INTESA SANPAOLO

International Research

Economic and Banking Outlook

December 2021

Countries with ISP subsidiaries

Quarterly Note

Research Department

International Research Network

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International Research Network Team

Viewpoint

GDP growth forecasts have been revised slightly upwards in 2021 and kept roughly unchanged, still showing a dynamic trend, for 2022-2023 overall. Due to intense and persistent inflationary pressures, CBs, already on a tightening path, are expected to raise policy rates further in 2022.

After the strong rebound in GDP growth in 2Q21, as expected the business cycle softened overall in 3Q21 and, according to the most recent high-frequency indicators, also in 4Q21. Despite the outbreak of a new wave of COVID-19 infections in the autumn, emerging bottlenecks in the GVCs and worldwide logistics logjams, constraining production in certain (mainly automotive) sectors, the recovery is maintaining a strong pace overall.

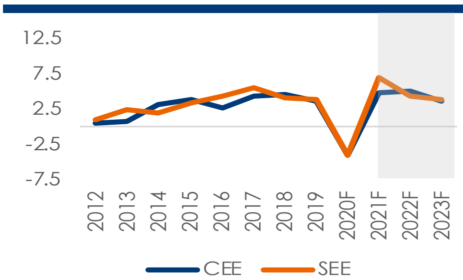
Our growth forecasts are revised slightly upwards with respect to our September Outlook. In 2021 we raise our forecast by 0.1pp to 5.5% in the CEE/SEE region, though we cut the CEE area's growth rate by 0.1pp, on average, to 5% due to a disappointing industrial performance in 3Q in CZ, HU, SK and RO. In the SEE area, output is raised by 0.6pp to 7%, thanks to the strong GDP outcome in 3Q in HR, RS and RO. We also revise upwards growth in 2021 in the CIS region, raising this by 0.3pp to 4.3% (supported in Russia by recovering energy prices), and in Egypt, by 1.2pp to 6.2%. The forecasts are kept roughly unchanged for the years 2022-2023, with growth rates at 4.3%, on average, for the CEE/SEE region, 2.4% for the CIS region and 5.2% for Egypt, gradually moving back towards their long-term potential. The risks for growth, however, still tilt on the downside due to the uncertainty surrounding the pandemic and the success of the vaccination campaigns.

Fuelled by the sharp rise in energy prices, bottlenecks in global value chains and higher transport costs, which have occurred alongside a supply-constrained rebound in final demand, CPIs have significantly increased in the last few months. In the context of an intense and more persistent than anticipated acceleration of inflation, we revise the dynamic of consumer prices, both in 2021 and 2022. Inflation is now forecast to average 4.1% ca. in 2021 (6.6% at year-end) in the CEE/SEE region (0.5pp and 1.9pp, respectively, above our September Outlook), 6.7% ca. (8.8% at year-end) in Russia (0.6pp and 2.9pp, respectively, above our September Outlook), and 5.2% (5.9% at year-end) in Egypt. Inflation rates are, however, expected to start softening before the 2022 year-end and to converge again, overall, to the targets set by CBs in 2023.

The spikes in CPIs led the CBs of CZ, HU, PL and RO in the CEE/SEE region and MD, RU and UA in the CIS region to bring in further sharp increases in policy rates in 4Q21. Further hikes are foreseen also in 1H22, before rates start easing again as inflation returns towards targets. A dovish tone is still expected in 2022 in AL and (depending on inflation projections) in RS, in the EA countries (SK, SL) and in HR, which is expected to join the EMU from January 2023. The upward profile of long-term yields is consequently raised along the forecast horizon, mainly due to the upward shift already recorded by Bunds and UST bond yields.

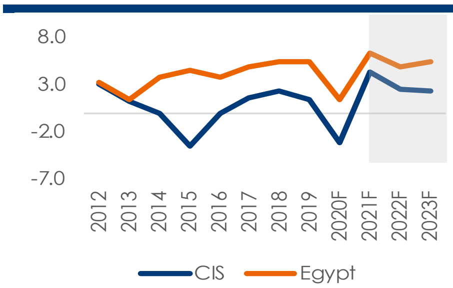
Following the strong increase in 2021, banking aggregates are expected to decelerate in 2022 and 2023. In detail, loans are forecast to grow at an average of 5% (from 7.1% in 2021) in 2022-23 in the CEE/SEE region, at an average of 6.5% (from 12.4%) in the CIS area and at 11% ca. (from 15.3%) in Egypt, as COVID-related supportive measures fade away. Deposit growth rates, which, as expected, have already been moving along a decelerating path in 2021 (to 9.6% avg. in 2021, from 13.6% average in 2020 among the ISP countries) are expected to slow in 2022-23 to an average of 7.1%.

GDP % yoy CEE/SEE (2021F-2023F)*



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

GDP % yoy CIS/Egypt (2021F-2023F)*



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

Based on information available to 17.12.2021

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ALBANIA
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ROMANIA
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SLOVAKIA AND CZECH REPUBLIC
VÚB BANKA

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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, Francesca Pascali and Davidia Zucchelli

After the strong rebound of GDP in 2Q21 in the **CEE and SEE areas** at 11.7% yoy (1.7% qoq) and 14.2% yoy (1.3% qoq), respectively, in Q3, GDP trends continued to be positive, though at lower rates, at 4.7% yoy (1.7% qoq) in the CEE area and 8.0% yoy (0.6% qoq) in the SEE region (excluding Albania and Bosnia H, for which Q3 GDP data have not yet been released).

Despite increases in COVID infection rates, high-frequency indicators point to robust economic activity in Q4 of this year, albeit slowing

After a fall in the summer season, the number of new daily COVID infections increased again in 4Q21 in the CEE/SEE region and, as reported by the Stringency index, containment measures have been strengthened again in some countries (such as in Slovakia and Czech Republic, where lockdown restrictions were imposed again, though these are limited to unvaccinated people). Despite that, the high-frequency indicators, albeit slowing down, still point – with a few exceptions – to robust economic activity in the final months of 2021 overall. In October, **industrial production** in the CEE/SEE region rose by 1.4% (vs 2.4% in September, on a weighted average basis), however with significant differences among countries, ranging from -4.9% in Czech Republic to +7.8% in Poland, and from -8.5% in Romania to 15.4% in Bosnia H. **Exports** growth also remained robust in October, at 6.4% (weighted average, excluding Poland and Croatia, for which October data have not yet been released). In the same month, **retail sales** rose by about 9.7% yoy in the whole region, performing particularly well in Poland (14.4%), Croatia (13.9%) and Serbia (10%). In November, the **ESI** increased to 102.1 (from 101.6 in October), in line with the Q3 average, although with some differences among the CEE/SEE countries, ranging from 91.6 in Czech Rep and 112.7 in Hungary among CEE, and from 99.5 in Romania to 111.3 in Serbia for SEE countries.

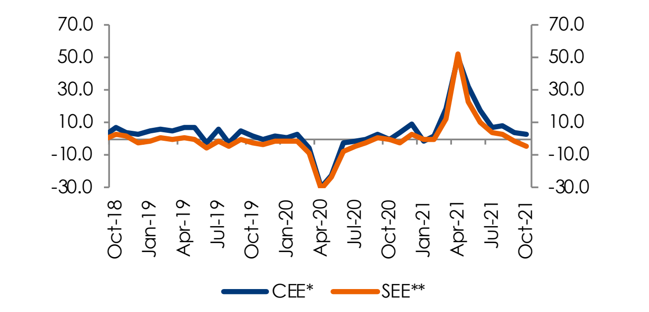
Consumer prices on accelerating path and in most cases above central bank targets

Inflation increased significantly overall over the year, with a sharp acceleration in consumer prices, particularly in the last couple of months. During 2021, the inflation rate has risen from 2.2% in January to 6.3% in November in the CEE/SEE region, moving well above the upper threshold of central bank target corridors in Czech Rep, Hungary, Poland, Romania and Serbia. External factors, such as the lagged impact of previous increases in energy prices and transport costs, as well as bottlenecks in global supply chains, are pushing up consumer price indices, in addition to internal factors: namely, the strong (above potential) recovery of demand both for final consumption and investments.

In the last meetings, policy rates were further increased in Czech Rep, Hungary, Poland and Romania

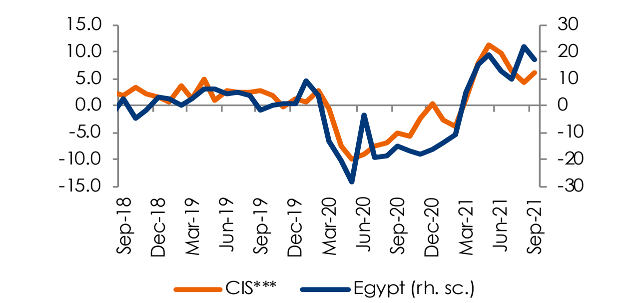
To counteract the inflationary pressures, in the last meetings, the central banks of Hungary, Czech Republic, Poland and Romania (but not Serbia) further increased **policy rates**, to 2.40% (from a previous 2.10%), 2.75% (vs 1.50%), 1.75% (vs 1.25%) and to 1.75% (vs 1.50%), respectively. In line with upwardly revised inflationary expectations, **long-term yields** have also risen slightly overall in the last three months, with a widening of spreads vs the EA benchmark. Local **currencies** stayed quite stable in most cases, with some depreciation vs the euro occurring in the case of Hungary and Poland's currencies.

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

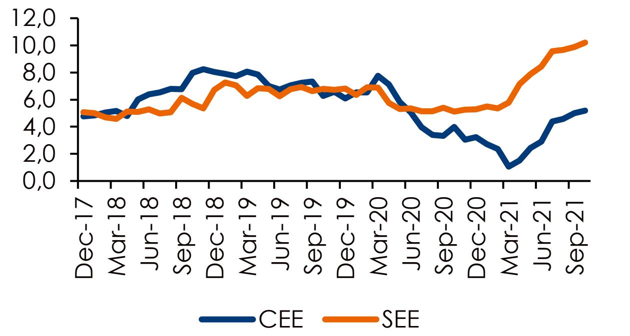
Monetary policy normalisation has continued in Russia and Ukraine

Outside the CEE/SEE region, the fourth wave of COVID-19 infections, which hit **CIS countries** in October and November severely, saw a new significant improvement in December. In Russia, authorities eventually eased the mini-lockdown restrictions imposed in most regions in early November. On the business cycle front, **GDP** slowed by 4.3% yoy in 3Q21 (from 10.3% of 2Q21) **in Russia**, by 2.4% (5.4% in Q2) **in Ukraine,** and by 21.5% in 2Q21 (1.8% in 1Q21) **in Moldova**. In **Egypt**, GDP rebounded, with growth of 9.8% (7.7% in 2Q21), above our previous expectations. With regard to high-frequency indicators in the early months of Q4, in October, **industrial production** slowed further, to 7.1% yoy in Russia (vs 6.8% in September) but partially recovered in Ukraine (1.3% yoy vs -0.7%). **Exports** data – still referring to Q2 – had grown by 77.9% yoy in August (vs 90.6% in July) in Russia and by 38.9% yoy (vs 44.1% in August) and by 38.2% (vs 35.5%) in Moldova and Ukraine, respectively. **Retail sales** in October rose in Russia by 4.1% (vs 5.6% in September). In September, they had risen by 6.5% in Ukraine and 7.4% in Moldova. On the **inflation** side, in Russia, consumer prices accelerated further in Russia (8.4% in November vs 8.1% in October), still well above the CB's inflation target (4.0%). In Moldova the result was 8.8% in October vs 6.7% in September, and in Ukraine, it was 10.3% in November vs 10.9% in October. It also increased in Egypt (to 5.6%), but this was within the official corridor set by the CB (7 ± 2%).

Bank loans still dynamic as of October

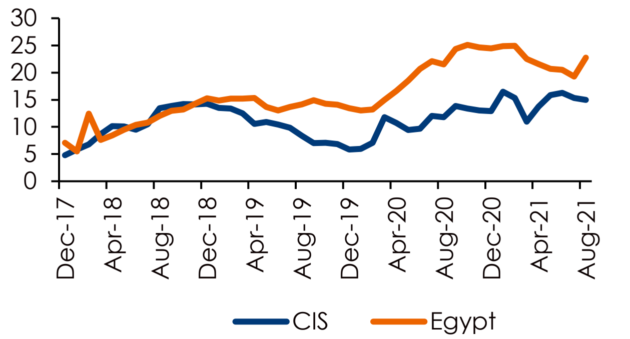
As regards banking aggregates, **lending growth** accelerated in many countries as of October still supported by policy measures (including regulatory action and public guarantee schemes) and improving business cycle dynamics. Loans accelerated by 5.2% yoy in the **CEE** countries (from 5% yoy in September) and by 10.2% yoy in the **SEE** countries (from 9.9% yoy). Hungary and Romania, where loans jumped by 9.7% and 12.9% yoy in October, respectively, continued to play leading roles. Surveys suggest that higher demand came mainly from certain segments first (eg, to working capital needs, debt restructuring and housing market) in the first part of 2021 and broadened later. Credit standards for households were generally eased, but SMEs and large corporates were reported to be facing tightening. **NPL ratios** have so far remained low everywhere, but as highlighted by central authorities and the EBA, the increase in Stage 2 loans is a source of concern. Loans to households continued to be much more dynamic than loans to corporates in **CEE** (7.2% and 2.2%, respectively) and in **CIS** countries (22.5% and 11.8% as of August), with moderate concerns about bubbles in residential property markets. In contrast, corporate loans strengthened to +4.6% yoy in Slovenia. Corporate lending has been stronger in **SEE** countries (12.3% vs 8.5% in the household sector), driven by Romania (17.3%). In the **CIS** area, loan growth remained strong in Russia (16.5% yoy as of August), both to corporates (13.2%, which cover around 70% of the total loan portfolio) and households (24%), sustained by the subsidised mortgage lending programme. In Ukraine, total loans increased by 6.9% yoy as of October. Prudence continued to support **deposit growth,** both in CEE (8%) and SEE (12%) areas, despite low interest rates, which rose marginally in several countries. In **Egypt**, banking aggregates continued to be dynamic as of August, despite decelerating slightly (loans up 19%, deposits +18.1%). **Interest rates** started to increase, especially on lending in countries where monetary rates have already been raised (eg, Czech Republic, Hungary and Russia).

