

Economic and Banking Monitor

Viewpoint

In a scenario of **high uncertainty** due to geopolitical tensions in the Middle East and increasing **shipping disruptions in the Red Sea**, the macroeconomic indicators released in recent weeks are consistent with the outlook of **economic growth at a moderate pace** – with particular reference to the second half of 2024 – and a **decline in both inflationary pressures and policy rates**.

■ Overview

The global economy showed resilience in 2023, with varying performance across regions. Notably, the American and Emerging Markets flourished, whereas Europe faced a deceleration. Looking forward, at a global level, **regional disparities are significant, with some areas experiencing slowdowns and others poised for gradual recovery. The world inflationary trend eased more swiftly than anticipated, and is expected to realign with central bank targets** in the coming years. This anticipated adjustment is attributed to the softening of energy and food prices, coupled with past policy rate hikes that have helped contain inflationary pressures. Looking ahead, monetary authorities are proceeding cautiously so as not to compromise their achievements in reducing inflation. Nevertheless, **we expect global monetary easing during the year**.

■ Economic Growth

The economic growth in the CEE region was lower than expected in Q3 2023, with a noticeable slowdown in some countries, despite a minor improvement in economic confidence. The SEE and EE regions saw an acceleration in GDP growth, supported by stronger industrial and retail activity. **Looking ahead, leading indicators and the latest macroeconomic figures confirm the view of a recovery at a moderate pace during the year in all three areas (EE, CEE and SEE).**

■ Inflation

Inflation rates in the CEE and SEE areas are easing due to falling energy prices and stronger currencies. Meanwhile, high inflation persists in the EE region and in Egypt.

■ Monetary Policies

Central banks across CEE, SEE, EE regions and Egypt adjusted their policy rates in response to inflation levels, with **strategies varying according to local economic conditions** to curb inflation and support growth. **During 2024, we expect a general reduction in key interest rates.**

■ Banking aggregates

□ Loans

In CEE, SEE, and EE, loans dynamics are experiencing an inhomogeneous deceleration, with specific countries outperforming expectations, and others, notably Poland, facing significant reductions. This reflects the diverse economic conditions across these regions.

□ Deposits

The **robust growth in deposits** within these areas signifies a prudent attitude among savers facing uncertain economic landscapes. There's a discernible trend towards increased household savings, with corporate deposits growing more slowly.

□ Non-Performing Loans

The stability of NPLs suggests that despite economic headwinds, **banks have managed to maintain asset quality**. While there are minor variances in certain countries, the overall trend points towards effective risk management practices across these regions.

February 2024

Countries with ISP subsidiaries

Quarterly Note

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This note has been coordinated by Giovanni Barone. The names of the individual authors are listed in each section.

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

The Economic and Banking Monitor is released on a quarterly basis in January-February, April-May, July-August and October-November.

Cross-Country Analysis

CEE Area

In Q3 2023, GDP data in the CEE Area were below expectations. On a quarterly basis, **GDP contracted by 1.1% (weighted average) in Q3 2023**, worsening from -0.6% in the previous quarter. However, there were country-specific peculiarities in each country in the area which resulted in quite a wide range, with a significant cyclical decline in Poland (-2.1%) and a more modest contraction in Hungary (-0.3%) and the Czech Republic (-0.7%), while in the remaining countries the quarterly trend in GDP remained positive (Slovakia +2.1% and Slovenia +0.6%). In the same quarter, despite the unfavourable economic situation, the trend in GDP moved into positive territory (+0.3%, from -0.9% in the previous quarter). The high-frequency indicators point to a slight improvement in the economic trend in the last quarter of 2023, when the quarterly GDP dynamic is expected to return to positive territory (about 0.5%), and so the GDP growth trend should stay at around 2.1% (taking full-year progress to between 0.1% and 0.3%).

In December, the **Economic Sentiment Indicator** (ESI; in weighted average data) for the CEE region increased slightly, to 96.8 from 95.7, and remained above the average for Q3 (93.3), with figures ranging from 90.9 in the Czech Republic to 97.7 in Hungary. On average, among the subcomponents of the indicator, consumer sentiment improved thanks to the favourable conditions in the labour market and the expected recovery of disposable income due to the expected decreasing trend in inflation.

In November, the **industrial production** trend fell into negative territory (-1.7% vs. 1.3% in October) on a weighted average basis in the area. In the CEE region, it ranged from -0.8% in Slovenia - where the index declined faster for electricity and gas supply (-23.4% vs. -8.6% in October), while it fell at a slower pace for manufacturing (-0.4% vs. -0.6%) - to -5.8% in Hungary, amid weak performances in several sub-activities, especially electrical equipment (-12.2%).

Real retail sales fell in November (-1.2% yoy from +0.2% in October). Household demand was weak in all countries in the CEE region, but particularly in Slovenia and Hungary (-10.6% and -5.4%, respectively).

Albeit with differences by country, **inflationary pressures** are cooling in the CEE area. However, the trend in consumer prices is still quite high, with upside risks, as the Russia-Ukraine war, the war in the Middle East and geopolitical fragmentation are fuelling tensions internationally; moreover, the nominal wage dynamic is still strong. Aggregating the data (w.a.), in December, due to weakening energy prices – and in some cases, to the strength of national currencies – harmonised inflation fell further (to 6.8% from 7.5%). Additionally, prices in the less volatile components of the consumer basket decelerated in October as core inflation (overall index excluding energy, food, alcohol and tobacco) fell further to 6.3% (from 6.7% in November), ranging from 4.4% in Slovenia to 9.1% in Hungary.

At its most recent meeting, the central bank of Hungary reduced its **policy rate** to 10.0%, while the Polish and Czech national banks held their rates steady at 5.75% and 6.75%, respectively. In the financial markets, **long-term yields** decreased in all CEE countries vs. three months ago and spreads narrowed vs. 10Y Bund yields. Due to geopolitical tensions relating to the conflicts in Ukraine and the Middle East, and concerns about the economic implications, particularly for those countries more exposed to energy imports, national currencies depreciated slightly with respect to the previous three months in the Czech Republic and Hungary, while the zloty recovered from its earlier depreciation.

With regard to **banking aggregates, in the CEE area, loans to the private sector** remained weak in November, decreasing by 0.8% year-on-year in the area versus -1.0% yoy in October as a reflection of the fragile macroeconomic context, and a bit below our expectations. This performance was the result of a significant decrease in Poland (-4.0%, which improved slightly in December to -2.5% yoy), and in Slovenia (-0.2% yoy), and of a deceleration in the Czech Republic (from 5% yoy in October to 4.7% yoy in November). Hungary and Slovakia showed a surprising acceleration (from 1.3% to 1.7% yoy and from 3.8% to 4.3% yoy, respectively). The negative

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performance in Poland was worse than expected and led to a final performance in 2023 that was below our forecasts (0.5%). In real terms, yoy changes were still negative, particularly in Poland (-11% yoy vs. -7.6% in the area), despite improving inflation data. **NPL ratios were stable.** Only in Slovakia did the ratio increase, from 2% in August to 2.1% in November. **Asset quality** was thus good but looks likely to be more sensitive to economic downturns as highlighted by the EIB (see Central, Eastern and South-Eastern Europe (CESEE), Bank Lending Survey, December 2023). **Corporate loans improved,** particularly in Slovakia (strengthening from 1.8% yoy to 3.5% yoy) and in Poland (with the rate of decline easing to -3% yoy in December from -5.6% in October) supported by the fall in interest rates (from 8.1% in September to 7.6% in December). **Household loans decelerated slightly in many countries,** in line with weak retail sales data, but they remained in positive territory (only in Poland did loans to households still see a negative change, at -2.2% yoy, due to the legal dispute regarding foreign currency-denominated mortgages, but registering an improvement from -3.5% yoy in the previous month).

In contrast, **private-sector deposits remained strong** (7% yoy in November, but slowing from 7.3% in October), relating to prudence in a still-vulnerable economic context mainly due to strong links with the German economy. This performance will support an upward revision to our forecast for 2023 as a whole. Deposit growth was still only negative in Hungary (-3.6% yoy in November slightly worsening from -3.3% yoy seen in October), in line with expectations. In real terms, deposits fell in all countries, but particularly in Hungary (-11.5% yoy in November), because inflation was still stubbornly high (7.9%), but data should improve further in the following months as inflation eases. Household deposits increased slightly, from 6.3% in October to 6.6% in November, while corporate deposits decelerated, from 7.9% yoy to 6.5% yoy in the same period. The considerable granularity of deposits and large portfolios of liquid securities somewhat mitigated liquidity risks. The **loan/deposit ratio** was below 100% in all countries, with the exception of Slovakia, where it remained at 110%, highlighting ongoing liquidity tensions in the system. Weak deposits in this country led to a sharp increase in **foreign liabilities** (+56% yoy in November, reflecting a jump in June 2023, even though foreign liabilities accounted for only 6.6% of total deposits). Banks in the area are predominantly funded via customer deposits, with little reliance on capital markets, which remain largely underdeveloped.

Corporate interest rates were clearly on a falling trend in Hungary and Poland, but in the other countries they remained stable or even increased slightly (e.g., in Slovenia, in the Euro Area and in the Czech Republic). Similarly, **household deposit interest rates** also declined, particularly in Hungary (-1.6pp from September to 9.3%). Nevertheless, declining inflation in all countries led to a clear increase in real interest rates (absolute values). However, they remained in negative territory.

