

June 2017

Quarterly note

Intesa Sanpaolo
International Research
Network

GDP growth is overall expected to strengthen in 2017 and consolidate in 2018. Inflation is moving upwards but generally is below CB targets, which supports loose monetary policies. Lending activity is gradually accelerating.

Overall, the June forecast indicates a strengthening of the recovery anticipated in our March note in the CEE/SEE region. In the CEE area in particular, GDP growth is forecast to accelerate, from 2.5% in 2016 to 3.2% in 2017 (2.8% expected in March) and to consolidate at around 3% in 2018. This is being driven both by domestic (renewed withdrawal of EU funds and improved labour market conditions) and external (upward revision to EA GDP growth) demand. In the SEE area, growth is also foreseen to move upwards to 3.7% in 2017 (3.3% seen in March) and to stay around 3.5% in 2018.

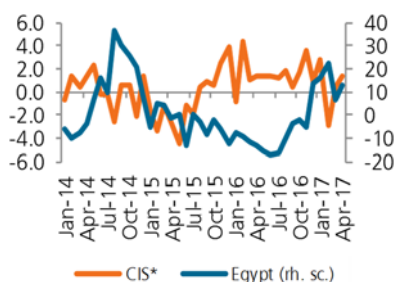
Outside the CEE/SEE regions, Russia is also benefiting from a business cycle recovery but structural factors continue to constrain potential output, as do gloomy prospects for an early easing of sanctions. Overall, we confirm our previous forecast for GDP growth at 1.5% in 2017 and 1.8% in 2018, on the assumption of an oil price recovery, despite the recent setback. The GDP trend in Egypt is expected to slow to 3.8% in FY 2017 (from 4.3% in FY 2016) due to the negative effects of currency restrictions in the first part of FY2017 and the rise in interest rates and inflation over the second part. GDP is forecast to gradually accelerate to 4.2% in FY2018.

In 2017-18, inflation rates are forecast to remain within the corridors set by the CBs in the CEE/SEE area, and take a slightly lower path than previously expected (in line with the downward revised inflation dynamic in the Euro area) mainly due to lower expected energy prices and longer lags in the adjustment of core inflation rates. Monetary policy is expected to continue to be accommodative but gradually less expansionary in 2017 and 2018, with money market rates starting generally to reverse later next year, while remaining close to recent lows.

Outside the region, in Russia inflation is now expected to converge with the CB's 4% target by the end of 2017 and to stay at this level in the medium term, while in Egypt it is expected to remain close to the recent 30% for most of the year, also reflecting recently planned new hikes in tariffs and the removal of subsidies. We expect new rate cuts in Russia and Ukraine in 2017-2018 and the Egypt's CB to start removing its recent tightening late this year or early next year.

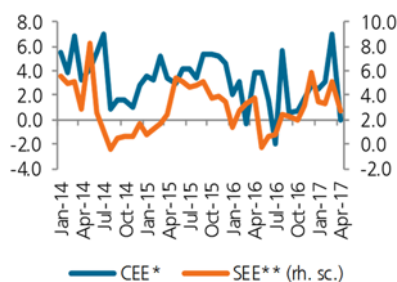
Bank lending is expected to strengthen the recovery in the CEE/SEE region, supported by positive real economic growth and a gradual improvement of asset quality. Corporate lending in this context is forecast to remain relatively weak with respect to household lending, particularly mortgages. Credit growth is nevertheless foreseen to remain negative in 2017 in Croatia because of the ongoing portfolio restructuring at banks. Deposit growth is generally expected to remain dynamic in all countries, even if partially affected in some cases by stronger competition from investment funds, and show a higher profile than the loan growth dynamics. The loans/GDP and the loans/deposits ratios are then forecast to decline further, along with a rebalancing between internal and external bank funding. In line with money market rates, average bank interest rates are expected to remain low in 2017, but to start to increase in 2018, especially on the deposit side. Interest rate spreads are generally expected to contract further.

Industrial production % yoy – CIS - Egypt



Sources: National statistics offices; note * weighted average on Russia and Ukraine data

Industrial production % yoy – CEE - SEE



Sources: National statistics offices; note * weighted average on Czech Republic, Slovakia, Slovenia and Hungary data; ** weighted average on Bosnia, Croatia, Romania and Serbia data

The figures in this document have been updated to 22 June 2017.
See the final page for important information.

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ALBANIA


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Albania

ROMANIA


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Romania

SLOVAKIA AND CZECH REPUBLIC


VÚB BANKA

BOSNIA AND HERZEGOVINA


INTESA SANPAOLO BANKA
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RUSSIAN FEDERATION


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CIB BANK

EGYPT


ALEXBANK | بنك الإسكندرية

UKRAINE


PRAVEX-BANK

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: Czech Republic, Hungary, Slovakia and Slovenia 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 analysis

Recent developments

In 2016, the **GDP growth** (2.5%) in the countries with ISP subsidiaries in the **CEE** region¹ decelerated, as expected, with respect to the 2015 performance (3.8%) when the area had benefited from the end-of-cycle rush to utilise EU investment funds. In the first quarter of the current year, however, growth accelerated again, at 3.5% y/y on average, from 2.1% y/y in 4Q16. This was due to the good performance recorded in all countries of the region, where the GDP dynamic ranged from 2.9% in Czech Republic to 5.3% in Slovenia, above previous expectations. Both domestic and external demand supported economic growth.

GDP growth (4.0%) accelerated in the countries with ISP subsidiaries in the **SEE** region in 2016 when compared with 2015 (3.1%), while in 1Q17 GDP was more mixed. It was particularly strong in Romania (5.6% y/y) and in partial deceleration in Croatia and Serbia (2.5% and 1.2%, respectively) mainly due to a leap year effect in the former case, and unfavourable weather conditions in the winter season in the latter.

After the first quarter of 2017, in April business cycle indicators were still basically in line with 1Q values for Czech Republic and Slovenia and although below the 1Q average, were still solid in Hungary. Industrial production and exports contracted, however, (-3.2% y/y and -1.6%, respectively) in Slovakia, after the significant growth (+13.4% and +16.5%, respectively) recorded in March. In the SEE region the exports dynamic remained strong, with the exception of Romania where it slowed but, again, after a double-digit performance (+15.9%) was observed in March. In the same month, industrial production trends went into negative territory in Croatia (-0.6%) and Serbia (-2.6%), but remained strong in Romania (5.5%) although decelerating from 8.2% in March.

In May, consumer prices either accelerated while remaining on a low path or even partially retreated with respect to the April performance. In particular, inflation increased in Czech Republic and Slovakia (at 2.4% and 1.1%, respectively) among CEE countries, and in Albania and Bosnia (2.0% and 2.2%, respectively) among SEE countries. It slightly decreased yoy with respect to the trend shown in April in the remaining countries, ranging from 0.6% in Romania to 3.5% in Serbia. In all cases it remained close to the corridor targets, except in Romania where it was below the range. All the central banks of the CEE/SEE countries with ISP subsidiaries have maintained loose monetary conditions so far by keeping reference rates unchanged. The Hungarian central bank has, in addition, confirmed the reduction of the upper limit on the stock of three-month CB deposits for 2Q17 to HUF 500 bn from 750bn.

In the **CIS** region, in **Russia**, after a disappointing performance in Q1 industrial production recorded strong gains in April and May, rising by 2.3% y/y and 5.6% y/y, respectively, mainly sustained by manufacturing output, which in May jumped by 5.7% in annual terms on the back of the renewed strength of the car market. New vehicle sales increased by 14.7% y/y in May and by 10.3% y/y in the three-month period ending in May. Construction, where activity rose by 3.8% y/y, returned to a bright spot after six months of losses. The Russian central bank's decision to cut its one-week repo rate by 25bp, to 9.00%, was accompanied by a statement that struck a more cautious note. Governor Nabiullina emphasised that monetary policy would remain tight to anchor inflation expectations. The economy has performed better than the bank had expected and Ms. Nabiullina stressed that two risks to the inflation outlook were becoming more evident. The first was that household consumption is strengthening, and being financed by a drawdown of savings. The second was signs of labour shortages. The rouble weakened after the US Senate voted for new sanctions against Russia, mainly affecting banking operations and the energy sector, and following the drop in oil quotations to levels last seen before the announcement of an output cut by OPEC last November.

Gianluca Salsecci, Giancarlo Frigoli, Antonio Pesce and Davidia Zucchelli

Economic growth picked up in CEE and consolidated in the SEE area in 1Q17

Inflation rates closer to respective central banks corridor targets

In CIS countries, in Russia construction activity recovered. In Ukraine production was sharply down as the blockade hit activity. In Egypt, there were new strong gains for production

¹ As of January 2017, Czech Republic is also included in the region.

In **Ukraine**, industrial production tumbled by 6.2% y/y in April and was down by 2% y/y in the first four months of the year, mainly reflecting the cut in electricity output (-6.7% y/y in the year to April) as many electricity generation plants were short of coke supply coming from the Donbas region following the trade blockade. Manufacturing output also fell in April (-2.8% y/y), although it is still up on the year (+1.7%). Inflation accelerated to 13.5% y/y in May and the CB warned that its year-end target of inflation at 9.1% is unlikely to be hit. Indeed, the government recently revised upward to 11.1% its forecast for annual inflation at the end of 2017.

Egypt's industrial production rose by 12.8% y/y in April and by 13.8% in the first four months of the year. The recovery in activity was led by services, above all tourism and sales, which were particularly weak last year due to external and internal concerns. The PMI index for the non-oil private sector remained below the critical level of 50 for the 20th consecutive month in May, falling to 47.3 from 47.4 in April, signaling lingering investor concerns about growth prospects. Headline inflation slowed to 29.7% in May from its peak of 31.5% in April. Owing to the high exchange rate pass-through and supply bottlenecks, average food prices grew fast, rising 40% y/y in the last five months. Over time the effect of the exchange rate is expected to dissipate.

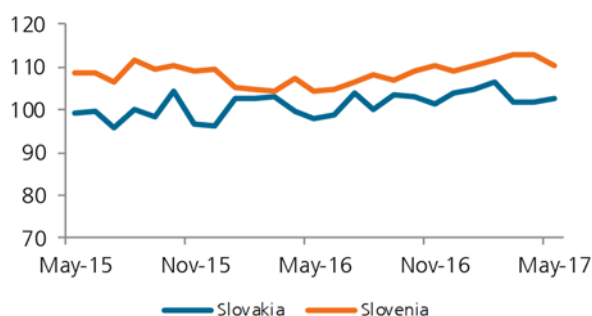
With reference to **banking aggregates**, the last available data (either March or April 2017 in all of the countries except Egypt and Russia, where the most recent data are from February) showed an improvement in terms of a stronger increase or a lower decrease, with the only exception being Albania. In the CEE/SEE region, the **loans** stock contracted in Albania (-0.6% yoy) and in Croatia (-2.3% yoy). Loans to the private sector continued to be particularly dynamic in Slovakia (+11.7% yoy) and in the Czech Republic (+7.3% yoy), pushed up by mortgages. Lending to the households was strong also in Serbia (+11.7% yoy) and in Romania (+5.2% yoy).

Corporate loans showed further declines in several countries, but improved in Slovenia, Serbia and Croatia. Latest NPL ratios were still high in the SEE region, particularly in Albania and Serbia (16.6% and 17%, respectively). In the CEE region, they remained low in Czech Republic and Slovakia (4.8% and 4.5%, respectively) and improved in Slovenia (5.2%) and Hungary (9%). **Deposits** were resilient, particularly in Serbia (12% yoy), and in Romania and the Czech Republic (both over 10% yoy), though in several cases (particularly Slovakia and Croatia), these faced competition from alternative investment products (mainly investment funds).

