Atradius

Managing risk, enabling trade

Atradius Country Reports

Central, Eastern and South-Eastern Europe – October 2019

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Contents

Central, Eastern and South-Eastern European economies: Atradius STAR Political Risk Rating*:

Bulgaria:	4 (Moderate-Low Risk) - Negative
Czech Republic:	2 (Low Risk) - Negative
Greece:	6 (Moderate-High Risk) - Positive
Hungary:	4 (Moderate-Low Risk) - Negative
Poland:	3 (Moderate-Low Risk) – Negative
Romania	4 (Moderate-Low Risk) - Negative
Russia:	4 (Moderate-Low Risk) - Negative
Slovakia:	3 (Moderate-Low Risk) - Positive
Turkey:	5 (Moderate Risk) - Negative

* The STAR rating runs on a scale from 1 to 10, where 1 represents the lowest risk and 10 the highest risk.

The 10 rating steps are aggregated into five broad categories to facilitate their interpretation in terms of credit quality. Starting from the most benign part of the quality spectrum, these categories range from 'Low Risk', 'Moderate-Low Risk', 'Moderate Risk', 'Moderate-High Risk' to 'High Risk', with a separate grade reserved for 'Very High Risk.'

In addition to the 10-point scale, rating modifiers are associated with each scale step: 'Positive', 'Stable', and 'Negative'. These rating modifiers allow further granularity and differentiate more finely between countries in terms of risk.

For further information about the Atradius STAR rating, please click here.

Bulgaria

Main import sources (2018, % of total)	
Germany:	12.2 %
Russia:	10.2 %
Italy:	7.2 %
Romania:	7.0 %
Turkey:	6.3 %

Main export markets (2018, % of total)	
Germany:	12.9 %
Turkey:	8.9 %
Italy:	7.9 %
Romania:	7.8 %
Greece:	6.2 %

Key indicators	2016	2017	2018	2019*	2020*
Real GDP (y-on-y, % change)	3.9	3.8	3.3	3.5	3.0
Inflation (y-on-y, % change)	-0.8	2.1	2.8	3.0	2.1
Real private consumption (y-on-y, % change)	3.7	4.5	7.2	3.4	2.6
Real government consumption (y-on-y, % change)	2.1	4.0	2.9	3.4	1.8
Industrial production (y-on-y, % change)	2.7	3.8	1.1	1.9	2.1
Unemployment rate (%)	7.6	6.2	5.2	4.9	5.5
Real fixed investment (y-on-y, % change)	-5.6	2.6	7.5	3.7	2.6
Real exports of goods and services (y-on-y, % change)	8.0	5.8	-0.8	3.6	1.6
Current account (% of GDP)	2.6	3.1	4.6	3.6	3.5
Fiscal balance (% of GDP)	1.7	0.9	0.2	-1.7	-0.5

* forecast Sources: Oxford Economics

Bulgarian industries performance outlook

Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.

Good:
The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.

Fair:
The credit risk credit situation in the sector is average / business performance in the sector is stable.

Poor:
The credit risk situation in the sector is relatively high / business performance in the sector is below long-term trend.

Bleak:
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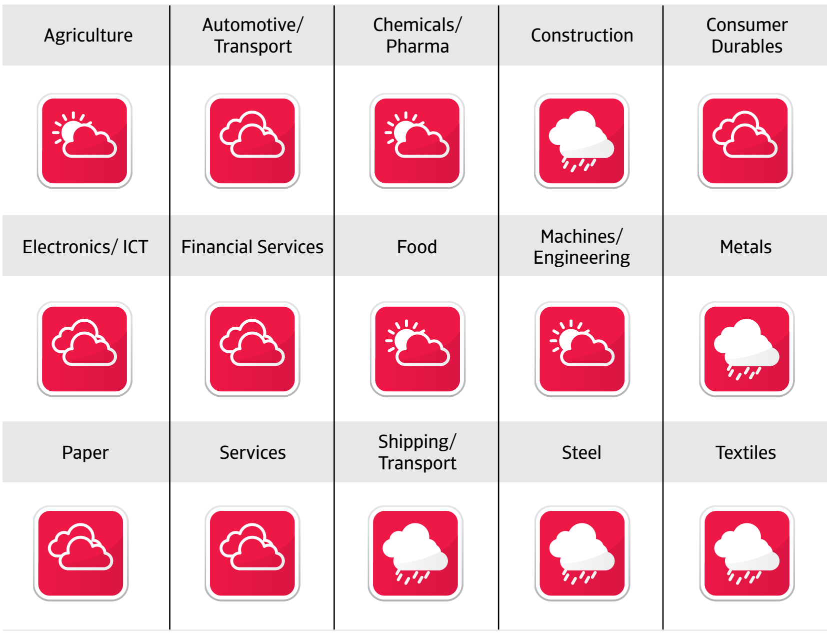
October 2019



Political situation

Head of state:
President Rumen Radev
(since January 2017)

Head of government:
Prime Minister Boyko Borisov
(since May 2017)

Population:
7.0 million

Some political instability remains

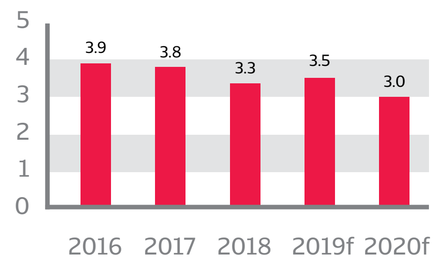
After the snap elections held in March 2017 Boyko Borisov from the centre-right GERB party became Prime Minister for the third time. He heads a coalition government of GERB and the nationalist “United Patriots” party, with just a slim majority in parliament (122 of 240 seats).

The snap elections became necessary as the previous government under Borisov had resigned after Rumen Radev, a socialist–backed pro-Russian won the November 2016 presidential elections.

Political discontent remains high, especially over the slow progress in combating graft and corruption and social welfare issues. While the incumbent government pursues a pro-EU policy, the socialist party and President Radev favour closer political and economic relations with Russia.

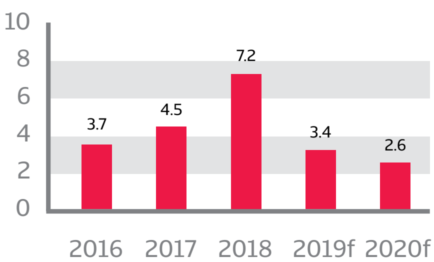
Economic situation

Real GDP growth (y-on-y, % change)



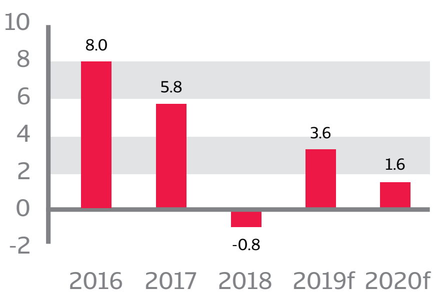
Sources: Oxford Economics

Real private consumption (y-on-y, % change)



Sources: Oxford Economics

Real exports of goods and services (y-on-y, % change)



Sources: Oxford Economics

Solid growth expected in 2019 and 2020

Economic growth is expected to accelerate in 2019, driven primarily by stronger exports and growing domestic demand. The economic expansion is forecast to lose some momentum in 2020, as exports, private consumption and investment growth are expected to slow down, while financing conditions are getting tighter. Job creation is expected to lose some momentum and unemployment to increase modestly in 2020.

After a slight surplus in 2018, fiscal consolidation should lead to marginal budget deficits in 2019-20 and surpluses thereafter. Public debt remains sustainable, at 20% of GDP in 2019 in 2020.

After a banking crisis in 2014 the sector has made big improvements. The IMF’s 2016 banking sector assessment and a stress test made by the Central Bank show that the sector is well-capitalised and more resilient to shocks. However, more than 10% of total loans are still non-performing, which continues to be a threat to bank profitability.

Bulgaria’s monetary policy framework is strong with a solid commitment to its currency board arrangement (the lev is pegged to the euro), which supports foreign investor confidence. However, this arrangement limits Bulgaria’s ability to combat external imbalances. The peg is maintainable due to large international reserves (more than eight months of import cover) and current account surpluses.

Political instability remains an issue for Bulgaria´s long-term economic growth prospects, while corruption and red tape still hamper the business environment. The high level of emigration (about one million Bulgarians live abroad) and a shrinking and ageing population (the United Nations expect Bulgaria’s population to decrease from 7 million to 5.2 million by 2050) add to the woes of the labour market and reduce the potential for long-term growth. Lack of skilled staff has already started to impact growth prospects of businesses.

