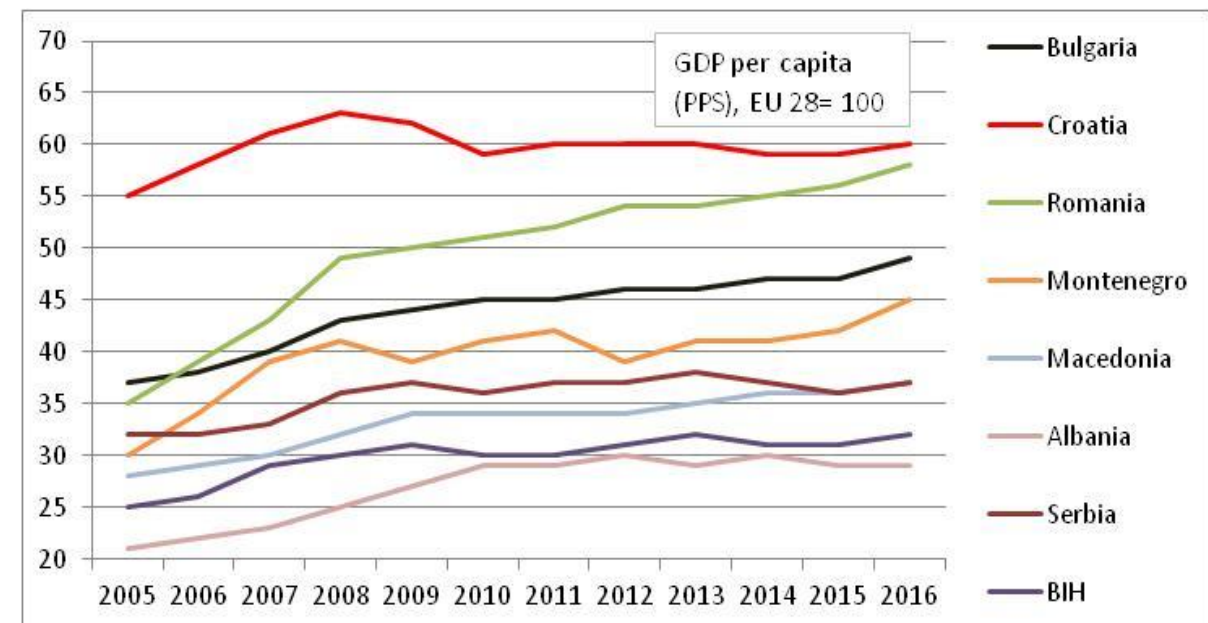
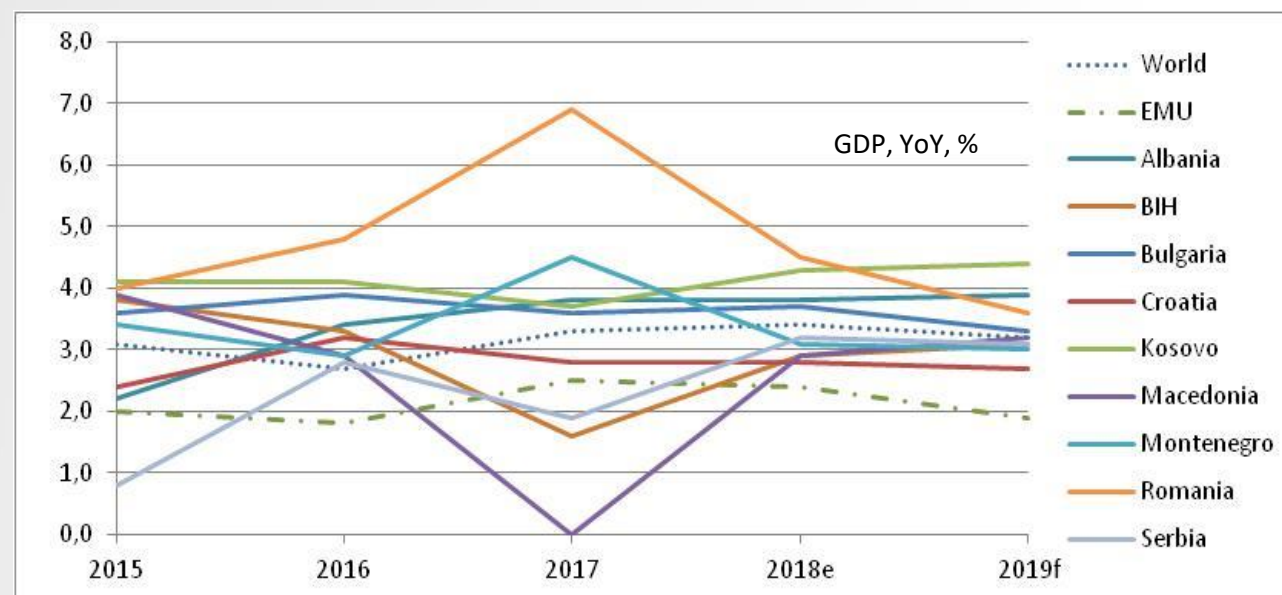


