

March 2017

Quarterly note

Intesa Sanpaolo  
International Research  
Network

GDP growth is generally confirmed on an upward trend in 2017. Inflation is increasing, within CBs' targets, in the CEE/SEE area where monetary policy is expected to be gradually less expansionary. Further rate cuts seen in Russia.

In the **CEE/SEE area**, the high frequency indicators released so far in the first quarter of 2017 incorporate expectations of a slight economic acceleration this year for almost all the countries, in line with December forecasts. In the **CEE area**, GDP is expected to increase from 2.4% in 2016 to 2.8% in 2017, supported in particular by domestic demand. In the **SEE area** as a whole, growth is expected to decelerate from 4.1% to 3.3%, due however to the slowdown in Romania (after the exceptional performance recorded in 2016), and to strengthen in all the other countries. Growth is forecast to weaken slightly in 2018, to 2.5% in the CEE and 3.2% in the SEE area.

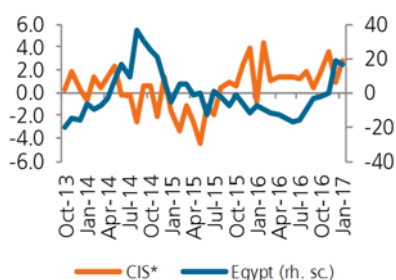
Outside the CEE/SEE regions, in **Russia**, forward-looking indicators confirm a continued gradual recovery in the economy, with the GDP growth rate for 2017 revised upwards to 1.5%. In **Ukraine**, notwithstanding the economy's recent strong performance, GDP is expected to slow to below 2% growth, due to the negative effect of the current trade blockade in the Donbass. For **Egypt**, we confirm the previous forecast of a GDP growth rate at 4% in the current fiscal year, moving towards 5%, however, in the medium term.

In 2017-18, **inflation rates** are forecast to increase in the **CEE/SEE area** at a higher rate than previously anticipated, while remaining however within the corridors set by the CBs. **Monetary policy** is still expected to be accommodative in 2017, but to become gradually less expansionary, with money market rates starting to reverse the course in 2018. Long-term rates are seen to move upwards on expectations of economic consolidation and rises in monetary rates.

In the CIS area, in **Russia**, **inflation** is expected to rapidly converge to the 4% target and to remain at that level in the medium term. Policy rates are then likely to fall further, after the cut of 25 bp in March, over 2017-18. In **Ukraine**, we see the recent rise in inflation as a blip and continue to expect lower policy rates later this year. In **Egypt**, the CB is expected to increase further the policy rate soon to contain current inflation upsurge and to support the currency, before easing again later this year based on an eventual decline in inflationary pressures.

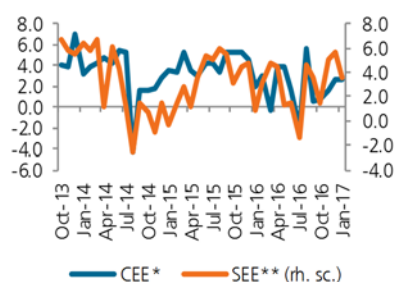
**Bank lending** is expected to confirm signs of recovery (although still modest) in the CEE/SEE region, supported by positive real economic recovery and gradual improvement of banks' asset quality. Corporate lending in this context is forecast to remain relatively weak with respect to household lending. Credit growth is however expected to be negative for an additional year in 2017 in Croatia because of the ongoing portfolio restructuring at banks. **Deposit** growth is generally foreseen to accelerate in all countries, even if partially affected, in some cases, by stronger competition from investment funds, and have a higher profile than the loan growth dynamics. The loans/GDP and the loans/deposits ratios are forecast to decline further, along with a rebalancing between internal vs 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



Note \* weighted average on Russia and Ukraine data; Source: National Statistics Offices

Industrial production % yoy – CEE - SEE



Note \* weighted average on Czech Republic, Slovakia, Slovenia and Hungary data; \*\* weighted average on Bosnia, Croatia, Romania and Serbia data; Source: National Statistics Offices

## Contents

<b>Cross Country Analysis</b>	<b>3</b>
Recent developments	3
The International Outlook Underlying the Scenario	4
The Economic Outlook	6
<b>Country-Specific Analysis</b>	<b>9</b>
Albania	9
Bosnia and Herzegovina	10
Croatia	11
Czech Republic	12
Egypt	13
Hungary	14
Romania	15
Russia	16
Serbia	17
Slovakia	18
Slovenia	19
Ukraine	20
<b>Country Data: Economy, Markets and Banks - the economic cycle</b>	<b>21</b>
<b>Country Outlook</b>	<b>22</b>



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** (2.4%) in the countries with ISP subsidiaries in the CEE region<sup>1</sup> decelerated, as expected, with respect to the 2015 performance (3.7%), when the area benefitted from the end-of-cycle rush to utilise EU investment funds. In the fourth quarter, trend growth was, however, broadly in line with respect to 3Q, but with some differences among countries. It accelerated in Czech Republic and Slovenia by 1.9% and 2.6% from 1.8% and 2.5%, respectively, in Q3; remained at 3.0% in Slovakia; decelerated in Hungary to 1.6% from 2.2% in Q3.

In the countries with ISP subsidiaries in the SEE region, in 2016 GDP growth (4.1%) increased sensibly, instead, with respect to 2015 (3.1%), based especially on an exceptional performance from Romania (4.8% vs 3.9%), accompanied however by strong accelerations also in Croatia (2.9% vs 1.6%), Serbia (2.8% vs 0.8%) and Albania (estimated at 3.2% in 2016 vs 2.6% in 2015), but by some deceleration in Bosnia (estimated at 2.5% vs 3.1%). In 4Q, GDP was still growing fast in Croatia and Romania (3.4% and 4.7%, respectively, vs 2.9% and 4.6% in 3Q) and Serbia (2.5% vs 2.8% yoy).

In January 2017, **business cycle indicators** generally strengthened for all CEE countries, signalling expectations of higher growth in the region, but showed mixed signals in the SEE region. In the latter case, industrial production generally weakened, in particular in Romania, where, due to a base effect, it contracted in January by 0.5% yoy with respect to 2.3% growth in 4Q, while still in January nominal exports accelerated.

The February data (January data for Bosnia and Croatia) on **consumer price inflation** confirmed the upward pressure on prices that had started late in 2016. Inflation increased further in all CEE countries with respect to the previous month and turned positive in all SEE countries, ranging from 0.2% in Romania to 3.2% in Serbia. In all cases, it moved closer to the corridor targets set by the respective central banks. Pressure on inflation was mainly driven by the increase in energy and food prices, but it is being also supported by the strengthening in domestic demand for goods and services. All the central banks of the CEE/SEE countries with ISP subsidiaries maintained easy monetary conditions in 4Q16 and so far in 2017 by keeping reference rates unchanged. This was the case Slovakia and Slovenia (via the ECB), Albania, Serbia and also for Hungary where, however, the Hungarian Central Bank, in order to maintain looser monetary conditions, has reduced the upper limit on the stock of 3-month CB deposits for 2Q17 to HUF 500 bn from 750bn.

In the **CIS** region, in **Russia**, real GDP is estimated to have performed better than previously expected in 2016, with a contraction of 0.2% instead of 0.6%. In January, industrial production rose by 2.3% yoy, above the 1.7% average annual growth recorded in 4Q16, but February's activity data, heavily distorted by a working-day effect (in February, there were three fewer working days vs last year), were, however, pretty disappointing (output fell by 2.7% yoy). This weakness is probably a blip and the underlying trend still appears to one of moderate economic expansion. Indeed, in February, the PMIs for the manufacturing and the service sectors—52.5 and 55.5, respectively—receded from the peaks recorded in January (54.7 and 58.4, respectively), but remained well above 50. Annual CPI inflation eased further in February to 4.6% from 5% in January and the 4Q 5.8% average, supporting the resumption of the easing cycle by the CB. On 24 March, the CB in fact cut the one-week repo rate by 25 bp, to 9.75%, and further gradual cuts are expected over the course of the year.

In **Ukraine**, real GDP grew above expectations in 4Q, increasing by 4.8% yoy with respect to 2% in 3Q, bringing 2016 growth to 2.1%, significantly above previous market expectations (1.1%).

Gianluca Salsecci, Giancarlo Frigoli, Antonio Pesce and Davidia Zucchelli

Economic growth picked up in SEE, but consolidated in the CEE area in 4Q16

Inflation rates in CEE/SEE Region increased, getting closer to respective central banks corridor targets

In CIS countries, the Russian central bank resumed its easing cycle. In Ukraine, the blockade in the Donbass is expected to weigh on economic activity

<sup>1</sup> As of February 2017 Monthly Note, Czech Republic has been also included in this group.

In January, industrial production grew by 5.7%, providing evidence of accelerating recovery. Upcoming activity is, however, likely to be negatively affected by the current blockade in the Donbass. Annual inflation was 14.2% in February, up from 12.3% in January. In early March, the IMF agreed to resume its USD17.5bn funding program, but it has not yet announced the new date for approval of the release of the fourth tranche, worth USD1bn. The decision has been repeatedly delayed due to the postponement of the third revision of the EEF due to the blockade in the Donbass region.

In December in **Egypt**, industrial production and exports grew by 16.3 (the first annual gain for this variable in one and a half years) and 0.75%, respectively. Also in January, industrial production recorded a two-digit gain (+16%). After dropping to an all-time-low of 41.8 in November, the non-oil private-sector PMI recovered gradually, rising to 46.7 in February, although remaining below the 50 threshold for the 17<sup>th</sup> consecutive month. The main boost came from export orders. Following the currency devaluation, exports, tourism revenues and remittances, on the one hand, and FDI and portfolio flows, on the other, experienced reasonable increases, supporting a gradual recovery in external accounts. The CPI accelerated to 30.2% yoy in February, due to the combined effect of EGP depreciation, subsidy cuts and the introduction of a value-added tax (VAT). The exchange rate has been quite volatile, however, in the last couple of months. The EGP/USD rate, after depreciating close to 19 at the end of January, recorded a strong re-appreciation, dropping below 16 at the end of February. More recently, the EGP/USD rate started to depreciate again and it is currently hovering around 18.

**In Egypt, inflation jumped after the EGP depreciation. The currency remains volatile**

With reference to **banking aggregates**, the last available data (January 2017 in all the countries except Egypt and Russia, where most recent available data are from November and December 2016, respectively) showed diverging performances. In the **CEE/SEE region**, in Hungary, Albania, Croatia and Slovenia, the **loans** stock contracted, but the fall was less intense than in previous months. In Serbia, lending was positive, but decelerated slightly. Lending to the household sector remained weak in Hungary and Croatia. Corporates showed further declines in several countries, despite improvements in the economies. NPL ratios were still high (above 10%) in the SEE region, particularly in Albania and Serbia (18.3% and 17% as of December, respectively). In the CEE region, they remained low in Czech Republic and Slovakia (4.8% and 4.7%, respectively), but improved in Slovenia and Hungary (9% and 6.5%, respectively). **Deposits** were resilient in many countries in January, particularly in Serbia (11.8% yoy), and in Bosnia and Hungary (both with 8.7% yoy), though, in several cases (particularly Slovakia and Croatia), facing competition from alternative investment products (mainly investment funds).

