INTESA SANPAOLO

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Countries with ISP subsidiaries

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Research Department

International Research Network

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Viewpoint

The earlier- and deeper-than-expected second wave of COVID-19 infections is going to lead to a further deterioration of the business cycle in 4Q20 and likely also in 1Q21.

In the last few weeks, the pandemic landscape in Europe has shifted dramatically. Although widely anticipated, the second wave of COVID-19 infections has occurred earlier and been much more extensive than expected. Since mid-September, the number of cases per million inhabitants has more than tripled in the CEE area, reaching 10,400 units, surpassing the 9000 cases per million people of the SEE region and the 10,200 units recorded in the CIS area. The number of new daily cases continues, worryingly, to accelerate, causing authorities to reintroduce restrictive social distancing measures (partial lockdowns in several cases) in attempts to balance the need to maintain functioning healthcare systems and limit the damage to the economies.

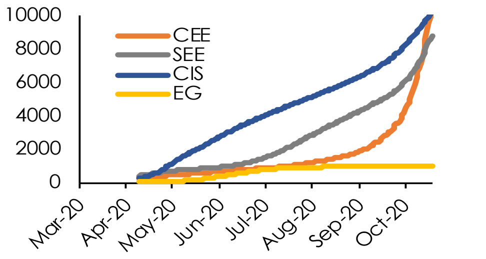
The most recent high-frequency economic indicators (released in September and October) do not reflect yet the ongoing deterioration in the economic landscape, confirming in most cases the economic recovery that, following the gradual softening of lockdown measures adopted in 2Q, was widely anticipated for 3Q. In the CEE/SEE area, for example, in August industrial production decreased by only 1%, in comparison to a fall of 20% yoy in 2Q, and in September the economic sentiment indicator continued to improve on regional average.

Nevertheless, the second wave of pandemic is going to lead to a worrying deterioration in 4Q20. It is currently difficult to assess the depth of the downturn, which in fact is strictly related to the still uncertain dynamic of both the strength of the contagion and the restrictiveness (and success) of the containment (and response) measures being adopted. In the CEE/SEE area, if GDP growth in 4Q declined by a 10% yoy avg. (vs the c. 4% avg. fall underlying our September forecasts), in this way replicating what has occurred in 2Q, the impact for the whole of 2020 could be estimated on the order of an additional 1.5% decline in GDP (ie, to -6.5% vs the -5% foreseen in September's baseline, roughly corresponding to the lower bound of a ±15% probability range around it), but the uncertainty regarding this outcome remains high and risks are on still on the downside.

To limit the damages to the economy, national (and supranational as in the EU case) authorities are implementing bold policies, offering new subsidies to COVID-hit households and corporates, extending moratoriums, widening state-guarantees on lending schemes to SMEs. The IMF has recently estimated that in the CEE/SEE area, the additional government deficits due to higher spending or foregone revenues in 2020 may equal up to 4%-5% of GDP (roughly 2.5% in the CIS area). In the face of a prolonged pandemic, these estimates are likely to be revised upwards, leading to higher levels of public debt. It is an issue that still deserves to be properly addressed.

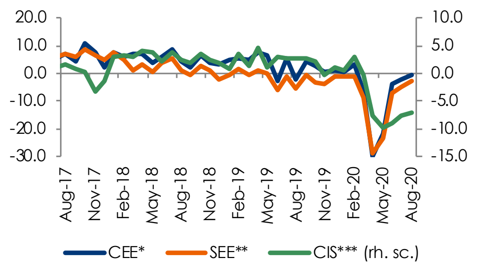
On the banking side, in all the regions, lending trends have been supported by the proactive stances of CBs and governments. Despite the ongoing severe recession, credit to the private sector in the CEE/SEE area in July and August increased on avg. by c.4%. In parallel, driven by precautionary motives among households and thanks to liquidity made available to corporates, deposits grew by c.13%. Banks' liquidity position is strong and capital ratios are currently estimated well above regulatory requirements. In face of increasing insolvency risks among firms and widening uncertainties on the length of the recession, NPLs remain the true Sword of Damocles.

Covid-19 Cases (number per Mln. inhabitants)



Source: Intesa Sanpaolo Research elaboration on Thomson Reuters

Industrial production % y/y



* weighted avg. on SK, SI, HU, CZ and PL data; **weight. avg. on BA, HR, RO, RS data; *** weighted avg. on RU, UA data; Source: our elaborations on Refinitiv data

Based on information available to 23 October 2020

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RUSSIAN FEDERATION
BANCA INTESA

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CROATIA
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HUNGARY
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UKRAINE
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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 Monitor is released on a quarterly basis in January, April, July and October.

Cross Country Analysis

CEE Area

Antonio Pesce

In the **CEE area**, most of the recent high-frequency economic indicators, represented by data and surveys, still referred to August and only in some cases to September. They confirmed the economic recovery in 3Q compared to 2Q. For the most part, however, they do not offer a reflection of the deterioration of the economic landscape that has occurred since the end of the summer due to the second wave of COVID-19 infections. In late September and to a larger extent in October, the resurgence of the pandemic has induced the authorities to reintroduce increasingly stricter **social distancing measures** by limiting opening hours or again closing activities in the most contact-sensitive service sectors. In the region, positive cases per million inhabitants have increased from about 2,000 in mid-September to over 6,000 currently. This alarming resumption of contagion raises the uncertainty around the baseline scenarios for economic growth in 4Q20 and 1Q21 while heightening the risks of severe downward revisions.

In August, **industrial production** increased by 0.6% yoy on (weighted) average in the area, which is significantly better than the result recorded in 2Q (-18.5%) and even better than in July (-2.0%). Only for Czech Republic did industrial production growth deteriorate in August (-5.5% from -5.0% in July). In Poland, for which the September data release is already available, the yoy increase in industrial production was close to 2.0%. The dynamic of **exports** in the area (-1.2% yoy on average) was also better in August than in 2Q (-16% yoy), but unlike industrial production, worse compared to June (1.2%), with trends ranging from -6.0% in Czech Republic to -0.3% in Poland. Slovakia was the only country to record a positive trend (5.4%). Together with exports, **retail sales** were among the data that best signalled the incoming deterioration of the economic environment. In August, retail sales dropped by 0.1% yoy on average from a positive 2.1% yoy in July. The decline was observed in all CEE countries, the only exception being Slovakia, with 4.0% growth yoy (vs 1.5% yoy in July).

Moving to forward-looking indicators, September's surveys also did not fully reflect the upcoming deterioration of the economic landscape. The manufacturing **PMI** survey fell below the 50 level in Hungary (48.8). However, this still improved in Czech Republic (53.5), the country most heavily hit by the second wave of the contagion, and in Poland (50.8). The **ESI** was slightly better than in August in all countries of the area. In September again, **inflation**, on regional average, remained the same (2.9%) as in the previous month and was essentially stable compared with 2Q. However, there was some heterogeneity among countries, with the dynamics of consumer prices at between -0.7% in Slovenia, the country that had also recorded the greatest contraction in retail sales in August, and 3.4% in Hungary. The latter, together with Poland and Czech Republic, saw inflation rates in the upper segments of CB target ranges.

To limit the negative impact of the pandemic on the economy and provide markets with the necessary liquidity, authorities have been implementing strongly **expansionary monetary and fiscal policies**, including by subsidising COVID-hit households and corporates' balance sheets through fiscal packages, cutting policy rates and reserve requirements, allowing bold quantitative easing operations, introducing moratoriums on bank loan payments, and state-guarantees on lending to SMEs. The IMF has estimated that among the CEE countries, the additional **government spending** or foregone fiscal revenues range from the 2.5% of GDP in Slovakia to 7.9% in Slovenia (unweighted regional average 5.1%). Regarding financial markets, all these measures supported low **monetary rates** as well as low **long-term yields** in the whole region. Spreads with benchmark yields (10Y Bund) decreased slightly in the last few weeks. In the **FX markets**, owing to tensions due to uncertainties induced by the pandemic, local currencies depreciated in local markets, mostly in Hungary, where the forint (364.3 vs the euro) is close to historical highs now.

Davidia Zucchelli

On the **banking side, in the CEE area,** lending trends have been supported by the proactive stances of CBs, which continued to ease monetary policies. Lending was still driven by State Guarantee Schemes and supported by moratoriums on loan repayments. NPLs are, however, the Sword of Damocles. Deposits remain strong; the performance has been much higher in the corporate sector, especially in Poland, and therefore is expected to be more volatile. Profitability as of June deteriorated mostly due to higher provisions and low interest rates. Lending decelerated slightly in August on average, to 3.4% yoy (from 4% yoy in July).

In more detail, August data still showed a strong performance in **Hungary**. Loans rose by 13.1% yoy, driven by both corporates (10.5% yoy) and households (16.3% yoy), extensively supported by subsidised lending schemes. In particular, loans to SMEs rose by 9% yoy, substantially supported by the FGS Go! Scheme, while retail loans accelerated to almost 20%. At the end of June, prenatal baby support loans had already accounted for 10% of total household loans. Deposits increased by 17.1% yoy, mainly supported by corporates (19.5% yoy vs 14.8% for households).

In both **Slovakia** and **Czech Republic** in August, lending growth (5.2% and 4.6% yoy, respectively) decelerated, especially in the corporate segment (2.6% and 2.1% yoy), while remaining robust among households (7% and 6.2% yoy), thanks to relaxed limits imposed on household loans in the past (higher LTV, higher DSTI). Deposits were also dynamic (5.6% and 10% yoy, respectively), both for corporates (4.2% and 10.3% yoy) and households (6.5% and 9.9% yoy). Despite a significant reduction of loans in the corporate sector (-3.7% yoy), lending remained positive in **Poland** (0.5%), sustained by households (+2.6%). Deposits increased by 14.7% yoy in August, particularly among corporates (27.9% yoy). **Slovenia** showed the weakest performance in total loans (-0.5% yoy), with corporates seeing a particular negative effect (-2.6% yoy), but decelerated in the household sector (1.3% yoy) as well. Total deposits recorded a sizable increase (9.8% yoy) among both corporates (10.2% yoy) and households (9.6% yoy). The effect of a recent capital leverage calculation revision (without adding cash and deposits to the central bank in total assets) in the EU area is estimated to have been very modest while total capitalisation is still strong overall.

SEE Area

Antonio Pesce

As with the CEE area, the **SEE region** experienced a renewed spread of COVID-19 since the end of the summer, and the currently available economic indicators do not yet reflect the upcoming economic deterioration. From mid-September to-date, the number of positive cases per million inhabitants had risen from 4,000 to over 7,000 in the region.

In August, the trend of **industrial production** (-2.7% on a regional average), although still negative, was better than in July (-4.8%) and especially in 2Q (-19.8%), thanks to the progress in all countries of the area, among which, Serbia actually recorded a positive performance (4.2% yoy). Still in August, **exports** improved only slightly, to -6.2% yoy from -6.7%. The average dynamic of **retail sales**, while remaining positive in August, dropped sharply, to 0.4% yoy from 2.7% in July. The deterioration was recorded in all SEE countries, with the trend positive only in Romania (1.6%) and Serbia (4.5%). In September, the **ESI** dropped in Croatia and Romania, to 88.6 and 88.8, respectively (from 90.9 and 86.6 in August), while it improved in Serbia (89.8 from 82.7). Again in September, **inflation** was 1.9% on a regional average (above the 1.7% recorded in 2Q), ranging from 0.0% in Croatia to 2.5% in Romania. Inflation has been in line with CB targets in Romania, within the target corridor but lower than the central value in Serbia (1.8%), and below the lower limit of the target interval in Albania. As in the CEE region, monetary policy in the SEE area was also kept highly expansionary. **Short-term interest rates** remained at lows, and **long-term yields** and spreads against the Bund benchmark narrowed in both Croatia and Romania. In the **FX** markets, local currencies remained broadly stable. On the IMF's estimates, the additional **government spending** or foregone fiscal revenues range from the 1.2% of GDP in Albania to 5.6% in Serbia (unweighted regional average of 3.9%).

Davidia Zucchelli

Regarding banking activity, lending growth rates **among SEE countries** remained at over 5% yoy in August, but the performance was very mixed among countries (from -0.1% yoy in Bosnia to 13.6% in Serbia.) Deposits growth continued to be dynamic in the area (c. +10% yoy), in particular in Serbia and in Romania, due to the deferral of consumption and investment.

