Forecast Note
Countries with ISP Subsidiaries

December 2015

Quarterly note

Intesa Sanpaolo

International Research Network

GDP forecasts in 2016 are revised upwards for the CEE/SEE region, but downwards for the CIS area and Egypt. Money market and exchange rates are seen broadly stable at current levels. EGP under pressure.

The GDP growth in 3Q15 and the business cycle indicators in 4Q15 confirm the recovery in the CEE and the pick-up in the SEE region forecast in September. Growth has been slightly revised upwards, however, by 0.1 pp to 2.9% in 2015 and to 2.5% in 2016 in the former and by 0.3 pp to 2.6% in 2015 and to 2.7% in 2016 in the latter countries. Growth is benefitting from more favourable external factors (declining oil prices, extension of the ECB's QE, EA recovery) and internal conditions (prolonged low interest rates, partial recovery of domestic demand).

In the CIS and MENA areas, the scenario of an economic rebound in 2016 has been confirmed for Ukraine (with GDP forecast at 1.5%), supported by financial stabilisation following the agreement with the IMF, but only partially for Russia. GDP is now expected to stall in Russia at 0% (compared to the previous forecast of +0.5%), due to a lower oil price and extended geopolitical tensions with trade partners (including Turkey). The growth forecast in 2016 has also been cut for Egypt (by c.1 pp) to 3.8%, due to recent weaker business cycle indicators and the negative impact on tourism and FDIs from terrorist attacks and geopolitical tensions.

Regarding financial markets, long-term rates, which have generally fallen in 2015 in the CEE/SEE region, are seen to be starting a slightly upward trend in 2016. The expected reversal is due externally to the correlation with EA (and US) benchmarks and domestically to the recovery of the real cycle and inflation. Exchange rates with the Euro are forecast to remain broadly stable.

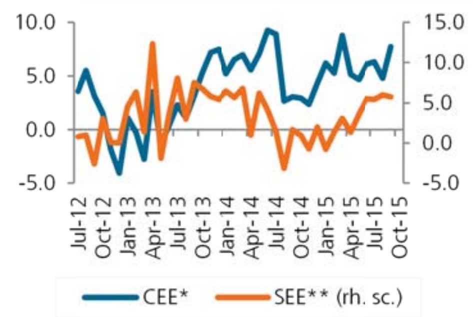
In the CIS area, the RUB/USD rate is seen to hover below previous expectations and around the current levels, due to weaker oil prices and capital outflows. For the UAH/USD, a path of gradual depreciation is forecast as necessary to counterbalance the ongoing appreciation of the real effective exchange rate due to the high inflation differential with the main trade partners. Increasing competitive pressures and a lowering level of foreign exchange reserves are also likely to lead to a depreciation of the Egyptian pound larger than previously expected.

The trend in loans is forecast to show signs of recovery in the CEE /SEE region. Loans' profile is still affected, however, on the demand side by weak domestic dynamics of private investments, and by the deleveraging process in the private sector. On the supply side, effects are seen from the burden of NPLs and from portfolio restructurings in some countries. In the CIS area, the loan growth is still forecast to be below the rate of inflation both in Russia and especially in Ukraine. In Egypt, the strong increase forecast in 2016 (+15%, in line with 2015) is also positive in real terms, but remains well below the nominal GDP dynamics. Deposits are seen on a quite positive trend in nominal and real terms in all the countries and generally above the loans' dynamics. The loans/GDP and loans/deposits ratios are therefore generally expected to decline further.

Industrial production % y/y

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

Industrial production % y/y



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

The figures in this document have been updated to 11 December 2015.
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This note has been coordinated by Gianluca Salsecci. The names of the authors are reported in the individual sections.

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

Cross-country Forecast

Recent developments

Gianluca Salsecci, Giancarlo Frigoli, Antonio Pesce and Davidia Zucchelli

In the CEE/SEE countries with ISP subsidiaries, the GDP profile consolidated in the CEE area and further picked up in the SEE region in 3Q15. Among the CEE countries, in particular, GDP grew in the third quarter at a remarkable speed in Slovakia (+3.6% yoy, after +3.4% recorded in 2Q15), mainly driven by investments related to EU structural funds, but also by private consumption. Although decelerating slightly, it also remained on a good path in Hungary (2.3% yoy from 2.7% yoy in 2Q15) and in Slovenia (2.5% yoy from 2.7% in 2Q15).

Among the SEE countries, the GDP growth in 3Q15 accelerated further in Romania (3.6% yoy from 3.4% in 2Q15), in Croatia (2.8% yoy from 1.2% in 2Q15) and in Serbia (2.2% yoy from 0.9% in 2Q15); in the latter case, it partly benefitted from the base effect originated by the previous-year's flood-related underperformance. The business cycle indicators recorded in October and November tended to confirm in 4Q15 a decelerating dynamics in the CEE area, together with a comparatively stronger performance (below the 3Q's peaks, however) in the SEE area.

The latest monthly data on consumer price inflation, in all CEE/SEE countries, consumer price inflation was below the lower bound of the target intervals set by the central banks, due to the hindering effect of modest energy prices and the absence of pressures from domestic and external demand. In October, the inflation rate was negative in Slovakia, Slovenia, Bosnia, Croatia and Romania, just equal to 0.1% yoy in Hungary, and at 1.4% in Serbia, well below the Central Bank's targets. An increase in consumer prices was recorded instead in Albania, with inflation at 2.1% yoy in November (still below target) compared with 1.8% in Q315.

All the central banks of the CEE/SEE countries with ISP subsidiaries maintained easy conditions in 3Q15 by keeping unchanged or further reducing the policy rates. A reduction also occurred recently in Albania, where in November the policy rate was set at 1.75%. Exchange rates remained quite stable in the whole region, with the exception of the HUF, which depreciated slightly.

Real cyclical indicators confirm the stabilisation of the economic cycle for CEE countries and a recovery in SEE countries

In the CIS Region, in Russia, the PMI for the service sector, which accounts for the largest share of the economy, remained in the contractionary area (below 50) in November, but rose to 49.8 from 47.8 in the previous month. Also in November, the PMI for the manufacturing sector slightly decreased, to 50.1 from 50.2 in October, but remained above the 50 threshold. In Ukraine, the favourable weather conditions have significantly improved the likelihood of a good winter wheat harvest, providing a boost to GDP growth in the final quarter of 2015, and likely now in the first quarter of 2016 as well, after a significant decline recorded in January-October. According to estimates provided by the Economic Development and Trade Ministry, almost 5pp of this contraction was due to disruptions in the eastern regions.

In the MENA region, the downturn in Egypt's non-oil private sector gathered speed during November, when the PMI index slipped to the lowest level in 26 months, to 45.0. The index has contracted in eight out of 11 months so far in 2015. Output and new orders led the fall. Moreover, the respective declines were the sharpest in more than two years. New export business also dropped sharply. A number of monitored companies mentioned that they were downsizing inventories. In November, the Central Bank supported a small appreciation of the currency (+2.5% against the USD, to EGP 7.83), partly reversing a depreciating trend that had led the currency to lose over 12% of its value against the USD in the year up to November. Several indicators – mainly the Real Effective Exchange Rate - suggest that the EGP is misaligned (overvalued) by 15-20%.

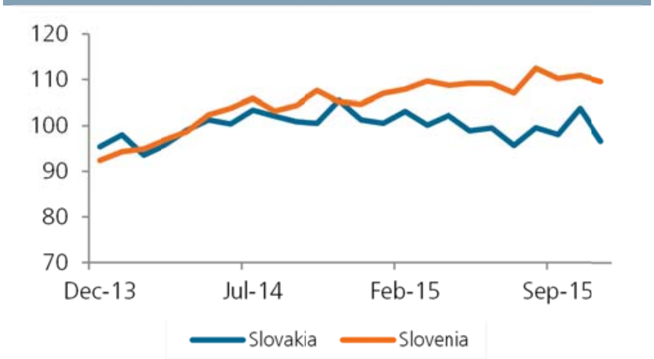
A slight recovery in loans in CEE and SEE countries; deposits hold up

With reference to banking aggregates, loans still decreased in the CEE (even if at lower pace than in the previous months) and slightly increased in the SEE area. In Slovenia (-8% in October, from -11.6% yoy in September), the rebalancing effect of the public banks' balance sheet restructuring continued. In Croatia, a fragile dynamic was also confirmed in October (-2.1% yoy, from -1.5% in September). In Serbia, the private sector loans increased by +3.1% in October, but decelerated from the pickup recorded last April (+6.4% yoy). Deposits were in contrast resilient, particularly in Romania (8.2% yoy in October) and Bosnia (+8%).

In the CIS area, positive changes in the main banking aggregates were simply due to the accounting effects of the exchange rate depreciation. In Russia, loans rose nominally by c.18% in August, but net of fx effects are estimated to have decreased by 6%. In Ukraine, where the banking sector is particularly under stress, loans decreased by -1.9% in September, but net of the fx depreciation they fell by 35%. Deposits decreased as well (-1.3%, and -34% net of fx depreciation effect), due to a decrease in remittances and a lack of confidence among savers. Nonperforming loans rose to over 25.6% in September, putting further pressure on capital. Further capital injections may be necessary.

