Forecast Note

Countries with ISP Subsidiaries

December 2018

Quarterly note

Intesa Sanpaolo
International Research Network

GDP growth forecasts slowing gradually *vs.* potential, since the 2017 peak, in CEE/SEE area. Inflation has eased recently. Monetary tigthening (already in place in CZ and RO) not likely until late 2019. Credit cycle on a recovery path.

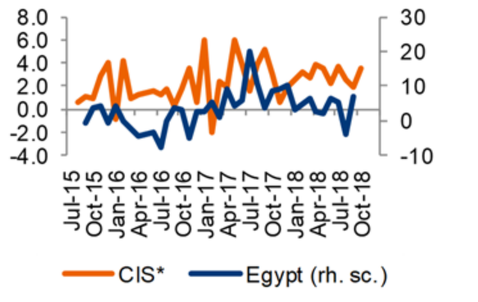
On the basis of the most recently released data, GDP growth forecasts for the CEE/SEE region have been revised upwards for 2018 from a 4.0% to 4.2% average (after the 4.6% peak seen in 2017) and confirmed at 3.3% (around potential) in 2019 with respect to our September Forecast Note. The ongoing slowdown towards a more sustainable path is due to expectations for weaker (though still supportive) domestic demand and a declining contribution from net external trade. In the CIS area, both in Russia and Ukraine, GDP growth is also forecast to slow next year, but to slightly recover in 2020; while in the MENA region, in Egypt, GDP growth is expected to remain strong, at around 5.3% in both 2018 and 2019 and to move even higher in the longer term. In all the regions, risks appear to be gradually shifting to the downside, though, due to threats of international trade restriction, rising geopolitical tensions, higher volatility in financial markets in particular in most vulnerable countries.

Supported by the recent lower-than-expected profile, inflation forecasts have been revised slightly downward in the CEE/SEE region, with averages set at 2.5% in 2018 and 2019 from 2.6% and 2.8%, respectively, in our September Note. The shift is mainly related to the lower-than-previously-expected energy prices which add to the damping effects of a softening business cycle. Inflation is forecast to be higher than previously anticipated in Ukraine and Egypt in 2018, and in Russia in 2019, due to fiscal measures, but it is still seen to ease up in 2019 and respectively 2020.

With domestic inflation confirmed as being inside CBs' target corridors and the ECB's prudent policy stance, monetary conditions in CEE/SEE countries are forecast to remain broadly accommodative in 2019. A reversal of the monetary cycle is not likely to start before end-2019, with the exceptions of Czech Republic and Romania, where tightening cycles have already started and are expected to continue in 2019. The path of long-term yields, still upward sloping, has been shifted slightly downwards with respect to our September Note, due to lower inflation expectations and milder money market rate projections both in the EA and domestically. Outside the CEE/SEE region, a new easing monetary cycle is likely to start in Ukraine and in Russia late in 2019 or early in 2020. Lower policy rates are also seen in Egypt as inflationary pressures dissipate.

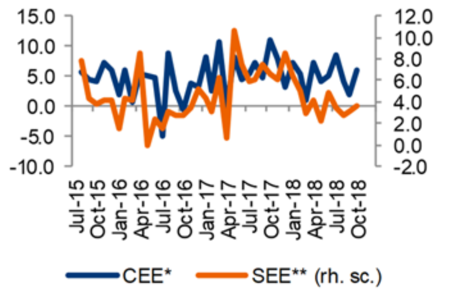
Forecasts for lending growth in the CEE/SEE region (around 5% average in 2019) are increasingly supported by favourable economic backdrops and improving banking fundamentals. Outstanding average growth (7.4%) is now forecast for 2018, upwardly revised after the acceleration seen in the last few months in several countries. The dynamic of household loans is expected to remain stronger than for corporates, but on a decreasing path, partly due to measures adopted by CBs to avoid excess credit expansion. NPLs continue to weigh on loan growth, however, in a few SEE countries. In the CIS area, lending growth has been confirmed in nominal terms for both Russia (to 7% in 2019) and Ukraine (to 4.3%). In Egypt, it is forecast to remain in double digits, but still below nominal GDP growth and inflation. Funding and liquidity conditions should remain broadly supportive, with declining LTD ratios. Banking interest rates are forecast to increase gradually, driven by higher money market rates. Their profiles have been revised slightly downwards, in particular in Albania and Serbia, but upwards in Czech Republic.

Industrial production % yoy – CIS - Egypt



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

Industrial production % yoy – CEE - SEE



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

The figures in this document have been updated to 14th December 2018.
See the final page for important information.

Contents

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, Czech Republic among the CEE countries, Albania, Bosnia, Croatia, Serbia and Romania among SEE countries; Russia and Ukraine among CIS countries; Egypt among MENA countries. It also includes Poland, among the CEE countries, where ISP is present with a Branch.

Cross Country Analysis

Recent developments

Gianluca Salsecci, Giancarlo Frigoli, Antonio Pesce and Davidia Zucchelli

In the CEE region, in Q3, GDP regional average growth was 4.5% yoy (same as Q2 average and 20bps lower than Q1 figure), with country-specific dynamics ranging from 2.5% in Czech Republic to 5.1% in Poland. The breakdown of GDP data revealed that economic growth was driven mostly by stronger investments (sum of fixed investments and inventories) which in Q3 grew by about 14% yoy, a higher rate than in Q2 (7.3%). In Q3, households and government expenditures continued to show a positive trend (5.2% and 4.0%, respectively, slightly above Q2), while net trade (decelerating from 1.6% in Q2 to 0.6% in Q3) represented a drag. PMI manufacturing fell in November in several cases, in line with the decline in German PMI. The Polish index dropped to 49.5 (below the 50 threshold) and even though declining, it remained above 50 in Hungary, at 53.5. The ESI indicator suggests that construction has strengthened in Slovakia and Slovenia, where indexes, even if softening, remained close to historical highs.

Economic growth continued to be robust in the CEE/SEE areas in 3Q18, albeit lower than Q1 figures for CEE countries and Q2 data for SEE countries

In the SEE region, GDP growth (excluding Albania and Bosnia, where Q3 GDP data have been not released yet) was on average 3.5% yoy in Q3, 0.5% lower than in Q2, ranging from 2.8% in Croatia to 4.1% in Romania. Although remaining fairly strong, export growth decelerated (to c.6.0% yoy from 8.2% yoy), as did household and government expenditures. Investments, after stagnating in Q2, returned to a positive trend in Q3 (+0.5%). October activity data confirmed that SEE economies made a robust start to Q4. In Albania and Bosnia, high frequency indicators signal that economic growth was still strong in Q3 and maybe above Q2 data. Exports grew by 9.2% in Albania in 3Q and by 4.3% in Bosnia in nominal terms. Across SEE countries, the growth rates of industrial production and exports in October were stronger than, or at least in line with, Q3 figures, except for Croatia, where industrial production contracted by 2.4% yoy.

Inflation rates are in the tolerance bands of the respective CB targets, and in several cases, in the upward part

The most recent inflation figures showed a decline in Q3 data, driven by the fall of energy prices. This ranged from 1.2% in Poland to 3.8% in Hungary in the CEE area, and between 1.6% in Croatia and 3.4% in Romania in the SEE region. Monetary policy rates have been kept unchanged in almost all the countries, with the exception of Czech Republic, where in November, the central bank again raised the repo rate by 25bps, to 1.75%. Following the tightening stance of the Czech central bank, the money market rate has risen by 50bps over the last three months (to 2.0%). In the same period, the money market rate also increased by 30bps in Poland (to 2.0%) while it remained unchanged in the other countries. In parallel, long-term interest rates decreased slightly in Hungary and Poland by 30bps in each instance, and in Czech Republic by 10bps. Thanks to strong dynamics for exports, the Albanian exchange rate has appreciated by 2.4% in the last three months, with local currencies roughly stable in the remaining countries.

GDP growth slowed in Q3 in both Russia and Ukraine. But, it remained strong in Egypt

In the CIS region, the slowdown in Russia's GDP growth in Q3, to 1.3% yoy (from 1.9% yoy in Q2), was driven by broad-based weakness across the economy. Growth in retail sales and manufacturing slowed while output in the construction and agricultural sectors fell. The only bright spot was mining, which rose by 4.9% yoy, reflecting the increase in oil extraction. The Russian economy regained some steam in October, when GDP growth accelerated again to 2.5% yoy, thanks to a rebound in agriculture (+11.9% yoy) and manufacturing (+2,7% yoy) and strong growth (+7.6% yoy) in mining (again led by oil extraction). Annual inflation accelerated to 3.8% yoy in November from 3.5% yoy in October. The breakdown of the data showed that the rise in the headline rate was driven entirely by higher food inflation. Inflation is expected to jump well over the 4% target in January, following a VAT hike. At its December meeting, the CBR raised its main policy rate by 25 bps to 7.75% to curb risks of inflation and rising inflation expectations.

In Ukraine, real GDP growth slowed to 2.8% yoy in Q3 from 3.8% yoy in Q2, reflecting the fall in utility output (-2.4%) and a weaker annual pace for manufacturing (+0.1%) and agricultural (+2%) output, only partially offset by the acceleration in construction activity (+5.8%). Headline inflation accelerated to 10% yoy in November from 9.5% yoy in October. Also, core inflation edged higher, to 8.9% yoy from 8.8% yoy in September. Administered prices were a major inflation factor, as natural gas prices for households grew in November, as agreed with the IMF.

The Rada formally passed the 2019 budget, which was in line with IMF criteria and would likely prompt the Fund into releasing the first payment from Ukraine's new USD 3.9Bn Stand-by Arrangement (SBA). The escalating tensions between Russia and Ukraine, with President Poroshenko declaring martial law in Ukraine, raised fears about the country's governance and economic prospects, and Sovereign dollar bond spreads jumped by close to 600bps. At its December meeting, the CBU left its policy rate unchanged at 18%, highlighting that inflation risks have receded since the previous meeting.

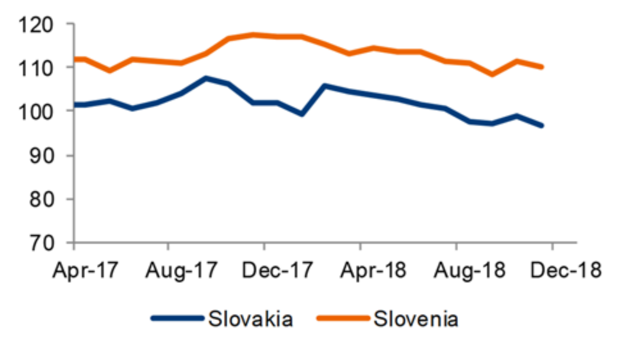
In the MENA region, in Egypt, GDP grew by 5.3% in the fiscal year that ended in June 2018, the highest rate in 10 years. Annual headline inflation, after accelerating to 17.7% in October, mainly reflecting the increase in prices of fresh vegetables, slowed to 15.7% in November, returning to within the 10-16% target range for the fourth quarter of 2018 set by the central bank. Given the contained underlying inflationary pressures and the transitory nature of the supply shock related to select fresh vegetables, the MPC decided to keep key policy rates unchanged at its mid-November meeting. According to the monetary authority, current policy rates remain in line with achieving single-digit inflation as soon as the effects of fiscal consolidation measures dissipate.

