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Quarterly note

Intesa Sanpaolo
International Research
Network

GDP growth forecasts are revised upwards in all areas. Inflation profiles and favourable external conditions generally support easy monetary stances and stable exchange rates. Bank lending is overall projected on a gradual recovery.

The recovery path anticipated in our June Forecast Note has been revised upwards in almost all the countries of the CEE/SEE area, with GDP growth now at 3.8% in 2017 and 3.4% in 2018, on average (in comparison with the previous 3.4% and 3.2%, respectively). The business cycle is being driven by a stronger contribution from domestic demand, and on the supply side, from production in the manufacturing sector.

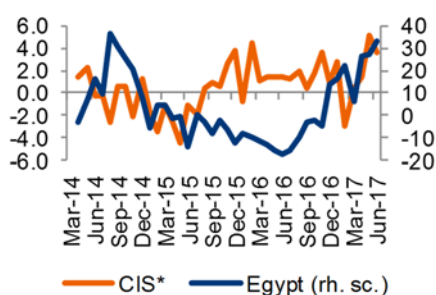
In the CIS regions, in Russia, GDP growth is confirmed at 1.5% in 2017, also supported by the positive readings of 1H17, and at 1.8% in 2018. The economy is benefitting from a slight recovery in the oil price, but it is forecast to suffer from persisting structural issues in addition to sanctions. In Ukraine, we still see an uneven and fragile recovery, with subdued growth at 2% in 2017, despite the 2.4% recorded in 1H17, but accelerating to 3% in 2018. In Egypt, we expect stronger GDP growth both in 2017 (+4.5% vs the previous +4.0), sustained by increasing tourism revenues and higher FDIs, and in fiscal year 2018 (+4.6% vs 4.2% previously).

Inflation rates in the CEE/SEE area are expected to increase slightly in 2017-18, though potentially at slower pace than previously anticipated. Monetary conditions are overall expected to remain accommodative overall both in 2017 (the SNB cut the policy rate to 3.75% in September) and beyond, in 2018, supported by internal (within target inflation rates) and external (still cautious monetary stance by the ECB) conditions. Policy rates are nevertheless projected to rise further in Czech Republic, after the increase by 20bp in July. Outside the region, in Russia, inflation is expected to remain around the target in 2017-18, while in Ukraine and Egypt, it is forecast to decelerate. We therefore continue to foresee monetary rate cuts in 2017 before year end in Russia and Ukraine and in 2018 and in Egypt.

In financial markets, long-term rates are projected to continue to move slightly upwards in the CEE/SEE region (but still downwards in Russia) while remaining generally low due to low inflation and still contained risk premia. Exchange rates should stay around current levels with respect to the Euro in the CEE/SEE region and appreciate slightly against the USD in Russia and Egypt.

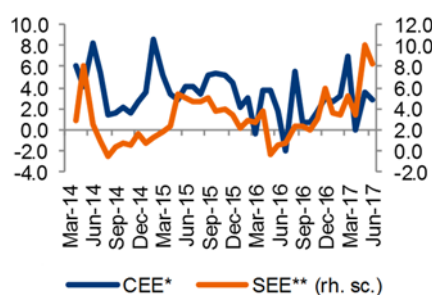
Bank lending is strengthening in many CEE/SEE countries, thanks, on the demand side, to the business cycle recovery but also, on the supply side, to improved asset quality, with portfolio restructurings expected to continue and NPL ratios to decrease. Credit growth is still forecast to grow below the dynamic of nominal GDP. Household lending, particularly mortgages, is projected to be the most dynamic item while corporate lending is still expected to be relatively weaker. On the funding side, deposits are forecast to grow at higher rates than loans, but showing a slight deceleration from the recent highs, partially affected by stronger competition from investment funds. The loans/deposits ratios are then forecast to decline further, along with a rebalancing between internal and external funding. Bank interest rates are projected to remain low in 2017-18, in line with money market rates.

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 Czech Republic, Slovakia, Slovenia and Hungary data; ** weighted average on Bosnia, Croatia, Romania and Serbia data

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This note has been coordinated by Gianluca Salsecci. The names of the authors are reported in the single sections.

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

Cross Country Analysis

Recent Developments

In the first half of the year, the economic cycle strengthened in the **CEE and SEE** regions. The improvement in economic conditions was robust and broad-based among countries, increasingly supported by domestic demand and, on the supply side, a stronger performance in the manufacturing sector.

In the CEE sub-region, GDP growth further accelerated in Q2, to 3.8% y/y from 3.5% y/y in 1Q17 (2.5% in 2016) despite the slight decelerations in GDP in Hungary and Slovenia following their extraordinary performances in 1Q (+4.2% and +5.1% y/y, respectively). GDP growth remained strong in the SEE region as well, where it actually increased in 2Q to 4.6% y/y (from 4.4% in Q1) thanks to the good readings from Croatia, Romania and despite an outcome below expectations in Serbia of 1.3% in Q2. In July, forward-looking indicators continued to signal expectations of solid growth in the CEE/SEE region, though with some differences. The Economic Sentiment Indicator (ESI) in July was even higher than in 1H17 in Croatia, Slovenia and Hungary while it retraced slightly – though remaining close to the year-to-date highs – in Czech Republic, Romania and Slovakia.

In the early months of 3Q, inflation remained stable or decreased with respect to the 2Q outcomes in most countries of the CEE/SEE region due to some retracement of energy prices and lags in the pass-through of wage increases to producer and consumer prices. In particular, it was (in July) still at the 2.0% rate recorded in 2Q in Hungary and Albania, and (in August) at a 1.4% rate in Slovenia. In contrast, inflation decelerated slightly in Bosnia, to 0.9%; Croatia, to 0.8%; and Serbia, to 3.2%. Consumer prices increased slightly in Czech Republic and Slovakia (at 2.5% and 1.4%, respectively) among CEE countries, and in Romania (1.4%) among SEE countries. In all the cases, inflation was confirmed at below or moving near the targets set by the respective central banks, but in Czech Republic, where it was above expectations, even if still within the tolerance band.

Due to the increase in consumer prices, in August, in Czech Republic, the central bank decided to raise the policy rate by 20bp, to 0.25%. On the contrary, thanks to diminishing inflationary pressures, in early September, the CB of Serbia cut the policy rate by 25bp, to 3.75%. All the other central banks of CEE/SEE countries kept reference rates unchanged and monetary stances accommodative.

In the **CIS** region, in **Russia**, recently released GDP figures showed that the economy grew by a stronger-than-expected 2.5% y/y in 2Q17, up from 0.5% y/y in 1Q17. Growth in 2Q17 was mainly driven by a rebound in construction (+2.9%) and manufacturing (+3.1%) activities. Retail sales recorded their first annual gain (+0.7%) after nine quarters of losses. Data for July were a bit softer than for June, but still confirmed an ongoing recovery. Growth in industrial production slowed to a four-month low of 1.1% y/y, from 3.5% y/y in June. Meanwhile, retail sales growth edged down, to 1.0% y/y from 1.2% y/y in June. Partly offsetting these performances, construction output growth picked up to 7.1% y/y. Inflation dropped to a post-Communist era low of 3.3% in August, well below the central bank's 4% inflation target for the second consecutive month. The CB is now very likely to cut the policy rate further.

In **Ukraine**, the economy performed reasonably well in 2Q17, despite concerns that the government's blockade of separatist-held areas in the East of the country would lead to a sharper downturn. GDP expanded by 2.4% y/y in 2Q17, broadly in line with 1Q17's performance (+2.5%). Growth was driven by rebounding industrial activity and an exceptional increase in agricultural production. On the demand side, retail sales, which rose by 6.1% y/y in 1H17, benefitted from the ongoing recovery in real wages (up by 19.7% y/y in 1H17). Annual inflation accelerated to 16.2% in August, primarily reflecting faster growth in food prices and a stronger impact of administrative tariffs. Following recent higher-than-anticipated inflation numbers, Ukraine's central bank highlighted a rising risk that the year-end 9.1% inflation target might not be met.

Gianluca Salsecci, Giancarlo Frigoli, Antonio Pesce and Davidia Zucchelli

Economic growth strengthened in the CEE/SEE area in 1Q and 2Q 2017

Inflation rates are confirmed below or moving near the CBs' targets in all the countries except CZ, where it remains nevertheless within the band

Stronger than expected growth in CIS countries and in Egypt

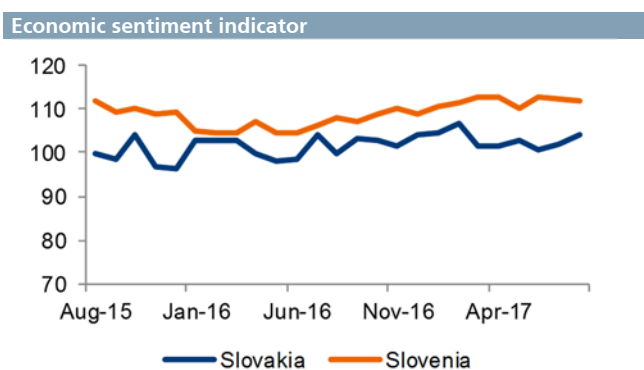
Egypt's GDP also rose by a stronger-than-expected 4.1% in the 2016/17 fiscal year ending last June, following the acceleration in 2Q17 to 4.9%. In 1H17, industrial production was particularly strong, rising by 28.9% y/y. The Planning Minister recently announced that he now expects Egypt's GDP to grow by 5% by the end of fiscal year 2017/18, a slightly higher rate than previously forecast by government. Annual inflation remained high in August (31.9%) amid subsidy cuts on fuel and electricity. Although it continues to indicate contraction for the non-oil private sector, the PMI index rose to 48.6 in July, its highest level in a year, on a stronger order portfolio.

According to the last available data, referring either to June or July 2017, **banking aggregates'** growth rates generally improved, showing a stronger increase or a lower decrease y/y in many countries with respect to previous months. In the **CEE/SEE region**, the loans stock to the private sector continued to contract, though at slower rates in Albania (-1.7% y/y) and Croatia (-0.5% y/y) while it continued to be particularly dynamic in Slovakia (+12% y/y) and Czech Republic (+7.3% y/y), pushed up by new mortgages. Loan growth also improved significantly in Romania (to +1.9% y/y in June from -3.5% as of end-2016) driven by a strong GDP performance.

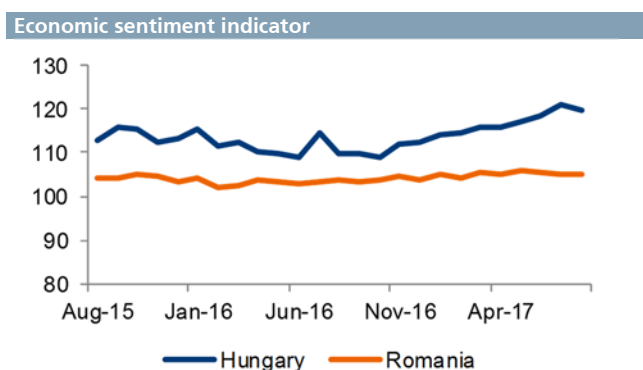
When looking at the institutional sectors, lending to households was still strong in Serbia (+10% y/y) and Slovakia (+14.1% y/y) while corporate loans continued to be weak in several countries, except Slovenia (+2% y/y) and in Croatia (where the growth rate, even if negative, moved to -0.6% y/y in July from -2% y/y in June). Deposits were resilient, particularly in Hungary (11.3% y/y), Romania and Bosnia (both around 9% y/y), in both the household and corporate sectors, though in several cases (particularly Slovakia and Croatia), there was growing competition from alternative investment products (mainly investment funds). The latest data on NPL ratios in the CEE area remained low in Czech Republic and Slovakia, and improved in Slovenia (7.5% from 8.5% in December 2016, according to new EBA regulations). They were still high, however, in the SEE region, particularly in Albania and Serbia (both at 15.6%).

