

April 2017

Monthly note

Intesa Sanpaolo
International Research
Network

High frequency indicators mark a consolidation of the business cycle in the countries with ISP subsidiaries. Inflation and bank credit are recovering. Monetary policy is still expected to remain easy overall.

In February, high frequency indicators generally marked a consolidation of the economic activity in the CEE and SEE areas, with still-robust performances on average from industrial production and exports. In addition, forward-looking indicators in March signalled further expectations of an accelerating path of the business cycle in the whole region, in line with the Euro area trend. The ESI indicators increased in most of the countries while the Hungarian Manufacturing PMI, although slightly decreasing at 56 in March, was still significantly above the threshold level of 50.

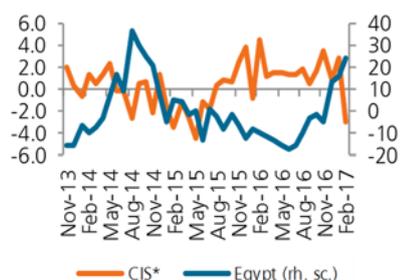
In the CIS area, the latest data from Russia were generally stronger than in the previous month, with manufacturing activity rebounding by 1% in March, after showing -2.7% in February. Industrial production fell by 4.6% yoy in Ukraine, where economic activity is currently being negatively affected by the traffic blockade in the east of the country. In Egypt, industrial production grew by double-digits for the third consecutive month in February, jumping by 23.9% yoy, but the PMI index for the non-oil private sector fell in March, to 45.9 from 46.7 in February.

In March, inflation continued on a positive trend in all CEE/SEE countries, but partially retreated in most cases from the peaks of February. Deflationary risks eventually faded and inflation recovery, mostly related to energy and food price performance, is also increasingly supported by domestic factors. CBs in the region are expected to maintain easy monetary conditions, and no interest rate reversal is expected in the short term. Exchange rates are quite stable. Slight appreciating pressures have been observed, as expected, for the CZK following the removal of the cap against the euro.

Among the CIS countries, Ukraine's CB lowered its main policy interest rate to 13% from 14% in April, its first rate cut since October 2016, following lower-than-expected inflation in March. In Russia, the CB also cut the main policy rate rate by 50bp to 9.25% at the end of April and new easing actions are expected in the future, following the fast deceleration of inflation (now close to the target). S&P raised its Russia sovereign debt outlook to Positive in mid-March and it is now expected to upgrade the sovereign credit rating to investment grade by year-end.

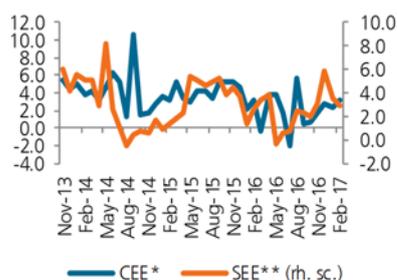
The strength of the business cycle is supporting a recovery in lending in several countries. Loans are now increasing in most countries, still at modest rates in Romania, Bosnia, and Serbia, but at a stronger pace in Slovakia and Czech Republic. In Slovenia and Hungary, loans grew in February for the first month in many years. The outstanding amount of loans continued to fall in Croatia, mainly due, however, to restructuring of credit portfolios, while flows data show that a recovery in lending is on track. Consumer loans and mortgages to households are generally the most dynamic segments, while corporate lending remains generally weaker. On the funding side, the consistent drop in foreign liabilities—in particular, in Slovenia and Romania—was partially offset by an increase in deposits. In most CEE/SEE countries, the increase in corporate deposits continued to be particularly strong. All these factors, when considering the parallel fall in corporate loans, can be interpreted as signs of still-weak corporate investments.

Industrial production % yoy – CIS – Egypt



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

Industrial production % yoy – CEE – SEE



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

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ALBANIA

 **INTESA SANPAOLO BANK**
Albania

ROMANIA

 **INTESA SANPAOLO BANK**
Romania

SLOVAKIA AND CZECH REPUBLIC

 **VÚB BANKA**

BOSNIA AND HERZEGOVINA

 **INTESA SANPAOLO BANKA**
Bosna i Hercegovina

RUSSIAN FEDERATION

 **BANCA INTESA**

SLOVENIA

 **INTESA SANPAOLO BANK**

CROATIA

 **PRIVREDNA BANKA ZAGREB**

SERBIA

 **BANCA INTESA**
Beograd

HUNGARY

 **CIB BANK**

EGYPT

 **ALEXBANK** | **بنك الإسكندرية**

UKRAINE

 **PRAVEX-BANK**

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

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

The figures in this document have been updated as of 28th April 2017.

Cross Country Analysis

CEE area

In the **CEE countries** with ISP subsidiaries, in February, the **growth** rates of industrial production and exports continue to trend positively, with the only exception being Czech Republic, where external demand contracted by 0.7% yoy. In March, the Economic Sentiment Indicators (ESI) improved in Hungary and Slovenia. They decreased slightly in Slovakia and Czech Republic, but continue to remain close to historical highs.

In more detail, in **Czech Republic** in February, industrial production accelerated to 6.7% yoy from 5.0% in the previous month; retail trade rose by 8.2% yoy in real terms from 5.6% when considering working adjusted data (wda). In the same month, exports fell (-0.7% yoy in nominal terms), but this occurred after strong growth in January.

In **Hungary**, industrial production also accelerated significantly in February (+7.0% yoy from 1.6% in the previous month). The mining and quarrying sector exhibited the strongest rate (6.2%), followed by manufacturing (2.7%). In addition, exports, after growing by 14% yoy January, expanded by 5.4% yoy in February (in nominal terms). In March, the manufacturing PMI fell to 56, but was still above the 50 level, reflecting expansionary expectations.

in **Slovakia**, high frequency data were mixed, but in general confirmed a positive tone. Industrial production in February grew by 2.6% yoy (from 7.5% in January), with manufacturing and electricity decelerating by 2.2% and 5.0%, respectively (wda). In the same month, exports also slowed slightly, to 4.3% (in nominal terms) from 4.5% in 4Q16.

Although softening, the industrial production profile confirmed a good dynamic (7.5% in February in wda data) in **Slovenia**. Manufacturing grew by 8.4% yoy and exports by 4.6% (a lower rate with respect to the two-digit performance in January (13.7%), but still in line with the 4Q16 average; retail sales growth was also quite strong (10.1% yoy in real terms).

Regarding **inflation**, in March, the CPI decelerated slightly in all CEE countries except Czech Republic, ranging from 1.0% in **Slovakia** to 2.7% in **Hungary**. The more volatile components, energy and food, which are on a rising trend, still kept headline inflation above core inflation in Slovenia and Hungary. In contrast, core inflation remained above the total index in Slovakia.

Following the ECB's announcements, monetary policy looks set to remain expansionary in the EA (and therefore in **Slovakia** and **Slovenia**) for an extended period and *well past the horizon* of the ECB's Asset Purchase Programme, which is planned to continue until December 2017. In the near term, monetary policy is expected to remain accommodative in **Hungary** and **Czech Republic** as well. At its meeting in March 2017, the MNB set a HUF 500bn upper limit on the stock of three-month central bank deposits as at the end of the second quarter of 2017 in order to preserve the amount of liquidity and thereby to maintain loose monetary conditions. At its extraordinary monetary policy meeting on 6 April 2017, the Bank Board of the Czech National Bank decided to abandon the exchange rate cap of CZK 27/EUR 1. The koruna appreciated and is now at CZK 26.8/EUR 1. Stable financial conditions are signalled in the region based on stable CDS.

The main trends of banking aggregates were confirmed in February in the **CEE region**. Lending growth improved in many countries, supported mostly by household lending, particularly in Slovakia, while corporate lending remained weak. In order to avoid excessive credit risk, central authorities in many countries have imposed some restrictions (such as a maximum LTV or a payment/income ratio) on loans to households.

In **Czech Republic**, loans also performance well (+7% yoy in February from +6.7% yoy in January). Loans denominated in foreign currency were very strong (+30%), especially in the corporate sector (+30%), which accounted for almost all of the outstanding amount. The exchange rate effect of abandoning the cap is expected to be modest because foreign currency loans account for just 12% of the total loans to the private sector. The NPLs ratio is one of the lowest among the CEE/SEE

Antonio Pesce

Davidia Zucchelli

countries (4.8% in December 2016). Czech banks benefit from a large, stable deposit funding base and plenty of liquid assets. Deposits continued to be dynamic (+8.6% yoy), particularly in households (+9.3%), supported by improving labour market conditions (growth in employment, rising wages), despite low interest rates.

In **Hungary**, for the first time in the last few years, loans showed a positive change (+0.7% yoy from -0.2% in January), due to a significant increase of loans to corporate (+2%) while loans to households continued to decline slightly (-0.6% yoy). Deposits exhibited a strong rise of 8.9% (from 8.7% yoy in January), particularly by businesses (+11.7% in February) and households (6.5%). The stable interest rate on lending (2.5%) and a declining deposit interest rate (to 0.4% from 0.5%) resulted in a slight increase in the interest spread after many months of contraction. OTP, the largest bank, stated that it expects to make acquisitions in CEE countries, Ukraine and Russia.

