

Economic and Banking Outlook

Viewpoint

After the significant declines in GDP in 2Q, partial recoveries appear to be occurring. The worrying dynamics of Covid-19 and the risks of a second wave in winter suggest, however, the need for prudent forecasting regarding 2020-21. MM rates are expected to remain low far beyond 2021.

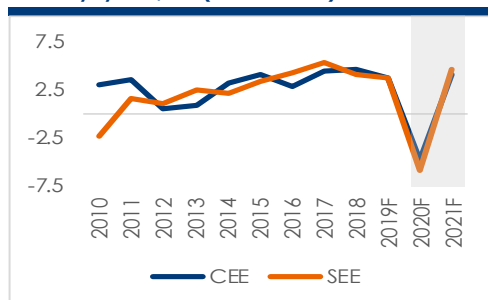
All the major advanced and emerging countries were severely impacted by the pandemic shock in 2Q20, albeit to different degrees. In areas with ISP subsidiaries, in 2Q, GDP fell by c.10%, on average, in both the CEE and SEE regions and in the CIS area, and by a more contained 2.3% in Egypt. The GDP performance, which compares with the toughest -15% recorded in 2Q in the Euro Area, mostly resulted from the negative impact related to lockdown measures in the first two months of 2Q. Since the end of May, from when the 'hardest' lockdown measures were eventually relaxed, high frequency indicators, such as industrial production and retail sales, began to signal partial and slightly-higher-than-previously-expected recoveries. Forward looking Indicators improved significantly overall, with the PMI rising above the 50 in several cases.

Based on the information available so far, and on the assumption that the recent resurgence of Covid-19 infections can be managed without a renewal of hard lockdown measures, we have revised our forecast for the GDP growth rates in 2020 slightly upwards, to circa -5%, for CEE, SEE and CIS countries from the -5.8% and -5.5%, respectively, projected in June. Keeping in mind the risk of a second wave of Covid-19 cases in the winter, we have, however, left unchanged GDP growth forecasts for 2021, at 4.3% for the CEE/SEE areas and c.3% for the CIS area. Regarding Egypt, which recorded a higher-than-expected rate of 3.5% in FY 2019/20, our estimate for GDP growth remains unchanged, at 2.3%, for FY 2020/21.

We have also revised slightly upwards our 2020 forecasts for both inflation rates and banking aggregates, after considering the ongoing expansionary effect of the extensive measures taken overall in parallel by monetary and fiscal authorities to contain deflationary risks related to the pandemic, boost market liquidity, and support lending activity. In the CEE/SEE areas, the CPI is now projected at 2.5% vs the previous 2.1% for 2020 while loans and deposits have been shifted to 3.8% (from 1.9% projected in June) and 6.8% (from 4.1%), respectively. An upward revision has been also incorporated regarding banking aggregates in the CIS countries and Egypt. Again, only minor changes have been made to 2021 projections.

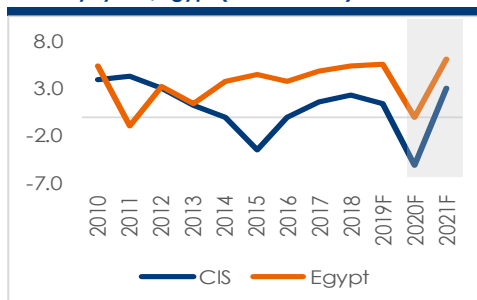
Following the dovish tones of the Fed and the ECB, and the most recent announcements from local CBs, we have postponed overall the timing of reversals in policy (and money market) rates vs our June scenario. Highly accommodative monetary policies are expected to remain in place over 2020-21 and far beyond overall. Room for rate cuts is still envisaged in 2020 for Serbia, Romania and Russia, and in 2021 for Egypt. The profile of long-term yields, albeit still low, has been adjusted to a slightly rising trajectory. The decrease in Bund yields, mainly driven by flight to quality motives and the strengthening of the ECB's QE policy, has not been fully transferred to local yields in the CEE/SEE regions, causing a (temporary) increase of spreads (in particular outside the EA).

GDP % yoy CEE/SEE (2020F-2021F)\*



Sources: ISP Research Department forecasts; note \* weighted average

GDP % yoy CIS/Egypt (2020F-2021F)\*



Sources: ISP Research Department forecasts; note \* weighted average

September 2020

Countries with ISP subsidiaries

Quarterly Note

Research Department

International Research Network

Gianluca Salsecci

Head of International Research Network

International Research Network Team

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

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

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

## Cross country analysis

### Recent developments

The **CEE/SEE areas** experienced a deep contraction of **GDP** in 2Q, on average -9.9% (vs +0.7% in 1Q) in the CEE and -10.8% (vs +2.2% in 1Q) in the SEE regions. The first two months of the quarter were most affected, due to the negative economic impact related to the lockdown measures adopted to contain the spread of Covid-19; since the end of May, when the 'hardest' lockdown measures were starting to be relaxed, a partial recovery began to take place.

The monthly indicators confirm that most of the contraction occurred in April. Industrial production fell by about 30%, on average, in both the CEE and the SEE regions in that month while contracting at much smaller rates of 2.0% in July and 7.9% in June respectively in the two regions. A similar pattern was displayed by other coincident indicators and especially by forward-looking indicators such as the ESI and the PMI. In June, the dynamics of exports (-0.4% yoy in CEE and -9.9% yoy in SEE) were better than the 2Q average (-21.7% and -17%, respectively). Also, retail sales improved in June, with a small contraction of 1.2% yoy in CEE (2.1% in July) and 2.4% yoy growth in SEE (vs -8.6% and -7.4%, respectively, 2Q averages). The ESI and the PMI indexes improved significantly in July and August, with the manufacturing PMI value above the 50 level in Hungary and Poland.

Within the CEE countries, the 2Q GDP contraction was not homogeneous, however, ranging from -13.6% in Hungary to -8.2% in Poland. The latter was the only country in the CEE region that showed a one-digit contraction in 2Q and where industrial production showed a positive trend again in July (1.1%). Within the SEE countries, the fall in 2Q GDP was deepest in Croatia (-15.1%), which was very badly hit by the plunge in tourism-related sectors. Serbia recorded the mildest performance (-6.5%), where retail sales contracted by only a modest 0.8% yoy in 2Q, with a strong rebound occurring in June (11.5%).

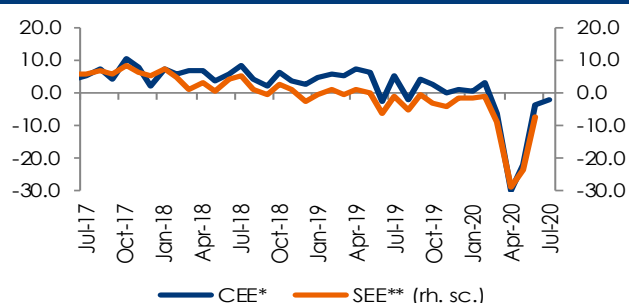
On the **inflation** side, in July, the consumer price index in the CEE area increased, on average, to 3.0% from 2.9% in April, ranging from -0.3% in Slovenia to 3.8% in Hungary. In the same month, inflation accelerated slightly in the SEE region as well, to 2.0% from 1.8% in April, driven by an increase in Serbia, to 2.0% (vs 0.6% in April), while a negative trend continued in Croatia (-0.3% in July). In a context of easing monetary policy at the international level, and in particular in the Euro Area, and given the still-low (albeit slightly accelerating) inflation path, **monetary policy** in the CEE/SEE area remained deeply accommodative in the past three months, with money market rates kept at historical lows. In the same period, however, **long-term yields** increased slightly in most of the CEE/SEE countries, despite the fall in Bund yields, with parallel rises of local sovereign spreads especially outside the Euro Area with respect to the German benchmark. In FX markets, **local currencies** remained overall roughly stable vs the euro, with few exceptions (eg, the HUF FX rate which depreciated by c.1.7% vs the euro).

**Gianluca Salsecci, Antonio Pesce and Davidia Zucchelli**

**Dramatic fall of GDP in 2Q, but business cycle indicators suggest an ongoing partial and gradual recovery**

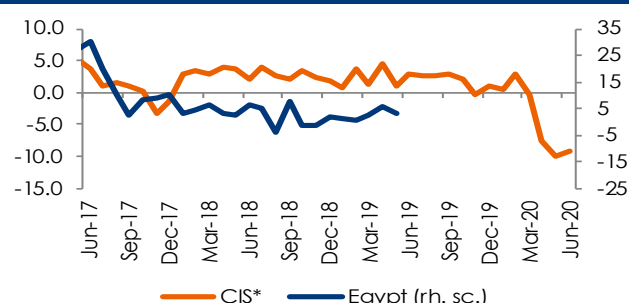
**Inflation on a moderate rising path as demand recovered slightly in CEE/SEE areas**

**Industrial production % yoy – CEE/SEE**



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

**Industrial production % yoy – CIS/Egypt**



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

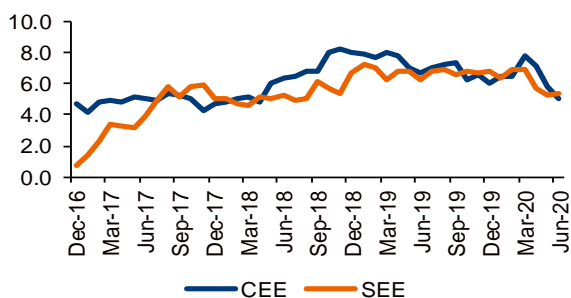
**Outside the CEE/SEE regions**, in **Russia**, real GDP fell by 4.7% yoy in July, following a 10% decline in May. This performance brought the growth rate for the first seven months of this year to -4.1% yoy, signaling that a gradual recovery was in fact taking place. Among business cycle indicators, while industrial production did not improve in July (-9.4% vs -8.5% in 2Q), retail sales gained momentum (-7.7% vs -16.7% in 2Q). In addition, after rising to 48.4 in July, the manufacturing PMI jumped above the 50 threshold in August. The inflation rate increased by 3.6% in August, but still remained below the CB's target (4.0%), leaving room for a further 25bps cut to the policy rate from the current 4.25%. In **Ukraine**, in 2Q, GDP fell by 11.3% (after -1.3% in 1Q). However, industrial production (-5.6%) and retail sales (7.8%) trends improved in July vs 2Q. Consumer inflation remained reasonably low in August, at 2.5%. After cutting the main policy rate in June, the NBU has since left it unchanged at 6.0%. In **Moldova**, real GDP data have not yet been released for 2Q; however, the significant contraction of industrial production (-11.1% yoy from 0.9% in 1Q) and the declines in exports (-20.9% yoy vs -7.7%) and retail sales (10% vs -10.9% yoy) seem to imply a deep contraction of economic activity in 2Q. Moldova's consumer inflation rate decelerated to 3.5% yoy in August (vs 4.2% in July), below the target, leading the CB to cut the policy rate by 25bps, to 2.75%, in September. In **Egypt**, real GDP decelerated only slightly, to 5%, in 1Q20 (from 5.6% in 4Q19), but fell to 2.3% in 2Q20, severely hit by travel restrictions at the international level, even if performing better with respect to previous expectations. The PMI continued to recover in July, moving above the 50 threshold (to 50.8 from 28.5 in March). Headline inflation slowed to 3.4% in August from 5.9% in April, falling further below the lower range of the CB target for year-end (9%+/-3%).

**Drop in GDP in Q2 in CIS countries, but there are signs of a partial recovery. Also, Egypt's GDP contracted in 2Q20. However, the PMI was above 50 in July**

As of June, **banking aggregates** showed higher-than-expected growth overall, thanks to the measures adopted by various authorities, such as moratoria (further extended in some countries), targeted relending facilities, and credit-supporting schemes on the demand side as well as the easing of capital and liquidity buffers on the supply side. As of June, **loans to the private sector** rose by over 5% yoy in both the **CEE** and **SEE** areas, decelerating, however, from the peaks reached in March (+7.8% and +6.9%, respectively). Supported in particular by moratoria, but hit by deteriorating labour market conditions, loans to households decelerated from over +8% yoy in the first months of the year to 6.9% yoy in June in the CEE and from 13% to 6.9% in the SEE countries. Corporate loans decelerated as well, to 2.4% in the CEE and to 3.9% in the SEE area, still recording negative trends in Slovenia (-0.5% yoy) and Bosnia (-1.2% yoy). At the same time, in contrast, **deposits from the private sector** accelerated to 14% in both the CEE and SEE areas, due to the forced fall in consumption related to lockdown measures and rises in precautionary savings in the household sector and a lack of investment in the corporate sector related to the uncertain economic conditions caused by the Covid-19 outbreak. Among the **CIS countries**, in Russia, lending activity was dynamic (+10.8% yoy) in both the corporate (10.1% yoy) and household (12.6% yoy) sectors, but remained negative in Ukraine (-2.5% yoy), also due to the government's already arranged write-off plans. In Egypt, banking aggregates accelerated in May, with loans up by 18.5% and deposits by 16.9%.