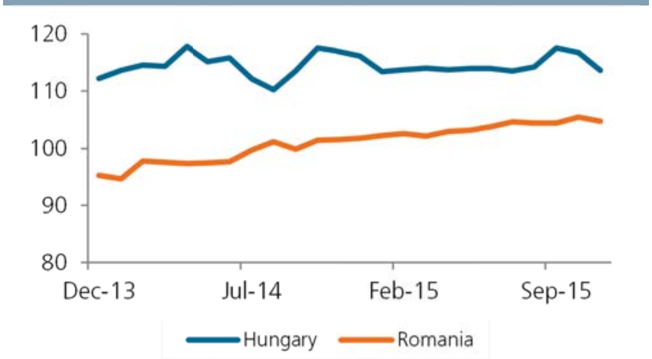
In October, foreign liabilities continued to decline at a considerable rate, both in some CEE countries (in Slovenia, -19.7%) and in some SEE countries (in Romania, -16%, and in Albania, -11.8%). Among CEE countries, foreign liabilities grew, however, in Slovakia (+5.9%), while showed a slight decrease in Hungary (-0.3%). In Russia, they increased nominally by 23% in September (but fell by 60% yoy net of exchange rate depreciation). Similarly in Ukraine, the trend in foreign liabilities was also positive in nominal terms (11%), but concealed a strong decrease net of the exchange rate effect (-52%). On the liability side, in several cases, the decrease in foreign funding was partly offset by the resilience of deposits.

Economic Sentiment Indicator



Source: European Commission

Economic Sentiment Indicator



Source: European Commission

The International Outlook underlying the Scenario

Slowdown of global economy in 2015 led by weaker growth of emerging countries …

Performance of major economies. GDP growth in the first three quarters and high frequency data so far in the fourth quarter of 2015 point to weaker growth for the world economy this year compared to last year. The slowdown - with GDP growth seen at 3.1% compared to 3.4%in 2014, according to the latest IMF forecasts - is mainly due to a weakened profile of emerging economies, which are expected to slow to 4% from 4.6% in 2014. Growth in advanced economies is expected to accelerate slightly, with GDP forecast to increase by 2.5% vs 2.4% in 2014 for the US and to 1.5% from 0.9% in 2014 for the Euro Area. The downturn of the emerging economies mainly reflects the recession expected in the CIS region in Russia and Ukraine, in Latin America in Brazil, and the mild slowdown of Emerging Asia. Indeed, the Chinese economic deceleration is so far in line with forecasts, but its cross- border effects seem to be greater than previously envisaged, especially on commodity exporting economies in the Sub-Saharan Africa, the Middle East and the Latin America.

… but partial rebound in 2016

In 2016, growth in advanced economies is forecast to gain additional steam both in the Euro area (with GDP growth forecast at 1.6%), helped by supportive monetary and fiscal policies, and in the US (with GDP growth forecast at 2.6%), sustained by strong domestic demand amid healthier private sector balance sheets. Emerging economies' GDP is forecast to slightly recover (GDP growth is forecast by IMF at 4.5%), mainly due to a lower GDP contraction of the economies experiencing recession in 2015 in the CIS area and Latin America more than offsetting the further slowdown in Asia (Chinese GDP is seen to grow at 6.4% from 6.8% in 2015) and in GCC. Weaker-than-previously-expected commodity prices highlight the risk of downward revisions of projections among emerging economies as the year drags, however.

Monetary policies of the major central banks. At its December meeting, the ECB further eased its monetary stance, by cutting the deposit rate by 10bp, to -0.30%, by extending the Asset Purchasing Programme at least until March 2017 *and beyond if necessary* and by announcing the decision to reinvest the principal payments on the securities purchased. By repeating that the APP is flexible enough the door was eventually left open to further adjustments.

Rates in Europe to stay low longer than previously expected. Contained impact of the FED cut on emerging financial markets

At its mid-December meeting, the FED finally decided to start its hiking cycle, by announcing a quarter point increase in the target range for the federal funds rate to 0.25-0.50 per cent after seven years in which it was set at historical lows. Given the strength of the US economy and the backdrop of the tightening (already priced by the market), a major fallout is not expected among emerging countries unless markets are caught by surprise by future FED moves. Higher policy rates are now also likely among several emerging economies, in particular those with large external requirements (such as Turkey and South Africa) or with currencies pegged to the USD (e.g. GCC).

Market and national banking system stability. The stability of the markets and banking systems is assumed to remain the primary objective of international authorities.

The stability of the financial systems is the primary objective pursued by authorities

Economic Outlook

GDP growth and inflation

In the CEE area, the GDP dynamics in 3Q15 and the high frequency indicators released so far in 4Q15 essentially confirm the recovery path anticipated in September. Growth has been slightly revised upwards by 0.1 pp both for 2015 (to 2.9% from 2.8% forecast in September) and for 2016 (to 2.5% from 2.4% previously).

Broad consolidation in CEE area and further acceleration in SEE area of GDP growth in 2016 with respect to previous forecasts

In the SEE area, thanks to a GDP dynamic well above expectations especially in 3Q15, the GDP forecast has been revised for 2015 (to 2.6% from 2.3% seen in September) and also for 2016 (to 2.7% from 2.4%). A higher growth profile is expected in most countries, in particular in Romania (with the GDP rate now seen at 3.6% in 2015 and at 3.4% in 2016) and in Serbia (where it is now seen at 0.8% in 2015 and at 1.8% in 2016). In Croatia, thanks to the extraordinary performance in 3Q15 (supported by a strong tourist season), the GDP profile has been revised in 2015 to 1.3% (from 0.9%), but decreased in 2016 to 1.0% (from 1.5%), due to the political deadlock which is expected to negatively affect investments.

In the CIS area, the GDP forecasts for 2015 have been revised slightly upwards for Ukraine to -10%, following a smaller-than-expected drop in annual GDP in 3Q (-7%) and recent milder business cycle indicators, but downwards for Russia, where the GDP is now seen to fall by a higher 3.9%. The scenario of an economic rebound in 2016 has been confirmed for Ukraine (with GDP forecast at 1.5%), but not for Russia, where GDP is now expected to stall at 0%, due to a significantly weaker-than-previously-expected oil price dynamics and to extended geopolitical tensions for the country with neighbouring trading partners (now including Turkey).

In the MENA area, we have significantly cut the GDP growth profile of Egypt for 2015, to 3% (from previous 4%) and for 2016 (to 3.8% from previous 4.7%), following a wide array of factors: weak data on industrial production, exports and PMI; the negative impact of the terrorist attacks in the country on tourism; and persisting geopolitical tensions on FDI inflows, which are also likely to weigh on the realisation of the ambitious investment plans announced by the government last spring.

The inflation rates are forecast to recover in 2016 in CEE/SEE area, in line with developments in the EA and following the deep deceleration in 2015, when price levels actually fell in most cases. Inflation is nevertheless forecast to remain well below the lower limits of the ranges set by the central banks, still supporting highly accommodative monetary policies. In CIS countries, although recent data point to more persistent than previously seen inflationary pressures, we still forecast a slowdown in the consumer price trend both in Russia and in Ukraine, leading to a single-digit rate in Russia in 2016. We see inflation in Egypt as more stubborn and easing only gradually over the forecasting period, due to the spillover effects of expected currency depreciation, the new likely subsidy cuts, and the planned introduction of a VAT.

Monetary policy and the financial markets

Monetary policies are still expansionary

The forecast of an expansionary stance of monetary policies is confirmed in CEE and SEE countries in 2016, with money market rates stable at recent lows or falling slightly further in some cases. The forecast is supported (directly for Slovakia and Slovenia, members of the EA, but also indirectly for the other countries) by the recent decisions adopted by the ECB under the QE Programme (see above). It is also supported by local trends in the inflation rate, which are forecast to recover while remaining nevertheless below the targets set by the central banks.

Monetary rates in this context are expected to remain approximately around the current levels in 2016 (with few exceptions – for example, in Serbia, where a further reduction is expected). Year average monetary rates are seen to decline further in 2016 with respect to 2015, due to the higher monthly levels generally prevailing, especially in 1H15 positive affecting the whole year average. In the CIS area, the easing phase of monetary policy is likely to resume next year, both in Russia, amid falling inflation, and Ukraine, helped by new advances in financial stabilisation. In Egypt, monetary interest rates are unlikely to change significantly next year, due to persistent inflationary pressures and a weak currency.

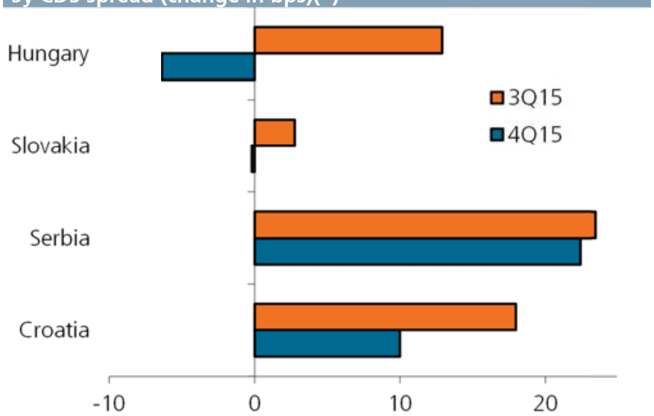
The risk premium component of long rates should narrow again after the recent increases

Long-term rates, which have generally fallen in 2015 in CEE and SEE countries, are expected on an upward trend in 2016. The increase is to be referred to the increase in Euro benchmark rates and to domestic factors, in particular the expectations of economic cycle consolidation and future reversal of inflationary trends. In Russia and Ukraine long-term rates, which have also dropped recently supported by progressive financial stabilisation, are not expected to move much lower in 2016, due to persisting geopolitical risks and financial market pressures related in Russia to declining official reserves, and in Ukraine to foreign debt that, notwithstanding the restructuring deal reached with foreign holders, remains worryingly high.