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Czech Republic

Main import sources (2018, % of total)	
Germany:	24.7 %
China:	15.1 %
Poland:	7.4 %
Slovakia:	4.8 %
Italy:	3.7 %

Main export markets (2018, % of total)	
Germany:	33.3 %
Slovakia:	7.0 %
Poland:	6.2 %
United Kingdom:	5.4 %
France:	5.0 %

Key indicators	2016	2017	2018	2019*	2020*
Real GDP (y-on-y, % change)	2.4	4.5	2.9	2.6	1.9
Inflation (y-on-y, % change)	0.7	2.5	2.2	2.7	2.1
Real private consumption (y-on-y, % change)	3.6	4.4	3.3	2.9	2.3
Real government consumption (y-on-y, % change)	2.7	1.3	3.9	2.8	1.5
Industrial production (y-on-y, % change)	3.1	6.7	3.1	0.4	1.8
Unemployment rate (%)	5.5	4.2	3.2	2.9	3.0
Real fixed investment (y-on-y, % change)	-3.2	4.0	7.1	1.2	2.2
Real exports of goods and services (y-on-y, % change)	4.1	7.1	4.4	1.7	2.4
Current account (% of GDP)	1.7	1.7	0.3	0.4	0.2
Fiscal balance (% of GDP)	1.3	-0.1	0.1	-0.3	0.1

* forecast Sources: Oxford Economics

Czech Republic industries performance outlook


Excellent:
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October 2019

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Construction Materials
				
Consumer Durables	**Electronics/ICT**	**Financial Services**	**Food**	**Machines/ Engineering**
				
Metals	**Paper**	**Services**	**Steel**	**Textiles**
				

Political situation

Head of state:
President Milos Zeman
(since March 2013)

Head of government:
Prime Minister Andrej Babis
(since December 2017)

Population:
10.6 million

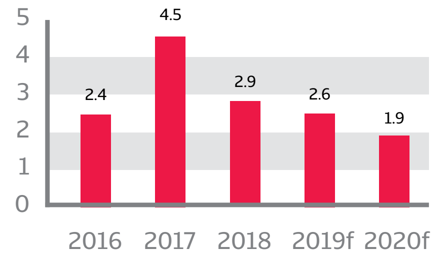
Minority government supported by the communist party

The current coalition government between the populist party "ANO 2011" ("Yes 2011") and the leftist Czech Social Democratic Party (CSSD) is still lacking a majority with only 93 seats in the 200-member parliament. Therefore, it repeatedly had to rely on the support of the pro-Russian Czech Communist Party, which since then has an informal role in the government – for the first time since 1989.

Pressure on Prime Minister Andrej Babis from the ANO 2011 has recently decreased as public prosecutors decided to drop criminal charges against him, related to an alleged misuse of EUR 2 million in European Union funds. While there have been regular demonstrations demanding his resignation, he and his party still enjoy wide popular support.

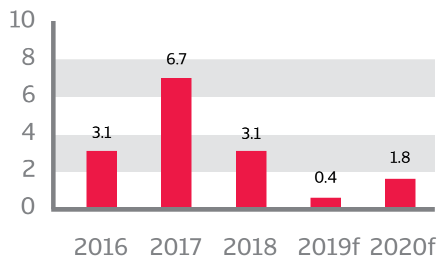
Economic situation

Real GDP growth (y-on-y, % change)



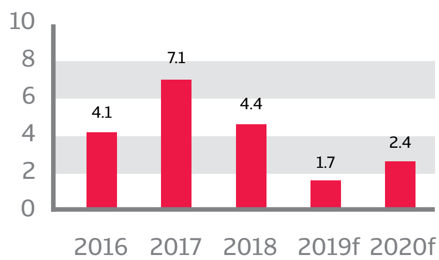
Sources: Oxford Economics

Industrial production (y-on-y, % change)



Sources: Oxford Economics

Real exports of goods and services (y-on-y, % change)



Sources: Oxford Economics

External headwinds impact economic growth

After robust growth rates in the last couple of years, when exports were supported by the country´s improved international competitiveness, GDP growth is expected to increase at a slower pace in 2019 and 2020. Both domestic and eurozone demand have decreased (e.g. lower demand from the German automotive industry). Industrial production and export growth are forecast to slip below 3% in 2019 and 2020.

Labour shortages are increasingly an issue, with many firms finding it difficult to fill vacancies, and rising labour costs have impacted the margins of businesses. Rising inflation, due to surging wages and increasing house prices, led to several benchmark interest rate increases by the Central Bank to 2.0% in August 2019. The tighter monetary policy has a dampening effect on investments and private consumption growth.

Government finances are solid due to income growth and increased tax compliance. At 30% of GDP government debt is low compared to other countries in the region, and is expected to decrease further. The good state of public finances means that the Czech Republic should have no troubles adhering to the adoption criteria of the euro. However, entering the eurozone still remains a controversial issue in Czech politics, with public opinion against it. Therefore, a eurozone entry in the coming years seems unlikely.

High export-dependency a potential risk factor

At more than 75%, the Czech Republic's export-to-GDP ratio is one of the highest in the EU. And due to foreign investment, the Czech economy is highly integrated into international value chains. This makes the country vulnerable to major foreign trade losses. The main risks are a rapid exchange rate appreciation hurting international competitiveness and sharp declines in external demand, e.g. triggered by increased political uncertainty (Brexit), further escalation of international trade disputes and a major slowdown in the Eurozone.

Czech exports are also vulnerable to adverse developments in the automotive sector. The current challenges in the industry (decreasing sales and profits, shift to more e-mobility away from combustion engines and potential US tariffs on car and car part imports from the EU) pose a major downside risk.

Print this article

Greece

Main import sources (2018, % of total)	
Germany:	10.1 %
Iraq:	8.2 %
Russia:	7.5 %
Italy:	7.5 %
China:	6.5 %

Main export markets (2018, % of total)	
Italy:	10.2 %
Germany:	6.3 %
Turkey:	6.1 %
Rep. of Cyprus:	5.2 %
Bulgaria:	4.5 %

Key indicators	2016	2017	2018	2019*	2020*
Real GDP (y-on-y, % change)	-0.3	1.4	1.9	1.7	2.0
Inflation (y-on-y, % change)	-0.8	1.1	0.6	0.5	0.7
Real private consumption (y-on-y, % change)	0.1	0.9	1.0	0.6	2.1
Real government consumption (y-on-y, % change)	-0.7	-0.5	-2.5	2.0	1.0
Industrial production (y-on-y, % change)	2.5	3.9	1.7	1.0	1.9
Unemployment rate (%)	23.5	21.5	19.3	17.4	16.3
Real fixed investment (y-on-y, % change)	4.6	9.4	-12.0	6.8	6.5
Real exports of goods and services (y-on-y, % change)	-1.9	6.9	8.7	4.9	4.5
Current account (% of GDP)	-1.7	-1.7	-2.9	-1.9	-1.9
Fiscal balance (% of GDP)	0.5	0.8	1.1	0.4	0.6

* forecast Sources: Oxford Economics

Greece industries performance outlook

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October 2019

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Construction Materials
Consumer Durables	Electronics/ICT	Financial Services	Food	Machines/ Engineering
Metals	Paper	Services	Steel	Textiles

Political situation

Head of state:
President Prokopios Pavlopoulos
(since March 2015)

Head of government:
Prime Minister Kyriakos Mitsotakis
(since July 2019)

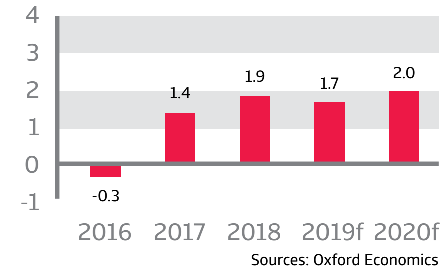
Population:
10.8 million

New government rules with an absolute majority

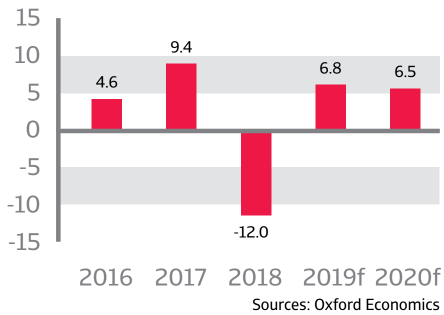
The July 2019 snap election was won by the centre-right New Democracy (ND) party with 39.9% of the votes, while the ruling leftist Syriza party gained 31.5%. Due to a 50 seats bonus attributable to the party winning most of the votes, ND is able to govern with an absolute majority (158 seats in the 300-member parliament). The new government intends to increase economic growth by more business friendly policies. Cutting taxes, scaling back bureaucracy, selling public assets and the development of a land strip close to the Athens airport are major goals.