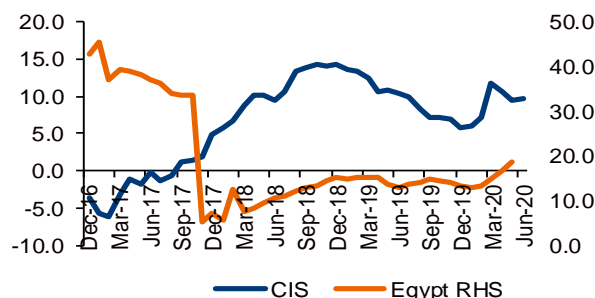
**Banking aggregates are still resilient, supported by government measures**

**Lending growth (% yoy chg, weighted averages)**



Sources: ISP Research Department elaborations on central banks' data

**Lending growth (% yoy chg, weighted averages)**



Sources: ISP Research Department elaborations on central banks' data

### The international outlook underlying the scenario

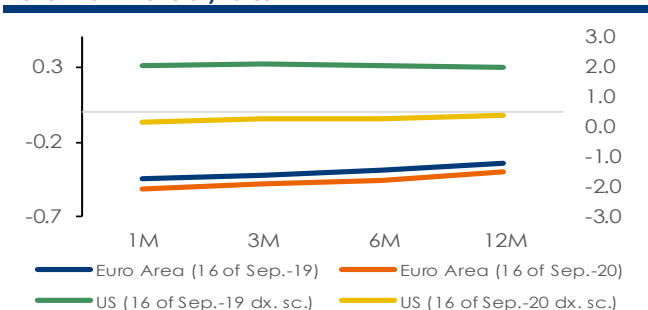
According to the most recent GDP data, the global economy contracted at an unprecedented pace in 2Q20, during the most intense period of the lockdown, with high frequency indicators eventually signaling a partial recovery since June, following the easing of confinement measures adopted in most countries. The uncertainty regarding the future course of the global economy remains high, however, and is made particularly uncertain by the recent resurgence of Covid-19 infections in several countries. In 2Q, the parallel declines in GDP in the US, the Euro Area, and Japan (by 9.5%, 12.1% and 10%, respectively yoy) signalled historical record low performances since WWII. Only China recorded a positive trend among major emerging countries, with GDP growth of 3.2% yoy in 2Q (after -6.8% in 1Q) while most of EM countries experienced plunges, as in case of Brazil (-9.7%), India (-23.9%), South Africa (-17.1%) and Mexico (-19%), just to name a few. Overall, the global economy can be estimated to have contracted by 9.0% in 1H20.

**GDP contracted in 2Q at unprecedented pace, but even if with a high degree of uncertainty, monthly data signal an ongoing (partial) recovery**

To put things into perspective, the major international research departments display huge dispersion across variables, for both for 2020 and, especially, 2021. Regarding the US, the ISP forecast is for GDP to fall by 4.1% in 2020, but to grow by 3.5% in 2021 while inflation is forecast at 1.1% in 2020 and 2.2% in 2021. In this context, the Fed has reaffirmed extremely dovish forward guidance, with the chairman announcing at the Jackson Hole Monetary Symposium in early September a shift in monetary strategy to a more tolerant response to inflation, with a focus on an average rather than pin-pointing specific numbers at specific times, a move widely interpreted as leading to ultralow interest rates for some years to come. As for the Euro Area, the ISP forecast incorporated in our projections for the Countries with ISP subsidiaries points to a drop in GDP of 8.3% in 2020 and (a partial) recovery of 6.3% in 2021, and for an Inflation rate averaging 0.3% yoy in 2020, before a modest recovery to 1.2% in 2021. The ECB is expected to continue to provide ample monetary stimulus and to maintain easy financial conditions in order to support a sufficient flow of credit to the private sector. Following the decisions taken since March (new LTROs, more favorable terms for TLTRO III, enlargement of APP, new PEPP), the ECB's Governing Council announced the extension of the PEPP (totaling €1,350bn) until June 2021. At the EU level, fiscal policy is also expected to play an expansionary role – with a significant impact in all the EU countries – strengthening in this way the monetary action of the ECB through the implementation of the announced New Generation - RF (€750bn).

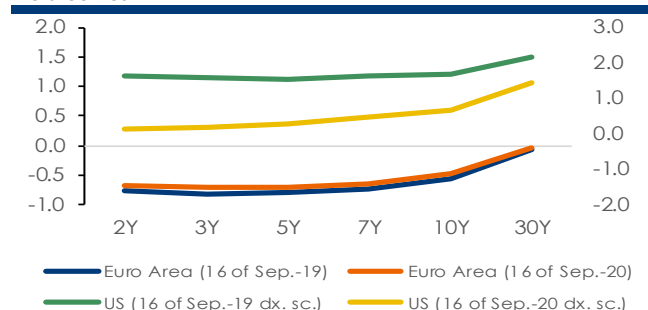
High uncertainty remains as well regarding the speed of the recovery in emerging markets. Indeed, new virus outbreaks have recently led to a tightening of restrictions in India, South Africa, and parts of Latin America, and the risks of severe effects associated with a second wave of contagion cannot be ruled out. However, with China's GDP data surprising on the upside in 2Q, the GDP dynamic in EM now is expected to be around -2.5% in 2020 and +6.6% in 2021 (median of the major research departments). Since June, CBs in emerging countries have also stepped up their efforts to ease financial market strains. Policy rate cuts and liquidity provisions have helped to shore up investor risk appetite and, since that month, CDS have been decreasing in the major EM countries, not only in China, but also elsewhere in Asia and in Latin America.

**Benchmark monetary rates**



Source: ISP elaboration on Refinitiv data

**Yield curves**



Source: ISP elaboration on Refinitiv data

## The economic outlook

### Growth and inflation

On the basis of the most recent GDP growth data for 2Q, which although problematic were nevertheless slightly above our June expectations, and the most recent high frequency indicators, **GDP growth** has been revised slightly upwards, on average, for the current year, to -5.1% from the -5.8% projected in June in the **CEE/SEE area** – in particular, to -4.8% from -5.4% in the CEE and to -5.9% from -6.7% in the SEE region.

However, given the concerning increases regarding the number of Covid-19 cases during the summer months in several countries and the persistent risks of a significant acceleration in the winter season, we have confirmed our prudent forecasts from June for GDP growth rates in 2021. On the assumption in particular that both the resurgence of Covid-19 contagion can be managed without significant lockdown restrictions and that fiscal and monetary interventions announced by local in addition to supranational (ECB and EU in case of CEE/SEE countries) and international authorities (eg. IMF and EBRD) will fully support the region, we nevertheless maintain a prudent projection of GDP growth at 4.3% in the CEE/SEE area in 2021, with a full recovery to the pre-Covid GDP level not attained until 2022.

In parallel, **inflation** is expected to be on a moderately rising path in the SEE region in 2021 (2.4% end of period) on average from 2.2% expected in 2020) and to remain roughly stable in the CEE area (at 2.5%) as aggressive monetary stimuli and credit measures adopted by authorities since March are expected to curb the deflationary risks related to the pandemic.

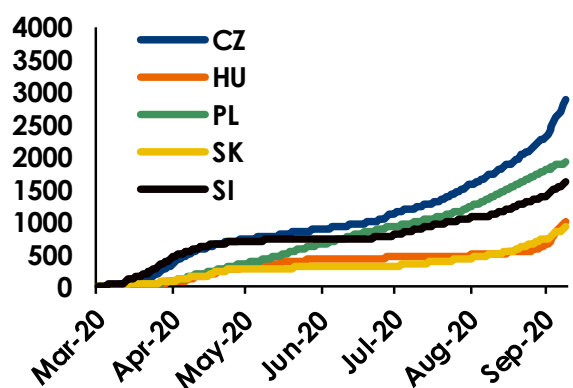
Outside the CEE/SEE region, in **Russia**, following release of the most recent data on GDP growth and taking into consideration the recent agreement between Russia and OPEC+ implying a softening of the oil production cut, we have also raised our 2020 GDP growth forecast with respect to our June projection (to -5.0% vs -5.5%) while prudently keeping the 2021 forecast at 3%. We have also revised our forecast for GDP growth in **Ukraine**, to -5.9% from the previous -6.5%, as, thanks to the financial support provided by the IMF, the external financial position appears to be less vulnerable than in previous recessions. However, we have revised down the GDP growth forecast in 2020 for **Moldova** to -4.5% from the previous -3%, due to negative signals from the most recent business cycle indicators and the accelerating dynamics of Covid-19 cases in recent months. In the MENA region, given, in contrast, the positive signals from domestic business cycle indicators, we have revised **Egypt's** growth forecast for calendar year 2020 to 0.1% from the previous -1.5% in June. For 2021, we have raised our estimate to 6.2% from the previous 4.7%. In terms of fiscal year, after GDP growth of 3.5% in the FY 2019-2020, we now project GDP growth of 2.3% for FY 2020-2021.

**The pandemic is expected to have a severe impact on GDP in all the countries ...**

**... partial recovery is on track, but uncertainties regarding forecasts remain very high**

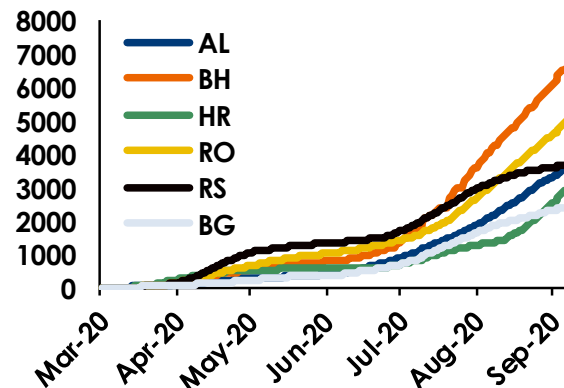
**Inflation is seen to be on a slightly rising path in 2021**

(Number of Covid-19 cases per Mln. Inhabitants) – CEE Area



Source: Refinitiv

(Number of Covid-19 cases per Mln. Inhabitants) – SEE area



Source: Refinitiv



## Monetary policy and financial markets

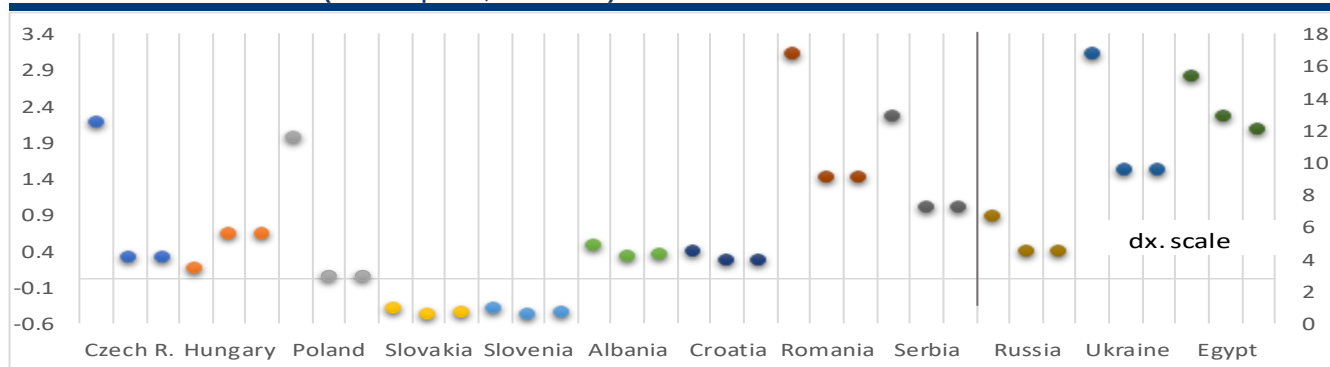
Following the dovish announcements by the US and EA central banks, and taking in consideration the most recent announcements by local monetary authorities, we have postponed further the timing of reversal of policy (and money market) rates in the **CEE/SEE** countries with respect to our June scenario. Highly accommodative monetary policies are expected to remain in place in both our forecast horizon 2020-2021 and beyond. We note that further cuts to **policy rates** are likely to take place in Romania and Serbia. Consequently, the profile of **money market rates** is projected to remain overall at the same level or even slightly lower than in our June projections for the whole region.

With respect to our June *Outlook*, the **long-term yield** projections have been revised slightly upwards, especially outside the EA. The decrease in Bund yields, essentially driven by a flight to quality and the QE policy strengthened by the ECB, has not been observed as resulting in an equivalent fall in local yields outside the EA, causing a (temporary) increase in sovereign spreads. In the years ahead, yields are nevertheless expected to remain low by historical standards (partly due to supportive market liquidity injections, with QE measures adopted in several countries, eg, Poland, Hungary and Romania) and the current spike in spreads should be reabsorbed gradually. In the **FX markets**, our forecasts for local currencies are roughly in line with our June *Outlook* with a slightly depreciating profile overall at the end of 2020 and 2021.

In **CIS countries**, the significant deterioration in the business cycle, coupled with a weaker-than-expected inflation profile, has led to further cuts to policy rates, which are currently set at 4,25% in Russia (where we see space for a further cut of 25bps by year-end), 6,0% in Ukraine (where, however, a downward adjustment of money market rates cannot be excluded), and 2,75% in Moldova. For 2021, policy and money rates are projected to remain on hold in Russia and Ukraine, but to start reversing in Moldova. In **Egypt**, cuts totaling c.100bps are projected by the end of 2021. Following the recent increase of sovereign risk premia in local financial markets, we now see the sovereign **Russian** bond long yield ending this year at 5.9%, before rising to 6.1% by year-end 2021.

Recent geopolitical tensions have led to a depreciation of the **Russian** ruble which is now projected to be at 73 vs the USD by year-end 2020, before recovering next year to around 70. External funding needs are expected to weigh on the currencies of **Moldova** and **Ukraine**, supporting depreciating pressures in the years to come. In **Egypt**, the real effective exchange rate is moving on an appreciating path, resulting in a loss of external competitiveness. Despite some further appreciation (driven by capital inflows) of the EGP in nominal terms in the short term, we confirm, therefore, expectations of a depreciating correction in the medium term.

