INTESA SANPAOLO

Economic and Banking Outlook

International Research

June 2021

Countries with ISP subsidiaries

Quarterly Note

Research Department

International Research Network

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Viewpoint

The most recent epidemic and economic data support a further upward revision of GDP growth forecasts in 2021 and 2022. Monetary policy is expected to remain broadly accommodative but inflationary pressures are forecast to lead to further policy rate hikes by CBs in some countries.

The recent widespread fall in the number of new daily cases (now below 10 per million inhabitants compared with peaks of more than 650 in April in the CEE/SEE region), the increasing share of the population having received at least one jab (more than one-third in most cases, with more than 50% in some countries) and the higher-than-expected dynamics of most recent business cycle indicators have supported an upward revision of our GDP growth forecasts for 2021 and 2022.

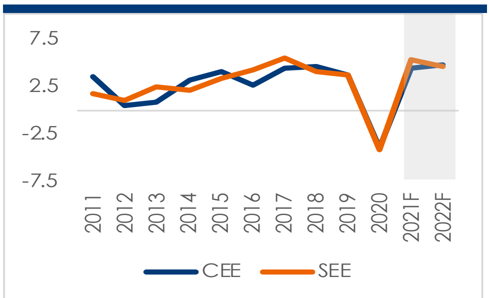
In comparison with our March Outlook, GDP growth rates have been raised to 4.7% (+0.9 pp) in 2021 and 4.8% (+0.4 pp) in 2022 in the CEE/SEE area, driven by domestic consumption and investments, the recovery of international trade and support from upcoming national and supra-national growth-enhancing plans (for example, the Next Generation EU funds). Growth forecasts have also been raised for the CIS area, to 3.5% (+0.6 pp) in 2021 and 2.9% (+0.1 pp) in 2022 (also sustained by the energy price recovery), and kept above 5% in Egypt in both years.

Even if at different degrees, the dynamic of consumer prices has accelerated overall, leading inflation rates to the upper part, or even beyond, CBs' target ranges in several cases (Russia, Hungary, the Czech Republic and Poland, where inflation in May reached 5.7%, 5.1%, 2.9% and 4.9%, respectively). Inflationary pressures have been driven by both external (the increase in energy prices, emerging bottlenecks in global supply chains and surging transport costs) and domestic factors (demand recovery in excess of supply potential), in addition to the base effect due to the deflationary pressures occurring during lockdown in 2Q20. We have revised upwards average inflation to 3.1% in 2021 and 2.6% in 2022 in the CEE/SEE area (with 2021 eop already below the peaks expected over the year), with Russia forecast to go back to 4% in 2022.

Most of the above quoted factors have been reported as being of a temporary nature by major CBs (such as the ECB and the Fed), supporting expectations of a prolonged period of accommodative monetary stances from CBs. However, as pre-emptive measures to avoid secondary effects, the CBs of countries with stronger inflationary pressures (Russia, Hungary and the Czech Republic so far) have anticipated a reversal of the monetary cycle. In this context, while we still forecast stable policy rates in 2021 and 2022 in SEE and in Slovakia and Slovenia in the CEE area, we expect a tightening in Poland (+ 40bps by 2022 eop), in addition to further hikes in Russia, Hungary and the Czech Republic (+ 50bps, +25 bps and +25 bps, respectively, by 2021 eop). In parallel, we have raised long-term yields and slightly appreciated the FX rates for 2021 and 2022 where CBs' monetary policy has shifted to a hawkish tone.

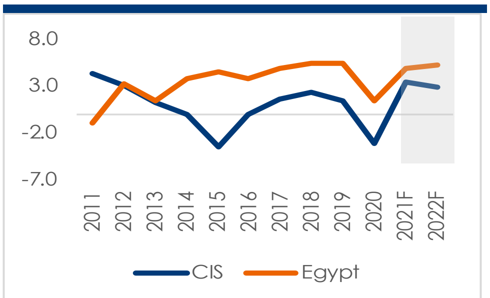
The dynamics of banking aggregates have also been revised upwards. In the CEE/SEE region loans are now expected to accelerate from 3.8% in 2020 to 4.7% on average in 2021 and 2022 (against a March forecast of 3.9%). The picture is, however, quite diversified among countries, with the loans growth rate decelerating in most cases in the CEE region in 2021 but on aggregate supported by the recovery in Slovenia and Poland after a gloomy 2020. Deposits are forecast to decelerate overall, falling from the 13.6% recorded in 2020 to 5.4% in 2021 and 2022 (vs. a March forecast of 4.6%) due to an expected gradual reversal trend in households' financial savings rates and the gradual absorption of accrued corporate liquidity.

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



Note: * weighted average
Source: ISP Research Department forecasts

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



Note: * weighted average
Source: ISP Research Department forecasts

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 individual country 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 the SEE countries; Russia, Moldova and Ukraine among the CIS countries; and Egypt among the 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

Antonio Pesce and Davidia Zucchelli

Following the 4Q20 GDP contractions in the **CEE and SEE areas** of 3.2% yoy (0.1% qoq) and 2.0% yoy (3.9% qoq), respectively, on a weighted average basis, in 1Q21 the GDP decline softened to 0.1% yoy (0.7% qoq) in the CEE area, and in the SEE (excluding Albania and Bosnia H., for which 1Q GDP data have not been released yet) GDP reached the pre-COVID level of 1Q20 (2.8% qoq).

With most countries having lifted restrictions a sustained recovery looks to have taken hold in Q2

Across the CEE/SEE region, the number of new daily infections has fallen over 2Q21. In response, the containment measures to control the pandemic have been relaxed and, from late May, local authorities have at least partially reopened the recreation and hospitality sectors. Thanks also to a strong favourable base effect with respect to the performance in 2Q20, the high frequency indicators signal a strong rebound of economic activity in 2Q21. In April the **industrial production** trend in the CEE/SEE region was 50.5% (on a weighted average basis), ranging from 35.9% in Slovenia to 69% in Slovakia and from 17.3% in Croatia to 68% in Romania. In addition, **exports** jumped in April by 45.2% (weighted average), while **retail sales** rose by more than 10% in the whole region, faring particularly well in the SEE area (+35%), where growth ranged from 32.6% in Croatia to 42.8% in Romania. The **ESI** showed strong increases in most countries in May, mainly driven by improvements in services sentiment. The rises in manufacturing **PMIs** in Hungary (52.8) and Poland (57.2, a record high) in May were driven by output and new orders.

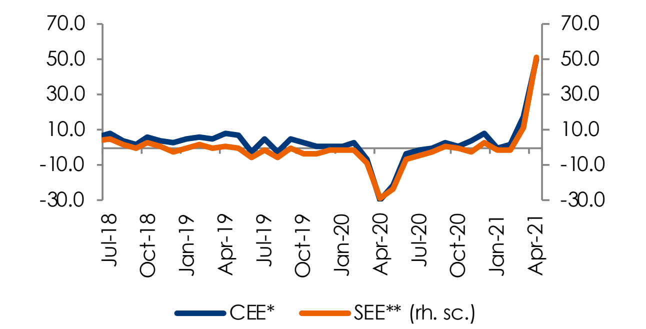
Rises in consumer prices in CEE and SEE countries, in some cases above central banks' targets

Since the beginning of the year, though with some exceptions, consumer prices have accelerated in all countries, mainly due to the recovery in energy prices and the base effect. The average **inflation** rate moved from 1.0% in January to 3.3% in May in the CEE/SEE region. In May inflation exceeded the upper threshold of the central bank's target corridor in Romania, while in April the upper end of the target range had already been exceeded in Poland and Hungary. For the remaining countries, as for the Czech Republic and Serbia, inflation rates remained within central banks' target intervals, though moving closer to their upper thresholds.

Monetary policy remains accommodative in the CEE/SEE region, however in June the policy rates have been increased to 0.9% and to 0.5% in Hungary and Czech Rep., respectively

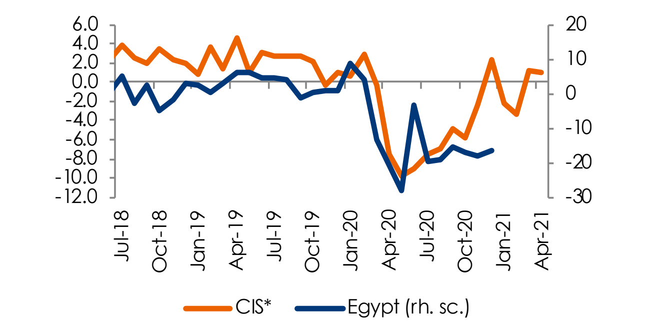
Despite the rise of inflation, **monetary policy** has remained accommodative overall to support the ongoing recovery, on the assumption of the transitory nature of current price pressures, but with some exceptions. In Hungary and Czech Republic the Central Banks have already started the tightening cycle by June, raising the reference rate by 30bps to 0.9% and by 25bps to 0.5%, respectively. The strength of inflation has also prompted a clear hawkish shift from the CB of Poland, even if to a more moderate extent. **Long-term yields** have overall slightly increased, driven by the increases in EA yields, with only a contained widening of the spread vs. the EA benchmark. Local **currencies** remained quite stable in most cases, with some appreciation vs. the euro in Hungary and the Czech Republic following the hawkish tone of the CBs.

Industrial production % yoy – CEE/SEE



Source: National statistics offices. Notes: * weighted average of Slovakia, Slovenia and Hungary data; ** weighted average of Bosnia, Croatia, Romania and Serbia data

Industrial production % yoy – CIS/Egypt



Source: National statistics offices. Note: * weighted average of Russia, Ukraine and Moldova data

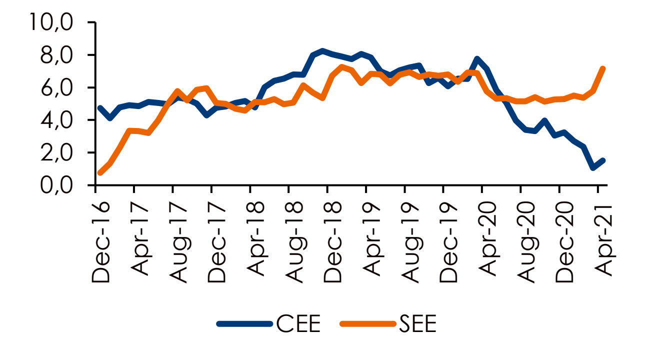
Monetary policy normalisation has started in Russia and Ukraine

Outside the CEE/SEE regions, in **Russia** GDP shrank by -1.0% yoy in 1Q21, easing from the 1.8% contraction of 4Q20. In April the industrial production trend was robust (7.2%) and well above the 1Q average (-1.3%) and exports and retail sales jumped by 47.6% yoy and 34.7%, respectively. In May the manufacturing PMI rose to a two-year high of 51.9. At the same time, inflation increased to 6.0%, well above the CB's target, and in June the CBR decided to raise the policy rate by another 50bps to 5.5%, adding to the 75bps increase of previous months. Russia's 10-year bond yield also rose, reaching 7.3%. In **Ukraine**, GDP contracted by 2.2% yoy in 1Q21 (from -0.5% in 4Q). In May the inflation rate went up to 9.5%, the highest increase since May 2019. The CB held its policy rate at 7.5% at the June meeting after two rate hikes of 50bps each in March and April. In **Moldova**, GDP grew by 1.8% yoy in 1Q21 (vs. -3.3% in 4Q20) and in April industrial production increased by 50.4% yoy. The inflation rate rose to 3.1% in May, the highest rate since August 2020 but still below the corridor target (5.0%+/-1.5%) of the central bank, which left the policy rate at 2.65% in June. In **Egypt**, GDP growth strengthened in 1Q21 to 2.9% yoy, from 2.0% in 4Q20. The inflation rate in Egypt accelerated to 4.8% in May, reaching the highest level since last December but remaining well below the central bank's target range (7.0% +/-2.0%). In the **exchange markets**, local currencies have slightly appreciated against the USD in the last three months in Russia and Ukraine thanks to increases in the policy rates and the recovery of energy prices.