# Macroeconomic trends in SEE region and impact on capital markets

Ohrid, 4<sup>th</sup> of May 2018

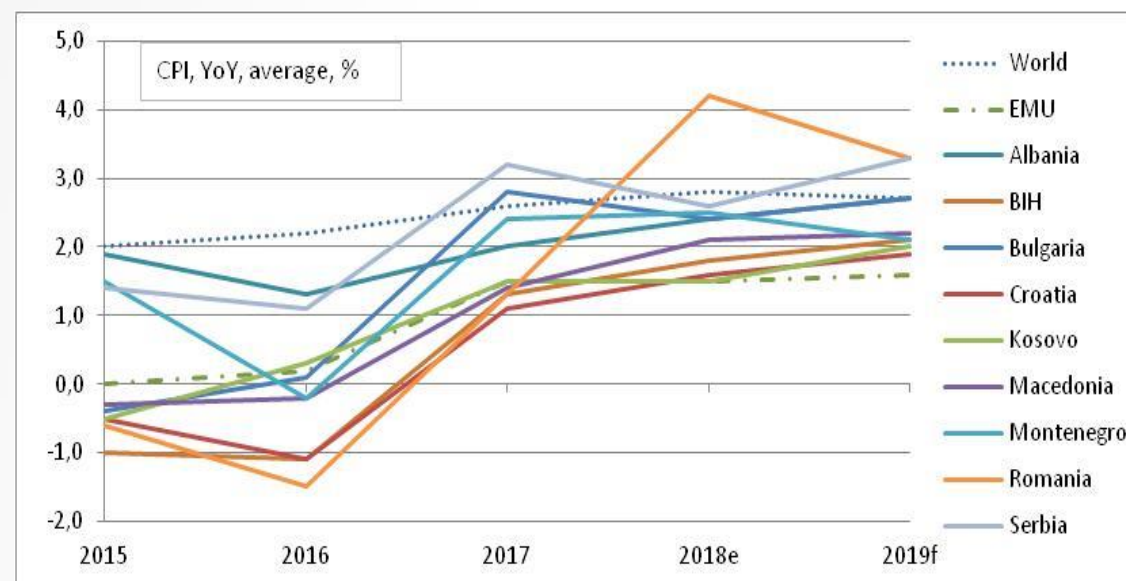
# Growth continues, but is it enough?

- ✓positive external environment continues
- ✓higher energy prices, “trade wars” and increase of interest rates might harm global growth
- ✓despite solid GDP growth, structural issues remain in majority of SEE economies – drivers of sustainable long-term growth?!
- ✓size of domestic markets – pros and cons
- ✓convergence process is on again, but in majority of SEE economies not at satisfactory pace
- ✓future of EU integration process will have an important role on future economic trends in SEE region
- ✓lack of labour force to decrease potential GDP growth?



