economies.

In Advanced countries growth is expected to increase both in the US and in the Euro Area. In the EA in particular the GDP growth rate is confirmed at 1.5% in 2015 and marginally cut to 1.7%, from previously forecast 1.8%, for 2016. The negative trade effect from the expected slowdown of emerging economies is seen to be partly offset by the boost to household disposable income coming from a lower oil price profile and by the ECB announcement of a more flexible Quantitative Easing Programme if necessary.

Monetary Policies of the major Central Banks. In the US the tightening of FED monetary policy is expected to take place by year end and continued in 2016. In Europe the lower than expected inflation dynamics and the announcement of a more flexible (if necessary) QE by the ECB is expected to keep money market rates at current lows for an extended period, beyond the forecast horizon of 2016.

Market and national banking system stability The main central banks (FED, ECB), the international authorities (G20, IMF and EU) and the leading financial institutions (EBRD, IEB, WB) contributed to overcoming the financial crisis in the peaks of 2008-2009 and 2011-2012 by acting to stabilise the markets along with foreign banks with a strategic presence in transition countries (Vienna Initiative). This Scenario assumes that the stability of the markets and banking systems remains a primary objective pursued by the international authorities.

Economic outlook

GDP Growth and Inflation

In the CEE area, thanks to a GDP profile that was above expectations in 2Q15, the GDP forecast has been revised slightly upwards for the year 2015 to 2.8% from 2.7% expected in June but left unchanged in 2016 at 2.4%. GDP in 1Q15 and 2Q15 continues to signal a progressive (even if lagging the CEE countries) recovery in the SEE area, where for 2015, in parallel to what happened in the CEE area, we revise our forecasts upwards (at 2.3% from the 2% in June), leaving them at 2.4% for 2016. In Serbia in 2Q15 the GDP growth came in positive territory (at 1.0% yoy above previous expectations). The GDP forecast has been revised upwards for 2015, now set at 0.5% yoy from -0.3% in June, but kept at 1.5% in 2016. Our forecasts have also been revised upwards in 2015 in Albania and Croatia (at 2.5 % and 0.9% respectively).

We expect the average inflation rate in 2015 to increase in CEE/SEE countries even if this is with a slightly lower profile with respect to June forecasts, in line with developments in the Euro area. Overall inflation in 2015 is seen to remain just around the lower limit of the target ranges set by the Central Banks. The rise in inflation in 2016 should bring price dynamics closer to or within the targets.

In the CIS Area, we confirm our previous 2015 GDP forecasts for Russia (-3.5%) while we expect a slightly deeper fall in Ukraine (-11% vs -10% previously). We see both countries possibly returning to a modest expansionary path in 2016, gaining more strength thereafter, on the assumption of an at least partial recovery of the oil price cycle from the lows recorded in the 3Q 2015 and of a gradual easing of geopolitical tensions.

As regards to Egypt, notwithstanding the recent positive news (announcement of ambitious investment projects, doubling of the Suez Canal, recent discoveries of gas reserves), we confirm our previous forecasts for the calendar years 2015 and 2016 at 4.3% and 4.5% respectively. Experience suggests that ambitious investment projects take some time to complete and show their full impact on the economy. We expect the GDP growth rate to accelerate, however, to 5% in the fiscal year 2016/2017.

In the CIS countries, the large currency depreciation and, in the case of Russia, the sanction-induced trade constraints have led to a surge in inflation. Inflation has however peaked in Russia and Ukraine. Following the phasing out of the boost to prices due to devaluation, we now expect price pressures to ease significantly in the final months of 2015 and thereafter. In Egypt, we cut our forecast for average inflation in 2015 (to 10% from 10.5%) after recent lower than expected data. We see inflation remaining relatively high in the medium term as a consequence of the expected gradual currency devaluation and the completion of the subsidy reform.

Monetary Policy and the Financial Markets

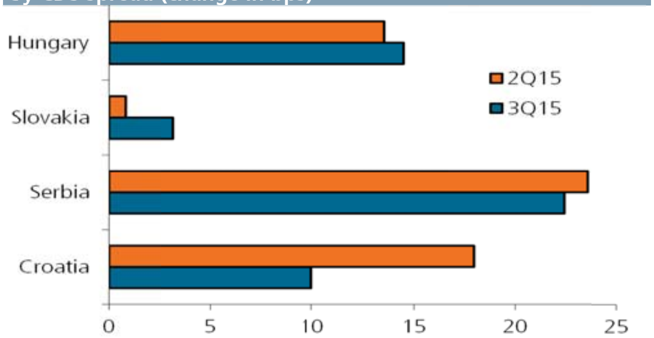
Expansionary monetary policies are confirmed in CEE and SEE countries. Following the further reduction in policy rates in several countries in 2015, we expect money market rates to be stable or, in some cases, fall slightly on year average in 2016. Our forecast is supported (directly for Slovakia and Slovenia, but also indirectly for the other countries) by the monetary developments of the ECB, in particular the implementation of the Quantitative Easing, likely to be prolonged beyond the initial announced horizon and intensified in terms of monthly absolute purchases, if necessary. Further support comes from the local Central Banks' announcements, which generally signal an end to the easing cycle but not yet the start of tightening in presence of lower than expected inflation in 2015 and 2016.

Long-term rates, which fell considerably in 2H14 and in the first few months of 2015 in CEE and SEE countries, due to expectations of prolonged easing of monetary policies and a reduced risk premium on financial markets, have recently increased due to the uncertainties related to the robustness of economic growth of the main emerging countries and to the financial market turmoil in China. After a possible partial correction from the recent surge, they are forecast to continue to move upwards in 2016 due to the cyclical recovery and inflation increase expected in Europe and notwithstanding a renewed narrowing of the risk component. Exchange rates are forecast to remain essentially stable at current levels in 2015-2016.

In the CIS countries, we see money market rates falling further in 2016 both in Russia and Ukraine in the wake of the expected easing of inflationary pressures, less volatile currencies and possible subsiding of geo-political tensions. Falling inflation and progress towards financial stabilisation should favour a narrowing of the risk premium leading to lower long-term interest rates both in Ukraine and Russia. In Egypt, we see room for a gradual reduction of money market interest rates, reflecting a better than previously expected inflation scenario.

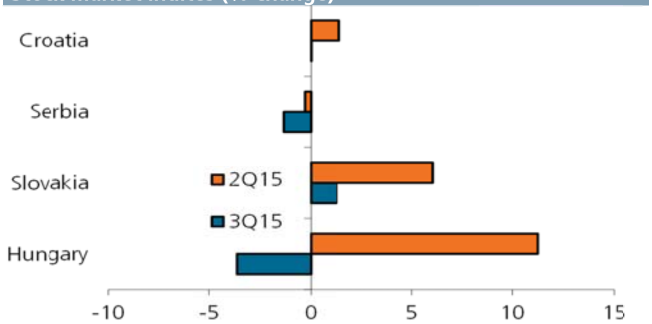
On the exchange rate markets, in Ukraine the hryvnia, after the recent large devaluation, is expected to move just along a competitiveness-preserving depreciating path in the presence of relatively high inflation rates. For the Russian rouble, following the strong depreciation of recent weeks we see only slight re-appreciation in 2016 on the ground of a (partial) recovery of oil prices and stabilising financial markets. In Egypt, the recent statements by the Central bank sustain our view of gradual depreciation of the Egyptian Pound in the medium term to offset the impact of higher inflation rates with respect to the main trade partners.

