INTESA SANPAOLO

Economic and Banking Outlook
Countries with ISP subsidiaries

December 2019

Quarterly note

Intesa Sanpaolo
International Research Network

GDP growth is confirmed to weaken in CEE/SEE and strengthen in CIS and Egypt while monetary policy is anticipated to remain accomodative overall. Lending growth is forecast to decelerate, but at softer rates than expected.

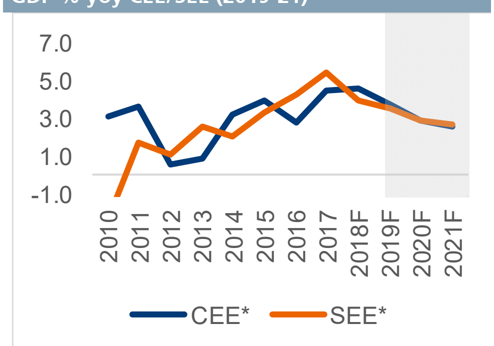
Following the 3Q19 GDP data and taking into account the latest release of high frequency indicators, our growth forecasts remain unchanged with respect to the September Outlook for the years 2019-20 in the CEE (at 3.8% in 2019 and 2.9% in 2020) and SEE (at 3.5% and 2.9%) areas. The slowdown is due to weak external conditions, namely global trade and geopolitical tensions, as well as the weak manufacturing sector in the EA, in particular in Germany. We have, however, partially revised the forecasts at country level, upwards in the case of Hungary and Serbia and downwards for Slovakia and Slovenia in the CEE region and for Albania, Bosnia and Romania in the SEE area. In the CIS area, we have lifted the GDP growth forecast overall by 0.3 pp to 1.9% in 2020, with Ukraine and Moldova seen at an average of 3.8%. In the MENA region, Egypt is expected to remain on a solid growth path at around 5.8% in 2019-2020.

Inflation forecasts have also been kept unchanged in the CEE/SEE region, at an average of 2.6% in 2019, but revised downwards by 0.1pp to 2.4% in 2020 after incorporating the last data, which showed a slightly weaker performance in several countries. Inflation is expected to stay in the tolerance intervals, albeit in the upper range in Czech Republic, Hungary and Romania, moving closer to the target in the medium term. Outside the CEE/SEE region, we have revised downwards the inflation forecasts in 2020, both in Russia (below the 4% target) and Ukraine and Moldova (close to 5%) in CIS countries and in Egypt (approaching earlier than previously expected the central value of the range target of 9%+/-3%) in the MENA region.

Given the dovish tone of monetary policy from the ECB in the EA and taking into account the expected benign profile of domestic inflation, monetary conditions in the CEE/SEE countries are forecast to remain highly accommodative. A pause of the tightening is expected where a policy reversal had already been put in place (as in Czech Republic and Romania) and a postponement of the interest rate normalisation is envisaged for the other countries. Outside this region, the faster-than-expected deceleration in inflation points to lower than previously anticipated policy rates in Ukraine, Moldova and Egypt. Following the upward shift in the EA benchmarks (to -0.3% from -0.7% in September), bond yields in the CEE/SEE area have been revised upwards, with a slight decrease, however, in sovereign spreads in a few cases.

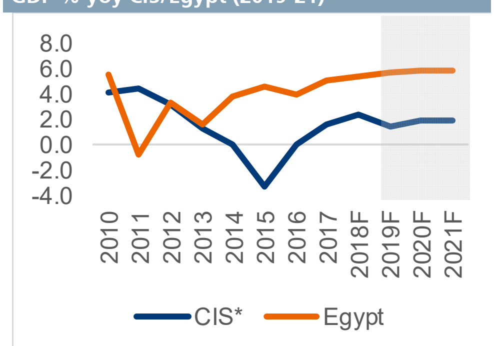
Lending growth in CEE/SEE countries is forecast to close at 7% in 2019 (from a 7.7% average in 2018), confirming our previous expectations of a slowdown, even if at a softer pace than the 6.6% forecast in September. A slowdown to 5.1% has been confirmed for 2020 due to the ongoing softening of the business cycle. The dynamic of household loans, still supported by low interest rates, is expected to be also contained by the restrictive measures adopted by several CBs and the approval of a new bank levy in Slovakia. Total loans will continue to be mainly driven by households, both mortgages and consumer loans. Corporate lending is expected to keep growing, though at a weaker pace. Outside this region, lending growth is forecast to moderate in Moldova and Russia and to recover from the deep fall foreseen in 2019 in Ukraine (-4.5%, partly due to the accounting effect of the recent exchange rate appreciation). It is forecast to remain in double digits in Egypt (but still below nominal GDP growth). Liquidity conditions should remain supportive overall thanks to a favourable dynamic of deposits.

GDP % yoy CEE/SEE (2019-21)



Sources: ISP Research Department forecasts; note * weighted average

GDP % yoy CIS/Egypt (2019-21)



Sources: ISP Research Department forecasts; note * weighted average

The figures in this document have been updated to 13th December 2019.
See the final page for important information.

Contents

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

The GDP dynamic in the CEE region softened further in 3Q, though remained relatively robust at 3.5% (from 3.9% in 2Q), in line with our expectations. Despite the modest contribution (0.8pp) of net exports, economic growth performed relatively well thanks to the strong contribution of domestic demand (2.7pp), which was supported by the favourable conditions in the job market (the unemployment rate was 3.3% and wages increased by 7.0% yoy in nominal terms in 2Q in the region), an expansionary fiscal policy and consistent inflows of foreign direct investments (whose share of fixed investments increased to 10% during this year). The strong performance of the region masks, however, some remarkable differences at the national level, with GDP growth in 3Q sharply decelerating in Slovakia (to 1.3%), due to a severe contraction of net exports (-3.5% in 3Q) and a parallel contraction in industrial production (-2.6% in 3Q). However, GDP growth is still accelerating in Hungary (5.0%), where in 3Q exports and industrial production increased by more than 7% and gross fixed capital formation by an impressive 16% (the highest rate in the region).

Economic dynamic still robust in the CEE/SEE areas in 3Q19, but on a decreasing path

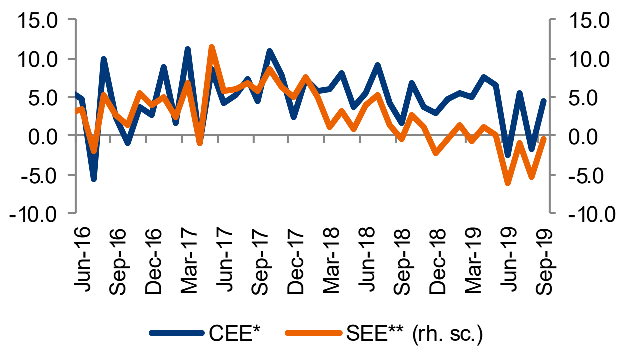
In the SEE region, economic growth decelerated to 3.3% yoy in 3Q (on average, but excluding Albania and Bosnia, where 3Q GDP data have not been released yet) from 3.6% in the same countries in 2Q. The surprising Serbian growth (4.8% yoy) was mitigated by the lower, even if still healthy, performance of Croatia (2.9% from 2.4% in 2Q) and a decelerating performance by Romania (3.0% in 3Q from 4.4% in 2Q). The breakdown of GDP data reveals that the contribution of net exports was deeply negative (about -4.1pp), in strong contrast to that of domestic demand, which was particularly strong (+7.0pp). Consumption growth (both private and public expenditure) remained robust (3.5% in 3Q), as did investments. After a contraction by 0.5% yoy in the last 3 quarters of 2018, the latter started to reverse in 4Q18 and improved further in 2019 (above 15% yoy in 3Q19) due to the contribution of EU structural funds.

Moderate decrease of inflation in the last months

According to recent releases, consumer price growth (2.5% and 2.4% in CEE and SEE, respectively November and October) was only slightly below the 3Q average due to inflationary pressures caused by the tight labour market conditions and the positive (but now closing) output gap in both areas. In November, inflation ranged from 1.4% in Slovenia to 3.4% in Hungary among CEE countries and from 0.6% in Croatia and 3.4% in Romania in the SEE in October.

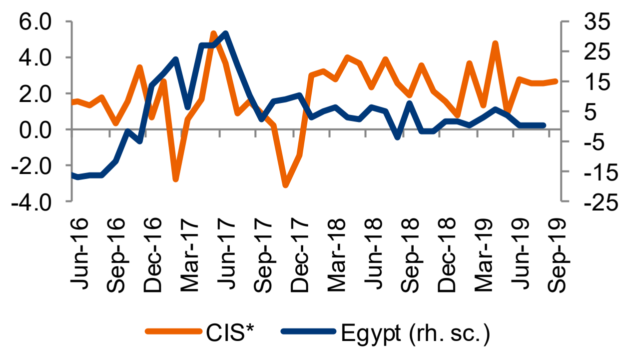
To help retain the accommodative conditions, monetary policy rates have been kept unchanged or cut further (as was the case in Serbia, which in November cut the repo rate by an additional 25bps) in CEE/SEE countries overall. In financial markets, with the upward correction of the 10-year yields on German Bunds (currently at -0.3%), long-term yields in the CEE/SEE region have increased, often by slightly less than the benchmark, leading (in the case of Croatia, Hungary and Poland) to a small reduction in sovereign spreads. Over the last three months exchange rates remained quite stable, slightly depreciating in the cases of Hungary and Romania.

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



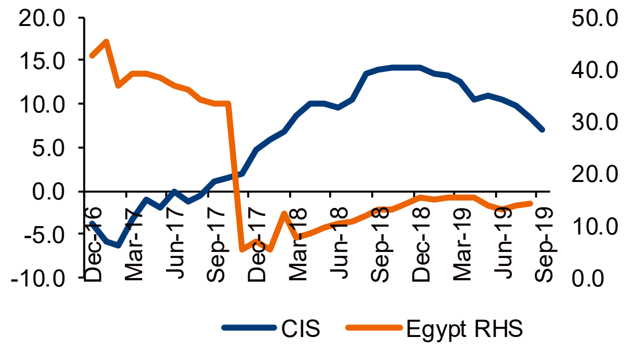
Sources: National statistics offices; note * weighted average of Russia, Ukraine and Moldova data

In the CIS region, Russia's real GDP growth accelerated to 1.7% yoy in Q3 from 0.9% yoy in Q2, raising the growth rate for the first nine months of 2019 to 1.1%. The recovery reflected a stronger contribution by agriculture, manufacturing and utilities, while retail sales slowed and construction growth remained modest. The decline in Russian inflation to 3.5% yoy in November provided scope for the CB to cut its main policy rate again in December (-25bps to 6.25%). Ukraine's GDP growth in Q3 2019 slowed to 4.2% yoy, from 4.6% in Q2, bringing the increase in the first nine months of 2019 to 3.8%. Inflation eased to 5.1% yoy in November (from 6.5% in October), well below the 6.3% target set by the CB for end-2019. Following softening inflation, the CBU cut its main policy rate for the fifth time in 2019 to 14.5% on 12 December. In Moldova, after a strong performance in 1H 2019 (GDP grew by 5.1% yoy), the Ministry of Economy lifted the GDP growth forecast for 2019 to 4.2%, from the 3.7% predicted in July. Moldova posted an annual inflation rate of 7.1% yoy in November, up from 6.8% in October. Due to expectations of inflation moving back towards the target in 2020, the CB decided to cut its key rate by 200bps (to 5.5%) on 11 December. In Egypt the GDP growth rate remained stable at 5.6% during 3Q19. The communication, construction, tourism, Suez Canal, natural gas and industry registered the highest growth rates. Annual headline inflation was 3.6% in November, near record lows for the country and well below the 9%+/-3% range set by the CB, providing support for a cut in the monetary policy rate by 200bps to 11.25% in 2020.

The banking aggregates dynamic was mixed in CEE/SEE countries, according to the latest available data (as of Sept or October). Loans to households remained vigorous overall, especially in Hungary (+12.8% yoy) and Poland (+8.3% yoy). In Slovakia, loans to households decelerated. The recovery that occurred in September among corporates (+4.9% yoy) was due to temporary factors (inventory falling to +1.8% yoy in October). Overall, the dynamic of loans to corporates was more diversified. These accelerated in Albania (+6.1% yoy as of September) and Serbia (+11.7% as of October), and continued to show an outstanding increase in Hungary (+13.8%). However, corporate loans disappointed again in Croatia (-3.5% yoy in October). The NPL ratio remained above 10% in Albania in September, but gradually improved overall in the regions. Despite low interest rates, deposits increased vigorously in Serbia (+11.6%), Romania (10.7%) and Poland (+11.2%). Deposit interest rates have decreased in the last few months, while lending rates remained a bit more resilient in most cases.

