Economic and Banking Outlook
Countries with ISP subsidiaries

June 2019

Quarterly note

Intesa Sanpaolo
International Research Network

GDP growth was revised upwards in CEE/SEE but still on a decelerating path in 2019-2020. Uncertainties over geopolitical issues and the dovish tone of major CBs support a downward shift and a flattening of long-term yields.

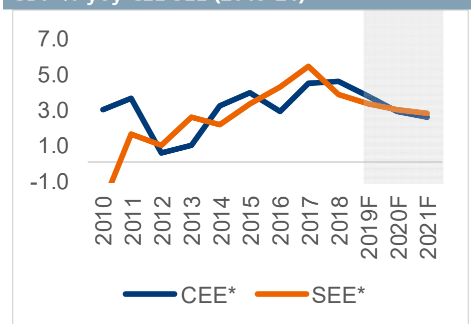
Following the release of GDP data for 1Q19 above our March expectations, we have revised upwards the growth forecasts for 2019 by 0.4 pp in both the CEE (from 3.3% to 3.7%) and SEE (from 2.9% to 3.3%) areas. High frequency indicators confirm, however, the ongoing weakening of the business cycle. Economic growth is therefore still expected to remain on a decelerating path in the region, falling to 2.9% in 2020 (vs. the previously expected 2.8%). In the CIS area, due to a weaker-than-expected 1Q19, we have trimmed our GDP growth forecast for this year for both Russia (to 1.3%) and Ukraine (to 2.5%), while confirming our previous forecasts for 2020. Finally, we have raised to 5.7% the GDP growth forecast for Egypt, where the economy has been reaping the benefits of reforms and of the exploitation of gas reserves.

Inflation forecasts have also been revised slightly upwards in CEE/SEE countries in 2019, with the CEE inflation rate increased to 2.3% from 2.2% and the SEE one to 3.0% from 2.7%. The revision incorporates the slightly stronger consumer price dynamics seen in the first months of the year due to both the rebound of energy prices with respect to 4Q18 and the domestic pressures stemming from tight labour markets and positive output gaps. For the following year, inflation is forecast, as in the March Outlook, at 2.5%, closer to local CBs' target values. In the CIS area we forecast inflation to end 2019 at a level lower than previously expected both in Russia and Ukraine, but we foresee stronger pressures in Moldova.

Although recent economic data have generally confirmed the growth picture for the advanced countries underlying our March Forecasts, a remarkable shift has occurred over the future course of monetary policy outlined by the CBs and in market expectations. The ECB has announced that it is to postpone the date for the reversal of the policy rate, while not excluding further interest rates cuts or the possibility of reopening a QE phase. We have then *prudentially* eased our forecasts on monetary rates in the CEE/SEE region, with either a postponement of the policy rate reversal or a softening of tightening where it has already started (as in CZ and Romania). At the same time, and in line with the market view on EA benchmarks, we have revised downwards our forecasts on long-term yields. Outside CEE/SEE, we expect the Russian Central Bank to normalise monetary policy at a faster pace than previously expected and continue to forecast large cuts in policy rates over the forecasting period, both in Ukraine and Egypt.

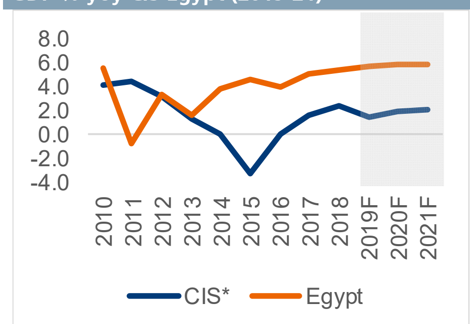
Forecasts for lending growth in the CEE/SEE region (still solid 6.4% average in 2019, after 7.7% in 2018) are supported by economic backdrops, the low interest rate environment and improving banking fundamentals. The dynamic of household loans is expected to remain stronger than that of corporates, but on a decreasing path, partly due to the measures adopted by several CBs to avoid excess credit expansion in several CEE countries. Asset quality is improving but NPLs continue to weigh on loan growth in a few SEE countries, and in Ukraine in the CIS region. In the latter area, in 2019 lending growth has increased in Moldova (by 8%) but fallen in Russia (by 8.6%). In Egypt, it is forecast to remain in double digits, though decelerating to ca. 13.1%, which is still below nominal GDP growth. Funding and liquidity conditions should remain supportive, with implicitly declining LTD ratios. The profile of banking interest rates has been broadly revised downwards, driven by easier money market rates.

GDP % yoy CEE SEE (2019-21)



Sources: ISP Research Department forecasts; note * weighted average

GDP % yoy CIS Egypt (2019-21)



Sources: ISP Research Department forecasts; note * weighted average

The figures in this document have been updated to 24th June 2019.
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This note has been coordinated by Gianluca Salsecci. The names of the authors are reported in the single sections.

The note considers the countries with Intesa Sanpaolo subsidiaries: Slovakia, Slovenia, Hungary and Czech Republic among the CEE countries; Albania, Bosnia, Croatia, Serbia and Romania among SEE countries; Russia, Moldova and Ukraine among CIS countries; Egypt among MENA countries. It also includes Poland among the CEE countries, where ISP is present with a branch.

The Economic and Banking Outlook is released on a quarterly basis in March, June, September and December.

Cross Country Analysis

Recent developments

Gianluca Salsecci, Giancarlo Frigoli, Antonio Pesce and Davidia Zucchelli

In the CEE region, average GDP growth was 4.2% in 1Q19, below the previous quarter's trend (4.4%) and the peak observed in 4Q17 (4.9%), but still strong and higher than previously expected. The strong performance was widespread in the region but with some diversion, as country-specific dynamics ranged from 2.5% in Czech Republic to 5.0% in Hungary. The breakdown of GDP data shows that the contribution to economic growth was mostly derived from domestic demand (3.5 pp) but the contribution of net exports was also positive (0.7 pp). Overall, private consumption grew by 3.7% y/y in 1Q (from 3.8% in 4Q18) and investments by 6.1% y/y (from 9.1% in 4Q18), while public consumption accelerated to 4.2% (from 2.9% in the previous quarter). On the external side, exports and imports grew by 5.6% and 4.9% y/y (from 6.7% and 7.4%, respectively).

Economic growth continued to be robust in the CEE/SEE areas in 1Q19, and was higher than expected

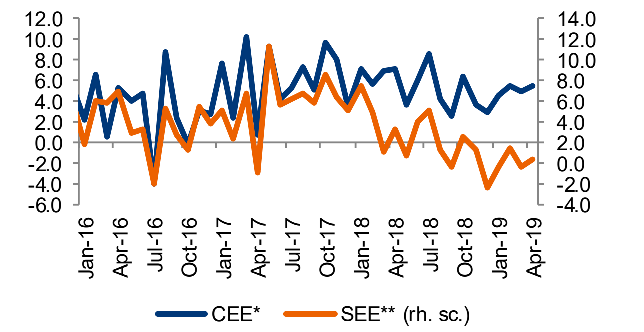
In the SEE region, GDP growth (excluding Albania and Bosnia, where data have not been released yet) was, on average, 4.0% yoy in 1Q19, higher than expected and above Q4 2018, due, in particular, to the performance of the Romanian economy. At the regional level, GDP growth ranged from 2.5% in Serbia to 5.1% in Romania. The breakdown of GDP data reveals that investments, after modest contraction in the last three quarters of the 2018 year, again showed a strong dynamic in 1Q (5.5%), thanks especially to the contribution of EU structural funds. Private consumption grew by 5.4% (from 4.6% in 4Q18) while public expenditure decelerated to 2.1% y/y (from the previous 6.1%). Export growth was fairly strong in 1Q (3.9% y/y) but the import trend was much higher (8.1% from the previous 7.9%) and the contribution of net exports to GDP growth was negative (-2.5 pp).

Stable inflationary pressure in the last months

The most recent inflation figures showed an overall recovery in inflation from the minimum of January after the surge in oil prices, with the price of Brent rising from 50 USD p/b in January to 75 USD in March. Although oil prices partly retreated in April, weighted average inflation in the CEE and SEE regions remained roughly stable at 2.7% and 3.0%, respectively, in May due to the pressure stemming from strong labour markets and positive output gaps. Inflation ranged from 1.6% in Slovenia to 3.9% in Hungary, among the CEE region, and from 0.9% in Croatia to 4.1% in Romania among the SEE area.

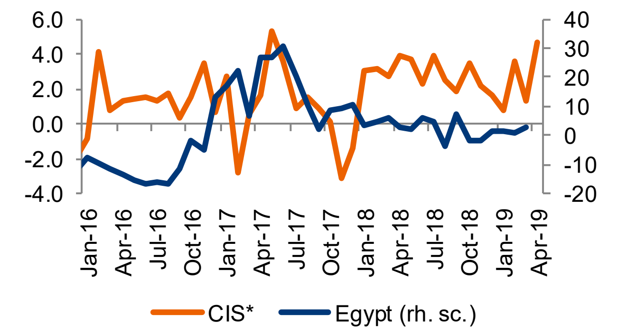
Monetary policy rates have been kept unchanged in CEE/SEE countries, with the exception of the Czech Republic where inflation (2.8% y/y in April) is well above the central target of the corridor (2.0%+/-1.0%) and the CB in May further raised the policy rate by 25 bps to 2.5%. In its last meeting, the ECB announced a postponement of the date for a reversal in the policy rate, without excluding the possibility of further interest rate cuts or a re-opening of QE should it be required by economic circumstances. On financial markets, long-term yields have fallen sensibly in all countries in parallel with the strong downward shift of yields on 10-year Bunds (currently at -0.24%). Thanks to the still positive, albeit softening, trend of exports and a softening of financial market concerns about monetary tightening in the US and the EU, exchange rates have appreciated slightly or remained roughly stable in the whole region.

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

Industrial production % yoy – CIS - Egypt



Sources: National statistics offices; note * weighted average on Russia, Ukraine and Moldova data

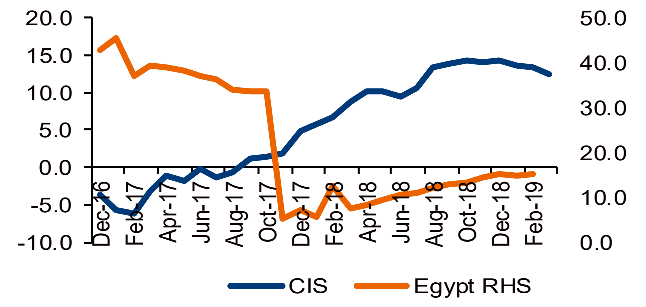
In the CIS region, the CB of Russia, following the weaker-than-expected performance in 1Q19, lowered its GDP growth forecast for 2019 to 1.0%-1.5% from 1.2%-1.7% and revised downwards the range of its inflation forecasts to 4.2%-4.7% from the previous 4.7%-5.2%. At its June meeting, the CBR cut the policy rate from 7.75% to 7.50% and struck a dovish tone, indicating likely further easing in the remainder of 2019. The growth of Ukraine's real GDP in 1Q19 eased to 2.5% y/y, against 3.5% in Q418, following a drop of manufacturing and utility output and weaker agriculture production. According to the NBU, growth will slow to 2.5% in 2019 but is expected to re-accelerate to 2.9% in 2020. Inflation rose to 9.6% y/y in May, from 8.8% y/y in April, mainly due to the increase in fresh food prices, but core inflation slowed to 7.4%. The NBU expects inflationary pressures to ease in the final months of 2019, with the annual rate falling to just over 6% by year-end. In Moldova, inflation accelerated in the first months of 2019, with the annual rate jumping to 4.6% in May from 0.8% last December, mainly due to food items (+8.0%). The CB, which projects that inflation will rise to more than 5% this year and further accelerate in 2020 following the planned hike in tariffs, hiked the policy rate by 50 bps (to 7%) at its June meeting.

In Egypt, in May inflation (+14.1% y/y) remained above the new CB's target range of 9.3% for a fifth consecutive month. The CB is likely to refrain from restarting its easing cycle and instead wait to assess the impact of upcoming subsidy cuts. GDP increased to 5.6% during the third quarter of FY2019, against 5.4% in the same period of FY2018. The government targets a further rise in the economic growth rate to reach 5.8% during the fourth quarter of FY2019.

The dynamic of banking aggregates was quite strong in the first months of 2019 in CEE/SEE and CIS countries. Overall, household lending strengthened further. It remained in double digits in Serbia (+12.2%) and accelerated in many cases (to +6.1% yoy in Croatia, +7.7% in Hungary and +6.7% in Slovenia). Loans to corporates returned to positive territory in Slovenia (+0.2% in March and 0.0% in April) and accelerated in several countries, for example, Hungary (to +15.6% yoy in April) and Serbia (to +8.2% yoy) but disappointed in Croatia (-1.1% yoy in April), mainly due to the write-off of irrecoverable claims of the Agrokor Group. In Albania corporate loans fell in the latest release of March (-3.5% yoy) after the -5.2% yoy of the previous month, partially due, however, to the accounting effect of the lek's appreciation. The quality of the credit portfolio is overall still improving. Deposits showed a good performance overall and remained in double digits in Serbia (+14.6%), in Poland (+10.9%) and in Hungary (+10.1%).

