INTESA SANPAOLO

Monthly Note

Countries with ISP Subsidiaries

January 2017

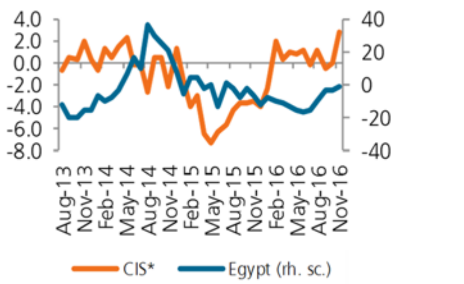
Monthly note

Intesa Sanpaolo
International Research Network

Business cycle indicators are strengthening in the CEE/SEE areas, where headline inflation rates are rising and long rates are moving upwards, in line with EA benchmarks. Price pressures are mounting in Egypt.

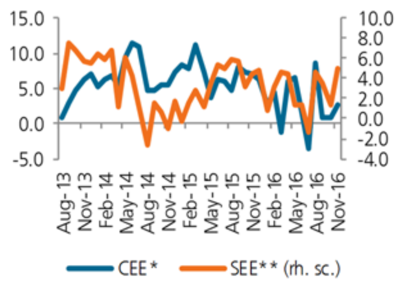
- Incoming data point to a strengthening of the business cycle in the last quarter of 2016 in the CEE and SEE regions in line with the somewhat stronger signals in the Euro area, where in November industrial production increased by 3.2% y/y (above 1.2% average in 3Q) and exports rose by 6.0% (higher than the 0.4% average in 3Q). Industrial production grew in the CEE region in a range from 0.6% in Hungary to 7.4% in Slovenia, and in the SEE countries from 1.3% in Serbia to 7.2% in Croatia.
- In Russia in the CIS area, recent PMI releases supported the view that GDP is recovering. In Ukraine, the economy is instead unlikely to experience a significant pick-up until the conflict in the east of the country, where important manufacturing activities are located, has been resolved. In the MENA region, Egypt's Purchasing Managers' Index readings confirmed the still-precarious state of the economy into 2017. The December 2016 figure of 42.8, though slightly better than November's 41.8 level, was still far below the 50 which separates expansionary from contractionary expectations.
- In December, inflation was finally positive, although modest and in general below CB targets in almost all CEE/SEE countries, incorporating the first effects of the partial change in energy prices. In CIS countries, it decelerated in Russia to 5.4% in December and to 12.4% in Ukraine (just above the CB's 12% year-end target), where core inflation fell to 5.8% (from 34.7% in 2015). In Egypt, inflation accelerated to 23.3% in December, as the effects of the significant depreciation in the EGP and the introduction of a VAT are feeding through the index. The IMF expects that inflation will begin to drop sharply by second-half 2017
- In the CEE/SEE areas, all the CBs are maintaining supportive monetary conditions in view of still well-below-target inflation and the ECB's plans for easy monetary policy for an extended period. Long-term yields increased slightly in the CEE/SEE regions, in line with EA benchmarks, and exchange rates remained generally stable regarding the euro. In Russia, the recovery in oil prices, and rising hopes that sanctions may be lifted based on comments by US President Trump, provided the rouble and equities with further tailwinds. In Ukraine, the hryvnia has come under new pressures in recent weeks.
- In November, lending increased modestly in Romania, Bosnia and Serbia and strongly in Slovakia, but continued to fall in other countries – in particular, Slovenia, Croatia and Hungary. This was partly due to bank portfolio restructuring (supporting a gradual decline of the NPL/loans ratios). Loans increased slightly in nominal terms in Russia, but declined further in Ukraine. On the funding side, the persistent drop in foreign liabilities was partially offset by the increase in deposits. Most CEE/SEE countries continued to see strong increases in corporate deposits. These increases, together with the fall in corporate loans, may imply still-weak private sector investment opportunities.

Industrial production % y/y – CIS - Egypt



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

Industrial production % y/y – CEE - SEE



Sources: National Statistics Offices; note * weighted average on 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 and in particular: Slovakia, Slovenia and Hungary among CEE countries; Albania, Bosnia, Croatia, Serbia and Romania among SEE countries; Russia and Ukraine among CIS countries; and Egypt among MENA countries.

The figures in this document have been updated as of 24th January 2017.

Cross Country Analysis

CEE area

Antonio Pesce

In CEE countries with ISP subsidiaries, the high frequency economic indicators currently available generally signal a strengthening of the economic activity in November compared with previous months. The growth rates of industrial production, exports and retail sales, as well as the levels of Economic Sentiment Indicators (ESI), were frequently above the values seen in the third quarter.

In Slovakia, industrial production (based on working day adjusted data) grew by 2.4% y/y in November, below the 3.3% signed in October, but still in line with the 3Q16 average. All sectors showed a positive dynamic, but in particular, manufacturing (2.4% y/y) and the energy sector (6.3%). External demand also increased, as exports rose (in nominal terms) by 4.0% y/y in November, while retail sales accelerated (in real terms) to 3.9% y/y from 0.8% in October, thanks to improved conditions in the labour market (declining unemployment rate, down to 8.8% in December). The Economic Sentiment Indicator decreased slightly in December, but remained close to historical highs.

In Slovenia in November, industrial production grew by 7.4% y/y (preliminary data), slightly above the growth rate seen in October (6.6%) and above that of 3Q16, thanks to the manufacturing sector, which saw growth of about 8.0%. In the same month, exports remained on a positive trend (3.8% in nominal term), although the result was slightly lower than in 3Q16. The dynamic of retail sales was very strong (12% y/y in real terms) in November and the ESI remained close to the historical high in December.

In November in Hungary, industrial production returned to a positive trend (0.6% y/y), after two months of contraction, thanks to a stronger manufacturing sector (1.6% y/y). In addition, exports, after contracting by 1.3% y/y in October, expanded by 5.8% y/y in November. The manufacturing PMI reading worsened slightly in December, though it remained above the critical 50 threshold value, thus still reflecting expansionary expectations for the coming months. The ESI, which increased slightly in the same month, also signalled higher confidence in the economy.

Moving to inflation data, in December, the CPI shifted into positive territory in Slovakia (0.2%) while remaining positive in both Slovenia (+0.6%) and Hungary (1.8%). The more volatile components, energy and food, although on an rising path, are still keeping headline inflation below core inflation (0.9%). Core inflation was basically in line with the total index both in Slovenia and Hungary. Following the ECB's announcements, monetary policy looks set to remain expansionary in Slovakia and Slovenia for an extended period and *well past the horizon* of the ECB's Asset Purchase Programme, which should continue through December 2017. Since May 2016, the Hungarian CB board has maintained the policy rate at its latest historical low (0.9%), but to ease monetary conditions, the Monetary Council set an HUF 750bn upper limit on the stock of three-month central bank deposits as at the end of the first quarter of 2017. The limit is set quarterly. A decision on its level for end of the second quarter of 2017 will be made in March 2017. Long-term yields increased slightly in Slovakia, Slovenia and Hungary, mostly in line with the Euro area benchmark. The Hungarian currency has remained quite stable, at around 308 vs the euro.

Davidia Zucchelli

In the CEE area, the main trends of banking aggregates were confirmed in November. Lending showed a slight improvement m/m, but the dynamic was still affected by the ongoing portfolio restructuring, especially in the household sector. Growth of deposits continued to be significant, both in the corporate and the household sector. The trend is somewhat different from those observed in the Euro area, where credit to the private sector continued its gradual recovery, increasing by 2.4% y/y (2.3% in October), supported by low interest rates and improving supply and demand conditions. As highlighted by the ECB, European banks have made progress in consolidating their balance sheets, although still high NPLs in some countries could have constrained credit origination. Furthermore, loans to non-financial corporations have recovered in the Euro area from -0.3% y/y in 2015 to +1.8% y/y in November 2016, in particular loans with long maturities, while growth of loans to households remained almost unchanged at 2.1% y/y (from 1.9% in October).

Going into detail by country in the CEE Region, in Slovenia, loans decreased by 5% y/y in November (-6% in October), due to a decline in corporate loans (-11.6%), mainly as a result of the restructuring process of banks' loan portfolios which is still in process (with the NPLs ratio decreasing to 6.3% of total loans). Loans to households continued to be stable (up 2.5%). According to the privatisation coordinator, the Slovenian Sovereign Holding, Slovenia intends to sell its third-largest bank Abanka this year rather than by the middle of 2019, as previously planned. Bank profits are likely to fall in the coming years, due to low interest rates and a drop in business volumes, as recently highlighted by the central bank.