Banking aggregates strengthened in 2018

Regarding Banking Aggregates, in the CESEE area, as of October, loan growth to the private sector strengthened, supported by strong economic growth and a significant recovery in corporate loan demand. Total loans accelerated in Hungary (+10.8% yoy as of October) and Czech Republic (+8% yoy) among CEE countries, and in Bosnia (+6.9% yoy) in the SEE countries. In contrast, loan dynamic remained negative in Albania (-4.1% yoy) partly related to the accounting effect of the exchange rate appreciation (by 6.3% yoy as of October), but also connected to still-poor asset quality, particularly in the corporate sector (NPL at 12.9% as of September). The recovery among corporates has been strong in Czech Republic (+8.1% yoy), Hungary and Slovakia, and in Bosnia (+6.3% yoy), likely supporting lending forecasts for years to come. Corporate loans decreased further in Albania (-7.7% yoy as of October), Croatia (-0.5% yoy, but improving) and, unexpectedly, in Romania (-0.5% yoy, despite a very dynamic economic context). Supported by favourable labour markets, loans to households continued to rise at a healthy pace in all countries: in Hungary, at +4.4% yoy from 3.6% yoy in the previous month, still by more, than 10% yoy, in Slovakia, and in Serbia, at +11.7%. NPL ratios remained over 10% in Croatia as well (10.3% as of September, declining from 11.2% as of June). Deposit growth continued to be resilient in many countries, particularly in Hungary (+15% yoy in October both from corporates and households) and in Romania (+15.1% yoy, despite a decrease in the corporate sector).

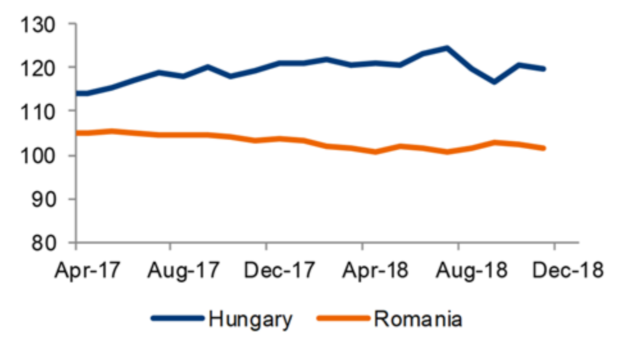
In the CIS area, loan growth strengthened in Russia (+13.9%) and Ukraine (+14.4% yoy in September), thanks to further strong increases in the household sector (+21.5% yoy and +25.4% yoy, respectively). Loans to the corporate sector also accelerated in Russia (+11.2% yoy from 10.8% yoy in August) and Ukraine (+12.9% yoy from 8.8%). In Ukraine, the NPL rate remained high in September (at 54.3% from 55.68% as of June) but concentrated in Privatbank, and mostly covered. In Egypt, loans to the private sector accelerated slightly (+13% yoy as of September), both in the corporate sector (+11.2% yoy from 10.1% yoy in August) and in the household sector (+17.7% yoy from +17.2%), but they still remained weak in real terms.

Economic sentiment indicator



Source: European Commission

Economic sentiment indicator



Source: European Commission

The international outlook underlying the scenario

The US Fed is looking more cautious on policy rates. In the Euro area, recent data releases surprised on the downside. New sign of a slowdown are also being seen in the emerging world

In the US, the waning fiscal boost, the switch to a neutral stance on monetary policy, and the negative impact of trade tensions are expected to drive a gradual slowdown in the pace of the economy. GDP growth is forecast to slow from 2.9% projected for this year to 2.5% in 2019 and 2% in 2020, below potential. As far as monetary policy is concerned, policy rates should be close to the lower end of the neutrality range, estimated by the FOMC at between 2.5% and 3.5%. The FOMC is likely to hike policy rates twice next year, the first time in the spring, when the road map of the ongoing trade talks should be defined, and the second time in the summer, when the US administration might take measures to ease fiscal tensions. All in, the Fed is expected to be flexible to prevent a sharp economic slowdown. Should the pace of GDP growth ease to 1.8% or below, a rate cut in the second half of 2020 should not be ruled out.

Since the ECB meeting on 25 October, data for the Euro area have continued to surprise on the downside. Over the summer months, GDP growth slowed more than expected (0.2% qoq, 1.7% yoy in Q3 from 0.4% qoq, 2.2% yoy in Q2). The composite PMIs and the European Commission's ESI fell further between October and November, from the highs hit a year ago, while staying at levels compatible with marginally above-trend GDP growth (0.3% qoq) between the end of 2018 and the beginning of 2019. The cooling of the EA economy is partly explained by temporary factors, such as the introduction of new European regulations on vehicle emissions, which depressed car production and sales, in Germany in particular. Beyond temporary factors, the Eurozone economy has lost steam, due to the slowdown in global trade, which could become even more pervasive if uncertainty on trade deals starts to negatively affect the trend of business investments. Despite the signals of a slowdown in the industrial sector, the trend of domestic demand remains solid. Significant capacity constraints, and still markedly accommodative financial conditions, should support the investment cycle, although the peak should reasonably be behind us now.

In December, the ECB published its updated macro scenario. Overall, it marginally lowered its GDP growth forecasts, by one-tenth per year in 2018-2019 (at 1.9% and 1.7%, respectively), left the 2020 number unchanged (at 1.7%), and pointed to a rate in line with potential (1.5%) for 2021. The ECB also revised down its headline and core inflation forecasts overall by one-tenth in 2019-2020 and set its forecast at 1.8% in 2021. At its 13 December meeting, the Council confirmed the end of the Net APP while reiterating its intention to continue reinvesting, in full, the principal payments from maturing securities for an extended period of time past the date that the ECB will start raising policy rates. Following the weaker-than-expected flow of EA economic data, the markets have slightly revised the expected profile of money market interest rates, with a first rate hike by the ECB now expected to occur near end-2019 or early 2020.

Growth across almost all of emerging markets was softer in Q3. The slowdown was especially driven in Asia by India (following a particularly strong Q2), in Europe by Turkey, and in Latin America by Argentina (in contrast, Brazil accelerated after a particularly weak Q2). In the coming quarters, EM are expected to feel the negative impact of slower export demand (the IMF in its latest WEO largely cut its export growth projections for 2019) partly due to the foreign trade dispute between the US and its main partners (China above all). The recent downward correction in oil prices is likely to also remove a key support for export and budgetary revenues for a few commodity-exporting countries in MENA, SS Africa and Latin America. EM inflation is set to strengthen, in aggregate. The pick-up in inflation is a concern for EM policymakers and it supports the view that the tightening cycle we have seen in 2018 has further to run, with CBs of other large emerging economies (among others, Brazil and South Africa) likely to join the group of countries that have hiked policy rates this year, which includes India, Russia, Mexico and Indonesia.

CDS spreads have continued to widen in EM economies. Part of this is due to the fall in oil prices, which helps to explain the widening of spreads in MENA and in other oil exporting countries of SSA (namely, Nigeria and Ghana) and LatAm (Venezuela). Spreads have also widened among the other countries, mainly those more exposed to trade and/or external financial risks (as is the case for Turkey and Argentina).

The economic outlook

GDP growth and inflation

Average GDP growth forecasts in 2018 have been revised upward in CEE areas with respect to our September Note

On the basis of the most recent previous data and the most recent high frequency economic indicators, average GDP growth forecasts for 2018 have been revised upwards with respect to our September Note for the CEE/SEE region (from 4.0% to 4.2%) due to the 30bps upward revision of CEE economic growth (from 4.1% to 4.4%). Forecasts have been confirmed to be on a decelerating path (3.3% for 2019, around potential) for the whole region, in line with our September Note, with net trade exerting a significant drag, and given (even if still supportive) a slowdown of domestic demand after a particularly buoyant 2018.

In the CEE area, after the expected average GDP growth rate of 4.4% yoy in 2018, ranging from 4.9% in Poland to 2.8% in Czech Republic, the economic dynamic is forecast to be on average 3.3% in 2019, and move towards 2.4% in the longer forecast horizon. In the SEE area, after an expected GDP dynamic at 3.8% in 2018, economic growth is forecast at 3.4% in 2019 (and to 3.2% in the longer term), unchanged with respect to September's scenario.

Inflation forecasts have been revised downwards in the CEE/SEE region, to 2.5% (from 2.6%) on average in 2018 and to 2.5% (from 2.8%) on average in 2019 with respect to our September forecasts due to energy prices, which are now expected to move lower. A stronger revision regards Croatia, where fiscal policy will also help to moderate inflation in 2019, as in January, the VAT will be reduced for some consumer goods. In most cases, inflation is expected to remain within the targets set by the respective central banks with a few exceptions: Romania (4.7% forecast in 2018) and Slovakia (2.6% foreseen in 2018 and 2.4% in 2019), while Czech Republic (2.2% in both years) is forecast to be just at the upper end of the target range. Over the forecast horizon, even if pressures do come from positive output gaps and tightening labour markets, inflation is expected to remain stable at around the target values of CBs.

In CIS countries, a temporary slowdown in the pace of growth is expected next year. In Egypt, GDP growth is forecast to be close to 6% in the long term

In the CIS area, we continue to forecast a slowdown in GDP growth next year in Russia, and now also in Ukraine, where the fiscal measures associated with the IMF deal and higher-than-previously-expected interest rates will weigh on domestic demand. In both countries, the pace of growth is forecast to gradually accelerate starting from 2020, returning to potential in the long term. In the MENA region, in Egypt, in FY2019, the economy is forecast to maintain the strong pace reported in FY2018 (5.3%). In the long term, GDP growth is likely to accelerate further, coming close to 6%, based on experiencing the full benefits of the ongoing macro stabilisation policy.

In CIS countries, inflation is expected to remain above targets in 2019 and 2020. In Egypt, inflation is expected to slow significantly over the forecasting period

Regarding inflation, in the CIS area, in Russia, it is expected to remain above the 4% target in 2019 and for most of 2020, and to return within target once the impact of the VAT hike and the past rouble depreciation have been completely absorbed. In Ukraine, the tariff hikes and other fiscal measures related to the new IMF deal will keep inflation above the target range in both 2019 and 2020. The annual pace of growth is expected to slow to single digits starting from 2020. In Egypt, inflation is forecast to be a bit higher at the end of this year, but to slow significantly in 2019 and in subsequent years, as the effects of the removal of or significant reduction in subsidies on food and hydrocarbon products will have faded.

Monetary policy and financial markets

Monetary policy tightening is expected next year, but has already started in Czech Republic and Romania

Considering that domestic inflation is mostly expected to remain inside target corridors, and given the ECB's still-prudent monetary stance, the monetary policy conditions in CEE/SEE countries are still forecast to remain broadly accommodative in 2018. In our view, as in our September forecast, a reversal of the monetary cycle is in this context only likely to start later next year. The only exceptions are still Czech Republic and Romania, where tightening cycles are already in place and further increases in policy rates are likely to occur, with +50bps and +25bps expected in Czech Republic and Romania, respectively, in 2019.

CBR now forecast to be on hold. Easing cycles to start next year in Ukraine and Egypt

For the CIS area, the central banks are now expected to stay put or even err towards more tightening in the near future in both Russia and Ukraine, maintaining cautious stances as inflationary pressures remain relatively strong. Starting from the late 2019, we forecast the re-emergence of an easing mood, as inflationary pressures are expected to abate, resulting in lower money market rates. Policy rate cuts should be particularly large in Ukraine, where the central bank has more room for manoeuvre. In Egypt, easing inflationary pressures and further progress in the stabilisation of the macro scenario should also lead to lower interest rates over the forecasting period.

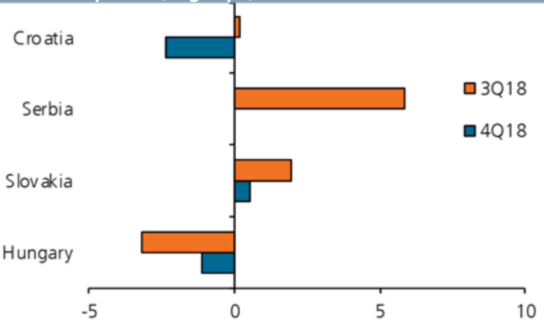
Minor revisions of long-term yield forecasts in CEE/SEE countries

After the increase observed in September for the countries more exposed to volatility on international financial flows, such as Hungary and Czech Republic, long-term bond yields have partially corrected. The path of long-term yields, while remaining on an upward trend, has shifted slightly downwards in some cases to incorporate expectations of weaker inflation profiles and milder short-term rate projections in both the Euro area and in the CEE/SEE region. In Russia, long-term yields are expected to peak next year and to edge lower afterwards, driven lower by easing inflationary pressures and subsiding geopolitical concerns.