5y CDS spread (change in bps)



Source: Bloomberg

Stock market indices (% change)



Source: Thomson Reuters (*) 3Q15 up to September 9

Aggregates and Bank Rates

The nominal performance of loans to the private sector in CEE/SEE countries is expected to be positive in 2015 in Slovakia, Albania, Bosnia, and Serbia and to remain negative in Albania, Croatia, Slovenia, and Hungary, due to the contribution of exceptional factors in these last cases. In Croatia taking into account a recent new Governmental measure imposing the conversion of households loans denominated in Swiss francs into Euro at the rate prevailing when the loans were approved, the loan portfolio is estimated to decrease by around 3% this year. The trend of loans is expected to pick up in 2016 (still modest overall, although values are positive for all countries). The trend of loans is affected, on the demand side, by weak investments and consumer spending as well as the deleveraging process in the private sector, and on the supply side, by the impact of non-performing loans on assets, as well as specific factors, for example in the case of Slovenia and Hungary, the creation of bad banks and, in the case of Hungary, ad hoc measures established by the Authorities.

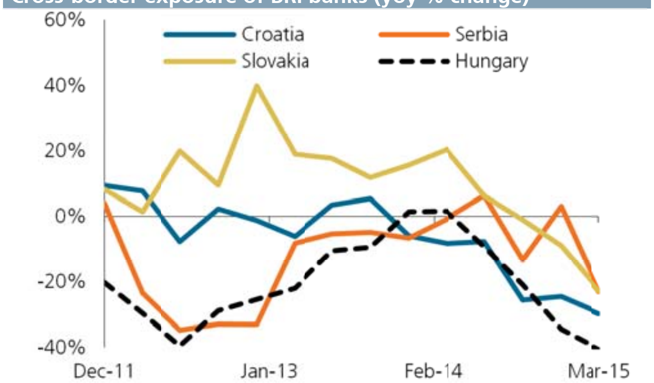
In Slovenia, the largest (public) banks are still dealing with the delicate process of restructuring their loan portfolios. After a decline in loan volumes by 17.4% in 2013 and 13.4% in 2014, due to the transfer of non-performing loans from the largest banks to BAMC, a further substantial settling is expected in 2015 (-4%) followed by a weak recovery in 2016 (+0.5%). In Hungary, after an expected drop in loans of nearly 20% in 2012-2014, we forecast a decrease of 10% in 2015, if bank assets are restructured (possibly through the establishment of a bad bank) and non-performing loans are reduced, along with the mortgage loans prolonged conversion process and credit value adjustments as a consequence of the recent (retroactive) provisions on bid/offer spreads deemed unfair and the unilateral increases in interest rates.

Aggregates in the CIS area expected to remain weak

In the CIS Area, net of the exchange rate effect, the trend of loans slowed in 2014 in Russia and fell considerably in Ukraine. We expect a further worsening in the nominal growth rates of bank loans for 2015, already negative in Russia. In Egypt, a nominal recovery is forecast for 2015 and 2016 (approximately +15%), but the trend of loans should continue in line with nominal GDP in the following years.

Deposits are expected to slow in 2015 in various countries with ISP subsidiaries (the only exception being Slovakia), with a higher profile compared to loans. We therefore expect the Loans-to-GDP and Loans-to-deposits ratios to decline further, as a result, on the one hand, of the de-leveraging process of the private sector and, on the other, of the current process of rebalancing between assets and banks' internal and external funding sources.

Cross-border exposure of BRI banks (yoy % change)



Source: Intesa Sanpaolo processing of Bank for International Settlements' data.

Local claims exposure of BRI banks (yoy % change)

Source: Intesa Sanpaolo processing of Bank for International Settlements' data.

Country-Specific Forecasts

Albania

Real Economy

Kledi Gjordeni

2015 should produce higher growth than the previous year. According to INSTAT economic activity in Q1 grew 2.8% in annual terms. The new datas point to similar growth rates for the Q2. The second half of the year should see slower growth rates, due to the potential negative effects from developments in Greece. Deceleration of exports and remittances from Greece are estimated to reduce the economic growth for the year by around 0.25 percentage points. However, the agreement reached in July 2015 is a starting point for the normalisation of the situation. The Albanian economy is projected to see faster growth pace in the next two years. The banking and private sector balance sheets, external economic environment and overall business climate are expected to improve over this period.

Annual inflation averaged 1.8% in the second quarter. Inflation fell in the summer months as agricultural production rose. For this reason, we see this factor as having a transitory effect. For 2015, inflation should average around 1.6%. CB projections suggest that inflation rates will continue to rise over the next two years and will see a sustained return towards 3% target by the end of 2017.

Financial Markets

The second quarter of 2015 was characterised by down-trending yields across all maturities. Expectations for lower government demand for financing generated downward pressures on yields. Participation in auctions was generally high, also driven by household demand.The positive difference of yields on securities with the interest on term deposits drove households' higher preference for long-term instruments.

Banking Sector

In June 2015 lending to private resident sector grew by 0.8% YoY. Annual Credit growth was driven by the growth of LCY lending. Lending to Households grew 2.5% while loan to business grew 0.2% YoY, in June 2015. In the first half of 2015, loan portfolio shrank by 1.4%, mainly as a result of banks reducing NPL through write offs, a process that is expected to continue in the second half. Total deposits expanded by 1.7% YOY in June 2015 where LCY deposits grew 0.9% and FCY deposits saw 2.6% growth. However in H1, 2015 total deposits dropped by -0.6%, of which the corporate deposit contracted by -3.1%.

Forecasts

	2014	2015F	2016F
Real GDP yoy	2.1	2.5	2.6
CPI avg	1.6	1.6	1.7
Euro Exchnage rate avg	140.4	141.0	142.1
Euro Exchange rate (end of period)	140.1	141.8	142.3
Short term rate (avg.)	3.0	2.5	2.4
Short term rate (end of period)	2.8	2.4	2.3
L/T bond yields (avg.)	n.a.	n.a.	n.a.
Bank Loans yoy (end of period)	2.2	-1.0	3.0
Bank Deposits yoy (end of period)	2.9	0.5	2.0

Source: Intesa Sanpaolo Research Department forecasts

Export and Inflation

Source: National Statistics Office

Bosnia and Herzegovina

Real Economy

Ivana Jovic

Real sector indicators suggest more robust growth in 2Q2015 compared to 1Q2015. Namely, industrial production accelerated to an average 5.2% growth (from a flattish 1q), retail trade improved its support to 10.6% growth (from 7.0% in 1q) while exports accelerated to 6.1% from 2.7% yoy. Positive high frequency data readings continued in July. Industrial production grew by 2.4% and retail sales by 9.1% yoy. Exports of goods increased by 2.4% yoy, for the sixth consecutive month, while imports recorded 4.3% growth, the highest of the last five months. Cumulative trade deficit in the Jan-July period declined by 3.4% yoy and import coverage increased to 56.9% (+1.8 p.p.). Thus the 2015 outlook remains encouraging, supported by stable household consumption and improved export performance. We expect growth to speed up slightly in 2016 to 2.2% amid better a investments outlook and continued private consumption support.

The deflation path strengthened in July and the CPI index declined by 1.1% yoy, the strongest decline of the last eight months, pushing the 12-month average to -0.5%. Amid a slower than expected recovery in price levels and the declining price of oil we expect 2015 average CPI to remain low at -0.4% yoy. In 2016 slightly stronger demand side pressures, low base effect and more favourable labour market developments should shift inflation to 1.4% yoy.

Banking Sector

According to the latest available data, loans to the private sector in July marked a growth rate of 1.1% yoy (same as in June) but declined on a monthly level by 0.3%. Corporate loans continued to decline with -2.3% yoy print, while loans to households slowed slightly to +4.9% yoy compared to above 5% growth in the first six months. At the same time, private sector deposits continued to grow by a high 8% yoy, owing to both households (+9.2%) and corporate deposit (+4.5%) rise.