In Slovakia, in contrast, lending continued to perform well (+9.4% y/y in November from +9.8% in October), both in the corporate (up by 4.4% from 6.2%) and in the household (up by 13.8% from 13.7%) sector, specifically a result of a continuing rise in mortgages. Deposits also performed robustly (+5.8% in November from +6.6% in October), particularly in the household sector (+8.2%), while in the corporate sector, they decelerated by 2.2% y/y (from 4.1% in October). Foreign liabilities decreased by 5% y/y in November, declining for the first time since February 2015.

In Hungary, loans still showed a negative change (-5.1% y/y in November), due to a decrease in loans both to households (-4.5% from -3.6% in October) and corporates (-5.7% from -8.3%). Nevertheless, loans to corporates increased by over 2% m/m in November. On the liability side, deposits rose by 5.6% y/y in November (in line with the changes recorded in the last few months), both in the business (+7.2% in November) and the household (4.2%) sectors supported by the acceleration of gross wages (+8.2% y/y in November from 5.4% y/y in October). The further decrease of the interest rate on lending (new business to corporates, to 3.5%) and the increase of the interest rate on deposits (new business to households, to 0.5%) implied a contraction of the interest margin.

SEE area

Antonio Pesce

In SEE countries with ISP subsidiaries, the high frequency indicators signalled, on their own, a further consolidation of the economic cycle after the strong growth in 3Q16. In Croatia – where consumer spending is a key growth driver – retail sales grew by 2.7% y/y in November, just below the dynamic observed in October but still a strong positive trend. Households' real incomes have been supported by both low inflation and improving conditions in the labour market. Industrial production jumped in November, to 7.2% y/y, well above the 3Q16 average. The ESI improved in December to 123.8.

In November, Romanian exports grew at a double-digit rate (11.7%), well above the 3Q average, and in the same month, industrial production increased by 5.3% y/y, confirming the previous strong performance. The ESI deteriorated slightly in December, but remained close to the high seen since in January. In Serbia, the flash estimate pointed to GDP growth of 2.6% y/y in 4Q16. This statistic, although preliminary, confirms the economic strengthening signalled by the high frequency indicators such as exports (+19.8% y/y in November) and retail sales growth (+7.4%). In Bosnia, industrial production and exports remained on a positive path in November. In the same month, in Albania, exports accelerated further (22.6% y/y) after the strong dynamic seen in October (17.4%).

Consumer inflation was positive for almost all the SEE countries in December, ranging from 0.2% in Croatia to 2.2% in Albania. However, it was still negative in Romania in December (-0.5%) and in Bosnia in November (-0.3%). Given the low inflation profile, all the central banks of the SEE countries with ISP subsidiaries confirmed easy monetary conditions. Exchange rates vs the euro have remained roughly stable in the whole area, with only slight depreciation seen in Serbia. The CDS spread remained basically unchanged.

Davidia Zucchelli

As far as banking aggregates are concerned, one can still see a trend that could signal weak investment opportunities – that is, while lending is decreasing, corporate deposits are increasing significantly. Deposits also grew in the household sector in the region, but at a slower pace partly due to competition from other savings instruments. As a consequence of these opposite dynamics, the LTD ratio dropped below 100% in many countries, with Bosnia and Serbia the only exceptions, with LTDs still at 111% and 105%, respectively (although on a declining path).

In Albania, loans remained quite stable (-0.1% y/y) in November. They declined for businesses (-4% y/y), while increasing for households (10.2%), due to the slowdown of loans in foreign currency (-6.0%) vs an increase of loans in local currency. Bank lending survey results for 4Q16 showed tightening of credit standards on loans to enterprises and easing credit standards on loans to households. Deposits continued to grow (+2.3% y/y in November), driven by the business sector (16.5%), while remaining stable in the household sector (0.1%). On the liability side, foreign liabilities continued to decline sharply (-13.2% y/y in November).

In Bosnia, supported by an improvement in the economy, loans showed a modest increase (+2.6% y/y in November) both in the corporate (+1.9% y/y) and in the household (3.3% y/y) sectors, supporting recent trends. Deposits were in line with previous dynamics as well (+6.9% y/y from 6.1% in October). In Croatia, loans continued to fall (-5.0% y/y in November, -5.3% in October), due to restructuring operations (sales and write-offs) regarding both corporates (-3.6%) and households (-6.0% y/y). The latter is still suffering from a high, although improving, unemployment rate (23%). Deposits remained positive (+2.3% y/y in November), particularly in business (8.2% from, however, 24.7% in August). Growth in deposits from the household sector remained close to 1%.

In Romania, loans increased slightly in November (0.4% y/y from 1.5% y/y in October) supported by loans to households (+4.9% y/y), while loans to corporates were still weak (-4.2% y/y from -3.6% y/y the previous month), despite the strong economic recovery. The NPL ratio declined further (to 10%) as a result of balance sheet cleansing operations. Deposits continued to perform strongly (+11.2%, as in October).

In Serbia, loans continued to see a gradual increase in November (4.4% y/y from 4.6% in October), particularly to households (+10.5% y/y), which saw a sharp increase of local currency-denominated loans. Lending to corporates showed a minor increase (0.2%). In the same month, deposits continued to perform well (+12.0% y/y), especially in the corporate sector (21.4%), while the household sector showed a lower increase (7.7%). As in all the CEE/SEE countries, foreign liabilities continued to decline (-16.2% y/y in November).

CIS and MENA areas

Giancarlo Frigoli

In Russia, the recovery in oil prices and rising hopes that sanctions may be lifted by the new US president provided the rouble and equities with further tailwinds. In January, the RUB/USD exchange rate fell below 60 for the first time in 1.5 years. Looking forward, expectations that the economy will continue to strengthen, in tandem with oil prices, and that inflationary pressures will continue to ease, represent good news for both the rouble and equities. Recent PMI releases supported the view that GDP is on a recovery track. The services sector grew for the 11th straight month in December, with the PMI index rising to 56.5. Again in December 2016, manufacturing activity expanded at its fastest pace since early 2011. The PMI index rose to 53.7 sustained by a healthier labour market, substantial production growth and robust domestic demand. Retail spending remains the weak spot in the Russian economy. It fell by 4.2% in November, continuing the two-year-long contracting trend. This weakness reflects the effect of fiscal tightening amid the decline in oil-related revenues and the slack in the labour market that is keeping a lid on wage growth.

In **Ukraine**, annual inflation was 12.4% last December, just above the central bank's 12% year-end target for 2016. However, underlying inflation, obtained by stripping out administrative price increases and volatile food and energy components, was down to 5.8% from 34.7% in 2015. The central bank expects the overall rate to decline further this year, ending at around 8%. The hryvnia came under new depreciation pressures in recent weeks, with the UAH/USD rate rising above 27. The uncertainty regarding reforms implementation and the postponement till 1Q17 of the payment of the fourth tranche worth USD 1.3bn of the IMF loan amounting in total to USD 17.5bn (of which USD 7.7bn has already been disbursed), initially due last December, were reasons for concern. Another factor weighing on the UAH relates to the uncertainty regarding new US President Trump's commitment to supporting the Ukrainian government in its fight against pro-Russian separatists in the Donbas. The most recent news flow should, however, offer some support to the currency. At the end of December, Parliament approved the 2017 budget. Moreover, the IMF praised recent progress in Ukraine's reforms – in particular, those aimed at checking corruption. Finally, the IMF considered the decision taken at the end of December by Ukrainian authorities to nationalise PrivatBank as an important step in the efforts to safeguard financial stability. These statements signal that the IMF might unlock the fourth tranche of the aid in the near future.

Egypt's Purchasing Managers' Index (PMI) readings confirmed the precarious state of the economy as we enter 2017. December's reading of 42.8, though slightly better than the November reading of 41.8, was far below the 50 level that separates expansion from contraction. Among the worst-performing inputs were unemployment and new orders. Annual inflation accelerated to 23.3% in December, from 19.4% in November, as the effects of the significant depreciation of the Egyptian pound vs the USD (following the liberalisation of the exchange rate market and despite the 300 bps increase of the reference rates by the CBE) and the introduction of the VAT are feeding through the index. The core rate jumped to 25.9% from 20.7% previously. However, the IMF expects inflation to begin dropping sharply by second half of 2017.