In **Albania**, total loans increased by 5.7% yoy in August (from 5.9% yoy in July), driven by corporates (to 6.7% yoy), while decelerated among households (3.7% yoy), both regarding consumer and mortgage loans. Deposits strengthened slightly, to 5.6% yoy from 5.2% yoy in June. Corporate deposits accelerated by 8.3% while household deposits, which account for more than 80% of total deposits, increased by 5% yoy. In **Bosnia**, loans remained roughly stable in August (-0.1% yoy vs 0.2% yoy in July) as a result of a slight downtrend for corporates (-1.4% yoy) vs households (+1.1% yoy). Deposits increased by 4.4% yoy, mainly among corporates, rising by 6.6% yoy from 3.5% yoy in August. In **Croatia**, loan growth decelerated (+3.8% yoy as of August), with similar performances among households (+3.9%) and corporates (3.7% yoy). In particular, loans to trade and manufacturing fell the most in August relative to July while the growth in housing loans continued to accelerate (from 8.0% to 8.3%), driven by borrowing for the reconstruction of housing units damaged in the earthquake. Deposits increased by 7.5%, especially among corporates (13.7%) vs 5.4% in the households, due to cautious attitudes.

In **Romania**, lending grew by 4% yoy in August (as in the previous four months) in both the household (5.5% yoy) and corporate (at 2.2% yoy) sectors, despite a tightening in credit standards. Deposits continued to perform very well in August (15% yoy), thanks to corporates (16.5%), but were also supported by households (14.2%). The liquidity position of banks is favoured by their balance sheet structure (the LTD ratio was 71.4% in August). Loans also accelerated in **Serbia** (13.6% yoy) both among corporates (13.9% yoy), and households (13.3% yoy). Dinarisation strengthened, with loans in dinar growing by 20.6% while loans in foreign currency increased by 10% yoy. Despite this strong growth, the share of loans in GDP remained below the long-term trend, according to the capital discipline (the CB left the countercyclical capital buffer at zero). Both household (11.8% yoy) and corporate (26.5% yoy) deposits recorded dynamic growth. In line with monetary easing by the CB, interest rates decreased slightly in August (to 5.8% on lending and 1.4% on deposits).

CIS and MENA Areas

Antonio Pesce

In the **CIS region**, the infection rate for COVID-19 has increased sharply since the end of the summer, moving from about 6,000 per million inhabitants in mid-September to over 9,000 currently. Restrictive measures are being implemented to counteract the spread of infections, with a likely heavy impact on the economic performance of the region in 4Q20 and 1Q21.

Among CIS countries, in **Russia**, the trend in **industrial production** remained quite negative in August (-7.2%) compared to the previous month (-8.0%). The mining sector provided some support, as less restrictive OPEC+ output cuts allowed oil production to rise, but manufacturing trends, after a partial recovery in July (0.4%), returned to negative territory (-1.6%). **Retail sales**, although much better than in 2Q, deteriorated slightly in August (-2.7% from -2.6% in July). Moving to forward-looking indicators, in September, the **PMI** manufacturing index returned to below the 50 level (to 48.9 from 51.1 in the previous month). In September, **inflation** increased to 3.7% (from 3.6% in August), moving closer to the 4.0% CB target, while the ruble, also due to geopolitical tensions, continued to be under pressure. The additional **government spending** or foregone fiscal revenues to counteract the economic consequences of the pandemic are estimated to amount to 2.5% of GDP (IMF estimate).

In **Ukraine,** the dynamic of industrial production deteriorated in August (-5.4% from -4.2% in July). In the same month, retail sales, however, continued their positive trend (7.6% from 7.8% in the previous month). In September, inflation declined to 2.3% yoy, moving significantly below the target range of 5%+/-1 pp. Considering the weak dynamics of consumer prices in 3Q, the NBU revised its annual inflation forecast downward, to 4.1%. The IMF has estimated that the additional **government spending** or foregone revenues to sustain the economy are about 3.4% of GDP.

In September, inflation in **Moldova** fell to 2.3% from 3.5% in August; in Ukraine, inflation was well below the central bank's target. At the September meeting, the Board cut the policy rate by 25bps, to 2.75%, due to disinflationary pressures from both the internal side (the slight appreciation of the currency) and external side (the weak path of energy prices and the fall in global activity). The trend in industrial production deteriorated in August (to -7.7% from -7.2% in July). In Moldova, the additional **government spending** or foregone fiscal revenues to help the economy to overcome the current crisis accounted for about the 2.2% of GDP (IMF estimates).

According to official data, the progression of infections in **Egypt** has been less steep so far than in the countries of the CEE/SEE/CIS Areas. The number of positive cases has increased slightly from mid-September to-date (from 990 to about 1,000 per million inhabitants). However, the level of alert remains high. Looking at economic data, in August, the PMI index for the non-oil private sector rose above the 50 level, to 50.4 from 49.4 in the previous month, due to improvements in consumer demand and exports. In September, inflation increased slightly, to 3.7% from 3.4% in the previous month, mainly due to pressures from food prices. As data confirmed a moderate inflation path, in September, the central bank cut the overnight deposit and lending rates by 50bps, to 8.75 and 9.75%, respectively. The additional **government spending** or foregone fiscal revenues to support the economy is estimated by the IMF to be around 1.6% of GDP.

Davidia Zucchelli

With reference to **banking activity, in the CIS area**, the measures adopted by central authorities have supported banking aggregates. In **Russia**, the dynamic of loans to the private sector was still strong in July (13% yoy), both among households (13.2% yoy) and corporates (12.9% yoy), partly as a result of accounting effects from the exchange depreciation (net of the exchange rate effect, the loans increase would be 9.9%). NPLs remained under 10%, but consumer NPLs increased by 5% in August, a new monthly record since the beginning of 2020. Deposits increased by 8.3% yoy in July, especially among households (10.5% yoy), and by 5.3% yoy for corporates, despite declining interest rates. Banks also borrowed from the CB using the new repo introduced in May. In **Ukraine**, loans increased in August by 1.7% yoy (after -2.5% yoy in June), particularly among households (4.9% yoy), but were flat among corporates (0.8% yoy). This performance is surprisingly positive. A further negative result was more likely expected, due to the plan of recovery approved by the government (which entails a reduction of NPLs by over UAH 300bn in three years) and the NPL ratio now stands at 48.1%. Total deposit growth accelerated further (28.3% yoy in August vs 27.8% yoy in July), particularly in foreign currency for both corporates (+46% yoy) and households (+19.5% yoy). In **Moldova**, the performance of loans (8.5% yoy in August) continued to be driven by households (up 19.7% yoy) while loans to corporates, which accounted for almost 70% of the total portfolio, grew more modestly, by 3.1% yoy. NPLs increased again in August (to 8.9% of total loans). As of September, deposit growth accelerated to 12.6% yoy (corporates up 19.5% yoy, households 9.1% yoy), especially those denominated in foreign currency (15.6% yoy). The LTD ratio remained one of the lowest in the region (59% as of August).

In **Egypt** in July, loans grew by 22.1% yoy in the private sector (above the nominal GDP growth rate), with the performance still much stronger among households (over 30% yoy) vs corporates (18% yoy). Deposits grew by 18% yoy, especially from households (21.2% yoy vs 3% from corporates). The LTD ratio, however, remains very low (35%). In line with changes in monetary rates, the interest rate on lending decreased to 11% from 11.2% in August, and the deposit rate fell to 7.1% from 7.4%, leading to a tighter spread. The trajectory of new deposit rates during 2020 was partially due to the reintroduction of the one-year saving certificates at 15% by public banks.

Country-Specific Analysis

Czech Republic

Zdenko Štefanides

Real Economy

Czech Republic has so far released hard economic activity data only through August. These have not been particularly stellar, but represent an improvement relative to 2Q (see table below). Moreover, soft data on activity in September — such as electricity consumption and sentiment — point to further improvement, which will probably translate into 3Q posting the highest qoq GDP gain in Czech history. Much as elsewhere in the region, though, the recovery will likely recede in 4Q as the COVID-19 pandemic negatively affects performance.

The change in fortunes is particularly dramatic in Czech Republic as it became the European hotspot for the pandemic, in October, posting the highest number of new infections per number of inhabitants on the Continent. In response, the government tightened containment measures significantly at the beginning of the month, and on 24 October, it ordered a partial lockdown in the country. The economic impact of the lockdown is difficult to quantify at this stage, but clearly it will likely lead to a significant contraction in GDP in 4Q.

Financial Markets

The Czech National Bank (CNB) left rates unchanged at its last policy meeting on 23 September, acknowledging that core inflation has been visibly higher than expected. Yet, overall inflation was kept within the expected range, thanks to lower prices for food and fuel. Ensuing downside risks to the recovery, due to the worsening pandemic situation, also weighed on performance. But, the CNB explicitly stated that it is now the task of fiscal rather than monetary policy to counter this situation. CNB governor Rusnok in a recent speech confirmed that the CNB currently sees no need to ease monetary conditions further. But to be on safe side, he mentioned that the bank is analysing options for potential use of unconventional tools.

In the markets, the koruna has recently been negatively affected by global sentiment and the worsening of the pandemic. Vs the euro, it weakened to over 27 in October from 26 in August. Bond yields, after having fallen in September along with the core markets, deteriorated further in October due to risk aversion. Ten-year Czech bond yields rose to a one-month high of 0.98% on 23 October.

Banking Sector

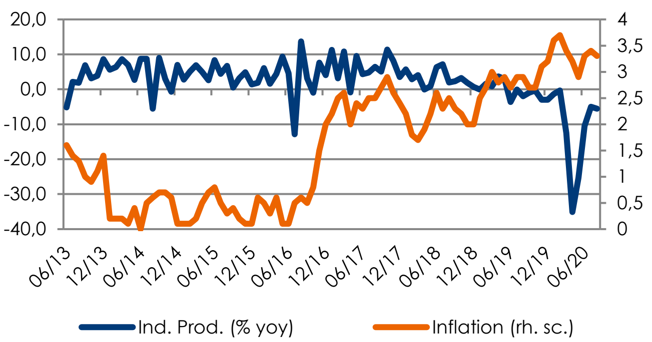
Banking volumes continued to grow vs a year ago through the summer. Deposit volumes posted double-digit yoy gains in August. Loan growth continued to moderate, but solely due to corporates. Lending to households remained solid (+6.2% yoy vs +2.1% in the corporate sector), especially in the mortgage loan market, which has not seen any deceleration in growth over the past three reported months, advancing 8% yoy. Consumer lending eased to below 5% yoy in August from over 9% in 1Q.

Latest economic indicators

	Last value	2Q 20	1Q 20
Industrial production, wda yoy	-5.5 (Aug)	-23.6	-4.7
Export of goods, nominal yoy	-6.0 (Aug)	-19.4	-4.1
CB refi rate	0.3 (21th Oct)	0.3	1.0
ESI (index)	86.2 (Sep)	65.1	94.9
Retail Sales yoy	-6.0 (Aug)	-19.4	-4.1
Inflation rate, average yoy	3.2 (Sep)	3.1	3.6
Loans (priv. sector, yoy, eop)	4.6 (Aug)	5.6	6.4
Deposits (priv. sector, yoy, eop)	10.0 (Aug)	9.7	8.8
Lending interest rate (corp., eop)	1.5 (Aug)	2.3	3.2
Deposit interest rate (hh, eop)	0.6 (Aug)	0.6	1.4

Source: Czech National Bank, Czech Statistical Office

Industrial production and inflation



Source: Czech Statistical Office

Hungary

Mariann Trippon

Real Economy

The strong economic rebound witnessed during the summer months started to run out of steam recently, partly reflecting a technical flattening out after the first phase of the recovery. But, the impact of the deteriorating situation related to COVID-19 was more important. Although drastic containment measures have not been reintroduced yet, behavioural changes in the household sector weighed on consumption, especially regarding services. The rebound in the manufacturing sector was relatively strong though. Industrial output was only 0.2% yoy in August (wda) and manufacturing orders are already up more than 10% from a year earlier. However, the PMI and other sentiment indices confirm that the recovery is losing momentum. In line with reviving activity, the official unemployment rate decreased to 3.9% from the peak of 5.1%, but the expiry of the Kurzarbeit programme and the deteriorating growth outlook point to rising unemployment rates in the upcoming period. Inflation remains highly volatile, reflecting the impact of the pandemic (on both the supply and demand sides.) After jumping close to 4% in August, headline CPI decreased to 3.4% in September and core measures also fell significantly. The volatility is likely to persist for some time, but inflation pressures should ease in the medium term, in tandem with subdued domestic demand and looser labour market conditions.