Outside the CEE/SSE region, in **Russia**, loans surprisingly decreased by 4.2% as of December, especially in the corporate sector (-5.9% yoy, due to a fall in loans in fx by 21%), while households saw an increase of 1.1%, supported by the decrease in interest rates. Deposits also decreased, by 4%, affected by lower corporate deposits (-14% yoy). In **Ukraine**, where the banking sector remains under pressure, loans decreased by 1.4% as of January, but net of fx depreciation, they fell by 4%. Deposits increased by 6.7% yoy (3.8% net of fx depreciation). NPLs decreased slightly, from 31% to 30.5% in 4Q16. In **Egypt**, the extraordinary performances recorded in both lending (46% nominal) and deposits (41%) are connected to the depreciation of the local currency (down by more than 127% yoy in November). Net of fx effects, loans are estimated to have decreased by almost 2% while deposits are estimated to have increased by only 4%.

## The International Outlook Underlying the Scenario

**GDP growth and monetary policy in the main advanced countries.** Following the victory of Donald Trump in the US presidential election, investors had started to discount a change in the US policy mix towards looser fiscal policy and tighter monetary policy, with expectations of above-potential GDP growth and an upward shift of the interest rate curve. At its mid-March meeting, the Fed further lifted rates by 25 bp, as expected. Two further 25 bp hikes are expected this year and three hikes in 2018, with risks more on the tighter side depending

**Policy rates on a rising path in the US**

however on fiscal policy developments, now surrounded by some uncertainty, following the defeat of the Administration on healthcare plans.

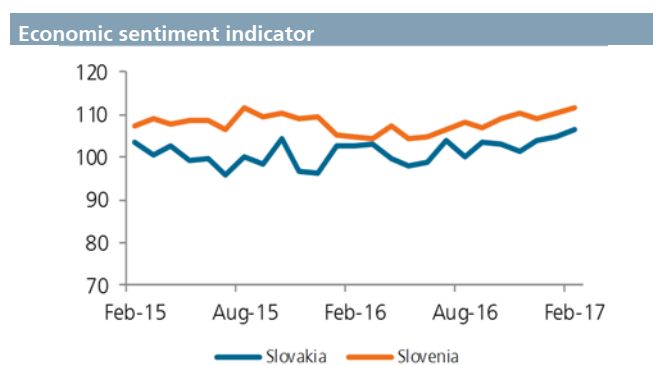
In the last meeting of the Governing Council on 9 March 2017, the ECB has confirmed the extension from March to December 2017 of the APP while reducing from April onwards the monthly volume of purchases from EUR80bn to EUR60bn. The extension of the program was motivated by still-subdued underlying inflation, despite the recent rise to 2% for headline inflation, mainly due to increases in energy and food prices. The decision to reduce the monthly volume of APP was related instead to the fading of deflationary risks. The announced APP extension expands the ECB’s safety net beyond the packed Euro area electoral cycle of 2017 which, after parliamentary elections in the Netherlands (which saw a defeat of Eurosceptic forces) still includes France (presidential elections in April, followed by legislative elections in May/June) and Germany (federal elections in September). Given the ECB’s expectations of an underlying inflation rate moving only gradually towards the target supported by a moderate pace of economic recovery, money market rates (Euribor 3M) are expected to remain negative in 2017 and into 2018, when a process of gradual reversal of monetary policy accommodation is expected to begin.

**The ECB confirm the extension of the APP in the presence of still-subdued underlying inflation**

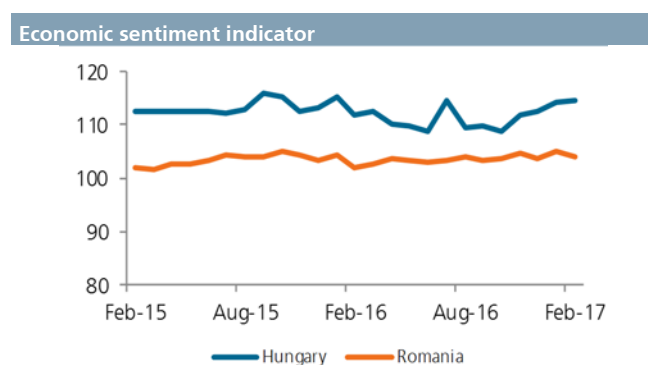
**Growth and monetary policy in main emerging countries.** Economic growth in emerging economies is expected to strengthen in 2017-18, supported by a (partial) recovery in energy and commodity prices and international trade (vulnerable, however, to increasing risks of protectionism). A number of countries (in particular, Russia and Brazil) are forecast out of recession. China, even if the pace of growth is decelerating, is nevertheless performing better than previously expected and the risk of a hard landing is fading. India’s economy is expected to continue a strong pattern of growth.

**Emerging economies are expected to strengthen, but some countries may not be resilient to US protectionist measures, higher policy rates and a stronger dollar**

On the negative side, as stated in our December note, emerging economies could be hit by a shift to more protectionism in the US. Mexico could be particularly hard hit, as its economy is heavily dependent on trade with the US. In addition, a further tightening in US monetary policy could negatively affect those countries with large current account shortfalls: eg, Turkey and South Africa. At the same time, and despite the recent oil price recovery (still on shaky ground due to uncertainty about the effective commitments of OPEC and non-OPEC countries to oil production cuts), oil producing countries, particularly those of the GCC, are still experiencing the full effects of restrictive fiscal measures adopted to contain public deficits in 2017.



Source: European Commission



Source: European Commission

## The Economic Outlook

### GDP growth and inflation

In the **CEE/SEE area**, the high frequency indicators released in 1Q17 incorporate expectations of slight economic acceleration this year for almost all the countries in the region. The March forecasts essentially confirm then the recovery paths on average anticipated in our December note.

In detail, in the **CEE area**, the GDP growth rate is expected to increase from 2.4% in 2016 to 2.8% in 2017. Growth is especially supported by domestic demand—both investment, thanks to renewed withdrawals of EU funds with the start of the new EU budget cycle, and consumption, due to improving conditions in labour markets, but external trade should also contribute, due to a slight acceleration of EA GDP. Growth, although still robust, is forecast to decelerate slightly in 2018, to 2.5%.

In the **SEE area**, the GDP growth forecast has been revised slightly upwards for 2017 (to 3.3% from 3.2% in December). The GDP growth of the area is still expected to decelerate, however, due to the slowdown in Romania, where GDP growth, after the exceptional performance in 2016, is forecast to decline from 4.8% to 3.4% in 2017. In the other countries of the region (Albania, Bosnia, Croatia and Serbia), the business cycle is expected to strengthen further with respect to the already good performance recorded in 2016. Growth is forecast to remain robust in the region in 2018, at 3.2%.

In the **CIS area**, business cycle indicators point to a higher growth rate than previously expected in **Russia** in 2017 (1.5%). We conservatively maintain our previous forecast for 2018 (1.8%), taking into account that potential growth is still likely to be constrained. For **Ukraine**, notwithstanding the higher-than-previously-expected growth in 2016 (2.1%), we have revised down our GDP growth forecast for 2017 (to 1.9%) discounting the effect of the official blockade by the Ukrainian government of all goods passing in and out the Donbas region and into the rest of Ukraine, with the production chain of steel and coal especially affected. Conversely, growth is forecast to rebound to over 3% in 2018, helped by a favourable base effect after the expected removal of the above-mentioned restrictions.

In the MENA region, we maintain our previous forecast of a deceleration in the GDP growth rate in **Egypt** in fiscal year 2016/2017 to 4% (from 4.3% in FY 2015/2016). The adjustment to the new currency regime is expected to have some negative impacts on domestic demand in the short term, in particular regarding households (due to the spike in inflation, the sharp increase of interest rates, cuts to subsidies, and the introduction of a VAT), but also some positive effect on external revenues, such as tourism and remittances, as well as capital inflows. In the medium term, growth is expected to regain momentum and converge towards 5%.

In 2017 and 2018, **inflation rates** are forecast to increase in the CEE/SEE area more quickly than previously anticipated, following the acceleration that occurred in the first few months of 2017 and in line with the increase also expected in the Euro area. Inflation is forecast to eventually pick up to reasonable rates with respect to the value recorded on average in 2016 in all the countries while, however, remaining within the target corridors set by the respective central banks.

In the CIS area, the recent decline in inflation in **Russia** points to a faster (by this year-end) than previously expected convergence towards the 4% target set by the central bank. Inflation is also expected to decline in **Ukraine**, to below 10% by YE17 and then further in 2018, following the recent (temporary) surge partly related to one-off rises in tariffs. In **Egypt**, after the significant exchange rate depreciation in November 2016, inflation started to move upwards significantly, as expected. We still forecast an average inflation rate of 27% in 2017, but falling to 16% in 2018.

**Broad consolidation of GDP in the CEE area and further acceleration in SEE area growth in 2017 with respect to previous forecasts**

**In CIS countries, GDP growth forecast to accelerate ...**

**In Egypt, a boost to GDP from the new currency regime shift in the M/L term ...**

**Rising inflation rate due to stronger demand**



### Monetary policy and financial markets

Monetary policy is expected to continue to be accommodative in 2017, but gradually less expansionary in 2018 in **CEE/SEE** countries, with money market rates starting to reverse during the year while still remaining close to recent lows. The forecast is supported domestically by the inflationary pressures in the region and externally by the phasing out of the ECB's QE programme next year followed by a likely very gradual reversal of policy rates.

For the **CIS area**, money market rates in Russia are expected to continue along a downward path on the expectation, after the recent 25bp cut, of further reductions both over the remainder of 2017 and in 2018. In the **MENA** region, in **Egypt**, after the 300bp hike in reference rates accompanying the decision last November to let the exchange rate devalue sharply, the central bank is expected to further increase the rate by 50bp this year in order to keep inflationary pressures under control and to help the EGP stabilise, before starting an easing cycle later this year, when inflation should start to decline.

**Long-term rates**, which generally continued to fall in 2016 in CEE and SEE countries, are forecast to move upwards in 2017 and 2018 based on expected cycle and inflation consolidation, but to remain generally low, supported by expectations of still low real rates, limited inflationary pressures and contained risk/term premia. In the **CIS region**, in **Russia**, the drop in inflation and the easing of monetary rates should favour a further decline in long-term yields in 2017-18.

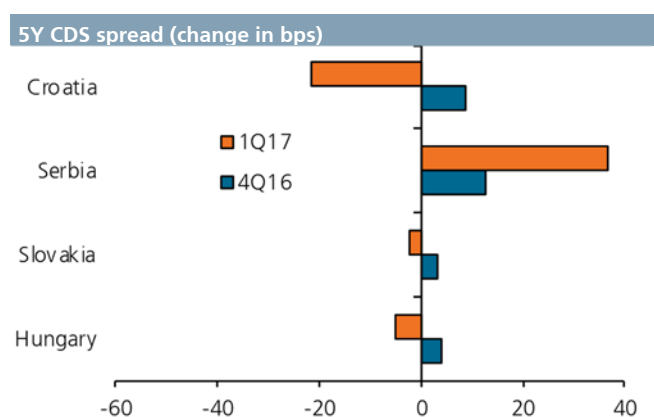
**Exchange rates** are forecast to remain essentially stable at current levels in 2017 and 2018 in the **CEE/SEE** area. The Central Bank of Czech Republic is expected to remove the cap on the exchange rate with respect to the euro. This change will likely lead to appreciation in the nominal exchange rate of the local currency from the current 27 to around 26.5 against the euro half way through the year and then to around 26 in 2018.

