

## Economic and Banking Outlook

### Viewpoint

Our analysis predicts moderate economic growth, with declining inflation and interest rates. Geopolitical tensions are likely to hinder global expansion in the near term, with a controlled recovery in CEE, SEE, EE and Egypt. We expect that continuing disinflation and the more accommodating policies from central banks will stimulate economies.

#### ■ Macroeconomic scenario

##### □ Economic growth

The CEE, SEE and EE regions, along with Egypt, are progressing towards moderate recoveries, driven by the resilience in key economies and targeted fiscal measures. The CEE region's GDP growth accelerated to 1.2% in 1Q24. The SEE region showed significant growth, with Croatia and Serbia performing strongly. In the EE region, Russia's GDP grew by 5.4% yoy in 1Q24. Future GDP growth in these regions is expected to be moderate due to previous monetary restrictions. The CEE area is projected to grow by 2.4% in 2024 and 2.9% in 2025, SEE by 2.6% in 2024 and 3.2% in 2025, and EE by 3.4% in 2024 and 2.0% in 2025.

##### □ Inflation

Disinflation is expected to continue, with pressures subsiding but remaining above target levels, especially where wage growth is significant. In CEE, inflation has moderated due to lower energy prices and favourable statistical base effects. SEE faces higher inflation due to strong wage dynamics. In Russia, inflation has risen again, driven by geopolitical tensions. Forecasts indicate a gradual decline in inflation, with CEE at 2.9%, SEE at 4.2%, and EE at 6.9% in 2024, with all moving closer to their targets in 2025.

##### □ Monetary policies

Central banks in CEE, SEE and EE are shifting towards more accommodative policies as inflation pressures decline. This includes lowering policy rates to support economic growth, with strategies tailored to each country's conditions. For example, the Czech Republic reduced its rate to 5.25%, while Hungary and Poland are expected to follow with decreases to 6.25% and 5.25%, respectively, by the end of 2024. These adjustments aim to stimulate economic activity and manage inflation expectations.

#### ■ Banking aggregates

##### □ Loans

Divergent loan growth trends are observed across the regions. CEE's lending slowdown is influenced by past economic downturns and regulatory tightening, while SEE is experiencing accelerated corporate lending, driven by economic improvements. Loan growth in CEE is projected to reach 3.9% in 2024, mainly driven by Poland's recovery. SEE loan growth is expected at 4.7% in 2024, with a strong performance in Croatia. In EE, Russia's loan growth remains robust due to state subsidies and high investment demand.

##### □ Deposits

A surge in deposits across all regions indicates precautionary saving amid the economic uncertainties. This trend reflects a collective response, aimed at safeguarding assets against an unpredictable economic backdrop. CEE deposits grew by 6.9% yoy in March 2024, SEE by 10.4% and Russia surged by 31%. The projected deposit growth for CEE is 3.7% in 2024 and 4.8% in 2025, and for SEE is 6.9% in 2024 and 6.1% in 2025.

#### ■ Conclusions and perspectives

Looking forward, we expect the global economic landscape to evolve, with continued moderate growth and easing inflation. Central banks are likely to persist in their efforts to balance monetary policies to support the economic recovery. The banking sector is positioned to navigate the complexities of varying regional economic conditions and will focus on maintaining stability and fostering growth through strategic lending and deposit initiatives. An emphasis on resilience and adaptability will be crucial in shaping the economic trajectory in the coming months.

June 2024

Countries with ISP subsidiaries

Quarterly Note

Research Department

International Research Network

Giovanni Barone

Head of International Research Network

International Research Team

## Contents

<b>Recent developments</b>	<b>3</b>
<b>The international outlook</b>	<b>5</b>
<b>The economic outlook</b>	<b>6</b>
Growth and inflation	6
Monetary policy and financial markets	6
Banking aggregates and interest rates	7
<b>Country-Specific Analysis</b>	<b>9</b>
Czech Republic	9
Hungary	10
Poland	11
Slovakia	12
Slovenia	13
Albania	14
Bosnia and Herzegovina	15
Croatia	16
Romania	17
Serbia	18
Moldova	19
Russia	20
Ukraine	21
Egypt	22
<b>Country Data: Economy, Markets and Banks - the economic cycle</b>	<b>23</b>
<b>Country Outlook</b>	<b>24</b>



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

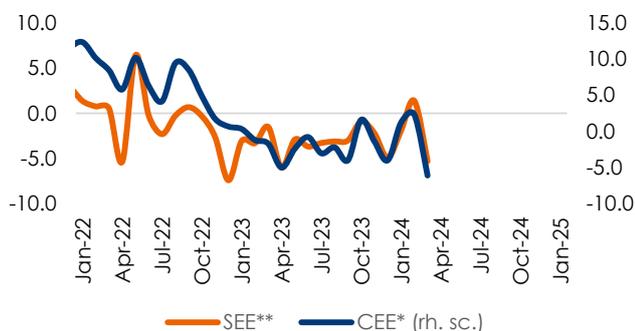
On a quarterly basis, the GDP of the CEE area in 1Q24 increased by 0.5% qoq (weighted average), vs 0.2% growth in the previous quarter. GDP growth in the CEE region accelerated to 1.2% in 1Q from 1.1% in the previous one. Based on the specifics of each country in the region, and within a rather wide range, in 1Q24 a positive economic trend was evident in Hungary (1.1%), Poland (1.4%), Slovakia (2.7%) and Slovenia (2.1%), while in the Czech Republic the GDP dynamic remained in negative territory (-0.3%). The higher contribution to annual GDP growth was provided by private and public consumption. Despite the still weak external landscape, foreign net demand contributed positively to GDP growth, while the effect of gross capital formation remained negative. For 1Q24, among the countries in the SEE area, only data relating to Croatia (3.9% yoy), Romania (0.1% yoy) and Serbia (4.7%) are currently available.

The latest releases of high-frequency economic indicators are still mixed, but generally point to a positive, although still weak, cyclical phase in the coming quarters. In March, in the CEE area, **industrial production** contracted by 6.1% yoy from +2.3% yoy in the previous month (on a weighted average basis [w.a.]) and the **real retail sales** trend remained positive (4.6% in March), albeit slightly lower than the previous month (5.8%). In March, **nominal export** dynamics remained negative (about -14% yoy) due to slowing prices. A similar figure was observed in the SEE region, where industrial production contracted further in March (-5.3% yoy), but real retail sales grew by 3.7% yoy. In May, the **Economic Sentiment indicator** improved in the CEE region with respect to 1Q24 (to 99.2 from 98.8) and remained around 86 in the SEE area.

Albeit with variations by country, **inflationary pressures** are cooling in the CEE and SEE area. However, the trend in consumer prices is still above the central targets of national banks, with upside risks, as the Russia-Ukraine war, conflict in the Middle East and geopolitical fragmentation may fuel international tensions. Aggregating the data (w.a.), due to weakening energy prices, favourable base effects – and in some cases, to the strength of national currencies – harmonized inflation was 3.1% in the CEE region and 5.7% in the SEE area.

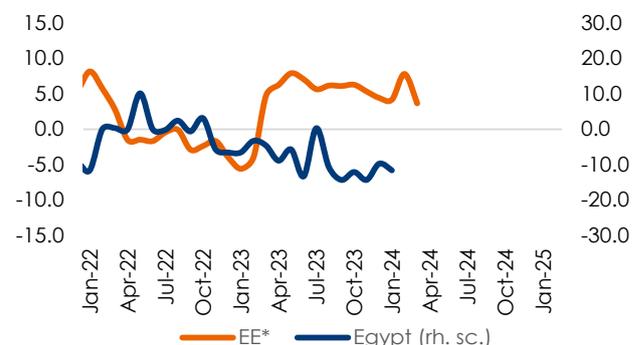
At their most recent meetings, the Czech Republic central banks reduced their **policy rates** to 5.25%, while the Hungarian and Polish national banks held their rates steady at 7.25% and 5.75%, respectively. In their last meetings, the central banks of Albania, Romania and Serbia kept their policy rates at 3.25%, 7.0% and 6.5%, respectively. In the financial markets, **long-term yields** increased in several CEE and SEE countries vs. three months ago and spreads grew vs. 10Y Bund yields. Due to geopolitical tensions relating to the conflicts in Ukraine and the Middle East, and concerns about the economic implications, particularly for those countries more exposed to energy imports, national currencies depreciated in 1Q24 but some recovery has been observed in recent months.

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

Antonio Pesce, Francesca Pascali, Davidia Zucchelli

The high frequency indicators are mixed, but surveys still point to a positive cyclical phase in the coming months

Consumer prices are decelerating, and the core component is also cooling

Czech Republic's CB eased monetary policy further. Temporary pauses in monetary easing in the other countries

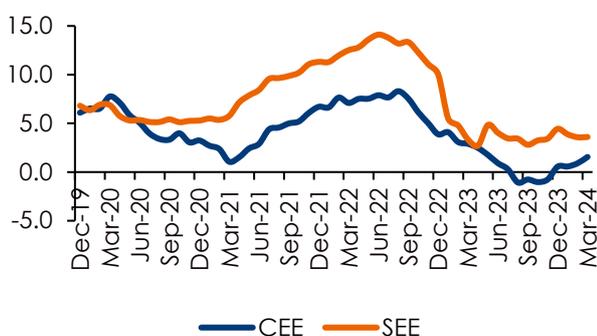
Outside the CEE/SEE regions, **EE countries** continued to grow despite the pitfalls arising from geopolitical tensions. In 1Q24, **GDP** increased by 5.4% yoy (from 4.9% in 3Q23) in **Russia** and by 4.7% yoy in 4Q23 (from +9.6% in 3Q23) in **Ukraine**; it grew in 4Q23 by 0.2% (from 4.2% in 3Q23) in **Moldova**. In **Egypt**, GDP grew by 2.3% yoy in 4Q23 (2.7% in 3Q23). Moving to high-frequency indicators, in April, **industrial production** grew (by 3.9% yoy) in Russia (from 4.0% in March), Moldova (-0.6% in March), and in Ukraine (+22.6% in December 2023). In Egypt, it decreased by 11.6% in January vs a decrease of 9.7% in December. In April, **retail sales** increased in Russia by 8.3% (vs +11.1% in March), and in December they grew by 19.9% in Ukraine (vs +23.9% in November). In Russia, **consumer prices** decelerated from April 2022 to May 2023, but from July, they began to rise again (7.8% in April 2024), up to the CB targets (4.0%). In April, prices rose in Ukraine to 3.2% (unchanged from March). In Moldova, in April the CPI was 3.5% vs 3.9% in March. In Egypt, inflation rose by 32.5% in April, down from the +33.3% of March, but still well above the upper end of the CB's corridor ( $7\% \pm 2\%$ ).

With regard to **banking aggregates**, **lending growth** continued to be supported in March by the macroeconomic context improving slightly and declining interest rates. Loans increased by 1.6% yoy vs 0.9% yoy in February in **CEE countries** and accelerated marginally from 4.5% yoy to 4.6% yoy in **SEE countries**. The improvement involved all countries in the region, with the exception of Slovakia, where lending rose by 2.58% in March from 2.91% y/y. Particularly strong was the recovery in Poland, where lending narrowed its decline from -2% to -1% y/y in March, thanks to the gradual unwinding of the drop in loans to households denominated in foreign currency. Loans to the private sector accelerated further in all SEE countries but especially in Croatia and Bosnia, which increased by 7.8% yoy and 8.2% yoy respectively as of March. **Lending accelerated in both institutional sectors** in the CEE, but was particularly strong in the **corporate segment**, where the average rose from -0.2% y/y in February to 1.3% y/y in March. The largest contribution came from Poland and Slovenia, where the aggregate strengthened while staying in negative territory (-2.2% and -3.6% y/y in March from -4.7% and -5% y/y in February, respectively). In SEE countries, corporate lending slowed only in Romania from 6.3% yoy in February to 5.1% yoy in March, accelerating in all other countries. **NPL ratios** have remained low everywhere so far. There are no signs of liquidity tensions in general. Only in Slovakia did the **loan/deposit ratio** remain over 100%. Higher wages and precautionary motives continued to support **deposit growth** in both the CEE (+6.9% yoy in March) and SEE (10.4%) areas, in nominal terms. **Banking interest rates** decreased in almost all countries (especially in Hungary). In the **EE area**, loan growth remained strong in Russia (23.2% yoy in February), for both corporates (23.3% yoy) and households (23.1%). In Moldova, the loan performance (+6.7% yoy in March) was moderate for corporates (1.6% yoy) and robust for the household sector (15.4% yoy, accelerating gradually in the last year). Total deposit growth from the private sector remained vigorous (from 31% yoy in February in Russia), in both the corporate (+36.7% yoy) and household sectors (+26% yoy). In **Egypt**, banking aggregates saw continued strong dynamics in nominal terms, with loans increasing by 22.1% yoy (in December, last available data) and deposits by 24% in March (but changes were in negative territory in real terms).

