Economic and Banking Outlook
Countries with ISP subsidiaries

September 2019

Quarterly note

Intesa Sanpaolo
International Research Network

GDP growth is forecast to slow down in the CEE/SEE area in 2019-2020, driven by less supportive global trade and German and EA business cycle. Overall, monetary conditions are seen as being accomodative for an extended period.

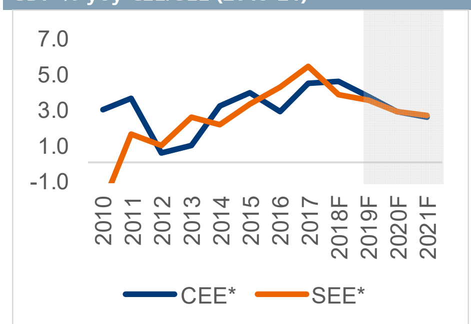
Following the release of 2Q19 GDP data and the latest high frequency economic indicators, we have revised upwards the growth forecasts for 2019, from 3.7% to 3.8% in the CEE area and from 3.3% to 3.5% in the SEE area, but keep them below the peaks of 2018. GDP growth is forecast to further decelerate (towards 2.9% in both areas) in 2020, mainly due to less favourable external conditions (the weakening of global trade and of German and EA business cycle). In the CIS area, we see a weaker growth in Russia (+1% vs. 1.3%) and a stronger pace in Ukraine (+3.2% vs. 2.5%) in 2019 but confirm in both cases the June forecasts (1.5% and 2.9%, respectively) for 2020. In Egypt, the recovery in tourism and the faster exploitation of the new gas reserves are expected to lead the GDP growth towards 6% in the medium term.

Inflation forecasts have been revised slightly upwards in the CEE/SEE areas in 2019 (to 2.6% from 2.4% in 2018) due to the rebound in energy prices, as well as increased pressures stemming from positive output gaps and tight labour markets. Inflation is expected to remain in (or return to, for Romania) the tolerance intervals set by the CBs, but closer to their central targets in the presence of a softening of the economic cycle. In the CIS area, in line with the CBR's forecasts, we expect that inflation will converge to the 4% target by 2020. As for Ukraine (and Moldova after the peak expected for this year end) we forecast inflation to decelerate and reach the CB's 5% target in the medium term. In Egypt, we have cut our June inflation forecast.

Thanks to softening inflationary pressures and to the dovish package adopted by the ECB in its September meeting, monetary conditions in CEE/SEE area are forecast to remain accommodative for a more extended period than previously anticipated. An increase in policy rates is no longer expected in 2019-20 in the countries where they have not been raised so far (including Hungary and Poland, where the market had started to incorporate expectations of upward rate moves); in parallel, a pause in the tightening is forecast where the policy reversal had already been put in place (as was the case in Czech Republic and Romania). Outside the region, the easing cycle still has some way to go in Russia and especially in Ukraine and Egypt. The forecasts for the bond yield profiles in the CEE/SEE area have been revised sharply downwards due to the recent shift in the bond yields of EA benchmarks, together with the overall decrease in sovereign spreads.

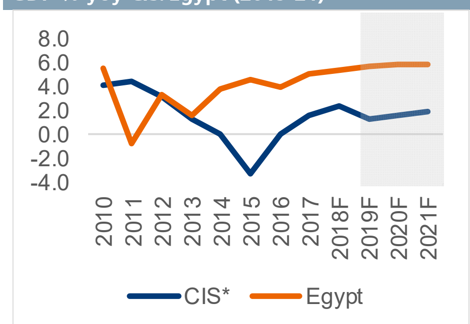
Growth in lending is forecast to slow slightly (even if on a higher than previously foreseen path) in CEE/SEE countries, from a 7.7% average in 2018 to 6.6% in 2019 and 5.1% in 2020, due to the expected softening of the business cycle. However, it is expected to catch up with nominal GDP growth overall in the medium term. The dynamic of household loans, still supported by the low interest rate environment, is expected to remain stronger than that of corporates, but on a decreasing path, partly due to the measures adopted by several CBs to avoid excess credit expansion in several CEE countries. In the CIS region, lending growth has also been forecast to decelerate in 2019-2020, especially in Ukraine (0.6% in 2019, partly affected by accounting factors). It is forecast to remain in double digits in Egypt, but still below nominal GDP growth. Funding and liquidity conditions should remain supportive, with an implicit decline in LTD ratios. The profile of banking interest rates has been broadly revised downwards, driven by easier money market rates, with further margin spread (and mark-down) contraction.

GDP % yoy CEE/SEE (2019-21)



Sources: ISP Research Department forecasts; note * weighted average

GDP % yoy CIS/Egypt (2019-21)



Sources: ISP Research Department forecasts; note * weighted average

The figures in this document have been updated to 16th September 2019.
See the final page for important information.

Contents

ALBANIA
INTESA SANPAOLO BANK Albania

ROMANIA
INTESA SANPAOLO BANK Romania

SLOVAKIA AND CZECH REPUBLIC
VÚB BANKA

BOSNIA AND HERZEGOVINA
INTESA SANPAOLO BANKA Bosna i Hercegovina

RUSSIAN FEDERATION
BANCA INTESA

SLOVENIA
INTESA SANPAOLO BANK

CROATIA
PRIVREDNA BANKA ZAGREB

SERBIA
BANCA INTESA Beograd

HUNGARY
CIB BANK

EGYPT
ALEXBANK | بنك الإسكندرية

UKRAINE
ПРАВЕКС БАНК

MOLDOVA
EXIMBANK

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

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

The Economic and Banking Outlook is released on a quarterly basis in March, June, September and December.

Cross Country Analysis

Recent developments

Gianluca Salsecci, Giancarlo Frigoli, Antonio Pesce and Davidia Zucchelli

In the CEE region, GDP growth in 2Q19 (+3.9% yoy) continued to soften from the previous quarter's trend (+4.5%) and remained well below the 4Q17 peak (4.9%), but nevertheless remained quite strong when compared with other world areas. The good performance was widespread in the region but with some differences, as country-specific growth rates ranged from 1.9% in Slovakia to 4.9% in Hungary. The breakdown of GDP data shows that economic growth was supported by domestic demand (4.3pp) while the contribution of net exports was negative (-0.4pp). Overall, private consumption grew by 3.7% yoy in 2Q (from 3.6% in 1Q19) and gross fixed capital formation (GFCF) by 6.7% yoy (from 6.1% in 1Q19), while public consumption decelerated to 2.9% (from 4.9% in the previous quarter).

Economic dynamic continued to be robust in the CEE/SEE areas in 2Q19, but on a decreasing path

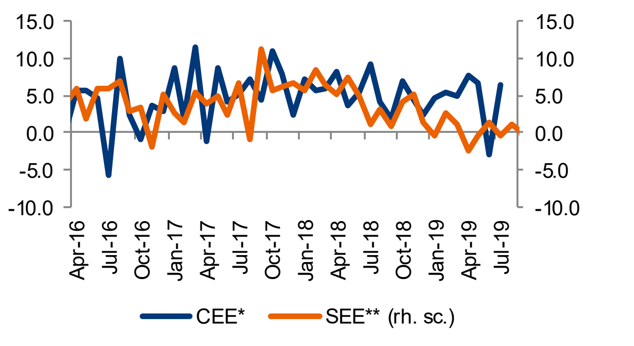
In the SEE region, GDP growth (excluding Albania and Bosnia, where Q2 GDP data has not yet been released) was, on average, 3.7% yoy in 2Q19, below 1Q19 but still high thanks to Romania, which recorded the highest growth in the region (4.7% yoy), and despite the low pace observed in Croatia (2.4%). The breakdown of GDP data reveals that the contribution of net exports was negative in this area (-1.9pp), while the domestic side contributed positively by 5.6pp. GFCF, after the contraction in the last three quarters of 2018 (-0.5% yoy) and the recovery in 1Q 2019 (5.5% yoy), improved further in 2Q (13%), due largely to the contribution of EU structural funds. Private and public consumption also remained strong (4.2% yoy and 2.3% yoy, respectively).

Moderate increase of inflation in the last months

With the price of Brent rising from USD 55 p/b in January to USD 66 p/b in the last weeks, the recovery in inflation from the start of the year continued, according to the most recent releases (August for CEE and July for SEE countries), with the trend of consumer prices recorded, on average, at 2.9% and 3.0%, respectively. Price pressures come from tight labour market conditions and the still positive (but now closing) output gap. Inflation ranged from 2.4% in Slovenia to 3.1% in Hungary among CEE countries in August, and between 0.5% in Bosnia and 4.1% in Romania in the SEE in July.

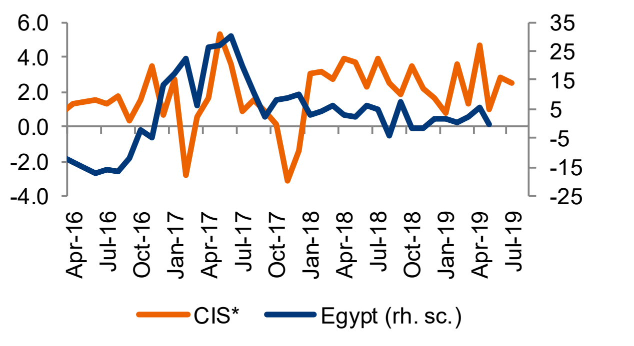
Monetary policy rates have been kept unchanged or further cut (this is the case in Serbia, where the NSB delivered two 25bps key rate cuts in July and August) in CEE/SEE countries overall, to help retain accommodative conditions. In financial markets, long-term yields have dropped sensibly in all the countries of the CEE/SEE region, in parallel with the strong downward shift of yields on 10-year Bunds (currently at -0.5%), accompanied by a small corresponding reduction in local sovereign spreads. Due to the softening (in several cases negative) of export trends and of market expectations on the future course of monetary policy by local central banks (following the decisions taken by the ECB in the EA), exchange rates have depreciated in some countries, in particular in Hungary (where the forint is now close to an all-time high of 333 against the euro).

Industrial production % yoy – CEE/SEE



Sources: National statistics offices; note * weighted average on Slovakia, Slovenia and Hungary data; ** weighted average of Bosnia, Croatia, Romania and Serbia data

Industrial production % yoy – CIS/Egypt



Sources: National statistics offices; note * weighted average of Russia, Ukraine and Moldova data

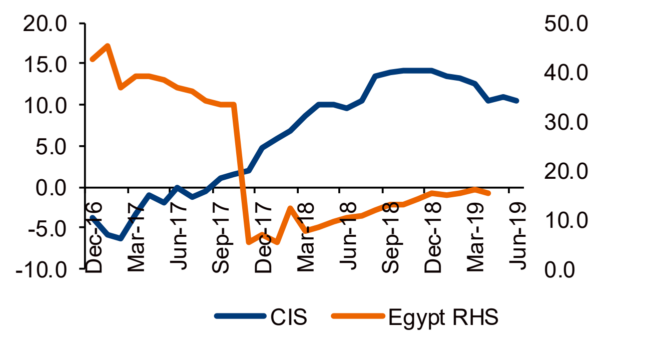
In the CIS region, in Russia, GDP expanded by an average of just 0.7% yoy in H119, compared with 2.3% over 2018. The inflation slowdown is continuing and the annual consumer price growth rate declined to 4.3% in August (from 4.6% in July). Subsequently, on September 6 the CBR decided to cut the key rate by 25 bp for the third time so far this year, taking it down to 7.00%. In Ukraine real GDP growth accelerated to 4.6% in 2Q19 from 2.5% in 1Q19, led by still strong construction (+25.2%) and sales (+11.2%). Following benign inflation outcomes (headline inflation eased to 8.8% in August) the NBU cut its policy rate by 50bps at its early September meeting. The reference rate is now down to 16.5%, from 18% at the start of this year. Moldova posted annual consumer price inflation of 5.5% in August. Moldova's central bank expects inflation to peak at about 8% by end 2019, well above the 5% ± 1.5% target, before falling towards the lower end of the target range by mid-2021. On July 31, BNM decided to increase its key rate to 7.5% from 7.0%, aiming to keep inflation close to the target level.

The Egyptian CB cut its overnight deposit rate by a larger-than-expected 150bps at its August policy meeting (to 14.25%) and with inflation likely to fall further in the coming months, much more easing lies in store. The headline inflation rate came in at 7.5% yoy in August, down from 8.7% yoy in June (with core at 5.9% vs. 6.4%). It was the lowest rate of inflation since January 2013 and is now below the central point of the 9% ± 3% target range set for end 2020. Production at the giant Zohr gas field, which reached 2.7 billion cubic feet per day in August, is well ahead of schedule. This gas output is one of the mainstays of the country's GDP growth.

Banking aggregates slowed in 1H19 but still showed a strong dynamic in CEE/SEE countries. Loans to households slightly decelerated in many countries (but still grew by 6.7% in the Czech Republic and 9.1% in Slovakia) while the dynamic of loans to corporates was more diversified. It moved into positive territory in Albania (+3.2% yoy as of June) and in Serbia (+8.7%) and showed an outstanding increase in Hungary (+14.8%, supported by the new Funding for Growth Scheme Fix launched in January 2019). However, corporate loans disappointed in Croatia (-2.5% yoy in June, mainly due to the write-off of irrecoverable claims of the Agrokor Group). The NPL ratio remained above 10% in Albania and was almost as high in Croatia (9.5%) but improved overall in the regions. Despite low interest rates, deposits increased vigorously in Serbia (+10.4%) and in Poland (+10.9%). They decelerated, however, in Hungary (+5.5%) among households (+8%) and corporates (+2.9%). Deposit interest rates remained unchanged in June, while lending rates decreased in most cases, putting pressure on spreads.