In the **CIS area**, although we have not changed our previous forecast of a gradual appreciation of the **Russian** currency over the forecasting period, a high degree of compliance with the agreed oil output cuts would favour higher prices, potentially offering a stronger boost to the ruble. We continue to expect **Ukraine's** hryvnia to be stable in the near term, but to start then to depreciate, based on a significantly higher inflationary profile than for trading partners. For **Egypt**, we expect the pound to recover some ground, ending the year below EGP17/USD1, but to resume depreciating in the medium term to avoid an appreciation of the real effective exchange rate amid higher inflation in Egypt with respect to trading partners.

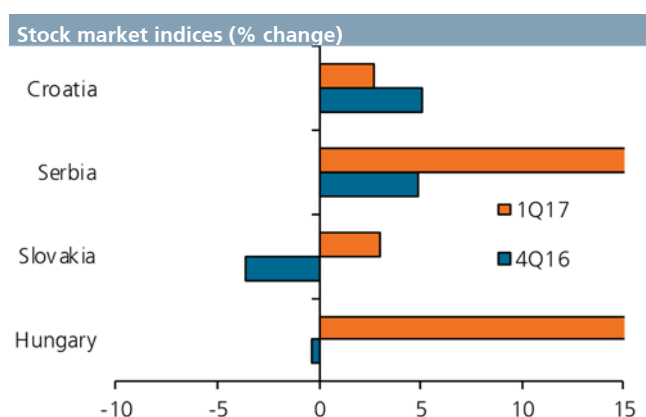
Monetary policies are still accommodative, but less expansionary

Long rates have been revised upwards due to some signs of reversals in international inflationary trends

Upside risk for the rouble amid higher oil price. The Egyptian pound likely to show some recovery next year, but to fall further in the M/L term



Source: Bloomberg



Source: Thomson Reuters

### Bank aggregates and interest rates

Supported by economic recovery in many countries, the **private sector loan stock dynamics** in the CEE/SEE region are expected to improve slightly in 2017 with respect to 2016. Data on new lending flows are not generally available, but according to some surveys conducted locally and information released by central banks, there are signs of improvement.

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, partially offset by a persistent 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 NPLs ratio issue. In Croatia, the loan growth rate is, however, still expected to remain in negative territory in 2017, due to the impact of the ongoing restructuring of banks' portfolios.

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

In the CIS area in 2017, the pace of the loan recovery is forecast to be modest in Russia, supported by economic recovery, and at a rate still significantly below inflation in Ukraine. In Egypt, after the adjustment due to the EGP depreciation, an increase in lending is forecast in 2017 in nominal terms (around 18%), though possibly not in real terms given the expected jump in the inflation rate (23% average), followed in 2018 by a more contained nominal dynamic (12%), in line with the inflation forecast, but still below nominal GDP growth.

**Deposits growth rates** are forecast to improve further in 2017 (though still lower than in 2016 in many countries) and 2018. They should stay well above the loans' dynamics while facing strong competition from investment funds in many countries (especially Slovakia, Slovenia, Croatia and Hungary). The loans/GDP and loans/deposits ratios are expected to decline further, along with a rebalancing between internal vs external bank funding.

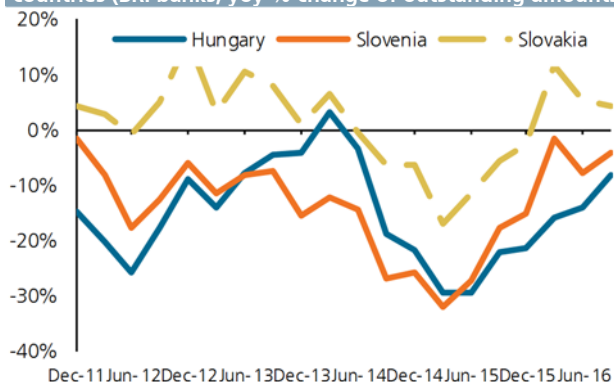
In line with money market rates, average banking interest rates are expected to remain low in 2017 but to start increasing in 2018, especially on the deposit side. Interest rate spreads are generally expected to contract further.

**Loan performance expected to recover**

**Aggregates in the CIS area expected to remain weak**

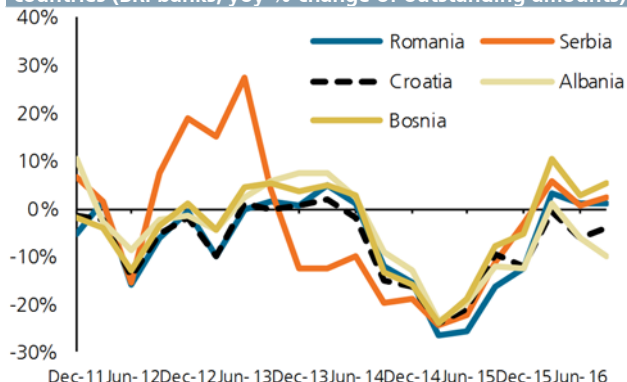
**Banking interest rate spreads are expected to narrow further**

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

GDP growth in Albania is estimated at 3.2% in 2016 and projected to reach 3.5% in 2017, driven by recovery in domestic demand (investment and consumption), foreign trade and tourism revenues. Economic activity should be bolstered by investments in large FDI-financed energy-related projects (the Trans Adriatic Pipeline and the Statkraft/Devoll hydropower project). The TAP construction project is estimated to require a total investment of about 1.5% of GDP per year in 2016-2017. The unemployment rate in 2016 declined to 15.25% from 17.1% in 2015. These developments, together with the easing of external deflationary pressures, are creating the conditions for a recovery in the inflation rate. After recording 1.3% year-on-year average growth in 2016, the inflation rate was 2.2% in February. It is forecast to move towards the CB target (3%) by year-end 2018.

#### Financial Markets

During 2016, in order to respond to the very low inflation rate, the Supervisory Council of the Bank of Albania reduced the key interest rate twice, cutting the rate to its lowest levels historically, from 1.75% to 1.25%. The accommodative monetary policy aimed to and succeeded at lowering the cost of financing the economy, cutting the risk arising from high exposure to financial activity in foreign currency and the debt servicing for existing credits. However, the impact on credit growth was, and is still, weak. In this context, and given the CB's main objective to achieve and maintain price stability, monetary policy is expected to remain accommodative during 2017, but to start reversing this course in 2018. The Albanian LEK continued to appreciate against the EUR in 2016, while the depreciation against the USD reflected the appreciation of the dollar against the euro.

#### Banking Sector

According to the Albanian Association of Banks, in 2016, total bank credit increased by 2.5% compared to 2015. Despite this performance, loans to the private sector in Albania remain subdued. In December 2016, they increased by 0.2% yoy and just 0.1% in January 2017 yoy.

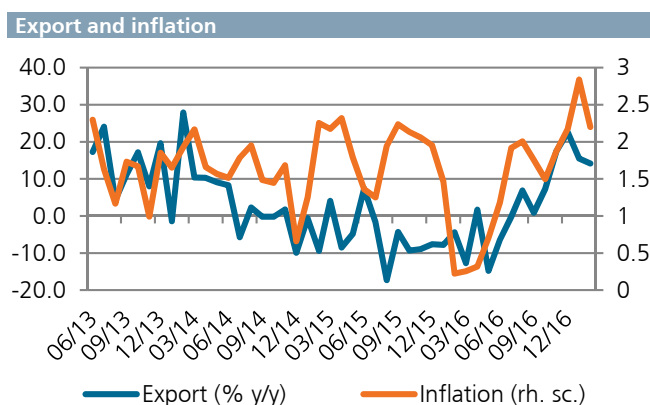
On the deposit side, total deposits in 2016 increased by 2.8% compared to the prior year. In January 2017, total deposit from the private sector also increased by 2.8%, with the largest contribution coming from corporate deposits.

Political tensions ahead of the 2017 general election could create downside risks, especially regarding the implementation of structural reforms and the reduction of public debt, undermining medium-term growth potential. On the upside, improved confidence following the approval of the judicial reform package, and accelerated EU accession, could lead to higher investment and a stronger recovery in credit flows.

Forecasts	2016	2017F	2018F
Real GDP yoy	3.2	3.5	3.5
CPI (avg)	1.3	2.2	2.6
Euro exchange rate (avg)	137.3	136.5	138.2
Euro exchange rate (end of period)	135.2	137.3	139.0
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)	-0.8	2.0	3.0
Bank deposits yoy (end of period)	2.7	2.0	2.5

Source: INSTAT, Central Bank of Albania

Kledi Gjordeni



Source: INSTAT

## Bosnia and Herzegovina

## Real Economy

Based on our expectation that 4Q16 performance improved sufficiently and raised 2016 headline growth to 2.5% yoy, we revised upwards our outlook for GDP growth in 2017/2018 to 2.8% yoy. Projected growth heavily relies on political stability supporting infrastructure and energy sector investments, which should also support the labour market and household consumption. In line with stable foreign demand, we also expect a continued positive contribution from exports, as already indicated by 14.2% growth over the first two months of the year, although strengthened domestic demand raised imports and negatively affected the overall trade balance by 6.9% yoy. High frequency data also indicate a favourable start to the year as, in January, industrial production and retail trade grew by 4.3% and 4.5% yoy, respectively.

Ivana Jovic

The main risk to our baseline scenario remains political instability, which could hamper the structural reforms agenda and delay the investment cycle.

Based on recovering oil and food prices, annual inflation strengthened to 1.2% yoy in February following a 0.7% increase in January. In line with the observed trends and the announced hike in excise duties on fuel, the inflation rate is expected to average around 1.1% in 2017 and increase slightly to 1.4% in 2018.

## Banking Sector

Ana Lokin

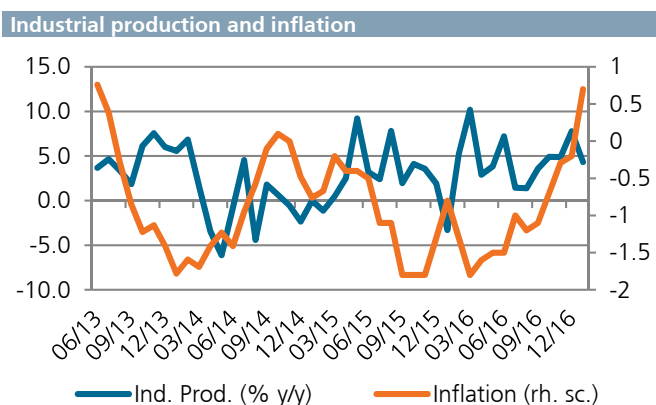
The pace of loan growth to private sector accelerated to 3.6% yoy in January, when both households and non-financial corporations marked a small increase in annual growth rates compared to end-2016. Loans to households increased by 4.0% yoy, whereas consumer loans grew by 6.5% yoy. Other types of loans experienced negative trends, as they are continuously being substituted for with more easily obtained non-purpose consumer loans. Loans to non-financial corporations rose by 3.2% yoy owing to 3.8% yoy higher lending to privately owned companies.

The growth of private sector deposits remained volatile, surging to 8.7% yoy in January due to a strong increase in deposits from non-financial corporations (10.4% yoy), while deposits from households continued to grow at 8.1% yoy.

In line with the trends observed in the past months and the improved GDP growth outlook—in particular, stronger investment activity—we have raised our 2017 loan growth forecast to 3.7% yoy (previously 2.9%). We have also upgraded our deposit forecast to 7.2% yoy (previously 5.7% yoy), primarily based on expectations for a stronger rise in corporate deposits.