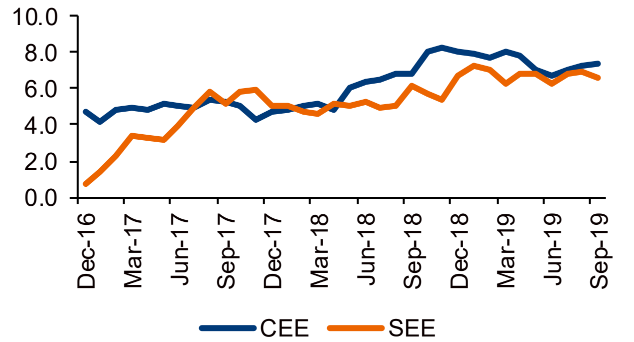
In the CIS area, loans continued to increase in Moldova (+14.7% yoy as of October) and Russia (+8.6% yoy but decelerating), driven by household loans (+40.7% and +20.7%, respectively). In contrast, Ukrainian loans moved into negative territory (-4%), dragged down by corporate loans (-11.8% yoy under the weight of high NPLs), while household loans grew by 5.8% yoy, especially in consumer loans. Deposit performance remained strong in the area at about +8%. In line with money market rates, banking interest rates fell in Ukraine (to 15.5% on household deposits and to 16.8% on corporate lending). In Egypt, banking aggregates remained dynamic as of August (loans +14.1% and deposits +12.3%) in nominal terms.

Lending growth (% yoy changes, weighted averages)



Sources: ISP Research Department elaborations on central banks' data

Lending growth (% yoy changes, weighted averages)



Sources: ISP Research Department elaborations on central banks' data

The international outlook underlying the scenario

The Fed takes a rest in its easing cycle. The ECB in a "wait and see" mood

In the US, the FOMC, after cutting the Fed Funds rate by 25bps last October and placing the target range at between 1.5% and 1.75%, provided an indication that the interest rate path could now take a breather. While another rate cut is not envisaged for the time being, there is no prospect of an upward reversal either. Fed Chairman Jerome Powell said that rate hikes will only be considered if inflation overshoots the 2% target as a result of a significant acceleration in core inflation. He stressed that the risks seem to have "subsided". Powell referred explicitly to trade, highlighting the new North America treaty (USMCA) and the conclusion of "Phase 1" of US-China trade talks. Real GDP growth is now forecast to slow to 1.8% in 2020, from the 2.4% expected for this year, with no change compared to our September projections. However, the yield curve has shifted upwards, reflecting easing concerns of a recession.

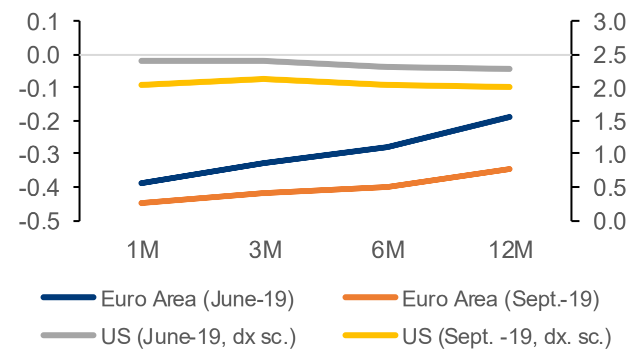
In the Eurozone, the ECB's Governing Council, at its latest policy meeting in December, left all parameters unchanged: policy rates, indications on the outlook for rates and the duration of the asset purchasing programme. Policy rates are expected to remain at levels equal to or lower than present levels for as long as underlying inflation fails to clearly approach the 2% target, whereas net purchases will continue until shortly before policy rates are hiked. Projections made in December by the ECB staff confirmed that GDP growth in the Eurozone is feeble (GDP +1.2% this year and +1.1% 2020, little changed from September's forecasts of GDP +1.1% in 2019 e +1.2% in 2020). Benchmark long-term yields have remained negative (-0.3%), even if partially adjusting upwards with respect to September, when they had fallen to -0.7%.

In the emerging world, a few countries are responsible for both the slowdown in 2019 and the recovery expected in 2020

The slowdown expected this year in the emerging world (the IMF in October's WEO report forecasts real GDP growth in the area to slow to 3.9% in 2019, from 4.5% in 2018) mainly reflects a sharp fall in economic activities in a small number of economies (in particular Argentina, Iran, Turkey and Venezuela), together with weaker growth in a few large economies, mainly China and India. Most of the economies mentioned above as under distress or likely to record weaker growth in 2019 are also expected to account for most of the pickup projected in 2020 (+4.6% according to the IMF). In more detail, real GDP growth next year is forecast by the IMF to accelerate in Brazil (to 2% from 1% projected in 2019), Mexico (to 1.3% from 0.4%), Saudi Arabia (to 2.2% from 0.2%), South Africa (to 1.1% from 0.7%), India (to 7.0% from 6.1%) and Turkey (to 3% from 0.2%), with the main exception being China, which is forecast to slow further (to 5.8% from 6.1%).

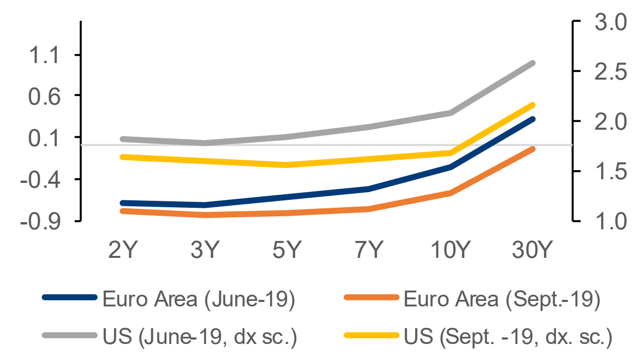
Helped by low actual and expected inflation profiles, several central banks of the emerging countries (among others, those of Brazil, India, Indonesia, Mexico and Turkey) have cut interest rates further since last September. The risk premium continued to fall in parallel in most cases, supported by easing tensions in a few distressed posts, namely Argentina and Turkey, leading to more supportive credit conditions.

Benchmark monetary rates



Source: ISP elaboration on Datastream data

Yield curves



Source: ISP elaboration on Datastream data

The economic outlook

GDP growth and inflation

Regional average GDP growth forecasts have been unchanged in comparison with our September note

The economic cycle in the **CEE/SEE region** in Q419 is expected to stay on a softening path, according to the latest releases of high frequency data. In October, the ESIs were lower overall than in 3Q19 in all CEE countries, with mixed outcomes only in SEE countries. The PMI manufacturing index in October was, however, slightly higher than in 3Q in Hungary (51.9 vs. 51.8), where the economy's growth has so far exceeded previous expectations.

In this December Scenario, GDP growth has been kept unchanged with respect to September for the years 2019 and 2020 for the CEE/SEE region (at 3.7% in 2019 and 2.9% in 2020), as well as for both the CEE (at 3.8% in 2019 and 2.9% in 2020) and SEE (at 3.5% and 2.0%, respectively) areas, dragged down by weak external conditions, namely the feeble global trade trend and the weakening of the manufacturing sector in the EA, especially in Germany. We have, however, partially revised our forecasts at country level, upwards in some cases (Hungary and Serbia) and downwards in others (Slovakia and Slovenia in the CEE region and Albania, Bosnia and, to a lesser extent, Romania in the SEE area).

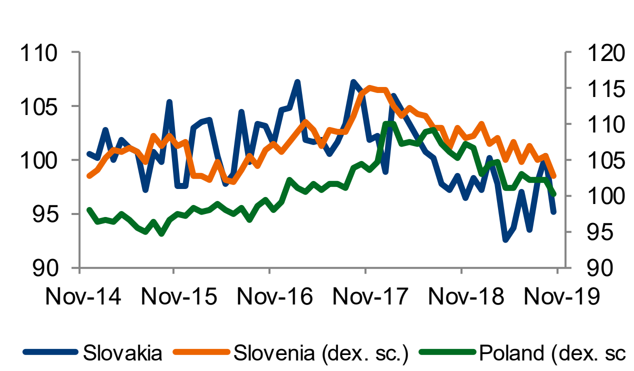
Inflation forecasts have been kept unchanged in the CEE/SEE region at 2.6% in 2019 on average but revised downwards by 0.1pp to 2.4% in 2020 after incorporating the latest data, which in October showed some slightly weaker performances occurring in Czech Republic, Poland and Slovenia among the CEE countries and in Albania, Bosnia and Serbia among the SEE countries. Inflation is expected to stay in the tolerance intervals, albeit in the upper range in Czech Republic, Hungary and Romania, and to move closer to the central targets in the medium term (2.5% is the regional average set by the CBs).

Stronger-than-previously expected GDP growth in CIS countries. In MENA, Egypt expected to outperform regional peers

In the **CIS area**, following stronger-than-expected growth numbers so far this year, we have lifted our GDP growth forecasts for 2019 in Russia (to 1.3% from the previous 1.1%), Ukraine (to 3.6% vs. 3%) and Moldova (to 4.2% vs. 3.6%). In the **MENA region**, Egypt is expected to remain on a solid growth path, close to 6% over the forecasted period.

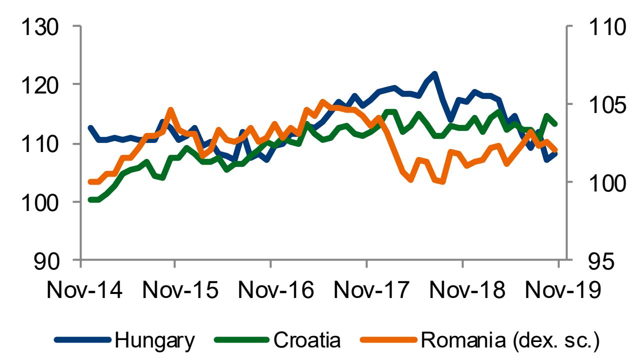
On the inflation front, inflation forecasts in the **CIS area** are likely undershooting the official targets set for 2019, both in Russia and Ukraine. In both countries, inflation is forecast to hover around the targets in the medium to long term. In Moldova, inflation numbers have so far vindicated the path set by the monetary authority, with inflation expected to peak at end-2019 and to slow afterwards. In **Egypt,** helped by the favourable base effect for the food component, which has a large weighting in the index, inflation is now seen to end 2019 around the lower end of the 9%+/-3% target range set by the central bank. Inflation is expected to gain some momentum in 2020, ending around the central value of the range.

Economic sentiment indicator



Source: European Commission

Economic sentiment indicator



Source: European Commission

Monetary policy and financial markets

As in our September Scenario, monetary conditions in CEE/SEE countries are forecast to remain broadly accommodative in the following years. This is due to the dovish monetary policy tone confirmed by the European Central Bank at the meeting of 12 December and the inflation profile in the CEE/SEE regions, which is expected to remain inside the target corridors set by central banks, and even weaker overall than in our September Outlook. A pause of the tightening is therefore expected where the policy reversal had already been put in place (as in Czech Republic and Romania) and a postponement of the interest rate normalisation is envisaged for the other countries. In Serbia, after the policy rate cut of 25bps (to 2.25%) in November, a further cut of 25bps is likely in the near term due to the inflation expected to stay within the lower part of the target tolerance band in the upcoming period.

Monetary policies are expected to remain broadly accommodative in CEE/SEE countries, as in our previous forecasts

For the CIS area, we now forecast larger than previously expected rate cuts in Ukraine in the wake of a more favourable inflation scenario. In Russia, with inflation seen hovering around the 4% target in the medium to long term, the easing cycle is expected to be close to an end, with only a further cut of 25bps to 6% expected in 2020. In Moldova, the CB, after the surprising cut of 200bps in December, is now expected to ease further by 50bps next year before ending the cycle. In Egypt, we see the CB continuing the easing cycle, with money market rates ending at a lower than previously forecast level in the medium term (9% vs. 10%).

Benign inflation numbers provide scope for more aggressive easing, both in CIS and MENA

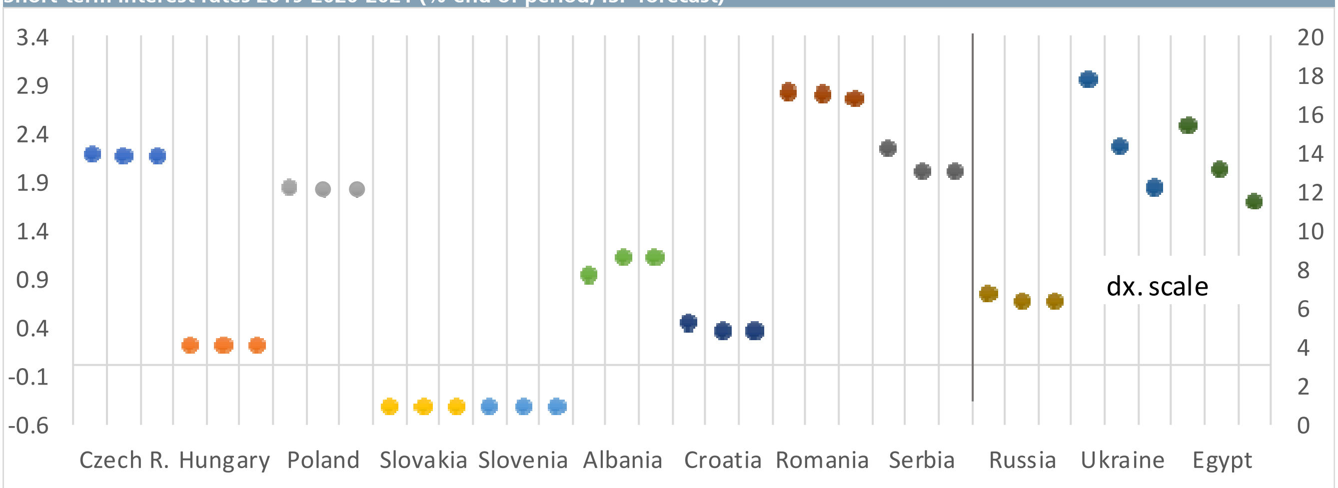
After the recent upward correction of yields on 10-year Bunds, the yield profiles of long-term government bonds in the CEE/SEE region have been revised upwards with respect to the September forecast, accompanied by a slight decrease of sovereign spreads in a few cases (mainly in Croatia, related to the commitment to ERM II entry in 2022). On the forex markets, exchange rates have only been slightly revised for Hungary and Romania, in both cases incorporating expectations of slightly higher depreciation than in the September Outlook. For the remaining currencies of the region, the view of roughly stable rates in 2020 is confirmed.

