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Monthly note

Intesa Sanpaolo
International Research
Network

GDP growth and banking aggregates accelerated in 1Q in most CEE/SEE countries, where monetary conditions continue to be easy. In Egypt, the CB tightened interest rates to prevent second-round effects on inflation.

Based on flash estimates, the GDP profile accelerated in 1Q17 in most countries with ISP subsidiaries. Slovakian GDP grew at 3.1% (3% in 4Q16); the same level of performance was recorded in Hungary and Czech Republic, where GDP increased by 4.1% and 2.9%, respectively (1.9% and 1.6% in 4Q16). GDP growth accelerated in Romania to a surprising 5.6%. The GDP dynamic slowed only in Serbia (at 1%), due to the negative effect of adverse weather conditions on agriculture and construction in 1Q. In the other countries of the region, where GDP data have not yet been released, high frequency indicators confirmed an upward trend.

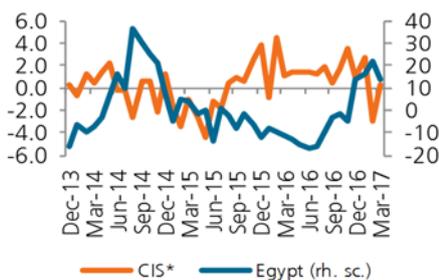
In the CIS area, GDP increased in Russia, by 0.5% yoy in 1Q17 (0.3% in 4Q16), despite fewer working days (57) compared to 1Q16 (61). In Ukraine, the effects of the trade blockade with the Donbass region have started instead to show up into activity numbers and GDP slowed to 2.4% yoy (4.8% in 4Q16). In the MENA region, Egypt's industrial production rebounded in 1Q, rising by 17.4% yoy. These gains followed the recovery in tourism and in manufacturing.

Consumer price inflation in April generally slowed, after the jump seen in 1Q in the CEE region, while it strengthened slightly (except in Albania) in the SEE area. Overall, inflation is recovering — to within CB targets — mostly due to energy and food items, but increasingly supported by domestic factors. CBs are expected to maintain easy monetary policies and no interest rate reversals are expected in the short term. Exchange rates seem to be quite stable.

In the CIS area, in Russia inflation decelerated in April to 4.1%, approaching the CB's target. The inflation profile has supported the CB's decision to cut the key rate by 50bps in April and new cuts are expected. In Ukraine, the CPI eased in April to 12.2% yoy (15.1% in March), resuming a downward trend after four months of gains. The slowdown points to rate cuts by the CB. In Egypt, the CPI rose in April to 31.5% from 30.9% in March. Highlighting that the balance of inflation risks has tilted to the upside, on 21 May, the CBE raised the policy rates by 200bps.

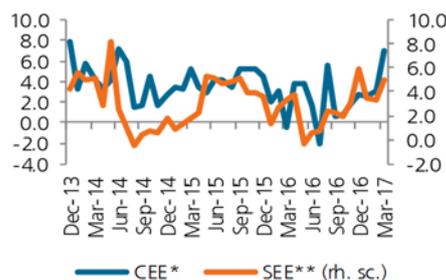
Banking aggregates confirmed the recovery path already signaled in previous months in the CEE/SEE region, but still suffered the effects of past recession in Russia and Ukraine. In the former case, loans generally appear to be increasing, slowly in some countries (such as Romania) and at a strong pace in other cases (such as Slovakia and Czech Republic). In Slovenia and Hungary, the positive trends that began in February were confirmed. A recovery in lending is signaled by transaction data in countries with still-negative growth of stocks (eg, Croatia), mainly affected by cleaning operations. Consumer loans and mortgages to households were generally the most dynamic segments, while corporate lending remained weaker overall. On the funding side, the increase in corporate deposits continued to be particularly strong, especially, in this case, among corporates. In all the countries (with Hungary the only exception), foreign liabilities continued to decrease. According to a new report from the *Vienna Initiative*, the falling stock of bad loans brightened the outlook for banks operating in emerging Europe, and the funding pullback seen after 2008 is likely at an end.

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

[See the final page for important information.](#)

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ALBANIA



Albania

ROMANIA



Romania

SLOVAKIA AND CZECH REPUBLIC



BOSNIA AND HERZEGOVINA



Bosna i Hercegovina

RUSSIAN FEDERATION



SLOVENIA



CROATIA



SERBIA



Beograd

HUNGARY



EGYPT



UKRAINE



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 22nd May 2017.

Cross Country Analysis

CEE area

In the **CEE countries** with ISP subsidiaries, the GDP trend rose in 1Q17. In **Slovakia**, GDP still grew at a significant rate (3.1% yoy according to the flash estimate), slightly above the 4Q16 growth rate (3.1% yoy). Industrial production accelerated in March (13.4% yoy in calendar adjusted data) due to the overall positive performances of the manufacturing (14.1% yoy) and energy (9.1%) sectors. External demand improved in March, as the exports dynamic was strongly positive (16.5% yoy in nominal terms). In April, ESI remained close to historical highs.

Antonio Pesce

Hungarian GDP rose by 4.1% yoy in 1Q17 (flash estimate), which was higher than expected, from 1.6% in 4Q16. The industrial production dynamic (10% yoy in March and 6.2% in 1Q) supported economic growth. In March, exports growth was strong (18%) and above the 1Q average. In April, the Hungarian manufacturing PMI remained at 55.9, signalling expectations of a still-growing economy in the coming months.

In **Czech Republic**, in 1Q17, the GDP growth trend accelerated to 2.9% from 1.9% in the previous quarter. In March, the industrial production dynamic was still strong (4.4% yoy), although it was lower than the 1Q average (5.4%). In the same month, exports accelerated further, at a double-digit rate (10% yoy), well above the 1Q average. In **Slovenia**, the first-quarter GDP data has not yet been released. However, growth in both industrial production (6.5% yoy in 1Q) and exports (11.9% yoy) signalled a likely strong increase. Moreover, in April, ESI remained close to the historical record.

Regarding **inflation**, in April, the CPI had continued to decelerate slightly in all CEE countries, after the jump that generally occurred in the January and February, ranging from 0.8% in **Slovakia** to 2.2% 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 **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 also expected to remain accommodative in **Hungary** and **Czech Republic** as well. At its meeting in March 2017, the MNB set an HUF 500Bn upper limit on the stock of three-month central bank deposits as at the end of 2Q17 in order to preserve the amount of liquidity and thereby maintain loose monetary conditions. This limit was maintained at the May meeting.

In March, the main trends of loans and deposits were confirmed in the **CEE region**. Lending growth improved in many countries, supported mostly by household lending, while corporate lending remained weak. In contrast, interest rates are following different trends depending on money market movements, but due to banks' need to widen margins as well.

Davidia Zucchelli

In **Czech Republic**, loans performed well (6.75% yoy in March from 7% yoy in February). Loans denominated in foreign currency were very strong (29.7%), especially in the corporate sector (30%) which covered almost the total outstanding amount. The exchange rate effect of abandoning the cap is expected to have been modest because foreign currency loans account for just 13% of the total loans to the private sector. Czech banks benefit from a large, stable deposit funding base and plenty of liquid assets. Deposits continued to be dynamic (10.2% yoy), particularly in households (8.6%), supported by improving labour market conditions, despite low interest rates. The LTD ratio continued to be very modest (76%). Interest rates on lending to corporates decreased in March, while the deposit rate to households increased, putting pressure on the interest margin.

In **Hungary**, loans showed a positive change (0.1% yoy from 0.7% in February), due to a further increase of loans to corporates (0.6%) while loans to households continued to decline slightly

(-0.4%). Deposits exhibited a strong rise of 9.6% (from 8.9% yoy in February), particularly by businesses (13.1% in March) and households (6.6%). Interest rates decreased both in lending (to 2.35% from 2.52%) and deposits (to 0.39% from 0.40%). Foreign liabilities increased for the first time in the country since July 2015 (3.2% yoy).

In **Slovakia**, lending performed well (11.4% yoy in March from 12% in February) fuelled by economic growth and low interest rates, both in the corporate (by 7.4% from 9.1%) and the household sectors (by 14.6%), thanks to a further increase in mortgages. The central bank has said it intends to consider, at its July meeting, raising the countercyclical capital buffer from the currently planned 0.5% level in order to limit lending growth to households (the fastest growth in the EU for five consecutive quarters). Deposits also grew robustly (4.7% yoy from 5.3% yoy in February), particularly among households (7.6%), despite increasing competition from other savings products. In the corporate sector, they increased by 0.4% yoy (from 1% in February).

In **Slovenia** as well, loans once again showed a slight increase, after a long period of negative monthly changes (1.6% yoy from 0.8% yoy as of February), due to a further increase in household loans (5.4% yoy). In contrast, the outstanding amount of corporate loans decreased further, by 2% yoy. As far as deposits are concerned (7.2% yoy in the private sector), corporate deposits increased strongly again in March (10.7% from 8.8% yoy in February). Deposits from households increased by 6.1% yoy from 6.9% yoy. The interest spread widened slightly, thanks to an increase in the lending rate to corporates (to 2.79%) and a decrease in the deposit rate to households (to 0.11%).