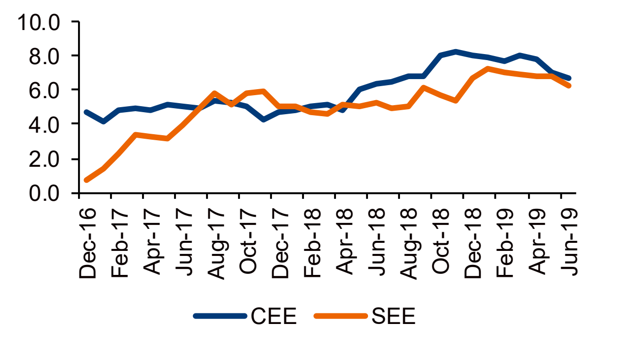
In the CIS area, loans continued on an increasing path in Moldova (+17% yoy as of June) and in Russia (+11.3% yoy), driven by household loans (+39% and +22.8%, respectively). In contrast, Ukrainian loans confirmed a very modest increase (+0.4%), dragged down by corporate loans (-2.8% yoy under the weight of high NPLs), while households grew by 13.5% yoy, especially in consumer loans. Deposit performance remained good in the area at about +10%. In line with money market rates, banking interest rates rose in Ukraine (to 15.2% on household deposits and to 18.2% on corporate lending). In Egypt, banking aggregates were still dynamic as of April (loans 15.3% and deposits 11.8%) in nominal terms.

Lending growth (% yoy changes, weighted averages)



Sources: ISP Research Department elaborations on central banks' data

Lending growth (% yoy changes, weighted averages)



Sources: ISP Research Department elaborations on central banks' data

The international outlook underlying the scenario

Recession concerns on the rise both in the US and the euro area

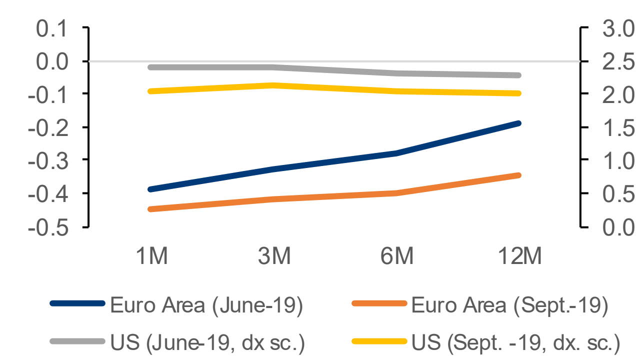
In the US, as largely expected, the FOMC cut its main policy rate by 50bps in two moves at its end-July and mid-September meetings. An additional 25bp cut is penciled in by year end, and a further 25bp in 1Q20, taking the target range rate to 1.25-1.50%. This shift in monetary policy mainly reflected worries about the softening of the world economic cycle and the uncertainties around the trade dispute with China. The softening of global growth has been worsening in 1H19 as world manufacturing and trade dynamics trends decreased in real terms to 0.9% and -0.4%, respectively, yoy in 2Q, according to the CPB statistics. The factors behind the weakness in the US are concentrated in the manufacturing sector (the ISM manufacturing index fell below the 50 threshold in August) and in foreign trade. The US yield curve has inverted its slope, an event which has often anticipated a recession in one year.

In the euro area, German government bond yields are now negative across the curve. The gloom in the bond market is justified by the fact that German industry is in a technical recession, hit by increasing uncertainties related to the US-China trade war and the likelihood of a "no deal" Brexit. The ECB trimmed inflation growth projections for 2019 and 2020 in September compared with June, providing support for a fresh stimulus package. GDP growth is forecast at 1.1% (from 1.2% previously) this year and at 1.2% (from 1.4% previously) in 2020, while inflation is seen at 1.2% (from 1.3% previously) in 2019 and 1% (from 1.4% previously) in 2020. At its September policy meeting, the ECB decided to cut the deposit rate to -0.5% and announced the resumption of the asset purchase programme (APP) for an amount of EUR 20bn per month starting in November, leaving open (and inflation data-dependent) its duration.

New widespread rate cuts in emerging countries

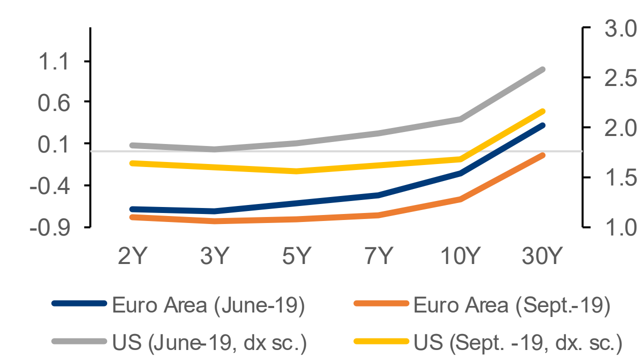
Following the dovish tone of major CBs in advanced countries, financial markets also eased among emerging countries. Long yields and CDS spreads have fallen, even in those countries with large current account shortfalls, with no apparent contagion effects from the ongoing Argentine and Turkish crises. The weakening of major EM currencies (with few exceptions) against the US dollar did not deter policymakers from continuing their easing cycle. CBs in Latin America (including Brazil, Chile, Mexico and Peru), in CIS (Russia and Ukraine), Eastern Europe (Turkey was particularly aggressive with a cumulative 7.5% interest rate reduction), MENA (Egypt), SSA (South Africa) and Asia (India, Indonesia and Philippine) all cut policy rates during the summer due to growing worries about global growth and thanks to supportive local inflation rates overall. The EM manufacturing PMI rose for the second successive month to 50.4 in August, from 50.1 in July, but surveys continue to contain sluggish growth perspectives. The EM new export orders index of the PMI fell to a three-year low of 48.7, suggesting that the EM export volume trend remains subdued. While this may reflect fears stemming from the escalation of the US-China trade dispute last month, it is also consistent with the weakness of the surveys in the developed world.

Benchmark monetary rates



Source: ISP elaboration on Datastream data

Yield curves



Source: ISP elaboration on Datastream data

The economic outlook

GDP growth and inflation

The last releases of high frequency economic indicators signal an ongoing weakening of the business cycle in the **CEE/SEE regions** in 3Q19. In July and August, the ESIs were lower than in 2Q19 in all CEE countries. In Hungary, where the economy has so far beaten expectations, in August the PMI manufacturing index was lower than in 2Q but above the level of 50. Among the SEE countries, the ESI fell in Croatia but continued to improve in Romania, where 2Q economic growth was also above expectations. Despite the modest upwards revision of our forecasts for 2019 by 0.1pp in CEE (from 3.7% to 3.8%) and by 0.2pp in SEE (from 3.3% to 3.5%), thanks to the better-than-anticipated GDP performance in Hungary and Romania in 2Q19, GDP growth is still expected to remain on a decelerating path in both regions for this year (at 3.7% on average compared with 4.4% in 2018) and in 2020 (down to 2.9% on average), dragged down by less favourable external conditions (mainly global trade and the German manufacturing weakening).

Average GDP growth forecasts have been revised slightly upward in 2019 in the CEE/SEE areas in comparison with our June note

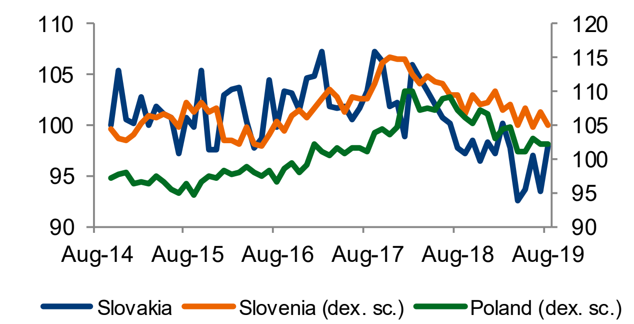
Inflation forecasts have also been revised slightly upwards in the CEE/SEE regions in 2019 to 2.6% from 2.4% in 2018. The revision came after incorporating the higher-than-expected consumer price dynamic in the first months of the year due to a rebound in energy prices and increasing domestic pressures stemming from positive output gaps and tight labour markets. For 2020, inflation is expected to stay in the tolerance intervals while moving closer to the central target values (2.5% is the regional average) set by the CBs due to the softening of the economic cycle.

In the **CIS area**, after the release of 1H19 GDP data, we now forecast weaker growth in **Russia** this year (+1%) but are more optimistic on **Ukraine** (+3.2%) with respect to our June forecasts (1.3% and 2.5%, respectively), while confirming our forecasts for 2020 in both cases (1.5% and 2.9%, respectively) and in **Moldova** (3.4%). In the **MENA region**, the recovery in tourism and the faster exploitation of gas reserves are expected to keep **Egypt** on a solid pace of growth in the medium term, with GDP growth moving close to 6%.

In CIS countries, weaker growth in Russia, stronger in Ukraine. In MENA, Egypt's solid pace confirmed

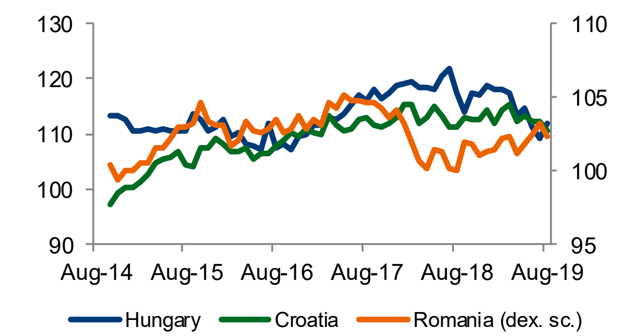
In the **CIS area**, in **Russia,** taking actual inflation dynamics into account and confirming the recent CBR's forecast path, we expect that annual inflation will converge to the 4% target by 2020. As for **Ukraine**, we forecast that inflation will gradually decelerate and reach the CB's target of 5% in the medium term, more likely later than currently expected by the CBU. In **Moldova**, we forecast that annual inflation will ease significantly starting from next year, slowing from the 8% expected for 2019 year end to 5% in the medium term. In **Egypt,** we have cut our June inflation forecasts for end-2019 and end-2020 as recent data showed that the rises in energy tariffs had a lower impact than the MPC had previously feared.

Economic sentiment indicator



Source: European Commission

Economic sentiment indicator



Source: European Commission

Monetary policy and financial markets

By considering the dovish tone of the monetary policy stance set by the ECB in the Euro area, and taking into account that the path of inflation in the CEE/SEE regions is expected to stay (or return to, in the case of Romania) inside the target corridors set by central banks, monetary conditions in CEE/SEE countries are forecast to remain broadly accommodative for a longer period than previously expected. An increase in policy rates is no longer on the cards in the countries where the they have not been raised so far (including Hungary and Poland, where the market had nevertheless started to incorporate expectations of upward rate moves) and in parallel, a pause of the tightening is forecast where the policy reversal had already been put in place (in Czech and Romania).

Monetary policy tightening in CEE/SEE countries is expected to be postponed with respect to projections in our previous forecasts

For the CIS area, the easing cycle has almost run its course in Russia (where further cuts are nevertheless expected in 2020-2021 towards a more neutral assessed 6%), while it is expected to speed up in Ukraine over the same period. In Moldova, with inflation peaking at the end of 2019, we expect the CB to start cutting rates in 2020, with the main policy rate falling to 6% at the end of the easing cycle. In Egypt, benign inflation numbers and a more resilient currency should lead to a larger than previously expected fall in money market rates, towards 13% by year end 2020.

Larger than previously expected rate cuts in Ukraine and Egypt

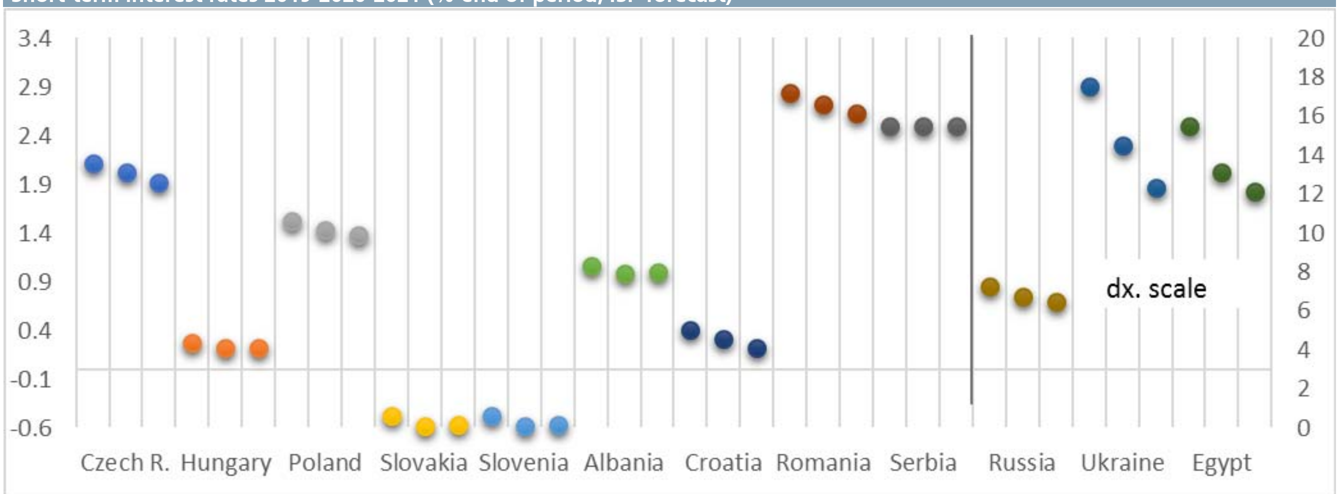
The forecasts of the yield profiles of long-term government bonds in the CEE/SEE region have been revised deeply downwards with respect to the June forecasts, accompanied by an overall decrease in sovereign spreads. On the exchange rate markets, the currencies of the countries where previous expectations of monetary tightening have been revised, as is the case in Poland and Hungary, are now forecast on a weaker profile with respect to the path envisaged in June. For the other currencies of the CEE/SEE regions, those less exposed to financial market volatility, we confirm a view of roughly stable rates in 2020.