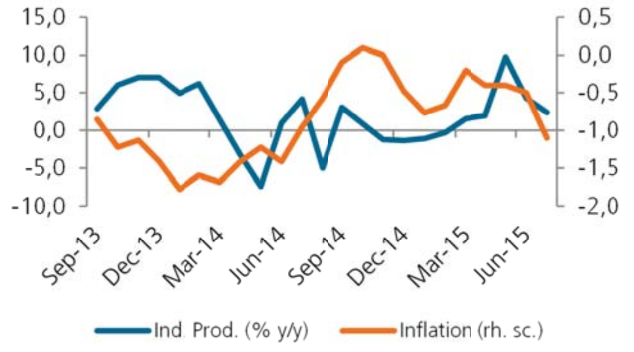
According to our forecast, 2015 should mark a solid 2.0% growth in loans followed with 5.2% growth in deposits. Amid better economic prospects we expect slightly stronger growth in loans (+2.5%) in 2016, while growth in deposits should continue around a 5%growth path.

Forecasts

	2014	2015F	2016F
Real GDP yoy	1.1	1.8	2.2
CPI avg	-0.9	-0.4	1.4
Euro Exchnage rate avg	1.96	1.96	1.96
Euro Exchange rate (end of period)	1.96	1.96	1.96
Short term rate (avg.)	n.a.	n.a.	n.a.
Short term rate (end of period)	n.a.	n.a.	n.a.
L/T bond yields (avg.)	n.a.	n.a.	n.a.
Bank Loans yoy (end of period)	1.9	2.0	2.5
Bank Deposits yoy (end of period)	6.4	5.2	5.4

Source: Intesa Sanpaolo Research Department forecasts

Industrial Production and Inflation



Source: National Statistics Office

Croatia

Real Economy

Ivana Jovic

GDP growth picked up to 1.2% yoy in 2Q2015, overshooting all expectations (market consensus was 0.7%) and recording the strongest performance since 3Q2008. The structure revealed further strengthening on the domestic demand side, with positive investments as the biggest surprise (0.8% yoy, first positive since 3q2013). Household consumption (0.6% yoy) was supported by end-2014 changes in personal income tax and declining inflation, which increased real net wages by 3.5% yoy in 1H2015. Contrary to EDP-linked expectations government consumption continued on a positive although slightly lower 0.4% yoy growth (vs 0.6% in 1Q2015) path. Net exports delivered a 1.1pp contribution to headline growth, reflecting robust 10.2% export growth and offsetting a 6.9% increase in imports.

Looking forward, we see current growth momentum largely continuing in 2H2015. July data signals robust real sector developments with industrial production and real retail trade growing by 3.9% and 4.5% yoy, respectively. Goods exports should remain supportive with a record tourist season strengthening overall. Thus, we have upgraded our GDP forecast for 2015 from 0.3% to 0.9%, leaving 2016 unchanged at 1.5%, owing to an uncertain budget position (general elections due in November imply preliminary financing for 1Q2016). However, recently adopted CHF-indexed loans conversion scheme which implies EUR 1 billion loss for banking sector, could impose negative risks on lending activity, which makes negative risk on already subdued economic growth even more pronounced.

Financial Markets

The summer months brought liquidity decline, with the 3M rate increasing to 1.5% end-August, the highest level in 2015. August average exchange rate fell slightly to 7.56, -0.3% mom, supported by high tourist-related fx inflow. Financial markets developments in 4q2015 will be under the influence of the CHF-indexed loans conversion thus we expect continued period of elevated interest rates and more volatile fx market.

Banking Sector

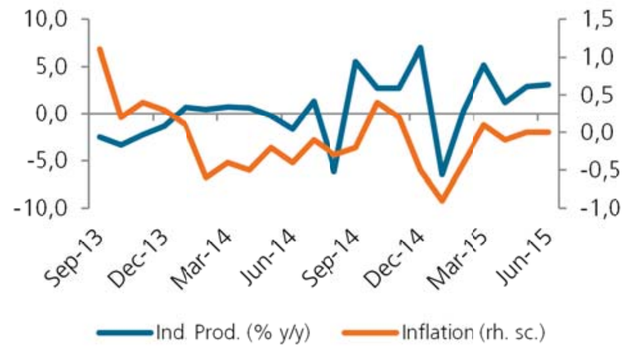
Deposit growth in July was 1.9% yoy, with households holding on to 2% ca. yoy rate. The pace of loan decline accelerated to -1.6% yoy, amid a 3.5% decline in corporate and flattish household loans. We expect continued growth in deposits in 2016 (2% ca.), and mild growth in credit activity (1% ca.) based on an expected recovery. However, end-2015 loans are seen to mark a decline owing to a CHF indexed-loans conversion to EUR-indexed loans at the exchange rate valid at the time loans were approved (30% ca. lower than the current market fx rate).

Forecasts

	2014	2015F	2016F
Real GDP yoy	-0.4	0.9	1.5
CPI avg	-0.2	-0.1	1.0
Euro Exchnage rate avg	7.63	7.61	7.62
Euro Exchange rate (end of period)	7.67	7.61	7.63
Short term rate (avg.)	0.7	1.2	1.5
Short term rate (end of period)	0.8	1.5	1.5
L/T bond yields (avg.)	4.4	3.7	4.0
Bank Loans yoy (end of period)	-2.0	-3.2	1.2
Bank Deposits yoy (end of period)	2.3	1.5	2.0

Source: Intesa Sanpaolo Research Department forecasts

Industrial Production and Inflation



Source: National Statistics Office

Egypt

Growth and Inflation

Emil Eskander

GDP recorded 4.7% growth during the first nine months of FY2014/15, compared to 1.6% during the same period of the previous year, reflecting the steadiness in the political situation and the revival of the Egyptian economy. The performance was positively affected by the improvement in the manufacturing sector in addition to high growth rates in the tourism sector, after a period of decline, besides the launch of mega projects such as the new Suez Canal. We forecast GDP to grow at 4.5% in the calendar year 2016 and reach 5% in the fiscal year 2016/2017 driven by rising FDI inflows, the recovery of tourism and the implementation of various projects concerning new energy, infrastructure and agricultural reclamation and the start-up of the second phase of the Suez Canal development project.

Annual headline inflation registered its lowest level in 2015 of 7.9% in August, down from 8.4% in Jly on the back of a favourable base effect from the previous year, while the impact of last year's fiscal consolidation measures faded away.

Financial Markets

The EGP/USD exchange rate settled at EGP 7.83 at the end of August 2015 compared with July, while the EGP depreciated by 3.3% against the EUR recording EGP 8.84 at the end of August compared to EGP 8.56 at the end of July.

The CBE maintained its overnight deposit rate, lending rate, and the rate of the CBE's main operation unchanged at 8.75%, 9.75% and 9.25%, respectively, during its latest meeting in July 2015. More cuts in interest rates are expected in the near future, supporting governmental efforts to boost the economy and stimulate investments.

Banking Sector

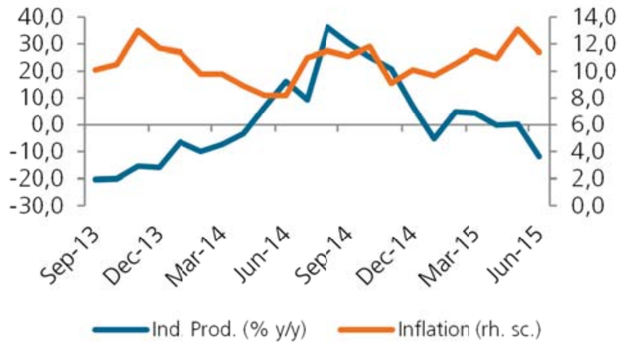
Bank deposits have seen sustained growth during the year ending June 2015, increasing by 21.4% compared to June 2014, whereas private sector deposits represented the highest share of 81.6% of total deposits. Total bank loans continued to increase during the year ending June 2015 recording an annual increase of 22.2% at the end of June 2015 as corporate loans represented the highest share of 65% of total loans.