Forecasts	2016	2017F	2018F
Real GDP yoy	2.5	2.8	2.8
CPI (avg)	-1.1	1.1	1.4
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	3.7	4.0
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

Following the 2.9% yoy growth in 2016, we increased our 2017 GDP forecast to 3.2% yoy. The upward revision is based on several factors supporting both household consumption and the investment cycle. Private consumption will be driven by the recently implemented tax reform, which raised net wages, in addition to the wage hike in the public administration and pensions, the minimum wage increase, improved labour market conditions, stronger tourist spending, higher remittances, and more favourable financing conditions amid lower interest rates. In addition, investments will be supported by rising business optimism (as the Economic Sentiment index stabilised at historically high levels), a return to political stability, higher EU funds inflows in addition to improved last year's business results, and prolonged low interest rates. We expect the exports of goods and services to benefit from stronger competitiveness, stable foreign demand and an exceptional tourist season. However, we expect that the rise in domestic demand will spur imports, thus limiting the positive contribution of net exports to headline growth. While upside risks to our baseline scenario are mostly linked with fiscal easing prior to the spring local elections and another record-breaking tourist season, downside risks mostly relate to external factors, such as lower EU demand and uncertain EU political perspective ahead of elections in France and Germany.

Ivana Jovic

Over the medium term, we expect growth to moderate slightly as the boost from this year's tax cuts fades and the growth path converges towards its long-term potential, underlying the need for faster structural reforms. Inflation trends in 2017 will mostly be determined by imported effects of higher oil and food prices, as the government's decision to keep gas prices unchanged, as well as lower VAT on electricity offset the hike in the renewable energy surcharge, will be more or less price neutral. Thus, we currently forecast 2017 average inflation at around 1.5% yoy.

## Financial Markets

Due to exceptionally strong liquidity, which we expect the CNB to support throughout the year, we have cut our average 3M Zibor forecast for 2017 from 0.9% to 0.6%. The EUR/HRK average forecast for 2017 is lowered to 7.50 with strong downside risk, due to persistent appreciation pressures stemming from favourable BOP trends, expected rating upgrades, and the positive net foreign positions of banks.

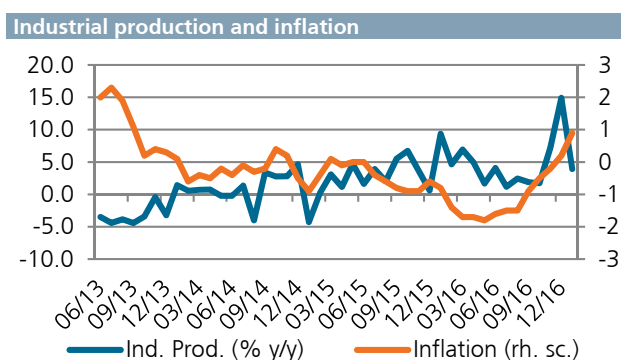
Ana Lokin

## Banking Sector

Banking sector forecasts for 2017 recorded only small adjustments compared to the December 2016 scenario. The loan growth rate is forecast at -1.5% yoy (previously -1.4% yoy) due to continued balance sheet cleaning, while we have raised our deposit forecast from 1.6% to 1.9% yoy based on a stronger-than-expected rise in corporate deposits in 2016 and an improved GDP growth outlook.

Forecasts	2016	2017F	2018F
Real GDP yoy	2.9	3.2	2.7
CPI (avg)	-1.1	1.5	2.0
Euro exchange rate (avg)	7.5	7.5	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	1.0
L/T bond yields (avg)	3.6	2.9	3.2
Bank loans yoy (end of period)	-4.3	-1.5	1.7
Bank deposits yoy (end of period)	2.8	1.9	2.2

Source: Intesa Sanpaolo Research Department forecasts



Source: EC

## Czech Republic

### Real Economy

GDP growth figures for the Czech Republic may recently have appeared somewhat disappointing at first glance. In headline terms, GDP growth slowed in 2016 to 2.3% yoy, half the pace of the previous year, while growth in 4Q16 was even lower at 1.8% yoy. However, the moderation in GDP growth was primarily due to normalisation of public investments, which were previously supported by a last-minute effort to utilise EU funds. The underlying trend of activity, however, was positive, based on steadily growing household consumption and recovering foreign demand supporting the manufacturing sector. Industry opened 2017 well, with industrial output growing 9.6% yoy in January. Adjusting for working days, industry posted a less impressive, but still solid 4.3% yoy gain. We believe that exports will indeed make a positive contribution to GDP growth, as key Czech trading partners seem on track for better-than-expected performances.

Zdenko Štefanides

Public spending is also expected to contribute positively to GDP growth in 2017. First, with regard to capital spending, the gradual release of new EU funds will likely improve the public capex profile. Second, with parliamentary elections set to take place in the autumn, it seems likely that public consumption will pick up. Overall, GDP growth should be stronger in 2017 than in 2016. The key contribution to Czech GDP growth performance will nonetheless relate to household consumption. Confidence and spending are well anchored in the fast-improving labour market, with an all-time low unemployment rate (below 4%). The rising spending power of households has meanwhile started to affect prices. Headline inflation rose in February to 2.5%, up from a 0.7% average rate in 2016 and above the CNB target of 2.0%. While rebounds in food and energy prices played a role, core inflation rates also increased significantly.

### Financial Markets

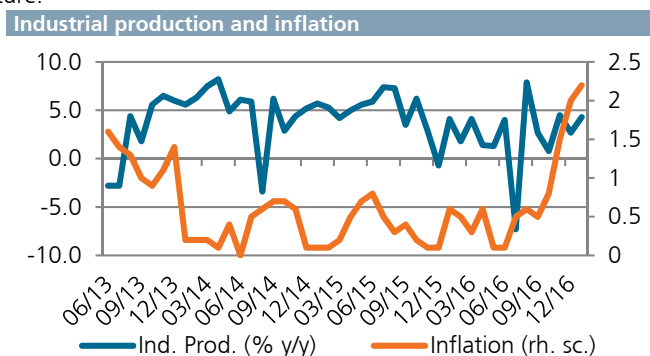
Bond yields rose in early 2017, along with inflation, as well as due to developments elsewhere in European markets. Strong demand from nonresidents related to purchases of Czech assets ahead of the abandonment of koruna cap, nonetheless put a limit on the yield increase. The exit from the cap should be the key event shaping Czech financial market performance this year. The CNB has repeatedly pointed to the middle of 2017 as the most likely time for allowing the koruna to float. Nonetheless, the markets are pushing for an earlier date—ie, early May or even April. Once the koruna begins to float, free of its 27 cap vs the euro, we would expect it to appreciate over the longer term. In the very short term, however, volatility will likely be high and depreciation cannot be ruled out, as nonresidents may choose to close their speculative koruna positions.

### Banking Sector

The Czech banking sector continues to enjoy strong growth in volumes of both loans and deposits, at close to 7% and 8% yoy, respectively. Buoyant mortgage lending and a related property market boom have recently led the central bank to adopt some measures, ie, LTV policy, to moderate growth. We expect some moderation, but overall lending growth will likely continue to exceed nominal GDP growth for the foreseeable future.

Forecasts	2016	2017F	2018F
Real GDP yoy	2.4	2.5	2.3
CPI (avg)	0.7	2.3	2.2
Euro exchange rate (avg)	27.0	26.5	26.0
Euro exchange rate (end of period)	27.0	26.0	26.0
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)	8.4	6.0	5.5
Bank deposits yoy (end of period)	4.5	4.3	4.0

Source: Intesa Sanpaolo Research Department forecasts



Source: EC

## Egypt

## Real Economy

Egypt's real GDP growth rate decreased to 3.4% in 3Q16 compared to 5.1% in 3Q15. This is mainly attributed to the significant shortage of FX which led to a slowdown in economic activities, accompanied by a surge in inflation. This resulted from the devaluation of the EGP during 2016, which adversely affected household consumption, the main driver of Egypt's GDP growth.

Emil Eskander

Following the flotation of the Egyptian pound, the main foreign currency sources improved. Tourism revenues increased by 8.9% during 4Q16 compared to the previous quarter. Remittances increased by 35.6% in 4Q16 compared to 3Q16 and by 11.9% compared to the same period a year earlier, as the flotation encouraged remitters to transfer their funds through official banking channels. FDIs also increased by 18% in 4Q16 compared to the preceding quarter. Portfolio investments in Egypt experienced a surge as well in nonresidents' investments on the EGX, with net purchases of USD395.0mn vs net sales of USD134.8mn in 4Q15. However, Suez Canal revenues decreased by 5% during 2H16 to USD2.5bn vs USD2.6bn in the corresponding period a year earlier.

For the current calendar year, GDP growth is forecast at 4.3% vs 4.0% estimated for calendar year 2016. Growth is expected to accelerate towards 5% in the medium term.

Annual headline inflation has recently reached its highest level in 30 years at 30.2% in February 2017 compared to 9.1% in February 2016. This increase is mainly attributable to the adoption of a number of monetary and fiscal regulations, including floating the EGP, increasing electricity prices, cutting fuel subsidies, and introducing a Value Added Tax. The Planning Minister expects the inflation rate to start to decline by 4Q17.

## Financial Markets

The Central Bank of Egypt's Monetary Policy Committee kept its key interest rates unchanged at its last meeting on 16 February. The overnight deposit rate, overnight lending rate, and the discount rate remained at 14.75%, 15.75% and 15.25%, respectively. The EGP depreciated against the USD, rising to EGP18.13 on 19 March compared to EGP16.11 recorded at the beginning of March, amid increased demand to cover seasonal imports for the Ramadan holy month.

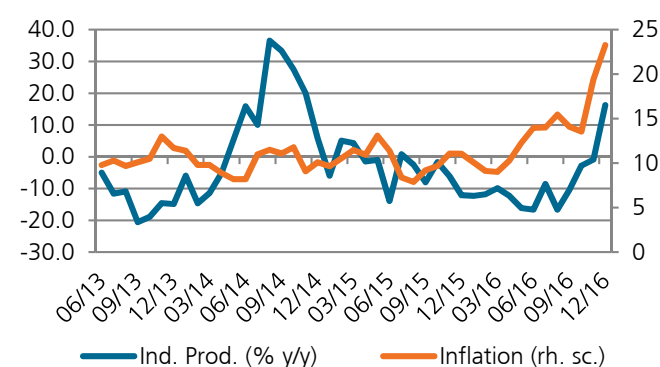
## Banking Sector

Private sector total deposits surged by 41% in November 2016 (yoy) to EGP2.14tn. Total bank loans to the private sector reached EGP867.8bn in November 2016, an increase of 46% yoy. This significant rise stemmed from the increase in FC loans and deposits, which were revalued after the EGP started to float.