The profiles of long-term yields have been shifted upward with respect to our previous forecast

In the CIS area, in Russia we forecast the rouble being little changed over the forecasting period amid persisting geopolitical concerns and relatively weak oil quotations expected in 2020. In Ukraine, improving macro conditions are likely to offer some support to the hryvnia, which is forecast on a milder than previously expected devaluation path. Also, the Moldovan leu should show more resilience, although the devaluation scenario has been confirmed. In Egypt, investors have been showing more confidence in the pound amid better GDP growth and inflation data and a strengthening external position, with the oil balance now in surplus. Nonetheless, we expect a slightly weaker EGP in the medium term due to the inflation differential with partners.

In the CIS and MENA countries with ISP Subsidiaries, currencies have shown more resilience, but the depreciation trend has been confirmed

Short-term interest rates 2019-2020-2021 (% end of period, ISP forecast)



Source: ISP Research Department forecasts

Bank aggregates and interest rates

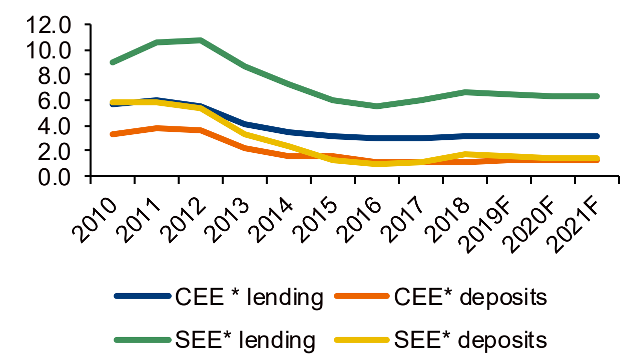
Lending growth is closing 2019 with a slight deceleration from the 7.7% average in 2018 to 7% in 2019, confirming our previous expectations of a slowdown in 2019 (even if softer than the previously expected 6.6%). A further slowdown to 5.1% has been confirmed in 2020 as in our September Outlook, due to the ongoing softening of the business cycle. Lending growth is nevertheless forecast to keep up with the nominal GDP growth profile overall in the medium term. The dynamic of household loans, still supported by the low interest rate environment, is expected to be affected by the restrictive measures adopted by several CBs to avoid excess credit expansion, particularly in Czech Republic and Slovakia. The major revision regarded Slovakia, also due to the approval of a new bank levy. Total loans will continue nevertheless to be driven mainly by households, both mortgages and consumer loans. Corporate lending is expected to be weaker than household lending.

In the CIS area, a slowdown has been prudently confirmed (from a 14.2% average in 2018 to 7.5% in 2019 and 6.8% in 2020), with a slight downward revision with respect to September forecasts of 8% in 2019 and 6.8% in 2020. This is mainly due to lower growth in Ukraine (partly due to the accounting effect of the recent appreciation of the exchange rate) and despite an upward revision in Moldova, while in Russia loan growth has been kept unchanged (at 8.6% in 2019 and 7.2% in 2020). In Egypt, lending dynamics are expected to remain in double digits (+13.1% in 2019) but decelerating to 10%, still well below nominal GDP growth.

Our previous funding and liquidity forecasts have been confirmed overall. They are expected to remain in good shape in the CEE/SEE regions, although decelerating partly due to potentially stronger competition from other saving products such as money market funds and fintech operators in the low interest rates environment. Thanks to supportive labour markets, deposits are forecast to show still strong, though decelerating, growth in CEE and SEE countries (with deposit growth forecast to move from 9.2% in 2018 to 6.7% in 2019 and 5.7% in 2020, revised upward from our previous forecasts of 6.6% in 2019 and 5.1% in 2020). Loan/deposit ratios are generally projected to shrink further to well below 100% overall, in particular in the CEE/SEE countries, while remaining above 100%, however, in Bosnia, Russia and Ukraine.

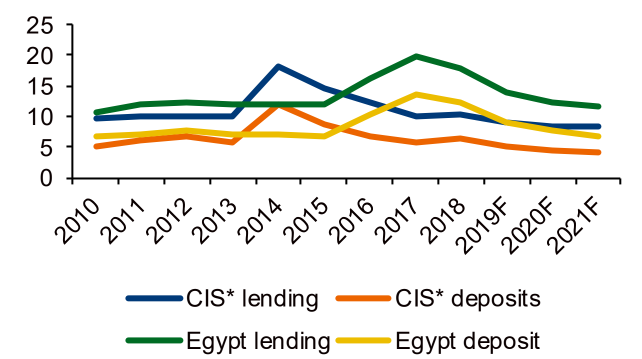
A slight upward revision of banking interest rates has been applied in some CEE/SEE countries in 2019 after taking into account the latest data and in parallel with the minor adjustments of the monetary rates forecast in the CEE/SEE areas. They are expected to remain stable or further decrease in 2020, with downward pressure on spreads (especially on markdowns). Banking interest rates are also forecast to decrease mildly by year-end 2020 in Russia and to a higher extent in Moldova, Ukraine and Egypt. In Egypt, a new initiative of the government to finance housing at a low interest rate is expected to push down interest rates and therefore household deposits.

Lending deposit interest rates (% end of period)



Sources: ISP Research Department forecasts; note * weighted average

Lending deposit interest rates (% end of period)



Sources: ISP Research Department forecasts; note * weighted average

Country-Specific Analysis

Czech Republic

Real Economy

Zdenko Štefanides

The Czech economy continues to be resilient to the slowdown being seen elsewhere in Europe, with GDP growing hitherto in 2019 to about 2.5%. Growth continues to be sustained by the consumption of households and the government, which we believe will remain the key growth contributors in 2020. The Czech labour market is still tight amid its EU-low unemployment rate of 2.2% and continues to deliver solid wage gains, boosted also by minimum wage hikes. The government, meanwhile, will utilise in full the fiscal space delivered by the strong economy and will be able to increase social spending, particularly pensions, without ruining its budget plans.

External demand remains a downside risk for Czech growth in the future. While industry has, until recently, avoided an outright contraction in output, confidence among Czech manufacturers is steadily slipping, pointing to a spill-over effect from the recession in German industry, the key buyer of Czech manufacturing output. However, we believe that strong domestic demand will partially offset the weaker external demand and project only a marginal moderation in overall GDP growth in 2020 to 2.3% versus the expected 2.6% of 2019.

Financial Markets

The Czech National Bank (CNB) has stopped increasing rates, with the last rise in May, and we believe that stability of rates is the most likely scenario in 2020. Inflation, to be sure, will most likely remain above the 2% target as wage growth remains brisk and the koruna appreciates only mildly, if at all. However, amid the downside risk from the external environment and the Eurozone's negative deposit rate regime, the CNB will likely prefer to keep rates on hold. On bond yields, the forecast looks for broadly stable development. The previously forecast slight pickup in yields has already been absorbed by the recent increase in German yields.

Banking Sector

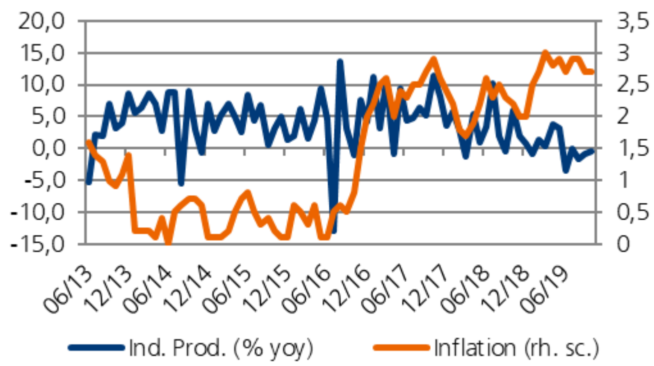
Volumes are expected to moderate their growth rates somewhat. Retail loans are already moderating as the tighter macroprudential measures of the CNB take effect. The moderation has been driven primarily by mortgages, demand for which has been dented by excessive increases in property prices (33% in the past three years, second only to Hungary). Corporate loans are also showing slowing growth, driven especially by manufacturing companies, which are feeling the brunt of the worsening global sentiment. However, the forecast moderation in volume growth is not extreme and we project the pace of banking volumes will decelerate from 5.5% yoy now towards 4% from 2021 onward. The loan-to-deposit ratio looks set to remain at a comfortable 76%.

Forecasts

	2018	2019F	2020F
Real GDP yoy	3.0	2.6	2.3
CPI (eop)	2.0	2.5	2.1
Euro exchange rate (value, eop)	25.8	25.5	25.1
Short-term rate (eop)	2.0	2.2	2.2
L/T bond yields (eop)	2.0	1.5	1.5
Bank loans (pr. sector, yoy)	6.8	5.5	4.5
Bank deposits (pr. sector, yoy)	6.9	5.5	4.6
Lending interest rate (corporates, eop)	3.3	3.2	3.1
Deposit interest rate (households, eop)	1.4	1.5	1.5

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

Hungary's economic performance has remained robust, despite the downturn in the Eurozone manufacturing sector. Forward-looking indicators have also been on the rise in recent months. These developments and the actual 3Q19 GDP growth figures (5.0% and 4.8% swda) have triggered an upward revision of our 2019 and 2020 GDP growth forecasts to 4.8% and 3.3%, respectively. Hungary's GDP growth has continued to be driven primarily by strong domestic demand. Household consumption has been supported by strong wage growth and consumer confidence. Investments have also been solid. On the production side, market-based services remained the main driver of GDP growth, but industry and construction also made a positive contribution. We project that there will be a modest deceleration in 4Q19, while in 2020 the major drivers of growth (including investments, fuelled by EU funds, strong wage growth and real wage growth) are set to make a lower contribution to growth. However, the deceleration will be less than had been forecast earlier. Inflation headline figures have returned to above 3%, with even higher core figures (at or close to 4%), leading the 2019 average expectation to 3.3%. In 2020 we expect a similar average CPI (3.2%), with above average yoy figures in 1Q20.

Financial Markets

The central bank (NBH) has left the 3M policy rate unchanged at 0.90% in 2019 (as in 2018). The more functional O/N depo rate has also been on hold since the 10bps hike (to -0.05%) in March, as the NBH had discontinued its normalisation of monetary policy. Despite recent waves of rising inflation and given the recent dovish shift in the ECB's policy (and also the Fed's policy), the NBH has ample room to maintain its current lax monetary conditions in 2020. The NBH has said that its monetary approach is data-driven, that no forward guidance is warranted and that it expects inflation (including core indices) to return to close to 3%. BUBOR rates have recently been little changed, driven more by liquidity shifts than policy expectations. We expect BUBOR rates and bond yields to remain essentially flat in 2020. The EUR/HUF exchange rate left the 320-326 range and rose to a record high of 336-337, primarily due to the combination of loose monetary policy and some negative external market influence. We expect the EUR/HUF cross rate to move from the vicinity of 330 to 335-340 by the end of next year.

Banking Sector

Bank lending has been very strong in 2019 and overall loans growth is forecast to beat the multiannual record set in 2018 and reach 13% or higher. This is mainly the result of the ongoing robust GDP growth and strong consumer confidence and demand. Growth is set to continue at lower rates in 2020, but still remain well above the average of the 2014-2018 period. Lending has shown a broad-based rise. In addition, housing loans are supported by state subsidies. Some loan segments (including mortgages and personal loans) are showing especially dynamic pick-up. Asset quality continues to improve, even with NPLs already below 5%, at pre-crisis levels.

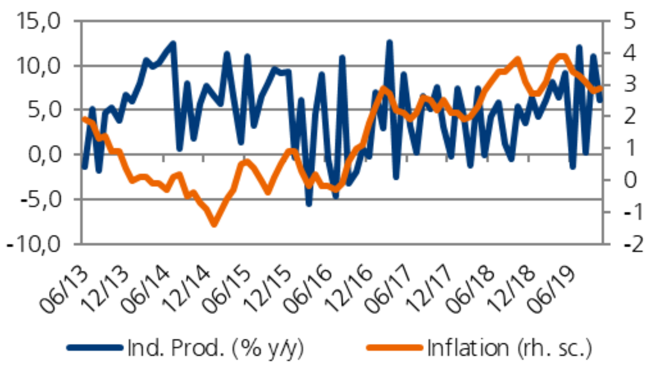
Forecasts

	2018	2019F	2020F
Real GDP yoy	4.9	4.8	3.3
CPI (eop)	2.7	3.8	3.1
Euro exchange rate (value, eop)	322.9	330.0	335.0
Short-term rate (eop)	0.1	0.2	0.2
L/T bond yields (eop)	3.2	1.9	1.9
Bank loans (pr. sector, yoy)	10.6	13.0	7.5
Bank deposits (pr. sector, yoy)	14.1	4.9	5.0
Lending interest rate (corporates, eop)	2.3	2.3	2.3
Deposit interest rate (households, eop)	0.2	0.3	0.2

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Hungarian Central Statistical Office

Poland

Real Economy

Sandor Jobbagy

Industrial and export performance in Poland has shown a volatile trend, generally weakening in the last few months, and in the August-October period even forward-looking sentiment indicators started to reflect a bleaker outlook. Economic growth had already been showing a gradual, modest slowdown since 4Q18, though with growth still above or close to 4% in 2019. The 3Q GDP growth figure arrived at 3.9% and matched our September forecast. The slowdown is set to continue and we project GDP growth of 4.2% in 2019 and just above 3% in 2020. So far growth has remained supported by relatively strong private consumption, amid the revival of industrial performance. Judicial reforms and conflicts with the EU have so far not had an adverse impact. Fiscal policy has remained in check, as shown by the annual deficit. Regarding inflation, CPI has been on the rise throughout this year until August, but returned to 2.6% in November. Core inflation also rose to nearly the same level (2.5%) after it crossed the 2% level in July. We expect an annual average of 2.2% in 2019, with a similar picture (2.3% annual average) in 2020, broadly in line with our September forecasts.