In **Slovakia**, lending performed well (+12% yoy in February, up from +11.4% in January), both in the corporate (up by 9.1% from 8.2%) and in the household sector (up by 14.8%), thanks to a further increase in mortgages. Deposits also grew robustly (+5.3% yoy in February from +3.8% in January), particularly among households (+8.3%), despite increasing competition from other savings products. In the corporate sector, they increased by 1% yoy (from -2.8% in January), following a volatile trend. Foreign liabilities decreased again by 2.4% yoy in February (-5.9% in January).

In **Slovenia** as well, loans once again showed a slight increase, after a long period of negative monthly changes (+0.8% yoy as of February from -2.1% in January), due to a further increase in household loans (4.8% yoy) while in contrast the outstanding amount of corporate loans decreased by 2.8% yoy. The total NPL ratio decreased considerably in the country (to 5.3% as of February), but NPLs remain high at the biggest public banks. A further concern from a financial point of view is the high level of SME indebtedness. Nevertheless, corporate deposits increased strongly again in February (+8.8% yoy). Deposits from households increased by 6.9% yoy.

SEE area

Among **SEE countries** with ISP subsidiaries, high frequency indicators generally signalled a consolidation of the economic cycle in February.

Antonio Pesce

In **Croatia**, after a strong performance recorded in December (14.9% yoy, industrial production growth weakened in January and February (+4.0% and +2.4%, respectively), but still appeared to be in good shape. In February, exports strengthened significantly, accelerating by 28.4% yoy (in nominal terms), and in the same month, nominal retail sales grew by 8.5% yoy, above the dynamic observed in January (4.7%). Households' real income has been supported by both low inflation and improving labour market conditions. In March, the ESI improved further. Political instability exacerbated on April 27, when the Prime Minister Plenkovic dismissed three ministers after they voted against a government proposal to reject a motion by the opposition for a no-confidence vote in Finance Minister Maric.

In **Romania**, in February, both industrial production and exports showed strong positive trends (5.5% and 5.4%, respectively). The ESI improved slightly in March, to close to the highs seen in 2016. In **Serbia**, in February, industrial production contracted by 1.7% yoy, but the manufacturing sector still grew by 2.5% y/y. In the same month, exports grew by 6.9% (in nominal terms). In **Bosnia**, data regarding 4Q16 GDP confirm the economic acceleration already signalled by the economic indicators in the last quarter of 2016. In the current year, industrial production and exports grew in February at 3.3% and 14.2%, respectively. In 4Q16, GDP accelerated by 4.0% yoy also in **Albania**. The exports dynamic was still very strong in March (17.3% yoy), after the impressive performance achieved in February (14.4%).

Consumer inflation was positive for all the SEE countries, ranging from 0.2% in Romania to 3.6% in Serbia in March (for Bosnia, the 1.2% refers to February). Given the low inflation profile, all the central banks of the SEE countries with ISP subsidiaries confirmed easy **monetary conditions**.

Exchange rates vs the euro have remained roughly stable in the whole area, with only slight depreciation seen in Romania. CDS spreads fell further, but only slightly.

As far as the **banking aggregates** are concerned, lending showed signs of improvement in **SEE countries**. Deposits grew in every country, despite low interest rates and competition from other savings products. As a consequence of these dynamics, the LTD ratio has now dropped to below 100% in most countries, with Bosnia and Serbia the only exceptions (110% and 104%, respectively, again increasing since January).

Davidia Zucchelli

In **Albania**, loans declined only slightly (-0.8% yoy) in February because of a strong decrease in the corporate sector (-4.7% yoy, which covers 70% of loans to the private sector) while loans continued to show dynamic growth in the household sector (+9.8%). Loans in foreign currency experienced a strong decrease (-7.3% yoy), particularly in the corporate sector (-8.9% yoy, where they account for 58% of total loans to this sector) while in the household sector, the reduction was lower (-1.7%). Deposits continued to grow (+2.2% yoy in January), driven by deposits from businesses (19.3%), while deposits by households remained unstable (-0.7%). On the liability side, foreign liabilities continued to decline sharply (-14% yoy in February).

In **Bosnia**, loans recorded a further increase, the highest among SEE countries (+3.8% from 3.4% yoy in January) both in the corporate (+3.5% yoy) and the household (4.2% yoy) sectors. Deposits were in line with previous changes as well (+8.6% yoy from 8.7% in January). The lending interest rate decreased to 4.5% (from 4.6%) while the deposit interest rate remained at 0.5%. In **Croatia**, loans continued to decrease, falling by 4.2% (from -4.3% yoy in January), mostly due to restructuring operations (sales and write-offs), but transaction data estimated by the CB show signs of recovery. Lending growth is still negative both in the corporate (-6% worsening vs previous months) and the household (-2.9% yoy) sectors. Deposits continued to grow (+1.9% from 1.5% yoy in January), particularly from businesses (9.4%), while households remained basically stable (-0.1%).

Despite the measures taken to limit fx lending, in **Serbia**, loans in euros increased by 2.2% yoy as of February for households, in this way supporting the increase in sectoral loans (+10.6%). Total loans to the private sector increased by 3.4%, vs a decrease in corporate loans (-1.5%). Deposits continued to perform extremely well (+23% in corporates and +7.1% in households). Foreign liabilities continued to decline (-16.5% yoy in February). In **Romania**, loans increased slightly in February (0.5% yoy from 0.65% yoy in January) supported by loans to households (+4.6% yoy), while loans to corporates were still weak (-3.8% yoy from -3.5% yoy in the previous month). The banking system received a boost from the Constitutional Court rejecting a potentially costly conversion of Swiss franc loans into the local currency at historical rates. Romania has been one of the most active sellers of NPLs, which declined to 9.46% of total loans (December 2016). Deposits continued to perform strongly (8.2% from 8.5% as in January).

CIS and MENA areas

In the CIS and MENA countries with ISP subsidiaries, activity data for March in **Russia** were generally stronger than for February. Industrial production rebounded by 0.8% yoy, after declining by 2.7% in February, helped by the recovery in manufacturing activity (+1% yoy compared to -2.7% yoy in February). Construction activity remained the weak spot, dropping by 5% yoy in March and off 4% in 1Q17. Again in March, retail sales contracted at their slowest pace (-0.4% y/y) since December 2014, helped by the fall in unemployment (to 5.4% in March from 5.6% in February) and the rise in real wages (+1.5% yoy). The sharp decline in inflation and the stronger ruble in the past year are expected to translate into a significant improvement in household spending in the near future. Private consumption was the main driver of Russia's economic growth between 2000 and 2013, but it was a drag on the country's GDP in 2015 and 2016. At the end of April the RCB cut its policy rate by 50bp to 9.25%.

Giancarlo Frigoli

S&P raised its outlook on Russia's sovereign debt to positive in mid-March and it is now expected to upgrade Russia's sovereign credit rating from speculative BB+ to investment-grade BBB- late

this year or early in 2018. The Moody's and Fitch rating agencies changed their outlooks on the Russian economy from negative to stable. At present, Russia has only one investment-grade rating, from Fitch (BBB-).

Industrial production in **Ukraine** fell by 4.6% in February 2017 compared to the same month in 2016 ending a six-month-long winning streak. February 2017 was the first month in which activity data were affected by the traffic blockade to the uncontrolled territories in the east of the country. In particular, in February, the statistical office recorded drops in industrial production in the Donetsk region of 10.1% and in the Luhansk region of 29%. According to preliminary data, industrial production fell in March as well (-2.7%), again dragged down by the Donetsk (-21.8%) and Luhansk (-49%) regions. In early April, Ukraine received an additional tranche, worth USD 1bn, of the four-year USD 17.5bn loan approved in March 2015. So far, Ukraine has received four tranches from the IMF under the EFF arrangement totaling USD 8.5bn. This fund inflow helped to ensure a threefold increase in the international reserves (now surpassing USD 16bn) from their lowest point of USD 5.6bn in February 2015, just before the EFF started. Ukraine's central bank lowered its main policy interest rate to 13% from 14% in April, its first rate cut since October 2016, following a lower-than-expected inflation rate in March. Annual inflation accelerated less than expected that month, rising to 15.1% yoy from 14.2% in February, mainly due to tariff increases, but the core rate slowed to 6.3% and the CB confirmed its year-end target of 9.1%.

In **Egypt**, industrial production showed double-digit growth for the third consecutive month in February, jumping by 23.9% yoy. However, activity in the non-oil private sector has continued to show weakness. The PMI index for this part of the economy fell to 45.9 in March from 46.7 in February, remaining under the critical 50 level for the 18th consecutive month, dragged down by a decline in output and orders. The sharp devaluation of the currency and the cut in subsidies have continued to feed inflationary pressures. Annual inflation rose to 30.9% in March from 30.2% in February. Some solace was provided by core inflation data, which eased to 32.3% from 33.1%, the first decline since before Egypt floated its currency last November. The large devaluation is supporting exports, which in dollar terms jumped by 22% yoy in February, following the 32.6% increase recorded in January.

Regarding banking aggregates, in **Russia**, lending decreased again in January (-6.2% yoy from -4.2%) because of a strong decrease in the corporate sector (-8.5%, accounting for around 76% of the loans to the private sector), while household lending showed a further slight increase of 1.4% yoy. As highlighted by the IMF in the last Global Financial Stability Report, NPLs and the problem loan ratio increased to 15.6% at the biggest 24 banks, while in more than a third of the banking system, provisioning needs amount to at least three years of net income. In January, deposits decreased by 3.2% (from -3.9% in December), supported by an improvement in real wages. Interest rates on new loans to businesses declined to 11.6% (from 11.8%) whereas the rate on deposits from households remained stable at 6.5%, squeezing the spread.