Rouble on a slower-than-previously-expected re-appreciation trend. Relatively higher inflation to weigh on the hryvnia. The EGP expected to depreciate in the M/L term to defend the competitive position

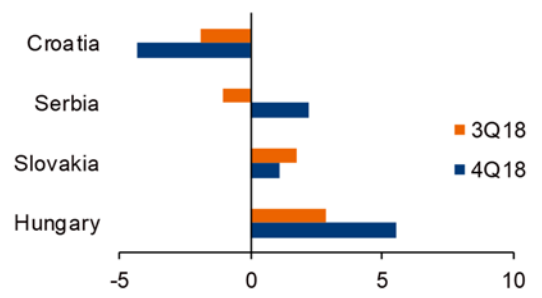
After the recent moves of the forint and the zloty, we see the forecasts regarding the two currencies on a weaker path vs the September forecasts. For the other countries in the CEE/SEE region, less affected by financial market volatility, we confirm a view of roughly stable exchange rates in 2019. In the CIS area, in Russia, we continue to see the rouble on a re-appreciation trend, although milder than previously expected as geopolitical concerns and a less favourable oil price dynamic could weigh on the currency. In Ukraine, the hryvnia is forecast to lose some ground over the forecasting period in order to defend the competitive position amid still high inflation. In Egypt, macro stabilisation policies are seen to offer some support to the currency, but only partially balancing the depreciating pressures fueled by still high inflation vs trade partners.

5Y CDS spread (chg, bps)



Source: Bloomberg

Stock market indices (% chg)



Source: Thomson Reuters

Bank aggregates and interest rates

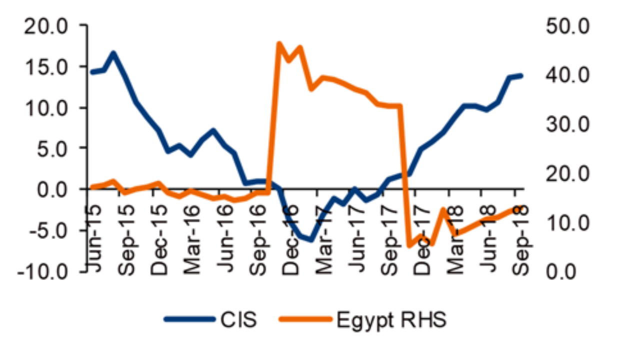
Loan dynamics are expected to consolidate in CEE/SEE countries based on good economic growth and the relatively low level of private sector debt, but also based on improving fundamentals in the banking sector. Lending growth is expected to improve gradually, but is held back by nominal GDP growth in the medium term. The gradual increase in benchmark rates should have a modest impact on lending growth and the debt-servicing capacity of borrowers. The transition to IFRS 9 is not expected to have a significant adverse impact. In particular, in 2019, a mild deceleration is still expected in a few CEE countries where central banks have introduced a variety of tighter prudential measures (such as LTV, and the debt service ratio) to avoid excess credit to households, particularly in Czech Republic and Slovakia, which are expected to slow loans to households. In contrast, a slight acceleration is expected in a few SEE countries where high NPLs (which are still over 10% in Albania and Croatia, but slightly improving thanks to write-offs and sell-offs) are putting pressures on the recovery in lending. Total loans will continue to be driven mainly by households, both mortgages and consumer loans. Some encouraging signs of recovery are coming from the corporate sector.

In the **CIS area**, forecasts have been prudently confirmed despite signs of recent acceleration both in the corporate and the household sectors and NPL stabilisation. In Russia, NPLs decreased to 10.7% in September from 10.9% in June, while in Ukraine, NPLs remained at unsustainable levels (from 55.7% in June to 54.3%, according to the last available data) even if concentrated in the state-owned banks and mostly covered by provisions. In Ukraine, subdued loan forecasts are due to a still weak operating environment. In **Egypt**, lending dynamics are forecast to remain in double digits, but still below nominal GDP growth and decelerating, even with declining interest rates.

Funding and liquidity are expected to remain in good shape in the CEE/SEE regions. The gradual diffusion of further funding tools (such as covered bonds) is also expected. **Deposits** are forecast to remain the main source of funding and, thanks to higher wages and supportive labour markets, to show positive trends, especially among CEE countries, although slowly decelerating because of potentially stronger competition from other savings products. The deposits/GDP ratios are expected to slightly decrease in the forecast period. **Loan/deposit ratios** are generally projected to shrink further, to well below 100%, but to remain over 100% in Bosnia and Serbia, and to reach this level in Slovakia because of a strong lending dynamic.

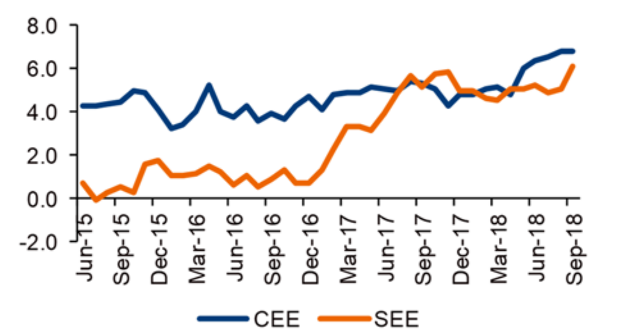
Banking interest rates are expected to increase gradually, driven by higher money market rates. Based on the most recently available banking data and taking into consideration the forecast paths of money market rates, their expected profiles have been revised slightly in some countries: downwards in Albania and Serbia, and upwards in Czech Republic.

Lending growth (% yoy changes)



Sources: ISP elaborations on central banks data; note * weighted average on Russia and Ukraine data

Lending growth (% yoy changes)



Sources: ISP elaborations on central banks data; note * weighted average on Slovakia, Slovenia and Hungary data; ** weighted average on Bosnia, Croatia, Romania and Serbia data

Country-Specific Analysis

Albania

Real Economy

Kledi Gjordeni

The main macroeconomic indicators for Albania have improved this year. Growth has mainly been supported by the upward trend in consumption, investments and foreign demand. In October 2018, exports increased by 21.5% yoy while Imports were up by 1.6% yoy. The trade deficit in the same month decreased by 14.2% compared with October 2017. Growth was also supported by a fall in unemployment on the demand side and by stronger hydroelectric production on the supply side. On the inflation front, CPI has been contained at around 2% (1.9% yoy in October), partly benefitting from the sharp appreciation of the exchange rate.

For 2019, the pace of GDP growth is expected to ease, but remain above 3.5% in the medium term. Next year, the authorities envisage a further reduction of the budget deficit to 1.9% of GDP vs 2% expected for 2018, and for public debt to fall to 65.5% of GDP vs 69.1% expected for 2018. The Albanian economy continues to be very sensitive to the risks related to the external environment, particularly regarding its main trade partners.

Financial Markets

In accordance with the projections, the Bank of Albania views the current policy mix as adequate. The fiscal policy remains focused on lowering the debt level. On the other hand, monetary policy is expected to continue to be accommodative, supported by the low level of inflation and the more contained external financial risks signalled by exchange rate appreciation. According to the CB, the CPI should rise to its target (3%) by 2020.

Banking Sector

Although the banking system is well-capitalised and liquid, and interest rates are currently low, credit available for business activity remains weak. In October 2018, total loans to the private sector decreased by 4.07% yoy. Household credit activity continues to grow, at a rate of 3.9%; however, credit to business shrank by 7.73% yoy. Total deposits fell by 1.21%, with household deposits declining by 2.13% and business deposits off by 6.36%. These results were partly affected by accounting factors, due to the strong appreciation of the exchange rate in the year (more than 7% yoy as at 7 December).

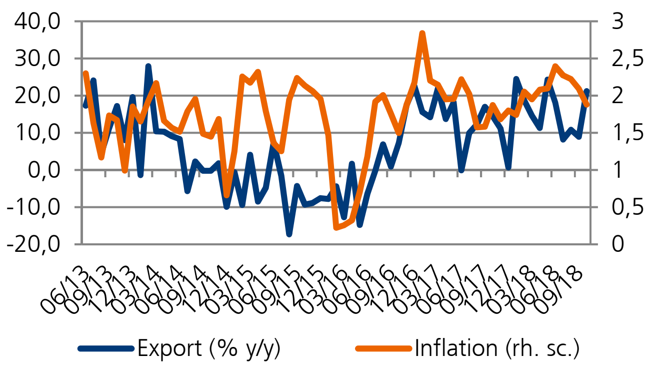
A year ago, NPLs were at 14.4%; they are currently at 13%. The authorities have been struggling, especially regarding write-offs, to reduce NPLs, but the still-high level of NPsL continues to be a real obstacle to credit investments. In this regard, the Bank of Albania and public authorities will continue to support efforts to improve the credit environment via, among other things, strengthening contract enforcement, and implementing new legal procedures related to collateral execution.

Forecasts

	2017	2018F	2019F
Real GDP yoy	3.7	4.2	3.7
CPI (avg)	2.0	2.1	2.3
Euro exchange rate (avg)	134.6	128.1	124.3
Euro exchange rate (end of period)	133.3	124.0	124.5
Short-term rate (avg)	1.3	1.0	1.2
Short-term rate (end of period)	1.3	1.1	1.4
L/T bond yields (avg)	n.a.	n.a.	n.a.
Bank loans yoy	0.5	-3.9	1.0
Bank deposits yoy	-1.3	-2.2	1.5

Source: Intesa Sanpaolo Research Department forecasts

Exports and inflation



Source: INSTAT

Bosnia and Herzegovina

Real Economy

Ivana Jovic

After GDP growth of 3.4% yoy in 2Q18, high frequency data point to a continued solid performance for the economy. In July-October, industrial production increased by 1.2% yoy, a similar pace to that seen in 2Q. At the same time, real retail trade surged by 9.2% yoy, indicating strong personal consumption, supported by improved labour market developments, as average net wages increased by 2.7% yoy over the first nine months of the year. Thus, we forecast FY18 GDP growth of around 2.9%.

Looking ahead, we expect the economy to expand by around 3.0%, as personal consumption should remain robust supported by low inflation, an improving labour market, and steady inflows of remittances. At the same time, we expect investments to strengthen, supported by IFI loans earmarked for public infrastructure and energy projects. External demand remains supportive; however, stronger domestic demand should boost imports. Thus, we see net exports weighing on growth. Political uncertainty related to slow formation of the government post recent elections limits the progress of structural reforms and raises downside risks to the medium-term growth outlook.

The inflation outlook remains unchanged. We see average inflation rising mildly in 2019, to 1.8% from this year's 1.4%, in line with strengthening domestic demand.

Banking Sector

Ana Lokin

The growth of private sector loans remained strong in September-October (6.3% yoy and 6.9% yoy). Household growth flat-lined at 7.4% yoy; however, non-financial corporations saw 5.2% and 6.3% yoy rises. The breakdown of loans to households by purpose shows a sustained healthy rise in consumer loans (around 8.0% yoy) and a continued recovery in housing loans (+8.1% yoy and +8.5% yoy, respectively), with the latter being boosted by the limitations imposed on cash uncovered loans. As the loan trends remain in line with our expectations, we have kept this year's growth estimate unchanged at +6.3% yoy; the 2019 forecast also remains unchanged, at +5.5% yoy.