Bank loans decelerated in CEE and CIS countries, but remained strong in SEE countries

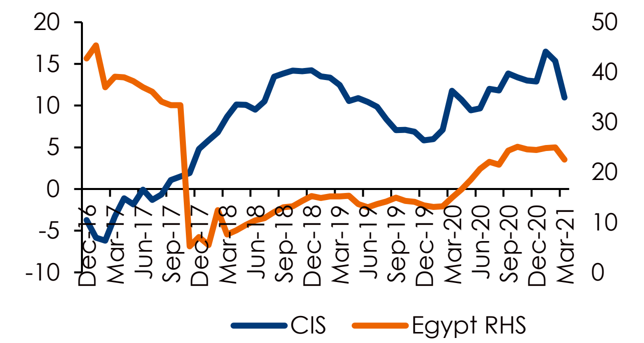
After a strong performance in 2020, **lending** growth showed a divergent path in April, slowing down in the **CEE** (from 3.2% to 1.5%) and **CIS** countries (from 12.9% to 11% as of March) and accelerating in the **SEE** countries (from 5.4% to 7.7%). Some policy measures adopted to face the pandemic have gradually come to an end (particularly the moratoria). Quite surprisingly, NPL ratios have so far remained low everywhere. Loans to households have been much more dynamic than corporate loans in many countries, 4.8% and -3.9%, respectively, in the CEE countries, 14.4% and 9.5% in the CIS countries (as of March) and 7.1% and 9% in the SEE countries. In some countries, particularly in Hungary (see the "babavaro" loan for young families), supportive schemes have been further strengthened. In contrast, Poland and Slovenia showed a loan decrease (both about -1.4% yoy) due to the still weak corporate sector. Loans to households increased at reasonable rates in both the CEE (+4.8%) and SEE (+7.1%) areas, with moderate concerns about a bubble in the residential property market. Loans to corporates have been very dynamic in SEE countries (9%), particularly in Romania (showing an outstanding +11.7%). Among CIS countries, loan growth was strong in Russia (12.9% yoy as of March), both to corporates (11.5%) and households (16.2%), sustained by the extension of the subsidised mortgage lending programme. In Ukraine, loan growth has been positive if we exclude state-owned banks, which are still suffering from poor asset quality. Uncertainties and pent-up demand continued to support **deposit** growth, both in the CEE (11.5%) and SEE countries (14.5%), despite low interest rates. In Egypt, banking aggregates continued to be dynamic as of March (loans up 22.5%, deposits +21.4%). Both deposit and lending **interest rates** continued to decrease in a few countries (e.g., in Romania), but started to show a reversal instead where monetary rates started to increase.

Lending growth (% yoy chg., weighted averages)



Source: ISP Research Department elaborations on central banks' data

Lending growth (% yoy chg., weighted averages)



Source: ISP Research Department elaborations on central banks' data

The international outlook

The rollout of vaccines and expansionary economic policies are supporting the recovery. However, caution is due

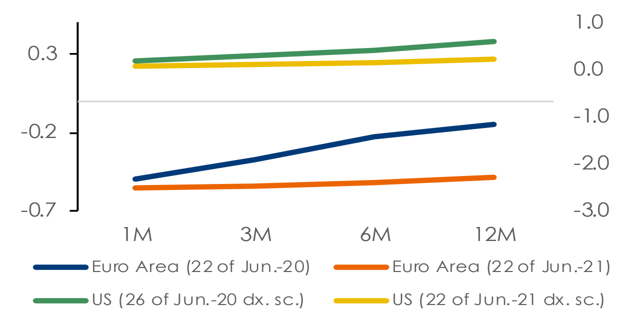
The progress in the vaccine rollouts, in a context of broadly expansionary economic policies, should allow advanced and several emerging economies (China in particular) to further open their economies in the second half of the year, providing additional fuel to the global economic recovery. On the assumption that the spread of the virus, and in particular of mutations of Covid-19, remain contained and vaccination campaigns proceed as planned, the recovery is expected to be robust in the **global economy** in 2021 and 2022 (6.0% and 4.4%, respectively, according to the IMF's April WEO, which was upwardly revised for 2021 from the 5.5% previously forecast in January). However, the risks surrounding the pandemic are still high and caution is still required in making forecasts.

In the **US,** where the American Rescue Plan signed in March will provide US 1.9Tn in fiscal stimulus in addition to the US 900M of fiscal measures adopted at the end of 2020, GDP is forecast by the ISP Research Department to grow by 7.6% in 2021 and 4.4% in 2022 (upwardly revised from our April forecasts of 6.8% and 3.2%, respectively). US inflation rose to 5% in May and is projected to decrease during the year (3.8% eop in 2021 in the ISP forecasts), before then stabilising at about 2.0% next year. On the assumption of inflationary pressures being temporary, the federal funds rate is expected to remain at the historically low level of 0.13% in 2021 and 2022.

In the Euro area, after a weak start to 2021, with GDP contracting by 0.3% qoq in Q1, the EA economy points to a strong GDP rise in the following quarters of the year thanks to the vaccination progress and the gradual but broad-based softening of the containment measures to fight the pandemic. GDP is expected by the ISP Research Department to growth to 4.8% for the whole of 2021, and to remain robust at 4.7% in 2022, supported by fiscal policy (the Next Generation EU fund is foreseen to start coming into effect in the second half of this year) and monetary policy (EU asset purchases and lending facilities programmes). Inflation has picked up over recent months (2.0% in May), largely due to base effects and an increase in energy prices. Inflation is expected to rise further in the second half of the year, reflecting the temporary VAT rate reduction in Germany last year. The price acceleration, however, is expected to be transitory and inflation is expected to decelerate by the end of the year as temporary factors fade out and energy prices moderate. On average, inflation is forecast at 1.9% in 2021 and 1.5% in 2022.

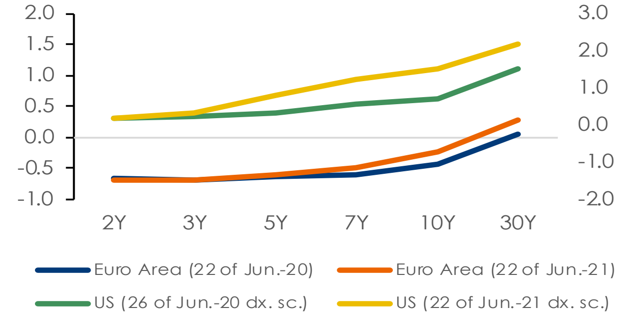
Among **emerging countries,** in April growth was forecast by the IMF to rebound by 6.7% in 2021 (upwardly revised from 6.3% in the January WEO) and to be 5.0% in 2022. Among the different areas, the prospects for the Asian region are the most promising (8.6% and 5.5% in 2021 and 2022), thanks especially to China (8.6% and 5.4%, according to our forecasts), even if the near-term downside risks have increased after economic momentum slowed in April. The economic performances of other areas, though lower than in Asia, are also expected to be on a recovery path overall, supported by a rebound in commodity prices, especially in the MENA region, Latin America and Sub-Saharan Africa. Risks remain due to new surges in Covid-19 cases, for example, in India, and due to the expected strengthening of financial conditions at the international level.

Benchmark monetary rates (US and EA rates)



Source: ISP elaboration on Refinitiv-Datastream data

Yield curves (US bonds and German Bunds)



Source: ISP elaboration on Refinitiv-Datastream data

Economic outlook

Growth and inflation

Upward revisions to GDP growth in CEE/SEE due to a global recovery above previous expectations …

Despite the outbreak of Covid-19 variants that has been observed in recent months in some countries, and the associated risks of a strengthening of containment measures during the current year, the view of the recovery at the global level is now better than previously forecast. The vaccination campaigns, intensified in 1Q and expected to proceed in the coming months, together with the ongoing recovery of international trade and domestic demand overall, have supported an upward revision of global GDP growth forecasts in 2021 (to 6.0% from 5.5% in the IMF projections).

… but risks to forecasts (albeit more balanced) remain tilted to the downside

In this context and taking into account the most recent release of high frequency indicators, we have revised slightly upwards our **forecasts for GDP growth** in the CEE/SEE region with respect to our March Outlook by 0.9pp in 2021 (to 4.7%) and by 0.4pp in 2022 (to 4.8%). A higher revision was warranted for this year in the SEE region (+1.3pp vs. +0.8pp in the CEE region), where Croatian GDP has been further increased by 1.6pp (to 5.6%) as the less stringent mobility limits among EU countries is expected to give a big boost to the tourism sector. High uncertainty nevertheless still surrounds the evolution of the pandemic but **risks to economic growth** now appear more balanced.

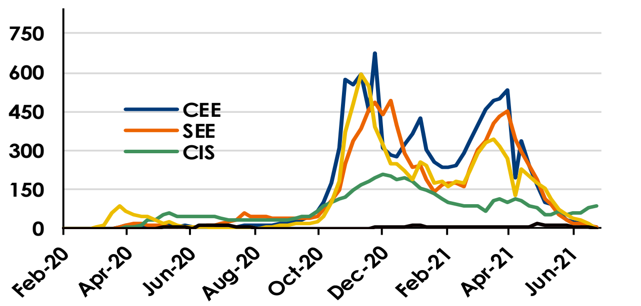
Inflationary pressures expected to be temporary in 2021

Due to the increase in energy prices, some supply-side bottlenecks have been generated by the restrictions related to Covid-19. Coupled with the base effects due to the deflationary forces that occurred in 2020, **inflation** is expected to move on an increasing path in the coming months **in the CEE/SEE regions**. However, price pressures are expected to be transitory and after short-term overshoots in Q3, inflation is expected to decelerate in CEE and SEE, softening the year averages to 3.3% and 2.8%, respectively, in 2021 before falling to about 2.7% in both areas in 2022.

Outside the CEE/SEE region, thanks to the faster-than-expected global recovery, we have also raised our 2021 and 2022 GDP growth forecasts with respect to our March Outlook, in the **CIS area** by 0.6pp, to 3.5%, in 2021 and by 0.1pp, to 2.9%, in 2022. Inflationary pressures – currently rising in Russia and Ukraine – are expected to soften during the current and next year (4.9% and 7.5% end of period in 2021 and 4.1% and 5.5% in 2022, respectively). In Moldova, inflation is forecast to be about 3.9% at 2021 year-end and to increase to 4.9% in 2022.

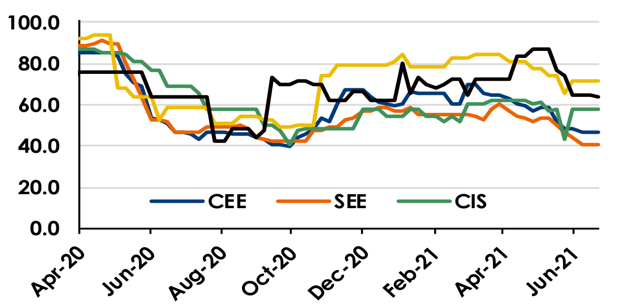
In the MENA region, we have confirmed our April forecasts for GDP in **Egypt** at 5.0% in 2021 and 5.2% in 2022. Egyptian inflation is expected to rise during the current year due to food and oil prices, as well as pressures from bottlenecks in the global supply-side. In 2021 inflation is forecast to rise to 8.3% by the end of the period, and then to move to 7.5% by 2022 year-end (still in the central bank range of 7.0%+/-2.0%).

Covid-19: New daily cases (per mln inhab.)



Source: Refinitiv-Datastream

Stringency index (0 = no restrictions – 100 = max restrictions)



Source: Refinitiv-Datastream

Monetary policy and financial markets

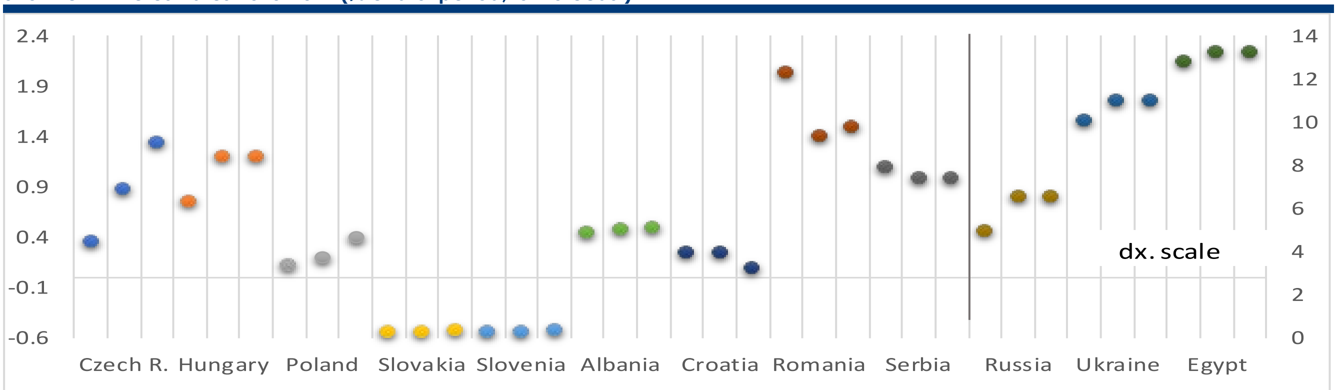
The strengthening of inflation and expectations of a strong economic recovery have prompted a hawkish shift among several central banks

The temporary nature of inflationary pressures in the region and the maintenance of easy monetary stances by major central banks at international level will continue to support highly accommodative policies in the **CEE/SEE** region in 2021 and 2022. In some countries, however, inflation rates moving above the targets and expectations of a strong economic recovery have prompted a hawkish shift in central banks' tone. In Hungary, the MNB is expected to further raise the policy rate by 25bps in 2021 to 1.15% and to keep it unchanged in 2022. In Czech Republic, we expect a further 25bps increase of the policy rate to 0.75% by the year end, and then a further 50bps increase next year. In Poland, several members of the board have expressed willingness to raise the policy rate to alleviate inflationary pressures. We think that a 15bps increase may occur this year, with a further 25bps rise next year. Accordingly, in the same countries **money market rates** have been upwardly revised both in 2021 and 2022. Among **CIS countries**, in Russia, after the June increase of the policy rate to 5.5%, we expect the CB to end the raising cycle with a further 50bps increase by year-end. We expect the CB of Moldova to raise policy rates next year, but the CBs of **Ukraine** and **Egypt** to keep them unchanged in 2021 and 2022.