# Inflation is back and for the time being under control

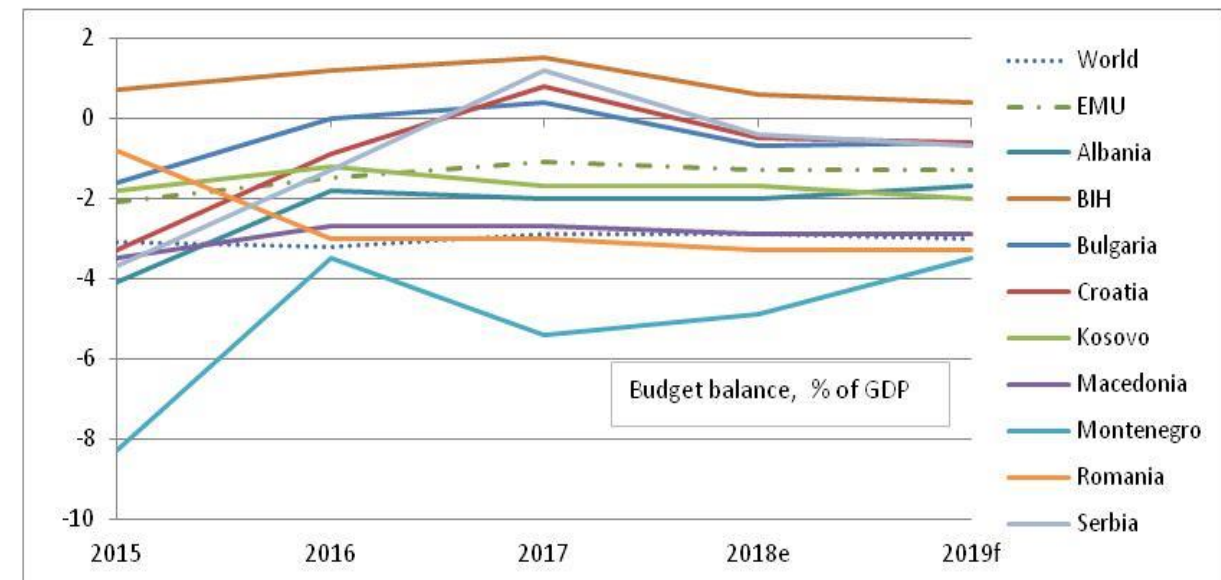
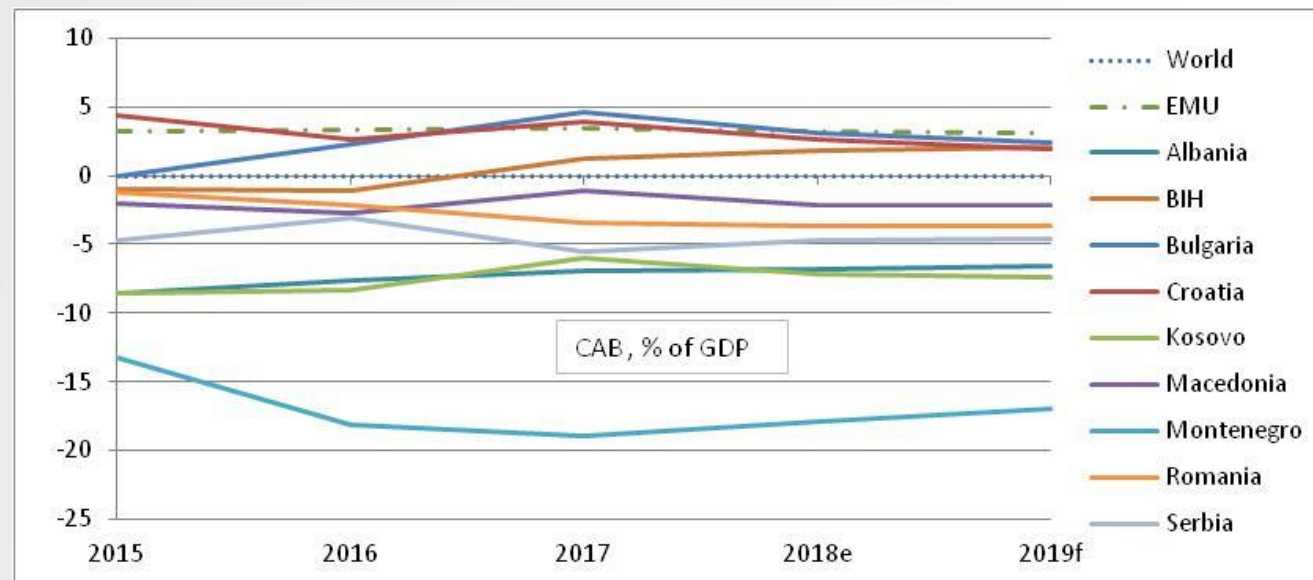
- ✓ risk of deflation led to implementation of unprecedented monetary stimulus in Eurozone (record low key interest rates, QE, LTRO...)
- ✓ ECB's measures influenced financial markets outside EMU as well
- ✓ deflation in SEE region had a temporary character and contributed positively to GDP growth (via stronger household consumption)
- ✓ mild and expected inflation has a positive impact on micro and macro level
- ✓ gradual “normalisation” of monetary policy in most developed economies is expected
- ✓ global risks might lead to more aggressive monetary tightening with negative impact on growth