Exchange rates generally stable in CEE and SEE countries. Tensions are easing in CIS area

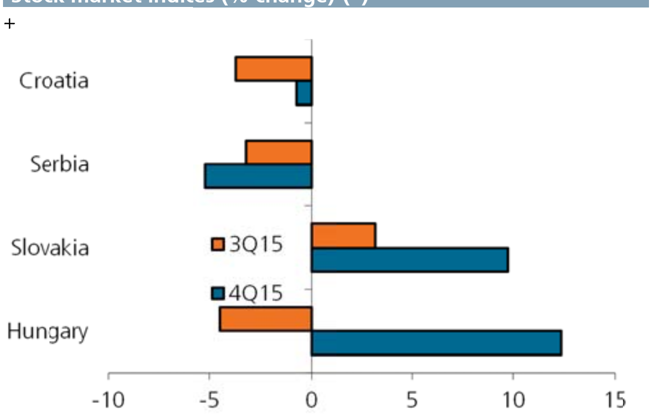
Exchange rates are forecast to remain essentially stable at current levels in 2016 in the CEE/SEE area. After the significant rebound in recent months, the RUB/USD rate is expected to hover around the current levels in the next few months. Capital outflows related to only partial rollover of external maturing debt and to the weak perspective on oil prices will continue to weigh on the currency. The Ukrainian hryvnia is forecast to follow a gradual depreciating trend to counterbalance the ongoing appreciation of the real effective exchange rate due the persistently high inflation differential with the main trade partners. Competitive pressures and low levels of foreign exchange reserves are likely to lead to a larger-than-previously-forecast depreciation of the (currently overvalued) Egyptian pound, followed by more flexible management of the currency.

5y CDS spread (change in bps)(*)



Source: Bloomberg.(*) 4Q up to 11.12.2015

Stock market indices (% change) (*)



Source: Thomson Reuters. (*) 4Q up to 11.12.2015

Aggregates and bank rates

Loan performance expected to recover slightly

Loans to the private sector in CEE/SEE countries are forecast to increase in 2015 in Slovakia, Romania and (even if at lower pace than in 2014) in Serbia, and to decrease in Albania. Loan growth is expected to remain negative in Slovenia, Hungary and Croatia, partly due to *ad hoc* factors relating to deep credit portfolio restructurings in the former cases and to the conversion process of foreign currency-denominated loans in the latter. The trend in loans is generally expected to show signs of recovery in 2016 (with a still-modest positive increase overall but not yet in Croatia). Loans are still affected, on the demand side, by weak domestic demand, especially for investments, and by the deleveraging process occurring in the private sector. In addition, on the supply side, by the burden of NPLs and by the process of portfolio restructuring (at different stages of implementation) are issues in Slovenia and Hungary. In Croatia, the loans profile in 2016 will also be affected by the residual implementation of the conversion process of Swiss franc-denominated loans into euros started in 2015.

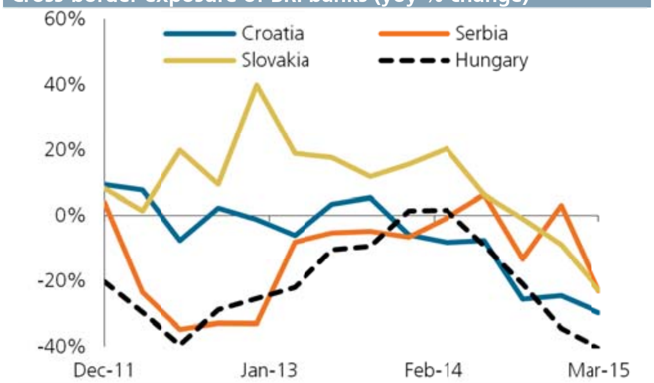
In Slovenia, the largest (public) banks are still in the process of restructuring their loan portfolios. After a decline of stocks of 17.4% in 2013 and 13.4% in 2014, due to the transfer of NPLs from the largest banks to BAMC, we expect a decrease also in 2015 (-4%), followed by a weak recovery in 2016 (+0.5%). In Hungary, a decrease of 10% is seen in 2015 - due to the adjustments related to the (retroactive) provisions on bid/offer spreads being deemed unfair and on the banks' past unilateral interest rate increases – while a zero growth rate is expected in 2016. Net of these *ad hoc* factors, a slight recovery is seen as under way in both countries.

Aggregates in the CIS area expected to remain weak

Loans in the CIS area are expected to fall net of the foreign exchange effect in 2015 in Russia and in Ukraine. A weak loan recovery is forecast in both cases for 2016, albeit still below the rate of inflation in Russia and especially in Ukraine. In Egypt, a strong dynamic is forecast in 2015 (+16%) and in 2016 (+15%), although the trend of loans is well below the nominal GDP dynamics.

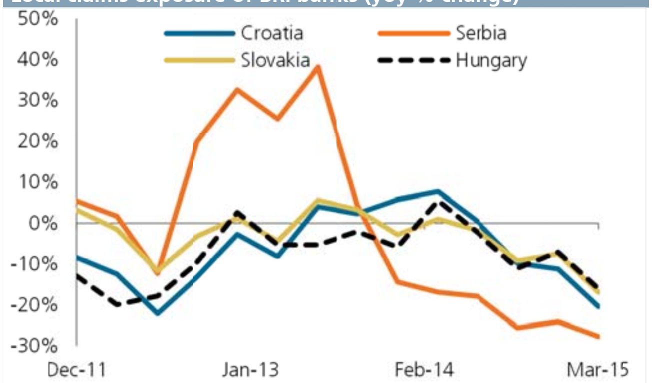
We forecast the growth of **deposits** to be positive in 2015 in all the countries (with the exception of Ukraine) and well above the dynamics of loans. The loans/GDP and loans/deposits ratios are therefore expected to decline further, as a result both of the deleveraging process in the private sector and current process of credit portfolio restructuring and of the internal *vs* external funding sources rebalancing among banks.

Cross-border exposure of BRI banks (yoy % change)



Source: Intesa Sanpaolo processing of Bank for International Settlements' data

Local claims exposure of BRI banks (yoy % change)



Source: Intesa Sanpaolo processing of Bank for International Settlements' data

Country-Specific Analysis

Albania

Real Economy

Kledi Gjordeni

Available data suggest that Albanian GDP growth will be 2.5% by the end of 2015, driven mostly by the growth in investments and improvements in the trade balance. In 2016, GDP is forecast to grow close to 3.0% (the Albanian government projects 3.4%). Growth is expected to be] driven by increasing foreign direct investment and domestic demand, supported by a gradual pickup in bank lending and the start of the major construction work on the Trans-Adriatic gas Pipeline (TAP). The government has stepped up its efforts to reduce informality in the economy, which should be economically beneficial. Fiscal consolidation is expected to continue in 2016, enabling public debt to gradually decline over time. Inflation is projected to stay below the CB target, in part reflecting globally low price pressures and output still below potential.

Financial Markets

The recent government issue of 5Y Eurobond proved to be very successful. The matured EUR 300mln Eurobond on November 2015 at 7.5% was renewed at 5.75% and at a larger amount of EUR 450mln. This shows the interest of foreign investors in the Albanian market and a perceived safe macroeconomic environment. According to the MOF, the increased issue of new Eurobonds will not raise public debt because it will be offset by a reduction in domestic debt. The shift from domestic (shorter maturity) debt to foreign (longer maturity) debt and the buyback of securities from local banks will in addition provide funds to support a boost in credit activity. Interest rates have been gradually decreasing throughout 2015. Such a trend is expected to slightly continue in 2016 also considering that the projections for the local currency debt have been revised downward. While the EUR/LEK exchange rate has been stable, in November, the LEK depreciated against the USD following the trajectory of the international EUR/USD cross rate.

Banking Sector

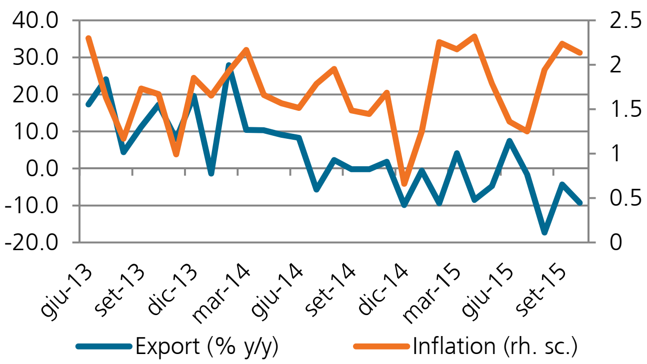
In October 2015, loans to the private sector shrank by 1.7% yoy. Loans to individuals continued to show positive growth, increasing by 1.6% in October, while loans to corporates decreased by 2.9% yoy, While total deposits from private sector grew by 1.4% yoy, driven by corporate deposits, which expanded by 8.9% y/y. In the mid- to long term, the perceived credit risk is expected to decrease in response to the plans to reduce nonperforming loans, while efforts for formalising the economy are expected to enhance businesses transparency and efficiency of the economy. These developments are expected to create a more solid basis for the growth of credit in the economy.

Forecasts

	2014	2015F	2016F
Real GDP yoy	2.1	2.5	2.8
CPI avg	1.6	1.9	2.0
Euro exchange rate avg	140.4	140.0	139.8
Euro exchange rate (end of period)	140.1	138.5	141.2
Short-term rate (avg.)	3.0	2.7	2.1
Short-term rate (end of period)	2.8	2.2	2.1
L/T bond yields (avg.)	n.a.	n.a.	n.a.
Bank loans yoy (end of period)	2.2	-2.0	1.5
Bank deposits yoy (end of period)	2.9	1.0	1.5

Source: Intesa Sanpaolo Research Department forecasts

Exports and inflation



Source: INSTAT

Bosnia and Herzegovina

Real Economy

Ivana Jovic

After strong 4.4% yoy GDP growth in the second quarter, high frequency data continued to show a solid performance in the following quarter. According to the Statistics Agency, industrial production in the third quarter increased by 3.7% yoy, continuing from 3.3% growth in October. Real retail trade inched down to 7.9% in the third quarter, but growth slowed significantly in October, posting a rise of only 1.9% yoy - the lowest rate over the last 13 months - amid a strong c.6% decline in basic food products, while non-food products continued with solid c.9% growth. Exports of goods also were slight slowdown in the third quarter (3.9% yoy growth vs 6.1% in previous quarter, amid a 1% yoy decline in September), while October data suggest 2.2% yoy growth. Deflation continued in October and the CPI index declined by 1.8% yoy, with inflation for the first ten months averaging -0.9% and confirming that 2015 will be the third consecutive deflationary year.

