Economic and Banking Monitor
Countries with ISP Subsidiaries

January 2019

Quarterly Note

Intesa Sanpaolo
International Research Network

The cycle is softening overall, but keeps showing a strong performance in CEE countries and in Egypt. Weaker inflation continues to support easy monetary conditions. Banking aggregates have strengthened.

The most recent high frequency indicators confirm that the economies are softening in the CEE/SEE area, as expected in our December *Forecast Note*. The business profile is nevertheless still solid in CEE, but it is weaker in the SEE area. In November, industrial production grew overall at 3.3% yoy vs the 5.0% recorded in October (and 7.6% peak in July). The slowdown was to 4% from 5.9% in CEE and to 1.9% from 2.6% in SEE, driven by weaker exports and retail sales. In December, PMIs and ESIs also fell overall (with a few exceptions), partly due to higher uncertainty globally mainly related to international trade and geo-political disputes.

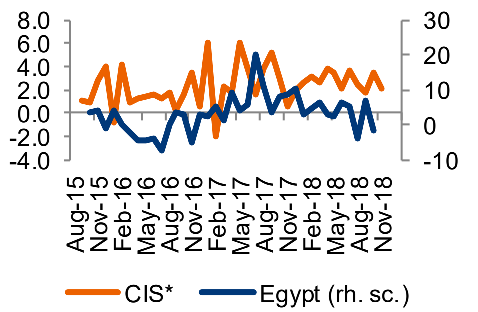
Inflation fell slightly further in December, to 1.8% from the 2.0% avg. in November (and the 2.9% peak in June), ranging from 1.1% in Poland to 2.7% in Hungary for CEE, and from 0.8% in Croatia to 3.3% in Romania for SEE countries. Deceleration, which was mainly driven by lower oil prices, occurred despite persisting pressures from improving labour market conditions. Inflation is overall within the range set by CBs (except for Poland, where it is now below it).

In this context, the CBs of CEE/SEE countries have generally confirmed easy monetary policy stances. In Czech Republic and Romania, where tightening cycles are already in place, CBs paused. In other cases, as for the MNB in Hungary and the ECB for Sloavkia and Slovenia, the CBs have just started to remove the extraordinary liquidity measures previously adopted, but interest rates are not expected to reverse their course shortly. Long-term yields have then partly retrenched from previous spikes in the CEE region, often in parallel with the EA benchamark and to a higher extent in Hungary and Poland. Regarding FX markets, the forint partly recovered vs the euro. The Czech koruna and the Albanian lek both appreciated by 1.0%.

In the CIS area, in Russia, GDP growth slowed to 1.8% in November from 2.5% in October, and inflation ended at Dec. 2018at 4.3% yoy, above the target, causing the CB to (temporarily) increase policy rates. In Ukraine, inflation eased further in December (to 9.8%), but the CB is expected to remain on the sidelines for now. In Egypt, the recent sharp slowdown in inflation is now supporting expectations that the CBE may soon cut policy rates.

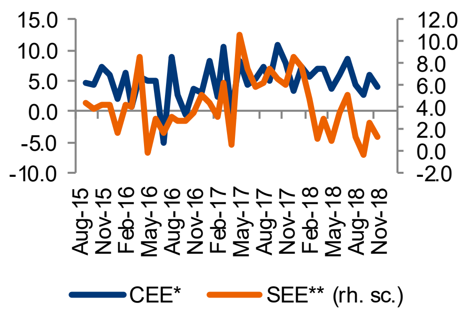
Banking aggregates strengthened further as of November in most CEE/SEE countries. The increase was stronger in Hungary (11.9% yoy), particularly in the corporate sector (16.4% yoy), in Slovakia (10.2%) and in Czech Republic (7.8% yoy). Changes were still negative in Albania (-4.0% yoy), but due to the accounting effect of the FX appreciation. Loan growth was still robust in Romania (6.4% yoy), where it is expected nevertheless to weaken, due to the new tax levy on bank assets. Deposits increased overall, particularly in Hungary (15.3%) and Romania (10.7%). Corporate deposits were especially strong in Hungary (18.4% yoy) and Bosnia (11.4%), and household deposits in Hungary, Poland and Romania (all over +10% yoy). In Russia, loans (up 14.3% yoy in October) and deposits (12.6%) benefitted from the country's stabilising operating environment. In Moldova, loan growth was strong in the household sector (29.5% yoy), but weak among corporates (-1% yoy). In Egypt, bank lending accelerated in October in the private sector (13.2%); deposits decelerated, though they still recorded strong growth (+16.4%).

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 and Hungary data; ** weighted average on Bosnia, Croatia, Romania and Serbia data

See the final page for important information.

Contents

ALBANIA
INTESA SANPAOLO BANK Albania

ROMANIA
INTESA SANPAOLO BANK Romania

SLOVAKIA AND CZECH REPUBLIC
VÚB BANKA

BOSNIA AND HERZEGOVINA
INTESA SANPAOLO BANKA Bosna i Hercegovina

RUSSIAN FEDERATION
BANCA INTESA

SLOVENIA
INTESA SANPAOLO BANK

CROATIA
PRIVREDNA BANKA ZAGREB

SERBIA
BANCA INTESA Beograd

HUNGARY
CIB BANK

EGYPT
ALEXBANK | بنك الإسكندرية

UKRAINE
ПРАВЕКС БАНК

MOLDOVA
EXIMBANK

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, Moldova and Ukraine among CSI Countries and Egypt among MENA Countries.

The Economic and Banking Monitor is released on a quarterly basis in January, April, July and October.

The figures in this document have been updated to 23 January 2019.

Cross Country Analysis

CEE Area

Antonio Pesce

In the CEE region, the most recent high frequency indicators confirm the softening of the economic cycle towards a more sustainable growth rate. In November, on a weighted (with GDP at PPP weights) average, industrial production decelerated in the region to 4.0% yoy from 5.9% yoy in October, well below the peak of the year (8.6% yoy in July). In addition, monthy manufacturing slowed, to 4.9% from 5.8%, while exports decelerated to 3.4% yoy growth from 3.9% yoy. Retail sales data signalled softening as well, decelerating to 2.7% yoy in November from 3.2% yoy in October. The Economic Sentiment Indicator (ESI) fell slightly in Poland and Slovenia in December, but remained around the same levels as in November in the other CEE countries.

Within this regional picture, there are some differences among countries. In Czech Republic, in November, industrial production grew by 1.5% yoy (wda data), below the previous month (3.3%) and the 3Q average (3.7%), while exports continued to grow well (11.0%), as did retail sales (6.1% yoy in real terms). In Hungary, industrial production and exports, though still robust, weakened to 4.0% yoy and 4.7% yoy from, respectively, 5.9% yoy and 6.7% yoy in October, well below the peaks observed in July (6.2% and 11.0%). The PMI manufacturing index remained above the threshold of 50, increasing slightly, to 54.2, in December.

In Poland, in December, the industrial production trend also remained strong (4.7% yoy), but below the previous month (6.6%) and especially the July peak (10.3%). In Slovakia, industrial production softened in November (3.3% yoy) and exports decelerated to 4.3% yoy in nominal terms, after the record highs for the year seen during the summer (8.1% and 11.9%, respectively). The retail sales dynamic (in real terms), even if lower than in the previous month, remained strong in November (5.5% yoy). In Slovenia, after the rebound in October (7.2% yoy), industrial production decreased by 2.9% yoy based on the raw data, while exports continued their strong positive trend (9.1% yoy in November) as did retail sales (10.2% yoy in real terms).

Regarding inflation, in December, it decresed further overall, with a regional average of 1.6%, below the consumer price dynamic recorded in the previous month (1.8%) and much lower than the June peak of 2.4%. The deceleration in inflation occurred even though wages continue to be on an increasing trend (on average, 6.5% yoy in October vs 5.6% in September), driven by both energy prices and less volatile components. In December, core inflation also recorded a further slight decrease (0.7% from 0.8% on a weighted average).

Within the CEE region, inflation ranged from 1.1% in Poland, where the core component decreased to 0.6% from 0.7% in the previous month, to 2.7% in Hungary, where core inflation increased slightly instead, to 2.8% from the previous 2.6%. Inflation is overall within the ranges set by CBs, with the only exceptions being Poland and Slovenia, where it is below targets.

The CBs of the CEE countries have maintained easy stances overall, and where policy rate increases have already been made, such as Czech Republic, they have paused in recent months. Further increases of interest rate are still expected to occur this year, but maybe later than previously projected, due to decelerating inflation rates domestically and the prudent approach of the ECB towards monetary policy tightening. In Hungary, the unconventional measures previously adopted are being removed, but a rate increase it is not expected in the near term.

In CEE countries, long-term interest rates decreased roughly in line with the Bund (-0.2pp) overall in the last three months (keeping the spreads substantially unchanged) and at an even deeper rate in Hungary and Poland, where they partly reversed the excesses recorded in the autumn. In the FX markets, the Hungarian exchange rate has also partly recovered from the previous weakening vs the euro falling back recently below 320. The Czech koruna appreciated by about 1.0%.

Davidia Zucchelli

In the CEE region, the dynamics of banking aggregates accelerated further as of November, implying a likely upward revision of ISP estimates for 2018. As for lending, corporates remained the main driver, particularly in Hungary, while lending growth was especially supported by households in Slovakia and Slovenia. The increase in deposits was also still dynamic, especially in Hungary.

In Czech Republic, lending growth continued to be brisk (7.8% yoy) both in the corporate (7.7% yoy) and the household sector (7.8%), which accounts for almost 60% of total loans to the private sector. Deposit growth was also dynamic (+6.7% yoy in November from +6.4% yoy in October), decelerating among corporates (to 3.2% yoy from 3.3% yoy in the previous month), but accelerating among households (to 8.3% yoy from 7.8%).

The best performer in the CEE region was Hungary, where loans accelerated further as of November (+11.9% yoy from +10.8% yoy in October), particularly to corporates (16.4% yoy), while loans to households increased at a slower pace (5.5% yoy). The dynamics of deposits remained strong (+15.3% yoy) for both corporates (+18.4%) and households (+12.4%). The expansionary strategy of OTP, the biggest bank in the country, proceeded with the acquisition of the Société Générale subsidiaries in Bulgaria and Serbia. In 2016, OTP had acquired the Croatian subsidiary of SocGen. The positive dynamic of banking aggregates continued in Poland, where loans accelerated slightly (+7.5% yoy in November from 7.2% yoy in October) both in the corporate (+7.3% yoy) and the household (+7.6% yoy) sectors. The strong labour market supported an increase in deposits as well (+9.2% yoy in November from 8.6% yoy in October), both among households, at +10.8% yoy, and corporates (+4.7%).