The profiles of long-term yields have been shifted downwards with respect to our previous forecast

In the CIS area, in Russia the rouble is seen on a slightly weaker path in the short term and on a lower re-appreciating trend in the medium term than previously expected, mirroring the currently anticipated weaker profile of oil quotations. The forecast is made on the assumption of only temporary effects on oil production of the recent attacks to Saudi Arabian oil sites. In Ukraine, we see the support for the hryvnia now coming for financial flows waning in the medium term, with concerns about the competitive position of the country are expected to return to the forefront. The Moldovan leu has been confirmed on a depreciating trajectory due to the weak external position of the country. In the MENA region, in Egypt, we forecast a milder than previously expected depreciating trend for the pound, reflecting some support from the improving energy balance benefiting from the exploitation of the newly discovered gas reserves.

In CIS, we see a weaker than previously expected rouble. In MENA, the pound is on a milder depreciating trend, sustained by gas exports

Short-term interest rates 2019-2020-2021 (% end of period, ISP forecast)



Source: ISP Research Department forecasts

Bank aggregates and interest rates

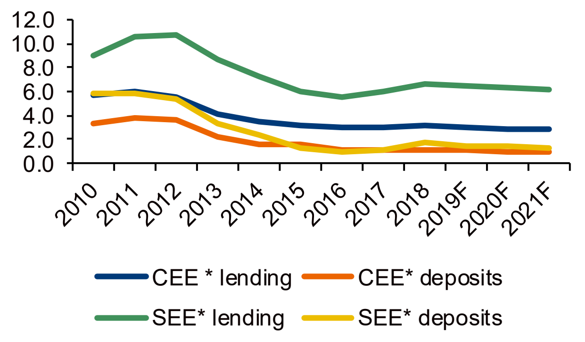
Growth in lending is forecast to slow slightly (even if on a higher than previously foreseen path) in CEE/SEE countries, from a 7.7% average in 2018 to 6.6% in 2019 and 5.1% in 2020, due to the expected softening of the business cycle. However, it is expected to catch up with nominal GDP growth overall in the medium term. The relatively low level of private sector debt and the low interest rate environment are expected to support loan dynamics. In 2019, the mild loan deceleration foreseen in CEE countries is partly due to tighter prudential measures (such as LTV and debt servicing ratios) introduced by central banks to avoid excess credit expansion to households, particularly in the Czech Republic and Slovakia. An acceleration is, however, expected in Albania after the poor performances in the last few years of corporates. The recent acceleration seen in Slovenia due to a recovery in corporate loans is seen to be mostly temporary. Total loans will continue to be driven mainly by households in the region, both mortgages and consumer loans (with some concerns regarding higher risks). Corporate lending is expected to be weaker than household lending, partly because of corporate bond issuances. It is forecast to remain fragile in Croatia.

In the CIS area, a slowdown has been prudently confirmed (from a 14.2% average in 2018 to 8.0% in 2019, slightly revised downward from our previous forecasts). In Russia, household loans are forecast to continue to surge but at a decelerating pace, partly due to the measures adopted by the central bank. The deceleration is expected to be deeper in Moldova, where loans jumped again in June, especially among households (+39% yoy). In Ukraine, the high NPL levels continue to weigh on loan recovery. In Egypt, lending dynamics are forecast to remain in double digits (+13.1% in 2019) but decelerating and still below nominal GDP growth.

Funding and liquidity are expected to remain in good shape in the CEE/SEE regions, although decelerating partly due to potentially stronger competition from other saving products and fintech operators in a low interest rates environment. Thanks to supportive labour markets, deposits are forecast to continue their good dynamic, especially among CEE countries (from 9.3% in 2018 to 6.4% in 2019, revised upward from our previous forecast, especially driven by adjustments in Hungary). The deposits/GDP ratios are forecast to decrease slightly in the forecast period, especially among SEE and CIS countries. Loan/deposit ratios are generally projected to shrink to well below 100%, with some exceptions (in particular Bosnia, Russia and Ukraine).

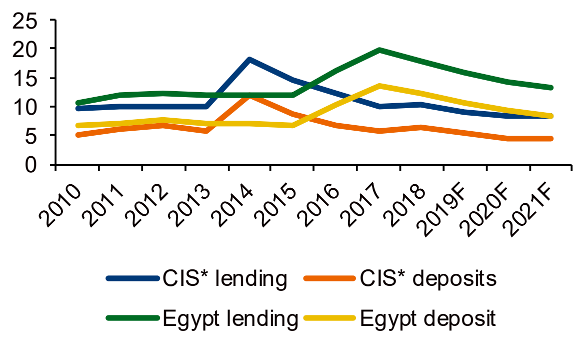
A further downward revision of banking interest rates has been envisaged overall. In parallel with the revised paths of monetary rates in CEE/SEE, they are expected at the same or a lower level with respect to our June forecasts in 2019, and to remain stable or further decrease in 2020, with downward pressure on spreads (especially on mark-downs). Banking interest rates are also forecast to decrease by 2020 year end in Russia and (mildly) in Moldova and, to a higher extent, in Ukraine and Egypt.

Lending deposit interest rates (% end of period)



Sources: ISP Research Department forecasts; note * weighted average

Lending deposit interest rates (% end of period)



Sources: ISP Research Department forecasts; note * weighted average

Country-Specific Analysis

Czech Republic

Real Economy

Zdenko Štefanides

The Czech Republic's economy is moderating due to the slowdown in broader Europe. Owing to still robust domestic demand, however, its moderation remains less pronounced than in peer countries, and also less pronounced than we had expected. Indeed, we now see Czech GDP growing by 2.6% in 2019 rather than the 2.4% forecast previously. This is despite the fact that the growth forecasts for the German and Slovak economies, the Czech Republic's key trading partners, have been revised markedly downward recently.

Within domestic demand, a particularly sizeable contribution to growth comes from household consumption, which is benefiting from a tight labour market that features an EU-low unemployment rate of 2.1% and wages that are advancing in real terms at nearly 5% yoy. Public consumption is also contributing positively to growth, supported by fiscal expansion. Investments are the only component of domestic demand that has lagged expectations. This is probably as a result of the increased global uncertainties, including the rising probability of a hard Brexit, to which the small open Czech economy would be particularly sensitive.

Financial Markets

As the global central banks have adopted an easing stance recently, the Czech National Bank (CNB) has also changed its policy stance: from tightening to neutral. Indeed, previously the keen "normaliser" of policy rates, hiking rates a total of eight times between August 2017 and May 2019, the CNB itself now foresees stable interest rates as the most probable scenario in the 2019-21 horizon. Inflation, however, still runs well above the CNB target of 2% (2.9% in August). The CNB believes that this is due to pressures stemming from past growth episodes. With signs of a turnaround now emerging, inflation is expected to gradually fall back towards its target, even despite the weaker-than-foreseen koruna exchange rate path. The koruna might temporarily weaken further, particularly should an ill-prepared-for Brexit hurt trade and confidence in broader Europe. Longer term, the case for koruna appreciation vs. the euro, driven by productivity and growth outperformance, remains.

Banking Sector

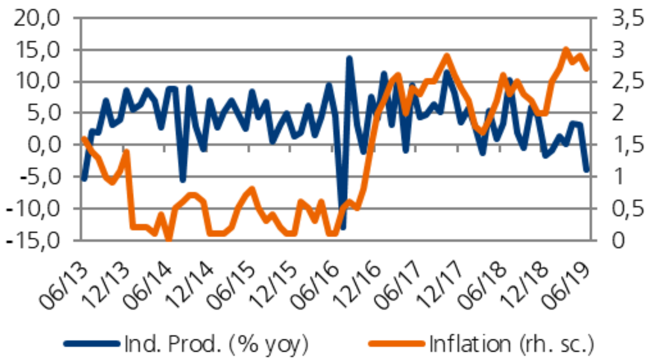
Along with the robust domestic economy, the Czech banking sector will continue growing at a solid pace. The growth rate of loans and deposits in the Czech Republic is relatively even and we expect it to remain so in the years ahead. The pace of banking volume growth, however, will likely moderate toward nominal GDP growth, from 5.5% yoy now towards 4% from 2021 onward. The loan-to-deposit ratio looks set to remain at a comfortable 76%.

Forecasts

	2018	2019F	2020F
Real GDP yoy	3.0	2.6	2.3
CPI (eop)	2.0	2.4	2.1
Euro exchange rate (value, eop)	25.8	25.8	25.1
Short-term rate (eop)	2.0	2.1	2.0
L/T bond yields (eop)	2.0	1.1	1.1
Bank loans (pr. sector, yoy)	6.8	5.5	4.5
Bank deposits (pr. sector, yoy)	6.9	5.5	4.6
Lending interest rate (corporates, eop)	3.3	3.3	3.1
Deposit interest rate (households, eop)	1.4	1.5	1.5

Note: Average values are available in the Country Outlook Table
Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Czech Statistical Office

Hungary

Real Economy

Sandor Jobbagy

Forward-looking indicators of Hungary's economy were mixed during the summer, but overall they reflected a weaker economic outlook compared with Q1 and Q2. This has occurred in tandem with the deterioration of global growth expectations. Industrial production and exports were also mixed in the latest period, showing higher-than-usual swings and still only partially reflecting the downturn and the concerns regarding the Eurozone's manufacturing performance. Hungary's GDP growth has remained supported by strong domestic demand and consumption. This resulted in only a minor slowdown in Q2 to 4.9% (Q1 growth was 5.3%). We project that a further deceleration will take place later this year, as the major drivers of growth (including investments fuelled by EU funds, strong wage growth and real wage growth) are set to make a lower contribution to GDP growth in the quarters ahead. However, the deceleration will be less than we expected earlier. Hence, we have raised our GDP growth forecast to 4.5% for 2019 and stayed at 2.9% in 2020. Headline inflation figures came down from the 4% vicinity to the 3-3.5% range recently, with core inflation also shifting lower. In 2019 we expect a higher average CPI (3.4% versus 2.8% last year), though the trend may not show a persistent rise during the rest of 2019 and in 2020.

Financial Markets

The central bank (NBH) has left the three-month policy rate unchanged at 0.90% so far in 2019 (as in 2018). The more functional O/N depo rate was not raised further in Q2-Q3 following the 10bps hike (to -0.05%), as the central bank essentially dropped its normalisation of monetary policy. In view of the domestic inflation outlook and given the recent dovish shift in ECB policy (and also Fed policy), the NBH has ample room to maintain its current lax monetary conditions in 2019 and also in 2020. The central bank has said that its monetary approach is data-driven, and that no forward guidance is warranted given the high global uncertainty. BUBOR rates have recently been driven more by liquidity shifts than policy expectations. Longer yields showed a strong downward correction recently as a result of a similar drop in German yields.

The EUR/HUF rate left the 320-326 range and moved above 330 in August, primarily due to the combination of loose domestic monetary policy and strong concerns about global growth and other global risk factors. We expect the EUR/HUF rate to stay in the 325-335 range for an extended period. We also expect BUBOR rates to remain essentially flat in 2019 and 2020.

Banking Sector

Lending dynamics in the banking sector have been very strong so far this year and the overall annual dynamic is forecast to come close to the multiannual record set in 2018. This is mainly the result of the ongoing robust GDP growth, along with strong domestic consumer confidence and demand. Growth is set to continue at lower rates in 2020, but still remain well above the average of the 2014-2018 period. Housing loans are supported by state subsidies. Some loan segments (including mortgages and personal loans) are showing especially dynamic pick-ups. Asset quality continues to improve, even with NPLs already below 5%, at pre-crisis levels.

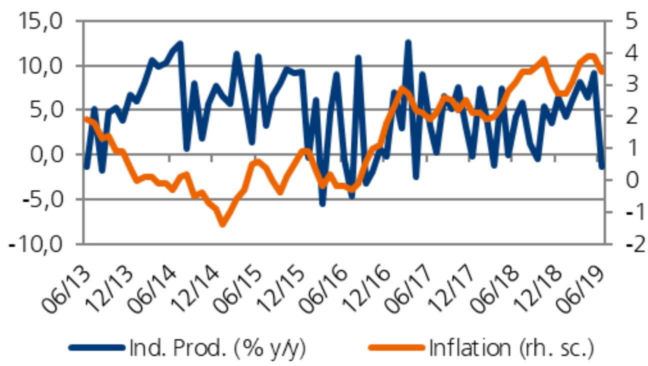
Forecasts

	2018	2019F	2020F
Real GDP yoy	4.9	4.5	2.9
CPI (eop)	2.7	3.7	3.0
Euro exchange rate (value, eop)	322.9	328.0	330.0
Short-term rate (eop)	0.1	0.3	0.2
L/T bond yields (eop)	3.2	1.8	1.8
Bank loans (pr. sector, yoy)	10.6	9.0	6.5
Bank deposits (pr. sector, yoy)	14.1	4.5	4.5
Lending interest rate (corporates, eop)	2.3	2.2	2.3
Deposit interest rate (households, eop)	0.2	0.2	0.2

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Hungarian Central Statistical Office

Poland

Real Economy

Sandor Jobbagy

The industrial and export performance in Poland weakened in June and July, while forward-looking sentiment indicators remained solid and reflected the potential for stable economic growth rates. Economic growth has shown a gradual, modest slowdown since 4Q18, but has still remained well above 4% so far in 2019. The slowdown is set to continue in the next few years: we project annual average GDP growth of 4.2% in 2019, which is close to our preceding 2019 forecast. In 2020, the growth rate is likely to drop further to close to 3%. So far growth has remained supported by relatively strong private consumption amid the revival of industrial performance. Judicial reforms and conflicts with the EU have so far not had an adverse impact on the overall GDP growth and outlook. Fiscal policy has remained in check as demonstrated by the annual deficit. In terms of inflation, domestic demand and rising wages have had a limited impact so far. CPI has been on the rise throughout this year, adding 2pp to the January yoy figure by July and August. However, core inflation only just crossed the 2% level in these months. This year we expect an annual average of 2.3%, with a similar inflation picture (2.4% average) in 2020.