SEE Area

In the SEE region, in 3Q23, GDP accelerated to 2.9% yoy from 2.5% in the previous quarter. Among the SEE countries, GDP growth ranged from 1.9% in Albania to 3.6% in Serbia. The economy grew 0.9% qoq in the third quarter (on a seasonally adjusted basis), following on from the 1.4% of the previous period.

The last releases of high-frequency indicators signal a strengthening of the economic cycle in the SEE region in the last quarter of 2023. The **ESI** (as a weighted average) went to 86.1 in December (stable in January), above the Q3 average. **Industrial production**, still on a negative trend in November (-2.3%), recovered with respect to the -3.6% in 3Q owing to +3.6% yoy in Serbia and +4.6 in Croatia. In the same month, the trends for **retail sales** (4.9%) continued to be positive, ranging from 3.6% in Serbia to 16.8% in Bosnia H., while export dynamics were in negative territory in all countries in the region.

After the peak reached in December 2022 (above 15.0% in the harmonised data), the w.a. **inflation rate** fell due to the easing of pressures relating to both energy prices and production costs. The consumer price trend reached 6.8% in November (on a regional w.a. basis), ranging from 4.5% in Albania to 7.9% in Serbia. In their last meetings, the **central banks** of Albania, Romania

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and Serbia kept their policy rates at 3.25%, 7.0% and 6.5%, respectively. At the same time, **long-term yields** in Romania and Croatia decreased to 6.5% and 3.3% (80bps lower than three months ago for both countries). In the **FX** markets, local currencies remained stable in recent months, and **CDS spreads** declined slightly in Romania (to 139.5 from 153.5), Serbia (to 195.5 from 223.3) and Croatia (to 78.5 from 83.4).

On the **banking side**, **loan growth to the private sector** accelerated from 3.8% yoy in September to 4.5% yoy in November as expected, due to some improvements in macroeconomic data as of Q3 with delayed effects on lending, especially in Romania (5% yoy in November and 5.9% yoy in December) and Croatia (7.8% yoy in November). **Deposits from the private sector accelerated slightly**, from 9.7% to 10.3% in the same period – mainly in Romania, from 10.6% yoy to 11.8% yoy in November, and further to 12.9% yoy in December. **Loans to the private sector** accelerated in November especially in Romania, Croatia and Bosnia. In contrast, performance was weak in Albania (-0.1% yoy) and Serbia (-0.6% yoy). Owing to gradually improving inflation, real yoy changes in loans are rising, especially in Bosnia (+4.6% yoy in real terms) and Croatia (also in positive territory, +2.3% yoy in real terms). We expect further improvements in results in real terms in the coming quarter, due to decelerating inflation. **Asset quality remained good**, as shown by NPL ratios, which were stable or even declined slightly (see Albania, Croatia and Serbia) as of September, but we expect them to worsen in both the corporate and the household sectors. Both **household and corporate loans accelerated** in the area as of November, pulled by Romania. Household loans increased by 2.9% yoy (from 2.6% yoy in October) showing a strong increase in **Croatia** (8.9% yoy), **Albania** (7.6% yoy) and **Bosnia** (7.4% yoy) in November. Corporate lending accelerated from 5.9% yoy in October to 6.1% yoy in November, mainly in Romania (8.7% yoy, confirming the improving trend seen in October, and 10.3% in December). In Croatia, corporate lending increased by 6.2% yoy in November, the same as in the previous month.

Deposits still accelerated in both the corporate (from 10.4% yoy in October to 10.7% yoy in November) **and the household** (from 10.1% yoy to 10.3% yoy in the same period) sectors in the area. The strongest acceleration in retail deposits was in Serbia (from 7.8% yoy to 10% yoy in November). In **Romania**, the biggest economy of the area, deposit performance remained robust in both the corporate (9.9% yoy in November and 14.9% yoy in December) and the household (but slowing from 13% to 11.6% yoy) sectors supported by strong profit and wage growth. Furthermore, in Romania, corporate deposits foreign currency-denominated increased again (2.9% yoy) after registering negative yoy changes for many previous months. Banks in the area can count on an ample and stable funding base. Thus, thanks also to a low and **stable loan/deposits ratio**, well under 100%, there are no signs of liquidity tensions.

Deposit interest rates continued to increase in Croatia (from 1.2% in September to 2.4% in November) because of competition with T-bill issues, and in Serbia (from 5% to 6.1% in the same period). In Romania, deposit interest rates continued to fall (6% in November from 7.1% in December 2022). Corporate lending interest rates declined slightly in Albania and Serbia as of November, while in the other countries they remained stable. Similarly, deposit interest rates increased slightly in Croatia and Serbia. Consequently, **the spread narrowed considerably** in Serbia (-1.4pp in November vs. September) and in Croatia (-0.9pp).

EE and MENA Areas

The struggle between Ukraine and Russia and the war in the Middle East continue to affect the EE countries which have to face the consequences of the two conflicts. All countries in the region remain under pressure because of the effects of geopolitical tensions. In November, **industrial production** in **Russia** (+4.3%) fell compared to October (+5.3%), and in September it also contracted in **Ukraine** (11.8% vs. 15.8% in August), while it increased in **Moldova** (+8.1% in October vs. +1.5% in September). **Exports** in September declined in Russia (-24.2% from -15.5% in August). Moldova's exports expanded in November to +6.7% (from -2.9%), while in Ukraine, they fell to -18.9% (from -19.1%). **Retail sales**, after 12 months of decreases, were positive from April in Russia (+10.5% in November from +12.7%). In September 2023, they increased by 14.9% yoy in Ukraine (from +19.3%). In terms of forward-looking indicators, in January, the **PMI** grew (to 52.4) vs. the

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December level (54.6) and remained over 50 in Russia. On the **inflation** side, in December in Russia, consumer prices decreased (to +7.4% from +7.5% in November), which is somewhat above the CB's inflation target (4.0%). In Moldova, the inflation rate decreased (to 4.2%, from 5.5% in November). Inflation remains stable in Ukraine (5.1% in December) within the Central Bank's target range (5.0%+/-1.0%). After maintaining its **policy rate** unchanged for 1H23 at 7.5%, Russia's CB started to raise the rate, to 8.5% in July, 12% in August, 13% in September, 15% in October and to 16% in December, due to inflationary pressures that have increased significantly, to a level above expectations. At its meeting on 6 February, the Central Bank of Moldova decided to decrease its policy rate, by 50 basis points to 4.25%. The NBM decision contributes to strengthening this performance, to further boosting the currently disinflationary aggregate demand, encouraging consumption and anchoring inflation expectations. Ukraine's CB began to lower its policy rate from 25% (in January) to 22% in July, 20% in September, 16% in October and 15% in December. In the FX markets, the Russian rouble has depreciated against the USD in January by 27.46% yoy. High inflation continues to impact **Egypt**. In October 2023, **industrial production** fell 12.1% yoy (from -14.3% in September) and exports also fell in October, by 19.1% from -33.7% in September. In December, the **PMI** index improved slightly compared with November (to 48.5 from 48.4), but remained below the 50 threshold level. In December, **inflation** increased to 33.7% (from 34.6% in November). It remains far above the CB's target ranges of 7.0% ± 2pp, on average, by 4Q24 and 5% ± 2pp, on average, by 4Q26. At its meeting on 1 February, the Central Bank of Egypt decided to increase its policy rate, by 200 basis points to 22.25%. Widespread inflationary pressures remain high and continue to influence prices and consumption. In addition, geopolitical uncertainty and ongoing maritime trade disruptions continue to increase prices due to both domestic and global pressures, and thus the Monetary Policy Committee believes that the balance of risks to the inflation outlook has tilted upwards.

The performance of banking aggregates was mixed in November in the **EE area** in nominal terms, very dynamic in Russia, moderate in Moldova, and still negative in Ukraine, despite the challenging operating environment. Loan growth remained strong in **Russia** (+26.2% yoy in October in nominal terms), in line with our expectations, particularly for corporates though decelerating (27.4% yoy vs +23.8% yoy for households). Households are still being supported by the subsidised mortgage lending programme. A further acceleration in deposit growth was seen in October (+32% yoy in nominal terms, from 31.8% yoy in the previous month), mainly to corporates (+41% yoy vs. +18% yoy to households).

In **Moldova**, loans increased by +3.7% yoy in December (only +0.6% yoy to corporates, which accounted for 75% of total loans to the private sector, vs. 8.8% yoy to households, gradually improving in the previous months). The NPL ratio fell to 5.5% in December. As of December, deposit growth rose by 19.9% yoy (corporates jumped by 30% yoy, households by 13.7% yoy), gradually decelerating from July (+22.4%). Banking aggregates in **Ukraine** remained particularly weak. Loans decreased by 4.8% yoy (softening the decline from -11.6% yoy in July), especially to corporates (-6.8% yoy), while household loans turned to positive territory (1.3% from -10.6% in July). NPL ratio was 37.7% as of November. Total deposits decelerated to +25.5% yoy in November from +30.6% yoy in July), particularly for households (+18% yoy vs. 38.5% yoy for corporates). Foreign liabilities also continued to decrease (-14.9% yoy as of November).