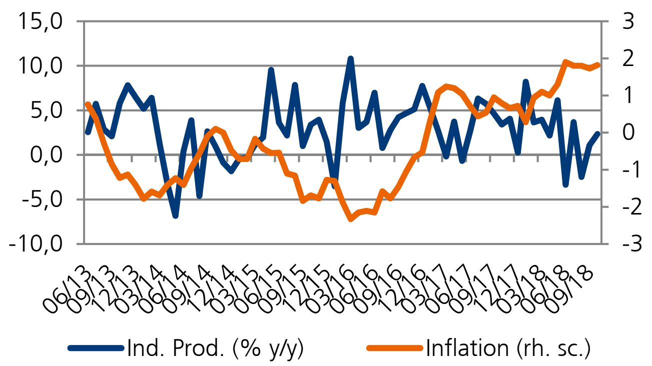
The rise in deposits strengthened (to 9.9% yoy in September, moderating towards 8.9% yoy in October), supported by encouraging real sector trends, a better labour market environment, and credit growth. The volatility of growth rates mainly related to non-financial corporations (16.4% yoy and 13.3% yoy, respectively), while the increases in household deposits remained stable, around 7% yoy. Deposit growth once again surprised on the upside, which prompted us to raise out 2018 estimate to 9.0% yoy and our 2019 forecast to 6.5% yoy.

Forecasts

	2017	2018F	2019F
Real GDP yoy	3.2	2.9	3.0
CPI (avg)	0.8	1.4	1.8
Euro exchange rate (avg)	1.96	1.96	1.96
Euro exchange rate (end of period)	1.96	1.96	1.96
Short-term rate (avg)	n.a.	n.a.	n.a.
Short-term rate (end of period)	n.a.	n.a.	n.a.
L/T bond yields (avg)	n.a.	n.a.	n.a.
Bank loans yoy	7.3	6.3	5.5
Bank deposits yoy	9.0	9.0	6.5

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: BHAS

Croatia

Real Economy

Ivana Jovic

Over Q3, the economy expanded by 2.8% yoy (0.6% qoq). Private consumption growth eased compared to H1 (2.7% vs 3.7%), but investment activity strengthened (3.7% vs 3.3% in H1). Following a 3.7% increase in exports of g&s (o/w 5.2% in goods and 2.5% in seasonally strong exports of services – tourism), and a 5.1% rise in imports, net exports added only marginally to headline growth. As next year brings tax relief (change in personal income tax rate, lower VAT rate on selected food products) as well as a hike in public sector wages, consumer confidence remains elevated, leading us to expect strong front-loaded consumption in Q4, additionally supported by favourable lending activity to households and a hefty tourism intake. Given a low base (2.2% growth in 4Q17), we expect the last quarter of this year to see growth similar to that recorded in the previous two quarters, thus leading FY18 growth to around 2.8%. Looking ahead, domestic demand should continue to support GDP growth, as private consumption will be supported by rising wages and favourable financing conditions over 2019. More supportive public investments, a maturing EU funds cycle, and continued strong takings from tourism are expected to mean some acceleration in investments, while net exports are expected to contribute negatively to headline growth given significant dependence on imports. Thus, we see growth in 2019 coming in around 2.6%, while at the same time, inflation is expected to moderate towards 1.5%, in line with the reduced VAT rate, lower oil prices, and strong retail competition in the market.

Financial Markets

Ana Lokin

FX rate estimates for 2018 have been sligthly reduced, to 7.42, as is the case for 2019, as the kuna continues to experience appreciation pressures given BOP CA and favourable fiscal trends, record-high net foreign positions of banks, the anticipated sovereign rating upgrade, and possible ERM II entry in 2020. Monetary policy should remain accommodative, with an eye to FX rate stability. The 3M average Zibor forecast for 2018 and 2019 remains unchanged at 0.5%. The spread between 10Y kuna government bonds and the Bund is forecast to narrow to 150bps in 2019. In line with benchmark developments, the 2018 average remains at 2.2%, with 2019 cut to 2.5%.

Banking Sector

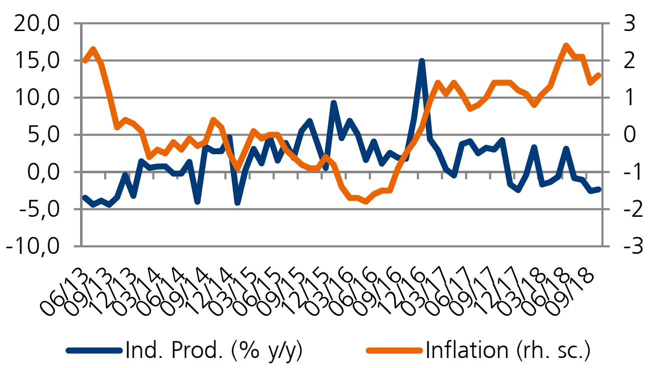
The 2018 loan growth estimate was raised to 2.5% yoy, due to a robust performance by households, supported by rising incomes, housing subsidies and loosened credit standards, while corporate loan growth shrank amid NPL sales. The 2018 deposit projection was increased to 3.5% yoy, thanks to sound increases in both corporate and household deposits. Expectations for next year remain largely unchanged: a stable GDP growth trend, a revival in investment, growth in employment and wages point to sustained modest growth, where negative risks to our projections arise from adverse demographic trends and the potential introduction of restrictions on consumer loans, similar to the macroprudential measures applied elsewhere in the region.

Forecasts

	2017	2018F	2019F
Real GDP yoy	2.9	2.8	2.6
CPI (avg)	1.1	1.6	1.5
Euro exchange rate (avg)	7.5	7.4	7.4
Euro exchange rate (end of period)	7.5	7.4	7.4
Short-term rate (avg)	0.6	0.5	0.5
Short-term rate (end of period)	0.6	0.5	0.7
L/T bond yields (avg)	2.8	2.2	2.5
Bank loans yoy	-0.1	2.5	1.7
Bank deposits yoy	2.4	3.5	2.0

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Eurostat, CBS

Czech Republic

Real Economy

Zdenko Štefanides

Real GDP growth stabilised at 2.4% through Q3, which is only half the pace of a year earlier and looks slow in the regional comparison. The slowdown is based on weaker foreign demand, but also increased imports, which cater to fast-rising consumer demand and, even more, investment demand. The latter reflects increased drawdown of EU funds and accelerated private investment in automation to compensate for intensifying labour shortages. An ensuing increase in capacity and productivity should support potential growth for the Czech economy even as prospects for an export rebound have been dented by moderating growth in the Eurozone. At this stage, we maintain our growth forecasts, which we view as cautious vs central bank projections for GDP growth averaging 2.4% in the next two years.

Regarding inflation, we continue to see consumer prices growing slightly above the CNB target of 2% for the foreseeable future as wages advance at an 8.5% yoy pace and show resistance to moderation amid an EU-low jobless rate of 2.2%.

Financial Markets

The Czech National Bank (CNB) has been moving aggressively on rates, with five rate hikes having occurred in 2018, more than was expected a year ago. Given the overheated economy, there is clearly a case for monetary tightening. Projections, however, were based on policy tightening being delivered by an appreciating currency. This failed to occur, as global sentiment has shifted and the koruna has lost value vs the euro by 2.5% since April. We continue to look for further policy tightening. At 1.75%, the refinancing rate is still way below the CNB-deemed neutral level of 3%. The pace of rate hikes will continue to be determined by the performance of the currency.

The CNB projects that the koruna will appreciate by 5% in 2019 and rates will remain broadly stable. From the Central Bank's model it results that 1% Koruna appreciation implies the same policy tightening impact as a rate hike of 25bps. We are less positive on the koruna and thus foresee two rate hikes in 2019. Regarding long-term yields, we continue to forecast a gradual increase along with domestic policy rates and inflation.

Banking Sector

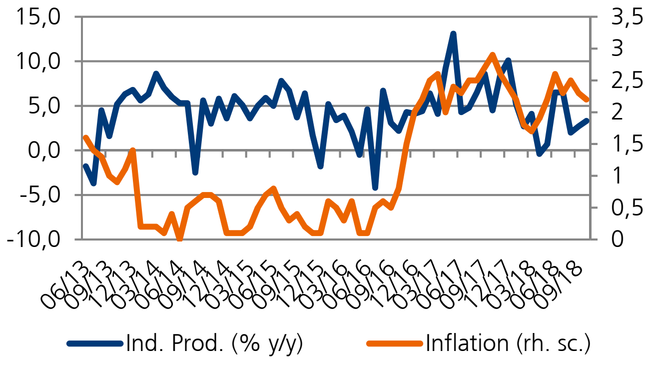
The Czech banking sector will continue to grow fast, along with the booming economy. Growth of loan volumes should, however, decelerate, due to rising interest rates and tighter regulation in the mortgage market. The most recent measures aim to slow the market down. At debt/income ceiling for lending to households was put into place in October 2018 and thus its full impact will only become apparent in the next year.

Forecasts

	2017	2018F	2019F
Real GDP yoy	4.3	2.8	2.4
CPI (avg)	2.5	2.2	2.2
Euro exchange rate (avg)	26.3	25.6	25.5
Euro exchange rate (end of period)	25.7	25.8	25.3
Short-term rate (avg)	0.4	1.3	2.2
Short-term rate (end of period)	0.8	2.0	2.5
L/T bond yields (avg)	1.0	2.0	2.5
Bank loans yoy	6.5	8.6	5.2
Bank deposits yoy	7.6	6.0	5.5

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: EC

Egypt

Real Economy

Samer Halim

The Egyptian economy grew by 5.3% during 1Q18/19 compared to 5.2% in the same quarter last year. Natural gas, telecommunications, the Suez Canal and construction led this growth, with the value of these activities rising by 21.8%, 16.5%, 12.3% and 6%, respectively. The expected growth rate in FY18/19 is still 5.3%, supported by tourism, natural gas discoveries and mega projects, such as the New Administrative Capital. Also, the finance minister announced that Egypt will not seek further funding from the International Monetary Fund (IMF) when the current loan deal with the fund ends next year.

Annual headline CPI reached 15.7% in November 2018 compared to 17.7% in October 2018. This rate is mainly attributed to the 5.8% mom decline in prices for vegetables and fruit. Following higher-than-expected inflation rates at the end of FY17/18, we raised estimates for inflation in 2019, when the Central Bank of Egypt (CBE) stated that there might be a slight deviation from inflation targets.

Financial Markets

The Monetary Policy Committee (MPC) decided to keep the CBE's overnight deposit and overnight lending rates unchanged at 16.75% and 17.75%, respectively, in mid-November. For the Money Market Rate, the expected average rate in 2019 has risen, based on the current high rate of 19.6%, which is higher than previously expected. The FX market has remained relatively stable with the recovery of main sources of foreign currency, especially tourism, remittances and the petroleum trade balance, leading foreign reserves to exceed pre-2011 levels, to USD 44.5Bn in November 2018.

