INTESA SANPAOLO

International Research

Economic and Banking Outlook

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Countries with ISP subsidiaries

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Research Department

International Research Network

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Viewpoint

Our latest economic analysis indicates a cautiously optimistic outlook characterised by **moderate growth, easing inflation, and gradual monetary policy adjustments** in Central and Eastern Europe (CEE), Southeastern Europe (SEE), Eastern Europe (EE), and Egypt. However, external challenges such as geopolitical tensions, a potential resurgence of trade protectionism under the forthcoming Trump administration, and the ongoing difficulties in Germany's economy – particularly the automotive sector – pose some **downside risks** to the recovery trajectories, especially for the CEE countries.

Macroeconomic scenario

Overview

The potential implications of the next U.S. administration loom large over Europe, with heightened risks of **trade protectionism** and tariffs targeting key industries. In the automotive sector, any imposition of U.S. tariffs on EU exports could exacerbate **Germany's difficulties** and ripple through **supply chains** in the CEE and SEE regions. Automotive-dependent economies such as Slovakia, the Czech Republic and Hungary face significant downside risks, as their industrial output and export revenues are closely tied to German manufacturers. Moreover, the broader trend of rising global protectionism threatens to undermine the recovery of export-oriented economies.

Overall, Emerging Europe plays a pivotal role in the global economic landscape, strategically positioned as a **bridge between advanced economies and emerging markets**. The anticipated policies of the upcoming Trump administration, coupled with Germany's economic deceleration – which is a critical trading partner for numerous nations in the region – are poised to exert substantial influence. U.S. protectionist measures, particularly through their indirect repercussions on Germany, along with a strengthening U.S. dollar, present a **mix of challenges and opportunities for the region over the coming two years**. The most resilient and innovative economies are likely to navigate these dynamics more effectively, leveraging their adaptability to benefit from shifting global trends.

The region continues to reap the advantages of deeper economic integration with the euro area, underpinned by growing investment in industrial nearshoring and advancements in digital transformation. However, the region's ability to address global uncertainties and capitalise on emerging opportunities will vary significantly, depending on each country's economic structure and macroeconomic resilience.

Economic growth in emerging Europe remains intricately tied to Germany, a primary driver of industrial and manufacturing exports from countries such as Poland, the Czech Republic, Slovakia, and Hungary. The persistent slowdown in Germany's economy risks curbing demand for components and intermediate goods, creating headwinds for these economies. Nonetheless, ongoing trade frictions between the U.S. and China are prompting European firms to diversify and fortify their supply chains within the region, spurring notable investment in production capacities and innovation. This dual dynamic underscores both the vulnerabilities and the potential of emerging Europe in navigating a complex global environment.

Macroeconomic forecasts

	GDP (yoy % chg)				CPI (eop, yoy % chg)				Policy rates (eop, %)			
	2023	2024F	2025F	2026F	2023	2024F	2025F	2026F	2023	2024F	2025F	2026F
CEE	0.1	2.0	2.6	2.6	6.1	4.0	3.9	2.5	6.4	5.2	4.0	3.4
SEE	2.4	1.9	3.0	3.2	6.4	4.4	3.3	2.6	6.0	5.4	3.9	3.1
EE	3.7	3.7	1.6	1.8	7.2	8.5	4.8	4.4	15.9	20.0	13.7	8.1
CEE SEE EE	2.6	3.0	2.1	2.2	6.8	6.7	4.4	3.6	12.1	14.9	9.9	6.2

Source: Intesa Sanpaolo Research Department F= forecasts

In addition, while the outlook for CEE, SEE, and EE regions remains cautiously positive, the previously mentioned external challenges pose potential downside risks. Inflationary trends and monetary easing provide a buffer, but these regions must navigate a complex global environment marked by geopolitical uncertainties, trade risks, and shifting economic dynamics. Collaborative EU strategies and structural reforms will be critical in mitigating these challenges and sustaining recovery momentum.

- **Economic growth**

Economic recovery across CEE, SEE, and EE is supported by domestic resilience but faces mounting external pressures. In **CEE**, countries like **Poland** and **Hungary** benefit from robust fiscal policies and structural reforms. Yet, Germany's continued economic stagnation, exacerbated by the automotive crisis, threatens trade and industrial output in the region. The sharp contraction in Germany's automotive exports impacts key suppliers in the Czech Republic, Slovakia, and Hungary, where these supply chains are critical to GDP growth.

The **SEE** region maintains growth momentum through tourism and EU-backed investments. **Croatia** and **Serbia**, for instance, leverage strong tourism revenues and infrastructure projects. Nonetheless, potential U.S. tariffs on European automotive imports, as suggested under Trump's trade policies, could further strain the region's external balances, particularly in economies with export-driven industrial sectors.

In **EE**, **Russia**'s near-term growth is driven by domestic demand and fiscal stimulus, but sanctions and geopolitical instability continue to constrain long-term prospects. **Ukraine**'s recovery remains fragile due to persistent security challenges. **Egypt**, in contrast, demonstrates resilience through diversification efforts and government initiatives, although rising protectionism and global fragmentation could limit export opportunities.

Our revised projections incorporate these risks: CEE is expected to grow by 2.0% in 2024, improving to 2.6% in 2025, while SEE is forecast to expand by 2.3% in 2024 and 3.0% in 2025, bolstered by domestic consumption. Eastern Europe's growth trajectory, despite initial strength at 3.5% in 2024, is expected to slow to 1.5% in 2025, reflecting vulnerabilities to external shocks. Egypt is set to maintain stable growth at 3.7% in 2024 and 4.1% in 2025, contingent on successful reform implementation.

- **Inflation**

Inflation dynamics across the regions reveal a positive trend of gradual deceleration, though external risks remain. In **CEE**, moderating energy prices and tightening monetary policies are driving inflation closer to central bank targets. **Poland** and **Hungary**, for example, are forecast to see inflation decline to 2.5% and 3.4%, respectively, by the end of 2025. However, Germany's automotive downturn and broader economic stagnation could exert deflationary pressure on the region's exports, potentially slowing the disinflation process. **SEE** countries, including **Croatia** and **Serbia**, are also expected to benefit from stabilising supply chains and reduced wage pressures. Inflation in Croatia is forecast at 2.0% and in Serbia at 3.0% by 2025. However, the region remains vulnerable to external shocks, including U.S. tariffs or geopolitical disruptions, which could re-ignite inflationary pressures. In **EE**, **Russia**'s inflation will remain elevated at 4.2% by 2025, driven by domestic supply constraints and geopolitical risks. Similarly, **Ukraine** and **Moldova** face persistent cost pressures, delaying alignment with central bank targets. **Egypt**'s inflationary challenges remain acute, with rates expected at 22.0% by 2025, underscoring the complexity of its macroeconomic environment.

- **Monetary policies**

Monetary policy adjustments reflect a cautious approach to balancing inflation control and growth stimulation. In CEE, Hungary and the Czech Republic are expected to continue policy-rate reductions, targeting 5.25% and 3.00%, respectively, by 2025. However, potential trade conflicts under a new Trump administration, including tariffs on EU automotive exports, could weigh on investor confidence and complicate central bank strategies. **In SEE, Romania and Serbia are anticipated to lower rates** to 4.50% and 4.25% by 2025, respectively, supported by improving economic fundamentals. Nonetheless, their export sectors remain exposed to the ripple effects of Germany's industrial slowdown, particularly in manufacturing supply chains. Finally, **Eastern Europe shows a**

mixed picture. Russia will maintain a restrictive stance in the near term, with rates peaking at 22.0%, before easing to 14.0% in 2025, as inflation risks persist. Ukraine's central bank is likely to adopt a gradual easing approach, while **Egypt faces limited flexibility due to high inflation, keeping policy rates elevated.**

Banking aggregates

- **Strategic Outlook**

  CEE and SEE Resilience: Both regions are expected to maintain steady growth in banking aggregates, driven by both policy support and stronger domestic demand. The alignment of monetary easing with economic recovery efforts will play a critical role in sustaining this momentum. Eastern Europe Challenges: EE remains vulnerable to geopolitical tensions, which could disrupt deposit growth and constrain credit demand despite declining rates.

- **Loans**

  Loan growth across the CEE, SEE, and EE regions is projected to strengthen in 2025, underpinned by improving economic conditions and accommodative monetary policies. Aggregate loan growth in CEE is expected to reach 4.7%, reflecting increased credit demand supported by moderating inflation and lower interest rates. SEE will continue to outpace CEE, with loan growth stabilising at 5.6%, driven by robust domestic demand and infrastructure investments. In EE, growth will decelerate to 5.3%, reflecting geopolitical uncertainties.

- **Deposits**

  Deposit growth is expected to decelerate across all regions in 2025 as household savings normalise and interest rates decline. In CEE, aggregate deposit growth is expected to moderate to 4.7%, reflecting reduced precautionary savings. SEE will maintain stronger momentum, with deposits growing at 5.7%, supported by rising disposable incomes and financial inclusion efforts. Eastern Europe, including Russia and Ukraine, will see deposit growth slow to 5.6%, driven by mixed economic recovery trends. Egypt remains an outlier, with projected deposit growth of 14.6%, reflecting persistent inflation and currency effects.

- **Lending Rates**

  Lending rates are forecast to decline significantly, fostering a more favourable borrowing environment. CEE's average lending rate is expected to fall to 4.9% in 2025 from 7.6% in 2024, driven by central banks' monetary easing. SEE is also forecast to experience declining rates, averaging 6.8%, as governments focus on stimulating domestic investment and consumption.

- **Deposit Rates**

  Deposit rates to align with falling inflation, averaging 2.7% in CEE and 3.6% in SEE. This trend reflects central banks' strategies to encourage spending and investment, although declining rates may reduce the attractiveness of savings. In EE, deposit rates are expected to remain elevated due to persistent geopolitical and economic risks, while Egypt's rates, though declining, are forecast to remain high at 17.4%, reflecting structural inflation challenges.

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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 Giovanni Barone. 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 EE 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.

Recent developments

Antonio Pesce, Francesca Pascali, Davidia Zucchelli

On an annual basis, GDP contracted slightly to 1.9% in the third quarter, compared with 2.3% in the previous quarter, owing to the good economic performance in Poland which offset the technical recession in Hungary. Based on the peculiarities of each country in the region, and within rather wide bounds, in 3Q24 the economic trend was in a range from -0.8% in Hungary to 2.7% in Poland. The higher contribution to annual GDP growth was provided by private consumption and gross fixed capital formation. Even though more modest, the effect of public consumption remained positive in 3Q too, while net foreign demand contributed negatively to GDP due to the weakness of the external environment. On a quarterly basis, CEE area GDP in Q3-24 was stagnant on a weighted average basis (w.a.), compared with 0.7% q/q growth recorded in the previous quarter. **For 2Q24, among the countries in the SEE area, they are currently available only data relating to Croatia, Romania and Serbia, where the GDP expanded at 1.8% y//y (on a weighted average data, from 1.7% in previous quarter).**

The high frequency indicators are still mixed, but surveys still point to a positive, albeit feeble, cyclical phase in the short term

The latest releases of high-frequency economic indicators are still mixed, but generally point to a positive, although weak, trend in the current quarter. In September, for the second consecutive month, in the CEE area, **industrial production** contracted (-0.9% yoy from -1.5% in the previous month, in weighted average data), with Hungary recording the largest decline (-5.4%). In the same month, the trend dynamics of industry in the SEE area also remained in negative territory (-1.5%), penalised above all by the contraction in Romania (-3.7%). In November, the **Economic Sentiment indicator** improved slightly in the CEE region with respect to October (to 97.2 from 96.7) but remained below the 3Q average (99.1). In the same month, the same indicator in the SEE area, remained at the previous month's level (105.7) and above the 3Q average (104.7).

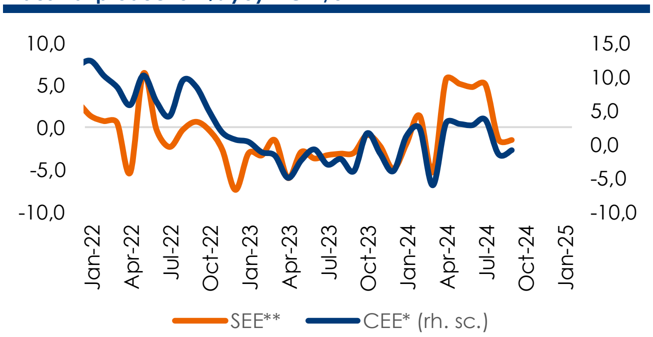
The decline in inflation is temporarily halt because of base effects.

Albeit with variations by country, i**nflationary pressures** are in general cooling in the CEE and SEE areas despite the temporary acceleration in inflation because of the base effects and, in countries such as Poland or Serbia, due to the quite strong economic growth. Aggregating the data (w.a.), in October, for the fourth consecutive month, the annual inflation rate in the CEE area remained above the minimum (2.8% in June) since the acute phase of the energy crisis and accelerated to 3.7% from 3.6% in September. In the SEE area, inflation increased to 4.6% in October from 4.4% in September, when it hit a three-year low.