Financial Markets

The main policy rate of the NBP was kept unchanged (at 1.50%) throughout 2019. Market expectations of a potential tightening move have been reignited by recent comments from some members of the NBP's Monetary Policy Council, but the outcome of the December rate-setting meeting partly cooled these expectations. While the MPC remains divided, both the low domestic inflation environment and the latest dovish shift in ECB policy expectations support our forecast for essentially steady short-term rates for 2020. Some central bank policymakers are concerned about domestic price risks and a potential real estate bubble, but the recent and potential 1Q20 rise in inflation may prove to be temporary. Also, we expect the zloty to show no change, hovering around the EUR/PLN 4.30 threshold in 2020.

Banking Sector

The Polish banking sector is forecast to show a modest slowdown in terms of its lending activity in 2019, still close to 6% following the multi-year record rate in 2018, in tandem with the expectation for a somewhat weaker GDP growth rate. A further moderate slowdown is forecast to emerge in 2020. In Poland about 450,000 households still have loans in CHF or indexed to CHF, with a total outstanding amount of about EUR 23bn. Efforts to encourage banks towards voluntary conversion to PLN have not worked, while several thousand lawsuits have been initiated alleging unfair loan practices. One of these lawsuits eventually came before the European Court of Justice and was decided on 3 October this year. The ruling held that if Polish courts determine the mortgage contracts contain unfair terms, EU law would not block the annulment of such loan agreements. The decision was seen as a partial victory for mortgage holders, delivering adverse effects to Polish banks, but the application of the decision remains up to Polish courts, which must now dive into the details of thousands of individual cases.

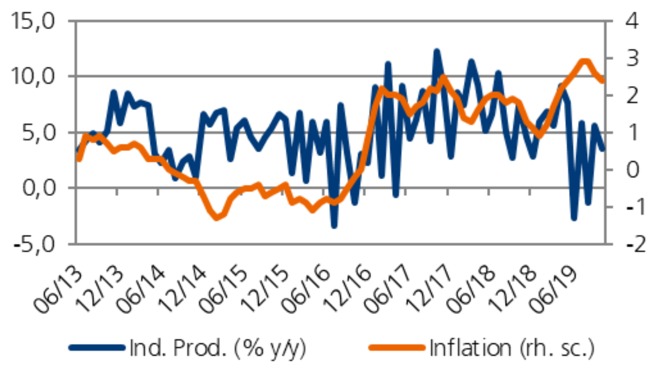
Forecasts

	2018	2019F	2020F
Real GDP yoy	5.1	4.2	3.1
CPI (eop)	1.1	2.4	2.3
Euro exchange rate (value, eop)	4.3	4.3	4.3
Short-term rate (eop)	1.9	1.8	1.8
L/T bond yields (eop)	3.2	2.1	2.2
Bank loans (pr. sector, yoy)	7.9	6.2	5.5
Bank deposits (pr. sector, yoy)	9.4	7.2	6.3
Lending interest rate (corporates, eop)	3.5	3.7	3.6
Deposit interest rate (households, eop)	1.6	1.7	1.7

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistics Poland

Slovakia

Zdenko Stefanides

Real Economy

The Slovak economy is being hit by the slowdown in the Eurozone, especially in Germany, the country's largest export partner. GDP growth fell from 3.8% yoy in 1Q19 to 2.2% in 2Q19, then to just 1.3% in 3Q19. Weak external demand, resulting in a negative contribution from net exports, was mostly to blame. This translated into smaller volumes of industrial production, but construction and retail sales also posted negative yoy dynamics (the last despite still-strong wage growth). Since the global trade uncertainty is expected to persist in the coming quarters, we expect Slovak GDP to grow below its potential, at around 2.0%, in 2020 as well.

The local labour market remains rather tight, with the unemployment rate stabilised around historical lows of 5-6% and wages growing considerably faster than labour productivity (+7.7% in 3Q19). Job vacancies, employment in industry, construction and trade, as well as short-term employment abroad have already posted yoy declines. Overall, employment could be expected to decrease slightly next year with unemployment to edge upwards a little. Consumer inflation reached a seven-year high in November at 3.2% (using EU harmonised methodology), on the back of swiftly rising prices of food and housing. With the deterioration of the business cycle, it could ease towards the area of slightly above 2% and remain above the euro area average.

Financial Markets

Spreads on 10Y Slovak government bonds vis-à-vis negative German Bunds currently hover around 40bps, and with the economic weakness in Europe are expected to do so also next year. The spread could increase slightly in the coming months as Slovakia holds parliamentary elections in February and the new governing coalition might be hard to form and/or unstable.

Banking Sector

In comparison with our previous release, the lending growth path has been revised downwards in the forecast period. Together with decreasing bank lending rates (several banks have further cut their mortgage rates), the low interest rate environment has cut into the net income of the local financial sector. In addition, Slovak banking activity is slowing amid the decelerating economy and the increasing macroprudential regulation. On top of that, a doubled bank levy (at 0.4% of all laibilities net of equity) has been passed in parliament for the period 2020 and onwards. This will eat up much of the local profit and could lead to deleveraging, particularly in the corporate market. The growth of deposits, on the other hand, is still high, supported by rising household income and higher savings rates, and could continue in the quarters ahead. In line with money market rates, banking interest rates have been revised slightly upwards.

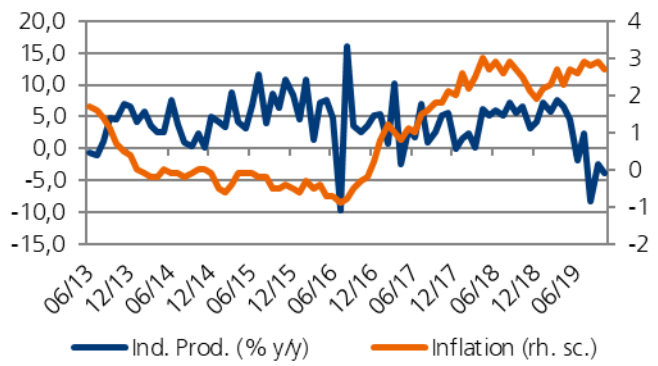
Forecasts

	2018	2019F	2020F
Real GDP yoy	4.0	2.3	2.0
CPI (eop)	1.9	2.9	2.2
Short-term rate (eop)	-0.3	-0.4	-0.4
L/T bond yields (eop)	0.9	0.1	0.3
Bank loans (pr. sector, yoy)	9.1	7.5	4.3
Bank deposits (pr. sector, yoy)	7.3	5.9	5.6
Lending interest rate (corporates, eop)	2.0	1.9	1.9
Deposit interest rate (households, eop)	0.1	0.0	0.0

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistical Office of Slovakia

Slovenia

Real Economy

Ivana Jović

Slovenia's economy expanded by 2.3% yoy in 3Q, the slowest rate since mid-2015. Domestic demand remains supportive based on solid household consumption, which in 3Q strengthened by 4.3% yoy, reflecting 4.5% wage and 2.4% employment growth. Investments slowed to a sluggish +1.1% yoy as non-residential construction and transport equipment investments declined by 3.3% and 6.9% yoy, respectively. The negative contribution of net exports (-1.2%) reflected the 6.7% yoy increase in imports vs. the still solid 4.5% growth in exports. According to October data, retail trade declined by 5.4% yoy (strong base effect as Oct 18 growth was 14.2%) and industrial production rebounded to +2.7% yoy, while exports grew by 7.1%, slightly slower vs. imports (7.6%). Overall, we see FY19 growth easing to about 2.6% from 4.1% in 2018. Looking forward, business surveys point to a further deceleration as November's ESI slipped to its lowest reading since Sept. 2014 amid declining confidence across the economy, except for the service sector. Thus, we see GDP heading towards 2.4% growth in 2020. At the same time, the inflation outlook remains stable, with sub-2% HICP in both 2019 and 2020.

Financial Markets

Ana Lokin

The 2020 average 3M Euribor forecast was raised to -0.4%, in line with the changed expectations on ECB moves. As the benchmark Bund yield has picked up since our last scenario, the forecasts for 2019 and 2020 Slovenian 10Y government bond average yields in our December Scenario were lifted to 0.4% in both years, while the spread forecasts were confirmed at 60 i.e., 50bps.

Banking Sector

Private sector loans have maintained a steady growth rhythm, coming in at 4.2% yoy in September and 4.4% yoy in October. Corporate loans posted a 2.3% yoy rise in both months and household loans increased by 5.9%, i.e., 6.4% yoy, supported by firm demand for housing loans (5.0% and 5.3% yoy). Meanwhile, consumer loans sped up sharply from 10.9% yoy in September to 11.8% yoy in October, which we believe was a blip related to the implementation of stricter regulations from November. We have upgraded our 2019 and 2020 loan growth estimates to 4.5% yoy and 3.2% yoy, respectively, mainly on the back of stronger than anticipated corporate demand. With regard to household loans, we see these slowing in the forthcoming period owing to a tighter regulatory regime. The private sector deposit rise remained robust, amounting to 7.3% and 6.7% yoy in September and October. Household deposits saw a slight deceleration (+7.7% and +7.5%, respectively), while corporate deposits fluctuated, accelerating to +6.2% yoy in September before retreating towards +4.3% yoy in October. Considering the pronounced volatility of corporate deposits, we have trimmed our 2019 deposit estimate to +5.5% yoy, while our 2020 projection has been slightly enhanced to +5.0% yoy as the growth in household deposits remains healthy.

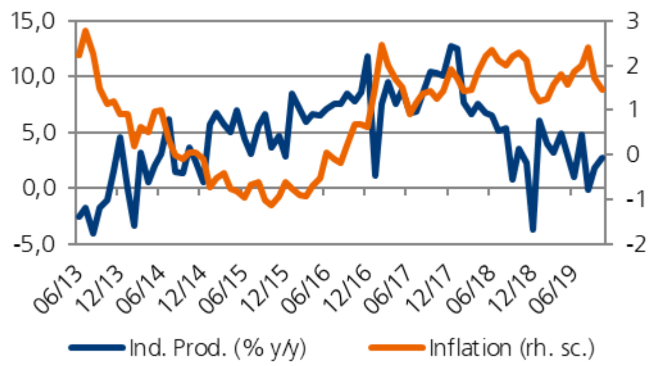
Forecasts

	2018	2019F	2020F
Real GDP yoy	4.1	2.6	2.4
CPI (eop)	1.4	1.5	1.8
Short-term rate (eop)	-0.3	-0.4	-0.4
L/T bond yields (eop)	1.1	0.2	0.4
Bank loans (pr. sector, yoy)	2.6	4.5	3.2
Bank deposits (pr. sector, yoy)	6.7	5.5	5.0
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

After growth of 4.1% in 2018, the Albanian economy has started showing signs of a slowdown and GDP growth fell to 2.35% in H119. The fall was mainly due to weaker energy production and a fall in investments and exports (related to the slowdown of the Eurozone economy). Unemployment continued to decline gradually to 11.5% in the first half of the year and the average wage in the economy was up by 4.5% in Q219. At the same time, inflation has remained below the central bank's target of 3.0% for eight consecutive years. In this context, the CB base interest rate has remained at a record low of 1.0% since June 2018. GDP growth is forecast to remain weak in 2H19 and also in 2020, taking into account the impact of the strong earthquake that hit Albania in November 2019, which is yet to be assessed. On the other hand, the favourable financing conditions and the improvement so far in the labour market are expected to support aggregate demand. Inflation is projected to average about 1.5% in 2019 and return to target only in 2021. The accommodative stance in monetary policy will remain, and its gradual normalisation is not expected to begin before Q220.

Financial Markets

After the decline in 1Q19 of interest rates on debt securities in the primary market, the second quarter was characterised by a moderate rise, with the trend continuing in the third quarter. This upward trend was reflected in the 12-month weighted average rate of T-bills, which represent 97% of short-term debt. The fall in the average interest rate on short-term debt securities during 1Q19 (1.2%), began to ease during the second and third quarters of the year. The Treasury bills interest rate had risen from 1.2% in Q1 to 1.7% by the end of Q2, then rose above 2.1% in Q3. The failure of the government to secure demand for its two auctions at the beginning of the second quarter led to pressure on interest rates. During the first half of the year, in the interbank market interest rates fluctuated close to the Bank of Albania's key interest rate (1%). In H119 the lek appreciated against the euro and the US dollar, but at a lower rate than in the previous year. In Q319, compared with the same period a year earlier, the lek appreciated by 3.63% against the euro and depreciated by 1.44% against the US dollar.

