INTESA SANPAOLO

International Research

Economic and Banking Outlook

March 2022

Countries with ISP subsidiaries

Quarterly Note

Research Department

International Research Network

Gianluca Salsecci
Head of International Research Network

International Research Network Team

Viewpoint

Following the outbreak of the Russia-Ukraine conflict, our GDP forecasts are revised significantly downwards overall in 2022-23. Due to the ongoing acceleration of inflation and the war-related financial market tensions, all CBs are expected to start rising or tightening further their policy rates.

Just after two years since the outbreak of the Covid-19 pandemic, and with the global economy having started to recover in 2021 after the severe shock in 2020, a new crisis – the Russian conflict with Ukraine – has struck the world. The war is having a devastating effect in terms of lost human lives and disrupted international relations and is expected to show likely long-lasting geo-strategic and economic implications.

Given the uncertainties surrounding the duration, intensity and conclusion of the conflict, any predictions of its main economic impacts are likely to be short lived. Working on the baseline assumption that the war will continue in 2Q, with diplomatic tensions likely extending beyond this, we prudentially revise downwards our GDP growth rates for the CEE/SEE region by about 2.1pp in 2022 (to 2.8% from the 4.9% forecast in December), and by about 0.8pp in 2023 (to 2.9% from the 3.7% previously forecast).

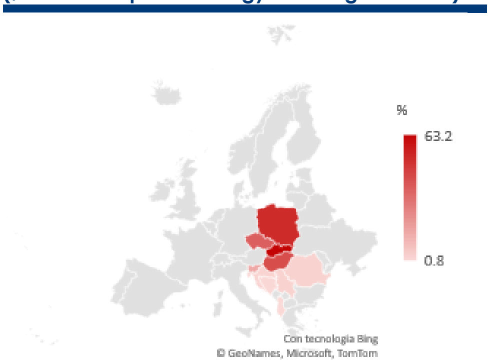
The revision is due to both supply- and demand-side factors. The former are related to the recent spikes in energy and food prices and disruptions in global value chains following sanctions, with shortages of primary and intermediate goods occurring in the manufacturing sector. The latter are related to the impact on consumption and investments, due to higher inflation expected among households and higher business uncertainty among corporates. The intensity of these factors is foreseen to be different among the countries in the region, depending on the value-added structure of their economies, on their trade (mainly energy and food on the import side) links with Russia and Ukraine and on their geo-strategic global position.

Overall, the impact is foreseen to be relatively deeper for CEE countries and relatively milder for SEE countries. The two areas depend on Russia for 44% and 21% (regional averages), respectively, of their energy imports. In addition, in the CEE and SEE areas industry represents 33% and 28%, respectively, of their VA (compared with 25% in the EU), with differences in VA shares covered by energy-intensive sectors.

Outside the CEE/SEE area, a downward revision is also envisaged for Moldova (due also to trade links with Ukraine and Russia), with the GDP growth rate lowered to 2% in 2022, down from the 4.4% projected in our December Outlook. To a lesser extent, we also revise lower our expectations for Egypt (hit by expected lower external revenues from tourism and Suez Canal royalties, as well as higher costs of imported staples), where GDP growth is now revised downwards by 0.3pp to 4.7% in 2022.

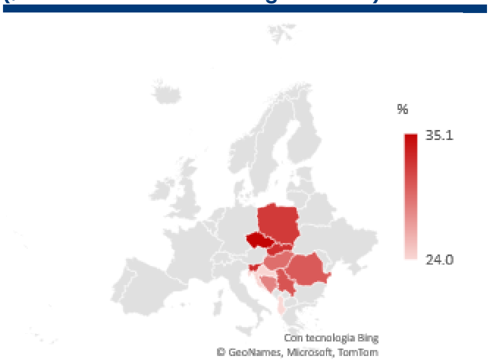
The GDP growth revision is highest for Russia, where, due to the personal, industrial and financial sanctions by western countries, we now forecast a fall in the GDP growth rate of at least 10% in 2022, with a mild but highly uncertain recovery in 2023 (+0.5%, depending on the ability of the

Import of energy from Russia (% of total import of energy - Average 2018-19)



Source: ISP on Comtrade data

Industry (% of Value Added - Average 2018-19)



Source: ISP on Eurostat data

economy to adjust to a more autarchic-oriented domestic environment). Due to the extreme uncertainties related to the Ukrainian crisis, no forecasts are made at this stage for Ukraine.

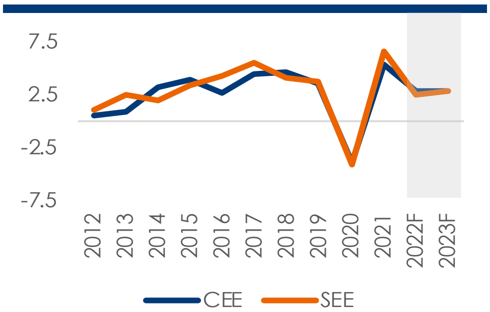
Despite the downward revisions of GDP growth, CPI forecasts have been revised upwards. The acceleration in inflation was already under way before the conflict (with prices rising in February by 8.7% yoy in the CEE/SEE region, 9.4% in the EE region and 8.8% in Egypt), but is now expected to intensify further, mainly driven by the same supply-side factors already at play (higher energy prices, shortages of certain commodities and value chain disruptions). CPI figures are expected to rise by c. 10% in 2022 in the CEE/SEE area and to c. 15% in the EE and in Egypt. After spiking in 2Q-3Q, they are expected to start softening in 4Q22 and further in 2023, on the assumption in this scenario of moderating energy prices and softening war-related tensions along the year.

The slowdown in economic activity, together with the acceleration of commodity-driven inflation, signal the entering of a typical "stagflation scenario" that central banks are likely to find difficult to navigate. On the monetary policy front, we expect a further tightening of policy rates by the so-far-more-hawkish CBs of CZ, HU, PL and Romania, with a significant widening of spreads of local money market rates towards the EAs. In parallel, we now expect tightening to start (in Serbia, Slovakia and Slovenia) and continue (in Albania, where a reversal of the interest rate path only began in March) by the so-far-more-dovish CBs in the region. A further increase in reference rates, both in 2022 and 2023, is also foreseen in Egypt, after the 100bps rise in March, both to counter the risks of accelerating inflationary pressures and to support the exchange rate, which was allowed to realign by 15% in March. However, we do not expect any further increases in the policy rate in Russia, after this was raised to 20% by the CBR at the start of the conflict in an attempt to stabilise the rouble and sanction-hit domestic financial markets.

On the banking side, both lending and deposit dynamics are foreseen to be impacted by the war due to the revision for macroeconomic drivers (lower GDP growth rates, higher CPI profiles, volatile exchange rates), and also banking-specific factors (mainly the direct and indirect exposure of local banks to Russia). In the CEE and SEE areas, after rising in 2021 by 6.7% and 11.3%, respectively, loans are forecast to decelerate in 2022, to 3.7% and 5.7%, respectively (compared with the 4.6% and 6.3% projected in our December Outlook). The growth rates in deposits are also foreseen to decelerate, both in the CEE countries from 8.7% in 2021 to 5.3% in 2022, and in the SEE countries from 12.9% in 2021 to 8.1% in 2022, but to a lesser extent than projected (5.0% and 7.8%, respectively) in our December forecasts due to war-related precautionary saving.

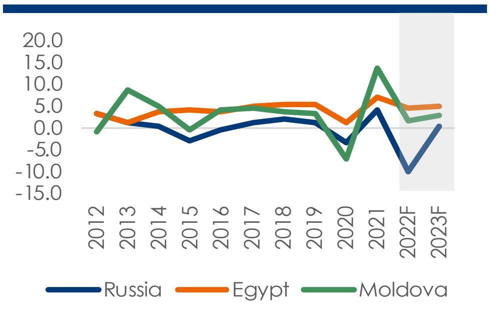
In the EE countries, lending and deposits are expected to decelerate more markedly, in Russia falling from 18.8% in 2021 to 3.8% in 2022 (vs. the 7.6% projected in our December Outlook) and, respectively, from 12.7% in 2021 to 4% in 2022 (vs. the 7.7% projected in our December Outlook) though both aggregates will be supported by the liquidity measures being adopted by the CBR. The impact of the war is again foreseen to be more moderate in Egypt, where loans and deposits are also expected to slow down in 2022 with respect to 2021 (from 18.3% to 13.7% and respectively from 18.7% to 14.7%), but, partly due to the accounting effect of the recent EGP depreciation, to a lesser extent than previously projected.

GDP % yoy CEE/SEE (2022F-2023F)*



Source: ISP Research Department forecast (*) Wt. avg.

GDP % yoy Russia, Moldova, Egypt (2022F-2023F)*



Source: ISP Research Department forecasts

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(*) Due to the extreme uncertainties related to the Russian conflict with Ukraine, no forecasts are made in this release for Ukraine.

ALBANIA
INTESA SANPAOLO BANK Albania

ROMANIA
INTESA SANPAOLO BANK Romania

SLOVAKIA AND CZECH REPUBLIC
VÚB BANKA

BOSNIA AND HERZEGOVINA
INTESA SANPAOLO BANKA Bosna i Hercegovina

RUSSIAN FEDERATION
BANCA INTESA

SLOVENIA
INTESA SANPAOLO BANK

CROATIA
PRIVREDNA BANKA ZAGREB

SERBIA
BANCA INTESA Beograd

HUNGARY
CIB BANK

EGYPT
ALEXBANK | بنك الإسكندرية

UKRAINE
ПРАВЕКС БАНК

MOLDOVA
EXIMBANK

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

The note considers the countries with Intesa Sanpaolo subsidiaries: Slovakia, Slovenia, Hungary and Czech Republic among the CEE countries; Albania, Bosnia, Croatia, Serbia and Romania among the SEE countries; Russia, Moldova and Ukraine among the 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.

Cross country analysis

Recent developments

Antonio Pesce, Francesca Pascali, Davidia Zucchelli

The GDP trend in the CEE and SEE areas remained robust in Q4 2021, showing growth rates of 6.5% and 5.7%, respectively, following 4.9% and 7.7%, respectively, in Q3. However, in 4Q the qoq dynamic slowed in the CEE region (to 1.6% from 1.8% in 3Q) and was slightly negative in the SEE region, with slight contractions in Romania and Croatia (-0.5% and -0.1%, respectively).

High-frequency indicators still do not capture the negative effects of the ongoing war

In March, in the CEE and SEE areas the number of Covid-19 infections improved and new daily cases per million inhabitants dropped to 419 and 245, respectively, from peaks of 2,500 and 2,100 in February. However, the pandemic is not over yet and local authorities remain vigilant when it comes to countering the spread of the infection. Though the pandemic remains a source of uncertainty for economic prospects, it is no longer the only one. After Moscow's recognition of the Luhansk and Donetsk regions in the Donbass region of Ukraine, tensions increased to the point of escalating military operations by Russian troops, with Russia invading Ukraine on 24 February.

The latest releases of high-frequency economic data do not yet fully capture the negative effects of the energy shock resulting from the ongoing war between Russia and Ukraine. In January industrial production grew by 14.4% yoy in the CEE area, and by 0.9% yoy in the SEE area. Nominal exports and retail sales also continued their positive trends in both January and February, supported by a positive base effect. In February the ESI fell in Poland, Romania and Serbia, though still remained stable, or slightly improved, in the other countries.

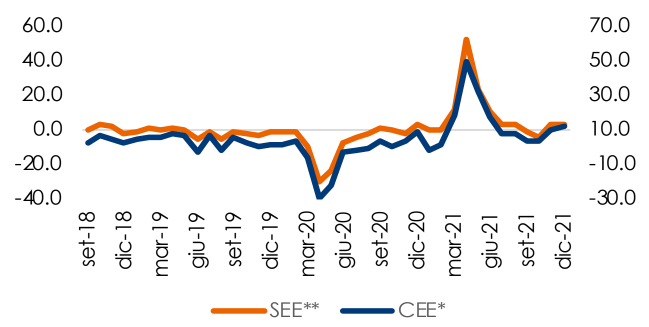
Consumer prices on an accelerating path, led by the energy shock

Inflation continued to accelerate in the first months of 2022. In February consumer prices grew by 8.8%, on average, in the CEE region and by 7.1% in the SEE region, well above the targets of the central banks in all countries in the areas. External factors such as energy price increases (at the time of writing, the price of Brent is USD 116.7 per barrel) and transportation costs, as well as bottlenecks in global supply chains, now being further exacerbated by the ongoing conflict between Russia and Ukraine, are pushing up consumer price indices. In the current context, which is characterised by high volatility in financial markets, price indices were also affected in several cases by the weakening of local currencies, for example, in Hungary and Poland.

Further monetary restrictions to counteract inflation

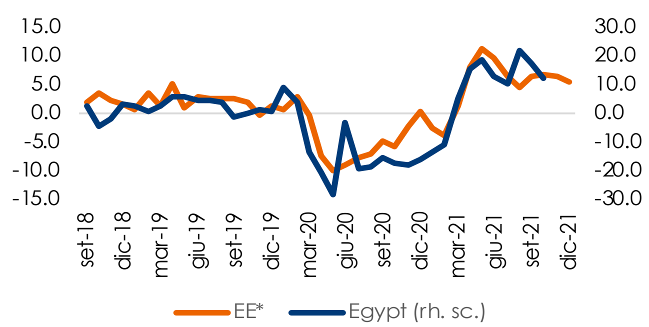
To counteract the inflationary pressures, in their latest meetings the central banks of Hungary, Czech Republic, Poland and Romania further increased **policy rates**, to 4.4% (from a previous 3.4%), 4.5% (vs. 3.75%), 3.5% (vs. 2.75%) and 2.5% (vs. 2.0%), respectively. In March Albania also began a policy rate hike cycle by raising the reference rate by 50bps to 1.0%. In line with the upwardly revised inflationary expectations, **long-term yields** have also risen overall, with a widening of spreads vs. the EA benchmark.