Among **CIS countries**, where the recovery still appears to be fragile, in **Russia**, loans decreased further, by 1.6% y/y as of May, especially in the corporate sector (-3.6% y/y, due to a fall in loans in FX by 17%), while households saw an increase of 4.6%, supported by the gradual decrease in interest rates. Deposits increased by 2.1%, affected by lower corporate deposits (-3.6% y/y), while household deposits continued to increase strongly (+5.9% y/y). In **Ukraine**, where the banking sector showed new signs of deterioration in terms of capitalisation and profitability, loans decreased further, by 1.6% as of July. Deposits increased by 7.7% y/y because of enduring future uncertainties. Due to accounting rules revision, NPL jumped to 57.7% of loans as of June 2017.

In **Egypt**, the extraordinary growth rates recorded in April for lending (39% y/y) and deposits (42.3%) were mostly related to the strong depreciation of the local currency in November 2016 (when it halved its value in terms of the USD) and are therefore viewed to come to an end in November this year. Net of FX effects, loans are estimated to have nevertheless increased by almost 5%, and deposits by c.13%, still very low levels given a high rate of inflation.



Source: European Commission



Source: European Commission

The International Outlook Underlying the Scenario

In **advanced economies**, the recent set of data releases, generally pointing to stronger-than-expected economic activity and slower-than-expected inflation, have maintained the focus of markets on the timing and speed of the reversal of monetary policy easing, which now looks likely to be more gradual in the US and further delayed in the EA than previously anticipated.

In the **US**, the Fed is now expected to abstain from further tightening its policy rate in September. Based on recent data confirming persistently low inflation and an expected negative impact of recent hurricanes on growth, a Fed Funds hike is far from certain in December as well. Inflation in the autumn and development on the fiscal front will be crucial variables in order for the Fed to weigh its options. As far as GDP growth is concerned, the impact of recent adverse weather is nevertheless expected to be short-lived and likely will be offset by the reconstruction efforts. We continue to forecast real GDP growth in the US at 2.2% this year and 2.4% in 2018.

In the **Euro area**, developments during the summer confirmed that the economy is continuing to grow at a faster pace than previously forecast, still in absence of stronger upward pressures on prices. The appreciation of the euro, following generalised weakness of the USD, while making the financial conditions less accommodative in the area, supports the cautious stance confirmed by the ECB Council in September. A decision on the timing and size of APP removal will be taken at the October /December meetings, but expectations are now for a very gradual transition. The new ECB macro forecasts indicate higher growth this year (2.2% compared to 1.9% expected in June) on the back of a stronger-than-expected 1H17 and unchanged growth rates in 2018 and 2019 figures at 1.8% and 1.7%, respectively. On inflation, the ECB confirmed its projection for this year of 1.5%, but marginally cut its forecasts for 2018 (to 1.2% vs. 1.3% previously) and 2019 (to 1.5% vs 1.6% previously).

In **emerging markets**, where in 1H17 GDP growth also surprised on the upside in most cases, the majority of monetary authorities are also more likely to maintain an easing bias amid still-slowing inflation and appreciating currencies, partly reflecting the recent weakness of the USD.

Among **BRICs**, a cyclical upturn is now expected in Brazil, India and Russia, pushing the EMs' expected growth rates upwards in 2017 with respect to last year. In India, the effects of demonetisation are fading while in Brazil and Russia (as well as in many commodity-exporting countries in Latin America, Africa and the CIS region), the business cycle is benefitting from the stabilisation policies followed by monetary authorities, the (partial) recovery of raw material prices, and the recent re-appreciation of currencies. In China, GDP growth is proceeding above expectations and, even if somewhat decelerating, still remains on a strong path. Notwithstanding the ongoing recovery, the large amount of spare capacity is generally keeping inflation historically low in most countries, in this way supporting conditions for many EMs' CBs to keep favourable monetary policies.

The external environment should also remain supportive for EMs over the coming quarters. Healthy growth in developed economies will provide a propellant to EMs exports while concerns about protectionist measures likely adopted by the US have so far failed to materialise. Export revenues in many EMs actually increased in 1H17. Notwithstanding the rise in US rates, currently projected to be below previous expectations, emerging markets are also recording positive net capital inflows, providing a boost to foreign currency reserves.

The Economic Outlook

GDP growth and inflation

The recovery path anticipated in our June Note has been revised upwards, on average, in the countries with ISP subsidiaries in the CEE/SEE region. GDP growth is now forecast at 3.8% in 2017 and 3.4% in 2018, in comparison with the 3.4% and 3.2% anticipated in June.

In advanced economies, Central banks are expected to be more cautious in removing excess liquidity

Emerging economies are forecast on a more sustained growth path

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

In the **CEE area**, domestic demand regarding both consumption and investments is expected to be the main driver of GDP growth, thanks to improving conditions in labour markets, namely increased wages and number of employees, and to renewed withdrawals from EU structural funds. Exports are also expected to contribute to growth based on a stronger economic cycle in the Euro area. Growth, although still robust, is expected to decelerate slightly, from 3.7% in 2017 to 3.2% in 2018, in both years upwardly revised, nevertheless, from the previous 3.2% and 3.0% respective forecasts.

In the **SEE area** GDP growth has also been revised upwards for the whole of 2017 to 3.9% (from the previous 3.7%). The revision has involved all countries except Serbia, where growth has been revised downwards to 1.8% in 2017 and 2.5% in 2018 (from the previous 2.8% and 3.2%, respectively). In line with the June forecasts, the GDP growth of the area is expected to decelerate slightly in 2018, to 3.5%, mainly due to the base effect in Romania, where the growth rate, after the extraordinary dynamics seen in 1H17 (+5.7% y/y) are expected to slow from 4.7% in 2017 to 3.9% in 2018.

In the **CIS area**, the latest GDP figures were stronger than previously expected by consensus, confirming that the Russian economy has clearly turned the corner and it is now on a relatively solid growth path. We further confirm our previous forecasts both for 2017 and 2018 at 1.5% and 1.8%, respectively. We maintain our long-term view of GDP growth around 2%, as we are still concerned about the possible negative effects of sanctions recently confirmed by the US Congress and the persisting structural shortcomings that are weighing on potential growth. In **Ukraine**, although the impact of the blockade in the Donbas region had less of a negative effect than feared on the economy in 1H17 (GDP rose by a solid 2.4% y/y), we remain cautious regarding our forecasts of relatively subdued GDP growth this year, at 2%, followed by an acceleration in 2018, of 3%, if local geopolitical tensions at least partially fade.

In the MENA region, GDP growth in **Egypt** is not expected to maintain the strong pace seen in 2Q17 (+4.9%) in the short term, as in the near future, the impact of new cuts in subsidies and high inflation are likely to weigh on domestic demand. We nevertheless forecast GDP growth that is higher than previously anticipated, both in the current calendar year (+4.5% vs +4.0 previously) and in the fiscal year 2017/18 (+4.6% vs +4.2% previously).

In 2017 and 2018, **inflation rates** are forecast to increase slightly in the CEE/SEE areas, sustained by domestic factors, particularly labour market recovery. However, these expectations are lower than previously anticipated, mainly due to lower-than-previously-expected increases in energy prices and longer lags in the adjustment of core rates. In all the countries, inflation rates are in any case seen expected to remain well within the target corridors set by the respective central banks.

In the CIS area, inflation in **Russia** is now forecast to fall just below the CB's 4% target by the end of this year and to remain around the target level in the medium term. In **Ukraine**, after the report of a stronger-than-previously-expected inflation rate so far this year, we have revised upwards our inflation projections, to 13.6% in 2017 and 11% in 2018. In **Egypt**, average inflation (which incorporates the impact of the new cut in subsidies and a higher VAT rate) is forecast at around 30% in 2017 and 18%, on average, in 2018 (13% at 2018 year-end, in line with the central bank target)

Monetary policy and financial markets

In CEE/SEE countries, monetary policy conditions are expected to remain accommodative this year and in 2018. This forecast is supported by both internal and external factors, ie, by the low inflation projections and by the cautious monetary stance pursued by the ECB.

Unlike the other Central banks in the region, the Czech's CB increased the reference rate by 20bp, moving it to 0.25%. Further increases are also expected in 2018.

For the **CIS area**, we continue to forecast falling short term rates in 2018 in Russia, helped by low and easing inflation, financial stabilisation, and a reappreciating currency, and in Ukraine. In the

In CIS countries, previous GDP growth forecasts are confirmed

Egypt growth is also forecast on a higher than previously expected path

Inflation rates are foreseen on slightly rising paths but still low and well within the CBs' targets corridors

Monetary conditions are expected to remain overall accommodative

In Egypt the Central Bank is expected to cut rates in 2018

MENA region, in Egypt, we expect that the central bank, after the July's policy rate hike (+200bp), to start to cut rates in 2018, once inflationary pressures stemming from last year's exchange rate depreciation and recent administrative measures on subsidies and VAT have been absorbed.

Long-term rates in CEE and SEE countries are forecast to move further upwards in 2018, but to remain generally low, due to weak inflationary pressures and contained risk premia. Yield curves are therefore forecast to generally steepen further in 2017-18, and to gradually flatten later, when the reversal of the policy rates cycle will start. In the CIS region, in **Russia**, we expect long yields to continue on a decreasing path on the expectation of further cuts in monetary rates, but only slightly, as inflation has probably hit its floor and investors are likely to continue to demand a risk premium.

In the CEE/SEE region, **exchange rates** are forecast to remain basically stable with respect to the euro, thanks to the robust growth perspectives, contained inflationary expectations, and improving external financial conditions. In the CIS area, following the recent weakness of the US dollar, the **Russian** rouble has already incorporated most of the previously expected appreciation and is now expected to move below the level of 60. In parallel, the **Ukraine's** hryvnia is also forecast to be a bit stronger with respect to the USD compared to our previous modelling, although it should remain on a depreciating path in the future, in particular in the medium/long term, reflecting relatively higher inflation with respect to trade partners.

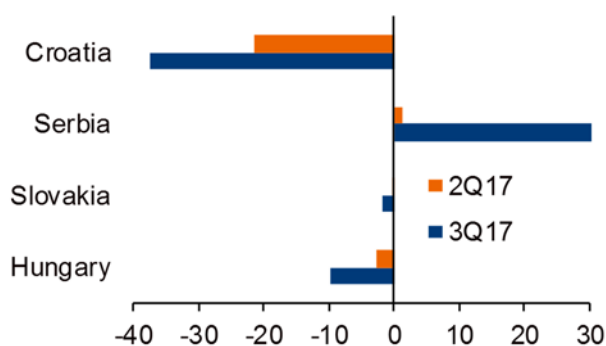
In **Egypt**, the exchange rate has recovered some ground in recent months. Although increasing foreign inflows offer support to the currency in the short term, sustaining some further slight appreciation with respect to the USD, we confirm our view that the EGP will eventually follow a path of gradual depreciation over the medium term (allowed by a flexible exchange rate regime) in the presence of a significant inflation gap with the main trading partners.