Lending growth (% yoy chg, weighted averages)



Source: ISP Research Department elaboration on central banks' data

Lending growth (% yoy chg, weighted averages)



Source: ISP Research Department elaboration on central banks' data

The international outlook

The economic recovery is supported by expansionary economic policies. However, there are downside risks for economic growth

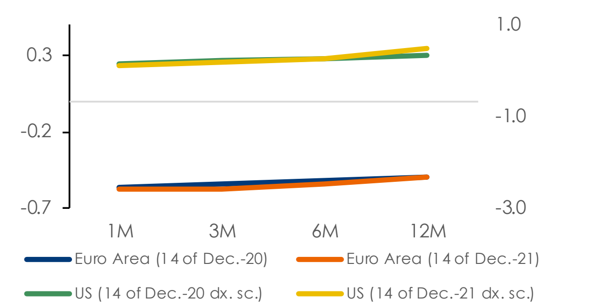
Globally, economic activity continued to expand in 2H of this year, albeit at a moderating pace, in the context of contrasting factors, including persistent supply-side bottlenecks and the new wave of the pandemic. These negative forces regarding economic growth have been partially offset by stronger-than-previously-expected business cycle developments overall and among commodity exporting countries. The economic recovery is estimated to be robust in the **global economy** in 2021 (5.9%, in the IMF's October *WEO*). On the assumption that the spread of COVId-19 will be contained, the economic dynamic is expected to remain strong in 2022-23 (4.9% and 3.6%, respectively). However, the rapid spread of the Omicron variant has increased uncertainty around forecasts, with downside risks for economic growth still prevailing.

In the **US,** where the economic recovery is being fuelled by strong fiscal stimulus and so-far-prolonged accommodative monetary policy, GDP growth is forecast to stay robust at 5.7% in 2021 and then to slow to 4.1% in 2022 and eventually 2.4% in 2023. Headline inflation jumped to 6.8% in November. This led Chairman Powell to state that inflation can no longer be considered to be "transitory" and the FED to adopt a more hawkish stance. In the last meeting, the FOMC announced to double the rate of reduction in purchases of securities and to put an end to the tapering in March 2022. A stricter tightening cycle of interest rates is in addition expected to take place (3 hikes in 2022, and 3 further hikes in 2023).

In the Euro area, GDP in Q3 surprised to the upside, with growth of 2.2% qoq, driven by strong support from private consumption. Going forward GDP is now expected to grow by 5.3% for the whole of 2021 and to gradually decelerate towards 3.9% growth in 2022 and 2.4% in 2023, still supported by expansionary economic policies: accommodative monetary measures and stimulating fiscal measures. Largely due to base effects and the rise in energy prices, inflation, which picked up over recent months (4.5% in November, preliminary estimate), is expected to remain high in coming months. Given that some factors driving upward movements in inflation (such as the base effects or the VAT reduction in Germany) are expected to fade, inflationary pressures are still projected to be transitory (1.7% eop in 2023), though they could be more persistent than previously forecast. The ECB at its December meeting announced that it plans to reduce the purchases under the PEPP in 1Q 2022 to €1.85 trillion, and to stop them at the end of March 2022. Starting in October 2022, the Governing Council also announced will keep net purchases under the APP at a monthly rate of 20 billion euros "*for as long as necessary to reinforce the accommodative impact of its policy rates" and end* them shortly before it starts raising the key ECB interest rates.

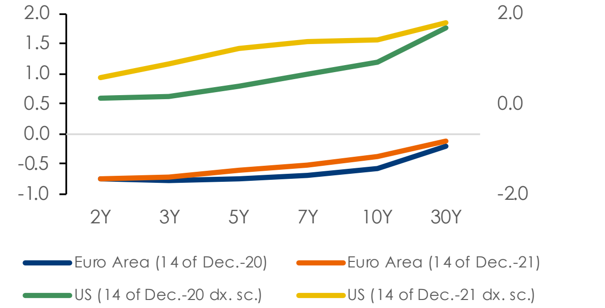
Among **emerging countries,** in October, the IMF forecast GDP growth to rebound by 6.4% in 2021, but then to slow to 5.1% in 2022 and 4.7% in 2023. Prospects for the Asian region are the most promising, though China's growth rates were revised downward in our forecast, to 5.4% in 2022 and 5.6% in 2023, partially affected by fragile financial positions of some corporates in the real estate sector. The economic performances of other areas, though lower than for Asia, are also seen to be on a recovery path overall, especially commodity exporting countries.

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 2021 in CEE/SEE due to Q3 GDP growth coming in above previous expectations…

The ongoing recovery of international trade and domestic demand overall, thanks to expansionary economic policies in the main world economies, has supported expectations for sustained global GDP growth both in 2021 (5.9% in IMF projections) and in the forecast period (4.9% in 2022 and 3.6% in 2023) albeit the uncertainty around the evolution of the pandemic still requires a cautious approach.

…but risks to forecasts are to the downside

In this context and considering most recently released high-frequency indicators, our **forecasts for GDP growth** in the CEE/SEE region have been revised only slightly upwards with respect to our September *Outlook* for 2021 (by just 0.1pps, to 5.5%). They remain unchanged for 2022-2023, at 4.9% and 3.7%, respectively. The revision to the regional GDP growth forecast for 2021 is due in particular to an increase in the growth forecast for the SEE region (upwardly revised by 0.6pps) and a reduction for the CEE region (-0.1pps) with respect to the September *Outlook* as in some countries, such as Czech Republic, Hungary and Slovakia, the Q3 GDP dynamic was lower than previous expectations. Over the forecast horizon, still-expansionary fiscal policies and the strengthening of international trade should provide support to the above-outlined GDP growth path. **Risks to forecasts** continue to be to the downside due to the pandemic.

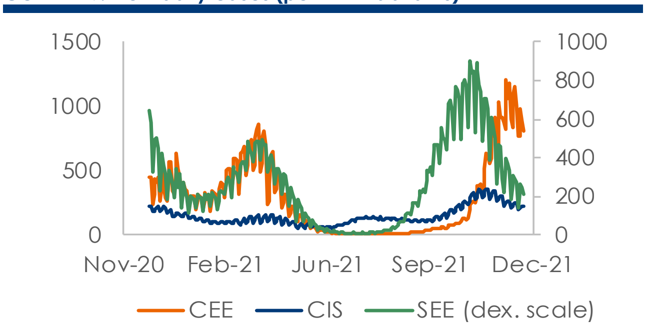
Inflationary pressures are expected to remain high for several months

The **inflation** path is projected to remain high for several months **in the CEE and SEE regions** after the strong rise to 7.0% (weighted average) now expected for 2021 year-end, and in 1H22 to stay above the upper ends of the target ranges set by CBs in most cases, due to several factors: 1) base effects from deflationary forces that had occurred in 2020; 2) the second round effect on consumer prices of energy price increases in 2021; and 3) the strong demand in 2021 in presence of supply-side bottlenecks. Price pressures are expected, however, to ease in 2H22 as those factors fade and the CPI in the CEE/SEE regions is expected to decelerate from the peak forecasts in 2Q22 and move to 4.1% eop in 2022 and 2.9% in 2023 (approaching CB targets).

Thanks to the faster-than-expected global recovery and the local rebound effect in 2Q21, the GDP growth forecast for the **CIS area** has been revised upwards for 2021 (to 4.3% from 4.0%) but downwards for 2022 (to 2.5% from 3%) which remaining unchanged for 2023 at 2.3% with respect to our September *Outlook*. Inflationary pressures are expected to persist in the region in 1H22, with inflation rates easing later overall towards the CB targets. In Russia and Ukraine, inflation is forecast at 4.5% and 6.5%, respectively, by the end of 2022, and in Moldova at 5.6% only by 2023 year-end.

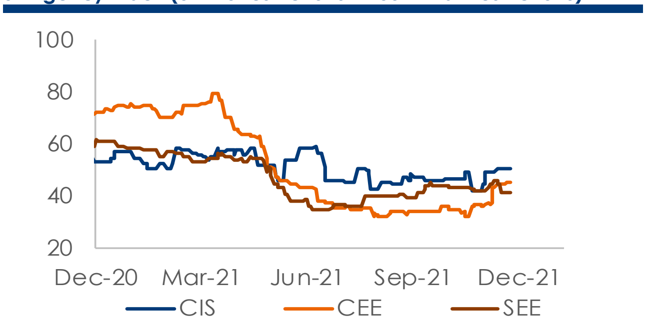
For **Egypt,** we have raised our September forecast for GDP in 2021 to 6.4% (from 5.2%, calendar year), but we have slightly lowered it, to 5.0% (from 5.2%), in 2022. Inflation in Egypt is expected to rise to 5.9% by this year-end, mainly due to food and oil price increases. In 2022, inflation is forecast to rise further, to 6.5% at year-end (still remaining in the CB's range of 7.0% ± 2.0%).

COVID-19: New daily cases (per m inhabitants)



Source: ISP elaboration on Refinitiv-Datastream data

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



Source: ISP elaboration on Refinitiv-Datastream data

Monetary policy and financial markets

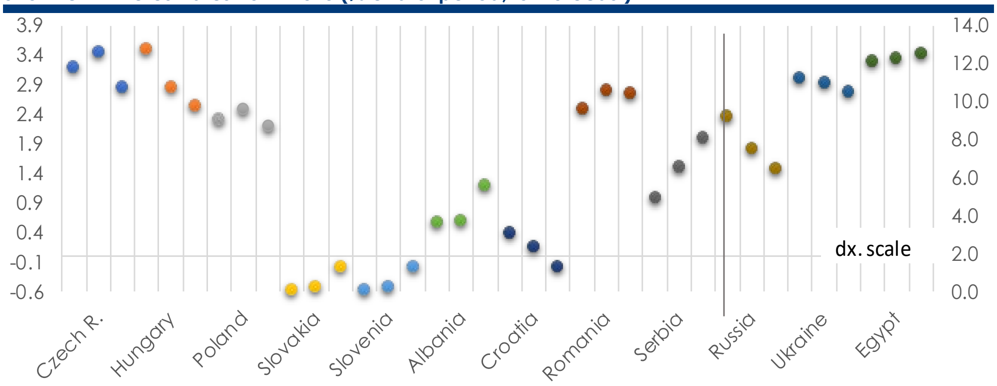
The strengthening of inflation and expectations of a strong economic recovery have prompted hawkish tones from several central banks

In the **CEE/SEE** region, persistent (and well-above-targets) inflation rates have led the CBs of Czech Republic, Poland, Hungary and Romania to adopt increasingly hawkish tones in last months. In those countries, where the tightening cycle has already started, the paths of policy rates have consequently been revised upward with respect to our September *Outlook* while however keeping the end of the policy rate hike cycle in 2023, when inflation is foreseen to be in line with CB targets once again. In Hungary, the MNB is now expected to raise the policy rate to 2.75% by year-end 2022 and then to reduce it in 2023 to 2.50% eop. In Czech Republic, the policy rate is expected to be raised to 3.50% in 2022 and then cut to 2.75% by 2023 year-end. In Poland, we forecast an increase of the policy rate to 2.25% by year-end 2022 and then a decline to 2.0% eop in 2023. In Romania, the policy rate may reach 2.25% in eop 2022 before being cut to 2.0% at year-end 2023. For the remaining countries, we expect delays in the tightening cycle in 2022 for Serbia (1.50% eop policy rate) and Albania in 2023 (0.75% eop). **Money market rate estimates** have been revised accordingly.

