Forecast Note
Countries with ISP Subsidiaries

March 2016

Quarterly note

Intesa Sanpaolo

International Research Network

GDP growth forecast confirmed for the CEE/SEE area, but downward revised for the CIS. Easy monetary stance seen in 2016 and 2017. More flexible exchange rate in Egypt following the recent depreciation.

GDP growth in 2015 (higher than previously expected) together with the most recent high frequency indicators (pointing to a slight economic slowdown in the current year) support the recovery path on average anticipated in the December forecasts, that is a deceleration of the activity for the CEE/SEE region in 2106 along a trend which remains of gradual recovery. Both pieces of information show weaker economic conditions in the CIS countries and in Egypt.

In detail, in the CEE area, the forecast for the GDP growth rate has been confirmed at 2.5% in 2016 (after 3.1% recorded in 2015) and set at 2.6% for 2017, while in the SEE region it has been revised slightly upwards to 2.9% (2.8% in 2015) and set at the same rate for 2017. In the other areas with ISP subsidiaries, GDP in Russia is also forecast to fall in 2016 (-1.5%), before recovering at a 1% rate in 2017, due to a lower than previously expected profile of oil prices, and revised downward (to 3.3% in 2016) in Egypt, due to a fall in expected revenues from tourism and delays in the investment plans announced by the government last spring.

Monetary policy is confirmed as easy in 2016-2017 among CEE/SEE countries, with money market rates generally stable on recent lows or falling further (in Hungary and Serbia). The forecast is supported (directly for Slovakia and Slovenia and indirectly for non-EA EU countries) by the ECB decisions to strengthen the QE programme and by local trends in the inflation rates. In the CIS area, easing inflationary pressures should lead to new rate cuts in the near future in Russia and (even if to a lower extent) in Ukraine. In Egypt, money rates are expected to increase further in 2016, amid high inflation and possible further tensions in the currency market.

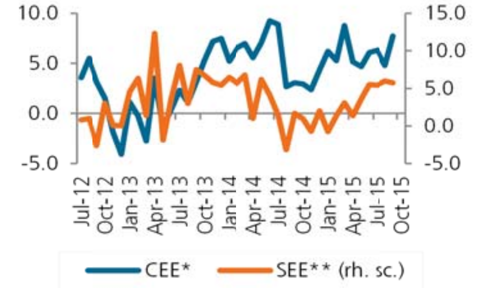
Long-term rates are seen to remain generally low in 2016 and start moving upwards later in the year in the CEE/SEE region on expectations of economic cycle consolidation and reversal of inflationary trends. On currency markets, the RUB/USD exchange rate is forecast to post a smaller-than-expected rebound, due to a downward revision of the future oil price profile. The high inflation differential with the main trade partners will continue to weigh on the hryvnia. In a context of more flexible currency management, further adjustments of the EGP are likely in order to keep the real effective exchange rate on a sustainable path.

The trend in loans is forecast to show signs of timid recovery in the CEE/SEE region. Loans' profile is still affected, however, on the demand side by weak domestic dynamics of private investments and by the deleveraging process in the private sector, and on the supply side by the burden of NPLs and by deep portfolio restructurings in some countries. In the CIS area, loan growth is still forecast to stay below the rate of inflation both in Russia and especially in Ukraine. In Egypt, the forecast for 2016 (+13.5%) is positive in real terms, but remains well below the nominal GDP dynamics. Deposits are forecast to continue on a quite positive trend in nominal and real terms in all the countries and generally above the loans' dynamics. The loans/GDP and loans/deposits ratios are therefore generally expected to decline further.

Industrial production % y/y

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

Industrial production % y/y



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

The figures in this document have been updated to 21 March 2016.
See the final page for important information.

Contents

ALBANIA
INTESA SANPAOLO BANK Albania

ROMANIA
INTESA SANPAOLO BANK Romania

CROAZIA
PRIVREDNA BANKA ZAGREB

SLOVENIA
BANKA KOPER

BOSNIA-ERZEGOVINA
INTESA SANPAOLO BANKA Bosna i Hercegovina

SERBIA
BANCA INTESA Beograd

RUSSIA
BANCA INTESA

UCRAINA
PRAVEX-BANK

UNGHERIA
CIB BANK

EGITTO
ALEXBANK | بنك الإسكندرية

SLOVACCHIA E REPUBBLICA CECA
VÚB BANKA

This note has been coordinated by Gianluca Salsecci. The names of the authors are reported in the individual 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 CSI countries; and Egypt among MENA countries.

Cross-country Forecast

Recent developments

Gianluca Salsecci, Giancarlo Frigoli, Antonio Pesce and Davidia Zucchelli

In 4Q15, the GDP profile accelerated in the CEE area and further consolidated in the SEE region. In the former area, GDP grew at a remarkable speed in all three countries with ISP subsidiaries – that is, in Slovakia (4.3% yoy, after 3.7% recorded in 3Q15), Hungary (3.2% yoy from 2.4% yoy in 3Q15) and Slovenia (3.2% yoy from 2.4% in 3Q15), generally supported by public investments related to EU structural funds.

The economic growth picked up in the CEE are consolidated in the SEE area in 4Q15

In the SEE area, GDP picked up in Romania (3.7% yoy from 3.6% in 3Q15), but decelerated in Croatia (1.9% yoy from 2.8% in 3Q15) and in Serbia (1.2% yoy from 2.3% in 2Q15); in the latter two cases, however, consolidating the recovery trend following a (long, in the case of Croatia, and temporary, in the case of Serbia) recessionary phase.

The business cycle indicators generally receded in January among both CEE and SEE countries, signalling expectations of some economic deceleration in 2016 in comparison with 2015.

Further inflation slowdown has supported further cuts in monetary rates in Albania, Serbia and Hungary

The February data on consumer price inflation remained negative in Slovakia and Slovenia among the CEE countries and in Bosnia, Croatia and Romania among the SEE countries. CPI data also showed remarkably low values in Hungary (0.3%), Albania (0.2 yoy) and Serbia (1.5% yoy), well below the target intervals set by the central banks. Low inflation is still supported by new lows for energy prices and weak pressure from domestic demand.

All the central banks of the CEE/SEE countries with ISP subsidiaries maintained easy monetary conditions in 4Q15 and so far in 2016 by keeping unchanged or further reducing the reference rates. This was the case for Albania, Serbia and Hungary, but also for Slovakia and Slovenia (via the ECB, which also strengthened its QE measures). In Hungary the MNB, which brought the benchmark rate to 1.2%, was also the first central bank in the non-EA CEE/SEE region to lower its overnight deposit rate to negative values (-0.05%). Exchange rates remained quite stable in the whole region, with just a slight appreciation in the last three months (around 1%, on average) in Hungary, Croatia and Albania and depreciation (also around 1%) in Serbia.

The recovery of the rouble eased inflation concerns. A less weak economy in Ukraine

In the CIS region, in Russia, the partial recovery in the oil price, after the deep further fall that occurred in January, boosted the rouble exchange rate, which in March fell back below 70 against the USD for the first time since last December. The recent correction of the currency is good news for inflation, which in February had slowed to 8% year-on-year, its lowest level since August 2014. Subsiding inflation concerns might lead the central bank to resume the easing cycle that has been stalling since last August, when the main policy rate was cut by 50 bps, to 11%. The statement accompanying the March policy meeting was less hawkish than the previous one and the CBR dropped any mention of monetary tightening. In Ukraine, annual inflation slowed to 32.7% in February from 40.3% in January (with core inflation falling to 25.1% from 31.3% in the same period). Activity data were weak at the start of this year. In January and February, agricultural production, a sector that has a significant weight in the economy, was down by 2.1% yoy while retail sales eased by 0.7% yoy. Industrial production fell by 1.6% on the year in January. Again in January, retail sales edged higher (+0.1%).

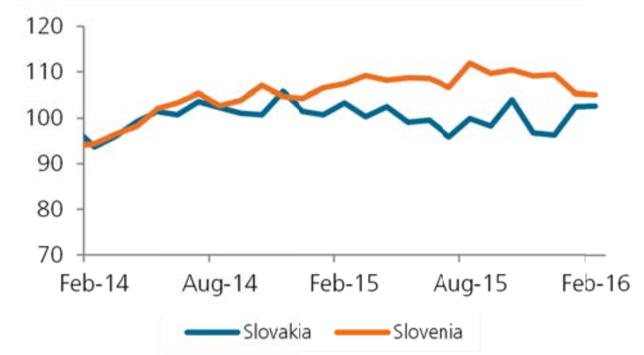
In the MENA region, in Egypt, industrial production tumbled by 10% yoy in December (by 6.2% in Q415). This decline mainly reflected the slide in tourism-related activities in the final months of 2015. From October to December, tourist arrivals were 28.8% lower than in the same period in 2014. The negative impact on the economy of currency shortage, the widening of the spread between the official and unofficial exchange rates, and pressure on official reserves forced the authorities to devalue the currency in March (by 14.5% against the US dollar). The large devaluation is expected to fuel new inflationary pressures, with the annual CPI returning to double digits (in February, the yoy CPI rate was 9.1%). In order to anchor inflation expectations at its March's meeting, the central bank hiked the policy rate by 150 bps (the overnight discount and lending rates were increased to 11.25% and to 11.75%, respectively).

With reference to **banking aggregates, loans** still decelerated both in the CEE and in the SEE area as of January. In Slovenia (-6.1% in January from -5.2% yoy in December), the banking sector's recovery is still lagging behind the macroeconomic recovery, due to ongoing asset quality issues, which have yet to be fully resolved. In Croatia, a fragile dynamic was also confirmed in January (-5.7% yoy from -3.1% in December). In Serbia, private sector loans decelerated at +0.9% yoy in January (from +3.0% yoy last December). **Deposits** were, in contrast, resilient, particularly in Romania (9.6% yoy in January) and Slovakia (+9.4%).