Long-term rates should rise further, but very gradually in CEE and SEE countries. They are seen slightly down in Russia

The Russian rouble is expected to move below the level of 60

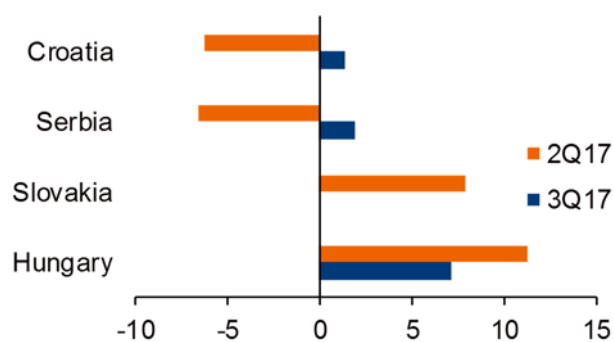
The EGP is foreseen to appreciate slightly in the short term

5Y CDS spread (chg, bp)



Source: Bloomberg

Stock market indices (% chg)



Source: Thomson Reuters

Bank aggregates and interest rates

The dynamics of the private sector loan stock in the CEE/SEE countries are forecast to strengthen with respect to the June forecast, thanks to the improving operating environment (advanced deleveraging in the private sector and asset quality recovery of banks).

From the demand side, the trend of **lending** is the result of the long-lasting process of deleveraging occurring in the corporate sector, which is only partially offset by a persistently strong dynamic of household mortgages (in Slovakia and Serbia in particular). Stricter requirements (regarding collateral coverage, repayments proportionate to income levels, and other loan characteristics) to prevent a debt overhang among households are actually expected to be able to keep the risks stemming from the rise of mortgages under control. From the supply side, despite some improvements due to portfolio restructurings and sell-offs, banks remain prudent. They are still facing problems regarding the high NPL ratios in a number of countries. Improvements in asset quality, however, are expected to continue in the next years.

Loan dynamic is expected to recover

In all the countries with ISP subsidiaries, loan growth rates are expected to accelerate in 2018, even if at a modest pace. But, these should still remain below nominal GDP growth rates on a trend that is expected to gradually approach GDP growth rate trends in the long run.

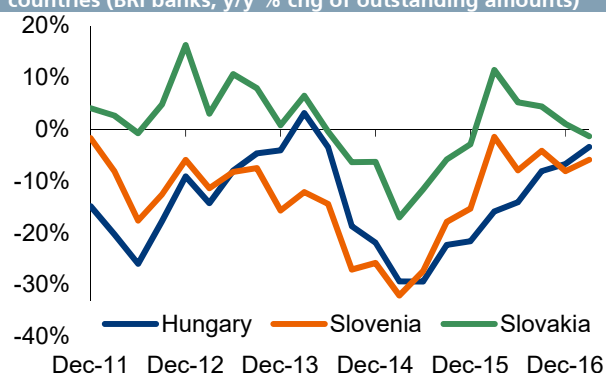
In the CIS area, the pace of the loan growth, in the presence of a still modest economic recovery, is forecast to be rather low in 2017, in real terms, but again positive in Russia, though still negative in Ukraine. In Egypt, after the adjustment due to the EGP depreciation which will come to an end in November 2017, an increase in lending is forecast in 2017 in nominal terms at around 18%, but not yet in real terms, given the expected jump in the inflation rate (30% at year-end). In 2018, the more contained nominal dynamic (+13%) will, however, be in line with the expected year-end inflation rate (still nevertheless below the GDP growth rate) and credit growth should start to increase in real terms as well.

Deposits are forecast to increase further in 2017 (though at a slower pace than in 2016 in many countries) and in 2018. Deposit growth rates are expected to stay well above that for loans, despite strong competition from investment funds in some countries. The loans/deposits ratios, therefore, are forecast to decline further in many countries, along with a rebalancing experienced between internal and external bank funding. Loans/deposits ratios are instead expected to increase in Slovakia and Hungary, due to a stronger performance of loans.

Average **bank interest rates** are expected to remain low in 2017-18, in line with money market rates. Spreads are expected to narrow further in most countries, due to rising competition, but to remain at significant levels (generally higher than in Western countries), particularly in the SEE region.

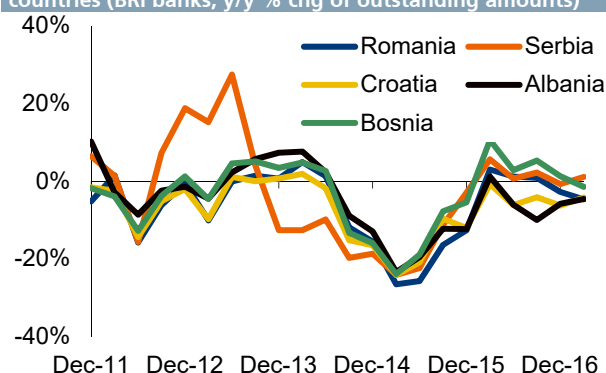
Banking interest rate spreads are expected to narrow further

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



Source: Intesa Sanpaolo processing of Bank for International Settlements data

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



Source: Intesa Sanpaolo processing of Bank for International Settlements data

Country-Specific Analysis

Albania

Real Economy

The economy continued on an upward trajectory. Economic growth was somewhat higher than expectations, with GDP growth gradually approaching its potential, as reflected both in the decline in the unemployment rate and in the increase in the production capacity utilization. Such cyclical improvement should support a gradual increase of wages and a convergence of business profit margins with the historical average. In parallel, the adverse effect of the recent exchange rate appreciation is expected to recede gradually. In July 2017, exports increased by 12.9% compared with the previous year and imports by 6.3%. The trade deficit increased by 1.4% compared with the same period of 2016. In our baseline scenario, growth is expected to remain around 3.8% in 2017 and 3.9% in 2018.

Kledi Gjordeni

In July 2017, the inflation rate was 2.0% vs 1.9% a year ago. The CPI was pushed up mainly based on prices for food and non-alcoholic beverages, housing, water and electricity. Judging from the actual economic trends, growth will lead inflation to reach target in 2018.

Financial Markets

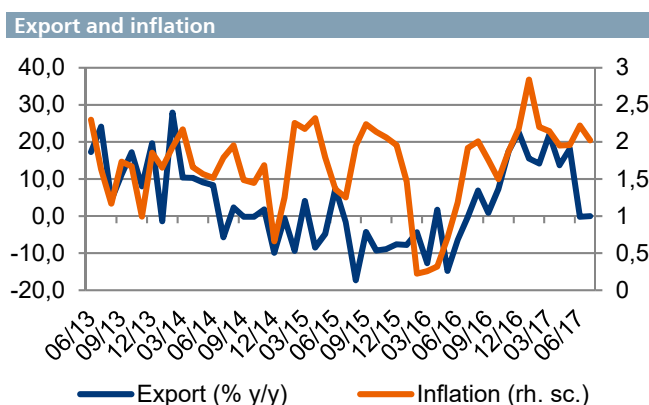
Current forecasts for the short and medium term are in line with previous expectations. Based on the available information, the Supervisory Council of the CB deems that the intensity of monetary stimulus will not be reduced before 2Q18. At its last meeting, the Supervisory Council decided to keep the policy rate unchanged, at 1.25%, and interest rates on overnight deposits and overnight credit facilities unchanged as well, at 0.25% and 2.25%, respectively. The normalisation of monetary policy is expected to be prudent.

Banking Sector

In June, yoy total deposits increased by 1.2%, with household deposits falling by 1.9% and corporate deposits increasing by c.20%. Data suggest that the credit demand remains moderate. In June, total loans fell by 1.72%. Household loans increased by 3.7%, but corporate loans shrank by 4.00%. Credit dynamics reflect both the weak demand for credit and prudent bank lending policies. The upcycle of investments has been financed to a large extent by the use of enterprises own funds. Yet, looking ahead, the growing need for businesses financing is expected to be accompanied by growth of demand for loans. Likewise, the further improvement of the business climate, the reduction of credit risk, and further improvements in banking system balance sheets are expected to support credit supply. In this regard, the non-performing loans ratio fell further, to 15.58% in June.

Forecasts	2016	2017F	2018F
Real GDP yoy	3.5	3.8	3.9
CPI (avg)	1.3	2.3	2.6
Euro exchange rate (avg)	137.4	134.7	134.8
Euro exchange rate (end of period)	135.3	134.0	135.5
Short-term rate (avg)	1.0	1.1	1.1
Short-term rate (end of period)	1.1	1.1	1.1
L/T bond yields (avg)	n.a.	n.a.	n.a.
Bank loans yoy (end of period)	0.2	0.5	2.0
Bank deposits yoy (end of period)	2.7	0.5	2.0

Source: Intesa Sanpaolo Research Department forecasts



Source: INSTAT

Bosnia and Herzegovina

Real Economy

Following 2.7% yoy GDP growth in 1Q17, a solid economic performance has continued to be supported by both domestic and external demand. More precisely, April-July retail trade expanded by 5.7% yoy (5.2% wda) and industrial production rose by 2.9% yoy (3.0% wda). At the same time, merchandise exports increased by 16.5%, outpacing 11.2% yoy growth in imports. Despite political tensions and backtracking on IFI loan disbursements, the economy has shown robustness. We have thus upgraded our 2017 GDP growth forecasts from 2.6% to around 3.0% yoy.

In 2018, solid private consumption is expected to be additionally supported by the resolution of political disputes over legislation (Law on Excises and Law on Deposit Insurance) supported by the IMF that will unblock IMF tranches and IFI investment financing, while foreign demand remains supportive of country's exports profile. Thus, we see growth being slightly stronger, at +3.2% yoy, with downside risks coming primarily from political instability limiting investment potential in public infrastructure projects and the reform agenda.

Supported by 7.1% higher yoy transport prices and 4.5% higher alcohol and tobacco prices, consumer prices increased by 1.1% in the first seven months of 2017. As we don't expect any additional inflationary pressures in the remainder of the year, average annual inflation is forecast to be in the 1.1% area in 2017, heading towards 1.5% average inflation in 2018.

Banking Sector

Private sector loan growth exceeded 6% yoy in May and June, when loan growth rose for both corporates and households. A rise in credit demand, combined with encouraging trends in real economy allowed us to revise upwards our forecast of private sector loans in 2017 from 4.4% yoy to 6.0% yoy. As positive trends are expected to last into 2018, but GDP growth is forecast to accelerate only slightly, we have modestly raised our forecast for next year, from 4.6% yoy to 4.8% yoy. The growth of loans to households will predominantly rely on a rise in the issuance of consumer loans, which are easiest to obtain and are used for refinancing purposes as well as a substitute for mortgage loans.