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

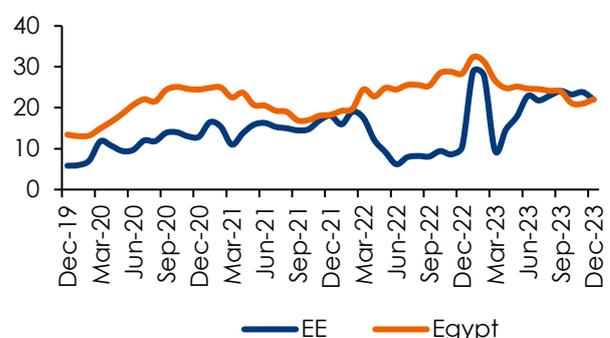
**Bank loans accelerating slightly**

**Lending growth (% yoy chg, weighted averages)**



Source: ISP Research Department elaboration on central banks' data

**Lending growth (% yoy chg, weighted averages)**



Source: ISP Research Department elaboration on central banks' data

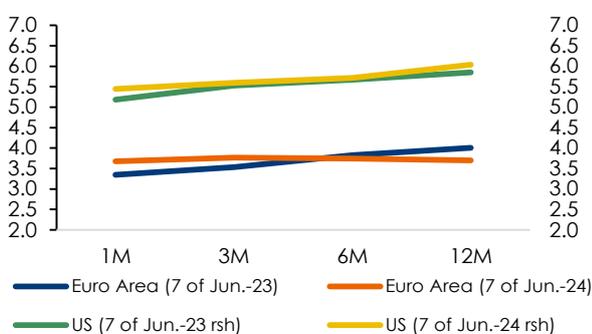
## The international outlook

**Global economic growth** (3.2% in 2023) is expected to remain at 3.2% in both 2024 and 2025 (IMF, WEO April 2024), in line with the January WEO, due to a slight acceleration in advanced economies — where growth is expected to rise to 1.7% in 2024 and 1.8% in 2025 — offset by a modest slowdown in emerging market and developing economies — from 4.3% in 2023 to 4.2% in both 2024 and 2025. The forecasts for 2024-2025 remain, however, lower than the historical average (2000-2019, 3.8%) reflecting both the high policy rates by central banks, because of previous monetary policy restrictions to fight inflation, and the withdrawal of fiscal support amid high public debt. Inflation is falling in most regions thanks to the backdrop of resolving supply-side issues and tight monetary policy. Global inflation is forecast to decline from 6.8% in 2023 to 5.9% in 2024 and 4.5% in 2025, with advanced economies returning to their inflation targets sooner than emerging markets (April 2024 WEO). **The risks to global growth** remain broadly balanced. On the positive side, faster disinflation could lead to further easing of financial conditions, and less restrictive fiscal policy than assumed in the projections could imply temporarily higher growth. On the downside, new increases in commodity prices due to geopolitical shocks — including continued attacks in the Red Sea — and supply interruptions in the global value chain or more persistent underlying inflation could lead to tight monetary conditions for a longer period than expected. Strong tax increases and significant cuts in public spending, as well as worsening difficulties in the real estate sector in China, could also undermine economic growth.

**Global economic growth is steady, but at risk among regions**

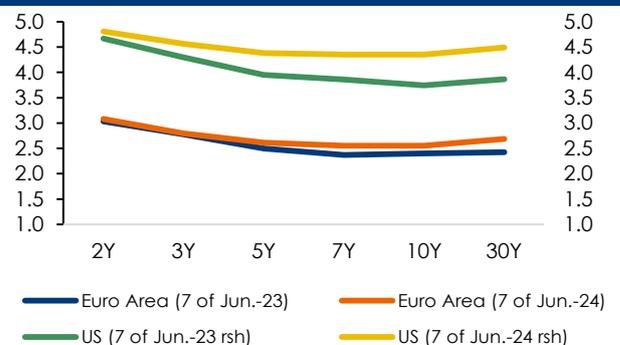
In the **US**, the GDP dynamic is expected to decelerate from 2.5% in 2023 to 2.2% this year, slightly downwardly revised from 2.3% in the Intesa Sanpaolo (ISP) March scenario, and then to 1.8% in 2025. The annual inflation rate in the US eased to 3.4% in April 2024 from 3.5% in March, which was the highest reading since September. The Federal Reserve kept the target range for the federal funds rate unchanged at 5.25%-5.50% during its May meeting for the sixth consecutive time, as ongoing inflationary pressures and a tight labour market indicate stalling progress in bringing inflation back down to its 2% target this year. The ISP Research Department expects the policy rate to fall to 5.00% by end-2024 (upwardly revised from March scenario). In the **Euro Area**, despite the expansionary fiscal policies implemented through the PNRR at national level, ISP forecasts that GDP growth for the full year will remain weak in 2024 (0.6%), although higher than that of 2023 (0.5%), and then strengthening to 1.3% in 2025. The war in Ukraine and tighter monetary policy are still weighing on the economic dynamic. The annual inflation rate in the Euro Area rose for the first time in five months to 2.6% in May 2024 from 2.4% in each of the previous two months. It is expected to decrease slightly in the coming months, and the end-of-period level is projected to be 2.3% in 2024. The European Central Bank began monetary loosening at its June meeting, lowering the policy rate by 25bp to 4.25% (deposit rate to 3.75%). At ISP, we expect the deposit rate to reach 3.25% by eop in 2024. Among **emerging countries**, China's GDP growth has been revised downwards with respect to the March scenario at 4.7% in 2024 and 5.0% in 2025. Overall, for the Emerging and Developing Economies, economic performance is expected to remain relatively robust (about 4.2% in WEO projections for 2024-25).

**Benchmark monetary rates (US and EA rates)**



Source: ISP elaboration on Refinitiv-Datastream data

**Yield curves (US bonds and German Bunds)**



Source: ISP elaboration on Refinitiv-Datastream data

## The economic outlook

### Growth and inflation

Looking ahead, we expect **GDP in the CEE and SEE areas** to continue recovering in the coming months, albeit at a relatively modest rate due to the previous monetary restrictions implemented by policy authorities, which are weighing on the financing conditions of economic agents.

Our new baseline projects GDP growth in the CEE area at 2.4% yoy in 2024, and this was confirmed with respect to the March scenario. The GDP dynamic in the SEE area has been confirmed too (2.6%), thanks to the positive path in all countries and especially in Croatia. The forecasts for the following year have been increased slightly in CEE (2.9% from 2.7%) and confirmed in SEE (3.2%).

The prevailing **risks to the outlook** are broadly balanced. On one hand, inflation could be more persistent than expected given the wars in Ukraine and the Middle East could escalate, and tighter global financing conditions could hamper economic recovery. On the other, without further frictions in the international landscape, the base effects could lead to stronger than expected disinflation and therefore further easing of financial conditions.

**Inflation** is projected to decline, even if remaining above central banks' targets in most cases in both the CEE and SEE regions — particularly in those countries where wage dynamics have strengthened significantly. The inflation forecasts for 2024 have been roughly confirmed (at 2.9% in the CEE area and at 4.2% in the SEE area in the end of period data 2024) and are expected to move closer to CB targets in the following year.

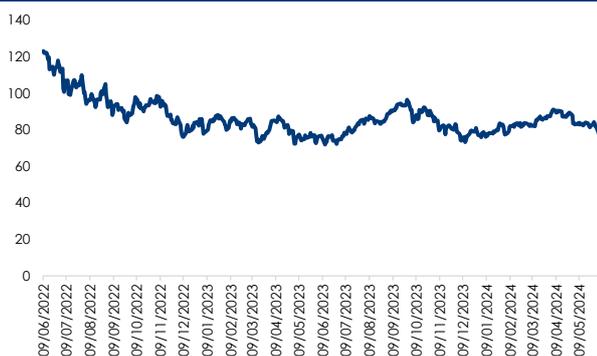
Due to better-than-expected data, GDP growth forecasts for the **EE** region have been revised upwards. For Russia, it was raised to +3.4% in 2024 from +1.9% projected in March; we have left 2025 numbers unchanged. For Ukraine, estimates were lowered to +3.3% from +3.9% in 2024 and to +5.4% from +5.7% in 2028. Estimates are also lowered for Moldova for 2024 (+2.5 from +4.1%). Price pressures are expected to grow in Russia, Ukraine and Moldova. In Russia, where inflation began to accelerate again from June 2023, it is expected to reach the CB's targets in 2027. For **Egypt**, we lowered our GDP growth estimate to 3.5% from 3.9% in March for calendar year 2024 and we left it unchanged at 4.1% for 2025. Inflation is expected to fall to 25.1% by year-end 2024, and to 15.0% in 2025. It is not expected to move back to the CB's target before 2028.

**GDP forecasts for 2024 have been confirmed on a recovery path, even if still weak**

**Risks to our forecasts continue to be balanced**

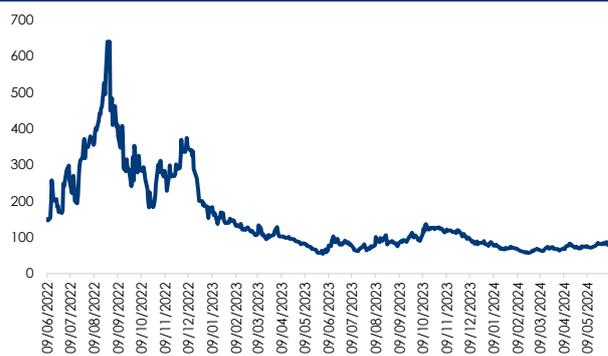
**Inflationary pressures are expected to continue declining, but to remain above CB targets in the coming months in most CEE and SEE countries**

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



Source: Refinitiv-Datastream

### ICE-NATURAL GAS (Therm £)



Source: Refinitiv-Datastream

### Monetary policy and financial markets

At its meeting in September 2023, the Board of the National Bank of Poland began to ease monetary policy, followed by the Hungarian National Bank, which started monetary easing in October and the Czech Republic in December. As inflationary pressures are declining, in our baseline scenario, reductions in policy rates should continue in the coming months albeit at a more rapid rate than in the March scenario. In **Hungary**, where the policy rate is currently 7.25%, we expect to see 6.25% at year-end 2024 (upwardly revised from the March baseline). In **Poland**,

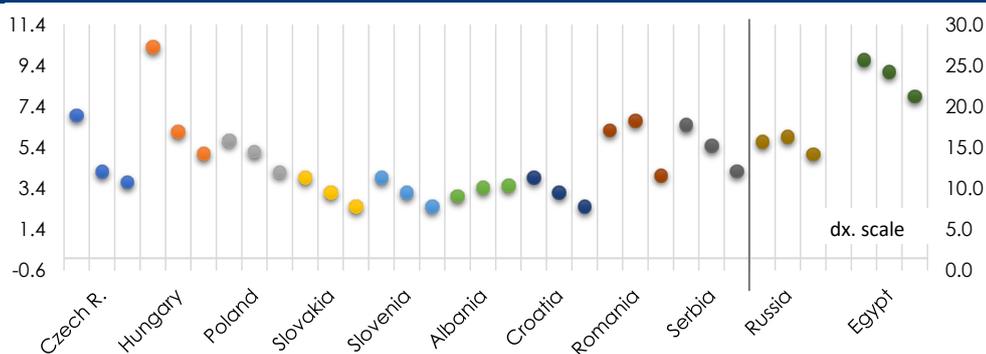
**The policy rate decreasing cycle is expected to continue but more rapidly than in the previous scenario**

we expect the policy rate to decline to 5.25% eop in 2024 (upwardly revised with respect to the March scenario). The **Czech Republic's** national bank is expected to lower the rate to 4.0% by year-end. In **Romania**, the policy rate is expected to reach 6.25% (upwardly revised) by year-end 2024. For **Albania**, we expect the policy rate to remain at 3.25% through end-2024. For **Serbia**, the projections are 5.5% and 4.25% at year-end 2024 and 2025, higher than the March scenario. Money market rate projections have been revised accordingly.

Outside the CEE/SEE regions, due to a new phase of large-scale structural transformation of the Russian economy, **Russia's CB**, after six policy rate increases, has left the policy rate unchanged at 16% since December 2023. The central bank anticipated its tightening cycle last year and is now adopting a very restrictive monetary stance (with the policy rate much higher than current and expected inflation). For 2024, we raised our estimates for the CBR's key rates from the March forecast due to the high level of inflation and structural budget deficit. We also raised them for 2025 and 2026. In **Moldova**, the central bank has lowered its refinancing rate three times since January to the actual 3.6% (from 4.75%) due to the declining inflation trend. In **Ukraine**, the CB decided to reduce the key interest rate from 15% to 14.5% in March and to 13.5% in April. The further decline in inflation, stable currency market conditions and positive developments in the external assistance outlook suggest an early resumption of the interest rate policy easing cycle is possible. In **Egypt**, after the rise of 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%. The CBE emphasises that the anchoring of inflation expectations is crucial and justifies this response to bring the real interest rate into positive territory. Also, the elimination of the parallel foreign exchange market should dampen inflationary expectations, contain underlying inflation and, as a result, overall inflation should follow a path of steady deceleration in the medium term. However, upside risks to the expected inflation path include regional geopolitical tensions, expected volatility in international commodity markets and the state of global financial conditions.

The profiles for **long-term yields** have been revised slightly upwards overall across the forecast horizon with respect to our March 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 2024 and 2025.

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



Source: ISP Research Department forecasts

#### Banking aggregates and interest rates

Forecasts for banking aggregates have been revised slightly by ISP for many countries for 2024, mainly because of recent monthly performances which have been better than expected in both the CEE and the SEE regions. Specifically, **stronger lending** data for March and the economic context explain the revisions to our lending estimates for 2024, particularly regarding the SEE countries. Similarly, **deposit forecasts** have been revised slightly upwards in 2024 and substantially confirmed for the following years. On the assets side, banks are benefiting from low ratios of non-performing loans and high regulatory capital. **Funding tensions** could increase in some countries,

**Lending is still expected to recover in 2024**

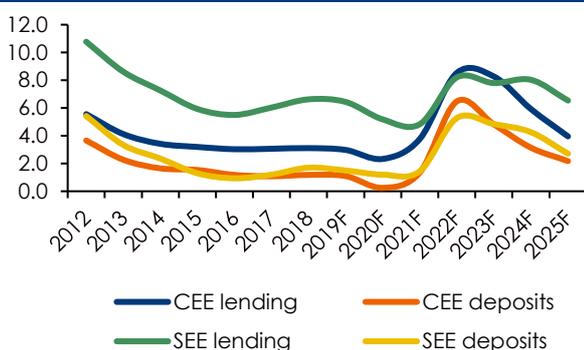
mainly in Slovakia and Russia, where LTD ratios are very high. In general, however, banks can rely on granular and stable funding bases and conservative liquidity buffers to weather heightened volatility risks. They may count on broad bases of core, sticky domestic deposits and have a moderate reliance on market-sensitive institutional or external funding. Furthermore, **loan/deposit ratios** are generally low. However, revisions to policy rates and moderately higher NPLs and provisions could have negative impacts on interest margins and profitability.