Financial Markets

After a cut in the policy rate by a total of 30bps, the fast depreciation of the FX rate forced the central bank to tighten monetary conditions again in September. The base rate was kept on hold, but the 1W depo rate was raised by 15bps, to 0.75%, and Bubor rates adjusted accordingly. While tightening at the short end, the NBH continues to provide monetary support in the medium- and long ends of the curve and via the different lending schemes. As of September, the amount of weekly bond purchases under the QE programme was raised. The NBH also increased the size of the corporate bond purchase programme and confirmed the flexible use of the QE programme (the NBH will absorb 100% of the excess government bond supply). Despite higher short rates, the HUF remained stuck at weak levels: in addition to domestic uncertainties, volatile global risk sentiment is weighing on the currency.

Banking Sector

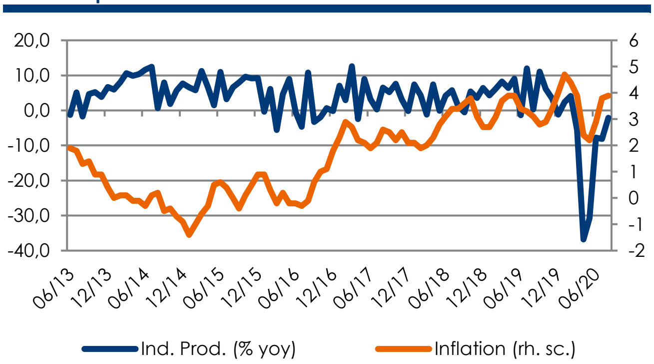
Corporate lending growth slowed in 2Q, but the different lending schemes are playing major roles in supporting lending. Thus, the annual growth rate of corporate lending is expected to remain in positive territory this year. Following the lifting of social distancing measures, lending to households has started to normalise. The moratorium strongly supported growth in the stock of loans to the household sector, but other subsidised schemes are also helping household lending to grow. The capital and liquidity positions of the banking sector are strong.

Latest economic indicators

	Last value	2Q 20	1Q 20
Industrial Production yoy	-2.1 (Aug)	-25.1	0.3
Nom. Exports yoy	-2.5 (Aug)	-23.0	-0.3
ESI (index)	86.7 (Sep)	82.4	102.8
Retail Sales yoy	-1.2 (Aug)	-4.1	7.6
Inflation Rate yoy	3.4 (Sep)	2.5	4.3
CB Reference Rate	0.6 (21th Oct)	0.8	0.9
Loans (priv. sector, yoy, eop)	13.1 (Aug)	13.7	18.4
Deposits (priv. sector, yoy, eop)	17.1 (Aug)	16.3	13.7
Lending interest rate (corp., eop)	2.7 (Aug)	2.9	2.5
Deposit interest rate (hh, eop)	0.3 (Aug)	0.5	0.2

Source: Central Bank of Hungary, Hungarian Central Statistical Office

Industrial production and inflation



Source: Hungarian Central Statistical Office

Poland

Zdenko Štefanides

Real Economy

The Polish economy continued to recover nicely through September. Industry posted a stronger-than-expected increase in output and retail sales also surprised to the upside, growing 2.7% yoy in September and recovering to pre-crisis levels. The recovery of consumer spending related primarily to the positive situation in the labour market, which in September also featured a stable unemployment rate of 6.1% (since June) and delivered sizable wage gains of 5.6% yoy to employees. These favourable developments led to an improvement in consumer confidence and a realisation of pent-up demand for consumer durables, frozen during the spring quarantine. Indeed, by September, sales of furniture, TVs and household appliances jumped nearly 10% yoy while sales of cars grew over 4% yoy. Overall, hard economic activity data released over the past month point to an upside risk to 3Q GDP forecasts.

Unfortunately, however, the nascent recovery will likely have come to an abrupt stop due to a deterioration in the pandemic situation. By mid-October, responding to the fast rise in the number of infections, the government tightened containment measures, which immediately negatively affected consumer confidence. And further tightening of measures are now in place: from 24 October, all 380 counties in Poland became a 'red zone', with the extension of strict restrictions on movement to the whole country. Moreover, government officials increasingly speak of a deep lockdown if the hitherto adopted measures do not succeed in containing the pandemic in the very near future.

Financial Markets

The National Bank of Poland (NBP) kept rates unchanged at its 7 October meeting, with the target rate at 0.1%. The bank noted the recent unexpected increase in inflation (to 3.2% yoy in September from 2.9% in August), but downplayed it given the ongoing gap in economic output relative to pre-crisis levels and upcoming pandemic risks. Along with keeping rates flat, the NBP also confirmed it would continue with its bond buying programme, the size and schedule of which will remain contingent on the market situation. Meanwhile, the Polish bond market basically continued to mirror core market developments, sending the 10-year yield below 1.24% on 23 October, its lowest level since June. The zloty continued to trade rangebound around 4.5 vs the euro for much of the past weeks. Most recently, though, it leaned weaker on rising global risk aversion in response to the deteriorating pandemic situation.

Banking Sector

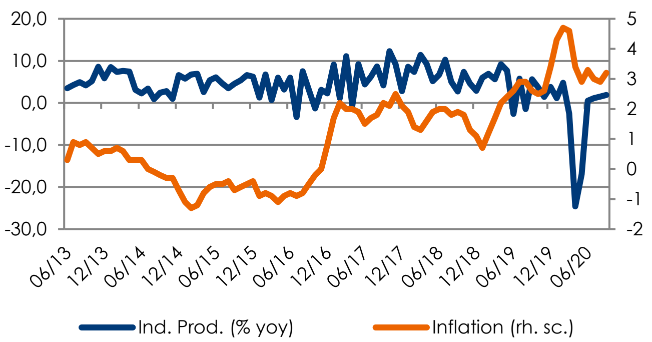
Loan growth continued to moderate through September. Total loans stock was up over a year ago thanks only to still-positive lending to households, up 2.5% yoy. There was a deterioration in lending to nonfinancials, worsening the yoy decline that started in June to -4.2% in September.

Latest economic indicators

	Last value	2Q 20	1Q 20
Industrial Production yoy	1.9 (Sep)	-13.7	1.1
Nom. Exports yoy	-0.3 (Aug)	-11.4	2.3
ESI (index)	77.9 (Sep)	57.6	95.3
Retail Sales yoy	4.8 (May)		
Inflation Rate yoy	3.2 (Sep)	3.2	4.5
CB Reference Rate	0.1 (21th Oct)	0.1	1.0
Loans (priv. sector, yoy, eop)	0.5 (Aug)	2.9	6.0
Deposits (priv. sector, yoy, eop)	14.7 (Aug)	16.5	11.5
Lending interest rate (corp., eop)	2.1 (Aug)	2.4	3.5
Deposit interest rate (hh, eop)	0.1 (Aug)	0.3	1.2

Source: Narodowy Bank Polski , Statistics Poland

Industrial production and inflation



Source: Statistics Poland

Slovakia

Michal Lehuta

Real Economy

The swift recovery in the Slovak economy after the historic recession in the spring is now being challenged by the second wave of coronavirus infections and related counter-measures. The country announced a state of emergency on 1 October, banning public gatherings, eating in restaurants, closing most schools, and introducing a partial lockdown on 24 October, with imposition of nation-wide testing for COVID-19 scheduled to start at the beginning of November. This situation clouds the prospects for the economy in 4Q20 and possibly even further out.

Until September, business in the country was continuing to recover, with industrial production, exports and retail sales almost all in positive yoy territory in August (-0.8%, +5.4% and +4%, respectively). However, the construction sector as well as much of the rest of services (with the exception of restaurants and pubs) continued to show negative production/sales developments vs the same period last year.

The good news was that the local registered unemployment rate stopped increasing, with the share of jobless at labour offices actually falling slightly, to 7.6% by September, despite young people entering the labour market from secondary schools. However, the growth of wages in the private sector slowed to below 2% yoy. The fall in disposable income has so far been relatively low, private consumption robust, and the local CPI stabilised at 1.4% yoy in August and September (the highest value in the euro area).

Financial Markets

Money markets in the euro area have been rather stable after the introduction of accommodative ECB policies, with 3M Euribor declining to new lows, below -0.5% in October. The spread between 10Y Slovak government bond yields and German Bunds have remained very low, at around 30bps, despite large downward revisions in public finance balances in the new budget proposal. The rating agencies will probably look closely at the situation, especially S&P, which had already cut its outlook on Slovakia to negative this year.

Banking Sector

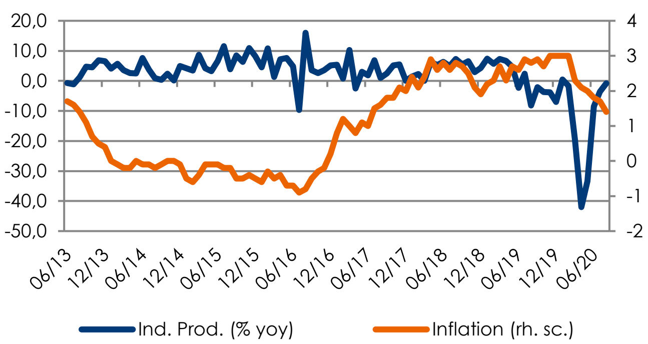
Local banks have also been negatively affected by the recession, predominantly profits-wise. Loan moratoriums helped to keep NPLs low; however, banks increased their loan loss provisions significantly during 1H20 in the expectation of an NPL increase after December, when the loan moratorium is set to expire. The total growth of credit remained positive: higher interest-bearing consumer loans registered a decline, but mortgages and corporate loans continued to grow fast along with real estate prices. Bank deposits as a whole, both corporate and household, continued to grow steadily as well.

Latest economic indicators

	Last value	2Q 20	1Q 20
Industrial Production, wda yoy	-0.8 (Aug)	-28.0	-6.9
Nom. Exports, yoy	5.4 (Aug)	-26.5	-6.9
ESI (index)	87.7 (Sep)	64.8	97.9
Retail sales, yoy	4.0 (Aug)	-8.3	-0.2
Inflation rate, yoy	1.4 (Sep)	2.0	2.8
ECB refi rate	0.0 (21th Oct)	0.0	0.0
Loans (priv.sector,yoy,eop)	5.2 (Aug)	5.3	6.0
Deposits (priv.sector,yoy,eop)	5.6 (Aug)	4.0	3.5
Lending interest rate (corp., eop)	2.1 (Aug)	2.1	1.9
Deposit interest rate (hh, eop)	0.0 (Aug)	0.0	0.0

Source: Statistical Office of Slovakia, National Bank of Slovakia

Industrial production and inflation



Source: Statistical Office of Slovakia

Slovenia

Real Economy

Ivan Odrčić

Industrial activity in August posted a 1.8% yoy fall, ie, the smallest decrease since February 2020, mostly due to a milder decline in manufacturing (-1.4%) as foreign demand gradually improved and overall economic activity resumed. Real retail trade, at the same time, deteriorated (compared to June and July), falling by 6.6% yoy, largely due to declines in food and fuel sales (retail and consumer confidence declined in September, adding to the belief that the recovery in the retail trade sector will be slow). On the foreign trade front, goods exports in August declined further (to -3.6% yoy o/w, to EU27 -7.4% and to non-EU +4.8%) while the fall in imports softened (to -0.6% yoy vs -10.3% in July). Employment in August contracted by 1.2% yoy, the same decline as seen in the previous month, while the rise in the number of job-seekers fell slightly yoy (to +23.2%) for the first time since March 2020 (a similar trend continued in September as well, as the unemployment level slowed further, with yoy growth at 20.0%).

The average annual inflation rate (HICP) in September amounted to -0.7%, mostly affected by lower energy prices (the strongest negative impact came from 7.8% lower transport prices) while in the first nine months of 2020, the headline rate was -0.1%s

Financial Markets

Ana Lokin

The average 10Y government bond yield in September was 0.0% and the spread with the EA benchmark was 50bps, both unchanged mom. The yield turned negative in October as the Bund declined and the spread with the Bund continued to narrow, following the country's better economic performance and a rating upgrade from Moody's by one notch to A3. In late October, the yield stood at -0.2% and the spread at 40bps, both down by 20bps compared to end-September.