Among CIS countries, in **Russia**, loans decreased further by 6% yoy as of February, especially in the corporate sector (-8.5% yoy, due to a fall in loans in FX by 27%), while households saw an increase of 1.8%, supported by the decrease in interest rates. Deposits also decreased, by 1.4%, affected by lower corporate deposits (-9.1% yoy). In **Ukraine**, where the banking sector showed signs of improvement in terms of profitability, loans decreased further by 3.2% as of April. Deposits increased by 6.3% yoy. NPLs jumped to 55% from 31% at the end 2016.

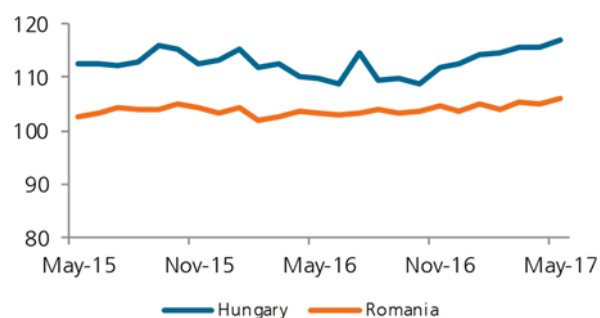
In **Egypt**, the extraordinary performances recorded in both lending (37% nominal) and deposits (39%) are related to the depreciation of the local currency (by more than 127% yoy in November). Net of FX effects, loans are estimated to have nevertheless increased by almost 4.7% while deposits are estimated to have increased by 12%.

Economic sentiment indicator



Source: European Commission

Economic sentiment indicator



Source: European Commission

The international outlook underlying the scenario

In the **US**, the outcome of June's FOMC meeting was in line with expectations: the Fed funds rate was hiked by 25bp to a range between 1% and 1.25% and the Fed announced the tapering of the reinvestment programme was to be implemented "this year". The programme provides for gradual and predictable reinvestment reductions, to minimise the impact on the market. Details have not yet been disclosed on the start of the tapering and on the targeted size of the balance sheet, but will probably be provided by the end of the summer. Another rate hike is in the pipeline this year, and will probably come in September (25bp). The assessment of the scenario for the US economy remains positive. Growth projections made by the Fed have been revised marginally upwards, to 2.2% for 2017, from 2.1%, and left unchanged at 2.1% for 2018. The Fed sees US long-term growth at 1.8%. These forecasts do not consider the impact of the fiscal stimulus planned by the new US administration. US inflation at the end of 2017 is now projected at 1.6% from 1.9% in the March projections. The return to 2% is still forecast at end-2018.

In the **Euro area**, the ECB, as expected, left rates unchanged at the June meeting, but lifted the easing bias on interest rates by removing the reference "to rates lower than current levels". The decision was motivated by evidence that the tail risk of deflation has dissipated and by the upward revision of GDP growth estimates for the Euro area to 2.0% in 2017, from 1.8% earlier, and to 1.8%, from 1.7%, in 2018. The ECB has nevertheless reaffirmed that "rates will stay at current levels well beyond the end of purchases". The accommodative stance and the willingness to support the recovery is validated by the downward revisions to the inflation estimates to 1.4% from 1.6% in 2018 and to 1.6% from 1.8% in 2019, partly on lower oil price assumptions (51.5 USD on average in 2018-19 from 56.3 USD in March) but also on a cut to core inflation estimates to 1.4% from 1.5% in 2018 and to 1.7% from 1.8% in 2019.

In **emerging countries**, growth appears to be bottoming out, to varying degrees, in many of the large commodity exporters that were in recession or stagnation in 2016. Russia has already exited recession while Brazil is expected to slowly emerge this year. Fiscal adjustment needs are expected nevertheless to hold back economic activity in some cases, namely in South Africa and in GCC countries. Growth is forecast to remain much above world averages in a number of large Asian economies (e.g. China, even if on a decelerating path, and India). The recent draw back in oil quotation recovery (10 USD from this year's high) is expected to further benefit hydrocarbon importers with a significant manufacturing base in Asia and Europe and to negatively affect the income stream (and therefore the spending) of oil exporters in the MENA, Latin America and Sub-Saharan Africa regions.

Less dovish central banks in the US and in the Euro area

Some raw material dependent economies are set to return to growth, although adjustment policies to lower raw material prices continue to weigh

The economic outlook

GDP growth and inflation

Overall, the June forecast confirmed the recovery paths anticipated in our March note in the CEE/SEE region but on a stronger footing than previously expected (3.4% in 2017 and 3.2% in 2018 in comparison with the 3% and 2.9% forecast, respectively, in March). This is due to upward revisions of GDP growth in a number of CEE countries and in Romania and comes despite a slightly downward revision generally foreseen in the other SEE countries.

In detail, in the **CEE area**, the GDP growth rate is now forecast to accelerate from 2.5% in 2016 to 3.2% in 2017 (above the 2.8% average previously anticipated). Domestic demand, namely investment and consumption, is expected to be the main driver for growth thanks to both renewed withdrawals of EU funds with the start of the new budget cycle and improved conditions in labour markets; external trade should also contribute, due to a slight acceleration of the EA GDP. Growth, although still robust, is forecast to slightly decelerate in 2018 to 3.0% (with respect to the 2.8% previously expected).

In the **SEE area**, GDP growth has also been revised upwards for 2017 (to 3.7% on average from the previous 3.3%) thanks to the Romanian GDP growth rate which, after the remarkable performance shown in Q12017, is expected to stay around 4.2% (3.4% previously) and despite the slightly downward revision of growth among the other countries. The GDP growth of the area is also expected to decelerate in 2018 (to 3.5% from the previous 3.3%) mainly due to the base effect in Romania.

In the **CIS area**, the latest data support the view that the **Russian** economy has returned to a growth path, sustained by domestic demand which has been benefiting from financial stabilisation, easing inflation and lower interest rates. However, structural factors continue to constrain potential output while prospects of an early easing in Western sanctions have also waned, negatively impacting on long-term growth. Overall, we confirm our previous forecasts for GDP growth in 2017 (+1.5%) and 2018 (+1.8%). In **Ukraine**, the blockade of trade with Donbas regions has started to be negatively reflected in activity numbers. However, we continue to expect that the crisis can be resolved before the end of this year, leading then to a rebound in activity next year. These developments were already discounted in our March scenario and we keep the previous forecast of the GDP growth rate slowing to 1.9% this year and accelerating to 3.2% in 2018.

In the MENA region, the GDP trend in **Egypt** is expected to slow to 3.8% in FY 2017 (from 4.3% in FY 2016), due to the negative effects of currency restrictions in the first part of the current fiscal year and the rise in interest rates and inflation over the second part. After absorbing these effects, we expect GDP to gradually accelerate over the following years, surpassing 5% in the long run. In terms of calendar years, GDP is forecast to grow by 4.0% in real terms in 2017 (from 3.8% in 2016) and by 4.5% in 2018.

In 2017 and 2018, **inflation rates** are forecast to accelerate in the CEE/SEE areas, although along a lower path than previously anticipated (in line with the downward revised inflation dynamic in the Euro area), mainly due to lower expected energy prices and longer lags in the adjustment of core rates.

In the CIS area, inflation in **Russia** is now expected to converge with the CB's 4% target by the end of this year and to stay around this level in the medium term. In **Ukraine** the CB warned that its year-end target of inflation at 9.1% is unlikely to be hit. Indeed, the government recently revised upward to 11.1% its forecast for annual inflation at the end of 2017. We now forecast annual inflation to show a single-digit number only in the second half of next year and to ease gradually afterwards.

In **Egypt** the rise in the consumer price index has been higher and the start of the reversal of the pressures is lagging behind with respect to the forecasts made in March. We now see the annual inflation rate remaining close to 30% for most of the remaining part of this year, also reflecting recently planned new hikes in tariffs and the removal of subsidies, and to ease significantly only starting from next year.

Upward revision of growth forecasts both in CEE and SEE areas in 2017 and 2018 with respect to March forecasts

In CIS countries, we confirmed our previous forecast of a mild recovery in Russia and a temporary slowdown in Ukraine

In Egypt, GDP growth seen to gradually accelerate after a temporary slowdown

Rising inflation rate on a moderate path driven by strengthening demand in CEE and SEE but seen continuing to slow in CIS. In Egypt short-term pressures stronger than previously expected

Monetary policy and financial markets

Monetary policy is expected to continue to be accommodative in 2017 and 2018 in CEE/SEE countries but gradually less expansionary, with money market rates generally seen to start reversing later next year, while still remaining close to recent lows. The forecast is supported domestically by the still low inflationary pressures and externally by the gradual phasing out of the ECB's QE programme to be announced to start in 2018, followed by a likely very gradual (and *well beyond*, as stated by the ECB, the end of the APP) reversal of policy rates.

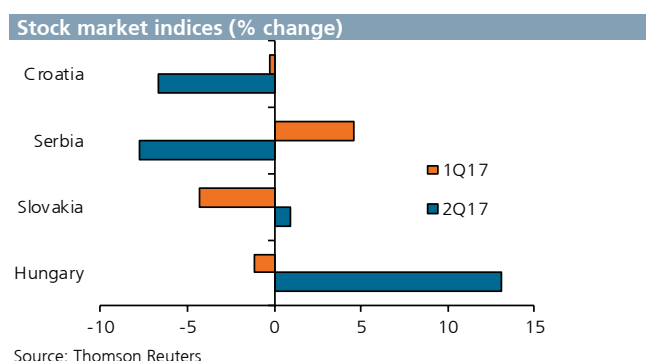
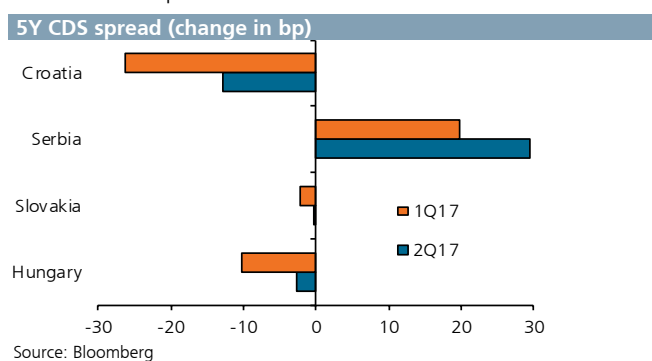
For the CIS area, we expect the easing cycle to continue both in Russia, on the back of the already near-to-target inflation rate and of financial stabilisation, and in Ukraine, in the presence of a deceleration of the consumer price dynamic. In both countries we see money market rates returning to pre-crisis levels in the medium term (7% for Russia and 11.5% for Ukraine). In the MENA region, in Egypt, we expect the central bank to start removing the cumulative 500bp hikes in the reference rates seen since November 2016 starting late this year or early next year, following the first signs that inflationary pressures are about to ease and financial markets have stabilised.

Long-term rates in CEE and SEE countries, which have partially reversed the increase that occurred in Q1 2017, are forecast to move upwards in 2018 based on expected inflation consolidation (though at lower rates than previously anticipated) but to remain generally low, supported by expected still low real rates, limited inflationary pressures and more contained risk/term premia among European countries. The yield curves are therefore generally expected to steepen further in 2017-2018, before starting to flatten when policy rates reverse the cycle. In the CIS region, in Russia, we expect long yields to fall further in 2017-2018, although at a slower pace than short rates, with the rate differential between long-term and short-term rates eventually turning to positive values in the medium term.

