INTESA SANPAOLO

International Research

Economic and Banking Outlook

September 2021

Countries with ISP subsidiaries

Quarterly Note

Research Department

International Research Network

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Viewpoint

GDP growth has been revised upwards further overall, following the strong rebound of industrial and now also of social-distancing-sensitive service sectors. Due to inflationary pressures, CBs are forecast to increase policy rates further in CZ, HU, RU and MD and start rising them in RO and PL.

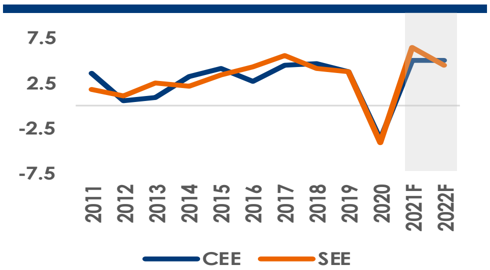
Following the strong increase in GDP growth rates in 2Q21 in all the countries with ISP subsidiaries – with peaks over 10% in Romania, Poland and Russia, 15% yoy in Hungary, Slovenia and Croatia and 20% in Moldova – we have further revised upwards our GDP forecasts for 2021 with respect to June Outlook to 5.4% in the CEE/SEE region, to 4% in the CIS region, and to 5.2% in Egypt (from the previous 4.7%, 3.5% and 5%, respectively). Growth is supported by a strong dynamic of industrial production and now by the recovery in the social-distancing-sensitive services sectors as well. Overall, the latter had been severely constrained until spring, when the start of vaccination campaigns eventually allowed the gradual removal of lockdown measures. All the regions are now seen to reach (and overcome in some cases) pre-COVID GDP levels by year-end 2021, well in advance of our expectations at the beginning of the COVID-19 crisis. GDP trend growth should decelerate in 2022 as the base effect and COVID-related support measures phase out but could be partly further sustained in perspective depending on the implementation scale of investment projects being announced in several countries in accordance with the EU Next Generation Fund at EU level and on policy actions to counter global warming at the global level.

Inflation rates have also been revised upwards for 2021, especially taking into account the accelerations recorded in the last few months. CPI's yoy monthly changes are now expected to average around 4% in 2021 (but with 4.8% the year-end outcome) in the CEE/SEE regions, above 6% in Russia, and 9% in Ukraine, in several cases well above CB targets. Inflation is being fuelled by the sharp rise in energy prices, bottlenecks in global value chains (eg, the automotive sector), and increases in transport costs in parallel with supply-constrained rebounds in demand.

Given the likely temporary nature of these underlying factors, inflationary pressures are generally expected to phase out by next year-end, but have nevertheless led the CBs of CZ, HU in the CEE region, and MD, RU and UA in the CIS region to anticipate the reversal of the policy rate cycle to pre-emptively cool inflation expectations and any potential second-round effects. Through 2021, further rate increases are still foreseen by the above-mentioned CBs (except UA, where the policy rate may have peaked) and, quite likely, in RO and PL as well, where CBs are still dovish. Monetary rate spreads towards EA and US benchmarks are therefore expected to increase temporarily, supporting, as a side effect, local FX rates. Long-term yields, though, have been revised slightly downwards overall with respect to our June scenario, mainly due to the parallel downward shift of Bund and US Treasury yields, with spreads, however, slightly wider now where CBs have already started (or are about to start) a tightening cycle.

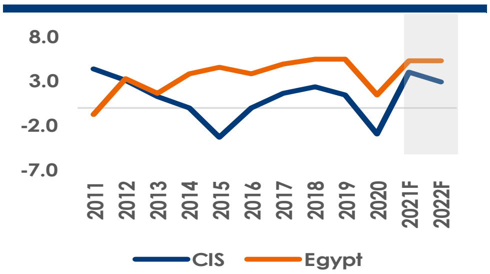
Banking aggregates are benefitting from higher nominal GDP growth rates, the partial extension of COVID-related credit supportive measures, and the households' still prudential savings behaviour, and have therefore also been revised upwards. Loans are now expected to increase in 2021 by 6.1% vs the previous 4.6% in CEE/SEE area, by 11% vs 7.1% in the CIS area, and by c.12% in Egypt. In parallel, deposits are also expected to increase, by 7% vs 5.5% in CEE/SEE, 8.8% vs 6.4% in CIS, and by c.12% in Egypt. Growth rates for banking aggregates are also seen to slow down in 2022, due to the deceleration of GDP growth and the phase-out of credit supportive measures.

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



Note: * weighted average Source: ISP Research Department Forecasts

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



Note: * weighted average Source: ISP Research Department Forecasts

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

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

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

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

Cross country analysis

Recent developments

Antonio Pesce, Francesca Pascali and Davidia Zucchelli

Following the still-negative (or weak) trend of GDP in Q1 in the **CEE and SEE areas** at -1.4% yoy (but +0.6% qoq) and +0.4% yoy (+1.6% qoq), respectively, in 2Q21, the GDP rebounded above expectations, by 11.5% yoy (1.9% qoq) in the CEE area and by 13.6% yoy (0.4% qoq) in the SEE region (excluding Albania and Bosnia H, for which Q2 GDP data have not yet been released).

With most countries maintaining "soft" restrictions, robust growth looks to have taken hold in 3Q21, after the strong rebound in Q2

Albeit the number of new daily COVID infections has increased across over 3Q21 the CEE/SEE region (in particular in the SEE area), containment measures were not restricted overall thanks to the progress of the vaccination campaigns, which have reduced the risks of serious infection cases and hospitalisations. The high frequency indicators still signal robust economic activity in the months of 3Q21. In July, the **industrial production** trend in the CEE/SEE region was 7.3% (on a weighted average basis), ranging from 7.0% in Czech Republic to 9.8% in Poland, and from 1.7% in Serbia to 10.6% in Bosnia H. Also, **exports** growth remained robust in July, at 19.2% (weighted average) while **retail sales** rose by about 7.0% yoy in the whole region, performing particularly well in Croatia (12.8%) and Serbia (11.1%). In August, the **ESI** increased in several countries, mainly driven by improvements in services sentiment, as in Hungary, Albania, Croatia and Serbia, but softened in Czech Republic, Poland and Slovakia, where household sentiment deteriorated. Overall, in July and August, the ESI was slightly higher than the Q2 value in the CEE/SEE region (weighted average).

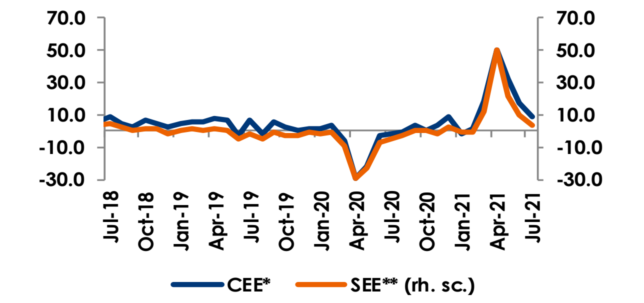
Rises in consumer prices in CEE and SEE countries, in the most cases above central bank targets

Inflation has accelerated sharply during the year. The average rate moved from 2.2% in January to 4.8% in August in the CEE/SEE region, due to external factors, such as energy prices and transport cost increases as well as bottlenecks in global supply chains, and internal factors (in particular, the strong recovery in final consumption and investments demand). In August, inflation remained above the upper threshold of the central bank's target corridor in Czech Rep, Hungary, Poland and Romania, and closer to its upper threshold in Serbia.

In August, the policy rates were increased to 1.65% (by 15bps) and to 0.75% (by 25bps) in Hungary and Czech Rep, respectively

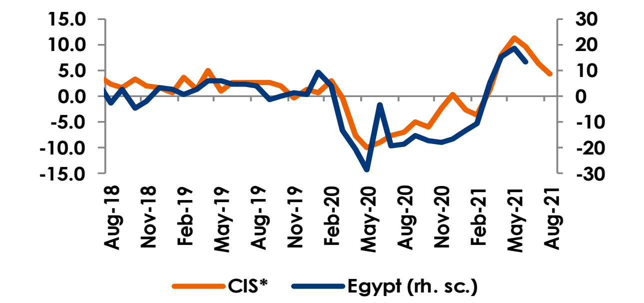
Despite the rise of inflation, **monetary policy** has remained accommodative overall to support the ongoing recovery as current price pressures are seen as being transitory, but with some exceptions. To keep inflation expectations anchored, central banks in Hungary and Czech Rep have already begun raising official rates, bringing them to 1.65% and 0.75%, respectively. Above-target inflation is raising expectations of a start to the policy rate hike cycle in Romania and, despite the dovish stance of its central bank, in Poland as well. In line with upwardly revised inflation expectations, **long-term yields** have also increased slightly overall (with a few exceptions, eg, Croatia) in the last three months, with only a modest widening of the spread vs the EA benchmark. Local **currencies** stayed quite stable in most cases, with some appreciation vs the euro in Hungary and Czech Rep supported by the hawkish tone of the CBs.

Industrial production % yoy – CEE/SEE



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

Industrial production % yoy – CIS/Egypt



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

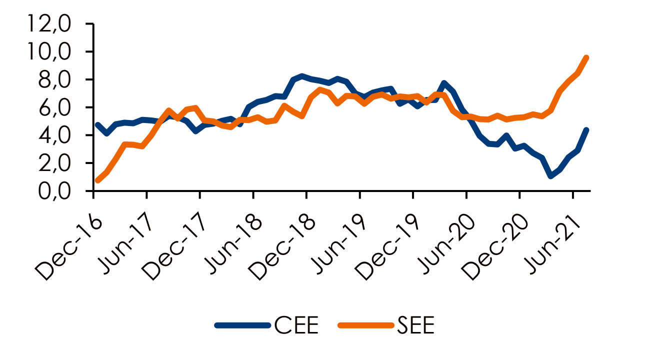
Monetary policy normalisation has continued in Russia and Ukraine

Outside the CEE/SEE region, in **Russia, GDP** rose by 10.3% yoy in 2Q21, following the 0.7% contraction of 1Q21. The strong economic rebound, partly supported by the recovery of the hydrocarbon market, is fast moving the growth rate of Russia back to the 2019 level. In **Ukraine**, after the 1Q21 fall (-2.2%), GDP grew in 2Q21 by 5.4%. In **Moldova,** GDP rose by 21.5% in 2Q21 after rising by 1.8% in 1Q21. In **Egypt,** GDP rebounded in Q2, with a growth trend of 7.7%, above previous expectations. Moving to the dynamics of high frequency indicators in the early months of Q3, in August, the **industrial production** trend softened in Russia (4.7% yoy), after 6.8% of July, and Ukraine (0.6% yoy vs 0.2% in July). In July remained strong in Moldova (21.5% with respect to 21.7% in June). In August, **exports** grew at strong rates in Russia, at about 98.2% from 72.9% in June, Moldova, 15.2% yoy from 19.6%, and Ukraine, at 33.4% vs 30.6%. **Retail sales** also grew at double-digit rates, only in Ukraine and Moldova but at a more moderate pace. On the **inflation** side, in August, consumer prices accelerated further in Russia (6.7% following 6.5% in July), well above the inflation target of the CB (4.0%) and in Moldova (4.6% from 3.5% in July). In Ukraine, it remained at the same level seen in July (10.2% yoy), much higher with respect to the target 5.0% -± 1.0%. It also increased in Egypt (to 5.7%), but remained within the official corridor set by the CB (7 ± 2%).

Bank loans accelerated as of July

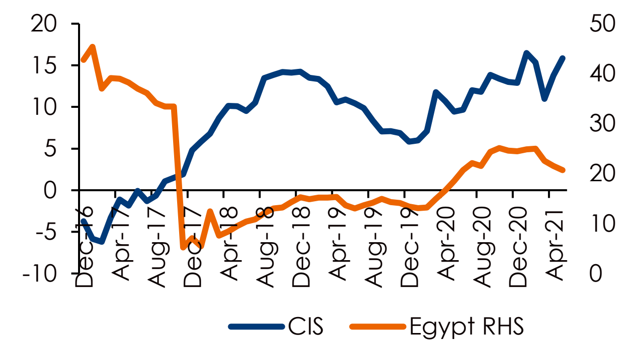
As regards banking aggregates, **lending** growth strengthened in many countries as of July. In particular, loans accelerated by 4.4% yoy in the **CEE** countries (from 2.9% yoy in June) and by 9.6% yoy in the **SEE** countries (from 8.4% yoy in June), supported by the strong GDP dynamic and due to policy measures adopted to face the pandemic being partially still in force. In Hungary, where loans jumped by 12.3% yoy in July, supportive schemes have been further reinforced (see the "babavaro" loan for young families). **NPL ratios** have so far remained low everywhere, but as highlighted by central authorities and rating agencies, the increase in Stage 2 loans is a source of concern. Loans to households continued to be much more dynamic than corporate loans in the CEE (6.7% and 0.4%, respectively) and in the CIS countries (20.3% and 14% as of May), with moderate concerns about a bubble in the residential property markets. In contrast, corporate loans have been stronger in the SEE countries (11.7% vs 8% in the household sector), with Romania playing the leading role (+17% yoy). Loan growth in Poland and Slovenia was positive (2.2% and 1.4% yoy, respectively), despite a still-weak corporate sector (-1.8% and -0.5% yoy). In the CIS area, loan growth was strong in Russia (17.6% yoy as of May), both to corporates (15.7%, which cover around 70% of total loan portfolio) and households (21.9%), still sustained by the subsidised mortgage lending programme. In Ukraine, total loans decreased by 3.7% yoy as of July, negatively affected by businesses (-6.3%, still suffering from poor asset quality in state-owned banks), while loans to households strengthened by 4.5% yoy. The still-low recovery of consumption and prudence continued to support **deposit** growth, both in CEE (9%) and SEE (13.9%) countries, despite low interest rates. In Egypt, banking aggregates continued to be dynamic as of May, despite decelerating slightly (loans up 20.7%, deposits +19.7%). Both deposit and lending **interest rates** decreased in a few countries but started to show a reversal where monetary rates started to increase (as in Hungary, Russia and Ukraine).