Banking Sector

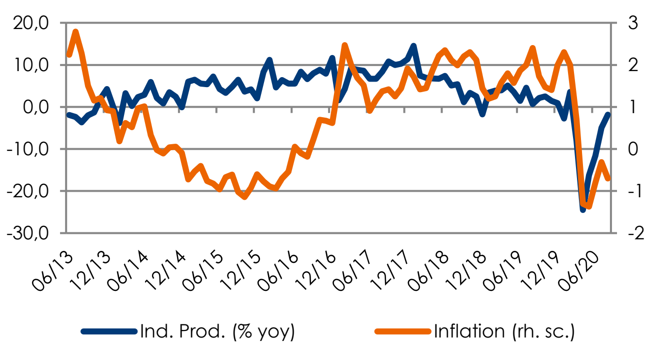
Private sector credit demand continued to decrease and deposits to rise as households and corporates turned cautious, postponing spending and investment. Loans contracted by 0.5% yoy in August owing to a sharp fall in corporate loans of 2.6% yoy matched with decelerating but still positive household loans (1.3% yoy), where consumer loans saw a steep 3.7% yoy drop and housing loans carried on at a stable (4.1% yoy) rate. Deposits in August were flattish compared to the previous month, rising, however, by a robust 9.7% yoy, with corporate up by 10.2% yoy and households by 9.6% yoy. Loan quality experienced a favourable trend, thanks to the obligatory moratorium and active approaches of banks. Thus, the share of NPLs declined by 0.2pp mom, to 1.0%, in August, whereas the broader NPE ratio was unchanged mom, at 1.9%. In September, the BSI extended ECB measures on the leverage ratio calculation for banks it supervises.

Latest economic indicators

	Last value	2Q 20	1Q 20
Industrial Production, wda yoy	-1.8 (Aug)	-17.4	-2.4
Nom. Exports yoy	-3.6 (Aug)	-15.5	7.2
ESI (index)	94.5 (Sep)	79.6	94.0
Consumer Confidence Indic.	-24.7 (Sep)	-32.9	-13.9
Inflation Rate yoy	-0.7 (Sep)	-1.2	1.7
ECB refi rate	0.0 (21th Oct)	0.0	0.0
Loans (priv.sector,yoy,eop)	-0.5 (Aug)	0.7	4.4
Deposits (priv.sector,yoy,eop)	9.8 (Aug)	11.0	7.9
Lending interest rate (corp., eop)	2.2 (Aug)	2.2	1.9
Deposit interest rate (hh, eop)	0.2 (Aug)	0.2	0.2

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

Industrial production and inflation



Source: Statistical Office of the Republic of Slovenia

Albania

Kledi Gjordeni

Real Economy

Due to the strict lockdown measures related to the COVID-19 pandemic in 2Q20, the Albanian economy recorded a quite dramatic deterioration. GDP growth contracted by 10.26%. Household expenditures shrank by 7.57%. Exports of goods and services fell by almost 50% and imports by 36%. The unemployment rate rose to 11.9%, with a further deterioration expected. As containment measures eased, the severe deterioration of the economy seen in 2Q lessened in the following months. At the moment, despite the increasing number of COVID-19 infections, no restrictive measures have been put in place other than the wearing of masks indoors and outdoors. Economic growth is nevertheless expected to deteriorate again in 4Q20.

The fiscal deficit is projected to rise to about 7% of GDP and public debt to c.80 % in 2020. Overall, the contraction of economic growth in full-year 2020 is likely to exceed the 6.5% previously forecast and move towards -7.5%. The CPI in September stood at 1.5%. The average for 3Q was 1.4%, lower with respect to performances in 1Q and 2Q, respectively, at 1.9% and 1.6%. The downtrend of CPI is due in particular to a decline in food prices and in prices of some categories of services partly as result of declining aggregate demand.

Financial Markets

The combination of monetary and fiscal stimuli have alleviated the economic impact of the severe ongoing pandemic shock. The reduction of the policy interest rate and the increase in liquidity injections, the moratorium on credit payments, restructuring of bank loans to customers, and funds allocated for sovereign guarantee on loans to private companies have supported the financial situations of households and businesses. The June Eurobond of Eur 650mn supported the financing needs of the government. Interest and FX rates have been stable.

Banking Sector

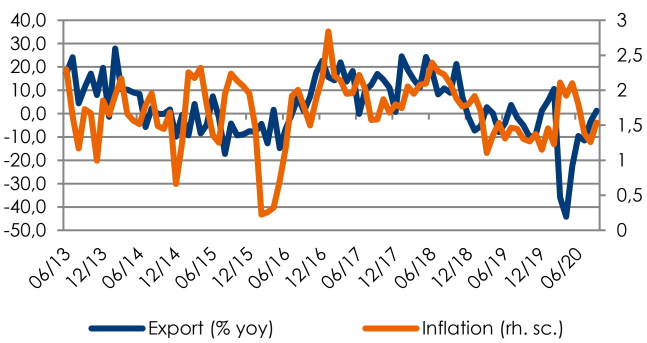
The banking sector appears stable and liquid. However, the risk of a slipping of the NPL situation remains a threat to economic activity. The banking system's NPLs over Total Loass in August were equal to 8.13%. Total loans in August expanded by 5.74% yoy (total new loans increased by 36.34% yoy). The main contributor was corporate loans, which rose 6.74%, while Private Sector's loans increased by 3.73%. In August, deposits increased by 5.59% yoy (total new deposits shrank by 12.35% yoy, however). In this case as well the main contributor was corporate deposits, which grew by 8.30%.

Latest economic indicators

	Last value	2Q 20	1Q 20
Industrial production, wda yoy	n.a.	n.a.	n.a.
Export of goods, nominal yoy	-3.3 (Aug)	-24.5	-6.8
Unemployment rate	n.a.	11.9	11.4
Inflation rate, average yoy	1.5 (Sep)	1.9	1.6
CB Reference Rate	0.5 (21th Oct)	0.5	0.5
Loans (private sector, yoy, eop)	5.7 (Aug)	6.6	8.8
Deposits (private sector, yoy, eop)	5.6 (Aug)	5.8	6.5
Lending interest rate (pr.sect., eop)	5.2 (Aug)	5.2	6.4
Deposit interest rate (pr.sect , eop)	0.3 (Aug)	0.4	0.7

Source: National Statistical Institute, Bank of Albania

Export and inflation



Source: National Statistical Institute

Bosnia and Herzegovina

Real Economy

Ivan Odrčić

GDP in 2Q20 showed deep contractions, at -9.3% yoy and -10.8% qoq, with private consumption recording a 9.4% slump while investments and exports nose-dived by 25.2% and 31.7% yoy, respectively. Government expenditure rose by 0.5% yoy and imports contracted by 29% yoy. Curbed personal spending, influenced by lower employment (-2.2% yoy in August, falling below the 800th mark for the first time since April 2018) and a higher unemployment rate (+1.4pp yoy in July, amounting to 34.6%), along with economic difficulties for the country's main trading partners (goods exports fell by 8.2% in August and by 0.7% in September yoy) resulted in 6.7% yoy lower industrial output and 15.7% yoy lower retail trade turnover in August. Mainly due to a higher minimum wage in the Republic of Srpska (to BAM 520) and the introduction of Government subsidized wages for endangered sectors, the average net wage in August increased by 3.0% yoy in nominal terms.

Consumer prices in August were lower by 1.2% yoy, affected mostly by 13.5% lower fuel prices, while in the first eight months of 2020, the headline inflation rate amounted to -0.8% yoy.

Banking Sector

Ana Lokin

Private sector loan and deposit growth continued to contract amid the decline in economic activity, a deteriorated labour market outlook and consumer sentiment, and lower remittances. Loans dipped by 0.1% yoy in August as corporate loans decreased by 1.4% yoy while the rise in loans to household weakened to 1.1% yoy. Consumer loans, after several years of significant growth, recorded a meagre 0.2% yoy increase in July and finally moved into negative territory in August, shrinking by 0.1% yoy. At the same time, housing loans continued to lose momentum, but still sustained a healthy pace of growth at 9.6% yoy.

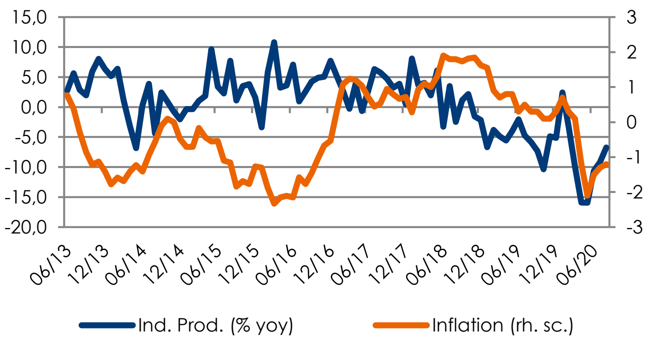
Loan quality was stable in 2Q, thanks to the moratorium, with the share of non-performing loans at the end of June only 0.1pp higher qoq, at 6.7%. Household's NPL share recorded a 0.4pp increase, to 5.8%, due to a deterioration in the quality of dominant consumer loans, while the share of NPL in loans to legal entities saw a0.1pp drop, to 7.5%. Deposits slowed in August, but still experienced a sound increase of 4.4% yoy. Corporate deposits markedly decelerated (to 6.6% yoy) while household deposits carried on at steady pace (3.6% yoy), with funds in transaction accounts up by a strong 13.2% yoy and demand deposits by 3.5% yoy, and time deposits narrowing 3.0% yoy.

Latest economic indicators

	Last value	2Q 20	1Q 20
Industrial production, wda yoy	-6.7 (Aug)	-14.2	-3.8
Export of goods, nominal yoy	-0.7 (Sep)	-24.1	-5.2
Retail trade, real, wda yoy	-15.7 (Aug)	-16.9	3.8
Inflation rate, average yoy	-1.2 (Aug)	-1.6	0.4
Loans (private sector, yoy, eop)	-0.1 (Aug)	0.4	3.5
Deposits (private sector, yoy, eop)	4.4 (Aug)	5.4	6.7

Source: Central Bank of Bosnia and Herzegovina, Agency for statistics of Bosnia and Herzegovina

Industrial production and inflation



Source: Agency for statistics of Bosnia and Herzegovina

Croatia

Real Economy

Ivana Jović

Available high frequency data for August were mixed, as industrial production declined by 1.2% yoy (o/w manufacturing -1.7% yoy) and preliminary goods exports rose by 3.6% yoy. At the same time, real retail trade plunged by 8.6% yoy, reflecting both lower tourism revenues and subdued consumer confidence, while construction works maintained a positive pace (+3.4%) amid equally good activity in housing and infrastructure. A boost from a better-than-expected tourist season ended abruptly, as since mid-August, several countries red-flagged Croatia as an epidemiologically risky destination, leading to a 62% yoy decline in tourist visits in September (vs -36% yoy in August). The end of the tourist season, followed by a recent deterioration of the pandemic situation, started to be reflected in the labour market, with unemployment increasing slowly towards 153ths in late October (+5ths vs end-September; +25% yoy) as the service sector faced another round of restrictions with limited working hours, social distancing, and compulsory use of face masks indoors.

Amid the recent rapid rise in new COVID-19 cases, the near-term outlook has deteriorated based on the possible introduction of stricter restrictions, as already seen in other EU countries, limiting the expected recovery in 4Q and most likely 1Q21 as well, especially in sectors dependent on close contact with customers. Government support schemes for job preservation were amended to broaden the scope of eligible firms and extended until year-end in order to support corporates in surviving the upcoming uncertain months. In total, 2020 job preservation policy support will amount to roughly 2.0% of GDP while the overall fiscal policy package will surpass 4.0% of GDP.

Financial Markets

Ana Lokin

Lower FX inflows following end of the tourist season pushed the exchange rate towards 7.58 kuna per euro on 22 October (vs 7.50 in August). Ample liquidity kept financial markets calm and interest rates low, with the 10Y yield stable at 0.9%, with a 150bps spread vs the German Bund.