Exchange rates, although with some physiologic volatility, are forecast to remain essentially stable at current levels in 2017 and 2018 in the CEE/SEE area, thanks to stable medium-term economic growth perspectives, contained inflationary expectations and improving internal (public deficit/debt) and external (current account/external debt) financial positions. In the CEE region the Czech koruna is indeed expected to slightly accelerate following the recent cap removal with the Euro and in the SEE Region only a slightly depreciation of the Serbian dinar is expected in 2017-2018.

In the CIS area, we now see a weaker than previously expected Russian rouble in the short term following the recent setback of oil prices and the above mentioned US moves on sanctions. We nevertheless continue to forecast a gradual appreciation of the Russian currency in the M/L term on the grounds of a recovery cycle (even if on a lower and perhaps more volatile path) of oil prices and gradual (even though likely postponed) easing of sanctions. We continue to expect the Ukraine's hryvnia to be stable in the near term, but to depreciate in the medium term, based on a significantly higher inflationary profile than trading partners.

In Egypt the exchange rate has recently stabilised at around 18 EGP:1 USD, losing half of its value against the dollar compared with the rate (8.88 EGP:1 USD) at the end of last October. The Egyptian pound is expected to follow a path of gradual depreciation over the medium term in order to preserve the country's competitiveness in the presence of a still high inflation gap with the main trade partners.



Monetary policies are still accommodative, but gradually less expansionary starting in late 2018

Long-term rates have been revised upwards due to some expected limited inflationary pressure

The rouble weaker than previously expected in the S/T due to lower oil price. The Egyptian pound seen stable in the remaining part of this year, but to fall further in the M/L term

Bank aggregates and interest rates

Supported by the economic recovery in many countries, expectations of a further improvement of the **private sector loan stock dynamics** in the CEE/SEE region are stronger now than they were at the March forecast. Outstanding amounts of both loans and deposits have been following a more solid path so far in 2017.

From the demand side, the slow pace of the trend is the result of the long-lasting process of deleveraging occurring in the corporate sector, on the one hand, which is partially offset by a persistently strong dynamic in household mortgages, on the other. Regulatory authorities seek to prevent a debt overhang among households through requirements regarding collateral coverage, repayments proportionate to income levels and other loan characteristics. From the supply side, banks still have to solve the high NPL ratio issue in a number of countries. In Croatia, the loan growth rate is nevertheless expected to remain in negative territory in 2017, due to the impact of the ongoing restructuring of banks' portfolios.

In 2018 in all of the countries, loan growth rates are projected to increase further, at a gradually accelerating pace. Asset quality has been improving and this trend is expected to continue in the upcoming years. Therefore, the growth gap between the leading countries and the others is expected to narrow.

In the CIS area in 2017, the pace of the loan recovery, supported by economic recovery, is forecast to be modest in Russia and at a rate still significantly below inflation in Ukraine. Because of an accounting revision that included more bad loans, NPL jumped to 55% of total loans as of March 2017 (from 31% at the end of 2016). In Egypt, after the adjustment due to the EGP depreciation that brought the loans growth rate to 42.8% in December 2016, an increase in lending is still forecast in 2017 in nominal terms at around 20% but not in real terms, given the expected jump in the inflation rate (27% on year-end), followed in 2018 by a more contained nominal dynamic (+13%), in line this time with the year-end inflation forecast but nevertheless still below nominal GDP growth.

Deposits are forecast to increase further in 2017 (though at a slower pace than in 2016 in many countries) and in 2018. Deposit growth rates are expected to stay well above loans despite strong competition from investment funds in many countries (in particular Slovakia, Slovenia, Croatia and Hungary). The loans/GDP and loans/deposits ratios are forecast to decline further, along with a rebalancing between internal and external bank funding.

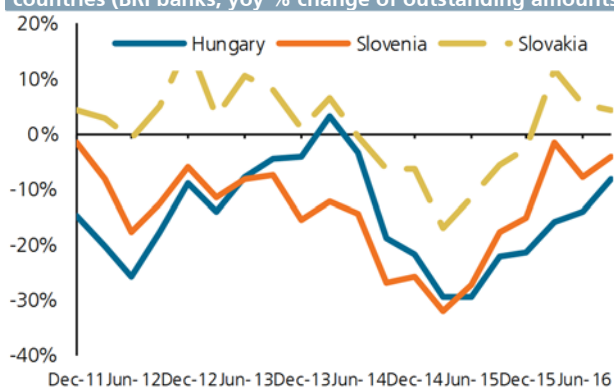
In line with money market rates, average banking interest rates are expected to remain low in 2017 but to start increasing in 2018. Interest rate spreads are generally expected to contract further, but remain significant (generally higher than in Western Countries) particularly in the SEE countries.

Loan dynamic expected to recover

Aggregates in the CIS area expected to remain weak

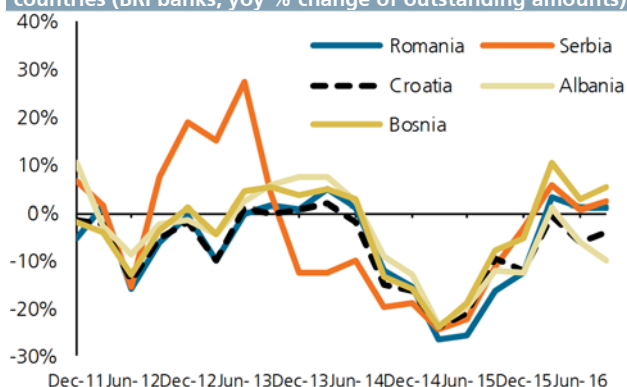
Banking interest rate spreads are expected to narrow further

Consolidated positions on counterparties resident in CEE countries (BRI banks, yoy % change of outstanding amounts)



Source: Intesa Sanpaolo processing of Bank for International Settlements data

Consolidated positions on counterparties resident in SEE countries (BRI banks, yoy % change of outstanding amounts)



Source: Intesa Sanpaolo processing of Bank for International Settlements data

Country-Specific Analysis

Albania

Real Economy

Albanian GDP is expected to rise by 3.6% in 2017 and 3.7% in 2018, in line with EBRD forecasts, on the back of private domestic demand and further major construction work on large energy-related FDI, such as the Trans-Adriatic Pipeline (TAP). Private consumption and investment are supported by low interest rates, improvement of confidence in the economy, and high levels of foreign direct investment. Also, economic developments in the external environment are expected to be supportive. In the first five months of 2017, the value of exports was Lek 111Bn (+16.7 % yoy) while the value of imports was Lek 238Bn (+4.6 % yoy). A positive contribution was particularly made by Construction materials and metals.

The inflation rate in May 2017 was 2.0 %, up from 0.7 % a year ago, but still was slightly below the Q1 average (2.4%) and the CB target. Consumer prices were pushed up mainly by Food and non-alcoholic beverages. Inflation is expected to move around a 2.2% average in 2017 and to gradually increase to a 2.6% average in 2018.

Financial Markets

Monetary policy is forecast to remain highly accommodative in 2017, with the policy rate at a historical low of 1.25%. Yields in the money market continue to trend down, supporting lower interest rates for credit and deposits in 2017. The Albanian lek continues to move along an appreciating trend in 2017, driven by the increase in foreign currency supply. The USD/ALL performance in the domestic market partly reflected the EUR/USD fx dynamic in international markets.

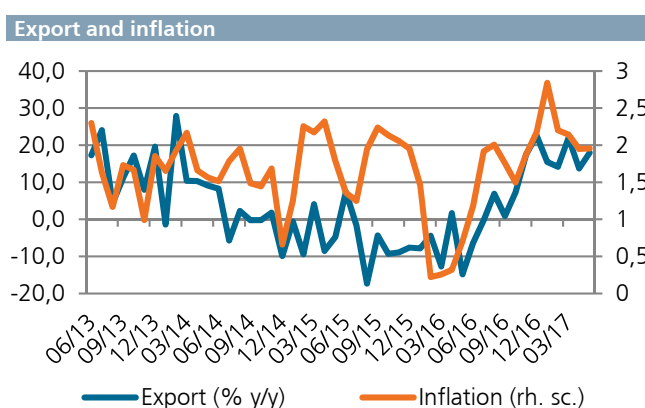
Banking Sector

The performance of total loans continues to be depressed in 2017. The improvement in economic activity has not yet resulted in full utilisation of production capacity, but it has contributed to the increase of firms' liquidity and to a low increase of credit demand by this segment. Total loans in April were -0.63%. Loans to households grew by 3.36%, supported by both funding for consumption and house purchase. Banks expect the positive trend in this segment to continue during the second quarter of the year. Loans to enterprises slowed down, however, off by 2.3% due to still tight credit standards and low demand, the latter reflecting the presence of spare production capacity, the accumulation of firms' liquidity, and the postponement of investment projects. Loans to enterprises continued to shift toward lending in lek, and funding of investment in trade, and hotels and restaurants. NPL in April fell by 16.6% from 20% a year ago.

Total deposits in April were positive at 2.25%, strongly supported from the good liquid situation of corporates. Corporate deposits grew by 17.8%, but household deposits shrank by 0.34%.

Forecasts	2016	2017F	2018F
Real GDP yoy	3.5	3.6	3.7
CPI (avg)	1.3	2.2	2.6
Euro exchange rate (avg)	137.3	135.2	136.4
Euro exchange rate (end of period)	135.2	135.5	137.2
Short-term rate (avg)	1.0	1.1	1.4
Short-term rate (end of period)	1.1	1.1	1.6
L/T bond yields (avg)	n.a.	n.a.	n.a.
Bank loans yoy (end of period)	0.2	2.0	3.0
Bank deposits yoy (end of period)	2.7	2.0	2.5

Source: Intesa Sanpaolo Research Department forecasts



Bosnia and Herzegovina

Real Economy

Although Q1 GDP performance has not yet been released, based on the high frequency data, on which we commented in our May note, we envisage Q1 growth around 2.5% yoy. Recently published April data indicate strengthened industrial production (+4.4% yoy), supported by 14.1% and 5.1% yoy increases in exports and real retail trade, respectively. Stronger domestic demand fuelled 5.0% higher imports. In addition, foreign trade data for May indicated a 20.5% yoy increase in exports. However, imports increased 16.1% yoy, thus resulting in a worsening of the trade deficit in the April/May period by 1.2% yoy.

Altogether, we see 2017 GDP growth in the area of 2.6% yoy, a touch lower than previously estimated at 2.8% as a delay in IFIs financing (triggered by a delay in the IMF programme) is delaying planned public investments. Our medium-term outlook foresees average growth in the area of 3.0%. As in our March scenario, the main risk remains political instability, which could hamper the structural reforms agenda and further delay the investment cycle, as we see private consumption, fuelled by remittances and consumer loans, supporting the current growth path as well as a continued stable exports performance.

Based on a recovery in oil/food prices, annual inflation strengthened to 1.4% and 2.2% yoy in April and May, respectively. We expect the annual average inflation rate to be around 1.3% based on the impact of somewhat lower oil price trends observed in June. In the medium term, we forecast CPI to accelerate towards 2.0%.

