INTESA SANPAOLO

Forecast Note

Countries with ISP subsidiaries

June 2018

Quarterly note

Intesa Sanpaolo
International Research Network

GDP growth revised upwards, though still along a decelerating path. Inflation set to rise, but monetary policy still accomodative until 2019 (except in CZ, RO). Long rates still on the rise in CEE/SEE and Russia. Lending consolidates.

Due to above-expectations economic growth in 1Q18 (only slightly lower than the 4.9% seen in 4Q17) and to the strong readings coming from the most recent high frequency indicators, GDP growth has been revised upwards with respect to our *March Note* in the CEE region for 2018 and 2019 (to 4.1% from 3.8% and to 3.4% from 3.2%, respectively). In the SEE area, it has, in contrast, been revised slightly downwards for 2018 (to 3.8% from 3.9%), mainly due to higher-than-expected deceleration of Romania in 1Q18 and left unchanged in 2019, at 3.4%. Growth is supported by domestic demand (with a virtuous circle between employment/wage dynamics and consumption growth, and between EU funds and investments). Outside the region, GDP is expected to recover further in 2018-2019 in Russia towards 2% (supported by oil price hikes and despite the weakening of external conditions), in Ukraine by around 3%, and in Egypt to above 5% (driven by public investments and the exploitation of the Zohr gas field).

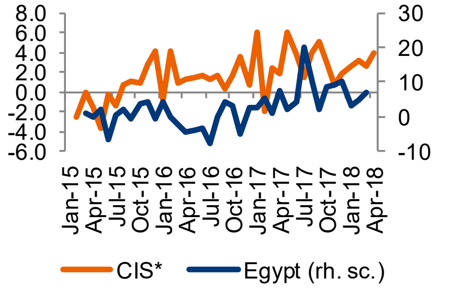
Inflation is forecast to rise further in CEE/SEE countries, from 1.9% in 2017 to 2.6% in 2018 and 2.8% in 2019, due to a combination of higher oil prices, strong wage dynamics, and increasing demand pressure related to a positive output gap now prevailing in the region (with GDP running above potential). Inflation is still expected to be, on average, within the ranges of CBs, but with likely oil-driven short-term breakouts on the upper end of the range in several cases.

Monetary policy in the CEE/SEE area is still expected to be accommodative. The reversal of the money rate cycle – with the notable exceptions of Czech Republic and Romania, where this has already started, and Poland (next likely candidate) – is not forecast to take place until 2019, supported by the prudent stance of the ECB and still contained adjustment in consumer prices. Outside this area, we do not see new rate cuts in 2018 for either Russia – where inflation, following the announced VAT hike, is expected to rise temporarily above the target – or Ukraine – where the CB is concerned about the development of relations with the IMF. We continue to see future cuts in Egypt, in contrast, where inflation is decelerating to the CB's target.

Long-term rates in the CEE/SEE region are forecast to increase further in 2018- 2019, even if (with few exceptions, such as Hungary) at a slightly lower rate than anticipated in our *March Note*. The slight revision is due to a lower-than-previously-expected path of EA benchmarks (following the ECB Governing Council decisions in June) only partially balanced (except HU) by a widening of sovereign spreads (due to higher political uncertainty at European and global levels).

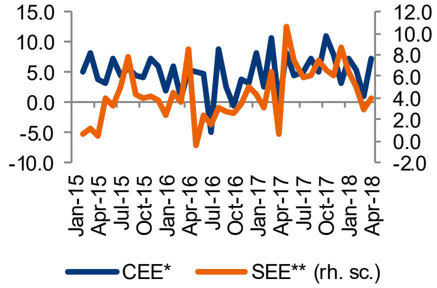
Forecasts of lending growth in the CEE/SEE region are supported by the consolidation of favourable macroeconomic conditions. The dynamics of household loans remain stronger than for corporates, while NPLs continue to be an issue, particularly in SEE countries. In some CEE countries, where (household) loans are estimated to have been growing above sustainable levels (CZ, SK and Romania), CBs have adopted measures to slow mortgage growth, with an effect likely on credit expansion. In the CIS area, the loan growth has been revised upward in Russia (+6%), where NPLs are worsening. In Egypt, lending growth is forecast to remain in double digits, but still below nominal GDP growth. Funding and liquidity conditions should remain broadly supportive, in our view.

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 Czech Republic, Slovakia, Slovenia and Hungary data; ** weighted average on Bosnia, Croatia, Romania and Serbia data

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This note has been coordinated by Gianluca Salsecci. The names of the authors are reported in the single sections.

The note considers the countries with Intesa Sanpaolo Subsidiaries: Slovakia, Slovenia, Hungary and Czech Republic among the CEE countries, with the addition however of Poland where ISP is present with a Branch, Albania, Bosnia, Croatia, Serbia and Romania among SEE countries; Russia and Ukraine among CIS countries; Egypt among MENA countries.

The figures in this document have been updated as of 27th June 2018.

Cross country analysis

Recent developments

Gianluca Salsecci, Giancarlo Frigoli, Antonio Pesce and Davidia Zucchelli

In CEE and SEE countries, 1Q18 GDP data showed that growth rates decelerated with respect to 4Q17: only slightly in CEE countries, to 4.8% yoy from 4.9%, but more significantly in SEE countries, to 3.8% from 5.1%. However, economic growth remained robust, broad-based and, for most of the countries, stronger than previously expected. Monthly data on industrial production, exports and retail sales signal that economic growth is still solid, and is particularly being driven by domestic demand, while exports have weakened in several cases, as shown by the yoy contraction observed in several countries in March and in 1Q export data.

Economic growth decelerated, but was still robust in the CEE/SEE areas in 1Q18

At the country level, in the CEE region, Poland recorded the strongest GDP growth (5.1% yoy in 1Q), followed by Slovenia, Czech Republic and Hungary at around a 4.5% average and Slovakia at 3.6%. In the SEE region in 1Q, GDP growth weakened due to the deceleration in Romania (to 4.0% yoy from the impressive 6.7% in 4Q17) despite the acceleration in Croatia and Serbia (to 2.5% yoy and 4.6% yoy from 2.2% and 2.4%, respectively). 1Q GDP data for Albania and Bosnia haven't been published yet, but industrial production (only recorded in Bosnia) and exports (in both countries) still suggest robust economic growth in 1Q.

Forward-looking indicators released in May signalled, with some differences among countries, prospects of a continuation of solid growth in the CEE/SEE regions in 2Q, even if at a slower pace in general than in 1Q. For the most part, for countries in the region, the Economic Sentiment Indicator (ESI) in May was close to but below the record high of the year.

Inflation rates are below CB targets in almost all countries, except CZ, where it is close to the central value, and in Romania, where it is well above this

The latest figures on inflation show increases due to both higher international energy prices and pressures from the strong business cycle. In May, among the CEE countries, it ranged from 1.7% in Poland to 2.8% in Hungary, while among SEE countries, it was between 1.9% in Croatia and 5.4% in Romania. In June, policy rates have been kept unchanged in almost all countries, with the exception of Albania, where the Board of the Central Bank decided to cut it by 25bps to 1.0%, and Czech Republic, where the CB Board increased the repo rate by 25bps to 1%.

The Russian central bank paused in its easing cycle. GDP growth in Ukraine has accelerated. In Egypt, we see short-term inflation risks

In the CIS region, Russian GDP expanded by a weaker-than-expected 1.3% yoy in 1Q18. The monthly activity figures suggest that weakness in the construction and retail sectors more than offset a pick-up in agriculture and a rebound in the industrial sector. Deteriorating relations with the US, and more broadly with the West, represent mounting threats to Russia's economic trajectory. Notwithstanding the fact that inflation (2.4% annual rate in May) remains well below the 4% RCB target, in the last two meetings, the bank abstained from further easing, leaving its main policy rate unchanged at 7.25%. This cautious stance reflects both the inflation risks posed by the recent financial turmoil that hit emerging markets, with the RUB under downward pressures despite the support of higher oil prices, and the likely effect on inflation of the recent government announcement that it plans to raise the VAT rate from 18% to 20% starting from next year. The tax change is expected to add 1.5pp to inflation, pushing (temporarily) the annual rate above the CBR's 4% target.

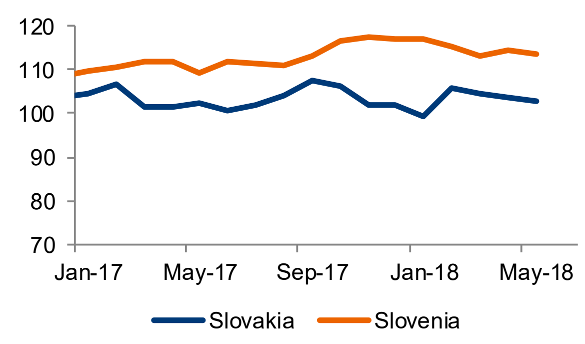
In Ukraine, GDP in January-March 2018 rose by 3.1% yoy, accelerating from 2.2% yoy in 4Q17. The stronger pace of growth followed the recoveries in mining (+2.1%) and utilities (+3.6%) output. The stronger contribution of these activities was partially offset by the slowdown in construction (2.2% from 25.2%) and transport (0.3% from 4.3%). Retail sales growth remained strong (5.8%). Ukraine's central bank kept its main interest rate on hold at 17% at its May meeting, taking a pause after a series of rate increases. After four hikes of the key policy rate, the monetary authority said that current monetary conditions are sufficiently tight to bring inflation back to its mid-term targets, confirmed at 8.9% for end-2018 and 5.8% for end-2019. Annual headline inflation slowed to 11.7% in May, down from 13.7% in December 2017, and it is expected to continue to decelerate due to the NBU's tight monetary policy and diminished effects from past food price increases and should return to the target range in 2019.

In **Egypt**, real GDP grew by 5% during the 2017 calendar year, the highest rate since 2010, and, according to preliminary data, GDP growth for the 3Q of the 2017/18 fiscal year (January-March 2018) accelerated to 5.4% from 5.3% in the 2Q and 4.3% in the same period last year. Headline and core inflation slowed to 11.4% and 11.1%, respectively, in May. The increase in international oil prices gained momentum in April and May, leading to the materialisation of upside risk to the domestic inflation outlook. Additional pressures are expected from a new round of tariff increases and subsidy cuts. Nevertheless, the outlook remains consistent with achieving the inflation target of 13% (±3%) in 4Q18 and single digits thereafter. Due to higher inflation risks reflecting recent tensions in emerging financial markets, in May, the Monetary Policy Committee (MPC) decided to keep the overnight deposit rate, overnight lending rate, and the rate of the Central Bank of Egypt's main operation unchanged at 16.75%, 17.75% and 17.25%, respectively.

As for **banking aggregates** in the CEE/SEE region, **loans** confirmed gradual growth trajectory and a slight acceleration in some ISP countries, such as Slovakia (9.8% yoy in April) and Romania (6.8% yoy). In contrast, loans dynamic remained fragile in Albania (0.2% yoy as of April) and Croatia (0.3%, decelerating from 0.7% yoy in March). Loans to households increased in all countries: in Hungary by 0.9% and by more than 10% yoy in Romania, and particularly in Slovakia. Corporate loans decreased further in Albania (-2.0% yoy as of April) and Croatia (-2.3% yoy). NPL ratios remained over 10% in SEE countries, particularly in Albania (13.5%) and Croatia (11.4%). **Deposits** remained resilient in many countries, particularly in Hungary (14.6% yoy in April) and Romania (10.8% yoy) supported by higher wages and still-growing liquidity in the corporate sector. In Bosnia, deposits accelerated further, to 9.1% yoy in April from 8.1% in March. In line with the money market interest rate, banking interest rates decreased in many CEE/SEE countries, with the exceptions of Romania and Serbia.