Czech Republic and Albania CBs eased monetary policy further. Temporary pauses in monetary easing in the other countries

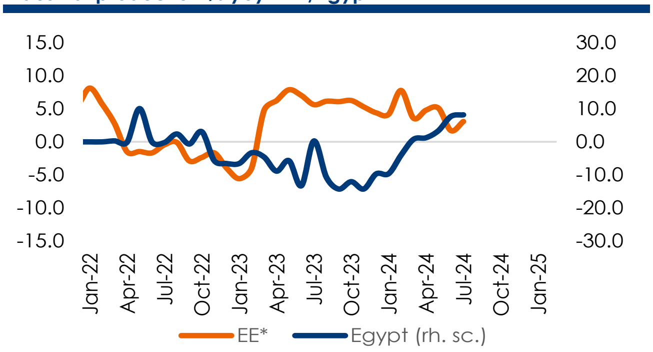
At their most recent meetings, the Czech Republic and Albanian central banks reduced their **policy rates** to 4.0% and 2.75%, respectively, while the remaining national banks held their rates steady at 6.5% and 5.75% for Hungary and Poland, respectively, in the CEE region and at 6.5% and 5.75% in Romania and Serbia, respectively, in the SEE area. In the financial markets, **long-term yields** slightly increased in several CEE and SEE countries vs. three months, with a widening of the spread with respect to the Bund 10Y. In Hungary, the weakening of the currency continues because of the fragile economic cycle.

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 – EE/Egypt



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

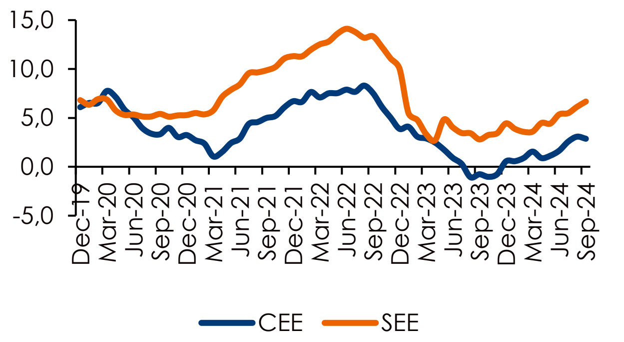
In the EE region, inflation rose in Moldova, Ukraine and Egypt

Outside the CEE/SEE regions, **EE countries** continued to grow, but despite the geopolitical tensions. In 3Q24, the **GDP** increased by 3.1% yoy (from 4.1% in 2Q24) in **Russia,** and in 2Q24 by 3.7% yoy (from +6.5% in 1Q24) in **Ukraine;** it grew in 2Q24 by 2.1% (from 1.1% in 1Q24) in **Moldova**. In **Egypt,** GDP grew by 2.4% yoy in 2Q24 (2.3% in 4Q23). Moving to high-frequency indicators, in October, **industrial production** grew (by 4.8% yoy) in Russia (from 3.2% in September), it decreased in Moldova (-3.3% in September), and in Ukraine (-0.2% in June 2024). In Egypt, it increased by 6.2% in August (+8.2% in July). In October, **retail sales** increased in Russia by 4.8% (vs 6.5% in September), and in June they increased by 15.2% in Ukraine (vs. +16.2% in May). In Russia, **consumer prices** reached the peak in July and August and then decelerated from September (+8,6%), October (+8.5%) and November (+8.9%), up to the CB targets (4.0%). In November, prices rose in Ukraine to 11.20% (+9.4% in October). In Moldova, the CPI was 5.4% vs 5.3% in October. In Egypt, inflation rose by 25.5% in November, down from the +26.5% of October, but still well above the upper end of the CB's corridor (7% ± 2%).

Banking aggregates slightly revised

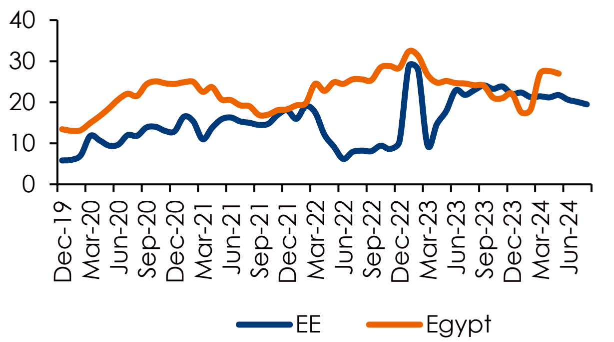
With regard to **banking aggregates**, in September, **banking aggregates in CEE countries** suffered from a weaker economic environment but have been still supported by credit demand, and favourable interest rates. **In SEE countries**, **lending growth** continued to be supported by good economic dynamics less affected than CEE countries by the crisis in Germany. **Loans increased** by 2.9% yoy vs 3.1% yoy in August, in **CEE** and accelerated to 7.7% yoy in September from 7.1% yoy in August in **SEE countries.** The improvement as of September involved only the Czech Republic and Slovenia, where lending accelerated to 5.7% and 1.6% respectively from 5.2% yoy and 1.4% in August. In the SEE area, the main acceleration in loans was in Croatia and Romania, which increased by 7.5% yoy and by 7.8%, respectively. The best performer remained Albania (11.9%). In Bosnia loans expanded by 8.9% yoy. **Lending accelerated in the CEE** in the **household segment**, (by 3.3% yoy in September). The largest contribution came from Hungary (+7.6% yoy), owing to the strengthening of consumer confidence and developments in the use of family support programmes, and also from the Czech Republic (to 5% yoy). In SEE countries, **lending accelerated in both institutional sectors,** but it was particularly strong in the **household segment** (+8.4% yoy in September vs. +6.8% in the corporates). **NPL ratios** have remained low everywhere so far. There are no signs of liquidity tensions. Only in Slovakia did the **loan/deposit ratio** remain over 100%. Higher wages and precautionary moves continued to support **deposit growth** in the CEE area, in nominal terms (6% yoy in September) despite decelerating, and +8.6% yoy in September in the SEE countries. **Banking interest rates** are decreasing in almost all countries. However, revisions to policy rates and moderately higher customer risks and provisions could have negative impacts on interest margins and profitability from 2025. In the **EE area**, loan growth remained strong in **Russia** (20.2% yoy in August) for both corporates (20.4% yoy) and households (19.7%). In Moldova, the loan performance (+19.1% yoy in September) was more moderate for corporates (14.4% yoy) and robust for the household sector (26.4% yoy, accelerating in the last months). **Total deposit** growth remained vigorous (227% yoy in September in Russia) in both the corporate (+26.6% yoy) and household sectors (+26.8% yoy). In **Egypt,** banking aggregates saw continued strong dynamics in nominal terms, with loans increasing by 26.9% yoy (in March, last available data) and deposits by 31.1% in September (but changes were in negative territory in real terms).

Lending growth (% yoy chg, weighted averages)



Source: ISP Research Department based on central bank data

Lending growth (% yoy chg, weighted averages)



Source: ISP Research Department based on central bank data

The international outlook

Global economic growth remains steady but at risk among regions

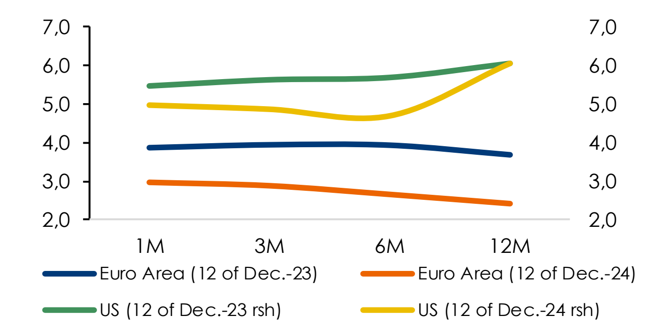
Global growth is forecast to remain flat and disappoint at 3.2% in 2024 and 3.2% in 2025 (downward revised from 3.3%) in the IMF forecast October WEO. However, looking at the data along the sub-regional and country specific dimension, there have been notable revisions in recent months. Positive forecast upgrades occurred for the **US economy**, offsetting downgrades for other advanced economies, especially major **European countries**. Meanwhile, in emerging markets, GDP growth expectations have been lowered for the **Middle East and Central Asia and Sub-Saharan Africa**, where disruptions to the production and shipment of commodities, especially oil, conflict and adverse weather events continue to weigh heavily. However, these downgrades have been counterbalanced by forecast upgrades for **emerging Asia**, where rising demand for semiconductors, driven by significant investment in artificial intelligence, has boosted growth (a trend supported especially by huge public investment in China and India).

Global inflation, which stood at 6.0% at the end of 2023, has fallen to 5.0% this year-end and is forecast to decline further to 3.9% by the end of 2025 (WEO). However, while global disinflation continues, services price inflation remains elevated in many regions. **Risks to the outlook** remain on the downside: geopolitical tensions remain acute, problems in China's real estate sector could generate global spillovers through their negative effect on global trade, as well as rising protectionism and continued geoeconomic fragmentation. Furthermore, a halt in the disinflation process could lead central banks to monetary policies less expansionary than expected.

In the **United States**, projections have been revised upwards at 2.7% in 2024 (from 2.4%) and at 2.0% in 2025 from 1.7%, both due to better-than-expected data and the effect on near-term economic sentiment index of the Republican victory in the November elections. The annual inflation rate in the US accelerated to 2.6% in October, up from 2.4% in September which was the lowest rate since February 2021. The Fed lowered the federal funds target range by 25 basis points to 4.5%-4.75% at its November 2024 meeting, in line with expectations. The ISP Research Department expects the policy rate to fall up to 3.5% 3.75% by the middle of next year.

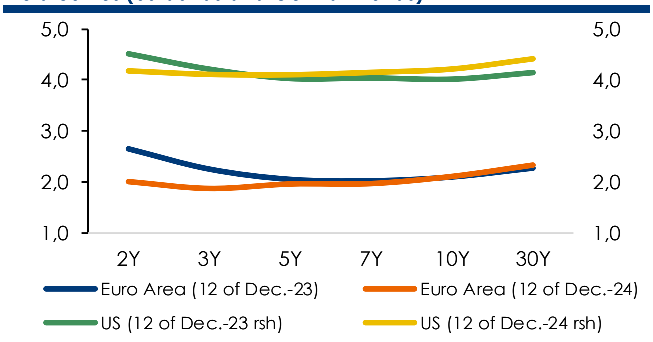
Data for the second half of 2024 were worse than expected overall. Together with the negative implications for sentiment from the risk of trade wars, they suggested the case for a downward revision of the 2025 projection for the **eurozone**. ISP forecasts that GDP growth for the full year will remain weak in 2024 at 0.7% (Germany on negative ground at -0.2%), and then strengthening, only partially, to 0.9% in 2025 (revised downward from 1.3%). The automotive crisis in the manufacturing sector is weighing severely on the economic dynamic of the euro area. The annual inflation rate in the Eurozone accelerated for a second month running to 2.3% in November 2024 from 2% in October, due to base effects, according to a flash estimate. It is expected to decline in the coming months, and the end-of-period value is projected to be around 1.8% in 2025. The ECB lowered the depo rate to 3.25% in October 2024. In the coming months the reduction of the official ECB rates will be faster than expected in September: the target point is 2%, in June 2025.

Benchmark monetary rates (US and EA rates)



Source: ISP based on LSEG Workspace data

Yield curves (US bonds and German Bunds)



Source: ISP based on LSEG Workspace data

The economic outlook

Growth and inflation

Looking ahead, we expect **GDP in the CEE and SEE areas** to continue on a positive trend in the coming months, but decelerating due to still weak foreign conditions.

GDP forecasts for 2025 have been confirmed on a recovery path, even if below previous expectations.

Risks to our forecasts are on negative side.

The last GDP data were worse than expected in several countries and so our new baseline projects GDP growth in the CEE area at 2.0% yoy in 2024 (revised downwards with respect to the September scenario), and the forecasts for 2025 and 2026 have been lowed too at 2.6% (respectively 0.3 pp and 0.1 pp below the previous scenario). Also, the GDP dynamic in the SEE area has been lowered for this year (1.9% from 2.3%), due to the economic performance of Romania being weaker than previously expected, and continuing to decelerate next year (to 3.0% from 3.3%), while the GDP growth for 2026 has been confirmed as increasing to 3.2%.

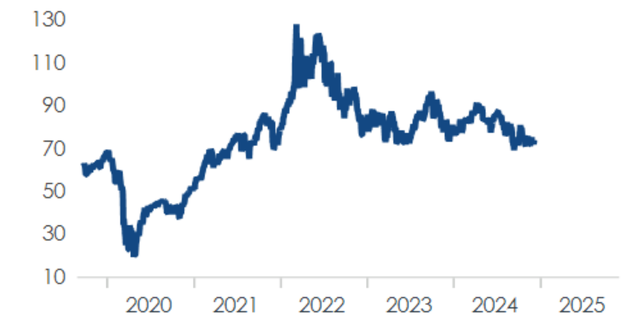
The prevailing **risks to the outlook** remain broadly on the negative side because of weakness of the international landscape. Inflation could be more persistent than expected in several countries, and tighter global financing conditions could hamper economic growth.

Inflationary pressures are expected to continue declining, but at a slower pace than previously expected.

Inflation is projected to decline, but at a slower pace than previously projected, in particular in those countries where wage dynamics have strengthened significantly, as in Poland and Serbia where the average inflation rate has been upwardly revised to 4.5% and 3.7%, respectively in 2025. Also in Slovakia, for the next year, the profile of the CPI has been increased with respect to the previous forecasts, but in this case to consider the rise of VAT decided by the local Government.

In relation to **EE** countries, we have slightly adjusted the forecasts. For Russia, we have increased to +3.7% in 2024 and left unchanged at 1.4% 2025 numbers. For Ukraine, estimates were raised to +3.8% from +3.8% in 2024 and remain unchanged at +4.0% for 2025. Estimates are left unchanged for Moldova (+2.5% in 2024 and +3.0% in 2025). Price pressures are expected to increase in Russia, Ukraine and Moldova. In Russia, where inflation began to accelerate again from June 2023, it is not expected to reach the CB's targets before 2026. For **Egypt**, we have left unchanged our GDP growth estimate at 3.7% for calendar year 2024 and at 4.1% for 2025. Inflation is expected to fall to 25.0% by year-end 2024 and to 22.0% in 2025. It is not expected to move back to the CB's target before 2032.