Banking Sector

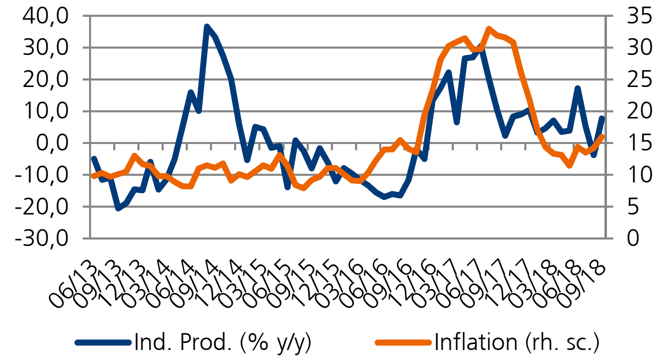
The Egyptian cabinet proposed new amendments to the Income Tax Law, which imply higher effective tax charges for banks. The new amendments suggest deducting interest income from treasuries from total interest income and the corresponding expense calculated based on cost/income ratios. Discussions are still ongoing between the Finance Ministry and the Federation of Egyptian Banks regarding the application of the new amendments, before they are referred to Parliament for final approval, with expectations that they will become effective starting in 2019 and not to be applied retroactively. Impacts on profitability will depend on banks' exposures to investments in government debt instruments. Private loans are expected to grow at a slower pace in 2019, based on continuous pressure from government loans to fund mega projects and a decline in FC loans. Deposit growth is expected to slow in 2019, after the anticipated decline in interest rates and the forecast move of liquidity to the stock market, post the multiple IPOs likely to occur in 2019.

Forecasts

	2017	2018F	2019F
Real GDP yoy	5.0	5.4	5.2
CPI (avg)	29.6	14.7	14.4
USD exchange rate (avg)	17.8	17.8	17.9
USD exchange rate (end of period)	17.8	17.8	18.0
Euro exchange rate (avg)	20.1	21.0	20.7
Euro exchange rate (end of period)	21.1	20.2	21.1
Short-term rate (avg)	19.3	18.8	17.7
Short-term rate (end of period)	19.0	19.4	16.5
L/T bond yields (avg)	n.a.	n.a.	n.a.
Bank loans yoy	7.1	13.0	11.2
Bank deposits yoy	23.8	15.8	14.0

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Ministry of Planning, CAPMAS

Hungary

Sandor Jobbagy

Real Economy

Hungary's forward-looking indicators, including PMI, showed some partial revival in October and November, but failed to return to earlier peaks recorded at the beginning of this year and in the summer. These data confirmed the strong, but not record-high momentum of the Hungarian economy, which, in contrast, was still being supported by strong domestic demand in 3Q18, with GDP statistics delivering above-expectations growth of 4.9% yoy (5.2% swda). Hence, we have raised our GDP growth forecast to 4.6% for 2018, expecting only a moderate slowdown in 4Q18. Our forecast for 2019 is little changed at 3.2%, however. The utilisation of EU funds should remain a strong driver, but fiscal and monetary policy should have diminishing impacts. The current pace of the economy is unlikely to be sustainable, given the lack of sufficient strengthening of GDP.

Headline inflation posted yoy figures above 3% and even close to 4% in October and November, though core inflation did not rise above 2.6%. The shift was partly unexpected, due to the influence of global oil prices. The impact of rising wages has been limited on the headline figure so far. In 2019, we project annual average CPI of 3.4%, reflecting the impact of oil prices and the risks embedded in persistently strong domestic demand. In 1Q19, the yoy CPI rate may even reach 4% temporarily, but core inflation (increasingly watched by the NBH) is unlikely to move above 3% in a lasting manner before 2H19.

Financial Markets

The 3M policy rate of the NBH was left at 0.90% in 2018, as has the O/N depo rate (-0.15%). Rate cuts look to be very unlikely, with market players speculating about the timing for the end of the current easing phase. Unconventional monetary easing continues, but the new swap and mortgage bond purchase programmes will be phased out by the end of 2018. BUBOR rates and longer yields experienced ongoing though not unbroken rises in 3Q18, followed by a slowdown and partial correction in 4Q18. The forint's weakening to a range of EUR/HUF 320-330 was also partially corrected with a shift to 320-325. We expect further modest forint strengthening and a moderate rise of BUBOR rates in 2019.

Banking Sector

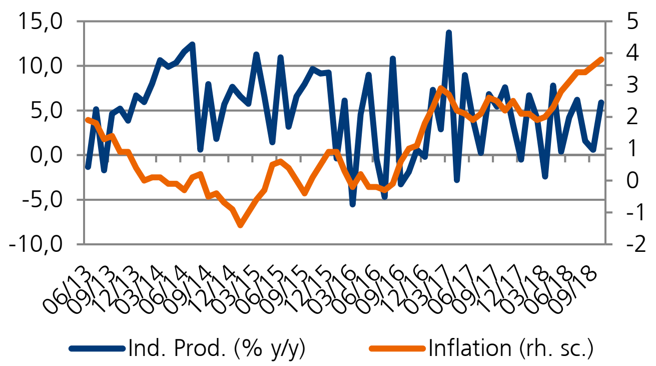
In Q3-Q4 this year, lending dynamics remained strong in Hungary's banking sector amid the ongoing rise of GDP growth and the strengthening of domestic consumer confidence and demand. Growth looks set to continue through the end of this year and may even beat current expectations, even exceeding 2017's jump at the initial phase of the recovery. Some loan segments (including mortgages and personal loans) are showing especially dynamic pick-ups. Lending might receive further moderate support (especially with the aim of better structuring) through the start of a new central bank programme in 2019 (NHP Fix). Asset quality continues to improve, even with NPLs already below 5% in 2H18. The sector has continued to experience sufficient (though slightly diminishing) liquidity and strong capital positions.

Forecasts

	2017	2018F	2019F
Real GDP yoy	4.1	4.6	3.2
CPI (avg)	2.4	3.0	3.4
Euro exchange rate (avg)	309.1	318.8	320.5
Euro exchange rate (end of period)	313.3	323.0	318.0
Short-term rate (avg)	0.1	0.1	0.3
Short-term rate (end of period)	0.0	0.1	0.4
L/T bond yields (avg)	3.0	3.1	3.7
Bank loans yoy	6.0	11.5	6.0
Bank deposits yoy	10.8	13.5	7.0

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: CSO

Poland

Real Economy

Sandor Jobbagy

Poland's forward-looking indicators showed a revival in November, returning close to the summer peaks, reflecting potential for strong but slightly diminishing economic growth rates. The dynamics of industrial production failed to return to double-digit territory, but showed some positive correction. Economic growth continued at above 5% in 3Q18, but this is unlikely to be sustainable. We project a significant slowdown to average GDP growth of 3.6% in 2019 from an expected 4.9% in 2018. Nevertheless, growth continued to be supported by relatively strong private consumption amid the revival of the industrial performance. Investments also shifted to higher gears, also due to a low base. Fiscal policy remained in check, as shown by the annual deficit. Regarding inflation, domestic demand and rising wages have had limited impacts so far.

While CPI had been rising to September, the October and November figures showed a decreasing trend. We expect only moderate further rises in inflation next year, with both the annual average and the year-end figures being only slightly above 2%.

Financial Markets

The NBP left its policy rate unchanged (1.50%) in 2018 similar to the situation over the whole of 2017. Earlier monetary decisions and central bank comments, as well as market expectations, suggested a rising probability of a tightening cycle to start in the near future, but this move is likely to shift to early 2020. This outlook is supported by the latest turn in domestic CPI as well as by the ongoing loose policy of the ECB (despite the imminent end of QE and mostly because of the shift in ECB hiking expectations towards 2020). The central bank is concerned about food price growth, which has been rising since the end of last year, and also about accelerating wage growth, but these risk are unlikely to exert strong upward pressure on CPI in the year ahead. In tandem with the latest EM FX shift and domestic monetary expectations, the zloty has continued a relatively weak path recently, also burdened by controversial events surrounding the Financial Supervisory Authority. The EUR/PLN exchange rate rose above 4.30 repeatedly and has failed to hold ground below this level so far. We expect similar levels close to EUR/PLN 4.30 to prevail in 2019.

Banking Sector

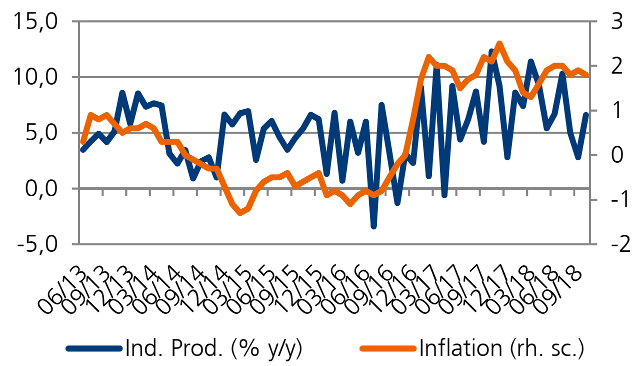
Lending activity in the Polish banking sector is forecast to show above 6% growth in 2018. This dynamics is likely to be generally maintained in 2019 (around 5%), despite the lack of potential for stronger GDP growth, but fueled by consumption. Loan stocks to the private sector recorded persistent rises, and the overall annual growth rate of the loan stock was above that of both 2016 and 2017. Deposit volumes have continued to increase, and these are likely to maintain momentum throughout 2018, despite relatively low (though not decreasing) interest rates. The quality of the banking sector's entire loan portfolio remained solid, with low average NPL ratios. The banking sector is likely to experience further consolidation as the sector's concentration is still seen as too low.

Forecasts

	2017	2018F	2019F
Real GDP yoy	4.5	4.9	3.6
CPI (avg)	2.0	1.7	2.1
Euro exchange rate (avg)	4.3	4.3	4.3
Euro exchange rate (end of period)	4.2	4.3	4.3
Short-term rate (avg)	1.5	1.8	2.3
Short-term rate (end of period)	1.7	2.0	2.5
L/T bond yields (avg)	3.4	3.2	3.5
Bank loans yoy	3.2	6.5	5.0
Bank deposits yoy	3.7	4.9	5.0

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: NBR

Romania

Real Economy

Sebastian Maneran

The slowdown in the Eurozone economy over 2018 and increased trade tensions worldwide resulted in a slowdown both in 10M18 average retail sales growth to 5.96% from 9.18% in 10M17, and in 10M18 average industrial production to 5.31% from 8.63% in 10M17. A noisy domestic environment kept economic sentiment at 101.76 in 11M18. Hence, GDP growth is expected to slow in 2018, to around 4%, and to 3.6% in 2019, as trade tensions are likely to continue and the world economy enters a cyclical soft patch, while domestic tailwinds from the fiscal stimulus will continue to fade.

Headline inflation retuned in the central bank's target interval (+2.5% ±100 pp) in November, coming in at 3.43% yoy, driven by low energy prices and a favourable base effect. As the domestic cyclical slowdown continues to manifest over the course of 2019, inflation is likely to continue to trend lower.

Financial Markets

With both growth and inflation slowing, the central bank paused the tightening cycle, which started in October 2017 by narrowing the interest rate corridor from +150bp around the 1.75% policy rate to 100bp around the 2.50% policy rate in early May 2018. With the central bank aggressively fighting inflation, the currency exchange rate of the RON vs. the EUR was stable and interest rates exhibited slightly higher volatility. Going forward, interest rates, local currency bond yields, and the exchange rate are likely to slowly trend higher as external risks (ie, syncronised global slowdown, trade tensions, etc) are mounting on top of European and Presidential domestic elections. Notwithstanding this, nominal RON interest rates and yields are among the highest in the region while the currency exchange rate continues to hover near all-time highs above RON 4.6/EUR 1.

