INTESA SANPAOLO

International Research

Economic and Banking Outlook

June 2020

Countries with ISP subsidiaries

Quarterly Note

Research Department

International Research Network

Gianluca Salsecci
Head of International Research Network

International Research Team

Viewpoint

A deeper than previously expected recession is forecast in ISP countries in 2020, followed by a sluggish recovery in 2021. The extraordinary policy measures put in place overall support lending and soften the deflationary risks related to the pandemic.

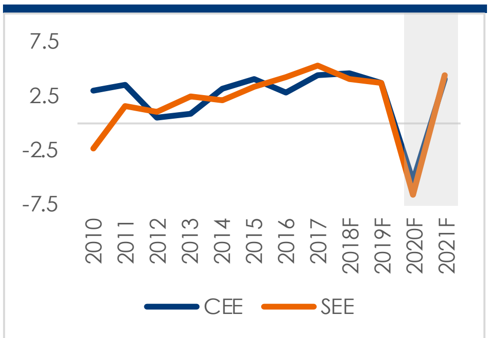
Following our March forecasts, the pandemic rapidly intensified in CEE/SEE countries and, with some delay, in the CIS and in Egypt, requiring stringent lockdowns and resulting in even larger disruptions to activity than previously expected. In April, by which time lockdown regimes were widespread, industrial production (on the supply side) naturally fell in all of the regions (by over 30% in several countries), together with exports and retail sales (on the demand side). In May, with the first measures of containment being eased, manufacturing PMIs partially reversed course in the CEE/SEE region, though remaining well below the 50 threshold separating expectations of contraction and expansion, but further deteriorated yet in Russia (to 36.2) and in Egypt (to 40.7).

GDP growth in 2020 therefore has been revised downward with respect to our March Outlook, to -5.8% in the CEE/SEE region and to -5.5% in the CIS and -1.5% in Egypt. This brings the expected average impact of the Covid-19 outbreak versus our pre-Covid December Outlook in the range of 9pp-7.5pp respectively in those regions (but more than 10pp in some countries as SL, SK, HR and RO). Growth is projected to only partially recover in 2021, to 4.3% in CEE/SEE, 3% in CIS and 4.7% in Egypt. The rebound will be supported by the extraordinary monetary and fiscal stimuli put in place since March (see *Economic and Banking Monitor*, May 2020), which has softened the current economic consequences of the pandemic and paved the way for a future recovery. The uncertainty surrounding the forecasts remains high, however, with contagion spots still feared in 2H20 and the risk of a second wave in 1Q21. As we are still lacking a Covid-19 vaccine, the growth risks remain mainly tilted to the downside.

No major changes have been made to our March forecasts of money market rates (seen to reach historical lows everywhere) or long-term bond prices and foreign exchanges (which partially recovered since May supported by narrowing sovereign spreads and CBs' interventions).

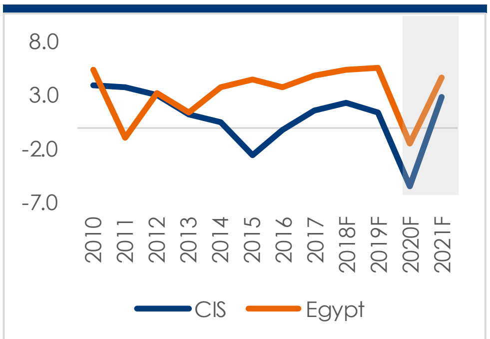
We have instead partially revised upwards inflation and banking aggregates' forecasts, following the latest releases (as of April) of both CPI and lending and deposits data, which show a higher than previously expected profile. We now see inflation in CEE/SEE decelerating to c. 2% by the end of 2020 (vs. c. 1% in our March Outlook) and rebounding, in line with our previous forecast, to c. 2.5% by the end of 2021. At the same time, we now see lending and deposits growth rates in 2020 at c. 2% and 4% in the CEE and SEE regions, respectively (vs. c. -1.5% and +1.5% in our March Outlook). Despite the worsening expectations of the incoming recession, the positive revision is thanks to the monetary and credit measures being adopted by international and domestic authorities. These will soften the severe deflationary risks related to the pandemic, while also widely supporting lending activity. Both the CPI and banking aggregates' forecasts have nevertheless been kept below the path outlined in our pre-Covid December Outlook.

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

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

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

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

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

Cross country analysis

Recent developments

Gianluca Salsecci, Giancarlo Frigoli, Antonio Pesce and Davidia Zucchelli

Since March, each country in the **CEE/SEE region** has implemented containment measures to limit the spread of Covid-19. In May, with the slowdown of the contagion, a gradual easing of the "hard" lockdown began. A number of the restrictions on people's mobility have been removed and economic activities that had been (partially or totally) closed during the "hard" lockdown period have been (partially) reopened, though some measures ensuring social distancing have nevertheless been kept in place. To contain the economic impact of the health shock and sustain the future recovery, public authorities have been implementing bold measures, easing monetary policy, expanding fiscal deficits and supporting credit to the private sector.

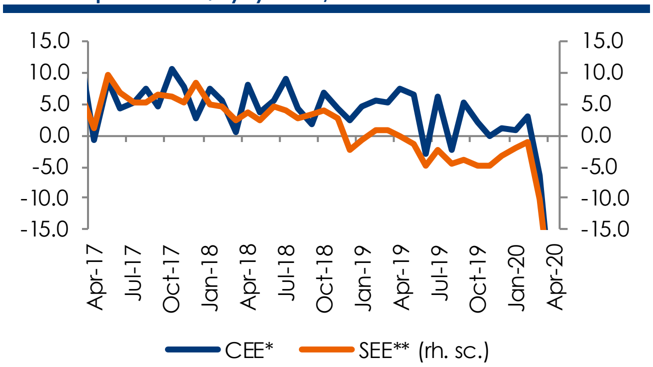
The deep drop of business cycle indicators in April in the CEE and SEE regions anticipate a dramatic fall of GDP in 2Q

Even if the lockdown affected only the last month of the quarter, in 1Q20 the **GDP** dynamic of the CEE and SEE countries had already slowed sharply, though with differences among countries. According to the latest flash estimates, in 1Q20 GDP growth decelerated to 0.5% yoy in CEE countries and 2.3% in SEE countries, ranging from -3.7% in Slovakia to +2.2% in Hungary, with only a few countries still buoyant (for example, Serbia with 5.0%). In April, when the full lockdown regime was in place, high frequency data showed, as expected (see our May Monitor), a deeper deterioration of the economic picture. Industrial production fell in both the CEE (-29.5% yoy) and SEE (-28.7% yoy) regions. In the same month, nominal exports contracted by 34.2% yoy in CEE and by 14% in SEE, with retail sales down by 18.1% yoy and 21.5% yoy in the respective regions. In May, with the first measures of the containment being eased, manufacturing PMI partially reversed course and increased slightly in Hungary (40.3), Poland (40.6) and the Czech Republic (39.6), though remaining well below the threshold (50) between expansion and recession. In parallel, the ESI improved in Hungary, Slovenia and Romania, but remained roughly unchanged in Poland and the Czech Republic and declined further in Slovakia, where the industrial sector was hit hardest in the region (-42% in April, after -19.6% in March).

Inflation on decreasing path but higher than previously expected in CEE/SEE areas

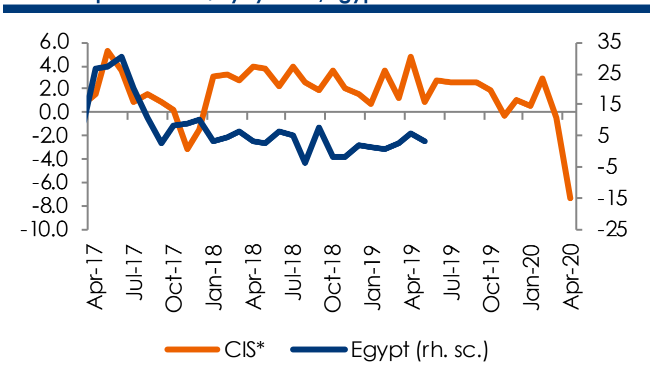
On the **inflation** side, in May consumer prices in the CEE and SEE areas slowed, on average, to 2.6% and 1.5%, respectively, from 2.9% and 1.8% in April. In the context of international and local monetary policy easing, policy rates have been cut aggressively (in Czechia, Poland and Serbia) and extraordinary liquidity measures have been adopted. Therefore, money market rates decreased further, reaching historical lows, as did long-term yields, which were supported by lower EA benchmark yields and narrowing sovereign spreads. The stock market recovered dramatically in parallel, increasing at double-digit rates with respect to three months ago. Finally, local currencies appreciated slightly against the euro, mostly in a range between 2.9-3.5% in CEE and 0.1-0.9% in SEE countries.

Industrial production % yoy – CEE/SEE



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

Industrial production % yoy – CIS/Egypt



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

CIS countries are heading for a double-digit drop in GDP in Q2. Egypt's GDP is also seen sharply down in 2Q20

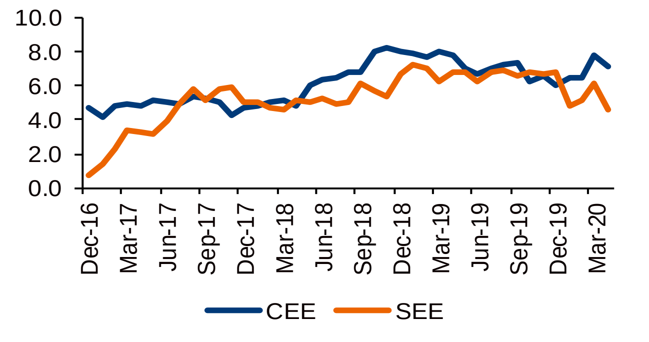
In the CIS region, in **Russia**, real GDP fell by 10.9% yoy in May, following a 12% decline in April, taking the growth rate of the first five months into negative territory (-3.7% yoy). When looking at high frequency indicators, in May the decline seems to have been slightly more contained than in April, both in manufacturing (-7.2% vs. -10% in April) and retail sales (-19.2% vs. -23.2% in April), but to have further accelerated in mining (-13.5% vs. -3.2% in April), mainly reflecting the cut in oil output. The underlying picture of CPI has so far been weaker than expected, with inflation still below the central target (3%, after the 3.1% yoy seen in April). In June the RCB cut the policy rate further, by 100bps to 4.5%. In **Ukraine**, the GDP fall in January-April 2020 was estimated at 5%, after -1.5% in 1Q. This implies that real GDP tumbled by approximately 15.5% in April, dragged lower by manufacturing output (-20.3%), retail sales (-11.6%) and mining (-11.2%). Consumer inflation further decelerated to 1.7% yoy in May, from 2.1% yoy in April, and in June the UCB cut its policy rate by 200bps to a historical low of 6%. In **Moldova** real GDP growth accelerated to +0.9% yoy in 1Q20, from +0.2% yoy in 4Q19, sustained by construction activity. In April 2020, however, industrial production fell by 25.0% yoy (-9.7% in March), due to falls in quarrying (-37.6%) and manufacturing (-28.5%), while utilities production increased (+6.1%). Moldova's consumer prices rose by 4.1% yoy in May, compared with 5.3% in April. In June, the CB left the main policy rate unchanged at 3.25% for the second time in a row.

In **Egypt**, real GDP growth slowed only slightly to 5% in 1Q20 (from 5.6% in 4Q19), but is expected to tumble in 2Q20 following the restrictions on travel and movement introduced by the authorities. The PMI index for the non-oil private sector recovered to 40.7 in May, up from 29.7 in April (its lowest point since 2011), though still remaining below 50. Headline inflation slowed to 4.7% in May, from 5.9% in April, below the lower range of the year-end 9%+/-3% target range set by the CB.

Despite the economic deterioration, in April total deposits have accelerated and loans have decelerated only slightly overall

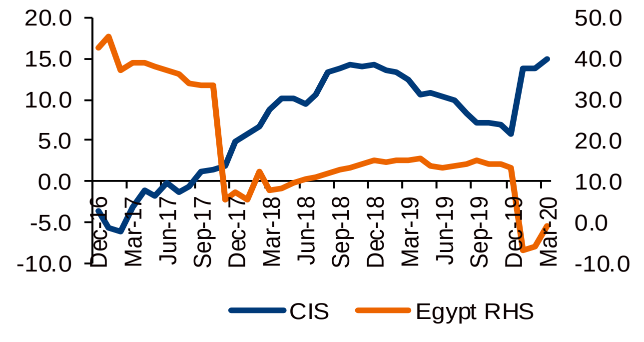
The dynamic in **banking aggregates** showed preliminary signs of the negative impact of the pandemic crisis and the positive effect of the supportive measures adopted by authorities. Overall, deposits accelerated among households due to the fall in consumption and the rise in precautionary savings. In the CEE and SEE regions, these actually accelerated in April, recording a growth rate of more than 11% yoy. Loans to the private sector showed a mixed performance, being both negatively affected by the incoming severe recession but also supported by the extensive measures adopted by authorities, such as moratoriums, targeted relending facilities and credit supporting schemes on the demand side, as well as the easing of capital and liquidity buffers on the supply side. In this context, despite the severe economic deterioration, total loans have so far decelerated only slightly in both CEE (7.1% yoy in April, from 7.8% yoy in March) and SEE countries (5.8% yoy, from 6.9% yoy). Loans to the corporate sector decelerated to 5.8% yoy (from 6.4% yoy) in CEE countries and to 4.6% yoy (from 5.9%) in SEE countries. Loans to households also slowed, both in the CEE (to 8% yoy from 8.5%) and SEE areas (to 10.8% yoy from 12.3%). Outside the CEE/SEE region, in Russia (where April data are not yet available) loans continued to accelerate in March, rising to 13% yoy (but 8.9% net of the exchange rate depreciation effect). Lending remained negative in Ukraine (-3.4% yoy), mainly due to write-offs. In Egypt, banking aggregates remained dynamic in March, with loans up 14.9% and deposits up 14.3%.