Outside the CEE/SEE region, due to inflationary pressures, **Russia's CB** raised the policy rate seven times this year (the last increase was in December, by 100bps, to 8.50%) while holding open, in the last Meeting, the prospects of further increases of key rate at the upecoming meetings. Key rates may be cut again in the course of 2022 as inflation receides towards the CB's target. In **Ukraine,** after the three rate hikes of 50bps each in March, April and July, the CB raised the policy rate by a further 50bps, to 8.50%, in September and then by another 50bps earlier in December, to 9.0%. We now expect the NBU to stop hiking and likely reduce the policy rate in 2022 as inflationary pressures ease. In **Moldova,** the central bank raised the policy rate by 100bps in July, 100bps in September, to 4.65%, 85bps in October, to 5.50%, and by a further 100bps, to 6.50%, earlier in December. Due to persisting inflationary pressures, we forecast that Moldova's CB will raise the policy rate further, to 7.75%, by the end of 2022, before cutting it back to 6.5% in 2023 (eop). In **Egypt**, the CB kept the policy rate unchanged in 2021 and is expected to only slightly increase it in 2022 (0.25pps, to 9.50%).

In the CEE/SEE region, the profile of **long-term yields** has been revised upwards overall along the forecast horizon with respect to our September scenario due to the revised higher path of short-term interest rates and the upward revision of Bund yield forecasts. Spreads with respect to the EA benchmark have also been revised slightly upwards, especially in those countries where the CBs, due to inflationary pressures and buoyant business cycles, have already started tightening cycles. In **FX markets**, exchange rates are expected to move around current values in the CEE/SEE area overall but to slightly regain from previous depreciation in some markets, such as Hungary, Poland and Czech Republic, thanks to rising monetary rates. The Croatian currency (in the ERMII since July 2020, with parity at 7.53) is expected to adopt the Euro from January 2023.

Short-term interest rates 2021-2023 (% end of period, ISP forecast)



Source: ISP Research Department forecasts

Banking aggregates and interest rates

Banking loans revised slightly upward again for 2021 and for 2022 as well

After rising in 2021 in both CEE and SEE countries, loans are expected to decelerate in 2022 and 2023. In the CIS area and Egypt – where loans had already decelerated overall in 2021 – they are expected to slow further in 2022 and 2023. Among CEE countries, the slowdown is expected to be particularly strong in Hungary while lending in Poland, which has been particularly weak in the last two years, it is expected to recover slightly. Among SEE countries, Romania continues to be the leading player supporting that area's weighted average. In the whole region, a recovery is expected in the corporate sector while household loans are foreseen to decelerate with respect to the strong performance seen in the last few years. Nevertheless, consumer loan growth is expected to remain vigorous. The expected deterioration in asset quality, as highlighted by Stage 2 items (according to EBA data), even though modest, will weigh on loan dynamics.

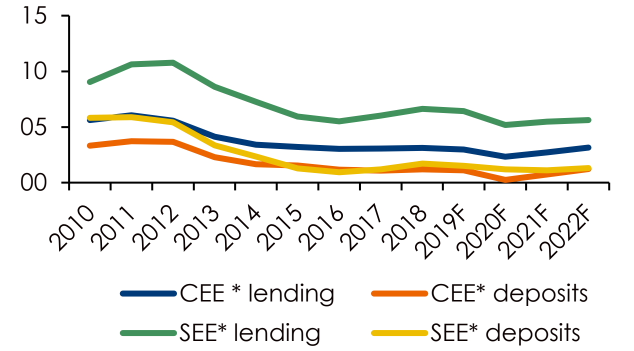
In more detail, in **CEE countries,** loans are expected to increase by 6.1% and 4.6%, on average, respectively, in 2021 and 2022, and to move around 4.8% in 2023. The dynamic is seen to be stronger in **SEE countries,** with increases by 9.5% (strongly revised upward from September) and 6.3%, respectively, in 2021 and 2022. Hungary (at 12.6% and 5.8%, respectively, in 2021 and i2022) among the former and Romania (at 12.2% and 7.3%) among the latter are expected to continue to be the best performers. In all CEE countries, the only exception being Hungary, loans have been accelerating in recent months, especially in the corporate sector in Czech Republic and Slovenia, leading to upward revisions in the 2021 forecast to 6.1% (from 5.4% in our September *Outlook*) and consequently but only slightly in 2022.

In **CIS countries,** loan growth rates have been revised upward for 2021 (from 11% to 12.4%) due to the acceleration seen in Russia (revised from 12% to 13.4%), despite increasing lending interest rates. Loans have been revised upward in the other countries as well, but particularly in Moldova (from 11.5% to 18.1% in 2021), where household loan growth continued to be exuberant (+30% yoy as of October), and in Ukraine (marginally from 0.1% to 1.1%). Nevertheless, 2022 forecasts have been confirmed for both countries.

Deposits revised down marginally in CEE and up in the other areas

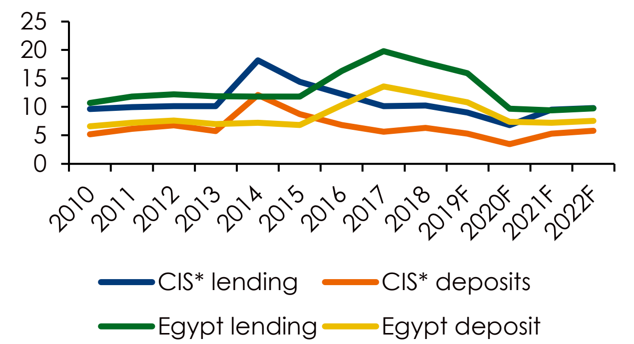
Deposit forecasts for 2021 have been revised downward in the CEE countries, mainly in Czech Republic and Slovakia, due to rises in consumption, and upward in the SEE and CIS areas and in Egypt, but substantial decelerations have been confirmed for 2022 and following years. Deposits are now expected to rise by 5.8%, 10.5% and 9.8%, respectively, in CEE, SEE and CIS countries in 2021 and to decelerate in 2022 to 5%, 7.8% and 7.6%. After the peaks reached in 2020, deposit/GDP ratios are expected to gradually decelerate in the forecast period but remain above levels seen in 2019, before the crisis. Households may prefer to channel excess savings accumulated so far to pay down debt, support consumption and investments, or to buy assets while businesses might now partly finance postponed investments via internal funding. In 2021, **banking interest rates** are forecast to reverse in CEE countries, even if with some lag with respect to money market rates and less intensively, and this could especially be the case in CIS countries. In contrast, in SEE countries, after minor revisions in 2021, interest rates are seen to only gradually increase in upcoming years, as should be the case for money market rates.

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

Real Economy

Zdenko Štefanides

The recovery of the Czech economy has been subpar in 2021, not only vis-à-vis its regional peers but also versus the Eurozone. This has mainly been due to the supressed exports of key automotive manufactures, which have been hit by the global shortages of chips and other components. As these problems are set to gradually ease next year, the drag from exports should reverse and Czech real GDP growth should accelerate from about 3% in 2021 to nearly 5% in 2022.

Consumption will nonetheless remain the main and most stable contributor to Czech GDP growth. Both public and private consumption will continue to contribute positively to growth. The lingering pandemic risks will keep government spending robust and should delay the turnaround in fiscal gears, promised by the recently elected new coalition government, to 2023 at the earliest. Households, meanwhile, will continue to benefit from the tight labour market – the country's unemployment rate is the lowest in the EU and it is delivering generous wage growth – which will continue to exceed the historically high inflation rate. Indeed, inflation in the Czech Republic breached 6% in late 2021 and is heading toward 7% as we enter 2022. However, the stabilisation of global energy prices will pull the headline rate toward 3% by mid-2022 and lower still by year end. The average inflation rate in 2022 should thus be slightly below the forecast average nominal wage gain of 5.5%.

Financial Markets

The Czech National Bank (CNB) has been the most hawkish central bank in Europe in 2021, hiking rates four times by November, with a cumulative increase of 2.50%. And the CNB is by no means done with its tightening as it continues to advocate the need to supress rising inflation expectations. A further 25bps hike seems likely at the December 20 meeting and a further 50bps in the first half of 2022. The key two-week repo rate would then be brought to 3.50%, a level thought to be consistent with the "normal" level of the CNB policy rate. Alongside rising rates, our forecast assumes an increase in bond yields and also a gradual appreciation of the exchange rate. Nonetheless, as much of the expected policy tightening is already priced in by the markets and global risk aversion is off with the Fed preparing its own rates rise in 2022, the space for Czech koruna appreciation seems rather limited at this time.

Banking Sector

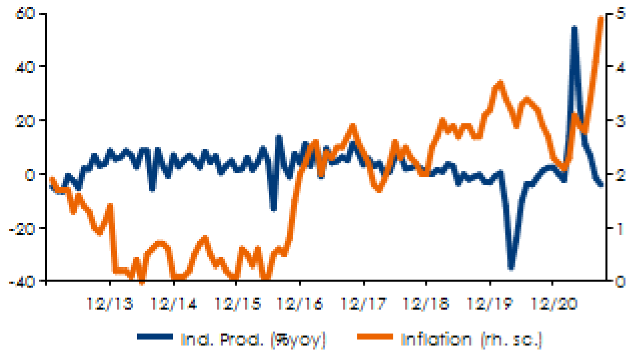
In the banking sector, the ongoing increase in interest rates and the forthcoming tightening of macroprudential measures in April 2022 (the reintroduction of LTV and DTI limits, stricter DSTI) will slow the growth in mortgages and thus also overall loan volume growth. In the deposit market, we project a moderation of the growth in volumes due after the extraordinary COVID-driven surge. The growth rates of loans and deposits should thus become more even in 2022 and allow the loan to deposit ratio to stabilise at a comfortable 71%.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-5.7	3.2	4.8	3.2
CPI (eop)	2.3	6.0	4.0	2.4
Euro exch. rate (value, eop)	26.3	25.5	24.5	24.2
Short-term rate (eop)	0.4	3.2	3.5	2.9
L/T bond yields (eop)	1.3	2.7	3.5	2.9
Bank loans (pr. sector, yoy)	4.1	7.1	4.9	4.8
Bank deposits (pr. sector, yoy)	11.9	6.3	4.4	4.3
Lending int. rate (corp., eop)	1.9	2.5	3.4	3.2
Deposit int. rate (hh, eop)	0.6	1.2	2.1	1.9

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

Mariann Trippon

Real Economy

The Hungarian economy began to lose momentum in late summer due to the persistent global supply-side problems. Q3 GDP growth came out at lower than expected at 6.1%, compared with the 7.4% market consensus. On the production side, the services sector remained the engine of growth, while on the absorption side consumption and investments contributed the most. Downside risks to the growth outlook have strengthened recently, but FY21 GDP growth could still be about 6.7%. We leave our 2022 GDP forecast unchanged at 5%. Household consumption will remain well supported by the tight labour market conditions, the strong wage growth, the high level of savings in the sector and pre-election fiscal transfers. Global shortages may dampen industrial activity throughout H122, but we expect industrial output to gradually recover in H222, alongside investments. From 2023 the economy is likely to adjust to a lower growth trajectory. Inflationary pressures have intensified. Strong external inflationary pressures, alongside the weak FX rate and robust demand, have triggered a broad-based acceleration in prices and second-round effects have started to materialise in the economy. Headline CPI may move down marginally in December (but will remain above 7%), and the slow, gradual deceleration is likely to continue in early 2022. Nonetheless, upside risks still dominate. Average 2022 inflation should remain above 5%.

Financial Markets

The central bank has begun a period of monetary policy normalisation. The MC has already raised the policy rate by a total of 180bps, to 2.4%, and ended both the QE and corporate bond purchase programmes. The rate hike cycle is expected to continue in early 2022, but we expect a partial reversal later, when inflation convincingly returns to target. The widening interest rate differential (vis-à-vis core markets) theoretically points to a stronger FX rate, but the HUF could not appreciate markedly due to the volatile and uncertain global environment. However, dissipating inflation risks, higher real rates and a more prudent fiscal stance could support the HUF in the course of 2022 and the EUR/HUF may move below 355 by the end of next year.

Banking Sector

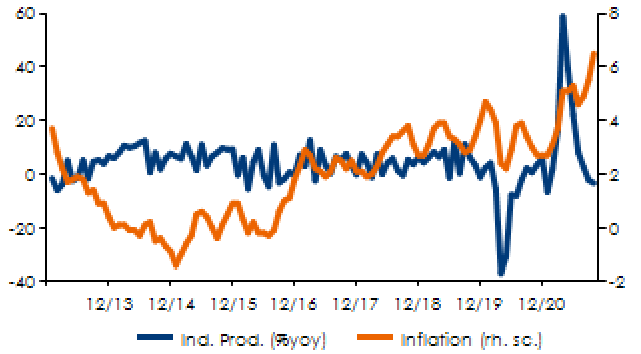
Bank deposit growth is expected to slow this year, but the slower-than-expected decrease of forced savings and the moratorium will keep deposit growth close to 7% in 2021. Deposit growth may decelerate further in 2022, but is likely to remain relatively strong. Lending remains buoyant and loan growth will remain in double-digit territory this year. Demand for retail loans proved to be stronger than expected, and the new government-subsidised lending facilities, which replaced the Lending for Growth Programme, have boosted corporate lending. The general moratorium was prolonged until June 2022 for those most affected by the COVID crisis. The rise in lending rates, alongside high inflation, may somewhat weaken demand for loans in 2022, but loan growth is expected to remain healthy throughout the forecast horizon.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-5.1	6.7	5.0	3.5
CPI (eop)	2.7	7.0	3.7	3.2
Euro exch. rate (value, eop)	359.0	360.0	353.0	353.2
Short-term rate (eop)	0.8	3.5	2.9	2.6
L/T bond yields (eop)	2.2	4.4	4.1	3.9
Bank loans (pr. sector, yoy)	13.4	12.6	5.8	5.4
Bank deposits (pr. sector, yoy)	23.3	6.8	4.8	4.7
Lending int. rate (corp., eop)	3.0	3.7	3.9	3.4
Deposit int. rate (hhs, eop)	0.3	1.1	1.4	1.3

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 been recovering strongly in 2021, with real GDP having returned to the pre-COVID level by the middle of the year, as the country is less dependent on exports than its regional peers and thus also less exposed to the global issues of curtailed imports and component shortages. Clearly, however, the lower level of disruption in global supply chains hoped for next year should also help to lift the growth potential of the Polish economy. Hence, in our forecast, real GDP growth in Poland in 2022 looks set to be as strong as in 2021, at about 5%, even as there appear to be at least three major risks on the horizon.