Banking Sector

Positive trends in the past months have prompted us to be more optimistic and revise up our previous forecast regarding private sector loans in 2017, from 3.7% yoy to 4.4% yoy. We have raised our expectations for both non-financial corporations and households, in line with solid high frequency data trends. The growth of loans to households is, however, based solely on consumer loans, which we expect to increase by around 7% yoy. Our 2018 forecast is revised upwards as well, from 4.0% yoy to 4.6% yoy, as we expect that economic growth will accelerate moderately.

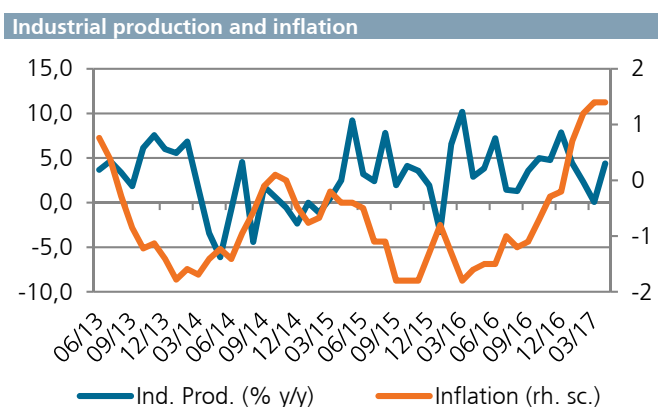
The forecast of private sector growth in deposits of was left unchanged at 7.2% yoy in 2017 and 6.9% yoy in 2018. Households remain the main driver of growth, where we see deposit growth remaining over 7% yoy. Such strong growth is the result of not only a low base and uncertainty, which entice citizens to save, but also strong remittances, which, according to World Bank calculation, amount to some 11% of the country's GDP.

Ivana Jovic

Ana Lokin

Forecasts	2016	2017F	2018F
Real GDP yoy	2.0	2.6	2.8
CPI (avg)	-1.1	1.3	1.7
Euro exchange rate (avg)	2.0	2.0	2.0
Euro exchange rate (end of period)	2.0	2.0	2.0
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)	3.4	4.4	4.6
Bank deposits yoy (end of period)	7.4	7.2	6.9

Source: Intesa Sanpaolo Research Department forecasts



Source: Labour and employment agency

Croatia

Real Economy

Although Q1 GDP disappointed, growing only 2.5% yoy on a seasonally unadjusted basis, when a leap-year effect is factored in, seasonally adjusted data point to 0.6% qoq and 3.4% yoy growth, the same as in the previous quarter. However, Q2 data kicked in on a less favourable note as Agrokor-related negative effects started to feed into the numbers. In detail, April industrial production decreased by 0.6% yoy (-1.9% mom) amid a 4.3% decline in energy production and a 3.2% decline in consumer non-durables (part of which relates to a 7.1% yoy decline in food processing most likely linked with the Agrokor turmoil). At the same time, real retail trade growth slowed to 3.4% yoy, reflecting April's shaken consumer confidence, while preliminary data indicates a 2.0% decline in goods exports (far below 22% growth in Q1). In line with our expectations that the tourist season could partially neutralise softening personal consumption and investment profile due to demanding Agrokor restructuring, we trimmed our 2017 estimate to 2.9% yoy. However, for 2018, we expect growth to moderate further as the boost from this year's tax cuts fades and Agrokor restructuring puts additional pressures on related stakeholders.

Ivana Jovic

Financial Markets

Liquidity continues to break records, owing to the central bank interventions in the foreign exchange market, where the CNB bought EUR 374M (HRK 2.8Bn) from banks in early June. We therefore stick to our average 3M Zibor forecast for 2017 of 0.6%. Regarding the 2017 EUR/HRK average, we have slightly cut our forecast from 7.50 to 7.45. The risks remain on the downside (ie, appreciation side) due to strong fx inflows (goods' exports and tourism), positive net foreign position of banks and possible rating upgrade. In 2018, the average money market rate is expected to be around 0.7% and the EUR/HRK rate to be at 7.5.

Ana Lokin

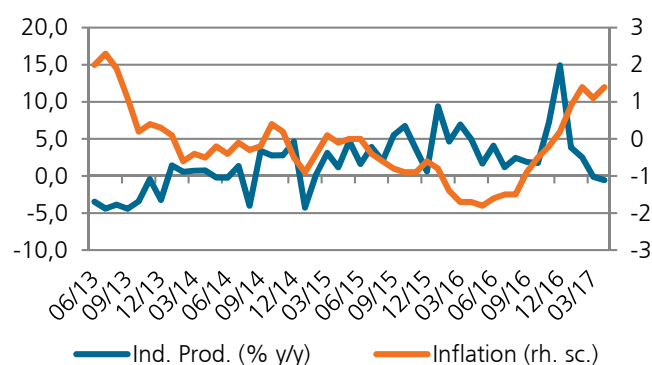
Banking Sector

The loan growth forecast for 2017 was upgraded from -1.5% yoy to -0.9% yoy. In spite of strong sale activity at the banks, primarily corporate, we are witnessing a stronger-than-expected recovery of household demand, where growth rate in April finally moved into positive territory, after being negative for 21 months in a row. The rise in disposable income, another record tourist season and the decline in interest rates on loans are supporting further growth of citizens' loan demand. At the same time, we have cut our deposit forecast from +1.9% to +1.5% yoy, mostly due to continued outflow of fx savings of citizens from banks to investments with higher yields. Our interest rates forecast for 2017 saw only small adjustments for loans (7.0%) and deposits (0.8%), as low mom rates, abundant liquidity and looming losses related to Agrokor are pushing banks to focus on maintaining NIM. The banking aggregates forecast for 2018 was left unchanged.

Forecasts	2016	2017F	2018F
Real GDP yoy	3.0	2.9	2.5
CPI (avg)	-1.1	1.2	1.6
Euro exchange rate (avg)	7.5	7.4	7.5
Euro exchange rate (end of period)	7.5	7.5	7.5
Short-term rate (avg)	0.9	0.6	0.7
Short-term rate (end of period)	0.8	0.6	0.8
L/T bond yields (avg)	3.6	3.0	3.2
Bank loans yoy (end of period)	-4.3	-0.9	1.7
Bank deposits yoy (end of period)	2.8	1.5	2.2

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: EC

Czech Republic

Real Economy

The Czech economy is performing well and we expect the momentum to lift real GDP growth to close to 3% this year and in 2018, with exports and domestic consumption the main factors driving growth. Unlike last year, the public sector will also contribute positively to growth, as upcoming parliamentary elections (due in October) will preclude any restraint in government spending. The key contributor to growth will nonetheless remain household consumption, which is supported by positive developments on the labour market and rising wages.

Besides wages, the tight labour market will also continue to push up consumer prices. Indeed, consumer inflation picked up to 2.4% in May and is likely to remain above the 2% CNB target for the foreseeable future. Property prices will likely also continue to rise, as demand for housing remains brisk and is outstripping supply, particularly in the capital, Prague.

Zdenko Štefanides

Financial Markets

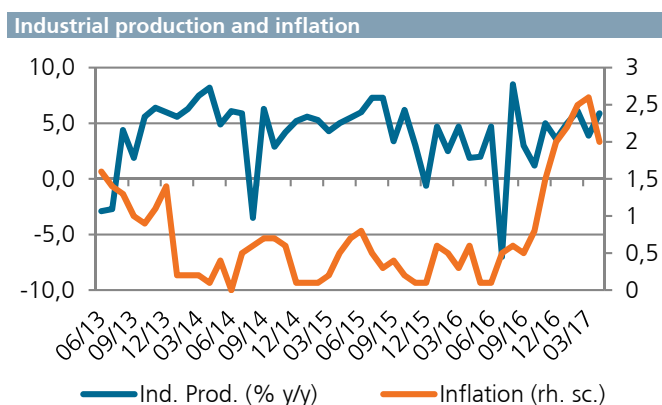
The Czech interest rate environment remains closely linked to the development of the koruna exchange rate. Since the abandonment of the koruna cap on 6 April, the currency has appreciated by 3%, from CZK 27.0/EUR 1 to CZK 26.2, realizing more gains than we foresaw. The CNB model shows that a 1% currency appreciation has a comparable impact on monetary conditions as a quarter point increase in official interest rates. The koruna appreciation will thus delay the anticipated rate increases. While the latest CNB quarterly Inflation Report released in May penciled in the first rate hike in 3Q17, now, CNB board members speak of rate hike being postponed to 4Q17 or beyond. We continue to expect the first hike in 1Q18 as more currency appreciation (we revised our end-2017 target for EUR 1/CZK from 26.5 to 26.0) and the still accommodative stance of the ECB will stay the hands of the hawks at the CNB.

Banking Sector

The Czech banking sector will continue to grow fast, along with the booming economy. In the loan market, the CNB would like to see a moderation of growth, particularly in the segment of loans for house purchases, increases in which are now inflating the property market. Their recommendations to banks to comply with tighter LTV limits have, however, to a large extent fallen on deaf ears. The CNB lacks hard legislative power in this respect, and their recommendations are not legally binding. To gain more regulatory power in this area, the CNB recently drafted for parliamentary approval an amendment to the CNB Act. The amendment nonetheless remains stuck in parliament and probably not much will happen in this respect until after the October parliamentary elections. Lending is thus likely to continue to grow fast, only moderating next year, when tighter macroprudential measures and higher capital requirements become effective (eg, the countercyclical capital buffer is to increase from 0.5% to 1.0% from July 2018).

Forecasts	2016	2017F	2018F
Real GDP yoy	2.4	3.0	3.0
CPI (avg)	0.7	2.3	2.2
Euro exchange rate (avg)	27.0	26.5	25.9
Euro exchange rate (end of period)	27.0	26.0	25.8
Short-term rate (avg)	0.3	0.3	0.6
Short-term rate (end of period)	0.3	0.3	0.8
L/T bond yields (avg)	0.4	0.7	1.2
Bank loans yoy (end of period)	6.7	7.0	6.0
Bank deposits yoy (end of period)	5.8	10.0	7.0

Source: Intesa Sanpaolo Research Department forecasts



Source: EC

Egypt

Real Economy

The Egyptian economy inched up by 4.3% in 1Q17, compared to 3.6% growth in the same period last year, according to the Planning Minister. The improvement was supported by the recovery witnessed in the tourism, construction, telecommunication, transportation and manufacturing sectors. The World Bank expects Egypt's GDP to grow by 3.9% in FY2016/17 and to accelerate to 4.6% and 5.3% by FY2017/18 and FY2018/19, respectively.

Emil Eskander

Egypt's Net International Reserves (NIR) reached USD 31.1Bn by the end of May 2017, its highest level since February 2011. NIR increased by USD 2.5Bn in May 2017 compared to the previous month, due to the sale of Eurobonds in May, from which Egypt received USD 3Bn.

Financial Markets

On 21 May, the Central Bank of Egypt (CBE) raised the overnight deposit and overnight lending rates by 200 bps, to 16.75% and 17.75%, respectively. The discount rate was also raised by 200 bps, to 17.25%. On a different note, the CBE removed the previously imposed USD 100,000 maximum limit on annual foreign currency transfers, signaling the confidence of the Central Bank on the ongoing stabilization of FX market. This is in light of the rise in the foreign currency inflows to Egypt stemmed from tourism, remittances and FDIs and in foreign currency balances at banks since floating the Egyptian Pound in November 2016

Annual urban inflation declined to 29.7% in May 2017 compared to 31.5% in April 2017. However, another sharp price rise is expected at some point during the rest of the year, due to more cuts of energy subsidies that are set to be applied during the second half of 2017. Electricity price rises are set to be applied from 1 July, which matches the start of the new FY2017/18, and fuel price increases are expected to be applied afterwards. It is worth mentioning that the government had announced its intention to increase fuel prices by a maximum of between 30% and 40% in July or August. Thus, the average inflation rate is expected to hover around 30% for 2017, while the annual inflation rate is expected to ease at the end of the year starting November, after one year of the Egyptian pound floating, due to base year effects. The Monetary Policy Committee at the Central Bank of Egypt targets annual headline inflation to decline to 13% (+/- 3%) by 4Q18 and to single digits thereafter.