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

Monetary policy tightening due to the conflict and inflation pressures

Outside the CEE/SEE regions, the new geopolitical situation has especially affected the **EE countries,** which in 4Q were hit by a new wave of Covid-19 infections. On the business cycle front, **GDP** increased by 4.3% yoy in 3Q21 (from 10.3% in 2Q21) in **Russia** and by 18.9% in 4Q21 (8.3% in 3Q21) in **Moldova**. In **Egypt** GDP rebounded, with a growth rate of 8.3% yoy in 4Q21 (9.8% in 3Q21), above our previous expectations. With regard to high-frequency indicators in the early months of 2022, in February **industrial production** grew by 6.3% yoy in Russia (vs. 8.6% in January). In January it increased to 13.7% in Moldova (vs, 11.4% in December). **Exports** grew by 72.0% yoy in January 2022 (vs. 60.0% in December) in Russia and by 66.5% yoy in Moldova, partly due to a favourable base effect. **Retail sales** in January rose in Russia by 3.6% (vs. 5.4% in December 2021) and in December by 19.0% in Moldova. On the **inflation** side, in Russia consumer prices accelerated further (9.2% in February vs. 8.7% in January), well above the CB's inflation target (4.0%). In Moldova the outcome was 18.5% in February vs. 16.6% in January, and in it was Egypt 8.8%, though in the last case this is still within the official corridor (7 ± 2%) set by the CBE.

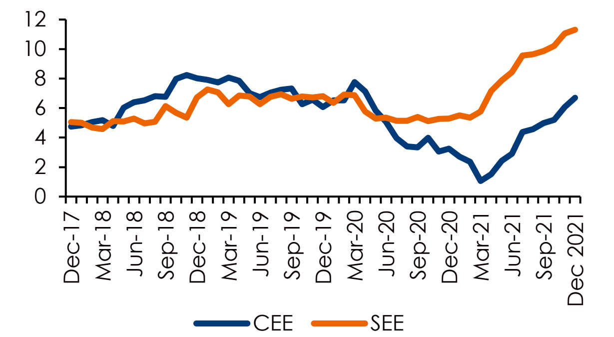
Bank loans still dynamic as of January

With regard to banking aggregates, after closing 2021 with a strong performance, **lending growth** accelerated further in many countries in January, supported by improving business cycle dynamics. Loans accelerated by 7.9% yoy in the **CEE** countries (from 7.6% yoy in December 2021) and by 8.1% yoy in the **SEE** countries (from 8% in December 2021). Hungary and Romania, where loans jumped by 11.9% and 14.2% yoy (from 12.7% and 14.3% yoy in December 2021), respectively, continued to be the highest performers. In the CEE countries household loans showed higher performances than corporate loans (7.7% yoy vs. 5.2% yoy as of January), feeding moderate concerns about mounting bubbles in the residential property market; in the SEE countries the corporate sector was relatively more dynamic (14.3% vs. 8.8%). At country level, corporate loans strengthened to 6.6% yoy in Slovenia and to 19.8% in Romania. **NPL** ratios have so far remained low everywhere, but both central authorities and the EBA have highlighted the increase in Stage 2 loans.

Precautionary motives continued to support **deposit growth**, both in the CEE (8.7%) and SEE (12.9%) areas. **Interest rates** accelerated, especially on lending, in the CEE countries, but also in Croatia among the SEE countries.

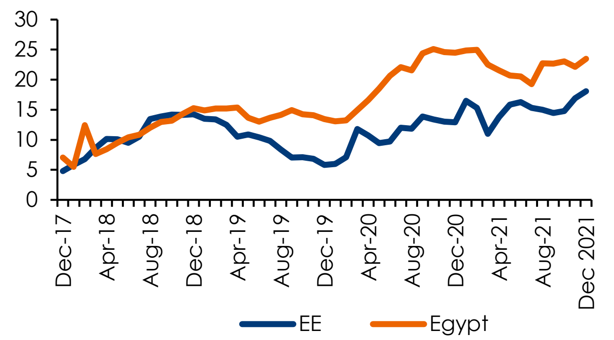
In the **EE** area, loan growth remained strong in Russia (16.2% yoy in January), both to corporates (13.2%, which cover about 70% of the total loan portfolio) and households (23.3%), sustained by the subsidised mortgage lending programme. In Moldova loans increased by 23.5% yoy thanks to households (41% yoy vs. 14% yoy in the corporate sector). In **Egypt** banking aggregates (latest data only to December 2021) continued to be dynamic, with loans increasing by 18.3% and deposits by 18.7% (slightly decelerating with respect to previous months).

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 is expected to slow, with risks skewed to the downside

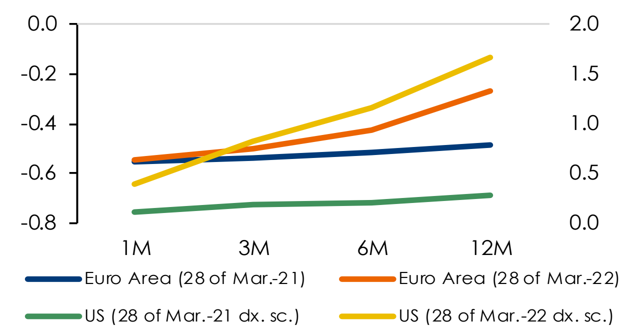
Global economic activity continued to expand in 4Q21 by about 4.6% yoy, a more moderate pace than the 4.8% of 3Q (due to persistent supply-side bottlenecks), leading GDP growth at the global level to land at an estimated c. 6.0% for 2021. Looking ahead, the Russia-Ukraine war makes projections rather uncertain. On the assumption that the conflict does not extend or intensify, but rather that negotiations allow for peace to be restored in a few months, the economic dynamics are projected by the main international centres to slow, but still remain in positive territory at 3.5-3.7% in 2022 and 2.8-3.3% in 2023.

In the **US** the economic recovery is being fuelled by strong fiscal stimulus, and since the country is a powerful energy exporter and agricultural producer with limited trade links with Russia, it is reasonable to believe that it will be comparatively less affected than Europe by the economic consequences of the war in Ukraine. After recording a GDP growth rate of 5.7% in 2021, the US economy is now expected to slow to 3.4% in 2022 and 2.3% in 2023, in comparison with the 4.1% and 2.4%, respectively, foreseen in December. The acceleration of inflation (7.9% in February) will worsen the consumer price scenario, increasing the risks of a wage/price spiral beginning. In this context, in March the Fed began a cycle of policy rate increases, increasing the main rate to 0.5% (from 0.25%). ISP Research Department projections are for a total of seven hikes in 2022 and four in 2023, with rates increased to 2.0% by the end of 2022 and 3.0% by the end of 2023.

In the Euro area, due to the high energy dependence of the region, especially Germany and Italy, on Russia, the economic impact of the war is projected to be much more significant. Despite expansionary fiscal policies also being implemented in the Euro area, in particular through PNRRs at national level, the ISP Research Department lowers its GDP growth projections to 3% in 2022 (after the 5.3% recorded in 2021) and 2.4% in 2023, with the risks remaining severely skewed to the downside. Largely due to base effects and rising energy prices, inflation is expected to accelerate further with respect to the high levels already recorded in January and February (5.1% and 5.9%, respectively). Consumer price dynamics are projected to start slowing later in 2022, though will still remain well above the ECB's target. In this context, the ECB is expected to begin a policy rate reversal, increasing the rate by the end of the year to 0.25%.

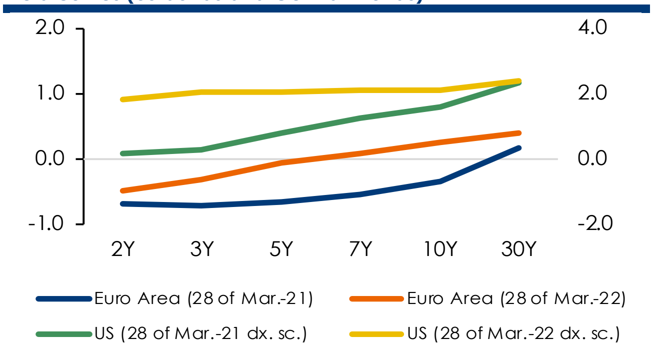
Among **emerging countries,** the prospects for the Asian region are relatively more promising, with China's growth rates left unchanged with respect to our (prudential) December forecasts, at 5.2% in 2022 and 5.4% in 2023. Nonetheless, the difficulties in the Chinese real estate market, the uncertainties over the evolution of the pandemic and especially those related to the conflict between Russia and Ukraine, pose downside risks to the scenario. The economic performances of commodity-exporting countries in other areas are expected to be relatively more robust, but also with non-marginal downside risks.

Benchmark monetary rates (US and EA rates)



Source: ISP elaboration on Refinitiv-Datastream data

Yield curves (US bonds and German Bunds)



Source: ISP elaboration on Refinitiv-Datastream data

Economic outlook

Growth and inflation

Downward revisions to GDP growth in 2022 and 2023 in CEE/SEE due to the Russia-Ukraine war

The conflict in Ukraine represents a significant shock for the economic projections of both the CEE and SEE regions. The two areas depend on Russia for 44% and 21% (on regional average[1]), respectively, of their energy imports (gas and oil). This dependence represents respectively 7.0% and 6.5% of the value added (VA) produced in the two areas. In the CEE and SEE areas, this industry represents, on average, 33% and 28%, respectively, of the VA. The structural characteristics of the production system also amplify the level of exposure in these areas to the energy crisis, with significant VA shares covered by energy-intensive industrial sectors (minerals and refining, metals, vehicles, chemical products and paper).

The risks to our forecasts are on the downside

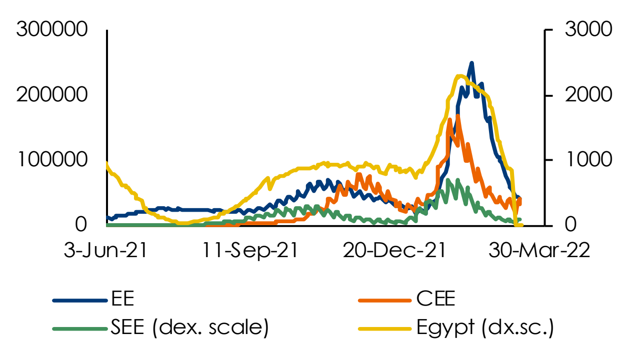
In our scenario, it is **assumed** that the conflict will not intensify and extend to involve other countries directly, but rather that negotiations will allow for the softening of tensions and peace to be restored in a few months. Energy prices – which were severely hit by the start of the conflict – are projected to start easing by year-end and normalise over the year of 2023. In this context, we revise down our **forecasts for GDP growth** in the CEE/SEE regions with respect to our December Outlook, by c. 2.0pps to 2.8% for 2022 and by 0.8pps to 2.9% for 2023. The revision of GDP applies to all countries in the areas, especially those that are most dependent on Russian supplies of energy and basic components for production in their main industries, for example, the automotive sector, Slovakia, Czech Republic and Poland in the CEE area and Romania in the SEE region. The **risks to our forecasts** are seen as being overall skewed to the downside.

Inflationary pressures are expected to remain high for several months

In the same regions, **inflation** is projected to accelerate further in the coming months due to the energy shock and the intensifying supply bottlenecks caused by the conflict. The end-of-period inflation forecast for 2022 is therefore increased upwards to 9.9% (from the 3.9% projected in December) in the CEE area and to 9.8% (from the 4.5% foreseen in December) in the SEE area. By the end of next year, inflation is expected to converge to the previous forecasts (c. 3%, on average, for the two areas), approaching the upper limits of the CB corridor targets.

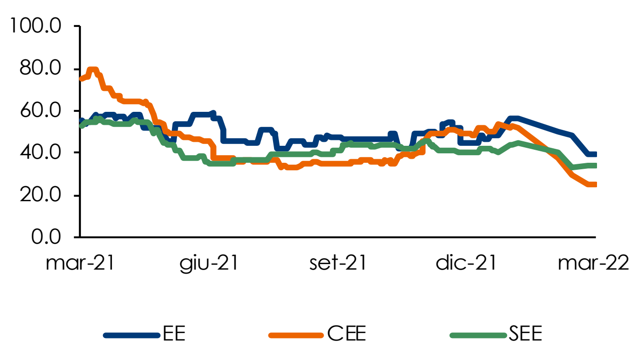
Due to the conflict in Ukraine, the GDP growth forecast in the **EE** region is revised severely downwards, in Russia to -10% in 2022 and +0.5% in 2023 (from the 2.4% and 2.2%, respectively, projected in December) and in Moldova to 2% in 2022 and 3% in 2023 (from the 4.4% and 4%, respectively, projected in December). No forecasts are made at this stage for Ukraine. Price pressures are expected to intensify in both Russia and Moldova, with inflation rates not expected to converge to CBs' targets again before 2024. For **Egypt** we lower our December GDP growth forecasts to 4.7% for the calendar year of 2022 (from the previously projected 5.0%) and to 5.0% for 2023 (from the previous 5.4%). Inflation is expected to accelerate to 15.0% by 2022 year-end due to food and oil price increases. It is expected to ease to 10% by year-end 2023, and go back into the CB's range of 7.0% ± 2.0% in 2024.