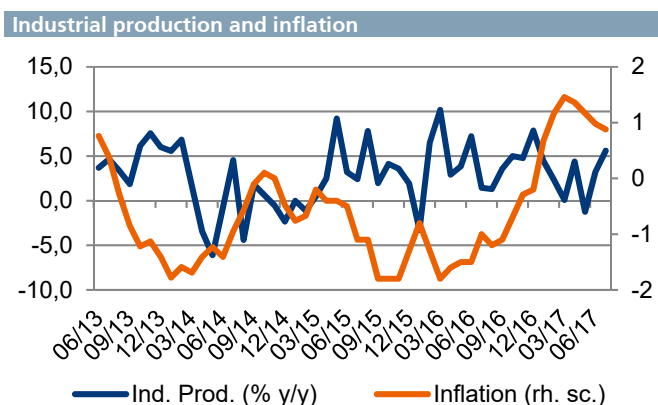
The pace of growth of deposits for the private sector is forecast at 7.2% yoy in 2017 and 6.9% yoy in 2018, unchanged compared to the June scenario. The deposit growth rate in May and June reached 9% yoy (with households at 8% and non-financial corporations at over 11%), but we expect it to decline in the coming period due to the base effect and a slower pace of increase in corporate loans. The growth of household deposits is expected to remain stronger than for corporates, which is the result of political and economic uncertainty, on the basis of which citizens remain prone to saving.

Ivana Jovic

Ana Lokin

Forecasts	2016	2017F	2018F
Real GDP yoy	3.1	3.0	3.2
CPI (avg)	-1.1	1.1	1.4
Euro exchange rate (avg)	1.96	1.96	1.96
Euro exchange rate (end of period)	1.96	1.96	1.96
Short-term rate (avg)	n.a.	n.a.	n.a.
Short-term rate (end of period)	n.a.	n.a.	n.a.
L/T bond yields (avg)	n.a.	n.a.	n.a.
Bank loans yoy (end of period)	3.4	6.0	4.8
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

Economic growth in 2Q17 accelerated slightly, with non-adjusted yoy growth amounting to 2.8% (1Q: 2.5%) and seasonally adjusted qoq to 0.8% (1Q: 0.6%), thus maintaining the yoy s.a. growth rate at 3.4%. The recovery in domestic demand (+3.4pp) remained the main driver of economic growth, whereas net exports recorded a negative contribution (-0.6pp) to headline growth. Backed by a rise in net wages (nominal net wage were up 5.0%; real rose 3.9% yoy in 1H), induced by personal income tax changes, an improved labour market (unemployment down to 10.8%), and tourist spending (+22% yoy arrivals), private consumption posted 3.8% yoy real growth in 2Q, the strongest rate since 2008. At the same time, investment activity backtracked, growing by only 3.2% yoy (vs 5.4% in 1Q), which most likely reflected both temporary political uncertainty as junior partner MOST left the Government and ongoing Agrokor crisis. Public spending remained under control (+1.7% yoy), supporting the targeted general government headline deficit at (or even below) 1.3% of GDP in 2017. Thus, we maintain our 2.9% yoy growth estimate for 2017 with some positive risks for even stronger growth. For 2018, we expect growth to slightly moderate (2.8% yoy) as the boost from this year's tax cuts fades and Agrokor restructuring could impose some downside pressures, while external demand continues to be supportive of growth.

Ivana Jovic

Financial Markets

The CNB is continuing its expansionary monetary policy, which we expect to last in the 3Q-4Q17 period and through 2018. We therefore forecast the average 3M Zibor at 0.6% for both 2017 and 2018. We have left our average EUR/HRK forecasts unchanged, at 7.45 in 2017 and 7.49 in 2018, considering that the kuna is expected to continue to fluctuate around 7.50 as Croatia is nearing ERM II entry. The average long-term kuna government bond yield is expected to fall a bit lower than in June, to 2.8% both in 2017 and 2018, due to low money market rates and an improved rating outlook, which supports a narrowing of the spread vs the bund.

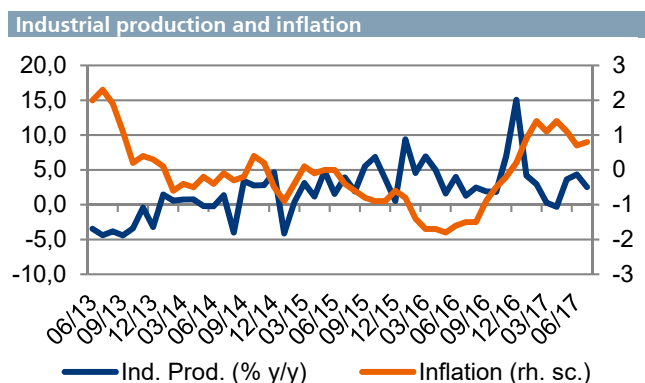
Ana Lokin

Banking Sector

We have raised our 2017 loan growth estimate to +0.6% yoy as private sector demand surprised on the upside. Regarding our 2018 forecast, we are a bit less optimistic and we cut it to +1.1% yoy. In spite of the rise in disposable income of citizens, negative demographic trends can strongly limit credit growth potential. In the corporate sector, rating upgrades should support competition from international banks for large corporates, while EU funds are expected to cover a substantial part of SME funding requirements. Thus, domestic banks will only contribute a certain amount of financing to the corporate sector. Our deposit growth estimate for 2017 saw only minor adjustments, while our 2018 forecast was reduced to +1.5% yoy. Although the rise in corporate deposits has been robust, we see a small increase in household deposits because of low deposit rates, which will likely continue to discourage savings in banks.

Forecasts	2016	2017F	2018F
Real GDP yoy	3.0	2.9	2.8
CPI (avg)	-1.1	1.1	1.4
Euro exchange rate (avg)	7.5	7.4	7.5
Euro exchange rate (end of period)	7.5	7.5	7.5
Short-term rate (avg)	0.9	0.6	0.6
Short-term rate (end of period)	0.9	0.6	0.6
L/T bond yields (avg)	3.6	2.8	2.8
Bank loans yoy (end of period)	-4.3	0.6	1.1
Bank deposits yoy (end of period)	2.8	1.4	1.5

Source: Intesa Sanpaolo Research Department forecasts



Source: EC

Czech Republic

Real Economy

The economy is outperforming already upbeat expectations. We revise real GDP growth projection for 2017 to 4.0% from 3.0% forecast previously as economic activity and labour market data reported since our previous note have consistently exceeded expectations. Growth also will likely remain strong, at close to 3%, in the following years. Domestic activity will be driven by robust growth of household consumption, which is supported by continuing growth of employment and rising wages given an EU-low unemployment rate of less than 3%. A positive contribution to GDP growth also will come from investment, which should gradually recover both on renewed drawdown of EU funds and faster growth of private investment stemming from rising foreign demand and tight production capacity. Moderation next year from extra fast growth in 2017 will mainly come from higher imports needed to support the rise in investment and a stronger koruna somewhat curbing export growth. Reversal, from positive to negative, also seems likely in fiscal spending following the October elections. We expect to see the CPI stay above the 2% CNB target for the foreseeable future. Property prices likely will also continue to rise, as demand for housing remains brisk and is outstripping supply, particularly in the capital, Prague.

Zdenko Štefanides

Financial Markets

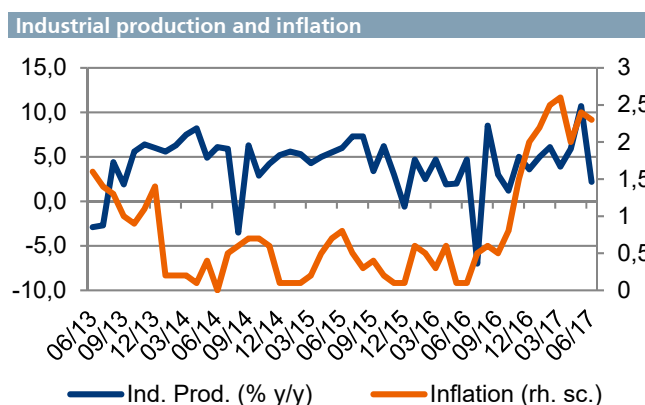
Amid a booming economy and rising inflation, the CNB was the first CB in the CEE area to hike rates. The lifting of the repo rate by 20bp in August occurred earlier than we had expected note and surprised the market as well, which assumed that the significant 4% koruna appreciation since the abandoning of the koruna cap in April delivered the needed tightening of monetary conditions. Nonetheless, against continued wage and inflation pressure, further hikes in CNB rates look to be in the pipeline. Their pace, however, will likely be limited by the accommodative policy of the ECB and strengthening of the koruna. In our forecast, we lift projected short rates in the upcoming years to reflect an earlier-than-projected start of the CNB's hiking cycle. Longer term, though, we believe that Czech rates should converge to those of the ECB.

Banking Sector

The Czech banking sector should continue to grow fast, along with the booming economy. Household spending, rising employment and low funding costs will support debt servicing and credit demand into 2018. The pace of retail market growth, though, will gradually moderate on regulatory tightening of credit conditions. In the corporate market, a positive economic outlook amid low interest rates should be supportive of demand for loans. Demand for investment should also be supported by tight capacity. Deposit volumes will continue benefit from a strong saving culture and growing household income levels. Indeed, the Czech saving rate has consistently been in double-digits, which is higher than the EU average. A strong saving culture is still apparent in the current low interest rate environment, as bank deposits are growing faster than nominal income despite rising job security. In the latter years of the forecast horizon, nonetheless, the pace of deposit growth will likely gradually moderate, moving closer to historical norms.

Forecasts	2016	2017F	2018F
Real GDP yoy	2.4	4.0	3.0
CPI (avg)	0.7	2.3	2.2
Euro exchange rate (avg)	27.0	26.5	25.9
Euro exchange rate (end of period)	27.0	26.0	25.8
Short-term rate (avg)	0.3	0.4	0.8
Short-term rate (end of period)	0.3	0.5	0.9
L/T bond yields (avg)	0.4	0.8	1.3
Bank loans yoy (end of period)	6.7	7.0	6.0
Bank deposits yoy (end of period)	5.8	8.0	7.0

Source: Intesa Sanpaolo Research Department forecasts



Source: EC

Egypt

Real Economy

The GDP growth rate for FY16/17 reached 4.1%, as growth in 4Q was recorded at 4.9%. GDP growth is expected to improve further in FY17/18, supported by the recently witnessed improvements in different sectors, including tourism (the number of tourists rose 52.4% in 1H17 compared to the same period last year), natural gas extraction (Egypt is expected to achieve self-sufficiency regarding natural gas by 2018 due to recent discoveries in the Mediterranean and the Nile Delta), and construction (this sector is going to benefit from social housing projects being implemented by the government and the establishment of the new Administrative capital). Annual headline inflation continued to rise in July 2017, reaching 32.95% on the back of the recent increases in fuel and energy prices, before receding slightly in August (to 31.9%). However, it is expected to decline in 4Q17 due to the base year effect and the appreciation in the Egyptian pound. The Central Bank of Egypt expects annual inflation rate to reach +/-13% by the end of 2018.

