INTESA SANPAOLO

International Research

Economic and Banking Outlook

June 2022

Countries with ISP subsidiaries

Quarterly Note

Research Department

International Research Network

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Viewpoint

GDP growth is still benefitting from the gradual easing of COVID-19-related restrictions, but high energy prices, rising inflation rates, and tightening monetary policies in a context of a deteriorating geopolitical landscape are putting a toll on growth perspectives.

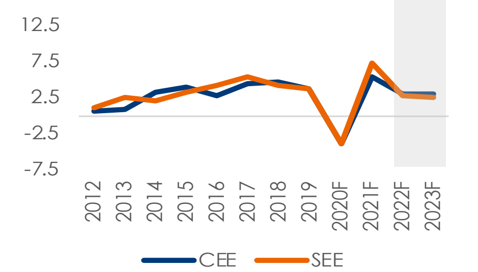
The economic cycle is still benefitting from the gradual easing of COVID-19-related restrictions on the supply side and from the recovery in previously pent-up consumption on the demand side, but it is increasingly negatively affected by a string of factors: a) a deteriorating geopolitical landscape – Russia's war with Ukraine is continuing well into 2H22, with diplomatic negotiations struggling and *de facto* stalling; b) persisting high energy prices, which are currently accompanied by actual or expected (oil and gas) trade restrictions; c) accelerating inflation rates with CPIs having already risen by well over 10%, on average, in the CEE/SEE area, 15% in Russia and Egypt, and 20% in Ukraine and Moldova; and c) increasingly restrictive international and domestic financial conditions due to overall tightening monetary policies, with CBs trying to curb the sharp rises of inflation and inflationary expectations. In April in the CEE/SEE area, industrial production, while still growing by more than 3% yoy, actually fell by more than 7% mom.

In this context, while incorporating still-robust GDP performances in 1Q22 (circa +7%) but taking into account the ongoing deterioration since Q2 of high frequency indicators, we have only slightly revised upwards GDP growth forecasts in the CEE/SEE area for 2022 to 3% (from 2.8% projected in March) but left them broadly unchanged for 2023 at a prudent 2.9%. Outside this area, GDP growth has been kept at -10% in 2022 and cut to -1% in 2023 in Russia and tentatively projected at -40% in 2022 in Ukraine (no estimate is provided for 2023). In Egypt, we have lowered the forecast to 4.0% (from 4.7% expected in March) in the CY 2022 and kept it at 5.0% in 2023.

On the inflation side, we have substantially raised our previous forecasts. Consumer prices are now seen to rise in the CEE/SEE area beyond 12% (on avg.) in 2022 and start decelerating overall in 2023 even if still remaining beyond the upper limits of CBs' target ranges until late 2023 or early 2024. Due to the adverse inflationary prospects, all CBs in the CEE/SEE regions have already started or are expected to soon start tightening cycles for monetary policy. The more hawkish CBs of CZ, HU and PL, which were first to raise policy rates, have rapidly lifted them to current 7.0%, 7.75% and 6.0%, respectively. While policy rates may now be about to peak in CZ, they are expected to increase further In HU and PL (above 8% and 7.5%, respectively), with risks still tilted to the upside, overall. The more dovish CBs of Serbia and Albania have also started to tighten recently and the ECB (for the EA countries: SK, SI and from 2023 HR) has announced a first move in July. In parallel with the expected rise of both inflation and policy rates, long-term yield forecasts have been also revised upwards in 2022-2023, accompanied by a significant increase of spreads vs the EA benchmark in the CEE/SEE region. Spreads are seen to start softening again however in 2023 as inflation recedes and money market spreads narrow.

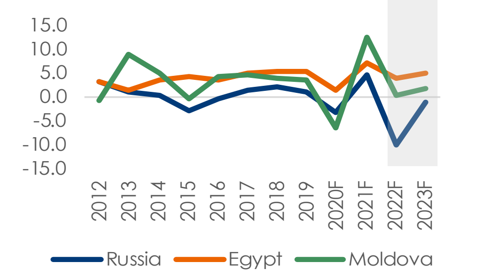
Due to the (mainly inflation-driven) upward revisions of nominal GDP dynamics in 2022 and 2023, growth rates for banking aggregates, with respect to our March forecasts, have been revised upwards from 4.2% to 4.8% for loans but downwards from 6.1% to 5.4% for deposits in 2022 and analogously from 4.4% to 4.6% for loans and from 5% to 4.9% for deposits in 2023 – in both cases in deceleration with respect to 2021 final outcomes. Banking interest rates have been adjusted upwards, taking into account the rising profile of money market rates.

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



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

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



Source: ISP Research Department forecasts

Based on information available to 28.06.2022

See the final page for important information

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(*) Due to the extreme uncertainties related to the Russian conflict with Ukraine, no forecasts are for Ukraine beyond 2022.

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

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

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

Cross country analysis

Recent developments

Antonio Pesce, Francesca Pascali, Davidia Zucchelli

In the **CEE and SEE regions**, GDP growth accelerated in 1Q22 to 7.8% yoy and 5.6% yoy, respectively, from 6.4% yoy for both regions in 4Q21, and to 1.9% qoq and 3.6% qoq from 1.7% and 1.0%, respectively, in 4Q21. However, the latest releases of high frequency economic indicators have started to signal a deterioration in the economic cycle in Q2.

Robust GDP growth in 1Q22, but the high frequency indicators signal a deterioration in the economic cycle

In April in the CEE area, **industrial production** contracted at 6.8% with respect the previous month and the trend, even if still positive, softened to 7.9% from 10.8% (on a weighted average basis [w.a.]). Among the countries in the area, it ranged from -9.6% yoy in Slovakia to +13% yoy in Poland. As in the CEE area, in the SEE region, industrial production contracted in April on a monthly basis (-8.2% mom on a w.a.), but in this case, it also recorded a negative trend (-5.7% w.a.). Within the region, industrial production ranged from -8.8% yoy in Romania to +6.3% yoy in Albania.

In April, **export** trends were still positive, at 10.3% and 21%, respectively, in the CEE and SEE regions, but they decelerated with respect to Q1 trends (15.2% and 28%, respectively). In the same month, the **retail sales** trend was still positive as well (22.5% and 5.7% w.a., respectively, in CEE and SEE), ranging from 5.0% in Czech Republic to 33.4% in Poland among CEE countries and from 3.7% in Romania to 21.9% in Bosnia and Herzegovina among SEE countries. In May with respect to April, the **ESI** weakened in Hungary, Poland, Slovenia, Croatia and Romania, but improved slightly in Czech Republic and Slovakia.

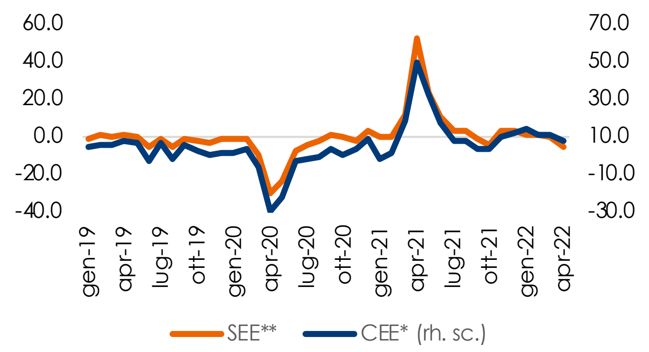
Consumer prices on an accelerating path, led by the energy shock and bottlenecks in global supply chains

Several external factors, such as energy price increases (at the time of writing, the price of Brent is of USD 112.9/bbl), as well as bottlenecks in global supply chains exacerbated by the ongoing conflict between Russia and Ukraine, are pushing up consumer price indices. **Inflation** continued to accelerate in May in both the CEE area (13.6% from 12.1% in April) and the SEE region (12.4% from 11.5%), and remained well above central bank targets in all the countries. Furthermore, in several cases, the weakening of local currencies, such as in Hungary (HUF 400.2/EUR 1 at the time of writing) and Poland (PLN 4.7/EUR 1), is affecting price indices, contributing to rises in inflation.

Further monetary restrictions to counteract inflation

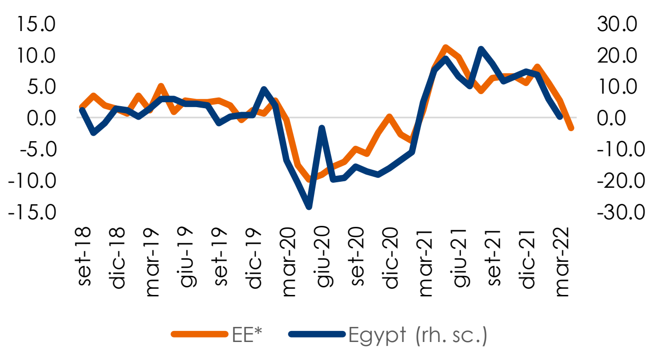
To counteract inflationary pressures, in their latest meetings, the **central banks** of Hungary, Czech Republic, Poland, Romania and Serbia further increased policy rates, to 7.75% (from 5.9%), 7.0% (vs 5.75%), 6.0% (vs 5.25%), 3.75% (vs 3.0%) and 2.5% (vs 2.0%), respectively. In March, Albania also began a policy rate hiking cycle by increasing the reference rate by 50bps, to 1.0%. In line with the upwardly revised inflationary expectations, **long-term yields** have also risen overall, with a widening of spreads vs the EA benchmark.

Industrial production % yoy – CEE/SEE



Source: National statistics offices. Notes: * weighted average of Slovakia, Slovenia and Hungary data; ** weighted average of Bosnia, Croatia, Romania and Serbia data

Industrial production % yoy – EE/Egypt



Source: National statistics offices. Note: * weighted average of Russia, Ukraine and Moldova data. Ukrainian data until January 2022

Outside the EE region, inflation accelerated in Moldova, Ukraine and Egypt, but started to decelerate in Russia

Outside the CEE/SEE regions, the geopolitical situation has particularly affected the **EE countries** in terms of an acceleration in inflation and a slowdown in economic activity. In 1Q22, **GDP** still increased by 3.5% yoy (from 5.0% in 4Q21) in **Russia** and by 1.1% (from 18.9% in 4Q21) in **Moldova**, but it fell by 15.1% in **Ukraine**. In **Egypt**, GDP – still only marginally affected by the Russia-Ukraine war – grew by 5.4% yoy in 1Q22 (from 8.3% in 4Q21). Moving to the high-frequency indicators released in the early months of 2Q22, in May, **industrial production** started to fall (by 1.7% yoy) in Russia (vs -1.6% in April). In the same month, **retail sales** decreased in Russia by 10.1% (vs -9.7% in April 2022) and in April by -5.7% in Moldova (vs +2.3% in March). With regard to **inflation**, in Russia, consumer prices started to decelerate (17.1% in May vs 17.8% in April) while remaining well above CB targets (4.0%). In Moldova, the CPI was 29.1% in May vs 27.1% in April, and in Ukraine 18.0% (vs 16.4%). In Egypt, inflation rose by 13.5%, which was well above the upper end of the official corridor (7 ± 2%) set by the CBE.

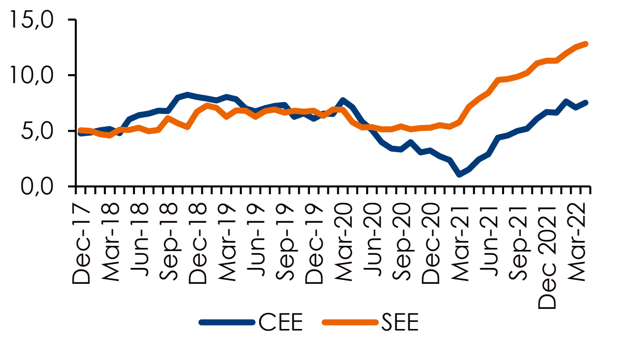
Bank loans still dynamic as of April

With regard to banking aggregates, **lending growth** accelerated further in many countries in April vs the previous months. Loans increased by 7.5% yoy in the **CEE** area (from 7.1% yoy in March) and by 12.8% yoy in the **SEE** countries (from 12.5% in March). In Hungary and Slovakia in the CEE area and especially in Romania and Serbia among SEE countries, loans increased by over 10% yoy (10.1% and 10.7% in the former and by 15.1% and 12.4% yoy in the latter case). The dynamic of loans to corporates was stronger in both CEE countries (10.7% yoy) and the SEE countries (17.6%) while household loans saw lower and decelerating performances (6.1% yoy and 8.8% yoy, respectively), especially in mortgage segments because of rising interest rates. At a country level, corporate loans strengthened to an outstanding 12.2% yoy in Poland and to 21.9% in Romania. **NPL** ratios have so far remained low everywhere, but both central authorities and the EBA have pointed to gradual increases in Stage 2 loans.