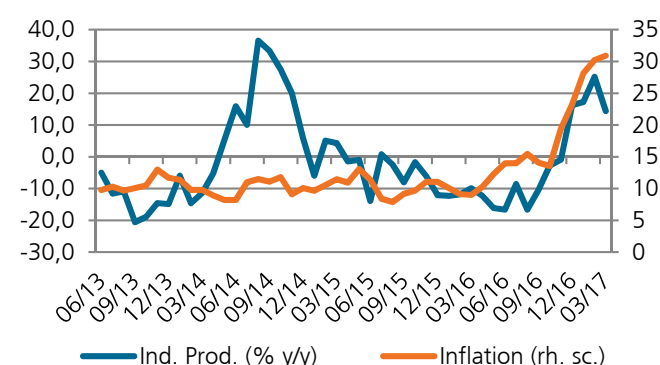
Banking Sector

Total deposits from the private sector were EGP 2.2Tn in February 2017, growing by 38.6% compared to February 2016. Household sector deposits represented 79.0% of total private sector deposits. On the other hand, total bank loans to the private sector increased by 37% in February 2017, to a record EGP 836.3Bn compared to February 2016, when loans to corporates formed 72.6% of total loans to the private sector.

Forecasts	2016	2017F	2018F
Real GDP yoy	3.8	4.0	4.5
CPI (avg)	13.7	30.0	18.0
USD exchange rate (avg)	10.0	18.1	18.7
USD exchange rate (end of period)	18.5	18.6	18.8
Euro exchange rate (avg)	11.1	19.7	21.1
Euro exchange rate (end of period)	19.4	20.8	21.4
Short-term rate (avg)	14.2	19.6	17.5
Short-term rate (end of period)	19.0	19.0	16.0
L/T bond yields (avg)	n.a.	n.a.	n.a.
Bank loans yoy (end of period)	46.1	20.0	13.0
Bank deposits yoy (end of period)	40.9	20.0	16.0

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Ministry of Planning, CAPMAS

Hungary

Real Economy

Sandor Jobbagy

Hungarian GDP growth jumped to 4.2% yoy in 1Q17, following an average 2.0% growth in 2016 (FY) and just 1.6% growth in 4Q16. The Q1 figure was well above the market consensus expectation, although the calendar-adjusted figure was only 3.8% yoy. The major driver was industrial performance, while from the absorption side, household consumption was strong and investments showed a double-digit jump due to the exceptionally low base. While we expect GDP growth to be well above the 2016 annual rate this year, it is unlikely that levels above 4% can be maintained in the quarters ahead. Ongoing fiscal stimulus, the rise in utilisation of EU funds, wage growth and an improved EMU growth outlook are set to support stronger growth than in 2016 and we expect GDP growth to reach at least 3.2%. This pace is unlikely to be sustainable over the upcoming years, given the lack of sufficient strengthening of potential GDP growth.

Headline inflation accelerated until February, coming close to 3% yoy, but it was followed by a downward mini-trend to 2.1% yoy in May. We do not see any major risks for a prolonged rise above 3% in 2017, despite accelerating wages, while a return to sub-2% CPI levels is also unlikely. Annual average inflation is projected to be close to 2.4%.

Financial Markets

The NBH left the 3M policy rate on hold at 0.90% in 1Q17 as well as in 2Q17. Rate cuts are unlikely in 2017 and in 2018. Should any further room for easing emerge, the central bank is more likely to deliver unconventional monetary measures, similar to the announcements of limiting the main (3M) facility effective since August and October 2016. This occurred at its June rate-setting meeting, when the central bank announced a lower quarterly limit for the 3M depo facility: HUF 300Bn for Q3, down from HUF 500Bn in Q2. This supports ongoing low BUBOR rates well below the (still unchanged at 0.90%) base rate level.

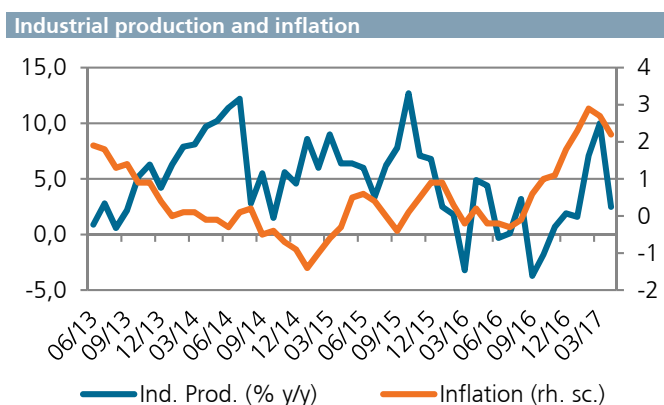
Recent monetary actions and global market fluctuations have resulted in a strengthening of the forint within the EUR/HUF 305-315 band of the last nearly one year, with a recent tendency below the 310 level. We forecast similar levels at the end of 2017. Government bond yields continue to be supported by monetary actions causing a rise in domestic purchases.

Banking Sector

Real economic developments provided some support to the demand side of the loan market, but the private sector continued its cautious approach. Our forecasts remain broadly unchanged, expecting only modest changes to come in the overall stock of loans and deposits. However, some loan segments (including mortgage and personal loans) are picking up. Asset quality continues to improve, with NPLs now below 10%. The sector has continued to experience high liquidity and a strong capital position.

Forecasts	2016	2017F	2018F
Real GDP yoy	2.0	3.2	2.6
CPI (avg)	0.4	2.4	2.7
Euro exchange rate (avg)	311.5	309.2	311.2
Euro exchange rate (end of period)	312.2	310.6	311.8
Short-term rate (avg)	1.0	0.2	0.6
Short-term rate (end of period)	0.4	0.2	0.9
L/T bond yields (avg)	3.2	3.4	4.0
Bank loans yoy (end of period)	-1.9	2.5	2.7
Bank deposits yoy (end of period)	6.3	4.0	4.2

Source: Intesa Sanpaolo Research Department forecasts



Source: CSO

Romania

Real Economy

The Romanian economy continues to perform within market expectations, after the strong performance in Q1. Specifically, April industrial production slowed to +5.50% yoy (from +8.20% the previous month) and is expected to slow down further, as the industrial growth cycle seems to be experiencing some fatigue (as the lack of investments is triggering an underperformance of the Romanian economy relative to peers). April retail sales growth slowed to +6.10% yoy (from +7.70% yoy the previous month) as the fiscal stimulus is slowly fading away. GDP is forecast to grow at 4.2% in 2017 (following a 4.8% growth rate in 2016) and at 3.8% in 2018.

Inflation edged higher in May, to +0.64% yoy (from +0.61% yoy the previous month), which was slightly below market expectations. Inflation was driven mainly by strength in domestic demand (the standout was food price inflation at +0.61% mom). Currently, the broadbased market consensus is that inflation is likely to rise over the course of the year, to reach the lower bound of the central bank target of 2.5% (± 1 pp) by end 2018.

Financial Markets

Recent price action in the Romanian financial markets indicated that the domestic agenda was the main focus. With intense domestic media coverage of the political situation, the nominal exchange rate of the leu lost in value vs the euro. However, the stability of domestic money market rates was noteworthy, as the abundant liquidity that was present in the market acted as a buffer for the local currency bond market as well.

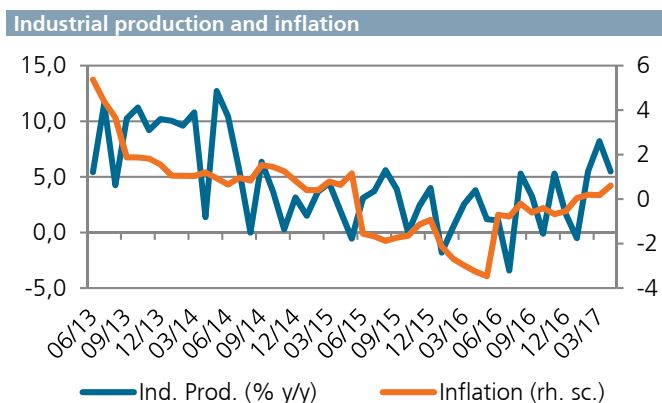
Going forward, although the political agenda is still a focus, and likely to continue to occupy the Romanian mainstream media, an inflationary environment (both domestic and external) will probably be the fundamental price driver in 2018 for (a) the RON foreign exchange market pushing the RON to decline in value; (b) domestic money market rates, with inflation requiring the market to increase the interest paid so as to compensate for this; and (c) the local currency bond market, which is also likely to call for higher yields as inflationary pressures show up in the data prints.

Banking Sector

April banking sector data continues to confirm the trend seen over the course of 2017. Total new fx loans continued to decrease (April 2017: -9.3% yoy), with the contraction in fx loans being absorbed by RON credit growth while new RON credit continued to increase (April 2017: +13.76% yoy). On the liabilities side, both fx and RON total new deposits grew in April (+7.16% yoy and +12.61% yoy, respectively). Hence, the total RON credit stock reached a new all-time record at RON 131.3Bn, 58.8% of the total credit stock at the end of April 2017, another all time high. Also noteworthy is the NPL data at 9.36% at the end of March 2017 (the lowest level since 2010) which continues to trend lower on the back of a more proactive approach and lower financing costs.

Forecasts	2016	2017F	2018F
Real GDP yoy	4.8	4.2	3.8
CPI (avg)	-1.5	0.9	2.2
Euro exchange rate (avg)	4.5	4.6	4.6
Euro exchange rate (end of period)	4.5	4.6	4.6
Short-term rate (avg)	0.6	0.8	1.1
Short-term rate (end of period)	0.6	1.0	1.3
L/T bond yields (avg)	3.4	3.8	4.4
Bank loans yoy (end of period)	0.6	3.5	3.8
Bank deposits yoy (end of period)	8.5	6.0	6.2

Source: Intesa Sanpaolo Research Department forecasts



Source: NBR

Russia

Real Economy

Russian GDP is forecast to grow by around 1.5% in 2017 and at a slightly higher rate in 2018. These positive dynamics will be driven by the agriculture and chemical industries, and recovery in other sectors, on the supply side. From the demand side, the consumer sector is still in decline: real incomes decreased by 7.6% yoy in April, after falling by 2.3% yoy a month earlier. Official statistics on the main sources of income are apparently more positive. Wages (64% of income) are growing steadily at a rate of about 3% yoy, and pensions and social payments (13% and 5%) are almost at the level recorded last year. Income from property and business activities (6% and 7%) is unlikely to fall significantly. Such “discrepancies” in income are rooted in grey wages, which may not be indexed by the employers in the informal sector. In annual terms, inflation in May 2017 remained at the April level of 4.1%, against the expected 3.9-4%. The impact from a strong ruble and a good harvest in 2016 which had accelerated the decline in inflation in 1H17 is now almost exhausted.