Lending growth (% yoy chg, weighted averages)



Sources: ISP Research Department elaborations on central banks' data

Lending growth (% yoy chg, weighted averages)



Sources: ISP Research Department elaborations on central banks' data

The international outlook underlying the scenario

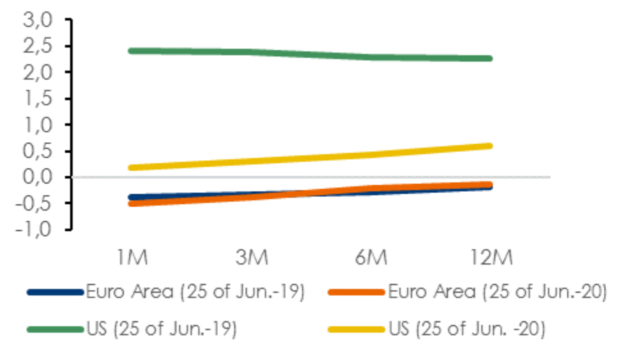
Monetary authorities stepped up support amid the worsening growth scenario, both in advanced and emerging economies

In the **US**, the spread of the virus, and the resulting containment measures put in place, have caused economic activity and employment to contract sharply. The macroeconomic forecasts of major research centres display huge dispersion across variables, especially from 2021 onwards. The median scenario is relatively pessimistic for 2020 (GDP -6.5% yoy) and inflation is foreseen below the 2% mark along the entire forecasting horizon. The macro conditions justify the accommodative stance of monetary policy. At its June meeting, the Fed left the federal funds rate at between 0% and 0.25%, without changing the qualitative guidance provided in the past few months, reasserting that rates will remain stable until the FOMC is confident that the economy has overcome recent events.

In the **Euro area**, the ECB's Governing Council announced the extension of the PEPP until June 2021, and increased its size by €600 billion to €1,350 billion in total. These measures follow the decisions taken since March by the ECB to ensure liquidity to the markets (new LTROs, more favourable terms for TLTRO III, enlargement of APP, new PEPP) to contrast the deterioration in the inflationary and economic performance of the EA. In the ECB's June projections, GDP is forecast (central scenario) to drop by 8.7% in 2020 and only partially recover by 5.2% in 2021 in the EA. Inflation is forecast to continue to drop over the next few months, averaging 0.3% yoy in 2020, before modestly recovering to 1.3% in 2021. Bold fiscal measures are also being envisaged at EU level, aimed at counteracting unemployment (SURE funds), meeting the increased financial needs in the health sector (ESM Pandemic Crisis funds) and supporting the future recovery (Next Future Generation EU funds), with the measures totaling about €1.3 trillion.

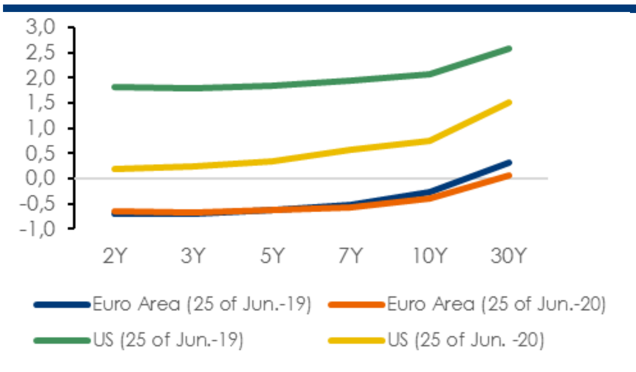
Since March, central banks in both advanced and **emerging countries** have stepped up their efforts to ease the financial market strain. Widespread and large-scale policy rate cuts and liquidity provisions have helped to reduce volatility and shore up investor risk appetite. The widening of credit spreads seen in the final weeks of March and the first half of April has now almost fully unwound at an EM level. Looking ahead, accommodative monetary and expansionary fiscal policies should help EMs to both partially absorb the dramatic economic and social impact of the downturn and support the subsequent recovery. Since our March Outlook, the pandemic has intensified sharply in several EM countries, resulting in even larger disruptions to activity than previously forecast. In its June update of the WEO report, the IMF has forecast GDP growth in EMs at -3.0% in 2020, 2pp below the April 2020 WEO issue, with high dispersion among countries, reflecting the differences in the evolution of the contagion, the effectiveness of containment strategies, sectoral exposure to social distancing measures and vulnerability to external financial flows. Large parts of emerging Asia have controlled the virus relatively well, which should allow activity to recover more quickly there than in most other EMs. In contrast, several countries in Latin America have been less successful in their strategies and are still struggling to contain the virus outbreaks. A significant drop in disposable income after the large fuel price decline is adding to the problems caused by the pandemic and we anticipate sharp recessions in the oil-exporting countries of MENA, SSA and CIS.

Benchmark monetary rates



Source: ISP elaboration on Refinitiv data

Yield curves



Source: ISP elaboration on Refinitiv data

The economic outlook

Growth and inflation

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

Following our March forecasts, the pandemic rapidly intensified in several CEE and SEE countries, requiring stringent lockdowns and resulting in even larger disruptions to activity than expected, as signalled by the most recent high frequency indicators (as previously discussed). **GDP growth** has therefore been revised down by c. 2pp in the **CEE/SEE region** (to -5.8% from -4% in March) **in 2020** with respect to our March Outlook. Growth has been cut to -5.4% in the CEE area (from -3.6% in March) and to -6.7% in the SEE region (from the -5.0% forecast in March), bringing the overall impact of Covid-19 to almost 9pp (against the previous 7pp), with respect to the pre-Covid scenario estimated in our December Outlook, when GDP growth was seen at 2.9% in 2020.

… and uncertainties around forecasts is very high

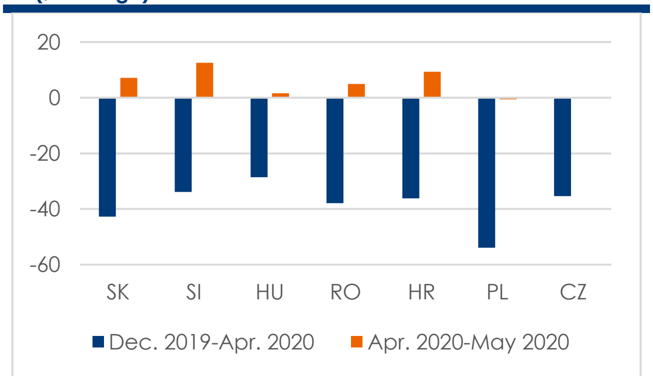
Growth in 2021 is projected to partially recover to 4.1% in the CEE area and 4.5% in the SEE area, on the assumption that monetary and fiscal policy stimuli will have been able to soften the supply and demand shocks related to the pandemic. The 2021 forecasts have been revised upward with respect to our March projections, by 1.8pp and 1.9pp in the CEE and SEE areas, as a result of the positive base effect stemming from the downward revision of GDP in 2020. High uncertainty continues to surround the evolution of the pandemic, however, with likely contagion spots still feared in 2H20 and the risks of a second wave in 1Q21 with the winter season. As we still lack a Covid-19 vaccine, the risks for growth remain heavily tilted to the downside.

Inflation is seen on a decreasing path in 2020

Inflation is still seen on a decreasing path in the **CEE and SEE** regions in 2020 (2.9% and 1.8% avg., respectively) but has been revised upward by c. 1pp in 2020 with respect to our March Outlook. The revision takes into account the aggressive monetary and credit measures adopted by authorities since March, which are expected to partially curb the deflationary risks related to the pandemic, and the partial recovery of oil prices (again quoted above $40 per bl). In 2021, we expect inflation to move closer to our December forecasts (2.6% and 2.3%, respectively).

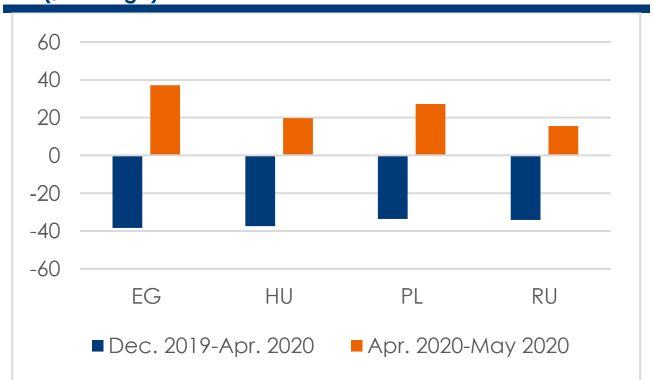
In **Russia**, following the severe measures to contain the contagion adopted after our March Outlook and the oil output cut following the agreement reached on 9 April between Russia and OPEC, we have cut our GDP forecast for 2020 to -5.5% (from -1.5% in March) and revised upward the forecast for 2021 to 3% (from the previous 1.3%). Due to the pandemic's increase and the high frequency data collected so far, we have also revised our forecast for GDP growth in **Ukraine** to -6.5%. Thanks to the financial support already provided by the IMF and other supranational institutions, the country's financial position shows less signs of vulnerability in comparison with previous recessions. For **Moldova**, we now forecast GDP will fall by 3% in 2020. In the MENA region, given the deterioration of both external growth drivers (revenues from tourism, remittances and royalties) and domestic business cycle indicators, we have also revised **Egypt**'s growth forecast for FY2019-2020 to 2% (from the previous 4.5%) and for FY2020-2021 to 2.3%. In terms of calendar year, we forecast a 1.5% drop in 2020 and a 4.7% recovery in 2021.

ESI (% change)



Source: ISP elaboration on Refinitiv data

PMI (% change)



Source: ISP elaboration on Refinitiv data

Monetary policy and financial markets

Monetary policies will remain strongly accommodative in in all the regions

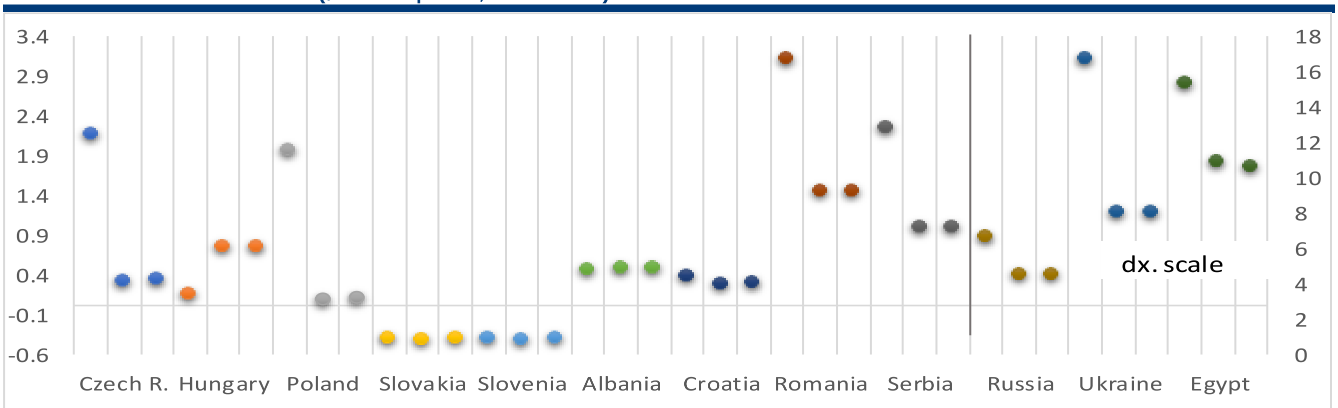
Following the further easing of monetary policy since March, with aggressive policy rates cuts and liquidity support measures being adopted by the monetary authorities in most **CEE/SEE countries**, strong accommodative policies are expected to remain in place both in 2020 and 2021. Further cuts of policy rates are nevertheless still expected where there is space (for example, in Romania and Serbia), together with prolonged liquidity support measures. With **policy rates** at historical lows in 2020-2021, **money market rates** are also forecast to remain low in the whole region. Overall, the new forecasts for money market rates are in line with our March Outlook, except for Hungary and Romania, where despite the accommodative monetary policy, money market rates have kept up a higher profile than previously envisaged.

The falling money market rates at global and local levels, which have lowered medium-term interest rate market expectations, and the increasingly supportive liquidity measures (with QE measures adopted in several countries, such as Poland, Hungary and Romania) have compressed sovereign spreads overall. Therefore **long-term yield** projections have been further revised downwards (or at best, been kept roughly unchanged) in 2020-21 with respect to our March Outlook. In the **forex** markets, local currencies are forecast in line with our March Outlook, having further recovered from the depreciating pressures of 1Q20, but are still at slightly depreciated values at the end of 2020 and 2021 with respect to our December (pre-Covid) forecasts.

In **CIS countries**, a weaker than previously expected GDP growth path and inflation performance will lead to larger than anticipated rate cuts in Russia, Ukraine and Moldova in 2020. Central banks are expected to remain on a similar path in 2021 and to start removing monetary easing only after this. In **Egypt**, we expect the fall in the cost of money to continue over the forecasting period, with the rate on three-month Treasury Bills expected to drop to about 9% in the medium term.