ICE-BRENT CRUDE OIL (Barrels $) ICE-BRENT CRUDE OIL (Barrels $)



Source: LSEG Workspace

ICE-NATURAL GAS (Therm £)

Source: LSEG Workspace

Monetary policy and financial markets

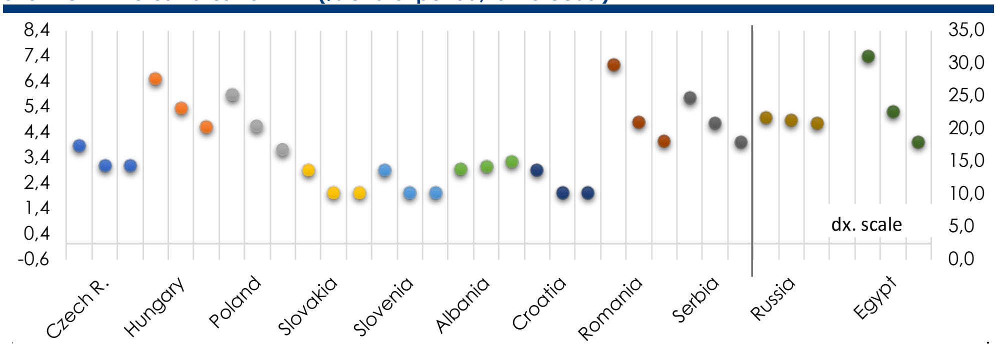
The policy rate easing cycle is expected to continue.

In the CEE and SEE area, monetary policy is on a temporary pause, except for the Czech Republic and Albania where policy rates were cut in the last meetings. In line with our September scenario, we continue to believe that the policy rate reduction cycle could resume during the next year for almost all countries. Hungary is now expected to reach 5.25% by the end of 2025, and then to continue up to the upward revised 4.0% at the end of 2026, while the Czech Republic is forecast to arrive at the target point of 3.0% at the end of 2025 (downward revised from the September forecast). For Poland we confirm our expectation of the target policy rate at 3.5% in 2026. Turning to the SEE area, we believe that the monetary easing has been concluded in Albania, while in Romania and Serbia further reductions are expected up to 3.5% and 4.0% by year-end 2026, respectively.

Outside the CEE/SEE regions, due to a persistent phase of rising inflation, **Russia's CB**, after seven months of leaving the policy rate unchanged, has decided to raise the key interest rate by 500 basis points to the current 21.0% per annum. A further tightening of monetary policy is necessary to ensure the return of inflation to target and reduce expectations. The Bank of Russia opened the prospect of raising the key rate at its next meeting. For 2024, we raised our estimates for the CBR's key rates from the September forecast due to the high level of inflation and structural budget deficit. We kept unchanged them for 2025. **Moldova's** central bank has left unchanged the policy rate since May at 3.60%. The resolution comes in a context where prevailing monetary conditions are favourable to keep inflation within a range of ±1.5 percentage points from the target of 5.0%, a level considered optimal for economic growth and Moldova's development in the medium term. Since June, **Ukraine's** CB has decided to raise its key policy rate by symbolic 50bps to13.5% at the MP meeting in December and flagged an increasingly hawkish posture amid ramping inflation. The move took place after three consecutive times the rate remained flat and thus has heralded the potential return to monetary easing is off the table for the nearest future. In **Egypt**, after raising rates by 200 basis points at its meeting on 1 February, the CB at its extraordinary meeting on 6 March, in line with the continuation of the central bank's restrictive stance, decided to raise key interest rates by 600 basis points to 28.25%. Since that date, the CBE has left policy rates unchanged. The CBE estimates that inflation will persist near current levels until the end of 2024, with the balance of risks still tilted upwards. These risks include geopolitical tensions, possible trade protectionism and a higher-than-expected pass-through of fiscal measures. However, inflation is expected to decline significantly from the first quarter of 2025, when the cumulative impact of monetary policy tightening and the favourable base effect will materialise.

The profiles for **long-term yields** have been revised slightly upwards overall across the forecast horizon with respect to our September scenario in the CEE/SEE region, due to the forecast higher path for Bund yields. In **FX markets**, exchange rates are expected to move around the current values in the CEE/SEE area overall in 2025 and 2026, but in Hungary a greater weakness of the local currency is now expected.

Short-term interest rates 2022-24 (% end of period, ISP forecast)



Source: ISP Research Department forecasts

Banking aggregates and interest rates

Banking aggregates are expected to slow in CEE countries and to accelerate in the SEE in 2024

Forecasts for banking aggregates have been revised slightly for some countries for 2024, downward in the CEE area mainly because of a worse than expected performance but upward in the SEE area. The forecast has been confirmed for the following years, a bit stronger in 2025 in the CEE and then on a slightly decelerating path. **Stronger lending** data for September and the economic context explain the revisions to our lending estimates for 2024, in the SEE countries.

Similarly, deposit forecasts have been revised slightly upwards in 2024 and substantially confirmed for the following years. On the asset side, banks are benefiting from low non-performing loan ratios and high profitability and capital. Funding tensions could increase in some countries, mainly in Slovakia and Russia, where LTD ratios remain very high. In general, banks can rely on granular and stable funding bases and conservative liquidity buffers to weather heightened volatility risks. They can count on broad bases of core, sticky domestic deposits and have a moderate reliance on market-sensitive institutional or external funding. Loan/deposit ratios are generally low. However, revisions to policy rates and moderately higher customer risks and provisions and taxes in some countries could have negative impacts on interest margins and profitability from 2025.

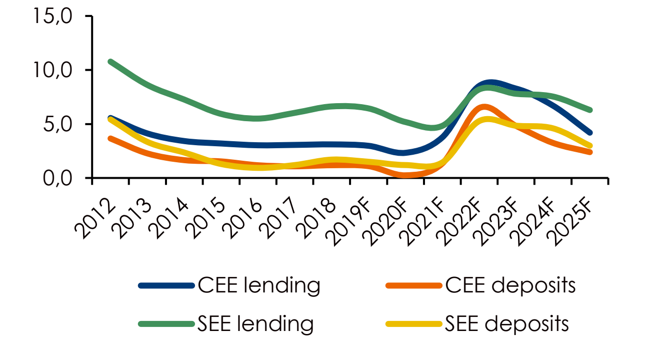
Banking aggregates expected to be more diversified in 2025

Loan growth in the CEE is forecast to increase in 2024 by 4.2% (revised from 4.4% forecast in September) and by 4.7% in 2025. Among CEE countries, forecasts have been revised mainly in Hungary (+5.2% from 6% in 2024 and 4.9% from 5.3% in 2025). Only in the Czech Republic loans have been revised upward to 5.3% in 2024. However, lending will be still negatively affected by higher interest rates in real terms, due to decreasing inflation. Furthermore, demand for credit could be supported by improving real disposable incomes supporting consumer lending, as has been happening in the past few months in many countries. Germany's economic weakness could negatively influence CEE corporates as well in 2025. Taxes will weigh on bank activity, particularly in Slovakia, where the tightening of the countercyclical capital buffer from 1% to 1.5% (from August) is also expected to weigh on lending.

Forecasts for banking aggregates have been revised slightly for many SEE countries for 2024, mainly because of better-than-expected recent monthly performances, particularly in Albania. The new economic landscape will affect **loan growth,** which is forecast to increase in 2024 by 6.9% in the area and is then expected to slow slightly (+5.6% and 5.5%) in the following two years. On the asset side, banks are benefitting from low non-performing loan ratios and high profitability and capital. At the same time, lending will be negatively affected by higher interest rates in real terms, due to easing inflation. Furthermore, demand for credit could be supported by improving real disposable incomes supporting consumer lending, as has been the case in the past few months in many countries. In contrast, **NPLs are expected to rise,** specifically where the increase in real interest rates – and the associated rise in private-sector debt servicing costs – has been particularly sharp. **Taxes** and the political turmoil are likely to weigh on the economy and the bank activity, particularly in Romania.

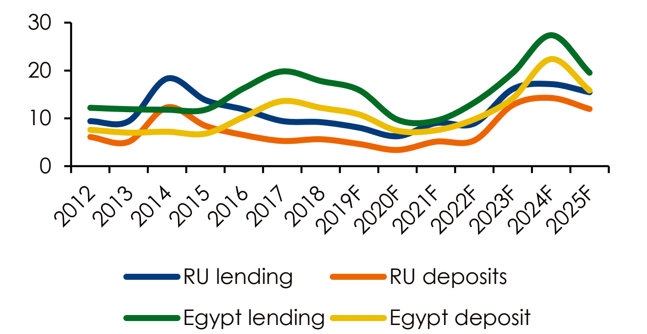
Deposit forecasts have been confirmed in 2024 (to 5.3%) as a result of an upward revision in the Czech Republic and some reductions in other countries, and to 5.8% from 6.0% in the SEE area (mainly in Romania, +4.8%) and also confirmed for the following years. In 2025, **deposits are expected** to decelerate in many countries because of lower interest rates and growing popularity of mutual and pension funds, but uncertainties about the economy and the evolution of the war could support deposit growth. In Russia, deposits are forecast to rise strongly by 19.3% in 2024 and then to slow to 5.6% in 2025. In **Egypt**, loans and deposits are expected to decelerate from 2023 to 17.3% and 27.3% in 2024 (revised upwards because of the pound's depreciation, which can further sustain banking aggregates in 2025) and to 10.8% and 14.6% in 2025.

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



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

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



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

Country-Specific Analysis

Czech Republic

Real Economy

Zdenko Štefanides

The Czech economy is recovering in line with previous expectations. Real GDP growth is likely to average 1% in 2024, a modest but welcome improvement over the stagnation in the preceding year. Growth is being revived owing mainly to recovering household consumption, which still looks likely to gather further momentum and help accelerate GDP growth in 2025 to around 2.5%. Consumer confidence will be boosted by a continuing strong labour market, characterised by both a very low unemployment rate and solid positive real wage gains. Also contributing to growth is likely to be investments, partly related to the reconstruction efforts following the floods that damaged eastern part of the country this past Autumn. To some extent, a positive contribution to GDP growth is also expected from government consumption given that 2025 is an election year with the new parliament to be voted in late September or early October.

External demand, on the other hand, will probably not help much on aggregate in 2025. Previous expectations of a recovery in Germany, the Czech Republic's key trading partner, have been disappointed[/negated/not been fulfilled]. Another risk looms from the new Trump administration threating to impose tariffs on EU exports to the US, targeting in particular the car industry, which is very important for the Czech economy. Nevertheless, until we have definitive information on the extent and timing of US tariffs, we maintain our previous forecast of real Czech GDP growth in 2025 gearing up to 2.5%.

Financial Markets

Inflation, at 2.8% in October, has temporarily increased to above the 2% target of the Czech National Bank (CNB). This nonetheless has not prevented the CNB from continuing to ease policy rates on each of its policy meeting in 2024. The latest 25bps cut in November brought the key 2-week repo rate to 4.0%, down from 7.0% peak last year. Ahead, we continue see interest rates falling further. In fact, alongside the latest prognosis of the CNB, we assume even a faster decline of rates than before. The 3.0% rate – deemed policy neutral – will probably be reached already in 2025 rather than 2026 assumed before. A faster decline of projected rates alongside the recent depreciation of the koruna linked to geopolitical risks leads us to revise the koruna exchange rate to slightly weaker levels than before. Yields-wise, we continue see broadly stable levels next year.

Banking Sector

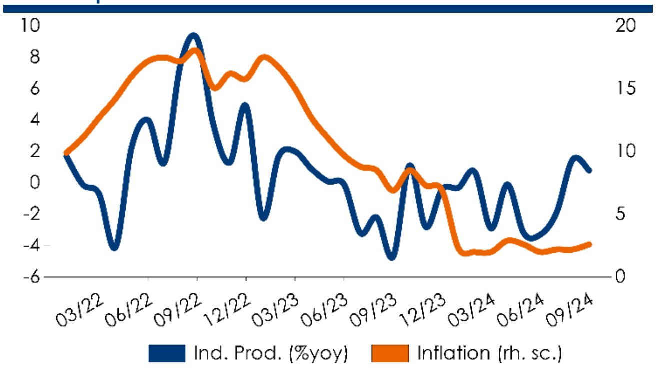
In the banking market, we continue to foresee broadly balanced growth of loans and deposits, around 4% year-on-year, which would keep the loan-to-deposit ratio at a comfortable level of around 70%. In 2025, nonetheless growth of deposits may shift slightly downward as households release their pent-up demand for consumer goods and services, build up during the past high-inflation era.

Forecasts

	2023	2024	2025F	2026F
Real GDP yoy	-0.1	1.0	2.5	2.4
CPI (eop)	6.9	2.8	2.0	2.0
Euro exch. rate (value, eop)	24.5	25.3	25.0	24.0
Short-term rate (eop)	7.0	3.9	3.1	3.1
L/T bond yields (eop)	4.0	4.0	3.9	3.8
Bank loans (pr. sector, yoy)	6.6	5.3	4.5	4.2
Bank deposits (pr. sector, yoy)	7.5	6.4	3.9	4.0
Lending int. rate (corp., eop)	8.2	5.8	4.3	3.8
Deposit int. rate (hh, eop)	5.7	3.5	2.9	2.4

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

Industrial production and inflation



Source: Czech Statistical Office

Hungary

Mariann Trippon

Real Economy

The economy fell into technical recession in Q3. On the production side, only services made a positive contribution to overall GDP growth, while on the absorption side the solid rise in consumption was not enough to offset the negative impact of plunging investments. Following the disappointing Q3 data, we revised our FY2024 GDP projection downwards again. Although we expect recovering economic activity in 2025, this is going to be slow and gradual. The engine of growth will be consumption, investments are likely to remain weak, and the industrial sector will be weighed down by weak external demand, and uncertainties surrounding the new US administration's trade policies. The disinflationary impact of weak demand has been visible in the latest CPI prints, below consensus readings in September-October pushed our 2024 average CPI projection down. The weak FX rate, global commodity price developments and strong wage growth pose upside risks to the 2025 outlook, but we expect average inflation to remain a tad below 4%. Labor market tightness has eased recently, and the unemployment rate picked up to 4.6% in Q3. Demand for labor is likely to remain weak at the beginning of 2025, but the unemployment rate is expected to head south again in H2. Nominal wage growth may remain close to 10%, implying real wage growth of 5-6% in 2025.