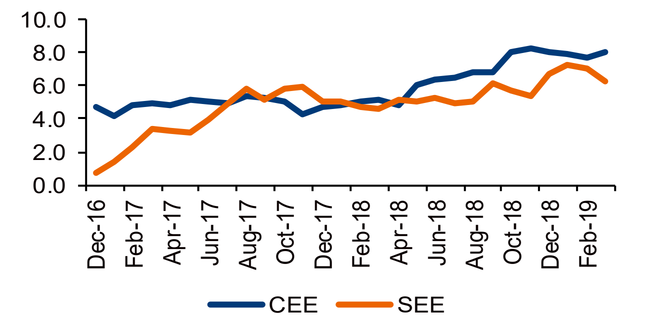
In the CIS area, the most remarkable changes occurred in Moldova, where loans grew by 15.3% yoy as of April, and deposits by 9.1% yoy. Outstanding increases were seen in Russia as well (+13.4% and +12.2%, respectively as of March). Deposits accelerated in Ukraine (+8.8%) while loans slowed (to +2.2% yoy from +3%), but NPLs remained the sword of Damocles (still over 50%, even if mostly covered). In Egypt, loans accelerated to 15.2% (as of February) while the deposit dynamic was strong (12%). Among broadly growing loans and deposits and rising money market rates, banking interest rates increased or remained unchanged in several countries (Bulgaria, Czech Republic, Hungary, Poland, Serbia and Slovakia).

Lending growth (% yoy changes, weighted averages)



Sources: ISP Research Department elaborations on central banks' data.

Lending growth (% yoy changes, weighted averages)



Sources: ISP Research Department elaborations on central banks' data.

The international outlook underlying the scenario

Rate cuts now expected in the US starting this year, together with a very dovish ECB

Although the most recent economic data have generally confirmed the growth picture for the advanced countries underlying the scenario outlined for 2019-2020 in our March Economic and Banking Outlook, we have seen nevertheless a remarkable downward shift and flattening of the US and the EA yield curves. These movements have reflected both the increasing worries by central banks and market participants over the future profile of the business cycle in the US and in the EA, and the related monetary response in an environment of still ultra-low (negative in the EA) interest rates. Indeed, the international scenario is being hit by higher uncertainties over the current US-China trade/tariff war, the still unresolved Brexit mess and the increasing geopolitical tensions in several areas/countries (lately in the Gulf region).

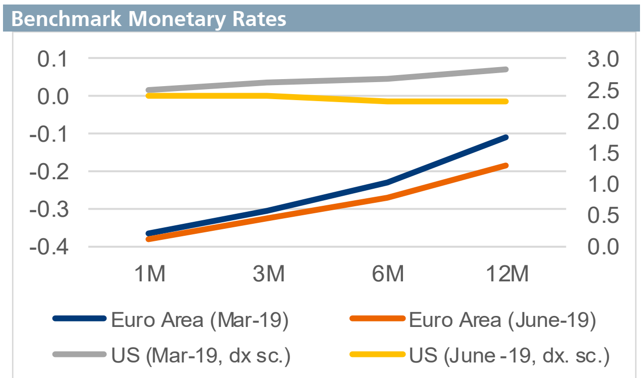
On the assumption that the dispute over trade between the US and its main partners (above all China) ebbs and flows but, at the very end, settles down, we don't expect a significant (i.e. recessionary) impact on current world growth prospects. The US economy could maintain in 2020 a solid pace of growth (1.8%), although weaker than the one forecast for this year (2.5%), and only slightly lower than our March scenario (1.9%). In parallel, in the EA the growth rate has been lowered to 1.3% (from the 1.4% forecast in March) in 2020, weaker than in 2019 (1.1% from 1.2% forecast in March), and, as with the US, is a downward revision from the March forecast. The ECB has also recently revised downwards the forecasts for GDP growth in 2020 to 1.4% (vs. 1.6% previously) and for inflation to 1.4% (vs. 1.5%). In the ECB's judgement and in ours, risks to the scenario are still skewed to the downside, despite the announced change in the policy rates' forward guidance and fairly generous TLTRO terms.

In accordance with current market expectations, we now foresee the US Fed switching to an easing mode, with two likely policy rate cuts, one in the second half of this year and one in 2020. On the ECB side, our expectations incorporate both the decisions taken unanimously by the governing council at its June meeting to modify the forward guidance by postponing until June 2020 the date until which rates will remain unchanged, and the door being left open by the governor in his recent speech at the ECB Forum on Central Banking at Sintra of the possibility of new rate cuts or a restart of QE should it be required by economic circumstances. We then prudentially assume the three-month Euribor rate and the EA's 10-year benchmark bond yield will remain at current levels (-0.3% and -0.24%, respectively) for the remaining part of this year and for 2020.

Easier financial conditions are also expected in emerging countries

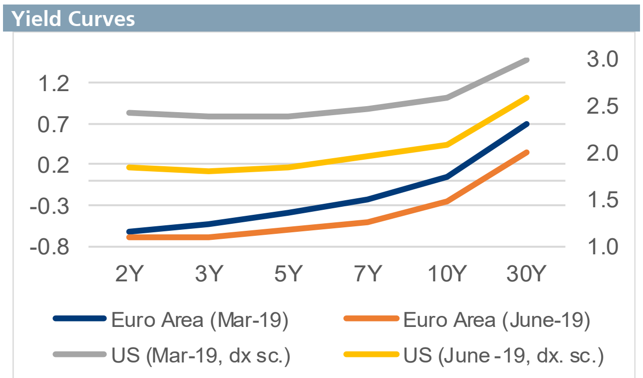
Trade disputes, geopolitical tensions and idiosyncratic factors weigh also on the projected profile of economic growth in several emerging market economies. This is mainly relevant to Asia - where, partly related to the trade war with the US, we confirm our expectations of an ongoing economic slowdown towards a 6% average in 2019-20 in China - as well as in the other major world areas of Latin America, Sub-Saharan Africa and the Gulf region. In parallel with the softer tone of monetary policy foreseen in advanced countries, financial conditions are, however, expected to be more supportive in emerging countries, where the contagion effects stemming from crisis spots such as Venezuela, Argentina and Turkey have been fairly contained so far.

Benchmark Monetary Rates



Source: ISP elaboration on Datastream data

Yield Curves



Source: ISP elaboration on Datastream data

The economic outlook

GDP growth and inflation

Average GDP growth forecasts have been revised slightly upward in 2019 in the CEE/SEE areas in comparison with our March note

With 1Q19 GDP data above our March expectations, we have revised upwards our GDP growth forecasts for 2019 by 0.4 pp in both the CEE (from 3.3% to 3.7%) and the SEE (from 2.9% to 3.3%) areas. For the whole CEE/SEE region, GDP growth has therefore been upgraded to 3.6% from 3.2%.

The most recent releases of high frequency indicators confirm, however, the ongoing weakening of the business cycle in the CEE/SEE regions with respect to the performance of last year, when GDP grew by 4.4% overall (by 4.6% in CEE and 3.9% in SEE). However, in May the Economic Sentiment Indicator (ESI) decreased in almost all CEE/SEE countries with respect to 1Q (Slovenia being the only exception). In the same month, manufacturing PMI remained below the level of 50 in Poland, even if still above that threshold in Hungary (57.9), where the economy is so far beating expectations. Despite the upward revision of the current profile, GDP growth is still expected to remain on a decelerating path, falling to 2.9% in 2020 in our current forecasts (against the previous 2.8%).

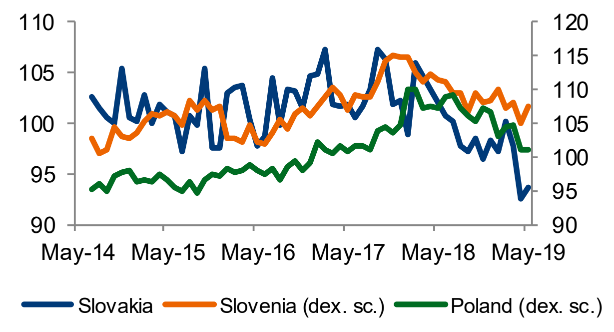
Inflation forecasts have also been revised slightly upwards in the CEE/SEE countries in 2019, with the CEE inflation rate increased to 2.3% from 2.2% and the SEE rate to 3.0% from 2.7%. The revisions incorporate the slightly stronger consumer price dynamics in the first months of the year due to the rebound in energy prices with respect to 4Q18, in addition to domestic pressures stemming from tight labour markets and positive output gaps. For the following year, the inflation forecast has been left as set in March (2.5%), which is closer to the average target values set by central banks.

In CIS countries, weaker growth in the short term. In MENA, stronger growth prospect for Egypt

In the CIS area, after weaker-than-expected growth numbers in the first months of 2019, we have trimmed our GDP growth forecasts for this year, both in Russia (to 1.3%) and in Ukraine (to 2.5%). The M/L term GDP growth profile has been nevertheless generally confirmed for both countries. In Moldova, we continue to expect the economy to stay on a solid expansionary path in 2019-20 (around 3.5% on average), although one that is milder than that seen in recent years, reflecting external disequilibria that have to be adjusted for. In the MENA region, we are more optimistic about the growth prospects (seen at 5.8% in 2020) for Egypt, where the economy has been reaping the benefit of reforms and the exploitation of the vast gas reserves.

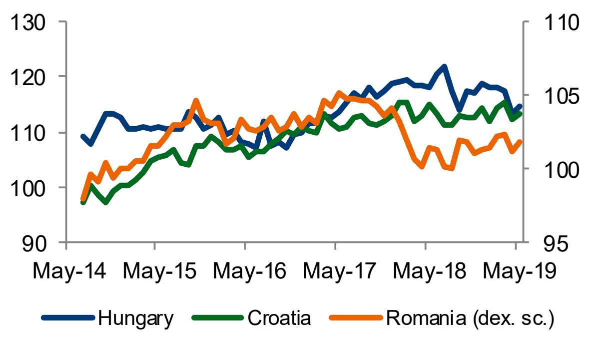
In the CIS area, in Russia we now expect lower inflation this year (4.5% eop) than previously forecast as the effects of January's VAT hike have been smaller than anticipated and have now fully materialised. Also, for Ukraine, we have slightly cut the inflation forecasts for this year (to 7.3% eop) and 2020 (5.8% eop) after recent numbers showed that core inflation has continued to drop. In Moldova, the annual inflation rate is now expected to peak in the fourth quarter of 2019 at a much higher level (around 8%) than previously expected, boosted by the rise in food prices and the hike in tariffs. Afterwards, inflation should drop significantly. In Egypt, the impact of the planned new subsidy cuts and the strong domestic demand point to higher inflation both in 2019 (14.5% eop) and in 2020 (11.5% eop).

Economic sentiment indicator



Source: European Commission

Economic sentiment indicator



Source: European Commission

Monetary policy and financial markets

As domestic inflation is generally expected to remain inside the target corridors (even if in some cases above the central targets) set by central banks in the CEE/SEE region and after considering the more dovish tone on the future direction of monetary policy by the ECB in the Euro area, monetary conditions in CEE/SEE countries are forecast to remain broadly accommodative for a longer period. A postponement of policy rate reversals is now expected in the countries where they have not been increased so far and in parallel, a softening of the tightening is forecast where the policy reversal has already started. In detail, one increase (by 25bps) only of the policy rate is expected in the Czech Republic in 2020 after the recent one, and two increases by the same amount (one this year and one in 2020) in Romania.

Monetary policy tightening in CEE/SEE countries is expected to be postponed with respect to projections in our previous forecasts

For the CIS area, we now forecast an acceleration in the easing cycle in Russia, while in Ukraine we continue to foresee large cuts in policy rates starting later this year, when the government should reach a new deal with the IMF and inflationary pressures are likely to ease further. In Moldova, after the CB hiked rate (+ 50bps to 7%) in June, we see some risks of higher rates in the S/T, but the start of the easing cycle after 2020 has been confirmed. In Egypt, we expect the CBE resuming the easing cycle in the final months of 2019 and continuing along this path.