First, there is the continuing risk of the COVID pandemic, with the new mutation of the virus threatening to yet again force restrictions on mobility and thus economic activity in early 2022. Second, the increased energy prices and rising interest costs are weighing on households' budgets. The government is trying to absorb some of these costs in its own budget via the so-called anti-inflation shield, which comprises cuts in VAT and excise taxes on electricity, gas and fuel, which will lower energy bills for households in the coming months. Nonetheless, inflation is likely to remain high, close to 6% on average, and thus weigh on households' real purchasing power. The third major risk relates to the uncertainty surrounding the investment outlook. EU-financed projects, especially the Recovery Plan, are at risk of delay due to the ongoing dispute between Poland and the EU Commission over judicial reform.

Financial Markets

The National Bank of Poland (NBP) has joined other central banks in the CEE region and increased rates, by a cumulative 165bps as at October. The sharp change from its previous dovish rhetoric has been propelled by the large increase in inflation, which hit 7.7% in November. Thanks to the government's anti-inflation shield, headline inflation will probably reach a peak in December. Core inflation, however, will likely remain elevated and thus continue to support the case for further policy tightening. In our forecast, the peak of Polish rates will occur in the first half of 2022, with rates some 50bps higher than at present. Bond yields will reflect the continuing tightening by the NBP. The Polish zloty, meanwhile, has been under pressure as sentiment has shifted away from emerging markets towards US assets in anticipation of forthcoming policy tightening by the Fed. This pressure will remain for at least the early part of 2022 and therefore we do not foresee much space for an exchange rate turnaround.

Banking Sector

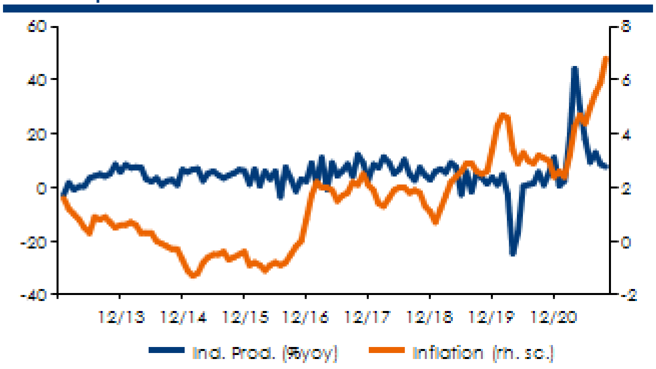
In the banking market, alongside the continuing recovery of the economy, we expect volumes for loans and deposits to grow next year at a similar pace to 2021, at about 5%. The ratio of loans to deposits, which in pre-COVID times was running close to 100%, is thus likely to remain at a comfortable level of about 80%.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-2.7	5.2	5.1	3.6
CPI (eop)	2.4	7.7	4.2	3.0
Euro exch. rate (value, eop)	4.5	4.7	4.6	4.4
Short-term rate (eop)	0.1	2.3	2.5	2.2
L/T bond yields (eop)	1.3	3.0	3.5	3.0
Bank loans (pr. sector, yoy)	0.4	4.2	4.4	4.7
Bank deposits (pr. sector, yoy)	12.8	5.6	5.2	5.1
Lending int. rate (corp., eop)	2.4	2.7	3.1	2.6
Deposit int. rate (hh, eop)	0.2	0.6	1.1	0.8

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

Industrial production and inflation



Source: Statistics Poland

Slovakia

Real Economy

Michal Lehuta

The Slovak economy slowed considerably in 3Q21 amid the component shortages in the export-oriented industrial sector, with local GDP adding only 0.4% qoq. In addition, the October and November data suggest this weaker performance has also continued in 4Q. The problems are particularly pronounced in the important automotive segment, which is struggling with a shortage of chips. In addition, another strong wave of COVID infections led the government to introduce a partial lockdown from the end of November. This leads us to cut our 2021 economic growth forecast to 3.8%, but we keep the strong outlook for 2022 as the pandemic, as well as economic bottlenecks, should ease with time (+5.0%).

So far, the local labour market seems to be resistant to the supply chain crisis and the third wave of the pandemic. Registered unemployment continued to narrow in October, when it slid to 6.8%. The 3Q labour force survey also posted 6.8% and a strong growth in wages (+6.5% yoy), which could continue in the future due to high inflation and some sectors having labour shortages. Consumer inflation reached a 17-year high in November, when the flash estimate of EU-harmonised CPI stepped up to 4.9%. This is not yet the maximum as January will bring a planned increase in the regulated prices of heat, electricity and gas, and could push inflation to more than 6% yoy. After winter, however, we expect the yoy consumer price growth to decelerate amid the general Eurozone trend and an expected correction in energy prices.

Financial Markets

Since the record-high inflation in the Euro area is being caused mainly by external and temporary factors, the ECB is keeping its monetary policy accommodative. This means very low money market rates for the foreseeable future, that is at least until the end of its net QE purchases, which we do not expect until 2023. Despite the expected end of the pandemic PEPP bond purchase programme in March, traditional APP purchases could temporarily increase instead. This should keep long-term government yields below zero for now, with only a slow increase to about 1% p.a. on a 10-year basis expected in 2023.

Banking Sector

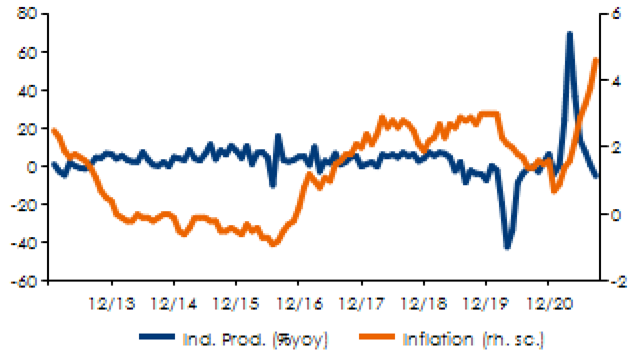
Slovak banks continue to grow their loans and deposits, as well as their profitability, in an environment of extremely low interest rates and swiftly rising real estate prices. Before the winter lockdown measures, deposits grew at a slower pace than loans, but these are expected to accelerate in the coming months. As part of corporate tax reform, higher taxation is proposed for banks, which could eat up as much as € 100 million more in profits compared with this year (effective tax rate about 35%, compared with just 19% for other firms). If passed, this would decrease the already lower-than-average ROE of local banks within the Euro area and thus make Slovakia a less favourable market for investment.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-5.2	3.8	5.0	4.0
CPI (eop)	1.6	5.2	3.3	2.3
Short-term rate (eop)	-0.5	-0.6	-0.5	-0.2
L/T bond yields (eop)	-0.5	0.1	0.5	0.9
Bank loans (pr. sector, yoy)	4.5	6.1	4.7	4.9
Bank deposits (pr. sector, yoy)	6.3	3.7	5.0	4.6
Lending int. rate (corp., eop)	1.7	1.8	1.8	1.9
Deposit int. rate (hh, eop)	0.0	0.0	0.0	0.1

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

Industrial production and inflation



Source: Statistical Office of Slovakia

Slovenia

Real Economy

Ivana Jović

Following 16.3% yoy growth in Q2, Slovenia's economic recovery has continued, and Q3 GDP grew by 5.0% yoy (note: the Q320 decline amounted to 1.4%), with household consumption increasing by 9.3% and investments increasing by 9.6%. Exports of goods and services increased by 10.6%, while imports increased by 19.9% yoy, resulting in a 5.0pp negative contribution of net exports to headline growth. Thus, the strong 1Q-3Q rebound (+7.4%) and continuing positive trends in high-frequency data indicate that FY21 GDP growth will land at about 7%. We note that 4Q20 GDP registered a 3.1% decline amid the strict shutdown measures implemented at the time, while the current containment mostly relates to vaccinated-tested-recovered rules for entering various services. Thus, real retail trade in October recorded extremely high 34.3% yoy growth, while data on fiscalised invoices indicates the strong double-digit yoy growth continued also in November. Looking forward, 2020 growth is expected at about 4.7% based on the stable growth in private consumption and investments, while net exports are expected to be less supportive than before the pandemic.

The inflation rate in November (measured by HICP) accelerated to 4.9% yoy (from 3.5% in October), mostly reflecting the higher prices of petroleum products and heat energy, but also of semi-durable goods, especially clothing and footwear. We expect annual average inflation of 2%, before this accelerates to 3.5% in 2022 amid the prolonged supply-side pressures.

Financial Markets

Ana Lokin

The 10Y Slovenian government bond spread on the Bund widened in November by 10bps mom, on average, to 50bps, with the average yield stagnant mom at 0.2%. The average yield and spread in 2021 is estimated at 0.1% and 40bps, respectively. Compared with the previous scenario, the 2022 forecast for average yield was raised to 0.5% amid the changed Bund projections, with the average spread flattish at 40bps.

Banking Sector

Loans gained pace, coming in at 2.0% yoy in September and 4.2% yoy in October, as household loan demand has been steadily rising and corporate loans leapt 4.6% mom in October. We have therefore improved our end of 2021 loan growth estimate to 5.3% yoy. For 2022, we stick to our 3.3% yoy call, in line with the confirmed GDP growth path.

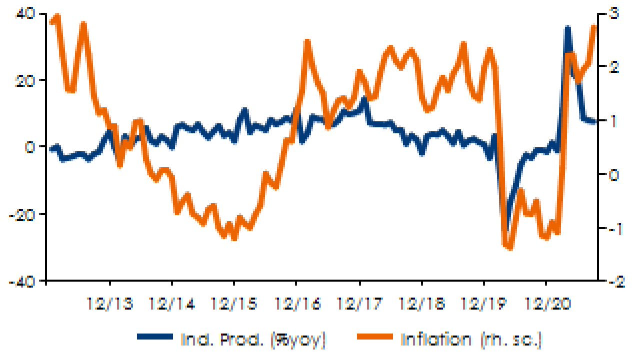
The deposit rise moderated to 10.0% yoy in September and 8.9% yoy in October, whereby the rise in both household and non-financial corporation deposits gradually softened. The end of 2021 estimate was lifted to 8.4% yoy to reflect recent trends, while for 2022 the forecast has remained at a much more modest 4.4% yoy, as we expect the normalisation of the saving/investment pattern to continue.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-4.2	7.0	4.7	3.5
CPI (eop)	-1.2	4.9	2.1	2.0
Short-term rate (eop)	-0.5	-0.6	-0.5	-0.2
L/T bond yields (eop)	-0.2	0.3	0.6	1.0
Bank loans (pr. sector, yoy)	-0.9	5.3	3.3	2.9
Bank deposits (pr. sector, yoy)	12.2	8.4	4.4	3.6
Lending int. rate (corp., eop)	2.3	2.1	2.1	2.1
Deposit int. rate (hhs, eop)	0.1	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

Fostered by the easing of containment measures, higher confidence, the increase in aggregate demand (investments, including reconstruction, consumption and exports), an improved tourist season, strong electricity productivity and supportive monetary and fiscal policy, Albanian GDP growth is recovering strongly, with a projection of 7.5% in 2021. The expansion is expected to continue in the medium-term horizon, tapering during 2022 to about 3.8%. The economic growth is occurring alongside an improvement in the labour market. The unemployment rate in Q221 fell to 11.6%, down from 11.9% in the same period of 2020. Exports enjoyed another month of outstanding activity in October, rising by 34.54% yoy. Inflation rose rapidly due to the pressure of upward demand and rises in food and energy prices in the international market. The Q321 CPI averaged 2.4%, compared with 1.4% in Q320. Following the earthquake and pandemic crises, Albanian debt is expected to increase from 66.25% of GDP in 2019 to 81% in 2021, before reducing to 74% by 2026. The fiscal deficit has widened sharply, from 2% of GDP in 2019 to 6.8% in 2020, where is expected to remain in 2021.

Financial Markets

The CB deems its current monetary policy stance to be adequate and the policy rate remains unchanged at 0.5%. The continued progress of the economic recovery may require a gradual withdrawal of monetary stimulus in the future, but in the event of a non-temporary increase in the inflationary shock from the international market, the CB is ready to adapt its monetary policy stance. Last November the government issued a Eurobond worth € 650 million at 3.75%. In the fixed income market, the yields of T-bills and bonds are mostly stable. The yield on 12M T-bills is 1.63%. The exchange market rate is stable, with contained seasonable fluctuations. The EUR/LEK stands at about 122.00.