The profile of **long-term yields** has also been revised slightly upwards overall along the forecast horizon with respect to our March scenario following the upward revision of Bund and US Treasury yields. Spreads with respect to the benchmarks have been kept roughly unchanged in the CEE and SEE regions. In Russia, the increase of US long-term yields, the negative impact of US sanctions on sovereign spreads and the expected change in monetary policy by the CBR have also supported an upward revision of long-term yield forecasts.

In the **forex markets**, local currencies are forecast to remain quite stable overall in the CEE/SEE regions with respect to the euro until the end of 2022, with a slight appreciation however of the Hungarian forint and the Czeck koruna, supported by these countries' more hawkish monetary policy tone. Croatia is expected to join the euro area from January 1, 2023 at the current ERMII central parity of 7.53 vs. the euro. Outside the CEE/SEE region, the ruble is also forecast to slightly appreciate against the USD after the sharp depreciation (c. 15%) that occurred in 2020, before moving below RUB 70 in 2022, thanks to the oil price recovery, but still partly curbed by geopolitical factors. Depreciation pressures are foreseen in Moldova and Ukraine, mainly related to their external vulnerabilities. In Egypt, the pound is expected to remain quite stable in 2021, supported by high local real interest rates, and only slightly depreciate thereafter against the USD.

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



Source: ISP Research Department forecasts

Banking aggregates and interest rates

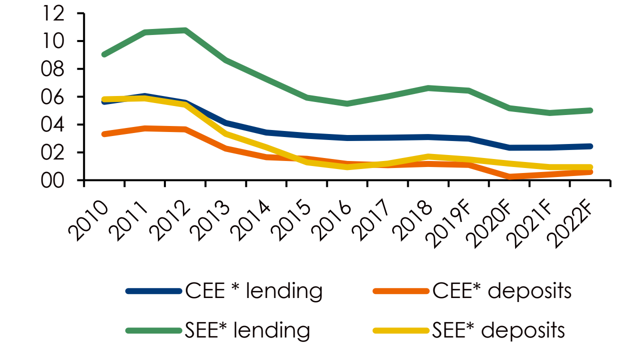
Banking aggregates slightly revised upward in 2021

Further upward revisions of GDP and inflation led to a slight revision of our forecasts in 2021 regarding both loans and deposits. The picture in **lending** remains diversified in 2021 vs. 2020, with loans slightly accelerating in the CEE countries, stable in the SEE countries and slowing in the CIS countries. Nevertheless, many countries are expected to show a deceleration this year while a few leading players (Poland and Romania among the CEE and SEE countries, respectively) support their respective area's weighted averages. The gradual phase-out of the anti-crisis monetary instruments, only partly prolonged in some countries (particularly in Hungary), and the expected deterioration of asset quality will, however, weigh in parallel on loan dynamics. A more widespread but slight acceleration is forecast in 2022, both among corporates and households, supported by rising wages, and demand for mortgages is expected to remain vigorous.

In the CEE countries, loans are expected to increase by 4.4%, on average, both in 2021 and 2022, and more strongly in SEE countries, by 5.3% and 5.4%, respectively. In 2021 Hungary (7.4%) among the former and Romania (5.5%) and Serbia (7.5%) among the latter are expected to remain the best performers. Excluding Poland, which is expected to show a recovery in loans (4.1% in 2021 and 4% in 2022 after only 0.4% in 2020), the average for the CEE area is 4.7% in 2021, followed by 4.9% in 2022. NPL flows are expected to rise overall but not to reach the peaks seen during the great financial crisis. In CIS countries loans are expected to be dynamic although decelerating in 2021 (+7.1%) and 2022 (+5.7%). In Russia – where corporate lending is providing a strong contribution (almost +15% in 2020, covering 70% of the total portfolio) – lending is forecast to increase by 8.2% in 2021 and 6% in 2022, a deceleration with respect to the 14.4% recorded in 2020 due to the gradual phasing out of some measures adopted during the pandemic (e.g., the Subsidised Mortgage Programme) and rising interest rates. In Ukraine, a decrease in the volume of loans is still expected in 2021 (-5%) due to the accounting revision of write-offs among the state-owned banks, though new business flows of loans are gradually recovering, especially to SMEs and for mortgages.

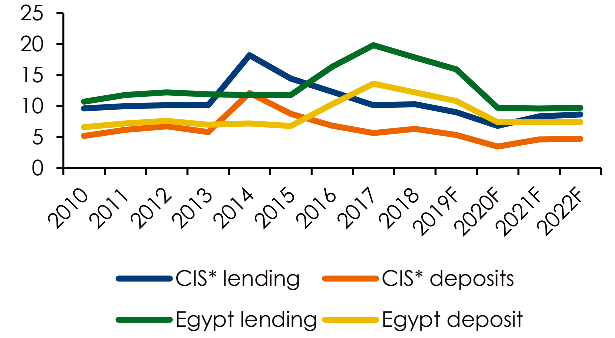
Deposit forecasts have been revised upwards taking into account their persistent strong recent increases overall and the prudence among households in a strengthening economic context. Deposits are expected to rise by 5%, 6.8% and 6.4%, respectively, in CEE, SEE and CIS countries in 2021 but to decelerate in 2022. The above trend of an accumulation of savings and deposits with respect to the pre-pandemic scenario (which was quite strong in Hungary, Serbia and Romania) is expected to start to turn in 2021 and 2022, with only a partial absorption of the extra savings accumulated so far. Households may prefer to pay down debt and resume consumption, which is expected to recover only gradually, or to buy assets, while businesses might now partly finance postponed investments with internal funding. In Croatia, a rebound is foreseen in 2022 (+5.6%), before its adoption of the euro, in line with what happened in other countries in similar circumstances (see ex-Baltic countries), when people deposited money in local currency for conversion which had previously been set aside in informal tools. **Interest rates** are expected to stay low overall but start increasing in countries where a reversal of monetary policy has taken place (as in Russia) or is expected to occur (as in Hungary and the Czech Republic).

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



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

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



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

Country-Specific Analysis

Czech Republic

Zdenko Štefanides

Real Economy

The Czech economy has been recovering since mid-April as restrictive measures have gradually been lifted and the services sector has reopened thanks to the suppression of the COVID pandemic since spring arrived. We expect the recovery to continue during the summer and, barring any resurgence of the pandemic in the fall, pick up steam further through next year on the back of EU-funded investments. The recovery will probably be shallower than in neighbouring countries, yet most likely stronger than that foreseen in the current Czech National Bank (CNB) forecast. We forecast real GDP growth of 3.2% this year and 4.5% next year, compared with the CNB's 1.2% and 4.3%, respectively.

Growth will be driven by both domestic and external demand. The latter has translated into a strong recovery of the industrial and export sectors, which we expect to continue despite temporary problems with supply constraints (e.g., chips) facing the sizeable car industry in particular. Domestic demand has strong potential to soon become the dominant growth driver. Households have amassed savings worth some CZK200 billion, equivalent to 3.5% of GDP. Their release into consumer spending thus provides an upside risk to our forecast. An upside may also come from investment. The Czech Republic has been allocated grants from the Resilience and Recovery Fund (RRF) worth CZK 172 billion. Together with topped up funds from local budgets and loans from the RRF, this means funding worth the equivalent of 10% of GDP will be released by 2026, in addition to the regular seven-year EU programme, which alone is worth the equivalent of 17% of the current nominal GDP.

Financial Markets

Faced with the stronger-than-foreseen recovery and with inflation already topping its 1-3% tolerance band, the CNB will soon be forced to tighten policy. After the 25 bps increase on the 23rd of June we forecast another rate hike of 25 bps this year, and two more next year, which will take the two-week repo rate to 1.25% by the end of 2022. Yields will also increase but by less than short rates, as part of the foreseen tightening is already priced in by the markets. The koruna will gradually strengthen, helped by the resumption of the real economy and the rising interest rate differential versus the euro.

Banking Sector

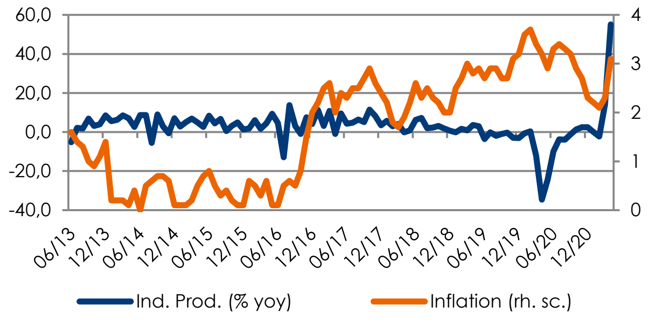
In the banking sector, we foresee volume growth moderating, especially on the deposit side, where a move away from the extraordinary COVID-driven surge is expected in 2021. A moderation, albeit less pronounced, is also likely in loan volume growth, as interest rates are expected to gradually increase and banks will gradually tighten credit conditions, especially to non-financial companies. The loan and deposit dynamic is likely to become more even this year and beyond, growing on average by a little more than 4% per annum. The loan-to-deposit ratio in the Czech market is thus likely to remain around 70% compared with the pre-COVID 75%.

Forecasts

	2019	2020	2021F	2022F
Real GDP yoy	2.6	-5.7	3.2	4.5
CPI (eop)	3.2	2.3	2.6	2.2
Euro exch. rate (value, eop)	25.5	26.3	25.9	25.8
Short-term rate (eop)	2.2	0.4	0.9	1.3
L/T bond yields (eop)	1.6	1.3	1.8	1.8
Bank loans (pr. sector, yoy)	5.2	4.1	3.2	4.8
Bank deposits (pr. sector, yoy)	6.1	11.9	4.2	4.2
Lending int. rate (corp., eop)	3.6	1.9	2.3	2.7
Deposit int. rate (hh, eop)	1.5	0.6	0.9	1.3

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

Industrial production and inflation



Source: Czech Statistical Office

Hungary

Real Economy

Mariann Trippon

The above-consensus Q1 growth confirmed the strong recovery potential of the Hungarian economy. Restriction measures have now been almost fully lifted, hence everything is in place for a strong recovery starting from Q2. Despite supply-side bottlenecks, the industrial and export sectors are expected to post healthy growth rates. Positive labour market developments, strong wage outflows and the high level of savings will give a boost to consumption, and investment growth is likely to gain momentum as well. We have revised upwards our 2021 and 2022 GDP forecasts, to 5.9% and 5%, respectively. Inflation accelerated in the spring due to the low base, tax raises and higher fuel prices. Headline CPI rose above 5% in May, possibly marking the peak of the current cycle. However, the deceleration will be very gradual, and the base effect will result in a volatile inflation pattern in H2. Average 2021 CPI will be above 4% before retreating to the 2-4% target band in 2022. However, the risks to the outlook are skewed to the upside. The labour market's resilience was confirmed during the third COVID wave and the recovery is set to gain steam in the upcoming period. Wage outflows may remain strong amid strong demand for skilled labour.

Financial Markets

The strengthening of upside inflation risks triggered a hawkish monetary policy turn. The NBH announced the start of a rate hike cycle and, as expected, the first rate increase has occurred in June, In addition it has started to discuss the gradual withdrawal of its unconventional measures. Interest rate changes beyond June will strongly depend on new information, but if our CPI projection holds, we think that the effective rate will not be raised much above 1% this year. We expect no additional rate hikes in 2022. QE is likely to remain in place as a tool to manage the long end segment of the curve in a flexible manner. The hawkish monetary policy turn and higher rates point to a lower EUR/HUF. The recent shift in communication suggests that the central bank's preference is now for a somewhat stronger FX rate, which could help mitigate inflation risks. We have made a downward revision to our EUR/HUF forecasts for 2021 and 2022. Long yields are likely to mirror core market developments.

Banking Sector

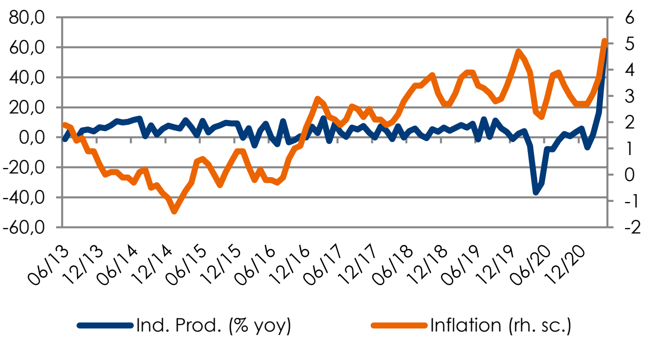
The banking sector's capital, liquidity and funding position remained strong in 2020. Private sector lending rose by 13.4% in 2020, supported by central bank and government facilities, though growth is expected to moderate from 2021 to 7.4%. The repayment moratorium has been extended to September 2021, with a possible prolongation for customers most affected by COVID. Corporate lending growth will slow as the Funding for Growth programme comes to an end. Bank deposits rose by more than 20% in 2020, reflecting forced savings. In line with the expected economic recovery and the ending of payment moratoriums, deposit growth is expected to slow to single-digit territory in 2021.

