INTESA SANPAOLO

Economic and Banking Outlook
Countries with ISP subsidiaries

March 2020

Quarterly note

Intesa Sanpaolo
International Research Network

The Covid-19 shock is leading to a severe downturn overall and to uncertain expectations on the recovery profile. Bold actions by monetary and fiscal authorities are being set up to avoid deeper recession and financial crises.

The outbreak of the Covid-19 virus has dramatically changed the economic landscape at a global level and in the regions with ISP subsidiaries as well. The virus spread rapidly from China in January to major Western countries in February, to the whole of Europe and North America in early March. Alarmingly, it is now moving into the south hemisphere of the world. To date, the virus has infected around 1 million people worldwide and its spread continue to accelerate.

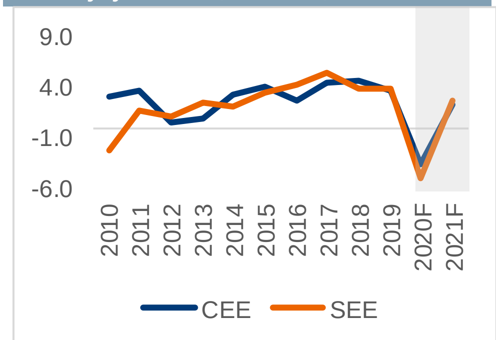
In order to stop or simply curb the contagion, most of the countries have adopted, with different levels of intensity, 'social distancing' measures by declaring states of emergency, closing borders, shutting schools, banning public gatherings and travel, and limiting or even suspending economic activities. It can be estimated that for each week of restrictions, the negative shock on annual GDP growth In the countries with ISP subsidiaries, is on the order of 0.5-1.0pp. The exact magnitudes remain dependent on its severity and on the monetary and fiscal responses enacted to soften the economic impact and sustain recovery once the virus recedes. Fiscal packages are being implemented of an order in some cases beyond 10% of GDP, when including loan guarantees and other indirect actions in addition to direct cash payments.

How long the periods of restrictive measures will last (and how effective monetary and fiscal responses will be) is hard to predict. On the assumption that the containment period may last two months circa – roughly resembling the Chinese experience in Hubei – the economic impact may be in a range of 4-7pp lower annual GDP growth with respect to pre-Covid-19 scenarios. In these circumstances, GDP growth rates in the CEE/SEE region are expected to fall by 4% on average in 2020 (from positive 3.7% in 2019 and 3% ca. in the pre-Covid scenario) with peaks of almost -6% in countries (eg, Slovakia, Slovenia in CEE and Croatia, Romania in SEE) that are highly integrated with the EA's manufacturing and trade sectors or especially sensitive to revenues from tourism or remittances. Outside the CEE/SEE region, the economy is also forecast to enter recession for CIS countries (-1.5% GDP growth in Russia) and to slow in Egypt (to 2.5% *vs* 5.6% in 2019). Forecasts remain tilted to the downside. A deeper recession cannot be excluded, should restrictions be extended for a longer period or of a second wave of contagion occurs this year, while significant uncertainty still surrounds the strength of the recovery profile.

Central banks have reacted in a prompt manner to the changes in the economic landscape. In the face of an abrupt turn towards recession and with non-marginal risks of seeing severe financial crises, all the CBs in the CEE/SEE region (in parallel with the ECB and the FED) have announced or already enacted bold measures aimed at ensuring liquidity to banking systems, loosening banks' capital and liquidity buffers, and curbing credit spreads in the markets. Policy rates were slashed in March in CZ (-125bp, to 1%), PL (-50bp, to 1%), RO and RS (both -50bp, to 2% and 1.75%, respectively) and additional cuts appear quite likely.

Measures are being taken at local levels to ensure liquidity, refinancing of loans and deferral of instalment payments for enterprises and households under financial distress. Banking aggregates are expected, however, to be severely affected by recession. A contraction (potentially tempered by provisions of State guarantees on loans to support firms' liquidity) is quite likely to occur in lending and a severe slowdown (but also contractions in some cases) in the case of deposits, due to liquidity stress in the corporate sector and deteriorated income conditions among households.

GDP % yoy CEE/SEE (2021F-22F)



Sources: ISP Research Department forecasts; note * weighted average

GDP % yoy CIS/Egypt (2021F-21F)

Sources: ISP Research Department forecasts; note * weighted average

The figures in this document have been updated to 30th March 2019.
See the final page for important information.

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ALBANIA INTESA SANPAOLO BANK Albania
ROMANIA INTESA SANPAOLO BANK Romania
CROAZIA PRIVREDNA BANKA ZAGREB
SLOVENIA BANKA KOPER
BOSNIA-ERZEGOVINA INTESA SANPAOLO BANKA Bosna i Hercegovina
SERBIA BANCA INTESA Beograd
RUSSIA BANCA INTESA
UCRAINA PRAVEX-BANK
UNGHERIA CIB BANK
EGITTO ALEXBANK | بنك الإسكندرية
SLOVACCHIA E REPUBBLICA CECA VÚB BANKA

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

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

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

Cross Country Analysis

Recent developments

Gianluca Salsecci, Giancarlo Frigoli, Antonio Pesce and Davidia Zucchelli

At the end of March, each country in the **CEE/SEE region** implemented containment measures to combat the spread of Covid-19. States of emergency were declared by local authorities and governments introduced measures calling for social distancing and the closure of nearly all economic activities (excluding those deemed essential for human health and safety). Public authorities also launched policies to reduce the economic impact of the pandemic. Strong monetary policy easing was implemented, and fiscal policy actions were announced. To combat the supply shock, governments announced several initiatives, such as the postponement of fiscal payments. Further, measures were put in place to end the contrasting the demand shock, namely the contraction of private demand due to losses of disposable income – eg, wage subsidies and social transfers.

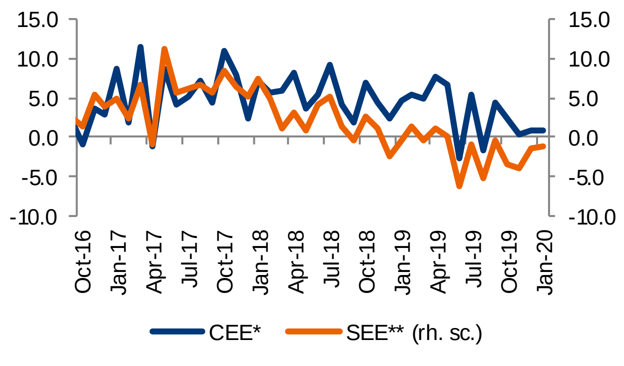
Economic dynamics still robust, but on a decreasing path in the CEE/SEE areas in 1Q20

At the beginning of this year, following the slight slowdown confirmed regarding **GDP data** in the CEE region (2.9% y/y in Q4 from 3.6% of Q3) and the still strong GDP growth in the SEE region (3.9% in Q4), monthly business cycle indicators had sent signals of a still robust economic dynamics even if on a decreasing trend. In January, these signals had been evident in some of the most important data releases, such as retail sales (3.9% y/y on a regional weighted average in CEE and 6.0% in SEE), as well as in exports (0.5% y/y and 3.8% y/y, respectively) and in the industrial production sector trend at 0.8% in CEE, but at a negative rate in SEE (-1.2%). These early year's signals of just soft slowdown, however, are going to be drastically revised in the upcoming releases of business cycle indicators due to the outbreak of the pandemic and the containing measures being adopted since Marche The March ESI release - even if could not capture yet the full impact of the shock - already decreased in all CEE countries.

Temporary increase of inflation seen in the last few months in CEE region; inflation stable in the SEE area

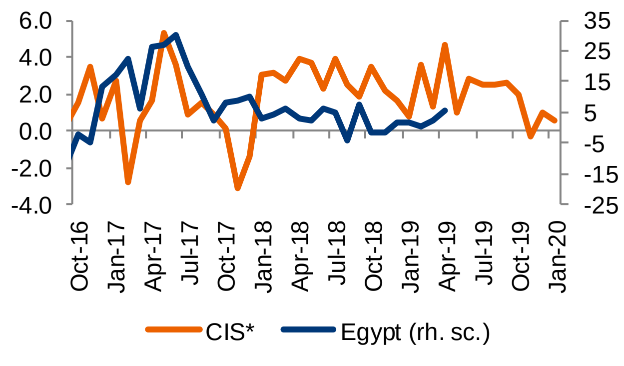
With the oil price on an increasing path from October of last year until the first half of January 2020, before starting to fall towards an historical low (US$22/bbl at present), the **inflation** rate in the CEE area rose to 4.1% (on a weighted average basis) in February and remained roughly stable in the SEE area (2.7%). In an international and local context of **monetary policy** easing, the short-term interest rates in the CEE/SEE regions have remained close to historical lows, even with additional decreases seen in several SEE countries. The flight to quality by investors in the current economically stressed situation pushed the 10Y Bund yield down to -0.5% while the **long-term yields** in some CEE/SEE countries increased due to additional rises of spreads with respect to the benchmark. In March, in CEE/SEE countries, stock market indexes fell significantly, by double-digit rates with respect to three months ago and **local currencies** depreciated against the euro by 6-7% and 1-6% in CEE and SEE countries, respectively.

Industrial production % y/y – 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 % y/y – CIS/Egypt



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

According to official statistics, **CIS countries** and **Egypt** seem so far to have seen a relatively smaller numbers of Covid-19 cases. Authorities have adopted restrictions to free movement, national and international transport systems, and gatherings in public places and a few services, namely education and hotels and restaurants, have been closed or opening times limited.

In CIS countries and Egypt, the Covid-19 outbreak is also going to hit the economies hard even if to a lesser extent than in CEE/SEE Region

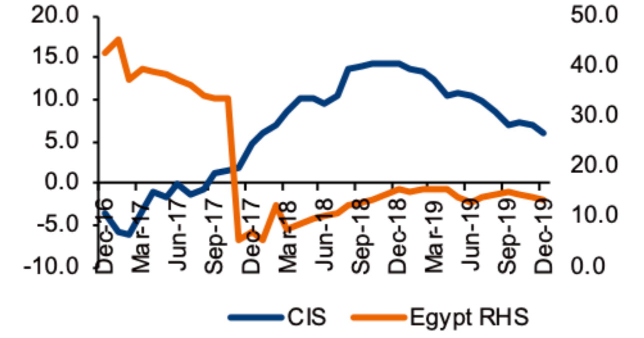
In **Russia** a 'high alert regime' has been introduced.in the week of March 28 – April 5, all non-essential work will be suspended, and workers will receive paid leave. Before the onset of the pandemic, in Russia, real GDP increased by 1.8% in 4Q19 (1.3% for the whole year from 2.5% in 2018). At its 20 March meeting, despite the deterioration in global conditions and notwithstanding the low inflation situation, the CBR abstained from making additional cuts, highlighting the risks of significant depreciation of the rouble. In **Ukraine**, real GDP growth slowed to 1.5% in 4Q19 from 4.1% in Q3 reflecting a weaker cereal harvest and the drop of manufacturing output (3.3% for the whole year). The UCB cut its policy rate by 100bp, to 11%, at its March meeting and forecast the rate to fall to 7% by year-end. In **Moldova**, the CBM cut its main policy rate twice in March for cumulative 225bp, to 3.25%, taking into account the negative effects of the coronavirus on the economy. Real GDP growth almost stopped entirely in 4Q19 (+0.2% y/y vs + 4.3% in Q3), for real growth in the whole of 2019 of 3.6%. In **Egypt**, the CBE cut its main policy rates by 300bp at an extraordinary meeting in March (maximum rate down to 10.25%) in order to contain the negative impact on the economy of the internal and external measures instituted to contain the virus. Real GDP growth was a strong 5.6% in the first half (July-December 2019) of FY20.

The **banking aggregates** dynamic before the crisis was positive but very diversified. In 2019, banks showed improved fundamentals, growing loans and deposits, solid liquidity and capital buffers and higher asset quality. In CEE countries, total loans to the private sector decelerated (the weighted average was 6.1% in 2019), in line with the macroeconomic slowdown while average SEE loans remained stable (6.8%), supported by a more resilient overall economy. Amon SEE countries, Albania posted a strong recovery (+6.5% in 2019), Bosnia's performance was good (6.6% in 2019), and growth accelerated in Croatia (3.9%). Loans continued to be driven by the household sector, but a deceleration was seen due to CB measures implemented to slow down household indebtedness. Loans to households remained strong in 2019, especially in Hungary (+15.6% y/y) and Croatia (+6.9% y/y). Some signs of recovery had emerged before the Covid-19 spread for the corporate sector: lending in CEE countries increased by 3.7% in 2019; in SEE countries, it accelerated slightly, to 5.8%. The situation in CIS was mixed, with private sector loans in Russia decelerating to 7.1%, but accelerating to 13.9% in Moldova. They fell by 8% y/y in Ukraine, mainly due to write-offs.