Following the recent further narrowing of the risk premia in world financial markets, we see the sovereign **Russian** bond long yield to end this year below 6%, before edging (slightly) higher in the following years. The recent recovery in oil price has led to an appreciation of the **Russian** ruble, with the RUB/USD rate now expected to hover around the current quotation (69) this year and the appreciation process to continue in 2021. However, external funding needs are expected to instead weigh on the currencies of **Moldova and Ukraine,** fuelling depreciating pressures in the M/L term. In **Egypt,** the real effective exchange rate is exceeding its long-term average. Looking forward, an inflation level that is higher than that of its major trading partners would lead to a further appreciation of the real effective exchange rate, resulting in a loss of competitiveness. These developments are expected to put pressure on nominal exchange rates, leading to some depreciation pressure by the end of 2021.

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



Source: ISP Research Department forecasts

Banking aggregates and interest rates

Policy measures, both on the demand side and the supply side, are positively affecting banking aggregates

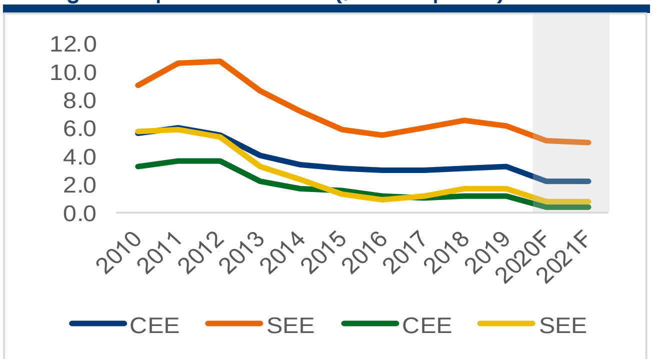
The growth of **banking aggregates** has been revised upward with respect to the March Outlook, despite the deeper than anticipated recession, thanks to the anti-deflationary monetary and credit measures adopted by central authorities, which have positively affected both the demand side (households and corporates) and the supply side (banks' regulatory requirements) of credit. The forecasts have nevertheless been kept below the path outlined in the pre-Covid scenario.

The measures adopted to support **lending** (especially state guarantees and credit growth schemes) – mainly to support SMEs – are estimated to have had beneficial effects both in the CEE and SEE countries, where total loans are forecast to increase by more than 2% and 1%, respectively, in 2020. The moratoriums – adopted in all countries (even if with different lengths, from only two months in Albania to 12 months in Slovakia, Slovenia and Poland) – will reduce repayments in 2020, and also marginally (especially in Slovakia, Poland and Slovenia) in 2021. We have prudently adjusted the total potential effect of the measures announced by central authorities for weaknesses in the transmission channels and effective customer demand. In some countries (for example, Albania) the huge liquidity injection appears to not yet have been fully utilised even if already available, particularly by the corporate sector. Asset quality – despite benefiting also from new flexible accounting standards – is expected to deteriorate, especially once the moratoriums expire. However, thanks to high capital ratios and the current greater flexibility granted by regulators, in particular through the revision or the suspension of the countercyclical buffers and postponed dividends, banks' capitalisation is estimated to remain supportive of credit expansion in all areas of the region.

In **CEE countries**, forecasts show an average slowdown (to 2.2% in 2020 from +6.1% in 2019), with significant dispersion among countries, ranging from -1.5% in Slovenia, severely hit by the economic crisis, to +9% in Hungary, where credit is extensively supported by measures such as subsidised loan schemes (Babaváró in the household sector and the NHP Go and Széchenyi programmes in the corporate sector). In the **SEE area**, due to the more fragile fundamentals (higher NPLs ratios), a slowdown of lending to 1% in 2020 (from 6.8% in 2019) is instead forecast (varying from -5% in Bosnia due to its very fragile economic context to +3.1% in Serbia thanks to highly supportive measures). In the **CIS countries**, loans are expected to slow down as well, falling in Russia to +4% (from +7.1% in 2019) and in Moldova to +3.2% (from +13.9% in 2019), and to remain negative in Ukraine (at -6.5% in 2020), which is still affected by the high NPL ratio (but is covered and concentrated in state-owned banks).

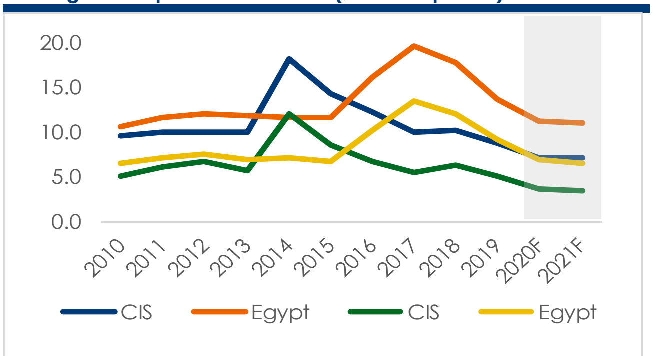
Deposits are forecast to be strongly supported by precautionary saving and lower consumption, despite being negatively affected by lower remittances and the deteriorating labour market conditions. Deposits are expected to show positive changes in all ISP countries (+4.1% in 2020 in both the CEE and SEE countries, and +3.7% in the CIS countries).

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

Zdenko Štefanides

Real Economy

The Czech economy has been hit hard by the Covid-19 pandemic. Real GDP is expected to decline by 6.6% in 2020 as a result of the fall in foreign demand and the collapse in domestic activity during the lockdown. All GDP components will contribute to the decline with the exception of government consumption, which is attempting to compensate for the lost output with hefty fiscal support (pushing the budget balance to a deficit of close to 5% of GDP, from a surplus of 0.3% in 2019). The incipient recovery initiated by the easing of the lockdown in June will translate into a rebound of sequential GDP from 3Q onward. We foresee the recovery lasting through 2021, which should see real GDP bounce by 4.8%. However, the lost output from 1H20 will not be recouped until 2022.

Inflation-wise, the current spike in inflation to close to the 3% upper bound of the CNB target range will start to fade away, due both to external factors (the low oil price) and subsiding domestic costs pressures emanating from weakening household demand and rising unemployment (seen to peak at close to 5%, from a pre-crisis EU low of 2.1%). We thus foresee inflation falling gradually to about 2.3% by end of the year. A faster disinflation is precluded by the depreciating koruna.

Financial Markets

Amid the faltering economy, the Czech National Bank (CNB) has been very active in providing stimulus and has cut rates by a cumulative 200bps. We believe the CNB has now finished its conventional monetary easing via interest rate cuts. It might nonethless explore unconventional approaches to further ease conditions, such as QE or interventions in the foreign exchange market if the economic situation requires it. At this stage, though, we do not foresee any of these measures being deployed. We see the koruna exchange rate being broadly stable for the rest of this year. We also now foresee reasonably low yields.

Banking Sector

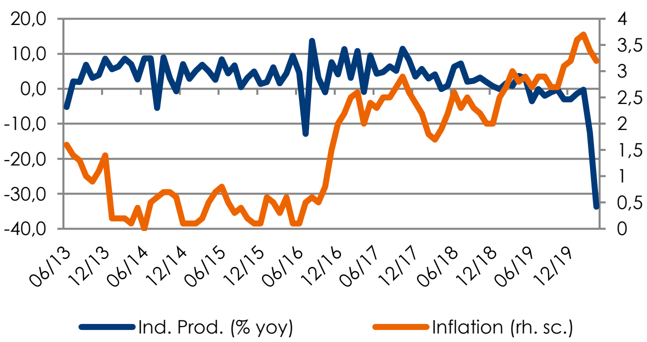
Besides the economy in general, the CNB has also been very active in supporting the banking sector, with capital and macroprudential measures (decreasing the countercyclical capital buffer to 0.50% from July 1 and scrapping debt-to-income and debt service-to-income limits to allow banks a freer hand in supplying new credit to retail customers). These measures will hopefully slow the decline in outstanding loan stock this year but will probably not preclude it altogether given the massive impact of the recession on the investment and consumption-related demand for loans. On the deposit side, after the initial surge in household savings, we expect a gradual drawdown of households' and firms' liquid assets and financial reserves from banks and thus a slower, albeit still positive, growth in bank deposits compared with a year ago.

Forecasts

	2019	2020F	2021F
Real GDP yoy	2.6	-6.6	4.8
CPI (eop)	3.2	2.3	2.5
Euro exchange rate (value, eop)	25.5	26.6	25.8
Short-term rate (eop)	2.2	0.3	0.3
L/T bond yields (eop)	1.6	1.1	1.2
Bank loans (pr. sector, yoy)	5.2	-0.7	2.9
Bank deposits (pr. sector, yoy)	6.1	2.1	2.9
Lending interest rate (corporates, eop)	3.6	1.8	1.7
Deposit interest rate (households, eop)	1.5	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: Czech Statistical Office

Hungary

Sandor Jobbagy

Real Economy

Lockdown easing actions were gradually executed since May. The operation of companies had not been limited by administrative measures, but the major car manufacturers suspended production and overall industrial performance dropped by 37% yoy in April. The upward correction of forward-looking indicators (including PMI) suggests that the worse phases is over, but the economy is set to remain in recession for the next few quarters. The government has announced some tax and social benefit remedies for SMEs, but the majority of the fiscal package is rearrangements between economic players. We project a severe drop in GDP, especially in 2Q20 (7-9%) and a further negative impact in Q3, amid a rise in unemployment. Our baseline scenario suggests a full-year recession for 2020 (-4.1%), which may be even more severe (close to -5-7%) in the event of a more severe or persistent path of the pandemic. Our GDP forecast for 2021 (+3.9%) suggests that not all of the losses will be recovered by the end of next year. CPI is expected to remain close to 3% as core inflation will move down only gradually from 4%.

Financial Markets

The MNB cut the base rate to 0.75% in June, from 0.90%. The move was said to be one-off and symbolic. What was more important, from a monetary policy point of view, was the fact that the interest rate corridor (with the lower bound O/N depo rate of -0.05% and upper bound O/N lending rate of 1.85%) was left unchanged following an effective tightening move in April. We do not expect further rate changes in 2H20, but Bubor rates are expected to gradually adjust downwards, reaching 0.75% by the end of the year and remaining flat for the next two years. The unconventional toolkit of the central bank remains in place and provides an effective way to influence monetary conditions across the entire yield curve. Measures related to bank supervision to ensure flexible adjustments to prudential requirements, for example, capital requirements, have remained in place on a temporary basis. The effective tightening in April managed to stabilise the FX rate. We pencil in some appreciation during the forecast horizon, but a prolonged period of strong HUF appreciation is unlikely.

Banking Sector

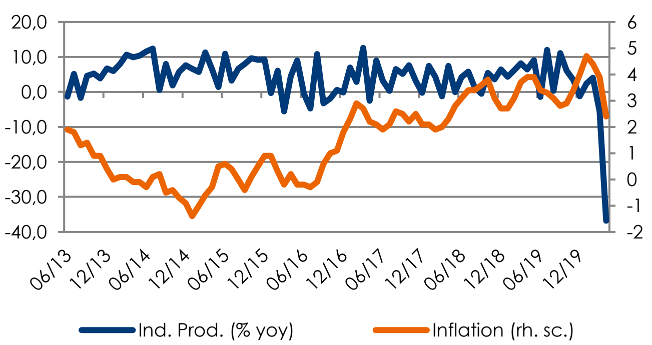
The repayment suspension on all loans taken by households and corporates before March 19 will remain in place despite the easing of lockdown and remains valid until December 31. The percentage of debtors who have taken up the offer has been lower than expected at about 50-60% (the central bank's main case scenario had been 80%, which would have resulted in a HUF 40 billion 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 suspension measures and the expected slower growth of commercial lending. In case of capital deterioration, the central bank stands ready to offer support.

Forecasts

	2019	2020F	2021F
Real GDP yoy	4.9	-4.1	3.9
CPI (eop)	4.0	2.4	3.1
Euro exchange rate (value, eop)	297.6	345.5	339.2
Short-term rate (eop)	0.2	0.8	0.8
L/T bond yields (eop)	1.9	2.2	2.3
Bank loans (pr. sector, yoy)	13.2	9.0	5.1
Bank deposits (pr. sector, yoy)	8.0	5.0	5.3
Lending interest rate (corporates, eop)	2.3	3.1	3.0
Deposit interest rate (households, eop)	0.2	0.9	0.9

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

Sandor Jobbagy

Real Economy

Poland has started to reopen its economy by easing lockdown measures and other limitations that have been in place since mid-March. Shops have reopened and the economy (especially manufacturing) began to revive in May and June. Nevertheless, several branches of the economy, including tourism and domestic transport, are still being hit hard by the crisis. Another major economic consequence is the closing of borders, which puts several branches of the economy at risk, especially construction as it depends heavily on the Ukrainian workforce. Despite the significant fiscal stimulus (a package of PLN 212 billion, more than 9% of GDP, the strongest fiscal reaction to the pandemic in the CEE region), we expect Poland to suffer a significant recession this year: our main case scenario projects a 4.7% drop in GDP, with only a partial recovery (+3.8%) in 2021. CPI is set to remain contained, though still close to the 2019 level on average. Forward-looking indicators, including PMI data, signal that this outlook remains surrounded by significant uncertainty.

