INTESA SANPAOLO

International Research

Economic and Banking Outlook

December 2022

Countries with ISP subsidiaries

Quarterly Note

Research Department

International Research Network

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Viewpoint

The macroeconomic scenario continues to be burdened by a high level of uncertainty and is consistent with a slowdown in GDP dynamics and persistent inflationary pressures in the coming quarters. An upturn is expected from the second half of 2023.

The macroeconomic scenario – after a particularly favourable first half of the year – has shown signs of a slowdown since the third quarter, consistent with the **progressive deterioration of growth prospects and a slow moderation of inflationary pressures** from the peaks seen in recent months.

In detail, the first part of the current year showed overall higher-than-expected GDP expansion rates, thanks mainly to: (i) the expansionary fiscal policies; (ii) the removal of anti-Covid measures with effects on both the supply and demand sides, with household consumption spending also supported by the ample availability of savings accumulated over the last two years; and (iii) the monetary conditions that were accommodative for much of 2022.

Looking ahead, the process of **shortening global value chains**, the consequences of the **energy shock,** and risks of a **second-round effect** on the wage front, as well as the need to reduce medium-term **inflation expectations**, should push several central banks – with particular reference to the SEE area – to adopt more **restrictive monetary policies**.

The coming years should therefore be characterised by structurally higher levels of inflation and interest rates than in the last decade.

With regard to economic growth, GDP expansion rates will be affected by the context of **geopolitical tensions** relating to the war in Ukraine, the critical situations in Iran and Asia, and, more generally, the international balances between the world's major powers from an economic and military point of view.

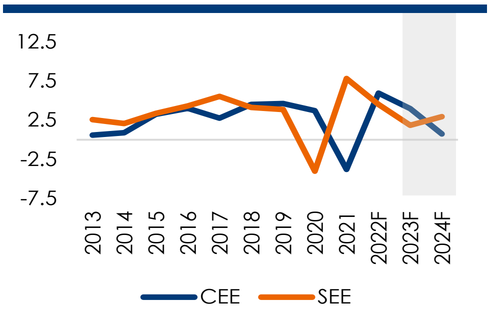
In addition to the **high level of uncertainty** – which is weighing on the confidence of businesses and households, delaying investment and consumption spending – there are also the restrictive financial conditions compared to the recent past.

The deterioration of the scenario should mainly concern the short term, regarding which the possibility of a technical recession in several countries cannot be ruled out, while from the second half of 2023 and, above all, in 2024, the economy should resume the expansionary path at a more sustained pace.

In light of the framework outlined above, compared to the estimates prepared in September, **our econometric analysis shows a marginal upward revision of GDP growth projections for 2022 and a downward revision for the two years to follow.** Specifically, expansion in 2023 is expected to be 0.7% in the CEE region (from +1.5% in the previous forecast), 1.8% in the EEA countries (from +2.1%) and 4.1% in Egypt (from +5.5%). Conversely, in EE, the economy is expected to contract by 2.3% (from -2.9%) due to the short-term effects of sanctions on Russia being less severe than originally estimated.

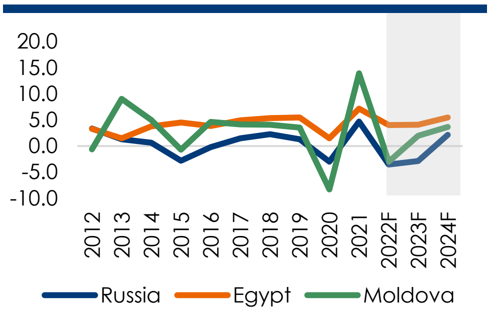
Finally, updated inflation estimates show a higher average annual figure in light of the high peaks reached and a dynamic that is expected to remain robust for several more months.

GDP forecast*



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

GDP % yoy Russia, Moldova, Egypt (2022F-2024F)



Source: ISP Research Department forecast

Based on information available to 12 December 2022

See the final page for important information

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

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

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

Cross country analysis

Recent developments

In the **CEE and SEE regions**, GDP growth remained above expectations in 3Q22 even if the trends softened to 3.1% yoy and 3.5% yoy, respectively, from 4.5% yoy and 5.4% in 2Q22. The latest releases of high frequency economic indicators signal a further deceleration in economic growth in Q4.

Antonio Pesce, Francesca Pascali, Davidia Zucchelli

In October in the CEE area, **industrial production** growth slowed to 4.9% from 8.4% in the previous month (on a weighted average basis [w.a.]). Among the countries in the area, it ranged from -2.6% yoy in Slovakia to 6.8% yoy in Poland. As in the CEE area, in the SEE region, industrial production decelerated in November (to 0.2% yoy from 1.3%). Within the region, industrial production growth ranged from -3.0% yoy in Bosnia H. to 0.7% yoy in Romania.

GDP trend in 3Q22 in deceleration and the high frequency indicators signal a further softening of the economic dynamic in Q4

In June, **retail sales** trend growth moved into negative territory in the CEE area (-1.3% from 2.1%) ranging from -9.4% in Czech Republic to 8.5% in Slovenia. However, the annual growth rate of retail trade remained positive in the SEE region (4.0% from 3.6%), ranging from -0.4% in Croatia to 10.1% in Bosnia H. In November, the manufacturing **PMI** remained below the 50 level in Czech Republic (41.6) and Poland (43,4) as output and new orders declined again on the back of a challenging macroeconomic climate, which weakened demand. In Hungary, in the same month, the manufacturing PMI was in contrast above the 50 level (54.7) for the second consecutive month as production, new orders and employment continued to grow but at lower rates than in the previous month.

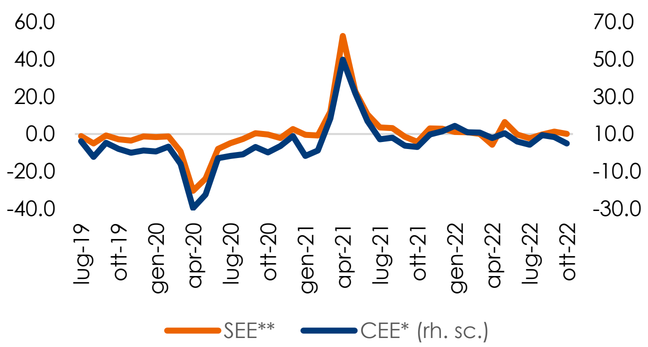
The bottlenecks in global supply chains exacerbated by the ongoing conflict between Russia and Ukraine and energy price increases (at the time of writing, the Brent price was USD 81.45/bbl) are pushing up consumer price indices. **Inflation** continued to accelerate in November in both the CEE area (17.5% from 17.3% in October) and the SEE region (16.1% from 15.1%). In several cases, the price indices have been affected by the weakening of **local currencies**, such as in Hungary and Poland, contributing to rises in inflation.

Consumer prices still on an accelerating path, due to the energy shock and bottlenecks in global supply chains

In their latest meetings, the **central banks** of Albania, Romania and Serbia further increased policy rates, to 2.75% (from 2.25%), 6.75% (vs 6.25%) and 5.0% (vs 4.5%) while the banks in Czech Republic, Hungary and Poland maintained policy rates at 7.0%, 13.0% and 6.75%, respectively. In line with the inflationary pressures, **long-term yields** have also risen overall, with a widening of spreads vs the EA benchmark.

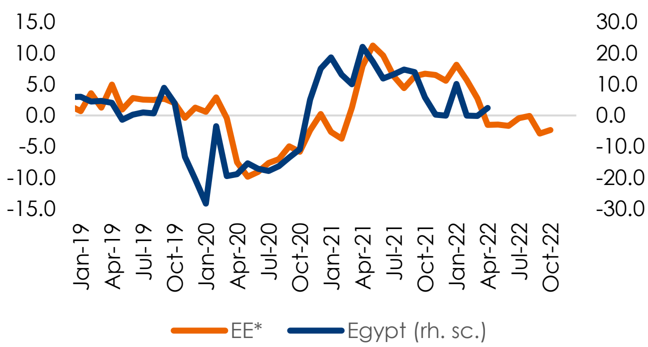
Strong monetary restrictions to counteract inflation

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. Ukraine data until January 2022

In the EE region, inflation accelerated in Moldova, Ukraine and Egypt. It continued to decelerate in Russia

Outside the CEE/SEE regions, as we noted in the *Outlook* published in September, the geopolitical situation continues to affect **EE countries** in terms of an acceleration in inflation and a slowdown in economic activity. In 3Q22, **GDP** decreased by 3.7% yoy (from 4.1% in 2Q22) in **Russia** and in 3Q22 to 30.8% yoy (from -37.2% in 2Q22) in **Ukraine;** in 3Q22, it decreased by 10.3% (from -0.9% in 2Q22) in **Moldova**. In **Egypt,** GDP – also affected by the Russia-Ukraine war – grew by 4.4% yoy in 3Q22 (preliminary figure, from 3.3% in 2Q22). Moving to high-frequency indicators, in October, **industrial production** fell (by 2.6% yoy) in Russia (vs a decline of 3.1% in September). Also in October, **retail sales** decreased in Russia, by 9.7% (vs -8.8% in September 2022) and in September they declined by 4.2% in Moldova (vs -4.2% in August). With regard to **inflation**, in Russia, consumer prices started to decelerate from April (12.0% in November) but remained well above CB targets (4.0%). In November, prices rose in Ukraine to 26.5% (vs 26.6%) and in Moldova, the CPI was 34.6% in October vs 34.0% in September. In Egypt, inflation rose by 18.7% in November (16.2% in October) which was well above the upper end of the official corridor (7 ± 2%) set by the CBE.

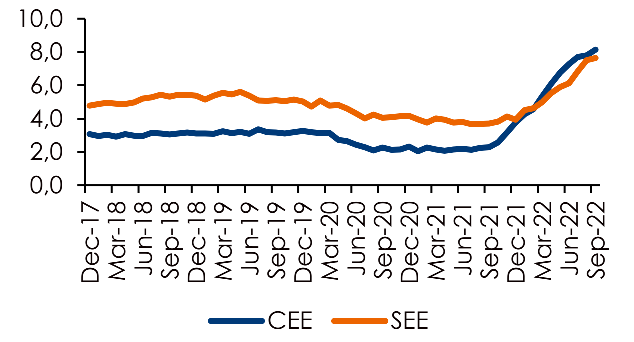
Bank loans still dynamic as of September

With regard to **banking aggregates**, **lending growth** decelerated in many countries in September because of deteriorating economic conditions, plus rising inflation and interest rates. Loans increased by 7.5% yoy in **CEE countries** (from 6.7% in 2021) and by 13.3% yoy in **SEE countries** (from 11.3% in 2021). Hungary and Romania, where loans jumped by 14.9% and 15.1% yoy in September (from 12.7% and 14.3% in 2021), respectively, continued to be the best performers. Corporate loans showed much stronger performances than household loans in both CEE (15.6% yoy vs. 3.3% yoy as of September, especially in Poland, Hungary and Slovenia) and SEE countries (21.2% vs 6.8%, mainly in Croatia). Rising interest rates are feeding some concerns regarding mortgages, especially in Poland and Romania, where variable rate mortgages dominate. Central authorities imposed a windfall tax on profits in Hungary and Croatia, and in Poland, an eight-month moratorium on mortgage repayments while a windfall tax has also been announced. At the country level, corporate loans strengthened by well over 10% yoy in all countries, especially in Romania (25%; but in Czech Republic +7.9% and Bosnia 4%). NPL ratios have so far remained low everywhere, but rising Stage 2 loans and deteriorating economic conditions could lead to higher ratios.

Precautionary motives continued to support **deposit growth** in both the CEE (but slowing from 8.7% in 2021 to 7.6% yoy in September) and SEE (from 12.9% to 8.7% yoy) areas. **Interest rates** accelerated, with regard to both lending and deposits, while the spread remained stable or even decreased marginally mom (especially in Hungary and Poland).

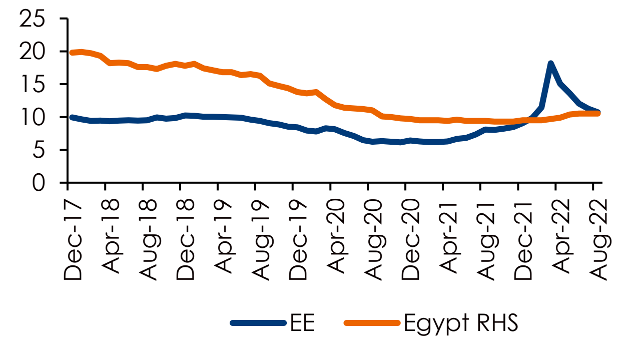
In the **EE area**, loan growth remained strong in Russia (8.4% yoy in August), especially for households (10.4% yoy), sustained by the subsidised mortgage lending programme, but slowing from 25% in 2021, while loans to corporate decelerated from 16% to 7.5% yoy in August. In Moldova, loans decelerated to +12.9% yoy in September (11.8% yoy in the household vs 13.6% yoy in the corporate sector). In **Egypt,** banking aggregates (latest data for both Russia and Egypt only to August) accelerated, with loans increasing by 25.6% and deposits by 24.6%.