In CIS, central banks are heading to a faster easing cycle. In Egypt, the CBE is still expected to cut this year and in the forthcoming years

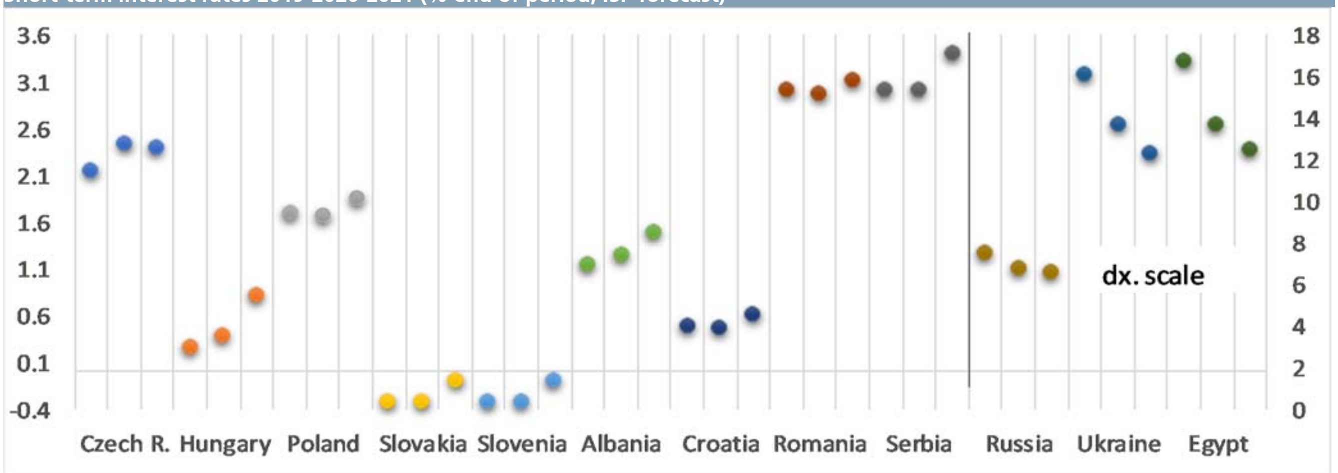
Following the downward abrupt shift of long-term bond yields of EA benchmarks, the forecast profile of yields on long-term government bonds in the CEE/SEE region has been revised downwards, with an overall marginal increase in sovereign spreads with respect to the March forecast. Slovakia and Slovenia are exceptions to this as the two countries are benefitting from both a flight to quality within the EA and some shortage of local bonds. After the recent moves of the forint, we see forecasts regarding the Hungarian currency moving on a weaker profile vs. the March path. For the other countries in the CEE/SEE region, which are less affected by financial market volatility, we confirm a view of roughly stable exchange rates in 2019.

The profiles of long-term yields have been shifted downwards with respect to our previous forecast

In the CIS area, in Russia, long-term yields are now seen lower than previously expected, mirroring the trend in mature markets and advances in domestic financial stabilisation. The improvement in economic and financial conditions, together with the recent rebound of the oil price, are expected to lead to a gradual re-appreciation of the currency. In Ukraine, we forecast a stronger hryvnia in the short term, mainly sustained by financial flows; in the medium to long term, considerations about the competitive position will return, however, and will weigh on the currency. We see a weaker-than-previously-expected Moldovan leu in 2019-20 due to domestic political uncertainties and the weaker external position. In the MENA region, in Egypt, the good dynamic of foreign financial flows and, above all, the improvement in current account flows have supported a re-appreciation of the pound. We consider this movement as temporary and continue to project a weaker Egyptian currency in the medium to long term due to the inflation differential with trading partners.

In CIS, we predict a stronger-than-previously-expected hryvnia in the S/T. In MENA, the Egyptian pound is also seen as stronger than previously expected in the S/T

Short-term interest rates 2019-2020-2021 (% end of period, ISP forecast)



Source: ISP Research Department forecasts

Bank aggregates and interest rates

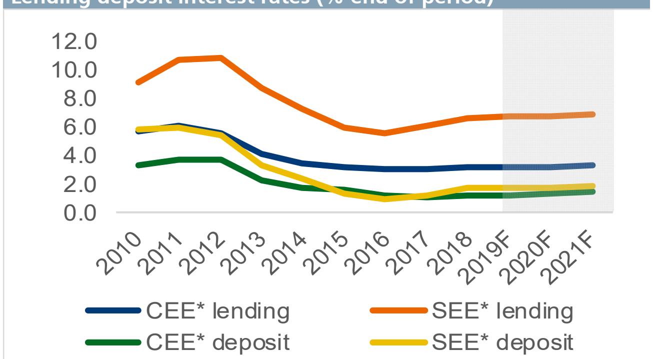
Loan dynamics are expected to slow slightly in CEE/SEE countries (from a 7.7% average in 2018 to 6.4% in 2019 – slightly better than previously expected - and to 4.7% in the following years) based on a softening of the business cycle, although returning to nominal GDP growth overall in the medium term. The relatively lower level of private sector debt, the low interest rate environment and the improved fundamentals in the banking sector are expected to support loan dynamics. In 2019, a mild loan deceleration is foreseen in the CEE countries where central banks have introduced a variety of tighter prudential measures (such as LTV and debt servicing ratios) to avoid a situation of excess credit to households, particularly in the Czech Republic and Slovakia. A deceleration is also expected in some SEE countries, particularly where NPLs remain high. Total loans will continue to be driven mainly by households, both mortgages and consumer loans (with some concerns regarding higher risks), but supporting signs are also coming from the corporate sector. Bank lending could be partly hindered in the medium term by growing corporate bond issuances.

In the CIS area, a slowdown has been prudently confirmed (from a 14.2% average in 2018 to 8.3% in 2019, on average). In Russia, household loans are expected to continue in a strong dynamic but at a decelerating pace, partly due to the measures adopted by the central bank (more recently the CBR tightened bank capital requirements for loans to highly leveraged individuals). Deceleration is expected to be deeper in Moldova, where loans jumped again in April especially among households (+39% yoy). In Ukraine, the high NPL levels continue to weigh on loan recovery. In Egypt, lending dynamics are forecast to remain in double digits (+13.1% in 2019) but decelerating and still below nominal GDP growth and decelerating.

Funding and liquidity are expected to remain in good shape in the CEE/SEE regions. Thanks to higher wages and supportive labour markets, deposits are forecast to show positive trends, especially among CEE countries (from 9.3% in 2018 to 6.6% in 2019, an improvement from our previous forecast), although slowly decelerating partly due to potentially stronger competition from other savings products and fintech operators. The deposits/GDP ratios are forecast to decrease slightly in the forecast period, especially among SEE and CIS countries. Loan/deposit ratios are generally projected to shrink further, to well below 100%, but to remain over 100% and even worsen in Bosnia, Slovakia, Russia and Ukraine.

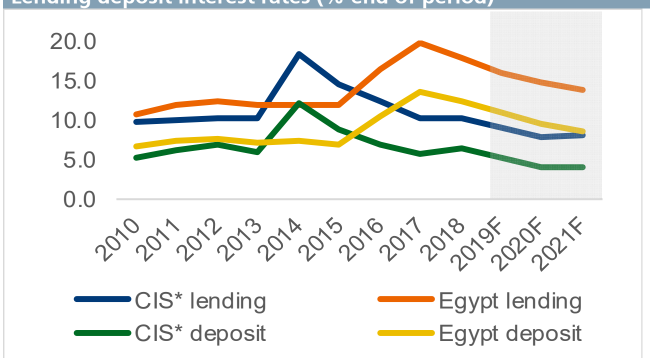
The bigger change in the forecasts concerns the downward revision of banking interest rates. In parallel with the revised paths on monetary rates, they are now expected overall at a lower level than in our March forecasts. In a few cases lending rates are nevertheless seen to be slightly above 2018 levels, such as in the Czech Republic and Romania, but in the other CEE/SEE countries they are forecast to remain roughly at the same current level as in 2019. In the M/L term, interest rates are still expected to slightly increase in the region, but on a lower profile in comparison to our previous forecast as of March, in line with the revised expectations on monetary rates.

Lending deposit interest rates (% end of period)



Sources: ISP Research Department forecasts; note * weighted average

Lending deposit interest rates (% end of period)



Sources: ISP Research Department forecasts; note * weighted average

Country-Specific Analysis

Czech Republic

Real Economy

Zdenko Štefanides

The Czech economy is moderating alongside the slowdown in broader Europe. Thanks to still robust domestic demand, however, its moderation is comparatively less pronounced. Our forecast assumes Czech GDP will grow in 2019 by 2.4%, which is less than the 3.0% of 2018 yet triple the growth rate of the economy of Germany, Czech's key trading partner.

Within domestic demand, all components should contribute positively to growth and help offset the external headwinds. Household consumption is supported by a tight labour market, featuring an EU-low unemployment rate of 2.1% and wages that are advancing in real terms at a pace of nearly 5% yoy. Public consumption will continue to be supported by the expansionary fiscal stance, exemplified by increasing public sector wages, pensions and social benefits. Investments, meanwhile, are on the rise as companies substitute capital for (lack of) labour and the government intensifies the drawdown of EU funds on public infrastructure projects.

Financial Markets

The Czech National Bank (CNB) has been very active in addressing the booming economy and the inflation issue, hiking rates eight times between August 2017 and May 2019. The key two-week repo rate is now at 2.00%, still some way below the CNB-estimated neutral rate of 3.00%. With inflation stubbornly above the 2% target, there is thus a case for further policy tightening. For the rest of this year though, the most likely scenario looks to be that the CNB will stay its hand amid rising external uncertainty and the ECB's dovishness.

Czech yields have plummeted in recent weeks, along with Bunds, and the yield curve turned from flat to inverted. As core yields are now seen as being low for longer, such a scenario is likely to prevail in the foreseeble future. The exchange rate of the koruna has remained broadly flat hitherto in 2019, defying our forecasts of a moderate appreciation. Looking ahead, we still believe that the koruna will appreciate versus the euro, but probably at a slower pace than we thought before.

Banking Sector

Along with the robust domestic economy, the Czech banking sector will continue to grow at a solid pace. The growth rate of loans and deposits in the Czech Republic is relatively even and we expect it to remain so in the years ahead. The pace of banking volume growth, however, will likely moderate towards nominal GDP growth, moving from nearly 7% yoy now towards 4% from 2021 onward. The loan-to-deposit ratio looks set to remain at a comfortable 75%.

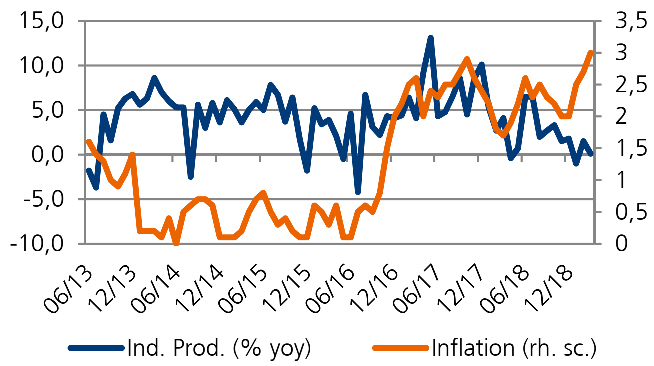
Forecasts

	2018	2019F	2020F
Real GDP yoy	3.0	2.4	2.3
CPI (eop)	2.0	2.2	2.1
Euro exchange rate (value, eop)	25.8	25.3	24.8
Short-term rate (eop)	2.0	2.2	2.4
L/T bond yields (eop)	2.0	1.6	1.6
Bank loans (pr. sector, yoy)	6.8	5.5	4.5
Bank deposits (pr. sector, yoy)	6.9	5.5	4.9
Lending interest rate (corporates, eop)	3.3	3.3	3.3
Deposit interest rate (households, eop)	1.4	1.6	1.7

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Czech Statistical Office

Hungary

Real Economy

Sandor Jobbagy

Forward-looking indicators, including the PMI, of Hungary's economy have shown further improvement in April and May, confirming that the stronger-than-expected growth of Q1 was not a one-off outlier. Similarly, industrial production and exports also had relatively strong performances, especially in the face of the downturn and concerns regarding Eurozone manufacturing performance. GDP growth was primarily boosted by strong domestic demand and consumption. This was reflected in an unexpectedly high Q1 growth rate of 5.3%, which came not only above the 2018 annual GDP growth rate of 4.9%, but also above the Q4 growth rate. On the production side, market-based services remained the main driver of growth, similar to the preceding quarters. Still, we believe that some deceleration will arrive later this year, as the major drivers of growth (including investments fueled by EU funds and strong wage growth) are set to make a lower contribution to GDP growth in the quarters ahead. However, the deceleration will be less pronounced than had been expected earlier. Hence, we have raised our GDP growth forecast to 3.8% for 2019. Inflation headline figures have surged close to 4% recently, with core inflation also rising significantly. In 2019 we expect a higher average CPI (3.5% versus 2.8% last year) though the trend may include further rises throughout the entire year or in 2020.

Financial Markets

The 3M policy rate of the central bank (NBH) has been left on hold at 0.90% so far in 2019 (as in 2018), while the more functional O/N deposit rate was raised by 10bps to -0.10% as the central bank had been preparing markets for the normalisation of monetary policy. This process is set to be extremely slow despite rising domestic inflation given the recent dovish shift in ECB policy (and also the Fed's policy). The central bank has said that its monetary approach is data-driven with no forward guidance warranted given the high global uncertainty. BUBOR rates have recently been driven more by liquidity shifts than policy expectations. Longer yields have shown a strong downward correction recently as a result of a similar drop in German yields. The forint partially corrected earlier losses but mostly remained in the 320-326 range. The earlier forint appreciation had been supported by expectations of a stricter monetary policy and partially by ratings upgrades to BBB by S&P and Fitch, but these impacts have faded. We expect the EUR/HUF cross rate to stay at 310-320 this year. We also expect a revived moderate rise of BUBOR rates in 2019.

Banking Sector

Lending dynamics were very strong in Q1 this year, mainly as a result of the ongoing GDP growth and the strengthening of domestic consumer confidence and demand. Growth is set to continue throughout this year and may even beat current expectations, even exceeding 2017's jump during the initial phase of the recovery. Housing loans are supported by state subsidies. Some loan segments (including mortgages and personal loans) are showing especially dynamic pick-up. Asset quality continues to improve, even with NPLs already below 5%.