Banking Sector

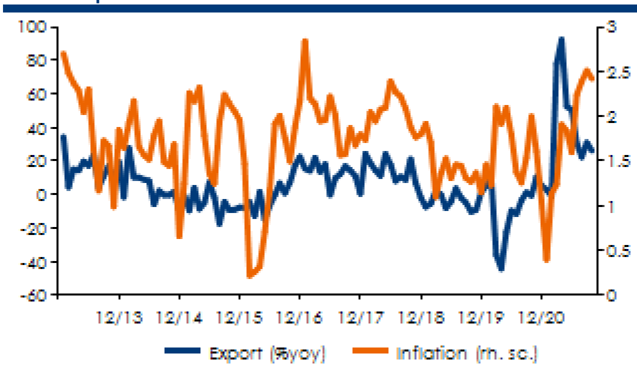
Interest rates on loans remain low, supporting the growth in consumption and private sector investments. Total loans to the private sector increased by 10.17% yoy in October. Households benefited more from the low interest rates, mostly to finance real estate purchases, with loans expanding by more than 10.70%, while loans to corporates increased by 9.87%, mainly as credit for liquidity. The new loans volume contributed to the loans increase by rising by 24.06%. In September non-performing loans rose to a historic record of 6.49%. On the deposit side, total deposits in October grew by 4.84% yoy. The outstanding performance was mainly from corporate savings, at 25%, and household savings remained close to the level of a year ago, rising by only 0.44%. New volumes contributed 9.07% of the total.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-3.3	7.5	3.7	3.8
CPI (eop)	1.1	2.5	2.8	3.0
Euro exch. rate (value, eop)	123.3	121.0	124.0	126.5
Short-term rate (eop)	0.4	0.6	0.6	1.2
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	7.0	6.0	4.2	4.1
Bank deposits (pr. sector, yoy)	8.1	7.5	4.4	3.7
Lending int. rate (pr. sec., eop)	6.5	6.6	6.9	7.3
Deposit int. rate (pr. sec., eop)	0.4	0.6	0.7	1.0

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

Although Q3 GDP data was not released in time to be included in this publication, high-frequency data indicates another positive result following the 11.6% growth registered in Q2. More precisely, Q3 industrial production and exports continued their strong performances, increasing by 9.6% and 36.6% yoy, respectively. At the same time, retail trade again overperformed by posting similar (+26.4%) growth as in Q2, with less positive news coming only from construction activity, where yoy growth slowed further to 1.5% (from 2.8% in Q2). Positive trends have been also confirmed by October data, with continuing strong growth registered across the board, from industrial production (+8.3%), exports (+32.2%) and retail trade (+18.1%). Thus, based on the available data we upgrade our FY21 GDP call to about 6%.

Looking forward, we see growth of about 3.8% being sustained in 2022, mainly supported by recovering domestic demand. However, the ongoing political crisis (the deepest since 1995) poses the main negative risk to continuing positive macroeconomic developments. Unfortunately, the internationally mediated talks didn't convince Milorad Dodik, the Serb member of the three-party Presidency of BIH, to initiate the revocation of the consent of RS for key state institutions (the High Judicial and Prosecutorial Council, the Armed Forces of BIH, the Indirect Tax Authority and the State Investigation and Protection Agency) and the establishment and transfer of these state competencies to RS institutions, the plan for which was approved last Friday by the National Assembly of Republika Srpska. The embassies of the US, the UK, France, Germany, Italy and the EU issued a joint statement pointing out that this was unacceptable as it undermined the foundations of the Dayton Agreement and is exacerbating tensions in the BIH, which, in addition to blocking the functioning of state authorities, will damage economic prospects, deter investment and divert the focus from the fight against corruption. Obviously, any further escalation will threaten the stability of not only the country, but also the entire region.

Banking Sector

Ana Lokin

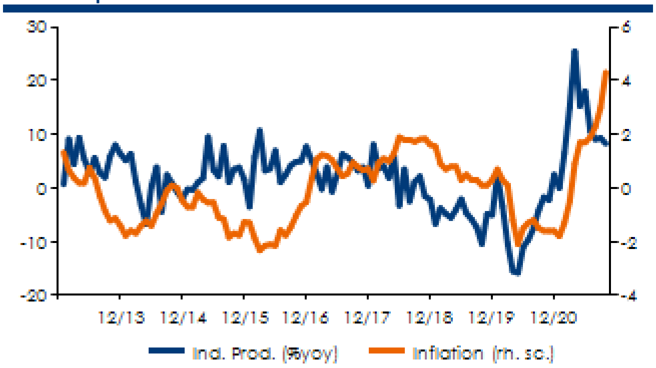
In our December scenario, we lift our end of 2021 estimates on loan and deposit growth, based on recent developments. October saw loans expand by 3.0% yoy thanks to a strong 4.7% yoy increase in household lending, set against the slight 1.2% yoy growth in corporate loans. At the same time, deposits continued to lose pace, but remained strong at 11.4% yoy, with household deposits rising by 8.4% yoy, while corporate deposits surged by 18.0% yoy. Thus, we see 2021 loan and deposit growth at 4.0% and 10.1% yoy (unchanged, i.e., 1.5pp higher compared to the previous scenario). In terms of our expectations for 2022, in line with the unchanged GDP growth path forecast, we confirm our projection of 4.2% yoy loan and 5.5% yoy deposit growth, where the subsiding risks will result in increased corporate loan demand and a reduced need for precautionary saving.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-3.2	6.0	3.8	2.9
CPI (eop)	-1.6	4.3	1.1	1.4
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)	-2.5	4.0	4.2	4.0
Bank deposits (pr. sector, yoy)	6.5	10.1	5.5	4.6
Lending int. rate (corp., eop)	2.9	0.2	0.2	0.2
Deposit int. rate (hh, eop)	0.2	0.2	0.2	0.2

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

Industrial production and inflation



Source: Agency for Statistics of Bosnia and Herzegovina

Croatia

Real Economy

Ivana Jović

A full V-shaped recovery has been confirmed by another strong GDP outturn as following +16.5% growth in Q2, GDP also outperformed in Q3, growing by 15.8% yoy. This stronger-than-expected growth was spurred on by strong domestic demand, led by private consumption (+16% yoy) and investments (+7.6% yoy), while strong tailwinds came also from tourism (exports of services up by 71.6% yoy) as foreign overnights reached about 90% of the pre-pandemic 2019 level. High-frequency data indicates the strong consumption footprint continued also in Q4, as real retail trade in October grew by 9.2% yoy, while fiscalisation data indicates a similar trend continued in November and early December. Preliminary foreign trade data confirms the positive expectations, as in October goods exports increased by 22.8% in spite of diminished last year's base effect. Overall, we see FY21 GDP growth at about 9.5%, with continued above potential performance in 2022 (+4.7%), the main drivers of which will be investments and private consumption. Given that a strong rebound in tourism has already been achieved in 2021, especially during peak season, we see limited space for a further increase in that period, but pre- and post-season could contribute more and push the upcoming tourist year closer to the record-breaking 2019.

As CPI in October accelerated to 2.8%, we see the full year average being about 2.4%, reflecting mostly supply-side pressures and increased energy and food prices. As the normalisation in supply bottlenecks and chain disruptions is prolonged later into the year, we see average annual inflation next year strengthening to about 3.2%, partly reflecting strengthened demand.

Financial Markets

Ana Lokin

We leave our projections of the average and eop FX rate in 2021-2022 at 7.53 as the EA entry in 2023 approaches. The average 10Y kuna government bond spread on the Bund widened by 10bps mom in November, to 70bps, while the yield stood still at 0.5%. This year's estimates of average yield and spread are left unchanged compared with the September scenario (at 0.6% and 90bps, respectively). Our projection for 2022 is changed in line with the updated Bund forecasts and better spread performance – the average yield is raised to 0.7%, with the spread cut slightly to 60bps.

Banking Sector

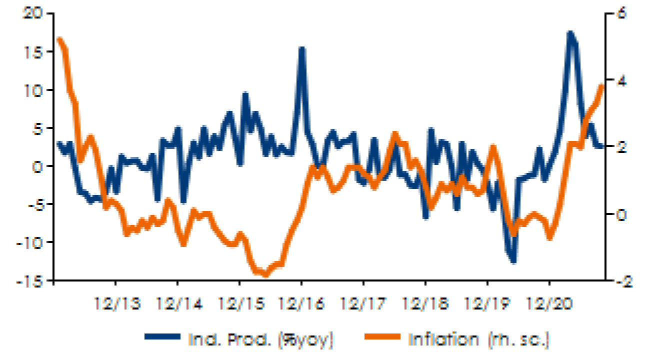
Loan growth remained weak (2.2% yoy in September, 2.5% yoy in October) amid the weakness in corporate lending, which has prompted yet another downward revision of our end of 2021 growth estimate, to 2.3% yoy. In 2022 we still expect to see corporate demand picking up against the backdrop of a stabilised economy, hence we leave our loan rise projection at 3.9% yoy. Deposits remained robust in September and October (11.4% yoy in both months), therefore we raise this year's estimated growth to 10.9% yoy. In terms of 2022, we stick to our projected lower 5.8% yoy increase as uncertainties decrease.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-8.1	9.5	4.7	4.0
CPI (eop)	-0.7	3.9	2.4	2.1
Euro exch. rate (value, eop)	7.5	7.5	7.5	7.5
Short-term rate (eop)	0.2	0.4	0.2	-0.2
L/T bond yields (eop)	0.7	0.6	0.8	1.3
Bank loans (pr. sector, yoy)	3.5	2.3	3.9	3.0
Bank deposits (pr. sector, yoy)	8.7	10.9	5.8	3.0
Lending int. rate (pr. sec., eop)	5.2	4.9	4.3	3.7
Deposit int. rate (pr. sec., eop)	0.1	0.1	0.1	0.2

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

Industrial production and inflation



Source: Croatia Bureau of Statistics

Romania

Real Economy

Marius Pacurari

Romania remains one of the countries with the lowest rate of vaccinated people, with only slightly more than 40% of the population being vaccinated against COVID. The average number of positive tests is decreasing significantly, while vaccination is decelerating. The government has now decided nevertheless to reduce restrictions during winter holidays.

The National Statistical Institute published 3Q figures showing GDP growth of 7.4% yoy, a deceleration with respect to previous quarter. € 1.8 billion from NRRP was reported in December. CPI growth was more aggressive than expected, reaching 7.8% at the end of November and likely to move beyond 8% in December in our forecasts, exceeding the NBR's projection for the end of 2021 of 7.5%. Our expectation is for a level of inflation in December above 8.0%.

The budget deficit dynamic confirms the Fiscal Consolidation plan adopted by the Government, staying at 4.03% at the end of October with respect to the eop target of 7.1% The current account deficit was, at the same date, significantly higher than in the same period of 2020 (-€ 11.5bn vs. -€ 7.836bn in September 2020).

The political crisis has eventually ended and a new government has been appointed by Parliament. The new one has stronger support in Parliament, based on Liberals, Social-Democrats and Hungarian Minority Party votes.

Financial Markets

The NBR increased monetary policy rates by another 25bp on 9 November, widening also the monetary policy corridor (from 1% to 1.5%). The minimum reserve requirements remain unchanged, at 8% for RON liabilities and 5% for foreign currency liabilities. Since the evolution of CPI was more aggressive than expectations, we expect further tightening measures.

The domestic bond RON-denominated benchmark curve volatility has decreased following government investment and rating confirmations from rating agencies.

Banking Sector

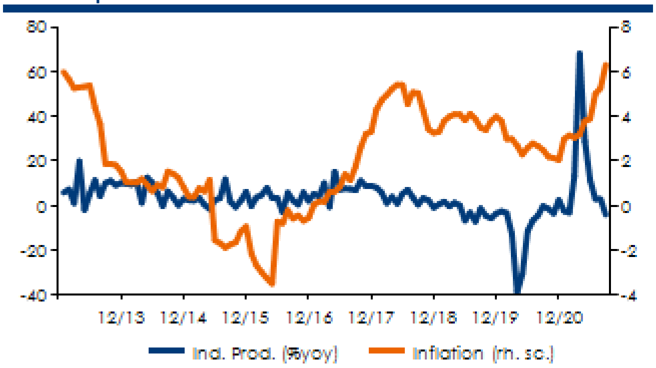
Growth in banking aggregates remained strong at the end of October, with +11.9% yoy in loan volumes growth and +8.4% in deposit volumes growth. Local currencies were more attractive for loans, especially to households, while in deposits interest was divided between RON and EUR. Interest rates entered into a stabilisation period, with 1.55% and 5.24%, on average, for RON-denominated deposits and credits, and 0.06% and 2.33%, on average, for EUR-denominated deposits and credits.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-3.9	6.5	4.7	4.1
CPI (eop)	2.1	8.3	5.9	3.3
Euro exch. rate (value, eop)	4.9	5.0	5.0	5.1
Short-term rate (eop)	2.0	2.5	2.8	2.8
L/T bond yields (eop)	3.3	5.6	5.8	5.5
Bank loans (pr. sector, yoy)	5.0	12.2	7.3	5.7
Bank deposits (pr. sector, yoy)	15.4	11.0	9.1	6.2
Lending int. rate (pr. sec., eop)	5.4	5.9	6.1	6.0
Deposit int. rate (pr. sec., eop)	1.5	1.4	1.6	1.5

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

Real Economy

Marija Savic

Between January and September 2021, real GDP increased by 7.7% yoy. Expectations are that in 4Q21, the growth of economic output will remain solid, driven by private consumption and supported by strong ongoing investment activity. Due to the better-than-expected results, we upgrade our whole year GDP projection, raising it from 6.6% to 7%. On the production side, a positive contribution to GDP growth this year is expected from all sectors apart from agriculture, which has a negative impetus due to the drought. Real GDP is projected to increase by 4% in 2022, driven by investment and exports, and supported by private consumption.