Lending growth (% yoy chg, weighted averages)



Source: ISP Research Department elaboration on central banks' data

Lending growth (% yoy chg, weighted averages)



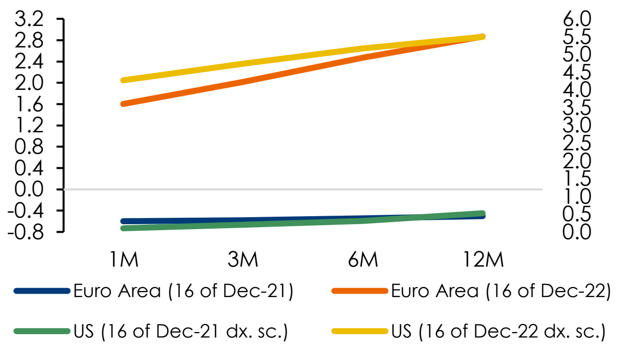
Source: ISP Research Department elaboration on central banks' data

The international outlook

Global economic growth looks even less promising than expected in the September scenario

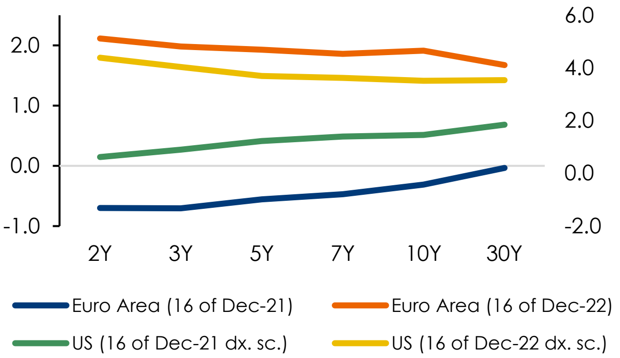
The global economy is suffering a broad-based slowdown which was sharper than expected in the first half of the year, with inflation higher than seen in several decades. Several shocks are heavily weighting on the outlook: the cost of living, tightening financial conditions in most regions, Russia's invasion of Ukraine, and the enduring COVID-19 pandemic. In Q3 of this year, the trend dynamic of **global GDP** softened to 2.8% yoy from 3.1% yoy in Q2 (Oxford Economics estimate). The IMF, in its October 2022 update of WEO forecasts, showed GDP growth slowing from 6.0% in 2021 to 3.2% in 2022 and 2.7% in 2023 (downwardly revised from 3.6% in 2022 and 2023 with from July WEO expectations). The risks to the outlook continue to be to the downside. The war in Ukraine could lead to an abrupt stop of Russian gas exports towards European countries; inflation could be more persistent than expected; and renewed COVID-19 outbreaks and lockdowns could negatively affect economic activity. Global inflation is forecast to rise from 4.7% in 2021 to 8.8% in 2022 but to decline to 6.5% in 2023 (IMF October WEO) as monetary policy tightening should restore price stability. Regarding the **US**, the reduced household purchasing power and tighter monetary policy to curb inflation could take a toll on economic growth, and even if the country is a powerful energy exporter and agricultural producer with limited trade links with Russia, GDP growth is expected to slow from 2.0% this year to 0.3% next year and then to recover partially in 2024 to 1.1% (downward revision from 0.9% and 1.3% expected for 2023 and 2024, respectively, in ISP's September scenario). Even if on a softening path, the still strong inflation in November at 7.1%, after the 40-year high of 9.1% hit in June, highlights the risks of a wage/price spiral. In December, the Federal Reserve increased the funds rate by 50bps, to 4.5%. ISP expects the fed funds rate to rise to 4.8% by the end of 2023 and then to fall to 3.8% by end-2024. In the **Euro Area**, the war in Ukraine and tighter monetary policy are affecting the economic dynamic. Despite expansionary fiscal policies implemented in the Euro Area through the PNRRs at national levels, ISP foresees full-year GDP growth slowing from 3.3% in 2022 to 0.1% in 2023 and 1.6% in 2024 (respectively, 0.4pp and 0.5pp lower than in the September scenario). Uncertainty regarding the forecasts remains high, especially due to the economic consequences of the conflict in Ukraine and geopolitical tensions with Russia. Annual inflation rate in the Euro Area eased to 10% in November 2022 from a record high of 10.6% in October. Now, it is expected to decrease further in the coming months and the annual average is estimated at 7.7%% in 2023 and 2.7% in 2024. In the December meeting, the ECB raised the policy rate again, by 50bp, to 2.5%. Given the statement from the Board, it is clear that interest rates are likely to rise further over the next several meetings, but any changes will continue to be data-dependant and changes will be made based on a meeting-by-meeting approach. At ISP, we expect the policy rate to reach 4.0% by eop in 2023 and 3.5% by eop in 2024. Among **emerging countries,** China's GDP trend has been revised down with respect to the September scenario from 5.4% to 5.1%, and only a soft acceleration is expected for 2024 (5.2%). The economic performances of commodity-exporting countries in other areas are expected to remain relatively robust, but also in this case with risks prevailing to the downside, should the international landscape deteriorate significantly.

Benchmark monetary rates (US and EA rates)



Source: ISP elaboration on Refinitiv-Datastream data

Yield curves (US bonds and German Bunds)



Source: ISP elaboration on Refinitiv-Datastream data

The economic outlook

Growth and inflation

The GDP forecasts for 2023 and 2024 have been revised down due to deteriorating international economic conditions

Despite the weakening of the economic cycle during the final part of the current year, in the **CEE area,** the GDP in Q3 was slightly higher than expected and this led to a slight revision of forecasts for full-year 2022 compared to the scenario of September (to 4.0% from 3.6%) while those for the **SEE area** remained unchanged at 4.5%. The GDP projections for 2023 have been lowered, however (to 0.7% in CEE and cut to 1.8% in the SEE region) due to the deterioration in international economic conditions as a consequence of higher-than-expected inflation worldwide, tighter monetary policies adopted by central banks both in the Euro Area and in several CEE and SEE countries, and further negative spillover effects from the war in Ukraine. The prevailing risks to the outlook are to the downside. The war in Ukraine could cause an abrupt stop of the Russia's export of gas towards European countries, inflation could be more persistent than expected, renewed COVID-19 outbreaks could occur and lockdowns could dampen economic activities.

Risks to our forecasts remain to the downside

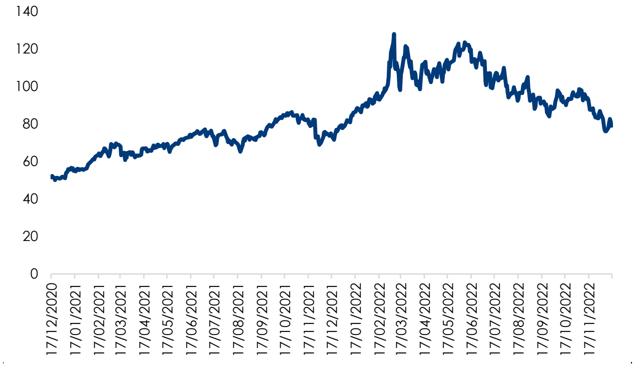
Among the CEE countries, for GDP growth in 2023, further downward revisions with respect to September projections occurred in Slovenia (-1.3pp, to 0.9%) and Hungary (-1.3pp, to 0.2%). For the same year, in the SEE region, higher revisions occurred in Croatia (-1.3pp, to 1.0%) and Bosnia H. (-1.0pp, to 1.0%). For GDP growth in 2024, only a minor downward revision occurred in the two regions (-0.1pp in both compared to September forecasts).

Inflationary pressures are expected to remain high in the coming months

Due to the energy shock and supply bottlenecks caused by the Russia-Ukraine conflict, **inflation** is projected to remain high in the coming months in both the CEE and SEE regions – in particular in those countries where wage dynamics have strengthened significantly. The end-of-period inflation forecast for 2023 has been raised to 5.9% (from 5.4% projected in September) in the CEE/SEE area. As in the September forecasts, by the end of next year, inflation is expected to decrease from the record high of the end of 2022, though it could still remain well above the upper limits of CB targets, before approaching targets in 2024.

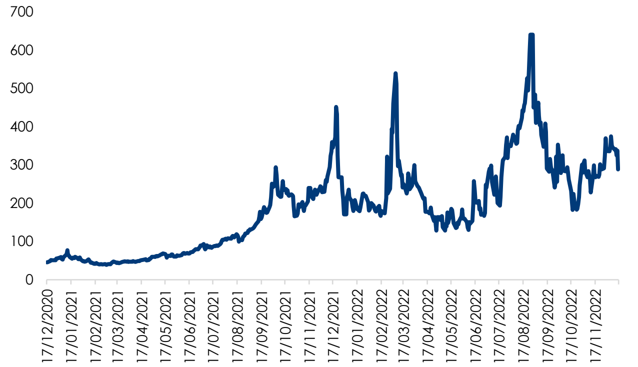
Due to better-than-expected data, GDP growth forecasts for the **EE** region has been revised upwards: for Russia, to -3.5% in 2022 and -2.8% in 2023 (from -6.0% and -3.7% projected in September) and in Ukraine (-34.5% from -37% in 2022), but we lowered the estimate for Moldova (-3.0% from 0.3%) in 2022. Price pressures are expected to fall in Russia and to rise in Ukraine and in Moldova. In Russia, where inflation has already started to decelerate, it is not expected to converge to the CB's targets before 2024. For **Egypt,** we have lowered our GDP growth estimates to 4.0% from 5.5% forecast in September for calendar year 2022, and to 4.1% (from 5.5% of September) for 2023, but kept the 2024 forecast at 5.5%. Inflation is expected to accelerate to 19.0% by year-end 2022, particularly due to food and oil price increases. It is projected to ease to 12% by year-end 2023, before moving back to the CB's target in 2024.

ICE-BRENT CRUDE OIL (Barrels $)



Source: Refinitiv-Datastream

ICE-NATURAL GAS (Therm £)



Source: Refinitiv-Datastream

Monetary policy and financial markets

Policy rates at record highs in CEE/SEE regions

The central banks that first initiated monetary tightening – ie, in Czech Republic, Poland and Hungary – seem to have paused now in the phase of raising **policy rates,** although the stance of monetary actions remains guided "by data" and therefore, as inflationary pressures remain high, further rate increases are not excluded.

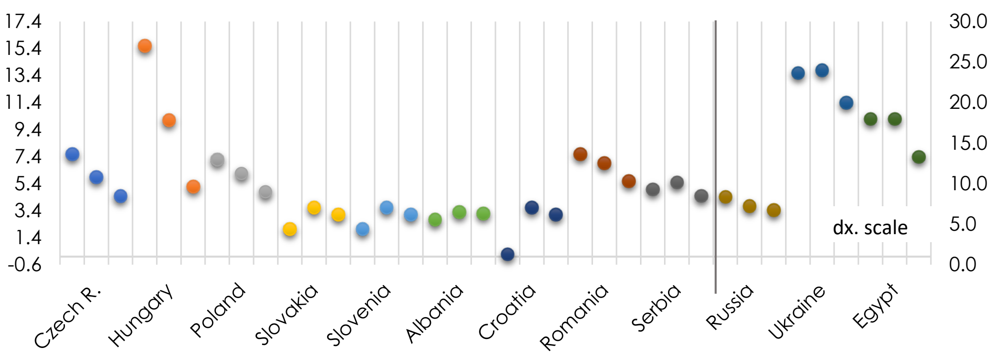
In Hungary, where the policy rate is currently at 13%, a reversing of the cycle is expected in 2023 with clear signs of softening inflationary pressures. In Poland, the National Bank held its reference rate unchanged at 6.75% for the third consecutive time at its December 2022 meeting. We expect the policy rate decline to 5.50% eop in 2023. The Czech National Bank held its two-week repo rate steady at 7% for the third consecutive time at its November 2022 meeting and the CB is expected to leave the policy rate unchanged through year-end, before starting to reverse the cycle and cut the policy rate to 5.50% by year-end 2023. In Romania, the policy rate is expected to be at 6.75% by year-end 2022, before being cut to 6.50% by year-end 2023. For Serbia and Albania, we have upwardly revised the profile of policy rates with respect to our September forecasts, to 5.0% and 5.50% at year-ends 2022 and 2023 in the former case and to 2.75% in 2022 and 2023 in the latter. Money market rate projections have been revised accordingly.