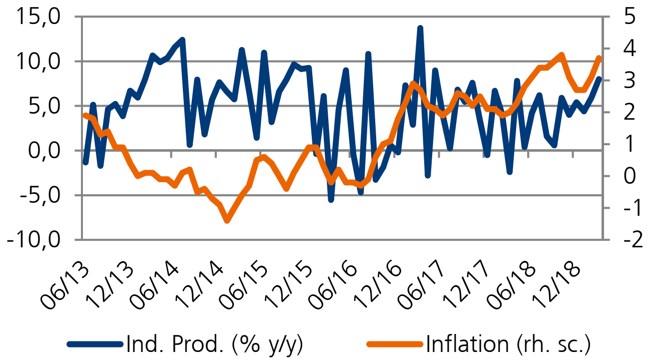
Forecasts

	2018	2019F	2020F
Real GDP yoy	4.9	3.8	2.6
CPI (eop)	2.7	3.5	3.0
Euro exchange rate (value, eop)	322.9	318.0	319.5
Short-term rate (eop)	0.1	0.3	0.4
L/T bond yields (eop)	3.2	2.9	2.9
Bank loans (pr. sector, yoy)	10.6	7.0	4.5
Bank deposits (pr. sector, yoy)	14.1	6.4	5.5
Lending interest rate (corporates, eop)	2.3	2.3	2.6
Deposit interest rate (households, eop)	0.2	0.2	0.4

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Hungarian Central Statistical Office

Poland

Real Economy

Sandor Jobbagy

Industrial and export performance in Poland showed improved results at the beginning of 2019, but forward-looking sentiment indicators reflected the potential for solid but diminishing economic growth rates. Economic growth kept pace above 5% in 4Q18, raising full-year 2018 growth to 4.9% from 4.4% the preceding year. While Q1 2019 growth came in at 4.6%, such a pace is unlikely to be sustainable in the next few years: we project a slowdown to annual average GDP growth of 4.1% in 2019, which is an smaller correction compared with our March 2019 forecast. Nevertheless, growth has remained supported by relatively strong private consumption amid the revival of industrial performance. Judicial reforms and conflicts with the EU have so far not had an adverse impact on the overall GDP growth and outlook. Fiscal policy remained in check as shown by the annual deficit. Regarding inflation, domestic demand and rising wages have had a limited impact so far. While CPI has been on the rise throughout this year so far, the latest figures were still only slightly above 2%, with core inflation being even lower than 2%. This year we expect a similar inflation picture, with the annual average also slightly below 2%.

Financial Markets

The NBP has left its policy rate unchanged (1.50%) so far in 2019, similar to the whole of last year. While some of last year's monetary decisions and central bank comments, as well as market expectations, had suggested an increasing probability of a tightening cycle to start in the near future, this seems to be out of question for now. Both the low domestic inflation environment and the latest dovish shift in ECB policy expectations support our forecast for essentially steady short-term rates for not only 2019, but also 2020-21. The central bank had been concerned about food price growth and about accelerating wage growth, but these risks are unlikely to exert strong upward pressure on CPI in the year ahead, which is mostly forecast below 2%. The EUR/PLN exchange rate rose above 4.30 repeatedly in May, but has failed to hold ground below this level in a lasting manner so far. We expect similar levels, close to EUR/PLN 4.30, to prevail throughout 2019.

Banking Sector

Lending activity in the Polish banking sector is forecast to show a momentum of about 6% in 2019 following the multi-year record rate last year, in line with the expectation for a somewhat weaker GDP growth rate, although it remains supported by consumption. Loan stocks to the private sector have shown persistent rises, and the overall annual growth rate of the loan stock came above that of the 2016 and 2017 rates recently. Deposit volumes have continued to rise at a relatively fast pace, and these are likely to maintain momentum, with only a minor deceleration in pace compared with 2018 despite relatively low interest rates. The banking sector is likely to experience further consolidation as the sector's concentration is still seen as too low.

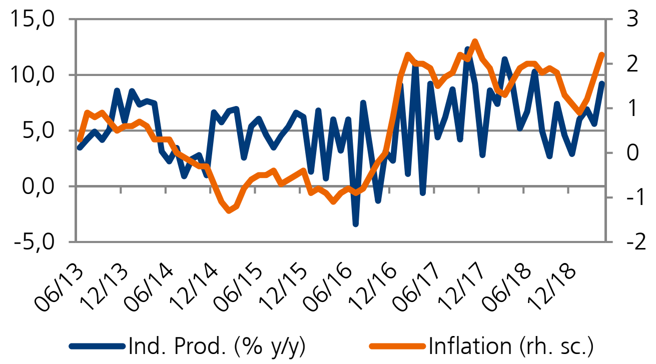
Forecasts

	2018	2019F	2020F
Real GDP yoy	5.1	4.1	3.1
CPI (eop)	1.1	2.0	2.3
Euro exchange rate (value, eop)	4.3	4.3	4.3
Short-term rate (eop)	1.9	1.7	1.7
L/T bond yields (eop)	3.2	2.5	2.5
Bank loans (pr. sector, yoy)	7.9	6.2	5.5
Bank deposits (pr. sector, yoy)	9.4	7.2	6.3
Lending interest rate (corporates, eop)	3.5	3.6	3.4
Deposit interest rate (households, eop)	1.6	1.5	1.6

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistics Poland

Slovakia

Real Economy

Zdenko Stefanides

The Slovak economy continued its relatively swift growth in 1Q19, when it expanded by 3.7% yoy.The deceleration in 4Q18 thus did not lead to further deterioration: on the contrary, the annual growth rate ticked slightly up from 3.6%. The structure of 1Q figures was puzzling, however, as private consumption slowed markedly to just 1.0% despite robust labour market figures for employment as well as wage growth. We consider this a statistical anomaly and do not expect the slowdown to continue in other quarters of 2019. In addition, industrial production and net exports continue to expand despite problems in export markets. The bottom line is that the Slovak economy still has solid fundamentals, mainly thanks to new investments in the automotive sector and the relatively strong potential of private consumption and public investment. This is why we keep our revised GDP growth forecast at 3.5% in 2019 despite worsening economic sentiment and more intense pressures coming from international trade and particularly Germany. In the coming years, deceleration is projected as the positive output gap could start to disappear.

The labour market remains tight, with the unemployment rate reaching ever lower historical lows (remaining at 5-6% though) and wages growing considerably faster than labour productivity (7.1% in 1Q). Interestingly, industry in particular is reporting lower constraints from the (non-) availability of labour already. The consumer inflation rate remains elevated above 2% yoy, with the rest of the year expected to be close to 2.5%. The demand-driven part of inflation could be offset by lower import prices (oil and Eurozone consumer products) in the future and price growth is expected to decelerate next year.

Financial Markets

Regarding the bond market, spreads on 10-year government bonds versus German Bunds remained relatively stable despite large downward shifts of betweeen 50-60bps in yields. We expect the spread to remain around this level for the rest of 2019 and even further as Slovakia's public finances remain relatively healthy. As yields in Germany have again turned negative due to the disappointing economic figures and inflation expectations in the Eurozone, the forecasted yield path for Slovak bonds has also moved downwards.

Banking Sector

The Slovak banking sector is expected to grow markedly in 2019, as it did last year. However, the new extremely low interest rate environment hurts its profitability. The tighter regulation of credit from the National Bank of Slovakia weighs on consumer loans in particular, with mortgages slowing only slightly. Overall loan growth is thus expected to decelerate to 8% yoy. The growth of deposits, supported by rising household incomes, is expected to be above 5% yoy, pulled down by slightly lower deposits from corporations.

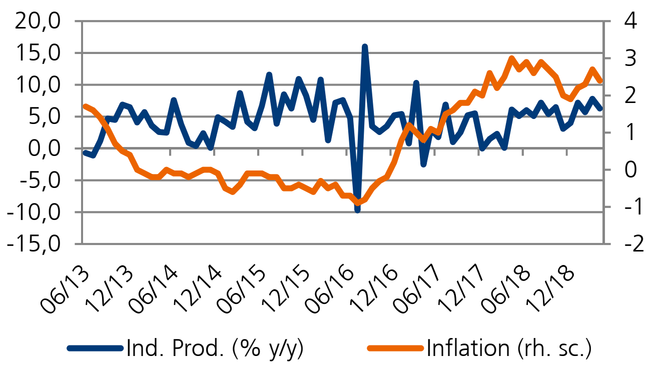
Forecasts

	2018	2019F	2020F
Real GDP yoy	4.1	3.5	3.4
CPI (eop)	1.9	2.3	2.1
Short-term rate (eop)	-0.3	-0.3	-0.3
L/T bond yields (eop)	0.9	0.3	0.3
Bank loans (pr. sector, yoy)	9.4	8.0	7.0
Bank deposits (pr. sector, yoy)	7.2	5.4	5.4
Lending interest rate (corporates, eop)	2.0	2.0	2.0
Deposit interest rate (households, eop)	0.1	0.1	0.1

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistical Office of Slovakia

Slovenia

Real Economy

Ivana Jović

Slovenia's 1Q GDP expanded by 3.2% yoy (s.a. 3.7%) with positive performances by both domestic and foreign demand, while inventories made a strong negative contribution (-2.1pp). Investment activity continued last year's trend by increasing 9.3%, with construction investment surging by 18.1%, while investments in machinery and equipment eased to 4.0% growth (o/w transport equipment was 3.5% and other machinery 4.1%), continuing the slowdown that commenced in 2H18. Household consumption strengthened to 2.6% as indicated by an 8.9% yoy increase in real retail trade, supported by a 2.6% increase in the average real net wage and positive labour market developments, while government consumption increased by 3.6%. Following mild growth in 2H18, export activity regained momentum by growing 7.6% yoy, while growth in imports eased to 6.4% yoy. And while favourable labour market and financing conditions support private consumption and housing investments, rising labour costs accompanied by skilled labour shortages have led to deterioration in cost competitiveness and limited companies' investments. At the same time, exports are expected to slow down amid external uncertainties, while imports strengthen in line with stronger domestic demand. Thus, we see growth in 2019 moderating to 3.3%, however, still surpassing the EA average.

Financial Markets

Ana Lokin

The 2019 average three-month Euribor forecast was left at -0.3%, in line with the ECB's dovish stance. On June 15, S&P upgraded Slovenia's rating to AA- with a stable outlook from A+ with a positive outlook, hence we trimmed this year's government 10-year bond yield spread on the Bund to 60bps, while the average yield was reduced to 0.5%.

Banking Sector

Private sector loans increased in March and April, recording a 3.5% yoy increase in both months owing to the strengthening of household lending (6.6% and 6.7% yoy, respectively) and a small rise in corporate loans (0.2% and 0.01% yoy, respectively) after a prolonged period of loan portfolio downsizing. Corporate lending remains subdued as the reliance on alternative sources of funding remains significant, while our expectations of household loans losing steam after the BSI introduced macroprudential regulation late last year have not materialised, at least not yet. Consumer loans grew at a rate of around 12% yoy and housing loans at some 5% yoy, supporting improved 2019 loan growth forecasts of 3.5% yoy. Deposits rose by 6.4% yoy in March and April, with corporate at some 4% yoy and households at 7% yoy. Corporate deposit growth eased notably compared with last year, but household growth picked up, as the investor profile of citizens remains conservative with pronounced risk aversion. Considering that household deposit growth is expected to stay strong, we have lifted our overall 2019 deposit forecast growth to 5.8% yoy.

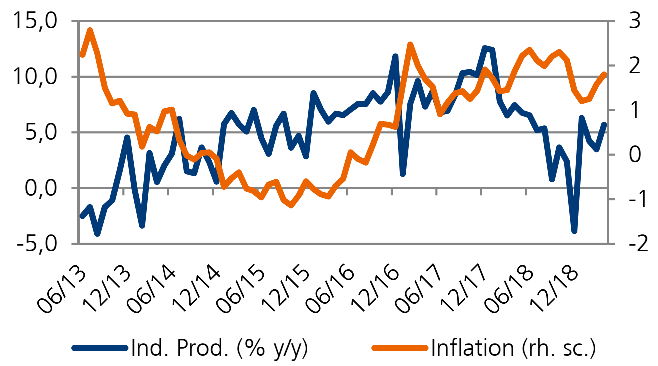
Forecasts

	2018	2019F	2020F
Real GDP yoy	4.5	3.3	2.8
CPI (eop)	1.4	1.8	2.0
Short-term rate (eop)	-0.3	-0.3	-0.3
L/T bond yields (eop)	1.1	0.3	0.3
Bank loans (pr. sector, yoy)	2.6	3.5	3.1
Bank deposits (pr. sector, yoy)	6.7	5.8	5.0
Lending interest rate (corporates, eop)	2.2	2.2	2.2
Deposit interest rate (households, eop)	0.2	0.2	0.2

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistical Office of the Republic of Slovenia

Albania

Real Economy

Kledi Gjordeni

After the 3.1% in growth in Q418 and 4.1% for the whole year of 2018, we expect that Albanian growth will moderate in 2019 to about 3.5 %. Growth is projected to slow down mainly due to a base effect related to record high electricity production in 2018 and to the expected slowdown in partner countries. On the domestic front, the fiscal deficit is projected to widen to 2.5% of GDP in 2019, partly driven by the planned repayment of government arrears. In addition, there are risks of further revenue shortfalls and possible losses in the energy sector. Despite a decline in recent years, the public debt to GDP ratio continues to be high (69.9%, including arrears, at end-2018).