SEE area

In the **SEE countries** with ISP subsidiaries, economic growth consolidated in 1Q17. It still accelerated in **Romania** (5.6% yoy, according to the flash estimate, from 4.7% in 4Q16). In March, the dynamics of industrial production were strong (8.2% yoy) and exports continued on a significant positive trend (15.9%), above the 1Q17 average. In April, in addition, the Economic Sentiment Indicator (ESI) remained close to historical high. In **Serbia**, GDP grew by 1.0% in 1Q17 (flash estimate) from 2.5% registered in 4Q16, driven by growth both in the industrial sector (0.7% yoy) and in exports (12.8% yoy in nominal terms) in the first quarter.

Antonio Pesce

GDP data for 1Q17 are not available yet for the other SEE Countries. In **Croatia**, however, industrial production grew at 2.0% yoy in 1Q17 and exports at 14% in February. In **Bosnia**, industrial production, but especially exports, confirmed a positive trend in March, and the same occurred in **Albania**, where exports grew at 17.3% yoy in March, above the already-strong 1Q average.

Consumer inflation for all the SEE countries in April was above the 1Q average, ranging from 0.6% in Romania to 4.0% in Serbia. The only exception was Albania, where inflation in April, at 1.9%, was below the 1Q average (2.4%). Given that the inflation profiles were close to the respective inflation targets and the absence of strong inflation pressures in the near term, 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, and CDS spreads fell slightly further.

In March, lending showed signs of improvement in **SEE countries** (with Albania the only exception) and deposits grew in every country, despite low interest rates. Banking interest rates diverged among countries, decreasing in Albania, Bosnia and Croatia, but increasing in Serbia.

Davidia Zucchelli

In **Albania**, loans declined only slightly (-0.1% yoy) in March because of a decrease in the corporate sector (-1.5% yoy, which accounted for 70% of loans to the private sector) while loans continued to show dynamic growth in the household sector (3%). Loans in foreign currency experienced a strong decrease (-6.2% yoy), particularly in the corporate sector (-6.6% yoy, where they accounted for 58% of total loans to this sector) while in the household sector, the reduction was lower (-4.8%). Deposits continued to grow (1.5% yoy in March), driven by deposits from businesses (12.3%), while deposits by households remained unstable (-0.3%). On the liability side, foreign liabilities continued to decline sharply (-13% yoy in March from -14% yoy in February).

In **Bosnia**, loans followed an accelerating path (4.75% yoy from 3.8% in February) both in the corporate (4.9% yoy) and the household (4.6% yoy, particularly in consumer loans) sectors. Deposits were in line with previous changes as well (8.4% yoy from 8.6% in February). The lending interest rate decreased to 4.2% (from 4.5%) while the deposit interest rate declined to 0.37% from 0.47%.

In **Croatia**, loans continued to decrease, falling by 2.3% (from -4.2% yoy in February), but transaction data estimated by the CB showed signs of recovery. Lending growth remained negative, but decelerating both in the corporate (-4.1%) and the household (-0.9% yoy from -2.9% yoy in February) sectors. Zagrebacka Banka (Unicredit) agreed to sell an impaired loan portfolio with a gross book value of EUR 450Mn to APS Holding's unit APR Delta. The sale is expected to reduce lending stock this year. Deposits continued to grow (2.8% from 1.9% yoy in February), particularly from businesses (10.7%), while households remained broadly stable (0.7%).

In **Romania**, loans increased in March (2.7% yoy from 1.9% yoy in February) supported only by loans to households (5.7% yoy), while loans to corporates were still weak (-0.5% yoy from -1.7% yoy in the previous month). Deposits continued to perform well (11.2% from 9.5% in February). Interest spreads are expected to widen, thanks to higher interest rates on lending (to 4.03%) and lower rates on deposits from households (0.84%).

In **Serbia**, loans accelerated (4.5% yoy in March from 3.4% yoy in February), driven by loans to households (11.7% yoy) while loans to corporates declined slightly (-0.5% yoy). Deposits continued to perform extremely well (21% from corporates and 7.8% from households). Foreign liabilities continued to decline (-11.7% yoy in March), but the share remained closed to 17% of total deposits (declining from 54.5% in March 2010).

CIS and MENA areas

According to preliminary data from the Federal Statistics Service, the **Russian** economy continued to expand in 1Q17, accelerating by 0.5% yoy, up from 0.3% in the previous quarter. Data were a touch stronger than expected, given that there were 57 working days in 1Q this year compared to 61 working days in 1Q16. The calendar effect might have shaved about 1pp off the annual rate of growth. The better-than-expected batch of activity data for April suggest that the economy gained steam in the 2Q17. Industrial production posted annual growth of 2.2%, accelerating from 0.2% in 1Q. Constructions continued its two-year-long losing streak, falling by 0.4% yoy in April, a much smaller decline compared to the -5% recorded in March. Retail sales were flat on the year in April. Manufacturing rose by 0.6% yoy in April, slowing from 1% in March. Additional evidence of the relative weakness of manufacturing activity also came from the PMI index, which slowed to 50.9 in April, its lowest level in almost a year, mainly reflecting weak orders. In April, the CB of Russia cut the key rate by 50bps. As annual inflation rapidly closed in on the CB target in recent readings, slowing to 4.1% in April, new rate cuts look likely in the near future.

In **Ukraine**, the effects of the trade blockade of the Donbass region have started to show up in activity numbers. GDP in 1Q17 grew by 2.4% compared to the same period in 2016 against 4.8% in 4Q16, according to preliminary data from the State Statistics Service. However, the slowdown was less pronounced than the 2.1-2.3% government forecast. Annual inflation eased to 12.2% in April from 15.1% in March, resuming a downward trend after four consecutive months of gains. The slowdown in annual inflation in April was expected, reflecting the waning effect of a number of factors. In particular, natural gas tariffs surged in April 2016, which affected this year's comparison base. Core inflation remained flat at 6.3% yoy, contrary to expectations of a slight acceleration to reflect increased production costs, including higher labour costs, following the increase in minimum wages, as well as second-round effects from rising raw food prices, in particular meat prices.

In **Egypt**, annual inflation rose in April to 31.5% from 30.9% in March, which was the highest rate in more than 30 years. Core inflation, which strips out volatile items like food, decreased

Giancarlo Frigoli

marginally to 32.06% in April from 32.25% in March. Food and beverage prices have spiked, rising by 44.3% yoy in April ahead of the holy month of Ramadan, when demand peaks because of heavy consumption. Annual inflation above 30% has confounded official expectations, shared by the IMF, of a slowdown starting from 2Q. Highlighting that the balance of risks surrounding the inflation outlook has tilted to the upside, at its May's policy meeting, the ECB raised its policy rates by 200bps, with the discount rate rising to 17.25%.

In Mid-May, an IMF delegation and the Egyptian authorities reached a staff-level agreement on the first review of Egypt's economic reform program supported by the IMF's USD 12Bn funding arrangement. The staff level agreement is subject to approval by the IMF's Executive Board. Completion of the review would make available SDR 895.48Mn (about USD1.25Bn), bringing total disbursements under the program to about USD 4Bn.

Industrial production rebounded strongly in 1Q, rising by 17.4% yoy. These gains followed the recovery in tourism, which for most of last year was negatively affected by terrorism-related concerns, and in manufacturing activity (30.3%). Natural gas extraction also reported a significant increase (10.5%).

In **Russia**, bank lending decreased again in February (-6.1% yoy from -6.2%) because of a significant decrease in the corporate sector (-8.5%, accounting for around 76% of loans to the private sector), while household lending showed a further slight increase of 1.8% yoy. Demand for loans remained weak, as highlighted by the CB. In 1Q17, banks stepped up the portfolio of bonds, a less risky and a more liquid asset, at an accelerating pace. In February, the decrease in deposits decelerated (-1.4% yoy from -3.2% in January). In line with official rates, interest rates on new loans to businesses declined to 11.48% (from 11.61%) and the interest rate on deposits from households fell to 6.3% (from 6.5%), with a widening of the spread.

Davidia Zucchelli

In **Ukraine**, banking aggregates confirmed the changes of the previous month. Loans decreased by 5.0% (from -6.7% in February) because of a decline among corporates (-4.1% from -5.4% in February) and a decrease among households of 8.9% (from -12.2% yoy). Deposits increased by 5.6% (2.3% yoy in February) both from corporates (9.3% from 3.4%), and households (4% from 1.8%). The LTD ratio remained very high (135%).

In **Egypt**, in January, loans and deposits grew strongly (by 45.4% and 44.5%, respectively) because of the depreciation of the local currency (net of the currency depreciation effect, the performances were -7.2% and 2.8%, respectively). The nominal effect was stronger in the corporate sector, where loans in foreign currency accounted for almost 50% of total loans; in the household sector, they accounted for just 3% of total loans. Deposits increased nominally both from corporates (44%, but -14% net of the exchange rate) and households (45%, 7.7% net of the exchange rate) thanks to improvements in the labour market as well (the unemployment rate looks to be narrowing to 12.0% in 3Q 2016/17). The LTD ratio remained very low (39%). In line with official rates, banking interest rates are increasing.