In line with the stronger second quarter growth, a somewhat slower but still solid third-quarter outlook and expected continuation of a solid performance in the last quarter, we upgraded our estimate for this year's GDP growth from September's 1.8% to 2.4% yoy. Looking forward, we expect a continued good performance in 2016, resulting in c.2.5% growth supported by both domestic and foreign demand. However, in contrast to 2015, growth will benefit less from the previous year's low base.

Banking Sector

The banking sector is still affected by the subdued lending activity on the one hand, and strong growth in deposits on the other. Loans to the private sector in October grew by 1.3% yoy (2.0% vs end-2014) amid strong 5.3% growth in households' loans, while the corporate sector continued to deleverage (-2.3% yoy in October). Growth in household loans was predominantly based on growth in credit cards loans (2.8% yoy) and non-purpose consumer loans (+6.8% yoy) both accounting for roughly 80% of total household loans while housing loans continued to decline (-2.4% yoy, 19% share). Looking forward, we expect growth in private sector loans to speed up slightly in 2016, to 2.5% yoy from 2.0% growth in 2015.

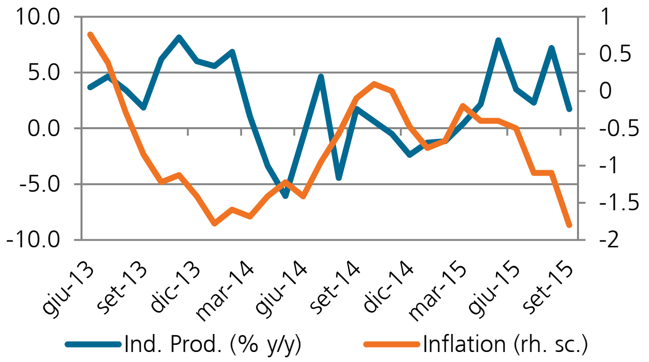
As at the same time, private sector deposits grew in October by a high 8.0% yoy (6.1% vs end-2014), owing to both households (7.8% yoy) and corporate deposits (8.4% yoy) rising. We expect that the growth in deposits will continue in 2016 at the same pace as in 2015.

Forecasts

	2014	2015F	2016F
Real GDP yoy	1.1	2.4	2.5
CPI avg	-0.9	-1.0	0.3
Euro exchange rate avg	2.0	2.0	2.0
Euro exchange rate (end of period)	2.0	2.0	2.0
Short-term rate (avg.)	n.a.	n.a.	n.a.
Short-term rate (end of period)	n.a.	n.a.	n.a.
L/T bond yields (avg.)	n.a.	n.a.	n.a.
Bank loans yoy (end of period)	1.9	2.0	2.5
Bank deposits yoy (end of period)	6.4	5.2	5.4

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Labour and employment agency

Croatia

Real Economy

Ivana Jovic

Although we anticipated the acceleration of economic growth in the third quarter of this year, official 2.8% growth exceeded our expectations. The data revealed a more significant acceleration in personal consumption growth (1.4% yoy), government spending (0.6% yoy) and investment activity (+2.2%), while a positive contribution from net foreign demand continued as expected, by 1.6pp to overall growth. Available data for the last quarter show that industrial production in October recorded an increase of 6.4% yoy, while real retail trade grew by 1.5%. Thus, we expect a positive GDP growth rate in this quarter as well, although lower than in the third quarter, because of a significantly lower influence of tourism as well as the potential negative impact of the election cycle on business activities. However, in the end, this year might see a GDP growth rate of around 1.3%.

Looking forward, we foresee a slight slowdown in 2016 GDP growth to around 1.0% yoy. We anticipate that personal consumption will not experience the positive influences of this year's tax changes as well as of low inflation levels. Therefore, we may expect consumption to remain the same or move to marginally higher levels. Even though we expect a positive contribution from the investment activity fostered mainly by a greater absorption of EU funds, current political deadlock (the postponement of formation of a government) will likely postpone implementation of planned large infrastructure projects. In addition, the next year could be crucial in terms of accelerated fiscal consolidation. As far as foreign demand is concerned, although we expect to see a further positive contribution, some uncertainty could arise due to geopolitical risk and the fact that the bar was set high in 2015 for the export of services, i.e. tourism.

Financial Markets

The year-end brought stabilisation on financial markets and money market interest rates declined back to pre-September levels (CHF conversion-related hike in interest rates) while fx remained stable. The CNB is considering the possibility of extending the maturity of repo oparations in 2016 in order to ensure long-term HRK liquidity, without shifting its primary focus from exchange rate stability.

Banking Sector

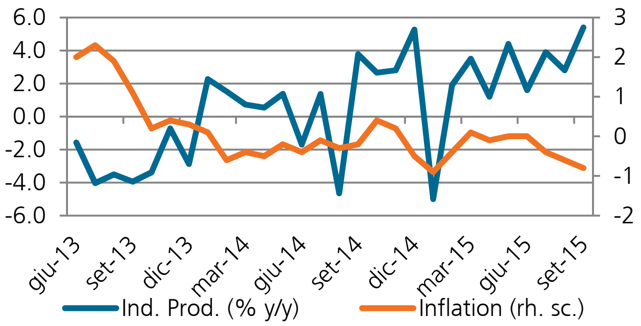
A strong surge in corporate deposits (+22.5% yoy) amid sale of Rovinj Tobacco Factory and an exceptionally good tourist season, accompanied by stable growth in household deposits, lifted private sector deposits growth in October to 5.7% yoy. In contrast, private sector loans declined by 2.1%, reflecting continued deleveraging trends. In 2016, we view a meaningful pick-up in private credit as unlikely. End-2015 and (partly) 2016 data will likely be influenced by CHF loans conversion.

Forecasts

	2014	2015F	2016F
Real GDP yoy	-0.4	1.3	1.0
CPI avg	-0.2	-0.4	0.6
Euro exchange rate avg	7.6	7.6	7.6
Euro exchange rate (end of period)	7.7	7.6	7.6
Short-term rate (avg.)	0.7	1.0	1.2
Short-term rate (end of period)	0.8	1.1	1.2
L/T bond yields (avg.)	4.4	3.9	4.2
Bank loans yoy (end of period)	-2.0	-3.6	-0.5
Bank deposits yoy (end of period)	2.3	5.7	0.2

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: EC

Egypt

Real Economy

Emil Eskander

GDP growth for FY 2014/2015 came in at 4.2% compared to 2.2% in FY 2013/2014, as final consumption and investments continued to boost the economy. Although the government's draft budget for FY 2015/2016 targets economic growth of between 5.0% and 5.5%, significant imbalances in the Egyptian economy that have emerged (foreign currency shortage, energy shortage, high inflation, declines in non-oil exports, decline in tourism and security risks) could affect economic activity, which suggests GDP is more likely to hover around 3.5% in FY 2015/2016. In calendar year terms, GDP is nevertheless forecast to increase by 3.8% in 2016, after the slowdown to 3% expected in 2015.

Headline inflation increased to 9.7% in October 2015, up from 9.2% in September. It is expected to continue rising till the end of 2015, and then to gradually decrease to stay within the upper single-digit range. The upside risks to the inflation outlook stemming from domestic supply shocks are expected to be mitigated by the anticipated decrease in international commodity prices. The impact of the introduction of a value-added tax (VAT) in 2016 is seen to be temporary and to moderate rising consumer prices. (The rise is estimated at 1.3% by the Minister of Finance in accordance with the assessments of the International Monetary Fund and the World Bank.)

Financial Markets

The EGP depreciated by about 1.4% against the USD by end of October 2015 compared to September. In an unexpected move, the CBE increased the EGP value against the USD on 11 November by 20 Piasters, bringing the official rate to EGP 7.83/USD 1 to encourage de-dollarisation and fight the fx black market. The EGP is nevertheless expected to depreciate during the coming year in light of the economic challenges which Egypt faces.

Monetary interest rates are unlikely to change significantly next year, due to persistent inflationary pressures and a weak currency.

Banking Sector

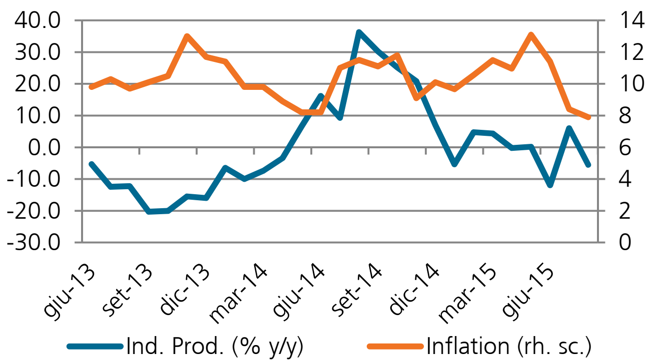
Overall bank loans to customers amounted to EGP 767.3Bn in September 2015, up by 4.7% from August (28.4% yoy). Overall deposits inched up by 1.9%, to EGP 1.8Tn in September 2015 compared to August (25.8% yoy), where the household sector still represented the highest share at 74.5% of total non-government deposits.