Anna Mokina

Financial Markets

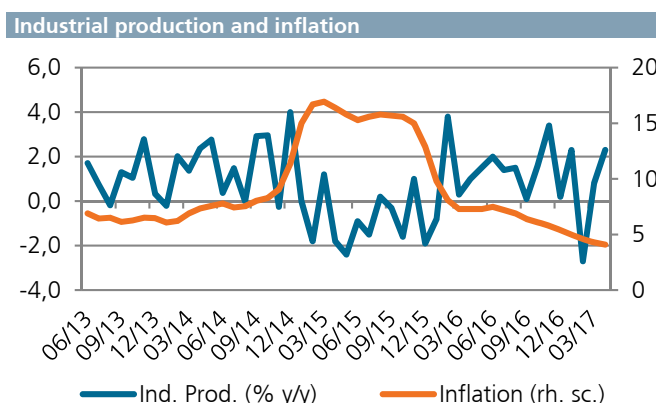
On 16 June, the policy rate was decreased to 9.00%, and it was announced that there should be opportunities for further rate reductions in 2H17. Inflation is close to the target and economic activity is slowly recovering. The ruble was under pressure amid a decline in oil prices, but it has remained relatively stable, supported by the comments regarding the central bank’s commitment to conservative monetary and credit policies. The sentiment towards the ruble and ruble assets is not expected to change significantly. Investors’ attitude towards risky assets are neutral, but falling oil prices cannot be ignored. The OPEC decision to extend the current agreement on the reduction of oil production till the end of March 2018 and not to cut further the quotas provoked a decline in prices. The US withdrawal from the Paris agreement also negatively affected the oil price. The market is concerned about an increase in drilling units in the US and a possible increase in oil production.

Banking Sector

From January till May 2017, banking sector profits have grown by 2.8x compared with the same period in 2016. The reason for this growth is not the increase in lending, but the decrease in deposit rates. The main issue for banks now is credit risk, which is connected with the quality of borrowers. Lending rates have decreased, but the demand for loans is balanced, as the requirements for borrowers are still strict due to high credit risk. Deposit rates also decreased, and in order to limit inflationary risks, the central bank will provide monetary conditions that will support incentives for savings. The level of provisions is expected to grow in 2017. Among the worst industries for the banks in terms of providing loans are construction (due to the long term of investment projects) and wholesale and retail trade (due to low consumer demand).

Forecasts	2016	2017F	2018F
Real GDP yoy	-0.2	1.5	1.8
CPI (avg)	7.1	4.2	4.0
USD exchange rate (avg)	67.0	60.2	59.8
USD exchange rate (end of period)	61.9	60.0	59.5
Euro exchange rate (avg)	74.1	65.6	67.5
Euro exchange rate (end of period)	65.0	67.2	67.8
Short-term rate (avg)	11.2	9.5	8.2
Short-term rate (end of period)	10.5	8.5	8.0
L/T bond yields (avg)	8.9	7.8	7.6
Bank loans yoy (end of period)	-4.2	3.0	5.0
Bank deposits yoy (end of period)	-3.9	3.5	4.5

Source: Intesa Sanpaolo Research Department forecasts



Source: State Statistics Federal Service

Serbia

Real Economy

According to Statistical Office revised data, real GDP increased by a disappointing 1.2% yoy in 1Q17 as private consumption continued to expand on the back of cheaper debt service and improvements in the labour market, while investment growth slowed due to cold weather and the pre-election deadlock. Real GDP is projected to grow by 2.8% in 2017 and accelerate to 3.2% in 2018 on the back of rising consumption, as employment picks up and wages increase, and private sector investment inflow in response to improvements of the business ambience.

YoY inflation slowed down to 3.5% in May 2017, still exceeding the midpoint of the inflation target tolerance band ($3 \pm 1.5\%$) for the fourth consecutive month. Core inflation remains stable around 2% yoy, indicating the temporary character of inflationary pressures. Inflation is expected to continue to move within the tolerance band, with average CPI at around 3.4% yoy in 2017 and 3.2% in 2018. The central bank projects upward pressure to come from the gradual recovery of domestic demand and inflation abroad, while the high base effect for petroleum product prices should slow inflation down.

Financial Markets

The NBS left the key policy rate unchanged at 4.0% for the 11th consecutive month in June 2017, as was expected. No major key policy rate change is expected through the course of the year, with the central bank closely monitoring the monetary policy stance of the ECB and the FED due to their influence on capital flows in emerging markets, including Serbia.

The dinar has appreciated against the euro by 1.4% since the beginning of the year while the NBS has sold and bought EUR 345M on the fx market in order to mitigate excessive daily volatility of the exchange rate. Significant dinar appreciation started in April and is viewed to be a consequence of improved fiscal and macroeconomic fundamentals and increased interest of foreign investors in dinar long-term government securities. The dinar is projected to remain relatively stable in 2017, with an average EUR/RSD exchange rate at 123.5.

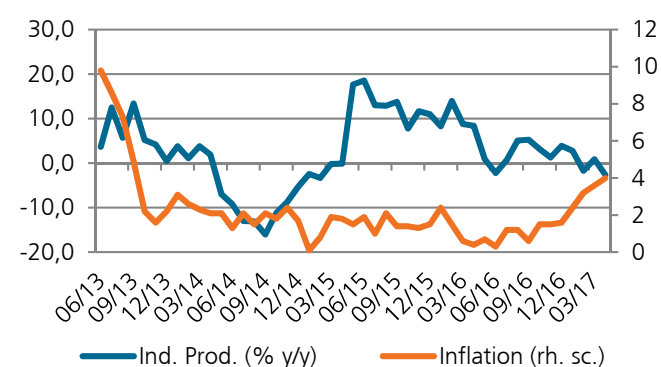
Banking Sector

Deposits from the private sector are expected to continue expanding, but at a slower pace of 6.5% yoy in 2017. Loans to the private sector are projected to grow by 3.5% yoy in 2017 and will be supported by a further recovery in the overall economy, lower interest rates on dinar loans due to past monetary policy easing, low interest rates in the international money market which reflect a drop in interest rates on fx and fx-indexed loans, and increased interbank competition. In addition, continued cleansing from bank balance sheets of distressed assets through write-offs and sale of NPLs (NPL figures have dropped by 5.7 pp since the adoption of the NPL Resolution Strategy, to 16.5% in April 2017, the lowest level in seven years) should create room for new lending.

Forecasts	2016	2017F	2018F
Real GDP yoy	2.8	2.8	3.2
CPI (avg)	1.1	3.4	3.2
Short-term rate (avg)	4.1	4.0	4.2
Short-term rate (end of period)	4.0	4.0	4.5
L/T bond yields (avg)	0.0	0.0	0.0
Bank loans yoy (end of period)	2.4	3.5	3.8
Bank deposits yoy (end of period)	11.5	6.5	6.6

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistical Office, National Bank of Serbia

Slovakia

Real Economy

The Slovak economy opened 2017 on a strong note. Growth of GDP in the first quarter was confirmed at 3.1% yoy, supported by both domestic and foreign demand. A favourable development regarding the labour market – employment increased to a new all-time high in 1Q17 - boosted household consumption, while the positive development of the European economy pushed up foreign trade and investments. The outlook thus remains encouraging. We expect economic growth to accelerate this year to 3.4% yoy from 3.3% yoy in 2016. Even more encouraging are the outlooks for 2018 and 2019. Additional factors driving up growth should be very significant investment in the automotive industry (JLR is building a new factory in Slovakia, VW is significantly increasing production capacity) and that investment activity is expected to accelerate in the public sector (the government announced several infrastructure projects to be built shortly).

In the first five months of the current year, inflation averaged 0.9% yoy, in sharp contrast to the -0.5% yoy in full-year 2016. The main growth factors are food prices (+2.5% yoy). In contrast, the overall index is being negatively affected by its regulated part (-2.2% yoy). The demand-driven segment of inflation alone averaged 1.0% yoy in January-May. Looking ahead, we expect food prices to continue to grow and the demand-driven segment of inflation to accelerate further as a natural reflection of a fast-improving labour market. Higher inflation pressures are also present in domestic producer prices. The above-mentioned factors should drive headline inflation up further. We revise our previous full-year forecast by one-tenth, to 1.2% yoy, mainly due to higher-than-expected growth of food prices in the first five months of 2017.

Financial Markets

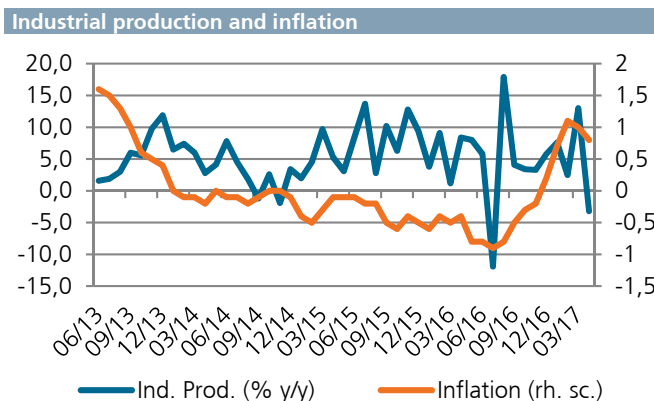
Yields on Slovak government bonds continue to be driven primarily by ECB purchases. Over the past month, spreads vs German bunds stabilised at close to 60 bps, at the lower boundary of the forecast range. The ECB does not appear to be in a hurry to normalise/tighten its ultra-accommodative monetary policy, which is validated by weak inflation prospects. In either case, the ECB's balance sheet should continue to expand in 2018, albeit at a slower pace than in 2016-17, and the deposit rate will likely remain unchanged at least until 4Q next year. Looking ahead, we maintain our forecast envisaging that Slovak yields move along with German bunds with a 60-80 bps spread.

Banking Sector

Low interest rates, along with increasing wages and employment are supporting further growth of housing loans. Household debt has thus doubled since 2010, which poses a risk for financial stability in the view of the NBS. Thus, from July, additional regulatory measures on mortgages will come into force. Further measures on consumer loans are at a preparatory stage. Growth of loans is thus likely to slow down from the current buoyant 12% yoy. Nevertheless, as a booming economy is boosting markets, we expect that new measures will not slow growth below double-digit readings until the end of this year.

Forecasts	2016	2017F	2018F
Real GDP yoy	3.3	3.4	3.8
CPI (avg)	-0.5	1.2	1.7
Short-term rate (avg)	-0.3	-0.3	-0.2
Short-term rate (end of period)	-0.3	-0.3	0.0
L/T bond yields (avg)	0.7	1.1	1.7
Bank loans yoy (end of period)	10.3	10.0	8.0
Bank deposits yoy (end of period)	4.6	4.8	5.2

Source: Intesa Sanpaolo Research Department forecasts



Source: Statistical Office of Slovak Republic

Slovenia

Real Economy

After solid GDP growth in 1Q17, the June forecast envisages GDP growth rising to 3.5% in 2017, followed by slight decelerations, to 3.0% and 2.4%, in 2018 and 2019. The acceleration relative to 2016 mainly reflects the dynamics of government investment (in line with the government's plan for the absorption of EU funds). With rising demand and favourable conditions for investment throughout the forecast period, further growth in investment in machinery and equipment is projected, and, with the recovery in the real estate market, a gradual rebound in housing investment. Issuance of building permits and construction activity indicators point to a revival in the construction of dwellings.