Davidia Zucchelli

In terms of banking aggregates, in **Russia**, loans were still modest in October (1.4% y/y). Net of an fx appreciation effect, they showed a rise of 1.9%. Corporate lending continued to increase (+1.7% y/y in October, accounting for around 76% of loans to the private sector), while household lending, which is more fragile, showed a slight increase of 0.3% y/y. In October, the nominal increase in deposits was 3.4% (from 3.9% in September) supported by an improvement in real wages, but this was still negative in real terms. Interest rates on new loans to businesses and on deposits from households remained unchanged (12.1% and 6%, respectively).

In **Ukraine**, banking aggregates remain very weak and NPLs are still increasing (to a dramatic 31% of total loans, according to CB estimates, but at an even higher rate according to the rating agencies). Nominal loans decreased by 4.7% y/y in November (from -2.5% in October) both in the corporate (-2.9% y/y) and the household (-12.1%) sectors; net of the exchange rate effect, loans showed a decline of 8%. Deposits showed a nominal increase (+6.7% y/y in November, +3.3% net of the exchange rate). The LTD ratio increased to a high level (over 140%). In **Egypt,** both loans and deposits maintained a strong pace (+16% and +18% in September, respectively), both in the corporate and the household sectors, in nominal (but not in real) terms. Foreign liabilities recorded a significant jump in September (+107% y/y, according to IMF data). Securities – in particular, government bonds – account for a significant share of total assets (over 40%).

Country-Specific Analysis

Albania

Real Economy

Kledi Gjordeni

Albania continues to show sustainable growth and remains one of the countries with the highest GDP growth in the region, without any major recessionary events in the recent past. GDP in the third quarter of 2016 increased by 3.1% y/y, which suggests a likely higher growth rate in 2016 than in 2015. The main contributions to growth were from trade, hotels and restaurants, transport and construction. Negative contributors included industry, electricity and water. The ESI continued on an upward trajectory during 4Q16, moving to 118.6, 9.4 points above the level recorded in 3Q16 and about 18.6 points above the long-term average. In December 2016, the value of exports reached LEK 22bn, an increase of 22.5% compared with the same period of the previous year. Minerals, fuel and electricity made strong contributions. The value of imports was LEK 56bn, an increase of 4.4% y/y. The trade deficit was LEK 34bn (-4.7% compared with December 2015).

Consumer inflation in December 2016 was 2.2%. The annual average of inflation in 2016 was still 1.3% vs 1.9% in 2015. Food and non-alcoholic beverages contributed the most. Albanian inflation is targeted at (3%) in the second half of 2018.

Financial Markets

Albania's financial environment has been stable, with low Interest rates, financing costs at their lowest historical levels and low volatility in the exchange market. These tendencies reflect the Bank of Albania's accommodative monetary policy stance, together with improved confidence in the economy and a benign external environment. T-bill and bond yields have increased, reflecting not only the higher demand for financing by the government, but also the reduced supply from the banking system in the auctions. The Albanian LEK is basically stable. In the FX market, the euro depreciated against LEK by 0.67% whereas the USD appreciated against the LEK by 2.02%, which mainly reflects the development in international FX markets and the consequences of seasonal remittances.

Banking Sector

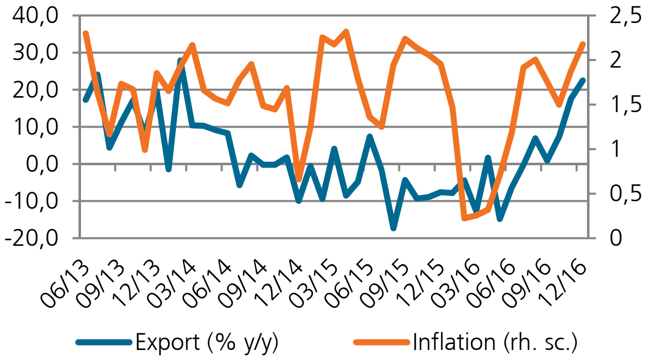
In November 2016, total loans decreased slightly by 0.15% y/y. Loans to households rose by 10.22%, whereas loans to corporates shrank by 4.02% y/y. Total deposits in November 2016 registered a 2.34% increase, driven mainly by business (+16.54%) while deposits from households increased modestly by 0.06%. NPL in November 2016 were still high at 20.40%, which is reflected in the conservative behaviour of banks' loan activity.

Latest macroeconomic indicators

%	Last value	3Q 2016	2Q 2016
Industrial production, wda y/y	n.a.	n.a.	n.a.
Export of goods, nominal y/y	22.6 (Dec)	2.4	-6.6
Unemployment rate	n.a.	14.7	15.9
Inflation rate, average y/y	2.2 (Dec)	1.9	0.7
Loans (private sector, y/y, eop)	-0.1 (Nov)	-0.4	-0.1
Deposits (private sector, y/y, eop)	2.3 (Nov)	2.2	0.5

Source: INSTAT, Central Bank of Albania

Exports and inflation



Source: INSTAT

Bosnia and Herzegovina

Real Economy

Ivana Jovic

As indicated by high frequency data and in line with our expectations, 3Q GDP grew by 2.4% y/y, accelerating from 1.8% and 1.2% y/y in the first and second quarters, respectively. According to the statistical data, the strongest contribution to 3Q growth was from agriculture and electricity production, which recorded 9.5% and 11% respective y/y growth in value added. A drag on growth came primarily from a decline in value added by the public sector.

High frequency indicators for 4Q suggest further acceleration in growth as industrial production, which recorded 4.5% and 5.3% y/y growth in October and November, respectively, while at the same time real retail trade grew respectively by 21.7% and 7.2% y/y. Goods exports recovered to 16.6% y/y growth in November and 15.1% in December, after a somewhat weaker October performance (+2.7% y/y), leading to 4.8% overall annual growth in 2016, thus surpassing the 1.8% increase in imports.

In the meantime, political tensions in the country intensified due to the US-imposed sanctions against Republika Srpska President Dodik for violating the Dayton peace agreement by organising a referendum banned by the BIH Constitutional Court.

At year-end, deflation pressures continued to ease. CPI in October declined by 0.7% y/y and in November by 0.3% y/y, moving the 12-month average to -1.2%.

Banking Sector

Ana Lokin

Total loans to the private sector in November rose by 2.6% y/y, somewhat stronger than in the previous months. Loans to non-financial corporations recorded a 1.9% y/y increase, where public corporations' loans narrowed by 6.6% y/y and those of private corporations expanded by 2.4% y/y. The growth of loans to households sped up to 3.3% y/y, based on the faster pace of growth of consumer loans (+5.5% y/y). However, housing loans continued to record negative growth rates (-2.6% y/y).

The pace of deposit growth accelerated to 6.9% y/y in November on the back of stronger growth for both corporates and households. The deposits of non-financial corporations surged by 8.0% y/y; deposits of households marked a 6.5% y/y increase.

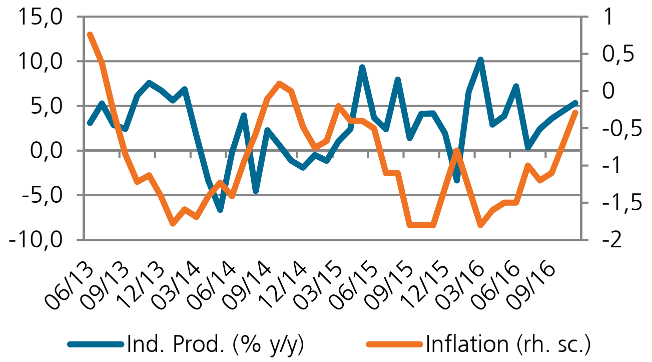
The total NPL ratio at the end of 3Q stood at 12.1%, which was unchanged q/q. The corporate NPL ratio remained at 15.0%; the household NPL ratio slipped by 0.1 pp q/q, to 8.8%.

Latest macroeconomic indicators

%	Last value	3Q 2016	2Q 2016
Industrial production, wda y/y	5.3 (Nov)	2.1	4.7
Export of goods, nominal y/y	15.1 (Dec)	1.7	5.8
Retail trade, real, wda y/y	7.2 (Nov)	7.2	4.4
Inflation rate, average y/y	-0.3 (Nov)	-1.1	-1.6
Loans (private sector, y/y, eop)	2.6 (Nov)	2.4	2.2
Deposits (private sector, y/y, eop)	6.9 (Nov)	6.6	5.9

Source: BHAS, CBBH

Industrial production and inflation



Source: Labour and employment agency

Croatia

Real Economy

Ivana Jovic

4Q16 data confirmed ongoing positive trends in the Croatian economy, as both domestic consumption and external demand continued to grow. Although real retail trade growth slowed to 2.7% y/y in November, strong growth in October (5.3% y/y), combined with an expected strong December, imply that personal consumption was stable (partly reflecting households' expectations regarding potentially rising net wages amid changes in the personal income tax rate as of 1 January 2017). At the same time, foreign demand strengthened as October goods exports increased by 6.1% y/y while preliminary data suggest solid growth in November, reflecting 7.2% growth in industrial production as well.