ECB refinancing rate, Bloomberg survey	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q 4 2019	Q1 2020	Q2 2020	Q3 2020
Median forecast - Apr 2018	0,00	0,00	0,00	0,00	0,00	0,10	0,25	0,38	0,50	0,50
High	0,00	0,00	0,00	0,25	0,50	0,50	0,75	0,75	1,00	1,00
Low	-0,40	-0,40	-0,40	-0,40	-0,40	0,00	0,00	0,10	0,10	0,10
Median forecast - Mar 2018	0,00	0,00	0,00	0,00	0,00	0,10	0,25	0,25	0,50	0,50

# Imbalances remain narrowed

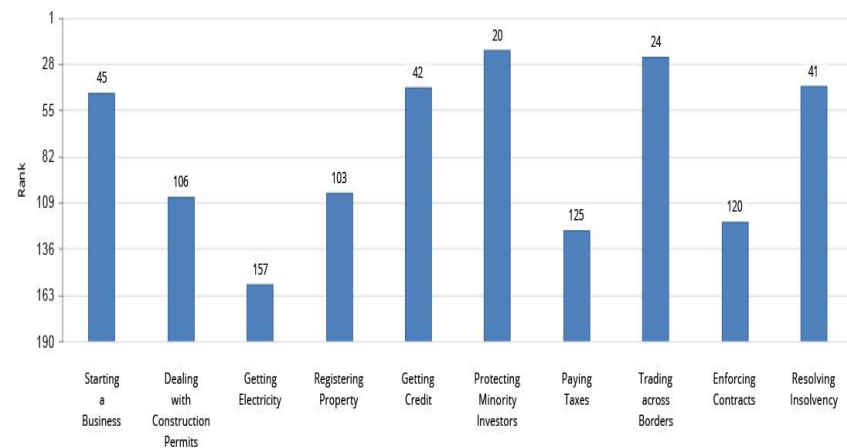
- ✓pre-crisis period was characterised by strong growth, but also by high fiscal and external imbalances
- ✓global crisis led to prolonged recession and pressures on stability of financial systems
- ✓“twin-deficit” typical for transition economies
- ✓cyclical or structural improvement?
- ✓vulnerabilities decreased but risks for the SEE region of deteriorating global sentiment remain
- ✓sovereign credit ratings remain unfavourable – ex-post reaction by agencies
- ✓lower imbalances lead to more stability respectively higher risk appetite