Inflation is expected to strengthen to 1.8% this year, particularly owing to higher energy prices, and should remain at similar levels in the next two years. Price rises in non-energy goods will be more moderate and more gradual, as commodity shocks are predicted to be passed on to final consumer prices with a delay.

Financial Markets

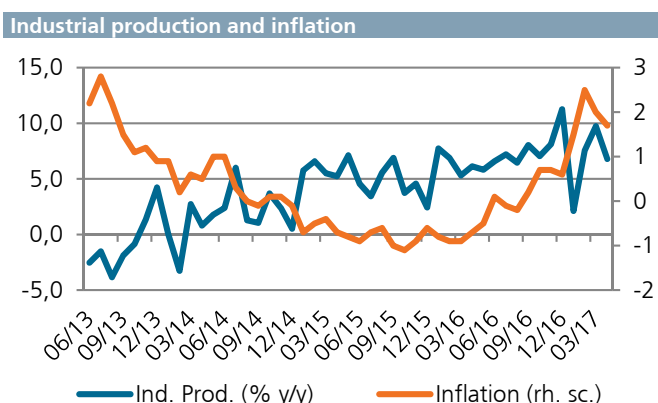
Short-term interest rates are stable. The 3M Euribor rate is currently at -0.3%, with no likelihood of recovery till end of the year. It is expected that average short-term interest rates will rise slightly to -0.20% in 2018. The yield on Slovenia's benchmark 10Y government bond increased by 0.1 bps, to 1.1%, in comparison to last quarter. The market doesn't appear to expect any more significant movement till the end of 2017. Long-term government bond yields are expected to rise to 2% by the end of 2018. Slovenian 5Y CDS' spreads slipped to 75.86 bps, after Standard & Poor's raised long-term ratings on Slovenia to 'A+' from 'A' and affirmed Slovenia's 'A-1' short-term rating on improving debt dynamics. The Slovenian government hopes to reach an agreement with the European Commission in early autumn on the next step in the sale of the country's largest bank, Nova Ljubljanska Banka (NLB). The government cancelled the planned sale of 50% of NLB earlier in June stating that the suggested sales price was too low.

Banking Sector

In April, total loans to the non-banking sector were up by 1.8% yoy, which is the highest growth since March 2011. While household loans have been recording stable growth, loans to the corporate sector remain more volatile and therefore low growth is expected for 2017 (2.0%) which will continue in 2018 and 2019 (2.5% and 2.7%, respectively). The non-banking sector still has high deposits in banks, although their growth has slowed a bit in recent months. Total deposits from households and corporates amounted to EUR 23Bn at the end of April and are expected to rise by 5.8% in 2017 and around 5.0% in the following years as well. As interest rates remain low, the increase in deposits is continuing to be driven by sight deposits; the stock of term deposits is continuing to decline.

Forecasts	2016	2017F	2018F
Real GDP yoy	2.5	3.5	3.0
CPI (avg)	0.2	1.8	1.9
Short-term rate (avg)	-0.3	-0.3	-0.2
Short-term rate (end of period)	-0.3	-0.3	0.0
L/T bond yields (avg)	1.2	1.2	2.0
Bank loans yoy (end of period)	-2.7	2.0	2.5
Bank deposits yoy (end of period)	7.2	5.8	5.6

Source: Intesa Sanpaolo Research Department forecasts



Source: Statistical Office of the Republic of Slovenia

Ukraine

Real Economy

Real GDP growth slowed to 2.5% yoy in 1Q17 from 4.8% in 4Q16. On the demand side, the weaker growth was due to net trade, as exports dropped by 0.4% yoy from +9.7% yoy in 4Q16. Domestic demand remained strong, particularly investments, which reported a double-digits increase (+20.1% yoy) for the fourth consecutive quarter mainly sustained by hefty construction activity, while consumption accelerated (+2.8% from +0.9%). On the supply side, the slowdown was mainly due to the drop in mining (-7.5% yoy) and electricity (-2.9%), while construction was particularly strong (+21.3%). After the worse-than-expected performance of the economy in the first quarter, Ukraine's central bank highlighted that the current dynamics of GDP and its components pose the risk that growth in 2017 may be lower than the forecast 1.9%. Among the main negative factors, the bank listed the railway blockade in the industrial eastern region of Donbass and the transition of Ukrainian enterprises in this region under the control of pro-independence insurgents.

Financial Markets

The central bank cut its policy rate by 50 bps at the end of May, to 12.5%, but it warned that it might change course, tightening again if government policies, particularly those regarding wages and pensions, fuel inflation again. Inflation accelerated to 13.5% yoy in May and the CB said that its year-end target of inflation at 9.1% is unlikely to be met. The baseline scenario of the central bank indicates inflation at 6% by end-2018 and at 5% by end-2019. Considering that real interest rates are now negative, we expect the CB to remain on the sidelines in the near future and to resume the easing cycle in the final months of 2017.

Banking Sector

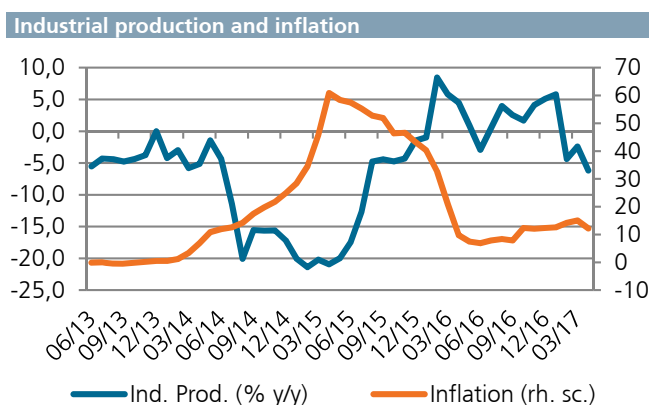
Although a modest economic recovery would support an improving trend in the banking sector, banks' lending capacity and demand for credit are expected to remain constrained. Loans to corporates remained fragile (-2.4% yoy) as of April 2017, as did loans to households (-6.3% yoy). The NPLs ratio increased dramatically to 55.1% of total loans in March 2017 (from 30% at the end of 2016), partially due to a revision to regulations. Although provisions seem to be significant (at over 70% of total loans as of December 2016), NPLs are expected to weigh both on the banks' capacity to lend and economic results. The weak protection of creditor rights remains one of the most substantial impediments to a lending recovery. Deposits increased (+6% as of April) both in the household (+6.5% yoy) and the corporate (5.8%) segments. The LTD ratio decreased slightly to 133% (from 151% in February 2016), a level that is still too high. The Capital Adequacy ratio, however, increased from 12.3% in 2015 to 13.7% as of March 2017, partly as a result of a large recapitalisation plan in line with the CB's recommendations. The banking sector has been generating profits since the start of 2017. The ROA ratio increased to 0.8% as of March 2017 (from -12.5% in 2016). Nominal loan growth is expected to improve slightly in the years to come from +1% expected in 2017.

Giancarlo Frigoli

Davidia Zucchelli

Forecasts	2016	2017F	2018F
Real GDP yoy	2.3	1.9	3.2
CPI (avg)	15.0	11.8	10.2
USD exchange rate (avg)	25.5	26.7	27.0
Euro exchange rate (avg)	28.2	29.1	30.6
Short-term rate (avg)	20.9	16.6	14.6
L/T bond yields (avg)	0.0	0.0	0.0
Bank lending	2.0	1.0	3.0
Bank deposits	9.1	5.0	5.2

Source: Intesa Sanpaolo Research Department forecasts



Source: State Statistics Service of Ukraine

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

Economy																		
	GDP chg yoy			Ind. Prod ¹ . chg.yoy			Export nom. ch yoy			Inflation chg yoy				FX reserves chg (mln €) ²			CA bal. (mln €) ³	
	1Q17	4Q16	2016	Last	mt	1Q17	Last	mt	1Q17	Last	mt	1Q17	2016	1Q17	4Q16	2016	1Q17	4Q16
CEE																		
Czech Rep.	2.9	1.9	2.4	5.9	Apr	5.0	-3.3	Apr	6.7	2.4	May	2.4	0.7	n.a.	n.a.	n.a.	n.a.	n.a.
Hungary	4.1	1.6	2.0	2.5	Apr	6.2	1.9	Apr	12.5	2.1	May	2.6	0.4	n.a.	n.a.	n.a.	n.a.	688
Slovakia	3.1	3.0	3.3	-3.2	Apr	7.7	-1.6	Apr	11.2	1.1	May	0.9	-0.5	n.s.	n.s.	n.s.	n.a.	n.a.
Slovenia	5.3	2.6	2.5	6.8	Apr	6.5	4.3	Apr	11.9	1.5	May	2.0	0.2	n.s.	n.s.	n.s.	767	548
SEE																		
Albania	n.a.	4.0	3.5	n.a.	n.a.	n.a.	1.8	May	15.7	2.0	May	2.4	1.3	n.a.	-153	n.a.	n.a.	-240
Bosnia H.	n.a.	2.6	2.0	4.4	Apr	2.5	14.1	Apr	17.4	2.2	May	1.1	-1.1	n.a.	44	473	n.a.	-180
Croatia	2.5	3.4	3.0	-0.6	Apr	2.0	-2.0	Apr	22.1	1.1	May	1.1	-1.1	n.a.	475	-193	n.a.	-697
Romania	5.6	4.7	4.8	5.5	Apr	4.4	1.5	Apr	10.0	0.6	May	0.1	-1.5	699	-1046	-350	-3248	-1440
Serbia	1.2	2.5	2.8	-2.6	Apr	0.7	21.5	Mar	12.8	3.5	May	3.1	1.1	-549	600	-52	n.a.	-390
CIS MENA																		
Russia	0.5	0.3	-0.2	5.6	May	0.1	35.2	Mar	36.6	4.1	May	4.6	7.1	12732	-14323	-1356	22800	10124
Ukraine	2.5	4.8	2.3	-6.2	Apr	-0.3	26.8	Apr	38.4	13.5	May	14.0	14.9	-440	263	-466	-808	-953
Egypt	4.3	3.8	3.8	12.9	Apr	19.0	7.7	Mar	20.8	29.7	May	29.8	13.7	4261	4673	7820		-4666
<i>m.i.E.A.</i>	<i>1.7</i>	<i>1.8</i>	<i>1.8</i>	<i>1.4</i>	<i>Apr</i>	<i>1.4</i>	<i>-2.8</i>	<i>Apr</i>	<i>10.6</i>	<i>1.4</i>	<i>May</i>	<i>1.8</i>	<i>0.2</i>					

Source: Datastream, Reuters; ¹Wda data for Slovakia, Slovenia; Bosnia, Croatia, Egypt; ²USD for Russia, Egypt, Ukraine, Romania; ³USD for Russia, Egypt, Ukraine

