INTESA SANPAOLO

International Research

Economic and Banking Outlook

December 2020

Countries with ISP subsidiaries

Quarterly Note

Direzione Studi e Ricerche

International Research Network

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Viewpoint

The onset of the second wave of COVID-19 infections weigh on growth in 4Q20 and will continue to do so in 1Q21, but the prospect of a vaccine distribution in 2021 and the extraordinary fiscal and monetary policies put in place so far point, overall, to a gradual recovery thereafter.

The GDP growth forecasts for 2020-2021 in CEE/SEE/CIS countries have been slightly revised with respect to our September *Outlook* to incorporate the better-than-expected rebound of the economies observed in 3Q20 and, at the same time, due to the dramatic onset of the 2nd wave of COVID-19, a worse-than-previously-expected trend in 4Q20 and 1Q21. Though the new restrictive measures adopted to keep the contagion under control are less severe than those in Q2 (with no restrictions overall for the manufacturing and construction sectors now), they will nevertheless significantly affect the social distance-sensitive sectors among services.

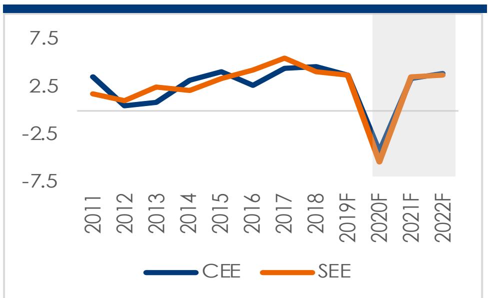
The final outcome of the forecasts is a GDP growth rate which has been revised upwards from -5.1% to -4.6% for 2020 but downwards from 4.3% to 3.5% for 2021 in the CEE/SEE area and upwards from -5.0% to -4.4% in 2020 and downwards from +3.1% to 2.7% for 2021 in the CIS region, with a cumulative negative effect in 2020-2021 of c. 0.2-0.3pp in both cases. Looking forward, growth is forecast to keep recovering in 2022 in all the regions, benefitting from the gradual abating of the health crisis following the expected vaccine distribution in 2021. In the CEE/SEE areas, it is also expected to benefit from the implementation of the "Next Generation EU" funds which add €750bn of resources to the €1,074bn envisaged by the long-term (2021-2027) EU budget.

Due to low inflationary pressures and accommodative monetary stances still foreseen to prevail at international and domestic levels, money market rates and long-term yields are forecast to remain at historical lows in all the regions in 2021-2022, with likely further cuts to policy rates in Egypt in 2021 and reversal though in Moldova. In the forex markets, currencies are expected to remain quite stable vs the euro in the CEE/SEE area and to slightly appreciate vs the USD in Russia.

On the banking side, the new 2020 forecasts incorporate the strong positive impact of the emergency measures adopted during the year by governments and central banks to support households and corporate balance sheets, to ensure the flow of credit to the economy and to support favourable financing conditions in the markets. The latest available monthly data show higher-than-previously-expected growth rates for both deposits and loans, with striking increases seen for both deposits/GDP and loans/GDP ratios. Part of these increases is thought to be temporary, due on the loans side to the gradual (to avoid "cliff effects") removal of moratoriums and to the negative impact of rising NPLs and write-offs and, on the deposits side, to the fading out of COVID-related precautionary motives on savings and business uncertainty on investments.

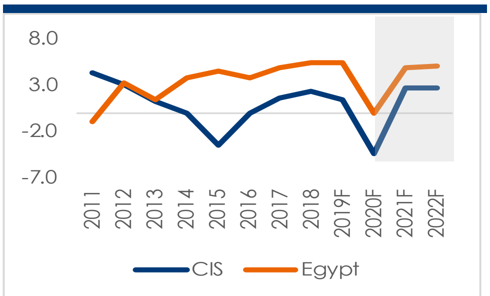
In this context, our forecasts for deposit growth in the CEE/SEE regions have been revised upwards for 2020 from 7.4% in our September *Outlook* to 11%, but slightly downwards for 2021 from 4.9% to 3.3% (with a positive cumulative effect in the two years). In parallel, the forecasts for lending growth have also been revised upwards for 2020 from 3.8% to 4.8% and downwards for 2021 from 4.4% to 4.0%. The same rationale has been applied to the CIS area and to Egypt, leading to upward revisions for 2020 and downward revisions for 2021 of both lending and deposit growth.

GDP % yoy CEE/SEE (2021F-2022F)*



Sources: ISP Research Department forecasts; note * weighted average

GDP % yoy CIS/Egypt (2021F-2022F)*



Sources: ISP Research Department forecasts; note * weighted average

Based on information available to 18.12.2020

See the final page for important information

ALBANIA INTESA SANPAOLO BANK Albania
ROMANIA INTESA SANPAOLO BANK Romania
SLOVAKIA AND CZECH REPUBLIC VÚB BANKA
BOSNIA AND HERZEGOVINA INTESA SANPAOLO BANKA Bosna i Hercegovina
RUSSIAN FEDERATION BANCA INTESA
SLOVENIA INTESA SANPAOLO BANK
CROATIA PRIVREDNA BANKA ZAGREB
SERBIA BANCA INTESA Beograd
HUNGARY CIB BANK
EGYPT ALEXBANK | بنك الإسكندرية
UKRAINE ПРАВЕКС БАНК
MOLDOVA EXIMBANK

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

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

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

Cross country analysis

Recent developments

Gianluca Salsecci, Antonio Pesce and Davidia Zucchelli

After the sharp decline in **GDP** in the first half of 2020 — by -4.7% yoy and -4.0% yoy in **CEE and SEE areas**, respectively (weighted averages) — with the low recorded in Q2 (-10.1% and -10.3%, respectively), real GDP growth partially recovered in Q3, to -2.9% yoy in CEE and -5.8% yoy in SEE. The GDP rebound was above previous expectations but was still well below the levels recorded before the pandemic. The economic impact of the pandemic has been heterogeneous among economic **sectors**. Trade, transport and accommodation services (-19% yoy in Q2, on average) have been affected by the restrictions on social distancing and mobility more than other services (-2.3%) and industrial sectors (-12% yoy in Q2). Concerning Q3, the last two sectors showed positive trends (both c.2.5%y yoy) while the dynamics for the first ones remained negative (-3.1%).

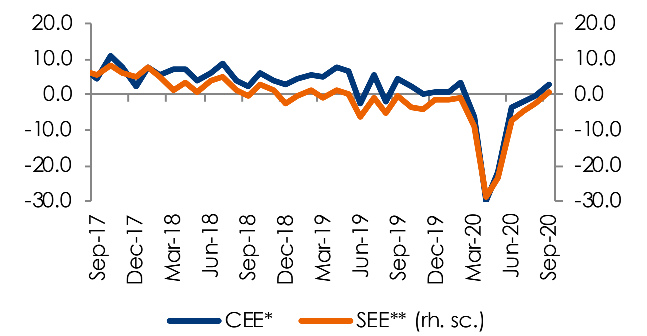
Partial recovery of GDP in Q3, but the business cycle indicators suggest an ongoing deterioration in economic activity in Q4

The **second wave of the pandemic**, and the related intensification of containment measures starting from mid-October, is now expected to lead to a new decline in economic activity in Q4, albeit to a lesser extent than that observed in Q2, due to less restrictive measures now than in that quarter. In October, industrial production increased, on average, to 1.0% yoy among CEE countries and 0.3% yoy in the SEE region. In the same month, the trend of retail sales deteriorated among CEE countries, to -2.9%, on average (from -0.6% in September), but remained around 0.3%, on average, in the SEE area. Consumers continue to be cautious, although **fiscal policy measures**, namely social transfers and subsidiaries, are supporting households by sustaining disposable income and containing unemployment increases. A decline in economic activity in Q4 is anticipated by forward looking indicators, such as the ESI, which deteriorated in all CEE and SEE countries in November.

Softening of inflation in CEE and SEE countries

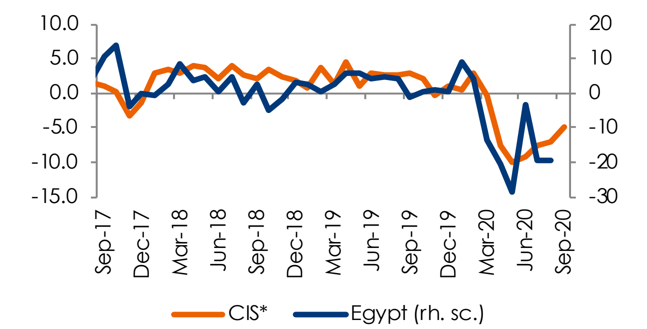
In recent months, **inflation** rates have softened in CEE countries, moving closer to the target in Czech Republic and Poland, and now moving slightly below it in Hungary. In SEE countries, inflation rates are also declining (into negative territory in Bosnia and Croatia). In this context, **monetary policy** in the CEE and SEE regions has remained (and is expected to remain) deeply accommodative. At its December meeting, the Serbian central bank cut the policy rate further, to 1.0%. **Long-term yields** decreased slightly, in both the CEE and the SEE regions, with some tightening, however, of the spread with respect to the EA benchmark. Across both regions in the last three months, local **currencies** remained roughly stable against the euro.

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

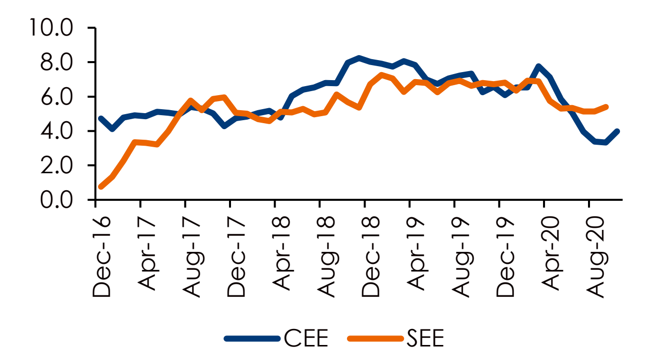
A partial recovery of GDP in Q3 seen in CIS countries and Egypt, but there are signs of weakening of the economic path in Q4

In the **CIS region**, in **Russia**, real GDP fell by 3.6% yoy in November, following an 8.0% yoy decline in Q2. The most recent economic indicators point to a likely deterioration in economic activity in Q4, due to the second wave of COVID-19 infections. In 2020, GDP is now expected to contract by 4.4%. The inflation rose to 4.4% in November, after having decelerated significantly during the year. It is nevertheless still forecast around 3.3% in 2020 (on year average). In December, the CBR kept the policy rate unchanged at 4.25%, but left the door open regarding a future key rate decrease. In **Ukraine**, GDP rebounded in Q3 (8.5% qoq, 3.5% yoy) and it is now expected to contract by -5.2% for the whole year. In October, inflation accelerated to 3.8% yoy, in particular due to the energy price increase, but still remained well below target. At its December meeting, the NBU kept the key rate unchanged at 6%. In **Moldova**, GDP drop by 14% yoy in 2Q20. GDP data have not been released for Q3 yet, but the dynamic of industrial production (-6.3% in Q3) suggests that the performance continued to be very weak. In November, inflation decreased to 0.9%, well below the target, and the CB cut the policy rate by 10bps, to 2.65%. In **Egypt**, real GDP contracted only slightly, by -0.5% yoy, in 3Q20 (vs -17% yoy in 2Q20) as agriculture and construction showed some resilience. For the whole of calendar year 2020, GDP growth is expected to be 0.1%. Headline inflation increased to 4.5% in October (from 3.7% in September), well below the central bank's lower target range set for year-end (9%+/-3%).

Banking aggregates jumped in October

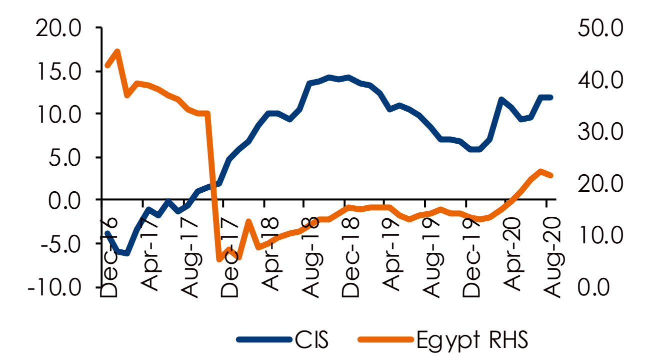
As of October, **banking aggregates** recorded a strong acceleration, supported by the extraordinary fiscal and monetary measures adopted by central authorities. The outstanding amount of **loans to the private sector** accelerated in **CEE countries** (the weighted average rose to 4% as of October from 3.3% in September, and decreased only slightly in **SEE countries**, to c.5% from 5.4% in September). After the weaker performances recorded in the previous months, **loans to businesses** returned to positive territory in CEE countries in October (to 0.62% yoy from -0.25% yoy in September) and marginally accelerated in SEE countries (from 4.2% to 4.4% yoy). Loans to households also accelerated during the same period in CEE countries (to 5.8% yoy from 5.4%, particularly driven by the performance in Poland) while slightly decelerating in the SEE countries (to 6% yoy from 6.5%). Among **CIS countries**, performances were mixed. Loans to the private sector increased in Russia, by 12.8% yoy, in August, for both businesses (+12.6% yoy) and households (to 13.3% yoy). Loans stock fell in October in Ukraine (down 4.6% yoy), mainly due to write-offs. Government support to borrowers and a softening of prudential regulations for banks (in line with EBA guidelines) allowed NPLs to decrease slightly in many countries as of September. Nevertheless, central banks highlighted a strong increase in provisions in Q2 and Q3, with significant effects on profitability. As of October, **deposits** continued to increase at a brisk pace (+13.8% yoy in CEE countries and +14.8% yoy in SEE countries). In **Egypt**, where the pandemic appears to be relatively less pronounced so far, banking aggregates also remained dynamic as of August (loans up 21.5% and deposits +19.4%) in nominal terms. In all the regions, banks are still showing solid **liquidity** and **capital** positions.