In line with expectations, deflationary pressures continued to diminish in 4Q16, as the CPI declined by 0.2% y/y in November and in December turned positive (+0.2% y/y) for the first time since early 2015. Thus, 4Q average CPI declined by only 0.2%, keeping the overall annual deflation rate at -1.1% in 2016, pointing to the possibility that this could be the last deflationary year for Croatia.

Financial Markets

Ana Lokin

The money market was calm in December, with ample liquidity, with two CNB foreign currency interventions, in which EUR 716mn was bought from banks, and a structural repo operation, via which HRK 48mn was placed with banks, which offered additional support to the kuna and prevented more exchange rate volatility. The average 3M Zibor in December dipped by 3 bps, to 0.85%, while the average EURHRK rate rose by 0.3% m/m, to 7.53. Liquidity surpluses are breaking records in January, which pushed 3M Zibor below 0.7%. Due to abundant liquidity amid weak market activity, the kuna is experiencing appreciation pressures, which pushed the rate down to 7.51.

Banking Sector

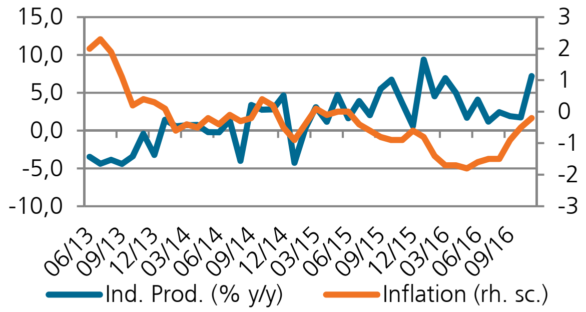
The private sector loan decline softened to 5.0% y/y in November based on slightly better performances from both corporates (-3.6% y/y) and households (-6.0% y/y). The breakdown of loans by currency shows that the surge in kuna lending continued and annual growth rate of kuna loans amounted to 17.7% in November. The private sector deposit growth rate stood at 2.3% y/y in November, unchanged from the previous month. Household deposits grew by 0.7% y/y, the same rate as in October, whereas deposits of non-financial corporations grew by 8.2% y/y, up from 7.9% in October. The total NPL ratio in 3Q declined by 0.3 pp q/q, to 14.7% (private sector: -0.1 pp, to 19.2%) based on a 0.1 pp q/q lower ratio in the household portfolio (11.1%), while corporate NPL remained unchanged at 30.0%.

Latest economic indicators

%	Last value	3Q 2016	2Q 2016
Industrial production, wda y/y	7.2 (Nov)	1.8	3.5
Export of goods, nominal y/y	6.1 (Oct)	1.5	3.1
Retail trade, real, wda y/y	2.7 (Nov)	4.7	3.3
ESI (index)	123.8 (Dec)	121.0	117.8
Inflation rate, average y/y	0.2 (Dec)	-1.3	-1.7
Loans (priv sector, y/y, eop)	-5.0 (Nov)	-6.0	-6.2
Deposits (priv sector, y/y, eop)	2.3 (Nov)	3.2	4.9

Source: CBS, EC, CNB

Industrial production and inflation



Source: EC

Egypt

Real Economy

Emil Eskander

The GDP growth rate increased to 3.4% in 3Q16 compared to 3% in 3Q15, according to a statement by Egypt's Government. The higher growth rate is mainly attributable to the increase in the value of implemented investments due to the improvement in the business environment and the development in national mega-projects. The investment rate in Egypt rose to 12.1% in 3Q16 from 11.3% a year earlier, due to the increased investment in both the public and private sectors.

Industrial production continued its weak performance, but at a lessening pace, registering a decrease of 0.9% (y/y) in November, positively affected by the shift of the Egyptian pound to a flexible regime. Previously, currency shortages had made it more difficult for producers to import raw materials and intermediate goods needed for production.

Financial Markets

The annual urban inflation rate jumped to 23.3% in December 2016 from 19.4% in November, mainly due to the hike in food and beverages prices, rising by 28.3% (y/y) in December, and the 32.2% increase in healthcare prices, along with a 23.2% (y/y) increase in transportation costs.

The Central Bank of Egypt kept its benchmark interest rates unchanged during its meeting on 29 December: the overnight deposit rate, overnight lending rate, and the discount rate remained unchanged at 14.75%, 15.75%, and 15.25%, respectively.

The EGP reached 18.52 per USD on average in December 2016, depreciating by about 109% since its flotation on 3 November 2016. Net International Reserves (NIR) recorded their highest level since 2011, reaching USD 24.3bn in December 2016, rising by 5.2% compared to November, supported by the increasing foreign currency inflows from portfolio investments and debt instruments.

Banking Sector

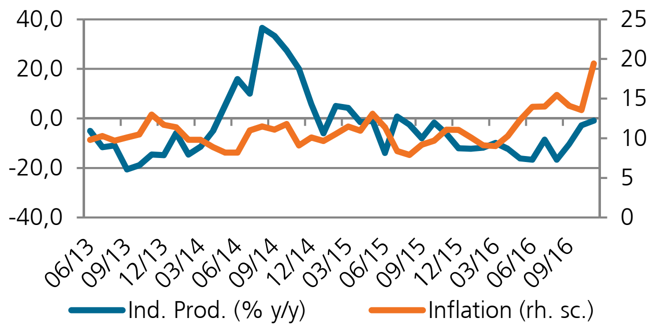
Total bank loans to customers reached EGP 964.8bn in September 2016, reflecting an increase of 1.4% compared to August 2016 (+25.7% y/y). Total loans to the private sector increased by 16% (y/y) in September 2016, to EGP 675.6bn, as total loans to corporates (representing 68.9% of total loans to the private sector) increased by 15.6% (y/y). On the other hand, total deposits reached EGP 2.2tn in September 2016, growing by 19.5% (y/y). Private sector total deposits recorded an increase of 17.9% in September 2016 (y/y), reaching EGP 1.75tn. Total household deposits (representing 78% of total private sector deposits) increased by 18.1% (y/y).

Latest economic indicators

%	Last value	3Q 2016	2Q 2016
Industrial production, wda y/y	-0.9 (Nov)	-11.8	-15.0
Nom exports y/y	12.0 (Oct)	8.0	0.2
Retail sales y/y	n.a.	n.a.	n.a.
Inflation rate y/y	23.3 (Dec)	14.5	12.2
CB reference rate	14.8 (24th Jan)	11.8	11.8
Loans (priv sector, y/y, eop)	16.0 (Sep)	16.0	15.2
Deposits (priv sector, y/y, eop)	17.9 (Sep)	17.9	18.8

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

Industrial production and inflation



Source: Ministry of Planning, CAPMAS

Hungary

Sandor Jobbagy

Real Economy

Industrial output dynamics remained weak in November. Output grew 0.6% y/y following two consecutive months of negative y/y shifts. In the January-November period, output rose by a mere 1.0%, a much lower dynamic compared to 2014-15. The recently released German indicators are encouraging in terms of external demand, but the industrial sector continues to contribute less to overall GDP growth compared to the preceding two years. The recovery of the construction sector continued as the prospects of the sector are getting brighter: the drawdown of EU funds and the acceleration of home-building are expected to have gained further momentum by the end of 2016. Retail sales dynamics were at close to 5%, reflecting the ongoing impact from rising real wages and the strengthening of the labour market.

Headline CPI jumped from 1.1% to 1.8% in December, leading to 2016 average inflation reaching 0.4% vs two consecutive years of negative average inflation. The low base, rising oil prices and partly the increasing domestic demand factor played a role in this result. Core inflation came in at 1.4% y/y, matching the 2016 average level. Inflation is expected to creep higher in the upcoming period, despite the selective VAT reduction, as domestic demand looks set to remain strong. Average 2017 CPI is expected to be above 2%. Inflation is not expected to hit the 3% medium-term target in a lasting way until 1H18.

