

September 2018

Quarterly note

Intesa Sanpaolo  
International Research  
Network

GDP growth is forecast to slow in CEE/SEE and Russia, but remain above 5% in Egypt. Inflation is rising in CEE/SEE where a reversal of monetary policy is overall expected in 2019. Limited contagion effect from the EM currency crises.

**GDP growth** forecasts have been substantially confirmed with respect to our June note for the CEE/SEE region at 4.0% in 2018 and 3.3% in 2019, following the 4.6% peak in 2017. The expected slowdown could be interpreted as a growth profile gradually converging towards long-term potential growth, currently estimated at 3.3% in 2019 in the region, from above it. The business cycle shows relatively stronger dynamics in Hungary, Poland and Slovakia in the CEE region and in Albania, Romania and, after a disappointing 2017, in Serbia in the SEE region. In the CIS region, the economy is forecast to slow temporarily to 1.5% growth in 2019 in Russia, due to weaker domestic demand and the negative impact of sanctions, and to remain slightly above 3% in Ukraine, on expectations that the IMF support is confirmed. In the MENA region, the GDP growth forecast for 2019 in Egypt is foreseen at well above 5%.

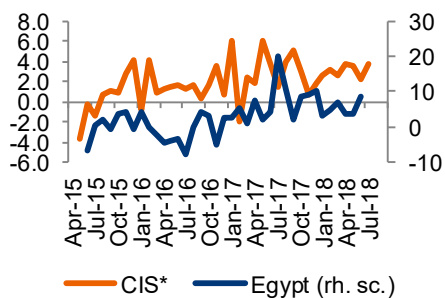
**Inflation** forecasts have also been left substantially unchanged with respect to our June note in the CEE/SEE region, at 2.5% in 2018 and in acceleration to 2.7% in 2019. Price pressures are rising, due to positive output gaps and tightening labour markets, especially among CEE countries, but inflation is still expected to be within the targets set by central banks, with a few exceptions. This is the case for Slovakia and Slovenia in the CEE area (in Czech Republic, it is just above the mid-point, but within the range) and Romania in the SEE region. Inflation is temporarily expected to accelerate in Russia (breaking the 4% target in 2019), Ukraine and Egypt (but still within the corridors). However, pressures should be gradually re-absorbed.

**Monetary policy** in CEE/SEE countries is forecast to remain broadly accommodative in 2018 while a reversal is widely expected to occur later in 2019, due to rising inflationary pressures, and the reversal also expected by the ECB. Exceptions are Czech Republic and Romania, where tightening cycles are already in place. In the CIS region, after the recent hike, the CB in Russia is expected to remain on hold in 2018 and, as things stand, next year as well; we foresee the CB in Ukraine to start easing in 2019. In Egypt, the CB is forecast to lower rates further.

Following the recent turbulence in EMs and due to the opposite effect of a lower profile now expected of EA benchmark yields and, instead, higher, even if differentiated among countries, spreads vs the benchmark, forecasts for **long-term yield profiles** have been revised slightly upwards in Hungary and Czech Republic (more exposed to international financial flows) and slightly downwards in Slovakia and Slovenia (relatively closer to the EA benchmark) and in Croatia.

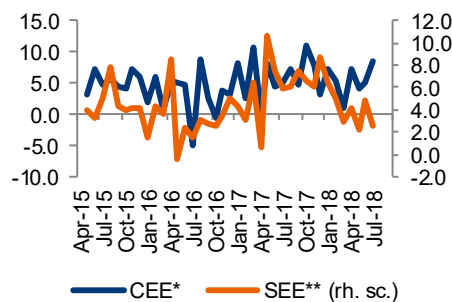
Forecasts of **lending growth** in the CEE/SEE region (4.6% in 2019, just slightly below the 4.9% foreseen in 2018 and in line with the 4.6% in 2017) are supported by still-favourable economic backdrops and improving banking fundamentals. The dynamic of household loans is expected to remain stronger than for corporates. NPLs continue to weigh on loans growth particularly in SEE countries. In the CIS area, the lending growth in 2019 has been revised slightly upwards in nominal terms for both Russia (to 7%) and Ukraine (to a still subdued 4.3%). In Egypt, it is forecast to remain in double digits, but still be below nominal GDP growth and inflation. Funding and liquidity conditions should remain broadly supportive, with declining LTD ratios.

Industrial production % yoy – CIS - Egypt



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

Industrial production % yoy – CEE - SEE



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

## Contents

<b>Cross Country Analysis</b>	<b>3</b>
Recent developments	3
The international outlook underlying the scenario	5
The economic outlook	6
<b>Country-Specific Analysis</b>	<b>9</b>
Albania	9
Bosnia and Herzegovina	10
Croatia	11
Czech Republic	12
Egypt	13
Hungary	14
Poland	15
Romania	16
Russia	17
Serbia	18
Slovakia	19
Slovenia	20
Ukraine	21
<b>Country Data: Economy, Markets and Banks - the economic cycle</b>	<b>22</b>
<b>Country Outlook</b>	<b>23</b>



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

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

## Cross Country Analysis

### Recent developments

In the **CEE region**, **GDP growth** slowed for a second consecutive quarter in Q2, to 4.4% yoy from 4.7% yoy in Q1 (after the peak of 4.9% in 4Q17). GDP data breakdowns, released for Czech Republic, Hungary, Slovakia and Slovenia, showed that weaker GDP growth was widespread across the main domestic components. On average, household and government expenditures decelerated in Q2, to 3.6% yoy from 4.7% yoy, and to 3.2% yoy from 5.2% yoy, respectively, and gross fixed capital formation to 10.4% from 11.2%, while exports accelerated to 7.6% yoy from 6.5% yoy. The economic slowdown was sharpest in Czech Republic (to 2.4% yoy in Q2 from 4.0% yoy in Q1), partially due to a negative base effect vs the previous year's data, but also to tighter monetary conditions starting to have an effect. GDP also slowed in Slovenia, to 3.8% yoy from 4.5% in Q1, but accelerated in Slovakia and Hungary, to 4.2% from 3.6% in Q1 and to 4.8% yoy from 4.6% in Q1, respectively.

In the **SEE region**, **GDP growth** (excluding Albania and Bosnia, where GDP data for Q2 have been yet not released) was on average 3.9%, 0.1% higher than in 1Q. Exports increased by 6.8% vs the previous 6.5%. Household consumption remained roughly stable, at 3.6%, while public consumption and investments slowed to 0.8% yoy from 1.9% yoy and to 0.3% yoy from 6.5% yoy, respectively, due to the contraction in Romania (-0.5% yoy in Q2 with respect to +3.0% in Q1). In the region, GDP growth accelerated slightly in Croatia, to 2.9% yoy, after a disappointing 2.5% yoy in Q1; it remained at 4.2% yoy in Romania and roughly unchanged in Serbia (4.8% yoy in 2Q vs 4.9% in Q1). Regarding Albania and Bosnia, high frequency indicators signal that economic growth was still positive in Q2 and approximately in line with Q1 data. Exports grew by 17.9% in Albania and by 11.9% in Bosnia in nominal terms.

**Inflation** figures on July (August for Czech Republic and Slovenia) showed minor corrections on average with respect to June data while still remaining in most cases above the whole Q2 average, driven by rising energy prices and the strength (albeit softening towards potential) of the business cycle. These ranged from 2.0% in Slovenia and Poland to 3.4% in Hungary in the CEE area, and between 1.8% in Bosnia and 4.6% in Romania in the SEE region. Monetary policy rates have been kept unchanged in almost all countries, with the exception of Albania, where in June the board of the central bank cut the reference rate by 25bps, to 1.0%, and, on the opposite side, Czech Republic, where in August, the CB board again raised the repo rate by 25bps, to 1.25%.

In the **CIS region**, Russia's GDP growth accelerated to 1.8% yoy in Q2 from 1.3% in Q1. Rosstat has not yet published a breakdown of the national account figures. But, monthly activity data suggest that weakness in the agricultural sector was more than offset by faster growth in industrial production, retail spending and construction. The July activity figures were something of a mixed bag. Industrial production grew by 3.9% yoy, up from 2.2% yoy in June. These figures were flattered by working-day effects: there was one more working day in July of this year than in the same month of 2017. The breakdown showed the recovery was driven by the manufacturing sector. Meanwhile, the contraction in the construction sector eased and growth in the agricultural sector was stable. The most disappointing news came from the retail sector, where sales growth slowed to 2.5% yoy from 3.0% yoy. It's possible that June's retail sales figures received a boost from the World Cup, which may have faded last month. At its September meeting, the CBR lifted its main policy rate by 25bps, to 7.50%, on new inflation concerns related to the weakness of the currency and the planned VAT rate hike.

In **Ukraine**, real GDP growth accelerated to 3.6% in Q2 from 3.1% in Q1, with exports becoming one of the growth drivers (+12.7% yoy in 1H). At its September meeting, the board of the National Bank hiked its key policy rate by 50bps, to 18%. Despite a decline in inflation since the start of the year (the headline rate slowed to 9% in August vs 13.7% in December 2017; the core rate fell to 8.7% vs 9.5%), the NBU took into account a significant increase in external risks (pressures from EM currencies and escalation of trade conflicts) which could prevent inflation from returning to its target. In addition, internal risks are also seen as relevant. Inflation expectations may

Gianluca Salsecci, Giancarlo Frigoli, Antonio Pesce and Davidia Zucchelli

Economic growth decelerated, but was still robust in the CEE/SEE areas in 2Q18

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

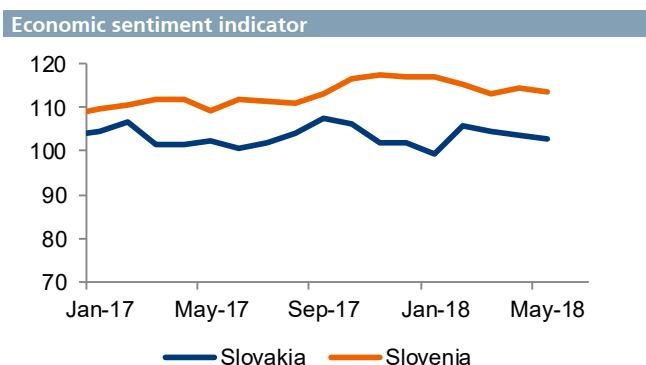
In Russia, GDP growth accelerated in Q2. The NBU hiked policy rates again on rising inflation risks. The CBE maintains a cautious stance due to a less favourable external scenario

deteriorate as the volatility of the hryvnia exchange rate increases and next year's presidential and parliamentary elections draw near. Domestic demand rising at a faster pace than projected, due to high wage growth, could also prevent inflation from decreasing. Should risks of inflation materialise, the NBU could again raise the key policy rate. The next meeting of the NBU board will be held on 25 October 2018.

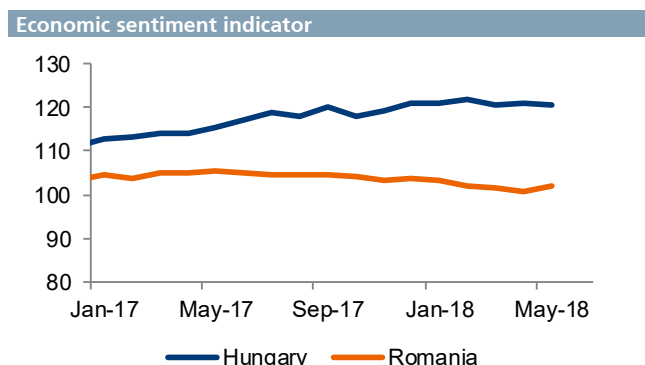
In the MENA region, in **Egypt**, GDP grew by 5.3% in the 2017-2018 fiscal year which ended in June, the highest rate in 10 years. The IMF maintained a favourable outlook on Egypt's economy in its third major review of the country's loan programme, but warned about the risks of rising fuel prices and an investor exit from emerging markets. The IMF said it still sees the economy growing by 5.5% in fiscal year 2018-2019, supported by a recovery in tourism and rising natural gas production. Egypt's central bank kept its benchmark interest rate unchanged for the third consecutive meeting. The Monetary Authority highlighted that headline inflation, which accelerated to 14.2% in August from 13.5% in July after subsidy cuts, is well within its target band of 13% (+/- 3pps), but external risks have recently resurfaced, led by contagion fears associated with the ongoing currency crisis in Turkey. The central bank is nevertheless expected to cut interest rates further by year-end.