Banking Sector

According to the central bank, after annual growth in the first two quarters averaged 6.7% and 5.9%, respectively, in Q3 it improved further to 7.5% (adjusted for the foreign exchange rate and written-off loans). Credit growth in 2019 has picked up due to changes in bank ownership, a decline in loan rejections by banks and the lower risk of NPLs, which have been reduced from a peak of 24.9% to 10.2%. In real terms, total loans in October 19 expanded by 6.1% yoy, with 7.86% growth in corporates and 2.69% in households. Total deposits expanded by 3.4% yoy. We have slightly revised our lending projections on a moderately decreasing path in the forecast period.

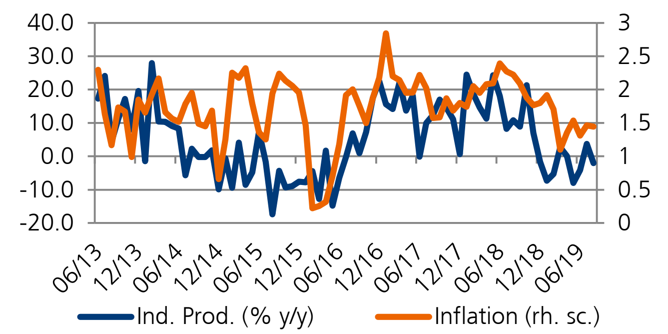
Forecasts

	2018	2019F	2020F
Real GDP yoy	4.1	2.4	2.5
CPI (eop)	1.8	1.3	1.7
Euro exchange rate (value, eop)	123.4	122.5	124.0
Short-term rate (eop)	1.2	0.9	1.1
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	-3.8	5.9	3.5
Bank deposits (pr. sector, yoy)	-0.9	2.5	2.5
Lending interest rate (pr. sector, eop)	8.2	7.7	7.6
Deposit interest rate (pr. sector, eop)	0.6	0.6	0.7

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: National Statistical Institute

Bosnia and Herzegovina

Real Economy

Ivana Jović

Following 2.8% and 2.6% GDP growth over the first two quarters, high frequency data points to a continued slowdown in 3Q. In the third quarter industrial production dived by 6.0% yoy (manufacturing by 7.6% yoy), reflecting the failure of the Mostar-based aluminium factory (slashing basic metals production, which have a 4.6% share of total industrial production, by one-third and exports of aluminium, which have a 6% share of total exports, by one-half between July and Sept) and sluggish foreign demand, with total exports contracting by 5.8% yoy. Retail trade growth (3.9% yoy) indicated a solid trend in household consumption, which remains the backbone of growth, supported by wage growth of about 5%, the low inflation environment and favourable financing conditions, as well as stable remittances inflows. The worsened export outlook has prompted us to revise downwards our FY19 growth estimate from 2.6% to 2.3%. Looking forward, we see GDP growth in 2020 hovering around 2.5%, supported by private consumption and public investments, which are expected to benefit from a political compromise reached in late November that finally initiated the formation of a national government, 13 months after the general elections (October 2018).

The inflation outlook remains subdued, with rising demand pressures counterbalanced by an announced decline in gas and electricity prices.

Banking Sector

Private sector loans slightly decelerated (+6.0% yoy in September, +5.6% yoy in October) as corporate loans slowed markedly, while loans to households maintained momentum as these were buttressed by the steady economic growth and declining loan interest rates. Loans to non-financial corporations rose by 4.4% yoy and 3.4% yoy in September and October. Household loans grew by 7.7% yoy in both months, with stable consumer loans (7.6% yoy in both months) and accelerating housing loans (12.0% and 12.6% yoy, respectively). Recent figures have slightly overshot our expectations, thus we have marked up our 2019 loan growth estimate from 5.4% yoy to 5.8% yoy. At the same time, our projection for 2020 was confirmed at 4.5% as private sector credit demand slows against the backdrop of lower regional GDP forecasts.

Private sector deposits increased at a slightly lower rate of 7.8% yoy in September and 7.9% yoy in October, as the rise in corporate deposits softened (5.1%, i.e., 5.0% yoy). However, the growth in household deposits remained robust (9.0% and 9.2% yoy), reflecting improved labour market conditions, the continuous inflow of remittances and also the country's permanent political stability and lack of alternative investment opportunities. The sound deposit growth pace supports a revision of 2019 deposit growth in our December Scenario, rising from 6.5% yoy to 7.0% yoy. In the period ahead, we expect deposit growth to moderate, thus next year's forecast was left unchanged at 5.2% yoy.

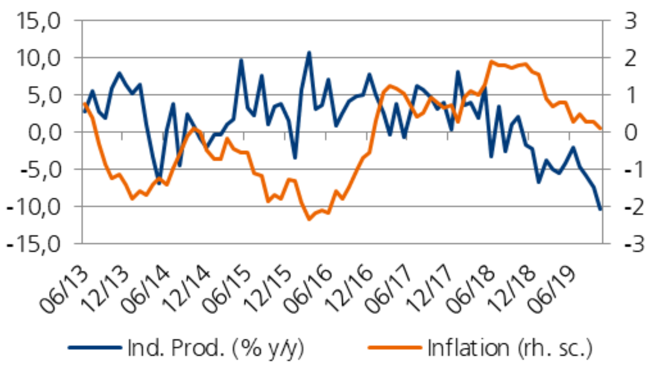
Forecasts

	2018	2019F	2020F
Real GDP yoy	3.6	2.3	2.5
CPI (eop)	1.6	0.3	0.8
Euro exchange rate (value, eop)	2.0	2.0	2.0
Short-term rate (eop)	n.a.	n.a.	n.a.
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	5.5	5.8	4.5
Bank deposits (pr. sector, yoy)	8.5	7.0	5.2
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

Over the third quarter GDP rose by 2.9% yoy (0.8% qoq), an acceleration after the 2.4% yoy growth recorded in 2Q. The largest positive contributions came from personal consumption, which increased by 3.3% (contributing 1.6pp), and investment activity, which, due to its solid increase of 5.0%, contributed 1.0pp. A decrease in stocks made a negative contribution. A strong positive contribution (2.8pp) also came from net exports, as exports advanced by 4.7% (exports of goods +7.1%; services +3.1%), while the increase in imports slowed to a mere 1.1% (imports of goods +0.9%; services +1.8%). As the data for 1Q has been revised (from 3.9% to 4.1%) and the first data for 4Q reveal stagnant industrial production (+0.4% in October; where manufacturing dropped by 1.5%) and a solid 3.1% increase in retail trade, we stick to our FY19 growth estimate of 2.8%. Looking forward, amid the external risks and uncertainties, we see next year's growth slowing down to 2.4%. The growth structure is expected to remain unchanged and growth will continue to be driven by personal consumption, supported by the favourable labour market trends and wage growth, amid the low inflation and favourable credit condition environment. Investment activity will reflect the higher withdrawal of EU funds ahead of the end of the current EU budget framework, as well as tourism and real estate-related investments. There is some uncertainty relating to exports given the slowdown in economic activity in partner countries and the further normalisation of tourism.

Financial Markets

Ana Lokin

The EUR/HRK rate outlook remains unchanged, hence our 2019 and 2020 forecasts for the average rate remain at 7.4. Our 3M average Zibor forecast was confirmed at 0.5% for 2019 and raised to 0.4% in 2020, in line with the broader EA scenario. Our estimate of the 2019 average 10Y kuna government bond was left at 1.3%, with the average spread cut to 150bps. Our 2020 average spread forecast was cut by 30bps to 90bps, on the back of an expected rating upgrade and ERM II entry, however, our forecasted average yield was lifted by 10bps to 0.7% owing to changed expectations on the Bund path.

Banking Sector

Loan growth remained sluggish (September 1.8% yoy, October 2.4% yoy), dented by the corporate loan slippage that resulted from the 3Q surge in the volume of sold NPLs. Household loans continued to record punchy growth rates, bolstered by housing loans being encouraged by state subsidies, as well as robust cash loans. As NPL levels in corporate portfolios remain elevated, we believe that more sales are ahead, which will continue to act as a drag on the overall growth rate. In addition, cash loans are losing momentum, showing that the CNB’s measures are bearing fruit. Our 2019 loan growth estimate was improved to 2.2%, and our 2020 forecast to 2.0% yoy, thanks to the slightly higher growth seen in households. Deposit rises carried on at healthy pace (Sep. 4.3% yoy, Oct. 5.0% yoy), exceeding our expectations and prompting us to mark up our 2019 and 2020 forecasts to 4.0%, i.e., 3.0% yoy.

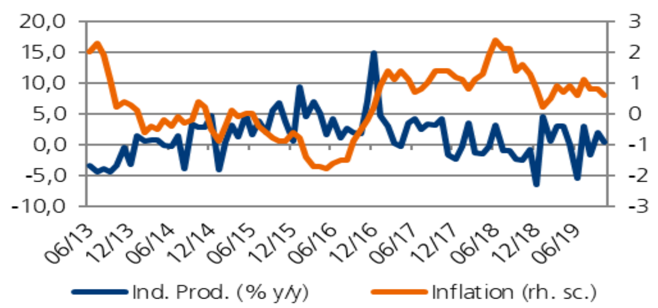
Forecasts

	2018	2019F	2020F
Real GDP yoy	2.6	2.8	2.4
CPI (eop)	0.8	0.6	1.2
Euro exchange rate (value, eop)	7.4	7.4	7.4
Short-term rate (eop)	0.5	0.4	0.4
L/T bond yields (eop)	2.1	0.7	0.7
Bank loans (pr. sector, yoy)	2.3	2.2	2.0
Bank deposits (pr. sector, yoy)	5.0	4.0	3.0
Lending interest rate (pr. sector, eop)	6.2	5.4	5.2
Deposit interest rate (pr. sector, eop)	0.5	0.2	0.2

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Croatia Bureau of Statistics

Romania

Real Economy

Marius Pacurari

The National Institute of Statistics confirmed for the second time this year a slowdown in the Romanian economy, announcing GDP in 3Q of 3.0%, versus 4.1% in Q2 and 5.1% in Q1. The expectation for GDP is that it will slow further this year and next year, to about 4% in 2019 and about 3% in 2020. The CPI for July shows a re-entry into the NBR target area, with the level slightly below expectations at 3.50% in October. The core-adjusted component remains on an uptrend at 3.38%.

Under these circumstances and taking into consideration that there are no significant factors pointing to higher inflation in the local market, our forecast is 3.40% for this year-end and 3.3% for the 2020 year-end, with a slight decrease in CPI, taking it to the upper part of the NBR's target interval. The new government has confirmed economists' expectations of a budget deficit of 4.5% in 2019, significantly higher than the 3% threshold. For next year, the government estimate places the deficit at about 3.6%. The main challenges for 2020 will come from budget developments and elections (local and parliamentary).

Financial Markets

The EUR/RON has experienced some volatility in the last month due to declarations regarding the budget deficit, but it remained below 4.78 due to NBR actions. We anticipate a gradual depreciation of the local currency in the coming years as a consequence of the trade balance gap and the National Plan to begin convergence to the euro. Due to NBR activity on the FX market, liquidity in the money market has experienced some peaks and bottoms within the technical corridor range (1.5%-3.5%). The bond market remained stable, with volatility affected only by the budget deficit announcements and only by about 20bps. The NBR kept the reference rate at 2.5% and the technical interval at 1.5%/3.5%. In the coming months we do not expect to see significant movements from the NBR in this area.

Banking Sector

The government has announced that it intends to propose the cancellation of the asset tax until the end of the year. This decision will have a positive effect on banking sector profitability. Based on the October data, customer deposits continued to grow, by 11% yoy in households (8% in RON and 16% in foreign currencies), and by 10% yoy in corporates (10% in RON and 7% in foreign currencies). Customer credits also grew in both segments. Household credits grew 7% yoy due to the RON component (+12%), while the foreign currency component decreased by 5%. On the corporate side we saw 7% growth, with 4% in RON and 11% in foreign currencies. The forecast for this year is 7.5% growth in credits and 8.5% growth in deposits. The credit and deposit volumes will continue to grow in the coming years by more than 5% per year.