Emil Eskander

Financial Markets

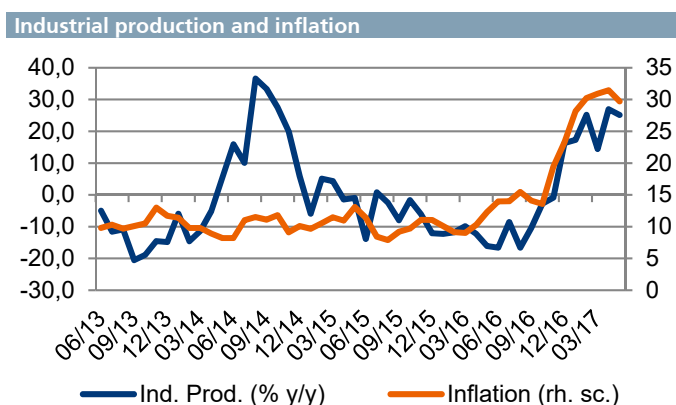
At its meeting on 17 August 2017, the Monetary Policy Committee (MPC) decided to keep the overnight deposit and lending rates unchanged at 18.75% and 19.75%, respectively. The discount rate was also kept unchanged at 19.25%. A downward trend in interest rates is expected in 2018 in order to boost growth after the expected decline in inflation. Yields on 90-day T-Bills declined on 5 September 2017 to 19.50% compared to 20.77% on 1 August 2017. The USD exchange rate is expected to reach around EGP 17.5 by the end of 2017, noting that the USD/EGP exchange rate reached around EGP 17.66 on 6 September 2017, due to the improvement in the NIR, tourism revenues, the drop in the trade deficit by 46% during 1H17 compared to the same period last year, and the weakening of the US dollar in international markets. The Central Bank of Egypt cleared its multibillion-dollar fx backlog from imports and foreign companies since the November flotation of the pound.

Banking Sector

Total bank loans to the private sector reached EGP 895.2bn in April 2017, up 39% over April 2016, while private sector deposits reached EGP 2.3tn, up by around 42.3% yoy. The significant growth in both loans and deposits is mainly attributable to the base year effect, as the devaluation of the Egyptian pound was implemented in November 2016. Corporate loans accounted for 74.1% of total loans to the private sector, while household deposits accounted for almost 79.6% of total deposits in April 2017.

Forecasts	2016	2017F	2018F
Real GDP yoy	3.8	4.5	4.8
CPI (avg)	13.7	30.2	18.0
USD exchange rate (avg)	10.0	17.8	17.3
USD exchange rate (end of period)	18.5	17.5	17.1
Euro exchange rate (avg)	11.1	20.1	20.6
Euro exchange rate (end of period)	19.4	20.5	20.3
Short-term rate (avg)	14.2	19.8	18.5
Short-term rate (end of period)	19.0	20.0	17.0
L/T bond yields (avg)	n.a.	n.a.	n.a.
Bank loans yoy (end of period)	46.1	18.0	13.0
Bank deposits yoy (end of period)	40.9	22.0	16.0

Source: Intesa Sanpaolo Research Department forecasts



Source: Ministry of Planning, CAPMAS

Hungary

Real Economy

GDP growth slowed to 3.2% yoy in 2Q17 (from 4.2% yoy in 1Q), still significantly above the annual average of 2.0% in 2016 (FY). The 2Q figure was significantly below market consensus expectations, though the seasonally- and calendar-adjusted figure (3.5%) was closer. Industrial performance and services lent strong support to 2Q growth. From the expenditure/absorption side, household consumption was strong and investments experienced a double-digit jump due to the exceptionally low base. While we expect GDP growth to be well above the 2016 annual rate this year, it is unlikely that a return to levels above 4% will be seen in the quarters ahead. Ongoing fiscal stimulus, the rise in utilisation of EU funds, wage growth, and an improved EA growth outlook are set to support a stronger growth rate in Hungary. We expect GDP growth to reach at least 3.5% in 2017 and 3.2% in 2018. A stronger pace is unlikely to be sustainable over the upcoming years, given the likely lack of sufficient strengthening of GDP.

Headline inflation has decelerated since February (2.9%) to 1.9% in June (both yoy). The July figure (2.1%) showed the end of the mini-trend: we see the return of sub-2% CPI levels as unlikely, though the impact of rising wages has been limited on the headline figure. Core inflation showed a rising trend at the same time. Annual average CPI is projected to be close to 2.4%. External and internal balances look set to remain in good shape, though the fiscal balance improvement of the preceding years will likely cease this year.

Financial Markets

The NBH left the 3M policy rate at 0.90% during the summer. Base rate cuts are unlikely, not only during the rest of 2017 but also in 2018. Should any further room for easing emerge, the CB is more likely to deliver unconventional measures as limiting the main (3M) facility. The latest CB announcement at the June rate-setting meeting represented a record low for the quarterly limit of the 3M depo facility: HUF 300bn for 3Q, down from HUF 500bn in 2Q. This supports ongoing low BUBOR rates well below the (still unchanged, at 0.90%) base rate level. Recent monetary actions and global market fluctuations left the forint stable, close to the strong edge of the EUR/HUF 305-315 band of close to the last year, even though there was a brief drop below the 305 level in August. We forecast levels closer to 310 for the rest of 2017. Government bond yields continued to be supported by monetary actions, causing a rise in domestic purchases.

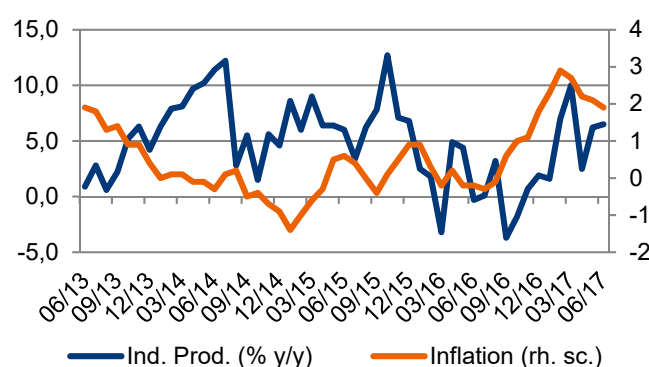
Banking Sector

Rising domestic demand, improved economic sentiment, and the inflow of EU funds have provided support to the demand side of the loan market recently. Following several years of contraction, we expect a relatively strong growth rate for bank loan stock in 2017. Growth looks set to continue in 2018, though at a somewhat milder rate after the correction. Some loan segments (including mortgage and personal loans) have already shown dynamic pick-ups. Asset quality has continued to improve, with NPLs now below 10%. The sector has continued to experience high liquidity and a strong capital position.

Forecasts	2016	2017F	2018F
Real GDP yoy	2.0	3.5	3.2
CPI (avg)	0.4	2.4	2.6
Euro exchange rate (avg)	311.4	308.4	310.7
Euro exchange rate (end of period)	311.7	309.5	311.8
Short-term rate (avg)	1.0	0.2	0.2
Short-term rate (end of period)	0.4	0.2	0.2
L/T bond yields (avg)	3.2	3.2	3.6
Bank loans yoy (end of period)	-1.9	6.1	2.2
Bank deposits yoy (end of period)	6.3	5.0	5.1

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: CSO

Romania

Real Economy

The inflation rate, in July 2017, jumped to 1.42% yoy (from 0.85% yoy in May) as energy prices surprised on the upside. Inflation is expected to move higher as newsflow indicates additional taxes on fuel are only a matter of time. Hence, inflation is likely to finish 2017 above 2% and flirt with levels above 2.5% in 2018.

June industry output eased to +11.1% yoy (from revised 15.1% yoy in May). While the slight pullback in June was to be expected after the strong growth in May, the outlook points to a maturing cycle in industry, and given the strength of the commercial links with the Eurozone economy, and the relative size of the Romanian industry, Euro area demand will likely remain the main driver in 2018. Foreign trade data showed that import growth (+12.4% yoy) outpaced export growth (+9.6% yoy) in the first half of the year, as the domestic fiscal stimulus created excess demand that is being satisfied by imports and current thinking indicates that the status quo is likely to continue for the foreseeable future.

Growth was confirmed at 5.9% in 2Q, the strongest rate in the EU, but the outlook begs the question of how long an economy can grow on higher wages, lower taxes and no investments. Hence, while growth prospects appear to remain intact for 2017, to 4.7% (with a bias to move higher), growth is expected to decelerate in 2018 to 3.9% as demand from foreign trade partners is likely to peak and domestic demand will be lackluster absent further stimulus.

Financial Markets

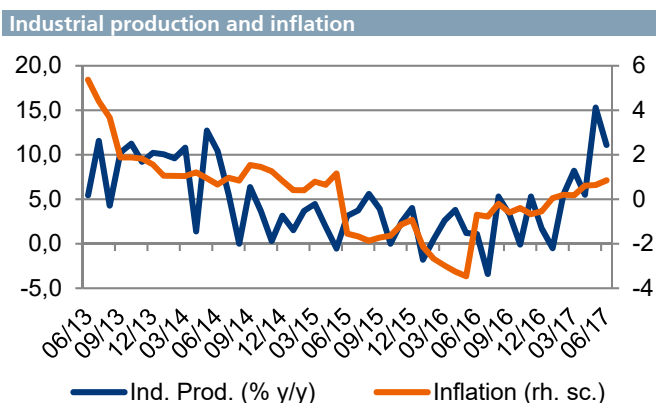
Macro data and a noisy domestic environment are slowly but surely building the case for the central bank to tighten monetary policy. The central bank signalled that its first move would be to tighten the policy rate (currently at 1.75%) corridor (currently 150bp) - the deposit facility rate is 0.25% and the lending facility is 3.25% - as inflation (both domestic, driven higher by the likelihood of additional taxes, and imported, from the Eurozone) is picking up, but is expected to stay within the NBR target of 2.5% (± 1 pp). Bond yields moved higher, as the pace of inflation is picking up - however, without a significant risk of re-pricing. The exchange rate continues to flirt with the RON 4.6/EUR 1 level, which is still a strong (and high) psychological level as import demand remains elevated, in a domestic inflationary environment that is weakening the purchasing power of the nominal exchange rate.

Banking Sector

RON credit creation continues to expand, driven mainly by household demand (+9.18% yoy new business) while corporate credit creation has been lagging. Household revenue improvement on the back of fiscal stimulus has led to a general improvement in banking (starting with NPLs and not least of all net interest income). Notwithstanding this, as this cycle comes to an end, some flags are raised regarding the outlook raises going forward on household lending, while corporate demand still appears to have room to grow.

Forecasts	2016	2017F	2018F
Real GDP yoy	4.8	4.7	3.9
CPI (avg)	-1.5	1.0	2.2
Euro exchange rate (avg)	4.5	4.6	4.6
Euro exchange rate (end of period)	4.5	4.6	4.6
Short-term rate (avg)	0.8	0.9	1.0
Short-term rate (end of period)	0.8	1.0	1.0
L/T bond yields (avg)	3.4	3.8	4.1
Bank loans yoy (end of period)	0.6	4.5	3.8
Bank deposits yoy (end of period)	8.5	5.0	5.5

Source: Intesa Sanpaolo Research Department forecasts



Source: NBR

Russia

Real Economy

In 2Q17, Russia's GDP grew by 2.5% yoy, an acceleration with respect to the 0.5% recorded in 1Q. The last time economic growth reached this level was 4Q13. Since then, it has slowed and moved into recession, though in 4Q16 it again recorded a positive increase (+0.3%).