Dynamics of banking aggregates before the crisis were positive, although decelerating slightly

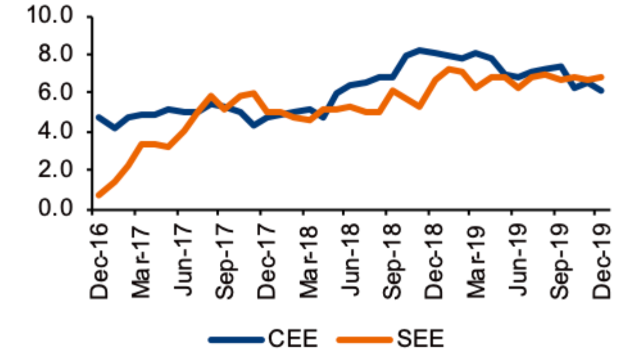
Thanks to good labour market conditions, in 2019 deposits still increased by 8.2% in CEE countries and 10.8% in SEE countries. Among CIS countries, a material slowdown occurred in Russia (4.2%). In Egypt, banking aggregates remained dynamic in 2019 (loans up 13.4% and deposits +13.6%) in nominal terms.

Lending growth (% y/y chg, weighted averages)



Sources: ISP Research Department elaborations on central banks' data

Lending growth (% y/y chg, weighted averages)



Sources: ISP Research Department elaborations on central banks' data

The international outlook underlying the scenario

A significant negative impact on GDP is forecast in Q2/Q3 2020 in the US and the EA

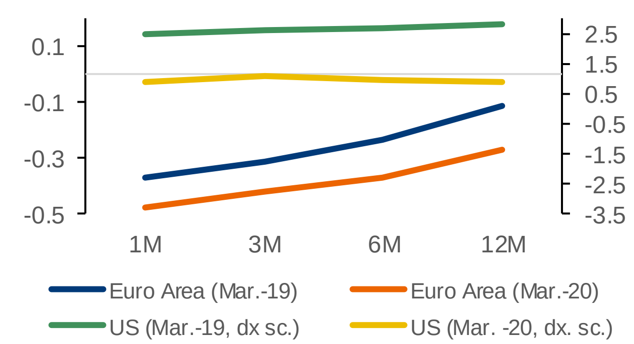
In the US, about 80% of states introduced restrictions on non-essential activities and limitations on public gathering and transport. With a few exceptions (California), manufacturing has so far been exempted from closure. On the assumption that lockdowns end within one quarter, a rebound in activity could materialise in Q3 and Q4, though not in all sectors, but sufficient to move yearly growth into positive territory in 2021. In this scenario, real GDP is expected to fall sharply this year. The Fed has introduced aggressive measures using all the tools at its disposal. Rates have been cut to zero and the supply of both domestic liquidity (with frequent and large repos) and international liquidity (through swap lines agreed with 14 central banks) have been massively stepped up. A new APP of unlimited in duration and size has been set up. The last step was the direct funding of businesses and households (via SPVs guaranteed by the Treasury), with facilities to activate loans to large corporations, corporate bond purchases, and the purchase of securities guaranteed by loans to households and small enterprises.

Unlimited support from the authorities is expected as economies fell into recession

In the Eurozone, an unprecedented contraction of GDP is expected to take shape in Q2 (slashing the 2020 growth rate), with a rebound seen to start later in the year. A crucial issue is to prevent uncertainty on the duration of lockdown conditions from translating into job losses and the definitive closing of businesses. In this regard, new forms of financial support to member states are currently at the attention of the Eurogroup; among others, a plan to spend €100bn on saving jobs, government access to the ECCL (Enhanced Conditions Credit Line) under modified ESM conditionality or issuance of jointly guaranteed bonds, *ad hoc* funds made available through the EIB. Bold measures have been adopted by the ECB to ensure liquidity to the markets (new LTROs, more favourable terms for TLTRO III, enlargement of APP, new PEPP) summing to more than €1tn of interventions overall. In its Decision (EU) 2020/440 on the rules of the PEPP, the ECB also increased the degree of flexibility of the programme. While cumulative net purchases will continue to be guided by the capital keys rule (art. 5.1), "the purchase allocation may be adjusted under the PEPP to allow for fluctuations in the distribution of purchase flows, over time, across asset classes and among jurisdictions (art. 5.3)".

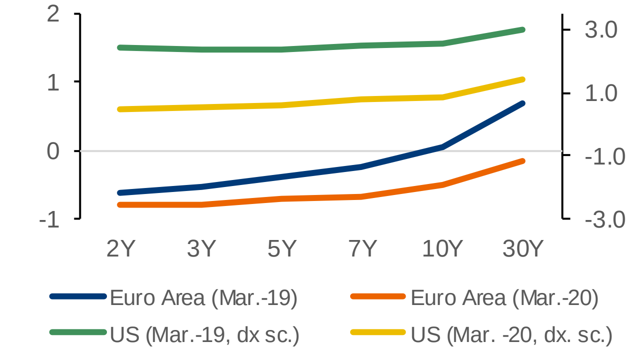
Aggregate GDP for the Emerging world is also expected to be severely hit in 2020. Weaker fuel prices are likely to shave up to 1% off headline EM inflation. Later this year, the impact of currency weakness could start to feed through. However, collapsing demand could mean that the pass-through is likely to be smaller than usual. We then expect that most EM central banks will cut interest rates further in the coming months even if large external imbalance might constrain their ability to do so in countries like Turkey. EM financial markets came under pressures as a result of the pandemic shock and are likely to remain in this condition until there is clear evidence that the spread of the coronavirus is being brought under control. EM equities have lost all the gains achieved since 2017. Currencies have also come under severe pressure. Commodity currencies, like the Russian rouble and Brazilian real, have been hardest hit. Government bond spreads have surged to levels not seen since 2009.

Benchmark monetary rates



Source: ISP elaboration on Datastream data

Yield curves



Source: ISP elaboration on Datastream data

The economic outlook

GDP growth and inflation

The lockdown of economic activity will impact production in several cases. The most affected sectors will be those more closely linked to tourism and entertainment and leisure sectors, where value added lost during the period shutdown could reach 100%. Containment measures will also impact manufacturing, wholesale and retail sectors, where value added lost in the shutdown period could be estimated in a range between of 40-60% on average (only mitigated by increased expenditures on food and health care products). The impact will probably be contained in those sectors where work can be more easily carried out remotely (financial and IT).

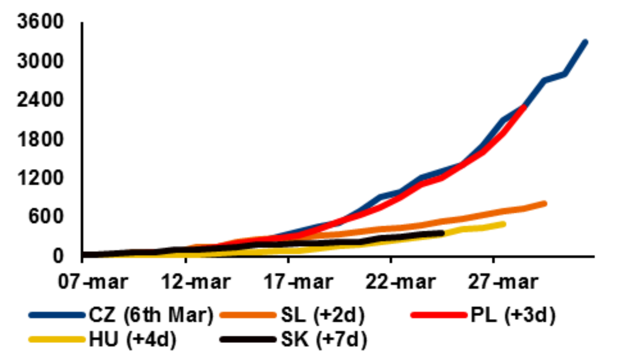
A severe impact of the epidemic shock is forecast in CEE/SEE Countries' economic activity and GDP growth via both supply and demand channels

Given the above-mentioned assumptions and taken into account the value-added share of each sector, we estimate that for each week of lockdown the annual GDP growth will be about 0.8pp below the baseline in the CEE region (from 0.7pp in Poland to 1.0pp in Slovak and Slovenia) and about 1.0pp below the baseline in the SEE region (from 0.7pp in Albania to 1.1pp in Romania). The economic path in the few next quarters will depend on the further spread of Covid-19. Epidemiologists cannot provide forecasts on this yet. The Chinese experience implies that it may be reasonable as a "working hypothesis" to assume that the containment measures may remain in place for about eight weeks. In such circumstances, GDP is forecast to contract in the CEE and SEE regions (to -3.6% and -5.1%, respectively) in 2020. In 2021, the GDP dynamic is expected to move back to the pre-Covid-19 baseline at 2.3% and 2.6%, respectively, on the assumption that the containment measures will work, and that fiscal policy stimuli will have been able to soften the supply and demand shocks related both to partial or total closure of activity and shortage of liquidity among enterprises and to increased unemployment and loss in disposable income among households. In 2020, average inflation is expected to decrease in the CEE and SEE regions (1.7% and 1.1%, respectively) due to the decline foreseen in energy prices which will prevail over the increasing inflationary pressures related to supply constraints. In 2021, we expect end-period inflation to go back close to our December forecasts.

We now see all CIS countries entering recession in2020. The downturn is expected to be milder (-1.5%) in Russia, which is better equipped to take fiscal measures aimed at sustaining domestic demand. Moreover, its economy is potentially one of the least exposed to the effects of the coronavirus: it has a small tourism sector and household consumption of goods and services most vulnerable to social distancing (public transport, entertainment, restaurants) is small by EM standards. GDP growth is expected to slow significantly in Egypt, with the economy hit by lower revenues related to tourism, Suez Canal fees, remittances and capital inflows. All these economies are expected to rebound in 2021 and resume the previous trend in the M/L term. The weakness of domestic and foreign demand will help to contain inflationary pressures, but in Russia, the significant depreciation of the currency is expected to keep inflation above the 4% target this year. In Egypt, inflation in foreseen n the lower bound of the 9% +/-3% target range.

All CIS countries in recession. In MENA, Egypt hit by falling foreign revenues and capital inflows

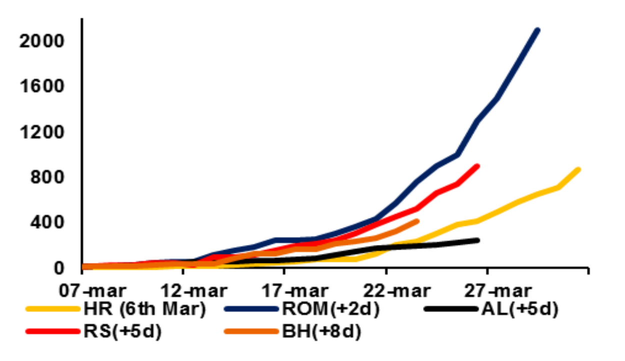
(Number of Covid-19 cases after the 10th case) - CEE Area



Source: WHO

Note: number of days after the 6th March in parenthesis

(Number of Covid-19 cases after the 10th case) – SEE Area



Source: WHO

Note: number of days after the 6th March in parenthesis

Monetary policy and financial markets

Following the monetary policy easing implemented in March with policy rates cuts (in Czech Republic and Poland to 1.0%, and in Albania, Romania and Serbia to 0.5%, 2.0% and 1.75%, respectively) and the measures adopted to support liquidity as in Hungary (through regular swap facilities and extension of eligible collaterals with loans of large corporates) and Croatia (reduction of the reserve requirements), strongly accommodative policies are foreseen in 2020 and 2021 overall, with further cuts of policy rates where there is still space (as in Czech Republic, Poland, Romania and Serbia) together with prolonged measures to support liquidity. With policy rates at historical lows, short-term interest rates are forecast to remain low or (in the countries where policy rates are expected to be further cut) to fall further, overall below the December forecasts in CEE and SEE countries except for Hungary, Slovakia and Slovenia, where they are already very low.

Monetary policies will remain strongly accommodative in CEE/SEE countries

We now expect that the monetary authorities of CIS countries will implement larger-than-previously-forecast rate cuts this year. The only exception is Russia, where inflationary pressures from the significant currency depreciation will probably restrain central bank easing. In Egypt, the CB may restrain from additional rate cuts, despite favourable external conditions, as the country needs foreign capital flows to fund its twin deficits.