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



Source: ISP elaboration on Refinitiv-Datastream data

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



Source: ISP elaboration on Refinitiv-Datastream data

[1] On 2019 data, with 2020 and 2021 excluded to avoid distortion due to the pandemic.

Monetary policy and financial markets

With the energy price shock, the strengthening of inflation has prompted hawkish tones from CEE/SEE central banks

In the **CEE/SEE** region, the CBs of Czech Republic, Poland, Hungary and Romania have adopted increasingly hawkish tones due to the worsening of the expected inflation path as a consequence of the energy price shock. In those countries where the tightening cycle has already started, the paths of policy rates have consequently been revised upwards with respect to our December Outlook.

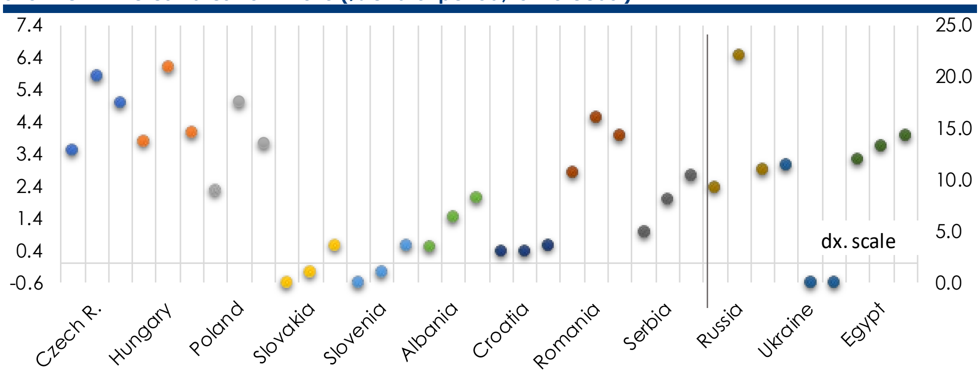
In Hungary the MNB is now expected to increase the policy rate to 6.0% by year-end 2022, but to cut it in 2023 to 4.0% eop with the easing of inflationary pressures. In the same vein, in the Czech Republic the policy rate is expected to be increased to 5.25% in 2022 and then cut to 4.50% by 2023 year-end. In Poland we also forecast an increase in the policy rate, to 4.75% by year-end 2022, and then a decline to 3.50% eop in 2023. In Romania the policy rate is projected to reach 4.0% in eop 2022, before being cut to 3.5% by year-end 2023. For the remaining countries, we forecast an earlier move in the policy rates with respect to our December forecasts, with gradual increases taking place in 2022 and 2023, taking rates to 2.0% and 2.75% eop in Serbia and to 1.50% and 1.75% in Albania. **Money market rate estimates** are revised accordingly.

Outside the CEE/SEE region, due to inflationary pressures and to a new phase of a large-scale structural transformation of the Russian economy, **Russia's CB** raised the policy rate to 20% on 28 February after seven rises made last year. At this stage we do not expect further increases. Starting from this level, key rates may be cut in the course of 2023 and in 2024 as inflation recedes towards the CB's target. In **Moldova,** the central bank raised also sensibly the policy rate by 600bps in 3Q up to 12.5%. Due to expected persisting inflationary pressures, we forecast the policy rate to be raised to 14.00%, by the end of 2022, before being cut back to 8.0% by year-end 2023.

In **Egypt,** the CB after keeping the policy rate unchanged in 2021 raised it in March 2022 by 100bps to 10.25%. It is expected to rise it again by additional 100 bps both in 2022 and 2023.

In the CEE/SEE region the profile of **long-term yields** is revised upwards overall along the forecast horizon with respect to our December scenario, due to the higher path of inflation and the Bund yields forecasts. Spreads with respect to the EA benchmark are also revised slightly upwards, in particular in those countries with higher inflation acceleration and war-related tensions. In **FX markets**, exchange rates are expected to move around the current values in the CEE/SEE area overall but, thanks to rising monetary rates, they will regain from the depreciation occurred in the last few months in several markets, such as Hungary, Poland and the Czech Republic. The Croatian currency (in the ERMII since July 2020, with central parity at 7.53) is expected to adopt the Euro from January 2023.

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



Source: ISP Research Department forecasts

Banking aggregates and interest rates

Banking loans revised downward for 2022

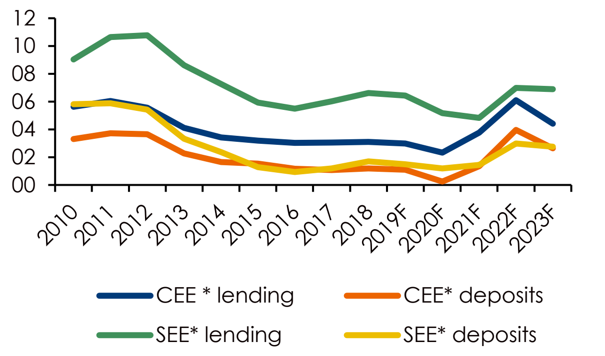
The war between Russia and Ukraine is expected to impact banking aggregates overall, but especially in the CEE/SEE area, due to several drivers, related both to underlying macroeconomic factors at work (economic slowdown, inflation acceleration, exchange rate depreciation) and to banking-specific factors (mainly the direct and indirect exposure of banks to Russia, the impact on import/export trade finance, credit losses). After rising in both CEE and SEE countries (by 6.7% and 11.3%, respectively) in 2021, loans are forecast to decelerate in 2022 to 3.7% in the former and to 5.7% in the latter (compared with the 4.6% and 6.3% predicted in our December forecasts).

Among the **CEE countries** the slowdown is expected to be particularly strong in Hungary (from 12.7% in 2021 to 4.8% in 2022, revised down from the 5.8% projected in our December forecasts), while lending in Poland, which has been particularly weak in the last two years, is expected to decelerate only slightly. Across the area, lending could indirectly suffer from contagion effects due to the local presence of European banks that are also active in Russia (as mainly is the case in Hungary, the Czech Republic and Slovakia) via Russia-related losses and due to capital availability pressures. The size of the potential losses of those banks will also depend on the strategic decision that are taken regarding their Russian subsidiaries (failure, sell-off or nationalisation). The new economic/banking landscape will also affect lending in the **SEE countries,** but to a lesser extent, in our view, due to the lower number of European banks that also operate in Russia in the region (in comparison with the CEE area). With regard to the impact of Russian banks' presence in the CEE/SEE areas, the Sberbank subsidiaries operating in the region were sold quite quickly to other local banks or groups of investors without tensions in the markets and with limited effects on local banking activity. In the **EE countries** lending is seen to strongly decelerate, particularly in Russia because of the recession and the severe and unprecedented financial restrictions imposed by Western countries on banking with Russian counterparts. The new sanctions, the limitations on capital flows to/from abroad, the exclusion of some Russian banks from SWIFT transactions and the interruption to the operations of foreign banks based in the country – which have been faced with strong liquidity support to the national banking system by the CBR and the government – are forecast to hit lending (which is seen to decelerate from 13.4% in 2021 to 3.8% in 2022, down from the 7.6% projected in our December forecasts).

Deposits are forecast to decelerate as well because of the new recession and increasing inflation, which could support consumer spending. On the other hand, uncertainties about the war's evolution could sustain deposit growth via precautionary saving. In detail, deposits are expected to decelerate in the CEE countries from 8.7% in 2021 to 5.3% in 2022, and in the SEE countries from 12.9% in 2021 to 8.1% in 2022 (vs. the 5.0% and 7.8%, respectively, foreseen for 2022 in our December forecasts). In Russia deposits are forecast to slow from 12.7% to 4% (7.7% in our Dec. forecasts).

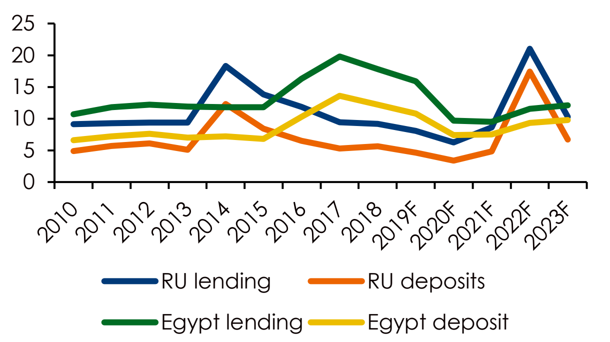
The effect of the war on banking will be more moderate in **Egypt**, where loans are expected to decelerate from 18.3% to 13.7% and deposits from 18.7% to 14.7% (partly sustained, however, by the accounting effect of the recent EGP depreciation).

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

Zdenko Štefanides

Real Economy

The Czech economy had not recovered from the Covid pandemic when another external crisis, Russia's war with the Ukraine, hit. The war will affect the Czech economy in many ways, the most damaging being via a reduction in trade with Russia and Ukraine, which together account for about 3% of local exports. The indirect trade impact, via exports of intermediate goods to Germany and other trading partners, will also be significant, especially in the automotive industry, which is suffering from a lack of supply of key components from Ukraine, forcing some carmakers to halt production. On the import side, the main issue is energy, as Russia is a key supplier. In addition, food prices are on the rise due to the lack of global supplies of wheat and other agricultural commodities, of which Ukraine and Russia are key global producers.

Inflation, now in the double digits and rising, will lead to a reduction in the purchasing power of households and will negatively influence consumption. Government consumption will certainly increase to mitigate the risks and help the hundreds of thousands of refugees from Ukraine who are seeking shelter in Czechia, including via the reallocation of EU funds. There is therefore an increasing risk that the Czech economy will fall into stagflation in 2022.

Financial Markets

The Czech National Bank (CNB) has been the most hawkish central bank in Europe, hiking rates by a cumulative 4.25% since last year. Until the war, the CNB had been on course to continue increasing rates to curb inflationary pressures. With the economy now likely to stall, the rationale for continued policy tightening is more difficult. Yet, until the downside risks to the economy materialise, the CNB seems inclined to continue raising rates. Meanwhile, the Czech koruna rate has taken a beating as the entire CEE region is seen as highly exposed to risks from the Russia-Ukraine war. The bank has stepped into the market and indicated a readiness to defend the exchange rate.

Banking Sector

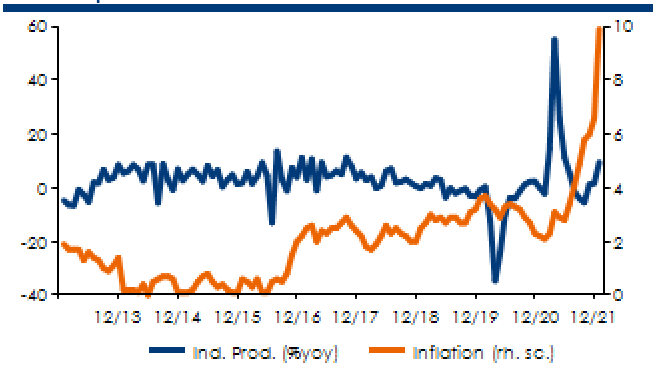
In the banking sector, the ongoing rise in interest rates and the forthcoming tightening of macroprudential measures in April (reintroduction of LTV and DTI limits, stricter DSTI) will slow growth in mortgages and thus, also overall loan volumes. The uncertainty related to the Russia-Ukraine war is also likely to slow demand for loans from corporates. In the deposit market, we project a moderation of the growth in volumes due to a correction of the previous extraordinary Covid-driven surge. The growth rates in loans and deposits should thus become more aligned in 2022 and allow the loan-to-deposit ratio to stabilise at comfortable 71%.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-5.7	3.4	2.5	2.0
CPI (eop)	2.3	6.6	9.3	1.4
Euro exch. rate (value, eop)	26.3	25.2	25.6	24.2
Short-term rate (eop)	0.4	3.5	5.8	5.0
L/T bond yields (eop)	1.3	2.7	3.8	3.3
Bank loans (pr. sector, yoy)	4.1	8.4	3.8	4.3
Bank deposits (pr. sector, yoy)	11.9	7.0	4.7	4.1
Lending int. rate (corp., eop)	1.9	4.4	5.8	4.4
Deposit int. rate (hh, eop)	0.6	2.3	3.8	3.1

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

Industrial production and inflation



Source: Czech Statistical Office

Hungary

Real Economy

Mariann Trippon

After a strong performance in 2021, GDP growth is set to slow significantly in 2022 due to the direct and indirect impacts of the Russia-Ukraine war. The outlook for the remainder of the year is highly uncertain, but the conflict will weigh on the industrial sector. Higher input prices, supply-side bottlenecks and weaker demand will delay the recovery of the sector. The strong rise in inflation will eat into households' real disposable income, loan growth may weaken due to higher rates, and weaker sentiment is likely to hold back investments. We revise downwards our 2022 GDP forecast from 5% to 3.5%, with the risks surrounding this projection being balanced. 2022 growth will remain driven by consumption, followed by a more balanced structure from 2023. Inflationary pressures have intensified: the broad-based acceleration of prices already visible before the outbreak of the war is now being compounded by the impact of rising world commodity and raw material prices. Although administrative measures may limit the rise in prices in the short run, average 2022 CPI is expected to be about 9%. Inflation is expected to decelerate during 2023, but the chance of inflation falling to the 3% target in a sustainable manner is highly unlikely before 2024.