Despite the restrictive measures adopted by the CB, loans to households performed well in Slovakia (12.3% yoy in November), while corporate loans remained slower (5.5% yoy). Low interest rates supported loans to households in Slovenia (6.6% yoy), but corporate loans narrowed (-0.7%), due to deleveraging and write-offs. NPLs amounted to 4.2% of total loans, showing a gradual decline from 6% as of December 2017. Deposits (+5.8% yoy in November in the private sector) remained dynamic in both the corporate (4.3% yoy) and the household (by 6.4% yoy) sectors.

SEE Area

Antonio Pesce

The most recent data and surveys have confirmed a deceleration in the economic activity among SEE countries too, though on average at a stronger pace than in the CEE area. In November, industrial production and export dynamics declined on a regional basis, to 1.3% yoy and 3.6% yoy from, respectively, 2.6% and 10.1% in October, with some differentiation among countries.

Industrial production contracted in Bosnia (-1.6% yoy) and Serbia (-1.0% yoy), but remained on a positive trend in Romania (2.6% yoy), although at a lower rate than in the previous month (3.5% yoy). It slowed in Croatia as well (-0.9% yoy), but at a milder pace than in October (-2.4%). The dynamic of exports continued to be positive in November in all SEE countries, but below the trends observed in previous months. In December, the ESI increased in Croatia and Romania.

In December, inflation decelerated slightly on a regional basis, to an average of 2.5% from 2.8% in November (falling well below the peak of 4.2% in June), ranging from 0.8% in Croatia to 3.3% in Romania. The decrease in inflation was also mainly driven in this case by energy prices and less volatile components. Core inflation decelerated as well (1.8% from 1.9% in November).

At their last meetings, the boards of the central banks of the SEE countries confirmed easy monetary policies overall, supported by inflation rates inside the interval targets. In Romania as well, where the the CB had started a tightening cycle in January and had increased the policy rate in several steps up to 2.5%, the reference rate remained unchanged. Exchange rates remained roughly stable vs the euro in the past few months, though slight but continuous appreciation has been seen for the Albanian currency (0.8% with respect to three months ago).

Davidia Zucchelli

Banking aggregates generally showed a weaker performance in SEE countries than in CEE countries. However, NPLs continued to decline sharply as a result of a sharp reduction in the volume of non-performing loans and due to legislative changes.

Albania appeared to remain the most fragile country in the area, where both loans and deposits contracted, but the value of the relative stocks were sensitive to the accounting effect of the exchange rate appreciation. Lending shrank further nominally (-4% yoy as of November), particularly to corporates (-7.5% yoy) and even, though still positive, decelerated to households (+3.5% yoy). The case was similar for deposits. They decreased further nominally in the private sector (-1.8% yoy from -1.2% yoy), negatively affected by household (-2.2%) and businesses (9.1%) deposits. The NPL ratio decreased marginally, to 12.7%.

In **Bosnia,** banking aggregates continued to grow. Loans increased by 5.8% yoy in November and deposits rose by 8.6% yoy (by 11.4% yoy for corporates and 7.5% yoy for households). In **Croatia,** loans increased by 1.9% yoy as of November (as in previous months). Corporate loans remained weak (-1.4% yoy), partly due to write-offs, while household loans accelerated by 4.3% yoy. Deposits continued to grow (4.7% from 4.3% yoy in October), both from corporates (at 8.5%, accelerating strongly from 5.1% as of October) and households (3.5% yoy).

In **Romania,** the banking sector has been negatively affected by a new tax on total assets, the so-called "tax on greed" (if the ROBOR exceeds certain thresholds), which is expected to take 70% of banks' profits. The negative effects on bank results are expected to be significant and the loans trend is forecast to slow sharply. As of November, loans decelerated by 6.4% yoy (from 6.8% yoy in October), particularly in the household sector, at 9.1% yoy (from 9.6% yoy), while loans to corporates slowed, at 3.4% yoy (vs 3.8% yoy in October). NPLs continued to decrease (to 5.6% of total loans as of September). Deposits performed well (10.7% yoy, accelerating slightly from 9.4% yoy as of October).

Loans performance continued to be supported by households (11.9% yoy) in **Serbia,** while loans to corporates increased by 2.8% yoy, with the result that total loans increased by 6.9%. Loans in foreign currency increased further, by 6.7% yoy, which led the share of loans denominated in foreign currency to 67.1% of total loans to the private sector. Deposits continued to perform well (7.5% yoy, 5.3% from corporates and 8.7% from households).

CIS and MENA Areas

Giancarlo Frigoli

In **Russia,** inflation finished last year at 4.3%, above the RCB's 4% target. Core inflation was 3.7% in December 2018. The RCB said it will "take into account all available information about the situation in the economy, the inflation dynamics, the total factors and risks" when it meets to discuss the key rate on 8 February. The Federal Statistics Service raised its estimate of Russia's GDP growth in 3Q18 to 1.5% yoy from the previous 1.3%. GDP expanded by 1.8% yoy in November, after growing by 2.5% yoy in October. Slowing industrial output and the fall in agricultural activity (-3.9% y/y) both had negative impacts on Russia's economic performance.

In **Ukraine**, consumer price inflation slowed to 9.8% in December 2018 from 13.7% in December 2017, just below the 10.1% target for end-2018 set by the UCB in its October's inflation report. Core inflation eased to 8.7% in December 2018, but it was above the 7.9% official target. The UCB is unlikely to make changes when it meets on 31 January, due to internal and external uncertainties. In 3Q18, Ukraine's economy grew by 2.8% yoy, decelerating from 3.8% yoy in 2Q. Domestic demand, both consumption and investments, was the main driver, causing imports of goods and services to accelerate (to 5.1% y/y). As a result, the negative contribution of net exports to the growth in real GDP widened to 4.8pp. From January to September, real GDP growth was 3.3% yoy. At end-December, Ukraine received the first tranche under the new Stand-By Arrangement (SBA) with the IMF in the amount USD 1.4Bn, which boosted the country's reserves to USD 20.1Bn, a five-year high.

Moldova posted consumer price inflation of 0.9% yoy in December, the same level as in October. The main inflation driver was food prices, which rose by 2.2% yoy. Prices of non-food products rose by 1.7% while services fell by 2.3%. Moldova's central bank (the BNM) targets inflation of 5.0% +/-1.5pp in 2019, expecting an acceleration in food, regulated services and fuel costs. At its December meeting, the BNM chose to maintain its key rate at 6.5%. The BNM last revised its key monetary policy rate in December 2017, lowering it by 0.5%, to 6.5%. GDP increased by 3.4% yoy in real terms in 3Q18, slowing from 5.3% in 2Q18. From January to September, GDP rose by 4% in real terms.

Egypt's annual urban consumer price inflation fell sharply in December as monthly food prices dropped. Inflation fell to 12.0% yoy from 15.7% yoy in November. Annual core inflation, which strips out volatile items like food, increased to 8.3% in December from 7.9% in November. December's inflation numbers support our view that the central bank could resume monetary easing in 2019. The central bank, which recently set a target for inflation of 9% +/-3% for 2020, last moved rates in March, slashing the overnight deposit and lending rates by 100bps each, to 16.75% and 17.75%, respectively. The next policy meeting is scheduled for 14 February. Real GDP growth stabilised at 5.3% in 3Q18, after rising for six consecutive quarters, mainly reflecting a lower contribution from natural gas extraction, which was only partially offset by improvements in services (specifically, tourism and utilities).

Davidia Zucchelli

In **Russia**, banking aggregates are benefitting from the country's stabilised operating environment. Loan performance accelerated in October, to 14.3% yoy from 13.9% in September, both in the corporate (+11.5% yoy) and especially in the household (+22.1%) sectors. The good loan performance supported an improvement in the NPL ratio (at 10.5% as of October from 10.7%), but a further fall is expected due to a new bad bank. Deposits also increased significantly (+12.6% yoy in October), among both corporates (17%) and households (9.3%). Interest rates on new loans to businesses remained at 8.8% in October, declining slightly from 9.4% in December 2017, while the interest rate on deposits from households increased to 5.5% in October from 5.1% in September. Nevertheless, the net interest margin is expected to drop, but reduced provisions could support profitability. In the first 10 months of the year, ROA was 1.5% (improving from 1% in 2017).

Lending in **Ukraine** intensified its recovery (+14.7% yoy as of November from 13.8% yoy in the previous month), particularly in the household sector (+27.5% yoy from 22.9% in October), but also among corporates (+11.8% from 11.7% in October). A high NPL rate (54.3% at the end of September) is associated with state-owned banks and is mostly covered. Deposit growth slowed to 11.5% (vs 14.1% yoy in October), from both corporates (11.3% from 14.8% yoy in October) and households (11.6% from 13.7%) still supported by remittances. The LTD ratio accelerated to 131%.

The performance of banking aggregates in **Moldova** differed from other CIS countries. Loans increased modestly in nominal term (+5.9% yoy as of November from +5% in October), boosted by loans to households (+29.5% yoy) while loans to corporate decreased by 1% yoy (from -1.5% in October). Deposits increased by 8.4% yoy, pushed up by a corporate sector still waiting for better investment opportunities (+14.1% yoy) while household deposits followed a more modest increase (+5.4% yoy). The LTD ratio remained one of the lowest among countries with ISP subsidiaries (55.6% as of November). The NPL ratio was high as of June (14.6%), although declining from 18.4% as of end-2017.

In **Egypt**, loans and deposits grew by 13.2% and 16.4%, respectively, as of October (from 13% and 17.7% in September). But, in real terms, net of around 14% inflation, changes remained negative in lending and at around 6% in deposits. Deposits increased (+16.4% yoy), from both corporates (12.5%) and households (17.2%). The LTD ratio remained very low (34%). Lending interest rates on new business increased to 18.1% in November (from 17.8% in October) and deposit interest rates fell to 11.8% (from 12% as of October).

Country Specific Analysis

Czech Republic

Real Economy

Zdenko Štefanides

Real activity in the final quarter of 2018 appears to have held up well. Industrial production grew by 4.8% yoy in November, down from 6.7% in October, but up over the average growth in 3Q of 3.9%. Exports in October and November grew on average 9.8% yoy, up from 6.3% growth in 3Q. The acceleration in growth of industry and exports was driven mainly by car manufacturing; strong growth also was posted by the manufacture of computers, electronic and optical equipment. Headline growth may well have been boosted by calendar effects, but adjusted growth rates still remained positive. And, judging by new orders in manufacturing, up 8.8% on average in October and November vs 4.3% in 3Q, industry maintained solid growth momentum around the turn of the year.