**Total bank loans** in the **CEE/SEE region** continued to expand at a steady rate, with a slight acceleration seen in a few ISP countries, such as Hungary (+9.1% yoy in July). In contrast, loan dynamic further negatively affected the ongoing decline in Albania (-2.6% yoy as of July from -0.9% yoy in June). A deep sectoral divergence was evident. The demand for credit among households remained robust, but the dynamic was more fragile among corporates. Loans to households continued to grow at a healthy clip in all countries: in Hungary (+2.6% yoy from 2.1% yoy in the previous month), still by more than 10% yoy in Slovakia, and gradually approaching 10% yoy in Serbia. Corporate loans decreased further in Albania (-5.9% yoy as of June), Croatia (-1.5% yoy), and again after some positive monthly changes in Serbia as well (-1% yoy from +0.8% in June). NPL ratios remained over 10% in some **SEE countries**, particularly Albania (13.3%) and Croatia (11.2%). Deposit growth continued to be resilient in many countries, particularly in Hungary (+16.8% yoy in July), supported by still-growing liquidity in the corporate sector, and in Romania (+10.7% yoy). In line with the money market interest rate, banking interest rates decreased in many CEE/SEE countries, with the exceptions of Czech Republic and Romania.

In **the CIS area**, the loan growth dynamic continued to be healthy in Russia, though decelerating (close to +10%), and in Ukraine (+8.3% yoy in June), thanks to further strong increases in the household sector (+18.9% yoy and +15.1% yoy, respectively). Loans to the corporate sector also have risen at a slower pace in June in Russia (+6.6% yoy from 7.7% yoy) and in Ukraine (+6.7% yoy from 7.1%). In **Ukraine**, the NPL rate remained very high in June (at 55.68% from 56.5% as of March). In **Egypt**, loans to the private sector accelerated slightly (+10.4% yoy as of June), both in the corporate sector (+7.8% yoy from 6.9% yoy in May) and in the household sector (+17.7% yoy from +16.9% in May), but still remaining weak in real terms.



Source: European Commission



Source: European Commission

## The international outlook underlying the scenario

In the **US**, in waiting for attention to shift to the mid-term elections, all eyes are on the recent developments regarding **trade policies** as to their economic and geopolitical implications. Regarding **North America's relations**, following the signing of a framework agreement with Mexico, developments are now awaited from the negotiations with Canada. If the trilateral agreement were ultimately signed, pressure could increase towards the introduction of tariffs on auto imports from other continents, including Europe, as the treaty would imply higher production costs for US car makers.

Regarding **US-China relations**, trade conflicts are escalating after US President Trump 18 September announcement of 10% tariffs (25% in the next few months) on about US\$200Bn worth of imports from China. Tariffs could be further extended to US\$267Bn of additional imports, should China retaliate, which in fact it has threatened to do on around US\$60Bn of its imports from the US. These announcements followed the imposition by the US of tariffs on US\$50Bn worth of imports from China and Chinese retaliation in kind, and of tariffs on world imports of steel and aluminium (with just a few countries exempted). Restrictions on international trade may negatively affect growth of affected countries. Some still very preliminary estimates point to a possible negative effect of at least 50bps on China's GDP growth.

Regarding US **monetary policy**, we continue to expect two rate hikes this year (25bps each) by the Fed, with the reference range for the Fed Funds rate rising to 2.25-2.50% and three to four hikes next year, when the tightening cycle is expected to end, with the interval for the Fed Funds rate at 3.25-3.50%.

In the **Eurozone**, summer data confirmed the scenario of moderate economic growth and gradual increases in prices. In September, the ECB marginally revised its GDP growth forecasts for 2018 (to 2% from 2.1%) and 2019 (to 1.8% from 1.9%) on somewhat weaker foreign demand. Inflation projections were left unchanged (at 1.7% from 2018 to 2020). Regarding the **Euro Area's monetary policy**, with QE expected to end in December, focus has shifted to reference rates and how fast they may rise after the summer of 2019. For the time being, no specific indications have been offered. The Council will proceed in autopilot mode until further indications come from the underlying price trend.

**EM economic growth** looks to have held fairly steady in Q2. The aggregate EM GDP growth, which was estimated at 4.6% yoy in Q2 from 4.5% in Q1, however, is now likely to slow down somewhat, due to both global factors (tightening of financing conditions, due to Fed rate hikes and dollar appreciation, and restrictive measures on international trade, due to rising tariff measures and sharpening sanctions) and also to country-specific factors. In this context, activity is expected to cool in both Emerging Europe and Latin America, especially affected by the developments in Turkey and, respectively, in Argentina and Venezuela, but also in Emerging Asia, mainly depending, here, on the Chinese performance (amid rising trade conflicts with the US) and India (where the CB, as has been the case with other CBs in EM countries, has increased interest rates, following the recent turbulence in local currency markets). Growth may strengthen in GCC and Sub-Saharan countries, driven by higher expected commodity prices.

In **Turkey** and **Argentina**, the fall in the local currencies, due to increasing vulnerability stemming from large domestic and external imbalances and a laggard reaction of local authorities to them, eventually prompted CBs to sharply and repeatedly increase reference rates (up to 24% and 60%, respectively, in September) and the governments to introduce restrictive fiscal measures.

The **EMBI+ spread** widened by 100bps this year till mid-September (with the largest increases recorded in Eastern Europe and Latin American). Most of the increase came in Q2 (65bps) while the spread rose by 20bps only in Q3. The MSCI emerging stock index has fallen by 7.5% so far this year, underperforming advanced markets. Half of this loss occurred in Q3.

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

## The economic outlook

### GDP growth and inflation

Average GDP growth forecasts for 2018 and 2019 have been broadly confirmed with respect to our June note for the CEE/SEE region. In the **CEE area**, GDP growth is expected to be 4.1% in 2018 and 3.3% in 2019 (vs 4.1% and 3.4%, respectively, in the June scenario), still on a decelerating path, especially compared to the 4.3% peak registered in 2017. Growth is gradually converging from above to long-term potential (currently estimated at 3.3% in the region) supported by domestic demand (in particular consumption, thanks to better conditions prevailing in the labour markets, but also investments, thanks to EU structural funds). At the country level, some differences have emerged. In Slovenia, due to below-expectations economic growth in 2Q18, the 2018 forecast has been revised downwards to 4.0% from 4.3% (but left unchanged at 3.5% in 2019). The GDP growth forecasts have been lowered (by roughly -0.5pps) for Czech Republic too, both for 2018 and 2019, mainly due to the negative contribution of net exports, to 2.9% and 2.5%, respectively.

In the **SEE area**, where long-term potential is also currently estimated at c.3.3% in 2019, GDP growth is expected to be 3.8% in 2018 and 3.4% in 2019 (following the 5.2% peak in 2017). Forecasts remain unchanged at the regional level with respect to the June scenario, with just minor revisions to forecasts for 2018 in some countries. The encouraging Q2 GDP release in Serbia and the strong performance of exports in Albania have supported a small increase of 2018 GDP growth estimates to 4.1% in both countries, while a slight decrease has been foreseen for Romania, to 4.0% (-0.2pps) after the GDP growth number of 4.2% released in Q2.

**Inflation** forecasts have been left substantially unchanged in the CEE/SEE region, at 2.5% on average in 2018 and at 2.7% on average in 2019 with respect to our June forecasts (in most cases, remaining within the targets set by the respective central banks). There are, however, a few exceptions: Romania (4.6% forecast in 2018), Slovakia (2.7% foreseen in 2018 and 2019), and Slovenia (2.2% in 2019), while Czech Republic (2.2% in both years) is forecast to be just on the upper end of the target range. Inflationary pressures are mounting due estimated positive output gaps and tightening labour markets, in particular among CEE countries.

In the **CIS area**, in Ukraine, GDP growth is expected to maintain a strong pace (over 3%) in 2019 as in 2018, supported by likely falling interest rates and inflation, and by recovering confidence once the IMF resumes its financial support. In Russia, however, we now forecast (in line with the Russian government) a slowdown in GDP growth next year, to 1.5% (1.7% expected in 2018), due to weaker consumer demand after the announced VAT rate hike, and lower investments, reflecting delays in national investment projects, a negative impact on FDI of sharpening sanctions, and the effects of higher interest rates. In both countries, structural weaknesses, related to slow market reform, will continue to weigh on long-term growth prospects.

In the **MENA** region, in Egypt, GDP growth is expected to be well over 5% (as in 2017). The economy should continue to benefit from macro stabilisation policies, public and foreign investments, and rising production related to the discovered gas reserves.

Regarding **inflation**, in the **CIS area**, in Russia it is forecast to accelerate in the final months of this year and next year, breaking through the 4% target, in the wake of the planned VAT rate hike and due to the recent weakness of the currency. Inflation is now expected to slow back to target only in 2020, once those effects have been re-absorbed. In **Ukraine**, annual inflation is also expected to accelerate in the final months of this year or early months next year, once the government has increased the gas tariff, as demanded by the IMF as a basis for resuming its financial support. After this temporary jump, inflation is expected to slow back to single digits and to follow a slowing path in the medium to long term. In **Egypt**, inflation is expected to be higher than previously forecast in 2019, though remaining within the ECB's target range, due to subsidy cuts and the indexation of fuel product prices to crude oil quotations.

**Average GDP growth forecasts have been confirmed in CEE and SEE areas with respect to our June note**

**In CIS countries, a slowdown is forecast in Russia next year. GDP growth still strong in Ukraine**

**In Egypt, GDP growth to be sustained by macro stabilisation policies**

**Temporary acceleration of inflation seen in Russia with the increase of VAT and Ukraine due to higher gas prices. In Egypt, the CB's target is seen at reach**

### Monetary policy and financial markets

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

For the **CIS area**, the interest rate hike that occurred in September in **Russia** should be viewed more as a pre-emptive move than the start of a long tightening cycle. Even if the CB has said it is ready to further increase interest rates (taking into account inflation dynamics and the risks posed from external conditions), as things currently stand, policy rates are likely to be left on hold this year and next. In **Ukraine**, we expect the CB to start an easing process some time in 2019, when the end of the electoral cycle will create the conditions for the approval of the reforms that are conditional to the resumption of the IMF financial support. In **Egypt**, we expect a significant drop in money market rates by the end of 2019, starting from 4Q18, helped by an expected reduction of the risk premium on the country and easing inflation once the subsidy reform is completed.

Only a limited contagion effect has followed the recent financial turbulence in emerging and Euro-peripheral markets. Regional **long-term yields** have increased in the countries which are more exposed to international financial flows, such as Hungary and Czech Republic but have remained roughly unchanged in Croatia and decreased slightly in Slovakia and Slovenia. Yield forecasts are the outcome of two opposite forces: upward pressure (with different intensities among countries) from the higher spreads between local bonds and German bonds and downward pressure from the lower profile now expected for the EA's benchmark yield with respect to June forecasts. Long-term yields have then been revised slightly upwards in Hungary, Czech Republic and Poland and slightly downwards in the other countries of the CEE/SEE region. In Russia, higher than previously expected inflation and the recent rise in the risk premium on emerging market are expected to still weigh on the long end of the yield curve next year.

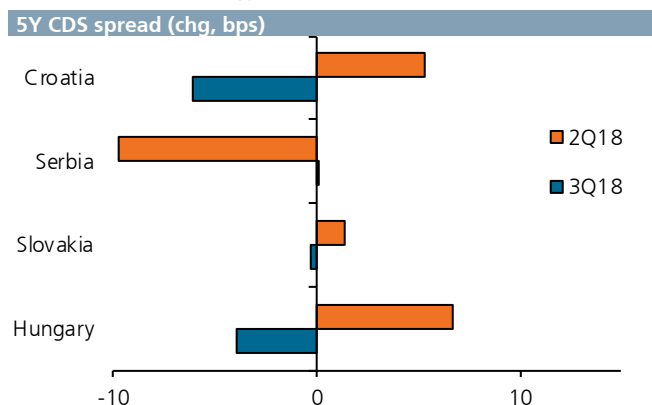
After the recent depreciation of the forint and the zloty, we now see forecasts regarding the two currencies to have weakened vs the June forecasts. For the other countries in the CEE/SEE region, less affected by the turbulence, we confirm a view of roughly stable exchange rates in 2018 and 2019. In the **CIS area**, in **Russia**, we think the rouble is likely to experience mild re-appreciation supported by higher than previously forecast oil prices, jeopardised, however, by a still uncertain geopolitical situation. Higher inflation vs trading partners should mean the hryvnia remains on a moderate depreciating path in **Ukraine**. Roughly stable or just moderately depreciating dynamics are expected for the **Egyptian** pound in 2019 for the same reasons.