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 the rollout of vaccines and expansionary economic policies. However, one must be cautious

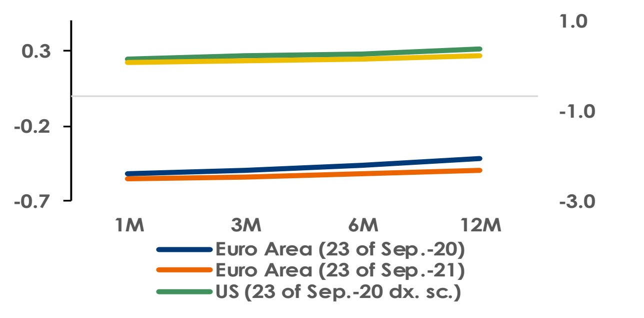
In the second half of this year, maintenance of the current 'softer' restriction measures on economic activities, or even their possible further easing, should be assisted by progress in vaccine programme rollouts in several advanced and emerging economies, supporting global economic growth. On the assumption that the spread of the COVID-19 virus appears to be contained and vaccination campaigns are proceeding as planned, the recovery is expected to be robust in the **global economy** in 2021 and 2022 (6.0% and 4.9%, respectively, according to the IMF's July WEO, which was revised upward for 2022 from the 4.4% forecast in April). Due to differences in COVID-19 (and variants) spread and vaccine access, economic prospects may turn out to be heterogeneous across countries. Overall, caution is any case still required in making forecasts, as risks of adverse events still surround the future dynamic of the pandemic.

In the **US,** where fiscal stimulus and accommodative monetary policy are fuelling the economic recovery, GDP is forecast to grow by 6.1% in 2021 and 3.9% in 2022, downwardly revised from the dynamic forecast in June (7.6% and 4.4%, respectively), but still robust trends. US inflation decreased slightly, to 5.3%, in August and is projected to soften during the rest of the year (about 4.9% eop in 2021), before then moving closer to 2.0% in 2Q22. With accelerating but estimated as temporary inflationary pressures, the Federal Reserve is expected to keep the fed funds rate at 0.25% in 2021 and in 2022, but to start tapering the bond purchase programme.

In the Euro area, after a weak start of 2021(GDP -0.3% qoq in Q1), GDP rose in Q2 (+2.2% qoq) thanks to the broad-based relaxing of containment measures to address the pandemic. GDP is expected to grow to 5.3% for the whole of 2021 and to remain robust, at 4.6%, in 2022, supported by expansionary economic policies: both accommodative monetary measures (ECB asset purchasing and lending facilities programmes very gradually removed with interest rates kept historically low) and stimulating fiscal measures (the NGEU Funds). Largely due to base effects and an increase in energy prices, inflation has picked up over recent months (3.0% in August, higher than expected). It is expected to remain high in the coming months. Inflationary pressures, however, are estimated to be transitory, as some driving factors (such as the base effects due to the last year's energy price increase or VAT reduction in Germany) are expected to fade, allowing inflation to decelerate.

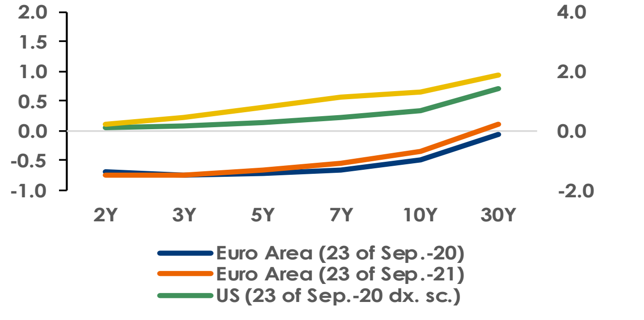
Among **emerging countries,** in July, the IMF forecast GDP growth to rebound by 6.3% in 2021 and 5.2% in 2022. Among the different areas, the prospects for the Asian region remain the most promising (7.5% and 6.4% in 2021 and 2022), thanks especially to China (8.2%, and 5.5%, according to our forecasts), even if near-term downside risks remain, as signalled by the new COVID outbreak in Fujian or the emergence of the fragile financial positions of some corporates in the real estate sector. The economic performances of other areas though lower than in Asia are also expected to be on a recovery path overall, especially in the MENA region, Latin America and Sub-Saharan Africa, supported by rebounds in commodity prices.

Benchmark monetary rates (US and EA rates)



Source: ISP elaboration on Refinitiv-Datastream data

Yield curves (US bonds and German Bunds)



Source: ISP elaboration on Refinitiv-Datastream data

Economic outlook

Growth and inflation

Upward revisions to GDP growth in CEE/SEE due to a Q2 GDP growth above previous expectations and upward revisions regarding global recovery…

Vaccination campaigns this year, together with the ongoing recovery of international trade and domestic demand overall, have supported expectations for robust global GDP growth in 2021 (6.0% in IMF projections) and have encouraged upward revisions of GDP growth forecasts for 2022 (to 4.9% from 4.4%). The view of the recovery at the global level is now better than previously forecast; however, caution is still necessary, as previously discussed.

… and risks to forecasts are now more balanced

In this context and taking into account the outcome of most recently released high frequency indicators, we have revised slightly upwards our **forecasts for GDP growth** in the CEE/SEE region with respect to our June *Outlook* by 0.7pp for 2021 (to 5.4%) and by 0.1pp for 2022 (to 4.9%). GDP growth expectations for 2021 have been increased by 0.6pp for the CEE area and 1.1pp for the SEE area following the above-expectations growth rates recorded in Q2 overall, with peaks in Hungary, Slovenia, Croatia and Romania. Over the forecast horizon, expansionary economic policies, in particular the implementation of recovery and resilience plans under the NGEU programme, and the strengthening of international trade should provide strong support to the GDP path. In absolute values, GDP in the CEE/SEE area is forecast to return to pre-COVID levels by Q4 of this year, earlier than previously expected. **Risks to forecasts** appear at the same time more balanced.

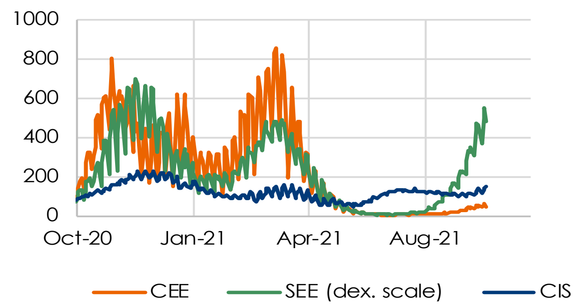
Inflationary pressures are expected to be temporary by major Central Banks

Due to several factors, such as the base effects coming from the deflationary forces that occurred in 2020, energy price and transportation cost increases, and strong demand, the **inflation** path is expected to remain high in coming months **in the CEE/SEE regions** (weighted average 4.8% eop 2021, upwardly revised from 3.1% forecast in June), in most cases above the upper limit of target ranges set by CBs. Price pressures are expected, however, to be transitory and the consumer price index dynamic in CEE/SEE region is seen to decelerate to 3.0% (eop) in 2022, moving back to CB target values.

Thanks to the faster-than-expected global recovery and a rebound effect, 2021 and 2022 GDP growth forecasts have been also revised for the **CIS area** with respect to our June *Outlook*, by 0.5pp, to 4.0%, in 2021 and by 0.1pp, to 3.0%, in 2022. Inflationary pressures – currently rising all over the region – are expected to soften, moving back to the CB targets in Russia and Ukraine, where they are forecast at 4.3% and 5.5%, respectively, by the end of 2022, but not yet in Moldova, where the forecast is still 6.6% at the end of 2022.

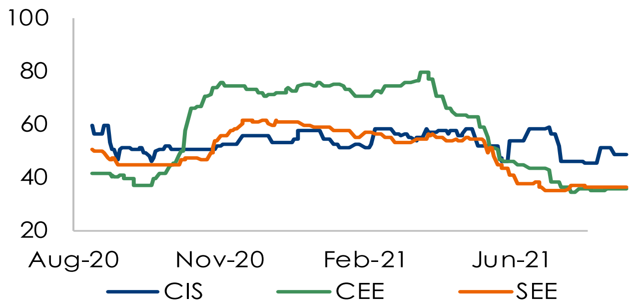
In the MENA region, we update slightly upwards our June forecast for GDP in **Egypt** to 5.2% in 2021 (from 5.0%). However, we keep our number at 5.2% for 2022. Egyptian inflation is expected to rise to 6% by this year-end mainly due to food and oil price increases as well as pressures from bottlenecks in the global supply chain. In 2022, inflation is forecast to rise further, to 6.5%, by the end of the period (still remaining in the central bank's range of 7.0% ± 2.0%).

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



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 a hawkish tone from several central banks

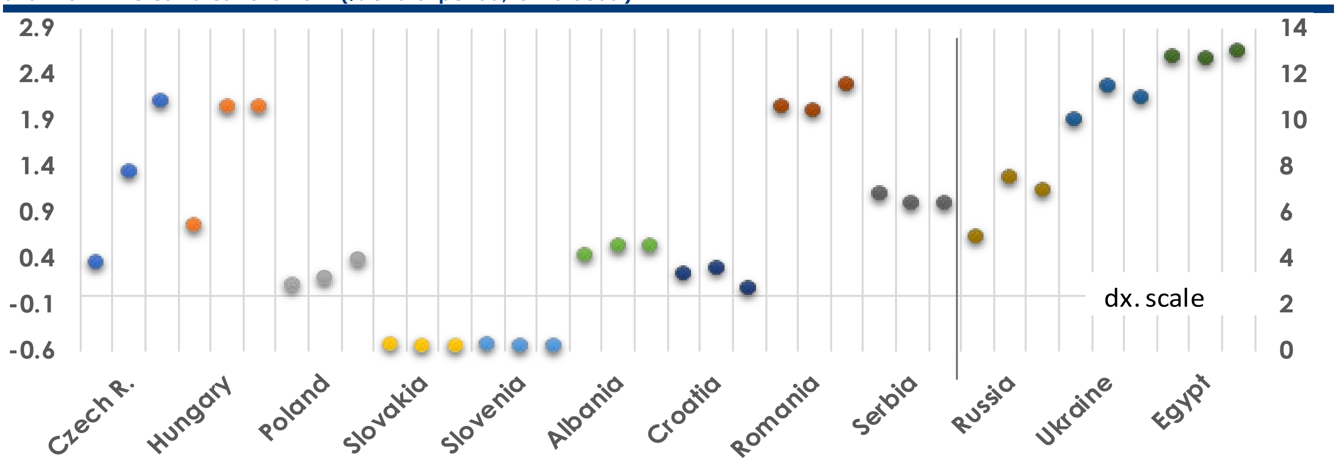
In the **CEE/SEE** region, inflation rates above targets and expectations of a strong economic recovery have prompted hawkish tones from some central banks. In Hungary, the MNB is expected to further raise the policy rate by 35bps, to 2.0%, by year-end, after bringing the policy rate to 1.65% in September (+105bps since the start of the reversal) and to keep it unchanged in 2022. In Czech Republic, we expect to see a further 50bps increase of the policy rate, to 1.25% by year-end, and then a further 75bps increase next year. Central banks in Poland and Romania have not yet started the hiking cycle, but we expect to see rates increase by 15bps this year and a further 25pbs next year (to 0.5%) in Poland, and by 25bps this year and a further 50bps next year (to 2.0%) in Romania. Accordingly, in the same countries, **money market rate expectations** have been revised upward for both 2021 and 2022.

Outside the CEE/SEE region, due to inflationary pressures, the CB in **Russia** raised the policy rate five times this year (the last increase was earlier in September, by 0.25bps, to 6.75%). We forecast the Russian policy rate to reach 7.0% by year-end and then to gradually decline to 6.5% by the end of 2022, in parallel with a deceleration in the CBR's target level. In **Ukraine,** the CB raised its policy rates four times. After the three rate hikes of 50bps each in March, April and July, the CB raised the policy rate by a further 50bps, to 8.5%. 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 and by a further 100bps in September, to 4.65%. We now forecast Moldova's policy rate to rise further, to 5.65% by the end of 2021 and to 6.75% by the end of 2022, due to persistent inflationary pressures next year. In **Egypt,** the CB is instead expected to keep the policy rate unchanged in 2021 and to only slightly increase it in 2022 (0.25pp, to 9.50%).