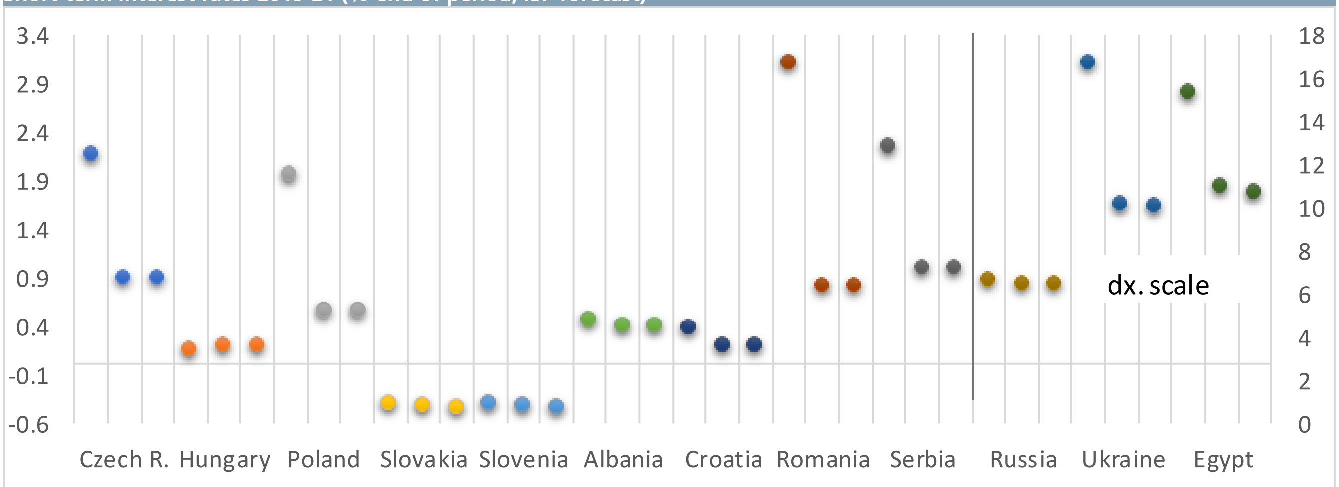
Larger-than-previously-expected rate cuts, but not in Russia

In parallel with the short-term interest rate forecast, long-term yields have been revised downwards in 2020-21. After taking into account the initial upward pressure on long-term yields due to higher risk aversion in international markets and flight to quality, we forecast a narrowing effect on sovereign spreads in the CEE/SEE region stemming from the quantitative easing programme set up by the ECB (see the International outlook section) and by national banks. As a consequence of financial market distress at the international level, in the forecast period, local currencies have been forecast to depreciate with respect to our December forecast. The depreciation, however, is expected to be modest, with exchange rates partly sustained by interventions of the central banks in forex market to avoid excessive volatility of local currencies in this extraordinary period.

The declines in commodity prices and the rise in risk premia on world capital markets have hit the currencies of large commodity exporters, like Russia, or with large external financial requirements, like Ukraine. These pressures are expected to subside starting later this year or in 2021. Smaller foreign inflows are seen to lead to a weaker-than- previously-expected Egyptian pound.

The fall in commodity prices to weigh on CIS currencies in the short term and smaller capital inflows on the EGP.

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



Source: ISP Research Department forecasts

Bank aggregates and interest rates

Strong effects on banking aggregates…

Banking aggregates, especially loans, are expected to be strongly affected by the recession forecast in all countries with ISP subsidiaries (except Egypt, where a severe slowdown is expected). Nevertheless, the negative effects will be at least partially softened by the measures being adopted by central authorities with the purpose of ensuring the necessary liquidity conditions to support the corporate and household sectors. Among the major measures, in all the countries, moratoriums on payments have been enacted, with grace periods running from two months (Moldova) to 12 months (Slovakia, Slovenia, Poland). Further measures include banks' refinancing at convenient interest rates (in all countries) and reductions of mandatory reserve requirements (Croatia, Poland). Deposits are expected in parallel to experience a severely slowdown (and contraction in some cases) depending on the relative strength of the opposite effects of deteriorated labour market conditions and stronger savings' precautionary motive.

…partly softened by new measures adopted by central authorities.

In **CEE countries**, the crisis burst while the financial cycle was about to slow down because central banks had already adopted some measures to slow down household lending. Therefore, forecasts show a relevant average decline (to -1% in 2020). In the **SEE area**, under the weight of the recession as well and more fragile fundamentals (higher NPL ratios), all the countries with ISP subsidiaries are expected to show a fall in lending (to -2.6% in 2020). The **CIS countries,** loans are still expected to slightly increase in 2020 (+1.3%, on average, below inflation rates). In **Egypt**, lending dynamics are foreseen to decelerate (+7.5% in 2020) while remaining well below nominal GDP growth.

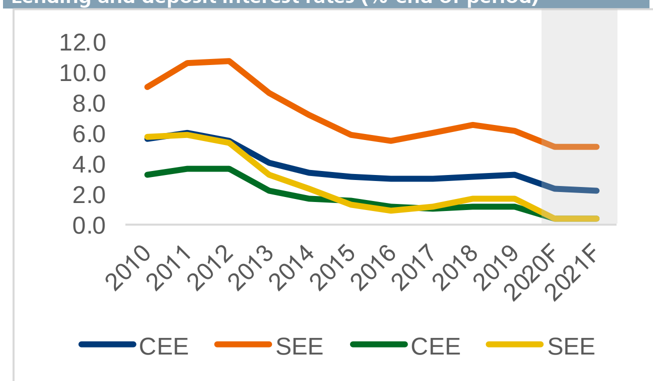
Deposits hit by a deterioration of labour market conditions, but supported by savingsì' precautionary motive

As far as **deposits** are concerned, the deterioration of macroeconomic conditions will reduce liquidity in the corporate sector and savings in the household sector (because of higher unemployment, lower wages and lower remittances only partially offset by government subsidies) negatively affecting deposits while savings' precautionary motives will tend to support them. To date, only in Serbia have some temporarily deposit outflows been reported.

After a strong 2019, profitability is expected to deteriorate dramatically

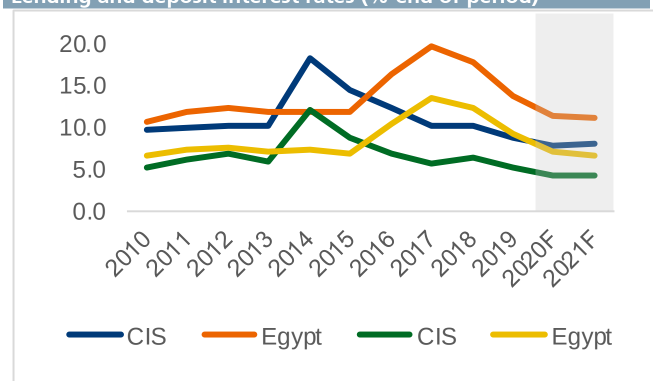
In a context of still falling monetary rates, banking interest rates are expected to remain low. In order to increase banks' capacities to fund the private sector, **counter-cyclical capital buffers** have been reduced in many countries (to 0% in Poland and Serbia), but at the same time, to support capital, dividend distributions are being postponed (in Slovenia, Slovakia, Croatia). A **tax reduction** has been applied to banks in Slovakia. **Profitability**, which improved in 2019, is expected to deteriorate dramatically in 2020 because of a fall in activity, lower interest rates, higher losses and provisions implemented to address a likely worsening of asset quality. NPLs are expected to increase, but new accounting rules have been approved (by international authorities, EBA/ECB/IASB and in Russia) to allow more flexibility in evaluating credit risk (default vs temporary illiquidity) of loans, but also equity and bond securities.

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

Zdenko Štefanides

The Czech Republic has reported the highest number of Covid-19 cases in Central Europe, more than 3,000 as of March 31. It also has the highest death toll from the disease, which prompted the government to adopt strict containment measures, including the suspension of schools, the banning of public gatherings, the general closure of services and retail outlets, a complete travel ban, a state of emergency and a nationwide curfew until April 11, possibly longer.

As is the case elsewhere in Europe, amid the pandemic and public health crisis the Czech economy is also heading towards a recession, the extent and shape of which will probably be more painful than the 2009 financial crisis. Relative to other countries in the region, however, the Czech economy could have an advantage given the reasonable fiscal cushions that have been acumulated in the past years, which might now be used to help it overcome the current crisis with less damage than in other countries. Preliminary figures speak of CZK 1tn, or some EUR 36bn, equivalent to 18% of GDP, being allocated to direct support for firms and guarantees.

Financial Markets

An exceptionally hawkish central bank, the Czech National Bank (CNB) actually hiked interest rates in early February (the only central bank in the world to do so in early 2020) by 25bps to respond to the country’s above-target inflation. As the pandemic hit the Czech Republic shortly afterwards, this move was quickly reversed in an extraordinary meeting on March 16, when rates were slashed by 50bps. A further 75bps cut was delivered in a regular meeting on March 25. The key two-week repo rate thus now stands at 1.00% and the CNB has indicated a readiness to lower it again should the situation require it. Meanwhile, the door was also opened to potential QE as the government approved an ammendment that would enable the CNB to buy bonds on the secondary market. Finally, the CNB made clear that it stands ready to intervene in the foreign exchange market if the koruna becomes too volatile.

Banking Sector

The CNB has also aknowledged that fortunes have changed for the banking sector. It thus revoked its earlier decision to increase the anti-cyclical capital buffer from July 2020 and instead lowered it, to 1.0% from April 1, and declared a readiness to reduce it to zero if needed. In addition, the central bank advised local banks to let clients postpone loan installments to alleviate the pressure on their financial positions. It is clear, however, that appetite for new lending will freeze with the incipient economic recession. Revisions of the current forecasts for loan and deposit volumes will thus likely be inevitable in the months ahead.

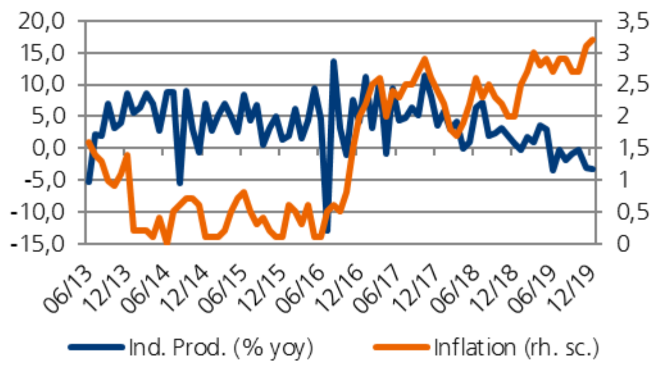
Forecasts

	2019	2020F	2021F
Real GDP yoy	2.4	-4.8	1.9
CPI (eop)	3.2	0.6	2.2
Euro exchange rate (value, eop)	25.5	27.5	25.8
Short-term rate (eop)	2.2	0.9	0.9
L/T bond yields (eop)	1.6	1.3	1.4
Bank loans (pr. sector, yoy)	5.2	-2.2	2.6
Bank deposits (pr. sector, yoy)	6.1	0.4	2.6
Lending interest rate (corporates, eop)	3.6	2.0	1.9
Deposit interest rate (households, eop)	1.5	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: Czech Statistical Office

Hungary

Sandor Jobbagy

Real Economy

Given the threat of a faster-than-expected spread of the Covid-19, a state of emergency was announced for all of Hungary for an indefinite period from March 11. All country borders have been closed to personal traffic. Universities, schools, entertainment facilities and cultural institutions are closed, while shops operate with limited opening hours. The operation of companies has not been limited, but the major car manufacturers have suspended production. From March 28 to April 11 a limited lockdown has been introduced across the entire country.

The containment measures have had a severely negative impact on car production and tourism such as hotels and catering, airlines and taxi services. The government has announced some tax and social benefit remedies for SMEs, lending support for corporates and other measures in a programme totalling 18-20% of GDP together with the MNB's measures, but details of the fiscal package are yet to be announced. As a result, we project a severe drop in GDP, especially in 2Q20, and further negative impacts in Q3 amid a strong rise in unemployment. Our baseline suggests a full-year recession for 2020 (-2.6%), which may become even more severe as we move into Q3 and Q4 (closer to -5%) in the event of a more severe or persistent pandemic path.

Financial Markets

The MNB left the 3M policy rate (0.90%) and the more functional O/N depo rate (-0.05%) unchanged in March but decided to support interbank liquidity through regular swap facilities (1, 3, 6 and 12m) and the extension of eligible collaterals with loans of large corporates (ca. HUF 3,600bn, EUR 10bn altogether in the banking sector). The MNB also announced one-week FX swap tenders providing forint liquidity on a daily basis from March 17 (to smooth liquidity fluctuations) and liquidity at 3Y and 5Y maturities at fixed rates in an unlimited quantity, which banks may use for any purpose. In addition, it suspended repayments of loans given under the MNB's Lending for Growth Programme. Furthermore, the MNB has relieved domestic counterparty credit institutions of their reserve requirements until further notice. The MNB's Financial Stability Council has reduced banks' administrative burden related to bank supervision to ensure flexible adjustments to prudential requirements, e.g., capital requirements, on a temporary basis. It has also temporarily loosened its regulations on mortgage bond funding.

Banking Sector

From March 19 to Dec 31 a suspension of repayments on all loans to households and corporates taken before March 19 will be offered, affecting both interest and capital payments, due to a government decision. These payments will be due later, but the monthly repayment burden should not be raised after the suspension period. The central bank expects that about 80% of all debtors will decide to take up the offer, which would result in a HUF 40bn income loss in the banking sector. The banking sector's capital and liquidity position is sound and banks appear able to remain in solid shape despite the lending measures, which are supported by the aforementioned central bank measures.