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

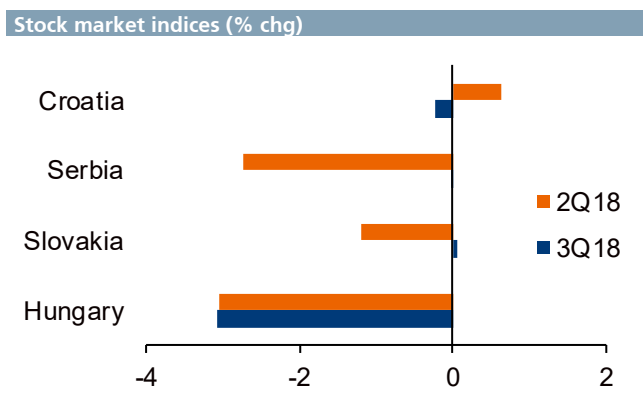
CBR now forecast to be on hold. Easing cycles to start next year in Ukraine and Egypt

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

Rouble is on a mild re-appreciation trend. Hryvnia on a gradual depreciation trajectory. The EGP expected to depreciate in the M/L to defend the competitive position



Source: Bloomberg



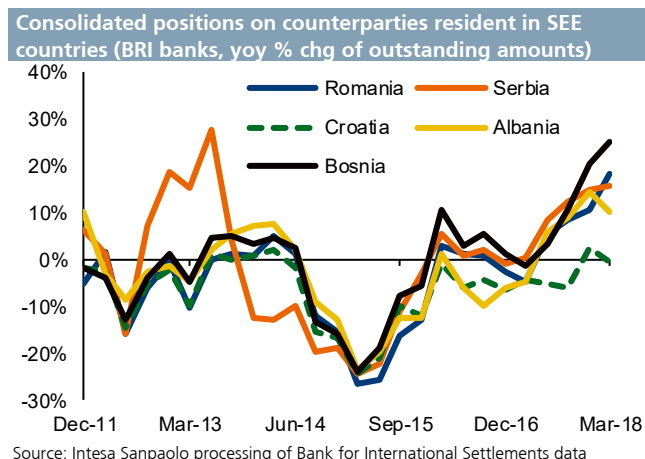
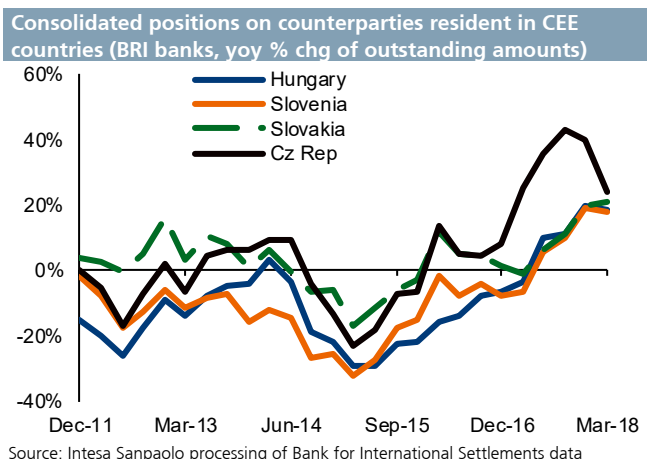
Source: Thomson Reuters

### Bank aggregates and interest rates

In 2019, forecasts of **lending** in the CEE/SEE region continue to be supported by a favourable macroeconomic backdrop and improving fundamentals in the banking sector. Mild deceleration is still expected in a few CEE countries and a slight acceleration in a few SEE countries. Among the **CEE countries**, measures adopted to slow down mortgage lending continue to be effective, particularly in Czech Republic and Slovakia. In Slovenia, the CB highlighted that corporates have been demanding more loans to finance investments. In the **SEE countries**, high NPLs, which are still over 10% in Albania and Croatia but slightly improving thanks to write-offs and sell-offs, are putting pressures on the recovery in lending. Total loans will continue to mainly be driven by households, both mortgages and consumer loans. Corporate loans are in contrast expected to continue to see less support, due to still modest demand for investment. In Romania, this is partly influenced by rising interest rates. In the **CIS area**, the loan dynamic has been further revised upward in nominal terms in Russia in 2018 and 2019 from +6% and +6.5% to 6.8% and 7.1%, respectively (even though the NPL situation deteriorated, from 10.7% in March to 10.9% in June), and to a lesser extent in Ukraine (from 3.8% and 3.7% to 4.2% and 4.3%, respectively), where NPLs remained at unsustainable levels (from 56.5% in March to 55.7% in June), according to the last available data. High NPLs continue to weigh on loans growth, but in Ukraine subdued loan forecasts are also due to a still weak operating environment. In **Egypt**, lending dynamics are forecast to remain in double digits, but still below nominal GDP growth and decelerating, even with declining interest rates (but slightly revised to a higher level than in our previous release).

Antonio Pesce and Davidia Zucchelli

Funding and liquidity are expected to remain in good shape in the CEE/SEE regions. **Deposits** are forecast to remain the main source of funding and, thanks to higher wages and supportive labour markets, to show positive trends, especially among CEE countries, although slowly decelerating because of potentially stronger competition from other savings products. Forecasts on deposits have been revised slightly upwards for 2018 in Croatia, Hungary and Serbia, thanks to a better than expected performance in the first months of the year. However, for Albania, estimates have flat-lined (from 0% to -0.5%) because of an unforeseen prolonged decrease in household deposits in the first months of the year. Loan/deposit ratios are generally expected to shrink further, but to still remain over 100% in Bosnia. **Banking interest rates** are expected to increase in the forecast period, driven by higher money market rates. Their profiles have been slightly revised in some countries, downwards (only in 2018) in Slovenia and upwards in Hungary, Serbia and Romania. In Russia, the recent rate hike is expected to push up banking interest rates.





## Country-Specific Analysis

### Albania

#### Real Economy

The real economy recorded a positive performance in the first half of the year, at the upper end of expectations. GDP grew by 4.45% in 1Q18 vs 3.7% in 2017. Economic expansion was supported by all demand components, but primarily consumption and investments. Household consumption in 1Q18 increased from 2.07% to 2.97% yoy supported by a decline in the unemployment rate to 12.5% (the lowest level historically registered in Albania) and average real wages increased by 2.3%. Investments grew by 5.4%, near the historical average of the last two years. Leading indicators of GDP growth suggest that the economy will perform well in the upcoming quarters.

Annual inflation trended upward in 2Q18, driven mostly by short-term components, partly curbed by appreciation of the exchange rate. In this period, the average inflation rate stood at 2.2% vs 1.9% in the previous quarter. According to Bank of Albania projections, the average annual inflation rate will be around 2.0% during 2018 and is expected to move to the 3% target within 2020.

#### Financial Markets

The Albanian lek, after appreciating on average by 2.3% vs the euro in 2017, appreciated by 6.4% in the first half of 2018, above expectations, and the Bank of Albania revised its monetary stance in June, lowering the policy rate to 1% and approving a programme of interventions in the foreign exchange market. The move, with a view to preventing further appreciation of the exchange rate, has proven effective. Monetary policy will continue to be accommodative over the medium term to support economic growth and the return of inflation to target.

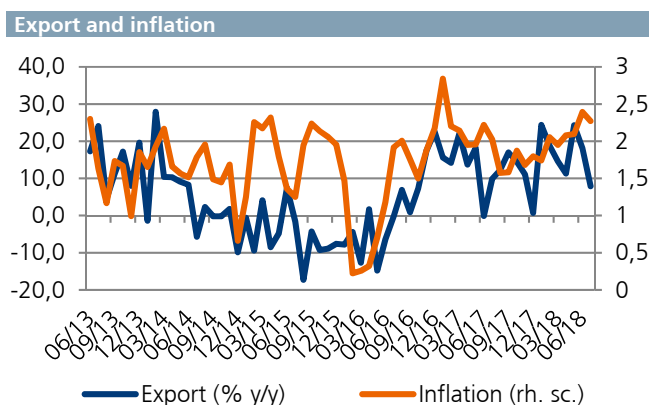
#### Banking Sector

Lending continued to show very weak yoy changes, reflecting banks' tightening of lending policies especially regarding enterprises, which are expected to affect forecasts in the near term. Credit demand from both enterprises and households is forecast to remain weak, despite stimulative monetary conditions and improving domestic economic activity. Credit to the private sector fell by 2.6% yoy in nominal terms in June (-0.1% yoy if adjusted for the lek's appreciation vs the euro, around -5% yoy as of June). Loans in local currency increased in the first months of the year, but in June, they decreased slightly again (-0.9% yoy). Loan growth to households continued to be supportive (+4.7% yoy as of June). The NPL ratio declined very slowly (to 13.3% in June from 13.4% in March, but it was 13.2% in December 2017). Deposits continued to shrink (-1.6% yoy as of June), due to low interest rates, but also partly reflecting the lek appreciation effect on the value of FX deposits and higher investment flows into government securities (households invested around LEK 7.3Bn in government securities in 1H18).

Forecasts	2017	2018F	2019F
Real GDP yoy	3.7	4.1	3.7
CPI (avg)	2.0	2.2	2.7
Euro exchange rate (avg)	134.6	130.1	129.2
Euro exchange rate (end of period)	133.3	128.0	130.3
Short-term rate (avg)	1.3	1.0	1.1
Short-term rate (end of period)	1.3	1.0	1.4
L/T bond yields (avg)	n.a.	n.a.	n.a.
Bank loans yoy (end of period)	0.5	-1.0	1.0
Bank deposits yoy (end of period)	-1.3	-0.5	1.5

Source: Intesa Sanpaolo Research Department forecasts

Kledi Gjordeni



Source: INSTAT

## Bosnia and Herzegovina

### Real Economy

After 2.0% yoy GDP growth rate in 1Q18, the second quarter of the year saw diverging trends. Industrial production output eased to +1.5% yoy (from +5.2% in 1Q18), the growth rate of merchandise exports remained roughly the same as in the first quarter (+11.9% vs +12.1%), and real retail trade turnover accelerated to +8.5% yoy (from +5.3% in 1Q). Labour market developments stayed positive in 2Q, with total employment rising by 2.4% yoy while the number of job seekers fell by 7.6% yoy and the registered unemployment rate decreased to 36.1% (-2.4pp yoy). July real sector data, meanwhile, shows industrial and real retail trade output accelerating to +4.3% and +8.8% yoy, respectively, while goods exports reported yet another double-digit growth rate (+10.8%). The substantial downward revision of the 2017 GDP growth rate and a disappointing first quarter of this year called for a more cautious 2018 growth estimate, which was cut from 3.1% yoy to 2.8% yoy. Next year's projection is marginally reduced from 3.1% yoy to 3.0% yoy, as growth remains healthy, underpinned by sound external and domestic demand, as well as expected public infrastructure investments heating up: in September, the government signed a loan agreement with the EBRD in the amount of €180M for the construction of three new sections of Corridor Vc, the country's major infrastructure project.

Ivan Odrčić

The annual inflation rate in the first seven months of the year amounted to 1.2%, mostly due to rising prices of transport (+6.9% yoy), which reflected increases in prices of crude oil on the global markets, and more expensive alcohol and tobacco (+7.1% yoy). The inflation outlook for 2018 remains the same (+1.4% yoy) while for 2019 it was revised downward by 0.1pp, to +1.8% yoy.

### Banking Sector

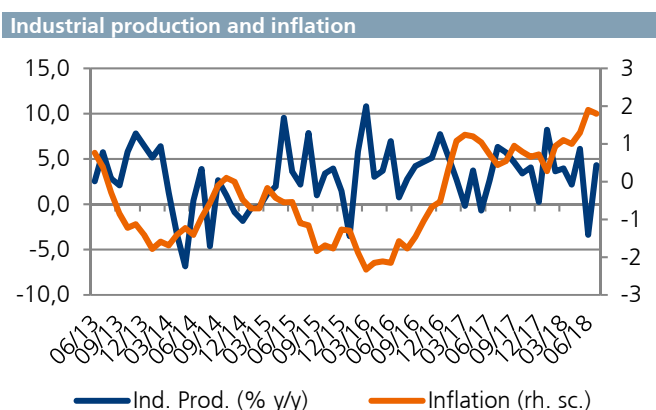
Sustained growth of household demand and rising corporate financing needs resulted in a solid pace of growth for private sector loans, at +7.0% yoy in June and +6.2% yoy in July, with a tad stronger contribution coming from households than non-financial corporations. Loans to households advanced by 7.2% yoy in both months, owing to a continued rise in consumer lending and a mild recovery of housing loans; corporate loans decelerated to +6.8% yoy in June and +5.3% yoy in July. In line with the observed trends, the loan growth forecast for 2018 was revised marginally upwards, to +6.3% yoy; the 2019 forecast was confirmed at +5.5% yoy.

Ana Lokin

Deposit growth sharpened to 9.8% yoy in June and 9.7% yoy in July, supported by a steep increase in deposits from non-financial corporations (+18.8% yoy and +17.0% yoy, respectively). Household deposits remained strong, rising by 6.4% yoy in June and 6.9% yoy in July. Deposit growth exceeded our expectations, supporting an improvement in the 2018 forecast, from 6.9% yoy to 8.5% yoy. As regards 2019, we maintain our view, envisaging a slowdown of growth towards 6.0% yoy.