In the first five months of 2019, inflation averaged 1.52%, slightly lower than expected. From a macroeconomic perspective, the inflation slowdown reflected a fuller transmission of the exchange rate appreciation, the slowdown of inflation in partner countries and the effect of supply-side shocks on agricultural products. Compared with previous forecasts, the CB postponed estimations of the return of the economy to equilibrium and of inflation to target. This review reflects the deterioration of the external economic environment and the need for a full absorption of supply-side shocks to the performance of inflation. Inflation is forecasted to average about 1.7% in 2019.

Financial Markets

Downside risks dominate the forecasting horizon. They are related mostly to uncertainties surrounding the external environment, the impact of exchange rate appreciation on inflation, the stability and recovery of bank credit and, lastly, the tense political situation at home. As inflation remains well below its 3% target, the monetary policy stance should continue to be very accommodative. Inflation is expected to converge slowly towards its target, as the output gap narrows and inflation in the euro area recovers. The Albanian lek continued to appreciate against the EUR and USD and this continues to threaten the inflation target. In May 2019, the LCY appreciated 3.14% yoy on the EUR, reaching a record level of 122.99

Banking Sector

Credit to the private sector in April 2019 slowed to -0.81% yoy. Growth was supported by credit to households, which increased by 2.97%, but credit to enterprises shrunk by 2.61%. New loans in April decreased by 22.25% yoy. On the other hand, in April total deposits in the banking system increased by 1.85% yoy. This performance was supported mainly by corporate deposits, which rose by 5.70%. Individual deposits increased by 1.11% yoy, and new deposits expanded by 18.30%.

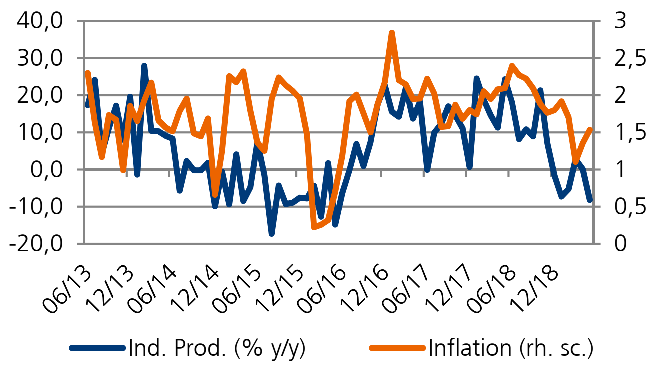
Forecasts

	2018	2019F	2020F
Real GDP yoy	4.1	3.6	3.5
CPI (eop)	1.8	1.8	2.3
Euro exchange rate (value, eop)	123.4	122.5	124.0
Short-term rate (eop)	1.0	1.1	1.2
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	-3.8	1.0	1.5
Bank deposits (pr. sector, yoy)	-0.9	1.5	2.0
Lending interest rate (pr. sector, eop)	8.2	7.6	7.8
Deposit interest rate (pr. sector, eop)	0.6	0.5	0.7

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: National Statistical Institute

Bosnia and Herzegovina

Real Economy

Ivana Jović

While we are still awaiting a 1Q19 GDP flash estimate, mixed high frequency data indicates solid private consumption as retail trade volumes increased by 8.1% yoy. However, the less supportive performance of exports (-0.6% yoy), industrial production (-5.1%) and investments (construction works -1.0% yoy) indicates slower GDP growth is likely compared with previous quarters. We expect that growth will rebound slightly by year-end as favourable labour market developments (nominal wage growth 4-5%; stable remittance inflows and low inflation) will continue to support private consumption, while investment activity (energy and road infrastructure projects) is expected to strengthen as political setbacks resolve.

However, external uncertainties threaten to hamper export performance, while imports are set to rise in line with strengthening domestic demand, thus net exports will weigh on headline growth. Overall, based on sluggish 1Q high frequency data, we have revised downwards our 2019 estimate to 2.7% yoy, with downside risks mainly related to political tensions delaying reforms and IFI's financial support (IMF third tranche of €77mn).

Inflation remains moderate (avg. Jan-April 1%), although we expect that the recent 30% hike in gas prices and stronger domestic demand will push the annual average to about 1.3%.

Banking Sector

Ana Lokin

The credit growth rate continued to range from 5% to 6% yoy in March and April, recording 5.3% and 5.8% yoy increases, respectively. Corporate demand remains healthy (March +3.1% yoy, April +4.2% yoy), however, notably softer than in the last year. Household lending remained firm at 7.5% yoy in March and 7.4% yoy in April, supported by positive trends in the labour market, with a steady rise in consumer (7.6% and 7.5% yoy, respectively) and a faster increase in housing loans (9.4% and 9.9% yoy, respectively). On the back of a sound rise in loans to households and decelerating corporate loans, our 2019 projection of growth for private sector loans remains unchanged at 5.4% yoy.

Firm deposit growth continued, coming in at 8.0% and 8.3% yoy in March and April, respectively. Corporate deposits zigzagged (5.2% and 6.9% yoy, respectively), while household deposits gained momentum (9.2% and 8.9% yoy, respectively), backed by favourable labour market trends and the steady inflow of remittances. By the end of the year, we expect the dynamics of growth to moderate and are sticking to our estimate of a 6.5% yoy private sector deposit rise.

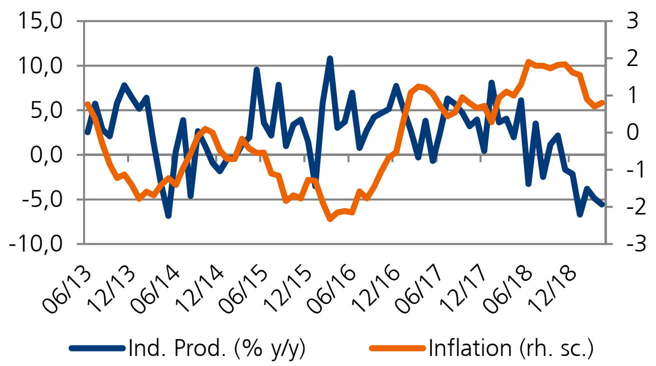
Forecasts

	2018	2019F	2020F
Real GDP yoy	3.1	2.7	2.8
CPI (eop)	1.6	1.5	1.7
Euro exchange rate (value, eop)	2.0	2.0	2.0
Short-term rate (eop)	n.a.	n.a.	n.a.
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	5.5	5.4	5.3
Bank deposits (pr. sector, yoy)	8.5	6.5	5.7
Lending interest rate (corporates, eop)	n.a.	n.a.	n.a.
Deposit interest rate (households, eop)	n.a.	n.a.	n.a.

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Agency for statistics of Bosnia and Herzegovina

Croatia

Real Economy

Ivana Jović

Croatia's1Q GDP outstripped expectations, landing at +3.9% yoy (vs. +2.3% in 4Q18). As indicated by high frequency data (average real net wage +3%, employment +2% yoy), private consumption accelerated to +4.4% yoy while investments surged by 11.5% (driven by stronger EU-funded infrastructure investments). As government consumption increased by 3.1%, domestic demand added 6.1pp to headline growth. However, the 7.7% higher imports of goods and services weighed on the solid 4.6% yoy growth in exports (o/w goods strengthened to 7.6% yoy, while services edged up 0.9% amid the late Easter), leading to a negative (2.2pp) net exports contribution. Thus, the better-than-expected 1Q outturn, continued positive trends (April's real retail trade +4.8%; industrial production +3% yoy) and favourable consumer confidence prompted us to revise upwards our FY19 GDP growth estimate to 3.0%. On the risks, while improved EU funding represents a significant tailwind to the growth outlook, external headwinds reflected industrial confidence as the export order book outlook worsened, while stronger competition from Mediterranean destinations could hamper tourism performance. In addition to the positive macro news, Croatia submitted a request for the establishment of a close cooperation between the CNB and the ECB, as per the intention to concurrently enter into the ERM II, and it is expected that an official application will be submitted in July.

Financial Markets

Ana Lokin

The average 2019 EUR/HRK rate forecast was tweaked to 7.41. The kuna remains stable as the countries readies to join ERM II next year. Liquidity is still exceptional, supporting our 2019 average three-month Zibor estimate of 0.5%. On June 7, Fitch upgraded Croatia's foreign and local currency rating from BB+ to investment grade BBB-, with a positive outlook. Thanks to the rating upgrade, the average 10-year kuna government bond yield in 2019 is now projected lower at 1.7%, with the spread on the Bund untouched at 180bps.

Banking Sector

The growth in loans amounted to 3.5% and 3.2% yoy in March and April, respectively, with a steady rise in household lending (6.0% and 6.1% yoy, respectively) and volatile corporates (0.0% and -1.1% yoy, respectively). NPL sales were thin in 1Q, and we expect them to gain momentum during the rest of the year, shedding a sizeable part of the corporate loan portfolio. At the same time, the rise in household loans is set to slow as tightened credit standards on non-housing loans kick in. The 2019 loan growth projection was therefore revised upwards only modestly, from +1.7% yoy to +2.0% yoy, respectively.

Deposit growth in March and April stayed firm at 5.1% and 4.6% yoy, respectively, as seasonal inflows started to feed in. By year-end, we anticipate a gradual moderation of the pace of growth, hence we stick to our 3.1% yoy projection.

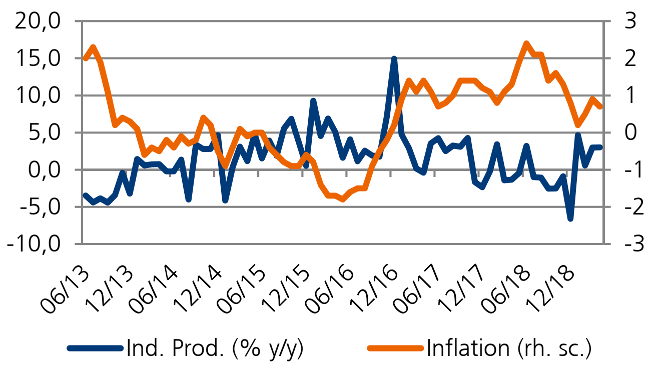
Forecasts

	2018	2019F	2020F
Real GDP yoy	2.6	3.0	2.6
CPI (eop)	0.8	1.0	1.5
Euro exchange rate (value, eop)	7.4	7.4	7.4
Short-term rate (eop)	0.5	0.5	0.5
L/T bond yields (eop)	2.1	1.3	1.3
Bank loans (pr. sector, yoy)	2.3	2.0	2.0
Bank deposits (pr. sector, yoy)	5.0	3.1	2.5
Lending interest rate (pr. sector, eop)	6.2	5.8	5.8
Deposit interest rate (pr. sector, eop)	0.5	0.4	0.4

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Croatia Bureau of Statistics

Romania

Real Economy

Pacurari Marius

Despite the high GDP growth announced for the first quarter of 2019 (about 5.1% based mainly on consumption), the economy shows important signs of imbalances that should have a negative impact on the economic evolution. Industrial production decreased in March versus February, falling 0.20%, but grew in April versus March by 1.40%, mainly due to mining (+4.8%), manufacturing (+0.8%) and energy (+0.5%). The PPI remained at high levels in March and April (5.3% and 5.6%, respectively). The decrease in unemployment seems to have stopped and April showed slight growth (+0.1% to 4%) versus March. Inflation continued to grow further in the second quarter, reaching 4.0% in May, higher than the CB's expectation of 3.9%. In the last report dedicated to inflation, the CB revised the forecast for the end of the year to 4.2%. This was mainly due to food prices and energy.

Financial Markets

In the last meetings, the CB has kept unchanged the monetary policy rate, underlining only the tighter management of the liquidity in the system. Despite lower volatility, market players are still very prudent and place their available liquidity only for the very short term. Under these circumstances, we should expect further steps from the CB in a tightening direction. The main drivers for action are the closing election for the new CB BOD and external players' movements (the Fed and the ECB on one side, but also other emerging markets CBs).

Banking Sector

The banking system is still under pressure due to the remaining effects of the government's attempts to cover the budget deficit through a new banking tax. Those effects are more limited than previously foreseen but should not be overlooked.

Deposit growth was significant, reaching about 9.9% yoy in April, with 12.35% growth in household deposits and 7.3% in non-financial companies. The average interest paid on household deposits denominated in RON grew from 0.96% in April 2018 to 1.49% in April 2019, while the interest paid on non-financial companies' deposits denominated in RON between the same dates grew from 1.34% to 2.20%. EUR-denominated deposits for households remained almost flat – 0.29% vs. 0.28% – while those for non-financial companies have decreased from 0.20% to 0.15% over the last year.

Credit growth was 5.37% in April (yoy), with 7.76% growth in households and 3.96% in non-financial companies. The average interest on household credits in RON jumped from 7.32% in April 2018 to 7.98% in April 2019. Growth in non-financial companies' credits in RON grew from 5.07% to 6.18%. In EUR-denominated credits households were flat at 4.21% vs. 4.20%, while non-financial companies decreased from 2.89% to 2.66%.