Financial Markets

Reacting to mounting upside inflation risks, the central bank accelerated the tightening cycle: unconventional measures are now being phased out, and the policy rate and the effective one-week depo rate reached 4.4% and 6.15%, respectively, in March. The one-week depo rate will remain an important tool to manage periods of heightened market stress. Based on the outlook for inflation, the tightening cycle could continue into the second half of the year. Short rates may peak above 6.5%. and rates will remain higher for longer. However, we expect a partial reversal from 2023, in tandem with a deceleration in inflation. The rate hikes of the NBH managed to stabilise the HUF well below the all-time highs reached at the onset of the Russia-Ukraine war. Looking ahead, the widening rate differential could support the Hungarian currency, but neither external risks nor the fundamentals of the domestic economy justify significant further appreciation in 2022.

Banking Sector

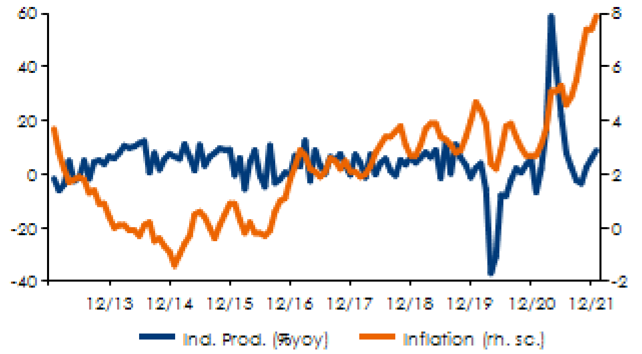
Bank deposit growth is expected to slow in 2022 due to the end of moratoria, as households and corporate customers are starting to pay back their loans, which reduces their savings. Lower GDP growth also points to a deceleration in savings growth. Customer deposits in the banking sector are expected to grow by close to 5% in 2022 and 2023. The same is true for lending, due to the end of government/central bank supported lending programmes and payment moratoria. In line with slower economic growth, the increase in loan volumes will drop to less than 5%.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-5.1	7.2	3.5	3.0
CPI (eop)	2.7	7.4	9.0	3.5
Euro exch. rate (value, eop)	359.0	367.2	365.0	353.2
Short-term rate (eop)	0.8	3.8	6.1	4.1
L/T bond yields (eop)	2.2	4.4	5.1	4.3
Bank loans (pr. sector, yoy)	13.4	12.7	4.8	4.7
Bank deposits (pr. sector, yoy)	23.3	17.6	4.9	4.7
Lending int. rate (corp., eop)	3.0	4.5	6.8	4.1
Deposit int. rate (hhs, eop)	0.3	1.5	4.1	1.9

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

Industrial production and inflation



Source: Hungarian Central Statistical Office

Poland

Real Economy

Zdenko Štefanides

The Polish economy had fully recovered from the Covid pandemic in 2021 and was poised to continue growing strongly on vibrant consumer demand, supported by forthcoming EU-funded investments. The invasion of Ukraine by Russia has rocked this outlook and led to substantial downward growth revisions. Poland is the most exposed EU country to Russia, Belarus and Ukraine in terms of exports and imports, and as such has the most to lose from the sanctions imposed on Russia and Belarus and the disruptions in the supply of imported commodities and components from Ukraine.

Poland is also home to the largest diaspora of Ukrainians and is hence also a target country for most of the millions of refugees, which will have a substantial impact on consumer and business confidence. These downside risks will be partially offset by fiscal spending on refugees, some paid for by the EU. In the medium term, the government is proposing an increase in public spending on defence, from the current 2% towards 3% of GDP. Nonetheless, in 2022 real GDP growth will decelerate markedly from the previous year's strong 5.8% and is now forecast at 2.5%.

Financial Markets

The National Bank of Poland (NBP) has been tightening policy swiftly since October last year, having raised the reference rate by a cumulative 340bps to 3.50%. Inflation, the key driver of the NBS's tightening, is nonetheless yet to peak and will remain above the NBP's target range through 2023. We therefore expect rates to go up further, with the reference rate culminating at 4.75%. Bonds and the currency markets, meanwhile, have been hammered by the war and investor flight from the region. Ten-year government bond yields rose by some 100bps to about 5.0% in response, while the zloty plunged to a historic low of 5.0 versus the euro. Both have since corrected slightly, but as the war in the neighbouring Ukraine persists, we expect Polish yields to remain elevated and decrease only marginally toward 4.4% by year-end. In addition, the zloty is likely to remain on the weaker side amid the geopolitical risks.

Banking Sector

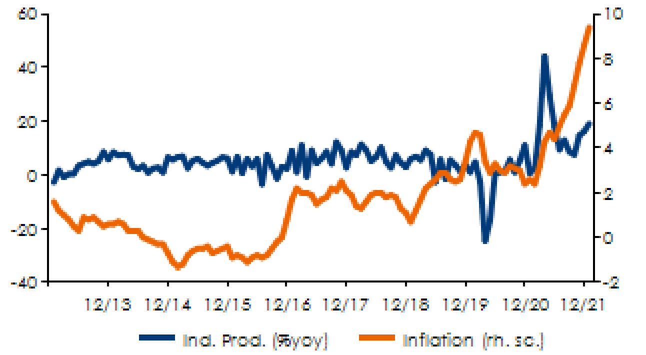
In the banking market, we expect loan volume growth to moderate due to the slowing economy, the uncertainty surrounding the war and increasing interest rates. Deposit growth is likely to pull back from the pandemic-driven expansion of 2020 and 2021 yet will continue to grow faster than loans. The ratio of loans to deposits, which in pre-Covid times ran close to 100%, is thus likely to continue to decline moderately to below 80%.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-2.7	5.7	3.0	3.2
CPI (eop)	2.4	8.6	11.2	3.4
Euro exch. rate (value, eop)	4.5	4.6	4.7	4.5
Short-term rate (eop)	0.1	2.3	5.0	3.8
L/T bond yields (eop)	1.3	3.3	4.4	3.4
Bank loans (pr. sector, yoy)	0.4	4.6	3.5	4.3
Bank deposits (pr. sector, yoy)	12.8	7.7	5.7	5.1
Lending int. rate (corp., eop)	2.4	3.8	6.9	4.8
Deposit int. rate (hh, eop)	0.2	1.3	4.8	3.0

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

Industrial production and inflation



Source: Statistics Poland

Slovakia

Michal Lehuta

Real Economy

The war in neighbouring Ukraine has fundamentally changed the outlook for Slovakia's economic development for this year and perhaps the years to come. Russia, Ukraine and Belarus are not among Slovakia's major trading partners, however imports of natural gas, oil, iron ore and other commodities from these countries are becoming endangered or have already been curtailed. In particular, a possible shortage of natural gas from Russia, which annually constitutes about EUR 2.6Bn (2.7% of GDP), would be a major threat to local industries. Gas supplies have not been restricted yet, however it is the aim of the EU to diversify away from Russian energy commodities rather quickly, with all the related costs.

Together with the high prices of other inputs, such as wheat, sunflower oil and many metals used in the local automotive sector, further western sanctions and supply chain shortages could have a major downward effect on local GDP. This leads us, in our main scenario, to expect local economic growth to decelerate to only about 2% this year. Next year could see a rebound thanks to the approaching deadline for drawing EU funds from the 2014-20 programming period.

Slower growth should also mean a slower decrease in the unemployment rate. In addition, we could witness a period of serious stagflation, with high input and import prices pushing up consumer inflation (already at 9.0% in February) in 2022, and, due to the lags related to the mechanism which regulates energy prices for households, this could also extend into 2023.

Financial Markets

The ECB confirmed its tapering aims for the second quarter of 2022, with the first hike in its refinancing interest rate expected by the end of the year. This has already increased long-term government bond yields to more than 1.0%, with the spread against Germany widening to higher than the long-term average of about 50bps. The expected negative impact of the Russia-Ukraine war pushed the EUR/USD exchange rate below 1.10. This rate could start to slowly rise during the rest of the year, taming some of the resulting inflationary pressures of a weaker euro.

Banking Sector

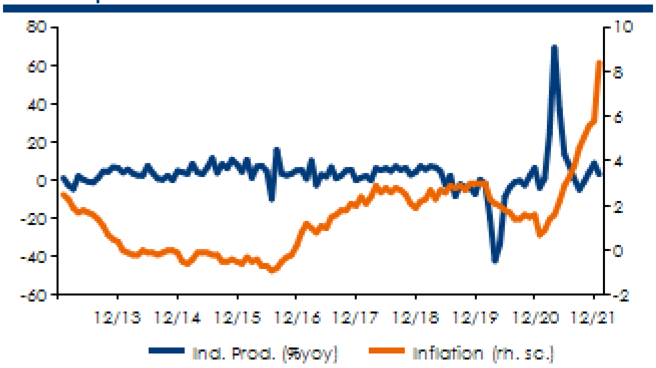
Rising bond yields, including on mortgage-backed securities, led Slovak banks to start increasing their low mortgage interest rates for the first time in history. The changes have so far been small but are expected to continue at least until 2023. This could lead to a decrease in the strong loan growth among already highly indebted households (9.8% yoy in January), and perhaps also rein in rising house and apartment prices (22% yoy in 4Q21). On the other hand, bank deposits could grow faster due to the uncertainty, which would take the high loan-to-deposit ratio of the sector a little lower.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-4.4	3.0	2.1	3.0
CPI (eop)	1.6	5.8	6.2	1.9
Short-term rate (eop)	-0.5	-0.6	-0.3	0.6
L/T bond yields (eop)	-0.5	0.0	1.0	1.4
Bank loans (pr. sector, yoy)	4.5	7.3	3.2	4.0
Bank deposits (pr. sector, yoy)	6.3	4.5	5.2	4.5
Lending int. rate (corp., eop)	1.7	1.6	2.1	2.8
Deposit int. rate (hh, eop)	0.0	0.0	0.3	1.0

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

Industrial production and inflation



Source: Statistical Office of Slovakia

Slovenia

Real Economy

Ivana Jović

The Slovenian economy ended last year on a strong footing as GDP growth accelerated to a double-digit rate and the headline figure increased by 10.4% yoy. Thus, 4Q wrapped up a V-shaped rebound for 2021, with an 8.1% rise. This was thanks largely to strong domestic demand, though this was partially offset by net foreign demand, despite the high growth in exports. The current year started on a comparatively strong note as industrial production in January expanded by 10% yoy, exports by 20% yoy and real retail trade by 32.3% yoy, reflecting last year's containment. However, in mid-February the outlook once again turned gloomier amid Russia's invasion of Ukraine.

At the moment, the balance of risks is tilted to the downside, meaning that, in this transitory scenario, we revise downwards our 2022 GDP estimate (to 3.5%), with future calibrations heavily depending on the development of the war and its spillover to the EA economy. The direct impact of the war on Slovenia's exports is relatively small as exports to both Russia and Ukraine accounted for less than 3% in 2021, with the production of pharmaceuticals and medical products most exposed. Surging energy prices following the outbreak of the war pushed already-intensified inflationary pressures to a 20-year high of 7% in February, and renewed supply-side constraints and spillover effects are expected to push inflation even higher. Thus, lower disposable incomes, deteriorating sentiment (March Consumer Sentiment survey declined by 12pp mom to its lowest level since November 2020) and limited investments amid disrupted supply chains and pricier inputs will have strongly negative impacts. For the moment, we expect average annual inflation to be close to 7%, however, as is the case with GDP estimates, a high level of uncertainty and negative risks prevail.

Financial Markets

Ana Lokin

The 10Y Slovenian government bond spread on the Bund widened sharply in March, exceeding 110bps at its peak. The average yield and spread in 2022 are estimated at 1.1% and 90bps, respectively, 100bps and 50bps higher than in the previous scenario (eop estimated at 1.4% and 80bps), as the uncertainties around the Russia-Ukraine war put strong pressure on the markets.