Forecasts	2016	2017F	2018F
Real GDP yoy	4.0	4.3	4.7
CPI (avg)	13.7	27.0	16.0
USD exchange rate (avg)	10.0	16.8	17.0
USD exchange rate (end of period)	18.5	16.5	17.5
Euro exchange rate (avg)	11.1	17.9	18.9
Euro exchange rate (end of period)	19.4	18.0	19.8
Short-term rate (avg)	14.2	18.8	16.0
Short-term rate (end of period)	19.0	18.0	14.0
L/T bond yields (avg)	n.a.	n.a.	n.a.
Bank loans yoy (end of period)	46.1	18.0	12.0
Bank deposits yoy (end of period)	40.9	18.0	15.0

Source: Intesa Sanpaolo Research Department forecasts

## Industrial production and inflation



Source: Ministry of Planning, CAPMAS

## Hungary

## Real Economy

Sandor Jobbagy

Hungarian GDP growth slowed to 2.0% (close to our forecast) in 2016 (FY) as growth in the last quarter was lower than consensus expected, at 1.6% yoy. Industrial performance essentially stagnated in terms of Q4 value-added. Investments dragged down the growth rate, with consumption the strongest driver of growth. Still, we see room for higher growth in 2017 due to further fiscal stimulus (with the deficit expected to be 0.4pps above this year's original targeted gap and 0.7pp above the amended target), the rise in utilisation of EU funds, and due to wages rising further in the private sector, which should fuel domestic consumption. We expect GDP growth to reach 2.7% next year. However, the stronger pace is unlikely to be sustainable over the upcoming years, given the lack of sufficient strengthening of potential GDP.

Headline inflation accelerated further, coming close to 3% by February, slightly above expectations, but with no major risks for a prolonged rise above 3% in 2017, in our view. Annual average inflation is projected to rise further from last year to around 2.7% this year. External and internal balances look set to remain in good shape, though the improvement of the budget balance will likely cease this year.

## Financial Markets

The NBH left the 3M policy rate on hold at 0.90% in 4Q16 as well as at the beginning of 2017. Rate cuts are unlikely in 2017. 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 from August and October 2016. This happened at its March rate-setting meeting when the central bank has announced a lower quarterly limit for the 3M depo facility: HUF 500bn for Q2, down from HUF 750bn in Q1. This supports ongoing low BUBOR rates well below the (still unchanged, 0.90%) base rate level.

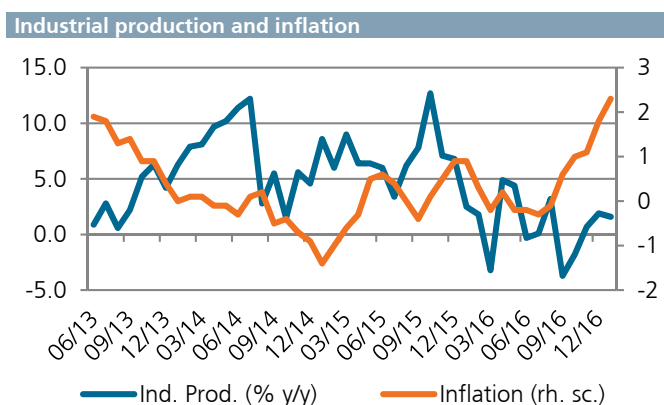
Recent monetary actions and global market fluctuations left the forint stable, generally at EUR/HUF 305-315, with modest potential of a significant divergence in 2017. Government bond yields remained supported by monetary actions causing a rise in domestic purchases.

## 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. The sector has continued to experience high liquidity.

Forecasts	2016	2017F	2018F
Real GDP yoy	1.9	2.7	2.2
CPI (avg)	0.4	2.7	2.7
Euro exchange rate (avg)	311.5	311.7	311.8
Euro exchange rate (end of period)	312.2	311.6	312.0
Short-term rate (avg)	1.0	0.4	0.8
Short-term rate (end of period)	0.4	0.4	1.1
L/T bond yields (avg)	3.2	3.7	4.3
Bank loans yoy (end of period)	-1.9	0.8	1.0
Bank deposits yoy (end of period)	6.3	2.7	2.8

Source: Intesa Sanpaolo Research Department forecasts



Source: CSO



## Romania

## Real Economy

February 2017 inflation came in at 0.2% yoy (vs 0.05% yoy the previous month), driven higher by food prices. The February result was slightly below market consensus (which was 0.43% yoy). Given the low statistical base, and the continuous fiscal stimulus (broad-based wage increases and other entitlement policies), the inflation outlook is already on an rising trend. Average inflation is expected to reach 1.5% in 2017, while year-end inflation could be 2.5%.

Price growth is likely to come via the Euro zone trade links (regarding which inflation expectations continue to trend higher) and via the dynamics of the fiscal revenues and expenses of the central government's budget. The latter factor is likely to be supportive of growth prospects. GDP is expected to grow at a good pace (though lower than in 2016), despite a persistent political noise introducing uncertainty among market operators. Bottom line, economic data year to date point to an economy which should continue to perform well, not least of all supported by still accommodative monetary and fiscal policies.

## Financial Markets

Higher inflation expectations, both domestically and externally, as indicated by Thomson Reuters and Bloomberg polls of financial markets analysts following Romania, have been the underlying drivers of the Romanian financial markets. For the EUR/LEU FX spot market, this meant a tepidly but steadily rising exchange rate. For the local currency bond market, it meant an upward shift of the curve but the slope did not experience major changes. For the LEU money market, it meant that short tenors remained rather unphased, near 0.25%, while longer tenors (ie, 3M and higher) saw some upward pressure.

Notwithstanding the above mentioned moves in the Romanian financial markets, expectations are that the central bank will not make a change in the policy rate this year. The Romanian central bank's decision-making process is likely to be driven by the domestic data results. However, and perhaps equally important, as long as Romania's largest trading partner's central bank, the ECB, maintains a loose monetary policy, the risk that the NBR will change interest rates is very low.

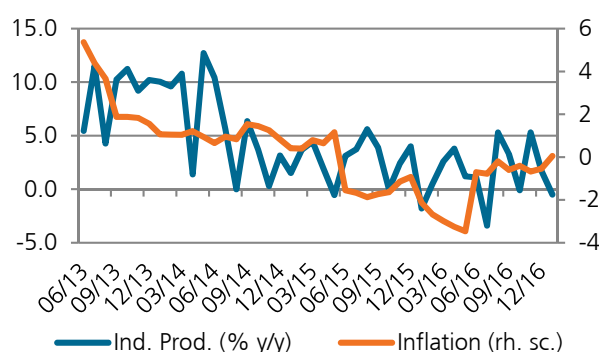
## Banking Sector

Total deposits and credit stock data in 2016 and in the first two months into 2017 indicate that local currency deposits and credit (for both households and legal entities) continue to grow at a very robust pace. Meanwhile, the total FX credit stock continues to contract, both in the household and the corporate sector. The total household FX deposits trend diverges from the corporate sector, with the former experiencing continued growth and the latter contracting at a steady pace. Loose fiscal policy this year is setting up positive premises for the households credit and deposit growth in 2017.

Forecasts	2016	2017F	2018F
Real GDP yoy	4.8	3.4	3.4
CPI (avg)	-1.5	1.5	2.6
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	0.7	0.9
Short-term rate (end of period)	0.6	0.8	1.1
L/T bond yields (avg)	3.4	3.9	4.4
Bank loans yoy (end of period)	0.6	2.8	3.8
Bank deposits yoy (end of period)	8.5	5.5	6.0

Source: Intesa Sanpaolo Research Department forecasts

## Industrial production and inflation



Source: NBR

## Russia

## Real Economy

Due to methodological changes, the 2015 GDP estimate has been revised upwards from -3.7% to -2.8% and 2016 GDP is now estimated at -0.2%. For 2017, GDP is now forecast to grow at around a 1.5% rate (vs a 1% rate previously). The positive dynamics will be primarily driven by the agriculture and chemical industries, as in 2016, as well as recovery in other sectors if no external shocks occur. The consumer sector is also expected to grow thanks to an increase in real disposable household incomes. Last year ended with a 5.4% (yoy) inflation rate which continued to fall in the first two months of 2017 (5.0% and 4.6%). Such a slowdown is explained by low domestic demand, persisting saving behaviour, a rather strong ruble, and a good harvest in 2016.

Anna Mokina

## Financial Markets

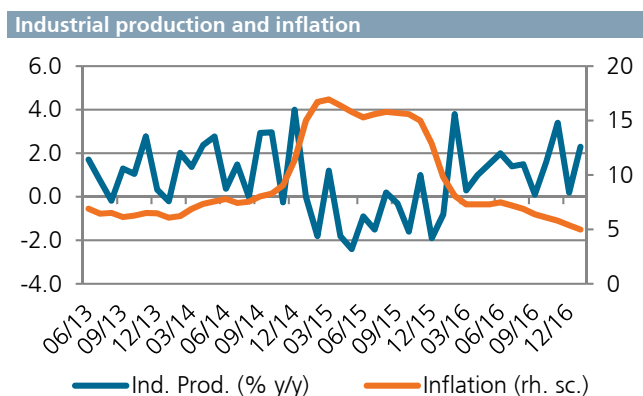
The CBR reduced the key rate from 10% to 9.75% at the meeting on March 24. Inflation rate is decreasing at faster rate than expected, but the CBR still sees inflationary risks. It will continue moderately tight monetary policy and considers further reduction of the key rate probable in the 2<sup>nd</sup>-3<sup>rd</sup> quarters of 2017. Positive real interest rates will be maintained at a level which will provide demand for credit without leading to an increase in inflationary pressures and will also keep incentives for savings. Ruble appreciated by around 16% in 2016, but if oil prices go down ruble might lose its current position. The OPEC+ agreement on oil production cut will have a neutral to positive influence on the market till mid-2017, but in the second half of the year there is no certainty that the agreement will be extended, so the risk of price decrease grows with the possible increase in activity of the US shale oil producers. S&P's improved the outlook for Russia's sovereign credit rating from "stable" to "positive" leaving the country rating at BB+. S&P could raise Russia's credit rating if Russian economy continues to adapt to relatively low oil prices and the size of net government debt remains small. S&P believes that Russia's banking sector will continue to remain vulnerable, but there are early signals of stabilization in this area.

## Banking Sector

Although the main phase of the rehabilitation of the banking system by the CBR is finished, at least 50 more licences are still expected to be withdrawn in 2017 (2014 – 86, 2015 – 93, 2016 – 97), which will inevitably lead to increased competition in the sector. In 2016, retail lending demonstrated growth thanks to the state-supported mortgage lending programme. In 2017, an increase in lending to households will also be supported by lower mortgage rates. Risks in retail lending remain high due to strict control by the CBR in terms of risk coefficients for unsecured loans. The situation in corporate lending is not as positive. Among the reasons for this are the overall economic slowdown, low investment activity, and the absence of investment projects in most industries. At the same time, the level of overdue loans is falling due to corporate discipline. An increase in corporate lending can be expected along with the recovery of certain industries. Profitability of deposits is expected to fall in accordance with the CBR's decisions on the key rate cuts.

Forecasts	2016	2017F	2018F
Real GDP yoy	-0.2	1.5	1.8
CPI (avg)	7.1	4.5	4.0
USD exchange rate (avg)	67.0	60.5	59.8
USD exchange rate (end of period)	61.9	60.0	59.5
Euro exchange rate (avg)	74.1	64.6	66.5
Euro exchange rate (end of period)	65.0	65.4	67.2
Short-term rate (avg)	11.2	9.8	8.8
Short-term rate (end of period)	10.5	9.0	8.5
L/T bond yields (avg)	8.9	8.2	8.0
Bank loans yoy (end of period)	-4.2	5.0	5.5
Bank deposits yoy (end of period)	-3.9	4.5	5.0

Source: Intesa Sanpaolo Research Department forecasts



Source: State Statistics Federal Service

## Serbia

## Real Economy

Real GDP in Serbia grew by 2.8% yoy in 2016, reflecting good performances in most sectors. The business environment improved and investments picked up, which may be a harbinger of faster expansion in 2017. For now, the Serbian economy is projected to expand by around 3.0% yoy in 2017 mostly owing to new investments and continued implementation of infrastructure projects. Strong exports, supported by investments in tradeable sectors and solid external demand, along with increasing private consumption underpinned by rising employment and private sector wages hikes, should also positively contribute to growth in 2017. February CPI surprised to the upside, increasing by 3.2% yoy and surpassing the central point of the inflation target range (3±1.5%). Inflation is forecast to move within the range in 2017, in contrast to the previous year, driven by a low base effect, higher prices of cigarettes, rising primary commodity prices, stronger demand and higher imported inflation.