Financial Markets

The main policy rate of the NBP has been kept unchanged (at 1.50%) so far in 2019, as was the case during the whole of last year. While some of last year's monetary decisions and central bank comments, as well as market expectations, had suggested an increasing probability of a tightening cycle beginning soon, this is now out of the question. Both the low domestic inflation environment and the latest dovish shift in ECB policy expectations support our forecast for essentially steady short-term rates not only for 2019, but also 2020-21. The central bank had been concerned about food price growth and about accelerating wage growth, but these risk factors are unlikely to exert strong upward pressure on CPI in the year ahead. The zloty showed enhanced volatility and rapid depreciation in August, with the EUR/PLN exchange rate correcting only in early September back to the 4.32-35 range. We expect 4.30-35 levels to prevail during most of 2019 and 2020.

Banking Sector

The banking sector is forecast to show a modest slowdown in terms of lending activity in 2019, though still remain close to 6% following the multi-year record rate in 2018. This is due to the expectation of a somewhat weaker GDP growth rate, though the sector remains supported by consumption. However, a further slowdown is forecast to emerge in 2020. Loan stocks to the private sector have shown persistent rises, and the overall annual growth rate of the loan stock came above that of the 2016 and 2017 rates recently. Deposit volumes have continued to rise at a relatively fast pace, and these are likely to maintain momentum with only a minor deceleration of pace compared with 2018, despite the relatively low interest rates. The banking sector is likely to experience further consolidation as the sector's concentration is still seen as too low.

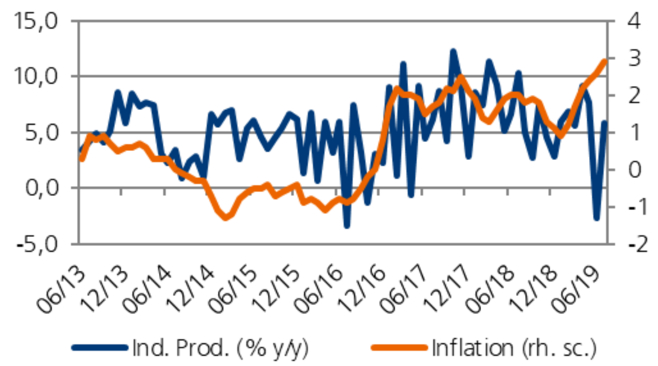
Forecasts

	2018	2019F	2020F
Real GDP yoy	5.1	4.2	3.1
CPI (eop)	1.1	2.5	2.3
Euro exchange rate (value, eop)	4.3	4.4	4.3
Short-term rate (eop)	1.9	1.5	1.4
L/T bond yields (eop)	3.2	1.8	1.8
Bank loans (pr. sector, yoy)	7.9	6.2	5.5
Bank deposits (pr. sector, yoy)	9.4	7.2	6.3
Lending interest rate (corporates, eop)	3.5	3.3	3.1
Deposit interest rate (households, eop)	1.6	1.4	1.3

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistics Poland

Slovakia

Real Economy

Michal Lehuta

The Slovak economy slowed markedly in 2Q19 amid weak external demand for production from this small and highly open economy. Annual GDP growth decelerated from 3.7% to 2.0%, mainly due to negative net exports and lower industrial production, but also because of the smaller amount of fixed investment. Since the global trade uncertainty and economic near-stagnation in Germany, Slovakia's major trading partner, could persist in the coming quarters, we have revised dowards our growth forecast for the country for both 2019 and 2020. In addition, private consumption and retail sales continue to underperform despite strong wage growth, due to the increasing savings rate of households.

The local labour market remains rather tight, with the unemployment rate hovering around historical lows of 5-6% and wages growing considerably faster than labour productivity (+9.7% in 2Q19, partly thanks to one-off effects). Job vacancies and employment in industry, however, have already posted a decline. Consumer inflation remains elevated at above 2.5% yoy, with the rest of the year expected to be close to this level. Next year could bring lower price level increases thanks to more modest average rises in regulated prices, with only electricity expected to cost more.

Financial Markets

Spreads on 10Y Slovak government bonds vis-à-vis German Bunds have decreased significantly, with the large downward general shift in yields as low as 20-30bps (a level similar to Belgium and France). We expect spreads to increase slightly later on as Slovakia is to hold parliamentary elections next year and the general flight of investors to the safety of fixed income might slowly abate. Together with decreasing commercial interest rates, however, this environment will still cut into the net interest income of the local financial sector. Several banks have cut their mortgage interest rates, which have already been below the Eurozone average.

Banking Sector

The Slovak banking sector is expected to grow markedly in 2019 as well as 2020. However, the economic slowdown is impacting the demand for credit. In addition, the tigher regulation of new loans from the National Bank of Slovakia (required maximum DTI and LTV ratios) is weighing particularly on consumer loans, with mortgages slowing only moderately. The overall loan growth is thus expected to decelerate to 8% yoy. The growth of deposits, supported by rising household incomes and higher savings rate, is expected to be above 5% yoy, pulled down only slightly by the growing deposits of corporations.

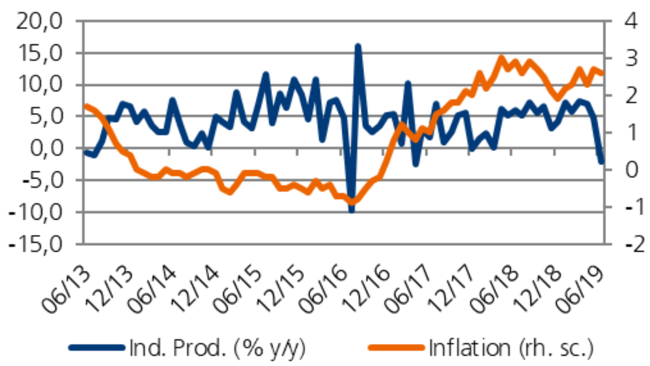
Forecasts

	2018	2019F	2020F
Real GDP yoy	4.1	2.6	2.6
CPI (eop)	1.9	2.5	2.2
Short-term rate (eop)	-0.3	-0.5	-0.6
L/T bond yields (eop)	0.9	-0.3	-0.3
Bank loans (pr. sector, yoy)	9.1	8.0	7.0
Bank deposits (pr. sector, yoy)	7.3	5.9	5.8
Lending interest rate (corporates, eop)	2.0	2.0	1.8
Deposit interest rate (households, eop)	0.1	0.0	0.0

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistical Office of Slovakia

Slovenia

Real Economy

Ivana Jović

GDP growth eased more strongly than was expected in 2Q by decelerating to 2.5% yoy from 3.3% yoy in 1Q19. Domestic demand remains supportive as household consumption growth strengthened to 3.4% yoy (vs. 2.3% in 1Q) and investments retained solid growth of 6.9% yoy. However, the negative contribution of net exports (-1.3pp) weighed on headline growth as import growth of 12.3% yoy overshadowed the surprisingly resilient export performance (+9.4% yoy). Overall, we see growth easing to 3.0% in 2019 as available 3Q data indicates a similar trend, with industrial production and retail trade up by 5.0% and 6.3%, respectively, yoy in July. Looking forward, we see growth easing towards 2.6% in 2020, mainly due to the gloomy external environment and the ongoing manufacturing crisis. Domestic factors look relatively resilient at the moment, with investments supported by construction activity and household consumption by the favourable labour market and a disposable income rise.

Following an average 1.5% inflation rate during 1H19, July and August brought a slight acceleration to above the 2% mark (2.0% and 2.4%, respectively). We therefore expect average CPI for 2019 to be about 1.7%, with the prospect of a slight acceleration in consumer price inflation towards 1.9% in 2020.

Financial Markets

Ana Lokin

Average three-month Euribor forecasts for 2019 and 2020 were downsized to -0.4% and -0.5%, respectively, in expectation of an extended period of lower ECB rates. Yields on 10Y government bonds have slipped into negative territory since the start of August, following the Bund's developments, whereas the spread on Bund stayed firmly anchored around 50bps. Spread forecasts for 2019 and 2020 were confirmed at 60, i.e. 50bps, with the yield slashed to -0.2%, in line with the benchmark.

Banking Sector

Private sector loans rose by a solid 3.9% yoy in June and 3.6% yoy in July as lending to corporates rebounded, growing by 1.6, i.e. 0.8%. Loans to households were flattish at 6.1% yoy and 6.2% yoy, while consumer loans grew at a rate of 11% yoy and housing loans at 5% yoy. By the end of 2019, we see loan growth reaching 3.9% yoy, whereas for 2020 we anticipate a slowdown towards 2.9% yoy as economic growth gradually moderates.

The rise in private sector deposits accelerated to 6.2% yoy in June and 6.7% yoy in July, owing to impressively strong household deposits (8.1% and 7.7%), whereas corporate deposits went up by 0.8% and 4.0% yoy. Traditionally inclined to favour banks, households continue to accumulate funds on sight deposit accounts, thus we expect that household deposit growth will remain firm. In line with the latest developments, we have lifted our 2019 deposit forecast to 5.8% yoy, while in 2020 we see a milder rise of 4.9% yoy.

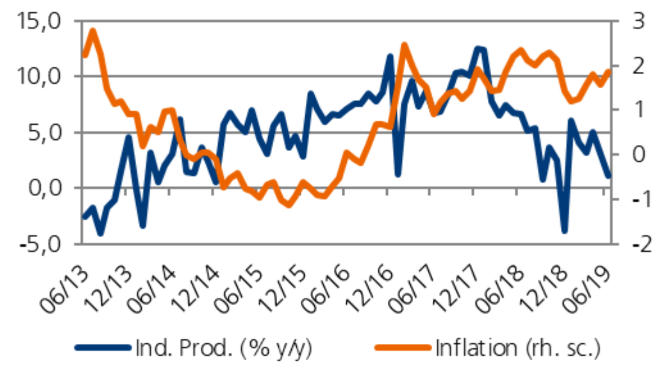
Forecasts

	2018	2019F	2020F
Real GDP yoy	4.5	3.0	2.6
CPI (eop)	1.4	1.8	2.0
Short-term rate (eop)	-0.3	-0.5	-0.6
L/T bond yields (eop)	1.1	-0.2	-0.2
Bank loans (pr. sector, yoy)	2.6	3.9	2.9
Bank deposits (pr. sector, yoy)	6.7	5.8	4.9
Lending interest rate (corporates, eop)	2.2	2.0	1.9
Deposit interest rate (households, eop)	0.2	0.1	0.0

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistical Office of the Republic of Slovenia

Albania

Real Economy

Kledi Gjordeni

In H119 the pace of economic growth and the inflation trend slowed more than had been expected. The last data showed GDP growth contracting by 2.2% in Q119, down from 3.1% in Q418 and the yearly growth of 2018 of 4.1%. The slowdown was mainly attributable to a drop in electrical energy production due to weather conditions. According to Instat data, the unemployment rate fell to 12.1%, and the average wage in real terms recorded 3.3% growth, up from 1.5% the previous quarter. Economic growth for Q219 is expected to be similar to Q119.

The average annual inflation rate in the first eight months of 2019 stood at 1.47%, against the 2.1% registered in the same period of 2018. The downtrend in the inflation rate is attributed mainly to the decline in food prices and lower imported inflation. Private consumption increased by 2.25% in Q1, slightly lower than in the previous quarter (2.8%), and also lower than the 2018 average (3.2%). The increase of private consumption in Q1 was supported by an increase in wages, employment, consumer credit and remittances.

This month the trade deficit showed an increase of 1.1% compared with July 2018. In 2019 the trade deficit of goods and services has continued to expand, by 12.6%. This has been driven mainly by a deterioration in the balance of electricity exchanges with abroad.

Financial Markets

The current short-term rate remains at its lowest level of 1%. Monetary policy will remain accommodative throughout the medium-term horizon and its normalisation will not start soon. Inflation is projected to hold at about 1.5% on average in 2019. The Albanian economy should return to equilibrium in the next year, creating the conditions for a faster increase in wages and internal production costs. The exchange rate has shown a slight appreciating trend over the summer months as a result of the temporary seasonal increase in foreign currency inflows.

Banking Sector

In June, total deposits from the private sector increased by 2.03% yoy. The performance was supported mainly by corporates, which increased by 3.70%. Individual deposits increased by 1.7% yoy. New deposits contracted significantly by -19.26% yoy. The number of total loans expanded by 3.46%. Of the growth, 3.24% was from business and 3.9% from households. According to the central bank, adjusted for the exchange rate and written-off loans, credit to the private sector recorded annual growth of 6.8% in Q219. The ratio of credit to GDP increased, standing at 35.9% compared with 35.3% at the end of 2018. This improvement reflected the resumption of lending activities by some banks that had undergone changes in ownership, which have now adopted a more active approach to accommodate the demand for financing. NPLs in June registered 11.23%, down from 13.30% in June 2018.