**Loan growth** is forecast to increase in 2024 by 3.9% in the CEE and 4.7% in the SEE countries. Among CEE countries, the loan recovery in Poland (from -2.5% to 4.3% in 2024) will drive the regional average. In the SEE area, both Romania and Croatia are expected to stabilize (to 4.5% yoy in 2024, lower than expected in March, and to 7.4%, much higher than expected, respectively). Lending will be 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 last few months in many countries. NPLs are expected to rise, as indicated by current Stage 2 exposures (source: EBA), specifically where the increase in real interest rates – and the associated rise in private sector debt servicing costs – has been particularly sharp. Taxes will weigh on bank activity particularly in Romania.

**In the CEE area**, lending is expected to accelerate in 2024 to 3.9%, driven mainly by Poland (from -2.5% in 2023 to 4.3% in 2024), and in Slovakia where lending has been revised downwards from 4.6% forecast in March to 4%. In Slovakia, the tightening of the countercyclical capital buffer from 1% to 1.5% (from August) is expected to weigh on lending. In Slovenia as well, a better-than-expected performance in the last few months prompts a revision from 1.6% seen in March to 3.3% in 2024. The new economic landscape will also affect lending in **the SEE countries** (4.7%, revised downwards slightly because of Romania's deceleration, in 2024). Croatia is expected to remain the best performer in the area (from 8% in 2023, to 7.4% in 2024).

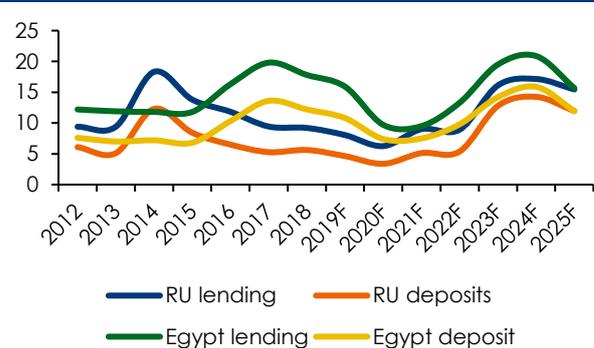
**In the EE area**, a much stronger-than-expected performance in the first part of the current year required a further lending revision to 10.1% in Russia (by +2pp vs the March forecast). **Deposit forecasts** have been revised upwards in both the CEE (from 7.8% in 2023, thanks to a better-than-expected performance in Hungary and Slovenia to 3.7% in 2024) and the SEE (from 10.8% to 6.9% in 2024) countries. On the other hand, uncertainties about the economy and the evolution of the war could support deposit growth, due to prudence. In Russia, deposits are forecast to rise strongly from 29.1% in 2023 and then by 9.9% in 2024. In **Egypt**, loans and deposits are expected to decelerate from 22.1% and 18.5%, respectively, in nominal terms in 2023 to 13.2% and 15.2% in 2024 (strongly revised upwards because of the pound's depreciation).

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

We are keeping our outlook broadly unchanged, projecting a relatively smooth recovery in 2024 after the recession in 2023. However, we expect the recovery to be quite slow and we do not expect the Czech economy to show a return to potential growth until 2025. In 2024, growth will be due almost exclusively to the revival in household consumption, while investments and net exports will not start contributing positively to real GDP growth until next year. Fiscal policy will also significantly dampen GDP growth this year, mainly due to the consolidation package, while in 2025 this will likely have a roughly neutral effect.

In 1Q24, private consumption saw a strong rebound, manifested in a 2.1% real increase yoy, a massive improvement after the two-year long 2% yoy average contraction. The revival of consumer spending relies on inflation plunging and allowing real wage growth to rebound to positive territory. The labour market, meanwhile, is forecast to remain tight, with an EU-low unemployment rate, which is also supporting consumer confidence.

#### Financial Markets

The Czech National Bank (CNB) has been one of the most active central banks in Europe, moving interest rates speedily on the way up and now also on the way down. Since December 2023, it has cut rates at each of its policy meetings, by a cumulative 175bps as at May 2024. Rates will continue be cut going forward, albeit at a slower pace than hitherto as inflation is foreseen to hover slightly above the CNB target rate of 2% in the months ahead. By the end of 2024, we see a further 125bps easing in total, which would bring the two-week repo rate to 4.0%, from 5.25% now and a 7.0% peak last year. A further 50bps easing is pencilled in for 2025, the same as was foreseen in the March scenario. In terms of the currency, we maintain our forecast of a slight appreciation from the temporarily weaker levels against the euro caused by the narrowing interest rate differential.

#### Banking Sector

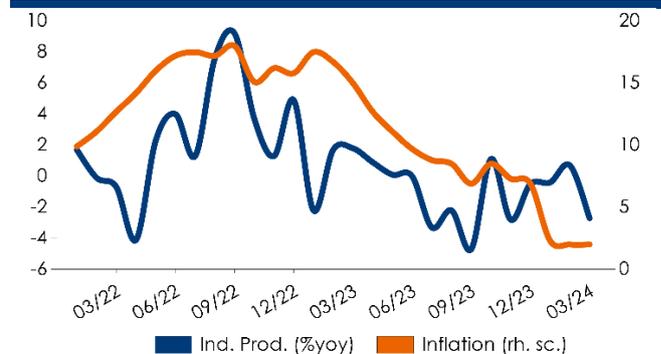
In the banking market, we continue to foresee balanced growth in both loans and deposits, slightly above 4% yoy, which would keep the loan-to-deposit ratio at a comfortable level of 71%. In terms of mortgage lending, the CNB has reaffirmed the standing macroprudential limits, keeping active only the LTV limit at 80% (90% for applicants under 36 years of age). The DSTI and DTI indicators were deactivated a while ago. We note that the CNB announced a further lowering of the countercyclical capital buffer to 1.25% from 1 July. The aggregate amount of capital reserves has nonetheless been maintained as it also set the systemic risk capital buffer at 0.5%, effective 1 January 2025, in order to strengthen the banking sector's resistance to systemic risks.

#### Forecasts

	2022	2023	2024F	2025F
Real GDP yoy	2.4	-0.3	1.4	2.6
CPI (eop)	15.8	6.9	2.3	2.0
Euro exch. rate (value, eop)	24.3	24.5	24.4	24.0
Short-term rate (eop)	7.3	7.0	4.2	3.7
L/T bond yields (eop)	4.8	4.0	4.2	4.4
Bank loans (pr. sector, yoy)	4.5	6.6	4.3	4.5
Bank deposits (pr. sector, yoy)	4.2	7.5	4.1	4.1
Lending int. rate (corp., eop)	9.0	8.2	4.7	3.7
Deposit int. rate (hh, eop)	6.0	5.7	3.2	2.3

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

#### Industrial production and inflation



Source: Czech Statistical Office

## Hungary

### Real Economy

1Q24 real GDP growth confirmed the ongoing economic recovery, but also suggested that it is not yet broad-based. This year household consumption will be the key engine of growth, supported by improving labour market conditions, rising real wages and strengthening confidence. However, investments will remain weak. On the production side, the industrial sector is still being weighed down by weak demand, though growth may gain some momentum in 2H, in line with the Eurozone recovery. The fast disinflation trend broke in April, and headline CPI picked up to 4% in May. Inflation is likely to fluctuate in a relatively wide range in the remaining part of the year, and average 2024 CPI could be slightly above 4%. The 3% central bank target is not likely to be met in a sustainable manner until 2H25. The labour market has stabilised, mirroring the pick-up in activity. Demand for labour is expected to strengthen in the upcoming period and the unemployment rate is set to gradually retreat to below 4%. The persistent shortage of skilled labour will keep nominal wage growth above inflation. The country's external balances remain strong and the C/A could post yet another surplus this year. The fiscal situation is more challenging though, and reaching the 4.5% deficit target might be impossible without additional measures.

### Financial Markets

The central bank continued its cautious easing cycle, with the base rate having been reduced by a cumulative 1,075bps to 7.25% by May. The NBH will continue to pursue a prudent, cautious and data-driven monetary policy. The expected interest rate trajectory of the major central banks and the fragility of the FX rate will significantly reduce the room for manoeuvre in 2H, with the policy rate now expected to finish the year above 6%. The HUF remains extremely sensitive to shifts in global risk sentiment and negative domestic news. This, along with the gradually decreasing interest rate differential, is hindering any meaningful appreciation. The central bank, however, will not tolerate a major depreciation either. Therefore, the EUR/HUF could trade in the 385-400 range in 2H.

### Banking Sector

Loans in the banking sector grew by only 1.3% over the first four months of 2024, driven by the weakening of the HUF in corporate loans and the pick-up of the housing loan market in households. Customer deposits increased by 4.5%, mostly driven by the household sector, where the 13th month extra pension and large government bond interest payments boosted deposit volumes. In the corporate deposit market, the growth rate was only 1.0% in the same period. With subdued economic growth and still relatively high interest rates, loan volumes may grow by about 2% in 2024, and we expect the same rate of growth in the deposit market as the increase in the household sector is expected to slow.

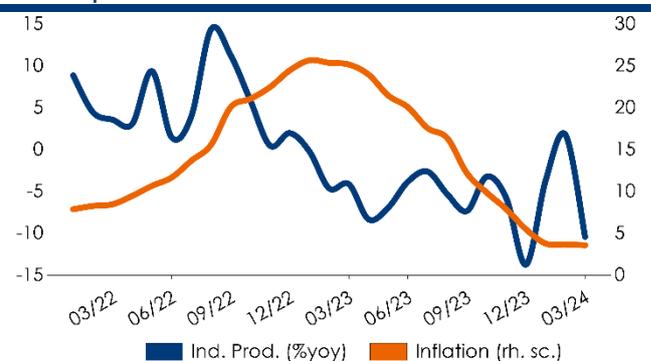
### Forecasts

	2022	2023	2024F	2025F
Real GDP yoy	4.6	-0.9	2.5	3.2
CPI (eop)	24.5	5.5	5.2	3.4
Euro exh. rate (value, eop)	407.2	381.8	389.3	385.5
Short-term rate (eop)	16.1	10.3	6.2	5.1
L/T bond yields (eop)	8.6	6.2	6.6	6.1
Bank loans (pr. sector, yoy)	11.6	3.3	1.9	5.3
Bank deposits (pr. sector, yoy)	2.5	0.3	2.2	4.5
Lending int. rate (corp., eop)	11.5	12.4	7.9	4.7
Deposit int. rate (hhs, eop)	12.3	7.7	3.9	2.7

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

Mariann Trippon

### Industrial production and inflation



Source: Hungarian Central Statistical Office

## Poland

### Real Economy

We maintain our outlook for 2024, foreseeing real GDP increasing by 2.7% on the back of recovering consumer demand. The trend of households regaining their real purchasing power and their willingness to spend was upheld in 1Q GDP data. We see strong consumer spending ahead, despite inflation likely picking up due to the expiration of inflation-shielding measures. Public consumption has also contributed to the recent growth as the government is running a higher deficit than last year.

In terms of investments, 1Q data confirmed rather slow activity, the result of the payback in EU-funded projects following the rush to spend the funds from the previous programming period late last year. Nonetheless, there remains a good chance of investments recovering in the later part of the year and in 2025 when RRP funds will be utilised in full. In regard to exports, we are now a bit more positive than we were three months ago as we are seeing tentative signs of an improvement in the German manufacturing sector and the Eurozone in the second half of 2024.

### Financial Markets

The National Bank of Poland (NBP) pre-empted the decline in inflation with an early policy adjustment of 100bps in the autumn of 2023. Since then, the NBP has held rates steady at 5.75%, arguing that inflation risks persist and noting the concurrent bold wage demands. NBP president Adam Glapinski, meanwhile, even ruled out any easing in 2024, pointing instead to mid-2025.

We remain of the view that rates will be cut this year overall, if by less than foreseen back in March. In March, we forecast a 75bps easing by the end of 2024; we now project a 50bps cumulative easing instead. For the end of 2025, we nonetheless maintain our forecast that the policy rate will be 4.0%.

In terms of the currency outlook, we maintain our previous view, projecting a broadly stable zloty at about 4.50 vs. the euro. We also largely maintain our yield forecasts.

### Banking Sector

In the banking market, we expect loan volume growth to recover in 2024 as the economy starts recovering and the past easing of financial conditions passes through to borrowers. After surprising on the upside in 2023, deposits are likely to return to the previously established pace of growth, which was more aligned with projected loan growth. The loan-to-deposit ratio of the Polish banking sector is thus expected to remain around its recently improved and very comfortable level of 67%.