Branka Babic

## Financial Markets

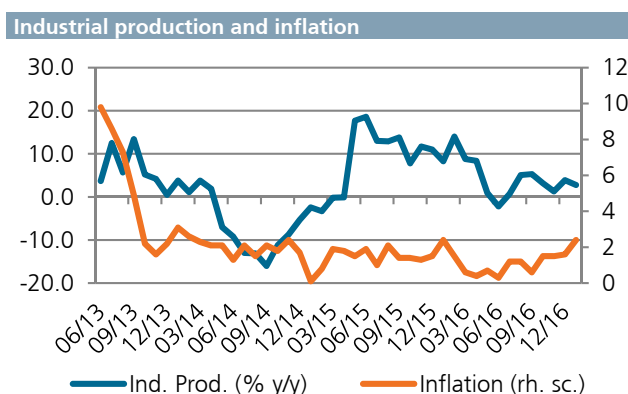
The NBS left the key policy rate unchanged at 4.0% for the eighth consecutive month, as was expected. In making this decision, the NBS took into consideration the fact that yoy inflation has been moving within the target tolerance band, and that it is expected to continue to do so in the period ahead. The CB also stated that it will keep an eye on oil prices and developments on international market, especially because of the divergent policies of the leading central banks. Global capital flows were impacted especially after the Fed's rate hike in December 2016 and are going to be further impacted during 2017 following the rate increase in March and signals that more rate increases are on the way. Also, there is unusual uncertainty regarding politics in several EU countries. Upcoming elections in Serbia, scheduled for the beginning of April, only add to uncertainties, which we see as an additional reason for the NBS not to change its current monetary policy stance, at least in the short term. Moreover, given the inflation outlook and the expected Fed rate hikes, scope for additional rate cuts have diminished significantly. In fact, we expect an increase as the next move late in 2017 or early in 2018. In the January-February 2017 period, the local currency depreciated by 0.4% against the EUR, while the NBS intervened on the FX market by selling EUR 330mn in order to defend the dinar against further weakening mostly due to seasonal factors. Relative stability for the dinar is expected in 2017, as the NBS signalled its readiness to intervene on the FX market if needed.

## Banking Sector

Loans to the private sector increased by 2.3% yoy in January 2017, despite a decline in loans to the corporate sector (-3.4%). Regarding the household sector, an increase was noted in both lending and deposits, by 10.8% and 7.1%, respectively. Deposits from the corporate segment increased by 26.8% yoy. Lending activity is expected to accelerate on the back of past monetary easing, expansion of the economy, competition among banks and a declining share of NPLs in total loans (17.0% at end-2016 vs 21.6% in 2015).

Forecasts	2016	2017F	2018F
Real GDP yoy	2.8	3.0	3.2
CPI (avg)	1.1	3.3	3.2
Short-term rate (avg)	4.1	4.1	4.4
Short-term rate (end of period)	4.0	4.2	4.5
L/T bond yields (avg)	0.0	0.0	0.0
Bank loans yoy (end of period)	2.4	3.2	3.5
Bank deposits yoy (end of period)	11.5	5.5	5.7

Source: Intesa Sanpaolo Research Department forecasts



Source: Statistical Office, National Bank of Serbia

## Slovakia

## Real Economy

The Slovak economy opened 2017 strongly, supporting our above-consensus outlook. In January, industry accelerated to nearly 8% yoy growth, up from 4% yoy average growth in 4Q16. Growth was well distributed across individual segments within the sector, accompanied also by encouraging new orders. The growth rate for retail sales picked up as well, from a 3% yoy average in 4Q16 to above 7% yoy in January. Construction, however, continued to contract vs the previous boom. In contrast to the previous period, activity has shifted towards the strong housing market from infrastructure. The labour market continues to surprise positively. The unemployment rate continue to decrease at the beginning of 2017. The registered unemployment rate in January decreased by another quarter of percentage point in headline terms to 8.4%, just 0.3 pp above the level recorded in 2008, which was the year with the lowest unemployment rate in the post-Communist era. Employment has increased to an all-time high in 4Q, and labour shortages have emerged, which generated solid pressure on wages. In 2016, wages increased nearly 4% over the year in real terms.

Andrej Arady

The strong labour market has had an effect on prices. Inflation in the beginning of 2017 jumped to 1.2% in February, compared to all-time low full-year average of -0.5% yoy in 2016. The trend aligned with expectations, but the pace of growth was notably higher. The key drivers of recent growth were food and fuel, but demand pressures have emerged. A strong labour market should support further growth in household consumption in 2017 and 2018. Investments should benefit from the gradual release of new EU funds and by big investments in car industry. The fiscal stance remains rather expansionary and foreign demand should be supported by a solid outlook for the Euro area economy. Taking this all together, we expect GDP growth to accelerate this year to 3.5% yoy and 3.4% yoy in 2018 from 3.3% y/y in 2016. If the car industry were to fulfill all investment plans on time, the growth in 2018 could be even higher, which poses a positive risk for our long-term forecast.

## Financial Markets

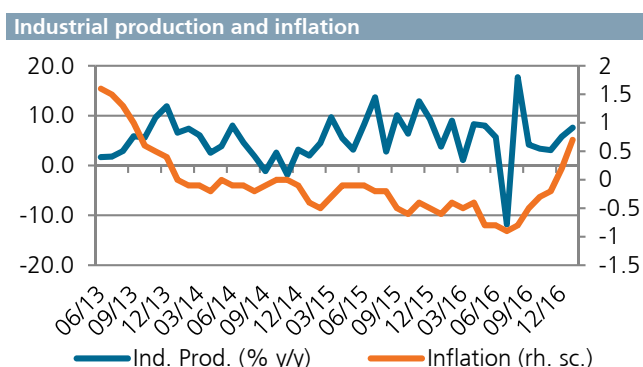
The Slovak bond market has been stable in the beginning of 2017. Yields on Slovak 10Y government bonds remained aligned to German bunds. Spreads hovered around 70bps in recent months, in line with our expectations.

## Banking Sector

Lending to households continued to grow at a fast pace, but gradually decelerating from the recent peak. Rates on mortgages remained broadly stable at all-time lows, with strong competition in the local market preventing increases. Rates on consumer loans meanwhile continue to converge to Euro area levels. The fast-growing private debt market has, however, already started to become a concern for the macroprudential authority. The authority has changed previous recommendations on loan-to-value restrictions and introduced additional restrictions which banks must assess when providing mortgages, which have negatively affected the market.

Forecasts	2016	2017F	2018F
Real GDP yoy	3.3	3.5	3.4
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	1.3	1.8
Bank loans yoy (end of period)	10.3	6.4	6.5
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

GDP increased by 2.5% in 2016. As in 2015, external demand was the key driver; exports increased by 5.9%. Private consumption, backed by rising employment, wages and consumer confidence, is becoming increasingly important as well (it rose by 2.8% in 2016). Real GDP growth is forecast to accelerate to 2.7% in 2017 and to be around 2.5% 2018. Private consumption is benefiting from rising employment and increasing wages, and is now forecast to become the main growth driver. Export growth is expected to remain stable. Private investment is set to rebound, in line with the implementation of some announced large investment projects. Public investment is also projected to increase and add to overall investment growth.

Inflation is forecast to pick up, driven by an increase in service and energy prices. Slovenia had one of the lowest inflation rates in the Euro area in 2015 and 2016, also due to the higher weight of energy in the consumer basket. As energy prices turn around, the opposite effect can be expected in the upcoming years. In 2016, the budget deficit decreased compared to the previous year. Revenues were higher mainly because of the more favourable labour market. At the same time, expenditures decreased, mainly due to a decline in public investment. The general government deficit is projected to decline gradually, in line with the improving economy. As a consequence, after reaching a peak of 83.1% in 2015, government debt is expected to decline to 78.9% in 2017 and 76.7% in 2018.

## Financial Markets

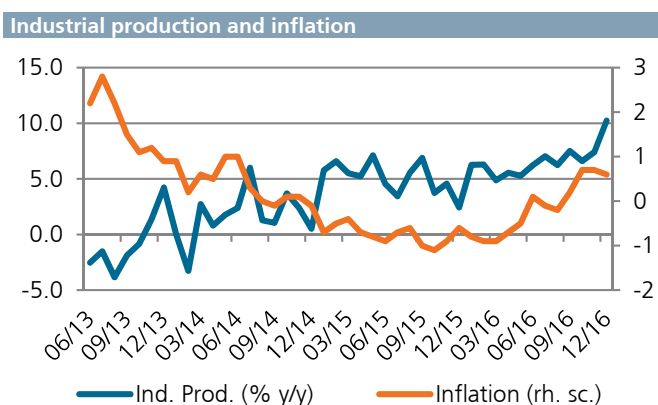
In the last 3 months, the slight decrease of short-term interest rates continued, reflecting the ECB's accommodative monetary policy. The 3M Euribor rate is currently at -0.33% in comparison to -0.31% three months ago. The yield on Slovenia's benchmark 10Y government bond increased to 1.0% vs 0.93% three months ago. The Slovenian 5Y CDS spread continued on a downtrend (82.1 bps after Fitch affirmed Slovenia's Long-Term Foreign Rating at 'A-' with Stable outlook).

## Banking

Although the conditions for an increase in bank loans will improve as the banking system continues to remain stable, forecasts of loan growth in 2017 and 2018 remain quite modest (1.0% and 1.5%, respectively). While the trend of rising loans to household is expected to continue, the stock of corporate sector loans continues to show a yoy decline. New lending to enterprises has stopped falling in recent months, but significant growth has yet to materialise. It is also assumed that non-banking and internal sources (deposits) of funding will play an increasingly important role in financing the economy. At the end of January 2017, corporate deposits at banks amounted to EUR5.7bn, which is more than 50% higher than at the end of 2008. Household deposits are increasing as well. Therefore, total deposits in 2017 are expected to be 4.8% higher yoy and in 2018 4.6% higher yoy. Lending and deposits interest rates are expected to remain at historically low levels in 2017 and to start increasing slightly only in 2018.