Domestic demand remained solid as well. Retail sales in nominal terms grew in October and November on average 7.2% yoy, up from 5.4% in 3Q, as the unemployment rate dipped to a new all-time low of 1.9%. The index of economic sentiment remained steady, at 109 in 4Q, unchanged from 3Q. Overall, the development of the real economy looks to have been on trend and GDP is expected to continue to grow at a 2.5-3.0% pace, in line or slightly above its potential.

Financial Markets

The Czech National Bank (CNB) has acknowledged that after the aggressive hiking in 2018, when rates were lifted in total five times, now is the time to pause. Inflation is helping to steady central bankers' hands. It declined from 2.2% in October to 2% in November, and remained at this CNB target in December as well. The koruna meanwhile has regained some of its previous losses, advancing to CZK 25.6/EUR 1 from the peak of 26.0 in November. The currency is expected to appreciate further: the CNB projects the koruna to reach a level of CZK 25.1/EUR 1 in 1Q19 and 24.4 by 4Q19. We nonetheless continue to see the koruna advancing at a slower pace and hence continue to expect that the CNB will tighten monetary conditions via further rate increases as well, foreseeing in total two rate hikes later in 2019.

Banking Sector

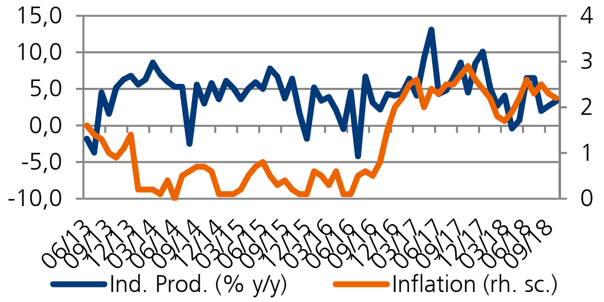
Consistent increases in official interest rates have been gradually transferred to lending rates for Czech households and companies. Growth of loans has, however, not slowed; in fact, demand for mortgages has increased in anticipation of the introduction of a debt/income ceiling from October 2018. But, judging by the most recent lending survey conducted in late November and early December, the anticipated slowdown in retail lending could start to materialise soon.

Latest economic indicators

%	Last value	3Q 2018	2Q 2018
Industrial production, wda yoy	1.5 (Nov)	3.7	2.3
Export of goods, nominal yoy	11.0 (Nov)	5.0	2.0
CB refi rate	1.8 (21th Jan)	1.5	1.0
ESI (index)	109.2 (Dec)	109.1	109.8
Inflation rate, average yoy	2.0 (Dec)	2.4	2.2
Loans (priv. sector, yoy, eop)	7.8 (Nov)	6.7	6.1
Deposits (priv. sector, yoy, eop)	6.7 (Nov)	5.3	5.7

Source: CBS, EC, CNB

Industrial production and inflation



Source: EC

Hungary

Sandor Jobbagy

Real Economy

Hungary's industrial production and export performance showed an upward correction in October and November, following a brief weaker period. However, even in the relatively weaker Q3, domestic demand continued to show a strong dynamic and the GDP growth rate surged to 4.9%, even hitting 5.2% in seasonally- and working-day-adjusted terms. December's PMI was below its annual peak, but slightly above the October and November figures. EU funds have remained a strong driver of growth amid accommodative fiscal and monetary policy. Wage growth has remained in double-digit territory, though it was below 11% in September and October. Headline inflation dropped 1.1pps combined in November and December, mainly thanks to lower oil prices. This pushed the annual average headline figure to 2.8%, up from the 2017 average, but below the midpoint of the NBH 3% +/-1pp target range. However, core inflation (which is becoming more important for monetary policy) has been on the rise, edging up to 2.8-2.9% in December. External and internal balances looked set to remain in good shape, though with an ongoing diminishing surplus. The fiscal balance was supported by strong tax proceeds boosted by higher-than-expected GDP growth and increasing tax collection efficiency.

Financial Markets

The 3M policy rate of the NBH was left on hold at 0.9% throughout 2018. The more functional O/N depo rate (-0.15%) also remained unchanged. Market players are increasingly speculating about the timing of the end of the current easing phase. The CB announced that domestic inflation has a larger weight in the decision-making process than the external environment (ie, ECB policy), and it is closely monitoring tax-adjusted core inflation. The increase of this inflation measure above the 3% threshold would represent a signal for the bank to start normalising monetary policy, probably first with unconventional (primarily liquidity-managing) measures. The earlier significant rise of BUBOR rates has not reoccurred, despite these monetary policy comments, while the EUR/HUF cross rate moved below the 320 level in January 2019 for the first time in nearly six months. The 10Y spread vs German yields moved close to 270bps, down from above 300bps earlier last year.

Banking Sector

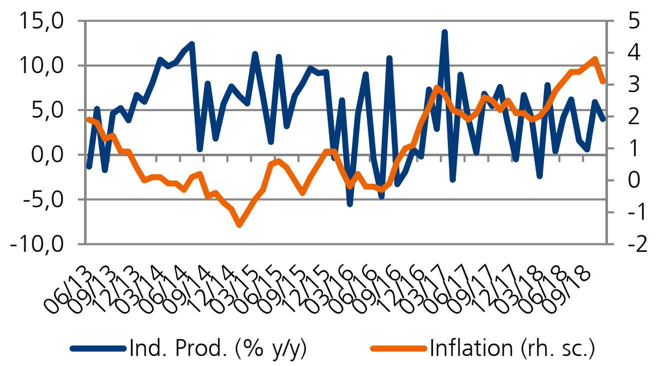
The banking sector continued to record a strong performance in lending activity in 4Q18 in Hungary amid the ongoing strengthening of domestic consumer confidence and loan demand in the corporate sector. Growth looks set to continue during the rest of this year, close to the dynamics of 2017. Some loan segments (including mortgages and personal loans) are showing especially dynamic pick-ups. Thanks to the credit boom, asset quality continues to improve, with NPLs already close to 4%. The central bank launched a new credit programme in January 2019 to shift the situation towards fixed-interest-rate lending. The sector has continued to show strong liquidity and a strong capital position.

Latest economic indicators

%	Last value	3Q 2018	2Q 2018
Ind. Production yoy	4.0 (Nov)	2.8	4.1
Nom. Exports yoy	4.7 (Nov)	3.1	6.8
ESI (index)	121.5 (Dec)	116.6	123.0
Retail Sales yoy	5.3 (Nov)	5.4	6.1
Inflation Rate yoy	2.7 (Dec)	3.5	2.7
CB Reference Rate	0.9 (21th Jan)	0.9	0.9
Loans (priv. sector, yoy, eop)	11.9 (Nov)	9.6	8.6
Deposits (priv. sector, yoy, eop)	15.3 (Nov)	13.8	15.8

Source: CSO, NBH, Bloomberg

Industrial production and inflation



Source: CSO

Poland

Real Economy

Sandor Jobbagy

In Poland, forward-looking indicators of the economy were showing only modest downward shift in December compared to the preceding months. Since they are still relatively close to their recent maxima (the Economic Sentiment Indicator is just below the 108 level in December), they reflect only expectations of a moderate slowdown in terms of GDP. This reflects Poland's limited exposure to the expected slowdown in the euro area compared to the rest of CEE.

The dynamics of industrial production also showed a moderate downtrend, with negative mom figures in November and December. The overall economic growth seen in 3Q18 matched that of the preceding quarters in terms of the yoy figure (5.1%), still supported by relatively strong private consumption. Investments were also showing a strong performance. Judicial reforms and conflicts with the EU have so far not had an adverse impact on overall GDP growth and the outlook. Fiscal policy remained in check, as shown by the annual deficit.

Domestic demand and rising wages have had a limited impact on inflation so far: CPI has remained below the 2% rate by a wide margin, supported by lower oil prices especially in November and December, down to 1.1%, while core inflation remained below 1%.

Financial Markets

The NBP left its policy rate unchanged at 1.50% in 2018, similar to the whole of 2017. Domestic inflation developments and expectations of a slower normalisation by the ECB essentially wiped out interest rate hike expectations for 2019, though some risks related to oil and food price growth, and partly related to wage growth have remained present.

The zloty continued to be stable at just below the EUR 1/PLN 4.30 level in November and December, following higher volatility and a weaker period during the middle of the year. The 10Y yield spread vs Germany was below the 300bps level, similar to Hungary's spread.

Banking Sector

Lending dynamics for the Polish banking sector have remained strong (both in the corporate, +7.3% yoy, and the household, +7.6% yoy, sectors). In relative terms, this is still outstanding, given that the sector has one of the highest loan/deposit ratios in the CEE region, at close to 100%. This is likely to produce stronger results compared to the previous year, in tandem with the improved GDP growth outlook, fueled by consumption.

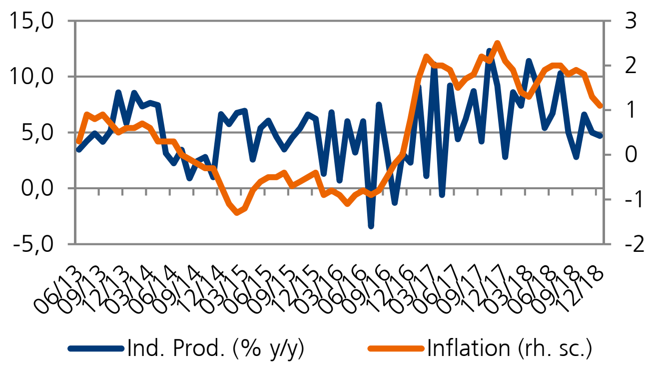
Deposit volumes also continued to increase for households as well as corporates, despite the relatively low levels of interest rates. The banking sector is likely to experience further consolidation, as the sector's concentration is still viewed to be too low.