Financial Markets

Domestic macroeconomic developments remain supportive, but the volatile external risk sentiment and the worsening risk assessment of Hungary resulted a suspension of the monetary easing cycle at 6.5%. We expect an unchanged policy rate in Q1 2025, but the new central bank leadership is likely to resume the easing cycle from Q2. We pencil in 125 bps of rate cuts for 2025. HUF has depreciated significantly since October on the back of global movements before and after the US elections, but country-specific uncertainties concerning the future path of monetary and fiscal policies also weighed on the Hungarian unit. EUR/HUF is now trying to establish a new trading range above the 400 threshold.

Banking Sector

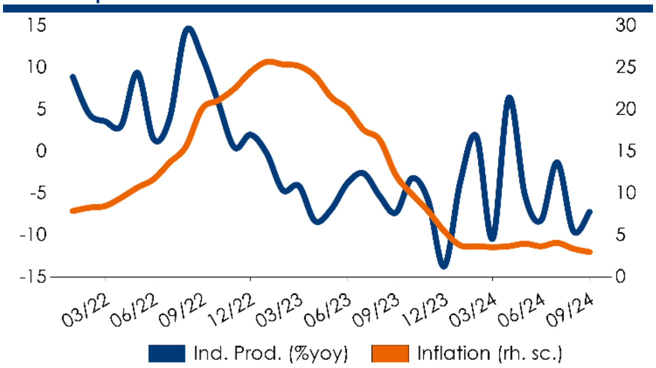
Loans in the banking sector expanded by 5% over the first nine months of 2024, driven by the weakening of HUF in the case of corporate loans and the pick-up of the housing loan market in case of Households. Customer deposits increased by 3% in the same period, mostly driven by the Households sector (+6%), where the 13th month extra pension, large government bond interest payments and growing net wages boosted the deposit volume. In the corporate deposit market the growth rate was -3% in the same period. With subdued economic growth and still relatively high interest rates, loan volume may increase by around 5% in 2024 and at the same rate (4.9%) in 2025. For deposits our expectation is a growth rate of 4.3% for the 2024 full year and the same for next year.

Forecasts

	2023	2024	2025F	2026F
Real GDP yoy	-0.9	0.6	2.0	3.1
CPI (eop)	5.5	4.2	3.7	3.4
Euro exch. rate (value, eop)	381.8	407.0	405.0	408.0
Short-term rate (eop)	10.3	6.5	5.4	4.6
L/T bond yields (eop)	6.2	6.4	5.9	5.3
Bank loans (pr. sector, yoy)	3.3	5.2	4.9	5.0
Bank deposits (pr. sector, yoy)	0.3	4.3	4.3	4.3
Lending int. rate (corp., eop)	12.4	9.9	4.7	3.3
Deposit int. rate (hhs, eop)	7.7	3.9	2.7	1.3

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

Industrial production and inflation



Source: Hungarian Central Statistical Office

Poland

Zdenko Štefanides

Real Economy

Growth-wise, we maintain our scenario of the Polish economy continuing to recover into 2025 with real GDP growth picking up to 3.1%. Growth in 2024, to be sure, has been revised slightly lower, from 2.7% to 2.6%, following the disappointing 3Q data, especially on the private consumption front. We nonetheless believe this weakness to be temporary, with payback later on. One particular reason for the 3Q weakness has been the impact of severe floods in South-West Poland. The reconstruction of the damaged property is likely to incentivise investment in the later periods. Also, some of the disappointment of household consumption was due to rising inflation, especially of energy costs after their partial deregulation in mid-2024. To help soothe these inflation concerns, however, the Polish government decided to prolong remaining energy price-shielding measures until September 2025. This may help people to release some of their forced savings build-up recently in anticipation of higher costs of living and thus reinvigorate consumption spending. Growth impetus is also likely to come from investment owing to projects financed from EU structural funds and utilisation of the Recovery and Resilience Fund. Government consumption also will likely contribute positively to GDP growth, not least due to the elevated military spending.

Financial Markets

The National Bank of Poland (NBP) has continued to stay put through all its planned policy meetings in 2024, holding the key rate steady at 5.75%. During the course of the year, the NBP president, Mr Glapinski, has changed his policy stance from hawkish to dovish and back to hawkish at his last press conference, stating that further easing of interest rates would not come before 2026. His arguments rest on the premise that the recently approved extension of the energy price freeze until September 2025 would introduce an inflation risk thereafter, when prices are unfrozen, thus forcing the NBP to hold rates higher for longer. We nonetheless continue to look for rates to be cut as soon as next year, possibly from March onward, as ongoing policy easing in the Eurozone and other key trading partners of Poland would put Polish enterprises and consumers under unduly tight monetary conditions. Indeed, we note the Polish zloty has appreciated in response to the latest hawkish comments of the NBP president. Alongside projected rate cuts, we nonetheless continue see the zloty returning to trade around similar levels as in 2024 against the euro. Yields-wise, we see a decline, in total by up to half a percentage point by end-2025.

Banking Sector

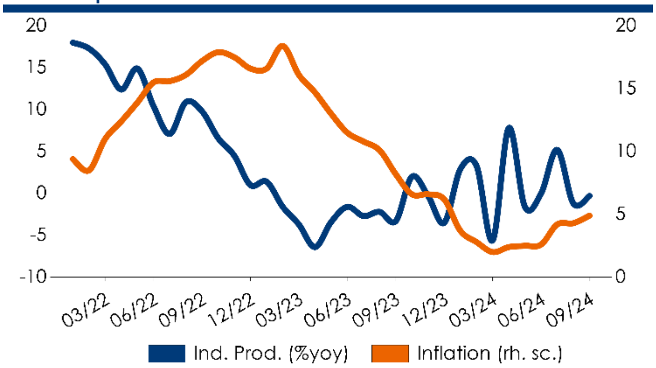
In the banking market, loan volume will likely continue to expand as the economy recovers. In the deposit market, we see volume growth at a comparable pace to 2024 and even faster than loan growth, thus maintaining the loan-to-deposit ratio of the Polish banking sector at a very comfortable level of 66%.

Forecasts

	2023	2024	2025F	2026F
Real GDP yoy	0.1	2.6	3.1	2.6
CPI (eop)	6.2	4.7	4.5	2.5
Euro exch. rate (value, eop)	4.3	4.4	4.5	4.5
Short-term rate (eop)	5.8	5.9	4.6	3.7
L/T bond yields (eop)	5.2	5.6	5.0	5.0
Bank loans (pr. sector, yoy)	-2.5	3.8	4.8	4.5
Bank deposits (pr. sector, yoy)	10.5	5.3	5.2	5.0
Lending int. rate (corp., eop)	7.8	7.1	4.3	3.7
Deposit int. rate (hh, eop)	4.6	3.8	2.5	1.9

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

Several headwinds will negatively affect Slovakia's economic growth in the near future. Judging by the leading indicators in the euro area, particularly in Germany, foreign demand looks likely to remain weak in the coming months. In addition, domestic demand is expected to slow significantly, as the government's 2025 budget consolidation package will fall heavily on the corporate sector (CIT increase, introduction of a transactions tax) as well as on households (mainly a VAT increase). Moreover, new import tariffs may appear from the US and China, which may be damaging for important local automotive industry. EU-funded investment may be the counterweight to these headwinds, but its efficient and timely implementation is questionable. This led us to revise our 2025 GDP growth forecast downward to only 1.4%.

The labour market may nevertheless remain tight as the ageing population means a falling number of workers of productive age. Due to the VAT increase and deregulation of natural gas prices, the local inflation rate may reach around 5%, the highest level in the euro area. As a result, the average real wage may stagnate or even decline a little, which is expected to push households into lower savings rates again.

Financial Markets

With the protracted weakness in the euro area and decreasing inflationary pressures, we now forecast more cuts to ECB rates by June next year, bringing the deposit facility rate eventually down to 2.0%. Yet, the long-term rates are still expected to rise slowly through 2025: first as government bond yields and from mid-year onwards also as longer interest rate swaps. After the adoption of the 2025 consolidation package, and confirmations of Slovakia's credit ratings by S&P and Fitch, we do not project a further increase in Slovakia's risk premia. However, the unstable governing coalition and still rising public debt-to-GDP ratio (expected to be around 61% of GDP in 2025) will probably keep the spread high at around 110 points.

Banking Sector

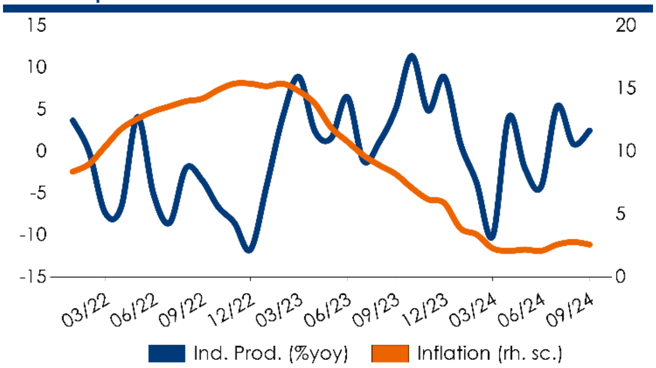
Some recovery in housing loans witnessed mainly during the second half of 2024 may continue, albeit at a slower pace next year. Part of the future demand for new housing will be cut by the budget consolidation measures, another part by the higher VAT on housing purchases effective from January. Banks may theoretically also face a more expensive funding environment on average, since deposit growth may decelerate, and part of the volumes may even leave the system for a new project of government retail bonds. This will put further pressure on the local still-high loan-to-deposits ratio, which could remain around the current level of 108%.

Forecasts

	2023	2024	2025F	2026F
Real GDP yoy	1.4	2.0	1.4	2.5
CPI (eop)	5.9	3.0	5.0	2.0
Short-term rate (eop)	3.9	2.9	2.0	2.0
L/T bond yields (eop)	3.3	3.6	3.8	4.0
Bank loans (pr. sector, yoy)	3.4	2.5	4.6	4.5
Bank deposits (pr. sector, yoy)	4.6	5.5	4.9	4.6
Lending int. rate (corp., eop)	5.8	3.3	2.2	2.1
Deposit int. rate (hh, eop)	1.3	0.5	0.3	0.4

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

Ana Lokin

3Q GDP growth gained pace on both a quarterly (+0.3%) and annual basis (+1.4%). Private consumption softened quarter-on-quarter (+0.3%), decelerating marginally on an annual basis to 1.9%. Public consumption declined at a quarterly level (-1.6%), slowing to 9.1% yoy. Investments remained in the red (-3.9% qoq and -8.2% yoy), mostly reflecting a 14.5% yoy drop of investments in buildings and other construction (completion of larger infrastructural projects) but also due to 2.6% yoy lower investment in machinery and equipment. Contribution of net exports to annual growth bounced back to positive territory as exports rose 8.4% yoy, while imports grew 6.5% yoy. GDP growth in the first three quarters of the year thus reached 1.4% yoy. Employment continued to rise mostly owing to a growing number of foreign workers who represent 16% of the total workforce. Net wage nominal growth picked up slightly in 3Q, to 4% yoy, and we expect it to accelerate in 2025 owing to raises in public sector pay agreed with the unions. We see 2024 growth at a modest 1.6% yoy, and expect it to reach 2.5% yoy in 2025 supported by the stronger personal consumption, investments picking up thanks to lower financing costs and particularly public investments (flood prevention, climate change resilience), while recovery of foreign demand should reinforce export performance. The latter, particularly Germany's tepid growth, represent the biggest risk to our projection.

November saw a rise in inflation (+0.7% mom,) amid increase in prices of food, clothing, electricity (+17% due to the transition to the peak season) and fuels, whereas at an annual level, inflation rate rose to 1.6%. To alleviate the impact of higher network charges (changed methodology) during the cold weather on household electricity bills, the Government decided to fix the electricity price on total consumption from November 2024 until February 2025, at the same postponing the reintroduction of the green energy contribution from Jan-25 to end-Feb. Higher grid charges, paired with the expected increase in VAT on sugary drinks, along with a rebound of consumption are expected to raise the average inflation in 2025 to 2.5% yoy.

Financial Markets

The 10Y government bond yield spread on Bund averaged 70bps in November, unchanged mom. YTD the average spread reached 70bps and in 2025 is expected to narrow to 60bps. The average yield is expected to be flattish yoy, reaching 3.1% in 2025. In December, S&P upgraded Slovenia's Outlook to Positive from Stable, while maintaining the rating at AA-.

Banking Sector

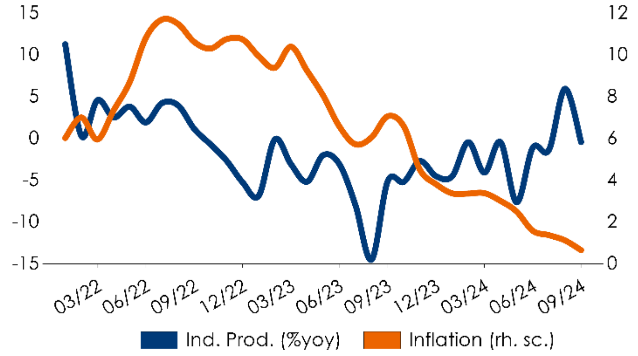
Loan growth in 2025 is expected to slow a bit as household lending gradually moderates. Deposit growth is expected to remain modest, at the same level as 2024.