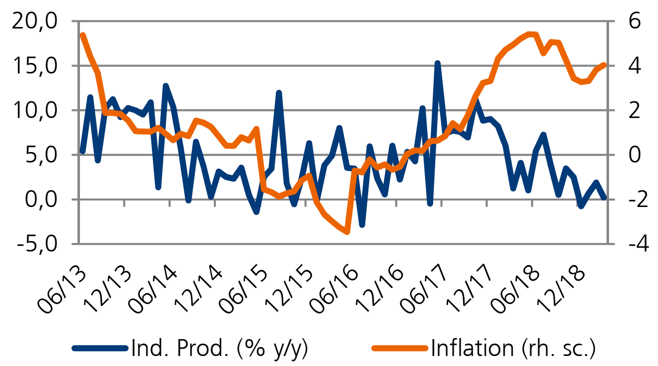
Forecasts

	2018	2019F	2020F
Real GDP yoy	4.1	3.5	3.0
CPI (eop)	3.3	3.6	3.3
Euro exchange rate (value, eop)	4.7	4.8	4.7
Short-term rate (eop)	3.1	3.0	3.0
L/T bond yields (eop)	4.9	4.7	4.7
Bank loans (pr. sector, yoy)	7.8	8.0	4.5
Bank deposits (pr. sector, yoy)	8.9	10.0	5.6
Lending interest rate (pr. sector, eop)	7.0	7.2	7.2
Deposit interest rate (pr. sector, eop)	2.0	2.0	2.0

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: National Institute of Statistics

Serbia

Real Economy

Miloš Drezga

After recording its best result of the past 10 years in 2018, the Serbian economy is expected to continue to exhibit a favourable trend in 2019, although GDP growth is projected to moderate to 3.0% yoy accounting for the high base from the previous year. Private consumption should remain one of the main drivers due to public wages, pensions and announced minimum wage hikes, as well as continued employment gains. Imports will likely continue to outpace exports, yielding a negative effect of net exports on growth, while investment should remain strong as a result of stable FDI inflows and continued state capex realisation. By production aggregates, agriculture will likely make a negative contribution due to the extremely high base from 2018 following an extraordinary season. Although recording negative growth in 1Q19, industrial production is expected to recover in the upcoming months as adverse one-off factors vanish.

After reaching the midpoint in April, inflation will likely decelerate, approaching the lower bound of the target in H120, only to start its gradual return to the midpoint thereafter. Such an inflation profile reflects several disinflationary factors, most notably the high base for vegetable prices, which will this year and in H1 of next year outweigh the impact of elevated aggregate demand, the gradual waning of disinflationary pressures from the past appreciation of the dinar and administered price growth. Average CPI is forecast at 2.5% in both 2019 and 2020.

Financial Markets

The National Bank of Serbia has left rates on hold for the 15th consecutive month after announcing no change in the key policy rate in June 2019. The NBS is expected to maintain this stance following the announced prolonging of the rate normalisation process by the ECB. We expect that any potential change in the NBS's tone will be roughly synchronised with the tone of the leading central banks. Additionally, cautious monetary policy conduct is mandated by other uncertainties in the international environment, primarily stemming from volatile oil and primary commodity prices and the continued geopolitical and trade tensions on the global scale. The dinar has been subject to appreciation pressure since the beginning of the year, following strong FDI inflows and greater interest from foreign portfolio investors, hovering around the 118 mark. The NBS is expected to continue to prevent excessive fluctuations in the domestic currency by intervening on both sides of the FX market, ensuring competitive prices of Serbian exports and contained disinflationary pressures. The end-of-period FX rate is forecast at 118.1 in 2019 and 118.6 in 2020.

Banking Sector

Lending activity in Serbia will likely continue to grow, increasing by 7.5% in 2019 and 6.0% in 2020, driven by improved macro fundamentals, monetary easing, low interest rates in the international market and increased bank competition. Such growth will be supported by the expansion of the deposit base, which should increase by 6.0% in 2019 and 5.8% in 2020.

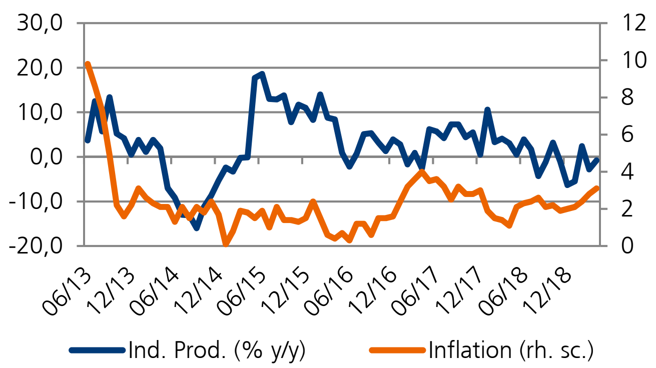
Forecasts

	2018	2019F	2020F
Real GDP yoy	4.3	3.0	3.0
CPI (eop)	2.0	2.5	2.6
Euro exchange rate (value, eop)	118.3	118.1	118.6
Short-term rate (eop)	3.0	3.0	3.0
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	9.9	7.5	6.0
Bank deposits (pr. sector, yoy)	14.9	6.0	5.8
Lending interest rate (pr. sector, eop)	7.7	7.6	8.1
Deposit interest rate (pr. sector, eop)	2.8	2.8	3.0

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistical Office

Moldova

Real Economy

Natalia Mihalas

In 2018, Moldova's GDP recorded a 4.0% increase compared with 2017, mainly due to the net investment and consumption components, their contribution to GDP growth being 3.1% and 3.2%, respectively. While the yoy 4.0% acceleration in GDP in 2018 was similar to that registered in 2017, a slowdown in economic growth to an average of around 3.5% is expected for the years 2019 and 2020. The downward trend of industrial production was, however, reversed in 1Q19, accelerating in April by 12.3% y/y. The positive change was driven by increases in all industry sectors, mainly the extractive industry, which grew 29% yoy, followed by manufacturing (+12.2%) and energy (+9.6%).

Inflation's upward trend continues to be prominent, with Moldova's eop CPI in May 2019 reaching 4.6% and being 1.4% higher than the one recorded in April of the same year. The rise was driven by a 2.8% yoy increase in the average annual prices for food products, a 0.6% rise in non-food products and a 0.2% rise in service prices. This trend is expected to continue in the 2019-2020 period due to forecasted increases in average regulated prices (2.2% in 2019 and 3.9% in 2020) due to higher tariff adjustments for medical services and energy resources. At the same time, the forecast for annual prices of food products is 6.3% for 2019 and 7.2% for 2020. Thus, Moldova's average CPI is expected to reach 5.1% in 2019 and go above the target in 2020, increasing to 6.5%. Inflation's upward trend is expected to last until 3Q20 with a subsequent reversal and a return to the 5% central bank target by the end of year 2021.

Financial Markets

During 2Q19, bond yields increased by 0.7 pp for two-year maturity government bonds compared to 1Q19, remaining unchanged for those with longer maturities (three- and five-years). One-year average short-term interest rates rose by 0.15 pp in June19 compared to March19, decreasing slightly (0.02 and 0.01 pp) for the 91- and 182-days T-bills. At its June Meeting the CB decided to increase its main policy rate by 0.5 pp, to 7.0%. This increase is aimed at mitigating anticipated inflationary pressures, stimulating saving and creating monetary conditions to maintain inflation within the +/-1.5 pp band around the 5.0% target.

Banking Sector

The evolution of total private loans during 1Q19 was positive, the growth being due to increases in the volume of corporate loans, especially those granted in foreign currency, for which the negative 2018 trend was reversed. The positive 15.35% yoy change in April 2019 was driven by 39.26% and 7.5% yoy rises in household and corporate loans, respectively. On the other hand, total private deposits grew prominently by 9.07% yoy in April 2019, compared with 2.96% yoy the previous month. This was driven by a 10.98% yoy rise in corporate deposits (vs. -2.10% yoy in March 2019) as well as an 8.09% increase in loans granted to households (vs. 5.58% yoy in March 2019). Nevertheless, the year-on-year positive change for both private loans and deposits is expected to slow down after the acceleration to 8% in 2020 and to 7.2% in 2019.

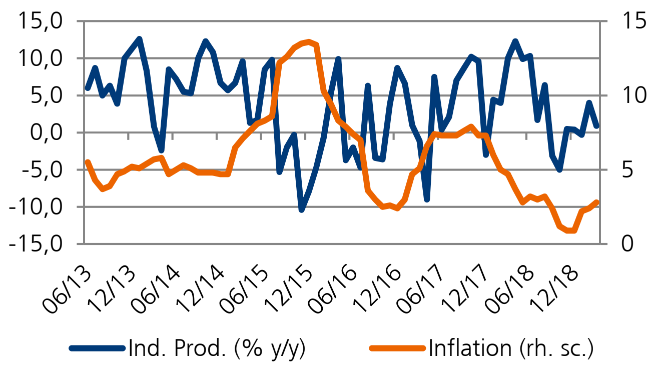
Forecasts

	2018	2019F	2020F
Real GDP yoy	4.0	3.6	3.4
CPI (eop)	0.9	8.0	5.1
USD exchange rate (value, eop)	17.1	18.0	18.4
Euro exchange rate (value, eop)	19.4	20.5	22.0
Short-term rate (eop)	6.5	7.0	7.0
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	5.9	8.0	6.0
Bank deposits (pr. sector, yoy)	6.0	7.2	6.4
Lending interest rate (corporates, eop)	9.1	9.1	9.3
Deposit interest rate (households, eop)	4.5	4.5	4.7

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: National Bureau of Statistics of the Republic of Moldova

Russia

Real Economy

Irina Lekareva

The Russian economy in 1H19 performed below expectations. GDP growth in 1Q19 amounted to 0.5% yoy, slightly lower than the Ministry of Economic Development expected. The slowdown was mainly associated with weak domestic demand caused by an increased tax burden. Exports in 1Q19 also showed a negative trend (-0.8% yoy) due to the decreased oil production negotiated as a part of the OPEC+ deal. Amid weaker demand, there was a slowdown in retail sales: in April, the index dropped to 1.2% yoy (compared with 1.6% yoy in March and 2.4% yoy in 1Q19). Industrial production growth accelerated in April to 4.6% yoy after 1.2% yoy in March and 2.1% yoy in 1Q19, boosted by improvements in the manufacturing, chemical and food industries as well as in gas production. Thus, the GDP growth rate forecast for 2019 was adjusted from 1.5% to 1.3%. We expect a further recovery after the slowdown of previous months; in subsequent years, economic growth may increase to 1.8-1.9% as national projects are implemented.

Starting in April, annual inflation decelerated; the trend is expected to continue in 2H19. In May, the CPI index decreased to 5.1% due to the RUB strengthening and the high base effect of the previous year. Taking into account the ongoing monetary policy, the forecast for annual inflation in 2019 was revised downwards from 5% to 4.5%; in subsequent years, its level is expected to remain close to 4%.

Financial Markets

On June 14, 2019, Russia's central bank decided to cut the key rate by 25bp to 7.50% due to the slowing of annual inflation. Since the last meeting of its board of directors, monetary conditions have softened significantly. Between January and April 2019, the RUB demonstrated the best dynamics of all the emerging market currencies. Since the beginning of the year, the RUB has strengthened by 7.3%. In April, the average monthly price for Urals crude oil rose to USD 71.7 per barrel from USD 57.4 per barrel in December 2018. As the situation evolves in accordance with the baseline forecast, the Bank of Russia has acknowledged the possibility of a further key rate cut at one of the next meetings of the board of directors and plans to switch to a neutral monetary policy by mid-2020. The current consensus expects the next key rate cut in September 2019 to 7.25%.

Banking Sector

Corporate deposits in 1Q19 continued to grow at a faster pace: in March, corporate deposits accelerated to 17.9% yoy and significantly exceeded the growth of household deposits (+8.3% yoy in March). The loan portfolio is accelerating, mainly due to the household segment's growth (23.6% yoy in March, compared with 9.6% yoy in the corporate segment). After the December increase in the key rate by the CB, in January and February 2019, loan and deposit rates showed an increase. The trend reversed in March and April 2019 due to a slowdown in inflation. The decision by the Bank of Russia to reduce the key rate and the decline in long-term yields from the beginning of 2019 may prompt further deposit and lending rates cuts in the future.

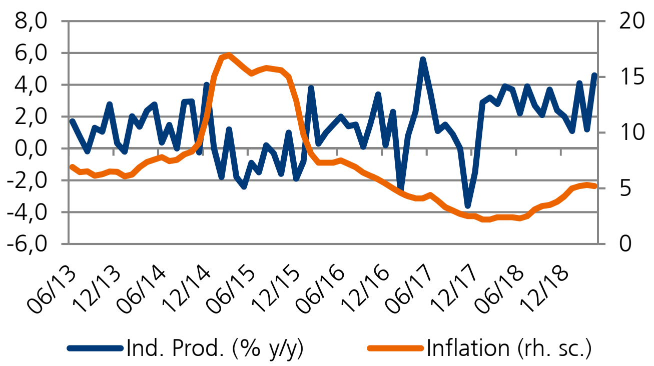
Forecasts

	2018	2019F	2020F
Real GDP yoy	2.3	1.3	1.8
CPI (eop)	4.3	4.5	4.0
USD exchange rate (value, eop)	67.3	65.0	64.0
Euro exchange rate (value, eop)	76.7	74.2	76.5
Short-term rate (eop)	8.6	7.5	6.7
L/T bond yields (eop)	8.7	7.6	7.6
Bank loans (pr. sector, yoy)	15.0	8.6	7.2
Bank deposits (pr. sector, yoy)	14.2	7.0	6.1
Lending interest rate (corporates, eop)	9.2	8.1	7.2
Deposit interest rate (households, eop)	5.6	4.6	3.5

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: State Statistics Federal Service

Ukraine

Real Economy

Artem Krakovskyi

In 1Q19 the Ukrainian economy slowed to growth of 2.5% yoy from 3.3% last year, with a positive outlook, however, for the revival of economic dynamics in the second quarter. Industrial production has recovered and in April accelerated to 5.2% yoy (the highest since January 2017) from 2.1% in March, after four consecutive months of decline. Growth in retail trade exceeded 9% yoy in April, after 8.9% growth in March (the highest performance since January 2018) on the back of solid consumer demand. Inflation accelerated to 9.6% yoy in May after 8.8% in April. However, monthly dynamics showed a slowdown (+0.7% mom in May opposed to +1% in April) and core inflation (cleared from volatile commodity positions and administratively regulated tariffs) remains stable at 7.4% yoy, which is the lowest level for almost two years. The ongoing parliamentary elections remain a factor in the uncertainty.