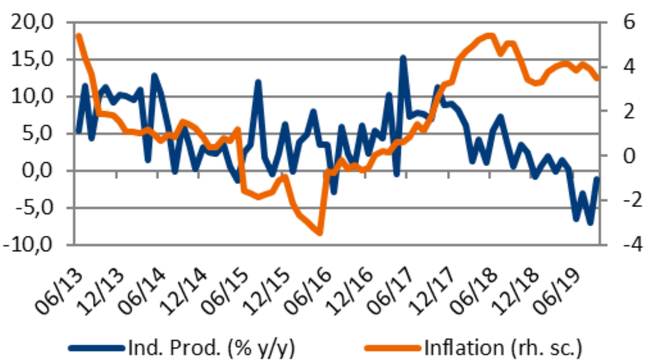
Forecasts

	2018	2019F	2020F
Real GDP yoy	4.1	3.9	3.0
CPI (eop)	3.3	3.4	3.3
Euro exchange rate (value, eop)	4.7	4.8	4.8
Short-term rate (eop)	3.1	2.8	2.8
L/T bond yields (eop)	4.9	4.6	4.6
Bank loans (pr. sector, yoy)	7.9	7.5	4.7
Bank deposits (pr. sector, yoy)	9.2	8.5	6.5
Lending interest rate (corporates, eop)	7.0	7.0	7.0
Deposit interest rate (households, eop)	2.0	1.9	1.9

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

Serbia's economic performance was beyond all expectations in 3Q19, triggering the upward adjustment of our full-year growth projection. Fuelled by strong domestic demand, real GDP grew 4.8% yoy in 3Q, speeding up from 2.9% in 2Q. Investments, in particular, surprised on the upside, increasing by 17.3% yoy. Construction activity witnessed a significant increase, notably in the civil engineering segment (related to the construction of the Serbian leg of the "Turkish Stream" gas pipeline). Household consumption remained robust (+3.1% yoy), sustained by rising wages and strong consumer lending, while net exports continued acting as a drag. Economic activity in 4Q is likely to remain strong, with a similar growth profile as in 3Q, and we estimate the full-year growth rate to be 3.6%. Looking ahead, domestic demand should continue to lead growth, which is currently expected at 3.2% in 2020, supported by planned fiscal easing, labour market improvements and favourable financing conditions.

Headline inflation has slowed considerably, shifting below the lower bound of the target bands (3.0%+/-1.5pp) as of August. After averaging 1.3% in 3Q, it fell further to 1.0% in October, before retracing at 1.5% in November, while core inflation stood at 1.2%. Yoy inflation will continue moving close to the lower end of the target range during H120 (mainly reflecting the high base effect of food prices), while starting to gradually pick up thereafter to reach 1.8% by the end of the year. The average CPI is projected to decline again to 1.5% in 2020.

Financial Markets

In November, the NBS decided to cut the key policy rate by 25bps to 2.25%, its new lowest in the inflation-targeting regime. The decision was primarily justified by the muted inflation environment and the further weakening of inflationary pressures, while persistent appreciation pressure on the dinar also played an important role in shaping the decision. During the first 11 months of 2019, the NBS intervened on the FX market by net buying a total of EUR 2.34Bn. Our base case is for an additional cut in 2020, taking into account a firm downward trend in inflation, as well as supportive international developments.

Banking Sector

Bank lending activity continued to exhibit a solid increase (10.2% yoy in October), sustained by both household and corporate lending, which rose by 8.5% and 11.7%, respectively. As per the NBS, the loan structure is improving, as evidenced by higher demand for investment loans in the corporate and SME segments lately, while cash loan growth eased somewhat in the retail segment. The positive lending trend is expected to continue (+5.8% in 2020), led by further economic expansion, improved labour market conditions, the past monetary easing at home, lower interest rates in the euro area and fierce competition among banks. Additionally, in spite of a decline in interest rates, the steady rise in private sector deposits is expected to continue, with these currently projected to rise 8.0% yoy in 2019 and 6.5% yoy in 2020.

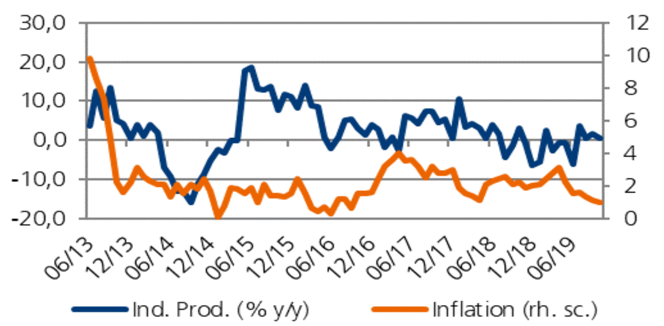
Forecasts

	2018	2019F	2020F
Real GDP yoy	4.4	3.6	3.2
CPI (eop)	2.0	1.1	1.8
Euro exchange rate (value, eop)	118.3	117.6	117.9
Short-term rate (eop)	3.0	2.3	2.0
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	9.9	7.5	5.8
Bank deposits (pr. sector, yoy)	14.9	8.0	6.5
Lending interest rate (pr. sector, eop)	7.7	7.3	7.1
Deposit interest rate (pr. sector, eop)	2.8	2.0	1.8

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Statistical Office

Moldova

Olga Pisla

Real Economy

In 1H19 Moldova's GDP increased by 5.2% yoy due to the positive evolution in the construction sector (+26.7%), which made a 2.2% contribution to GDP growth. Net investments have been the main component driving GDP in 2019, by the end of which the volume is expected to increase by 18%. The forecast for GDP growth is 4.2%, a 0.2pp rise compared with 2018.

The positive but more tempered evolution in the main sectors of the economy for 2020 and 2021 are the basis for the expected 3.8% yoy GDP growth in both years. In 2019, an increase of about 3.0% yoy is forecasted for the industrial sector, with a slightly faster growth rate (4.2-4.5%) being expected for the coming years due to various investment projects within the Free Economic Zones boosting industrial production. Public investments in the energy sector and infrastructure are expected to support the positive evolution in the construction sector and boost the extractive industry.

In November, annual CPI rose by 0.3pp compared with the previous month, reaching 7.1% mainly due to the acceleration in food product prices (+11.8%). By the end of 2019, the annual CPI level is forecasted to peak at 8%, with a subsequent downward evolution between 2020 and 2022 and with inflation reaching the 5% target level by the end of 2020.

Financial Markets

In November 2019, the yields for Treasury bills increased by 0.06-0.08pp, remaining unchanged for longer maturity government bonds. In order to anticipate and mitigate the impact of the deflationary pressures expected in 2020 and 2021, the National Bank cut the base rate to 5.5% (2pp downward change) in December, with a possible further cut by 0.5pp expected by the end of 2020.

Banking Sector

In October, the volume of private loans maintained its positive evolution, increasing by 14.5% yoy but decelerating compared with the previous months (September +16.3%; August +16.6%). Household loans kept up the steady 40% positive yoy change, driven by consumption loans and mortgages, while corporate loans grew by 4.8%, half the growth registered in the previous quarter.

The evolution of deposits continues to be stable, with the monthly yoy change being about 7%, the main driver being household deposits in local currency, namely sight deposits. Although lending and deposit interest rates have been rather stable over the last six quarters, they are expected to fall between 2020 and 2022 as a consequence of a lower base rate for the period.

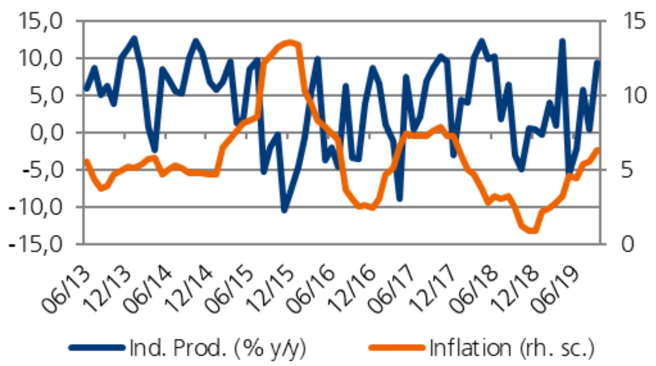
Forecasts

	2018	2019F	2020F
Real GDP yoy	4.0	4.2	3.8
CPI (eop)	0.9	8.0	5.1
USD exchange rate (value, eop)	17.1	17.5	18.0
Euro exchange rate (value, eop)	19.4	19.4	21.1
Short-term rate (eop)	6.5	5.5	5.0
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	5.9	12.9	7.0
Bank deposits (pr. sector, yoy)	6.0	6.3	6.6
Lending interest rate (corporates, eop)	8.6	8.5	7.0
Deposit interest rate (households, eop)	4.3	4.0	3.0

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 3Q19, Russian GDP grew 1.7% yoy (vs. +0.9% yoy in 2Q19 and +0.5% yoy in 1Q19). The main contribution was made by industrial production (+3.0% yoy in 3Q). Moreover, the growth was significantly supported by positive dynamics in agriculture (+5.1% yoy in 3Q), with high levels of production volumes for most types of agricultural products. The GDP forecast has been revised upwards: to 1.3% for 2019 and to 1.7% for 2020. In the forthcoming quarters, a slight acceleration in the GDP growth rate is expected, facilitated by the increased budget expenditures due to the implementation of national projects.

According to the Central Bank, in November annual inflation fell to 3.5%, down from 3.8% in October. Inflation will continue to slow, and by the end of December it will drop to about 3.3% due to the termination of the base effect related to the tax increase at the beginning of this year. Inflation is likely to return to 3.8% by the end of 2020 as economic activity revives.

Financial Markets

In October, the Central Bank of Russia cut its key rate by 0.5pp to 6.5%. In the last meeting of the CBR on 13 December, amid low inflation and weak consumer demand, the Board of Directors further reduced the key rate by 0.25pp to 6.25%. A further cut by 0.25pp is expected in 1Q20. The key rate is expected to remain at the level of 6% for the whole of next year if economic conditions remain stable. The RUB exchange rate forecast has been slightly revised. RUB volatility has been minimal since the 2014 crisis, but may rise due to external factors in the future. In October and November, the RUB remained stable, in the range of 63-64 (vs. USD) and 70.5-71.5 (vs. EUR), and the situation is unlikely to change in the coming months.

Banking Sector

In September, the lending growth rate decreased for both the corporate and household segments (+4% yoy and +20.6% yoy, respectively). This slowdown was mainly due to a noticeable reduction in the foreign currency lending portfolio (-13% yoy), which resulted from the RUB strengthening. The observed slowdown in lending will continue, given the new restrictions of the Bank of Russia regarding requirements for loan issuing. In September, the growth rate of the deposit portfolio remained at the stable level of 10%. An acceleration in the household segment (+9% yoy vs. +7.6% yoy in August) compensated for the slowdown in the corporate segment (+11% yoy vs. +13.6% in August), and the dynamics of both segments are expected to remain at the level of September, or slightly lower. Along with the key rate cut, interest rates tend to fall, and by the end of the year they are expected to decline on average to 7.9% for loans and to 4.5% for deposits.

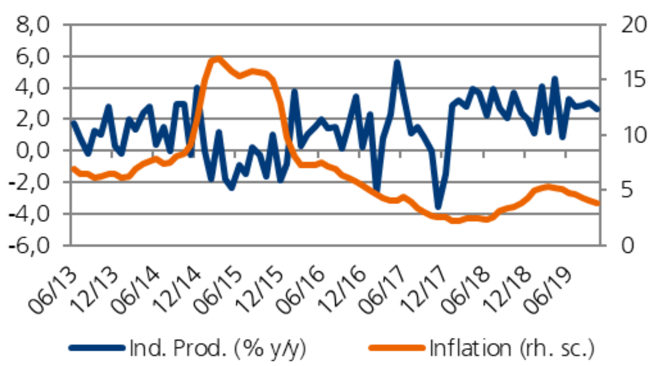
Forecasts

	2018	2019F	2020F
Real GDP yoy	2.3	1.3	1.7
CPI (eop)	4.3	3.3	3.8
USD exchange rate (value, eop)	67.3	64.5	65.0
Euro exchange rate (value, eop)	76.7	70.8	76.1
Short-term rate (eop)	8.6	6.7	6.4
L/T bond yields (eop)	8.7	6.4	6.4
Bank loans (pr. sector, yoy)	15.0	8.6	7.2
Bank deposits (pr. sector, yoy)	14.2	7.0	6.1
Lending interest rate (corporates, eop)	9.2	7.9	7.7
Deposit interest rate (households, eop)	5.6	4.5	4.0

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

Real Economy

Artem Krasovskyi

Ukraine and the IMF reached a staff level agreement on the new three-year EFF loan programme of c. $5.5bn. This arrangement has yet to be approved by the IMF Board of Directors, once Ukraine has fulfilled its previous commitments. GDP growth in 3Q19 decelerated to 4.2% yoy from 4.6% in Q2, though still remains among the fastest growth rates of the Ukrainian economy in recent years. The consumer market remains the engine of the economy, with retail sales accelerating to 11% yoy in October on the back of the sustained growth in wages. In contrast, industrial production fell by 5% yoy in October, the strongest decline in the last 30 months. Inflation in November added only 0.1% mom, bringing annual CPI growth to the surprisingly low print of 5.1% yoy in November, down from 6.5% yoy in October, exceeding the NBU's expectations and having reached the target corridor (4-6%). Tight monetary policy and strong UAH remain the major factors in keeping inflation subdued.

Financial Markets

Following a good inflation reading in November and the worldwide trend of monetary policy softening, the Central Bank cut its main policy rate by larger than expected 200bp (down to 13.5%) in mid- December. UAH remains on a strong revaluation path, hitting fresh highs each week and now trading below 24 against the USD, up by c. 15% from the beginning of 2019. The uptrend is primarily led by the continued robust foreign investments inflow into local government debt, but also by record-breaking grain crops in 2019 and the recent Eurobond placements that have been successfully made by some governmental and big private companies. Against this background, NBU international reserves increased by $0.5bn (2.5%) to $21.9bn in November. High appetite for local government debt from foreign accounts has helped the Ministry of Finance to persistently push market yields down: long-term bonds traded at 11.70% in the most recent primary auction, down from 12.50% in the previous one, and still attracted an excess of demand.