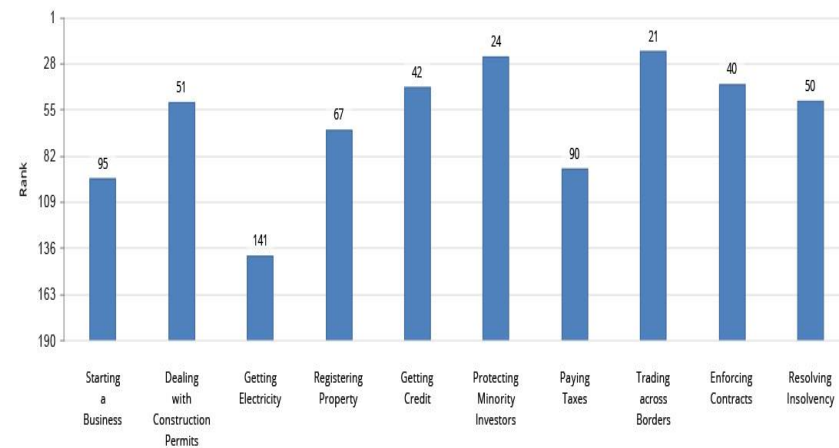


# How to become more growth and investment friendly?

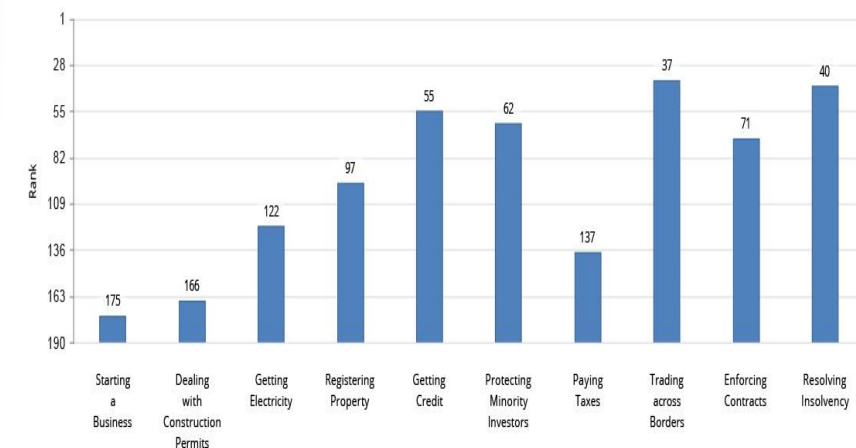
Rankings on Doing Business topics - Albania



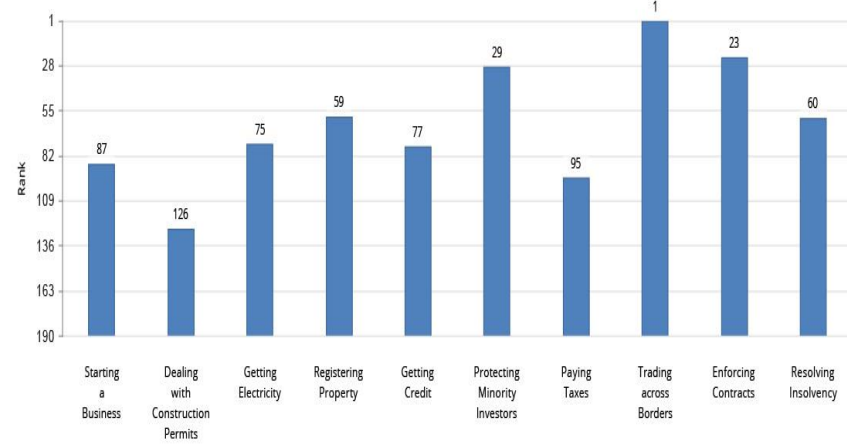
Rankings on Doing Business topics - Bulgaria