In **Egypt**, banking aggregates (latest data for loans to corporates only through August) remained vigorous, with loans increasing by 24.1% yoy as of August and deposits by 23.5% yoy as of August in nominal terms, decreasing to 18.2% yoy in November. Loans increased by 21.9% yoy as of November in the household segment and by 25.3% yoy (August) in corporate sector. The NPL ratio remained very low (at 3.3% as of June, down slightly from 3.4% as of December 2022). Banks are still able to rely on ample low-cost customer deposits, which had increased strongly, by 18.2% yoy, as of November, partly impacted by the depreciation of the Egyptian pound (ex-currency depreciation, deposits increased 12.5% yoy). Deposits increased by 13.8% for households and 35.9% for corporates in nominal terms, but contracted by 20% and rose by 15.4%, respectively, in real terms.

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Country-Specific Analysis

Czech Republic

Real Economy

Czech GDP in full-year 2023 declined by 0.4% in real terms. This was a slightly worse result than our forecast of -0.3% even though in 4Q itself, economic activity posted a positive increment of 0.2% over the quarter. The breakdown of GDP is not yet available, yet the Czech Statistics Office stated that household consumption and foreign demand contributed positively to growth. This is consistent with our expectation that household consumption was to gradually start recovering as headwinds from high inflation and interest costs gradually rescind. Inflation has declined to 6.9% year-on-year in December 2023, four tenths of a p.p. below the November rate and way below the peak of 18% around the turn of 2022/23. Moreover, stripped of the statistical impact of the energy saver tariff introduced in late 2022, the net increase in consumer prices in 2023 was only 4.2%. With nominal wages growing around 7%, real income growth has gradually returned to positive territory and is now helping to support consumer spending. As of January, consumer confidence increased by 5.8 points to 91.2, thus interrupting the previous two months of decline.

Zdenko Štefanides

Financial Markets

With inflation now on a steady decline, the Czech National Bank (CNB) in December lowered its policy rates. The decline of rates by 25bps was approved by a unanimous vote of all seven members of the CNB Board. The rhetoric from the CNB post the meeting has been hinting at further easing forthcoming in 2024, most likely at each upcoming policy meeting this year. The markets are looking for the policy rate to be lowered from the current 6.75% toward 4% during the year, which is broadly in line with our forecast and the pace imbedded also in the forecast of CNB's own research team.

Decelerating inflation fueling prospective rate cuts alongside positive global sentiment toward bonds all contributed to a substantial decline of Czech yields since November. As of end January, the 10-year yield was less than 3.8%, down from a 5% peak in early October. The koruna meanwhile took a beating from the prospective rate cuts and narrowing of interest rate differentials versus the euro, depreciating to 24.9 vs the euro at the end of January from 24.3 two months ago.

Banking Sector

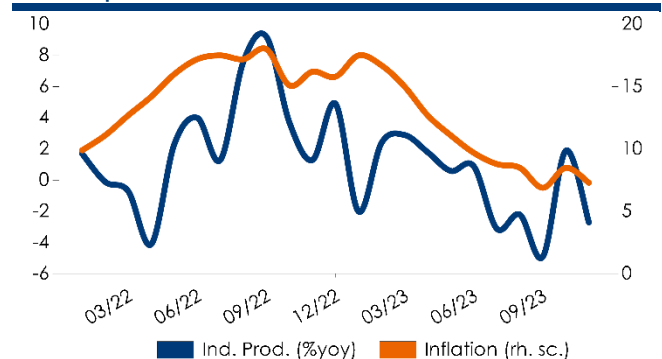
On the banking market, volume growth continued alongside previous trends. In loans, the most interesting dynamics apply to the mortgage market, which showed signs of recovery, especially during October and November. More recently, there appears to be a minor setback as new borrowers wait to see if mortgage rates decline more meaningfully now, as the CNB embarks on a rate cutting cycle.

Latest Economic Indicators

	Last value	3Q23	2Q23
Industrial production, wda yoy	-2.7 (Nov)	-3.4	1.1
Export of goods, nominal yoy	-3 (Nov)	-6.3	0.0
CB refi rate	6.8 (29th Jan)	7.0	7.0
ESI (index)	90.9 (Dec)	86.9	82.2
Retail Sales yoy	-3 (Nov)	-6.3	0.0
Inflation rate, average yoy	6.9 (Dec)	8.1	11.2
Loans (priv. sector, yoy, eop)	4.7 (Nov)	4.6	5.4
Deposits (priv. sector, yoy, eop)	6.1 (Nov)	5.2	8.0
Lending interest rate (corp., eop)	8.7 (Nov)	8.5	8.7
Deposit interest rate (hh, eop)	5.9 (Nov)	6.0	6.1

Source: Czech National Bank, Czech Statistical Office

Industrial production and inflation



Source: Czech Statistical Office

Hungary

Real Economy

The latest indicators confirmed that the economy bottomed out in mid-2023, but the recovery has been weak so far. As a result of the weak external and internal demand environment and previous cost shocks, industry continues to perform sluggishly; output fell month-on-month both in October and November. Retail sales shows tentative signs of stabilisation in line with the recovery of real wages, but consumers remain cautious. The labour market has been gradually affected by the recession over the past year, with the unemployment rate climbing to 4.4% in the fourth quarter. Employment also fell in the October-December period. Labour market conditions are still relatively tight, though, corporates struggle with the shortage of skilled labour. The disinflation processes remained strong, headline y-o-y CPI fell to 5.5% in December, core measures went down as well. The robust improvement in external balances continued, the trade balance posted a record surplus in November, and the C/A balance may well finish the year in the black.

Mariann Trippon

Financial Markets

The central bank continued its cautious easing cycle and cut the effective rate to 10.75% in December, and again, to 10% in January. Fundamentals (rapid disinflation, improving external balances, subdued growth) would have allowed for a bigger cut, but financial stability risks deferred the NBH from speeding up the process. Monetary policy will remain cautious and data dependent. Besides domestic fundamentals, the central bank will pay close attention to market stability when deciding about the timing and size of future cuts. Short interest rates went down in line with reduction of the policy rate. Long yields corrected upwards compared to early January, the move primarily reflects core market developments. HUF weakened versus the EUR in January. The Hungarian currency underperformed its regional peers, which confirms that the depreciation was mainly due domestic developments that negatively affected Hungary's risk perception.

Banking Sector

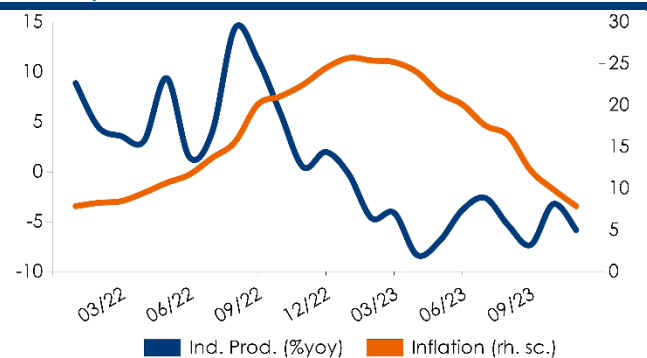
Bank deposits started to increase again in the second half of 2023, the y-o-y growth rate as of November 2023 was -1.6%. Corporate savings increased by 1.4%, while the erosion of Households deposits continued (-8.6% compared to December 2022). We expect some improvement for the last month of the year, so the full year deposit growth rate could be around zero in 2023 and customer savings may increase by 2-3% in 2024, as real wages growth will be positive again. On the lending side there was an increase of 2% during the first 11 months. On the corporate lending market, the demand for government supported loans could offset the negative impact of high market interest rates and the collapse of private investments, showing a growth rate of 2.5%. Households lending demand weakened, due to the decline in housing market transactions and high interest rates, however still reaching an increase of 2.0%. With subdued economic growth, loan volume may grow by max 2-2.5% in 2023, followed by 3-4% in 2024.

Latest Economic Indicators

	Last value	3Q23	2Q23
Industrial Production yoy	-5.8 (Nov)	-5.1	-6.3
Nom. Exports yoy	-3.8 (Nov)	0.4	4.3
ESI (index)	97.6 (Dec)	93.6	91.8
Retail Sales yoy	-5.4 (Nov)	-7.5	-11.4
Inflation Rate yoy	5.5 (Dec)	15.4	21.9
CB Reference Rate	10.8 (29th Jan)	13.0	13.0
Loans (priv. sector, yoy, eop)	1.7 (Nov)	2.3	7.0
Deposits (priv. sector, yoy, eop)	-3.6 (Nov)	-7.7	-5.6
Lending interest rate (corp., eop)	11.9 (Nov)	12.0	12.2
Deposit interest rate (hh, eop)	9.3 (Nov)	10.8	12.5

Source: Central Bank of Hungary, Hungarian Central Statistical Office

Industrial production and inflation



Source: Hungarian Central Statistical Office

Poland

Real Economy

Poland's GDP in the full-year 2023 came in at 0.2%. This was in line with our forecast, but disappointed other market observers who anticipated some acceleration in the final quarter of this past year, driven mainly by improved consumer spending. Household consumption has only stagnated in 4Q and contracted by 1% in the full-year 2023, resp. Growth of the Polish economy in 2023 was driven mainly by investments, especially those funded by EU funds from the 2014-2020 programming period, which had to be spent by the end of last year. A positive contribution to growth also was made by net trade, mainly due to lesser imports, particularly thanks to cheaper energy.

Inflation-wise, CPI ended the year 2023 at 6.1%. This was about half a percentage point higher than we had forecast, which creates some upside risks as well for our hitherto assumed disinflation path in 2024. Still, with energy prices to be frozen this year, inflation will likely slow to 4% in the first half of this year. Thankfully for the disinflation process, we note that wages are no longer growing at double-digit rates.