In the CEE/SEE region, the expected profile of **long-term yields** has been revised slightly downwards overall along the forecast horizon with respect to our June scenario, mainly due to a downward revision of Bund yield forecasts. However, spreads have been slightly revised upwards in those countries where the CBs, due to inflationary pressures and buoyant business cycles, have started tightening cycles, or are expected to start them, in advance of the ECB.

In the **forex markets**, exchange rates are expected to stay generally stable at current values in the CEE/SEE area overall, but to appreciate slightly in some markets - such as Hungary, Czech Rep and Poland – supported by rising monetary rates as well as favourable prospects for economic growth. The Croatian currency, which entered the ERMII in July 2020 with a central parity of 7.53, is expected to enter the Euro area from 1 January 2023.

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



Source: ISP Research Department forecasts

Banking aggregates and interest rates

Banking aggregates revised slightly upward again in 2021

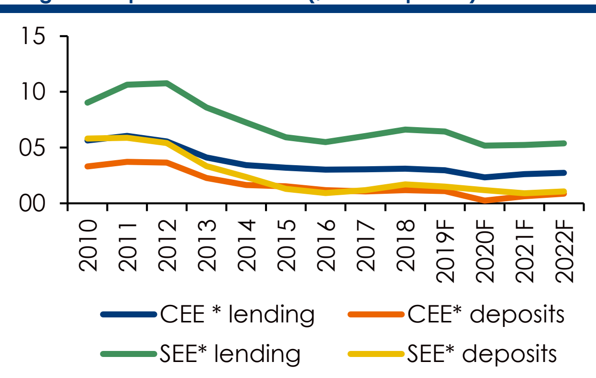
We make slight revisions to our forecasts for 2021 regarding both loans and deposits due to further upward revisions to GDP and inflation estimates. The picture in **lending** remains diversified in 2021 vs 2020, with loans accelerating in both the CEE countries and, particularly, in the SEE countries, but slowing in CIS countries. Almost all CEE countries are expected to show accelerations this year. Romania among SEE countries remains the leading player supporting its area's weighted average. The gradual phase-out of pandemic-related monetary instruments, only partly prolonged in some countries (eg, Hungary) and the expected deterioration of asset quality will, however, weigh in parallel on loan dynamics. A widespread deceleration is forecast in 2022, especially among households, even though loans can be supported by the consumption recovery and the demand for mortgages, which is expected to remain vigorous.

In CEE countries, loans are expected to increase by 5.4% and 4.4% on average, respectively, in 2021 and 2022, and more strongly in SEE countries, by 7.8% and 6.1%, respectively. In 2021, Hungary (13%) among the former and Romania (9.5%) and Serbia (7.5%) among the latter are expected to continue to be the best performers. Excluding Poland, which is expected to show a recovery in loans (3.5% in 2021, 4% in 2022 after only 0.4% in 2020, due to weak demand from the corporate sector), the average for the CEE area is 7.7% in 2021, followed by 5% in 2022. NPL flows are expected to rise overall, as highlighted by increasing Stage 2 loans (according to EBA data), but not to reach the peaks seen during the great financial crisis.

In CIS countries, loans are also expected to be dynamic, but to decelerate in both 2021 (+11%) and 2022 (+7.1%). In Russia – where corporate lending is making a strong contribution (almost +15.7% yoy as of May, covering 70% of the total portfolio) – lending is forecast to increase by 12% in 2021 and 7.5% in 2022, a deceleration with respect to the 14.4% recorded in 2020, due to the gradual phasing out of some measures adopted during the pandemic (eg, the Subsidised Mortgage Programme) and rising interest rates. In Ukraine, the volume of loans is expected to remain stable in 2021 (0.1%), due to the accounting revision of write-offs among the state-owned banks, though new business flows of loans are gradually recovering.

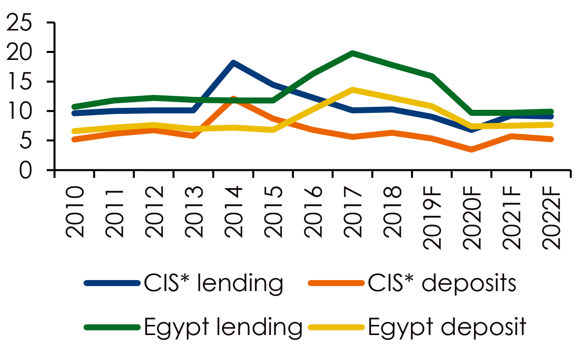
Deposit forecasts have been revised upwards again, taking into account the persistent strong recent increases overall due to the still-modest consumption recovery and the prudence among households in a strengthening economic context. Deposits are now expected to rise by 6.2%, 9.3% and 8.8%, respectively, in CEE, SEE and CIS countries in 2021, but to decelerate in 2022. Therefore, the above trend of an accumulation of savings and deposits with respect to the pre-pandemic scenario (which was quite strong in Hungary, Serbia and Romania) is expected to start to turn in 2021 and 2022, with only a partial absorption however of the extra savings accumulated so far. Households may prefer to pay down debt and resume consumption, which is expected to recover only gradually, or to buy assets, while businesses might now partly finance postponed investments with internal funding. In line with money market rates, **interest rates** are forecast to gradually reverse in the countries (particularly in the CEE and in CIS areas) where policy rates have been already increased in 2021 or are expected to be increased.

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



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

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



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

Country-Specific Analysis

Czech Republic

Zdenko Štefanides

Real Economy

The Czech economy has been recovering from the winter wave of COVID at a slower pace than its regional neighbours and has yet to reach pre-COVID levels of activity. Following the decline of 5.7% in 2020, real GDP is expected to grow by 3.4% in 2021 as disruptions in global supply chains preclude a faster normalisation of Czech manufacturing and exports. The pace of the recovery is nonetheless expected to rise next year as these problems fade and investment receives a boost from EU-funded projects. However, relative to other countries, the allocation of EU Next Generation funds to Czech is rather modest. Investments are therefore more dependent on domestic funds and unlikely to return to pre-pandemic levels before 2024.

Czech GDP growth will thus rely on consumption, especially by households, which are benefitting from a continuing tight labour market. Indeed, the Czech labour market cooled only temporarily during the pandemic, and now, as the economy is reopening, the market is gradually overheating again, accelerating wage pressure. An additional boost to household spending is coming from post-pandemic dis-saving and private consumption is thus likely to become the dominant contributor to GDP growth in upcoming years. Alongside vibrant household consumption, prices – for services in particular – are increasing fast. Inflation exceeded 4% already in August and is unlikely to decline before mid-2022.

Financial Markets

The CNB was one of the first CBs in Europe to raise rates post the pandemic to rein in inflation pressure. By July, it had raised rates twice and it is poised to continue to move higher. We now forecast that the two-week repo, currently at 0.75%, will reach 2.0% by end-2022, some 75pbs higher than forecast previously. The revision of our forecast primarily reflects inflation, which is running one percentage point higher than recently projected by the CNB. We nonetheless also note the hawkish turn of the central bank. On yields, given a downward revision of the Bund, we broadly maintain the previously forecast and even decrease the projected yield a bit, which might in fact mean that the Czech yield curve could move to an inverse situation next year. Rising interest rate differentials will bring about renewed appreciation pressure on the koruna.

Banking Sector

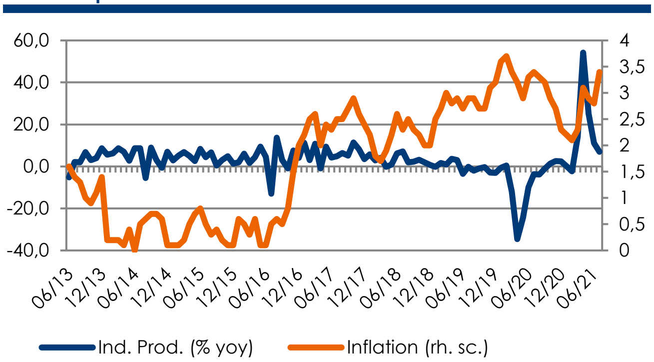
In the banking sector, we foresee volume growth on the deposit side moderating by comparison with the previous extraordinary COVID-driven surge. Regarding the loan market, we expect growth of total volume to be sustained or even increase in the coming years, even as mortgages, the previous growth driver, will likely slow due to declining housing affordability alongside a rise in indebtedness and in interest rates. Also, consumer loans, after a brief post-pandemic revival, are expected to moderate later. The total loan volume will likely be driven by the corporate sector, which will (co)finance an expected investment boom and is coming out of the pandemic with decade-low indebtedness.

Forecasts

	2019	2020	2021F	2022F
Real GDP yoy	2.6	-5.7	3.4	4.8
CPI (eop)	3.2	2.3	4.5	2.2
Euro exch. rate (value, eop)	25.5	26.3	25.4	24.5
Short-term rate (eop)	2.2	0.4	1.4	2.1
L/T bond yields (eop)	1.6	1.3	1.8	2.1
Bank loans (pr. sector, yoy)	5.2	4.1	4.4	4.9
Bank deposits (pr. sector, yoy)	6.1	11.9	5.3	4.3
Lending int. rate (corp., eop)	3.6	1.9	2.6	3.1
Deposit int. rate (hh, eop)	1.5	0.6	1.3	1.8

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

Industrial production and inflation



Source: Czech Statistical Office

Hungary

Real Economy

Mariann Trippon

The Hungarian economy posted a very strong post-COVID recovery. Q2 GDP growth surpassed expectations (2.7% qoq and 17.7% yoy swda) and output has already reached pre-COVID levels. High frequency indicators point to the continuation of robust growth: pent-up demand, the positive external environment, and loose fiscal policies are all boosting economic activity. Household consumption continues to be supported by tight labour market conditions, strong wage growth, household high savings as well as fiscal measures. Investments have also started to recover. Despite uncertainties surrounding the fourth COVID wave, we revised up our 2021 GDP growth forecast to 7%. We expect 5% GDP growth in 2022, but pre-election fiscal measures pose an upside risk to the forecast. From 2023, the economy is likely to adjust to a lower growth trajectory that is more in line with the potential growth rate. Inflationary pressures continue to be strong in the economy. Headline CPI significantly exceeds the 3% target. Q4 average inflation will exceed 5.5% and FY21 CPI may come in at 4.7%. The strong support from the high base will likely push CPI back to the 2-4% tolerance band in 2022, but risks stemming from the tight labour market, the minimum wage rise, likely pre-election fiscal measures, and capacity constraints all increase upside risks to the outlook. The labour market recovery looks set to continue, which will support wages, as will the planned minimum wage rise in 2022.

Financial Markets

The strengthening of upside inflation risks triggered a hawkish monetary policy turn. The MC had already raised the policy rate by a total of 105bps, to 1.65%, cut back its asset purchases, and cancelled the Lending for Growth programme. The rate hike cycle is expected to continue until the end of the year, but since inflation is likely to converge towards the target next year, we do not expect any further rate increases in 2022. The widening interest rate differential (vis-à-vis both core markets and the region) points to a stronger FX rate, which should help to mitigate inflation risks. We project a gradual rise in long yields throughout the forecast period, which partly reflects core market yield developments and partly the normalisation of domestic monetary policy.

Banking Sector

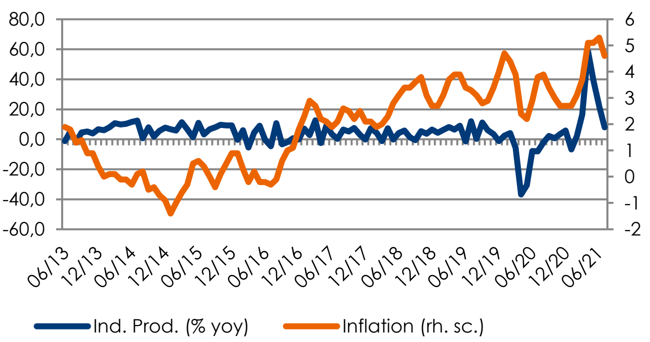
After rising by more than 20% in 2020, bank deposit growth is expected to slow this year, but the slower-than-expected decrease of forced savings and the moratorium should keep deposit growth close to 7% in 2021. Lending continues to be buoyant and loan growth will remain in double-digit territory this 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 – boost corporate lending. The general moratorium was extended until 31 October 2021 and prolonged until June 2022 for those most affected by the COVID crisis.

Forecasts

	2019	2020	2021F	2022F
Real GDP yoy	4.6	-5.1	7.0	5.0
CPI (eop)	4.0	2.7	5.5	2.9
Euro exch. rate (value, eop)	297.6	359.0	347.0	343.0
Short-term rate (eop)	0.2	0.8	2.1	2.1
L/T bond yields (eop)	1.9	2.2	2.9	2.9
Bank loans (pr. sector, yoy)	13.2	13.4	13.0	5.8
Bank deposits (pr. sector, yoy)	8.0	23.3	6.8	4.8
Lending int. rate (corp., eop)	2.3	3.0	4.0	3.8
Deposit int. rate (hhs, eop)	0.2	0.3	1.6	1.6

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 continued to weather the impact of the pandemic relatively well. By 2Q21, it had returned to pre-COVID levels of real GDP. Economic activity has been resilient, thanks mainly to domestic demand (household consumption in particular). And domestic demand, indeed, is expected to remain the dominant force in the recovery and the key contributor to the forecast 5.1% growth in real GDP in 2022. However, investment has been left behind in the recovery so far as disruptions in global supply chains and continuing uncertainty weighed on companies' capex. Looking ahead, though, investment is poised to grow strongly, especially with the timely execution of prospective EU-funded projects. Note that Poland has been granted funds worth €23.9bn from the Resilience and Recovery Fund (RRF), which is the fifth- highest absolute support within the EU. Inflow of these funds will peak in 2023-2025.