Economic situation

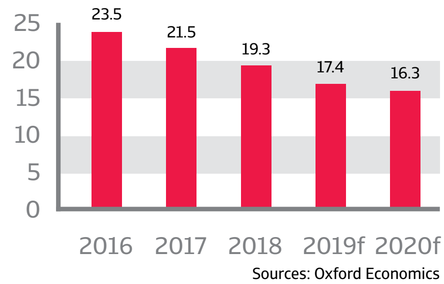
Real GDP growth (y-on-y, % change)



Real fixed investment (y-on-y, % change)



Unemployment rate (%)



The rebound continues, albeit modestly

Economic growth in 2019 and 2020 will be mainly driven by domestic consumption, with increased business confidence and consumer confidence slowly rebounding. Investment is supported by reduced political uncertainty after the elections and banks resumption of lending (although offloading the very high amount of non-performing loans is still proceeding at a slow pace). In 2020 household consumption is expected to accelerate, sustained by further decreasing unemployment, low inflation, and a minimum wage increase that benefits about 600,000 employees. That said, exports are increasingly affected by decreasing Eurozone demand, and income growth from tourism will be lower as Turkey has regained some of its lost competitiveness in this field.

Since 2010, Greece´s real effective exchange rate has improved by more than 12%, leading to increased international competiveness. Against the background of rising nominal wages elsewhere in the eurozone the recent minimum wage increase is no real threat to competitiveness, at least not in the short-term. However, the potential of a return to collective agreements is a risk.

Yields on Greek bonds have further eased since 2018, and in March 2019 Athens managed to raise EUR 2.5 billion with a 10-year bond issue, the first since the start of the crisis in 2010. Greece concluded the ESM program in August 2018, without the option for a precautionary line of credit. However, the country has agreed with its creditors to continue implementing the agreed reforms under the program. Athens has committed itself to annual primary budget surpluses (before debt-servicing costs) of 3.5% of GDP until 2022. The 2018 fiscal balance recorded a surplus of 1.1% of GDP, for the third time in a row, and a primary surplus of even 4.3% of GDP. This overachievement was due to continued under-execution of spending ceilings, notably on public investment.

However, the risk of missing the primary surplus target has increased, due to a recent court ruling against the 2012 pension cuts and the pending Council of State ruling on pension reform. Other issues are potential contingent liabilities related to the banking sector and plans by the new government to cut taxes in order to accelerate economic growth.

The public debt level peaked in 2016 at 181% of GDP and has decreased since then, expected to reach 172% of GDP in 2020, which is still unsustainably high. Even assuming further debt relief from the Eurogroup in the early 2030s, the level will remain above 100% until 2048.

The privatisation process has been slow so far, with the initial target of EUR 50 billion in proceeds adjusted downwards several times. So far, an estimated amount of Euro 5.5 billion has been achieved.

Hungary

Main import sources (2018, % of total)	
Germany:	25.9 %
Austria:	6.1 %
Poland:	5.8 %
China:	5.4 %
The Nederlands:	5.1 %

Main export markets (2018, % of total)	
Germany:	27.2 %
Italy:	5.2 %
Slovakia:	5.2 %
Romania:	5.1 %
Austria:	4.7 %

Key indicators	2016	2017	2018	2019*	2020*
Real GDP (y-on-y, % change)	2.2	4.4	5.0	4.7	2.9
Inflation (y-on-y, % change)	0.4	2.3	2.9	3.5	3.3
Real private consumption (y-on-y, % change)	4.0	4.8	5.4	4.6	2.9
Real government consumption (y-on-y, % change)	0.7	1.3	-0.5	0.6	0.8
Industrial production (y-on-y, % change)	0.8	5.3	3.8	5.6	3.8
Unemployment rate (%)	5.1	4.2	3.7	3.4	3.5
Real fixed investment (y-on-y, % change)	-11.7	18.2	16.5	15.7	4.0
Real exports of goods and services (y-on-y, % change)	5.1	4.7	4.7	4.3	1.9
Current account (% of GDP)	6.2	2.8	0.4	0.3	0.4
Fiscal balance (% of GDP)	-1.6	-2.1	-2.2	-1.8	-1.7

* forecast   Sources: Oxford Economics

Hungary industries performance outlook

Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.

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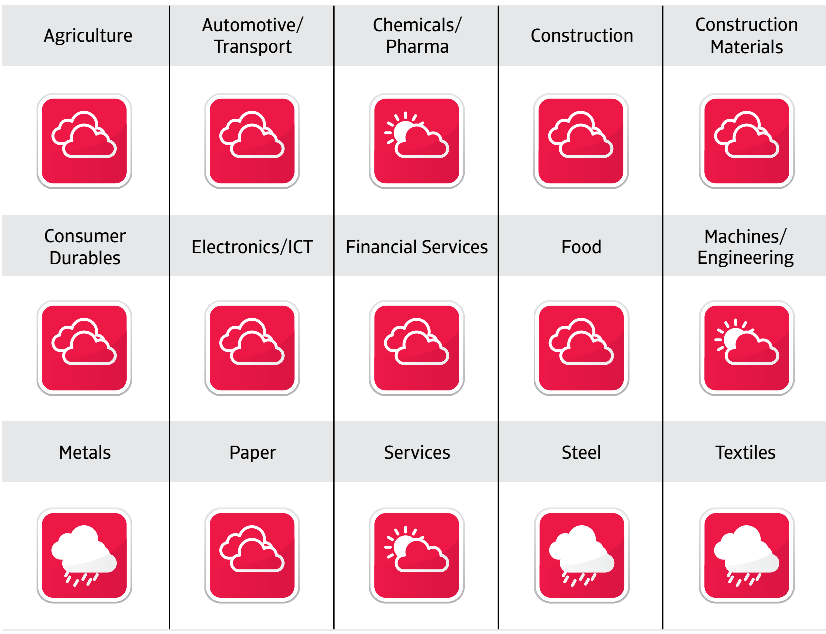
October 2019



Political situation

Head of state:
President Janos Ader
(since May 2012)

Head of government:
Prime Minister Viktor Orbán
(since May 2010)

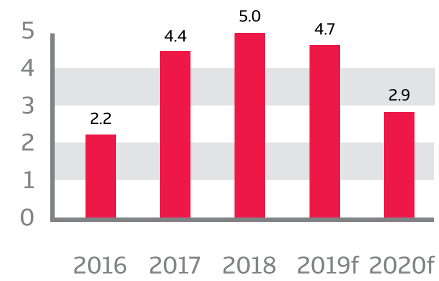
Population:
9.8 million

Troublesome relationship with the EU remains

The ruling conservative coalition of the Fidesz and KDNP parties under Prime Minister Viktor Orbán has repeatedly taken actions that led to confrontations with the EU commission and its EU peers (e.g. a controversial media law, some constitutional amendments curbing judicial independence, a tough stance in the migrant policy and a pro-Russia stance. Together with some unorthodox economic policy decisions like additional taxes on banks, the government's repeated confrontations with the EU have led to some uncertainty among its European peers and international investors in the past. In the April 2018 general elections the coalition government won again, and with its two-thirds majority in parliament it can alter the country's constitution all by itself.

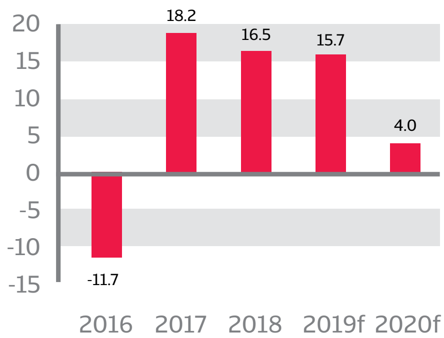
Economic situation

Real GDP growth (y-on-y, % change)



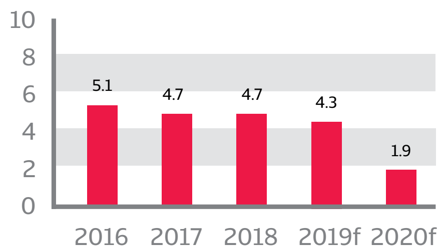
Sources: Oxford Economics

Real fixed investment (y-on-y, % change)



Sources: Oxford Economics

Real exports of goods and services (y-on-y, % change)



Sources: Oxford Economics

Decelerating growth in 2020

In 2019 economic growth is expected to remain robust, driven by high levels of investment, while private consumption and export remain solid. However, in 2020 GDP growth is expected to decelerate below 3% due to lower household consumption, a marked slowdown in investment activity, and lower export growth, as demand from Hungary's main export markets is decreasing. Consumer prices started to rise again in 2017 and 2018, and are forecast to remain above 3% in 2019 and 2020, mainly because of robust wage growth over the last two years.