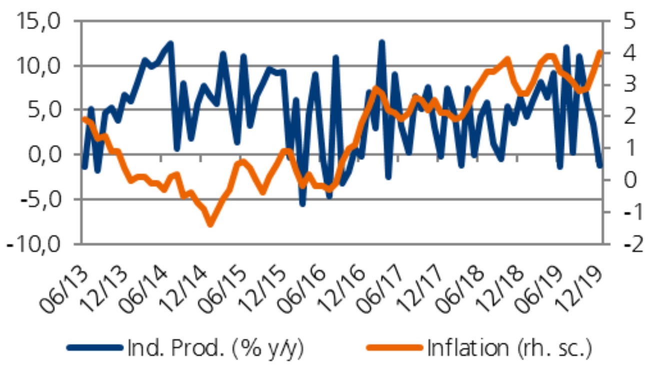
Forecasts

	2019	2020F	2021F
Real GDP yoy	5.0	-2.6	2.8
CPI (eop)	4.0	1.7	2.9
Euro exchange rate (value, eop)	297.6	343.2	337.9
Short-term rate (eop)	0.2	0.2	0.2
L/T bond yields (eop)	1.9	1.9	2.0
Bank loans (pr. sector, yoy)	13.3	0.3	4.5
Bank deposits (pr. sector, yoy)	8.0	3.3	4.7
Lending interest rate (corporates, eop)	2.3	2.4	2.3
Deposit interest rate (households, eop)	0.2	0.2	0.2

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Hungarian Central Statistical Office

Poland

Real Economy

Sandor Jobbagy

From March 13 the Polish government has been urging people to avoid travel abroad due to the increasing spread of Covid-19. Between March 13 and 16 all domestic flights were banned and all schools, shopping malls, restaurants and entertainment facilities were closed. Mass events are also banned, with gatherings restricted to 50 people. Country borders were shut down and individuals crossing the border have to undergo a 14-day quarantine. People are banned from leaving their homes except for reasons such as seeing a doctor, working or shopping. Several branches of the economy, including tourism and domestic transport, have been badly hit by the crisis. The closing of borders has also put at risk the continuation of much construction because this industry relies heavily on the Ukrainian workforce. On March 18 a fiscal stimulus package of PLN 212bn (more than 9% of GDP) was announced by the Polish government. Polish public debt is relatively low in terms of GDP (less than 50%) so there is sufficient fiscal room for the measures, especially as funds worth only 3% of GDP in this package are direct cash outflow, the rest includes guarantees and other indirect fiscal actions. Further fiscal measures are likely in May if the virus situation fails to ease. We expect a severe drop in GDP, especially in 2Q20, and further negative impacts in Q3. Our baseline scenario suggests a full-year recession for 2020 (-2.9%), which may be even more severe (worse than -5%) going into Q3 and Q4 in the event of a more severe or persistent path of the pandemic.

Financial Markets

The main policy rate of the NBP was lowered by 50bps to 1.00% on March 17. Other monetary actions included additional liquidity supply to the banking sector through repo operations, large-scale QE, i.e., the purchase of Treasury bonds on the secondary market, the introduction of discount credit for banks, which, like the TLTRO programme of the ECB, will enable the refinancing of loans granted by banks to non-financial corporations. The NBP also cut the required reserve rate and raised the interest on the reserve from 0.5% to the level of the reference rate. This will enable the creation of an additional liquidity buffer for banks and will lower their costs related to the maintenance of reserves. Further actions are in the pipeline.

Banking Sector

Further actions by the CB that would affect the banking sector may include the implementation of a grace period for the repayment of loans. This possibility has been mentioned by the banks, however, on March 24 the government claimed that there was no need for a one-year loan repayment halt. On March 31 the Polish Banking Association announced that about 200,000 retail customers and about 10,500 enterprises had applied for a pause in repayments at Polish commercial banks. Banks could be supported by a reduction or suspension of the banking tax, in particular in terms of corporate exposure. The NBP Management Board also supports a reduction in the systemic risk buffer to maintain the supply of credit by banks. A reduction in the rate from 3% to 0% would free up approximately PLN 30bn of capital.

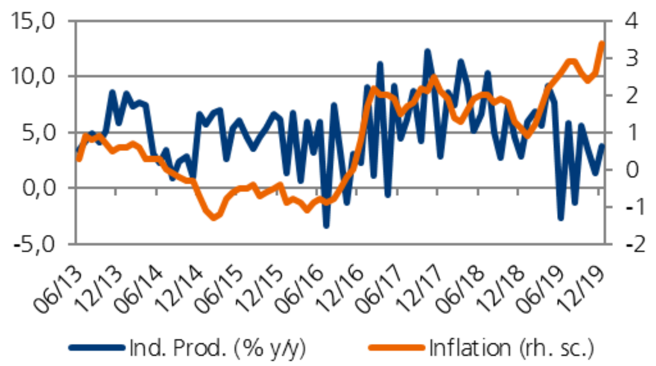
Forecasts

	2019	2020F	2021F
Real GDP yoy	4.0	-2.9	2.4
CPI (eop)	3.4	0.8	2.6
Euro exchange rate (value, eop)	4.3	4.6	4.5
Short-term rate (eop)	2.0	0.6	0.6
L/T bond yields (eop)	2.0	1.8	2.0
Bank loans (pr. sector, yoy)	4.7	-0.4	3.8
Bank deposits (pr. sector, yoy)	9.7	2.3	4.4
Lending interest rate (corporates, eop)	3.6	2.5	2.4
Deposit interest rate (households, eop)	1.5	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: Statistics Poland

Slovakia

Michal Lehuta

Real Economy

The Slovak economy is also being hit by the Covid-19 pandemic and the related counter-measures have halted a significant portion of local activity. The first case of Covid-19 in the country was registered on March 6 and within a week strict measures were adopted, such as abolishing mass events, closing schools, shutting borders to non-essential travel and closing most shops.

This will inevitably bring about a self-imposed recession in the first half of 2020. Apart from falls in transport, tourism and most retail sectors, the important automotive industry was virtually shut down as all four car assembly plants have halted production. In our baseline scenario, we thus expect an annual fall in GDP by almost 6% this year – similar to that in 2009. If the pandemic situation persists for longer than expected and quarantine measures are necessary for more months of the year, the local economy could contract even more.

This will certainly increase the local unemployment rate. The extent of the rise in joblessness will depend on the effectiveness of the government's counter-measures to fight it, such as the local version of *kurzarbeit* (paying up to 80% of wages in affected companies). However, this help still misses the largest employers, as it is limited to EUR 200,000 per month.

Financial Markets

The spread between 10Y Slovak government bond yields and (still negative) German Bunds had increased markedly, to 70-100bps, by the end of March due to the flight to quality in the markets (actual trading of Slovak paper all but vanished). The secondary markets thus seem to have not really incorporated the ECB's promise of new additional quantitative easing amounting to EUR 750bn until the end of 2020. Together with the recession in Europe, however, yields on long-term bonds in Slovakia are expected to continue to hover slightly above zero for the rest of the year, despite the expectation that large amounts of debt will be issued by necessary fiscal stimuli. The government will also help to ease local lending with EUR 500mn guarantees per month.

Banking Sector

Together with the possible postponement of monthly loan installments for affected clients, this might theoretically be able to keep local lending rates close to historical lows. However, the recession will affect the risk profiles of bank lending significantly. Thankfully, the new cabinet pre-announced that it will abolish the high special bank levy, which could have eaten up all of the local bank profits (if they are achieved at all this year). The central bank could also decrease the required counter-cyclical capital buffer, which it currently still plans to increase in August.

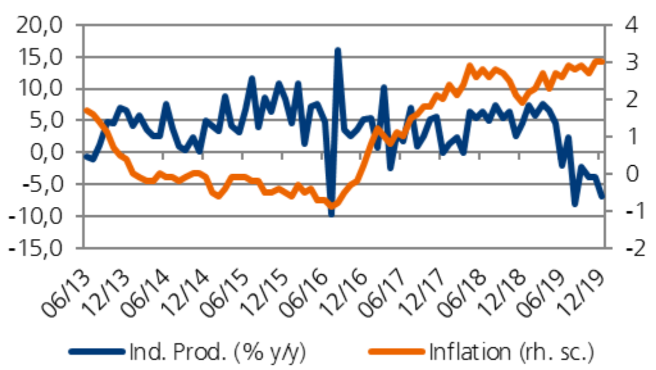
Forecasts

	2019	2020F	2021F
Real GDP yoy	2.3	-5.8	2.1
CPI (eop)	3.0	0.4	2.4
Short-term rate (eop)	-0.4	-0.4	-0.4
L/T bond yields (eop)	0.1	0.2	0.1
Bank loans (pr. sector, yoy)	6.2	-3.8	2.7
Bank deposits (pr. sector, yoy)	4.8	-1.2	3.1
Lending interest rate (corporates, eop)	2.1	1.9	1.9
Deposit interest rate (households, eop)	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 Slovakia

Slovenia

Real Economy

Ivana Jović

The Covid-19 outbreak in Slovenia (population 2.1mn) started on March 5, and by the end of the month the total number of confirmed cases had increased to 756, with 11 deceased. A range of measures has been implemented to delay the spread, including border checks, increased testing, limiting large gatherings and shutting down schools, public transport, restaurants and non-essential stores.

Slovenia is deeply integrated in global supply chains (exports of goods and services amount to 85% of GDP, 74% directed to the EU), so the impact that the lockdown will have on the local economy will be significant. The strict containment measures will have a devastating impact on the most exposed HORECA sector, while disruption in trade/supply chains will affect manufacturing (20% share of GDP), retail trade (11%) and transport (6%). Based on the assumption that lockdown measures across Europe will last for roughly eight weeks, we see GDP contracting by about 6% in 2020. The estimate is subject to downside risks amid the high uncertainty on the length of the lockdown.

An economic stimulus package of EUR 1bn (2.1% of GDP) was announced on March 9, including: (i) tax deferrals for up to 24 months or tax payments in installments of 24 months; (ii) wage subsidies for suspended workers due to pandemic-related closures and quarantined people; and (iii) government guarantees and credit lines available for financial support to the affected businesses, particularly SMEs (EUR 600mn). On March 24, the authorities announced a new additional economic stimulus package of EUR 2bn (4.2% of GDP). Measures include loan guarantees for companies, the purchase of claims to companies, co-financing of social contributions, temporary basic income for the self-employed and allowances for pensioners.

Financial Markets

Ana Lokin

As financial markets came under strain in March, government bond yields and spreads surged, reaching 0.7% i.e., 100bps at one point (10Y bond), though this subsided after extensive ECB measures were adopted (new LTROs, more favourable terms of TLTRO III, enlargement of APP, new PEPP). The average 10Y government bond yield is seen at 0.2% in 2020, with the spread to the Bund widening to 75bps, but forecasts remain strongly related to the success of safeguarding measures.

Banking Sector

The BSI extended ECB supervisory measures granting flexibility in the treatment of loans secured by government and SID banka guarantees, while banks are obliged by intervention law to allow clients affected by the pandemic a 12-month moratorium. Loans and deposits in 2020 are expected to be down by 3.8% yoy as household loans fall, corporates turn to own funds and deposits melt. Risks to our forecasts are balanced, as loan and deposit developments might be positively influenced by banks' measures and the fiscal package but may also come under stronger pressure in case of a deeper GDP decline.

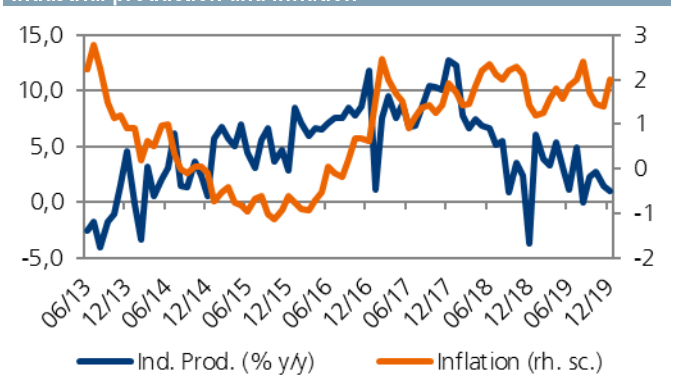
Forecasts

	2019	2020F	2021F
Real GDP yoy	2.4	-5.9	2.1
CPI (eop)	2.0	0.1	2.3
Short-term rate (eop)	-0.4	-0.4	-0.4
L/T bond yields (eop)	0.2	0.2	0.2
Bank loans (pr. sector, yoy)	3.7	-3.8	1.9
Bank deposits (pr. sector, yoy)	6.3	-3.8	3.4
Lending interest rate (corporates, eop)	2.2	2.0	2.0
Deposit interest rate (households, 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: Statistical Office of the Republic of Slovenia

Albania

Kledi Gjordeni

Real Economy

The Albanian government reacted quickly and strongly to reduce the spread of Covid-19 and has adopted a series of control measures prioritising the health of the population. These measures include the closure of all non-substantial economic activities, the closure of schools and universities, the prohibition of all major events and sports, the closure of restaurants and cafes, limited opening hours for food shops and banks, a ban on public transport, social distancing and the curtailing of people's leisure activities. Penalties for electricity bills have also been lifted. Albania has closed its borders, stopping almost all flights, passenger shipments and land crossings for all passenger vehicles. Retirees will receive their pensions at home by post. The government has invited everyone to work from home if possible, and granted paid leave to civil servants with young children. On March 24, the government declared a natural catastrophe, giving the government more powers to deal with the situation.