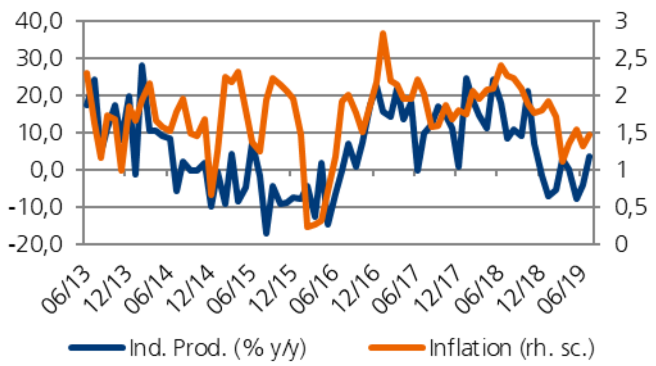
Forecasts

	2018	2019F	2020F
Real GDP yoy	4.1	2.9	2.9
CPI (eop)	1.8	1.8	2.0
Euro exchange rate (value, eop)	123.4	122.5	124.0
Short-term rate (eop)	1.2	1.1	1.0
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	-3.8	1.0	1.5
Bank deposits (pr. sector, yoy)	-0.9	1.5	2.0
Lending interest rate (pr. sector, eop)	8.2	7.5	7.4
Deposit interest rate (pr. sector, eop)	0.6	0.4	0.4

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: National Statistical Institute

Bosnia and Herzegovina

Real Economy

Ivan Odrčić

Although 2Q GDP data hasn't been published yet, we don't expect much change compared with 1Q (+2.3% yoy). Even though industrial production in Q2 (-3.9% yoy) eased its negative turn vs. 1Q (-5.1%), real retail trade growth slowed to +3.4% vs. +8.1% yoy in 1Q. On a positive note, goods exports rebounded in 2Q (+0.4% vs. -0.6% in 1Q), but as the growth rate of imports remained strong (+4.4% vs. +4.7% in 1Q), net exports remained in the red. Construction activity, however, deepened its decline in 2Q (to -2.2% yoy), as both works on buildings and on civil engineering dived. High frequency data also continued at a sluggish pace at the start of 3Q, as industrial production in July continued its negative run by deepening its decline to -4.7% yoy and goods exports plummeted by 6.6% yoy. Real retail trade's annual growth rate, however, amounted to +5.7%. Thus, although stretched, we keep our 2019 estimate at 2.6%, counting on an improved year end. Looking forward, we see GDP growth hovering around 2.5%, supported by an expected rebound in public investments.

Inflationary pressures in July (+0.5% yoy) eased a little when compared with 2Q (+0.6%), mostly due to the slower growth in the prices of food (+1.3% vs. +1.6% in 2Q) and automotive fuels (+0.3% vs. +1.8% in 2Q). Overall, CPI in Jan-Jul 19 increased by 0.8% yoy, which is around our FY estimate.

Banking Sector

Ana Lokin

Supported by stable economic growth, positive labour market developments and an inflow of remittances, the sound growth of loans and deposits carried on in June and July.

Loans went up by 6.0% yoy in both months as loans to non-financial corporations maintained a rate of more than 4% yoy (June 4.6% yoy, July 4.3% yoy) and households continued to grow (June 7.4% yoy, July 7.6% yoy). Consumer loans grew at a strong pace (7.3% and 7.2% yoy) and housing loans continued to accelerate (10.6% and 10.9% yoy). Our September scenario envisages an unchanged 2019 loan growth forecast of 5.4% yoy, whereas our 2020 forecast was trimmed to 4.5% from 5.3% yoy as the rise in loans to both households and corporates is projected to slow as the country and the region's GDP growth decelerates.

The increase in private sector deposits eased to 7.2% yoy in June and 7.8% yoy in July, with the deposits of non-financial corporations staying on their unpredictable path (2.8, i.e. 5.3% yoy), whereas household deposits expanded at a solid pace (9.1, i.e. 8.9% yoy). We have left this year's deposit growth estimate at 6.5% yoy, while our 2020 forecast was reduced to 5.2% yoy from 5.7% yoy as the economic growth slowdown is expected to weigh on private sector revenues.

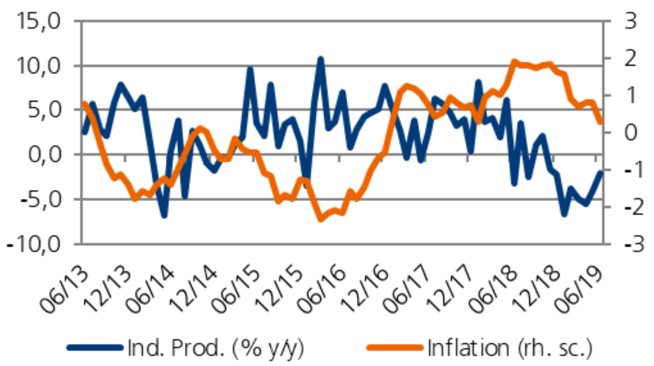
Forecasts

	2018	2019F	2020F
Real GDP yoy	3.0	2.6	2.5
CPI (eop)	1.6	0.5	0.7
Euro exchange rate (value, eop)	2.0	2.0	2.0
Short-term rate (eop)	n.a.	n.a.	n.a.
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	5.5	5.4	4.5
Bank deposits (pr. sector, yoy)	8.5	6.5	5.2
Lending interest rate (corporates, eop)	n.a.	n.a.	n.a.
Deposit interest rate (households, eop)	n.a.	n.a.	n.a.

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Agency for statistics of Bosnia and Herzegovina

Croatia

Real Economy

Ivana Jović

The first estimate shows that GDP for 2Q increased by 2.4% yoy and by 0.2% qoq, which was a more substantial slowdown than expected. Domestic demand remains the main driver of growth, and the increase in household spending slowed to 2.7% (vs. 4.4% in 1Q), while investment activity rose by 8.2% yoy (mild slowdown vs. 11.5% growth in 1Q). At the same time, government spending accelerated to 3.9%, therefore the total contribution of domestic demand amounted to 5.2pp. However, the growth of imports (+6.7%) surpassed substantially the meagre growth of exports of goods and services of 1.3% (due to a drop in the exports of goods by 0.9%), thus pushing the contribution of net foreign demand deeper into the negative to -2.8pp.

In the second half of the year, we do not expect a significantly different growth structure – personal consumption and EU-funded investments will remain the main growth drivers, while export activities will reflect the challenging external environment. The currently available data for 3Q indicates some rebound, as in July industrial production grew by 3.0% yoy, retail trade by 3.6% and goods exports by 22% yoy. Thus, recognising the downside risks we have lowered our estimate for 2019 to 2.8% and are expecting growth to decelerate towards 2.5% in 2020, with external headwinds representing the most pronounced downside risk to our baseline.

Financial Markets

Ana Lokin

The FX rate remains stable, with the CNB stepping in when necessary to shore up the kuna in expectation of Croatia joining ERM II next year, hence our 2019 and 2020 forecast was confirmed at 7.4. Monetary policy remains expansionary, with the 2019 average three-month rate estimate confirmed at 0.5% and the 2020 forecast trimmed to 0.3%. In the aftermath of June's Fitch rating upgrade, the 10Y kuna government bond yield and the spread on Bund narrowed, amounting to 0.6% and 110bps at mid-September, thus we have cut our forecast for the 2019 average to 1.3%, i.e. 160bps, and for 2020 to 0.6% and 120bps.

Banking Sector

Private sector loans lost momentum in June and July, with growth decelerating to 2.6% and 2.4% yoy, respectively, due to corporate loan contraction (-2.5, i.e. -3.3% yoy). This came as a result of the sale of NPLs and the settlement at Agrokor Group, which involved the transfer of part of the claims on domestic companies to foreign companies in the group. Household loans during the same period carried on running at above 6% yoy. We expect NPL sales to increase in 2H19 and 2020, particularly of corporate bad loans, whereas household cash loans should show signs of a slowdown due to tightened credit standards. Our 2019 loan growth estimate was improved to 2.2%, while our 2020 forecast was reduced slightly to 1.9% yoy. Deposit growth picked up in June and July to 4.8, i.e. 5.0% yoy, owing to higher seasonal revenues. In line with the expected thinner GDP growth, our projections of 2019 and 2020 deposit rises were scaled back to 2.8, i.e. 2.3% yoy.

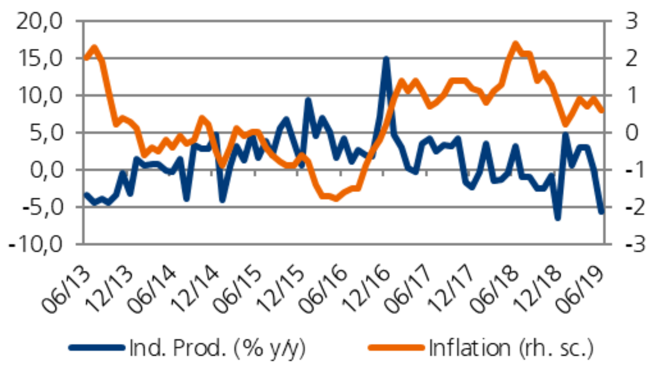
Forecasts

	2018	2019F	2020F
Real GDP yoy	2.6	2.8	2.5
CPI (eop)	0.8	1.0	1.4
Euro exchange rate (value, eop)	7.4	7.4	7.4
Short-term rate (eop)	0.5	0.4	0.3
L/T bond yields (eop)	2.1	0.6	0.5
Bank loans (pr. sector, yoy)	2.3	2.2	1.9
Bank deposits (pr. sector, yoy)	5.0	2.8	2.3
Lending interest rate (pr. sector, eop)	6.2	5.4	5.2
Deposit interest rate (pr. sector, eop)	0.5	0.2	0.2

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Croatia Bureau of Statistics

Romania

Real Economy

Marius Pacurari

The national statistical board confirmed the growth figure for Q219 at around +4.4% yoy and +1.0% qoy, which represented a slowdown in comparison with the previous quarter. The expectation for GDP is that it will slow to about 4% in 2019 and about 3% in 2020. After a fall in June, CPI for July showed another jump to slightly above 4.0%, with a strong increase on the CORE 2 adjusted component. Despite these circumstances and taking into consideration that there are no significant factors to indicate higher inflation in the local market, the 4.2% projected level for the end of 2019 is, in our opinion, reachable. The forecast for the next years shows a slight decrease in CPI, but that it will still remain higher than the target interval. The critical issues remain the budget and the current account deficit. The budget deficit jumped from RON 14.7bn in May to almost RON 20bn in June, before falling back to RON 19bn in July. The current account deficit is also growing fast, reaching EUR 5.135bn in June.

Financial Markets

The volatility of the EUR/RON remained low, mainly due to the strong presence of the NBR into the market, a fact recognised by the NBR's governor. We anticipate a slight depreciation of the local currency in the next years, but by no more than circa 2%. The liquidity in the money market decreased due to the payment of banking asset tax on August 25. Under these circumstances, the overnight rates reached the 3.5% level on the same date, but slid slightly to 2.5% at the beginning of September. After a strong appreciation of the curves in July and August, the bond market remained at levels comparable with EOY17. The NBR kept the reference rate at 2.5% and the technical interval at 1.5%/3.5%. We do not expect further moves by the NBR in the tightening direction: on the contrary, if the easing cycle of major central banks continues, the NBR should align its monetary policy in the same direction.

Banking Sector

No significant changes resulted from the implementation procedures for asset tax ordinance, which came into place on August 25. Banks paid the tax with or without different bonuses, depending on each bank's peculiarities. Customer deposits continued to grow, with +11% yoy in households (8% on RON and 15% on foreign currencies), and +6% yoy in companies (6% on RON and 6% on foreign currencies). Customer credits also grew in both segments. Household credits grew by 7% yoy due to the RON component (+14%), with the foreign currency component decreasing (-8%). On the corporate side there was 7% growth, with 4% on RON and 12% on foreign currencies. The credit and deposit volumes are expected to continue to grow in the next years by around 5% per year.

The lending rate in RON has decreased over the last two months, from 7.77% in May to 6.97% in July. The decrease in the corporate segment over the period was from 6.36% to 5.75%, while on the household side the decrease was from 8.66% to 8.06%. In EUR the evolution of interest rates was volatile but less significant.

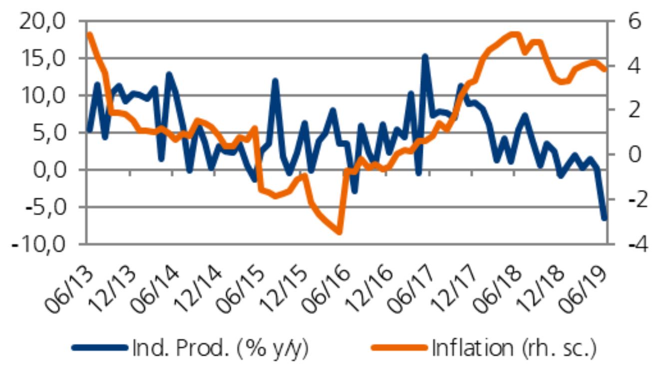
Forecasts

	2018	2019F	2020F
Real GDP yoy	4.1	4.0	3.0
CPI (eop)	3.3	3.8	3.3
Euro exchange rate (value, eop)	4.7	4.7	4.7
Short-term rate (eop)	3.1	2.8	2.7
L/T bond yields (eop)	4.9	4.1	4.1
Bank loans (pr. sector, yoy)	7.9	8.0	4.5
Bank deposits (pr. sector, yoy)	9.2	8.0	5.6
Lending interest rate (pr. sector, eop)	7.0	6.9	6.8
Deposit interest rate (pr. sector, eop)	2.0	1.8	1.7

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: National Institute of Statistics

Serbia

Real Economy

Tijana Matijasevic

The Serbian economy continues to grow, but at a more moderate pace than in 2018. Real GDP grew by 2.8% yoy in the first half of 2019, primarily reflecting the weak performance of the industrial sector, which was caused by several domestic factors rather than the euro area slowdown. These factors included reduced FIAT production, Kosovo import tariffs and the one-off impact of general overhauls in the oil and petrochemical industries. On the other hand, the services and construction sectors continued to provide positive contributions to growth. With the expected recovery of industry and the eased base effect, economic activity should pick up in the second part of the year and we see full year growth at 3.0% yoy. GDP growth is projected to somewhat slow during next year, but remain close to this level. Private consumption will remain the main source of growth, supported by private sector employment gains and strong wage growth, with a new hike in public sector wages announced for November 2019. Investment should remain solid, backed by stable FDI inflows and continued state capex realisations, while imports are expected to continue to outpace exports, yielding a negative effect of net exports on growth.