Financial Markets

After the National Bank of Poland (NBP) pre-empted the prospective decline of inflation into an early policy adjustment and lowered its rates by a cumulative 100 basis points by October, the Board has predictably remained on hold. This also applied to the policy meeting on February, when the NBP kept the key policy rate steady at 5.75%. Little change in the current wait-and-see approach of the NBP is expected in the near term, pending the next update of economic predictions due in March.

On the bond market, Poland abstained from the global run down of yields, with 10-year yielding around 5.3% at the end of January, broadly in line with the average of the past three months. One reason for stubbornly high yields is the country's high borrowing needs. Poland is expecting to run a budget deficit of 5.1% of GDP this year, little changed from 5.3% in 2023. Faced with huge redemptions as well, the state is thus facing record borrowing needs in 2024, up some 50% in gross terms over 2023, which was already an all-time high in terms of local bond supply.

Banking Sector

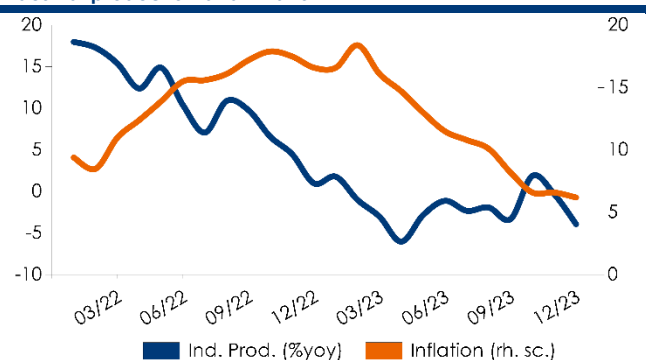
In the banking market, loans to households have slightly picked up in late 2023, led by loans for houses. Lending to corporates meanwhile continued to ease. To be sure though, over a year ago, despite improving lately, volumes of overall loans to households still remained in the contraction territory. On the deposit front, meanwhile, both households and companies continued to grow their deposits in the banks.

Latest Economic Indicators

	Last value	3Q23	2Q23
Industrial Production yoy	-3.9 (Dec)	-2.5	-3.3
Nom. Exports yoy	-14.2 (Nov)	-8.0	0.7
ESI (index)	99 (Dec)	95.7	93.5
Retail Sales yoy	4.8 (May)	n.a.	n.a.
Inflation Rate yoy	6.2 (Dec)	9.7	13.1
CB Reference Rate	5.8 (29th Jan)	6.0	6.8
Loans (priv. sector, yoy, eop)	-2.5 (Dec)	-4.2	-3.1
Deposits (priv. sector, yoy, eop)	10.5 (Dec)	11.8	11.8
Lending interest rate (corp., eop)	7.6 (Nov)	8.1	8.9
Deposit interest rate (hh, eop)	4.7 (Nov)	5.4	5.8

Source: Narodowy Bank Polski, Statistics Poland

Industrial production and inflation



Source: Statistics Poland

Slovakia

Real Economy

Slovakia's important economic segments of industrial production and exports fell considerably in November: the drop was almost five percent compared to October after seasonal adjustment. However, we think this could be a one-off as the sentiment indicators are pointing to higher activity in the future compared to the last couple of quarters. In addition, recent confirmation of a large new investment in car battery production supports the electric transition of the local automotive industry. The local labour market remained robust, with the registered unemployment rate near all-time lows (5.1% in November), but retail sales remain weak (-1.5% yoy) despite a return to real wage growth in selected industries (+3.8% in November) and a recovery in consumer confidence.

Inflation is expected to have decreased further in January (to 4-5%) as the government decided to continue subsidizing households' regulated energy prices, despite the European Commission's recommendation not to. This puts upward pressure on consumer prices in 2025 and beyond, when the end prices should converge higher to reflect their market costs.

Financial Markets

The ECB kept rates unchanged at its January meeting and said that even debating cuts in its interest rates is as yet premature. Still, the markets are optimistic about a turnaround of monetary policy, pricing in as much as 140 basis points in cuts by the end of the year, pulling down bond yields as a result. Fiscally, however, the Slovak situation is bad as the new government increased the budgeted public finance deficit (to more than 6% of GDP, according to European Commission) instead of narrowing it. January's sale of government bonds was quite okay though, even for securities maturing as far as 2051. Further advances in sovereign risk premium remains a possibility.

Banking Sector

Banking business has been down for some time since the increase in interest rates, but the total volumes of loans and deposits were still growing in nominal terms yoy in November. Regarding taxation, an uncertainty arose about the new bank levy. Since the Ministry of Finance did not consult the ECB with the proposal, it is now unclear whether the levy is legally applicable, and it may end up in court disputes. Mortgage rates may have peaked in January as benchmark bond and swap rates have declined from their highs in September and October. The local loans-to-deposits ratio remains very high (108%) as consumer loans are now growing faster than mortgages and household deposits are broadly stagnant since 2021. Corporate deposits are doing better (+10.7% yoy in November).

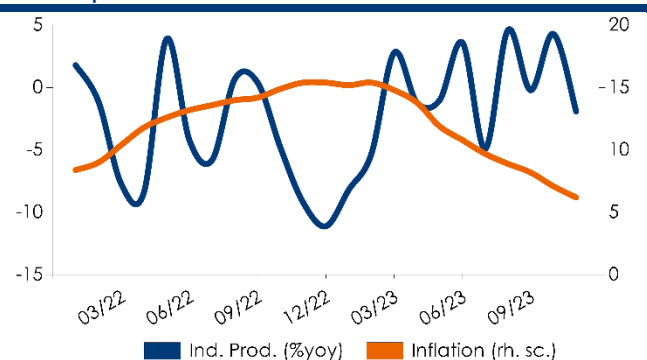
Latest Economic Indicators

	Last value	3Q23	2Q23
Industrial Production, wda yoy	-1.9 (Nov)	-0.2	0.5
Nom. Exports, yoy	-3.2 (Nov)	1.8	7.4
ESI (index)	96.3 (Dec)	91.9	90.0
Retail sales, yoy	-1.5 (Nov)	-4.0	-7.9
Inflation rate, yoy	5.9 (Dec)	8.9	12.2
ECB refi rate	4.5 (29th Jan)	4.5	4.0
Loans (priv.sector,yoy,eop)	n.a.	4.0	5.8
Deposits (priv.sector,yoy,eop)	n.a.	4.4	5.2
Lending interest rate (corp., eop)	n.a.	5.8	5.7
Deposit interest rate (hh, eop)	n.a.	n.a.	n.a.

Source: Statistical Office of Slovak, National Bank of Slovak

Michal Lehuta

Industrial production and inflation



Source: Statistical Office of Slovakia

Slovenia

Real Economy

So far, the data available for the fourth quarter of 2023 illustrate a variegated performance of the economy. Industrial production showed signs of improvement (stagnation in Oct, -0.8% yoy drop in Nov), with Manufacturing rising on monthly level since September. Exports picked up as well (Oct-Nov +8.8% yoy) owing to a rise in non-EU markets, while the assessment of export order book saw an upward trend which protracted into January this year. Retail trade turnover rose on quarterly basis (+2.6% qoq), thus narrowing the annual decrease to -13.8%, while construction activity lost pace (Oct-Nov +9% yoy vs. +22.3% yoy in 3Q). The labour market stayed strong; employment in November reached an all-time high, however, its annual growth rate continued to moderate, whereas December saw the usual seasonal rise in unemployment. Net wage growth was sound in nominal terms (+8.3% yoy in Oct-Nov), but in real terms it remained modest (+2.3% yoy), curbing consumption.

Inflationary pressures kept on softening, with the rate in December decreasing to 3.8% yoy, and core inflation declining to 4.4% yoy, the lowest since March 2022. On an annual basis, Food price growth eased to 4.6%, Restaurant & Hotel prices to 6.9%, Utilities stagnated at 2.1%, while Transport prices stepped into the red at -0.8%. FY23 average inflation amounted to 7.2% yoy.

Financial Markets

In January, average 10Y government bond spread on Bund was a bit lower mom at 80bps, while the average yield stood still mom at 3.0%. Slovenia will issue the first government bond aimed at citizens in February, planned to raise €250M, with 3Y maturity and an interest rate of 3.4%.

Banking Sector

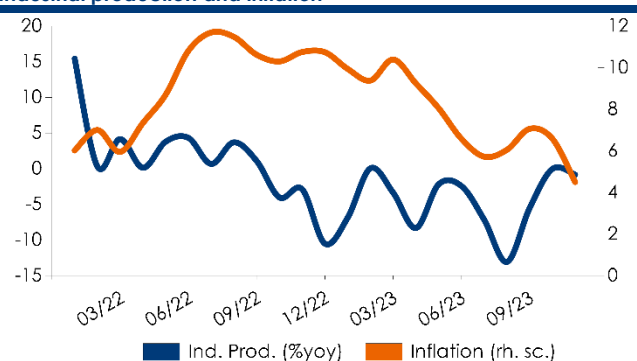
Loans slipped into negative territory since November, restrained by costlier financing, ending the year lower by 0.5% yoy. Contraction of corporate loans widened to -5.3% yoy, whereas household lending stalled (3.6% yoy). Breakdown of corporate loans by maturity reveals that the strongest contribution to this adverse trend came from the steep drop of short-term loans (-25.3% yoy), suggesting that companies are postponing borrowing in the expectation of rate cuts. Division of household loans by purpose depicts continued demand for consumer loans, paired with the flattish growth of housing loans. Deposits continued to ease, coming in at 5.1% yoy in December as household deposits decelerated to 2.8% yoy, whilst corporate deposits sped to a strong 11.1% yoy. Overnight deposits declined (-0.6% yoy), while deposits with agreed maturity strengthened to 43.7% yoy thanks to the upward trend of savings interest rates.