Forecasts

	2023	2024	2025F	2026F
Real GDP yoy	2.1	1.6	2.5	2.4
CPI (eop)	3.8	1.8	2.5	2.0
Short-term rate (eop)	3.9	2.9	2.0	2.0
L/T bond yields (eop)	3.0	3.0	3.3	3.4
Bank loans (pr. sector, yoy)	-0.5	3.9	3.2	2.5
Bank deposits (pr. sector, yoy)	5.5	2.6	2.6	2.7
Lending int. rate (corp., eop)	5.6	4.7	3.2	2.8
Deposit int. rate (hhs, eop)	1.3	1.0	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: Statistical Office of the Republic of Slovenia

Albania

Kledi Gjordeni

Real Economy

During the second quarter, Albania's economic GDP growth accelerated vs. that of the previous quarter. In Q2 2024 it expanded at 4.06%. The main contribution was made by the construction and services sectors as well as agriculture, although the industrial sector and the decrease in exports of goods contributed negatively. The decline in inflation, the improvement of the labour market and the increase in wages influenced the expansion in consumption. Meanwhile, the reduction in interest rates supported by the CB's monetary policy, influenced the growth in lending to the economy and higher investments. The inflation rate marked a further decline to 1.9% in September. This was mainly due to the decline in fuel prices, and food prices, the exchange rate as well as the decline in prices imported from foreign trading partners. The exports of goods in October 2024 were negative at -15.19% yoy. As a result of the expansion of Albanian exports of services (for several years now), the goods and services exports sector marked a positive result of 4.89% in Q2. Projections for the short and medium terms remain positive. The growth will continue to be supported by private consumption, investments, tourism, as well as stronger employment and wages.

Financial Markets

On November 6, 2024, the CB decided to lower the base interest rate by 0.25%, to 2.75%. This aims to return inflation to the 3% target, which is expected to be reached in the first half of 2025. The CB's cut in the key interest rate, has also been reflected in securities yields which are moving close to the monetary policy interest rate. 1 Y TB is around 3%. The persistent appreciation of the lek (LCY) against the euro, in November 2024, by 3.5% yoy, continues to negatively affect the country's exports and accelerate the decline in the inflation rate. On the other hand, it affects the increase in consumption, and the reduction of the level of external debt. Public debt continued its downward trajectory and at the end of the third quarter stood at 54.1% of GDP. Foreign debt is 23% of GDP.

Banking Sector

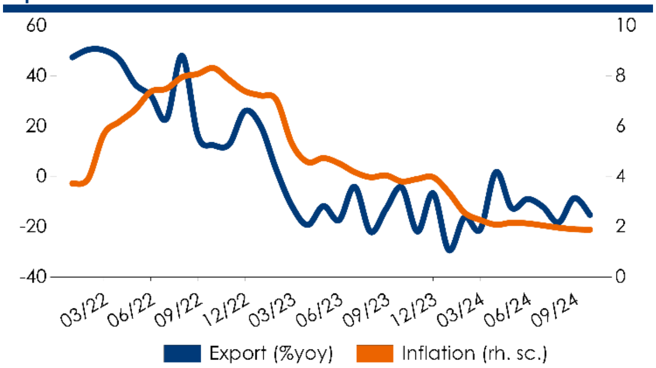
The decline in interest rates has also helped to increase the loan portfolio. In September 2024, total private lending increased at 11.85% yoy. The rapid reduction of LCY interest rates has influenced the growth of credit in that currency. In fact, the total loan portfolio in LCY grew at 16.11% YoY, whereas that in FCY at 6.71%. Total Household loans increased 11.85% and corporate loans 11.86%. In September 2024, total private-sector deposits expanded 2.41% YoY. The biggest contributor was LCY deposits which posted 5.27% growth, while FCY deposits increased only 0.32% yoy. Household deposits increased 2.44% in September 2024, and corporate deposits at 2.30% YoY. In September, the NPL ratio finished at 4.58%.

Forecasts

	2023	2024	2025F	2026F
Real GDP yoy	3.3	3.5	3.3	3.4
CPI (eop)	4.0	2.1	3.0	3.0
Euro exch. rate (value, eop)	103.9	100.5	101.0	122.3
Short-term rate (eop)	3.0	3.0	3.1	3.3
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	3.7	10.4	5.6	3.4
Bank deposits (pr. sector, yoy)	1.6	3.6	3.5	3.4
Lending int. rate (pr. sec., eop)	5.6	5.5	5.6	6.0
Deposit int. rate (pr. sec., eop)	2.3	2.8	2.9	2.6

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

Export and inflation



Source: National Statistical Institute

Bosnia and Herzegovina

Real Economy

Ivana Jović

Following 0.7% yoy growth in the final quarter of 2023, GDP growth accelerated to 2.4% yoy in the first two quarters of 2024, driven by private consumption and investments, though net foreign demand contributed negatively. Data for the Q3 indicates a significant slowdown in private consumption, with retail trade volume growth slowing to 2.7% yoy, compared to the double-digit growth observed in the initial quarters. October data further revealed a decline, as real retail trade growth fell to just 0.7% yoy, the lowest since February 2021. Concurrently, Q3 merchandise exports decreased by 1.4% yoy, despite mild positive growth in July and August, followed by a renewed 4.7% drop in September. Encouragingly, October saw a 7% yoy increase in merchandise exports, though this was matched by similar import growth. Considering the severe floods and landslides in early October, which caused significant fatalities and damage to residential property, business facilities, and infrastructure, disrupting critical railway and road connections, we anticipate less favourable trends in industrial production and exports to persist until year-end. Consequently, we have adjusted our GDP growth estimate for the current year downwards from 2.7% to 2.3% yoy. For 2025, we now project growth at approximately 2.7%, slightly lower than previous estimates, primarily due to slower-than-expected recovery in the export sector. Nonetheless, private consumption is expected to continue supporting overall growth, albeit at a slower pace than this year, while investments in rebuilding infrastructure and facilities damaged in October will contribute to economic activity. Overall, we view the risks as broadly balanced, with political factors playing a key role.

A priority at present is the submission of the Reform Agenda, a prerequisite for accessing the New Growth Plan for the Western Balkans, which could provide around €1 billion. It is hoped that Bosnia will successfully submit its comprehensive plan by the upcoming EU-Western Balkans Summit on December 18th.

Meanwhile, after maintaining a stable 2% inflation rate over the first five months, inflation further declined over the summer, closing Q3 at 0.8%, before inching up to 1% in October. Thus, the year-to-date (YTD) average inflation rate decreased significantly from 7.1% in the same period last year to 1.7% this year, which is also broadly estimated as the average for the full year 2024. Looking ahead, average inflation next year is anticipated to rise slightly to 1.8%, as clearer impacts from the so far muted effect of the electricity price hike in August begin to materialize.

Banking Sector

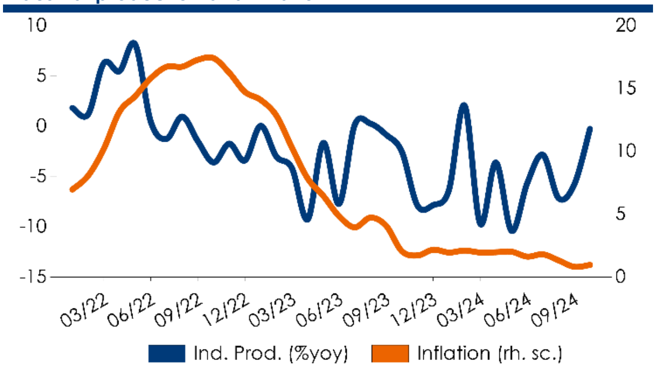
The latest October data show strong momentum of lending and deposit collection, with annual growth rates of 9% and near 10%, respectively. Buoyant household lending and continued sound economic growth are expected to keep on supporting healthy loan and deposit growth in 2025, albeit at milder pace of 5.1% yoy and 6.1% yoy, respectively.

Forecasts

	2023	2024	2025F	2026F
Real GDP yoy	1.9	2.3	2.7	3.0
CPI (eop)	2.2	1.7	2.0	2.0
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)	6.8	8.1	5.1	3.7
Bank deposits (pr. sector, yoy)	10.2	8.7	6.1	4.0
Lending int. rate (corp., eop)	3.94	n.a.	n.a.	n.a.
Deposit int. rate (hh, eop)	0.63	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

In line with high-frequency data, year-to-year GDP growth in this year's third quarter confirmed strong growth path of 3.9% (seasonally adjusted growth rate sped to 4.1% from 3.2% in the 2Q), placing Croatia at the forefront among the EU member states. Growth in (real) net wages, low unemployment and increase in the number of employed persons, accompanied by a slowdown in the inflation rate and lively lending activity, continued to support personal consumption, which recorded a growth rate of 5.5% in the 3Q, thus only slightly decelerating from the 6% recorded in the 2Q. The first available data for October reveal that real retail trade turnover increased year-on-year by 6.7% cal. adjusted, thus broadly keeping the pace from the preceding quarter, while at the same time, the Tax Admin data for November indicate the value of fiscalised invoices in retail trade increased by 9.7%. Looking forward, we expect continued support from private consumption in 2025, although at a slower pace, as this year's double-digit growth in wages is expected to moderate. In the 3Q, additional stimulus to domestic demand came also from government spending, with growth accelerating to 5.3%, attributable to strong growth in public-sector wages. At the same time, a strong increase was also recorded in investments (+9.2%), supported by EU-funded activity. Obviously, growth in domestic consumption pulled the import component, and imports increased by 3%, while on the other hand, exports finally, following five consecutive negative quarters, registered 1.5% growth with an increase in exports of goods (+6.0%) and a (continued) decline in exports of services (-1.8%). And while we expect to see further pick-up in the absorption of EU funds, investments' annual growth rate is expected to moderate following two years of exceptional double-digit growth, while a more moderate negative contribution is expected from net exports, which at the same time, pending recovery of major exports markets, represent a major downside risk to our FY25 +2.9% yoy growth call. Above the EA average growth, tight labour market, solid domestic demand and price convergence, will continue to keep average harmonised inflation in Croatia above the EA average in 2025 as well, as we see average HICP at around 3.3% following this year's est. 4.0%.

Financial Markets

Ana Lokin

The 10Y government bond yield spread on Bund averaged 70bps in November, with Moody's two-notch upgrade apparently already priced in. The YTD average spread of 90bps is seen declining to 70bps in 2025, while the average yield is expected to remain around 3.2%.

Banking Sector

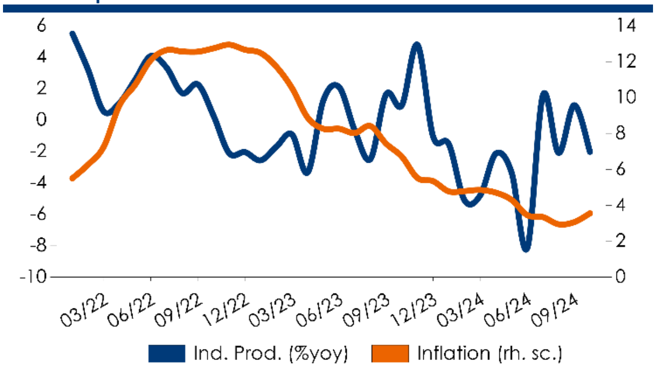
Loan growth is projected to ease in 2025 as household lending moderates following softer demand, as well as weaker inflationary pressures. At the same time, deposit growth is expected to decelerate owing to the slower wage growth, and a decline in savings interest rates.

Forecasts

	2023	2024	2025F	2026F
Real GDP yoy	3.3	3.6	2.9	2.6
CPI (eop)	5.4	3.9	2.7	2.3
Short-term rate (eop)	3.9	2.9	2.0	2.0
L/T bond yields (eop)	3.3	3.1	3.4	3.5
Bank loans (pr. sector, yoy)	8.0	8.5	3.7	2.5
Bank deposits (pr. sector, yoy)	3.5	3.6	2.8	2.6
Lending int. rate (pr. sec., eop)	5.2	4.6	4.0	4.0
Deposit int. rate (pr. sec., eop)	3.1	2.5	1.7	1.5

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 National Statistical Institute announced its first calculation of GDP growth in the third quarter 2024 at 0.1% QOQ and 1.1% yoy. These levels are lower than expectations and were driven by trade, administration and professional services, and showbiz activities. Agriculture and real estate transactions made negative contributions. In our opinion, 2024 GDP growth will be around +0.9% yoy.

yoy CPI at the end of October was 4.7%, higher than previous months. Harmonized yoy CPI at the end of October increased also at 5.0%. According to NBR latest projection (November), at the end of 2024 yoy inflation should increase to around 4.9% while re-entrance to the target band should occur in the 3rd or 4th quarter of 2025.

Unemployment decreased in October to 5.4%. The wages growth was still high at 13.8% yoy at the end of September, putting pressure on the labour market.

The budget deficit at the end of October came in at 6.19% of GDP. Taking into consideration the peculiarities of this year, and the already implemented increase in pensions and salaries, the budget deficit should reach around 8.0%. Further fiscal measures are needed. Economists expect possible increases in VAT, property taxes and introduction of gradual taxation on salaries.

The current account deficit at the end of September 2024 was 19.8 billion EUR, significantly higher than in the previous year.

Financial Markets

At the November 2024 Monetary Policy Meeting, the Romanian Central Bank kept unchanged the Monetary Policy Rates as follows: Deposit Facility Rate 5.50%, Reference Rate 6.50%, and Credit Facility Rate 7.50%. The next Monetary Policy Meeting is on the 15th of January.2025. We expect a similar decision in January.