Country-Specific Analysis

Albania

Real Economy

Economic activity accelerated in 4Q16 and GDP increased by 4% on an annual basis. Economic growth for full-year 2016 was 3.5% vs 2.6% in the previous year. The services and construction sectors made the largest contributions to economic activity. Industry and agriculture showed decent growth, but at lower rates. The economic developments in the external environment are improving, supporting the growth of exports. At the end of 4Q16, the stock of foreign exchange reserves was around EUR 2.94Bn, sufficient to cover 7.2 months of imports of goods and services. These trends are forecast to continue in 2017. In April 2017, exports increased by 13.6% yoy while imports decreased by 4.3%. Also in April, the trade deficit was LEK 26Bn, recording a yoy decrease of 16.5%.

Inflation moved upwards in the first four months of the 2017, averaging 2.25%, whereas the CPI average for 2016 was 1.3%. This performance was determined by the rise in food and oil prices. The prices of other basket items did not change significantly, and continued to provide a somewhat positive contribution. Budget expenditure for 1Q17 increased by 10.3% in annual terms vs the 4.3% increase in income.

Financial Markets

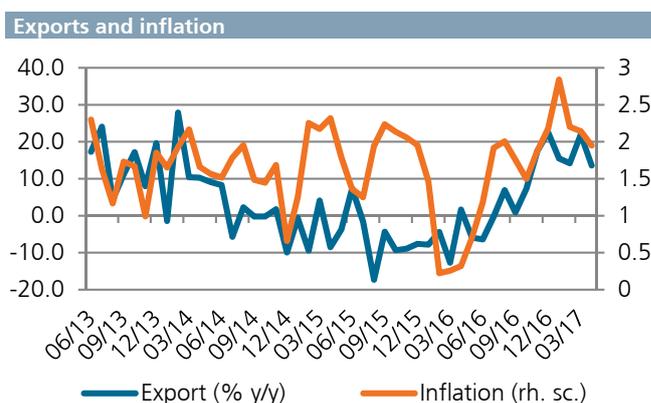
In April, the yoy LEK/EUR exchange rate appreciated by 2.2% driven by the acceleration of exports and the slowdown of imports, increased tourism inflows, remittances and foreign financing related to investment projects. Yields increased temporarily in 4Q16, but moved back in 1Q17. Monetary policy is expected to remain accommodative in the short term, with interest rates remaining close to their minimum values.

Banking Sector

Developments in credit confirm a shift of the portfolio towards lending in domestic currency. Its share of this portfolio has been trending up, accounting for about 43.7% of credit to the private sector in February, from 40.6% in the previous year. In March, credit in LEK expanded by 7.74%, offsetting the negative performance of fx credit (-6.15%). The growth rate of credit to enterprises slowed down to -1.48% yoy, whereas that of households was positive by 3.15%. The low performance of credit to enterprises is conditioned by the still-tight supply for this segment. On the other hand, credit demand is also unsteady. In March, total deposits increased by 1.52%, with a continuing positive contribution from corporate savings (+12.30%) but a negative contribution from households (-0.30%). In March, the share of NPLs declined to 17.4% from 18% in the previous month.

Last macroeconomic indicators			
%	Last value	1Q17	4Q16
Industrial production, wda yoy	n.a.	n.a.	n.a.
Export of goods, nominal yoy	17.3 (Mar)	15.7	15.7
Unemployment rate	n.a.	n.a.	14.2
Inflation rate, average yoy	1.9 (Apr)	2.4	1.9
Loans (private sector, yoy, eop)	-0.1 (Mar)	-0.1	0.2
Deposits (private sector, yoy, eop)	1.5 (Mar)	1.5	2.7

Source: INSTAT, Central Bank of Albania



Source: INSTAT

Bosnia and Herzegovina

Real Economy

High frequency data for March confirmed robust personal consumption, as real retail trade increased by 10.2% yoy, with the 1Q reading improving to +5.9% yoy. At the same time, imports, spurred by consumption, increased by +14.6% yoy, but growth of exports outperformed (+22.9% yoy). The 1Q trade balance improved by 5.7% yoy (1Q exports were up 17.4% yoy vs imports up by 12.7% yoy). In contrast to domestic and foreign consumption figures, industrial production stagnated in March yoy, lowering 1Q growth to 2.5% given a 34% yoy fall in consumer durables production (third consecutive quarter of declines) and low 1.0% yoy growth in energy production. In total, we see 1Q GDP growth in the area of at least +2.5% yoy.

Ivana Jovic

Although positive trends continued in May, with new data, according to which April exports grew by 14.1% yoy (vs imports +4.8% yoy), economic developments remain overshadowed by political issues, as the State Parliament once again refused to discuss an increase in the excise tax on fuel, potentially negatively affecting the EFF agreement with the IMF. Unfortunately, as we anticipated (see our April Monthly Note), this negative decision began to take its toll on planned infrastructure investments, with the EBRD announcing that it was withholding €400Mn in loans intended to finance the construction of the Corridor Vc road. We currently maintain our 2.8% yoy growth estimate for 2017; however, this is subject to downward revision if the IMF programme continues to be delayed.

Banking Sector

Pace of growth of loans to the private sector surged to 4.8% yoy in March (+3.8% yoy in February) due to a strong rise in loans to non-financial corporations of 4.9% yoy. Loans to households increased by 4.6% yoy as a result of a 7.1% yoy rise in consumer loans, while other types of loans continued on a negative trend (housing loans -2.5% yoy, card loans -0.2% yoy, business activity loans -3.4% yoy), which reflects the fact that consumer non-specific loans are the most easily obtainable type of retail loan. The growth of deposits in the private sector remained strong at 8.4% yoy in March. Deposits of non-financial corporations marked an increase of 9.7% yoy and deposits of households were up 7.9% yoy.

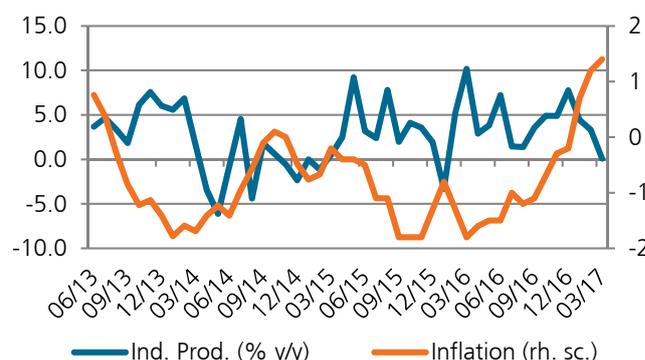
Ana Lokin

The downward trend of interest rates continued in 1Q17. The average rate on "other retail loans" in March was higher by 20bps compared to December 2016 on BAM loans, whereas rates on housing and other loans indexed to foreign currency (mostly euros) dropped by 50bps and 40bps qoq, respectively. The rates on corporate loans were mixed: while rates on BAM loans dropped by 40-50bps qoq, rates on indexed loans remained unchanged qoq for loans up to EUR 0.25Mn, down by 40bps for EUR 0.25-1mn, and grew by 60bps on loans over EUR 1Mn. Rates on household term deposits slipped by 20-40bps qoq on BAM deposits, and by 10bps qoq on euro term deposits, while rates on corporate short-term BAM deposits were up by 50bps qoq.

Latest macroeconomic indicators			
%	Last value	1Q17	4Q16
Industrial production, wda yoy	0.1 (Mar)	2.5	5.9
Export of goods, nominal yoy	14.1 (Apr)	17.4	11.3
Retail trade, real, wda yoy	10.2(Mar)	5.9	8.1
Inflation rate, average yoy	1.4 (Apr)	1.1	-0.4
Loans (private sector, yoy, eop)	4.8 (Mar)	4.8	3.4
Deposits (private sector, yoy, eop)	8.4 (Mar)	8.4	7.4

Source: BHAS, CBBH

Industrial production and inflation



Source: Labour and employment agency

Croatia

Real Economy

High frequency data for March confirmed strong domestic demand, with real retail trade growing by 7.7% yoy (1Q: +5.4% yoy) supported by a 3.3% yoy hike in real net wages (Jan-Feb) and downward unemployment levels (end-March at 224k) which continued to strengthen further as end-May unemployment declined below 190k, lowest level since end-1990. While part of the declining unemployment can be attributed to a seasonal tourism-related employment hike, part of it reflects strong migration flows to Western Europe, as particularly younger people seek to move to areas with better employment opportunities (31%/19% domestic unemployment rates for the 15-24/25-29 age groups at end-2016).

Ivana Jovic

The external environment remained supportive of growth and March goods exports rose by a significant (preliminary) 22.0% yoy, overshooting preliminary 12.4% growth in imports and improving the 1Q trade balance by 3.5% yoy (21.1% yoy higher exports vs 11.3% higher imports). At the same time, industrial production data disappointed slightly, with yoy stagnation in March which cooled 1Q growth to 2.0% yoy (from 7.8% yoy in 4Q16). After retreating to 1.1% yoy in March, inflation shifted back to 1.4% yoy in April. While it seems that 1Q data still do not reflect the Agrokor crisis (see our April Monthly Note), even brighter (but not unexpected) news came from Brussels, as on 22 May, the EC recommended the closure of the EDP for Croatia.