Banking Sector

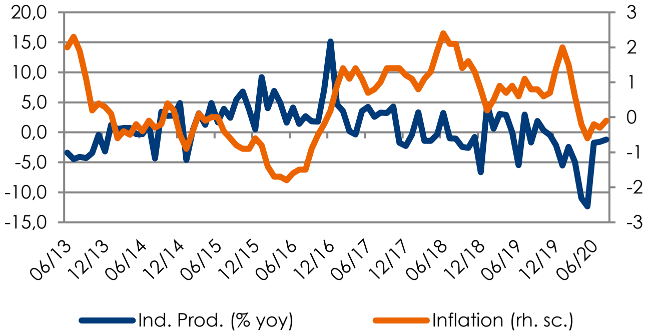
The pace of loan growth has remained stable, at 4% yoy (3.8% yoy in August), with household loans rising steadily and corporates strongly affected by moratoriums. Household loans rose by 3.9% yoy in August, whereby thinner cash loans (1.9% yoy) were offset by robust housing loans (9.1% yoy), supported by the subsidy scheme and post-earthquake reconstruction of housing units. Corporate loans at the same time grew by 3.7% yoy, slower than the previous month (4.9% yoy) as loans for trade and manufacturing shrank. Statistics on new business reveal that after peaking in 2Q (due to large refinancing needs, new liquidity loans, a slower approval process, and the first round of housing subsidies), the volume of newly granted loans to the private sector eventually subsided in July-August. Deposit growth is continuously moderating after the country exited lockdown, coming in at 7.5% yoy in August, with households rising by 5.4% yoy and corporates by 13.7% yoy.

Latest economic indicators

	Last value	2Q 20	1Q 20
Industrial production, wda yoy	-1.2 (Aug)	-8.5	-4.3
Export of goods, nominal yoy	-13.9 (Jul)	-12.6	1.7
Retail trade, real, wda yoy	-8.6 (Aug)	-12.9	0.9
ESI (index)	88.6 (Sep)	84.8	103.3
Inflation rate, average yoy	0.0 (Sep)	-0.3	1.4
Loans (priv. sector, yoy, eop)	3.8 (Aug)	4.1	6.0
Deposits (priv. sector, yoy, eop)	7.5 (Aug)	10.2	8.7
Lending interest rate (pr.sect., eop)	3.1 (Aug)	3.0	2.7
Deposit interest rate (pr.sect , eop)	0.2 (Aug)	0.2	0.2

Source: Croatian National Bank, Croatia Bureau of Statistics

Industrial production and inflation



Source: Croatia Bureau of Statistics

Romania

Marius Pacurari

Real Economy

The last few months saw a significant increase in COVID infections, rising from 88,593 on 1 September (1,053 infected per day) to 201,032 on 23 October (5,028 infected per day). Under these circumstances, further restrictive measures are expected, which could significantly impact the economy in 4Q.

On the 9 October, the National Statistical Institute revised 2Q data for GDP growth from -10.5% yoy to -10.3% yoy (-11.9% qoq), due to the negative impact of severe lookdown measures. The most affected segments were entertainment, cultural and recreational activities, household repairs and other services (-46.5% yoy) and industry (-20.3% yoy) while the best-performing segments were information and telecommunications (+10.8% yoy) and construction (+9.3% yoy).

In September, the CPI decelerated to 2.5% yoy, well inside the NBR's "target interval". In August, the budget deficit was 5.18% of GDP. The government baseline scenario for the budget deficit in 2020 is 8.5%, but it is expected to widen to 10% in an adverse scenario.

Financial Markets

As in other countries, with the aim to offset the negative impact of the pandemic on the economy and financial markets, the CB has been pursuing accommodative monetary policy, partly tempered, however, by the need to contain depreciating pressures on the currency.

It has cut the reference rate three times, at the same time cutting the monetary policy interval to 1%, with the policy rates moving to 1.0% for the deposit facility rate, 1.5% for the reference rate, and 2.0% for the credit facility rate. It also provided liquidity in the banking system through bilateral repo transactions and credit facilities, and to the sovereign bond markets through asset purchases to various degrees during the year.

In April, with distressed financial market, the daily average of liquidity injected into system was RON 14.0bn, but the amount fell to a daily average of RON 6bn in September once markets had recovered. Total asset purchases have been equal to RON 5.26bn since April (starting with RON 1.9bn in April and amounting to zero in September).

Banking Sector

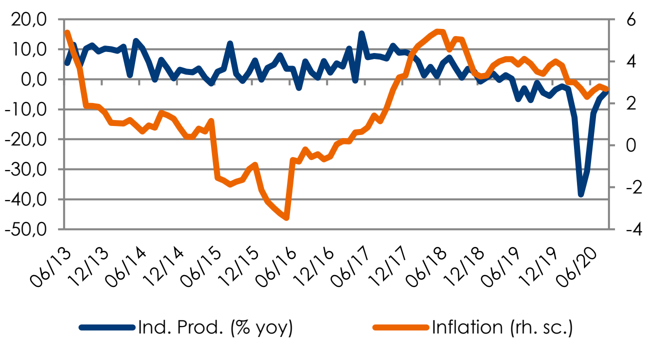
At the end of August, total asset growth in the Romanian banking system was 13.13% yoy, with a slower pace seen in the past five months. Credit volumes increased overall by 4.0% yoy in the same month, at different pace in local vs foreign currency. In local currency, growth was 6.96% while in foreign currency (mainly EUR) it fell by 2.08%. Customer deposits continued to grow (+15.05% yoy in August), in particular in foreign currency (+18.11% yoy).

Latest economic indicators

	Last value	2Q 20	1Q 20
Industrial Production yoy	-4.3 (Aug)	-26.8	-6.1
Nom. Exports yoy	-8.0 (Aug)	-22.1	-2.0
ESI (index)	88.8 (Sep)	77.2	99.6
Retail Sales yoy	1.6 (Aug)	-7.3	9.6
Inflation Rate yoy	2.5 (Sep)	2.5	3.3
CB Reference Rate	1.5 (22th Oct)	1.8	2.0
Loans (priv. sector, yoy, eop)	4.0 (Aug)	4.1	6.2
Deposits (priv. sector, yoy, eop)	15.0 (Aug)	14.8	14.6
Lending interest rate (pr.sect., eop)	4.8 (Aug)	4.9	5.5
Deposit interest rate (pr.sect , eop)	1.7 (Aug)	1.8	1.8

Source: National Bank of Romania, National Institute of Statistics

Industrial production and inflation



Source: National Institute of Statistics

Serbia

Marija Savić

Real Economy

Economic activity showed early signs of recovery in 3Q. Industrial production recorded positive results two months in a row, reaching its highest growth rate in the last six months of 4.2% yoy in August. Retail sales remained in positive territory, expanding 4.5% yoy in real terms in August, while external trade appears to be gradually improving. Domestic tourism compensated for half of the gap due to the absence of foreign tourists and the agriculture season was better than expected, with this possibly being a record-high year. Despite encouraging signs, contraction of economic activity in 3Q20 and in 4Q20 is still expected, albeit less than in 2Q, when the fall was 6.4% yoy. The IMF revised down its projection for the real GDP fall from the previously estimated -3% yoy to -1.5% yoy in 2020 while the NBS now projects a fall of 1% yoy instead of the previous 1.5% yoy. However, downside risks to forecasts remain, taking into consideration the deterioration in the COVID-19 situation in the last few days, with a likely rise in infections in autumn/winter months.

Inflation decelerated slightly, from 1.9% in August to 1.8% in September 2020, remaining inside the lower part of the NBS' inflation target range (3.0% ± 1.5pp) for the third consecutive month. CPI is expected to stay around the current level in the upcoming months, driven by the low base effect from vegetable prices on one side and still-depressed petroleum product prices on the other.

Financial Markets

The central bank kept the key policy rate unchanged for the fourth consecutive month, leaving it at 1.25% in October 2020. The NBS could continue pausing with monetary easing in the upcoming months as inflation is inside the target band; the dinar remains stable while the economy is slowly recovering. The dinar remained unchanged vs the euro in the first nine months of the year, ranging between 117.4 and 117.6, supported by significant NBS interventions which on a net basis, sold EUR 1.63bn. The NBS has more than enough ammunition at its disposal to ensure its stable dinar policy, as FX reserves stand at EUR 13bn. In addition, with rising dinarisation of the corporate and household sectors that reached an all-time high of 38.6%, it is highly likely that the NBS will not allow any swings in FX rates.

Banking Sector

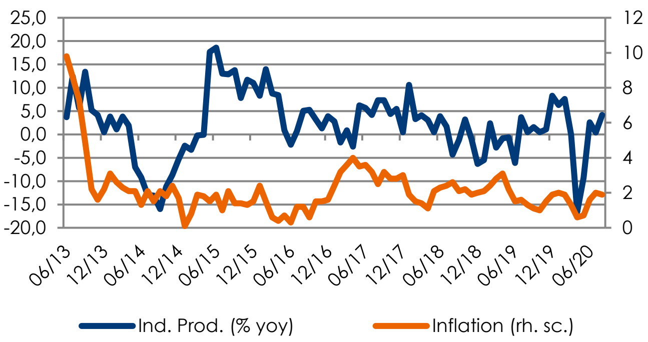
Lending activity continued to record double-digit yoy growth rates in 2020, supported by the NBS' accommodative stance, the effects of the moratorium, and disbursement of Guarantee Scheme loans (as the government pledged to stand as guarantor for emergency loans to SMEs and entrepreneurs up to a total value of RSD 240bn). Dinar lending interest rates for corporates were for the first time below the interest rate on EUR and EUR-indexes loans, at 2.9% in August. EUR rates remain low, due to a sharp fall in the country risk premium as well as monetary easing by the ECB. The NPL ratio stood at its historically lowest level of 3.5% in August 2020, underpinned by write-offs and sales to third parties.

Latest economic indicators

	Last value	2Q 20	1Q 20
Industrial Production yoy	4.2 (Aug)	-7.8	4.6
Nom. Exports yoy	-7.6 (Aug)	-7.8	9.0
Retail Sales yoy	4.5 (Aug)	-0.8	9.5
Inflation Rate yoy	1.8 (Sep)	1.0	1.7
CB Reference Rate, eop	1.3 (21th Oct)	1.3	1.8
Loans (priv.sector,yoy,eop)	13.6 (Aug)	13.9	11.5
Deposits (priv.sector,yoy,eop)	17.1 (Aug)	19.2	9.7
Lending interest rate (pr.sect., eop)	2.9 (Aug)	3.4	3.6
Deposit interest rate (pr.sect , eop)	2.4 (Aug)	2.5	2.6

Source: Statistical Office, National Bank of Serbia

Industrial production and inflation



Source: Statistical Office

Moldova

Olga Pisla

Real Economy

In 2Q20, GDP recorded a double-digit yoy decline of 14%, due to the contraction in the economy registered in 1Q20 as well as to the negative effects of the COVID-19 pandemic. The lower demand from external partners, the deficit of financial resources in both local as well as private budgets, the restriction or temporary cessation of activity of retail units that reduced household consumption hit the performance of almost all sectors of the economy. The sectors that most affected GDP evolution were trade, with a -2.1pp impact on GDP, followed by manufacturing industry (-1.7pp), transport (-1.3pp) and construction (-0.9pp). On the demand side, GDP was strongly affected by the 17% decrease in household consumption, which represented a -13.6pp contribution to GDP. Overall final consumption had a negative 15pp impact on GDP growth. Lack of financial means constrained investment activity, gross fixed investments contracting by 8.5pp regarding GDP growth. The reduction in domestic demand affected the fall in imports which decreased faster (-29%) than for exports (-24%), leading to a positive (+9.5pp) net exports contribution to GDP. In August, industrial production remained in negative territory, contracting by 7.7% yoy. This was due to the decrease in manufacturing industry production (-9.8%) counteracted by positive performances in extractive industry (+41.2%) and the energy sector (+1.6%). In 3Q20, due to a deceleration in annual inflation for all types of products, the annual inflation level stood at 2.3%, a 5.2pp drop vs the beginning of the year and falling below the lower limit of its accepted interval.

Financial Markets

In October 2020, securities' yields remained unchanged compared to their September levels for all maturities. In the context of COVID-19, the National Bank's goal has been to ensure a stable liquidity level within the banking sector and to encourage demand in the market. Nonetheless, no further cuts of the base rate or the required reserves ratio occurred in October. The level of the rate applied to the main short-term monetary policy operations as of September 2020 stands at 2.75% annually.

Banking Sector

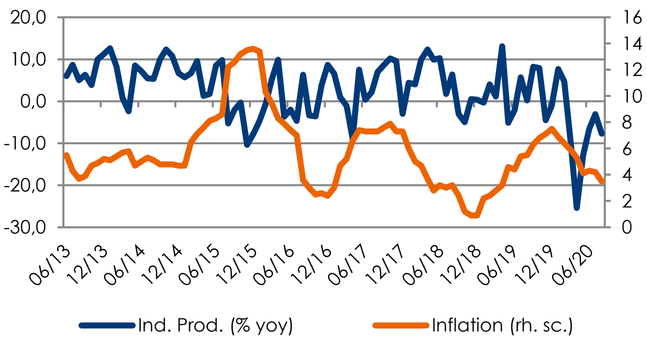
In 3Q20, the stock of deposits in the private sector grew by 12.6% yoy, driven by an increase in corporate deposits (+19.5%) — more specifically, those attracted in foreign currency (+36.9%). Despite the lower interest rates, in September, the volume of deposits in foreign currency increased at a faster pace than those in local currency (+15.6% vs +10.5%). The stock of loans also showed a positive evolution in August 2020 (+8.5%), driven by household loans (+19.7%), with the main segments being commercial loans, followed by consumption loans and mortgages. The COVID-19 crisis saw a rise in the risk of non-payment of credit obligations which determined the increase of the balance of NPLs and the NPL ratio (8.9% in August vs 8.1% in February).

