Forecast Note
Countries with ISP subsidiaries

GDP forecasts have been revised upwards in all areas. Within-target inflation and the ECB's extension of QE still support easy monetary conditions in CEE/SEE areas, except in Czech Republic and Romania. Although it is expected to soften in 2018, bank lending appears to be on a gradual recovery path.

The growth rates in the CEE and SEE areas accelerated in 3Q to a respective 4.3% y/y and 6.1% y/y, driven by stronger exports and better domestic demand. Due to both the recent positive readings from high frequency indicators and the expected consolidation of the expansionary phase in the Euro Area, GDP growth forecasts have been revised upwards to 4.6% in 2017 and 3.5% in 2018 from 3.8% and 3.4%, respectively, in our September Forecast Note.

In the CIS region, GDP growth is forecast to accelerate next year to 1.8% in Russia and 3% in Ukraine from 1.6% expected in both cases for 2017. We are also confident of higher growth prospects in Egypt, where GDP is projected to rise to 4.9% in 2017 and 5.3% in 2018 amid planned infrastructure investments and advances in the reform process.

Inflation rates have also been revised slightly upwards for the CEE/SEE regions, though they are generally expected to remain within the bands set by the CBs. Output gaps are just to close in most cases and improved labour market conditions are supporting stronger wage dynamics. Monetary policy is overall projected to remain accommodative in 2018, due to the within-target inflation rates and the ECB's decision to extend QE to September 2018 (or beyond, if deemed necessary). Exceptions are represented by Czech Republic, where the CB has already started a tightening cycle and additional increases are expected in 2018, and Romania, where, following the surge of inflation, money market rates have also started to rise. In Ukraine and Egypt, the easing cycle, so far prevented by high inflationary pressures, is expected to start next year.

Long-term rates are generally forecast to increase in 2018 in the CEE/SEE countries in comparison with the historical lows reached (with the exception, again, of Czech Republic and Romania, where they rose in parallel with money market rates) in 4Q17. In the same regions, exchange rates are forecast to stay around current levels vs the Euro, with a slight weakening already having been registered by the HUF. Oil price dynamics – after the recent agreement between OPEC and Russia - and expected capital inflows should support the RUB and, respectively, the EGP in 2018.

We have raised our banking forecasts, particularly in lending, thanks to the better performance seen in the most recent data, but at a pace in 2018 generally expected to be lower than in 2017. The process of portfolio restructuring is continuing (NPL ratios are decreasing overall) and the expansionary economic phase is supporting a gradual lending recovery, even though this is lagging with respect to GDP dynamics. Deposit growth rates are generally forecast to decelerate in 2018, partly due to stronger competition from other savings products in most CEE countries, as well as in Croatia and Serbia. In the CIS region, loan growth is forecast instead to accelerate in 2018, but to remain below inflation in Ukraine, where it is also expected to decrease slightly in 2017. Deposits are also forecast to accelerate in 2018 vs 2017. The deposit profile is generally confirmed to be above loan growth dynamics and loan/deposit ratios are forecast to continue to decline.

Industrial production % y/y – CIS - Egypt
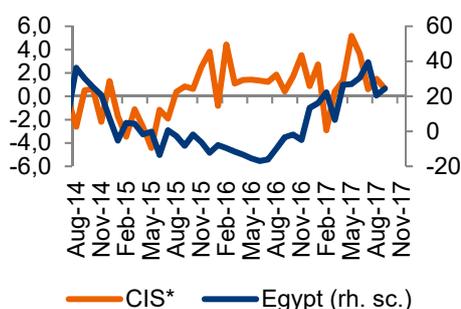
CIS*   Egypt (rh. sc.)
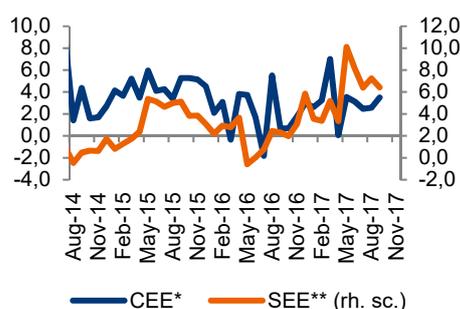
Sources: National statistics offices; note * weighted average on Russia and Ukraine data

Industrial production % y/y – CEE - SEE

CEE*   SEE** (rh. sc.)

Sources: National statistics offices; note * weighted average on Czech Republic, Slovakia, Slovenia and Hungary data; ** weighted average on Bosnia, Croatia, Romania and Serbia data

The figures in this document have been updated to 15th December 2017.
See the final page for important information.

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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 and in particular: Czech Republic, Slovakia, Slovenia and Hungary among CEE countries, Albania, Bosnia, Croatia, Serbia and Romania among SEE countries, Russia and Ukraine among CSI countries and Egypt among MENA countries.

Cross country analysis

Recent developments

Gianluca Salsecci, Giancarlo Frigoli, Antonio Pesce and Davidia Zucchelli

3Q **GDP** data for **CEE and SEE** countries showed that growth rates in both regions accelerated (to 4.3% y/y and 6.1%y/y from 4.1% and 4.5%, respectively). The improvement in economic conditions, which in general were above expectations, was robust and broad-based. As shown by monthly data on export and retail sales, the acceleration was driven by stronger export growth and an improvement in domestic demand. On the supply side, in several countries, such as Romania, growth was supported by a significant acceleration in the industrial sector.

In the **CEE region**, at the country level, Czech Republic recorded the strongest GDP growth (5.0% y/y in 3Q, after 4.7% y/y in the previous quarter). Growth accelerated in the other CEE countries as well, with the only exception being Slovakia, but where GDP growth was still above 3.0%. The GDP profile improved in the **SEE region** as well, thanks to the stronger dynamics observed in Croatia and Serbia with respect to 2Q (to 3.3% and 2.1% from 3.0% and 1.4% respectively), and to the impressive reading from Romania (8.6% in 3Q from 5.9% in previous quarter). 3Q GDP data for Bosnia haven't been published yet, but the 2Q release regarding GDP (1.7% y/y) was below expectations. For Albania as well, 3Q GDP data are not yet available, but in this case, the 2Q figure was broadly in line with our expectations. In November, forward-looking indicators signalled prospects of solid growth in the CEE/SEE regions in 4Q and in 2018, but in general at slower pace than in 3Q, and with some differences among countries. The Economic Sentiment Indicator (ESI) in November in EU members of the region was close to, but below, the record high of the year.

Economic growth strengthened further in the CEE/SEE areas in 3Q17

In the early months of 4Q, **inflation** increased slightly with respect to 3Q in all CEE and SEE countries due to pressure from the strengthening of the business cycle. In November, among CEE countries, it ranged from 1.4% in Slovenia to 2.5% in Hungary (2.9% in October in Czech Republic), while among SEE countries, it was between 1.7% (Albania) and 3.2% (Romania). With inflation rates within the respective target bands, central banks have maintained easy monetary policies, with the only exception being Czech Republic, where the Board of the Central Bank decided to raise further the policy rate by 0.25% to 0.5% in November. In Romania, policy rates have been kept constant, but rising inflation led monetary rates in the market to increase by c.100 bps.

Inflation rates are below CB targets in all countries except CZ, where it remained within the band

In the **CIS** region, **Russian** GDP growth in 3Q, at 1.8% y/y, was softer than in 2Q (2.5%). The year-on-year growth rate was depressed by the fact that there was one less working day in 3Q this year than in 3Q16. Most recent high frequency indicators suggest that the slowdown was mainly driven by weakness in the industrial sector, where production growth softened to 1.1% in 3Q, from 3.9% in 2Q. Industrial activity is likely to weigh on GDP in 4Q as well. In October, industrial production recorded its first negative reading after seven months of gains, dropping by 0.1% y/y. November's inflation figure was slightly lower than expected, slowing to 2.5% y/y (from 2.7% y/y in October). In addition, the core rate eased, to 2.3% (from 2.5% in October). Following the inflation reading, at its mid-December meeting, the CBR cut its policy rate by 50 bps, to 7.75%.

In 3Q, growth softened in CIS countries but accelerated in Egypt

According to preliminary data, in **Ukraine,** real GDP growth slowed to 2.1% y/y in 3Q, from 2.3% in 2Q. Construction activity continued to outperform other sectors, with a 24.6% annual gain in 3Q, but industrial production dropped by 0.4% y/y, before returning to positive territory in October (+0.4% y/y), when manufacturing recorded a strong 5.7% annual gain. In 3Q, retail sales maintained the strong pace seen in 2Q, rising by 8.2% y/y, but it took a breather in October, recording annual growth of 4.4%. Ukraine's inflation slowed to 13.6% in November, from 14.5% in October. The NBU updated its inflation forecasts for end-2017 from 9.1% to 12% and end-2018 from 6% to 7.3%. While signaling its concern about inflation, in December, it unexpectedly raised its policy rate by 100 bps, to 14.5%, marking the second hike after a period of sustained monetary easing. Pending the approval of the hike in gas tariffs, the FMI has frozen the release of the new tranche of the USD 17.5bn loan (of which USD 8.4bn has been drawn so far).

In **Egypt,** GDP growth accelerated to 5% in 4Q FY17, ended this past June, from 4.2% in the previous quarter, as reforms (in particular, the fx liberalisation and the new investment law) have led to improved export competitiveness and investor confidence. This took overall growth to 4.2% in 2016/17, still below the 4.3% recorded in the previous fiscal year, due to subdued domestic demand and the jump in real imports, as companies have been rebuilding their depleted stocks of imported goods following the removal of fx restrictions. The economy started FY18 on strong footing, with GDP rising by 5.2% from July to September, supported by further expansion in industry, trade and tourism as well as higher foreign investments, while consumer demand remained relatively weak, amid fiscal consolidation and high inflation. From its peak of 33% in July, annual CPI growth slowed to 26% in November. The disinflationary process is expected to continue in the months ahead, mainly supported by a favourable base effect, following the phasing out of the impact on prices of last year's significant devaluation of the pound.

With reference to **banking aggregates** in the CEE/SEE region, **loans** showed an improving performance in many countries in the last data release, particularly in Hungary (+5.1% y/y in October) and Romania (+7.1% y/y as of September) supported by the corporate sector (+9.1% y/y and +6.4% y/y, respectively). In contrast, corporate loans decreased further in Serbia (-4.6% y/y) and again in Croatia (-1.4% y/y in October), reversing the improvement showed in September (+0.3% y/y). Household loans increased in all the countries, particularly in Serbia (+8.4% y/y) and Slovakia (+12.9% y/y) even if at a decelerating pace. NPL ratios, which have so far fallen significantly in CEE countries, remained generally high in SEE countries, particularly in Albania, while improving strongly in Serbia (to 12.2%). **Deposits** remained resilient in many countries, particularly Romania (+11.8% y/y in September) and Hungary (+13.5% y/y in October), and at over 10% y/y in Bosnia. But, competition from other saving products is strengthening, particularly in the CEE countries, Croatia and Serbia. **Foreign liabilities** accelerated strongly in several countries, in particular in CZ (+94.3% y/y), Hungary (+21% y/y) and Serbia (+11.3% y/y), but declined further in Croatia and Albania (over -20% y/y) and Slovenia (-15% y/y).

