

March 2018

Quarterly note

Intesa Sanpaolo
International Research
Network

GDP growth revised upwards in 2018-19, but still decelerating slightly in CEE/SEE after the 2017 peak. Monetary policy seen as easy in 2018 (except in CZ and RO), tightening in 2019 with long rates rising. Lending is consolidating.

In the **CEE/SEE** region, **GDP** growth picked up to 4.6% in 2017 (from 3.1% in 2016), fuelled by consumer spending and investments, as well as exports. Looking at the most recent releases of business cycle indicators, GDP growth forecasts in the CEE/SEE area have been revised upwards to a solid 3.8% (from 3.5% projected in our December note), but still appear to be decelerating with respect to the 2017 peak. The growth estimate remains unchanged at 3.2% for 2019.

Outside the region, GDP is forecast to accelerate in **Russia**, even if to a modest 1.8% in 2018 and 2% at most in 2019 (from 1.5% in 2017). This weak performance mainly relates to structural constraints, delays in the reform process, and lingering geopolitical concerns. In **Egypt**, growth is projected to be stronger (above 5%) than previously expected, as the economy is reaping the full benefits of macro stabilisation and market-friendly policies, in addition to the expected increase in revenues stemming from the discovery of the huge Zohar gas field.

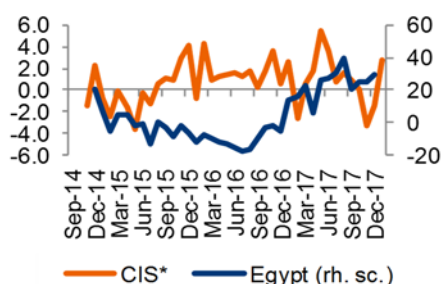
Due to somewhat weaker-than-expected **inflation** data in recent months and the ECB's forward guidance for both the APP and interest rates, **monetary policy** in **CEE/SEE countries** is forecast to remain easy overall this year and start to experience a moderate tightening only in 2019, with a few exceptions. In Czech Republic and Romania, to counteract rising inflationary pressures, the CBs had already started to increase policy rates; further increases are now expected in 2018-19.

Long-term rates in **CEE and SEE** countries are confirmed to remain historically low overall, due to the expected low inflation and moderate risk premia, although moving upward during the forecast horizon, mirroring both the move in benchmark rates in the EA and anticipating monetary policy tightening domestically. In the same region, **exchange rates** are forecast, in most cases, to appreciate slightly this year and then remain roughly stable in 2019 vs the euro, owing to both strong exports and generally improving external financial positions.

Outside the CEE/SEE area, in **Russia**, below-target inflation is expected to support further rate cuts in 2018. Large cuts are also forecast in **Egypt**, following the ongoing disinflationary process. Regarding the FX market, the RUB is expected to change little, after two years of recovery, while the EGP is set to show some further strength in the short run, sustained by capital inflows and an improving external position.

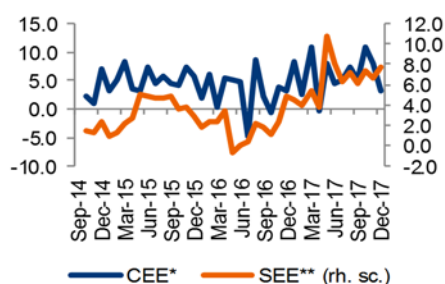
Forecasts for **lending growth** in the **CEE/SEE region** are supported by the consolidation of the economic cycle in 2018, but could still be constrained by the gradual completion of banks' portfolio restructuring. A deceleration is expected in Czech Rep. and Slovakia due to measures adopted by CBs to slow down mortgage growth, as well as in Bosnia and Romania. Write-off and sell-off operations are expected to continue to play crucial roles in reducing NPL ratios. In the **CIS area**, the loan dynamic has been revised upward both in Russia (+5.3%) and Ukraine (+3.5%) in 2018. In **Egypt**, lending dynamics are forecast to remain in double digits, but still below nominal GDP growth. Funding and liquidity are forecast to remain supportive in the CEE/SEE region.

Industrial production % y/y – CIS - Egypt



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

Industrial production % y/y – CEE - SEE



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

The figures in this document have been updated to 15th March 2018 (unless otherwise specified).
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


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CIB BANK

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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: Slovakia, Slovenia, Hungary, Czech Republic among the CEE countries, Albania, Bosnia, Croatia, Serbia and Romania among SEE countries; Russia and Ukraine among CIS countries; Egypt among MENA countries. It also includes Poland, among the CEE countries, where ISP is present with a Branch.

Cross country analysis

Recent developments

Recently released **4Q17 GDP** data for **CEE and SEE countries** (except Albania and Bosnia) confirmed that economic growth in the region picked up from 3.1% in 2016 to 4.6% in 2017 (a 10-year high). In general, the GDP expenditure breakdown shows that consumer spending and investments made the highest contributions to GDP growth. Consumers benefitted from low rates of unemployment and strong wage dynamics, while investments took advantage of the new EU structural funds cycle. Despite the good performance of exports, the strengthening of imports limited the contribution of net exports. In several countries, fiscal policy measures, including reductions of current consumption, limited the contribution from public expenditures.

In the **CEE region**, at the country level, Slovenia recorded in 4Q its strongest GDP growth (+6.0% yoy, after +4.5% yoy in the previous quarter). Growth accelerated in other CEE countries as well, ranging from 3.5% in Slovakia to 5.1% in both Poland and Czech Republic. In 4Q, the GDP dynamic was positive in the **SEE region** as well, at slightly below the Q3 figures in Romania and Croatia (to 7.0% from 8.6%, and 2.0% from 3.3%, respectively) while above the previous quarter in Serbia (to 2.5% from 2.2%).

The most recent high frequency indicators signalled prospects for still-solid growth in the CEE/SEE regions in Q1 and 2018 overall as well, with some differences among countries. In Poland, in January, industrial production grew at 8.6% yoy (above the 8.1% Q4 average). In the same month, industrial production accelerated with respect to 4Q17 in Serbia as well, but contracted by 0.4% in Croatia. The Economic Sentiment Indicator (ESI) in February improved further in Czech Republic and Hungary, thought it softened in Romania and Slovenia.

In January, **inflation** slowed in most CEE and SEE countries with respect to December, partly due to lower imported inflation related to an overall exchange rate strengthening. Among CEE countries, inflation ranged from 1.7% in Slovenia (1.4% in February data) to 2.4% in Slovakia, while among SEE countries, it was between 1.9% in Serbia, where food price dynamic surprised on the downside, driven by agricultural production above expectations, and 4.3% in Romania, where inflation rose due to increasing pressures from domestic demand. With inflation rates within, in most cases, the respective target bands (and close to the low end of the corridor), central banks maintained easy monetary policies or further reinforced them, as in the case of the Serbian Central Bank, which further lowered the policy rate to 3.25% in March from previous 3.5%. The only exception is Romania, where the inflation rate (4.3% in January) moved above the upper bound of the target band and the Board of the Central Bank decided to increase the policy rate by 0.25% to 2.25% in February. In the Czech Republic, where inflation slowed to 2.2% in January from 2.4% in December and 2.6% on average in 3Q17, the tightening cycle that started in 2017 continued as well, with a further increase of the policy rate in February, to 0.75% from 0.5%.

In the **CIS region**, **Russian** inflation figures for February confirmed that underlying price pressures remain modest. Annual inflation was 2.2%, unchanged from January. The core rate, at 1.9% yoy, was unchanged as well from January. Amid a backdrop of below-target inflation, soft core price pressures, and a slow recovery in the real economy, the CBR cut its main policy rate again at its March's meeting (by 25 bps to 7.25%) and it is expected to loosen monetary conditions further in the coming months. Most of the activity data for January were slightly weaker than in December. Growth in retail sales (+2.8% vs +3.1%), construction output (+0.2% vs +1.3%), and agricultural production (+2.5% vs +3.2%) all eased. In contrast, growth in industry jumped to +2.9% yoy in January, driven by manufacturing (+4.2% vs -0.2%) and mining (+1.1% vs -1%).

In **Ukraine**, January's activity data highlighted the rebound in agricultural output (+1.1% vs -2.1% in 4Q17) and the strong growth in both manufacturing (+9.6% vs +3.6% in 4Q17) and retail sales (+9.5%), while utility services (-8.1%) and mining activity (-0.2%) showed declines. Construction activity, which was the mainstay of growth last year, fell by 1%, mainly reflecting an unfavourable base effect (in January 2017, construction surged by 46.5%). Due to the stubbornness of inflation (in February, the headline and core rates were 14% and 9.7%, respectively, little changed from

Gianluca Salsecci, Giancarlo Frigoli, Antonio Pesce and Davidia Zucchelli

Economic growth strengthened further in the CEE/SEE areas in 4Q17

Inflation rates in CB corridor targets in all countries except Romania, where they remained above, prompting the CB to raise rates further

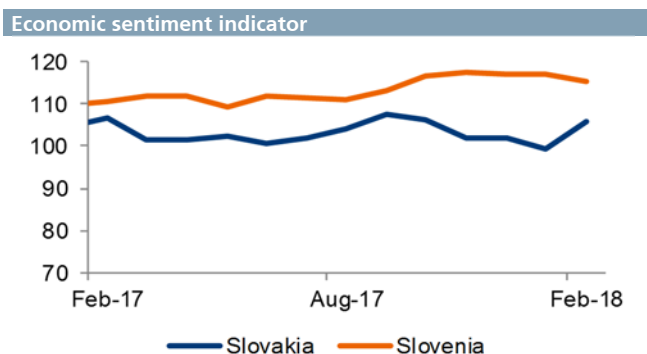
Inflation fell further in Russia amid slow growth. Inflationary pressures persist instead in Ukraine. In Egypt, the CB has resumed the easing cycle, following slowing inflation

January), the CB raised its main policy rate for the fourth consecutive time in March, to 17% from 12.5% in October 2017, when the tightening cycle started. The Monetary Authority warned that it might raise rates again if inflationary pressures persist.

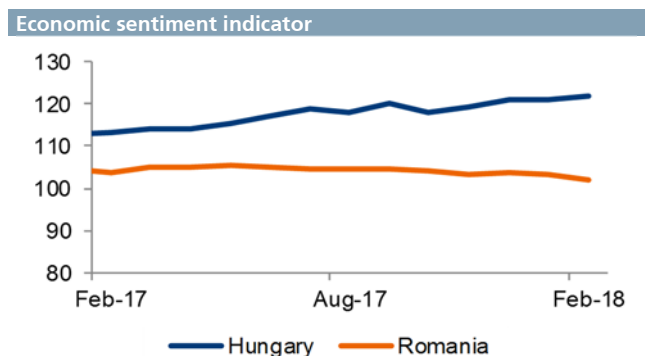
In **Egypt**, annual headline and core inflation rates declined for the seventh consecutive month in February 2018, to 14.1% and 11.9%, respectively, after peaking in July 2017 at 33% and 35%, respectively. Favourable base effects have contributed to the decline of annual inflation rates since November 2017, when the EGP was devalued. Egypt's central bank then cut its main policy rate by 100bps in February (with the minimum rate set at 17.75%). Meanwhile, real GDP growth continued to accelerate for the fifth consecutive quarter, to a record 5.3% in 4Q17, the fastest pace of growth since 2010. The pickup in economic growth was largely supported by higher net external and public domestic demand, which more than offset weaker private domestic demand. The improvement in Egypt's external position has offered support to the exchange rate, with the EGP/USD hovering around 17.5 so far in 1Q18.