Latest Economic Indicators

	Last value	3Q23	2Q23
Industrial Production, wda yoy	-0.8 (Nov)	-8.6	-4.3
Nom. Exports yoy	4.8 (Nov)	-10.2	-0.5
ESI (index)	95.8 (Dec)	93.5	92.6
Consumer Confidence Indic.	-31.7 (Dec)	-32.6	-32.1
Inflation Rate yoy	3.8 (Dec)	6.3	8.0
ECB refi rate	4.5 (29th Jan)	4.5	4.0
Loans (priv.sector,yoy,eop)	-0.2 (Nov)	0.8	3.9
Deposits (priv.sector,yoy,eop)	5.2 (Nov)	5.7	6.7
Lending interest rate (corp., eop)	5.4 (Nov)	5.3	4.6
Deposit interest rate (hh, eop)	1.3 (Nov)	1.3	0.7

Source: Statistical Office of the Republic of Slovenia, National Bank of Slovenia

Industrial production and inflation



Source: Statistical Office of the Republic of Slovenia

Albania

Real Economy

The economic growth of Albania in the third quarter of 2023 was 3.46%. This growth was higher than the previous two quarters. Branches of the economy such as public administration, education, health, as well as real estate and construction, made the greatest contribution to growth. Meanwhile, inflation slowly continues to decline, at 4% on December 23. In Q3,2023, for the first time in history, the country's current account was positive, at 6.4% of GDP. Unemployment was 10.5%. In the third quarter, household spending was 2.06%, down from 7.65% a year ago in the same period. On the other hand, public expenditures increased by 12.28% compared to -3.55% Q3,2022. Exports of services and goods recorded a positive growth of 17.91% Q3,23, as a result of the increase in exports of services. In December, inflation was at the rate of 4%. A year ago, the CPI was 7.4%. Food and alcoholic beverages had the biggest impact on the price increase. Exports of goods continue to be in negative territory for the tenth month. Exports of goods in December 2023 was -6.55%.

Kledi Gjordeni

Financial Markets

Although the hikes of the base interest rate have been transmitted to the increase in interest rates on loans, deposits and in the securities, again the lending environment continues to be stimulus for economic growth. This is especially noticeable in the rapid growth of credit in LCY. The normalization of the monetary policy aims for inflation to return to the CB target of 3% by 2024. On the other hand, the risks of the increase in inflation are supported by the increase in production costs as a result of the lack of labor force and the increase in wages. In the foreign exchange market, the Lek continues to remain strong against the EUR and USD. In December 2023 the LCY appreciated by around 10% YoY. While the strengthening of the LCY penalizes exports, on the other hand it keeps inflation under control.

Banking Sector

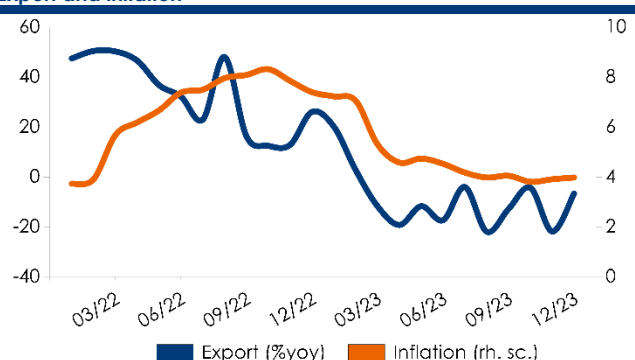
The monetary policy tightening by the CB has contributed to the contraction of the country's lending activity. In November 2023, total Loans growth was negative at -0.08% YoY. Households' loans increased at 7.43%, and corporate loans were down -4.3% YoY. On the deposit side, the total deposits were just slightly above 0 at 0.05%. The households' savings shrank at -3.53%, YoY and corporate deposit added 12.98% to the system. The non-performing loans rate continues to improve, and in November reached 5.07%

Latest Economic Indicators

	Last value	3Q23	2Q23
Industrial production, wda yoy	n.a.	n.a.	n.a.
Export of goods, nominal yoy	-6.5 (Dec)	-13.4	-16.1
Unemployment rate	n.a.	10.5	10.7
Inflation rate, average yoy	4 (Dec)	4.1	4.6
CB Reference Rate	3.3 (31st Dec)	3.0	3.0
Loans (private sector, yoy, eop)	-0.1 (Nov)	0.5	1.3
Deposits (private sector, yoy, eop)	0 (Nov)	2.0	0.0
Lending interest rate (pr.sect., eop)	5.7 (Nov)	5.8	6.0
Deposit interest rate (pr.sect., eop)	2.4 (Nov)	2.0	2.1

Source: National Statistical Institute, Bank of Albania

Export and inflation



Source: National Statistical Institute

Bosnia and Herzegovina

Real Economy

As signalled by high frequency data, the 3Q GDP release confirmed a rebound in economic growth to 1.9% yoy, from 1.7% and 1.2% growth registered over the first two quarters of last year. At the same time, quarterly growth strengthened from 0.6% to 0.8% qoq. Private consumption resumed its role as a main growth driver, rising by +2.7% yoy (vs +1.8% in 2Q), supported by double-digit nominal wage growth and solid households' lending activity. Investment activity remained sluggish, with growth slowing down to only 1.0% yoy (vs +1.6% yoy in 2Q). The largest drag on headline growth came from net foreign demand, as exports declined by as much as -13.3%, while imports contracted by -9.5% yoy. Available 4Q high frequency data indicate similar developments as industrial production doldrums persisted (-6.1% yoy, -5.1% qoq), reflecting lack of foreign demand while at the same time exports declined by -9.1% yoy and imports fell by -6.2% yoy, both in nominal terms. Meanwhile, domestic demand remained strong as retail trade volumes increased both on annual and quarterly basis (+1.4 and +14.9% yoy, respectively) supported by strong average wage growth, which in November increased by 11% in nominal and 9% yoy in real terms, as well as steady remittances inflow. Overall, subdued foreign demand will remain a main drag on activity reflecting unfavourable economic trends in major trading partners.

Ivana Jović

The annual inflation rate inched up to 2.2% in December (from 1.7% in November), although declining by -0.2% mom for the second consecutive month. Thus, FY23 average inflation wrapped up at 6.1% down from 14% registered in 2022. The main drivers were rising food prices (+10.6%), followed by housing, electricity, and household equipment (+7.4%). On the other hand, transport prices, which had been a key inflation driver during 2022, started to decline in mid-2023, ending up on average -4.0% lower on an annual basis.

Banking Sector

Loans retained an upbeat trend, coming in at 6.3% yoy in November, supported by only a modest rise in lending rates in the past months. Corporate loans stayed strong at 5.2% yoy, while household loans continued to accelerate, expanding 7.4% yoy, with consumer loans increasing by 7.5% yoy and housing loans by 7.0% yoy.

Ana Lokin

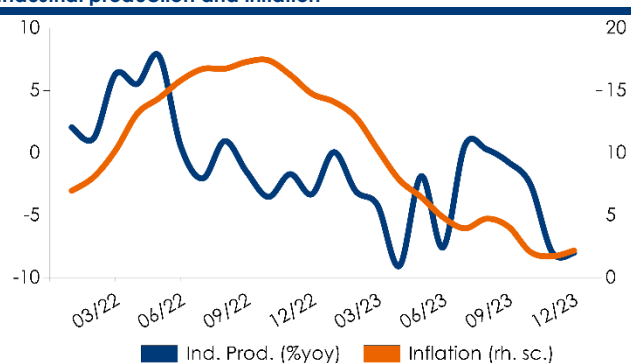
Deposits in November sped for the third consecutive month, rising 10.7% yoy as corporate deposits strengthened to 12.2%, while household deposits edged down to 9.8% yoy. The fall in household time deposits continued to ease, amounting to -1.1% yoy.

Latest macroeconomic indicators

	Last value	3Q23	2Q23
Industrial production, wda yoy	-8 (Dec)	0.4	-2.0
Export of goods, nominal yoy	-13.3 (Dec)	-10.5	-10.6
Retail trade, real, wda yoy	16.4 (Nov)	16.5	13.1
Inflation rate, average yoy	2.2 (Dec)	4.3	6.4
Loans (private sector, yoy, eop)	6.3 (Nov)	6.1	5.0
Deposits (private sector, yoy, eop)	10.7 (Nov)	10.0	10.5

Source: Central Bank of Bosnia and Herzegovina, Agency for statistics of Bosnia and Herzegovina

Industrial production and inflation



Source: Agency for statistics of Bosnia and Herzegovina

Croatia

Real Economy

Available high frequency data for 4Q indicate improved activity compared to the previous quarter as domestic demand strengthened further, while foreign demand showed mild improvement. Namely, although industrial production continued to zig-zag on a monthly basis, last quarter's data showed some mild improvement. Following 3Q's -0.8% qoq, it increased by +0.6% qoq, while in annual terms production increased by +1.6% yoy (vs -0.4% in the 3Q). On the demand side, real retail trade performance strengthened substantially as 4Q volumes increased by 2.8% qoq and 7.6% yoy, supported by favourable labour market dynamics including strong wage growth and easing inflation. At the same time, foreign demand remained a drag, although the annual decline registered in exports over Oct-Nov eased to -7.6% yoy compared to -17.2% registered over the 3Q. On the other hand, over the observed period, imports declined by -10.6%, slightly less compared to 3Q's -14.6%. The labour market remained tight as reflected by +15% yoy nominal (+9.8% real) growth registered in November, while the average unemployment rate in FY23 stood at an historically low 6.2%. Overall, based on 4Q high frequency data, we see upside potential that our FY23 +2.4% GDP call will be overshoot by up to a half of a percentage point.