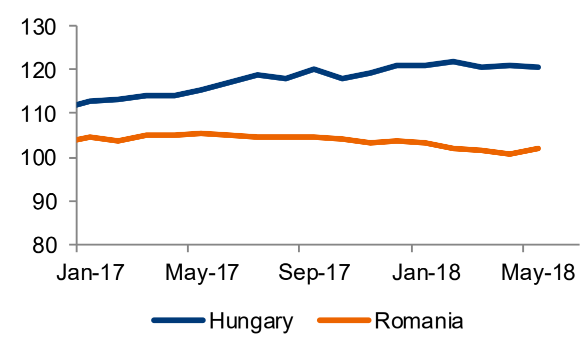
In **the CIS area**, loan growth accelerated (8.9% yoy in Russia and 6.6% yoy in Ukraine in March), based on a further strong increase in the household sector in both Russia (15.7% yoy) and Ukraine (11.2% yoy). Loans to the corporate sector also improved in March (6.7% yoy in Russia and 5.6% yoy in Ukraine). In **Ukraine**, loans to the private sector accelerated to 6.6% yoy in nominal terms, with household lending growing at a particularly strong rate (11.2% yoy in March), driven by UAH loans, while loans denominated in foreign currency decreased by 17%. In contrast to expectations, the NPL rate increased again to 56.5% as of March from 54.5% as of December 2017. In **Egypt**, where loans to the private sector decelerated slightly (5.5% yoy as of January), the corporate dynamic continued to slow down (3% yoy in January from 5.6% yoy in December) while household lending maintained a strong dynamic (12.5%). In real terms, the trend continued to be very weak. Interest rates are following a decreasing path.

Economic sentiment indicator



Source: European Commission

Economic sentiment indicator



Source: European Commission

The international outlook underlying the scenario

In advanced economies, less supportive monetary policies are ahead. New financial tensions hit emerging markets

In the US, the June's FOMC meeting lifted the fed funds rate by 25bps, with the new range set at 1.75-2%. Forward guidance has been removed entirely. The FOMC wants a free hand in reducing dependence on explicit signals that affect the path of interest rates: from now on, it will manage monetary policy on a day-to-day basis, in a positive yet more uncertain environment. The message sent by the meeting is a bit more hawkish than in March, with two more rate hikes now expected in 2018, three next year, and two in 2020, with the end-point in 2020 at 3.25-3.50%. The FOMC has shifted one hike from 2020 to 2018-19. The level of restriction expected at the end of the cycle has not changed and remains modest. Growth and inflation projections for end-2018 have been revised up by one-tenth (GDP seen at 2.8%, core inflation at 2%) while remaining unchanged compared to March for 2019 and 2020.

As expected, in the Euro area, at its policy meeting held in Riga in June, the ECB announced that by the end of the year, the asset purchase program (APP) worth EUR 2.5tn, launched in January 2015, will cease to operate. The statement allowed for a margin of flexibility, as the reduction and unwinding of the APP remain conditioned on the evolution of economic data over the next few months. Moreover, the ECB said that interest rates will stay at their current levels at least through the summer of 2019. We continue to believe that the ECB will seek to abandon its negative interest rate policy by the end of 2019. The decisions taken at the Riga meeting reflect a still-solid macro picture and an even swifter return of inflation to target than expected a few months ago. The new staff forecasts revised down expected growth in 2018 to 2.1% from 2.4% while confirming estimates for 2019 and 2020 (at 1.9% and 1.7%, respectively), but revised up inflation forecasts to 1.7% (from 1.4%) for both this and next year; the estimate for 2020 was confirmed at 1.7%. Expected underlying inflation was left roughly unchanged, as the acceleration of overall inflation is explained by the rise in the oil price.

Besides the Fed and the ECB policies, two recent events are likely to have some impact on the macro scenario of emerging economies. Starting from late April-early May, financial markets in emerging countries saw a selloff (the dollar OITP against a basket of emerging currencies appreciated by 6.1% in 2Q) triggered by rising US Treasury yields. Some of the sharpest falls in EM currencies during this selloff can, however, be pinned to specific factors. The Russian RUB weakened after the US imposed more stringent financial sanctions. Concerns about a shift towards more populist policymaking after the upcoming elections in Brazil and Mexico weighed on their currencies. In Mexico, where the central bank hiked its policy rate by 25bps at its June meeting, to 7.75%, the NAFTA negotiations were also a reason of concern. Increasing external liabilities with respect to the stock of foreign exchange reserves hit Turkey and Argentina. As a group, emerging countries seem, however, more resilient now than during past financial crises. This reflects several positive developments: fiscal deficits are more sustainable; the shift to inflation targeting has improved the conduct of monetary policymaking; in many countries, the currency peg has been ditched in favour of floating exchange rates; and better financial sector regulation has strengthened banking sectors.

Oil price quotations made additional gains (average price up 10% in 2Q compared to 1Q), following supply concerns raised due to developments affecting two major exporters, Venezuela and Iran. There are already signs that the large EM oil exporters are responding to higher oil prices by scaling back austerity, which will help to drive stronger growth this year in oil economies of MENA, but also SS Africa (Angola and Nigeria) and CIS (Azerbaijan and Kazakhstan). Saudi Arabia has implemented a raft of public sector bonuses. Stimulus packages have been announced in UAE. The Nigerian authorities plan a steep rise in spending in this year's budget. Higher oil prices and a weak RUB give Russia's government scope to provide some fiscal support if the tightening of US financial sanctions starts to weigh on growth. On the other hand, the latest rise in oil prices will affect the external deficit of oil importing economies (such as Turkey), increasing their vulnerability to Fed tightening.

The economic outlook

GDP growth and inflation

Due to above-expectations economic growth in 1Q18 and the positive readings coming from most recent high frequency economic indicators, GDP growth forecasts for 2018 and 2019 have been revised upwards with respect to our March note in most CEE countries (on average, to 4.1% from 3.8% and to 3.4% from 3.2%, respectively) while remaining on a slightly decelerating trajectory with respect to the peak seen in 2017. Thanks to improved conditions in labour markets, namely rising hourly wages and number of employees, and due to the contribution of EU structural funds, domestic demand for consumption and investments remain on track as the main growth drivers.

GDP growth forecasts have been revised upwards in CEE area, but downwards in SEE, due to revised expectations for Romania

In the SEE area, where average GDP growth is also expected to have reached its peak in 2017, economic growth has been revised slightly downwards for 2018 (to 3.8% from 3.9%), due to a stronger-than-expected deceleration of growth in 1Q18 in Romania, where GDP is now forecast to grow at 4.2% in 2018 (vs the previous forecast of 4.5%). In contrast, the GDP forecast has been revised upwards in Serbia (to 3.8% vs 3%) after taking into account the extraordinary performance in 1Q (4.6%, a peak in the current cycle).

Given the recent increase of energy prices, the robust dynamic of wages, and the strong performance (above potential) of economic activity in most CEE and SEE countries, inflation forecasts have been revised somewhat upwards for 2018 and 2019, generally remaining inside the corridors set by the respective central banks, with a few exceptions, however. In Albania, the inflation rate, which is currently below the target, is likely to move closer to it next year; in Romania, the dynamic of consumer prices, which has jumped significantly above the corridor target, should nevertheless move back within it in 2019-20. In Hungary, inflation is forecast to experience a temporary rise slightly above the central target (while remaining within the range) at the end of the year.

In the CIS area, GDP growth gained some momentum in 1Q18 in both Russia and Ukraine. In both cases, geopolitical tensions (western sanctions on Russia and the frozen conflict in the Eastern region of Donbas in Ukraine) should continue to slow growth in the short term while structural shortcomings amid slow reform processes weigh on their medium-term growth prospects. In Russia, GDP is expected to grow by 1.7% in 2018 and 2% in 2019. GDP growth in Ukraine is expected to hover around 3% in both years.

In CIS countries, geopolitical tensions and the weak reform process constrain GDP growth

In the MENA region, GDP growth in recent quarters has been particularly strong (over 5%) in Egypt, as the country is reaping the benefits of policies supporting private and public investment and of the exploitation of recently discovered gas fields. GDP growth is expected to maintain the current strong pace in the medium to long term.

In Egypt, GDP growth to maintain the recent strong pace also in the M/L term

Regarding inflation, in the CIS area, annual inflation in Russia is now expected to rise above the 4% target next year, due to the planned VAT rate hike, before easing back to the target starting from 2020. In Ukraine, the pace of inflation seen in 1H18 is consistent with the NBU's and our forecasts of a single-digit rate starting from next year. In Egypt, inflation has recently dropped below the CB's year-end target. We now expect a temporary increase in 2H18, due to cuts to subsidies, but the CB target remains within reach.

Temporary acceleration of inflation seen in Russia, with the increase of VAT, and Ukraine.

In Egypt, the CB's target is viewed to be within reach

Monetary policy and financial markets

Given the ECB's monetary stance and when considering that inflation is generally expected to stay inside the target corridors but (with few exceptions) often below the central value, monetary policy conditions in CEE/SEE countries are forecast to remain broadly accommodative in 2018. A reversal of the monetary cycle is only expected to start later next year, with the exceptions of Czech Republic and Romania, where it is already in place, and Poland, where it could start earlier. In Romania, the recent rise of inflation to well above the target (and above expectations) supports forecasts of further increases in policy rates in the short term. In Czech Republic, where inflation is close to the CB target but inflationary risks are rising, we see a

Monetary policy tightening is expected next year, but has already started in CZ and Romania. In June, the Albanian CB cut the policy rate continuation, after the further increase of the policy rate in June, of monetary tightening in 2018-19.

No new rate cuts in the S/T in Russia and Ukraine, In Egypt the easing process looks set to be slower than previously expected

For the **CIS area**, in **Russia** the CBR is likely to abstain from further easing this year due to both a weaker currency and the expected VAT-induced increase of inflation. A small cut, which is likely to end the easing cycle, is only likely to come late in 2019, in our view. In **Ukraine**, the central bank is now expected to remain on hold] this year and to resume the easing process only next year, providing that the impasse with the IMF is overcome. In **Egypt**, we continue to forecast new rate cuts in perspective, following the ongoing deceleration of inflation. However, in the short term, the profile of money market rates is expected to remain higher than previously expected due to (temporary) inflationary pressures coming from both a cut of subsidies and higher energy prices.

Expected gradual rise in long-term rates in CEE and SEE countries

Due to the expected increase of inflation and of the future path of monetary rates, **long-term rates** in CEE and SEE countries are forecast to increase further in 2018 and 2019, albeit slightly less than in our March Notes (with some exceptions, such as Hungary). This is due to a lower expected path for the Euro Area Benchmark rates (following the prudent stance of ECB monetary policy, which in the June Meeting announced to keep the current policy rates well through the summer) only partly counter-balanced by higher spreads versus the benchmark (due to heightened uncertainties in European, with flight to quality to German Bunds, and international financial markets). There were exceptions, such as Hungary where, taking into account the recent shift upwards, the profile of long-term rates has been heightened. We have also raised the profile of L/T rates in Russia, due to the worsening of relations with the West.

Due to the last months' **exchange rate** weakening in Hungary, Poland and, partly, in Czech Republic, we have revised upwards their exchange rate path against the euro; in the remaining countries of the CEE/SEE region, our March forecasts have basically been confirmed, which is a stable exchange rate for Croatia and a slight depreciation in Romania.