Yoy inflation slowed from 1.6% in July to 1.3% in August, dropping below the lower bound of the target interval (3.0% ± 1.5pp). It is expected to gradually pick up in the coming months to reach 2% by year end. In the medium term, inflation should continue moving inside the inflation corridor, most likely in its lower part. Average CPI is forecast at 2.0% in ‘19 and 1.9% in ‘20.

Financial Markets

Strong FDI inflows and steady foreign appetite for LCY bonds sustained the dinar’s strengthening, albeit the NBS carried out heavy interventions in the FX market. In the period January-August 2019, NBS net bought a total of EUR 1,920mn in order to ease appreciation pressures on the dinar. In the environment of subdued inflation and dovishness of leading central banks, the NBS continued with further easing, delivering two 25bps key rate cuts in July and August, with the additional aim of also providing a push to the slower economic activity. As of August, the key rate stands at 2.5%, the lowest in the inflation targeting regime. The NBS should maintain its accommodative stance, closely monitoring the inflation dynamic and movements in the external environment. At the same time, EUR/RSD is seen remaining relatively stable, steered by occasional NBS interventions. The end-of-period FX rate is forecast at 117.6 in 2019 and 117.9 in 2020.

Banking Sector

Private sector loans continued to exhibit a solid increase (+8.9% yoy in June), sustained by both household and corporate lending. Lower financing costs and economic expansion, accompanied by labour market improvements, support the rise in lending activity, as does fierce competition among banks. The firm growth in deposit volumes in the first half of 2019 encouraged an upward revision of our deposit growth projection to 9.0% in 2019.

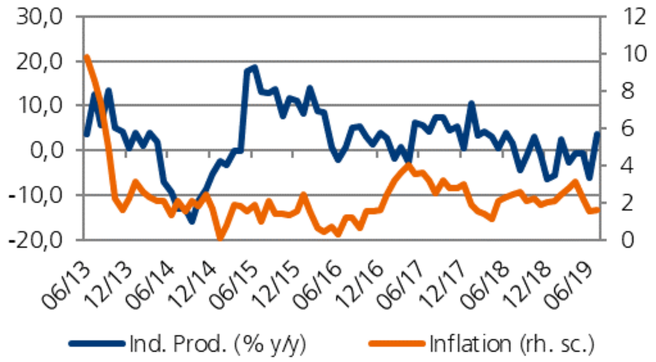
Forecasts

	2018	2019F	2020F
Real GDP yoy	4.3	3.0	2.8
CPI (eop)	2.0	2.0	1.9
Euro exchange rate (value, eop)	118.3	117.6	117.9
Short-term rate (eop)	3.0	2.5	2.5
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	9.9	7.5	5.8
Bank deposits (pr. sector, yoy)	14.9	9.0	6.5
Lending interest rate (pr. sector, eop)	7.7	7.6	7.4
Deposit interest rate (pr. sector, eop)	2.8	2.3	2.3

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistical Office

Moldova

Real Economy

Olga Pisla

In 2019 Moldova's economy has grown amid inflation anticipations and pressure on the Moldovan leu exchange rate. GDP increased by 5.8% yoy in 2Q19. The main driver was net investments, with a 26.1% volume increase that translated into a 6.9% positive impact on GDP. Household consumption increased but only slightly (+1.7%), with a 1.7% positive contribution to GDP growth. In terms of economic sectors, the main momentum came from construction, which grew by 32%, making the largest contribution to total output (+3.3%). Retail and wholesale trade also showed upbeat dynamics, growing by 5% and having a 1% positive contribution to GDP growth. Industrial production declined by 2.2% in June 2019, mainly due to the negative growth (-19.8% yoy) of the extractive industry. Nonetheless, in the first half of 2019, industrial production increased by 1.3% compared with the same period last year. The growth was driven by positive dynamics in the extractive industry (+13.9%), manufacturing (+1.2%) and the production of electricity, gas, steam, hot water and air conditioning supply (+0.5%).

In August 2019, the CPI moved according to the forecast and registered 5.5%, keeping its position in the range of the target variation for the fourth consecutive month. Inflationary pressures will continue their current dynamics until the end of this year, culminating in an expected 8% inflation rate. In 2020, while still expected to be above the upper target bound (+6.7%), a moderation in the dynamics of inflation is anticipated, following the low evolution of international food and oil prices, and the more tempered external and internal demand.

Financial Markets

In September 2019, yields for short-term Treasury Bills increased by 0.04pp, while for longer maturity bonds they remained unchanged, the yield dynamics being driven by inflation expectations. Due to expected inflationary pressures, the National Bank is expected to maintain its restrictive monetary policy this year, keeping the base rate at 7.5%.

Banking Sector

In 1H19 the banking sector was characterised by an increase in the volume of new loans granted to both legal entities and individuals. The stronger demand for real estate loans materialised in a 40.9% increase in household loans in July compared with the same month last year, while corporate loans growth decelerated, increasing by 7.9% yoy (vs. 9.3% in June and 8.4% in May). The private sector deposits yoy growth rate in July was about 8%, the same as the previous month, with a lower increase in household deposits (9.9% in July vs. 11.3% in June) and more upbeat growth in deposits from corporates (4.46% in July vs. 1.16% in June). The latter was driven by the growth in bank deposits with a maturity over the one-year threshold. A steady decrease in the NPL ratio (10.9% in July 2019 vs. 14.4% in July 2018) indicates a continuous improvement in the quality of assets.

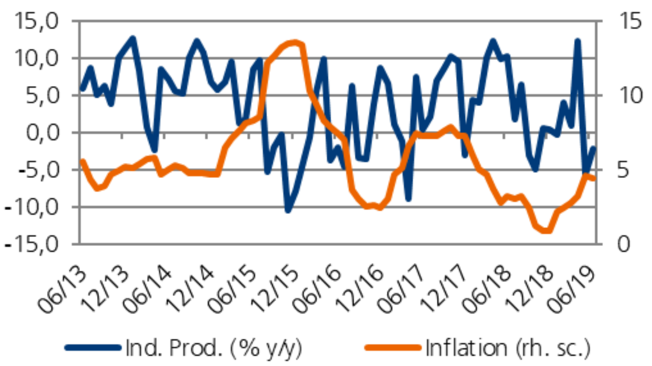
Forecasts

	2018	2019F	2020F
Real GDP yoy	4.0	3.6	3.4
CPI (eop)	0.9	8.0	5.1
USD exchange rate (value, eop)	17.1	18.0	18.4
Euro exchange rate (value, eop)	19.4	20.5	21.7
Short-term rate (eop)	6.5	7.5	7.3
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	5.9	10.0	6.0
Bank deposits (pr. sector, yoy)	6.0	7.2	6.4
Lending interest rate (corporates, eop)	8.6	9.3	9.1
Deposit interest rate (households, eop)	4.3	4.7	4.6

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: National Bureau of Statistics of the Republic of Moldova

Russia

Real Economy

Irina Lekareva

The Russian economy is still performing below expectations. In 1H19, the tight fiscal policy had a restraining effect on economic activity, and the implementation of the government's national projects is much slower than had been expected. However, economic statistics for July indicated something of a recovery: GDP growth accelerated to 1.7% yoy after +0.9% yoy in 2Q19. A significant positive contribution was made by industrial production (+2.8% yoy in July), mainly by the food and chemical industries. With the stagnation of disposable household income, retail trade in July continued to slow, to 1.0% yoy after 1.7% in 2Q19. In 2Q19, Russian export volumes showed negative dynamics (-8.3% yoy) due to the slowdown in global economic growth. Starting from 3Q19, we expect a slight acceleration in GDP growth, supported by an increase in federal budget expenditures as well as by the effect of the key rate reduction. The GDP growth rate forecast has, however, been revised downwards to 1.0% for 2019 and to 1.5% for 2020. Inflation in August fell (to 4.3% from 4.6% in July 2019), as did core inflation (4.3% in August after 4.5% in July). The CPI forecast for 2019 was reduced to 4.2%, and starting from 2020, annual inflation is expected to remain near 4%.

Financial Markets

In recent months, monetary conditions have continued to soften due to the changing expectations of financial market participants regarding the trajectory of the CBR key rate, as well as the further downward revisions of interest rates in the US and the Eurozone. On September 6, the CBR's board of directors decided to cut the key rate by 25bps to 7.00% per annum. If the situation develops in accordance with the baseline forecast, the central bank will assess the feasibility of a further reduction of the key rate at one of the next meetings. Over the past two months, the RUB has weakened significantly, influenced by the decline in oil prices and the aggravation of the US-China trade conflict. The forecast has been revised accordingly: we expect further RUB weakening to 66.5 RUB/USD and 75.9 RUB/EUR by the end of the year amid international uncertainty and the risks of new sanctions. Upside risks stem, however, from the uncertain length of the oil production fall at a global level due to the recent attacks on Saudi Arabian oil sites.

Banking Sector

Deposit portfolio growth slowed from 11.9% in May to 9.7% in June. The reduction was mainly observed in corporate deposits, which were +13% yoy in June after +17.5% yoy in May, while household deposit growth remained stable (+7.4% yoy in June). It is expected that total deposit growth will be weaker in 2019 (+7% yoy) than the previous year (+14% yoy). The loan portfolio in 2Q19 has increased at a stable rate of 11% yoy. Since May, the annual growth rate of household loans has slowed after a noticeable increase in 2018. In early 2019 this slowdown was a result of regulatory measures taken by the central bank aimed at restraining the lending growth of the most risky segments: unsecured consumer lending and mortgage loans with a low down payment. The trend of slow lending growth will continue in 2H19, especially after the introduction of new CBR limits from October 2019.

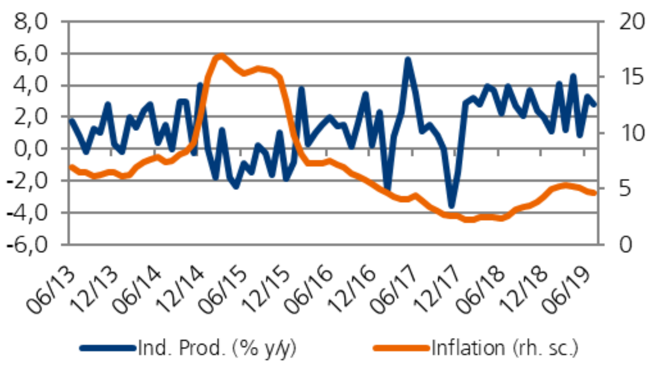
Forecasts

	2018	2019F	2020F
Real GDP yoy	2.3	1.0	1.5
CPI (eop)	4.3	4.2	4.0
USD exchange rate (value, eop)	67.3	66.5	66.6
Euro exchange rate (value, eop)	76.7	75.9	78.5
Short-term rate (eop)	8.6	7.2	6.7
L/T bond yields (eop)	8.7	7.2	7.1
Bank loans (pr. sector, yoy)	15.0	8.6	7.2
Bank deposits (pr. sector, yoy)	14.2	7.0	6.1
Lending interest rate (corporates, eop)	9.2	8.0	7.7
Deposit interest rate (households, eop)	5.6	4.6	4.0

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: State Statistics Federal Service

Ukraine

Real Economy

Artem Krasovskyi

Positive sentiment prevails following the election of the new parliament and the appointment of the new government, which is committed to delivering tangible reforms. Fitch revised upwards Ukraine's rating from B- to B with a positive outlook, noting improved macroeconomic stability and reduced political uncertainty. GDP growth in 2Q19 accelerated to 4.6% yoy after slowing to 2.5% in 1Q, with the increase coming on the back of solid domestic demand (retail sales +9.0% yoy in July) and a seasonal increase in the agricultural sector (+18.3% yoy in July). However, industrial production remained weak (-0.2% yoy in July).

Inflation slowed to 8.8% yoy in August from 9.1% in July, with core inflation down to 7.2% from 7.4% in the same period. Tight monetary policy remains a major factor in holding prices. The BoP surplus was at a five-year high in July, thanks to the lower current account deficit and robust foreign inflows into sovereign debt. New arrangement with the IMF is likely to be reached by the end of the year.

Financial Markets

The moderate inflation print for August spurred the NBU to a further 50bps key rate cut, from 17% to 16.5% earlier this month, with more softening cycles likely to be undertaken by year end. The FX market remains favourable for UAH (trading at a three-year high, with further trending upward) and Ukraine's foreign reserves (up by 5.7% to USD 22bn in July), thanks to high grain yields and solid foreign inflows into public debt. However, upcoming sizeable external debt payments and the still weak current account are likely to bring pressure in the coming months.

Total foreign exposure to local government bonds continues to grow, though demand has slowed notably on the back of decreasing yields (three-month bonds down to 16.2% pa from 19.5% earlier this year) and the thresholds set by the Ministry of Finance. More yield cuts are likely to be seen until year end as negotiations with the IMF regarding a new financing programme are prospering.