Precautionary motives continued to support **deposit growth** in both the CEE (6%) and SEE (9.5%) areas. **Interest rates** accelerated, regarding both lending and deposits, especially in CEE countries (mainly in Czech Republic, Poland and Hungary), but also in Romania among SEE countries.

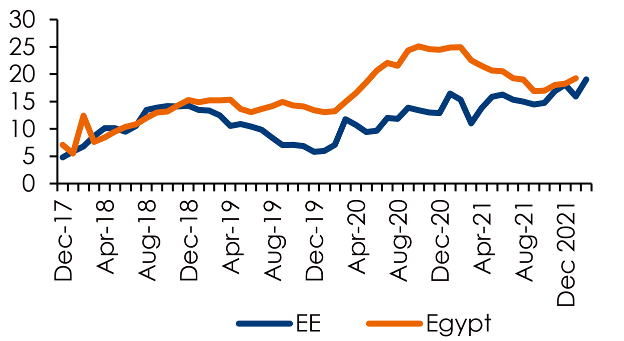
In the **EE** area, loan growth remained strong in Russia (19.8% yoy in February) both to corporates (18%, which related to about 70% of the total loan portfolio) and households (23.7%). In Moldova, loans decelerated to 20.6% yoy as of April (33.8% yoy in the household vs 12.8% yoy in the corporate sector). In Ukraine, loans slowed to 9.8% yoy, mostly due to household activity (23%), but deposits accelerated again, to 10%. In **Egypt**, banking aggregates (latest data only to January) continued to be dynamic, with loans increasing by 19.2% and deposits by 18.6%.

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 is expected to slow, with risks skewed to the downside

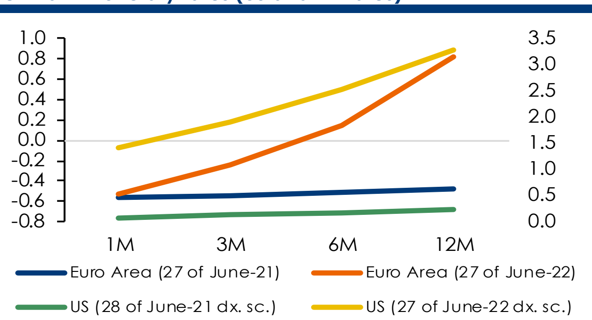
Global economic activity, as represented by the global GDP growth rate, continued to expand in 1Q22 by about 4.1% yoy, a still robust trend but more moderate than the 4.6% recorded in 4Q21, due to energy price increases, persistent supply-side bottlenecks, and trade constraints and geo-political tensions. Looking ahead, it remains difficult to make projections due to the possible consequences of the Russia-Ukraine war. The geopolitical landscape has deteriorated since our March scenario. The conflict in Ukraine is continuing into 2H22, with diplomatic negotiations still struggling and de facto stalling. On the assumption that the conflict does not escalate further, global growth is projected by the main international centres to slow further, but still remain positive at 3.0-3.6% in 2022 (supported by Q1 data) and 3.0-3.6% in 2023.

The **US** is a powerful energy exporter and agricultural producer with limited trade links with Russia. So, it is reasonable to believe that it will be comparatively less affected than Europe by the economic consequences of the war; moreover, strong fiscal stimulus is expected to support the economy. The restrictive stance of monetary policy adopted by the Fed to curb the performance of inflation will nevertheless take a toll on economic growth and GDP growth is expected to slow to 2.5% this year and to below 2.0% next year (from 3.4% and 2.3% expected in ISP's March scenario). The acceleration of inflation (8.6% in May) is increasing the risks of a wage/price spiral. In June, the Federal Reserve increased the funds rate by 75bps, to 1.75%, instead of the 50bps initially expected, and signalled increases of 50-75bps in July and above 25bps thereafter until there is clear evidence of a slowdown in monthly price changes. ISP is expecting the Fed funds rate path to rise to 3.5-3.75% by the end of 2022 and to 4.0-4,5% by the middle of 2023.

In the Euro Area, uncertainty regarding the scenario remains high, with limiting growth in the next few quarters due to the high and accelerating inflation path causing more of a tightening than previously expected in monetary policy; the economic consequences of the conflict in Ukraine and geopolitical tensions with Russia; and the Chinese slowdown. However, thanks to the robust GDP trend in 1Q22 (5.4%), ISP still foresees full-year GDP growth of 3.0% (as in the March scenario), but a revised downward for 2023 to 2.1% (from 2.4% in the March scenario) despite expansionary fiscal policies implemented in the Euro Area through the PNRRs at national levels, due to the extension of the conflict and diplomatic tensions related to the war. The inflation rate (8.1% in May) is expected to increase further in the upcoming months, and the annual average is estimated at 7.3% in 2022 and 3.7% in 2023. In this context, the ECB has already announced that it intends to raise the policy rate by 25bps at the next meeting on 21 July and again in September, when a higher increase is not excluded "if the medium-term inflation outlook persists or deteriorates". At ISP, we expect the policy rate at1.0% by eop in 2022 and 2.0% by eop in 2023.

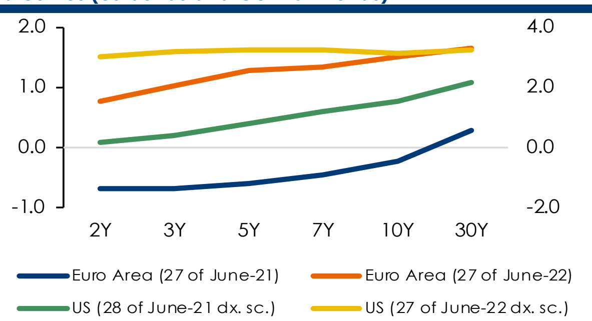
Among **emerging countries,** prospects for the Asian region seem less promising than expected in the March scenario, with China's growth rates now revised down for 2022 to 4.0% from 5.2% expected in March but left unchanged at 5.4% in 2023. The economic performances of commodity-exporting countries in other areas are expected to remain relatively more robust, but also in this case with non-marginal downside risks, 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

Despite of the expected deterioration in the economic cycle, the GDP trend in 2022 has been revised upward, thanks to strong Q1 growth

In both the **CEE and SEE regions**, **GDP trends** in 1Q22 (7.8% and 5.6%, respectively, on a weighted average basis) have been above expectation; however, for the full year, GDP projections have been revised only modestly upward with respect to the March scenario (to 3.1% from 2.9% and to 2.9% from 2.6%) while being left unchanged at 2.9% in CEE and cut to 2.6% in the SEE region for 2023 due to the negative impacts expected to result from a prolonged Russia-Ukraine conflict, the further deterioration in the geopolitical landscape, persistent high energy and commodity prices (and risks of embargo/rationing of oil and gas between the EU and Russia), and the firm monetary tightening adopted by central banks to fight the ongoing rapid acceleration of inflation.

Risks to our forecasts are to the downside

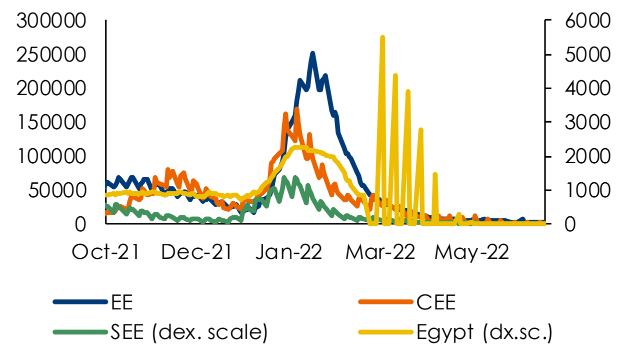
Among the CEE countries, the higher upward revisions with respect to March projections occurred in Slovenia (1.3pp, to 4.8%) and Hungary (0.8pp, to 4.3%), but a downward revision occurred regarding Czech Republic (-1.4pp, to 1.1%). In the SEE region, the dynamic of GDP in Croatia has been revised upward by 1.0pp, to 3.9%, followed by Bosnia and Herzegovina (+0.4pp, to 2.9%) and Romania (+0.1pp, to 2.6%). Due to a base effect, following the upward revision in 2022, the GDP dynamic in 2023 has been slightly reduced (-0.3pp) to 2.6% in the SEE region while it is expected to remain unchanged, at 2.9%, in CEE, thanks to the rebound in Czech Republic. The risks to our forecasts are overall skewed to the downside.

Inflationary pressures are expected to remain high for several months

In the CEE and SEE regions, **inflation** is projected to remain high in the coming months due to the energy shock and supply bottlenecks caused by the Russian-Ukraine conflict. The end-of-period inflation forecast for 2022 has therefore been raised to 13.4% (from 9.9% projected in March) in the CEE area and to 11.6% (from 9.8% foreseen in March) in the SEE area. By the end of next year, inflation is expected to decrease, though to still remain above the upper limits of CB targets, before approaching the targets in 2024.

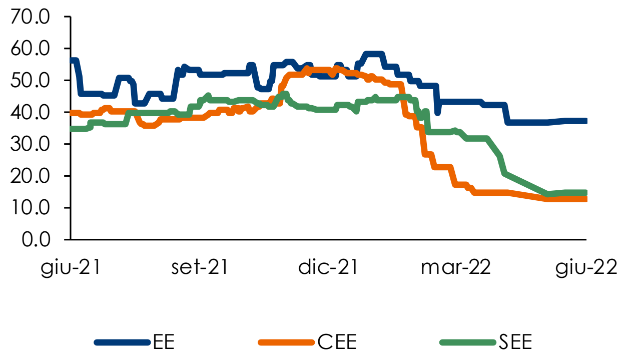
Due to the conflict in Ukraine, GDP growth forecasts in the **EE** region has been revised downwards: in Russia, to -10% in 2022 and -1.0% in 2023 (from 0.5% projected in March) and in Moldova to 0.3% in 2022 and 2.0% in 2023 (from 2.0% and 3.0%, respectively, projected in March). For Ukraine, we forecast GDP to contract by 40% in 2022. Price pressures are expected to remain high in Russia, Ukraine and 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 forecast to 4.0% from 4.7% forecast in March for calendar year 2022 but kept it at 5.0% for 2023. Inflation is expected to accelerate to 15.0% by year-end 2022 especially due to food and oil price increases. It is projected to ease to 10% by year-end 2023, before moving back to the CB's target in 2024.

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



Source: ISP elaboration on Refinitiv-Datastream data

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



Source: ISP elaboration on Refinitiv-Datastream data

Monetary policy and financial markets

Given the energy price shock, the strengthening of inflation has resulted in further hawkish tones from CEE/SEE central banks

With respect to our March Outlook, the paths of **policy rates** have been revised upwards in the CEE/SEE region due to the expected acceleration of inflation. All the CBs in the region – the more hawkish CBs of Czech Republic, Poland, Hungary and Romania and the more dovish CBs of Albania, Serbia and Euro Area have adopted increasingly firm tones.

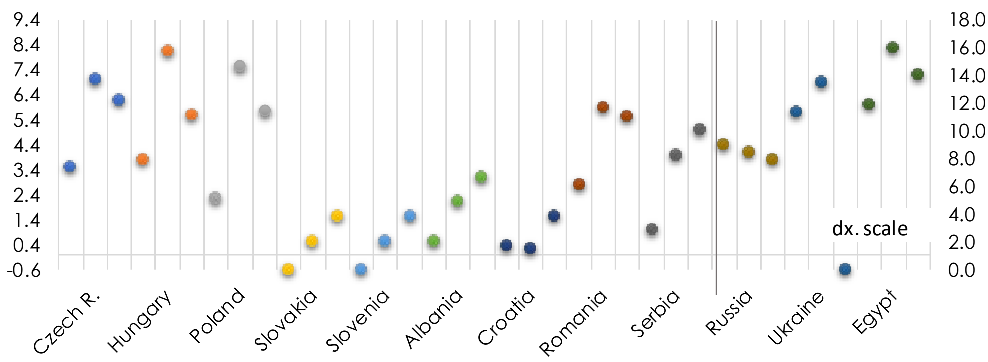
In Hungary, the MNB – after the shock increase to 7.75% on 28 June – is still expected to slightly further increase the policy rate above 8% by year-end 2022 and to start reversing the cycle in 2023 with clear signs of softening inflationary pressures. In Poland, we also still forecast an increase in the policy rate, to 7.5% by year-end 2022, and then a decline to 5.25% eop in 2023. In Czech Republic, after raising the policy rate to 7.0% in June 2022, the CB is now expected to pause before starting to reverse the cycle and cut the policy rate to 5.0% by year-end 2023. In Romania, the policy rate is expected to reach 5.5% by year-end 2022, before being cut to 5.0% by year-end 2023. Also, for Serbia and Albania, we have upwardly revised the profile of policy rates with respect to our March forecasts, to 4.0% and 5.0% at year-ends 2022 and 2023 in the former case and to 2.0% in 2022 and 2.25% in 2023 in the latter. Money market rate projections have been revised accordingly.