Financial Markets

The NBH left the policy rate unchanged (0.90%) in December, but announced the end-1Q17 target for the 3M depo facility (HUF 750bn). The market adjustment is ongoing, but getting closer to its limit. Short-dated T-bill and money market rates are close to zero in some cases, as the NBH’s strategy is to channel liquidity to the interbank and FI markets. The long end of the yield curve has already begun to rise.

The forint has remained fairly stable recently, at close to EURHUF 310.

Banking Sector

Loans to the private sector continued to rise in November compared to the previous month, but were still down 5.1% in y/y terms, amid a temporary drop in the stock of loans to households. Deposits of both sectors rose in the month.

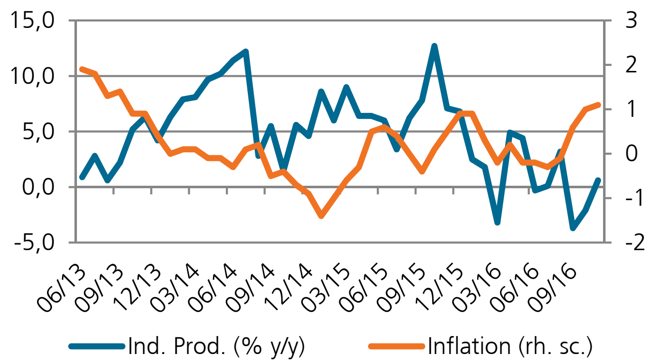
Real economic developments are lending support to the demand side of the loan market. Credit conditions continued to ease. Stronger loan demand from households is being driven by a recovery in the housing market and the increased appetite for personal loans. In the corporate sector, SMEs remain the main engine, with large corporates lagging in terms of loan demand.

Latest economic indicators

%	Last value	3Q 2016	2Q 2016
Ind production y/y	0.6 (Nov)	-0.1	3.0
Nom exports y/y	5.8 (Nov)	3.5	8.2
ESI (index)	112.4 (Dec)	109.7	108.5
Retail sales y/y	4.7 (Nov)	4.4	6.0
Inflation rate y/y	1.8 (Dec)	0.1	-0.1
CB reference rate	0.9 (24th Jan)	0.9	0.9
Loans (priv sector, y/y, eop)	-5.1 (Nov)	-4.6	-5.7
Deposits (priv sector, y/y, eop)	5.6 (Nov)	7.0	6.8

Source: CSO, NBH, Bloomberg

Industrial production and inflation



Source: CSO

Romania

Real Economy

Sebastian Maneran

Slowing growth, higher inflation, improved economic sentiment, and lukewarm industrial production can sum up the end of the year in the Romanian economy. GDP growth slowed in the third quarter to 4.3% y/y (from 6% in 2Q) as the international environment warranted caution and domestic productive investments were postponed so as to benefit from lower future taxes announced. December 2016 inflation advanced to -0.54% y/y from -0.67% y/y the previous month, as the VAT cut (from 24% to 20%) was partially offset by higher energy prices towards the end of 2016. Higher wages, lower VAT, and low funding costs led to strong private consumption (9% y/y), but also to a negative contribution to growth from net exports as imports grew by 10.2% y/y vs exports by 7% y/y. The unemployment rate reached the lowest level since the end of 2008, at 5.7%, while the number of unemployed decreased by 14.1% y/y in November, to 521,000.

Financial Markets

Expectations of higher inflation in the Eurozone and domestically have led to an upward move in the RON interest rate market. According to preliminary data, the Central Government Budget is built on a 5.2% growth assumption and a budget deficit of 2.99%. Given that the budget deficit is estimated to be the strongest driver of domestic inflation, and foreign inflation is also expected to grow, RON rates seem set to rise. Notwithstanding this, given the ECB's commitment to EUR interest rates at current or lower levels, it is unlikely that in the short term the Romanian central bank will tighten the main policy rate from the current level of 1.75%.

In the FX market, as is often the case, EURRON FX is pushed higher by budget payments which are delayed as late as possible. Moreover, the political noise surrounding the election outcome did not help RON value, so the EURRON FX rate stayed above the 4.5 level for most of December 2016 and flirted with the above-mentioned level for most of January 2017.

Banking Sector

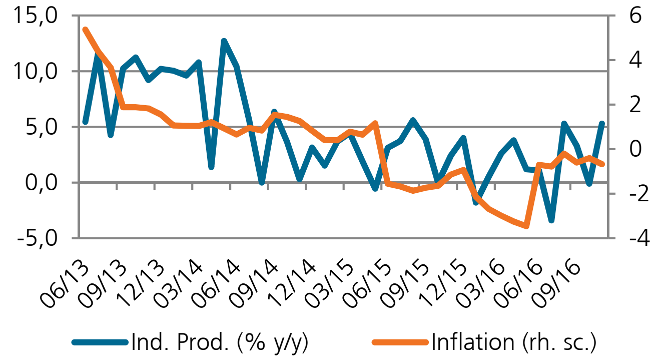
Low funding costs fueled total non-government credit creation in 2016 (+1.2% y/y), but the growth pace slowed compared to 2015 (+3% y/y). Local currency credit continues to post double-digit growth (+14.3% y/y in 2016) led by households (+25.6% y/y). FX credit continues to contract at a double-digit pace (-12.2% y/y in 2016), as households again (+15.1% y/y) led the corporate sector (-9.1% y/y). Deposit growth was fairly stable (+8.2% y/y in 2016 vs +8.6% y/y in 2015). Households' RON savings growth stood out (+13% y/y in 2016), as did the corporate sector's preference for RON savings (+6.4% in 2016) to the detriment of FX deposits (-3.7% y/y).

Latest economic indicators

%	Last value	3Q 2016	2Q 2016
Ind production y/y	5.3 (Nov)	1.7	2.0
Nom exports y/y	11.7 (Nov)	5.2	5.3
ESI (index)	104.1 (Dec)	103.5	103.2
Retail sales y/y	10.5 (Nov)	11.4	17.1
Inflation rate y/y	-0.5 (Dec)	-0.5	-2.5
CB reference rate	1.8 (24th Jan)	1.8	1.8
Loans (priv sector, y/y, eop)	0.4 (Nov)	0.5	0.6
Deposits (priv sector, y/y, eop)	11.2 (Nov)	10.8	11.7

Source: National Statistical Institute, NBR

Industrial production and inflation



Source: NBR

Russia

Real Economy

Anna Mokina

Rosstat has revised Russia's GDP for 2015 from -3.7% to -3.0%. As far as 2016 is concerned, according to preliminary forecasts, GDP is estimated to decline by 0.6%. Around 1.0% growth is expected for 2017. The industrial production index grew by 2.7% in November and by 3.2% in December (still preliminary estimates). This record level of the indicator in December is partially explained by the weather factor. Production and distribution of energy, gas and water were the main drivers of such growth. Annual inflation slowed from 12.9% y/y in 2015 to 5.4% y/y in December 2016. The slowdown is largely due to the high base effect in 2015. External factors also made their contribution to the slowdown: appreciation of the exchange rate, a decline in global food prices and a good harvest in Russia.

Financial Markets

After the OPEC decision on an oil production cut, quotations consolidated at the levels of USD 53-55/bbl of Brent, which gave the rouble the chance to maintain some stability at the beginning of December. In mid-December, the rouble updated its annual maximum and became a leader among emerging currencies, moving ahead of the Brazilian real. The US FED decision to review the "forward guidance" for three rate increases in 2017 instead of two didn't have significant impact on emerging markets currencies, as they depreciated by merely 1-1.5%. The decision of the Central Bank of Russia to leave the key rate and the rethoric unchanged allowed the rouble to appreciate in 4Q16. Taking into account the new presidential administration in the US, stronger dollar volatility might be expected in the next few months. With crude oil prices likely to remain around USD 55-57/bbl, the corridor of USD 59.0-60.5 looks viablefor the rouble in the near term.