Forecasts	2017	2018F	2019F
Real GDP yoy	2.6	2.8	3.0
CPI (avg)	0.8	1.4	1.8
Euro exchange rate (avg)	2.0	2.0	2.0
Euro exchange rate (end of period)	2.0	2.0	2.0
Short-term rate (avg)	n.a.	n.a.	n.a.
Short-term rate (end of period)	n.a.	n.a.	n.a.
L/T bond yields (avg)	n.a.	n.a.	n.a.
Bank loans yoy (end of period)	7.3	6.3	5.5
Bank deposits yoy (end of period)	9.0	8.5	6.0

Source: Intesa Sanpaolo Research Department forecasts



Source: Labour and employment agency

## Croatia

### Real Economy

GDP growth in 2Q18 rose by +2.9% yoy (+1.1% qoq), as household consumption increased by 3.6% and public consumption by 2.5%. Investment growth decelerated to 3.1% yoy while net external demand made a positive contribution to headline growth, as exports of goods and services increased by 5.6% yoy while imports rose by 4.7%. High frequency data for July show industrial production falling by 0.9% yoy, partly due to continuing negative developments in the chemical and ship-building industries, while real retail trade, based on a positive labour market and rising wages, expanded by 2.2% yoy. Goods exports in July, according to preliminary data, rose to 7.0%. Our short-term economic activity expectations remain unchanged, with GDP up by 2.7% yoy in 2018, slowing somewhat to 2.6% growth yoy in 2019, when growth relies mostly on household consumption, tourism and recovering investment activity, with risks skewed to the downside, stemming from expected slower Euro Area growth. The average inflation rate in the first eight months of the year amounted to 1.6% yoy, driven by rising prices for housing, transport and food. Average CPI forecasts for 2018 and 2019 are confirmed at 1.8% and 2.2% yoy, respectively.

Ivan Odrčić

### Financial Markets

The EUR/HRK rate fluctuated around 7.4 during peak tourist season, gradually depreciating as FX inflows started to decline at the end of August and beginning of September. In the rest of the year, we see this remaining fairly stable. This year's estimate is adjusted slightly downwards, to 7.4, with no changes in 2019 expectations, as the main factors supporting a strong kuna -- CA surplus, positive net foreign position of banks and improved fiscal stance -- remain in place. The monetary stance remains unchanged, with ample liquidity and the FX rate remaining stable. Hence, our 3M average Zibor forecasts for both 2018 and 2019 stand at 0.5% (-10bps for 2019). The spread between 10Y kuna government bonds and the benchmark is expected to widen slightly more than previously forecast (2018: 180bps; 2019: 190bps), but as Bund forecasts are tightened, we keep the 2018 average at 2.2%, but the 2019 projection is cut by 40bps, to 2.6%.

Ana Lokin

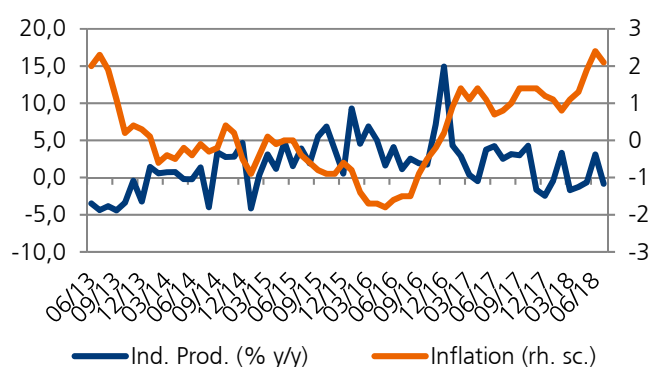
### Banking Sector

We have upgraded our 2018 loan growth estimate to 2.0% yoy based on a healthy rise in private sector demand (June-July around +2.0% yoy), supported by better labor market conditions and a recovery in corporate demand, particularly for SMEs. Household demand continue to accelerate. However, interest in subsidised housing loans has weakened this year, and is expected to remain restrained as demographic trends are likely to continue to be negative. Deposit growth moved around 4% yoy in June-July, supported by rising income from the tourist season, with the year-end estimate at 1.5% yoy. Looking further out, our 2019 banking aggregates forecasts remain prudent (+1.7% yoy both Loans and Deposits), in line with stable GDP trends.

Forecasts	2017	2018F	2019F
Real GDP yoy	2.9	2.7	2.6
CPI (avg)	1.1	1.8	2.2
Euro exchange rate (avg)	7.5	7.4	7.5
Euro exchange rate (end of period)	7.5	7.5	7.5
Short-term rate (avg)	0.6	0.5	0.5
Short-term rate (end of period)	0.6	0.5	0.7
L/T bond yields (avg)	2.8	2.2	2.6
Bank loans yoy (end of period)	-0.1	2.0	1.7
Bank deposits yoy (end of period)	2.4	1.5	1.7

Source: Intesa Sanpaolo Research Department forecasts

### Industrial production and inflation



Source: EC

## Czech Republic

### Real Economy

Real GDP growth moderated a bit faster than predicted in 2Q, as the contribution of net trade turned from positive to negative, along with the slowdown in export growth and increased import demand. We have thus nudged full-year growth in 2018 down slightly, from over 3% to one-tenth below it.

Growth nonetheless remains at or even slightly above its potential and will continue to be driven by robust domestic demand, especially household consumption. The labour market remains very tight, with an EU-low jobless rate of 2.3% and vacant jobs persistently exceeding the number of unemployed. GDP growth will also continue to be driven by investment, as companies have accelerated drawdown of EU funds and are increasingly investing in automation to compensate for ever-intensifying labour shortages.

Along with rising wages, prices in general will continue to grow fast. Consumer price inflation will exceed the 2% CNB target and property price inflation is hovering near double-digit figures. In the foreseeable future, we nonetheless expect some deceleration in both consumer and property price inflation as higher interest rates and tighter credit standards start to bite.

### Financial Markets

As the Czech economy is clearly overheating, the CNB continues to tighten monetary conditions. Compared to our projections, it is moving at a faster pace, having already hiked interest rates three times in 2018 and probably adding one more hike in the remainder of 2018 and two more next year.

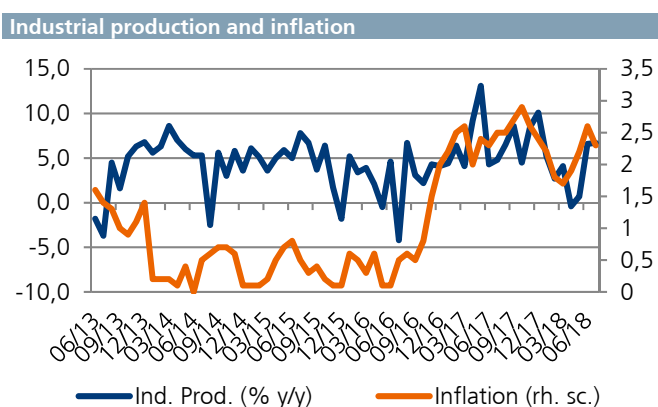
The basis for an acceleration in rate hikes is the currency. Amid the sell-off of emerging markets, the Czech koruna failed to appreciate as we had forecast. The CNB took the temporary koruna weakness as the window of opportunity and pushed forward some of the rate hikes previously pencilled in for the more distant future. We nonetheless continue to believe in the longer-term appreciation of the koruna, driven mainly by a fast-growing economy and productivity gains. Yield-wise, we continue to forecast a gradual increase along the same lines as for domestic policy rates and inflation.

### Banking Sector

The Czech banking sector will continue to grow strongly, along with the booming economy. Growth of loan volumes, however, will decelerate, due to gradually increasing interest rates and tighter regulations in the mortgage market. Regarding the latter issue, a debt/income ceiling for lending to households will become effective from October 2018, which has the potential to slow the market down.

Forecasts	2017	2018F	2019F
Real GDP yoy	4.3	2.9	2.6
CPI (avg)	2.5	2.2	2.2
Euro exchange rate (avg)	26.3	25.6	24.9
Euro exchange rate (end of period)	25.7	25.3	24.8
Short-term rate (avg)	0.4	1.1	1.5
Short-term rate (end of period)	0.8	1.4	1.9
L/T bond yields (avg)	1.0	2.0	2.3
Bank loans yoy (end of period)	6.5	6.2	5.2
Bank deposits yoy (end of period)	7.6	6.0	5.5

Source: Intesa Sanpaolo Research Department forecasts



Source: EC

## Egypt

## Real Economy

Egypt's GDP growth rate was 5.3% during FY 2017/18. Expectations are for the same rate in the current fiscal year on the back of continued recovery in three main sectors: 1) construction, supported by the ongoing mega projects, such as the Suez Canal Economic Zone and the New Administrative Capital; 2) tourism, for which receipts jumped 77% (yoy) during 1H18, to USD 4.8Bn; and 3) natural gas, where the recently discovered gas fields are expected to raise Egypt's natural gas production by 50% and 100% in 2018 and 2019, respectively, turning Egypt into a net gas exporter. The unemployment rate declined to 9.9% in 2Q18 compared to 12% during the same period last year. In August 2018, the Moody's rating agency upgraded its outlook on Egypt to Positive from Stable, stating that the decision reflects improvements in the economic and business environment as a result of the ongoing economic reform programme. Annual headline inflation is expected to remain relatively high in 2019, hovering around 13%, due to the expected rise in fuel and electricity prices, especially after the government approved the automatic fuel price indexation mechanism for most fuel products, which adjusts fuel prices to changes in global oil prices, the exchange rate, and the share of imported fuel in domestic consumption.

Samer Halim

## Financial Markets

On 06 August 2018, the Monetary Policy Committee (MPC) decided to keep the Central Bank of Egypt's (CBE) overnight deposit and overnight lending rates unchanged at 16.75% and 17.75%, respectively, as global financial conditions continued to tighten, putting pressure on the currencies of certain emerging economies. Money market rates are nevertheless expected to decline by the end of 2018 and 2019, after improvement in global conditions, and to be consistent with the Egyptian government's aim to achieve a primary surplus of 2% of GDP in FY 2018/19, up from a preliminary 0.2% in the previous year. The value of the Egyptian pound against the US dollar is forecast to depreciate only slightly next year, based on the balancing of two opposing forces: the appreciation of the US dollar in the international markets and the recovery of main sources of foreign currencies, especially tourism and natural gas.

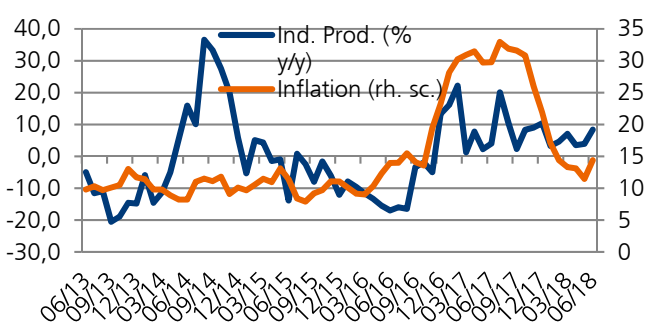
## Banking Sector

Both private loans and deposits rose in June 2018 by 10.4% and 20.7% (yoy), to EGP 1Tn and EGP 2.9Tn, respectively. The non-performing loans/total loans ratio improved to 4.3% in 2Q18 compared to 4.5% in the previous quarter, and the loans/deposits ratio also improved, to 45.9% vs 44.7% for the same period. Growth of deposits is seen to slow in 2019, after the expected decline in interest rates and the forecast move of liquidity to the stock market, after the multiple IPOs likely to occur in 2019.

Forecasts	2017	2018F	2019F
Real GDP yoy	5.0	5.4	5.2
CPI (avg)	29.6	14.0	13.6
USD exchange rate (avg)	17.8	17.8	17.9
USD exchange rate (end of period)	17.8	17.8	18.0
Euro exchange rate (avg)	20.1	21.0	21.2
Euro exchange rate (end of period)	21.1	20.6	21.6
Short-term rate (avg)	19.3	18.2	15.7
Short-term rate (end of period)	19.0	17.5	15.0
L/T bond yields (avg)	n.a.	n.a.	n.a.
Bank loans yoy (end of period)	7.1	14.2	11.2
Bank deposits yoy (end of period)	23.8	16.2	14.0

Source: Intesa Sanpaolo Research Department forecasts

## Industrial production and inflation



Source: Ministry of Planning, CAPMAS

## Hungary

### Real Economy

Fresh momentum was shown by Hungary's forward-looking indicators, including PMI in June and July. Industrial production and exports also showed some revival, but did not fully return to 2017-2018 peaks. GDP growth statistics for 2Q18 were above those for Q1, at 4.8% yoy (unadjusted), having been revised upwards compared to the flash figure, and 4.6% swda. We have raised our GDP growth forecast to 4.2% in 2018, still expecting some slowdown in 2H18. Consumption and utilisation of EU funds should remain strong drivers. The current pace of growth, however, is highly unlikely to be sustainable over the coming years, given the lack of sufficient strengthening of potential GDP.

Headline inflation posted yoy figures above 3% during the summer months, though core inflation did not rise above 2.5%. The shift was expected, but was faster due to the influence of global factors. However, the weaker forint also started to influence the price level. The impact of rising wages has been limited on the headline figure so far. In 2018, we project annual average CPI of 2.8%, reflecting the impact of oil prices and the risks embedded in persistently strong domestic demand. In the months ahead, the yoy CPI rate may remain above the 3% threshold, but we do not expect the annual average to move beyond 3% before 2019.