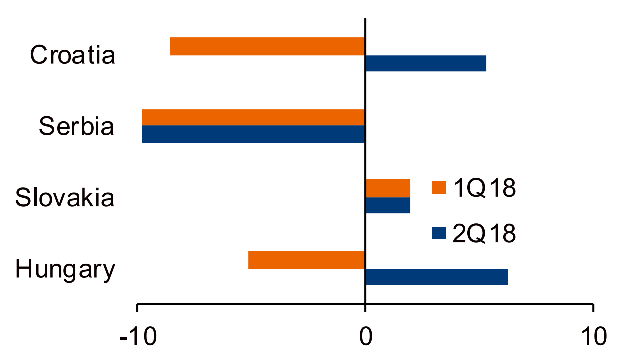
The upside potential of the rouble is limited. Hryvnia is on a gradual depreciation trajectory

In the **CIS region** in **Russia,** concerns about new sanctions have outweighed the support of higher oil prices, and the ruble depreciated in the first half of this year. The strengthening of the economy and subsiding geopolitical tension should favour a reappreciation of the ruble in the medium term, amid higher than previously expected oil quotations, even if on a lower trajectory. Relatively high inflation is seen to lead the **Ukraine**'s hryvnia along a moderate depreciating path, which remains necessary to preserve the competitiveness of exported goods.

The EGP seen to depreciate in the M/L to defend the competitive position

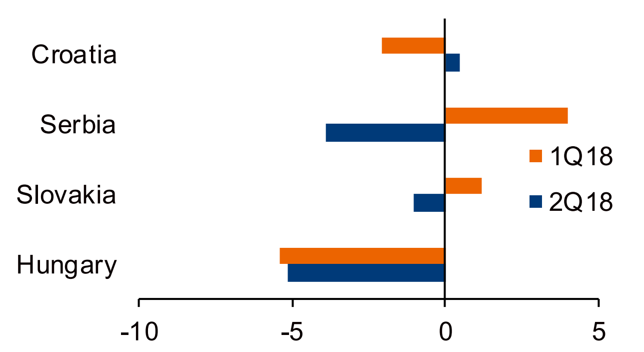
We see the Egyptian pound on a gradual depreciating path in the medium to long-term as competitiveness issues will return to prevail over the support now offered to the currency by reforms and the confidence on economic prospects.

5Y CDS spread (chg, bps)



Source: Bloomberg

Stock market indices (% chg)



Source: Thomson Reuters

Bank aggregates and interest rates

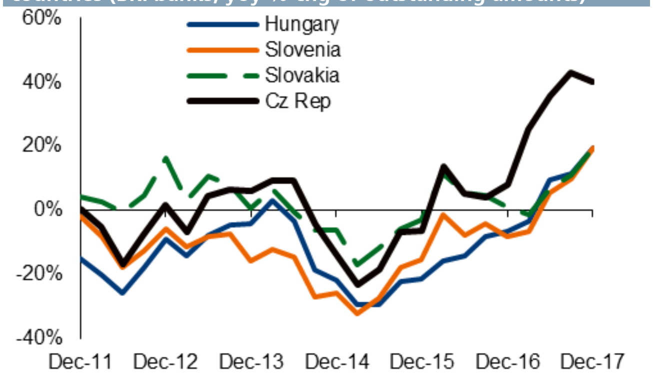
Lending dynamics are expected to strengthen and gradually converge to the nominal GDP growth in the long run. In 2018, forecasts for the CEE/SEE region remain supported by the consolidation of macroeconomic conditions. Some deceleration is expected in the CEE because of policy measures adopted by Central authorities. In the SEE countries, a slight acceleration has been confirmed. Forecasts have been slightly strengthened in Croatia.

Among the CEE countries, measures adopted to slow down mortgages continue to be effective particularly in Czech Republic and Slovakia. In Poland, lending is expected to follow a gradually increasing path, in line with nominal GDP. In the SEE countries, high NPLs, that are still over 10% in Albania and Croatia but gradually improving due to write-offs and sell-offs, will put pressure on lending recovery. Total loans will remain supported by households, both mortgages and consumer loans. Corporate loans are expected to remain weak, because of modest investment, which can also be partly influenced by increasing interest rates. In the CIS area, the loan dynamic has been revised upwards in Russia in 2018 and in 2019 (+6% and +6.5%), even if NPLs strengthened both in Russia (from 10% in December to 10.7% in March) and in Ukraine (from 54.5% to 56.5%) according to the last available data, reaching an unsustainable level that slows loans expectations. Very low loan forecasts in Ukraine are mainly 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 supportive in the CEE/SEE regions. Deposits in all countries are forecast to show a positive trend, especially among CEE countries, owing to higher wages and a supportive labour market, albeit decelerating because of higher consumption and stronger competition from other saving products that offer higher returns. Forecasts have been revised particularly in Albania (from 2% to 0% in 2018) because of an unforeseen prolonged decrease of household deposits in the first months of the year. Loan/deposit ratios are generally expected to decline slightly, but to stay over 100% in Serbia and Bosnia, and in the CIS countries. In Slovakia, the LTD ratio is even expected to gradually worsen until 2022.

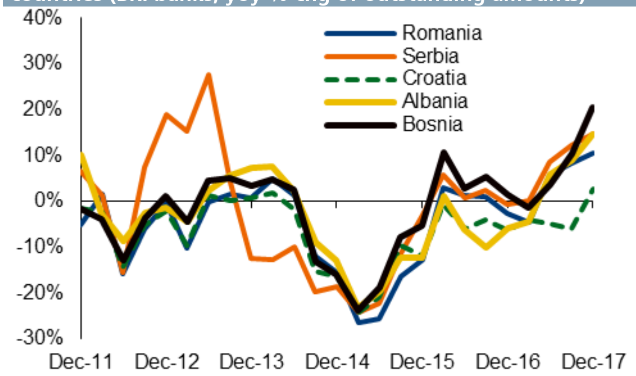
Interest rates are expected to increase in the forecast period supported by higher money market rates. Banking interest rates' forecasts have been slightly revised in some countries in line with money market rates, particularly (downwards) in Slovenia, and (upwards) in Albania, and Romania. In Egypt, interest rates have been revised upwards, but maintaining a decreasing path until 2022.

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



Source: Intesa Sanpaolo processing of Bank for International Settlements data

Consolidated positions on counterparties resident in SEE countries (BRI banks, yoy % chg of outstanding amounts)



Source: Intesa Sanpaolo processing of Bank for International Settlements data

Country-Specific Analysis

Albania

Real Economy

Kledi Gjordeni

Although GDP growth is forecast to fall slightly in 2019, towards 3.7% after the peak of almost 4% expected in 2018, the trend remains very positive, driven by consumption and investment on the demand side and reforms towards EU accession via which an improved business climate will impact on production capacity on the supply side.

Inflation, which in 2018 is forecast at around 2.1% (still below the target), reflecting limited wage pressures and appreciation of the local currency, is expected to edge up gradually by late 2019 partly driven by higher energy prices. The current account deficit narrowed to 6.9% of GDP in 2017, supported by tourism and other services, and is expected to narrow further this year, to around 6% of GDP. The level of FX reserves remains comfortable, covering more than six months of imports.

Financial Markets

In the last few months, we have been witnessing a progressive appreciation of the local currency (LEK) against the EUR. Although the CB considers the strong appreciation of the LEK to be temporary, it is nevertheless identified as a risk factor by the Supervisory Council because it has delayed the return of inflation to target. Based on the above information, in June, the Supervisory Council has decided on a further easing of monetary policy by further lowering the policy rate by 0.25pp, down to 1.00%. Furthermore, in order to maintain adequate monetary conditions to support price stability, the CB decided to undertake foreign-currency purchasing operations in the domestic market. Foreign-currency purchasing operations will be carried out for an adequate period and the CB will continue to monitor the performance of the exchange rate.

Banking Sector

Although credit growth is still weak, banks are liquid and stable. The historically low key interest rate at 1.00% (in June 2018) is expected to provide additional support to aggregate demand by reducing the costs of financing consumption and investments and in this way supporting an increase of loan activity in the banking sector. On the other hand, NPL ratio, while declining (now at 13.5%), continue to weigh on overall credit growth, particularly in the corporate sector.

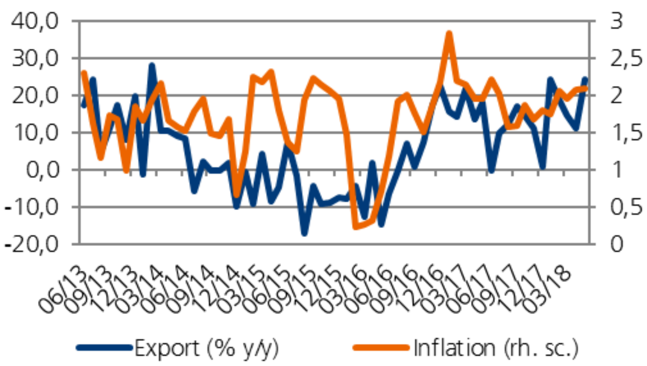
April 2018 banking sector data (the most recent available) show that total assets rose by 1.83% yoy. Total deposits decreased by 2.14% yoy. Household deposits shrank by 3.26%, whereas corporate deposits continued to perform positively, rising by 3.53%. On the credit side, growth in total loans to the private sector was slightly positive (0.21%): loans to the corporate sector shrank by 2.03% yoy, though loans to the household sector expanded by 5.26% yoy.

Forecasts

	2017	2018F	2019F
Real GDP yoy	3.7	3.9	3.7
CPI (avg)	2.0	2.1	2.7
Euro exchange rate (avg)	134.6	131.0	131.6
Euro exchange rate (end of period)	133.3	130.0	133.3
Short-term rate (avg)	1.3	1.0	1.1
Short-term rate (end of period)	1.3	1.0	1.4
L/T bond yields (avg)	n.a.	n.a.	n.a.
Bank loans yoy (end of period)	0.5	2.0	3.0
Bank deposits yoy (end of period)	-1.3	0.0	2.5

Source: Intesa Sanpaolo Research Department forecasts

Export and inflation



Source: INSTAT

Bosnia and Herzegovina

Real Economy

Ivana Jovic

Following 3% GDP growth in 4Q17, the economy continued to record a positive performance in 1Q18. More precisely, industrial production advanced by 4.9% yoy, although indicating some easing, as in April, growth edged down to 2.2%. The performance of exports remained buoyant, increasing by 10.6% yoy over the first four months of the year, compared to an 8.3% increase in imports. Retail volume recorded a strong 5.3% yoy increase over 1Q18. This reflected an improved household position, although growth was mainly seen in January (+14.9% yoy) and February (+2.5% yoy) while declining by 0.4% yoy in March (on a working day adjusted basis) amid a strong base effect: March 2017 saw 10.1% yoy growth. In 1Q18, civil engineering construction works finally increased (+0.3% yoy) and building construction grew by 3.2%. Overall construction activity posted 1.7% growth, after five consecutive quarters in the red.

We expect that the economy will continue to grow slightly above 3% in 2018-19, with household consumption supported by an improving labour market, stable remittances inflow, and recovering investment activity, though with somewhat less supportive net external demand. Downside risks are predominantly related to political uncertainty in advance of general elections scheduled for 7 October. The inflation outlook remains modest: average inflation in the first four months of 2018 amounted to 0.8%, with somewhat stronger pressure expected to arise in the second half of the year, partly related to rising energy prices, leading inflation to an expected 1.4%growth in 2018 and towards 2% in 2019.