Banking Sector

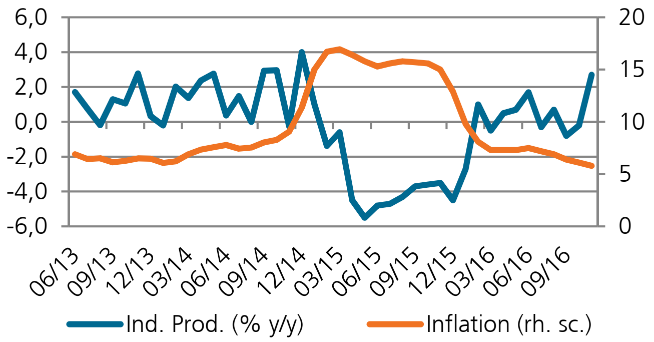
In October, banking sector assets shrank by 0.6% and the total volume of loans grew by 0.3% (with loans to non-financial organisations by 0.4% and to households by 0.2%). Interbank lending decreased by 2.3% to the resident banks, and increased by 1.8% to the non-resident banks. Household deposits in October grew by 0.2%. The volume of corporate deposits and funds on current accounts decreased in October by 1.4%. Although during the first three quarters of this year, the increment of households' funds put in bank as deposits slowed significantly, the aggregate propensity of households to save is still high. Loans to the private sector increased by 1.4% y/y and deposits by 3.4%. Low growth rates in lending are due to low demand from corporates and households and still-high (even if gradually declining) interest rates.

Latest economic indicators

%	Last value	3Q 2016	2Q 2016
Ind production y/y	2.7 (Nov)	-0.1	1.0
Nom exports y/y	4.9 (Nov)	-9.6	-25.8
Retail sales y/y	-4.1 (Nov)	-4.5	-5.9
Inflation rate y/y	5.4 (Dec)	6.8	7.4
CB reference rate	10.0 (30th Dec)	10.0	10.5
Loans (priv sector, y/y, eop)	1.4 (Oct)	0.9	6.4
Deposits (priv sector, y/y, eop)	3.4 (Oct)	3.9	12.9

Source: State Statistics Federal Service, Central Bank of Russia

Industrial production and inflation



Source: State Statistics Federal Service

Serbia

Real Economy

Branka Babic

The Serbian economy expanded by 2.6% y/y in 4Q16, according to the National Bank of Serbia in its first estimate for the period, with positive trends seen on both production and expenditure side. The NBS projects economic activity to grow by 3.0% y/y in 2017 and then to accelerate to 3.5% y/y in 2018 due to an improved business climate and macroeconomic stability, continued implementation of infrastructure projects, and gradual external and domestic demand recoveries as well. The inflation rate at the end of 2016 was 1.6%, slightly exceeding the lower bound of the new target tolerance band (3±1.5%). Inflation is expected to rise moderately and move within the range throughout 2017, driven by base effects, rising primary commodity prices and stronger demand.

Financial Markets

At its meeting in January 2017, the National Bank of Serbia decided to keep the key policy rate at 4.0%. The no-change base rate decision was guided by the inflation outlook and the effects of past rate cuts, but also by the prevailing uncertainties in international markets, especially after the Fed's rate hike in December 2016 and the announcement of further hikes during 2017.

In 2016, the dinar was relatively stable, supported by low inflation, solid FDI inflows, stronger exports and improved fiscal results. Occasional weakening of the local currency was mostly caused by the uncertainties in international markets, seasonal importers' increased demand for foreign currencies, servicing of foreign liabilities and foreign investors' reduction of exposure to government securities issued in the domestic market. During 2016, the NBS sold EUR 980mn and purchased EUR 820mn in order to mitigate the daily excessive fluctuations of the exchange rate. So far this year (up to 24 January), the NBS has sold EUR 210mn (more than one-fifth of the total amount sold in 2016), as depreciation pressures hit the market, as is frequent at the beginning of a new year.

Banking Sector

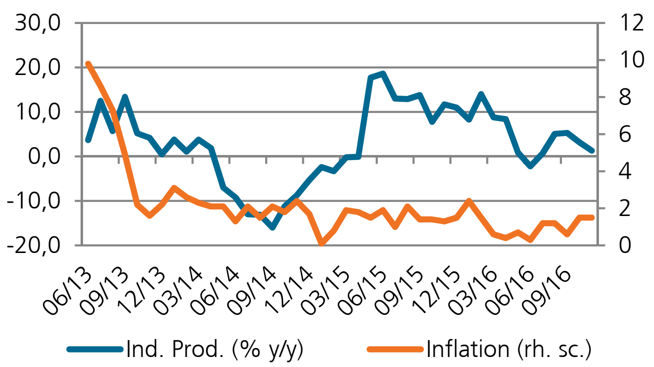
Loans grew by 4.4% y/y in November 2016, especially to households (10.5%), while in the corporate sector, lending rose only slightly (0.2%). Deposits continued to grow (12.0%), especially in the corporate sector (21.4%), while the household sector showed a lower increase (7.7%). As a consequence of these dynamics, the LDR dropped further, from 111% at end-2015 to 105% in November 2016. Further growth of credit activity in 2017 is expected, mostly on the back of past monetary easing, expansion of the economy, competition among banks in the market and declining NPL. In November 2016, the share of NPL amounted to 18.9% (vs 21.6% at end-2015).

Latest economic indicators

%	Last value	3Q 2016	2Q 2016
Ind production y/y	1.3 (Nov)	3.7	2.4
Nom exports y/y	19.8 (Nov)	10.1	9.0
Retail sales y/y	7.4 (Nov)	6.8	7.3
Inflation rate y/y	1.6 (Dec)	1.0	0.5
CB reference rate, eop	4.0 (24th Jan)	4.0	4.2
Loans (priv sector, y/y, eop)	4.4 (Nov)	6.0	4.7
Deposits (priv sector, y/y, eop)	12.0 (Nov)	12.2	9.6

Source: Statistical Office, National Bank of Serbia

Industrial production and inflation



Source: Statistical Office, National Bank of Serbia

Slovakia

Real Economy

Andrej Arady

The trend in domestic real activity followed on from previous months as 4Q unfolded. Published data on GDP imply 3.3%y/y average growth in 2016. In 2017, we expect a slight acceleration of GDP growth to 3.5% y/y, supported by a further acceleration of private consumption and higher investment activity in both the private and public sectors. This position is supported by the latest business surveys. Confidence among consumers at the end of 2016 was at its highest level in the post-crisis period. Confidence data for industry and construction in December showed significant improvement, signalling stabilisation in construction output and increasing activity in manufacturing at the beginning of 2017.

On the price front, at the end of 4Q, inflation finally turned positive after three years of being negative. The underlying trend remains the same as elsewhere in Europe, however: inflation adjusted for food and oil remained flat. In contrast, though, the Slovak economy is experiencing buoyant growth in property prices. In 3Q, average growth further accelerated to 5.4% y/y, the fastest pace since the boom in 2007, with prices for some types of properties in the capital city growing at a double-digit y/y pace. On average, however, property prices are still significantly lower than during their peak in mid-2008.

The labour market continues to tighten. The registered unemployment rate decreased in 4Q by another three-tenths of percentage point, to 8.8%, the lowest level since January 2009. Labour shortages had already emerged in late 2016. Key manufacturers in automotive now openly seek foreign workers, as they are running out of local labour. This new phenomenon will likely add further pressure on wages, which had already grown by 4% y/y in 3Q16 in real terms.

Financial Markets

On rates, the domestic yield curve stabilised at the beginning of this year, following previous steepening. Spreads on 10Y government bonds vs German bunds have hovered between 60 and 70 bps since December.

Banking Sector

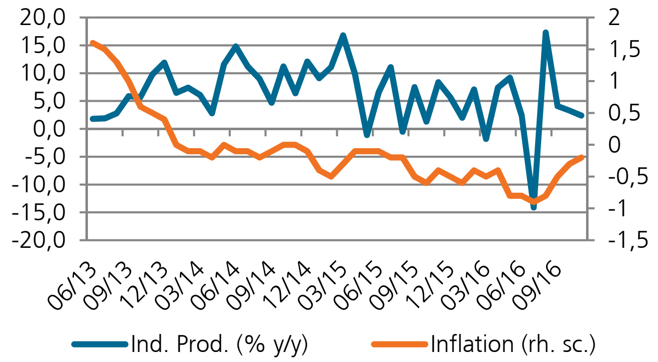
4Q16 has brought few changes to the banking sector. Buoyantly growing lending in the retail segment even accelerated as 4Q unfolded, with the volume of consumer loans growing nearly 17% y/y and mortgages by 8.1% y/y in November. Regarding rates, along with previous steepening of the yield curve in financial markets, the first signs of slightly increasing rates have appeared in the mortgage market in longer durations. fixations. Rates on consumer loans continue to fall towards the Eurozone average.