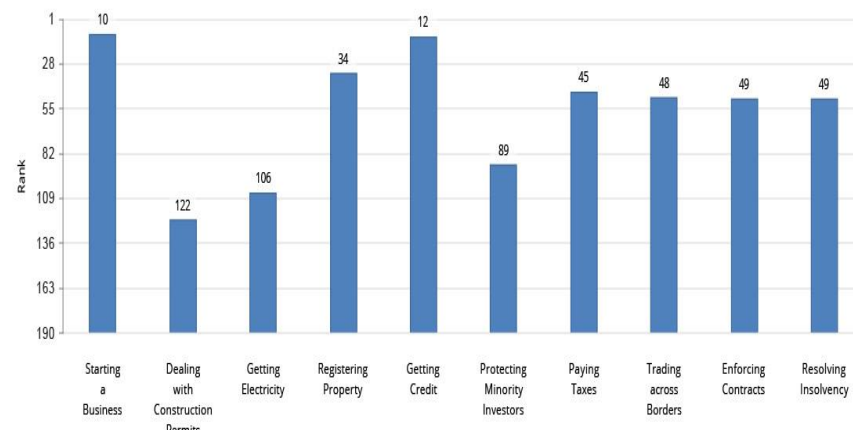
Rankings on Doing Business topics - Bosnia and Herzegovina



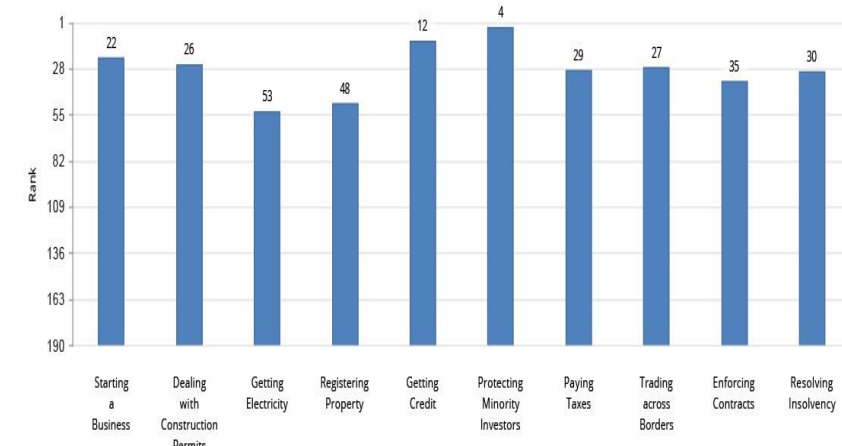
Rankings on Doing Business topics - Croatia



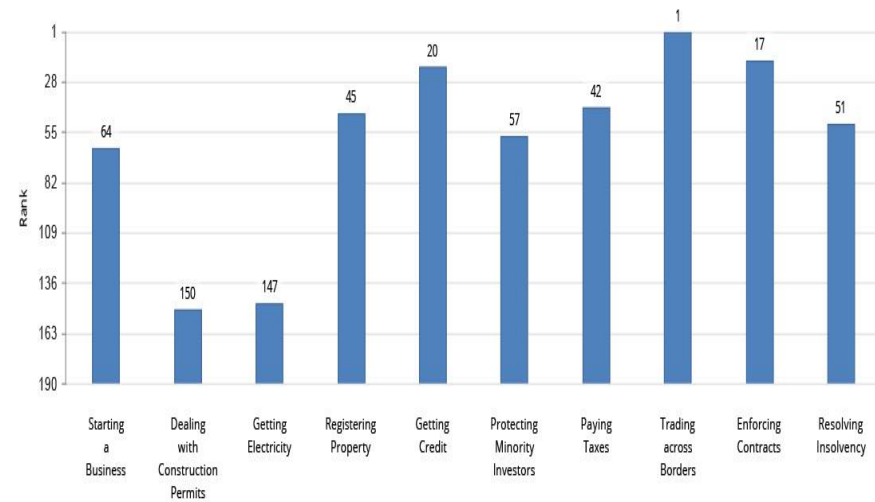
Rankings on Doing Business topics - Kosovo