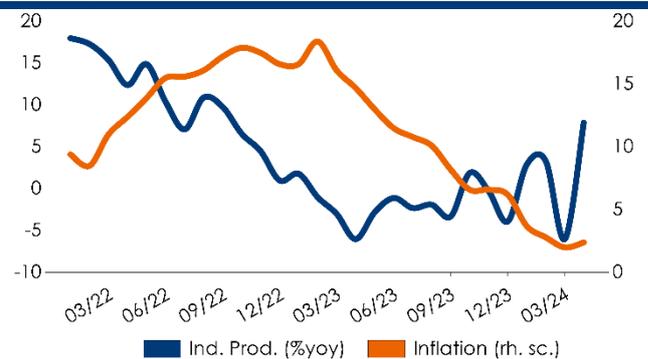
#### Forecasts

	2022	2023	2024F	2025F
Real GDP yoy	4.9	0.1	2.7	3.1
CPI (eop)	16.6	6.2	2.6	3.1
Euro exch. rate (value, eop)	4.7	4.3	4.5	4.5
Short-term rate (eop)	7.0	5.8	5.2	4.2
L/T bond yields (eop)	6.6	5.2	5.3	5.5
Bank loans (pr. sector, yoy)	0.2	-2.5	4.3	4.8
Bank deposits (pr. sector, yoy)	5.6	10.5	3.8	5.2
Lending int. rate (corp., eop)	8.7	7.8	6.4	4.1
Deposit int. rate (hh, eop)	6.5	4.6	3.4	2.3

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

Zdenko Štefanides

#### Industrial production and inflation



Source: Statistics Poland

## Slovakia

### Real Economy

Slovakia's GDP posted positive +0.7% qoq growth in 1Q24, despite our expectations of a slowdown due to the base effect, with strong EU funds drawing at the end of 2023. The growth was due to stronger household spending, as well as government consumption. In addition, both European and local sentiment indicators continued to improve during April and May, which may result in even stronger aggregate demand during the rest of the year. This leads us to revise our 2024 GDP estimate upwards to 2%, with a further acceleration expected next year, as the situation in local industry and exports is projected to improve significantly. The labour market could thus remain very tight, with the unemployment rate staying close to an all-time low and wages growing swiftly yoy, at least in 2024. Together with much-lower inflation, this means that real wages should add as much as 5% in purchasing power this year, on average. The average net real wage has already topped the pre-inflation high of 2021 and increased tax bonuses for children are further boosting households' spending power. In regard to inflation, the CPI rate probably reached its low in April at 2.1% and will have to go higher by January 2025 due to the expected liberalisation of natural gas and heating prices. Nevertheless, the growth in real wages should continue.

Michal Lehuta

### Financial Markets

The European Central Bank decided to cut its key rates for the first time since 2019 in early June, in line with market expectations. However, its further moves remain unclear as the inflationary pressures in the euro area have not dissipated completely; core inflation stepped up to 2.9% in May and negotiated wages accelerated again in 1Q24. However, we still expect inflation pressures to ease in the coming months and therefore the ECB could cut rates again in September and December. This could move interbank rates further down, although longer-term rates may remain at current levels as benchmark 10Y government bond yields, currently around 3.7%, may slightly increase. With the risk premium still high compared to Germany, S&P and Fitch recently confirmed Slovakia's credit rating at previous levels. A Moody's assessment is expected in June, but with its already negative outlook, this may be less positive and it could bring the rating down by one notch due to the lack of a credible path towards lowering the public finance deficits.

### Banking Sector

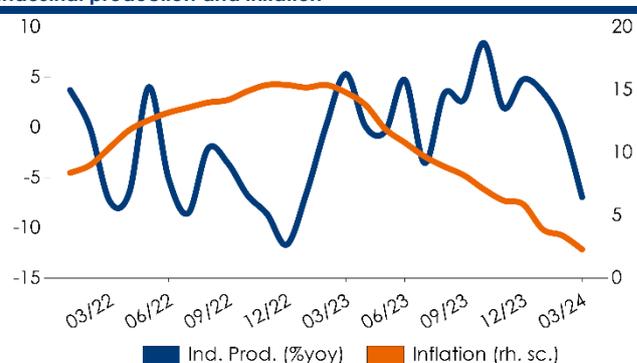
Local banking business continues at a slower pace due to the higher interest rate environment. Particularly due to the fall in demand from the corporate sector, the total loan amount has basically been stagnating since fall last year. This leads us to revise the expected growth rate for 2024 down to 4.0%. Bank deposits are now growing again, mainly thanks to the rising real incomes of households. In addition, the National Bank of Slovakia said it did not foresee any major threats to the stability of the local banking system in its June report. A small threat to the level of bank deposits may stem from the government's aim to emit retail bonds to diversify its portfolio of creditors.

#### Forecasts

	2022	2023	2024F	2025F
Real GDP yoy	1.9	1.6	2.0	2.6
CPI (eop)	15.4	5.9	2.5	3.7
Short-term rate (eop)	2.1	3.9	3.2	2.5
L/T bond yields (eop)	3.2	3.3	3.5	4.4
Bank loans (pr. sector, yoy)	10.4	3.4	4.0	4.6
Bank deposits (pr. sector, yoy)	5.9	4.6	5.1	4.9
Lending int. rate (corp., eop)	3.8	5.8	2.8	2.6
Deposit int. rate (hh, eop)	0.0	1.3	1.0	0.9

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

GDP in 1Q24 stagnated qoq, with the annual rate reaching 2.1%. In spite of the strong labour market, rising consumer lending and improved consumer confidence, private consumption posted only a 0.1% qoq increase (+0.9% yoy) due to the introduction of new compulsory health insurance (previously it was voluntary), which suppressed real-term net wage growth so that it amounted to only 1.2% yoy in 1Q24. Public consumption grew by 1.2% qoq (+5.1% yoy), partly due to measures alleviating the impact of last years' floods. Investments sank by 1.8% qoq (+0.6% yoy), in line with the negative trend of construction works. Exports rose by 2.4% and imports by 3.4% qoq (-0.6% and -0.9% yoy). In 2Q24, according to the available data for April, trends improved, with industrial production rising by 7.4% yoy and the foreign trade balance returning to positive territory (exports +48.8% yoy due to a rise in pharmaceutical exports to Switzerland). Retail trade dipped by 0.3% yoy in April, but on a positive note food sale increased by 3.0% yoy. We expect to see a substantial improvement in industrial production and exports in the second part of the year as the main trading partners see growth and global trade gains momentum. In this June scenario we leave untouched our growth projection for 2024 at 2.3% yoy, envisaging an acceleration to 2.7% yoy in 2025.

Ana Lokin

Average inflation in January to May fell to 3.1% yoy (May 2.5% yoy) amid the disinflation in food prices and the moderating rise in the prices of services. We trim our estimate of the average inflation rate in 2024 to 2.7% yoy, leaving our year-end forecast unchanged at 2.0% yoy.

### Financial Markets

The 10Y government bond spread on the Bund continued to narrow, amounting to 70bps in the first five months of the year, while the average yield stood at 3.0%. Our June scenario sees the average spread at 60bps in 2024, with the yield at 3.0% (eop 55bps, 2.9%).

### Banking Sector

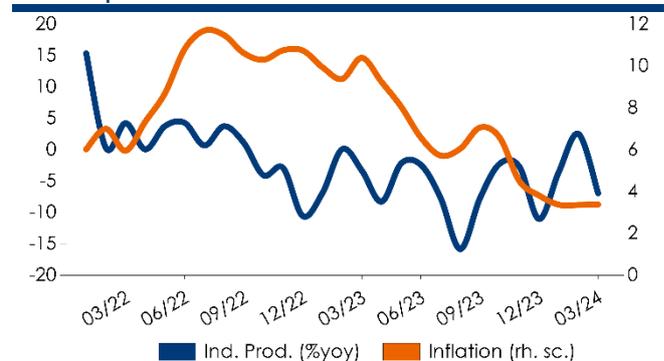
Loans picked up and advanced by 0.2% yoy in April as corporate loans rose on a monthly basis over the past two months. Household loans accelerated due to the sharp rise in consumer lending, whereas demand for housing loans remained modest, in line with the deteriorating real estate market outlook. We expect loans to gather pace during the remaining part of the year, thus we lift our projection for loan growth in 2024 to 3.3% yoy. Deposits are rising steadily and in 2024 are foreseen expanding by 3.5% yoy. The rise in savings interest rates has apparently come to an end as the ECB's June cut was widely priced in; in April, the average interest rate on newly agreed household time deposits was 30bps lower vs. its peak and on new corporate deposits 20bps lower.

### Forecasts

	2022	2023	2024F	2025F
Real GDP yoy	2.5	1.6	2.3	2.7
CPI (eop)	10.8	3.8	2.0	2.0
Short-term rate (eop)	2.1	3.9	3.2	2.5
L/T bond yields (eop)	3.3	3.0	2.9	3.8
Bank loans (pr. sector, yoy)	9.8	-0.5	3.3	2.6
Bank deposits (pr. sector, yoy)	7.8	5.1	3.5	2.6
Lending int. rate (corp., eop)	3.0	5.6	4.6	3.4
Deposit int. rate (hhs, eop)	0.2	1.3	1.0	0.7

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

### Industrial production and inflation



Source: Statistical Office of the Republic of Slovenia

## Albania

### Real Economy

Albania's GDP expanded by 3.80% yoy in the fourth quarter of 2023, following the upwardly revised 3.8% increase in the third quarter. The main contributors to the economic growth were construction activities, which saw a 10.8% rise, public administration and professional services with a 10.8% rise, and real estate with 10.3%. Our forecast for GDP growth is confirmed with respect to our March scenario. The annual inflation rate in Albania rose to 2.2% in May, from 2.1% the previous month. Costs accelerated for food and non-alcoholic beverages (1.9% vs. 1.5% in April), furniture and household equipment (3.7% vs. 3.5%), transport (1.1% vs. 1.0%) and communication (0.1% vs. flat). On the other hand, prices eased for the remaining components of the basket, such as housing and utilities (2.2% vs. 2.3%) and miscellaneous goods and services (2.5% vs. 2.7%). Meanwhile, inflation was steady for health (1.7%) and education (2.2%). On a monthly basis, consumer prices were down by 0.2%, the same as in April.

Antonio Pesce

### Financial Markets

The base interest rate from the central bank remains unchanged at 3.25%. However, the CB remains cautious of downside risks and shocks to the economy and is conscious of maintaining a balance between economic growth and price reductions. According to the CB, CPI should reach its 3% target by the last quarter of the year. Compared to a year earlier, the exchange rate of the lek against the euro has appreciated. In recent months, the exchange rate has stabilised at a level of EUR/lek 105.

### Banking Sector

Loans to the private sector increased by 6.8% yoy in March, up from 3.75% in December. This increase was mostly due to the expansion of mortgage loans. Household loans increased by 10.1% yoy and corporate loans by 4.8% yoy, accelerating from 0.7% yoy in December. In the same period, total private deposits increased by 2.6% yoy, mainly in the corporate sector (9.6% yoy), while household deposits were up by 0.6% yoy, gradually recovering from -3.5% yoy in November. The non-performing loan ratio decreased marginally to 4.6% in March, from 4.7% in December.

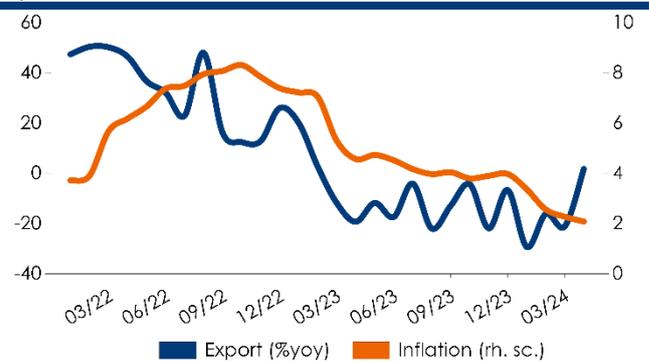
Davidia Zucchelli

### Forecasts

	2022	2023	2024F	2025F
Real GDP yoy	4.8	3.3	3.3	3.3
CPI (eop)	7.4	4.0	2.3	3.0
Euro exch. rate (value, eop)	114.9	103.9	110.0	121.5
Short-term rate (eop)	2.5	3.0	3.5	3.6
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	6.9	3.7	3.7	3.6
Bank deposits (pr. sector, yoy)	4.8	1.6	3.6	3.5
Lending int. rate (pr. sect., eop)	6.5	5.6	6.4	6.9
Deposit int. rate (pr. sect., eop)	2.5	2.3	2.6	2.4

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

In advance of the national 1Q24 GDP release scheduled for 2 July, the outturn for the Republic of Srpska entity (accounting for roughly one-third of the national economy) indicates a mild slowdown in qoq GDP growth, to 0.5% from 0.6% in 4Q23, while on a yoy basis, growth strengthened to +2.9% (vs. 2.4% in 4Q23). Similarly, country level 1Q high-frequency data indicates relatively favourable dynamics, with strong domestic demand as retail trade volumes increased by 2.8% qoq and 12.6% yoy, supported by the 9.2% yoy nominal (7% real) average net wage growth, as well as strong remittance inflows at the end of last year. Simultaneously, the industrial production doldrums continued and 1Q24 activity dropped by 4.8% yoy, with an annual decline registered across the board, while merchandise exports nosedived by 12.5% yoy. On the other hand, construction activity recorded 1.1% qoq and 2.4% yoy growth, primarily led by civil engineering works (+6.0% yoy) as buildings construction declined by 1.7% yoy. As the available April data indicates similar trends continued into 2Q24 as well, with retail trade volumes up by 13.2% yoy, industrial production down by 3.6% but exports finally up, by 4.9% yoy, we stick to our FY24 GDP growth +2.2% call, with some slight upward potential pending the foreign demand recovery.

Meanwhile, inflation remained stable at 2% over the first four months of the year, although with relatively notable monthly dynamics ranging between 0.2-0.5% over the first three months, while in April monthly inflation eased to 0.1%. Mirroring some upside pressures in the coming months, we see average FY24 inflation in the area of 2.5%.

On 21 March, the country obtained negotiator country status and it is expected that the EC's negotiating framework will be prepared by July. Once the country fulfils the remaining eight conditions, the official start of the negotiations will take place. In the meantime, even though negotiations on the Election Law are still ongoing, the Central Election Commission has scheduled local elections for 6 October, in line with imposed "technical amendments" to the Election Law, as introduced by the Office of the High Representative.