In **Ukraine**, the recapitalisation continued during 2016 because of high losses, and Privatbank has been nationalised. Banking aggregates showed a further deterioration in February. Loans decreased by 6.7% (from -1.4% in January) because of a decline among corporates (-5.4% from +0.2% in January) and a decrease among households by 12.2% yoy. Deposits increased by 2.3% (+6.0% yoy in January) both among the corporates (3.4%), owing to the economic recovery, and households (1.8%). The LTD ratio remained very high (137.6%). In **Egypt**, in December, loans and deposits grew strongly (by 43% and 41%, respectively) because of the depreciation of the local currency (net of the currency depreciation effect, the performance was -6% and +4%, respectively). The nominal effect had been stronger in the corporate sector, where loans in foreign currency accounted for almost 50% of total loans; however, in the households sector they accounted for just 3% of total loans. Deposits increased both from corporates (40%) and households (42%). NPLs remained very modest (5.8% of total loans as of December). The LTD ratio is very low (39%). Securities - in particular, government bonds - account for a significant share of total assets (over 40%).

Davidia Zucchelli

Country-Specific Analysis

Albania

Real Economy

The GDP growth rate for Albania in Q416, at 4%, increased significantly compared with the 1.8% recorded in 2015, supporting an estimate of economic growth in 2016 of around 3.5% (from 2.6% in 2015). The economic growth was broadly supported by strong domestic consumption and investment as well as by an improved external demand. This led to a fall in the unemployment rate from 17.3 % at the end of 2015 to 14.5% by the end of 2016. In March, the exports of goods increased by 17.3 % yoy, an acceleration with respect to the 13% seen in February, and imports increased by over 15% yoy.

Kledi Gjordeni

In March 2017, the annual rate of consumer inflation was 2.1 % vs 0.3% a year earlier. The annual CPI rate in March was pushed up mainly by food prices and the pricing of non-alcoholic beverage, transport and energy. Inflation is expected to reach the 3% target of the Bank of Albania by 2018. The current account deficit contracted by around 7% in 2016, whereas public finances scored a primary surplus and public debt decreased by around 0.7 GDP percentage points. Incoming FDIs have averaged above 7% of GDP over the past four years, and they increased further in 2016, reaching close to 9% of GDP. Through newly approved fiscal measures, the Albanian authorities are determined to reduce public debt.

Financial Markets

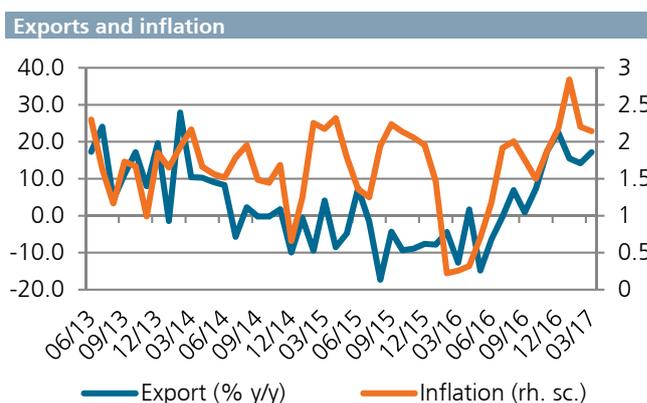
On the monetary side, the sustainable gradual return of inflation to target should allow the maintenance of an expansionary monetary policy in the near term and a careful normalisation over the medium term. Financing costs are at historical lows (1.25%). Volatility in the exchange rate market has been low.

Banking Sector

The decrease in banking sector earnings and the slight decrease of liquidity indicators in 2016 (which remain at high levels) are balanced by positive developments in the real economy. Compared to the previous year, in February 2017, the total loans to the private sector decrease was by 0.75%. In the same period, household loans grew by 2.91%. Corporate loans contracted by 1.13%. Total deposits from the private sector grew by 2.16%, due to an increase of corporate deposits of 19.3%, while deposits from households fell by 0.65%. The trend of NPLs is falling, reaching 18% in February. In collaboration with the FinSAC project of the World Bank, the CB and the other actors are working hard to bring NPLs down.

Last macroeconomic indicators			
%	Last value 4Q 2016 3Q 2016		
Industrial production, wda yoy	n.a.	n.a.	n.a.
Export of goods, nominal yoy	17.3 (Mar)	15.7	2.4
Unemployment rate	n.a.	14.2	14.7
Inflation rate, average yoy	2.1 (Mar)	1.9	1.9
Loans (private sector, yoy, eop)	-0.8 (Feb)	-0.8	-0.4
Deposits (private sector, yoy, eop)	2.2 (Feb)	2.7	2.2

Source: INSTAT, Central Bank of Albania



Source: INSTAT

Bosnia and Herzegovina

Real Economy

According to the Agency for Statistics estimate, Bosnia and Herzegovina recorded 2.0% yoy real GDP growth in 2016 (vs 3.0% in 2015) as the solid 2.5% growth rate in the second half of the year was insufficient to override the sluggish 1.5% yoy rate recorded in 1H16. A detailed sectoral breakdown reveals that 2016 gross value-added growth was largely supported by manufacturing and electricity production (1.1 pp contribution), followed by 0.3 pp contributions from agriculture and financial services, with marginal negative contributions of -0.1 pp from construction and public services. At the same time, both the Federation and the Republika Srpska entity reported stronger growth rates (2.6% and 2.9% yoy, respectively). We expect final data for 2016 GDP growth will be revised upward, to closer to our 2.5% yoy estimate.

Ivana Jovic

As for 2017, high frequency data for February showed 3.3% yoy growth in industrial production, supported by 14.2% growth in exports and 3.4% growth in real retail trade. Unfortunately, as parliament failed to quickly adopt changes to excise taxes and a new deposit insurance law, the IMF reported that the next phase of its EFF programme with BIH is now on hold, potentially negatively affecting the mobilisation of external financing for much-needed infrastructure projects.

Banking Sector

The growth rate of loans to the private sector continued to accelerate, to 3.8% yoy in February. Loans to households rose by 4.2% yoy, as a result of a 6.7% yoy rise in consumer loans, while other types of loans recorded negative rates (housing loans, -2.8% yoy; credit card loans, -0.3% yoy; business activity loans, -2.9% yoy). Loans to non-financial corporations grew by 3.5% yoy due to a 3.9% yoy rise in loans to privately owned companies, whereas loans to public companies slipped by 4.3% yoy.

Ana Lokin

The growth in deposits from the private sector remained robust in February, at 8.6% yoy, as deposits of non-financial corporations continued their strong pace of growth at 10.1% yoy, while deposits from households recorded an 8.0% yoy increase.

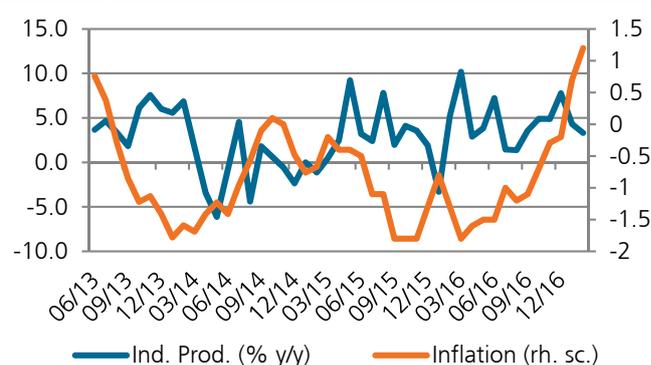
Share of NPLs in total loans at the end of 4Q16 stood at 11.8%, 0.3 pp lower qoq due to a 0.3 pp lower share in loans to legal entities (14.7%) and a 0.2 pp fall in the share in loans to households (8.6%). A stronger improvement in the quality of loan portfolios should be possible once the framework for recovering and resolving NPLs is improved, in line with IMF recommendations (provisions in banking laws to support the purchase and sale of NPLs, adoption of guidelines for out-of-court restructuring). Currently, the purchase and sale of NPLs are tackled only within the recently adopted legislative changes of entities' Laws on Banks, regulating bank recovery and resolution (harmonisation with the EU BRRD).

Latest macroeconomic indicators

%	Last value	4Q 2016	3Q 2016	2016
Industrial production, wda yoy	3.3 (Feb)	5.8	2.2	
Export of goods, nominal yoy	14.2 (Feb)	11.3	1.8	
Retail trade, real, wda yoy	3.4 (Feb)	8.1	7.2	
Inflation rate, average yoy	1.2 (Feb)	-0.4	-1.1	
Loans (private sector, yoy, eop)	3.8 (Feb)	3.4	2.4	
Deposits (private sector, yoy, eop)	8.6 (Feb)	7.4	6.6	

Source: BHAS, CBBH

Industrial production and inflation



Source: Labour and employment agency

Croatia

Real Economy

Even though industrial production growth slowed down in February to 2.3% yoy, a string of positive trends continued as real retail trade grew by 5.7% yoy and goods exports by (preliminary) 11.5% yoy. However, April was heavily marked with a peak in the country's largest private food processing and retail holding, Agrokor's liquidity crisis, following its downgrade by rating agencies. More precisely, amid a systemic significance (deep interlinkages with numerous suppliers) of the company on April 10, the Croatian government introduced the so-called "Lex Agrokor" imposing an extraordinary administrator to lead the restructuring process and settlement negotiations with creditors and suppliers. The company's payment of its obligations is currently at a standstill and the payment of a second tranche of capital remains the most important task of government's administrator in order to stabilise the company's operations (in the first place retail part of the business in front of approaching tourist season) and secure orderly an settlement and restructuring process to minimise negative effects on the domestic economy.