In the CIS area, positive changes in the main banking aggregates were simply due to the accounting effects of the exchange rate depreciation. In Russia, loans rose nominally by c.9% in November, but net of fx effects, they are estimated to have decreased by 1.4%. In Ukraine, where the banking sector is under particular stress, loans decreased by -3.8% in December, but net of the fx depreciation, they fell by 35%. Deposits increased by 1.5% yoy (but fell by 24% net of fx depreciation), due to a decrease in remittances and a lack of confidence among savers. Nonperforming loans rose to over 28% in December, putting further pressure on capital.

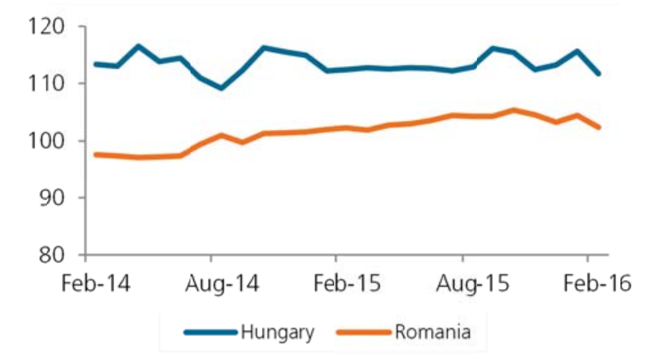
In January, **foreign liabilities** continued to decline at a considerable rate, both in some CEE countries (in Slovenia, -21.9%) and in some SEE countries (in Croatia, -27.7%, and in Albania, -15.9%). Among CEE countries, foreign liabilities grew, however, in Slovakia (+1.1%), but showed a further decrease in Hungary (-8.1% yoy). In Russia, they increased nominally by 1.1% in November (but fell by 50% yoy net of exchange rate depreciation). Similarly, in Ukraine, the trend in foreign liabilities was also positive in nominal terms (6.3% yoy in December), but concealed a strong decrease net of the exchange rate effect (-46%). On the liability side, in several cases, the decrease in foreign funding was partly offset by the resilience of deposits.

Economic Sentiment Indicator



Source: European Commission

Economic Sentiment Indicator



Source: European Commission

The International Outlook Underlying the Scenario

A more modest recovery for the world economy…

Performances of major economies. The profile of economic activity in the world economy this year and in 2017 is projected to be weaker than previously expected, especially in emerging economies. The growth picture of the US economy remains positive, although the latest FOMC marginally lowered forecast growth at the end of 2016 (to 2.2% from 2.4%) and in 2017 (to 2.1% from 2.2%), mainly reflecting weaker than previously expected GDP in 4Q15. Also, the growth profile of the Euro area is now seen to be weaker than in the previous forecasts, with GDP growth in 2016 seen at the 1.5% rate recorded last year and in 2017 only rising by a modest 1.6%.

…following weaker than previously expected growth in emerging economies

The slowdown of demand in Asia (following the rebalancing of activity in China), the deeper than previously forecast fall in prices of commodities (affecting all the commodity exporting countries), and the increase of external funding costs (mainly related to the gradual monetary policy tightening in the US) continue to negatively affect the outlooks for emerging economies. While in Asia the growth projections have been confirmed, with GDP in China expected to slow to 6.1% this year and to 6.3% in 2017 (from 6.9% in 2015), weaker growth is now forecast in those regions of the world that are more influenced by the negative commodity cycle and by domestic and geopolitical tensions. This is the case for Latin America, where in Brazil GDP is expected to post a new large decline (-3.5%) this year and to stall in 2007; for the MENA region, where a sharp slowdown is forecast in Saudi Arabia and other GCC economies; and for Sub-Saharan Africa, where the fall in commodity prices is taking its toll on large oil-exporting countries such as Nigeria and Angola, and the drought conditions have been hitting agricultural output of many African countries, including South Africa.

ECB becoming more supportive. A dovish Fed statement in March

Monetary policies of the major central banks. At its March meeting, the ECB took additional easing measures aimed at counteracting higher deflationary risks. In detail, the European Central Bank cut official rates (the marginal lending rate was lowered to -0.25%, the refi to 0.0%, and the deposit rate to -0.4%), announced the increase in the APP monthly purchase target to EUR 80bn a month (effective in March 2016) and announced that, starting from June 2016, it will extend the APP to purchases of corporate bonds. Finally, the ECB reinforced the forward guidance policy explicitly saying that rates will remain "at present or lower levels for an extended period of time, and well past the horizon of our net asset purchases".

The message sent by the FOMC's March meeting was dovish on the whole, but also confirmed flexibility in the face of evolving data and financial conditions. The FOMC reduced the expected number of rate hikes in 2016 (from four to two), confirmed four in 2017, and forecast five in 2018, with the Fed fund rate rising to the 3-3.25% range in the longer term. It also lowered the neutral rate level to 3.25% from 3.5%. Lower than previously expected policy rates in the US are good news for several emerging economies, in particular those with large external requirements (such as Turkey and South Africa) or with currencies pegged to the USD (eg, GCC).

Economic Outlook

GDP growth and inflation

In the CEE/SEE area, the GDP dynamics seen in 4Q15 (generally higher than previously expected) and the signals sent by the high frequency indicators released so far (essentially incorporating expectations of slight economic slowdown this year) support the recovery path on average anticipated in the December forecasts for the whole region.

In the CEE area, the GDP growth rate is confirmed at 2.5% in 2016, following the 3.1% recorded in 2015 (above our expectations of 2.9%). The deceleration is partly related to a lower contribution of EU fund related public investments (affecting domestic demand) and to a stalling of the EA economy (affecting exports). Growth in the region is seen to slightly accelerate again in 2017, to 2.6%, thanks to the expected (even if modest) strengthening of the Euro area economy and to new private investment projects announced in Slovakia.

Broad consolidation in CEE area and further acceleration in SEE area of GDP growth in 2016 with respect to previous forecasts

In the SEE area, the GDP forecast has been revised slightly upwards for 2016 (to 2.9% from 2.7% in December), mainly due to a higher than previously forecast GDP profile occurring in Romania (+3.7% in 2015) positively affecting GDP growth for the whole region (2.8% in 2015 against the previously forecast 2.6%). Within the area, GDP growth is expected to decelerate in Bosnia, to 2.5%, and in Croatia, to 1% (in line with CEE countries), but to accelerate in Serbia, to 1.8%, in addition to Romania, to 3.8%, on the back of fiscal easing. The growth path of the region is forecast to consolidate in 2017 at 2.9%.

In the CIS area, the previously forecast recovery in GDP growth in 2016 has been confirmed in Ukraine (+1.5%), while for Russia, the economy is now expected to contract further (-1.5% with respect to the previously expected 0%), mainly following lower than previously anticipated energy prices.

In the MENA area, the growth profile has been lowered for Egypt for the second consecutive time (GDP growth is now forecast to slow to 3% in fiscal year 2016 from 4.2% in 2015), as recent data on current activity and forward looking indicators have provided new evidence that the plunging tourist arrivals and the delays in the realisation of the ambitious investment plans announced by the government last spring are taking their toll on the economy.

Inflation rates are forecast to gradually reverse their course in 2016-2017 in the CEE/SEE area, even if at a lower speed than previously expected, after the deep deceleration which occurred in the first months of 2016, in line with the Euro area, where the ECB has lowered its inflation forecasts for 2016 to 0.1% from the previous 1% (with respect to 0% recorded in 2015). Inflation is nevertheless forecast to remain for a while well below the lower limits of the ranges set by the central banks, still supporting highly accommodative monetary policies in the whole region.

In the CIS countries, the latest inflation numbers point to a lower than previously forecast inflation profile in Russia, but to a slower than previously expected fall in Ukraine. In Egypt, the large devaluation of the currency in March and the expected revision in price subsidies are likely to keep inflation in double-digits this year and in 2017.

Monetary policy and the financial markets

Monetary policies are still accommodative

The forecast of an expansionary stance of **monetary policies** is confirmed in CEE and SEE countries in 2016, with money market rates forecast to remain generally on recent lows or falling further, as in the case of Hungary and Serbia. The forecast is supported (directly for Slovakia and Slovenia, members of the EA, but also indirectly for the other countries) by the recent decisions adopted by the ECB which strengthened the QE Programme (see above). It is also supported by local trends in inflation rates, which as stated are forecast to only slightly reverse while remaining below the targets set by central banks.

In the CIS area, easing inflationary pressures and the recent recovery of the currency should also lead to new rate cuts in the near future in Russia, with the MOSPRIME now seen ending this year at 10%. Notwithstanding the renewed pressures on the currency, we also continue to see lower money rates in Ukraine. In Egypt, we still expect increasing money market rates in 2016, amid high inflation and in order to avoid further deep tensions in the currency market, before new cuts are undertaken in 2017.

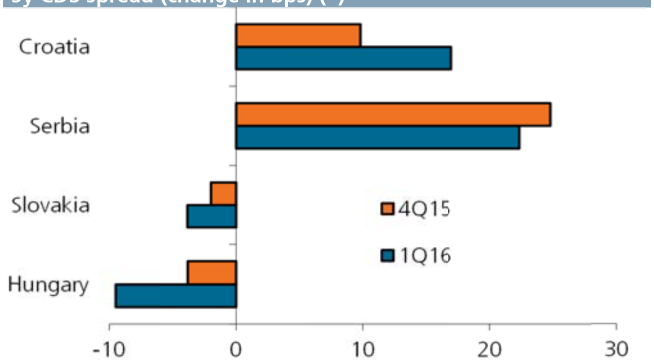
Long rates are expected to remain low in 2016 on average, but start moving upwards during the year

Long-term rates, which generally fell in 2015 in CEE and SEE countries, are forecast to remain generally low in 2016 and to start moving upwards later in the year on the grounds of expected cycle consolidation and reversal of inflationary trends. Progress towards financial stabilisation has supported a drop in long-term rates in Russia and Ukraine. Most of this process seems to have run its course in both countries.