Outside the CEE/SEE region, due to inflationary pressures and to a new phase of a large-scale structural transformation of the Russian economy, **Russia's CB**, after raising the policy rate to 20% on 28 February, has started lowering 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%) and we expect it to announce further decreases in upcoming meetings. Starting from this level, key rates may be cut over the course of 2022, 2023 and 2024 as inflation recedes towards CB targets. In **Moldova,** the central bank also raised also the policy rate five times in 2022, by 1,200bps, to 18.5%. Due to expected persisting inflationary pressures, we forecast that the policy rate will reach 20.0% by the end of 2022, before being cut back to 10.0% by year-end 2023.

In **Egypt,** the CB, after keeping policy rate unchanged in 2021, raised the rate in March 2022 by 100bps (to 10.25%) and in May by a further 200bps (to 12.25%). It is expected to raise it again, by an additional 100bps, in 2022 before cutting it back (to 12.25%) in 2023.

Due to the higher path of both inflation and Bund yields forecasts, in the CEE/SEE region, the profiles of **long-term yields** have been revised upwards overall along the forecast horizon with respect to our March scenario. 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, thanks to rising monetary rates, they are expected to move up from the depreciation that has occurred in the last few months in some cases, especially in Hungary and Poland. 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 slightly upward for 2022

Russia's war in Ukraine is expected to adversely affect banking aggregates in the CEE/SEE area, due to several drivers relating to both underlying macroeconomic factors at work (economic slowdown, inflation acceleration, interest rate growth) and banking-specific factors (mainly the impact on import/export trade finance, credit losses, and banks' exposure to Russia). Loans continued to grow from April (rising in both CEE and SEE countries by 7.5% and 12.8%, respectively), which, together with the increases of the nominal GDPaffecting new business flows, supported upward revisions to our forecasts in 2022 to 4.0% in the former and 7% in the latter with respect to our March forecasts (3.7% and 5.7%, respectively). Credit conditions could deteriorate because of rising interest rates, with significant effects especially for borrowers with variable rate loans. According to several local surveys, in the corporate sector, working capital is expected to increase but loans for investment are seen to slow; in the household sector, mortgages are expected to decelerate, after the strong dynamic seen in the last few years.

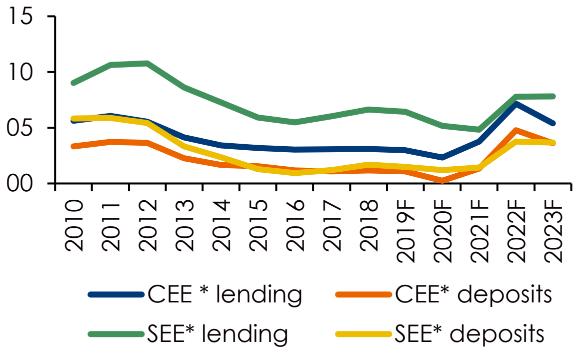
Among **CEE countries**, the slowdown is expected to be particularly strong in Hungary (from 12.7% in 2021 to 3% in 2022, revised down from the 4.8% projected in our March forecasts), where the government is expected to levy a new tax on banks' income (around HUF 300bn, or 10% of gross income in 2021). Lending in Poland, which has been particularly weak in the last two years, is expected to decelerate only slightly. To address rising risks in the real estate market, the Bank of Slovenia adjusted the loan/value for housing loans (-10pp, from 80% to 70%) starting from 1 July. In contrast, some other countries plan to introduce new supportive measures, such as moratoria in order to support economies. This is particularly the case for Hungary, Poland and Romania, but details are not currently available. The new economic/banking landscape will also affect lending in **SEE countries**. The slowdown is expected to be stronger for Romania and Albania (to 6.7% and 3.6% in 2022 from 14.3% and 9.6% in 2021, respectively).

In **EE countries**, lending is expected to decelerate significantly, particularly in Russia because of the recession and the severe financial restrictions imposed by Western countries. The new sanctions, the limitations on capital flows to/from abroad, the exclusion of some Russian banks from SWIFT transactions, and the interruptions to operations of foreign banks based in the country are forecast to hit lending (which is seen to decelerate from 18.8% in 2021 to 3.8% in 2022). Banks are benefitting, however, from strong liquidity support by the CBR and the government.

Deposits are forecast to decelerate as well because of the new recession and rising inflation, which could support consumer spending. On the other hand, uncertainties about the war's evolution could sustain deposit growth related to precautionary saving. Deposits are expected to slow in CEE countries, from 8.7% in 2021 to 5.4% in 2022, and in SEE countries, from 12.9% in 2021 to 5.5% in 2022. In Russia, deposits are forecast to slow from 12.7% to 3.5%.

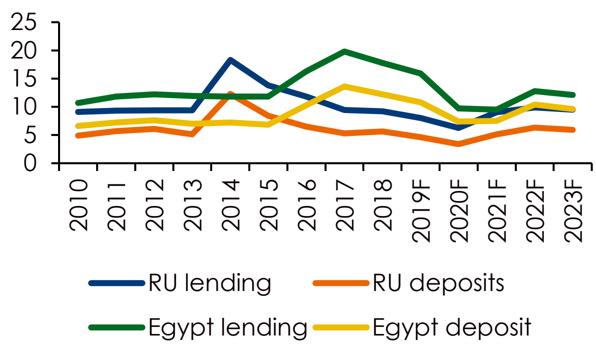
The effect of the war on banking will be more moderate in **Egypt**, where loans are expected to decelerate from 18.3% to 14.1% and deposits from 18.7% to 15.7%.

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



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

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



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

Country-Specific Analysis

Czech Republic

Zdenko Štefanides

Real Economy

The growth forecast for the Czech economy has been revised down in 2022 due to long-lasting problems in global supply chains and the impact of the war in Ukraine. The latter has resulted in a steep rise in energy costs and food prices, which have hit household budgets and confidence hard. As a result, growth in household consumption will halt this year. The rise in market interest rates has also been detrimental to consumer confidence and spending appetite and has brought the previously burgeoning housing market to a standstill. Private investment, meanwhile, will decline this year due to the difficulties in global production chains, soaring energy costs and the uncertainty brought about by the war. Public investment from EU funds may soften the overall investment decline. Real GDP growth this year thus looks likely to fall to 1%, or even lower, with a high probability of a technical recession in the second half of the year. Nonetheless, in 2023, as the problems in global supply chains ease, energy markets stabilise and inflation falls, the forecast assumes growth in consumption and investment will resume.

Financial Markets

The Czech National Bank (CNB) has been the most hawkish central bank in Europe, having hiked rates from almost zero during the pandemic to 7% by June. The CNB also looks set to be a pioneer among central banks in Europe in moving in the opposite direction once inflation pressures subside. Indeed, while inflation is currently at 16% and is forecast to peak at 17-18% during the summer, it is likely to start easing significantly once energy prices stabilise. The CNB assumes inflation will return to close to its 2% target by end-2023 and it has signalled a readiness to lower the cost of borrowing accordingly. This is even more likely given the changes in the CNB board, with dovish CNB board member Alex Michl taking the helm and three more appointees taking up their places at the seven-member CNB Board from July 1.

The koruna reacted with a sudden bout of weakness to the nomination of the new CNB governor, forcing the bank to intervene to lend its support. While we continue to see the koruna regain its appreciation trend vs. the euro in the longer term, it seems likely that in 2023 the exchange rate will be a bit weaker than previously foreseen. Meanwhile, the turmoil in the debt markets has also pushed Czech yields and spreads to higher unforeseen levels. The expectation is that spreads and yields will normalise, but given the changed global environment, this could take some time.

Banking Sector

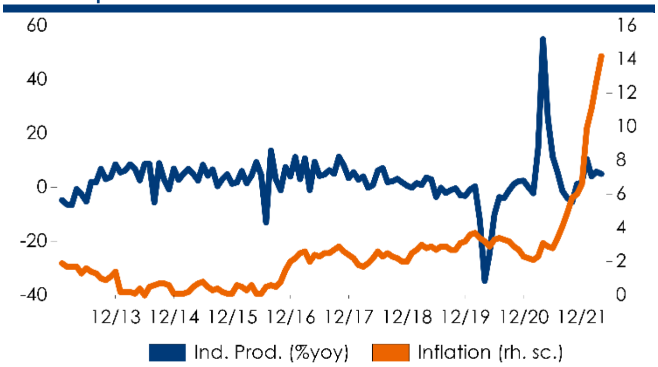
In the banking sector the ongoing rise in interest rates and tighter macroprudential measures will further slow the growth in mortgages. Deposit volumes will be impacted by the attrition of forced pandemic savings. Nonetheless, rising interest rates may help to preserve the previous year's dynamics. In 2023 we expect the growth in loans and deposits to become more even. The loan to deposit ratio is seen at a comfortable 70%.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-5.7	3.3	1.1	3.0
CPI (eop)	2.3	6.6	14.0	2.1
Euro exch. rate (value, eop)	26.3	25.2	25.6	24.2
Short-term rate (eop)	0.4	3.5	7.0	6.2
L/T bond yields (eop)	1.3	2.7	5.0	4.0
Bank loans (pr. sector, yoy)	4.1	8.4	5.4	4.3
Bank deposits (pr. sector, yoy)	11.9	7.0	6.6	4.1
Lending int. rate (corp., eop)	1.9	4.4	6.7	5.2
Deposit int. rate (hh, eop)	0.6	2.3	4.7	3.9

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 first quarter performance, the economy will lose momentum, but we revise up our 2022 GDP forecast to 4.3%. The war in Ukraine, global supply-side bottlenecks and rising input costs will weigh on industrial activity and the construction sector is also set to slow on the back of weaker private investments and public investment projects being cancelled in order to keep the budget deficit on track. Services, however, are expected to remain buoyant, supported by tight labour market conditions, rising real wages and the high savings of the household sector. Hence, growth will remain driven by domestic demand this year. For 2023 we expect moderating economic activity. The structure of growth will become more balanced, which may help to correct Hungary's external imbalances. Inflationary pressures have further intensified recently. The strong, broad-based repricing in the economy has continued as companies have been able to pass on their increased costs amid solid demand. The weaker-than-expected FX rate is also an inflation-boosting factor. Administrative measures are limiting the rise in prices, but inflation is set to peak well above 11% and average inflation will be about 10% in 2022. A marked slowdown in inflation can only be expected from mid-2023, and the 3% inflation target is not likely to be reached until 2024.

Financial Markets

Reacting to strengthening inflation risks and increased financial market volatility, the central bank accelerated the tightening cycle: the policy rate reached 7.75% by June. Based on the outlook for inflation, the tightening cycle could continue into the second half of the year. Short rates will peak well above 8%, with upside risk to our baseline scenario, and rates will remain higher for longer. We expect a partial reversal from 2023, in tandem with the deceleration of inflation. The rate hikes of the NBH were not enough to push the forint to a stronger level and the volatile global risk sentiment, alongside country-specific issues, continued to weigh on the Hungarian currency. The EUR/HUF hit a new lifetime high of more than 400 in early June. Concerns regarding the disputes with the EU will remain an important factor, therefore we do not expect any meaningful FX appreciation in the remaining part of the year.