### Banking Sector

Credit demand remains strong, supported by solid economic activity, positive trends in the labour market and the only-moderate rise in interest rates. April saw loans expand by 8.4% yoy and we see loan growth reaching 6.9% yoy by year-end. Deposits continued to accelerate, increasing by 11.4% yoy in April amid the credit rise, wage growth, subsiding inflation and rising remittances. In our June scenario we upgrade our projection of this year's deposit growth to 7.6% yoy.

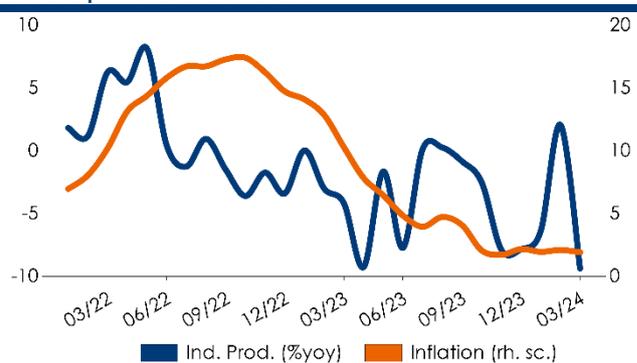
#### Forecasts

	2022	2023	2024F	2025F
Real GDP yoy	3.8	1.6	2.2	3.0
CPI (eop)	14.7	2.2	2.6	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)	5.3	6.8	6.9	5.2
Bank deposits (pr. sector, yoy)	3.2	10.2	7.6	5.7
Lending int. rate (corp., eop)	4.0	3.9	n.a.	n.a.
Deposit int. rate (hh, eop)	0.5	0.6	n.a.	n.a.

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

Ivana Jović

#### Industrial production and inflation



Source: Agency for statistics of Bosnia and Herzegovina

## Croatia

### Real Economy

According to a flash estimate, 1Q24 GDP grew by 1.0% qoq, i.e., by 3.9% yoy, reflecting the strong growth in personal consumption (+6% yoy) and investments (+10.8%). Simultaneously, exports declined by 2% and, unlike previous quarters, goods exports increased by 2.9%, while services dropped by 8.2%. More detailed data on the structure of the exports of services are yet not available, however tourism statistics suggest a solid start to the year (the Croatian National Tourist Board recorded an increase in foreign overnights of 21% in 1Q, while the Tax Administration recorded an increase in the value of fiscalised invoices in hospitality services of 23%). Thus, we tend to attribute the decline in services exports to trends in other categories, such as manufacturing services on physical inputs owned by others. Since total imports grew by 2.2% yoy, net foreign demand contributed negatively to headline growth. The gap between domestic demand and the export component is also confirmed by the fact that GVA in industry recorded a 2.3% decline (manufacturing industry -1.5%), while 13.1% growth was recorded in construction and 6.3% growth in the service sector (trade, transport, tourism). The first high-frequency data for 2Q indicate a continuation of personal consumption growth, with retail trade volumes in April having increased by 8.6% yoy, while the value of fiscalised invoices in the NACE G47 recorded an increase of 11.7% yoy in May in nominal terms. Given the fact that in May inflation slowed to 3.3% (national index), this indicates another month of high single-digit growth in volumes as well. Unfortunately, data also revealed that after three consecutive months of decline, and with anaemic monthly growth recorded in March, industrial production stagnated mom in April, thus declining by 2% yoy. Overall, the strong start to the year, together with the continuing overperformance in domestic demand, favourable expectations for the main tourist season and recovering foreign demand, supports our view that FY24 GDP will land above last year's 3.1%, i.e., at around 3.4%.

Ivana Jović

### Financial Markets

The average 10Y government bond yield by the end of May amounted to 3.3%, with the average spread on the Bund at 90bps. The FY24 average yield is forecasted at 3.2% and the average spread is expected to decrease to about 80bps, thanks to the expected rating upgrade.

Ana Lokin

### Banking Sector

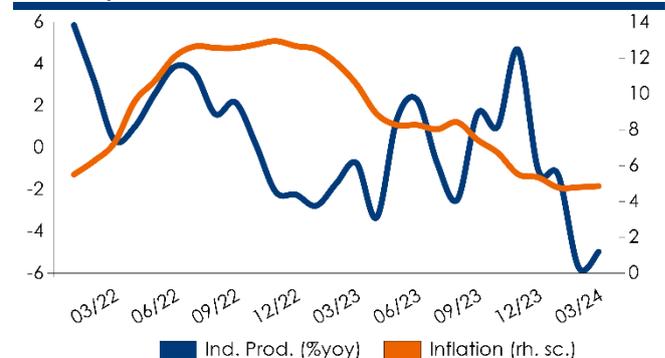
Loans sped up to 8.2% yoy in April as corporate demand strengthened, while household lending is continuously accelerating. We see the loan increase landing at 7.4% yoy in 2024, fueled by sound GDP growth and healthy wage rises. Deposits ended April higher by 4.5% yoy, and by the end of the year we see them slowing to 3.2% yoy amid outflows related to the issue of government securities (citizens purchased net EUR 0.6Bn in T-bills in June and the MoF plans to issue a retail bond in July).

#### Forecasts

	2022	2023	2024F	2025F
Real GDP yoy	7.0	3.1	3.4	2.7
CPI (eop)	12.7	5.4	2.8	2.3
Short-term rate (eop)	0.2	3.9	3.2	2.5
L/T bond yields (eop)	3.5	3.3	3.0	3.9
Bank loans (pr. sector, yoy)	11.2	8.0	7.4	3.3
Bank deposits (pr. sector, yoy)	15.0	3.5	3.2	2.8
Lending int. rate (pr. sect., eop)	3.6	5.2	4.9	4.1
Deposit int. rate (pr. sect., eop)	0.7	3.1	2.5	1.6

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

First quarter GDP on 2024 growth was 0.4% qoq and 0.1% yoy. Positive contributions came from agriculture (+2.1% yoy), administration and defence (+0.9%), IT&C (+2.0%) and other cultural and recreational activities (+7.0%), while the rest of the activities made negative contributions. Expectations for 2024 have been lowered lately, to about +2.8% (IMF), versus the 3.4% budget base assumption. In our opinion, 2024 GDP growth will be about +2.2% yoy.

Yoy CPI at the end of April was 5.9%, below March (6.6%) and in line with the NBR's projection. Harmonised yoy CPI at the end of April also decreased to 6.3%. According to the NBR's latest projection, at the end of 2024 yoy inflation should decrease to about 4.9%, while a return to the target interval should occur in the third or fourth quarter of 2025.

Unemployment increased to 5.3% in April, from 5.2% in March. Wage growth is still high, with 13.9% yoy at the end of March, which is putting pressure on the labour market since productivity and inflation are at lower levels.

The budget deficit at the end of April was 3.24% of GDP, the highest level for the last five years. Taking into consideration the peculiarities of this year, and the already announced increase of pensions and salaries, is hard to believe that this year's deficit will stay below 7.0%. Further fiscal measures are needed to reduce the deficit, but they are not expected till the fourth quarter of the year, when the new government enters into force.

The current account deficit at the end of March 2024 was EUR 3.94Bn, almost the same as in February 2023 (EUR 3.96Bn).

### Financial Markets

In May's monetary policy meeting, the NBR kept unchanged the monetary policy rates (deposit, Lombard and reference rate) as follows: deposit facility rate 6.00%, reference rate 7.00% and credit facility rate 8.00%. In July, we might see the first 25bps cut, but there is a 50/50 chance due to the high risks and uncertainties related to the budget deficit and possible correction movements. The EUR/RON exchange rate was stable at about 4.97-4.98. The exchange rate is used as a monetary policy instrument.

### Banking Sector

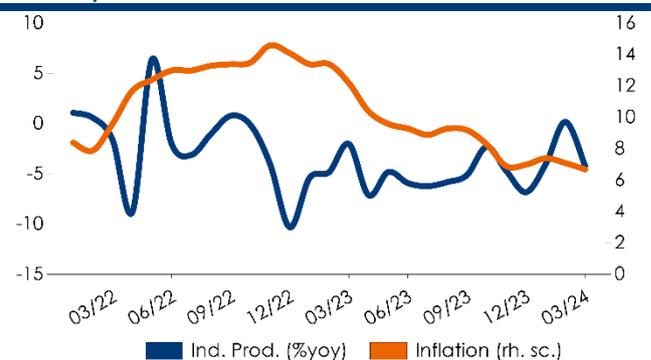
At the end of March 2024, yoy growth on loans was 4.19%, with a strong component in RON (6.53%), while EUR loans decreased by 1.03%. On the deposit side, the overall growth yoy was 12.15%, with RON loans up by 8.48% while foreign currency loans decreased by 0.33%.

### Forecasts

	2022	2023	2024F	2025F
Real GDP yoy	4.9	1.9	2.2	3.2
CPI (eop)	14.1	7.0	5.0	3.5
Euro exch. rate (value, eop)	4.9	5.0	5.0	5.1
Short-term rate (eop)	7.7	6.3	6.7	4.0
L/T bond yields (eop)	7.9	6.6	6.6	6.6
Bank loans (pr. sector, yoy)	11.2	5.9	4.5	6.0
Bank deposits (pr. sector, yoy)	6.7	12.9	8.1	7.1
Lending int. rate (pr. sect., eop)	9.7	8.6	9.3	7.2
Deposit int. rate (pr. sect., eop)	6.7	5.6	5.1	3.0

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

Marius Pacurari

## Serbia

### Real Economy

Statistical office data show GDP growth in 1Q24 landed at 4.7% yoy, 0.1pp higher than previously estimated. By component, economic activity was supported by private consumption, which grew at the fastest pace for the past two years (+4.4% yoy, 2.9pp) and by investments (+7.3% yoy, 1.7pp). Negative contributions came from net foreign demand (-1.7pp), as the 3.2% yoy growth in imports outperformed subdued exports (1.1%). High-frequency indicators point to a similar GDP structure in 2Q24. Retail activity was strong, gaining 11.1% over the year to April (in constant prices), as inflation slowed and real wage growth became stronger, supporting a higher level of spending. Taking into account the positive trends in personal consumption and investments, we believe this year's and next year's growth could be stronger than previously anticipated. Our 2024 GDP projection is upgraded to 3.5%, while in 2025 we expect to see Serbia's growth reach 4% (up from 3.5% in our March scenario). The key drivers will be a further recovery in real spending power and investment activity (with supportive roles from both the public and private sector), as well as more supportive external demand. Yoy inflation stabilised at 5% in April, while on a monthly level, consumer prices rose by 0.7%, reflecting increased petroleum product prices and seasonally higher unprocessed food prices. Core inflation slowed to 4.8%, from 5% in March. The NBS believes that yoy inflation will return to the target corridor (3%±1.5pp) in May, which also matches our expectations. Overall, CPI is expected to average 4.3% this year, easing towards 3.3% next year.

Tijana Matijasevic

### Financial Markets

At its May meeting, the National Bank of Serbia decided to keep the key policy rate at 6.5% for the 10th consecutive month. The NBS is expected to deliver its first 25bps cut in June or July, particularly in light of the ECB's cut, and to continue cautiously with gradual easing by year end. The key rate is currently seen at the level of 5.5% at the end of 2024 and 4.25% at the end of 2025. The dinar remains stable against the euro, supported by the central bank's interventions on the FX market. Amid prevailing appreciation pressures, the NBS has net bought a total of EUR 530M since the beginning of 2024, in order to keep the EUR/RSD stable at about 117.2. Gross FX reserves hit EUR 25.1Bn in April, their highest end-of-month level on record.

### Banking Sector

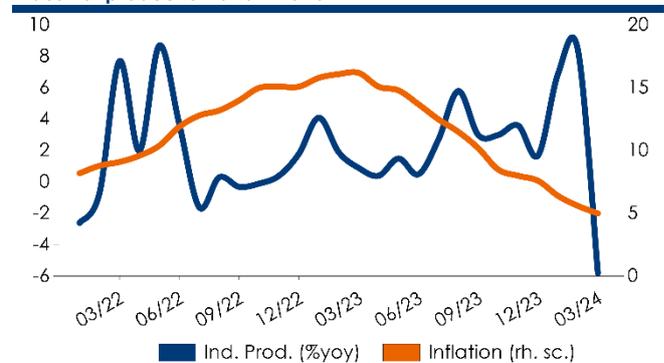
In March 2024, total loans to the private sector rose by 1.3% yoy, led by household loans (+2.5% yoy), while corporate loans stagnated compared to a year earlier. New production was higher by 12.1% yoy in 1Q24, with robust growth in new household lending (+31.5% yoy), notably cash loans. After a sluggish January-February, March saw a surge in new corporate lending, driving new corporate loans to increase by 2.3% yoy during 1Q24. The deposit dynamic was stronger, with total volumes higher by 10.5% yoy in March, supported by both the household and corporate segments.

### Forecasts

	2022	2023	2024F	2025F
Real GDP yoy	2.5	2.5	3.5	4.0
CPI (eop)	15.1	7.6	3.4	3.2
Euro exch. rate (value, eop)	117.3	117.2	117.2	117.4
Short-term rate (eop)	5.0	6.5	5.5	4.3
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	6.5	1.0	2.6	4.9
Bank deposits (pr. sector, yoy)	6.9	11.7	6.1	5.9
Lending int. rate (pr. sect., eop)	10.0	10.5	9.3	8.4
Deposit int. rate (pr. sect., eop)	6.2	5.7	4.6	3.6

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

Moldova's economy saw a slight increase of 0.7% in 2023, recovering only a small portion of the 5.9% contraction that occurred in 2022. GDP growth is expected to be about 2.5% in 2024, with growth of between 3.0-3.7% in the following years. This growth is conditional on a relatively good performance of the national economy and reflects several factors: a) a gradual revitalisation in consumption; b) an increase in wages and pensions in the public sector; c) a recovery in agricultural production; d) a relative recovery of the economies of trade partners; and e) relatively more relaxed policy conditions and lower global energy prices. In the medium term, the anticipated robust growth is driven by the implementation of reforms, progress in Moldova's EU candidacy and the recovery of domestic consumption and investments.