Yoy inflation jumped from 6.6% in October to 7.5% in November, the highest print in eight years. The NBS sees this surge as being led by temporary supply-side constraints, the low base for domestic petroleum prices and strong food price pressure. Core inflation remained relatively low at 3%, confirming the absence of major inflationary pressures and the transitory nature of hike pressures. As inflation is likely to reach a peak early next year, our end of 2021 figure is revised up to 7.8%. CPI is expected to stay above the upper bound of the target of 4.5% until mid-2022. Given the high base from this year, headline inflation could settle in the lower part of the target band (3.0±1.5%) in the second half of 2022. Eop and average CPI in 2022 are seen at 2% and 5.2%, respectively.

Financial Markets

The NBS kept the key policy rate at 1% throughout 2021, despite the CPI surge in the second half of the year. Starting from October, the central bank decided to gradually reduce the level of monetary policy accommodation through hikes in the repo rate (from 0.11% to 0.33%), while at the same time it stopped security purchases at repo auctions. Projections are that as long as the repo rate remains below the key policy rate, there is no need to raise the latter. On the other hand, in the case that inflation remains above the upper bound of the target tolerance band for longer than the projected time period, building in future inflation expectations, a tightening cycle might begin. The eop and avg. key policy rates are seen at 1.5% and 1.3%, respectively, in 2022.

The dinar remained unchanged against the euro in the first 10 months of 2021, showing that preserving exchange rate stability remains an important NBS anchor of price stability. That said, we expect eop and average EUR/RSD rates of 117.76 and 117.6, respectively, in 2022.

Banking Sector

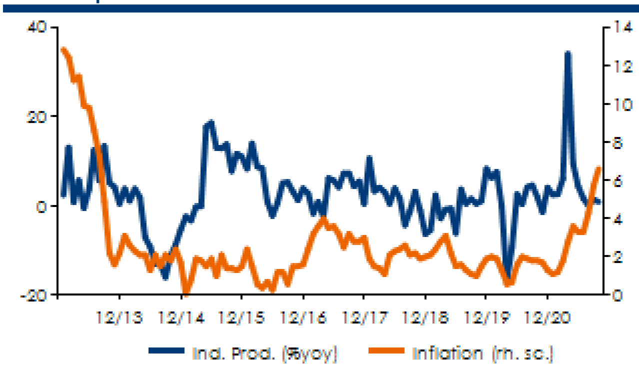
Loan volumes have continued rising in 2021, but at a much slower pace due to the still-present effect of last year's high base because of the implementation of moratoriums on loan repayments. A further downtrend is expected to continue, with projected growth of 7.5% and 5.6% in 2021 and 2022, respectively. The NPL ratio remained below the pre-pandemic level, at 3.6%, in September. Looking at deposits, after strong double-digit rises in 2020, steep slowdowns are projected in 2021 and 2022, of 8.5% and 6.3%, respectively.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-0.9	7.0	4.0	4.0
CPI (eop)	1.3	7.8	2.0	2.9
Euro exch. rate (value, eop)	117.6	117.5	117.8	118.0
Short-term rate (eop)	1.1	1.0	1.5	2.0
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	11.1	7.5	5.6	5.3
Bank deposits (pr. sector, yoy)	17.4	8.5	6.3	6.1
Lending int. rate (pr. sec., eop)	5.8	6.2	6.5	7.1
Deposit int. rate (pr. sec., eop)	1.5	1.4	1.8	2.3

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

Industrial production and inflation



Source: Statistical Office

Moldova

Natalia Mihalas

Real Economy

The economy of Moldova expanded beyond expectations during 2Q21 (+21.5% yoy), leading to 11.7% yoy growth in 1H21. This was due to the relaunching of investment activity and positive evolutions in all economic sectors. Considering this dynamic, by the end of 2021 GDP is expected to have expanded by about 6.8% (partly due to the base effect), after which GDP growth will mildly decelerate to 4.4% yoy in 2022.

The annual inflation rate has been increasing aggressively in 2021, reaching 12.4% as of November (vs. 0.2% in January). This trend is expected to be maintained, with inflation hitting the 12.8% level as of the end of 2021. After this, inflation is expected to keep rising until 3Q22 (peaking at 15.1%), after which it will decrease rapidly until the end of 3Q23, entering the accepted interval and even approaching the 5% target by year-end 2023. The upward trend in the annual inflation rate for 2022 is expected to be influenced by all of its components, mainly food prices and core inflation. The main drivers are expected to be: positive aggregate demand, with significant pro-inflationary effects in 2021and more temperate, but equally pro-inflationary effects, in 1H22; an increase in food prices in the regional market; an increase in the prices of natural gas (although mostly incorporated in 4Q21); an anticipated increase in tariffs; an increase in international oil prices in 1Q22; and the effects of products with a strong seasonal character.

Financial Markets

In view of the inflationary expectations, the National Bank's reference rate was raised twice during 3Q21, taking it to 6.5% as of December. Real monetary conditions will be restrictive in 2022, with a negative impact on aggregate demand. Thus, the policy rate will remain stable at 6.5% until the end of 2021, followed by an increase to 7.75% at year-end 2022 due to persistent inflationary pressures next year. The 91-, 182- and 364-day Treasury bill yields had increased by 4.0pp, 2.7pp and 2.3pp, respectively, as of November compared with the end of 3Q21 levels, in line with the inflation trajectory and expectations. For longer maturity government bonds, yields saw a slight upward movement (c. +1pp) compared with their September levels.

Banking Sector

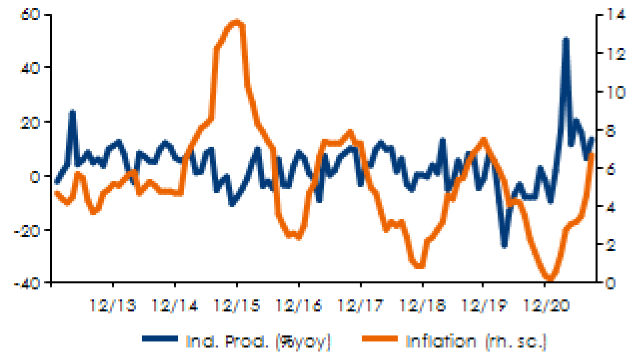
As of October 2021, the volume of private loans in the economy expanded by 23.1% yoy, driven by double-digit growth rates for both household (+37.9%) and corporate loans (14.7%). A similar evolution was recorded for the stock of deposits, which grew by 16.4% yoy. The latter was mainly due to the 22.7% growth in the stock of corporate deposits, and there was a 12.9% positive change in the stock of household loans. The yoy growth in both loans and deposits is expected to gradually decelerate in the years ahead compared with their end of 2021 levels. Hence, loans are foreseen to grow by 10.3% yoy at year-end 2022 (vs. the expected +18.1% of 2021), with average growth of 5% in each of the remaining years of this projection. Deposit growth in 2022 will be 9.0% (down from the 13% foreseen in 2021), slightly decreasing in the following years (+7%, on average).

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-7.0	6.8	4.4	4.0
CPI (eop)	0.4	12.8	12.3	5.6
USD exch. rate (value, eop)	17.2	18.1	18.3	18.5
Euro exch. rate (value, eop)	20.7	20.0	22.0	22.9
Short-term rate (eop)	2.7	6.5	7.8	6.5
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	13.1	18.1	10.3	5.0
Bank deposits (pr. sector, yoy)	16.5	13.0	9.0	7.1
Lending int. rate (corp., eop)	8.2	9.2	11.0	10.4
Deposit int. rate (hh, eop)	3.5	4.2	6.0	5.7

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

Industrial production and inflation



Source: National Bureau of Statistics of the Republic of Moldova

Russia

Real Economy

Irina Lekareva

As of mid-December, about 48% of people in Russia were vaccinated (41% with two shots). There is, however, the possibility of a new wave of COVID as the level of uncertainty regarding Omicron is high.

In terms of the real economy, the World Bank and the Central Bank of Russia have maintained their forecasts for GDP growth of 4.3% this year. According to analysts, the manufacturing sector and construction will continue to support this growth. At the same time, the forecast for 2022 has worsened (2.4%). High levels of investment activity were observed in the second quarter of 2021 and the current account surplus reached a multi-year high as prices for goods increased and citizens refrained from vacations abroad and instead stayed in Russia. Household demand could be dimmed by the bleak winter outlook. Retail sales rose by 5.3% yoy in September.

Financial Markets

The CBR raised the key rate by 75bps on 22 October and by futher 100bps at its 17 December Meeting taking it to 8.5% and holding open the prospects of further key rate increases at the upcoming meetings. The reason for this was the excessively high inflation expectations and a significant shift in the balance of risks in favour of pro-inflationary risks. Price growth reached 8.4% in November, above most estimates. The main reasons for this acceleration were reportd by the Central Bank as being both transitory as well as steady factors. Headline inflation will likely remain above 8% at the end of 2021. Russian market participants reacted moderately positive to the results of the talks between Putin and Biden as the leaders of the Russian Federation and the United States gave hope of an improvement in the geopolitical situation. As a result, the ruble has strengthened moderately, but for more stable growth in the Russian currency, signs of a de-escalation of the situation around Ukraine are needed. Otherwise, the ruble may remain volatile until the end of 2021.

Banking Sector

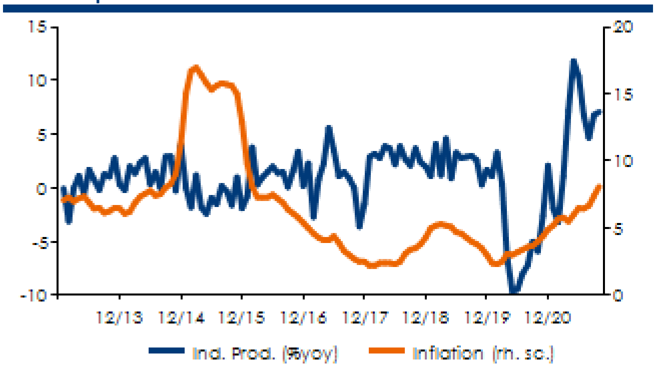
Banks reacted to the increase in the key rate for lending to companies by raising rates on ruble loans by 1.2pp (to 7.9%) in the third quarter of 2021, close to the dynamic of the key rate. The trend of increasing both lending and deposit rates is still in evidence. Deposit rates grew more slowly, as individuals were in no hurry to terminate deposits ahead of schedule and shift to new rates. At the same time, companies managed their liquidity more effectively by placing funds for short periods in different banks. In terms of loan and deposit volumes, these are continuing to rise pretty much at the same pace as they did in previous months.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-3.0	4.5	2.4	2.2
CPI (eop)	4.9	8.8	4.5	4.0
USD exch. rate (value, eop)	76.8	75.0	75.5	76.0
Euro exch. rate (value, eop)	90.1	83.0	90.8	93.9
Short-term rate (eop)	4.9	9.2	7.5	6.5
L/T bond yields (eop)	5.9	9.0	8.0	7.4
Bank loans (pr. sector, yoy)	14.4	13.4	7.6	6.0
Bank deposits (pr. sector, yoy)	9.6	10.1	7.7	6.5
Lending int. rate (corp., eop)	6.3	9.2	9.4	8.7
Deposit int. rate (hh, eop)	3.4	5.4	5.8	5.1

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

Industrial production and inflation



Source: Federal State Statistics Service

Ukraine

Artem Krasovskyi

Real Economy

Recently reported 3Q21 data showed that GDP rose by 2.4% yoy (+1.4% qoq), notably less than expected. Favourable prices in external markets and a record-high harvest significantly supported economic growth, but did not entirely compensate for the underperformance of other industry segments and the service sector. Following the NBU, the MoE has also revised its 2021 GDP growth forecast to 3.0% yoy, down from the 4.6% implied in the State Budget and from the 4.1% of the last revision in the summer. 4Q21 is still seen to bring some pick-up in GDP output, in particular thanks to agriculture and retail sales. Despite the low vaccination uptake, COVID infections now seem to have been slowing down after rapidly growing and peaking at nearly 30,000 a day in mid-November. However, the energy crisis and lockdown restrictions will likely have taken a toll on the recovery momentum. The alleged intensified military activity of Russia near the Ukrainian border, which had been widely reported in the media ahead of the Biden-Putin talks in early December, has tangibly affected investors' sentiment and poses additional downside risks to our outlook. Against this backdrop, we now see 2021 GDP growth at 2.5% yoy, down from the 3.7% expected earlier, while our 2022-2026 projections remain largely unchanged. The slowdown of inflation continued in November, with CPI decelerating to 10.3% yoy, from 10.9% and 11% in October and September, respectively. Core inflation slightly accelerated to 7.7% yoy, from 7.6% and 7.4%, over the same period. We raise our 2021 inflation forecast from 9.5% yoy to 10.5%, whereas we only marginally worsen our 2023 projections.