Financial Markets

The Polish central bank has cut its main policy rate in three steps since the outbreak of the Covid-19 crisis to a historical low of 0.10%, with the latest (40bps) move on May 29. Other monetary actions to mitigate the impact of the crisis have 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 and the introduction of discount credit for banks. The NBP also cut the required reserve rate and raised the interest rate 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. Based on these policy actions and Poland's macroeconomic fundamentals, we expect the EUR/PLN exchange rate to move above 4.40 on average in 2020 (versus 4.30 in 2019) and to even stay above 4.40 during most of 2021. The NBP policy rate and money market rates are also unlikely to move higher before 2022.

Banking Sector

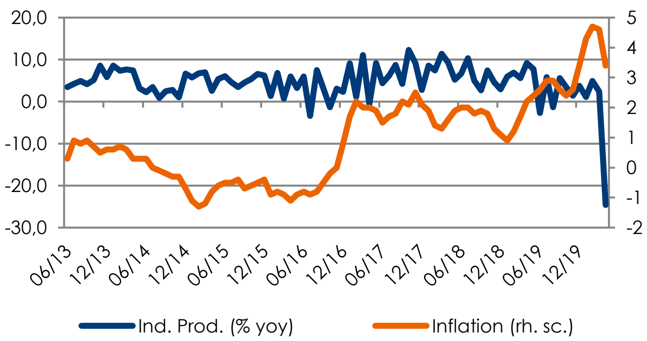
The lending activity of Poland's banking sector is set to grow further in 2020, but at a much slower pace compared with 2019 or the preceding few years. Nevertheless, the banking sector appears to be solid, though the expected consolidation process may be accelerated by the pandemic. The possibility of the implementation of a grace period for the repayment of loans has been announced by banks and the Polish Bank Association announced that about 200,000 retail customers and about 10,500 enterprises had applied for a pause in repayments at Polish commercial banks by the end of March. Banks could be supported by a reduction or suspension of the banking tax, in particular in relation to 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 30 billion of capital.

Forecasts

	2019	2020F	2021F
Real GDP yoy	4.1	-4.7	3.8
CPI (eop)	3.4	2.6	2.5
Euro exchange rate (value, eop)	4.3	4.4	4.4
Short-term rate (eop)	2.0	0.1	0.1
L/T bond yields (eop)	2.0	1.4	1.8
Bank loans (pr. sector, yoy)	4.7	2.1	4.9
Bank deposits (pr. sector, yoy)	9.7	5.0	5.5
Lending interest rate (corporates, eop)	3.6	2.2	2.2
Deposit interest rate (households, eop)	1.5	0.3	0.4

Note: Average values are available in the country outlook table.
Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistics Poland

Slovakia

Real Economy

Michal Lehuta

The Slovak economy has been hit very hard by the fallout from the global Covid-19 pandemic. In the first quarter, net exports were impacted much more than domestic demand (where performance was slightly positive) due to local quarantine measures. GDP shrunk by as much as 5.2% qoq in 1Q – one of the worst results in the whole of the EU – and net exports were down by 5.5pp. Some of the initial decline, however, may have been a one-off, as imports included items valued at about 1.0% of local quarterly output.

Monthly data for industrial production to April, however, suggested that automotive output caused production to decline more than in neighbouring countries. Unsurprisingly, tourism (accommodation), car sales and restaurants recorded gigantic yoy declines in sales. This has put the economy into the worst recession ever recorded, with GDP likely to decline by 8.5% this year. However, there is a lot of uncertainty in our outlook, especially for the next few quarters, until the coronavirus is deemed to be under control.

On a brighter note, the recession might not cause the unemployment rate to rise to the levels recorded after the 2009 crisis, thanks to fiscal as well as monetary support, and also the exogenous nature of the crisis. However, due to long notice periods and laggard effects, the number of jobless will continue to rise during the next few months.

The general fall in aggregate demand, together with cheaper commodity prices, will cause local inflation to fall to below 2.0% during the rest of the year. However, it may stay significantly higher compared to the euro area average – similar to other CEE countries.

Financial Markets

The money market in the eurozone has stabilised under the accommodative ECB policy, with three-month Euribor declining to last year's level of about -0.4%. In addition, the spread between 10Y Slovak government bond yields and German Bunds has declined markedly (to as low as 39bps currently) after a general increase in uncertainty during the peak of the pandemic. Thanks to the pumped-up asset purchases by the central bank, this has compensated for the recent Fitch downgrade of the country's credit rating from A+ to A (with a stable outlook) and a significant deterioration in the long-term sustainability of local public finances.

Banking Sector

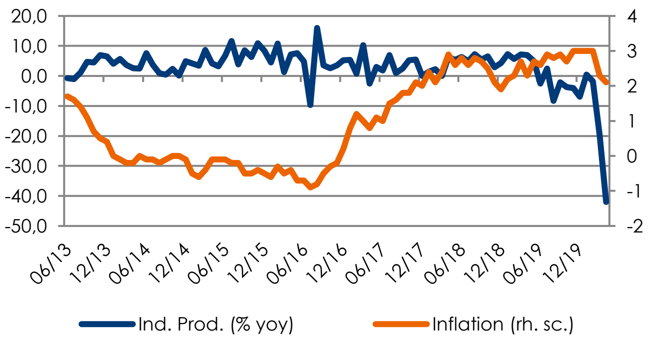
Banking business was not significantly affected by the economic problems during the first months of 2020. Loan moratoriums and government credit guarantees will probably help to keep total lending volumes stable during the rest of this year. On the deposit side, the higher saving rate could, to a large degree, compensate for lower incomes. However, the recession will surely deteriorate underlying clients' risk profiles and increase NPLs considerably. In June, the cabinet agreed to abolish the hefty special bank levy, which will help local banking capital covers and lending capacities.

Forecasts

	2019	2020F	2021F
Real GDP yoy	2.4	-8.5	5.1
CPI (eop)	3.0	1.8	2.4
Short-term rate (eop)	-0.4	-0.4	-0.4
L/T bond yields (eop)	0.1	0.2	0.4
Bank loans (pr. sector, yoy)	6.2	-0.7	3.3
Bank deposits (pr. sector, yoy)	4.8	2.1	3.7
Lending interest rate (corporates, eop)	2.1	1.9	1.9
Deposit interest rate (households, eop)	0.1	0.0	0.1

Note: Average values are available in the country outlook table.
Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistical Office of Slovakia

Slovenia

Real Economy

Ivana Jović

Despite a solid start to the year, the Covid-19 outbreak pushed the Slovenian economy into the red even in 1Q as GDP contracted by 2.3% yoy (-4.5% qoq). Household consumption and investments experienced strong declines (-6.4% and -6.3% yoy, respectively), while government consumption increased by 5.8%. At the same time as imports contracted more strongly than exports (-2.5% vs. -1.6% yoy), net external demand made a mild positive contribution of 0.5pp. Looking forward, we see a strong double-digit contraction in 2Q as activity in April nose-dived (retail -22.6%; goods' exports -28.9%; imports -41.2%; construction -6.5%; tourist overnights -98.9% yoy) and business sentiment deteriorated.

The second half of 2020 should bring about a gradual recovery, although this will be limited by low consumer confidence, postponed investments and fragile foreign demand. In that respect, we see 2020 GDP contracting by 8.2% yoy, with the risks slightly tilted to the downside, before growth resumes, reaching 4.9% in 2021. And while export-oriented sectors of economy, which are deeply integrated into trade and supply chains, depend on the expected stabilisation in the euro area, domestic demand depends on the stabilisation of the labour market through short-time work co-financing schemes. Currently, unemployment is fluctuating at about 90ths, or about 25% more than in the same period the previous year, while employment growth in April, for the first time since early 2014, went backwards (-0.9% yoy vs. +2.8% in April 2019).

Financial Markets

Ana Lokin

The 10Y government bond spread on the Bund has been retreating since lockdown measures began to be relaxed, sliding back towards pre-Covid-19 levels. The average spread in 2020 is thus projected at 60bps, whereas the average yield is seen at 0.3%.

Banking Sector

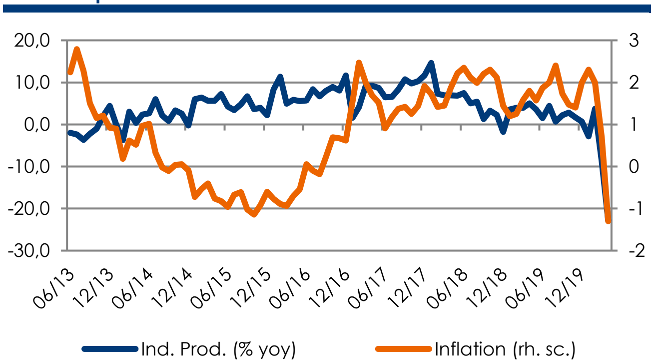
The latest data on moratorium applications show a moderate impact on the stock of private sector loans, whereas the new business statistics reveal solid volumes of newly granted corporate loans. The central bank has stepped up its efforts to ease household lending, allowing banks (since June) to exclude the months of the officially declared epidemic when assessing household creditworthiness, however, retail demand seems to have thinned. Deposit growth strengthened during lockdown, particularly among households, which, according to BSI, was probably due to the payment of additional benefits to households during the epidemic. Our projection of this year's credit and deposit growth has improved compared with our previous scenario (to -1.5%, i.e., +0.3% yoy), reflecting the strong fiscal and monetary stimulus, but our loan forecast remains in negative territory as household credit demand shrinks.

Forecasts

	2019	2020F	2021F
Real GDP yoy	2.4	-8.2	4.9
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	0.3	0.5
Bank loans (pr. sector, yoy)	3.7	-1.5	2.5
Bank deposits (pr. sector, yoy)	6.3	0.3	2.9
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

Albanian GDP growth is expected to contract by roughly 5.5% this year due to Covid-19 and the earthquake, before returning to growth of about 4.1% in 2021. However, before the Albanian fiscal and monetary cushion response has an effect on the economy, the country will plunge into a strong recession. The GDP fall will be particularly severe in Q2, but some signs of a possible successive recovery have been recorded. The country's exports fell by 22.7% in May compared with the same period the previous year, but increased by 43.8% compared with April 2020. Imports decreased by 24.2% compared with the same period the previous year, but rose by 22.9% compared with April 2020. As a result of the import-export dynamics, the trade deficit shrank by 25.6% compared with May 2019, but widened by 8.3% compared with April 2020. Inflation in May stood at 2.1%, and we forecast it will remain relatively stable at around 2% for the whole year. In Q1, the unemployment rate was 11.4%, but it is expected to worsen in the following quarters. The GDP growth rebound in 2H20 and 2021 is nevertheless subject to high uncertainty due to the risks of a second wave of the pandemic.

Financial Markets

The interest rate spread of the interbank market with the policy rate remains at the minimum level. The financial market seems to have absorbed the increased pressures on liquidity, supporting the stability of interest rates. The decision to extend the postponement procedures for loans to businesses and households by another quarter, together with the liquidity supply to the economy and the cutting of the key interest rate to its record low of 0.5%, have relieving the impact of the two consecutive shocks from the earthquake of November 2019 and Covid-19. Monetary policy will continue to remain strongly accommodative throughout the forecast horizon to support the downside risks. The materialisation of these risks might dictate a further easing of the monetary policy stance. In June the government successfully priced a new seven-year €650 million Eurobond at a coupon of 3.50%. Part of this will be used to cover the maturity in 2020 of the 2015 Eurobond and the rest is intended to cover budgetary financing needs. Exchange rates seem to be stable, with the EUR/ALL at 124.30.

Banking Sector

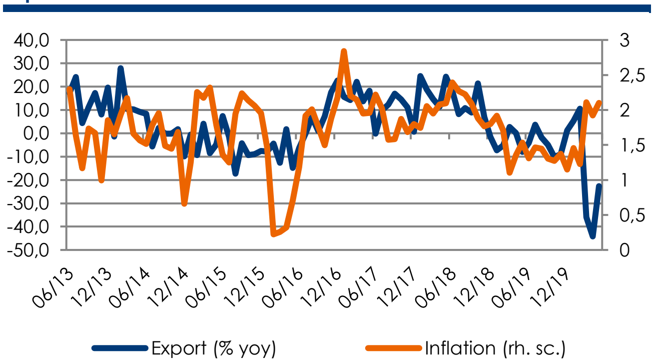
The drop in output, aggregate demand and employment will be reflected in banking sector activity. The peak of the sharp decline in the country's economic activity will become clearer in the macroeconomic and banking indicators in the upcoming months. In April 2020, new loans volumes decreased by 10.65% yoy. Total lending activity in April was 5.6% higher yoy, with corporate loans increasing by 6.17% and households by 3.29%. The volume of new deposits shrank by 26.52% yoy in April. Total deposits growth in April was 4% yoy, with corporate deposits increasing by 2.15% yoy and household deposits by 4.37% yoy.

Forecasts

	2019	2020F	2021F
Real GDP yoy	2.1	-5.5	4.1
CPI (eop)	1.1	1.9	2.2
Euro exchange rate (value, eop)	121.9	124.0	125.0
Short-term rate (eop)	0.5	0.5	0.5
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	6.5	-0.2	2.3
Bank deposits (pr. sector, yoy)	3.8	2.2	2.4
Lending interest rate (pr. sector, eop)	6.3	6.2	6.3
Deposit interest rate (pr. sector, eop)	0.7	0.3	0.4

Note: Average values are available in the country outlook table.
Source: Intesa Sanpaolo Research Department forecasts

Export and inflation



Source: National Statistical Institute

Bosnia and Herzegovina

Real Economy

Ivana Jović

As GDP growth had already slowed last year (to 2.6% from 3.3% in 2018), the Covid-19 crisis has further deteriorated the outlook. We see the economy contracting by 5.0% this year, but bouncing back in 2021 (+4.0% yoy).