Banking Sector

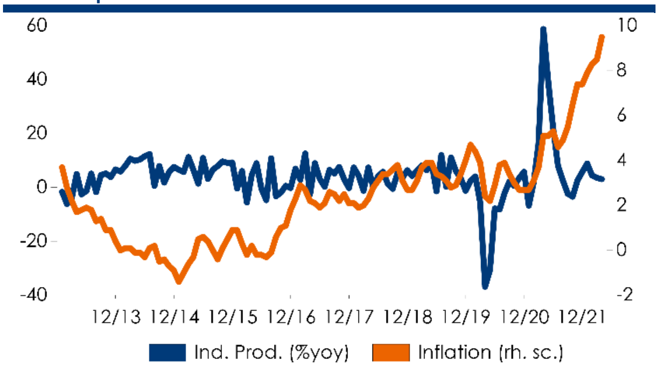
Bank deposit growth is expected to slow in 2022 due to the end of moratoria, as households and corporate customers are starting to pay back their loans, which reduces their savings. Lower GDP growth and high inflation also point to a deceleration in savings growth. Customer deposits in the banking sector are expected to rise by about 3% in 2022 and 2023. The same is true for lending, with the ending of government/central bank-supported lending programmes and payment moratoria. In line with slower economic growth, loan volume growth will drop to 3% or less.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-5.1	7.1	4.3	3.5
CPI (eop)	2.7	7.4	10.8	3.5
Euro exch. rate (value, eop)	359.0	367.2	385.0	379.0
Short-term rate (eop)	0.8	3.8	8.2	5.6
L/T bond yields (eop)	2.2	4.4	7.2	6.0
Bank loans (pr. sector, yoy)	13.4	12.7	3.0	4.7
Bank deposits (pr. sector, yoy)	23.3	17.6	3.0	4.7
Lending int. rate (corp., eop)	3.0	4.5	7.0	4.8
Deposit int. rate (hhs, eop)	0.3	1.5	4.2	2.6

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

Industrial production and inflation



Source: Hungarian Central Statistical Office

Poland

Zdenko Štefanides

Real Economy

The Polish economy fully recovered from the Covid pandemic in 2021 and was surprisingly resilient throughout the early months of the Russian invasion of neighbouring Ukraine. GDP growth in the first quarter surpassed expectations, allowing the growth forecast for 2022 to rise even slightly higher than that seen three months ago (3.5 vs. 3.0%, resp.), despite the deterioration in the global outlook. Growth in Poland now seems to be driven primarily by household consumption, helped by purchases for and by the millions of Ukrainians seeking shelter in Poland. Also helpful to growth is higher fiscal spending, while investment, weighed down by soaring energy costs and uncertainty, is contributing negatively to the forecast growth.

Inflation, as elsewhere in the region and globe, is advancing upwards at a steeper pace than previously anticipated. Consumer price inflation, at 13.9% in May, is yet to peak, and this has necessitated an upward revision of the previously foreseen 11.2% end-of-year rate. Disinflation is still likely next year once energy prices stabilise. However, the full-year average inflation rate is likely to come in at high single digits, which will be a drag on households' real purchasing power. GDP growth is thus likely to be slower in 2023 than in 2022.

Financial Markets

The National Bank of Poland (NBP) has continued to tighten policy and has already raised the reference rate to 6%. As inflation, the key driver of the NBS's tightening, is yet to peak and will remain above the NBP's target range through 2023 and probably also 2024, we expect rates to go up further, with the reference rate culminating at 7.5%. Bonds and the currency markets, meanwhile, continued to be hammered by the war and the investor flight from the region. Polish 10-year bond yields rose to more than 7% at one point, a level not seen in nearly a generation, while the zloty weakened to 4.90 vs. the euro, a similar record. We expect some normalisation ahead, accompanied by the gradual narrowing of spreads vis-à-vis the Bund, with the value of the zloty rebounding. It is clear, however, that with geopolitical tensions getting more rather than less intense and markets on their toes, the forecast levels for both yields and the currency are higher than previously seen.

Banking Sector

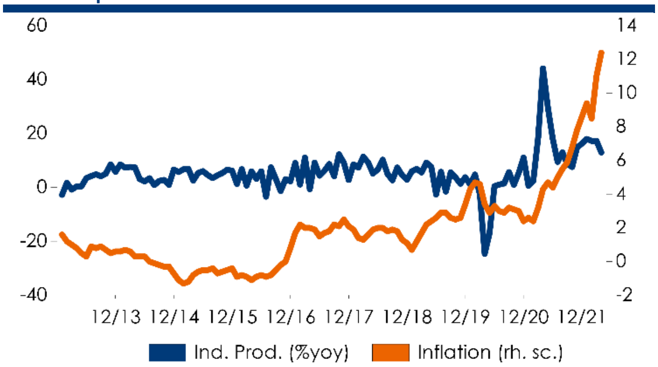
In the banking market, we expect loan volume growth to moderate due to rising interest rates, uncertainty and the slowing economy. Deposit growth is likely to pull back from the pandemic-driven expansion of 2020-21, yet will continue to grow faster than loans. The ratio of loans to deposits, in pre-Covid times running close to 100%, is thus likely to continue to decline moderately further, to below 80%.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-2.7	6.0	3.5	2.6
CPI (eop)	2.4	8.6	14.5	3.7
Euro exch. rate (value, eop)	4.5	4.6	4.7	4.5
Short-term rate (eop)	0.1	2.3	7.5	5.8
L/T bond yields (eop)	1.3	3.3	6.9	6.4
Bank loans (pr. sector, yoy)	0.4	4.6	3.5	4.3
Bank deposits (pr. sector, yoy)	12.8	7.7	5.7	5.1
Lending int. rate (corp., eop)	2.4	3.8	8.3	6.0
Deposit int. rate (hh, eop)	0.2	1.3	5.8	4.2

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

Industrial production and inflation



Source: Statistics Poland

Slovakia

Real Economy

Michal Lehuta

Slovakia's economy is already suffering from bottlenecks in industrial production and foreign trade, stemming from the Russian war in Ukraine. So far, the issues seem to be concentrated on the supply side, however the high inflation rate is likely to impact real household consumption and foreign demand as well going forward.

In April industrial production, orders and export figures fell further or remained at about the same level, in negative territory in real yoy terms (-9.6%, -7% and –16.1%, respectively). On the other hand, sectors tied to domestic demand, such as retail sales, restaurants and transport, are still doing considerably better, as household spend remains high, with consumers drawing from their accumulated pandemic reserves, as well as decreasing their current rate of saving. However, real wages are already falling and will continue to fall in the coming quarters, which will limit the purchasing power of households. Still, the approaching deadline for €6 billion (6% of GDP) from the 2014-2020 EU budget at the end of next year constitutes a substantial potential growth engine in 2023, mainly in the area of fixed investment.

The consumer inflation rate reached a 22-year high in May at 12.6%, a level that could already be close to the maximum expected this year. However, high inflation should persist in the country as regulated energy prices will grow fast in January 2023 and most probably in the following years as well. In addition, a theoretical total stoppage of natural gas flows from Russia could increase the inflation rate further.

Financial Markets

Due to very high inflation in the euro area, the ECB is ending its quantitative easing and will start to hike the key interest rates from July onwards. This expectation has moved short-term interest rates up, and these will soon approach zero for the first time since 2016. An even more pronounced increase has taken place in government bond yields and spreads. Slovakia's 10Y yield increased to 2.6% in June and is already close to its multi-year high. The spread against Germany widened to 100bps, mainly due to the ending of asset purchases by the ECB. This will lead to an increase in the cost of financing for local banks and businesses in the years to come.

Banking Sector

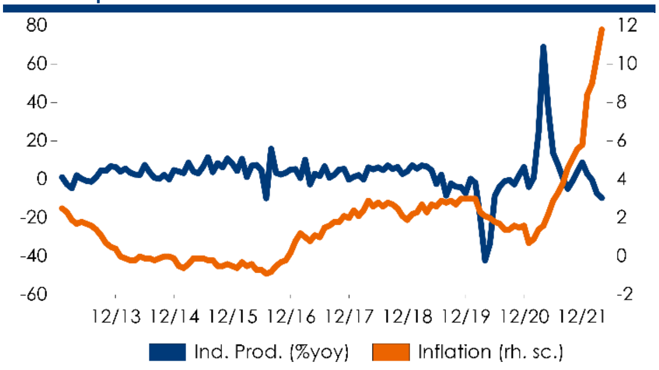
Loan growth among Slovakia's banks continued to accelerate in April to more than 10% yoy, still mainly thanks to new and refinanced mortgages. However, this should change with rising interest rates, as we expect a deceleration in credit provision to below nominal GDP growth, especially if real estate prices move south as well. Deposits grew very slowly, as households are now spending much more to cover their consumption. So far, no new taxes on banks have been passed in parliament, however, with the preparation of the 2023 budget, this seems quite likely in the fall.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-4.4	3.0	1.7	3.9
CPI (eop)	1.6	5.8	10.9	5.3
Short-term rate (eop)	-0.5	-0.6	0.5	1.6
L/T bond yields (eop)	-0.5	0.0	2.9	2.3
Bank loans (pr. sector, yoy)	4.5	7.3	4.0	4.0
Bank deposits (pr. sector, yoy)	6.3	4.5	5.2	4.5
Lending int. rate (corp., eop)	1.7	1.6	2.8	3.6
Deposit int. rate (hh, eop)	0.0	0.0	0.9	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

The extraordinary support from strong carryover (5pp from last year's final quarter), strengthened further by the 0.8% qoq growth already realised in 1Q22, largely explains the upside revision of estimated growth and the expected overperformance of the Slovenian economy. Compared to the EA average in 2022. However, following 9.8% GDP growth in 1Q, we see the growth dynamics easing in the coming quarters.

More precisely, following 1Q's 20% yoy surge in private consumption, April's real retail trade figures (+29% yoy) suggest a continued (even if moderating) growth momentum as the strong labour market and excess savings accumulated during the pandemic are for now counterbalancing the inflationary pressures and deteriorating consumer confidence. In addition, investments are expected to support domestic demand, both through residential construction and EU-financed public infrastructural investments, as already confirmed by the 1Q outturn (GCFC +12.7%) and April data, which indicated 22% yoy growth in building construction volumes. However, we expect to see somewhat less buoyant investments from private corporations, reflecting the slowdown in foreign demand, pricier capital investment inputs and a tight labour market. The performance of exports will reflect the forthcoming slowdown in major trading partners' demand, while imports will continue to be supported by strong domestic demand, thus net exports will contribute negatively to the estimated headline growth of 4.8% in 2022.

Inflationary pressures, which intensified in May and pushed annual inflation to 8.7%, are expected to strengthen further, thus we now see average annual inflation in the area of 8.9%.

Financial Markets

Ana Lokin

The 10Y Slovenian government bond spread on the Bund fluctuated between 90-110bps in May and June. The average yield and spread are expected to reach 2.3% and 130bps in 2022, due to persisting uncertainties and Bund yield growth due to markets pricing in the ECB's moves.

Banking Sector

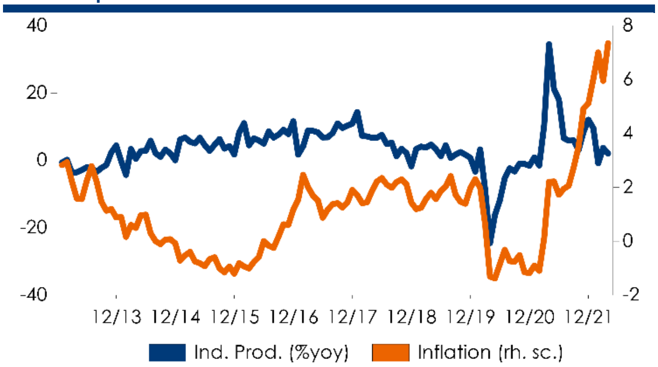
Loans growth markedly accelerated and amounted to 9.0% yoy in April, carried by robust 11.0% yoy corporate loan growth, along with 7.4% yoy growth in household loans. The somewhat stronger GDP rise now expected in 2022, as well as a surge in corporate lending, prompted an upward revision of this year's loan forecast to a buoyant 7.3% yoy. Our deposit projection was left unchanged compared to the previous scenario at 4.9% yoy (April 5.0% yoy), as we continue to see the uncertainty supporting a rise in savings, however savings are limited by the sharp price growth.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-4.2	8.1	4.8	3.0
CPI (eop)	-1.2	5.1	9.7	1.7
Short-term rate (eop)	-0.5	-0.6	0.5	1.6
L/T bond yields (eop)	-0.2	0.3	3.0	2.4
Bank loans (pr. sector, yoy)	-0.9	5.2	7.3	2.8
Bank deposits (pr. sector, yoy)	12.2	8.2	4.9	4.0
Lending int. rate (corp., eop)	2.3	1.9	2.4	3.3
Deposit int. rate (hh, eop)	0.1	0.1	0.4	1.3

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 GDP growth of 9% in 2021, the Albanian economy is expected to slow in 2022. Due to the sharp rise in food and energy prices, along with the tighter global financial conditions, the current year's growth is projected to be lower at 3%. This growth will be supported mainly by the construction and tourism sectors, but the acceleration of inflation and the upward risk posed by the prolonged war in Ukraine is shrinking the positive performance that was expected before the outbreak of the war.