Banking Sector

Ana Lokin

Loan growth in March-April remained firm, slightly above 7% yoy, with the rise owing more to corporate than retail lending. Growth of household loans was almost entirely based on consumer loans and remained around 7% yoy, in line with our previous estimates. Loans to non-financial corporations, supported by encouraging real sector developments, advanced by 7.6% yoy in March and 7.2% yoy in April, which prompted us to once again raise our 2018 loan growth forecast, from 5.6% yoy to 6.2% yoy.

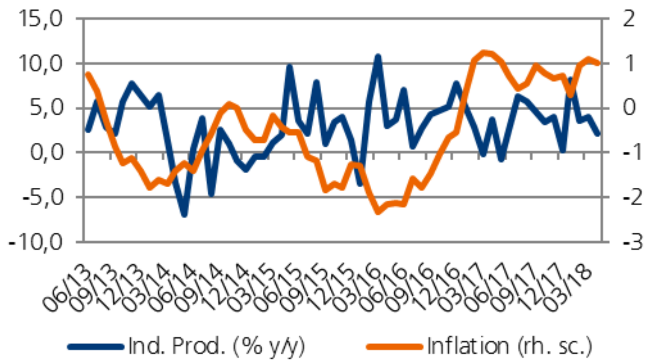
Deposit growth remained robust at 8.1% yoy in March and 9.1% yoy in April, when a stronger contribution, as with loans, derived from non-financial corporations vs households. Corporate deposits outpaced other inputs, increasing by 15.5% yoy and 17.9% yoy in these two months; household deposits, backed by a rise in employment and remittances, grew by 5.4% and 5.9% yoy, respectively. In the rest of the year, we expect to see a continued upward trend, but our expectations of more moderate dynamics in the following quarters this year remain unchanged compared to our March scenario. Therefore, we are leaving our 2018 private sector deposit forecast at 6.9% yoy.

Forecasts

	2017	2018F	2019F
Real GDP yoy	3.0	3.1	3.1
CPI (avg)	0.8	1.4	1.9
Euro exchange rate (avg)	2.0	2.0	2.0
Euro exchange rate (end of period)	2.0	2.0	2.0
Short-term rate (avg)	n.a.	n.a.	n.a.
Short-term rate (end of period)	n.a.	n.a.	n.a.
L/T bond yields (avg)	n.a.	n.a.	n.a.
Bank loans yoy (end of period)	7.3	6.2	5.5
Bank deposits yoy (end of period)	9.0	6.9	6.0

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Labour and employment agency

Croatia

Real Economy

Ivana Jovic

Following a slowdown of growth in the last quarter of 2017 (2.2% yoy and 0.0% qoq), economic activity accelerated modestly again in 1Q18, to 2.5% yoy (and 0.2% qoq), slightly above our previously expected 2.3%. However, seasonally adjusted growth amounted to only 1.5% yoy, the lowest rate over the last 12 quarters. Over the 1Q18 period, headline growth was heavily supported by 3.9% growth in personal consumption (the strongest level since 1Q08) reflecting favourable labour market developments (2.5% growth in employment and 3% growth in net wages) and positive consumer confidence. In addition, investment activity growth rebounded to 3.6% (after 1.9% growth in 4Q17) supporting a more optimistic view on the outlook for investment activity. Net exports, however, deepened its negative contribution to headline growth from around -1.5pp in 4Q17 to around -3.0pp in 1Q18, reflecting a 0.5% yoy decline in exports of goods and services and a 5.5% increase in imports.

Given the 1Q result, we don't see major changes in growth drivers, as solid private consumption, accompanied by rebounding investments and an expected strong performance from tourism as well as stronger goods exports (preliminary April data indicate 16.1% yoy) should support our short-term growth forecasts of 2.7% and 2.6% yoy in 2018 and 2019, respectively. Risks are slightly tilted to the downside, mostly reflecting a slowdown in the EU. The inflation outlook has been revised up, as demand pressures are slowly strengthening.

Financial Markets

Ana Lokin

The CNB intervened in May for the second time this year, to curb mounting appreciation pressures on the HRK stemming from tourism inflows, a current account surplus, and the positive net FX positions of banks. After the CB intervention in the FX market, the EUR/HRK rate moved near 7.38 and we expect it to stay at that level during the summer. Hence, the 2018 average EUR/HRK forecast remains at 7.45. Kuna liquidity is breaking records post FX interventions, and in an environment of stable domestic and Euro area rates in 2018, we keep our average 2018 3M Zibor forecast at 0.5%, with a slight increase to 0.6% on average next year. The spread between 10Y kuna government bonds and the benchmark Bund yield rose slightly in 2Q18, but remains on a declining path, allowing us to cut our average long-term kuna bond yield forecast for 2018 by 20bps, to 2.2%.

Banking Sector

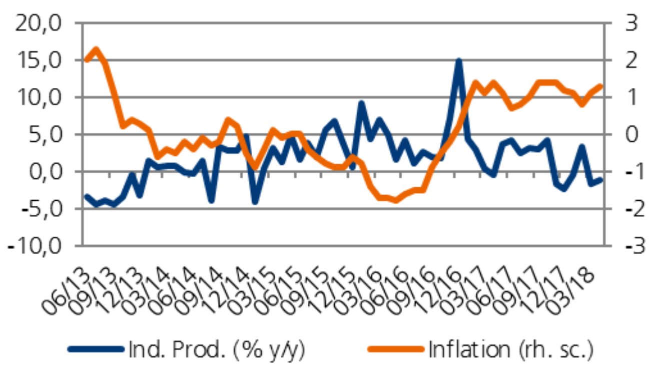
We have adjusted our 2018 loan growth forecast, upgrading it from 1.1% to 1.5% yoy as a result of a stronger retail loan disbursement, based on stronger labour market conditions and extended housing loan subsidies scheme. Corporate portfolio loan growth remains burdened by high NPL levels and expected further debt write-offs related to Agrokor settlement closure. The deposit growth forecast was confirmed at 1.5% yoy, based on the persistent rise in corporate liquidity stuck on transaction accounts, offset by a tepid rise in household deposits.

Forecasts

	2017	2018F	2019F
Real GDP yoy	2.9	2.7	2.6
CPI (avg)	1.1	1.8	2.2
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)	0.6	0.5	0.6
Short-term rate (end of period)	0.6	0.5	0.7
L/T bond yields (avg)	2.8	2.2	3.0
Bank loans yoy (end of period)	-0.1	1.5	1.7
Bank deposits yoy (end of period)	2.4	1.5	1.7

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: EC

Czech Republic

Real Economy

Zdenko Štefanides

After the stellar economic performance recorded in 2017, growth is predictably moderating in 2018, as higher interest rates and currency appreciation start to bite. Compared to previous forecasts, growth may, however, be slightly slower for exports, which are impacted by the slowdown in the Eurozone and incipient restrictions to global trade. Still, we project Czech real GDP to exceed 3% this year and next, as growth will continue be driven mainly by domestic demand, especially household consumption, which is supported by fast-rising wages amid an EU-low unemployment rate of 2.2%. A positive contribution to GDP growth should also continue to come from investment, driven by an accelerated drawdown of EU funds and faster growth of private investment.

Price-wise, we continue to see consumer inflation above the 2% CNB target for the foreseeable future on fast-rising labour costs. Compared to previous forecasts, the inflation now may rise further, due to higher oil prices and a weaker CZK. Longer term, though, we project that inflation will align with CNB targets.

Financial Markets

After the strong apreciation in 2017, the CZK has become weaker in the first half of 2018, especially after the CNB delivered its third rate hike in February 2018 and indicated a longer pause in further policy tightening. We nonetheless continue to believe in the longer-term appreciation of the CZK, driven mainly by a fast-growing economy and productivity gains. Regarding interest rates, the CNB sees a long-term neutral level of short-rate at 3%. Given the overheating economy, it would ideally move to this level as soon as possible but is held back by the continued very accommodative monetary policy of the ECB. The recent weakness of the koruna nonetheless provided the CNB a window of opportunity to increase rates on June 27th by another 25bps, which brought the repo rate to 1.00%. Looking ahead, we project one more rate hike of Czech repo rate in the remainder of 2018, followed by two hikes in 2019, which would bring the target rate then to 1.75%. Czech bond yields will contine to gradually increase along domestic policy rates and inflation.

Banking Sector

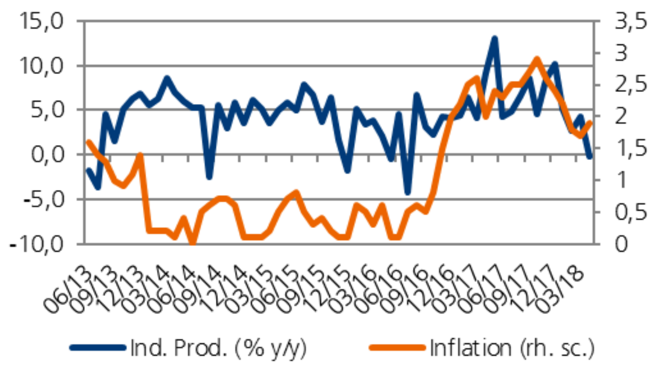
The Czech banking sector will continue to grow fast, along with the booming economy. Growth of loan volumes, however, is likely to decelerate, due to gradually increasing interest rates and tighter regulation in the mortgage market. Regarding mortgages market in mid-June, the CNB announced a new set of measures to slow down the market: in particular, it introduced a debt/income ceiling for lending to households, which will become effective from October 2018. Regarding the deposit market, volumes should continue to benefit from a strong saving culture and rising household incomes.

Forecasts

	2017	2018F	2019F
Real GDP yoy	4.3	3.5	3.1
CPI (avg)	2.5	2.1	2.2
Euro exchange rate (avg)	26.3	24.9	24.8
Euro exchange rate (end of period)	25.7	24.9	24.8
Short-term rate (avg)	0.4	1.3	1.5
Short-term rate (end of period)	0.8	1.4	1.9
L/T bond yields (avg)	1.0	1.8	2.4
Bank loans yoy (end of period)	6.5	6.2	5.2
Bank deposits yoy (end of period)	7.6	6.0	5.5

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: EC

Egypt

Real Economy

Samer Halim

Egypt's real GDP growth continued its upward trend, accelerating for the sixth consecutive quarter, to 5.4% in 1Q18 vs 4.4% in the same period a year ago. This rate is expected to be sustained based on government targets to raise investment as percentage of GDP to 18% in FY18/19 compared to 16.9% in the current FY and achieve an 11% growth rate for the construction sector and 10% for both the mining and telecommunication sectors. The trade deficit also narrowed in 1H17/18 yoy, by 1.4%: merchandise exports grew by 15.4%, thanks to the rise in both oil exports (by 29.9%) and non-oil exports (9.7%). The government also continued to implement its ambitious reform program, raising fuel prices by up to 50% for the fourth time since 2014, in addition to increasing electricity bills by an average of 26%, with the aim of decreasing its budget deficit to 8.4% in FY18/19 compared to an estimated 9.8% this year. The Central Bank of Egypt (CBE) still targets an inflation rate of 13% (±3%) by the end of 2018, which is compatible with our forecast, noting that the headline inflation rate has been declining since its peak in July 2017 (33%), reaching 11.45% in May 2018. Net international reserves also rose, to USD 44.14bn at the end of May 2018 vs USD 44.03bn in the previous month.