Banking Sector

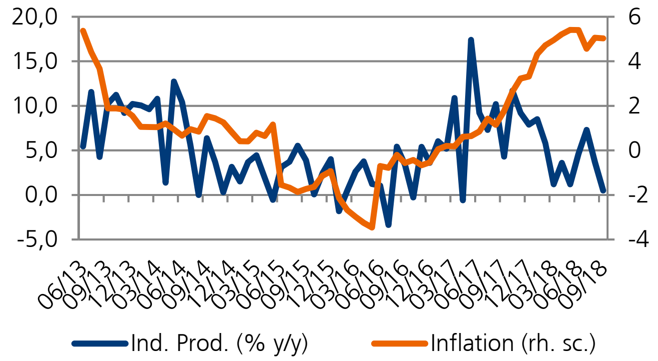
Higher inflation resulted in higher interest rates. The end-October 2018 lending rate was 7.32%, up from 5.88% at end-December 2017. However, banking credit data show strong credit creation: end-October 2018 +6.81% yoy, to RON 253Bn, driven primarily by local currency credit to the household sector rising by 20.5% yoy, as a result of the impulse provided by the 2017 and partly in 2018 fiscal stimulus. Deposits data showed a preferrence for foreign currency saving in both households and the corporate sector (end-October 2018 at +17% yoy and +14% yoy, respectively). Banking sector profitability increased and balance sheets got cleaner (NPL ratio at the end of September 2018 was 5.56%, down from 6.40% at December 2017 and 9.62% at December 2016). A cyclical turn in the economy going forward and tighter regulation (indebtedness level lowered to 40% from current market conditions of 47%) will likely limit sustained expansion at the current pace in 2019 and onwards.

Forecasts

	2017	2018F	2019F
Real GDP yoy	6.9	4.0	3.6
CPI (avg)	1.3	4.7	3.7
Euro exchange rate (avg)	4.6	4.7	4.7
Euro exchange rate (end of period)	4.6	4.7	4.7
Short-term rate (avg)	1.2	2.8	2.9
Short-term rate (end of period)	2.1	2.9	3.2
L/T bond yields (avg)	4.0	4.8	5.2
Bank loans yoy	6.9	7.5	4.5
Bank deposits yoy	15.6	6.0	5.8

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: NBR, NIS

Russia

Real Economy

Lekareva Irina

According to the Ministry of Economic Development, the GDP growth rate in 3Q18 dropped to 1.3% yoy, after 1.8% yoy growth in 2Q18. The slowdown resulted from the negative dynamics of agriculture, due to the decreased yield of crops in comparison with a record level recorded the last year.

In general, economic growth in recent months has remained at a level corresponding to its potential. However, falling oil prices, exchange rate volatility, and the negative impact on domestic demand of the VAT increase indicate a likely temporary slowdown of the Russian economy, mainly at the beginning of 2019. We expect that GDP growth will slow to 1.5% next year, with a further recovery and increase to 2% in 2020.

Financial Markets

At its December's meeting CBR Board of Directors decided to hike the key rate by 25 bps to 7.75%. At the press conference, the Governor Nebiullina highlighted, among the internal factors driving this decision, the risk that inflation may hold above the 4% target for a long period of time, given the uncertainty over the price response to the VAT rate hike and over the effect of this year's weakening in the rouble on inflation expectations.

According to Governor Nebiullina, this may require a considerable and enduring monetary policy tightening. We now expect, hence, that the key rate remains at the current level or even increase further in 2019, and that its decline and gradual convergence to neutral level is not likely to begin before late 2019 or early 2020.

Banking Sector

We expect that lending to households (especially mortgage lending) will remain the main driver of growth in the loan portfolios of banks. Retail loan portfolios grew at an acceleratingpace (+20% yoy and +21% yoy in August and September, respectively). Corporate lending has also shown a moderate acceleration, to 11% yoy in September.

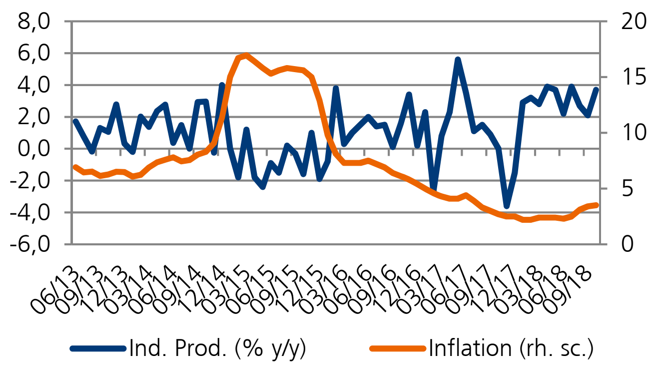
Unlike Loans, Deposits grew at a lower rate in September (12% yoy for corporates and by 8% yoy for individuals). The slow down is also observed in foreign currency deposits (from 4% in August to 2% September yoy). During the following months, the volume of deposits are expected to increase, along with higher deposit rates after the recent rate hikes. The trend in the medium term is expected to continue at the current level.

Forecasts

	2017	2018F	2019F
Real GDP yoy	1.5	1.7	1.5
CPI (avg)	3.7	2.9	5.2
USD exchange rate (avg)	58.3	62.6	66.8
USD exchange rate (end of period)	58.6	67.0	66.0
Euro exchange rate (avg)	65.8	73.9	77.2
Euro exchange rate (end of period)	69.1	76.0	77.4
Short-term rate (avg)	9.4	7.7	8.4
Short-term rate (end of period)	8.1	8.5	8.3
L/T bond yields (avg)	7.8	7.9	8.8
Bank loans yoy	5.2	10.2	7.1
Bank deposits yoy	8.1	6.9	5.6

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: State Statistics Federal Service

Serbia

Real Economy

Branka Babic

Movements of macroeconomic indicators were above expectations in the first three quarters of 2018, mainly in construction and agriculture on the production side, and in investment on the expenditure side, which resulted in an upward adjustment to the GDP projection in 2018 from the previous 4.1% yoy to 4.2% yoy. In 2019, however, GDP growth is expected to slow to 3.3% yoy, but still be supported by consumption and investments. An anticipated slowing of imports might result in a modest positive contribution of net exports to GDP, in contrast to 2018.

Yoy CPI is expected to remain low and it should continue to move within the target tolerance band in the next two years while most likely staying below the 3.0% midpoint. Average inflation is projected at 2.0% in 2018 and 2.3% in 2019.

Financial Markets

The NBS has kept the key policy rate unchanged at 3.0% at end-2018, in line with market expectations. The decision is supported by current and expected inflation movements, economic performance, and external factors, primarily: the uncertainties regarding monetary policy of the leading central banks, the Fed and the ECB; increasing protectionism in international trade; and volatile primary commodity prices in the international market, notably oil, which requires further monitoring. However, as of next year, most likely in the second half, the Serbian CB might start to raise rate, anticipating analogous steps regarding ECB monetary policy tightening.

The dinar is expected to remain relatively stable at average values of 118.3 in 2018 and 118.7 in 2019 on the back of strong macro and fiscal fundamentals, mainly rising exports, capital inflows and fiscal surplus. The local currency will continue to be supported by strong FDI, increased tourism and stable remittances, while the NBS is expected to continue to intervene on the FX market in case of excessive FX rate volatility.

Banking Sector

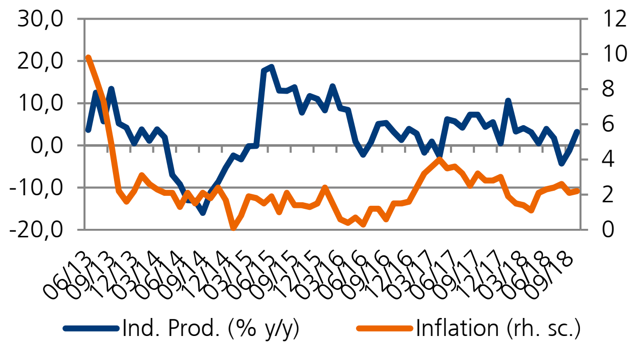
Lending activity in Serbia is expected to increase further, by 7.1% in 2018 and 6.5% in 2019, driven by a better economic performance, easy monetary policy, low interest rates in the Euro area, and increased bank competition. Average banking interest rates are expected to remain at a similar level to that in 2018, while in later years, these are likely to increase following CB rate tightening.

Forecasts

	2017	2018F	2019F
Real GDP yoy	1.9	4.2	3.3
CPI (avg)	3.2	2.0	2.3
Euro exchange rate (avg)	121.41	118.27	118.70
Euro exchange rate (end of period)	119.14	118.20	118.80
Short-term rate (avg)	3.9	3.1	3.2
Short-term rate (end of period)	3.5	3.0	3.5
Bank loans yoy	2.1	7.1	6.5
Bank deposits yoy	3.1	6.5	5.5

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistical Office, National Bank of Serbia

Slovakia

Real Economy

Andrej Arady

This year (2018) was another good period for the Slovak economy. Growth in the third quarter was again above expectations, accelerating to 4.6% yoy from 4.5% yoy in 2Q, which led us to revise our full-year forecast up by three-tenths, to 4.3% yoy. This is in sharp contrast to downward revisions of Eurozone growth in the year. The Slovak economy defied Eurozone gravity in 2018 largely thanks to extraordinary investments in the automotive sector. Private consumption, however, remains strong too, growing on average nearly 3% yoy this year.

Looking ahead, investments in the automotive sector should bear fruit soon, boosting industrial production. In addition, public investments should play a significant role in GDP growth. These expectations are linked to the approaching end of the EU Operational programme 2014-2020 which will intensify the drawdown of EU funds. Moreover, 2019 is also a year before Slovak parliamentary elections, when the government generally tends to spend more.

Nevertheless, the peak of the economic cycle has been already reached. This is supported by significant deterioration in economic sentiment regarding the Slovak economy and decelerating external demand. Once the effect of new production in the automotive sector fades, growth should gradually decelerate towards 3% yoy. In 2019, however, the economy should still post solid growth, at close to 4% yoy.

Meanwhile, the labour market remains tight, with historically high employment and brisk growth of wages, at above 6% yoy. This should ensure ongoing healthy growth of private demand as well as demand-driven inflation pressures. Headline inflation should stay well above 2% yoy in 2019.

Financial Markets

Regading the bond market, along with the approaching the end of the ECB’s Assest Purchase Programme, spreads on 10-year governmnent bonds vs German Bunds have increased from c.35bps in the summer to 63bps in December to date, which is already close to expected value for the next year. Yields, however, should increase further, along with the expected pickup of German yields.

Banking Sector

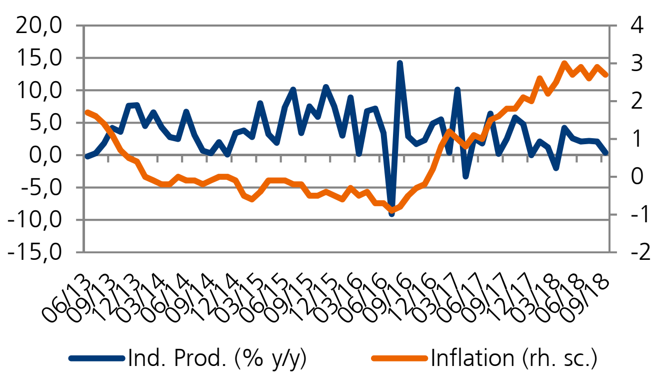
The Slovak banking sector is expected to grow fast in 2019, as it did this year. A recent rise in household indebtedness, an expected rise in interest rates and tighter regulation of credit markets should, however have a negative impact of futuregrowth. After posting double-digit growth in 2018, loan growth is expected to decelerate to 7% yoy. Growth of deposits, supported by rising household incomes, is expected to remain relatively unchanged, well above 5% yoy.