Lending growth (% yoy chg, weighted averages)



Source: ISP Research Department elaborations on central banks' data

Lending growth (% yoy chg, weighted averages)



Source: ISP Research Department elaborations on central banks' data

The international outlook

Q2 GDP contracted at unprecedented pace but, even though with a high degree of uncertainty, monthly data are signalling an ongoing (partial) recovery

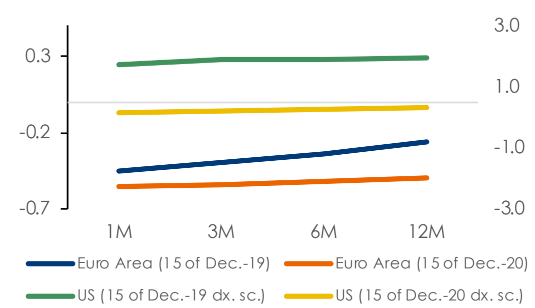
The **2021-2022 forecasting period is still characterised by significant uncertainty**, as evidenced by the huge dispersion of macroeconomic forecasts released by major research centres worldwide. On the assumption that further virus outbreaks remain contained, the prospect of a vaccine becoming widely available across 2022 actually materialises, and bold monetary and fiscal measures continue to support economies during the transition to the post-pandemic scenario, a gradual, even if uneven, recovery is expected to take place in the **global economy** [5.2% in 2021 and 4.2% in 2022; data from the IMF's October *WEO*).

In **the US,** GDP is forecast to grow by 4.2% in 2021 and 2.7% in 2022. Inflation is forecast to move close to the 2.0% target, justifying maintenance at the same time of an accommodative monetary policy stance to support the recovery. The Federal funds rate is expected to remain at the historical low level of 0.25% in 2021 and 2022.

In the Euro area, GDP is forecast to grow by 4.1% in 2021 and 3.7% in 2022, after the -7.3% estimated in 2020. In both years, inflation is expected to remain quite low, significantly below the ECB target, supporting deep and prolonged monetary accommodation. In this context, at its December meeting, the ECB announced a bold package of new measures aimed at maintaining favourable liquidity conditions. These included the expansion of its Pandemic Emergency Purchase Programme (PEPP) by another €500bn (bringing it to a €1,850bn total), along with extension of the horizon for net purchases to at least the end of March 2022 and reinvestment of principal payments until at least the end of 2023; the implementation of four additional pandemic longer-term emergency refinancing operations in 2021; a prolonged duration of collateral easing measures; and extension of temporary swap and repo lines with non-euro area central banks until March 2022. From the fiscal policy side, the "Next Generation EU Fund" will complement the monetary stimulus with €750bn fiscal package (of which €390 made available as grants and €360 as loans) funded through bonds issued by the EU in the capital markets, as the European Commission has been empowered by the EU Treaty to borrow from the international capital markets on behalf of the EU. The "Next Generation EU Fund" will add to the funds of the 2021-2027 Multiannual Financial Framework (MFF) of the EU, amounting to €1074.3bn.

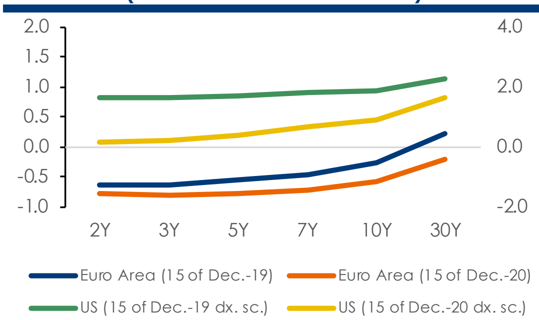
Among **emerging countries,** growth is forecast by the IMF to rebound by 6.0% in 2021 and 5.1% in 2022. Prospects for China are much brighter, for which we project growth of about 7.8% in 2021 and 5.7% in 2022. As in developed countries, most emerging market central banks' responses combined interest rate cuts, new lending facilities, and, for the first time in several cases, asset purchases as reported in the IMF GFSR October 2020.

Benchmark monetary rates (US and EA rates)



Source: ISP elaboration on Refinitiv data

Yield curves (US Bonds and German Bunds)



Source: ISP elaboration on Refinitiv data

The economic outlook

Growth and inflation

Second wave of COVID-19 hit GDP in Q420 with expected spreading effects in 1Q21 too, before a more substantial recovery takes place…

… but uncertainties around forecasts remain very high

On the basis of the GDP dynamic seen in Q3 and considering the most recent high frequency indicators, we have revised upward our 2020 GDP growth forecast. Due to the second wave of COVID-19 infections after the summer and the related intensification of containment measures starting from mid-October (though these have been less severe overall than in Q2), we have only modestly revised 2020 GDP growth, to -4.3% from -4.8% in **CEE** and to -5.3% from -5.9% in **SEE**.

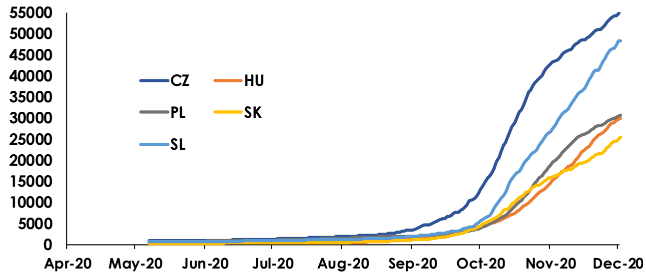
Due to the spillover impact in 1Q21 of the second wave of infections, in addition to an unfavourable base effect, we have revised downwards, at the same time, our **2021 GDP growth forecast** to 3.4% from 4.1% in CEE and to 3.6% from 4.6% in SEE. For the year 2022, we now expect GDP to accelerate to 3.9% in CEE and 3.7% in SEE, partly thanks to the extraordinary fiscal stimulus from the EU. This comes through the "Next Generation EU" package (with more than €75bn funds assigned to the whole CEE/SEE region as grants and more than € 60bn which could be available through loans), in addition to the funds which are drawable from the EU 2021-2027 multi-year budget. Needless to say, a high degree of uncertainty still surrounds the evolution of the pandemic (even if now mitigated by the expected distribution of the vaccine by approximately mid-2021 in most countries) and the risks for economic growth remain tilted to the downside.

Inflation is just on a slightly increasing path in some countries in 2021 but remains at historical lows overall

Inflation is expected to move on a slightly increasing path in the SEE region, reaching (on a regional average basis) 2.0% and 2.2%, respectively, at the end of 2021 and 2022 from 1.5% forecast in 2020, and to be roughly stable in the CEE area (at 2.6% and 2.4%, respectively) as the bold monetary and credit measures adopted by authorities since March and the gradual economic recovery are expected to generate positive pressures on consumer prices. Moreover, the partial rise in oil prices, expected to be $49.8/bbl in 2021 and $55 in 2022, should sustain the price recovery.

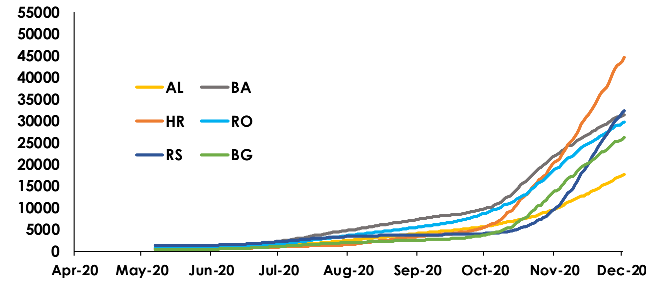
Outside the CEE/SEE regions, following the data released in Q3 being above expectations, we have also raised our 2020 GDP growth forecasts for the **CIS area**, to -4.4% from -5.0% forecast in September. As in the case of CEE/SEE countries, due to the spillover impact in 1Q21 of the second wave of COVID-19 and to a base effect, we have, however, revised downwards our 2021 GDP growth forecast to 2.7% (from 3.1% in September), but raised the number for 2022 to 2.7% (from previous 2.6%). In the MENA region, given the domestic business cycle indicators, we have left unchanged our forecast for **Egypt**'s GDP growth for calendar year 2020 at 0.1%, but slightly lowered it for the forecast period 2021 and 2022, to 4.9% and 5.1%, respectively (from 6.2% and 5.5%).

(COVID-19 Number Cumulative Cases per Mln Inh.) – CEE area



Source: WHO

(COVID-19 Number Cumulative Cases per Mln Inh.) – SEE area



Source: WHO

Monetary policy and financial markets

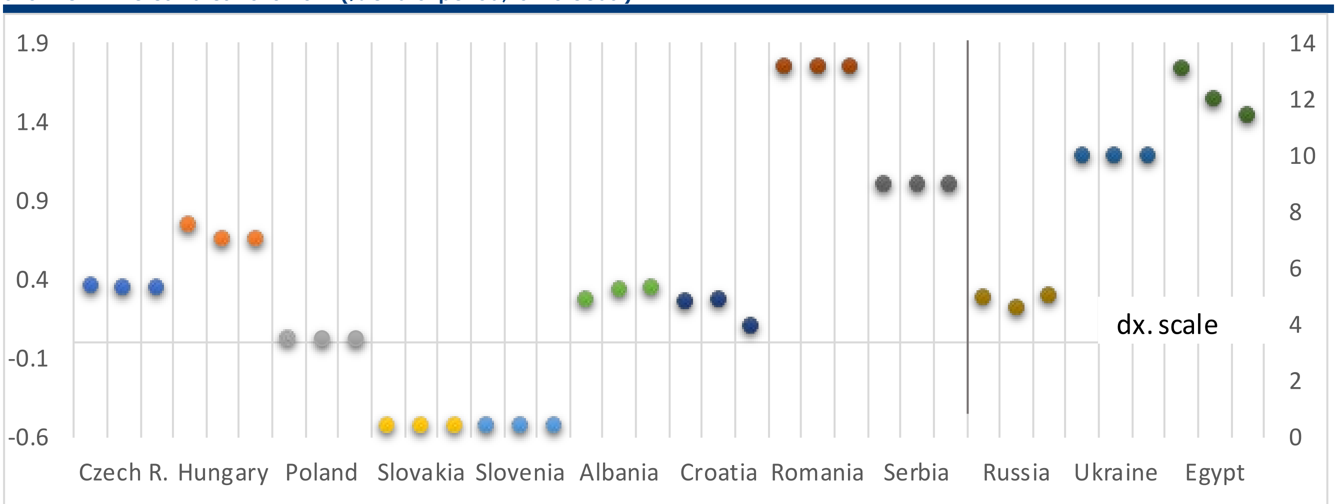
Monetary policies will remain strongly accommodative in all regions

Low (and still diminishing) inflationary pressures domestically and prevailing monetary stances by major central banks at the international level continue to feed strongly accommodative policies overall for **CEE/SEE** in 2021-2022, with prolonged liquidity support measures by local central banks and likely further cuts of policy rates in some cases where room is still envisaged to do so (as in the case of Romania). In this context, **money market rates** are forecast to remain at historical lows in 2021-2022 in the whole region, basically in line with our September forecasts. In **CIS countries**, for 2021, central banks are expected to confirm expansionary stances in Russia and Ukraine, with Russia likely increasing policy rates again from 2022 after a final cut of 25 bp still foreseen in 2021. In Moldova, a reversal of policy rates is already foreseen, however, starting in 2021, after the latest cut in November 2020. In **Egypt**, further cuts of the policy rate are instead still forecast over the2021-2022 forecasting period.

Despite a slight tightening of spreads with respect to Bund yields, the profile of **long-term yield** has been revised slightly downwards along the forecast horizon with respect to our September scenario while nevertheless maintaining a rising, though moderate, path over time. The revision follows the 0.1-0.3pp yield decrease recorded in the last three months, driven by the exceptional liquidity measures adopted overall. The persisting low level of long-term yields is strongly supported by the historically favourable liquidity conditions ensured by both major international and local central Banks (with QE measures adopted in several countries, such as Poland, Hungary and Romania in addition to Slovakia and Slovenia as part of the Euro Area).

In the **forex markets**, local currencies are expected to remain quite stable in the CEE/SEE regions with respect to the euro through the end of 2022. Croatia is expected to join the Euro during this period at the current central parity within the ERMII of 7.53. Outside the region, the ruble is expected to re-appreciate against the USD, after the sharp depreciation (c.15%) seen in 2020, improving to below 70 in the forecasting period, as the Russian economy strengthens, and oil prices are expected to recover. Funding needs are, in contrast, expected to weigh on the currencies of Moldova and Ukraine, fuelling depreciating pressures in the M/L term. In Egypt, the exchange rate is still expected to remain quite stable against the USD in 2021 and for most of 2022. However, as inflation is expected to be higher than that of its major trading partners, the real effective exchange rate is likely to appreciate, fuelling pressures on the nominal exchange rate for a correction in the medium term.