Latest economic indicators

%	Last value	3Q 2016	2Q 2016
Ind production, wda y/y	2.4 (Nov)	2.4	6.3
Nom exports, y/y	4.0 (Nov)	1.7	7.6
ESI (index)	102.7 (Dec)	103.0	99.1
Retail sales, y/y	3.9 (Nov)	0.9	3.4
Inflation rate, y/y	0.2 (Dec)	-0.7	-0.7
ECB refi rate	0.0 (24th Jan)	0.0	0.0
Loans (priv sector, y/y, eop)	9.4 (Nov)	9.6	7.3
Deposits (priv sector, y/y, eop)	5.8 (Nov)	7.6	8.2

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

Industrial production and inflation



Source: Statistical Office of Slovak Republic

Slovenia

Real Economy

Nastja Benčič

Thanks to positive price growth in the last quarter (in December, +0.6% y/y), average inflation in 2016 returned to positive territory (+0.2%). Higher food prices had the most significant impact on annual inflation.

Industrial production increased by 6.6% in October. In November, exports were higher by 3.8% y/y. In December, the Consumer confidence indicator reached the highest level in the past year (-9). The Economic sentiment indicator also improved through the year (the average for the last quarter was 109.6). An improvement in the general government balance could be seen in the first 10 months of 2016. Revenues were up y/y, particularly due to the improvement in labour market conditions. At the same time, expenditures were lower, mainly due to the fall in investment on the transition to the implementation of the new EU financial perspective. Other lines of expenditure rose with the partial easing of austerity measures and higher spending on goods and services.

Financial Markets

In the last month, the slight downward trend of short-term interest rates was confirmed. The 3M Euribor rate is currently moving around -0.32% and it is expected to remain in negative territory for an extended period. The yield on Slovenia's benchmark 10Y government bond continued to increase following the movements in the Eurozone bond market. Currently, the 10-year cost for borrowing has moved to 1.07% (20 January). The Republic of Slovenia decided to launch a new EUR 1bn March 2027 bond and a EUR 300mn tap of its outstanding 3.125% notes due August 2045. The Slovenian 5Y CDS spread decreased to 91.3 bps (20 January). Standard & Poor`s revised its outlook on Slovenia to Positive from Stable on robust economic growth. The country's A sovereign rating was confirmed.

Banking Sector

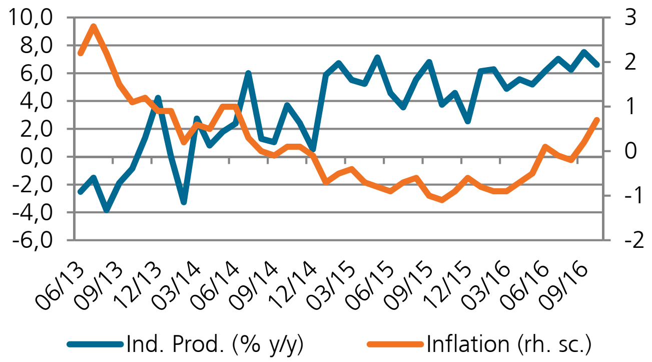
Despite the economic growth achieved, bank loan financing has remained modest. The growth of lending activity in November was negligible (+0.1% compared to October), and will not contribute much to the y/y growth, which remains negative (in November: -5.2%). Although loans to households continue to grow (+EUR 0.2bn y/y), loans to corporates continue to show a significant fall in volumes (-EUR 1.2bn). The quality of credit portfolios further improved in October (the share of NPL amounted to 6.3%). Growth in both household and corporate deposits continued in November (+7.7% y/y), despite historically low interest rates. With increases recorded mostly for overnight deposits, the maturity structure of bank liabilities has continued to deteriorate.

Latest economic indicators

%	Last value	3Q 2016	2Q 2016
Ind production, wda y/y	6.6 (Oct)	6.9	5.6
Nom exports y/y	3.8 (Nov)	4.2	5.5
ESI (index)	109.3 (Dec)	107.3	105.0
Consumer confidence indices	-9.0 (Dec)	-12.0	-17.3
Inflation rate y/y	0.6 (Dec)	0.0	-0.4
ECB refi rate	0.0 (24th Jan)	0.0	0.0
Loans (priv sector, y/y, eop)	-5.0 (Nov)	-6.8	-7.6
Deposits (priv sector, y/y, eop)	7.7 (Nov)	6.6	6.2

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

Industrial production and inflation



Source: Statistical Office of the Republic of Slovenia

Ukraine

Real Economy

Giancarlo Frigoli

Recent data releases in Ukraine confirmed that the Ukraine economy is on a clear recovery path after a long slump. GDP expanded by 2% y/y in the 3Q, the third positive reading for this number. Industrial production rose by 3.7% in November, accelerating from 1.1% in October and from 1.8% in the 3Q. Again in November, retail sales gained 3.9% y/y and construction activity reported a double digit increase for the fifth month in a row, jumping by 13.1%y/y. However, exports continued to show weakness, dropping by 5.2% y/y in November and by 8.7% in the 3Q. The fall in exports is a reminder of the problems still hounding Ukraine. The economy is unlikely to be able to enjoy a significant pick-up until the conflict in the east of the country, where important manufacturing activities are located, is resolved.

Financial Markets

The UAHUSD exchange rate rose above 27, its highest level since February 2016. The CB played down the renewed weakness of the currency, saying that it was related to seasonal fluctuations linked to export flows, and it intervened by selling dollars to support it. However, concerns related to the delay in the IMF financial support, the slow pace of reforms and the foreign policy of the new US president also weighed on the currency. After cutting the reference rate last October (to 14%, for a total of 800 bps in 2016), the central bank has remained on the sidelines waiting for inflation, which accelerated to over 12% in the last months of 2016 from a low of 6.9% last June, to resume a downward trend. According to a recent poll by Thomson Reuters, the central bank is expected to lower the reference rate to 11% by the end of this year, with inflation potentially slowing to 9%.

Banking Sector

Davidia Zucchelli

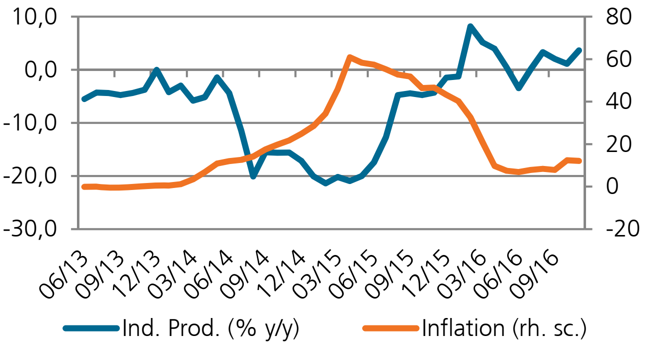
Banking aggregates remain very weak. Nominal loans decreased by 4.7% y/y in November (from -2.5% in October) both in the corporate (-2.9% y/y) and in the household (-12.1%) sector. Net of the exchange rate effect, loans showed a decline of 8%. Deposits experienced a nominal increase (6.7% y/y in November, but +3.3% net of the exchange rate) supported by a slight improvement in the unemployment rate, particularly in local currency (+12.8% y/y). The growth in household deposits (6.4% y/y) points to growing public confidence in the banking sector. In November 2016, the banks' regulatory capital increased to UAH 138bn (from UAH 136bn in October) owing to the implementation by banks of recapitalisation programmes, but the Regulatory Capital Adequacy Ratio decreased slightly, from 13.78% to 13.71%. Because of the crisis, many banks have been closed or have merged: licensed banks declined from 116 in January 2016 to 98 in November, but banks with 100% foreign capital remained stable at 17. According to the CB, by the end of 2017, the number of banks will decline further, to 75-80. The Russian VTB Bank, among Ukraine's biggest bank, which saw a negative ROA (-32.3%) in the first nine months of 2016, announced it was maintaining plans to leave the country. In 2017, the share of foreign and state-owned banks (including nationalised PrivatBank) is expected to continue to grow (up to 82-85%), while that of local and Russian banks to decline.