Banking Sector

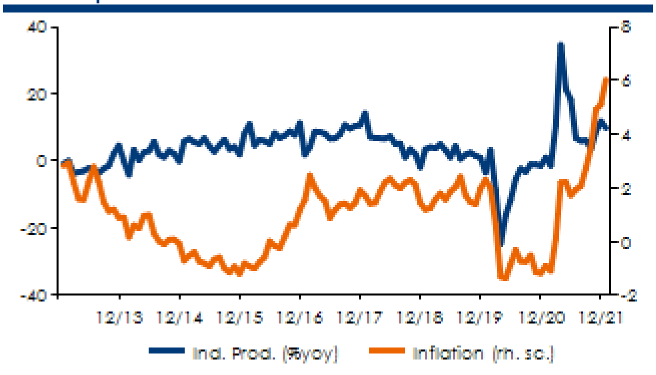
Loans sped up from 5.2% yoy in December to 6.2% yoy in January thanks to strong corporate lending. Despite starting the year strongly, we cut our 2022 loan growth forecast by 0.4pp versus the December scenario to 2.9% yoy, as thinner GDP growth, falling disposable incomes and elevated risks bode ill for credit demand and supply. Deposits have continued to decelerate, coming in at 8.2% yoy in December and 6.9% yoy in January. Compared with the previous scenario, we lift our 2022 deposit growth forecast by 0.5pp to 4.9% yoy as we see the uncertainty and postponement of investments once again supporting the building up of savings. The resolution of Sberbank, which faced liquidity problems after the EU imposed sanctions on Russia, was carried out by a sale to the largest domestic bank, NLB.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-4.2	8.1	3.5	3.2
CPI (eop)	-1.2	5.1	6.5	1.7
Short-term rate (eop)	-0.5	-0.6	-0.3	0.6
L/T bond yields (eop)	-0.2	0.3	1.4	1.5
Bank loans (pr. sector, yoy)	-0.9	5.2	2.9	2.8
Bank deposits (pr. sector, yoy)	12.2	8.2	4.9	4.0
Lending int. rate (corp., eop)	2.3	1.9	2.4	3.1
Deposit int. rate (hhs, eop)	0.1	0.1	0.4	1.1

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

Industrial production and inflation



Source: Statistical Office of the Republic of Slovenia

Albania

Kledi Gjordeni

Real Economy

The strong momentum in economic growth in Albania during 2021 (in the first quarter, economic activity exceeded even the level recorded before the earthquake and pandemic) continued in the first two months of the current year. But new geopolitical developments, in particular the military conflict in the heart of Europe, are reshaping the scenario, which was expected to eventually benefit from the containment of pandemic measures and the reopening of activities. The economic impact from the Russia-Ukraine conflict has quickly led to higher prices (mainly of food, raw materials and commodities) at the international level, which will negatively affect global growth in 2022. Despite Albania's low trade with and financial exposure to the parties in the conflict, the disruption of global supply chains, as well as the western sanctions imposed on Russia, will definitely have a corrosive effect on economic growth during the year. The latest economic projections have significantly revised upwards the inflation rate and downwards economic growth in 2022.

Financial Markets

The Russia-Ukraine war is seriously threatening the overall global growth of economies and destabilising the situation locally. A higher inflation rate in the domestic market was already evident at the end of last year and the beginning of the current year. Mainly due to higher food prices and transportation costs, the CPI rate in Albania rapidly exceeded the 3% price stabilisation target set by the CB, landing at 3.9% yoy in February. Even in the best-case scenario of the Russia-Ukraine conflict not being prolonged, prices will still remain high during the rest of 2022 and part of 2023 too, which will negatively affect GDP growth in Albania. This is now forecast at 30% in 2022 and slightly higher in 2023. To counteract the jump in the CPI rate due to supply-side shocks and the strength of aggregate demand, on 23 March the CB decided to increase the policy rate by 0.5% points from 0.5% to 1.0%. The CB will further monitor the situation as it tries to balance the objective of price stability with the need to support the economy's recovery. Despite the uncertain environment, the exchange rate remains steady and foreign reserves are in a good shape.

Banking Sector

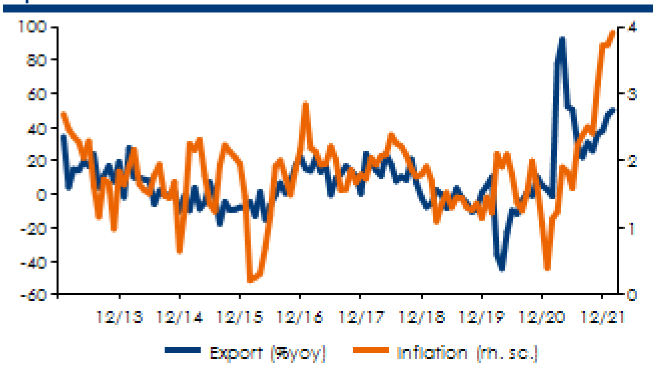
The reopening of the economy after the pandemic measures improved confidence and drove higher consumption and investments, which in 2021, together with the favourable monetary and financial environment and fiscal stimulus, encouraged credit growth. Even so, in January 2022 the higher demand from households and enterprises boosted total loans by almost 10% yoy (household loans grew by 12.4% and corporates by 8.47% yoy). At the same time, total deposits increased by 10.84% yoy (households by 7.14% and corporates by 27.05% yoy). The NPL rate continued its downward trend, landing at 5.45%. Both lending and deposit growth are expected to be negatively affected by the economic consequences of the war.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-3.3	8.4	3.0	3.3
CPI (eop)	1.1	3.7	8.0	2.8
Euro exch. rate (value, eop)	123.3	120.9	124.0	126.5
Short-term rate (eop)	0.4	0.5	1.6	2.1
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	7.0	9.6	3.6	3.8
Bank deposits (pr. sector, yoy)	8.1	9.2	5.3	4.0
Lending int. rate (pr. sec., eop)	6.5	5.3	7.5	8.2
Deposit int. rate (pr. sec., eop)	0.4	0.4	1.3	1.9

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

Export and inflation



Source: National Statistical Institute

Bosnia and Herzegovina

Real Economy

Ivana Jović

Following an estimated GDP growth rebound to around 7% in 2021, up from -3.2% in 2020, the solid economic trends continued for the first two months of 2022, with strong growth observed across the board. However, the broadly positive macroeconomic outlook become increasingly gloomier after Russia invaded Ukraine in late February. And while direct trade links are limited (as together these countries account for less than 1% of BiH's merchandise exports and about 3% of imports, mainly related to gas imports from Russia, on which BiH is fully dependant), a negative impact via inflation and spillovers from the slowdown in EU growth will be felt in BiH's economy. In January the surge in energy and food prices pushed consumer inflation to 7% (the highest rate since October 2008), even before the pressures intensified and broadened to a wide range of commodities amid the outbreak of the war. Thus, we expect continuing strong inflationary pressures and a deterioration in disposable income, which, alongside the expected slowdown in remittance inflows, will curb private consumption, which accounts for about 70% of local GDP.

In view of the fact that the recently observed deterioration in political stability will adversely affect investment decisions, as well as access to IFIs' funding, we see GDP growth slowing to about 2.5% in 2022, with average annual inflation surpassing 7%. The adverse external geopolitical situation will also burden the already-hampered local political scene, with the parties involved needing to reach an agreement on the new election law pending the October general elections. So far, the engagement of the international community has not borne fruit, even though in order for the election to be held as planned, the new law needs to be adopted by early May. Around that time, the National Assembly of Republika Srpska is expected to adopt a set of laws passing defence, taxation and judiciary responsibilities from the state to RS institutions, so the country is facing increasingly uncertain times. Overall, the downside risks prevail over the outlook.

Banking Sector

Ana Lokin

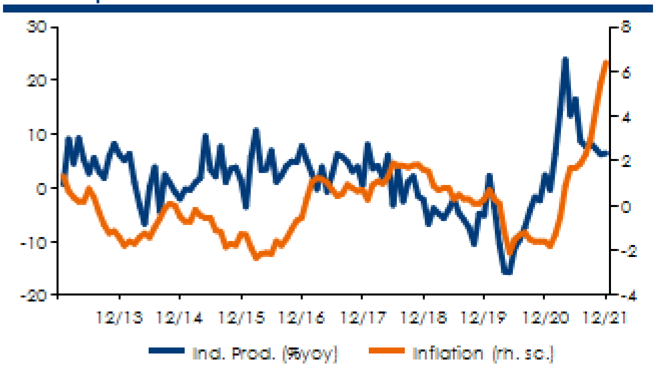
Although 2021 ended with a solid private sector loan increase of 3.7% yoy, a pace that was maintained at the start of 2022 (January: 3.6% yoy), recent developments and the consequent reduction in GDP growth, both local and EU-wide, have inevitably dampened loan growth expectations for this year. Compared with the December scenario, in this March release we trim our forecast for the loan increase by 0.8pp to 3.3% yoy, as uncertainty is expected to weigh on credit demand and increase banks' risk aversion. Deposits from the private sector saw a 10.0% yoy increase at the end of 2021 and have carried on strongly in 2022 (January: 10.2% yoy). Our March scenario sees deposits rising by 5.5% yoy in 2022, unchanged compared with our December scenario. The resolution of Sberbank BH, whose liquidity deteriorated after the EU imposed sanctions on Russia, was carried out by a sale; ASA Finance took over Sberbank Sarajevo, while Nova Banka Banja Luka took over Sberbank Banja Luka.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-3.2	6.9	2.5	2.3
CPI (eop)	-1.6	6.4	5.5	2.2
Euro exch. rate (value, eop)	2.0	2.0	2.0	2.0
Short-term rate (eop)	n.a.	n.a.	n.a.	n.a.
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	-2.5	3.7	3.3	3.7
Bank deposits (pr. sector, yoy)	6.5	10.0	5.5	4.6
Lending int. rate (corp., eop)	2.9	3.1	n.a.	n.a.
Deposit int. rate (hh, eop)	0.2	0.1	n.a.	n.a.

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

Industrial production and inflation



Source: Agency for statistics of Bosnia and Herzegovina

Croatia

Real Economy

Ivana Jović

Supported by the strong 9.7% yoy 4Q performance, 2021's V-shaped recovery ended the year with 10.4% yoy growth. On a quarterly basis, the final quarter of 2021 inched downwards by a marginal 0.1%, but the major surprises were the stronger-than-expected slowdown in investments (0.8% yoy) and the surging government consumption (14% yoy), while private consumption (7.7% yoy) and exports (31.7% yoy) confirmed the robust trends already observed in previous quarters. Unfortunately, the outbreak of the Russia-Ukraine war brought about a more uncertain outlook and our first transitory estimates suggest growth will slow to about 2.9%, with the risks clearly skewed to the downside.

The adverse impact will unfold through several channels: energy prices, trade, disruption in supply chains, financial market shocks and the impact on confidence. And although direct links with Russia and Ukraine represent less than 3% of total merchandise trade, the spillover from the expected slowdown in EU growth, combined with surging commodity prices and supply chain disruptions, will bring corrections to the exports outlook. A more tangible impact is expected to materialise through muted private consumption, reflecting strengthening inflation (February CPI 6.3%, the highest since September 2008; FY22 avg. estimate 7.5%) and deteriorating consumer sentiment. Consumer sentiment was already on a declining path as inflation expectations had begun to increase, and we expect a sluggish perfrormance to be confirmed with the release of the March Consumer Confidence Survey later in the month. As similar or even stronger inflationary pressures are being observed across Europe, it would be unreasonable to expect tourism to continue the stellar recovery recorded last year, thus our expectations are adjusted to reflect a more cautious stance.

Financial Markets

Ana Lokin

The FX rate came under pressure in March, hence the CNB had sold EUR 0.3Bn to banks by 23 March. However, due to the imminent EA entry, we leave our 2022 average forecast at 7.53. The Sberbank turmoil brought renewed interest in repo auctions, with an average of HRK 0.3Bn placed at a 0.05% rate. Bond yields sharply widened, with the 10Y kuna government bond spread on the Bund hitting 210bps. This year's forecast of average yield and spread are revised to reflect the current rise in risks, to 1.8% and 160bps, respectively.

Banking Sector

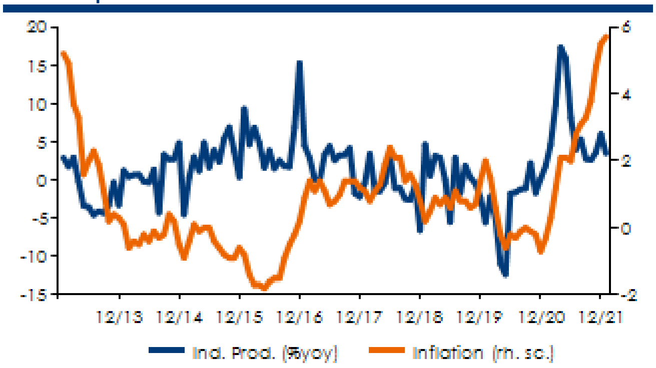
Our expectations of buoyant corporate loan growth are affected by the gloomier outlook. Price spikes and the weaker performance of tourism reducing revenues are expected to dent household credit demand. The overall loan growth rate in 2022 is thus cut by 0.9pp versus the previous scenario, taking it to 3.0% yoy. Our deposit growth projection is revised slightly upwards (0.2pp) to 6.0% yoy as the unstable outlook pushes up savings and leads to the postponement of investments. The resolution of Sberbank, initiated after the bank faced liquidity problems after the EU imposed sanctions on Russia, was carried out by a sale to the domestically owned HPB.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-8.1	10.4	2.9	3.4
CPI (eop)	-0.7	5.5	8.0	1.6
Euro exch. rate (value, eop)	7.5	7.5	7.5	7.5
Short-term rate (eop)	0.2	0.4	0.4	0.6
L/T bond yields (eop)	0.7	0.6	2.1	1.7
Bank loans (pr. sector, yoy)	3.5	2.3	3.0	2.9
Bank deposits (pr. sector, yoy)	8.7	11.7	6.0	3.0
Lending int. rate (pr. sec., eop)	5.2	4.0	4.3	4.1
Deposit int. rate (pr. sec., eop)	0.1	0.1	0.1	0.3

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

Marius Pacurari

Real Economy

The fifth wave of the Covid-19 pandemic has now ended. While the number of cases per day is more than 2,000, the number of fatalities is only 12. The state of alert has not been continued.

GDP growth was 5.6% in the fourth quarter of 2021, below expectations. Given the current military conflict at the eastern border, and with the acceleration in energy, food and commodities prices at a global level, GDP growth in 2022 is expect to decelerate to about 2.3%, with a slight recovery foreseen in the next years.