Ivana Jović

December 2023 harmonised inflation inched down to 5.4% (Nov. 5.5%), wrapping up average annual HICP inflation at 8.4% (2022: 10.7%), while the national inflation measure (CPI) closed the year at 4.5%, with the annual average sliding down to 8.0% from 10.8% in 2022.

Financial Markets

Average 10Y government bond spreads on Bunds narrowed in January by 10bps mom to 110bps, whereas the average yield stood unchanged mom at 3.3%.

Ana Lokin

Banking Sector

Loans carried on at robust pace, expanding 8.0% yoy in December owing to acceleration of household loans matched by steady corporate loans. Breakdown of household loans by purpose shows steep cash loan growth of 10.9% yoy, which can be explained by a relatively modest rise in interest rates against the backdrop of improved consumer confidence, supporting increase of consumption.

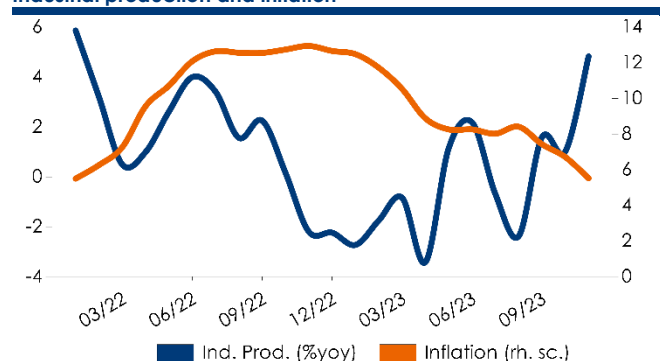
Deposits sharply slowed to 3.5% yoy at year-end amid outflow of household deposits a month earlier prompted by the issue of 1Y T-bill aimed at, beside institutional investors, natural persons (the latter subscribed EUR 1Bn). Household deposits thus slowed to 1.5% yoy. Deceleration of household deposit growth is expected to continue as MoF announced the issue of another retail government security in 1Q24.

Latest economic indicators

	Last value	3Q23	2Q23
Industrial production, wda yoy	4.8 (Nov)	-0.6	0.9
Export of goods, nominal yoy	-4.6 (Oct)	-17.2	-6.4
Retail trade, real, wda yoy	7.3 (Nov)	3.7	3.1
ESI (index)	109.7 (Dec)	105.4	105.2
Inflation rate, average yoy	5.4 (Dec)	8.0	8.5
Loans (priv. sector, yoy, eop)	7.8 (Nov)	7.7	8.8
Deposits (priv. sector, yoy, eop)	4.4 (Nov)	6.3	7.6
Lending interest rate (pr.sect., eop)	5.2 (Nov)	5.0	4.7
Deposit interest rate (pr.sect., eop)	3.1 (Nov)	2.9	2.3

Source: Croatian National Bank, Croatia Bureau of Statistics

Industrial production and inflation



Source: Croatia Bureau of Statistics

Romania

Real Economy

Third quarter 2023 GDP growth was revised in December at 1.1%YOY (versus the first announcement at 0.2%) with a quarterly growth of 0.9%. Positive contributions came from Agriculture, Construction and the Information and Communication sector, while a negative contribution came from Industry.

YOY CPI at the end of December was 6.6%, slightly below the November NBR projection. Harmonized YOY CPI at the end of December decreased at 7.0%. According to the NBR's latest projection, the inflation rate is expected to growth in the first quarter of 2024, before a decrease to around 5.00%.

Unemployment remained stable this year, at 5.4%, at the end of November. Wages increased 15.1% YOY at the end of November.

The Budget Deficit for 2023 was announced at 5.68% of GDP, significantly higher than last year and above the levels of the Fiscal Consolidation Plan, which projected a deficit at EOY 2023 below 4.4% from GDP. The deviation of the Budget Deficit in 2023 will create significant threats for economic outlook for 2024, due to further expected fiscal tightening measures. The IMF estimates a deficit around 6% of GDP without further fiscal measures and economic growth around 2.3% of GDP.

The Current Account Deficit at the end of November 2023 was €20.25 billion, 25% lower than the November 2022 Deficit. This improvement is linked to the high inflation rate and its impact on retail sales.

Financial Markets

At the January 2024 Monetary Policy Meeting, the NBR kept Monetary Policy rates (Deposit, Lombard, and Reference Rate) unchanged, as follows: Deposit Facility Rate 6.00%, Reference Rate 7.00%, and Credit Facility Rate 8.00%. The same decision is expected also for the February Meeting.

The EUR/RON exchange rate was stable, with low volatility, most of the period. If we take into consideration a basket 80%EUR and 20%USD, in 2023 the RON appreciated 0.12%. The exchange rate is used as a Monetary Policy Instrument.

Banking Sector

In 2023, the growth in loans and deposits was 12.89%, with a strong component on RON (20.8%), while EUR deposits decreased 1.92%. On the loans side, the overall growth was 5.93%, with a strong component of Companies (+10.3%), while Household loans decelerated to +1.4%.

Latest Economic Indicators

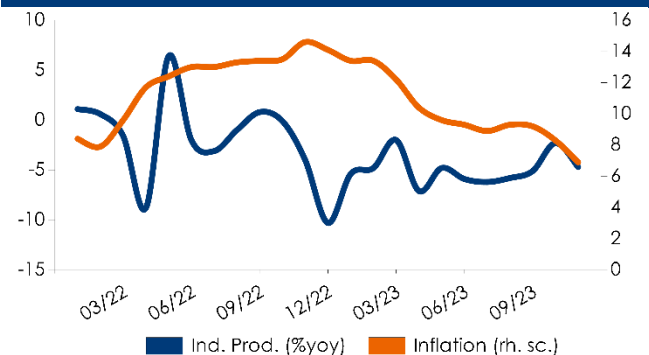
	Last value	3Q23	2Q23
Industrial Production yoy	-4.7 (Nov)	-5.7	-5.9
Nom. Exports yoy	-2.2 (Nov)	-5.1	3.8
ESI (index)	102.4 (Dec)	100.4	101.3
Retail Sales yoy	3.8 (Nov)	0.1	0.4
Inflation Rate yoy	7 (Dec)	9.1	9.8
CB Reference Rate	7 (29th Jan)	7.0	7.0
Loans (priv. sector, yoy, eop)	5.9 (Dec)	4.0	5.8
Deposits (priv. sector, yoy, eop)	12.9 (Dec)	10.6	9.6
Lending interest rate (pr.sect., eop)	8.9 (Nov)	9.0	9.4
Deposit interest rate (pr.sect., eop)	5.7 (Nov)	5.8	6.0

Source: National Bank of Romania, National Institute of Statistics

Marius Pacurari

Marius Pacurari

Industrial production and inflation



Source: National Institute of Statistics

Serbia

Real Economy

Based on the Statistical Office's first estimate, Serbia's real GDP growth in 2023 amounted to 2.5% yoy. Economic output was driven by net exports, followed by fixed investments and to a lesser extent by private consumption. On the production side, good results in service sectors, agriculture and construction, supported by implementation of infrastructure projects, contributed most to the GDP growth. Industrial production increased by 2.5% in 2023, thanks to a robust recovery of the energy sector. The Central Bank projects 2024-GDP growth to speed-up to the range of 3-4%, led by expected acceleration in investments and lower inflationary pressures, while we see 2024 growth at 3.1%.

In December, annual inflation decreased further to 7.6%, almost half the level recorded at end-2022, marking a ninth consecutive month of decline. Monthly inflation measured 0.1% in December, being the lowest monthly outturn in 2023, excluding July deflation. The disinflation process was underpinned mainly by the further slowing of growth in food prices and core inflation. Average annual inflation equalled 12.1% in 2023. NBS expects inflation to drop further in the coming period, returning within the target band (3+1.5%) in mid-2024 and then approaching the 3% target midpoint by the end of the year. Such an inflation trajectory will be supported by the effects of past monetary tightening, a slowdown in imported inflation and the anticipated further decline in inflation expectations. We see average CPI at 4.9% in 2024.

Financial Markets

At its meeting in January, NBS decided not to change key policy rate, leaving it at the level of 6.5%. This is the sixth month in a row with no changes in the rate level, and we expect the key interest rate to remain unchanged in the coming months. Considering the projected return of inflation to target limits, the beginning of a gradual reduction of the reference rate could be expected from the late 2Q2024, bringing the key policy rate to 5.0% at end-2024. The dinar remained stable in 2023, appreciating by modest 0.1% against euro, while NBS net bought a record amount of foreign currency in the market worth EUR 3.9Bn, pushing FX reserves to a record level of EUR 24.9Bn at end-2023, which provide almost seven months of import cover.