The consumer price index in Moldova eased to 3.5% yoy in April, from 3.9% yoy in March, and was particularly dragged down by the price of utilities. For 2024-2027, the annual inflation rate will remain within the acceptable interval, fluctuating slightly around the central target of 5%.

### Financial Markets

Successful disinflation has allowed the National Bank of Moldova to reduce the policy rate, taking it from 21.5% in August 2022 to 3.60% in May 2024, with the loan and deposit rates also decreasing, to 5.6% and 1.6%, respectively. The easing of monetary policy started at the end of last year, aiming to support the economy, which shrank in 2022. The base rate is foreseen to slightly decrease to 3.5% by the end of 2024, maintaining a 3% level for the remaining years of projection. The 91-, 182- and 364-day treasury bill yields decreased by 1.0pp, 1.8pp and 1.67pp, respectively, as of June 2024 vs. end-December 2023 levels, in line with the inflation trajectory and expectations. For longer maturity government bonds, yields also saw a sharp downward movement (-1.25pp) compared to their December levels.

### Banking Sector

As of March 2024, loan portfolio growth (9.2%) was spread across all segments, with a particularly strong contribution from household loans (18.3%) vs. corporate loans (3%). On the other hand, deposit growth decelerated, though still increasing by 17.4% yoy due to the 26.6% and 11.5% yoy increases in the stock of corporate and household deposits, respectively. A deceleration is expected for loans and deposits in the first year of the projection, accelerating in the remaining years. Hence, loans are foreseen to grow by 3.3% yoy by the end of 2024, with an average growth of 4.5% in the remaining years. The growth in deposits in 2024 is expected to be 6.8%, with the same trend expected to be maintained, on average, in the following years. The lending and deposit interest rates are expected to decrease in the following years given the effects of the central bank's monetary easing measures.

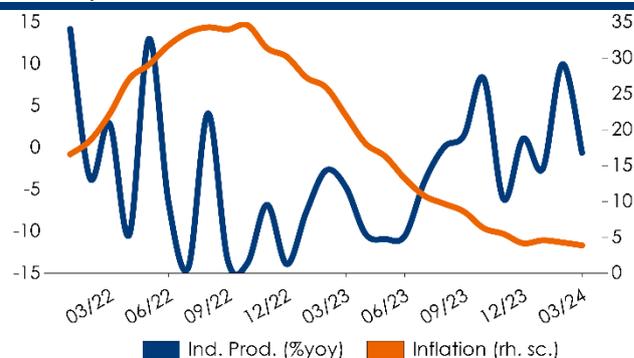
### Forecasts

	2022	2023	2024F	2025F
Real GDP yoy	-4.5	0.7	2.5	3.0
CPI (eop)	30.2	4.2	5.9	4.2
USD exch. rate (value, eop)	19.5	17.8	17.7	18.2
Euro exch. rate (value, eop)	20.5	19.2	19.6	20.6
Short-term rate (eop)	20.0	4.8	3.5	3.0
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	9.3	3.7	3.3	4.4
Bank deposits (pr. sector, yoy)	5.4	19.9	6.8	7.4
Lending int. rate (corp., eop)	12.9	9.3	7.2	6.4
Deposit int. rate (hh, eop)	11.4	5.4	3.2	2.4

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

### Caraman Doina

### Industrial production and inflation



Source: National Bureau of Statistics of the Republic of Moldova

## Russia

### Real Economy

Russian GDP grew by 5.4% yoy in 1Q24 (+4.9% in 4Q23). Considering this sign of recovery, and in line with the forecast of the central bank, we raise our estimate for 2024 GDP growth to 3.4% yoy, from the previous +1.9%. GDP data for 1Q24 and high-frequency indicators for 2Q24 show that the Russian economy continues to grow rapidly. However, in the first quarter of 2024, the calendar effect of a leap year partly contributed to the annual GDP growth rate. Consumer activity remains high, thanks to a significant increase in household incomes and positive consumer sentiment. According to business surveys, investment demand remains high. The Russian economy still shows a significant upward deviation from a balanced growth path.

Francesca Pascali

### Financial Markets

At the meeting in June, the Bank of Russia (CBR) decided to keep the key policy rate unchanged at 16.0% per annum. The CBR is keeping open the prospect of raising the key rate at its next meeting, as the return of inflation to its target will require a significantly longer period of restrictive monetary conditions in the economy than expected in April. Over the medium-term horizon, the balance of inflation risks has shifted further due to inflationary risks associated with changes in the terms of trade (also as a result of geopolitical tensions), persistently high inflation expectations and an upward deviation of the Russian economy from the balanced growth path. The continuation of large-scale state subsidy programmes could slow the return to more moderate loan growth rates. Disinflationary risks are mainly related to a faster slowdown in domestic demand than expected in the baseline scenario. The planned changes in fiscal policy imply that higher budgetary expenditures in the coming years will be financed by higher revenues from the consolidated budget.

### Banking Sector

Lending growth accelerated strongly in 2023 to 24.2% yoy, thanks to the persistently strong acceleration seen in the last available data and in line with the CBR's expectations, and it is then expected to decelerate gradually in the following years (+10.1% in 2024, revised upward from 8.8% in March). Lending is expected to cool from year-end, as downpayments on subsidised mortgages have been raised to 20%, the macroprudential regulation of both risky mortgages and consumer loans has been tightened and interest rates have risen significantly. Loan growth remained strong in Russia (+23.2% yoy in February), especially for corporates (+23.3% yoy), but also for households, where loan growth stabilised at +23.1%. Total deposit growth from the private sector remained vigorous (from +31% yoy in February), particularly in the corporate sector (+36.7% yoy in nominal terms) but also in the household sector (+26% yoy).

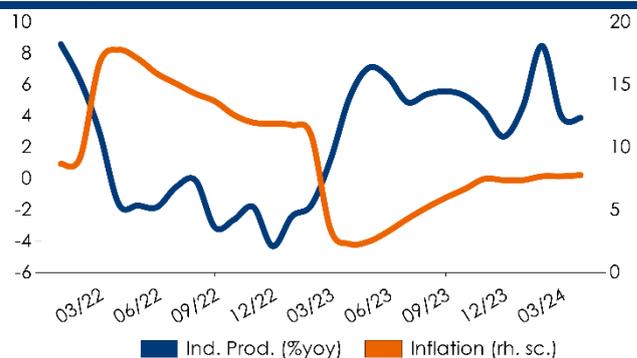
Davidia Zucchelli

### Forecasts

	2022	2023	2024F	2025F
Real GDP yoy	-2.1	3.6	3.4	1.7
CPI (eop)	11.9	7.4	5.5	4.3
USD exch. rate (value, eop)	66.6	90.91	94.4	95.3
Euro exch. rate (value, eop)	70.7	90.9	104.4	107.8
Short-term rate (eop)	8.4	15.7	16.3	14.2
L/T bond yields (eop)	11.3	12.2	16.1	14.7
Bank loans (pr. sector, yoy)	11.8	24.2	10.1	5.4
Bank deposits (pr. sector, yoy)	11.0	23.4	9.9	5.6
Lending int. rate (corp., eop)	8.9	16.1	17.2	15.5
Deposit int. rate (hh, eop)	5.4	12.8	14.3	12.0

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

Following the intensified shelling of Ukraine's energy infrastructure over the spring of 2024, Ukraine faced tight power rationing countrywide in May and June. The recent increase in the intensity of hostilities and the renewed mobilisation campaign has exacerbated the already significant shortage of qualified labour. Coupled with the overall uncertainty about further war prospects, all of these factors have been weighing on economic activity and the NBU's business sentiment monthly index went below 50 (neutral level) to 48.0 in May, after the upticks to 52.3 seen in April and to 52.0 in March. We slightly worsen our GDP forecast and now see the economy expanding by 3.3% this year (down from the 3.9% expected earlier) and by 5.4% in 2025 (down from 5.7%). The renewed external financial aid and improving export logistics will support growth, while significant damage to the energy sector will likely be a main drag on the economy. CPI started to pick up in May, increasing to 3.3% yoy, from 3.2% in April and March. On a monthly basis, prices grew by 0.6%, up from +0.2% in April and +0.5% in March. However, a larger acceleration is likely to follow given the notable (nearly two times) hike in consumer electricity tariffs in June and expected raising of some taxes, as discussed by the government. In late May, Ukraine reached a staff-level agreement with the IMF on the fourth review of the USD 15.6Bn IMF loan programme, which paves the way for the next disbursement of about USD 2.2M. Among other terms, the programme stipulates that Ukraine should restructure its external debt and now the government is in talks on a USD 20Bn restructuring of its international bonds. However, the discussions with bondholders and other creditors are still continuing.

Artem Krasovskyi

### Financial Markets

Ahead of the MP meeting in June, we see a possibility for another 50bps key rate cut from the current 13.5%. Based on the previous MP minutes, some of the policymakers see room for a bigger key rate decrease by year-end, which would take it to 11.5-12%, as compared to the baseline 13% envisaged earlier. Following an increase in budget spending and partial relief in the currency and capital flows restrictions, the UAH was under pressure in May and the exchange rate surpassed the level of 40.00 USD/UAH for the first time. The NBU spent some USD 3Bn to support the FX market, which resulted in it slashing monetary reserves from USD 42.4Bn to 39Bn during May.

### Banking Sector

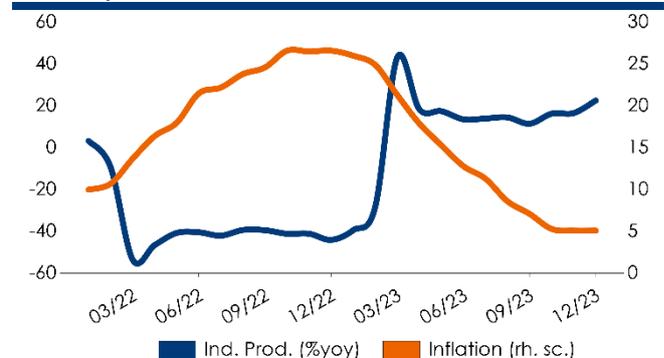
The Ukrainian banking sector remains stable and over-liquid. In 1Q24, banks made UAH 40.5Bn in profit. Corporate lending increased for three consecutive quarters, and the demand for loans outside government programmes has expanded, mainly due to lower interest rates. The volume of deposits recovered after the traditional seasonal decrease at the beginning of the year. Over 1Q24, rates for UAH corporate deposits decreased by 0.7pp and for UAH loans decreased by 1.0pp, while rates for households remained mainly unchanged.

### Forecasts

	2022	2023	2024F	2025F
Real GDP yoy	-28.8	5.3	3.3	5.4
CPI (eop)	26.6	5.1	8.0	6.0
USD exch. (value, eop)	36.9	36.5	41.5	42.0
Euro exch. rate (value, eop)	38.7	40.5	45.9	47.5
Short-term rate (eop)	25.0	12.8	12.0	10.0
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	-4.4	-0.3	4.6	4.0
Bank deposits (pr. sector, yoy)	25.1	26.7	5.1	4.9
Lending interest rate (pr. sect., eop)	22.0	20.7	18.0	15.0
Deposit interest rate (pr. sect., eop)	10.7	10.4	9.0	7.0

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

### Industrial production and inflation



Source: State Statistics Service of Ukraine

## Egypt

### Real Economy

Real growth slowed to 2.3% yoy during 4Q23, negatively affected by the reduction in government consumption and gross capital formation. FY24 projections were also revised down to 3% instead of 3.7%, in light of the ongoing geopolitical developments, which weighed on Suez Canal revenues (the number of vessels transiting through the canal dropped by 51.1% yoy during April 2024). In the medium term, real growth is expected to gradually improve before reaching 5.5% by FY28.

The 2024 forecast for inflation is maintained at 28.3%, on average, mainly due to the stability in foreign currency inflows. We note that annual urban headline CPI decelerated at a faster-than-expected pace, recording 28.1% in May 2024 compared with 32.5% one month earlier (core inflation recorded 27.1% in the same month, against 31.8% in April 2024). However, there are downside risks related to the rising prices of medicine, energy and subsidised bread.

### Financial Markets

The CBE decided to maintain the high level of policy rates (27.25% and 28.25% for overnight deposits and lending rates, respectively) during May to anchor inflation expectations. The downward trajectory of inflation is likely to support the lowering of key rates by 4Q24, as Egyptian authorities and the IMF mission agreed that "monetary policy conditions need to remain tight in the short term to help bring inflation toward the CBE target". This is in line with the notable decline in MMR, which reached 25.7%, which is supported by the surge in foreign investments in Egyptian treasuries. The baseline scenario still assumes an appreciation of the EGP against major currencies by the end of 2024, supported by the improvement in the trade deficit of 7.7% yoy during 1Q24, the increase in remittances by 43.8% yoy during April 2024 to USD 2.2Bn and the increase in tourism revenues (+4.9% yoy during the first four months of 2024). In addition, significant cash inflows from the Ras El Hekma deal (USD 24Bn), the restoring of portfolio investments and Egypt reaching a staff-level agreement with the IMF allowing access to USD 820M all promote this view. Nevertheless, plunging Suez Canal revenues and gas exports, amid high domestic consumption and falling production, could pose risks to the performance of the local currency.