Containing the budget deficit to 3% of GDP is a top priority of the administration in order to avoid EU sanctions. However, since 2010 the government has been using unorthodox ways to balance the budget, most notably extraordinary taxes on banks and utilities. The budget deficit is forecast to decline modestly in 2019 and 2020. Despite annual decreases, public debt remains high at about 68% of GDP in 2019. (Central-Eastern Europe median is about 50% of GDP).

High external debt level remains a major weakness

Hungary's major weakness remains its elevated level of external debt (about 80% of GDP in 2019). A large share of this debt is foreign currency-denominated, which exacerbates the problem, as a sharp forint depreciation would hurt many Hungarian households and businesses whose loans are denominated in foreign currencies. Additionally, more than 30% of public debt is denominated in foreign currency. The forint remains vulnerable to international investors' sentiment due to the elevated external and public debt levels and a suboptimal institutional and policy environment.

Poland

Main import sources (2018, % of total)	
Germany:	27.9 %
China:	8.0 %
Russia:	6.4 %
The Nederlands:	6.0 %
Italy:	5.3 %

Main export markets (2018, % of total)	
Germany:	27.4 %
United Kingdom:	6.4 %
Czech Republic:	6.4 %
France:	5.6 %
Italy:	4.9 %

Key indicators	2016	2017	2018	2019*	2020*
Real GDP (y-on-y, % change)	3.1	4.9	5.2	4.0	3.1
Inflation (y-on-y, % change)	-0.6	2.0	1.8	2.2	2.7
Real private consumption (y-on-y, % change)	3.9	4.5	4.5	3.7	3.3
Real government consumption (y-on-y, % change)	2.2	2.6	4.8	4.0	3.2
Industrial production (y-on-y, % change)	2.8	6.7	5.8	5.2	2.2
Unemployment rate (%)	8.9	7.3	6.1	5.5	5.1
Real fixed investment (y-on-y, % change)	-8.4	3.7	9.3	8.6	4.2
Real exports of goods and services (y-on-y, % change)	8.9	9.5	6.3	4.4	2.6
Current account (% of GDP)	-0.5	0.2	-0.6	0.1	-1.1
Fiscal balance (% of GDP)	-2.2	-1.6	-0.5	-0.5	-1.3

* forecast Sources: Oxford Economics

Poland industries performance outlook

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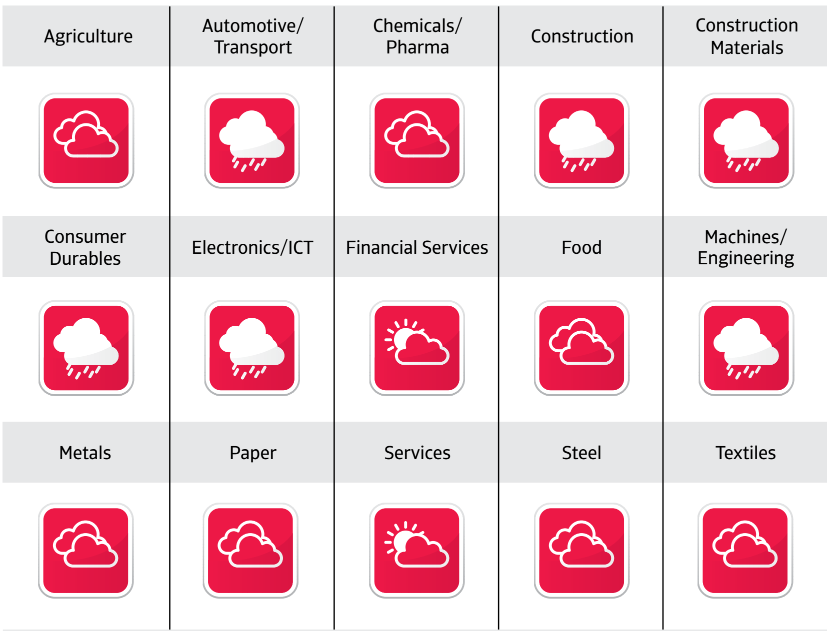
October 2019



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Political situation

Head of state:
President Andrzej Duda
(since August 2015)

Head of government:
Prime Minister Mateusz Morawiecki
(since December 2017)

Population:
38.0 million

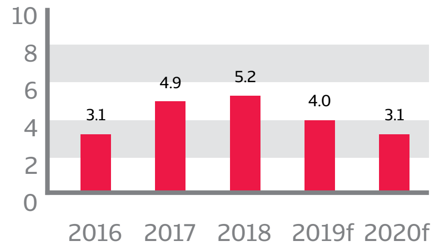
The new administration launched some controversial initiatives

Immediately after its inauguration in 2015 the national–conservative Law and Justice (PiS) administration launched some controversial policy initiatives, such as seizing direct control of the state broadcasting channels and the security services, and purging the heads of state-owned companies. The attempts to curb the independence of the judiciary by imposing political control over courts and the appointment of judges is a major issue.

This has triggered mass demonstrations in Poland itself, while the European Commission has repeatedly warned the Polish government that such moves pose a systemic risk to the rule of law and violate EU statutes. Parliamentary elections are due October 13th, 2019.

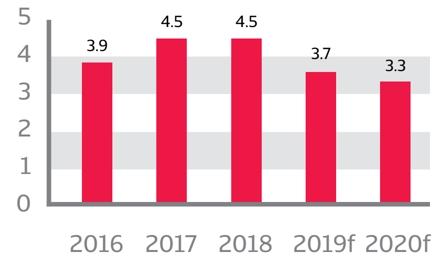
Economic situation

Real GDP growth (y-on-y, % change)



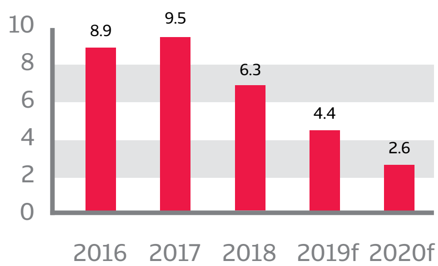
Sources: Oxford Economics

Real private consumption (y-on-y, % change)



Sources: Oxford Economics

Real exports of goods and services (y-on-y, % change)



Sources: Oxford Economics

Economic growth remains above eurozone average

Polish GDP growth is expected to remain buoyant in 2019, mainly due to robust consumer demand and investments. In 2020 the economic expansion is forecast to slow down somewhat, but still to remain solid (at about 3%). While investment and export growth are forecast to decrease, private consumption growth should remain robust - underpinned by increasing employment, rising wages and social transfers (e.g. a child benefit programme).

Following deflation in 2015 and 2016, consumer prices started to grow again in 2017, fueled by wage increases. Inflation is forecast to increase above 2% in 2019 and 2020. Monetary policy has been accommodative so far, and the Central Bank has kept the benchmark interest rate a record low of 1.5% since H2 of 2015.

Public debt is moderate around 50% of GDP. The government's fiscal deficit has decreased since 2017 due to higher tax revenues and better tax collection. However, public spending has increased again because of a lowering of the retirement age, continued social spending and public investment ahead of the October 2019 elections.

Exposed to negative Brexit impacts

Due to the further tightening labour market, shortage of workers is increasingly becoming an issue, especially in the manufacturing sector. Shortage of labour could weigh heavily on potential economic growth, which is exacerbated by the early retirement of a higher share of the workforce due to the lowering of the retirement age.

At the same time concerns over adverse economic and domestic policies by the Polish government remain. Additionally there are worries over the impact of external factors like US import tariffs and the Brexit decision on Polish export and investment growth.