Outside the CEE/SEE regions, due to a new phase of large-scale structural transformation of the Russian economy, **Russia's CB,** after raising the policy rate to 20% on 28 February, has started to lower the rate, by 300bps (to 17%) in April and by a further 600bps (to 11%) in two steps in May. At the beginning of June, the CBR again lowered the policy rate, to 9.5%, then to 8.0% at the beginning of July, and then to 7.5% at the beginning of September. Starting from this level, key rates may be cut over the course of 2023 and 2024 as inflation recedes towards CB targets. In **Moldova,** the central bank raised the policy rate six times in 2022, by 1,500bps, to 21.5% and then lowered it in December to 20.0%. Due to expected persisting inflationary pressures, we forecast that the policy rate will reach 10.0% 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%), in May by 200bps (to 12.25%), and by a further 200bps in October, to 14.25%. It is expected to remain unchanged at end-2022 and then to reach 15.30% at end-2023.

The profiles of **long-term yields** have been revised upwards overall along the forecast horizon with respect to our September scenario, due to the higher path of Bund yield forecasts, in the CEE/SEE region. Spreads with respect to the EA benchmark have also been revised upwards – in particular in those countries with higher inflation figures. In **FX markets**, exchange rates are expected to move around the current values in the CEE/SEE area overall, but to move up from the depreciation that has occurred in the last few months, thanks to rising monetary rates, especially in Hungary. The Croatian kuna (in the ERMII since July 2020, with a central parity at 7.53) will join 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

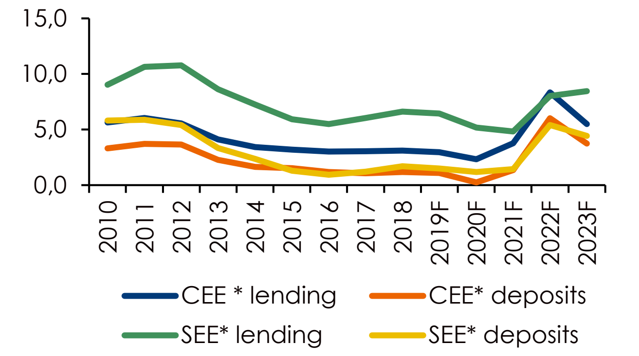
Banking loans revised upward slightly for 2022

Forecasts for banking aggregates have been revised slightly in many countries for 2022 and in 2023 mainly because of recent performances (stronger for loans but lower for deposits than our expectations) and in light of increasing nominal GDP dynamics (due to economic slowdowns and an acceleration in inflation). After rising in both CEE and SEE countries (by 6.7% and 11.3%, respectively) in 2021, **loans** are forecast to increase in 2022, to 6.4% in the former and 11.9% in the latter (more than the 5.2% and 9.5% predicted in our September forecasts), but to decelerate in 2023, to 3.6% and 5.8%, respectively. Lending could be negatively affected by higher interest rates (mainly mortgages with variable interest rates), making it more difficult to service debt. Furthermore, the demand for credit could be affected by the falls in real disposable incomes due to high inflation, which reduces the ability of households to repay debt. But at the same time, inflation also decreases real debt, increasing the ability of households and corporates to repay loans. Some countries (mainly Poland and Romania) have adopted some measures to support consumer spending or instituted moratoria to postpone arrears. NPLs are expected to rise given the deteriorating macroeconomic outlook, as indicated by current Stage 2 exposures (source: EBA).

Among **CEE countries,** the deceleration is expected to be slight in Hungary in 2022 (from 12.7% in 2021 to 12.2%, revised up from 9% projected in our September forecasts) but stronger in 2023 (to 1.5%). Lending expectations for Poland, which has been particularly weak in the last two years, Slovakia and Slovenia have been revised slightly upward for 2022, supported by the corporate sector, and slightly downward for 2023. The new economic landscape will also affect lending in the **SEE countries,** but to a lesser extent (11.9% in 2022 and 5.8% in 2023). Romania is expected to remain the best performer in the area (13.6% in 2022 and 6.9% in 2023). In the **EE countries,** lending is still expected to decelerate significantly, particularly in Russia (to 3.6% from 18.8% in 2021), because of the recession and the severe financial restrictions imposed by Western countries. In Russia, the CB looks likely to cancel many regulatory easing measures from early 2023 and to tighten the regulation of mortgage lending because it has become a source of concern. Further prudential limits on consumer lending have recently been imposed to avoid over-indebtedness for households.

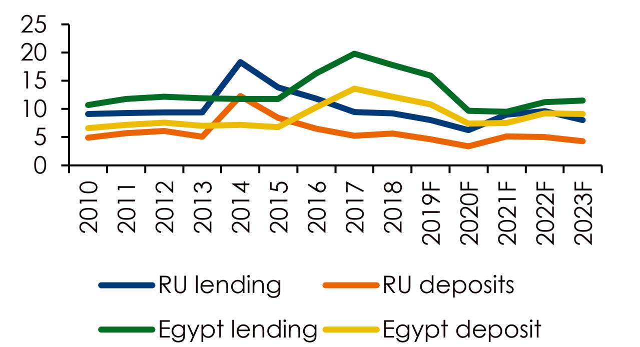
Deposits are forecast to decelerate as well because of the deteriorating macroeconomic context and rising inflation, which could support consumer spending. On the other hand, uncertainties about the economy and the evolution of the war could sustain deposit growth via precautionary saving. In detail, deposits are expected to decelerate in CEE countries from 8.7% in 2021 to 3.6% in 2022, and in SEE countries from 12.9% in 2021 to 4.5% in 2022 (vs 2.4% and 3.5%, respectively, foreseen for 2022 in our September forecasts). In Russia, deposits are forecast to slow from 12.7% to -1% (2% in our September forecasts). The effects of the war on banking will be more moderate in **Egypt**, where loans are expected to accelerate from 18.3% to 20.8% and deposits from 18.7% to 19.8% in 2022 (and then to decelerate to 10.3% and 10.5%, respectively, in 2023).

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



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

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



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

Country-Specific Analysis

Czech Republic

Real Economy

Zdenko Štefanides

The outlook for the Czech economy has been revised downward. We now foresee only stagnation in real GDP in 2023 rather than the small positive gain of 1% forecast previously. The revision relates to a weaker second half of 2022 than previously expected, featuring recession that will carry over to the beginning of 2023. The recession should in any case be rather shallow, and the Czech economy is likely to return to reasonable growth in 2024. The weakness relates to the energy crisis and interrupted international supply chains, both of which are not expected to deteriorate relative to 2022. Moreover, the Czech government has proposed a cap on the retail prices of electricity and natural gas, which will somewhat alleviate consumer concerns that led to a sharp drop in spending which contributed to a GDP contraction in 3Q22.

The energy price cap has already lowered headline inflation, but we nonetheless prefer to keep the CPI projection unchanged relative to the previous forecast as money saved on energy costs may lead to higher discretionary spending and thus higher core inflation. Government-imposed price caps should also lead to a higher fiscal deficit, as windfall taxes to be imposed on energy and food producers will not be sufficient to fund the boost to spending.

Financial Markets

The Czech National Bank (CNB) was among the first central banks in Europe, alongside the Hungarian central bank, to respond to the increase in inflation by raising rates as early as in mid-2021. By June 2022, the key refi rate rose to 7%. With inflation still expected to increase, there remain voices on the CNB board as well as the CNB research team advocating for further increases in rates. At the same time, however, the majority of the CNB board, including its governor, Ales Michl, now appear to be firmly of the opinion that rates should not be raised any further and that inflation will return to single digits by the second half of 2023, and to the targeted 2% in the first half of 2024. We are supportive of this view and expect the next move of the CNB be down. We project a total of 150bps of easing before the end of 2023 and expect market rates and yields to follow suit.

Banking Sector

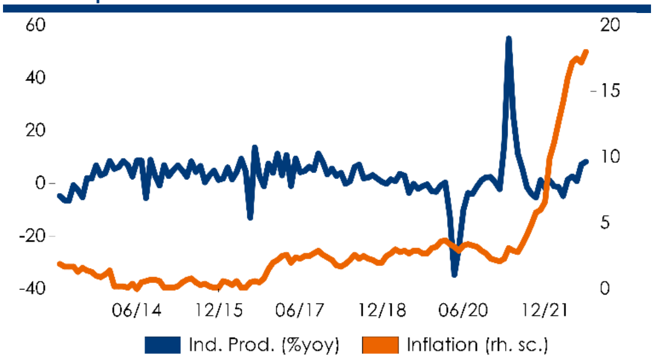
In the banking sector, high interest rates and tighter macroprudential measures – in place since April 2022 and reaffirmed by the CNB in November – alongside deteriorating housing affordability will curtail the growth of new mortgages. Deposit volumes will be impacted by the depletion of forced pandemic savings and still-negative real rates. However, ample liquidity in the Czech market should prevail. The loan/deposit ratio is forecast to deteriorate only marginally, to around 73% from the pandemic low of 70%.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	3.4	2.4	0.1	2.8
CPI (eop)	6.6	19.8	4.0	2.0
Euro exch. rate (value, eop)	25.2	24.3	24.2	24.0
Short-term rate (eop)	3.5	7.6	5.9	4.5
L/T bond yields (eop)	2.7	5.2	4.9	4.5
Bank loans (pr. sector, yoy)	8.4	6.2	4.7	4.5
Bank deposits (pr. sector, yoy)	7.0	4.6	4.3	4.2
Lending int. rate (corp., eop)	4.5	8.5	5.3	3.9
Deposit int. rate (hh, eop)	2.3	6.3	4.0	2.6

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

Industrial production and inflation



Source: Czech Statistical Office

Hungary

Mariann Trippon

Real Economy

After the stronger-than-expected H1, the widely expected slowdown has started. The economy contracted 0.4% qoq in Q3. Activity is set to weaken significantly in Q4, and the economy is likely to enter a technical recession. FY22 GDP growth could be 4.5-5%, followed by 0.2% growth in 2023. Household consumption will decrease, investment growth will decelerate, there is no fiscal room to support activity, and net exports will not be able to offer a positive contribution either. Inflation continued to rise in Q4, and the recent abolition of the fuel price cap pushed the inflation trajectory up by ~2-3pp. Yoy, inflation will exceed 25% in December and peak only in 1Q23. Average inflation next year is likely to be above 18%, though easing demand-side pressures and lower imported inflation should have a cooling effect on domestic CPI. Reaching the central bank target will be delayed until mid-2024.

Financial Markets

While keeping the policy rate unchanged at 13%, the central bank was forced to take aggressive action to protect the forint exchange rate in mid-October. The bank introduced an O/N deposit facility at 18% – which implies an effective 500 bps rate hike. Upside inflation risks and the volatile market environment do not allow for any monetary easing in the short run. Sustaining tight monetary conditions remains warranted in light of the inflation risks and the overnight deposit rate cannot be cut until the country's risk perception improves significantly. Given the external and internal risk factors (global sentiment, war, energy markets, external imbalances, EU funding, etc), the NBH should be extra cautious in the coming period when setting monetary conditions. Hence, the convergence of the base rate and the one-week deposit rate could start next year with cautious steps depending on incoming data and market developments. Optimally, the base rate could fall to 9.5% by the end of next year. The aggressive rate hikes and the expected gradual improvement in domestic fundamentals may help the HUF to stabilise, but we do not expect any meaningful FX appreciation in 2023 either.

Banking Sector

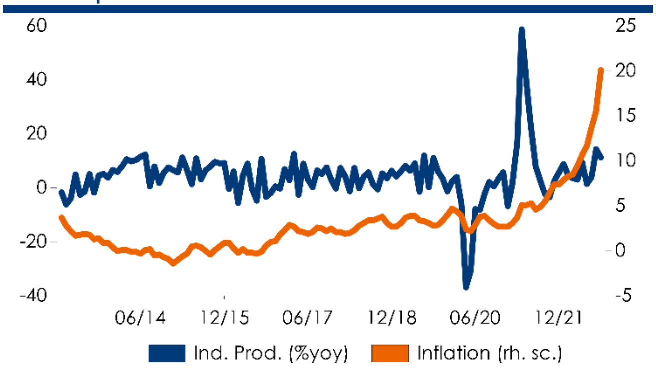
Bank deposit growth slowed in recent months and no significant growth is expected for the remaining part of the year, due to the end of moratoria and rising inflation. Lower GDP growth and high inflation as well point to decelerating savings growth in the future. Customer deposits are expected to rise around 3-4% in 2022 while in 2023 we expect to see a reduction of 0.5% in the volume of deposits. On the lending market, the strong first half could keep the growth rate for 2022 close to 10%, thanks to the government supported Széchenyi programme and a strong housing market. However, with slower economic growth, the increase in loan volumes will drop to 1-2% in 2023.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	7.1	5.0	0.2	3.1
CPI (eop)	7.4	25.3	7.8	3.4
Euro exch. rate (value, eop)	367.2	406.4	401.4	399.0
Short-term rate (eop)	3.8	15.6	10.1	5.2
L/T bond yields (eop)	4.4	8.3	7.8	5.9
Bank loans (pr. sector, yoy)	12.7	12.2	1.5	5.4
Bank deposits (pr. sector, yoy)	17.6	4.2	-0.5	4.4
Lending int. rate (corp., eop)	4.5	11.8	6.0	3.9
Deposit int. rate (hhs, eop)	1.5	9.8	3.8	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 has been quite resilient to global and regional headwinds brought about by the war in neighbouring Ukraine and the European energy crisis. Real GDP for 2022 will thus likely post a bigger rise than previously expected. This resilience nonetheless is gradually giving away and the economy will most likely stagnate in 2023. Consumers, the key pillar of the resilience, have turned outright pessimistic and are curbing current spending amid soaring inflation. As interest rates rose dramatically, there also is a slump in demand for housing, which is weighing on the construction sector and adding to other drivers of investment weakness, including a delayed deployment of the Recovery fund, impacting infrastructure investment projects.