### Financial Markets

The 3M policy rate of the NBH has been left on hold at 0.90% so far in 2018 as well as the O/N depo rate at -0.15%. Rate cuts have become out of question for 2018, with market players speculating about the timing of the end of the easing phase. Unconventional monetary easing continues (the NBH has been maintaining the new swap programme and mortgage bond purchases of significant scale since January 2018), BUBOR rates and longer yields showed ongoing though not unbroken rises in 3Q18 as well, partly in tandem with the forint's weakening in the range of EUR/HUF 320-330. The main reason behind the market shift was the deterioration of global EM sentiment, but the low Hungarian rates may also have started to play a role. In its most recent statements, the NBH highlighted that a more cautious monetary approach is warranted, but maintained loose conditions. We expect an ongoing moderate rise of BUBOR rates in 2H18 while the forint should show some correction towards 320 vs the euro.

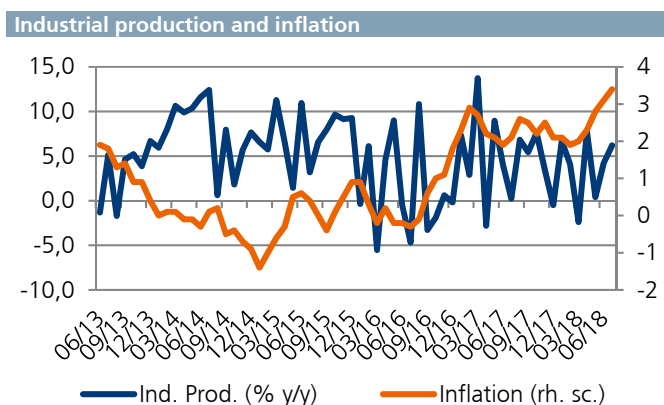
### Banking Sector

Lending activity continued to rise in 2Q18 amid the ongoing rise of GDP growth and the strengthening of domestic consumer confidence and demand. Growth looks set to continue through this year and may even beat current expectations, though it will be just on line with 2017's jump as the initial phase of the recovery. Some loan segments (including mortgages and personal loans) are showing especially dynamic pickups. Asset quality continues to improve, even with NPLs already in single-digit territory since the end of 2016 and dropping below 5% at the end of Q1, according to the latest available data. The sector has continued to experience sufficient (though slightly diminishing) liquidity and strong capital position.

Sandor Jobbagy

Forecasts	2017	2018F	2019F
Real GDP yoy	4.0	4.2	3.0
CPI (avg)	2.4	2.8	3.1
Euro exchange rate (avg)	309.1	319.4	316.9
Euro exchange rate (end of period)	313.3	320.0	317.0
Short-term rate (avg)	0.1	0.1	0.3
Short-term rate (end of period)	0.0	0.3	0.5
L/T bond yields (avg)	3.0	3.1	3.9
Bank loans yoy (end of period)	6.0	6.2	5.0
Bank deposits yoy (end of period)	10.8	9.0	6.5

Source: Intesa Sanpaolo Research Department forecasts



Source: CSO

## Poland

## Real Economy

In Poland, forward-looking indicators stagnated in June and July. The EU Economic Sentiment Indicator has remained close to the 110 level recently, still reflecting expectations of strong future growth. However, the dynamics of industrial production returned to double-digit territory in July, following a brief period of slowdown. External balances also showed some improvement, though without an exceptional export performance. GDP growth kept up the above 5% pace in 2Q18, but this is unlikely to be sustainable for the rest of 2018. We project annual average GDP growth of 4.6%, just above the 2017 performance. Growth has continued to be supported by relatively strong private consumption amid the revival of industrial performance. Investments growth also moved into a higher gear, supported by a low base. Judicial reforms and conflicts with the EU have so far not had an adverse impact on overall GDP growth and the outlook. Fiscal policy remained in check. Regarding inflation, domestic demand and rising wages have had limited impacts so far. While CPI had been on the rise in the spring and early summer, the rise came to a halt at 2.0% in June and July. We expect only minimal further rises during the rest of the year, with the annual average still a tad below 2%.

Sandor Jobbagy

## Financial Markets

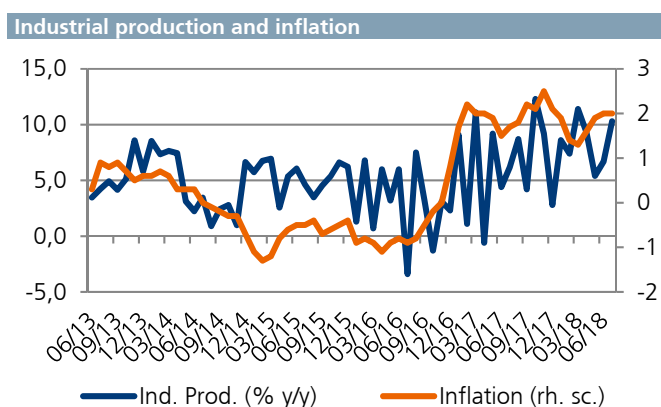
The NBP has left its policy rate unchanged (1.50%) so far in 2018, similar to the whole of 2017. Although the most recent monetary decisions and comments, as well as market expectations, suggest an increasing probability of a tightening cycle starting in the near future, this move is likely to shift to 2019. This outlook is also supported in particular by the loose policy of the ECB. The central bank is concerned about food price growth, which has been on the rise since the end of last year, and also about accelerating wage growth. Despite the current monetary expectations, the zloty remained relatively weak in July and August vs the euro following rapid waves of depreciation in April and June due to the deterioration of global emerging market sentiment. The EUR/PLN exchange rate rose above 4.30 repeatedly and has so far failed to hold ground below this level. We still see this as a temporary phenomenon, with the potential for the value to return to slightly below EUR/PLN 4.30 by the end of 2018.

## Banking Sector

Lending activity in the Polish banking sector is forecast to be slightly stronger than last year, despite the lack of potential for significantly stronger GDP growth, but fueled by consumption. Loan stocks to the private sector showed consistent rises, and the overall annual growth rate of the loan stock was above 3%. Deposit volumes have continued to increase, and these are likely to maintain momentum throughout 2018 despite relatively low (though not decreasing) interest rates. The quality of the banking sector's entire loan portfolio remained solid, with low average NPL ratios. The banking sector is likely to experience further consolidation, as the sector's concentration is still viewed to be too low.

Forecasts	2017	2018F	2019F
Real GDP yoy	4.5	4.6	3.5
CPI (avg)	2.0	1.9	2.4
Euro exchange rate (avg)	4.3	4.2	4.3
Euro exchange rate (end of period)	4.2	4.3	4.3
Short-term rate (avg)	1.5	1.7	2.0
Short-term rate (end of period)	1.7	1.8	2.2
L/T bond yields (avg)	3.4	3.3	3.8
Bank loans yoy (end of period)	3.2	4.1	4.5
Bank deposits yoy (end of period)	3.7	4.9	5.0

Source: Intesa Sanpaolo Research Department forecasts



Source: NBR

## Romania

### Real Economy

Growth data for Q2 showed improvement, as real GDP growth was 1.4% qoq (up from 0.10% qoq in 1Q18). This took the yearly growth to 4.2% yoy in 2Q18. However, the detailed reading of the Q2 GDP was somewhat of a disappointment, as growth was led by a surge in inventories. High frequency indicators showed something of a rebound, but were still below those of last year. Industrial production growth averaged 5.64% yoy in the first seven months of 2018, down from 9% in 2017. Retail sales growth averaged 7.14% yoy in the above-mentioned period (down from a 9.74% yoy average). Economic sentiment averaged 101.59 at the end of August 2018, down from a 104.49 average monthly reading in 2017. Hence, all the premises indicate the growth pace will decelerate. Our forecast is for a slowdown from 6.9% in 2017 to closer to 4.0% in 2018.

Inflation jumped to 5.06% yoy in August from 4.56% yoy a month earlier, mainly due to exogenous factors. However, the high statistical base effect set in 2017 will gradually lead yearly inflation lower, to 3.8% by year-end, as there is little room for further domestic fiscal stimulus measures.

### Financial Markets

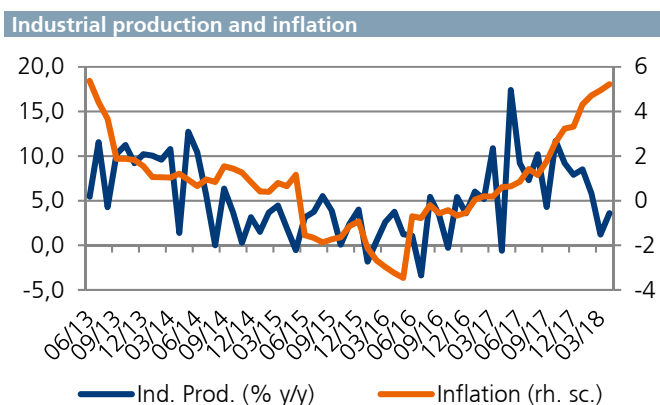
Lower inflation readings (as early as the June data print and later confirmed by the July data) have sparked appreciation of local currency bonds: the average 10Y yield declined in August to 4.89% from 5.11% in the previous month. Furthermore, despite the bounce in August inflation to 5.06%, market consensus is slowly starting to price in a pause in policy tightening this year, expecting the NBR to keep rates on hold at 2.50% in 2018. Turbulence in emerging markets foreign exchange (ie, Turkey, Argentina) has not spilled over into EUR/RON rates, and the RON saw slight appreciation in August, to an average of EUR/RON 4.64, down from 4.65 the previous month, as one of the highest policy rates (2.50%) insulated the RON from international speculative capital moves.

### Banking Sector

July banking sector data showed a robust performance of local currency credit, driven primarily by the household sector, which saw a strong increase of 21.3% (2Q18 average was 22.1%) while interest rates rose to 8.35% in July (up from 8.16% the previous month and 6.86% at the end of 2017). The level of household EUR-denominated loans continued to contract in July, to -9.9% (slightly better than -9.2% in 2Q18). The corporate sector saw broad-based improvement, but at a slower pace, with 3.3% overall credit growth. Current forecasts indicate that demand is likely to remain robust over the rest of the year, and current trends might continue, though not at the same pace.

Forecasts	2017	2018F	2019F
Real GDP yoy	6.9	4.2	3.6
CPI (avg)	1.3	4.9	4.2
Euro exchange rate (avg)	4.6	4.6	4.7
Euro exchange rate (end of period)	4.6	4.7	4.7
Short-term rate (avg)	1.2	2.6	2.9
Short-term rate (end of period)	2.1	2.9	3.2
L/T bond yields (avg)	4.0	4.8	5.2
Bank loans yoy (end of period)	5.6	4.4	4.0
Bank deposits yoy (end of period)	10.4	7.0	6.8

Source: Intesa Sanpaolo Research Department forecasts



Source: NBR



## Russia

## Real Economy

Economic growth of 1.8% in 2Q18 was in line with expectations. The Ministry of Economic Development expects the slowdown of economic growth to continue amid faster capital outflows and pessimism about the effects of new US sanctions. The GDP growth forecast for 2019 has been lowered to 1.5%, taking into consideration a forthcoming tax increase and more stringent monetary policy from the Russian central bank aimed at controlling inflation. The temporary decline in economic growth in 2019 will also result from the active phase of implementation of planned national projects postponed to 3Q19. The measures proposed by the government to increase the level of investment activity are expected to ensure higher economic growth in 2020.

Inflation remains at a low level. However, it looks likely to return to the target of 4% faster than the CBR had previously predicted. The average inflation forecasts for 2018 and 2019 have been revised upward, to 2.9% and 5.2%, respectively, amid exchange rate volatility and planned tax increases. The CBR forecasts an inflation rise at the beginning of 2019 due to scheduled tax increases, with the rate reaching 5-5.5% by the end of 2019. Annual inflation is expected to slow down to 4% in 2020, based on the expectations of a stronger RUB exchange rate.

## Financial Markets

On 14 September 2018, the CBR raised the key rate by 0.25pp, to 7.50%, for the first time since 2014 as inflationary risks have significantly increased. The CBR may consider the necessity for further increases in the key rate, taking into account the dynamics of inflation and risks posed by external conditions and the reaction of financial markets to them.

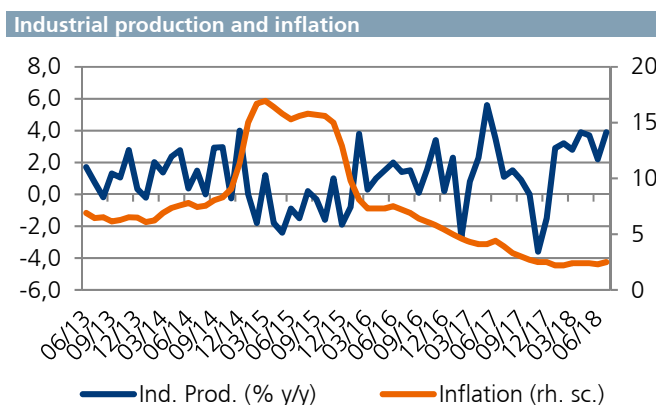
In August, the RUB weakened against the USD by 8% (the level last seen in March 2016). A general decline in EM currencies and the expectation of new sanctions are likely to continue to have an impact on the exchange rate. However, in the long run, we think the currency will remain stable. The decision to suspend the purchase of foreign currency in the domestic market is expected to limit volatility. Thus, the Ministry of Economic Development has not changed its forecast, expecting the average rate in 2019 to be around RUB 64/USD 1.