The fast recovery in domestic demand has been accompanied by increasing inflation pressure. In August, consumer prices were 5.4% higher than a year ago, which represented the highest yoy inflation rate in 20 years. Clearly, a large part of the increase in prices is related to supply side effects, such as energy and food costs, and is thus seen as transitory. Nonetheless, with core inflation at 4%, it seems likely that average inflation next year will decline only marginally from this year's elevated level.

Financial Markets

The National Bank of Poland (NBP) remained cautious throughout the pandemic and, unlike regional peer central banks in Hungary and Czech Republic, also through the recent fast recovery. The historically low policy rate of 0.10% has not moved since May 2020 even as inflation is now running at more than double the central bank's 2.5% target rate. Moreover, a recent speech by NBP Governor Glapinski downplaying underlying inflation problems poured cold water on market expectations of any imminent rate hike. In our forecast, we nonetheless keep a symbolic 15bps hike this November to reflect the material probability that inflation will not ease and be reflected in the new NBP projections. Beyond this, we project regular rate hikes of 25bps in mid-2022, but we still continue to see the NBP as the regional laggard in terms of policy rate normalisation. This dovish stance of the central banks is also reflected in our currency forecast, which foresees the zloty remaining range-bound for the foreseeable future.

Banking Sector

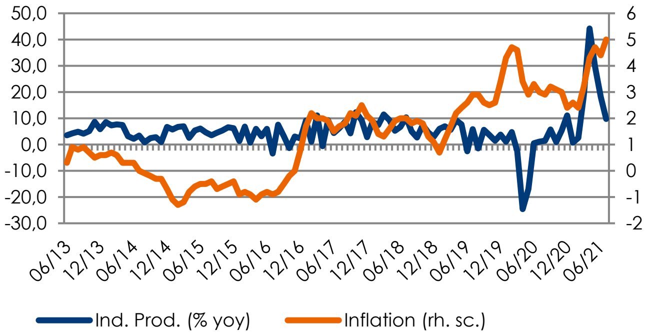
With regard to the banking market, we expect volumes of loans to resume growing as the economic recovery broadens. In the deposit market, volumes, in contrast, are likely to slow as households and companies deplete their savings set aside in banks due to the lack of spending opportunities during the lockdowns. Despite slowing, though, growth of deposits will probably exceed, if only slightly, the growth of loans. The ratio of loans to deposits, which prior to COVID ran close to 100%, is thus likely to remain at comfortable levels of around 80%.

Forecasts

	2019	2020	2021F	2022F
Real GDP yoy	4.1	-2.7	5.2	5.1
CPI (eop)	3.4	2.4	5.0	3.2
Euro exch. rate (value, eop)	4.3	4.5	4.5	4.5
Short-term rate (eop)	2.0	0.1	0.2	0.4
L/T bond yields (eop)	2.0	1.3	1.9	2.0
Bank loans (pr. sector, yoy)	4.7	0.4	3.5	4.0
Bank deposits (pr. sector, yoy)	9.7	12.8	5.6	5.1
Lending int. rate (corp., eop)	3.6	2.4	2.4	2.5
Deposit int. rate (hh, eop)	1.5	0.2	0.3	0.5

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

Industrial production and inflation



Source: Statistics Poland

Slovakia

Michal Lehuta

Real Economy

Slovakia's GDP may be approaching its pre-pandemic high in 4Q19 during the current third quarter of 2021, as summer brought a marked recovery in the hard-tested segments of services relying on human contact (retail, restaurants, accommodation, culture, sport and education). Second-quarter GDP added 2% qoq, after a 1.4% qoq decrease in the first quarter of the year due to lockdowns. Some sectors had recaptured their pre-crisis value added already during the Q2: namely, wholesale, retail, real estate activities as well as the public sector.

The second quarter still saw a qoq decrease in value added from the industrial sector as a whole, which was hit by chip shortages regarding use in automotive manufacturing. However, we believe this was a one-off since monthly industrial production and export figures in June and July also increased to higher levels than prior to the pandemic. Thus, annual GDP growth could exceed 4% in 2021 and even accelerate further next year, thanks to new investment financed by EU funds and strong growth of foreign demand from the Euro area.

The Slovak labour market is beating expectations. Employment increased by 0.8% qoq in Q2 and the unemployment rate declined further, to 6.9%. Together with underlying wage growth of about 4%, and about €1.6bn of excess savings from winter (central bank estimate), this could mean solid growth of disposable incomes and domestic demand in the quarters to come.

Inflation increased further in the months up to August, rising to 3.8% yoy, which is an eight-year high. Together with a marked increase in the prices of gas, heating and electricity announced from January, CPI could increase to more than 4% in the first months of 2022 and then slowly ease as inflation pressures stem from the supply rather than the demand side of the economy.

Financial Markets

Monetary policy in the EA remains accommodative despite higher inflation and a small decrease in asset purchases from the pandemic-related PEPP announced by the ECB. As the expected inflation rate from 2022 onwards in the Euro area is expected to be below the target of 2%, short-term rates should stay near their current historical lows for longer. The long-term yields of Slovak bonds and the spreads vs the German Bund are expected to stay low and increase with time only very slowly, mainly after the end of the (net) quantitative easing expected perhaps in 2H22.

Banking Sector

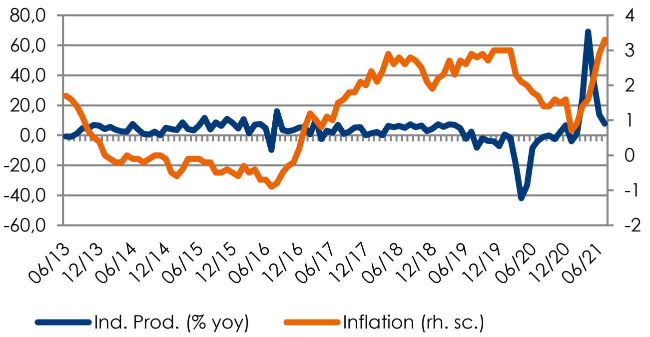
Banks in Slovakia are continuing to record good credit and deposit growth dynamics based on the data available till July. Mortgages in particular posted new historical high levels as demand for new housing is strong and real estate prices are rising fast. However, more than half of the new business in this segment is constituted by the re-financing of older loans. Together with the expected decrease in the saving rate, growth of deposits is expected to be slower than that for loans in the near future, which would still mean a high loan/deposit ratio.

Forecasts

	2019	2020	2021F	2022F
Real GDP yoy	2.3	-5.2	4.1	5.0
CPI (eop)	3.0	1.6	4.1	2.6
Short-term rate (eop)	-0.4	-0.5	-0.5	-0.6
L/T bond yields (eop)	0.1	-0.5	-0.1	-0.2
Bank loans (pr. sector, yoy)	6.2	4.5	7.8	4.7
Bank deposits (pr. sector, yoy)	4.8	6.3	9.7	4.0
Lending int. rate (corp., eop)	2.1	1.7	1.8	1.8
Deposit int. rate (hh, eop)	0.1	0.0	0.0	0.0

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

Industrial production and inflation



Source: Statistical Office of Slovakia

Slovenia

Real Economy

Ivana Jović

Compared to last year's Q2 slump, the economy rebounded strongly and 2Q21 GDP grew by 16.3% yoy as household consumption increased by 18.8%, followed by a 19.2% rise in investments. Investments were mainly driven by investment in machinery and equipment (+42.1% yoy) while investment in construction increased by only 4.0% yoy, reflecting supply restraints and a rise in the prices for input materials. Exports and imports increased by 30.2% and 34.9%, respectively. Currently, the Slovenian economy is only 0.2% below the pre-crisis peak seen in the final quarter of 2019 and a strong 1H21 rebound followed by continued positive trends in high-frequency data support our view that FY21 GDP growth will reach 6.5%. Looking forward, we expect growth to remain robust at around 4.7% in 2022, supported by stronger private consumption and investments as capacity utilisation recovering from 2020 lows.

The annual inflation rate (measured by HICP) in July-Aug averaged 2.1%, the same as in Q2, driven mostly by 10.5% higher transport prices. In the first eight months of 2021, consumer prices thus rose by 1.0% yoy on average while for FY21, we expect inflation to average around 1.3%, but be somewhat higher in 2022, at around 1.8% yoy.

Financial Markets

Ana Lokin

The 10Y Slovenian government bond spread vs the Bund continued to record small fluctuations (30-40bps) in the summer months. The estimate of the average yield in 2021 was lowered compared to June projections, to 0.0% (average spread raised a bit, to 40bps). In 2022, the average yield is projected to slip to -0.1% as the average spread narrows to 30bps.

Banking Sector

Loans continued to recover, coming in at 1.4% yoy in July, due to healthy household loans. Corporate loans, however, remained in negative territory. By year-end, we see household loans continuing to strengthen and corporate loans potentially turning positive. Thus, we have lifted our 2021 loan growth estimate to 3.7% yoy. We are also a bit more optimistic as regards 2022 loan growth, which we now see at 3.3% yoy as consumer lending starts to increase.

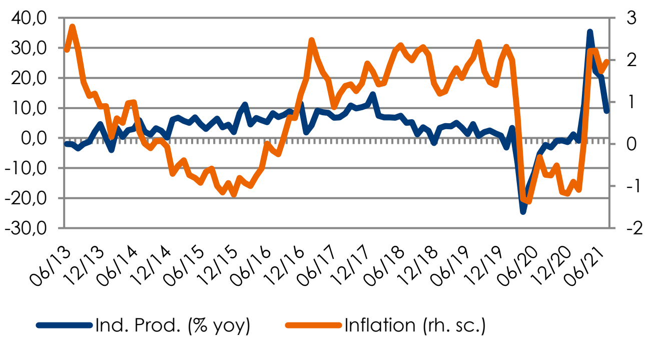
Deposit growth remained robust, at 10.1% yoy in July (+5.1% with respect to end-2020) amid continued stable increases of household deposits matched by moderating corporates. We see this performance losing pace in the last months of the year, but we have revised upward our end-2021 estimate to 8.4% yoy to take into consideration recent developments. For 2022, we expect the rise to soften, as the private sector gradually reduces liquidity reserves, but to stay sound at 4.4% yoy.

Forecasts

	2019	2020	2021F	2022F
Real GDP yoy	3.3	-4.2	6.6	4.7
CPI (eop)	2.0	-1.2	1.9	1.8
Short-term rate (eop)	-0.4	-0.5	-0.5	-0.6
L/T bond yields (eop)	0.2	-0.2	0.0	-0.1
Bank loans (pr. sector, yoy)	3.7	-0.9	3.7	3.3
Bank deposits (pr. sector, yoy)	6.3	12.2	8.4	4.4
Lending int. rate (corp., eop)	2.2	2.3	2.1	2.1
Deposit int. rate (hhs, eop)	0.2	0.1	0.1	0.1

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

Industrial production and inflation



Source: Statistical Office of the Republic of Slovenia

Albania

Real Economy

Kledi Gjordeni

Due to COVID-19, GDP in 2020 contracted by 3.3%, a lower-than-expected figure. This was mainly due to the easing of fiscal policy and the dynamic of the construction sector after the earthquake. During 2020, the government approved two economic support packages, accounting for 2.8 % of GDP. In 1Q21, GDP growth accelerated to 5.5%. The main impacts on economic growth related to the electricity sector and construction activity. The budget related to COVID-19 in 2021 is 1% of GDP, which aims mostly to increase spending for health, private consumption and tourism. In July 2021, exports of goods increased by 30.8% yoy and the imports 26.8%. Inflation stood at 2.2% in July. The spread of vaccinations, a significant easing of restrictive measures, a strong pick-up in exports-imports, the large public investment programme aimed at reconstruction post-earthquake, and a tourism sector recovery are expected to support the acceleration of the country's growth in the coming quarters. We estimate that an economic rebound in 2021 should lead GDP growth to above 6%, with growth slowing back to just below 4% in 2022.

Financial Markets

The accommodative monetary policy stance has provided liquid markets, low financial costs, and supportive lending conditions while keeping a stable exchange rate. Yields in the primary market have seen a downward trend since March 2021. The decline in yields has been general, but stronger for medium-term maturities. In September, the yield on 12mo. Tr. Bills has dropped to around 1.5% from 2.0% at the end of March. However, a weak post-pandemic employment situation (in 1Q21, the unemployment rate reached 11.9%) and low wage dynamics together with fears of the spread of new pandemic variants represent downside risks regarding growth and achieving the CB's inflation target in 2022, of 3%. During the summer, a slight appreciation of the local currency occurred against the euro (121.95 at the end of August) which was mainly due to seasonal factors. Monetary policy is expected to remain accommodative over the medium term.