Financial Markets

Projections of money market rates have been raised in 2018 with respect to our *March Note* due to the witnessed upward shift which occurred in May 2018 (reaching 19.5% in the last auction), along with a slight depreciation of the EGP's exchange rate against the USD, to the current 17.8. We have nevertheless maintained our USD/EGP forecast for 2018 at 17.5. The slight expected reappreciation is due to two opposing forces moving from the positive effects of the past sharp EGP depreciation on the current account balance and inflows of foreign investments and the negative impact of the inflation differential with trade partners on the real effective exchange rate. In its meeting on 17 May 2018, the Monetary Policy Committee (MPC) decided to keep the overnight deposit rate and overnight lending rates at 16.75% and 17.75%, respectively, with expectations of keeping the rate still unchanged at the next meeting, due to the expected inflationary pressures resulting from the cut in subsidies, but moving downwards later.

Banking Sector

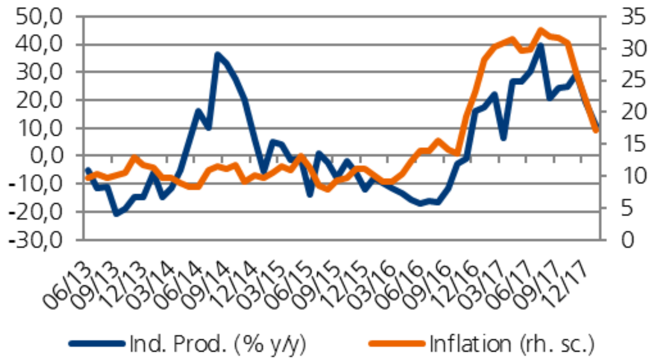
Total bank loans to the private sector reached EGP 930bn in January 2018, up 5.5% yoy, while private sector deposits reached EGP 2.8tn, up 22.8% yoy. Total loans to the corporate sector accounted for 72.2% of total private loans while household deposits accounted for 81.6% of total private deposits. Declining interest rates are expected to support loan growth in the next few years while deposits are expected to grow at a slower pace.

Forecasts

	2017	2018F	2019F
Real GDP yoy	5.0	5.4	5.2
CPI (avg)	29.6	13.6	11.8
USD exchange rate (avg)	17.8	17.7	17.8
USD exchange rate (end of period)	17.8	17.5	18.0
Euro exchange rate (avg)	20.1	21.0	21.2
Euro exchange rate (end of period)	21.1	20.5	21.8
Short-term rate (avg)	19.3	17.8	15.7
Short-term rate (end of period)	19.0	16.5	15.0
L/T bond yields (avg)	n.a.	n.a.	n.a.
Bank loans yoy (end of period)	7.1	13.0	11.0
Bank deposits yoy (end of period)	23.8	16.2	14.0

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Ministry of Planning, CAPMAS

Hungary

Real Economy

Sandor Jobbagy

Forward-looking indicators regarding the performance of the Hungarian economy, including PMI, showed a partial revival in April and May, maintaining levels close to multi-year peaks seen in January and February. Industrial production and exports also revived in April, following a trough (negative figures) in March. The 1Q18 GDP growth rate (4.4% yoy, as in 4Q17) confirmed the strong momentum of the economy, exceeding market consensus expectations. We forecast GDP growth to gradually slow during the year, but remaining close to last year. The utilization of EU funds should remain a strong driver, but fiscal and monetary policy should have less impact than in 2017 without additional stimulus. The current GDP growth is unlikely to be sustainable over the coming years, given the lack of sufficient strengthening of potential GDP.

Headline inflation posted rising yoy figures in April and May, reaching 2.8%. The direction was in line with expectations, though it was faster, due to the influence of higher global oil prices. The impact of rising wages has still been limited on the headline figure and core inflation remained stable. In 2018, we project annual average CPI of 2.6%, reflecting the impact of oil prices and the risks embedded in persistently strong domestic demand. In the months ahead, the yoy CPI rate may even reach the 3% threshold, but we do not expect a lasting rise above this level before 2019/20.

Financial Markets

The 3M policy rate of the CB (NBH) was left at 0.90% throughout 1H18 (as was the level in 2017). The more functional O/N depo rate (-0.15%) also remained unchanged. Rate cuts are now out of the question in 2018, with market players speculating about the timing of the end of the current easing phase. While monetary easing continues (the NBH has maintained the new swap program and mortgage bond purchases of significant scale since January 2018), BUBOR rates and longer yields showed rose significantly in April and May, in tandem with the HUF's weakening above EUR/HUF 320. The main reason behind the market shift was the deterioration of global EM sentiment, but the low Hungarian rates may also have started to play a role compared to regional peers. In its latest statement, the NBH highlighted that a more cautious monetary approach is warranted, but it maintained loose conditions. We expect an ongoing moderate rise of BUBOR rates in 2H18 while the HUF should experience some correction back to below the 320 level vs the EUR.

Banking Sector

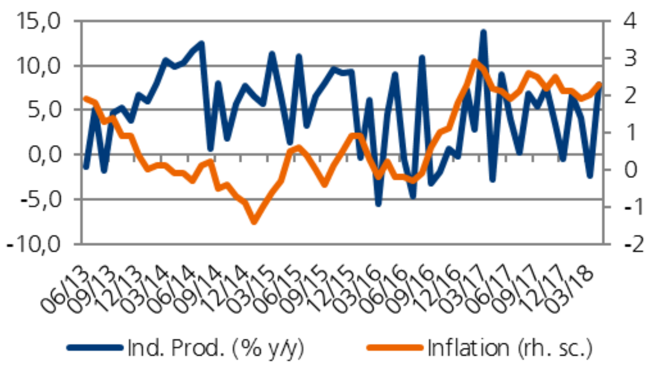
Lending activity continued to rise in Hungary's banking sector in 2Q18 amid the ongoing strengthening of domestic consumer confidence and demand. Growth looks set to continue throughout this year and may even beat current expectations, though it probably will not exceed 2017's jump. Some loan segments (including mortgage and personal loans) are showing especially dynamic pick-ups. Asset quality continues to improve, even with NPL already in single-digit territory since the end of 2016, reaching 5.3% at the end of last year. The sector has continued to experience sufficient liquidity and a strong capital position.

Forecasts

	2017	2018F	2019F
Real GDP yoy	4.0	3.8	3.0
CPI (avg)	2.4	2.6	3.1
Euro exchange rate (avg)	309.1	314.2	316.4
Euro exchange rate (end of period)	313.3	315.8	317.0
Short-term rate (avg)	0.1	0.1	0.4
Short-term rate (end of period)	0.0	0.2	0.7
L/T bond yields (avg)	3.0	2.8	3.8
Bank loans yoy (end of period)	6.0	3.2	3.8
Bank deposits yoy (end of period)	10.8	6.0	5.5

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: CSO

Poland

Real Economy

Sandor Jobbagy

In Poland, forward-looking sentiment indicators mostly stagnated in March-May, after recording their highest levels since the end of the global crisis earlier this year. The EU Economic Sentiment Indicator dropped slightly below the 110 level in April and recorded a minor correction in May, thus still reflecting expectations of strong future growth. Industrial production slowed down somewhat and has not yet recovered. External balances recorded some deterioration in terms of trade. Economic growth remained above 5% in 1Q18, supported by relatively strong private consumption. Industrial performance also improved. Investments were also switching to higher gears from a low base. Judicial reforms and conflicts with the EU have so far not had an adverse impact on overall GDP growth and the outlook. Fiscal policy remained in check, as reflected in the annual deficit. We expect some decrease in GDP growth in 2018, but with a similar average growth level to that recorded in 2017 (i.e. 4.4% with respect to previous after 4.5%).

Domestic demand and rising wages have had a limited impact on inflation so far: the CPI rose in April and May, but with the headline figure remaining below 2%. We expect only a minimal further rise in 2H18, with the average remaining closer to 2%.

Financial Markets

The NBP has left its policy rate unchanged (1.50%) so far in 2018 However, the latest monetary decisions and comments as well as market expectations suggest an increasing probability that a tightening cycle will start at the end of this year or early in 2019. This outlook is also supported by the loose policy of the ECB. The central bank is concerned about food price growth, which has been on the rise since the end of last year, and also about accelerating wage growth. Despite the current monetary expectations, the PLN weakened during most of May and June, due to the poor global sentiment. The EUR/PLN exchange rate rose above 4.30, which we see as a temporary phenomenon, with the potential to return to a 4.20-4.25 range later in 2018.

Banking Sector

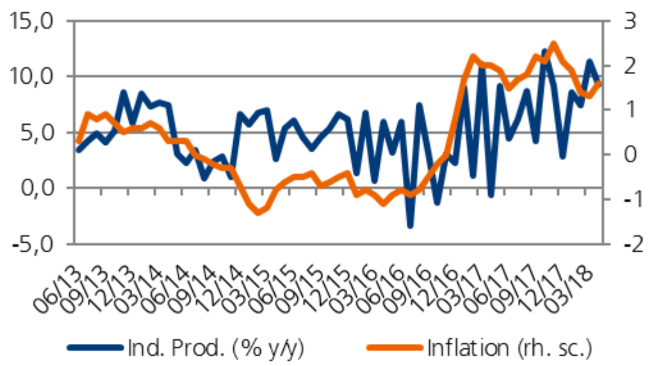
This year, Polish lending dynamics are forecast to be slightly stronger than last year, despite the lack of potential for stronger GDP growth, but fueled by consumption. Loan stocks to the private sector have been rising consistently: the overall annual growth rate of loan stock came in above 3%. Deposit volumes have continued to increase, with momentum likely to continue 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 generally viewed as being too low.

Forecasts

	2017	2018F	2019F
Real GDP yoy	4.5	4.4	3.5
CPI (avg)	2.0	1.9	2.4
Euro exchange rate (avg)	4.3	4.2	4.2
Euro exchange rate (end of period)	4.2	4.2	4.2
Short-term rate (avg)	1.5	1.7	2.0
Short-term rate (end of period)	1.7	1.8	2.2
L/T bond yields (avg)	3.4	3.3	4.0
Bank loans yoy (end of period)	3.2	4.1	4.5
Bank deposits yoy (end of period)	4.1	4.9	5.0

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: NBR

Romania

Real Economy

Sebastian Maneran

The Romanian economy decelerated in 1Q18, with real GDP growing 0.04% qoq and 4% yoy on the second read. A mix of higher uncertainty in core markets, higher interest rates (both domestic and foreign), and a limited fiscal impulse is likely to lead to a slower growth rate in 2018, to some 4.2%.

High frequency indicators show some resilience for the domestic consumer to increased global uncertainty. Iinflation reached its highest level in May (5.41% yoy) in almost five years. The economic sentiment indicator improved slightly in May, to 101.80, but it is still below the 2017 year-end value. Industrial production rebounded in April to 5.70% yoy (from 4.10% in the previous month), as did retail sales, which came in at 7.79% in April, but with both data points showing a deceleration since the end of 2017.

Financial Markets

The EUR/RON exchange rate has been hovering near all-time highs, with the RON value on a declining trend since the start of the year as inflation prospects have eroded RON purchasing power. Moreover, with major central banks in core markets signaling higher interest rates in the future, and the increased probability of tariffs being implemented, currencies with current account deficits trending higher are still expected to lose in terms of nominal purchasing power.

The above-mentioned factors resulted in both short- and long-term interest rates rising as well, to levels not seen in quite a few years. Specifically, the 3M RON interbank offered rate has passed the psychological threshold of 3%, while the 10Y RON government bond yield has moved past 5%, a level not seen since early 2014.