Financial Markets

The downward trend of interest rates amid abundant liquidity was sustained in April, when the average 3M Zibor rate decreased by 3bps mom, to 0.58%. The money market was calm in May, with 3M Zibor stagnating at 0.58%. The kuna lost value vs the euro in April as a result of an increase in corporate demand. Thus, the average value grew to 7.44, up by 0.3% mom. Appreciation pressures revived again in May as a result of stronger foreign currency inflows from the tourist season and growing exports, as well as an improved fiscal outlook.

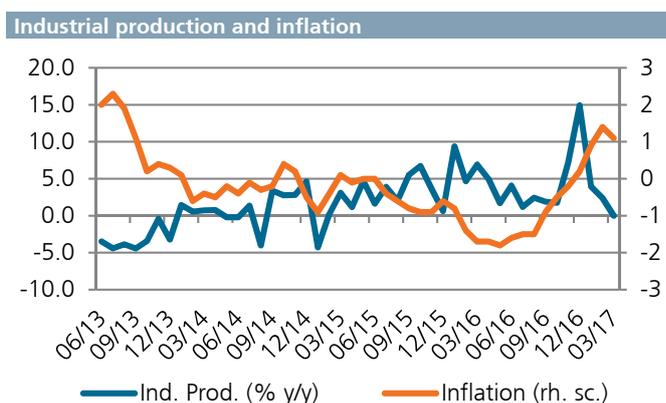
Ana Lokin

Banking Sector

The decline in private sector loans slowed to -2.3% yoy in March as the base effect of conversion gradually disappeared, bringing the rate of household loans closer to positive territory (-0.9% yoy); however, corporate loans continued to record strong rates of decline (-4.1% yoy). Transaction data on claims depict a much brighter picture, however, demonstrating that the growth of private sector demand continue to rise, amounting to 1.1% yoy in March, when corporates accelerated to +0.7 and households to +1.4 % yoy. The deposit growth rate reached 2.8% yoy in March on account of a 10.7% yoy increase in corporate deposits, while deposits of households grew by 0.8% yoy (fx adjusted, retail deposits grew by 1.2% yoy).

Latest economic indicators			
%	Last value	1Q17	4Q16
Industrial production, wda yoy	0.0 (Mar)	2.0	7.8
Export of goods, nominal yoy	14.0 (Feb)		12.9
Retail trade, real, wda yoy	7.7 (Mar)	5.4	4.7
ESI (index)	116.4 (Apr)	119.0	115.5
Inflation rate, average yoy	1.4 (Apr)	1.1	-0.2
Loans (priv sector, yoy, eop)	-2.3 (Mar)	-2.3	-4.3
Deposits (priv sector, yoy, eop)	2.8 (Mar)	2.8	2.8

Source: CBS, EC, CNB



Source: EC

Czech Republic

Real Economy

Preliminary estimate of GDP confirmed that growth has picked up in 1Q. On a seasonally adjusted basis, real GDP grew 1.3% qoq, up from 0.4% in the previous quarter. Over a year ago, real GDP growth amounted 2.9%, one percentage point higher than in the previous quarter in 2016. While details on the composition of GDP are not yet available, the Czech Statistics Office stated that growth was driven mainly by foreign demand, alongside expanding private consumption. On the supply side, the Office ascribed the growth acceleration to manufacturing as well as the majority of services sectors. The robust growth of the Czech economy is reflected also in further advances on the labour market. Employment in 1Q grew 0.6% qoq and 1.5% yoy. The unemployment rate on a seasonally adjusted basis slid to 3.2% in March, according to Eurostat, the lowest level in the EU.

Zdenko Štefanides

Strong growth also continues to impact price developments. Industrial price inflation picked up in April, to 3.2% yoy from 3.0% in the previous month. Besides domestic demand pressures, the acceleration in producer price inflation was also a result of imported price inflation, which was up 5.3% yoy in last available reading. Consumer price inflation declined in April, to 2.0% from the multi-year high of 2.6% reached in March. This decline, however, owed solely to falling food prices, especially for beverages, while core inflation remained stubbornly high.

Financial Markets

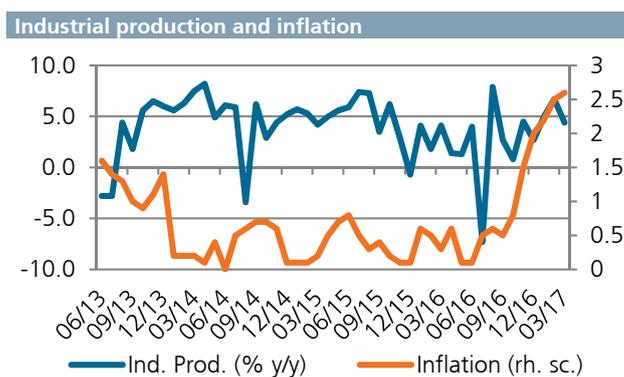
At the May policy meeting, its first since the abandoning the koruna cap on 6 April, the Czech National Bank left its rates on hold, with the key two-week repo rate at 0.05%. At the press conference, CNB Governor Rusnok expressed no urgency to increase rates. The latest quarterly inflation report, approved at the same policy meeting, however, discussed gradually rising domestic interest rates from 3Q17 onward. We still expect to see the first hike in 1Q18. Regarding the bond market, meanwhile, yields basically moved in line with the koruna exchange rate development, rising when the koruna strengthened as foreign investors took profits on their long koruna positions and vice versa. Nevertheless, as koruna movements have been remained in a relatively narrow range of 26.5-27.0 vs the euro, volatility in Czech yields was also relatively constrained: in the past month, the 10Y spread vs bunds traded in a 21-60bps range.

Banking Sector

The Czech banking sector continues to enjoy strong growth of volumes. Loans to the private sector have recently been rising at a nearly double-digit pace. Particularly fast growing are loans for house purchases. In March, growth in that segment rose to 9.4% yoy from 9.1% in the previous two months. Any moderation in growth, intended by the gradually tightening macroprudential policy measures of the central bank, thus seems to have been overridden by the strong economy and demand for financial intermediation.

Latest economic indicators			
%	Last value	1Q17	4Q16
Industrial production, wda yoy	4.4 (Mar)	5.4	2.7
Export of goods, nominal yoy	10.9 (Mar)	6.1	-0.4
ECB refi rate	0.0 (19 May)	0.0	0.0
ESI (index)	107.4 (Apr)	106.5	108.9
Inflation rate, average yoy	2.0 (Apr)	2.4	1.4
Loans (priv sector, yoy, eop)	6.7 (Mar)	6.7	6.7
Deposits (priv sector, yoy, eop)	10.2 (Mar)	10.2	5.8

Source: CBS, EC, CNB



Source: EC

Egypt

Real Economy

Egypt's GDP growth rate increased in 1Q17 to 3.9% compared to 3.6% in the same quarter last year. This rise was mainly driven by the manufacturing and construction sectors. The Central Bank of Egypt (CBE) governor recently stated that the tourism sector achieved a 50% annual rise in revenues in 1Q17, which strongly reflects an obvious improvement in the performance of this vital sector. Aiming at boosting investment and improving business environment, Parliament approved the new Investment Law, which grants a number of incentives to investors, as well as cuts bureaucracy. The IMF has reached a staff-level agreement with Egypt on a second loan instalment worth USD 1.25Bn. The IMF described the agreement as "a vote of confidence by the IMF staff" in Egypt's reform process. Non-Oil Private Sector PMI rose to 47.4 in April 2017 compared to 45.9 in the previous month.

Emil Eskander

Egypt's annual headline inflation in urban areas hit a three-decade high in April, at 31.5% (yoy) compared to 30.9% in March. The hike in the inflation rate was attributed to an increase of 44.3% (yoy) in food and beverages prices and 30.7% (yoy) in healthcare prices, in addition to a 27.1% (yoy) increase in transportation costs.

Financial Markets

In its most recent meeting on 21 May, the CBE's Monetary Policy Committee (MPC) raised the overnight deposit rate, the overnight lending rate, and the discount rate by 200bps to 16.75%, 17.75% and 17.25%, respectively. The MPC targets curbing inflation by controlling annual broad money growth. It also aims to contain demand-side pressures and second-round effects resulting from supply shocks that may lead to deviations from inflation targets, as well as to achieve reserve money targets. The CBE's target is for inflation to decline to around 13% (+/-3%) by 4Q18 and to single-digits thereafter. The decision is expected to negatively affect investment levels, local debt and the budget deficit, in the short term. The Egyptian Stock Exchange's main index, the EGX30, dropped almost 2.5% on the day following the decision.

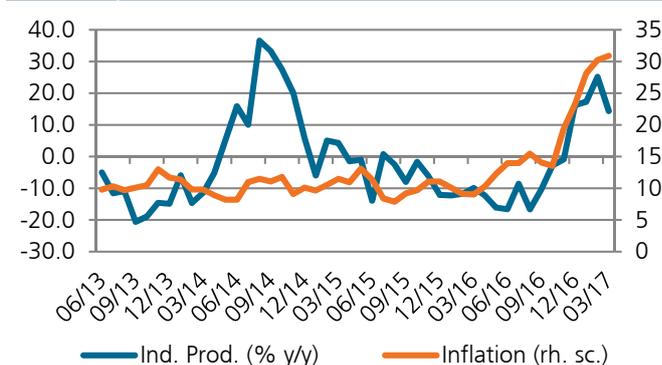
Banking Sector

Total loans to the private sector increased by 45.4% in January 2017, to reach EGP 881.6Bn compared to January 2016, as total loans to corporates (representing 74% of total loans to private sector) increased by 58.2% (yoy). Total deposits from the private sector witnessed an increase of 44.5% in January 2017 (yoy) reaching EGP 2.24Tn, where total household deposits (representing 77.8% of total private sector's deposits) increased by 44.6% (yoy). The banking sector is expected to benefit from the recent decision to raise interest rates, as its net interest margins would be positively affected by the rising yield on Egyptian T-Bills. The Agricultural, Industrial and Renewable Energy Sectors would be however only partially affected, as they can benefit from the CBE's initiative by which the Central Bank allocated EGP 10Bn through banks to Medium Size companies of those sectors which can finance their working capital through short term facilities at only 12%.