Short-term interest rates 2020-2022 (% end of period, ISP forecast)



Source: ISP Research Department forecasts

Banking aggregates and interest rates

Forecasts for bank loans and deposits have been revised with respect to our September *Outlook* because of the recent stronger-than-expected acceleration, driven by extraordinary liquidity and credit measures adopted by central authorities. Furthermore, the asset quality revision (following the current deferral of NPLs) and the gradual withdrawal of supportive measures are expected to weigh on banking loans, the dynamic of which will also be slowed down by the ample liquidity now available from deposit bank accounts.

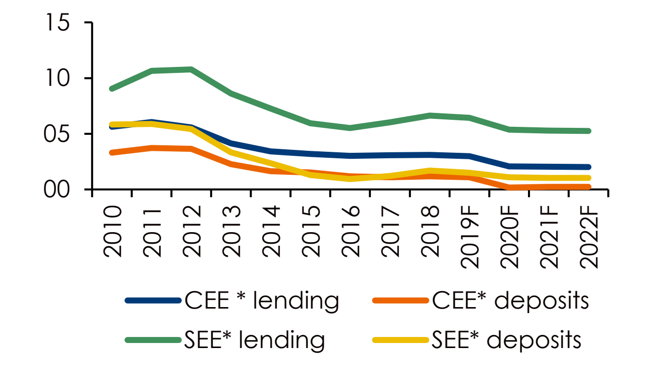
Growth in banking aggregates to slow down in 2021 after the 2020 upsurge

Loans and especially deposits are seen to close 2020 well over our September forecasts, with Poland, Slovenia and Bosnia the only exceptions. The performance is particularly strong in the **SEE countries,** where loans are foreseen to increase by 4.9% in 2020 (vs the +2.1% forecast in September), with Romania and Serbia the best performers, posting 4.5% and 11.3% rises, respectively. A strong acceleration is occurring in **CIS countries** as well, where loans are forecast to rise in 2020 by 12.4% (vs +5.3% expected in September). In the **CEE countries**, average growth is forecast to strengthen to 4.7% (7.4% excluding Poland). A deceleration of both loans and deposits is expected to follow in 2021, when supportive measures should begin to wind down despite economies starting to bounce back. Part of the excess accumulation of deposits with respect to the pre-pandemic scenario (quite strong in Hungary and Romania) is expected to start being partially re-absorbed in 2021, due to reimbursements of frozen payments in 2020, financing of postponed investments and consumption, and fading precautionary motives in the face of a receding of the pandemic shock. The gradual withdrawal of supportive measures is also expected to uncover a deterioration in underlying asset quality, with high NPLs and write-offs have been artificially kept low. A gradual (but uneven among countries) recovery is then expected from 2022.

In this context, lending growth is forecast to decelerate from 4.7% in the **CEE countries** and 4.9% in the **SEE countries** in 2020 to 4% in both cases in 2021. The slowdown is expected to be stronger in Hungary (from 13.6% to 5.6% in 2021) and Serbia (from 11.3% to 7.2% in 2021). In 2022, loan growth is expected to be weaker in the SEE countries, where stocks will be negatively affected by the emergence of higher NPLs. In **CIS countries**, in 2020, lending is seen to rise by 12.4% (+13.9% in Russia, +9.8% in Moldova), but to remain negative in Ukraine, due to planned write-offs.

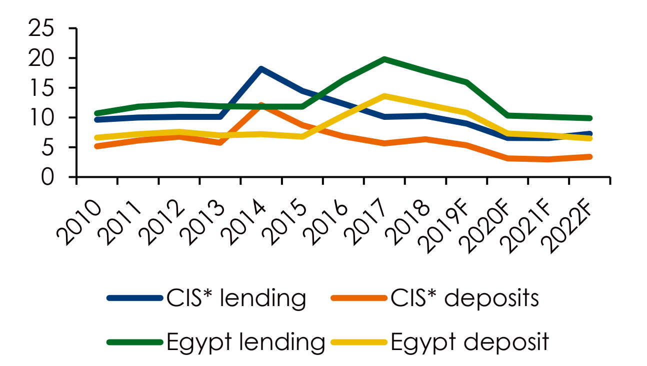
Deposits are forecast to end 2020 with an extraordinary increase in the stock in all the countries, rising by 11%, 12% and 11.5%, respectively, in CEE, SEE and CIS countries, due to precautionary motives, repressed consumption and uncertain environment for investments and despite falls in remittances. A gradual correction of the deposit/GDP ratio is now expected to take place in the following years. In Croatia, an exceptional rebound is foreseen in 2022, before the euro adoption, as took place in other countries in similar circumstances (see for ex. Baltics countries), when people deposited money in local currency previously set aside in informal tools. **Interest rates** are forecast to decrease slightly overall where easing monetary conditions are still taking place.

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



Note: *weighted average; Source: ISP Research Department forecasts.

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



Note: *weighted average; Source: ISP Research Department forecasts.

Country-Specific Analysis

Czech Republic

Real Economy

Zdenko Štefanides

The cyclical recovery that started over the summer has ceased in the autumn. Czech Republic has briefly become the world's hardest hit country regarding coronavirus infections, prompting the government to institute a new lockdown in mid-October. The result will be another decline in GDP, albeit less steep than during the spring, thanks to milder restrictions for industry. As the pandemic shows no signs of abating and vaccination of the broad population is still months away, this will dampen economic activity in 2021, resulting in only a partial recovery in output lost over 2020. A more vigorous rebound in GDP is expected in late 2021 and 2022 on the back of a tax-fuelled consumption recovery and increased investment spending funded by EU funds.

Despite an economic contraction, the Czech labour market remains relatively strong, featuring an EU-low unemployment rate. While the jobless rate may temporarily increase in the months ahead due to the delayed impact of the crisis, inflationary pressures emanating from the tight labour market are likely to keep inflation hot. This holds for both consumer prices, which are likely to continue to grow at close to 3% in 2021, and housing prices, which are continuing to grow at around 8% yoy, with few signs of moderation.

Financial Markets

The Czech National Bank (CNB) has been on hold since early May and we expect official rates to remain stable in the year ahead. Nonetheless, there are voices within the CNB board calling for tighter policy to put the lid on inflationary pressures. In fact, the most recent CNB Inflation report points to three rate hikes in 2021 which would bring the two-week repo rate, currently at 0.25%, to 1.00%. We continue to believe that the CNB will opt for a cautious approach and hold off on any rate increases until the economy returns to pre-crisis levels, which is not forecast to occur before late 2022.

Banking Sector

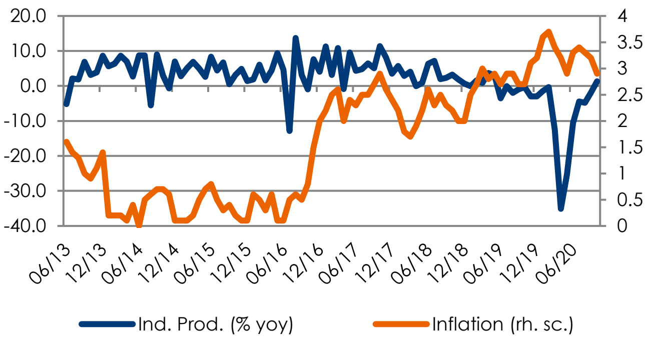
The mortgage boom showed no signs of moderating through the autumn, helped by strong demand for properties and fuelled by low interest rates and looser credit conditions on the part of the CNB (relaxed debt/income and debt service/income limits, lower countercyclical capital buffers). We nonetheless expect to see some moderation next year on delayed impacts of the pandemic on household financial positions (eg, rise of NPLs as loan moratorium expires). On the deposit side, households appear to be hoarding savings. Some loosening is expected next year as saving behaviour returns to closer to normal and deposit dynamics are thus likely to change. The magnitude and timing of this change will, however, be subject to uncertainty regarding the trajectory of the pandemic.

Forecasts

	2019	2020F	2021F	2022F
Real GDP yoy	2.6	-6.7	3.3	3.5
CPI (eop)	3.2	2.9	2.5	2.0
Euro exch. rate (value, eop)	25.5	26.2	25.8	25.0
Short-term rate (eop)	2.2	0.4	0.3	0.3
L/T bond yields (eop)	1.6	1.3	1.3	1.3
Bank loans (pr. sector, yoy)	5.2	4.9	2.4	3.8
Bank deposits (pr. sector, yoy)	6.1	11.5	1.7	3.6
Lending int. rate (corp., eop)	3.6	1.9	1.8	1.7
Deposit int. rate (hh, eop)	1.5	0.3	0.3	0.3

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

Industrial production and inflation



Source: Czech Statistical Office

Hungary

Real Economy

Mariann Trippon

The economy posted a strong rebound in Q3 (+11.3% qoq, -4.6% yoy) which was driven by services, although the industrial sector managed to work off a big part of Q2 losses and has proved to be quite resilient recently. The second COVID wave will take its toll on Q4 activity. The impact, however, is likely to be less severe compared to Q2, thanks to the more selective and targeted nature of the containment measures. We revised down our 2020 GDP projection to incorporate the impact of the second wave (-5.9%) but have left our 2021 forecast unchanged (+3.9%). The pandemic will weigh on economic activity in 1Q-2Q21. A sustained recovery is only likely to materialise once vaccinations have reached a level that allows for restriction measures to be lifted permanently. The economy is expected to expand by 4% in 2022 supported by the increased inflow of EU funds. Inflation showed a very significant drop from the summer highs: headline CPI fell below 3% in November. Despite the intra-year volatility, CPI may gradually move towards the 3% threshold from 2H21. We expect inflation to stabilise around target in 2021-2022.

Financial Markets

The NBH's policy rate was left unchanged during the autumn (0.6%), but the 1W depo rate was raised to 0.75% to support the depreciating HUF. The NBH reacted to the deteriorating growth outlook by scaling up the QE programme and raising the amount available via the corporate lending scheme. Monetary stimulus will mainly be provided via the QE programme and lending facilities in 2021. The flexible use of QE will keep long yields in check despite the rising budget deficit. The policy rate should remain flat during the next two years, in line with the ECB cycle. But if inflation outcomes are positive and the FX rate remains stable, the NBH may close the gap between the policy rate and the 1W depo rate, triggering a downward shift of MM rates as well. Higher domestic short rates, supportive international risk sentiment, and the compromise over the EU budget lent support to the Hungarian currency, with the EUR/HUF moving away from the highs seen in September. For the next few years, we pencil in some nominal appreciation, but the aim of the NBH looks to be to keep the HUF relatively weak.

Banking Sector

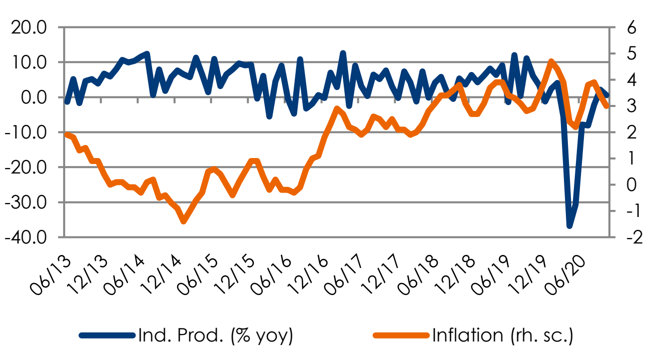
Despite the recessionary environment, the banking sector's capital, liquidity and funding positions remain strong. To offset the negative impacts of the crisis and to support lending, the CB introduced different macroprudential, regulatory, lending and monetary policy measures. The extended toolkit is able to effectively influence monetary conditions in a targeted manner across the curve, to secure the smooth functioning of the financial system, and support lending to the private sector. Thanks to the different lending schemes, consumer loan volumes will post double-digit growth in 2020, before slowing to ~5% in 2021-2022, a sustainable level in the long run, we believe.

Forecasts

	2019	2020F	2021F	2022F
Real GDP yoy	4.6	-5.9	3.9	4.0
CPI (eop)	4.0	2.6	3.2	3.0
Euro exch. rate (value, eop)	297.6	360.0	355.0	350.0
Short-term rate (eop)	0.2	0.8	0.7	0.7
L/T bond yields (eop)	1.9	2.4	2.4	2.6
Bank loans (pr. sector, yoy)	13.2	13.6	5.6	4.2
Bank deposits (pr. sector, yoy)	8.0	15.4	3.8	4.1
Lending int. rate (corp., eop)	2.3	2.6	2.5	2.5
Deposit int. rate (hhs, eop)	0.2	0.4	0.4	0.4

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

Industrial production and inflation



Source: Hungarian Central Statistical Office

Poland

Real Economy

Michal Lehuta

Due to the pandemic, Poland will post its first GDP decline in nearly three decades in 2020. However, thanks to a stronger-than-expected recovery in 3Q, the full-year decline in real GDP will probably be smaller than -4.0% previously forecast. Our current baseline scenario projects a 2.7% decline, followed by strong rebounds of 3.2% and 4.0% in 2021 and 2022, respectively. The relative resilience of the Polish economy to the pandemic owes in particular to huge fiscal stimulus, which has helped to protect domestic jobs and return activity in retail and manufacturing sectors to pre-crisis levels by Q3. The deteriorating pandemic situation which led to closure of large parts of the services sectors in early November clearly will dampen the recovery in Q4 and probably in early 2021 as well as the pandemic shows no sign of abating. Unlocking of the EU budget and funds for investment projects under the EU Next Generation plan during the December Summit of EU leaders nonetheless provides confidence in our forecast for GDP growth to accelerate in the future.