Inflation continued to edge up in May. After 3.7% and 3.9% in the first two months of the year, just three months later CPI had accelerated to 6.7% in May. Exports of goods continued to grow by double digits compared with a year ago. In May exports were up 37% compared with the previous year.

Financial Markets

Due to the war and high import prices, CPI is expected to remain high over the next few months, before returning to its target in early 2024, supported further by the expected vigilant monetary policy. The CB's March 2022 decision to tighten monetary policy by increasing the base rate from 0.5% to 1% represented a prompt response to the acceleration of inflation.

Yields in MM had slowly been going up, with the 1Y TB rate moving from 1.57% at the beginning of the year to 2.5% now. In May and June in the exchange market, the lek appreciated slightly against the euro supported by the rise in exports and by seasonal factors.

Banking Sector

The growth in credit to the private sector is continuing, with a remarkably positive performance. In May 2022 the total loans portfolio expanded by 12.40%. Household loans increased at a rate of 14.16% and corporate loans by 11.47% yoy. New loans expanded by 48.08% in May.

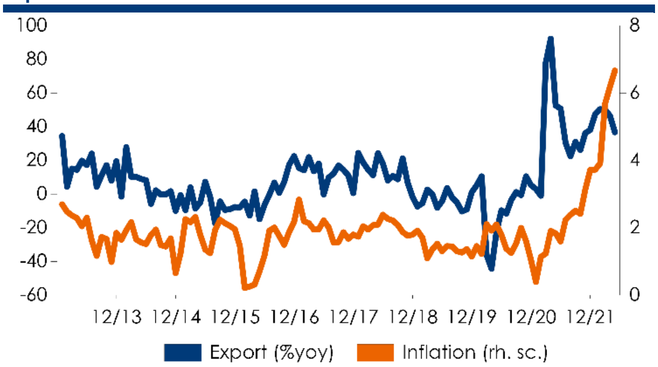
Total deposits followed the same trend as loans, increasing by 8.52%. Deposits from households were up by 6.01% and from corporates by 19.66%. New deposits saw an increase of 15.44%.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-3.3	9.0	3.0	3.2
CPI (eop)	1.1	3.7	6.2	2.8
Euro exch. rate (value, eop)	123.3	120.9	124.0	126.5
Short-term rate (eop)	0.4	0.5	2.1	3.1
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	7.0	9.6	3.6	3.8
Bank deposits (pr. sector, yoy)	8.1	9.2	3.9	4.0
Lending int. rate (pr. sec., eop)	6.5	5.3	8.0	8.9
Deposit int. rate (pr. sec., eop)	0.4	0.4	1.8	2.6

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

Export and inflation



Source: National Statistical Institute

Bosnia and Herzegovina

Ivana Jović

Real Economy

Following the strong 1Q outturn (+10.5% yoy), manufacturing production growth slowed in April to 4.2% yoy, although both domestic and foreign demand remained buoyant. Real retail trade increased by 21.5% yoy in April (vs. 18.3% in 1Q), while at the same time the export of goods increased by 44.5% and 52.4% yoy in April and May, respectively (following the 40% growth recorded in the previous quarter). Labour market trends confirmed the solid economic momentum as in April the registered unemployment rate declined by 2.6pp yoy to 30.3%. At the same time, the average net wage increased by 10% yoy, driven by the strong increase in the minimum wage, which in Republika Srpska has so far been increased by 9.3% yoy (to 590KM), with a planned further increase of an additional 10% (to 650KM) from June, while the FBiH minimum wage has seen a 33.4% yoy increase, rising from 407KM to 543KM. Thus, the high frequency data available so far indicates a more solid performance than previously expected, thus prompting us to revise upwards our FY22 expectation by 0.4pp to 2.9%.

Strong inflationary pressures culminated in April as CPI rose to 13.2%, pushing average inflation for the first four months to 9.6%, with a further acceleration around the corner as CPI in Federation BiH, one of the country's entities, spiked at 15.1%, according to May data. As the food and energy price-driven surge in inflation is not likely to ease quickly, we see average annual inflation skyrocketing to 11.5% in 2022, before abating next year. On the political front, an important step was made on June 12 in Brussels, with BiH's political representatives adopting the political agreement on principles for ensuring a functional BiH. The agreement underlined the key priorities, including full adherence to all binding international and domestic court decisions, an objective of ensuring compliance with European standards, and the efficient and orderly organisation and conduct of the general elections scheduled for this autumn. Given the broader context, the Brussels agreement enhances the focus on strengthening BiH's EU integration path, although the country has not yet been granted EU candidate status. We note that BiH applied for EU membership in February 2016 and the Commission adopted its Opinion (Avis) on the EU membership application in May 2019, identifying 14 key priorities to be fulfilled before opening EU accession negotiations.

Banking Sector

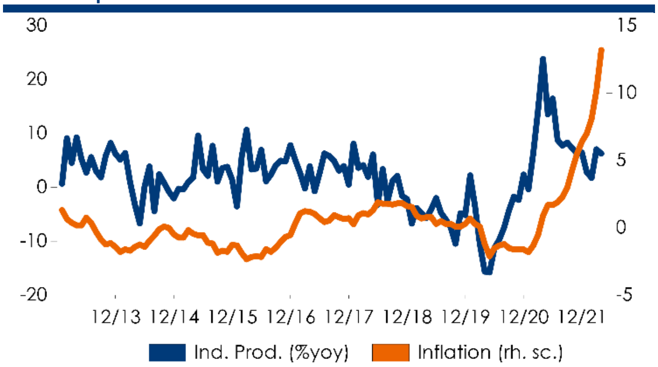
In our June scenario we increase our 2022 loan growth forecast by 0.5pp to 3.8% yoy due to our slightly more optimistic view on the GDP growth path, as well as recent trends. These trends include private sector loans continuing to gain pace, coming in at +4.6% yoy in April, backed by the strengthening of corporate lending (+3.5% yoy). Deposits from the private sector, on the other hand, saw a strong deceleration (+1.3% yoy in April) due to household deposits sinking by 3.4% yoy as the troubles with Sberbank spilled over to other banks, triggering deposit withdrawals. By year-end, we expect citizens' confidence to have gradually returned, resulting in the stabilisation of private sector deposits, with a modest increase of 1.0% yoy expected.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-3.2	7.1	2.9	2.3
CPI (eop)	-1.6	6.4	10.6	2.2
Euro exch. rate (value, eop)	2.0	2.0	2.0	2.0
Short-term rate (eop)	n.a.	n.a.	n.a.	n.a.
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	-2.5	3.7	3.8	3.7
Bank deposits (pr. sector, yoy)	6.5	10.0	1.0	4.6
Lending int. rate (corp., eop)	n.a.	n.a.	n.a.	n.a.
Deposit int. rate (hh, eop)	n.a.	n.a.	n.a.	n.a.

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

Industrial production and inflation



Source: Agency for statistics of Bosnia and Herzegovina

Croatia

Real Economy

Ivana Jović

Following 7.0% yoy GDP growth in 1Q, high frequency data continue to present a positive picture in April and May. Private consumption looks resilient as following 5.7% yoy increase in April, real retail trade in May increased by 4.3% yoy (compared to 2.1%, on average, 1Q growth). Growth in real terms is indicated also by preliminary merchandise exports in April, as in nominal terms exports grew by 26.1% yoy, though this represented a slowdown compared with the 37% yoy growth registered in 1Q. This drop-off was, however, partly due to the far less favourable base effect from last year contributing to the annual growth rate.

Following -1.1% mom decline in April, industrial production picked up again in May to +0.3% mom and +3.0% yoy. Investment activity looks stable as the volume of construction works increased by 4.6% yoy in April, and it seems to no longer be relying only on EU-funded public investments. Banking sector data indicated that demand for investment loans had strengthened and in April these increased by 6.7% yoy. The labour market showed strong positive developments, as the unemployment rate in May declined by 1.7pp yoy to 6.5% (0.5pp lower than in May 19), while the average nominal wage in April increased by 6.6% yoy, indicating that the tight labour market is fuelling wage growth. Overall, we see FY22 GDP growth being stronger and we raise our estimate to about 3.9%, heavily supported by our expectation that this year's tourism will be close to pre-Covid 2019 heights.

The inflation outlook has deteriorated, and we now expect average annual inflation to be about 9.3%. On a positive note, the adoption of the euro on 1 January 2023 was confirmed by the ECB and EC, as the convergence reports concluded Croatia is ready to join the union, and the formal decision should take place on July 12.

Financial Markets

Ana Lokin

The FX rate is stable, with the kuna recording minor appreciation in June as FX inflows from the tourist season increased. The 10Y government bond spread on the Bund subsided from the peaks seen in previous months, to an average of about 160bps in June. We revise this year's forecast to an average yield of 2.5% due to benchmark growth, while projecting the average spread at about 155bps.

Banking Sector

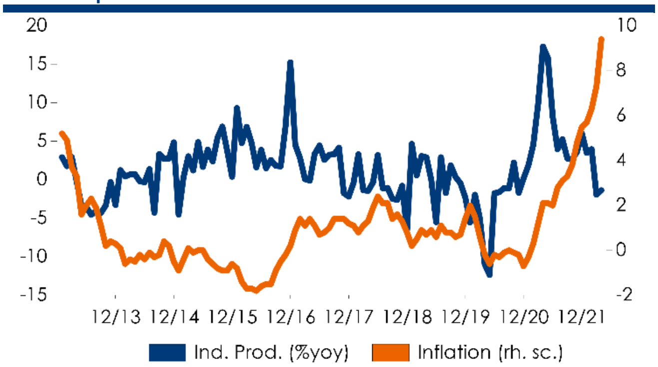
Loan dynamics surprised on the upside (4.3% YTD in April), markedly exceeding our March expectations as corporates (8.8% YTD) rushed to borrow at a lower cost ahead of reference rate rises in the second part of the year. Household loans remained stable (1.5% YTD), so far shrugging off the unfavourable environment. We notably lift our 2022 loan projection to 6.4% yoy. Deposit growth forecast was confirmed at healthy 6.0% yoy, reflecting the cautiousness of the private sector amid the sound performance of the economy and steep inflation growth.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-8.1	10.2	3.9	3.0
CPI (eop)	-0.7	5.5	9.5	1.6
Euro exch. rate (value, eop)	7.5	7.5	7.5	EUR
Short-term rate (eop)	0.2	0.4	0.2	1.6
L/T bond yields (eop)	0.7	0.6	2.9	2.4
Bank loans (pr. sector, yoy)	3.5	2.3	6.4	3.0
Bank deposits (pr. sector, yoy)	8.7	11.7	6.0	3.0
Lending int. rate (pr. sec., eop)	5.2	4.0	4.4	4.4
Deposit int. rate (pr. sec., eop)	0.1	0.1	0.1	0.6

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

Industrial production and inflation



Source: Croatia Bureau of Statistics

Romania

Marius Pacurari

Real Economy

In 1Q22 the GDP growth rate reached 6.5%. However, GDP growth is expected to decelerate in the following quarters, leading to GDP growth of about 2.6%, on average, for the year, with a slight recovery in the next years. Based on April and March figures for construction and industrial production, the deceleration trend will be evident as early as the second quarter.

At the end of May yoy CPI was 14.5%, slightly above the NBR's projection. According to the NBR, the evolution of inflation will be upwards, with many uncertainties related to the war, energy market prices and food and commodities market prices. The upper limit of the NBR forecast for 2Q22 was 14.2%. The inflation level is being contained by the subsidies set by the Government for energy prices for consumers and companies. The proposed subsidies for fuel at gas stations will also affect the CPI figures in the coming months.

The budget deficit at the end of May 2022 was 1.57% of GDP, with the budget execution appearing better than in the previous year. We use the word "appearing" because the subsidies for energy prices in recent months have not yet been entirely paid to energy companies.

The current account deficit is still growing: April showed a € 7.6bn deficit versus a €4.1bn deficit for the same period of 2021.