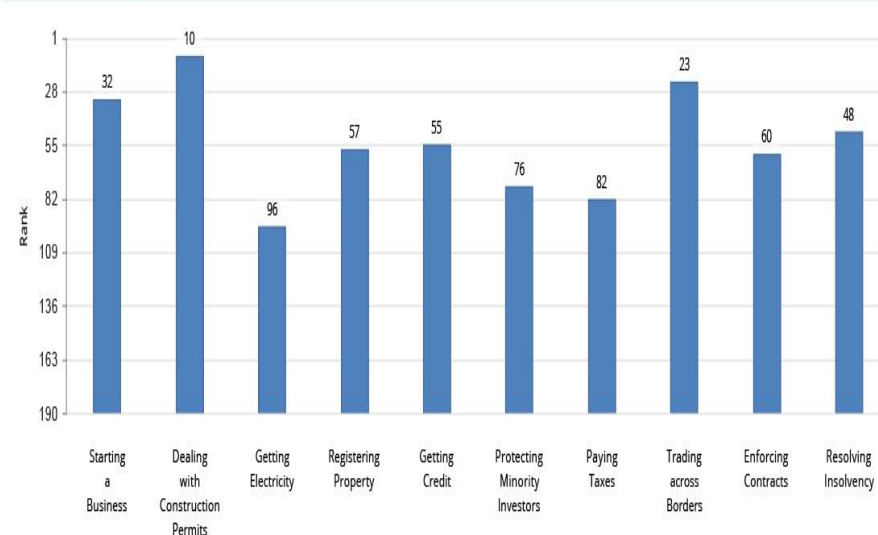
Rankings on Doing Business topics - Macedonia, FYR



Rankings on Doing Business topics - Romania



Rankings on Doing Business topics - Serbia



# Foreign capital – still needed in SEE region

FDI inflow, USD mn	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>World</b>	<b>958.516</b>	<b>1.411.171</b>	<b>1.909.234</b>	<b>1.499.133</b>	<b>1.190.006</b>	<b>1.383.779</b>	<b>1.591.146</b>	<b>1.592.598</b>	<b>1.443.230</b>	<b>1.323.863</b>	<b>1.774.001</b>	<b>1.746.423</b>
<b>Europe</b>	<b>476.583</b>	<b>604.635</b>	<b>874.008</b>	<b>336.194</b>	<b>439.240</b>	<b>409.249</b>	<b>484.932</b>	<b>541.375</b>	<b>340.466</b>	<b>272.463</b>	<b>565.934</b>	<b>532.994</b>
<b>European Union</b>	<b>471.981</b>	<b>545.995</b>	<b>824.401</b>	<b>305.632</b>	<b>390.545</b>	<b>362.506</b>	<b>435.139</b>	<b>491.644</b>	<b>336.811</b>	<b>256.613</b>	<b>483.839</b>	<b>566.234</b>
Bulgaria	3.920	7.805	12.389	9.855	3.385	1.549	2.945	1.697	1.837	1.540	2.822	776
Croatia	1.786	3.291	4.633	5.317	3.059	1.155	1.692	1.504	958	2.870	270	1.745
Romania	6.152	10.858	9.733	13.492	4.665	3.041	2.363	3.199	3.601	3.211	3.839	4.573
Albania	264	324	659	974	996	1.051	876	855	1.266	1.110	945	1.124
Bosnia and Herzegovina	613	766	1.819	1.002	250	406	497	395	276	529	270	285
Montenegro	501	622	934	960	1.527	760	558	620	447	497	699	226
Serbia	1.577	4.256	4.406	3.972	2.896	1.686	4.932	1.299	2.053	1.996	2.347	2.299
Macedonia	96	433	693	586	201	213	479	143	335	272	240	397