Forecasts	2016	2017F	2018F
Real GDP yoy	2.5	2.7	2.5
CPI (avg)	0.2	1.6	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	1.6	2.0
Bank loans yoy (end of period)	-2.7	1.0	1.5
Bank deposits yoy (end of period)	7.2	4.8	4.6

Source: Intesa Sanpaolo Research Department forecasts



Source: Statistical Office of the Republic of Slovenia

## Ukraine

## Real Economy

On 15 March, Ukraine's government imposed an official blockade on all transport links into the rebel-held eastern regions, where coal mines and steel mills are located. Ukrainian war veterans and nationalist activists had already created an unofficial blockade in February in order to halt trade with the Russian-backed provinces of Donetsk and Luhansk. The government's decision to block all transport going in and out of rebel-held areas came about after rebels moved to take control of Ukrainian businesses in the Donbass as retaliation for the initial unofficial blockade. Due to the blockade of trade, the National Bank of Ukraine (NBU) has cut its forecast for GDP growth in 2017 from 2.8% to 1.9%. In contrast, however, the NBU's assessment of Ukraine's GDP growth for 2018 has been raised from 3% to 3.2%

Giancarlo Frigoli

## Financial Markets

Notwithstanding the acceleration in inflation in February (to 14.2% yoy), the NBU continues to expect inflation to be in single digits by year-end (current official forecasts for end 2017 and end 2018 are 9.1% and 6%, respectively). At its March's policy meeting, the monetary authority left the policy rate unchanged at 14% for the sixth consecutive month. The NBU is expected to resume its easing cycle in the second half of this year, when inflation should return to single digits. Currency pressures have eased in recent weeks and the central bank, which early in the year repeatedly intervened to support the hryvnia, switched to being a net buyer of foreign currency.

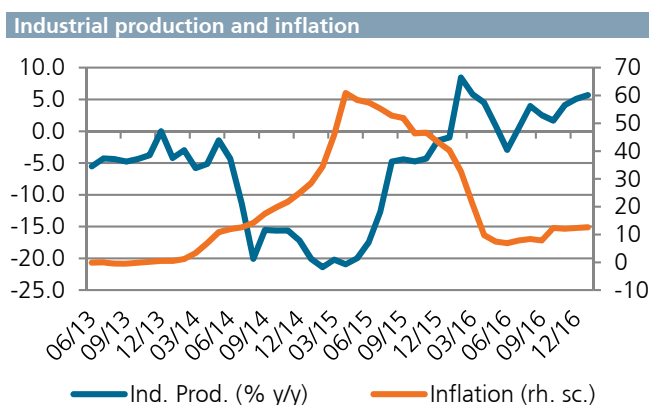
## Banking Sector

Banking aggregates are not yet following a clear recovery path. Nominal loans decreased again by 1.4% yoy (from +2% in December) and by 4.1% yoy, net of the exchange rate effect. While corporate remained stable (+0.2% yoy in January from +4.1% in December), loans to households continued to decline strongly (-8.3% yoy). NPLs declined a little as of December to 30.47% from 31% in September. Deposits increased (6%) both by households (5.7% yoy), which account for almost 70% of total deposits to the private sector, and corporates (6.6%). The LTD ratio increased slightly to 138%, a level that is too high, in our view. The regulatory capital/risk-weighted assets ratio decreased from 14.22% as of September to 12.69% at the end of 2016, partly because of losses. In 2016, both the ROA and the ROE were dramatically negative, declining from -5.5% and -65.5% in 2015 to -12.5% and -122.2% in 2016. Nevertheless, in January 2017, solvent banks posted UAH338mn in net profits compared with UAH 890mn in net loss for the same period last year. Banking profitability in January 2017 stemmed primarily from an increase in net interest income by 29.5% yoy, to UAH4.131mn, and net fee and commission income by 24.8%, to UAH2.078mn. These dynamics were supported by lower funding costs, first of all, with regard to household deposits, as well as a recovery in demand for banking services. The interest rate on deposits declined further in January 2017 to 9.6%.

Davidia Zucchelli

Forecasts	2016	2017F	2018F
Real GDP yoy	2.1	1.9	3.2
CPI (avg)	15.0	11.8	8.8
USD exchange rate (avg)	25.5	26.9	28.0
Euro exchange rate (avg)	28.2	28.6	31.1
Short-term rate (avg)	20.9	17.0	15.5
L/T bond yields (avg)	0.0	0.0	0.0
Bank lending	2.0	3.0	4.0
Bank deposits	9.1	4.0	4.5

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 <sup>1</sup> . chg.yoy			Export nom. ch yoy			Inflation chg yoy				FX reserves chg (mln €) <sup>2</sup>			CA bal. (mln €) <sup>3</sup>	
	4Q16	3Q16	2015	Last	mth	4Q16	Last	mth	4Q16	Last	mth	4Q16	2015	4Q16	3Q16	2015	4Q16	3Q16
<b>CEE</b>																		
Czech Rep.	1.9	1.8	4.5	4.3	Jan	2.7	8.0	Jan	-0.4	2.5	Feb	1.4	0.3			9998		-829
Hungary	1.6	2.2	3.1	1.6	Jan	0.3	14.3	Jan	4.0	2.9	Feb	1.3	-0.1		-1124	-4256		1289
Slovakia	3.0	3.0	3.8	7.6	Jan	4.1	11.9	Jan	4.5	1.2	Feb	-0.1	-0.3	n.s.	n.s.	n.s.		
Slovenia	2.6	2.5	2.3	10.2	Dec	8.1	13.8	Jan	4.5	2.5	Feb	0.7	-0.8	n.s.	n.s.	n.s.	548	726
<b>SEE</b>																		
Albania	n.a.	3.1	2.6	n.a.	n.a.	n.a.	15.5	Jan	15.7	2.2	Feb	1.9	1.8		-56			-208
Bosnia H.	n.a.	2.4	3.1	4.3	Jan	5.8	14.3	Jan	11.3	0.7	Jan	-0.4	-1.0	44	344	399		-107
Croatia	3.4	2.9	1.6	4.0	Jan	7.8	28.3	Dec	12.9	0.9	Jan	-0.2	-0.5		102	1019		3345
Romania	4.7	4.6	3.7	-0.5	Jan	2.3	8.6	Jan	7.7	0.2	Feb	-0.5	-0.6	-1046	1620	-3990	-1440	-730
Serbia	2.5	2.8	0.8	2.8	Jan	2.8	18.4	Dec	15.8	3.2	Feb	1.5	1.4	600	167	171	-390	-293
<b>CIS MENA</b>																		
Russia	n.a.	-0.4	-2.8	2.3	Jan	1.7	47.2	Jan	1.9	4.6	Feb	5.8	15.6	-14323	3005	-18340		404
Ukraine	4.8	2.3	-10.0	5.7	Jan	3.6	-4.6	Dec	-5.6	14.2	Feb	12.3	48.5	263	525	5741	-1000	-1761
Egypt	n.a.	3.4	3.5	16.3	Dec	4.2	0.75	Dec	8.2	30.2	Feb	18.8	10.4	4673	2046	1112		-4983
<i>m.i. E.A.</i>	<i>1.8</i>	<i>1.6</i>	<i>2.0</i>	<i>0.6</i>	<i>Jan</i>	<i>2.3</i>	<i>5.9</i>	<i>Dec</i>	<i>2.4</i>	<i>2.0</i>	<i>Feb</i>	<i>0.7</i>	<i>0.0</i>					

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

Markets and Ratings															
	S/T rates <sup>1</sup>			L/T rates <sup>2</sup>			Foreign exchanges <sup>3</sup>			Stock markets		CDS spread (bp)		Rating	
	15/03	chg bp	3M	15/03	chg bp	3M	15/03	3M chg%	1Y chg%	3M chg%	1Y chg%	15/03	15/12	S&P	
<b>CEE</b>															
Vs Euro															
Czech Rep.	0.3	0.0		0.9	0.4		27.0	0.0	0.0	7.4	7.6	37.6	38.5	AA-	
Hungary	0.2	-0.2		3.4	0.1		312.2	-0.5	0.5	3.2	27.4	105.9	117.6	BBB-	
Slovakia	-0.3	0.0		1.2	0.1		Euro	Euro	Euro	-3.6	-5.5	37.9	38.4	A+	
Slovenia	-0.3	0.0		1.0	0.1		Euro	Euro	Euro	11.8	11.6	82.1	94.4	A	
<b>SEE</b>															
Albania	1.2	0.3		n.a.	n.a.		135.4	-0.1	-1.8	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	-0.2		2.9	-0.3		7.4	-1.4	-1.8	10.6	34.9	187.6	206.9	BB	
Romania	0.6	0.0		4.2	0.5		4.5	0.4	1.6	13.6	20.0	92.2	100.3	BBB-	
Serbia	4.0	0.0		n.a.	n.a.		123.9	0.3	0.6	3.8	31.4	201.7	208.9	BB-	
<b>CIS MENA</b>															
Vs USD															
Russia	10.4	-0.2		8.1	-0.5		59.0	-3.0	-16.0	-8.0	24.8	159.3	169.4	BB+	
Ukraine	17.3	-0.7		79.8	0.0		26.9	2.0	-0.2	15.3	26.6	1253.8	663.7	B-	
Egypt	19.3	1.9		17.2	0.5		18.2	-1.4	103.6	11.8	96.9	319.9	444.9	B-	
<i>m.i.A.E.</i>	<i>-0.3</i>	<i>0.0</i>		<i>0.4</i>	<i>0.2</i>		<i>1.1</i>	<i>2.0</i>	<i>-4.3</i>	<i>3.5</i>	<i>10.3</i>	<i>10.1</i>	<i>14.8</i>		

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

Aggregates and bank rates for the private sector																							
	Loans			NPL/Loans			Foreign Liab.			Deposits			Loans rate <sup>1</sup> -NewB*			DepositsRate <sup>1</sup> -NewB*			Loans/Dep				
	Chg yoy %	Last	Mth 2015 <sup>4</sup>	%	Last	mth 2015 <sup>4</sup>	Chg yoy %	Last	mth 2015 <sup>4</sup>	Chg yoy %	Last	Mth 2015 <sup>4</sup>	%	Last	mth 2015 <sup>4</sup>	%	Last	mth 2015 <sup>4</sup>	%	Last	mth 2015 <sup>4</sup>		
<b>CEE</b>																							
Czech Rep.	6.7	Jan	6.6	4.8	Dec	5.8	38.4	Dec	18.2	7.7	Jan	7.1	1.82	Jan	1.74	C	0.99	Jan	1.6	A	76.0	Jan	75.9
Hungary	-0.2	Jan	-12.3	9.0	Dec	13.7	-0.2	Jan	-8.1	8.7	Jan	7.5	2.46	Jan	4.1	C	0.5	Jan	1.0	A	85.5	Jan	90.8
Slovakia	11.4	Jan	8.7	4.7	Jan	5.1	-5.9	Jan	1.1	3.8	Jan	9.9	2.56	Jan	2.83	C <sup>2</sup>	0.46	Jan	0.75	H <sup>2</sup>	96.8	Jan	90.0
Slovenia	-2.1	Jan	-5.2	6.5	Nov	9.9	-16.6	Jan	-20.7	7.6	Jan	5.8	2.75	Jan	3.45	C <sup>2</sup>	0.19	Jan	0.28	H <sup>2</sup>	81.3	Jan	89.2
<b>SEE</b>																							
Albania	-0.7	Jan	-2.6	18.2	Jan	18.2	-8.2	Jan	-14.4	2.7	Jan	1.0	9.78	Feb	8.35	A	0.84	Feb	1.27	H	52.1	Jan	54.2
Bosnia H.	3.4	Jan	2.2	11.8	Dec	13.7	-7.8	Jan	-11.7	8.7	Jan	7.8	4.62	Jan	4.99	C	0.55	Jan	1.06	H	108.6	Jan	114.4
Croatia	-4.3	Jan	-3.1	13.8	Dec	16.6	-29.9	Jan	-25.1	1.5	Jan	6.4	4.92	Jan	5.08	C	1.18	Jan	2.15	H	81.2	Jan	86.5
Romania	0.5	Jan	2.7	10.0	Sep	13.5	-25.2	Jan	-10.2	8.2	Jan	9.1	3.6	Jan	4.32	C	0.9	Jan	1.48	H	83.0	Dec	85.4
Serbia	2.3	Jan	3.0	17.0	Dec	21.6	-14.3	Jan	-6.3	13.0	Jan	7.1	6.06	Jan	6.24	C	3.01	Jan	4.17	H	103.0	Jan	111.4
<b>CIS MENA</b>																							
Russia	-4.2	Dec	8.2	9.4	Dec	8.3	-12.5	Oct	-0.8	-3.9	Dec	18.8	11.83	Dec	13.8	C	6.50	Dec	8.43	H	107.7	Dec	108.1
Ukraine	-1.4	Jan	-3.8	30.5	Dec	28.0	-8.0	Dec	6.3	6.0	Jan	1.5	22.36	Jan	26.09	R <sup>3</sup>	16.05	Jan	20.06	R <sup>3</sup>	138.3	Jan	146.3
Egypt	46.1	Nov	18.0	5.9	Sep	6.8	248.7	Nov	91.6	40.9	Nov	20.4	16.3	Dec	11.8	C	10.3	Dec	6.8	H	40.5	Nov	38.8
<i>m.i. E.A.</i>	<i>1.0</i>	<i>Dec</i>	<i>0.6</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>17.5</i>	<i>Dec</i>	<i>3.2</i>	<i>1.4</i>	<i>Dec</i>	<i>1.6</i>	<i>C</i>	<i>0.4</i>	<i>Dec</i>	<i>0.6</i>	<i>H</i>	<i>81.7</i>	<i>Dec</i>	<i>83.6</i>

