

Economic and Banking Outlook

Viewpoint

The global economy has recently navigated through a complex landscape marked by geopolitical tensions, fluctuations in growth, inflation, and monetary policy adjustments. These changes have set the stage for several regional economic trends as countries adapt to the evolving global economic environment. **Looking ahead to 2024, we expect an economic recovery at a moderate pace and decline in both inflation and policy rates.**

■ Macroeconomic scenario

- **Economic growth.** In the CEE and SEE regions, after a year of mixed growth rates, we forecast a measured improvement next year, influenced by external factors in the Euro Area and internal monetary policies. The EE area, especially Russia and Ukraine, looks set for a more favourable growth trend, contrasting with this year's geopolitical instability. Egypt, continuing its trajectory from this year, is expected to maintain steady growth into next year, driven by domestic factors.
- **Inflation.** The CEE and SEE regions are projected to see downward inflation in 2024, a shift from the higher pressures experienced this year. EE countries and Egypt, with their varied inflation scenarios in 2023, are likely to see more stability in inflation rates next year.
- **Monetary policies.** In 2024, the CEE, SEE and EE regions are expected to experience nuanced adjustment in monetary policies. Poland and Hungary are leading the transition towards more accommodative policies, away from this year's tighter approaches. This change is reflective of a broader regional trend towards fostering economic recovery amid stabilising inflation. Other countries, like Czech Republic and Romania, are likely to follow suit, with noticeable policy adjustments. Conversely, in the EE region, particularly Russia, a continued focus on tight monetary control is anticipated, highlighting varied regional responses to economic conditions. Egypt, aligning with its distinct economic situation, is also set for significant monetary policy adjustments in 2024. These trends highlight a strategic transition across the regions, as central banks balance the need for economic growth with inflation control, responding to both global economic shifts and country specificities.

■ Banking aggregates

- **Loans.** Recent figures showed a slowdown across many countries due to the challenging economic climate, persistently high inflation, and elevated interest rates. Looking forward, in 2024, the loan sector is expected to exhibit diverse patterns. In the CEE countries, we see a moderate recovery in lending, with Hungary showing promising signs, while Poland and Slovakia might face challenges due to economic and regulatory factors. The SEE region is likely to show stable growth, with Croatia leading, whereas in the EE region, especially Russia, we estimate a significant acceleration in lending. Challenges include higher interest rates and potential rises in NPLs, affecting consumer lending and overall loan growth.
- **Deposits.** Deposit growth, having been robust, is expected to continue its positive trajectory in 2024, albeit at a reduced pace compared to previous years. In the CEE and SEE regions, stable growth is predicted, with countries such as Hungary performing better than foreseen, leading to upward revisions of deposit growth predictions. Economic caution and a stable banking sector are likely to sustain deposit growth in these regions. Russia stands out in the EE area with an anticipated strong increase in deposits, reflecting the unique economic and banking dynamics within the region. In Egypt, the trend of strong growth in deposits will ease in 2024, aligning with the global trend of gradual normalisation in banking activities. This moderation reflects a cautious approach by consumers and businesses in an evolving economic landscape, marked by uncertainties and changing monetary policies.

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Countries with ISP subsidiaries

Quarterly Note

Research Department

International Research Network

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Contents

Recent developments	2
The international outlook	5
The economic outlook	6
Growth and inflation	6
Monetary policy and financial markets	7
Banking aggregates and interest rates	8
Country-Specific Analysis	9
Czech Republic	9
Hungary	10
Poland	11
Slovakia	12
Slovenia	13
Albania	14
Bosnia and Herzegovina	15
Croatia	16
Romania	17
Serbia	18
Moldova	19
Russia	20
Ukraine	21
Egypt	22
Country Data: Economy, Markets and Banks - the economic cycle	23
Country Outlook	24



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

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

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

Recent developments

On a quarterly basis, in 3Q23, the GDP of the CEE area increased by 0.9% qoq (weighted average) vs growing by 0.3% in the previous quarter. Based on the specificities of each country in the area, and within a rather wide range, a positive economic performance was detected in Poland (1.5%) and Hungary (0.9%), after the almost stagnant Q2. In the remaining countries, the quarterly dynamic of GDP was negative (Czech Republic -0.5% and Slovenia -0.2%), but in Slovakia it was slightly positive (+0.3%). **The unfavourable economic landscape kept the CEE area's GDP on a weak trend, below expectations, but positive (0.2% in the third quarter from -0.6% in the previous quarter). In the same period, among the countries in the SEE area, only data relating to Croatia (2.8% yoy), Romania (2.9% yoy) and Serbia (3.6%) are currently available.** For Romania the, the economic phase was positive, but it was lower than expected.

The latest releases of high-frequency economic indicators are mixed but mainly point to a positive, although still weak, cyclical phase in the coming quarters. In September, in the CEE area, **industrial production** contracted by 4.0% yoy from -2.2% yoy in the previous month (on a weighted average basis [w.a.]), but the negative trend of **retail sales** improved further, to -1.1% in September from -2.0% in the previous month. In August, **export** dynamics remained negative (-6.5% yoy from -5.9% yoy). A similar figure was observed in the SEE region, where industrial production contracted further in September (-3.0% yoy from -3.1% yoy in the previous month), but retail sales grew by 0.9% yoy (below the trend of previous month of 1.5%). In November, the **Economic Sentiment indicator** improved further in both the CEE region (to 95.7 from 94.6 in previous month) and in SEE (to 85.6 vs 85.2).

Although with differences for each country, **inflationary pressures** are declining in the CEE and SEE areas, as is the core component, thanks to favourable base effects and due to both tighter monetary policy and the lower international commodity prices. Aggregating the data (w.a.), in November, in the CEE area, inflation was still high but decreased to 6.5% (from the peak of 18.5% in February), and in the SEE area in the same month, it declined to 6.6% (vs the peak of 15.3% in December 2022).

At their most recent meetings, **central banks** took the following steps: Poland's began to ease monetary policy (the policy rate was cut by 75bps, to 6.0% in September and then to 5.75% in October), while in Hungary, the base rate has been lowered to 11.50%. In Czech Republic and Romania, both central banks maintained policy rates at 7.0%, and in Serbia at 6.25%, while in Albania, monetary tightening continued in November with an increase in the policy rate to 3.25%. **Long-term yields** decreased in countries where monetary policy has been relaxed.

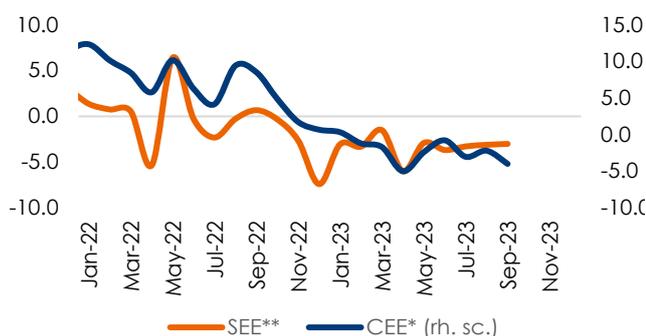
Antonio Pesce, Francesca Pascali, Davidia Zucchelli

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

Consumer prices are decelerating, and the core component has started to cool

Poland and Hungary's CBs began to ease monetary policy. Pauses for monetary restrictions seen in the remaining countries

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



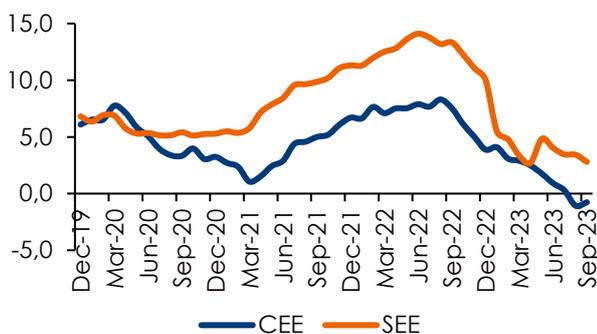
Source: National statistics offices. Note: * weighted average of Russia, Ukraine and Moldova data

Outside the CEE/SEE regions, **EE countries** continued to perform well, affected by the geopolitical situation even though economic growth has regained momentum. In 3Q23, **GDP** increased by 5.5% yoy (from 4.9% in 2Q23) in **Russia**, and it increased by 19.5% yoy in 2Q23 (from -10.5% in 1Q23) in **Ukraine**; it fell in 2Q23 by 2.2% (from -2.4% in 1Q23) in **Moldova**. In **Egypt**, GDP grew by 3.9% yoy in 1Q23 (3.9% in 4Q22). Moving to high-frequency indicators, in October, **industrial production** grew (by 5.3% yoy) in Russia (from 5.6% in September), Moldova (+1.5% in September), and in Ukraine (+13.8% in June 2023). In Egypt, it decreased by 10.7% in August vs an increase of 0.3% in July. In October, **retail sales** increased in Russia, by 12.7% (vs +12.2% in September), and in June, they grew by 19.1% in Ukraine (vs +20.7% in May). In Russia, **consumer prices** decelerated from April 2022 to May 2023, but from June, they began to grow again (7.5% in November 2023), and went up CB targets (4.0%). In November, prices rose in Ukraine to 5.1% (vs 5.3%). In Moldova, the CPI was 5.5% vs 6.3% in October. In Egypt, inflation rose by 34.6% in November, down from the +35.8% of October, which was well above the upper end of the CB's corridor ($7 \pm 2\%$).

With regard to **banking aggregates**, **lending growth** decelerated in many countries in September due to still-weak economic conditions, plus still-high inflation and interest rates. Loans decreased by 0.8% yoy vs -1.1% yoy in August in **CEE countries** and decelerated from 4.5% yoy in August to 3.8% yoy in September in **SEE countries**. Czech Republic and Croatia – where loans increased by 4.6% and 7.7% yoy, respectively, in September in nominal terms (3.9% and 8.3% yoy as of August) from 11.6% and 11.2% in 2022 – were the best performers. **Corporate loans** continued to show much stronger performances than household loans only in Romania (7.8% vs 0.0% in September), while in the other SEE countries, households showed a stronger performance, particularly in Albania as in the CEE countries where corporate loans decreased by 1.4% yoy and by 0.4% in the household sector due to the further fall of household lending in Poland (the biggest economy in the area, -3.9% yoy). **NPL ratios** have so far remained low everywhere, but the still-fragile economic context could put pressure on asset quality in the near future. Thanks to the strong funding base, there are no signs of liquidity tensions in general. Only in Slovakia did the **loan/deposit ratio** remain over 100%. Precautionary motives continued to support **deposit growth** in both the CEE (7.0% yoy in September as in the previous month) and SEE (accelerating from 9% to 9.7% yoy) areas, in nominal terms. **Banking interest rates** stopped growing in some countries (Poland, and Croatia and Albania among SEE countries).

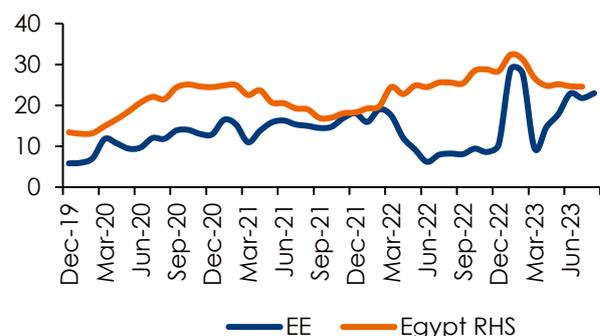
In the **EE area**, loan growth remained strong in Russia (26.2% yoy in August), especially for corporates (28.9% yoy), but also for households, where loan growth accelerated from 18.2% in July to 20.7% in August. In Moldova, the loan performance (+3.4% yoy in September) was robust for corporates (4% yoy) and moderate for the household sector (2.6% yoy, improving from weak previous performances). A new windfall tax on banks has been imposed in Ukraine (the income tax rate for 2023 will be 50% and 25% in the years starting from 2024, while the current rate is 18%). Total deposit growth from the private sector remained vigorous (from 25.6% yoy in July to 29.8% in September in Russia), particularly in the corporate sector (+42% yoy in nominal terms) but also in the household sector (+19.6% yoy). In **Egypt**, banking aggregates saw continued strong dynamics in nominal terms, with loans increasing by 24.6% yoy in July and deposits by 21.9% in September (but changes were in negative territory in real terms).