Forecasts

	2014	2015F	2016F
Real GDP yoy	4.3	3.0	3.8
CPI avg	10.1	10.2	9.5
USD exchange rate (avg.)	7.1	7.7	8.2
USD exchange rate (end of period)	7.2	7.8	8.6
Euro exchange rate avg	9.4	8.5	8.9
Euro exchange rate (end of period)	8.9	8.3	9.7
Short-term rate (avg.)	11.2	11.2	10.8
Short-term rate (end of period)	11.3	11.2	10.5
L/T bond yields (avg.)	n.a.	n.a.	n.a.
Bank loans yoy (end of period)	12.7	16.0	15.0
Bank deposits yoy (end of period)	16.6	16.0	13.0

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Ministry of Planning, CAPMAS

Hungary

Real Economy

Sandor Jobbagy

The recently released high frequency indicators have not altered the big picture regarding the economic outlook: although the economy has lost some momentum (as shown by the Q3 GDP figure of 2.3%), the growth picture remains benign, while the relatively low inflation looks set to prevail. Industrial performance showed acceleration after the summer months, still boosted by car exports. However, overall output growth looks set to remain close to 5-6% yoy. The VW scandal is definitely worth watching, given Hungary's high exposure to the car industry. But, no major short-term effects have been identified so far. The cumulated Q3 trade balance surpassed EUR 6Bn (up by more than 22% from the same period of 2014). The FY 2015 trade surplus may approach EUR 8Bn. We have not revised our GDP projection for 2015, and pencil in an average growth rate close to 3.0% (2.8%).

Headline inflation returned to slightly positive territory in October (0.1% yoy), with a further rise potentially on the horizon especially due to the base effect. At the same time, inflation has remained weighed down by falling commodity prices. CPI items primarily driven by demand factors have not shown major changes; core inflation rose slightly, to 1.5% from 1.2-1.3% in Q2-Q3. Annual average CPI may come close to zero this year, before a rise to the 1-2% range in 2016.

Financial Markets

The NBH left the policy rate on hold in October and November, in line with the signal (released in July) that rates might remain at the current level throughout the forecast horizon (i.e. end-2017). The HUF remained mostly driven by external developments, revisiting the HUF 316 level vs Euro in the first half of December as in late September, driven by global shifts in sentiment following a disappointment triggered by the ECB's December measures. Bond yields remained supported by the NBH's self-financing programme.

Banking Sector

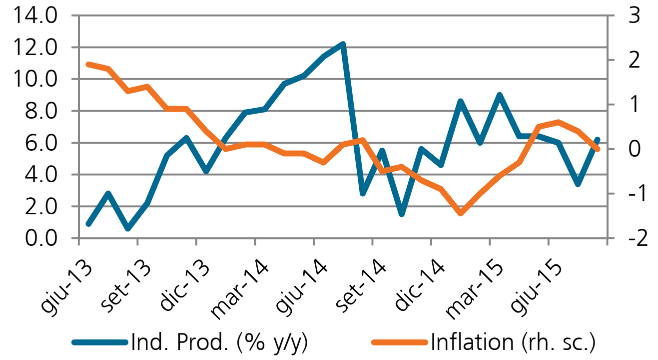
Real economic developments lent some support to the demand side of the loan market, while credit supply continued to be boosted by the second phase of the central bank's lending for growth programme NHP+). With slower GDP growth, and despite ongoing central bank measures, we expect the demand side of the corporate credit market to remain weak. Customer deposits started to increase after a long period of decline. Corporate, retail clients and investment funds all contributed to the growing volume of deposits.

Forecasts

	2014	2015F	2016F
Real GDP yoy	3.6	2.8	2.2
CPI avg	-0.2	0.1	1.4
Euro exchange rate avg	308.6	310.0	313.5
Euro exchange rate (end of period)	310.8	312.0	315.0
Short-term rate (avg.)	2.4	1.7	1.4
Short-term rate (end of period)	2.1	1.4	1.4
L/T bond yields (avg.)	4.8	3.4	3.7
Bank loans yoy (end of period)	-0.3	-10.0	0.0
Bank deposits yoy (end of period)	1.3	2.0	2.3

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: CSO

Romania

Real Economy

Ancuta Covaci

Romania's economy grew above previous expectations in Q3, by 3.6% yoy, marking 3.7% yoy growth in the first nine months of 2015. The detailed GDP structure and the short-term indicators suggest private consumption will continue to be the lead driver for growth, buoyed by the extensive fiscal easing programme including a second VAT rate cut from 24% to 20% starting from 2016 and public sector wages hike (average net wage +9.7% yoy in October, the highest data point ever recorded). We revise our forecasts upwards for 2015 to 3.6% yoy (from 3.2% yoy) and from 3.0% yoy to 3.4% yoy for 2016. November inflation was moderate, at -1.1 pa (October: -1.6% pa). Notwithstanding a climb into positive territory once the output gap closes, the fall of energy prices at the international level will likely place further downward pressure on prices. Therefore, we lower our inflation forecasts to -0.7% for 2015 (from -0.5% pa) and +0.4% for 2016 (from +0.5% pa).

Financial Markets

The NBR left monetary policy rates unchanged at 1.75% pa at its last meeting (5 November) during a period of high uncertainty. On the domestic front, the new government of technocrats needs to prove whether it can survive political difficulties (with the fiscal budget for 2016 accommodating the previous government's fiscal easing measures). Even if the uncertainty is heightened amid the divergent monetary policies of the main CBs (the Fed and the ECB), we expect short-term rates to remain at historical lows in the next three quarters.

Banking Sector

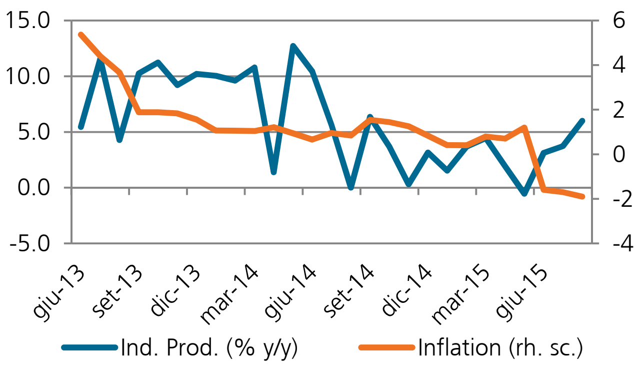
RON loans to the private sector reached 50.2% of total loans to the private sector in October, moving ahead of the share of fx loans in total loans after eight years. Aggregate loans to the private sector advanced by 0.26% yoy in October, as RON loans gained more ground (household loans +28.5% yoy supported by the state-guaranteed mortgage loan programme that will continue throughout 2016). We expect aggregate loans to the private sector to pick up pace to 1.6% yoy in 2015 and 2.5% yoy in 2016, as the share of RON-denominated loans should continue to expand.

Forecasts

	2014	2015F	2016F
Real GDP yoy	2.8	3.6	3.4
CPI avg	1.1	-0.7	0.4
Euro exchange rate avg	4.4	4.4	4.4
Euro exchange rate (end of period)	4.5	4.4	4.4
Short-term rate (avg.)	2.3	1.1	0.9
Short-term rate (end of period)	1.4	0.8	0.9
L/T bond yields (avg.)	4.6	3.5	3.7
Bank loans yoy (end of period)	-3.7	1.6	2.5
Bank deposits yoy (end of period)	8.9	1.5	2.5

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: NBR

Russia

Real Economy

Anna Mokina

Results for October 2015 show that the volume of industrial production in Russia on a year-on-year basis reduced by 3.6 % (vs 3.7% in September). Industrial production grew by 5.2% in October vs September. In general, from January till October 2015, industrial production in Russia decreased by 3.3%. The minerals extraction sector showed sustainable growth. In October 2015, extraction volume grew by 1.4% yoy and by 3.3% vs the previous month. The manufacturing sector continued to decline. In October 2015, the volume of production fell by 5.9% yoy, and in the January-October period, by 5.3%. Production of knitted goods fell in October by 19.3%, footwear by 9%, passenger cars by 11.4%, cars by 39.3%. Regarding GDP, we expect a fall of 3.9% in 2015, whereas in 2016 zero growth is expected. Russian economic growth in 2016 will remain highly sensitive to oil price changes.

Financial Markets

The Moody's ratings agency upgraded its outlook for Russian government bonds from negative to stable. The change in the outlook is connected with the stabilisation of the country's external finances, due to macroeconomic adjustments. According to the agency, it helped to mitigate the effect from the hydrocarbon price fall. The analysts of the agency noted that the negative impact on the level of foreign exchange reserves of Russia from the sanctions and low oil prices turned out to be weaker than was expected because of the use of a floating ruble rate and its devaluation. Negative oil market dynamics and growing uncertainty regarding the geopolitical situation put downward pressure on the Russian currency, although the demand on liquidity in rubles is still high. We expect high volatility in ruble exchange rates during 1H16, followed by a stabilisation in 2H16.

Banking Sector

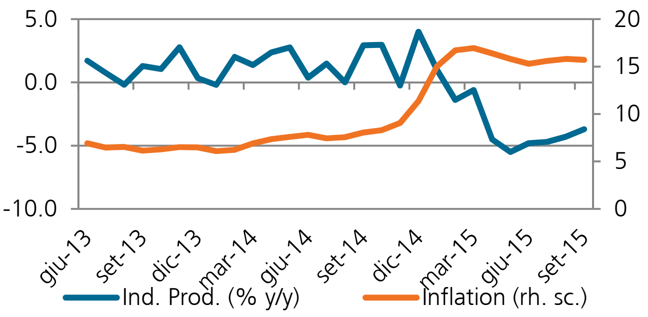
In October, banking sector assets decreased by 1.4% to RUB 78Tn. Total volume of credit to the economy declined by 0.4% to RUB 42Tn, including loans to non-financial organisations by 0.4% and to individuals by 0.4%. Main balance indicators as of 1 November 2015 grew as follows: assets by 0.6%, loans to non-financial organisations by 7.1% and total credit to the economy by 3.6%. In contrast, loans to individuals decreased by 5.4%. The volume of past-due indebtedness in corporate portfolios increased by 2.4% and in retail the segment by 1.5%. As a result of the specific weight of past-due debt, credit to non-financial organisations grew by 5.9% and credit to individuals by 8.1%. The volume of claims from credit organisations (on deposits and current accounts) to the Bank of Russia declined in October by 7.2%, with a drop in their share in the assets of the banking sector to 2.1%. We expect the Bank of Russia to further reduce the key policy rate during 2016 year.