We nonetheless take some comfort in a still strong labour market and robust nominal wage growth which will partly shield household income from inflation. Also, government stimuli, including additional social transfers and beefed-up military spending, will likely keep the Polish economy from slipping into a recession in 2023 and allow it to recover in 2024.

Financial Markets

The National Bank of Poland (NBP) has kept rates steady since September, maintaining the reference rate at 6.75%. We now believe that the NBP's hiking cycle has indeed ended and look for the policy rates to remain steady in the near future even as inflation remains in double-digits well into 2023. Towards the end of that year, as inflation moderates to single digits, we assume the NBS to start lowering its rates slightly and markets to start pricing short rates accordingly – ie, lower.

As for bond yields and the exchange rate, we expect volatility to remain elevated and keep their values under pressure. Markets are likely to remain on their toes, given both global and local factors, the latter driven by the fact the upcoming year is an election year in Poland. Still, considering our view of inflation easing globally and major central banks ending their tightening cycle next year, the zloty is likely to benefit and appreciate a bit in 2023.

Banking Sector

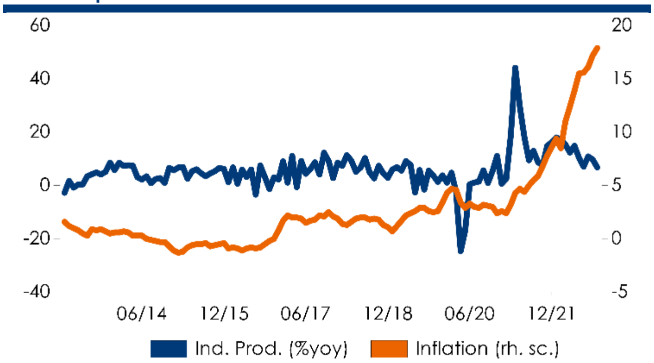
In the banking market, we expect loan volume growth to remain relatively low due to high interest rates and a slowing economy. Deposit growth will also likely remain relatively low, as households face tight financial situations with inflation in double-digit figures. A return to more agile growth of banking volumes is expected in 2024 as the economy recovers and inflation moderates. The loans/deposits ratio pre-COVID was running close to 100%. It is likely to continue to hover around a comfortable 80%.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	6.9	4.5	1.0	3.0
CPI (eop)	8.6	19.0	5.0	3.0
Euro exch. rate (value, eop)	4.6	4.7	4.5	4.5
Short-term rate (eop)	2.3	7.2	6.1	4.8
L/T bond yields (eop)	3.3	6.8	7.2	5.8
Bank loans (pr. sector, yoy)	4.6	4.2	3.8	4.9
Bank deposits (pr. sector, yoy)	7.7	2.9	3.3	5.0
Lending int. rate (corp., eop)	3.8	8.7	5.9	5.0
Deposit int. rate (hh, eop)	1.3	6.2	4.1	3.2

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 Slovak economy posted 0.4% qoq GDP growth for the third quarter 2022. But it could be in decline during the current fourth quarter, as high inflation and rising interest rates are taking their toll on local business activity. Industrial production had continued to post sub-par figures by September, retail sales declined further in October, and economic sentiment fell even more in November, signaling a mild recession.

On the other hand, the imminent shortage of natural gas has been alleviated and the government approved only small growth in the regulated prices of electricity, gas and heat for 2023. This should have a positive impact on household consumption next year, but that should turn negative in terms of higher inflation in 2024 and onwards. In addition, the drawing from EU's MFF 2014-2020 could substantially increase as the December 2023 deadline is approaching. This could mean that local GDP growth still ends up in positive territory for the whole of next year.

The labour market is apparently feeling pressure from the economic slowdown. However, the unemployment rate may not go too high and wages should continue to grow fast, at about 9% yoy, thanks to the government pushing the average higher with its salary hikes planned from January, July and September of next year.

Financial Markets

Continuing high inflation momentum in the Euro Area could lead the European Central Bank to increase its refinancing rate to about 4.0% by June next year, with the rate of hiking slowing to 50bps in December. The very high Slovak government bond yield spread against Germany could continue to ease, but the bond yields themselves could rise from their current levels to around 3.4% pa. This will still create pressure for further an increase in commercial interest rates, particularly regarding mortgages.

Banking Sector

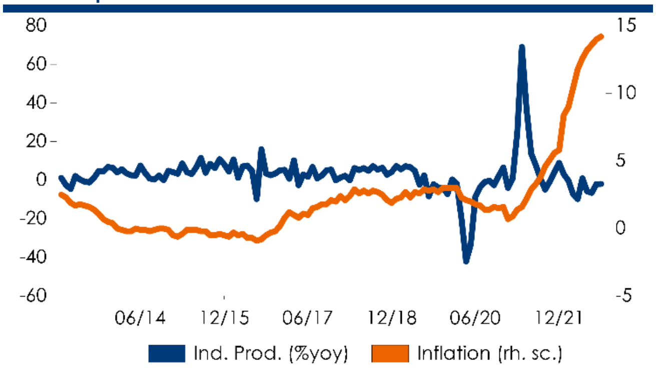
Dominant mortgage lending is being squeezed in Slovakia, due to rising interest rates and the pre-stocking effect during the spring months of this year. In addition, the high inflation rate is negatively affecting local household deposits growth, which may register even some months of negative yoy figures. Overall, the business is expected to slow on account of very high loans/deposits ratios, which may limit the historically very high growth of credit. Profitability of the banking sector may be soon hit by a special bank levy, which is currently being discussed in parliament.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	3.0	1.7	1.0	3.1
CPI (eop)	5.8	13.6	4.5	2.5
Short-term rate (eop)	-0.6	2.0	3.6	3.1
L/T bond yields (eop)	0.0	3.4	3.4	3.7
Bank loans (pr. sector, yoy)	7.3	10.3	4.0	4.8
Bank deposits (pr. sector, yoy)	4.5	4.2	4.0	4.2
Lending int. rate (corp., eop)	1.6	2.6	3.6	3.6
Deposit int. rate (hh, eop)	0.0	0.4	1.8	1.8

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

Following strong, +9% yoy, performance over the first half of the year, the Slovenian economy lost momentum and Q3 GDP growth slowed to 3.4% yoy (3.9% seasonally adjusted) while contracting on quarterly basis by 1.4%. A detailed view reveals a calming of domestic demand, reflecting less supportive private (+2.6% yoy vs 15.9% in 1H22) and public consumption (-0.9% yoy vs +2.6%), as well as slowing investment, which, following 8.3% yoy growth over 1H22, increased by 7.1% yoy in 3Q22. After five consecutive quarters of faster increases in imports than exports, in Q3, exports increased more than imports. Exports rose by 11.0% and imports by 10.7% yoy, thus net foreign demand (mostly owing to strong exports of services outpacing imports while the opposite was observed in goods trade) contributed positively to headline growth. The available data for the closing quarter indicate further slowdowns as both retail trade volume and exports values in October slowed compared to the previous quarters. However, thanks to a robust first half, full-year growth should be around 5.4%, before slowing considerably in 2023. More precisely, domestic demand will continue to face headwinds, reflecting negative impacts from elevated inflation on real incomes and thus private consumption. At the same time, investments will hit the break in line with unfavourable economic environment and expected slowdown in foreign demand, with EU financed projects considered as tail wind. Thus, we envisage inflation to remain elevated (following 9.5% in 2022, 6% in 2023) while GDP growth is estimated to be below 1% in 2023.

Financial Markets

Ana Lokin

10Y Slovenian government bond spreads have retreated since the beginning of December, to 110bps. Average yields and spreads in 2022 are estimated at 2.2% and 107bps (eop at 3.5% and 150bps), and in 2023, they are expected to be higher, at 3.5% with the yield at 146bps (eop 3.5% and 126bps).

Banking Sector

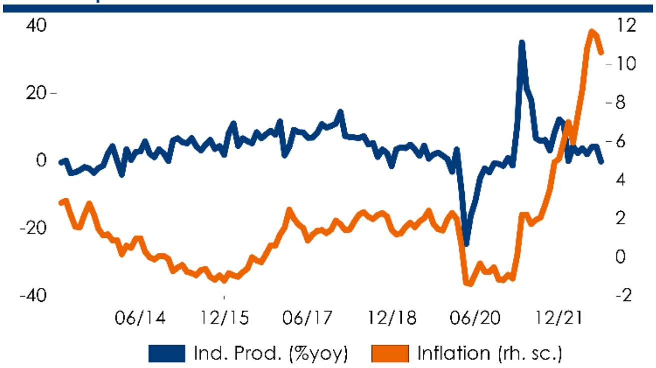
Loan and deposit growth in 2022 are expected to be 10.7% and 5.6% yoy, respectively, thus exceeding our previous call, mainly due to a robust corporate performance. In 2023, projections are cut marginally amid a weaker GDP growth profile. We see loans increasing at 3.0% yoy in 2023, with somewhat stronger retail than corporate lending, and deposit growth at 3.8% yoy, where we expect corporate liquidity accumulation to ease and households to maintain their savings prone behaviour.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	8.2	5.4	0.9	3.0
CPI (eop)	5.1	12.0	2.7	2.0
Short-term rate (eop)	-0.6	2.0	3.6	3.1
L/T bond yields (eop)	0.3	3.5	3.5	3.8
Bank loans (pr. sector, yoy)	5.2	10.7	3.0	2.5
Bank deposits (pr. sector, yoy)	8.2	5.6	3.8	3.6
Lending int. rate (corp., eop)	1.9	2.4	3.7	3.4
Deposit int. rate (hhs, eop)	0.1	0.6	1.7	1.5

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

Industrial production and inflation



Source: Statistical Office of the Republic of Slovenia

Albania

Kledi Gjordeni

Real Economy

After the outstanding performance of GDP growth in 2021, at over 8.5%, an economic contraction was expected in 2022 due to the adjustment compared to the impressive growth of 2021, but also related to the beginning of the Ukraine-Russia conflict. Moreover, the skyrocketing inflation rate, due to high energy prices, raw materials and food, strongly influenced the erosion of positive developments in the economy. The indirect data show that economic growth will remain in positive territory, excluding the risk of recession, supported by the expansion of private consumption, higher FDI, and exports of goods and services. On the other hand, the negative impact of high inflation on economic growth is likely to persist, especially in the first half of 2023. It should soften by end of 2023, however. External price pressures, supported by strong domestic demand and rises in wages, are resulting in a rise in the cost of production and services, driving the inflation rate higher and the resulting risks to economic growth. In October, CPI reached a new record high of 8.3%, continuing to represent the main threat to Albania's macroeconomic stability and growth.

Financial Markets

In November 2022, the CB increased the policy rate by 0.5%, to 2.75%. A prompt reaction from the CB with regard to monetary policy, from easing to tightening, which has become quite visible especially in the capital markets, and the expectations of prices stabilisation in international markets will contribute to lowering the domestic inflation rate, supporting the CB's inflationary target of 3% by 2024, with the lowest possible cost for the development of economic activity. During 2022, the local currency appreciated by an average of 2.5% against the euro, due to the significant income generated by tourism and the increase in FDI, which in turn also helped to narrow the inflation rate. The CB highlighted that the monetary policy normalisation cycle will continue over the coming quarters.

Banking Sector

The central bank's increase in the policy rate was transmitted along all maturities of the curve, but without jeopardising the activity of the banking sector. In November the 1TB yield rose to over 5.7% from 1.7% a year ago.

The high demand for financing has led to positive credit growth in all categories. In September, total loans expanded by 12.73%. The corporate portfolio increased at 12.28% yoy and household loans by 13.55% yoy.