At the end of February CPI had grown by 8.53% yoy, slightly above the NBR's February projection. The NBR's February projection for 2022 eop, released before the war started, was 9.8%. We now believe the figure will be higher, moving well above 10%, before starting to decelerate.

The budget deficit at the end of 2021 was below the target set in the government's fiscal consolidation plan, coming in at 6.7% of GDP versus the 7.13% target. In 2022 it will be very hard for the government to act according to the fiscal consolidation plan due to the challenges raised by the Russia-Ukraine war.

At present, the priorities of the government are energy price increases (and how to minimise the impact on the population), as well as the new expenses and investment needs being generated by the war.

Financial Markets

At the February meeting, the NBR increased all monetary policy rates (deposit, Lombard and reference rates) by 50bp. The minimum reserve requirements remained unchanged. However, further tightening measures are expected. In recent weeks, the NBR intervened in the market to keep the EUR/RON rate stable (at about 4.95) and bought state bonds to improve the liquidity of the market. The money market benchmark rate disconnected from the FX swap implied yields market, with the gap wider than 8%. In addition, the domestic bond curve suffered a significant jump, by more than 100bp on higher than seven-year maturities.

Banking Sector

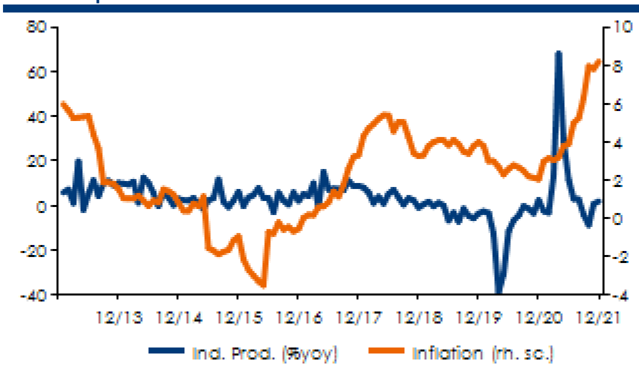
After strong growth in 2021 (14.25% in loans and 13.62% in deposits), January 2022 saw a significant deceleration. While in loans there was still a slight increase (0.34%) versus December, in deposits the evolution was negative (-0.09%). Interest rates grew by 1.94% and 6.05%, on average, for RON-denominated deposits and loans, respectively, and decreased to 2.58%, on average, for EUR-denominated loans. For EUR-denominated deposits, the interest rate remained at 0.06%.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-3.9	5.6	2.5	2.7
CPI (eop)	2.1	8.2	11.3	3.6
Euro exch. rate (value, eop)	4.9	4.9	5.0	5.1
Short-term rate (eop)	2.0	2.8	4.5	4.0
L/T bond yields (eop)	3.3	5.4	6.2	5.9
Bank loans (pr. sector, yoy)	5.0	14.3	6.7	5.5
Bank deposits (pr. sector, yoy)	15.4	13.6	9.3	6.2
Lending int. rate (pr. sec., eop)	5.4	5.3	8.1	7.8
Deposit int. rate (pr. sec., eop)	1.5	1.9	4.1	3.5

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

Industrial production and inflation



Source: National Institute of Statistics

Serbia

Marija Savic

Real Economy

The Ukrainian conflict is expected to slow Serbia's economic growth, which had returned to pre-Covid levels by expanding by 7.4% yoy in 2021. Even though Serbia's direct trade exposure to Russia and Ukraine is relatively small, it will be indirectly affected through shortages along the supply chain, higher global commodity prices, the energy crisis and the lower economic performance of its key trading partners in EU countries. Uncertainty will weigh on both external and domestic demand, dampening overall investment and consumer confidence, while the prolonged high inflation will erode private consumption. We revise our economic activity projection from 4% to 3%, with the risks asymmetrical to the downside depending on the duration of the war and sanctions.

Inflation picked up to 8.8% in February, while core inflation remained lower at 4.4%. Government measures to cap the prices of basic foodstuffs, ban exports of cereals and reduce excises on fuels partially softened the price growth. Higher global energy and commodity prices and problems in the supply of semi-finished products and raw materials, as well as the spillover of inflation from Europe through import prices, will further fuel inflationary pressure this year, with little prospect of a full reverse in the mid-term. Eop and average CPI in 2022 are seen at 7.3% and 8.6%, respectively.

Financial Markets

The NBS kept the key policy rate unchanged at 1% in March, but raised further the weighted average repo rate in reverse repo auctions, as well as the percentage of excess dinar liquidity withdrawn in those auctions. The weighted average interest rate at the last repo auction held this month came in at 0.95%, up by 84bps since the process of monetary tightening began. With almost no space left for further repo rate hikes as repo will match the key policy rate soon, it is very likely that the central bank will begin to hike its key rate in the coming weeks. The eop and average key policy rate are seen at 2% and 1.5%, respectively, in 2022.

The dinar remained almost unchanged against the euro in the first two months of 2022 as NBS sold EUR 945m on the FX market to keep it stable. The increased demand for foreign exchange reflects continuing intensive FX purchases by energy importers, as well as the heightened uncertainty amid the geopolitical crisis in Ukraine. That said, we expect the eop and average EUR/RSD rate to land at 11.7.76 and 117.7, respectively, in 2022.

Banking Sector

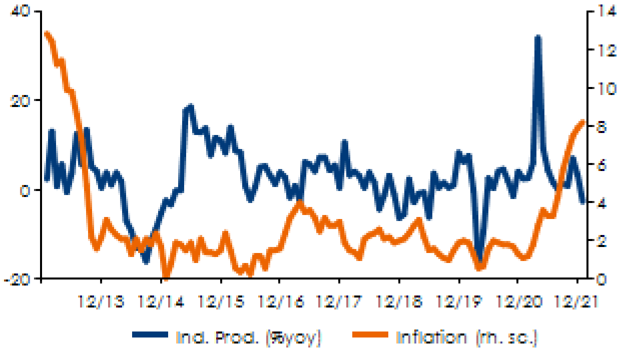
The banking sector remains liquid and well capitalised. In the first days of the Ukraine conflict, the Serbian subsidiary of Sberbank was acquired by a domestic banking group, while the two other Russian banks that operate in Serbia have a negligible market share of less than 5%. Growth in banking sector loans and deposits is expected to slow to single digits this year, while banking interest rates will start to increase gradually following the rise in money market rates.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-0.9	7.5	3.0	3.5
CPI (eop)	1.3	7.9	7.3	1.8
Euro exch. rate (value, eop)	117.6	117.6	117.8	118.0
Short-term rate (eop)	1.1	1.0	2.0	2.8
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	11.1	10.2	5.3	5.1
Bank deposits (pr. sector, yoy)	17.4	13.3	6.5	6.1
Lending int. rate (pr. sec., eop)	5.8	5.5	7.3	7.9
Deposit int. rate (pr. sec., eop)	1.5	1.8	2.6	3.1

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

Industrial production and inflation



Source: Statistical Office

Moldova

Natalia Mihalas

Real Economy

The economy of Moldova recorded double-digit real growth yoy in 4Q21 (+18.9%), as well as in Y2021 as a whole (+13.9%). This was partly due to the yoy GDP contraction in 2020 (-7%), as well as the accelerating growth in domestic consumption, investments and economic activity. Compared with the pre-pandemic year (2019), in 2021 GDP increased by 4.5% yoy. Moving forward, the external conditions have changed substantially. When taking into account the Russia-Ukraine conflict, the crisis in the energy sector and the acceleration of inflation as a result of rising food prices, as well as the high base of 2021, from a prudent perspective, GDP is expected to expand by about 2% in 2022 and to mildly accelerate to 3% yoy in 2023.

As of February 2022, inflation stood at 18.52%, in line with the NBM prognosis. It is foreseen to continue on an upward trajectory, peaking in 3Q22 slightly above 20%, before starting to decelerate. However, it is expected to remain above the target range at year-end (16.5%), only falling to the 5% target close to 2024. The current high forecasted inflation rate is the result of: (1) the adjustment of tariffs for natural gas and thermal energy in 1Q22; (2) the significant anticipated increase of some tariffs in 2Q22; (3) the increase in the tariff for interurban transport in 1Q22; (4) high imported inflation; (5) the high trend in aggregate demand; (6) side effects from the significant adjustment of regulated tariffs since the beginning of 2022; and (7) the high level of oil prices in the international market expected from 3Q22 until 3Q23.

Financial Markets

In light of inflationary expectations, the CB has increased the short-term rate a number of times (in 2pp increments), taking it to 12.5% as of March. Due to persistent inflationary pressures, real monetary conditions will be restrictive in 2022, with a negative impact on aggregate demand. Hence, further policy rate hikes are expected during the year. The main rate is expected to end the year at 14%, before following a downward trajectory towards 8% in 2023. The 91-, 182- and 364-day Treasury bill yields increased by 3.8pp, 3.7pp and 4.7pp, respectively, in 1Q22 compared with the end of 4Q21 levels, in line with the inflation trajectory and expectations. For longer maturity government bonds (two, three and five years), yields also saw a sharp upward movement (+7pp, +6pp and +11pp, respectively) compared with their December levels.

Banking Sector

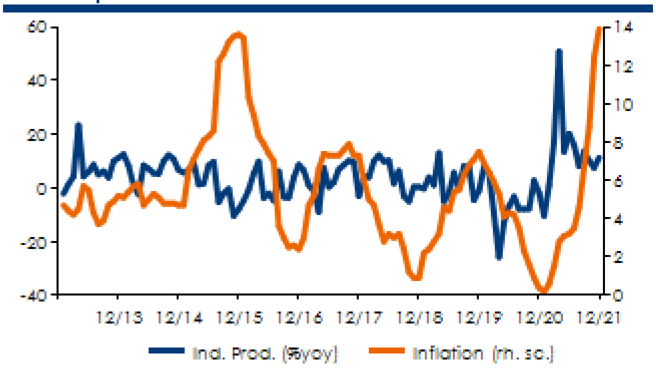
As of February 2022, the volume of private loans recorded a positive double-digit dynamic, expanding by 24.6% yoy and reaching a total of EUR 2.8bn. The main drivers were household and corporate loans, with respective 40.8% and 15.54% yoy increases. A similar evolution was recorded with private deposits, which grew by 10.4% yoy as of February 2022. The latter was mainly due to the 17.4% growth in corporate deposits, namely in foreign currency (+33.7%). The yoy growth of both loans and deposits is expected to decelerate in the projected years compared with the end of 2021 levels. Loans are foreseen to grow by 9.1% and 4.5% yoy in 2022 and 2023. Deposit growth in 2022 is expected to be about 9.5%, stabilising at 7%, on average, in the following years.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-7.0	13.9	2.0	3.0
CPI (eop)	0.4	13.9	16.5	7.5
USD exch. rate (value, eop)	17.2	17.7	18.9	19.1
Euro exch. rate (value, eop)	20.7	20.1	21.5	22.7
Short-term rate (eop)	2.7	6.5	14.0	8.0
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	13.1	23.5	9.1	4.5
Bank deposits (pr. sector, yoy)	16.5	13.1	9.5	7.1
Lending int. rate (corp., eop)	8.2	8.5	14.9	10.3
Deposit int. rate (hh, eop)	3.5	3.2	9.9	5.6

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

Industrial production and inflation



Source: National Bureau of Statistics of the Republic of Moldova

Russia

Real Economy

Francesca Pascali

The conflict in Ukraine will have several economic repercussions for Russia and we expect the economy to contract by 10% this year, with risks to the downside should sanctions be extended to the energy sector, which accounts for close to 50% of total goods exports. As at the end of March, about 55% of people in Russia were vaccinated. There is, however, the possibility of a new wave of Covid as the level of uncertainty regarding the new Omicron variant is high.

The Central Bank of Russia did not provide GDP forecasts for this year at its March meeting, but made it evident that flash indicators, including the Bank of Russia's business survey, suggest a severe deterioration in the economic scenario. Businesses in many industries are reporting production and logistics difficulties amid the trade and financial restrictions imposed on Russia. The sharp surge in uncertainly is weighing heavily on sentiment and the expectations of households and businesses.

Financial Markets

Russia's financial conditions have tightened sharply. The CBR raised the key rate by 20% on 28 February and confirmed this level on 18 March, against the background of the drastic change in external conditions, to sustain financial stability and prevent uncontrolled price rises. The Russian economy was reported to be entering a phase of a large-scale structural transformation, which will be accompanied by a temporary period of increased inflation, mainly related to adjustments in relative prices across a wide range of goods and services. The Bank of Russia's monetary policy is expected to enable a gradual adaptation of the economy to the new conditions and a return to the 4% inflation target in 2024. As a result of deteriorating external conditions, in particular following western financial sanctions, the ruble has plummeted to an all-time low. The exchange rate could remain volatile until the end of 2022.