Banking Sector

The net banking sector profit in 1H19 amounted to UAH 31bn, far exceeding the whole of 2018 result, and this is likely to remain high in the medium run. Growth in assets resumed in Q2 (+1.2%), primarily due to accelerated retail lending, which remains the main profitability driver, while business and household deposits increased by 2.7%. The share of non-performing loans decreased by 0.9% to 50.8%.

According to the NBU, the ongoing monetary softening cycle is likely to have a positive effect on banks' profitability due to a decrease in funding costs, while the retail segment will support high bids on lucrative consumer loans. Even though deposit growth may decline, it will remain sufficient to support lending, primarily retail (the retail loan portfolio is expected to keep growing by 30% yoy during the next years).

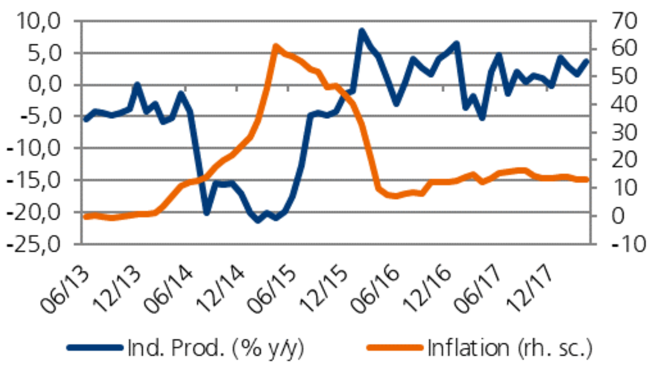
Forecasts

	2018	2019F	2020F
Real GDP yoy	3.3	3.2	2.9
CPI (eop)	9.8	7.0	5.8
USD exchange rate (value, eop)	28.2	26.1	27.4
Euro exchange rate (value, eop)	31.6	29.3	31.7
Short-term rate (eop)	20.2	17.5	14.5
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	6.3	0.6	3.7
Bank deposits (pr. sector, yoy)	7.9	5.0	5.7
Lending interest rate (pr. sector, eop)	21.7	19.3	15.8
Deposit interest rate (pr. sector, eop)	14.2	12.8	9.4

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: State Statistics Service of Ukraine

Egypt

Real Economy

Samer Halim

Egypt's GDP grew by 5.6% yoy in 2018/19, with investments, net exports and final consumption contributing by 2.3%, 2.2% and 1.1%, respectively, to this. The recovery in private investments following the recent and expected cuts in borrowing costs and the expected slight improvement in consumption, in line with the end of the reform programme, will help maintain the high level of growth at 5.7% in 2019/20. From the sectoral side, the natural gas and tourism sectors are expected to lead growth in the current financial year, along with the construction sector (benefiting from mega projects) and the telecommunications sector, which is witnessing accelerating advancements (forecasted 16.6% growth yoy in 2018/19).

Egypt's annual inflation rate eased in August to its lowest level since 2013, falling to 7.5% due to the base year effect and increasing control over the prices of volatile items (fruit and vegetables). Hence, it is now expected to decline to about 10% on average for 2019, compared with 14.4% one year earlier, and reach the Central Bank of Egypt's (CBE) target of 9% by the end of 2020.

Financial Markets

In terms of monetary policy, the CBE decided in August to lower corridor rates by 150bps due to declining inflation rates and the favourable regional and international monetary policy environment. Yields on three-month TBs fell to 16.4% from 17.9% after the decision. The dovish policy is expected to prevail during 2019 and 2020, supported by widening real interest rates and the tendency to cut interest rates worldwide, with the government's declining budget deficit and issuance of international bonds to help push yields down (Egypt intends to issue international bonds worth USD 3-7bn in 2019/20). However, the recent hike in oil prices and potential supply-side factors might affect this trend. The Egyptian pound continues its strong performance against major currencies, but we still expect it to depreciate in 2020 back to EGP 16.75 per USD due to the country's high external obligations.

Banking Sector

The outlook for Egypt's banking sector remains positive, with an improving operating environment and deepening penetration. Lowering interest rates and robust economic growth are expected to support private lending and the good access to stable deposit-based funding in local currency will to contribute to the moderate levels of growth in deposits. In addition, the foreign currency position of banks is expected to remain stable after the elimination of the repatriation mechanism in December 2018, which has allowed banks to benefit from inflows to the Egyptian debt market. NPL levels should remain stable too (hovering at around 4% of total loans in the past two years).

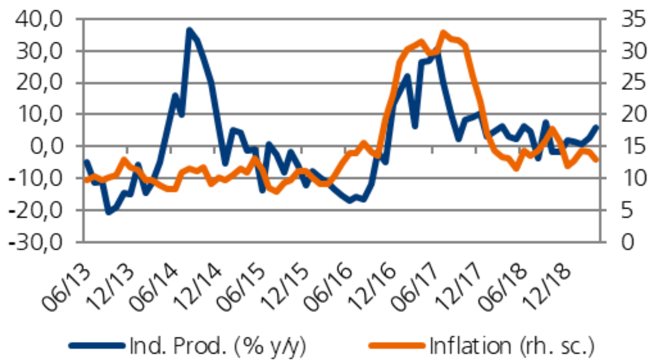
Forecasts

	2018	2019F	2020F
Real GDP yoy	5.4	5.7	5.8
CPI (eop)	12.0	9.2	9.5
USD exchange rate (value, eop)	17.9	16.5	16.8
Euro exchange rate (value, eop)	20.4	18.5	19.4
Short-term rate (eop)	19.7	15.5	13.1
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	15.3	13.1	11.1
Bank deposits (pr. sector, yoy)	13.8	13.6	12.5
Lending interest rate (corporates, eop)	17.8	15.9	14.3
Deposit interest rate (households, eop)	12.2	10.8	9.3

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Ministry of Planning, CAPMAS

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

The Economy

	GDP chg yoy			Ind. Prod[1]. chg.yoy			Export nom. chg			Inflation chg yoy				Retail sales chg yoy			Economic Survey[2]		
	2Q19	1Q19	2018	Last	mth	2019	Last	mth	2019	Last	mth	2019	2018	Last	mth	2019	Last	mth	2019
CEE																			
Czech Rep.	2.7	2.8	3.0	5.6	Jul	0.3	9.8	Jul	4.9	2.9	Aug	2.8	2.1	6.2	Jul	2.8	103.9	Jul	107.2
Hungary	4.9	5.3	4.9	12.0	Jul	4.7	7.6	Jul	0.4	3.1	Aug	3.7	2.8	6.9	Jul	6.2	111.8	Aug	117.3
Poland	4.4	4.7	5.1	5.8	Jul	4.7	-9.7	Jun	-2.9	2.9	Aug	2.4	1.7	5.7	Jul	4.5	102.2	Aug	104.8
Slovakia	2.0	3.7	4.1	2.8	Jul	3.1	-2.7	Jul	-1.4	2.8	Aug	2.5	2.5	-0.9	Jul	0.9	96.6	Aug	98.5
Slovenia	2.5	3.3	4.1	5.0	Jul	3.2	46.3	Jul	9.1	2.4	Aug	1.7	1.9	n.a.	n.a.	n.a.	105.0	Aug	108.0
SEE																			
Albania		2.2	4.1	n.a.	n.a.	n.a.	3.9	Jul	-4.3	1.5	Jul	1.4	2.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Bosnia H.		2.3	3.0	-4.7	Jul	-3.9	-6.6	Jul	0.4	0.5	Jul	0.6	1.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Croatia	2.4	3.9	2.6	3.0	Jul	-0.9	-6.1	Jun	2.0	1.1	Jul	0.7	1.5	n.a.	n.a.	n.a.	110.7	Aug	115.4
Romania	4.7	5.0	4.1	-6.6	Jun	-1.7	2.7	Jun	4.3	4.1	Jul	4.0	4.6	4.9	Jun	8.3	102.5	Jun	102.3
Serbia	2.9	2.7	4.3	3.7	Jul	-2.5	-0.5	Jun	6.4	1.6	Jul	2.3	2.0	10.5	Jul	9.6	n.a.	n.a.	n.a.
CIS MENA																			
Moldova	5.8	4.4	4.0	-2.2	Jun	1.5	-5.5	Jun	-1.0	5.5	Aug	4.1	3.1	17.7	Jun	16.6	n.a.	n.a.	n.a.
Russia	0.9	0.5	2.3	2.8	Jul	2.9	-2.6	Jul	-8.3	4.3	Aug	5.0	2.9	1.0	Jul	1.7	49.1	Aug	52.8
Ukraine	4.6	2.5	3.3	-0.1	Jul	1.7	7.0	Jul	6.1	8.8	Aug	9.1	11.0	10.1	Jul	8.1	n.a.	n.a.	n.a.
Egypt	5.7	5.6	5.4	5.8	Apr	5.8	14.0	Apr	14.0	7.5	Aug	12.2	14.4	n.a.	n.a.	n.a.	49.4	Aug	49.9
m.i. E. A.	*1.1*	*1.2*	*1.9*	*-2.0*	*Jul*	*-1.3*	*6.2*	*Jul*	*2.5*	*1.0*	*Aug*	*1.4*	*1.8*						

Source: Datastream, Reuters; [1]Wda data for Slovakia, Slovenia; Bosnia, Croatia, Egypt; [2]PMI manufacturing for Russia and Egypt, ESI for remaining countries.

Markets and Ratings

	S/T rates[1]		L/T rates[2]		Foreign exchanges[3]			Stock markets		CDS spread (bp)		FX res. chg (mln €)[4]			CA bal. (mln		Rating
	13/09	chg bp	13/09	chg bp	13/09	3M	1Y	3M	1Y	13/09	13/06	2Q19	1Q19	2018	2Q19	1Q19	Moody's
CEE					Vs Euro												
Czech	2.1	0.0	1.4	-0.2	25.84	1.1	1.26	-0.1	-3.9	37.9	39.5					1740	A1
Hungary	0.2	0.0	2.1	-1.1	332.7	3.23	2.21	-0.5	11.4	70.3	73.2		75	4035		329	Baa3
Poland	1.6	0.0	2.1	-0.4	4.34	1.84	0.63	-2.1	1.1	22.9	27.1					1832	A2
Slovakia	-0.4	-0.1	-0.1	-0.5	Euro	Euro	Euro	0.3	3.8	39.7	41.3	n.s.	n.s.	n.s.			A2
Slovenia	-0.4	-0.1	0.1	-0.3	Euro	Euro	Euro	-1.6	0.1	71.7	71.6	n.s.	n.s.	n.s.	663	650	Baa1
SEE																	
Albania	1.5	0.1	n.a.	n.a.	121.42	-0.41	-4.29	n.a.	n.a.	n.a.	n.a.						B1
Bosnia	n.a.	n.a.	n.a.	n.a.	1.96	Board	Board	n.a.	n.a.	n.a.	n.a.	281	-77	545		-244	B3
Croatia	0.5	0.0	0.6	-0.8	7.39	-0.22	-0.27	-0.9	4.7	82.7	85.7		883	1732		-2203	Ba2
Romania	2.9	-0.2	4.2	-0.5	4.74	0.28	2.07	8.9	12.5	78.8	80.7		-829	1619		-1212	Baa3
Serbia	2.5	-0.5	n.a.	n.a.	118.0	0.05	-0.35	-3.9	-6.0	104.9	120.6	706	-1454	1822	-716	-910	Ba3
CIS					Vs USD												
Moldova	7.5	0.5	NA		17.75	-2.11	5.82	n.a.	n.a.	n.a.	n.a.					13	B3
Russia	7.3	-0.9	7.0	-0.7	65.19	1.05	-6.3	0.3	18.1	73.7	115.6	19965	15920	35753		33692	Baa3
Ukraine	18.8	-0.6	16.5	-2.5	24.79	-6.29	-11.91	-13.3	-16.7	490.2	650.8	-77	-210	4232	-230	-25	Caa1
Egypt	16.4	-1.1	14.5	-1.6	16.42	-2.03	-8.32	9.6	11.4	258.8	326.7	240	1561	5531			B2
m.i.A.E.	*-0.4*	*-0.1*	*-0.5*	*-0.2*	*1.1*	*-1.7*	*-5.1*	*2.6*	*6.2*	*5.7*	*6.2*						

Source: Datastream, Reuters;[1] The data for Egypt refers to august, for Czech Republic refers to august, for Moldova refers to december; [2]For Ukraine, the long-term rate refers to a government issue in dollars; [3] The (-) sign indicates appreciation; [4]USD for Russia, Egypt, Ukraine, Romania; [5]USD for Russia, Egypt, Ukraine

Banking aggregates and interest rates (private sector)