Exchange rates generally stable in CEE and SEE countries. Tensions are easing in CIS area

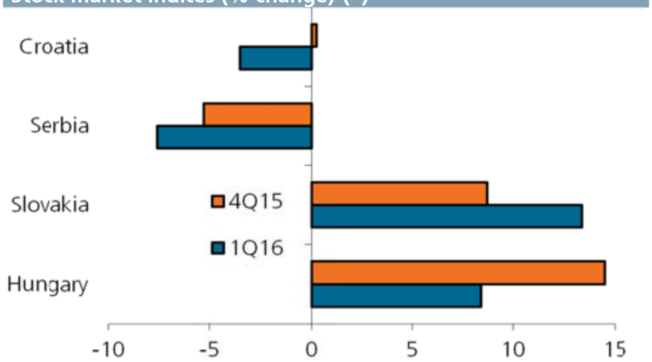
Exchange rates are forecast to remain essentially stable at current levels in 2016 in the CEE/SEE area. In the CIS area, we see the rouble regaining only a minimal share of the value it lost in 2014 and 2015 helped by the recovery in oil prices. Low oil prices and capital outflows will continue to weigh on the Russian currency. The Ukrainian hryvnia is instead forecast to follow a further gradual depreciating path just to counterbalance the ongoing appreciation of the real effective exchange rate due the persistently high inflation differential with the main trade partners. In Egypt, notwithstanding the recent large devaluation, the competitive pressures, the low levels of foreign exchange reserves, and the more flexible management of the exchange rate announced by the authorities point to further currency adjustments on the forecast horizon.

5y CDS spread (change in bps) (*)



Source: Bloomberg.(*) 1Q16 up to 18.03.2016

Stock market indices (% change) (*)



Source: Thomson Reuters. (*) 1Q16 up to 18.03.2016

Aggregates and bank rates

Loan performance expected to recover slightly

Loans to the private sector in CEE/SEE countries are forecast to increase in 2016 in many countries - with Croatia (-3.8% yoy) and Hungary (-2.5%) the only remaining exceptions – owing to the economic recovery. Loans remain affected, on the demand side, by weak domestic demand, especially for investments, and by the deleveraging process occurring in the private sector, particularly in Slovenia. In addition, on the supply side, the burden of NPLs and the process of portfolio restructuring are issues in several countries (Serbia, Albania and Hungary). In Croatia, the loans profile in 2016 will also be affected by the implementation of the conversion process of Swiss franc-denominated loans into euros which started in 2015.

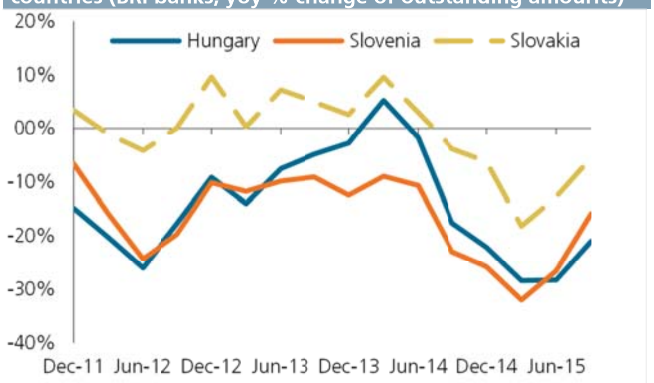
In Slovenia, the largest (public) banks are still in the process of restructuring their loan portfolios. After a decline of 17.4% in 2013 and 13.4% in 2014, due to the NPLs' transfer from the largest banks to the BAMC, a further decrease of stocks occurred in 2015 (-5.2%) and a weak recovery is expected in 2016 (+0.5%). In Hungary, after a fall by 12% in 2015 – partly due to the adjustments related to legal sentences concerning the (retroactive) provisions on the banks' past unilateral interest increases and on bid/offer spreads – a decrease of 2.5% is also expected in 2016.

Aggregates in the CIS area expected to remain weak

After a very weak trend net of the foreign exchange effect in 2015 in the CIS area, a weak loan recovery is forecast in 2016, albeit still below the rate of inflation in Russia and especially in Ukraine. In Egypt, a still significant loans' increase although decelerating is forecast in 2016 (+13.5%, after +18% in 2015). Nevertheless, the trend of loans is well below the nominal GDP dynamics.

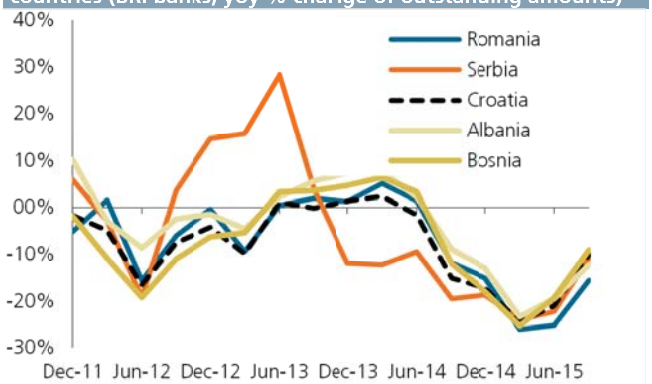
Deposits' growth rates are forecast to be positive in 2016 in all the countries and well above the loans' dynamics. The loans/GDP and loans/deposits ratios are expected to decline further, as a result both of the deleveraging process in the private sector and the current process of credit portfolio restructuring, and of the internal *vs* external funding sources rebalancing among banks.

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



Source: Intesa Sanpaolo processing of Bank for International Settlements' data

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



Source: Intesa Sanpaolo processing of Bank for International Settlements' data

Country-Specific Analysis

Albania

Real Economy

Kledi Gjordeni

The start of 2016 was not one of the best for the global economy, and made the outlook more uncertain, considering the troubles in financial markets, the deceleration in the Chinese economy, and the sharp decrease in oil and commodity prices.

Nevertheless, both international and local institutions forecast growth of around 3%, which gives hope for a positive outlook. Economic activity is expected to improve as a result of the easing of financing standards, a reduction in uncertainties, and an improvement of the external economy. Fiscal consolidation is expected to continue in 2016 with the budget aiming for a primary surplus of 0.3% of GDP, designed to allow sufficient room for growth-supporting capital investment while enabling public debt to gradually decline over time.

After January's CPI of 1.5%, in February 2016, the annual rate of inflation was 0.2 %. Although CPI in February was the lowest level recorded in the past few years, the CB judged that Albania does not look to entering a deflationary period. This drop in inflation, according to CB, can be attributed to the low prices for oil and food in international markets. Unlike the previous forecasts, current projections suggest that the return of the economy to equilibrium, and of inflation to target levels, will require somewhat longer. Inflation is expected to stay low, at around 1.5%, in part reflecting globally low price pressures and output still below potential.

Financial Markets

The Bank of Albania's monetary policy will continue to be accommodative in order to support economic recovery, consistent with its mandate to maintain price stability. The monetary policy was reflected in financial markets albeit perceived risk premiums remain high and loans demand remains low. The MM rate is expected to continue its downtrend, considering the sharp decrease of the last 3M TB, from 2.7% to 1.5%.

Banking Sector

In January 2016, loans showed a decrease of 2.7% yoy, due to a slowdown in corporate loans by 3.9%. As a result of the narrowing interest rates between the lek and euro, lending in foreign currency continues its downtrend, to -6.2%, while lending in local currency increased by 2.5% yoy. Total deposits rose by 1.4% yoy in January, attributed mainly to the rise in the business sector at 6.7% yoy, with less of a contribution from households (0.5%). Foreign liabilities continued to decline, by -15.9% yoy.

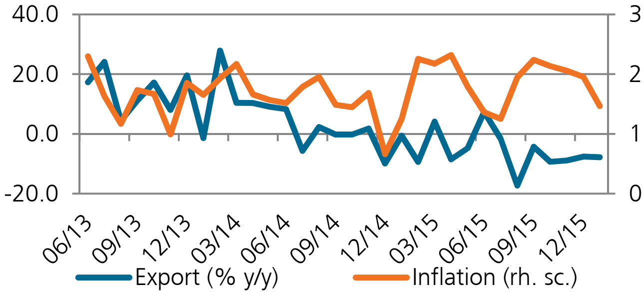
Credit growth remains low, affected by high non-performing loans (NPLs) and weakness in contract enforcement. The decrease of January's NPL level, down to 18.4% from 22.8% a year ago, shows the coordinated efforts by the banks and the implementation of measures set by the Bank of Albania. The government and the CB have adopted a comprehensive strategy for tackling the NPL issue.

Forecasts

	2014	2015	2016F
Real GDP yoy	2.0	2.7	2.8
CPI avg	1.6	1.9	1.6
Euro exchange rate avg	140.4	139.8	138.4
Euro exchange rate (end of period)	140.1	137.7	139.2
Short-term rate (avg)	3.0	2.7	1.5
Short-term rate (end of period)	2.8	2.2	1.4
L/T bond yields (avg)	n.a.	n.a.	n.a.
Bank loans yoy (end of period)	2.2	-2.6	1.5
Bank deposits yoy (end of period)	2.9	1.0	1.5

Source: Intesa Sanpaolo Research Department forecasts

Export and inflation



Source: INSTAT

Bosnia and Herzegovina

Real Economy

Ivana Jovic

The first inflow of 2016 data saw a mixed start for the year. After 10 straight months of growth, industrial production declined by 3.3% yoy (-1.3% m/m) in January amid 1.1% and 9.7% declines in manufacturing and electricity supply, respectively. Retail sales showed 7.7% yoy real growth, as households benefited from deflationary trends. Positive trends are expected to continue over 2016, although a higher base will lower the growth outlook to around 2.5% yoy from an estimated 3.0% in 2015. Growth will be mainly supported by domestic demand, while the recently revised EA outlook could dampen exports growth. Upside risks are related to improved export-oriented electricity production (21.6% share in IP; 4.7% in GVA) as the new thermal power plant Stanari becomes operative mid-year, which should also positively affect activity in the mining sector (12% share in IP; 2.4% in GVA).