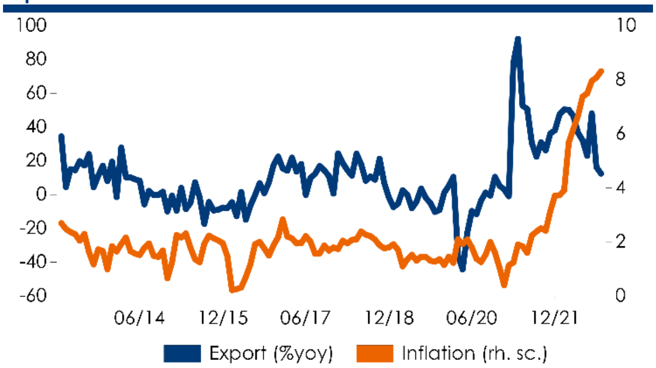
On the deposit side, we saw a rise of total deposits by 6.57% yoy. In September, corporates increased their savings by 9.74% whereas household deposits rose by 5.74% yoy.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	9.0	3.2	2.2	3.5
CPI (eop)	3.7	7.5	4.0	3.0
Euro exch. rate (value, eop)	120.9	118.0	120.0	121.5
Short-term rate (eop)	0.5	2.8	3.3	3.2
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	9.6	9.5	4.1	3.8
Bank deposits (pr. sector, yoy)	9.2	4.2	3.8	3.6
Lending int. rate (pr. sec., eop)	5.3	7.6	8.6	8.6
Deposit int. rate (pr. sec., eop)	0.4	2.1	2.3	2.3

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

Exports and inflation



Source: National Statistical Institute

Bosnia and Herzegovina

Real Economy

Ivana Jović

Although BH's Q3 GDP result will not be published before the end of December, the statistical office of Republika Srpska, one of the two entities accounting for roughly a third of BH GDP, reported a noticeable slowdown in economic activity in Q3. More precisely, following 4.5% and 4.9% yoy growth registered over the first two quarters, GDP growth in Q3 amounted to 2.8% yoy, as quarterly GDP growth basically stagnated (+0.1% qoq). Given that at the same time available high frequency Q3 data, such as real retail trade and industrial production, for the largest BH entity indicate somewhat less positive trends than observed in the previous quarters, we estimate that a slowdown will be confirmed in the Federation of BH as well (accounting for just over 65% of overall BH GDP). The first available data for the last quarter of 2022 on a national level indicate weakening of economic activity, as October's industrial production slipped into the red, declining by 3.0% yoy, with manufacturing dropping by 0.9% yoy while both mining/quarrying and electricity supply nose-dived, by 11% and 10.3% yoy, respectively. Somewhat more mixed signals are coming from the demand side, as real retail trade in October increased by 10.1% yoy – similar to the previous five months – while foreign demand (ie, annual growth in exports) slowed to 12.5% yoy, roughly half of the growth rate observed in preceding quarter. In the meantime, labour markets remain stable, with the latest data indicating 7.2% yoy lower unemployment and 1.3% yoy stronger employment in September. Average net wages were up by 14.7% yoy in nominal terms (-2.2% yoy in real), as annual inflation rate stabilised at around 17.4%. Overall, we see GDP growth ending FY22 at around 3.8%, before slowing to around 1% in 2023, reflecting an unfavourable external environment (ie, expected significant slowdown in major export markets, as well as lack of appropriate local policy response to curb inflationary pressures). For obvious reasons, risks are skewed to the downside.

Banking Sector

Ana Lokin

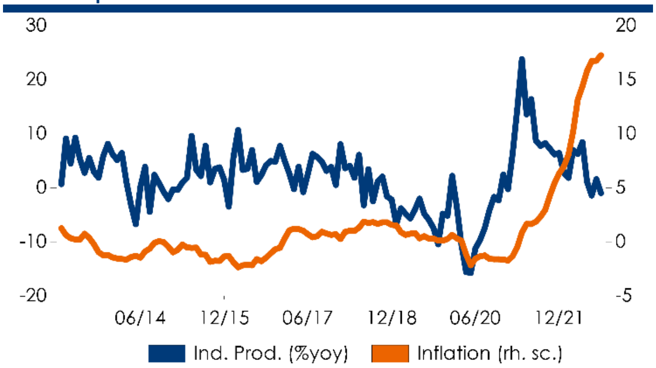
We revised the projections for both loan and deposit growth in 2022 upwards compared to our previous scenario, based on sound developments in recent months. However, 2023 projections were lowered to reflect a deteriorating environment, sustained inflation weighing on disposable incomes, and heightened uncertainty raising the risk aversion of banks. Private sector loans are thus forecast to expand by 3.3% yoy, with household lending remaining the main driver of rise. Housing loan demand is expected to soften and consumer loans are seen to be the chief contributor to growth. A rise in deposits is foreseen, reaching 2.0% yoy in 2023, whereby household deposits are expected to continue to recover as confidence is gradually returning.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	7.6	3.8	1.0	2.6
CPI (eop)	6.3	14.5	3.2	1.4
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)	3.7	5.1	3.3	3.9
Bank deposits (pr. sector, yoy)	10.0	0.7	2.0	4.4
Lending int. rate (corp., eop)	3.1	0.4	0.4	0.4
Deposit int. rate (hh, eop)	0.1	0.4	0.4	0.4

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

Following (upwardly revised) 7.8% and 8.7% yoy growth in the first and second quarters, respectively, annual GDP growth slowed in the third quarter, to 5.2%, as on a quarterly basis, GDP contracted by 0.4% for the first time since the COVID-19-related lockdown in 2020. The breakdown of data indicates positive support for headline growth across the board, with only changes in inventories contributing negatively. More precisely, although on a slowing path, private consumption demonstrated still robust 5.6% yoy growth, followed by public consumption (+1.3% yoy) and rebounding investments, which grew by 8% in annual terms. Net foreign demand also contributed positively, supported by booming exports (+23.3% yoy), owing to overperforming goods exports (+37% yoy) and a robust tourist season (exports of service up by 18.4% yoy). The end of the quarter should see a further slowdown, reflecting diminishing support from private consumption and exports. High frequency data for October indicate stagnant manufacturing (+0.1% mom) and slowing exports (+24.9% yoy vs average 35% growth registered over the previous nine months) while at the same time real retail trade slipped into the red in both monthly (-1.7%) and annual (-0.4%) terms. Thus, we see FY22 GDP growth nearing 6%. However, a gloomy EA outlook due to the energy crisis and rising uncertainties caused us to downgrade our 2023 call to around 1%. In more detail, private consumption looks set to be far less supportive (if at all), especially during the first half of next year, given protracted inflationary pressures. Merchandise exports are set to ease substantially, given the unfavourable outlook for major trading partners, while investments will, on the one hand, reflect abundant EU financing, but on the other, a slowdown in private investments is expected. All in, the balance of risk is tilted to the downside. As during October inflation peaked at a new high of 13.2%, with core CPI at a record high of 14.2%, we stick to our FY22 call of 10.6%, with an elevated profile maintained in 2023.

Financial Markets

Ana Lokin

10Y government bond spreads vs the Bund narrowed slightly in late November-early December, to 150bps. The average yield and spread in 2022 are estimated at 2.7% and 158bps; in 2023, the average yield if forecast to rise to 3.6%, with the spread at 156bps.

Banking Sector

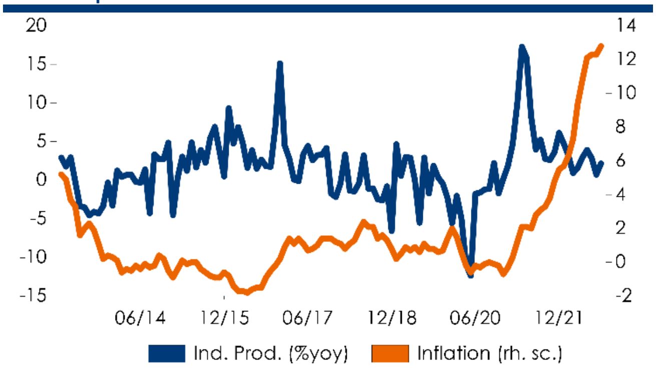
Loan growth sped up on the back of robust corporate lending, a result of rising energy sector demand. We have significantly raised this year's estimated loan growth to 11.3% yoy while at the same time trimming the 2023 figure to 3.0% yoy amid a deteriorating environment. As EA entry is nearing, the currency in circulation is declining sharply and deposit growth strengthening. We have pinned the 2022 rise at 11.9% yoy (significantly higher than in our previous scenario), but the figure might easily be exceeded. For 2023, on the other hand, the deposit growth projection was lowered to 2.0% yoy, as thin GDP growth and sustained inflationary pressures are expected to limit the private sector's capacity to save.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	13.1	5.9	1.0	2.5
CPI (eop)	5.5	12.6	2.8	2.0
Euro exch. rate (value, eop)	7.5	7.5	7.5	7.5
Short-term rate (eop)	0.4	0.2	3.6	3.1
L/T bond yields (eop)	0.6	3.5	3.7	3.8
Bank loans (pr. sector, yoy)	2.3	11.3	3.0	2.5
Bank deposits (pr. sector, yoy)	11.7	11.9	2.0	2.6
Lending int. rate (pr. sec., eop)	4.0	4.9	5.3	4.3
Deposit int. rate (pr. sec., eop)	0.1	0.3	1.5	1.3

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

Real Economy

Marius Pacurari

GDP growth in 3Q22 was 4.0% yoy, still robust despite expectations. In comparison with our previous forecast for eop 2022 (at 4.7%), the latest forecast is slightly higher, at around 4.9% eop 2022.

Yoy, CPI at the end of November was 16.8% while harmonised yoy CPI was 14.6%. According to our latest projection, the evolution of inflation will decelerate till eop 2022, to around 15.0%, but still with uncertainties, including the war situation, energy market prices, and food and commodity market prices. The inflation level has improved significantly due to the subsidies set by the government for energy and fuel prices for citizens and companies.

The budget deficit at the end of October 2022 was 3.37% of GDP, with budget execution apparently better than in the previous year, apparently because the grant for energy prices for the last five to six months had not yet been paid entirely to energy companies, and the last two months usually see the highest impact on expenses. The current account deficit is still growing. September showed a EUR 20.18Bn deficit vs EUR 16.92BN for 2021 overall. Retail sales (+4.5% yoy in October 2022) and construction (+26.4% yoy in September 2022) are still growing, even though construction has been very volatile this year. But industrial production stagnated (+0.8% yoy in September 2022).

Financial Markets

The NBR again increased all monetary policy rates (Deposit, Lombard, and Reference) by 50bps at the latest 2022 meeting in November. The levels of monetary policy rates are as follow: Deposit Facility Rate, 5.75%; Reference Rate, 6.75%; and Credit Facility Rate, 7.75%. In December to date, the liquidity in the money market had improved significantly, and further also positive GDP figures.

The EUR/RON rate has been in a range of 4.90-4.95, showing the NBR usage of "all instruments" in the fight against inflation. In November, the "short" position of the banking system vs the NBR shifted to a "long" position, confirming the high liquidity in the market.

Banking Sector

Marius Pacurari

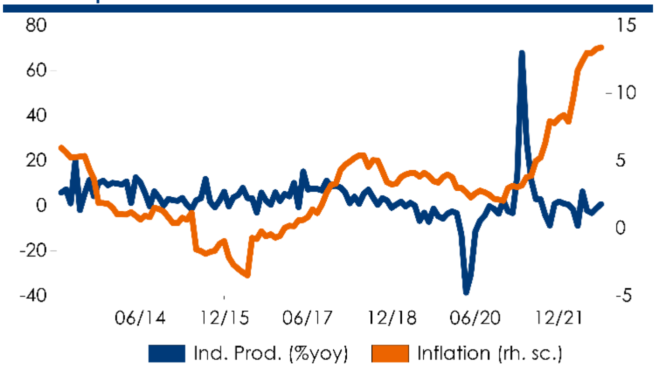
September figures show consistent growth in credit (15.1% yoy) and a deceleration in deposits growth (8.71% yoy). The highest growth in deposits was still in the last months of 2021. Interest rates grew at 7.02% and 8.88% on average for RON-denominated deposits and credit, and increased at 3.45% on average on EUR-denominated credit and at 0.36% on EUR-denominated deposits. We note that the spread between loans and deposits decreased from more than 4% a year ago to around 1.5% currently.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	6.8	4.9	2.0	3.0
CPI (eop)	8.2	15.0	10.0	3.5
Euro exch. rate (value, eop)	4.9	4.9	5.0	5.0
Short-term rate (eop)	2.8	7.6	6.9	5.6
L/T bond yields (eop)	5.4	8.4	7.5	6.9
Bank loans (pr. sector, yoy)	14.3	13.6	6.9	5.3
Bank deposits (pr. sector, yoy)	13.6	3.6	5.1	5.6
Lending int. rate (pr. sec., eop)	5.3	9.1	9.6	8.4
Deposit int. rate (pr. sec., eop)	1.9	7.1	5.3	3.9

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

Industrial production and inflation



Source: National Institute of Statistics

Serbia

Real Economy

Tijana Matijasevic

After solid growth in the first part of the year (~4%), the Serbian economy performed poorly in 3Q22, with real GDP increasing by disappointing 1% yoy. Net exports were the main source of growth, adding 3.3pp, while another 2.2pp came from private consumption. Investments and public spending decreased by 2.2% and 4.5%, respectively. Inventories also played a negative role, cutting 3.4pp from the headline figure. Due to a larger-than-expected slowdown in Q3 and in anticipation of another sluggish reading in Q4, we revised our full-year 2022 GDP projection down to 2.5%. In 2023, growth is expected to ease further, to 2.0%, on account of a lower carry over effect, a downturn across key exports markets, private consumption being eroded by persistent inflation, and investment being hit by high uncertainty and rising borrowing costs.