In Central Europe, Poland's economy looks most vulnerable to the financial and economic fallout of the United Kingdom's vote to leave the EU. Annual remittances from Poles living abroad amount to about EUR 4 billion, a large share of it from the UK. In the longer term, the United Kingdom's departure from the EU could impact EU structural funds, which play a major role in Poland´s economic progress. The UK is also Poland´s second largest export destination after Germany.

Print this article

Romania

Main import sources (2018, % of total)	
Germany:	20.5 %
Italy:	9.4 %
Hungary:	6.9 %
Poland:	5.6 %
China:	5.3 %

Main export markets (2018, % of total)	
Germany:	23.0 %
Italy:	11.4 %
France:	7.1 %
Hungary:	4.9 %
United Kingdom:	4.2 %

Key indicators	2016	2017	2018	2019*	2020*
Real GDP (y-on-y, % change)	4.8	6.8	4.1	4.0	2.5
Consumer price (y-on-y, % change)	-1.6	1.3	4.6	4.0	3.4
Real private consumption (y-on-y, % change)	8.2	9.8	5.3	5.2	2.8
Real government consumption (y-on-y, % change)	3.9	2.8	2.0	0.2	2.7
Industrial production (y-on-y, % change)	3.1	8.6	5.0	-0.8	3.7
Unemployment rate (%)	4.8	4.2	3.5	3.1	3.2
Real fixed investment (y-on-y, % change)	0.3	2.2	-2.6	3.1	2.1
Real exports of goods and services (y-on-y, % change)	16.1	10.3	5.1	5.7	2.2
Current account (% of GDP)	-2.1	-3.2	-4.5	-4.7	-5.0
Fiscal balance (% of GDP)	-2.3	-2.8	-2.9	-3.7	-3.5

* forecast Sources: Oxford Economics

Romania industries performance outlook

Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.

Good:
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October 2019

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Consumer Durables
Electronics/ ICT	Energy (oil, gas)	Financial Services	Food	Machines/ Engineering
Metals	Paper	Services	Steel	Textiles

Political situation

Head of state:
President Klaus Werner Iohannis
(since December 2014)

Head of government:
Prime Minister Viorica Dancila
(since January 2018)

Population:
19.6 million

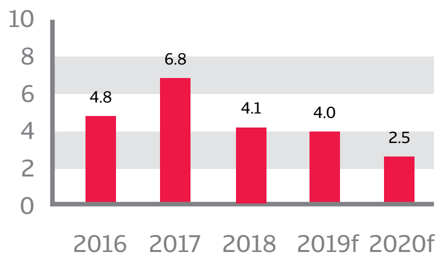
Political uncertainty remains a major issue

Corruption and graft remain major issues in Romanian politics and economics, and popular dissatisfaction and distrust with the political system run deep. The current government has repeatedly attempted to pass decrees that would decriminalise certain categories of abuse of power and corruption cases and to bring the judiciary under political control.

End of August 2019 the coalition government between the social democratic PSD and the liberal ALDE party collapsed after ALDE announced it would leave, citing a loss of trust in Prime Minister Dancila after she announced she would run in the November 2019 presidential elections. This leaves the PSD with 205 members of parliament, far short of the 233 needed for a majority. While Prime Minister Dancila announced that she will try to form a new majority in parliament, the main oppositional parties want an early vote of confidence in order to achieve a snap election.

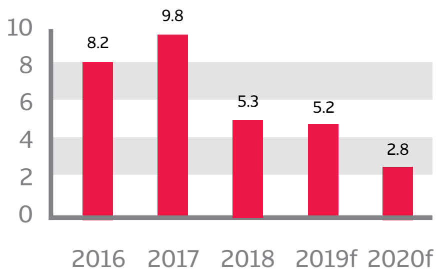
Economic situation

**Real GDP growth
(y-on-y, % change)**



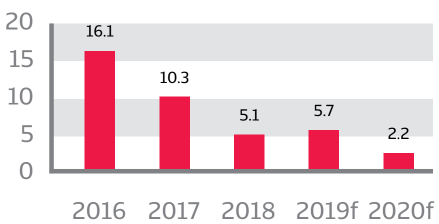
Sources: Oxford Economics

**Real private consumption
(y-on-y, % change)**



Sources: Oxford Economics

**Real exports of goods and
services (y-on-y, % change)**



Sources: Oxford Economics

Vulnerable to international investor sentiment

Romania has shown robust GDP growth rates over the last couple of years. However, GDP is expected to grow at a much lower pace in 2020, mainly as export growth and domestic demand are cooling down. The positive effect of fiscal stimulus (tax cuts, minimum wage increases, public sector wage rises) on household consumption has abated.

The slowdown is also due to interest rate increases since early 2018 aimed at combating rising inflation. As consumer prices have started to decrease again in August 2019 the Central Bank left the benchmark interest rate at 2.5% for the time being.

The Romanian banking sector has continued its trend of substantial improvement in 2016, with rising capital adequacy ratios and decreasing non-performing loans. However, the sector is still subject to elevated credit risk due to foreign exchange mismatches and low credit growth.

The budget deficit increased since 2016 due to expansive fiscal stimulus, and in 2019 and 2020 the deficit is expected to widen further, to about 3.5% of GDP. This leaves the government budget more dependent on a positive economic outlook, and there is still an urgent need for improving tax administration. However, the public debt remains moderate (below 40% of GDP) despite increases.

The Romanian population is shrinking and ageing, while legislative instability, red tape and corruption still hamper more (foreign) investment. Another issue is increased macroeconomic imbalances. Besides a higher public deficit, the current account deficit is expected to remain above 4% of GDP in 2019 and 2020 due to the coupling of elevated import demand with lower export growth. The currency is subject to some volatility, and the country remains vulnerable to capital outflows should there be adverse internal (e.g. a major political unrest) and/or external developments.

Low government debt and a flexible exchange rate serve as buffers. While international reserves are still sufficient for the time being, they have decreased below five months of import cover.

Russia

Main import sources (2018, % of total)	
China:	21.9 %
Germany:	10.7 %
USA:	5.3 %
Belarus:	5.1 %
Italy:	4.4 %

Main export markets (2018, % of total)	
China:	12.5 %
The Netherlands:	9.7 %
Germany:	7.6 %
Belarus:	4.8 %
South Korea:	4.0 %

Key indicators	2016	2017	2018	2019*	2020*
Real GDP (y-on-y, % change)	0.3	1.6	2.3	0.9	1.6
Inflation (y-on-y, % change)	7.0	3.7	2.9	4.5	3.7
Real private consumption (y-on-y, % change)	-1.9	3.3	2.3	1.6	1.6
Real government consumption (y-on-y, % change)	1.5	2.5	0.3	0.5	1.1
Industrial production (y-on-y, % change)	3.1	2.3	2.8	2.5	1.4
Unemployment rate (%)	5.5	5.2	4.8	4.8	5.0
Real fixed investment (y-on-y, % change)	1.0	5.2	2.9	-1.1	1.6
Real exports of goods and services (y-on-y, % change)	3.2	5.0	5.5	-1.1	1.8
Current account (% of GDP)	2.0	2.1	6.8	4.0	3.2
Fiscal balance (% of GDP)	-3.5	-1.3	3.0	2.5	1.5

* forecast Sources: Oxford Economics

Russia industries performance outlook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October 2019

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Construction Materials
				
Consumer Durables	Electronics/ICT	Financial Services	Food	Machines/ Engineering
				
Metals	Paper	Services	Steel	Textiles
				

Political situation

Head of state:
President Vladimir Putin
(since May 2012)

Head of government:
Prime Minister Dmitry Medvedev
(since May 2012)

Form of government:
Government formed by the Party United Russia and non-partisan technocrats

Population:
145.9 million

Domestic politics: continued stability

In March 2018, Vladimir Putin won a fourth term as president of Russia, gaining 77% of the vote. Nationalistic sentiment has risen since the outbreak of the Ukraine crisis and the annexation of Crimea in 2014, supported by aggressive propaganda through the state-controlled media. However, approval ratings for the government have decreased to pre-2014 levels, following the administration´s announcement in June 2018 to increase the pension age.

Relationship with the EU and the US remains tense

Since the outbreak of the Ukraine crisis in early 2014 Russia's relationship with the EU and US has gradually deteriorated. Russia´s intervention in the civil war in Syria added another area of conflict to the already strained relationships.