Financial Markets

The NBR increased all monetary policy rates (deposit, Lombard and reference rate) by 75bps at the May meeting. The levels of monetary policy rates are as follows: deposit facility rate 2.75%, reference rate 3.75% and credit facility rate 4.75%. The gap between ROBOR and the implied yield on the FX SWAP market is still relevant and shows very tight liquidity management from the NBR. Further tightening measures are expected at July's NBR Monetary Policy Meeting, maybe of greater magnitude (+1.00%). The EURRON rate remained stable at about 4.95, while the NBR bilateral repo transactions and Lombard facility improved the liquidity of the market. In the last three months the NBR has injected liquidity of about RON15bn into the monetary market.

Romania's EUR 5-year CDS has now reached 236bps, the highest level since 2012.

Banking Sector

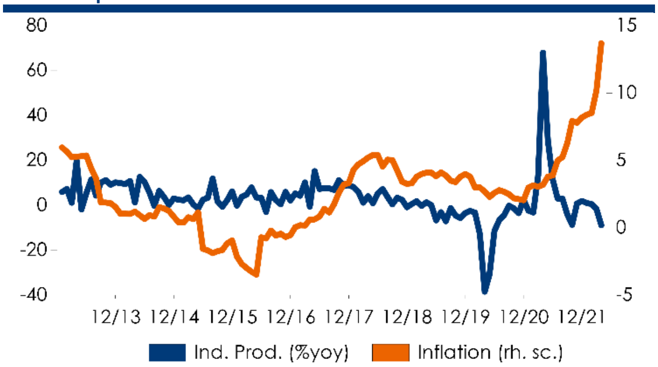
April figures showed consistent growth in credit growth (+15.09% yoy) and a deceleration in deposit growth (+10.32% yoy). In the first four months of 2022, the evolution of deposits was negative. Interest rates grew by an average of 3.84% and 6.83% for RON-denominated deposits and credits, and increased by an average of 2.47% for EUR-denominated credits and 0.07% for EUR-denominated deposits.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-3.9	6.7	2.6	2.4
CPI (eop)	2.1	8.2	13.0	7.0
Euro exch. rate (value, eop)	4.9	4.9	5.0	5.1
Short-term rate (eop)	2.0	2.8	5.9	5.6
L/T bond yields (eop)	3.3	5.4	9.3	6.8
Bank loans (pr. sector, yoy)	5.0	14.3	8.0	6.5
Bank deposits (pr. sector, yoy)	15.4	13.6	5.5	5.7
Lending int. rate (pr. sec., eop)	5.4	5.3	9.1	9.0
Deposit int. rate (pr. sec., eop)	1.5	1.9	5.1	4.7

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

Real GDP grew by a solid 4.4% yoy in 1Q22 but contracted by 0.5% on a seasonally-adjusted qoq basis, the largest drop since 2Q20. Looking at the annual changes, private consumption and the build-up of inventories were the main sources of growth, adding 4.6pp and 5.6pp, respectively. Exports showed strong dynamics (+19.6%), but this was offset by a sharp rise in imports (+27.3%), which were boosted by external price pressures. As a result, net exports cut 6.5pp from headline growth. On the production side, services led the growth (+6.3%), industry slowed but remained supportive (+1.9%), while construction shrank by c. 5%. As it is facing multiple challenges, economic activity is expected to slow in the coming quarters. For the full year, we stick to our forecast of 3% yoy growth and pencil in 3.3% growth in 2023.

Inflation accelerated into double digits in May (10.4%) on the back of further rises in global energy and food prices and continuing tensions in supply chains. Core inflation moved up to 6.3%. To calm the price growth, the government extended the cap on the prices of basic food and fuel. Inflation is expected to remain elevated and to peak in July, before starting to gradually decline in 2H22, supported by the new agriculture season and the high base, while its return to the target corridor is likely in 2H23. Our average CPI figure is revised up to 9.5% in 2022 and 5.6% in 2023.

Financial Markets

The NBS continued its monetary tightening in June, raising the key rate by another 50bps to 2.5%, after two consecutive hikes in April and May of a cumulative 100bps. Given that inflationary pressures are shifting further up, the very tight energy market situation, the Fed's more restrictive policy and the intention of the ECB to start raising rates, the path of key policy rates has been revised upwards. After strong depreciation pressures in March and the stabilisation of demand-side factors in April, the dinar slightly gained against the euro and is currently trading at about 117.5. The NBS intervened on the purchase side (€75m), while in the period Jan-May a total of €2,195m was net sold in the FX market. As the CB remains committed to its stable dinar policy, no significant change in the nominal EURSRD rate is expected in the short run.

Banking Sector

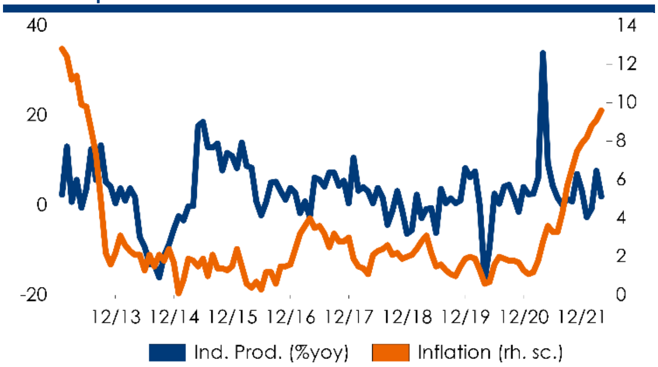
Banks' lending dynamics have so far been unaffected by the incoming economic slowdown, as total loans to the private sector rose by 12.4% yoy in April, with both household and corporate loans increasing by double digits. However, we still expect loan volume growth to moderate towards year-end due to the economic slowdown, the increased uncertainty surrounding the Ukraine war and monetary policy tightening. Total deposits recovered after the drop in March caused by the outbreak of the war, and in our new scenario, we see them rising by 7.5% yoy in 2022.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-0.9	7.5	3.0	3.3
CPI (eop)	1.3	7.9	9.1	3.4
Euro exch. rate (value, eop)	117.6	117.6	117.7	118.0
Short-term rate (eop)	1.1	1.0	4.0	5.0
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	11.1	10.2	5.5	5.1
Bank deposits (pr. sector, yoy)	17.4	13.3	7.5	6.1
Lending int. rate (pr. sec., eop)	5.8	5.5	8.2	8.6
Deposit int. rate (pr. sec., eop)	1.5	1.8	3.5	3.8

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

Industrial production and inflation



Source: Statistical Office

Moldova

Natalia Mihalas

Real Economy

The economy of Moldova started 2022 with a positive outlook, with GDP expanding by 1.1% yoy in 1Q22. This growth was due to net exports and final consumption, which made positive contributions of 4.4pps and 2.8pps, respectively, counteracting the 6.1pps negative impact from net investment. The sectors with the most positive effects on economic growth were trade (+1.7pps), health (+0.4pps) and finance (+0.4%). Following this dynamic and accounting for the deterioration of the geopolitical landscape as a result of the Russian war with Ukraine, as well as the persisting high energy prices and restrictive monetary policy of the National Bank, by the end of 2022 GDP is expected to expand only mildly by 0.3%, after which GDP growth will accelerate to 2% yoy in 2023.

During 1H22 inflation has continued the upward trajectory that started in 2H21. Thus, in May the inflation rate was 29% and it is expected to stay in this range until the end of 2022. Inflation is foreseen to peak in 2Q22, after which it is expected to decelerate towards 10% by the end of 2023, reaching the 5% target in 2024.

Financial Markets

In June the National Bank hiked the short-term rate again (to 18.5%, from 15.5% in May) aiming to counteract high prices, stimulate savings and balance aggregate demand. Considering the restrictive monetary policy adopted by the National Bank in an effort to ensure price stability and restore inflation back to target, further policy rate hikes are expected during 2022, with the rate settling at 20% as of year-end, following which it is expected to start a downward trajectory, falling to 10% in 2023.

Banking Sector

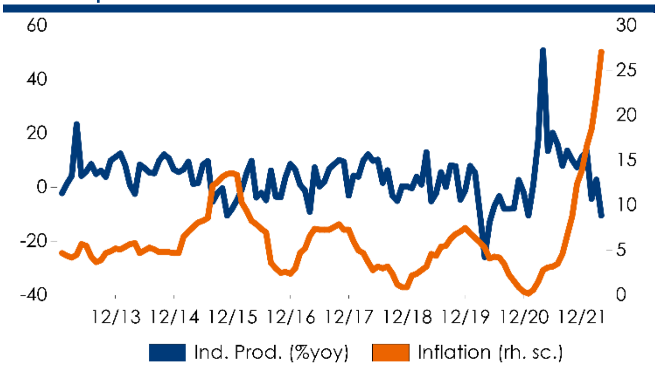
During 2022 the stock of loans in the private sector has continued its double-digit monthly growth, expanding by 22% in May, driven by positive evolutions in both household (+30.3%) and corporate loan portfolios (+16.9%). On the other hand, deposit growth continued to decelerate, with the stock of deposits increasing by 3.4% in May, down from 6.1% in March and 13.1% in December 2021. Corporate deposits expanded by 15% in April 2022, while household deposits saw a 3% yoy contraction. While the yoy growth in loans is expected to decelerate in the projected years, deposits are foreseen to accelerate. Thus, loans are expected to grow by 9.1% and 4.5% yoy in 2022 and 2023, respectively. Deposit growth in 2022 is assumed to be about 9.2%, stabilising at 7%, on average, in the following years.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-6.5	13.9	0.3	2.0
CPI (eop)	0.4	13.9	29.0	10.0
USD exch. rate (value, eop)	17.2	17.7	19.5	19.7
Euro exch. rate (value, eop)	20.7	20.1	21.5	22.8
Short-term rate (eop)	2.7	6.5	20.0	10.0
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	13.1	23.5	9.1	4.5
Bank deposits (pr. sector, yoy)	16.5	13.1	9.2	7.1
Lending int. rate (corp., eop)	8.2	8.5	12.6	10.3
Deposit int. rate (hh, eop)	3.5	3.2	7.6	5.6

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

Industrial production and inflation



Source: National Bureau of Statistics of the Republic of Moldova

Russia

Real Economy

Francesca Pascali

As discussed in our March Outlook, the conflict in Ukraine will have several economic repercussions for Russia and we expect the economy to contract by 10% this year. Risks are on the downside should sanctions be extended to the energy sector, which accounts for close to 50% of total goods exports. In 2023 we estimate a further slowing of the GDP by 1.0%.

The Central Bank of Russia provided GDP forecasts at its April meeting of -8.0-10% for this year and -3.0-0.0% for 2023 due to the severe deterioration in the economic scenario. The external conditions of the Russian economy are still difficult and are therefore limiting the development of economic activity. However, the risks to financial stability are reported to have diminished slightly, allowing for a relaxation of some capital control measures.

Financial Markets

Russia's financial conditions have tightened sharply. The CBR raised the key rate by 20% on 28 February after seven rises last year. The CBR lowered the policy rate in April by 300bps to 17%, in May by 300bps to 14% and at the end of May by a further 300bps to 11%. At the beginning of June the CBR lowered the policy rate again, to 9.5%, and said it expected this to be further decreased. Starting from this level, key rates may be cut further in 2022, 2023 and 2024 as inflation recedes towards the CB's target. In adjusting policy rates, the Bank of Russia will take into account the dynamics of actual and expected inflation relative to the target and the processes of economic transformation, as well as the risks posed by internal and external conditions and the reaction of financial markets in the decision-making process on the key rate. Despite deteriorating external conditions, in particular following Western financial sanctions, after plummeting to an all-time low the ruble has rebounded rapidly to even beyond the pre-war level (currently at 54 vs. the USD). We forecast it may normalise in the future towards 60.0 and 75.0 by the end of 2022 and 2023, respectively.