Forecasts

	2014	2015F	2016F
Real GDP yoy	0.6	-3.9	0.0
CPI avg	7.8	15.7	9.5
USD exchange rate (avg.)	38.6	60.6	68.0
USD exchange rate (end of period)	57.5	69.0	67.0
Euro exchange rate avg	51.3	67.3	73.4
Euro exchange rate (end of period)	70.7	73.1	75.7
Short-term rate (avg.)	10.6	13.8	10.6
Short-term rate (end of period)	19.9	11.7	9.5
L/T bond yields (avg.)	9.1	11.3	9.8
Bank loans yoy (end of period)	25.4	3.0	4.0
Bank deposits yoy (end of period)	27.9	5.0	5.5

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: State Statistics Federal Service

Serbia

Real Economy

Marija Savic

The Serbian economy exited recession by recording positive growth of 0.9% in 2Q15 and 2.2% in 3Q15. Real GDP is projected to grow by 0.8% in 2015, driven by faster growth in investment, despite sizeable fiscal consolidation and severe draught. Economic activity is forecast to accelerate to 1.8% in 2016, led by investment and exports, while household consumption should make a positive contribution for the first time in four years.

Inflation remains well anchored, but below target, amounting to 1.3% in November 2015. Year on year, CPI should stay low until mid-2016, moving around the lower end of the target tolerance band (4±1.5%) and it is expected to return to within the target band in 2H16.

Financial Markets

Progress in reducing inflation created scope for cutting the key policy rate. In the current cycle of monetary easing that began in May 2013, the key policy rate was reduced by a total of 7.5pp. During 2015 alone it was cut by 3.5pp. The benchmark rate was 4.5% at end-December, its lowest level since an inflation targeting regime was introduced. Further policy rate cuts in 2016 will depend on uncertainties associated primarily with developments in the international commodity and financial markets.

The dinar has been relatively stable against the euro throughout 2015, supported by favourable risk perception given by the three-year stand-by arrangement with IMF, restrictive fiscal policy, and a better external position. Exchange rate stability is projected to continue in 2016 as a result of further progress in implementation of fiscal consolidation and narrowing of external imbalances, coupled with favourable external funding conditions.

Banking Sector

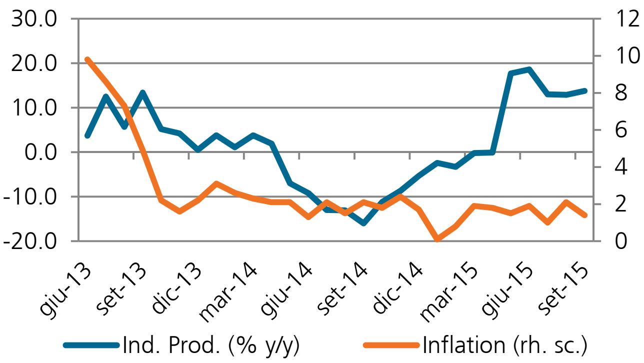
A declining key policy rate, which reflected falling prices of dinar lending, together with a gradual release of fx required reserves, are expected to further mildly bolster credit activity in 2016. Uncollectible receivables continue to be the key factor affecting the relaxation of credit standards. However, implementation of a strategy for resolving NPLs should provide a more sustainable solution to this problem in 2016 and lower the still-high NPL ratio of 22%. While loans and deposits remain highly euro-ised, the process of dinarisation is yielding results and both dinar lending to households and dinar savings are expected to continue to grow in 2016 (66% of newly approved loans for individuals and 15% of business loans have been in dinars in 2015 to this point).

Forecasts

	2014	2015F	2016F
Real GDP yoy	-1.8	0.8	1.8
CPI avg	2.1	1.4	2.5
Short-term rate (avg.)	8.8	6.3	4.2
Short-term rate (end of period)	8.0	4.5	4.0
L/T bond yields (avg.)	0.0	0.0	0.0
Bank loans yoy (end of period)	4.4	1.0	2.5
Bank deposits yoy (end of period)	9.7	4.0	4.2

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistical Office, National Bank of Serbia

Slovakia

Real Economy

Zdenko Štefanides

Slovakia continues to do well in terms of growth. Real GDP grew to 3.7% yoy in the third quarter, from 3.2% in the first half and 2.5% in 2014, respectively. Growth continued to be driven primarily by domestic demand, up 5.8% in 3Q, with positive contributions from all components, but especially capital investments, which shot up to over 17% yoy growth, more than double the growth in 1H. Accelerating consumption, private but especially public, is gearing up ahead of parliamentary elections in March 2016.

Fast GDP growth continues to support the labour market, which earlier this year generated enough new jobs to finally close the employment gap vis-à-vis the pre-crisis era. And in the very latest, October reading, Slovak the unemployment rate slid to 10.7%, matching the Eurozone average rate, for the first time ever. The caveat of current faster-than-expected growth is that it is oiled by EU funds from the old programming period, which will end by this year-end. Payback in public spending and GDP growth itself next year thus remains likely. Deceleration, however, should be less dramatic than seen earlier, as some unfinished EU-funded investment projects will be newly allowed to run through next year.

Financial Markets

Regarding interest rates, the Slovak market exhibits an extreme range. Not only are local yields extremely low in absolute terms, but also extremely low in relative terms. Indeed, within the Eurozone, Slovak yields are now the second lowest, just behind Germany, with spreads of just 10-15bps in the long part of the curve. The reason for yield/spread compression is chiefly the ECB's asset purchase programme, which has a huge impact on the Slovak shallow market, featuring scarcity of available bonds for purchase. Extension of the QE programme announced by the ECB in early December thus poses further risks to already overvalued Slovak bonds.

Banking Sector

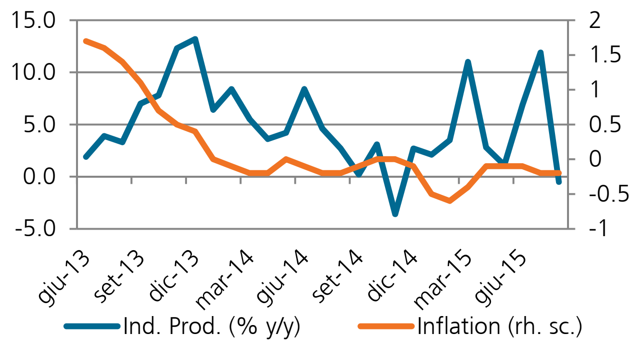
Along with plunging yields, Slovak lending rates, especially mortgage rates, are now converging fast to the average Eurozone levels. This puts net interest income, accounting for nearly 80% of Slovak banks' revenues, under strain. Indeed, by October, NII fell 1.7% from year-earlier levels even as lending volumes geared up to 8.2% yoy growth. Slovak legislators meanwhile put even more pressure on banks, by setting a cap (max 1%) on breakage costs of early termination of mortgages. This basically opens the entire existing mortgage portfolio to refinancing, as previously the cost for early termination of a mortgage was 4-5% which discouraged some clients from leaving their banks.

Forecasts

	2014	2015F	2016F
Real GDP yoy	2.4	3.3	3.0
CPI avg	-0.1	-0.3	0.6
Short-term rate (avg.)	0.2	0.0	-0.2
Short-term rate (end of period)	0.1	-0.1	-0.2
L/T bond yields (avg.)	2.0	0.9	1.3
Bank loans yoy (end of period)	6.4	8.0	6.2
Bank deposits yoy (end of period)	3.8	7.0	4.5

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistical Office of Slovak Republic

Slovenia

Real Economy

Nastja Benčič

Solid economic growth in Slovenia continued in 3Q15, when GDP increased by 2.5%. Exports rose by 4.5% and have again made the prevalent contribution to GDP growth. While exports are forecast to remain a key growth driver, the contribution of household consumption to growth is expected to rise as a result of the recovering labour market. The investment in infrastructure projects co-funded by the EU should also contribute positively to growth this year. Economic growth is expected to continue over the coming years, but at a slower pace.

In October 2015, annual consumer price growth was -1.1%. The greatest impact on annual deflation came from lower energy prices. Inflation is forecast to remain negative in 2015 (-0.7%) and to increase to 0.8% in 2016 (in year-average terms), with a gradual increase in household spending and in oil prices.

Financial Markets

In the last quarter of 2015, Slovenian government bond yields continued their slow downward trend. At the end of November, they reached 1.50%, which is by around 40bps below their level at the end of August. The lowering of yields in the last weeks of November was visible among nearly all the Euro zone countries, mostly based on the expectations of further stimulus from the ECB. However, in the first days of December, bond yields rose (Slovenian 10Y bond yields by 12 bps), after the ECB's monetary policy announcement failed to meet market expectations. In December, we expect the bond yield to have moved around 1.60-1.70%, coming close to an average yield of 1.70% throughout 2015. In 2016, the yield is expected to grow slowly, under the influence of the outlook for increasing US interest rates and rising inflation. It is expected to reach the average annual value around 2.0%.