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

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

Bank loans still weak as of September

The international outlook

Global economic growth (estimated at 3.5% in 2022) is expected to decelerate to 3.0% in 2023 and 2.9% 2024 (April IMF *World Economic Outlook*), well below the historical average (3.8% in the 2000-19 period). The increases in central bank official rates to fight inflation continue to weigh on economic activity. Advanced economies are expected to slow from 2.6% in 2022 to 1.5% in 2023 and 1.4% in 2024. Emerging market and developing economies are projected to see modest declines in growth, from 4.1% in 2022 to 4.0% in both 2023 and 2024. Global inflation is projected to fall from 8.7% in 2022 to 6.9% in 2023 and 5.8% in 2024, thanks to favourable base effects and due to tighter monetary policy, aided by lower international commodity prices. Core inflation is generally projected to decline more gradually, and inflation is not expected to return to target until 2025 in most cases.

The **risks to the outlook** continue to be to the downside. Inflation could be more persistent than expected, and renewed COVID-19 outbreaks and lockdowns could negatively affect economic activity; the wars in Ukraine and the Middle East could escalate and geoeconomic fragmentation could be exacerbated. Further, tighter global financing conditions could cause a deterioration in debt distress. In most economies, across the board, central banks' priorities continue to be to bring inflation back to target levels while ensuring financial stability. Therefore, central banks should remain focused on restoring price stability by maintaining unaccommodative monetary conditions.

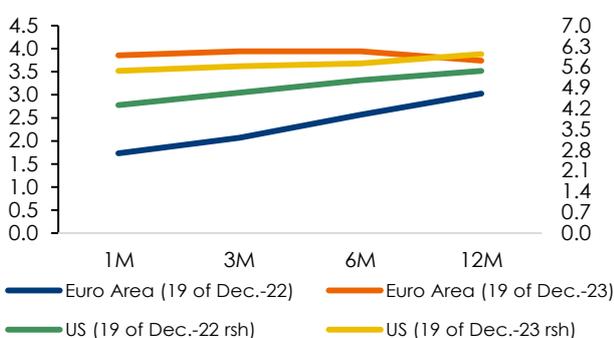
Regarding the **US**, the GDP dynamic is expected to increase from 2.0% in 2022 to 2.5% this year, upwardly revised from 2.0% in the Intesa Sanpaolo (ISP) September scenario, and then to 1.5% in 2024. The annual inflation rate in the US slowed to 3.1% in November 2023, the lowest reading in five months, from 3.2% in October. The Federal Reserve kept the fed funds rate steady at 5.25-5.5% for a third consecutive meeting in December 2023. The ISP Research Department expects the policy rate to fall to 5.0% by end-2024.

In the **Euro Area**, despite expansionary fiscal policies implemented through the PNRRs at national levels, ISP foresees full-year GDP growth slowing from 3.5% in 2022 to 0.4% in 2023 and 0.4% in 2024 (downwardly revised from 0.8% in the September scenario). The war in Ukraine and tighter monetary policy are weighing heavily on the economic dynamic. The inflation rate in the Euro Area declined to 2.4% year on year in November 2023, reaching its lowest level since July 2021. It is expected to decrease further in the coming months, and the end-of-period level is projected to be 2.3% in 2024. The ECB maintained interest rates at multi-year highs for the second consecutive meeting in December. At ISP, we expect the policy rate to reach 4.0% by eop in 2024.

Among **emerging countries**, China's GDP growth trend has been confirmed with respect to the September scenario at 4.9% in 2023 and 5.1% in 2024. 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.

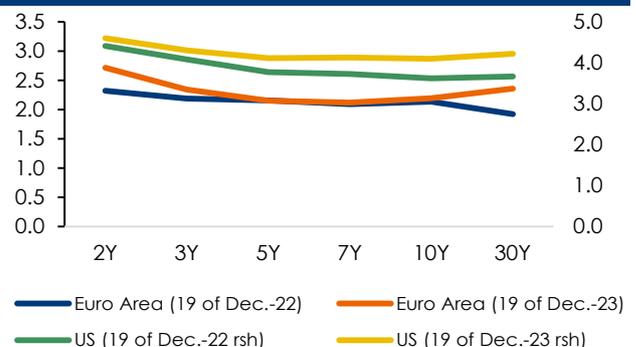
Global economic growth still looks fragile and weak for the remainder of this year

Benchmark monetary rates (US and EA rates)



Source: ISP elaboration on Refinitiv-Datastream data

Yield curves (US bonds and German Bunds)



Source: ISP elaboration on Refinitiv-Datastream data

The economic outlook

Growth and inflation

Looking ahead, we expect **GDP in the CEE and SEE areas** to continue on a recovery path in the coming months, albeit still a relatively modest one, as a result of weaker-than-previously-expected economic dynamics in Euro Area countries. These performances are further due to the monetary restrictions implemented by policy authorities, which are weighing on financing conditions of economic agents.

The September baseline scenario projected GDP growth for the CEE area at 2.6% yoy in 2024, but we slightly downwardly revised this to 2.5%. The GDP dynamic in the SEE area has also been downwardly revised (to 2.3% from 2.9%). The forecasts for the following year have been confirmed for both the CEE area and SEE regions (to 2.8% and 3.2%, respectively).

The assumptions behind these projections include hypotheses on fuel and nonfuel commodity prices, which are assumed to moderate in 2024 and 2025. The prevailing **risks to the outlook** are to the downside, however. Inflation could be more persistent than expected, renewed COVID-19 outbreaks could occur, and lockdowns could dampen economic activity, the wars in Ukraine and in the Middle East could escalate, and tighter global financing conditions could hamper economic recovery.

Inflation is projected to be on a declining path, even if it were to remain high in the coming months and above central banks' targets in both the CEE and SEE regions – in particular, in those countries where wage dynamics have strengthened significantly. The end-of-period inflation forecasts for 2024 have been confirmed (at 3.0% in the CEE area and at 4.2% in the SEE area) and are expected to move closer to CB targets in the following year.

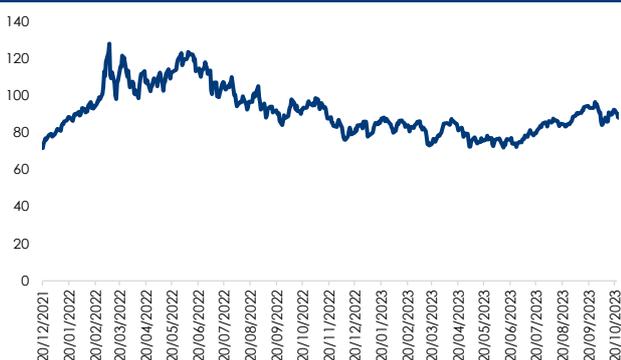
Due to better-than-expected data, GDP growth forecasts for the **EE** region have been revised upwards. For Russia, it was raised to +3.0% in 2023 from +2.2% projected in September; we have left 2024 numbers unchanged. For Ukraine, estimates were raised to +5.3% from +3.5% in 2023 and unchanged +4.5% in 2024. Estimates are unchanged for 2023 for Moldova (+2.1%), but lowered in 2024 to 3.5% from 3.7% (September forecast). Price pressures are expected to fall in Ukraine and Moldova. In Russia, where inflation began to accelerate again from June 2023, it is expected to reach the CB's targets in 2026. For **Egypt**, we left our GDP growth estimates unchanged at 3.4% for calendar year 2023 and at 3.9% for 2024. Inflation is expected to accelerate to 33.9% by year-end 2023, but fall to 27.6% in 2024. It is not expected to move back to the CB's target before 2028.

GDP forecasts for 2024 have been slightly lowered because of the weaker-than-expected economic dynamic in EA countries.

Risks to our forecasts continue to be to the downside

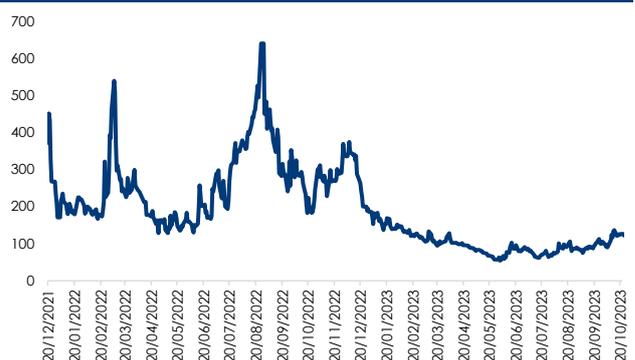
Inflationary pressures are expected to be on a declining path, but still above CB targets in the coming months

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



Source: Refinitiv-Datastream

ICE-NATURAL GAS (Therm £)



Source: Refinitiv-Datastream

Monetary policy and financial markets

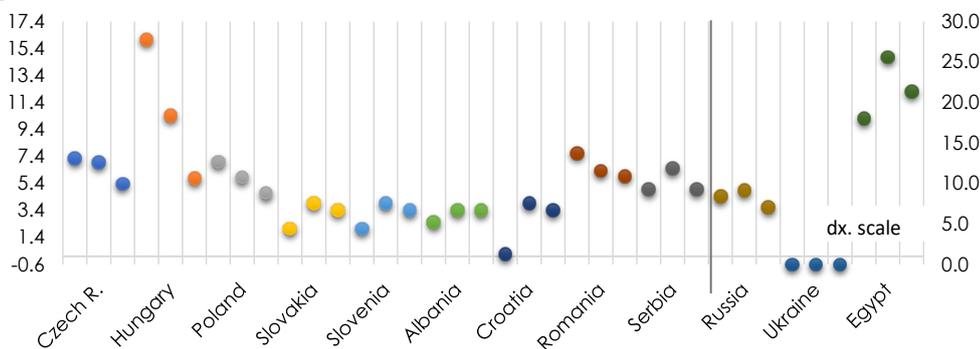
At its meeting on 6 September, the Board of the National Bank of Poland began to ease monetary policy, followed by the Hungarian National Bank, which started monetary easing in October. Czech Republic seems to have paused with regard to raising **policy rates**, although monetary actions continue to be guided "by data" and therefore, as inflationary pressures are declining, in our baseline scenario, a reduction in policy rates could start soon. In **Hungary**, where the policy rate is currently 11.50%, we expect to see 6.0% at year-end 2024. In **Poland**, we expect the policy rate to decline to 4.50% eop in 2024. **Czech Republic's** national bank is expected to start a reversal of the policy rate cycle during 2024 and cut the rate to 5.50% by year-end. In **Romania**, the policy rate is expected to be 7.0% by the beginning of 2024, before reaching 5.5% by year-end 2024. For **Albania**, we expect the policy rates to remain at 3.25% through end-2024. For **Serbia**, the projections are 5.0% and 4.0% at year-end 2024 and 2025, as in the September scenario. Money market rate projections have been revised accordingly.

Polish and Hungarian national banks began easing monetary policy. For the remaining countries, the policy rate decreasing cycle could start soon

Outside the CEE/SEE regions, due to a new phase of large-scale structural transformation of the Russian economy, **Russia's CB**, after 10 months, increased the policy rate as follows: to 8.5% on 21 July, to 12.0% on 15 August, to 13.0% on 15 September, to 15% on 27 October, and to 16% on 15 December, given an increase in inflationary pressures. The CBR is keeping open the prospect of further increases in the key rate to stabilise inflation close to 4% in 2024 and beyond. For 2023, we raised our estimates for the CBR's key rates from the September forecast in relation to the rise in inflation expectations and the level of the structural budget deficit. For 2024 and 2025, we left it unchanged. In **Moldova**, the central bank had left the refinancing rate unchanged at 6% from June. In November, it lowered it to 4.75%. This decision continued the easing of monetary policy that began at the end of 2022. In **Ukraine**, the CB in December decided to cut the key interest rate to 15% (-1pp), following the new phase of monetary easing, due to falling inflation and improved expectations, which should help maintain the attractiveness of hryvnia savings instruments. Looking forward, the NBU appears prepared to adjust its interest rate policy flexibly, taking into account changes in the balance of risks for the sustainability of the exchange rate and inflation. In **Egypt**, at the meeting on 3 August, the CB raised the policy rate by 100bps, to 20.25%. It is expected to leave it unchanged by end-2023, but then lower the rate, to 18.00%, in 2024.

The profiles for **long-term yields** have been revised slightly downwards overall along the forecast horizon with respect to our September scenario in the CEE/SEE region, due to the forecast lower path for Bund yields. In **FX markets**, exchange rates are expected to move around the current values in the CEE/SEE area overall in 2023 and 2024.