In November, yoy inflation rose to a record 15.1%, and as in the previous months, food and fuel prices were the main drivers. Looking at the mom dynamic, however, there was a notable slowdown from October's 1.9% to 1.0%. Inflation is forecast to peak in 1Q23, supported by increases in electricity and gas prices in January, announced public wage and pension hikes, and seasonal growth in the prices of unprocessed foods. A slow decline should start in 2Q23, with a more visible drop after the summer. The average CPI in 2023 is currently seen at 12.6%, which is similar to NBS expectations (12.5%).

Financial Markets

The NBS continued to tighten monetary policy in December, raising the key rate by another 50bps, to 5.0%. The credit facility rate rose to 6% and the deposit rate to 4%. More hikes are expected in 1Q23, due to persistent inflationary pressures and ongoing monetary tightening in major economies. The EUR/RSD rate remains stable, at around 117.3. Intervening on the purchase side since May, the CB regained the entire FX sales from March-April and built up FX reserves to a record level of €17.3Bn in November, which should be more than ample for continuing to pursue its stable dinar policy.

Banking Sector

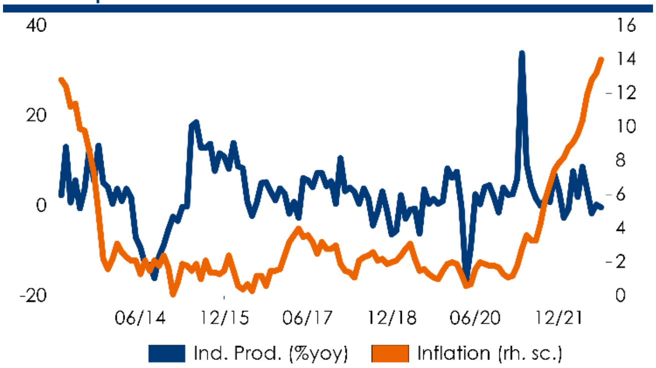
Loans to the private sector rose by a solid 10.2% yoy in October, but showed a gradual slowdown compared to September (11.1%) and June (12.8%). We expect loan volume growth to moderate to 5.3% in 2023, due to tightening of credit conditions and weaker demand for loans, notably for investment loans in corporate and housing loans in the household segment. Asset quality remains stable (NPL ratio at 3.2% in September), but with prospects for some deterioration amid a slowing economy, tighter financial conditions, and pressure on household disposable incomes. While corporate deposits remain vigorous (+7% ytd), the household sector underperformed (0% ytd), more affected by geopolitical instability and rising inflation, in spite of a rise in deposit interest rates.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	7.5	2.5	2.0	3.1
CPI (eop)	7.9	15.5	8.0	3.0
Euro exch. rate (value, eop)	117.6	117.3	117.7	118.0
Short-term rate (eop)	1.0	5.0	5.5	4.5
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	10.2	8.5	5.3	5.2
Bank deposits (pr. sector, yoy)	13.3	3.0	5.5	6.0
Lending int. rate (pr. sec., eop)	5.5	9.6	9.7	8.8
Deposit int. rate (pr. sec., eop)	1.8	5.8	5.9	4.4

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

Industrial production and inflation



Source: Statistical Office

Moldova

Real Economy

Olga Litvin

Moldova's GDP recorded a yoy decrease in 3Q22 (-10.3%) as well as a decline (-0.9%) compared to 2Q22. After the economic recession caused by the COVID pandemic, the economy failed to gain momentum, due to new challenges, such as the war in Ukraine, the energy crisis, accelerated inflation, disruptions in the global production chain. These are the premises for the 3% yoy economic contraction by the end of 2022. The negative impact of the unfavourable conditions will persist at least in 1H23, which mean only a partial recovery of just 2%. In each of the remaining forecast years, an economic recovery is assumed, with yoy GDP growth at on average of 3.6%. The inflationary pressures recorded in 2022 were due to the energy crisis, disruptions in global supply chains, and the summer drought that impacted production costs. Pressures were also created on the demand side as a result of the relaxation in monetary policy undertaken by the NBM to support the economy affected by the pandemic. This leads to an anticipated annual inflation rate of 32.2% by year-end 2022. For 2023, a reduction in pro-inflationary pressures is foreseen, due to the downward trend of prices on the international markets, weak domestic demand, as well as the statistical base effect due to the comparison with high inflation months, the annual CPI being estimated at 9.2%. For 2024-2025, it is predicted that the annual inflation rate will return to an acceptable level of around 5%.

Financial Markets

Assuming a reversal in the trajectory of annual inflation after the maximum value (34.6%) recorded in 4Q22, in December, the central bank cut the short-term rate by 1.5pp, to 20%. Inflationary expectations will translate into relaxed monetary policy in 2023. Rate cuts are expected, with the policy rate settling at 10% by year-end 2023. The 91-, 182- and 364-day Treasury bill yields fell by 1.2pp, 1.8pp and 2.0pp, respectively, as of December compared to end-3Q22 levels, in line with the inflation trajectory and expectations. For longer maturity government bonds, yields also saw a slight downward movement (-1pp) vs their September levels.

Banking Sector

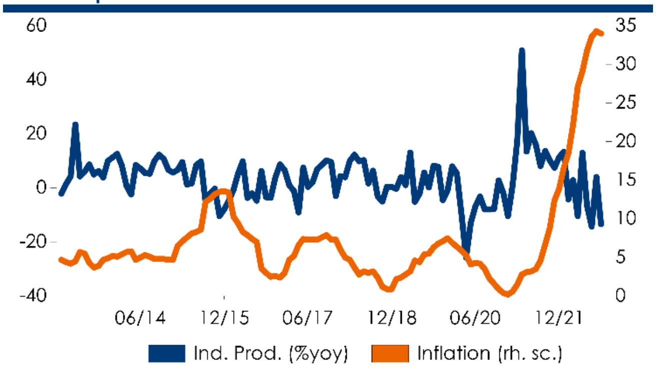
As of October 2022, the volume of private loans in the economy expanded by 11.7% yoy, driven by a double-digit growth rate for corporate loans (14.0%), with the stock of individual loans expanding by 8.4%. On the other hand, deposits maintained the modest growth that started in 2Q22, with the stock increasing by 2.5% yoy due to the 6.6% yoy rise in corporate deposit volumes. A further deceleration is expected for yoy growth of both loans and deposits in the years of projection. Hence, loans are foreseen to grow by 10.1% yoy at year-end 2022, with average growth of 5% in each of the remaining years. Deposit growth in 2022 will be 1.4%, then increasing slightly to +4% in 2023 and to +7%, on average, in the following years. Lending and deposit interest rates are expected to decrease in the following years, given the relaxing of monetary measures foreseen by the National Bank.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	13.9	-3.0	2.0	3.7
CPI (eop)	13.9	32.2	9.2	5.1
USD exch. rate (value, eop)	17.7	19.4	20.5	21.2
Euro exch. rate (value, eop)	20.1	19.7	22.6	23.7
Short-term rate (eop)	6.5	20.0	10.0	7.0
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	23.5	10.1	4.5	4.7
Bank deposits (pr. sector, yoy)	13.1	1.4	4.0	7.0
Lending int. rate (corp., eop)	8.5	12.2	9.8	7.7
Deposit int. rate (hh, eop)	3.2	10.2	5.8	3.7

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 3.5% this year. Risks are to the downside and sanctions are likely to be extended to the energy sector. In 2023, we see a further slowing of GDP, by 2.8%. The Central Bank of Russia (CBR) provided GDP forecasts in October of -3.5%/-3.0% for this year and -4.0%/ -1.0% for 2023, due to the deterioration in the economic scenario. The external conditions of the economy are still difficult and are therefore limiting the development of economic activity.

Financial Markets

Russia's financial conditions have tightened. The CBR raised the key rate by 20% on 28 February after seven rises in 2021. The bank lowered the policy rate as follows: in April, by 300bps, to 17%; in May, by 300bps, to 14%; at the end of May, by 300bps, to 11%; in mid-June, by 150bps, to 9.5%; in mid-July, by a further 1,500bps, to 8%; and at the beginning of September by 500bps, to 7.5%. Starting from that level, key rates may not be cut further in 2022, and remain stable for most of the 2023. In 2024, inflation should begin to recede towards the CB's target. In its decision-making on key interest rates, the CBR will take into account actual and expected inflationary dynamics relative to the target and processes of economic transformation, as well as risks posed by internal and external conditions and the reaction of financial markets. Despite deteriorating external conditions – in particular following Western financial sanctions – after plummeting to an all-time low, the ruble has rebounded rapidly, to a rate above pre-war levels (currently at 60.2 vs the USD). It may normalise in the future, towards 60.85 and 75.0 by the end of 2022 and 2023, respectively.

Banking Sector

Davidia Zucchelli

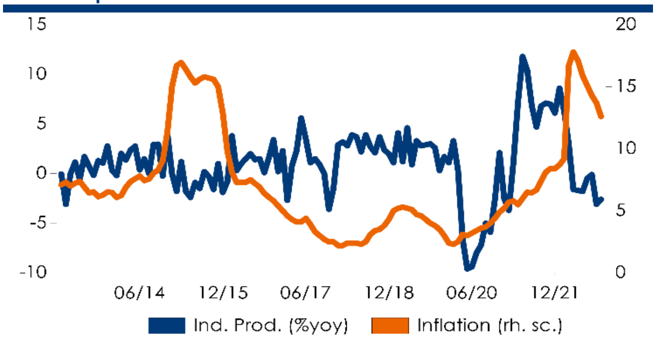
Deposit and loan growth rates are expected to decelerate in 2022 (from 10.1% in 2021 to 3.6% in 2022 and from 13.1% to -1%, respectively, strongly negative in real terms) and to recover in 2023 (both to +4.4%). The CB is likely to cancel over half of the regulatory easing measures from early 2023, including those associated with the revaluation of securities. Mortgage lending has become a matter of concern. In 1Q23, therefore, the CB will tighten the regulation of mortgage lending at low interest rates. Unsecured consumer lending slowed from 0.9% in September to 0.3% in October, but it remains a priority segment for banks, due to its high returns. Because of easing lending standards, in November, the CBR set further prudential limits for 1Q23 to avoid over-indebtedness for households. The proportion of loans to borrowers with debt service/income ratios above 80% should not exceed 25% of the disbursements. The stress test over the period until end-2023 showed that in case of stress, some banks might need additional capital, with the level at up to RUB 0.7Tn for the sector as a whole. The dedollarisation continues in the balance sheet of banks: the proportion in foreign currency decreased by 3pp, to 15%, in November while the share of the Chinese yuan is growing.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	4.7	-3.5	-2.8	2.2
CPI (eop)	8.4	12.0	5.5	4.0
USD exch. rate (value, eop)	74.8	60.9	75.0	85.0
Euro exch. rate (value, eop)	85.0	61.9	82.6	95.3
Short-term rate (eop)	9.5	8.4	7.3	6.7
L/T bond yields (eop)	8.4	9.7	8.5	7.4
Bank loans (pr. sector, yoy)	18.8	3.6	4.4	5.5
Bank deposits (pr. sector, yoy)	12.7	-1.0	4.4	5.7
Lending int. rate (corp., eop)	9.0	9.6	8.0	7.9
Deposit int. rate (hh, eop)	5.1	5.0	4.3	4.2

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

Industrial production and inflation



Source: State Statistics Federal Service

Ukraine

Artem Krasovskyi

Real Economy

After a mildly encouraging GDP reading for 3Q22 (+9% qoq, -30.8% yoy), Q4 has brought more uncertainty regarding the backdrop of intensified Russian rocket attacks on Ukraine, primarily targeting energy infrastructure. Despite Ukraine having lost up to 30% of electricity consumption from the pre-war levels, the shortage of power generating capacities is much overwhelming, as some 50% of energy infrastructure has been damaged by now and remains at risk going ahead. The full restoration of such complex equipment will take months. Thus, persisting blackouts have been introduced throughout the country, which has weighed heavily on economic performance in Q4. We remain cautiously conservative regarding our full-year 2022 GDP estimates, now seeing the economy contracting by 34.5%, even though we slightly revised our estimate upwards from the -37% in our previous outlook. However, the harsh situation in the energy sector is likely to continue to affect the economy well into 2023. Coupled with prospects of the war lasting longer than expected, it negatively affects our GDP forecast for next year, with that falling to growth of 3.5%, down from 5% projected earlier. Due to the electricity outages, the subdued consumption led to a notable slowdown in inflation in November, to 0.7% mom from 2.5% in October. In yearly terms, inflation remained basically unchanged, at 26.5% yoy in November vs 26.6% in October. The full-year 2022 inflation rate is now expected to be 28%, which is an improvement from 33% in our previous outlook

Financial Markets

The last MP meeting in December brought no surprises, as the NBU remains committed to a tight policy rate cycle and once again left the key rate unchanged at 25%. FX reserves grew by a solid 10.7% in November, to USD 27.9Bn (+25% vs the trough USD 22.4Bn marked in July) and thus have recovered to the pre-war level, underpinned by a revival in grain exports, constrained imports, and a continuation in financing from international partners. External funding remains among the main sources of meeting Ukraine's needs in 2022, along with monetary borrowings by the NBU. The latter could reach UAH 400Bn this year. However, no monetary funding is projected in the 2023 state budget and the country will be heavily reliant on international support. Out of a record budget deficit of USD 38Bn, external funding is expected to amount to USD 34Bn, with USD 15Bn from the IMF.