With reference to **banking aggregates** in the CEE/SEE region, the latest figures (in most cases, updated to January 2018) for **loans** showed positive dynamics in all ISP countries, but the numbers were particularly strong in Slovakia (+9.6% yoy) and Bosnia (+7.6% yoy), supported by retail loans. In contrast, the loans dynamic remained fragile in Albania (+0.5% yoy as of December) and Croatia, where loans remained unchanged due to a further decrease in the corporate sector (-1.6% yoy in both countries). Corporate loans decreased further in Serbia (-2.1% yoy as of December). Household loans increased in all the countries, but particularly in Slovakia (+13.6% yoy) and Romania (+8.4%). NPL ratios stayed over 10% in SEE countries, particularly in Albania (13.2%). The ratio improved strongly in Romania (to 6.4%), however. **Deposits** continued to be resilient in many countries, particularly Romania (+12.4% yoy in January) and Hungary (+11.8% yoy in January), as well as in Bosnia (9.3% yoy). Slovakia has amended its covered bond law to better align it with practice across the European Union. The law, which took effect on 1 January 2018, is expected to encourage banks to make greater use of covered bonds in their funding mix. Other countries are expected to follow this path soon.

In **the CIS area**, loan growth strengthened (to 5.2% yoy in Russia and 0.9% yoy in Ukraine in December), thanks to increases among households in Russia (12.7% yoy in 2017) and Ukraine (+6.6% yoy). In Russia, the corporate sector showed an improvement (+2.8% yoy in December), but lower lending rates have so far proved insufficient to boost new lending significantly and credit demand remains weak. In **Ukraine**, loans to the private sector entered positive territory in December, when they increased by 0.9% yoy. Corporate loans continued to decrease, but at a lower rate (-0.4% in 2017 from -4.1% yoy as of August). Household lending grew at a strong pace (+6.6% yoy in 2017), driven by local currency loans (+39%); foreign currency-denominated loans decreased by 22%. The NPL rate declined by 3.2pp, to 54.5%, in H2. In **Egypt**, where loans confirmed in October the previous change (+33.4% yoy as in September), the corporate dynamic continued to decelerate (+41%) while household lending accelerated in nominal terms (+16.7%). However, net of FX effects, the trend continued to be very weak.



Source: European Commission



Source: European Commission

The international outlook underlying the scenario

In the **US**, the fiscal boost approved by the Trump administration in February (worth USD320bn in total this year and in 2019), the acceleration of exports supported by a weaker dollar, and a sustained world economic cycle are expected to lead to stronger than previously (December 2017) expected GDP growth in both 2018 (from 2.5% to 2.7%) and 2019 (from 2.1% to 2.4%) according to the latest (March 2018) FED projections. Core inflation is projected by FED to end 2018 at 1.9%, unchanged from its previous forecast, but it is seen rising slightly above the 2% target in 2019. As largely expected at the March meeting the Fed lifted the policy rate by 25 bps to a still low range of 1.50%-1.75%. While it announced two more hikes this year, it increased the number of rate hikes in 2019 from two to three. With two more increases projected in 2020, the US interest rates should end 2020 at 3.4%.

In the **Euro Area**, the ECB has decided to review the guidance on purchases and to remove from the official statement any reference to a possible increase in the APP. This undoubtedly marks a first step towards concluding its QE programme. However, it confirmed its guidance regarding both the reinvestment policy and interest rates and it is not expected that it will kick off a cycle of moderate rate hikes before the first half 2019. The new ECB macro forecasts confirm an above-potential (even if decelerating) GDP growth scenario up to 2020. The estimate for 2018 has been revised up by one-tenth, to 2.4% (vs 2.3% previously); growth is still expected to be 1.9% in 2019 and 1.7% in 2020 (unchanged from previous forecasts). Risks to growth are considered roughly balanced. Inflation forecasts point to increases of 1.4% in both 2018 and 2019 (in the latter year, down from the previously expected 1.5%), with acceleration to 1.7% in 2020.

In **emerging economies** (EMs), notwithstanding the recent good data, there remains significant divergence in the prospects for individual countries and regions. Commodity producers, including Russia and most of Latin America, including Brazil, and oil producing countries of Africa, like Nigeria, and the MENA region (mainly GCC) were hit hardest in the downturn and are still in the early stages of recovery. We expect that growth in these economies will strengthen over the course of 2018-19. In most of these countries, the fiscal squeeze required by the sharp fall in commodity revenues in 2015-16 is now starting to ease. In many other EMs, however, the economic cycle is starting to look mature. This is most obviously the case for China, where GDP growth is forecast to slow to 6.4% in 2018 from 6.8% in 2017. But output gaps have also closed in other parts of Asia and in most of Central and Eastern Europe, including Turkey. In these countries, capacity constraints and less supportive monetary policies, as several CBs are expected to start (or continue) a moderate tightening cycle, are forecast to take some of the steam out of GDP growth.

The economic outlook

GDP growth and inflation

The most recent developments and the high frequency indicators confirm that **GDP growth** in 2017 was at the peak of the cycle in both CEE and SEE regions, and that growth is starting to decelerate in 2018, though remaining fairly strong. With respect to our December projections, in the CEE/SEE area (excluding Poland, which had not been included in our analysis in the December note), the GDP growth forecasts for 2018 have been revised upwards to 3.8% from 3.5%, on average. The growth estimate has been left unchanged at 3.2% for 2019.

In the **CEE area**, domestic demand for private consumption and investments, ie, the main drivers of growth, are still expected to remain on track, thanks to rising wages and a growing number of people in work, on the one hand, and due to withdrawals from EU structural funds and recovery of private investments, on the other. Export dynamics are expected to remain strong based on consolidation of the business cycle in the EA, although due to a parallel strengthening of imports, the contribution of net export to GDP growth is forecast to remain modest. In the CEE region, GDP growth in 2018 - although upwardly revised with respect to our December forecasts, of 3.6% (3.8% including Poland in the sample) vs 3.4% - is still expected to decelerate on average from

In advanced economies, stronger-than-previously-forecast growth was seen in both the US and the Euro area. The ECB is near to end the QE Programme.

GDP growth forecasts have been revised upwards in CEE/SEE areas

the 2017 peak of 4.1% (4.3% including Poland) and then to slow further in 2019 to 3.1% (3.2% when including Poland).

Also in the **SEE area**, GDP growth in 2018 has been revised upwards to 3.9% (from the previous 3.6%). The revision has been particularly strong for Romania and Serbia (to 4.5% from 4.1%, and to 3.0% from 2.5%, respectively), where growth is expected to still be supported by pro-cyclical fiscal measures in Romania and monetary policy in Serbia (in both cases, in addition to labour market improvements). In line with the December forecasts, in the SEE region as well GDP growth is expected to decelerate to 3.4% in 2019 (slightly upwardly revised from the previous 3.3%).

On the basis of recent consumer price dynamics, **inflation** forecasts have been revised slightly downwards for both 2018 and 2019 in most CEE/SEE countries. Pressures on consumer prices are perceived to remain contained and inflation rates are forecast to be well within the target corridors set by the respective national banks, with the main exception being Romania, where inflation is projected to rise to 3.9% this year, before decelerating to 3.4% in 2019, and, to a lesser extent, Czech Republic, where after reaching a peak of 2.9% in October 2017 (2.5% being the 2017 year-average), inflation is forecast to moderate to a year-average of 2.2% in 2018.

In the **CIS area**, after the slowdown seen in 2H17, which was mainly due mining activity, leading the 2017 growth rate to 1.5% (below our previous expectations of 1.6%), we forecast GDP growth in **Russia** to accelerate to 1.8% in 2018, but remain modest (around 2%) in the medium term affected by structural constraints and lingering geopolitical concerns. In the same region, in **Ukraine**, we forecast a recovery in 2018 (3.2%), as the economy adapts to the trade blockade with the Donbass and receives fiscal policy support ahead of next year's elections. In the medium term, resumption of the reform process is expected to support growth of around 3%.

In the **MENA** region, in **Egypt**, we have slightly revised upwards our GDP growth forecasts for calendar and fiscal years 2018 and 2019, reflecting the boost both to exports coming from the free float of the currency and domestic demand from investments in infrastructure. In the medium term, the pace of growth is forecast to remain strong (over 5%), as the economy is expected to reap the full benefits of macroeconomic stabilization and market-friendly policies, in addition to the increase in both external and fiscal revenues stemming from the exploitation of the huge Zohar gas field.

Regarding **inflation**, in the **CIS area**, the recent round of data points to weaker than previously expected consumer price dynamics in **Russia**. The annual rate is now expected to end 2018 still below the 4% official target, before hovering around this level in 2019 over the medium term. In **Ukraine**, inflation is showing resilience. We now expect pressures to ease significantly in the final months of 2018 and the disinflationary process to continue after that. However, annual inflation is likely to remain above the CB's year-end targets, for 2018 set at 8.9% and for 2019 at 5.8%. In the MENA region in **Egypt**, recent data releases support the view of a significant slowdown of inflation over the coming months (towards the 13% target by year-end 2018) and in the following years, although temporary blips, due to a further cut in subsidies after the upcoming elections, should not be ruled out.

Monetary policy and financial markets

Due to somewhat weaker-than-expected inflationary pressures and after considering the forward guidance related both to the APP and interest rates recently reaffirmed by the ECB, monetary policy conditions in **CEE/SEE countries** are forecast to remain broadly accommodative this year, with the start of a moderate tightening now seen as more likely to start in 2019, with a few exceptions. Indeed, in Czech Republic and Romania, to counteract rising inflationary pressures, the CBs have already started a tightening cycle through the increase of policy rates; additional increases are expected in 2018-19.

For the **CIS area**, the easing cycle is expected to end this year, with the main policy rate set around 6.5% in **Russia**. Thereafter, the CBR is expected to keep rates stable, as inflationary pressures should remain well contained. In **Ukraine**, we see the central bank starting to ease monetary policy in 2H18, when inflationary pressures should start to recede. We expect it to cut rates further in 2019, as the disinflationary process consolidates. In the **MENA region**, in **Egypt**, the expected

In CIS countries, the pace of recovery is expected to remain modest in the M/L term

In Egypt, GDP growth should remain strong based on market-friendly policies

Inflation is expected to be lower than previously forecast in the S/T in Russia, but stickier in Ukraine. In Egypt, the disinflationary process is well on target

Monetary policy tightening expected in the next year, but this has already started in Czech Republic and Romania

The easing cycle is near its close in Russia, but is expected to resume in Ukraine and to continue in Egypt

slowing trend of inflation, and the macroeconomic stabilization and reform policies followed by the government are supportive of a scenario of declining interest rates in 2018-2019.

Long-term interest rates in CEE and SEE countries are forecast to remain overall historically low due to the expected low inflation path and moderate risk premia, although moving upwards in the forecast horizon both mirroring the move in the benchmark rates in the Euro Area and anticipating domestic monetary policy tightening. In the same region, **exchange rates** are overall expected to appreciate slightly this year and remain roughly stable in 2019 vs the euro, based on the good performance of exports and improvements in external positions.

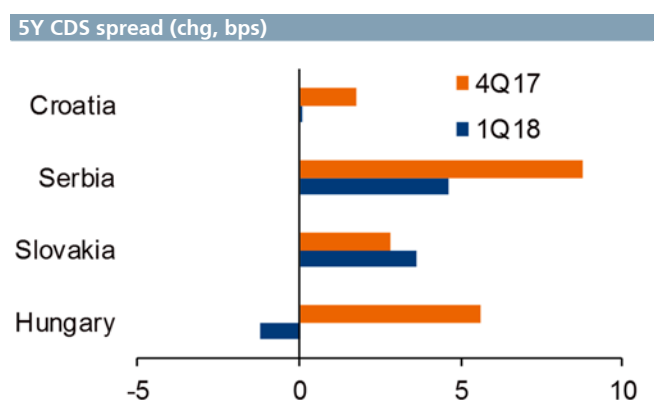
In the **CIS region**, in **Russia**, oil price forecasts remain supportive of the rouble. Upside pressures are expected to be offset by government interventions under the programme which entails the purchase of foreign currency with extra budget revenues when oil prices are above a threshold. However, scope for further gains are reduced by the fact that the rouble looks overvalued on a real effective basis. Overall, we see the RUB/USD rate changing little over the forecasting period, amid some volatility. Relatively high inflation is expected to weigh on the **Ukraine's** hryvnia exchange rate. Our forecast continues to point to a moderately depreciating path vs USD.