Financial Markets

Ukraine placed seven-year Eurobonds worth EUR 1 bn ahead of the next peak of external public debt payments due in September 2019. The acceleration in the CPI and the delayed progress of cooperation with the IMF prevented NBU from announcing a second monetary policy softening round on June 6, when it kept the rate unchanged at 17.5% after a 50bp cut earlier this year. However, the NBU is likely to revert to a softening cycle before the year-end. Since May 2019 the international securities depository Clearstream has connected to the Ukrainian market, thus facilitating access by foreign investors to local government bond placements, reducing the need for financing in foreign currency and the resulting currency risks. As of June 20, foreign investors held a total of UAH 49 bn in local government bonds, with their investment total having already increased eight times during 2019 and providing good support for the local currency rate.

Banking Sector

For first five months of 2019 the profit of the banking sector exceeded 2018's full-year performance, with net profit of UAH 23.4 bn, which is 1.8 times more than in the same period last year (UAH 12.8 bn). In the first quarter banks' net assets decreased by 1.4% due to seasonal factors and the revaluating of the UAH, while UAH loans to households continued to grow: +5.8% for the quarter and +34.4% yoy. The share of non-performing loans decreased by 1.1pp to 51.7% as a result of retail loan portfolio growth. Liabilities decreased by 2.9% during first quarter due to seasonal factors and mandatory payments to the budget, though the growth in household deposits remained high, at about the level of last year (UAH 7.4 bn). In February the upward trend in UAH interest rates showed some reversal: corporate loans and deposits on average fell by 0.8pp during the quarter, households by 0.8pp and 2.7pp for deposits and loans, respectively.

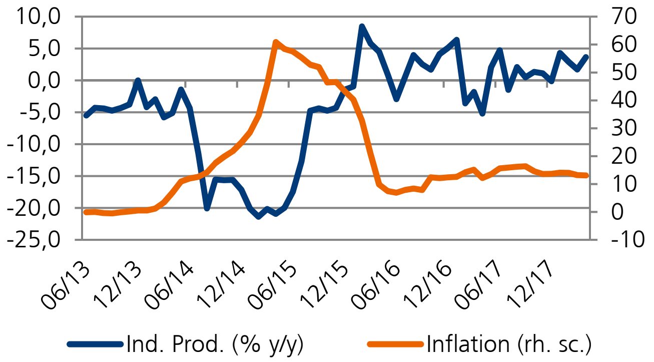
Forecasts

	2018	2019F	2020F
Real GDP yoy	3.3	2.5	2.9
CPI (eop)	9.8	7.3	5.8
USD exchange rate (value, eop)	28.2	28.1	29.4
Euro exchange rate (value, eop)	31.6	32.1	35.2
Short-term rate (eop)	20.2	16.1	13.7
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	6.3	5.3	5.5
Bank deposits (pr. sector, yoy)	7.9	5.5	5.7
Lending interest rate (pr. sector, eop)	21.7	18.4	14.8
Deposit interest rate (pr. sector, eop)	14.2	11.1	8.3

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: State Statistics Service of Ukraine

Egypt

Real Economy

Samer Halim

Egypt has preserved macroeconomic stability with a recovery in net exports and investments that offset the softening growth in private consumption. The GDP growth rate is expected to rise to 5.6% and 5.7% in FY 2018/19 and 2019/20, respectively, supported by the extractions and tourism sectors, which grew by 12.5% and by 27%, respectively, yoy in 1H19.

CPI is expected to remain relatively high in 2019, hovering around an average of 14%, impacted by the plans to reach full cost recovery by the end of FY 2018/19 for fuel products and the latest rise in electricity prices.

Financial Markets

The Central Bank of Egypt (CBE) has lowered policy rates by 100bps in 2019. Further cuts are expected during this and next year, after the end of the reform programme and with the stabilisation of inflation rates (CBE targets achieving 9% (+/-3%) in 4Q20). Yields on three-month TBs are expected to decrease in 2019 due to the improving budget deficit (fell to 5.6% of GDP in 10M FY 2018/19 compared with 6.7% in the same period a year earlier) and the success in diversifying sources of finance through international markets.

Egypt came second in a Bloomberg analysis of the most resilient emerging markets amid the US-China trade war. The analysis was based on the country's exports to both countries, the current account position, sovereign credit ratings, foreign exchange reserves and inflation-adjusted yields.

The forecast for the exchange rate was revised upwards due to the strong performance of the Egyptian pound in 1H 2019, yet we expect more pressures on the local currency in 4Q due to short-term debt repayments and repatriating profits to parent companies.

Banking Sector

Private loans are forecast to grow by 13% yoy in 2019, while government loans are expected to grow at a faster pace due to the funding of mega projects. Mortgage loans are expected to pick up in 2019 after the CBE's initiative to avail EGP 50bn to fund the purchasing of medium-end units.

On the other hand, private deposit growth is expected to remain stable in 2019, due to the absence of alternative investment channels. Declining interest rates and the newly applied tax treatment on treasuries are forecasted to put more pressures on banks' profitability.

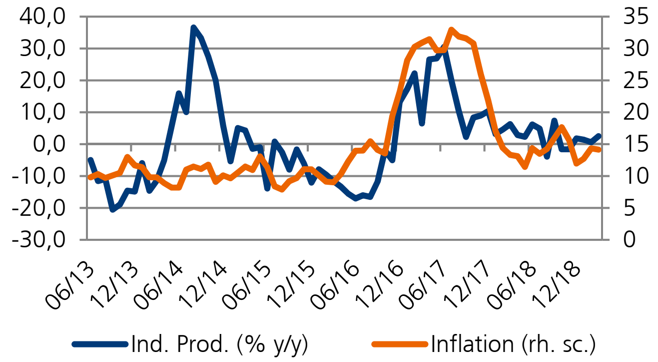
Forecasts

	2018	2019F	2020F
Real GDP calendar yoy	5.4	5.7	5.8
CPI (eop)	12.0	14.5	11.5
USD exchange rate (value, eop)	17.9	16.9	17.5
Euro exchange rate (value, eop)	20.4	19.3	20.9
Short-term rate (eop)	19.7	16.7	13.7
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	15.3	13.1	11.1
Bank deposits (pr. sector, yoy)	13.8	13.6	13.5
Lending interest rate (corporates, eop)	17.8	16.0	14.6
Deposit interest rate (households, eop)	12.2	10.8	9.4

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Ministry of Planning, CAPMAS

Country Data: Economy, Markets and Banks - the economic cycle

The Economy

	GDP chg yoy			Ind. Prod[1]. chg.yoy			Export nom. chg			Inflation chg yoy				Retail sales chg yoy			Economic Survey[2]		
	1Q19	4Q18	2018	Last	mth	1Q19	Last	mth	1Q19	Last	mth	1Q19	2018	Last	mth	1Q19	Last	mth	1Q19
CEE																			
Czech Rep.	2.5	2.9	3.0	3.3	Apr	0.2	9.0	Apr	5.5	2.8	Apr	2.7	2.1	6.8	Apr	5.2	107.5	Jan	108.8
Hungary	5.3	5.1	4.9	8.0	Mar	6.1	3.6	Apr	5.9	3.9	May	3.2	2.8	8.4	Feb	5.1	114.6	May	118.7
Poland	4.6	4.9	5.1	9.2	Apr	6.2	-4.9	Jan	-4.9	2.4	May	1.3	1.7	11.9	Apr	6.2	101.1	May	106.6
Slovakia	3.7	3.6	4.1	6.3	Mar	6.9	2.3	Apr	8.1	2.7	May	2.4	2.5	1.8	Apr	4.0	95.1	May	97.6
Slovenia	3.2	4.1	4.5	5.7	Apr	4.7	12.9	Apr	9.4	1.6	May	1.3	1.9	n.a.	n.a.	n.a.	107.5	May	108.3
SEE																			
Albania	n.a.	3.1	4.1	n.a.	n.a.	n.a.	-8.2	May	-3.2	1.5	May	1.6	2.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Bosnia H.	n.a.	3.0	3.1	-5.6	Apr	-5.1	-2.4	Apr	-0.6	0.8	Apr	1.0	1.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Croatia	3.9	2.3	2.6	3.0	Apr	2.7	8.8	Mar	8.9	0.9	May	0.5	1.5	n.a.	n.a.	n.a.	113.5	May	114.3
Romania	5.0	4.0	4.1	1.4	Apr	0.9	5.7	Apr	3.3	4.1	Apr	3.7	4.6	7.1	Apr	5.9	101.2	Apr	101.3
Serbia	2.5	3.4	4.3	-0.8	Apr	-2.0	8.0	Apr	6.6	2.2	May	2.4	2.0	6.7	Apr	4.8	n.a.	n.a.	n.a.
CIS MENA																			
Moldova	n.a.	3.9	4.0	0.9	Mar	1.5	8.0	Apr	8.2	4.6	May	2.5	3.1	24.5	Mar	7.7	n.a.	n.a.	n.a.
Russia	0.5	2.7	2.3	4.6	Apr	2.1	-0.9	Apr	-0.8	5.1	May	5.2	2.9	1.2	Apr	2.4	49.8	May	51.7
Ukraine	2.5	3.5	3.3	5.3	Apr	-0.9	5.9	Apr	8.1	9.6	May	8.9	11.0	9.8	Apr	4.8	n.a.	n.a.	n.a.
Egypt	5.6	5.5	5.4	2.5	Mar	1.5	7.5	Feb	8.0	14.1	May	13.7	14.4	n.a.	n.a.	n.a.	48.2	May	49.6
m.i. E. A.	*1.2*	*1.2*		*-0.4*	*Apr*	*-0.4*	*5.2*	*Apr*	*4.0*	*1.2*	*May*	*1.4*	*1.8*						

Source: Datastream, Reuters; [1]Wda data for Slovakia, Slovenia; Bosnia, Croatia, Egypt; [2]PMI manufacturing for Russia and Egypt, ESI for remaining countries.

Markets and Ratings

	S/T rates[1]		L/T rates[2]		Foreign exchanges bp[3]			Stock markets chg bp		CDS spread (bp)		FX res. chg (mln €)[4]			CA bal. (mln		Rating
	17/06	chg bp	17/06	chg bp	17/06	3M%ch.	1Y%ch.	3M%ch.	1Y%ch.	17/06	14/03	1Q19	4Q18	2018	1Q19	4Q18	Moody's
CEE					Vs Euro												
Czech	2.2	0.2	1.6	-0.3	25.57	-0.39	-0.27	-1.6	-2.5	39.3	36.5	n.a	n.a	n.a.	n.a	n.a.	A1
Hungary	0.2	0.0	3.1	-0.1	322.29	2.49	0.05	-1.4	11.7	72.9	79.5	n.a	n.a	-3858	n.a	-349	Baa3
Poland	1.7	0.1	2.4	-0.5	4.26	-0.97	-0.29	-1.9	-0.1	26.2	42.5	n.a	n.a	n.a	n.a	-1753	A2
Slovakia	-0.3	0.0	0.3	-0.4	Euro	Euro	Euro	0.5	4.4	41.0	43.5	n.s.	n.s.	n.s.	n.a	n.a.	A2
Slovenia	-0.3	0.0	0.3	-0.5	Euro	Euro	Euro	0.5	-2.1	71.6	70.1	n.s.	n.s.	n.s.	759	596	Baa1
SEE																	
Albania	1.3	-0.1	n.a.	n.a.	121.7	-2.39	-4.09	n.a.	n.a.	n.a.	n.a.	n.a	274	n.a.	n.a	-364	B1
Bosnia	n.a.	n.a.	n.a.	n.a.	1.96	Board	Board	n.a.	n.a.	n.a.	n.a.	n.a	31	545	n.a	-208	B3
Croatia	0.5	0.0	1.3	-0.6	7.41	0.01	0.45	7.8	4.8	85.2	94.4	n.a	802	1733	n.a	-873	Ba2
Romania	3.1	0.2	4.6	-0.4	4.73	-0.78	1.37	8.2	3.6	80.5	92.2	-829	1151	-2218	-1212	-9161	Baa3
Serbia	3.0	0.0	n.a.	n.a.	117.87	-0.22	-0.12	18.6	-3.4	120.7	115.7	-1454	592	1822	-937	-589	Ba3
CIS					Vs USD												
Moldova	6.5	0.0	6.2	-0.2	18.15	5.76	7.97	n.a.	n.a.	n.a.	n.a.					272	B3
Russia	8.1	-0.4	7.6	-0.8	64.43	-1.76	3.93	10.9	21.1	114.2	116.5	15920	-126	35753	32800	38800	Baa3
Ukraine	19.4	-0.2	17.4	0.6	26.44	-1.55	1.46	-4.2	-12.7	558.9	647.0	-210	4412	4232	-380	-1023	Caa1
Egypt	17.7	0.3	15.9	-0.7	16.78	-3.54	-6.33	2.3	-0.8	327.4	321.5	1561	-1908	5531		-2185	B2
m.i.A.E.	-0.3	0.0	-0.2	-0.3	1.1	-0.6	-4.0	0.5	0.1	6.1	5.9						