	Loans Chg yoy %			NPL/Loans %			Foreign Liab. Chg yoy %			Deposits Chg yoy %			Loans rate[1]-NewB*. %				DepositsRate[1]- %				Loans/Dep %		
	Last	Mth	2018	Last	mth	2018	Last	mth	2018	Last	Mth	2018	Last	mth	2018	S[4]	Last	mth	2018	S[4]	Last	mth	2018
CEE																							
Czech Rep.	5.3	Jul	6.8	3.5	Jul	3.6	-8.0	Jun	-0.9	6.6	Jul	6.9	3.23	Jun	3.31	C	1.54	Jun	1.35	H	76.1	Jul	75.7
Hungary	11.7	Jul	10.6	3.3	Dec	3.3	0.2	Jul	1.5	6.3	Jul	14.1	2.65	Jul	2.3	C	0.18	Jul	0.18	H	83.2	Jul	77.7
Poland	6.6	Jul	7.9	4.0	Mar	3.9	-7.7	May	-2.9	11.2	Jul	9.4	3.85	Jul	3.48	C	1.59	Jul	1.62	H	97.0	Jul	97.0
Slovakia	6.8	Jul	9.1	3.1	Jul	3.3	-2.2	Jul	-0.1	3.9	Jul	7.3	2.13	Jul	2.01	C[2]	0.06	Jul	0.07	H[2]	103.9	Jul	101.4
Slovenia	3.6	Jul	2.6	3.0	Jul	4.0	-5.0	Jul	-16.5	6.7	Jul	6.7	2.12	Jul	2.22	C[2]	0.15	Jul	0.17	H[2]	74.6	Jul	75.3
SEE																							
Albania	3.5	Jun	-3.8	11.2	Jun	11.1	-8.6	Jun	-4.4	2.3	Jul	-0.9	6.7	Jun	8.16	PS	0.8	Jun	0.62	PS	54.3	Jun	52.8
Bosnia H.	6.0	Jul	5.5	8.0	Jun	8.8	6.0	Jul	17.4	7.8	Jul	8.5	2.89	Jul	3.1	C	0.33	Jul	0.34	H	105.9	Jul	105.4
Croatia	2.4	Jul	2.3	9.2	Jun	9.8	3.6	Jul	6.7	5.0	Jul	5.0	5.46	Jul	6.17	PS	0.25	Jul	0.45	PS	77.2	Jul	76.6
Romania	7.3	Jul	7.9	4.8	Jul	5.0	-8.7	Jul	-8.4	9.5	Jul	9.2	6.97	Jul	6.97	PS	2.19	Jul	1.96	PS	79.4	Jul	78.4
Serbia	8.9	Jun	9.9	5.2	Jun	5.7	13.8	Jun	24.0	10.4	Jun	14.9	8.37	Jun	7.74	PS	2.7	Jun	2.78	PS	100.0	Jun	96.9
CIS MENA																							
Moldova	16.6	Jul	5.9	10.9	Jul	12.5	0.7	Jul	-16.7	8.0	Jul	6.0	8.86	Jul	8.64	C	4.26	Jul	4.25	H	58.9	Jul	55.9
Russia	11.3	Jun	15.0	10.3	Jun	10.1	-15.9	Jun	-0.4	9.7	Jun	14.2	9.1	Jun	9.2	C	5.72	Jun	5.62	H	107.3	Jun	105.6
Ukraine	-2.8	Jul	6.3	50.8	Jun	52.9	-22.9	Jul	-7.5	7.0	Jul	7.9	20.08	Jul	21.75	PS	13.3	Jul	14.16	PS	113.2	Jul	121.2
Egypt	13.0	Jun	15.3	4.1	Mar	3.9	-5.5	Jun	10.7	12.4	Jun	13.8	16.5	Jul	17.8	C	11.3	Jul	12.2	H	34.5	Jun	34.3
m.i. E. A.	*3.0*	*Jun*	*2.0*	*n.a.*	*n.a.*	*n.a.*	*3.7*	*Jun*	*7.9*	*4.3*	*Jun*	*3.6*	*1.2*	*Jul*	*1.3*	*C*	*0.3*	*Jul*	*0.3*	*H*	*80.0*	*Jun*	*80.6*

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

Country Outlook

The economy

	GDP (% yoy)	2016	2017	2018	2019F	2020F	Inflation (%, avg)	2016	2017	2018	2019F	2020F
CEE	Czech Rep.	2.5	4.4	3.0	2.6	2.3	Czech Rep.	0.7	2.5	2.1	2.7	2.2
	Hungary	2.3	4.1	4.9	4.5	2.9	Hungary	0.4	2.4	2.8	3.4	3.2
	Poland	3.1	4.8	5.1	4.2	3.1	Poland	-0.6	2.0	1.7	2.3	2.4
	Slovakia	3.3	3.4	4.1	2.6	2.6	Slovakia	-0.5	1.4	2.5	2.6	2.3
	Slovenia	3.1	4.9	4.5	3.0	2.6	Slovenia	-0.2	1.6	1.9	1.7	1.9
SEE	Albania	3.5	3.7	4.1	2.9	2.9	Albania	1.3	2.0	2.0	1.6	1.8
	Bosnia Herzegovina	3.1	3.2	3.0	2.6	2.5	Bosnia Herzegovina	-1.6	0.8	1.4	0.7	0.6
	Croatia	3.5	2.9	2.6	2.8	2.5	Croatia	-1.1	1.1	1.5	0.8	1.2
	Romania	4.8	7.0	4.1	4.0	3.0	Romania	-1.5	1.3	4.6	3.9	3.5
	Serbia	3.3	2.0	4.3	3.0	2.8	Serbia	1.1	3.2	2.0	2.0	1.9
CIS	Moldova	4.4	4.7	4.0	3.6	3.4	Moldova	6.5	6.6	3.1	5.1	6.5
	Russia	-0.2	1.5	2.3	1.0	1.5	Russia	7.1	3.7	2.9	4.7	4.2
	Ukraine	2.4	2.5	3.3	3.2	2.9	Ukraine	14.9	14.5	11.0	8.5	6.8
MENA	Egypt	3.9	5.0	5.4	5.7	5.8	Egypt	13.7	29.6	14.4	10.0	9.6

Markets

	Exch.rate (avg Euro)	2016	2017	2018	2019F	2020F	Interest rate (%, avg)	2016	2017	2018	2019F	2020F
CEE	Czech Rep.	27.0	26.3	25.6	25.7	25.2	Czech Rep.	0.3	0.4	1.3	2.1	2.1
	Hungary	311.3	309.1	318.8	323.7	329.2	Hungary	1.0	0.1	0.1	0.2	0.2
	Poland	4.4	4.3	4.3	4.3	4.3	Poland	1.6	1.5	1.7	1.6	1.5
	Slovakia	-	-	-	-	-	Slovakia	-0.3	-0.3	-0.3	-0.4	-0.5
	Slovenia	-	-	-	-	-	Slovenia	-0.3	-0.3	-0.3	-0.4	-0.5
SEE	Albania	137.4	134.2	127.6	123.5	123.3	Albania	1.1	1.3	1.2	1.1	1.0
	Bosnia Herzegovina	1.96	1.96	1.96	1.96	1.96	Bosnia Herzegovina	-	-	-	-	-
	Croatia	7.5	7.5	7.4	7.4	7.4	Croatia	0.9	0.6	0.5	0.5	0.3
	Romania	4.5	4.6	4.7	4.7	4.7	Romania	0.8	1.2	2.8	3.0	2.8
	Serbia	123.1	121.4	118.3	117.9	117.8	Serbia	4.1	3.9	3.1	2.8	2.5
CIS	Moldova (USD)	19.9	18.5	16.8	17.7	18.2	Moldova	12.8	8.0	6.5	7.0	7.4
	Russia (USD)	67.1	58.3	62.7	65.7	66.6	Russia	11.2	9.4	7.7	7.9	6.9
	Ukraine (USD)	25.5	26.6	27.3	26.5	26.9	Ukraine	20.9	16.8	18.4	18.8	15.7
MENA	Egypt (USD)	10.1	17.8	17.8	16.9	16.6	Egypt	14.1	19.3	18.8	17.0	14.0

Banking aggregates (% change yoy)

	Loans (pr. sector)	2016	2017	2018	2019F	2020F	Deposits (pr. sector)	2016	2017	2018	2019F	2020F
CEE	Czech Rep.	6.7	6.5	6.8	5.5	4.5	Czech Rep.	5.8	7.6	6.9	5.5	4.6
	Hungary	-1.9	6.0	10.6	9.0	6.5	Hungary	6.3	10.8	14.1	4.5	4.5
	Poland	5.3	3.2	7.9	6.2	5.5	Poland	9.2	3.7	9.4	7.2	6.3
	Slovakia	9.0	10.0	9.1	8.0	7.0	Slovakia	4.4	5.4	7.3	5.9	5.8
	Slovenia	-2.3	3.2	2.6	3.9	2.9	Slovenia	7.2	7.0	6.7	5.8	4.9
SEE	Albania	0.2	0.5	-3.8	1.0	1.5	Albania	2.3	-1.6	-0.9	1.5	2.0
	Bosnia Herzegovina	3.5	7.3	5.5	5.4	4.5	Bosnia Herzegovina	7.4	9.0	8.5	6.5	5.2
	Croatia	-4.3	-0.1	2.3	2.2	1.9	Croatia	2.8	2.4	5.0	2.8	2.3
	Romania	1.2	2.7	7.9	8.0	4.5	Romania	8.6	10.1	9.2	8.0	5.6
	Serbia	2.4	2.1	9.9	7.5	5.8	Serbia	11.5	3.1	14.9	9.0	6.5
CIS	Moldova	-9.0	-3.7	5.9	10.0	6.0	Moldova	9.2	9.2	6.0	7.2	6.4
	Russia	-4.2	5.2	15.0	8.6	7.2	Russia	-3.9	8.1	14.2	7.0	6.1
	Ukraine	2.0	0.9	6.3	0.6	3.7	Ukraine	9.1	12.1	7.9	5.0	5.7
MENA	Egypt	42.8	7.1	15.3	13.1	11.1	Egypt	41.4	23.8	13.8	13.6	12.5

Banking interest rates (%)

	Lending (Corp. avg)	2016	2017	2018	2019F	2020F	Deposits (HH avg)	2016	2017	2018	2019F	2020F
CEE	Czech Rep.	1.9	2.0	2.7	3.2	3.2	Czech Rep.	1.1	0.7	0.9	1.5	1.5
	Hungary	3.8	2.5	2.3	2.3	2.3	Hungary	0.6	0.3	0.2	0.2	0.2
	Poland	3.5	3.7	3.5	3.5	3.2	Poland	1.8	1.6	1.7	1.6	1.3
	Slovakia	2.2	2.0	2.2	2.0	1.8	Slovakia	0.2	0.1	0.1	0.1	0.0
	Slovenia	3.1	2.5	2.2	2.1	1.9	Slovenia	0.2	0.1	0.2	0.1	0.0
SEE	Albania	9.8	8.2	8.1	7.6	7.4	Albania	0.8	0.8	0.7	0.6	0.4
	Bosnia Herzegovina	-	-	-	-	-	Bosnia Herzegovina	-	-	-	-	-
	Croatia	7.3	7.0	6.4	5.8	5.3	Croatia	1.2	0.8	0.6	0.3	0.2
	Romania	5.5	5.7	7.0	7.3	6.9	Romania	0.7	0.7	1.7	2.0	1.8
	Serbia	9.1	8.9	8.6	8.1	7.8	Serbia	2.7	2.8	2.7	2.6	2.3
CIS	Moldova	12.7	10.2	9.1	9.0	9.2	Moldova	12.6	6.2	4.5	4.4	4.7
	Russia	12.6	10.6	8.9	8.9	8.3	Russia	7.0	5.9	5.4	5.6	4.6
	Ukraine	19.0	16.4	19.0	19.6	16.9	Ukraine	11.5	9.1	12.0	13.1	10.5
MENA	Egypt	13.6	18.2	18.3	16.6	14.9	Egypt	7.9	12.1	12.3	11.4	9.9

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
Michal Lehuta	mlehuta1@vub.sk
Jacob Obst	jobst@vub.sk
PBZ (Croatia, Bosnia I Hercegovina and Slovenia)	
Ivana Jovic (Head)	ivana.jovic@pbz.hr
Ana Lokin	ana.lokin@pbz.hr
Ivan Odrčić	ivan.odrcic@pbz.hr
CIB (Hungary and Poland)	
Mariann Trippon (Head)	trippon.mariann@cib.hu
Sandor Jobbagy	jobbagy.sandor@cib.hu
Banca Intesa (Serbia)	
Marija Savic (Head)	marija.v.savic@bancaintesa.rs
Tijana Matijasevic	tijana.matijasevic@bancaintesa.rs
Milos Drezga	milos.drezga@bancaintesa.rs
Aleksandra Popov	aleksandra.popov@bancaintesa.rs
Intesa Sanpaolo Bank (Romania)	
Marius Pacurari (Head)	marius.pacurari@intesasanpaolo.ro
Alexbank (Egypt)	
Samer Halim (Head)	samer.halim@alexbank.com
Sahar EzzElarab	sahar.ezzElarab@alexbank.com
Mirna Mhosen	mirna.mohsen@alexbank.com
Mariam Massoud	mariam.massoud@alexbank.com
Nahla Abdel Azim	nahla.azim@alexbank.com
International Subsidiaries' Research Contacts:	
Banca Intesa (Russia)	
Irina Lekareva	irina.lekareva@bancaintesa.ru
Intesa Sanpaolo Bank (Albania)	
Kledi Gjordeni	kledi.gjordeni@intesasanpaolobank.al
Pravex Bank (Ukraina)	
Artem Krasovskyi	artem.krasovskyi@pravex.ua
Eduard Nazarenko	eduard.nazarenko@pravex.ua
Eximbank (Moldova)	
Natalia Mihalas	natalia.mihalas@eximbank.com
Olga Pisla	olga.pisla@eximbank.com

Important information

The economists who prepared this document hereby state that the opinions, forecasts and estimates contained herein are the result of independent and subjective appraisal of the data, facts and information acquired and that no portion of their compensation has been or will be, either directly or indirectly, related to the investment strategy recommended or proposed in this document.

This publication was prepared by Intesa Sanpaolo SpA. The information and opinions contained herein were obtained from sources believed by Intesa Sanpaolo SpA to be reliable, but no guarantee is made as to their accuracy or completeness. This publication was prepared solely for information and illustrative purposes, and is not intended as a proposal for conclusion of a contract or solicitation of the purchase or sale of any financial products. The document may be reproduced wholly or in part only if Intesa Sanpaolo SpA is cited as the author.

This publication is not intended to replace the personal opinions of the parties to which it is addressed. Intesa Sanpaolo SpA and its subsidiaries, and/or any other party related to these, reserve the right to act on the basis of or to make use of any of the material described above and/or any information from which this material originates, before the same is published and made available to customers.