Anna Mokina/
Anastasiya Ped

We confirm our June GDP growth forecasts at 1.5% in 2017 and 1.8% in 2018. The major drivers are expected to be global economic strength, crude oil price increases (heavily influencing all GDP components), and a deceleration in inflation, which has already led to the lowest inflation rate since 1991. Some risks for growth are geopolitical tensions (sanctions) and the possible deterioration of the Chinese economy, due to the negative impact this would have on Russia's export volumes.

Annual inflation, after accelerating in June (mainly caused by unfavourable weather conditions and reduction of imports), dropped to 3.3% in August, which is significantly below the target of the Central Bank of Russia. The average consumer price index is expected to be around 4.2% in 2017 and around the 4% target in 2018.

Financial Markets

On 28 July, the CB kept the policy rate at 9.00%. The decision was expected by the market, given rising inflation at that time. The most recent price developments (together with renewed exchange rate appreciation) signify that now the CB has scope for additional rate cuts, as expected in our previous note.

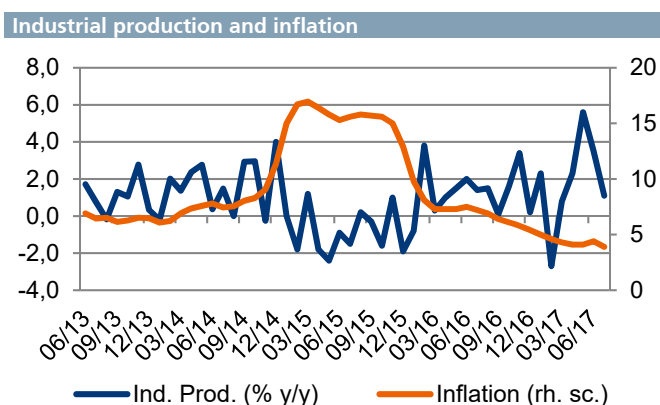
The Russian ruble reacted positively to the latest developments, reversing the slight depreciation seen in July, when the RUB had weakened against the USD by 5.7% despite rising oil prices. The weakness of the dollar and higher oil prices led the RUB/USD rate to appreciate, reaching 57 in early September, which is around the currently expected long-term equilibrium level for the Russian currency.

Banking Sector

Indicators for the Russian banking system have almost returned to pre-crisis levels. The banking sector and the capital stock of banks have grown. The amount of bad loans ceased to be a risk factor, as banks made appropriate provisions. Lending in the economy corresponds to the overall economic dynamics and is expected to increase by 3% in 2017 and 5% in 2018. Lending interest rates are still rather high, but should continue to decrease in line with money market rates. At the same time, deposits are expected to recover from the 4.2% contraction seen in 2016, increasing by 3.5% in 2017 and 4.5% in 2018

Forecasts	2016	2017F	2018F
Real GDP yoy	-0.2	1.5	1.8
CPI (avg)	7.1	4.2	4.0
USD exchange rate (avg)	67.0	60.2	58.2
USD exchange rate (end of period)	61.9	58.5	58.0
Euro exchange rate (avg)	74.1	68.0	69.3
Euro exchange rate (end of period)	65.0	68.4	69.0
Short-term rate (avg)	11.2	9.5	8.2
Short-term rate (end of period)	10.5	8.5	8.0
L/T bond yields (avg)	8.9	7.8	7.6
Bank loans yoy (end of period)	-4.2	3.0	5.0
Bank deposits yoy (end of period)	-3.9	3.5	4.5

Source: Intesa Sanpaolo Research Department forecasts



Source: State Statistics Federal Service

Serbia

Real Economy

After disappointing growth of 1.0% yoy in 1Q, real GDP increased only slightly, to 1.3% yoy in 2Q, according to Statistical Office final data. While services and industry contributed positively to GDP growth, construction and agriculture were drags. Real GDP is projected to increase by 1.8% yoy in 2017, lower than initially expected, due to a poor performance in the first half of the year.

YOY inflation amounted to 3.2% in July 2017, exceeding the midpoint of the inflation target tolerance band ($3 \pm 1.5\%$) for the sixth consecutive month. When compared to the previous month reading, consumer prices were lower by 0.4%. Inflation is expected to move within the target range, with average CPI at around 3.2% yoy in 2017. The central bank is projecting that inflation will further decline, as the high base effect for petroleum product prices and the drop out of this year's one-off price hikes from the annual comparison will slow inflation.

Financial Markets

In September 2017, the NBS cut the key policy rate by 25bp, to 3.75%, after 13 consecutive months of it being left unchanged. The last move on the key rate occurred in July 2016, when it was also cut by 0.25pp, making the total rate reduction during 2016-17 0.75pp. No major key policy rate change is now expected this year, but the central bank will continue to carefully monitor the movements in the international commodity and financial markets as well as further steps by the ECB and Fed due to the uncertainties related to their divergent monetary policies which may impact capital flows to emerging countries, including Serbia.

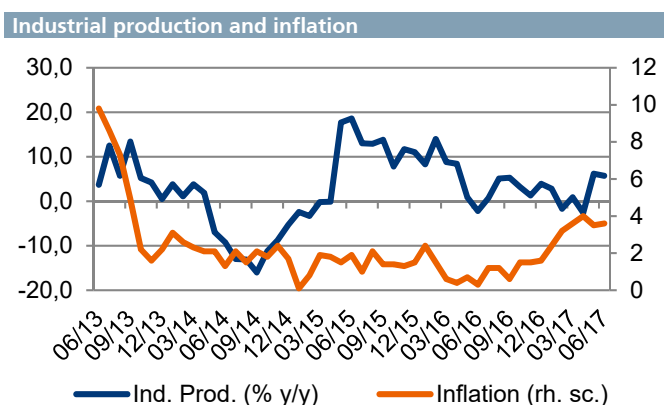
The dinar has appreciated vs the euro by 3.6% since the beginning of the year while the NBS has sold EUR 345mn and bought EUR 960mn on the FX market in order to mitigate excessive daily volatility of the exchange rate. The dinar strengthened as a result of the favourable macroeconomic environment, increased interest of foreign investors in purchasing long-term dinar securities, and a seasonal demand for local currency. It is expected to remain relatively stable over the course of the year, additionally supported by timely interventions by the NBS on the FX market, with the EUR/RSD exchange rate not meant to exceed 122 by the end of this year.

Banking Sector

Deposits are expected to continue expanding at 5.0% in 2017 and 5.5% in 2018, while loans are projected to grow by 3.0% and 4.0%, respectively. Lending activity should continue to be supported by further recovery of the economy, lower interest rates, and competition among banks, while improvement in the quality of loan portfolios through write-offs and sales of NPLs should also create room for new lending.

Forecasts	2016	2017F	2018F
Real GDP yoy	2.8	1.8	2.5
CPI (avg)	1.1	3.2	2.9
Short-term rate (avg)	4.1	3.9	3.8
Short-term rate (end of period)	4.0	3.8	3.8
Euro exchange rate (avg)	123.1	122.3	122.7
Euro exchange rate (end of period)	123.4	122.0	123.4
L/T bond yields (avg)	n.a.	n.a.	n.a.
Bank loans yoy (end of period)	2.4	3.0	4.0
Bank deposits yoy (end of period)	11.5	5.0	5.5

Source: Intesa Sanpaolo Research Department forecasts



Source: Statistical Office, National Bank of Serbia

Slovakia

Real Economy

The Slovak economy is maintaining solid growth momentum. The latest GDP report showed that the economy grew 3.3% yoy in 2Q, two-tenths up from 1Q, which was in line with our previous expectations, on the path towards 3.4% yoy full-year growth in 2017. While growth has been reasonably solid, in a regional comparison, however, Slovak GDP looks rather lacklustre. Nevertheless, in the next years, we continue to expect to see the space for further acceleration, namely to 3.8% yoy in 2018 and 4% yoy in 2019, above the region's average. The key drivers of growth are basically the same for the whole region: strong Western European demand and robust domestic consumption supported by a tightening labour market (the number of jobs in the Slovak economy has already increased to the highest level ever and the unemployment rate in June decreased for the first time to below the EU average, to 7.6%). In addition to common regional drivers, growth in Slovakia will be boosted in upcoming years by the completion of large private investments by car producers, which will start to produce with new capacity; significant value will come on line in 2018-19.

Andrej Arady

Price-wise, after a short pause, inflation in Slovakia resumed growing. It picked up in June to 1.4% yoy, the highest since 2013. Importantly, rising wages and further improving consumer confidence, for the first time in the post-crisis period, finally translated into a significant pick-up in the demand-driven segment of inflation.

Financial Markets

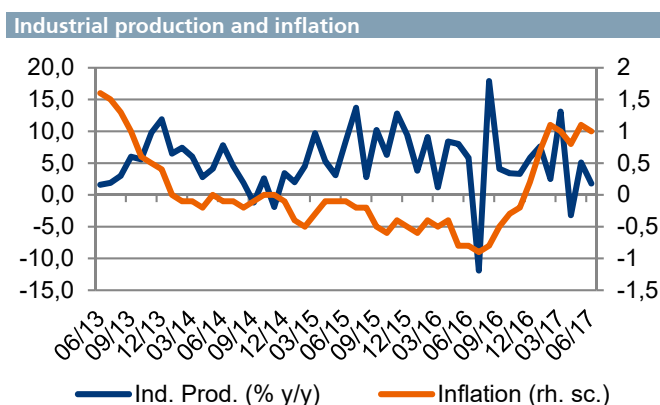
Yields on Slovak government bonds continue to be driven primarily by ECB purchases. Over the past months, spreads vs German bunds stabilised at close to 40bp, c.20-30bp lower than in the spring, and below our forecast range. Through 2018, the ECB is expected to start to taper its monthly purchases in its Asset Purchase Programme (APP). Along with normalising policy, in perspectives we expect not only increases to rates on government bonds, but also an increase in spreads vs German bunds, back to the forecast range 60-80bp.

Banking Sector

A booming economy continues to boost the banking sector, in line with previous expectations. However, new regulatory measures tightening credit conditions will gradually moderate further growth of household debt, after it doubled from 2010 to 2017. Continuing growth of employment and rising wages, though, will keep growth of household debt at a high level anyway, and should support a further boost in deposits, which are expected to accelerate in upcoming years. In the corporate market, growth will be further boosted by renewed drawdowns of EU funds and tight production capacity. Regarding interest rates, along with expectations of tapering of the APP, interest rates in the banking sector are also expected to bottom out in upcoming quarters. However, as the ECB is not expected to touch its interest rates earlier than in 2019, short-term rates should stay historically low for a prolonged period.