Regarding inflation, we continue to expect consumer prices to remain elevated in the near term, 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 should gradually see inflation fall within the central bank's target range of 1.5-3.5% next year.

Financial Markets

The Polish central bank (NBP) reacted swiftly to the risks emanating from the pandemic and had cut its main policy by a cumulative 140bps by late May, to an historical low of 0.10%. In addition to rate cuts, the NBS 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 purchased treasury bonds and state-guaranteed paper in the secondary market worth over PLN 106bn, or 4.6% of projected GDP. Most of these purchases were done in the early months of the crisis, however, and given the improved market conditions and decline in yields, we do not foresee them being deployed on a large scale in the months ahead. Furthermore, we do not foresee any further changes in official rates until the end of 2022. Our forecasts regarding the Polish zloty exchange rate remain stable, at around 4.40 vs the euro, on average, in 2021 and 2022.

Banking Sector

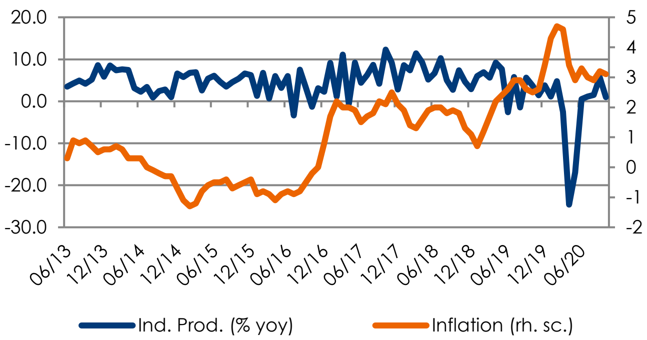
Growth of loans has slowed significantly in recent months, owing to a contraction of credit to nonfinancial corporations. Overall, yoy growth has remained in the positive territory, thanks to lending to households – for house purchases in particular. Yet, the year-end forecast has been revised downward to reflect the weakness in corporate lending. In deposits, volumes generally have been stronger than previously forecast, leading to upward revisions to expected end-2020 volumes. For 2021, however, there is now an increased likelihood of payback for the recent savings surge and our new forecast thus foresees a steep slowdown in deposit growth.

Forecasts

	2019	2020F	2021F	2022F
Real GDP yoy	4.1	-2.7	3.2	4.0
CPI (eop)	3.4	3.1	2.7	2.5
Euro exch. rate (value, eop)	4.3	4.5	4.4	4.4
Short-term rate (eop)	2.0	0.0	0.0	0.0
L/T bond yields (eop)	2.0	1.2	1.8	1.9
Bank loans (pr. sector, yoy)	4.7	2.6	4.5	4.8
Bank deposits (pr. sector, yoy)	9.7	10.5	3.9	4.9
Lending int. rate (corp., eop)	3.6	2.0	2.0	2.0
Deposit int. rate (hh, eop)	1.5	0.1	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: Statistics Poland

Slovakia

Michal Lehuta

Real Economy

The Slovak economy is currently being hit by the second wave of coronavirus infections and related counter-measures. Since October, an state of emergency has been maintained, with the operation of various service businesses curtailed and a short lockdown period imposed during nation-wide SARS-CoV-2 screening. However, the important industrial sector, together with (net) exports, seem to be faring very well compared to the spring recession. Hence, the fall in Q4 GDP is not expected to be of the magnitude of that registered in 2Q20 and the whole year could see a contraction of around -6.3%.

However, the pandemic is likely to continue to affect the country in the months ahead and negative yoy GDP dynamics are also likely to be seen in 1Q21. We don't expect the local economy to return to pre-crisis levels before 2022. So, growth next year could be between 4% and 5%. In 2022, we expect to see a positive contribution from the EU Next Generation recovery fund.

The labour market continues to perform better than expected initially. The unemployment rate increased to 7.2% in Q3 and the growth of wages to 4.2% yoy. Due to lagging effects of the current situation, some further cooling of the labour market can be expected in 2021, together with the freezing of wages in the state budget. Inflation should slow further, mainly due to the lowering of regulated energy prices from January.

Financial Markets

Money markets in the euro area have been stable recently based on the expectations of further easing by the ECB which was confirmed at its 10 December meeting. The central bank pumped up its asset purchase programme as well as the long-term refinancing scheme. The spread between 10Y Slovak government bond yields and German Bunds decreased to historical lows of around 10bps, despite significant downward revisions in the public finance balances for the years 2020-2021. However, the parliament approved the linking of the pension age to life expectancy, which should improve the long-term situation for the local pension system.

Banking Sector

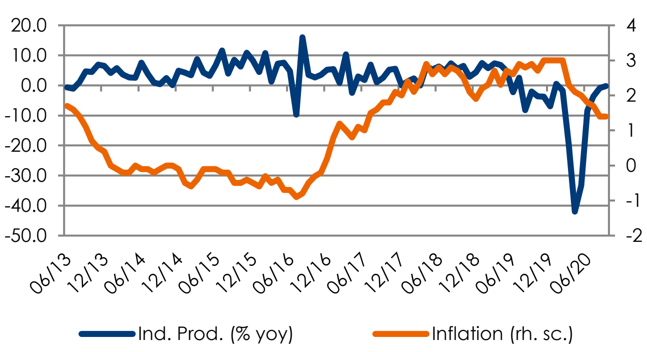
So far, local banks have been negatively affected by the recession, predominantly with regard to profits, when they increased loss provisions in 1H20 in the expectation of rising NPLs. This will likely materialise after January and February, when most loan moratoriums are expected to expire. The central bank expects to see more losses from corporate vs retail credit. Still, government guarantees and high demand for new housing could keep the total growth of credit safely positive next year. The growth of bank deposits will be negatively affected due to the high savings rate this year, albeit to a lesser extent than for other countries.

Forecasts

	2019	2020F	2021F	2022F
Real GDP yoy	2.4	-6.3	4.3	3.6
CPI (eop)	3.0	1.7	1.8	2.0
Short-term rate (eop)	-0.4	-0.5	-0.5	-0.5
L/T bond yields (eop)	0.1	-0.4	0.0	0.2
Bank loans (pr. sector, yoy)	6.2	5.4	2.7	3.6
Bank deposits (pr. sector, yoy)	4.8	6.4	2.4	4.6
Lending int. rate (corp., eop)	2.1	1.9	1.8	1.8
Deposit int. rate (hh, eop)	0.1	0.0	0.0	0.0

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

Industrial production and inflation



Source: Statistical Office of Slovakia

Slovenia

Real Economy

Ivana Jović

Q3 GDP surprised, showing a positive rebounding of 12.4% qoq, thus contracting by only 2.6% on an annual basis. The rebound was supported by a strong recovery in private consumption which, following a 17.4% slump in Q2, decreased by marginal 0.9% over Q3. The decrease in investments moderated to -1.8% yoy, reflecting 2.7% yoy growth in construction activity. Government consumption increased by 1.4% yoy. Exports declined by 9.5% yoy as the decrease in merchandise exports softened to -4.6%. Exports of services declined by a quarter. At the same time that imports declined by 13.1% yoy, net exports recorded a rise of 2.0pp. Unfortunately, adverse developments related to the second coronavirus wave prompted the swift reintroduction of strict containment measures in October, leading to a deterioration in Q4 data (retail trade down by 11.1%), thus limiting our ability to reflect the better-than-expected Q3 performance in FY20 GDP data to only 0.3pp. The result has led to this year's decline estimated at around 6.9%. Looking forward, we forecast 4.5% growth in 2021 with a recovery resuming in Q2, backed up by stronger investments and EU stimulus, with exports reflecting EU recovery trends. Similarly, around 4% growth is pencilled in for 2022, supported by abundant EU financing.

Financial Markets

Ana Lokin

The yield on the 10Y government bond has been lingering in negative territory since the start of October, with the spread vs the Bund narrowing slightly. In our December scenario, we confirm our estimate for this year's average yield and spread at 0.2% and 70bps, respectively. For the coming year, we see the average yield declining to 0.0%, with the spread remaining at the current 40bps. In 2022, we project the yield to rise to an average of 0.2%, in line with the Bund, with the spread remaining at 40bps.

Banking Sector

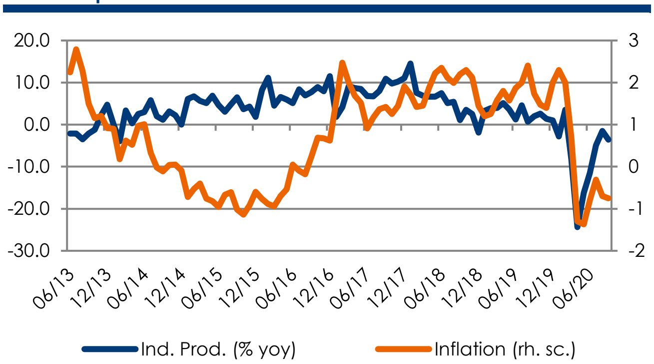
The Government Act on Additional Liquidity aimed at facilitating corporate lending as well as relaxed BSI macroprudential measures concerning household lending has not been hugely successful so far (by end-November, out of EUR 2bn available only EUR 50M of loans backed by government guarantees were approved). Thus, September and October saw private sector loans declining by 0.7% and 0.9% yoy, respectively. This result in a small revision of the 2020 loan growth projection to 0.1% yoy. For 2021, we foresee credit demand recovering and loans rising by 2.4% yoy and further by 2.7% yoy in 2022. The rise in deposits gained momentum in September-October, reaching 10.1% and 10.7% yoy, respectively, thanks to robust households and buoyant corporate liquidity, which triggered a substantial improvement to 2020 growth projections to 9.6% yoy. Growth is expected to soften in 2021 as household and business optimism arises, with partial withrawal of past deposits to finance more investment and consumption. We expect deposits to post an increase of 3.1% yoy in 2021 and rise to 3.4% yoy in 2022, by which time the pace of growth should still be below the long-term average.

Forecasts

	2019	2020F	2021F	2022F
Real GDP yoy	3.2	-6.9	4.5	4.0
CPI (eop)	2.0	-1.0	1.5	1.5
Short-term rate (eop)	-0.4	-0.5	-0.5	-0.5
L/T bond yields (eop)	0.2	-0.1	0.1	0.3
Bank loans (pr. sector, yoy)	3.7	0.1	2.4	2.7
Bank deposits (pr. sector, yoy)	6.3	9.6	3.1	3.4
Lending int. rate (corp., eop)	2.2	2.0	2.0	2.0
Deposit int. rate (hhs, eop)	0.2	0.1	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: Statistical Office of the Republic of Slovenia

Albania

Kledi Gjordeni

Real Economy

In 2Q20, the pandemic caused the strongest contraction ever seen in GDP growth (-10.2%) in the last two decades. The drop was the result of a 6.7% fall in the service sector and a 1.6% decline in the industrial sector. Around 50,000 jobs have been lost and the unemployment rate has reached 11.9%. Authorities had to pause reconstruction efforts started following the earthquake of 2019, but quickly acted to support households and businesses with a stimulus package estimated at around 2.9% of GDP.

In the shadow of the pandemic, the growth forecast remains highly uncertain. For 2020, the Ministry of Finance foresees GDP growth of -6.1% and the IMF estimates -7.5%. Our forecast is within this range, at - 6.7%. Rebounds in growth are forecast for 2021 and 2022 (+3.8% and +3.4%, respectively) as reconstruction spending picks up again. Inflation is expected to remain low before converging at the 3% target by 2022.

Financial Markets

The issuance of Eurobonds during the pandemic confirmed Albania's continued access to international financial markets. In addition, the CB recently established a €400m repo line with the ECB. The CB increased liquidity injections into the banking system during 3Q20 through seven-day and three-month repos. November bill and bond yields in the primary market were approximately in line with the previous quarter. Q3 was characterised by the EUR/LEK exchange rate remaining stable at around 124 and the 12M T-bill yield at 1.7%. The policy rate has remained unchanged at 0.50%. The CB and the authorities continue to be ready to put new measures in place to address the ongoing effects of the pandemic.

Banking Sector

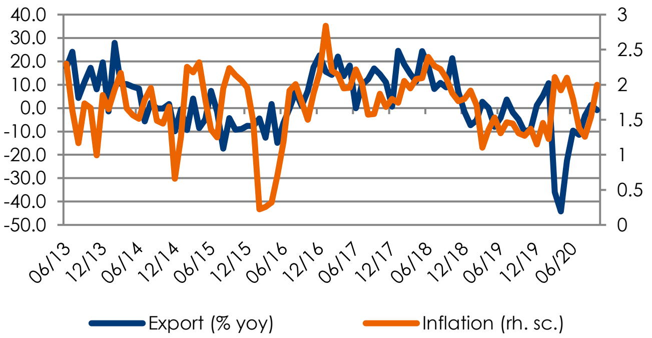
In 2H20, banks expanded their lending activity mainly supported by sovereign guarantee schemes but by measures taken by the CB as well, which have supported customers that are in financial difficulty. At the end of Q3, credit to the private sector increased by 5.31%. Credit expansion benefited mostly from the increase in credit to enterprises, by 6.55%, and less so to households, at 2.78%. Meanwhile, deposits have risen significantly related to precautionary motives. Total deposits in October rose 6.28%, with corporate savings increasing by 10.34% and households by 5.44%. NPL ratios rose to 8.3% and a further deterioration is expected to take place in 2021.