Although the 1Q GDP outturn has not yet been published, so far the available high frequency data indicates an 8.1% decline in manufacturing, which further nose-dived in April (-24.9% yoy). At the same time, retail trade recorded +3.8% growth in 1Q only to register a free fall of 34.5% yoy in April. The negative trend in exports, which had begun in mid-2019, deteriorated further to -5.2% yoy in 1Q and -32.7% in April, while at the same time imports registered -7.1% and -35.2% yoy declines, respectively. The expected decline in remittances inflows and the deteriorating labour market (especially in sectors heavily hit by Covid-19, such as tourism, transport, wholesale and retail trade), will lead to a drop in disposable income, thus putting pressure on private consumption.

International support (the IMF's RFI of €330 million) was swiftly offered, and following a six-week delay, was finally disbursed in early June. In total, IFI and EU support amounts to about 4% of 2019 GDP, which will help the country deal with the crisis, though on a limited scale. Currently, the risks are skewed to the downside, in line with the uncertainties lingering over the main export destinations' recoveries, as well as the complex political and institutional setup, with blocking decisions sometimes used as a political tool.

Banking Sector

Ana Lokin

Loans and deposits were hit hard by the strict lockdown measures, ending April down by 2.4 (and 1.6% compared to the end of 2019), with the loan drop partially the result of changes in credit risk methodology introduced at the start of the year.

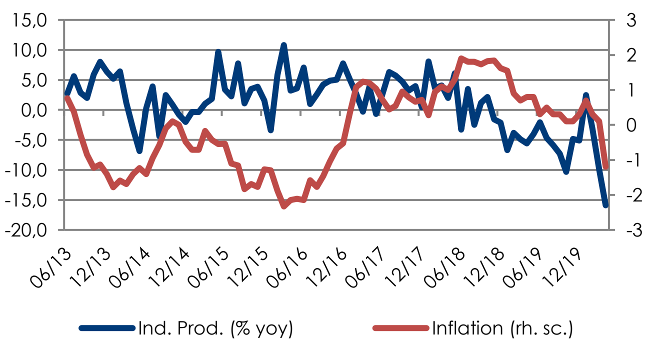
Due to the lack of monetary stimulus and the limited impact of fiscal stimulus, our loan forecast remains in negative territory (-5.0% yoy), however, compared with the scenario in March, we have slightly improved it as we expect a stronger rise in new corporate loans. Our deposit projection was also marked up, to a stagnation rather than a decline yoy, as households are expected to reduce consumption. The risks to the forecast remain negative amid shrinking remittances and the thin liquidity and capital buffers of the corporate sector.

Forecasts

	2019	2020F	2021F
Real GDP yoy	2.6	-5.0	4.0
CPI (eop)	0.3	-0.8	1.2
Euro exchange rate (value, eop)	1.96	1.96	1.96
Short-term rate (eop)	n.a.	n.a.	n.a.
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	6.7	-5.0	3.1
Bank deposits (pr. sector, yoy)	8.4	0.0	3.5
Lending interest rate (corporates, eop)	n.a.	n.a.	n.a.
Deposit interest rate (households, eop)	n.a.	n.a.	n.a.

Note: Average values are available in the country outlook table
Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Agency for statistics of Bosnia and Herzegovina

Croatia

Real Economy

Ivana Jović

GDP growth remained mildly positive in Q1 (+0.4% yoy but -1.2 qoq) amid the positive contribution of net exports, however the unfolding Covid-19 crisis will take its toll on the tourism-dependent economy and we expect GDP to decline by 9.6% in 2020, and to only partially recover in 2021 (+5.0% yoy). April data revealed the drastic effect of the lockdown as retail trade nose-dived by 25%, industrial production plunged by 11% yoy and exports contracted by 22.5% yoy (imports by about 36%). Government wage subsidies for March-May eased the pressure on unemployment and the number is now fluctuating around 155ths (+33% yoy; unemployment rate up by 2.5pp to 9.5% in May). From June onwards, wage subsidy rules are stricter (≥50% decline in revenues and limited to hospitality, passenger transport and event organisation) and we expect that unemployment will rise further towards the end of the year, although this will be partially curbed by the announced short-term working support scheme (for firms with 10+ employees).

We see incoming May data as less catastrophic but still remaining in the red amid the slow recovery of major trading partners and worsened consumer confidence. June's opening of intra-EU borders looks promising for Croatia's predominantly car-destination tourism, thus following a hammered pre-season, the peak season is expected to face a drop of about 70% compared with last year. However, the slow EU recovery and hampered business and consumer sentiment will put a brake on private investments and non-essential consumption. The still-elevated uncertainties related to a second outbreak tilt the risk balance to the downside, although the huge pile of EU funds (c. 19% of 2019 GDP) under the Recovery Plan may turn the risks towards the upside in the medium term depending on the new government's planning capabilities (general elections set for July 5, a few months ahead of schedule).

Financial Markets

Ana Lokin

Markets calmed in 2Q, when the EUR/HRK rate stabilised below the 7.6 level, liquidity remained sound and demand for the CB's weekly auctions dried up. FX inflows began to rise in June on account of the tepid start to the tourist season, thus we now see the average FX rate in 2020 a bit lower than the March scenario, at 7.54. The 10Y HRK government bond spread on the Bund peaked in mid-May (reaching 200bps). At year-end we see it at 170bps as economic growth gains ground, hence the 2020 average is seen at 160bps, with the average yield at 1.3%.

Banking Sector

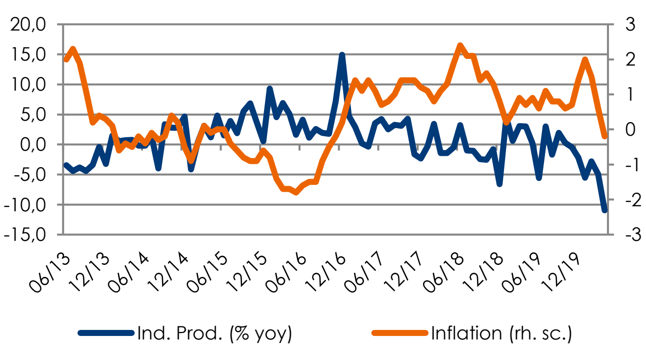
We have lifted our loan and deposit forecast (with respect to our March forecasts) to -2.0 and 0.2% yoy, respectively, on account of the positive contribution of the fiscal and monetary measures taken and the healthy rise in new placements to corporates. Deposit growth remains supported by households, which are expected to sharply curb consumption amid rising unemployment and weak inflows from tourism, while corporate deposits are forecasted to fall.

Forecasts

	2019	2020F	2021F
Real GDP yoy	2.9	-9.6	5.0
CPI (eop)	1.4	-0.1	1.8
Euro exchange rate (value, eop)	7.4	7.6	7.5
Short-term rate (eop)	0.4	0.3	0.3
L/T bond yields (eop)	0.7	1.5	1.5
Bank loans (pr. sector, yoy)	3.9	-2.0	3.0
Bank deposits (pr. sector, yoy)	4.8	0.2	3.2
Lending interest rate (pr. sector, eop)	5.6	5.2	4.7
Deposit interest rate (pr. sector, eop)	0.2	0.1	0.1

Note: Average values are available in the country outlook table.
Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Croatia Bureau of Statistics

Romania

Real Economy

Marius Pacurari

GDP growth in 1Q20 was higher than previously expected at +0.3% versus the previous quarter and 2.4% versus 1Q19. For the next quarters, our forecasts are for negative figures, with -7.1% for the whole year. CPI decelerated at the end of May to 2.3% yoy and was below the NBR's projection, mainly due to non-food components, while food components have been very volatile. Industrial production decreased by 38.4% in April, the first month with lookdown measures fully deployed. Retail sales also decreased by 19.5%. The budget deficit for April was at 2.48% of GDP, while government forecasts for 2020 are still about 6.7% of GDP. The most pessimistic forecasts are for a circa 10% deficit. The BIM (ILB) standard unemployment grew to 4.8% in April.

Financial Markets

The CB cut rates for the second time on May 29, this time by 25bp for all monetary policy rates: the reference rate, the credit facility (Lombard) rate and the deposit facility rate. The levels for minimum reserve requirements remained at 8% for local currency sources and 6% for foreign currency sources. Before the end of the year we expect further rate cuts – one or two 25bps cuts – and also possible cuts to reserves levels. The currency is expected to depreciate only slightly, with the EUR/RON rate at about 4.9 on average this year. The contribution of the central bank to banking system liquidity was lower in May versus April (from about RON 16.5 billion to about RON 12 billion if we take into consideration bond acquisitions). After a significant depreciation of the Romania 5Y CDS from about 60bps in mid-February to about 150bps at the beginning of May, in June the evolution was more stable, with a slight appreciation to about 135bps.

Banking Sector

Marius Pacurari

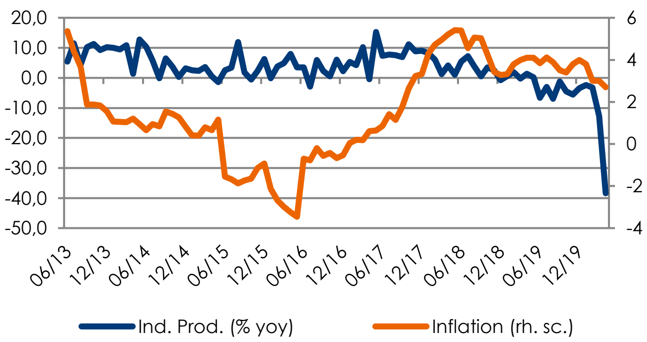
Total assets were stable in April compared with March, with yoy growth remaining at about 13%. Lending activity in April was in line with March, with the evolution of the credit stock being almost flat. On yearly basis, households' growth was almost 7%, while companies' growth was 2.76%. For the rest of the year, the forecasts remain positive, with an expected yearly growth rate of about 1.8%. The interest rates on credits in RON have decreased, mainly due to the CB's rate cuts, while the interest rates on credits in EUR have increased slightly, mainly due to higher country risk indicators (CDS). Customer deposits continued to grow in April versus March by 0.58%. The household component grew by 2.59%, while the companies component decreased by 3.06%. On a yearly basis, deposits grew by 13.06% in April, with 14.77% in households and 9.91% in companies. Our forecast for deposits this year is 5.2%. The interest rates on deposits in RON did not decrease in April, despite the CB's rate cut. In EUR, deposit interest rates also remained stable. It seems that due to the pandemic, banks preferred to keep unchanged customer deposit rates as a prudent approach.

Forecasts

	2019	2020F	2021F
Real GDP yoy	4.1	-7.1	4.8
CPI (eop)	0.0	2.0	2.6
Euro exchange rate (value, eop)	4.8	4.9	4.8
Short-term rate (eop)	3.1	1.4	1.4
L/T bond yields (eop)	4.7	3.9	4.2
Bank loans (pr. sector, yoy)	7.0	1.8	4.9
Bank deposits (pr. sector, yoy)	12.6	5.2	5.9
Lending interest rate (pr. sector, eop)	6.7	5.2	5.2
Deposit interest rate (pr. sector, eop)	2.3	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: National Institute of Statistics

Serbia

Tijana Matijasevic

Real Economy

The economy performed well in 1Q20, posting GDP growth of 5.0% yoy. The momentum, however, has been lost, and turning to 2Q, we expect a double-digit contraction in output. In April industrial production fell by 16.6%, the biggest fall since the global financial crisis, with manufacturing declining by c. 20%. Retail activity fell by 18.6% yoy, as containment measures weighed on household spending. The relaxation of measures as of May should be supportive of a gradual recovery in the coming months. In addition, the Covid-19-induced negative blow will be softened by the fiscal and monetary measures adopted by Serbian authorities. GDP is forecast to contract by 3.3% in 2020 before rebounding by 3.5% in 2021. Downside risks could arise if an increase in new infections results in the imposition of stricter containment measures. Yoy inflation has slowed recently, landing at 0.7% in May, on account of lower fuel prices and the high base in vegetable prices. CPI is expected to remain relatively weak in the coming months and to continue moving below, but close to, the lower end of the inflation target corridor (3% ± 1.5pp).

Financial Markets

NBS cut the key policy rate to 1.25% in June, aiming to alleviate the negative consequences of the pandemic. The key rate has been trimmed three times since March, by 1pp cumulatively. Other monetary actions have included additional liquidity supply to the banking sector through FX swap auctions and repo operations at favourable and predictable rates, following the introduction of a three-month loan repayment moratorium. At the same time, NBS continued with its heavy interventions in the FX market, net selling €875 million in the January- May period. As a result, the dinar was among the most stable currencies during the crisis – it even appreciated slightly against the EUR (by 0.5% ytd). Given the comfortable level of FX reserves, the NBS has enough buffers to sustain its stable dinar policy and we see an average EUR/RSD of 117.6 in 2020.