Latest economic indicators

	Last value	2Q 20	1Q 20
Industrial Production yoy	-7.7 (Aug)	-14.9	0.9
Nom. Exports yoy	-5.0 (Jul)	-20.9	-7.6
PMI Manufacturing	n.a.	n.a.	n.a.
Retail Sales	12.5 (Jul)	-10.9	10.9
Inflation Rate yoy	2.3 (Sep)	4.6	6.4
CB Reference Rate	2.8 (30th Sep)	3.3	3.3
Loans (Priv. Sector, yoy, eop)	8.5 (Aug)	7.1	15.3
Deposits (Priv. Sector, yoy, eop)	12.6 (Sep)	9.2	12.3
Lending interest rate (corp., eop)	8.5 (Sep)	8.7	8.8
Deposit interest rate (hh, eop)	4.0 (Sep)	4.2	4.6

Source: National Bureau of Statistics of the Republic of Moldova, National Bank of Moldova

Industrial production and inflation



Source: National Bureau of Statistics of the Republic of Moldova

Russia

Real Economy

Peter Schmidt

Russia's gross domestic product contracted 3.3% vs a year earlier in September 2020, following a revised 3.7% drop in the previous month and compared with market expectations of a 3.8% decline. In the third quarter, the Russian economy shrank by 3.8% yoy compared with a fall of 8% in the previous quarter.

In September, retail trade was down 3.0% yoy, which is a deterioration compared to the 2.7% yoy drop seen in August. The income trend remains in check. The unemployment rate fell unexpectedly by 0.1pp, to 6.3%, with the number of officially employed remaining flat at 70.5 million. Real wage growth in September disappointed, but remained positive at 0.1% yoy after recording 2.9% yoy in August.

The key concerns regarding consumption are forward-looking, as the jitters related to the second wave of COVID-19 infection and the gloomy mood in the corporate sector may continue to put pressure on consumer confidence in 4Q20.

Financial Markets

The situation in the financial markets looks like a controlled decline. The FX rate (USD per ruble) is at its lowest level since 2014. The ruble depreciated against the US dollar by an average of 10% in September and remains at a low level.

In August, annual inflation rose to 3.6% (vs 3.4% in July). On 18 September, the Bank of Russia's Board of Directors decided to keep the key rate at 4.25%. According to the Bank of Russia's forecast, given the current monetary policy stance, annual inflation will reach 3.7-4.2% in 2020 and 3.5-4.0% in 2021.

In September, for the first time, banks decided to borrow money from the central bank using a monthly REPO, a mechanism introduced by the regulator in May amid the pandemic crisis.

Banking Sector

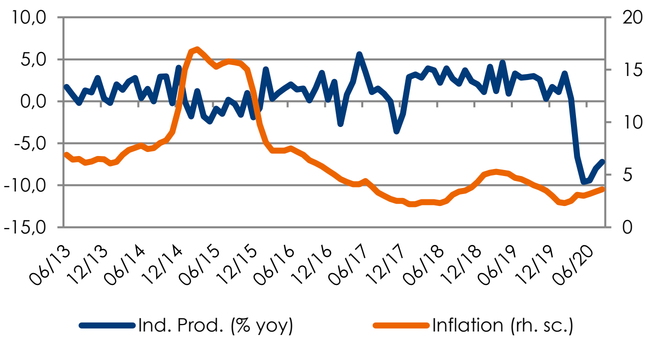
The economic situation caused by COVID-19 and the depreciation of the exchange rate resulted in the high dynamics of the Russian banking sector. Profit rose to RUB 200bn ($2.59bn) in September, up from RUB 172bn in August. In the first nine months of 2020, Russian banks made a profit of RUB 1.132tn. Lending increased: corporate loans were up by 0.8%, which is below the previous month's reading, but still higher than the average 2019 level. Retail lending continues to expand rapidly — by 1.8% over the month, mainly due to mortgage loans. In September, investment in debt securities also grew robustly, predominantly in OFZs (+6.2%). On the liabilities side, growth in corporate funds was positive (+1.2%), though below the August level (+2.4%). Household deposits showed just a sligth increase (+0.1%).

Latest economic indicators

	Last value	2Q 20	1Q 20
Industrial Production yoy	-7.2 (Aug)	-8.5	1.6
Nom. Exports yoy	-32.3 (Aug)	-31.8	-13.5
Retail Sales yoy	-2.7 (Aug)	-16.7	4.4
PMI Manufacturing	48.9 (Sep)	49.4	47.5
Inflation Rate yoy	3.6 (Aug)	3.1	2.4
CB Reference Rate	4.3 (30th Sep)	4.5	6.0
Loans (priv.sector, yoy, eop)	13.0 (Jul)	10.8	13.0
Deposits (priv.sector,yoy,eop)	8.3 (Jul)	7.9	11.0
Lending interest rate (corp., eop)	6.3 (Jul)	6.9	7.8
Deposit interest rate (hh, eop)	3.4 (Jul)	3.9	4.2

Source: State Statistics Federal Service, Central Bank of Russia

Industrial production and inflation



Source: State Statistics Federal Service

Ukraine

Real Economy

Artem Krasovskyi

Ukraine's economy steadily rebounded in 3Q, but the most recent outlook is concerning, as the resurgence of infection rates across the country will likely weigh on the 4Q performance. Based on January-August 2020 results, the Ministry of Economy is tentatively estimating a GDP decline at 5.8% yoy in the first 8 months of the year, up from the 6.5% and 6.2% declines in Jan.-Jun. and Jan.-Jul. periods, respectively. Almost all economic sectors experienced a slowing of declines, with retail sales even growing, accelerating to 11.6% yoy in September, up from 8.7% in August, supported by growing real and nominal wages. Inflation remains notably below the target range of 5% +/- 1 pp: in September, it slowed to 2.3% yoy from 2.5% in August as a result of the increase in the food supply with the NB revising its 2020 CPI forecast down to 4.1% yoy from the previous 4.7%. The current account in 2020 will be consolidated with a surplus of about 3% of GDP, but is likely to return to deficit in upcoming years. The COVID-19 situation continues to be a key risk to macro-financial stability, as recently Ukraine has been experiencing as many as 6,000-7,000 new cases daily, and according to authorities, as soon as the 9,000-11,000 level of daily cases is reached, a country-wide lockdown is likely to be re-introduced.

Financial Markets

The National Bank kept the key rate steady at 6% at its October's monetary policy meeting, but left the door open for further both upward and downward revisions as pandemic-related uncertainty and risks of a return to strict quarantine measures could be on the cards. After a significant devaluation in September-October, the UAH seems to have found a temporarily balanced level, with the USD/UAH pair traded in a 28.2-28.4 narrowed zone. FX reserves declined sharply in September, by 8.7%, to USD 26.5bn, as a result of sizable external debt repayments and the UAH experiencing depreciating pressure. The FinMin has been forced to lift government bond yields persistently over the last several weeks on the back of insufficient investment appetite. Thus, 1Y bonds recently traded at 10.30% and 3Y at 11%, all up by around 100bps from August-September. Uncertainty about the IMF deal and currently unfavourable perspectives for Eurobond placement pose additional risks to government financing capacities and add negatively to the expected dynamic of market rates.

Banking Sector

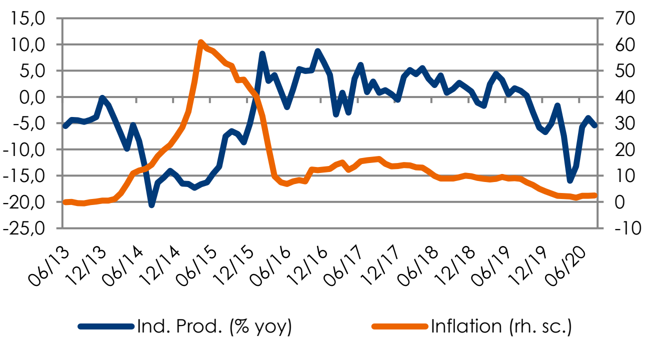
In the January-August period, banks' net profits decreased by 26.3%, to UAH 32.6bn, compared to same period a year earlier (UAH 44.3bn). Provisions increased 2.6x, to UAH 20.4bn. The flow of funds into the banking system persisted while lending remained restrained: UAH loans to corporates decreased by 1.8% yoy in August while UAH loans to households grew by 10.8%; UAH deposits by corporates grew by 35% yoy in August while UAH deposits from households grew by 26%. Lending and deposits rates continued to decrease based on the low level of the key rate and due to the general decrease in the cost of funding in the market.

Latest economic indicators

	Last value	2Q 20	1Q 20
Industrial Production yoy	-5.4 (Aug)	-11.6	-4.7
Nom. Exports yoy	-6.6 (Aug)	-4.9	1.3
PMI Manufacturing	n.a.	n.a.	n.a.
Retail Sales	7.6 (Aug)	-4.2	11.0
Inflation Rate yoy	2.3 (Sep)	2.1	2.6
CB Reference Rate	6.0 (30th Sep)	6.0	10.0
Loans (Priv. Sector, yoy, eop)	1.7 (Aug)	-2.5	-0.9
Deposits (Priv. Sector, yoy, eop)	28.3 (Aug)	23.1	19.9
Lending interest rate (pr.sect., eop)	8.4 (Aug)	9.5	12.9
Deposit interest rate (pr.sect , eop)	9.9 (Aug)	11.2	12.4

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

Industrial production and inflation



Source: State Statistics Service of Ukraine

Egypt

Real Economy

Samer Halim

Official numbers of COVID-19 cases are increasing slightly and Egypt's Health Minister stated that the country may still face a second wave of infection, but no lockdown will be implemented. The response will be focused on tackling areas that see surges in case numbers, along with maintaining social distance measures and maintaining or lowering the current number of public gatherings. Real GDP growth for FY 2019/20 was confirmed at 3.5% and the country's PMI for the non-oil private sector rose from 49.4 in August to 50.4 in September, signalling its first economic upturn for 14 months. According to the report, "improvements in consumer demand and export sales led to a stronger rise in business activity, whilst inventories levelled off. The economic improvement led firms to ease back on job cutting in September, as the latest drop in employment was the softest seen for ten months". Annual headline urban inflation increased to record 3.7% in September 2020 from 3.4% in August 2020, mainly due to a higher annual contribution from core food items.

Financial Markets

The Central Bank of Egypt (CBE) decided in September to cut its overnight deposit and lending rates by 50bps, to 8.75% and 9.75%, respectively, stating that "the reduction provides appropriate support to economic activity, while remaining consistent with achieving price stability over the medium-term". According to the Stand by Agreement with the IMF, Egyptian authorities should consult an IMF technical team if annual inflation fell below 6% in September and the IMF board if it fell below 4% for necessary actions if required. Egypt sold USD 750mn of green bonds, marking the first sale of such bonds by a government in the Middle East and North Africa region. This brings total foreign funds Egyptian authorities were able to secure to almost USD 17bn through loans from international organisations and securities issuance. Also, and unexpectedly, remittances increased 7.8% yoy, to USD 17bn, during the first seven months of the year. Outstanding balances of T-Bills held by foreigners rebounded in July and August, rising by USD 5.7bn. These developments led net international reserves to maintain their stable performance during the period between June and September, reaching USD 38.4bn, and the EGP to appreciate slightly by 2.1% against the USD since the beginning of the year.