Banking Sector

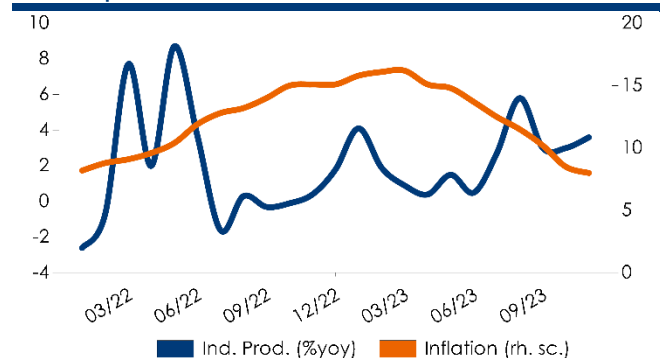
Credit activity slowed further as outstanding volume declined 0.6% y/y in November, while new lending to private sector fell by 2.5% y/y in January-November period, reflecting combined effects of the monetary tightening, a high base from the previous year, maturing of guarantee scheme loans and tightened bank lending standards. Deposit dynamics were more favourable, as November saw a growth of 12.3% y/y in total private sector deposits, with corporate deposits remaining the driver of the growth (+15.4% y/y). The amount of NPL throughout 2023 continued to stand still, remaining well below its pre-crisis level (3.1% in November 2023).

Latest Economic Indicators

	Last value	3Q23	2Q23
Industrial Production yoy	3.6 (Nov)	3.8	0.8
Nom. Exports yoy	-1 (Nov)	-2.2	3.3
Retail Sales yoy	3.6 (Nov)	-1.8	-6.1
Inflation Rate yoy	7.6 (Dec)	11.4	14.5
CB Reference Rate, eop	6.5 (29th Jan)	6.5	6.3
Loans (priv.sector,yoy,eop)	-0.6 (Nov)	-0.5	0.3
Deposits (priv.sector,yoy,eop)	12.3 (Nov)	11.3	11.9
Lending interest rate (pr.sect., eop)	11.2 (Nov)	11.7	11.6
Deposit interest rate (pr.sect., eop)	5.7 (Nov)	5.8	5.8

Source: Statistical Office, National Bank of Serbia

Industrial production and inflation



Source: Statistical Office

Moldova

Real Economy

Moldova's GDP totalled 80.5 bln MDL (€4.1bn) increasing in real terms by 2.6% or €3.2bn MDL compared to 3Q22 and by 14.5% vs 2Q23. Agriculture, forestry and fishing boosted GDP growth, adding 5.7 pp, while information and communication added 0.7 pp. Health and social insurance along with real estate activities contributed 0.5 pp each, while accommodation and catering activities added 0.4 pp. On the demand side, net exports rose by 6.4% yoy in 3Q23, accounting for +8.9 pp in Moldova's GDP growth. This development was mainly driven by an annual decrease of 9.8% in the volume of imports vs a 6.4% increase in exports. Gross fixed capital formation and the household final consumption expenditure were both negative contributors to GDP in 3Q23, taking away 4.7 pp and 1 pp, respectively. The annual inflation rate decelerated to 4.2% in December 2023, down from 5.5% in the prior month. On a monthly basis, consumer prices fell by 0.4% in December, following a 0.2% gain in the previous month.

Industrial production decreased by 4.4% yoy in 11 months of 2023. In November alone, industrial output decreased by an unadjusted 6.1% on the year. In first 11 months of 2023 the country's exports and imports fell by 6.2% and 5.8%, respectively, yoy. In November, Moldova's exports increased by an annual 6.7%, while imports fell by 14.7% compared to the same period in the previous year.

Financial Markets

After a reversal in the growing trend of inflation, the NBM moved to a sharp relaxation of its monetary policy. As a result, the base rate reached 4.25% as of February 2024 (down from 20% at 2022 year-end), while the loan and deposit rates were 6.75% and 2.75%. (vs 22% and 18% in 2022) The national currency appreciated by 9.14% against the US dollar in nominal terms. In relation to the euro, the Moldovan leu appreciated by 5.01%. Yields on government securities have been steadily decreasing in recent months from their peaks in 2022 (the 91-, 182-, and 364-days Treasury bill yields decreased by 15.25pp, 13.66 pp and 12.52pp, respectively, as of December 2023 compared to end-2022 levels, in line with the inflation trajectory and expectations).

Banking Sector

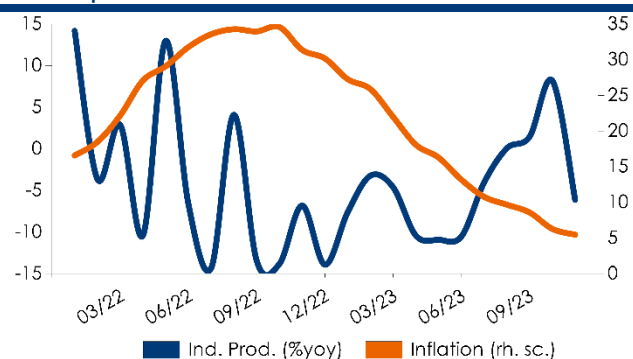
As of December 2023, loan portfolio growth (3.7%) was spread across all segments, with a particularly strong contribution from household loans (8.8%) vs corporate loans (0.6%). On the other hand, deposit growth accelerated increasing by 19.9% yoy due to the 30.1% and 13.7% yoy increases in the stock of corporate and household deposits, respectively. The degree of coverage of loans by deposits is 178%, indicating that there are sufficient resources to increase lending. The NPL ratio has been rather stable during in 2023, with slight fluctuations but maintaining a monthly average level of 6.6%.

Latest Economic Indicators

	Last value	3Q23	2Q23
Industrial Production yoy	-6.1 (Nov)	-0.8	-10.6
Nom. Exports yoy	6.7 (Nov)	-1.1	-21.0
PMI Manufacturing	6.7 (Nov)	-1.1	-21.0
Retail Sales	-5.6 (Dec)	n.a.	n.a.
Inflation Rate yoy	4.2 (Dec)	9.7	15.9
CB Reference Rate	4.8 (31st Dec)	6.0	6.0
Loans (Priv. Sector, yoy, eop)	3.7 (Dec)	3.4	3.0
Deposits (Priv. Sector, yoy, eop)	19.9 (Dec)	20.4	24.2
Lending interest rate (corp., eop)	9.2 (Dec)	9.8	10.8
Deposit interest rate (hh, eop)	5.6 (Dec)	8.5	11.7

Source: National Bureau of Statistics of the Republic of Moldova, National Bank of Moldova

Industrial production and inflation



Source: National Bureau of Statistics of the Republic of Moldova

Russia

Real Economy

According to the Bank of Russia (CBR), current inflationary pressures remain high. Persistent inflationary pressures have increased in recent months. This is due to domestic demand exceeding the capacity for expansion in the production of goods and services compared to previous CBR estimates. This is evidenced by the economic activity data for 2023 H2, including the recent monthly data for Q4. Household and business inflation expectations have increased. Analysts' inflation expectations remain above the inflation target in 2024 but are pegged close to 4% in the medium term. According to Bank of Russia forecasts, given the monetary policy stance, annual inflation will fall to 4.0-4.5% in 2024 and remain close to 4% thereafter. GDP growth in Q3 2023 and recent monthly data for Q4 2023 show that economic activity is growing much faster than expected in October.

Francesca Pascali

Financial Markets

As expected, on 15 December 2023, the CBR decided to raise its key interest rate by 100 basis points to 16.0%. According to the central bank, the return of inflation to the target in 2024 and its further stabilisation near 4% presuppose the maintenance of tight monetary conditions in the economy for a long period. Inflationary risks remain substantial on a medium-term horizon. The Bank of Russia's reference scenario is based on the decisions already taken by the government on the medium-term expenditure path of the federal budget and the tax system as a whole.

Banking Sector

Loan growth remained strong in Russia (+26.2% yoy in October in nominal terms), in line with our expectations, particularly for corporates though decelerating (27.4% yoy vs. +23.8% yoy for households). Households are still being supported by the subsidised mortgage lending programme. A further deposit acceleration was seen in October (+32% yoy in nominal terms, from 31.8% yoy in the previous month), mainly to corporates (+41% yoy vs. +18% yoy to households). The volume of remittances from Russia to neighbouring countries has declined in 2023 after a record growth in the hundreds of percent in 2022, according to statistics from the central banks of Kazakhstan, Georgia, Armenia and Kyrgyzstan. A total of USD 7.7bn was sent from Russia to these four countries in 2023, down 12% from 2022. The decline in remittances began in 2Q23. The NPL ratio was modest in Q2 (5.3%), decreasing from 5.5% as of end-2022. Profitability was strong in 2023. The Return on Assets ratio was 3% in Q2 from 0.2% in 2022, while the Return on Equity jumped to 29.1% from 1.8% in the same period.