## Banking Sector

In the January-June period of 2018, bank assets increased by 1.6% in nominal terms. The growth in lending was mainly explained by higher growth rates of retail lending. Over the same period, deposits to individuals in nominal terms increased by 3.9% while deposits to corporate increased by 6.7%. The NPL ratio has consistently remained at 10.9% level. The trend in the medium term is expected to remain at the current level. Under the influence of external factors, financing conditions have tightened. Long-term yields have experienced a significant upward shift. Interest rates in the coming months are expected to increase slightly (+0.2-0.3pp on deposits and +0.1pp on loans). The key rate cut should allow deposit rates to remain above the inflation rate to support balanced consumption growth.

Forecasts	2017	2018F	2019F
Real GDP yoy	1.5	1.7	1.5
CPI (avg)	3.7	2.9	5.2
USD exchange rate (avg)	58.3	63.2	65.9
USD exchange rate (end of period)	58.6	67.0	65.0
Euro exchange rate (avg)	65.8	74.6	77.9
Euro exchange rate (end of period)	69.1	77.6	77.8
Short-term rate (avg)	9.4	7.6	7.9
Short-term rate (end of period)	8.1	8.0	7.9
L/T bond yields (avg)	7.8	7.9	8.5
Bank loans yoy (end of period)	5.2	6.8	7.1
Bank deposits yoy (end of period)	8.1	5.1	5.6

Source: Intesa Sanpaolo Research Department forecasts



Source: State Statistics Federal Service

## Serbia

### Real Economy

Economic growth in 2018 has been revised upwards from the previous June forecast of 3.8% yoy to 4.1% yoy as the economic performance in the first half of the year revealed higher-than-expected growth (4.9% yoy and 4.8% yoy in the first and second quarters, respectively), driven by all sectors on the production side of GDP: services, industry, agriculture and construction. On the expenditure side, consumption and investments were the main drivers of growth, while net export acted as a drag. Favourable trends are expected to continue in 2019, with projected growth of 3.3% yoy (vs the June forecast of 3.2% yoy).

Branka Babic

Looking ahead, CPI should remain within the target tolerance band in the next two years. CPI is likely to reach the midpoint (3%) of the target range in the first months of 2019 and to move below it for the rest of the year. Average inflation is projected at 2.1% in 2018 and 2.7% in 2019.

### Financial Markets

Monetary policy easing continued in the first half of 2018, when the key policy rate was cut twice by a total of 50bps, to 3.0% as of April 2018, its lowest level in the inflation targeting regime. The NBS is most likely to stay on hold for the rest of the year, remaining prudent in light of a higher GDP growth and inflation outlook. Beyond this period, expected ECB and Fed moves will play important roles. The caution in monetary policy conduct is still mandated, primarily because of uncertainties in the international commodity and financial markets, monetary policies of the leading central banks (the Fed and ECB), and uncertainties associated with geopolitical and trade tensions. However, from next year, the Serbian CB is likely to reverse its monetary policy trend (later in 2019), given the expected Fed and ECB moves.

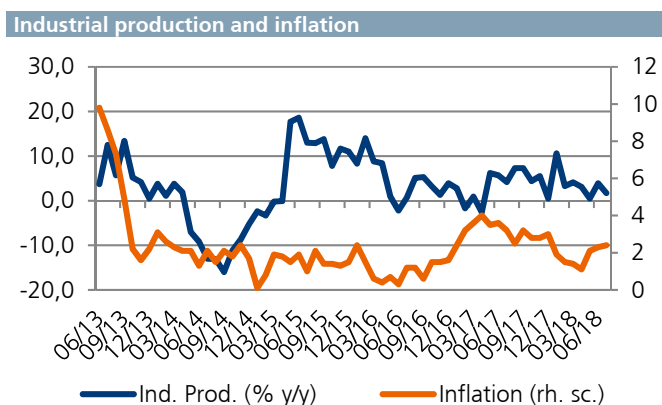
The dinar is likely to remain relatively stable throughout the year, with average values of 118.3 in 2018 and 118.7 in 2019 on the back of strong macro and fiscal fundamentals (mainly strong exports, capital inflows and fiscal surpluses). The dinar will continue to be supported by increased foreign investment in dinar bonds, strong FDI, increased tourism and stable fiscal movements, while the NBS is expected to continue to intervene in the FX market in case of stronger FX rate volatility.

### Banking Sector

Lending activity in Serbia is expected to increase further, by 4.5% in 2018 and 4.6% in 2019, driven by better economic performance, past monetary easing, low interest rates, and increased bank competition. Interest rates are expected to remain at a similar level to that in 2017, 8.8% on average in 2018, vs. 8.9% in 2017, while in 2019 rates are likely to change direction in line with the announced hike of reference rates.

Forecasts	2017	2018F	2019F
Real GDP yoy	1.9	4.1	3.3
CPI (avg)	3.2	2.1	2.7
Short-term rate (avg)	3.9	3.1	3.2
Short-term rate (end of period)	3.5	3.0	3.5
L/T bond yields (avg)	0.0	0.0	0.0
Bank loans yoy (end of period)	2.1	4.5	4.6
Bank deposits yoy (end of period)	3.1	4.5	5.0

Source: Intesa Sanpaolo Research Department forecasts



Source: Statistical Office, National Bank of Serbia

## Slovakia

## Real Economy

GDP growth rose in the second quarter, to 4.2% yoy from 3.6% yoy in 1Q18. It was boosted by the finalising of investment by Jaguar Land Rover, which built a new car factory in Slovakia. Fixed investments alone thus rose significantly, by 20.4%, over the year. Household consumption, in contrast, disappointed. Despite the increasing number of jobs and the rise in wages, it decelerated to 2.2% yoy from 3.5% yoy in the previous quarter. Growth in CEE-4 region is now expected to decelerate in 2019, after recording stellar numbers in 2017 and the beginning of 2018. The Slovak economy should, however, continue to grow at a stable rate of close to 4% yoy. In addition to common growth drivers in region, the Slovak economy should be boosted by recently increased car production capacity and an acceleration in EU funds drawdown, which lagged in the previous period. Potential US car tariffs pose a sizeable, but seemingly manageable, risk to growth, according to official calculations of the Ministry of Finance, potentially subtracting growth 0.1-0.3pp from headline GDP. Overall, risks to forecasts are skewed to the upside, whether considering the additional public stimulus or fast-growing wages, which could translate into higher private consumption.

Andrej Arady

Prices continue to grow fast on every front. Property prices grew 4.5-7% yoy in 2Q, depending on the methodology used; consumer prices grew at close to 3% yoy. The former should gradually decelerate, due to an expected slowdown of the mortgage market, while the latter are expected to keep a sustained profile due to wage pressures. The number of employed people in Slovakia rose to another all-time high, affecting wage growth, which could translate into more persistently high inflation.

## Financial Markets

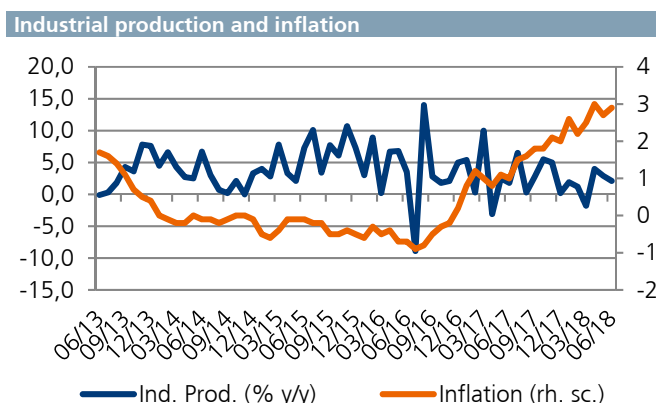
Yields on Slovak government bonds remain firmly associated with those of German Bunds, currently showing very low spreads below 40bps. Along with the expected end of the ECB's Asset Purchase Program, we expect spreads to gradually normalise to 60-80bps. This nevertheless means significantly lower spread widening than on periphery in the Eurozone.

## Banking Sector

In contrast to stable rates elsewhere in the Eurozone, Slovak average mortgage costs continued to decrease, widening the negative gap vs the Eurozone average. As to demand, the mortgage market experienced another "tsunami" in the summer, driven by concerns about future tightening of conditions on the market. Mortgage demand skyrocketed in July by 50%. Overall loan growth has remained stable at around 10% yoy, while deposit growth now hovers at around 6% yoy. The shortage of deposits vs loans thus continued to increase, with the LTD ratios in the market increasing to above 105%. Rising household incomes should anchor the growth of deposits at the current or even higher rates, while tighter regulations on the debt market should push the growth of loans down somewhat.

Forecasts	2017	2018F	2019F
Real GDP yoy	3.4	3.9	3.9
CPI (avg)	1.4	2.7	2.7
Short-term rate (avg)	-0.3	-0.3	-0.2
Short-term rate (end of period)	-0.3	-0.3	0.1
L/T bond yields (avg)	0.9	0.9	1.6
Bank loans yoy (end of period)	9.6	8.0	7.0
Bank deposits yoy (end of period)	5.2	5.2	5.4

Source: Intesa Sanpaolo Research Department forecasts



Source: Statistical Office of Slovak Republic

## Slovenia

## Real Economy

GDP growth slowed in the second quarter to 3.8% yoy (1Q: +4.5% yoy), as household expenditure eased to 1.1% yoy (from +3.3% in 1Q) and gross capital formation to 2.9% (+14.6% in 1Q). Government expenditure strengthened to 5.3% yoy (+1.2% in 1Q), exports rose by 9.3% (+8.7% in 1Q), and imports by 8.3% yoy (+10.5% in 1Q). Thus, the contribution of net exports in Q2 returned to positive territory (+1.7pp), after a brief slippage in 1Q. The beginning of 3Q was a bit of a mixed bag: industrial production and real retail trade turnover in July thinned somewhat, to 5.8% and 2.1% yoy, exports of goods accelerated to 16.3% yoy, whereas the labour market maintained its strong performance, with the number of unemployed falling in July by 10.2% yoy. Second-quarter developments and moderation of domestic and Euro Area growth trends at the beginning of 3Q support a modest revision of the 2018 GDP growth estimate, which now stands at 4.0% yoy, down from the 4.3% yoy expected in June. The estimate for GDP growth in 2019 remains unchanged at 3.5% yoy.

Ivan Odrčić

Inflation in the first eight months of the year amounted to 1.9% yoy, with pressures stemming mostly from rising housing (+3.9%) and food and non-alcoholic beverages (+3.0%) prices. Upward pressures remain moderate. Hence, we have toned down our 2018 and 2019 inflation projections to 2.0% and 2.2% yoy, respectively.

## Financial Markets

The forecast of the average 3M Euribor remains unchanged at -0.3% for 2018 and -0.2% for 2019, taking into account that since our last scenario, expectations regarding the Euro Area interest rate trends have not changed. Spreads between Slovenian 10Y government bond and Bund yields were raised to 70bps on average this year (+10bps) and 100bps in 2019 (+20bps). Still, as benchmark yields were cut, the 2018 average Slovenian government yield estimate remained the same, at 1.1%. However, the 2019 forecast was reduced by 30bps, to 1.8%.

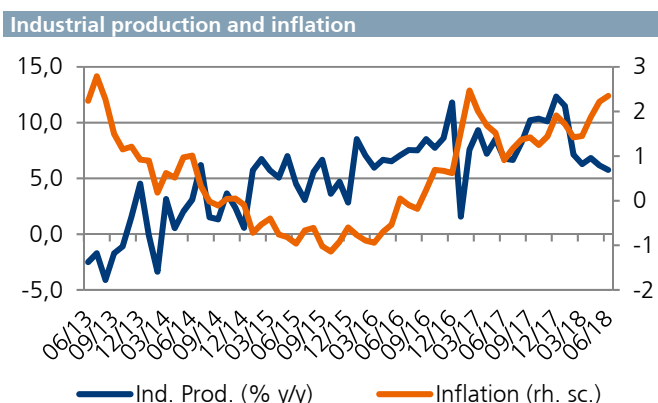
Ana Lokin

## Banking Sector

Loan growth in June-July 2018 stagnated at 2.6% yoy, with growth forecasts almost unchanged compared to the previous period. Household demand remained solid, as loans to households rose by 6.2% yoy in June and 6.3% yoy in July. Housing loans grew at a pace of around 4% yoy and consumer credit by over 11% yoy. Loans to non-financial corporations slid by 1.1% yoy in both June and July, reflecting increased financing from alternative sources (foreign funding, trade credits). As corporate loan demand slightly disappointed, we have adjusted our 2018 loan growth estimate down to 3.3% yoy; our 2019 projection remains at 3.4% yoy. Deposits continued to increase, rising by 7.7% yoy in June and 7.9% yoy in July, with corporate deposits growing at a rate of 11% yoy and household deposits accelerating to 6.4% in June and further to 6.7% yoy in July, which encouraged an upgrade of our 2018 deposit growth estimate to 6.5% yoy. Our 2019 forecast remains at 5.4% yoy.