### Short-term interest rates 2019-21 (% end of period, ISP forecast)



Source: ISP Research Department forecasts

**Monetary policies will remain strongly accommodative in all the regions**

## Banking aggregates and interest rates

Following the most recent release of data on banking aggregates – which, thanks to the liquidity and credit measures adopted by local and supranational authorities, have shown a higher-than-previously-anticipated profile – and taking into consideration the upward revision in our September forecasts of GDP growth in 2020, we have also revised upwards our forecasts for bank loans and deposits with respect to our June *Outlook*.

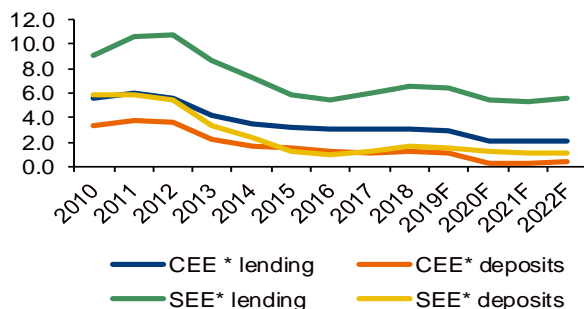
Supportive measures (especially state guarantees and credit growth schemes) are estimated to continue to bolster lending in both **CEE** and **SEE** countries, where total loans are now forecast to increase by more than 4% and 2%, respectively, in 2020. A declining reimbursement capacity is nevertheless expected to be seen in both the corporate and the household sector, leading to an increase in the stock of NPLs. The moratoria measures – being extended in many countries – are reducing repayments in 2020 but could end up exacerbating the repayments situation in 2021. Nevertheless, the use of moratoria (with only the exception of Hungary) has remained relatively low in many countries. However, in some cases (for example, Albania, where loans growth is forecast to remain negative), the liquidity support to the corporate sector does not appear to have been fully utilised, due to high uncertainty surrounding the economic situation, with prudent lending forecasts being maintained for 2020-21. Thanks to currently high capital ratios and greater flexibility now granted by regulators – in particular, through the loosening of countercyclical buffers – banks' capitalisations are nevertheless estimated to remain supportive of credit expansion in all areas.

In the **CEE** countries, lending forecasts (+4.4% area averages in 2020 and 2021) show positive changes in all countries, but with a high dispersion, ranging from 0.2% in Slovenia to 9.2% in Hungary, where credit is extensively supported by subsidised lending schemes. In the **SEE** area, loans growth is expected to be lower, on average, in 2020 than in the CEE region because of the anticipated relatively deeper recession and higher NPLs ratios, but it should rebound slightly in 2021. Loans are expected to increase by 2.1% in 2020 (varying from -2.2% in Bosnia to +6.5% in Serbia, thanks to highly supportive measures) and by 4.5% in 2021. In the **CIS** countries, in 2020 loans are expected to grow by 5.3%, with +6% in Russia and +3.2% in Moldova, but to remain negative in Ukraine at -2.8%, affected by the high (but fully covered) NPL ratios.

Banks may still count on low-cost **deposits** which are forecast to remain strongly supported by precautionary saving and lower consumption, despite being negatively affected by poor labour market conditions. Deposits are expected to show positive changes in all ISP countries (+6.8% in 2020 in both the CEE and SEE countries, and +4.8% in the CIS countries), sustained by remittances which were surprisingly resilient in 1H20. **Interest rate forecasts** have been revised slightly downward, especially in CEE countries and Egypt, with further downward pressure on banking spreads.

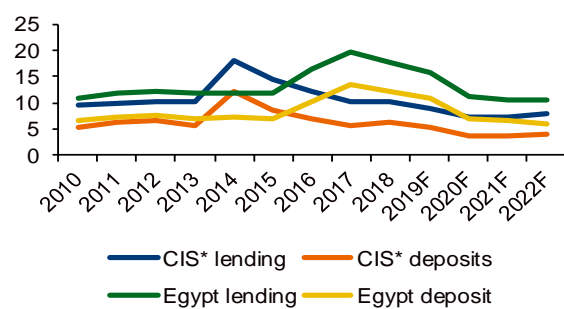
**Loans outstanding amount is seen to remain modest because of increasing NPLs and higher private sector debt while deposits remain dynamic, supported by future uncertainty**

Lending and deposit interest rates (% end of period)\*



Sources: ISP Research Department forecasts; note \* weighted average

Lending and deposit interest rates (% end of period)\*



Sources: ISP Research Department forecasts; note \* weighted average



## Country-Specific Analysis

### Czech Republic

#### Real Economy

The smaller-than-expected decline in 2Q and the incipient strong recovery in 3Q have led us to positively revise the full-year contraction of the Czech economy to -6.0%, from the -6.6% forecast previously. The recovery looks especially vigorous in the automotive industry, thanks to pent-up global demand. In 4Q, the recovery will probably pause due to the resurgence of Covid-19 cases, which could even surpass those of the spring wave. This may affect the recovery of consumer confidence, as well as production for companies. At this stage, however, the baseline scenario assumes the spread of the virus will be contained in local hotspots. Otherwise, the forecast brisk recovery in 2021 will be at risk. Inflation-wise, we foresee consumer prices remaining elevated for the remainder of the year. The forecast disinflation will probably be slower than previously anticipated. In particular, core inflation remains under pressure due to the previously strong domestic demand and temporarily elevated corporate costs. The unemployment rate may peak at double the pre-crisis rate, but the forecast 4.3% would still be one of the lowest in the EU. Hence, wages will probably remain relatively sticky, with real wages returning to positive growth in 2021.

#### Financial Markets

Amid the Covid-hit economy, the Czech National Bank (CNB) has been very active in providing timely stimulus and had already cut rates by a cumulative 200bps by early May. Since then, the two-week repo rate has remained at 0.25%, and we foresee official rates remaining stable going forward. In our forecast, a rate hike is not pencilled in before the ECB delivers one in 2023. In its own forecasts, the CNB projects rates will gradually start increasing in the second half of 2021. Nonetheless, we believe the central bank will opt for alternative means of tilting financial conditions rather than raising official interest rates, for example, via macroprudential measures or by withdrawing some of the liquidity support to the local banking sector and bond market. Finally, we expect the koruna to appreciate faster than the CNB is forecasting.

#### Banking Sector

Pandemic or not, the mortgage and residential property market remain hot in the Czech Republic. As such, loan volume growth has surpassed earlier expectations and led us to revise our full-year forecast growth rates up, both this year and next. The CNB has been supportive to the growth of the market, with it not only quickly bringing down the countercyclical capital buffer, but also scrapping debt-to-income and debt service-to-income limits on new mortgage lending. We have also revised upwards the deposit volume on banks' balance sheets, reflecting the stronger-than-hitherto-forecast volumes at July, which may have been a reflection of the relatively lavish income support of the Czech government to households and companies in the early stages of the pandemic.

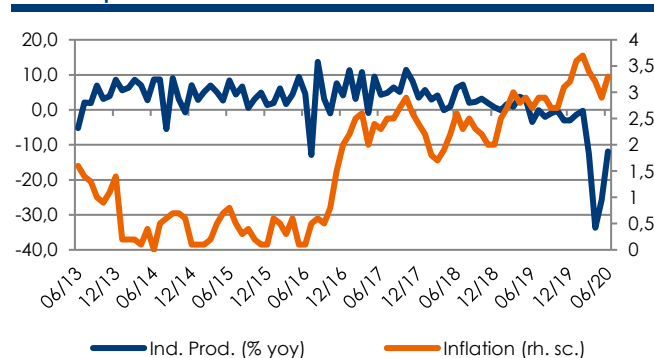
#### Forecasts

	2019	2020F	2021F
Real GDP yoy	2.6	-6.0	4.8
CPI (eop)	3.2	3.0	2.5
Euro exchange rate (value, eop)	25.5	26.2	25.8
Short-term rate (eop)	2.2	0.3	0.3
L/T bond yields (eop)	1.6	1.1	1.2
Bank loans (pr. sector, yoy)	5.2	3.0	3.2
Bank deposits (pr. sector, yoy)	6.1	7.5	3.4
Lending interest rate (corporates, eop)	3.6	1.9	1.7
Deposit interest rate (households, eop)	1.5	0.2	0.2

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

Zdenko Štefanides

#### Industrial production and inflation



Source: Czech Statistical Office

## Hungary

### Real Economy

The Hungarian economy suffered a larger-than-expected contraction in Q2 (-13.5% yoy swda). In tandem with the lifting of the lockdown measures and after hitting a low point in April, the economic recovery began in May and gained further momentum during the summer months. This has been evidenced by recently released high frequency indicators. After the 30-40% yoy drop in April and May, industrial output was down by only 7.7% in July (wda). In August manufacturing PMI was 52.8, pointing to an ongoing recovery, and in June retail sales growth posted its first yoy rise since March. Nonetheless, the recovery is likely to lose some momentum beyond Q3 due to the deteriorating Covid-19 situation, and the uncertainty surrounding the outlook has increased. After the worse-than-expected Q2 GDP reading, we have revised down our full-year 2020 projection to -4.4% from -4.1% previously, and now pencil in a 3.9% real GDP growth rate for 2021. Both headline and core inflation have accelerated during the summer months, triggering an upward revision to our average 2020 CPI forecast (to 3.6%). From 2021, inflation pressures are likely to weaken, and CPI is expected to stabilise around the 3% target from 2022.

Mariann Trippon

### Financial Markets

The central bank cut the policy rate in two steps, by a total of 30bps to 0.6%, during the summer months. Rising and above-target inflation, the recession and the fragile FX rate have created a situation in which the central bank must proceed very cautiously. The NBH must find a delicate balance between preserving its credibility and keeping the HUF stable on the one hand and supporting the economic recovery on the other hand. We do not expect additional rate cuts; the policy rate is likely to remain flat during the next two years in line with the ECB cycle. Monetary support will likely come in the form of lending measures and the flexible use of the QE programme, which will keep long yields in check despite the rising budget deficit and the consequent increase in HUF bond supply. HUF has continued to underperform its regional peers, weighed down by loose monetary conditions and rising inflation. During the next few years, we pencil in some nominal appreciation, but the HUF is likely to retain its easing bias for the remainder of the year.

### Banking Sector

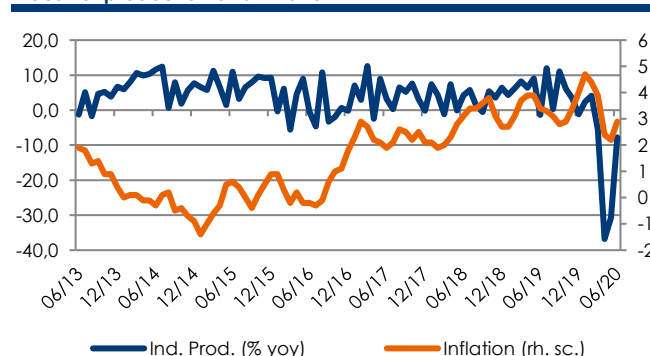
Despite the recessionary environment, the banking sector's capital, liquidity and funding positions remain strong. To offset the negative impacts of the crisis and to support lending, the central bank has introduced different macroprudential, regulatory, lending and monetary policy measures. This extended toolkit has been able to effectively influence monetary conditions in a targeted manner across the curve, secure the smooth functioning of the financial system and support lending to the private sector. Thanks to the different lending schemes, loan growth will remain above 9% in 2020 before slowing down to ~5% – a level that is sustainable in the long run.

#### Forecasts

	2019	2020F	2021F
Real GDP yoy	4.9	-4.4	3.9
CPI (eop)	4.0	3.4	3.2
Euro exchange rate (value, eop)	297.6	355.0	350.0
Short-term rate (eop)	0.2	0.6	0.6
L/T bond yields (eop)	1.9	2.3	2.4
Bank loans (pr. sector, yoy)	13.2	9.2	4.9
Bank deposits (pr. sector, yoy)	8.0	10.0	5.3
Lending interest rate (corporates, eop)	2.3	2.8	2.7
Deposit interest rate (households, eop)	0.2	0.6	0.6

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

#### Industrial production and inflation



Source: Hungarian Central Statistical Office

## Poland

### Real Economy

Poland will enter a recession in 2020, its first in nearly three decades, due to the impact of Covid-19. However, thanks to a shallower-than-expected contraction in 2Q and a strong recovery in 3Q, the full-year decline in real GDP will probably be less than the 4.7% forecast previously. Our current baseline scenario projects a 4.0% decline, followed by a strong rebound of 3.8% in 2021. In addition, the risks around the scenario appear tilted to the upside. The near-term recovery should remain supported by the huge fiscal stimulus, which has helped to protect domestic jobs and return activity in the retail and manufacturing sectors to near pre-crisis levels by mid-3Q. Beyond 2021, growth should receive an additional boost from the recently agreed EU Recovery Fund.

Inflation-wise, we continue to expect consumer prices to remain elevated for the remainder of this year due to fiscal transfers making their way into services price inflation. The gradual unwinding of the transfers and the impact of the pandemic on the labour market, however, should gradually lead inflation to next year anchor firmly in the central bank's target range of 1.5-3.5%.

### Financial Markets

The Polish central bank (NBP) reacted swiftly to the risks emanating from the pandemic and had cut its main policy rate by a cumulative 140bps by late May, taking it to a historical low of 0.10%. Besides rate cuts, the NBP has supplied additional liquidity to the banking sector through repo operations and engaged in large-scale QE. Indeed, through its structural open market operations, the NBP has purchased Treasury bonds and state-guaranteed paper on the secondary market worth more than PLN103bn, or 4.5% of projected GDP. Most of these purchases, however, took place in the early months of the crisis and with the improved market conditions and decline in yields, we do not foresee them being deployed on a large scale in the months ahead. We also do not foresee any further change in official rates this year. In fact, we believe the NBP will remain on hold until the end of 2022. Our forecast for the Polish zloty exchange rate also remains stable, at around 4.40 versus the euro, on average, in 2020 and 2021.