In order to mitigate the impact of the virus on the economy, financial cushioning measures have been introduced by the government, in particular: (i) USD 110mn as a social package to support lost jobs, affected families, pensioners, medical teams, social protection and hospitals structures; and (ii) USD 100mn as a "sovereign guarantee", a guarantee to companies that face difficulties in paying salaries. Due to the impact of Covid-19 the country is likely to see a sharp fall in economic activity, with GDP growth moving into negative territory.

Financial Markets

The BofA remains ready to use all the operational tools and regulatory space available to minimise the consequences of the pandemic on the economy and shore up the financial markets. In this context, on March 25 the CB lowered the base interest rate from 1% to an historical low of 0.5%. The Albanian government increased its participation in the money market (T-bills) by LEK 14.7bn. Yields in Lek on 12M T-bills have jumped to 1.94%. The Albanian government is also planning to issue EUR securities in the domestic market for at least EUR 100mn through an extraordinary auction to be held within the first/second week of April. In the FX market we have already noticed a rapid depreciation of the Lek against the Euro of 4.9%. The Bank of Albania is intervening in the FX market (selling Euro against the Lek) to stabilise the fluctuations.

Banking Sector

The BofA has created regulatory facilities for the banking sector regarding the classification and provision of loans. The CB has increased its operational capacity to guarantee the supply of money to the economy with an injection of unlimited liquidity into the banking sector. The Bank of Albania is ensuring that the electronic payment system functions normally within the working time restrictions set by the public authorities for banks, as well as guaranteeing fulfillment of all liquidity requests by the banking sector.

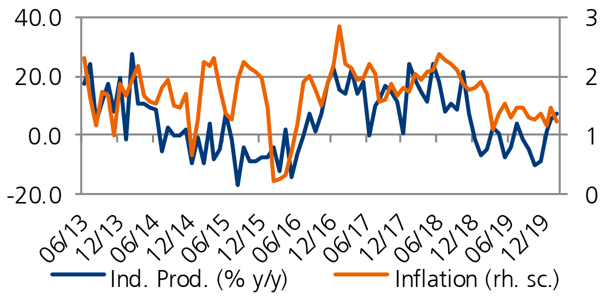
Forecasts

	2019	2020F	2021F
Real GDP yoy	3.1	-2.9	2.4
CPI (eop)	1.1	-0.8	2.2
Euro exchange rate (value, eop)	121.9	125.5	126.0
Short-term rate (eop)	0.5	0.4	0.4
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	6.5	-2.5	2.2
Bank deposits (pr. sector, yoy)	3.8	0.9	2.3
Lending interest rate (pr. sector, eop)	6.3	6.2	6.2
Deposit interest rate (pr. sector, eop)	0.7	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: National Statistical Institute

Bosnia and Herzegovina

Real Economy

Ivana Jović

The Covid-19 outbreak in BiH (population 3.5mn) started on March 5, while by the end of the month the total number of confirmed cases had increased to 379, with 10 deceased. Containment measures include the closure of borders to foreign nationals and an obligatory 14-day quarantine. Educational institutions were closed on March 12, followed by the cancellation of all public events and the closure of all but essential grocery stores and pharmacies, while a state of emergency and a curfew was introduced a few days later. In terms of the economic impact, this will be worse in sectors such as tourism (BOP income amounts to 5.6% of GDP), transport (3.6% share of GDP) and wholesale and retail trade (14.0%), as personal consumption plummets amid rising unemployment and declining remittances (≈10% share of GDP). Export-oriented manufacturing (e.g., textiles, footwear and automotive parts linked with Italy and Germany) has already seen the closure of businesses, but the negative consequences will be experienced across the board in manufacturing (13.2% of GDP).

Although some sectors (e.g., agriculture and IT) may experience positive growth rates, in general the economy is set to experience the strongest contraction since war times and GDP is expected to decline by about 4.5% based on the current assumption that lockdown measures across Europe will last for roughly eight weeks.

This estimate is subject to downside risks amid the high uncertainty on the length of the lockdown. So far, the government has announced that a total amount of about KM 1bn (3% of GDP) will be used to support the economy through: (i) setting up a special fund to stabilise the economy, mainly aimed at supporting exporting companies; (ii) establishing a guarantee fund to maintain and improve the liquidity of companies; and (iii) tasking the Development Bank with establishing a credit line to improve the liquidity of companies. In addition, the entities' governments have agreed on a three-month prolongation of corporate income tax payments, while discussions on a similar VAT prolongation are ongoing.

Banking Sector

Entities' agencies have allowed banks to grant clients (legal entities and households) impacted by the pandemic special measures. Special measures may consist of a moratorium or deferral of repayments, at least until the announcement of an end to the emergency, a grace period on the repayment of principal of up to six months, extensions of loan maturities, the granting of additional exposure to bridge liquidity gaps and other measures. Entities' agencies relaxed the prudential treatment of special measures, thus clients classified as performing as of February 29 will remain within the same risk category even if special measures are granted to them. Loans in 2020 are expected to plunge by 6.8% yoy owing to the late and inadequate policy responses to weakened private sector liquidity and revenue potential. Deposits are expected to narrow by 0.8% yoy owing to deteriorating corporate liquidity, whereas household deposits will find themselves under pressure from elevated unemployment and lower remittances.

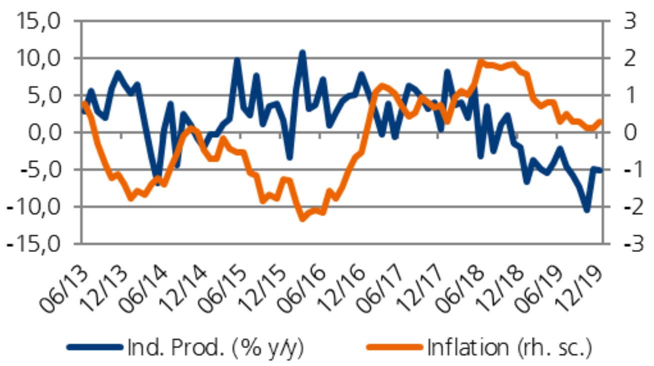
Forecasts

	2019	2020F	2021F
Real GDP yoy	2.6	-4.5	2.2
CPI (eop)	0.3	-1.0	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)	6.6	-6.8	2.7
Bank deposits (pr. sector, yoy)	8.4	-0.8	3.1
Lending interest rate (corporates, eop)	n.a.	n.a.	n.a.
Deposit interest rate (households, eop)	n.a.	n.a.	n.a.

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Agency for statistics of Bosnia and Herzegovina

Croatia

Real Economy

Ivana Jović

The Covid-19 outbreak in Croatia (population 4.1mn) started on February 25, while by the end of the month the total number of confirmed cases had increased to 790, with six deceased. Containment started early and has been gradually tightened from border controls to the closure of schools, open markets and public transportation and with restrictions on intercity travel, marking the country as having implemented among the toughest containment measures so far. Bearing in mind the country's high dependence on tourism (direct share of tourism in GDP exceeds 11%; balance of payment receipts from foreign tourists stands at about 20% of GDP), the negative impact will be widespread, in addition to the supply and demand shock affecting manufacturing production (Italy, Germany and Slovenia accounting for 41% of goods exports).

We see the economy contracting by about 6% in 2020, with more pronounced downside risks to the current estimate if the lockdown period is extended beyond eight weeks, in which case a double-digit decline cannot be ruled out. In order to alleviate the adverse impact on the economy, the government has adopted 63 different economic measures aimed at preserving jobs and ensuring liquidity. Key measures include: (i) the write-off and deferment of personal income and profit tax and contributions for three months; (ii) VAT payment when collecting an invoice, not after the invoice is issued; (iii) the subsidisation of net minimum wages and contributions for three months (est. 600,000 workers, ≈2.3% of 2019 GDP); and (iv) liquidity loans and guarantees provided through the national development bank. The measures also envisage more prompt payments of EU funds, as well as reallocations of the existing envelope, in addition to a three-month moratorium on the repayment of commercial banks loans.

Financial Markets

Ana Lokin

The CNB stepped up its efforts to preserve market stability in March, selling Euros to banks to halt a steeper depreciation, injecting liquidity via long-term and short-term operations, reducing the obligatory reserve rate and initiating government bond purchases to soothe the pressure on prices. Amid the thinner inflow of FX from goods exports and tourism, the average EUR/HRK rate in 2020 is seen at about 7.6, with the EUR 19bn central bank FX reserves expected to help stabilise the market. Bond yields and the spread on the Bund have started to rise strongly since the beginning of March and in view of the gloomy 2020 outlook and increasing fiscal deficit, and the average 10Y HRK bond yield is seen at 0.9% and the spread at 140bps. The risks to the yield forecasts are skewed to the downside, but CNB purchases should contain the slide.

Banking Sector

CNB has aligned its supervisory measures with the ECB's (among other measures the release of capital and liquidity buffers, the suspension of dividends) and relaxed its prudential treatment of exposures to A-category clients affected by the pandemic. Banks have agreed to allow these clients a three-month deferral of payments, restructure their liabilities and grant new loans. Loans and deposits are expected to decline in 2020, but the proactive approach of banks, the government and clients might lessen the impact.

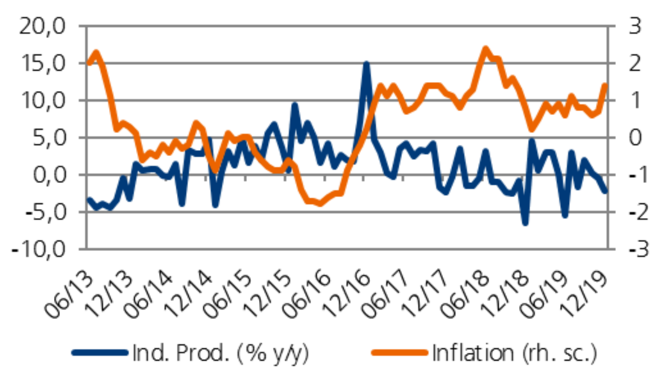
Forecasts

	2019	2020F	2021F
Real GDP yoy	2.9	-5.9	2.1
CPI (eop)	1.4	-0.1	1.5
Euro exchange rate (value, eop)	7.4	7.6	7.5
Short-term rate (eop)	0.4	0.2	0.2
L/T bond yields (eop)	0.7	1.0	0.6
Bank loans (pr. sector, yoy)	3.9	-3.7	1.4
Bank deposits (pr. sector, yoy)	4.8	-1.1	1.6
Lending interest rate (pr. sector, eop)	5.6	5.2	4.7
Deposit interest rate (pr. sector, 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: Croatia Bureau of Statistics

Romania

Marius Pacurari

Real Economy

GDP growth in 4Q19 was higher than expected (1.5% qoq and 4.25% yoy). Given the current circumstances, the expectation for 2020 is for a significant fall in GDP growth (c.-5.6%). After reaching a peak in December, CPI stepped back to 3.8% in January and 3.0% in February, in line with the NBR's projection, but also impacted by the early Covid-19 evolution. The expectations for GDP and inflation remain strongly influenced by the Covid-19 pandemic, in particular the length of the containment measures being adopted and the monetary and fiscal responses from the authorities. A state of emergency was declared by the president on March 16. The most affected economic activities are those linked to social interactions such as restaurants, coffee shops, retail sales, showbiz, tourism and transportation, etc.

The budget deficit for 2019 was confirmed at 4.64% (due to some late exceptional expenses) and the infringement procedure for an excessive deficit has been initiated by the EU. The 2020 budget was based on a 4% economic growth expectation and 3.6% from the GDP deficit, but under the new circumstances the budget deficit is expected to rise to 7%.

Financial Markets

The foreign exchange market for RON was agitated at the beginning of this year, first as a consequence of internal political instability and later as a consequence of the Covid-19 pandemic. The NBR was present in the market in a bid to temper the volatility. The EUR/RON rate had jumped from 4.78 at the end of 2019 to about 4.88 in the second part of March 2020, a circa 2.0% depreciation. The monetary market had remained calm until last week, but since then interest rates have suffered some volatility, without significant volumes behind them. The bond curve had also been appreciating until last week, but then experienced a significant depreciation. The NBR has finally entered a monetary policy easing cycle, cutting the level of minimum reserves requirements in foreign currencies from 8% to 6% in the February meeting. On March 23, the reference rate was cut from 2.5% to 2.0% and the Lombard rate from 3.5% to 2.5%. Markets are now starting to align to the new monetary conditions.

Banking Sector

Despite the current government's efforts to cancel the "Greed Tax Ordination 114" issued by the previous government, parliament has maintained it by rejecting the government ordinance issued in this respect. As a consequence of the pandemic, several measures have been announced at the government and banking system level to give support to customers (both companies and individuals). Among the measures adopted is a moratorium on credit rates and interest payments applied by debtors of up to nine months. The implementation procedure for this measure has yet to be announced. Other measures are related to government guarantees for companies in difficulty, for example, tax payment moratoriums and the suspension of enforcements for fiscal debts.