Forecasts

	2019	2020	2021F	2022F
Real GDP yoy	4.6	-5.1	5.9	5.0
CPI (eop)	4.0	2.7	4.2	3.1
Euro exch. rate (value, eop)	297.6	359.0	353.0	350.0
Short-term rate (eop)	0.2	0.8	1.2	1.2
L/T bond yields (eop)	1.9	2.2	2.9	3.1
Bank loans (pr. sector, yoy)	13.2	13.4	7.4	5.8
Bank deposits (pr. sector, yoy)	8.0	23.3	4.0	4.0
Lending int. rate (corp., eop)	2.3	3.0	3.1	2.9
Deposit int. rate (hhs, eop)	0.2	0.3	0.7	0.7

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

Zdenko Štefanides

Real Economy

The Polish economy has weathered the impact of the pandemic comparatively well, with real GDP contracting by just 2.7% in 2020, the lowest figure among the Central European countries. Its rebound was evident as early as 1Q21, even with the economy still partially closed. In response to the better-than-expected recent performance of the local economy, along with that of the Eurozone and its other trading partners, we raise our real GDP forecast for Poland to 4.4% this year and 4.8% next year, from the 3.6% and 4.5%, respectively, forecast in the March scenario.

Domestic demand appears to be the dominant feature of the recovery. In particular, household consumption has already returned to positive yoy growth and is set to grow further thanks to the resilient labour market and the release of the excessive savings accumulated during the pandemic. Investments are also poised to grow strongly. They surprised by rebounding in 1Q and with the timely execution of prospective EU-funded projects, investments may well push GDP growth in excess of 5% in the years ahead. We note that Poland has been granted funds worth EUR 23.9bn from the Resilience and Recovery Fund (RRF), the fifth highest level of absolute support within the EU. The inflow of these funds will culminate in 2023-25.

Financial Markets

The National Bank of Poland (NBP) has preferred to remain cautious throughout the pandemic, which has manifested in a historically low policy rate of 0.10% since May 2020 and massive quantitative easing. However, with the economy rebounding and inflation likely to remain above the central bank's target of 2.5% for the foreseeable future, a shift in policy stance appears inevitable. On the NBP's own forecast, if interest rates remain constant, the inflation rate is set to average 3% between 2021 and 2023. Markets have already been pricing in some tightening, pushing short rates up by about 30bps in the past quarter. The long end of the curve rose even more, with the 10Y government bond yield approaching 2% as markets started to also price in a tapering of asset purchases. We believe that the NBP will raise the policy rate towards the year end, by a symbolic 15bps. Early next year a regular rate hike of 25bps is likely, but thereafter the NBP will probably take a pause.

Banking Sector

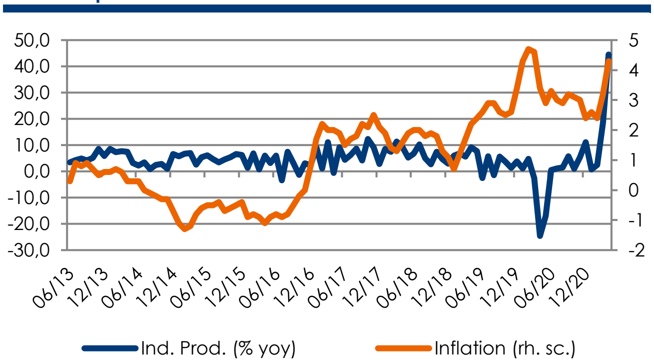
After a near standstill in 2020, loan volumes stabilised as 2021 opened and are set to resume growing now that the economy is recovering. In contrast, in the deposit market, volume growth is likely to slow markedly as households and companies deplete the savings they set aside in banks due to the lack of spending opportunities during the COVID-induced lockdowns. Despite slowing, however, the growth in deposits will probably slightly exceed the growth in loans this year and also next year. The ratio of loans to deposits – in pre-COVID times running close to 100% – is thus likely to remain at a comfortable level of about 80%.

Forecasts

	2019	2020	2021F	2022F
Real GDP yoy	4.1	-2.7	4.4	4.8
CPI (eop)	3.4	2.4	3.2	2.7
Euro exch. rate (value, eop)	4.3	4.5	4.6	4.5
Short-term rate (eop)	2.0	0.1	0.2	0.4
L/T bond yields (eop)	2.0	1.3	1.9	2.1
Bank loans (pr. sector, yoy)	4.7	0.4	4.1	4.0
Bank deposits (pr. sector, yoy)	9.7	12.8	5.6	5.1
Lending int. rate (corp., eop)	3.6	2.4	2.3	2.4
Deposit int. rate (hh, eop)	1.5	0.2	0.3	0.5

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

Industrial production and inflation



Source: Statistics Poland

Slovakia

Real Economy

Michal Lehuta

After a second wave of pandemic-driven recession in 1Q21 (-2.0% qoq), the Slovak economy is currently recovering due to the easing of restrictions on mobility and business since April. Besides most of the service sector returning to a new normal, industrial production and exports have already reached or even exceeded their pre-pandemic levels.

Despite the lower vaccination uptake among the population, strong foreign demand is expected to fuel local economic growth for the rest of the year, pulling the annual GDP dynamic to 4.4%, close to the euro area average in 2021. After this, a further economic expansion is expected, particularly in fixed investments thanks to the EU's Recovery and Resilience Fund (RRF), as well as the end year for regular EU structural and cohesion funds of 2023. From a shorter-term perspective, very good sentiment indicators, mobility measures and April's hard data all suggest a rebound of activity from 2Q21 onwards. However, new COVID mutations and vaccination hesitancy pose risks to the outlook, particularly for the coming fall and winter.

The labour market has been rather resilient, even during the second wave of recession, however it could be expected to take much longer than GDP to recover to its pre-pandemic levels. The current strong hiring activity may be offset by further layoffs due to the end of government fiscal support from July onwards. Inflation has been accelerating amid general supply-side factors, and has risen to more than 2% yoy. It should remain elevated even in 2022, with a significant rise in regulated energy prices expected in January.

Financial Markets

The money market has been stable, with the three-month Euribor rate below -0.53% p.a. At its June meeting, the ECB extended its larger PEPP asset purchases, which should keep even longer-term rates, as well as spreads, from growing further in the near future, particularly as a large share of the Slovak state debt is already held in Frankfurt. Over time interest rates are expected to slowly rise – first at the longer end of the curve, and perhaps from 2023 also at the short end. A stronger economic recovery and sustained higher inflation pose upside risks to this scenario.

Banking Sector

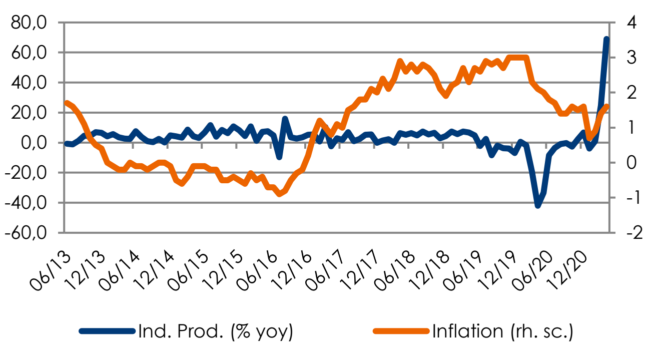
Local banking business has weathered the crisis relatively well as both loans and deposits continue to grow at about 6% yoy. In addition, the now-expired pandemic loan moratoriums have not had any significant impact on NPLs and loan-loss provisions were thus larger than necessary, meaning profits returned to growth during 1Q21. The increase in deposits should ease after the lockdown-related jump in winter. Lending should be supported by increasing real estate prices.

Forecasts

	2019	2020	2021F	2022F
Real GDP yoy	2.3	-5.2	4.4	4.9
CPI (eop)	3.0	1.6	2.5	2.3
Short-term rate (eop)	-0.4	-0.5	-0.6	-0.5
L/T bond yields (eop)	0.1	-0.5	0.2	0.4
Bank loans (pr. sector, yoy)	6.2	4.5	4.0	4.6
Bank deposits (pr. sector, yoy)	4.8	6.3	4.7	4.8
Lending int. rate (corp., eop)	2.1	1.7	1.8	1.8
Deposit int. rate (hh, eop)	0.1	0.0	0.0	0.0

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

Industrial production and inflation



Source: Statistical Office of Slovakia

Slovenia

Real Economy

Ivana Jović

Following a 4.5% contraction in 4Q20 and despite the containment measures in place throughout 1Q21, the economy surprised positively by recording 1.6% yoy growth. The rebound was mainly driven by domestic demand, more precisely by accelerated investments (+7.6% yoy, contributing 1.4% to headline growth) and to a lesser extent recovering private consumption (+0.4% yoy). The performance of exports was more modest (+0.8% yoy), as a solid 4.2% rebound in goods exports was overridden by a 14.1% slump in services. As expected, April's high frequency data brought extreme-low-base-effect-linked growth in industrial production (+35.9% yoy), retail trade (+25.2%) and exports (+55.2%), while the favourable epidemiological situation prompted the government to declare the end of the epidemic on June 15. Thus, as the recovery had kicked in already by 1Q, we see GDP expanding by about 5.0% in 2021, supported mainly by strengthening investment activity and private consumption as the labour market data indicates unemployment levels have returned to pre-pandemic levels. Both private consumption and investments will remain the main growth drivers in 2022, as net exports are expected to have less of a positive contribution amid the strengthening imports component, leading to estimated GDP growth of about 4.7%. Following the -0.3% fall in 2020, inflation is expected to reach an average of 1.5% this year and 1.9% next year.

Financial Markets

Ana Lokin

The 10Y Slovenian government bond spread on the Bund moved in a narrow range, from 30-40bps, in 2Q21. In this June scenario, we are slightly reducing the expected average and end of period spread in 2021 to 30bps and adjusting the yield in accordance with the lower spread and higher Bund forecasts (to an average of 0.1%, end of period 0.3%).

Banking Sector

Private sector loans recovered between February and April, ending April up by 0.9% vs. the end of 2020 (-1.4% yoy) as corporate loans rose by a sound 1.6% (-4.6% yoy) and household loans expanded by a modest 0.4% (1.5% yoy). NPEs remain low and the majority of moratoria (13% of private sector loans) will expire by the end of June. Credit demand is seen strengthening as the economic recovery gathers pace, which has prompted an upward revision of the 2021 loan growth forecast, from 1.9% yoy in the March scenario to 2.8% yoy in the June scenario.

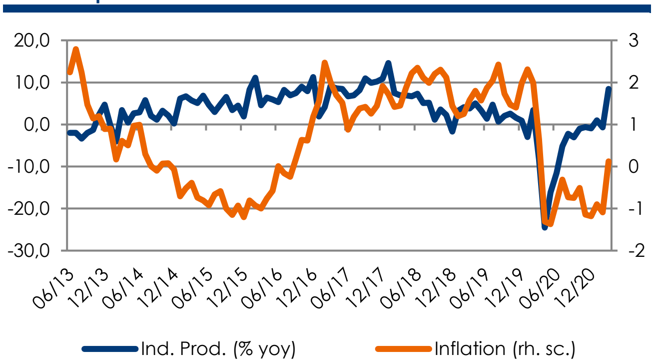
Deposits continued to increase at a healthy pace (April: 3.2% vs. end-20 and 11.8% yoy), with stronger growth in corporate (3.4% vs. end-20 and 16.6% yoy) than household deposits (3.1% vs. end-20 and 10.2% yoy). The rise is expected to moderate in the months ahead as consumption and investments pick up, but it nevertheless exceeded our expectations. We have therefore lifted our 2021 deposit growth projection to 5.8% yoy (from 4.0% yoy in our March scenario).

Forecasts

	2019	2020	2021F	2022F
Real GDP yoy	3.2	-5.5	5.0	4.7
CPI (eop)	2.0	-1.2	2.2	1.8
Short-term rate (eop)	-0.4	-0.5	-0.6	-0.5
L/T bond yields (eop)	0.2	-0.2	0.3	0.5
Bank loans (pr. sector, yoy)	3.7	-0.9	2.8	3.0
Bank deposits (pr. sector, yoy)	6.3	12.2	5.8	3.4
Lending int. rate (corp., eop)	2.2	2.3	2.0	2.0
Deposit int. rate (hhs, eop)	0.2	0.1	0.1	0.1

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

Industrial production and inflation



Source: Statistical Office of the Republic of Slovenia

Albania

Kledi Gjordeni

Real Economy

Economic activity contracted by 3.3% (less than expected) in 2020, but showed signs of recovery in the last period of the year, especially due to the strong contribution of the construction sector. After three consecutive gloomy quarters, in Q420 economic activity jumped out of the negative zone and reached a positive 3%. The expansion of domestic consumption (public investments and households consumption) in Q4, which rose from -3.23% to 1.81% qoq, and the significantly higher exports, which rose from -32% in Q3 to -12.8% in Q4, positively affected GDP growth in the final quarter of 2020.

The lack of a second lockdown, the opening of partner economies, the rise in domestic demand, earthquake reconstruction expenditures and remarkably improved exports suggest that a further recovery of the economy during 2021 is under way. GDP growth is expected to reach 4.8% this year, before slowing to 4.2% in 2022. During the period April-May 2021, inflation spiked at 1.85%, up from 0.9% in the first quarter of 2021, pushed higher by the rise in international commodity prices. Notwithstanding that inflationary pressures remain subdued and still well below the CB's target, the effect of supply-side shocks is expected to be transitional and not to jeopardise the return of inflation to the target within 2022. In 2020 public debt to GDP reached 76.1%, up from 66.3% the previous year.