### Banking Sector

Similar to the overall economic performance, the development in banking volumes in recent months has also been stronger than foreseen. In response, we have therefore revised upwards our full-year projected growth volumes for both loans and deposits, by about two percentage points each. In particular, the mortgage market saw strong growth even through the early stages of the Covid-19 crisis, with new mortgage volumes in 1Q up 22% on last year. Volumes dropped in April and May, but started to recover with the reopening of the economy in June, helped by rates falling to historic lows.

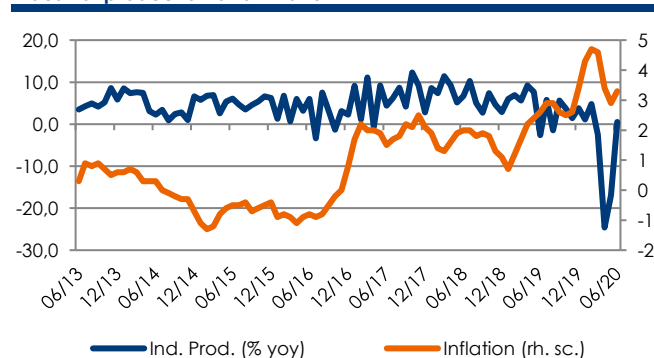
### Forecasts

	2019	2020F	2021F
Real GDP yoy	4.1	-4.0	3.8
CPI (eop)	3.4	2.6	2.5
Euro exchange rate (value, eop)	4.3	4.4	4.4
Short-term rate (eop)	2.0	0.0	0.1
L/T bond yields (eop)	2.0	1.4	1.8
Bank loans (pr. sector, yoy)	4.7	4.2	4.9
Bank deposits (pr. sector, yoy)	9.7	7.5	5.5
Lending interest rate (corporates, eop)	3.6	2.1	2.1
Deposit interest rate (households, eop)	1.5	0.2	0.3

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

Zdenko Štefanides

### Industrial production and inflation



## Slovakia

### Real Economy

The Slovak economy was hit hard by the Covid-19 pandemic in the first half of this year. However, 2Q turned out better than expected, with GDP contracting by only 12.1% yoy. In contrast to 1Q, net exports did not weigh the local economy down, thanks to a swift recovery in exports in June. Fixed investment registered the greatest decline during the quarter (-15% yoy), followed by government consumption (-10%). On the other hand, since April a swift recovery has been observed in industry (new orders reached last year's level in June), exports (+0.8% yoy in July) and retail sales (+1.5% yoy in July). However, some service sectors, such as tourism and accommodation and culture, continue to suffer heavily. Looking at the entire picture across sectors, Slovakia is now in the worst recession recorded since 1993, with GDP forecast to decline by about 7% this year. The fourth quarter and next year's outlook remain uncertain, as the second wave of infections gathers pace and vaccine hopes remain distant.

The good news is that the recession has not spurred the unemployment rate to rise as much as the fall in GDP would seem to suggest it should. In ILO methodology, local joblessness increased only to 6.6% in 2Q and to 7.7% in the claimant measure. This was due to the fast implementation of fiscal and monetary support, as well as the short-term nature of the worst period of the health crisis. The fall in disposable income has therefore been rather low and so was disinflationary pressure. Local HICP slowed to 1.5% yoy in August and could stay around this level for the rest of the year. From January, regulatory price cuts should slow inflation further.

### Financial Markets

The money markets in the Euro area have stabilised thanks to accommodative ECB policy, with three-month Euribor declining to about -0.45% p.a. over the summer. The spread between 10Y Slovak government bond yields and German Bunds fell to as low as 30bps as the government debt agency had tapped the market for €12bn by June. Together with pumped-up asset purchases by the ECB, this compensated for the recent Fitch downgrade of Slovakia's rating, the S&P outlook downgrade and a significant deterioration in the long-term sustainability of public finance.

### Banking Sector

The banks have also been negatively affected by the recession, in particular in terms of profit. Loan moratoriums helped keep the total growth of credit in positive territory. Consumer loans registered a decline, but mortgages continued to grow quickly. On the deposits side, the higher saving rate compensated for lower disposable incomes. However, the recession is still expected to cause a deterioration in clients' risk profiles and NPLs provisions grew quickly in the first half of 2020.

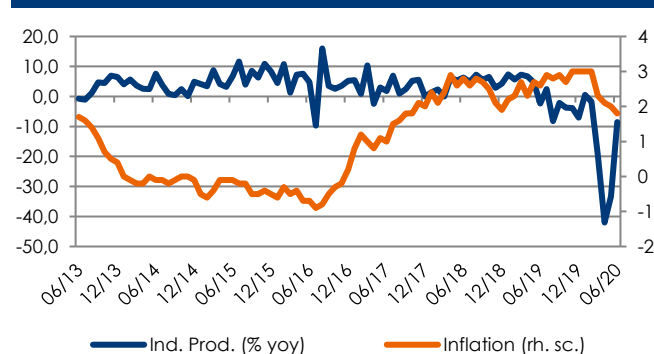
### Forecasts

	2019	2020F	2021F
Real GDP yoy	2.4	-6.9	4.9
CPI (eop)	3.0	1.6	1.9
Short-term rate (eop)	-0.4	-0.5	-0.5
L/T bond yields (eop)	0.1	-0.2	0.1
Bank loans (pr. sector, yoy)	6.2	2.5	3.3
Bank deposits (pr. sector, yoy)	4.8	2.5	3.7
Lending interest rate (corporates, eop)	2.1	1.9	1.9
Deposit interest rate (households, eop)	0.1	0.0	0.1

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

Michal Lehuta

### Industrial production and inflation



Source: Statistical Office of the Slovak Republic

## Slovenia

### Real Economy

In 2Q GDP decreased by 13.0% yoy (-9.6% qoq) as all components but government spending (+1.5% yoy) registered strong declines. Personal consumption fell by as much as 16.6% yoy, while investments slumped by 16.7%. Overall, domestic demand nosedived by 12.0% yoy, pulling down imports of goods and services by 25%, while at the same time exports declined by 24.5% yoy (goods -21.9%; services -35.0% yoy). The high frequency data from July indicates some recovery in exports (only -2.9% yoy) but lagging domestic demand, as retail trade decreased by 4.7% and imports dropped by 10.9% yoy. On account of the positive impact the government support measures have had on the economy and the fact that economic sentiment continues to improve, we have revised upwards our FY2020 estimate to -7.2% (from -8.2% in June). Looking forward, we foresee 4.9% growth in 2021, to be supported by more favourable performances from exports and investments, while household consumption will recover more slowly, in line with labour market developments.

Ivana Jović

### Financial Markets

The 10Y government bond yield continued to retreat in July and August, allowing us to reduce our estimate of this year's average yield to 0.2% and our 2021 forecast to 0.1%. The average spread on the Bund is projected to narrow from 70bps in 2020 to 50bps in 2021 as the country's economic activity is expected to pick up at a healthy pace.

Ana Lokin

### Banking Sector

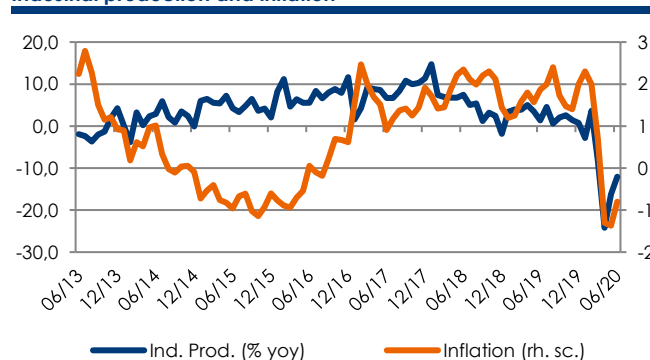
We have revised upwards our 2020 estimate for loans, to 0.2% yoy, mostly owing to the sound household loans, particularly housing loans, which have proved more resilient than previously anticipated. Further, the latest decision of the Bank of Slovenia, on the relaxation of macroprudential measures concerning the calculation of the creditworthiness of citizens, is expected to continue supporting household lending. Corporate loans, on the other hand, undershot our expectations, decreasing on a monthly basis since March. We have also improved our FY2020 estimate for deposits, to 6.0% yoy, on account of the healthy post-lockdown performance. Our 2021 loan projection was left at +2.5% yoy, with slightly improved expectations of household loan growth, while our view on corporate loan developments is somewhat less optimistic. Our deposit projection for 2021 was lifted to +4.0% yoy, thanks to the expectation of a fast economic recovery.

### Forecasts

	2019	2020F	2021F
Real GDP yoy	2.4	-7.2	4.9
CPI (eop)	2.0	0.3	2.3
Short-term rate (eop)	-0.4	-0.5	-0.5
L/T bond yields (eop)	0.2	0.0	0.2
Bank loans (pr. sector, yoy)	3.7	0.2	2.5
Bank deposits (pr. sector, yoy)	6.3	6.0	4.0
Lending interest rate (corporates, eop)	2.2	2.1	2.1
Deposit interest rate (households, eop)	0.2	0.2	0.2

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

### Industrial production and inflation



Source: Statistical Office of the Republic of Slovenia

## Albania

### Real Economy

Due to the consequences of the earthquake shock at the end of the last year and the ongoing situation with Covid-19, we foresee Albanian GDP growth falling by 6.5% in 2020, before recovering by 4.2% in 2021, a forecast profile slightly better than that of the EBRD (-9.0% in 2020), but slightly worse than that of the IMF (-5%). Before getting any better, the economy is expected to contract deeply in Q2, and, even if to a lesser extent, will remain in negative territory during the next two quarters of 2020. This is due to the Albanian economy's high reliance on tourism, the low exports of intermediate goods to Italy's fashion industry, a likely reduction in remittances, lower investments and consumptions and the higher unemployment expected during the year. However, in 2021 a rebound is forecast, boosted by the utilisation of the construction earthquake funds and by financial easing measures in response to Covid-19.

In Q2, in response to the fall in foreign demand, exports fell by 25% yoy and imports by 21% yoy due to the rapid slowdown in consumption and investments. Average inflation in the second quarter was 1.9%, up from 1.6% the previous quarter. The increase was mostly attributable to an increase in food prices, which make up about 41% of the consumer basket. In the baseline scenario, the return of inflation to the target range will happen by 2022. The exchange rate has been stable since the end of April at about 124 LEK/EUR.

### Financial Markets

The CB has displayed a dovish monetary policy by reducing the key interest rate to a historical minimum of 0.5% in March 2020 and increasing liquidity injections. In cooperation with commercial banks, the CB has also undertaken changes to the regulatory framework, which have eased the burden of the temporary extension of payments of credit and the restructuring of loans for clients facing difficulties. The issuance of Eurobonds and the reduction in government demand for funds have helped to mitigate and reduce the upward pressures on yields. In response to these measures, the financing cost of the private sector remains low and the exchange rate is stable.

### Banking Sector

In June, credit to the private sector increased by about 6.61% mom, with households increasing by 4.58% and corporates by 7.64%. The growth rates are mostly attributed (by more than 70%) to the loan programme under moratorium. On the deposit side, total deposits expanded by 5.75%, with the rise in households at 5.16% and corporates at 8.72%. Meanwhile, the banking sector continues to show good levels of liquidity and capitalisation.

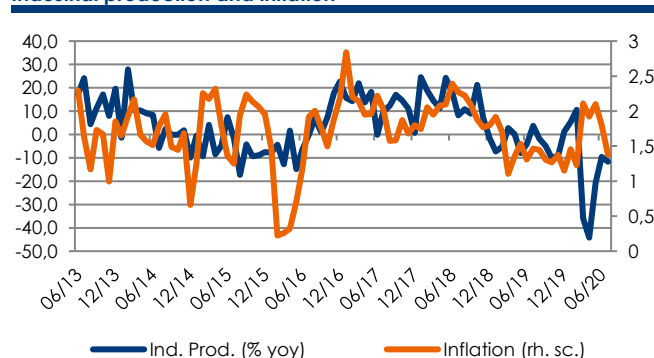
### Forecasts

	2019	2020F	2021F
Real GDP yoy	2.1	-6.5	4.2
CPI (eop)	1.1	1.4	1.7
Euro exchange rate (value, eop)	121.9	124.0	125.0
Short-term rate (eop)	0.5	0.3	0.3
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	6.5	-0.2	1.0
Bank deposits (pr. sector, yoy)	3.8	3.2	2.4
Lending interest rate (pr. sector, eop)	6.3	6.3	6.4
Deposit interest rate (pr. sector, eop)	0.7	0.4	0.5

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

Kledi Gjordeni

### Industrial production and inflation



Source: National Statistical Institute



## Bosnia and Herzegovina

### Real Economy

Following the 2.0% yoy growth in GDP recorded in 1Q, high frequency data point as expected to a strong slump in 2Q. These recorded a 16.9% slump in real retail trade, a 24.1% fall in exports and a 14.2% decline in industrial production on a year-on-year basis. On a positive note, construction works recorded only an 0.8% decline, although this was the eighth consecutive quarterly fall. Unfortunately, the epidemiological situation in the country remains unfavourable (on average 250 new cases daily in August) and July data indicates a continuation of the doldrums as real retail trade declined by 12.6%, industrial production by 9.2% and exports by 13.0% yoy.