Ivana Jovic

Later in the month, domestic sentiment was supported by the EDP April notification stating that the 2016 fiscal deficit had contracted to just 0.8% of GDP, with the primary surplus rising to 2.5% and the public debt level declining towards 84.2% of GDP, implying that the country could leave the EDP. On April 27, Prime Minister Plenkovic dismissed three ministers from the junior coalition Bridge party after they voted against a government proposal to reject a motion by the opposition Social Democratic Party (SDP) for a no-confidence vote in Finance Minister Maric. The opposition had demanded the finance minister to step down due to what it called a lack of credibility in his handling of a financial crisis at Agrokor. PM Plenkovic hopes to form a new parliamentary majority or the country will go to the polls (last snap polls were held on September 2016, while local elections are to be held on May 21st).

Financial Markets

Kuna liquidity remained outstanding in March, hence average 3M Zibor edged down by 2 bps mom, to 0.61%. Liquidity remains strong in April, with 3M Zibor down to 0.58%. The kuna continued to strenghten vs the euro in March on the back of strong fundamentals. Thus, the average rate declined from HRK 7.45 in February to HRK 7.42 in March. In April, rising corporate demand (dividend payouts) led to a small depreciation in the value of the kuna.

Ana Lokin

Banking Sector

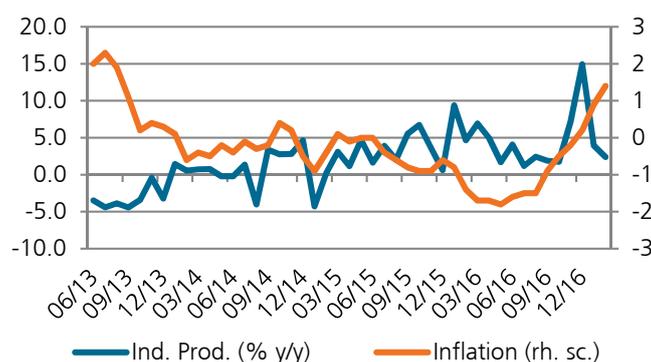
Private sector loans were down by 4.2% yoy in February (vs -4.3% yoy in January) as a more moderate fall in loans to households (January at -4.2%; February at -2.9%) was offset by a sharper drop in corporate loans (January at -4.3%; February at -6.0%). Housing loans in February decreased by 5.2% yoy and overdrafts by 5.8% yoy, while cash non-purpose loans continued on a positive trend, growing by 2.2% yoy. Working capital and investment loans slipped by 9.0 and 2.5% yoy, respectively, in February, and other loans by 5.8% yoy. Transaction data showed that growth of claims in the private sector remained positive at 0.7% yoy in February.

Deposit growth rose to 1.9% yoy in February, due to a sharp 9.4% yoy rise in corporate deposits, whereas household deposits recorded a small nominal decrease of -0.1% yoy, resulting from the kuna strengthening vs the euro (fx adjusted, retail deposits grew by 1.5% yoy).

Latest economic indicators			
%	Last value	4Q 2016	3Q 2016
Industrial production, wda yoy	2.4 (Feb)	7.8	1.8
Export of goods, nominal yoy	28.4 (Jan)	12.9	2.2
Retail trade, real, wda yoy	5.7 (Feb)	4.7	4.7
ESI (index)	119.0 (Mar)	115.5	113.0
Inflation rate, average yoy	1.1 (Mar)	-0.2	-1.3
Loans (priv. sector, yoy, eop)	-4.2 (Feb)	-4.3	-6.0
Deposits (priv. sector, yoy, eop)	1.9 (Feb)	2.8	3.2

Source: CBS, EC, CNB

Industrial production and inflation



Source: EC

Czech Republic

Real Economy

Hard activity data in the latest available reporting period (February) have been affected by calendar effects and thus turned weaker in headline terms. Industrial output growth slowed to 2.7% yoy in February from 9.6% in January, while retail sales slowed to a mere 0.6% yoy gain in real terms. The underlying activity nonetheless continued to advance, as evidenced by survey data, labour market, and price pressures. Indeed, in March, the Markit PMI was at 57.5, well above the 50-point threshold which separates expansion from contraction. The overall unemployment rate in February declined in seasonally adjusted terms to 3.4%, Europe's lowest level.

Price pressures are now widespread. Industrial prices in March accelerated to 3.0% yoy growth, while consumer price inflation picked up to 2.6% yoy. The increase in headline consumer inflation rate (from 2.5% in February) came despite the downside pressure from food prices. Core inflation thus, unlike in the Eurozone, rose, due to domestic demand pressures in the Czech economy.

The strong cyclical position of the country can also be seen in the public finances. Indeed, in the first notification by the Eurostat, in 2016, the balance of the public finances posted a surplus, its first in modern history, of 0.6% of GDP. Gross public debt declined to 37.2% of GDP from 40.3% a year earlier. Unsurprisingly, already earlier in the month, Fitch and S&P affirmed their ratings for Czech Republic of A+ with a stable outlook

Financial Markets

The long-awaited abandonment of the koruna cap became a reality on 6 April. The koruna, freed of its 27 cap vs the euro, immediately appreciated by some 1-2%, but soon afterwards stabilised in a range just below the former threshold. Development has been in line with our expectations, as profit-taking on massive long koruna positions prevents the EUR/CZK from breaking the 26.5 level. We continue to see this as the most likely year-end level. Letting the koruna float is just one step towards monetary policy normalisation in Czech Republic. Another step will be tightening via interest rates. The first hike will most likely take place in 1Q18.

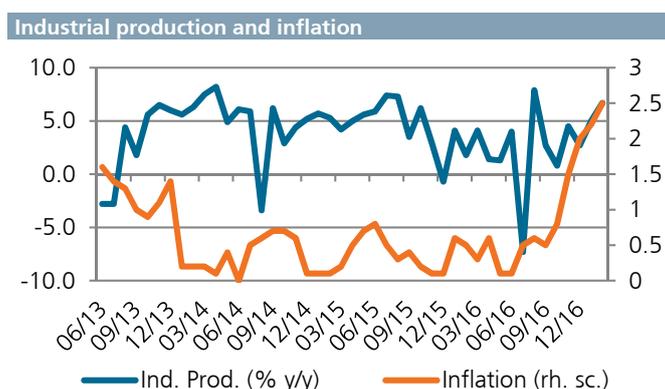
Banking Sector

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

Zdenko Štefanides

Latest economic indicators			
%	Last value	4Q 2016	3Q 2016
Industrial production, wda yoy	6.7 (Feb)	2.7	1.1
Export of goods, nominal yoy	-0.7 (Feb)	-0.4	0.3
ECB refi rate	0.0 (25th Apr)	0.0	0.0
ESI (index)	106.5 (Mar)	108.9	106.2
Inflation rate, average yoy	2.6 (Mar)	1.4	0.5
Loans (priv. sector, yoy, eop)	7.0 (Feb)	6.7	6.5
Deposits (priv. sector, yoy, eop)	8.6 (Feb)	5.8	7.1

Source: CBS, EC, CNB



Source: EC

Egypt

Real Economy

GDP grew by 3.8% yoy in 4Q16 compared to 4% yoy in 4Q15. The slowdown is mainly attributed to the drop in consumption and to inflationary pressures resulting from the flotation of the Egyptian pound, as well as the drop in tourism and Suez Canal revenues.

Emil Eskander

The IMF revised, in its World Economic Outlook for April 2017, Egypt's GDP growth rate to 3.5% in FY2016/17, down from a previously expected 4%, reflecting the economic toll from the flotation decision. On a more positive note, the IMF said it expected growth to recover to 4.5% in FY2017/18.

Annual headline inflation in urban areas increased to 30.9% in March compared to 30.2% in February, registering its slowest rise in the monthly rate since last November. The IMF said it expected inflation to record an average of 22% for FY2016/17.

Egypt's Net International Reserves (NIR) recorded their highest level since March 2011, reaching USD 28.52bn at the end of March 2017 compared to USD 26.54bn billion at the end of February, an increase of 7.5%. This rise was mainly driven by the inflow of USD 1bn from the World Bank and USD 500mn from the African Development Bank (AFDB).

Financial Markets

The Central Bank of Egypt's Monetary Policy Committee kept its benchmark interest rates unchanged at its last meeting on 30 March, when the overnight deposit rate, overnight lending rate, and the discount rate remained unchanged at 14.75%, 15.75% and 15.25%, respectively. Egypt's cabinet agreed to increase the maximum amount of international bonds it can issue on international markets to USD 7bn, up from USD 5bn, to diversify the country's sources of foreign currency and increase foreign reserves.