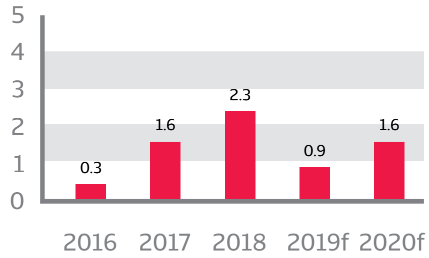
Moscow´s annexation of Crimea in March 2014 and its tacit support of separatist forces in Eastern Ukraine triggered several rounds of sanctions from the EU and the US, mainly in the form of

- frozen assets,
- travel bans on Russian and Crimean individuals,
- long-term financing limitations restricting access to EU/US capital markets for major Russian banks and some oil and defense businesses
- and restrictions on the export of certain types of products to Russia, including dual-use technologies and high-tech equipment for the oil industry.

Russia itself imposed retaliatory sanctions on the import of food and agricultural products from the EU, the US, Australia, Canada and Norway. In March 2018 tensions increased further after the alleged nerve gas attack by the Russian secret service on a former spy in the UK, leading to additional sanctions imposed by the UK and the US.

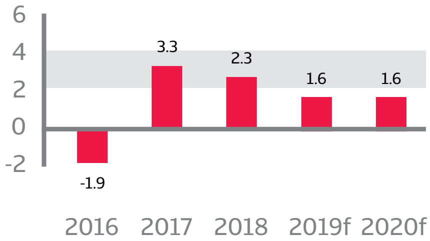
Economic situation

Real GDP growth (y-on-y, % change)



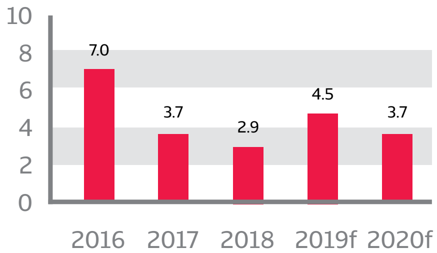
Sources: Oxford Economics

Real private consumption (y-on-y, % change)



Sources: Oxford Economics

Inflation (y-on-y, % change)



Sources: Oxford Economics

A VAT increase and sanctions weigh on growth

Russia's economy remains heavily reliant on exports of oil and gas, which account for 57% of total exports and about 45% of federal government revenues. GDP growth is expected to slow from 2.3% in 2018 to about 1% in 2019, due to a VAT increase from 18% to 20% and the associated higher inflation. Additionally, structural weaknesses and the negative impact of sanctions on productivity and investment continue to weigh on economic expansion. Insolvencies are expected to increase by 4% in 2019, mainly affecting businesses that suffer from decreasing consumer purchasing power.

In 2020, GDP is forecast to grow less than 2%; while a further tightening of sanctions or an escalation of geopolitical tensions pose downward risks. Domestic demand will continue to sustain growth, but decreased real wages weigh on the expansion. The central bank has cut the benchmark interest rate several times in 2019, which should support borrowing. However, a downward oil price shock or additional EU/US sanctions may prompt the central bank to tighten the monetary policy again in order to soften a resulting depreciation of the rouble.

Investments remain constrained by international sanctions and ongoing business uncertainty. They will remain highly dependent on public spending or businesses closely affiliated to the government.

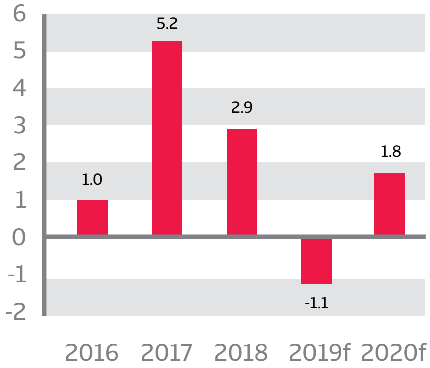
The banking sector has rebounded somewhat

Conditions in the banking sector have improved in recent years, although the threat of new sanctions remains. Large differences remain across financial institutions, and the central bank continues with the clean up of the sector. Public ownership of the financial industry increased to 70%, and divestments are not expected in the short-term. The non-performing loans ratio has declined from a peak of almost 18% at the beginning of 2018 to 8.4% in July 2019. The imposition of sanctions on Russia since 2014 prohibit banks from raising capital in the EU and the US, and may have a very significant mid- and long-term impact on the refinancing capacity of major domestic corporations and banks. However, the authorities have sufficient resources to support all systemically important banks.

A combination of cuts in real expenditures and growth in oil prices led to a budget surplus of 3.0% of GDP in 2018. The government will continue to pursue a conservative fiscal policy in the coming years. In 2019 and 2020 annual surpluses are expected, with higher VAT revenues likely to compensate for any shortfall caused by weaker domestic demand. It is anticipated that government debt will remain low at about 13% of GDP. Recently announced social spending measures amount to only 0.1% of GDP so far, and will therefore have little impact on fiscal policy.

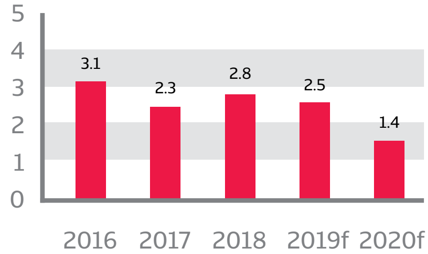
The Central Bank allows the rouble to float. This has an impact on inflation if the currency depreciates, but also acts as a shock absorber for the current account, which is expected to remain in surplus in 2019 and 2020, due to sizeable trade surpluses. Foreign debt is expected to decline slightly over the coming years, to 22% of GDP in 2023, and to be relatively robust against external shocks. The recovery of oil prices has led to an increase in foreign exchange reserves, which amounted to 16 months of imports at year-end 2018.

Real fixed investment
(y-on-y, % change)



Sources: Oxford Economics

Industrial production
(y-on-y, % change)



Sources: Oxford Economics

Major structural weaknesses weigh on the long-term growth prospects

The medium-term prospect for higher and sustainable growth rates remains subdued. Structural weaknesses (such as a shrinking workforce, low investment growth, institutional weaknesses and limited reforms) and the negative impact of sanctions on productivity and investment will continue to weigh on growth, estimated at 1.5%-2% annually in the coming years

The Russian business climate is mired in uncertainty regarding property rights, a weak transport infrastructure and a lack of competition in goods and services markets. The authorities failed to seize the opportunity during the windfall years to strengthen Russia's economic structure and enhance its non-oil potential by prudently investing oil revenues in other industries to diversify the economy away from the dominant oil and gas sector.

There is an underlying deterrent for investments, badly needed to modernise the energy sector and to help diversify the economy. Even before the outbreak of the Ukrainian crisis, the investment level was too low and foreign direct investment too limited, partly due to an unfriendly business climate and the firm grip of the state on large parts of the economy. This is now exacerbated by the international sanctions imposed by the EU and the US that aim to prevent technology transfers and financing to Russian firms, especially in the energy and military sectors.

Atradius
Managing risk, enabling trade

Slovakia

Main import sources (2018, % of total)	
Germany:	17.9 %
Czech Republic:	10.3 %
Austria:	10.3 %
Poland:	6.5 %
Hungary:	6.4 %

Main export markets (2018, % of total)	
Germany:	22.2 %
Czech Republic:	11.9 %
Poland:	7.6 %
France:	6.3 %
Italy:	5.7 %

Key indicators	2016	2017	2018	2019*	2020*
Real GDP (y-on-y, % change)	3.1	3.2	4.1	2.8	2.9
Inflation (y-on-y, % change)	-0.5	1.3	2.5	2.7	2.5
Real private consumption (y-on-y, % change)	2.9	3.5	3.0	3.3	4.4
Real government consumption (y-on-y, % change)	1.6	1.7	1.9	2.6	3.4
Industrial production (y-on-y, % change)	4.7	3.2	4.5	4.3	4.4
Unemployment rate (%)	9.7	8.1	6.6	5.4	4.9
Real fixed investment (y-on-y, % change)	-9.4	3.4	6.8	3.5	3.6
Real exports of goods and services (y-on-y, % change)	5.5	5.9	4.8	3.8	4.2
Current account (% of GDP)	-2.2	-2.0	-2.5	-1.9	-1.5
Fiscal balance (% of GDP)	-1.2	-1.4	-1.3	-1.2	-1.4