In **the CIS area**, the loan growth remained negative (-0.3% y/y in Russia in August and -0.9% y/y in Ukraine in October), but slight improvements were seen both in the corporate, even though still negative in both countries, and the household (showing positive changes both in Russia and in Ukraine) sectors. The Central Bank of **Russia** cut the key interest rate many times in 2017 to the current 7.75%, easing pressure on bank margins. The cuts have reduced bank funding costs, thereby temporarily sustaining the net interest margin. Furthermore, the lower key rates have generated revaluation gains on banks' local fixed-income securities portfolios. In **Ukraine**, some slightly positive developments (such as an increased CAR, to 15.27%, as of September) reflect progress in implementing structural reforms amid a slowly improving economy. Household deposits accelerated in October (+7.4% y/y) despite lower rates on hryvnia-denominated deposits, especially in state-owned banks, while corporate deposits accelerated (+9.5% y/y) mainly supported by higher export revenues. The quality of the banking sector's loan portfolio remains critical, with the NPL ratio still at 56.4% in September.

Economic sentiment indicator
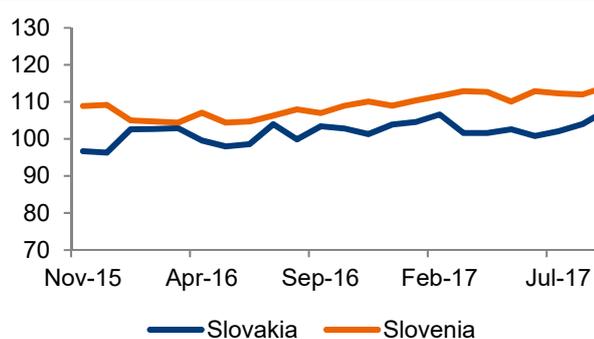
Source: European Commission

Economic sentiment indicator
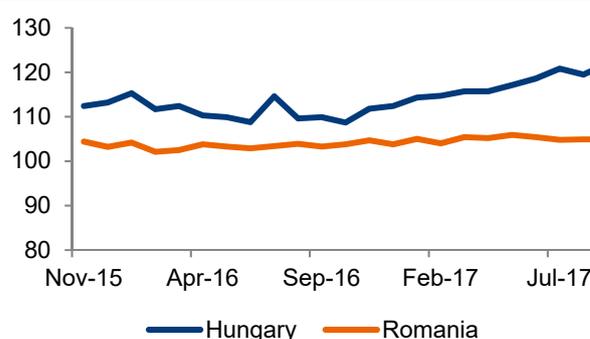
Source: European Commission

The international outlook underlying the scenario

Policymakers in **advanced economies** face the best possible outlooks in years: the business cycle looks set to consolidate further in 2018. Following the different stages of relative economic expansion, in 2017, the Fed has continued the gradual tightening of its monetary policy started at the end of 2015 while the ECB announced the extension of QE till (at least) September 2018 while halving the monthly APP to USD 30bn.

In more detail, in the **US**, as largely expected, at its mid-December meeting, the Fed hiked its policy rate by 25 bps (fed fund rate now set in the 1.25-1.50% range). The US monetary authority expects inflation to remain below the 2% target in the short term, but accelerate in the M/LT. Therefore, it reiterated its stance of further rate increases next year (three increases are expected of 25 bps each after a temporary break at its January 2018 meeting) and of a gradual removal of its liquidity support. As far as GDP growth is concerned, the Fed revised upwards its forecast for both this year (to 2.5% from 2.4% previously) and 2018 (to 2.5% from 2.1%).

In the **Euro Area**, against a backdrop of further improvements in the eurozone economy, at its meeting of 14 December, the ECB's Governing Council considered it appropriate to maintain the degree of monetary stimulus unchanged. As a result, the introductory statement reaffirmed the guidance on rates and on the EAPP given at the previous meeting, specifically that it would cut net asset purchases in half, to EUR30bn per month, starting in January 2018, continuing until September 2018 at least, and that all policy rates would remain on hold until *well after* the end of the APP. The recent strong macro data led to upwards revisions to the ECB's growth projections for 2017-19. Now, GDP growth in the eurozone is forecast at 2.4% (vs 2.2% previously) in 2017, 2.3% (vs 1.8%) in 2018, and 1.9% (vs 1.7%) in 2019.

In **emerging markets**, the growth upswing that started in the 2H16 gained additional momentum in 3Q17. In a sample that represents 75% of the emerging economies' product, annual GDP growth accelerated to 4.4% in 3Q17, a full percentage point faster than in the same quarter of 2016. Looking ahead, growth in emerging countries is forecast to strengthen further, from 4.3% in 2017 to 4.6% in 2018, according to the latest (end-October) IMF projections.

Looking at the recent dynamics of emerging countries, Asia continues to largely outperform by recording on average a growth pace of 6.5% in 3Q17, with China (GDP: +6.8% y/y) still leading the pack. Latin America turned the corner at the beginning of 2017, with Argentina and Brazil returning to a recovery path, and growth has now gained additional strength (GDP increased by 0.8% y/y in 3Q17 compared to -1.9% y/y in 3Q16). Sub-Saharan Africa is also picking up, supported by the partial recovery in raw materials prices. In this area, South Africa is showing surprising resilience (GDP growth accelerated to +1% in the first nine months of 2017 compared to +0.2% in the same period last year). In the MENA region, in GCC countries, the drag from oil production cuts, the impact of fiscal austerity due to the fall in oil revenues (only partly eased recently), and the negative effects of the local geopolitical tensions has meant that GDP looks set to remain almost unchanged in 2017 with respect to 2016. A boost to growth had come from hydrocarbon importing countries (in Egypt, GDP growth in 3Q accelerated to 5.2%) and a more favourable agricultural season (in Morocco, GDP increased by around 4% in 3Q).

Looking ahead, growth in emerging countries is forecast to strengthen further, although remaining significantly below the historical average in the commodity exporters of Latin America, SS Africa and CIS, as the economies of these countries continue to adjust to structurally low exported good prices. In contrast, growth is projected to be more solid in the group of commodity-importing countries of Asia and Emerging Europe. The latest forecasts by the IMF point to real GDP growth accelerating to 1.9% in 2018, from just above 1% expected this year, in Latin America; to 3.5% in 2018, from 2.6% in 2017, in the MENA region; and to 3.4%, from 2.6%, in SS Africa; and to remain around 6.5% in emerging Asia, where the acceleration expected in India should balance the mild slowdown forecast in China.

In advanced economies, growth forecasts were revised upwards. Monetary policy was maintained

In emerging economies, growth is gaining momentum

The economic outlook

GDP growth and inflation

Due to 3Q GDP data that were above expectations, in the countries with ISP subsidiaries in the CEE/SEE regions, GDP growth forecasts for 2017 have been revised upwards (on average, to 4.6% from 3.8%) with respect to our September note. After considering both the positive readings coming from most recent high frequency indicators and the expected economic dynamics projected in the EA in 2018, GDP growth has also been revised slightly upwards for 2018, on average to 3.5% from the 3.4% of our September note, with the business cycle in fact expected to consolidate the expansionary phase at a slower pace with respect to the peak foreseen in 2017.

In the **CEE area**, the main drivers of growth, namely domestic demand for consumption and investments, remain on track, thanks to improved conditions in labour markets (rising wages and number of employees) and to renewed withdrawals from EU structural funds. Exports should continue to contribute based on consolidation of the business cycle in the EA. GDP growth in the region, although upwardly revised with respect to previous forecasts, both in 2017, to 4% from 3.7%, and 2018, from 3.2 % to 3.4%, is still expected to decelerate on average when comparing 2018 with 2017.

Also in the **SEE area,** GDP growth has been revised upwards for the whole of 2017, to 5.3% (from the previous 3.9%), an effect of the above-noted expectations regarding 3Q GDP data. The upward revision has been extraordinarily high for Romania, to 6.9% from 5.9% in our September note, following the spectacular reading of 3Q17 (+8.6%), with expectations supported by rising wages and pro-cyclical fiscal and monetary policies. In line with the September forecasts, GDP growth of the area is in this case expected to decelerate in 2018, to an upwardly revised 3.6%, with Romania expected to consolidate the expansion at a more sustainable growth rate, at around 4% in the coming year.

With the observed strengthening of economic activity and the slightly upward revision of GDP growth, **inflation** expectations have been somewhat positively revised for 2017 and 2018, but overall the pressures on consumer prices are still perceived to be contained and inflation rates are expected to remain well within the target corridors set by the respective national banks, except for Czech Republic and Romania. In the former case, the dynamic of consumer prices is forecast to remain well above the central value of the corridor target but converging to it next year and in the year after. In the latter case, where November inflation surprised to the upside at 3.2% y/y, inflation is expected to rise to 3.6% next year also due to higher administered prices.

In the **CIS area,** we continue to expect an acceleration in GDP growth next year to 1.8% in **Russia** helped by more supportive monetary and budgetary conditions (due to the oil price recovery) and by historically low inflation. In **Ukraine**, we forecast real GDP growth to pick up to 3.0% in 2018, after a disappointing 1.6% forecast for 2017. That said, the slow implementation of structural reforms and the Donbas trade blockade continue to limit the strength of the recovery, which means that headline growth should remain well below historical averages.

In the **MENA region**, based on the recent strong quarterly GDP growth numbers and considering the boost to activity from the start of drilling in the large Zohr gas field, we upgraded GDP growth in Egypt for both 2017 and 2018 fiscal and calendar years (to over 5%). Reforms and easing monetary and fiscal conditions are expected to be supportive of growth in the M/LT.

In the CIS area, in **Russia**, given the recent readings, inflation is forecast to remain below the CBR's 4% target longer than previously expected (well into 2019). Unlike Russia, in **Ukraine,** the rise in food prices due to a not particularly good agricultural season has slowed the disinflationary process. We now expect the annual inflation rate to end 2017 at 14.4%, well above the CB's recently upward revised target of 12.2%. The slowdown of inflation is expected to gain some steam in 2018, with the forecast for year-end (10%), however, still higher than the CBR's target (7.3%). We continue to be confident about the slowdown in **Egypt**'s inflation and see the year-end 2017 annual inflation rate at 22% and the year-end 2018 rate meeting the CBE's 13% target.

GDP growth forecasts have been revised upwards in CEE/SEE areas

In CIS countries, growth appears to be picking up, but the pace is likely to remain modest in the M/LT

Reforms and more supportive macro conditions to sustain growth in Egypt

Inflation rates are expected to remain on slightly rising path, but still be low and well within CB target corridors

Monetary policy and financial markets

Due to expected weak inflationary pressures and based on the monetary stance followed by the ECB, monetary policy conditions in **CEE/SEE countries** are expected to remain broadly accommodative this year and next. However, in Czech Republic, to counteract rising inflationary pressures, the National Bank has already started a tightening cycle and additional increases are expected in 2018. In Romania as well, where the central bank narrowed the symmetrical corridor (from ±150 bps to ±100 bps around the 1.75% monetary policy rate), the recent and broadly unexpected inflation increase supports expectations of further increases in money market rates, following the jump already observed in 4Q17.