Forecasts

	2014	2015F	2016F
Real GDP yoy	2.2	4.3	4.5
CPI avg	10.1	10.0	9.5
USD exchange rate (avg.)	7.1	7.7	7.9
USD exchange rate (end of period)	7.2	7.8	8.0
Euro Exchange rate avg	9.4	8.5	8.9
Euro Exchange rate (end of period)	8.9	8.4	9.4
Short term rate (avg.)	11.2	11.2	10.8
Short term rate (end of period)	11.3	11.0	10.5
L/T bond yields (avg.)	n.a.	n.a.	n.a.
Bank Loans yoy (end of period)	12.7	16.0	15.0
Bank Deposits yoy (end of period)	16.6	16.0	13.0

Source: Intesa Sanpaolo Research Department forecasts

Industrial Production and Inflation



Source: National Statistics Office

Hungary

Real Economy

Mariann Trippon

Hungary's GDP growth was 2.7% yoy in Q2 as a result of 0.8% qoq growth. These figures showed widely expected deceleration from Q1 (3.6%), with the yoy rate even below market consensus. Based on the detailed GDP figure and the subsequent monthly data we continue to project a slowdown in H2 and for overall GDP growth for 2015 (also for 2016), resulting in an average annual growth rate close to, but probably slightly lower than 3% (our current forecast is 2.8%). The detailed Q1 GDP data confirmed the ongoing shift in the structure of GDP-contribution compared to preceding years. Net exports are not the sole growth driver, though the export performance of car manufacturing remained of key importance. Domestic consumption grew at 3.0%, faster than in any quarter since the 2008 start of the crisis. Still, manufacturing is set to remain a major driver of economic growth and the trade balance should also maintain a strong surplus this year.

Following a half-year period of positive, but moderate inflation, CPI dropped to 0.0% in August. Still, we do not expect negative inflation to return while demand factors and especially the base effect makes us maintaining our forecast of an acceleration of inflation this year, especially in the last two months of 2015. The annual average CPI may arrive within the range of 0.0-0.5%. We expect to see further rise in CPI in 2016, but still below the central bank's target (3%).

Financial Markets

The National Bank of Hungary announced the conclusion of its easing cycle with a 15-bps cut in July 2015 at 1.35%. Accordingly the main policy rate was left on hold in August. The strong downward pressure of items out of the scope of monetary policy (including fuels and food), the expected forthcoming Fed hikes and external (geopolitical) risks warrant caution, but we expect the current rate to be maintained for several quarters, potentially throughout 2016. A persistent low inflation level, a supportive inflation outlook and ongoing ECB QE are among the supportive factors. The EUR/HUF also showed relative stability within mostly the 305-315 range.

Banking Sector

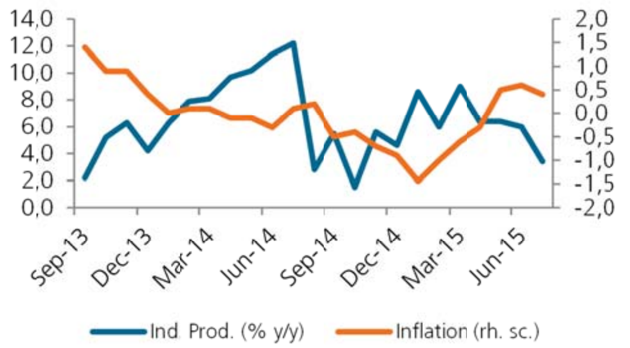
In the banking sector developments in the real economy lent some support to the demand side of loan market, while credit supply remained boosted by the second phase of the central bank's lending for growth programme (NHP+). With slower GDP growth and the expected elimination of the NHP, we expect ongoing weakness from the demand side of the corporate credit market.

Forecasts

	2014	2015F	2016F
Real GDP yoy	3.6	2.8	2.2
CPI avg	-0.2	0.1	2.3
Euro Exchnage rate avg	308.6	311.0	311.5
Euro Exchange rate (end of period)	310.8	312.0	311.0
Short term rate (avg.)	2.4	1.7	1.6
Short term rate (end of period)	2.1	1.4	1.8
L/T bond yields (avg.)	4.8	3.6	4.1
Bank Loans yoy (end of period)	-0.3	-10.0	0.0
Bank Deposits yoy (end of period)	1.3	-1.0	1.0

Source: Intesa Sanpaolo Research Department forecasts

Industrial Production and Inflation



Source: National Statistics Office

Romania

Real Economy

Ancuta Covaci

Romania's economic growth slowed in Q2 2015 to 3.2% yoy from 4.3% yoy in Q1 2015. Private demand and investments continued to be the main drivers of growth. Inventories showed significant contraction while net exports had a negative contribution. Short-term indicators suggest positive dynamics of private consumption and investments will be maintained (+3.8% yoy July Industrial output; +9.6% yoy July Retail Sales), supported also by rising wages (+7.6 yoy July), low inflation and lower interest rates. Agriculture is expected to have a negative impact in Q3 results (given 2015 draught conditions and 2014 elevated base). GDP growth should remain robust at 3.2% in 2015 and 3% in 2016.

August CPI came in at -1.9% yoy (negative inflation for the third consecutive month). NBR sees inflation in negative teritory for the next three quarters as more fiscal easing measures are set for 2016 (including VAT rate cut from 24% to 20%). We estimate 2015 CPI at -0.5% yoy and 2016 average at 0.5% yoy.

Financial Markets

The NBR kept the monetary policy rate at 1.75% p.a. (historical low) at the August meeting. The tepid economic recovery and heightened volatility in developed markets, economic uncertainties surrounding China, the diverging monetary policy stances of the world's major central banks, as well as domestic imbalances, are all putting pressure on the NBR to reconsider the economic policy mix. The central bank reiterated the importance of adopting a prudent stance (as fiscal easing is considered pro-cyclical, warning inflationary pressures might arise).

Banking Sector

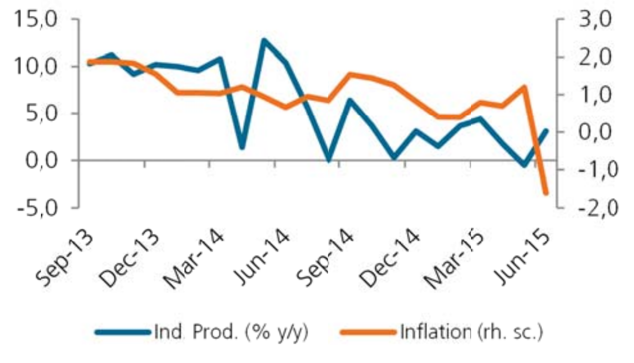
Aggregate loans to the private sector contracted by -0.8% yoy in July as the reduction in stock of FX loans continued. The gradual ease of the monetary policy mix over the course of the past year (policy rate cuts, narrowing of the symmetrical corridor of interest rates, reduction in MRR ratios and adequate liquidity management) continued the positive dynamics of RON loans to the private sector (+13% yoy in July 2015). The FX loans share of total loans to the private sector decreased to 52% in July (from top 64% in mid-2012). Aggregate loans are expected at 0.5% yoy in 2015 and 3% in 2016 due to RON credit growth.