Forecasts

	2019	2020F	2021F	2022F
Real GDP yoy	2.1	-6.7	3.8	3.4
CPI (eop)	1.1	2.0	2.2	2.4
Euro exch. rate (value, eop)	121.9	124.0	125.0	127.0
Short-term rate (eop)	0.5	0.3	0.3	0.3
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	6.5	4.8	2.2	2.8
Bank deposits (pr. sector, yoy)	3.8	6.2	3.4	2.8
Lending int. rate (pr. sec., eop)	6.3	6.3	6.4	6.8
Deposit int. rate (pr. sec., eop)	0.7	0.5	0.5	0.6

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

Industrial production and inflation



Source: National Statistical Institute

Bosnia and Herzegovina

Real Economy

Ivana Jović

Following a 9.3% yoy contraction in Q2, high frequency data for Q3 provided some relief as the decline across sectors softened. Industrial production declined by 6.6% yoy, retail trade by 11.1% yoy, and exports by 7.3% yoy. However, construction rebounded to growth of 2.7% yoy, leading us to estimate a Q3 GDP decline of around 5.0%. Unfortunately, a deterioration in the pandemic situation result in a rise in headwinds regarding a recovery continuing over Q4. Thus, our FY20 GDP contraction call remains unchanged, at -5.0% yoy. Looking forward, the expected start of a recovery has been pushed back to mid-2021 and we see FY21 GDP growing by around 3.2% yoy, mainly reflecting a rebound in investments as postponed public infrastructure projects pick up again. Household consumption, which accounts for roughly 75% of GDP, is likely to remain constrained by both this year's decline in remittances as well as because of higher unemployment. Even though various international financial support instruments have been made available to Bosnia and Herzegovina, including an EUR 750m IMF agreement, the complex political and organisational setups limit both more than necessary the implementation of structural reforms as well as an efficient and targeted deployment of available funds. Thus, currently, we forecast 2022 growth to be below 3%.

As inflation had already slipped into negative territory from April, this year's average is expected to be around -1.0% and due to a slow recovery and subdued domestic demand, the inflation outlook remains low for 2021 as well.

Banking Sector

Ana Lokin

Loan growth rate slipped deeper into negative territory in September-October (-0.5% – ie, -1.1% yoy), negatively affected by the pronounced corporate loan contraction (-1.8% and -2.5% yoy), signs of weakness in corporate balance sheets, the risk-on mode of banks, and the modest impact of moratoriums. At the same time, household loans continued to decelerate (0.7% and 0.2% yoy) as the dominant consumer loans narrowed sharply due to fragile demand (-1.1% and -1.7% yoy). In our December scenario, we slightly adjusted this year's private sector loan decline to -2.5% yoy to reflect the recent negative trends. As opposed to loans, private sector deposits gained pace in September and October, showing 5.0% and 5.3% yoy increases (with surprisingly strong corporate deposits), prompting us to raise our 2020 growth estimate to 3.8% yoy.

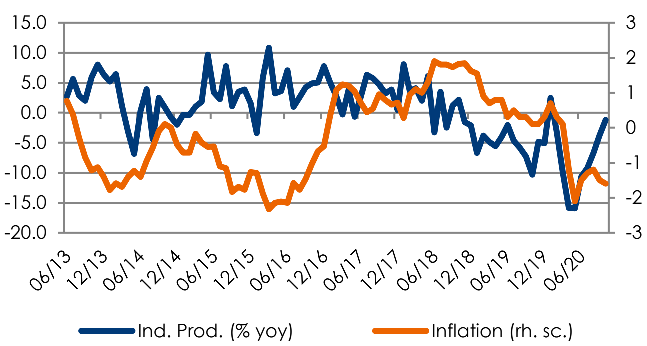
Projections of rises in loans in 2021and 2022 result only in a gradual acceleration of growth to 2.1% and respectively 3.5% yoy as economic uncertainty remains elevated and NPLs, currently contained by the relaxed regulations, start to creep upwards. Deposit growth is expected to moderate to 3.0% yoy in 2021 but then rise to 4.6% yoy in 2022 as corporates gradually adjust their balance sheets and household consumption regains ground.

Forecasts

	2019	2020F	2021F	2022F
Real GDP yoy	2.4	-5.0	3.2	2.9
CPI (eop)	0.3	-1.6	0.4	1.0
Euro exch. rate (value, eop)	2.0	2.0	2.0	2.0
Short-term rate (eop)	n.a.	n.a.	n.a.	n.a.
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	6.7	-2.5	2.1	3.5
Bank deposits (pr. sector, yoy)	8.4	3.8	3.0	4.6
Lending int. rate (corp., eop)	n.a.	n.a.	n.a.	n.a.
Deposit int. rate (hh, eop)	n.a.	n.a.	n.a.	n.a.

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

Industrial production and inflation



Source: Agency for statistics of Bosnia and Herzegovina

Croatia

Real Economy

Ivana Jović

GDP declined by 10% yoy in Q3 (+6.9% qoq) as personal consumption contracted by 7.5% while government spending advanced by 1.5% yoy. Investments declined by only 3.0%, supported by construction activity (+4.4% yoy), while exports of goods, in comparison to a 14.7% drop in Q2, only fell by 3.0%, as activity in major markets resumed. Simultaneously, exports of services (tourism) declined by 45.3%, in line with the registered drop in foreign overnights of 45.9%, indicating that tourist spending was somewhat better than expected. The weaker domestic demand also led to a decrease in total imports (-14.1%), with imports of goods decreasing by 9.9%. Although the number of infections had already started to deteriorate again in October, stricter containment measures (closure of hospitality services; limitations to public transport) were introduced only from 28 November for the next three-week period, indicating that negative impact to Q4 growth should be much less pronounced than during the spring lockdown. Thus, due to a better tourist season, we upgrade our FY20 call to -8.9% yoy vs the previous -9.6% yoy. Looking forward, a recovery in 2021 will depend on whether Croatia will be a significant beneficiary of a revival of international travel and tourism, particularly if mass vaccinations across EU occur before the summer season, with risks arising due to a prolonged period of lockdown, accompanied by a slower-than-expected EA recovery and protracted implementation of NGEU financial support. Thus, keeping in mind a better FY20 outturn, our 2021 call is now in the area of +4.5% yoy while our 2022 outlook reflects the potential impact of an overlapping between the previous and current MFF, which, in addition to available RRF funds, could support growth.

Financial Markets

Ana Lokin

The EUR/HRK rate oscillates around central parity, and we expect it to continue to do so in 2021-2022. Liquidity is ample, supported by long-term liquidity auctions. Money market rates are expected to be flattish in 2021 and to narrow slightly in 2022. We estimate the average 2020 yield and the spread vs the benchmark will be 1.0% and 150bps, respectively, and in 2021 and 2022, we see the yields at 0.8% and 0.9%, with the spread declining to 120bps.

Banking Sector

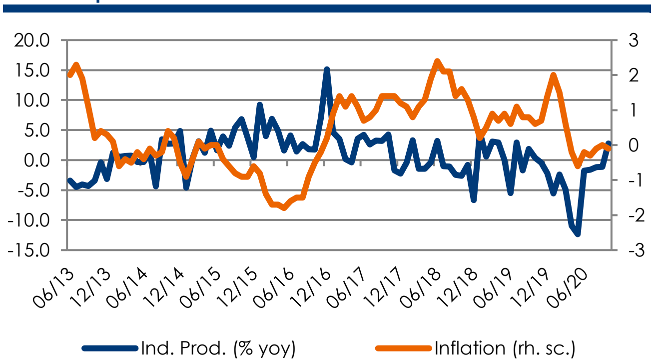
The loan portfolio continues to be stable, impacted by moratoriums and robust demand for housing loans. Owing to those factors and a new round of subsidised housing loans granted in the last two months of the year, our projection for loan growth in 2020 was upgraded to 3.5% yoy. For 2021 and 2022, we envisage growth slowing down, but with a healthy rise in housing loans and a solid increase in corporate loans. Our estimate for the 2020 deposit rise has been raised to 8.0%. In 2021, however, we see it moderating as the private sector adjusts gradually to an economic upturn, but to rise again in 2022 on the eve of Euro area entry given the expectation that a high volume of cash could be deposited in banks.

Forecasts

	2019	2020F	2021F	2022F
Real GDP yoy	2.9	-8.9	4.5	3.5
CPI (eop)	1.4	-0.3	1.4	1.7
Euro exch. rate (value, eop)	7.4	7.6	7.5	7.5
Short-term rate (eop)	0.4	0.3	0.3	0.1
L/T bond yields (eop)	0.7	0.7	0.8	0.9
Bank loans (pr. sector, yoy)	3.9	3.5	2.8	2.4
Bank deposits (pr. sector, yoy)	4.8	8.0	3.8	6.8
Lending int. rate (pr. sec., eop)	5.6	4.9	4.3	3.9
Deposit int. rate (pr. sec., eop)	0.2	0.1	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

Marius Pacurari

Real Economy

The second wave of the pandemic is now on a downtrend. Average daily infections decreased to around 7,000. Overall, the country hase seen 556,335 infections, 457,360 recoveries, and 13,385 deaths so far.

After a good Q3 (+5.6% qoq and -6% yoy), expectations for Q4 have been impacted by the evolution of the second wave. For 2020, yoy GDP growth is expected to be -5.4% while the 2021 forecast is around 3.5% and for 2022 at 3.9%, taking into account the impact of economic support packages from the EU.

The November CPI decreased to 2.16% yoy, in line with NBR expectations, while the budget deficit in October was 7.05% of GDP. The government baseline scenario for the budget deficit was 8.5% while in an adverse scenario, the deficit could be slightly above 10%.

Financial Markets

In 2020, the Romanian central bank cut the reference rate three times, shrinking the monetary policy interval to 1%. Monetary policy rates are now as follow: deposit facility rate at 1.0%, reference rate at 1.5%, and credit facility rate at 2.0%. The minimum reserve requirements for foreign currency liabilities saw two changes (from 8% to 6% in February and then to 5% in November). Easing measures are expected to remain in place during the first half of 2021, with the reference rate cut and/or a fall in the RON minimum reserves requirement.

After a long period in which the central bank was forced to inject liquidity into the banking system through open market operations, the balance was re-established. The net contribution of the CB to the liquidity of the banking system narrowed in November to around RON 0.5bn/day from almost RON 14.0bn/day in April. The total volume of assets purchased in 2020 was RON 5.26bn.

The Ministry of Finance manage the financing of the public debt well and was also able to see a decrease in "time to pay" for state counterparties. This measure, combined with the postponement of the tax payment due date, significantly impacted liquidity at the level of the economy. The IMM Invest programme was well received by the private sector.

Banking Sector

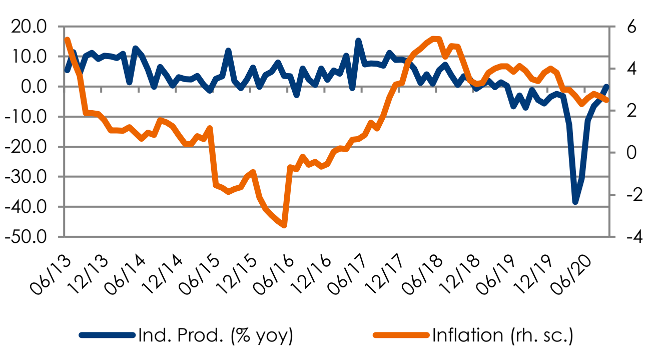
At the end of October, growth of total assets in the Romanian banking system was 13.71% yoy. Credit volumes increased overall by 4.32% yoy, with different pace for local vs foreign currency. Regarding the local currency, growth was 8.37%, while foreign currency (mainly EUR) saw a decrease of 3.90%. Customer deposits volumes continue to grow (+16.73% yoy), with more accelerated growth in foreign currency-denominated deposits (19.97% yoy). For 2021, deposit growth is expected to slow significantly, to around 2.7%.

Forecasts

	2019	2020F	2021F	2022F
Real GDP yoy	4.1	-5.4	3.5	3.9
CPI (eop)	4.0	2.0	2.3	2.4
Euro exch. rate (value, eop)	4.8	4.9	4.9	5.0
Short-term rate (eop)	3.1	1.8	1.7	1.7
L/T bond yields (eop)	4.7	3.4	3.7	3.9
Bank loans (pr. sector, yoy)	7.0	4.5	3.8	4.5
Bank deposits (pr. sector, yoy)	12.6	13.0	2.7	4.9
Lending int. rate (pr. sec., eop)	6.7	5.7	5.7	5.7
Deposit int. rate (pr. sec., eop)	2.3	1.4	1.3	1.3

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

Industrial production and inflation



Source: National Institute of Statistics

Serbia

Real Economy

Tijana Matijasevic

Real GDP contracted by 1.4% yoy in Q3, a better performance than in Q2 (-6.3%). Favourable results in the industrial sector and an excellent agriculture season helped the economy to recover while services and construction provided negative contributions. Regarding Q4, the soaring infection rate and the tightening of restrictions will have weighed on economic activity and a deeper downturn is expected to be reported, with high base effects vs last year being an issue (a consequence of the construction of the Serbian leg of the TurkStream gas pipeline). For full year, we expect to see a smaller contraction relative to our September forecasts, due to the better-than-expected performance in Q3, with the GDP forecast upgraded from -2.5% to -1.5%. While the uncertainty surrounding the 2021 outlook remains high, we currently pencil in real GDP growth of 3.3%, led by private consumption and a recovery in investment.