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



Source: ISP Research Department forecasts

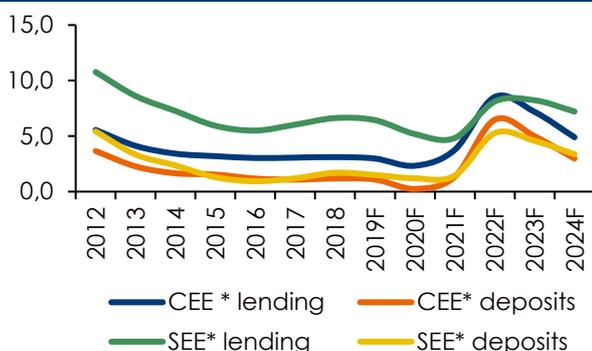
Banking aggregates and interest rates

Forecasts for banking aggregates have been slightly revised by ISP for many countries for 2023 and only in a few countries also for 2024 mainly because of recent monthly performances. In particular, weak lending data as at September and the economic context explain the lending revisions to our forecasts for 2023, particularly regarding the SEE countries. In contrast, deposit forecasts have been revised slightly upward in both CEE and SEE countries. Forecasts have been substantially confirmed for the following years. On the assets side, banks are still benefitting from low ratios of non-performing loans and high regulatory capital. Funding tensions are growing in some countries, mainly in Slovakia and Russia, where LTD ratios are very high. In general, however, banks can rely on **granular and stable funding bases** and conservative liquidity buffers to weather heightened volatility risks. They may count on broad bases of core, sticky domestic deposits and have a moderate reliance on market-sensitive institutional or external funding. Furthermore, **loan/deposit ratios** are generally low. However, revisions to **policy rates** and moderately higher NPLs and provisions could have negative effects on interest margins and profitability.

After rising in both CEE and SEE countries (by 3.8% and 10%, respectively) in 2022, **loan growth is** forecast to increase in 2023, by 2% in the former and 4.6% in the latter. Lending will be negatively affected by higher interest rates (mainly mortgages with variable interest rates). Furthermore, demand for credit could be affected by falls in real disposable incomes (slowing consumer lending) due to still-high inflation, despite decelerations in all countries. NPLs are expected to rise, given the deteriorating macroeconomic outlook, as indicated by current Stage 2 exposures (source: EBA), specifically where the increase in interest rates – and the associated rise in private sector debt servicing costs – has been particularly sharp.

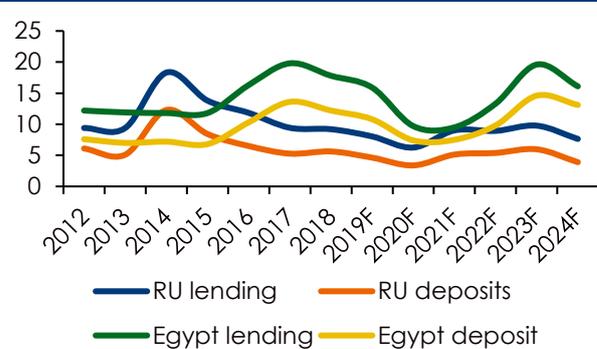
Among **CEE countries**, in Hungary, a better-than-expected performance in the last few months supported an upward revision for loans (to 1.5% in 2023 and 2% in 2024 from 11.6%, in 2022). In contrast, lending has been revised further in Poland (to 0.5% from 2.4% in 2023 but confirmed at 4.9% in 2024), after being particularly weak in the last two years, only partly supported by the corporate sector. In Slovakia, the tightening of the countercyclical capital buffer from 1% to 1.5% (from August) is expected to weigh on lending. The new economic landscape will also affect lending in the **SEE countries** (4.6%, revised from 5.1% in 2023, because of Romania's deceleration and confirmed at 4.5% in 2024). Croatia is expected to be the best performer in the area (7.5% in 2023, but lower in 2024, at 3.4%). In the **EE area**, lending is expected to accelerate in 2023 to 22.1% in Russia (improving from 8% forecast in September), after the banking aggregates' jump seen in the last few months, and to 6.3% in 2024. Further prudential limits on consumer lending have recently been imposed to avoid over-indebtedness for households. **Deposit** forecasts have been revised upward in both the CEE (to 5.9% in 2023, thanks to a better-than-expected performance in Hungary) and the SEE (to 7.3% in 2023) countries. On the other hand, uncertainties about the economy and the evolution of the war could support deposit growth, due to prudence. Deposits are expected to decelerate in CEE countries to 3.9% in 2024 and in SEE countries to 6.1% in 2024. In Russia, deposits are forecast to rise strongly, by 18.5%, in 2023 and then by 6.2% in 2024. In **Egypt**, loans are expected to decelerate from 28.4% and deposits from 27.4% in 2022 to 18.7% and 18.9%, respectively, in nominal terms in 2023 (10.2% and 10.9% in 2024).

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

The outlook for the Czech economy has been revised slightly lower in the near term, mainly in response to weak real GDP in 3Q23, which declined 0.5% qoq. Outside this weak spell, however, the message of a gradually reviving economy from 2024 onward remains intact. The malaise of the past year and a half was driven primarily by soft consumer spending in response to rising inflation and interest rates. These headwinds are now gradually receding. Inflation has already halved from year-ago levels, to just over 7% in November, and should fall sharply at the start of 2024, toward 2%. Interest rates as well look likely to start to decline, helping to restore consumer sentiment as the new year unfolds.

However, the anticipated recovery will be gradual. The government will not contribute to growth, as spending will be restrained by significant fiscal consolidation. Further, the recovery of exports will likely be softer than hoped, as external demand is seen to continue to be affected by ongoing weakness in Germany, Czech Republic's key trading partner. Still, at slightly over 2%, the forecast real GDP gain in 2024 will be a marked improvement over the 0.3% contraction in 2023.

Financial Markets

The Czech National Bank (CNB) continued to hold rates steady at its November meeting, keeping the two-week repo rate at 7% for a year and a half now. The CNB thus defied calls for a rate cut imbedded in its own macroeconomic forecast or market pricing. Still, the Board acknowledged that it has a strategy of lowering rates, and already at the November meeting, two out of seven Board members voted for a rate cut. Still, given the delay in delivering the prospective policy easing this year, we pushed back our modelling of the anticipated rate cuts, forecasting the policy rate to reach 5.50% only at the end of 2024 rather than in 2023. Beyond that, our rate projection remains unchanged compared to the September scenario, with a terminal rate of 3% forecast to be reached in 2026. In terms of the exchange rate, we maintain our forecast of a broad stagnation of the koruna vs the euro in 2024 and beyond.

Banking Sector

Relaxation of macroprudential limits from July allowed household borrowing to improve a bit, leading to an upward revision to loan volumes in 2023. Also, we saw stronger-than-forecast retail deposit creation in 2023 in response to surprisingly resilient savings by Czech households. In 2024 and beyond, we maintain previously forecast growth estimates for banking volumes at healthy levels that would keep the loan/deposit ratio at a comfortable 71%.

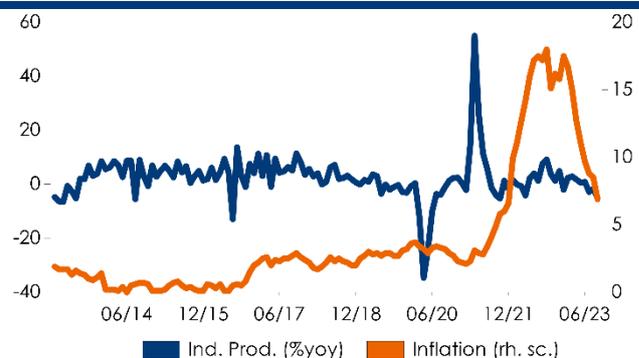
Forecasts

	2022	2023F	2024F	2025F
Real GDP yoy	2.5	-0.3	2.1	2.5
CPI (eop)	15.8	7.0	2.0	2.0
Euro exch. rate (value, eop)	24.3	24.6	24.0	24.0
Short-term rate (eop)	7.3	7.0	5.4	3.7
L/T bond yields (eop)	4.8	4.7	4.2	4.2
Bank loans (pr. sector, yoy)	4.5	5.9	4.4	4.4
Bank deposits (pr. sector, yoy)	4.2	6.1	4.2	4.2
Lending int. rate (corp., eop)	9.0	7.0	4.2	2.9
Deposit int. rate (hh, eop)	6.0	5.0	2.7	1.5

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

Zdenko Štefanides

Industrial production and inflation



Source: Czech Statistical Office

Hungary

Real Economy

The economy emerged from recession in Q3, GDP grew by 0.9% qoq, but was still down 0.4% yoy. Over Q1-Q3, the economy contracted by 1.2%. We have revised down our 2023 GDP projection again, to -0.7%. The economy has bottomed, but the recovery will be slow and gradual. Next year, real GDP growth could be 2.7%. Consumption is expected to recover, supported by the stable labour market, rising real wages, and decreasing financing costs. Investment growth will remain subdued, but net exports could again contribute positively to overall growth. Disinflation gained momentum in the autumn; yoy CPI moved below 8% in November. Headline CPI could be slightly above 6% in December and average 2023 inflation may reach 17.7%. Inflation should retreat further in 2024, but average CPI is likely to be above 4%. Possible weakening of the FX rate, the speed of the recovery, and repricing at the start of next year represent upside risks to the inflation outlook. Hitting the 3% central bank CPI target is not expected until 2025-26. The unemployment rate has ticked up recently, but labor market conditions remain relatively tight. Nominal wages are likely to remain well supported by the minimum wage rise and the shortage of skilled labour. Real wages are expected to rise again in 2024.

Mariann Trippon

Financial Markets

The central bank continued its cautious easing cycle and cut the effective rate to 10.75% in December. Gradual, cautious and data-dependent easing may continue in 2024, with the size and timing of rate cuts depending on the evolution of inflation and market stability. Our eop policy rate forecast is 6% for 2024. Real rates should remain positive throughout our forecast horizon. The narrowing, but still high interest rate differential remains a HUF-supportive factor, but we do not see room for much appreciation from current levels. The HUF continues to be sensitive to shifts in risk perception.

Banking Sector

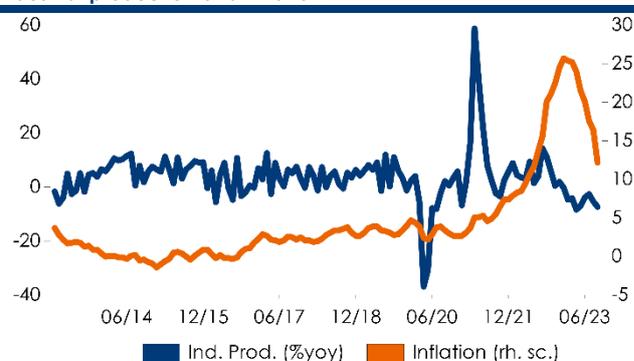
The rate of decrease in the volume of bank deposits slowed to 4% as of September 2023, thanks to corporate savings (-3%), while the erosion of household deposits continued (-8.3% compared to December 2022). Further declines are expected over the remaining part of the year, especially in retail. For 2023, we expect a reduction of 6% in the volume of deposits, while customer savings may stagnate in 2024 as real wage growth should be positive again. On the lending side, there was a decrease of 1% during the first nine months of this year. On the corporate lending market, demand for government supported loans could only partially offset the negative impact of high market interest rates and the collapse of private investment. Household lending demand also weakened, due to the decline in housing market transactions and high interest rates. With subdued economic growth, loan volume may grow by a maximum of 1-1.5% in 2023, followed by a slow rebound of 2% in 2024.

Forecasts

	2022	2023F	2024F	2025F
Real GDP yoy	4.6	-0.7	2.7	3.1
CPI (eop)	24.5	6.3	4.0	3.4
Euro exch. rate (value, eop)	407.2	382.0	384.0	383.5
Short-term rate (eop)	16.1	10.4	5.8	5.2
L/T bond yields (eop)	8.6	6.9	6.2	5.4
Bank loans (pr. sector, yoy)	11.6	1.5	2.0	5.2
Bank deposits (pr. sector, yoy)	2.5	-6.0	0.0	4.3
Lending int. rate (corp., eop)	11.5	9.6	5.7	4.9
Deposit int. rate (hhs, eop)	12.3	8.4	3.7	2.9

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

The Polish economy saw a weaker-than-anticipated performance during the summer, which led us to revise our full-year growth estimate for 2023, to just 0.2% from 0.7% expected in September. Nonetheless, most recent data indicate that the economy is beginning to improve and therefore we keep the outlook for 2024 broadly unchanged, forecasting real GDP to increase by 2.7%. The key to the recovery will be consumer demand, which will benefit from slowing inflation and hefty wage increases. Indeed, at 6.5%, inflation is almost three times lower than at the peak in February of 18.4%, with it heading towards 3% in 2024. Wages meanwhile are forecast to post average growth of 7.4%, namely a 20% increase in the minimum wage next year.