Banking Sector

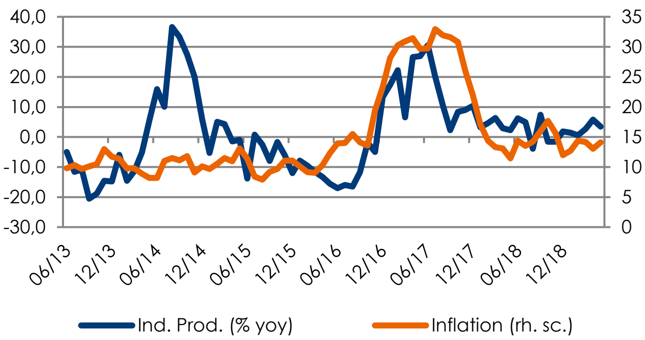
Total private loans rose 22.1% yoy in July 2020, supported by declining interest rates, the CBE's initiatives to offer loans at subsidised rates, and the loan repayment moratorium (which wasn't extended beyond September). On the other hand, total private deposits increased 18.1% yoy in July on the back of the high-interest-rate deposit scheme offered by state-owned banks at 15% (which was suspended as of September). The sector maintains high asset quality, with NPL/total loans at 3.9% in June and provisions/NPL at 97.2%. However, asset quality is likely to be negatively affected by the spread of COVID-19 and the end of government stimulus.

Latest economic indicators

	Last value	2Q 20	1Q 20
Industrial Production, wda yoy	3.4 (May)		
Nom. Exports yoy	-7.9 (Jun)	-27.5	-4.5
Retail Sales yoy	n.a.	n.a.	n.a.
PMI	50.4 (Sep)	44.6	44.2
Inflation rate yoy	3.7 (Sep)	5.4	5.9
CB Reference Rate	8.8 (21th Oct)	9.3	9.3
Loans (priv. sector, yoy, eop)	22.1 (Jul)	20.7	14.9
Deposits (priv. sector, yoy, eop)	18.1 (Jul)	17.0	14.3
Lending interest rate (corp., eop)	11.0 (Aug)	11.3	12.7
Deposit interest rate (hh, eop)	7.1 (Aug)	6.9	8.8

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

Industrial production and inflation



Source: Ministry of Planning, CAPMAS

Lockdown measures and main fiscal and monetary responses in the face of the COVID-19's second wave – Cross Country table ***continued on next page***

	Lockdown dates and measures		Fiscal Policy	Monetary Policy/Credit/Regulatory changes
Country	**Dates**	**Measures concerning economic activities**	**Main measures taken**	**Main measures taken**
CZ	5 Oct	State of emergency. All schools have been closed as well as restaurants, bars, clubs, cinemas, theatres, fitness centers, aquaparks and the like. The overall number of people in the shops has been limited to their square meter floor. Face masks have been made compulsory	The 2020 budget deficit projection has been substantially raised, from CZK 40bn original plan to 200 billion at the onset of the crisis, to 300bn on April 20, and eventually to CZK 500 bn on June 8. Proposal to decrease the income tax rates to 15% (cost: about CZK 50 bn)	The CNB eased restrictions on open market transactions (QE). Liquidity situation on the global markets normalized and the yield of CZ bonds declined significantly from the April's crisis-high. CNB very active early on supporting banks by lowering the countercyclical buffer, easing LTV conditions and scrapping DSTI, DTI for mortgage lending altogether.
HU	Oct 10	Travel restrictions outside of Hungary (2-week quarantine period). Wearing masks are compulsory in all public places; pubs, restaurants, other entertainment facilities must be closed at 11:00 p.m. Schools remain generally open with a few exceptions.	Deferred tax payments for several sectors, and reduction of corporate taxes for small businesses from 2021. Reduction of the VAT rate (to 5%) for newly built residential real estate. The government has announced measures to support families (subsidized loans, grants for purchasing homes).	Key goals remain: to maintain rates at low levels, ensure ample liquidity and achieve low long-term rates. The moratorium was extended until June 2021. The amount of weekly bond purchases under the QE program has been raised from September. The NBH also increased the size of the corporate bond purchase program and confirmed the flexible use of the QE program (the NBH will absorb 100% of the excess government bond supply).
PL	10 Oct	Public transport capacity has been cut to 30% maximum capacity. Religious events are restricted to 50% of church capacity. Night clubs are all closed. There are some restrictions on border crossing to and from selected 29 countries.	Several extensions of the package have been adopted between April and June, which made the total size of the anti-epidemic fiscal package approach PLN 400bn. Wage support schemes, and micro-loans and other credit measures for the self-employed and businesses have been implemented.	Reserve requirement reduced from 3.5% to 0.5%. Interest on mandatory reserves up from 0.5% to 1%. The Min. of Finance repealed the 3% systemic risk buffer (for capital). New package of measures related to provisions and reclassification of loans to existing SMEs. The Banking Association recommended the voluntary deferral of loan repayments for affected borrowers for up to three months.
SK	1 Oct	Emergency state has been declared in the country, tertiary and secondary education moved to the virtual world, gatherings of only up to 6 people are allowed, and from October 15 restaurants, fitness centers etc were closed and face masks are required even outside.	In the first wave, the authorities allowed postponement of tax and social contributions obligations. Together all these expenditures might add about €2 billion to the budget deficit in 2020. The second wave brought about more generous support to the employees as well as sole traders by 50% as well as widening the definition of applicable subjects.	The compulsory anti-cyclical capital buffer decreased in Aug from 1.5 to 1.0%. Abolished the excessive special bank levy (0.4% of adjusted deposits) from July. A moratorium on personal loan instalments by up to 9 months (leasing by up to 6 months) has been adopted. Loan guarantees for the corporate credit. Rejected any concessions in credit regulation as the local private indebtedness is high. Temporary relief in leverage ratio.
SI	18 Oct up to 18 Nov	Face masks are required at all times, including outdoors. Schools above grade 5 and universities will be entirely on-line. Restaurants and bars are closed, but pick up/delivery is permitted. Gyms and indoor sports centers are closed. Shops and other services remain open, but the government is enforcing distancing and other health precautions. Public gatherings, including weddings and religious services, are prohibited. Private gatherings are limited to 6 persons.	The authorities rolled out a fifth COVID stimulus package in September which includes measures: (i) to extend furlough funding and full pay compensation until the end of 2020, (ii) to support self-employed and micro-companies to monthly income compensation, (iii) support workers who have to be quarantined with full salary replacement, and (iv) further support families in case of school quarantine. In addition R&D and innovation will be financed.	New ECB long-term refinancing programs with an int. rate as low as -1.0% p.a. and a more massive QE (later extended to June 2021). This expanded its balance sheet by about €3 trillion since March. 12-month moratorium on bank loans (6 on leasing), Bond purchases of more than €1 trillion in the whole euro area, non-increase of anticyclical buffer (1.5% instead of 2% from August). Temporary relief in leverage ratio.
AL	15 Oct	From first of June , the containment measures are still active only regarding the activities which involves big number of people gathering, such as sportive and art events, cinema, theatres, marriages etc. Also, the public transport is still prohibited. It is obligatory the mask wearing indoor and outdoor	The second economic package amounts to over 220 million dollars. Of which $ 150 million as a sovereign guarantee (loan), to support businesses and wages of active employees, and $ 70 million wages for employees who have lost their jobs. Posponement of the rent and profit tax payments for small bussineses, new unemployees. The IMF also approved 174m euros to meet the immediate balance payments needs .	Required Reserve Ratio, softening Cap. requirements, X-month moratorium on bank loans (3months, with another possible 3 months until August), lending Facilities for SMEs and HH, discount credit to banks, gov. bond purchases, new bank levy.
BH	15 Oct	In Sarajevo County (FBiH), as of Oct 15, wearing a face mask is mandatory in open and closed spaces. Public gatherings are limited to 30 people indoors and 60 people outdoors.	Wage subsidies around 1.9% of GDP have been disbursed. Guarantee Funds of entity governments of 2.3% GDP to SME and large firms is in the final pre-operational stage. External support: Prompt reaction of IFIs - total amount pledged (EUR 700.5, 4% GDP) so far disbursed to the country: The IMF RFI: EUR 330 mln, COVID-19 support: EUR 80.5mn from IPA funds, EUR 30 mn from WB. MFA from EU: EUR 250 mn (1.6% GDP).	Softening of supervisory requirement, 9-month moratorium on bank loans.
HR	12 Oct	Compulsory wearing of face masks, and additional limitations for bars/restaurants (prescribed distance and limited opening hours (6AM-12PM)	In September Government prolonged all wage support measures until year-end. In October measures were amended with with aid lifted from HRK 2,000 to HRK 2,800 per employee.	Liquidity operations (short and long-term), currency control. Capital and Liquidity requirements 3 to 12-month moratorium on bank loans, kuna and index Gov Bond purchases.

Source: ISP International Research Network

Lockdown dates and main fiscal and monetary responses in the face of the COVID-19's second wave – Cross Country table
continued from previous page

	Lockdown dates and measures		Fiscal Policy	Monetary Policy/Credit/Regulatory changes
Country	**Start/ Final date**	**Measures concerning economic activities**	**Main measures taken**	**Main measures taken**
RO	15 Oct	Flights to some European Countries restricted. Restaurants and Coffee Shops closed inside in the "hot" areas, opened outside. public transportation with restrictions.	IMM Invest program in place (subsidized interest for 1y, 90% guarantee from state) with increased amounts up to 20 billion RON. Government support to SMEs, pharma industry (especially state companies), and for businesses which should close the activity due to Emergency State. Fiscal obligations postponement and easing, subsidized loans, payment of unemployment indemnities, rent payment obligations postponed for SME	Three times reference rate cut - March, June, August - and also shrinking of Monetary Policy corridor (1.0% depo rate, 1.5 reference rate, 2.0 Lombard rate) Availability for liquidity operations (Repo, Swap, Asset Purchase, etc). Ready to take further actions to ease the monetary policy (further Ref Rate cuts, reserves cuts, etc). Liquidity injected with also bills and bonds purchase. Liquidity is good. Moratorium in place till end of year for credit rates for individuals.
RS	1 Oct	The working hours of all bars and restaurants got cut to 23:00, regardless of whether they have indoor or outdoor facilities.	On July 30, the Government approved supplementary stimulus package worth RSD 66bln which brings value of the state's total COVID-19 response at approx. EUR 5.7bn or 12.2% of GDP. The measures include: tax deferrals postponement by at least one more month (RSD 30bln); extension of the minimum wage transfer program (RSD 36bln). Direct transfers (€10.5 mn) for 314 hotels.	NBS cut the key policy rate in March by 0.5pp, in April 2020 by 0.25pp and in June 2020 by 0.25pp amounting to 1.25% (no changes thereafter). On July 17 ECB arranged a precautionary REPO facility with the NBS to provide additional euro liquidity to the domestic financial system. 3-month moratorium on bank loans and leasing.
MD	1 Oct	Starting with 01.10.2020, a state of public health emergency is established in the administrative-territorial units for which the "Red Code" alert level has been established (the list is being revised every 2 weeks). Person coming from the red zone is obliged to observe the self-isolation regime of 14 days.	Income compensation for employees and self-employed, corporate tax deferral, credit guarantees for businesses, subsidised loans and loan guarantees, VAT deferral.	As of 9 Sept, the base rate applied to the main short-term monetary policy operations decreased by 0.25 pp to 2.75% annually. Int rates at 5.25% on overnight loans and of 0.25% on overnight deposits. The required reserves ratio from the financial means attracted in freely convertible currency increased by 3pp up to 30.0 % of the calculation base, for the application periods of 16Oct-15 Nov (28.5%) and 16Nov-15Dec (30%).
RU	1 Oct end of 2020	The self-isolation regimes were prolonged for undefined time. Tightening the mask regime in Russia is a necessary measure. In Moscow was prescribed for more than 30% worker to use the home office. The second lockdown under discussion.	Income compensation for employees and self-employed, tax deferral for SMEs, bonus payments to doctors and families, subsidies loans to SME, credit deferral, exemption from tax and insurance payments in 2Q20 for companies, credit guarantees for businesses, benefits for affected industries, new taxes.	In Sept the CB extended most of the measures until Dec 31, 2020, recommending that credit organizations continue to restructure loans to the population and SMEs. In Oct, the CB allowed the creation of the digital ruble. For the first time, Russian banks decided to borrow from the CB using the monthly and annual REPO mechanism, which was introduced by the CB in May.
UA	1 Oct ip to end of 2020	The rules of the social distance and the mask regime are still applied throughout the country. Public transport, hotels, recreative services operate with limited capacity.	No new Fiscal Policy and Economic Measures have been announced.	No new monetary policy measures announced. CB is strongly committed to intensify lending to the economy, by easing the requirements for banks and by decreasing the interest rates. Despite CB measures, lending is still not growing.
EG	27 Jun up to end of year	Restaurants, coffee shops and sporting clubs, with a capacity of 25% then 50%. (Cafes & restaurants) and shops were allowed to open until 10 pm and 9 pm respectively, then 12 and 10 pm.	Egypt's government allocated EGP100 billion (USD6.4 billion-2% of GDP) providing financial aid (EGP500) for seasonal employment (till the end of the year). EGP 3 billion loans guaranteed to tourism companies at low interest ratves (5%). Egyptian authorities were able to secure USD 17Bn funds through loans from international organizations and issuance of foreign currency bills and bonds.	The CBE decided to cut the overnight deposit and lending rates in Sept by 50 basis points to 8.75% and 9.75%, respectively. The CBE said the reduction provides appropriate support to economic activity, while remaining consistent with achieving price stability over the medium-term. Egypt is committed to consult an IMF technical team if yoy inflation fell below 6% by the end of Sept and the IMF board itself if it fell below 4%. The 6-month moratorium, started in March, hasn't been extended and state-owned banks suspended the high-interest deposit schemes of 15%.