* forecast   Sources: Oxford Economics

Slovakia industries performance outlook


Excellent:
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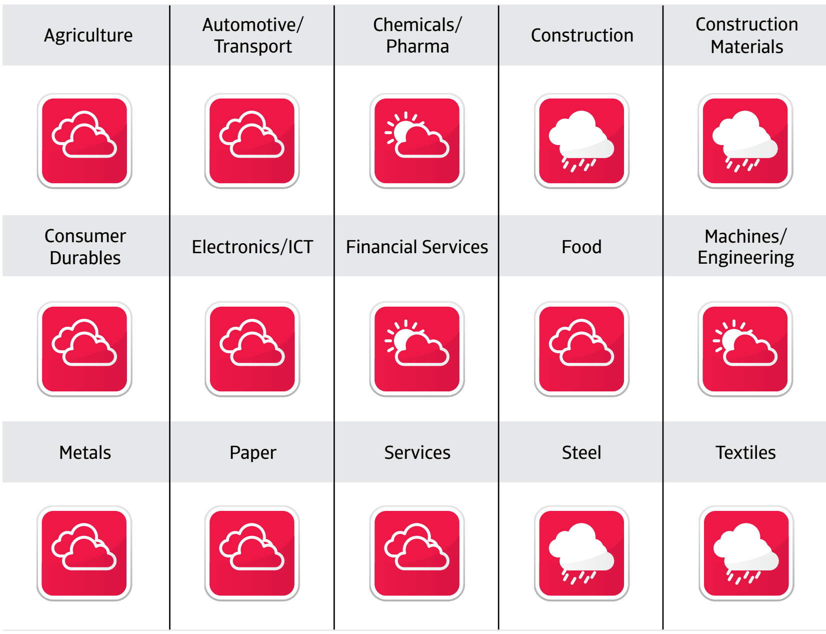
October 2019



Political situation

Head of state:
President Zuzana Čaputov
(since June 2019)

Head of government:
Prime Minister Peter Pelligrini
(since March 2018)

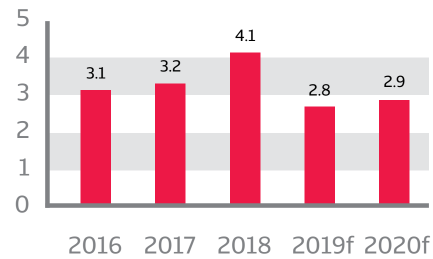
Population:
5.5 million

Increased political uncertainty

Having served as Prime Minister for ten of the past 12 years, in March 2018 Robert Fico resigned after mass demonstrations against his government. The protests were triggered by the assassination of a journalist who was investigating alleged links between the administration and organised crime as well as cronyism within the governing social-democratic Smer-SD party. After Fico´s resignation it seems that the current coalition government (consisting of the Smer-SD, the nationalist SNS party and the liberal conservative Most-Híd party) is stable enough to remain in charge for the time being. However, any further revelation of corruption allegations and power abuse could lead to increased political instability and a snap election. Next general elections are due to be held in March 2020.

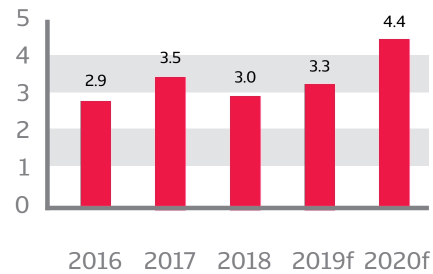
Economic situation

Real GDP growth (y-on-y, % change)



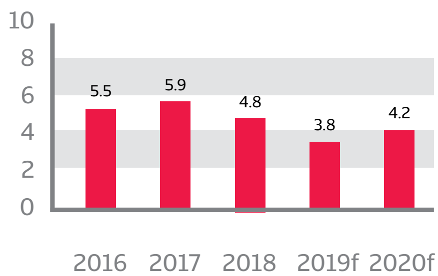
Sources: Oxford Economics

Real private consumption (y-on-y, % change)



Sources: Oxford Economics

Real exports of goods and services (y-on-y, % change)



Sources: Oxford Economics

Slowdown in growth due to external developments

Economic growth is expected to slow down in 2019 and 2020, mainly due to lower external demand from the Eurozone (especially from Germany), and looming downside risks (e.g. Brexit, global protectionism). However, the economic expansion should remain above 2.5% annually, sustained by robust domestic demand. Large foreign investments (especially in the automotive sector) have increased productivity.

Private consumption growth is supported by wage increases and growing employment. The jobless rate has decreased from 14% in 2013 to 6.5% in 2018, and further declines in 2019 and 2020 are expected. Strong wage growth has fueled inflation; forecast to stay above 2% in 2019 and 2020.

The Slovakian banking sector is generally well-capitalised with strong liquidity. However, the sharp increase in household debt over the last couple of years poses a potential downside risk, and since 2018 the Central Bank has introduced stricter regulations for loan takers.

Government finances are stable, with the budget deficit being kept below 3% of GDP since 2013. The deficit is expected to be around 1.5% of GDP in 2019 and 2020. Slovakia´s external economic position is solid.

High dependence on automotive poses a potential downside risk

As the Slovakian economy is heavily reliant on industrial exports to the Eurozone (especially automotive-related exports to Germany), it remains very vulnerable to adverse developments in the automotive sector. The current challenges in the industry (decreasing sales and profits, shift to more e-mobility away from combustion engines, potential US tariffs on car and car part imports from the EU) pose a major downside risk to the economy. Any downturn would increase the credit risk of Slovakian businesses along the value chain.

Other issues are increasing labour shortages and disadvantageous demographics (a shrinking working age population), which adversely affect Slovakia´s medium- to long-term growth prospects.

Atradius
Managing risk, enabling trade

Turkey

Main import sources (2018, % of total)	
China:	10.0 %
Germany:	9.1 %
Russia:	8.3 %
USA:	5.1 %
Italy:	4.8 %

Main export markets (2018, % of total)	
Germany:	9.6 %
United Kingdom:	6.1 %
Iraq:	5.8 %
UAE:	5.8 %
USA:	5.5 %

Key indicators	2016	2017	2018	2019*	2020*
Real GDP growth (y-on-y, % change)	3.2	7.5	2.8	0.1	2.8
Inflation (y-on-y, % change)	7.8	11.1	16.3	16.2	13.2
Real private consumption (y-on-y, % change)	3.7	6.2	0.0	0.3	3.7
Real government consumption (y-on-y, % change)	9.5	5.0	6.6	5.5	2.5
Industrial production (y-on-y, % change)	3.4	9.1	1.1	-1.7	2.9
Unemployment rate (%)	10.9	10.9	10.9	13.7	12.9
Real fixed investment (y-on-y, % change)	2.2	8.2	-0.6	-15.4	3.0
Real exports of goods and services (y-on-y, % change)	-1.9	12.0	7.8	5.0	3.3
Current account (% of GDP)	-3.9	-5.5	-3.3	0.0	-1.0
Fiscal balance (% of GDP)	-1.2	-1.6	-2.0	-3.3	-2.4

* forecast Sources: Oxford Economics

Turkey industries performance outlook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October 2019

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Construction Materials
				
Consumer Durables	Electronics/ICT	Financial Services	Food	Machines/ Engineering
				
Metals	Paper	Services	Steel	Textiles
				

Political situation

Head of state/government:
President Recep Tayyip Erdogan
(since August 2014)

Nature of regime:
Presidential system and secular state. The armed forces´ political influence has been curbed.

Population:
81.9 million

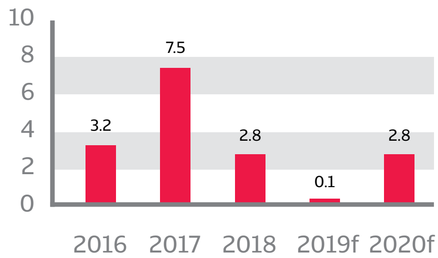
A new presidential system since 2018

President Erdogan won the June 2018 presidential elections in the first round, finally consolidating his overwhelming power, as with this voting the transition to the new presidential system has been completed. In the June 2018 parliamentary elections the alliance of Erdogan´s AKP with the nationalist MHP party won 53.7% of the votes.

The political divisions within the country persist, and the southeastern part of the country remains affected by the civil war in Syria and cross-border interventions by the Turkish army. Relationships with Western partners (EU, USA) remain strained.

Economic situation

Real GDP growth (y-on-y, % change)



Sources: Oxford Economics

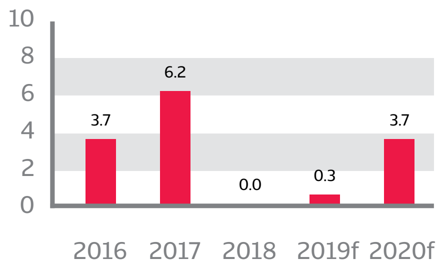
The impact of the currency crisis and subsequent credit crunch

Real GDP decreased considerably in H2 of 2018, with a sharp currency depreciation and a subsequent credit crunch. While in Q1 and Q2 of 2019 the economy grew again on a quarter-to-quarter basis, it still shrank year-on-year (down 1.5% year-on-year in Q2).