Also beneficial to growth will be large inflows of EU funds and foreign direct investments, thanks to the turnaround in Poland's political representation after the victory of pro-EU democratic bloc of three parties, led by former PM and head of the EU Commission Donald Tusk as a result of the parliamentary elections on 15 October. The external environment nonetheless remains weak, with the eurozone stagnating and the German economy declining, which should prevent a stronger recovery of the Polish economy.

Financial Markets

The National Bank of Poland (NBP) has pre-empted the prospective decline in inflation with an early policy adjustment, lowering its rates by a cumulative 100bps in September and October. Since then, NBP Governor Glapinski has taken a more cautious, wait-and-see approach, indicating that the central bank's next moves will depend on incoming data. Given the projected path of inflation, we nonetheless believe that further easing will be delivered in 2024, amounting to at least a further cumulative 100bps.

In terms of the currency outlook, we look through recent volatility driven by global and local events and project a broadly stable zloty, at around 4.50 vs the euro. With regard to yields, we see them declining somewhat vs September, alongside developments in core markets.

Banking Sector

In the banking market, we expect loan volume growth to pick up in 2024 as interest rates gradually decline and the economy starts to recover. Deposits, after surprising to the upside in 2023, are likely to return to the previously established pace of growth. The loan/deposit ratio of the Polish banking sector is thus expected to remain at the recently improved and comfortable 70% level.

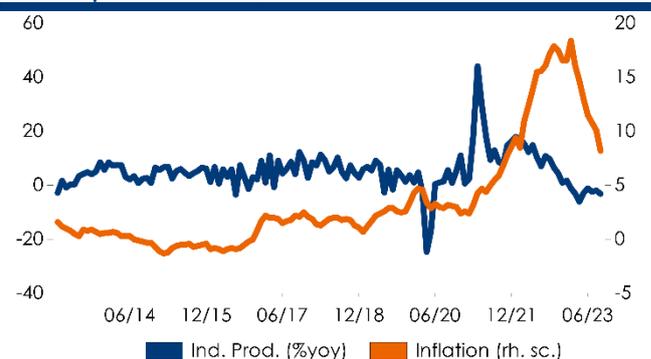
Forecasts

	2022	2023F	2024F	2025F
Real GDP yoy	4.9	0.2	2.7	2.8
CPI (eop)	16.6	5.5	3.0	2.5
Euro exch. rate (value, eop)	4.7	4.5	4.5	4.5
Short-term rate (eop)	7.0	5.7	4.7	4.2
L/T bond yields (eop)	6.6	6.3	5.5	5.2
Bank loans (pr. sector, yoy)	0.2	0.5	4.9	4.7
Bank deposits (pr. sector, yoy)	5.6	9.3	4.8	5.0
Lending int. rate (corp., eop)	8.7	7.2	5.3	4.5
Deposit int. rate (hh, eop)	6.5	4.9	3.3	2.7

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

Zdenko Štefanides

Industrial production and inflation



Source: Statistics Poland

Slovakia

Real Economy

The Slovak economy has struggled due to the downward pressure related to stagnation in the Euro Area and its non-euro neighbours, as well as still-weak household consumption and higher interest rates. Despite these headwinds, it is expected to continue to grow, as real incomes may be supported by lower inflation and domestic demand may be further strengthened by EU-funded investment. The large trade surplus in real figures is expected to decrease, partly due to real growth of imports (Russian oil may still be allowed to be imported for domestic use) as well as price adjustments after the shocks from Russian energy imports.

The labour market is expected to show signs of weakness after a longer period with multiple challenges. This could be reflected more in the level of employment than in the unemployment rate, as the working-age population is shrinking. Wage growth could continue to be strong in 2024, but that will be mainly result from salary valorisations in 2H23 (the majority of public sector wages will be frozen next year).

Inflation should fall further in 2024 as the cabinet announced no changes in regulated prices for energy from January. However, this will create an "inflation gap" in the years to come. Thus, we expect the consumer prices index to grow by more than 3% not only next year, but also in 2025 and 2026.

Financial Markets

The ECB has kept rates restrictive and stable despite Euro Area inflation falling to only 2.4% in November. This could also continue in 1H24, as we expect the first cut to take place only in July. Thereafter, the base rates could be cut one more time until the end of next year. This should start to slowly push down money market rates. On the bond yield front, 10Y yields could rise to correct recent decrease. We note that Fitch downgraded Slovakia's rating from A to A- with a Stable outlook and other rating agencies may follow in the coming months. The government's budget proposal points to a large 6% of GDP deficit in 2024, with gross debt climbing above 60% of GDP by 2026. This is higher than all the constitutional debt brake levels.

Banking Sector

Slovakia's banking sector will have to bear a hefty 30% additional bank tax in 2024, which is planned to decrease in the following years. The total tax rate will thus approach 45% next year due to the government's spending priorities. For example, the cabinet will subsidise 75% of the increase in monthly instalments to many households. As this should result in lower net profitability for banks, it may negatively affect future investments in the country. Apart from that, loan growth could start to slowly recover in the household segment, after the plunge seen due to higher interest rates, particularly in mortgages.

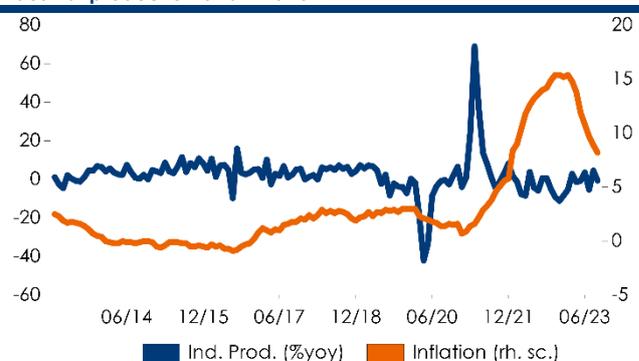
Forecasts

	2022	2023F	2024F	2025F
Real GDP yoy	1.7	1.1	1.7	2.6
CPI (eop)	15.4	6.5	3.8	3.0
Short-term rate (eop)	2.1	4.0	3.4	2.6
L/T bond yields (eop)	3.2	4.0	3.7	4.1
Bank loans (pr. sector, yoy)	10.4	4.9	4.7	4.6
Bank deposits (pr. sector, yoy)	5.9	3.9	5.1	4.9
Lending int. rate (corp., eop)	3.8	4.1	3.1	2.8
Deposit int. rate (hh, eop)	0.0	1.3	1.3	1.1

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

Michal Lehuta

Industrial production and inflation



Source: Statistical Office of Slovakia

Slovenia

Real Economy

Following three quarters of qoq increases, in Q3, GDP narrowed by 0.2% qoq, while the annual growth rate softened to 1.1%. Private consumption declined, falling 0.8% yoy, negatively affected by sustained inflationary pressures and slow real-term net wage growth, public consumption easing somewhat to 2.8% yoy, and investments decelerating notably, to 8.3% yoy. The contribution of net exports remained positive, as a sharp drop in imports of goods and services exceeded declines in exports. In the first nine months, GDP thus increased 1.3% yoy and we stick to our 1.3% yoy 2023 GDP call, as the last quarter is not expected to give any substantial push to annual growth. Namely, assessment of (export) order book has deteriorated, pointing to prolonged weakness in the industrial/exports performance, while consumer confidence, although improving, remains weak in historical terms. Labour market is strong, albeit employment growth gradually decelerates. In 2024, we forecast GDP growth to pick up to 2.3% yoy, with risks to our projection seen balanced where sluggish main trading partners performance, energy price pressures might drag the figure downwards, while investments, boosted with the renovation of August flood damages (Government approved draft Reconstruction bill in November) should support the growth. A draft bill introduces a 3pp higher corporate tax rate, at 22%, and a 0.2% tax on banks' assets (with caps), with both coming into force over 2024-28.

Annual inflation softened to 6.6% in October and 4.5% in November. Core inflation declined to 5.9% yoy in October. In the first 11 months of 2023, the headline inflation rate stood at 7.8% yoy and our projection of the average rate in 2023 is 7.5% yoy. In 2024, the average rate is expected to decline to 3.7% yoy, supported with base effects and energy price measures (caps on electricity and gas, abolishing of electricity green energy contribution until end-2024, cut in excise duties on petrol and diesel, lower maximum margin on fuel).

Financial Markets

The YTD average 10Y government bond spread vs the Bund is 100bps, and we see it falling in 2024 to 80bps. The YTD average yield amounted to 3.5%, with the average in 2024 projected to drop to 3.3%.

Banking Sector

Loan growth increased slightly, by 0.3% yoy, in October, with household loans accelerating to 3.3% yoy, thanks to a strengthening of consumer lending, while corporate loan growth decreased by 3.0% yoy. In 2023, we estimate loan growth at 0.9% yoy, while for 2024, growth is expected to increase, to 2.1% yoy, as the economic growth gains pace and interest rates decline. Deposit rates continued to decrease, expanding 5.4% yoy in October. Deposits are projected to rise by 3.5% yoy in 2023, but the rate should soften a bit, to 2.9% yoy, in 2024.

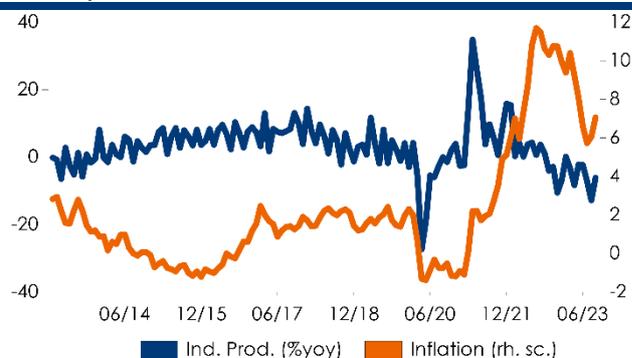
Forecasts

	2022	2023F	2024F	2025F
Real GDP yoy	2.5	1.3	2.3	2.7
CPI (eop)	10.8	4.5	2.0	2.0
Short-term rate (eop)	2.1	4.0	3.4	2.6
L/T bond yields (eop)	3.3	3.6	3.2	3.4
Bank loans (pr. sector, yoy)	9.8	0.9	2.1	2.6
Bank deposits (pr. sector, yoy)	7.8	3.5	2.9	3.4
Lending int. rate (corp., eop)	3.0	5.5	3.7	2.8
Deposit int. rate (hhs, eop)	0.2	1.5	1.2	0.9

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

Ana Lokin

Industrial production and inflation



Source: Statistical Office of the Republic of Slovenia

Albania

Real Economy

During 1H23, Albania saw average economic growth of 3%, and according to preliminary economic indicators, it seems that this growth trajectory will continue throughout 2H23. Despite lending conditions have been tightened, the country's positive economic factors – such as the lowest unemployment rate (10.7%, near an historical low level), an increase in private consumption (4.03% in 2Q23), an increase in services exports, and a rise in private investments (accelerated to 11.0% in 2Q23). From a sectoral point of view, construction and services made the biggest contributions to growth. The continued decline of imported inflation is also contributing directly and strongly to the positive growth of the country. In October, the CPI continued to decline for the 12th month in a row, at 3.8%. On the negative side, the decline in exports of goods, a rise in domestic inflationary pressures related to high wages and lack of workers, and tightened financing costs have corroded the intensity of growth. The export of goods in October 2023 declined at by 4.34% and imports fell 6.28%. The increase in the export of services mitigated the effects of the negative export of goods.

Kledi Gjordeni

Financial Markets

After six instances of tightening with regard to its key interest rates policy (the last in November 2023, by 0.25%), to 3.25%, a decrease in the intensity of monetary policy tightening by the central banks observed. The higher yields, seen at the beginning of the year affected the money market. According to the central bank, inflation is expected to return to the target in 2H24. The stance of monetary policy, as well as relief from appreciation of the local currency (LEK) vs foreign currencies, had the effect of mitigating the negative impact from high prices in the economy. The LEK/EUR exchange rate in October was overvalued by about 10% yoy. Facing the cooling of prices from abroad, but with concerns about the increase in costs for domestic products, the CB will remain cautious with regard to the normalisation of monetary policy in the future.