Consumer prices in BiH dropped by 0.8% in January, indicating that deflationary pressures are here to stay, although they look somewhat less pronounced than a year ago because of the increase in tobacco excise taxes, thus lowering our average annual CPI estimate to -0.5%. Deflationary pressures could end up being less pronounced, depending on the announced hike in other excise taxes (alcoholic drinks and oil products).

Banking Sector

Ana Lokin

In January, the BH banking sector saw continuation of the trend we witnessed last year of moderate loan growth followed by a steep deposit rise. Loans to the private sector in January posted an increase of 3.2% yoy as a result of 4.3% higher loans to households and 2.1% higher loans to corporates. By purpose, almost all types of retail loans recorded a positive rate in January (consumer 3.9% yoy, housing 6.1%, credit card 6.6%). Loans to non-financial corporations expanded due to a 2.6% yoy rise in loans to the private sector, whereas public corporations continued to reduce their indebtedness. For the rest of the year, we expect a slowdown of the growth rate and a reduction of the portfolio due to the planned write off of 30-50% of retail portfolio pegged to the Swiss franc by two large banks. Hence, we see loans rising by around 2.0% yoy this year.

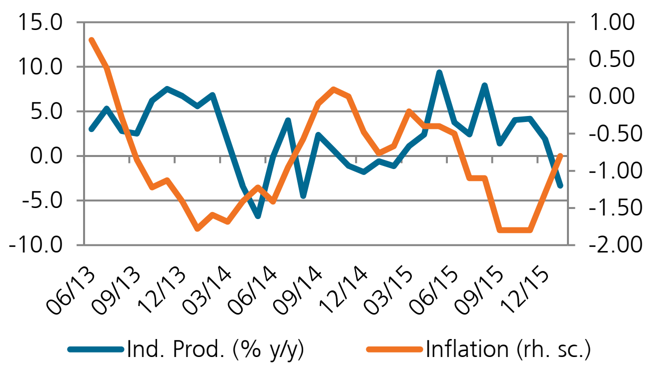
Private sector deposits showed a 7.9% yoy rise (corporate +7.0%, households +8.2%). On account of a solid GDP growth forecast, a sharp deposit rise in 2015, a trend which continued in the first month of 2016, slow growth of loans and a general focus on savings by households, we expect this year to end once again with a 7.8% private sector deposit increase.

Forecasts

	2014	2015	2016F
Real GDP yoy	1.1	3.0	2.5
CPI avg	-0.9	-1.0	-0.5
Euro exchange rate avg	2.0	2.0	2.0
Euro exchange rate (end of period)	2.0	2.0	2.0
Short-term rate (avg)	n.a.	n.a.	n.a.
Short-term rate (end of period)	n.a.	n.a.	n.a.
L/T bond yields (avg)	n.a.	n.a.	n.a.
Bank loans yoy (end of period)	1.9	2.2	2.0
Bank deposits yoy (end of period)	6.4	7.8	7.8

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Labour and employment agency

Croatia

Real Economy

Ivana Jovic

Although the year started well, with a 9.3% hike in IP (partly amid a low base effect, as in January 2015, IP declined by 4.3% yoy) and solid 2.9% real retail trade growth, preliminary data indicate that exports decreased by 0.6% yoy while imports surged by 2.9%, worsening the trade balance by 9.1%. Amid scarce data and recent downgrades of EA growth prospects, we keep our growth estimate unchanged at 1%. Personal consumption looks set to recover, as real disposable income is supported by deflation and improved labour market, although limited by continued deleveraging and diminishing last year's one-offs (decrease in PIT). Investment activity is forecast to speed up, based on higher withdrawal of EU funds, while the impact of government spending is seen to be neutral, same as net exports as the increase in domestic demand raises imports in parallel to exports. Upside risks are due to a prolonged period of low oil prices, a better-than-expected EU growth outlook, and another record-breaking tourist season. However, as EU funds utilisation is marked as a major investment driver, any setback on it represents a downside risk.

Deflationary pressures continued in February, and the CPI declined by 1.4% yoy, keeping the 12-month average at -0.5%. Persistently low oil prices will keep the inflation rate flat in 2016. However, if the unofficially announced the 15-20% decrease in administratively governed gas prices materialises, the average inflation rate could end up negative for the third year in a row.

Financial Markets

Ana Lokin

Liquidity is ample and the central bank continues to inject kunas into the economy. Hence, money market rates fell significantly in February: O/N Zibor at 0.47% eop, 1M at 0.69%, 3M at 0.84%. The average EUR/HRK rate slid to 7.62 (-0.2% mom) and is set to decline further in the months to come based on fx inflows from the tourist season. For FY16, we forecast the average 3M mm rate at 0.9% (-30 bps yoy) and a tad stronger kuna at an average of around 7.58.

Banking Sector

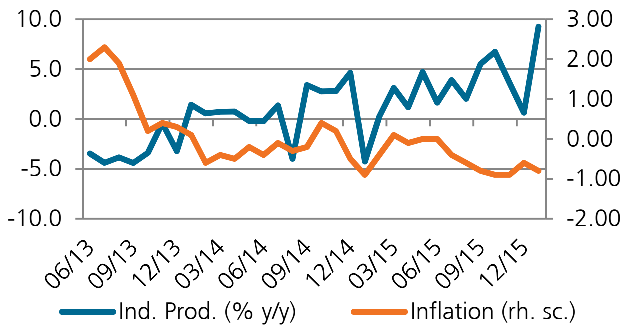
Loans in January slipped by 1.0% m/m (-5.7% yoy) due to conversion of CHF loans, which resulted in a 2.0% m/m drop in retail loans. Corporate loans narrowed by 5.5% yoy, owing to banks' balance sheet cleaning, a trend that we think might last throughout this year. As the larger chunk, around 85%, of the CHF portfolio will be converted during 1Q16, it should result in a c.12% yoy decrease in volume of housing loans in foreign currency this year. Hence, we forecast a 3.8% yoy drop in private sector loans in 2016. Deposits in January grew by 6.1% yoy due to a 24.6% rise in corporate deposits (*base effect*) and a solid 2.1% increase in retail deposits. For 2016, we expect the deposit to rise at a modest 2.3% rate yoy, as a one-off surge in corporate deposits will not be repeated and the impact of net wage growth wears off.

Forecasts

	2014	2015	2016F
Real GDP yoy	-0.4	1.6	1.0
CPI avg	-0.2	-0.5	0.0
Euro exchange rate avg	7.6	7.6	7.6
Euro exchange rate (end of period)	7.7	7.6	7.6
Short-term rate (avg)	0.7	1.2	0.9
Short-term rate (end of period)	0.8	1.2	0.9
L/T bond yields (avg)	4.4	3.7	3.8
Bank loans yoy (end of period)	-2.0	-3.1	-3.8
Bank deposits yoy (end of period)	2.3	6.4	2.3

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: EC

Egypt

Real Economy

Emil Eskander

Egypt experienced growth of 3% in the July-September 2015 period, down from 6.8% in the same period in 2014, as a result of economic challenges affecting the economy. Thus, the government revised down its growth estimates for the current fiscal year 2015/16 from 5% to 4.5%. The current challenges – foreign currency shortages that obstruct needed expansion in private investment, falling tourism and Suez Canal revenues, high inflation figures fueled by a rising deficit (revised up to 11% from the earlier estimate of 8.9%) – will likely lower private consumption, a major component of GDP, and keep the Central Bank from stimulating growth by lowering interest rates.

Annual headline inflation was 9.1% in February 2016 compared to 10.1% in January on the back of a favourable base effect. Inflation is expected to continue to rise, recording a double-digit number through 2016 as a result of increasing price levels due to import controls imposed by the authorities, increasing import costs due to fx shortages, and the decreasing value of the Egyptian pound.

Financial Markets

On 14 March 2016, the CBE adopted a more flexible exchange rate regime that better reflects the underlying forces of supply and demand, leading to greater transparency and foreign exchange liquidity.

The CBE raised the EGP/USD exchange rate to EGP 8.85 in its auction on 14 March 2016, up from EGP 7.73 in the previous auction (14.5% depreciation) as part of a series of measures adopted to stabilise the fx market and combat the fx parallel market including the removal of caps on USD deposits and withdrawals for individuals and companies importing basic goods. In the meantime, the three largest state–owned banks (National Bank of Egypt, Banque Misr and Banque Du Caire) launched a three-year Certificate of Deposit denominated in the local currency at a 15% annual interest rate to be paid quarterly for customers who own USD to be traded in for a certificate with the equivalent amount in EGP at the current official exchange rate. The CBE raised overnight deposit and lending rates during the Monetary Policy Committee meeting on 17 March 2016 by 1.5%, to 10.75% and 11.75%, respectively, in order to combat expected inflationary pressures after the devaluation of the EGP.