Financial Markets

The monetary policy stance of Albania will continue to be accommodative and have a stimulating effect on consumption and investment, which in turn will support employment and wage growth.

Financial markets are functioning normally, and interest rates continue to be close to historical levels, despite some short-term fluctuations. The 1Y TB remains almost unchanged at 1.64%. Moreover, the exchange rate appears stable, with the euro to lek around 123.2. For the first time in the last two decades, the share of the lek loan portfolio was equal to the share of the foreign currency loan portfolio, something which will contribute to strengthening Albania's financial stability.

Banking Sector

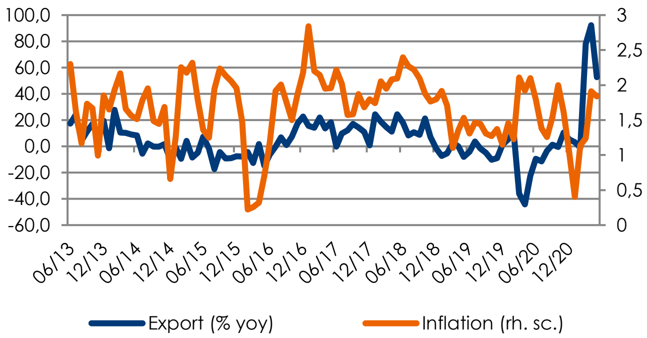
The CB estimates that the total loan portfolio increased by 6.7% during 2020. Lending to enterprises in lek, supported by state guarantee schemes, was the main contributor to credit growth. In April 2021 the total loans to the private sector grew by 6.65% yoy. Corporates grew by 6.75% and households by 6.46%. Total deposits increased by 8.6%, with 21.6% growth from corporates and 6.05% from households. New volumes in deposits were up 13.24%-plus. In April 2021 the non-performing loans ratio dropped to 7.88%, the lowest rate since 2009. Banking aggregates are now expected to slow down in 2021 and 2022.

Forecasts

	2019	2020	2021F	2022F
Real GDP yoy	2.2	-3.3	4.8	4.2
CPI (eop)	1.1	1.1	2.3	2.5
Euro exch. rate (value, eop)	121.9	123.3	125.0	127.0
Short-term rate (eop)	0.5	0.4	0.5	0.5
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	6.5	7.0	3.8	3.7
Bank deposits (pr. sector, yoy)	3.8	8.1	4.3	3.9
Lending int. rate (pr. sec., eop)	6.3	6.5	6.6	6.9
Deposit int. rate (pr. sec., eop)	0.7	0.4	0.7	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 a 4.5% contraction in 2020, the year kicked off on a more positive note as a rebound in activity was noted across the board. In particular, data for the first four months indicated a strong performance in industrial production (+11.5% yoy; o/w manufacturing +13.5%), reflecting rebounding domestic (retail trade up by 11% yoy, construction activity +3.5% yoy) and foreign demand (exports up by 25.7% yoy). Thus, the COVID impact remained limited mainly to the service sector as during 1Q21 turnover in the accommodation and food service sectors halved compared with the same quarter last year, while transportation and storage recorded 5.7% yoy nominal growth. Looking forward, as the third wave of the virus spread has eased and a substantial improvement in the so-far-slow vaccination programme is expected to take place during 3Q (around 2m doses to arrive), we see the recovery as continuing, leading to 3.2% growth in FY21. The upward revision in the expected recovery pattern in major EU economies will impact favourably on the local economy, through the remittances channel but more directly through the performance of exports, while strengthening investment activity will add positively to estimated headline figures. Thus, we see growth peaking at about 3.8% in 2022, although uncertainty linked to virus mutations remains elevated.

Following the deflationary 2020 (-1%), rising oil prices pushed average CPI over the first four months to -0.7% yoy (April CPI registered +0.9% yoy inflation). We see elevated inflationary pressures prevailing throughout the year with some upward risks to our 0.0% average 2021 call, while the strengthened growth outlook should fuel 1% inflation next year.

Banking Sector

Loans witnessed a healthy increase in the first four months of the year, ending April up by 1.2% vs. end-20 (1.1% yoy) amid solid 1.1% corporate loan growth (-0.1% yoy) and a sound 1.4% rise in household loans (2.3% yoy), thanks to rising consumer and housing loans. A faster recovery of lending than previously anticipated led to an upward revision of our 2021 loan growth forecast to 2.4% yoy (1.6% yoy in the March scenario), though this is still far below the pre-pandemic 2019 growth rate (6.7% yoy).

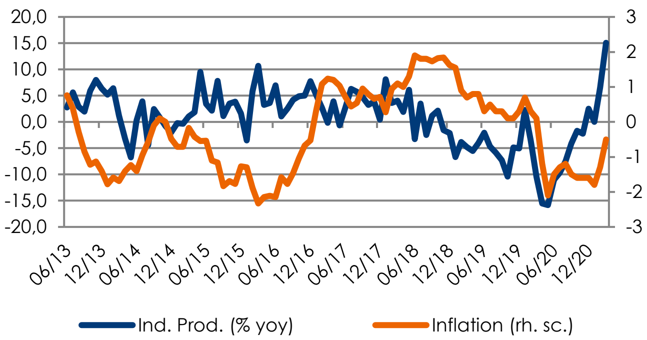
Deposits in April were 3.5% higher than at end-20 (12.0% yoy), with the rise in households driven by increased remittances and the improving labour market (3.7% vs. end-20; 9.2% yoy) and corporates (2.9% vs. end-20; 18.8% yoy) continuing to build liquidity buffers. Deposit growth is expected to subside by year-end and reach 5.4% yoy (3.8% yoy in the March scenario).

Forecasts

	2019	2020	2021F	2022F
Real GDP yoy	2.9	-4.5	3.2	3.8
CPI (eop)	0.3	-1.6	1.0	1.0
Euro exch. rate (value, eop)	2.0	2.0	2.0	2.0
Short-term rate (eop)	n.a.	n.a.	n.a.	n.a.
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	6.7	-2.5	2.4	3.8
Bank deposits (pr. sector, yoy)	8.4	6.5	5.4	4.9
Lending int. rate (corp., eop)	n.a.	n.a.	n.a.	n.a.
Deposit int. rate (hh, eop)	n.a.	n.a.	n.a.	n.a.

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

Industrial production and inflation



Source: Agency for Statistics of Bosnia and Herzegovina

Croatia

Real Economy

Ivana Jović

Q1 GDP data pointed to a strong recovery, although the recorded qoq growth (+5.8%) was not sufficient to reach the pre-pandemic level and the yoy decline amounted to 0.7%. The biggest drag on growth came from personal consumption (-0.4%), exports of services (-18.6%) and changes in inventories (-0.8%). On the other hand, positive contributions came from exports of goods and investment activity, posting 8.3% and 4.6% yoy growth, respectively.

There are several positive factors fuelling our upgraded expectations for the year: (i) the positive base effect impact and improved expectations for the EA; (ii) the solid vaccination rollout across the EU boosting positive expectations for tourism; and (iii) the growth of employment over the last couple of months supporting a rebound in personal consumption. In addition, we expect a further strengthening of investment activity amid the faster absorption of EU funds (mainly MFF 2014-2020) and the expected speedup of post-earthquake reconstruction. With the relatively favourable performance of the first quarter (especially compared to most other EU countries) in mind, as well as the aforementioned recovery factors, this year we expect GDP to rebound by 5.6%, and to strengthen further by 6.0% in 2022. The risks are mainly related to possible outbreaks of (new types of the) virus in the autumn. Although we see limited demand-side pressure on consumer price inflation, the pass-through from rising energy and commodities prices creates an upward push, lifting average CPI to about 1.7% in 2021 (from 0.1% in 2020).

Financial Markets

Ana Lokin

Under the watchful eye of the CNB, by mid-June the average EUR/HRK amounted to 7.55. We have therefore left our forecasted 2021 average close to central parity. Our projection of the average yield on the 10Y kuna government bond in 2021 remains at 0.7%, while the spread on the Bund was cut by 20bps to 90bps, following the solid rebound of economic activity.

Banking Sector

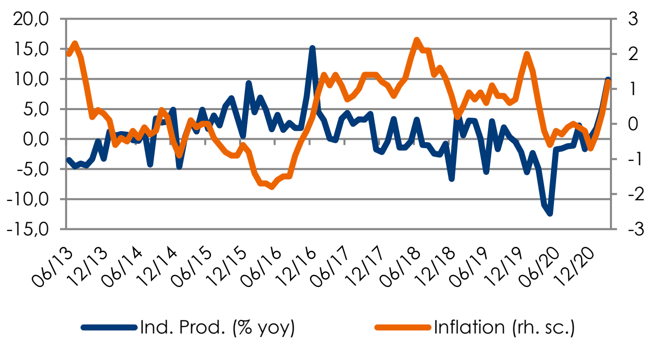
The pace of loans growth dropped off between February and April (1.5% yoy in April), with corporates losing ground (-0.2% yoy) while households started to recover (2.7% yoy). The months ahead should bring a continued strengthening of consumer demand as the labour market is improving and tourist season incomes are rising sharply. At the same time, the corporate sector is still postponing larger projects to 2022. Hence, we have raised this year's loan growth forecast only moderately, by 0.5pp to 3.5% yoy, to reflect the higher rise in retail lending. The rise in deposits softened in the past months (7.5% yoy in April), with household deposits expanding by 5.6% yoy and corporates by a steep 13.0% yoy. Compared with our previous scenario, we have slightly revised upwards our deposit growth projection, by 0.3pp to 4.2% yoy, as the liquidity build-up seems to be losing steam slower than we had anticipated.

Forecasts

	2019	2020	2021F	2022F
Real GDP yoy	2.9	-8.0	5.6	6.0
CPI (eop)	1.4	-0.7	2.1	1.8
Euro exch. rate (value, eop)	7.4	7.5	7.5	7.5
Short-term rate (eop)	0.4	0.2	0.2	0.1
L/T bond yields (eop)	0.6	0.7	0.7	0.9
Bank loans (pr. sector, yoy)	3.9	3.5	3.5	3.6
Bank deposits (pr. sector, yoy)	4.8	8.7	4.2	5.6
Lending int. rate (pr. sec., eop)	5.6	5.2	4.3	3.9
Deposit int. rate (pr. sec., eop)	0.2	0.1	0.1	0.1

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

Industrial production and inflation



Source: Croatia Bureau of Statistics

Romania

Real Economy

Marius Pacurari

The third wave of the COVID-19 pandemic is now behind Romania. Average daily infections have decreased from 20-25% of total tests to less than 0.5%. Overall, the country had 1.1m infected people, with 1.0m having recovered and 32,028 deaths. The main reason for the positive evolution is the progress of the vaccination programme. Almost 4.5 million people have been fully vaccinated, with the process of vaccination being in the third stage, where the vaccine is available to anyone.

In the first quarter of 2021, the evolution of GDP, at +2.8% qoq and -0.2% yoy, was in keeping with the trend of the previous quarter, stronger than expected and one of the highest in Europe. Under these circumstances and based also on the impact of the funds to come based on the Recovery and Resilience Plan, expectations for the next quarters and years are positive.

Our forecasts for GDP growth have therefore been updated as follows: +5.3% in 2021, +4.7% in 2022 and +4.1% in 2023. Also, for the years after that the forecasts have been improved further.

CPI remained above 3% in the March to May period, pushing the NBR to revise twice its projection for the end of 2021 to 4.1%. The main drivers for the rise in inflation are energy prices (local switch from subsidised to free market prices), oil prices on the international market and food prices on the international market. Of course, the evolution of other commodity prices will also have an important impact on CPI's development this year.

The government stated that the fiscal consolidation process had started and that the deficit is expected to go back below the 3% limit no earlier than 2024. In April the budget was at -1.81% of GDP.

Financial Markets

The easing cycle of monetary policy has now finished. The question now is when the NBR will start to take further tightening measures due to the evolution of CPI. The outstanding monetary policy rates are as follows: 0.75% deposit facility rate, 1.25% reference rate and 1.75% credit facility rate. The minimum reserve requirements remained at 5% for foreign currencies liabilities and 8% for local currency liabilities.

Banking Sector

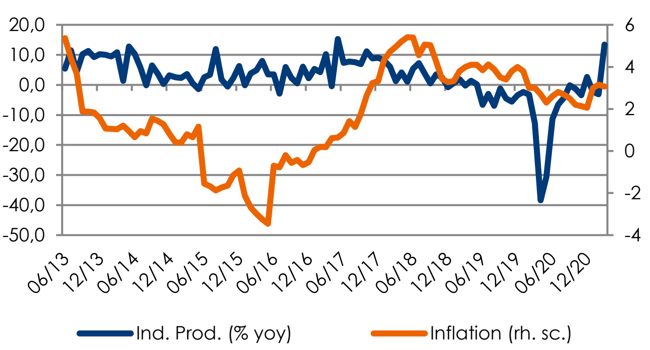
The solid growth in deposits of 2020 continued in the first four months of 2021. At the end of April yoy growth was still above 15%. In addition, credit volumes growth was solid in the first four months of 2021 – at the end of April yoy growth was above 8%. Local currency remained the most attractive for loans, while for deposits interest was split between EUR and RON. The dynamic of banking aggregates is forecast to remain strong in the next two years.