Latest economic indicators			
%	Last value	1Q17	4Q16
Industrial production, wda yoy	14.4 (Mar)	19.0	4.2
Nom exports yoy	22.0 (Feb)	27.3	8.2
Retail sales yoy	n.a.	n.a.	n.a.
Inflation rate yoy	31.5 (Apr)	29.8	18.8
CB reference rate	16.75 (22 May)	14.8	14.8
Loans (priv sector, yoy, eop)	45.4 (Jan)		42.8
Deposits (priv sector, yoy, eop)	44.5 (Jan)		41.4

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

Industrial production and inflation



Source: Ministry of Planning, CAPMAS

Hungary

Real Economy

GDP came in at 4.1% yoy (3.7% yoy adjusted for the calendar effect) in 1Q17. The growth was well above expectations, supported by industrial production and services. Agriculture stagnated. Net exports probably made a positive contribution, as import growth was still relatively moderate due to weak private investment activity. The qoq rise (1.3%) was the strongest in the last two years. The detailed final figure will be released by the CSO at the beginning of June. Growth data were in line with the dynamic rise of sentiment indicators (PMI) in 1Q17, though this was followed by stagnation in April.

Headline CPI was 2.2% in April, matching the market consensus and falling further compared to February (multi-year peak of 2.9%) and March. The base effect was a major factor in the lower yoy figure, while core inflation continued to move higher (1.9%). Domestic demand also appears to be getting stronger, primarily due to higher wages. Inflation is expected to continue to fluctuate in the range of 2-3% during the rest of the year. Industrial production accelerated further, reaching a double-digit pace in March. External and internal balances remained strong.

Financial Markets

The NBH left the policy rate unchanged (0.90%) in May as well as in April. The official statement reflected an unchanged macroeconomic outlook and monetary stance from the Monetary Council. The effective end-Q2 target for the 3M depo facility (as set in March) remained at HUF 500Bn. The market adjustment is ongoing; short-dated T-bill and money market rates are close to zero in some cases, as the NBH's strategy is to channel liquidity to the interbank and FI markets. The long end of the yield curve has already begun to rise. The forint has become stronger recently, supported by better-than-expected GDP data and external market factors. The EUR/HUF cross rate has been fluctuating mostly below the 310 level since the middle of May, still close to the average of the range of the last one year.

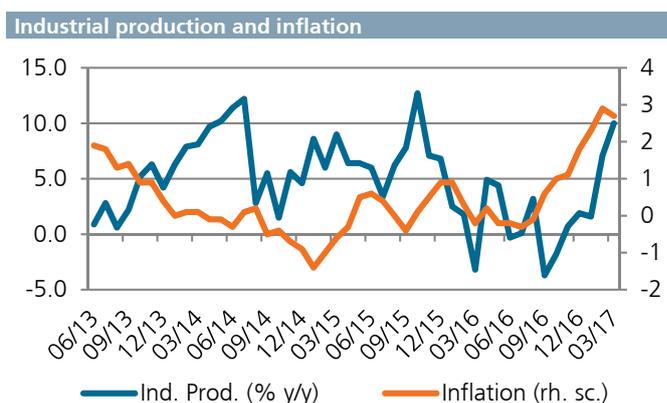
Banking Sector

Loan stock to the private sector experienced a further moderate rise in March, similar to the entire first quarter. Lending extension continued in the case of the corporate sector, while in the case of households, a probably temporary halt emerged. Deposits for both sectors continued to rise despite the low level of interest rates. Real economic developments lent support to the demand side of the loan market; credit conditions continued to ease. Household demand for housing and personal loans has remained relatively strong despite the overall decrease in loan portfolios. The quality of the banking sector's entire loan portfolio continued to improve, with NPL now below 10%, according to the latest available data.

Sandor Jobbagy

Latest economic indicators			
%	Last value	1Q17	4Q16
Ind production yoy	10.0 (Mar)	6.2	0.3
Nom exports yoy	18.0 (Mar)	12.5	4.0
ESI (index)	115.7 (Apr)	115.7	112.4
Retail sales yoy	5.6 (Mar)	3.4	3.5
Inflation rate yoy	2.2 (Apr)	2.6	1.3
CB reference rate	0.9 (19 May)	0.9	0.9
Loans (priv sector, yoy, eop)	0.1 (Mar)	0.1	-1.9
Deposits (priv sector, yoy, eop)	9.6 (Mar)	9.6	6.3

Source: CSO, NBH, Bloomberg



Source: CSO

Romania

Real Economy

The first reading regarding 1Q17 GDP showed outstanding growth at +5.6% yoy (seasonally adjusted data). The data print took markets and the general public by surprise. Growth data in the region surprised to the upside. But unlike data for other countries of the region, the mix of the Romanian GDP is somewhat different. Specifically, if for other countries in the area growth surprise was mainly driven by the EU fund absorption, in Romania, the strong public expense growth (+10.4% yoy) and the robust retail sales in 1Q17 (at +6.2% yoy) imply that strong fiscal stimulus is still in play, although foreign direct investments (at EUR 1.075Bn at the end of 1Q17), along with industry (at +6.7% yoy in 1Q17), made positive contributions as well.

Sebastian Maneran

Inflation continued its upward trend in April (at +0.61% yoy). However, based on continued weakness in international energy prices, and uncertainty over domestic fiscal policy, the central bank lowered its core inflation forecasts.

Financial Markets

Domestic financial markets were relatively balanced in terms of volatility over the past month. The EUR/RON exchange rate was rather contained amid levels that are perceived as high from an historical perspective. Demand for foreign currency, stemming mainly from the increased demand for imports (as wage increases and tax cuts funneled through the economy, thus stimulating domestic demand) was met with financial market optimism, as growth surprised to the upside and the ECB's positive signals (Mr Draghi stated: "cyclical recovery of the Euro area economy is becoming increasingly solid and [that] downside risks have further diminished").

RON money market rates flirted with slightly higher levels over the past couple of months. Though the move higher in RON interest rates can be considered feeble at best, as on average in March they were less than 5bps higher than in the previous month, it was noteworthy that RON rates showed consistency, staying above the levels seen late last year and early in 2017. The bond yield curve flattened somewhat, as inflation expectations declined (lower energy prices) and the GDP growth rate recorded in 1Q17 is viewed as unsustainable.

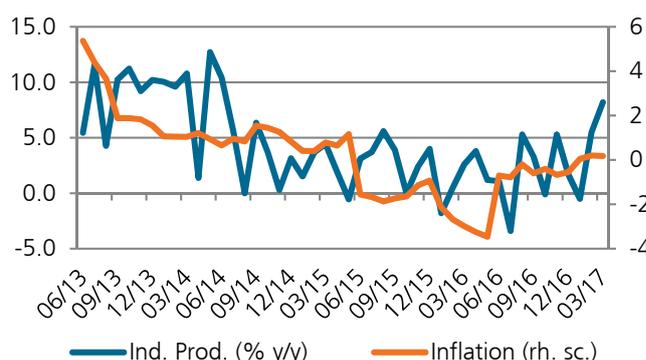
Banking Sector

Local currency credit creation continues to take the spotlight in the domestic banking sector (+14.13% yoy of new credit). The household sector continues to lead local currency credit creation, with +22.56% yoy of new credit (again, fiscal stimulus at play). Foreign currency new credit is still out of favour (-9.9% yoy). Noteworthy as well with regard to the household segment's thirst is the rising lending rate (7.63% in March 2017, the highest level since February 2015). Meanwhile, corporate lending rates moved above 4% (to 4.03% in March) for the first time since June 2016.

Latest economic indicators			
%	Last value	1Q17	4Q16
Ind production yoy	8.2 (Mar)	4.4	2.3
Nom exports yoy	15.9 (Mar)	10.0	7.7
ESI (index)	105.2 (Apr)	105.4	104.1
Retail sales yoy	7.7 (Mar)	7.2	8.9
Inflation rate yoy	0.6 (Apr)	0.1	-0.5
CB reference rate	1.8 (19 May)	1.8	1.8
Loans (priv sector, yoy, eop)	2.7 (Mar)	2.7	0.6
Deposits (priv sector, yoy, eop)	11.2 (Mar)	11.2	8.5

Source: National Statistical Institute, NBR

Industrial production and inflation



Source: NBR

Russia

Real Economy

According to preliminary estimations, GDP in 1Q17 increased by 0.5% yoy. The central bank forecasts 1.0-1.5% GDP growth rate for the full year. Production indices in March and April recorded positive dynamics. Industrial production increased by 0.8% yoy in March and 2.3% yoy in April (-2.7% yoy in February). The improvement was mainly based on the performances of the manufacturing industries. The growth rate of agriculture and freight also accelerated in March vs February (from 0.2% yoy to 1.1% yoy and from 3.9% yoy to 4% yoy, respectively). However, construction activity continued to fall, although at a slower pace in April than in March (-0.4% yoy vs -5% yoy).