Source: Datastream, Reuters;[1] The data for Egypt refers to june, for Czech Republic refers to may, for Moldova refers to december; [2]For Ukraine, the long-term rate refers to a government issue in dollars; [3] The (-) sign indicates appreciation; [4]USD for Russia, Egypt, Ukraine, Romania; [5]USD for Russia, Egypt, Ukraine

Banking aggregates and interest rates (private sector)

	Loans Chg yoy %			NPL/Loans %			Foreign Liab. Chg yoy %			Deposits Chg yoy %			Loans rate[1]-NewB*. %				DepositsRate[1]- %				Loans/Dep %		
	Last	Mth	2018	Last	mth	2018	Last	mth	2018	Last	Mth	2018	Last	mth	2018	S[4]	Last	mth	2018	S[4]	Last	mth	2018
CEE																							
Czech Rep.	6.8	Mar	6.8	3.8	Mar	3.6	-3.1	Apr	-0.9	6.5	Mar	6.9	3.32	Mar	3.31	C	1.46	Mar	1.35	H	76.2	Mar	75.7
Hungary	11.8	Apr	10.6	3.3	Dec	3.3	4.3	Apr	1.5	9.4	Apr	14.1	2.37	Apr	2.3	C	0.2	Apr	0.18	H	80.5	Apr	77.7
Poland	7.5	Apr	7.9	4.0	Sep		-2.0	Feb	-2.9	11.8	Apr	9.4	3.58	Apr	3.48	C	1.71	Apr	1.62	H	97.2	Apr	97.0
Slovakia	7.8	Apr	9.4	3.2	Apr	3.3	1.7	Apr	-0.1	4.8	Apr	7.2	2.1	Apr	2.01	C[2]	0.06	Apr	0.07	H[2]	102.9	Apr	100.8
Slovenia	3.5	Apr	2.6	3.5	Apr	4.0	-9.9	Apr	-16.4	6.4	Apr	6.7	2.15	Apr	2.22	C[2]	0.16	Apr	0.17	H[2]	75.9	Apr	75.3
SEE																							
Albania	-1.0	Mar	-3.8	11.4	Mar	11.1	1.7	Mar	-4.4	1.9	Mar	-0.9	7.69	Mar	8.16	PS	0.55	Mar	0.62	PS	53.4	Mar	52.8
Bosnia H.	5.8	Apr	5.5	8.5	Mar	8.8	14.3	Apr	17.4	8.3	Apr	8.5	2.87	Apr	3.1	C	0.24	Apr	0.34	H	106.3	Apr	105.4
Croatia	3.2	Apr	2.3	9.5	Mar	9.8	5.5	Apr	6.7	4.6	Apr	5.0	5.73	Apr	6.17	PS	0.29	Apr	0.45	PS	79.5	Apr	76.6
Romania	7.6	Apr	7.8	4.9	Mar	5.0	-14.8	Feb	-8.4	10.5	Apr	9.2	7.77	Mar	6.97	PS	1.97	Mar	1.96	PS	72.9	Feb	78.6
Serbia	9.9	Apr	9.9	5.4	Apr	5.7	12.5	Apr	24.0	12.0	Apr	14.9	8.52	Apr	7.74	PS	2.76	Apr	2.78	PS	100.3	Apr	96.9
CIS MENA																							
Moldova	15.3	Apr	5.9	10.9	Apr	12.5	3.4	Apr	-16.7	9.1	Apr	6.0	8.89	Apr	8.64	C	4.29	Apr	4.25	H	56.8	Apr	55.9
Russia	13.4	Mar	15.0	10.4	Mar	10.1	-10.1	Mar	-0.4	12.2	Mar	14.2	9.3	Mar	9.2	C	6.03	Mar	5.62	H	107.8	Mar	105.6
Ukraine	2.2	Apr	6.3	51.4	Apr	52.9	-23.3	Apr	-7.5	8.8	Apr	7.9	19.36	Apr	21.75	PS	12.97	Apr	14.16	PS	120.9	Apr	121.2
Egypt	15.2	Feb	15.3	3.9	Dec	3.9	18.5	Feb	10.7	12.0	Feb	13.8	16.8	Apr	17.8	C	11.4	Apr	12.2	H	34.6	Feb	34.3
m.i. E. A.	2.7	Apr	2.0	n.a.	n.a.	n.a.	7.4	Apr	7.9	4.7	Apr	3.6	1.2	Apr	1.3	C	0.3	Apr	0.3	H	80.2	Apr	80.6

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.

Country Outlook

The economy

	GDP (% yoy)	2016	2017	2018	2019F	2020F	Inflation (%, avg)	2016	2017	2018	2019F	2020F
CEE	Czech Rep.	2.6	4.4	3.0	2.4	2.3	Czech Rep.	0.7	2.5	2.1	2.5	2.2
	Hungary	2.3	4.1	4.9	3.8	2.6	Hungary	0.4	2.4	2.8	3.5	3.2
	Poland	3.1	4.8	5.1	4.1	3.1	Poland	-0.6	2.0	1.7	1.9	2.2
	Slovakia	3.3	3.4	4.1	3.5	3.4	Slovakia	-0.5	1.4	2.5	2.4	2.2
	Slovenia	3.1	4.9	4.5	3.3	2.8	Slovenia	-0.2	1.6	1.9	1.7	1.9
SEE	Albania	3.5	3.7	4.1	3.6	3.5	Albania	1.3	2.0	2.0	1.6	2.1
	Bosnia Herzegovina	3.1	3.2	3.1	2.7	2.8	Bosnia Herzegovina	-1.6	0.8	1.4	1.3	1.6
	Croatia	3.5	2.9	2.6	3.0	2.6	Croatia	-1.1	1.1	1.5	0.8	1.4
	Romania	4.8	7.0	4.1	3.5	3.0	Romania	-1.5	1.3	4.6	3.7	3.4
	Serbia	3.3	2.0	4.3	3.0	3.0	Serbia	1.1	3.2	2.0	2.5	2.5
CIS	Moldova	4.5	4.5	4.0	3.6	3.4	Moldova	6.5	6.6	3.1	5.1	6.5
	Russia	-0.2	1.5	2.3	1.3	1.8	Russia	7.1	3.7	2.9	4.9	4.2
	Ukraine	2.4	2.5	3.3	2.5	2.9	Ukraine	14.9	14.5	11.0	8.5	6.8
MENA	Egypt	3.9	5.0	5.4	5.7	5.8	Egypt	13.7	29.6	14.4	14.2	12.4

Markets

	Exch.rate (avg Euro)	2016	2017	2018	2019F	2020F	Interest rate (%, avg)	2016	2017	2018	2019F	2020F
CEE	Czech Rep.	27.0	26.3	25.6	25.5	24.9	Czech Rep.	0.3	0.4	1.3	2.0	2.3
	Hungary	311.3	309.1	318.8	319.1	319.1	Hungary	1.0	0.1	0.1	0.2	0.3
	Poland	4.4	4.3	4.3	4.3	4.3	Poland	1.6	1.5	1.7	1.7	1.7
	Slovakia	-	-	-	-	-	Slovakia	-0.3	-0.3	-0.3	-0.3	-0.3
	Slovenia	-	-	-	-	-	Slovenia	-0.3	-0.3	-0.3	-0.3	-0.3
SEE	Albania	137.4	134.2	127.6	124.2	123.3	Albania	1.1	1.3	0.9	1.1	1.1
	Bosnia Herzegovina	1.96	1.96	1.96	1.96	1.96	Bosnia Herzegovina	-	-	-	-	-
	Croatia	7.5	7.5	7.4	7.4	7.4	Croatia	0.9	0.6	0.5	0.5	0.5
	Romania	4.5	4.6	4.7	4.7	4.7	Romania	0.8	1.2	2.8	3.0	2.9
	Serbia	123.1	121.4	118.3	118.1	118.4	Serbia	4.1	3.9	3.1	3.0	3.0
CIS	Moldova (USD)	19.9	18.5	16.8	17.7	18.2	Moldova	12.8	8.0	6.5	6.5	6.5
	Russia (USD)	67.1	58.3	62.7	65.2	64.6	Russia	11.2	9.4	7.7	7.9	7.1
	Ukraine (USD)	25.5	26.6	27.3	27.4	28.4	Ukraine	20.9	16.8	18.4	18.6	16.1
MENA	Egypt (USD)	10.1	17.8	17.8	17.1	17.4	Egypt	14.1	19.3	18.8	17.4	15.0

Banking aggregates (% change yoy)

	Loans (pr. sector)	2016	2017	2018	2019F	2020F	Deposits (pr. sector)	2016	2017	2018	2019F	2020F
CEE	Czech Rep.	6.7	6.5	6.8	5.5	4.5	Czech Rep.	5.8	7.6	6.9	5.5	4.9
	Hungary	-1.9	6.0	10.6	7.0	4.5	Hungary	6.3	10.8	14.1	6.4	5.5
	Poland	5.3	3.2	7.9	6.2	5.5	Poland	9.2	3.7	9.4	7.2	6.3
	Slovakia	10.3	9.6	9.4	8.0	7.0	Slovakia	4.6	5.2	7.2	5.4	5.4
	Slovenia	-2.3	3.2	2.6	3.5	3.1	Slovenia	7.2	7.0	6.7	5.8	5.0
SEE	Albania	0.2	0.5	-3.8	1.0	1.5	Albania	2.3	-1.6	-0.9	1.5	2.0
	Bosnia Herzegovina	3.5	7.3	5.5	5.4	5.3	Bosnia Herzegovina	7.4	9.0	8.5	6.5	5.7
	Croatia	-4.3	-0.1	2.3	2.0	2.0	Croatia	2.8	2.4	5.0	3.1	2.5
	Romania	1.2	6.9	7.8	8.0	4.5	Romania	8.2	15.6	8.9	10.0	5.6
	Serbia	2.4	2.1	9.9	7.5	6.0	Serbia	11.5	3.1	14.9	6.0	5.8
CIS	Moldova	-9.0	-3.7	5.9	8.0	6.0	Moldova	9.2	9.2	6.0	7.2	6.4
	Russia	-4.2	5.2	15.0	8.6	7.2	Russia	-3.9	8.1	14.2	7.0	6.1
	Ukraine	2.0	0.9	6.3	5.3	5.5	Ukraine	9.1	12.1	7.9	5.5	5.7
MENA	Egypt	42.8	7.1	15.3	13.1	11.1	Egypt	41.4	23.8	13.8	13.6	13.5

Banking interest rates (%)

	Lending (Corp. avg)	2016	2017	2018	2019F	2020F	Deposits (HH avg)	2016	2017	2018	2019F	2020F
CEE	Czech Rep.	1.9	2.0	2.7	3.3	3.3	Czech Rep.	1.1	0.7	0.9	1.6	1.7
	Hungary	3.8	2.5	2.3	2.3	2.5	Hungary	0.6	0.3	0.2	0.2	0.3
	Poland	3.5	3.7	3.5	3.6	3.5	Poland	1.8	1.6	1.7	1.6	1.6
	Slovakia	2.2	2.0	2.2	2.0	2.0	Slovakia	0.2	0.1	0.1	0.1	0.1
	Slovenia	3.1	2.5	2.2	2.2	2.2	Slovenia	0.2	0.1	0.2	0.2	0.2
SEE	Albania	9.8	8.2	8.1	7.6	7.6	Albania	0.8	0.8	0.7	0.5	0.5
	Bosnia Herzegovina	-	-	-	-	-	Bosnia Herzegovina	-	-	-	-	-
	Croatia	7.3	7.0	6.4	5.9	5.9	Croatia	1.2	0.8	0.6	0.4	0.4
	Romania	5.5	5.7	7.0	7.2	7.1	Romania	0.7	0.7	1.7	2.0	2.0
	Serbia	9.1	8.9	8.6	7.8	8.0	Serbia	2.7	2.8	2.7	2.8	2.9
CIS	Moldova	12.7	10.2	9.1	9.1	9.3	Moldova	12.6	6.2	4.5	4.5	4.7
	Russia	12.6	10.6	8.9	8.8	8.0	Russia	7.0	5.9	5.4	5.4	4.3
	Ukraine	19.0	16.4	19.0	19.2	17.3	Ukraine	11.5	9.1	12.0	12.3	10.5
MENA	Egypt	13.6	18.2	18.3	16.5	14.9	Egypt	7.9	12.1	12.3	11.1	9.7

Source: Intesa Sanpaolo Research Department forecasts

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