Banking Sector

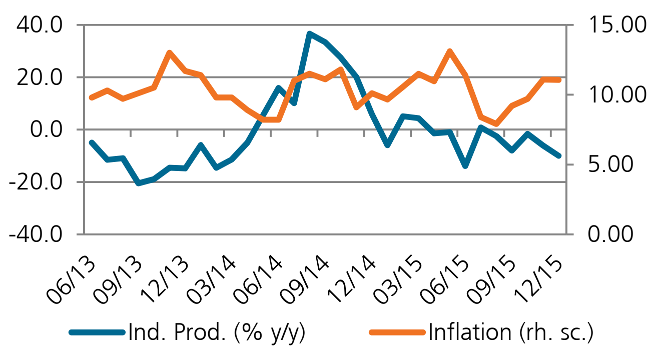
Total bank loans to customers were recorded at EGP 786.7bn in December 2015, up by 0.8% from November (+25.9% yoy). Private sector loans which represented 76.4% of total loans at the end of December, grew by 18%. Overall deposits inched up by 1.8%, to EGP 1.9tn in December 2015 compared to November (+22.7% yoy) where the household sector still represented the highest share at 62.6%. At the same time private sector deposits rose by 20.4%

Forecasts

	2014	2015	2016F
Real GDP yoy	4.3	3.2	3.3
CPI avg	10.1	10.4	10.9
USD exchange rate (avg)	7.1	7.7	8.5
USD exchange rate (end of period)	7.2	7.8	9.2
Euro exchange rate avg	9.4	8.5	9.3
Euro exchange rate (end of period)	8.9	8.5	10.4
Short-term rate (avg)	11.2	11.3	12.3
Short-term rate (end of period)	11.3	11.4	12.5
L/T bond yields (avg)	n.a.	n.a.	n.a.
Bank loans yoy (end of period)	12.7	18.0	13.5
Bank deposits yoy (end of period)	16.6	20.4	13.3

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Ministry of Planning, CAPMAS

Hungary

Real Economy

Sandor Jobbagy

According to the final CSO data, Hungary's GDP grew by 3.2% yoy in 4Q15. Hence, the full-year 2015 growth rate was 2.9%, close to our original projection of 2.8%. GDP growth was supported by all branches of the economy with the exception of agriculture and construction. In 2016, economic growth is set to slow down further, primarily as a result of lower EU funding that could support investments. Both domestic demand and exports are factors remaining in support of growth, but only at a rate slightly above 2%. External balances are forecast to show a persistently large surplus with only modest lowering from historical peaks with the faster rise of imports.

Headline inflation remained below 1% at the end of last year and also in January-February of this year. Given the outlook of oil prices staying lower than expected a quarter ago throughout 2016, even annual average inflation is projected to stay below 1%, lower than expected at the end of last year. Items more relevant for monetary policy (services, durable goods) showed a moderate rise of price levels and counter concerns about deflation risk. Core inflation is likely to stay above 1%.

Financial Markets

The NBH cut its main policy rate by 15bps, to 1.20%, in line with our forecasts, but contrary to the consensus expectation of an unchanged base rate. Also, the O/N depo rate was cut to negative territory. We expect a few more minor rate cuts this year, pushing the year average base rate closer to 1%. Both domestic inflation and ECB policy have created more room for manoeuvre for the Hungarian central bank. The forint, still stable and relatively strong at the beginning of the year, might show moderate weakening this year. However, we do not expect significant deviation from the EUR/HUF 310-315 range despite the expected further loosening, given the strong external balances and lower external debt risks. Government bond yields are still supported by the NBH's self-financing programme.

Banking Sector

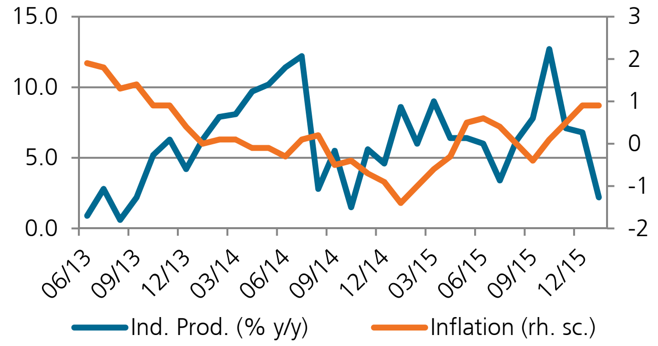
Overall loan dynamics look set to remain negative in 2016. First, the rise of new business in the consumer sector is unlikely to compensate for the ongoing rate of loan amortisation. Second, on the corporate side, further portfolio clearing is still ongoing, thus the stock may keep contracting, though at a small rate only. The central bank's loan programme is running out this year, thus no fresh support is to arrive from that side. The deposit stock is set to decelerate by showing a moderate rise. The banking sector remains burdened by special taxes. The central bank launched MARK, an institution with the aim of buying unhealthy loan portfolios from commercial banks. In the initial phase, modest interest was reported regarding the sale of low-quality assets.

Forecasts

	2014	2015	2016F
Real GDP yoy	3.7	2.9	2.2
CPI avg	-0.2	-0.1	0.5
Euro exchange rate avg	308.6	310.0	313.5
Euro exchange rate (end of period)	310.8	312.0	315.0
Short-term rate (avg)	2.4	1.7	1.0
Short-term rate (end of period)	2.1	1.4	0.9
L/T bond yields (avg)	4.8	3.4	3.2
Bank loans yoy (end of period)	-0.3	-12.3	-2.5
Bank deposits yoy (end of period)	1.3	7.5	2.3

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: CSO

Romania

Real Economy

Sebastian Maneran

Domestic consumption is likely to continue to be the main engine for growth in 2016 (after an already strong 2015) mainly on the back of fiscal easing which is forecast to be higher than expected, since the general elections, scheduled in the last quarter of this year, will effectively act as an incentive for loose fiscal conditions over the course of 2016. While industrial production continues to slow down, and productivity is being eroded, domestic demand is being satisfied by higher imports, fueling domestic inflation (which is being "hidden" from public scrutiny due to statistical base effects – set to wear off in June – as yearly inflation is still in negative territory).

The main risks going forward are those pertaining to the budget deficit, which is still expected by the market to be under 3% of GDP; however, budget execution will depend on revenue collections (usually, Romania scores near the bottom among EU countries). A deficit above 3% will draw criticism from the EU (not without consequences), and that matters because the EU is the biggest source of funding for the Romanian economy.

Financial Markets

Romanian central bankers adopted, since early February, a hawkish stance, signaling (at a rhetorical level) that RON interest rates are likely to move higher. Markets have paid attention, and the RON has strenghtened versus the EUR, local currency bonds have risen from the lows in late February, and the swaps market has moved a tad higher. All this occurred as February's inflation rate was at -2.68% yoy. Thus, price formation indicates that RON markets expect RON interest rates to move off the lows (although the policy rate is at 1.75%, the market is closer to 0.25%, the level of the cash facility rate of the central bank).

Banking Sector

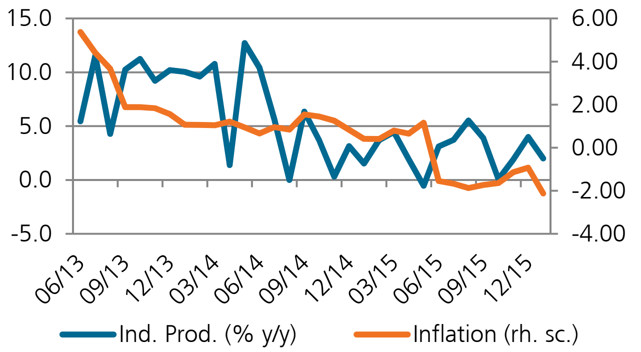
The "Datio in solutium" law is still in Parliament, but it is expected to pass. Once the law is approved, implementation hurdles will begin. Lawmakers are pushing for the law to enter into force before year-end, but enforcement of the law is likely to be the biggest headache, mainly for banks, but also for households. Hence, with banks facing increased legal risks, credit creation is likely to be hampered (to say the least) in 2016.

Forecasts

	2014	2015	2016F
Real GDP yoy	3.0	3.7	3.8
CPI avg	1.1	-0.6	0.1
Euro exchange rate avg	4.4	4.4	4.4
Euro exchange rate (end of period)	4.5	4.4	4.4
Short-term rate (avg)	2.3	1.1	0.8
Short-term rate (end of period)	1.4	0.8	0.7
L/T bond yields (avg)	4.6	3.5	3.3
Bank loans yoy (end of period)	-3.7	2.7	2.5
Bank deposits yoy (end of period)	8.9	9.1	5.0

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: NBR

Russia

Real Economy

Anna Mokina

According to the forecast of the Bank of Russia, GDP will fall by around 1.5% in 2016. The baseline scenario will use an average oil price of $35/bbl. Declines in oil prices lead to reductions in corporate profits and provoke tightening of fiscal policy, and high interest rates and falling real incomes put pressure on consumption. Quarterly GDP growth rate is expected to enter positive territory by late 2016-early 2017. Further development of import substitution and expansion of non-oil exports should contribute to a gradual recovery in economic activity.

In March 2016, the Bank of Russia decided to keep the key rate at 11.00% per annum. Despite some stabilisation in the financial and commodity markets and a slowdown of inflation, inflationary risks remain high. In order to achieve inflation targets, monetary policy is expected to be moderately tight. According to the CBR forecast, in view of the bank's decision, the annual inflation rate should be less than 6% in March 2017 and reach the target level of 4% at the end of 2017. In 2016, the average inflation rate is expected to reach around 8%.

Financial Markets

In 2H16, a recovery in the oil price could support the ruble. Reduced investment in exploration and drilling observed today, as well as difficulties faced by shale oil producers, may lead to decreasing demand in the market, which would have a positive effect on prices. At the same time, the US dollar might fall in value. Thus, the average rate of the ruble against the dollar in 2016 is likely to be around 70-75 RUR/USD. The ruble exchange rate against the euro will largely depend on on the EUR/USD pair. The decisions of the European Central Bank and the US Federal Reserve should be taken into consideration.

Banking Sector

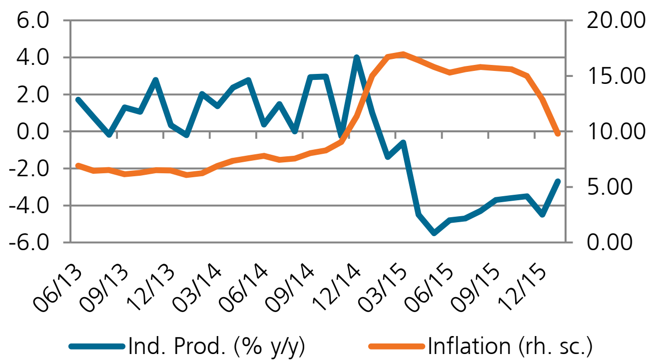
The institutional environment in the banking system will continue to change rapidly due to large-scale withdrawal of licences from banks. Corporate lending growth in 2016 will be constrained by the continuation of the economic crisis and will likely be lower than in 2015 (+10%). This outcome can be associated with persisting low investment activity by companies and with the banks' need to choose higher quality borrowers. The retail lending market in 2016 should experience slight growth (against a reduction in 2015) due to stabilisation of the unsecured lending market and mortgage lending development. Moderate growth is expected in the passive base of the banks due to low interest rates coupled with a decrease in the population's available funds.