### Banking Sector

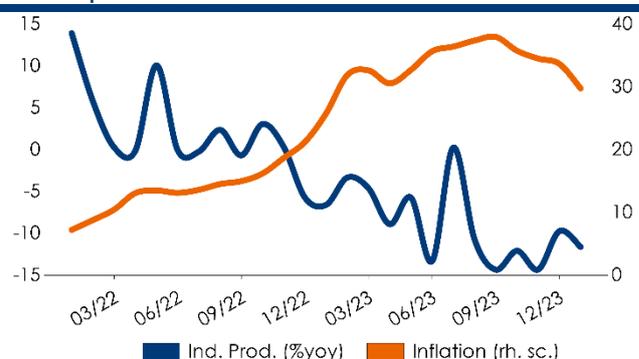
Annual growth in private loans is set to decelerate in 2024 because of tight financial conditions and the lower growth in economic activities. Accordingly, private deposits are set to grow at a slower pace than in 2023. It is important to note that the Egyptian banking sector's (CBE and commercial banks) net foreign assets dramatically improved to negative USD 3.7Bn in April 2024, against negative USD 27.2Bn at the end of last year.

#### Forecasts

	2022	2023	2024F	2025F
Real GDP yoy	4.3	2.9	3.5	4.1
CPI (eop)	21.3	33.7	25.1	15.0
USD exch. rate (value, eop)	24.7	30.9	46.6	44.8
Euro exch. rate (value, eop)	26.1	33.7	51.5	50.7
Short-term rate (eop)	18.1	25.7	24.3	21.3
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	28.4	22.1	13.2	9.8
Bank deposits (pr. sector, yoy)	27.4	18.5	15.2	13.3
Lending int. rate (corp., eop)	13.3	19.5	20.9	15.7
Deposit int. rate (hh, eop)	9.8	14.2	15.9	12.0

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 <sup>1</sup> . chg.yoy			Export nom. chg yoy			Retail sales chg yoy			Inflation chg yoy			Unemployment rate			Wages chg yoy			Economic Survey <sup>2</sup>			
	1Q24	4Q23	2023	Last	mth	1Q24	Last	mth	1Q24	Last	mth	1Q24	Last	mth	1Q24	Last	mth	1Q24	Last	mth	1Q24	Last	mth	1Q24	
<b>CEE</b>																									
Czechia	0.4	0.2	-0.3	-2.7	Mar	-0.8	-2.4	Mar	2.4	3.8	Mar	4.7	2.9	Apr	2.1	3.7	Apr	4.0	6.6	Mar	7.3	92.5	Apr	93.5	
Hungary	1.1	0.0	-0.9	-10.4	Mar	-4.1	-15.0	Mar	-5.0	3.6	Mar	2.9	3.7	Apr	3.7	4.4	Mar	4.5	14.0	Feb	14.3	98.8	Apr	98.6	
Poland	1.9	1.0	0.1	7.9	Apr	0.1	-18.2	Mar	-12.1	4.1	Apr	5.1	2.4	Apr	2.8	5.3	Mar	5.4	11.3	Apr	12.6	103.4	Apr	101.9	
Slovakia	2.7	2.2	1.6	-6.9	Mar	-1.1	-16.4	Mar	-6.2	0.5	Mar	2.6	2.1	Apr	3.2	5.0	Apr	5.1	10.0	Mar	8.6	96.4	Apr	100.0	
Slovenia	2.1	2.2	1.6	-6.9	Mar	-2.6	-2.1	Mar	2.3	-2.8	Mar	-1.1	3.0	Apr	3.4	4.7	Mar	5.0	4.0	Mar	4.6	97.4	Apr	95.7	
<b>SEE</b>																									
Albania	n.a.	3.8	3.4	n.a.	n.a.	n.a.	1.8	Apr	-24.8	n.a.	n.a.	n.a.	2.1	Apr	2.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Bosnia H.	n.a.	1.7	1.6	-9.4	Mar	-5.0	-11.4	Mar	-12.5	18.9	Feb	16.0	1.9	Mar	2.0	28.4	Feb	28.5	10.5	Feb	10.2	n.a.	n.a.	n.a.	
Croatia	3.9	4.4	3.1	-5.0	Mar	-3.3	3.7	Feb	n.a.	10.7	Mar	11.2	4.7	Apr	4.8	5.6	Apr	6.6	17.3	Mar	14.5	107.7	Apr	112.6	
Romania	0.1	2.1	n.a.	-4.2	Mar	-2.7	-9.8	Mar	-3.4	2.0	Mar	7.0	6.7	Mar	7.1	5.3	Mar	5.5	13.9	Mar	14.1	105.1	Apr	104.0	
Serbia	4.7	3.8	2.5	-5.8	Mar	3.2	-10.6	Mar	-1.9	6.6	Mar	6.5	5.0	Apr	5.7	n.a.	n.a.	n.a.	13.4	Mar	15.0	n.a.	n.a.	n.a.	
<b>EE &amp; MENA</b>																									
Moldova	n.a.	0.2	0.7	-0.6	Mar	2.3	-16.7	Mar	-14.0	-5.6	Dec	n.a.	3.5	Apr	4.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Russia	5.4	4.9	3.6	3.9	Apr	5.7	72.1	Jan	n.a.	8.3	Apr	10.8	7.8	Apr	7.6	2.6	Apr	2.8	12.9	Mar	10.7	54.3	Apr	55.7	
Ukraine	n.a.	4.7	5.3	22.6	Dec	n.a.	-2.4	Mar	3.9	19.9	Dec	n.a.	3.2	Apr	4.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Egypt	n.a.	2.3	2.9	-11.6	Jan	-11.6	-4.7	Feb	-10.2	n.a.	n.a.	n.a.	32.5	Apr	32.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
<b>m.i. E. A.</b>	0.4	0.1	0.4	-1.0	Mar	-4.6	-9.2	Mar	-2.8				2.4	Apr	2.6										

Source: Refinitiv; <sup>1</sup>Wda data for Slovakia, Slovenia; Bosnia, Croatia, Egypt; <sup>2</sup>PMI manufacturing for Russia and Egypt, ESI for remaining countries.

### Markets and Ratings

	S/T rates		L/T rates <sup>1</sup>		Foreign exchanges <sup>2</sup>			Stock markets		CDS spread (bp)		FX res. chg (mln €) <sup>3</sup>			CA bal. (mln €) <sup>4</sup>		Rating
	28/5	3M*	28/5	3M*	28/5	3M*	1Y*	3M*	1Y*	28/5	28/2	1Q24	4Q23	2023	1Q24	4Q23	
<b>CEE</b>																	
Czechia	5.6	-1.1	4.4	0.6	24.68	-2.65	4.39	4.3	17.1	28.1	27.7	n.a.	n.a.	n.a.	n.a.	1,204.5	Aa3
Hungary	7.0	-1.3	6.6	0.3	384.57	-1.71	3.38	3.7	44.1	109.3	121.1	n.a.	n.a.	n.a.	n.a.	n.a.	Baa2
Poland	6.0	0.0	5.8	0.5	4.26	-1.22	-5.86	6.5	34.3	68.4	68.7	n.a.	n.a.	n.a.	n.a.	3,741.0	n.a.
Slovakia	3.8	-0.2	3.6	-0.1	n.a.	n.a.	n.a.	-1.6	2.3	27.0	27.2	n.a.	n.a.	n.a.	-2,182	-1,928.0	A2
Slovenia	3.8	-0.2	3.1	0.0	n.a.	n.a.	n.a.	5.5	22.4	34.4	34.5	278	-41	18	827	642.7	A3
<b>SEE</b>																	
Albania	3.0	n.a.	n.a.	n.a.	100.32	-3.39	-9.47	n.a.	n.a.	n.a.	n.a.	n.a.	151	n.a.	n.a.	-232.0	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.	-132	191	115	n.a.	-182.6	n.a.
Croatia	0.4	0.0	3.3	0.0	7.53	0.00	0.00	1.9	25.2	75.6	78.5	-164	34	-24,997	n.a.	-1,063.6	Baa2
Romania	5.9	0.0	6.9	0.3	4.98	0.15	0.38	13.0	45.9	134.1	137.7	n.a.	n.a.	n.a.	n.a.	n.a.	Baa3
Serbia	6.5	0.0	n.a.	n.a.	117.11	-0.09	-0.14	7.9	9.2	168.9	188.5	33	727	5,493	-395	-1,036.9	Ba2
<b>EE &amp; MENA</b>																	
Moldova	3.6	-0.6	4.8	-0.8	17.63	-0.68	-0.80	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-15.4	B3
Russia	24.7	0.0	14.7	1.9	104.07	0.00	0.00	2.4	23.1	12,940.3	12,940.3	n.a.	n.a.	n.a.	n.a.	n.a.	WR
Ukraine	12.8	0.0	34.4	17.1	40.40	5.76	9.40	0.0	0.0	14,247.7	14,247.7	1,705	-29	12,546	-2,198	-3,095.0	Ca
Egypt	25.9	-0.2	11.3	0.0	47.60	54.05	54.05	-5.8	58.7	563.9	586.5	5,141	250	1,217	n.a.	-6,825.4	Caa1
<b>m.i.A.E.</b>	3.8	-0.2	2.6	0.1	1.1	0.4	1.6	4.1	11.9	4.06	5.32						

Source: Refinitiv; <sup>1</sup>For Ukraine, the long-term rate refers to a government issue in dollars; <sup>2</sup>The (-) sign indicates appreciation; <sup>3</sup>USD for Russia, Egypt, Ukraine, Romania; <sup>4</sup>USD for Russia, Egypt, Ukraine. (\*) % change.

### Banking aggregates and interest rates (private sector)

	Loans			NPL/Loans			Foreign Liab.			Deposits			Loans rate1-NewB*.			DepositsRate1-NewB*.			Loans/Dep			
	chg yoy %			%			chg yoy %			chg yoy %			%			%			%			
	Last	Mth	2023	Last	mth	2023	Last	mth	2023	Last	Mth	2023	Last	mth	2023	Last	mth	2023	Last	mth	2023	
<b>CEE</b>																						
Czechia	7.1	Mar	6.6	1.7	Mar	1.7	13.1	Mar	15.9	7.4	Mar	7.5	7.4	Mar	8.2 C	5.2	Mar	5.7 H	69.3	Mar	70.4	
Hungary	4.1	Mar	3.3	2.0	Dec	2.0	11.4	Mar	16.8	4.6	Mar	0.3	12.0	Mar	12.4 C	6.3	Mar	7.7 H	80.2	Mar	80.6	
Poland	-1.0	Mar	-2.5	4.0	Mar	n.a.	2.3	Jan	5.5	7.7	Mar	10.5	7.7	Mar	7.8 C	4.3	Mar	4.6 H	67.9	Mar	67.1	
Slovakia	2.6	Mar	3.4	2.1	Mar	2.0	32.3	Mar	25.9	5.4	Mar	4.6	6.4	Mar	5.8C <sup>2</sup>	n.a.	Mar	n.a.H <sup>2</sup>	106.0	Mar	107.0	
Slovenia	0.2	Apr	-0.5	1.0	Mar	1.0	23.3	Apr	21.9	4.8	Apr	5.5	5.6	Mar	5.6C <sup>2</sup>	1.4	Mar	1.3H <sup>2</sup>	62.3	Apr	60.6	
<b>SEE</b>																						
Albania	6.8	Mar	3.7	4.6	Mar	4.7	15.7	Mar	5.3	2.6	Mar	1.6	5.5	Mar	5.6PS	2.4	Mar	2.3PS	57.2	Mar	56.0	
Bosnia H.	8.4	Apr	6.8	3.6	Mar	3.8	-5.3	Apr	-15.6	11.4	Apr	10.2	4.6	Apr	3.9 C	0.6	Apr	0.6 H	88.8	Apr	88.5	
Croatia	8.2	Apr	8.0	2.6	Mar	2.6	18.0	Apr	-13.6	4.3	Apr	3.5	5.2	Apr	5.2PS	3.2	Apr	3.1PS	71.1	Apr	66.6	
Romania	4.2	Mar	5.9	2.4	Feb	2.3	20.3	Mar	19.0	12.1	Mar	12.9	8.5	Mar	8.6PS	5.4	Mar	5.6PS	65.5	Mar	66.6	
Serbia	1.3	Mar	1.0	3.2	Mar	3.2	-4.2	Mar	-5.8	10.5	Mar	11.7	11.1	Mar	10.5PS	5.1	Mar	5.7PS	80.3	Mar	81.1	
<b>EE &amp; MENA</b>																						
Moldova	9.2	Apr	3.7	5.3	Apr	5.6	0.7	Jul	n.a.	17.4	Apr	19.9	8.0	Apr	9.3 C	3.8	Apr	5.4 H	56.2	Apr	56.1	
Russia	23.2	Feb	24.2	6.1	Dec	n.a.	13.3	Dec	n.a.	31.0	Feb	23.4	16.8	Feb	16.1 C	14.5	Feb	12.8 H	120.7	Feb	121.0	
Ukraine	6.0	Apr	-0.3	36.1	Apr	37.0	2.5	Apr	-2.6	21.2	Apr	26.7	20.4	Apr	20.7PS	9.7	Apr	10.4PS	43.5	Apr	43.4	
Egypt	22.1	Dec	22.1	3.0	Dec	3.0	44.0	Mar	33.9	24.0	Mar	18.5	23.3	Mar	19.5 C	17.3	Mar	14.2 H	36.7	Dec	36.7	
<b>m.i. E. A.</b>	0.46	Mar	0.6	n.a.	n.a.	n.a.	0.6	Mar	1.2	2.1	Mar	1.5	5.2	Mar	5.2 C	3.2	Mar	3.3 H	74.4	Mar	74.5	

Source: Central Banks, IMF, Moody's; <sup>1</sup>monthly average; <sup>2</sup>lending rate on current account overdraft; on deposits up to 1 year.<sup>3</sup>Sector C=Corporates, H=Household, PS=Private Sector.