In the **MENA Region**, we expect the Egyptian pound to appreciate slightly further against the dollar in 2018 as **Egypt's** external financial position improves. The increase in domestic hydrocarbon production will limit the gas import bill (and the current account deficit). We also expect further progress on reforms in the second half of the year, after March's presidential elections, which should continue to underpin confidence in the economy and encourage FDI inflows partly related to the financing of the announced infrastructure investments. Starting from 2019, the continuation of the domestic monetary easing cycle, coupled with global monetary tightening, in a context of a still-positive inflation differential between Egypt and its trade partners, may cause some slight depreciating adjustment of the EGP.

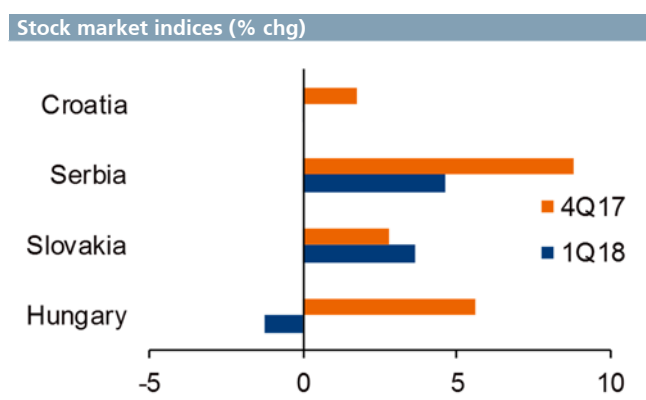
Expected gradual rise in L/T rates in CEE and SEE countries

The upside potential of the rouble is limited. The hryvnia looks to be on a gradual depreciating trajectory

Supporting factors for the EGP in the S/T



Source: Thomson Reuters



Source: Thomson Reuters

Bank aggregates and interest rates

In the **CEE/SEE region**, **lending growth** is expected to remain in line with previous forecasts in 2018. After the acceleration seen in the last few months, in the **CEE countries**, a deceleration is expected in Czech Republic and Slovakia, due to measures adopted by the central banks to slow down mortgage growth. The consolidation of macroeconomic conditions explains higher growth rates of loans stocks in 2018 vs 2017 in most **SEE countries**, particularly in Albania, Croatia and Serbia, while some deceleration is expected in Bosnia and Romania from the peaks in 2017. The recovery in lending remains partly limited by the gradual completion of banks' portfolio restructurings in several countries (particularly in Serbia and Albania), and even if this is expected to gain steam, it is not yet forecast to catch up with nominal GDP growth. Low funding costs are also expected to support loan growth. Forecasts have been revised slightly upwards in Bosnia (+5.6% in 2018, with respect to 7.3% in 2017, is the updated forecast, from the 4.8% projected

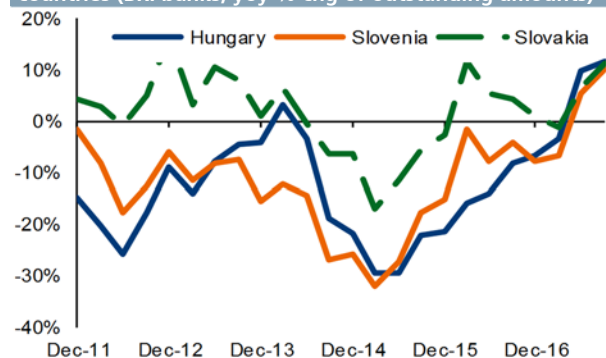
in our December Note, based on the good dynamics of retail lending). In Croatia, the loan recovery is expected to be confirmed, after several years of contraction.

NPL generation slowed in 2017, but the balance sheet repair process requires a multipronged approach focused on reducing NPL ratios. Write-offs and sell-offs operations are expected to continue to play a key role in reducing the NPL ratios in the next few years. In terms of IFRS9 implementation, the first accounting period began on 1 January 2018. According to specific national surveys conducted to evaluate the degree of banks' preparation for the transition to IFRS 9, the impact on banks is expected to be gradual. The details of how the new standard will be phased in are still under discussion.

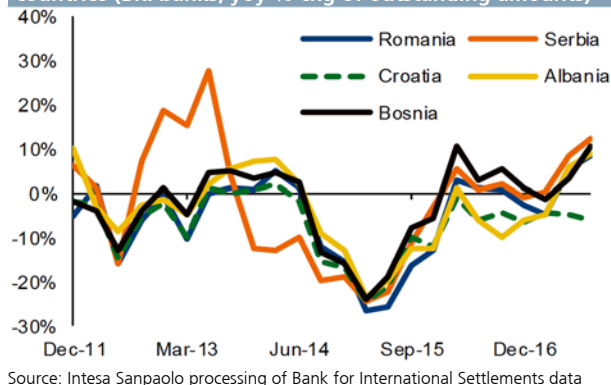
In the **CIS area**, the pace of the loan dynamic forecast has been revised upwards both in Russia (+5.3% in 2018 vs 5% in the December forecasts) and Ukraine (+3.5% in 2018 vs 2.5%). Nevertheless, changes are expected to remain below nominal GDP in both countries (and below inflation in Ukraine). In 2018, interest rate cuts and slight accelerations in growth are expected to support demand for new loans in Russia, where asset quality is expected to stabilise (and to improve in the following years). In Ukraine, the weak operating environment is forecast to constrain both banks' lending capacity and demand for credit. In **Egypt**, lending dynamics are forecast to remain in double digits, but still below nominal GDP growth.

Funding and liquidity are expected to remain supportive in the **CEE/SEE** regions. Forecasts have been revised slightly upward in some countries for 2018, particularly in Hungary, Slovenia, Romania and Ukraine. **Deposits** in all countries are forecast to show positive dynamics, especially in the CEE/SEE area, although at a decelerating pace, after the recent peaks, among the CEE countries overall, partly due to expected higher competition from other saving products which offer higher returns. Deposits in Russia are expected to be in line with nominal GDP. In Egypt, deposits growth is forecast to be below nominal GDP. Loan/deposit ratios are generally expected to decline slightly, but to stay above 100% in Slovakia, Serbia and Bosnia, and in the CIS countries.

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



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



Country-Specific Analysis

Albania

Real Economy

GDP growth is estimated to have increased by roughly 4.0% in 2017, above the 3.5% recorded in the previous year. The uptrend was supported by strong domestic demand (both consumption, supported by declining unemployment rates, and investments, favoured by the reforms towards EU accession) and the strengthening of EU expansion, offsetting the negative effects from the phase-out of large FDI projects. In 2017, the value of exports was LEK273bn (+12.1%). These positive developments are expected to continue in 2018-19, when GDP growth is projected to remain just below 4.0%. In February 2018, the annual rate of consumer prices was 2.1 % vs 1.7% in January 2018. The February increase was mainly based on food and fuel, and housing, water and electricity. The result remained nevertheless below the target of 3% set by the Bank of Albania, reflecting low pressure from rising wages and production costs domestically, as well as the low level of inflation in partner countries, and the appreciation of the exchange rate. The Bank of Albania forecasts average annual inflation at around 2.2% in 2018, returning towards the target within 2019.

Kledi Gjordeni

Financial Markets

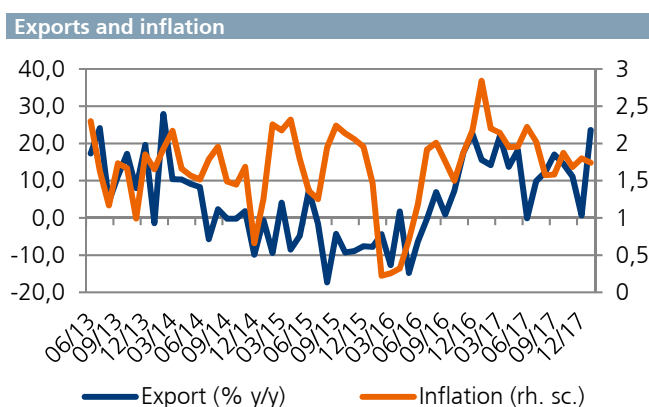
The Bank of Albania believes that the current monetary policy stance remains adequate for achieving the inflation target and that the intensity of monetary stimulus will not diminish before 4Q18. The forecast return in the medium term of inflation towards the target and of the start of a tightening monetary cycle in the Euro Area are expected to create conditions for a reversal in monetary rates in Albania as well. The financial markets appeared overall stable in the second half of last year and the exchange rate remained relatively steady.

Banking Sector

Credit to the private sector recorded annual growth of 0.5% in December 2017, to 36.4% of GDP. Bank lending continues to grow at moderate rates, reflecting the still-weak demand and tight lending standards. On the deposit side, total deposits fell by 1.3 % yoy in December, due to a decrease in household deposits of 2.6% while corporate deposits increased by 5% yoy. The steady growth of lending should be sustained by both demand and supply. In this regard, while CB projections suggest favourable demand conditions in the medium term, on the supply side, the banking sector should be more proactive in terms of its lending policies. The NPLs/total credit ratio is improving gradually. It decreased to 13.2% at the end of 2017 (5pp lower than in 2016).

Forecasts	2017	2018F	2019F
Real GDP yoy	4.0	3.9	3.7
CPI (avg)	2.0	2.2	2.7
Euro exchange rate (avg)	134.2	132.6	132.4
Euro exchange rate (end of period)	133.3	131.5	133.3
Short-term rate (avg)	1.3	1.3	1.6
Short-term rate (end of period)	1.3	1.3	1.7
L/T bond yields (avg)	n.a.	n.a.	n.a.
Bank loans yoy (end of period)	0.5	2.0	3.0
Bank deposits yoy (end of period)	-1.3	2.0	2.5

Source: Intesa Sanpaolo Research Department forecasts



Source: INSTAT

Bosnia and Herzegovina

Real Economy

In line with our anticipation in the January note and with positive 4Q17 real sector developments, we have revised our 2017 GDP growth estimate from 2.6% to 3.0% and our 2018 forecast from 2.9% to 3.1%. In our view, the country is showing steady economic growth reinforced by a favourable external environment and positive domestic demand, regarding which we envisage additional support coming from recently unlocked international financial inflows. However, there is an imminent issue that ahead of the October general elections, the country could face political deadlock derailing needed structural reforms and endangering foreign financing. Overall, we see growth momentum persisting, based on upcoming substantial increases in public infrastructure investments (for example, related to a recently signed memorandum of understanding with the EBRD that outlines 2018-20 investments of over €700m for the development and modernisation of road infrastructure). The commencement of the investments is in progress and should influence construction sector performance in 2018, as indicated by a rise in the number of construction permits issued.

Strong growth in EU countries has a significant influence on the domestic economy, both through the performance of exports and workers' remittances which make up between one-fifth and one-third of households' disposable incomes, as well as foreign direct investment and capital inflows, which are a key source of investment financing.

Banking Sector

Private sector loans continued to increase in December and January, at rates of +7.3% yoy and +7.6% yoy, respectively. Loans to non-financial corporations continued to rise by around 8% yoy, while growth of household loans exceeded 7% yoy in January, owing to a faster rise in consumer loans (+8.5% yoy). The 2017 outcome beat our expectations, and the upward trend, supported by favourable trends of economic activity, continued at the beginning of this year. We were thus prompted to revise upwards our 2018 loan growth forecast, from +4.8% yoy to +5.6% yoy.