Forecasts

	2019	2020	2021F	2022F
Real GDP yoy	4.1	-3.9	5.3	4.7
CPI (eop)	4.0	2.1	3.7	2.7
Euro exch. rate (value, eop)	4.8	4.9	4.9	5.0
Short-term rate (eop)	3.1	2.0	1.4	1.5
L/T bond yields (eop)	4.7	3.3	3.6	3.8
Bank loans (pr. sector, yoy)	7.0	5.0	5.5	6.0
Bank deposits (pr. sector, yoy)	12.6	15.4	7.8	6.0
Lending int. rate (pr. sec., eop)	6.7	5.4	5.0	5.3
Deposit int. rate (pr. sec., eop)	2.3	1.5	1.1	1.1

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

Economic activity in 1Q21 outperformed expectations, increasing by 1.7% yoy, 0.5pp above our preliminary estimate. This growth was powered by a rise in investments (+10% yoy) and a strong external performance, with exports expanding by 7.6% and imports lowering by 1.4% in yoy terms. On the other hand, private consumption continued to weigh on growth, cutting 1.3pp from the headline figure. On the production side, construction and industry drove the growth, while trade recorded an increase after three quarters of posting a negative growth rate. Exaggerated by the very low base from last year, the latest high frequency indicators also reflected a continuation of the positive trend seen since the beginning of the year, especially in industry and exports, and we believe that GDP growth will move to double digits in 2Q. Encouraged by the better-than-expected economic results so far this year, the additional fiscal boost from the government (including the ongoing third fiscal package worth 4.3% of GDP), the good progress on the vaccination front and the related loosening of restrictions that is expected to boost the service sector's recovery, our GDP projection for the whole year is upgraded to 6%. In 2022 GDP growth is expected to moderate to about 4%, similar to the level seen before the crisis.

Stimulated by the low base, yoy inflation returned to within the target band in April (2.8%) and sped up to 3.6% in May, led by higher oil and vegetables prices. Core inflation stood at 2%, suggesting no substantial underlying inflationary pressures. May's print is likely to mark the inflation peak for the year, as it should slow as of June to about the 3% target midpoint by the end of the year.

Financial Markets

In June the NBS kept the key policy rate at 1%, marking the sixth consecutive on-hold decision after the last cut in December. Further easing is not expected given the improved growth outlook, while we also do not see a motive to hike with the dinar stable and inflation expectations well anchored. The NBS will continue to provide sufficient liquidity to the domestic banking sector and the accommodative conditions are forecast to persist into next year. The EUR/RSD rate remains virtually fixed at 117.6. The central bank has continued with occasional interventions, net selling EUR 5m between January and May. Given the sizeable reserve holdings, it has enough of a buffer to sustain its stable dinar policy and the average EUR/RSD is seen at 117.6 in 2021 and 117.7 in 2022.

Banking Sector

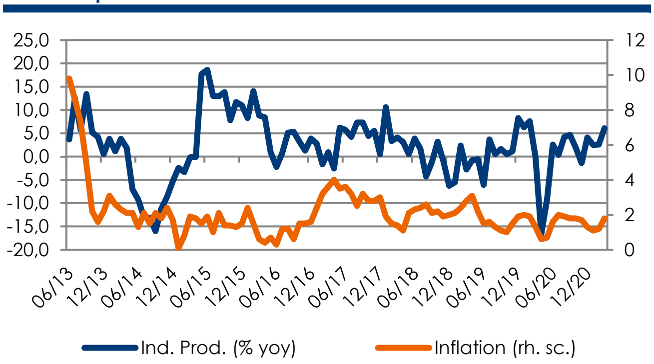
After strong growth in 2020 (11.1%), the positive trend in private sector lending is expected to continue, but at a slower pace (7.5% in 2021). In deposits, precautionary motives are expected to fade and a slowdown in deposit volumes growth to single digits is foreseen in 2021, with a slight upward revision of our previous forecast (from 4.9% to 6.5%). The adverse effects of the crisis are not yet visible in reported NPL ratios. Gross NPLs stood at 3.7% in April, which was unchanged compared to end-2020 and only 0.3pp higher relative to 3Q20.

Forecasts

	2019	2020	2021F	2022F
Real GDP yoy	4.2	-1.0	6.0	4.0
CPI (eop)	2.0	1.3	3.0	2.4
Euro exch. rate (value, eop)	117.6	117.6	117.6	117.8
Short-term rate (eop)	2.3	1.1	1.0	1.0
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	8.9	11.1	7.5	5.5
Bank deposits (pr. sector, yoy)	7.8	17.4	6.5	6.2
Lending int. rate (pr. sec., eop)	7.1	5.8	5.9	6.1
Deposit int. rate (pr. sec., eop)	2.0	1.5	1.4	1.4

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

Industrial production and inflation



Source: Statistical Office

Moldova

Olga Litvin

Real Economy

The effects of the COVID pandemic negatively affected the economy in 2020, with GDP contracting by 7% yoy. However, the economy is now showing signs of improvement, with GDP recording +1.8% yoy in 1Q21 after the negative growth recorded in the previous three quarters. On the demand side, the GDP expansion was due to the favourable effect from net investments (+2.9%), inventory contribution (+4.7%) and household consumption (+2.4%), which counteracted the -8.2% impact from net exports. The sectors with the most positive effects were industrial (+0.9%), construction (+0.4%) and information and communication (+0.4%). The 1Q performance, together with the rollout of vaccines and the recovery in consumer and investment confidence, is the basis for our forecasts of 4.2% and 4.3% yoy economic growth in 2021 and 2022, respectively. During Q1, 2021 inflation has been on an upward trajectory and as of May it had reached the 3.1% yoy level, below the 5% target but almost hitting the lower bound (3.5%). For 2021 and 2022, inflation is still expected to be below the target, but to pick up as the recovery strengthens, reaching the target by 2023.

Financial Markets

In May 2021 securities yields remained unchanged compared with the March 2021 level for all maturities, with the exception being the 0.03pp and 0.05pp increases in the 182- and 364-day T-bills, respectively. In the context of the COVID-19 crisis, the National Bank's goal is to ensure a stable liquidity level within the banking sector and to encourage demand in the market. The level of the rate applied to the main short-term monetary policy operations as of December 2020 and reconfirmed in June 2021 stands at 2.65% annually and is expected to be maintained in 2021, with slight gradual increases in the following years.

Banking Sector

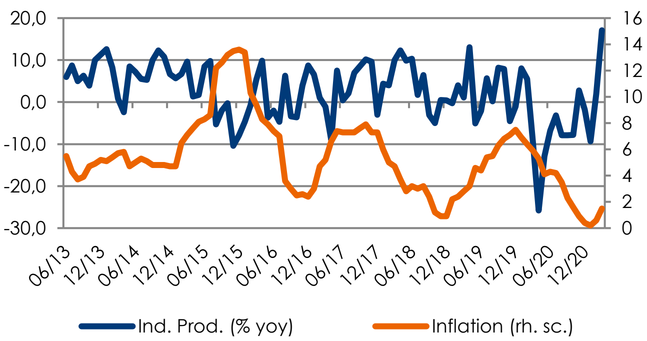
As of April 2021, the volume of private loans in the economy maintained its positive evolution, expanding by 15.7% yoy and reaching a total level of EUR 2.2 bn. The main drivers for this growth were household and corporate loans, with 23.5% and 11.6% yoy rises, respectively. Within the loan portfolio the highest contribution was provided by commercial loans (22.9%), followed by mortgages (18.1%) and consumption loans (17.2%). A similar evolution was recorded for the stock of private deposits, which had grown by 15.5% yoy as of April 2021. The latter was mainly due to the 20.6% growth in corporate deposits, mostly in local currency (+34.8%). The yoy growth of both loans and deposits is expected to gradually decelerate in the years of projection compared to the end of 2020 levels. Hence, loans are foreseen to grow by 8.9% and 7.4% yoy in 2021 and 2022, respectively, with a major role being played by legal entities and a smaller role by private individuals. Deposit growth in the years 2021 and 2022 will be 7.0% and 6.7%, respectively, slightly decreasing thereafter due to the reabsorption of the excess of deposits generated during 2020 as a result of the pandemic.

Forecasts

	2019	2020	2021F	2022F
Real GDP yoy	3.6	-7.0	4.2	4.3
CPI (eop)	7.5	0.4	3.9	4.9
USD exch. rate (value, eop)	17.5	17.2	17.9	18.5
Euro exch. rate (value, eop)	19.4	20.7	20.8	22.4
Short-term rate (eop)	5.5	2.7	2.7	3.3
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	13.9	13.1	8.9	7.4
Bank deposits (pr. sector, yoy)	7.7	16.5	7.0	6.7
Lending int. rate (corp., eop)	8.9	8.2	8.0	8.2
Deposit int. rate (hh, eop)	4.5	3.5	3.5	4.0

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

Elizaveta Sklianina

Real Economy

The vaccination process in Russia is moving quite slowly. As of mid-June, about 12.5% of people had been vaccinated (9.8% had been given two shots). The vaccines being used are Sputnik V, EpiVacCorona, Sputnik Lite and CoviVac. The number of cases per day has grown to more than 14k, with the greatest numbers recorded in the capital. This has caused new restrictions to be imposed in Moscow: 15-20 June holiday week, 30% of employees working on remote and closure of entertainment services and zones from 11p.m. to 6a.m.

As for the real economy, the GDP growth rate registered -3% at the end of 2020. The forecast for 2021 has been revised upwards to 3.5% as the economy is recovering faster than expected. The years 2022 and 2023 are presumed to show 2.8% and 2.1% growth, respectively. Industrial production is recovering, and reported a 7.2% yoy increase as of April. Manufacturing also registered a rise, increasing by 14.2% in the same month. The highest growth in April was recorded in retail sales (up by 34.7% yoy), wholesale trade (28.5%) and "paid services to the population" (52.1%). In terms of the labour market, a recovery trend is also shown here by the declining unemployment pattern (5.2% in April in comparison to 5.4% and 5.7% in the previous two months).

Financial Markets

At its last meeting on June 11, the CBR raised the key rate by 50bps to 5.5%, which was in line with market expectations. It also underlined the necessity to keep tightening due to higher inflationary risks. Based on the central bank's comments, the range of the most probable key rate ceiling for 2021 has shifted from 5.5-6.0% to 6.0-6.5%. Inflation is higher than the Bank of Russia's forecast as consumption is recovering faster than supply capacity can be increased, while prices for consumer products are increasing. In May inflation reached 6% (compared to 5.5% in April). As of June 7, the yoy inflation rate is estimated to have reached 6.15%. CPI is expected to get back to about 4% only in the second half of 2022. Moving on to exchange rates, the RUB is slowly following a gradual appreciation direction. As of June 18, the USD/RUB rate had reached 72.3 and the EUR/RUB 85.9.

Banking Sector

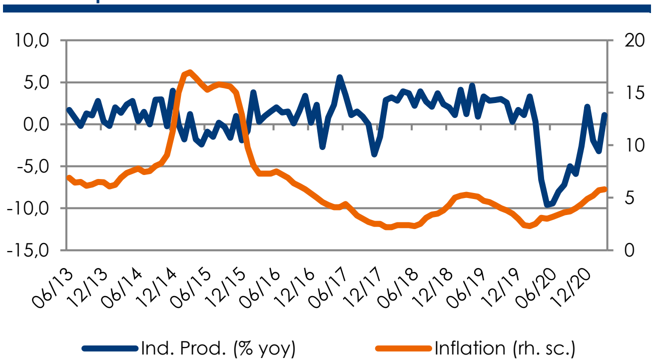
As the key rate is growing, so are loan and deposit rates. Returns on OFZ securities are also seeing the same upward trend. However, loan volumes are also seen to be increasing and are forecast to continue this pattern in the following several years. In addition, the attractiveness of bank deposits for the public will likely grow as well. Lending interest rates are anticipated to average 7% for 2021 and 8.3% and 8.5% in the subsequent two years. Average deposit interest rates are expected to register 3.7% this year and grow to 4.7% in 2022.

Forecasts

	2019	2020	2021F	2022F
Real GDP yoy	1.3	-3.0	3.5	2.8
CPI (eop)	3.0	4.9	4.9	4.1
USD exch. rate (value, eop)	62.9	76.8	73.0	69.5
Euro exch. rate (value, eop)	69.9	90.1	84.8	84.5
Short-term rate (eop)	6.6	4.9	6.5	6.5
L/T bond yields (eop)	6.4	5.9	7.6	7.9
Bank loans (pr. sector, yoy)	7.1	14.4	8.2	6.0
Bank deposits (pr. sector, yoy)	4.2	9.6	6.3	6.5
Lending int. rate (corp., eop)	7.8	6.3	7.9	8.3
Deposit int. rate (hh, eop)	4.7	3.4	4.6	4.7

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

Industrial production and inflation



Source: State Statistics Federal Service

Ukraine

Artem Krasovskyi

Real Economy

Despite the slow pace of the vaccination rollout, the spread of the virus has tangibly decelerated in May and June, with daily cases down to 1-2k from the peaks of 15-20k seen earlier in mid-spring. This, coupled with eased pandemic restrictions and businesses reopening, should bring strong momentum to economic activity and business sentiment starting from Q2. The GDP fall in Q1 accelerated to 2.2% yoy from 0.5% in Q420, understandably impacted by the recurring lockdowns, the increase in competition on some external markets, intensified tensions with Russia and the expansion of trade restrictions. We have kept our whole-year 2021 GDP forecast at +4.0% yoy, although somewhat worsened the expectations for 2022 from +4.1% yoy to +3.8%. Inflation in May accelerated to 9.5% yoy (+1.3% mom) from 8.4% in April (+0.7% mom). Even though the inflation hike was largely driven by temporary factors, e.g., rising world prices for energy and food commodities, inflationary pressure is likely to remain solid in the upcoming months. We have revised upwards our 2021 inflation EoP forecast from 6.9% to 7.5% yoy.