Financial Markets

The NBU hiked its policy interest rate by another 50bps to 9.00% in December, after a short respite at the previous MPC meeting. However, we expect the tightening cycle will reverse throughout 2022, with the policy rate ending 2022 at 8%. The Ukrainian hryvnia has significantly depreciated against the US dollar over the last few weeks since mid-November. Spurred by reports of rising tensions between Ukraine and Russia, the pair rate jumped from 26.00 to 27.30, having lost some 5%, and we expect it to remain at this level entering into 2022. Government 1Y bonds trade at 11.70% and 6Y bonds at 13.25%. With small concessions in yields at each primary auction, the Ministry of Finance secures enough market appetite for maturities of up to 1Y, but faces a cool response in the longer end of the curve, which usually appeals to offshore investors.

Banking Sector

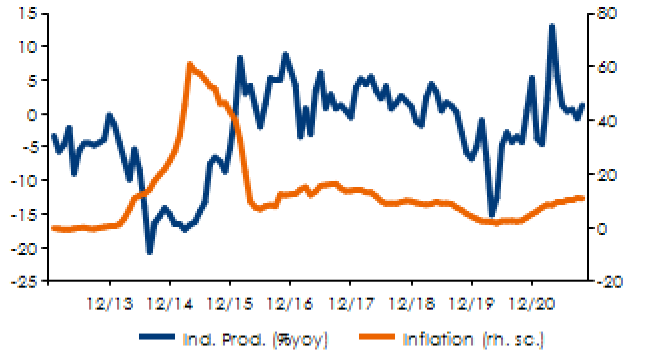
According to the NBU, the banking sector's profit in 3Q21 amounted to UAH21.3 bn and was 1.5 times higher than in the corresponding period of 2020. For nine months, the profit amounted to UAH51.4bn, which is higher than the pre-COVID year of 2019. Lending accelerated at a record pace, most noticeably in the corporate and mortgage segments. Even though these slowed down, the positive dynamic of deposit growth remains.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-4.0	2.5	3.8	3.3
CPI (eop)	5.0	10.5	6.5	5.5
USD exch. (value, eop)	28.5	27.3	28.0	28.4
Euro exch. rate (value, eop)	34.3	30.2	33.7	35.1
Short-term rate (eop)	10.1	11.2	11.0	10.5
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	-2.8	1.1	3.1	4.0
Bank deposits (pr. sector, yoy)	33.6	6.9	6.4	6.0
Lending int. rate (pr. sector, eop)	12.6	13.6	13.9	13.5
Deposit int. rate (pr. sector, eop)	4.4	5.1	5.6	5.5

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

Industrial production and inflation



Source: State Statistics Service of Ukraine

Egypt

Real Economy

Samer Halim

The health situation is stable, with no official reporting of Omicron cases in Egypt and daily infections of COVID having hovered at about 900 since mid-October. Expectations for real growth have been revised upward to 6.4% in 2021 (the calendar year), mainly after the notable recovery in tourism and the non-oil manufacturing sectors. Mega transportation projects and telecommunications are expected to maintain high growth rates as well.

Average annual headline CPI is expected to gradually increase to 6.2% in 2022, still within the CBE target of 7% (+/-2%) by 4Q22, against 5.2% this year, due to the gradual recovery in demand and the high prices of global commodities, even though these have shown signs of easing in the past few months (especially energy prices and the cost of shipping).

Financial Markets

Core interest rates have been kept unchanged in the last MPC meeting of this year of the Central Bank, at 8.25% and 9.25% for the overnight deposit and lending rates, respectively, in light of robust growth and concerns over imported inflation. Looking forward, interest rates are forecast to move on a slight upward trend, in parallel with the US Federal Reserve's tapering and expected hikes in 2022 and 2023. Accordingly, yields on government securities should follow the same trend to sustain a high real yield, before starting to decline by 2024, and we note that T-bills are currently offering higher yields than nominal lending rates.

The EGP is expected to continue its strong performance against major currencies (reaching 15.70 and 15.80 against the USD by the end of 2021 and 2022), balancing between, on one side, high external needs (current account deficit and external debt service) and on the other, foreign inflows to the debt market and the high level of foreign reserves (USD 40.9Bn). Egypt is expected to attract almost USD 30Bn during 2021 by issuing USD 6.8Bn in Eurobonds, USD 6.1Bn in 1Y USD T-bills and € 1.3Bn in 1Y EUR T-bills, in addition to receiving financial assistance from the IMF (the last tranche of the Stand-By Agreement and new SDRs allocations) and foreign investments in EGP securities. Moreover, the country plans to issue USD 3Bn in sukuk and green bonds and will benefit from joining the JP Morgan emerging market government bond index by late January 2022. The US investment bank said that Egypt is eligible to join the index, with 14 EGP government bonds worth a total of USD 26Bn.

Banking Sector

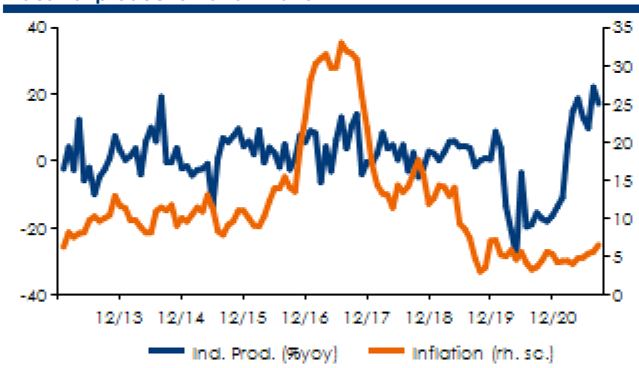
The expected annual growth rates of both private loans and deposits in 2021 have been upwardly revised to 15.3% and 14.3%, respectively, due to the strong performance of the retail sector and CBE measures to boost lending, such as extending its EGP 100bn 8% subsidised rates lending programme to more sectors and offering mortgages at a 3% subsidised rate for up to 30 years.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	1.5	6.4	5.0	5.4
CPI (eop)	5.4	5.9	6.5	7.0
USD exch. rate (value, eop)	15.7	15.7	15.8	16.1
Euro exch. rate (value, eop)	19.1	17.4	19.0	19.9
Short-term rate (eop)	12.8	12.1	12.3	12.9
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	24.5	15.3	11.4	10.5
Bank deposits (pr. sector, yoy)	20.4	14.3	11.4	10.7
Lending int. rate (corp., eop)	9.7	9.4	9.7	10.0
Deposit int. rate (hh, eop)	7.4	7.2	7.5	7.7

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

Industrial production and inflation



Source: Ministry of Planning, CAPMAS

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

The Economy

		GDP chg yoy			Ind.prod[1]. chg.yoy			Export nom. chg yoy			Retail sales chg yoy			Inflation chg yoy			Unemployment rate			Wages chg yoy			Economic Survey[2]		
		3Q21	2Q21	2020	Last	mth	3Q21	Last	mth	3Q21	Last	mth	3Q21	Last	mth	3Q21	Last	mth	3Q21	Last	mth	3Q21	Last	mth	3Q21
CEE	Czechia	3.1	8.5	-5.7	-4.9	Oct	0.5	-1.7	Sep	2.3	5.6	Oct	3.6	6.0	Nov	4.1	3.4	Oct	3.6	5.4	Sep	5.9	91.6	Nov	91.4
	Hungary	6.1	17.9	-5.1	-3.4	Oct	2.8	-9.1	Sep	2.0	5.7	Oct	4.3	7.4	Nov	5.0	3.9	Oct	4.0	9.1	Sep	8.6	112.7	Nov	110.2
	Poland	5.3	11.2	-2.7	7.8	Oct	10.4	12.0	Sep	17.3	14.4	Oct	10.2	7.7	Nov	5.5	5.5	Oct	5.8	8.4	Oct	9.0	107.1	Nov	105.1
	Slovakia	1.3	10.1	-5.2	-0.6	Oct	1.2	-5.9	Sep	1.7	2.2	Oct	3.0	5.6	Nov	3.9	6.8	Oct	7.4	7.3	Sep	8.7	99.8	Nov	100.1
	Slovenia	5.0	16.3	-4.2	6.2	Oct	8.2	16.7	Sep	19.8	33.0	Oct	13.7	4.9	Nov	2.3	6.8	Sep	7.1	3.5	Sep	4.7	102.2	Nov	102.7
SEE	Albania	n.a.	17.9	-3.3	n.a.	n.a.	n.a.	70.7	Sep	41.4	n.a.	n.a.	n.a.	3.1	Nov	2.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Bosnia H.	n.a.	11.6	-3.2	8.3	Oct	9.8	32.2	Oct	36.6	17.3	Oct	26.3	4.3	Oct	2.4	31.7	Sep	32.2	4.6	Sep	4.7	n.a.	n.a.	n.a.
	Croatia	15.8	16.5	-8.1	2.6	Oct	-0.9	29.5	Aug	n.a.	8.4	Oct	15.3	3.8	Oct	3.1	7.2	Oct	7.2	5.4	Sep	5.4	111.3	Nov	112.7
	Romania	7.4	13.9	-3.9	-6.1	Oct	0.7	4.6	Sep	14.2	5.5	Oct	9.1	7.8	Nov	5.5	2.9	Sep	2.9	5.9	Sep	5.8	100.3	Sep	100.3
	Serbia	7.7	13.7	-0.9	0.9	Oct	1.1	18.5	Oct	27.0	4.0	Oct	7.7	7.5	Nov	4.4	n.a.	n.a.	n.a.	9.2	Sep	9.2	n.a.	n.a.	n.a.
CIS & MENA	Moldova	n.a.	21.5	-7.0	13.7	Sep	12.2	38.9	Sep	36.3	7.4	Sep	10.6	8.8	Oct	4.9	n.a.	n.a.	2.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Russia	4.3	10.3	-3.0	7.1	Oct	6.1	77.9	Aug	84.2	4.1	Oct	5.3	8.4	Nov	6.8	4.3	Oct	4.4	9.9	Aug	9.9	51.7	Nov	51.6
	Ukraine	2.4	5.4	-4.0	1.3	Oct	0.1	38.2	Sep	35.7	6.5	Oct	9.3	10.3	Nov	10.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Egypt	n.a.	7.7	1.5	17.3	Sep	16.5	50.5	Aug	41.0	n.a.	n.a.	n.a.	5.6	Nov	5.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	48.7	Nov	48.9
	m.i. E. A.	*3.7*	*13.7*	*-6.4*	*5.2*	*Sep*	*6.0*	*10.0*	*Sep*	*13.7*				*4.9*	*Nov*	*2.8*									

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
		10/12	chg	10/12	chg	10/12	3M*	1Y*	3M*	1Y*	10/12	10/9	3Q21	2Q21	2020	3Q21	2Q21	Moody's
CEE	Czechia	3.0	2.0	2.5	0.6	25.34	-0.02	-3.75	9.4	43.9	34.4	28.6	n.a.	n.a.	n.a.	n.a.	1,075.5	Aa3
	Hungary	3.7	2.1	4.6	1.5	365.75	4.17	2.82	-3.2	24.3	49.0	48.5	n.a.	n.a.	n.a.	n.a.	n.a.	Baa2
	Poland	2.7	2.5	3.2	1.3	4.61	1.38	4.19	-3.8	21.6	46.3	43.6	n.a.	n.a.	n.a.	n.a.	4,997.0	A2
	Slovakia	-0.6	0.0	-0.2	0.0	n.a.	n.a.	n.a.	2.2	14.6	35.4	41.3	n.a.	n.a.	n.a.	-1,398	-165.8	A2
	Slovenia	-0.6	0.0	0.2	0.2	n.a.	n.a.	n.a.	4.8	37.5	41.4	59.9	734	19	165	234	529.0	A3
SEE	Albania	0.5	n.a.	n.a.	n.a.	121.40	-0.39	-1.87	n.a.	n.a.	n.a.	n.a.	n.a.	-117	n.a.	n.a.	-243.0	B1
	Bosnia H.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	631	277	650	n.a.	-208.7	B3
	Croatia	0.4	0.0	0.6	0.1	7.52	0.62	-0.21	2.2	14.2	76.0	78.0	2,811	428	382	n.a.	-802.3	Ba1
	Romania	2.6	1.1	5.6	1.4	4.95	0.16	1.64	1.0	31.2	76.6	83.4	n.a.	1,519	5,605	n.a.	-7,040.0	Baa3
	Serbia	1.0	0.0	n.a.	n.a.	117.61	0.02	0.02	2.9	11.4	100.0	122.3	n.a.	-184	113	-748	-652.3	Ba2
CIS & MENA	Moldova	7.0	3.6	6.3	0.6	17.68	0.75	2.12	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2,412.5	B3
	Russia	9.2	1.7	8.5	1.5	73.60	0.64	0.40	-5.7	14.2	98.6	72.7	n.a.	n.a.	9,290	n.a.	n.a.	Baa3
	Ukraine	11.4	0.7	13.9	0.7	26.90	0.59	-4.06	2.1	24.5	499.9	389.5	-935	1,231	3,471	-724	221.0	B3
	Egypt	12.4	-0.2	14.9	0.0	15.71	0.00	0.00	4.6	-1.7	479.1	342.9	241	247	-5,357	n.a.	-5,134.8	B2
	m.i.A.E.	*-0.6*	*0.0*	*-0.4*	*0.0*	*1.1*	*-4.5*	*-6.8*	*4.0*	*21.1*	*5.10*	*5.07*						