Keeping in mind that household consumption faces a decline in remittances (CB estimates -15% yoy), while exports had already fallen into the red by mid-2019 and 1H20 saw this negative trend gather pace, we have decided to stick to our -5.0% FY2020 call, with a partial recovery set for 2021 (+4.0% yoy). However, given the large degree of uncertainty and the fact that a recovery will correlate with the recovery of main trading partners and the successful utilisation of IFI arrangements (IMF, EU, EBRD and WB), we see complex political set-ups as the main negative risk to our forecast, possibly leading to stronger-than-expected declines this year and lower growth next year.

### Banking Sector

The latest data overshooting our expectations, as well as the expected decision on the extension of the moratorium by the end of the year, have prompted us to lift this year's estimate of loan growth to -2.2% yoy. Loans to non-financial corporations are expected to contract as risks build up, whereas household loans are predicted to be flattish amid the deteriorating labour market conditions and thinner inflow of remittances. Thus, consumer loans are projected to slip into negative territory and housing loans to lose steam. Our deposit forecast for 2020 has also been improved, to a modest increase of 1.0% yoy, as after the initial shock in March-April deposits bounced back in May-July, proving more resilient than previously anticipated.

Our projections for 2021 have been left unchanged, with moderate 3.1% yoy loan and 3.5% yoy deposit growth, as we remain cautious regarding the pace of the recovery in economic activity. The risks to our forecast are seen as being broadly negative as the country's complex set-up delays decision-making and it remains strongly dependent on remittances from abroad and financing from international sources.

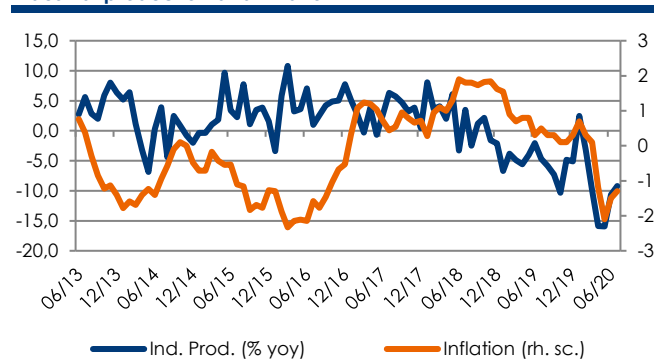
### Forecasts

	2019	2020F	2021F
Real GDP yoy	2.9	-5.0	4.0
CPI (eop)	0.3	-0.8	1.2
Euro exchange rate (value, eop)	2.0	2.0	2.0
Short-term rate (eop)	n.a.	n.a.	n.a.
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	6.7	-2.2	3.1
Bank deposits (pr. sector, yoy)	8.4	1.0	3.5
Lending interest rate (corporates, eop)	n.a.	n.a.	n.a.
Deposit interest rate (households, eop)	n.a.	n.a.	n.a.

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

Ivana Jović

### Industrial production and inflation



Source: Agency for Statistics of Bosnia and Herzegovina

## Croatia

## Real Economy

The GDP decline of 15.1% in Q2 came as no surprise, as all components aside from government spending (+0.7%) recorded a strong yoy decline. Personal consumption dropped by 14%, the steepest fall since quarterly data were first recorded, reflecting the April lockdown and gradual exit that followed, as well as altered consumer behaviour. At the same time, investments dropped by 14.7%, most likely reflecting the lower investments in equipment as construction works remained in mild plus. Amid the sudden disruption of trade flows, goods exports plummeted by 10.9%, while exports of services plunged by as much as 67.4% yoy amid the virtually non-existent tourist pre-season. At the same time, shrinking domestic demand led to a fall of 28.1% in imports. Developments in H2 will primarily depend on the financial results of the tourist season, which in peak months was better than expected in terms of the physical indicators (arrivals/overnights in July and August down by 48%/41% yoy), however, these are unlikely to be fully matched by financial outcomes. Although the government has prolonged wage support measures until year-end, households are expected to remain cautious in terms of spending, mirroring the lower tourism intake and the slowly recovering consumer confidence (retail trade down by 6.7% yoy in July). Hence, we stand by our estimate that this year GDP will decline by about 9.6%, with some mild upside risks. A partial recovery is foreseen in 2021 and GDP is expected to grow by about 5%, fuelled by recovering exports and an expected hefty EU funds intake (part of the remaining 2014-2020 MFF, plus front-loaded RRF).

Ivana Jović

## Financial Markets

After joining ERM II in July and extending the swap line with the ECB until Q2 2021 in August, we foresee the exchange rate staying around central parity at 7.5345 kuna per euro. The money market is also expected to stay calm as liquidity remains ample and interest rates continue to stagnate. We have lowered our 2020-2021 forecast for the average 10Y kuna government bond yield to 0.9% as we project the spread on the Bund will slide from an average of 150bps this year to 125bps in 2021, reflecting a substantial NG EU allocation, faster convergence during ERM II and an expected Euro area entry in 2023.

Ana Lokin

## Banking Sector

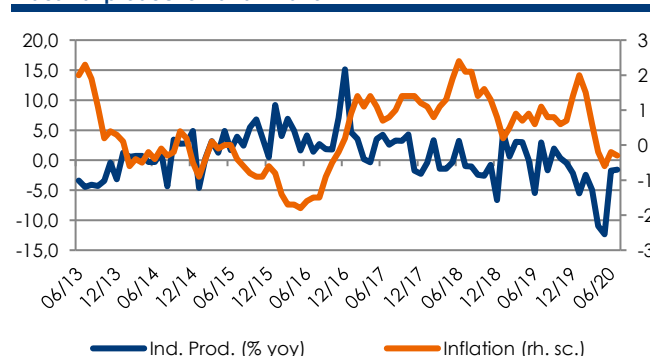
Loan and deposit estimates for 2020 appeared more optimistic in the September scenario, at +1.9 and +3.5%, respectively, yoy thanks to the healthy performance of corporate loans (supported by substantial moratoria), the pending second round of subsidised housing loans, the preservation of the private sector's financial position thanks to extensive government and financial sector measures and the tourist season exceeding expectations. Next year's figures have been left untouched as, in spite of GDP bouncing back swiftly, we expect both borrowers and lenders to remain cautious, and believe the labour market will recover slowly.

## Forecasts

	2019	2020F	2021F
Real GDP yoy	2.9	-9.6	5.0
CPI (eop)	1.4	0.1	1.8
Euro exchange rate (value, eop)	7.4	7.5	7.5
Short-term rate (eop)	0.4	0.3	0.3
L/T bond yields (eop)	0.7	0.9	0.9
Bank loans (pr. sector, yoy)	3.9	1.9	3.0
Bank deposits (pr. sector, yoy)	4.8	3.5	3.2
Lending interest rate (pr. sector, eop)	5.6	4.9	4.3
Deposit interest rate (pr. sector, eop)	0.2	0.1	0.1

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

## Industrial production and inflation



Source: Croatia Bureau of Statistics

## Romania

### Real Economy

In the second quarter GDP performed better than expected in terms of our June forecasts, though still showed a double-digit deceleration (-10.5% yoy and -12.3% qoq). Taking these figures into consideration, the Romanian Government's expectation for this year's GDP evolution is about -4.7%, while our expectations remain a more prudent -5.9%. Industrial production decreased by 38.4% in April, when lockdown measures were fully deployed, and retail sales also decreased by 19.5% before both indicators began to show some signs of recovery in the following months, rising to -11.3% and +2.9%, respectively.

The budget deficit jumped to 4.7% of GDP in July, while the government's expectations for 2020 have been updated to more than 8.5%. Under a pessimistic scenario, the budget deficit is expected to reach more than 10%. The BIM (ILB) unemployment rate grew to 5.4% in July. The latest CPI figures show a rate of 2.8% for July, slightly higher than the NBR's projection.

### Financial Markets

The Romanian central bank cut rates for the third time on 5 August. This time the cut was 25bps for all monetary policy rates: the reference rate, the credit facility (Lombard) rate and the deposit facility rate. The current rates are as follows: deposit facility rate 1.00%; reference rate 1.50%; credit (Lombard) facility rate 2.00%. The levels for minimum reserves requirements remained unchanged. The exchange rate (EUR versus RON) was stable during the summer at about 4.84, but weaker with respect to rate recorded at the end of 2019 (4.78). The depreciation of the currency by the end of the year is expected to be more than 2%, with the EUR/RON rate projected to end the year at about 4.88.

The contribution of the central bank to the banking system's liquidity decreased in June and July, but it remains present and is important for the evolution of interest rates.

### Banking Sector

Total assets were stable during the summer, with the July level 13.21% higher than last July. Lending activity was almost flat in July versus April, with yoy figures showing a 3.88% increase overall. From a currency denomination point of view, RON credit growth was 6.64% yoy, while EUR credits decreased by 1.76% yoy. The interest rates on credits in RON decreased, mainly due to central bank rate cuts, while the interest rates on credits in EUR were stable. Customer deposits continued to grow on a yearly basis, with overall growth in deposits of 14.48% yoy. From a currency point of view, RON deposit growth was 12.21%, while EUR deposit growth was 18.68%.

The interest rates on deposits did not decrease in RON despite the market's evolution and the central bank's decision due to the uncertainty generated by the pandemic. In EUR, deposit interest rates also remained stable.

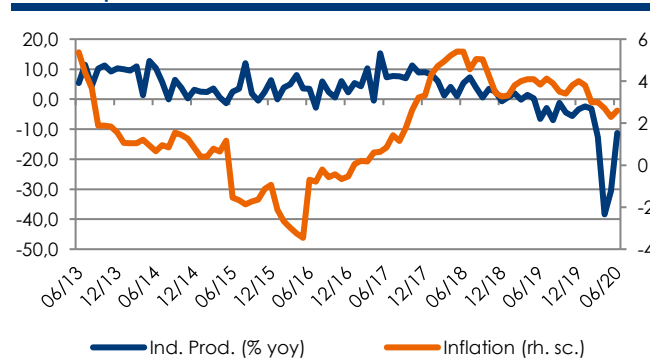
### Forecasts

	2019	2020F	2021F
Real GDP yoy	4.1	-5.9	4.8
CPI (eop)	4.0	3.0	2.8
Euro exchange rate (value, eop)	4.8	4.9	4.9
Short-term rate (eop)	3.1	1.4	1.4
L/T bond yields (eop)	4.7	3.6	3.9
Bank loans (pr. sector, yoy)	7.0	1.8	4.9
Bank deposits (pr. sector, yoy)	12.6	5.9	5.0
Lending interest rate (pr. sector, eop)	6.7	6.0	5.9
Deposit interest rate (pr. sector, eop)	2.3	1.6	1.5

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

Marius Pacurari

### Industrial production and inflation



Source: National Institute of Statistics

## Serbia

### Real Economy

The Serbian economy performed better than expected in 2Q, with real GDP decreasing by only 6.4% yoy. The smaller reduction in GDP than other European countries was mainly a result of the structure of the local economy, which is concentrated around the production of relatively low value-added essential goods, as well as the solid agricultural season. According to our estimates, GDP will contract by 2.5% in full-year 2020. The industrial growth outlook remains highly uncertain, with a registered fall of 1.4% yoy in the first seven months of the year. Serbia's top exporter, HBIS, has stopped production at one of its two blast furnaces, while production at the Fiat Chrysler plant (the second top exporter) has stopped several times. In addition, the high base from 2H 2019, which was a consequence of the construction of the Serbian leg of the TurkStream gas pipeline, will negatively affect GDP results in 2H 2020. Inflation returned within the target tolerance band, coming in at 1.9% in August. CPI is projected to remain low and stable, moving within the lower half of the target band until end-2020 and averaging 1.7%. Such inflation movements will be supported by relatively weak aggregate demand, subdued international inflation and the global prices of primary agricultural commodities.

Marija Savić

### Financial Markets

The key policy rate has been cut three times this year, by a cumulative 1pp, falling to a historical low of 1.25%. Since June, the NBS has kept the key policy rate on hold as inflation has been inside the target band, economic activity outperformed in 2Q and the EUR/RSD remained the most stable currency pair in the region. However, in case of an escalation in the pandemic, we see the NBS delivering another 25bps cut by year-end. The dinar has remained unchanged against the euro since the beginning of the year as the central bank has not allowed any swings in the local currency. Given the comfortable level of NBS FX reserves (EUR 13.5bn gross), the NBS has enough buffers to sustain its stable dinar policy and we predict an average EUR/RSD of 117.6 in 2020.

### Banking Sector

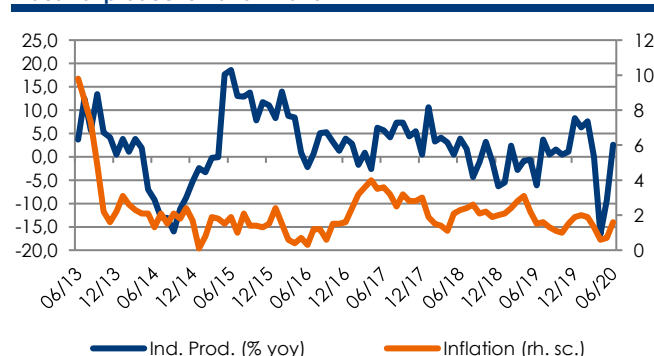
Serbia's banking sector showed strong resilience to the headwinds generated by the pandemic, supported by strong capital buffers, a stable funding base and the improvement in asset quality in recent years. Credit activity is expanding at a solid pace, supported by the NBS's accommodative stance, the introduction of a moratorium on loan repayments and the approval of loans under the guarantee scheme. Loans are projected to grow by 6.5% in 2020. On the deposit side, even though strong growth was recorded in the first half of the year, we expect a slowdown in 2H 2020 as companies could start using deposited money once the government's aid measures cease and debt moratoriums are lifted. However, private sector deposit growth is still projected at 6% in 2020.