Banking Sector

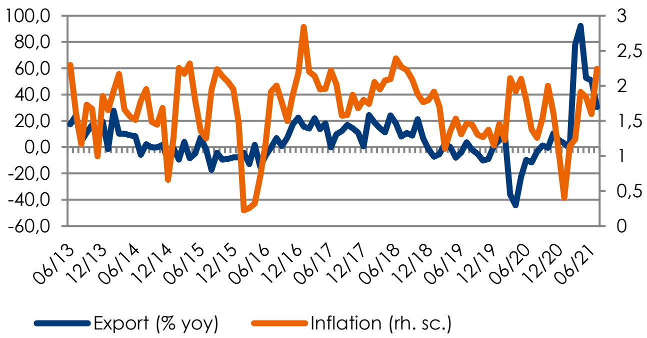
Credit to the private sector continued to show positive growth. In July 2021, total loans grew by 6.67% yoy. The removal of restrictions, higher aggregate demand, increased activity in the public sector, and lower financing costs are the main factors that have supported this performance. Lending growth has relied more on households (+10.85%) than corporates (+4.53%). The ratio of non-performing loans in June 2021 was 7.12%, lower vs 7.8% recorded for the previous month. In June 2021, total deposits continued to grow as well, to 9.65% yoy. The main contributor was business (+23.29%), followed by households (at 6.8%).

Forecasts

	2019	2020	2021F	2022F
Real GDP yoy	2.2	-3.3	6.5	3.7
CPI (eop)	1.1	1.1	2.3	2.5
Euro exch. rate (value, eop)	121.9	123.3	122.0	125.0
Short-term rate (eop)	0.5	0.4	0.5	0.5
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	6.5	7.0	4.6	3.7
Bank deposits (pr. sector, yoy)	3.8	8.1	5.8	4.4
Lending int. rate (pr. sec., eop)	6.3	6.5	6.5	6.7
Deposit int. rate (pr. sec., eop)	0.7	0.4	0.5	0.5

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 Q2 GDP data is scheduled to be released in two weeks, high frequency data indicate a strengthening recovery following Q1's 1.5% yoy growth. More precisely, Q2 industrial production and exports rebounded strongly from last year's slump, increasing by 19.4% and 47.5% yoy, respectively. At the same time, retail trade sky-rocketed (+26.6% yoy), but construction activity remained supressed (+2.6% yoy) as the civil engineering part of the activity slipped into negative territory (-0.5%) negatively affecting growth in building construction (+6.2% yoy). Strong trends were also confirmed by July data with continued double-digit growth registered across the board from industrial production (+10.6%) and exports (+30.7%) to retail trade (+28.6%) and tourism. Thus, we upgrade our FY21 GDP estimate to around 4.0%, with the possibility of an even better performance. Looking forward, we see slightly lower growth of around 3.8% being sustained in 2022, mainly supported by recovering domestic demand. The main negative risk remains the complex political situation and the fact that 2022 as general elections year could be marked by further political turmoil. The EU membership process is advancing very slowly as is structural reforms progress while political bickering regarding policy coordination at the government level could reduce international financial support, adding to possible negative inputs regarding growth.

Following the deflationary trend in 2020 (-1%), rising oil prices pushed average CPI over the first seven months to +0.4% yoy (July CPI of 1.9% was highest rate since June 2018). We see elevated inflation pressures throughout the year, with some upward risks to our 0.9% average 2021 call.

Banking Sector

Ana Lokin

The rise in banking aggregates accelerated in recent months, prompting an upward revision of our year-end 2021 estimates. Loans advanced by 1.9% yoy in July (2.6% vs end-2020) due to a pick-up in household loans (3.8% yoy) amid a rebound in consumer lending. However, weakness in corporate loans persisted (-0.2% yoy). July saw deposits rise by a steep 12.7% yoy (6.4% vs end-2020) as corporates continued to accumulate liquidity (20.8% yoy). Household deposits strengthened as well (9.1% yoy), supported by a rise in remittances and positive labour market trends.

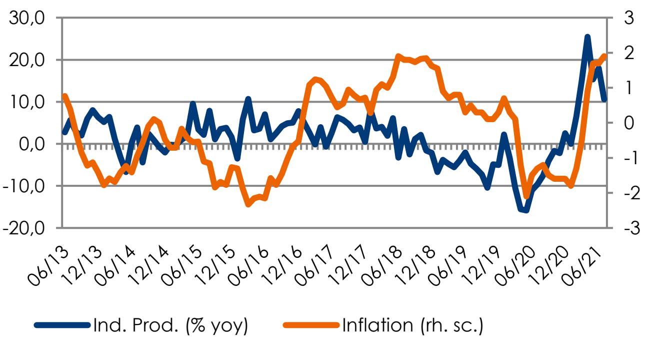
The September scenario projects loan and deposit growth at 4.0% and 8.6% yoy in 2021, respectively, significantly higher than we expected in June, thanks to economic activity gaining momentum. For 2022, we see loan growth accelerating to 4.2% yoy, due to a rebound in corporate demand, while deposits are projected to decline to 5.5% yoy as savings are gradually adjusting their pattern vs investment/consumption.

Forecasts

	2019	2020	2021F	2022F
Real GDP yoy	2.8	-4.5	4.0	3.8
CPI (eop)	0.3	-1.6	1.1	1.0
Euro exch. rate (value, eop)	2.0	2.0	2.0	2.0
Short-term rate (eop)	n.a.	n.a.	n.a.	n.a.
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	6.7	-2.5	4.0	4.2
Bank deposits (pr. sector, yoy)	8.4	6.5	8.6	5.5
Lending int. rate (corp., eop)	n.a.	n.a.	n.a.	n.a.
Deposit int. rate (hh, eop)	n.a.	n.a.	n.a.	n.a.

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

Industrial production and inflation



Source: Agency for statistics of Bosnia and Herzegovina

Croatia

Real Economy

Ivana Jović

Q2 GDP recorded strong 16.1% yoy growth not only vs last year's dive, but also due to the strong recovery of household consumption as well as, more importantly, the exports of goods and investment activity. Household consumption increased by 18.4% yoy while investment activity recorded yoy growth of 18.3%. Exports of goods recorded growth of 35.2%, reaching a 21% higher level than in the same period of 2019. Q3 high-frequency data look favourable for industrial production, retail trade and exports has continued to grow in July at +4.0%, +12.9% and +11.5% yoy, respectively. July-August total tourist arrivals and overnight stays, meanwhile, surprised to the upside, increasing by 57.4% and 40.8% yoy, respectively, thus reaching 84% and 88% levels seen in the record-breaking 2019 season. Financial intake looks even stronger, as August tax administration data on fiscalised invoices indicate strong growth in both wholesale and retail trade (+20.9% yoy and +9.2% vs August '19) and in accommodation and food service activities (+75.8% yoy and +20.3% vs August '19). Overall, we upgrade our FY21 call to around 7.0%, with equally strong prospects that next year's growth could remain elevated at around 5%, thanks to EU funds support, combined with further recovery in tourism and strengthened domestic demand.

CPI in July accelerated to 2.8%, lifting the ytd average to 1.5%, and we see annual average reaching around 1.9% this year. It should remain elevated in 2022 as continued supply side constraints and increased demand (in the service sector in particular) impose some additional pressure.

Financial Markets

Ana Lokin

The 1st of January 2023 has been officially declared the target date for joining the EA. Thus, we have left the projected average and end-of-period FX rates in 2021-2022 at 7.53. We have trimmed our estimate of the average yield on the 10Y kuna government bond in 2021 to 0.6% (spread unchanged at 90bps). In 2022, the average yield is expected to decline to 0.2% as the spread narrows to 70bps.

Banking Sector

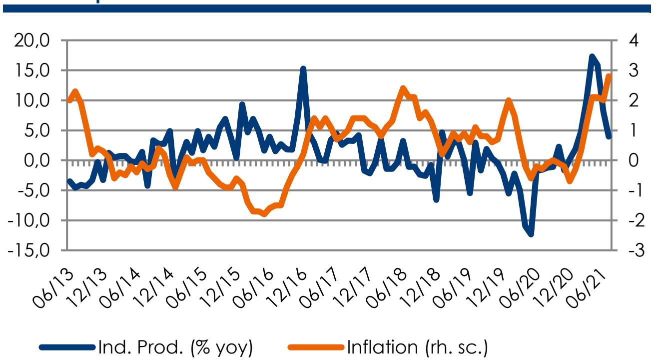
Loans strengthened somewhat in June-July (+1.6% and +2.3% yoy, respectively), given resurging households and sluggish corporates that were adversely impacted by a substantial volume of sold receivables in 2Q21. Disappointing corporate loans caused a downward revision of this year's loan growth projection, to 3.2% yoy. In 2022, we see corporate lending recovering and household lending slowing as housing loans moderate. Thus, we lifted our projection to 3.9% yoy. Deposits rose in June-July (7.4% and 9.7% yoy, respectively), supported by an excellent tourist season and recovering economic activity. We raised our growth forecast for 2021 to 8.7% yoy and for 2022 increased the number to 5.8% yoy to reflect a still-cautious private sector.

Forecasts

	2019	2020	2021F	2022F
Real GDP yoy	2.9	-8.0	7.0	5.0
CPI (eop)	1.4	-0.7	2.6	2.2
Euro exch. rate (value, eop)	7.4	7.5	7.5	7.5
Short-term rate (eop)	0.4	0.2	0.3	0.1
L/T bond yields (eop)	0.7	0.7	0.4	0.2
Bank loans (pr. sector, yoy)	3.9	3.5	3.2	3.9
Bank deposits (pr. sector, yoy)	4.8	8.7	8.7	5.8
Lending int. rate (pr. sec., eop)	5.6	5.2	4.9	4.3
Deposit int. rate (pr. sec., eop)	0.2	0.1	0.1	0.1

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

Industrial production and inflation



Source: Croatia Bureau of Statistics

Romania

Real Economy

Marius Pacurari

The fourth wave of the COVID pandemic is developing. The number of infections has been rising fast in the last few weeks. Now, the average number of positive tests is almost 10% while the vaccination process is very slow. Less than 30% of the total population is vaccinated, one of the lowest figures in Europe. On the other hand, the government declared that it does not intend to institute tougher lookdown measures. On top of this, Romania is experiencing a political crisis inside the government coalition which could negatively affect the perception of rating agencies about government performance.

The National Statistical Institute confirmed second-quarter GDP growth at 13%. The Recovery and Resilience Plan is expected to be approved on 28 September. Given these circumstances, we have raised our expectations for GDP growth to 6.5% in 2021 and 4.7% in 2022.

CPI growth was stronger than expected, at the end of August reaching 5.3% yoy, and the NBR increased their projection for 2021 eop (for the third time this year) to 5.6%, far above the target range (2.5% ± 1%). Our expectation is for an inflation rate of around 5.9% by year-end.

The budget deficit evolution confirmed the government's ambitious fiscal consolidation plan, staying below 3% (2.98%) at the end of July. At the same time, the current account deficit was -€9,070bn (vs -€5,350bn in July 2020).

Financial Markets

If up to now NBR took softer tightening measures as strong control of liquidity or stopping bad acquisitions, in the last two Monetary Policy Meetings of this year (5th of October and 9th on November) it is expected to go into stricter tightening and to start slightly increase (by 25 bp) the Monetary Policy.

Banking Sector

Marius Pacurari

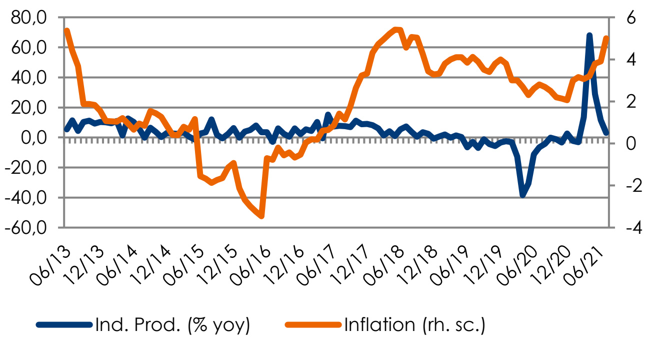
Growth of credit and deposit volumes has been high this year. At the end of July, growth was +12.22% yoy for loans and 15.67% for deposits. The local currency was more attractive for loans while for deposits both RON and EUR loans proved attractive. Interest rates followed money market trends at 1.08% and 5.43% averages on RON-denominated deposits and credits, and 0.06% and 2.47% averages on EUR-denominated deposits and credits. The RON yield curve is expected to grow faster in the medium and long term.