Inflation inched down yoy from 1.8% in October to 1.7% in November. Going forward, CPI is expected to stay inside the lower part of the inflation target range (3%±1.5pp) until end-2021 on account of low aggregate demand and subdued international inflation while disinflationary effects from the past oil prices drop should gradually disappear. The average CPI is forecast at 1.6% in 2020 and 1.9% in 2021.

Financial Markets

As we expected, the NBS lowered the key policy rate by 25bps, to 1.0%, in December, delivering the fourth cut this year in an attempt to support an economy struggling with the effects of the pandemic. After this cut, the key rate is 1.25pp lower compared to its pre-pandemic level. The NBS also narrowed the main interest rate corridor from ±1.0pp to ±0.9pp relative to the key rate, with the deposit facility rate reduced to 0.1% and the lending facility rate to 1.9%. The dinar remained broadly stable as the CB did not allow any swings in the EUR/RSD rate, with net sales of EUR 1,735m in the FX market in the first 10 months of 2020. Depreciation pressures have eased since the summer, with the monthly level of interventions notably lower in comparison to Q2.

Banking Sector

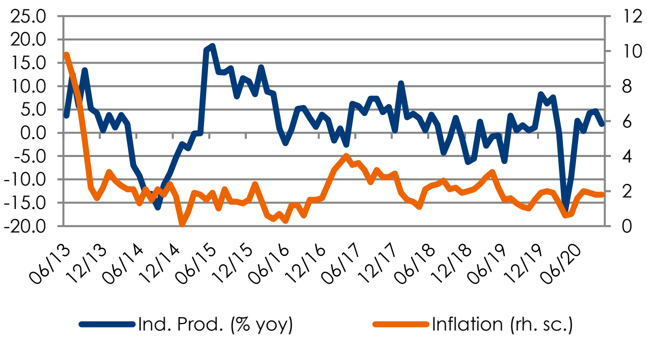
The banking sector remains resilient, owing to strong fundamentals and improved asset quality (NPL ratio at 3.4% in September). The dinarisation of receivables continued, with the NBS efforts well integrated with the authorities' response to COVID-19 via lower dinar interest rates and approval of dinar-denominated loans under the guarantee scheme. Overall, thanks to the proactive support measures, private sector lending saw hefty growth in the year to date (13% yoy in October), encouraging an upward revision to our loan projection, to +11.3%. Positive lending trends are expected to continue, but at a slower pace in 2021 (7.2%), with delayed effects of the coronavirus-related downturn on asset quality. The increase in deposit volumes was also stronger than expected (18.4% in October) and in response, we raise our FY20-projection to 16.7%.

Forecasts

	2019	2020F	2021F	2022F
Real GDP yoy	4.2	-1.5	3.3	3.3
CPI (eop)	2.0	1.8	2.0	2.3
Euro exch. rate (value, eop)	117.6	117.5	117.9	118.3
Short-term rate (eop)	2.3	1.0	1.0	1.0
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	8.9	11.3	7.2	5.0
Bank deposits (pr. sector, yoy)	7.8	16.7	3.6	5.1
Lending int. rate (pr. sec., eop)	7.1	6.0	5.9	6.0
Deposit int. rate (pr. sec., eop)	2.0	1.2	1.1	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

Moldova

Olga Litvin

Real Economy

The effects of the COVID-19 pandemic continue to negatively affect the economy. In 1Q20, GDP saw slight 0.9% yoy growth, but in 2Q20, GDP recorded a double-digit contraction of 14%. In 3Q20, containment measures were eased but the second wave of the pandemic and the negative results in the agricultural sectorpoint negatively on 4Q leading to a downward revision of our GDP growth forecast to -6.5%. The expected positive evolution in the main sectors of the economy in the 2021-2022 are the basis for the forecast 4% yoy GDP growth in both years. Following the anticipated -4% growth in 2020, the industrial output is expected to recover in 2021 and 2022. During the forecast period, the industrial sector should continue to be supported by the activity of the Free Economic Zones and by the new development projects envisaged to boost industrial production.

The CPI as of October 2020 stood at 1.56% and is expected to fall further, to 1.3%, by the end of the year. Considering the National Bank's commitment to counteract disinflationary pressure and bring inflation to its target level, inflation is expected to start on a gradual upward trajectory in 2021, and is forecast at a CPI of 3.6%, reaching the 5% target by the end of 2022.

Financial Markets

In December, vs the previous quarter, the yield on the 91-day treasury bill decreased by 0.2pp but yields remained unchanged for longer-maturity T-bills and government bonds. With the aim of supporting the lending process, domestic aggregate demand and the national economy, during 4Q20, the National Bank revised down (by a 0.1pp step) the base rate applied to the main short-term monetary policy operations to 2.65% annually, a level that is expected to be maintained through the end of 2020, with gradual increases to occur in coming years.

Banking Sector

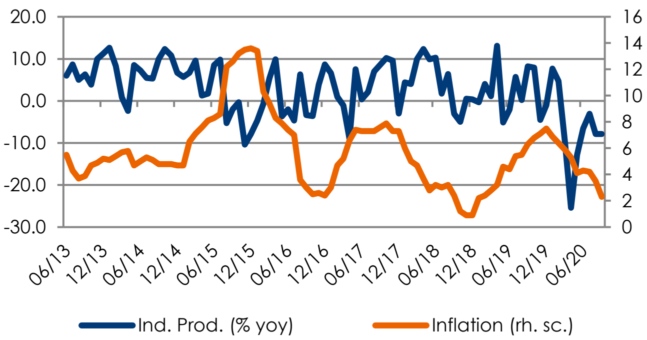
In October, the volume of private loans in the economy maintained its positive evolution, increasing by 9.9% yoy, with the driver being household loans, showing a 17.7% yoy change, driven by consumption loans and mortgages. Private deposits also showed a positive evolution, with the October yoy change at around 11.8%, driven by household deposits in local currency (namely sight deposits). The yoy growth of both loans and deposits is expected to be stable at the October level by the end of 2020, and then decelerate in 2021 and 2022. The COVID-19 crisis saw a rise in the risk of non-payment of credit obligations which determined the increase of the balances for non-performing loans and the NPL ratio. Nonetheless, in October, the NPL ratio declined, returning to its April level (8.33%), falling from 8.92% high previously recorded in 2020.

Forecasts

	2019	2020F	2021F	2022F
Real GDP yoy	3.6	-6.5	4.1	4.0
CPI (eop)	7.5	1.3	3.6	5.0
USD exch. rate (value, eop)	17.5	17.4	17.8	18.4
Euro exch. rate (value, eop)	19.4	20.7	20.7	21.7
Short-term rate (eop)	5.5	2.7	3.3	3.8
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	13.9	9.8	4.9	4.8
Bank deposits (pr. sector, yoy)	7.7	11.9	3.5	4.5
Lending int. rate (corp., eop)	8.9	7.8	8.1	8.1
Deposit int. rate (hh, eop)	4.5	3.4	3.9	4.1

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

Elizaveta Sklianina

Russia's GDP decreased by 3.6% yoy by November in comparison with the previous quarter's 8% drop. However, the early data available show again a likely further deterioration in the following months, which is triggered mainly by the stronger-than-expected 2nd wave of COVID-19 infections. On these premises, GDP is now forecast to contract by 4.4% in 2020 (vs. -5.1% expected in September) and to recover by only 2.7% growth in 2021 (vs. 3.1% seen in September) and by 2.6% in 2022. CPI reached 4.4% yoy by the end of November, rising by 10% in comparison to the previous month. On year average it is expected to grow by 3.3% in 2020 and reach 3.9% both in 2021 and 2022. The government continues to provide support measures, such as the freezing of prices on essential food items as well as help to small businesses. Following the recent upsurge, inflation is expected to slow after 1Q21. It should remain low in the range of 3.5%-4.0% in 2021 and stabilise close to 4% later on, as projected by the CBR.

Financial Markets

At its 18 December meeting, the Central Bank of Russia has kept the key rate at 4.25%. However, due to the expected deceleration of inflation in 2021, we see the possibility of a further policy rate cut, to 4%, in the first half of 2021. Stimulative monetary measures should continue to be the policy at the beginning of 2021. However, along with a gradual recovery in economic activity and a stabilisation of inflation at the 4% level, the CBR may start to shift to a neutral monetary policy which in our view is likely to lead to a reversal of the key rate in 2022, when it is forecast to reach 4.5%. The ruble looks to have the potential to strengthen. By the end of November, the RUB strengthened by 3.9% and 2.36% against the USD and the EUR, respectively. The basis for this has mainly been a recovery in export demand for Russian goods and demand for RUB at the beginning of the tax period. By the end of 1Q21, the RUB exchange rate is expected to be around 76 and 90 against the USD and the EUR, respectively, with appreciation in the following years supported by an expected (partial) recovery of oil price.

Banking Sector

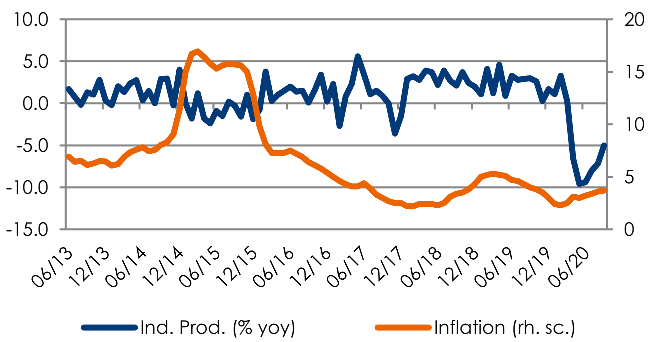
Deposit interest rates have been falling during the year 2020 and are now expected to reach 3.0% by the end of 2020 (with 3.7% the year average). Looking forward they are forecast to decrease slightly further in 2021, to 2.9%, on average, followed however by a subsequent recovery to 3.1% in 2022, in parallel with the start of a reversal of the policy rates. The volume of deposits – which is expected to grow by 10.1% yoy in 2020 – is forecast to record much lower positive changes both in 2021 and 2022 (3.4% and 5% respectively). Lending rates are forecast to average 6.8% by the end of this year, followed by a decline to 6.2% in 2021 and a rise back again to 6.7% in 2022. As for volumes, by the end of 2020, the overall loan percentage change is forecast to be 13.9 % yoy. A rise in demand will likely continue to support lending (especially mortgages). Loan stocks are nevertheless forecast to grow to a slower pace in 2021 and 2002 (5.8% and respectively 5.6%) than in 2020.

Forecasts

	2019	2020F	2021F	2022F
Real GDP yoy	1.3	-4.4	2.7	2.6
CPI (eop)	3.0	4.2	3.7	4.0
USD exch. rate (value, eop)	62.9	75.6	73.0	69.5
Euro exch. rate (value, eop)	69.9	90.0	84.7	82.1
Short-term rate (eop)	6.6	5.0	4.6	5.0
L/T bond yields (eop)	6.4	5.9	6.1	6.5
Bank loans (pr. sector, yoy)	7.1	13.9	5.8	5.6
Bank deposits (pr. sector, yoy)	4.2	10.1	3.4	5.0
Lending int. rate (corp., eop)	7.8	6.1	6.1	6.9
Deposit int. rate (hh, eop)	4.7	3.0	2.8	3.3

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

Industrial production and inflation



Source: State Statistics Federal Service

Ukraine

Artem Krasovskyi

Real Economy

The Ukrainian economy saw a strong rebound in Q3, with GDP rising by 8.5% vs the previous quarter. In yearly terms, GDP contracted by 3.5% yoy in Q3, after the massive drop of 11.4% yoy seen in Q2. A just moderate number of COVID infections has allowed the authorities to postpone the potential introduction of more stringent containment measures until early 2021 and the growth is now expected to remain sustained in Q4. We have then revised upwards our full-year 2020 GDP forecast from a 5.9% to a 5.2% yoy contraction. But, our 2021 expectations have been revised downwards and we now see GDP growing by 3.8% yoy, down from the 4%. Consumer prices grew by 1.3% mom in November, which is the highest monthly print over last two years. In yearly terms, inflation accelerated to 3.8% yoy from 2.6% in October, affected by higher energy cost, a poorer agricultural harvest, and significant UAH devaluations in previous months. We expect inflation to continue to rise over the coming months, but to remain weaker than previously estimated. Thus we have revised slightly downward our CPI (eop) forecasts from 4.8% yoy to 4.3% for 2020 and from 5.5% yoy to 5.0% in 2021. Ukraine has received EUR 600m from the EU as the first tranche of the "anti-coronavirus" programme of macro-financial assistance.