Forecasts

	2014	2015F	2016F
Real GDP yoy	2.8	3.2	3.0
CPI avg	1.1	-0.5	0.5
Euro Exchnage rate avg	4.4	4.4	4.4
Euro Exchange rate (end of period)	4.5	4.4	4.4
Short term rate (avg.)	2.3	1.2	1.1
Short term rate (end of period)	1.4	1.1	1.0
L/T bond yields (avg.)	4.6	3.7	4.1
Bank Loans yoy (end of period)	-3.7	0.5	3.0
Bank Deposits yoy (end of period)	8.9	2.0	3.5

Source: Intesa Sanpaolo Research Department forecasts

Industrial Production and Inflation



Source: National Statistics Office

Russia

Real Economy

Anna Mokina

After several months of negative values, GDP growth in July while still falling by 4.6% yoy recorded a +0.1% (seasonally adjusted) with respect to the previous month, thanks to positive dynamics in the mining industry, manufacturing, production and distribution of electricity, gas and water, and retail trade. Fixed capital investment still saw a drop of 8.5% yoy, the worst result in five years reflecting limited funding sources for the companies and weak domestic demand. In 2016, provided a recovery in oil price occur and sanction induced trade constraints ease, we expect GDP to grow by 0.5%.

On September 11 CBR decided to leave the policy rate at the current level of 11.00% p.a. Further decisions will depend on the balance of inflation and economic slowdown risks. Inflation in July amounted to 15.6% and in August increased to 15.8% (YoY), considered however as a peak. If the CBR proceeds with a relatively moderate monetary policy, without a sharp decrease in key interest rates, then average inflation in 2016 should fall to 9.5%.

Financial Markets

The oil market has been extremely volatile recently and the future developmetns will influence the ruble exchange rate. Current excessive oil supply from OPEC might be limited by the end of the year and decreasing prices will likely change direction. This will be due to low profitability of the oil industry for most of the producers. Turbulent Chinese markets and tightening of US monetary policy are among the main risks for the Russian financial markets. A highly probable rate increase by the FRS would have a negative impact on the Russian national currency rate.

Banking Sector

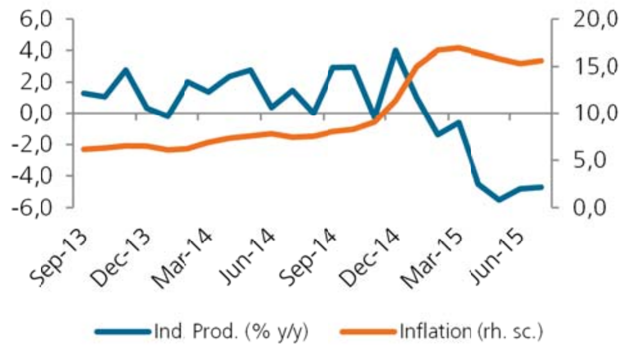
In July banking sector assets grew by 1.8%, up to RUB 75trn. Total volume of credits increased by 2.3% up to RUB 41trn (loans to non-financial organisations by 3.1% and to individuals by 0.1%). Interbank lending to resident banks grew by 5.0%, to non-resident by 4.2%. Securities portfolio increased by 5.2%, with debt securities (80% of portfolio) growing by 6.2%. Deposits and funds deposited in accounts of organisations grew by 1.3% up to RUB 23trn, deposits of individuals by 2.6% up to RUB 20trn. Borrowing from the Bank of Russia decreased by 3.4%. Deposits of Federal Treasury with credit organisations increased by 1.4 times. The government and the Central Bank announced their intention to support the banking sector and the extension of contingency measures, including a preferential dollar rate for calculating standards.

Forecasts

	2014	2015F	2016F
Real GDP yoy	0.6	-3.5	0.5
CPI avg	7.8	15.5	9.5
USD exchange rate (avg.)	38.6	57.0	64.0
USD exchange rate (end of period)	57.5	65.0	63.0
Euro Exchnage rate avg	51.3	63.3	72.3
Euro Exchange rate (end of period)	70.7	70.2	74.3
Short term rate (avg.)	10.6	14.2	10.5
Short term rate (end of period)	19.9	11.5	9.5
L/T bond yields (avg.)	9.1	11.5	10.5
Bank Loans yoy (end of period)	25.4	-3.0	2.0
Bank Deposits yoy (end of period)	27.9	-2.0	3.0

Source: Intesa Sanpaolo Research Department forecasts

Industrial Production and Inflation



Source: National Statistics Office

Serbia

Real Economy

Marija Arsic

Serbia's economy improved markedly in second quarter of 2015, recording the first annual expansion (of 1%) since 4Q 2013. IMF and NBS upgraded the GDP forecast for 2015 to 0.5% yoy supported by faster growth of industrial production, investments and external demand while stronger recovery is currently postponed by ongoing fiscal consolidation. The economy is projected to expand by 1.5% in 2016, led by investment and net exports while government consumption is likely to continue contracting due to further reduction of the budget deficit. Inflation remains low, amounting to 2.1% in August, and we project it moving around the lower bound of the target band (2.5%) in the coming months, returning to the target band (4±1.5%) in late 2015 or early 2016 and trending closer to the 4% target from mid-2016.

Financial Markets

The key policy rate has been cut by 300bps since the beginning of the year supported by low inflationary pressures, low inflation abroad and stable currency. Currently, the key policy rate amounts to 5%, its lowest level since the inflation targeting regime was adopted. Cuts in the key policy rate resulted in a fall in interest rates in the interbank money and loan market. Further monetary policy easing will depend on inflation expectations, external financing environment and progress in fiscal consolidation. The dinar is projected to remain relatively stable, supported by a favourable balance of payments and fiscal trends, as confirmed by the two successful reviews of the arrangement with IMF, affirmation of the country's credit rating and stable movements in the country's risk premium.

Banking Sector

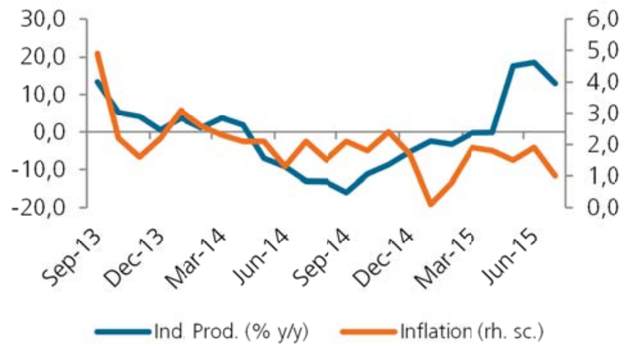
The NBS has decided to lower its mandatory FX reserve rate by 1pp in each of the next six months, while leaving the mandatory dinar reserve rates unchanged, in the expectation that banks will boost their lending activity and lower the rates on new loans. At the same time, in the latest bank lending survey, the relaxation of corporate credit standards was reported, mainly driven by competition and cheaper sources of funding despite continuing risks associated with the collection of receivables and collateral. In addition, the government adopted the strategy for resolving NPL which should ensure a more efficient debt resolution system, with the key aspects including improvement of banking supervision, implementation of IFRS by local banks, better reporting standards and support for the adequate valuation of immovable assets furnished as loan collateral.

Forecasts

	2014	2015F	2016F
Real GDP yoy	-1.8	0.5	1.5
CPI avg	2.1	1.5	2.5
Euro Exchnage rate avg	117.3	121.3	121.3
Euro Exchange rate (end of period)	121.6	121.0	121.5
Short term rate (avg.)	8.8	6.4	4.9
Short term rate (end of period)	8.0	5.0	4.8
L/T bond yields (avg.)	n.a.	n.a.	n.a.
Bank Loans yoy (end of period)	4.4	0.5	2.5
Bank Deposits yoy (end of period)	9.7	4.0	4.2

Source: Intesa Sanpaolo Research Department forecasts

Industrial Production and Inflation



Source: National Statistics Office

Slovakia

Real Economy

Zdenko Štefanides

Slovakia continues to do well in terms of growth, which has accelerated to above 3% in the first half of 2015 from 2.4% in 2014. The caveat of current faster than expected growth is that it is supported by EU-funded projects from the 2006-13 programming period, which will run out by this year end. Note that public investment shot up to 80%yoy growth in 2Q and contributed about half of the overal GDP growth of 3.2%. As drawing on funds from the new 2014-20 EU programming period has barely started, some payback in public spending and GDP growth itself next year seems likely.