Anna Mokina

The labour market continued to improve. The unemployment rate in March decreased from 5.2% to 5.1% (taking into account seasonality). Economic recovery continues to stimulate real wage growth, which amounted to 1.5% yoy in March, and 1.9% yoy in 1Q17. Real disposable income continued to decline, but at slower rate: -4.1% yoy in February and -2.5% yoy in March. A similar situation occurred in retail turnover, which fell by only 0.4% yoy against 2.6% a month earlier.

Financial Markets

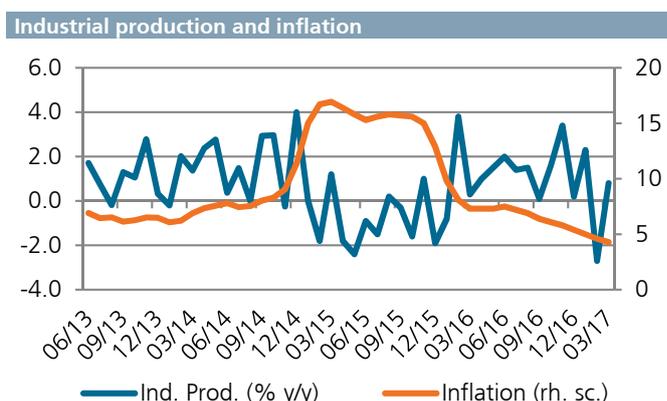
Inflation in April decelerated to 4.1%, approaching the central bank’s target. The decision of the RCB to reduce the key rate by 50bps in April was a surprise to the analysts, as the market expected a 25bps decrease. At its meeting, the central bank also announced the possibility of a more rapid decline in general and did not exclude a decrease of 50bps at the next meeting in June. Further policy softening is likely, provided there are no new shocks. The regulator’s decision to reduce the key rate (even if to a lesser extent) was nevertheless expected by the market, and provided temporary support to the national currency. In the medium term, the main challenge for the ruble would be no renewal of the OPEC+ deal.

Banking Sector

In February, lending decreased by 6.1%, with slight growth seen in household lending (+1.8%) and a significant fall in the corporate sector (-8.5%). Lending rates are not the main obstacle to corporates expanding their investment policies. Low domestic demand, an uncertain economic situation, and high taxes have much more influence on the reluctance to take out loans. In 2017, the share of problem loans compared with last year is expected to be rather high. The cost of risk will likely grow. The basis for this will be the expansion of lending in the segment of less reliable borrowers and the tightening of the supervisory practices of the regulator. Deposits also recorded negative statistics, declining by 1.4%. Household deposits grew by 4.8% (the saving behaviour model of the population remained stable), whereas corporate deposits dropped by 9.1%.

Latest economic indicators			
%	Last value	1Q17	4Q16
Ind production yoy	2.3 (Apr)	0.1	1.7
Nom exports yoy	35.2 (Mar)	36.6	1.7
Retail sales yoy	-0.4 (Mar)	-1.8	-4.7
Inflation rate yoy	4.1 (Apr)	4.6	5.8
CB reference rate	9.25 (28th Apr)	9.75	10.0
Loans (priv sector, yoy, eop)	-6.1 (Feb)		-4.2
Deposits (priv sector, yoy, eop)	-1.4 (Feb)		-3.9

Source: State Statistics Federal Service, Central Bank of Russia



Source: State Statistics Federal Service

Serbia

Real Economy

According to the flash estimate from the Statistical Office, real GDP increased by only 1.0% yoy in 1Q17. Although disappointing, this result was largely expected, as the cold weather at the beginning of the year negatively affected economic activity in the country. The fall was registered in agriculture and construction, as well as in the energy and mining sectors, while the services and manufacturing sectors, supported by diversified FDI inflow, continued their solid performances. Despite some slowdown in the first quarter, the National Bank of Serbia expects GDP to expand by 3.0% yoy in 2017 on the back of continued implementation of infrastructure projects, new investments, strong exports and increasing private consumption. On the production side, the Serbian economy should rise primarily based on the performances of the service sector and industry, and, to a lesser extent, construction, while agriculture is expected to contribute negatively.

Branka Babic

Inflation jumped to 4.0% yoy in April 2017, surpassing the midpoint of the inflation target range (3±1.5%) for the third consecutive month. CPI in April climbed to the highest level seen since September 2013, primarily based on a rise in the prices of fuel for personal transport, meat, cigarettes and vegetables.

Financial Markets

The NBS left the key policy rate unchanged at 4.0% for the 10th consecutive month, as was expected. In making this decision, the NBS took into consideration the effects of past monetary easing, current inflation movements, and a projection that inflation will move within the target range over the next two years. Furthermore, the NBS said it will keep an eye on further movements of primary commodity prices, notably oil, and developments in the international financial market, especially because of the divergent monetary policies of the leading central banks (the Fed and the ECB). During the January-April 2017 period, the dinar appreciated against the euro by 0.2%, while the NBS has sold EUR 345Mn and bought EUR 40Mn on the fx market in order to mitigate excessive daily volatility of the exchange rate. Most of the amount was sold in the first two months (EUR 330Mn) mainly due to uncertainties related to Fed monetary policy normalisation and seasonal factors, such as increased demand for foreign currencies from importers.

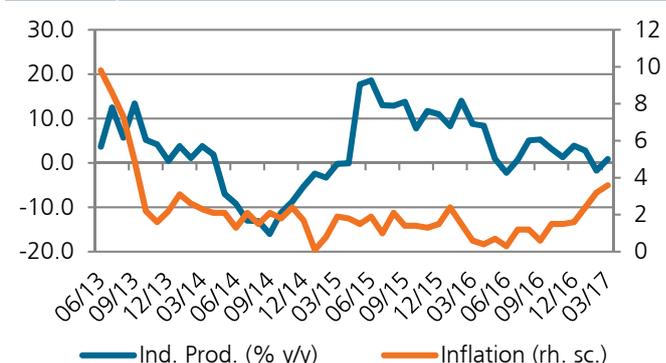
Banking Sector

Loans to the private sector rose by 4.5% yoy in March 2017, supported by household lending (11.7% yoy) while loans to the corporate sector declined slightly (-0.5% yoy). Deposits rose by 12.0% yoy, both among households (7.9% yoy) and from the corporate sector (21.3% yoy). The NBS expects lending activity to continue to expand on the back of rising economic activity, past monetary easing, and increased competition among banks. NPL share in total loans dropped from 21.6% at end-2015 to 16.8% at end-March 2017. Further resolution of this problem could help to create more space for new lending.

Latest economic indicators			
%	Last value	1Q17	4Q16
Ind production yoy	0.9 (Mar)	0.7	2.8
Nom exports yoy	21.5 (Mar)	12.8	15.8
Retail sales yoy	5.7 (Mar)	3.6	6.5
Inflation rate yoy	4.0 (Apr)	3.1	1.5
CB reference rate, eop	4.0 (19 May)	4.0	4.0
Loans (priv sector, yoy, eop)	4.5 (Mar)	4.5	2.4
Deposits (priv sector, yoy, eop)	12.0 (Mar)	12.0	11.5

Source: Statistical Office, National Bank of Serbia

Industrial production and inflation



Source: Statistical Office, National Bank of Serbia

Slovakia

Real Economy

The Slovak economy opened 2017 on a strong note. On a seasonally adjusted basis, sequential real GDP growth accelerated from 0.7% qoq in 4Q16 to 0.8% qoq in 1Q17. The headline annual rate picked up from 3.0% yoy in 3.1% yoy, well above the Eurozone average. Details of the composition of growth have not yet been released (due on 7 June), but we expect that private consumption continued to pick up, as evidenced by retail sales growth trending upward due to stronger consumer confidence. Against a backdrop of solid growth for the economy, the labour market continued to tighten. The unemployment rate is already close to an all-time low – the latest available data regarding the registered unemployment rate (claimant measure) showed another decrease in April, to 7.74%, just four-tenths above the all-time low recorded in 2008. Labour supply, previously in excess, turned into shortage, seriously limiting further growth of production. This affected wages and inflation.

Andrej Arady

However, the rise of inflation showed a temporary pause. In April alone, headline inflation decreased to 0.8% yoy from 1.0% yoy in March. Food prices declined in the past two months vs previous strong growth, decelerating from a 2.8% yoy rise in February to 2.4% in April. The demand-driven component corrected some of the previous growth as well – net inflation adjusted for fuel slipped, from 1.1% yoy growth in March to 0.9% yoy in April. Inflation pressures, nevertheless, remain in the economy. In 1Q17, domestic producer prices picked up notably, to 3.0% in April from 0.4% in January, suggesting that the downward correction in prices should be only temporary. In addition, besides domestic inflation pressures, a substantial part of inflation pressures is also imported – overall producer prices increased to 3.8% yoy, according to the latest reading, compared with the 4.1% yoy average decrease in 2016.