Forecasts

	2019	2020	2021F	2022F
Real GDP yoy	4.1	-3.9	6.5	4.7
CPI (eop)	4.0	2.1	5.9	3.8
Euro exch. rate (value, eop)	4.8	4.9	5.0	5.0
Short-term rate (eop)	3.1	2.0	2.0	2.3
L/T bond yields (eop)	4.7	3.3	4.1	4.1
Bank loans (pr. sector, yoy)	7.0	5.0	9.5	7.0
Bank deposits (pr. sector, yoy)	12.6	15.4	10.0	9.0
Lending int. rate (pr. sec., eop)	6.7	5.4	5.6	5.8
Deposit int. rate (pr. sec., eop)	2.3	1.5	1.1	1.3

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

Industrial production and inflation



Source: National Institute of Statistics

Serbia

Tijana Matijasevic

Real Economy

Economic activity in 2Q21 was a bit stronger than flash estimates, with GDP increasing by 13.7% yoy. The figure for 1Q21 was also revised up to 1.8%, bringing average growth in the first half of 2021 to 7.6%. The detailed Q2 data show strong domestic demand from both investments (+22.5% yoy) and private consumption (+17.4%) while net the contribution from net exports turned negative after two positive quarters. Although exports rose by a robust 36.5%, recovering domestic demand and the deteriorating terms of trade resulted in even higher growth of imports (42.9%). In the second half of 2021, growth is expected to slow to single digits as a low base effect wanes. While recent surge in COVID-19 cases may somewhat slow the pace of the rebound, it is not expected to cause major disruptions to the economy. That said, we have upgraded our full-year growth projection from 6% to 6.6%. We maintain our forecast for FY22 at 4.0%.

Inflation jumped yoy from 3.3% in July to 4.3% in August, the highest print in eight years. The NBS sees this surge being led by temporary factors: a low base for domestic petroleum prices and atypically high prices for fruit and vegetables for the season. The core inflation rate was 1.8%, confirming no substantial underlying inflationary pressures. As inflation is likely to move around the current level by end-2021, we have revised up the average figure for 2021 to 3.3%. CPI is expected to stay above 4% in early 2022, after which it should decline towards the target's mid-point in 2Q22 and then settle within the lower part of the inflation corridor in the second half of the year. Eop and average CPI in 2022 are currently forecast at 2.6% and 3.1%, respectively.

Financial Markets

In September, the NBS kept the key policy rate at 1%, the ninth consecutive decision to keep rates on hold. In spite of recent CPI surges, we don't expect the central bank to raise the key rate, given its confidence that the current inflation rise will be transitory while the dinar remains stable and inflation expectations are well-anchored. Keeping in mind current monetary developments and high liquidity in the banking system, the NBS announced a suspension of regular weekly repo auctions as of October. This instrument was introduced last year to secure cheap additional liquidity in the conditions of elevated uncertainty and disrupted economic activity caused by pandemic. A few days ago, Serbia joined the green bond club, issuing a €1bn green Eurobond, with a 7Y maturity and a coupon rate of 1.0%, the lowest the country has ever achieved on the international market.

Banking Sector

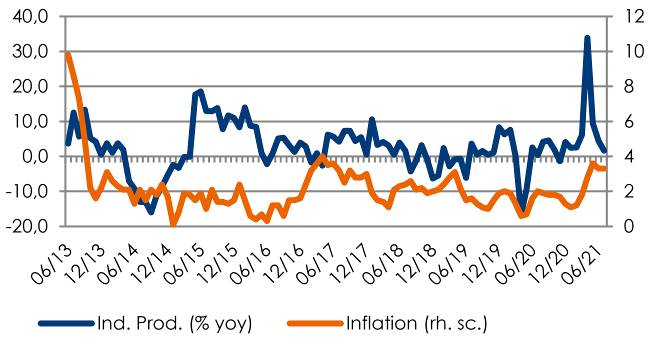
Loan volumes continue to rise, but at a slower pace due to a high base from last year. Household credit demand remains strong, in particular for housing loans, while working capital and liquidity loans are dominant in the corporate segment, supported by government's guarantee scheme which was extended until end-July 2022. The NPL ratio remains below pre-pandemic levels, at 3.5% in July. The dynamic of deposits continues to be strong despite a deceleration and we have revised our 2021 forecast (7.6%) up slightly.

Forecasts

	2019	2020	2021F	2022F
Real GDP yoy	4.2	-1.0	6.6	4.0
CPI (eop)	2.0	1.3	4.3	2.6
Euro exch. rate (value, eop)	117.6	117.6	117.6	117.8
Short-term rate (eop)	2.3	1.1	1.0	1.0
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	8.9	11.1	7.5	5.5
Bank deposits (pr. sector, yoy)	7.8	17.4	7.6	6.2
Lending int. rate (pr. sec., eop)	7.1	5.8	5.8	6.1
Deposit int. rate (pr. sec., eop)	2.0	1.5	1.3	1.4

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

Industrial production and inflation



Source: Statistical Office

Moldova

Olga Litvin

Real Economy

In line with expectations, the economy of Moldova is recovering gradually after the 2020 COVID-19 crisis. GDP recorded double-digit yoy real growth in 2Q21 (+21.5%). Overall, GDP is expected to grow by around 6% in 2021, which is above potential partly due to a base effect, and by c.4.2% in 2022. The projections are driven by the forecast positive dynamics in most economic sectors. After a year of deep drought, the agricultural sector is foreseen to grow in 2021, ensuring the positive evolution of the food industry. With the improvement of the external environment, the revival of the activity of various sectors (manufacturing industry, export of goods and services, etc.) will benefit from the dynamic of external demand that is also expected to increase.

After a 5.5% yoy contraction in 2020, the industrial sector is forecast to return to an increasing trend in 2021 (+2.4%), due to improvements in exporting branches, including those in the Free Economic Zones. Investments will continue to be affected by the consequences of the pandemic, but are expected to recover by 2% 2021 and around 4% in 2022.

Growing domestic demand over the course of 2021 has had and is still expected to maintain a pro-inflationary impact on consumer prices. Thus, annual inflation is anticipated to reach 5.4% at year-end and increase further in 2022, when it is expected to average around 7%.

Financial Markets

In light of the inflationary pressures generated by accelerating domestic aggregate demand fuelled by consumption growth and to temper the second-round effects of the supply shock amid higher international prices and imported inflation, the National Bank of Moldova (NBM) raised the short-term rate twice (by 1pp each time) during 3Q21, to 4.65% as of September. A further increase by 100bps is expected by year-end. The 91-, 182-, and 364-days treasury bill yields increased by 0.06pp, 0.3pp and 0.2pp, respectively, in 3Q21 compared to the previous quarter, in line with the inflation trajectory and expectations. For longer maturity government bonds, yields remained unchanged compared to their June 2021 levels.

Banking Sector

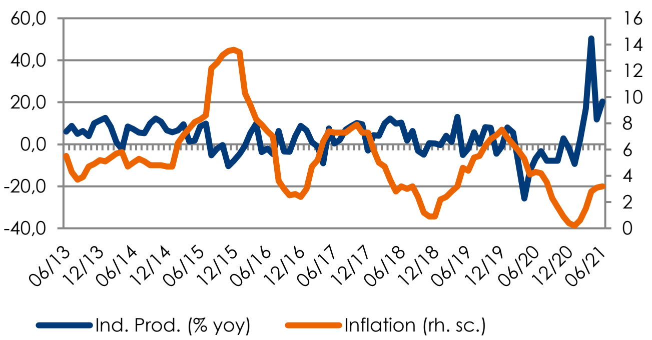
As of July 2021, the volume of private loans in the economy maintained its positive double-digit dynamic, expanding by 22.2% yoy and reaching a total level of €2.4bn. The main drivers for this growth were household and corporate loans, with respective 32.3% and 16.7% yoy changes. A similar evolution was recorded for the stock of private deposits which grew by 16% yoy as of July 2021. The latter was mainly due to the 18.5% growth in the stock of corporate deposits, namely in local currency (+29%). The yoy growth of both loans and deposits is expected to gradually decelerate in the projected years compared to their end-of-2020 levels. Loans are foreseen to grow by 11.5% and 9.8% yoy in 2021 and 2022. Deposit growth in 2021-2022 is expected to be around 9.0% and 8.7%, respectively.

Forecasts

	2019	2020	2021F	2022F
Real GDP yoy	3.6	-7.0	6.0	4.2
CPI (eop)	7.5	0.4	5.4	6.6
USD exch. rate (value, eop)	17.5	17.2	17.8	18.3
Euro exch. rate (value, eop)	19.4	20.7	20.5	22.1
Short-term rate (eop)	5.5	2.7	5.7	6.8
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	13.9	13.1	11.5	9.8
Bank deposits (pr. sector, yoy)	7.7	16.5	9.0	8.7
Lending int. rate (corp., eop)	8.9	8.2	11.0	12.0
Deposit int. rate (hh, eop)	4.5	3.5	6.0	7.0

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

Industrial production and inflation



Source: National Bureau of Statistics of the Republic of Moldova

Russia

Real Economy

Valeriya Zubkova

Only about 32% of the population has been vaccinated in Russia. Despite the wide availability of domestically developed vaccines, only 28% of the population has had two doses, posing risks of new waves of contagion. As for the real economy, GDP growth was 10.5% yoy in 2Q21 (mainly due to base effects) after a decrease of 0.7% in 1Q21. With all this in mind, the GDP growth forecast for 2021 was increased to 4.2% compared to July's 3.8%, but it was prudentially lowered for 2022 from 3.2% to 3.0%. In the coming months, the economy should continue to grow beyond its potential before moderating towards that. According to recently published central bank estimates, the potential rate is seen in the range of 2-3%. Mining is likely to remain the locomotive of supply-side expansion following the OPEC+ decision allowing Russia to expand its oil output in the short term. The manufacturing growth rate slowed to 3.4% yoy from 7.6% yoy in June, and it could slow further in the short term due to shortages of electronic components and other imported inputs.

Financial Markets

In September, the CPI accelerated to 6.74% from 6.68% in August. Due to higher and more persistent than previously forecast inflationary pressures, at its most recent meeting on 10 September, the CBR again raised the key rate by 25bps, to 6.75%, and revised the possible range for the key rate by the end of 2021 to 6.75-7.5%. Nevertheless, the rate-hiking cycle will likely come to an end this year, with the policy rate forecast at 7%. The next key question for monetary policy is when to start easing monetary conditions again as inflation and growth start to lose steam in the quarters to come.

According to the CBR forecast, annual inflation will begin to slow in 4Q21. Taking into account the current monetary stance, it is expected to decline to 4.0-4.5% in 2022 and to remain around 4% thereafter. Regarding the exchange market, no extreme volatility is anticipated for the foreseeable future. The RUB barely noticed a drop in oil prices and a significant positive adjustment in interventions in August.

Banking Sector

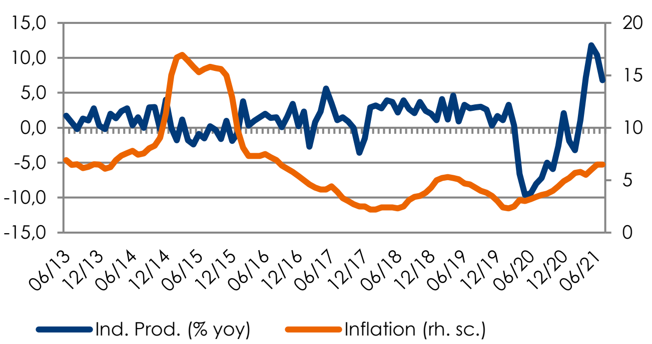
In the banking sector, the trend of increased lending and deposit rates was confirmed by the latest data and is expected to continue. The pace of the rise looks quite gradual, with no sharp changes. According to the latest CBR estimates as of July (not yet recorded in the Monthly Bulletin which is still reporting May data), deposit rates for households added 21bps in July, reaching 3.62%, and for corporates advanced from 4.24% to 4.80% in the same month vs the previous month. Lending rates reached 13.82% and 7.21% for households and companies, respectively. In terms of loan and deposit volumes, these also continued to rise at pretty much the same pace as they had seen in previous months.

Forecasts

	2019	2020	2021F	2022F
Real GDP yoy	1.3	-3.0	4.0	2.9
CPI (eop)	3.0	4.9	5.9	4.3
USD exch. rate (value, eop)	62.9	76.8	73.0	73.2
Euro exch. rate (value, eop)	69.9	90.1	83.9	88.4
Short-term rate (eop)	6.6	4.9	7.5	7.0
L/T bond yields (eop)	6.4	5.9	7.0	7.2
Bank loans (pr. sector, yoy)	7.1	14.4	12.0	7.5
Bank deposits (pr. sector, yoy)	4.2	9.6	9.0	7.5
Lending int. rate (corp., eop)	7.8	6.3	8.7	8.6
Deposit int. rate (hh, eop)	4.7	3.4	5.7	5.2

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

Industrial production and inflation



Source: State Statistics Federal Service

Ukraine

Artem Krasovskyi

Real Economy

After a weak start in 1Q21, when the economy contracted by 2.2% yoy, GDP growth in 2Q21 was also lower than expected: 5.7% yoy vs 7.5% previously anticipated by the NBU. The setback was caused primarily by temporary and technical factors and the economy is still expected to catch up in 2H21, powered by solid consumer demand and a revival of investment activity. However, a still-fragile situation on the pandemic front, low vaccination rollout (around 15% vaccinated across the country), and prospects of new lockdown restrictions in the autumn seem to have taken a toll on the pace of recovery in 2021 and part of the growth momentum is likely to carry over into 2022. We therefore slightly lowered our 2021 GDP growth forecast from 4.0% to 3.7% yoy. However, we maintain our 2022 outlook unchanged.