Source: Central Banks, IMF, Moody's; <sup>1</sup>monthly average; <sup>2</sup>lending rate on current account overdraft; on deposits up to 1 year; <sup>3</sup>does not include banks <sup>4</sup>December.

<sup>5</sup>Sector 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
<b>GDP (% yoy)</b>						<b>Inflation (average)</b>					
<b>CEE</b>						<b>CEE</b>					
Czech Rep.	2.7	4.5	2.4	2.5	2.3	Czech Rep.	0.4	0.3	0.7	2.3	2.2
Hungary	4.0	2.9	1.9	2.7	2.2	Hungary	-0.2	-0.1	0.4	2.7	2.7
Slovakia	2.5	3.8	3.3	3.5	3.4	Slovakia	-0.1	-0.3	-0.5	1.2	1.7
Slovenia	3.1	2.3	2.5	2.7	2.5	Slovenia	0.4	-0.8	0.2	1.6	1.9
<i>Average</i>	3.1	3.7	2.4	2.8	2.5						
<b>SEE</b>						<b>SEE</b>					
Albania	2.0	2.6	3.2	3.5	3.5	Albania	1.6	1.9	1.3	2.2	2.6
Bosnia Herzegovina	1.1	3.1	2.5	2.8	2.8	Bosnia Herzegovina	-0.9	-1.0	-1.1	1.1	1.4
Croatia	-0.5	1.6	2.9	3.2	2.7	Croatia	-0.2	-0.5	-1.1	1.5	2.0
Romania	3.1	3.9	4.8	3.4	3.4	Romania	1.1	-0.6	-1.5	1.5	2.6
Serbia	-1.8	0.8	2.8	3.0	3.2	Serbia	2.1	1.4	1.1	3.3	3.2
<i>Average</i>	1.8	3.1	4.1	3.3	3.3						
<b>CIS</b>						<b>CIS</b>					
Russia	0.6	-2.8	-0.2	1.5	1.8	Russia	7.8	15.5	7.1	4.5	4.0
Ukraine	-6.8	-10.0	2.1	1.9	3.2	Ukraine	12.2	48.0	15.0	11.8	8.8
<i>Average</i>	-0.1	-3.4	0.0	1.5	1.9						
<b>MENA</b>						<b>MENA</b>					
Egypt	4.0	3.5	4.0	4.3	4.7	Egypt	10.1	10.4	13.7	27.0	16.0
<b>Average ISP Subsidiaries</b>	1.2	-0.8	1.3	2.3	2.6						

Market											
	2014	2015	2016	2017F	2018F		2014	2015	2016	2017F	2018F
<b>Exchange rate (average)</b>						<b>Interest rate (average)</b>					
<b>CEE</b>						<b>CEE</b>					
Czech Rep.	27.5	27.3	27.0	26.5	26.0	Czech Rep.	0.2	0.2	0.3	0.3	0.6
Hungary	308.6	310.0	311.5	311.7	311.8	Hungary	2.4	1.7	1.0	0.4	0.8
Slovakia						Slovakia	0.2	0.0	-0.3	-0.3	-0.2
Slovenia						Slovenia	0.2	0.0	-0.3	-0.3	-0.2
<b>SEE</b>						<b>SEE</b>					
Albania	140.4	139.8	137.3	136.5	138.2	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	7.5	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	0.7	0.9
Serbia	117.3	120.8	123.1	124.4	126.2	Serbia	8.8	6.3	4.1	4.1	4.4
<b>CSI MENA</b>						<b>CSI MENA</b>					
Russia (USD)	38.6	61.3	67.0	60.5	59.8	Russia	10.6	13.5	11.2	9.8	8.8
Ukraine (USD)	12.0	22.0	25.5	26.8	28.0	Ukraine	17.9	25.9	20.9	17.0	15.5
Egypt (USD)	7.1	7.7	10.0	16.8	17.0	Egypt	11.2	11.3	14.2	18.8	16.0

Bank											
	2014	2015	2016	2017F	2018F		2014	2015	2016	2017F	2018F
<b>Loans to private sector (% change yoy)</b>						<b>Deposit by private sector (% change yoy)</b>					
<b>CEE</b>						<b>CEE</b>					
Czech Rep.	2.7	6.6	8.4	6.0	5.5	Czech Rep.	6.7	7.1	4.5	4.3	4.0
Hungary	-0.3	-12.3	-1.9	0.8	1.0	Hungary	1.3	7.5	6.3	2.7	2.8
Slovakia	6.4	8.7	10.3	6.4	6.5	Slovakia	3.8	9.9	4.6	4.8	5.2
Slovenia	-13.4	-5.2	-2.7	1.0	1.5	Slovenia	6.6	5.8	7.2	4.8	4.6
<b>SEE</b>						<b>SEE</b>					
Albania	2.2	-2.6	-0.8	2.0	3.0	Albania	2.9	1.0	2.7	2.0	2.5
Bosnia Herzegovina	1.9	2.2	3.4	3.7	4.0	Bosnia Herzegovina	6.4	7.8	7.4	7.2	6.9
Croatia	-2.0	-3.1	-4.3	-1.5	1.7	Croatia	2.3	6.4	2.8	1.9	2.2
Romania	-3.7	2.7	0.6	2.8	3.8	Romania	8.9	9.1	8.5	5.5	6.0
Serbia	4.4	3.0	2.4	3.2	3.5	Serbia	9.7	7.1	11.5	5.5	5.7
<b>CIS</b>						<b>CIS</b>					
Russia	25.4	8.2	-4.2	5.0	5.5	Russia	27.9	18.8	-3.9	4.5	5.0
Ukraine	10.9	-3.8	2.0	3.0	4.0	Ukraine	-1.8	1.5	9.1	4.0	4.5
<b>MENA</b>						<b>MENA</b>					
Egypt	12.7	18.0	46.1	18.0	12.0	Egypt	16.6	20.4	40.9	18.0	15.0

Source: Intesa Sanpaolo Research Department forecasts

Intesa Sanpaolo Research Department – Head of Research Gregorio De Felice	
International Research Network Coordination	e-mail address
Gianluca Salsecci (Head)	gianluca.salsecci@intesasnpaolo.com
<b>ISP - Research Department (Milan)</b>	
Giancarlo Frigoli (CIS, MENA and Lat. Am. Countries)	giancarlo.frigoli@intesasnpaolo.com
Silvia Guizzo (Emerging Asia)	silvia.guizzo@intesasnpaolo.com
Antonio Pesce (CEE and SEE Countries)	antonio.pesce@intesasnpaolo.com
Wilma Vergi (Trade and Industry)	wilma.vergi@intesasnpaolo.com
Davidia Zucchelli (Banks and Financial Markets)	davidia.zucchelli@intesasnpaolo.com
<b>International Subsidiaries' Research Departments:</b>	
<b>VUB (Slovakia)</b>	
Zdenko Štefanides (Head)	zstefanides@vub.sk
Andrej Arady	aarady@vub.sk
<b>PBZ (Croatia) and ISP Banka (Bosnia I Hercegovina)</b>	
Ivana Jovic (Head)	ivana.jovic@pbz.hr
Ana Lokin	ana.lokin@pbz.hr
<b>CIB (Hungary)</b>	
Mariann Trippon (Head)	trippon.mariann@cib.hu
Sandor Jobbagy	jobbagy.sandor@cib.hu
<b>Banca Intesa (Serbia)</b>	
Marija Savic (Head)	marija.arsic@bancaintesa.rs
Branka Babic	branka.babic@bancaintesa.rs
Tijana Matijasevic	tijana.matijasevic@bancaintesa.rs
<b>Alexbank (Egypt)</b>	
Emil Eskander (Head)	emil.eskander@alexbank.com
Hemat El Masry	hemat.elmasry@alexbank.com
Sahar EzzElarab	sahar.ezzElarab@alexbank.com
Samer Halim	samer.halim@alexbank.com
<b>International Subsidiaries' Research Contacts:</b>	
<b>Intesa Sanpaolo Bank (Slovenia)</b>	
Nastja Benčič	nastja.bencic@intesasnpaolobank.si
<b>Banca Intesa (Russia)</b>	
Anna Mokina	anna.mokina@bancaintesa.ru
<b>Intesa Sanpaolo Bank (Romania)</b>	
Sebastian Maneran	sebastian.maneran@intesasnpaolo.ro
<b>Intesa Sanpaolo Bank (Albania)</b>	
Kledi Gjordeni	kledi.gjordeni@intesasnpaolobank.al

## Analyst Certification and Other Important Information

The financial analysts drafting this report state that the opinions, forecasts, and estimates contained herein are the result of independent and subjective evaluation of the data and information obtained and no part of their compensation has been, is, or will be directly or indirectly linked to the investment strategy recommended or proposed in this report.

This report has been produced by Intesa Sanpaolo S.p.A. The information contained herein has been obtained from sources that Intesa Sanpaolo S.p.A. believes to be reliable, but it is not necessarily complete and its accuracy can in no way be guaranteed. This report has been prepared solely for information and illustrative purposes and is not intended in any way as an offer to enter into a contract or solicit the purchase or sale of any financial product. This report may only be reproduced in whole or in part citing the name Intesa Sanpaolo S.p.A.

This report is not meant as a substitute for the personal judgment of the parties to whom it is addressed. Intesa Sanpaolo S.p.A., its subsidiaries, and/or any other party affiliated with it may act upon or make use of any of the foregoing material and/or any of the information upon which it is based prior to its publication and release to its customers. Intesa Sanpaolo S.p.A., its subsidiaries and/or any party affiliated with it, may from time to time have a long or short position in the aforementioned financial products.