Banking Sector

Davidia Zucchelli

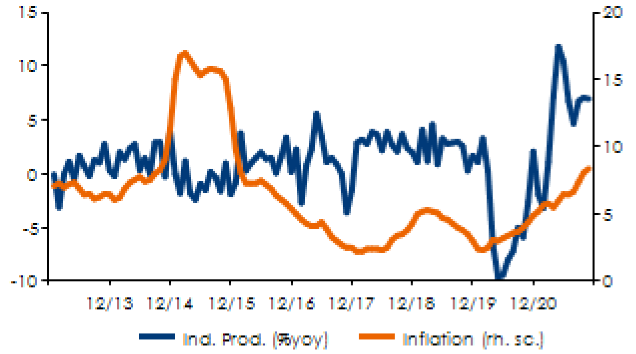
New sanctions hit the banks' funding and liquidity profiles first, but the CBR has provided assurances that it will give the necessary support to banks with funds, as it has done in the past. Deposit and loan growth rates are expected to decelerate in 2022, with deposits falling from 10.1% in 2021 to 4% in 2022 and loans from 13.1% to 3%. Capital ratios were high (12.4%) as of September, but the credit risk due to the new recession in 2022 is forecast to worsen (following the Crimea crisis, the outstanding amount of NPLs increased by 45% in 2014), and the cost of funding to rise strongly.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-3.0	4.5	-10.0	0.5
CPI (eop)	4.9	8.4	16.0	6.0
USD exch. rate (value, eop)	76.8	73.7	100.0	95.0
Euro exch. rate (value, eop)	90.1	83.3	113.5	112.8
Short-term rate (eop)	4.9	9.3	22.0	11.0
L/T bond yields (eop)	5.9	8.5	9.1	8.1
Bank loans (pr. sector, yoy)	14.4	18.8	3.8	5.0
Bank deposits (pr. sector, yoy)	9.6	12.7	4.0	6.0
Lending int. rate (corp., eop)	6.3	8.6	21.0	10.3
Deposit int. rate (hh, eop)	3.4	4.8	17.4	6.7

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

Egypt

Samer Halim

Real Economy

We expect real GDP growth to slightly decelerate to 4.7% in 2022 (calendar year) against December's forecast of 5%, due in particular to lower-than-previously-projected growth in consumption, before recovering again to 5% and 5.5% in 2023 and 2024, respectively. At the sectoral level, the telecommunications and natural gas sectors are likely to maintain their high levels of growth, while tourism and non-oil manufacturing will be negatively affected by the war and increasing production costs. We forecast urban headline CPI will rise to an average of 12% yoy during 2022, mainly due to the recent depreciation of the EGP and the increase in prices of commodities at a global level.

Financial Markets

On 21 March the EGP depreciated by about 17% against the USD due to escalating pressures relevant to disruptions in global supply chains and the Russia-Ukraine war. In regard to the latter, we note that Egypt relies on these two countries for 85% of its staple supplies. The depreciation was undertaken to attract fresh portfolio investments, after recent capital outflows, and to safeguard foreign exchange liquidity. To mitigate the impacts of this shock, the Finance Ministry announced that it would maintain the customs exchange rate at EGP16 per USD till April and promised a USD 7Bn package to shield society's most vulnerable groups. The Egyptian government and the IMF also confirmed talks over a new deal, where Celine Allard, the IMF Mission Chief for Egypt, welcomed the previous measures, adding: "(IMF) staff is working closely with the authorities to prepare for program discussions with a view to supporting our shared goals of economic stability and sustainable, job-rich, and inclusive medium-term growth for Egypt." These developments, alongside a USD 5Bn Saudi deposit in the CBE, investment deals with Qatar and the UAE and the issuance of foreign currency debt securities (Egypt successfully issued its first Japanese Yen-denominated Samurai bonds to raise an equivalent of USD 0.5Bn), are expected to bring stability to the FX market. Egypt was able to build up strong foreign reserves in recent years, amounting to USD 41Bn as of February 2022.

Reacting to the expected rise in inflation rates, on 21 March the CBE increased core interest rates by 100bps, to 9.25% and 10.25% for overnight deposit and lending rates, respectively. We expect further 100bps rises by 2H 2022 and 2023 to anchor inflation expectations and contain the second-round effects of supply shocks.

Banking Sector

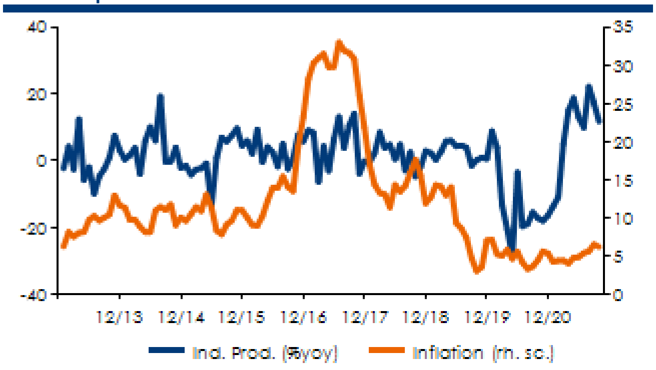
State-owned banks National Bank of Egypt and Banque Misr issued 18% certificates of deposit for one year to prevent dollarisation, managing to collect EGP 300Bn in deposits in the first nine days. We increase our expectations for banking aggregates in 2022 against December's forecast, due to the accounting effect of the appreciation of the current FC portfolio, to 13.7% and 14.7% yoy for private loans and deposits, respectively. Egypt's banking sector still enjoyed a high funding base and sound performance (19.3% CAR and 3.6%) as of September 2021.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	1.5	7.2	4.7	5.0
CPI (eop)	5.4	5.9	15.0	10.0
USD exch. rate (value, eop)	15.7	15.7	18.5	18.0
Euro exch. rate (value, eop)	19.1	17.8	21.0	21.4
Short-term rate (eop)	12.8	12.4	13.3	14.3
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	24.5	18.3	13.7	10.3
Bank deposits (pr. sector, yoy)	20.4	18.7	14.7	10.7
Lending int. rate (corp., eop)	9.7	9.5	11.1	12.1
Deposit int. rate (hh, eop)	7.4	7.5	8.7	9.6

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

Industrial production and inflation



Source: Ministry of Planning, CAPMAS

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

The Economy

		GDP chg yoy			Ind.prod[1]. chg.yoy			Export nom. chg yoy			Retail sales chg yoy			Inflation chg yoy			Unemployment rate			Wages chg yoy			Economic Survey[2]		
		4Q21	3Q21	2020	Last	mth	4Q21	Last	mth	4Q21	Last	mth	4Q21	Last	mth	4Q21	Last	mth	4Q21	Last	mth	4Q21	Last	mth	4Q21
CEE	Czechia	3.7	3.1	-5.7	9.6	Jan	-0.8	13.0	Jan	0.7	9.6	Jan	7.0	11.1	Feb	6.1	3.5	Feb	3.4	5.7	Jan	3.5	99.3	Feb	91.6
	Hungary	7.1	6.1	-5.1	8.9	Jan	1.7	15.0	Jan	5.9	4.5	Jan	5.4	8.3	Feb	7.1	4.2	Jan	3.8	9.7	Dec	9.4	107.9	Feb	107.2
	Poland	7.7	5.6	-2.7	19.2	Jan	12.9	16.6	Jan	17.3	20.0	Jan	17.5	8.5	Feb	7.7	5.5	Jan	5.4	9.5	Jan	9.8	100.3	Feb	106.2
	Slovakia	1.4	1.3	-4.4	3.1	Jan	4.2	17.0	Jan	9.4	17.0	Jan	2.4	9.0	Feb	5.5	7.0	Jan	6.7	8.8	Jan	8.0	94.9	Feb	94.8
	Slovenia	10.4	5.0	-4.2	9.9	Jan	8.2	20.5	Jan	22.6	33.3	Jan	40.6	7.0	Feb	4.5	6.7	Dec	6.7	1.7	Dec	2.5	104.5	Feb	102.8
SEE	Albania	n.a.	7.0	-3.3	n.a.	n.a.	n.a.	50.5	Feb	36.4	n.a.	n.a.	n.a.	3.9	Feb	3.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Bosnia H.	n.a.	8.4	-3.2	3.0	Jan	6.9	49.4	Jan	42.2	19.1	Jan	17.2	6.4	Dec	5.4	31.0	Dec	31.2	5.5	Dec	5.4	n.a.	n.a.	n.a.
	Croatia	9.7	15.8	-8.1	3.5	Jan	4.0	41.4	Dec	34.7	1.9	Jan	7.6	6.3	Feb	4.7	7.8	Jan	7.3	4.0	Dec	5.5	107.6	Feb	109.3
	Romania	5.6	7.4	-3.9	2.0	Dec	-1.9	28.7	Dec	16.9	7.2	Dec	5.4	8.5	Feb	8.0	2.7	Dec	2.7	7.2	Dec	6.7	101.2	Jan	102.5
	Serbia	7.0	7.6	-0.9	-2.6	Jan	3.7	131.0	Jan	23.4	4.3	Jan	8.4	8.8	Feb	7.3	n.a.	n.a.	n.a.	12.9	Dec	12.1	n.a.	n.a.	n.a.
EE & MENA	Moldova	18.9	8.3	-7.0	13.7	Jan	9.7	66.5	Jan	43.0	19.0	Jan	1.4	18.5	Feb	11.7	n.a.	n.a.	2.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Russia	n.a.	4.3	-3.0	8.6	Jan	6.7	72.0	Jan	61.7	3.6	Jan	4.3	9.2	Feb	8.3	4.3	Nov	4.3	12.6	Dec	11.9	48.6	Feb	51.6
	Ukraine	5.9	2.4	-4.0	2.9	Jan	1.1	53.3	Jan	38.0	14.4	Jan	6.2	10.7	Feb	10.4	n.a.	n.a.	9.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Egypt	8.3	9.8	1.5	11.9	Oct	11.9	80.6	Nov	64.4	n.a.	n.a.	n.a.	8.8	Feb	5.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	47.9	Jan	49.0
	m.i. E. A.	4.6	3.7	-6.4	-1.3	Jan	0.3	18.9	Jan	12.0				5.9	Feb	4.6									

Source: Refinitiv; [1]Wda data for Slovakia, Slovenia; Bosnia, Croatia, Egypt; [2]PMI manufacturing for Russia and Egypt, ESI for remaining countries.

Markets and Ratings

		S/T rates		L/T rates[1]		Foreign exchanges[2]			Stock markets		CDS spread (bp)		FX res. chg (mln €)[3]			CA bal. (mln €)[4]		Rating
		25/3	chg	25/3	chg	25/3	3M*	1Y*	3M*	1Y*	25/3	24/12	4Q21	3Q21	2020	4Q21	3Q21	Moody's
CEE	Czechia	4.7	1.7	4.0	1.0	24.63	-1.56	-6.02	-5.5	24.3	36.7	32.9	n.a.	n.a.	n.a.	-2,074	42.5	Aa3
	Hungary	6.5	2.4	6.4	1.8	375.18	1.53	2.87	-11.6	-0.4	89.1	44.7	n.a.	n.a.	n.a.	n.a.	n.a.	Baa2
	Poland	4.7	1.8	5.4	1.9	4.75	2.61	2.37	-5.4	14.1	72.8	39.7	n.a.	n.a.	n.a.	n.a.	271.0	A2
	Slovakia	-0.5	0.1	1.3	1.4	n.a.	n.a.	n.a.	-0.2	7.3	37.9	36.4	n.a.	n.a.	n.a.	-1,980	-1,060.7	A2
	Slovenia	-0.5	0.1	1.4	1.0	n.a.	n.a.	n.a.	-3.8	21.7	50.5	41.9	147	734	165	144	367.6	A3
SEE	Albania	0.9	0.4.	n.a.	n.a.	122.06	1.43	-0.98	n.a.	n.a.	n.a.	n.a.	n.a.	252	n.a.	n.a.	-117.0	B1
	Bosnia H.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	477	631	650	n.a.	-105.6	B3
	Croatia	0.4	0.0	2.1	1.5	7.57	0.72	-0.02	0.7	11.4	105.5	75.7	670	2,811	382	n.a.	4,380.3	Ba1
	Romania	4.4	1.6	6.5	1.2	4.95	-0.02	1.27	-1.4	13.4	141.7	73.0	n.a.	n.a.	5,605	n.a.	n.a.	Baa3
	Serbia	1.0	0.0	n.a.	n.a.	117.73	0.12	0.13	-17.5	-15.0	131.6	108.9	n.a.	2,711	113	-1,005	-765.3	Ba2
EE & MENA	Moldova	9.0	2.0	10.5	4.3	18.29	2.62	2.33	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	10.4	B3
	Russia	24.7	15.2	13.6	5.2	104.07	41.87	36.66	-100.0	-100.0	4,756.6	118.4	16,505	22,377	9,290	n.a.	n.a.	Ca
	Ukraine	12.8	1.6	71.0	57.3	29.53	8.47	4.51	-46.4	-42.3	5,784.6	619.9	3,466	-935	3,471	-1,172	-1,272.0	Caa2
	Egypt	11.5	-0.1	11.3	1.1	18.34	16.71	16.63	-4.3	-2.5	602.3	479.6	110	241	-5,357	n.a.	-4,000.7	B2
	m.i.A.E.	-0.5	0.1	0.5	0.8	1.1	-3.0	-6.7	-3.1	11.6	8.53	5.10						

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

Banking aggregates and interest rates (private sector)