EUR/RON exchange rate was stable around 4.97 - 4.98, despite political turmoil generated by elections, while Money Market rates have shown higher volatility – ROBOR went up as did implied Yields on FXSWAP market.

Banking Sector

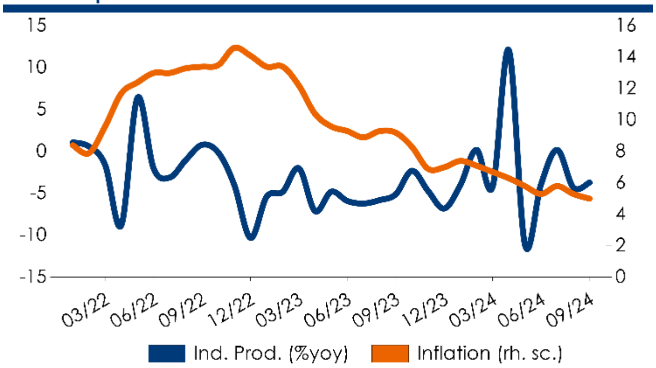
At the end of September 2024, yoy growth on loans was 6.14%, with a strong component on RON (9.21%), while EUR loans decreased 1.05%. On the deposits side the overall growth yoy was 9.46%, with the RON component at +13.63% and foreign currency deposits at +0.61%. The main growth in deposits was in the last quarter of 2023, while the 2024 evolution was only +3.01%.

Forecasts

	2023	2024	2025F	2026F
Real GDP yoy	1.9	0.9	2.8	3.1
CPI (eop)	7.0	5.0	3.5	2.5
Euro exch. rate (value, eop)	5.0	5.0	5.1	5.2
Short-term rate (eop)	6.3	7.0	4.8	4.0
L/T bond yields (eop)	6.6	6.9	6.1	6.1
Bank loans (pr. sector, yoy)	5.9	6.2	6.0	6.5
Bank deposits (pr. sector, yoy)	12.9	4.8	6.1	5.4
Lending int. rate (pr. sec., eop)	8.6	8.6	6.9	7.3
Deposit int. rate (pr. sec., eop)	5.6	4.9	3.4	2.6

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

Industrial production and inflation



Source: National Institute of Statistics

Serbia

Real Economy

Sanja Djokic

Real GDP grew by 3.1% yoy in 3Q24, in line with the previously published flash estimate. Statistical office marginally revised up data for 1Q and 2Q, due to recent annual GDP revision, bringing the 1H2024-GDP growth rate to 4.45%. Looking at the GDP components, private consumption maintained its role of the main GDP driver, accelerating by 3.9% yoy in 3Q (+2.5pp), supported by continued employment and real wages growth. Investments were 9.1% yoy higher, adding 2.2 pp to headline figure, while net exports made a strong negative contribution to GDP growth (-7.1 pp) as the increase in imports continued to outpace export growth. On the production side, the economic growth was determined by services (+2.3 pp), with all aggregates supporting the growth, except for agriculture (-0.5 pp). We keep our GDP growth projection at 3.8% yoy for 2024, with an expected acceleration to 4.2% yoy over 2025-2026 period, aided by the strong private consumption and the implementation of investments planned under the “Expo 2027” program. October’s yoy inflation touched NBS’ upper corridor bound of 4.5%, moving up from September’s 4.2%, while core inflation increased to 5.5% from 5.3%. Higher inflation is a consequence of the stronger negative effects of the drought on food prices as well as domestic demand pressures. NBS expects that the slowdown in inflation during next year will be supported by the still tight monetary conditions, lower imported inflation and a gradual slowdown in real wages’ growth. We forecast CPI will decline from 4.4% at end-2024 to 3.3% at end-2025 (averaging around 3.7%).

Financial Markets

The NBS kept the policy rate unchanged at 5.75% in November, for a second month in a row. Latest data for inflation has weakened chances for the additional rate cut at December’s meeting, while the pace of rate cuts is now expected to slow over next year. Meanwhile, in November the dinar strengthened by 0.1% against the euro on a monthly level and by 0.2% since the beginning of the year, marking the strongest performance of the dinar against the euro this year. During January-October, the NBS net bought a total of € 1,990mn to mitigate prevailing appreciation pressures on the local currency. Gross FX reserves hit a new record at end-October (€ 28.3bn), covering 7.2 months’ worth of the country’s goods and services imports.

Banking Sector

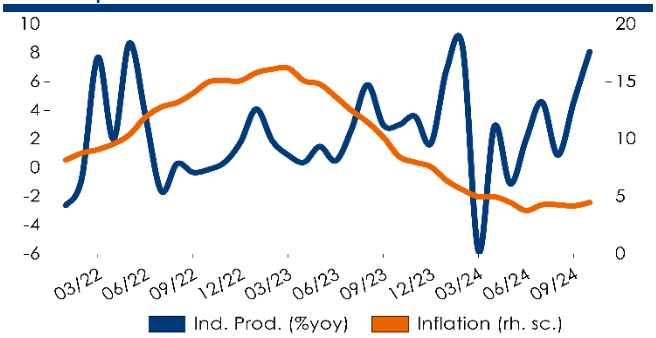
Demand for loans has started to recover visibly since 2Q24, with strong new lending growth in 3Q24 as well (Corporates +12.3% yoy, Households +48.6% yoy). Total private-sector loans continued to accelerate in October, growing 6.9% yoy (from 4.7% yoy in June). Loans to households accelerated to 9.1% yoy in October, owing to eased credit standards and banks’ promotional offers, while lending to corporates recorded growth of 5% yoy in October. As for deposits, they grew by 12.9% yoy in October, with Households and Corporates recording double-digit increases of 13.8% and 11.8%, respectively. Therefore, new expectations for growth in 2025 of both loans and deposits have been revised up (5.8% yoy for loans and 7.4% yoy for deposits). In September, the share of NPLs in total loans stood at 2.7%.

Forecasts

	2023	2024	2025F	2026F
Real GDP yoy	3.8	3.8	4.2	4.2
CPI (eop)	7.6	4.4	3.3	3.1
Euro exch. rate (value, eop)	117.2	117.1	117.2	117.4
Short-term rate (eop)	6.5	5.8	4.8	4.0
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	1.0	7.1	5.8	5.5
Bank deposits (pr. sector, yoy)	11.7	11.9	7.4	5.9
Lending int. rate (pr. sec., eop)	10.5	9.4	8.1	7.5
Deposit int. rate (pr. sec., eop)	5.7	4.3	3.2	3.0

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

Industrial production and inflation



Source: Statistical Office

Moldova

Real Economy

Doina Caraman

In light of the commencement of EU accession negotiations in June 2024, the economic recovery has progressed at a moderate pace. In the first half of 2024, GDP growth reached 2.2% yoy, primarily driven by sectors such as agriculture, manufacturing, and ICT services. A decline in inflation coupled with rising real wages has stimulated private consumption, while investment has increased due to more favourable economic outlooks. GDP growth is projected at 2.5% in 2024 and 3% in 2025. The expiration of the gas transit agreement through Ukraine at the end of 2024 poses significant risks to energy supply and growth. Progress with EU accession, on the other hand, has the potential to improve the business environment and attract investments.

Annual inflation was 5.3% yoy in October 2024, 0.1 pp higher than in September, and remained close to the 5.0% target. The recent increases in tariffs point to the risk of a higher-than-expected inflation trajectory over the next 3-4 months, but with no significant influence on inflation developments over the medium term.

Financial Markets

Successful disinflation allowed the National Bank to reduce the policy rate from 21.5% in August 2022 to 3.60% in December 2024, in order to stimulate the economy in the context of stabilizing inflation. Meanwhile, overnight loan rates and deposit rates have settled at 5.60% and 1.60%, respectively. The NBM has been also gradually reducing the reserve requirement that will enhance excess liquidity within the banking system, enabling banks to extend loans to individuals and businesses, as well as to invest in government securities. The 91-, 182-, and 364-day treasury bill yields fluctuated insignificantly, in terms of December 2024 vs. end-December 2023 levels, in line with the inflation trajectory and expectations.

Banking Sector

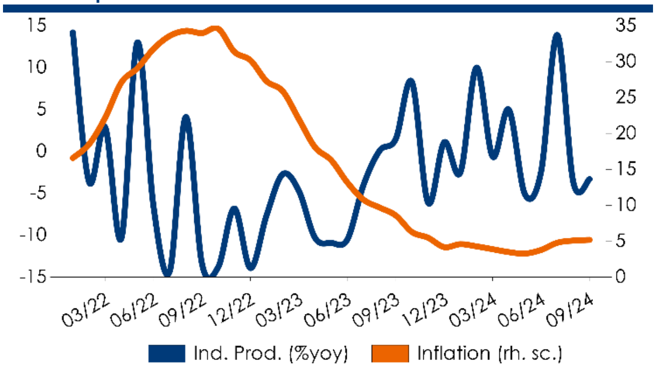
As of October 2024, the loan portfolio recorded a growth rate of 20.6%, primarily driven by households, which saw an increase of 29.2%, while corporate loans experienced a more modest growth of 15%. In contrast, deposit growth reached 17.8% yoy, with corporate deposits rising by 26.6% and household deposits increasing by 12.1%. For 2024, loan and deposit portfolio growth is projected at approximately 22.2% and 11.7%, respectively. In 2025, loan portfolio growth is expected to moderate slightly while still maintaining a double-digit growth trend. Meanwhile, deposit portfolio growth is anticipated to slow to 7.4% in 2025. Moreover, interest rates on loans and deposits are projected to decrease in 2024, with only a marginal increase anticipated in the following years.

Forecasts

	2023	2024	2025F	2026F
Real GDP yoy	0.7	2.5	3.0	3.3
CPI (eop)	4.2	5.7	4.6	5.1
USD exch. rate (value, eop)	17.8	18.1	18.4	18.6
Euro exch. rate (value, eop)	19.2	19.0	19.7	20.1
Short-term rate (eop)	4.8	3.6	4.5	5.0
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	3.7	22.2	16.4	14.2
Bank deposits (pr. sector, yoy)	19.9	11.7	7.4	6.6
Lending int. rate (corp., eop)	9.3	7.3	7.3	7.6
Deposit int. rate (hh, eop)	5.4	3.1	3.3	3.6

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

Francesca Pascali

Russian GDP grew by 3.1% yoy in 3Q24 (from +4.1% in 2Q24). Even considering this slowdown, in line with the forecast of the central bank, we decided to revise upward our estimate for 2024 GDP growth to 3.7% yoy (from 3.4% forecasted in September) and leave unchanged the forecast for 2025 and 2026. Domestic demand is supported by rising loans and incomes of households and businesses, as well as by increased tax expenditure. The upward deviation of the Russian economy from a balanced growth path is still significant. This is also evidenced by the current high inflationary pressures. The labour market remains tight. Unemployment is still at an all-time low. Labour shortages are increasing in many sectors. Wage growth continues to outpace labour productivity growth.

Financial Markets

At its meeting on 25 October, the Bank of Russia (CBR) decided to raise its key interest rate by 200 basis points to 21.0% per annum. A further tightening of monetary policy is necessary to ensure the return of inflation to target and reduce expectations. The Bank of Russia opened the prospect of raising the key rate. Inflation is significantly higher than the Bank of Russia's July forecast and expectations continue to rise. Growth in domestic demand is significantly outpacing the ability to expand the supply of goods and services. Over the medium-term horizon, the balance of inflation risks is still significantly tilted upwards. The main risks are associated with persistently high expectations and the upward deviation of the Russian economy from a balanced growth path, as well as deteriorating foreign trade conditions. The Bank of Russia takes into account the announced fiscal policy parameters.

Banking Sector

Davidia Zucchelli

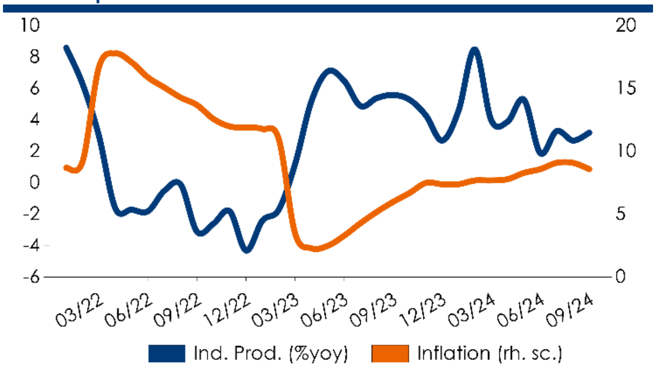
Loan growth remained strong in Russia (20.2% yoy in August) for both corporates (20.4% yoy) and households (19.7%). Total deposit growth from the private sector remained vigorous (22.7% yoy in September) in both the corporate (+26.6% yoy) and household sectors (+26.8% yoy). As highlighted by the central bank, the main growth in the corporates occurred in segments that are less sensitive to monetary tightening, namely project financing for housing construction and lending to investment projects launched earlier and implemented by large companies. However, it is expected that tight monetary policy will help slow the growth rate of corporate lending to more appropriate levels in 2025. Mortgage growth decelerated to 2.4% from 6.3% due to the termination of the extensive non-targeted government subsidised programme. Unsecured consumer lending also slowed to 3.4% from 5.9% amid tighter macroprudential regulation and higher interest rates. In Russia, deposits are forecast by ISP to rise strongly by 19.3% in 2024 and then to slow to 5.6% in 2025.