Banking Sector

Total loans to the private sector increased by 42.75% in December 2016, to EGP 857.5bn compared to December 2015, as total loans to corporates (representing 73.4% of total loans to the private sector) increased by 54.1% yoy.

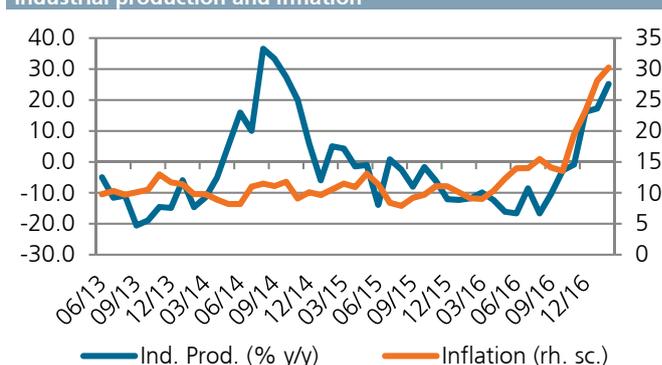
Total deposits from the private sector increased by 41.43% in December 2016 (yoy) to EGP 2.19tn, with total household deposits (representing 77.71% of total private sector's deposits) increasing by 41.83% yoy.

Latest economic indicators

%	Last value 4Q 2016 3Q 2016		
Industrial Production, wda yoy	25.2 (Feb)	4.2	-11.8
Nom. Exports yoy	22.0 (Feb)	8.2	8.0
Retail Sales yoy	n.a.	n.a.	n.a.
Inflation rate yoy	30.9 (Mar)	18.8	14.5
CB Reference Rate	14.8 (25th Apr)	14.8	11.8
Loans (priv. sector, yoy, eop)	42.8 (Dec)	42.8	16.0
Deposits (priv. sector, yoy, eop)	41.4 (Dec)	41.4	17.9

Source: Ministry of Industry & Foreign Trade, Central Bank of Egypt, HSBC

Industrial production and inflation



Source: Ministry of Planning, CAPMAS

Hungary

Real Economy

Headline CPI was 2.7% in March, slightly below expectations and the February multi-year peak of 2.9%. The low base, as well as oil and food prices, strongly affected inflation, but core inflation was also higher in Q1 compared to last year. Domestic demand is also getting stronger, primarily due to higher wages. Inflation is expected to creep higher in the upcoming period despite the selective VAT reduction, as domestic demand is set to remain strong.

Sandor Jobbagy

Industrial production showed an acceleration in February compared to relatively weak performances in January and at end-2016. External and internal balances remained strong.

Exports have continued to be supported by car production and by an increasing rate of the production of electronic devices. At the same time, imports have remained muted, despite rising consumption, partly due to the lack of momentum in private investments. Fiscal developments showed a larger-than-expected deficit following positive balances in January and February.

Financial Markets

The NBH left the policy rate unchanged (0.90%) in March as well as in April. The end-Q2 target for the 3M depo facility was set at HUF 500bn. The market adjustment is ongoing, and short-dated T-bill rates and money market rates are close to zero in some cases, as the NBH's strategy is channeling liquidity to the interbank and FI markets.

The long end of the yield curve has already begun to rise. The forint has become slightly weaker recently, moving above EUR 1/HUF 310.

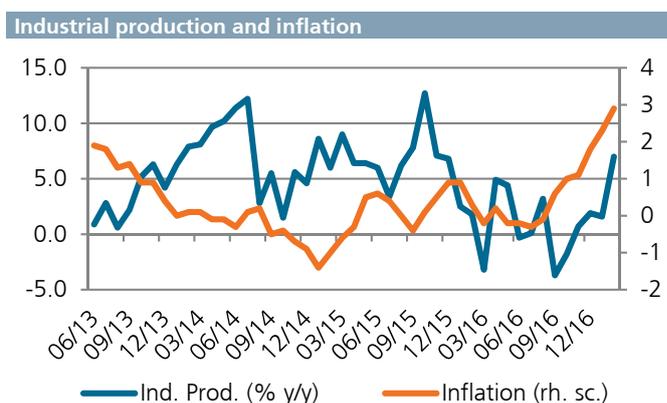
Banking Sector

Loan stock to the private sector showed a moderate rise at the beginning of 2017, with a higher stock of credit to both corporate sector and households. Deposits from both sectors are increasing in volume. Real economic developments are lending support to the demand side of the loan market; credit conditions continued to ease. Households' stronger loan demand is driven by the housing market recovery and the increased appetite for personal loans.

Loan portfolio quality continued to improve, with NPLs now below 10%. The central bank's loan portfolio manager, MARK, was sold to a private company.

Latest economic indicators			
%	Last value	4Q 2016	3Q 2016
Ind. Production yoy	7.0 (Feb)	0.3	-0.1
Nom. Exports yoy	5.4 (Feb)	4.0	3.5
ESI (index)	115.7 (Mar)	112.4	109.7
Retail Sales yoy	1.2 (Feb)	3.5	4.4
Inflation Rate yoy	2.7 (Mar)	1.3	0.1
CB Reference Rate	0.9 (25th Apr)	0.9	0.9
Loans (priv. sector, yoy, eop)	0.7 (Feb)	-1.9	-4.6
Deposits (priv. sector, yoy, eop)	8.9 (Feb)	6.3	7.0

Source: CSO, NBH, Bloomberg



Source: CSO

Romania

Real Economy

The economic data releases pertaining to 1Q17 point to strong momentum in economic growth in an environment generally dominated by a noisy debate on public policy issues. Auto sales growth was strong in 1Q17 (+27% yoy – though we would point out that the statistical base is small). Lower taxes pushed up residential construction. The current account balance continued to improve, as higher foreign investments offset the negative performance of the commercial balance (with the latter showing that the commercial deficit grew by 25%, to EUR 1.2bn, at the end of February 2017). The domestic data prints were also incorporated into the latest IMF forecast update, which revised GDP up to 4.2% and average inflation to 1.3% in 2017, while lowering the unemployment rate forecast to 5.2% in 2017.

Monthly industry growth was feeble in February (+0.6% mom), but is well in positive territory on a yearly basis at +4.6% (raw data). March inflation was roughly unchanged compared to February, at +0.18% yoy, with the decline in prices for non-food items (mainly energy prices) offsetting most of the push that came from higher prices for food items and services.

Financial Markets

Romanian financial markets have experienced a tepid increase in volatility, even if it is still below that of regional peers. The year-to-date EUR/RON FX rate is higher on average (at RON 4.52 in 1Q17 vs RON 4.49 in 1Q16) as in a general inflationary macro environment, the RON is losing nominal strength.

Local currency bonds have experienced some relief after the ECB signaled that loose monetary policies will continue and interest rates will not move higher in the short run. Furthermore, a eurobond issuance of the MoF has been affected by the above-noted factors, removing funding concerns (if there were any) of market participants.

The RON interest rates market continues to be dominated by abundant liquidity. Concerns over this year's budget deficit target of 3% still linger in the market, although the budget execution for Q1 was positive, but with public spending control still a matter for debate. Notwithstanding this, a move in the policy rate (currently 1.75%) this year is highly unlikely, as inflation will likely reach the central bank's target only towards the end of the year.

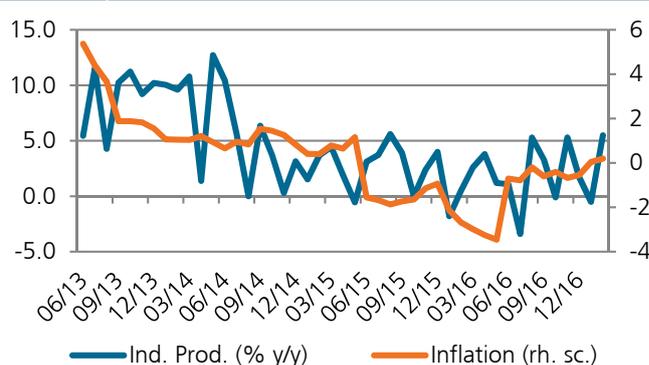
Banking Sector

RON credit growth continues to perform well with the total RON credit advancing in double digits on an yearly basis, at +12.55% while FX credit contracted by 12.68% yoy. New RON deposits behaviour exhibit the same characteristics growing by 10.71% yoy, while new FX deposits grew by 4.27% yoy.

Latest economic indicators			
%	Last value 4Q 2016 3Q 2016		
Ind. Production yoy	5.5 (Feb)	2.3	1.7
Nom. Exports yoy	5.4 (Feb)	7.7	5.2
ESI (index)	105.4 (Mar)	104.1	103.5
Retail Sales yoy	7.8 (Feb)	8.9	11.4
Inflation Rate yoy	0.2 (Mar)	-0.5	-0.5
CB Reference Rate	1.8 (25th Apr)	1.8	1.8
Loans (priv. sector, yoy, eop)	1.9 (Feb)	0.6	0.5
Deposits (priv. sector, yoy, eop)	9.4 (Feb)	8.5	10.8

Source: National Statistical Institute, NBR

Industrial production and inflation



Source: NBR

Russia

Real Economy

According to preliminary estimations, 1Q17 GDP increased by 0.3% qoq, but fell by 0.3% yoy. The quarterly decrease in GDP was due to the high base effect of the previous leap year. March statistics can be considered positive, as they have compensated for the February numbers. Dynamics of basic industries, however, do not yet demonstrate stable growth. Industrial production recovered to 0.8% yoy growth in March, after a 2.8% yoy decline in February.