Source: ISP International Research Network

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

The Economy

		GDP chg yoy			Ind.prod[1]. chg.yoy			Export nom. chg yoy			Retail sales chg yoy			Inflation chg yoy			Unemployment rate			Wages chg yoy			Economic Survey[2]		
		2Q20	1Q20	2019	Last	mth	2Q20	Last	mth	2Q20	Last	mth	2Q20	Last	mth	2Q20	Last	mth	2Q20	Last	mth	2Q20	Last	mth	2Q20
CEE	Czechia	-10.9	-1.9	2.6	-5.5	Aug	-23.6	-6.0	Aug	-19.4	0.0	Aug	-3.8	3.2	Sep	3.1	3.8	Sep	3.6	2.0	Aug	-3.7	86.2	Sep	65.1
	Hungary	-13.6	2.2	4.6	-2.1	Aug	-25.1	-2.5	Aug	-23.0	-1.2	Aug	-4.1	3.4	Sep	2.5	4.6	Aug	4.2	10.8	Jul	10.9	86.7	Sep	82.4
	Poland	-7.9	1.7	4.1	1.9	Sep	-13.7	-0.3	Aug	-11.4	0.4	Aug	-11.0	3.2	Sep	3.2	6.1	Aug	6.0	3.8	Jun	5.1	77.9	Sep	57.6
	Slovakia	-12.1	-3.7	2.4	-0.8	Aug	-28.0	5.4	Aug	-26.5	4.0	Aug	-8.3	1.4	Sep	2.0	7.4	Sep	7.1	1.8	Jul	-2.0	87.7	Sep	64.8
	Slovenia	-13.1	-2.4	3.2	-1.8	Aug	-17.4	-3.6	Aug	-15.5	-7.6	Aug	-11.8	-0.7	Sep	-1.2	9.1	Aug	9.2	5.7	Aug	10.5	94.5	Sep	79.6
SEE	Albania	-10.2	-2.5		n.a.	n.a.	n.a.	-3.3	Aug	-24.5	n.a.	n.a.	n.a.	1.5	Sep	1.9	n.a.	--	11.9	n.a.	--	2.9	n.a.	n.a.	n.a.
	Bosnia H.	-9.3	2.0	2.4	-6.7	Aug	-14.2	-0.7	Sep	-24.1	-16.0	Aug	-16.8	-1.2	Aug	-1.6	34.7	Jul	34.3	3.0	Aug	3.1	n.a.	n.a.	n.a.
	Croatia	-15.1	0.4	2.9	-1.2	Aug	-8.5	-13.9	Jul	-12.6	-9.3	Aug	-13.2	0.0	Sep	-0.3	8.8	Sep	9.3	3.0	Aug	1.2	88.6	Sep	84.8
	Romania	-10.3	2.4	4.1	-4.3	Aug	-26.8	-8.0	Aug	-22.1	1.6	Aug	-7.3	2.5	Sep	2.5	3.3	Aug	2.9	7.6	Aug	3.2	88.8	Sep	77.2
	Serbia	-6.4	5.1	4.2	4.2	Aug	-7.8	-7.6	Aug	-7.8	4.5	Aug	-0.8	1.8	Sep	1.0	n.a.	--	7.3	9.2	Jul	8.5	n.a.	n.a.	n.a.
CIS & MENA	Moldova	-14.0	0.9	3.6	-7.7	Aug	-14.9	-19.5	Aug	-20.9	1.9	Aug	-10.9	2.3	Sep	4.6	n.a.	--	4.2	n.a.	--	7.5	n.a.	n.a.	n.a.
	Russia	-8.0	1.6	1.3	-7.2	Aug	-8.5	-32.3	Aug	-31.8	-2.7	Aug	-16.7	3.6	Aug	3.1	6.4	Aug	6.0	6.4	Aug	4.7	48.9	Sep	49.4
	Ukraine	-11.4	-1.3	3.2	-5.4	Aug	-11.6	-6.6	Aug	-4.9	10.4	Sep	-4.2	2.3	Sep	2.1	n.a.	--	9.2				n.a.	n.a.	n.a.
	Egypt	-2.0	5.0	5.5	3.4	May		-7.9	Jun	-27.5	n.a.	n.a.	n.a.	3.7	Sep	5.4	n.a.	--	9.6				50.4	Sep	44.6
	m.i. E. A.	-15.0	-2.7	1.3	-7.2	Aug	-20.3	-12.3	Aug	-23.5	1.9	Aug	-10.9	-0.3	Sep	0.2									

Source: Refinitiv; [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 €)5		Rating
		26/10	chg	26/10	chg	26/10	3M*	1Y*	3M*	1Y*	26/10	23/07	2Q20	1Q20	2019	2Q20	1Q20	Moody's
CEE	Czechia	0.3	-0.1	1.0	0.1	27.28	3.91	6.59	-7.9	-19.4	35.8	35.0	n.a.	224.5	188.2	-800	-100	Aa3
	Hungary	0.8	0.2	2.3	-0.1	365.01	5.27	10.84	-7.2	-22.3	57.8	67.9	n.a.	-2613	983			Baa3
	Poland	0.4	0.2	1.2	-0.1	4.58	3.78	6.95	-8.6	-18.3	29.5	34.5	n.a.	-4391	12243	2842	1292	A2
	Slovakia	-0.5	-0.1	-0.3	-0.2	Euro	Euro	Euro	4.6	-0.5	48.7	47.6	n.s.	n.s.	n.s.	-1169	-859	A2
	Slovenia	-0.5	-0.1	-0.1	-0.1	Euro	Euro	Euro	-5.2	-7.4	60.4	74.5	n.s.	n.s.	n.s.	653	863	A3
SEE	Albania	0.8	-0.1	n.a.	n.a.	123.94	0.12	0.51	n.a.	n.a.	n.a.	n.a.	848	-51	-39	-378	-226	B1
	Bosnia H.	n.a.	n.a.	n.a.	n.a.	1.96	Board	Board	n.a.	n.a.	n.a.	n.a.	287	-70	498	-119	-195	B3
	Croatia	0.4	0.0	0.9	-0.2	7.57	0.58	1.86	-1.3	-21.4	76.8	74.4	798	-2048	1122	-667	-1437	Ba2
	Romania	2.0	0.0	3.5	-0.5	4.88	0.81	2.59	2.1	-9.1	96.5	131.3	n.a.	1723	-2793	-3497	-1356	Baa3
	Serbia	1.3	0.0	n.a.	n.a.	117.6	0.02	0.04	9.0	-16.2	104.8	101.6	842	-263	1994	-367	-973	Ba3
CIS & MENA	Moldova	2.8	-0.5	5.7	-0.1	17.05	1.01	-2.12	n.a.	n.a.	n.a.	n.a.				-94	-16	B3
	Russia	4.7	0.0	6.0	0.2	76.47	8.02	19.85	-6.4	-15.3	92.6	81.1	-6459	-198	85864	n.a.	21700	Baa3
	Ukraine	10.2	-0.3	12.2	-1.6	28.34	1.91	12.68	-4.9	-17.6	561.7	559.1	3481	-471	4259	1689	2270	B3
	Egypt	13.4	0.0	14.7	0.3	15.7	-1.81	-2.6	-2.5	-25.4	414.5	429.5	-1906	-5312	2869	n.a.	-2765	B2
	m.i.A.E.	-0.5	-0.1	-0.6	-0.1	1.2	1.9	6.5	-7.2	-15.5	5.6	6.2						

Source: Refinitiv;[1]The data for Egypt refers to October, 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. (*) % change.

Banking aggregates and interest rates (private sector)

		Loans chg yoy %			NPL/Loans %			Foreign Liab. chg yoy %			Deposits chg yoy %			Loans rate1-NewB*. %				DepositsRate1-NewB*. %				Loans/Dep %		
		Last	Mth	2019	Last	mth	2019	Last	mth	2019	Last	Mth	2019	Last	mth	2019	S[4]	Last	mth	2019	S[4]	Last	mth	2019
CEE	Czechia	4.6	Aug	5.2	2.4	Aug	2.5	-11.3	Aug	-0.2	10.0	Aug	6.1	1.5	Aug	3.62	C	0.57	Aug	1.52	H	72.3	Aug	75.1
	Hungary	13.1	Aug	13.2	1.3	Jun	1.5	10.0	Aug	10.4	17.1	Aug	8.0	2.7	Aug	2.34	C	0.31	Aug	0.24	H	80.0	Aug	81.5
	Poland	0.5	Aug	4.7	3.8	Mar	3.8	2.2	Aug	-7.2	14.7	Aug	9.7	2.14	Aug	3.64	C	0.14	Aug	1.49	H	85.3	Aug	92.6
	Slovakia	5.2	Aug	6.2	2.9	Aug	3.1	1.2	Aug	7.9	5.6	Aug	4.1	2.05	Aug	2.06	C[2]	0.03	Aug	0.05	H[2]	103.1	Aug	102.7
	Slovenia	-0.5	Aug	3.7	1.9	Aug	2.2	10.3	Aug	9.7	9.8	Aug	6.3	2.17	Aug	2.23	C[2]	0.17	Aug	0.18	H[2]	68.3	Aug	73.5
SEE	Albania	5.7	Aug	6.5	8.1	Aug	8.4	4.3	Aug	-6.7	5.6	Aug	3.8	5.26	Aug	6.34	PS	0.3	Aug	0.72	PS	54.2	Aug	54.2
	Bosnia H.	-0.1	Aug	6.7	6.7	Jun	7.4	-22.0	Aug	2.6	4.4	Aug	8.4	3.23	Aug	2.88	C	0.29	Aug	0.3	H	99.9	Aug	103.7
	Croatia	3.8	Aug	3.9	5.5	Jun	5.5	1.2	Aug	-5.9	7.5	Aug	4.8	5.75	Aug	5.56	PS	0.12	Aug	0.22	PS	72.8	Aug	75.9
	Romania	4.0	Aug	7.0	4.3	Aug	4.1	-6.1	Aug	4.7	15.0	Aug	12.6	6.14	Aug	6.71	PS	1.68	Aug	2.25	PS	71.4	Aug	74.5
	Serbia	13.6	Aug	8.9	3.5	Aug	4.1	19.3	Aug	9.1	17.1	Aug	7.8	5.79	Aug	7.06	PS	1.39	Aug	2.0	PS	96.2	Aug	97.9
CIS & MENA	Moldova	8.5	Aug	13.9	8.9	Aug	8.5	4.9	Aug	-6.5	12.6	Sep	7.7	8.34	Sep	8.93	C	3.8	Sep	4.5	H	58.6	Aug	59.1
	Russia	13.0	Jul	7.1	9.5	Jul	9.3	3.3	Aug	-19.3	8.3	Jul	4.2	6.27	Jul	7.83	C	3.43	Jul	4.66	H	110.9	Jul	108.5
	Ukraine	1.7	Aug	-8.0	48.1	Aug	48.4	-4.8	Aug	-28.1	28.3	Aug	9.6	13.03	Aug	18.58	PS	4.8	Aug	10.81	PS	89.5	Aug	101.7
	Egypt	22.1	Jul	13.4	3.9	Jun	4.2	6.6	Jul	-23.4	18.1	Jul	13.6	11.0	Aug	13.8	C	7.1	Aug	9.2	H	35.5	Jul	34.3
	m.i. E. A.	3.5	Aug	3.0	n.a.	n.a.	n.a.	-2.3	Aug	2.5	7.6	Aug	4.7	1.3	Aug	1.3	C	0.2	Aug	0.2	H	76.4	Aug	79.3

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.

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