Meanwhile, fast domestic demand growth continues to support the labour market, which is enjoying two years of uninterrupted job creation. In 2Q, employment finally reached pre-crisis levels, while unemployment declined to a post-crisis low of 11.2%. Wage growth has remained relatively modest, at 2.3%yoy, yet with consumer prices still below year-earlier levels thanks to supressed energy and food prices, household real disposable income has grown by a sound 3%yoy in 2Q. This has allowed households not only to consume more – up 2.3%yoy – but also to increase their saving rate to new 15-year maximum.

Financial Markets

The Slovak bond market has continued to follow developments elsewhere in the Eurozone, yet given the shallow local market and scarcity of available bonds, local yields remain overly sensitive to QE-driven bond purchases. Slovak long-term yields are thus lower now than in Austria, albeit far from the all-time lows posted in mid-April.

Banking Sector

Alongside the turnaround in the bond yield environment, rates on mortgage loans appear to have bottomed in the summer, which could alleviate the pressure on NII going forward. Still, refinancing the old loan stock will remain costly for banks.

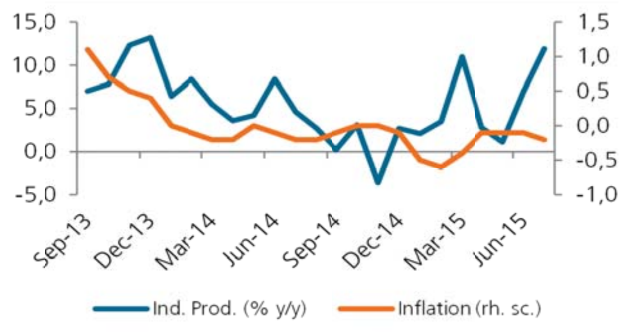
Volume-wise, in retail lending, strong, double-digit growth continues, albeit there has been some payback in 2Q for the anticipated demand in the previous two quarters (which was driven by central bank regulation, aiming to progressively tighten credit conditions to retail clients). On the corporate loan market, hitherto broadly stagnant, the new development is that lending to resident non-financial companies finally began to increase from year-earlier levels, if only by cautious 2%yoy at the start of 3Q.

Forecasts

	2014	2015F	2016F
Real GDP yoy	2.4	3.1	2.8
CPI avg	-0.1	-0.2	0.8
Short term rate (avg.)	0.2	0.0	-0.1
Short term rate (end of period)	0.1	0.0	-0.1
L/T bond yields (avg.)	2.0	1.2	1.7
Bank Loans yoy (end of period)	6.4	6.0	6.2
Bank Deposits yoy (end of period)	3.8	5.5	4.5

Source: Intesa Sanpaolo Research Department forecasts

Industrial Production and Inflation



Source: National Statistics Office

Slovenia

Real Economy

Nastja Benčič

Economic activity in Slovenia continued to recover in 2Q2015. GDP increased by 2.6% yoy, the growth being mainly attributable to an increase in exports. Household and government consumption increased as well, while investment was the only component on the expenditure side that had a negative impact on the economic activity in 2Q2015. Considering the solid performance in the first two quarters, we forecast GDP to grow by 2.4% in 2015 before decelerating slightly in 2016.

In August 2015 inflation (HICP measure) was -0.6%. A lower inflation rate this year is mainly influenced by lower prices of petroleum products, which are expected to keep the average inflation rate below zero in 2015. Prices are forecast to start increasing in 2016, with the expected gradual recovery in domestic demand and somewhat higher energy prices.

Financial Markets

From mid-June 2015, Slovenian government bond yields have been gradually decreasing and the 10Y-yield currently moves around 1,8%. The situation in Greece calmed down and in July the Ministry of Finance took advantage of improved market conditions and successfully carried out three auctions for bonds: on the first one it made a partial replacement of the bond RS59, originally maturing in February 2016, with the bond RS72, which will mature in October 2017. On the second auction a new 10-year bond was issued and on the third auction the government succeeded in issuing a 30-year bond, which is the longest maturity bond issued by Slovenia on the international debt markets. The proceeds of both newly issued bonds will be used to prefinance the debt that will mature in 2016, since the budget needs for 2015 have already been covered by a EUR 1 billion euro bond issued in March.

Banking Sector

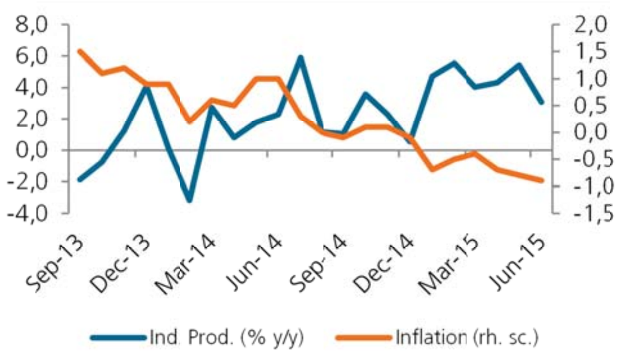
Evidence of consolidation is emerging in the Slovenian banking system. The European Commission has approved the acquisition of the second-largest bank in the country, NKBM, by Apollo, a US private equity fund. Advent International has entered the Slovenian market through the acquisition of Hypo. Meanwhile the decline in lending continued in 2Q2015 and was especially pronounced in lending to corporate clients. Total loans are expected to decline by 4.0% yoy in December while we forecast a modest recovery for 2016. Conversely, total deposits from the private sector continued to rise in 2Q2015 despite the low levels of deposit interest rates. Growth in deposit volumes should continue over the following months as well as in 2016.

Forecasts

	2014	2015F	2016F
Real GDP yoy	3.0	2.4	2.1
CPI avg	0.4	-0.4	1.2
Short term rate (avg.)	0.2	0.0	-0.1
Short term rate (end of period)	0.1	0.0	-0.1
L/T bond yields (avg.)	3.3	1.8	2.4
Bank Loans yoy (end of period)	-13.4	-4.0	0.5
Bank Deposits yoy (end of period)	6.6	3.5	3.8

Source:: Intesa Sanpaolo Research Department forecasts

Industrial Production and Inflation



Source: National Statistics Office

Ukraine

Real Economy

Giancarlo Frigoli

GDP fell by 14.7% yoy in 2Q after the 17.2% annual drop recorded in 1Q. In seasonally-adjusted terms, real GDP eased by 0.9% in 2Q compared to 1Q. Over the coming quarters, we expect less negative GDP numbers, mainly due to a favourable base effect, started its slide. After the 11% plunge we forecast for this year, we see the economy returning to a recovery path from next year and gaining more strength in subsequent years. Our forecast is based on a political solution of the conflict in the East and advances in the reform process agreed with the IMF and the international community which have provided financial support to the country.

Financial Markets

Following months of difficult negotiations Ukraine has finally managed to agree on a debt restructuring deal with its creditors. The deal is a new step towards the stabilisation of Ukraine's financial markets after the turmoil seen last year and early this year. In our scenario, this process is expected to continue, also helped by subsiding political tensions and advances in reforms, favouring the easing of monetary conditions and a gradual drop in money market rates and bond yields over the forecast period. For the currency, after the recent large devaluation we expect more contained depreciation over the forecast period to partially offset higher domestic inflation and to defend the country's competitive position.