Anna Mokina

Consumer demand grew in January and February, thanks to a one-time payment to the pensioners which substituted for indexation of pensions. The trend is expected to continue for several months, but it still remains at a low level. Annual inflation slowed to 4.3% in March. Usually such a low inflation rate in Russia is due to seasonal decreases in food prices (that occur in July-September). But in March, the reasons for the deceleration in inflation were the appreciation of the ruble and a weak consumer demand.

Financial Markets

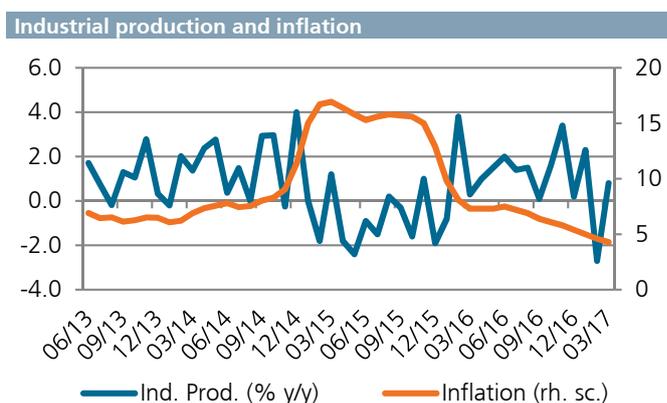
A strong ruble is considered to have had a short-term effect and in April and May inflation might accelerate again. After the latest two consecutive policy rate cuts for a total of 75bp, the RCB is now expected, in our baseline scenario, to reduce the rate very cautiously in the remaining part of the year from the current level of 9.25%. In the first months of 2017, the ruble continued to appreciate against the dollar (+3.7% in January, +2.7% in February, +0.6% in March). In 1Q17, the current account surplus, which has reached its highest level in two years, thanks to exports growth, became the main driver for ruble appreciation.

Banking Sector

In January, lending decreased by 6.2%, based on slight growth in household lending (+1.4%) but a significant fall in the corporate sector (-8.5%). Deposits also demonstrated negative statistics, declining by 3.2%. However, household deposits grew by 5.3%, while corporate deposits dropped by 13.4%. The decrease in corporate lending might be due to the central bank’s policy of high real interest rates in order to maintain inflation at a low level, and enterprises have own funds available. Deposits are not very attractive to the corporate segment because of their rather low profitability, and thus organisations prefer other financial instruments.

Latest economic indicators			
%	Last value	4Q 2016	3Q 2016
Ind. Production yoy	0.8 (Mar)	1.7	1.0
Nom. Exports yoy	28.0 (Feb)	1.7	-9.9
Retail Sales yoy	-2.6 (Feb)	-4.7	-4.5
Inflation Rate yoy	4.3 (Mar)	5.8	6.8
CB Reference Rate	9.25 (28th April)	10.0	10.0
Loans (priv.sector, yoy, eop)	-6.2 (Jan)	-4.2	0.9
Deposits (priv.sector, yoy, eop)	-3.2 (Jan)	-3.9	3.9

Source: State Statistics Federal Service, Central Bank of Russia



Source: State Statistics Federal Service

Serbia

Real Economy

Despite some slowdown of economic activity at the beginning of 2017 due to cold weather conditions (referring mostly to the agriculture and industry sector), real GDP is still expected to expand by 3.0% in 2017, mostly owing to improved business environment, new investments, continued implementation of infrastructure projects, strong exports and increasing private consumption. However, higher domestic demand and oil prices could bring upside pressure to the import side, resulting in a lower net export contribution to growth. In the first two months of 2017, imports grew at a faster pace than exports, at +11.7% versus +8.5%.

Branka Babic

Y-on-year inflation jumped to 3.6% in March 2017, surpassing the centre point of the inflation target range (3±1.5%) for the second consecutive month. The CPI in March climbed to the highest seen since September 2013, primarily owing to rise in prices of fuels for personal transport (16.2%), tobacco (9.3%) and meat (6.1%). When compared to a month before, consumer prices increased by 0.2%, mostly due to higher prices of mobile telephony services and fruit. After an increase in February by 25.5% since end-2016, vegetable prices in March declined by 3.6% compared to February, supported by an increasing supply of seasonal vegetables from local production, as per usual in March. The NBS assessed that inflation is expected to move at the level slightly above 3% in the remaining part of the year.

Financial Markets

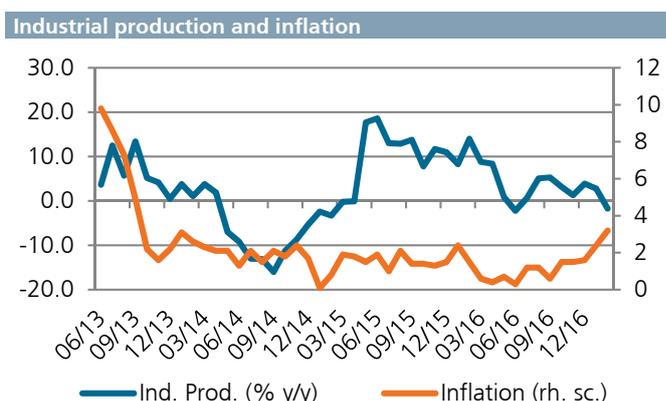
The National Bank of Serbia left the key policy rate unchanged at 4.0% for the ninth consecutive month, as had been expected. The NBS judged that the rate is currently at appropriate level, taking into consideration the effects of the past monetary easing and projection that the inflation will move within the target tolerance band (3±1.5%) in the period ahead. The Central Bank also stated that it will keep an eye on further movements of oil prices and developments on the international financial market, especially because of the divergent policies of the leading central banks that it believes require a cautious approach to monetary policy in the country. During 1Q17, the local currency depreciated by 0.4% against the EUR, while the NBS intervened on the FX market by selling EUR 345m in order to defend the dinar against stronger weakening mostly due to seasonal factors such as increased demand of energy importers for foreign currency. Most of this amount (EUR 330m) was sold in the first two months.

Banking Sector

Loans to the private sector expanded by 3.4% yoy in February 2017, due to an increase of loans directed to the households sector (10.6%), while there were fewer loans in the corporate sector relative to previous year (-1.5%). Deposits rose by 12.0%, owing to both household and corporate sector that increased by 7.9% and 21.3%, respectively.

Latest Economic Indicators			
%	Last value	4Q 2016	3Q 2016
Ind. Production yoy	-1.7 (Feb)	2.8	3.7
Nom. Exports yoy	6.9 (Feb)	15.8	10.1
Retail Sales yoy	1.1 (Feb)	6.5	6.8
Inflation Rate yoy	3.6 (Mar)	1.5	1.0
CB Reference Rate, eop	4.0 (25th Apr)	4.0	4.0
Loans (priv.sector,yoy,eop)	3.4 (Feb)	2.4	6.0
Deposits (priv.sector,yoy,eop)	11.9 (Feb)	11.5	12.2

Source: Statistical Office, National Bank of Serbia



Source: Statistical Office, National Bank of Serbia

Slovakia

Real Economy

Real activity in February posted some payback for the strong growth recorded in January. However, despite the recent deceleration of activity, the outlook remained solid. The labour market keeps on surprising positively, and did also as 1Q17 unfolded, with the registered unemployment rate decreasing already to 8.0%, just 0.7ppt above the all-time low of 2008, thereby intensifying labour shortages, which invites further growth of private consumption. In the manufacturing sector, decent growth of new orders and positive sentiment increased hopes for strong growth of activity ahead. Construction production, albeit still in a deep year-on-year contraction from a previous boom, seems to have bottomed out, posting encouraging sequential growth at the beginning of 2017.

Andrej Arady

As with the Eurozone aggregate, Slovak inflation also edged down in March from the previous peak, from 1.1% y/y in February, to 1.0% in March. Headline index decreased on volatile energy food and fuel components, but, unlike in the Eurozone, the demand-driven component continued to show growth, partially compensating for decelerating imported inflation.

Financial Markets

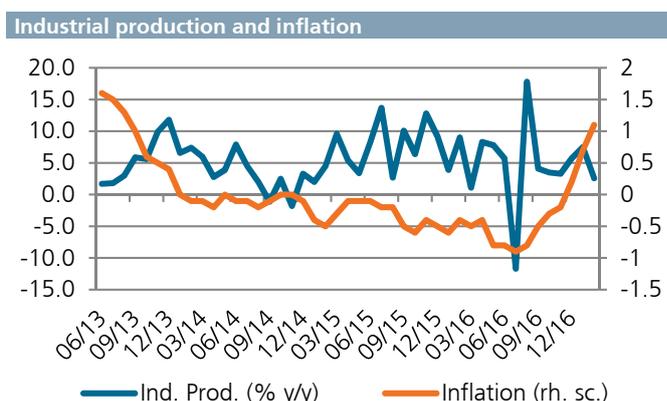
According to the first notification by the Eurostat, the Slovak public finance deficit last year reached an equivalent of 1.68% GDP. The deficit was lower than planned (1.93% GDP), but also lower than in the previous year (2.7% GDP) and in fact the lowest in the modern history of Slovakia. This, in headline terms highlights impressive progress in public finances, though had only limited immediate impact on Slovak government bonds pricing. Spreads versus German bunds decreased by around 10 basis points, but this was primarily due to a sell-off of German safe-haven trades after the first round of France's presidential elections. In fact, relatively to other countries, Slovakia's deficit was still two-tenths higher than Eurozone average.