Forecasts

	2014	2015	2016F
Real GDP yoy	0.6	-3.7	-1.5
CPI avg	7.8	15.8	8.0
USD exchange rate (avg)	38.6	61.3	70.4
USD exchange rate (end of period)	57.5	72.9	68.0
Euro exchange rate avg	51.3	68.0	77.4
Euro exchange rate (end of period)	70.7	78.7	76.8
Short-term rate (avg)	10.6	13.5	10.9
Short-term rate (end of period)	19.9	11.8	10.0
L/T bond yields (avg)	9.1	11.4	9.3
Bank loans yoy (end of period)	25.4	3.0	3.0
Bank deposits yoy (end of period)	27.9	5.0	5.5

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: State Statistics Federal Service

Serbia

Real Economy

Marija Savic

The Serbian economy recovered despite sizeable fiscal adjustments and severe draught, registering real GDP growth of 0.8% in 2015. Economic activity is expected to accelerate to 1.8% in 2016 and 2.2% in 2017 as a result of past monetary policy relaxation, an improved business climate, a continuation of implementation of structural reforms and fiscal adjustments, and an expected recovery in external demand.

Year over year, inflation stayed below the lower bound of the target tolerance band of 2.5% for two years. It is expected that the CPI will remain low and stable in 1H16 and start to gradually rise as of the second half of the year supported by a gradual recovery of aggregate demand and the expected surge in commodity prices and imported inflation, returning to within the target band (4±1.5%) at year-end 2016 or the beginning of 2017. Average inflation in 2016 is projected at 1.7%.

Financial Markets

The central bank maintained cautiously accommodative monetary policy, cutting key policy rate by only 0.25pp since the beginning of the year. Currently, the key policy rate stands at 4.25%, its lowest level since an inflation-targeting regime was introduced. The current degree of monetary policy expansiveness provides for a moderate rise in inflation from mid-year while further cuts in the key policy rate can be expected only if fiscal stabilisation continues and if there are no sudden external shocks. The average key policy rate is projected at 4.1% in 2016 (4% at year-end).

The increased dinar depreciation pressures since the start of the year prompted the NBS to sell EUR 520mn year to date in order to maintain exchange rate stability. Political risks ahead of elections, as well as risks associated with broad global capital movements, suggest the dinar is likely to remain in a depreciation trajectory over next few months with the average EUR/RSD exchange rate projected at 122.3 in 2016.

Banking Sector

Past monetary policy accommodation, along with acceleration of economic activity in the country and low interest rates in the Euro area are expected to further mildly bolster credit activity in 2016.

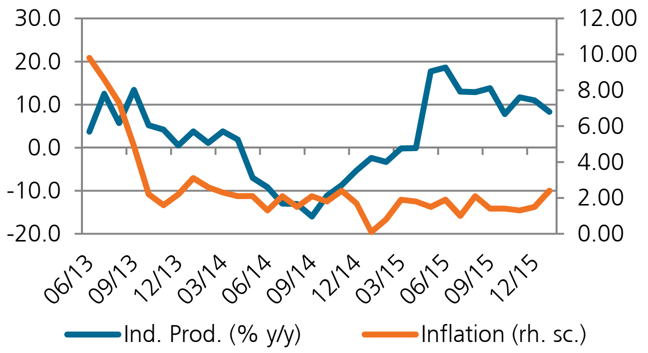
In order to prevent high levels of NPLs to continue to hinder lending activity, the NBS has completed an analysis that identifies risks and possible solutions concerning the liberalisation of the sale of retail non-performing loans to entities other than banks. All preparations which should enable selling retail NPLs to specialised firms and funds should be completed by July.

Forecasts

	2014	2015	2016F
Real GDP yoy	-1.8	0.8	1.8
CPI avg	2.1	1.4	1.7
Short-term rate (avg)	8.8	6.3	4.1
Short-term rate (end of period)	8.0	4.5	4.0
L/T bond yields (avg)	0.0	0.0	0.0
Bank loans yoy (end of period)	4.4	3.0	2.5
Bank deposits yoy (end of period)	9.7	7.1	4.2

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistical Office, National Bank of Serbia

Slovakia

Real Economy

Andrej Arady

In 2015, Slovakia posted a solid economic performance. Growth gradually accelerated and averaged at 3.6% yoy. This acceleration was, however, largely due to a temporary, EU-funded surge in public investments, which likely will not be repeated this year. The drawing down of EU funds in 2016 is expected to return to or even shift below the average level of 2014. Moreover, cooling global demand also reduces forecasts for exports. The outlook is thus for a temporary deceleration of GDP growth in 2016 to 3.2%.

In contrast to the previous two years, growth should result from both domestic and foreign demand, as imports, previously accounting for strong investment growth, are expected to decelerate to below exports. Private consumption and investment should remain supportive of GDP growth. In particular, two big projects already initiated by VW and JRL should provide positive stimulus for growth, partially compensating for a correction in public investments in 2016 and increasing the growth potential beyond 2017. Positive trends should also continue in the labour market, which is benefiting from a recent rise in growth.

Financial Markets

The thin Slovak bond market is particularly affected by the ECB asset purchase programme (APP). The latest increase of purchase volume in APP should favour yields on Slovak government bonds to stay close to those for German bonds, in particular while Slovakia remains in good fiscal shape.

Banking Sector

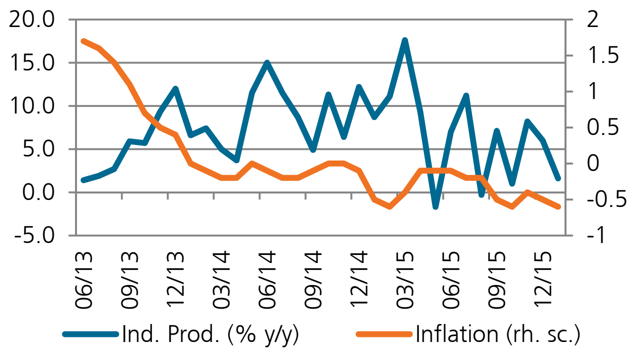
At the end of 1Q16, Slovak legislators put more pressure on banks by forcing a very low ceiling at a maximum of 1% as a fee for early termination of a mortgage. This legislation opened the entire existing mortgage portfolio to refinancing, which could drive lending interest rates further down. Generally, favourable lending conditions should hold growth of lending to households at double-digit levels in 2016 and lending to corporates should be supported by gradually recovering private investment.

Forecasts

	2014	2015	2016F
Real GDP yoy	2.5	3.6	3.2
CPI avg	-0.1	-0.3	0.1
Short-term rate (avg)	0.2	0.0	-0.3
Short-term rate (end of period)	0.1	-0.1	-0.3
L/T bond yields (avg)	2.0	0.9	0.8
Bank loans yoy (end of period)	6.4	8.7	6.2
Bank deposits yoy (end of period)	3.8	9.9	4.5

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistical Office of Slovak Republic

Slovenia

Real Economy

Nastja Benčič

The slowdown in economic growth expected in 2016 is mainly attributable to reduced government investment after the expiry of access to EU funds under the previous financial plan. Exports and, to an even greater extent than this year, private consumption will remain the key drivers of growth. In addition to gains in international competitiveness, export growth will be favourably impacted by slightly higher growth in foreign demand. The stronger growth of private consumption will reflect further growth in disposable income amid improving labour market conditions and favourable consumer confidence indicators. For 2017, somewhat higher economic growth is expected again.

Assuming that the oil price remains at a similar level to this year, 2016 as a whole is expected to experience deflation, as prices will drop yoy in most months of the year. Increased household spending and a gradual increase in import prices will impact price growth in 2017; however, the growth in these areas will remain fairly low.

Financial Markets

In the last three months, short-term interest rates continued to decrease, in line with the ECB's accommodative monetary policy stance. The three-month EURIBOR rate, which has been in negative territory from April 2015, is currently moving around -0.23%. Money market interest rates are expected to move a little lower, driven by the latest lowering of the ECB's key interest rates adopted in March, and they will remain negative for a long period of time. The expected average three-month EURIBOR rate for 2016 is -0.3%, and staying around this value at year-end. On the other hand, long-term interest rates are expected to remain relatively stable. The 10-year government bond yield is expected to reach an annual average value around 1.6% in 2016. It should move upwards in 2017 and later, under the influence of rising inflation and gradual economic expansion.

Banking Sector

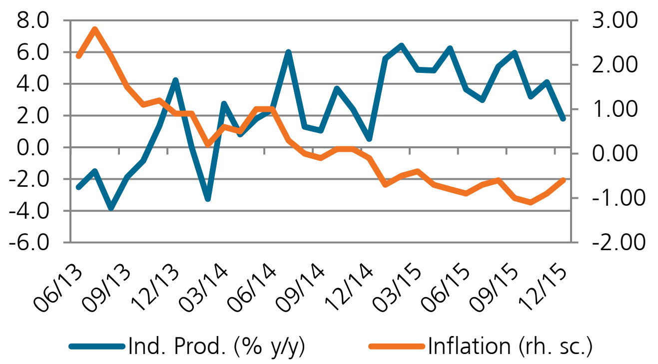
Despite the more stable situation in the banking system and the establishment of conditions to boost lending activity, only slow growth in bank loans is expected for 2016. The volume of loans to households has already started to rise, as banks favour household loans over corporate loans because of the relatively low indebtedness of households. It is expected that household lending will continue to rise, reflecting a rebound in real estate purchases and higher spending. The trend of rising deposits' volumes is very likely to continue in 2016 and 2017 even if at more moderate pace. As a consequence of deposits nevertheless rising at a faster pace than lending, a further decrease in the loan/deposit ratio is expected over the next few years. For 2016, further cuts in both lending and deposit interest rates are expected.