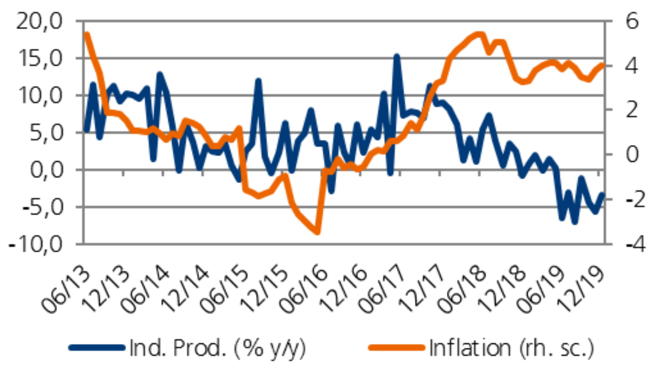
Forecasts

	2019	2020F	2021F
Real GDP yoy	4.2	-5.6	2.8
CPI (eop)	4.0	1.2	3.6
Euro exchange rate (value, eop)	4.8	5.0	4.9
Short-term rate (eop)	3.1	0.8	0.8
L/T bond yields (eop)	4.7	5.5	4.4
Bank loans (pr. sector, yoy)	7.0	-2.3	3.6
Bank deposits (pr. sector, yoy)	12.6	0.8	5.1
Lending interest rate (pr. sector, eop)	6.7	5.3	5.4
Deposit interest rate (pr. sector, eop)	2.3	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: National Institute of Statistics

Serbia

Marija Savic

Real Economy

As of mid-March, a state of emergency has been declared, followed by the closure of borders and airports, the closure of education institutions and public transport, and the imposition of a curfew lasting from 5pm to 5am on working days and from 3pm to 5am on weekends. Due to the consequences of the negative effects of the Covid-19 epidemic in the country, a substantial economic output decline is expected in the first half of the year. On the expenditure side, a decrease in export demand, caused by the sharp decline from Italy and Germany, Serbia's main trading partners, and the postponement of many expected FDIs and announced public investments will have a negative impact on GDP growth. Consequently, a recession is highly likely in 2020. On March 31, the Minister of Finance announced a set of economic measures totaling EUR 5.1bn, or 11% of GDP, in response to the Covid-19 shock. The measures are divided into four segments: tax policy measures worth EUR 1.3bn, direct transfers to private sector employees as compensation for forgone wages, direct assistance to the business sector via solvency measures worth EUR 2.2bn and direct assistance to the population (one-off EUR 100 direct transfers to all adult citizens).

Financial Markets

The National Bank of Serbia cut the key policy rate by 50bps to 1.75% and narrowed the corridor of its main interest rates from ±1.25% to ±1% relative to the key policy rate. As a result, the deposit facility rate was cut by 25bps to 0.75%, while the lending facility rate was cut by 75bps to 2.75%. In order to boost the dinar liquidity of the financial system, the central bank introduced additional repo and FX swap auctions. So far, two repo auctions have been held, providing banks with RSD 4.7bn for a period of seven days and RSD 20.5bn for a period of three months, at a favourable interest rate of 0.75% for both maturities, which is equal to the deposit facility rate. At a swap auction, the NBS swap bought EUR 127mn, which is equivalent to banks' demand at the auction, at fixed swap points of 2.52. The NBS thereby provided to banks dinar liquidity worth EUR 14.9bn, at a favourable interest rate of 0.85%.

Banking Sector

The NBS has introduced a 90-day moratorium on loan/leasing repayments for both the retail and corporate sectors. Financial institutions promised not to impose default interest or initiate any legal procedures regarding debt accrued during the state of emergency. In addition, the Serbian government is currently considering liquidity provisions through a state guarantee scheme worth EUR 2bn, which would be executed in collaboration with domestic commercial banks. Regarding deposits, the withdrawal of retail deposits in March was seen as a first reaction to the spread of Covid-19 in the country. However, this was temporary in nature.

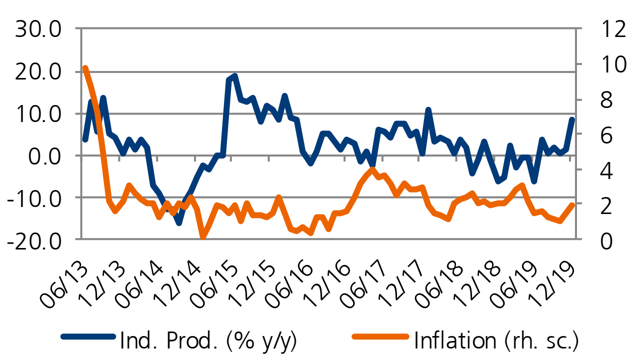
Forecasts

	2019	2020F	2021F
Real GDP yoy	4.2	-2.8	2.7
CPI (eop)	1.9	0.5	2.1
Euro exchange rate (value, eop)	117.6	118.0	118.3
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	-1.4	4.4
Bank deposits (pr. sector, yoy)	7.8	3.2	4.6
Lending interest rate (pr. sector, eop)	7.1	6.1	6.1
Deposit interest rate (pr. sector, eop)	2.0	0.8	0.8

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistical Office

Moldova

Real Economy

Olga Pisla

In view of the pandemic, a state of emergency has been enforced within the country for a period of 60 days (March 17 to May 15). Air and rail traffic has been halted. All trading activity in retail units (with the exception of outlets selling food, pharmaceuticals and petroleum products) has been shut down until the end of the state of emergency. Hence, the positive 3.6% yoy GDP growth in 2019 is expected to turn into -2.5% growth in 2020. The main drivers of this will be the sustained negative dynamic in net exports, as well as the deceleration of household consumption and net investments. In addition, a negative evolution is forecasted for the agricultural sector, the extractive and manufacturing industries, retail trade and the construction industry in 2020 vs. 2019. CPI continues its downward trend, with the average annual inflation rate landing at 6.4% in February (vs. 7.5% in December 2019). The easing of monetary policy initiated by the NBM, together with the expected deflationary pressures, is expected to drive inflation down further, below the target level of 5% by the end of 2020.

Financial Markets

While a comprehensive fiscal package to mitigate the negative impact of the pandemic on the national economy is yet to be formulated, several targeted fiscal measures have been implemented, such as delaying tax payment deadlines to mid-2020, suspending tax audits and other controls, decreasing by 5pp the VAT tax for the HORECA sector, increasing state budget allocations to the budget emergency fund and the mortgage guarantee programme. The National Bank, aiming to encourage demand and maintain a sufficient liquidity level in the banking system, has decreased the base rate by 1.25pp to 3.25% and decreased the required reserve ratio in local currency by 7pp down to 34%. This required reserves ratio is expected to be maintained until the end of the emergency state with a positive MDL 3.0 billion effect on the liquidities available in the banking sector. The NBM has also said it stands ready to intervene in the foreign exchange market to counter the expected disorderly market pressures and excessive exchange rate volatility.

Banking Sector

The evolution of the banking sector is expected to slow in 2020 with a slight rebound in the following years. An increase of just 3.1% yoy in 2020 (vs. 13.9% in 2019) and about 5% in 2021 is forecasted for private loans volumes. In view of the pandemic, the National Bank has adopted a decision that allows licensed banks to manage more flexibly the payment obligations of individuals. Six of the 11 banks have implemented measures in this regard, namely a moratorium on loan payments until May 31 and an exemption from penalties and commission payments, etc. A similar decision with regard to legal entities was also approved by the central bank but only three of the 11 banks have announced their measures in this regard. Deposits are forecasted to have a similar dynamic to loans and register a positive but more tempered evolution compared with the previous year (+5.2% in 2020 vs. +7.7% in 2019).

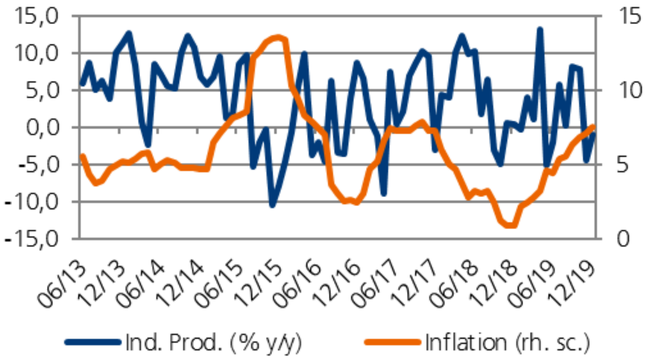
Forecasts

	2019	2020F	2021F
Real GDP yoy	3.6	-2.5	3.4
CPI (eop)	7.5	3.6	5.2
USD exchange rate (value, eop)	17.5	18.0	18.4
Euro exchange rate (value, eop)	19.4	20.9	21.9
Short-term rate (eop)	5.5	4.5	5.0
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	13.9	3.1	4.9
Bank deposits (pr. sector, yoy)	7.7	5.2	5.8
Lending interest rate (corporates, eop)	8.9	5.6	6.5
Deposit interest rate (households, eop)	4.5	1.6	2.5

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: National Bureau of Statistics of the Republic of Moldova

Russia

Real Economy

Irina Lekareva

In March, the Russian economy came under pressure due to the Covid-19 outbreak and the collapse of the OPEC+ deal. In order to stop the spread of the virus, authorities have introduced strict quarantine measures across the whole country. Alongside these, the government, together with the Central Bank, have been implementing a number of measures to ensure the stability of the Russian economy and limit the negative economic impact. Some RUB 300bn will be allocated to support the more vulnerable industries (transportation sector, tourism and hospitality, food service, leisure and sports), as well as the social sphere. The Russian president also announced a deferral on paying taxes for SMEs, together with the introduction of a 15% tax for dividends transferred into offshore accounts and a 13% tax on individual income gained from deposits and long-term bonds exceeding RUB 1mn.

According to the Ministry of Finance, the budget deficit could reach 1% of GDP in 2020, instead of the expected surplus of 0.8% of GDP. All economic losses caused by the current crisis will be covered by the National Wealth Fund (NWF), the volume of which is 7% of GDP. The NWF funds are sufficient to cover budget losses from oil prices falling to USD 25–30 per barrel for the next 6–10 years.

Financial Markets

On March 20, the Bank of Russia decided to keep the key rate unchanged at the level of 6.00% in an attempt to balance the current pro-inflationary and deflationary risks. In March, the RUB fell by 16% against the USD and the Euro amid the introduction of quarantine measures, falling oil prices and a general deterioration in international markets. On March 10, the CBR announced a decision to suspend the purchase of foreign currency on the domestic market to implement the budget rule mechanism for 30 days. The regulator also decided to start the sale of foreign currency on the domestic market as part of the budget rule mechanism, in addition to the repo auction.

Banking Sector

In the current crisis, the CBR has approved comprehensive measures to support citizens and companies. In particular, it has recommended that banks restructure the debt of people who are confirmed to have Covid-19, and waive penalties and fines on their loans. The CBR reduced the value of add-ons to risk coefficients for mortgage loans. To ensure that non-cash payments are available to the public, a limit has been set on the fees charged by banks for transfers. The CBR has expanded the refinancing programme for loans to SMEs. Until September 30, 2020 the banks are not allowed to worsen their assessment of a borrower from affected industries and SMEs if the changes in the financial position of the borrower are caused by the spread of Covid-19.

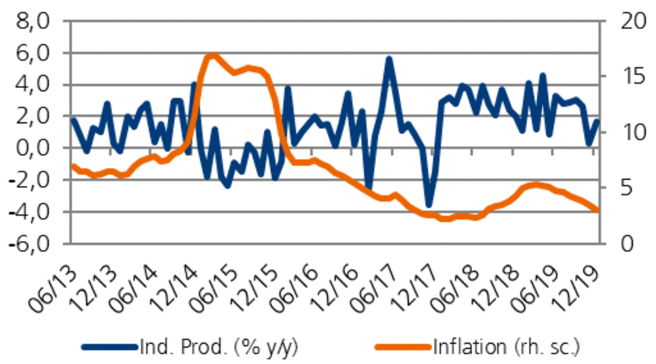
Forecasts

	2019	2020F	2021F
Real GDP yoy	1.2	-1.5	1.3
CPI (eop)	3.0	4.3	3.9
USD exchange rate (value, eop)	62.9	72.0	65.5
Euro exchange rate (value, eop)	69.9	83.5	77.9
Short-term rate (eop)	6.6	6.4	6.4
L/T bond yields (eop)	6.4	7.3	6.8
Bank loans (pr. sector, yoy)	7.1	1.8	5.1
Bank deposits (pr. sector, yoy)	4.2	3.2	5.3
Lending interest rate (corporates, eop)	7.8	7.5	7.7
Deposit interest rate (households, eop)	4.7	4.1	4.1

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

Since the first Covid-19 case was confirmed in Ukraine on March 3 and according to data at the end of March, 549 more cases have been officially reported. Of these, 13 have died and eight have recovered. Since March 12 a general quarantine regime has been in place, established first in some regions and then expanded countrywide. This includes many restrictions, such as the closure of educational entities, non-essential city services, international and inter-regional passenger transport, a ban on gatherings larger than 10 people and restrictions at the state border, etc. In addition, price controls and export limitations have been introduced for food and pharmacy goods. According to the Chamber of Commerce, the number of unemployed people has already increased by 0.5-0.7mn since the quarantine period begun.