Banking Sector

The Slovak banking sector remains sound with a high growth rate of both loans and deposits. On loans, the potential to maintain the current extraordinary strong growth ahead in core segment – mortgages – though seems to be limited. Despite average household debt-to-income ratio being relatively low, in some segments of the population (primarily those that are the most important for mortgage market), the debt burden has recently increased close to the upper limits seen in more developed countries. Interest rates are, however, well anchored at all-time lows.

Latest Economic Indicators			
%	Last value	4Q 2016	3Q 2016
Ind. Production, wda yoy	2.6 (Feb)	4.2	3.4
Nom. Exports, yoy	4.3 (Feb)	4.5	1.9
ESI (index)	104.6 (Mar)	102.8	103.0
Retail sales, yoy	5.6 (Feb)	3.0	0.9
Inflation rate, yoy	1.0 (Mar)	-0.1	-0.7
ECB refi rate	0.0 (25th Apr)	0.0	0.0
Loans (priv.sector,yoy,eop)	12.0 (Feb)	10.3	9.6
Deposits (priv.sector,yoy,eop)	5.3 (Feb)	4.6	7.6

Source: Statistical Office of the Slovak Republic, National Bank of Slovak Republic



Source: Statistical Office of Slovak Republic

Slovenia

Real Economy

The economy has continued to flourish in the early part of this year: economic sentiment is high, while the labour market and consequently domestic demand are strengthening further. The outlook in the international environment from the beginning of this year has provided the basis for continuing rapid growth in Slovenia's export sector.

Nastja Benčič

In March 2017, the annual growth of consumer prices was 2.0% (in March 2016 it was -0.9%). Annual inflation was influenced mostly by higher prices of petroleum products and monthly inflation by higher prices of clothing and footwear.

Financial Markets

Short-term interest rates continued their downtrend, reflecting the outstanding ECB's accommodative monetary policy. In April, the ECB Governing Council decreased the net asset purchases at a monthly pace of €60 billion (to March €80 billion). The three-month Euribor rate is currently staying at -0,332%, with no sign of recovery.

The yield on Slovenia benchmark 10-year government bond decreased by 0.25 bps to 0.861% (as at 19 April 2017) in comparison to three months ago. Slovenia also sold 117 million euros of treasury bills at an auction on 4 April 2017 compared with an initial target of €100 million, with yields mostly down, according to the Finance Ministry. It sold €39 million of 18-month bills at a yield of -0.22 percent versus -0.19 percent at the previous auction of such bills in October 2016. It also sold €48 million of 12-month bills at a yield of -0.27 percent versus -0.25 percent in March and €30 million of six-month bills at an unchanged yield of -0.3 percent. Slovenian 5y CDS slipped to 75,86 bps due to due to robust economic data.

Banking Sector

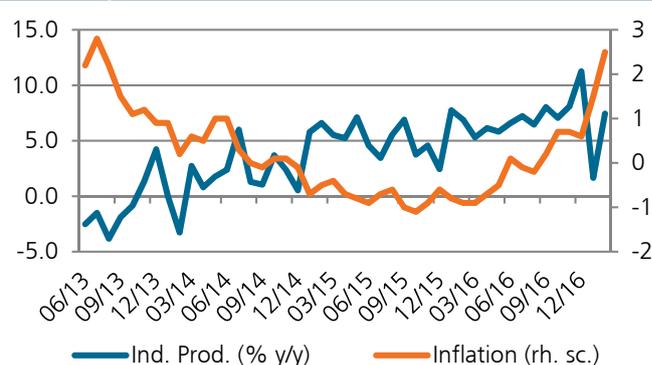
After several years of decline, total loans to the non-banking sector were up for the third consecutive month. While certain major loans contributed to December's sharp growth in corporate loans, the continuing growth in January and February was likely to have been a reflection of increased corporate demand. Both corporates and banks have reported increased needs for financing and higher demand for loans, as well as better access to banks loans than in the past. Household lending continued to strengthen. Favourable conditions in the labour market and increased consumer confidence in the context of the more active lending policies of certain banks are spurring households to raise loans.

The inflow of deposits from households strengthened at the beginning of the year. Annual growth was 6.9% in February. The stock of the afore-mentioned deposits increased by EUR 292 million over the first two months of the year, to reach EUR 17.2 billion. The shortening of maturities on household and corporate deposits continued; in February, sight deposits accounted for 65% of total deposits by the non-banking sector.

Latest Economic Indicators			
%	Last value 4Q 2016 3Q 2016		
Ind. Production, wda yoy	7.5 (Feb)	8.8	7.2
Nom. Exports yoy	4.6 (Feb)	4.5	4.1
ESI (index)	112.9 (Mar)	109.0	106.9
Consumer Confidence Indic.	-8.0 (Mar)	-10.3	-12.0
Inflation Rate yoy	2.0 (Mar)	0.7	0.0
ECB refi rate	0.0 (25th Apr)	0.0	0.0
Loans (priv.sector,yoy,eop)	0.8 (Feb)	-2.7	-6.8
Deposits (priv.sector,yoy,eop)	7.4 (Feb)	7.2	6.6

Source: Statistical Office of the Republic of Slovenia, National Bank of Slovenia

Industrial production and inflation



Source: Statistical Office of the Republic of Slovenia

Ukraine

Real Economy

The Ukraine central bank is now less optimistic on GDP growth for this year. In particular, in 2017, economic growth is projected to slow to 1.9% (down from the central bank’s January projection of 2.8%) as production in several sectors looks set to decline after freight transport was halted along the contact line in Donetsk and Luhansk oblasts and following the seizure of Ukraine enterprises by rebels in the non-government controlled territories. The downward revision of the growth forecast was primarily prompted by an anticipated increase in the trade deficit. This looks likely to occur due to a shift to imported raw materials by producers in the energy sector and metallurgy to replace the lost resource base, as well as due to a loss of production capacity in export-oriented industries. Private consumption, which is expected to increase by 4.9% in 2017, will be the major driver of economic growth in 2017. Private consumption growth will be driven by a marked rise in real wages, following a doubling of the minimum wage and easing inflation. Real GDP growth is projected to accelerate to 3.2% in 2018 and to 4.0% in 2019. Growth will be driven by robust consumer and investment demand, higher exports amid improved terms of trade, large harvests, and the securing of alternate sources of raw materials.

Giancarlo Frigoli

Financial Markets

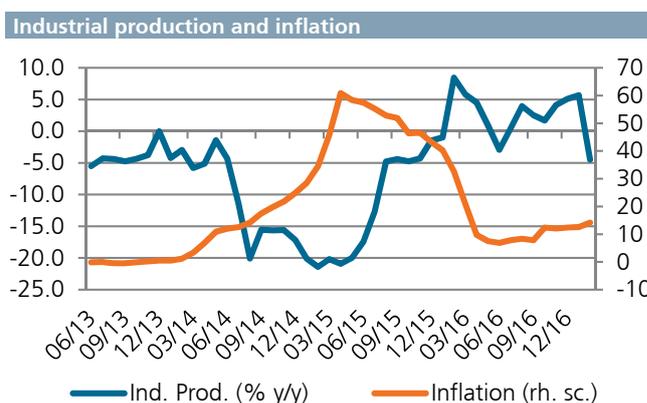
The annual inflation rate accelerated to 15.1% in March, from 14.2% in February. However, actual inflation was slightly below the projected path of annual headline inflation published by the National Bank of Ukraine in its latest Inflation Report (January 2017), envisaging a slowdown in the annual CPI to 9.1% by the end of 2017. Following the better-than-expected inflation numbers, the Ukraine central bank after a six-month break resumed its easing cycle, cutting its policy rate by 100 bp to 13%.

Banking Sector

According to recent IMF Article IV analysis, Ukrainian banks are adequately capitalised, are reducing related-party exposures to below prudential limits, and have a transparent ownership structure. Recapitalisation plans have been adopted for the largest banks, accounting for some 95% of current banking system assets, including Privatbank, following its nationalisation. Nevertheless, that process is not yet completed, and there are still a number of smaller banks that need to be evaluated and may need to be recapitalised. Lending continued to decrease (-6.7% yoy as of February) both in the household (-12.2%) and in the corporate (-5.4%) sector. Furthermore, the high level of NPLs (30.5% of total loans) reflects the inability to foreclose on assets and the lack of incentives to restructure NPLs. The financial system remains heavily dollarised. 48% of total loans and 44% of deposits to the private sector were in foreign currency (as of February 2017).