Financial Markets

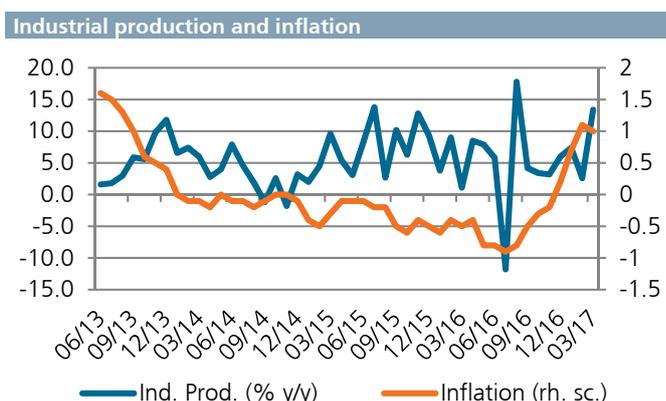
The main political risk event in the Euro zone (i.e. French Presidential elections) is out of the way, which pushed the yields on 10Y German bunds up (on the selloff of safehaven trades). In the meantime, yields on Slovak government bonds remained broadly flat over the past month. Spreads vs German bunds thus narrowed by 15bps, to 58bps.

Banking Sector

The banking sector remained sound, enjoying strong volume growth. Loan growth surprisingly accelerated further, growing by nearly 12% yoy in 1Q, up from the already high 9.5% yoy recorded in 4Q16. Loans to the private sector continued to grow at a double-digit pace of nearly 15% yoy. Loans to the corporate sector increased by over 8% yoy. However, deposits lagged behind loans, pushing the loan/deposit ratio up to 99.7% in March, from 90% two years ago.

Latest economic indicators			
%	Last value	1Q17	4Q16
Ind production, wda yoy	13.4 (Mar)	7.8	4.2
Nom exports, yoy	16.5 (Mar)	10.2	4.5
ESI (index)	104.0 (Apr)	104.6	102.8
Retail sales, yoy	7.5 (Mar)	6.8	3.0
Inflation rate, yoy	0.8 (Apr)	0.9	-0.1
ECB refi rate	0.0 (19 May)	0.0	0.0
Loans (priv sector, yoy, eop)	11.4 (Apr)		
Deposits (priv sector, yoy, eop)	4.7 (Apr)		

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



Source: Statistical Office of Slovak Republic

Slovenia

Real Economy

Economic developments in Slovenia were positive. The Consumer confidence indicator stood at -6 in April, due to an improving unemployment level. The Economic sentiment indicator was high as well: in April, it stood at 112.7. In the wake of low wage growth, consumer purchasing power is primarily being supported by employment growth. The registered unemployment rate decreased to 10.2% at the end of March, ie, a decline of 1.8pp compared to the same period in 2016. In March, exports grew by 17.8% yoy, with Germany and Italy being the main trading partners in the period. Industrial production was up by 9.7% yoy. Investment continued to grow, supported by firms' net profits. Investment in construction began to pick up more notably on the back of previous growth in the number of building permits issued and the value of new contracts.

Nastja Benčič

Inflation picked up in the first four months of 2017 (1.7% in April), with the increase was driven by rises in service and energy prices. As energy prices weigh heavily in Slovenia's consumer basket, they are an important driver of inflation.

Financial Markets

Short-term interest rates remained stable in the last observation period. The three-month Euribor rate is currently -0.331%. The yield on Slovenia's benchmark 10Y Government bond decreased by 0.063bps, to 0.98%, in comparison to three months ago, but was slightly higher in comparison to March (0.861% on 19 April 2017).

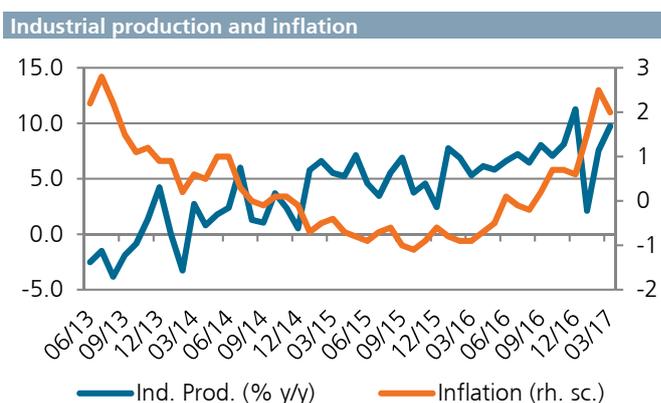
On 16 May 2017, Slovenia increased two outstanding bond issues due in March 2027 and in November 2040. Spreads for taps were set at MS+65bps for 2027 at MS+105bps for 2040. SBITOP, the Slovenian blue chip index, increased by 9.9% in the last three months, reaching 779.79, due to companies reporting stronger data. The Slovenian 5Y CDS stabilised at 75.8bps (close to last April's level (75.86bps)).

Banking Sector

Total loans to the private sector were up by 1.6% yoy (households +5%, corporates -2%). The positive trend of rising corporate loans seen in the last few months stopped in March, when volumes were again lower by -1% mom. A EUR 500Mn loan approved to the Bank Asset Management Company in December 2016 was partially repaid at the beginning of 2017. The deleveraging of the corporate sector slowed, however, with low new production remaining an important issue. In contrast, there was particularly strong new production in the household segment in March: over EUR 100Mn in mortgages and over EUR 100Mn in consumer loans were approved. Deposits from the private sector were up by 7.2% yoy (1% mom), but there have not yet been any signs of an increase in interest rates.

Latest economic indicators			
%	Last value	1Q17	4Q16
Ind production, wda yoy	9.7 (Mar)	6.5	8.8
Nom exports yoy	17.8 (Mar)	11.9	4.5
ESI (index)	112.7 (Apr)	112.9	109.0
Consumer confidence indices	-6.0 (Apr)	-6.0	-10.3
Inflation rate yoy	1.7 (Apr)	2.0	0.7
ECB refi rate	0.0 (19 May)	0.0	0.0
Loans (priv sector, yoy, eop)	1.6 (Mar)	1.6	-2.7
Deposits (priv sector, yoy, eop)	7.2 (Mar)	7.2	7.2

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



Source: Statistical Office of the Republic of Slovenia

Ukraine

Real Economy

Real GDP growth slowed to 2.4% in 1Q17 from 4.8% in 4Q16. Agriculture and industrial activities, which fell by 0.8% and 0.4%, respectively, were both a drag on GDP from January to March, while construction (+25.1% yoy) and retail sales (+3.3% yoy) both reported strong gains. In more detail, the manufacturing of steel and iron alloys (-8.6% yoy in the quarter) and electricity generation (-5% yoy) started to be negatively affected by the trade blockade with the Donbass, as most of the coke that fuels these industries comes from this region. As the blockade drags on, metal manufacturing and electricity generation figures are expected to fall deeper into the red this quarter. An IMF delegation recently arrived in Kiev for the fourth review under the USD 17.25Bn four-year EEF programme. If this review is successful, Ukraine will receive an additional USD 1.9Bn.

Giancarlo Frigoli

Financial Markets

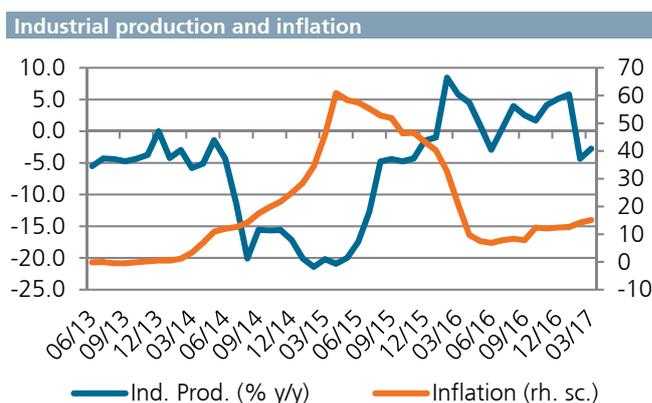
The slowdown in inflation seen in April (the annual rate eased to 12.2% yoy from 15.1% in March) confirmed that the year-end inflation targets set out in the Monetary Policy Guidelines for the Medium Term (8% ± 2pp for 2017, 6% +/- 2% for 2018 and 5% +/- 1% for 2019) remain within reach. This also pointed to likely new rate cuts over the year by the CB, which in April resumed the easing cycle (reference rate down by 100bps, to 13%). However, inflation is projected to follow an erratic path in 2017, due to adjustments in administered prices. Throughout the first three quarters of 2017, rising global energy prices and government excise policy are expected to keep inflation in the double digits. Meanwhile, the expected rapid slowdown in administered inflation in 4Q17 will be a key factor in bringing inflation closer to the target level. Inflation is forecast to decline to 9.1% by the end of 2017.