In August 2021, inflation remained steady at the same level for July of 10.2% yoy. On a monthly basis, prices fell by 0.2%. Core inflation slowed slightly in August, to 7.2% yoy from 7.3% yoy in July. We expect inflation to reach the peak of around 11% yoy in mid-autumn and then start to ease to single-digit values closer to year-end. We accordingly revised our 2021 eop inflation forecast from 7.5% to 9.5% yoy but left our 2022 eop forecast at 5.5%. In August, Ukraine received US$2.7bn from the IMF as financial assistance regarding the post-COVID economic recovery and Ukraine expects to receive more US$0.75bn until year-end as part of an 18-month US$5bn Stand-by Arrangement.

Financial Markets

As fundamental inflation pressure remains elevated, the NBU increased its key rate by 50bps, to 8.5%, at the Monetary Policy Meeting earlier in September. This is the third rate increase over the year, but it is likely to be the last one, sufficient to bring inflation into the target range of 5% +- 1pp by the end of 2022. The NBU also ceases, from 1 October, the anti-crisis long-term refinancing programme. A record-high agricultural harvest and favourable prices on external markets helped the USD/UAH rate to continue to trade at year-lows of 26.6-26.7 in September, atypical regarding the usual seasonal start of the devaluation cycle in early autumn. It also helped the FinMin to be less concerned about meeting very low local demand at recent primary bonds auctions, accompanied by still risk-off sentiment towards government debt from offshore investors, as abundant tax payments provide some leeway.

Banking Sector

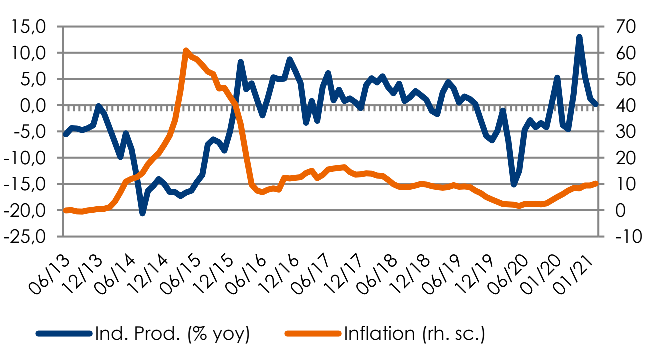
In 1H21, Ukrainian banks received UAH 30.1bn in net profit, which is 26% more than in the same period last year. The share of NPLs decreased from 41% to 36%. The growth of UAH lending significantly accelerated in 2Q21, in particular for the corporate, mortgage and consumer segment: +10.9% yoy in Q2 vs -0.81% yoy in Q1. The positive dynamics of UAH deposits slowed in Q2, but remained high: +23.9% yoy in Q2 vs 30.0% yoy in Q1.

Forecasts

	2019	2020	2021F	2022F
Real GDP yoy	3.2	-4.0	3.7	3.8
CPI (eop)	4.1	5.0	9.5	5.5
USD exch. (value, eop)	24.0	28.5	27.1	27.6
Euro exch. rate (value, eop)	26.2	34.3	31.2	33.3
Short-term rate (eop)	16.7	10.1	11.0	10.5
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	-8.0	-2.8	0.1	3.0
Bank deposits (pr. sector, yoy)	9.6	33.6	6.5	6.2
Lending int. rate (pr. sector, eop)	18.6	12.6	14.3	14.0
Deposit int. rate (pr. sector, eop)	10.8	4.4	5.8	5.7

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

Industrial production and inflation



Source: State Statistics Service of Ukraine

Egypt

Samer Halim

Real Economy

The health situation looks stable, with a moderate increase in daily cases of COVID-19 and expectations of reaching a peak in infections by the end of September. The performance of Egypt's economy has exceeded expectations: it grew 7.7% yoy in 2Q21. This has led to an upward revision of our forecasts for real growth in 2021 (calendar year) to 5.2%. Mega transportation projects look likely to receive the highest share of investments, supported by ongoing implementation of Light Rail Transit (LRT) and Monorail. Also, the telecommunication sector is expected to maintain its high growth rates amid digital transformation efforts across all areas. Egypt's budget deficit decreased to 7.8% of GDP in FY20/21, down from 12% seven years ago, and the government targets a decline to 6.7% in the current FY21/22.

We have revised our forecasts for annual headline CPI downward to an average of 5.1% for 2021 on the back of lower-than-expected inflation readings (5.7% in August). Average inflation is foreseen to rise gradually to 6% and 6.5% at the ends of 2021 and 2022, respectively.

Financial Markets

Core interest rates are likely to be kept unchanged till the end of 2021, at 8.25% and 9.25% for the overnight deposit and lending rates, respectively, in light of robust growth and rising prices of global commodities. However, there is a slight chance of a new cut by the end of the year, given that Egypt offers the highest real interest rate worldwide. Looking forward, interest and yields on government securities are forecast to move on a slight upward trend, in parallel with the US Federal Reserve's tapering and expected hikes in interest rates in 2022 and 2023.

The EGP is expected to continue its strong performance against major currencies (reaching 15.70 and 15.80 per 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 (foreign investments in EGP securities reached USD 33bn in August, with expected additional USD 4Bn inflows after Egypt's inclusion in the FTSE Russell's new frontier-market sovereign bond index), a partial recovery of tourism revenues (especially after the resumption of Russian tourism), the remarkable increase of remittances (all-time high of USD 31.4bn in FY20/21, +13.2% yoy), and issuance of Eurobonds and Sukuk.

Banking Sector

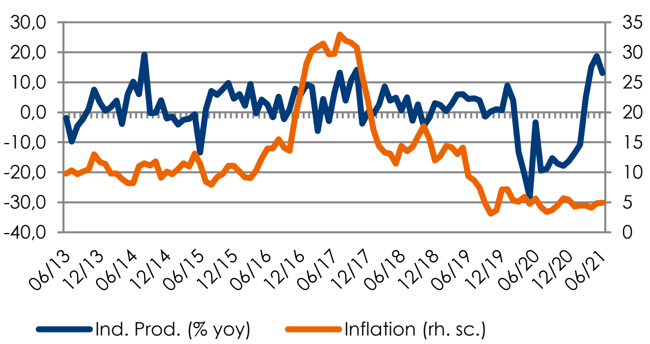
Expected annual growth of both private loans and deposits in 2021 have been kept unchanged at 12% and 11.7%, respectively, due to the strong performance of the retail sector and CBE measures to boost lending, such as extending its EGP 100bn 8% subsidised rates lending programme to more sectors and offering mortgages at a 3% subsidised rate for up to 30 years.

Forecasts

	2019	2020	2021F	2022F
Real GDP yoy	5.5	1.5	5.2	5.2
CPI (eop)	7.1	5.4	6.0	6.5
USD exch. rate (value, eop)	16.1	15.7	15.7	15.8
Euro exch. rate (value, eop)	17.9	19.1	18.0	19.1
Short-term rate (eop)	15.4	12.8	12.7	13.0
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	13.4	24.5	12.0	11.3
Bank deposits (pr. sector, yoy)	13.6	20.4	11.7	11.0
Lending int. rate (corp., eop)	13.8	9.7	9.7	9.9
Deposit int. rate (hh, eop)	9.2	7.4	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]		
		2Q21	1Q21	2020	Last	mth	2Q21	Last	mth	2Q21	Last	mth	2Q21	Last	mth	2Q21	Last	mth	2Q21	Last	mth	2Q21	Last	mth	2Q21
CEE	Czechia	8.2	-2.5	-5.7	7.0	Jul	30.1	0.7	Jul	38.0	3.1	Jul	7.9	4.1	Aug	2.9	3.6	Aug	3.9	5.3	Jul	11.1	94.2	Aug	106.1
	Hungary	17.9	-2.1	-5.1	8.0	Jul	40.0	10.0	Jul	41.3	2.5	Jul	7.3	4.9	Aug	5.2	3.9	Jul	4.1	3.5	Jun	7.3	110.7	Aug	105.2
	Poland	11.0	-1.3	-2.7	9.8	Jul	30.7	22.5	Jun	42.9	8.9	Jul	19.3	5.4	Aug	4.5	5.8	Jul	6.1	8.7	Jul	9.9	104.5	Aug	106.9
	Slovakia	9.6	0.2	-5.2	7.8	Jul	39.8	10.9	Jul	57.3	1.5	Jul	9.9	3.8	Aug	2.2	7.7	Jul	7.9	11.4	Jun	13.3	99.2	Aug	107.0
	Slovenia	16.3	1.7	-4.2	8.9	Jul	26.0	17.3	Jul	36.2	7.8	Jul	17.5	2.1	Aug	2.1	7.3	Jun	7.7	6.9	Jun	3.8	103.5	Aug	108.1
SEE	Albania	n.a.	5.5	-3.3	n.a.	n.a.	n.a.	30.8	Jul	64.3	n.a.	n.a.	n.a.	2.4	Aug	1.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Bosnia H.	n.a.	1.5	-4.5	10.6	Jul	2.0	30.7	Jul	47.5	28.6	Jul	28.7	1.9	Jul	1.4	32.4	Jun	32.7	4.4	Jun	4.4	n.a.	n.a.	n.a.
	Croatia	16.1	-0.7	-8.0	4.0	Jul	-0.1	28.6	Jun	45.8	12.8	Jul	20.0	3.1	Aug	2.1	7.4	Jul	8.2	5.9	Jun	6.5	112.0	Aug	108.1
	Romania	13.0	-0.2	-3.9	3.1	Jul	36.2	14.6	Jul	66.9	7.6	Jul	24.4	5.3	Aug	3.6	3.1	Jul	3.1	5.1	Jul	9.7	103.5	Jul	102.6
	Serbia	13.7	1.8	-1.0	1.7	Jul	15.9	24.8	Jul	47.6	11.1	Jul	19.9	4.3	Aug	3.2	n.a.	n.a.	n.a.	8.9	Jun	9.8	n.a.	n.a.	n.a.
CIS & MENA	Moldova	21.5	1.8	-7.0	16.2	Jul	27.6	15.2	Jul	31.6	10.5	Jul	32.6	4.6	Aug	3.0	n.a.	n.a.	3.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Russia	10.3	-0.7	-3.0	4.7	Aug	9.8	72.9	Jun	61.1	27.2	May	31.0	6.5	Jul	6.0	4.8	Jun	5.0	10.7	May	12.8	49.2	Jun	49.2
	Ukraine	5.7	-2.0	-4.0	0.6	Aug	6.6	33.4	Jul	25.1	10.7	Jul	21.8	10.2	Aug	9.1	n.a..	n.a.	n.a.	n.a..	n.a.	n.a.	n.a.	n.a.	n.a.
	Egypt	7.7	2.9	1.5	13.1	Jun	15.6	49.2	Jun	59.0	n.a.	n.a.	n.a.	5.7	Aug	4.6	n.a..	n.a.	n.a.	n.a..	n.a.	n.a.	49.8	Aug	49.9
	m.i. E. A.	*13.7*	*-1.8*	*-6.3*	*7.7*	*Jul*	*23.5*	*11.4*	*Jul*	*35.2*				*3.0*	*Aug*	*1.8*									

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
		17/09	chg	17/09	chg	17/09	3M*	1Y*	3M*	1Y*	17/09	17/06	2Q21	1Q21	2020	2Q21	1Q21	Moody's
CEE	Czechia	0.9	0.6	2.1	0.3	25.37	-0.6	-5.15	11.2	47.7	28.4	31.7	n.a.	n.a.	n.a.	1076	2731	Aa3
	Hungary	1.6	0.7	3.1	0.2	351.42	-0.67	-2.43	7.3	54.6	48.3	58.4	n.a.	n.a.	n.a.	n.a.	n.a.	Baa3
	Poland	0.2	0.1	2.1	0.3	4.58	1.06	2.86	8.1	42.1	42.3	43.4	n.a.	n.a.	n.a.	4997	2956	A2
	Slovakia	-0.5	0.0	-0.1	-0.1	Euro	Euro	Euro	6.1	4.1	40.5	43.2	n.s.	n.s.	n.s.	n.a.	185	A2
	Slovenia	-0.5	0.0	0.1	0.0	Euro	Euro	Euro	2.0	39.1	57.8	63.1	n.s.	n.s.	n.s.	580	795	A3
SEE	Albania	0.5	0.0	n.a.	n.a.	121.44	-1.1	-2.16	n.a.	n.a.	n.a.	n.a.	n.a.	74	n.a.	n.a.	-309	B1
	Bosnia H.	n.a.	n.a.	n.a.	n.a.	1.96	Board	Board	n.a.	n.a.	n.a.	n.a.	277	-117	650	n.a.	-58	B3
	Croatia	0.4	0.0	0.5	-0.1	7.48	-0.09	-0.7	-1.4	22.2	77.4	80.6	428	2170	382	n.a.	-1363	Ba1
	Romania	1.5	0.1	3.9	0.5	4.95	0.51	1.83	5.6	33.7	81.2	83.2	1519	-2453	5605	-7040	-2549	Baa3
	Serbia	1.0	0.0	n.a.	n.a.	117.58	-0.06	0.0	1.0	13.1	122.3	122.2	n.a.	784	113	-570	138	Ba2
CIS & MENA	Moldova	4.7	2.0	NA		17.65	-0.7	6.2	n.a.	n.a.	n.a.	n.a.	n.a..	n.a.	n.a.	n.a.	67	B3
	Russia	7.5	1.2	7.1	-0.1	72.43	0.56	-3.33	5.4	35.1	72.3	83.4	n.a.	-22452	9290	n.a.	16800	Baa3
	Ukraine	10.9	0.0	13.5	0.8	26.68	-2.02	-5.2	10.7	52.4	378.9	370.4	1231	-1942	3471	221	-874	B3
	Egypt	12.6	-0.5	14.9	-0.1	15.72	0.42	-0.22	13.6	-12.3	342.9	342.2	247	274	-5357	n.a.	-5667	B2
	m.i.A.E.	*-0.5*	*0.0*	*-0.3*	*0.0*	*1.2*	*-1.7*	*-0.6*	*-0.9*	*22.0*	*5.1*	*5.7*						