Banking Sector

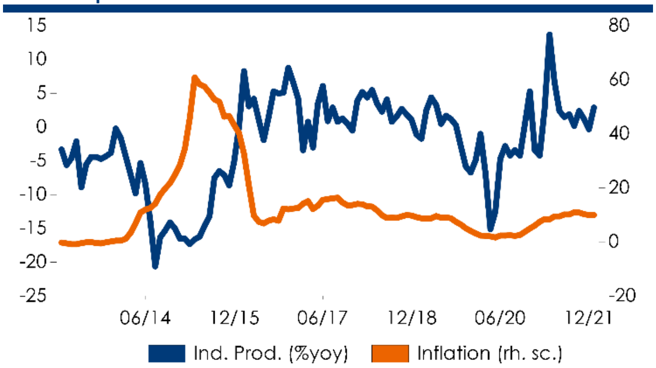
Operationally, the banking sector remains profitable: profit before provisions increased by 78% yoy for the first nine months of 2022. In particular, in 3Q22, it reached UAH 56.5Bn compared to UAH 25.7Bn in 3Q21. September was marked by a significant NPL increase (+9.3%, to 33.6%). The amount of provisions made since 2022 has reached UAH 99Bn, including UAH 93Bn in March-September (+UAH 10Bn in September).

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	3.4	-34.5	3.5	4.8
CPI (eop)	10.0	28.0	20.0	9.0
USD exch. (value, eop)	27.4	36.6	42.2	40.0
Euro exch. rate (value, eop)	30.8	37.2	46.5	44.8
Short-term rate (eop)	11.4	23.7	24.0	20.0
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	9.6	-1.0	5.0	5.0
Bank deposits (pr. sector, yoy)	12.3	11.4	7.0	5.8
Lending interest rate (corp., eop)	14.3	20.6	21.0	20.5
Deposit interest rate (hh, eop)	5.0	10.5	11.0	11.0

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

Industrial production and inflation



Source: State Statistics Service of Ukraine

Egypt

Real Economy

Samer Halim

Real growth has exceeded expectations in FY 2022, rising by 6.6% yoy. However, projections have been downwardly revised, to 3.9% and 4.8% in FY 2023 and FY 2024, respectively, due to spillovers related to the Ukraine crisis, where inflationary pressures, weaker domestic demand, and a rising cost of borrowing could weigh on trade and manufacturing sectors. On the other hand, the Egyptian government is finalising "The State Ownership Policy Document" to outline the governing principles of its presence in different economic activities and boost private investment. Gulf acquisitions are also set to bolster the performance of key sectors. The inflation rate has been increasing in 2022 on the back of rises in international prices, the depreciation of the EGP, and the CBE's decision to prioritise imports starting in March. This is expected to further accelerate in 2023, peaking in March, with a predicted weakening of the local currency and a rise in fuel prices.

Financial Markets

To balance the need to anchor inflation expectations against the foreseen slowdown in the real economy, only a 100bps hike in O/N corridor rates in 2023 is expected, in addition to the possibility of offering a high-interest CD to USD holders. The MMR is likely to rise at a faster pace in order to attract foreign inflows, peaking at 20% in June 2023 before gradually declining to 18% eop. The FX market has been under extreme pressures during 2022, which has created a parallel market for foreign currency, even after a flexible exchange rate regime was adopted in October and the appreciation of the USD against the EGP by 56% in 2022 (currently hovering around EGP 24.6 per USD). Next year will also be marked by high external financing needs, amounting to USD 35-40Bn. To secure these funds, the Egyptian government has taken the following steps: 1) agreeing with the IMF on a 46-month loan of USD 3Bn (first tranche, estimated at USD 750M, to be disbursed in December 2022) and a USD 5Bn package from regional and international institutions in FY 2023. Financing under the Resilience and Sustainability Facility could also unlock USD 1Bn; 2) offering state assets to private investors as part of its plan attract USD 40Bn in investment over four years; (3) plans to issue Sukuk and Panda bonds; and 4) boosting gas exports and maintaining the upward trend of tourism and Suez Canal revenues. A further devaluation of the EGP is expected during 1H23 until the backlog in imports has been cleared before returning to international debt markets again leveraging on the expected end of the tightening cycle in the US. Hence, the EGP could gradually appreciate during 2H23, averaging EGP 28.2 per USD for the whole year.

Banking Sector

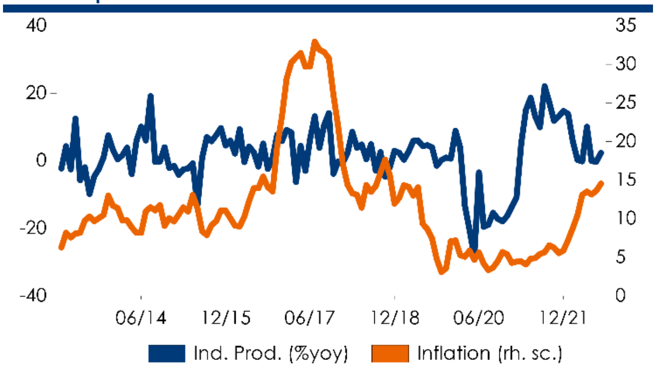
Lower economic growth could lead to a slower advancement of private loans and deposits, at 10.3% and 10.5% yoy, respectively, in 2023. Private loans are also likely to be negatively impacted by the end of the CBE's low-interest initiatives. However, volumes should be supported by the growth of financial inclusion rates by 131% between 2016 and mid-2022.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	7.2	4.0	4.1	5.5
CPI (eop)	5.9	19.0	12.0	7.5
USD exch. rate (value, eop)	15.7	26.8	26.5	27.5
Euro exch. rate (value, eop)	17.8	27.3	29.2	30.8
Short-term rate (eop)	11.9	18.0	18.0	13.3
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	18.3	20.8	10.3	10.2
Bank deposits (pr. sector, yoy)	18.7	19.8	10.5	10.2
Lending int. rate (corp., eop)	9.5	11.2	11.5	10.0
Deposit int. rate (hh, eop)	7.5	9.2	9.1	7.5

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]		
		3Q22	2Q22	2021	Last	mth	3Q22	Last	mth	3Q22	Last	mth	3Q22	Last	mth	3Q22	Last	mth	3Q22	Last	mth	3Q22	Last	mth	3Q22
CEE	Czechia	1.6	3.7	3.4	8.3	Sep	5.5	27.6	Sep	23.7	-5.6	Sep	-7.2	16.3	Nov	17.6	3.5	Oct	3.4	9.0	Sep	8.0	82.5	Oct	88.4
	Hungary	n.a.	6.5	7.1	11.3	Sep	9.9	28.0	Sep	19.7	3.0	Sep	3.4	22.5	Nov	16.5	3.8	Sep	3.6	16.6	Aug	16.0	87.4	Oct	94.2
	Poland	3.5	5.8	6.9	9.8	Sep	9.3	24.5	Aug	23.1	4.1	Sep	3.4	17.6	Nov	16.3	5.1	Sep	5.2	14.5	Sep	14.3	88.6	Oct	88.2
	Slovakia	1.2	1.3	3.0	-1.9	Sep	-3.5	26.0	Sep	24.4	-4.9	Sep	-1.3	15.3	Nov	13.9	6.1	Sep	6.1	8.4	Sep	8.0	88.3	Oct	89.7
	Slovenia	3.4	8.3	8.2	-0.1	Sep	2.7	52.7	Sep	46.3	23.8	Sep	26.0	10.8	Nov	11.3	5.5	Aug	5.5	6.8	Aug	5.6	90.2	Oct	89.6
SEE	Albania	n.a.	2.2	n.a.	n.a.	n.a.	n.a.	16.3	Sep	30.0	n.a.	n.a.	n.a.	7.9	Nov	7.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Bosnia H.	n.a.	5.9	7.6	-1.0	Sep	-0.7	22.6	Sep	23.5	9.4	Sep	10.1	17.4	Oct	16.9	30.2	Aug	30.2	13.7	Aug	13.4	n.a.	n.a.	n.a.
	Croatia	n.a.	8.7	13.1	2.2	Sep	1.7	45.3	Aug	n.a.	0.3	Sep	1.1	13.5	Nov	12.5	6.1	Sep	6.2	7.9	Aug	7.7	105.2	Oct	101.7
	Romania	4.0	5.1	n.a.	0.8	Sep	-1.1	34.1	Sep	30.8	2.5	Sep	4.5	14.6	Nov	13.2	5.1	Sep	5.2	13.8	Sep	12.9	101.2	Jul	n.a.
	Serbia	1.1	3.9	7.5	-0.3	Sep	-0.5	25.0	Sep	22.7	5.2	Sep	4.6	15.1	Nov	13.3	n.a.	n.a.	n.a.	16.5	Aug	14.8	n.a.	n.a.	n.a.
EE & MENA	Moldova	-10.3	-0.9	13.9	-13.4	Sep	-7.9	39.4	Aug	40.0	-4.2	Sep	-4.6	31.4	Nov	34.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Russia	-3.7	-4.1	4.7	-2.6	Oct	-1.2	72.1	Jan	n.a.	-9.7	Oct	-9.1	12.0	Nov	14.4	3.9	Oct	3.9	13.2	Sep	13.4	50.2	Nov	52.0
	Ukraine	-30.8	-37.2	3.4	2.9	Jan	n.a.	-31.7	Sep	-30.1	14.4	Jan	n.a.	26.5	Nov	23.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Egypt	4.4	3.2	7.2	2.4	Aug	1.1	-7.6	Aug	-2.7	n.a.	n.a.	n.a.	18.7	Nov	14.4	7.2	n.a.	n.a.	n.a.	n.a.	n.a.	47.7	Oct	47.6
	m.i. E. A.	*2.1*	*4.0*	*5.3*	*4.9*	*Sep*	*1.7*	*23.6*	*Sep*	*20.2*				*10.0*	*Nov*	*9.3*									

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
		19/12	3M*	19/12	3M*	19/12	3M*	1Y*	3M*	1Y*	19/12	2/9	3Q22	2Q22	2021	3Q22	2Q22	Moody's
CEE	Czechia	7.3	0.0	4.9	0.2	24.23	-1.19	-3.90	-3.6	-15.7	39.5	38.6	n.a.	n.a.	n.a.	-10,021	-3,408.5	Aa3
	Hungary	16.2	3.3	8.3	-0.7	403.83	0.71	9.82	12.4	-11.0	181.5	173.6	n.a.	n.a.	n.a.	n.a.	n.a.	Baa2
	Poland	8.3	-0.3	6.8	0.7	4.69	-0.54	1.19	12.1	-16.4	110.5	126.0	n.a.	n.a.	n.a.	n.a.	n.a.	A2
	Slovakia	2.1	1.0	3.4	0.5	n.a.	n.a.	n.a.	-1.5	-14.2	45.9	46.5	n.a.	n.a.	n.a.	n.a.	-3,800.9	A2
	Slovenia	2.1	1.0	3.4	0.5	n.a.	n.a.	n.a.	-0.1	-14.1	49.7	53.7	66	54	932	305	-129.2	A3
SEE	Albania	2.7	n.a.	n.a.	n.a.	114.13	-2.09	-5.56	n.a.	n.a.	n.a.	n.a.	n.a.	-63	n.a.	n.a.	-208.0	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.	318	-30	1,268	n.a.	-323.3	B3
	Croatia	0.4	0.0	3.5	0.2	7.53	0.19	0.26	-2.1	-4.8	100.5	95.4	1,017	1,174	6,079	n.a.	-1,003.1	Baa2
	Romania	7.5	-0.3	8.3	0.1	4.91	-0.39	-0.80	5.7	-3.0	249.1	267.7	n.a.	n.a.	n.a.	n.a.	-12,298.0	Baa3
	Serbia	5.0	1.5	n.a.	n.a.	117.35	0.04	-0.17	7.5	7.3	218.3	292.0	n.a.	-1,677	2,963	n.a.	-1,318.5	Ba2
EE & MENA	Moldova	20.0	1.5	n.a.	n.a.	19.19	0.91	10.12	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-12.3	B3
	Russia	8.4	5.0	9.9	9.2	66.00	1.10	-17.10	-13.8	-34.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	WR
	Ukraine	23.7	-0.1	n.a.	n.a.	36.93	0.01	35.60	-11.2	-65.1	14,247.7	14,247.7	1,831	-5,629	1,820	5,151	959.0	Caa3
	Egypt	17.2	2.0	n.a.	n.a.	24.72	27.74	56.37	55.5	18.8	761.1	934.8	-178	-3,706	872	n.a.	-2,957.8	B2
	m.i.A.E.	*2.0*	*1.2*	*1.9*	*0.3*	*1.0*	*4.4*	*-7.5*	*7.7*	*1.7*	*10.16*	*8.14*						