Forecasts	2017	2018F	2019F
Real GDP yoy	5.0	4.0	3.5
CPI (avg)	1.6	2.0	2.2
Short-term rate (avg)	-0.3	-0.3	-0.2
Short-term rate (end of period)	-0.3	-0.3	0.1
L/T bond yields (avg)	1.0	1.1	1.8
Bank loans yoy (end of period)	3.2	3.3	3.4
Bank deposits yoy (end of period)	7.0	6.5	5.4

Source: Intesa Sanpaolo Research Department forecasts



Source: Statistical Office of the Republic of Slovenia

## Ukraine

## Real Economy

Real GDP growth accelerated to 3.4% in the first half of this year compared to 2.7% in the same period last year. This result followed the recovery in agricultural output, which in 2017 was penalised by adverse weather conditions and the strong growth in retail sales (+6.8% yoy), which benefitted from falling inflation and rising nominal wages. Construction activity, which last year reported a two-digit increase (28.9%), slowed significantly (+2.5% yoy from January to June 2018). On the demand side, in addition to domestic consumption, strong exports sustained GDP. The first-half numbers are consistent with a pace of growth this year above the 2.5% recorded in 2017, even discounting some slowdown in the second half due to the higher cost of credit and the uncertainty related to a less favourable external environment and the lingering freeze of financial support of the IMF. A delegation arrived in Kiev early this month to verify if the conditions are in place for the release of a new tranche of the loan.

Giancarlo Frigoli

## Financial Markets

In August, headline inflation edged higher, to 9% from 8.9% in July, while core inflation eased, to 8.7% from 8.8% the previous month. The NBU is maintaining its forecast made in July that inflation will retreat to 8.9% in 2018, shift to the target range (6%+/-2.5%) in late 2019, and meet the medium-term target of 5% in 2020. A further slowdown in inflation will be constrained by the expected increase in administered prices, which is aimed at bringing domestic gas prices closer to the import parity price. Similar to its July forecast, the NBU projects that sustained domestic consumer demand and high inflation expectations will continue to bolster price growth. At the same time, inflation will be curbed by the tight monetary policy conditions determined by the series of key policy rate hikes. Following September 17 rate hike, the main policy rate has increased by 350bps so far this year, to 18%.

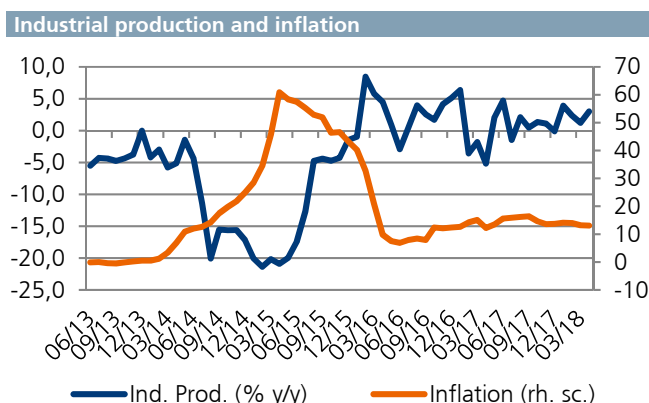
## Banking Sector

In June, banking aggregates experienced further growth. In line with the previous month, loans increased by 8.3% (+8.4% yoy in May), particularly in the household sector (+15.1% yoy), where hryvnia loans intensified their strong recovery (+41% yoy), accounting for 65% of total loans to the sector. In contrast, household loans denominated in foreign currency decreased by 14% yoy. This component expanded at a steady rate in the corporate sector (+3.2% yoy), but at a lower growth rate than loans in local currency (+9.6%). NPLs remained very high (55.7% as of June vs 56.5% as of March), concentrated in the state-owned banks. This is the main driver that underpins low loan forecasts (gradually strengthening to +5% in 2023). The credit/GDP ratio is expected to shrink to 21% in 2023. Deposits increased by 10.9% yoy in June, both from corporates (7.9% yoy) and households (12.4% yoy, still supported by remittances). Bank returns decelerated in 2Q18 (the ROE was 7.3% vs 16.25% in 1Q18) because of lower interest margins and higher noninterest expenses.

Davidia Zucchelli

Forecasts	2017	2018F	2019F
Real GDP yoy	2.5	3.3	3.2
CPI (avg)	14.5	11.4	9.2
USD exchange rate (avg)	26.6	27.3	28.6
Euro exchange rate (avg)	30.0	32.3	33.8
Short-term rate (avg)	16.8	18.1	17.0
L/T bond yields (avg)	0.0	0.0	0.0
Bank lending	0.9	4.2	4.3
Bank deposits	12.1	2.0	3.0

Source: Intesa Sanpaolo Research Department forecasts



Source: State Statistics Service of Ukraine

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

Economy																		
	GDP chg yoy			Ind. Prod <sup>1</sup> . chg.yoy			Export nom. ch yoy			Inflation chg yoy			FX reserves chg (mln €) <sup>2</sup>			CA bal. (mln €) <sup>3</sup>		
	2018	1018	2017	Last	mth	2018	Last	mth	2018	Last	mth	2018	2017	2018	1018	2017	2018	1018
<b>CEE</b>																		
Czech Rep.	2.4	4.0	4.3	6.7	Jul	2.3	10.0	Jul	1.8	2.5	Aug	2.2	2.5	n.a.	-163.8	46256	n.a.	2310
Hungary	4.8	4.6	4.0	6.2	Jul	4.1	11.0	Jul	6.8	3.4	Jul	2.7	2.4	n.a.	-984	-3858	n.a.	3603
Poland	5.1	5.2	4.5	10.3	Jul	7.1	2.2	May	n.a.	2.0	Jul	1.8	2.0	n.a.	3888	-7143	n.a.	378
Slovakia	4.2	3.6	3.4	2.1	Jun	3.0	14.6	Jul	9.8	2.6	Jul	2.9	1.4	n.s.	n.s.	n.s.	n.s.	n.s.
Slovenia	3.8	4.5	4.9	5.8	Jun	6.2	16.3	Jul	11.3	2.0	Aug	2.1	1.6	n.s.	n.s.	n.s.	1055	708
<b>SEE</b>																		
Albania	n.a.	4.5	3.7	n.a.	n.a.	n.a.	8.2	Jul	17.9	2.3	Jul	2.2	2.0	n.a.	-142	n.a.	n.a.	-165
Bosnia H.	n.a.	2.0	2.6	4.3	Jul	1.5	10.8	Jul	11.9	1.8	Jul	1.4	0.8	110	168	524	n.a.	-193
Croatia	2.9	2.5	2.9	-0.8	Jul	0.4	5.0	Jun	8.2	2.1	Jul	1.9	1.1	n.a.	774	2192	n.a.	-1902
Romania	4.2	4.2	6.9	4.6	Jun	3.1	12.9	Jul	10.4	4.6	Jul	5.3	1.3	-5830	2480	3895	-3781	-967
Serbia	4.8	4.9	1.9	1.7	Jul	2.5	13.3	Jul	6.2	2.4	Jul	1.8	3.2	541	551	-689	-255	-746
<b>CIS MENA</b>																		
Russia	1.8	1.3	1.5	3.9	Jul	3.3	23.8	Jun	30.7	3.1	Aug	2.4	3.7	924	21237	38476	na	30800
Ukraine	3.4	3.1	2.5	2.9	Jul	2.6	12.6	Jun	12.7	9.0	Aug	11.6	14.5	495	9	3688	37	-650
Egypt	5.4	5.4	5.0	8.4	Jun	5.3	24.8	May	24.7	14.2	Aug	13.0	29.6	1647	5591	12755	na	-1931
<b>m.i.F.A</b>	<b>2.1</b>	<b>2.5</b>	<b>2.4</b>	<b>-0.1</b>	<b>Jul</b>	<b>2.2</b>	<b>5.7</b>	<b>Jun</b>	<b>4.3</b>	<b>2.0</b>	<b>Aug</b>	<b>1.7</b>	<b>1.5</b>					

Source: Datastream, Reuters; <sup>1</sup>Wda data for Slovakia, Slovenia; Bosnia, Croatia, Egypt; <sup>2</sup>USD for Russia, Egypt, Ukraine, Romania; <sup>3</sup>USD for Russia, Egypt, Ukraine

Markets and Ratings																
	S/T rates <sup>1</sup>			L/T rates <sup>2</sup>			Foreign exchanges <sup>3</sup>			Stock markets		CDS spread (bp)		Rating		
	12/09	cha	bp 3M	12/09	cha	bp 3M	12/09	3M cha%	1Y cha%	3M cha%	1Y cha%	12/09	12/06	Moodys		
<b>CEE</b>																
Czech Rep.	1.2		0.3	2.2		0.1	25.6		-0.3		-2.1	1.0	5.1	34.5	34.5	A1/P
Hungary	0.2		0.1	3.4		0.3	324.7		0.9		5.9	-0.7	-5.2	81.6	81.6	Baa3
Poland	1.7		-0.1	3.2		0.0	4.3		0.8		1.4	-3.6	-12.3	56.3	64.1	A2
Slovakia	-0.3		0.0	0.8		0.0	Euro		Euro		Euro	1.1	0.9	41.2	41.3	A2/P
Slovenia	-0.3		0.0	1.0		-0.2	Euro		Euro		Euro	-3.5	6.8	65.0	59.5	Baa1
<b>SEE</b>																
Albania	1.2		0.0	n.a.		n.a.	126.9		-0.1		-5.0	n.a.	n.a.	n.a.	n.a.	B1
Bosnia H.	n.a.		n.a.	n.a.		n.a.	1.96		Board		Board	n.a.	n.a.	n.a.	n.a.	B3
Croatia	0.5		0.0	2.2		0.0	7.4		0.5		-0.2	-0.8	-3.1	93.2	99.6	Ba2
Romania	3.0		0.2	4.8		-0.2	4.6		-0.5		0.8	-0.4	3.2	83.6	83.6	Baa3/P
Serbia	3.0		0.0	n.a.		n.a.	118.3		0.1		-0.8	-0.8	10.2	109.8	109.8	Ba3
<b>CIS MENA</b>																
Russia	7.8		0.4	8.9		1.4	70.0		12.2		22.4	2.1	14.7	161.2	129.3	Ba1/P
Ukraine	18.6		0.4	14.5		0.0	28.1		7.6		7.8	-7.4	-10.1	502.9	393.5	Caa2/P
Egypt	19.1		0.4	17.9		2.7	17.9		0.3		1.5	-1.2	-5.0	349.2	273.5	B3/P
<b>m.i.F.A</b>	<b>-0.3</b>		<b>0.0</b>	<b>0.4</b>		<b>-0.1</b>	<b>1.2</b>		<b>-1.4</b>		<b>-2.7</b>	<b>-3.2</b>	<b>-3.9</b>	<b>5.1</b>	<b>6.3</b>	

Source: Datastream, Reuters; <sup>1</sup>The data for Albania refers to January, for Egypt refers to August, for Czech Republic refers to July; <sup>2</sup>For Ukraine, the long-term rate refers to a government issue in dollars; <sup>3</sup>The (-) sign indicates appreciation.