		Loans chg yoy %			NPL/Loans %			Foreign Liab. chg yoy %			Deposits chg yoy %			Loans rate1-NewB*. %				DepositsRate1-NewB*. %				Loans/Dep %		
		Last	Mth	2020	Last	mth	2020	Last	mth	2020	Last	Mth	2020	Last	mth	2020	S[4]	Last	mth	2020	S[4]	Last	mth	2020
CEE	Czechia	8.4	Jan	4.1	2.4	Jan	2.7	5.3	Jan	-1.4	6.3	Jan	11.9	5.4	Jan	1.9	C	2.8	Jan	0.6	H	70.8	Jan	69.8
	Hungary	11.9	Jan	13.4	3.6	Sep	3.9	43.9	Jan	-11.9	15.7	Jan	23.3	5.0	Jan	3.0	C	2.0	Jan	0.3	H	74.1	Jan	75.0
	Poland	4.5	Jan	0.4	2.9	Dec	3.7	-1.2	Dec	10.4	6.5	Jan	12.8	4.2	Jan	2.4	C	1.7	Jan	0.2	H	81.3	Jan	82.4
	Slovakia	8.3	Jan	4.5	2.3	Jan	2.7	5.5	Jan	-18.9	3.9	Jan	6.3	1.9	Jan	1.7	C[2]	0.0	Jan	0.0	H[2]	105.2	Jan	101.0
	Slovenia	6.2	Jan	-0.9	1.2	Dec	1.9	-3.3	Jan	2.0	6.9	Jan	12.2	1.8	Jan	2.3	C[2]	0.0	Jan	0.1	H[2]	64.3	Jan	64.9
SEE	Albania	9.8	Jan	7.0	5.5	Jan	8.1	40.1	Jan	-6.8	10.8	Jan	8.1	5.8	Jan	6.5	PS	0.4	Jan	0.4	PS	52.8	Jan	53.6
	Bosnia H.	3.6	Jan	-2.5	5.5	Sep	6.1	-15.9	Jan	-25.5	10.2	Jan	6.5	2.9	Jan	2.9	C	0.1	Jan	0.2	H	88.0	Jan	95.0
	Croatia	1.9	Jan	3.5	4.3	Dec	5.4	-7.0	Jan	7.3	11.0	Jan	8.7	5.1	Jan	5.2	PS	0.0	Jan	0.1	PS	66.6	Jan	72.2
	Romania	14.2	Jan	5.0	3.4	Jan	3.8	13.2	Jan	-6.2	13.2	Jan	15.4	6.1	Jan	5.4	PS	1.9	Jan	1.5	PS	68.4	Jan	67.8
	Serbia	10.7	Jan	11.1	3.5	Dec	3.7	7.3	Jan	6.3	13.3	Jan	17.4	6.2	Jan	5.8	PS	1.6	Jan	1.5	PS	90.5	Jan	92.6
EE & MENA	Moldova	23.7	Jan	13.1	6.4	Jan	7.4	2.6	Jan	-1.7	11.8	Jan	16.5	8.7	Jan	8.2	C	3.5	Jan	3.5	H	63.2	Jan	57.3
	Russia	16.2	Jan	14.4	9.5	Sep	8.3	12.5	Nov	10.5	13.2	Jan	9.6	8.5	Nov	6.3	C	4.6	Nov	3.4	H	119.2	Nov	113.2
	Ukraine	13.0	Jan	-2.8	29.5	Jan	41.0	1.5	Jan	-5.4	12.2	Jan	33.6	14.5	Jan	12.6	PS	5.2	Jan	4.4	PS	75.0	Jan	74.0
	Egypt	18.3	Dec	24.5	3.6	Sep	3.6	32.4	Dec	16.1	18.7	Dec	20.4	9.5	Jan	9.7	C	7.3	Jan	7.4	H	35.3	Dec	35.4
	m.i. E. A.	3.55	Dec	-1.3	n.a.	n.a.	n.a.	6.7	Dec	1.6	4.7	Dec	9.2	1.2	Jan	1.3	C	0.2	Jan	0.2	H	74.6	Dec	75.4

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

Country Outlook

The Economy

	GDP (% yoy)	2019	2020	2021	2022F	2023F	Inflation (%, avg)	2019	2020	2021	2022F	2023F
CEE	Czech Rep.	2.6	-5.7	3.4	2.5	2.0	Czech Rep.	2.8	3.2	3.9	9.6	3.9
	Hungary	4.6	-5.1	7.1	3.5	3.0	Hungary	3.4	3.3	5.1	9.3	4.1
	Poland	4.1	-2.7	5.7	3.0	3.2	Poland	3.4	3.4	5.1	10.8	5.3
	Slovakia	2.3	-4.4	3.0	2.1	3.0	Slovakia	2.7	2.0	3.2	7.4	4.1
	Slovenia	3.3	-4.2	8.1	3.5	3.2	Slovenia	1.7	-0.3	2.0	6.7	3.2
SEE	Albania	2.2	-3.3	8.4	3.0	3.3	Albania	1.4	1.6	2.0	7.8	4.3
	Bosnia Herzegovina	2.8	-3.2	6.9	2.5	2.3	Bosnia Herzegovina	0.6	-1.0	2.0	7.4	2.7
	Croatia	3.5	-8.1	10.4	2.9	3.4	Croatia	0.8	0.1	2.6	7.5	3.1
	Romania	4.1	-3.9	5.6	2.5	2.7	Romania	3.8	2.6	5.0	11.4	5.1
	Serbia	4.3	-0.9	7.5	3.0	3.5	Serbia	1.9	1.6	4.0	8.6	3.2
EE & MENA	Moldova	3.6	-7.0	13.9	2.0	3.0	Moldova	4.9	3.8	5.1	18.8	12.0
	Russia	1.3	-3.0	4.5	-10.0	0.5	Russia	4.5	3.4	6.7	12.2	11.0
	Ukraine	3.2	-4.0	3.4	n.a.	n.a.	Ukraine	7.9	2.7	9.3	n.a.	n.a.
	Egypt	5.5	1.5	7.2	4.7	5.0	Egypt	9.4	5.1	5.2	12.0	11.3

Markets

	Exch.rate (avg Euro)	2019	2020	2021	2022F	2023F	Interest rate (%, avg)	2019	2020	2021	2022F	2023F
CEE	Czech Rep.	25.7	26.5	25.6	25.4	24.6	Czech Rep.	2.1	0.9	1.1	5.4	5.3
	Hungary	322.6	351.1	358.7	367.1	359.4	Hungary	0.2	0.7	1.4	5.9	4.9
	Poland	4.3	4.4	4.6	4.7	4.6	Poland	1.7	0.6	0.4	4.6	4.4
	Slovakia	n.a.	n.a.	n.a.	n.a.	n.a.	Slovakia	-0.4	-0.4	-0.5	-0.5	0.1
	Slovenia	n.a.	n.a.	n.a.	n.a.	n.a.	Slovenia	-0.4	-0.4	-0.5	-0.5	0.1
SEE	Albania	123.0	123.4	122.3	123.4	125.3	Albania	0.8	0.5	0.5	1.3	1.8
	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	7.4	7.5	7.5	7.5	7.5	Croatia	0.5	0.3	0.3	0.3	0.1
	Romania	4.7	4.8	4.9	5.0	5.0	Romania	3.1	2.4	1.8	3.6	4.3
	Serbia	117.9	117.6	117.6	117.7	117.9	Serbia	2.7	1.5	1.0	1.5	2.4
EE & MENA	Moldova (USD)	17.6	17.3	17.7	18.3	19.0	Moldova	6.9	3.4	3.8	11.1	11.0
	Russia (USD)	64.7	72.6	73.7	102.9	97.5	Russia	7.8	5.4	6.6	16.6	16.5
	Ukraine (USD)	26.1	26.9	27.4	n.a.	n.a.	Ukraine	18.9	12.2	10.7	n.a.	n.a.
	Egypt (USD)	16.8	15.8	15.7	18.0	18.2	Egypt	17.1	13.1	12.8	12.1	14.0

Banking aggregates (% change yoy)

	Loans (pr. sector)	2019	2020	2021	2022F	2023F	Deposits (pr. sector)	2019	2020	2021	2022F	2023F
CEE	Czech Rep.	5.2	4.1	8.4	3.8	4.3	Czech Rep.	6.1	11.9	7.0	4.7	4.1
	Hungary	13.2	13.4	12.7	4.8	4.7	Hungary	8.0	23.3	17.6	4.9	4.7
	Poland	4.7	0.4	4.6	3.5	4.3	Poland	9.7	12.8	7.7	5.7	5.1
	Slovakia	6.2	4.5	7.3	3.2	4.0	Slovakia	4.8	6.3	4.5	5.2	4.5
	Slovenia	3.7	-0.9	5.2	2.9	2.8	Slovenia	6.3	12.2	8.2	4.9	4.0
SEE	Albania	6.5	7.0	9.6	3.6	3.8	Albania	3.8	8.1	9.2	5.3	4.0
	Bosnia Herzegovina	6.7	-2.5	3.7	3.3	3.7	Bosnia Herzegovina	8.4	6.5	10.0	5.5	4.6
	Croatia	3.9	3.5	2.3	3.0	2.9	Croatia	4.8	8.7	11.7	6.0	3.0
	Romania	7.0	5.0	14.3	6.7	5.5	Romania	12.6	15.4	13.6	9.3	6.2
	Serbia	8.9	11.1	10.2	5.3	5.1	Serbia	7.8	17.4	13.3	6.5	6.1
EE & MENA	Moldova	13.9	13.1	23.5	9.1	4.5	Moldova	7.7	16.5	13.1	9.5	7.1
	Russia	7.1	14.4	18.8	3.8	5.0	Russia	4.2	9.6	12.7	4.0	6.0
	Ukraine	-8.0	-2.8	9.6	n.a.	n.a.	Ukraine	9.6	33.6	12.3	n.a.	n.a.
	Egypt	13.4	24.5	18.3	13.7	10.3	Egypt	13.6	20.4	18.7	14.7	10.7

Banking interest rates (%)

	Lending (Corp. avg)	2019	2020	2021	2022F	2023F	Deposits (HH avg)	2019	2020	2021	2022F	2023F
CEE	Czech Rep.	3.2	2.3	2.3	5.1	4.7	Czech Rep.	1.5	0.8	0.9	3.0	3.3
	Hungary	2.5	2.8	3.2	6.0	4.9	Hungary	0.2	0.3	0.6	3.2	2.6
	Poland	3.6	2.7	2.4	5.6	5.5	Poland	1.6	0.5	0.3	3.5	3.6
	Slovakia	1.9	1.9	1.9	2.0	2.5	Slovakia	0.1	0.0	0.0	0.2	0.7
	Slovenia	2.1	2.1	2.1	2.3	2.9	Slovenia	0.2	0.1	0.1	0.3	0.9
SEE	Albania	7.2	6.2	6.1	6.9	7.8	Albania	0.7	0.5	0.4	0.8	1.6
	Bosnia Herzegovina	3.0	2.8	3.0	n.a.	n.a.	Bosnia Herzegovina	0.3	0.3	0.2	n.a.	n.a.
	Croatia	5.8	5.5	5.1	4.5	4.2	Croatia	0.3	0.1	0.1	0.1	0.2
	Romania	7.3	6.2	5.6	7.4	8.2	Romania	2.2	1.9	1.3	3.4	4.0
	Serbia	8.0	5.9	6.2	6.7	7.6	Serbia	2.5	1.6	1.4	2.2	2.8
EE & MENA	Moldova	8.8	8.5	8.3	11.6	12.2	Moldova	4.3	4.1	3.2	6.5	7.4
	Russia	8.7	6.8	7.1	16.3	14.7	Russia	5.4	3.8	3.8	12.7	11.1
	Ukraine	19.8	14.3	13.3	n.a.	n.a.	Ukraine	12.9	6.1	4.6	n.a.	n.a.
	Egypt	16.1	11.4	9.4	10.6	11.3	Egypt	11.0	7.8	7.4	8.1	8.9

Source: Intesa Sanpaolo Research Department forecasts

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Intesa Sanpaolo Research Department – Head of Department Gregorio De Felice

Coordination International Research Network	e-mail address
Giovanni Barone (Head) and Gianluca Salsecci (Head)	giovanni.barone1@intesasanpaolo.com gianluca.salsecci@intesasanpaolo.com
ISP Research Department (Headquarter Team)	
Macroeconomic Research	
Silvia Guizzo (Asia ex-Japan)	silvia.guizzo@intesasanpaolo.com
Debora Palmieri (Latin America and Sub-Saharan Africa)	debora.palmieri@intesasanapolo.com
Francesca Pascali (MENA and EE)	francesca.pascali@intesasanpaolo.com
Antonio Pesce (CEE and SEE Countries and Quantitative Analysis)	antonio.pesce@intesasanpaolo.com
Francesco Martinelli (Data Base and Quantitative Analysis)	francesco.martinelli4@intesasanpaolo.com
Trade & Industry, Banking and Market Research	
Wilma Vergi (Trade and Industry)	wilma.vergi@intesasanpaolo.com
Vincenzo Petrignano (Financial Markets)	vincenzo.petrignano@intesasanapolo.com
Davidia Zucchelli (Banking)	davidia.zucchelli@intesasanpaolo.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
Ivan Odrčić	ivan.odrcic@pbz.hr
Banca Intesa (Serbia)	
Marija Savic (Head)	marija.v.savic@bancaintesa.rs
Tijana Matijasevic	tijana.matijasevic@bancaintesa.rs
Milos Drezga	milos.drezga@bancaintesa.rs
Jelena Draskovic	jelena.draskovic@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@intesasanpaolobank.al
Intesa Sanpaolo Bank (Romania)	
Marius Pacurari (Head)	marius.pacurari@intesasanpaolo.ro
Pravex Bank (Ukraine)	
Artem Krasovskyi	artem.krasovskyi@pravex.ua
Eximbank (Moldova)	
Natalia Mihalas	natalia.mihalas@eximbank.com
Olga Pisla	olga.pisla@eximbank.com