Latest economic indicators

%	Last value	3Q 2018	2Q 2018
Ind. Production yoy	4.7 (Dec)	6.0	7.1
Nom. Exports yoy	5.9 (Jul)	5.9	7.8
ESI (index)	107.8 (Dec)	107.7	109.9
Retail Sales yoy	4.8 (May)		
Inflation Rate yoy	1.1 (Dec)	1.9	1.8
CB Reference Rate	1.5 (21th Jan)	1.5	1.5
Loans (priv. sector, yoy, eop)	7.5 (Nov)	5.9	5.6
Deposits (priv. sector, yoy, eop)	9.2 (Nov)	7.5	6.5

Source: CSO, NBH, Bloomberg

Industrial production and inflation



Source: CSO

Slovakia

Real Economy

Andrej Arady

The latest round of monthly data pointed to the resilience of the Slovak economy to the recent slowdown of the external environment. Regarding industry, historical data for industrial production were revised, with the growth pace rising significantly. However, the composition of the index remained unchanged. Growth of manufacturing relied solely on car production at the end of 2018. This trend is likely to continue through 2019. New orders in November 2018 continue to grow at a double-digit pace, primarily due to particularly strong growth of nearly 30% yoy for new car orders. Construction in Slovakia continued to be very strong, with all segments showing good growth: residential, non-residential and engineering. Engineering construction grew especially well, at a double-digit pace. The unemployment claims rate and retails sales meanwhile posted more encouraging progress. The former continued to decrease to a new all-time low of 5.18% in November, while the latter continued to post growth above 5% yoy. Forward-looking indicators – eg, economic sentiment – stabilised in the last quarter, after declining in the preceding quarter. At this stage, we maintain our previous growth forecast. Downside risks come mostly from external factors and remain very significant, especially Brexit and US protectionist policies. Politicians have made no progress on this front since our latest forecast publication.

Price-wise, year-on-year inflation, peaking in April at 3%, edged down at the end of 2018, to below 2% yoy. This was driven by the statistical effects of a higher base vs a year ago and due to drops in oil prices and air ticket prices. At the beginning of 2019, inflation should rebound, however, primarily due to an increase in administrative prices for energy and persistently growing demand-driven pressures.

Financial Markets

Yields on Slovak government bonds have increased only mildly so far after the end of the ECB's Asset Purchase Programme. They have have declined to from 0.716 in the beginning of this year to 0.833 currently. The spread vs German Bunds has remained broadly stable, at around 60bps, in the past three months.

Banking Sector

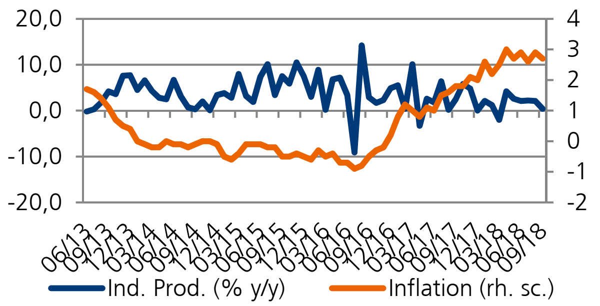
Growth rates for both lending and deposits in the Slovak banking sector have remained unchanged in the past few months. Growth of total loans oscillates around 10% yoy, which is exceptionally high in a European context, while growth of deposits oscillates around 6% yoy. As a reflections of these trends, the overall gross loan/primary deposit ratio had increased to 107.3% in November. Household credit growth in particular is outpacing the sector's deposit and economic fundamentals as well. In order to mitigate these imbalances, the regulator has made a number of changes: the tightening of credit conditions and other actions will be gradually implemented through 2019, which should reflect in the slowing of the fast-growing the household credit market.

Latest economic indicators

%	Last value	3Q 2018	2Q 2018
Ind. Production, wda yoy	3.3 (Nov)	6.7	5.9
Nom. Exports, yoy	4.3 (Nov)	8.4	9.9
ESI (index)	97.6 (Dec)	98.5	102.8
Retail sales, yoy	5.4 (Nov)	3.6	2.5
Inflation rate, yoy	1.9 (Dec)	2.7	2.9
ECB refi rate	0.0 (21th Jan)	0.0	0.0
Loans (priv. sector, yoy, eop)	9.9 (Nov)	9.4	9.8
Deposits (priv. sector, yoy, eop)	6.2 (Nov)	6.2	6.2

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

Industrial production and inflation



Source: Statistical Office of Slovak Republic

Slovenia

Real Economy

Ivan Odrčić

Industrial production rose by 2.5% yoy in November, a weaker rate than that recorded in October (+3.7%), as growth in manufacturing slowed to +2.7% and mining & quarrying saw a contraction (-15.4%). At the same time, real retail trade rose by 10.7% yoy, reflecting favourable labour market developments. Exports were strong in October, rising by 10.1% yoy (after showing a 0.8% decline a September). In the January-October period, they advanced by 9.8% yoy (with the strongest contributor being 9% higher exports of machinery and equipment). Preliminary November data show exports advancing by 9.1% yoy (with the strongest rate being to non-EU countries, at 17.1%) while at the same time imports advanced by 8.2% yoy.

The HICP inflation rate eased to +1.4% yoy in December (from +2.1% in November), largely as prices of fuel declined by 0.7% (due to lower oil price), while on average in 2018 the HICP rate increased by 1.9% yoy (1.6% in 2017), mostly supported by higher prices of food (up 2.8%), electricity, gas and other fuel (6.1%), and fuel and lubricants for personal transport equipment (6%).

Financial Markets

Ana Lokin

Money market rates remained unchanged in December and January, with 3M Euribor stagnating at -0.31%, in line with the latest publication by the ECB of its meeting minutes, which revealed no new information on monetary policy. The 10Y government bond yield followed the benchmark in December, declining by 10bps mom on average, to 1.1%. In January, the spread has been stable at 80bps, while the yield has fallen to 0.9%.

Banking Sector

A stable trend of private sector loans continued in November, with the total volume recorded a 3.0% yoy increase. Loans to households advanced by 6.6% yoy, due to a slight rise in housing loans to 4.4%. Consumer loans flat-lined at 11.2%, and growth for other loans eased to 8.1%. Corporate loan growth remained in negative territory, falling by 0.7% yoy. New loan statistics show that loans to small and medium-sized enterprises are showing a sustained uptrend, whereas loans to large enterprises (loans over EUR 1M) have been recovering since mid-2018. Nevertheless, foreign sources and accumulated capital and liquidity buffers still account for a larger part of corporate financing needs than bank credit – hence, the deleveraging continues.

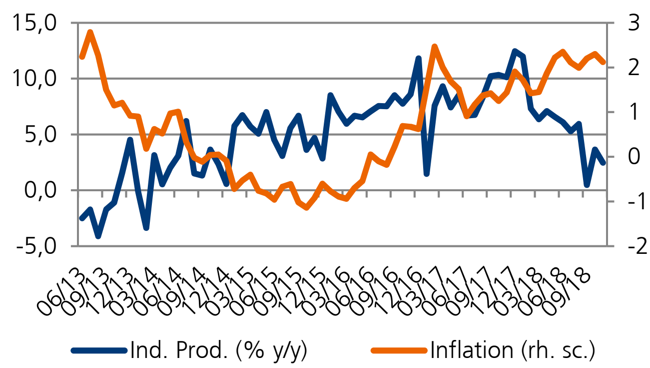
Growth in deposits from the private sector slowed to 5.8% yoy in November as the rise in corporate deposits continued to moderate, at 4.3% yoy (overnight +8.5%, agreed maturity -6.6%). A sound rise in household deposits continued (total 6.4% yoy; overnight +12.8%, agreed maturity -8.8%).

Latest economic indicators

%	Last value	3Q 2018	2Q 2018
Ind. Production, wda yoy	2.5 (Nov)	3.9	6.6
Nom. Exports yoy	9.1 (Nov)	7.8	11.3
ESI (index)	110.6 (Dec)	108.4	113.6
Consumer Confidence Indic.	-5.4 (Dec)	-4.7	1.3
Inflation ate yoy	1.4 (Dec)	2.1	2.1
ECB refi rate	0.0 (21th Jan)	0.0	0.0
Loans (priv. sector, yoy, eop)	3.0 (Nov)	2.8	2.6
Deposits (priv. sector, yoy, eop)	5.8 (Nov)	6.4	7.7

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

Industrial production and inflation



Source: Statistical Office of the Republic of Slovenia

Albania

Kledi Gjordeni

Real Economy

Albania's GDP increased by 4.5% in 3Q18. The main contributors were industry and electricity and water. Economic growth is reflected in a decrease of the unemployment rate to 12.2% in 3Q18 from 13.6% on 3Q17. Consumption rose by 3.9% in 3Q18 from 3.3% in 3Q17. In the first 11 months of 2018, exports increased by 15.0% while imports rose by 2.8% yoy. The trade deficit shrank by 7.0% yoy.

Consumer price inflation was 1.8% yoy in December 2018, the same rate as a year ago in the same period. According to the CB, the low rate of inflation benefitted from the (transitory) effect of exchange rate appreciation.

Financial Markets

The CB believes that current monetary policy is adequate for both ensuring economic growth rates in line with the country's production potential and guaranteeing the convergence of inflation towards the target within 2020. Monetary stimulus has created a liquid financial environment, with low interest rates, and has mitigated the effect of appreciation pressures on the exchange rate.

The exchange rate was supported by both inflows of FDIs and the good performance of exports and remittances, especially during the summer. A further contribution related to a major loan from the EBRD (nearly EUR 300M). The BoA carefully monitors the exchange market and has announced that it is ready to use the available instruments to prevent appreciation of the exchange rate to levels that could jeopardise the achievement of the inflation target.

Banking Sector

In November 2018, credit to the private sector remained negative, although credit risk has been declining.

In November, NPLs/loans were at 12.7%, down from 14.30% a year ago. Net of the accounting effect of the exchange rate appreciation and the write-offs, credit to the private sector showed a different profile, with an increase of 4.9% and 4.5% in 3Q and in the first two months of 4Q, respectively, supported by low interest rates.

From a sectoral point of view, corporate loans decreased 7.5% while household loans expanded by 3.5%.

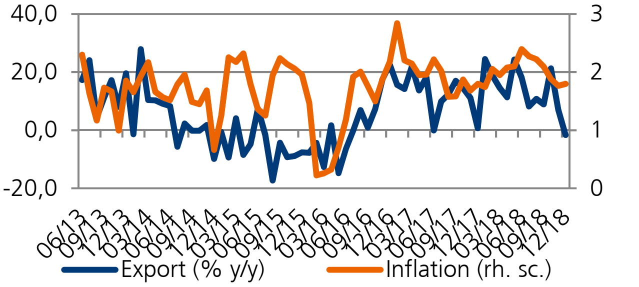
Total deposits shrank by 1.5 % yoy in November 2018.