Banking Sector

Total private credit stock continues to post new record levels (in May, RON 239.121bn), as financing costs remained attractive in Romania, while private sector deposits continue to move higher (May 2018 depo growth rate was 10.6% yoy while the credit growth rate was 6.4% yoy), creating a virtuous circle for the bankning sector.

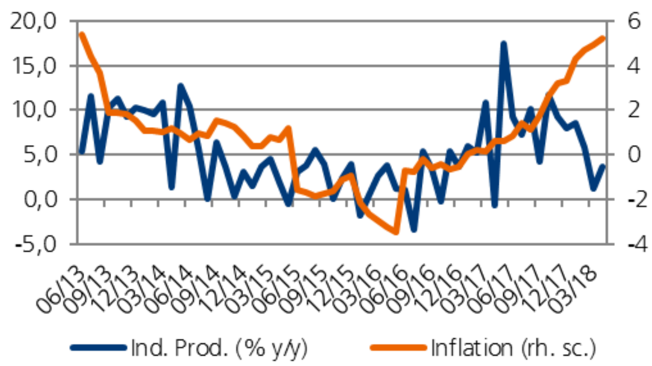
As the cycle matures and interest rates rise, however, private sector credit and deposit growth are expected to decelerate (credit to 4.4% yoy in 2018, and deposit growth to 7% yoy from 10.4% in 2017).

Forecasts

	2017	2018F	2019F
Real GDP yoy	6.9	4.2	3.6
CPI (avg)	1.3	4.9	4.2
Euro exchange rate (avg)	4.6	4.6	4.7
Euro exchange rate (end of period)	4.6	4.7	4.7
Short-term rate (avg)	1.2	2.6	2.9
Short-term rate (end of period)	2.1	2.9	3.2
L/T bond yields (avg)	4.0	4.7	5.5
Bank loans yoy (end of period)	5.6	4.4	4.0
Bank deposits yoy (end of period)	10.4	7.0	6.8

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: NBR

Russia

Real Economy

Irina Lekareva

In 1Q18, annual GDP growth of 1.3% was slightly below the March forecast as a result of slower growth of fixed capital investment and a decline in construction. Improved investment and industrial activity in April confirmed the temporary nature of slower economic growth. The CBR has kept its forecast of GDP growth in 2018 unchanged at 1.5-2%. It expects the levels to remain close to this range in 2019-20, but does not exclude making a revision, based on the government's announced plans to raise the retirement age and the value added tax rate in 2019.

Annual inflation has been corresponding to CBR expectations. In April and May, annual consumer price growth remained at the March level, of2.4%. Household and business inflation expectations in May increased to 8.6% (vs 7.6% in April) as a result of higher oil prices. The CBR forecasts annual inflation of 3.5-4% at the end of 2018 and a short-term increase to 4-4.5% in 2019. The growth rate of consumer prices may return to 4% in early 2020.

Financial Markets

On 15 June 2018, the CBR kept the key rate at 7.25%, after the government's decision to raise the VAT and due to the increase in oil prices in May. Taking into account the suggested fiscal measures, the transition to neutral monetary policy is expected to be slower, which should limit the scale of secondary effects arising from the tax policy decisions.

Volatility in Russian financial markets in April receded in the following months. In May and June, the RUB looked more stable than most other EM currencies. The correction after the decline in April was supported by the rise in oil prices. The Brent price rose above USD 80/bbl for the first time since the end of 2014. However, the RUB’s prospects look moderately negative in the coming months, due to geopolitical risks.

Banking Sector

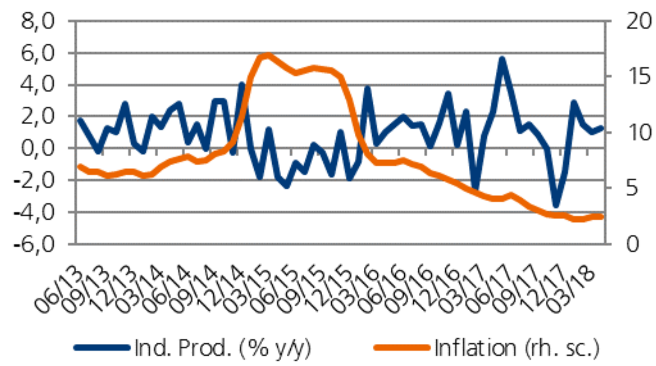
In 1Q18, the total assets of the banking sector decreased by 1.6%, mainly due to technical factors (consolidation of banks led to a decrease in interbank transactions). Sectoral dynamics should gradually improve, but growth will likely be limited, due to geopolitical risks and possible new sanctions. In 1Q18, lending grew by 2.2%. It is expected that retail lending will continue to be the main source of growth, as this segment is significantly affected by the decline in interest rates, but the real growth will likely be at approximately the current level. Household and corporate deposits during that period grew by 0.5%. Deposits are expected to show an increase slightly lower than that recorded in 2017, due to the reduction of rates.

Forecasts

	2017	2018F	2019F
Real GDP yoy	1.5	1.7	2.0
CPI (avg)	3.7	2.8	4.8
USD exchange rate (avg)	58.3	61.5	61.8
USD exchange rate (end of period)	58.6	63.0	61.0
Euro exchange rate (avg)	65.8	72.9	73.3
Euro exchange rate (end of period)	69.1	73.8	73.8
Short-term rate (avg)	9.4	7.4	7.3
Short-term rate (end of period)	8.1	7.4	7.0
L/T bond yields (avg)	7.8	7.6	8.0
Bank loans yoy (end of period)	5.2	6.0	6.5
Bank deposits yoy (end of period)	8.1	5.1	5.2

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: State Statistics Federal Service

Serbia

Real Economy

Branka Babic

First-quarter 2018 data revealed higher-than-expected growth (4.6% yoy) driven by all sectors related to the production side of GDP. The service sector contributed the most to growth, at 1.7pp, followed by industry and agriculture and by the construction sector (which expanded by a significant 26% yoy). Economic activity is projected to increase further, by 3.8% yoy in 2018, as favourable trends are expected to continue in the upcoming period. On the expenditure side, growth is expected to be driven by rising domestic demand due to improved labour market conditions and higher disposable incomes, ongoing infrastructure projects, and continued strong investment. Net exports are most likely to provide a negative contribution to GDP growth, as the rise in exports will be offset by higher imports to support the rise in investment and imports of consumer goods in response to a recovery in household demand.

Inflation is expected to pick up in 2H18 and gradually move towards the target midpoint, as strong base effects from the first half fade and domestic demand starts to rise. Average inflation is projected at 2.1% in 2018 and 2.7% in 2019. Uncertainties regarding the projections are mostly related to movements of primary commodities in the international market, notably oil, and the success of the agricultural season in the country.

Financial Markets

Monetary policy easing continued in 1H18, when the key policy rate was cut twice, in March and April, both by 0.25pp, resulting in a 3.0% rate, the lowest level during the current inflation targeting regime. The NBS is most likely to keep the policy rate flat in 2018 and maintain a cautious approach to monetary policy. This is due to the uncertainties related to external factors, primarily the monetary policies of the leading central banks, the Fed and the ECB, and the pace of their normalisation going forward, in addition to the movements of primary commodity prices in the international market, especially oil. The dinar is expected to remain relatively stable through the year on the back of strong macro and fiscal fundamentals, mainly strong exports, FDI and portfolio investment inflows and a fiscal surplus, while the NBS is expected to continue to intervene in the FX market in case of stronger FX rate volatility.

Banking Sector

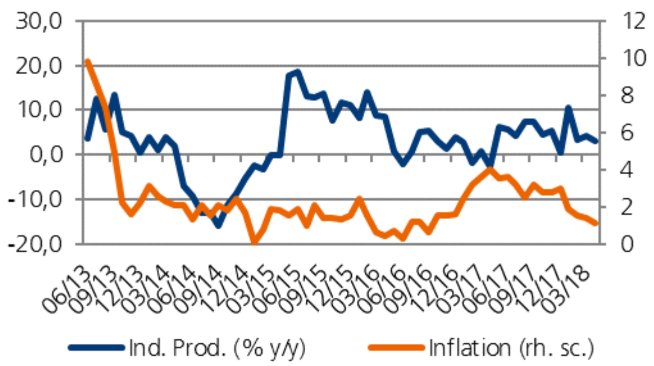
Past monetary easing, along with an acceleration of economic activity in the country, low interest rates and increased bank competition are expected to further bolster credit activity, which is projected to increase by 4.0% in 2018 and 4.3% in 2019. The banking sector is expected to remain stable and well-capitalised, while the NPL level, which was one of the biggest challenges for banking sector stability, has finally dropped below double-digit levels, to 8.8% in April 2018.

Forecasts

	2017	2018F	2019F
Real GDP yoy	1.9	3.8	3.2
CPI (avg)	3.2	2.1	2.7
Short-term rate (avg)	3.9	3.1	3.2
Short-term rate (end of period)	3.5	3.0	3.5
L/T bond yields (avg)	n.a.	n.a.	n.a.
Bank loans yoy (end of period)	2.1	4.0	4.3
Bank deposits yoy (end of period)	3.1	4.0	5.0

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistical Office, National Bank of Serbia

Slovakia

Real Economy

Andrej Arady

After a solid growth pace of 3.4% yoy in 2017, the Slovak economy continues to grow at a well above 3% rate in 2018. We would note, however, that growth in the first quarter of the current year was a bit lower than our full-year projection of 3.8%. Nevertheless, we continue to expect an acceleration on a rebound in car production and investments. Besides common drivers of growth in the CEE-4 region (EU-funded investments and a strong labour market boosting private consumption), the Slovak economy should experience a special boost to growth from two extraordinary foreign investments in the automotive sector in the coming quarters. We thus expect it to grow above potential this year and in the following two years, with the growth pace remaining around 4%. Meanwhile, the labour market continues to tighten further, with the unemployment claim rate hitting new all-time low in May of 5.4%. Tensions in the laborr market have already translated into significantly rising wages, by a 6.5% rate yoy in 1Q18.

Rearding prices, inflation has edged higher in 2018 on a pickup in regulated prices, food prices and demand-sensitive items. Going forward, we expect inflation to hover in the 2-3% range. The economic story behind this should remain the same as in the beginning of 2018. Inflation, however, might be more volatile relative to previous years as the weight of a very volatile component, civil aviation, has significantly increased since the beginning of 2018.

Financial Markets

Relative to our March forecasts, our view on financial markets has changed a bit. Yields on Slovak government bonds continue to be heavily impacted by the ECB's APP, with spreads vs German Bunds remaining below the pre-APP levels (currently around 50bps). The likely delay in the next rate hike by the ECB, from the previously expected June 2019 to October 2019, has, however, changed our view on benchmark Bund yields, pushing the expected start of an increase in yields out by one quarter. This impact could be partially compensated for by the increased risk at the European level, pushing up the risk premia outside core countries. An increased risk of flight to quality is likely to translate into rising spreads vs German Bunds, to the upper bound of the pre-APP range of 60-80bps. In sum, the projected path of Slovak yields has been lowered slightly relative to our March forecast, but this is not fully in line with the lowered projected path for German Bunds.