Forecasts

	2017	2018F	2019F
Real GDP yoy	3.4	4.3	3.9
CPI (avg)	1.4	2.6	2.4
Short-term rate (avg)	-0.3	-0.3	-0.3
Short-term rate (end of period)	-0.3	-0.3	-0.1
L/T bond yields (avg)	0.9	0.9	1.5
Bank loans yoy	9.6	10.3	7.0
Bank deposits yoy	5.2	5.8	5.4

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistical Office of Slovak Republic

Slovenia

Real Economy

Ivana Jovic

Slovenia's GDP expanded by 4.8% yoy (1.3% qoq) in the third quarter of the year (vs 4% in the previous quarter), as a surge in investments offset a strong slowdown in exports. In Q3, exports of goods increased by only 4.3% yoy, the lowest rate in the last 10 quarters, while exports of services maintained healthy 11% yoy growth. Nevertheless, as a slowdown was also seen in imports (4.3% yoy), external demand had a positive impact of 1.7pp to headline growth. As mentioned, slowing exports were counterbalanced by stronger investments as gross fixed capital formation increased by 12% yoy (owing to a 20% spike in construction investments) and a change in inventories added 0.5pp to GDP growth. Surprisingly, household consumption remained unchanged on an annual basis, even given rising wages and an improving labour market. Thus, a stronger-than-expected Q3 as well as an upward revision regarding H1 data, pushed estimated FY18 growth to 4.5%, while in 2019, we see growth slowing to around 3.5%. Investments will continue to be supported by a maturing EU structural funds cycle and the need to bolster capacity, as well as easier credit conditions. Private consumption is expected to strengthen in line with rising wages in both the private and public sectors. At the same time, so-far strongly supportive net exports look set to diminish somewhat, based on an expected slowdown in key export markets.

Financial Markets

Ana Lokin

The 2018 and 2019 projections of average 3M Euribor were confirmed at -0.3%. We reduced our forecast of the average spread between Slovenian 10Y government bond yields and Bund yields to 60bps for both 2018 and 2019 (-10bps and -40bps, respectively). The benchmark yield estimate remains unchanged for 2018, but rises by 20bps in 2019. Thus, the 2018 average Slovenian government yield stayed at 1.1%, but the 2019 forecast was cut by 20bps, to 1.6%.

Banking Sector

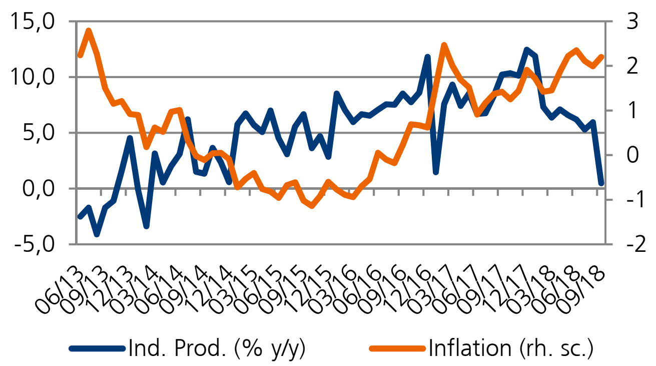
Private sector loans accelerated slightly in September-October, to 2.8% yoy. Corporate loan growth remained negative (-1.0% yoy, -1.1% yoy), while households recorded growth of 6.5% yoy and 6.6% yoy in September-October, based on an 11% yoy rise in consumer credit and a more moderate rise in housing and other loans. A steep rise in consumer loans, particularly those with longer maturities, prompted the Bank of Slovenia to extend a macroprudential regulation for housing loans to consumer loans, limiting the debt service/income ratio and the maturity of new consumer loans. Continued deleveraging of corporates and newly imposed regulations for households support our conservative loan projections which are confirmed at 3.3% yoy for 2018 and 3.4% yoy in 2019. Growth in deposits slowed to 6.4% yoy and 6.3% yoy in September-October, respectively, due to lower rises in corporate deposits (8.1% yoy and 6.3% yoy), while households maintained their pace of +6% yoy. The 2018 deposit growth estimate was adjusted downwards, to 5.9% yoy, while the 2019 forecast remained unchanged, at 5.4% yoy.

Forecasts

	2017	2018F	2019F
Real GDP yoy	4.9	4.5	3.5
CPI (avg)	1.6	2.0	2.2
Short-term rate (avg)	-0.3	-0.3	-0.3
Short-term rate (end of period)	-0.3	-0.3	-0.1
L/T bond yields (avg)	1.0	1.1	1.6
Bank loans yoy	3.2	3.3	3.4
Bank deposits yoy	7.0	5.9	5.4

Source:: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Eurostat, Statistical Office of the Republic of Slovenia

Ukraine

Real Economy

Giancarlo Frigoli

Ukraine's real GDP growth accelerated to 3.3% in the first nine months of 2018 compared to 2.6% in the same period in 2017. On the supply side, growth in the first nine months of this year was mainly driven by construction (+5.8% yoy), mining (+2.5% yoy) and retail sales (+6.7% yoy) activities which more than offset the slowdown in agricultural and manufacturing (+0.1%) output. Considering demand, also this year, investment reported a two-digits rate of growth (15.1% in 1H), while net trade negatively affected GDP, as exports reported a larger drop than imports. The NBU expects economic growth to accelerate in 2018, to 3.4%. In 2019, real GDP growth, according to the NBU, is set to decelerate to 2.5%, due to a slowdown in the global economy, deteriorating price conditions in global commodity markets, and tighter fiscal policy, as well as tight monetary policy required to bring inflation back to its target. However, in 2020, economic growth is expected to speed up again, to 2.9%. The growth will be fueled by a gradual easing in monetary policy, which will become possible after inflation stabilises at a level close to the target, as well as due to the economy's greater attractiveness for investment.

Financial Markets

In light of new pro-inflationary factors (such as higher energy and wheat prices and stronger-than-expected wage growth), the NBU has revised its end-2018 inflation projections upwards (from 8.9% to 10.1%). These factors and higher inflation expectations will also drive next year's inflation rate (the forecast has been increased to 6.3%). Therefore, according the NBU, inflation will remain above the target range longer than previously expected, reaching its medium-term target of 5.0% in late 2020. By year-end, the IMF's Executive Board is expected to approve the preliminary agreement reached with Ukraine last October on a new USD 3.9Bn stand-by programme. This step will allow the disbursement of a first tranche of the loan, boosting FX reserves and offering support to the hryvnia, which in recent weeks has traded sideways.

Banking Sector

Davidia Zucchelli

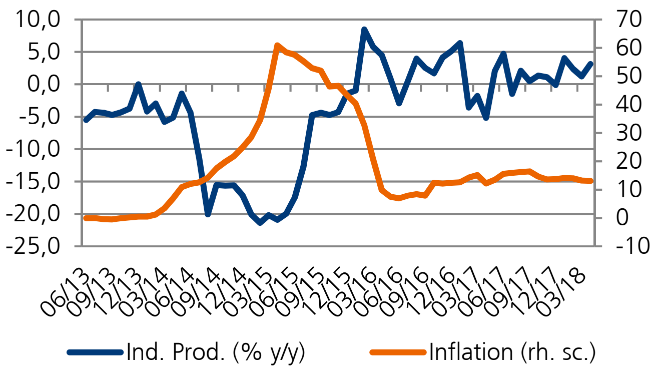
Banking aggregates are expected to improve gradually during the forecast period, thanks to macroeconomic conditions and the cooperation with the IMF, which should support the sentiment of banks and their customers. Estimates for 2018 have been revised upwards, due to loan and deposit acceleration seen in the last few months. Loans increased by 14.4% as of September (+15.2% yoy in August), particularly in the household sector (+23.8% yoy), where hryvnia loans intensified their strong recovery (+44% yoy), accounting for 65% of total loans to the sector. Corporate loans maintained a strong dynamic (+12.2% yoy from 12.9% in August) in both local and in foreign currency, which supported loan projections. Nevertheless, lending forecasts (low, but gradually strengthening, to +5% in 2023) continued to be underpinned by high NPLs. NPL levels were high (54.3% as of September vs 55.7% as of June), concentrated in the state-owned banks, and mostly covered by provisions. The credit/GDP ratio is expected to shrink to 21% in 2023. Deposits increased by 14.8% yoy as of September, both from corporates (14.2% yoy) and households (15.1% yoy, supported by remittances).

Forecasts

	2017	2018F	2019F
Real GDP yoy	2.5	3.2	2.5
CPI (avg)	14.5	11.2	10.2
USD exchange rate (avg)	26.6	27.3	28.6
Euro exchange rate (avg)	30.0	32.2	33.1
Short-term rate (avg)	16.8	18.5	18.2
L/T bond yields (avg)	0.0	0.0	0.0
Bank lending yoy	0.9	10.1	4.3
Bank deposits yoy	12.1	6.4	3.0

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: State Statistics Service of Ukraine

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

Economy

	GDP chg yoy			Ind. Prod[1]. chg.yoy			Export nom. ch yoy			Inflation chg yoy				FX reserves chg (mln €)[2]			CA bal. (mln €)[3]	
	3Q18	2Q18	2017	Last	mth	3Q18	Last	mth	3Q18	Last	mth	3Q18	2017	3Q18	2Q18	2017	3Q18	2Q18
CEE																		
Czech Rep.	2.5	2.3	4.3	3.3	Oct	3.7	10.2	Oct	4.8	2.2	Oct	2.4	2.5	n.a.	n.a.	46256	n.a.	n.a.
Hungary	4.9	4.9	4.1	5.9	Oct	2.8	6.5	Oct	3.1	3.8	Oct	3.5	2.4	n.a.	n.a.	-3858	n.a.	772
Poland	5.1	5.1	4.5	6.6	Oct	6.0	5.9	Jul	5.9	1.2	Nov	1.9	2.0	n.a.	n.a.	-7143	n.a.	n.a.
Slovakia	4.6	4.5	3.4	0.4	Sep	1.6	4.6	Oct	8.5	2.5	Oct	2.7	1.4	n.s.	n.s.	n.s.	n.a.	n.a.
Slovenia	4.8	4.0	4.9	0.5	Sep	3.9	-0.5	Sep	8.0	2.1	Nov	2.1	1.6	n.s.	n.s.	n.s.	1123	982
SEE																		
Albania	n.a.	4.3	3.7	n.a.	n.a.	n.a.	21.5	Oct	9.2	1.9	Oct	2.2	2.0	n.a.	85	n.a.	n.a.	-173
Bosnia H.	n.a.	3.4	3.2	2.3	Oct	0.7	6.6	Oct	4.3	1.8	Oct	1.8	0.8	236	110	524	n.a.	-176
Croatia	2.8	2.9	2.9	-2.4	Oct	-1.5	1.2	Sep	6.3	1.6	Oct	1.9	1.1	n.a.	214	2192	n.a.	212
Romania	4.1	4.1	6.9	0.5	Sep	3.8	10.0	Oct	7.4	3.4	Nov	4.9	1.3	-611	-3529	3895	-2860	-2701
Serbia	3.8	4.9	1.9	3.2	Oct	-1.3	12.5	Oct	7.7	2.2	Oct	2.4	3.2	138	541	-689	-483	-267
CIS MENA																		
Russia	1.3	1.8	1.5	3.7	Oct	2.9	24.8	Sep	31.0	3.8	Nov	3.0	3.7	3191	925	38476	n.a.	19064
Ukraine	2.8	3.8	2.5	1.4	Oct	0.5	10.3	Sep	11.8	10.0	Nov	8.9	14.5	-683	495	3688	-3349	155
Egypt	5.3	5.4	5.0	7.7	Sep	3.0	18.4	Aug	19.1	15.7	Nov	14.6	29.6	201	1647	12755	n.a.	-493
m.i. E. A.	*1.7*	*2.1*	*2.4*	*0.9*	*Sep*	*0.8*	*-0.9*	*Sep*	*4.7*	*2.0*	*Nov*	*2.1*	*1.5*					