Latest Economic Indicators

%	Last Month	1Q 2015	4Q 2014
Industrial production, wda yoy	n.a.	n.a.	n.a.
Export of goods, nominal yoy	6.8 (Nov)	9.2	17.9
Unemployment rate	n.a.	12.2	12.4
Inflation rate, average yoy	1.8 (Dec)	2.2	2.2
Loans (private sector, yoy, eop)	-4.0 (Nov)	-3.7	-2.6
Deposits (private sector, yoy, eop)	-1.5 (Nov)	-1.1	-1.6

Source: National Statistical Institute, NBR

Money market and inflation



Source: NBR

Bosnia and Herzegovina

Real Economy

Ivana Jović

The recently published 3Q18 GDP release pointed to a significant upside revision for data of the first two quarters of 2018: 1Q18 growth was revised from 2.0% to 3.6% yoy while 2Q growth was shifted to 3.6% from the previous 3.4% yoy. At the same time, 3.2% yoy growth recorded in 3Q indicated a continued solid economic performance supported by strong growth in investments (9.8% yoy) while personal consumption was more sluggish than expected, growing by only 0.9% yoy (vs 3.2% in 2Q).

Fourth-quarter high-frequency data offer similar trends as in the first three quarters. Industrial production in October increased by 2.3% yoy, only to decrease by 1.6% the following month, mainly reflecting a decline in energy (-4.4%), consumer non-durables (-2.0%) and intermediate goods (-0.9% yoy) production. Following an improved performance by exports in October (+6.6% yoy), November data revealed somewhat slower, but still solid growth of 2.5% yoy. At the same time, retail trade growth strengthened from 9.1% yoy in October to 11.2% in November, reflecting favourable labour market developments and a steady inflow of remittances backed by a rise in the credit appetite of the household segment. Overall, we see the economy maintaining around 3% growth in 4Q, which combined with a revised 1H performance, leads the FY18 outturn closer to 3.3%, or 0.4pp higher than previously estimated.

Banking Sector

Ana Lokin

Private sector loans decelerated notably in November, to 5.9% yoy from 6.9% yoy in the previous month, due to a sharp monthly drop (-0.9%) in corporate loans, which reduced their annual growth rate from 6.3% recorded in October to 4.6% in November. The pace of growth of household loans, as was the case during previous 10 months, continued to be around 7% yoy, coming in at 7.4% yoy in November. Breaking down household loans by purpose reveals that consumer loans continued to show stable growth, rising by 7.7% yoy, while housing loans slowed to 7.4% yoy. In spite of a steep rise in housing loans observed in 2018, supported by regulatory changes and declining interest rates (on average, by 50bps on BAM and by 60bps on indexed loans), their share in the household portfolio remained modest, firmly anchored at 19%.

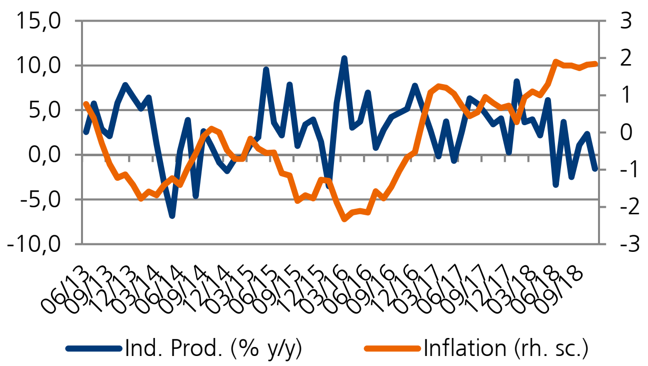
Deposits from the private sector slowed in November a bit, to 8.6% yoy, as growth of corporate deposits softened to 11.4% yoy. Growth in household deposits rose by 7.5% yoy owing to a robust increase in funds on transactions accounts (17.7% yoy), whereas BAM and FX savings deposits increased by 5.7%.

Latest macroeconomic indicators

%	Last value	3Q 2018	2Q 2018
Industrial production, wda yoy	-1.6 (Nov)	0.7	1.5
Export of goods, nominal yoy	2.5 (Nov)	4.3	12.0
Retail trade, real, wda yoy	11.2(Nov)	9.2	8.5
Inflation rate, average yoy	1.8 (Nov)	1.8	1.4
Loans (private sector, yoy, eop)	5.9 (Nov)	6.3	7.0
Deposits (private sector, yoy, eop)	8.6 (Nov)	9.9	9.8

Source: BHAS, CBBH

Industrial production and inflation



Source: Labour and employment agency

Croatia

Real Economy

Ivan Odrčić

The decline in industrial production eased from -2.4% yoy in October to -0.8% in November, as output in manufacturing, after four consecutive negative reports, turned positive (+0.4%). Real retail trade growth continued to be strong (+5.8% yoy), backed by rising employment and disposable incomes as well as a better household credit situation. Growth of goods exports in October was 5.9% yoy, up from the 4.2% rate reported in 1Q-3Q, only to decline in November by (preliminary) 3.5% yoy (1-11M18: +3.5% yoy, solely due to 9.4% higher exports to EU).

The growth rate of consumer prices slowed to 0.8% yoy in December (vs 1.3% in November), as lower crude oil prices on the global markets pushed fuel prices higher. For full-year 2018, CPI rose by 1.5% yoy (1.1% in 2017), supported by higher prices for electricity (4.1%, amid higher fees for renewable energy sources), refuse collection (9.3%), water supply (2.8%), fuel (+7.1%) and food (1%).

Financial Markets

Ana Lokin

December's pronounced appreciation pressures in the domestic FX market prompted the CNB to intervene three times, buying a total of EUR 1.1Bn from banks. The average rate fell by 0.3% mom, to HRK 7.40/EUR 1. In January 2019, the rate has been stable. Money market rates moved little in December as excess liquidity, bolstered by FX auctions, exceeded HRK 30Bn. In order to provide long(er)-term kuna resources to banks, CNB held a structural repo operation, placing HRK 1.4Bn at an interest rate of 1.2% and with a five-year maturity. The spread between the 10Y kuna government bond and the Bund rose by 10bps mom in December, with the average yield unchanged, at 2.1%. In January, the yield has stagnated, at 2.1%.

Banking Sector

Loans grew by 1.9% yoy in November, with the downward trend of corporate loans deepening to -1.4% yoy, but with household loans accelerating to 4.3% yoy. The breakdown by purpose shows that in the corporate portfolio, working capital loans declined by 8.0% yoy while investment loans accelerated by 4.1% yoy. In the retail portfolio, housing loans continued to lose some steam, coming in at 1.8% yoy growth, whereas an upbeat trend for cash loans continued, with 11.3% yoy growth. Transaction data reveal that credit demand remained strong as cumulative growth of placements to the private sector amounted to 4.9% yoy in November (corporate +3.1%, households +6.2%).

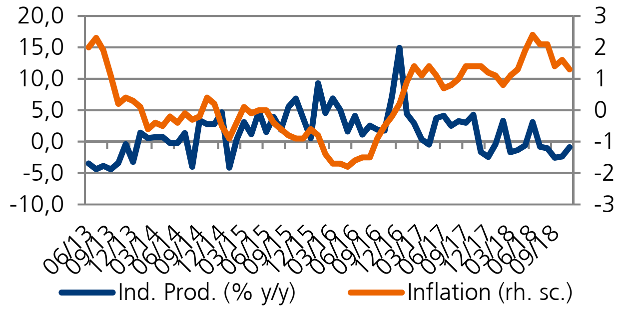
Deposits rose by 4.7% yoy in November. Household deposit growth decelerated to 3.5% yoy, owing to adverse FX movements (up by 4.4% yoy, adjusted for FX changes). Corporate deposits rose by 8.5% yoy as a result of the 24.3% higher amount of funds on transaction accounts.

Latest economic indicators

%	Last value	3Q 2018	2Q 2018
Industrial production, wda yoy	-0.9 (Nov)	-1.5	0.4
Export of goods, nominal yoy	5.9 (Oct)	6.6	8.9
Retail trade, real, wda yoy	5.8 (Nov)	3.0	4.6
ESI (index)	117.4 (Dec)	115.8	116.5
Inflation rate, average yoy	0.8 (Dec)	1.9	1.9
Loans (priv. sector, yoy, eop)	1.9 (Nov)	1.7	2.2
Deposits (priv. sector, yoy, eop)	4.7 (Nov)	4.4	4.5

Source: CBS, EC, CNB

Industrial production and inflation



Source: EC

Romania

Real Economy

Sebastian Maneran

High frequency indicators show that fiscal expansion (ie, wage increases) continue to reverberate in the economy, as data signal that growth drivers are slowly but surely switching away from external demand and becoming more reliant on domestic consumption. In November 2018, retail sales accelerated to +6% yoy from +5.1% yoy the previous month while industrial production slowed to +5.2% yoy, down from 5.7% yoy the previous month, and export growth came in at +2.7% yoy, down from +10% yoy the previous month, the slowest level since June 2017. Consumer sentiment rebounded in November 2018, to 102.3 from 101.7 in the previous month. However, it was still below the 2017 average of 104.49.

Headline inflation declined to the lowest level in 2018, to 3.27% yoy in December down from 3.43% yoy the previous month, as lower energy prices were supportive in addition to favourable base effects.

Financial Markets

At the start of 2019, price action in the EUR/RON exchange rate indicates that the heavy liquidity injection from the Ministry of Finance, in the form of payments for obligations to commercial suppliers, is pushing the exchange rate to new all-time highs, with the RON breaking the 4.7/EUR 1 psychological level. Fiscal changes at the end of 2018 affected the bond yield curve, with short-term yields remaining broadly unchanged, as liquidity improved, while longer-term yields rose, resulting in a steepening of the curve. The ample liquidity in the banking system has pushed money market rates lower, with the ROBOR 3M rate moving below the 3% threshold for the first time since late June 2018.

Banking Sector

Banking system data for November 2018 pointed to a strong increase in deposits (+10.7% yoy) which continued to be much higher than for lending (+6.4% yoy). Detailed data indicate that regulatory constraints continue to fuel household demand for local currency credit (to RON 95.1Bn). Lending rates rose for the private sector, with the local currency lending rate reaching 7.39% in November (6.12% in the corporate sector, the highest level in the past four years), while deposit rates decreased (to 2.11%).