### Forecasts

	2019	2020F	2021F
Real GDP yoy	4.2	-2.5	3.5
CPI (eop)	2.0	2.2	1.8
Euro exchange rate (value, eop)	117.6	117.7	118.0
Short-term rate (eop)	2.3	1.0	1.0
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	8.9	6.5	6.0
Bank deposits (pr. sector, yoy)	7.8	6.0	6.5
Lending interest rate (pr. sector, eop)	7.1	6.0	6.0
Deposit interest rate (pr. sector, eop)	2.0	1.2	1.2

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

### Industrial production and inflation



Source: Statistical Office of the Republic of Serbia

## Moldova

### Real Economy

The effects of the Covid-19 pandemic have reverberated through the economy of Moldova. In 1Q20 GDP grew moderately, by 0.9% yoy, compared with the 4.5% yoy growth recorded in 1Q19. The negative effects of the pandemic are expected to manifest even further, with a forecasted 4.5% contraction in GDP by the end of 2020. However, considering the positive fiscal and monetary measures implemented, the economy is expected to rebound from 2H20 after a deep fall projected in 2Q, with GDP registering -4.5% in 2020 and +3.5% in 2021. The industrial sector continues to be affected by the pandemic, though its impact has been lessening since May. In June, industrial production volumes decreased by 7.2% yoy, compared with contractions of 12.5% in May and 25.4% in April. The volume of investments is forecasted to contract by 4.8% in 2020, with a strong rebound in 2021. The CPI level, as of August 2020, was 3.5%, due to a deceleration in annual inflation for all types of products. Considering the National Bank's commitment to counteracting disinflationary pressures and bringing inflation to its target level, inflation is expected to start on an upward trajectory. Thus, a CPI level of 3.85% is forecasted by the end of 2020, with a gradual increase to the 5% target by the end of 2022.

Olga Pîsla

### Financial Markets

Between 1Q and August, the yields for 91- and 182-day Treasury bills had decreased, on average, by 0.2pp. However, for 364-day bills the yield had increased by 0.15pp, while for longer maturity government bonds yields were unchanged. With the aim of supporting the lending process, domestic aggregate demand and the national economy, during 3Q the National Bank has twice revised (in 0.25pp steps) the base rate applied to the main short-term monetary policy operations. This now sits at 2.75%, a level expected to be maintained until the end of 2020, with a gradual increase in the following years. In addition, the NBM also implemented a gradual 1pp monthly decrease of the required reserves ratio, which is expected to have fallen to 30% by the end of December (vs. the 34% actual).

### Banking Sector

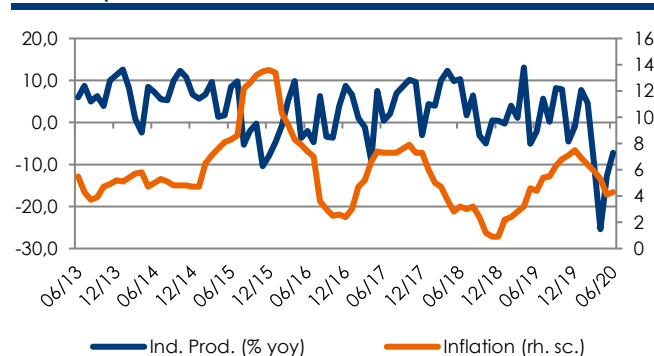
In July, both the stock of private loans and deposits showed a positive evolution, accelerating compared with previous months. Hence, the volume of total loans increased by 8.3% yoy (vs. 7.1% in June), driven by an increase in household loans (+21.4% yoy), more specifically those granted in local currency (+14.9%). Credit activity has been revived after the April-May slowdown, with the volume of new loans granted increasing by 13.8% yoy in July, which represents 61% growth compared with May. Similar dynamics were observed in deposits, the volume of which grew by 10.8% yoy in July (vs. 9.23% in June). The amount of new deposits had accelerated by 41% compared with May, though registered a 5% yoy contraction, driven by the 14.9% negative evolution in new household deposits. The yoy growth of both loans and deposits is expected to decelerate by the end of 2020, with a slight rebound in the following years.

### Forecasts

	2019	2020F	2021F
Real GDP yoy	3.6	-4.5	3.5
CPI (eop)	7.5	3.8	4.5
USD exchange rate (value, eop)	17.5	17.2	18.0
Euro exchange rate (value, eop)	19.4	20.6	21.0
Short-term rate (eop)	5.5	2.8	3.3
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	13.9	3.2	5.1
Bank deposits (pr. sector, yoy)	7.7	6.0	5.5
Lending interest rate (corporates, eop)	8.9	7.9	7.8
Deposit interest rate (households, eop)	4.5	3.5	3.8

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

### Industrial production and inflation



Source: National Bureau of Statistics of the Republic of Moldova

## Russia

### Real Economy

Russia's GDP decreased by 8% yoy in 2Q20 due to the deep drop in domestic and foreign demand. Starting from June, we have observed a recovery in economic activity (including industrial output, retail sales and exports) as restrictive measures have been lifted. Starting from August, the economic indicators are expected to improve further, taking into account the new OPEC+ decision to reduce the scale of production cuts. We expect GDP to decline by about 5% in 2020 overall. Supported by a sharp rebound in consumption and investment, the Russian economy is projected to recover by 3% in 2021 and 2.5% in 2022, with a subsequent slowdown to about 2% in the following years. CPI reached 3.4% yoy in July, accelerating to 3.6% yoy in August due to seasonal factors and the weak RUB. As the economic recovery is expected to be gradual, the risk of inflation deviating down from the CBR's target value of 4% in 2020 and 2021 remains. Annual inflation is forecast to be about 3.8% at the end this year, 3.9% in 2021 and close to 4% in the future.

Irina Lekareva

### Financial Markets

In June, the Central Bank of Russia decided to reduce the key rate by 100bps to 4.50%, and cut it further in July to 4.25%. The CBR also announced a revision of its neutral key rate range, to 5-6% from 6-7%. Based on current economic conditions, we expect another 25bps rate cut before the end of 2020. In 2021, the key rate is likely to remain at the historically low level of 4%. As the economy recovers in 2022-2023, the CBR may switch from a stimulative to a neutral monetary policy, which implies the gradual raising of the key rate to 5%. The RUB weakening observed in July and August was almost entirely due to geopolitics: the poisoning of the Russian opposition leader, the political situation in Belarus and the risk of the introduction of new sanctions against Russia, though these are all believed to be temporary issues. By the end of 2020, the RUB exchange rate is expected to be about 73 against the USD, with appreciation in the following years as a further rise in oil prices is expected.

### Banking Sector

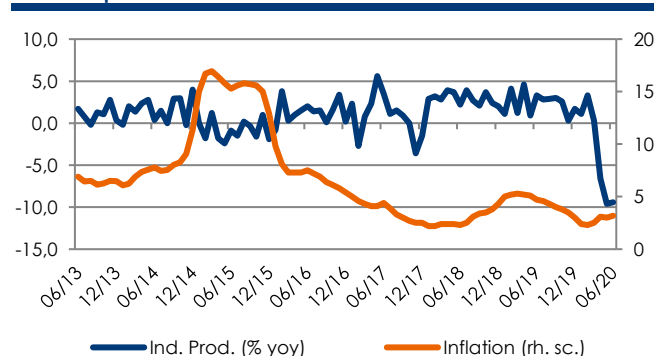
The stimulation of the economy via banks during Covid-19 has ensured strong dynamics in the Russian banking sector. In June, the volume of deposits increased by 7.9% yoy, after a 5.7% yoy rise in May, supported mainly by the corporate sector. By the end of 2020, the growth in deposits is expected to slow to 4.5 % yoy as deposit rates continue to decrease following the key rate cuts. The volume of lending in June rose by 10.8% yoy (after +10.6% in May), with a high level of corporate lending (+10.1% yoy); the household segment was driven by mortgage lending due to lower interest rates in the subsidising programme. Lending growth is likely to be around the level of 6% yoy at the end of 2020; with the further lifting of restrictions companies are returning fully to work, support measures and subsidised interest rates on loans continue to operate, and with key rate cuts market rates are also likely to become slightly lower, which will activate lending activity.

### Forecasts

	2019	2020F	2021F
Real GDP yoy	1.3	-5.0	3.0
CPI (eop)	3.0	3.8	3.9
USD exchange rate (value, eop)	62.9	73.0	69.5
Euro exchange rate (value, eop)	69.9	87.3	81.0
Short-term rate (eop)	6.6	4.4	4.4
L/T bond yields (eop)	6.4	5.9	6.1
Bank loans (pr. sector, yoy)	7.1	6.0	5.5
Bank deposits (pr. sector, yoy)	4.2	4.5	4.5
Lending interest rate (corporates, eop)	7.8	6.7	6.9
Deposit interest rate (households, eop)	4.7	3.5	3.5

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

### Industrial production and inflation



Source: Federal Service for State Statistics



## Ukraine

### Real Economy

Ukraine's post-lockdown rebound is underway, but the pace still seems fragile as the coronavirus trend is worsening across the country. The recently reported GDP data show a contraction of 6.5% yoy during 1H20, while Q2 recorded a massive drop of 11.4%, though this was slightly better than the previously estimated -14%. Monthly data has shown a gradual recovery after the outbreak peaks, which were most felt in April and May. Industrial production showed a slightly better performance in July (-4.2% yoy after -5.6% in June and a -16.2% plunge in April). Retail sales seemed to be starting to pick up, with +8.5% yoy in July, after the sharp fall of almost 15% in April. We have therefore revised upwards our previous forecast to -6% from -6.5% for 2020. August inflation data showed a modest acceleration to 2.5% yoy, from 2.4% in July, while in monthly terms prices fell by 0.2%, an improvement on the 0.6% fall in July. Due to the disinflationary effect of the pandemic, CPI remains notably below the NBU's target. The expected dynamic of energy prices, growth in minimum wages and inflationary effect from the UAH devaluation are projected, however, to bring inflation closer to target values by year-end. Meanwhile, we have revised downwards our 2020 inflation forecast to 4.8% yoy, from the 5.8% expected in June.

Artem Krasovskiy

### Financial Markets

After the top management reshuffle in July and August, though remaining strictly committed to maintaining monetary and financial stability, the NBU has declared a more flexible inflation targeting regime, which allows for a better focus on ensuring sustainable economic growth. The NBU left the key rate at 6% in September for the third consecutive monetary meeting and assumes this level is likely to remain until year-end. According to the NBU, the current key rate level is below neutral (7%), which reflects the stimulating nature of monetary policy and still leaves enough room for a further reduction of interest rates. On the back of speculative pressures, the UAH has been depreciating, with the NBU likely to support the trend by helping export-oriented sectors. The USD/UAH pair trades at a six-month low of 27.8 and is likely to cross 28.0 this year. The Finance Minister is struggling to push government bond yields down below 10%.

### Banking Sector

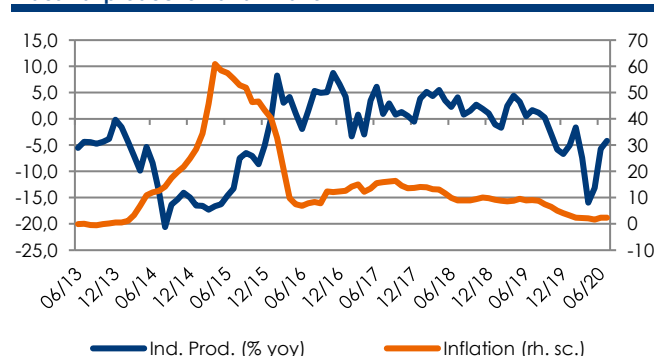
The quarantine lockdown and deterioration in consumer sentiment led to a decrease in lending activity in Q2. The corporate loans portfolio shrank by 6.3% in UAH and by 3.6% in foreign currencies, while loans to households decreased by 5.0% in UAH, the first decrease since 2017. In contrast, UAH corporate deposits increased by 9.0% qoq (+24.6% yoy) and households' UAH deposits by 10.9% qoq (+24.1% yoy). The stability of the deposit base, as well as the two key rate cuts during Q2, made it possible for banks to continue reducing interest rates. Rates of UAH corporate funds fell to 5.2% p.a. in Q2, while rates for retail UAH 12-month deposits decreased to 9.6% p.a. The potential deterioration in loan portfolio quality remains a key challenge for Ukrainian banks on the back of the uncertainty about the pace of the recovery. At the same time, the NBU had declared an increased commitment to intensifying lending activity, reducing the cost and extending the maturity of financial resources, in order to aid the development of the real sector of the economy.

### Forecasts

	2019	2020F	2021F
Real GDP yoy	3.2	-5.9	4.0
CPI (eop)	4.1	4.8	5.5
USD exchange rate (value, eop)	24.0	28.3	28.8
Euro exchange rate (value, eop)	26.2	33.8	33.5
Short-term rate (eop)	16.7	9.5	9.5
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	-8.0	-2.8	-3.0
Bank deposits (pr. sector, yoy)	9.6	7.6	6.5
Lending interest rate (pr. sector, eop)	18.6	11.7	11.5
Deposit interest rate (pr. sector, eop)	10.8	5.0	5.0

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

### Industrial production and inflation



Source: State Statistics Service of Ukraine

## Egypt

### Real Economy

Egypt's real GDP growth exceeded expectations after recording 3.5% in FY 2019/20, according to the Planning Ministry's preliminary estimates. This growth was led by the oil refining sector (+33.7% yoy during 9M FY 2019/20) and the construction sector (supported by public investments in infrastructure projects). In addition, applying only a partial lockdown contributed to mitigating the economic impact of the spread of Covid-19. We anticipate that annual real growth in FY 2020/21 will fall to 2.3% after the end of the government's stimulus packages to individuals and companies.