Banking Sector

Davidia Zucchelli

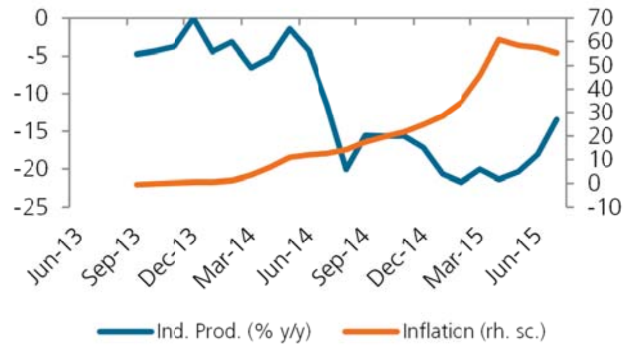
In Ukraine the performance of banking aggregates continued to be affected by the economic recession. Nominal loan growth was 5.9% in June (from 2.8% in May), +8.0% for businesses and -0.9% for households); net of the exchange rate effect it saw a decline of 34%. Deposits also showed a slight nominal increase (1.4% yoy in June), but declined sharply (approximately -40%) net of the exchange rate, due to plummeting remittances from Russia and a lack of confidence from savers. NPLs remained over 24% in June, putting further pressure on capital. An additional source of concern is "the large exposures to capital" ratio, which remained around 600% last June (from 250% in December). In Ukraine, the trend in foreign liabilities was still buoyant in nominal terms (22.5% in June), but concealed a strong decrease net of the exchange rate effect (approximately -56%). ROE and ROA continued to be strongly negative in June (-86.6% and 6.1%, respectively). Loans and deposits are expected to remain weak in nominal terms in 2015 (+2% and -0.5%, respectively). We expect a slight GDP recovery in 2016 to support banking aggregates, albeit still weak in nominal terms.

Forecasts

	2014	2015F	2016F
Real GDP yoy	-6.7	-11.0	1.0
CPI avg	12.2	45.0	25.0
USD exchange rate avg	12.0	21.6	22.5
Euro Exchnage rate avg	15.9	24.0	25.4
Short term rate avg.	17.9	25.8	21.5
L/T bond yields avg.	14.0	15.8	14.0
Bank lending	10.9	2.2	4.0
Bank deposits	-1.8	-0.5	3.0

Source: Intesa Sanpaolo Research Department forecasts

Industrial Production and Inflation



Source: National Statistics Office

Country Data: Economy, Markets and Banks - the economic cycle

Economy

	GDP %chg yoy*			Ind. Prod. chg yoy			Export* nom. chg yoy			Inflation %chg yoy				Reserve Chg. Euro** mln			CA bal. Euro ** mln	
	2Q15	1Q15	2014	Last	mth	2Q15	Last	mth	2Q15	Last	mth	2Q15	2014	2Q15	1Q15	2014	2Q15	1Q15
CEE																		
Slovakia	3.2	3.1	2.4	11.9	Jul	3.6	8.3	Jul	4.2	-0.2	Aug	-0.1	-0.1	ns	ns	ns	-239	321
Slovenia	2.6	2.8	3.1	6.8	Jun	3.9	4.8	Jul	6.2	-0.6	Aug	-0.8	0.4	ns	ns	ns	806	451
Hungary	2.7	3.6	3.6	3.4	Jul	6.3	6.1	Jul	8.1	0.0	Aug	0.3	-0.2	-770	-2157	-7638	NA	1981
SEE																		
Albania	NA	2.8	2.1	NA	NA	NA	-2.6	Jul	-2.0	1.9	Aug	1.8	1.6	44	-125	-149	NA	-230
Bosnia H.	NA	2.1	1.1	2.4	Jul	5.2	2.4	Jul	6.1	-1.1	Jul	-0.5	-0.9	59	-15	387	NA	-197
Croatia	1.2	0.5	-0.4	3.9	Jul	2.4	19.3	Jun	14.6	-0.4	Jul	0.0	-0.2	1470	572	-220	NA	-1296
Romania	3.2	4.3	2.8	3.8	Jul	1.5	6.7	Jul	7.2	-1.9	Aug	0.1	1.1	799	-5625	-7737	-809	524
Serbia	1.0	-2.0	-1.8	13.0	Jul	12.1	1.4	Jul	5.1	2.1	Aug	1.7	2.1	-192	526	-460	-208	-520
CIS MENA																		
Russia	-4.6	-2.2	0.6	-4.6	Jul	-4.8	-25.6	Jun	-29.8	15.8	Aug	15.8	7.8	4063	-29062	-129935	28947	15389
Ukraine	-14.7	-17.2	-6.7	-13.4	Jul	-19.9	-35.3	Jun	-35.4	52.8	Aug	58.9	12.4	298	2434	-12141	-473	-1540
Egypt	NA	3.0	4.3	-12.4	Jun	-4.8	-25.8	Jun	-21.5	7.9	Aug	12.3	10.1	5213	-30	-1113	-4081	-2857
m.i. A.E.	1.5	1.0	0.9	1.2	Jun	1.2	12.3	Jun	7.8	0.2	Aug	0.2	0.4					

*2Q 2015 GDP is flash estimate; **USD for Russia, Egypt and Ukraine;

Markets and Ratings

	S/T rates*		L/T rates**		Foreign exchange (***)			Stock market		CDS spread		Rating
	09.09.15	%chg 3M	09.09.15	%chg 3M	09.09.15	%chg 3M	%chg1Y	%chg 3M	%chg 1	09.09.2015	09.06.2015	S&P
CEE					Vs. EUR							
Slovakia	0.0	0.0	1.0	-0.4	Euro	Euro	Euro	3,7	17,0	43	42	A
Slovenia	0.0	0.0	1.8	-0.4	Euro	Euro	Euro	-6,7	7,3	104	106	A-
Hungary	1.4	-0.1	4.0	0.6	313.2	0.1	1.8	13,3	29,9	137	125	BB+
SEE												
Albania	2.8	-0.3	n.a.	n.a.	139.7	-1.0	0.1	Na	Na	n.a.	n.a.	B
Bosnia H.	n.a.	n.a.	n.a.	n.a.	2.0	Board	Board	Na	Na	n.a.	n.a.	B
Croatia	1.2	0.5	4.0	0.7	7.6	0.0	0.0	1,6	-1,2	261	258	BB
Romania	1.2	0.2	3.8	-0.2	4.4	-1.1	2.0	5,2	16,9	109	95	BBB-
Serbia	5.5	-1.0	n.d.	n.d.	120.2	-0.3	4.6	3,0	-19,8	234	230	BB-
CSI MENA					Vs USD							
Russia	11,8	-2,1	11,7	1,0	68,8	23,0	58,7	3,4	18,0	328	373	BB+/N
Ukraine	26,3	-3,1	10,1	-5,1	22,1	4,8	83,2	-3,1	49,2	13957	14259	CCC-
Egypt	11,3	0,4	15,4	0,9	7,8	2,6	6,7	-7,1	14,0	312	319	B-
m.i. A. E.	0,0	0,0	0,7	-0,3	1,12	-1,2	-16,1	-3,1	18,9	8	8	

(*) For Albania, the figure refers to June 2015 and the difference compared to March; (**)For Ukraine, the long-term rate refers to a government issue in dollars; (***) The (-) sign indicates appreciation. Sources: Thomson Reuters-Datastream, Bloomberg