Number of M&A transactions	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>World</b>	<b>9.407</b>	<b>10.363</b>	<b>12.044</b>	<b>11.106</b>	<b>8.691</b>	<b>9.938</b>	<b>10.187</b>	<b>9.630</b>	<b>8.990</b>	<b>11.139</b>	<b>10.799</b>	<b>10.725</b>
<b>Europe</b>	<b>4.335</b>	<b>4.692</b>	<b>5.462</b>	<b>4.849</b>	<b>3.392</b>	<b>3.972</b>	<b>4.169</b>	<b>3.911</b>	<b>3.727</b>	<b>4.692</b>	<b>4.928</b>	<b>5.005</b>
<b>European Union</b>	<b>4.052</b>	<b>4.385</b>	<b>5.045</b>	<b>4.479</b>	<b>3.102</b>	<b>3.643</b>	<b>3.846</b>	<b>3.574</b>	<b>3.446</b>	<b>4.365</b>	<b>4.638</b>	<b>4.707</b>
Bulgaria	44	41	52	44	31	22	13	19	28	29	17	23
Croatia	13	17	22	18	6	15	18	12	14	11	17	35
Romania	61	67	64	75	43	47	38	44	47	44	37	56
Albania	1	2	6	6	3	2	0	1	2	2	1	3
Bosnia and Herzegovina	7	9	12	5	3	1	2	2	3	7	8	9
Montenegro	0	2	2	0	4	2	1	2	0	1	4	5
Serbia	32	25	2	5	1	1	1	0	0	1	0	0
Macedonia	3	5	22	4	2	2	8	7	2	1	4	3

M&A deals, USD mn	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>World</b>	<b>535.035</b>	<b>619.809</b>	<b>1.032.689</b>	<b>617.649</b>	<b>287.617</b>	<b>347.094</b>	<b>553.442</b>	<b>328.224</b>	<b>262.517</b>	<b>428.126</b>	<b>735.126</b>	<b>868.647</b>
<b>Developed economies</b>	<b>472.342</b>	<b>526.533</b>	<b>905.808</b>	<b>474.067</b>	<b>236.784</b>	<b>259.926</b>	<b>436.926</b>	<b>266.773</b>	<b>230.122</b>	<b>293.062</b>	<b>640.762</b>	<b>794.317</b>
<b>Europe</b>	<b>376.068</b>	<b>352.707</b>	<b>560.904</b>	<b>172.448</b>	<b>140.217</b>	<b>127.458</b>	<b>213.654</b>	<b>144.243</b>	<b>138.854</b>	<b>211.770</b>	<b>301.097</b>	<b>376.891</b>
<b>European Union</b>	<b>364.610</b>	<b>335.309</b>	<b>528.937</b>	<b>258.391</b>	<b>120.323</b>	<b>118.187</b>	<b>184.582</b>	<b>128.270</b>	<b>126.585</b>	<b>174.874</b>	<b>265.255</b>	<b>362.593</b>
Bulgaria	2.551	807	959	227	191	24	-96	31	-29	265	6	-285
Croatia	360	2.530	674	274	0	201	92	81	100	15	659	183
Romania	1.757	5.297	1.926	996	331	148	88	151	-45	261	126	100
Albania	7	41	164	3	146	0	0	0	0	0	0	0
Bosnia and Herzegovina	21	79	1.014	9	8	0	0	1	6	10	4	63
Montenegro	0	7	0	0	362	0	0	0	0	0	29	0
Serbia	6	1.164	280	501	10	19	1.340	2	9	10	12	132
Macedonia	0	280	53	67	0	46	27	0	0	0	0	0

# What would impact SEE capital markets?

## Strengths/Possibilities:

- stronger GDP growth
- further decrease of real yields
- EU& EMU perspectives of countries
- supranational (EU) initiatives to increase significance of capital markets
- privatization
- reform of pension systems
- municipality bonds
- decrease of sovereign risk

## Weaknesses/Threats:

- low level of economic (financial) development
- economy of scale, lack of quality issuances
- bank-centric environment
- increase of key interest rates (capital outflow?)
- weak institutions and business climate
- unstable & unfair taxation system
- negative demographic and migration trends
- weak corporate management and transparency
- “internationalization” of SEE economies
- Agrokor crisis & restructuring
- low financial knowledge

Thank you!!!

E-mail: [zdeslav.santic@splitskabanka.hr](mailto:zdeslav.santic@splitskabanka.hr)