Average annual CPI is expected to decline to 5.4% in 2020, from 9.4% one year earlier, due to subdued demand and improved control over the prices of volatile food items. However, it will then rise again to 7.4% in 2021 due to the base year effect.

### Financial Markets

The CBE lowered key interest rates by 300bps in March 2020 but is likely to keep rates unchanged until the end of the year, despite having the highest real interest rate worldwide (6.4%). This is in line with the IMF's suggestion to pause additional monetary policy easing until the impact of the latest easing becomes clearer, and also to avoid any potential additional capital flight that may create exchange rate pressures that in turn could fuel inflation. The EGP was one of the top performing currencies in 2020, supported by USD 16.3bn in funds the Egyptian authorities secured in 2020 and the return of USD 10bn in portfolio investments against USD 20bn in capital outflows during the pandemic. The decrease in pressure on the current account in 2021, with improved remittances and a partial recovery in tourism, and the restoration of pre-crisis levels of portfolio investments, are expected to help maintain the same FX stability in 2021.

The Moody's rating agency notes that despite high exposure, Egypt's credit metrics are broadly resilient to financing shocks. Over the medium term, an improvement in debt affordability would likely lead it to upgrade the rating.

### Banking Sector

The forecasted growth for private loans was upwardly revised in 2020, supported by the decline in interest rates and CBE initiatives to avail funds to different sectors at subsidised rates. The CBE will increase its EGP 100bn initiative to support the private sector to EGP 200bn. The initiative offers loans to the industrial, agricultural and construction sectors at an 8% decreasing interest rate. On the other hand, banks still have strong funding and liquidity bases (improved by efforts to boost financial inclusion, in addition to offering high-interest depositing schemes). The sector's high exposure to government securities will support its risk profile.

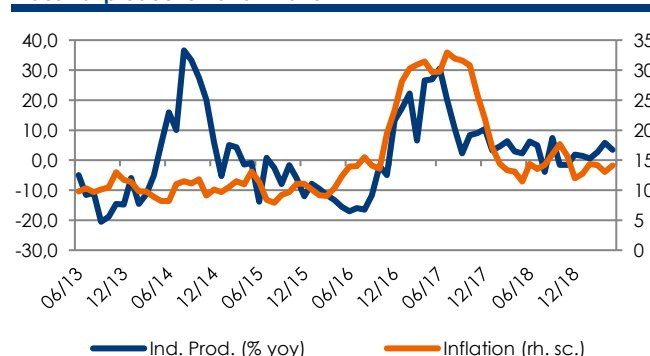
#### Forecasts

	2019	2020F	2021F
Real GDP yoy	5.6	0.1	6.2
CPI (eop)	7.1	6.0	8.4
USD exchange rate (value, eop)	16.1	15.7	15.5
Euro exchange rate (value, eop)	17.9	18.8	18.1
Short-term rate (eop)	15.4	12.8	12.0
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	13.4	12.0	9.1
Bank deposits (pr. sector, yoy)	13.6	11.0	10.0
Lending interest rate (corporates, eop)	13.8	11.2	10.6
Deposit interest rate (households, eop)	9.2	7.0	6.5

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

Samer Halim

#### Industrial production and inflation



Source: Ministry of Planning, CAPMAS

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

## The Economy

	GDP chg yoy	Ind.prod <sup>1</sup> chg.yoy			Export nom. chg yoy			Retail sales chg yoy			Inflation chg yoy			Unemployment rate		Wages chg yoy			Economic Survey <sup>2</sup>					
		2Q20	1Q20	2019	Last	mth	2Q20	Last	mth	2Q20	Last	mth	2Q20	Last	mth	2Q20	Last	mth	2Q20	Last	mth	4Q19		
<b>CEE</b>																								
Czechia	-10.9	-1.9	2.6	-5.0	Jul	-23.6	-1.5	Jul	-19.4	3.0	Jul	-3.8	3.4	Jul	3.1	3.8	Aug	3.6	1.7	Jul	-3.7	82.3	Jul	94.9
Hungary	-13.6	2.2	4.9	-8.1	Jul	-25.1	-5.6	Jul	-23.0	0.4	Jul	-4.1	3.9	Aug	2.5	4.8	Jul	4.2	15.6	Jun	10.9	85.1	Aug	102.8
Poland	-7.9	1.7	4.1	1.1	Jul	-13.7	6.0	Jun	-12.3	2.7	Jul	-11.0	2.9	Aug	3.2	6.1	Jul	6.0	n.a.	Jul	n.a.	75.6	Aug	95.3
Slovakia	-12.1	-3.7	2.4	-3.6	Jul	-27.9	0.8	Jul	-26.6	1.5	Jul	-8.3	1.4	Aug	2.0	7.7	Jul	7.1	1.6	Jun	-1.9	83.5	Aug	97.9
Slovenia	-13.0	-2.5	2.4	-4.6	Jul	-17.3	-2.9	Jul	-15.5	-4.2	Jul	-11.8	-0.7	Aug	-1.2	9.2	Jun	9.2	6.1	Jun	10.5	92.7	Aug	94.0
<b>SEE</b>																								
Albania	n.a.	-2.5	2.1	n.a.	Jul	n.a.	-11.6	Jul	-24.5	n.a.	Jul	n.a.	1.4	Jul	1.9	n.a.	Jul	n.a.	n.a.	Jul	n.a.	n.a.	n.a.	n.a.
Bosnia H.	n.a.	2.0	2.9	-9.2	Jul	-14.2	-13.0	Jul	-24.1	-12.6	Jul	-16.8	-1.3	Jul	-1.6	34.5	Jun	34.3	4.9	Jun	3.1	n.a.	n.a.	n.a.
Croatia	-15.1	0.4	2.9	-1.6	Jul	-8.5	5.6	Jun	-13.1	-6.7	Jul	-13.2	-0.3	Jul	-0.3	9.0	Jul	9.3	2.9	Jun	1.2	90.9	Aug	103.3
Romania	-10.5	2.4	4.1	-11.3	Jun	-26.8	-12.9	Jun	-22.1	4.7	Jul	-7.3	2.8	Jul	2.5	3.0	Jun	2.9	5.0	Jun	3.2	97.5	Jul	57.9
Serbia	-6.5	5.0	4.2	2.6	Jun	-7.8	-5.0	Apr	-5.0	11.5	Jun	-0.8	2.0	Jul	1.0	n.a.	Jul	n.a.	n.a.	May	7.1	n.a.	n.a.	n.a.
<b>CIS &amp; MENA</b>																								
Moldova	n.a.	n.a.	3.6	-7.2	Jun	-15.1	-6.2	Jun	-20.9	3.0	Jun	-10.9	3.5	Aug	4.6	n.a.	Jul	4.2	n.a.	Jul	n.a.	n.a.	n.a.	n.a.
Russia	-8.0	1.6	1.3	-8.0	Jul	-8.5	-29.2	Jul	-31.8	-2.6	Jul	-16.7	3.6	Aug	3.1	6.3	Jul	6.0	5.6	Jun	4.7	51.1	Aug	47.5
Ukraine	n.a.	-1.3	3.2	-4.2	Jul	-11.6	-6.4	Jun	-4.9	7.8	Jul	-4.2	2.5	Aug	2.1	n.a.	Jul	n.a.	n.a.	Jul	n.a.	n.a.	n.a.	n.a.
Egypt	-2.3	5.0	5.6	3.4	May	n.a.	-32.3	Apr	-32.3	n.a.	n.a.	n.a.	3.4	Aug	5.4	n.a.	Jul	n.a.	n.a.	Jul	n.a.	49.6	Jul	44.2
<b>m.i. E. A.</b>	-15.0	-2.7	1.3	-12.3	Jun	-20.4	-10.0	Jun	-23.3	3.0	Jun	-10.9	-0.2	Aug	0.2									

Source: Refinitiv; <sup>1</sup>Wda data for Slovakia, Slovenia; Bosnia, Croatia, Egypt; <sup>2</sup>PMI manufacturing for Russia and Egypt, ESI for remaining countries.

## Markets and Ratings

	S/T rates <sup>1</sup>	L/T rates <sup>2</sup>	Foreign exchanges <sup>3</sup>			Stock markets		CDS spread (bp)		FX res. chg (mln €) <sup>4</sup>			CA bal. (mln €) <sup>5</sup>		Rating			
			11/09	chg	11/09	3M*	1Y*	3M*	1Y*	11/09	11/06	2Q20	1Q20	2019		2Q20	1Q20	
<b>CEE</b>																		
Czechia	0.3	-0.1	1.0	0.1	26.59	-0.38	2.68	-1.1	-14.0	34.5	35.4	n.a.	224.5	188.2	-800	-100	Aa3	
Hungary	0.6	-0.3	2.4	0.3	357.44	3.7	7.58	-4.9	-13.3	55.1	71.2	n.a.	-2613	983	n.a.	n.a.	Baa3	
Poland	0.2	-0.3	1.4	0.0	4.45	-0.09	2.65	-1.5	-12.4	28.4	38.5	n.a.	-4391	12243	2842	1292	A2	
Slovakia	-0.5	-0.1	-0.2	-0.3	Euro	Euro	Euro	-1.1	2.4	47.1	48.6	n.s.	n.s.	n.s.	-1169	-859	A2	
Slovenia	-0.5	-0.1	0.0	-0.3	Euro	Euro	Euro	-2.6	-0.3	62.8	74.8	n.s.	n.s.	n.s.	n.a.	914	Baa1	
<b>SEE</b>																		
Albania	0.8	-0.2	n.a.	n.a.	124.1	0.82	2.15	n.a.	n.a.	n.a.	n.a.	n.a.	-51	-39	n.a.	-226	B1	
Bosnia H.	n.a.	n.a.	n.a.	n.a.	1.96	Board	Board	n.a.	n.a.	n.a.	n.a.	n.a.	287	-70	498	n.a.	-202	B3
Croatia	0.4	0.0	0.9	-0.5	7.53	-0.45	1.81	-2.9	-14.4	72.5	74.2	798	-2048	1122	n.a.	-1468	Ba2	
Romania	1.8	-0.2	3.7	-0.3	4.86	0.48	2.6	9.1	0.8	97.8	132.5	n.a.	1723	-2793	-3497	-1356	Baa3	
Serbia	1.3	0.0	n.a.	n.a.	117.58	0.0	0.03	3.3	-15.9	101.6	101.6	n.a.	-263	1994	n.a.	-989	Ba3	
<b>CIS &amp; MENA</b>																		
Moldova	2.8	-0.5	n.a.	n.a.	16.66	-3.14	-6.14	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-21	B3	
Russia	4.7	-0.8	6.2	0.6	75.53	10.07	15.42	-0.6	-7.3	94.4	93.5	-6459	-198	85864	n.a.	21700	Baa3	
Ukraine	10.8	-2.3	10.9	-0.7	27.95	4.76	12.09	-8.0	-20.9	559.1	475.4	3481	-471	4259	4334	2327	B3	
Egypt	13.5	1.1	14.7	0.8	15.76	-2.6	-4.02	-0.8	-20.5	415.4	520.7	-1906	-5312	2869	n.a.	-2765	B2	
<b>m.i.A.E.</b>	-0.5	-0.1	-0.5	-0.1	1.2	4.0	7.5	1.9	-9.2	4.8	8.2							

Source: Refinitiv; <sup>1</sup>The data for Egypt refers to August, for Czech Republic refers to August, for Moldova refers to December; <sup>2</sup>For Ukraine, the long-term rate refers to a government issue in dollars; <sup>3</sup>The (-) sign indicates appreciation; <sup>4</sup>USD for Russia, Egypt, Ukraine, Romania; <sup>5</sup>USD for Russia, Egypt, Ukraine. (\*) % change.