Banking Sector

As of March, banking data confirmed vulnerabilities seen in previous months. Loans to the private sector decreased by 5.0% yoy (from -6.7% yoy in February) due to the strong fall of fx denominated loans (-24% yoy) which accounted for almost 50% of total loans to the private sector. The exchange rate depreciation had a modest effect (net of this, the decrease was -6.3%). The decrease in loans was connected to both corporates (which accounted for 82% of total loans to the private sector) and households. Loans to businesses fell again in March by 4.1% yoy (from -5.4% yoy in February), despite declining interest rates (to 21.9% as of March). Loans to households continued to fall (by 8.9% yoy in March from -12.2% yoy in February). In March, the stock of deposits increased by 5.6% yoy. Household deposit growth accelerated to 4% yoy, driven by a combination of factors (wage growth, the attractiveness of deposits in a context of few alternatives). Corporate deposits accelerated strongly, by 9.3% yoy (from 3.4% in February).

Davidia Zucchelli

Latest economic indicators			
	Last value	1Q17	4Q16
Ind production yoy	-2.7 (Mar)	-0.4	3.6
Nom exports yoy	34.4 (Mar)	38.4	-5.6
PMI manufacturing	n.a.	n.a.	n.a.
Retail sales	8.8 (Mar)	3.3	2.9
Inflation rate yoy	12.2 (Apr)	14.0	12.3
CB reference rate	13.0 (28 Apr)	14.0	14.0
Loans (priv sector, yoy, eop)	-5.0 (Mar)	-5.0	2.0
Deposits (priv sector, yoy, eop)	5.6 (Mar)	5.6	9.1



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		
	1Q17	4Q16	2016	Last	mth	1Q17	Last	mth	1Q17	Last	mth	1Q17	2016	1Q17	4Q16	2016	1Q17	4Q16	
CEE																			
Czech Rep.	2.9	1.9	2.4	4.4	Mar	5.4	10.9	Mar	6.1	2.0	Apr	2.4	0.7						
Hungary	4.1	1.6	2.0	10.0	Mar	6.2	18.0	Mar	12.5	2.2	Apr	2.6	0.4						688
Slovakia	3.1	3.0	3.3	13.4	Mar	7.8	16.5	Mar	10.2	0.8	Apr	0.9	-0.5	n.s.	n.s.	n.s.			
Slovenia		2.6	2.5	9.7	Mar	6.5	17.8	Mar	11.9	1.7	Apr	2.0	0.2	n.s.	n.s.	n.s.	767	548	
SEE																			
Albania		4.0	3.5	n.a.	n.a.	n.a.	17.3	Mar	15.7	1.9	Apr	2.4	1.3		-153				-240
Bosnia H.		2.6	2.0	0.1	Mar	2.5	14.1	Apr	17.4	1.4	Apr	1.1	-1.1		44	473			-180
Croatia		3.4	2.9	0.0	Mar	2.0	14.0	Feb		1.4	Apr	1.1	-1.1		475	-193			-697
Romania	5.6	4.7	4.8	8.2	Mar	4.4	15.9	Mar	10.0	0.6	Apr	0.1	-1.5	699	-1046	-350	-3248	-1440	
Serbia		2.5		0.9	Mar	0.7	21.5	Mar	12.8	4.0	Apr	3.1	1.1	-549	600	-52			-390
CIS MENA																			
Russia	0.5	0.3	-0.2	2.3	Apr	0.1	35.2	Mar	36.6	4.1	Apr	4.6	7.1	12732	-14323	-1356	22800	10124	
Ukraine	2.4	4.8	2.3	-2.7	Mar	-0.4	34.4	Mar	38.4	12.2	Apr	14.0	14.9	-440	263	-466	-1187	-953	
Egypt	3.9	3.8	3.8	14.4	Mar	19.0	22.0	Feb	27.3	31.5	Apr	29.8	13.7		4673	7820			-4666
m.i. E. A.	1.7	1.8	1.8	1.9	Mar	1.2	13.1	Mar	10.2	1.9	Apr	1.8	0.2						

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

Markets and Ratings														
	S/T rates ¹		L/T rates ²		Foreign exchanges ³			Stock markets		CDS spread (bp)		Rating		
	19/05	chg bp 3M	19/05	chg bp 3M	19/05	3M chg%	1Y chg%	3M chg%	1Y chg%	19/05	16/02	S&P		
CEE														
Vs Euro														
Czech Rep.	0.3	0.0	0.8	0.0	26.5	-1.9	-1.9	5.1	16.8	37.5	37.2	AA-		
Hungary	0.2	-0.1	3.1	-0.5	309.2	0.4	-2.2	3.2	35.3	103.2	109.5	BBB-		
Slovakia	-0.3	0.0	1.1	-0.1	Euro	Euro	Euro	-1.1	-4.8	38.8	39.3	A+		
Slovenia	-0.3	0.0	0.9	-0.1	Euro	Euro	Euro	2.9	10.8	75.8	89.1	A		
SEE														
Albania	0.0		n.a.	n.a.	134.8	-0.6	-2.4	n.a.	n.a.	n.a.	n.a.			
Bosnia H.	n.a.	n.a.	n.a.	n.a.	1.96	Board	Board	n.a.	n.a.	n.a.	n.a.			
Croatia	0.6	0.0	3.0	0.3	7.4	-0.1	-0.5	-14.6	10.0	170.1	189.8	BB		
Romania	0.7	0.1	3.8	0.2	4.6	0.8	1.2	10.0	33.0	94.5	92.7	BBB-		
Serbia	4.0	0.0	n.a.	n.a.	123.1	-0.6	0.2	4.1	25.3	178.4	201.6	BB-		
CIS MENA														
Vs USD														
Russia	9.5	-1.0	7.5	-0.7	57.5	1.2	-11.7	-8.8	3.5	141.7	163.2	BB+		
Ukraine	16.2	-1.7	9.7	0.0	26.4	-2.4	4.5	-7.5	19.4	587.8	1253.8	B-		
Egypt	19.3	0.3	17.2	0.4	18.0	11.9	103.3	-2.4	77.6	326.8	343.7	B-		
m.i.A.E.	-0.3	0.0	0.4	0.0	1.1	5.0	-0.1	5.5	17.5	7.5	14.4			

Source: Datastream, Reuters; ¹The data for Albania refers to february, for Egypt refers to april, for Czech Republic refers to april; 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	Chg yoy %	Last mth	Chg yoy %	Last Mth	%	Last mth	2016	%	Last mth	2016	%	Last mth	2016						
CEE																							
Czech Rep.	6.7	Mar	6.7	4.8	Dec	4.8	33.3	Nov	10.2	Mar	5.8	1.84	Mar	1.86	C	0.9	Mar	0.91	A	75.6	Mar	76.6	
Hungary	0.1	Mar	-1.9	9.0	Dec	9.0	3.2	Mar	-7.0	9.6	Mar	6.3	2.35	Mar	3.12	C	0.39	Mar	0.54	A	85.5	Mar	83.8
Slovakia	11.4	Mar	10.3	4.6	Mar	4.7	-12.7	Mar	0.8	4.7	Mar	4.6	2.54	Mar	2.6	C ²	0.43	Mar	0.49	H ²	96.4	Mar	94.9
Slovenia	1.6	Mar	-2.7	5.3	Feb	5.5	-13.1	Mar	-17.9	7.2	Mar	7.2	2.79	Mar	2.81	C ²	0.11	Mar	0.23	H ²	80.5	Mar	81.0
SEE																							
Albania	-0.1	Mar	0.2	17.4	Mar	18.3	-12.9	Mar	-13.2	1.5	Mar	2.7	8.44	Mar	7.01	A	0.9	Mar	0.78	H	53.1	Mar	52.3
Bosnia H.	4.8	Mar	3.4	11.8	Dec	11.8	-4.1	Mar	-5.3	8.4	Mar	7.4	4.19	Mar	4.62	C	0.37	Mar	0.55	H	110.3	Mar	110.1
Croatia	-2.3	Mar	-4.3	13.8	Dec	13.8	-20.8	Mar	-26.6	2.8	Mar	2.8	4.37	Mar	4.47	C	1.08	Mar	1.26	H	82.4	Mar	80.5
Romania	2.7	Mar	0.6	9.5	Dec	9.5	-16.2	Mar	-21.8	11.2	Mar	8.5	4.03	Mar	3.72	C	0.84	Mar	0.9	H	83.9	Mar	83.0
Serbia	4.5	Mar	2.4	17.0	Feb	17.0	-11.7	Mar	-9.1	12.0	Mar	11.5	5.91	Mar	5.42	C	2.7	Mar	3.01	H	1.0	Mar	102.3
CIS MENA																							
Russia	-6.1	Feb	-4.2	9.7	Mar	9.4	-12.5	Oct		-1.4	Feb	-3.9	11.48	Feb	11.83	C	6.3	Feb	6.5	H	106.1	Feb	107.7
Ukraine	-5.0	Mar	2.0	30.5	Dec	30.5	-15.9	Feb	-8.0	5.6	Mar	9.1	21.89	Mar	22.88	R ³	15.17	Mar	16.31	R ³	134.8	Mar	136.8
Egypt	45.4	Jan	42.8	5.8	Dec	5.8	227.2	Jan	256.6	44.5	Jan	41.4	16.5	Feb	16.3	C	11.3	Feb	10.3	H	39.3	Jan	39.2
m.i. E. A.	1.1	Feb	1.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	16.9	Feb	3.3	1.2	Feb	1.4	C	0.4	Feb	0.4	H	82.2	Feb	81.8

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

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

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