Banking Sector

Ukraine's banking sector has set a new net profit record, having reached UAH 52bn for the first 10 months of 2019, which is 3.5 times more than for the same period last year. The high margins in the retail lending segment, high commission income and significantly lower provisioning were the main profit drivers. The retail loan portfolio remains the main segment that is expanding, with annual growth close to 30%, led by sizeable improvements in consumer confidence and growing wages. On the contrary, corporate lending remains weak due to their partial replacement with external loans from abroad, still high interest rates and legal risks. During Q3 the share of non-performing loans decreased by 1.8% to 48.9%. In line with money market rates, banking interest rates have been revised slightly downwards.

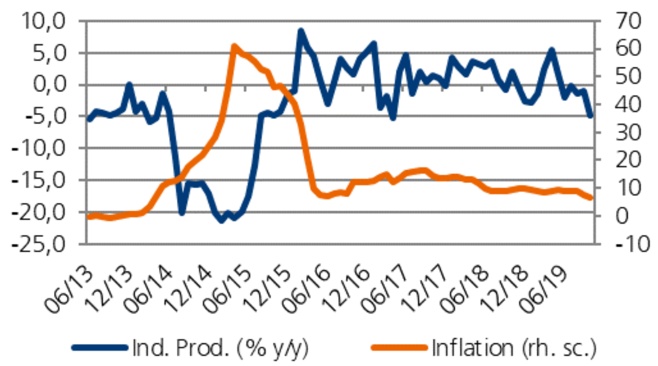
Forecasts

	2018	2019F	2020F
Real GDP yoy	3.3	3.6	3.7
CPI (eop)	9.8	5.6	5.2
USD exchange rate (value, eop)	28.2	24.0	25.5
Euro exchange rate (value, eop)	31.6	26.3	29.9
Short-term rate (eop)	20.2	17.0	14.4
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	6.3	-4.5	2.0
Bank deposits (pr. sector, yoy)	7.9	1.1	4.7
Lending interest rate (pr. sector, eop)	21.7	19.3	15.5
Deposit interest rate (pr. sector, eop)	14.2	12.8	9.0

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: State Statistics Service of Ukraine

Egypt

Samer Halim

Real Economy

Egypt's GDP is expected to grow by 5.7% yoy in 2019/20, supported by private investments (to benefit from declining borrowing costs) and the recovery of private consumption. From the sectoral side, the natural gas and tourism sectors are expected to lead growth in 2019/20 (Egypt's arrears to foreign oil companies declined to USD 900m at the end of June 2019, from USD 1.2bn a year ago and USD 6.3bn in June 2012), along with the construction sector (benefiting from mega projects) and the telecommunications sector, which is witnessing accelerating advancements (growth of 16.7% yoy in 2018/19). The industrial sector (16.2% of GDP) is expected to regain its momentum over the medium term, with the Central Bank of Egypt's (CBE) initiative to avail funds at low interest rates and help stumbled factories resume operations. Egypt's annual inflation rate eased in October and November to its lowest levels in years, falling to 3.1% and 3.6%, respectively, due to the base year effect and increasing control over the prices of volatile items (fruit and vegetables). Hence, annual CPI is forecasted to decline to about 9.4% and 8.4%, on average, for 2019 and 2020, respectively, compared with 14.4% one year earlier, and reach the CBE's target of 9% by the end of 2020.

Financial Markets

The CBE has lowered core interest rates by 450bps during 2019, with the government's declining budget deficit and issuance of international bonds helping push yields down. Accordingly, the money market rate (yields on 91-day T-Bills) has fallen 4.2% during the year. The dovish policy is expected to continue in 2020, together with stability in price levels, a target of an overall fiscal deficit of 7.2% of GDP in 2019/20 against 8.2% in 2018/19 (Egypt's fuel subsidies bill dropped 69% yoy in 1Q 2019/20) and plans to issue international bonds worth USD 3-7bn. After its strong performance in 2019, the EGP is expected to slightly depreciate in 2020 due to the country's high external obligations. However, it will be supported by high foreign reserves, recorded at USD 45.4bn in November 2019.

Banking Sector

Real growth in private loans is expected to be supported by declining interest rates and a new initiative launched by the CBE and Ministry of Finance to offer EGP 100bn funds to the private industrial sector at only a 10% interest rate (decreasing), with a special focus on replacing imports with local products and encouraging exports. The initiative is directed to finance working capital and the purchase of machinery and equipment. In addition, the CBE has launched a new initiative worth EGP 50bn to finance housing units for medium-income citizens at a 10% decreasing interest rate, to be repaid over 20 years. On the other hand, private deposits are expected to rise at a slower pace due to the lower interest rates offered on different saving schemes and the partial redirection to real estate. The foreign currency position of banks is expected to remain stable after the elimination of the repatriation mechanism in December 2018, which has allowed banks to benefit from inflows to the Egyptian debt market.

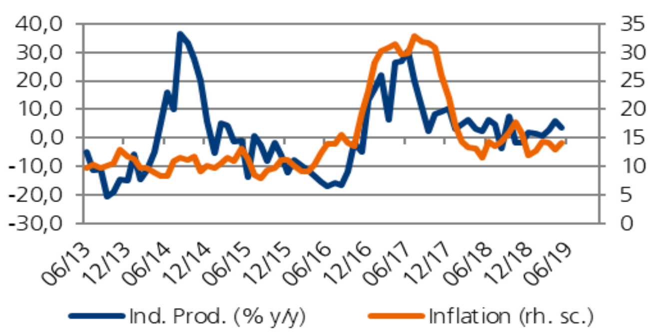
Forecasts

	2018	2019F	2020F
Real GDP yoy	5.4	5.7	5.8
CPI (eop)	12.0	6.0	9.0
USD exchange rate (value, eop)	17.9	16.2	16.5
Euro exchange rate (value, eop)	20.4	17.8	19.3
Short-term rate (eop)	19.7	15.4	13.1
L/T bond yields (eop)	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	15.3	13.1	11.1
Bank deposits (pr. sector, yoy)	13.8	12.6	10.7
Lending interest rate (corporates, eop)	17.8	13.9	12.3
Deposit interest rate (households, eop)	12.2	9.0	7.6

Note: Average values are available in the Country Outlook Table

Source: Intesa Sanpaolo Research Department forecasts

Industrial production and inflation



Source: Ministry of Planning, CAPMAS

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

The Economy

	GDP chg yoy			Ind. Prod[1]. chg.yoy			Export nom. chg			Inflation chg yoy				Retail sales chg yoy			Economic Survey[2]		
	3Q19	2Q19	2018	Last	mth	3Q19	Last	mth	3Q19	Last	mth	3Q19	2018	Last	mth	3Q19	Last	mth	3Q19
CEE																			
Czech Rep.	2.5	2.7	3.0	-0.4	Oct	-0.9	-2.9	Oct	7.0	3.1	Nov	2.8	2.1	3.4	Oct	5.8	102.4	Nov	103.5
Hungary	5.0	4.9	4.9	6.1	Oct	7.8	6.7	Oct	7.4	3.4	Nov	3.1	2.8	6.2	Oct	6.2	111.8	Nov	111.2
Poland	3.9	4.4	5.1	3.5	Oct	3.4	-8.3	Jun		2.6	Nov	2.8	1.7	4.6	Oct	4.8	100.9	Nov	103.0
Slovakia	1.3	2.2	4.0	-3.9	Oct	-2.8	0.1	Oct	-1.3	2.7	Oct	2.9	2.5	-3.3	Oct	-2.2	99.0	Nov	94.9
Slovenia	2.3	2.5	4.1	2.8	Oct	2.1	7.1	Oct	10.6	1.4	Nov	2.0	1.9	-5.0	Oct	4.1	101.0	Nov	104.8
SEE																			
Albania	n.a.	2.3	4.1	n.a.	n.a.	n.a.	-10.2	Oct	-1.0	1.3	Oct	1.4	2.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Bosnia H.	n.a.	2.6	3.6	-10.3	Oct	-6.0	-5.2	Oct	-5.8	0.1	Oct	0.4	1.4	4.0	Oct	4.1	n.a.	n.a.	n.a.
Croatia	2.9	2.4	2.6	0.4	Oct	1.2	5.3	Sep	6.3	0.6	Oct	0.9	1.5	3.1	Oct	3.0	114.1	Nov	112.2
Romania	3.0	4.4	4.1	-1.2	Sep	-3.7	-0.1	Oct	1.9	3.4	Oct	3.8	4.6	6.9	Oct	7.6	103.6	Nov	102.5
Serbia	4.8	2.9	4.4	0.5	Oct	1.9	9.1	Oct	7.1	1.5	Nov	1.3	2.0	9.4	Oct	8.8	n.a.	n.a.	n.a.
CIS MENA																			
Moldova	n.a.	5.8	4.0	9.3	Sep	5.2	15.2	Sep	3.4	7.1	Nov	5.7	3.1	5.7	Sep	9.4	n.a.	n.a.	n.a.
Russia	1.7	0.9	2.3	2.6	Oct	2.9	-9.3	Sep	-7.6	3.5	Nov	4.3	2.9	1.6	Oct	0.9	45.6	Nov	48.6
Ukraine	4.2	4.6	3.3	-4.8	Oct	-0.8	7.4	Sep	7.1	5.1	Nov	8.5	11.0	12.2	Oct	9.3	n.a.	n.a.	n.a.
Egypt	5.6	5.7	5.4	-1.0	Sep	0.7	2.2	Sep	0.2	3.6	Nov	7.0	14.4	n.a.	n.a.	n.a.	49.2	Oct	49.2
m.i. E.A.	*1.1*	*1.1*	*1.9*	*-2.2*	*Oct*	*-2.2*	*5.2*	*Sep*	*2.8*	*1.0*	*Nov*	*1.0*	*1.8*						

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

Markets and Ratings

	S/T rates[1]		L/T rates[2]		Foreign exchanges[3]			Stock markets		CDS spread (bp)		FX res. chg (mln €)[4]			CA bal. (mln		Rating
	13/12	chg	13/12	chg	13/12	3M*	1Y*	3M*	1Y*	13/12	13/09	3Q19	2Q19	2018	3Q19	2Q19	Moody's
CEE					Vs Euro												
Czech	2.2	0.0	1.5	0.1	25.5	-1.31	-1.14	4.1	6.2	33.1	37.9	n.a.	n.a.	n.a.	-1160	1304	Aa3
Hungary	0.2	0.0	1.9	-0.2	328.82	-1.17	1.64	13.6	14.3	70.6	70.3	n.a.	-455	4035	n.a.	-122	Baa3
Poland	1.9	0.3	2.0	-0.1	4.27	-1.5	-0.44	-2.4	-3.8	22.0	22.9	n.a.	n.a.	n.a.	n.a.	n.a.	A2
Slovakia	-0.4	0.0	0.1	0.2	Euro	Euro	Euro	0.1	3.3	35.9	39.7	n.s.	n.s.	n.s.	-2030	-874	A2
Slovenia	-0.4	0.0	0.2	0.2	Euro	Euro	Euro	8.1	16.0	57.4	71.7	n.s.	n.s.	n.s.	740	860	Baa1
SEE																	
Albania	1.0	0.0	n.a.	n.a.	122.44	0.84	-0.85	n.a.	n.a.	n.a.	n.a.	n.a.	-44	n.a.	n.a.	-274	B1
Bosnia	n.a.	n.a.	n.a.	n.a.	1.96	Board	Board	n.a.	n.a.	n.a.	n.a.	n.a.	281	545	n.a.	-239	B3
Croatia	0.4	-0.1	0.7	0.1	7.44	0.61	0.65	6.1	15.3	76.2	82.7	n.a.	1559	1732	n.a.	-512	Ba2
Romania	3.0	0.1	4.8	0.5	4.78	0.95	2.75	7.0	15.0	80.2	78.8	n.a.	951	1619	n.a.	-3976	Baa3
Serbia	2.3	-0.3	n.a.	n.a.	117.5	-0.42	-0.65	5.0	-3.2	98.0	104.9	1149	706	1822	-655	-745	Ba3
CIS					Vs USD												
Moldova	5.5	-2.0	n.a.	n.a.	17.31	-2.45	0.48	n.a.	n.a.	n.a.	n.a.	20	98	192	n.a.	10	B3
Russia	6.6	-0.7	6.4	-0.6	63.23	-3.01	-4.81	7.6	25.0	57.5	73.7	4889	19965	35753	12900	10552	Baa3
Ukraine	16.5	-2.3	13.3	-3.2	23.48	-5.28	-15.39	-0.4	-16.7	493.6	490.2	720	-77	4232	-2038	-514	Caa1
Egypt	15.4	-1.1	13.9	-0.5	16.12	-1.83	-9.99	-7.1	19.1	305.7	258.8	766	240	5531	n.a.	-587	B2
m.i.A.E.	*-0.4*	*0.0*	*-0.3*	*0.2*	*1.1*	*0.5*	*-1.9*	*4.5*	*16.4*	*5.1*	*5.7*						

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

Banking aggregates and interest rates (private sector)