Banking Sector

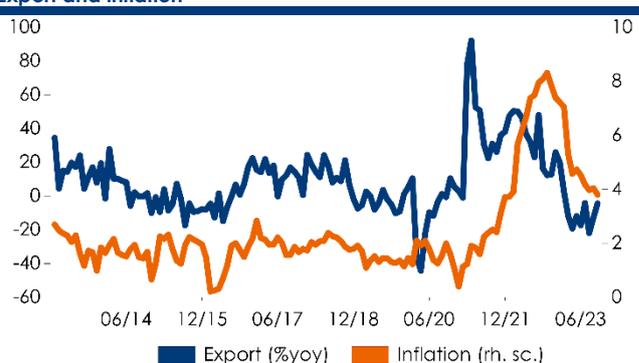
The stabilisation of yields in the money market and lower inflation risks in the country has kept new loans interest rates stable at lower levels. In September 2023, total private loans saw slightly positive growth, at 0.53% yoy. Household loans grew at 8.72% yoy, but corporate loans shrank by 4%, which, according to the CB, resulted in a better liquidity situation for corporates. Total private sector deposits grew 1.98% yoy. The contribution of household savings to total deposit was negative, at -1.45%, but corporate deposits expanded strongly, by 14.61%. In September, non-performing loans continued to decrease to 5.24% due to ongoing bank portfolio improvements.

Forecasts

	2022	2023F	2024F	2025F
Real GDP yoy	4.8	2.2	3.4	3.3
CPI (eop)	7.4	3.8	3.3	3.0
Euro exch. rate (value, eop)	114.9	105.5	110.0	121.5
Short-term rate (eop)	2.5	3.5	3.5	3.6
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	6.9	2.8	3.7	3.6
Bank deposits (pr. sector, yoy)	4.8	2.8	3.6	3.5
Lending int. rate (pr. sec., eop)	6.5	6.4	7.2	7.2
Deposit int. rate (pr. sec., eop)	2.5	1.1	1.0	0.9

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

Q3 high frequency data signal somewhat improved trends compared to the previous quarter, as industrial production increased by 0.7% qoq (stagnant on a yoy basis), with manufacturing rebounding by 2.2% qoq (-0.8% yoy), while electricity production declined on a quarterly basis (-4.7%) but increased on an annual basis (+7.8%). Retail trade also saw a strong performance, with volumes increasing by 5.1% qoq and 16.5% yoy. Exports remained subdued (-10.5% yoy, similar performance to Q2). Thus, awaiting the end-December release of Q3 GDP data, we revised upward our FY23 call to around 1.6%, while our 2024 forecast was revised downward to 2.2% from the previous 2.6%. Private consumption – driven by strong wage growth, decelerating inflation and supportive labour market – will be the key growth driver, while, in turn, investments will remain subdued, reflecting an unfavourable business environment marked by political tensions and a track record of sluggish structural reforms. Positive support from foreign demand is also expected, but with this more pronounced in the second half of the year, as the growth of major trading partners strengthens.

With the exception of August, disinflation trends were stable, and inflation eased in October to just 2.1%, which resulted in a lowering of our FY estimate to around 6.2%. Our 2024 outlook remains unchanged, at around 3%. Wage growth will most likely remain high also in 2024 reflecting expected hike in minimum wage, as well as reported labour shortage.

Banking Sector

Loans gained momentum, expanding 6.0% yoy in October, with corporate lending zigzagging (4.8% yoy), while household loans maintained an upward trend, accelerating to 7.0% yoy (consumer loans 7.5%, housing loans 7.0%). Loans are expected to end this year higher by 5.8% yoy, while in 2024, we see a softer rise of 4.1% yoy. Deposit growth remains strong, at 10.2% yoy in October (corporate 10.7%, households 10.0%), supported by wage growth, a softening in inflation, and stronger economic activity. Our scenario envisages deposits rising by a sharp 7.8% yoy in 2023, before moderating to 4.5% yoy in 2024.

Forecasts

	2022	2023F	2024F	2025F
Real GDP yoy	3.8	1.6	2.2	3.0
CPI (eop)	14.7	3.0	2.0	2.0
Euro exch. rate (value, eop)	2.0	2.0	2.0	2.0
Short-term rate (eop)	n.a.	n.a.	n.a.	n.a.
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	5.3	5.8	4.1	3.8
Bank deposits (pr. sector, yoy)	3.2	7.8	4.5	4.2
Lending int. rate (corp., eop)	4.0	n.a.	n.a.	n.a.
Deposit int. rate (hh, eop)	0.5	n.a.	n.a.	n.a.

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

Ivana Jović

Industrial production and inflation



Source: Agency for statistics of Bosnia and Herzegovina

Croatia

Real Economy

After the downward revision of 1H23 GDP growth from 2.7% to 2.1%, Q3 data saw noticeably stronger 2.8% yoy growth. Based on seasonally adjusted data, although quarterly growth slowed to 0.3% (after 0.9% – ie, 1.5% in the first two quarters), the annual growth rate was 3.0%, the strongest level in the EU per available data. Based on components, an acceleration in the yoy growth rate was recorded in private consumption (3.0% vs 2.0% in 1H23), which was unsurprising considering the acceleration in real wage growth and a stable labour market, with monthly retail trade volume data having a positive effect as well. Simultaneously, growth in investment activity increased to 6.1% (after stagnating in Q1 and seeing a 4.2% increase in Q2), the strongest growth rate recorded in the last nine quarters. Although monthly data on construction activity pointed to an increase in activity, the acceleration was somewhat stronger than expected and probably resulted from accelerated usage of EU funds. In line with monthly data, there was a strong decline in the export of goods in Q3 (-20.4%), while the export of services (primarily tourism) recorded a mild contraction, of -0.5%, which was more or less expected, considering the stagnating trends

(-0.3%) in foreign tourist overnight stays. However, considering that at the same time total imports (-12.1%) declined faster than total exports (-8.5%), net foreign demand again positively contributed to overall growth. Looking forward, FY23 growth is seen at around 2.4%, with a similar outturn pencilled in for next year, as we expect to see a continued strengthening of domestic demand, accompanied by a rebound in exports later in the year as EU demand recovers. Inflation is expected to ease further, from around 8% this year to below 4% next, with pressures arising from continued strong wage growth.

Financial Markets

YTD, the average 10Y government bond spread vs the Bund reached 140bps. In 2024, this is projected to drop to an average of 110bps. YTD, the average yield stood at 3.9%; in 2024, the average yield is seen at 3.6%.

Banking Sector

Loan growth was 7.5% yoy in October, with corporates losing pace, while household demand increased, due to higher demand for cash loans. We estimate a 7.5% yoy increase in 2023, whereas 2024 is projected at 3.4% yoy, with more moderate household loan rise and resumption of investment cycle in tourism. Deposits ended October higher by 6.6% yoy, while in November-December the growth rate probably weakened, due to the issuance of retail T-bill. Thus, we see private sector deposits advancing 2.7% yoy in 2023 and by 2.0% yoy in 2024, as another tranche of government retail bonds is foreseen for 1Q24, weighing on household deposit growth.

Forecasts

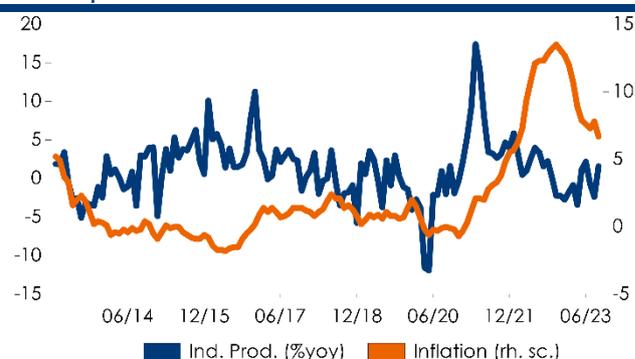
	2022	2023F	2024F	2025F
Real GDP yoy	6.3	2.4	2.5	2.8
CPI (eop)	13.1	5.5	2.5	2.0
Euro exch. rate (value, eop)	n.a.	n.a.	n.a.	n.a.
Short-term rate (eop)	0.2	4.0	3.4	2.6
L/T bond yields (eop)	3.5	4.0	3.4	3.4
Bank loans (pr. sector, yoy)	11.2	7.5	3.4	2.6
Bank deposits (pr. sector, yoy)	15.0	2.7	2.0	2.8
Lending int. rate (pr. sec., eop)	3.6	5.6	5.2	4.3
Deposit int. rate (pr. sec., eop)	0.7	3.2	2.8	1.6

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

Ivana Jović

Ana Lokin

Industrial production and inflation



Source: Croatia Bureau of Statistics

Romania

Real Economy

Growth in 3Q23 GDP was revised in December to 1.1% yoy (vs a first announcement of 0.2%), with quarterly growth of 0.9%. Positive contributions came from agriculture, constructions and the information and communication sector, while a negative contribution came from industry. Our forecast for 2023 GDP growth is 0.8%.

CPI growth at the end of October was 8.1% yoy, in line with the August NBR projection. Harmonised yoy CPI at the end of August was 9% (8.3%). According to the NBR's latest projection, inflation growth should decelerate till EOY 2023 to around 7.5%. We forecast 2023 EOY inflation at 7.7%.

The unemployment rate was almost flat this year, at 5.4% at the end of October, while at the end of September, wages increased by 14.7% yoy.

The budget deficit at the end of October 2023 was 3.97% of GDP, significantly higher than last year and above the levels of the Fiscal Consolidation Plan (below 4.4% of GDP). The deviation of the budget deficit this year will be significant, at above 6%, creating significant issues for the economic evolution in the coming years, due to expected fiscal tightening measures. First signals for next year's budget show an estimated deficit below 5% of GDP.

The current account deficit at the end of September 2023 was EUR 16.05Bn, 25% lower than the September 2022 deficit. This improvement is linked to high inflation and its impact on retail sales.

Financial Markets

On 8 November, the NBR kept unchanged its monetary policy rates (Deposit, Lombard, and Reference) as follow: Deposit Facility Rate 6.00%, Reference Rate 7.00%, and Credit Facility Rate 8.00%.

The EUR/RON exchange rate was stable, with low volatility, over the most part of the period. The range of fluctuation was 4.96-4.98. Depreciation yoy on an 80/20 basket EUR/USD is almost zero. The exchange rate is still used as a monetary policy instrument.

Banking Sector

In the first nine months of 2023, growth of loans and deposits remained lower than in the same period in 2022, at 4.57% for loans and 6.23% for deposits, with a deceleration in household loans, due to high interest rates, but a revival on the deposits side in recent months.

Forecasts

	2022	2023F	2024F	2025F
Real GDP yoy	5.0	0.8	2.0	3.3
CPI (eop)	14.1	7.7	5.0	3.5
Euro exch. rate (value, eop)	4.9	5.0	5.0	5.1
Short-term rate (eop)	7.7	6.4	6.0	4.0
L/T bond yields (eop)	7.9	7.2	6.3	6.3
Bank loans (pr. sector, yoy)	11.2	5.0	5.2	6.0
Bank deposits (pr. sector, yoy)	6.7	8.2	7.5	7.1
Lending int. rate (pr. sec., eop)	9.7	9.1	7.9	7.1
Deposit int. rate (pr. sec., eop)	6.7	5.3	3.7	2.5

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

Marius Pacurari

Industrial production and inflation



Source: National Institute of Statistics

Serbia

Real Economy

Real GDP grew by 3.6% yoy in 3Q23, up 0.1pp from the previously published flash estimate. On the production side, the biggest positive contribution came from service sectors (+1.3pp), while positive contributions came also from construction (+0.7pp), which continued to recover as a result of stepped-up implementation of infrastructure projects, agriculture (+0.6pp) and industry (+0.7pp). Looking at the expenditure side, fixed investments made the biggest contribution, mainly driven by infrastructure investments. In its latest projections, the central bank sees 2023 GDP growth of around 2.5% yoy, while GDP growth is expected to be 3-4% in 2024. Due to better-than-expected results in Q3 and in anticipation of another strong reading in Q4 as well, our 2023 GDP projection was revised up to 2.5%, while in 2024, growth is seen at 3.1%, supported by infrastructure investments.