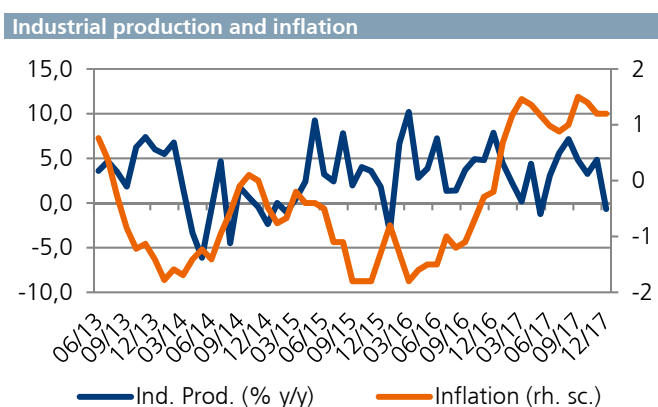
Growth of private sector deposits accelerated to +9.0% yoy in December and 9.3% yoy in January, supported by a sharp rise in deposits by non-financial corporations, which jumped during the observed period by 17.6% yoy and 19.5% yoy. Household deposit growth lost some steam, slowing from 7.1% yoy in November to below 6% in following two months. Although we expect the pace of growth of corporate deposits to moderate this year, it should still remain above our expectations. However, the rate of the rise in household deposits is now expected to be lower than previously projected. As the overall deposit growth rate will therefore remain in line with our December scenario, we left our 2018 forecast unchanged at +6.9% yoy.

Ivana Jovic

Ana Lokin

Forecasts	2017	2018F	2019F
Real GDP yoy	3.0	3.1	3.1
CPI (avg)	1.3	1.6	1.9
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)	7.3	5.6	5.4
Bank deposits yoy (end of period)	9.0	6.9	6.0

Source: Intesa Sanpaolo Research Department forecasts



Source: Labour and employment agency

Croatia

Real Economy

The first estimate registered a slowdown in GDP growth in 4Q17, to 2.0% yoy (vs 3.0% in the first three quarters) and to 0.1% qoq (strong base effect of 3Q). FY17 GDP ended up growing by 2.8% yoy, or slightly below our 3.0% estimate. According to the data, personal consumption continued to grow at a solid +3.4% yoy in 4Q, but investment activity underperformed, growing by only 1.7% yoy (reflecting the Agrokor crisis and sluggish EU funds disbursement). At the same time, exports increased by 3.6% yoy while imports increased by a stronger 6.0%, indicating a negative contribution from net exports to headline growth. On the production side, total gross value added in the economy in 4Q17 increased by only 1.3% yoy, as manufacturing recorded a 0.1% decline in GVA and wholesale/retail trade, though accommodation & food services increased by 3.8% yoy.

Ivana Jovic

The initial data for 2018 indicate an unstable beginning of the year, as industrial production declined by 0.4% yoy (-1.7% mom), reflecting an unseasonably warm January (energy production down by 7.7% yoy) and underperforming pharma and chemical industry (both down by 20%), while exports increased by only 2.8% yoy (against a 29.2% increase in January 2016). However, positive business survey readings, along with a supportive external environment, is counterbalancing the sluggish start to the year, allowing us to postpone a possible downward revision of our 2.8% growth estimate for another quarter as we wait for more tangible signs of a possible slowdown. Risks to our forecast remain unchanged and dominated by the outcome of the Agrokor restructuring.

Financial Markets

Ana Lokin

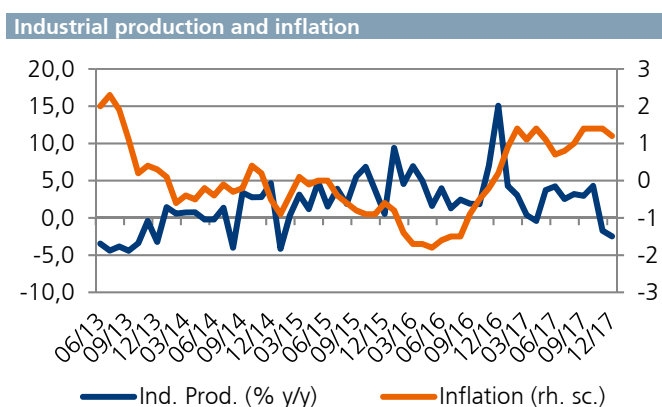
1Q18 saw a rise in appreciation pressures, but the rate stabilised after the central bank intervened in the market. The EUR/HRK rate remained close to 7.4, and as the tourist season is nearing, we expect the rate to fluctuate around that level. Therefore, we have slightly revised our 2018 average EUR/HRK forecast, from HRK 7.49 to 7.45. The spread between yields on 10Y kuna government bonds vs the Bund narrowed in 1Q18, following a credit rating upgrade. In line with that and the expected more moderate rise in the Bund yield this year, we have cut our average long-term kuna bond yield forecast for 2018 by 40bps, to 2.4%.

Banking Sector

The loan and deposit growth forecasts for 2018 were left unchanged compared to December, at +1.1% yoy and +1.5% yoy, respectively. In spite of a revival in private sector demand, a high volume of sold claims, the Agrokor restructuring, and the recent tightening of retail credit standards that has affected the rise in housing loans, will limit credit growth potential. The rise in deposits, on the other hand, remains under pressure from low and declining savings interest rates and the flow of households' savings from banks into higher-yield investments.

Forecasts	2017	2018F	2019F
Real GDP yoy	2.8	2.8	2.6
CPI (avg)	1.1	1.3	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)	0.6	0.5	0.7
Short-term rate (end of period)	0.6	0.5	0.8
L/T bond yields (avg)	2.8	2.4	3.1
Bank loans yoy (end of period)	-0.1	1.1	1.6
Bank deposits yoy (end of period)	2.4	1.5	1.7

Source: Intesa Sanpaolo Research Department forecasts



Source: EC

Czech Republic

Real Economy

After the stellar performance in 2017, growth looks likely to moderate somewhat in 2018, but still remain solid, at well above 3.0%. Growth will continue to be driven by domestic demand, especially household consumption, which is supported by growth of employment and fast-rising wage income amid an EU-low unemployment rate of 2.4%. A positive contribution to GDP growth also will continue to come from investment, driven by the accelerated drawdown of EU funds and faster growth of private investment. The latter stems from tight production capacity, including the need to replace shortages of labour by automation. Moderation from particularly fast growth in 2017 will mainly come from higher imports required to support the rise in investment and a stronger koruna somewhat curbing export growth. Fiscally, the country should remain in very good shape, maintaining a comfortable budget surplus of 1.6% of GDP and with the debt/GDP ratio declining towards 30%.

Zdenko Štefanides

Price-wise, we continue see consumer inflation above the 2.0% CNB target for the foreseeable future. Unlike in 2017, though, we do not see inflation picking up, as a strong koruna will keep a lid on tradeable goods prices. Property prices should also continue to rise, as demand for housing remains brisk and is outstripping supply, particularly in the capital, Prague. Similarl to consumer prices, though, we do not see an acceleration in property price inflation, as demand for mortgages has probably already peaked.

Financial Markets

Given a booming economy and rising inflation, the Czech National Bank has raised interest rates three times since August 2017 and appears to remain inclined towards further rate increases. We continue to look for the repo rate to be lifted in 2018 by a cumulative 75bps. Following the hike in February, the next will probably be delivered in the third quarter, with the final one taking place towards the end of the year. Nonetheless, if the koruna were to appreciate notably faster than assumed by the CNB, the third rate hike we pencil in for 2018 could be delayed until 2019.

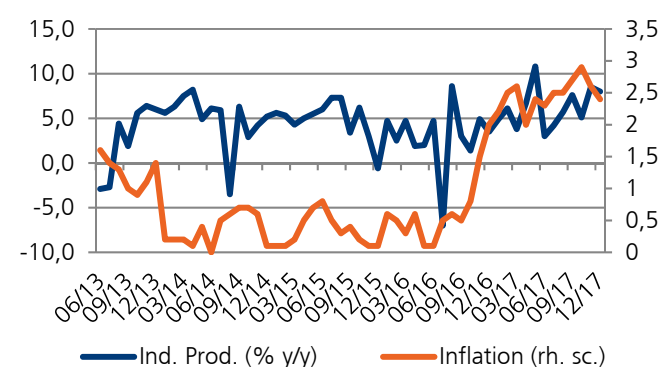
Banking Sector

The Czech banking sector likely will continue to grow strongly, along with the booming economy. Growth of loan volumes (+6.1% yoy as at January), however, should decelerate, due to gradually increasing interest rates and tighter regulation in the mortgage market, which accounts for 60% of all bank loans in Czech Republic. Regarding deposits, volumes (+6.6% yoy) should continue to benefit from a strong saving culture and rising household incomes.

Forecasts	2017	2018F	2019F
Real GDP yoy	4.3	3.5	3.1
CPI (avg)	2.5	2.2	2.0
Euro exchange rate (avg)	26.3	25.1	24.8
Euro exchange rate (end of period)	25.7	24.9	24.8
Short-term rate (avg)	0.4	1.0	1.5
Short-term rate (end of period)	0.8	1.3	1.6
L/T bond yields (avg)	1.0	1.8	2.3
Bank loans yoy (end of period)	6.5	6.2	5.2
Bank deposits yoy (end of period)	7.6	7.0	5.5

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: EC

Egypt

Real Economy

Real GDP growth continued to improve for the fifth consecutive quarter, to a record 5.3% in 4Q17 compared to 3.8% in the same quarter a year earlier and 5.2% in 3Q17. The average real GDP growth for 2017 was 5%, the highest level since 2010. It's expected to improve further in 2018 to around 5.3%, supported by the boom in the oil & gas sector after the recent discoveries, the expected improvement in the tourism sector (after the restoration of security and the agreement with Russia to resume flights between Moscow and Cairo), and the continuity of growth in the construction sector, boosted by the country's mega projects, such as the New Administrative Capital. The pick-up of economic growth coincided with the ongoing decrease in the unemployment rate, which was 11.3% in 4Q17, the lowest level since December 2010, compared to 12.4% in the same period a year earlier. In addition, net international reserves (NIR) rose 11.3%, to USD42.5bn, at the end of February 2018, from USD38.2bn at the end of January, the highest level in decades, with Egypt selling USD4bn in Eurobonds last month. Egypt's annual headline inflation rate continued to decline for the sixth consecutive month, reaching 14.4% in February 2018 compared to 17.1% in January 2018, mainly due to the base year effect. The Central Bank of Egypt (CBE) targets the inflation rate reaching 13% ($\pm 3\%$) by the end of 2018. The Fitch Ratings Agency stated that Egypt's inflation is expected to fall further in 2018, but remain in double digits, hovering around 13%, due to the forecast rise in energy prices after the cutting of subsidies again.

Samer Halim

Financial Markets

In its meeting held on the 15 February 2018, the CBE's Monetary Policy Committee cut the overnight deposit and lending rates by 100bps each, to 17.75% and 18.75%, respectively. The discount rate was also cut by 100bps, to 18.25%. We expect the CBE to cut rates by another 200-300bps in 2018. The exchange rate for the EGP is forecasted to appreciate slightly against the USD in 2018, due to two opposing forces: the positive effects of the last sharp EGP depreciation on the current account and foreign investments and the negative impacts of the inflation differential with trade partners, which can erode the competitive advantage created by the real effective exchange rate depreciation that followed the fall of the nominal exchange rate in the past.