Banking Sector

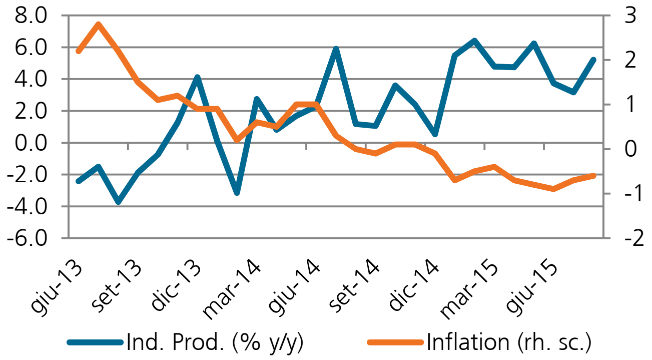
On the asset side, lending continued to decline in October, due to lower corporate loans, while retail loans increased due to higher mortgage loans. The banks are encouraging household borrowing through an increased supply of fixed-rate loans. After an expected fall in loan volumes of 4.0%, the contraction in lending is expected to stop in 2016. On the liabilities side, there has been an increase in both corporate and individuals' deposits in October, while their average maturity is continuing to shorten. The trend of rising deposits is expected to continue through the end of the year as well as in 2016, when growth of 3.8% is forecast. Both lending and deposit interest rates continue to fall, with lending rates declining even faster in 2015 than last year. For 2016, further decreases of interest rates are likely.

Forecasts

	2014	2015F	2016F
Real GDP yoy	3.0	2.5	2.2
CPI avg	0.4	-0.7	0.8
Short-term rate (avg.)	0.2	0.0	-0.2
Short-term rate (end of period)	0.1	-0.1	-0.2
L/T bond yields (avg.)	3.3	1.7	2.0
Bank loans yoy (end of period)	-13.4	-4.0	0.5
Bank deposits yoy (end of period)	6.6	3.5	3.8

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistical Office of the Republic of Slovenia

Ukraine

Real Economy

Giancarlo Frigoli

According to preliminary data in 3Q15, real GDP rose by 0.7% yoy and the annual contraction slowed to 7% compared to 14.1% in 2Q. The most recent indicator points towards a further reduction in GDP for the October-December period, albeit with a slightly less negative performance than in the previous quarter on an annual basis, also helped by a buoyant winter wheat crop. We now forecast a smaller drop in GDP this year (-10%), followed by a mild recovery in 2016 (+1.5%). Industrial production fell by 5% yoy in October compared to an average drop of 7.8% in 3Q. Again in October, retail sales were down, by 18.3% yoy after tumbling by 19.1% in the July-September period.

Financial Markets

Due to persisting inflationary pressures (the annual rate accelerated to 46.6% in November from 46.4% in October) and a weakening currency (the UAH/USD rate surpassed the 23 mark in November), the central bank has maintained the policy rates over the last three months, after cutting rates aggressively in the Summer (from 30% in August to 22% in September). The Kieibor 3M offer rate has hovered around 24% from October to December. We expect the downward trend in money market rates to resume and to gain speed starting from 2016, on the back of falling inflation. The debt burden should continue to weigh on the bond yield, with little change next year.

Banking Sector

Davidia Zucchelli

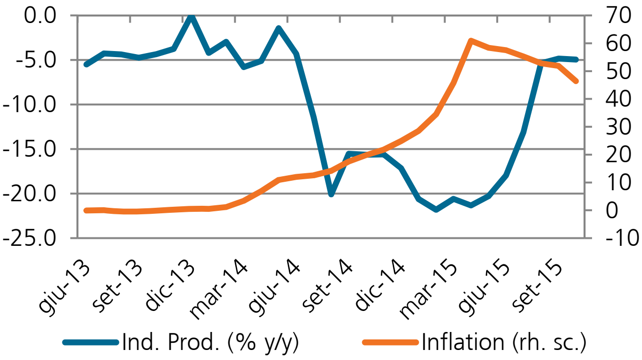
In Ukraine, the banking sector is under particular stress. Loans decreased nominally by -1.9% in September, but net of the fx depreciation (with c.50% of loans in US dollars, with a smaller additional portion in euros) fell by 35%. Deposits decreased as well (-1.3% nominally and -34% net of the fx depreciation effect), due to a decrease in remittances and savers' lack of confidence. In line with the recovery in real GDP, a slight nominal recovery in loans and deposits is expected in 2016. Further capital injections seem to be necessary. Nonperforming loans rose to over 25.6% in September, according to IMF estimates, but according to Moody's, total problem loans will rise to 60% of gross loans in 2015, from 45% at the end of 2014, with NPLs rising to 40% from 25%. Therefore, necessary provisioning would completely erode Ukrainian banks' capital. In Ukraine, the trend of foreign liabilities was also positive in nominal terms (11%), but concealed a strong decrease net of the exchange rate effect (-52%).

Forecasts

	2014	2015F	2016F
Real GDP yoy	-6.7	-10.0	1.5
CPI avg	12.2	48.0	18.0
USD exchange rate avg	12.0	21.8	23.8
Euro exchange rate avg	15.9	24.2	25.6
Short-term rate avg.	17.9	25.9	21.2
L/T bond yields avg.	14.0	12.5	12.3
Bank lending	10.9	-5.0	2.0
Bank deposits	-1.8	-7.0	1.0

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: State Statistics Service of Ukraine

Country data: Economy, markets and banks - the economic cycle

Economy

	GDP chg yoy			Ind. Prod*. ch.yoy			Export nom. ch yoy			Inflation chg yoy				FX reserves chg**			CA bal ance***	
	3Q15	2Q15	2014	Last	mth	3Q15	Last	mth	3Q15	Last	mth	3Q15	2014	3Q15	2Q15	2014	3Q15	2Q15
CEE																		
Slovakia	3.6	3.4	2.4	7.2	Sep	6.2	3.7	Sep	5.1	-0.6	Oct	-0.3	-0.1	n.s.	n.s.	n.s.	-660	-335
Slovenia	2.5	2.7	3.0	6.2	Sep	4.8	4.8	Sep	3.8	-1.1	Oct	-0.8	0.4	n.s.	n.s.	n.s.	959	826
Hungary	2.3	2.7	3.6	7.8	Sep	5.8	5.6	Sep	5.7	0.1	Oct	0.0	-0.2	n.a.	-1635	742	n.a.	1042
SEE																		
Albania	n.a.	2.5	1.5	n.a.	n.a.	n.a.	-9.3	Oct	-7.9	2.1	Nov	1.8	1.6	312	16	97	-326	-181
Bosnia H.	n.a.	4.4	1.0	4.0	Oct	3.7	2.2	Oct	3.9	-1.8	Oct	-1.3	-0.9	186	59	387	n.a.	-283
Croatia	2.8	1.2	-0.4	6.4	Oct	4.0	12.5	Sep	8.0	-0.9	Oct	-0.6	-0.2	-297	-424	-220	n.a.	3
Romania	3.6	3.4	2.8	3.9	Sep	4.4	0.4	Sep	2.8	-1.6	Oct	-1.8	1.1	-990	883	-5627	-772	-447
Serbia	2.2	0.9	-1.8	7.8	Oct	13.2	6.4	Oct	9.0	1.4	Oct	1.5	2.1	18	-192	-460	-304	-258
CIS MENA																		
Russia	-4,1	-4.6	0.6	-3.6	Oct	-4.2	-35.4	Oct	-36.7	15.0	Nov	15.7	7.8	9021	4063	-128720	5400	15818
Ukraine	-7,0	-14.6	-6.8	-5.0	Oct	-7.8	-33.0	Sep	-34.1	46.6	Nov	53.3	12.1	2426	298	-12141	n.a.	266
Egypt	n.a.	2,6	4,2	-5.5	Aug	0.2	-29.6	Sep	-18.7	11,1	Nov	8.5	10.1	-3445	4789	-1699	n.a.	-3800
m.i. E. A.	*1.6*	*1.2*	*0.9*	*1.7*	*Sep*	*1.9*	*0.9*	*Sep*	*4.5*	*0.1*	*Nov*	*0.1*	*0.4*					

Source: Datastream, Reuters, Bloomberg; *Wda data for Slovakia, Slovenia; Bosnia, Croatia, Egypt; **USD for Russia, Egypt, Ukraine, Romania; ***USD for Russia, Egypt, Ukraine

Markets and Ratings

	S/T rates*		L/T rates**		Foreign exchanges***			Stock markets		CDS spread		Rating
	11/12	chg bp 3M	11/12	chg bp 3M	11/12	3M chg%	1Y chg%	3M chg%	1Y chg%	11/12	11/09	S&P
CEE						Vs Euro						
Slovakia	-0.1	-0.1	0.8	-0.2	Euro	Euro	Euro	11.1	36.2	46.0	45.9	A+
Slovenia	-0.1	-0.1	1.6	-0.3	Euro	Euro	Euro	0.4	-10.9	107.8	108.1	A-
Hungary	1.4	0.0	3.6	-0.4	317.6	0.7	3.2	9.7	32.4	151.4	150.4	BB+
SEE												
Albania	2.6	-0.2	n.a.	n.a.	138.5	-1.2	-1.1	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	1.1	-0.2	4.2	0.2	7.6	1.1	-0.5	-4.9	-5.7	299.6	274.1	BB
Romania	0.8	-0.4	3.8	0.1	4.5	2.4	1.7	-2.5	3.0	122.5	113.2	BBB-
Serbia	4.5	-0.5	n.a.	n.a.	122.4	1.7	0.3	-9.2	-23.5	271.5	267.9	BB-
CIS MENA						Vs USD						
Russia	11.8	0.1	10.0	-1.6	69.2	1.0	27.5	-2.6	10.2	278.9	335.8	BB+
Ukraine	24.6	-1.0	9.7	-0.3	23.8	9.2	51.4	-34.0	-9.7	13957.0	13957.0	B-
Egypt	11,19	-0,01	15.3	-0.1	7.8	0.0	9.5	-7.9	-22.8	437.1	339.5	B-
m.i.A.E.	*-0.1*	*-0.1*	*0.5*	*-0.1*	*1.1*	*-2.6*	*-11.2*	*-0.3*	*0.9*	*6.7*	*7.2*	