Banking Sector

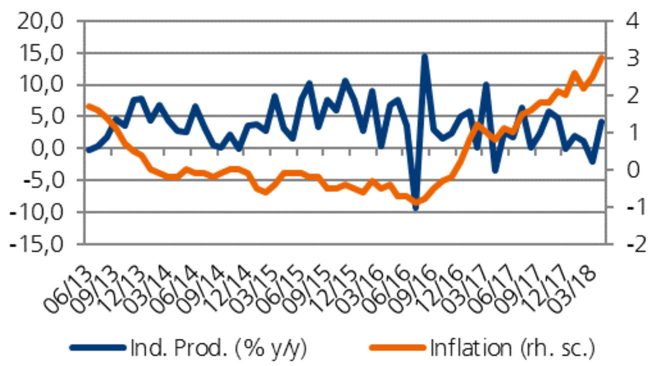
After the stellar performances in 2016 and 2017, with the retail credit market growing at the fastest pace in Europe, growth of loan volumes has gradually decelerated. Increased market saturation, along with tighter regulations, should anchor the recently established decelerating trend in the future. Regarding regulations, the National Bank of Slovakia has recently introduced an outright debt/income ceiling. Regarding the deposit market, growth should remain stable, or even accelerate slightly, primarilly due to rising household incomes.

Forecasts

	2017	2018F	2019F
Real GDP yoy	3.4	3.8	3.9
CPI (avg)	1.4	2.8	2.7
Short-term rate (avg)	-0.3	-0.3	-0.2
Short-term rate (end of period)	-0.3	-0.3	0.1
L/T bond yields (avg)	0.9	1.0	1.9
Bank loans yoy (end of period)	9.6	8.0	7.0
Bank deposits yoy (end of period)	5.2	5.2	5.4

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistical Office of Slovak Republic

Slovenia

Real Economy

Ivana Jović

Following strong 6.0% yoy growth in 4Q17, the Slovenian economy entered 2018 still performing well, but showing lower broad-based growth of 4.6% yoy (0.6% qoq and 5.0% yoy seasonally adj.). Domestic consumption growth in 1Q18 was still good at 5.3%, amid strong 14.7% growth registered in gross capital formation (9.1% yoy growth in investments and a positive 1.3pp contribution from a change in inventories). Household consumption maintained a 3.4% growth pace, as recorded in the previous quarter. Contrary to past quarters, net exports contributed negatively (although modestly, at -0.2pp), as 8.7% growth in imports of goods and services outpaced 7.4% growth in exports, owing to more robust domestic demand and a slowdown in export performance, in line with a challenging 1Q across the Euro area. Favourable trends have also been supported by April's high frequency data: industrial production and exports increased by 6.9% and 14.3% yoy, respectively. The labour market has performed strongly and employment increased by 3.2% yoy in April, with a further lowering of the unemployment rate towards 8%.

Slovenian economic momentum looks favourable, supported by an acceleration in domestic investment and balanced foreign trade. Thus, we have revised our growth outlook to 4.3% (from 4.0% previously). The inflation outlook has inched up to slightly above 2%.

Financial Markets

Ana Lokin

We have left our 2018 average 3M Euribor forecast unchanged at -0.3%, based on the latest expectations that the ECB will keep rates stable until the end of summer 2019. The spread between Slovenian 10Y government bond yields and Bunds rose during 2Q18, affected by political turbulence. But, we still see it remaining at around 60bps on average this year. Due to lower forecast Bund rates, we have adjusted downwards (-10bps) our 2018 average estimate for Slovenian government yields to 1.1%.

Banking Sector

Loan growth in March-April 2018 continued to lose steam: loans to household decelerated somewhat and corporates returned to negative territory. Loans to non-financial corporations fell by 0.3% yoy in March and by 0.7% yoy in April, as owing to strong liquidity, the corporate sector has been able to finance its business operations from own sources. Loans to households rose by 6.0% yoy in March and 5.9% yoy in April. The rise in both housing loans and consumer credit showed some signs of decelerating. As loan dynamics remain in line with our expectations, we are leaving our 2018 loan growth estimate unchanged at +3.5% yoy.

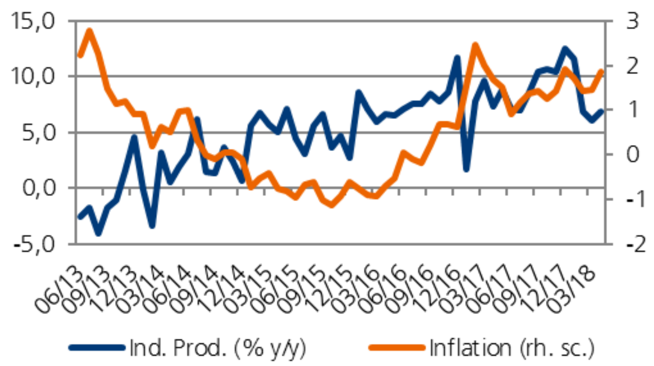
Deposits continued to rise robustly, at 6.1% growth yoy in March and 7.1% yoy in April, particularly corporate deposits. Household deposits strengthened, supported by rising incomes and higher employment. Following the upbeat GDP trends, we have upgraded our 2018 deposit growth forecast to 6.0% yoy from 5.8% yoy previously.

Forecasts

	2017	2018F	2019F
Real GDP yoy	5.0	4.3	3.5
CPI (avg)	1.6	2.1	2.3
Short-term rate (avg)	-0.3	-0.3	-0.2
Short-term rate (end of period)	-0.3	-0.3	0.1
L/T bond yields (avg)	1.0	1.1	2.1
Bank loans yoy (end of period)	3.2	3.5	3.4
Bank deposits yoy (end of period)	7.0	6.0	5.4

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistical Office of the Republic of Slovenia

Ukraine

Real Economy

Giancarlo Frigoli

Annual GDP growth accelerated to 3.1% in 1Q18 from 2.2% in 4Q17. These numbers are consistent with our projections and those of the main forecasting bodies, pointing to stronger growth this year. In 2018, private consumption will likely be the main driver of growth, thanks to the sustained dynamic of real wages and other household income sources, particularly pensions. The easing of fiscal policy ahead of next year's election and more active investment by businesses should also contribute to economic growth. On the supply side, the favourable weather conditions seen in the spring of the current year offer hope of a good harvest of grain and early fruit and vegetables. We also expect exports to support headline growth over the next two years. This will be underpinned by the fading negative impact of the Donbass trade blockade, which weighed on the country's steel production capacity and export volumes.

Financial Markets

Since its April meeting, Ukraine's CB has kept its main interest rate on hold at 17%, pausing after a series of rate increases. After four hikes of the key policy rate, the monetary authority said that current monetary conditions are sufficiently tight to bring inflation back to its mid-term targets, confirmed at 8.9% for end-2018 and 5.8% for end-2019. However, the CB warned that all its expectations hinge on Ukraine sticking with its USD 17.5bn programme with the IMF, which has expressed concern about perceived backtracking on reforms and delays in implementing policies to tackle corruption. Ukraine has received USD 8.4bn so far from the IMF, but additional payments have been delayed (the last payment was made in April 2017), as the government is backtracking on reforms ahead of presidential and parliamentary elections that will take place next year.

Banking Sector

Davidia Zucchelli

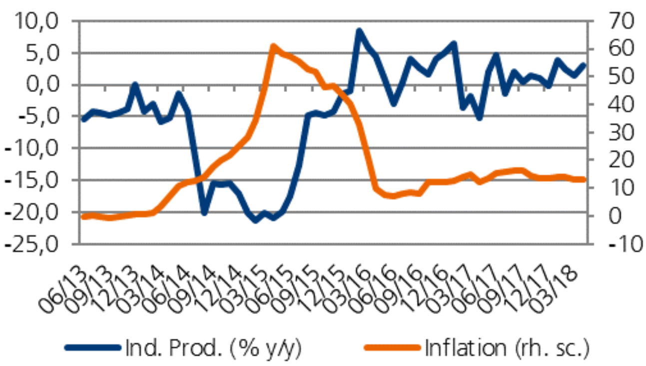
Loans to the private sector strengthened in March, increasing by 8.9% yoy from 7% yoy in February. Loans denominated in foreign currency declined again (-3.4% yoy in March) on the back of write-offs and restructured loans. In contrast, UAH lending has gradually accelerated (+15.4% yoy). An encouraging result came from corporate loans which strengthened in March (+5.6% yoy from -0.4% in 2017). Household lending grew at a strong pace (+11.2% yoy vs +6.6% yoy in 2017), driven by UAH loans while loans denominated in foreign currency decreased by 17%. The NPL rate increased again to 56.5% (from 54.5% as of December 2017). Total deposits from the private sector grew by 10.7% yoy in March, decelerating from 12% growth in 2017. Household deposits grew by 11% yoy as of March and by 10% yoy in the corporate sector (decelerating from 13.7% in 2017. Financial inclusion has gradually improved in the last few years. Some 41% of Ukraine's adults had at least one bank account in 2011, based on World Bank estimates. In 2017, this indicator reached 63%, a somewhat below average rate compared with other countries of the region.

Forecasts

	2017	2018F	2019F
Real GDP yoy	2.5	3.2	3.2
CPI (avg)	14.5	11.7	9.2
USD exchange rate (avg)	26.6	27.0	27.6
Euro exchange rate (avg)	30.0	32.0	32.8
Short-term rate (avg)	16.8	17.8	16.6
L/T bond yields (avg)	0.0	0.0	0.0
Bank lending	0.9	3.8	3.7
Bank deposits	12.1	6.0	5.4