Aggregates and bank rates for the private sector

	Loans Chg yoy %		NPL/Loans %		Foreign Liab. Chg yoy %		Deposits Chg yoy %		Loans rate[1]-NewB.			DepositsRate[1]-NewB.			Loans/Dep (%)		Rating Moody's
	12/14	7/15	12/13	7/15	12/14	7/15	12/14	7/15	% 12/14	% 7/15	Sector	% 12/14	% 7/15	Sector	12/14	7/15	BFSR*
CEE																	
Slovakia	5.8	6.8	4.9	5.6	42.5	13.3	3.8	8.9	2.91	2.78	Corporates[3]	1.70	1.38	Househ.[3]	91	90	C-
Slovenia	-13.4	-11.4	13.4	11.6[6]	-10.9	-25.5	6.6	4.0	4.99	4.01	Corporates[3]	0.66	0.31	Househ.[3]	99	95	E
Hungary	-0.3	-8.4	18.4	15.6[4]	-1.3	2.5	1.3	4.0	4.97	4.11	Corporates	1.64	0.92	Corporates	111	103	D-
SEE																	
Albania	2.2	0.8[6]	24.2	20,9[6]	-10.8	-11.6[6]	2.9	1.7[6]	8.19	9.28[6]	All	1.51	1.45[6]	All	56	56[6]	E+
Bosnia H.	1.9	1.1	15.1	14,1[6]	-9.1	-6.5	6.4	8.7	5.80	5.84	Corporates	1.26	1.23	Househ.	124	121	Na
Croatia	-2	-1.6	15.7	17,3[6]	-10.6	-6.3	2.3	1.9	8.38	8.08	Priv.Sect.	2.07	1.75	Priv.Sect.	95	94	Na
Romania	-3.7	-0.8	21.9	12,8	-14.2	-15.3	8.9	7.9	6.46	5.93	All	1.72	1.13	All	95	97	E+
Serbia	4.4	4.0	21.4	22,8[6]	-16.5	-7.8	9.7	6.4	12.6	13.18	Priv.Sect.	6.8	4.84	Priv.Sect.	116	115	Na
CIS & MENA																	
Russia	25.4	14[7]	6.0	6.7[9]	38.4	10.7[7,2]	27.9	19.2[7]	18.31	16.02[7]	Corporates	12.29	9.81[7]	Househ.	119	118[7]	R
Ukraine	10.9	5.9[6]	12.9	24.3[6]	31.3	22.5[6]	-1.8	1.4[6]	17.38	22.6[6]	Residents[5]	10.44	15.3[6]	Resid.[5]	154	159[6]	E
Egypt	12.7	18.0[7]	9.3	8.3[9]	5.0	64.6[7]	16.6	17.1[7]	11.8	11.6[7]	Corporates	7.2	6.8[7]	Househ.	40	41.2[7]	E

Note: [1]monthly average [2]ISP calculations on IMF data [3]lending rate on current account overdraft; on deposits up to 1 year [4]March [5]does not include banks [6]June [7]May [8]loans over EUR 1M [9]December *Bank Financial Strength Ratings ranging from E (lowest) to A (highest). NewB.=NewBusiness. Source: Central Banks, IMF, Moody's

Country Outlook

The economy

GDP (% yoy)	2012	2013	2014	2015F	2016F
CEE					
Slovakia	1.6	1.4	2.4	3.1	2.8
Slovenia	-2.7	-1.1	3.0	2.4	2.1
Hungary	-1.5	1.5	3.6	2.8	2.2
Average	-0.7	1.1	3.1	2.8	2.4
SEE					
Albania	1.4	1.1	2.1	2.5	2.6
Bosnia Herzegovina	-0.9	2.4	1.1	1.8	2.2
Croatia	-2.2	-1.1	-0.4	0.9	1.5
Romania	0.6	3.4	2.8	3.2	3.0
Serbia	-1.0	2.6	-1.8	0.5	1.5
Average	-0.2	2.4	1.4	2.3	2.4
CIS					
Russia	3.4	1.3	0.6	-3.5	0.5
Ukraine	0.2	0.0	-6.7	-11.0	1.0
Average	3.0	1.1	-0.3	-4.5	0.6
MENA					
Egypt	3.2	1.6	4.3	4.0	4.7
Average ISP Subsidiaries	2.3	1.3	0.7	-2.0	1.4

Inflation (average)	2012	2013	2014	2015F	2016F
CEE					
Slovakia	3.8	1.5	-0.1	-0.2	0.8
Slovenia	2.8	1.9	0.4	-0.4	1.2
Hungary	5.7	1.7	-0.2	0.1	2.3
SEE					
Albania	2.0	1.9	1.6	1.6	1.7
Bosnia Herzegovina	2.1	0.0	-0.9	-0.4	1.4
Croatia	3.4	2.2	-0.2	-0.1	1.0
Romania	3.3	4.0	1.1	-0.5	0.5
Serbia	7.3	7.9	2.1	1.5	2.5
CIS e MENA					
Russia	5.1	6.7	7.8	15.5	9.5
Ukraine	0.6	-0.3	12.2	45.0	25.0
Egypt	7.2	9.5	10.1	10.5	9.5

Market

Exchange rate (average)	2012	2013	2014	2015F	2016F
CEE					
Slovakia					
Slovenia					
Hungary	289.3	297.0	308.6	311.0	311.5
SEE					
Albania	139.1	140.0	140.4	141.0	142.1
Bosnia Herzegovina	1.96	1.96	1.96	1.96	1.96
Croatia	7.52	7.57	7.63	7.61	7.62
Romania	4.45	4.42	4.44	4.44	4.42
Serbia	113.1	113.1	117.3	121.3	121.3
CSI MENA					
Russia (USD)	31.1	31.8	38.6	57.0	64.0
Ukraine (USD)	8.1	8.2	12.0	21.6	22.5
Egypt (USD)	6.1	6.9	7.1	7.7	7.9

Interest rate (average)	2012	2013	2014	2015F	2016F
CEE					
Slovakia	0.6	0.2	0.2	0.0	-0.1
Slovenia	0.6	0.2	0.2	0.0	-0.1
Hungary	7.0	4.3	2.4	1.7	1.6
SEE					
Albania	5.2	4.3	3.0	2.5	2.4
Bosnia Herzegovina	n.a.	n.a.	n.a.	n.a.	n.a.
Croatia	3.1	1.3	0.7	1.2	1.5
Romania	5.1	4.0	2.3	1.2	1.1
Serbia	10.1	11.1	8.8	6.4	4.9
CIS MENA					
Russia	7.1	7.0	10.6	14.2	10.5
Ukraine	20.4	11.4	17.9	25.8	21.5
Egypt	13.6	12.3	11.2	11.2	10.8

Bank

Loans to private sector (% change yoy)	2012	2013	2014	2015F	2016F
CEE					
Slovakia	2.7	5.7	6.4	6.0	6.2
Slovenia	-5.5	-17.4	-13.4	-4.0	0.5
Hungary	-12.8	-4.4	-0.3	-10.0	0.0
SEE					
Albania	2.4	-1.2	2.2	-1.0	3.0
Bosnia Herzegovina	2.9	2.6	1.9	2.0	2.5
Croatia	-6.9	-1.5	-2.0	-3.2	1.2
Romania	1.6	-3.4	-3.7	0.5	3.0
Serbia	9.4	-4.9	4.4	0.5	2.5
CIS					
Russia	19.6	17.4	25.4	-3.0	2.0
Ukraine	2.2	13.5	10.9	2.2	4.0
MENA					
Egypt	6.9	7.1	12.7	16.0	15.0

Deposit by private sector (% change yoy)	2012	2013	2014	2015F	2016F
CEE					
Slovakia	6.0	4.3	3.8	5.5	4.5
Slovenia	-1.2	0.0	6.6	3.5	3.8
Hungary	-0.9	-1.0	1.3	-1.0	1.0
SEE					
Albania	6.3	2.1	2.9	0.5	2.0
Bosnia Herzegovina	4.4	8.9	6.4	5.2	5.4
Croatia	2.3	4.9	2.3	1.5	2.0
Romania	4.7	9.3	8.9	2.0	3.5
Serbia	11.1	3.3	9.7	4.0	4.2
CIS					
Russia	17.9	16.4	27.9	-2.0	3.0
Ukraine	15.7	18.5	-1.8	-0.5	3.0
MENA					
Egypt	12.1	18.3	16.6	16.0	13.0

Source: Intesa Sanpaolo Research Department forecasts

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