Financial Markets

The National Bank kept the key rate unchanged at 6% for the fourth consecutive time at its monetary policy meeting in early December. The USD/UAH has been notably recovering from the peaks of 28.50-28.60 seen earlier in November and is currently trading in the 27.80-27.90 range amid subdued demand for foreign currency among importers and ample supply from foreign investors. The latter have, surprisingly, moved back into local government bonds given the backdrop of improving sentiment towards emerging markets and after the Finance Ministry had increased yields to 12-12.25% for the longer end of the curve. Yields on the shorter maturities, which normally are the most appealing to local investors, have also risen to a current 10-11.75% pa from the lowest levels, at 7-10%, seen earlier this year. Despite the suspended progress with regard to the IMF deal, recent fruitful FinMin local debt auctions, accompanied by allocation by the EU of EUR 600m, plus the ongoing additional placement of US$600m Eurobonds, seem to be helping Ukraine to fully cover financing needs till the end of 2020 and for early 2021.

Banking Sector

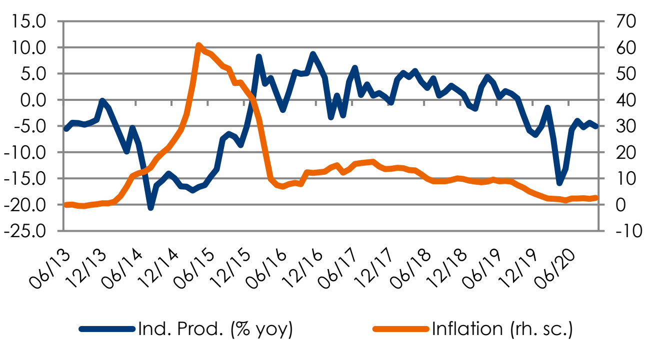
Intense growth of deposits continued in October: local currency household deposits increased by UAH 6.7bn (+1.7% mom, +27.7% yoy) while corporates' local currency deposits increased by UAH 5.4bn (+2.0% mom, +34.4% yoy). Foreign currency deposits remained stable, with a slight increase of 0.6% mom for both the retail and corporate segments. Lending activity returned to negative dynamics in October, after showing tentative signs of recovery in July-August: local currency loans to households decreased by UAH 7.6bn in October (-4.3% mom, +0.9% yoy) while local currency loans to corporates decreased by UAH 4.3bn (-1.1% mom, -3.3% yoy).

Forecasts

	2019	2020F	2021F	2022F
Real GDP yoy	3.2	-5.2	3.8	3.6
CPI (eop)	4.1	4.3	5.0	5.0
USD exch. (value, eop)	24.0	28.3	28.8	29.3
Euro exch. rate (value, eop)	26.2	33.7	33.4	34.5
Short-term rate (eop)	16.7	10.0	10.0	10.0
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	-8.0	-2.8	-3.1	3.5
Bank deposits (pr. sector, yoy)	9.6	26.8	3.0	4.8
Lending int. rate (pr. sector, eop)	18.6	11.2	11.0	11.0
Deposit int. rate (pr. sector, eop)	10.8	4.5	4.5	4.5

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

Industrial production and inflation



Source: State Statistics Service of Ukraine

Egypt

Real Economy

Samer Halim

Egypt's real growth is expected to reach 1.5% yoy in FY 2020/21, down from 3.6% in 2019/20, and to then reach 6% in the medium term. This conservative outlook is attributed to uncertainty related to the implications of the second wave of COVID-19 infections and the expected slow recovery in the current fiscal year compared to 2019/20, when growth was positively affected by the 2H19 performance. On the sectoral level, trade, agriculture and construction should continue to show resilience. Natural gas is performing very strongly, supported by rising prices. However, the oil refining sector appears to be losing the momentum it gained temporarily last year, and tourism isn't likely to pick up until 2022. The annual inflation rate is expected to rise to an average of 6.7% in 2021 compared to an estimate of 4.9% in 2020 on the back of a partial recovery in demand and base year effects.

Financial Markets

Core interest rates fell to record low after being cut by 400bps is 2020, leaving a small window for further cuts. Hence, they are expected to decline by 25bps in 2021 and 2022, respectively. However, a larger decline could be seen if the annual inflation rate misses the new expected target range (remaining below the lower range) by the CBE (we foresee it to be set at 6% +/-3% by 4Q21). Money market rates will likely continue to decline in 2021 on the back of stability in the budget deficit and sustainable foreign investments in government securities. The exchange rate is going to be affected by two opposing factors: (1) Positive: weakening USD internationally and forecast steadiness in FX inflows to emerging markets to benefit from the high yields they offer (a partial recovery in tourism and FDI are not confirmed, but might enhance the country's external position); and (2) Negative: high external obligations, especially imports and external debt service. We expect the EGP to remain stable against the USD in 2021 and gradually depreciate in the following years. Egypt was able to secure almost USD 23bn in 2020 through loans from multilateral institutions (USD 8bn Stand-By and Rapid Finance Agreements with the IMF, of which USD 6.4bn already disbursed) and the issuance of Eurobonds, and USD and EUR T-bills.

Banking Sector

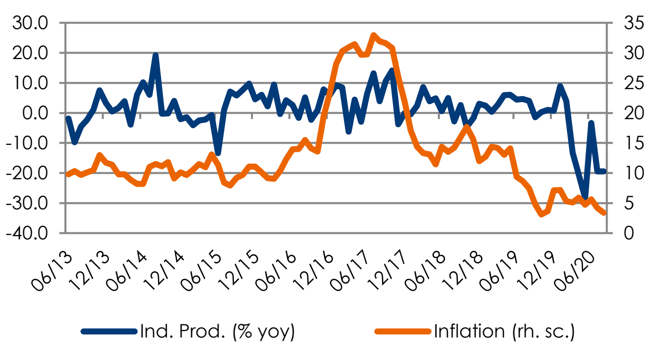
Private loans are expected to increase by 10.2% yoy in 2021, supported by corporate capex lending after lowering lending rates and by the CBE's EGP 200bn of initiatives to make funds available to different sectors at subsidised rates. On the other hand, banks still have strong funding and liquidity bases, supported by efforts to boost financial inclusion (private deposits are expected to rise 8.4% yoy in 2021 even after the decline in rates). Profitability could be negatively impacted by squeezed margins and new tax treatment for treasuries. In order to address any potential risks relevant to asset quality, banks raised their provisions by 19.8% yoy in August 2020.

Forecasts

	2019	2020F	2021F	2022F
Real GDP yoy	5.5	0.1	4.9	5.1
CPI (eop)	7.1	4.5	8.3	8.2
USD exch. rate (value, eop)	16.1	15.7	15.7	15.9
Euro exch. rate (value, eop)	17.9	18.7	18.2	18.8
Short-term rate (eop)	15.4	13.1	12.0	11.4
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	13.4	19.0	10.2	10.0
Bank deposits (pr. sector, yoy)	13.6	16.2	8.4	9.0
Lending int. rate (corp., eop)	13.8	10.3	10.1	9.9
Deposit int. rate (hh, eop)	9.2	7.3	7.0	6.5

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

Industrial production and inflation



Source: Ministry of Planning, CAPMAS

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

The Economy

		GDP chg yoy			Ind.prod[1]. chg.yoy			Export nom. chg yoy			Retail sales chg yoy			Inflation chg yoy			Unemployment rate			Wages chg yoy			Economic Survey[2]		
		3Q20	2Q20	2019	Last	mth	3Q20	Last	mth	3Q20	Last	mth	3Q20	Last	mth	3Q20	Last	mth	3Q20	Last	mth	3Q20	Last	mth	3Q20
CEE	Czechia	-5.2	-10.6	2.6	1.3	Oct	-3.7	4.9	Oct	-2.2	-1.0	Oct	1.0	2.9	Oct	3.3	3.8	Nov	3.8	2.5	Oct	2.8	73.1	Nov	86.2
	Hungary	-4.6	-13.6	4.6	0.6	Oct	-2.7	9.8	Sep	1.9	-2.4	Oct	-0.8	2.7	Nov	3.7	4.3	Oct	4.6	8.8	Sep	9.6	80.6	Nov	86.7
	Poland	-1.8	-8.0	4.1	1.0	Oct	2.8	5.6	Sep	4.0	-2.1	Oct	1.9	3.0	Nov	3.0	6.1	Oct	6.1	4.7	Oct	4.5	70.1	Nov	77.9
	Slovakia	-2.4	-12.1	2.4	-0.2	Sep	-1.6	3.4	Sep	4.1	2.8	Oct	3.8	1.6	Oct	1.5	7.4	Oct	7.6	3.7	Sep	2.7	86.6	Nov	87.7
	Slovenia	-2.6	-13.0	3.2	-3.5	Sep	-3.3	-0.3	Sep	-2.5	-10.9	Oct	-6.3	-1.1	Nov	-0.6	8.6	Sep	9.0	5.8	Sep	5.5	82.9	Nov	94.5
SEE	Albania	n.a.	-10.2	2.1	n.a.	n.a.	n.a.	-6.6	Oct	-12.2	n.a.	n.a.	n.a.	2.0	Oct	1.4	11.9	2Q	n.a.	n.a	n.a	n.a	n.a.	n.a.	n.a.
	Bosnia H.	n.a.	-9.3	2.4	-1.2	Oct	-6.6	0.6	Oct	-7.3	-6.8	Oct	-10.9	-1.6	Oct	-1.3	34.9	Aug	34.8	5.0	Sep	3.9	n.a.	n.a.	n.a.
	Croatia	-10.0	-15.4	2.9	2.8	Oct	-1.3	-0.8	Aug	n.a	-2.5	Oct	-7.5	-0.1	Oct	-0.1	9.1	Oct	8.9	3.4	Sep	3.1	85.8	Nov	88.6
	Romania	-6.0	-10.3	4.1	-0.1	Sep	-3.6	-0.5	Sep	-4.5	4.1	Oct	3.6	2.2	Oct	2.7	3.3	Sep	3.3	7.8	Sep	7.8	83.1	Nov	88.8
	Serbia	-1.4	-6.3	4.2	1.9	Oct	3.1	-5.2	Oct	-7.3	6.3	Oct	5.6	1.8	Oct	1.9	n.a.	n.a	9.0	11.2	Sep	9.5	n.a.	n.a.	n.a.
CIS & MENA	Moldova	n.a.	n.a.	3.6	-7.9	Sep	-6.3	-11.1	Sep	-12.2	9.3	Sep	6.8	0.9	Nov	3.3	n.a.	n.a	3.4	n.a	n.a	n.a	n.a.	n.a.	n.a.
	Russia	-3.4	-8.0	1.3	-5.0	Sep	-6.7	-14.0	Sep	-25.2	2.0	Sep	-1.1	4.0	Oct	3.6	6.3	Sep	6.3	3.0	Sep	4.4	46.5	Oct	48.0
	Ukraine	n.a.	-11.4	3.2	-5.1	Oct	-4.5	-5.6	Sep	-6.5	14.0	Oct	8.6	3.8	Nov	2.4	9.2	2Q	n.a	n.a	n.a	n.a	n.a.	n.a.	n.a.
	Egypt	n.a.	-1.7	5.5	-19.5	Aug	-19.5	-3.0	Aug	-9.0	n.a.	n.a.	n.a.	5.7	Nov	3.8	n.a.	n.a	n.a	n.a	n.a	n.a	50.9	Nov	50.4
	m.i. E. A.	*-4.3*	*-15.0*	*1.3*	*-3.8*	*Oct*	*-6.6*	*-3.1*	*Sep*	*-8.7*	*9.3*	*Sep*	*6.8*	*-0.3*	*Nov*	*0.0*									

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

Markets and Ratings

		S/T rates[1]		L/T rates[2]		Foreign exchanges[3]			Stock markets		CDS spread (bp)		FX res. chg (mln €)[4]			CA bal. (mln €)5		Rating
		11/12	chg	11/12	chg	11/12	3M*	1Y*	3M*	1Y*	11/12	11/09	3Q20	2Q20	2019	3Q20	2Q20	Moody's
CEE	Czechia	0.4	0.0	1.3	0.2	26.37	-0.82	3.35	7.9	-10.3	34.5	34.5	n.a	n.a	188.2	5970	3360	Aa3
	Hungary	0.8	0.1	2.2	-0.3	354.23	-0.9	7.25	18.4	-7.5	55.4	55.0	n.a	n.a	983	n.a	n.a	Baa3
	Poland	0.1	-0.1	1.3	0.0	4.44	-0.27	3.58	9.4	-0.1	22.4	28.4	n.a	n.a	12243	14631	11272	A2
	Slovakia	-0.5	-0.1	-0.5	-0.3	Euro	Euro	Euro	-1.7	1.2	46.7	47.2	n.s.	n.s.	n.s.	-476	-1204	A2
	Slovenia	-0.5	-0.1	-0.2	-0.2	Euro	Euro	Euro	5.5	-1.9	58.5	62.4	n.s.	n.s.	n.s.	n.a	653	A3
SEE	Albania	0.8	0.0	n.a.	n.a.	123.62	-0.39	0.78	n.a.	n.a.	n.a.	n.a.	n.a	848	n.a	n.a	-378	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	498	n.a	-119	B3
	Croatia	0.4	0.0	0.7	-0.2	7.54	0.13	1.41	8.3	-12.3	77.5	72.5	1002	798	1122	n.a	-667	Ba1
	Romania	1.9	0.0	3.4	-0.3	4.87	0.25	1.9	2.4	-2.9	112.4	94.8	-2729	1422	-2793	-7737	-3497	Baa3
	Serbia	1.0	-0.3	n.a.	n.a.	117.59	0.01	0.1	7.2	-14.0	104.8	101.6	-926	842	2117	-407	-350	Ba3
CIS & MENA	Moldova	2.7	-0.1	NA		17.23	3.39	-0.72	n.a.	n.a.	n.a.	n.a.	n.a	n.a	n.a	n.a	-94	B3
	Russia	4.9	0.3	5.9	-0.4	73.71	-2.4	15.94	13.3	0.4	70.9	94.4	n.a	-6459	85864	n.a	n.a	Baa3
	Ukraine	10.2	-0.6	13.0	2.1	27.96	0.04	18.3	12.6	-11.1	368.0	559.1	-2114	3481	4259	288	1689	B3
	Egypt	13.1	-0.4	14.4	-0.3	15.71	-0.32	-2.84	-4.2	-19.2	377.4	415.5	223	-1906	2869		-3828	B2
	m.i.A.E.	*-0.5*	*-0.1*	*-0.6*	*-0.2*	*1.2*	*2.4*	*9.2*	*5.3*	*-7.7*	*5.5*	*4.8*						