Banking Sector

Davidia Zucchelli

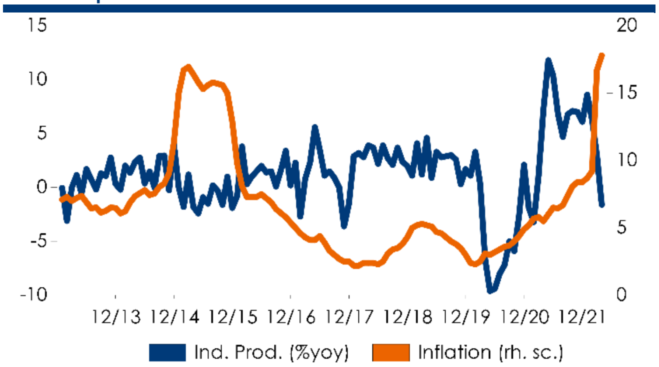
Lending – which is expected to decelerate from 18.8% in 2021 to 3.8% in 2022 – is forecast to be hit by several factors (mainly new sanctions, capital flow limitations and banks' exclusion from SWIFT). The expected forex exchange rate appreciation at the end of 2022 (almost 20% yoy) will negatively affect the accounting value of the outstanding amount of the loan portfolio, but data on foreign currency loans are not available at the moment. The CBR has launched an additional temporary working capital lending programme for SMEs. The CBR has also imposed maximum interest rates on deposits in Russian rubles at the top 10 credit institutions attracting the largest amount of household deposits. Nevertheless, total deposits are expected to decelerate in 2022 (to 4%). The loan/deposit ratio is expected to remain at a high level (119%), but banks may count on strong liquidity support from the CBR and the government.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-3.0	4.7	-10.0	-1.0
CPI (eop)	4.9	8.4	15.5	6.0
USD exch. rate (value, eop)	76.8	73.7	60.0	75.0
Euro exch. rate (value, eop)	90.1	83.3	66.3	86.7
Short-term rate (eop)	4.9	9.0	8.5	8.0
L/T bond yields (eop)	5.9	8.4	9.1	8.2
Bank loans (pr. sector, yoy)	14.4	18.8	3.8	5.0
Bank deposits (pr. sector, yoy)	9.6	12.7	4.0	6.0
Lending int. rate (corp., eop)	6.3	9.0	9.9	9.5
Deposit int. rate (hh, eop)	3.4	5.1	6.3	5.9

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

Industrial production and inflation



Source: State Statistics Federal Service

Ukraine

Real Economy

Artem Krasovskyi

After being hit by the abrupt shock of Russia's military invasion, Ukrainian businesses have adjusted as much as possible to the war environment and the economy has been gradually recovering following the deep fall seen in March. The GDP decline has slightly recovered, from some -45% yoy in March to -35% in May. However, the Russia-Ukraine war is persisting and, as the parties do not seem to be holding peace talks, the fighting on Ukrainian territory is likely to last well into 2023, bringing more physical destruction and extreme uncertainty to the economy. Seaport infrastructure has remained blocked, weighing on export capacities. We expect the GDP to contract by 40% in 2022, amid the economy running out of potential reserves that would allow it to adjust and furthermore catch up. An earlier-than-expected ceasing of hostilities, coupled with the continuation of large-scale support for Ukraine from international partners, would be the key trigger for an upward revision.

Inflation continued to accelerate and hit 18% yoy in May, up from 16.4% yoy in April. However, we expect inflation to moderate until the end of 2022, as the exceptional monetary policy tightening undertaken recently by the central bank is set to contain stronger price growth. We now see the 2022 eop inflation print at 26% yoy, but the risks of higher inflation remain of concern.

Financial Markets

After a prolonged respite of monetary policy, which had remained unchanged during the first months of the war, in early June the central bank revised drastically its policy rate from 10% to 25%, marking the severity of the economic situation. The limited attractiveness of UAH financial instruments and the high inflation expectations on the back of the fixed UAH exchange rate put strong pressure on NBU monetary reserves, which have dropped by some 19% in 2022, from $30.9bn in January to $25.1bn in June. The regulator expects the policy rate hike to increase government bonds' placement at primary auctions and thus reduce the monetary borrowings burden on the central bank. The FinMin, however, has so far been resistant to adjusting upward its government bond yields, despite meeting low demand at recent primary auctions. We expect it will eventually have to find a new level of bond yields that is acceptable to both the budget and investors to avoid price competition with the central bank.

Banking Sector

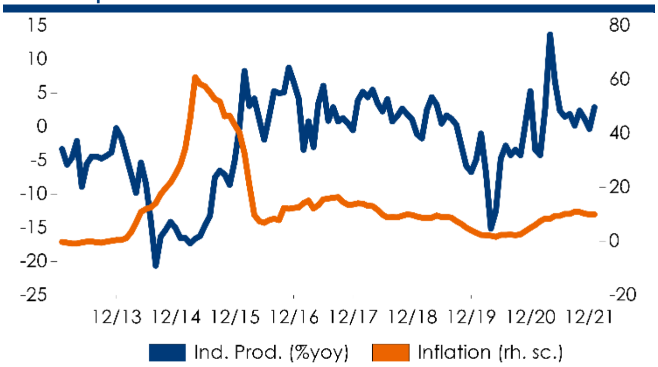
The banking sector remains stable and overly liquid. However, we expect lending activity to remain subdued due to the backdrop of high credit risk and uncertainty. By the end of 2022, both loan and deposit portfolios are expect to decline, by 3.5% and 2% yoy, respectively. Interest rates are set to align to the policy rate increase and reach 21.8% for loans and 13.5% for deposits by year-end.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-3.8	3.4	-40.0	n.f.
CPI (eop)	5.0	10.0	26.0	n.f.
USD exch. (value, eop)	28.5	27.4	30.0	n.f.
Euro exch. rate (value, eop)	34.3	30.8	33.1	n.f.
Short-term rate (eop)	10.1	11.4	n.f.	n.f.
L/T bond yields (eop)	-	-	-	n.f.
Bank loans (pr. sector, yoy)	-2.8	9.6	-3.5	n.f.
Bank deposits (pr. sector, yoy)	33.6	12.3	-2.0	n.f.
Lending interest rate (corp., eop)	12.6	14.3	21.8	n.f.
Deposit interest rate (hh, eop)	4.4	5.0	13.5	n.f.

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

Despite the remarkable performance of Egypt's economy during the first nine months of the year (supported by the pick-up in tourism and industrial sectors, in addition to maintaining notable growth rates in telecommunications and construction), we lower our expectations for growth in FY 2021/22 to 6.1%, down from 6.9%, on the back of the Ukrainian crisis. The latest Egypt PMI (47 in May 2022) signalled a further weakening in demand across the non-oil economy due to rising prices. Input cost inflation also rose to the highest level in six months, amid soaring global commodity prices, a stronger USD and the prioritising of imports of certain goods. Annual headline urban inflation increased to 13.5% in May 2022, up from 13.1% in April 2022, marking the highest rate since May 2019 due to the depreciation of the EGP and higher food prices. Hence, average annual headline CPI is expected to reach 13.4% in 2022, against 5.2% one year earlier.

Financial Markets

The CBE has already raised key rates by 300bps since the beginning of the year to anchor inflation expectations and contain demand-side pressures. We expect a further 100bps hike by August, balancing rising inflationary pressures and climbing yields on US treasuries on one hand, and the higher cost of debt (1% increase in yields leads to an EGP 30bn rise in interest payments, according to the Finance Minister) and the escalating pressures on private demand (private loans/total loans reached 57.5% in January 2022, against 70.6% in 2016) on the other. We expect the EGP to slightly depreciate further to EGP 19 per USD by the end of the year due to the significant external financing needs represented in the current account (CA) deficit and external debt service. However, it is important to note, however, that Egypt has been able to secure $15bn in funds so far (Saudi Deposit, International Islamic Trade Finance Corporation, 1Y USD TBs, Samurai Bonds and Arab Monetary Fund) and is still negotiating over new funds from the IMF, in addition to its plans to issue new securities such as Sukuk and Panda Bonds. We revise our estimate for the current account deficit to $18.5bn, down from $22bn in March, on the back of positive signs from the trade balance, remittances and the Suez Canal. Furthermore, Egypt and Saudi Arabia has signed 14 investment pacts valued at $7.7bn, covering sectors including renewables, pharmaceuticals and e-commerce.

Banking Sector

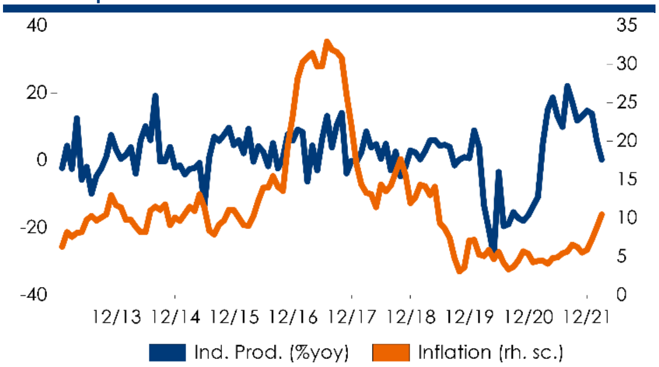
Private deposits are expected to increase by 15.7% yoy in 2022 on the back of increasing interest rates and the issuance of the 1Y 18% CD (state-owned banks were able to collect almost EGP 750bn in deposits). The top private banks have also issued three-year CDS at 13.5-14% to attract new funds. Private loans are expected to grow at a slower rate (14.1% yoy), affected by two opposing factors: rising interest rates versus increasing inflation rates and higher financial inclusion.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	1.5	7.2	4.0	5.0
CPI (eop)	5.4	5.9	15.0	10.0
USD exch. rate (value, eop)	15.7	15.7	19.0	19.3
Euro exch. rate (value, eop)	19.1	17.8	21.0	22.3
Short-term rate (eop)	12.8	11.9	16.0	14.0
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	24.5	18.3	14.1	10.3
Bank deposits (pr. sector, yoy)	20.4	18.7	15.7	10.7
Lending int. rate (corp., eop)	9.7	9.5	12.8	12.1
Deposit int. rate (hh, eop)	7.4	7.5	10.4	9.6

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

Industrial production and inflation



Source: Ministry of Planning, CAPMAS

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

The Economy

		GDP chg yoy			Ind.prod[1]. chg.yoy			Export nom. chg yoy			Retail sales chg yoy			Inflation chg yoy			Unemployment rate			Wages chg yoy			Economic Survey[2]		
		1Q22	4Q21	2021	Last	mth	1Q22	Last	mth	1Q22	Last	mth	1Q22	Last	mth	1Q22	Last	mth	1Q22	Last	mth	1Q22	Last	mth	1Q22
CEE	Czechia	4.8	3.6	3.3	5.0	Apr	6.8	-0.8	Apr	8.5	5.0	Apr	6.4	16.0	May	11.2	3.2	May	3.5	8.2	Apr	7.0	96.8	May	91.2
	Hungary	8.2	7.1	7.1	3.1	Apr	5.7	12.0	Apr	9.1	15.7	Apr	10.2	10.7	May	8.2	3.6	Apr	3.9	17.5	Mar	21.0	102.4	May	103.1
	Poland	9.2	8.0	6.1	13.0	Apr	17.5	13.1	Apr	19.1	33.4	Apr	19.5	13.9	May	9.6	5.2	Apr	5.5	14.1	Apr	11.2	97.8	May	98.3
	Slovakia	3.1	1.4	3.0	-9.6	Apr	-1.5	5.5	Apr	10.6	9.5	Apr	16.0	12.6	May	9.3	6.5	Apr	6.8	8.5	Apr	8.8	109.2	May	95.7
	Slovenia	9.8	10.4	8.1	2.1	Apr	4.2	28.8	Apr	22.0	28.5	Apr	27.1	8.7	May	6.3	6.2	Mar	6.6	1.2	Mar	-0.8	99.5	May	99.3
SEE	Albania	n.a.	5.5	n.a.	n.a.	n.a.	n.a.	36.8	May	49.5	n.a.	n.a.	n.a.	6.7	May	4.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Bosnia H.	n.a.	7.6	7.1	6.3	Apr	3.5	44.5	Apr	39.9	21.9	Apr	18.4	13.2	Apr	8.4	30.7	Mar	30.9	10.4	Mar	9.4	n.a.	n.a.	n.a.
	Croatia	7.0	9.7	10.2	-1.4	Apr	2.2	31.3	Mar	37.1	7.5	Apr	1.4	10.8	May	6.4	7.0	Apr	7.7	6.6	Mar	6.1	109.3	May	109.2
	Romania	6.5	5.6	5.9	-8.8	Apr	0.0	20.7	Apr	23.7	3.7	Apr	5.4	14.5	May	9.0	2.6	Apr	2.7	11.4	Apr	10.2	101.2	May	103.3
	Serbia	4.4	7.0	7.5	2.0	Apr	1.5	23.8	Apr	28.7	6.9	Apr	10.2	10.4	May	8.7	n.a.	n.a.	n.a.	14.3	Mar	13.4	n.a.	n.a.	n.a.
EE & MENA	Moldova	1.1	18.9	13.9	2.5	Mar	3.9	81.6	Apr	55.8	2.3	Mar	4.7	29.1	May	19.1	n.a.	n.a.	3.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Russia	3.5	5.0	4.7	-1.7	May	6.0	72.1	Jan	72.1	-10.1	May	3.9	17.1	May	11.5	3.9	May	4.2	9.9	Apr	15.1	50.8	May	44.1
	Ukraine	-15.1	5.9	3.4	2.9	Jan	2.9	-12.5	Apr	30.4	14.4	Jan	14.4	18.0	May	11.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Egypt	5.4	8.3	7.2	0.3	Mar	6.7	44.1	Mar	39.9	n.a.	n.a.	n.a.	13.5	May	8.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	47.0	May	46.5
	m.i. E. A.	*5.0*	*4.6*	*5.4*	*-2.0*	*Apr*	*-0.1*	*12.6*	*Apr*	*17.1*				*8.1*	*May*	*6.1*									