Financial Markets

Despite higher-than-expected inflation dynamics, the NBU kept the key rate unchanged at 7.50% during the monetary policy meeting in June. At the same time, it decided to gradually wind down its anti-crisis long-term refinancing tools, as such exhausting its positive contribution to economic support. UAH traded at year lows of 26.90-27.10 against the USD, having been strongly reappreciating during the last month on the back of favourable global commodities prices and good FX supply from offshore investors. The relief in tensions with Russia in the east of the country has tangibly improved investors' sentiment toward Ukraine. That helped FinMin meet this year's record-high appetite from foreign accounts at the recent primary government bond auctions, at the same time allowing the NBU to benefit from the extra FX supply on the market and refill monetary reserves.

Banking Sector

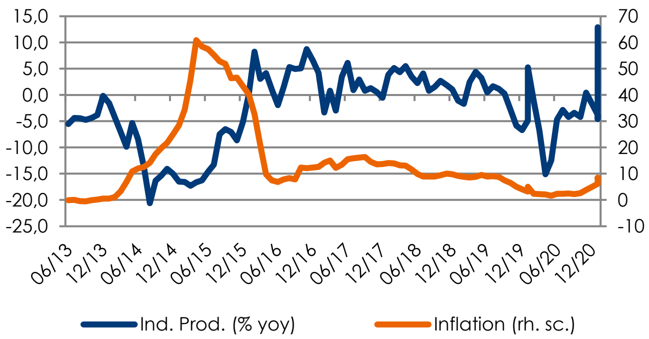
The gradual recovery of the economy contributed to increasing demand for banking services in Q1, but the profit of the banking sector was a third less than in the same period of 2020 and amounted to UAH 10.9 billion. The local currency loan portfolio increased in Q1 in both the corporate and retail segments: +4.6% (+3.8% yoy) and +6.6% (+7.3% yoy), respectively. The FX loan portfolio decreased by 1.9% (+16.4% yoy). The growth in households' local currency deposits slowed, but remained significant at +5.1% (+19.8 yoy), while corporate deposits declined slightly due to seasonal factors, although these had already started to rebound by March. Following the start of the monetary policy tightening cycle, the previous trend of decreasing bank interest rates has reversed in 2021.

Forecasts

	2019	2020	2021F	2022F
Real GDP yoy	3.2	-4.0	4.0	3.8
CPI (eop)	4.1	5.0	7.5	5.5
USD exch. (value, eop)	24.0	28.5	28.6	28.8
Euro exch. rate (value, eop)	26.2	34.3	33.2	34.9
Short-term rate (eop)	16.7	10.1	11.0	11.0
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	-8.0	-2.8	-5.0	3.0
Bank deposits (pr. sector, yoy)	9.6	33.6	7.0	6.2
Lending int. rate (pr. sector, eop)	18.6	12.6	13.1	13.1
Deposit int. rate (pr. sector, eop)	10.8	4.4	5.1	5.1

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

Industrial production and inflation



Source: State Statistics Service of Ukraine

Egypt

Samer Halim

Real Economy

The health situation in Egypt is stable, with the number of daily cases having been in decline since mid-May, reaching 591 cases per day on 17 June against more than 1,000 in the previous month. Egypt will start locally producing China's Sinovac COVID-19 vaccine in June. Real growth is expected to reach 5.3% yoy in FY 2021/22 and 5.9% in the medium term, supported by the communications sector (set to continue its upward trend due to digital transformation initiatives in different sectors) and mining (benefiting from the rise in oil prices). A continuation of stable growth is also expected in major sectors, especially construction and transportation on the back of ongoing mega infrastructure projects and increased government spending (the government targets raising its investments by more than 50% in FY 2021/22 to EGP 358.1Bn, 5.7% of GDP).

The estimate for average annual headline CPI in 2021 was revised downwards to 5.8%, affected by subdued demand in 1H21 (recording 4.4% during the period between January and May), but with the expectation this will gradually pick up amid the rise in prices of global commodities and the partial recovery of private consumption.

Financial Markets

Core interest rates are still projected to be kept unchanged in 2021, balanced by the expectation that inflation readings will continue to be affected by unfavourable base effects in the near term and uncertain global conditions on the one hand, but with robust growth on the other. Money market rates are likely to be stable against their current level (13.2%) over 2021 and 2022, with the need to attract foreign inflows to Egypt's debt market, although the budget deficit is on a decelerating trajectory (targeted at 6.7% of GDP in FY 2021/22 against 7.7% one year earlier). We also expect only a limited pace of depreciation for the EGP in 2022 on the back of the declining inflation differential with major trade partners, the partial recovery in tourism revenues and continuous foreign investments in EGP treasuries. The Finance Ministry is expecting an additional USD 4Bn in foreign inflows into Egyptian debt on the back of Egypt's inclusion in FTSE Russell's new frontier market sovereign bond index.

Banking Sector

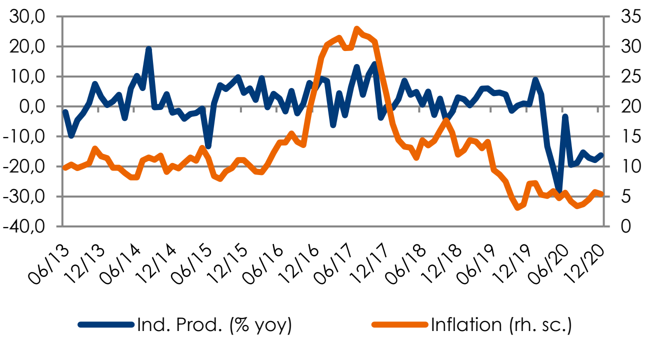
The expected annual growth rates of both private loans and deposits have been upwardly revised, to 12% and 11.7%, respectively, on the back of the strong performance of the retail sector and CBE measures to boost lending. They include measures such as extending its EGP 100Bn 5%-8% subsidised rates lending programme to more sectors, asking banks to increase SME loans to 25% of their loan portfolios (20% previously) and offering mortgages at a 3% subsidised rate over up to 30 years.

Forecasts

	2019	2020	2021F	2022F
Real GDP yoy	5.5	1.5	5.0	5.2
CPI (eop)	7.1	5.4	8.3	7.5
USD exch. rate (value, eop)	16.1	15.7	15.7	15.8
Euro exch. rate (value, eop)	17.9	19.1	18.2	19.2
Short-term rate (eop)	15.4	12.8	13.2	13.3
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	13.4	24.5	12.0	11.3
Bank deposits (pr. sector, yoy)	13.6	20.4	11.7	11.0
Lending int. rate (corp., eop)	13.8	9.7	9.6	9.7
Deposit int. rate (hh, eop)	9.2	7.4	7.4	7.4

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

The Economy

		GDP chg yoy			Ind.prod[1]. chg.yoy			Export nom. chg yoy			Retail sales chg yoy			Inflation chg yoy			Unemployment rate			Wages chg yoy			Economic Survey[2]		
		1Q21	4Q20	2020	Last	mth	1Q21	Last	mth	1Q21	Last	mth	1Q21	Last	mth	1Q21	Last	mth	1Q21	Last	mth	1Q21	Last	mth	1Q21
CEE	Czechia	-2.4	-4.8	-5.7	55.1	Apr	4.0	63.8	Apr	11.4	7.5	Apr	-1.7	2.9	May	2.2	4.1	Apr	4.3	11.3	Apr	2.1	99.4	May	83.3
	Hungary	-2.1	-3.6	-5.1	58.8	Apr	3.9	73.0	Apr	7.6	9.9	Apr	-3.2	5.1	May	3.2	4.4	Apr	4.5	8.7	Mar	9.3	103.9	May	91.1
	Poland	-1.4	-2.7	-2.7	44.5	Apr	7.3	27.3	Mar	14.5	25.7	Apr	2.8	4.8	May	2.7	6.3	Apr	6.5	9.9	Apr	5.8	106.7	May	90.3
	Slovakia	0.2	-2.1	-5.2	69.0	Apr	7.2	73.0	Apr	7.3	11.5	Apr	-10.4	1.6	Apr	1.0	8.0	Apr	7.9	8.8	Mar	4.5	103.1	May	85.6
	Slovenia	1.6	-4.5	-5.5	35.9	Apr	4.0	55.3	Apr	6.2	24.2	Apr	4.5	2.2	May	-0.6	8.5	Mar	9.0	1.0	Apr	9.3	109.3	May	98.6
SEE	Albania	n.a.	3.0	-3.3	n.a.	n.a.	n.a.	78.6	Mar	27.0	n.a.	n.a.	n.a.	1.9	Apr	0.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Bosnia H.	n.a.	-3.8	-4.5	25.4	Apr	5.7	59.8	Apr	16.6	46.1	Apr	2.2	0.9	Apr	-1.2	33.4	Mar	33.7	4.1	Mar	2.9	n.a.	n.a.	n.a.
	Croatia	-0.7	-7.2	-8.0	17.3	Apr	4.0	32.7	Mar	10.2	32.6	Apr	4.9	2.1	May	0.4	8.9	Apr	9.6	6.3	Mar	4.2	106.6	May	99.7
	Romania	-0.2	-1.4	-3.9	68.0	Apr	2.7	113.2	Apr	4.2	42.8	Apr	4.0	3.8	May	3.1	3.2	Apr	3.3	11.9	Apr	6.4	104.1	May	91.3
	Serbia	1.7	-1.0	-1.0	33.9	Apr	3.7	73.2	Apr	13.6	42.0	Apr	3.8	3.6	May	1.4	n.a.	n.a.	n.a.	9.4	Mar	7.2	n.a.	n.a.	n.a.
CIS & MENA	Moldova	1.8	-3.3	-7.0	50.4	Apr	3.2	45.7	Apr	2.1	66.2	Apr	9.5	3.1	May	0.8	n.a.	n.a.	4.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Russia	-1.0	-1.8	-3.0	7.2	Apr	-1.3	47.6	Apr	2.9	34.7	Apr	-1.7	6.0	May	5.6	5.2	Apr	5.6	8.4	Feb	7.2	51.9	May	51.1
	Ukraine	-2.2	-0.6	-4.0	12.9	Apr	-2.0	18.7	Apr	3.6	30.9	Apr	7.7	9.5	May	7.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Egypt	2.9	2.0	1.5	5.1	Mar	-2.9	43.5	Mar	11.0	n.a.	n.a.	n.a.	4.8	May	4.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	48.6	May	48.0
	m.i. E. A.	*-1.3*	*-5.1*	*-6.5*	*39.3*	*Apr*	*3.3*	*43.2*	*Apr*	*0.5*	23.9	Apr	2.1	*2.0*	*May*	*1.1*									

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

Markets and Ratings

		S/T rates[1]		L/T rates[2]		Foreign exchanges[3]			Stock markets		CDS spread (bp)		FX res. chg (mln €)[4]			CA bal. (mln €)5		Rating
		22/06	chg	22/06	chg	22/06	3M*	1Y*	3M*	1Y*	22/06	22/03	1Q21	4Q20	2020	1Q21	4Q20	Moody's
CEE	Czechia	0.4	0.0	1.7	-0.2	25.53	-2.07	-4.25	7.2	25.5	31.6	34.4	n.a.	n.a.	n.a.	n.a.	5970	Aa3
	Hungary	1.0	0.2	2.9	0.1	353.85	-3.67	2.19	9.9	29.6	57.7	58.1	n.a.	n.a.	n.a.	n.a.	n.a.	Baa3
	Poland	0.1	0.1	1.8	0.3	4.54	-1.67	1.89	14.6	30.8	42.8	50.7	n.a.	n.a.	n.a.	5864	18605	A2
	Slovakia	-0.5	0.0	0.0	0.1	Euro	Euro	Euro	-0.2	1.6	43.0	45.3	n.s.	n.s.	n.s.	185	-327	A2
	Slovenia	-0.5	0.0	0.1	0.1	Euro	Euro	Euro	14.3	31.7	62.8	63.1	n.s.	n.s.	n.s.	812	909	A3
SEE	Albania	0.5	-0.6	n.a.	n.a.	122.5	-0.78	-1.39	n.a.	n.a.	n.a.	n.a.	n.a.	-143	n.a.	n.a.	-352	B1
	Bosnia H.	n.a.	n.a.	n.a.	n.a.	1.96	Board	Board	n.a.	n.a.	n.a.	n.a.	n.a.	268	650	n.a.	-104	B3
	Croatia	0.4	0.0	0.6	-0.2	7.49	-1.12	-0.72	6.7	20.7	79.9	81.7	2170	630	382	n.a.	-375	Ba1
	Romania	1.3	-0.2	3.4	0.1	4.93	0.82	1.73	4.8	31.4	82.3	86.1	-2453	5605	5605	-2549	-10983	Baa3
	Serbia	1.0	0.0	n.a.	n.a.	117.56	-0.02	0.0	-1.4	19.4	122.2	122.2	784	461	113	159	-211	Ba2
CIS & MENA	Moldova	2.7	0.0	NA		17.96	0.76	3.64	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	17	B3
	Russia	6.4	1.3	7.2	0.1	73.2	-1.27	5.21	9.5	29.7	82.9	103.2	-22452	12348	9290	16800	6141	Baa3
	Ukraine	10.4	-0.2	12.9	0.2	27.37	-1.16	2.65	1.6	24.4	370.4	400.5	-1942	2575	3471	-1045	655	B3
	Egypt	13.2	0.2	14.9	0.2	15.68	-0.48	-3.09	-12.4	-20.5	342.1	341.6	274	1638	-5357	n.a.	-4849	B2
	m.i.A.E.	*-0.5*	*0.0*	*-0.2*	*0.1*	*1.2*	*-0.3*	*5.8*	*7.7*	*21.7*	*5.6*	*5.0*						