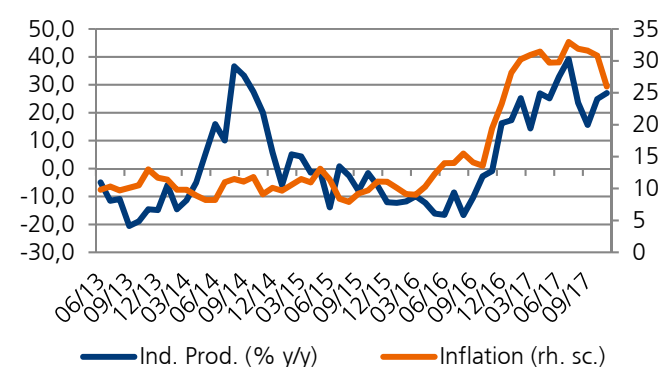
Banking Sector

Total bank loans to the private sector reached EGP911bn in October 2017, up 33.4% yoy, while private sector deposits reached EGP 2.6tn, up 46.9% yoy, impacted by the value increase of FC loans and deposits after the currency devaluation (FC loans and deposits rose by 66.9% and 103.6%, respectively). Total loans to the corporate sector accounted for 73% of total private loans, while household deposits accounted for 81% of total private deposits. Declining interest rates are expected to support loan growth rate in the next few years, while deposits are expected to grow at a slower pace.

Forecasts	2017	2018F	2019F
Real GDP yoy	5.0	5.3	5.2
CPI (avg)	29.6	14.0	11.8
USD exchange rate (avg)	17.8	17.6	17.7
USD exchange rate (end of period)	17.8	17.5	18.0
Euro exchange rate (avg)	20.1	21.6	22.0
Euro exchange rate (end of period)	21.1	21.7	22.5
Short-term rate (avg)	19.3	16.5	14.7
Short-term rate (end of period)	19.0	15.5	14.0
L/T bond yields (avg)	n.a.	n.a.	n.a.
Bank loans yoy (end of period)	10.7	13.0	11.0
Bank deposits yoy (end of period)	22.8	16.0	14.0

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Ministry of Planning, CAPMAS

Hungary

Real Economy

GDP growth revived to a 4.4% yoy in 4Q17 (from 3.9% yoy in Q3), significantly above the annual average pace of 2.0% in 2016 (FY). The Q4 figure was above market consensus, but fully matched the flash data. Market-based services lent again the strongest support to Q4 growth. We expect GDP growth to slow down slightly in 2018 vs 2017, close to 3.5%. The utilisation of EU funds should remain a strong driver of growth, but fiscal and monetary policy should have a similar or lower impact without additional stimulus compared to last year.

Headline inflation posted a lower-than-expected figure at the beginning of the year, below 2% in February, following an annual average of 2.4% in 2017. The downward trend is unlikely to continue despite the fact that the impact of rising wages has been limited on the headline figure so far, and even though the rise of core inflation came stopped slightly below 3%. In 2018 CPI is projected to be close to 2.4%, ie, the average of last year, with some moderate potential for the rate moving higher. This outlook is supported by the ongoing lack of imported inflation and domestic demand being more influential on the housing market rather than on the market for durable goods or services. External and internal balances look set to remain in good shape, though the fiscal balance improvement of the preceding years appears to have ceased this year.

Financial Markets

The NBH left the 3M policy rate on hold at 0.90% in January and February (as in 2017) while the focus remained on the O/N depo rate (also unchanged at -0.15%) together with the administrative decrease of the 3M depo stock (ending at HUF 75bn). Further rate cuts are unlikely in 2018. Monetary easing should continue, though, as the NBH launched a new swap programme and a mortgage bond purchase of significant scale in January 2018. These moves reflect the central bank's commitment to driving longer yields down, in addition to supporting ongoing low BUBOR rates well below the 0.90% base rate level, essentially close to 0%. Recent monetary actions, lower CPI data and global factors pushed the forint to slightly weaker levels in January and February vs the EUR. In March, however, some correction has occurred. The EUR1/HUF305-315 band remained in place, as it is likely to throughout 2018, as domestic balance indicators (especially trade) and EU funds remain a source of support.

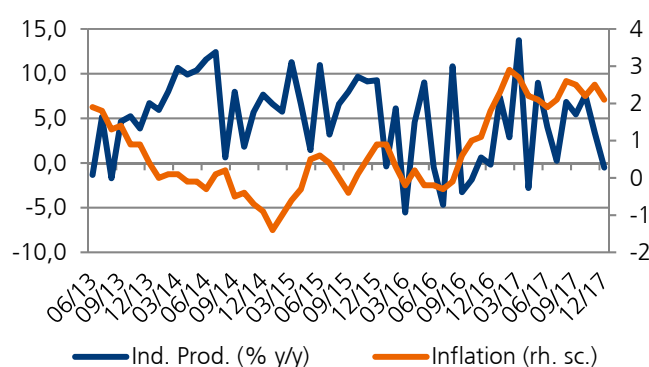
Banking Sector

The ongoing strengthening of domestic consumer confidence and demand continued to support the loan market at the beginning of 2018. Following several years of contraction, bank loan stock had already shown strong growth rate in 2017 (+6% yoy). Growth looks set to continue through this year, though at a somewhat milder pace compared to 2017. Some loan segments (including mortgage and personal loans) are showing especially dynamic growth. Asset quality continues to improve, with NPLs well below 7% at the end of last year. The sector has continued to experience high liquidity and a strong capital position.

Forecasts	2017	2018F	2019F
Real GDP yoy	4.0	3.5	2.8
CPI (avg)	2.4	2.4	2.7
Euro exchange rate (avg)	309.1	312.4	312.3
Euro exchange rate (end of period)	313.3	312.0	312.5
Short-term rate (avg)	0.1	0.0	0.4
Short-term rate (end of period)	0.0	0.0	0.6
L/T bond yields (avg)	3.0	2.5	3.1
Bank loans yoy (end of period)	6.0	3.2	3.8
Bank deposits yoy (end of period)	10.8	6.0	5.5

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: CSO

Poland

Real Economy

GDP growth jumped to 5.1% yoy in 4Q17, the highest level in 2017, following a strong 4.9% performance in the third quarter of the year. This implied 4.5% annual average growth in 2017. Economic growth was supported by relatively strong private consumption. Industrial performance also improved, while investments struggled to rise despite the low 2016 base. Judicial reforms and conflicts with the EU have so far not shown an adverse impact on overall GDP growth and the outlook. The rise of sentiment indicators also continued at a strong pace in 4Q17 and at the beginning of 2018. Nevertheless, GDP growth is forecast to be slightly lower in 2018, at around 3.9%, in line with the CEE growth pattern. External balances showed some deterioration in terms of trade, while the current account balance continued to show a moderate deficit. Fiscal policy remained in check, as shown by the annual deficit

Sandor Jobbagy

Headline CPI dropped to 1.4% in February, with the core figure below 1%. We expect this to be a temporary shift: inflation should return to above 2%, with the annual average close to 2.2% in 2018. Domestic demand and rising wages have had a limited impact on inflation so far, but these should support the revival of CPI already in Q2. Industrial production showed some slowdown towards year-end 2017 (3.5% yoy in December), but gained fresh momentum at the beginning of 2018.

Financial Markets

The NBP left its policy rate unchanged (1.50%) at the beginning of 2018, as it had in 4Q17. The most recent monetary policy decisions continued to be backed by low domestic inflation, in addition to favourable external conditions, in particular the ECB's loose policy. At the same time, the central bank is concerned about food price growth (which is markedly higher than in the preceding quarters of 2017) and accelerating wage growth. Policymakers' comments suggest that the bank may decide to start to tighten in 2018. Partly in connection with monetary expectations, the zloty started to appreciate already in 4Q17 which continued in January-February as well, though this process stopped recently, at above 4.20 vs EUR1. However, we expect the EUR/PLN rate to move mostly around the 4.10-4.20 range in 2018.

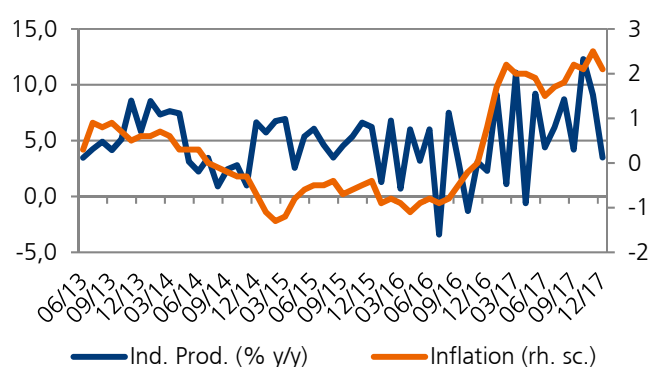
Banking Sector

Loan stocks to the private sector experienced persistent rises throughout 2017, and the overall annual growth rate of the loan stock was above 3%. This year's dynamics is forecast to be slightly stronger, despite the lack of potential for even stronger GDP growth, but fueled by consumption. Deposit volumes have continued to increase (+4.1% yoy). Deposits are likely to maintain their momentum throughout 2018, despite relatively low (though not decreasing) interest rates. The quality of the banking sector's entire loan portfolio remained solid, with low average NPL ratios.

Forecasts	2017	2018F	2019F
Real GDP yoy	4.5	3.9	3.3
CPI (avg)	2.0	2.2	2.4
Euro exchange rate (avg)	4.3	4.2	4.2
Euro exchange rate (end of period)	4.2	4.1	4.2
Short-term rate (avg)	1.5	1.7	1.9
Short-term rate (end of period)	1.7	1.7	2.1
L/T bond yields (avg)	3.4	3.5	4.0
Bank loans yoy (end of period)	3.2	4.1	4.5
Bank deposits yoy (end of period)	4.1	4.9	5.0

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: NBR

Romania

Real Economy

Full-year growth in 2017 was a stellar 7.0%, driven mainly by domestic consumption and capital formation. The inflation rate at the beginning of 2018 is well above the central bank's target (multi-year stationary target set at 2.50%), with the February headline inflation print coming in at 4.72% yoy (up from 4.32% yoy in January). Industry is showing signs of fatigue. January data showed an 8.5% rise yoy (a deceleration from 9% yoy recorded in December 2017). Hence, the premises for 2018 indicate growth will decelerate and we expect a growth rate of 4.5% as, in addition, the deficit targets are likely to limit fiscal stimulus of the size seen in 2017 and domestic inflation should keep interest rates above those seen last year.

Inflation projections for 2018 that indicate statistical base effects and tight fiscal space left (to be read as possible administered price increases) will keep yearly inflation on an upward path until the 2H18. A probable inflation print within the central bank's target (± 100 pp around 2.5%) looks likely only in the last quarter of 2018.

Financial Markets

A rising trade deficit in 2017, and stubbornly high inflation prints of late, in a broader environment in which core markets' benchmark interest rates are rising (specifically, in the world's largest economy, the US) eroded the Romanian's leu nominal exchange rate vs the EUR to an average of 4.57 in 2017 (up from 4.49 in 2016). Current premises point to continued weakness going forward, as productivity gains are lagging and the economic policy mix is unlikely to go through a game changing transformation, putting depreciation pressure on the RON.

Domestic inflation dynamics and signals of changes in monetary policy in developed markets influenced the central bank to start the policy tightening cycle late in 2017. The policy rate was increased to 2.25% (currently) from 1.75% at the beginning of 2017, and the interest rate corridor was narrowed to 100bps. Given current inflation premises and, to a somewhat lesser extent, signals from developed markets' interest rate behaviour, the tightening cycle is likely to continue over the course of 2018 and into 2019.