As a consequence of the Covid-19 shock, we forecast a severe drop in GDP, from +3.2% in 2019 to circa -3% in 2020, with a recovery later in the year. Risks are still tilted to the downside. The fall in GDP might be deeper should the spread of the contagion and the restrictive measures adopted to stop it be more severe than currently envisaged.

Financial Markets

The NBU decreased the key rate by 100bp to 10% during the last monetary policy meeting on March 12, on the back of weakening inflationary pressures and to support the economy. The UAH rate has depreciated by nearly 15% since March and remains under pressure, reflecting the concerns over the Covid-19 impact and the uncertainty about the IMF deal. During March, the NBU sold more than USD 2.2bn from monetary reserves to support the FX market.

The state tax authorities have implemented a number of tax benefits and penalty reliefs for businesses and individuals during the quarantine period. In turn, the NBU has expanded the scope of its monetary tools to support liquidity in the banking system. The Ministry of Finance has been forced to suspend the primary auctions of T-bills denominated in local currency as demand has dried up.

Banking Sector

The NBU has implemented a number of mitigating steps to support the banking system during the quarantine period, such as the easing of some liquidity and capital requirements/ratios and the postponement of the implementation/toughening of new ones. Stress-testing of banks and on-site inspections have also been postponed. In addition, the NBU has introduced a ban on penalties/interest rate increases for overdue mortgages and retail consumer loans, as well as recommending that banks start restructuring loans to borrowers affected by pandemic restrictions as a part of a "credit vacation".

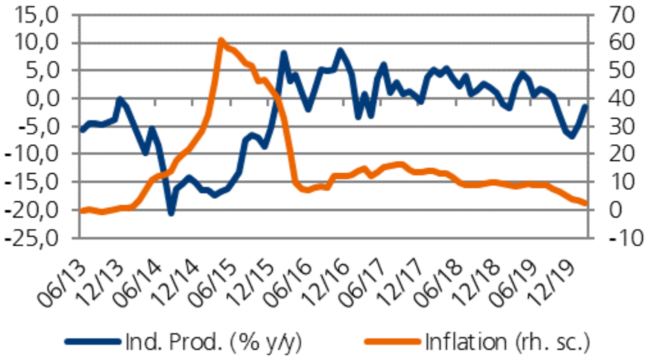
Forecasts

	2019	2020F	2021F
Real GDP yoy	3.2	-3.0	3.2
CPI (eop)	4.1	3.8	5.0
USD exchange rate (value, eop)	24.0	27.5	27.8
Euro exchange rate (value, eop)	26.2	31.9	33.1
Short-term rate (eop)	16.7	10.1	10.0
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	-8.0	-4.1	-4.7
Bank deposits (pr. sector, yoy)	9.6	4.2	4.6
Lending interest rate (pr. sector, eop)	18.6	11.1	10.9
Deposit interest rate (pr. sector, eop)	10.8	4.7	4.7

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

Samer Halim

Real Economy

Egypt's government has implemented a number of measures to contain the spread of Covid-19, including a flight ban, the closure of schools, mosques and churches and a partial curfew for two weeks. GDP is expected to grow by 2.5% yoy in 2020 compared with the initial forecast of 5.8%, with the impact of the disruptions in the production process and muted demand set to continue in the second and third quarters before recovering in 4Q20. The growth estimate might be much lower in 2020 if the economic restrictions continue until the end of year. The government has allocated EGP 100bn (USD 6.4bn or 1.9% of GDP) to combat the virus outbreak, to be directed to promoting the capacity of the country's healthcare system, providing financial aid for seasonal employment, raising income tax exemption caps for employees and increasing public sector wages and pensions. To support business activities, authorities have reduced natural gas and electricity prices to the industrial sector and postponed the payment of outstanding property taxes on factories and tourism institutions.

Financial Markets

The CBE lowered key interest rates by 300bps to decrease the cost of borrowing for individuals, companies and government, with the possibility to further cut rates to stimulate the economy. On the other hand, state-owned banks issued a one-year CD at 15% to prevent dollarisation. All sources of foreign currency are going to struggle in the current crisis. The tourism sector is expected to be most affected, followed by exports and Suez Canal revenues (with the slowdown in global trade) and remittances (workers in the Gulf face challenges with the fall in oil prices). However, the impact on the current account deficit is going to be partly subdued by declining imports and low oil prices. In addition, Egypt's external position is supported by USD 45.5bn reserves, USD 12.2bn foreign assets not included in reserves and USD 4.5bn net foreign assets in banks. Hence, the EGP is expected to only slightly depreciate to 16.75 against the USD by the end of the year.

Banking Sector

Annual private credit growth is expected to slow to 7.5% in 2020 due to subdued consumer and investor sentiment. However, the lowering of key interest rates and the decrease in interest on subsidised funds extended under the CBE's initiatives will partly support credit growth. The CBE obliged all local banks to delay the collection of credit liabilities from individuals and institutions for six months without any rates or fines for delayed payments. Private deposits are going to be less affected because of the high-interest deposit schemes offered by state-owned banks. The slowdown in business activity will unfavourably affect banks' asset quality and increase NPLs. Profitability is going to be hit by lower interest income, declining volumes, higher provisioning and lower fee and commission income (due to the cancellation of these on electronic payments).

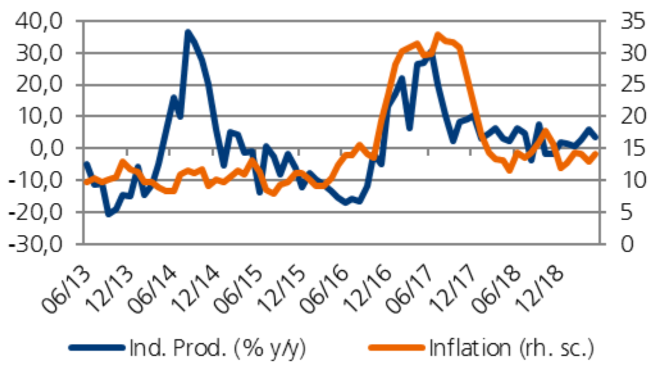
Forecasts

	2019	2020F	2021F
Real GDP yoy	5.6	2.5	4.9
CPI (eop)	7.1	8.0	8.4
USD exchange rate (value, eop)	16.1	16.8	16.9
Euro exchange rate (value, eop)	17.9	19.4	20.0
Short-term rate (eop)	15.4	11.0	10.8
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	13.4	7.5	9.0
Bank deposits (pr. sector, yoy)	13.6	9.4	10.0
Lending interest rate (corporates, eop)	13.8	11.4	11.2
Deposit interest rate (households, eop)	9.2	7.0	6.6

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Ministry of Planning, CAPMAS

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

The Economy

	GDP chg yoy			Ind. Prod[1]. chg.yoy			Export nom. chg			Inflation chg yoy				Retail sales chg yoy			Economic Survey[2]		
	4Q19	3Q19	2018	Last	mth	4Q19	Last	mth	4Q19	Last	mth	4Q19	2018	Last	mth	4Q19	Last	mth	4Q19
CEE																			
Czech Rep.	1.5	3.2	2.8	-1.4	Jan	-2.2	-1.2	Jan	-2.1	3.7	Feb	3.0	2.1	4.9	Jan	3.8	94.9	Mar	101.3
Hungary	4.5	5.0	5.1	2.4	Jan	2.8	2.8	Jan	1.8	4.4	Feb	3.4	2.8	7.6	Jan	6.6	102.8	Mar	107.2
Poland	3.2	3.9	5.1	4.9	Feb	2.9	-1.9	Jan	3.3	4.4	Feb	2.8	1.7	3.4	Jan	5.2	95.3	Mar	102.1
Slovakia	2.0	1.3	4.0	0.5	Jan	-4.9	-0.8	Jan	0.2	3.0	Feb	2.9	2.5	-1.0	Jan	-3.3	96.7	Mar	97.9
Slovenia	1.7	2.4	4.1	1.0	Dec	1.7	10.6	Jan	5.1	2.0	Feb	1.6	1.9	3.9	Jan	-4.7	94.0	Mar	100.1
SEE																			
Albania	1.3	3.8	4.1	n.a.	n.a.	n.a.	5.2	Jan	-6.0	1.5	Jan	1.3	2.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Bosnia H.	n.a.	2.6	3.4	2.8	Jan	-6.9	-3.1	Feb	-7.5	0.7	Jan	0.2	1.4	10.6	Jan	5.1	n.a.	n.a.	n.a.
Croatia	2.5	2.9	2.7	-5.5	Jan	-0.8	6.5	Dec	1.1	1.5	Feb	0.9	1.5	6.0	Jan	3.3	103.3	Mar	113.3
Romania	4.3	3.0	4.1	-2.4	Jan	-4.5	3.3	Jan	1.9	3.0	Feb	3.7	4.6	11.1	Jan	7.6	99.6	Mar	102.6
Serbia	6.2	4.8	4.4	6.3	Jan	3.3	12.4	Jan	9.3	1.9	Feb	1.5	2.0	10.9	Jan	11.2	n.a.	n.a.	n.a.
CIS MENA																			
Moldova	0.2	4.3	4.0	7.5	Jan	0.8	-6.4	Jan	0.8	6.4	Feb	7.1	3.1	8.6	Dec	10.9	n.a.	n.a.	n.a.
Russia	1.8	1.7	2.3	1.1	Jan	1.5	-4.3	Jan	-8.6	2.3	Feb	3.4	2.9	2.7	Jan	2.0	48.2	Feb	46.3
Ukraine	1.5	3.9	3.4	-5.3	Jan	-5.1	2.2	Jan	6.5	2.4	Feb	5.2	11.0	14.5	Feb	13.3	n.a.	n.a.	n.a.
Egypt	5,6	5.6	5.4	0.2	Dec	0.7	1.9	Nov	0.3	5.3	Feb	4.6	14.4	n.a.	n.a.	n.a.	47.1	Feb	49.5
m.i. E. A.	*1.0*	*1.1*	*1.9*	*-1.9*	*Jan*	*-2.3*	*0.2*	*Jan*	*2.3*	*1.2*	*Feb*	*1.0*	*1.8*						

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

Markets and Ratings

	S/T rates[1]		L/T rates[2]		Foreign exchanges[3]			Stock markets		CDS spread (bp)		FX res. chg (mln €)[4]			CA bal. (mln		Rating
	27/03	chg	27/03	chg	27/03	3M*	1Y*	3M*	1Y*	27/03	27/12	4Q19	3Q19	2018	4Q19	3Q19	Moody's
CEE					Vs Euro												
Czech	2.3	0.2	1.4	-0.1	27.34	7.16	6.04	-30.2	-27.5	34.2	33.8	n.a.	n.a.	n.a.	-909	-2469	Aa3
Hungary	0.5	0.3	2.6	0.5	354.3	7.09	10.74	-30.3	-22.4	71.8	67.6	n.a.	n.a.	4035	n.a.	n.a.	Baa3
Poland	1.4	-0.6	1.8	-0.3	4.52	6.15	5.25	-29.4	-31.7	48.5	22.5	n.a.	n.a.	n.a.	n.a	-200	A2
Slovakia	-0.4	0.0	0.4	0.3	Euro	Euro	Euro	-6.7	-6.7	45.5	35.2	n.s.	n.s.	n.s.	-2774	-2121	A2
Slovenia	-0.4	0.0	0.4	0.1	Euro	Euro	Euro	-21.4	-16.7	58.6	53.7	n.s.	n.s.	n.s.	855	786	Baa1
SEE																	
Albania	0.9	-0.2	n.a.	n.a.	130.58	6.96	4.26	n.a.	n.a.	n.a.	n.a.	n.a.	110	372	n.a.	-161	B1
Bosnia	n.a.	n.a.	n.a.	n.a.	1.96	Board	Board	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	545	n.a.	n.a.	B3
Croatia	n.a.	n.a.	1.2	0.5	7.61	2.24	2.6	-27.9	-18.6	72.7	56.9	n.a.	545	1732	n.a.	4568	Ba2
Romania	2.4	-0.6	4.6	0.1	4.84	1.17	1.57	-24.3	-7.3	87.4	68.4	n.a.	3591	1619	-2775	-3622	Baa3
Serbia	1.8	-0.5	n.a.	n.a.	117.51	0.01	-0.35	-23.2	-6.4	101.6	98.0	83	1149	1822	-1046	-655	Ba3
CIS					Vs USD												
Moldova	3.3	-2.3	NA		18.11	5.32	4.76	n.a.	n.a.	n.a.	n.a.					11	B3
Russia	6.7	0.2	7.1	0.8	78.72	27.45	22.68	-25.5	-10.1	185.1	52.2	20790	4889	35753	16300	10581	Baa3
Ukraine	13.8	-2.3	23.1	10.5	28.2	18.45	3.96	-27.6	-35.8	1184.7	493.6	3827	720	4232	1715	-2415	Caa1
Egypt	12.5	-2.5	14.8	1.1	15.75	-1.8	-9.09	-24.4	-14.8	556.4	305.4	302	766	5531		-1382	B2
m.i.A.E.	*-0.4*	*0.0*	*-0.5*	*-0.2*	*1.1*	*-0.9*	*-1.7*	*-25.3*	*-17.8*	*9.5*	*5.1*						