## Country Outlook

### The Economy

GDP (% yoy)		2021	2022	2023	2024F	2025F	Inflation (% avg)		2021	2022	2023	2024F	2025F
CEE	Czech Rep.	3.4	2.4	-0.3	1.4	2.6	Czech Rep.	3.9	15.1	10.8	2.3	2.1	
	Hungary	7.1	4.6	-0.9	2.5	3.2	Hungary	5.1	14.5	17.6	4.3	3.6	
	Poland	6.8	4.9	0.1	2.7	3.1	Poland	5.1	14.3	11.6	2.6	2.9	
	Slovakia	4.8	1.9	1.6	2.0	2.6	Slovakia	3.2	12.8	10.5	2.6	3.6	
	Slovenia	8.2	2.5	1.6	2.3	2.7	Slovenia	2.0	9.3	7.2	2.7	2.0	
SEE	Albania	8.9	4.8	3.3	3.3	3.3	Albania	2.0	6.7	4.8	2.4	2.9	
	Bosnia Herzegovina	7.3	3.8	1.6	2.2	3.0	Bosnia Herzegovina	2.0	14.0	6.1	2.5	2.1	
	Croatia	13.0	7.0	3.1	3.4	2.7	Croatia	2.7	10.7	8.4	3.5	2.5	
	Romania	6.7	4.9	1.9	2.2	3.2	Romania	5.0	12.1	9.8	6.0	3.8	
	Serbia	7.7	2.5	2.5	3.5	4.0	Serbia	4.0	11.9	12.1	4.3	3.3	
EE & MENA	Moldova	13.8	-4.5	0.7	2.5	3.0	Moldova	5.1	28.6	14.0	5.0	4.6	
	Russia	4.7	-2.1	3.6	3.4	1.7	Russia	6.7	13.8	6.0	6.9	5.0	
	Ukraine	3.4	-28.8	5.3	3.3	5.4	Ukraine	9.3	20.1	13.4	5.9	7.2	
	Egypt	7.2	4.3	2.9	3.5	4.1	Egypt	5.2	13.8	33.8	28.3	19.8	

### Markets

Exch.rate (avg Euro)		2021	2022	2023	2024F	2025F	Interest rate (% avg)		2021	2022	2023	2024F	2025F
CEE	Czech Rep.	25.6	24.6	24.0	24.6	24.1	Czech Rep.	1.1	6.3	7.1	5.3	3.9	
	Hungary	358.7	391.1	381.8	389.5	385.9	Hungary	1.4	9.9	14.3	7.2	5.5	
	Poland	4.6	4.7	4.5	4.4	4.5	Poland	0.4	5.9	6.4	5.8	4.4	
	Slovakia	n.a.	n.a.	n.a.	n.a.	n.a.	Slovakia	-0.5	0.3	3.4	3.7	2.6	
	Slovenia	n.a.	n.a.	n.a.	n.a.	n.a.	Slovenia	-0.5	0.3	3.4	3.7	2.6	
SEE	Albania	122.3	118.9	108.4	107.1	117.8	Albania	0.5	1.3	3.1	3.3	3.5	
	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	0.3	0.2	3.4	3.7	2.6	
	Romania	4.9	4.9	4.9	5.0	5.1	Romania	1.8	6.2	6.6	6.6	5.2	
	Serbia	117.6	117.5	117.3	117.2	117.3	Serbia	1.0	2.6	6.1	5.9	4.6	
EE & MENA	Moldova (USD)	17.7	18.8	18.2	17.7	18.0	Moldova	3.8	16.9	9.5	3.7	3.3	
	Russia (USD)	73.6	68.3	85.2	92.6	94.9	Russia	6.8	11.9	9.4	15.9	15.3	
	Ukraine (USD)	27.4	32.3	36.8	39.8	41.8	Ukraine	10.7	20.4	20.5	13.1	11.3	
	Egypt (USD)	15.7	19.2	30.7	44.6	45.6	Egypt	12.7	14.5	23.1	25.5	21.4	

### Banking aggregates (% change yoy)

Loans (pr. sector)		2021	2022	2023	2024F	2025F	Deposits (pr. sector)		2021	2022	2023	2024F	2025F
CEE	Czech Rep.	8.4	4.5	6.6	4.3	4.5	Czech Rep.	7.0	4.2	7.5	4.1	4.1	
	Hungary	12.7	11.6	3.3	1.9	5.3	Hungary	17.6	2.5	0.3	2.2	4.5	
	Poland	4.6	0.2	-2.5	4.3	4.8	Poland	7.7	5.6	10.5	3.8	5.2	
	Slovakia	7.5	10.4	3.4	4.0	4.6	Slovakia	4.4	5.9	4.6	5.1	4.9	
	Slovenia	5.2	9.8	-0.5	3.3	2.6	Slovenia	8.2	7.8	5.1	3.5	2.6	
SEE	Albania	9.6	6.9	3.7	3.7	3.6	Albania	9.2	4.8	1.6	3.6	3.5	
	Bosnia Herzegovina	3.7	5.3	6.8	6.9	5.2	Bosnia Herzegovina	10.0	3.2	10.2	7.6	5.7	
	Croatia	2.3	11.2	8.0	7.4	3.3	Croatia	11.7	15.0	3.5	3.2	2.8	
	Romania	14.3	11.2	5.9	4.5	6.0	Romania	13.6	6.7	12.9	8.1	7.1	
	Serbia	10.2	6.5	1.0	2.6	4.9	Serbia	13.3	6.9	11.7	6.1	5.9	
EE & MENA	Moldova	23.5	9.3	3.7	3.3	4.4	Moldova	13.1	5.4	19.9	6.8	7.4	
	Russia	18.8	11.8	24.2	10.1	5.4	Russia	12.7	11.0	23.4	9.9	5.6	
	Ukraine	9.6	-4.4	-0.3	4.6	4.0	Ukraine	12.3	25.1	26.7	5.1	4.9	
	Egypt	18.3	28.4	22.1	13.2	9.8	Egypt	18.7	27.4	18.5	15.2	13.3	

### Banking interest rates (%)

Lending (Corp. avg)		2021	2022	2023	2024F	2025F	Deposits (HH avg)		2021	2022	2023	2024F	2025F
CEE	Czech Rep.	2.3	7.6	8.6	6.3	3.9	Czech Rep.	0.9	5.0	6.0	4.4	2.4	
	Hungary	3.2	8.3	12.3	10.2	5.7	Hungary	0.6	6.6	11.6	5.5	2.9	
	Poland	2.4	7.5	8.5	6.9	4.7	Poland	0.3	4.4	5.6	3.8	2.6	
	Slovakia	1.9	2.4	4.3	3.7	2.8	Slovakia	0.0	0.0	0.9	1.1	1.0	
	Slovenia	2.1	1.9	4.6	5.2	3.6	Slovenia	0.1	0.1	0.8	1.3	0.8	
SEE	Albania	6.1	6.4	5.9	5.9	6.6	Albania	0.4	1.2	2.1	2.5	2.4	
	Bosnia Herzegovina	3.0	3.2	3.7	n.a.	n.a.	Bosnia Herzegovina	0.2	0.3	0.5	n.a.	n.a.	
	Croatia	2.1	2.6	4.7	5.2	4.5	Croatia	0.1	0.2	2.4	3.0	2.0	
	Romania	5.6	8.0	9.4	9.2	8.1	Romania	1.3	5.3	6.0	5.3	3.9	
	Serbia	6.2	8.0	11.6	10.5	8.7	Serbia	1.4	4.0	5.8	4.8	4.0	
EE & MENA	Moldova	8.3	10.6	11.3	7.6	6.4	Moldova	3.2	7.0	9.8	3.5	2.4	
	Russia	7.2	11.5	11.6	16.7	16.7	Russia	3.8	7.6	7.6	14.2	13.2	
	Ukraine	13.3	18.6	22.1	19.4	16.1	Ukraine	4.6	7.4	12.3	9.5	7.9	
	Egypt	9.4	10.6	17.8	22.2	17.9	Egypt	7.4	8.4	12.7	17.1	13.7	

Source: Intesa Sanpaolo Research Department forecasts

## Important Information

The economists drafting this report state that the opinions, forecasts, and estimates contained herein are the result of independent and subjective evaluation of the data and information obtained and no part of their compensation has been, is, or will be directly or indirectly linked to the views expressed.

This report has been produced by Intesa Sanpaolo S.p.A. The information contained herein has been obtained from sources that Intesa Sanpaolo S.p.A. believes to be reliable, but it is not necessarily complete and its accuracy can in no way be guaranteed. This report has been prepared solely for information and illustrative purposes and is not intended in any way as an offer to enter into a contract or solicit the purchase or sale of any financial product. This report may only be reproduced in whole or in part citing the name Intesa Sanpaolo S.p.A.

This report is not meant as a substitute for the personal judgment of the parties to whom it is addressed. Intesa Sanpaolo S.p.A., its subsidiaries, and/or any other party affiliated with it may act upon or make use of any of the foregoing material and/or any of the information upon which it is based prior to its publication and release to its customers.

## Disclosure of potential conflicts of interest

Intesa Sanpaolo S.p.A. and the other companies belonging to the Intesa Sanpaolo Banking Group (jointly also the "Intesa Sanpaolo Banking Group") have adopted written guidelines "Organisational, management and control model" pursuant to Legislative Decree 8 June, 2001 no. 231 (available at the Intesa Sanpaolo website, webpage <https://group.intesasanpaolo.com/en/governance/leg-decree-231-2001>), providing for practices and procedures, in accordance with applicable regulations by the competent Italian authorities and best international practice, including those known as Information Barriers, to restrict the flow of information, namely inside and/or confidential information, to prevent the misuse of such information and to prevent any conflicts of interest arising from the many activities of the Intesa Sanpaolo Banking Group which may adversely affect the interests of the customer in accordance with current regulations.

In particular, the measures taken to manage the conflicts of interest between the Intesa Sanpaolo Banking Group and issuers of financial instruments, including companies belonging to their group, in the production of reports by Intesa Sanpaolo S.p.A.'s economists, are available in the "Rules for Research" and in the extract of the "Corporate model on the management of inside information and conflicts of interest" published on the website of Intesa Sanpaolo S.p.A., webpage <https://group.intesasanpaolo.com/en/research/RegulatoryDisclosures>. This documentation is available to the recipient of this report upon making a written request to the Compliance Department, Conflicts of Interest, Inside Information and Personal Transactions, Intesa Sanpaolo S.p.A., Via Hoepli, 10 – 20121 Milan – Italy.

Furthermore, in accordance with the aforesaid regulations, the disclosures of the Intesa Sanpaolo Banking Group's interests and conflicts of interest are available through webpage <https://group.intesasanpaolo.com/en/research/RegulatoryDisclosures/archive-of-intesa-sanpaolo-group-s-conflicts-of-interest>. The conflicts of interest published on the internet site are updated to at least the day before the publishing date of this report. We highlight that disclosures are also available to the recipient of this report upon making a written request to Intesa Sanpaolo S.p.A. – International Research Network, Via Romagnosi, 5 - 20121 Milan - Italy.

**Intesa Sanpaolo Research Department – Head of Department Gregorio De Felice****Coordination International Research Network****e-mail address****Giovanni Barone (Head)**

giovanni.barone1@intesasnpaolo.com

**ISP Research Department (Headquarter Team)****Macroeconomic Research**

Silvia Guizzo (Asia ex-Japan)

silvia.guizzo@intesasnpaolo.com

Debora Palmieri (Latin America and Sub-Saharan Africa)

debora.palmieri@intesasnpaolo.com

Francesca Pascali (MENA and EE)

francesca.pascali@intesasnpaolo.com

Antonio Pesce (CEE and SEE Countries and Quantitative Analysis)

antonio.pesce@intesasnpaolo.com

Francesco Martinelli (Data Base and Quantitative Analysis)

francesco.martinelli4@intesasnpaolo.com

**Trade & Industry, Banking and Market Research**

Wilma Vergi (Trade and Industry)

wilma.vergi@intesasnpaolo.com

Vincenzo Petrignano (Financial Markets)

vincenzo.petrignano@intesasnpaolo.com

Davidia Zucchelli (Banking)

davidia.zucchelli@intesasnpaolo.com

**ISP International Subsidiaries Research Departments:****VUB (Slovakia, Czech Republic and Poland)**

Zdenko Štefanides (Head)

zstefanides@vub.sk

Michal Lehuta

mlehuta1@vub.sk

Jacob Obst

jobst@vub.sk

**CIB (Hungary)**

Mariann Trippon (Head)

trippon.mariann@cib.hu

Andras Bukovszki

bukovszki.andras@cib.hu

**PBZ (Croatia, Bosnia I Hercegovina and Slovenia)**

Ivana Jovic (Head)

ivana.jovic@pbz.hr

Ana Lokin

ana.lokin@pbz.hr

**Banca Intesa (Serbia)**

Marija Savic (Head)

marija.v.savic@bancaintesa.rs

Tijana Matijasevic

tijana.matijasevic@bancaintesa.rs

Jelena Draskovic

jelena.draskovic@bancaintesa.rs

Sanja Djokic

sanja.djokic@bancaintesa.rs

Katarina Bubonja

katarina.bubonja@bancaintesa.rs

**Alexbank (Egypt)**

Samer Halim (Head)

samer.halim@alexbank.com

Mariam Massoud

mariam.massoud@alexbank.com

Aly Fayad

aly.fayad@alexbank.com

Mayada Hassan

mayada.hassan@alexbank.com

**ISP International Subsidiaries Research Contacts:****Intesa Sanpaolo Bank (Albania)**

Kledi Gjordeni

kledi.gjordeni@intesasnpaolobank.al

**Intesa Sanpaolo Bank (Romania)**

Marius Pacurari (Head)

marius.pacurari@intesasnpaolo.ro

**Pravex Bank (Ukraine)**

Artem Krasovskiy

artem.krasovskiy@pravex.ua

**Eximbank (Moldova)**

Natalia Mihalas

natalia.mihalas@eximbank.com

Olga Pisla

olga.pisla@eximbank.com

Doina Caraman

doina.caraman@eximbank.com