	Loans Chg yoy %			NPL/Loans %			Foreign Liab. Chg yoy %			Deposits Chg yoy %			Loans rate[1]-NewB*. %				DepositsRate[1]- %				Loans/Dep %		
	Last	Mth	2018	Last	mth	2018	Last	mth	2018	Last	Mth	2018	Last	mth	2018	S[4]	Last	mth	2018	S[4]	Last	mth	2018
CEE																							
Czech Rep.	4.6	Oct	6.8	2.6	Oct	3.3	-5.7	Oct	10.2	6.1	Oct	6.9	3.28	Oct	3.31	C	1.58	Oct	1.35	H	76.6	Oct	75.7
Hungary	13.2	Oct	10.6	4.3	Mar	4.5	9.9	Oct	1.5	6.7	Oct	14.1	2.62	Oct	2.3	C	0.21	Oct	0.18	H	84.6	Oct	77.7
Poland	6.7	Sep	7.9	4.0	Mar	3.9	-7.7	May	-2.9	11.2	Sep	9.4	3.63	Sep	3.48	C	1.54	Sep	1.62	H	97.2	Sep	97.0
Slovakia	5.7	Oct	9.1	3.0	Oct	3.3	-15.7	Oct	-0.1	5.4	Oct	7.3	1.73	Oct	2.01	C[2]	0.05	Oct	0.07	H[2]	104.2	Oct	101.4
Slovenia	4.4	Oct	2.6	2.6	Oct	4.0	3.7	Oct	-16.5	6.7	Oct	6.7	2.11	Oct	2.22	C[2]	0.16	Oct	0.17	H[2]	75.8	Oct	75.3
SEE																							
Albania	6.1	Oct	-3.8	10.6	Sep	11.1	0.7	Oct	-4.4	3.4	Oct	-0.9	5.94	Oct	8.16	PS	0.73	Oct	0.62	PS	54.5	Oct	52.8
Bosnia H.	5.6	Oct	5.5	7.7	Sep	8.8	3.6	Oct	17.4	7.9	Oct	8.5	3.03	Oct	3.1	C	0.24	Oct	0.34	H	104.5	Oct	105.4
Croatia	2.4	Oct	2.3	6.0	Sep	7.6	10.9	Oct	6.7	5.0	Oct	5.0	5.63	Oct	6.17	PS	0.24	Oct	0.45	PS	75.5	Oct	76.6
Romania	7.1	Oct	7.9	4.5	Oct	5.0	-8.0	Oct	-8.4	10.7	Oct	9.2	7.1	Oct	6.97	PS	2.19	Oct	1.96	PS	78.3	Oct	78.4
Serbia	10.3	Oct	9.9	4.7	Sep	5.7	11.1	Oct	24.0	11.6	Oct	14.9	7.69	Oct	7.74	PS	1.98	Oct	2.78	PS	99.7	Oct	96.9
CIS MENA																							
Moldova	14.7	Oct	5.9	10.0	Oct	12.5	0.7	Jul	-16.7	7.7	Oct	6.0	8.77	Oct	8.64	C	4.45	Oct	4.25	H	59.6	Oct	55.9
Russia	8.6	Sep	15.0	10.0	Sep	10.1	-20.3	Sep	-0.4	9.8	Sep	14.2	8.26	Sep	9.2	C	5.03	Sep	5.62	H	107.2	Sep	105.6
Ukraine	-8.2	Oct	6.3	48.9	Sep	52.9	-25.0	Oct	-7.5	8.2	Oct	7.9	20.04	Oct	21.75	PS	12.79	Oct	14.16	PS	108.7	Oct	121.2
Egypt	14.1	Aug	15.3	4.1	Mar	3.9	-8.8	Aug	10.7	12.3	Aug	13.8	15.1	Sep	17.8	C	10.3	Sep	12.2	H	34.4	Aug	34.3
m.i. E.A.	*3.2*	*Aug*	*2.0*	*n.a.*	*n.a.*	*n.a.*	*5.0*	*Aug*	*7.9*	*5.5*	*Aug*	*3.6*	*1.2*	*Oct*	*1.3*	*C*	*0.2*	*Oct*	*0.3*	*H*	*79.5*	*Aug*	*80.6*

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

Country Outlook

The economy

	GDP (% yoy)	2016	2017	2018	2019F	2020F	Inflation (%, avg)	2016	2017	2018	2019F	2020F
CEE	Czech Rep.	2.5	4.4	3.0	2.6	2.3	Czech Rep.	0.7	2.5	2.1	2.7	2.2
	Hungary	2.3	4.1	4.9	4.8	3.3	Hungary	0.4	2.4	2.8	3.3	3.2
	Poland	3.1	4.8	5.1	4.2	3.1	Poland	-0.6	2.0	1.7	2.2	2.3
	Slovakia	2.1	3.0	4.0	2.3	2.0	Slovakia	-0.5	1.4	2.5	2.7	2.4
	Slovenia	3.1	4.8	4.1	2.6	2.4	Slovenia	-0.2	1.6	1.9	1.7	1.6
SEE	Albania	3.5	3.7	4.1	2.4	2.5	Albania	1.3	2.0	2.0	1.4	1.5
	Bosnia Herzegovina	3.4	3.0	3.6	2.3	2.5	Bosnia Herzegovina	-1.6	0.8	1.4	0.6	0.6
	Croatia	3.5	3.1	2.6	2.8	2.4	Croatia	-1.1	1.1	1.5	0.7	1.0
	Romania	4.8	7.0	4.1	3.9	3.0	Romania	-1.5	1.3	4.6	3.7	3.4
	Serbia	3.3	2.0	4.4	3.6	3.2	Serbia	1.1	3.2	2.0	1.8	1.5
CIS	Moldova	4.4	4.7	4.0	4.2	3.8	Moldova	6.5	6.6	3.1	5.0	6.0
	Russia	-0.2	1.5	2.3	1.3	1.7	Russia	7.1	3.7	2.9	4.5	3.6
	Ukraine	2.4	2.5	3.3	3.6	3.7	Ukraine	14.9	14.5	11.0	8.1	5.4
MENA	Egypt	3.9	5.0	5.4	5.7	5.8	Egypt	13.7	29.6	14.4	9.4	8.4

Markets

	Exch.rate (avg Euro)	2016	2017	2018	2019F	2020F	Interest rate (%, avg)	2016	2017	2018	2019F	2020F
CEE	Czech Rep.	27.0	26.3	25.6	25.7	25.2	Czech Rep.	0.3	0.4	1.3	2.1	2.2
	Hungary	311.3	309.1	318.8	325.4	332.9	Hungary	1.0	0.1	0.1	0.2	0.2
	Poland	4.4	4.3	4.3	4.3	4.3	Poland	1.6	1.5	1.7	1.7	1.8
	Slovakia	-	-	-	-	-	Slovakia	-0.3	-0.3	-0.3	-0.4	-0.4
	Slovenia	-	-	-	-	-	Slovenia	-0.3	-0.3	-0.3	-0.4	-0.4
SEE	Albania	137.4	134.2	127.6	123.1	123.3	Albania	1.1	1.3	1.2	0.9	1.0
	Bosnia Herzegovina	1.96	1.96	1.96	1.96	1.96	Bosnia Herzegovina	-	-	-	-	-
	Croatia	7.5	7.5	7.4	7.4	7.4	Croatia	0.9	0.6	0.5	0.5	0.4
	Romania	4.5	4.6	4.7	4.7	4.8	Romania	0.8	1.2	2.8	3.1	2.8
	Serbia	123.1	121.4	118.3	117.9	117.8	Serbia	4.1	3.9	3.1	2.7	2.0
CIS	Moldova (USD)	19.9	18.5	16.8	17.6	17.9	Moldova	12.8	8.0	6.5	6.9	5.4
	Russia (USD)	67.1	58.3	62.7	64.9	64.9	Russia	11.2	9.4	7.7	7.8	6.5
	Ukraine (USD)	25.5	26.6	27.3	26.1	25.3	Ukraine	20.9	16.8	18.4	18.9	15.7
MENA	Egypt (USD)	10.1	17.8	17.8	16.9	16.3	Egypt	14.1	19.3	18.8	17.1	14.1

Banking aggregates (% change yoy)

	Loans (pr. sector)	2016	2017	2018	2019F	2020F	Deposits (pr. sector)	2016	2017	2018	2019F	2020F
CEE	Czech Rep.	6.7	6.5	6.8	5.5	4.5	Czech Rep.	5.8	7.6	6.9	5.5	4.6
	Hungary	-1.9	6.0	10.6	13.0	7.5	Hungary	6.3	10.8	14.1	4.9	5.0
	Poland	5.3	3.2	7.9	6.2	5.5	Poland	9.2	3.7	9.4	7.2	6.3
	Slovakia	9.0	10.0	9.1	7.5	4.3	Slovakia	4.4	5.4	7.3	5.9	5.6
	Slovenia	-2.3	3.2	2.6	4.5	3.2	Slovenia	7.2	7.0	6.7	5.5	5.0
SEE	Albania	0.2	0.5	-3.8	5.9	3.5	Albania	2.8	-1.5	-0.9	2.5	2.5
	Bosnia Herzegovina	3.5	7.3	5.5	5.8	4.5	Bosnia Herzegovina	7.4	9.0	8.5	7.0	5.2
	Croatia	-4.3	-0.1	2.3	2.2	2.0	Croatia	2.8	2.4	5.0	4.0	3.0
	Romania	1.2	2.7	7.9	7.5	4.7	Romania	8.2	3.8	9.2	8.5	6.5
	Serbia	2.4	2.1	9.9	7.5	5.8	Serbia	11.5	3.1	14.9	8.0	6.5
CIS	Moldova	-9.0	-3.7	5.9	12.9	7.0	Moldova	9.2	9.2	6.0	6.3	6.6
	Russia	-4.2	5.2	15.0	8.6	7.2	Russia	-3.9	8.1	14.2	7.0	6.1
	Ukraine	2.0	0.9	6.3	-4.5	2.0	Ukraine	9.1	12.1	7.9	1.1	4.7
MENA	Egypt	42.8	7.1	15.3	13.1	11.1	Egypt	41.4	23.8	13.8	12.6	10.7

Banking interest rates (%)

	Lending (Corp. avg)	2016	2017	2018	2019F	2020F	Deposits (HH avg)	2016	2017	2018	2019F	2020F
CEE	Czech Rep.	1.9	2.0	2.7	3.1	3.2	Czech Rep.	1.1	0.7	0.9	1.5	1.5
	Hungary	3.8	2.5	2.3	2.4	2.3	Hungary	0.6	0.3	0.2	0.2	0.2
	Poland	3.5	3.7	3.5	3.6	3.6	Poland	1.8	1.6	1.7	1.6	1.7
	Slovakia	2.2	2.0	2.2	2.0	1.9	Slovakia	0.2	0.1	0.1	0.1	0.0
	Slovenia	3.1	2.5	2.2	2.1	2.0	Slovenia	0.2	0.1	0.2	0.1	0.1
SEE	Albania	9.8	8.2	8.1	7.5	7.6	Albania	0.8	0.8	0.7	0.7	0.7
	Bosnia Herzegovina	-	-	-	-	-	Bosnia Herzegovina	-	-	-	-	-
	Croatia	7.3	7.0	6.4	5.8	5.3	Croatia	1.2	0.8	0.6	0.3	0.2
	Romania	5.5	5.7	7.0	7.3	7.0	Romania	0.7	0.7	1.7	2.1	1.9
	Serbia	9.1	8.9	8.6	8.1	7.5	Serbia	2.7	2.8	2.7	2.5	1.8
CIS	Moldova	12.7	10.2	9.1	8.9	7.7	Moldova	12.6	6.2	4.5	4.3	3.4
	Russia	12.6	10.6	8.9	8.9	7.9	Russia	7.0	5.9	5.4	5.5	4.2
	Ukraine	19.0	16.4	19.0	19.8	16.9	Ukraine	11.5	9.1	12.0	13.2	10.5
MENA	Egypt	13.6	18.2	18.3	16.2	12.6	Egypt	7.9	12.1	12.3	11.0	7.8

Source: Intesa Sanpaolo Research Department forecasts

Intesa Sanpaolo Research Department – Head of Research Gregorio De Felice	
International Research Network Coordination	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)	
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
Intesa Sanpaolo Bank (Romania)	
Marius Pacurari (Head)	marius.pacurari@intesasanpaolo.ro
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
Pravex Bank (Ukraina)	
Artem Krasovskyi	artem.krasovskyi@pravex.ua
Eduard Nazarenko	eduard.nazarenko@pravex.ua
Eximbank (Moldova)	
Natalia Mihalas	natalia.mihalas@eximbank.com
Olga Pisla	olga.pisla@eximbank.com

Important information

The economists who prepared this document hereby state that the opinions, forecasts and estimates contained herein are the result of independent and subjective appraisal of the data, facts and information acquired and that no portion of their compensation has been or will be, either directly or indirectly, related to the investment strategy recommended or proposed in this document.

This publication was prepared by Intesa Sanpaolo SpA. The information and opinions contained herein were obtained from sources believed by Intesa Sanpaolo SpA to be reliable, but no guarantee is made as to their accuracy or completeness. This publication was prepared solely for information and illustrative purposes, and is not intended as a proposal for conclusion of a contract or solicitation of the purchase or sale of any financial products. The document may be reproduced wholly or in part only if Intesa Sanpaolo SpA is cited as the author.

This publication is not intended to replace the personal opinions of the parties to which it is addressed. Intesa Sanpaolo SpA and its subsidiaries, and/or any other party related to these, reserve the right to act on the basis of or to make use of any of the material described above and/or any information from which this material originates, before the same is published and made available to customers.