Markets and Ratings													
	S/T rates ¹		L/T rates ²		Foreign exchanges ³			Stock markets		CDS spread (bp)		Rating	
	20/06	chg bp 3M	20/06	chg bp 3M	20/06	3M chg%	1Y chg%	3M chg%	1Y chg%	20/06	20/03	S&P	
CEE													
Vs Euro													
Czech Rep.	0.3	0.0	0.9	-0.1	26.3	-2.5	-2.6	1.9	19.0	37.5	38.5	AA-	
Hungary	0.2	-0.1	3.0	-0.6	308.0	-0.2	-1.4	11.2	35.5	101.8	109.9	BBB-	
Slovakia	-0.3	0.0	0.9	-0.3	Euro	Euro	Euro	2.4	0.3	38.8	41.2	A+	
Slovenia	-0.3	0.0	1.1	0.1	Euro	Euro	Euro	-1.2	15.0	75.8	75.9	A+	
SEE													
Albania	1.2	0.0	n.a.	n.a.	132.8	-1.8	-3.4	n.a.	n.a.	n.a.	n.a.	B+	
Bosnia H.	n.a.	n.a.	n.a.	n.a.	1.96	Board	Board	n.a.	n.a.	n.a.	n.a.	B	
Croatia	0.6	0.0	3.0	0.1	7.4	-0.1	-1.6	-13.8	10.3	163.0	185.1	BB	
Romania	0.6	0.0	3.8	-0.3	4.6	0.8	1.3	5.1	29.1	94.5	90.1	BBB-	
Serbia	4.0	0.0	n.a.	n.a.	121.8	-1.7	-1.4	-10.0	15.6	178.3	206.3	BB-	
CIS MENA													
Vs USD													
Russia	9.2	-1.2	7.8	-0.1	59.8	4.0	-12.1	-10.8	-2.4	160.7	159.1	BB+	
Ukraine	16.2	-1.7	9.7	0.0	26.0	-3.2	4.5	-8.6	18.6	609.0	1253.8	B-	
Egypt	20.5	1.4	18.4	1.1	18.0	-1.2	102.7	1.9	95.8	326.8	299.3	B-	
<i>m.i.A.E.</i>	<i>-0.3</i>	<i>0.0</i>	<i>0.3</i>	<i>-0.2</i>	<i>1.1</i>	<i>3.5</i>	<i>-1.9</i>	<i>2.3</i>	<i>14.9</i>	<i>7.1</i>	<i>12.1</i>		

Source: Datastream, Reuters; ¹The data for Albania refers to January, for Egypt refers to May, for Czech Republic refers to May; ²For Ukraine, the long-term rate refers to a government issue in dollars; ³The (-) sign indicates appreciation.

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 %										
	Last Mth	2016	Last mth	2016	Last mth	2016	Last Mth	2016	Last mth	2016	S ⁴	Last mth	2016	S ⁴	Last mth	2016							
CEE																							
Czech Rep.	7.3	Apr	6.7	4.8	Dec	4.8	33.3	Nov	n.a.	10.4	Apr	5.8	2.09	Apr	1.86	C	0.98	Apr	0.91	A	75.5	Apr	76.6
Hungary	0.1	Mar	-1.9	9.0	Dec	9.0	3.2	Mar	-7.0	9.6	Mar	6.3	2.35	Mar	3.12	C	0.39	Mar	0.54	A	85.5	Mar	83.8
Slovakia	11.7	Apr	10.3	4.5	Apr	4.7	-13.7	Apr	0.8	3.8	Apr	4.6	2.5	Apr	2.6	C ²	0.42	Apr	0.49	H ²	97.2	Apr	94.9
Slovenia	1.8	Apr	-2.7	5.2	Mar	5.5	-16.2	Apr	-17.9	6.3	Apr	7.2	2.55	Apr	2.81	C ²	0.15	Apr	0.23	H ²	81.4	Apr	81.0
SEE																							
Albania	-0.6	Apr	0.2	16.6	Apr	18.3	-11.6	Apr	-13.2	2.2	Apr	2.7	6.55	Apr	7.01	A	0.81	Apr	0.78	H	52.8	Apr	52.3
Bosnia H.	4.9	Apr	3.4	11.5	Mar	11.8	4.6	Apr	-5.3	8.1	Apr	7.4	3.9	Apr	4.62	C	0.35	Apr	0.55	H	111.0	Apr	110.1
Croatia	-2.3	Mar	-4.3	13.8	Dec	13.8	-20.8	Mar	-26.6	2.8	Mar	2.8	4.37	Mar	4.47	C	1.08	Mar	1.26	H	82.4	Mar	80.5
Romania	3.0	Apr	0.6	9.5	Dec	9.5	-15.3	Apr	-21.8	10.8	Apr	8.5	3.92	Apr	3.72	C	0.82	Apr	0.9	H	83.9	Mar	83.0
Serbia	4.5	Mar	2.4	17.0	Feb	17.0	-11.7	Mar	-9.1	12.0	Mar	11.5	5.91	Mar	5.42	C	2.7	Mar	3.01	H	103.5	Mar	102.3
CIS MENA																							
Russia	-6.1	Feb	-4.2	9.7	Mar	9.4	-12.5	Oct	n.a.	-1.4	Feb	-3.9	11.48	Feb	11.83	C	6.3	Feb	6.5	H	106.1	Feb	107.7
Ukraine	-3.2	Apr	2.0	55.1	Mar	30.5	-12.4	Mar	-8.0	6.3	Apr	9.1	21.18	Apr	22.88	R ³	14.62	Apr	16.31	R ³	133.2	Apr	136.8
Egypt	37.0	Feb	42.8	5.8	Dec	5.8	155.0	Feb	256.6	38.6	Feb	41.4	16.6	Mar	16.3	C	11.3	Mar	10.3	H	38.6	Feb	39.2
<i>m.i.E.A.</i>	<i>1.5</i>	<i>Mar</i>	<i>1.0</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>17.7</i>	<i>Mar</i>	<i>3.3</i>	<i>1.4</i>	<i>Mar</i>	<i>1.4</i>	<i>C</i>	<i>0.4</i>	<i>Mar</i>	<i>0.4</i>	<i>H</i>	<i>81.9</i>	<i>Mar</i>	<i>81.9</i>

Source: Central Banks, IMF, Moody's; ¹monthly average; ²lending rate on current account overdraft; on deposits up to 1 year; ³does not include banks

⁴Sector A=All, C=Corporates, H=Household, PS=Private Sector, R=Residents.

Country Outlook

The economy											
	2014	2015	2016	2017F	2018F		2014	2015	2016	2017F	2018F
GDP (% yoy)						Inflation (average)					
CEE						CEE					
Czech Rep.	2.7	4.5	2.4	3.0	3.0	Czech Rep.	0.4	0.3	0.7	2.3	2.2
Hungary	4.0	3.1	2.0	3.2	2.6	Hungary	-0.2	-0.1	0.4	2.4	2.7
Slovakia	2.6	3.8	3.3	3.4	3.8	Slovakia	-0.1	-0.3	-0.5	1.2	1.7
Slovenia	3.1	2.3	2.5	3.5	3.0	Slovenia	0.4	-0.8	0.2	1.8	1.9
<i>Average</i>	3.1	3.8	2.5	3.2	3.0						
SEE						SEE					
Albania	1.8	2.2	3.5	3.6	3.7	Albania	1.6	1.8	1.3	2.2	2.6
Bosnia Herzegovina	1.1	3.0	2.0	2.6	2.8	Bosnia Herzegovina	-0.9	-1.0	-1.1	1.3	1.7
Croatia	-0.5	2.2	3.0	2.9	2.5	Croatia	-0.2	-0.5	-1.1	1.2	1.6
Romania	2.8	3.7	4.8	4.2	3.8	Romania	1.1	-0.6	-1.5	0.9	2.2
Serbia	-1.8	0.8	2.8	2.8	3.2	Serbia	2.1	1.4	1.1	3.4	3.2
<i>Average</i>	1.6	3.0	4.0	3.7	3.5						
CIS						CIS					
Russia	0.7	-2.8	-0.2	1.5	1.8	Russia	7.8	15.5	7.1	4.2	4.0
Ukraine	-6.6	-9.8	2.3	1.9	3.2	Ukraine	12.2	48.0	15.0	11.8	10.2
<i>Average</i>	0.0	-3.4	0.0	1.5	1.9						
MENA						MENA					
Egypt	4.0	3.5	3.8	4.0	4.5	Egypt	10.1	10.4	13.7	30.0	18.0
Average ISP Subsidiaries	1.2	-0.9	1.3	2.4	2.6						

Market											
	2014	2015	2016	2017F	2018F		2014	2015	2016	2017F	2018F
Exchange rate (average)						Interest rate (average)					
CEE						CEE					
Czech Rep.	27.5	27.3	27.0	26.5	25.9	Czech Rep.	0.2	0.2	0.3	0.3	0.6
Hungary	308.6	310.0	311.5	309.2	311.2	Hungary	2.4	1.7	1.0	0.2	0.6
Slovakia						Slovakia	0.2	0.0	-0.3	-0.3	-0.2
Slovenia						Slovenia	0.2	0.0	-0.3	-0.3	-0.2
SEE						SEE					
Albania	140.4	139.8	137.3	135.2	136.4	Albania	3.0	2.7	1.0	1.1	1.4
Bosnia Herzegovina	2.0	2.0	2.0	2.0	2.0	Bosnia Herzegovina	0.0	0.0	0.0	0.0	0.0
Croatia	7.6	7.6	7.5	7.4	7.5	Croatia	0.7	1.2	0.9	0.6	0.7
Romania	4.4	4.4	4.5	4.6	4.6	Romania	2.3	1.1	0.6	0.8	1.1
Serbia	117.3	120.8	123.1	123.5	125.6	Serbia	8.8	6.3	4.1	4.0	4.2
CSI MENA						CIS MENA					
Russia (USD)	38.6	61.3	67.0	60.2	59.8	Russia	10.6	13.5	11.2	9.5	8.2
Ukraine (USD)	12.0	22.0	25.5	26.7	27.0	Ukraine	17.9	25.9	20.9	16.6	14.6
Egypt (USD)	7.1	7.7	10.0	18.1	18.7	Egypt	11.2	11.3	14.2	19.6	17.5

Bank											
	2014	2015	2016	2017F	2018F		2014	2015	2016	2017F	2018F
Loans to private sector (% change yoy)						Deposit by private sector (% change yoy)					
CEE						CEE					
Czech Rep.	2.7	6.6	6.7	7.0	6.0	Czech Rep.	6.7	7.1	5.8	10.0	7.0
Hungary	-0.3	-12.3	-1.9	2.5	2.7	Hungary	1.3	7.5	6.3	4.0	4.2
Slovakia	6.4	8.7	10.3	10.0	8.0	Slovakia	3.8	9.9	4.6	4.8	5.2
Slovenia	-13.4	-5.2	-2.7	2.0	2.5	Slovenia	6.6	5.8	7.2	5.8	5.6
SEE						SEE					
Albania	2.2	-2.6	0.2	2.0	3.0	Albania	2.9	1.0	2.7	2.0	2.5
Bosnia Herzegovina	1.9	2.2	3.4	4.4	4.6	Bosnia Herzegovina	6.4	7.8	7.4	7.2	6.9
Croatia	-2.0	-3.1	-4.3	-0.9	1.7	Croatia	2.3	6.4	2.8	1.5	2.2
Romania	-3.7	2.7	0.6	3.5	3.8	Romania	8.9	9.1	8.5	6.0	6.2
Serbia	4.4	3.0	2.4	3.5	3.8	Serbia	9.7	7.1	11.5	6.5	6.6
CIS						CIS					
Russia	25.4	8.2	-4.2	3.0	5.0	Russia	27.9	18.8	-3.9	3.5	4.5
Ukraine	10.9	-3.8	2.0	1.0	3.0	Ukraine	-1.8	1.5	9.1	5.0	5.2
MENA						MENA					
Egypt	12.7	18.0	46.1	20.0	13.0	Egypt	16.6	20.4	40.9	20.0	16.0

Source: Intesa Sanpaolo Research Department forecasts

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