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

Markets and Ratings

	S/T rates[1]		L/T rates[2]		Foreign exchanges[3]			Stock markets		CDS spread (bp)		Rating
	07/12	chg bp 3M	07/12	chg bp 3M	07/12	3M chg%	1Y chg%	3M chg%	1Y chg%	07/12	07/09	Moody's
CEE						Vs Euro						
Czech Rep.	2.0	0.5	2.0	-0.1	25.9	0.7	1.2	-2.8	-1.5	37.0	35.5	A1
Hungary	0.1	-0.1	3.2	-0.3	323.1	-0.4	2.7	5.9	2.7	80.5	82.7	Baa3
Poland	2.0	0.3	3.0	-0.3	4.3	-0.5	1.7	1.0	-6.4	57.1	58.6	A2
Slovakia	-0.3	0.0	1.0	0.2	Euro	Euro	Euro	-0.1	4.8	43.9	42.0	A2
Slovenia	-0.3	0.0	1.1	0.1	Euro	Euro	Euro	-5.2	4.3	69.8	66.2	Baa1
SEE												
Albania	1.2	0.0	n.a.	n.a.	123.6	-2.4	-7.6	n.a.	n.a.	n.a.	n.a.	B1
Bosnia H.	n.a.	n.a.	n.a.	n.a.	1.96	Board	Board	n.a.	n.a.	n.a.	n.a.	B3
Croatia	0.5	0.0	2.1	0.0	7.4	-0.3	-2.0	-5.1	-7.3	97.7	94.9	Ba2
Romania	2.9	0.0	4.9	0.1	4.6	0.2	0.3	4.6	13.2	94.2	83.3	Baa3
Serbia	3.0	0.0	n.a.	n.a.	118.3	0.0	-1.1	1.8	6.9	115.6	109.8	Ba3
CIS MENA						Vs USD						
Russia	8.5	0.8	8.7	-0.6	66.7	-2.2	13.3	5.9	15.6	143.3	164.9	Ba1
Ukraine	20.5	1.9	14.5	0.0	27.8	-1.6	2.5	4.2	1.1	597.5	502.9	Caa2
Egypt	19.4	0.3	17.8	-0.2	17.9	0.1	0.7	-19.7	-17.2	360.1	350.3	B3
m.i.A.E.	*-0.3*	*0.0*	*0.3*	*-0.1*	*1.14*	*-1.6*	*-3.4*	*-5.0*	*-10.7*	*7.6*	*5.3*	

Source: Datastream, Reuters;[1] The data for Albania refers to January, for Egypt 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	2017	Last	mth	2017	Last	mth	2017	Last	Mth	2017	Last	mth	2017	S[4]	Last	mth	2017	S[4]	Last	mth	2017
CEE																							
Czech Rep.	8.0	Oct	6.5	3.3	Oct	4.0	2.9	Sep	70.2	6.4	Oct	7.6	3.09	Oct	2.33	C	1.13	Oct	0.66	H	77.7	Oct	75.8
Hungary	10.8	Oct	6.0	4.1	Jun	5.3	-1.4	Oct	12.2	15.0	Oct	10.8	2.37	Oct	2.5	C	0.18	Oct	0.24	H	79.7	Oct	80.1
Poland	5.9	Sep	3.2	4.1	Jun	3.9	3.4	Aug	-13.0	7.5	Sep	3.7	3.61	Aug	3.66	C	1.71	Aug	1.65	H	101.2	Sep	98.3
Slovakia	10.2	Oct	9.6	3.5	Oct	4.0	-7.9	Oct	-6.0	5.6	Oct	5.2	1.98	Oct	1.97	C[2]	0.07	Oct	0.07	H[2]	103.4	Oct	98.8
Slovenia	2.8	Oct	3.2	4.6	Aug	6.0	-16.8	Oct	-13.4	6.3	Oct	7.0	2.03	Oct	2.41	C[2]	0.16	Oct	0.14	H[2]	77.4	Oct	78.3
SEE																							
Albania	-4.1	Oct	0.5	12.9	Sep	13.2	-5.0	Oct	0.0	-1.2	Oct	-1.3	8.23	Oct	8.12	PS	0.77	Oct	0.8	PS	52.2	Oct	53.3
Bosnia H.	6.9	Oct	7.3	9.4	Sep	10.0	14.2	Oct	4.6	8.9	Oct	9.0	3.01	Oct	3.51	C	0.46	Oct	0.23	H	106.8	Oct	108.4
Croatia	2.1	Oct	-0.1	10.3	Sep	11.4	-15.2	Oct	-17.8	4.3	Oct	2.4	6.23	Oct	6.41	PS	0.43	Oct	0.68	PS	77.4	Oct	78.6
Romania	6.8	Oct	6.9	5.6	Sep	6.4	-5.8	Oct	-9.1	9.4	Oct	15.6	7.32	Oct	5.88	PS	2.26	Oct	1.08	PS	76.2	Oct	76.7
Serbia	6.6	Oct	2.1	6.4	Sep	9.8	24.4	Oct	14.4	8.7	Oct	3.1	8.64	Oct	8.2	PS	2.78	Oct	2.85	PS	100.9	Oct	101.3
CIS MENA																							
Russia	13.9	Sep	5.2	10.7	Sep	10.0	-10.1	Jul	-17.5	10.4	Sep	8.1	9.0	Sep	9.43	C	5.13	Sep	5.27	H	108.5	Sep	104.8
Ukraine	14.4	Sep	0.9	54.3	Sep	54.5	-2.9	Sep	-23.5	14.8	Sep	12.1	20.66	Sep	17.51	PS	12.75	Sep	9.56	PS	127.3	Sep	123.0
Egypt	13.0	Sep	7.1	4.3	Jun	4.9	2.0	Sep	1.1	17.7	Sep	23.8	17.8	Oct	19.8	C	12.0	Oct	13.6	H	34.0	Sep	33.9
m.i. E. A.	*17.3*	*Sep*	*2.2*	*n.a.*	*n.a.*	*n.a.*	*8.4*	*Sep*	*-2.8*	*2.7*	*Sep*	*1.8*	*1.2*	*Oct*	*1.3*	*C*	*0.3*	*Oct*	*0.4*	*H*	*93.5*	*Sep*	*81.9*

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

Country Outlook

The economy

GDP (% yoy)	2015	2016	2017	2018F	2019F
CEE					
Czech Rep.	5.3	2.6	4.3	2.8	2.4
Hungary	3.5	2.3	4.1	4.6	3.2
Poland	3.7	2.8	4.5	4.9	3.6
Slovakia	3.8	3.3	3.4	4.3	3.9
Slovenia	2.3	3.1	4.9	4.5	3.5
Average	3.9	2.7	4.3	4.4	3.3
SEE					
Albania	2.6	3.5	3.7	4.2	3.7
Bosnia Herzegovina	3.1	3.1	3.2	2.9	3.0
Croatia	2.4	3.5	2.9	2.8	2.6
Romania	4.0	4.8	6.9	4.0	3.6
Serbia	0.8	2.8	1.9	4.2	3.3
Average	3.2	4.2	5.3	3.8	3.4
CIS					
Russia	-2.8	-0.2	1.5	1.7	1.5
Ukraine	-9.8	2.4	2.5	3.2	2.5
Average	-3.4	0.0	1.6	1.8	1.5
MENA					
Egypt	4.5	3.9	5.0	5.4	5.2
Average ISP Subsidiaries	0.1	1.6	3.1	3.1	2.6

Inflation (average)	2015	2016	2017	2018F	2019F
CEE					
Czech Rep.	0.3	0.7	2.5	2.2	2.2
Hungary	-0.1	0.4	2.4	3.0	3.4
Poland	-0.7	-0.6	2.0	1.7	2.1
Slovakia	-0.3	-0.5	1.4	2.6	2.4
Slovenia	-0.8	-0.2	1.6	2.0	2.2
SEE					
Albania	1.8	1.3	2.0	2.1	2.3
Bosnia Herzegovina	-1.0	-1.6	0.8	1.4	1.8
Croatia	-0.5	-1.1	1.1	1.6	1.5
Romania	-0.6	-1.5	1.3	4.7	3.7
Serbia	1.4	1.1	3.2	2.0	2.3
CIS					
Russia	15.6	7.1	3.7	2.9	5.2
Ukraine	48.5	14.9	14.5	11.2	10.2
MENA					
Egypt	10.4	13.7	29.6	14.7	14.4

Market

Exchange rate (average)	2015	2016	2017	2018F	2019F
CEE					
Czech Rep.	27.3	27.0	26.3	25.6	25.5
Hungary	309.9	311.3	309.1	318.8	320.5
Poland	4.2	4.4	4.3	4.3	4.3
Slovakia					
Slovenia					
SEE					
Albania	139.7	137.4	134.6	128.1	124.3
Bosnia Herzegovina	1.96	1.96	1.96	1.96	1.96
Croatia	7.6	7.5	7.5	7.4	7.4
Romania	4.4	4.5	4.6	4.7	4.7
Serbia	120.8	123.1	121.4	118.3	118.7
CSI MENA					
Russia (USD)	61.0	67.1	58.3	62.6	66.8
Ukraine (USD)	21.4	25.5	26.6	27.3	28.6
Egypt (USD)	7.7	10.1	17.8	17.8	17.9

Interest rate (average)	2015	2016	2017	2018F	2019F
CEE					
Czech Rep.	0.3	0.3	0.4	1.3	2.2
Hungary	1.6	1.0	0.1	0.1	0.3
Poland	1.7	1.6	1.5	1.8	2.3
Slovakia	0.0	-0.3	-0.3	-0.3	-0.3
Slovenia	0.0	-0.3	-0.3	-0.3	-0.3
SEE					
Albania	2.8	1.1	1.3	1.0	1.2
Bosnia Herzegovina	n.a.	n.a.	n.a.	n.a.	n.a.
Croatia	1.2	0.9	0.6	0.5	0.5
Romania	1.3	0.8	1.2	2.8	2.9
Serbia	6.1	4.1	3.9	3.1	3.2
CIS MENA					
Russia	14.1	11.2	9.4	7.7	8.4
Ukraine	25.9	20.9	16.8	18.5	18.2
Egypt	11.3	14.1	19.3	18.8	17.7

Bank

Loans to private sector (% change yoy)	2015	2016	2017	2018F	2019F
CEE					
Czech Rep.	6.6	6.7	6.5	8.6	5.2
Hungary	-12.3	-1.9	6.0	11.5	6.0
Poland	7.3	5.3	3.2	6.5	5.0
Slovakia	8.7	10.3	9.6	10.3	7.0
Slovenia	-5.4	-2.3	3.2	3.3	3.4
SEE					
Albania	-3.5	0.2	0.5	-3.9	1.0
Bosnia Herzegovina	2.0	3.5	7.3	6.3	5.5
Croatia	-3.1	-4.3	-0.1	2.5	1.7
Romania	3.0	1.2	6.9	7.5	4.5
Serbia	3.0	2.4	2.1	7.1	6.5
CIS					
Russia	8.2	-4.2	5.2	10.2	7.1
Ukraine	-3.8	2.0	0.9	10.1	4.3
MENA					
Egypt	18.0	42.8	7.1	13.0	11.2

Deposit by private sector (% change yoy)	2015	2016	2017	2018F	2019F
CEE					
Czech Rep.	7.1	5.8	7.6	6.0	5.5
Hungary	7.5	6.3	10.8	13.5	7.0
Poland	10.0	9.2	3.7	4.9	5.0
Slovakia	9.9	4.6	5.2	5.8	5.4
Slovenia	5.8	7.2	7.0	5.9	5.4
SEE					
Albania	1.0	2.7	-1.3	-2.2	1.5
Bosnia Herzegovina	7.8	7.4	9.0	9.0	6.5
Croatia	6.3	2.8	2.4	3.5	2.0
Romania	8.6	8.2	15.6	6.0	5.8
Serbia	7.1	11.5	3.1	6.5	5.5
CIS					
Russia	18.8	-3.9	8.1	6.9	5.6
Ukraine	1.5	9.1	12.1	6.4	3.0
MENA					
Egypt	20.4	41.4	23.8	15.8	14.0

Source: Intesa Sanpaolo Research Department forecasts

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