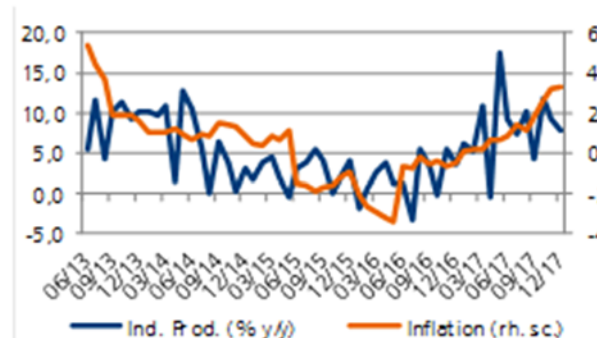
Banking Sector

The private sector lending recovery continued in 2017, recording a growth rate of 5.6% yoy, with the leu-denominated component reaching 62.8% of the total credit stock (up from 57.2% in 2016). With fiscal stimulus fading in 2018, household credit and deposit growth could fall behind that of corporates which use bank financing only to a small extent (less than 10% of the total corporate assets are financed through bank loans).

Forecasts	2017	2018F	2019F
Real GDP yoy	7.0	4.5	3.6
CPI (avg)	1.3	3.9	3.4
Euro exchange rate (avg)	4.6	4.6	4.6
Euro exchange rate (end of period)	4.6	4.6	4.6
Short-term rate (avg)	1.2	2.2	2.4
Short-term rate (end of period)	2.1	2.3	2.5
L/T bond yields (avg)	4.0	4.8	5.5
Bank loans yoy (end of period)	5.6	4.4	4.0
Bank deposits yoy (end of period)	10.4	7.0	6.8

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: NBR

Russia

Real Economy

According to the first estimation, GDP grew to 1.5% in 2017, slightly below the official forecast and the market consensus. The manufacturing industry, construction and wholesale trade demonstrated weak performances in the year. In January 2018, industrial production rebounded (+2.9% yoy), after its decline in 4Q17 (-1.7%), and consumer demand continued to expand amid rising wages and increased retail lending. The expansion of aggregate demand is expected to continue to support production activity without exerting excessive inflationary pressures. In general, the positive mood of companies is expected to stimulate investment activity. The CBR forecast for GDP growth in 2018 was set in a range of 1.5-1.8%.

Anna Mokina

Financial Markets

In February, inflation remained at 2.2%, providing enough room for a further decrease of the CBR's key rate. The CBR cut its main policy rate by 25 bps (to 7.25%) at its March's meeting¹. At the same time the CBR, in order to spur economic growth, announced an acceleration of the monetary easing cycle now seen to be completed by end 2018, with the key rate set around 6.5%. Crude oil prices were volatile in February and finished the month decreasing by almost 7%. The average price of the Ural dropped from USD68.5 to USD63.3/bbl. This decline implies that, according to the budget rule, the Ministry of Finance will cut FX purchases in March by more than RUB100bn compared with February (RUB298.1bn). This could be positive for the RUB FX rate.

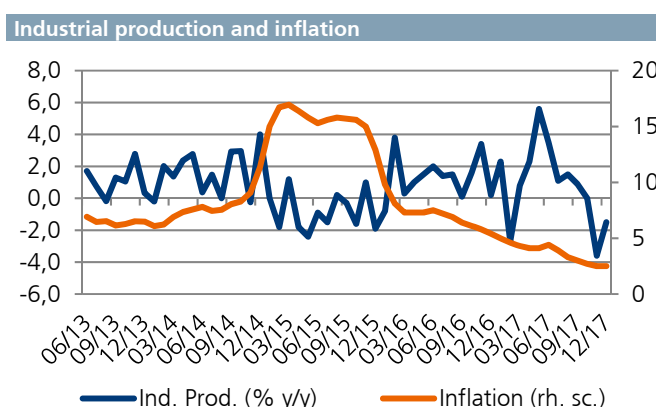
Banking Sector

The development of banking business continues to be limited by the lack of good borrowers and the ability of banks' capital to cover growing risks. The weakest growth rates are associated with the large businesses (1.4% in 2017), while loans to SMEs remains more dynamic (around +6% even though the SME registry has been updated, with over 600 companies classified as large instead of as SME). Better funding conditions due to issuance of bonds (lower interest rates, fewer covenants, longer terms) put pressure on lending growth rates for first-class borrowers.

In 2018, the SME portfolio is expected to grow by around 13%, due to state support programmes. The drivers of the credit market are expected to be retail loans due to positive dynamics for household real disposable incomes. Growth of retail lending will be constrained by an increase in the provision reserves under IFRS 9, as well as the regulator's initiative to limit the household debt burden. The largest increase is expected to be for the mortgage loan portfolio, due to the stimulative measures adopted by the government in the sector (subsidising the interest rate for households with three and more children). Due to decreases in deposits interest rates, the growth of deposits is expected to be restrained in the area of 5-7% in the next few years.

Forecasts	2017	2018F	2019F
Real GDP yoy	1.5	1.8	2.0
CPI (avg)	3.7	3.2	4.0
USD exchange rate (avg)	58.3	57.3	57.8
USD exchange rate (end of period)	58.6	58.0	57.5
Euro exchange rate (avg)	65.9	70.4	71.9
Euro exchange rate (end of period)	69.3	71.8	71.8
Short-term rate (avg)	9.4	7.0	6.5
Short-term rate (end of period)	8.1	6.5	6.5
L/T bond yields (avg)	7.8	7.2	7.0
Bank loans yoy (end of period)	5.2	5.3	5.5
Bank deposits yoy (end of period)	8.1	5.1	5.2

Source: Intesa Sanpaolo Research Department forecasts



Source: State Statistics Federal Service

¹ Updated to 23rd March 2018

Serbia

Real Economy

Economic growth is expected to speed up to 3% in 2018 and 2019, driven by domestic demand, ie, investment and the further recovery of household consumption. Accelerating investments will be propped up by high inflows of FDI, implementation of infrastructure projects, more favourable demand factors, stronger lending activity, and further improvement of the business environment. Better labour market conditions, a higher minimum wage, and a rise in public sector wages and pensions should support private consumption. Net exports will have a neutral contribution, as growth in exports will be offset by pressures on imports coming from the stronger performance in all sectors.

A slowdown in inflation to around the lower bound of the target band (1.5%), on account of the high base for prices of petroleum products and other products that recorded a one-off hike in early 2017, is expected in the first half of the year. A pickup in the inflation in 2H18 and in 2019 should be supported by the expected acceleration of domestic demand, cost-side pressures related to better labour market and wage performance, and the fading base. Average inflation is projected at 2.2% in 2018 and 2.9% in 2019.

Financial Markets

The key policy rate was lowered to 3.25% in March 2018, its lowest level during the inflation targeting regime. The central bank used its room for manoeuvre to reduce the benchmark rate, as the inflation figure reached the lower end of the NBS target interval, in an attempt to contain rising pressure on the dinar. It is expected that the central bank will keep its key repo rate unchanged at 3.25% throughout 2018, potentially reversing its monetary policy trend later in 2019, after possible ECB rate tightening.

The dinar has been under appreciation pressure since the beginning of the year, hovering around the 118 mark vs. the Euro. It is expected to remain relatively stable throughout of the year, with average values of 118.4 in 2018 and 118.7 in 2019 on the back of strong macro and fiscal fundamentals, inclusion in the JP Morgan EM index, non-residents' appetite for Serbian assets, and increased bank local currency lending. Stronger volatility of the FX rate will be steered by occasional NBS interventions.

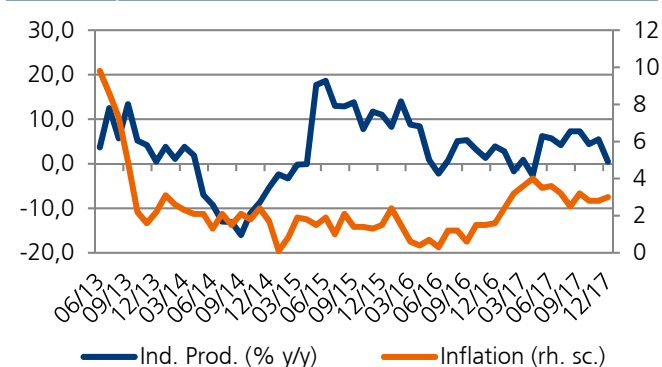
Banking Sector

Lending activity is anticipated to surpass overall economic growth and it will be fully covered by dynamic growth of deposits. Loan volumes at the banking sector level are expected to grow by 4% in 2018 and 4.3% in 2019, supported by strong declines in non-performing loans, acceleration of economic activity, 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.

Forecasts	2017	2018F	2019F
Real GDP yoy	1.9	3.0	3.0
CPI (avg)	3.2	2.2	2.9
Short-term rate (avg)	3.9	3.3	3.5
Short-term rate (end of period)	3.5	3.2	3.8
L/T bond yields (avg)	0.0	0.0	0.0
Bank loans yoy (end of period)	2.1	4.0	4.3
Bank deposits yoy (end of period)	3.1	4.0	5.0

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistical Office, National Bank of Serbia

Slovakia

Real Economy

Amid a political crisis sparked by the murder of a journalist, who was investigating a politically sensitive case, Slovak Prime Minister Robert Fico resigned. A new government will be formed by his deputy, Peter Pellegrini. This has opened the way for the current three-party coalition to remain in power and avoid early elections. Such an outcome of the political crisis, however, does not seem to be accepted by a large number of Slovaks. They are frustrated about any government controlled by Mr Fico's Smer party, which is seen linked to corruption scandals revealed by the murdered journalist.

Andrej Arady

The impact of the government crisis on the economy should be very limited, however. The development of the Slovak economy should remain strong in the next two years. The business cycle in neighbouring countries probably peaked in 2017, but growth in Slovakia should continue to accelerate. After growing above 3% in 2017, economy is expected to accelerate to almost 4.0% growth in 2018. Common growth drivers in the CEE-4 region are solid household consumption, EU-funded investments and external demand. Country-specific factors, which continue to drive growth, should include extraordinary investments in the automotive sector, boosting investment in 2018 and production from 2019 onwards. The start of another projected extraordinary investment, the Bratislava ring road, worth EUR1bn, remains uncertain. Should it be initiated nonetheless, it actually poses a positive risk to our baseline forecast.

Financial Markets

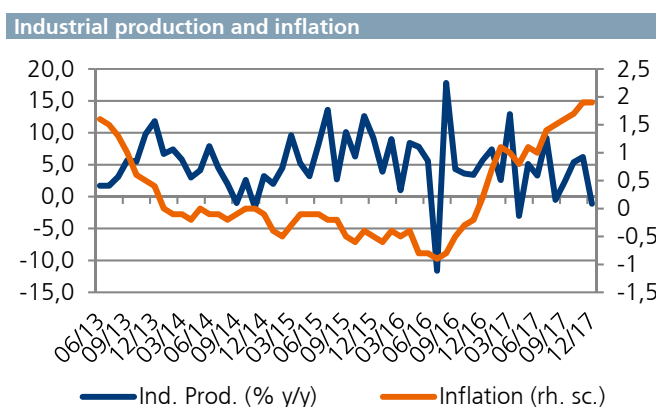
Slovak bonds showed little reaction to the crisis. The estimated yield on the 10Y maturity declined 10bps over the past month, on par with German bunds.

Banking Sector

In the banking sector, both loans and deposits continued on previous trends. Growth of deposits gradually accelerated, albeit solely thanks to deposits from corporates. The booming economy should support solid growth in the coming period, and rising household incomes should support the retail sector. The underlying trend in loans, in contrast, continued to decelerate from the high growth pace seen in 2017. Household indebtedness has already overtaken peer countries and reached the edge of healthy limits. Aiming to slow the market down, the Central Bank is thus considering the introduction of further restrictive measures on the retail loan market, including stricter loan/value rules and a debt/income ceiling. Set at a multiple of 8x yearly income, such a ceiling would remove nearly 20% of recent new production of mortgages and consumer loans. Growth of loan volumes thus should continue to decelerate further, although given the backdrop of a booming economy, probably not dramatically. We would note that the headline growth of loan volumes picked up further in January. However, the data were biased by a transfer of c.EUR330m of non-banking loans to banking loans statistics after the merger of local non-banking financial institution (VUB's subsidiary) into VUB bank.