Forecasts

	2014	2015	2016F
Real GDP yoy	3.0	2.9	1.9
CPI avg	0.4	-0.8	-0.3
Short-term rate (avg)	0.2	0.0	-0.3
Short-term rate (end of period)	0.1	-0.1	-0.3
L/T bond yields (avg)	3.3	1.7	1.6
Bank loans yoy (end of period)	-13.4	-5.2	0.5
Bank deposits yoy (end of period)	6.6	5.8	3.8

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistical Office of the Republic of Slovenia

Ukraine

Real Economy

Giancarlo Frigoli

The q/q rise in seasonally adjusted GDP seen in the last two quarters of 2015 bodes well for the Ukraine economy which this year is likely to return to an expansionary path ending a recessionary phase that has now lasted for eight consecutive quarters. We now expect real GDP to rise by 1.5% this year and to accelerate to 2.5% in 2017. Our projection for GDP growth in 2016 (+1.5%) is a bit more optimistic than the new forecasts of the government and the central bank that, discounting the deterioration of the external scenario, now see real GDP rising by a modest 1% this year (revised down from 2.4% previously). The phasing out of the impact of the hike in tariffs and of the large devaluation of the currency seen early last year is expected to result in a significant easing of inflationary pressures, with annual inflation expected to be just above double digits by year-end.

Financial Markets

After a relatively long period of stability, the hryvnia has come under new downward pressure. This renewed weakness followed new concerns about the Ukraine government's determination to continue the implementation of the reforms deemed necessary to stabilise the economy. The low level of fx reserves is also weighing on the currency. We now see the hryvnia ending this year at 27 versus the USD and weakening further over our forecast period, depreciating to around 29 in the long term. Notwithstanding the weakness of the currency, we continue to expect the central bank to resume the easing cycle on the back of falling inflation.

Banking Sector

Davidia Zucchelli

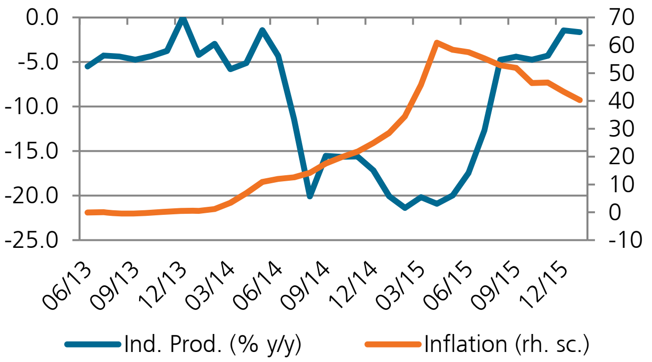
In Ukraine, the banking sector continues to be under stress. Loans decreased nominally by -3.8% in December, but net of the fx depreciation (c.50% of loans in US dollars and a smaller additional portion in euros), they fell by 35%. Deposits increased slightly (1.5% nominally and -24% net of the fx depreciation effect), due to a decrease in remittances and savers' lack of confidence. In line with the recovery in real GDP, a slight nominal recovery in loans and deposits is expected in 2016. Further capital injections seem to be necessary. Nonperforming loans rose to 28% in December, but according to Moody's, total problem loans will rise to 60% of gross loans in 2015, from 45% at the end of 2014, with NPLs rising to around 40% from 25%. Therefore, necessary provisioning would completely erode Ukrainian banks' capital. In Ukraine, the trend of foreign liabilities was also positive in nominal terms (6.3%), but concealed a strong decrease net of the exchange rate effect (-46%). Given the European Bank Coordination "Vienna Initiative", Ukrainian authorities highlighted last week that reforms are crucial, particularly in the resolution of NPLs, in restoring confidence, and in facilitating market-driven mergers (70 banks have exited the market since 2014).

Forecasts

	2014	2015	2016F
Real GDP yoy	-6.8	-10.0	1.5
CPI avg	12.2	48.0	20.0
USD exchange rate avg	12.0	22.0	25.5
Euro exchange rate avg	15.9	24.4	28.0
Short-term rate avg	17.9	25.9	21.1
L/T bond yields avg	14.0	12.5	12.3
Bank lending	10.9	-3.8	2.0
Bank deposits	-1.8	1.5	2.0

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: State Statistics Service of Ukraine

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

Economy

	GDP chg yoy			Ind. Prod*. ch.yoy			Export nom. ch yoy			Inflation chg yoy				FX reserves chg**			CA bal ance***	
	4Q15	3Q15	2014	Last	mth	4Q15	Last	mth	4Q15	Last	mth	4Q15	2014	4Q15	3Q15	2014	4Q15	3Q15
CEE																		
Slovakia	4.3	3.7	2.5	1.6	Jan	5.1	3.0	Jan	7.3	-0.4	Feb	-0.5	-0.1	n.s.	n.s.	n.s.	n.a.	-786
Slovenia	3.3	2.6	3.0	1.8	Dec	3.0	2.3	Jan	2.8	-0.9	Feb	-0.9	0.4	n.s.	n.s.	n.s.	634	901
Hungary	3.2	2.4	3.7	2.2	Jan	8.9	1.0	Jan	7.3	0.3	Feb	0.5	-0.2	n.a.	-2524	742	n.a.	1725
SEE																		
Albania	n.a.	3.0	2.0	n.a.	n.a.	n.a.	-8.4	Jan	-8.6	0.2	Feb	2.1	1.6	n.a.	312	97	n.a.	-326
Bosnia H.	n.a.	3.1	1.0	-3.3	Jan	3.4	-2.8	Jan	1.4	-0.8	Jan	-1.6	-0.9	169	186	387	n.a.	-224
Croatia	1.9	2.8	-0.4	9.3	Jan	3.7	-0.2	Dec	10.4	-0.8	Jan	-0.8	-0.2	n.a.	-297	-220	n.a.	3891
Romania	3.7	3.6	2.8	2.0	Jan	2.0	4.4	Jan	2.4	-2.1	Jan	-1.2	1.1	2456	-990	-5627	-826	-476
Serbia	1.2	2.3	-1.8	8.3	Jan	10.2	3.0	Dec	6.1	1.5	Feb	1.4	2.1	-181	18	-460	-451	-345
CIS MENA																		
Russia	-3.6	-4.1	0.6	-2.7	Jan	-3.9	-36.4	Jan	-30.3	8.1	Feb	14.5	7.8	-2362	9021	-128720	n.a.	7509
Ukraine	-1.4	-7.2	-6.6	-1.6	Jan	-3.5	-31.5	Jan	-30.8	32.7	Feb	45.4	12.1	581	2426	-12141	-29	77
Egypt	n.a.	3.0	4.3	-10.0	Dec	-5.9	-12.6	Dec	-14.1	9.2	Feb	10.6	10.1	110	-3747	-1699	n.a.	-3980
m.i. E. A.	*1.5*	*1.6*	*0.9*	*2.8*	*Jan*	*1.3*	*-1.8*	*Jan*	*3.4*	*-0.2*	*Feb*	*0.2*	*0.4*					

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		Rating
	21/03	chg bp 3M	21/03	chg bp 3M	21/03	3M chg%	1Y chg%	3M chg%	1Y chg%	21/03	21/12	S&P
CEE						Vs Euro						
Slovakia	-0.2	-0.1	0.5	-0.3	Euro	Euro	Euro	8.7	33.1	41.7	45.5	A+
Slovenia	-0.2	-0.1	1.4	-0.3	Euro	Euro	Euro	3.4	-11.7	96.7	103.4	A-
Hungary	1.3	0.0	3.1	-0.5	310.2	-1.3	2.7	8.8	36.6	142.6	151.2	BB+
SEE												
Albania	2.6	-0.1	n.a.	n.a.	138.2	0.9	-2.0	n.a.	n.a.	n.a.	n.a.	
Bosnia H.	n.a.	n.a.	n.a.	n.a.	1.96	Board	Board	n.a.	n.a.	n.a.	n.a.	
Croatia	0.6	-0.3	3.7	-0.3	7.5	-1.5	-1.5	-1.3	-5.8	276.8	301.0	BB
Romania	0.6	-0.2	3.3	-0.4	4.5	-0.9	1.2	-1.6	-2.7	114.2	118.1	BBB-
Serbia	4.2	-0.2	n.a.	n.a.	122.8	0.7	2.4	-5.2	-13.3	272.9	267.9	BB-
CIS MENA						Vs USD						
Russia	11.8	-0.1	9.1	-0.9	68.4	-4.1	11.5	13.3	12.8	254.6	282.6	BB+
Ukraine	23.8	-0.3	9.7	0.0	26.3	12.7	12.7	12.5	-29.1	13957.0	13957.0	B-
Egypt	11.6	0.4	17.2	1.8	8.9	13.4	16.4	10.6	-19.5	506.6	443.7	B-
m.i.A.E.	*-0.2*	*-0.1*	*0.2*	*-0.3*	*1.1*	*3.1*	*6.0*	*-5.2*	*-17.7*	*8.6*	*6.7*	