Source: Refinitiv;[1]The data for Egypt refers to November, for Czech Republic refers to November, for Moldova refers to November; [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	7.1	Oct	4.1	2.5	Oct	2.7	-0.1	Oct	-1.4	8.2	Oct	11.9	2.9	Oct	1.9	C	1.1	Oct	0.6	H	70.7	Oct	69.8
	Hungary	9.7	Oct	13.4	2.7	Jun	2.9	21.9	Oct	-11.9	14.7	Oct	23.3	3.4	Oct	3.0	C	0.8	Oct	0.3	H	77.0	Oct	75.0
	Poland	3.3	Oct	0.4	3.4	Jun	3.7	-5.0	Aug	10.4	6.8	Oct	12.8	2.4	Oct	2.4	C	0.2	Oct	0.2	H	82.0	Oct	82.4
	Slovakia	6.3	Oct	4.5	2.3	Oct	2.7	16.8	Oct	-18.9	3.8	Oct	6.3	2.1	Oct	1.7	C[2]	0.0	Oct	0.0	H[2]	105.8	Oct	101.0
	Slovenia	4.2	Oct	-0.9	1.3	Aug	1.9	-8.0	Oct	2.0	8.9	Oct	12.2	1.9	Oct	2.3	C[2]	0.1	Oct	0.1	H[2]	64.8	Oct	64.9
SEE	Albania	10.2	Oct	7.0	6.5	Sep	8.1	28.0	Oct	-6.8	4.8	Oct	8.1	6.0	Oct	6.5	PS	0.4	Oct	0.4	PS	56.3	Oct	53.6
	Bosnia H.	3.0	Oct	-2.5	5.5	Sep	6.1	-16.9	Oct	-25.5	11.4	Oct	6.5	3.4	Oct	2.9	C	0.2	Oct	0.2	H	90.8	Oct	95.0
	Croatia	2.5	Oct	3.5	4.7	Sep	5.4	9.7	Oct	7.3	11.4	Oct	8.7	5.0	Oct	5.2	PS	0.0	Oct	0.1	PS	66.8	Oct	72.2
	Romania	12.9	Oct	5.0	3.7	Sep	3.8	1.2	Oct	-6.2	13.0	Oct	15.4	5.2	Oct	5.4	PS	1.6	Oct	1.5	PS	70.0	Oct	67.8
	Serbia	8.1	Oct	11.1	3.6	Sep	3.7	-0.7	Oct	6.3	11.0	Oct	17.4	6.2	Oct	5.8	PS	1.5	Oct	1.5	PS	92.6	Oct	92.6
CIS & MENA	Moldova	23.1	Oct	13.1	6.5	Oct	7.4	0.7	Jul	n.a.	16.4	Oct	16.5	8.3	Oct	8.2	C	3.1	Oct	3.5	H	62.0	Oct	57.3
	Russia	16.5	Aug	14.4	8.1	Jun	8.8	7.4	Aug	10.5	11.3	Aug	9.6	8.0	Aug	6.3	C	3.9	Aug	3.4	H	118.3	Aug	113.2
	Ukraine	6.9	Oct	-2.8	33.3	Sep	41.0	-14.2	Oct	-5.4	11.7	Oct	33.6	13.5	Oct	12.6	PS	5.1	Oct	4.4	PS	76.6	Oct	74.0
	Egypt	19.0	Aug	24.5	3.5	Jun	3.6	1.2	Aug	16.1	18.1	Aug	20.4	9.3	Oct	9.7	C	7.4	Oct	7.4	H	35.7	Aug	35.4
	m.i. E. A.	*2.64*	*Aug*	*-1.3*	*n.a.*	*n.a.*	*n.a.*	*4.8*	*Aug*	*1.3*	*5.1*	*Aug*	*9.3*	*1.2*	*Oct*	*1.3*	*C*	*0.2*	*Oct*	*0.2*	*H*	*74.5*	*Aug*	*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)	2019	2020	2021	2022F	2023F
CEE	Czech Rep.	2.6	-5.7	3.2	4.8	3.2
	Hungary	4.6	-5.1	6.7	5.0	3.5
	Poland	4.1	-2.7	5.2	5.1	3.6
	Slovakia	2.3	-5.2	3.8	5.0	4.0
	Slovenia	3.3	-4.2	7.0	4.7	3.5
SEE	Albania	2.2	-3.3	7.5	3.7	3.8
	Bosnia Herzegovina	2.8	-3.2	6.0	3.8	2.9
	Croatia	3.5	-8.1	9.5	4.7	4.0
	Romania	4.1	-3.9	6.5	4.7	4.1
	Serbia	4.3	-0.9	7.0	4.0	4.0
CIS & MENA	Moldova	3.6	-7.0	6.8	4.4	4.0
	Russia	1.3	-3.0	4.5	2.4	2.2
	Ukraine	3.2	-4.0	2.5	3.8	3.3
	Egypt	5.5	1.5	6.4	5.0	5.4

	Inflation (%, avg)	2019	2020	2021	2022F	2023F
CEE	Czech Rep.	2.8	3.2	3.8	5.4	3.1
	Hungary	3.4	3.3	5.0	5.4	3.4
	Poland	3.4	3.4	5.0	5.6	3.6
	Slovakia	2.7	2.0	3.1	5.4	2.8
	Slovenia	1.7	-0.3	2.0	3.5	2.1
SEE	Albania	1.4	1.6	1.9	2.7	2.9
	Bosnia Herzegovina	0.6	-1.0	1.7	2.9	1.3
	Croatia	0.8	0.1	2.4	3.2	2.3
	Romania	3.8	2.6	5.1	7.2	3.8
	Serbia	1.9	1.6	4.1	5.2	2.7
CIS & MENA	Moldova	4.9	3.8	5.0	13.9	9.1
	Russia	4.5	3.4	6.7	6.7	4.3
	Ukraine	7.9	2.7	9.4	8.9	6.0
	Egypt	9.4	5.1	5.2	6.2	6.8

Markets

	Exch.rate (avg Euro)	2019	2020	2021	2022F	2023F
CEE	Czech Rep.	25.7	26.5	25.7	25.0	24.4
	Hungary	322.6	351.1	357.5	359.0	353.1
	Poland	4.3	4.4	4.6	4.6	4.5
	Slovakia	n.a.	n.a.	n.a.	n.a.	n.a.
	Slovenia	n.a.	n.a.	n.a.	n.a.	n.a.
SEE	Albania	123.0	123.4	122.3	122.5	125.3
	Bosnia Herzegovina	2.0	2.0	2.0	2.0	2.0
	Croatia	7.4	7.5	7.5	7.5	7.5
	Romania	4.7	4.8	4.9	5.0	5.0
	Serbia	117.9	117.6	117.6	117.6	117.9
CIS & MENA	Moldova (USD)	17.6	17.3	17.7	18.2	18.4
	Russia (USD)	64.7	72.6	73.7	75.3	75.8
	Ukraine (USD)	26.1	26.9	27.4	27.7	28.2
	Egypt (USD)	16.8	15.8	15.7	15.8	16.0

	Interest rate (%, avg)	2019	2020	2021	2022F	2023F
CEE	Czech Rep.	2.1	0.9	1.1	3.3	3.2
	Hungary	0.2	0.7	1.5	3.2	2.7
	Poland	1.7	0.6	0.5	2.4	2.4
	Slovakia	-0.4	-0.4	-0.5	-0.5	-0.4
	Slovenia	-0.4	-0.4	-0.5	-0.5	-0.4
SEE	Albania	0.8	0.5	0.5	0.6	0.9
	Bosnia Herzegovina	n.a.	n.a.	n.a.	n.a.	n.a.
	Croatia	0.5	0.3	0.3	0.3	-0.4
	Romania	3.1	2.4	1.8	2.7	2.8
	Serbia	2.7	1.5	1.0	1.3	1.8
CIS & MENA	Moldova	6.9	3.4	3.8	7.1	7.0
	Russia	7.8	5.4	6.6	8.4	7.0
	Ukraine	18.9	12.2	10.7	11.1	10.8
	Egypt	17.1	13.1	12.8	12.2	12.4

Banking aggregates (% change yoy)

	Loans (pr. sector)	2019	2020	2021	2022F	2023F
CEE	Czech Rep.	5.2	4.1	7.1	4.9	4.8
	Hungary	13.2	13.4	12.6	5.8	5.4
	Poland	4.7	0.4	4.2	4.4	4.7
	Slovakia	6.2	4.5	6.1	4.7	4.9
	Slovenia	3.7	-0.9	5.3	3.3	2.9
SEE	Albania	6.5	7.0	6.0	4.2	4.1
	Bosnia Herzegovina	6.7	-2.5	4.0	4.2	4.0
	Croatia	3.9	3.5	2.3	3.9	3.0
	Romania	7.0	5.0	12.2	7.3	5.7
	Serbia	8.9	11.1	7.5	5.6	5.3
CIS & MENA	Moldova	13.9	13.1	18.1	10.3	5.0
	Russia	7.1	14.4	13.4	7.6	6.0
	Ukraine	-8.0	-2.8	1.1	3.1	4.0
	Egypt	13.4	24.5	15.3	11.4	10.5

	Deposits (pr. sector)	2019	2020	2021	2022F	2023F
CEE	Czech Rep.	6.1	11.9	6.3	4.4	4.3
	Hungary	8.0	23.3	6.8	4.8	4.7
	Poland	9.7	12.8	5.6	5.2	5.1
	Slovakia	4.8	6.3	3.7	5.0	4.6
	Slovenia	6.3	12.2	8.4	4.4	3.6
SEE	Albania	3.8	8.1	7.5	4.4	3.7
	Bosnia Herzegovina	8.4	6.5	10.1	5.5	4.6
	Croatia	4.8	8.7	10.9	5.8	3.0
	Romania	12.6	15.4	11.0	9.1	6.2
	Serbia	7.8	17.4	8.5	6.3	6.1
CIS & MENA	Moldova	7.7	16.5	13.0	9.0	7.1
	Russia	4.2	9.6	10.1	7.7	6.5
	Ukraine	9.6	33.6	6.9	6.4	6.0
	Egypt	13.6	20.4	14.3	11.4	10.7

Banking interest rates (%)

	Lending (Corp. avg)	2019	2020	2021	2022F	2023F
CEE	Czech Rep.	3.2	2.3	1.9	3.0	3.4
	Hungary	2.5	2.8	3.2	3.9	3.4
	Poland	3.6	2.7	2.3	3.0	2.8
	Slovakia	1.9	1.9	1.9	1.8	1.8
	Slovenia	2.1	2.1	2.1	2.1	2.1
SEE	Albania	7.2	6.2	6.2	6.7	7.0
	Bosnia Herzegovina	3.0	2.8	2.3	0.2	0.2
	Croatia	5.8	5.5	5.1	4.5	3.9
	Romania	7.3	6.2	5.7	6.0	6.1
	Serbia	8.0	5.9	6.2	6.3	6.8
CIS & MENA	Moldova	8.8	8.5	8.5	10.2	10.5
	Russia	8.7	6.8	7.3	9.3	9.1
	Ukraine	19.8	14.3	13.3	13.9	13.6
	Egypt	16.1	11.4	9.5	9.5	9.9

	Deposits (HH avg)	2019	2020	2021	2022F	2023F
CEE	Czech Rep.	1.5	0.8	0.7	1.7	2.1
	Hungary	0.2	0.3	0.5	1.4	1.3
	Poland	1.6	0.5	0.3	1.0	1.0
	Slovakia	0.1	0.0	0.0	0.0	0.0
	Slovenia	0.2	0.1	0.1	0.1	0.1
SEE	Albania	0.7	0.5	0.4	0.7	0.8
	Bosnia Herzegovina	0.3	0.3	0.2	0.2	0.2
	Croatia	0.3	0.1	0.1	0.1	0.2
	Romania	2.2	1.9	1.2	1.5	1.6
	Serbia	2.5	1.6	1.4	1.6	2.0
CIS & MENA	Moldova	4.3	4.1	3.5	5.2	5.8
	Russia	5.4	3.8	3.9	5.7	5.5
	Ukraine	12.9	6.1	4.6	5.6	5.6
	Egypt	11.0	7.8	7.3	7.3	7.6

Source: Intesa Sanpaolo Research Department forecasts

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