Forecasts

	2023	2024	2025F	2026F
Real GDP yoy	3.6	3.7	1.4	1.5
CPI (eop)	7.4	8.2	4.5	4.3
USD exch. rate (value, eop)	90.9	104.1	98.8	98.0
Euro exch. rate (value, eop)	90.9	111.1	104.9	106.3
Short-term rate (eop)	15.7	21.8	21.2	20.9
L/T bond yields (eop)	12.2	16.0	15.7	15.1
Bank loans (pr. sector, yoy)	24.2	16.2	5.4	5.2
Bank deposits (pr. sector, yoy)	23.4	19.3	5.6	5.3
Lending int. rate (corp., eop)	16.1	21.1	15.5	13.0
Deposit int. rate (hh, eop)	12.8	18.5	12.0	9.5

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

Real Economy

Artem Krasovskyi

The Ukraine's economic recovery remains ongoing, albeit with persistent challenges. The optimistic momentum observed in September-October 2024 on the back of improved agricultural exports and stable energy supply, was followed by a slower-than-expected recovery in exports and industrial output in November. Renewed Russian attacks on energy infrastructure has led to a resumption of widespread power outages in November-December. According to the NBU's survey, the index of business expectations declined to 47.2 in November, from 49.4 in October (which was still below the neutral level of 50 points though). Growing security risks, labour shortages and rising business costs for energy and logistics remain the key factors restraining the economy. The Ministry of Economy has preliminarily estimated GDP growth in October at 1.3% yoy (+4.2% yoy for the 10 months), worse than September's print of 3.8% yoy (+4.5% yoy for the nine months). However, the NBU has recently raised its economic growth forecast from 3.7% yoy to 4.0% for 2024, and from 4.1% to 4.3% for 2025. Inflation accelerated to 11.2% yoy in November (+1.9% mom), from 9.7% yoy in October, while core inflation rose to 9.3% yoy (+1.2% mom) from 8.3%. Inflation pace has been notably exceeding the NBU's expectations for several months in a row, and the acceleration of core inflation testifies the inflationary surge is increasingly taking on fundamental characteristics, driven by poorer harvests this year, energy shortages and growing devaluating expectations of the UAH rate. In November, Ukraine and the IMF agreed on the sixth review of the four-year Extended Fund Facility arrangement, which, if approved by the IMF Executive Board, paves the way for disbursing another USD 1.1Bn by year-end.

Financial Markets

The NBU raised its key policy rate by symbolic 50bps to13.5% at the MP meeting in December and flagged an increasingly hawkish posture amid ramping inflation. The move took place after three consecutive times the rate remained flat and thus has heralded the potential return to monetary easing is off the table for the nearest future. The USDUAH faces elevated pressure in late November - early December, having lost some 1.5% over two weeks and nearly tapping 42 UAH per USD. In November, the NBU sold USD 2.7Bn to stabilise the FX market and curb inflationary pressure, after USD 3.4Bn sold in October. However, the NBU FX reserves grew by 9.1% in November from USD 36.6Bn to USD 39.9Bn, aided by as much as USD 6.5Bn of financial support provided by the international partners, after the scant USD 1.4Bn received in October.

Banking Sector

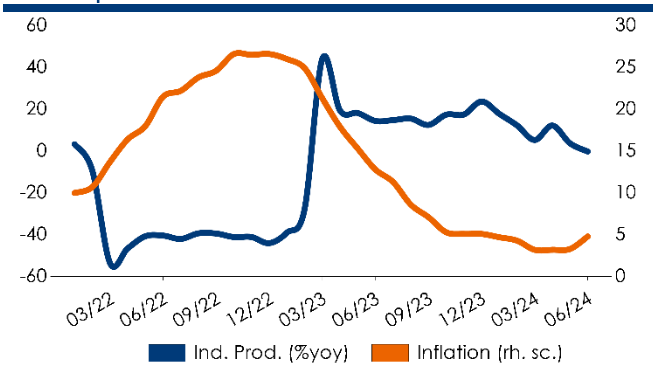
The Ukrainian banking sector remains stable and with surplus liquidity. Banks earned UAH 38.6Bn in 3Q24 (-1.2% qoq and -8.6% yoy), still demonstrating good profitability thanks to high operational efficiency and low provisioning. UAH loans continued to grow (+1.1% mom and +0.2% mom in September and October), driven by a further decline in interest rates. The UAH deposits also resumed growth after a short respite in August (+0.8% mom and +1.9% mom in September and October).

Forecasts

	2023	2024	2025F	2026F
Real GDP yoy	5.3	3.8	4.0	4.7
CPI (eop)	5.1	10.5	7.5	5.0
USD exch. (value, eop)	36.5	42.0	43.5	44.0
Euro exch. rate (value, eop)	40.5	44.2	46.6	47.6
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)	-0.3	10.1	4.0	3.8
Bank deposits (pr. sector, yoy)	26.7	9.1	4.9	4.8
Lending interest rate (pr.sect., eop)	20.7	18.8	16.5	14.0
Deposit interest rate (pr.sect , eop)	10.4	8.8	7.5	6.3

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

Real growth declined to 2.4% during FY 2024 against 3.8% one year earlier. This trend is likely to reverse in FY 2025, supported by declining inflation and lower cost of borrowing, which would boost industrial activities. The inflation rate is still expected to decline in 2025 to an average 24.6%, positively impacted by the base year effect and relatively stable FX market. However, this rate was upwardly revised against September's scenario on the back of rising energy prices as part of the government plan to gradually phase out its subsidies, and the forecasted moderate depreciation of the Egyptian Pound.

Financial Markets

Policy rates are projected to decline in 2025 in accordance with anchored inflation expectations and lower growth of money supply, registering 22.6% yoy in October 2024 against its peak in February (49.2%). Money Market rates is expected to follow a similar path in 2025 after rising to 31.4% in December.

After adopting a free-float exchange rate regime in March 2024, the FX market was supported by two opposing forces: (1) Positive: Soaring FDIs, particularly the USD 35Bn Ras El Hekma Deal, and portfolio investments, in addition to the recovery of remittances (remittances of Egyptians working abroad during the first nine months of 2024 recorded a substantial growth of 42.6% yoy, registering approximately USD 20.8Bn) and higher tourism revenues (official projections estimated revenue growth of 7- 8% yoy by the end of 2024). It's also important to mention the financial assistance received from international partners, including the IMF and the EU. (2) Negative: High trade deficit, declining gas exports and Suez Canal revenues, where ships transiting the canal dropped almost 70% yoy, and high medium- and long-term external debt service, hovering around USD15Bn in FY 2024 and FY 2025. These developments have led the banking sector's Net Foreign Assets to move into positive territory after running a deficit for months and contained fluctuations in the EGP exchange rate. However, a stronger US Dollar (affected by President Trump's protectionist policies) might trigger capital outflows and result in a moderate depreciation of the local currency.

Banking Sector

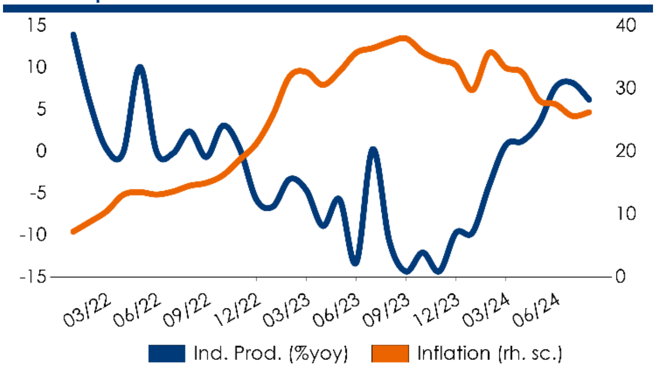
Annual growth of both private loans and deposits is expected to renormalize in 2025, reaching 10.8% and 14.6% respectively. Egypt's banking sector is still recording a sound performance, reflected in the following indicators as of March 2024: CAR (18.1%), NPLs (2.6%) and ROAE (32.2%). Fitch Ratings has raised the Long-Term Issuer Default Ratings of four banks operating in Egypt, following the recent upgrade of the country's sovereign rating, to be B/Stable from B-/Positive.

Forecasts

	2023	2024	2025F	2026F
Real GDP yoy	2.9	3.2	4.1	4.3
CPI (eop)	33.7	25.0	22.0	10.8
USD exch. rate (value, eop)	30.9	50.0	54.0	56.0
Euro exch. rate (value, eop)	33.7	52.6	57.8	60.5
Short-term rate (eop)	25.7	31.1	22.5	18.0
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	22.1	17.3	10.8	9.5
Bank deposits (pr. sector, yoy)	18.5	27.3	14.6	11.0
Lending int. rate (corp., eop)	19.5	27.4	19.5	16.0
Deposit int. rate (hh, eop)	14.2	22.4	15.8	12.9

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]		
		3Q24	2Q24	2023	Last	mth	3Q24	Last	mth	3Q24	Last	mth	3Q24	Last	mth	3Q24	Last	mth	3Q24	Last	mth	3Q24	Last	mth	3Q24
CEE	Czechia	1.3	0.9	-0.1	0.8	Sep	0.1	9.7	Aug	12.5	6.1	Sep	6.2	2.8	Oct	2.3	3.8	Oct	3.8	5.4	Sep	6.3	95.2	Nov	97.6
	Hungary	n.a.	1.3	-0.9	-7.2	Sep	-6.0	-5.0	Sep	-1.9	1.7	Sep	2.7	3.2	Oct	3.5	4.5	Sep	4.3	13.1	Aug	13.5	96.7	Oct	98.7
	Poland	2.7	3.2	0.1	-0.3	Sep	1.2	-7.0	Sep	-4.1	-3.0	Sep	1.3	5.0	Oct	4.5	4.9	Oct	5.0	10.2	Oct	10.7	99.1	Nov	102.0
	Slovakia	1.2	2.0	1.4	2.5	Sep	2.9	-3.8	Aug	-0.5	4.3	Sep	3.6	3.1	Oct	2.7	4.9	Oct	5.0	5.0	Sep	5.8	92.0	Nov	99.3
	Slovenia	1.4	0.7	2.1	-0.4	Sep	1.4	12.8	Sep	19.5	0.9	Oct	1.2	1.6	Nov	1.1	4.4	Sep	4.5	3.4	Sep	3.8	97.0	Nov	96.9
SEE	Albania	n.a.	4.1	n.a.	n.a.	n.a.	n.a.	-15.2	Oct	-12.9	n.a.	n.a.	n.a.	1.9	Sep	2.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Bosnia H.	n.a.	2.2	1.9	-0.2	Oct	-4.9	7.0	Oct	-1.4	0.9	Sep	2.8	1.0	Oct	1.3	27.5	Sep	27.8	9.3	Sep	9.5	n.a.	n.a.	n.a.
	Croatia	3.9	3.5	3.3	-2.0	Oct	0.5	-5.4	Aug	n.a.	7.3	Oct	7.1	4.0	Nov	3.1	4.7	Oct	4.7	14.4	Sep	14.5	106.2	Nov	107.2
	Romania	1.1	0.9	n.a.	-3.7	Sep	-2.6	-1.4	Sep	1.9	10.3	Sep	8.8	5.0	Sep	5.4	5.5	Sep	5.5	13.8	Sep	14.1	103.4	Sep	103.4
	Serbia	3.1	4.0	3.8	8.1	Oct	3.4	4.4	Oct	2.0	3.4	Oct	4.7	4.5	Oct	4.3	n.a.	n.a.	n.a.	13.0	Sep	14.0	n.a.	n.a.	n.a.
EE & MENA	Moldova	n.a.	2.1	0.7	-3.3	Sep	2.3	-19.3	Sep	-13.6	-5.6	Dec	n.a.	5.4	Nov	5.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Russia	3.1	4.1	3.6	4.8	Oct	3.1	-3.7	Aug	n.a.	4.8	Oct	5.9	8.9	Nov	8.9	2.3	Oct	2.4	8.4	Sep	8.1	49.5	Sep	49.5
	Ukraine	n.a.	3.7	5.3	-0.2	Jun	n.a.	13.6	Sep	12.4	15.2	Jun	n.a.	11.2	Nov	7.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Egypt	n.a.	2.4	2.9	6.2	Aug	7.2	-7.2	Aug	1.7	n.a.	n.a.	n.a.	25.5	Nov	26.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	49.0	Oct	48.8
	m.i. E. A.	*0.9*	*0.6*	*0.4*	*-2.8*	*Sep*	*-1.7*	*0.6*	*Sep*	*2.4*				*2.0*	*Oct*	*2.2*									