Davidia Zucchelli

Latest Economic Indicators			
	Last value	4Q 2016	3Q 2016
Ind. Production yoy	-4.5 (Feb)	3.6	2.3
Nom. Exports yoy	32.7 (Feb)	-5.6	-8.7
PMI Manufacturing	n.a.	n.a.	n.a.
Retail Sales	8.8 (Mar)	2.9	4.6
Inflation Rate yoy	15.1 (Mar)	12.3	8.1
CB Reference Rate	13.0 (25th Apr)	14.0	15.0
Loans (Priv. Sector, yoy, eop)	-6.7 (Feb)	2.0	0.7
Deposits (Priv. Sector, yoy, eop)	2.3 (Feb)	9.1	12.1



Source: State Statistics Service of Ukraine, National Bank of Ukraine

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	
	4Q16	3Q16	2015	Last	mth	4Q16	Last	mth	4Q16	Last	mth	4Q16	2015	4Q16	3Q16	2015	4Q16	3Q16
CEE																		
Czech Rep.	1.9	1.8	4.5	6.7	Feb	2.7	-0.7	Feb	-0.4	2.6	Mar	1.4	0.3	n.a	n.a	9998	n.a	-829
Hungary	1.6	2.2	3.1	7.0	Feb	0.3	5.4	Feb	4.0	2.7	Mar	1.3	-0.1	n.a	-1124	-4256	n.a	1289
Slovakia	3.0	3.0	3.8	2.6	Feb	4.2	4.3	Feb	4.5	1.0	Mar	-0.1	-0.3	n.s.	n.s.	n.s.	n.a	n.a
Slovenia	2.6	2.5	2.3	7.5	Feb	8.8	4.6	Feb	4.5	2.0	Mar	0.7	-0.8	n.s.	n.s.	n.s.	548	726
SEE																		
Albania	4.0	3.1	2.6	n.a.	n.a.	n.a.	17.3	Mar	15.7	2.1	Mar	1.9	1.8	-153	-56		-240	-208
Bosnia H.	2.6	2.3	3.0	3.3	Feb	5.8	14.2	Feb	11.3	1.2	Feb	-0.4	-1.0	44	344	399	-180	-99
Croatia	3.4	2.9	1.6	2.4	Feb	7.8	28.4	Jan	12.9	1.1	Mar	-0.2	-0.5	475	102	1019	-697	3349
Romania	4.7	4.6	3.7	5.5	Feb	2.3	5.4	Feb	7.7	0.2	Mar	-0.5	-0.6	-1046	1620	-3990	-1440	-730
Serbia	2.5	2.8	0.8	-1.7	Feb	2.8	6.9	Feb	15.8	3.6	Mar	1.5	1.4	600	167	171	-390	-293
CIS MENA																		
Russia	0.3	-0.4	-2.8	0.8	Mar	1.7	28.0	Feb	1.7	4.3	Mar	5.8	15.6	-14323	3005	-18340	10124	202
Ukraine	4.8	2.3	-9.8	-4.5	Feb	3.6	32.7	Feb	-5.6	15.1	Mar	12.3	48.5	263	525	5741	-953	-1880
Egypt		3.4	3.5	25.2	Feb	4.2	22.0	Feb	8.2	30.9	Mar	18.8	10.4	4673	2046	1110	-4666	-4983
<i>m.i. E.A.</i>	<i>1.8</i>	<i>1.6</i>	<i>2.0</i>	<i>1.2</i>	<i>Feb</i>	<i>2.3</i>	<i>4.4</i>	<i>Feb</i>	<i>2.3</i>	<i>1.5</i>	<i>Mar</i>	<i>0.7</i>	<i>0.0</i>					

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

Markets and Ratings												
	S/T rates ¹		L/T rates ²		Foreign exchanges ³			Stock markets		CDS spread (bp)		Rating S&P
	19/04	chg bp 3M	19/04	chg bp 3M	19/04	3M chg%	1Y chg%	3M chg%	1Y chg%	19/04	19/01	
CEE												
Vs Euro												
Czech Rep.	0.3	0.0	1.0	0.6	26.8	-0.7	-0.7	4.2	5.7	37.5	37.1	AA-
Hungary	0.2	-0.1	3.2	-0.2	313.1	1.6	0.9	-0.1	19.9	104.5	109.4	BBB-
Slovakia	-0.3	0.0	1.1	0.0	Euro	Euro	Euro	-3.6	-7.8	38.8	39.3	A+
Slovenia	-0.3	0.0	0.9	-0.2	Euro	Euro	Euro	5.2	8.7	75.9	92.6	A
SEE												
Albania	1.2	0.0	n.a.	n.a.	135.3	-1.1	-2.3	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	-0.1	3.0	0.0	7.4	-1.3	-0.8	-5.8	16.4	175.8	195.0	BB
Romania	0.7	0.1	3.8	0.3	4.5	0.9	1.2	13.5	23.6	94.5	96.3	BBB-
Serbia	4.0	0.0	n.a.	n.a.	123.6	-0.4	0.5	6.3	32.1	199.3	204.0	BB-
CIS MENA												
Vs USD												
Russia	10.0	-0.5	7.9	-0.2	56.0	-5.4	-18.0	-11.2	-1.1	154.1	172.8	BB+
Ukraine	17.0	-1.2	9.8	0.0	26.8	-2.4	5.2	0.8	28.8	608.7	663.7	B-
Egypt	19.4	0.2	17.1	-0.4	18.1	-4.1	104.1	-1.7	78.6	326.6	444.9	B-
<i>m.i.A.E.</i>	<i>-0.3</i>	<i>0.0</i>	<i>0.2</i>	<i>-0.2</i>	<i>1.1</i>	<i>0.9</i>	<i>-5.9</i>	<i>2.6</i>	<i>7.0</i>	<i>12.1</i>	<i>12.7</i>	

Source: Datastream, Reuters; ¹The data for Albania refers to January, for Egypt refers to March, for Czech Republic refers to March; 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			NPL/Loans			Foreign Liab.			Deposits			Loans rate ¹ -NewB*.			DepositsRate ¹ -NewB*.			Loans/Dep				
	Chg yoy %	Last	Mth	%	Last	mth	%	Last	mth	%	Chg yoy %	Last	Mth	%	Last	mth	%	Last	mth	%			
CEE																							
Czech Rep.	7.0	Feb	6.6	4.8	Dec	5.8	33.3	Nov	18.2	8.6	Feb	7.1	1.99	Feb	1.74	C	0.76	Feb	1.6	A	75.6	Feb	75.9
Hungary	0.7	Feb	-12.3	9.0	Dec	13.7	-6.9	Feb	-8.1	8.9	Feb	7.5	2.52	Feb	4.1	C	0.4	Feb	1.0	A	85.7	Feb	90.8
Slovakia	12.0	Feb	8.7	4.7	Feb	5.1	-2.4	Feb	1.1	5.3	Feb	9.9	2.56	Feb	2.83	C ²	0.45	Feb	0.75	H ²	96.3	Feb	90.0
Slovenia	0.8	Feb	-5.2	5.3	Feb	9.9	-16.7	Feb	-20.7	7.4	Feb	5.8	2.71	Feb	3.45	C ²	0.18	Feb	0.28	H ²	81.3	Feb	89.2
SEE																							
Albania	-0.8	Feb	-2.6	18.0	Feb	18.2	-14.0	Feb	-14.4	2.2	Feb	1.0	8.6	Feb	8.35	A	0.94	Feb	1.27	H	52.7	Feb	54.2
Bosnia H.	3.8	Feb	2.2	11.8	Dec	13.7	-5.7	Feb	-11.7	8.6	Feb	7.8	4.53	Feb	4.99	C	0.47	Feb	1.06	H	109.5	Feb	114.4
Croatia	-4.2	Feb	-3.1	13.8	Dec	16.6	-29.0	Feb	-25.1	1.9	Feb	6.4	4.81	Feb	5.08	C	1.12	Feb	2.15	H	81.3	Feb	86.5
Romania	1.3	Feb	2.7	9.46	Dec	13.5	-20.9	Feb	-10.2	9.4	Feb	9.1	3.91	Feb	4.32	C	0.88	Feb	1.48	H	83.0	Dec	85.4
Serbia	3.4	Feb	3.0	17.0	Feb	21.6	-16.5	Feb	-6.3	11.9	Feb	7.1	5.53	Feb	6.24	C	2.63	Feb	4.17	H	103.7	Feb	111.4
CIS MENA																							
Russia	-6.2	Jan	8.2	9.8	Feb	8.3	-12.5	Oct	-0.8	-3.2	Jan	18.8	11.61	Jan	13.8	C	6.5	Jan	8.43	H	107.6	Jan	108.1
Ukraine	-6.7	Feb	-3.8	30.5	Dec	28.0	-8.0	Dec	6.3	2.3	Feb	1.5	22.03	Feb	26.09	R ³	15.31	Feb	20.06	R ³	137.6	Feb	146.3
Egypt	42.8	Dec	18.0	5.8	Dec	6.8	256.6	Dec	91.6	41.4	Dec	20.4	16.5	Jan	11.8	C	10.9	Jan	6.8	H	39.2	Dec	38.8
<i>m.i. E.A.</i>	<i>1.0</i>	<i>Jan</i>	<i>0.6</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>17.5</i>	<i>Jan</i>	<i>3.2</i>	<i>1.3</i>	<i>Jan</i>	<i>1.6</i>	<i>C</i>	<i>0.4</i>	<i>Jan</i>	<i>0.6</i>	<i>H</i>	<i>81.9</i>	<i>Jan</i>	<i>83.6</i>

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

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

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