Forecasts	2017	2018F	2019F
Real GDP yoy	3.4	3.8	3.7
CPI (avg)	1.3	2.4	2.3
Short-term rate (avg)	-0.3	-0.3	0.0
Short-term rate (end of period)	-0.3	-0.3	0.1
L/T bond yields (avg)	0.9	1.0	1.8
Bank loans yoy (end of period)	9.6	8.0	7.0
Bank deposits yoy (end of period)	5.2	5.2	5.4

Source: Intesa Sanpaolo Research Department forecasts



Source: Statistical Office of Slovak Republic

Slovenia

Real Economy

The Slovenian economy ended 2017 on a strong note, growing by 6.0% yoy (2.0% qoq) in the last quarter, resulting in FY17 growth of 5.0%. Over the last quarter of 2017, a significant increase was observed in all components of domestic consumption, as personal consumption grew by 3.3% yoy, government consumption by 5.6% yoy, and gross fixed capital formation by 11.9% yoy. A positive impact on gross fixed capital formation derived from construction investment (+18.2% yoy) and gross fixed capital formation in machinery and equipment (+8.2% yoy), as the economy operated at high levels of capacity utilisation. A favourable external environment supported a 12.3% yoy increase in exports, which surpassed the 11.1% growth in imports, adding positively to headline growth.

Ivana Jovic

As initial 2018 data suggest (retail trade and exports in January up by 1.0% and 13.6% yoy, respectively), positive trends are additionally supported by historically high business survey readings. Thus, the economy looks set to continue its strong performance in 2018 and we have revised estimated 2018 GDP growth from 3.5% to 4.0%. Economic momentum looks sustainable, supported by strong above-trend growth in the EU, accelerated domestic investments, and fiscal easing in an electoral year. Inflation, measured by HICP, remains modest, at below 2%.

Financial Markets

Ana Lokin

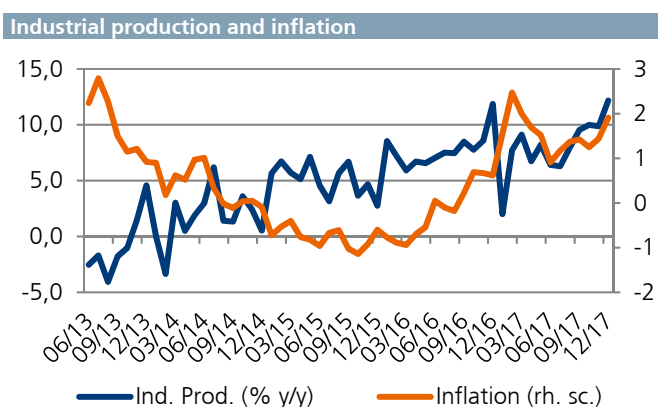
We expect that the average 3M Euribor will remain in negative territory in 2018, at -0.3%, consistent with the ECB's key rates. The expectation is that the average Slovenian 10Y government bond yield will follow the growth of bund yields in 2018. It was left unchanged compared to the December figure, at 1.2%.

Banking Sector

Loan growth slowed notably, to 3.2% yoy, in December and January, mostly as a result of *base effects* impacting corporate loans. The loans to non-financial corporations decelerated from +4.6% yoy in November to +0.1% yoy in December and +0.2% yoy in January. Loans to households rose by 6.3% yoy both in December and in January, as the increase in consumer loans remained strong, at over 12% yoy, whereas the pace of growth for housing and other loans moderated somewhat. In spite of a strengthening of economic growth, we are leaving our 2018 loan growth forecast at +3.5% yoy, as corporate financing appears to rely more heavily on sources other than bank loans, while tightening of retail credit standards is expected to curb household lending. Deposits continued the steep rise (+7.0 yoy in December, +7.1% yoy in January), with sharp rise in corporate deposits and solid growth of deposits of households. In line with revised GDP forecast, particularly favorable labor market prospects, we have upgraded 2018 deposit growth forecast to +5.8% yoy.

Forecasts	2017	2018F	2019F
Real GDP yoy	5.0	4.0	3.3
CPI (avg)	1.6	1.6	1.9
Short-term rate (avg)	-0.3	-0.3	0.0
Short-term rate (end of period)	-0.3	-0.3	0.1
L/T bond yields (avg)	1.0	1.2	2.0
Bank loans yoy (end of period)	3.2	3.5	3.4
Bank deposits yoy (end of period)	7.0	5.8	5.2

Source: Intesa Sanpaolo Research Department forecasts



Source: Statistical Office of the Republic of Slovenia

Ukraine

Real Economy

According to preliminary figures, real GDP rose by 2.5% in 2017, little changed compared to the 2.4% increase posted in 2016. However, the annual pace of growth slowed from 2.8% in 1Q17 to 2.2% in 4Q17. Last year, both consumption (+7.7%) and investment (+18.8%) growth was particularly strong, while net trade negatively affected GDP, as imports jumped by 8.7%. Considering real value-added data, the fall in agricultural output (-2.5%), mining (-6.0%, mainly coke) and electricity generation (-6.2%) weighed on GDP. The last two sectors were penalised by the blockade of trade with the Donbass region. On the other hand, a strong boost to GDP came from construction (+27.1%) and a few services, above all real estate (+7.8%) and sales (+5%). Also in 2018, domestic demand is expected to sustain growth. Ahead of the general elections scheduled in 2019, the Ukraine government is likely to follow an expansionary policy and to postpone those reforms that might have a short-term contractionary effect on the economy.

Giancarlo Frigoli

Financial Markets

The CB raised its main policy rate by 100bps in March, to 17%, to counteract inflationary pressures. Further help on this issue might come from the relative strength of the currency. The UAH/USD exchange rate, after rising to 29 at the beginning of January 2018 due to seasonal demand of foreign currency, has re-appreciated in recent weeks, falling below 26. The negative investor sentiment towards Ukraine (following the *de facto* freeze of the IMF's financial support as Ukraine has made little progress on reforms), together with the expected tightening of US monetary policy might cause renewed currency depreciation in the months ahead.

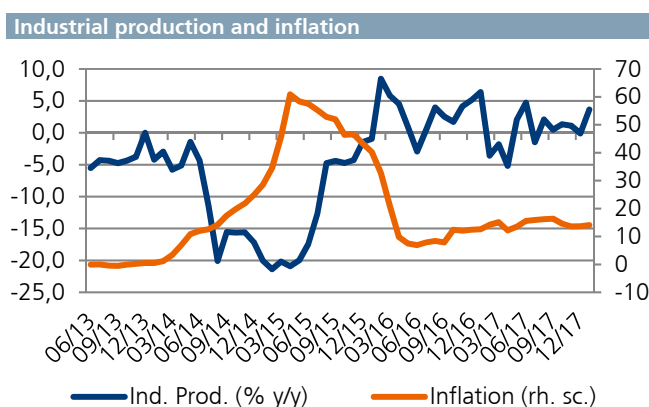
Banking Sector

Loans to the private sector returned to positive territory in December, increasing by 0.9% yoy in nominal terms, but decreasing slightly net of the exchange rate. Loans denominated in foreign currency shrank again (-13% yoy) on the back of write-offs and restructured loans. This was offset by a rise in hryvnia lending (+14.3% yoy). Corporate loans continued to decrease, but less severely (-0.4% in 2017 from -4.1% yoy as of August). Therefore, the share of private sector loans remained over 80%. Household lending grew at a strong pace (+6.6% yoy in 2017), driven by hryvnia loans (+39%); loans denominated in foreign currency decreased by 22%. The NPL rate declined by 3.2pp, to 54.5% in 2H17. The percentage of these loans, excluding state- and Russian-owned banks, was 28.4%. Hryvnia household deposits grew by 20.4% in 2017. In 2017, hryvnia deposits grew by 16.2%, mostly in the household sector (+20.4% vs +10.8% in the corporate sector), while deposits from the private sector in foreign currency increased by 6.9% (specifically by +22% from the corporate sector). Operating profit before provisioning increased by 8% in 2017, to UAH40.7bn, but the banking sector booked losses of UAH24.4bn, due to significant provisioning.

Davidia Zucchelli

Forecasts	2017	2018F	2019F
Real GDP yoy	2.5	3.2	3.2
CPI (avg)	14.5	11.8	9.2
USD exchange rate (avg)	26.6	27.1	27.6
Euro exchange rate (avg)	30.0	33.3	34.4
Short-term rate (avg)	16.8	16.1	13.7
L/T bond yields (avg)	0.0	0.0	0.0
Bank lending	0.9	3.5	3.7
Bank deposits	12.1	6.0	5.4

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		
	4Q17	3Q17	2016	Last	Mth	4Q17	Last	Mth	4Q17	Last	Mth	4Q17	2016	4Q17	3Q17	2016	4Q17	3Q17
CEE																		
Czech Rep.	5.1	5.1	2.6	8.0	Dec	7.2	1.1	Dec	6.0	2.2	Jan	2.6	0.7	n.a.	n.a.	n.a.	n.a.	n.a.
Hungary	4.4	3.9	2.2	-0.5	Dec	3.5	2.5	Dec	7.0	2.1	Jan	2.3	0.4	n.a.	-1235	-5938	n.a.	806
Poland	5.1	4.9	2.8	8.6	Jan	8.1	-6.2	Dec	4.3	1.9	Jan	2.2	-0.6					
Slovakia	3.5	3.4	3.3	-1.1	Dec	3.5	5.3	Dec	8.0	2.4	Jan	1.8	-0.5	n.s.	n.s.	n.s.	n.a.	n.a.
Slovenia	6.0	4.5	3.1	12.2	Dec	10.7	9.2	Dec	15.4	1.4	Feb	1.5	-0.2	n.s.	n.s.	n.s.	570	873
SEE																		
Albania	n.a.	3.6	3.5	n.a.	n.a.	n.a.	0.6	Dec	8.7	2.1	Feb	1.8	1.3	n.a.	38	47	n.a.	-133
Bosnia H.	n.a.	2.9	3.1	-0.7	Dec	2.5	25.4	Jan	15.7	1.2	Dec	1.3	-1.1	182	376	473	n.a.	-129
Croatia	2.0	3.3	3.2	-0.4	Jan	0.0	13.6	Nov		1.1	Jan	1.3	-1.1	n.a.	926	-193	n.a.	3868
Romania	7.0	8.6	4.8	7.9	Dec	9.6	4.2	Dec	8.8	4.3	Jan	3.1	-1.5	n.a.	n.a.	-350	-6464	-5017
Serbia	2.5	2.2	2.8	10.6	Jan	3.5	0.6	Dec	7.9	1.9	Jan	2.9	1.1	-744	787	-52	-678	-384
CIS MENA																		
Russia	1.0	1.8	-0.2	2.9	Jan	-1.7	21.1	Dec	24.5	2.2	Feb	2.6	7.1	5157	7677	-1356		-2509
Ukraine	2.2	2.4	2.4	3.6	Jan	0.8	19.0	Dec	20.2	14.0	Feb	14.0	14.9	747	1037	-466	-1039	-1685
Egypt	5.3	5.2	3.8	19.5	Dec	24.6	23.0	Dec	21.6	14.4	Feb	26.2	13.7	485	5230	7820		-1639
m.i. E. A.	2.7	2.5	1.8	2.7	Jan	4.2	1.0	Dec	6.2	1.2	Feb	1.4	0.2					