Monetary conditions are expected to remain accommodative overall

For the **CIS area**, the monetary easing process still has some way to go in **Russia**, with inflation at present below target and policy rates expected to be cut further to 7% in 2018. In **Ukraine**, the central bank, by raising its policy rate in October and in December for a total of 200 bps, signalled its concern about stickier inflation. While we revised up the interest rate profile compared to our September note, we continue to expect that easing inflationary pressures will permit the bank to loosen interest rates in 2018. In the **MENA** region, in **Egypt,** the central bank is expected to start cutting its policy rate in 2018. Short-term Treasury bills have already dropped by about 150 bps since last May, reflecting high demand by foreign investors at the Treasury's auctions.

In 2018, an easing cycle is expected to resume in Ukraine and to start in Egypt

As an effect of the expected low inflation path and moderate risk premia, **long-term rates** in CEE and SEE countries are forecast to remain generally contained, although moving upwards in 2018, after the historically low levels reached in 4Q (with the exception of Romania and Czech Republic), broadly in line with the expected rising path of the EA's benchmarks. In the same region, exchange rates are expected to remain around the 4Q17 levels *vs* the euro.

Long-term rates are expected to rise gradually in CEE and SEE countries, following the historical lows seen in 4Q

In the CIS region, in **Russia**, easing public financing needs on the back of higher-than-previously-expected oil prices should favour lower yields, even if concerns about possible new sanctions by the US Congress barring the purchase of new Russian sovereign bond issues might act as a negative counter-weight. Recovering oil prices are expected to continue to support the Russian rouble. In contrast, we see the **Ukrainian** hryvnia continuing to follow a depreciating path in the medium term in order to keep the competitive external position amid a persisting inflation gap with trade partners. The NBU is, however, expected to intervene to smooth fluctuations, considering the high degree of dollarisation of the economy

Long-term rates are forecast to fall slightly in Russia. Oil quotations should support the rouble. High inflation to weigh on the hryvnia

In **Egypt**, foreign capital flows are likely to overshadow other factors in the short term, continuing to support the currency in 2018. Further out, we see the pound weakening slightly in nominal terms in order to contain the deterioration in the competitive position of Egypt amid relatively higher inflation with partners.

The EGP looks stronger in the ST, weaker in the LT

5Y CDS spread (chg, bps)	Stock market indices (% chg)
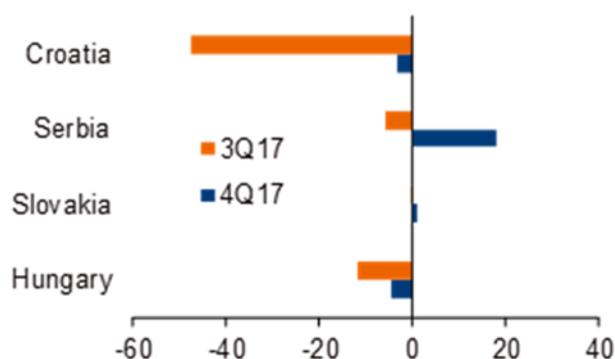
Source: Bloomberg
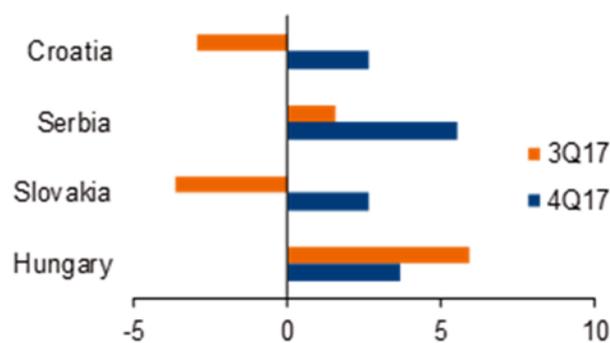
Source: Thomson Reuters

Bank aggregates and interest rates

The **outstanding amount of loans** in the **CEE/SEE region** is generally expected to show a stronger increase than in previous forecasts for many countries in 2017, due to an accelerating dynamic seen in the last few months. This is particularly true in Romania (+6.2% in 2017 is the updated forecast, from +4.5%, thanks to improvements in both the corporate and household sectors). In Slovakia, Bosnia and Serbia, positive performances have been confirmed this year along the lines forecast in our September note. A turning point is forecast to be reached in Croatia, where loans are still expected to perform positively in 2017, after several years of negative rates.

The consolidation of macroeconomic conditions is at the base of a slight upward revision of lending forecasts in 2018 for Slovenia, Hungary, Albania and Romania, where growth rates of loan stocks are nevertheless softening in comparison with 2017. A lagging recovery of loans stock is due to the gradual completion of banks' portfolio restructurings, and lending growth, even if it is expected to gain steam, is not forecast to catch up with nominal GDP growth yet. In Czech Republic and Slovakia, where the increases in loan volume has been connected mostly to household mortgages, a deceleration is actually expected due to prudential measures adopted by central banks.

In the **CIS area,** the pace of the loan dynamic is forecast to recover in 2017 at still-below-inflation rate in Russia, but showing a positive real increase in the following years. In contrast, in Ukraine, the forecast trend for loans is expected to remain negative in real terms for a while. In 2018, interest rate cuts and a slight acceleration in growth are expected to support demand for new loans in Russia, where asset quality is expected to stabilise (and to improve in the following years). In Ukraine, the weak operating environment is expected to constrain banks' lending capacity (still under the weight of high NPL as well) and demand for credit. In **Egypt**, lending dynamics, despite the deceleration with respect to the performance observed in 2016 (related to the accounting effect of the exchange rate appreciation), are forecast to remain in double digits, but still below nominal GDP growth.

Funding and liquidity are expected to remain supportive in the CEE/SEE regions. **Deposits** in all countries are forecast to show a positive trend, especially among CEE countries, although decelerating, because of higher consumption, in line with the improving economic environment and higher competition from other saving products that offer higher returns. Loan/deposit ratios are generally expected to decline slightly, but to stay over 100% in Slovakia, Serbia and Bosnia, and in the CIS countries.

Loan dynamics are expected to recover

Consolidated positions on counterparties resident in CEE countries (BRI banks, y/y % chg of outstanding amounts)

Source: Intesa Sanpaolo processing of Bank for International Settlements data
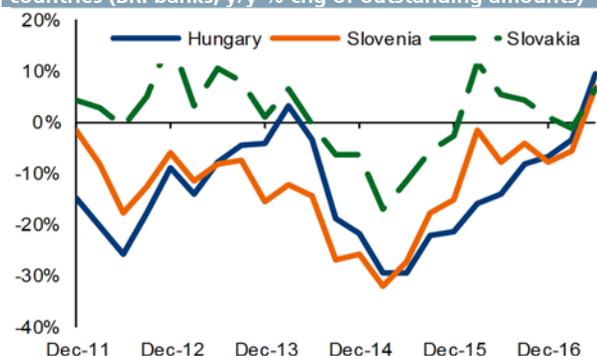
Consolidated positions on counterparties resident in SEE countries (BRI banks, y/y % chg of outstanding amounts)

Source: Intesa Sanpaolo processing of Bank for International Settlements data
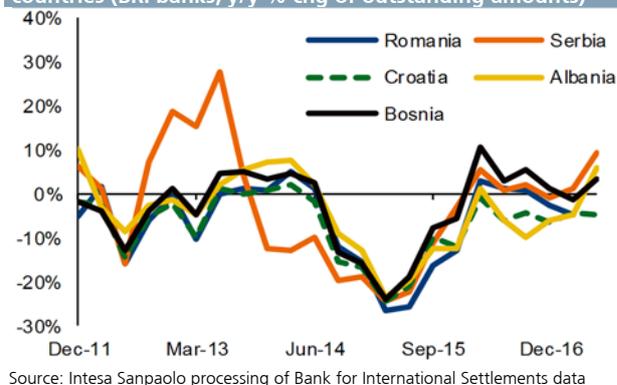
Country-Specific Analysis

Albania

Real Economy

The economic growth in the first half of the year was around 4%. The growth has been driven by the improvement of the trade balance — exports, energy, tourism and services — the increase of foreign investments, remittances and income from tourism. Exports in October expanded further by14.3% compared to a year ago. In 2017, investment gained momentum due to large energy-related FDI projects and a revival of construction and tourism services. A recovery in the labour market (the unemployment rate in 3Q decreased to 13.6% from 14.7%) and household credit, supported by accommodative monetary policy, and higher private consumption. For 2017 and 2018, growth is projected to remain near 4%, still driven by domestic demand and supported by EU expansion and the reform process towards EU accession, which is expected to improve the business climate. Inflation, which in November stood at 1.7% y/y, is expected to reach an average of 2% in 2017, due to stronger domestic demand and food price hikes. For the next two years, inflation is expected to edge up gradually as the output gap closes, then stabilising at around the 3 % target.

Kledi Gjordeni

Financial Markets

The inflows of foreign currency have led to appreciation of the domestic currency. The central bank will continue its accommodative monetary policy until the end of 2018 or later to stimulate credit growth, consumption and investments. The CB has announced a comprehensive strategy to reduce the use of foreign currency starting in 2018. Inflows of foreign currency have led so far to appreciation of the domestic currency.

Banking Sector

Year over year in October 2017, the last data available show a 0.28% increase in total deposits. Household deposits shrank by 2.1% while corporate deposits expanded by 13.17% y/y. In October 2017, total loans grew by 0.27%. Loans to households expanded by 4.7%, but corporate loans shrank by 1.63%. Credit to the private sector was affected by write offs of NPL, which fell from 25% to 14%. Credit deepening remains low by regional standards, reflecting structural challenges such as low income, a large informal economy, lack of credit scoring, and a weak collateral execution framework. As a consequence of macro-prudential measures and structural reforms, the CB expects that in the coming years credit will grow at higher pace. The government has decided that in 2018 it will release a package of measures in the form of a private partnership worth 1.12bn. The package, part of the "One billion Euro" project, will only fund public works that are not related to the service sector. The three focus areas defined by the executive are education, health and roads.

Forecasts			
	2016	2017F	2018F
Real GDP yoy	3.5	4.0	3.9
CPI (avg)	2.2	2.0	2.4
Euro exchange rate (avg)	137.4	134.2	134.8
Euro exchange rate (end of period)	135.2	134.0	135.5
Short-term rate (avg)	1.0	1.1	1.1
Short-term rate (end of period)	1.1	1.1	1.1
L/T bond yields (avg)	n.a.	n.a.	n.a.
Bank loans yoy (end of period)	0.2	1.5	2.0
Bank deposits yoy (end of period)	2.7	0.5	2.0

Source: Intesa Sanpaolo Research Department forecasts

Export and inflation
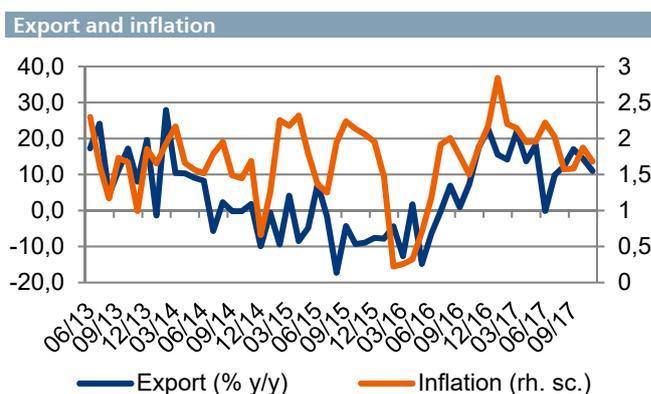
Source: INSTAT

Bosnia and Herzegovina

Real Economy

Even though the first half of the year saw sluggish 2.2% y/y growth, the economy improved in the third quarter. Industrial production grew by 5.8% y/y supported by 23% higher exports of goods, the strongest growth recorded since 2010/11. Simultaneously, retail trade expanded by 4.3% y/y confirming 42 months of consecutive growth and reflecting a 2.8% y/y increase in employment. Thus, although 3Q data look promising, a lower-than-expected outturn in 1H resulted in a downward revision of 2017 estimates to 2.6%. As so far there has been no progress in terms of the reforms under the current IMF's EFF and none is expected before the October 2018 elections, we cut our expected investment outlook and downsized our 2018 forecast to 2.9% y/y (from the previous 3.2%). Growth remains broadly supported by favourable foreign demand and recovering personal consumption, but appears to be limited by a lack of structural reforms and the political deadlock, which represent the most significant downside risks.