## Banking aggregates and interest rates (private sector)

	Loans			NPL/Loans			Foreign Liab.			Deposits			Loans rate <sup>1</sup> -NewB*.			DepositsRate <sup>1</sup> -NewB*.			Loans/Dep				
	chg yoy %			%			chg yoy %			chg yoy %			%			%			%				
	Last	Mth	2019	Last	mth	2019	Last	mth	2019	Last	Mth	2019	Last	mth	2019	Last	mth	2019	Last	mth	2019		
<b>CEE</b>																							
Czechia	4.9	Jul	5.2	2.4	Jul	2.5	-8.6	Jul	-0.2	10.1	Jul	6.1	1.84	Jul	3.62	C	0.55	Jul	1.52	H	72.5	Jul	75.1
Hungary	12.6	Jul	13.2	0.0	Jun	0.0	10.3	Jul	10.4	16.3	Jul	8.0	2.81	Jul	2.34	C	0.32	Jul	0.24	H	80.6	Jul	81.5
Poland	1.5	Jul	4.7	4.0	Mar	n.a.	0.6	Jun	-7.2	15.5	Jul	9.7	2.31	Jul	3.64	C	0.2	Jul	1.49	H	85.2	Jul	92.6
Slovakia	5.3	Jun	6.2	3.0	Jun	3.1	-9.1	Jun	7.9	4.0	Jun	4.8	2.13	Jun	2.06	C <sup>2</sup>	0.03	Jun	0.05	H <sup>2</sup>	103.8	Jun	102.7
Slovenia	0.7	Jul	3.7	1.9	Jun	2.2	11.2	Jul	9.7	9.7	Jul	6.3	2.19	Jul	2.23	C <sup>2</sup>	0.17	Jul	0.18	H <sup>2</sup>	68.5	Jul	73.5
<b>SEE</b>																							
Albania	6.6	Jun	6.5	8.1	Jun	8.4	-3.2	Jun	-6.7	5.8	Jun	3.8	6.67	Jun	6.34	PS	0.4	Jun	0.72	PS	54.7	Jun	54.2
Bosnia H.	0.2	Jul	6.7	6.7	Jun	7.4	-21.3	Jul	2.6	4.8	Jul	8.4	2.99	Jul	2.88	C	0.43	Jul	0.3	H	101.2	Jul	103.7
Croatia	4.4	Jul	3.9	5.5	Jun	5.5	-0.1	Jul	-5.9	9.2	Jul	4.8	5.34	Jul	5.56	PS	0.11	Jul	0.22	PS	73.8	Jul	75.9
Romania	3.9	Jul	7.0	4.4	Jun	4.1	-6.0	Jul	4.7	14.5	Jul	12.6	6.03	Jul	6.71	PS	1.86	Jul	2.25	PS	72.1	Jul	74.5
Serbia	13.5	Jul	8.9	3.7	Jun	4.1	17.0	Jul	9.1	17.3	Jul	7.8	5.56	Jul	7.06	PS	1.41	Jul	2.05	PS	96.1	Jul	97.9
<b>CIS &amp; MENA</b>																							
Moldova	8.3	Jul	13.9	8.8	Jul	8.5	-2.5	Jul	-8.1	10.8	Jul	7.7	8.55	Jul	8.93	C	3.94	Jul	4.5	H	57.7	Jul	59.1
Russia	10.8	Jun	7.1	9.6	Jun	9.3	1.5	Jun	-19.3	7.9	Jun	4.2	6.89	Jun	7.83	C	3.9	Jun	4.66	H	110.2	Jun	108.5
Ukraine	-2.5	Jun	-8.0	48.5	Jun	48.4	-10.8	Jun	-28.1	23.1	Jun	9.6	14.13	Jun	18.58	PS	6.05	Jun	10.81	PS	91.0	Jun	101.7
Egypt	18.5	May	13.4	4.5	Sep	4.2	3.7	May	-23.4	16.9	May	13.6	11.2	Jul	13.8	C	7.4	Jul	9.2	H	35.5	May	34.3
<b>m.i. E. A.</b>	3.5	Jul	3.0	n.a.	n.a.	n.a.	-0.7	Jul	2.5	8.4	Jul	4.7	1.2	Jul	1.3	C	0.2	Jul	0.2	H	76.4	Jul	79.3

Source: Central Banks, IMF, Moody's; <sup>1</sup>monthly average; <sup>2</sup>lending rate on current account overdraft; on deposits up to 1 year. <sup>3</sup>Sector C=Corporates, H=Household, PS=Private Sector.

## Country Outlook

### The Economy

		GDP (% yoy)					Inflation (% avg)					
		2017	2018	2019	2020F	2021F	2017	2018	2019	2020F	2021F	
CEE	Czech Rep.	4.4	2.8	2.6	-6.0	4.8	Czech Rep.	2.5	2.1	2.8	3.0	2.7
	Hungary	4.3	5.1	4.9	-4.4	3.9	Hungary	2.4	2.8	3.4	3.5	3.3
	Poland	4.8	5.1	4.1	-4.0	3.8	Poland	2.0	1.7	3.4	3.3	2.5
	Slovakia	3.0	4.0	2.4	-6.9	4.9	Slovakia	1.4	2.5	2.7	2.0	1.8
	Slovenia	4.8	4.1	2.4	-7.2	4.9	Slovenia	1.6	1.9	1.7	0.1	1.7
SEE	Albania	3.7	4.1	2.1	-6.5	4.2	Albania	2.0	2.0	1.4	1.6	1.6
	Bosnia Herzegovina	3.2	3.3	2.9	-5.0	4.0	Bosnia Herzegovina	0.8	1.4	0.6	-0.8	0.8
	Croatia	3.1	2.7	2.9	-9.6	5.0	Croatia	1.2	1.5	0.8	0.2	1.0
	Romania	7.0	4.4	4.1	-5.9	4.8	Romania	1.3	4.6	3.8	2.9	2.9
	Serbia	2.0	4.4	4.2	-2.5	3.5	Serbia	3.2	2.0	1.9	1.7	2.0
CIS & MENA	Moldova	4.7	4.0	3.6	-4.5	3.5	Moldova	6.6	3.1	4.9	4.6	4.2
	Russia	1.5	2.3	1.3	-5.0	3.0	Russia	3.7	2.9	4.5	3.2	3.9
	Ukraine	2.5	3.4	3.2	-5.9	4.0	Ukraine	14.5	11.0	7.9	3.1	5.2
	Egypt	5.0	5.4	5.6	0.1	6.2	Egypt	29.6	14.4	9.4	5.4	7.4

### Markets

		Exch.rate (avg Euro)					Interest rate (% avg)					
		2017	2018	2019	2020F	2021F	2017	2018	2019	2020F	2021F	
CEE	Czech Rep.	26.3	25.6	25.7	26.2	26.0	Czech Rep.	0.4	1.3	2.1	0.8	0.3
	Hungary	309.1	318.8	322.6	349.0	352.1	Hungary	0.1	0.1	0.2	0.7	0.6
	Poland	4.3	4.3	4.3	4.4	4.4	Poland	1.5	1.7	1.7	0.5	0.1
	Slovakia	-	-	-	-	-	Slovakia	-0.3	-0.3	-0.4	-0.4	-0.5
	Slovenia	-	-	-	-	-	Slovenia	-0.3	-0.3	-0.4	-0.4	-0.5
SEE	Albania	134.2	127.6	122.8	123.4	124.5	Albania	1.3	1.2	0.8	0.5	0.3
	Bosnia Herzegovina	1.96	1.96	1.96	1.96	1.96	Bosnia Herzegovina	-	-	-	-	-
	Croatia	7.5	7.4	7.4	7.5	7.5	Croatia	0.6	0.5	0.5	0.3	0.3
	Romania	4.6	4.7	4.7	4.8	4.9	Romania	1.2	2.8	3.1	2.2	1.4
	Serbia	121.4	118.3	117.9	117.6	117.9	Serbia	3.9	3.1	2.7	1.4	1.0
CIS & MENA	Moldova (USD)	18.5	16.8	17.6	17.3	18.4	Moldova	8.0	6.5	6.9	3.4	3.0
	Russia (USD)	58.3	62.7	64.7	70.8	71.0	Russia	9.4	7.7	7.8	5.3	4.4
	Ukraine (USD)	26.6	27.3	26.1	26.8	28.5	Ukraine	16.8	18.4	18.9	12.0	9.5
	Egypt (USD)	17.8	17.8	16.8	15.8	15.6	Egypt	19.3	18.8	17.1	13.0	12.4

### Banking aggregates (% change yoy)

		Loans (pr. sector)					Deposits (pr. sector)					
		2017	2018	2019	2020F	2021F	2017	2018	2019	2020F	2021F	
CEE	Czech Rep.	6.5	6.8	5.2	3.0	3.2	Czech Rep.	7.6	6.9	6.1	7.5	3.4
	Hungary	6.0	10.6	13.2	9.2	4.9	Hungary	10.4	14.3	8.0	10.0	5.3
	Poland	3.2	7.9	4.7	4.2	4.9	Poland	3.7	9.4	9.7	7.5	5.5
	Slovakia	10.0	9.1	6.2	2.5	3.3	Slovakia	5.4	7.3	4.8	2.5	3.7
	Slovenia	3.2	2.6	3.7	0.2	2.5	Slovenia	7.0	6.7	6.3	6.0	4.0
SEE	Albania	0.5	-3.8	6.5	-0.2	1.0	Albania	-1.5	-0.9	3.8	3.2	2.4
	Bosnia Herzegovina	7.3	5.5	6.7	-2.2	3.1	Bosnia Herzegovina	9.0	8.5	8.4	1.0	3.5
	Croatia	-0.1	2.3	3.9	1.9	3.0	Croatia	2.4	5.0	4.8	3.5	3.2
	Romania	2.7	7.9	7.0	1.8	4.9	Romania	3.8	9.2	12.6	5.9	5.0
	Serbia	2.1	9.9	8.9	6.5	6.0	Serbia	3.1	14.9	7.8	6.0	6.5
CIS & MENA	Moldova	-3.7	5.9	13.9	3.2	5.1	Moldova	9.2	6.0	7.7	6.0	5.5
	Russia	5.2	15.0	7.1	6.0	5.5	Russia	8.1	14.2	4.2	4.5	4.5
	Ukraine	0.9	6.3	-8.0	-2.8	-3.0	Ukraine	12.1	7.9	9.6	7.6	6.5
	Egypt	7.1	15.3	13.4	12.0	9.1	Egypt	23.8	13.8	13.6	11.0	10.0

### Banking interest rates (%)

		Lending (Corp. avg)					Deposits (HH avg)					
		2017	2018	2019	2020F	2021F	2017	2018	2019	2020F	2021F	
CEE	Czech Rep.	2.0	2.7	3.2	2.3	1.8	Czech Rep.	0.7	0.9	1.5	0.6	0.2
	Hungary	2.5	2.3	2.5	2.8	2.6	Hungary	0.3	0.2	0.2	0.5	0.5
	Poland	3.7	3.5	3.6	2.6	2.1	Poland	1.6	1.7	1.6	0.6	0.3
	Slovakia	2.0	2.2	1.9	1.9	1.9	Slovakia	0.1	0.1	0.1	0.0	0.1
	Slovenia	2.5	2.2	2.1	2.1	2.1	Slovenia	0.1	0.2	0.2	0.2	0.2
SEE	Albania	8.2	8.1	7.2	6.4	6.3	Albania	0.8	0.7	0.7	0.4	0.4
	Bosnia Herzegovina	-	-	-	-	-	Bosnia Herzegovina	-	-	-	-	-
	Croatia	7.0	6.4	5.8	5.4	4.7	Croatia	0.8	0.6	0.3	0.1	0.1
	Romania	5.7	7.0	7.3	6.3	5.9	Romania	0.7	1.7	2.2	1.9	1.5
	Serbia	8.9	8.6	8.0	6.0	6.0	Serbia	2.8	2.7	2.5	1.5	1.2
CIS & MENA	Moldova	10.2	9.1	8.8	8.4	7.6	Moldova	6.2	4.5	4.3	4.0	3.6
	Russia	10.6	8.9	8.7	7.2	6.9	Russia	5.9	5.4	5.4	3.9	3.5
	Ukraine	16.4	19.0	19.8	14.0	11.6	Ukraine	9.1	12.0	12.9	6.3	5.0
	Egypt	18.2	18.3	16.1	11.8	10.8	Egypt	12.1	12.3	11.0	7.6	6.6

Source: Intesa Sanpaolo Research Department forecasts

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### Intesa Sanpaolo Research Department – Head of Department Gregorio De Felice

#### Coordination International Research Network

e-mail address

#### Gianluca Salsecci (Head)

gianluca.salsecci@intesaspaolo.com

#### ISP - Research Department (Milan)

Silvia Guizzo (Macroeconomics: Emerging Asia)

silvia.guizzo@intesaspaolo.com

Antonio Pesce (Macroeconomics: Countries with ISP Subsidiaries)

antonio.pesce@intesaspaolo.com

Wilma Vergi (Trade and Industry)

wilma.vergi@intesaspaolo.com

Davidia Zucchelli (Banks and Financial Markets)

davidia.zucchelli@intesaspaolo.com

#### International Subsidiaries' Research Departments:

##### VUB (Slovakia, Czech Republic and Poland)

Zdenko Štefanides (Head)

zstefanides@vub.sk

Michal Lehuta

mlehuta1@vub.sk

Jacob Obst

jobst@vub.sk

##### CIB (Hungary)

Mariann Trippon (Head)

trippon.mariann@cib.hu

##### PBZ (Croatia, Bosnia I Hercegovina and Slovenia)

Ivana Jovic (Head)

ivana.jovic@pbz.hr

Ana Lokin

ana.lokin@pbz.hr

Ivan Odrčić

ivan.odrcic@pbz.hr

##### Banca Intesa (Serbia)

Marija Savic (Head)

marija.v.savic@bancaintesa.rs

Tijana Matijasevic

tijana.matijasevic@bancaintesa.rs

Milos Drezga

milos.drezga@bancaintesa.rs

Aleksandra Popov

aleksandra.popov@bancaintesa.rs

##### Alexbank (Egypt)

Samer Halim (Head)

samer.halim@alexbank.com

Mirna Mhosen

mirna.mhosen@alexbank.com

Mariam Massoud

mariam.massoud@alexbank.com

Nahla Abdel Azim

nahla.azim@alexbank.com

#### International Subsidiaries' Research Contacts:

##### Banca Intesa (Russia)

Irina Lekareva

irina.lekareva@bancaintesa.ru

##### Intesa Sanpaolo Bank (Albania)

Kledi Gjordeni

kledi.gjordeni@intesaspaolobank.al

##### Intesa Sanpaolo Bank (Romania)

Marius Pacurari (Head)

marius.pacurari@intesaspaolo.ro

Eduard Nazarenko

eduard.nazarenko@pravex.ua

##### Eximbank (Moldova)

Natalia Mihalas

natalia.mihalas@eximbank.com

Olga Pisla

olga.pisla@eximbank.com