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]	
	1Q18	4Q17	2017	Last	mth	1Q18	Last	mth	1Q18	Last	mth	1Q18	2017	1Q18	4Q17	2017	1Q18	4Q17
CEE																		
Czech Rep.	4.5	5.1	4.3	5.5	Mar	4.6	-7.5	Mar	-1.3	1.9	Apr	1.9	2.5					
Hungary	4.4	4.4	4.0	7.8	Apr	2.8	11.0	Apr	3.8	2.8	May	2.0	2.4	-984	1174	-3858	3603	197
Poland	5.2	5.1		9.3	Apr	9.1	-6.2	Dec		1.7	May	1.5	2.0					
Slovakia	3.6	3.5	3.4	-2.3	Mar	0.3	-1.3	Mar	3.4	3.0	Apr	2.4	1.4	n.s.	n.s.	n.s.		
Slovenia	4.6	6.0	5.0	6.9	Apr	8.2	7.4	Mar	11.0	2.2	May	1.5	1.6	n.s.	n.s.	n.s.	663	532
SEE																		
Albania		3.4	3.7	n.a.	n.a.	n.a.	11.2	Apr	19.0	2.1	May	1.9	2.0	-142	215		-165	-295
Bosnia H.		3.0	3.0	2.2	Apr	4.9	6.9	Apr	12.1	1.0	Apr	0.8	0.8		182	524		-281
Croatia	2.5	2.2	2.9	-1.2	Apr	0.3	-7.8	Mar	-3.4	1.9	May	1.0	1.1		752	2192		-674
Romania	4.0	6.7	6.9	3.6	Apr	5.2	9.7	Apr	10.0	5.4	May	4.7	1.3	2480	305	3895	-967	-6295
Serbia	4.6	2.4	1.9	3.1	Apr	6.0	4.2	Apr	9.9	2.1	May	1.6	3.2	551	-744	-689	-650	-677
CIS MENA																		
Russia	1.3	0.9	1.5	1.3	Apr	1.8	38.9	Apr	23.3	2.4	May	2.3	3.7	21237	5157	38476	28800	13698
Ukraine	3.1	2.2	2.5	3.1	Apr	3.6	12.7	Apr	17.0	11.7	May	13.8	14.5	9	747	3688	-377	-891
Egypt	5.4	5.3	5.0	11.1	Jan	11.1	26.6	Feb	32.6	11.4	May	14.9	29.6	5591	485	12755		-1785
m.i. E. A.	2.5	2.7	2.4	1.7	Apr	3.1	8.0	Apr	2.9	1.9	May	1.3	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
	26/06	chg bp 3M	26/06	chg bp 3M	26/06	3M chg%	1Y chg%	3M chg%	1Y chg%	26/06	26/03	Moody's
CEE						Vs Euro						
Czech Rep.	0.9	0.0	2.0	0.2	25.9	1.8	-1.3	-4.4	9.3	35.0	0.9	0.0
Hungary	0.3	0.2	3.5	0.9	325.6	4.1	5.3	-4.7	-1.1	84.5	0.3	0.2
Poland	1.8	0.2	3.2	0.0	4.3	2.5	3.0	-4.6	-8.8	66.6	1.8	0.2
Slovakia	-0.3	0.0	0.7	-0.1	Euro	Euro	Euro	-2.0	5.8	42.0	-0.3	0.0
Slovenia	-0.3	0.0	1.1	0.0	Euro	Euro	Euro	6.8	10.1	60.8	-0.3	0.0
SEE												
Albania	1.2	0.0	n.a.	n.a.	126.0	-4.1	-4.5	n.a.	n.a.	n.a.	1.2	0.0
Bosnia H.	n.a.	n.a.	n.a.	n.a.	1.96	Board	Board	n.a.	n.a.	n.a.	n.a.	n.a.
Croatia	0.5	0.0	2.2	-0.1	7.4	-0.8	-0.4	-0.2	-3.4	99.5	0.5	0.0
Romania	3.0	1.1	5.4	0.8	4.7	0.2	2.0	-8.7	-3.3	83.9	3.0	1.1
Serbia	3.0	-0.2	n.a.	n.a.	118.0	-0.5	-2.8	-5.2	10.6	109.8	3.0	-0.2
CIS MENA						Vs USD						
Russia	7.5	0.2	7.8	0.7	63.0	10.2	5.5	-2.7	23.3	133.2	7.5	0.2
Ukraine	17.8	-0.1	14.5	0.0	26.2	-0.2	0.6	-2.5	-10.5	397.3	17.8	-0.1
Egypt	18.6	0.6	16.8	2.1	17.9	1.4	-1.4	-8.1	-2.7	360.0	18.6	0.6
m.i.A.E.	-0.3	0.0	0.3	-0.2	1.2	-6.2	4.2	3.5	-5.7	5.9	-0.3	0.0

Source: Datastream, Reuters;[1] The data for Albania refers to January, for Egypt refers to may, for Czech Republic refers to may; [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.	5.5	Mar	6.5	3.6	Mar	4.0	6.9	Apr	69.8	4.8	Mar	7.6	2.35	Mar	2.33	C	0.78	Mar	0.66	H	76.1	Mar	75.8
Hungary	5.1	Mar	6.0	6.0	Sep	5.3	2.9	Apr	12.2	13.4	Mar	10.8	2.23	Mar	2.5	C	0.24	Mar	0.24	H	79.3	Mar	80.1
Poland	3.2	Dec	3.2			3.9	-11.3	Apr	-13.0	4.1	Dec	4.1	3.64	Feb	3.66	C	1.65	Feb	1.65	H	98.0	Dec	98.0
Slovakia	9.3	Mar	9.6	4.0	Mar	4.0	-9.4	Mar	-6.0	6.0	Mar	5.2	2.15	Mar	1.97	C[2]	0.07	Mar	0.07	H[2]	99.4	Mar	98.8
Slovenia	2.6	Apr	3.2	5.4	Mar	6.0	-12.2	Apr	-13.4	7.1	Apr	7.0	2.23	Apr	2.41	C[2]	0.16	Apr	0.14	H[2]	78.0	Apr	78.3
SEE																							
Albania	0.2	Apr	0.5	13.5	Apr	13.2	-3.9	Mar	0.0	-2.1	Apr	-1.3	7.71	Apr	8.12	PS	0.77	Apr	0.8	PS	54.1	Apr	53.3
Bosnia H.	7.1	Apr	7.3	9.7	Mar	10.0	10.5	Apr	4.6	9.1	Apr	9.0	3.59	Apr	3.51	C	0.25	Apr	0.23	H	108.9	Apr	108.4
Croatia	0.3	Apr	-0.1	11.4	Mar	11.4	-4.1	Apr	-17.8	3.9	Apr	2.4	6.39	Apr	6.41	PS	0.64	Apr	0.68	PS	80.6	Apr	78.6
Romania	6.8	Apr	5.6	6.2	Mar	6.4	-2.3	Apr	-9.1	10.8	Apr	10.4	6.98	Apr	5.88	PS	1.33	Apr	1.08	PS	77.9	Mar	76.7
Serbia	2.9	Apr	2.1	8.8	Apr	9.8	31.0	Apr	14.4	4.5	Apr	3.1	8.84	Apr	8.2	PS	2.72	Apr	2.85	PS	102.1	Apr	101.3
CIS MENA																							
Russia	8.9	Mar	5.2	10.7	Mar	10.0	-12.9	Feb	-17.5	7.7	Mar	8.1	8.66	Apr	9.43	C	5.29	Apr	5.27	H	106.7	Mar	104.8
Ukraine	6.6	Mar	0.9	56.4	Mar	54.5	-22.3	Mar	-23.5	10.7	Mar	12.1	17.95	Mar	17.51	PS	11.0	Mar	9.56	PS	129.7	Mar	123.0
Egypt	5.5	Jan	7.1	4.9	Dec	4.9	0.6	Jan	1.1	22.8	Jan	23.8	18.2	Apr	19.8	C	12.4	Apr	13.6	H	33.8	Jan	33.9
m.i. E. A.	1.9	Mar	2.2	n.a.	n.a.	n.a.	-2.0	Mar	-2.7	16.2	Mar	1.9	1.2	Apr	1.3	C	0.4	Apr	0.4	H	82.1	Mar	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	3.5	3.1
Hungary	3.4	2.2	4.0	3.9	3.0
Poland	3.6	2.8	4.5	4.4	3.5
Slovakia	3.8	3.3	3.4	3.8	3.9
Slovenia	2.2	3.1	5.0	4.3	3.5
Average	3.9	2.7	4.3	4.1	3.4
SEE					
Albania	2.6	3.5	3.7	3.9	3.7
Bosnia Herzegovina	3.1	3.1	3.0	3.1	3.1
Croatia	2.4	3.5	2.9	2.7	2.6
Romania	4.0	4.8	6.9	4.2	3.6
Serbia	0.8	2.8	1.9	3.8	3.2
Average	3.2	4.2	5.3	3.8	3.4
CIS					
Russia	-2.8	-0.2	1.5	1.7	2.0
Ukraine	-9.8	2.4	2.5	3.2	3.2
Average	-3.4	0.0	1.6	1.8	2.1
MENA					
Egypt	4.5	3.8	5.0	5.4	5.2
Average ISP Subsidiaries	0.1	1.6	3.1	3.1	3.0

Inflation (average)	2015	2016	2017	2018F	2019F
CEE					
Czech Rep.	0.3	0.7	2.5	2.1	2.2
Hungary	-0.1	0.4	2.4	2.6	3.1
Poland	-0.7	-0.6	2.0	1.9	2.4
Slovakia	-0.3	-0.5	1.4	2.8	2.7
Slovenia	-0.8	-0.2	1.6	2.1	2.3
SEE					
Albania	1.8	1.3	2.0	2.1	2.7
Bosnia Herzegovina	-1.0	-1.6	0.8	1.4	1.9
Croatia	-0.5	-1.1	1.1	1.8	2.2
Romania	-0.6	-1.5	1.3	4.9	4.2
Serbia	1.4	1.1	3.2	2.1	2.7
CIS					
Russia	15.6	7.1	3.7	2.8	4.8
Ukraine	48.5	14.9	14.5	11.7	9.2
MENA					
Egypt	10.4	13.7	29.6	13.6	11.8

Market

Exchange rate (average)	2015	2016	2017	2018F	2019F
CEE					
Czech Rep.	27.3	27.0	26.3	24.9	24.8
Hungary	309.9	311.3	309.1	314.2	316.4
Poland	4.2	4.4	4.3	4.2	4.2
Slovakia					
Slovenia					
SEE					
Albania	139.7	137.4	134.6	131.0	131.6
Bosnia Herzegovina	1.96	1.96	1.96	1.96	1.96
Croatia	7.6	7.5	7.5	7.4	7.5
Romania	4.4	4.5	4.6	4.6	4.7
Serbia	120.8	123.1	121.4	118.3	118.7
CSI MENA					
Russia (USD)	61.0	67.1	58.3	61.5	61.8
Ukraine (USD)	21.4	25.5	26.6	27.0	27.6
Egypt (USD)	7.7	10.1	17.8	17.7	17.8

Interest rate (average)	2015	2016	2017	2018F	2019F
CEE					
Czech Rep.	0.3	0.3	0.4	1.3	1.5
Hungary	1.6	1.0	0.1	0.1	0.4
Poland	1.7	1.6	1.5	1.7	2.0
Slovakia	0.0	-0.3	-0.3	-0.3	-0.2
Slovenia	0.0	-0.3	-0.3	-0.3	-0.2
SEE					
Albania	2.9	1.1	1.3	1.0	1.1
Bosnia Herzegovina	n.a.	n.a	n.a	n.a	n.a
Croatia	1.2	0.9	0.6	0.5	0.6
Romania	1.3	0.8	1.2	2.6	2.9
Serbia	6.1	4.1	3.9	3.1	3.2
CIS MENA					
Russia	14.1	11.2	9.4	7.4	7.3
Ukraine	25.9	20.9	16.8	17.8	16.6
Egypt	11.3	14.1	19.3	17.8	15.7

Bank

Loans to private sector (% change yoy)	2015	2016	2017	2018F	2019F
CEE					
Czech Rep.	6.6	6.7	6.5	6.2	5.2
Hungary	-12.3	-1.9	6.0	3.2	3.8
Poland	7.2	5.3	3.2	4.1	4.5
Slovakia	8.7	10.3	9.6	8.0	7.0
Slovenia	-5.4	-2.3	3.2	3.5	3.4
SEE					
Albania	-3.5	0.2	0.5	2.0	3.0
Bosnia Herzegovina	2.0	3.5	7.3	6.2	5.5
Croatia	-3.1	-4.3	-0.1	1.5	1.7
Romania	3.0	1.2	5.6	4.4	4.0
Serbia	3.0	2.4	2.1	4.0	4.3
CIS					
Russia	8.2	-4.2	5.2	6.0	6.5
Ukraine	-3.8	2.0	0.9	3.8	3.7
MENA					
Egypt	18.0	42.8	7.1	13.0	11.0

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	6.0	5.5
Poland	10.0	9.2	4.1	4.9	5.0
Slovakia	9.9	4.6	5.2	5.2	5.4
Slovenia	5.8	7.2	7.0	6.0	5.4
SEE					
Albania	1.0	2.7	-1.3	0.0	2.5
Bosnia Herzegovina	7.8	7.4	9.0	6.9	6.0
Croatia	6.3	2.8	2.4	1.5	1.7
Romania	8.6	8.2	10.4	7.0	6.8
Serbia	7.1	11.5	3.1	4.0	5.0
CIS					
Russia	18.8	-3.9	8.1	5.1	5.2
Ukraine	1.5	9.1	12.1	6.0	5.4
MENA					
Egypt	20.4	41.4	23.8	16.2	14.0

Source: Intesa Sanpaolo Research Department forecasts

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