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

Banking aggregates and interest rates (private sector)

		Loans chg yoy %			NPL/Loans %			Foreign Liab. chg yoy %			Deposits chg yoy %			Loans rate1-NewB*. %				DepositsRate1-NewB*. %				Loans/Dep %		
		Last	Mth	2020	Last	mth	2020	Last	mth	2020	Last	Mth	2020	Last	mth	2020	S[4]	Last	mth	2020	S[4]	Last	mth	2020
CEE	Czechia	5.1	Jul	4.1	2.6	Jul	2.7	-1.6	Jul	-1.4	10.6	Jul	11.9	1.49	Jul	1.88	C	0.46	Jul	0.59	H	68.9	Jul	69.8
	Hungary	12.3	Jul	13.4	2.9	Mar	2.9	-8.4	Jun	-11.9	18.0	Jul	23.3	3.04	Jul	3.05	C	0.41	Jul	0.3	H	76.7	Jul	75.0
	Poland	2.2	Jul	0.4	4.0	Mar	3.7	-3.0	Jun	10.4	6.7	Jul	12.8	2.2	Jul	2.4	C	0.13	Jul	0.16	H	81.6	Jul	82.4
	Slovakia	5.3	Jul	4.5	2.6	Jul	2.7	26.3	Jul	-18.9	5.5	Jul	6.3	1.64	Jul	1.71	C[2]	0.02	Jul	0.03	H[2]	103.7	Jul	101.0
	Slovenia	1.4	Jul	-0.9	1.4	Jun	1.9	0.5	Jul	2.0	10.1	Jul	12.2	2.12	Jul	2.26	C[2]	0.12	Jul	0.13	H[2]	63.1	Jul	64.9
SEE	Albania	6.7	Jul	7.0	7.1	Jun	8.1	12.3	Jul	-6.8	9.7	Jul	8.1	6.75	Jul	6.48	PS	0.42	Jul	0.42	PS	53.2	Jul	53.6
	Bosnia H.	1.9	Jul	-2.5	5.7	Jun	6.1	-19.5	Jul	-25.5	12.7	Jul	6.5	3.12	Jul	2.87	C	0.26	Jul	0.18	H	91.5	Jul	95.0
	Croatia	2.3	Jul	3.5	5.1	Jun	5.4	9.9	Jul	7.3	9.7	Jul	8.7	5.03	Jul	5.21	PS	0.05	Jul	0.1	PS	68.8	Jul	72.2
	Romania	12.2	Jul	5.0	3.7	Jul	3.8	3.8	Jul	-6.2	15.7	Jul	15.4	5.43	Jul	5.42	PS	1.08	Jul	1.52	PS	69.9	Jul	67.8
	Serbia	8.5	Jul	11.1	3.6	Jun	3.7	-2.5	Jul	6.3	11.9	Jul	17.4	5.82	Jul	5.79	PS	1.31	Jul	1.51	PS	93.2	Jul	92.6
CIS & MENA	Moldova	19.0	May	13.1	7.5	May	7.4	0.7	Jul	4.6	17.2	May	16.5	8.34	May	8.2	C	3.23	May	3.49	H	59.1	May	57.3
	Russia	17.6	May	14.4	8.8	Dec	8.8	10.2	Jun	10.5	13.5	May	9.6	6.49	May	6.25	C	3.3	May	3.38	H	115.2	May	113.2
	Ukraine	-3.7	Jul	-2.8	36.3	Jul	41.0	-18.0	Jul	-5.4	16.7	Jul	33.6	13.6	Jul	12.58	PS	4.46	Jul	4.37	PS	74.2	Jul	74.0
	Egypt	20.7	May	24.5	3.5	Mar	3.6	6.1	Jul	16.1	19.7	May	20.4	9.4	Jul	9.7	C	7.5	Jul	7.4	H	35.8	May	35.4
	m.i. E. A.	*2.7*	*Jul*	*-1.3*	*n.a.*	*n.a.*	*n.a.*	*3.2*	*Jul*	*1.3*	*5.2*	*Jul*	*9.3*	*1.3*	*Jul*	*1.3*	*C*	*0.2*	*Jul*	*0.2*	*H*	*74.5*	*Jul*	*75.4*

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

Country Outlook

The Economy

	GDP (% yoy)	2018	2019	2020	2021F	2022F	Inflation (%, avg)	2018	2019	2020	2021F	2022F
CEE	Czech Rep.	2.8	2.6	-5.7	3.4	4.8	Czech Rep.	2.1	2.8	3.2	3.3	3.0
	Hungary	5.4	4.6	-5.1	7.0	5.0	Hungary	2.8	3.4	3.3	4.7	3.7
	Poland	5.1	4.1	-2.7	5.1	5.1	Poland	1.7	3.4	3.4	4.4	3.8
	Slovakia	4.0	2.3	-5.2	4.1	5.0	Slovakia	2.5	2.7	2.0	2.7	3.4
	Slovenia	4.4	3.3	-4.2	6.6	4.7	Slovenia	1.9	1.7	-0.3	1.3	1.8
SEE	Albania	4.1	2.2	-3.3	6.5	3.7	Albania	2.0	1.4	1.6	1.8	2.4
	Bosnia Herzegovina	3.3	2.8	-4.5	4.0	3.8	Bosnia Herzegovina	1.4	0.6	-1.0	0.9	1.1
	Croatia	2.8	2.9	-8.0	7.0	5.0	Croatia	1.5	0.8	0.1	1.9	2.5
	Romania	4.4	4.1	-3.9	6.5	4.7	Romania	4.6	3.8	2.6	4.5	4.2
	Serbia	4.5	4.2	-1.0	6.6	4.0	Serbia	2.0	1.9	1.6	3.2	3.1
CIS &	Moldova	4.0	3.6	-7.0	6.0	4.2	Moldova	3.1	4.9	3.8	3.4	7.0
MENA	Russia	2.3	1.3	-3.0	4.0	2.9	Russia	2.9	4.5	3.4	6.1	5.2
	Ukraine	3.4	3.2	-4.0	3.7	3.8	Ukraine	11.0	7.9	2.7	9.5	7.5
	Egypt	5.4	5.5	1.5	5.2	5.2	Egypt	14.4	9.4	5.1	5.1	6.2

Markets

	Exch.rate (avg Euro)	2018	2019	2020	2021F	2022F	Interest rate (%, avg)	2018	2019	2020	2021F	2022F
CEE	Czech Rep.	25.6	25.7	26.5	25.7	24.9	Czech Rep.	1.3	2.1	0.9	0.7	1.8
	Hungary	318.8	322.6	351.1	354.2	344.8	Hungary	0.1	0.2	0.7	1.3	2.1
	Poland	4.3	4.3	4.4	4.5	4.5	Poland	1.7	1.7	0.6	0.1	0.3
	Slovakia	-	-	-	-	-	Slovakia	-0.3	-0.4	-0.4	-0.5	-0.5
	Slovenia	-	-	-	-	-	Slovenia	-0.3	-0.4	-0.4	-0.5	-0.5
SEE	Albania	127.6	123.0	123.4	122.5	123.6	Albania	1.2	0.8	0.5	0.5	0.5
	Bosnia Herzegovina	1.96	1.96	1.96	1.96	1.96	Bosnia Herzegovina	-	-	-	-	-
	Croatia	7.4	7.4	7.5	7.5	7.5	Croatia	0.5	0.5	0.3	0.3	0.1
	Romania	4.7	4.7	4.8	4.9	5.0	Romania	2.8	3.1	2.4	1.6	2.2
	Serbia	118.3	117.9	117.6	117.6	117.7	Serbia	3.1	2.7	1.5	1.0	1.0
CIS &	Moldova (USD)	16.8	17.6	17.3	17.6	18.1	Moldova	6.5	6.9	3.4	3.7	6.5
MENA	Russia (USD)	62.7	64.7	72.6	73.8	73.1	Russia	7.7	7.8	5.4	6.3	7.3
	Ukraine (USD)	27.3	26.1	26.9	27.6	27.4	Ukraine	18.4	18.9	12.2	10.8	11.3
	Egypt (USD)	17.8	16.8	15.8	15.7	15.8	Egypt	18.8	17.1	13.1	12.8	12.9

Banking aggregates (% change yoy)

	Loans (pr. sector)	2018	2019	2020	2021F	2022F	Deposits (pr. sector)	2018	2019	2020	2021F	2022F
CEE	Czech Rep.	6.8	5.2	4.1	4.4	4.9	Czech Rep.	6.9	6.1	11.9	5.3	4.3
	Hungary	10.6	13.2	13.4	13.0	5.8	Hungary	14.3	8.0	23.3	6.8	4.8
	Poland	7.9	4.7	0.4	3.5	4.0	Poland	9.4	9.7	12.8	5.6	5.1
	Slovakia	9.1	6.2	4.5	7.8	4.7	Slovakia	7.3	4.8	6.3	9.7	4.0
	Slovenia	2.6	3.7	-0.9	3.7	3.3	Slovenia	6.7	6.3	12.2	8.4	4.4
SEE	Albania	-3.8	6.5	7.0	4.6	3.7	Albania	-0.9	3.8	8.1	5.8	4.4
	Bosnia Herzegovina	5.5	6.7	-2.5	4.0	4.2	Bosnia Herzegovina	8.5	8.4	6.5	8.6	5.5
	Croatia	2.3	3.9	3.5	3.2	3.9	Croatia	5.0	4.8	8.7	8.7	5.8
	Romania	7.9	7.0	5.0	9.5	7.0	Romania	9.2	12.6	15.4	10.0	9.0
	Serbia	9.9	8.9	11.1	7.5	5.5	Serbia	14.9	7.8	17.4	7.6	6.2
CIS &	Moldova	5.9	13.9	13.1	11.5	9.8	Moldova	6.0	7.7	16.5	9.0	8.7
MENA	Russia	15.0	7.1	14.4	12.0	7.5	Russia	14.2	4.2	9.6	9.0	7.5
	Ukraine	6.3	-8.0	-2.8	0.1	3.0	Ukraine	7.9	9.6	33.6	6.5	6.2
	Egypt	15.3	13.4	24.5	12.0	11.3	Egypt	13.8	13.6	20.4	11.7	11.0

Banking interest rates (%)

	Lending (Corp. avg)	2018	2019	2020	2021F	2022F	Deposits (HH avg)	2018	2019	2020	2021F	2022F
CEE	Czech Rep.	2.7	3.2	2.3	1.9	2.9	Czech Rep.	0.9	1.5	0.8	0.7	1.6
	Hungary	2.3	2.5	2.8	3.3	3.8	Hungary	0.2	0.2	0.3	0.8	1.6
	Poland	3.5	3.6	2.7	2.2	2.4	Poland	1.7	1.6	0.5	0.2	0.4
	Slovakia	2.2	1.9	1.9	1.9	1.8	Slovakia	0.1	0.1	0.0	0.0	0.0
	Slovenia	2.2	2.1	2.1	2.1	2.1	Slovenia	0.2	0.2	0.1	0.1	0.1
SEE	Albania	8.1	7.2	6.2	6.2	6.6	Albania	0.7	0.7	0.5	0.5	0.5
	Bosnia Herzegovina	-	-	-	-	-	Bosnia Herzegovina	-	-	-	-	-
	Croatia	6.4	5.8	5.5	5.1	4.5	Croatia	0.6	0.3	0.1	0.1	0.1
	Romania	7.0	7.3	6.2	5.7	5.7	Romania	1.7	2.2	1.9	1.1	1.2
	Serbia	8.6	8.0	5.9	6.1	6.0	Serbia	2.7	2.5	1.6	1.3	1.4
CIS &	Moldova	9.1	8.8	8.5	8.8	11.5	Moldova	4.5	4.3	4.1	3.8	6.5
MENA	Russia	8.9	8.7	6.8	7.2	8.7	Russia	5.4	5.4	3.8	4.3	5.3
	Ukraine	19.0	19.8	14.3	13.4	14.1	Ukraine	12.0	12.9	6.1	4.8	5.8
	Egypt	18.3	16.1	11.4	9.6	9.8	Egypt	12.3	11.0	7.8	7.4	7.6

Source: Intesa Sanpaolo Research Department forecasts

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