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	2014	Last	mth	2014	Last	mth	2014	Last	Mth	2014	Last	mth	2014	S*	Last	mth	2014	S*	Last	mth	2014
CEE																							
Slovakia	7.8	Jan	6.4	5.1	Dec	5.8	1.1	Dec	42.5	9.4	Jan	3.8	2.83	Dec	3.25	C[2]	0.75	Dec	0.96	H[2]	90.3	Jan	90.9
Slovenia	-6.1	Jan	-13.4	9.9	Dec	11.9	-21.9	Jan	-10.9	5.7	Jan	6.6	3.3	Jan	4.99	C[2]	0.25	Jan	0.66	H[2]	89.4	Jan	99.5
Hungary	-12.3	Dec	-0.3	17.4	Dec	17.4	-8.1	Dec	-1.3	7.5	Dec	1.3	4.1	Dec	4.97	C	1.0	Dec	1.64	A	90.8	Dec	111.2
SEE																							
Albania	-2.7	Jan	2.2	18.4	Jan	22.8	-15.9	Jan	-10.9	1.4	Jan	2.9	9.24	Jan	8.19	A	1.18	Jan	1.51	H	53.9	Jan	56.2
Bosnia H.	3.2	Jan	1.7	13.7	Dec	14.2	-13.5	Jan	-11.1	7.9	Jan	6.4	4.99	Dec	5.8	C	1.06	Dec	1.26	H	114.0	Jan	120.7
Croatia	-5.7	Jan	-2.0	16.6	Dec	17.1	-27.7	Jan	-10.6	6.1	Jan	2.3	5.43	Jan	5.48	C	2.09	Jan	2.43	H	86.0	Jan	94.9
Romania	2.4	Jan	-3.7	13.6	Dec	13.9	-7.5	Jan	-14.2	9.6	Jan	8.9	4.22	Jan	5.87	C	1.27	Jan	2.79	H	89.9	Jan	95.0
Serbia	0.9	Jan	4.5	22.3	Nov	21.5	-6.5	Jan	-16.5	4.1	Jan	9.6	5.92	Jan	10.89	C	3.93	Jan	6.51	H	113.9	Jan	115.9
CIS MENA																							
Russia	8.2	Dec	25.4	8.3	Dec	6.7	1.1	Nov	38.4	18.8	Dec	27.9	13.8	Dec	18.31	C	8.43	Dec	12.29	H	108.1	Dec	118.6
Ukraine	-1.4	Jan	10.9	28.0	Dec	19.0	6.3	Dec	31.3	3.8	Jan	-1.8	26.01	Jan	19.08	R[3]	19.47	Jan	19.75	R[3]	148.8	Jan	154.3
Egypt	18.0	Dec	12.7	7.2	Sep	8.6	91.6	Dec	21.0	20.4	Dec	16.6	11.8	Dec	11.8	C	6.8	Dec	7.2	H	38.8	Dec	40.4
m.i. E. A.	*0.9*	*Dec*	*-1.6*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*3.3*	*Dec*	*2.4*	*1.5*	*Dec*	*1.8*	*C*	*0.6*	*Dec*	*1.0*	*H*	*83.1*	*Dec*	*85.1*

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.

Country Outlook

The economy

GDP (% yoy)	2013	2014	2015	2016F	2017F
CEE					
Slovakia	1.4	2.5	3.6	3.2	3.5
Slovenia	-1.1	3.0	2.9	1.9	2.1
Hungary	1.9	3.7	2.9	2.2	2.1
Average	1.3	3.2	3.1	2.5	2.6
SEE					
Albania	1.1	2.0	2.7	2.8	2.8
Bosnia Herzegovina	2.4	1.1	3.0	2.5	2.6
Croatia	-1.1	-0.4	1.6	1.0	1.5
Romania	3.5	3.0	3.7	3.8	3.4
Serbia	2.6	-1.8	0.8	1.8	2.2
Average	2.5	1.5	2.8	2.9	2.9
CIS					
Russia	1.3	0.6	-3.7	-1.5	1.0
Ukraine	0.0	-6.8	-10.0	1.5	2.5
Average	1.1	-0.4	-4.5	-1.1	1.2
MENA					
Egypt	1.5	4.3	3.2	3.3	4.2
Average ISP Subsidiaries	1.4	0.7	-2.0	0.2	1.9

Inflation (average)	2013	2014	2015	2016F	2017F
CEE					
Slovakia	1.5	-0.1	-0.3	0.1	1.0
Slovenia	1.9	0.4	-0.8	-0.3	0.9
Hungary	1.7	-0.2	-0.1	0.5	1.8
SEE					
Albania	1.9	1.6	1.9	1.6	1.8
Bosnia Herzegovina	0.0	-0.9	-1.0	-0.5	1.0
Croatia	2.2	-0.2	-0.5	0.0	1.5
Romania	4.0	1.1	-0.6	0.1	1.7
Serbia	7.9	2.1	1.4	1.7	2.5
CIS					
Russia	6.8	7.8	15.8	8.0	6.0
Ukraine	-0.3	12.2	48.0	20.0	11.0
MENA					
Egypt	9.5	10.1	10.4	10.9	10.5

Market

Exchange rate (average)	2013	2014	2015	2016F	2017F
CEE					
Slovakia					
Slovenia					
Hungary	297.0	308.6	310.0	313.5	314.5
SEE					
Albania	140.0	140.4	139.8	138.4	140.2
Bosnia Herzegovina	1.96	1.96	1.96	1.96	1.96
Croatia	7.57	7.63	7.61	7.58	7.57
Romania	4.42	4.44	4.44	4.44	4.42
Serbia	113.1	117.3	121.7	122.3	123.0
CSI MENA					
Russia (USD)	31.8	38.6	61.3	70.4	67.0
Ukraine (USD)	8.2	12.0	22.0	25.5	27.5
Egypt (USD)	6.9	7.1	7.7	8.5	9.3

Interest rate (average)	2013	2014	2015	2016F	2017F
CEE					
Slovakia	0.2	0.2	0.0	-0.3	-0.3
Slovenia	0.2	0.2	0.0	-0.3	-0.3
Hungary	4.3	2.4	1.7	1.0	1.0
SEE					
Albania	4.3	3.0	2.7	1.5	1.5
Bosnia Herzegovina	0.0	0.0	0.0	0.0	0.0
Croatia	1.3	0.7	1.2	0.9	0.9
Romania	4.0	2.3	1.1	0.8	0.8
Serbia	11.1	8.8	6.3	4.1	4.0
CIS MENA					
Russia	7.0	10.6	13.5	10.9	9.5
Ukraine	11.4	17.9	25.9	21.1	17.0
Egypt	12.3	11.2	11.3	12.3	12.2

Bank

Loans to private sector (% change yoy)	2013	2014	2015	2016F	2017F
CEE					
Slovakia	5.7	6.4	8.7	6.2	6.4
Slovenia	-17.4	-13.4	-5.2	0.5	1.0
Hungary	-4.4	-0.3	-12.3	-2.5	0.5
SEE					
Albania	-1.2	2.2	-2.6	1.5	2.5
Bosnia Herzegovina	2.6	1.9	2.2	2.0	3.0
Croatia	-1.5	-2.0	-3.1	-3.8	1.4
Romania	-3.4	-3.7	2.7	2.5	3.5
Serbia	-4.9	4.4	3.0	2.5	3.0
CIS					
Russia	17.4	25.4	3.0	3.0	5.0
Ukraine	13.5	10.9	-3.8	2.0	3.0
MENA					
Egypt	7.1	12.7	18.0	13.5	12.0

Deposit by private sector (% change yoy)	2013	2014	2015	2016F	2017F
CEE					
Slovakia	4.3	3.8	9.9	4.5	4.8
Slovenia	0.0	6.6	5.8	3.8	4.0
Hungary	-1.0	1.3	7.5	2.3	2.5
SEE					
Albania	2.1	2.9	1.0	1.5	2.0
Bosnia Herzegovina	8.9	6.4	7.8	7.8	6.0
Croatia	4.9	2.3	6.4	2.3	2.5
Romania	9.3	8.9	9.1	5.0	5.5
Serbia	3.3	9.7	7.1	4.2	4.5
CIS					
Russia	16.4	27.9	5.0	5.5	6.0
Ukraine	18.5	-1.8	1.5	2.0	3.5
MENA					
Egypt	18.3	16.6	20.4	13.3	13.2

Source: Intesa Sanpaolo Research Department forecasts

Intesa Sanpaolo Research Department – Head of Research Gregorio De Felice	
International Research Network Coordination	e-mail address
Gianluca Salsecci (Head)	gianluca.salsecci@intesasanpaolo.com
ISP - Research Department (Milan)	
Giancarlo Frigoli (CIS, MENA and Lat. Am. Countries)	giancarlo.frigoli@intesasanpaolo.com
Silvia Guizzo (Emerging Asia)	silvia.guizzo@intesasanpaolo.com
Antonio Pesce (CEE and SEE Countries)	antonio.pesce@intesasanpaolo.com
Wilma Vergi (Trade and Industry)	wilma.vergi@intesasanpaolo.com
Davidia Zucchelli (Banks and Financial Markets)	davidia.zucchelli@intesasanpaolo.com
International Subsidiaries' Research Departments:	
VUB (Slovakia)	
Zdenko Štefanides (Head)	zstefanides@vub.sk
Andrej Arady	aarady@vub.sk
PBZ (Croatia) and ISP Banka (Bosnia I Hercegovina)	
Ivana Jovic (Head)	ivana.jovic@pbz.hr
Ana Lokin	ana.lokin@pbz.hr
CIB (Hungary)	
Mariann Trippon (Head)	trippon.mariann@cib.hu
Sandor Jobbagy	jobbagy.sandor@cib.hu
Banca Intesa (Serbia)	
Marija Savic (Head)	marija.arsic@bancaintesa.rs
Branka Babic	branka.babic@bancaintesa.rs
Tijana Matijasevic	tijana.matijasevic@bancaintesa.rs
Alexbank (Egypt)	
Emil Eskander (Head)	emil.eskander@alexbank.com
Omar Mostafa Ismaeil	omar.ismaeil@alexbank.com
Samer Samy Halim	samer.halim@alexbank.com
International Subsidiaries' Research Contacts:	
Banka Koper (Slovenia)	
Nastja Benčič	nastja.bencic@banka-koper.si
Banca Intesa (Russia)	
Anna Mokina	anna.mokina@bancaintesa.ru
Intesa Sanpaolo Bank (Romania)	
Sebastian Maneran	sebastian.maneran@intesasanpaolo.ro
Intesa Sanpaolo Bank (Albania)	
Kledi Gjordeni	kledi.gjordeni @intesasanpaolobank.al

Analyst Certification and Other Important Information