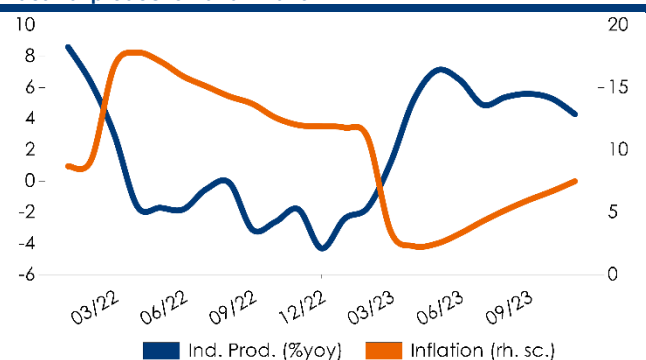
Davidia Zucchelli

Latest Economic Indicators

	Last value	3Q23	2Q23
Industrial Production yoy	4.3 (Nov)	5.3	6.3
Nom. Exports yoy	72.1 (Jan)	n.a.	n.a.
Retail Sales yoy	10.5 (Nov)	11.2	8.9
PMI Manufacturing	54.6 (Dec)	54.5	52.6
Inflation Rate yoy	7.4 (Dec)	5.2	2.7
CB Reference Rate	16 (31st Dec)	13.0	7.5
Loans (priv.sector, yoy, eop)	26.2 (Oct)	27.3	26.0
Deposits (priv.sector,yoy,eop)	32 (Oct)	31.9	24.8
Lending interest rate (corp., eop)	14.4 (Oct)	13.6	9.5
Deposit interest rate (hh, eop)	10 (Oct)	9.4	5.4

Source: State Statistics Federal Service, Central Bank of Russia

Industrial production and inflation



Source: State Statistics Federal Service

Ukraine

Real Economy

According to the NBU's preliminary estimate, Ukraine's economy grew by 5.7% yoy in 2023, overwhelming all the earlier expectations. A better performance in 4Q23 was mainly driven by a stronger harvest and developing alternative export routes. A further gradual economic recovery is still seen to continue in 2024-2025. In 2024, the real GDP will grow by 3.6% (NBU's estimate) primarily due to high budget expenditures, and in 2025-2026 the economic growth will accelerate to 4-6% per year thanks to the reduction of security risks. This baseline scenario assumes the external financial support will continue, even though likely to a lesser extent, and the war will end in 2025. The inflation by the end of 2023 slowed to 5.1% yoy, largely due to high harvests and lower world energy prices. An important role was played by the moratorium on tariffs increasing for certain communal services. The NBU now sees the inflation to reach 8.6% in 2024 and 5.8% in 2025 – slightly better compared to 9.8% and 6% expected earlier.

However, the key risk - the continuation of the required full-scale Western financial support - is still cloudy. With the background of an increasingly difficult situation at the frontline, the materialisation of such risk may become a game changer for the macro-financial stability of the country.

Financial Markets

Despite the encouraging inflation dynamics, the NBU kept its key rate unchanged at 15% on the MP meeting in January 2024. The NBU's baseline scenario foresees some limited room for further rate cuts (to 14.50-14.00%) during this year, but not earlier than in 2H24. In the meantime, the NBU will keep a cautious stance and adapt monetary policy depending on the balance of risks in relation to external financial support and expected ceasefire in 2025. The USDUAH traded in wide range 37.50-38.30 in January, trying to find a new balance after a notable devaluation from 36.00, which was seen in November 2023. The NBU remains the main provider of foreign currency supply to the market, spending roughly \$0.5-1.0bn from monetary reserves a week. However, monetary reserves ended the year of 2023 on optimistic footing - it grew by \$1.7bn (to \$40.50bn) over December 2023, thanks to financial allocations from international partners.

Banking Sector

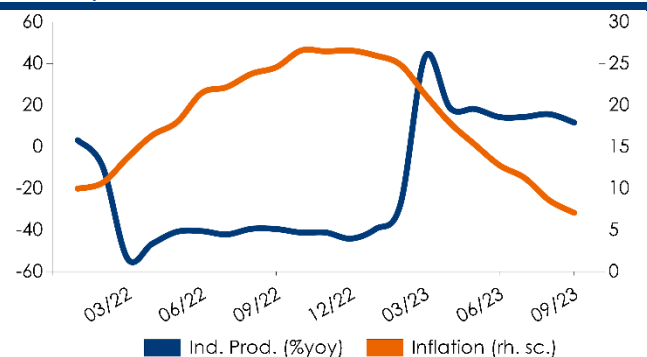
In 4Q23, the Ukrainian banking sector remained stable and over-liquid. Over the January-November 2023 period, the net profit of banks amounted to UAH 130.55bn, in particular, in November – UAH 7.85bn. The net profit increased by 6.7 times compared to 2022, and by two times compared to 2021. The basis of such a return in 2023 is a significant interest income, obtained primarily due to risk-free investments in government securities (T-bills and NBU certificates of deposit) and moderate deductions to provisions.

Latest Economic Indicators

	Last value	3Q23	2Q23
Industrial Production yoy	11.8 (Sep)	14.1	17.2
Nom. Exports yoy	-18.9 (Nov)	-16.1	-17.0
PMI Manufacturing	-18.9 (Nov)	-16.1	-17.0
Retail Sales	14.9 (Sep)	15.3	24.4
Inflation Rate yoy	5.1 (Dec)	9.0	15.3
CB Reference Rate	15 (31st Jan)	20.0	25.0
Loans (Priv. Sector, yoy, eop)	-4.8 (Nov)	-8.8	-8.5
Deposits (Priv. Sector, yoy, eop)	25.5 (Nov)	28.2	36.5
Lending interest rate (pr.sect., eop)	21.2 (Nov)	21.7	22.6
Deposit interest rate (pr.sect., eop)	10.4 (Nov)	12.5	14.0

Source: State Statistics Service of Ukraine, National Bank of Ukraine

Industrial production and inflation



Source: State Statistics Service of Ukraine

Egypt

Real Economy

Egypt's annual real growth slowed to 2.65% during 1Q FY2023/24 compared with 2.9% in the previous quarter, mainly on the back of declining gas and manufacturing sectors. The IMF has downgraded its forecasts for Egypt's real GDP growth in the current FY2023/24 to 3%, down from 3.6% projected in October. Also, the Egyptian Cabinet approved a plan to reduce the state budget public investment plan for FY2023/24 by 15%. The annual urban headline inflation rate continued declining in December, reaching 33.7% versus 34.6% a month earlier. However, this trend is expected to be reversed in January and February amid extreme fluctuations in the FX parallel market.

Samer Halim

Financial Markets

These developments urged the Central Bank of Egypt (CBE) to raise its overnight interest rates by 200 bps on February 1st.

During 2023, Egypt's external position was impacted by a declining trade deficit, due to lower imports, and higher tourism and Suez Canal revenues versus lower remittances, being leaked to the parallel market, and declining gas exports. The crisis worsened in 2024 on the back of regional tensions, as the Suez Canal revenues deteriorated by 46% yoy during January 2024. The USD was being traded at an almost 130% premium over the official exchange rate before the drop of this premium to almost 80%. The future of the local currency depends on many factors, including: (1) reaching a deal with the IMF, where news reports indicated that a preliminary agreement is being concluded, with an immediate devaluation of the EGP and an increase in the allocated funds from USD 3Bn to USD 7-10Bn, along with an extension of the program's duration, (2) the escalation of Gaza war and Houthi attacks, (3) returning successfully to international debt markets by the end of 2024 when central banks end the tightening monetary cycle, despite Moody's change to the outlook of Egypt's government to negative from stable, (4) plans to raise between USD1.4 and USD10.1bn annually starting this year until 2030 by securitising 20 to 25% of the country's foreign currency revenues, and (5) continuing to sell shares in state-owned assets.

Banking Sector

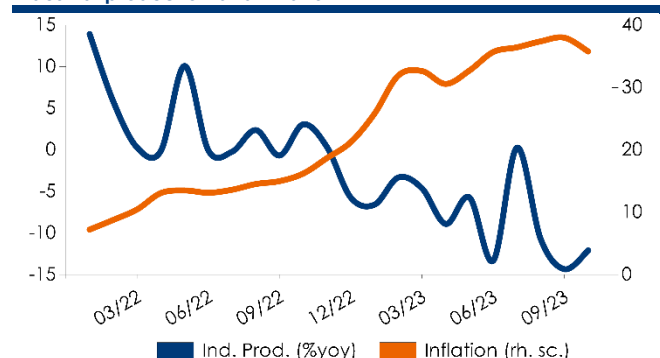
On the deposit side, state-owned banks recently issued a new 27% 1Y CD to replace the previously issued CD at 25%. Private deposits recorded an annual growth of 18.2% in November 2023, supported by a 38.7% rise in demand deposits. Retail loans' annual growth has been hovering around 22% during the period between August and November 2023. Net Foreign Assets in Banks (Foreign Assets minus Foreign Liabilities for non-residents in Egyptian Banks) recorded negative USD15.8 billion in November 2023, after being almost stable in the past six months.

Latest Economic Indicators

	Last value	3Q23	2Q23
Industrial Production, wda yoy	-12.1 (Oct)	-8.2	-9.3
Nom. Exports yoy	-19.2 (Oct)	-15.5	-31.1
Retail Sales yoy	n.a.	n.a.	n.a.
PMI	48.5 (Dec)	48.7	49.1
Inflation rate yoy	33.7 (Dec)	37.3	33.0
CB Reference Rate	22.3 (1st Feb)	19.3	18.3
Loans (priv. sector, yoy, eop)	24.1 (Aug)	n.a.	24.7
Deposits (priv. sector, yoy, eop)	18.2 (Nov)	21.9	23.2
Lending interest rate (corp., eop)	19.2 (Nov)	19.1	18.1
Deposit interest rate (hh, eop)	14.4 (Nov)	13.9	12.2

Source: Ministry of Industry & Foreign Trade, Central Bank of Egypt

Industrial production and inflation



Source: Ministry of Planning, CAPMAS

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