Banking Sector

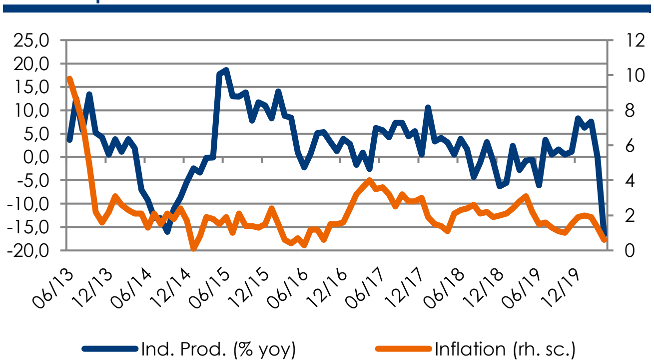
While the full effect of the pandemic on banking aggregates is still uncertain, there is no doubt the economic downturn will weigh on loan demand, while at the same time, it is reasonable to expect that banks will tighten credit standards due to the increased risks. As a result, a slowdown in credit activity is expected in 2020. The government's guarantee scheme will sustain volumes in the corporate segment, with a likely demand shift in favour of liquidity rather than investment lending, which was one of the key drivers of credit growth before the Covid-19 outbreak. NPLs are likely to increase in the following months after debt moratoriums are lifted, with a build-up of bad loans expected especially as of 2021. On the deposits side, the withdrawal of HH deposits in March proved to be only temporary, as they recovered in April. Looking ahead, private sector deposit growth is expected to remain positive and is projected at 5% in 2020 and 5.6% in 2021.

Forecasts

	2019	2020F	2021F
Real GDP yoy	4.2	-3.3	3.5
CPI (eop)	2.0	1.0	2.1
Euro exchange rate (value, eop)	117.6	117.7	118.0
Short-term rate (eop)	2.3	1.0	1.0
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	8.9	3.1	4.4
Bank deposits (pr. sector, yoy)	7.8	5.0	5.6
Lending interest rate (pr. sector, eop)	7.1	6.0	6.0
Deposit interest rate (pr. sector, eop)	2.0	1.2	1.2

Note: Average values are available in the country outlook table.
Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistical Office

Moldova

Olga Pisla

Real Economy

In 1Q20 GDP grew by 0.9%, slightly accelerating compared with the previous quarter's 0.2%. The GDP evolution was driven by the positive impact from inventories (+4.9%), net investments (+2.0%) and public consumption (+0.1%), which counteracted the negative contributions of household consumption (-1.6%) and net exports (-4.5%). As a result of the Covid-19 pandemic, the economy is expected to enter into a recession in 2020, with GDP contracting by 3% (but with the potential to contract by up to 7% in the most pessimistic scenario). In 2021, the economy is expected to rebound, with GDP growth entering into positive territory and growing by 3.4%. Despite the positive 6.1% growth in the energy sector, in April 2020 industrial production contracted by 25% as a result of the decrease in the production volume of the extractive (-37.6%) and manufacturing (-28.5%) industries. In May 2020, inflation stood at 4.05%, falling below the 5% target due to a deceleration in annual inflation for all types of products. This downward trajectory is expected to be maintained until the end of 2020, with inflation falling to the lower bound target level of 3.5%. Subsequently, it will increase slightly in 2Q21 and decrease afterwards without falling below the lower limit of the interval.

Financial Markets

In May 2020, the yields for Treasury Bills decreased, on average, by 0.2pp, remaining unchanged for longer-maturity government bonds. In the context of the Covid-19 crisis, the National Bank's goal is to ensure a stable liquidity level within the banking sector and to encourage demand in the market. Nonetheless, no further cuts of the base rate or the required reserves ratio are foreseen in the upcoming period.

Banking Sector

In April 2020, compared with the same period last year, the stock of private loans and deposits in the economy maintained a positive evolution. The volume of total loans grew by 10.4% yoy (vs. 15.3% in March) despite the deceleration in both the corporate (+2.6% vs. 7%) and household (+28.6% vs. 35%) sectors. Credit activity slowed in April compared with the same period last year, with the volume of new loans granted contracting by 21.2% as a result of a 64.5% yoy decrease in the household sector. Similar dynamics were observed for deposits, the volume of which grew by 5.9% yoy in April (vs. 12.3% in March), but with the amount of newly attracted deposits falling by 47.7% yoy. The slowdown in the stocks of banking aggregates (and the fall in new flows) is expected to be maintained during the rest of 2020, followed by a slight rebound in 2021.

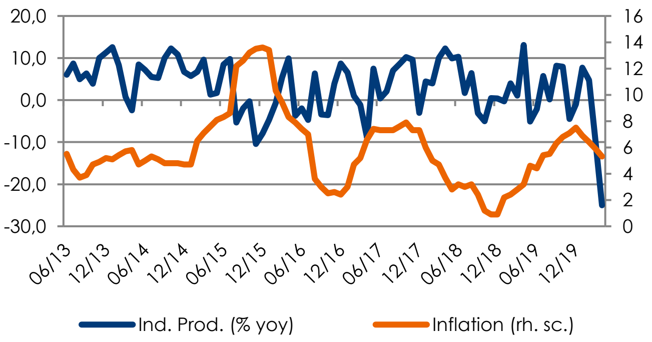
Although lending and deposit interest rates have been rather stable over the last six quarters, they are expected to fall by the end of 2020 and to remain roughly stable in 2021. The Covid-19 crisis has seen a rise in the risk of non-payment of credit obligations, which has led to an increase in the balance of non-performing loans and of the NPL ratio (8.3% in April vs. 8.1% in February). The evolution of the NPL ratio remains nevertheless dependent on the duration and severity of the crisis.

Forecasts

	2019	2020F	2021F
Real GDP yoy	3.6	-3.0	3.4
CPI (eop)	7.5	3.5	3.7
USD exchange rate (value, eop)	17.5	18.0	18.4
Euro exchange rate (value, eop)	19.4	20.2	21.4
Short-term rate (eop)	5.5	3.3	4.0
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	13.9	3.2	5.1
Bank deposits (pr. sector, yoy)	7.7	5.5	6.0
Lending interest rate (corporates, eop)	8.9	5.7	6.4
Deposit interest rate (households, eop)	4.5	1.5	2.4

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

Irina Lekareva

Real Economy

In April, the first month of the anti Covid-19 measures, GDP decreased by 12% yoy (after +0.8% yoy in March and +1.6% yoy in 1Q20). Industrial production fell by 6.6% yoy due to direct restrictions on economic activity and a drop in demand. The sharpest decline was observed in manufacturing (-10.0 % yoy). Retail sales fell by 23.4% yoy due to the decline in non-food sales.

Economic activity is expected to start recovering by the end of June. The GDP decline in 2Q20 is seen to be about 11% yoy. GDP is likely to fall by about 5.5% this year and then begin to recover in 2021. In May, annual inflation fell by 0.1pp to 3% after rising in March and April. With the current disinflationary trends, the CPI monthly growth rate will continue to decline. By the end of this year, annual inflation is likely to be around the level of 3.8%. With stimulating fiscal policy and softening monetary policy, inflation is expected to stabilise near the 4% target in the next year.

Financial Markets

The situation in the financial markets has turned more stable since our March outlook, with volatility significantly decreased and oil prices having returned to the level of USD 40 per barrel, mainly supported by the new OPEC+ agreement that became effective on May 1. The RUB strengthened, on average, against the USD and the EUR by 3.5% in May and continued to appreciate in June, on the back of rising oil prices and FX sales by the CBR under the budget rule. All of these factors, along with the low level of inflation, have allowed the Central Bank of Russia to proceed with key rate cuts. On June 19, the CBR reduced the key rate by 100bps to 4.5%. The decision was aimed at limiting the sharp decline in inflation and keeping it close to 4%. The CBR does not exclude the possibility of further reducing the key rate at the next meetings, and by the end of the year we expect to see it at the level of 4%, without changes in the next year.

Banking Sector

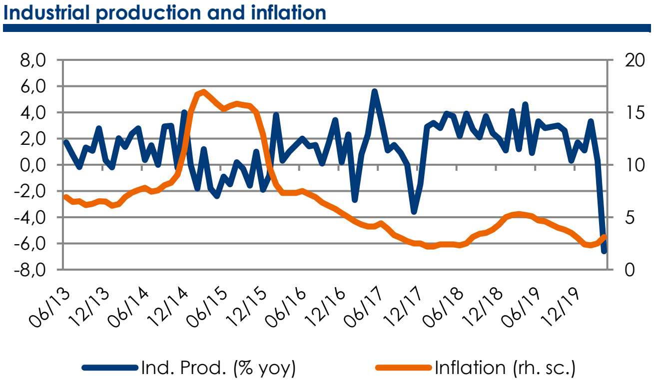
The volume of deposits increased by 11% yoy in March after the 6% growth of the previous month, supported mainly by corporates, whose growth was at the highest level since January 2016 (+10% after +3.4% in February and January). The lending dynamic was also characterised by high growth rates. Corporate loans increased sharply by 11% yoy from +4.4% yoy in February as due to the uncertainty, companies used their credit lines to receive preferential loans to replenish working capital and pay salaries. Household lending remained stable at +17.8% yoy. The growth rate of corporate lending in the coming months could remain high due to the existing economic support, but household lending growth is expected to be weaker, sustained by mortgage lending due to supportive government programmes. The decision to cut the key rate created the conditions for reducing interest rates in all segments of the market. This, along with the government and CBR measures, is expected to support lending growth at the rate we forecast of 4% this year.

Forecasts

	2019	2020F	2021F
Real GDP yoy	1.3	-5.5	3.0
CPI (eop)	3.0	3.8	4.0
USD exchange rate (value, eop)	62.9	69.0	65.5
Euro exchange rate (value, eop)	69.9	77.4	76.0
Short-term rate (eop)	6.6	4.5	4.5
L/T bond yields (eop)	6.4	5.8	6.2
Bank loans (pr. sector, yoy)	7.1	4.0	5.3
Bank deposits (pr. sector, yoy)	4.2	4.0	5.5
Lending interest rate (corporates, eop)	7.8	6.9	7.0
Deposit interest rate (households, eop)	4.7	3.7	3.6

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

Despite lockdown measures having been eased since mid-May, uncertainty about the further spread of Covid-19, with the looming risk of a second outbreak wave, prevails. GDP decreased by 1.3% in 1Q and an even deeper contraction is expected in 2Q as a result of the negative impact of quarantine restrictions on private consumption, the sharp decline in investment and slowing exports amid weakening external demand. Industrial production decreased by 16.3% yoy in April after a 7.7% fall in March, and retail sales fell 14.9% yoy in April after 6.1% growth in March. The deeper-than-expected recession has led us to revise down our March GDP forecast to -6.5% in 2020, with a slight recovery of 3.2% in 2021. Thanks to lower energy prices and muted consumer sentiment, CPI slowed to 1.7% in May from 2.1% in April, taking it to the lowest value for five years. With May likely to mark the lowest inflation value in 2020, we expect CPI to remain below the NBU's target range of 5-6% in the coming months.

Financial Markets

On the back of better-than-expected inflation in May and looming deflation risks, the NBU cut its policy rate by 200bps to 6% early in June, taking it to the lowest level in Ukrainian history, with a 7.5pp reduction since the beginning of 2020. After the policy rate cut, the Ministry of Finance has adjusted bond rates on primary auctions, bringing its short end to 7-8% and the longer end to 10-11%. While the short-term bonds enjoyed a good reception, with a bid-to-cover ratio above three, the two- to-three-year bonds drew low demand as a result of a lack of interest from non-resident accounts. The UAH has been trading around 26.50-26.80 against the dollar for two months in a row on the back of subdued market activity, but it is likely to return to a gradual depreciation in the coming months. Ukraine agreed on US$5 billion in funding from the IMF, with the first financing slice of US$2.1 billion available immediately. The deal will help to unlock funding from other international lenders, which is expected to amount to an additional US$2 billion to cover external debt payment needs during 2020 and provide budget support.

Banking Sector

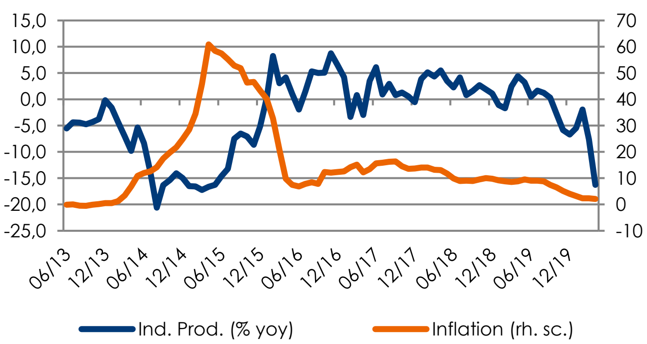
The loans portfolio decreased by 3.4% yoy in April, while deposits from the private sector grew by 19%, reflecting the improved confidence in banking system despite the Covid-19 outbreak. The UAH retail loan portfolio in April fell by 3% mom for the first time in more than three years. Although still in the black in yearly terms (+16.7% yoy), the downward trend is likely to continue in May, reflecting weakening consumer spending. The NPL portfolio increased by 0.86% mom in April. Even though the quality of banks' loan portfolios at the beginning of the pandemic was the best it has been for the past decade, it has now become a key challenge for banks. The NBU estimates that more than 10% of the loan portfolio may become non-performing over the next few quarters due to the crisis. Given the anchored inflation expectations and lower policy rate, banks have begun to lower rates on deposits and loans. In April the average lending interest rate decreased to 15.9% and the deposit rate to 7.8%.