Forecasts	2016	2017F	2018F
Real GDP yoy	3.3	3.4	3.8
CPI (avg)	-0.5	1.2	1.5
Short-term rate (avg)	-0.3	-0.3	-0.3
Short-term rate (end of period)	-0.3	-0.3	-0.3
L/T bond yields (avg)	0.7	0.9	1.1
Bank loans yoy (end of period)	10.3	10.0	8.0
Bank deposits yoy (end of period)	4.6	4.8	5.2

Source: Intesa Sanpaolo Research Department forecasts



Source: Statistical Office of Slovak Republic

Slovenia

Real Economy

In Slovenia, GDP grew by 5.1% yoy in 1Q17 and 4.4% in 2Q17. Because growth was relatively high in both quarters, we believe 2017 GDP growth will be around 4.1% yoy, which is a bit higher than previously estimated (3.5% in the previous quarter). Growth is driven mainly by rising private consumption, backed by a rising employment rate, and increasing wages and consumer confidence. With rising demand and favourable conditions for investment throughout the forecasting period, further growth in investment in machinery and equipment is projected, and with the recovery in the real estate market, a gradual rebound in housing investment. An increase in the number of building permits issued as well as construction activity indicators point to a revival in the construction of dwellings. In line with the positive macroeconomic outlook, the general government deficit and debt are expected to continue to decline over the forecast horizon. We expect GDP to rise by 3.2% in 2018 and 3.0% in 2019.

Inflation is expected to move around a 1.5% average this year, based on the impact of an increase in energy prices. Wage rises are also expected to drive up core inflation over the forecast horizon. Inflation is expected to gradually strengthen, to 1.6% in 2018.

Financial Markets

Short-term interest rates remain stable. The 3M Euribor rate is currently -0,329%. Forecasts were revised down. It is expected that average short interest rates will only start to rise in 2019. The yield on Slovenia's benchmark 10-year government bond decreased by 0.3bp, to 1.0%, in comparison to last quarter. The market doesn't appear to expect any larger movement till the end of 2017. Long-term government bond yields could rise to 1.7% in 2018 (eop) and to 2% in 2019 (ep). The Slovenian 5Y CDS slipped to 66.1bp in comparison to three months ago, after Fitch Ratings said it affirmed Slovenia's long-term foreign- and local-currency issuer default ratings (IDRs) at 'A-' with a stable outlook.

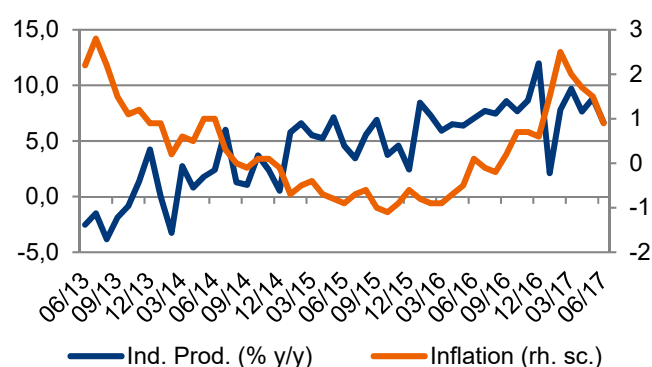
Banking Sector

In July, total loans to the private sector were up by 4.2% compared to July 2016, which is the strongest growth since July 2010. Household loans have been recording stable growth, thus, we revised our 2017 target from 2.0% to 3.0% yoy. For the following two years, growth is forecast to be similar (2.9% in 2018 and 3.0% in 2019, respectively). The non-banking sector still has a high level of deposits in banks, although their growth has slowed a bit in recent months. Total deposits from households and corporates amounted to EUR 23.4bn at the end of July and are expected to rise by 5.0% in 2017 and around 5.0% in the following years as well. As interest rates remain low, the increase in deposits is continuing to be driven by sight deposits, with the stock of term deposits continuing to decline.

Forecasts	2016	2017F	2018F
Real GDP yoy	2.5	4.1	3.2
CPI (avg)	0.2	1.5	1.6
Short-term rate (avg)	-0.3	-0.3	-0.3
Short-term rate (end of period)	-0.3	-0.3	-0.3
L/T bond yields (avg)	1.2	1.0	1.2
Bank loans yoy (end of period)	-2.7	3.0	2.9
Bank deposits yoy (end of period)	7.2	5.0	4.9

Source:: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistical Office of the Republic of Slovenia

Urška Čehovin

Ukraine

Real Economy

Real GDP rose by 2.4% yoy in 2Q17 compared to 2.5% yoy in 1Q. Exports of metals, which are heavily reliant on regional trade, rose by 24.3% yoy in 1H17 compared to -23.6% in 1H16. This suggests that Ukrainian steel exporters were quick to restore disrupted value chains. That said, a 2.6% yoy fall in industrial production in July indicates that recovery is certainly not yet consolidated. In 1H17, agricultural exports (accounting for 42.1% of total goods exports) rose by 28.5% yoy compared to 3.3% in 1H16. The yield on this year's crop is only slightly lower than the bumper harvest of 2016 (3.85 tons/ha against 3.94 tons/ha), which implies that strong agricultural output should continue to support the economy in the quarters ahead. Retail sales, which rose by 6.1% yoy in 1H17, are expected to remain strong, boosted by the rise of the purchasing power of households on the back of the increase in minimum wages and falling inflation. All in, GDP is likely to grow below 2% in 2H17, before rebounding to around 3% in 2018.

Giancarlo Frigoli

Financial Markets

Annual inflation, after accelerating for five consecutive months (to 16.2% in August), is now expected to resume a slower pace, although the official year-end target of a single-digit rate (9.1%) now seems unlikely. Easing inflationary pressures should lead to new rate cuts before year-end. The CB reduced the policy rate by 50bp (to 12.5%) last May. It then remained on the sidelines as inflation rose from 12.2% in May to 15.9% in July. The hryvnia has recovered some ground in recent weeks, dropping below UAH 26/USD 1. The revaluation was supported by the weak USD and by expectations that the IMF will release the fifth tranche of the loan (worth USD 1.7bn) in the autumn, after approval by the Ukraine Parliament of key legislation on pensions, privatisations, and the creation of an anti-corruption court. However, we would note that the IMF now seems ready to omit the sensitive agricultural reform from the list of release conditions.

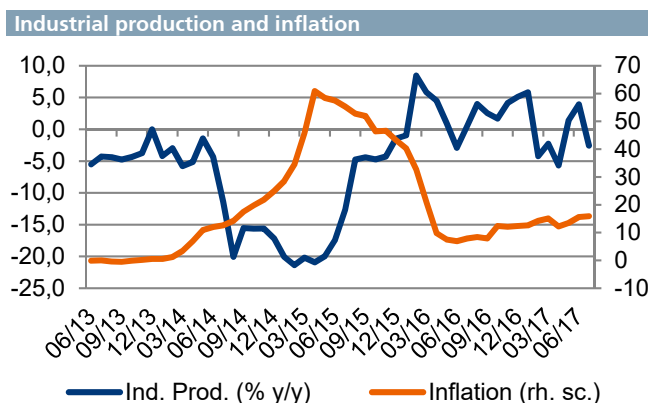
Banking Sector

Although a gradual economic recovery will support an improving trend in the banking sector over the next 12-18 months, banks' lending capacity and demand for credit are expected to remain constrained. Nominal loans are now forecast to increase only slightly by 0.5% in 2017 (from +1% expected in June). Loans to corporate did not show any improvement (-1.8% yoy) in July 2017, and neither did loans to households (-0.8% yoy). The NPL ratio increased dramatically to 57.7% of total loans in June 2017 (from 30% at the end of 2016), partly due to revisions of regulation. Although provisions seem to be significant (over 70% of total loans in December 2016), NPLs are expected to weigh both on banks' capacity to lend and on profitability. Deposits increased (+7.7% in July) both in the household sector (+6.3% yoy), which accounts for almost 70% of total deposits to the private sector, and the corporate sector (10.4%). The LTD ratio decreased slightly, to 127% (from 151% in February 2016), a level that we believe is still too high. The capital adequacy ratio decreased to 12.4% in June (from 13.7% in March 2017) and returns were still negative (with ROE at -4.25% and ROA at -0.46%).

Davidia Zucchelli

Forecasts	2016	2017F	2018F
Real GDP yoy	2.3	2.0	3.0
CPI (avg)	15.0	13.6	11.0
USD exchange rate (avg)	25.5	26.7	26.6
Euro exchange rate (avg)	28.2	30.2	31.6
Short-term rate (avg)	20.9	17.0	15.2
L/T bond yields (avg)	0.0	0.0	0.0
Bank lending	2.0	0.5	2.5
Bank deposits	9.1	5.0	5.2

Source: Intesa Sanpaolo Research Department forecasts



Source: State Statistics Service of Ukraine

Country Data: Economy, Markets and Banks - the Economic Cycle

Economy																		
	GDP chg yoy			Ind. Prod ¹ . chg.yoy			Export nom. ch yoy			Inflation chg yoy				FX reserves chg (mln €) ²			CA bal. (mln €) ³	
	2Q17	1Q17	2016	Last	mt	2Q17	Last	mt	2Q17	Last	mt	2Q17	2016	2Q17	1Q17	2016	2Q17	1Q17
CEE																		
Czech Rep.	4.5	3.0	2.4	2.2	Jun	6.3	4.1	Jun	3.7	2.5	Jul	2.2	0.7	n.a.	n.a.	n.a.	n.a.	n.a.
Hungary	3.2	4.2	2.0	6.5	Jun	5.1	4.5	Jun	7.5	2.1	Jul	2.1	0.4	n.a.	14	-5938	n.a.	1220
Slovakia	3.3	3.1	3.3	1.8	Jun	1.2	0.9	Jun	1.6	1.4	Jul	1.0	-0.5	n.s.	n.s.	n.s.	n.a.	190
Slovenia	4.4	5.1	2.5	6.7	Jun	7.7	11.7	Jun	10.4	1.4	Aug	1.4	0.2	n.s.	n.s.	n.s.	768	566
SEE																		
Albania	n.a.	3.9	3.5	n.a.	n.a.	n.a.	10.2	Jul	10.5	2.0	Jul	2.0	1.3	n.a.	9	47	n.a.	-179
Bosnia H.	n.a.	2.7	3.1	5.6	Jul	2.1	25.4	Jul	13.7	0.9	Jul	1.2	-1.1	115	-148	473	n.a.	-168
Croatia	2.8	2.5	3.0	2.5	Jul	2.6	11.1	May		0.8	Jul	1.1	-1.1	-2044	2558	-193	n.a.	-1528
Romania	5.7	5.6	4.8	11.1	Jun	10.6	2.5	Jun	7.8	1.4	Jul	0.7	-1.5	n.a.	699	-350	n.a.	-3248
Serbia	1.3	1.0	2.8	5.7	Jun	3.1	14.2	Jun	13.2	3.2	Jul	3.7	1.1	-183	-549	-52	-287	-624
CIS MENA																		
Russia	2.5	0.5	-0.2	1.1	Jul	3.8	27.8	May	23.8	3.3	Aug	4.2	7.1	12910	12732	-1356		23283
Ukraine	2.4	2.5	2.3	-2.6	Jul	-0.1	24.2	Jun	25.6	16.2	Aug	13.8	14.9	2344	-440	-466	-758	-808
Egypt	4.9	4.3	3.8	32.9	Jun	28.8	9.5	May	8.9	31.9	Aug	30.3	13.7	2779	4261	7820		-3529
m.i.E.A.	2.1	1.7	1.8	2.6	Jun	2.5	3.9	Jun	5.3	1.5	Aug	1.5	0.2					