Over the past 10 months, the average inflation rate remained at around 1.2% y/y, in line with our expectations and mainly reflecting imported inflationary pressures from oil and food prices. For next year, we see average inflation strengthening modestly, to around 1.5% y/y.

Ivana Jovic

Banking Sector

Ana Lokin

The pace of growth of private sector loans strengthened to 7.2-7.3% y/y in August-October, driven by a rise in demand from both non-financial corporations and households, with the latter predominantly resulting from an increase in consumer loans (+8.5% y/y in October). Compared to the end of 2016, loans recorded a 5.8% increase. The positive trend is expected to be sustained in 2018, but a slight downward revision of GDP for 2017-18 supports our cautious view. Therefore, our loan growth forecasts remain unchanged at +6.0% y/y in 2017 and +4.8% y/y in 2018.

Private sector deposits rose by+8.9% y/y in September and 10.2% y/y in October, supported by positive real sector developments and rising credit activity. In comparison with the end of 2016, deposits rose by 7.1%. The deposit growth rate accelerated specifically due to a somewhat surprisingly strong increase in deposits from non-financial corporations, which surged by 12.6% y/y in September and a stronger 16.8% y/y in October. However, as the volume of corporate deposits is low, and the growth of dominant household deposits remains in line with our expectations, we are leaving our deposit growth forecasts unchanged at +7.2% y/y in 2017 and +6.9% y/y in 2018.

Forecasts			
	2016	**2017F**	**2018F**
Real GDP y/y	3.2	2.6	2.9
CPI (avg)	-1.1	1.2	1.5
Euro exchange rate (avg)	2.0	2.0	2.0
Euro exchange rate (end of period)	2.0	2.0	2.0
Short-term rate (avg)	n.a.	n.a.	n.a.
Short-term rate (end of period)	n.a.	n.a.	n.a.
L/T bond yields (avg)	n.a.	n.a.	n.a.
Bank loans y/y (end of period)	3.4	6.0	4.8
Bank deposits y/y (end of period)	7.4	7.2	6.9

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation
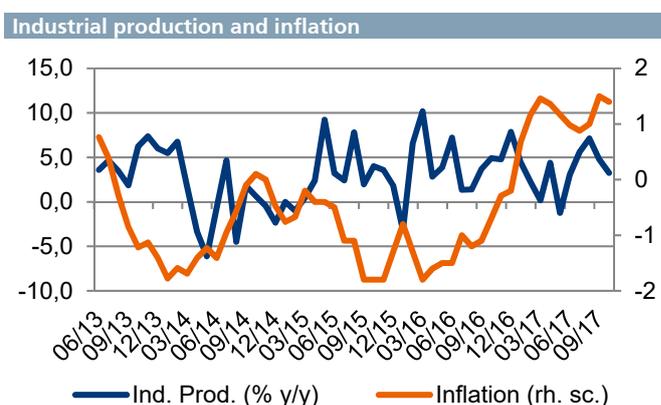
Source: Labour and employment agency

Croatia

Real Economy

In line with expectations, in 3Q, the economy recorded 3.3% non-adjusted y/y (3.2% sa) and 0.9% sa q/q growth. As in the previous quarters, domestic demand (+3.7 pp) remained the main driver of economic growth, whereas net exports recorded a negative contribution (-0.4 pp) to headline growth. Backed by a rise in net wages and an improved labour market, private consumption posted +3.7% y/y real growth, the same rate as in 2Q, while public consumption grew by +2.3% y/y and investment activity by +3.4% y/y. Thus, most likely this year's growth will end up being a bit higher than our 2.9% y/y estimate, or around 3.0%. As for 2018, we see growth moderating slightly, to 2.8% y/y, based on a similar growth profile, with the main drivers remaining private consumption and exports driven by a favourable economic cycle regarding major trading partners. However, we see private consumption returning to a more moderate growth path given the fading effects of tax reform, while stronger investments will be driven by EU funds utilisation, representing a downside risk to our projection with the restructuring process in troubled Agrokor the most pronounced risk factor in the coming year.

Ivana Jovic

Financial Markets

We expect monetary policy to remain accommodative. Hence, we are leaving our average 2017 and 2018 3M Zibor forecasts at 0.6%. The exchange rate vs the euro is forecast to stay stable, as the CNB is expected to tightly manage the fluctutations of the fx rate while Croatia is preparing to apply for ERM II entry in the upcoming period. Therefore, we maintain our average 2018 EUR/HRK forecast at 7.49. In line with record-low money market rates and in anticipation of credit rating upgrades, we expect that the narrowing of spreads vs the Bund will continue (by an additional 40 bps in 2018). However, due to the rise in becnchmark rates, we have left our forecasts for average long-term kuna government bond yields for 2017 and 2018 unchanged at 2.8%.

Ana Lokin

Banking Sector

We have adjusted our 2017 loan growth estimate to +0.5% y/y due to somewhat stronger deleveraging of the corporate sector. Our loan growth forecast for 2018 remains unchanged at +1.1% y/y. This prudent forecast is the result of expected continued portfolio sales due to a high burden of NPL, especially in corporate portfolios, the prolonged impact of the Agrokor restructuring, as well as limited private sector credit growth potential (demographic issues, credit eligibility, stronger international and non-bank competition in the corporate segment). Deposit growth remained robust at +3.2% y/y in October, which led us to revise upwards our 2017 estimate from +1.4% y/y to +3.0% y/y. Consistent with a moderation in economic growth, modest loan growth projections, as well as low and declining kuna and euro savings deposit rates, our deposit growth forecast for 2018 remains unchanged at +1.5% y/y.

Forecasts	2016	2017F	2018F
Real GDP y/y	3.2	3.0	2.8
CPI (avg)	-1.1	1.2	1.5
Euro exchange rate (avg)	7.5	7.4	7.5
Euro exchange rate (end of period)	7.5	7.5	7.5
Short-term rate (avg)	0.9	0.6	0.6
Short-term rate (end of period)	0.8	0.6	0.6
L/T bond yields (avg)	3.6	2.8	2.8
Bank loans y/y (end of period)	-4.3	0.5	1.1
Bank deposits y/y (end of period)	2.8	3.0	1.5

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation
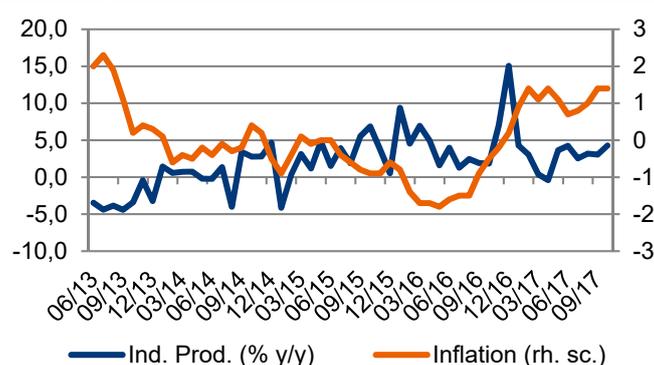
Source: EC

Czech Republic

Real Economy

The Czech economy continues to outperform already upbeat expectations. We have revised our real GDP growth projection for 2017 to 4.4% from 4.0% as activity and labour market data reported since the September forecast note have consistently exceeded expectations. Growth next year will probably moderate a bit due to the strong koruna exchange rate, but remain above 3% on strong domestic demand momentum. Domestic activity will be driven by robust growth of household consumption, which is supported by continuing growth in employment and rising wages amid an EU-low unemployment rate of less than 3%. A positive contribution to GDP growth will also come from investment, which should continue to expand on a renewed drawdown of EU funds and faster growth of private investment stemming from rising foreign demand and tight production capacity. Moderation next year from extra fast growth in 2017 should mainly come from higher imports required to support the rise in investment and a stronger koruna somewhat curbing export growth. Fiscally, the country should remain in very good shape, maintaining a comfortable budget surplus of 1.4% of GDP and a debt/GDP ratio declining toward 30%.

Price-wise, we continue see consumer inflation above the 2% CNB target in 2018. Property prices likely will also continue to rise, as demand for housing remains brisk and outstrips supply, particularly in the capital, Prague.

Zdenko Štefanides

Financial Markets

Amid a booming economy and rising inflation, the Czech National Bank raised interest rates twice in 2017 and appear to remain inclined to making further rate increases. Its baseline forecast assumes that the two-week repo will rise by a cumulative 50 bps in 2018 and further 100 bps in 2019. However, we believe the tightening will be brought forwards as the economy starts to overheat. In 2018, therefore, we look for the repo rate to rise by at least 75 bps. In fact, the CNB has admitted that should inflation and wage growth surprise vs its baseline forecasts only marginally, it will have to respond with outsized monetary changes as soon as in 2018. The koruna should continue to appreciate as Czech economic growth continues to outstrip that of the Eurozone.

Banking Sector

The Czech banking sector should continue to grow fast along with the booming economy. Household spending, rising employment and low funding costs will support debt servicing and credit demand into 2018. However, the pace of growth in the retail market should gradually moderate on regulatory tightening of credit conditions. In the corporate market, a positive economic outlook amid low interest rates speak in favour of demand for loans. Demand for investment should also be supported by tight capacity. Deposit volumes should continue benefit from a strong saving culture and growth in household incomes.

Forecasts	2016	2017F	2018F
Real GDP y/y	2.4	4.4	3.4
CPI (avg)	0.7	2.6	2.6
Euro exchange rate (avg)	27.0	26.5	26.0
Euro exchange rate (end of period)	27.0	26.3	25.8
Short-term rate (avg)	0.3	0.4	1.0
Short-term rate (end of period)	0.3	0.7	1.3
L/T bond yields (avg)	0.4	1.0	1.7
Bank loans y/y (end of period)	6.7	7.5	6.2
Bank deposits y/y (end of period)	5.8	8.0	7.0

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation
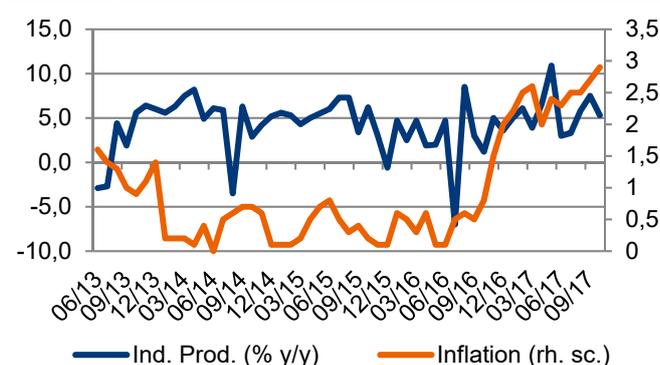
Source: EC

Egypt

Real Economy

GDP growth rate for 1Q FY17/18 reached 5.2% compared to 3.4% in 1Q FY16/17, supported by the recently witnessed improvements in different sectors, especially tourism (tourism revenues jumped by 211.8%, to USD 5.3Bn during the first nine months of 2017) and the constructions sector (which grew by around 8.5% during the same period, positively affected by the expansion in infrastructure projects all over the country). GDP growth is expected to improve further with the resumption of Russian tourism to Egypt after being stopped for two years, the recently signed deal between Egypt and Russia for the construction of a new nuclear plant, and the start of production in the giant Zohr gas field.