Forecasts

	2019	2020F	2021F
Real GDP yoy	3.2	-6.5	3.2
CPI (eop)	4.1	5.8	5.5
USD exchange rate (value, eop)	24.0	27.5	27.8
Euro exchange rate (value, eop)	26.2	30.9	32.3
Short-term rate (eop)	16.7	8.0	8.0
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	-8.0	-6.5	-3.0
Bank deposits (pr. sector, yoy)	9.6	0.4	6.5
Lending interest rate (pr. sector, eop)	18.6	9.9	10.0
Deposit interest rate (pr. sector, eop)	10.8	3.5	3.5

Note: Average values are available in the country outlook table.
Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: State Statistics Service of Ukraine

Egypt

Samer Halim

Real Economy

The Egyptian government decided to shorten the night-time curfew so it began at 12am and ended at 4am as of 27 June, in addition to reopening restaurants, coffee shops and sporting clubs at 25% capacity. Mosques and churches will be also allowed to reopen for daily prayers. With regard to tourism and aviation, tourist governorates with the least infections (South Sinai, Red Sea and Marsa Matrouh) will start to receive flights and tourists again from July. The permitted capacity for hotels was raised to 50% starting from June, against the previous 25%. A downward revision of GDP growth has been applied to our forecasts for the fiscal year 2019/20, reducing the number from our March outlook from 4.5% to 2%, and in FY 2020/21 reducing it from 3.2% to 2.3%. The IMF is also forecasting 2% growth for both fiscal years due to the expected slowdown in the tourism, trade, transportation and industrial sectors. The government's strategy includes raising public investments by 33% yoy in 2020/21 to EGP 280.7 billion to compensate for the decline in private investments. The main sectors it plans to focus on are agriculture, telecommunication, pharmaceuticals, chemicals and construction. CPI is expected to reach only 6.8% on average in 2020, against 9.4% last year, due to subdued demand and the decline in oil prices.

Financial Markets

After lowering core interest rates in March by 300bps, the CB faced two opposing options: (1) lowering rates further due to the current high level of the real interest rate (mid-corridor minus annual headline CPI) to support growth; or (2) keeping them unchanged to assess first the impact of previous cuts and other CBE initiatives to offer subsidised loans, the expected increase in the budget deficit due to the drop in tax revenues and the increase in public spending. It opted for the second option. Despite the negative impact of the spread of Covid-19 on the main sources of foreign currency, especially tourism and remittances, the EGP will be supported by the decrease in imports and the US$14.3 billion in funds authorities were able to secure through the US$2.8 billion rapid financing instrument and US$5.2 billion stand-by arrangement, both from the IMF. Its US$5 billion Eurobonds were 4.4x oversubscribed, which indicates investors' confidence in Egypt's ability to meet its obligations, and it issued US$1.3 billion in USD T-Bills in May and June.

Banking Sector

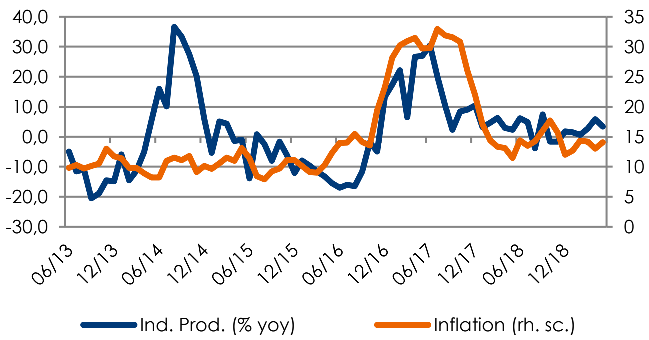
The growth of private sector loans has been upwardly revised with respect to our March outlook to 8.9% yoy in 2020 due to the CBE's initiatives to offer subsidised loans by removing the maximum annual sales limit in almost all sectors (manufacturing, mortgage, agriculture and construction) and adding wages and electricity, gas and diesel expenses. Tourism companies are also being offered EGP 3 billion in loans guaranteed by the government at low interest rates (5%) to fund wages and basic expenses. Deposits are also expected to rise at a faster-than-expected pace due to the high-interest deposit schemes offered by state-owned banks. To support electronic payments, the CBE has launched a new initiative worth EGP 500-600 million to support 100,000 new points of sale (POS) across the country, which has a banked population of only 33% of adults.

Forecasts

	2019	2020F	2021F
Real GDP yoy	5.6	-1.5	4.7
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	18.8	19.6
Short-term rate (eop)	15.4	10.9	10.6
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	13.4	8.9	9.0
Bank deposits (pr. sector, yoy)	13.6	11.1	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 yoy			Retail sales chg yoy			Inflation chg yoy			Unemployment rate			Wages chg yoy			Economic Survey[2]		
		1Q20	4Q19	2019	Last	mth	1Q20	Last	mth	1Q20	Last	mth	1Q20	Last	mth	1Q20	Last	mth	1Q20	Last	mth	1Q20	Last	mth	4Q19
CEE	Czechia	-1.7	1.8	2.6	-33.7	Apr	-4.7	-34.1	Apr	-4.1	-10.6	Apr	2.1	2.9	May	3.6	3.4	Apr	3.0	-5.6	Apr	5.5	64.6	May	99.8
	Hungary	2.2	4.5	4.9	-36.8	Apr	0.3	-37.0	Apr	-0.3	-10.2	Apr	7.6	2.2	May	4.3	3.8	Apr	3.5	9.0	Mar	9.1	76.6	May	108.1
	Poland	1.9	3.2	4.1	-24.6	Apr	2.8	-32.5	Apr	-1.5	-22.9	Apr	1.2	2.9	May	4.5	5.8	Apr	5.5	7.7	Mar	7.4	46.9	May	99.3
	Slovakia	-3.7	2.0	2.4	-42.0	Apr	-7.0	-43.0	Apr	-7.0	-14.3	Apr	-0.2	2.0	May	2.8	6.6	Apr	5.1	-4.2	Apr	4.2	72.2	May	97.9
	Slovenia	-2.3	1.7	2.4	-22.9	Apr	-2.6	-28.9	Apr	6.5	-22.2	Apr	-4.8	-1.4	May	1.7	9.1	Apr	8.0	13.6	Apr	4.1	74.5	May	100.1
SEE	Albania		-0.2		n.a.	n.a.	n.a.	-44.2	Apr	-6.8	n.a.	n.a.	n.a.	2.1	May	1.6	n.a.	n.a.	11.4	n.a.	n.a.	3.3	n.a.	n.a.	n.a.
	Bosnia H.		1.6	2.6	-15.9	Apr	-3.8	-32.7	Apr	-5.2	-34.5	Apr	4.5	-1.2	Apr	0.4	32.4	Mar	32.5	2.8	Apr	4.5	n.a.	n.a.	n.a.
	Croatia	0.4	2.5	2.9	-11.0	Apr	-4.4	-8.2	Mar	0.8	-25.7	Apr	3.0	-0.6	May	1.4	9.4	Apr	8.4	1.4	Mar	3.2	79.0	May	113.3
	Romania	2.4	4.3	4.1	-38.4	Apr	-6.1	-13.3	Apr	-2.0	-19.5	Apr	9.6	2.3	May	3.3	2.9	Apr	3.0	2.2	Apr	8.3	57.9	Mar	104.3
	Serbia	5.0	6.2	4.2	-16.6	Apr	4.6	-5.0	Apr	9.0	-18.6	Apr	9.5	0.7	May	1.7	n.a.	n.a.	9.6	10.0	Mar	10.3	n.a.	n.a.	n.a.
CIS &	Moldova	0,9	0.2	3.6	-25.0	Apr	0.9	-30.5	Apr	-7.7	-28.2	Apr	10.9	4.1	May	6.4	n.a.	n.a.	n.a.	n.a.	n.a.	10,3	n.a.	n.a.	n.a.
MENA	Russia	1.6	2.1	1.3	-6.6	Apr	1.6	-36.0	Apr	-13.9	-23.4	Apr	4.3	3.0	May	2.4	5.8	Apr	4.7	9.9	Mar	10.0	36.2	May	47.5
	Ukraine	-1.3	1.5	3.2	-16.3	Apr	-5.0	-1.7	Apr	1.3	-1.5	May	11.0	1.7	May	2.6	n.a.	n.a.	8.6	n.a.	n.a.	14,3	n.a.	n.a.	n.a.
	Egypt	5.0	5.6	5.6	n.a.	n.a.	n.a.	3.3	Feb	2.3	n.a.	n.a.	n.a.	4.7	May	5.9	n.a.	n.a.	7.7	n.a.	n.a.	n.a.	40.7	May	48.2
	m.i. E. A.	*-2.7*	*1.0*	*1.2*	*-12.9*	*Mar*	*-5.7*	*-6.2*	*Mar*	*-1.6*	-28.2	Apr	10.9	*0.1*	*May*	*1.1*									

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

Markets and Ratings

		S/T rates[1]		L/T rates[2]		Foreign exchanges[3]			Stock markets		CDS spread (bp)		FX res. chg (mln €)[4]			CA bal. (mln €)5		Rating
		25/06	chg	25/06	chg	25/06	3M*	1Y*	3M*	1Y*	25/06	25/03	1Q20	4Q19	2019	1Q20	4Q19	Moody's
CEE	Czechia	0.0	-2.0	0.9	-0.7	26.55	-3.66	4.09	15.4	-10.3	34.8	35.0	224.5	-18.9	188.2	2870	-930	Aa3
	Hungary	0.9	0.4	2.1	-0.3	345.57	-2.52	6.62	14.0	-7.0	72.4	70.2	-2613	18	983	n.a.	-775	Baa3
	Poland	0.5	-0.8	1.5	-0.3	4.43	-3.13	4.21	25.1	-15.6	40.5	56.4	-4391	3964	12243	5664	2220	A2
	Slovakia	-0.4	0.0	0.3	-0.1	Euro	Euro	Euro	12.2	3.2	48.1	45.4	n.s.	n.s.	n.s.	-1259	-2706	A2
	Slovenia	-0.4	0.0	0.4	-0.2	Euro	Euro	Euro	20.0	-1.9	74.8	60.0	n.s.	n.s.	n.s.	914	848	Baa1
SEE	Albania	1.1	0.2	n.a.	n.a.	124.05	-0.4	1.82	n.a.	n.a.	n.a.	n.a.	-35	-73	-39	n.a.	-346	B1
	Bosnia H.	n.a.	n.a.	n.a.	n.a.	1.96	Board	Board	n.a.	n.a.	n.a.	n.a.	-70	74	498	n.a.	-161	B3
	Croatia	0.4	0.0	1.4	0.2	7.58	-0.26	2.47	17.5	-12.2	73.9	70.8	-2048	-1864	1122	n.a.	-592	Ba2
	Romania	2.1	-0.3	4.1	-0.6	4.84	-0.17	2.52	18.4	5.0	131.1	88.0	1196	-2793	-138	-1356	-2775	Baa3
	Serbia	1.5	-0.3	n.a.	n.a.	117.62	0.13	-0.21	-1.4	-19.1	101.6	101.6	-263	83	1994	-989	-1046	Ba3
CIS &	Moldova	0.0	-3.3	0.0	-5.8	17.37	-3.53	-4.23	n.a.	n.a.	n.a.	n.a.	-120	126	63	n.a.	-40	B3
MENA	Russia	5.5	-1.2	5.6	-1.6	68.34	-13.33	8.63	13.4	-4.6	88.0	199.9	-198	20790	85864	21700	16300	Baa3
	Ukraine	13.0	-0.8	13.0	-12.1	26.63	-4.9	1.72	11.9	-23.3	598.3	1184.7	-471	3827	4259	359	1715	Caa1
	Egypt	0.0	-12.5	13.8	-0.9	16.24	2.94	-2.61	4.5	-14.3	540.4	617.4	-5312	302	2869	n.a.	-3192	B2
	m.i.A.E.	*-0.4*	*0.0*	*-0.3*	*0.0*	*1.1*	*4.7*	*-0.4*	*13.5*	*-7.1*	*9.7*	*12.5*						

Source: Refinitiv;[1]The data for Egypt refers to June, for Czech Republic refers to June, 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] mld for CZ USD for Russia, Egypt, Ukraine, Romania; [5]USD for Russia, Egypt, Ukraine. (*) % change.