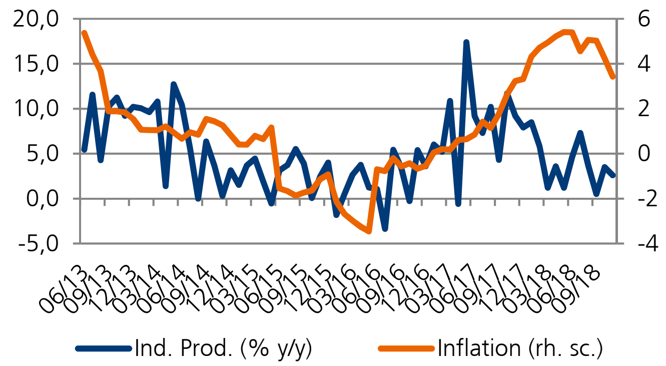
The fiscal changes introduced at the end of 2018 impacted the banking sector. Romania is the third country in the EU to adopt a bank tax, after Hungary and Poland. However, as opposed to the two neighbouring countries, the tax rate in Romania is linked to a market index (if the quarterly average of ROBOR is higher than 2%), and by all measures is much higher than the tax rates in Hungary and Poland. The ensuing heated debate is now focused on the legality (as it appears to hamper the monetary policy transmission mechanism) as well as on the excessive level of taxation, which is likely to negatively affect macro indicators.

Latest economic indicators

%	Last value	3Q 2018	2Q 2018
Ind. Production yoy	2.6 (Nov)	3.8	3.1
Nom. Exports yoy	2.7 (Nov)	7.4	10.4
ESI (index)	102.3 (Dec)	102.7	101.5
Retail Sales yoy	7.2 (Nov)	3.0	6.7
Inflation Rate yoy	3.3 (Dec)	4.9	5.3
CB Reference Rate	2.5 (21th Jan)	2.5	2.5
Loans (priv. sector, yoy, eop)	6.4 (Nov)	7.7	6.5
Deposits (priv. sector, yoy, eop)	10.7 (Nov)	15.1	12.1

Source: National Statistical Institute, NBR

Industrial production and inflation



Source: NBR

Serbia

Real Economy

Branka Babic

Preliminary Statistical Office data suggest that real GDP growth in 2018 rose to 4.4% yoy vs. 2.0% yoy in 2017. According to estimates, on the demand side, gross fixed capital formation increased by 9.1% yoy in real terms, while on the supply side, industrial production and agriculture increased by 2.0% yoy and 16.3% yoy, respectively. Favourable movements were noted in the construction sector as well, where the value of construction works registered real growth of 10.9% yoy.

Yoy inflation increased mildly, from 1.9% in November to 2.0% in December 2018, remaining below the central point of the inflation target (3.0%±1.5pp). The highest contribution to CPI (of more than 80%) came from the increase in the prices of vegetables (+19.8% yoy), fuel for personal transport (+5.2% yoy), and tobacco products (+8.2% yoy). On the other hand, fruit prices were lower by 11.2% yoy.

Financial Markets

The NBS kept the key policy rate unchanged at 3.0% in January 2019, justifying its decision primarily based on current and expected inflation movement and economic performance as well as the effects of the past monetary easing. A cautious approach to the monetary policy is very much required, taking into account uncertainties in the international environment, especially regarding the monetary policies of the leading central banks, the Fed and the ECB, protectionism in international trade, and primary commodity prices in the international market, notably oil.

The dinar remained relatively stable in 2018 on the back of strong macro and fiscal fundamentals, mainly rising export, capital inflows and a fiscal surplus. It appreciated against the euro by 0.2%, while the NBS bought RSD 1,835M and sold EUR 255M in 2018 in order to ease excessive volatility in the FX market and thus further bolstered FX reserves in the process.

Banking Sector

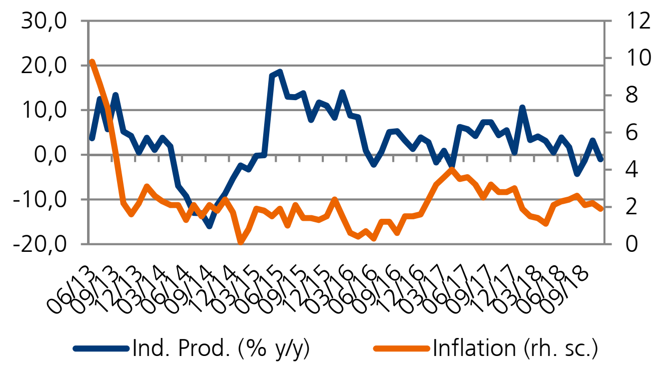
Total loans to the private sector grew by 6.9% yoy in November 2018, a similar level to those in the previous two months. Loans to the corporate sector increased by 2.8% yoy, while in household sector, the increase was stronger, equal to 11.9% yoy. Deposits grew by 7.5% yoy, with both the corporate and retail sector seeing growth (8.7% yoy and 5.3% yoy, respectively). The share of non-performing in total loans continued to fall and amounted to 6.1% in November 2018 vs 9.8% in December 2017. The household NPL ratio was 4.7% in November 2018, while in the corporate sector it amounted to 5.5%.

Latest economic indicators

%	Last value	3Q 2018	2Q 2018
Ind. Production yoy	-1.0 (Nov)	-1.3	2.5
Nom. Exports yoy	10.7 (Nov)	7.7	6.2
Retail Sales yoy	6.1 (Nov)	4.9	3.4
Inflation Rate yoy	2.0 (Dec)	2.4	1.8
CB Reference Rate, eop	3.0 (21th Jan)	3.0	3.0
Loans (priv.sector,yoy,eop)	6.9 (Nov)	6.4	4.4
Deposits (priv.sector,yoy,eop)	7.5 (Nov)	7.6	7.6

Source: Statistical Office, National Bank of Serbia

Industrial production and inflation



Source: Statistical Office, National Bank of Serbia

Moldova

Real Economy

Olga Pisla

Moldova's GDP recorded a more tempered yoy increase in 3Q18 compared to 2Q, at 3.4% (vs 5.2% in 2Q), with a 4.0% yoy rise in the first nine months of 2018. The GDP growth was mainly driven by positive contributions from construction, industry and domestic trade.

Industrial production fell by 4.9% yoy in October, driven by a decrease in the manufacturing industry. It recovered slightly in November, however, showing a 0.5% yoy increase that was influenced by the turnaround in the production of electricity, gas, steam, hot water and air conditioning, which recorded a 12.5% yoy positive change.

Overall, during the January-November 2018 period, industrial production accelerated by 4.1% yoy, due to an increase in extractive (+8.4%) and manufacturing (+3.7%) sectors, and in the production of electricity, gas, steam, hot water and air conditioning (+5.4%).

Given modest aggregate demand, a decrease in the tariff for electricity and appreciation of the domestic currency against the USD, annual CPI rate continued its downward trajectory which started at the beginning of 2018, falling below the lower limit of the inflation target range. Average inflation for 3Q18 was 2.7% (a 0.4pp fall compared to Q2), reaching as low of 0.9% in December 2018.

Financial Markets

During 3Q18, the market supported a reversal of the downward trend of interest rates on state securities for all maturities. Treasury bills recorded a 0.1-0.2pp increase in interest rates, while government bonds with two-, three- and five-year maturity rose by 0.2pp.

Banking Sector

Total private sector deposits increased 8.4% yoy as of November 2018, mainly due to a rise in deposits from corporates (14.1% from 11.7%), but also to a mild rise from households (5.4% from 5.1%). In November, the volume of loans increased by 5.9% yoy, after a 5.0% yoy increase in October driven by an accelerating (+29.5% yoy) rise in corporate loans.

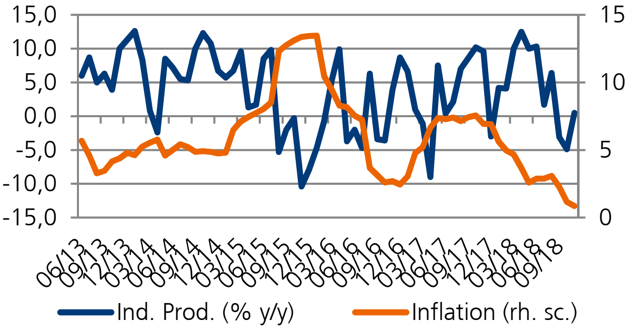
In 11M18, the ratio of NPLs/total loans, though still high, showed a declining trend, reaching 13.4% in November 2018. The LTD ratio remained stable at just above 50% during 2018, and was at 55.56% as of November 2018.

Latest economic indicators

	Last value	3Q 2018	2Q 2018
Ind. Production yoy	0.5 (Nov)	5.9	-0.4
Nom. Exports yoy	-1.2 (Nov)	4.0	27.5
PMI Manufacturing	n.a.	n.a.	n.a.
Retail Sales	7.1 (Oct)	9.2	7.2
Inflation Rate yoy	0.9 (Dec)	2.7	3.1
CB Reference Rate	6.5 (17th Jan)	6.5	6.5
Loans (Priv. Sector, yoy, eop)	5.9 (Nov)	2.2	-3.1
Deposits (Priv. Sector, yoy, eop)	8.4 (Nov)	6.5	8.6

Source: National Bureau of Statistics of the Republic of Moldova, National Bank of Moldova

Industrial production and inflation



Source: National Bureau of Statistics of the Republic of Moldova

Russia

Real Economy

Irina Lekareva

In November 2018, GDP growth amounted to 1.8% yoy vs 2.8% yoy in October. One of the main factors causing slowing growth was the fall in agriculture (-3.9% yoy) due to the decreased yield of crops. The decline in GDP growth also resulted from the slowdown in industrial production (+2.4% yoy vs +3.7% yoy in October). Manufacturing growth slowed to 0% yoy in November from 2.7% yoy in October, due to the lower production of equipment for the defense industry. Mechanical engineering decreased by 11.2% yoy, due to a significant drop in the production of aircraft. In November, there was, however, an improved dynamic in retail trade (3% yoy vs 1.9% yoy in October) mainly for non-food products.

The inflation rate at the end of 2018 was 4.3%, which is 0.1% higher than what the CBR expected. According to the CBR forecast, annual inflation will temporarily accelerate to 5.0-5.5% in 2019. The most significant impacts on CPI in 1H19 will be the VAT increase, volatile oil prices and possible currency weakening. Inflation is expected to return to the 4% target in early 2020.

Financial Markets

In December, the CBR raised the key rate from 7.5% to 7.75%, which was explained by accelerating inflation rates. The CBR will consider further increases after taking into account inflation and economic dynamics, as well as external risks. The monetary policy of the CBR is expected to remain moderately tight in 2019, with the key rate not likely to be cut before 4Q19.