Samer Halim

Annual headline inflation continued to decrease for the fourth month in a row, to 26% in November compared to 30.8% in October, due to the base year effect. The inflation rate is expected to continue to decline to reach the government's target of 13% (+/- 3%) by 4Q18.

Financial Markets

At its last meeting, the Monetary Policy Committee kept the overnight deposit and lending rates unchanged at 18.75% and 19.75%, respectively. A downward trend in interest rates is expected to start in the coming year in order to boost growth after the expected decline in inflation.

The USD exchange rate against the EGP has been increasing, reaching EGP 17.8 at the end of 2017, due to both the seasonal increase on demand for the US dollar as imports increase in this period and multi-national companies need to repatriate their profits to parent companies and to the lifting of limits on companies importing non-essential goods. The USD/EGP average is expected to stabilise in 2018, with two opposing forces affecting the Egyptian pound: foreign currency (FC) inflows after devaluation on the one hand and increasing external debt and a still strong inflation differential with trade partners on the other.

Banking Sector

Total bank loans to the private sector reached EGP 895bn in August 2017, up 34.1% y/y, while private sector deposits reached EGP 2.49tn, up 44.4% y/y, impacted by the value increase of FC loans and deposits after the devaluation (FC loans and deposits rose by 66% and 102%, respectively). Moody's upgraded its standalone baseline credit assessment of government-owned banks to B3 from Caa1 due to the improvement in the Egyptian operating environment, with better growth prospects, stronger institutions and lower political risk. Bank loans are expected to decline in 2018 due to the base year effect and the expected decline in inflation and bank deposits as well.

Forecasts			
	2016	2017F	2018F
Real GDP y/y	3.8	4.9	5.3
CPI (avg)	13.7	29.6	18.0
USD exchange rate (avg)	10.0	17.8	17.6
USD exchange rate (end of period)	18.5	17.8	17.5
Euro exchange rate (avg)	11.1	20.1	21.0
Euro exchange rate (end of period)	19.4	21.0	21.4
Short-term rate (avg)	14.2	19.4	17.9
Short-term rate (end of period)	19.0	18.8	17.0
L/T bond yields (avg)	n.a.	n.a.	n.a.
Bank loans y/y (end of period)	42.8	15.0	13.0
Bank deposits y/y (end of period)	41.4	22.0	16.0

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation
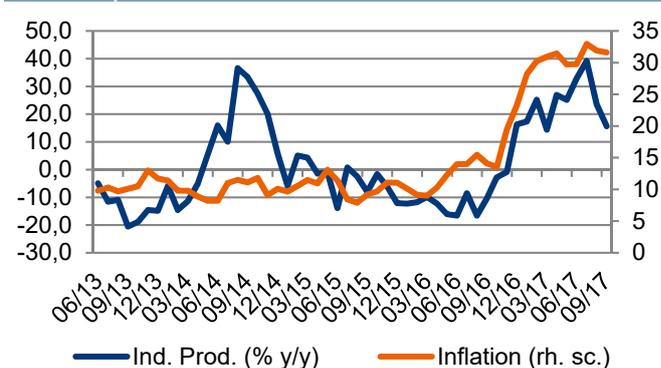
Source: EC

Hungary

Real Economy

GDP growth revived to 3.9% y/y in 3Q17 (from a revised 3.3% y/y in 2Q), significantly above the annual average of 2.0% in 2016 (FY). The revised 3Q figure came in above market consensus, while the flash data showed a 0.3 pp lower rate. Market-based services provided the strongest support in 3Q. We expect GDP growth to come in above levels forecast earlier this year. The rise of EU funds utilisation, ongoing fiscal and monetary stimulus, as well as strong wage growth are supporting the economy. This should result in GDP growth above 3.5% in 2017, but with the fading of these impacts, growth should record a slightly slower rate in 2018.

Headline inflation was close to the expected annual average in November (2.5%), breaking the autumn's downward trend. The impact of rising wages has been limited on the headline figure and even the rise of core inflation came to a halt slightly below 3%. Annual average CPI is projected to be close to 2.4%, which could be followed by a moderate rise in 2018 given the ongoing lack of imported inflation and domestic demand being more influential on the housing market rather than in the market for durable goods or services. External and internal balances look set to remain in good shape, though the fiscal balance improvement recorded in the preceding years appears to have ceased this year.

Financial Markets

The NBH left the 3M policy rate on hold at 0.90% in 2017 while the focus has turned towards the O/N depo rate with the administrative decrease of the 3M depo stock (ending at HUF 75bn). Further rate cuts are unlikely in 2018. Monetary easing should continue, however, as the NBH announced the launch of a new swap programme and mortgage bond purchases of significant scale from January 2018. This announcement reflects the central bank's commitment to driving longer yields down, in addition to supporting ongoing low BUBOR rates well below the 0.90% base rate level, essentially close to 0%. Hence, we expect the entire yield curve to remain close to its end-2017 levels next year. Recent monetary actions pushed the forint to slightly weaker levels vs the euro and to some extent also vs CEE currencies. Still, the EUR/HUF 305-315 band is likely to remain in place in 2018 as domestic balance indicators (especially trade) and EU funds remain a source of support.

Banking Sector

Rising domestic demand, improved economic sentiment and the inflow of EU funds have provided support to the demand side of the loan market recently. Following several years of contraction, the bank loan stock showed strong growth rate in 2017. Growth is set to continue in 2018, though at a somewhat milder rate after the correction. Some loan segments (including mortgages and personal loans) have already shown dynamic pick-ups. Asset quality continues to improve, with NPL well below 10% in 2017. The sector has continued to experience high liquidity and a strong capital position.

Sandor Jobbagy

Forecasts			
	2016	2017F	2018F
Real GDP y/y	2.2	3.7	3.2
CPI (avg)	0.4	2.4	2.6
Euro exchange rate (avg)	311.4	310.3	313.0
Euro exchange rate (end of period)	311.7	314.0	312.0
Short-term rate (avg)	1.0	0.1	0.0
Short-term rate (end of period)	0.4	0.0	0.0
L/T bond yields (avg)	3.2	2.9	2.1
Bank loans y/y (end of period)	-1.9	6.5	3.2
Bank deposits y/y (end of period)	6.3	6.0	5.5

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation
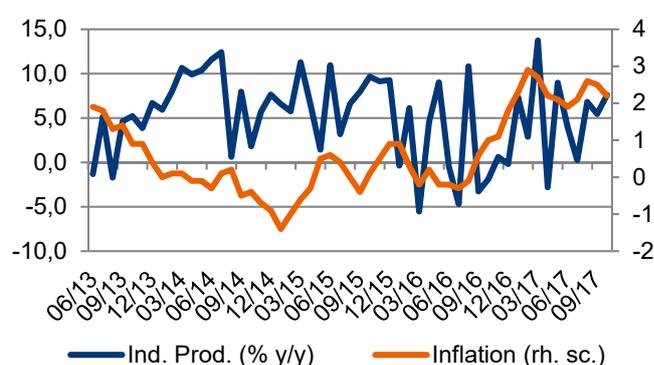
Source: CSO

Romania

Real Economy

Growth in 3Q17 came in at 8.6% y/y, as a good performance from the agriculture sector exceeded even the most optimistic expectations and consumption has been heavily fueled by fiscal stimulus. Full-year GDP growth is thus on track to reach 7% y/y, but there are many question marks related to the factors supporting next year's GDP over the sustainability of domestic consumption and the volatility of the agriculture sector. Moreover, the tightness in the labour market, the upward price pressure which is likely to act as a break on consumption, and the reduced fiscal space in 2018 are all likely to limit the outstanding pace of growth (very likely to be) reached in 2017.

November inflation surprised to the upside at 3.23% y/y, above market consensus and slightly above the central bank's projection. This sets a very high base for year-end 2017 inflation which could fuel price dynamics into 2018, creating a vicious inflationary circle. Consequently, 2018 could experience the factors resulting in the same price pressure (from international commodity prices or higher administered prices as reduced fiscal space will put pressure on the central budget).

Financial Markets

After two consecutive moves on policy rates, when the Romanian Central Bank narrowed the symmetrical corridor (from ±150 bps around the 1.75% monetary policy rate to ±100 bps, increasing the deposit facility rate to 0.75% from 0.25% and decreasing the credit facility rate from 3.25% to 2.75%), the central bank seems to be slightly ahead of the curve. Notwithstanding this, given the behaviour of inflation in the past couple of months, expectations are building up that more moves should be expected on monetary policy rates.

The national currency, the RON, has shaved off some of its value in the last quarter, as the trade imbalance with the external sector continued to increase on the back of the increase in aggregate demand created by the fiscal stimulus which was satisfied by the external supply. Local currency weakness is likely to continue into 2018, if nothing else, on the back of the pace of inflation which will likely erode the RON's purchasing power.

Banking Sector

Although spread unequally among segments, the banking industry looks set to post positive results in 2017 and set healthy targets for 2018. In 2017, the household sector led the way (new deposits likely above RON 173bn and new loans RON 121bn) and is likely to continue to do so. Corporates have followed in 2017 (new deposits likely above RON 100bn and new credit above RON 108bn), but expectations into 2018 look more promising for the corporate sector.