In October, inflation notably decreased to 8.5% yoy, after 17 months in double digits, while core inflation moderated further, to 7.3%. The NBS expects annual inflation to decline further, to around 8% at end-2023, taking into consideration a continued easing of global inflationary pressures, lower inflation expectations, and the effects of monetary policy tightening. Inflation's return to within the target tolerance band is expected in mid-2024, while its return to the midpoint of 3% is anticipated by the end of 2024. We see average CPI at 12.6% in 2023 and 4.9% in 2024.

Financial Markets

At its meeting in December, the NBS decided not to change the key policy rate, leaving it at 6.5%. This is the fifth month in a row with no changes in the rate, signalling that we are nearing the end of the NBS' tightening cycle. We expect a gradual reduction in the reference rate to begin from the middle of next year and see the key policy rate at 5.0% at end-2024. In November, the dinar remained unchanged against the EUR, trading around 117.2. Intervening on the purchase side since February 2023, the NBS has bought EUR 3.4Bn net, building FX reserves to a record level of EUR 24.4Bn in October, which looks more than ample for continuing to pursue its stable dinar policy.

Banking Sector

Credit growth slowed further as outstanding volumes declined 0.5% yoy in September, while new lending to the private sector fell by 6% yoy in the January-September period, reflecting the combined effects of monetary tightening, high base in the previous year, and the maturing of guarantee scheme loans. Although the expected start of the interest rates decline from the middle of next year could propel a recovery in loan demand, we expect loan growth to be around 2% in 2024. Deposit dynamics were more favourable, as September saw growth of 11% yoy in total private sector deposits, with corporate deposits remaining the driver, with 16% yoy.

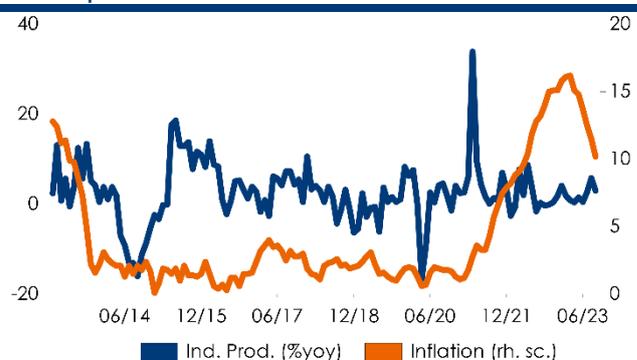
Forecasts

	2022	2023F	2024F	2025F
Real GDP yoy	2.5	2.5	3.1	3.3
CPI (eop)	15.1	8.1	3.2	3.0
Euro exch. rate (value, eop)	117.3	117.2	118.0	118.2
Short-term rate (eop)	5.0	6.5	5.0	4.0
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	6.4	0.3	2.0	5.2
Bank deposits (pr. sector, yoy)	6.9	8.7	5.0	5.9
Lending int. rate (pr. sec., eop)	10.0	11.0	9.1	8.7
Deposit int. rate (pr. sec., eop)	6.2	5.8	4.7	3.9

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

Sanja Djokic

Industrial production and inflation



Source: Statistical Office

Moldova

Real Economy

The Moldovan economy experienced a 2.3% decline in the first half of 2023 compared to the same period in 2022. This decline was primarily driven by adverse performances in sectors such as wholesale and retail trade, construction, manufacturing industry, and other service activities. Additionally, a major factor contributing to this downturn was the 4.7% dip in private consumption, attributed to elevated prices and diminished purchasing capacity. This recovery is based on the increase in agricultural production and general economic expansion supported by more relaxed monetary policy. The future positive outlook is also due to the fact that Moldova has managed to switch its trade flows, including energy supplies, from Russia to the West. The country can also rely on multinational institutions to finance its fiscal and current account deficits. The annual inflation rate eased to 5.5% in November 2023, marking the lowest level in over two years but remaining slightly above the central bank's mid-point target of 5.0%.

Financial Markets

The NBM continues to ease monetary policy, aiming to stimulate aggregate demand, by encouraging consumption, balancing the national economy, and anchoring inflationary expectations. Thus, during 2023, the policy rate has decreased substantially, falling to 4.75% as of November (from 20% as of the end of 4Q22). The 91-, 182-, and 364-day T-Bill yields decreased by 14.7pp, 13.3pp and 12.4pp, respectively, as of November 2023 vs end-December 2022 levels, in line with the inflation trajectory and expectations. For longer-maturity government bonds, yields also saw a sharp downward movement compared to their end-December 2022 levels.

Banking Sector

As of October 2022, the volume of private loans in the economy expanded by 3.9% yoy, driven by growth rates for both corporate and individual loans expanding yoy by 3.9% and 4.7%, respectively. The stock of deposits continued to grow, driven by the attractive interest rates offered by local banks. This led to a 12.7% increase in 10-month 2023 period vs December 2022 and a substantial 19.5% yoy positive evolution as of October, leading to a stock of deposits of MDL 107Bn and reflecting a notable upward trend in deposit accumulation. A further slight acceleration is expected regarding the yoy growth for loans, with a notable deceleration for deposits in the years of projection. Hence, loans are foreseen to grow by 4.3% yoy at 2023 year-end, with average growth of 4.4% in each of the remaining years. Deposit growth in 2023 should be 15.2%, and +6.6%, on average, in the following years. Lending and deposit interest rates are expected to decrease in the following years, given the relaxation of monetary measures.

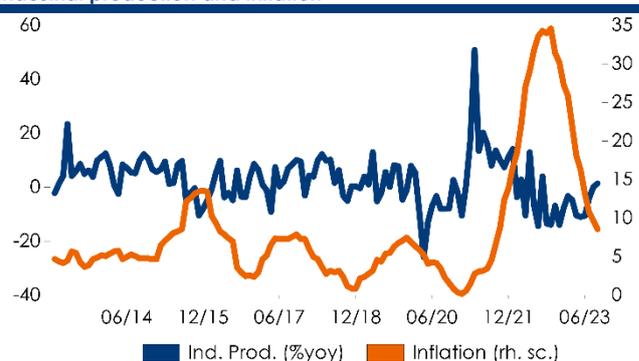
Forecasts

	2022	2023F	2024F	2025F
Real GDP yoy	-5.9	2.1	3.5	3.5
CPI (eop)	30.2	5.5	4.6	4.0
USD exch. rate (value, eop)	19.5	18.7	19.3	19.5
Euro exch. rate (value, eop)	20.5	20.2	21.6	22.2
Short-term rate (eop)	20.0	4.8	4.0	3.8
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	9.3	4.3	4.3	4.4
Bank deposits (pr. sector, yoy)	5.4	15.2	6.8	6.8
Lending int. rate (corp., eop)	12.9	7.1	7.1	6.8
Deposit int. rate (hh, eop)	11.4	5.1	3.6	2.8

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

Doina Caraman

Industrial production and inflation



Source: National Bureau of Statistics of the Republic of Moldova

Russia

Real Economy

Russian GDP grew by 5.5% yoy in Q3 (+4.9% in Q2). Considering these signs of recovery, we raise our estimate for 2023 GDP growth to 3.0% yoy. High domestic demand is inducing an upward deviation of the Russian economy from the balanced growth path. This reinforces persistent inflationary pressures. The steady growth in domestic demand is due to the expansion of private demand, while public sector demand remains high and fiscal stimulus is expected to increase again. Growth in consumer activity has been boosted by rising real wages. Significantly higher corporate profits and positive business sentiment, also thanks to the fiscal stimulus, support high investment demand. The expansion of domestic demand is reflected, among other things, in an increase in demand for imports, which has contributed substantially to the weakening of the rouble since the beginning of 2023.

Financial Markets

On 15 December 2023, the Bank of Russia (CBR) decided to raise the key interest rate by 100bps, to 16.0% per annum. According to the central bank, the return of inflation to the target in 2024 and its further stabilisation near 4% presuppose the maintenance of tight monetary conditions in the economy for a long period. Persistent inflationary pressures have increased in recent months. This is due to the fact that domestic demand has exceeded the capacity for expansion in the production of goods and services compared to previous CBR estimates. The central bank did not provide any forward guidance on further moves and did not suggest that this is the end of the tightening cycle, which is probably reasonable given the inflation risks for next year.

Banking Sector

Lending growth is expected to accelerate strongly in 2023, to 22.1% yoy (revised from 8% as forecast in September), thanks to the persistently strong acceleration seen in the last available data and in line with the CBR's expectations, and then to decelerate gradually in the following years. Lending is expected to cool from year-end, as down-payments under subsidised mortgages have been raised to 20%, the macroprudential regulation of both risky mortgages and consumer loans has been tightened, and interest rates have risen significantly. In 3Q23, the banking sector earned about RUB 1Tn vs RUB 0.8Tn in 2Q23. The drivers were active growth in lending and expanding interest margins despite higher interest rates. Over the first nine months of 2023, the sector earned RUB 2.7Tn. By the end of 2023, its profit may total approximately RUB 3.3Tn. Nevertheless, the total income will be lower due to the negative revaluation of securities included directly in capital rather than in profit (RUB 0.4Tn over the past 10 months of 2023).

Francesca Pascali

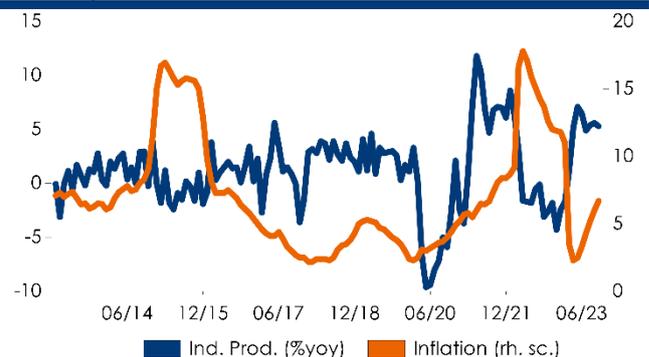
Davidia Zucchelli

Forecasts

	2022	2023F	2024F	2025F
Real GDP yoy	-2.1	3.0	1.9	1.7
CPI (eop)	11.9	7.5	5.1	4.8
USD exch. rate (value, eop)	66.6	93.1	97.6	93.2
Euro exch. rate (value, eop)	70.7	102.6	110.6	106.5
Short-term rate (eop)	8.4	9.2	7.1	6.3
L/T bond yields (eop)	11.3	12.2	11.8	10.3
Bank loans (pr. sector, yoy)	11.8	22.1	6.3	5.4
Bank deposits (pr. sector, yoy)	11.0	18.5	6.2	5.6
Lending int. rate (corp., eop)	8.9	9.8	7.6	7.3
Deposit int. rate (hh, eop)	5.4	6.0	3.9	3.6

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

Industrial production and inflation



Source: State Statistics Federal Service

Ukraine

Real Economy

In October, Ukraine's economy seemed to be on solid ground and recovery was gaining momentum. According to Ministry of Economy estimates, GDP grew by 10.5% yoy (up from 9.1% in September), or by 5.5% over the 10 months of 2023. The service sector made the largest positive contribution to GDP, followed by manufacturing, which has seen a steady recovery. Among the main supporting factors were a good harvest, a stable energy sector, and the temporary operation of export corridor via the Black Sea. We revised up our 2023 GDP forecast to 5.3% yoy from the previous 3.5%. However, we kept our expectations for 2024 unchanged at a conservative 4.5%, reflecting that the conflict is still seen to continue in 2024, likely lower external financial support, and a higher base effect. Inflation eased further in November, to 5.1% yoy from 5.3% in October and 7.1% in September. We improved our 2023 eop CPI forecast to 5.5% yoy, but lowered our 2024 estimate to 8.5%, as key disinflationary factors (eg, greater supply of food products on the back of limited exports) will likely wane next year. In December, the IMF completed the second review of the extended arrangement under the EFF for Ukraine, allowing the country to draw about USD 900M for budget support. However, fragile prospects for continuation of sufficient support from international partners is a crucial downside risk regarding the country's outlook. Potential reductions of financial and military allocations – which thus far appear to be the case – would likely have dramatic implications for both economic and warfare development further into 2024-25.