Banking aggregates and interest rates (private sector)

		Loans chg yoy %			NPL/Loans %			Foreign Liab. chg yoy %			Deposits chg yoy %			Loans rate1-NewB*. %				DepositsRate1-NewB*. %				Loans/Dep %		
		Last	Mth	2019	Last	mth	2019	Last	mth	2019	Last	Mth	2019	Last	mth	2019	S[4]	Last	mth	2019	S[4]	Last	mth	2019
CEE	Czechia	6.2	Apr	5.2	2.5	Apr	2.5	0.8	Apr	-0.2	8.9	Apr	6.1	3.1	Apr	3.62	C	0.67	Apr	1.52	H	73.9	Apr	75.1
	Hungary	16.3	Apr	13.2	1.5	Dec	1.5	10.4	Apr	10.7	14.0	Apr	8.0	2.98	Apr	2.34	C	0.33	Apr	0.24	H	82.2	Apr	81.4
	Poland	5.5	Apr	4.7	4.0	Mar	4.0	-7.7	May	-7.2	12.0	Apr	9.7	2.71	Apr	3.64	C	0.74	Apr	1.49	H	91.5	Apr	92.6
	Slovakia	5.6	Apr	6.2	3.0	Apr	3.1	14.1	Apr	7.9	5.3	Apr	4.8	1.85	Apr	2.06	C[2]	0.03	Apr	0.05	H[2]	103.7	Apr	102.7
	Slovenia	3.4	Apr	3.7	2.1	Mar	2.2	15.4	Apr	12.2	9.1	Apr	6.3	1.97	Apr	2.23	C[2]	0.21	Apr	0.18	H[2]	71.9	Apr	73.5
SEE	Albania	5.6	Apr	6.5	8.3	Apr	8.4	1.5	Apr	-6.7	4.0	Apr	3.8	5.91	Apr	6.34	PS	0.32	Apr	0.72	PS	54.3	Apr	54.2
	Bosnia H.	1.5	Apr	6.7	6.6	Mar	7.4	0.4	Apr	2.6	4.8	Apr	8.4	2.83	Apr	2.88	C	0.42	Apr	0.3	H	102.9	Apr	103.7
	Croatia	4.5	Apr	3.9	5.4	Mar	5.5	-11.4	Apr	-5.9	9.4	Apr	4.8	5.43	Apr	5.56	PS	0.12	Apr	0.22	PS	75.9	Apr	75.9
	Romania	5.1	Apr	7.0	3.9	Mar	4.1	14.6	Mar	4.7	13.1	Apr	12.6	6.05	Apr	6.71	PS	2.1	Apr	2.25	PS	72.7	Apr	74.5
	Serbia	12.0	Apr	8.9	4.0	Mar	4.1	18.8	Apr	9.1	13.8	Apr	7.8	4.6	Apr	7.06	PS	1.6	Apr	2.0	PS	98.8	Apr	97.9
CIS &	Moldova	10.4	Apr	13.9	8.3	Apr	8.5	-7.3	Mar	-8.8	5.9	Apr	7.7	8.64	Apr	8.93	C	4.42	Apr	4.5	H	59.2	Apr	59.1
MENA	Russia	13.0	Mar	7.1	9.3	Mar	9.3	-0.6	Mar	-19.3	11.0	Mar	4.2	7.84	Mar	7.83	C	4.21	Mar	4.66	H	109.7	Mar	108.5
	Ukraine	-3.4	Apr	-8.0	49.3	Apr	48.4	-11.8	Apr	-28.1	19.0	Apr	9.6	15.87	Apr	18.58	PS	7.76	Apr	10.81	PS	98.2	Apr	101.7
	Egypt	14.9	Mar	13.4	4.5	Sep	n.a.	-23.9	Mar	-23.4	14.3	Mar	13.6	11.8	Apr	13.8	C	8.1	Apr	9.2	H	35.0	Mar	34.3
	m.i. E. A.	*3.0*	*Mar*	*3.0*	*n.a.*	*n.a.*	*n.a.*	*5.5*	*Mar*	*2.5*	*6.0*	*Mar*	*4.7*	*1.2*	*Apr*	*1.3*	*C*	*0.2*	*Apr*	*0.2*	*H*	*77.9*	*Mar*	*79.3*

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

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	2.6	-6.6	4.8	Czech Rep.	2.5	2.1	2.8	2.8	2.4
	Hungary	4.3	5.1	4.9	-4.1	3.9	Hungary	2.4	2.8	3.4	2.8	2.9
	Poland	4.8	5.1	4.1	-4.7	3.8	Poland	2.0	1.7	3.4	3.2	2.5
	Slovakia	3.0	4.0	2.4	-8.5	5.1	Slovakia	1.4	2.5	2.7	2.1	2.1
	Slovenia	4.8	4.1	2.4	-8.2	4.9	Slovenia	1.6	1.9	1.7	-0.1	1.7
SEE	Albania	3.7	4.1	2.1	-5.5	4.1	Albania	2.0	2.0	1.4	1.9	2.1
	Bosnia Herzegovina	3.2	3.3	2.6	-5.0	4.0	Bosnia Herzegovina	0.8	1.4	0.6	-0.6	0.8
	Croatia	3.1	2.7	2.9	-9.6	5.0	Croatia	1.1	1.5	0.8	0.1	1.0
	Romania	7.0	4.4	4.1	-7.1	4.8	Romania	1.3	4.6	0.0	2.4	2.4
	Serbia	2.0	4.4	4.2	-3.3	3.5	Serbia	3.2	2.0	1.9	1.1	1.8
CIS & MENA	Moldova	4.7	4.0	3.6	-3.0	3.4	Moldova	6.6	3.1	4.9	4.7	3.6
	Russia	1.5	2.3	1.3	-5.5	3.0	Russia	3.7	2.9	4.5	3.3	4.0
	Ukraine	2.5	3.4	3.2	-6.5	3.2	Ukraine	14.5	11.0	7.9	3.7	5.6
	Egypt	5.0	5.4	5.6	-1.5	4.7	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	26.5	26.2	Czech Rep.	0.4	1.3	2.1	0.9	0.3
	Hungary	309.1	318.8	322.6	345.2	342.2	Hungary	0.1	0.1	0.2	0.7	0.8
	Poland	4.3	4.3	4.3	4.4	4.4	Poland	1.5	1.7	1.7	0.6	0.1
	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	122.8	123.3	124.5	Albania	1.3	1.2	0.9	0.5	0.5
	Bosnia Herzegovina	1.96	1.96	1.96	1.96	1.96	Bosnia Herzegovina	-	-	-	-	-
	Croatia	7.5	7.4	7.4	7.5	7.5	Croatia	0.6	0.5	0.5	0.3	0.3
	Romania	4.6	4.7	4.7	4.8	4.8	Romania	1.2	2.8	3.1	2.0	1.4
	Serbia	121.4	118.3	117.9	117.6	117.9	Serbia	3.9	3.1	2.7	1.4	1.0
CIS & MENA	Moldova (USD)	18.5	16.8	17.6	17.8	18.3	Moldova	8.0	6.5	6.9	3.6	3.7
	Russia (USD)	58.3	62.7	64.7	69.0	67.2	Russia	9.4	7.7	7.8	5.4	4.5
	Ukraine (USD)	26.6	27.3	26.1	26.6	27.6	Ukraine	16.8	18.4	18.9	11.6	8.0
	Egypt (USD)	17.8	17.8	16.8	16.2	16.8	Egypt	19.3	18.8	17.1	12.1	10.8

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	-0.7	2.9	Czech Rep.	7.6	6.9	6.1	2.1	2.9
	Hungary	6.0	10.6	13.2	9.0	5.1	Hungary	10.4	14.3	8.0	5.0	5.3
	Poland	3.2	7.9	4.7	2.1	4.9	Poland	3.7	9.4	9.7	5.0	5.5
	Slovakia	10.0	9.1	6.2	-0.7	3.3	Slovakia	5.4	7.3	4.8	2.1	3.7
	Slovenia	3.2	2.6	3.7	-1.5	2.5	Slovenia	7.0	6.7	6.3	0.3	2.9
SEE	Albania	0.5	-3.8	6.5	-0.2	2.3	Albania	-1.5	-0.9	3.8	2.2	2.4
	Bosnia Herzegovina	7.3	5.5	6.7	-5.0	3.1	Bosnia Herzegovina	9.0	8.5	8.4	0.0	3.5
	Croatia	-0.1	2.3	3.9	-2.0	3.0	Croatia	2.4	5.0	4.8	0.2	3.2
	Romania	2.7	7.9	7.0	1.8	4.9	Romania	3.8	9.2	12.6	5.2	5.9
	Serbia	2.1	9.9	8.9	3.1	4.4	Serbia	3.1	14.9	7.8	5.0	5.6
CIS & MENA	Moldova	-3.7	5.9	13.9	3.2	5.1	Moldova	9.2	6.0	7.7	5.5	6.0
	Russia	5.2	15.0	7.1	4.0	5.3	Russia	8.1	14.2	4.2	4.0	5.5
	Ukraine	0.9	6.3	-8.0	-6.5	-3.0	Ukraine	12.1	7.9	9.6	0.4	6.5
	Egypt	7.1	15.3	13.4	8.9	9.0	Egypt	23.8	13.8	13.6	11.1	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	2.0	1.7	Czech Rep.	0.7	0.9	1.5	0.3	0.2
	Hungary	2.5	2.3	2.5	2.9	3.0	Hungary	0.3	0.2	0.2	0.7	0.9
	Poland	3.7	3.5	3.6	2.7	2.3	Poland	1.6	1.7	1.6	0.7	0.4
	Slovakia	2.0	2.2	1.9	1.9	1.9	Slovakia	0.1	0.1	0.1	0.0	0.1
	Slovenia	2.5	2.2	2.1	2.0	2.0	Slovenia	0.1	0.2	0.2	0.1	0.1
SEE	Albania	8.2	8.1	7.2	6.3	6.2	Albania	0.8	0.7	0.7	0.3	0.3
	Bosnia Herzegovina	-	-	-	-	-	Bosnia Herzegovina	-	-	-	-	-
	Croatia	7.0	6.4	5.8	5.5	4.9	Croatia	0.8	0.6	0.3	0.1	0.1
	Romania	5.7	7.0	7.3	5.7	5.2	Romania	0.7	1.7	2.2	1.2	0.8
	Serbia	8.9	8.6	8.0	6.2	6.0	Serbia	2.8	2.7	2.5	1.5	1.2
CIS & MENA	Moldova	10.2	9.1	8.8	6.2	6.3	Moldova	6.2	4.5	4.3	2.0	2.3
	Russia	10.6	8.9	8.7	7.0	7.0	Russia	5.9	5.4	5.4	3.8	3.6
	Ukraine	16.4	19.0	19.8	13.1	10.0	Ukraine	9.1	12.0	12.9	6.0	3.5
	Egypt	18.2	18.3	16.1	11.7	11.2	Egypt	12.1	12.3	11.0	7.4	6.6

Source: Intesa Sanpaolo Research Department forecasts

Important information

The economists drafting this report state that the opinions, forecasts, and estimates contained herein are the result of independent and subjective evaluation of the data and information obtained and no part of their compensation has been, is, or will be directly or indirectly linked to the views expressed.

This report has been produced by Intesa Sanpaolo S.p.A. The information contained herein has been obtained from sources that Intesa Sanpaolo S.p.A. believes to be reliable, but it is not necessarily complete and its accuracy can in no way be guaranteed. This report has been prepared solely for information and illustrative purposes and is not intended in any way as an offer to enter into a contract or solicit the purchase or sale of any financial product. This report may only be reproduced in whole or in part citing the name Intesa Sanpaolo S.p.A.

This report is not meant as a substitute for the personal judgment of the parties to whom it is addressed. Intesa Sanpaolo S.p.A., its subsidiaries, and/or any other party affiliated with it may act upon or make use of any of the foregoing material and/or any of the information upon which it is based prior to its publication and release to its customers.

Intesa Sanpaolo Research Department – Head of Department Gregorio De Felice

Coordination International Research Network	e-mail address
Gianluca Salsecci (Head)	gianluca.salsecci@intesasanpaolo.com
ISP - Research Department (Milan)	
Giancarlo Frigoli (CIS, MENA and Lat. Am. Countries)	giancarlo.frigoli@intesasanpaolo.com
Silvia Guizzo (Emerging Asia)	silvia.guizzo@intesasanpaolo.com
Antonio Pesce (CEE and SEE Countries)	antonio.pesce@intesasanpaolo.com
Wilma Vergi (Trade and Industry)	wilma.vergi@intesasanpaolo.com
Davidia Zucchelli (Banks and Financial Markets)	davidia.zucchelli@intesasanpaolo.com
International Subsidiaries' Research Departments:	
VUB (Slovakia and Cechia)	
Zdenko Štefanides (Head)	zstefanides@vub.sk
Michal Lehuta	mlehuta1@vub.sk
Jacob Obst	jobst@vub.sk
PBZ (Croatia, Bosnia I Hercegovina and Slovenia)	
Ivana Jovic (Head)	ivana.jovic@pbz.hr
Ana Lokin	ana.lokin@pbz.hr
Ivan Odrčić	ivan.odrcic@pbz.hr
CIB (Hungary and Poland)	
Mariann Trippon (Head)	trippon.mariann@cib.hu
Sandor Jobbagy	jobbagy.sandor@cib.hu
Banca Intesa (Serbia)	
Marija Savic (Head)	marija.v.savic@bancaintesa.rs
Tijana Matijasevic	tijana.matijasevic@bancaintesa.rs
Milos Drezga	milos.drezga@bancaintesa.rs
Aleksandra Popov	aleksandra.popov@bancaintesa.rs
Alexbank (Egypt)	
Samer Halim (Head)	samer.halim@alexbank.com
Sahar EzzElarab	sahar.ezzElarab@alexbank.com
Mirna Mhosen	mirna.mohsen@alexbank.com
Mariam Massoud	mariam.massoud@alexbank.com
Nahla Abdel Azim	nahla.azim@alexbank.com
International Subsidiaries' Research Contacts:	
Banca Intesa (Russia)	
Irina Lekareva	irina.lekareva@bancaintesa.ru
Intesa Sanpaolo Bank (Albania)	
Kledi Gjordeni	kledi.gjordeni@intesasanpaolobank.al
Intesa Sanpaolo Bank (Romania)	
Marius Pacurari (Head)	marius.pacurari@intesasanpaolo.ro
Eduard Nazarenko	eduard.nazarenko@pravex.ua
Eximbank (Moldova)	
Natalia Mihalas	natalia.mihalas@eximbank.com
Olga Pisla	olga.pisla@eximbank.com