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	2021	Last	mth	2021	Last	mth	2021	Last	Mth	2021	Last	mth	2021	S[4]	Last	mth	2021	S[4]	Last	mth	2021
CEE	Czechia	7.0	Sep	8.4	2.0	Sep	2.4	1.4	Sep	-11.3	5.1	Sep	7.0	8.4	Sep	4.5	C	6.1	Sep	2.3	H	71.6	Sep	70.7
	Hungary	14.9	Sep	12.7	2.4	Jun	2.2	55.7	Sep	6.7	18.2	Sep	17.6	10.0	Sep	4.5	C	8.9	Sep	1.5	H	75.8	Sep	71.9
	Poland	4.8	Sep	4.6	4.3	Jun	4.5	12.6	May	-1.2	6.0	Sep	7.7	8.9	Sep	3.8	C	6.3	Sep	1.3	H	81.1	Sep	80.1
	Slovakia	11.8	Sep	7.3	2.0	Sep	2.3	-17.0	Sep	19.6	7.1	Sep	4.5	2.2	Sep	1.6	C[2]	0.0	Sep	0.0	H[2]	110.5	Sep	103.7
	Slovenia	12.3	Sep	5.2	1.2	Aug	1.2	21.1	Sep	-7.8	6.2	Sep	8.2	2.0	Sep	1.9	C[2]	0.1	Sep	0.1	H[2]	66.6	Sep	63.1
SEE	Albania	12.7	Sep	9.6	5.1	Sep	5.7	19.2	Sep	34.0	6.6	Sep	9.2	6.2	Sep	5.3	PS	1.6	Sep	0.4	PS	55.7	Sep	53.7
	Bosnia H.	4.7	Sep	3.7	5.2	Jun	5.8	-6.7	Sep	-16.3	2.4	Sep	10.0	3.5	Sep	3.1	C	0.4	Sep	0.1	H	93.0	Sep	89.5
	Croatia	11.1	Sep	2.3	3.8	Jun	4.3	21.4	Sep	-3.5	13.9	Sep	11.7	4.1	Sep	4.0	PS	0.1	Sep	0.1	PS	65.1	Sep	66.2
	Romania	15.1	Sep	14.3	2.9	Aug	3.4	39.7	Sep	9.8	8.7	Sep	13.6	8.9	Sep	5.3	PS	7.0	Sep	1.9	PS	74.4	Sep	68.1
	Serbia	11.1	Sep	10.2	3.2	Sep	3.5	28.1	Sep	9.9	7.1	Sep	13.3	9.0	Sep	5.5	PS	5.4	Sep	1.8	PS	95.2	Sep	90.1
EE & MENA	Moldova	12.9	Sep	23.5	6.8	Aug	6.1	0.7	Jul	n.a.	2.5	Oct	13.1	12.2	Oct	8.5	C	10.2	Oct	3.2	H	68.5	Sep	62.6
	Russia	8.4	Aug	18.8	7.0	Sep	n.a.	13.3	Dec	13.3	1.3	Aug	12.7	9.8	Aug	9.0	C	5.0	Aug	5.1	H	126.6	Aug	119.3
	Ukraine	3.9	Sep	9.6	33.6	Sep	30.0	-12.9	Sep	-5.8	17.9	Sep	12.3	21.7	Sep	14.3	PS	9.3	Sep	5.0	PS	66.0	Sep	72.2
	Egypt	25.6	Aug	18.3	3.2	Jun	3.5	67.7	Sep	32.4	24.6	Aug	18.7	11.2	Oct	9.5	C	9.1	Oct	7.5	H	35.9	Aug	35.3
	m.i. E. A.	*5.62*	*Aug*	*3.3*	*n.a.*	*n.a.*	*n.a.*	*11.1*	*Aug*	*7.0*	*4.7*	*Aug*	*4.7*	*2.5*	*Oct*	*1.1*	*C*	*0.8*	*Oct*	*0.2*	*H*	*75.2*	*Aug*	*74.6*

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)	2020	2021	2022	2023F	2024F	Inflation (%, avg)	2020	2021	2022	2023F	2024F
CEE	Czech Rep.	-5.7	3.4	2.4	0.1	2.8	Czech Rep.	3.2	3.9	15.7	10.5	2.6
	Hungary	-5.1	7.1	5.4	0.6	3.1	Hungary	3.3	5.1	13.3	9.5	3.3
	Poland	-2.7	6.9	4.5	1.0	3.0	Poland	3.4	5.1	14.5	13.0	3.6
	Slovakia	-4.4	3.0	1.7	1.0	3.1	Slovakia	2.0	3.2	12.4	8.8	3.1
	Slovenia	-4.3	8.2	6.2	1.8	3.0	Slovenia	-0.3	2.0	9.5	4.7	2.2
SEE	Albania	-3.3	9.0	3.2	2.2	3.5	Albania	1.6	2.0	6.7	5.2	2.9
	Bosnia Herzegovina	-3.2	7.6	3.3	2.0	2.6	Bosnia Herzegovina	-1.1	2.0	14.3	5.6	1.9
	Croatia	-8.6	13.1	6.4	2.0	3.4	Croatia	0.1	2.6	10.6	4.9	1.9
	Romania	-3.9	6.8	4.9	2.0	3.0	Romania	2.6	5.0	12.0	11.4	4.9
	Serbia	-0.9	7.5	3.0	2.5	3.1	Serbia	1.6	4.0	11.6	9.7	4.0
EE & MENA	Moldova	-8.3	13.9	0.1	2.0	3.7	Moldova	3.8	5.1	29.2	15.7	7.5
	Russia	-3.0	4.7	-3.5	-2.8	2.2	Russia	3.4	6.7	13.8	8.8	4.8
	Ukraine	-3.8	3.4	-34.5	5.0	4.8	Ukraine	2.7	9.3	20.2	24.0	14.5
	Egypt	1.5	7.2	4.0	4.1	5.5	Egypt	5.1	5.2	13.2	13.3	8.8

Markets

	Exch.rate (avg Euro)	2020	2021	2022	2023F	2024F	Interest rate (%, avg)	2020	2021	2022	2023F	2024F
CEE	Czech Rep.	26.5	25.6	24.6	24.3	24.1	Czech Rep.	0.9	1.1	6.3	6.6	5.1
	Hungary	351.1	358.7	390.9	403.7	400.1	Hungary	0.7	1.4	9.8	11.5	6.7
	Poland	4.4	4.6	4.7	4.6	4.5	Poland	0.6	0.4	5.9	6.5	5.4
	Slovakia	n.a.	n.a.	n.a.	n.a.	n.a.	Slovakia	-0.4	-0.5	0.3	3.0	3.0
	Slovenia	n.a.	n.a.	n.a.	n.a.	n.a.	Slovenia	-0.4	-0.5	0.3	3.0	3.0
SEE	Albania	123.4	122.3	119.2	119.4	121.1	Albania	0.5	0.5	1.4	3.0	3.2
	Bosnia Herzegovina	2.0	2.0	2.0	2.0	2.0	Bosnia Herzegovina	n.a.	n.a.	n.a.	n.a.	n.a.
	Croatia	7.5	7.5	7.5	7.5	7.5	Croatia	0.3	0.3	0.2	3.0	3.0
	Romania	4.8	4.9	4.9	5.0	5.0	Romania	2.4	1.8	6.1	7.1	6.2
	Serbia	117.6	117.6	117.5	117.6	117.8	Serbia	1.5	1.0	2.5	5.0	4.4
EE & MENA	Moldova (USD)	17.3	17.7	18.8	19.5	19.9	Moldova	3.4	3.8	17.1	16.3	8.5
	Russia (USD)	73.4	73.9	68.5	67.9	80.0	Russia	5.4	6.8	11.9	7.8	7.0
	Ukraine (USD)	26.9	27.4	32.3	39.4	41.1	Ukraine	12.2	10.7	16.8	23.9	24.0
	Egypt (USD)	15.8	15.7	19.2	24.9	25.4	Egypt	13.1	12.7	14.5	17.0	14.9

Banking aggregates (% change yoy)

	Loans (pr. sector)	2020	2021	2022	2023F	2024F	Deposits (pr. sector)	2020	2021	2022	2023F	2024F
CEE	Czech Rep.	4.1	8.4	6.2	4.7	4.5	Czech Rep.	11.9	7.0	4.6	4.3	4.2
	Hungary	13.4	12.7	12.2	1.5	5.4	Hungary	23.3	17.6	4.2	1.5	4.4
	Poland	0.4	4.6	4.2	3.8	4.9	Poland	12.8	7.7	2.9	3.3	5.0
	Slovakia	4.5	7.3	10.3	4.0	4.8	Slovakia	6.3	4.5	4.2	4.0	4.2
	Slovenia	-0.9	5.2	10.7	3.0	2.7	Slovenia	12.2	8.2	4.9	3.8	3.6
SEE	Albania	7.0	9.6	9.5	4.1	3.8	Albania	8.1	9.2	4.2	3.8	3.6
	Bosnia Herzegovina	-2.5	3.7	4.8	3.9	3.9	Bosnia Herzegovina	6.5	10.0	0.3	2.2	4.4
	Croatia	3.5	2.3	10.5	3.0	2.8	Croatia	8.7	11.7	11.9	2.0	2.8
	Romania	5.0	14.3	13.6	6.9	5.3	Romania	15.4	13.6	3.6	5.1	5.6
	Serbia	11.1	10.2	8.5	5.3	5.2	Serbia	17.4	13.3	3.0	5.5	6.0
EE & MENA	Moldova	13.1	23.5	10.1	4.5	4.7	Moldova	16.5	13.1	0.9	4.0	7.0
	Russia	14.4	18.8	3.6	4.4	5.5	Russia	9.6	12.7	-1.0	4.4	5.7
	Ukraine	-2.8	9.6	-1.0	5.0	5.0	Ukraine	33.6	12.3	11.4	7.0	5.8
	Egypt	24.5	18.3	20.8	10.3	10.2	Egypt	20.4	18.7	19.8	10.5	10.2

Banking interest rates (%)

	Lending (Corp. avg)	2020	2021	2022	2023F	2024F	Deposits (HH avg)	2020	2021	2022	2023F	2024F
CEE	Czech Rep.	2.3	2.3	7.5	6.6	4.2	Czech Rep.	0.8	0.9	5.1	5.2	2.9
	Hungary	2.8	3.2	8.2	8.2	5.2	Hungary	0.3	0.6	6.1	5.9	3.1
	Poland	2.7	2.4	7.4	6.9	5.3	Poland	0.5	0.3	4.3	4.7	3.5
	Slovakia	1.9	1.9	2.2	3.0	3.5	Slovakia	0.0	0.0	0.1	1.2	1.7
	Slovenia	2.1	2.1	1.9	3.0	3.3	Slovenia	0.1	0.1	0.2	1.1	1.4
SEE	Albania	6.2	6.1	6.5	8.3	8.6	Albania	0.5	0.4	1.1	2.2	2.3
	Bosnia Herzegovina	2.8	3.0	2.4	0.4	0.4	Bosnia Herzegovina	0.3	0.2	0.3	0.4	0.4
	Croatia	5.5	5.1	4.8	4.7	4.6	Croatia	0.1	0.1	0.1	0.7	1.3
	Romania	6.2	5.6	7.8	9.9	9.0	Romania	1.9	1.3	5.3	6.1	4.5
	Serbia	5.9	6.2	7.7	9.2	8.7	Serbia	1.6	1.4	3.9	5.4	4.4
EE & MENA	Moldova	8.5	8.3	10.5	11.3	8.3	Moldova	4.1	3.2	6.8	8.4	4.2
	Russia	6.8	7.2	11.6	8.7	8.0	Russia	3.8	3.8	7.5	4.7	4.2
	Ukraine	14.3	13.3	18.2	18.9	18.5	Ukraine	6.1	4.6	7.3	10.3	10.5
	Egypt	11.4	9.4	10.3	11.4	11.4	Egypt	7.8	7.4	8.3	9.1	8.9

Source: Intesa Sanpaolo Research Department forecasts

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