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		
	13/03	chg bp 3M	13/03	chg bp 3M	13/03	3M chg%	1Y chg%	3M chg%	1Y chg%	13/03	13/12	Moody's		
CEE														
	Vs Euro													
Czech Rep.	0.9	0.2	1.8	0.4	25.5	-0.6	-5.7	6.1	15.0	31.2	36.2	A1		
Hungary	0.0	0.0	2.6	0.6	311.7	-0.9	-0.2	1.1	18.3	76.6	85.8	Baa3		
Poland	1.6	-0.1	3.3	0.1	4.2	-0.1	-3.1	-1.3	4.1	42.7	60.6	A2		
Slovakia	-0.3	0.0	0.8	0.2	Euro	Euro	Euro	3.1	7.4	36.4	39.4	A2		
Slovenia	-0.3	0.0	1.2	0.6	Euro	Euro	Euro	5.1	3.9	49.7	60.8	Baa1		
SEE														
Albania	1.2	0.0	n.a.	n.a.	131.6	-1.4	-2.6	n.a.	n.a.	n.a.	n.a.	B1		
Bosnia H.	n.a.	n.a.	n.a.	n.a.	1.96	Board	Board	n.a.	n.a.	n.a.	n.a.	B3		
Croatia	0.5	-0.1	2.4	0.0	7.4	-1.5	0.0	-0.4	-16.8	85.0	103.6	Ba2		
Romania	1.9	0.0	4.6	0.2	4.7	0.6	2.3	14.1	9.1	76.5	89.3	Baa3		
Serbia	3.5	0.0	n.a.	n.a.	118.3	-0.9	-4.5	6.4	7.0	118.6	129.3	Ba3		
CIS MENA														
	Vs USD													
Russia	7.4	-0.9	7.0	-0.6	56.6	-3.8	-4.4	10.4	20.3	97.6	120.0	Ba1		
Ukraine	17.8	0.8	9.7	0.0	26.0	-4.9	-3.6	10.6	-9.4	358.8	436.7	Caa2		
Egypt	18.0	-0.9	14.5	-1.6	17.6	-1.3	-0.4	12.4	8.0	257.6	351.7	B3		
m.i.A.E.	-0.3	0.0	0.6	0.3	1.2	5.4	16.2	-6.1	-3.1	5.1	5.1			

Source: Datastream, Reuters; ¹The data for Albania refers to January, for Egypt refers to February, for Czech Republic refers to February; 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.	6.1	Jan	6.7	3.8	Jan	4.8	75.4	Nov	38.4	6.6	Jan	5.8	2.24	Jan	1.86	C	0.77	Jan	0.91	H	75.7	Jan	76.6
Hungary	4.9	Jan	-1.9	6.0	Sep	9.0	9.8	Jan	-7.0	11.8	Jan	6.3	2.36	Jan	3.12	C	0.23	Jan	0.54	H	80.2	Jan	83.8
Poland	3.2	Dec	5.3	4.1	Jan	4.0	-8.8	Oct	-0.8	4.1	Dec	9.2	3.68	Aug	3.57	C	1.65	Aug	1.65	H	98.0	Dec	98.9
Slovakia	9.6	Jan	10.3	4.1	Jan	4.7	-1.9	Jan	0.8	6.2	Jan	4.6	2.4	Jan	2.6	C ²	0.33	Jan	0.49	H ²	98.8	Jan	94.9
Slovenia	3.3	Jan	-2.3	6.0	Dec	8.5	-12.9	Jan	-17.7	7.1	Jan	7.2	2.41	Dec	2.81	C ²	0.14	Dec	0.23	H ²	78.4	Jan	81.0
SEE																							
Albania	1.1	Jan	0.2	13.4	Jan	18.3	-2.3	Jan	-13.2	-1.2	Jan	2.7	10.14	Jan	7.01	PS	0.72	Jan	0.78	PS	53.3	Jan	52.3
Bosnia H.	7.6	Jan	3.5	10.0	Dec	11.8	8.3	Jan	-5.3	9.3	Jan	7.4	3.58	Jan	4.62	C	0.37	Jan	0.55	H	107.0	Jan	110.1
Croatia	0.0	Jan	-4.3	11.4	Dec	13.8	-10.7	Jan	-26.6	2.2	Jan	2.8	6.78	Jan	7.03	PS	0.76	Jan	0.85	PS	79.5	Jan	80.5
Romania	6.8	Jan	1.2	6.4	Dec	9.6	-2.0	Jan	-21.8	12.4	Jan	8.2	6.42	Jan	4.93	PS	1.11	Jan	0.61	PS	76.6	Jan	83.0
Serbia	2.1	Dec	2.4	11.1	Nov	17.0	14.3	Dec	-9.1	3.1	Dec	11.5	8.76	Jan	8.45	PS	2.75	Jan	2.94	PS	101.3	Dec	102.3
CIS MENA																							
Russia	5.2	Dec	-4.2	10.0	Nov	9.4	n.a.	Dec	n.a.	8.1	Dec	-3.9	9.43	Dec	11.83	C	5.27	Dec	6.5	H	104.8	Dec	107.7
Ukraine	0.9	Dec	2.0	54.5	Dec	30.5	-25.3	Nov	-8.0	12.1	Dec	9.1	17.51	Dec	17.25	PS	9.56	Dec	9.99	PS	123.0	Dec	136.8
Egypt	33.4	Oct	42.8	5.3	Sep	5.8	104.8	Oct	256.6	46.9	Oct	41.4	19.9	Jan	16.3	C	13.4	Jan	10.3	H	35.1	Oct	39.2
m.i. E. A.	1.8	Dec	1.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	16.6	Dec	3.3	1.17	Jan	1.4	C	0.37	Jan	0.4	H	81.5	Dec	81.8

Source: Central Banks, IMF, Moody's; ¹monthly average; ²lending rate on current account overdraft; on deposits up to 1 year

⁴Sector C=Corporates, H=Household, PS=Private Sector.

Country Outlook

The economy											
	2015	2016	2017	2018F	2019F		2015	2016	2017	2018F	2019F
GDP (% yoy)						Inflation (average)					
CEE						CEE					
Czech Rep.	5.3	2.6	4.3	3.5	3.1	Czech Rep.	0.3	0.7	2.5	2.2	2.0
Hungary	3.4	2.2	4.0	3.5	2.8	Hungary	-0.1	0.4	2.4	2.4	2.7
Poland	3.7	2.8	4.5	3.9	3.3	Poland	-0.7	-0.6	2.0	2.2	2.4
Slovakia	3.8	3.3	3.4	3.8	3.7	Slovakia	-0.3	-0.5	1.3	2.4	2.3
Slovenia	2.3	3.1	5.0	4.0	3.3	Slovenia	-0.8	-0.2	1.6	1.6	1.9
<i>Average</i>	3.9	2.7	4.3	3.8	3.2						
SEE						SEE					
Albania	2.6	3.5	4.0	3.9	3.7	Albania	2.0	2.2	2.0	2.2	2.7
Bosnia Herzegovina	3.1	3.1	3.0	3.1	3.1	Bosnia Herzegovina	-1.0	-1.1	1.3	1.6	1.9
Croatia	2.3	3.2	2.8	2.8	2.6	Croatia	-0.5	-1.1	1.1	1.3	1.6
Romania	4.0	4.8	7.0	4.5	3.6	Romania	-0.6	-1.5	1.3	3.9	3.4
Serbia	0.8	2.8	1.9	3.0	3.0	Serbia	1.4	1.1	3.2	2.2	2.9
<i>Average</i>	3.2	4.1	5.3	3.9	3.4						
CIS						CIS					
Russia	-2.8	-0.2	1.5	1.8	2.0	Russia	15.5	7.1	3.7	3.2	4.0
Ukraine	-9.8	2.4	2.5	3.2	3.2	Ukraine	48.0	15.0	14.5	11.8	9.2
<i>Average</i>	-3.4	0.0	1.6	1.9	2.1						
MENA						MENA					
Egypt	4.0	3.8	5.0	5.3	5.2	Egypt	10.4	13.7	29.6	14.0	11.8
<i>Average ISP Subsidiaries</i>	0.0	1.6	3.0	3.0	2.9						
Market											
	2015	2016	2017	2018F	2019F		2015	2016	2017	2018F	2019F
Exchange rate (average)						Interest rate (average)					
CEE						CEE					
Czech Rep.	27.3	27.0	26.3	25.1	24.8	Czech Rep.	0.2	0.3	0.4	1.0	1.5
Hungary	310.0	311.4	309.1	312.4	312.3	Hungary	1.7	1.0	0.1	0.0	0.4
Poland	4.2	4.4	4.3	4.2	4.2	Poland	1.7	1.6	1.5	1.7	1.9
Slovakia						Slovakia	0.0	-0.3	-0.3	-0.3	0.0
Slovenia						Slovenia	0.0	-0.3	-0.3	-0.3	0.0
SEE						SEE					
Albania	139.8	137.4	134.2	132.6	132.4	Albania	2.7	1.0	1.3	1.3	1.6
Bosnia Herzegovina	1.96	1.96	1.96	1.96	1.96	Bosnia Herzegovina	0.0	0.0	0.0	0.0	0.0
Croatia	7.6	7.5	7.5	7.4	7.5	Croatia	1.2	0.9	0.6	0.5	0.7
Romania	4.4	4.5	4.6	4.6	4.6	Romania	1.1	0.8	1.2	2.2	2.4
Serbia	120.8	123.1	121.4	118.4	118.6	Serbia	6.3	4.1	3.9	3.3	3.5
CSI MENA						CSI MENA					
Russia (USD)	61.3	67.0	58.3	57.3	57.8	Russia	13.5	11.2	9.4	7.0	6.5
Ukraine (USD)	22.0	25.5	26.6	27.1	27.6	Ukraine	25.9	20.9	16.8	16.1	13.7
Egypt (USD)	7.7	10.0	17.8	17.6	17.7	Egypt	11.3	14.2	19.3	16.5	14.7
Bank											
	2015	2016	2017	2018F	2019F		2015	2016	2017	2018F	2019F
Loans to private sector (% change yoy)						Deposit by private sector (% change yoy)					
CEE						CEE					
Czech Rep.	6.6	6.7	6.5	6.2	5.2	Czech Rep.	7.1	5.8	7.6	7.0	5.5
Hungary	-12.3	-1.9	6.0	3.2	3.8	Hungary	7.5	6.3	10.8	6.0	5.5
Poland	7.2	5.3	3.2	4.1	4.5	Poland	10.0	9.2	4.1	4.9	5.0
Slovakia	8.7	10.3	9.6	8.0	7.0	Slovakia	9.9	4.6	5.2	5.2	5.4
Slovenia	-5.2	-2.7	3.2	3.5	3.4	Slovenia	5.8	7.2	7.0	5.8	5.2
SEE						SEE					
Albania	-2.6	0.2	0.5	2.0	3.0	Albania	1.0	2.7	-1.3	2.0	2.5
Bosnia Herzegovina	2.2	3.4	7.3	5.6	5.4	Bosnia Herzegovina	7.8	7.4	9.0	6.9	6.0
Croatia	-3.1	-4.3	-0.1	1.1	1.6	Croatia	6.4	2.8	2.4	1.5	1.7
Romania	2.7	0.6	5.6	4.4	4.0	Romania	9.1	8.5	10.4	7.0	6.8
Serbia	3.0	2.4	2.1	4.0	4.3	Serbia	7.1	11.5	3.1	4.0	5.0
CIS						CIS					
Russia	8.2	-4.2	5.2	5.3	5.5	Russia	18.8	-3.9	8.1	5.1	5.2
Ukraine	-3.8	2.0	0.9	3.5	3.7	Ukraine	1.5	9.1	12.1	6.0	5.4
MENA						MENA					
Egypt	18.0	42.8	10.7	13.0	11.0	Egypt	20.4	41.4	22.8	16.0	14.0

Source: Intesa Sanpaolo Research Department forecasts

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