Aggregates and bank rates for the private sector																							
	Loans			NPL/Loans			Foreign Liab.			Deposits			Loans rate <sup>1</sup> -NewB*.			DepositsRate <sup>1</sup> -NewB*.			Loans/Dep				
	Chg yoy %	Last	Mth 2017	%	Last	mth 2017	Chg yoy %	Last	mth 2017	Chg yoy %	Last	Mth 2017	%	Last	mth 2017	%	Last	mth 2017	%	Last	mth 2017		
<b>CEE</b>																							
Czech Rep.	6.2	Jul	6.5	3.3	Jul	4.0	9.3	Jun	70.2	5.6	Jul	7.6	2.85	Jul	2.33	C	0.8	Jul	0.66	H	77.0	Jul	75.8
Hungary	9.1	Jul	6.0	4.6	Mar	5.3	4.5	Jul	12.2	16.8	Jul	10.8	2.37	Jul	2.5	C	0.19	Jul	0.24	H	79.2	Jul	80.1
Poland	5.8	May	3.2	4.1	Jun	3.9	-11.3	Apr	-13.0	5.5	May	3.7	3.51	May	3.66	C	1.73	May	1.65	H	101.8	May	98.3
Slovakia	9.6	Jul	9.6	3.7	Jul	4.0	-20.2	Jul	-6.0	6.5	Jul	5.2	2.28	Jul	1.97	C <sup>2</sup>	0.06	Jul	0.07	H <sup>2</sup>	100.8	Jul	98.8
Slovenia	2.6	Jul	3.2	4.6	Jul	6.0	-7.1	Jul	-13.4	7.9	Jul	7.0	2.21	Jul	2.41	C <sup>2</sup>	0.15	Jul	0.14	H <sup>2</sup>	76.8	Jul	78.3
<b>SEE</b>																							
Albania	-2.6	Jun	0.5	13.3	Jun	13.2	12.6	Jun	0.0	-1.6	Jun	-1.3	8.33	Jun	8.12	PS	0.79	Jun	0.8	PS	52.7	Jun	53.3
Bosnia H.	6.2	Jul	7.3	9.3	Jun	10.0	11.3	Jul	4.6	9.7	Jul	9.0	3.21	Jul	3.51	C	0.27	Jul	0.23	H	107.8	Jul	108.4
Croatia	1.8	Jul	-0.1	11.2	Jun	11.4	-12.8	Jul	-17.8	4.3	Jul	2.4	5.99	Jul	6.41	PS	0.41	Jul	0.68	PS	79.1	Jul	78.6
Romania	6.7	Jul	5.6	5.7	Jun	6.4	-12.2	Jul	-9.1	10.7	Jul	10.4	7.28	Jul	5.88	PS	2.25	Jul	1.08	PS	78.4	Jul	76.7
Serbia	3.7	Jul	2.1	7.8	Jun	9.8	30.9	Jul	14.4	7.8	Jul	3.1	8.79	Jul	8.2	PS	2.6	Jul	2.85	PS	101.3	Jul	101.3
<b>CIS MENA</b>																							
Russia	9.7	Jun	5.2	10.9	Jun	10.0	-5.5	May	-17.5	9.1	Jun	8.1	8.82	Jun	9.43	C	5.1	Jun	5.27	H	105.7	Jun	104.8
Ukraine	8.3	Jun	0.9	55.7	Jun	54.5	-10.1	Jun	-23.5	10.9	Jun	12.1	18.29	Jun	17.51	PS	11.49	Jun	9.56	PS	125.2	Jun	123.0
Egypt	10.4	Jun	7.1	4.5	Mar	4.9	5.2	Jun	1.1	20.7	Jun	23.8	17.6	Jun	19.8	C	12.0	Jul	13.6	H	34.3	Jun	33.9
<b>m.i.E.A</b>	<b>2.3</b>	<b>Jun</b>	<b>2.2</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>7.9</b>	<b>Jun</b>	<b>-2.7</b>	<b>3.6</b>	<b>Jun</b>	<b>1.9</b>	<b>1.2</b>	<b>Jul</b>	<b>1.3</b>	<b>C</b>	<b>0.3</b>	<b>Jul</b>	<b>0.4</b>	<b>H</b>	<b>81.1</b>	<b>Jun</b>	<b>81.9</b>

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

## Country Outlook

The economy											
	2015	2016	2017	2018F	2019F		2015	2016	2017	2018F	2019F
<b>GDP (% yoy)</b>						<b>Inflation (average)</b>					
<b>CEE</b>						<b>CEE</b>					
Czech Rep.	5.3	2.6	4.3	2.9	2.6	Czech Rep.	0.3	0.7	2.5	2.2	2.2
Hungary	3.4	2.2	4.0	4.2	3.0	Hungary	-0.1	0.4	2.4	2.8	3.1
Poland	3.7	2.8	4.5	4.6	3.5	Poland	-0.7	-0.6	2.0	1.9	2.4
Slovakia	3.8	3.3	3.4	3.9	3.9	Slovakia	-0.3	-0.5	1.4	2.7	2.7
Slovenia	2.3	3.1	5.0	4.0	3.5	Slovenia	-0.8	-0.2	1.6	2.0	2.2
<i>Average</i>	3.9	2.7	4.3	4.1	3.3						
<b>SEE</b>						<b>SEE</b>					
Albania	2.6	3.5	3.7	4.1	3.7	Albania	1.8	1.3	2.0	2.2	2.7
Bosnia Herzegovina	3.1	3.1	2.6	2.8	3.0	Bosnia Herzegovina	-1.0	-1.6	0.8	1.4	1.8
Croatia	2.4	3.5	2.9	2.7	2.6	Croatia	-0.5	-1.1	1.1	1.8	2.2
Romania	4.0	4.8	6.9	4.0	3.6	Romania	-0.6	-1.5	1.3	4.6	3.7
Serbia	0.8	2.8	1.9	4.1	3.3	Serbia	1.4	1.1	3.2	2.1	2.7
<i>Average</i>	3.2	4.2	5.2	3.8	3.4						
<b>CIS</b>						<b>CIS</b>					
Russia	-2.8	-0.2	1.5	1.7	1.5	Russia	15.6	7.1	3.7	2.9	5.2
Ukraine	-9.8	2.4	2.5	3.3	3.2	Ukraine	48.5	14.9	14.5	11.4	9.2
<i>Average</i>	-3.4	0.0	1.6	1.8	1.6						
<b>MENA</b>						<b>MENA</b>					
Egypt	4.5	3.9	5.0	5.4	5.2	Egypt	10.4	13.7	29.6	14.0	13.6
<b>Average ISP Subsidiaries</b>	0.1	1.6	3.1	3.0	2.7						
Market											
	2015	2016	2017	2018F	2019F		2015	2016	2017	2018F	2019F
<b>Exchange rate (average)</b>						<b>Interest rate (average)</b>					
<b>CEE</b>						<b>CEE</b>					
Czech Rep.	27.3	27.0	26.3	25.6	24.9	Czech Rep.	0.3	0.3	0.4	1.1	1.5
Hungary	309.9	311.3	309.1	319.4	316.9	Hungary	1.6	1.0	0.1	0.1	0.3
Poland	4.2	4.4	4.3	4.2	4.3	Poland	1.7	1.6	1.5	1.7	2.0
Slovakia						Slovakia	0.0	-0.3	-0.3	-0.3	-0.2
Slovenia						Slovenia	0.0	-0.3	-0.3	-0.3	-0.2
<b>SEE</b>						<b>SEE</b>					
Albania	139.7	137.4	134.6	130.1	129.2	Albania	2.9	1.1	1.3	1.0	1.1
Bosnia Herzegovina	1.96	1.96	1.96	1.96	1.96	Bosnia Herzegovina	n.a.	n.a.	n.a.	n.a.	n.a.
Croatia	7.6	7.5	7.5	7.4	7.5	Croatia	1.2	0.9	0.6	0.5	0.5
Romania	4.4	4.5	4.6	4.6	4.7	Romania	1.3	0.8	1.2	2.7	2.9
Serbia	120.8	123.1	121.4	118.3	118.7	Serbia	6.1	4.1	3.9	3.1	3.2
<b>CSI MENA</b>						<b>CIS MENA</b>					
Russia (USD)	61.0	67.1	58.3	63.2	65.9	Russia	14.1	11.2	9.4	7.6	7.9
Ukraine (USD)	21.4	25.5	26.6	27.3	28.6	Ukraine	25.9	20.9	16.8	18.1	17.0
Egypt (USD)	7.7	10.1	17.8	17.8	17.9	Egypt	11.3	14.1	19.3	18.2	15.7
Bank											
	2015	2016	2017	2018F	2019F		2015	2016	2017	2018F	2019F
<b>Loans to private sector (% change yoy)</b>						<b>Deposit by private sector (% change yoy)</b>					
<b>CEE</b>						<b>CEE</b>					
Czech Rep.	6.6	6.7	6.5	6.2	5.2	Czech Rep.	7.1	5.8	7.6	6.0	5.5
Hungary	-12.3	-1.9	6.0	6.2	5.0	Hungary	7.5	6.3	10.8	9.0	6.5
Poland	7.3	5.3	3.2	4.1	4.5	Poland	10.0	9.2	3.7	4.9	5.0
Slovakia	8.7	10.3	9.6	8.0	7.0	Slovakia	9.9	4.6	5.2	5.2	5.4
Slovenia	-5.4	-2.3	3.2	3.3	3.4	Slovenia	5.8	7.2	7.0	6.5	5.4
<b>SEE</b>						<b>SEE</b>					
Albania	-3.5	0.2	0.5	-1.0	1.0	Albania	1.0	2.7	-1.3	-0.5	1.5
Bosnia Herzegovina	2.0	3.5	7.3	6.3	5.5	Bosnia Herzegovina	7.8	7.4	9.0	8.5	6.0
Croatia	-3.1	-4.3	-0.1	2.0	1.7	Croatia	6.3	2.8	2.4	1.5	1.7
Romania	3.0	1.2	5.6	5.0	4.1	Romania	8.6	8.2	10.4	6.0	5.8
Serbia	3.0	2.4	2.1	4.5	4.6	Serbia	7.1	11.5	3.1	4.5	5.0
<b>CIS</b>						<b>CIS</b>					
Russia	8.2	-4.2	5.2	6.8	7.1	Russia	18.8	-3.9	8.1	5.1	5.6
Ukraine	-3.8	2.0	0.9	4.2	4.3	Ukraine	1.5	9.1	12.1	2.0	3.0
<b>MENA</b>						<b>MENA</b>					
Egypt	18.0	42.8	7.1	14.2	11.2	Egypt	20.4	41.4	23.8	16.2	14.0

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@intesasnpaolo.com
<b>ISP - Research Department (Milan)</b>	
Giancarlo Frigoli (CIS, MENA and Lat. Am. Countries)	giancarlo.frigoli@intesasnpaolo.com
Silvia Guizzo (Emerging Asia)	silvia.guizzo@intesasnpaolo.com
Antonio Pesce (CEE and SEE Countries)	antonio.pesce@intesasnpaolo.com
Wilma Vergi (Trade and Industry)	wilma.vergi@intesasnpaolo.com
Davidia Zucchelli (Banks and Financial Markets)	davidia.zucchelli@intesasnpaolo.com
<b>International Subsidiaries' Research Departments:</b>	
<b>VUB (Slovakia and Czech Republic)</b>	
Zdenko Štefanides (Head)	zstefanides@vub.sk
Andrej Arady	aarady@vub.sk
<b>PBZ (Croatia, Bosnia I Hercegovina and Slovenia)</b>	
Ivana Jovič (Head)	ivana.jovic@pbz.hr
Ana Lokin	Ana.lokin@pbz.hr
Ivan Odrčić	ivan.odrcic@pbz.hr
<b>CIB (Hungary and Poland)</b>	
Mariann Trippon (Head)	trippon.mariann@cib.hu
Sandor Jobbagy	jobbagy.sandor@cib.hu
<b>Banca Intesa (Serbia)</b>	
Marija Savic (Head)	marija.v.savic@bancaintesa.rs
Branka Babic	branka.babic@bancaintesa.rs
Tijana Matijasevic	tijana.matijasevic@bancaintesa.rs
<b>Intesa Sanpaolo Bank (Romania)</b>	
Sebastian Maneran (Head)	sebastian.maneran@intesasnpaolo.ro
<b>Alexbank (Egypt)</b>	
Samer Halim (Head)	samer.halim@alexbank.com
Sahar EzzElarab	sahar.ezzelarab@alexbank.com
Hemat El Masry	hemat.elmasry@alexbank.com
Mirna Mhosen	mirna.mohsen@alexbank.com
Mariam Massoud	mariam.massoud@alexbank.com
Nahla Abdel Azim	nahla.azim@alexbank.com
<b>International Subsidiaries' Research Contacts:</b>	
<b>Banca Intesa (Russia)</b>	
Irina Lekareva	Irina.lekareva@bancaintesa.ru
<b>Intesa Sanpaolo Bank (Albania)</b>	
Kledi Gjordeni	kledi.gjordeni@intesasnpaolobank.al

## Analyst Certification and Other Important Information

The financial analysts drafting this report state that the opinions, forecasts, and estimates contained herein are the result of independent and subjective evaluation of the data and information obtained and no part of their compensation has been, is, or will be directly or indirectly linked to the investment strategy recommended or proposed in this report.

This report has been produced by Intesa Sanpaolo S.p.A. The information contained herein has been obtained from sources that Intesa Sanpaolo S.p.A. believes to be reliable, but it is not necessarily complete and its accuracy can in no way be guaranteed. This report has been prepared solely for information and illustrative purposes and is not intended in any way as an offer to enter into a contract or solicit the purchase or sale of any financial product. This report may only be reproduced in whole or in part citing the name Intesa Sanpaolo S.p.A.

This report is not meant as a substitute for the personal judgment of the parties to whom it is addressed. Intesa Sanpaolo S.p.A., its subsidiaries, and/or any other party affiliated with it may act upon or make use of any of the foregoing material and/or any of the information upon which it is based prior to its publication and release to its customers. Intesa Sanpaolo S.p.A., its subsidiaries and/or any party affiliated with it, may from time to time have a long or short position in the aforementioned financial products.