In December, the RUB weakened against the USD by 1.6% and against the EUR by 1.7% compared to November. Despite the high volatility of global financial markets and falling oil prices, the RUB remained relatively stable in November and December, but appreciated again in January 2019 on the back of recovering oil quotations. The observed dynamics indicate the increased stability of the RUB regarding fluctuations in foreign economic conditions. High uncertainty over future external conditions and the reaction of prices to the tax increase remains and may cause more volatility in financial markets.

Banking Sector

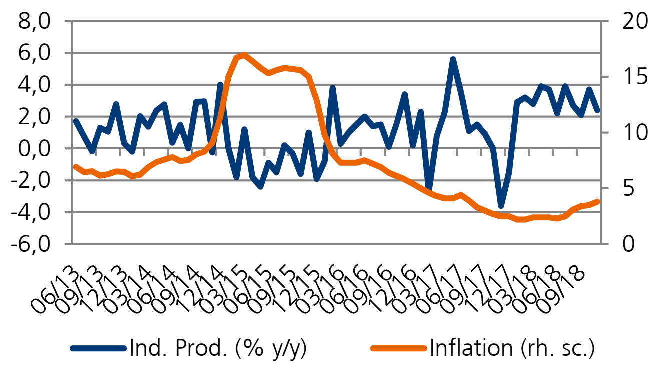
In October, there was a recovery in the dynamics of household deposits (+9% yoy, following the weak dynamics in the previous months). Corporate deposits in October continued to show even more positive dynamics: +17% yoy, after +12% the previous month. Lending growth is tending to accelerate in both corporate and household segments. In October, the household loan portfolio continued to grow at a faster pace, at +22% yoy compared to +11% yoy in corporate lending. The high growth rates of loans and weaker growth rates of overdue debts led to an improvement in the quality of the loan portfolio. The NPL share decreased from 10.7% in September to 10.5% in October.

Latest economic indicators

%	Last value	3Q 2018	2Q 2018
Ind. Production yoy	2.4 (Nov)	2.9	3.3
Nom. Exports yoy	30.8 (Oct)	31.3	30.5
PMI manufacturing	51.7(Dec)	50.0	49.5
Retail Sales yoy	3.0 (Nov)	2.6	2.9
Inflation Rate yoy	4.3 (Dec)	3.0	2.4
CB Reference Rate	7.75 (31th Dec)	7.5	7.3
Loans (priv.sector, yoy, eop)	14.3 (Oct)	13.9	9.7
Deposits (priv.sector,yoy,eop)	12.6 (Oct)	10.4	9.1

Source: State Statistics Federal Service, Central Bank of Russia

Industrial production and inflation



Source: State Statistics Federal Service

Ukraine

Real Economy

Artem Krasovskyi

Economic growth in the 3Q slowed to 2.8% yoy compared to 3.8% in the previous quarter, due to a negative contribution from net trade. A strong harvest should support GDP growth in 4Q, and the full-year 2018 performance is expected to be 3.1-3.3%, representing the best result for a number of years. The 2019 forecast points to a slowdown again, to 2.5-2.7%, mostly due to the upcoming elections and uncertainty in global markets. The current account deficit is likely to have reached USD 5Bn (3.3% of GDP) in 2018 on the back of weaker global demand (exports declined by 5% yoy in 3Q, mostly driven by the performance of metals) and a rise in imports (+5% yoy in 3Q), supported by strong private demand. Despite wage pressure and higher energy prices, inflation slowed to 9.8% yoy in December 2018 from 13.7% in the previous year, due to the central bank's tight monetary policy.

Financial Markets

The Ukraine hryvnia depreciated slightly during 2018 from an average of UAH 26.6/USD 1 in full-year 2017 to 27.2 in 2018 (it was around 28 at the year-end) on the back of less supportive external markets and strong internal consumer demand, which at the same time was partially counterbalanced by tightening monetary policy from the central bank, which fueled foreign capital inflows to domestic bonds.

Despite the inflation has been now finally curbed at its lowest rate since 2014, monetary policy is unlikely to start to soften until at least after presidential elections take place (March-April 2019). Inflationary pressure is nevertheless likely to remain in place in 2019, due to planned wage growth and political tensions, which could push the local currency to gradually depreciate further in the medium/long term. Meanwhile, the recently reached agreement with the IMF (first tranche came in December 2018) has resulted in positive sentiment from the markets and something of a decline in the devaluation pressure on the hryvnia.

Banking Sector

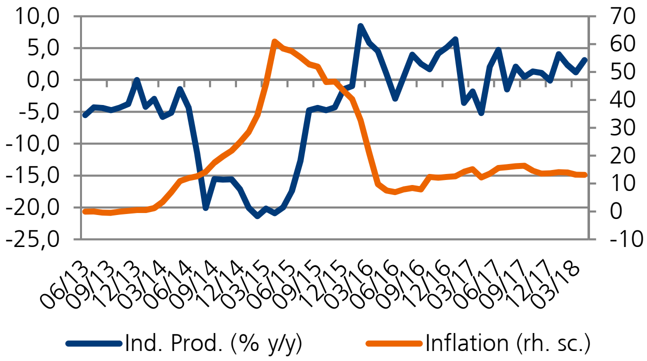
In 2018, Ukraine's banking sector recorded its best performance since 2014, resulting in UAH 15Bn of profits (preliminary estimate). Despite the tight monetary policy, lending grew strongly in 2018 compared to 2017 (+14.7% yoy in November), particularly in the household sector (+27.5%) and among corporates (+11.8%). Deposits also increased (corporates by 11.3% and households by 11.6% yoy in November), showing that rising confidence among depositors. Lending and deposit rates in local currency grew during 2018 (lending +22% yoy, to 20.64% in November, deposits +54%, to 13.98%) following a gradual increase in the discount rate. Foreign currency rates declined slightly, however (to 5.01% for lending and 2.4% for deposits).

Latest economic indicators

	Last value	3Q 2018	2Q 2018
Ind. Production yoy	-1.0 (Nov)	0.5	2.7
Nom. Exports yoy	9.5 (Nov)	11.8	12.7
PMI Manufacturing	n.a.	n.a.	n.a.
Retail Sales	5.2 (Nov)	6.7	6.1
Inflation Rate yoy	9.8 (Dec)	8.9	11.6
CB Reference Rate	18.0 (31thDec)	18.0	17.0
Loans (priv. sector, yoy, eop)	14.7 (Nov)	14.4	8.3
Deposits (priv. sector, yoy, eop)	11.5 (Nov)	14.8	10.9

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

Industrial production and inflation



Source: State Statistics Service of Ukraine

Egypt

Samer Halim

Real Economy

GDP grew 5.3% in 1Q18/19. Natural gas, communications, the Suez Canal, and construction led the improvement, with 21.8%, 16.5%, 12.3% and 6% growth, respectively. The overall fiscal deficit as percentage of GDP has declined during the 5M18/19, to 3.1% compared to 3.7% in the same period last year, and the primary balance has achieved a 0.3% surplus compared to a 0.3% deficit. The Petroleum Ministry stated that a new Price Indexation Mechanism will be applied for 95 octane fuel as of April 2019, which adjusts fuel prices according to changes in the exchange rate and international oil prices. Changes will be limited to a 10% cap (up and down), and will be reviewed on a quarterly basis. Overall, the balance of payments recorded a USD 0.3Bn surplus in 1Q18/19 compared to USD 5.1Bn in the same quarter last year, mainly due to the significant decrease in net portfolio investments (-143.3%). The tourism sector continues to improve quite strongly (+45.8%) while exports witnessed moderate progress (+16.2%) and remittances have shown stability. Net FDI in Egypt amounted to USD 1.1Bn (inflows) as a result of the net inflows of USD 478.8M for oil sector investments and USD 237.4M for real estate investments.

Financial Markets

Average annual headline inflation slowed notably, to 14.4%, during 2018 compared to 29.6% in the previous year, mainly due to the base year effect and the Central Bank of Egypt's (CBE) tightening monetary policy. Annual headline inflation continued to decline in December 2018, to a record 12% compared to 15.7% in November, mainly due to the decline in the food & beverage group (largest component of the CPI, accounting for 40%) by 6.7% mom. The CBE now targets consumer price inflation at 9% (±3%) on average in 4Q20, down from the 13% (±3%) on average seen in 4Q18.

The Monetary Policy Committee chose to keep the CBE overnight deposit and lending rates unchanged at 16.75% and 17.75%, respectively. Yields on three-months TBs have started to decline in 2019, reaching 18.715% on 15 January 2019 compared to 19.848% in 25 December 2018. This is mainly due to the rise in submitted bids from banks to EGP 25.4Bn compared to EGP 17.2Bn. CBE Governor Tarek Amer announced that Egypt's stagnant exchange rate is likely to see more volatility after the repatriation mechanism was withdrawn, as investors will now have to go through the interbank market. But, the central bank stands ready to address speculators and ensure debt holders don't lose out.

Banking Sector

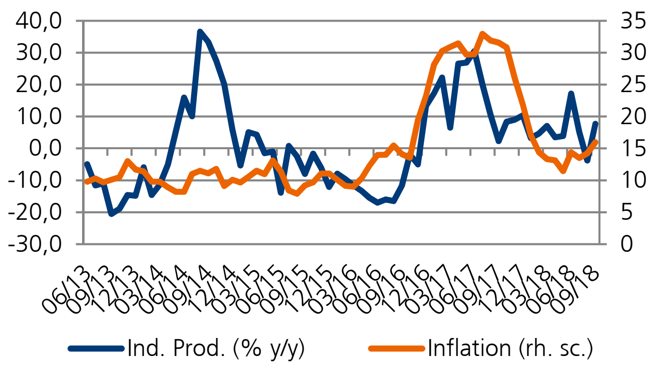
Total loans to the private sector increased 13.2% yoy, to EGP 1.03Tn, where corporate loans contributed for 61.2% to this rise, noting that FC corporate loans declined 3.4%. Deposits rose 16.4% yoy, to EGP 3.02Tn. Retail deposits contributed for 85.6% to the increase. The LTD ratio for the private sector has increased slightly, to 34.2% in October 2018 compared to 33.9% a month earlier.