Latest economic indicators

	Last value	3Q 2016	2Q 2016
Ind production y/y	3.7 (Nov)	1.8	0.4
Nom exports y/y	-5.2 (Nov)	-8.7	-11.7
PMI manufacturing	n.a.	n.a.	n.a.
Retail sales	3.9 (Dec)	4.6	7.2
Inflation rate y/y	12.4 (Dec)	8.1	8.1
CB reference rate	14.0 (30th Dec)	15.0	16.5
Loans (priv sector, y/y, eop)	-4.7 (Nov)	0.7	-7.7
Deposits (priv sector, y/y, eop)	6.7 (Nov)	12.1	4.7

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

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*. ch.yoy			Export nom. ch yoy			Inflation chg yoy				FX reserves chg (mln €)**			CA bal. (mln ▯)***	
	3Q16	2Q16	2015	Last	mth	3Q16	Last	mth	3Q16	Last	mth	3Q16	2015	3Q16	2Q16	2015	3Q16	2Q16
CEE																		
Slovakia	3.0	3.8	3.8	2.4	Nov	2.4	4.0	Nov	1.7	0.2	Dec	-0.7	-0.3	n.s.	n.s.	n.s.	n.a.	-41
Slovenia	2.7	2.8	2.3	6.6	Oct	6.9	3.8	Nov	4.2	0.6	Dec	0.0	-0.8	n.s.	n.s.	n.s.	743	757
Hungary	2.2	2.8	3.1	0.6	Nov	-0.1	5.8	Nov	3.5	1.8	Dec	0.1	-0.1	-1124	-2766	-4256	1289	1767
SEE																		
Albania	3.1	3.2	2.6	n.a.	n.a.	n.a.	22.6	Dec	2.4	2.2	Dec	1.9	1.8	-56	0	2480	-208	-354
Bosnia H.	2.4	1.2	3.1	5.3	Nov	2.1	16.6	Nov	1.7	-0.3	Nov	-1.1	-1.0	344	92	399	-107	-219
Croatia	2.9	2.8	1.6	7.2	Nov	1.8	6.1	Oct	1.5	0.2	Dec	-1.3	-0.5	102	-262	1019	3345	157
Romania	4.6	5.9	3.7	5.3	Nov	1.7	11.7	Nov	5.2	-0.5	Dec	-0.5	-0.6	n.a.	n.a.	-3990	-3	-2507
Serbia	2.6	1.9	0.8	1.3	Nov	3.7	19.8	Nov	10.1	1.6	Dec	1.0	1.4	167	-121	171	-299	-297
CIS MENA																		
Russia	-0.4	-0.6	-3.0	2.7	Nov	-0.1	4.9	Nov	-9.6	5.4	Dec	6.8	15.8	3005	484	-18340	404	1666
Ukraine	2.0	1.4	-9.9	3.7	Nov	1.8	-5.2	Nov	-8.7	12.4	Dec	8.1	48.5	525	-525	5741	-1761	523
Egypt	3.4	4.5	3.5	-0.9	Nov	-11.8	12.0	Oct	8.0	23.3	Dec	14.5	10.4	2046	985	1112	-4983	-4190
m.i. E. A.	1.6	1.6	2.0	3.2	Nov	1.2	6.0	Nov	0.4	1.1	Dec	0.3	0.0					

Source: Datastream, Reuters, Bloomberg; *Wda data for Slovakia, Slovenia; Bosnia, Croatia, Egypt; **USD for Russia, Egypt, Ukraine, Romania; ***USD for Russia, Egypt, Ukraine

Markets and Ratings

	S/T rates*		L/T rates**		Foreign exchanges***			Stock markets		CDS spread (bp)		Rating
	20/01	chg bp 3M	20/01	chg bp 3M	20/01	3M chg%	1Y chg%	3M chg%	1Y chg%	20/01	20/10	S&P
CEE						Vs Euro						
Slovakia	-0.3	0.0	1.1	0.7	Euro	Euro	Euro	0.4	2.5	39.3	38.0	A+
Slovenia	-0.3	0.0	1.1	0.5	Euro	Euro	Euro	-0.3	10.9	91.3	93.9	A
Hungary	0.3	-0.5	3.4	0.6	308.5	0.5	-2.2	12.1	44.5	108.6	111.7	BBB-
SEE												
Albania	1.2	0.3	n.a.	n.a.	136.7	-0.1	-1.1	n.a.	n.a.	n.a.	n.a.	B+
Bosnia H.	n.a.	n.a.	n.a.	n.a.	1.96	Board	Board	n.a.	n.a.	n.a.	n.a.	B
Croatia	0.7	-0.2	3.0	-0.2	7.5	0.5	-1.7	6.6	32.2	192.6	195.7	BB
Romania	0.6	0.1	3.4	0.4	4.5	-0.2	-0.9	5.5	20.2	94.9	95.8	BBB-
Serbia	4.0	0.0	n.a.	n.a.	123.8	0.6	0.7	10.5	35.4	201.6	201.9	BB-
CIS MENA						Vs USD						
Russia	10.5	-0.1	8.1	-0.3	59.4	-5.2	-24.4	10.6	38.7	170.5	208.2	BB+
Ukraine	17.9	-0.4	9.7	0.0	27.4	6.8	12.0	14.5	53.1	663.7	13957.0	B-
Egypt	19.2	5.1	17.5	0.1	18.8	112.2	140.6	46.5	158.0	444.7	479.8	B-
m.i.A.E.	-0.3	0.0	0.4	0.5	1.1	-2.3	-2.0	5.7	12.6	12.7	8.1	

Source: Datastream, Reuters, and Bloomberg* The data for Albania refers to October **For Ukraine, the long-term rate refers to a government issue in dollars; *** The (-) sign indicates appreciation. Sources: Thomson Reuters-Datastream, Bloomberg

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	2015	Last	mth	2015	Last	mth	2015	Last	Mth	2015	Last	mth	2015	S*	Last	mth	2015	S*	Last	mth	2015
CEE																							
Slovakia	9.4	Nov	8.7	4.8	Nov	5.1	-5.0	Nov	1.1	5.8	Nov	9.9	2.6	Nov	2.83	C[2]	0.52	Nov	0.75	H[2]	95.6	Nov	90.0
Slovenia	-5.0	Nov	-5.2	6.3	Oct	9.9	-17.0	Nov	-20.7	7.7	Nov	5.8	3.06	Nov	3.45	C[2]	0.19	Nov	0.28	H[2]	80.6	Nov	89.2
Hungary	-5.1	Nov	-12.3	11.3	Sep	13.7	-14.2	Nov	-8.1	5.6	Nov	7.5	3.49	Nov	4.1	C	0.49	Nov	1.0	A	87.1	Nov	90.8
SEE																							
Albania	-0.1	Nov	-2.6	20.4	Nov	18.2	-13.4	Nov	-14.4	2.3	Nov	1.0	12.09	Nov	8.35	A	0.69	Nov	1.27	H	53.8	Nov	54.2
Bosnia H.	2.6	Nov	2.2	12.1	Sep	13.7	-11.6	Nov	-11.7	6.9	Nov	7.8	5.11	Nov	4.99	C	0.66	Nov	1.06	H	110.8	Nov	114.4
Croatia	-5.0	Nov	-3.1	14.7	Sep	16.6	-37.3	Nov	-25.1	2.3	Nov	6.4	4.46	Nov	5.08	C	1.31	Nov	2.15	H	81.5	Nov	86.5
Romania	0.4	Nov	2.7	10.0	Sep	13.5	-14.5	Nov	-10.2	11.2	Nov	9.1	3.66	Nov	4.32	C	0.91	Nov	1.48	H	87.3	Sep	85.4
Serbia	4.4	Nov	3.0	18.9	Nov	21.6	-16.2	Nov	-6.3	12.0	Nov	7.1	6.04	Nov	6.24	C	3.28	Nov	4.17	H	105.4	Nov	111.4
CIS MENA																							
Russia	1.4	Oct	8.2	9.8	Nov	8.3	-1.4	Jun	-0.8	3.4	Oct	18.8	12.07	Oct	13.8	C	6.01	Oct	8.43	H	108.6	Oct	108.1
Ukraine	-4.7	Nov	-3.8	31.0	Sep	28.0	-10.0	Oct	6.3	6.7	Nov	1.5	23.35	Nov	26.09	R[3]	16.43	Nov	20.06	R[3]	141.1	Nov	146.3
Egypt	16.0	Sep	18.0	5.9	Jun	6.8	106.7	Sep	91.6	17.9	Sep	20.4	13.9	Oct	11.8	C	8.2	Oct	6.8	H	38.5	Sep	38.8
m.i. E. A.	0.6	Oct	0.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.5	Oct	3.2	1.3	Oct	1.6	C	0.4	Oct	0.6	H	82.6	Oct	83.6

Source: Central Banks, IMF, Moody's ;[1]monthly average; [2]lending rate on current account overdraft; on deposits up to 1 year; [3]does not include banks
*Sector A=All, C=Corporates, H=Household, PS=Private Sector, R=Residents.

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