Artem Krasovskyi

Financial Markets

Ahead of the upcoming MP meeting on 14 December, we expect a further 100bps policy rate cut this year, to 15%, and only minor changes to the policy rate through 2024. The UAH – which was switched to a managed float from a fixed peg to the USD and then strengthened slightly (from 36.6 to 36.0/ USD 1) in October-November – appears to have started to weaken moderately in early December, trading at around 37.0/USD. We now see the local currency as tending to depreciate further, reaching 39.50 by year-end 2024. With the NBU's attempts to defend the stability of the local currency, monetary reserves have been decreasing for fourth consecutive month (to USD 38.8Bn in November from the peak of USD 41.7Bn seen in July 2023) owing to a reduction in Western financial support and export constraints.

Banking Sector

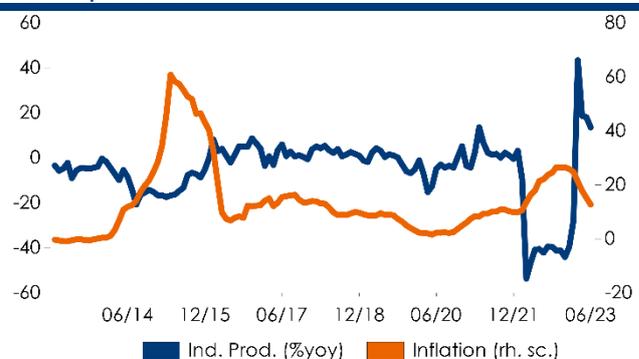
In 3Q23, the Ukrainian banking sector remained stable and profitable. The main trends were unchanged: deposits continued to grow, thanks both to households and businesses. The share of term deposits increased, although at a slower rate than in 1H23. Net assets increased by 3.3%. The corporate loan portfolio grew in October for the fourth month, after a long-term decline: UAH loans grew 4.8% over 3Q23, while FX loans decreased by 1.3%. Growth of consumer loans continued for the second quarter in a row. Banks' profits grew by 25% qoq, to UAH 42.2Bn.

Forecasts

	2022	2023F	2024F	2025F
Real GDP yoy	-29.1	5.3	4.5	6.5
CPI (eop)	26.6	5.5	8.5	7.0
USD exch. (value, eop)	36.9	37.0	39.5	41.0
Euro exch. rate (value, eop)	38.7	40.0	44.3	46.8
Short-term rate (eop)	25.0	14.3	11.7	8.3
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	-4.4	-2.1	4.6	4.6
Bank deposits (pr. sector, yoy)	25.1	16.9	5.6	5.6
Lending interest rate (pr.sect., eop)	22.0	20.3	17.8	15.1
Deposit interest rate (pr.sect., eop)	10.7	11.3	9.8	7.1

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

Egypt's economy is likely to maintain real growth of 3.9% yoy during 2024, supported by service sectors such as the Suez Canal, tourism, and telecommunications against an expected slowdown in manufacturing and construction, where their activities could be negatively affected by high borrowing costs and inflation, in addition to the decline in government spending. This estimate might be subject to change depending on the geopolitical developments in the Red Sea and Gaza. A high-inflation environment will probably persist in 2024, hovering around 30%, on average, due to fluctuations in exchange rates and potential disruptions in global supply chains of basic commodities.

Samer Halim

Financial Markets

The IMF Director, Kristalina Georgieva, stated that the Fund is going to focus on helping Egypt control soaring inflation and then "will look at the exchange rate policies". Hence, more analysts are expecting the country to adopt a flexible exchange rate during 2024 instead of at end-2023. The move will be supported by a higher loan package from the IMF (it is considering granting Egypt more funds vs a USD 3Bn initial agreement), an EU plan to bolster Egypt with a proposal to include EUR 9Bn of investments (according to Bloomberg), FDIs in oil and gas and renewables (particularly Green Hydrogen), and the finalising of deals related to the sale of the Wataniya and Chillout fuel stations and Jabal El Zeit Wind farm (as per Egypt's Minister of Planning and Economic Development). The current account deficit should be positively affected by booming tourism levels and Suez Canal revenues (the Suez Canal is benefiting from drought hitting the Panama Canal, with a 20.3% yoy increase in revenues during November 2023), a partial recovery in gas exports in the winter after the resumption of supplies from Israel, and a decline in total imports. However, there are downside risks related to increasing attacks on vessels moving through the Red Sea and the implications of the Gaza war on tourism.

Moving to a more flexible exchange rate regime will be accompanied by more tightening of conditions, with an expected 200-300bps rise in key interest rates, before the CB starts to lower rates again in 2H24, when global central banks are likely to depart from their hawkish stances.

Banking Sector

Lower inflation expectations and modest economic growth are expected to weigh on both loans and deposits from the private sector, where annual growth is likely to be 10.2% and 10.9%, respectively, in 2024. The advent of alternative investment channels, such as gold, stock market and mutual funds, should subdue growth in banks' retail deposits. On the other hand, the banking sector is facing increasing competition from non-banking financial institutions, where granted consumer finance accelerated by 57.1% yoy during the first nine months of 2023.

Forecasts

	2022	2023F	2024F	2025F
Real GDP yoy	4.3	3.4	3.9	4.1
CPI (eop)	21.3	33.9	27.6	20.1
USD exch. rate (value, eop)	24.7	30.9	40.0	44.0
Euro exch. rate (value, eop)	26.1	33.4	44.9	50.2
Short-term rate (eop)	18.1	25.6	21.4	13.3
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	28.4	18.7	10.2	9.8
Bank deposits (pr. sector, yoy)	27.4	18.9	10.9	10.0
Lending int. rate (corp., eop)	13.3	19.6	16.1	10.4
Deposit int. rate (hh, eop)	9.8	14.6	13.1	7.8

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			
	3Q23	2Q23	2022	Last	mth	3Q23	Last	mth	3Q23	Last	mth	3Q23	Last	mth	3Q23	Last	mth	3Q23	Last	mth	3Q23	Last	mth	3Q23	
	CEE	Czechia	-0.6	-0.6	2.5	-5.0	Sep	-3.2	-10.6	Sep	-6.9	-5.1	Sep	-3.4	8.5	Oct	8.1	3.5	Oct	3.6	7.2	Sep	8.6	90.3	Oct
	Hungary	n.a.	-2.4	4.6	-7.3	Sep	-5.1	-5.1	Sep	-0.5	7.8	Sep	7.5	9.9	Oct	15.4	3.9	Sep	3.9	15.2	Aug	15.2	92.5	Oct	93.6
	Poland	0.4	-0.6	4.9	-3.1	Sep	-2.4	-9.1	Aug	-8.3	-0.3	Sep	-2.3	6.6	Oct	9.7	5.0	Sep	5.0	10.3	Sep	10.9	97.0	Oct	95.6
	Slovakia	1.1	1.5	1.7	-0.6	Sep	-0.4	-0.6	Sep	1.8	-5.4	Sep	-4.0	7.1	Oct	8.9	5.2	Aug	5.2	10.4	Sep	10.7	91.6	Oct	91.9
	Slovenia	1.1	1.6	2.5	-6.1	Sep	-8.7	-10.6	Sep	-10.1	-18.0	Sep	-18.6	6.6	Oct	6.3	4.8	Aug	4.8	9.9	Aug	9.7	92.6	Oct	93.2
SEE	Albania	n.a.	3.2	4.8	n.a.	n.a.	n.a.	-12.8	Sep	-13.4	n.a.	n.a.	n.a.	3.8	Oct	4.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Bosnia H.	n.a.	1.2	3.8	-0.7	Sep	-0.4	-12.8	Sep	-10.5	15.1	Sep	16.5	4.1	Sep	4.3	29.3	Aug	29.3	11.8	Aug	11.6	n.a.	n.a.	n.a.
	Croatia	n.a.	2.6	6.3	1.6	Sep	-0.6	-12.2	Aug	n.a.	5.7	Sep	3.8	5.8	Oct	7.3	5.8	Sep	5.9	14.1	Aug	13.8	106.1	Oct	105.2
	Romania	n.a.	1.0	n.a.	-5.1	Sep	-5.7	-5.3	Sep	-5.1	-0.9	Sep	0.1	8.3	Oct	9.1	5.4	Sep	5.4	14.7	Sep	14.9	101.1	Aug	n.a.
	Serbia	n.a.	1.7	2.5	3.0	Sep	3.8	-5.7	Sep	-2.2	-0.7	Sep	-1.8	8.5	Oct	11.4	n.a.	n.a.	n.a.	14.4	Aug	14.5	n.a.	n.a.	n.a.
EE & MENA	Moldova	n.a.	-2.2	-5.9	1.5	Sep	-0.8	8.6	Sep	-1.2	-5.6	Dec	n.a.	5.5	Nov	9.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Russia	5.5	4.9	-2.1	5.3	Oct	5.3	72.1	Jan	n.a.	12.7	Oct	11.2	7.5	Nov	5.2	3.0	Aug	3.0	16.6	May	n.a.	53.8	Oct	54.5
	Ukraine	n.a.	19.5	-29.1	13.7	Jun	n.a.	-17.9	Sep	-16.1	19.1	Jun	n.a.	5.1	Nov	9.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Egypt	2.9	n.a.	4.3	-10.7	Aug	-5.2	-1.9	Aug	-6.4	n.a.	n.a.	n.a.	34.6	Nov	37.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	47.9	Oct	48.7
	m.i. E. A.	0.1	0.6	3.4	-6.9	Sep	-4.8	-9.4	Sep	-5.6				2.4	Nov	5.0									

Source: Refinitiv; ¹Wda data for Slovakia, Slovenia; Bosnia, Croatia, Egypt; ²PMI 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
		18/12	3M*	18/12	3M*	1Y*	3M*	1Y*	21/11	21/8	3Q23	2Q23	2022	3Q23	2Q23	Moody's			
		CEE	Czechia	7.1	0.0	3.8	-0.7	24.53	0.26	1.19	2.2	11.7	29.0	29.8	n.a.	n.a.	n.a.	n.a.	
	Hungary	10.2	-2.6	6.1	-1.1	384.34	0.02	-5.36	5.0	26.6	132.8	137.6	n.a.	n.a.	n.a.	n.a.	n.a.	Baa2	
	Poland	6.0	-0.9	5.1	-0.5	4.33	-6.63	-7.74	17.6	37.7	63.8	64.4	n.a.	n.a.	n.a.	n.a.	1,181.0	n.a.	
	Slovakia	3.9	0.0	3.3	-0.8	n.a.	n.a.	n.a.	-4.0	-3.5	29.9	34.2	n.a.	n.a.	n.a.	n.a.	-447.0	A2	
	Slovenia	3.9	0.0	2.9	-0.7	n.a.	n.a.	n.a.	6.5	10.3	34.5	38.0	24	-7	134	675	1,150.6	A3	
SEE	Albania	3.0	n.a.	n.a.	n.a.	103.34	-3.06	-9.85	n.a.	n.a.	n.a.	n.a.	n.a.	543	n.a.	n.a.	-195.0	n.a.	
	Bosnia H.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	306	57	-144	n.a.	-299.3	n.a.	
	Croatia	0.4	0.0	3.2	-0.7	7.53	0.00	-0.13	1.5	26.5	83.4	85.3	n.a.	-238	2,855	n.a.	-542.1	Baa2	
	Romania	6.1	-0.2	6.4	-0.4	4.97	-0.01	0.96	9.1	26.1	150.5	149.4	n.a.	-25	n.a.	n.a.	-9,826.0	Baa3	
	Serbia	6.5	0.0	n.a.	n.a.	117.18	-0.03	-0.12	-2.6	8.9	210.9	223.0	1,598	1,204	2,961	-226	-411.0	Ba2	
EE & MENA	Moldova	4.75	-0.7	6.9	-0.3	17.69	-1.34	-8.49	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-9.9	B3
	Russia	24.7	0.0	12.5	0.1	104.07	0.00	0.00	-1.9	48.6	12,940.3	12,940.3	n.a.	n.a.	n.a.	n.a.	n.a.	WR	
	Ukraine	12.8	0.0	19.5	-0.6	37.21	0.75	0.79	0.0	-2.3	14,247.7	14,247.7	1,974	7,429	-4,129	-3,545	-196.0	Ca	
	Egypt	25.6	0.8	11.3	0.0	30.90	0.00	25.18	28.3	99.0	1,295.3	1,510.2	142	381	-6,932	n.a.	557.0	Caa1	
	m.i.A.E.	3.9	0.0	2.0	-0.6	1.1	2.2	2.8	3.1	6.9	8.45	7.48							