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

Banking aggregates and interest rates (private sector)

		Loans chg yoy %			NPL/Loans %			Foreign Liab. chg yoy %			Deposits chg yoy %			Loans rate1-NewB*. %				DepositsRate1-NewB*. %				Loans/Dep %		
		Last	Mth	2020	Last	mth	2020	Last	mth	2020	Last	Mth	2020	Last	mth	2020	S[4]	Last	mth	2020	S[4]	Last	mth	2020
CEE	Czechia	3.5	Apr	4.1	2.7	Apr	2.7	-11.4	Apr	-1.4	11.5	Apr	11.9	1.47	Apr	1.88	C	0.56	Apr	0.59	H	68.5	Apr	69.8
	Hungary	10.2	Apr	13.4	0.9	Dec	0.9	3.6	Apr	-11.9	18.6	Apr	23.3	2.86	Apr	3.05	C	0.34	Apr	0.3	H	76.4	Apr	75.0
	Poland	-1.5	Apr	0.4	4.0	Mar	3.7	-7.7	May	10.4	10.5	Apr	12.8	2.06	Apr	2.4	C	0.16	Apr	0.16	H	81.6	Apr	82.4
	Slovakia	3.5	Apr	4.5	2.7	Apr	2.7	-16.5	Apr	-18.9	5.9	Apr	6.3	2.22	Apr	1.71	C[2]	0.02	Apr	0.03	H[2]	101.4	Apr	101.0
	Slovenia	-1.4	Apr	-0.9	1.4	Apr	1.9	2.7	Apr	2.0	11.8	Apr	12.2	2.07	Apr	2.26	C[2]	0.12	Apr	0.13	H[2]	63.5	Apr	64.9
SEE	Albania	6.7	Apr	7.0	7.9	Apr	8.1	-3.2	Apr	-6.8	8.6	Apr	8.1	5.94	Apr	6.48	PS	0.42	Apr	0.42	PS	53.4	Apr	53.6
	Bosnia H.	1.1	Apr	-2.5	6.0	Mar	6.1	-29.5	Apr	-25.5	12.0	Apr	6.5	2.96	Apr	2.87	C	0.45	Apr	0.18	H	92.9	Apr	95.0
	Croatia	1.5	Apr	3.5	5.3	Mar	5.4	22.7	Apr	7.3	7.5	Apr	8.7	5.26	Apr	5.21	PS	0.05	Apr	0.1	PS	71.7	Apr	72.2
	Romania	8.5	Apr	5.0	3.9	Apr	3.8	-3.7	Apr	-6.2	15.3	Apr	15.4	5.68	Apr	5.42	PS	1.11	Apr	1.52	PS	68.4	Apr	67.8
	Serbia	8.9	Apr	11.1	3.9	Mar	3.7	1.6	Apr	6.3	15.9	Apr	17.4	6.5	Apr	5.79	PS	1.28	Apr	1.51	PS	92.8	Apr	92.6
CIS & MENA	Moldova	19.0	May	13.1	7.5	May	7.4	19.6	Apr	4.6	17.2	May	16.5	8.34	May	8.2	C	3.23	May	3.49	H	59.1	May	57.3
	Russia	12.9	Mar	14.4	8.8	Dec	8.8	1.5	Apr	10.5	7.6	Mar	9.6	6.03	Mar	6.25	C	3.22	Mar	3.38	H	115.1	Mar	113.2
	Ukraine	-4.2	Apr	-2.8	39.6	Apr	41.0	-11.7	Apr	-5.4	24.6	Apr	33.6	12.65	Apr	12.58	PS	4.27	Apr	4.37	PS	75.5	Apr	74.0
	Egypt	22.5	Mar	24.5	3.6	Dec	3.6	47.6	Mar	40.3	21.4	Mar	20.4	9.4	Apr	9.7	C	7.4	Apr	7.4	H	35.3	Mar	35.4
	m.i. E. A.	2.6	*Apr*	*-1.3*	*n.a.*	*n.a.*	*n.a.*	*1.6*	*Apr*	*1.2*	*6.3*	*Apr*	*9.3*	*1.3*	*Apr*	*1.3*	*C*	*0.2*	*Apr*	*0.2*	*H*	*75.0*	*Apr*	*75.4*

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

Country Outlook

The Economy

	GDP (% yoy)	2018	2019	2020	2021F	2022F	Inflation (%, avg)	2018	2019	2020	2021F	2022F
CEE	Czech Rep.	2.8	2.6	-5.7	3.2	4.5	Czech Rep.	2.1	2.8	3.2	2.8	2.4
	Hungary	5.4	4.6	-5.1	5.9	5.0	Hungary	2.8	3.4	3.3	4.2	3.3
	Poland	5.1	4.1	-2.7	4.4	4.8	Poland	1.7	3.4	3.4	3.5	3.0
	Slovakia	4.0	2.3	-5.2	4.4	4.9	Slovakia	2.5	2.7	2.0	1.9	2.4
	Slovenia	4.4	3.2	-5.5	5.0	4.7	Slovenia	1.9	1.7	-0.3	1.5	1.9
SEE	Albania	4.1	2.2	-3.3	4.8	4.2	Albania	2.0	1.4	1.6	1.8	2.4
	Bosnia Herzegovina	3.1	2.9	-4.5	3.2	3.8	Bosnia Herzegovina	1.4	0.6	-1.0	0.0	1.0
	Croatia	2.8	2.9	-8.0	5.6	6.0	Croatia	1.5	0.8	0.1	1.7	2.0
	Romania	4.4	4.1	-3.9	5.3	4.7	Romania	4.6	3.8	2.6	3.4	3.0
	Serbia	4.5	4.2	-1.0	6.0	4.0	Serbia	2.0	1.9	1.6	2.5	2.7
CIS &	Moldova	4.0	3.6	-7.0	4.2	4.3	Moldova	3.1	4.9	3.8	3.2	4.4
MENA	Russia	2.3	1.3	-3.0	3.5	2.8	Russia	2.9	4.5	3.4	5.3	4.3
	Ukraine	3.4	3.2	-4.0	4.0	3.8	Ukraine	11.0	7.9	2.7	7.9	6.5
	Egypt	5.4	5.5	1.5	5.0	5.2	Egypt	14.4	9.4	5.1	5.8	7.9

Markets

	Exch.rate (avg Euro)	2018	2019	2020	2021F	2022F	Interest rate (%, avg)	2018	2019	2020	2021F	2022F
CEE	Czech Rep.	25.6	25.7	26.5	25.8	25.9	Czech Rep.	1.3	2.1	0.9	0.5	1.2
	Hungary	318.8	322.6	351.1	357.9	351.4	Hungary	0.1	0.2	0.7	1.0	1.2
	Poland	4.3	4.3	4.4	4.6	4.5	Poland	1.7	1.7	0.6	0.1	0.3
	Slovakia	-	-	-	-	-	Slovakia	-0.3	-0.4	-0.4	-0.5	-0.5
	Slovenia	-	-	-	-	-	Slovenia	-0.3	-0.4	-0.4	-0.5	-0.5
SEE	Albania	127.6	123.0	123.4	123.9	126.2	Albania	1.2	0.8	0.5	0.5	0.5
	Bosnia Herzegovina	1.96	1.96	1.96	1.96	1.96	Bosnia Herzegovina	-	-	-	-	-
	Croatia	7.4	7.4	7.5	7.5	7.5	Croatia	0.5	0.5	0.3	0.3	0.1
	Romania	4.7	4.7	4.8	4.9	5.0	Romania	2.8	3.1	2.4	1.5	1.5
	Serbia	118.3	117.9	117.6	117.6	117.7	Serbia	3.1	2.7	1.5	1.0	1.0
CIS &	Moldova (USD)	16.8	17.6	17.3	17.7	18.2	Moldova	6.5	6.9	3.4	2.7	3.2
MENA	Russia (USD)	62.7	64.7	72.6	74.5	71.1	Russia	7.7	7.8	5.4	5.6	6.5
	Ukraine (USD)	27.3	26.1	26.9	28.0	28.6	Ukraine	18.4	18.9	12.2	10.6	11.0
	Egypt (USD)	17.8	16.8	15.8	15.7	15.8	Egypt	18.8	17.1	13.1	13.1	13.3

Banking aggregates (% change yoy)

	Loans (pr. sector)	2018	2019	2020	2021F	2022F	Deposits (pr. sector)	2018	2019	2020	2021F	2022F
CEE	Czech Rep.	6.8	5.2	4.1	3.2	4.8	Czech Rep.	6.9	6.1	11.9	4.2	4.2
	Hungary	10.6	13.2	13.4	7.4	5.8	Hungary	14.3	8.0	23.3	4.0	4.0
	Poland	7.9	4.7	0.4	4.1	4.0	Poland	9.4	9.7	12.8	5.6	5.1
	Slovakia	9.1	6.2	4.5	4.0	4.6	Slovakia	7.3	4.8	6.3	4.7	4.8
	Slovenia	2.6	3.7	-0.9	2.8	3.0	Slovenia	6.7	6.3	12.2	5.8	3.4
SEE	Albania	-3.8	6.5	7.0	3.8	3.7	Albania	-0.9	3.8	8.1	4.3	3.9
	Bosnia Herzegovina	5.5	6.7	-2.5	2.4	3.8	Bosnia Herzegovina	8.5	8.4	6.5	5.4	4.9
	Croatia	2.3	3.9	3.5	3.5	3.6	Croatia	5.0	4.8	8.7	4.2	5.6
	Romania	7.9	7.0	5.0	5.5	6.0	Romania	9.2	12.6	15.4	7.8	6.0
	Serbia	9.9	8.9	11.1	7.5	5.5	Serbia	14.9	7.8	17.4	6.5	6.2
CIS &	Moldova	5.9	13.9	13.1	8.9	7.4	Moldova	6.0	7.7	16.5	7.0	6.7
MENA	Russia	15.0	7.1	14.4	8.2	6.0	Russia	14.2	4.2	9.6	6.3	6.5
	Ukraine	6.3	-8.0	-2.8	-5.0	3.0	Ukraine	7.9	9.6	33.6	7.0	6.2
	Egypt	15.3	13.4	24.5	12.0	11.3	Egypt	13.8	13.6	20.4	11.7	11.0

Banking interest rates (%)

	Lending (Corp. avg)	2018	2019	2020	2021F	2022F	Deposits (HH avg)	2018	2019	2020	2021F	2022F
CEE	Czech Rep.	2.7	3.2	2.3	2.0	2.5	Czech Rep.	0.9	1.5	0.8	0.7	1.1
	Hungary	2.3	2.5	2.8	3.0	3.0	Hungary	0.2	0.2	0.3	0.5	0.7
	Poland	3.5	3.6	2.7	2.1	2.2	Poland	1.7	1.6	0.5	0.2	0.3
	Slovakia	2.2	1.9	1.9	1.9	1.8	Slovakia	0.1	0.1	0.0	0.0	0.0
	Slovenia	2.2	2.1	2.1	2.0	2.0	Slovenia	0.2	0.2	0.1	0.1	0.1
SEE	Albania	8.1	7.2	6.2	6.2	6.7	Albania	0.7	0.7	0.5	0.5	0.7
	Bosnia Herzegovina	-	-	-	-	-	Bosnia Herzegovina	-	-	-	-	-
	Croatia	6.4	5.8	5.5	4.8	4.1	Croatia	0.6	0.3	0.1	0.1	0.1
	Romania	7.0	7.3	6.2	5.2	5.2	Romania	1.7	2.2	1.9	1.1	1.1
	Serbia	8.6	8.0	5.9	6.0	6.1	Serbia	2.7	2.5	1.6	1.4	1.4
CIS &	Moldova	9.1	8.8	8.5	8.1	8.2	Moldova	4.5	4.3	4.1	3.5	3.9
MENA	Russia	8.9	8.7	6.8	7.0	8.3	Russia	5.4	5.4	3.8	3.7	4.7
	Ukraine	19.0	19.8	14.3	12.7	13.1	Ukraine	12.0	12.9	6.1	4.6	5.1
	Egypt	18.3	16.1	11.4	9.6	9.7	Egypt	12.3	11.0	7.8	7.4	7.4

Source: Intesa Sanpaolo Research Department forecasts

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