Despite the end of a technical recession, economic growth is forecast to level off this year. A sharp rise in unemployment and high inflation depressed private consumption in H2 of 2018 and early 2019. While household consumption has rebounded modestly since then, the contraction in fixed investments has continued to accelerate, as companies pay high interest rates for loans and are struggling with impact of the higher local currency value on foreign debt repayments. Geopolitical uncertainty and deterioration in institutional quality are also casting a shadow over Turkey's business climate.

That said, net exports are sustaining the economy on the back of the weak lira and lower import demand. Additionally, recent loosening of monetary policy will provide some support for domestic demand. A modest economic rebound is expected in 2020.

Real private consumption (y-on-y, % change)



Sources: Oxford Economics

Sector woes with major insolvency increases

Due to the economic downturn the credit risk situation and business performance of many industries has deteriorated and business insolvencies are expected to increase by about 10% in 2019.

Payment delays and the probability of defaults have increased in the construction and construction materials segment due to considerable overcapacity, rising material costs, high interest rates for loans and declining credit for housing. Credit risk has increased in the retail sector, including the textile and fashion segment. Overcapacity, a low equity base, decreasing domestic and export demand and competition from East Asia are causing liquidity bottlenecks for retailers and wholesalers. The ratio of non-performing bank loans in this sector has increased to more than 8%.

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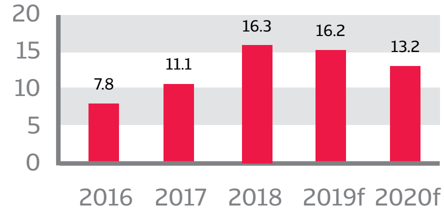
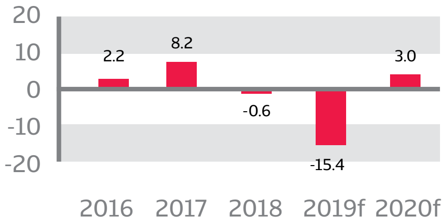
Inflation (y-on-y, % change)



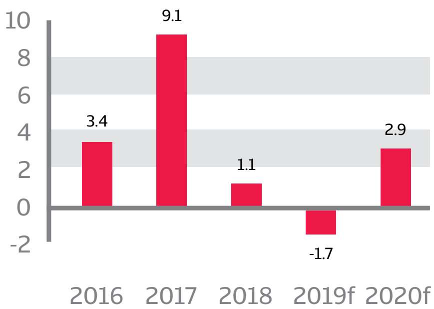
Sources: Oxford Economics

Real fixed investment (y-on-y, % change)



Sources: Oxford Economics

Industrial production (y-on-y, % change)



Sources: Oxford Economics

The automotive industry suffers from weak domestic demand, high inflation and increased taxes, with production of both vehicles and spare parts decreasing. Businesses in the plastics and metals sectors have been highly vulnerable to payment defaults over the past three years and the liquidity situation remains generally weak. The ICT sector is exposed to above-average credit risk due to increased import prices and deteriorating consumer demand.

Government finances reasonably sound, but risks are looming

In 2019 and 2020 the budget deficit is expected to be above 2% of GDP, as the government continues to stimulate the economy. The public debt level will increase modestly to about 30% of GDP, but this excludes substantial contingent liabilities, such as state loan guarantees from earlier credit incentive programs. The public debt profile is relatively favourable with an average maturity of 6.3 years, and a high share at fixed rates. However, as nearly half of public debt is denominated in foreign currencies this affects the risk of sovereign default. Issuance of new debt has also become more expensive, with Turkish 10-year government bond yields having spiked above 20% a couple of times.

Despite some external rebalancing, exchange rate volatility remains a major risk

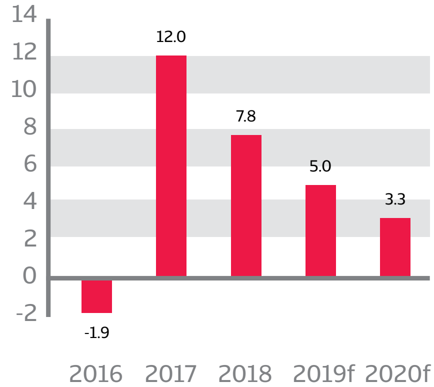
The substantial reduction in the current account deficit is evidence of some economic adjustment. Exports benefited from the weaker Turkish lira while import demand decreased sharply. Recent monetary easing in the US could support the return of portfolio inflows to Turkey.

However, the annual external financing needs remain high at 22.5% of GDP, because it consists mostly of short-term repayment obligations of banks, while deleveraging in Q1 of 2019 was hampered by a state-induced lending push ahead of the local elections. Foreign direct investment inflow remains weak, and decreasing foreign reserves can only cover 40% of the external financing requirement.

Therefore, Turkey's low-savings economy remains very vulnerable to bouts of capital flight. After a massive depreciation in 2018 the lira quickly recovered, but it has shown renewed weakness in the run-up to the March 2019 local elections. Besides worries about multiple geopolitical risks and foreign reserves being even lower than official figures indicate, doubts about the independence of the Central Bank remain a major issue. The government has repeatedly voiced its (unorthodox) view that high interest rates cause high inflation and has taken more control over the monetary policy. The Central Bank has lowered the interest rate by 4.25 percentage points in July and by 3.25 percentage points in September, citing improving inflation and a moderate improvement of economic activity. Additional measures were announced to revive bank lending, including the lowering of the required reserve ratio for banks whose loan growth is between 10% and 20%.

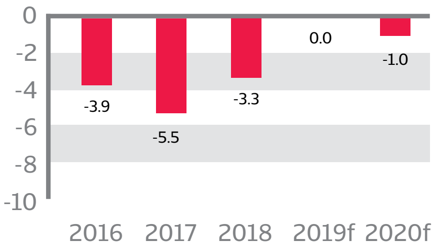
However, worries remain that further significant interest rate cuts could trigger another currency depreciation-high inflation loop.

Real exports of goods and services (y-on-y, % change)



Sources: Oxford Economics

Current account balance (% of GDP)



Sources: Oxford Economics

Further lira depreciation would increase pressure on the highly indebted corporate sector

Despite a recent decrease, the level of external debt, which is mostly held by the private sector (banks and corporations), remains high at 185% of exports in 2019. Turkish corporates, particularly in the energy, construction materials, steel, transport (airlines) and chemicals sectors have extensively borrowed in foreign currency from local banks. Some companies restructured their external debt and the debt service burden has decreased, but liabilities still remain high and sensitive to interest rate, rollover and exchange rate risks.

Banking system stable so far, but susceptible to refinancing risk

The Turkish banking sector has hitherto been generally well regulated and capitalized. Turkish banks are not directly exposed to foreign exchange risk, as they are not allowed to carry significant open foreign exchange positions. However, they could be indirectly affected by another sharp lira depreciation: Either via higher non-performing corporate sector loans or difficulties refinancing the substantial amount of short-term foreign exchange funding that Turkish banks rely on to extend domestic credit.

The non-performing loans ratio has increased to 4.6% from 3.0% a year ago while provisions are made for about 70% of these bad loans. However, banks' access to short-term foreign funding has become more fragile, as unorthodox policy measures by the Central Bank in order to stem the exchange rate volatility have eroded trust in the Turkish financial system (Prior to the March 2019 local elections the Central Bank temporarily suspended liquidity auctions, trapping international investors in unfavourable lira positions).

Structural constraints for higher long-term growth

Without comprehensive reform efforts beyond fixing short-term issues the future earnings capacity of the Turkish economy remains constrained by macroeconomic imbalances related to high credit growth, high inflation and a large external deficit. This is coupled with structural issues related to its low savings rate and weaknesses in competitiveness, limiting FDI inflow. The investment climate is also hampered by a weak judicial system and an inflexible labour market. Moves to privatise state banks and the power sector are also proceeding too slowly. Without structural reforms to raise savings, reduce dependency on energy imports and improve the investment climate, Turkey´s potential growth rate will decrease to 3% - 3.5% per annum - not enough to absorb the increase in the working age population of about one million people per year.

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