Source: Datastream, Reuters;[1] The data for Egypt refers to march, for Czech Republic refers to february, 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 rate[1]-NewB*. %			DepositsRate[1]- %			Loans/Dep %		
	Last	Mth	2018	Last	mth	2018	Last	mth	2018	Last	Mth	2018	Last	mth	2018 S[4]	Last	mth	2018 S[4]	Last	mth	2018
CEE																					
Czech Rep.	5.0	Jan	6.8	2.4	Jan	3.3	-0.8	Jan	10.2	6.6	Jan	6.9	3.06	Jan	3.31 C	1.6	Jan	1.35 H	75.2	Jan	75.7
Hungary	14.8	Jan	10.6	3.8	Jun	4.5	11.4	Jan	1.4	10.0	Jan	14.3	2.38	Jan	2.25 C	0.23	Jan	0.18 H	82.9	Jan	77.7
Poland	4.7	Dec	7.9	4.0	Mar	3.9	-6.8	Jan	-2.9	9.7	Dec	9.4	3.64	Dec	3.48 C	1.49	Dec	1.62 H	92.6	Dec	97.0
Slovakia	5.3	Jan	9.1	3.1	Jan	3.3	5.3	Jan	-0.1	5.2	Jan	7.3	2.33	Jan	2.01 C[2]	0.05	Jan	0.07 H[2]	103.3	Jan	101.4
Slovenia	3.7	Jan	2.6	2.2	Dec	4.0	10.8	Jan	-16.5	6.2	Jan	6.7	2.09	Jan	2.22 C[2]	0.1	Jan	0.17 H[2]	74.5	Jan	75.3
SEE																					
Albania	6.5	Dec	-3.8	8.4	Dec	11.1	-6.7	Dec	-4.4	3.8	Dec	-0.9	6.34	Dec	8.16 PS	0.72	Dec	0.62 PS	54.2	Dec	52.8
Bosnia H.	4.4	Jan	5.5	7.7	Sep	8.8	3.5	Jan	17.4	8.6	Jan	8.5	2.77	Jan	3.1 C	0.23	Jan	0.34 H	101.0	Jan	105.4
Croatia	3.9	Dec	2.3	6.0	Sep	7.6	-5.9	Dec	6.7	4.8	Dec	5.0	5.56	Dec	6.17 PS	0.22	Dec	0.45 PS	75.9	Dec	76.6
Romania	6.5	Jan	7.9	4.1	Jan	5.0	21.0	Dec	-20.9	11.2	Jan	9.2	6.89	Jan	6.97 PS	2.25	Jan	1.96 PS	75.2	Jan	78.4
Serbia	9.0	Jan	9.9	4.1	Dec	5.7	15.3	Jan	24.0	7.2	Jan	14.9	6.33	Jan	7.74 PS	1.98	Jan	2.78 PS	99.1	Jan	96.9
CIS MENA																					
Moldova	14.6	Jan	5.9	8.3	Jan	12.5	-4.2	Jan	-16.7	8.9	Jan	6.0	8.69	Jan	8.64 C	4.55	Jan	4.25 H	58.6	Jan	55.9
Russia	7.1	Dec	15.0	10.0	Dec	10.1	-19.3	Dec	-0.4	4.2	Dec	14.2	7.83	Dec	9.2 C	4.66	Dec	5.62 H	108.5	Dec	105.6
Ukraine	-8.0	Dec	6.3	48.7	Nov	52.9	-28.1	Dec	-7.5	9.6	Dec	7.9	18.58	Dec	21.75 PS	10.81	Dec	14.16 PS	101.7	Dec	121.2
Egypt	13.4	Dec	15.3	4.5	Sep	3.9	-22.9	Dec	10.7	13.6	Dec	13.8	13.6	Jan	17.8 C	8.9	Jan	12.2 H	34.3	Dec	34.3
m.i. E. A.	*3.2*	*Jan*	*2.0*	*n.a.*	*n.a.*	*n.a.*	*4.2*	*Jan*	*7.9*	*4.6*	*Jan*	*3.6*	*1.1*	*Jan*	*1.3 C*	*0.3*	*Jan*	*0.3 H*	*79.6*	*Jan*	*80.6*

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

Country Outlook

The economy

	GDP (% yoy)	2017	2018	2019	2020F	2021F	Inflation (%, avg)	2017	2018	2019	2020F	2021F
CEE	Czech Rep.	4.4	2.8	2.4	-4.8	1.9	Czech Rep.	2.5	2.1	2.8	1.5	1.4
	Hungary	4.3	5.1	5.0	-2.6	2.8	Hungary	2.4	2.8	3.4	2.4	2.3
	Poland	4.8	5.1	4.0	-2.9	2.4	Poland	2.0	1.7	2.3	1.8	1.7
	Slovakia	3.0	4.0	2.3	-5.8	2.1	Slovakia	1.4	2.5	2.7	1.1	1.4
	Slovenia	4.8	4.1	2.4	-5.9	2.1	Slovenia	1.6	1.9	1.7	0.4	1.2
SEE	Albania	3.7	4.1	3.1	-2.9	2.4	Albania	2.0	2.0	1.4	-0.4	0.7
	Bosnia Herzegovina	3.0	3.4	2.6	-4.5	2.2	Bosnia Herzegovina	0.8	1.4	0.6	-0.9	0.1
	Croatia	3.1	2.7	2.9	-5.9	2.1	Croatia	1.1	1.5	0.8	0.2	0.7
	Romania	7.0	4.1	4.2	-5.6	2.8	Romania	1.3	4.6	3.8	1.7	2.4
	Serbia	2.0	4.4	4.2	-2.8	2.7	Serbia	3.2	2.0	1.9	0.8	1.3
CIS	Moldova	4.7	4.0	3.6	-1.5	3.4	Moldova	6.6	3.1	4.9	4.6	4.4
	Russia	1.5	2.3	1.2	-2.5	1.3	Russia	3.7	2.9	4.5	3.6	4.1
	Ukraine	2.5	3.3	3.2	-3.0	3.2	Ukraine	14.5	11.0	7.9	3.4	4.4
MENA	Egypt	5.0	5.4	5.6	2.5	4.9	Egypt	29.6	14.4	9.4	6.8	8.2

Markets

	Exch.rate (avg Euro)	2017	2018	2019	2020F	2021F	Interest rate (%, avg)	2017	2018	2019	2020F	2021F
CEE	Czech Rep.	26.3	25.6	25.7	27.0	26.3	Czech Rep.	0.4	1.3	2.1	1.1	0.9
	Hungary	309.1	318.8	322.6	348	339.7	Hungary	0.1	0.1	0.2	0.2	0.2
	Poland	4.3	4.3	4.3	4.5	4.5	Poland	1.5	1.7	1.7	0.8	0.6
	Slovakia	-	-	-	-	-	Slovakia	-0.3	-0.3	-0.4	-0.4	-0.4
	Slovenia	-	-	-	-	-	Slovenia	-0.3	-0.3	-0.4	-0.4	-0.4
SEE	Albania	134.2	127.6	123.1	124.0	125.8	Albania	1.3	1.2	0.9	0.4	0.4
	Bosnia Herzegovina	1.96	1.96	1.96	1.96	1.96	Bosnia Herzegovina	-	-	-	-	-
	Croatia	7.5	7.4	7.4	7.6	7.5	Croatia	0.6	0.5	0.5	0.3	0.2
	Romania	4.6	4.7	4.7	4.9	4.9	Romania	1.2	2.8	3.1	1.4	0.8
	Serbia	121.4	118.3	117.9	118.0	118.2	Serbia	3.9	3.1	2.7	1.3	1.0
CIS	Moldova (USD)	18.5	16.8	17.6	17.7	18.3	Moldova	8.0	6.5	6.9	4.4	4.8
	Russia (USD)	58.3	62.7	64.7	71.1	67.2	Russia	9.4	7.7	7.8	6.4	6.4
	Ukraine (USD)	26.6	27.3	26.1	26.6	27.6	Ukraine	16.8	18.4	18.9	11.8	10.1
MENA	Egypt (USD)	17.8	17.8	16.8	16.3	16.8	Egypt	19.3	18.8	17.1	12.0	10.9

Banking aggregates (% change yoy)

	Loans (pr. sector)	2017	2018	2019	2020F	2021F	Deposits (pr. sector)	2017	2018	2019	2020F	2021F
CEE	Czech Rep.	6.5	6.8	5.2	-2.2	2.6	Czech Rep.	7.6	6.9	6.1	0.4	2.6
	Hungary	6.0	10.6	13.3	0.3	4.5	Hungary	10.8	14.1	8.0	3.3	4.7
	Poland	3.2	7.9	4.7	-0.4	3.8	Poland	3.7	9.4	9.7	2.3	4.4
	Slovakia	10.0	9.1	6.2	-3.8	2.7	Slovakia	5.4	7.3	4.8	-1.2	3.1
	Slovenia	3.2	2.6	3.7	-3.8	1.9	Slovenia	7.0	6.7	6.3	-3.8	3.4
SEE	Albania	0.5	-3.8	6.5	-2.5	2.2	Albania	-1.5	-0.9	3.8	0.9	2.3
	Bosnia Herzegovina	7.3	5.5	6.6	-6.8	2.7	Bosnia Herzegovina	9.0	8.5	8.4	-0.8	3.1
	Croatia	-0.1	2.3	3.9	-3.7	1.4	Croatia	2.4	5.0	4.8	-1.1	1.6
	Romania	2.7	7.9	7.0	-2.3	3.6	Romania	3.8	9.2	12.6	0.8	5.1
	Serbia	2.1	9.9	8.9	-1.4	4.4	Serbia	3.1	14.9	7.8	3.2	4.6
CIS	Moldova	-3.7	5.9	13.9	3.1	4.9	Moldova	9.2	6.0	7.7	5.2	5.8
	Russia	5.2	15.0	7.1	1.8	5.1	Russia	8.1	14.2	4.2	3.2	5.3
	Ukraine	0.9	6.3	-8.0	-4.1	-4.7	Ukraine	12.1	7.9	9.6	4.2	4.6
MENA	Egypt	7.1	15.3	13.4	7.5	9.0	Egypt	23.8	13.8	13.6	9.4	10.0

Banking interest rates (%)

	Lending (Corp. avg)	2017	2018	2019	2020F	2021F	Deposits (HH avg)	2017	2018	2019	2020F	2021F
CEE	Czech Rep.	2.0	2.7	3.2	2.6	1.9	Czech Rep.	0.7	0.9	1.5	1.0	0.4
	Hungary	2.5	2.3	2.5	2.4	2.3	Hungary	0.3	0.2	0.2	0.2	0.2
	Poland	3.7	3.5	3.6	2.9	2.4	Poland	1.6	1.7	1.6	1.0	0.6
	Slovakia	2.0	2.2	1.9	1.9	1.9	Slovakia	0.1	0.1	0.1	0.1	0.1
	Slovenia	2.5	2.2	2.1	2.0	2.0	Slovenia	0.1	0.2	0.2	0.1	0.1
SEE	Albania	8.2	8.1	7.2	6.2	6.2	Albania	0.8	0.7	0.7	0.3	0.3
	Bosnia Herzegovina	-	-	-	-	-	Bosnia Herzegovina	-	-	-	-	-
	Croatia	7.0	6.4	5.8	5.3	4.9	Croatia	0.8	0.6	0.3	0.2	0.2
	Romania	5.7	7.0	7.3	5.7	5.4	Romania	0.7	1.7	2.2	0.7	0.3
	Serbia	8.9	8.6	8.0	6.4	6.1	Serbia	2.8	2.7	2.5	1.0	0.8
CIS	Moldova	10.2	9.1	8.8	6.3	6.3	Moldova	6.2	4.5	4.3	2.1	2.3
	Russia	10.6	8.9	8.7	7.6	7.7	Russia	5.9	5.4	5.4	4.2	4.1
	Ukraine	16.4	19.0	19.8	12.8	11.0	Ukraine	9.1	12.0	12.9	6.4	4.7
MENA	Egypt	18.2	18.3	16.1	11.7	11.2	Egypt	12.1	12.3	11.0	7.3	6.6

Source: Intesa Sanpaolo Research Department forecasts

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