Sebastian Maneran

Forecasts	2016	2017F	2018F
Real GDP y/y	4.8	6.9	4.1
CPI (avg)	-1.5	1.3	3.4
Euro exchange rate (avg)	4.5	4.6	4.6
Euro exchange rate (end of period)	4.5	4.6	4.6
Short-term rate (avg)	0.8	1.1	2.0
Short-term rate (end of period)	0.8	1.9	2.1
L/T bond yields (avg)	3.4	4.0	5.3
Bank loans y/y (end of period)	0.6	6.2	4.4
Bank deposits y/y (end of period)	8.5	5.4	5.5

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation
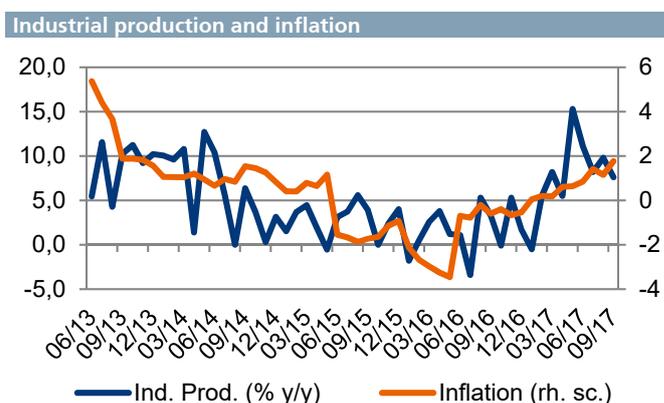
Source: NBR

Russia

Real Economy

GDP growth in 3Q slowed to 1.8% y/y compared to 2.5% yoy in 2Q. The acceleretion of GDP growth seen in 2Q had been caused by an increase in investment in inventories. Manufacturers expected an increase in demand for products, which did not happen. Despite this, the economy continued to be sustained by domestic consumption which is evidenced by the acceleration of retail sales from 1% in 2Q to 2% in 3Q. The contribution of net exports remained negative. Industrial production in 3Q slowed from +3.8% y/y to +1.4% y/y, and freight turnover from +9.4% y/y to +5.6% y/y. Growth was supported only by agriculture due to a record harvest (+5.1% in 3Q, after a decrease of 0.1% in 2Q). The construction estimate for 1H was revised from +0.2% to -3.4%. Accordingly, the growth of fix investments may decline and GDP statistics for 1H17 may be revised. GDP growth is expected to reach 1.6% in 2017 and around 1.8% in 2018

Inflation continued to slow down in November from 2.7% to 2.5% which was caused by tight monetary policy, strengthening of the rouble exchange rate and a good harvest. By the end of the year, it will likely be 2.5%, but in 2018, a gradual acceleration towards the 4% target is likely.

Anna Mokina

Financial Markets

On 15 December, the central bank reduced the policy rate by 50 bps, to 7.75%. In 2018, the rate is expected to be cut further, by 50-75 bps in order to maintain the real interest rate at a level of 2-2.5% per annum. We would expect to see the next rate decrease by the end of 1Q18. Exchange rate forecasts predict a slight further appreciation. The main factors influencing the national currency will be: crude oil prices, USD exchange rate trends, the domestic economic situation and presidential elections.

Banking Sector

Macroeconomic conditions for the Russian banks and their borrowers have stabilised and should remain moderately favourable in 2018; banks' credit portfolios should grow. The state of the banking sector is stable, but the gap between the indicators of strong and weak players is very large. In the context of low economic growth and low inflation, only effective investment projects that can create real added value are likely to be viable, but there aren't many such projects. This partly explains low demand for credit resources, especially from medium and large companies. Demand is, however, expected to accelerate gradually in the coming years. The quality of banking assets should stabilise, but the share of problem loans will continue to be rather high. In order to maintain balanced growth in loan portfolios, the regulator could potentially introduce restrictive measures. The population is gradually moving away from the savings model of behaviour and deposit growth will likely be moderate.

Forecasts	2016	2017F	2018F
Real GDP y/y	-0.2	1.6	1.8
CPI (avg)	7.1	3.7	3.2
USD exchange rate (avg)	67.0	58.3	58.4
USD exchange rate (end of period)	61.9	58.9	58.0
Euro exchange rate (avg)	74.1	65.9	69.6
Euro exchange rate (end of period)	65.0	69.5	70.8
Short-term rate (avg)	11.2	8.7	7.4
Short-term rate (end of period)	10.5	8.0	7.0
L/T bond yields (avg)	8.9	7.8	7.6
Bank loans y/y (end of period)	-4.2	3.5	5.0
Bank deposits y/y (end of period)	-3.9	5.0	5.1

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation
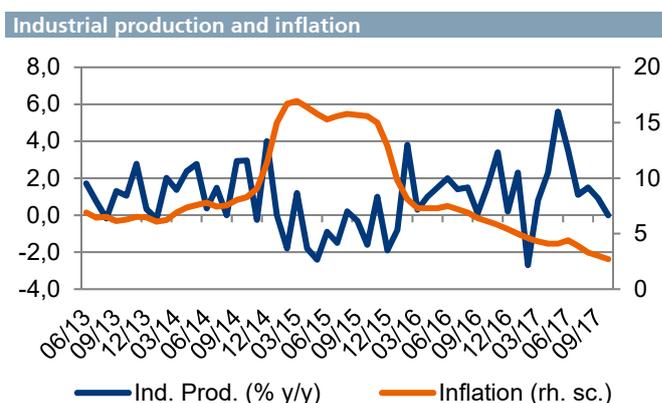
Source: State Statistics Federal Service

Serbia

Real Economy

Economic activity is expected to accelerate in 2018 driven by rising investment, supported by an improved business climate, strong inflows of diversified foreign direct investments, the carrying out of many announced infrastructure projects, and past monetary policy easing. Positive contributions will also come from household consumption based on an improved labour market and an increase in public sector wages and pensions. The contribution of net export will most likely remain neutral, taking into consideration that further expected increases in exports, supported by earlier investments and a more favourable outlook for Serbia's main foreign trade partners, will be offset by a rise in imports due to increasing domestic demand.

Marija Savic

Inflation y/y is likely to move below the targeted midpoint of 3% in the first half of 2018. After this temporary slowdown, inflation should continue to hover around the midpoint of the target tolerance band around 3% till year-end supported by the expected rise in domestic demand, the somewhat weaker dinar and a fading base effect.

Financial Markets

An unexpected cut of the key policy rate by a cumulative 0.5 pp in 2017 was supported by a lower inflation outlook, a stronger dinar and a pickup in economic activity. No major key policy rate change is expected in 2018, with the central bank closely monitoring the monetary policy stance of the ECB and Fed due to their influence on capital flows in emerging markets, including Serbia.

The dinar is expected to remain at the similar level to that in 2017, supported by improved macroeconomic fundamentals, increased capital inflows and local currency lending. However, the domestic demand-supported rise in imports, a weaker fiscal performance and the expiry of the IMF's stand-by arrangement will play key negative roles.

Banking Sector

The strong decline in non-performing loans in 2017, to the lowest level in the last nine years, due to the NBS' decision on the Accounting Write-off of Bank Balance Sheet Assets will temporarily lower loan stocks and growth rates. However, already in 2018, we should see its positive effect as it opens up more space for the writing of new loans.

In addition, further growth in loans to the private sector will be supported by acceleration of economic activity, lower interest rates on dinar loans due to past monetary policy easing, low interest rates in the international money markets which reflect on a drop of interest rates on FX and FX-indexed loans, and increased interbank competition.

Forecasts			
	2016	2017F	2018F
Real GDP y/y	2.8	1.8	2.5
CPI (avg)	1.1	3.2	2.9
Short-term rate (avg)	4.1	3.8	3.6
Short-term rate (end of period)	4.0	3.5	3.8
L/T bond yields (avg)	0.0	0.0	0.0
Bank loans y/y (end of period)	2.4	3.0	4.0
Bank deposits y/y (end of period)	11.5	2.0	4.0

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation
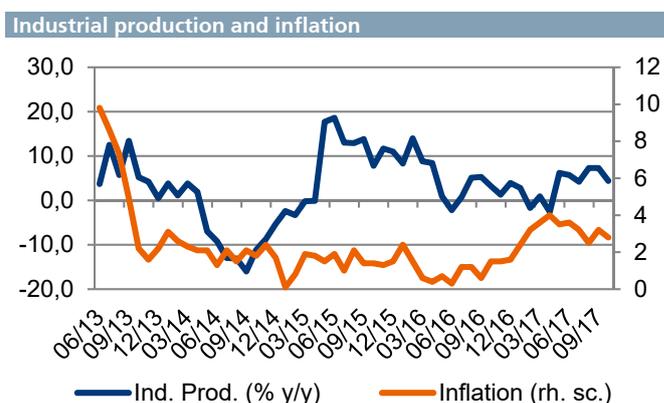
Source: Statistical Office, National Bank of Serbia

Slovakia

Real Economy

Economic growth in 2017 met expectations, driven by domestic demand, mainly from the private sector. Household consumption now appears to be increasing at the highest pace in the post-crisis period. Investments, meanwhile, are being boosted by a residential property boom in the capital city. Solid growth of private consumption and investments should persist next year as well and remain the key drivers of growth. Household incomes are increasing at the highest pace since 2008, due both to the increasing number of jobs and the rise in wages. Household confidence is at the highest level ever recorded. Capacity in industry, serving the strong demand from the Eurozone, is running above long-term average which is prompting businesses to invest. Furthermore, growth in the following years should be supported by extraordinary investments in automotive (part of previously announced investments for 2017 were postponed to the next years, while a portion of already invested resources should start to boost production). Growth thus could further accelerate close to 4% y/y in 2018, perhaps exceeding that of neighbouring countries, compensating for what was missed in 2017, when growth, even if solid, was the lowest in the CEE-4 region.

Following three consecutive years of deepening deflation, prices in 2017 picked up considerably. The two main factors supporting this growth were rising food prices and so-called "net inflation" excluding fuel, with the latter driven by increasing demand pressures in the economy. At the beginning of 2018, we expect inflation to pick up to above 2% y/y on increasing administrative prices, and stay relatively flat thereafter. The almost flat profile of inflation in the course of 2018 should stem from anaemic price growth in Eurozone and base effects of rising prices in 2017.

Financial Markets

Yields on Slovak government bonds continue to be driven primarily by the ECB's asset purchase programmes. The scarcity of available bonds for purchase pushed the spreads vs German Bunds unusually low, to 20-40 bps on 10Y tenor in 2017. Along with normalising policy ahead, we expect not only increasing rates on government bonds, but also increasing spreads vs German Bunds, returning to pre-APP period, to the 60-80 bps range.

Banking Sector

Loan growth in both the retail and corporate sectors moderated in the most recent quarters. Within retail, the slowdown owes to mortgages as well as to consumer loans. Household debt already exceeded that of peer countries. Regulators thus introduced measures to tighten credit conditions which are dragging down growth even if the economy continues to grow strongly. Interest rates paid by businesses had already stabilised at all-time low levels. Lending rates in retail, however, still appear to be decreasing as the competitive battle rages on. The ECB is gradually preparing for normalising its policy in late 2018/early 2019, which should mean that rates start to rise in 2019.