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

Banking aggregates and interest rates (private sector)

		Loans chg yoy %			NPL/Loans %			Foreign Liab. chg yoy %			Deposits chg yoy %			Loans rate1-NewB*. %				DepositsRate1-NewB*. %				Loans/Dep %		
		Last	Mth	2019	Last	mth	2019	Last	mth	2019	Last	Mth	2019	Last	mth	2019	S[4]	Last	mth	2019	S[4]	Last	mth	2019
CEE	Czechia	4.6	Oct	5.2	2.4	Oct	2.5	-4.6	Oct	-0.2	12.2	Oct	6.1	1.63	Oct	3.62	C	0.57	Oct	1.52	H	71.5	Oct	75.1
	Hungary	13.9	Oct	13.2	1.3	Jun	1.5	-1.4	Oct	10.4	19.7	Oct	8.0	2.78	Oct	2.34	C	0.31	Oct	0.24	H	80.5	Oct	81.5
	Poland	1.3	Oct	4.7	4.0	Mar	3.8	-2.0	Sep	-7.2	14.4	Oct	9.7	2.2	Oct	3.64	C	0.15	Oct	1.49	H	84.8	Oct	92.6
	Slovakia	5.1	Oct	6.2	2.8	Oct	3.1	7.9	Oct	7.9	4.7	Oct	4.8	1.66	Oct	2.06	C[2]	0.03	Oct	0.05	H[2]	103.3	Oct	102.7
	Slovenia	-0.9	Oct	3.7	1.8	Sep	2.2	14.6	Oct	9.7	10.7	Oct	6.3	2.17	Oct	2.23	C[2]	0.15	Oct	0.18	H[2]	67.8	Oct	73.5
SEE	Albania	5.3	Sep	6.5	8.3	Sep	8.4	-1.8	Sep	-6.7	6.3	Sep	3.8	6.1	Sep	6.34	PS	0.43	Sep	0.72	PS	54.0	Sep	54.2
	Bosnia H.	-1.1	Oct	6.7	6.6	Sep	7.4	-21.9	Oct	2.6	5.3	Oct	8.4	2.96	Oct	2.88	C	0.49	Oct	0.3	H	98.2	Oct	103.7
	Croatia	3.8	Oct	3.9	5.5	Sep	5.5	-5.2	Oct	-5.9	8.1	Oct	4.8	5.24	Oct	5.56	PS	0.11	Oct	0.22	PS	72.5	Oct	75.9
	Romania	4.3	Oct	7.0	3.9	Oct	4.1	-7.3	Oct	4.7	16.7	Oct	12.6	5.81	Oct	6.71	PS	1.67	Oct	2.25	PS	70.0	Oct	74.5
	Serbia	13.0	Oct	8.9	3.4	Sep	4.1	11.4	Oct	9.1	18.4	Oct	7.8	6.61	Oct	7.06	PS	1.41	Oct	2.0	PS	95.2	Oct	97.9
CIS & MENA	Moldova	9.9	Oct	13.9	8.3	Oct	8.5	11.6	Oct	-8.1	11.8	Oct	7.7	8.32	Oct	8.93	C	3.7	Oct	4.5	H	58.6	Oct	59.1
	Russia	12.8	Aug	7.1	9.5	Sep	9.3	3.3	Aug	-19.3	5.8	Aug	4.2	6.02	Aug	7.83	C	3.18	Aug	4.66	H	109.4	Aug	108.5
	Ukraine	-4.6	Oct	-8.0	43.4	Oct	48.4	1.2	Sep	-28.1	29.7	Oct	9.6	12.19	Oct	18.58	PS	4.53	Oct	10.81	PS	80.0	Oct	101.7
	Egypt	21.5	Aug	13.4	3.9	Jun	4.2	14.7	Aug	-23.4	19.4	Aug	13.6	10.0	Oct	13.8	C	7.7	Oct	9.2	H	35.4	Aug	34.3
	m.i. E. A.	*-2.0*	*Oct*	*8.4*	*n.a.*	*n.a.*	*n.a.*	*-0.5*	*Oct*	*2.5*	*8.3*	*Oct*	*4.7*	*1.3*	*Oct*	*1.3*	*C*	*0.2*	*Oct*	*0.2*	*H*	*75.7*	*Oct*	*83.4*

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

Country Outlook

The Economy

	GDP (% yoy)	2018	2019	2020F	2021F	2022F	Inflation (%, avg)	2018	2019	2020F	2021F	2022F
CEE	Czech Rep.	2.8	2.6	-6.7	3.3	3.5	Czech Rep.	2.1	2.8	3.2	2.7	2.2
	Hungary	5.4	4.6	-5.9	3.9	4.0	Hungary	2.8	3.4	3.3	3.2	3.1
	Poland	5.1	4.1	-2.7	3.2	4.0	Poland	1.7	3.4	3.5	2.9	2.6
	Slovakia	4.0	2.4	-6.3	4.3	3.6	Slovakia	2.5	2.7	2.0	1.8	1.9
	Slovenia	4.4	3.2	-6.9	4.4	4.0	Slovenia	1.9	1.7	-0.2	0.5	1.5
SEE	Albania	4.1	2.1	-6.7	3.8	3.4	Albania	2.0	1.4	1.7	2.1	2.3
	Bosnia Herzegovina	3.2	2.4	-5.0	3.2	2.9	Bosnia Herzegovina	1.4	0.6	-1.0	-0.4	0.8
	Croatia	2.8	2.9	-8.9	4.5	3.5	Croatia	1.5	0.8	0.2	0.7	1.6
	Romania	4.4	4.1	-5.4	3.5	3.9	Romania	4.6	3.8	2.6	2.2	2.4
	Serbia	4.5	4.2	-1.5	3.3	3.3	Serbia	2.0	1.9	1.6	1.9	2.2
CIS & MENA	Moldova	4.0	3.6	-6.5	4.1	4.0	Moldova	3.1	4.9	3.9	2.6	4.4
	Russia	2.3	1.3	-4.4	2.7	2.6	Russia	2.9	4.5	3.3	3.9	3.9
	Ukraine	3.4	3.2	-5.2	3.8	3.6	Ukraine	11.0	7.9	2.6	4.7	5.0
	Egypt	5.4	5.5	0.1	4.9	5.1	Egypt	14.4	9.4	4.9	6.7	8.2

Markets

	Exch.rate (avg Euro)	2018	2019	2020F	2021F	2022F	Interest rate (%, avg)	2018	2019	2020F	2021F	2022F
CEE	Czech Rep.	25.6	25.7	26.4	26.0	25.3	Czech Rep.	1.3	2.1	0.9	0.3	0.3
	Hungary	318.8	322.6	351.4	357.7	352.1	Hungary	0.1	0.2	0.7	0.7	0.7
	Poland	4.3	4.3	4.4	4.4	4.4	Poland	1.7	1.7	0.5	0.0	0.0
	Slovakia	-	-	-	-	-	Slovakia	-0.3	-0.4	-0.4	-0.5	-0.5
	Slovenia	-	-	-	-	-	Slovenia	-0.3	-0.4	-0.4	-0.5	-0.5
SEE	Albania	127.6	122.8	123.4	124.6	126.2	Albania	1.2	0.8	0.5	0.3	0.3
	Bosnia Herzegovina	1.96	1.96	1.96	1.96	1.96	Bosnia Herzegovina	-	-	-	-	-
	Croatia	7.4	7.4	7.5	7.5	7.5	Croatia	0.5	0.5	0.3	0.3	0.2
	Romania	4.7	4.7	4.8	4.9	5.0	Romania	2.8	3.1	2.3	1.7	1.7
	Serbia	118.3	117.9	117.6	117.7	118.1	Serbia	3.1	2.7	1.4	1.0	1.0
CIS & MENA	Moldova (USD)	16.8	17.6	17.3	17.5	18.2	Moldova	6.5	6.9	3.4	3.0	3.5
	Russia (USD)	62.7	64.7	72.1	74.1	71.0	Russia	7.7	7.8	5.5	4.8	4.8
	Ukraine (USD)	27.3	26.1	26.9	28.5	29.0	Ukraine	18.4	18.9	12.2	10.0	10.0
	Egypt (USD)	17.8	16.8	15.8	15.7	15.8	Egypt	18.8	17.1	13.2	12.5	11.6

Banking aggregates (% change yoy)

	Loans (pr. sector)	2018	2019	2020F	2021F	2022F	Deposits (pr. sector)	2018	2019	2020F	2021F	2022F
CEE	Czech Rep.	6.8	5.2	4.9	2.4	3.8	Czech Rep.	6.9	6.1	11.5	1.7	3.6
	Hungary	10.6	13.2	13.6	5.6	4.2	Hungary	14.3	8.0	15.4	3.8	4.1
	Poland	7.9	4.7	2.6	4.5	4.8	Poland	9.4	9.7	10.5	3.9	4.9
	Slovakia	9.1	6.2	5.4	2.7	3.6	Slovakia	7.3	4.8	6.4	2.4	4.6
	Slovenia	2.6	3.7	0.1	2.4	2.7	Slovenia	6.7	6.3	9.6	3.1	3.4
SEE	Albania	-3.8	6.5	4.8	2.2	2.8	Albania	-0.9	3.8	6.2	3.4	2.8
	Bosnia Herzegovina	5.5	6.7	-2.5	2.1	3.5	Bosnia Herzegovina	8.5	8.4	3.8	3.0	4.6
	Croatia	2.3	3.9	3.5	2.8	2.4	Croatia	5.0	4.8	8.0	3.8	6.8
	Romania	7.9	7.0	4.5	3.8	4.5	Romania	9.2	12.6	13.0	2.7	4.9
	Serbia	9.9	8.9	11.3	7.2	5.0	Serbia	14.9	7.8	16.7	3.6	5.1
CIS & MENA	Moldova	5.9	13.9	9.8	4.9	4.8	Moldova	6.0	7.7	11.9	3.5	4.5
	Russia	15.0	7.1	13.9	5.8	5.6	Russia	14.2	4.2	10.1	3.4	5.0
	Ukraine	6.3	-8.0	-2.8	-3.1	3.5	Ukraine	7.9	9.6	26.8	3.0	4.8
	Egypt	15.3	13.4	19.0	10.2	10.0	Egypt	13.8	13.6	16.2	8.4	9.0

Banking interest rates (%)

	Lending (Corp. avg)	2018	2019	2020F	2021F	2022F	Deposits (HH avg)	2018	2019	2020F	2021F	2022F
CEE	Czech Rep.	2.7	3.2	2.3	1.8	1.7	Czech Rep.	0.9	1.5	0.8	0.3	0.3
	Hungary	2.3	2.5	2.7	2.6	2.5	Hungary	0.2	0.2	0.3	0.4	0.4
	Poland	3.5	3.6	2.6	2.0	2.0	Poland	1.7	1.6	0.5	0.2	0.2
	Slovakia	2.2	1.9	2.0	1.8	1.8	Slovakia	0.1	0.1	0.0	0.0	0.0
	Slovenia	2.2	2.1	2.1	2.0	2.0	Slovenia	0.2	0.2	0.1	0.1	0.1
SEE	Albania	8.1	7.2	6.3	6.3	6.6	Albania	0.7	0.7	0.5	0.4	0.5
	Bosnia Herzegovina	-	-	-	-	-	Bosnia Herzegovina	-	-	-	-	-
	Croatia	6.4	5.8	5.4	4.7	4.2	Croatia	0.6	0.3	0.1	0.1	0.1
	Romania	7.0	7.3	6.2	5.7	5.7	Romania	1.7	2.2	1.8	1.3	1.3
	Serbia	8.6	8.0	5.9	5.9	6.0	Serbia	2.7	2.5	1.5	1.1	1.2
CIS & MENA	Moldova	9.1	8.8	8.4	7.8	8.0	Moldova	4.5	4.3	4.0	3.6	4.0
	Russia	8.9	8.7	6.8	6.2	6.7	Russia	5.4	5.4	3.7	2.9	3.1
	Ukraine	19.0	19.8	14.0	11.0	11.0	Ukraine	12.0	12.9	6.1	4.5	4.5
	Egypt	18.3	16.1	11.5	10.2	10.0	Egypt	12.3	11.0	7.7	7.1	6.7

Source: Intesa Sanpaolo Research Department forecasts

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