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

Banking aggregates and interest rates (private sector)

		Loans			NPL/Loans			Foreign Liab.			Deposits			Loans rate ¹ -NewB [*]			DepositsRate ¹ -NewB [*]			Loans/Dep				
		chg yoy %			%			chg yoy %			chg yoy %			%			%			%				
		Last	Mth	2022	Last	mth	2022	Last	mth	2022	Last	Mth	2022	Last	mth	2022	Last	mth	2022	Last	mth	2022	Last	mth
CEE	Czechia	4.6	Sep	4.5	1.8	Sep	2.0	15.2	Sep	18.1	5.2	Sep	4.2	8.5	Sep	9.0	C	6.0	Sep	6.0	H	71.1	Sep	71.0
	Hungary	2.3	Sep	11.6	2.2	Jun	2.3	19.9	Sep	56.4	-7.7	Sep	2.5	12.0	Sep	11.5	C	10.8	Sep	12.3	H	84.0	Sep	78.3
	Poland	-4.2	Sep	0.2	2.4	Jun	2.4	-7.3	Aug	7.5	11.8	Sep	5.6	8.1	Sep	8.7	C	5.4	Sep	6.5	H	69.5	Sep	76.0
	Slovakia	4.0	Sep	10.4	2.1	Sep	1.9	134.3	Sep	33.0	4.4	Sep	5.9	5.8	Sep	3.8	C ²	n.a.	Dec	n.a.	H ²	110.0	Sep	108.3
	Slovenia	0.8	Sep	9.8	1.0	Aug	1.1	36.4	Sep	33.7	5.7	Sep	7.8	5.3	Sep	3.0	C ²	1.3	Sep	0.2	H ²	63.5	Sep	64.3
SEE	Albania	0.5	Sep	6.9	5.2	Sep	5.0	-22.3	Sep	-10.8	2.0	Sep	4.8	5.8	Sep	6.5	PS	2.0	Sep	2.5	PS	54.9	Sep	54.8
	Bosnia H.	6.1	Sep	5.3	4.1	Jun	4.5	-17.3	Sep	-7.0	10.0	Sep	3.2	3.6	Sep	4.0	C	0.5	Sep	0.5	H	89.8	Sep	91.3
	Croatia	7.7	Sep	11.2	3.0	Jun	3.0	11.3	Sep	27.7	6.3	Sep	15.0	5.0	Sep	3.6	PS	2.9	Sep	0.7	PS	65.8	Sep	63.8
	Romania	4.0	Sep	11.2	2.7	Aug	2.7	21.2	Sep	35.8	10.6	Sep	6.7	9.0	Sep	9.7	PS	5.8	Sep	6.7	PS	69.9	Sep	71.0
	Serbia	-0.5	Sep	6.4	3.2	Sep	3.0	-8.6	Sep	14.1	11.3	Sep	6.9	11.7	Sep	10.0	PS	5.8	Sep	6.2	PS	85.1	Sep	89.7
EE & MENA	Moldova	3.4	Sep	9.3	6.7	Aug	6.4	0.7	Jul	n.a.	20.4	Sep	5.4	10.2	Sep	12.9	C	8.1	Sep	11.4	H	58.8	Sep	64.9
	Russia	26.2	Aug	11.8	6.1	Dec	6.1	n.a.	Sep	n.a.	29.8	Aug	11.0	12.2	Aug	8.9	C	8.6	Aug	5.4	H	123.1	Aug	120.3
	Ukraine	-8.8	Sep	-4.4	38.5	Sep	36.7	-17.0	Sep	-21.6	28.2	Sep	25.1	21.7	Sep	22.0	PS	12.5	Sep	10.7	PS	46.9	Sep	55.2
	Egypt	24.6	Jul	28.4	3.3	Jun	3.4	68.8	Sep	83.1	21.9	Sep	27.4	19.1	Sep	13.3	C	13.9	Sep	9.8	H	36.2	Jul	35.6
	m.i. E. A.	0.48	Aug	4.0	n.a.	n.a.	n.a.	1.1	Aug	9.0	-0.3	Aug	3.3	5.2	Oct	3.4	C	3.3	Oct	1.4	H	75.6	Aug	75.1

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

Country Outlook

The Economy

GDP (% yoy)		2021	2022	2023	2024F	2025F	Inflation (% avg)		2021	2022	2023	2024F	2025F
CEE	Czech Rep.	3.4	2.5	-0.3	2.1	2.5	Czech Rep.	3.9	15.1	10.9	2.7	2.0	
	Hungary	7.1	4.6	-0.7	2.7	3.1	Hungary	5.1	14.5	17.9	5.0	3.5	
	Poland	6.8	4.9	0.2	2.7	2.8	Poland	5.1	14.3	11.4	4.6	2.6	
	Slovakia	3.0	1.7	1.1	1.7	2.6	Slovakia	3.2	12.8	10.8	5.3	3.4	
	Slovenia	8.2	2.5	1.3	2.3	2.7	Slovenia	2.0	9.3	7.5	3.7	2.0	
SEE	Albania	8.9	4.8	2.2	3.4	3.3	Albania	2.0	6.7	4.8	3.5	3.0	
	Bosnia Herzegovina	7.3	3.8	1.6	2.2	3.0	Bosnia Herzegovina	2.0	14.0	6.6	2.9	2.1	
	Croatia	13.8	6.3	2.4	2.5	2.8	Croatia	2.6	10.7	8.2	3.8	2.3	
	Romania	6.8	5.0	1.2	2.8	3.3	Romania	5.0	12.1	10.0	5.5	3.8	
	Serbia	7.7	2.5	2.5	3.1	3.3	Serbia	4.0	11.9	12.6	4.9	3.0	
EE & MENA	Moldova	13.9	-5.1	2.1	3.5	3.5	Moldova	5.1	28.6	13.2	4.5	4.2	
	Russia	4.7	-2.1	3.0	1.9	1.7	Russia	6.7	13.8	5.9	5.9	5.1	
	Ukraine	3.4	-29.1	5.3	4.5	6.5	Ukraine	9.3	20.1	13.5	7.5	7.5	
	Egypt	7.2	4.3	3.4	3.9	4.1	Egypt	5.2	13.8	33.8	33.8	23.9	

Markets

Exch.rate (avg Euro)		2021	2022	2023	2024F	2025F	Interest rate (% avg)		2021	2022	2023	2024F	2025F
CEE	Czech Rep.	25.6	24.6	24.0	24.2	24.0	Czech Rep.	1.1	6.3	7.1	6.2	4.1	
	Hungary	358.7	391.1	382.1	383.6	383.8	Hungary	1.4	9.9	14.2	7.7	5.7	
	Poland	4.6	4.7	4.6	4.5	4.5	Poland	0.4	5.9	6.4	5.1	4.3	
	Slovakia	n.a.	n.a.	n.a.	n.a.	n.a.	Slovakia	-0.5	0.3	3.4	3.7	3.0	
	Slovenia	n.a.	n.a.	n.a.	n.a.	n.a.	Slovenia	-0.5	0.3	3.4	3.7	3.0	
SEE	Albania	122.3	118.9	108.8	108.3	117.8	Albania	0.5	1.3	3.2	3.5	3.5	
	Bosnia Herzegovina	2.0	2.0	2.0	2.0	2.0	Bosnia Herzegovina	n.a.	n.a.	n.a.	n.a.	n.a.	
	Croatia	n.a.	n.a.	n.a.	n.a.	n.a.	Croatia	0.3	0.2	3.4	3.7	3.0	
	Romania	4.9	4.9	4.9	5.0	5.1	Romania	1.8	6.2	6.6	5.9	4.7	
	Serbia	117.6	117.5	117.3	117.8	118.1	Serbia	1.0	2.6	6.1	5.5	4.3	
EE & MENA	Moldova (USD)	17.7	18.8	18.3	19.2	19.4	Moldova	3.8	16.9	9.5	4.3	3.9	
	Russia (USD)	73.6	68.3	85.4	95.4	95.4	Russia	6.8	11.9	8.8	8.2	6.7	
	Ukraine (USD)	27.4	32.3	36.8	36.4	35.7	Ukraine	10.7	20.4	20.6	13.7	9.2	
	Egypt (USD)	15.7	19.2	30.7	39.0	42.0	Egypt	12.7	14.5	23.1	23.7	16.7	

Banking aggregates (% change yoy)

Loans (pr. sector)		2021	2022	2023	2024F	2025F	Deposits (pr. sector)		2021	2022	2023	2024F	2025F
CEE	Czech Rep.	8.4	4.5	5.9	4.4	4.4	Czech Rep.	7.0	4.2	6.1	4.2	4.2	
	Hungary	12.7	11.6	1.5	2.0	5.2	Hungary	17.6	2.5	-7.0	0.0	4.3	
	Poland	4.6	0.2	0.5	4.9	4.7	Poland	7.7	5.6	9.3	4.8	5.0	
	Slovakia	7.5	10.4	4.9	4.7	4.6	Slovakia	4.4	5.9	3.9	5.1	4.9	
	Slovenia	5.2	9.8	0.9	2.1	2.6	Slovenia	8.2	7.8	3.5	2.9	3.4	
SEE	Albania	9.6	6.9	2.8	3.7	3.6	Albania	9.2	4.8	2.8	3.6	3.5	
	Bosnia Herzegovina	3.7	5.3	5.8	4.1	3.8	Bosnia Herzegovina	10.0	3.2	7.8	4.5	4.2	
	Croatia	2.3	11.2	7.1	3.0	2.6	Croatia	11.7	15.0	4.9	1.7	2.8	
	Romania	14.3	11.2	5.9	5.2	6.0	Romania	13.6	6.7	8.2	7.5	7.1	
	Serbia	10.2	6.4	0.3	3.5	5.2	Serbia	13.3	6.9	8.7	5.0	5.9	
EE & MENA	Moldova	23.5	9.3	4.3	4.3	4.4	Moldova	13.1	5.4	13.2	6.8	6.8	
	Russia	18.8	11.8	22.1	6.3	5.4	Russia	12.7	11.0	18.5	6.2	5.6	
	Ukraine	9.6	-4.4	-2.1	4.6	4.6	Ukraine	12.3	25.1	16.9	5.6	5.6	
	Egypt	18.3	28.4	18.7	10.2	9.8	Egypt	18.7	27.4	18.9	10.9	10.0	

Banking interest rates (%)

Lending (Corp. avg)		2021	2022	2023	2024F	2025F	Deposits (HH avg)		2021	2022	2023	2024F	2025F
CEE	Czech Rep.	2.3	7.6	8.2	5.1	3.3	Czech Rep.	0.9	5.0	5.8	3.5	1.9	
	Hungary	3.2	8.3	11.8	7.8	5.2	Hungary	0.6	6.6	11.6	5.8	3.2	
	Poland	2.4	7.5	8.4	5.8	4.4	Poland	0.3	4.4	5.7	3.8	2.6	
	Slovakia	1.9	2.4	4.8	3.2	2.9	Slovakia	0.0	0.0	0.9	1.3	1.2	
	Slovenia	2.1	1.9	4.5	3.4	2.8	Slovenia	0.1	0.1	0.8	1.1	0.9	
SEE	Albania	6.1	6.4	6.0	7.0	7.2	Albania	0.4	1.2	1.5	1.1	0.9	
	Bosnia Herzegovina	3.0	3.2	n.a.	n.a.	n.a.	Bosnia Herzegovina	0.2	0.3	n.a.	n.a.	n.a.	
	Croatia	2.1	2.6	4.7	5.1	4.5	Croatia	0.1	0.2	2.3	2.8	1.9	
	Romania	5.6	8.0	9.5	8.1	7.6	Romania	1.3	5.3	5.9	4.1	3.1	
	Serbia	6.2	8.0	11.6	9.8	8.8	Serbia	1.4	4.0	5.8	5.3	4.1	
EE & MENA	Moldova	8.3	10.6	11.1	7.1	6.8	Moldova	3.2	7.0	9.9	4.2	2.9	
	Russia	7.2	11.5	9.7	8.6	7.4	Russia	3.8	7.6	5.7	4.9	3.7	
	Ukraine	13.3	18.6	21.9	19.0	16.3	Ukraine	4.6	7.4	12.4	10.5	8.3	
	Egypt	9.4	10.6	17.8	18.0	12.6	Egypt	7.4	8.4	12.7	14.1	10.0	

Source: Intesa Sanpaolo Research Department forecasts

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