Andrej Arady

Forecasts	2016	2017F	2018F
Real GDP y/y	3.3	3.4	3.8
CPI (avg)	-0.5	1.4	2.1
Short-term rate (avg)	-0.3	-0.3	-0.3
Short-term rate (end of period)	-0.3	-0.3	-0.3
L/T bond yields (avg)	0.7	0.9	1.2
Bank loans y/y (end of period)	10.3	10.0	8.0
Bank deposits y/y (end of period)	4.6	4.8	5.2

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation
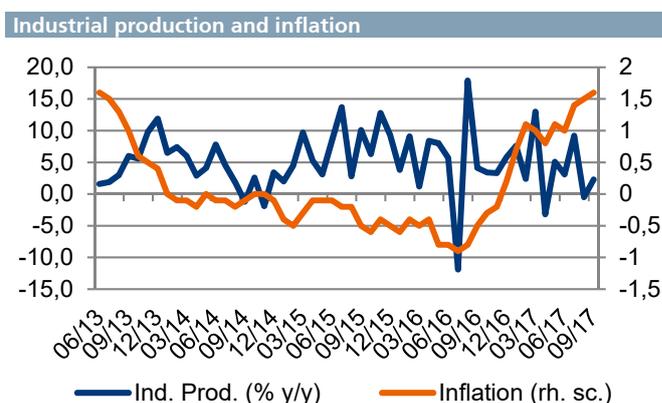
Source: Statistical Office of Slovak Republic

Slovenia

Real Economy

Over the third quarter of 2017, the Slovenian economy grew by 4.5% y/y (4.9% y/y sa) and 1.0% q/q reflecting a slowdown in domestic demand amid a slowdown in gross capital formation (+1.9% y/y vs 14.1% and 7.5% y/y in the first and second quarters, respectively), while private consumption retained its 2.7% y/y growth rate, similar to that recorded in previous quarters. At the same time, external demand strengthened its positive impact on economic growth as exports increased by 12.0%, thus outpacing the 10.1% increase in imports and contributing 2.4 pp to headline growth. Based on the first three quarters' outturn and high frequency data which indicate continued external demand growth (as exports of goods in October increased by 20.6% y/y), but more modest private consumption (retail volume up by 2.3% y/y, the lowest level in 2017), we upgraded our 2017 estimate by 0.3 pp, to 4.4% y/y. We currently forecast a slowdown in growth to 3.5% y/y in 2018 based on a more neutral contribution from net foreign demand to headline growth amid pressures from imports, while domestic demand is expected to remain strongly supportive.

Ivana Jović

Inflation pressures remain moderate; thus, average inflation is forecast to increase only slightly, to1.5% y/y in 2018 from 1.4% this year.

Financial Markets

3M Euribor is projected to stay at -0.3% both in 2017 and 2018, on average. The average Slovenian 10Y government bond yield and the spread between Slovenian bonds and the Bund continued to narrow. Therefore, we have cut our end-2017 estimate to 0.7% (-50 bps compared to the September scenario), while the average yield, in spite of spread declines, looks set to increase from 1.0% in 2017 to 1.2% in 2018 due to a rise in Bund yields.

Ana Lokin

Banking Sector

Loan growth remained robust at +5.9 y/y in September and at +5.7% y/y in October, reflecting a rise in both retail and corporate lending. Loans to non-financial corporates rose by +4.8% y/y and +4.6% y/y in September and October, respectively, mostly owing to base effect as the recovery of corporate loans basically started with December last year. Loans to households grew by +7.0% y/y and 6.8% y/y in the same s. A revival of credit and a continued rise in overall economic activity prompted us to revise upwards our 2017 loan growth estimate, from +3.0% to +4.0% y/y and our 2018 growth forecast from +2.9% to 3.5% y/y.

Deposits continued to grow strongly, at +7.5 y/y in September and +6.9% y/y in October (corporate +10.2% and +9.8% y/y, households +6.6% and +5.9% y/y). In line with our loan growth forecast revision, we have raised our 2017 deposit growth estimate from +5.0% y/y to +5.5% y/y and our 2018 forecast from +4.9% y/y to +5.0% y/y.

Forecasts			
	2016	**2017F**	**2018F**
Real GDP y/y	3.1	4.4	3.5
CPI (avg)	-0.2	1.4	1.5
Short-term rate (avg)	-0.3	-0.3	-0.3
Short-term rate (end of period)	-0.3	-0.3	-0.3
L/T bond yields (avg)	1.2	1.0	1.2
Bank loans y/y (end of period)	-2.7	4.0	3.5
Bank deposits y/y (end of period)	7.2	5.5	5.0

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation
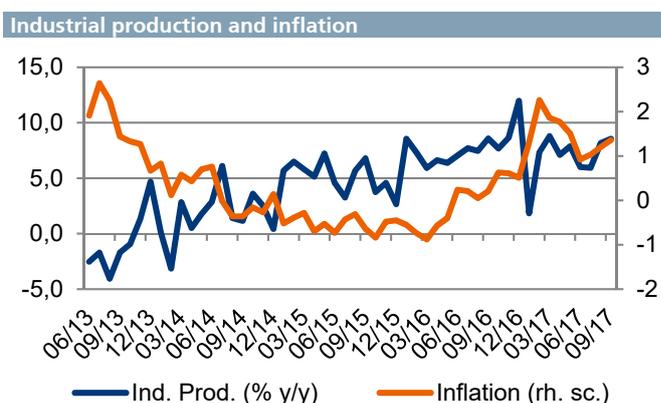
Source: Statistical Office of the Republic of Slovenia

Ukraine

Real Economy

Real GDP rose by 2.1% y/y in 3Q and by 2.3% y/y in the first nine months of this year. While a breakdown of the 3Q17 GDP reading by expenditure is not yet available, high frequency data suggest that domestic demand remained robust. As for household consumption, retail sales over the first nine months of the year expanded by 8.2% y/y and strong real wage growth (up 19.0% in January to September) alongside a budgeted 16.8% hike in minimum wages helped to sustain household demand. A key driver of growth was a surge in construction output, which expanded by 23.8% y/y and accounted for 14.0% total GFCF over that period. The Donbas trade blockade has continued to weigh on steel production, which accounts for approximately 25% of the country's total exports. The blockade, which has been in place since February 2017, has disrupted steel producers, which suffered a decline of 11.0% in the first nine months of the year. Over the longer term, steel output is expected to recover.

Giancarlo Frigoli

Financial Markets

The NBU updated its inflation forecast for end-2017 from 9.1% to 12%. According to the CB, at the end of 2018, inflation should be 7.3% (the previous forecast was 6%). In December, the NBU unexpectedly hiked its policy rate by 100 bps, to 14.5%, marking the second consecutive rate increase (the NBU had also raised rates by 100 bps last October) after a period of sustained monetary easing from August 2015 to May 2017. The NBU's tightening decision underscored the bank's search for credibility and its commitment to targeting inflation. The NBU will hold its next monetary policy meeting on 25 January 2018. Although the NBU has not ruled out additional rate hikes to bring inflation back to the target range, we continue to expect that inflationary pressures will ease in the months ahead, allowing the monetary authority to loosen its policy.

Banking Sector

A modest pattern is expected in bank lending. Banks' lending capacity and demand for credit are expected to remain constrained. The estimate of loans dynamic in 2017 has been now worsened (from +0.5% to -0.5%) because of the weak performance in October (-0.9% y/y). Recovering economic conditions and a roughly stable exchange rate, along with a reduction in the key interest rate could support the dynamic in the next few years (2.5% in 2018). The very poor asset quality (the NPL ratio was 56.4% in September), still large provisioning needs and moderate capital buffers are additional constraints on credit growth and performance. Due to the limited NPL coverage, banks could need further capital support if additional credit losses materialise. Most of the new capital that has entered the sector in the last four years has been channelled to state- and foreign-owned banks. Such support will likely continue, if needed, but the still large number of small and weakly capitalised banks make further consolidation likely as well.

Davidia Zucchelli

Forecasts	2016	2017F	2018F
Real GDP y/y	2.3	2.1	3.0
CPI (avg)	15.0	14.4	11.5
USD exchange rate (avg)	25.5	26.7	27.2
Euro exchange rate (avg)	28.2	30.2	32.3
Short-term rate (avg)	20.9	17.4	15.6
L/T bond yields (avg)	0.0	0.0	0.0
Bank lending y/y	2.0	-0.5	2.5
Bank deposits y/y	9.1	5.0	5.2

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation
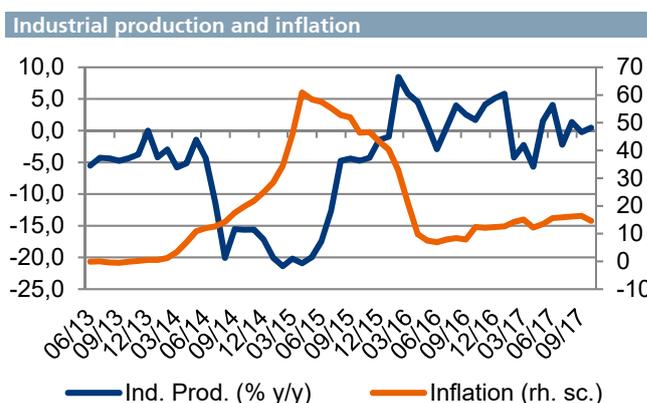
Source: State Statistics Service of Ukraine

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

Economy

	GDP chg yoy			Ind. Prod[1]. chg.yoy			Export nom. ch yoy			Inflation chg yoy				FX reserves chg (mln €)[2]			CA bal. (mln €)[3]	
	3Q17	2Q17	2016	Last	mth	3Q17	Last	mth	3Q17	Last	mth	3Q17	2016	3Q17	2Q17	2016	3Q17	2Q17
CEE																		
Czech Rep.	5.0	4.7	2.4	5.3	Oct	5.5	11.3	Oct	4.4	2.9	Oct	2.6	0.7	n.a.	n.a.	n.a.	n.a.	n.a.
Hungary	3.9	3.3	2.2	7.6	Oct	4.2	11.8	Oct	6.9	2.5	Nov	2.4	0.4	n.a	n.a.	-5938	n.a.	1750
Slovakia	3.4	3.7	3.3	2.3	Sep	3.7	8.5	Oct	7.9	2.1	Nov	1.5	-0.5	n.s.	n.s.	n.s.	n.a.	n.a.
Slovenia	4.5	4.6	3.1	8.6	Sep	7.6	14.1	Sep	14.9	1.4	Nov	1.2	-0.1	n.s.	n.s.	n.s.	921	805
SEE																		
Albania	n.a.	4.1	3.5	n.a.	n.a.	n.a.	14.4	Oct	13.2	1.7	Nov	1.7	1.3	n.a.	-76	47	n.a.	-231
Bosnia H.	n.a.	1.7	3.2	3.3	Oct	5.8	20.5	Oct	22.7	1.4	Oct	1.1	-1.1	115	115	473	n.a.	-242
Croatia	3.3	3.0	3.2	4.3	Oct	2.9	6.6	Sep	11.3	1.4	Oct	1.1	-1.1	926	-2044	-193	n.a.	144
Romania	8.6	5.9	4.8	7.6	Sep	8.5	6.0	Sep	8.4	3.2	Nov	1.4	-1.5	n.a.	n.a.	-350	n.a.	n.a.
Serbia	2.1	1.4	2.8	4.4	Oct	6.3	14.0	Oct	12.7	2.8	Nov	3.0	1.1	787	-183	-52	-282	-267
CIS MENA																		
Russia	1.8	2.5	-0.2	-0.1	Oct	1.2	20.7	Sep	18.7	2.5	Nov	3.4	7.1	7677	12910	-1356		2780
Ukraine	2.1	2.3	2.3	0.4	Oct	-0.4	21.1	Sep	21.4	13.6	Nov	16.2	14.9	1037	2344	-466	-1607	-394
Egypt	5.2	4.9	3.8	15.6	Sep	26.1	17.1	Sep	13.7	26.0	Nov	32.1	13.7	5230	2779	7820		-2396
m.i. E.A.	*2.5*	*2.1*	*1.8*	*3.7*	*Oct*	*3.7*	*8.8*	*Oct*	*6.1*	*1.5*	*Nov*	*1.5*	*0.2*					