Source: Thomson Reuters - Datastream; 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
	11/09	chg	bp 3M	11/09	chg	bp 3M	11/09	3M chg%	1Y chg%	3M chg%	1Y chg%	11/09	08/06	S&P
CEE														
Vs Euro														
Czech Rep.	0.3		0.0	0.9		0.0	26.1	-1.3	-3.4	2.6	21.1	36.3	37.5	AA-
Hungary	0.2		0.0	3.1		0.1	304.2	-1.2	-1.8	10.7	36.8	94.2	103.2	BBB-
Slovakia	-0.3		0.0	0.8		-0.2	Euro	Euro	Euro	6.9	5.3	37.5	38.8	A+
Slovenia	-0.3		0.0	1.0		0.0	Euro	Euro	Euro	4.5	13.4	66.9	75.8	A+
SEE														
Albania	1.2		0.0	n.a.		n.a.	132.6	-1.4	-3.3	n.a.	n.a.	n.a.	n.a.	B+
Bosnia H.	n.a.		n.a.	n.a.		n.a.	1.96	Board	Board	n.a.	n.a.	n.a.	n.a.	B
Croatia	0.6		0.0	2.8		-0.2	7.4	-0.3	-1.1	2.6	5.3	122.4	170.1	BB
Romania	0.7		0.0	4.0		0.3	4.6	1.1	3.3	-2.5	20.3	89.8	94.5	BBB-
Serbia	4.0		0.0	n.a.		n.a.	119.1	-2.9	-3.4	-3.6	21.7	144.1	178.4	BB-
CIS MENA														
Vs USD														
Russia	9.1		-0.3	7.8		0.2	57.1	0.3	-11.6	0.8	0.1	136.5	136.5	BB+
Ukraine	16.1		-0.8	9.7		0.0	25.6	-2.8	0.3	-7.1	7.7	610.2	584.9	B-
Egypt	19.5		1.0	17.1		-1.3	17.7	-1.7	99.4	-0.9	59.0	379.1	326.8	B-
m.i.A.E.	-0.3		0.0	0.3		-0.1	1.2	5.9	5.2	-5.2	8.6	6.1	9.1	

Source: Thomson Reuters - Datastream; ¹The data for Albania refers to January, for Egypt refers to august, for Czech Republic refers to august; 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	mt	2016	Last	mt	2016	Last	Mth	2016	S ⁴	Last	mt	2016	S ⁴	Last	mt	2016			
CEE																							
Czech Rep.	7.3	Jun	6.7	4.8	Dec	4.8	94.3	Jun	38.4	9.6	Jun	5.8	2.05	Jun	1.86	C	0.64	Jun	0.91	H	76.5	Jun	76.6
Hungary	2.3	Jun	-1.9	9.0	Dec	9.0	7.1	Jun	-7.0	11.3	Jun	6.3	2.4	Jun	3.12	C	0.34	Jun	0.54	H	84.0	Jun	83.8
Slovakia	12.0	Jun	10.3	4.4	Jun	4.7	-14.0	Jun	0.8	4.0	Jun	4.6	2.22	Jun	1.97	C ²	0.31	Jun	0.41	H ²	97.5	Jun	94.9
Slovenia	4.2	Jul	-2.7	7.5	Jun	8.5	-19.8	Jul	-17.9	5.6	Jul	7.2	2.43	Jun	2.81	C ²	0.11	Jun	0.23	H ²	80.7	Jul	81.0
SEE																							
Albania	-1.7	Jun	0.2	15.6	Jun	18.3	-18.1	Jun	-13.2	1.3	Jun	2.7	10.55	Jun	7.01	PS	0.77	Jun	0.78	PS	53.3	Jun	52.3
Bosnia H.	6.2	Jun	3.4	11.5	Mar	11.8	3.6	Jun	-5.3	9.1	Jun	7.4	3.79	Jun	4.62	C	0.44	Jun	0.55	H	111.1	Jun	110.1
Croatia	-0.5	Jul	-4.3	13.2	Jun	13.8	-21.1	Jul	-26.6	1.7	Jul	2.8	6.89	Jul	7.03	PS	0.73	Jul	0.85	PS	81.1	Jul	80.5
Romania	3.8	Jun	0.6	8.3	Jun	9.6	-14.6	Jun	-21.8	8.9	Jun	8.5	5.46	Jun	4.93	PS	0.49	Jun	0.61	PS	83.6	Jun	83.0
Serbia	2.5	Jul	2.4	15.6	Jun	17.0	4.3	Jul	-9.1	7.0	Jul	11.5	8.75	Jul	8.45	PS	3.09	Jul	2.94	PS	105.3	Jul	102.3
CIS MENA																							
Russia	-1.6	May	-4.2	9.8	May	9.4	-12.5	Oct	n.a.	2.1	May	-3.9	10.72	May	11.83	C	6.1	May	6.5	H	105.9	May	107.7
Ukraine	-1.6	Jul	2.0	57.7	Jun	30.5	-21.6	Jun	-8.0	7.7	Jul	9.1	15.16	Jul	17.25	PS	8.59	Jul	9.99	PS	127.6	Jul	136.8
Egypt	39.0	Apr	42.8	5.7	Mar	5.8	126.2	Apr	256.6	42.3	Apr	41.4	17.0	May	16.3	C	10.8	May	10.3	H	38.7	Apr	39.2
m.i.E.A.	1.4	Jun	1.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.1	Jun	3.3	1.2	May	1.4	C	0.4	May	0.4	H	82.0	Jun	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											
	2014	2015	2016	2017F	2018F		2014	2015	2016	2017F	2018F
GDP (% yoy)						Inflation (average)					
CEE						CEE					
Czech Rep.	2.7	4.5	2.4	4.0	3.0	Czech Rep.	0.4	0.3	0.7	2.3	2.2
Hungary	4.0	3.1	2.0	3.5	3.2	Hungary	-0.2	-0.1	0.4	2.4	2.6
Slovakia	2.6	3.8	3.3	3.4	3.8	Slovakia	-0.1	-0.3	-0.5	1.2	1.5
Slovenia	3.1	2.3	2.5	4.1	3.2	Slovenia	0.4	-0.8	0.2	1.5	1.6
<i>Average</i>	3.1	3.8	2.5	3.7	3.2						
SEE						SEE					
Albania	1.8	2.2	3.5	3.8	3.9	Albania	1.6	1.8	1.3	2.2	2.6
Bosnia Herzegovina	1.1	3.0	3.1	3.0	3.2	Bosnia Herzegovina	-0.9	-1.0	-1.1	1.1	1.4
Croatia	-0.5	2.2	3.0	2.9	2.8	Croatia	-0.2	-0.5	-1.1	1.1	1.4
Romania	2.8	3.7	4.8	4.7	3.9	Romania	1.1	-0.6	-1.5	1.0	2.2
Serbia	-1.8	0.8	2.8	1.8	2.5	Serbia	2.1	1.4	1.1	3.2	2.9
<i>Average</i>	1.6	3.0	4.1	3.9	3.5						
CIS						CIS					
Russia	0.7	-2.8	-0.2	1.5	1.8	Russia	7.8	15.5	7.1	4.2	4.0
Ukraine	-6.6	-9.8	2.3	2.0	3.0	Ukraine	12.2	48.0	15.0	13.6	11.0
<i>Average</i>	0.0	-3.4	0.0	1.5	1.9						
MENA						MENA					
Egypt	4.8	4.0	3.8	4.5	4.8	Egypt	10.1	10.4	13.7	30.2	18.0
<i>Average ISP Subsidiaries</i>	1.2	-0.8	1.3	2.5	2.7						

Market											
	2014	2015	2016	2017F	2018F		2014	2015	2016	2017F	2018F
Exchange rate (average)						Interest rate (average)					
CEE						CEE					
Czech Rep.	27.5	27.3	27.0	26.5	25.9	Czech Rep.	0.2	0.2	0.3	0.4	0.8
Hungary	308.6	310.0	311.4	308.4	310.6	Hungary	2.4	1.7	1.0	0.2	0.2
Slovakia						Slovakia	0.2	0.0	-0.3	-0.3	-0.3
Slovenia						Slovenia	0.2	0.0	-0.3	-0.3	-0.3
SEE						SEE					
Albania	140.4	139.8	137.4	134.7	134.8	Albania	3.0	2.7	1.0	1.1	1.1
Bosnia Herzegovina	2.0	2.0	2.0	2.0	2.0	Bosnia Herzegovina	0.0	0.0	0.0	0.0	0.0
Croatia	7.6	7.6	7.5	7.4	7.5	Croatia	0.7	1.2	0.9	0.6	0.6
Romania	4.4	4.4	4.5	4.6	4.6	Romania	2.3	1.1	0.8	0.9	1.0
Serbia	117.3	120.8	123.1	122.3	122.7	Serbia	8.8	6.3	4.1	3.9	3.8
CSI MENA						CSI MENA					
Russia (USD)	38.6	61.3	67.0	60.2	58.2	Russia	10.6	13.5	11.2	9.5	8.2
Ukraine (USD)	12.0	22.0	25.5	26.7	26.6	Ukraine	17.9	25.9	20.9	17.0	15.2
Egypt (USD)	7.1	7.7	10.0	17.8	17.3	Egypt	11.2	11.3	14.2	19.8	18.5

Bank											
	2014	2015	2016	2017F	2018F		2014	2015	2016	2017F	2018F
Loans to private sector (% change yoy)						Deposit by private sector (% change yoy)					
CEE						CEE					
Czech Rep.	2.7	6.6	6.7	7.0	6.0	Czech Rep.	6.7	7.1	5.8	8.0	7.0
Hungary	-0.3	-12.3	-1.9	6.1	2.2	Hungary	1.3	7.5	6.3	5.0	5.1
Slovakia	6.4	8.7	10.3	10.0	8.0	Slovakia	3.8	9.9	4.6	4.8	5.2
Slovenia	-13.4	-5.2	-2.7	3.0	2.9	Slovenia	6.6	5.8	7.2	5.0	4.9
SEE						SEE					
Albania	2.2	-2.6	0.2	0.5	2.0	Albania	2.9	1.0	2.7	0.5	2.0
Bosnia Herzegovina	1.9	2.2	3.4	6.0	4.8	Bosnia Herzegovina	6.4	7.8	7.4	7.2	6.9
Croatia	-2.0	-3.1	-4.3	0.6	1.1	Croatia	2.3	6.4	2.8	1.4	1.5
Romania	-3.7	2.7	0.6	4.5	3.8	Romania	8.9	9.1	8.5	5.0	5.5
Serbia	4.4	3.0	2.4	3.0	4.0	Serbia	9.7	7.1	11.5	5.0	5.5
CIS						CIS					
Russia	25.4	8.2	-4.2	3.0	5.0	Russia	27.9	18.8	-3.9	3.5	4.5
Ukraine	10.9	-3.8	2.0	0.5	2.5	Ukraine	-1.8	1.5	9.1	5.0	5.2
MENA						MENA					
Egypt	12.7	18.0	42.8	18.0	13.0	Egypt	16.6	20.4	41.4	22.0	16.0

Source: Intesa Sanpaolo Research Department forecasts

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