Source: Datastream, Reuters, and Bloomberg;* The data for Albania refers to September **For Ukraine, the long-term rate refers to a government issue in dollars; *** The (-) sign indicates appreciation. Sources: Thomson Reuters-Datastream, Bloomberg

Aggregates and bank rates for the private sector

	Loans Chg yoy %			NPL/Loans %			Foreign Liab. Chg yoy %			Deposits Chg yoy %			Loans rate[1]-NewB*. %				DepositsRate[1]-NewB*. %				Loans/Dep %		
	Last	Mth	2014	Last	mth	2014	Last	mth	2014	Last	Mth	2014	Last	mth	2014	S*	Last	mth	2014	S*	Last	mth	2014
CEE																							
Slovakia	7.9	Sep	6.4	5.5	Sep	5.8	5.9	Sep	42.5	8.6	Sep	3.8	3.09	Sep	3.25	C[2]	0.81	Sep	0.96	H[2]	91.6	Sep	90.9
Slovenia	-8.0	Oct	-13.4	11.1	Sep	11.9	-19.7	Oct	-10.9	4.0	Oct	6.6	3.85	Sep	4.99	C[2]	0.31	Sep	0.66	H[2]	92.6	Oct	99.5
Hungary	-7.7	Oct	-0.3	17.4	Dec	17.4	-0.3	Oct	-1.3	5.3	Oct	1.3	4.29	Oct	4.97	C	1.04	Oct	1.64	A	100.7	Oct	111.2
SEE																							
Albania	-1.7	Oct	2.2	20.6	Sep	22.8	-10.6	Oct	-10.9	1.4	Oct	2.9	9.81	Oct	8.19	A	1.34	Oct	1.51	H	55.0	Sep	56.2
Bosnia H.	1.3	Oct	1.9	13.8	Sep	14.2	-10.0	Oct	-9.1	8.0	Oct	6.4	5.09	Oct	5.8	C	1.07	Oct	1.26	H	119.2	Oct	124.0
Croatia	-2.1	Oct	-2.0	17.0	Sep	17.1	-11.6	Oct	-10.6	5.7	Oct	2.3	5.22	Oct	5.48	C	2.23	Oct	2.43	H	88.2	Oct	94.9
Romania	0.3	Oct	-3.7	12.8	Jul	13.9	-16.1	Oct	-14.2	8.2	Oct	8.9	4.71	Oct	5.87	C	1.63	Oct	2.79	H	96.0	Oct	95.0
Serbia	3.1	Oct	4.5	22.0	Sep		-7.1	Oct	-16.5	5.2	Oct	9.7	7.51	Oct	10.89	C	4.49	Oct	6.51	H	113.1	Oct	115.8
CIS MENA																							
Russia	18.1	Aug	25.4	8.2	Aug	6.7	-27.7	Jun	-20.6	29.7	Aug	27.9	14.24	Aug	18.31	C	8.77	Aug	12.29	H	113.4	Aug	118.6
Ukraine	-1.9	Sep	10.9	25.6	Sep	19.0	11.5	Sep	31.3	-1.3	Sep	-1.8	22.08	Sep	17.38	R[3]	13.56	Sep	10.44	R[3]	157.3	Sep	154.3
Egypt	18.3	Aug	12.7	7.6	Jun	8.6	75.6	Aug	21.0	18.7	Aug	16.6	11.7	Aug	11.8	C	6.8	Aug	7.2	H	39.6	Aug	40.4
m.i. E. A.	*0.0*	*Sep*	*-1.6*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*3.9*	*Sep*	*2.4*	*1.5*	*Sep*	*1.8*	*C*	*0.7*	*Sep*	*1.0*	*H*	*83.8*	*Sep*	*85.1*

Source: Central Banks, IMF, Moody's ;[1]monthly average; [2]lending rate on current account overdraft; on deposits up to 1 year; [3]does not include banks
*Sector A=All, C=Corporates, H=Household, PS=Private Sector, R=Residents.

Country Outlook

The economy

GDP (% yoy)	2012	2013	2014	2015F	2016F
CEE					
Slovakia	1.6	1.4	2.4	3.3	3.0
Slovenia	-2.7	-1.1	3.0	2.5	2.2
Hungary	-1.5	1.5	3.6	2.8	2.2
Average	-0.7	1.1	3.1	2.9	2.5
SEE					
Albania	1.4	1.1	2.1	2.5	2.8
Bosnia Herzegovina	-0.9	2.4	1.1	2.4	2.5
Croatia	-2.2	-1.1	-0.4	1.3	1.0
Romania	0.6	3.4	2.8	3.6	3.4
Serbia	-1.0	2.6	-1.8	0.8	1.8
Average	-0.2	2.4	1.4	2.6	2.7
CIS					
Russia	3.4	1.3	0.6	-3.9	0.0
Ukraine	0.2	0.0	-6.7	-10.0	1.5
Average	3.0	1.1	-0.3	-4.7	0.2
MENA					
Egypt	3.2	1.6	4.3	3.0	3.8
Average ISP Subsidiaries	2.3	1.3	0.7	-2.2	1.1

Inflation (average)	2012	2013	2014	2015F	2016F
CEE					
Slovakia	3.8	1.5	-0.1	-0.3	0.6
Slovenia	2.8	1.9	0.4	-0.7	0.8
Hungary	5.7	1.7	-0.2	0.1	1.4
SEE					
Albania	2.0	1.9	1.6	1.9	2.0
Bosnia Herzegovina	2.0	0.0	-0.9	-1.0	0.3
Croatia	3.4	2.2	-0.2	-0.4	0.6
Romania	3.3	4.0	1.1	-0.7	0.4
Serbia	7.3	7.9	2.1	1.4	2.5
CIS					
Russia	5.1	6.7	7.8	15.7	9.5
Ukraine	0.6	-0.3	12.2	48.0	18.0
MENA					
Egypt	7.2	9.5	10.1	10.2	9.5

Market

Exchange rate (average)	2012	2013	2014	2015F	2016F
CEE					
Slovakia					
Slovenia					
Hungary	289.3	297.0	308.6	310.0	313.5
SEE					
Albania	139.1	140.0	140.4	140.0	139.8
Bosnia Herzegovina	2.0	2.0	2.0	2.0	2.0
Croatia	7.5	7.6	7.6	7.6	7.6
Romania	4.4	4.4	4.4	4.4	4.4
Serbia	113.1	113.1	117.3	120.6	121.2
CSI MENA					
Russia (USD)	31.1	31.8	38.6	60.6	68.0
Ukraine (USD)	8.1	8.2	12.0	21.8	23.8
Egypt (USD)	6.1	6.9	7.1	7.7	8.2

Interest rate (average)	2012	2013	2014	2015F	2016F
CEE					
Slovakia	0.6	0.2	0.2	0.0	-0.2
Slovenia	0.6	0.2	0.2	0.0	-0.2
Hungary	7.0	4.3	2.4	1.7	1.4
SEE					
Albania	5.2	4.3	3.0	2.7	2.1
Bosnia Herzegovina	0.0	0.0	0.0	0.0	0.0
Croatia	3.1	1.3	0.7	1.0	1.2
Romania	5.1	4.0	2.3	1.1	0.9
Serbia	10.1	11.1	8.8	6.3	4.2
CIS MENA					
Russia	7.1	7.0	10.6	13.8	10.6
Ukraine	20.4	11.4	17.9	25.9	21.2
Egypt	13.6	12.3	11.2	11.2	10.8

Bank

Loans to private sector (% change yoy)	2012	2013	2014	2015F	2016F
CEE					
Slovakia	2.7	5.7	6.4	8.0	6.2
Slovenia	-5.5	-17.4	-13.4	-4.0	0.5
Hungary	-12.8	-4.4	-0.3	-10.0	0.0
SEE					
Albania	2.4	-1.2	2.2	-2.0	1.5
Bosnia Herzegovina	2.9	2.6	1.9	2.0	2.5
Croatia	-6.9	-1.5	-2.0	-3.6	-0.5
Romania	1.6	-3.4	-3.7	1.6	2.5
Serbia	9.4	-4.9	4.4	1.0	2.5
CIS					
Russia	19.6	17.4	25.4	3.0	4.0
Ukraine	2.2	13.5	10.9	-5.0	2.0
MENA					
Egypt	6.9	7.1	12.7	16.0	15.0

Deposit by private sector (% change yoy)	2012	2013	2014	2015F	2016F
CEE					
Slovakia	6.0	4.3	3.8	7.0	4.5
Slovenia	-1.2	0.0	6.6	3.5	3.8
Hungary	-0.9	-1.0	1.3	2.0	2.3
SEE					
Albania	6.3	2.1	2.9	1.0	1.5
Bosnia Herzegovina	4.4	8.9	6.4	5.2	5.4
Croatia	2.3	4.9	2.3	5.7	0.2
Romania	4.7	9.3	8.9	1.5	2.5
Serbia	11.1	3.3	9.7	4.0	4.2
CIS					
Russia	17.9	16.4	27.9	5.0	5.5
Ukraine	15.7	18.5	-1.8	-7.0	1.0
MENA					
Egypt	12.1	18.3	16.6	16.0	13.0

Source: Intesa Sanpaolo Research Department forecasts

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