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
	15/12	chg bp 3M	15/12	chg bp 3M	15/12	3M chg%	1Y chg%	3M chg%	1Y chg%	15/12	15/09	S&P
CEE						Vs Euro						
Czech Rep.	0.7	0.3	1.4	0.5	25.7	-1.6	-5.0	1.0	16.5	36.0	35.6	AA-
Hungary	0.0	-0.1	2.0	-0.8	314.0	1.7	0.1	0.9	22.2	85.6	92.0	BBB-
Slovakia	-0.3	0.0	0.6	-0.2	Euro	Euro	Euro	-1.4	2.5	39.4	36.9	A+
Slovenia	-0.3	0.0	0.7	-0.3	Euro	Euro	Euro	-1.0	11.7	60.8	58.4	A+
SEE												
Albania	1.2	0.0	n.a.	n.a.	133.4	-0.1	-1.6	n.a.	n.a.	n.a.	n.a.	B+
Bosnia H.	n.a.	n.a.	n.a.	n.a.	1.96	Board	Board	n.a.	n.a.	n.a.	n.a.	B
Croatia	0.6	0.0	2.3	-0.3	7.6	1.2	0.2	2.1	-5.3	103.6	117.4	BB
Romania	1.9	1.1	4.4	0.5	4.6	0.7	2.5	-5.1	8.6	89.9	89.0	BBB-
Serbia	3.5	-0.2	n.a.	n.a.	119.2	0.2	-3.5	5.8	3.9	129.4	144.2	BB
CIS MENA						Vs USD						
Russia	8.3	-0.6	7.6	0.0	58.7	1.6	-3.5	6.8	-3.0	116.6	124.2	BB+
Ukraine	17.5	1.3	9.7	0.0	27.7	5.7	5.1	-10.6	-7.7	436.6	597.8	B-
Egypt	18.9	-0.6	16.2	0.0	17.8	1.0	-4.0	-5.0	9.2	351.9	379.4	B
m.i.A.E.	*-0.3*	*0.0*	*0.3*	*-0.1*	*1.2*	*-1.6*	*13.0*	*2.2*	*6.1*	*5.1*	*6.1*	

Source: Datastream, Reuters; [1] The data for Albania refers to january, for Egypt refers to november, for Czech Republic refers to november; [2]For 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	2016	Last	mth	2016	Last	mth	2016	Last	Mth	2016	Last	mth	2016	S[4]	Last	mth	2016	S[4]	Last	mth	2016
CEE																							
Czech Rep.	5.6	Oct	6.7	4.0	Oct	4.8	94.3	Jun	38.4	8.8	Oct	5.8	2.25	Oct	1.86	C	0.36	Oct	0.91	H	76.6	Oct	76.6
Hungary	5.1	Oct	-1.9	0.1	Jun	0.1	21.0	Oct	-7.0	13.5	Oct	6.3	2.51	Oct	3.12	C	0.32	Oct	0.54	H	82.7	Oct	83.8
Slovakia	10.1	Oct	10.3	4.2	Oct	4.7	-6.2	Sep	0.8	4.3	Oct	4.6	2.43	Oct	2.6	C[2]	0.35	Oct	0.49	H[2]	99.1	Oct	94.9
Slovenia	5.7	Oct	-2.7	7.3	Jul	8.5	-14.6	Oct	-17.9	6.9	Oct	7.2	2.36	Oct	2.81	C[2]	0.13	Oct	0.23	H[2]	80.1	Oct	81.0
SEE																							
Albania	0.7	Sep	0.2	14.8	Sep	18.3	-21.0	Sep	-13.2	0.2	Sep	2.7	6.52	Sep	7.01	PS	0.74	Sep	0.78	PS	53.8	Sep	52.3
Bosnia H.	7.3	Oct	3.4	10.8	Sep	11.8	12.1	Oct	-5.3	10.2	Oct	7.4	3.63	Oct	4.62	C	0.4	Oct	0.55	H	108.8	Oct	110.1
Croatia	0.0	Oct	-4.3	12.5	Sep	13.8	-21.7	Oct	-26.6	3.2	Oct	2.8	6.66	Oct	7.03	PS	0.81	Oct	0.85	PS	79.1	Oct	80.5
Romania	7.1	Sep	0.6	8.0	Sep	9.6	-13.4	Sep	-21.8	11.8	Sep	8.5	5.51	Sep	4.93	PS	0.6	Sep	0.61	PS	83.6	Sep	83.0
Serbia	2.2	Oct	2.4	12.2	Sep	17.0	14.2	Oct	-9.1	5.0	Oct	11.5	8.8	Oct	8.45	PS	2.65	Oct	2.94	PS	103.0	Oct	102.3
CIS MENA																							
Russia	-0.3	Aug	-4.2	9.8	Aug	9.4	n.a.	n.a.	n.a.	3.9	Aug	-3.9	10.41	Aug	11.83	C	6.07	Aug	6.5	H	105.4	Aug	107.7
Ukraine	-0.9	Oct	2.0	56.4	Sep	30.5	-24.1	Sep	-8.0	8.1	Oct	9.1	15.9	Oct	17.25	PS	8.42	Oct	9.99	PS	128.5	Oct	136.8
Egypt	34.1	Aug	42.8	5.5	Jun	5.8	118.2	Aug	256.6	44.4	Aug	41.4	19.6	Sep	16.3	C	13.4	Sep	10.3	H	35.9	Aug	39.2
m.i. E.A.	*1.3*	*Sep*	*1.0*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*2.6*	*Sep*	*3.3*	*1.2*	*May*	*1.4*	*C*	*0.4*	*May*	*0.4*	*H*	*81.5*	*Sep*	*81.8*

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											
	2014	**2015**	**2016**	**2017F**	**2018F**		**2014**	**2015**	**2016**	**2017F**	**2018F**
GDP (% yoy)						**Inflation (average)**					
CEE						**CEE**					
Czech Rep.	2.7	4.5	2.4	4.4	3.4	Czech Rep.	0.4	0.3	0.7	2.6	2.6
Hungary	4.0	3.1	2.2	3.7	3.2	Hungary	-0.2	-0.1	0.4	2.4	2.6
Slovakia	2.6	3.8	3.3	3.4	3.8	Slovakia	-0.1	-0.3	-0.5	1.4	2.1
Slovenia	3.0	2.3	3.1	4.4	3.5	Slovenia	0.4	-0.8	-0.2	1.4	1.5
Average	3.1	3.8	2.6	4.0	3.4						
SEE						**SEE**					
Albania	1.8	2.2	3.5	4.0	3.9	Albania	0.7	2.0	2.2	2.0	2.4
Bosnia Herzegovina	1.1	3.1	3.2	2.6	2.9	Bosnia Herzegovina	-0.9	-1.0	-1.1	1.2	1.5
Croatia	-0.1	2.3	3.2	3.0	2.8	Croatia	-0.2	-0.5	-1.1	1.2	1.5
Romania	2.8	3.7	4.8	6.9	4.1	Romania	1.1	-0.6	-1.5	1.3	3.4
Serbia	-1.8	0.8	2.8	1.8	2.5	Serbia	2.1	1.4	1.1	3.2	2.9
Average	1.6	3.0	4.1	5.3	3.6						
CIS						**CIS**					
Russia	0.7	-2.8	-0.2	1.6	1.8	Russia	7.8	15.5	7.1	3.7	3.2
Ukraine	-6.6	-9.8	2.3	2.1	3.0	Ukraine	12.2	48.0	15.0	14.4	11.5
Average	0.1	-3.4	0.0	1.6	1.9						
MENA						**MENA**					
Egypt	4.8	4.0	3.8	4.9	5.3	Egypt	10.1	10.4	13.7	29.6	18.0
Average ISP Subsidiaries	1.4	-0.7	1.4	2.8	2.8						

Market											
	2014	**2015**	**2016**	**2017F**	**2018F**		**2014**	**2015**	**2016**	**2017F**	**2018F**
Exchange rate (average)						**Interest rate (average)**					
CEE						**CEE**					
Czech Rep.	27.5	27.3	27.0	26.5	26.0	Czech Rep.	0.2	0.2	0.3	0.4	1.0
Hungary	308.6	310.0	311.4	310.3	313.0	Hungary	2.4	1.7	1.0	0.1	0.0
Slovakia						Slovakia	0.2	0.0	-0.3	-0.3	-0.3
Slovenia						Slovenia	0.2	0.0	-0.3	-0.3	-0.3
SEE						**SEE**					
Albania	140.4	139.8	137.4	134.2	134.8	Albania	3.0	2.7	1.0	1.1	1.1
Bosnia Herzegovina	1.96	1.96	1.96	1.96	1.96	Bosnia Herzegovina	n.a.	n.a.	n.a.	n.a.	n.a.
Croatia	7.6	7.6	7.5	7.4	7.5	Croatia	0.7	1.2	0.9	0.6	0.6
Romania	4.4	4.4	4.5	4.6	4.6	Romania	2.3	1.1	0.8	1.1	2.0
Serbia	117.3	120.8	123.1	121.4	121.5	Serbia	8.8	6.3	4.1	3.8	3.6
CSI MENA						**CIS MENA**					
Russia (USD)	38.6	61.3	67.0	58.3	58.4	Russia	10.6	13.5	11.2	8.7	7.4
Ukraine (USD)	12.0	22.0	25.5	26.7	27.2	Ukraine	17.9	25.9	20.9	17.4	15.6
Egypt (USD)	7.1	7.7	10.0	17.8	17.6	Egypt	11.2	11.3	14.2	19.4	17.9

Bank											
	2014	**2015**	**2016**	**2017F**	**2018F**		**2014**	**2015**	**2016**	**2017F**	**2018F**
Loans to private sector (% change yoy)						**Deposit by private sector (% change yoy)**					
CEE						**CEE**					
Czech Rep.	2.7	6.6	6.7	7.5	6.2	Czech Rep.	6.7	7.1	5.8	8.0	7.0
Hungary	-0.3	-12.3	-1.9	6.5	3.2	Hungary	1.3	7.5	6.3	6.0	5.5
Slovakia	6.4	8.7	10.3	10.0	8.0	Slovakia	3.8	9.9	4.6	4.8	5.2
Slovenia	-13.4	-5.2	-2.7	4.0	3.5	Slovenia	6.6	5.8	7.2	5.5	5.0
SEE						**SEE**					
Albania	2.2	-2.6	0.2	1.5	2.0	Albania	2.9	1.0	2.7	0.5	2.0
Bosnia Herzegovina	1.9	2.2	3.4	6.0	4.8	Bosnia Herzegovina	6.4	7.8	7.4	7.2	6.9
Croatia	-2.0	-3.1	-4.3	0.5	1.1	Croatia	2.3	6.4	2.8	3.0	1.5
Romania	-3.7	2.7	0.6	6.2	4.4	Romania	8.9	9.1	8.5	5.4	5.5
Serbia	4.4	3.0	2.4	3.0	4.0	Serbia	9.7	7.1	11.5	2.0	4.0
CIS						**CIS**					
Russia	25.4	8.2	-4.2	3.5	5.0	Russia	27.9	18.8	-3.9	5.0	5.1
Ukraine	10.9	-3.8	2.0	-0.5	2.5	Ukraine	-1.8	1.5	9.1	5.0	5.2
MENA						**MENA**					
Egypt	12.7	18.0	42.8	15.0	13.0	Egypt	16.6	20.4	41.4	22.0	16.0

Source: Intesa Sanpaolo Research Department forecasts

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