Latest economic indicators

%	Last value	3Q 2018	2Q 2018
Industrial Production, wda yoy	-1.9 (Nov)	3.0	8.2
Nom. Exports yoy	4.5 (Nov)	-1.6	4.3
Retail Sales yoy	n.a.	n.a.	n.a.
Inflation rate yoy	12.0 (Dec)	14.6	13.0
CB Reference Rate	16.8 (21th Jan)	16.8	16.8
Loans (priv. sector, yoy, eop)	13.2 (Oct)	13.0	10.4
Deposits (priv. sector, yoy, eop)	16.4 (Oct)	17.7	20.7

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

Industrial production and inflation



Source: Ministry of Planning, CAPMAS

Country Data: Economy, Markets and Banks

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]	
	3Q18	2Q18	2017	Last	mth	3Q18	Last	mth	3Q18	Last	mth	3Q18	2017	3Q18	2Q18	2017	3Q18	2Q18
CEE																		
Czech Rep.	2.5	2.3	4.3	1.5	Nov	3.7	11.0	Nov	5.0	2.2	Dec	2.4	2.5	n.a.	n.a	n.a	n.a	n.a
Hungary	4.9	4.9	4.1	4.0	Nov	2.8	4.7	Nov	3.1	2.7	Dec	3.5	2.4	n.a	n.a	-3858	n.a	772
Poland	5.1	5.1	4.5	4.7	Dec	6.0	5.9	Jul	5.9	1.1	Dec	1.9	2.0	n.a	n.a	n.a	n.a	n.a
Slovakia	4.6	4.5	3.4	3.3	Nov	6.7	4.3	Nov	8.5	1.9	Dec	2.7	1.4	n.s.	n.s.	n.s.	n.a	n.a
Slovenia	4.8	4.0	4.9	2.5	Nov	3.9	9.1	Nov	7.8	1.4	Dec	2.1	1.6	n.s.	n.s.	n.s.	1123	982
SEE																		
Albania	4.5	4.3	3.7	n.a.	n.a.	n.a.	6.8	Nov	9.2	1.8	Dec	2.2	2.0	155	85	n.a	-146	-173
Bosnia H.	3.2	3.6	3.2	-1.6	Nov	0.7	2.5	Nov	4.3	1.8	Nov	1.8	0.8	236	110	524	-160	-140
Croatia	2.8	2.9	2.9	-0.9	Nov	-1.5	5.9	Oct	6.6	0.8	Dec	1.9	1.1	-57	214	2192	4011	180
Romania	4.2	4.1	6.9	2.6	Nov	3.8	2.7	Nov	7.4	3.3	Dec	4.9	1.3	-611	-3529	3895	-2860	-2701
Serbia	3.8	4.9	1.9	-1.0	Nov	-1.3	10.7	Nov	7.7	2.0	Dec	2.4	3.2	138	541	-689	-483	-267
CIS MENA																		
Moldova	3.4	5.3	4.5	0.5	Nov	1.7	-1.2	Nov	4.0	0.9	Dec	2.7	6.5	143	6	597	n.a	51
Russia	1.5	1.8	1.5	2.4	Nov	2.9	21.0	Nov	31.3	4.3	Dec	3.0	3.7	3191	925	38476	27664	19064
Ukraine	2.8	3.8	2.5	-1.0	Nov	0.5	9.5	Nov	11.8	9.8	Dec	8.9	14.5	-683	495	3688	-2731	-5
Egypt	5.3	5.4	5.0	-1.9	Nov	3.0	4.5	Nov	11.5	12.0	Dec	14.6	29.6	201	1647	12755	-1751	-493
m.i. E.A.	*1.7*	*2.1*	*2.4*	*-3.3*	*Nov*	*0.7*	*1.9*	*Nov*	*4.7*	*1.6*	*Dec*	*2.1*	*1.5*					

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

Markets and Ratings

	S/T rates[1]		L/T rates[2]		Foreign exchanges[3]			Stock markets		CDS spread (bp)		Rating
	23/01	chg bp 3M	23/01	chg bp 3M	23/01	3M chg%	1Y chg%	3M chg%	1Y chg%	23/01	16/10	Moody's
CEE						Vs Euro						
Czech Rep.	2.0	0.5	1.9	-0.3	25.7	-0.4	1.2	-3.6	-10.1	36.6	36.2	A1
Hungary	0.1	0.0	2.8	-1.0	318.1	-1.7	2.6	9.8	-1.7	79.8	80.3	Baa3
Poland	1.8	0.0	2.8	-0.4	4.3	-0.3	2.8	9.5	-10.0	52.3	64.6	A2
Slovakia	-0.3	0.0	0.9	-0.1	Euro	Euro	Euro	-0.7	-2.9	43.8	43.4	A2
Slovenia	-0.3	0.0	0.9	-0.2	Euro	Euro	Euro	3.9	0.8	71.4	67.8	Baa1
SEE												
Albania	1.2	0.0	n.a.	n.a.	124.8	0.0	-6.6	n.a.	n.a.	n.a.	n.a.	B1
Bosnia H.	n.a.	n.a.	n.a.	n.a.	1.96	Board	Board	n.a.	n.a.	n.a.	n.a.	B3
Croatia	0.5	0.0	2.1	0.0	7.4	0.0	-0.2	-1.7	-6.0	95.2	96.6	Ba2
Romania	2.9	-0.3	5.2	0.2	4.8	1.9	1.9	-17.4	-15.3	93.7	88.6	Baa3
Serbia	3.0	0.0	n.a.	n.a.	118.5	-0.2	-0.2	-14.4	-18.9	115.6	115.6	Ba3
CIS MENA						Vs USD						
Moldova	4.7	0.6	6.2	0.2	17.1	0.3	1.7	n.a.	n.a.	n.a.	n.a.	B3
Russia	8.6	0.3	8.3	-0.3	66.6	1.9	17.5	8.5	7.2	121.1	144.4	Ba1
Ukraine	19.9	1.0	19.1	0.5	27.9	-0.9	-3.1	-2.8	-10.5	646.7	514.2	Caa1
Egypt	18.7	-1.0	18.0	-0.3	17.9	-0.1	1.1	1.1	-7.4	382.2	360.2	B3
m.i.A.E.	*-0.3*	*0.0*	*0.2*	*-0.2*	*1.1*	*-0.7*	*-7.4*	*-0.4*	*-12.7*	*7.0*	*6.0*	

Source: Datastream, Reuters;1 The data for Albania refers to January, for Egypt refers to December, for Czech Republic refers to December, for Moldova refers to December; 2For Ukraine, the long-term rate refers to a government issue in dollars; 3 The (-) sign indicates appreciation.

Aggregates and bank rates for the private sector

	Loans Chg yoy %			NPL/Loans %			Foreign Liab. Chg yoy %			Deposits Chg yoy %			Loans rate[1]-NewB*. %				DepositsRate[1]-NewB*. %				Loans/Dep %		
	Last	Mth	2017	Last	mth	2017	Last	mth	2017	Last	Mth	2017	Last	mth	2017	S[4]	Last	mth	2017	S[4]	Last	mth	2017
CEE																							
Czech Rep.	8.0	Oct	6.5	3.3	Oct	4.0	13.5	Aug	70.2	6.4	Oct	7.6	3.09	Oct	2.33	C	1.13	Oct	0.66	H	77.7	Oct	75.8
Hungary	11.9	Nov	6.0	4.1	Jun	5.3	3.1	Nov	12.2	15.3	Nov	10.8	2.3	Nov	2.5	C	0.21	Nov	0.24	H	78.5	Nov	80.1
Poland	7.5	Nov	3.2	4.1	Jun		3.4	Aug	-13.0	9.2	Nov	3.7	3.61	Aug	3.66	C	1.71	Aug	1.65	H	99.1	Nov	98.3
Slovakia	10.2	Oct	9.6	3.5	Oct	4.0	-7.9	Oct	-6.0	5.6	Oct	5.2	1.98	Oct	1.97	C[2]	0.07	Oct	0.07	H[2]	103.4	Oct	98.8
Slovenia	3.0	Nov	3.2	4.2	Nov	6.0	-15.6	Nov	-13.4	5.8	Nov	7.0	2.06	Nov	2.41	C[2]	0.17	Nov	0.14	H[2]	77.0	Nov	78.3
SEE																							
Albania	-4.0	Nov	0.5	12.7	Nov	13.2	-6.7	Nov	0.0	-1.5	Nov	-1.5	7.27	Nov	8.12	PS	0.83	Nov	0.8	PS	52.6	Nov	53.3
Bosnia H.	5.9	Nov	7.3	9.4	Sep	10.0	20.1	Nov	4.6	8.6	Nov	9.0	3.06	Nov	3.51	C	0.27	Nov	0.23	H	106.5	Nov	108.4
Croatia	1.9	Nov	-0.1	10.3	Sep	11.4	-13.7	Nov	-17.8	4.7	Nov	2.4	6.05	Nov	6.41	PS	0.72	Nov	0.68	PS	77.5	Nov	78.6
Romania	6.8	Oct	6.9	5.6	Sep	6.4	-5.8	Oct	-9.1	9.4	Oct	15.6	7.32	Oct	5.88	PS	2.26	Oct	1.08	PS	76.2	Oct	76.7
Serbia	6.9	Nov	2.1	6.1	Nov	9.8	25.0	Nov	14.4	7.5	Nov	3.1	8.18	Nov	8.2	PS	2.88	Nov	2.85	PS	102.1	Nov	101.3
CIS MENA																							
Moldova	5.9	Nov	-3.7	13.4	Nov	18.4	-17.4	Oct	-13.5	8.4	Nov	9.2	8.72	Nov	9.86	C	4.28	Nov	5.29	H	55.6	Nov	55.9
Russia	14.3	Oct	5.2	10.5	Oct	10.0	-10.1	Jul	-17.5	12.6	Oct	8.1	8.84	Oct	9.43	C	5.54	Oct	5.27	H	107.6	Oct	104.8
Ukraine	14.7	Nov	0.9	54.3	Sep	54.5	-2.9	Nov	-23.5	11.5	Nov	12.1	20.64	Nov	17.51	PS	13.98	Nov	9.56	PS	131.5	Nov	123.0
Egypt	13.2	Oct	7.1	4.3	Jun	4.9	9.6	Oct	1.1	16.4	Oct	23.8	18.1	Nov	19.8	C	11.8	Nov	13.6	H	34.2	Oct	33.9
m.i. E.A.	*17.1*	*Oct*	*2.2*	*n.a.*	*n.a.*	*n.a.*	*6.6*	*Oct*	*-2.8*	*2.8*	*Oct*	*1.8*	*1.2*	*Nov*	*1.3*	*C*	*0.3*	*Nov*	*0.4*	*H*	*93.4*	*Oct*	*81.9*

Source: Central Banks, IMF, Moody's ;[1]monthly average; [2]lending rate on current account overdraft; on deposits up to 1 year [4]Sector C=Corporates, H=Household, PS=Private Sector.

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