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		L/T rates1		Foreign exchanges2			Stock markets		CDS spread (bp)		FX res. chg (mln €)3			CA bal. (mln €)4		Rating
		11/12	3M*	11/12	3M*	11/12	3M*	1Y*	3M*	1Y*	27/11	27/8	3Q24	2Q24	2023	3Q24	2Q24	Moody's
CEE	Czechia	4.0	-0.5	4.0	0.3	25.08	-0.05	2.84	10.0	22.3	28.1	28.1	n.a.	n.a.	n.a.	n.a.	3,850.0	Aa3
	Hungary	6.5	0.0	6.5	0.2	410.94	3.63	7.78	12.2	41.4	112.0	112.0	n.a.	n.a.	n.a.	n.a.	n.a.	Baa2
	Poland	6.0	0.1	5.7	0.4	4.27	-0.47	-1.63	3.1	7.0	67.7	67.3	n.a.	n.a.	n.a.	n.a.	5,676.0	n.a.
	Slovakia	2.9	-0.6	3.0	-0.2	n.a.	n.a.	n.a.	0.2	-3.0	29.1	27.1	n.a.	n.a.	n.a.	-1,378	-582.0	A2
	Slovenia	2.9	-0.6	2.8	-0.1	n.a.	n.a.	n.a.	4.3	35.4	32.7	34.5	28	111	18	1,223	738.4	A3
SEE	Albania	2.7	n.a.	n.a.	n.a.	98.24	-1.34	-3.40	n.a.	n.a.	n.a.	n.a.	n.a.	-117	n.a.	n.a.	-216.0	n.a.
	Bosnia H.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	158	268	115	n.a.	-251.6	n.a.
	Croatia	0.4	0.0	2.8	-0.2	7.53	0.00	0.00	7.4	31.2	81.5	75.6	9	208	-24,997	n.a.	-1,197.4	A3
	Romania	5.8	0.4	7.1	0.3	4.97	-0.14	-0.07	0.4	15.7	171.5	129.6	n.a.	499	n.a.	n.a.	-12,176.0	Baa3
	Serbia	5.8	-0.3	n.a.	n.a.	116.96	-0.03	-0.19	3.6	30.4	173.7	166.9	773	2,565	5,493	-2,168	-798.9	Ba2
EE & MENA	Moldova	3.6	0.6	5.2	n.a.	18.23	5.07	1.96	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	70.3	B3
	Russia	24.7	0.0	15.1	0.0	104.07	17.7	16.34	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	WR
	Ukraine	12.8	0.0	23.7	-0.9	41.69	1.31	12.98	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-1,459	-6,093.0	Ca
	Egypt	30.9	1.3	11.3	0.0	50.64	4.68	63.75	0.8	15.2	551.1	693.1	353	6,023	1,217	n.a.	-3,711.1	Caa1
	m.i.A.E.	*2.9*	*-0.6*	*2.1*	*0.1*	*1.0*	*-4.7*	*-2.4*	*2.0*	*8.9*	*4.06*	*4.06*						

Source: Refinitiv; [1]For Ukraine, the long-term rate refers to a government issue in dollars; [2]The (-) sign indicates appreciation; [3]USD for Russia, Egypt, Ukraine, Romania; [4]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	2023	Last	mth	2023	Last	mth	2023	Last	Mth	2023	Last	mth	2023	S[4]	Last	mth	2023	S[4]	Last	mth	2023
CEE	Czechia	5.7	Sep	6.6	1.7	Sep	1.7	17.7	Sep	15.8	7.1	Sep	7.5	6.0	Sep	8.2	C	3.6	Sep	5.7	H	70.4	Sep	70.4
	Hungary	5.3	Sep	3.3	2.0	Jun	2.0	7.2	Sep	16.8	7.0	Sep	0.3	11.0	Sep	12.4	C	4.7	Sep	7.7	H	82.7	Sep	80.6
	Poland	3.2	Oct	-2.5	2.3	Jun	n.a.	n.a.	Sep	n.a.	7.0	Oct	10.5	7.6	Sep	7.8	C	4.2	Sep	4.6	H	66.0	Oct	67.1
	Slovakia	1.7	Sep	3.4	2.0	Sep	2.0	8.3	Sep	25.9	5.7	Sep	4.6	5.2	Sep	5.8	C[2]	n.a.	Sep	n.a.	H[2]	105.8	Sep	107.0
	Slovenia	1.3	Oct	-0.5	1.0	Sep	1.0	1.6	Oct	21.9	3.9	Oct	5.5	5.3	Sep	5.6	C[2]	1.6	Sep	1.3	H[2]	62.1	Oct	60.6
SEE	Albania	11.9	Sep	3.7	4.6	Sep	4.7	21.7	Sep	5.3	2.4	Sep	1.6	5.5	Sep	5.6	PS	2.8	Sep	2.3	PS	60.0	Sep	56.0
	Bosnia H.	9.0	Oct	6.8	3.5	Jun	3.8	29.6	Oct	-15.6	9.7	Oct	10.2	4.0	Oct	3.9	C	1.1	Oct	0.6	H	88.6	Oct	88.5
	Croatia	9.0	Oct	8.0	2.5	Sep	2.6	21.1	Oct	-13.6	3.0	Oct	3.5	4.7	Oct	5.2	PS	2.8	Oct	3.1	PS	70.2	Oct	66.6
	Romania	7.5	Sep	5.9	2.6	Aug	2.3	11.3	Sep	19.0	9.5	Sep	12.9	8.0	Sep	8.6	PS	4.9	Sep	5.6	PS	68.6	Sep	66.6
	Serbia	6.9	Oct	1.0	2.7	Sep	3.2	1.0	Oct	-5.8	12.9	Oct	11.7	9.6	Oct	10.5	PS	4.3	Oct	5.7	PS	80.0	Oct	81.1
EE & MENA	Moldova	20.6	Oct	3.7	4.7	Oct	5.6	0.7	Jul	n.a.	17.8	Oct	19.9	7.4	Oct	9.3	C	3.1	Oct	5.4	H	60.1	Oct	56.1
	Russia	20.2	Aug	24.2	n.a.	Sep	n.a.	n.a.	Oct	n.a.	22.7	Aug	23.4	19.0	Aug	16.1	C	16.6	Aug	12.8	H	120.6	Aug	121.0
	Ukraine	12.3	Oct	-0.3	32.3	Sep	37.4	13.2	Oct	-2.6	17.8	Oct	26.7	18.8	Oct	20.7	PS	8.8	Oct	10.4	PS	44.7	Oct	43.4
	Egypt	27.0	May	22.1	2.6	Mar	3.0	50.5	Sep	33.9	31.1	Sep	18.5	25.4	Sep	19.5	C	20.0	Sep	14.2	H	36.1	May	36.7
	m.i. E. A.	*0.61*	*Aug*	*0.6*	*n.a.*	*n.a.*	*n.a.*	*-4.7*	*Aug*	*1.2*	*4.2*	*Aug*	*1.5*	*4.7*	*Sep*	*5.2*	*C*	*3.0*	*Sep*	*3.3*	*H*	*73.0*	*Aug*	*74.5*

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)	2022	2023	2024	2025F	2026F	Inflation (%, avg)	2022	2023	2024	2025F	2026F
CEE	Czech Rep.	2.9	-0.1	1.0	2.5	2.4	Czech Rep.	15.1	10.8	2.4	2.3	2.0
	Hungary	4.6	-0.9	0.6	2.0	3.1	Hungary	14.5	17.6	3.7	3.8	3.4
	Poland	4.9	0.1	2.6	3.1	2.6	Poland	14.3	11.6	3.7	4.5	2.6
	Slovakia	0.4	1.4	2.0	1.4	2.5	Slovakia	12.8	10.5	2.8	3.8	2.9
	Slovenia	2.7	2.1	1.6	2.5	2.4	Slovenia	9.3	7.2	1.9	2.1	2.1
SEE	Albania	4.8	3.3	3.5	3.3	3.4	Albania	6.7	4.8	2.2	2.9	3.0
	Bosnia Herzegovina	3.7	1.9	2.5	3.0	3.0	Bosnia Herzegovina	14.0	6.1	1.8	2.0	2.0
	Croatia	7.3	3.3	3.4	2.9	2.6	Croatia	10.7	8.4	3.9	3.3	2.5
	Romania	4.9	1.9	0.9	2.8	3.1	Romania	12.1	9.8	5.8	3.8	2.8
	Serbia	2.6	3.8	3.8	4.2	4.2	Serbia	11.9	12.1	4.7	3.7	3.3
EE & MENA	Moldova	-4.5	0.7	2.5	3.0	3.3	Moldova	28.6	14.0	4.6	4.9	4.1
	Russia	-2.1	3.6	3.7	1.4	1.5	Russia	13.8	6.0	8.3	6.6	4.2
	Ukraine	-28.8	5.3	3.8	4.0	4.7	Ukraine	20.1	13.4	6.5	9.1	5.5
	Egypt	4.3	2.9	3.2	4.1	4.3	Egypt	13.8	33.8	28.7	24.6	15.9

Markets

	Exch.rate (avg Euro)	2022	2023	2024	2025F	2026F	Interest rate (%, avg)	2022	2023	2024	2025F	2026F
CEE	Czech Rep.	24.6	24.0	25.1	25.1	24.0	Czech Rep.	6.3	7.1	5.0	3.3	3.1
	Hungary	391.1	381.8	395.5	407.5	406.5	Hungary	9.9	14.3	7.3	5.9	4.8
	Poland	4.7	4.5	4.3	4.5	4.5	Poland	5.9	6.4	5.8	4.9	3.9
	Slovakia	n.a.	n.a.	n.a.	n.a.	n.a.	Slovakia	0.3	3.4	3.6	2.1	2.0
	Slovenia	n.a.	n.a.	n.a.	n.a.	n.a.	Slovenia	0.3	3.4	3.6	2.1	2.0
SEE	Albania	118.9	108.4	100.9	100.9	115.2	Albania	1.3	3.1	3.0	3.0	3.2
	Bosnia Herzegovina	2.0	2.0	2.0	2.0	2.0	Bosnia Herzegovina	n.a.	n.a.	n.a.	n.a.	n.a.
	Croatia	n.a.	n.a.	n.a.	n.a.	n.a.	Croatia	0.2	3.4	3.6	2.1	2.0
	Romania	4.9	4.9	5.0	5.1	5.1	Romania	6.2	6.6	6.1	5.8	4.1
	Serbia	117.5	117.3	117.1	117.2	117.3	Serbia	2.6	6.1	6.1	5.0	4.2
EE & MENA	Moldova (USD)	18.8	18.2	17.7	18.3	18.5	Moldova	16.9	9.5	3.8	4.3	4.8
	Russia (USD)	68.3	85.2	92.7	106.1	92.4	Russia	11.9	9.4	18.0	21.5	21.1
	Ukraine (USD)	32.3	36.8	40.1	42.9	43.7	Ukraine	n.a.	n.a.	n.a.	n.a.	n.a.
	Egypt (USD)	19.2	30.7	45.3	52.5	55.0	Egypt	14.5	23.1	27.9	25.5	20.0

Banking aggregates (% change yoy)

	Loans (pr. sector)	2022	2023	2024	2025F	2026F	Deposits (pr. sector)	2022	2023	2024	2025F	2026F
CEE	Czech Rep.	4.5	6.6	5.3	4.5	4.2	Czech Rep.	4.2	7.5	6.4	3.9	4.0
	Hungary	11.6	3.3	5.2	4.9	5.0	Hungary	2.5	0.3	4.3	4.3	4.3
	Poland	0.2	-2.5	3.8	4.8	4.5	Poland	5.6	10.5	5.3	5.2	5.0
	Slovakia	10.4	3.4	2.5	4.6	4.5	Slovakia	5.9	4.6	5.5	4.9	4.6
	Slovenia	9.8	-0.5	3.9	3.2	2.5	Slovenia	7.8	5.5	2.6	2.6	2.7
SEE	Albania	6.9	3.7	10.4	5.6	3.4	Albania	4.8	1.6	3.6	3.5	3.4
	Bosnia Herzegovina	5.3	6.8	8.1	5.1	3.7	Bosnia Herzegovina	3.2	10.2	8.7	6.1	4.0
	Croatia	11.2	8.0	8.5	3.7	2.5	Croatia	15.0	3.5	3.6	2.8	2.6
	Romania	11.2	5.9	6.2	6.0	6.5	Romania	6.7	12.9	4.8	6.1	5.4
	Serbia	6.5	1.0	7.1	5.8	5.5	Serbia	6.9	11.7	11.9	7.4	5.9
EE & MENA	Moldova	9.3	3.7	22.2	16.4	14.2	Moldova	5.4	19.9	11.7	7.4	6.6
	Russia	11.8	24.2	16.2	5.4	5.2	Russia	11.0	23.4	19.3	5.6	5.3
	Ukraine	-4.4	-0.3	10.1	4.0	3.8	Ukraine	25.1	26.7	9.1	4.9	4.8
	Egypt	28.4	22.1	17.3	10.8	9.5	Egypt	27.4	18.5	27.3	14.6	11.0

Banking interest rates (%)

	Lending (Corp. avg)	2022	2023	2024	2025F	2026F	Deposits (HH avg)	2022	2023	2024	2025F	2026F
CEE	Czech Rep.	7.6	8.6	6.6	4.9	4.2	Czech Rep.	5.0	6.0	4.3	3.1	2.8
	Hungary	8.3	12.3	11.2	6.0	4.1	Hungary	6.6	11.6	5.4	3.3	2.1
	Poland	7.5	8.5	7.6	5.1	3.7	Poland	4.4	5.6	4.2	2.9	2.1
	Slovakia	n.a.	4.3	5.2	2.5	2.1	Slovakia	n.a.	1.4	1.0	0.4	0.3
	Slovenia	1.9	4.6	5.4	3.4	3.0	Slovenia	0.1	0.8	1.4	0.6	0.5
SEE	Albania	6.4	5.9	5.6	5.6	5.9	Albania	1.2	2.1	2.7	2.9	2.8
	Bosnia Herzegovina	3.2	3.7	n.a.	n.a.	n.a.	Bosnia Herzegovina	0.3	0.5	n.a.	n.a.	n.a.
	Croatia	2.6	4.7	5.0	4.0	4.0	Croatia	0.2	2.4	3.0	1.8	1.6
	Romania	8.0	9.4	8.4	7.7	7.2	Romania	5.3	6.0	5.2	4.3	2.7
	Serbia	8.0	11.6	10.4	8.5	7.7	Serbia	4.0	5.8	4.8	3.6	3.1
EE & MENA	Moldova	10.6	11.3	7.8	7.3	7.5	Moldova	7.0	9.8	3.6	3.2	3.5
	Russia	11.5	11.6	18.8	21.0	15.2	Russia	7.6	7.6	16.5	17.7	11.6
	Ukraine	18.6	22.1	19.6	17.2	14.5	Ukraine	7.4	12.3	9.2	8.2	6.7
	Egypt	10.6	17.8	24.4	21.5	17.2	Egypt	8.4	12.7	19.3	17.4	13.5

Source: Intesa Sanpaolo Research Department forecasts

Appendix

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