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
		28/6	3M Chg. (pp)	28/6	3M Chg. (pp)	28/6	3M % Chg.	1Y % Chg.	3M* % Chg.,	1Y* % Chg.	28/6	28/3	1Q22	4Q21	2021	1Q22	4Q21	Moody's
CEE	Czechia	6.0	1.3	5.3	1.2	24.74	0.59	-2.79	-3.9	11.4	33.2	36.7	n.a.	n.a.	n.a.	-317	-2,074.4	Aa3
	Hungary	7.8	1.3	8.4	2.0	400.72	7.39	14.13	-8.6	-16.2	146.1	89.1	n.a.	n.a.	n.a.	n.a.	n.a.	Baa2
	Poland	7.5	2.7	7.3	1.8	4.70	-0.03	4.24	-15.6	-19.9	99.6	72.2	n.a.	n.a.	n.a.	n.a.	-4,730.0	A2
	Slovakia	-0.2	0.3	2.6	1.3	n.a.	n.a.	n.a.	-5.4	2.0	41.7	37.7	n.a.	n.a.	n.a.	-2,193	-1,910.0	A2
	Slovenia	-0.2	0.3	2.7	1.2	n.a.	n.a.	n.a.	-5.2	0.1	51.0	50.7	87	147	932	-317	144.0	A3
SEE	Albania	0.9	n.a.	n.a.	n.a.	119.25	-2.23	-2.98	n.a.	n.a.	n.a.	n.a.	n.a.	727	n.a.	n.a.	-546.0	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.	-201	477	1,268	n.a.	-123.8	B3
	Croatia	0.4	0.0	3.4	1.3	7.52	-0.64	0.42	-2.0	1.5	105.2	105.7	-952	670	6,079	n.a.	-451.4	Ba1
	Romania	6.1	1.7	8.9	2.4	4.94	-0.08	0.36	0.9	5.0	236.2	141.2	93	-402	n.a.	-4,676	-16,951.0	Baa3
	Serbia	2.5	1.5	n.a.	n.a.	117.44	-0.25	-0.14	14.6	-2.1	296.7	131.5	-2,158	-348	2,963	-1,334	-1,004.8	Ba2
EE & MENA	Moldova	18.5	6.0	n.a.	n.a.	19.10	4.42	6.21	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.3	B3
	Russia	9.7	-15.9	8.2	-10.5	53.16	-43.71	-26.42	-5.9	-49.6	10,195.0	2,950.0	n.a.	16,505	n.a.	n.a.	n.a.	WR
	Ukraine	9.8	-3.0	n.a.	n.a.	29.65	0.64	8.54	n.a.	-2.2	8,663.0	3,048.7	-4,325	3,466	1,820	n.a.	n.a.	Caa3
	Egypt	15.3	3.8	11.3	0.0	18.76	2.52	19.73	-20.7	-12.4	954.7	585.7	-3,853	110	872	n.a.	-3,801.1	B2
	m.i.A.E.	*-0.2*	*0.3*	*1.6*	*1.1*	*1.1*	*-4.1*	*-11.8*	*-6.8*	*-3.4*	*6.77*	*7.64*						

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	7.8	Apr	8.4	2.2	Apr	2.4	18.0	Apr	-11.3	4.6	Apr	7.0	7.0	Apr	4.4	C	4.2	Apr	2.3	H	70.6	Apr	70.7
	Hungary	10.1	Apr	12.7	2.2	Dec	2.2	40.1	Apr	6.7	17.1	Apr	17.6	6.5	Apr	4.5	C	3.8	Apr	1.5	H	71.8	Apr	71.9
	Poland	6.2	Apr	4.6	4.0	Mar	n.a.	-7.7	May	n.a.	4.1	Apr	7.7	6.6	Apr	3.8	C	2.5	Apr	1.3	H	83.3	Apr	80.1
	Slovakia	10.7	Apr	7.3	2.3	Apr	2.3	13.9	Apr	19.6	3.4	Apr	4.5	2.2	Apr	1.6	C[2]	0.0	Apr	0.0	H[2]	108.5	Apr	103.7
	Slovenia	9.0	Apr	5.2	1.2	Mar	1.2	-2.9	Apr	-7.8	5.0	Apr	8.2	1.7	Apr	1.9	C[2]	0.0	Apr	0.1	H[2]	65.9	Apr	63.1
SEE	Albania	12.4	Apr	9.6	5.4	Apr	5.7	30.2	Apr	34.0	8.5	Apr	9.2	9.4	Apr	5.3	PS	0.8	Apr	0.4	PS	55.3	Apr	53.7
	Bosnia H.	4.6	Apr	3.7	5.4	Mar	5.8	-14.4	Apr	-16.3	1.3	Apr	10.0	2.8	Apr	3.1	C	0.2	Apr	0.1	H	96.0	Apr	89.5
	Croatia	6.0	Apr	2.3	4.2	Mar	4.3	13.5	Apr	-3.5	10.5	Apr	11.7	4.9	Apr	4.0	PS	0.1	Apr	0.1	PS	68.8	Apr	66.2
	Romania	15.1	Apr	14.3	3.2	Apr	3.4	13.5	Apr	9.8	10.3	Apr	13.6	6.8	Apr	5.3	PS	3.8	Apr	1.9	PS	71.4	Apr	68.1
	Serbia	12.4	Apr	10.2	3.4	Mar	3.5	10.6	Apr	9.9	8.9	Apr	13.3	6.5	Apr	5.5	PS	2.8	Apr	1.8	PS	95.7	Apr	90.1
EE & MENA	Moldova	20.6	Apr	23.5	6.6	Apr	6.1	31.0	Apr	19.7	2.2	Apr	13.1	9.4	Apr	8.5	C	4.5	Apr	3.2	H	70.0	Apr	62.6
	Russia	19.8	Feb	18.8	7.0	Sep	n.a.	13.3	Dec	13.3	6.3	Feb	12.7	11.6	Feb	9.0	C	6.3	Feb	5.1	H	131.2	Feb	119.3
	Ukraine	9.8	Mar	9.6	27.1	Mar	30.0	-15.3	Mar	-5.8	10.5	Mar	12.3	15.3	Mar	14.3	PS	6.2	Mar	5.0	PS	74.2	Mar	72.2
	Egypt	24.5	Mar	18.3	3.5	Dec	3.5	53.1	Apr	32.4	23.2	Mar	18.7	9.9	Apr	9.5	C	7.6	Apr	7.5	H	35.7	Mar	35.3
	m.i. E. A.	*4.8*	*Apr*	*4.0*	*n.a.*	*n.a.*	*n.a.*	*6.7*	*Dec*	*6.7*	*5.1*	*Apr*	*6.5*	*1.2*	*Apr*	*1.1*	*C*	*0.2*	*Apr*	*0.2*	*H*	*99.6*	*Apr*	*99.2*

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

Country Outlook

The Economy

	GDP (% yoy)	2019	2020	2021	2022F	2023F	Inflation (%, avg)	2019	2020	2021	2022F	2023F
CEE	Czech Rep.	2.6	-5.7	3.3	1.1	3.0	Czech Rep.	2.8	3.2	3.9	14.0	5.0
	Hungary	4.6	-5.1	7.1	4.3	3.5	Hungary	3.4	3.3	5.1	10.2	4.6
	Poland	4.1	-2.7	6.0	3.5	2.6	Poland	3.4	3.4	5.1	13.1	8.9
	Slovakia	2.3	-4.4	3.0	1.7	3.9	Slovakia	2.7	2.0	3.2	11.2	7.3
	Slovenia	3.3	-4.2	8.1	4.8	3.0	Slovenia	1.7	-0.3	2.0	8.9	3.2
SEE	Albania	2.2	-3.3	9.0	3.0	3.2	Albania	1.4	1.6	2.0	6.0	4.1
	Bosnia Herzegovina	2.8	-3.2	7.1	2.9	2.3	Bosnia Herzegovina	0.6	-1.0	2.0	11.5	3.0
	Croatia	3.5	-8.1	10.2	3.9	3.0	Croatia	0.8	0.1	2.6	9.3	3.2
	Romania	4.1	-3.9	6.7	2.6	2.4	Romania	3.8	2.6	5.0	12.3	9.9
	Serbia	4.3	-0.9	7.5	3.0	3.3	Serbia	1.9	1.6	4.0	9.5	5.6
EE & MENA	Moldova	3.6	-6.5	12.6	0.3	2.0	Moldova	4.9	3.8	5.1	27.6	19.5
	Russia	1.3	-3.0	4.7	-10.0	-1.0	Russia	4.5	3.4	6.7	15.1	9.8
	Ukraine	3.2	-3.8	3.4	-40.0	n.f.	Ukraine	7.9	2.7	9.3	20.0	n.f.
	Egypt	5.5	1.5	7.2	4.0	5.0	Egypt	9.4	5.1	5.2	13.4	11.6

Markets

	Exch.rate (avg Euro)	2019	2020	2021	2022F	2023F	Interest rate (%, avg)	2019	2020	2021	2022F	2023F
CEE	Czech Rep.	25.7	26.5	25.6	25.1	24.6	Czech Rep.	2.1	0.9	1.1	6.0	6.6
	Hungary	322.6	351.1	358.7	378.1	388.2	Hungary	0.2	0.7	1.4	6.9	6.9
	Poland	4.3	4.4	4.6	4.7	4.6	Poland	1.7	0.6	0.4	6.0	6.7
	Slovakia	-	-	-	-	-	Slovakia	-0.4	-0.4	-0.5	-0.1	1.3
	Slovenia	-	-	-	-	-	Slovenia	-0.4	-0.4	-0.5	-0.1	1.3
SEE	Albania	123.0	123.4	122.3	122.3	125.3	Albania	0.8	0.5	0.5	1.3	2.8
	Bosnia Herzegovina	2.0	2.0	2.0	2.0	2.0	Bosnia Herzegovina	n.a.	n.a.	n.a.	n.a.	n.a.
	Croatia	7.4	7.5	7.5	7.5	EUR	Croatia	0.5	0.3	0.3	0.2	1.3
	Romania	4.7	4.8	4.9	5.0	5.0	Romania	3.1	2.4	1.8	4.7	5.8
	Serbia	117.9	117.6	117.6	117.6	117.9	Serbia	2.7	1.5	1.0	2.5	4.8
EE & MENA	Moldova (USD)	17.6	17.3	17.7	18.7	19.6	Moldova	6.9	3.4	3.8	16.5	15.0
	Russia (USD)	64.7	72.6	73.7	65.0	67.5	Russia	7.8	5.4	6.5	13.1	8.3
	Ukraine (USD)	26.1	26.9	27.4	29.5	n.f.	Ukraine	18.9	12.2	10.7	12.7	n.f.
	Egypt (USD)	16.8	15.8	15.7	18.2	19.2	Egypt	17.1	13.1	12.7	13.7	15.0

Banking aggregates (% change yoy)

	Loans (pr. sector)	2019	2020	2021	2022F	2023F	Deposits (pr. sector)	2019	2020	2021	2022F	2023F
CEE	Czech Rep.	5.2	4.1	8.4	5.4	4.3	Czech Rep.	6.1	11.9	7.0	6.6	4.1
	Hungary	13.2	13.4	12.7	3.0	4.7	Hungary	8.0	23.3	17.6	3.0	4.7
	Poland	4.7	0.4	4.6	3.5	4.3	Poland	9.7	12.8	7.7	5.7	5.1
	Slovakia	6.2	4.5	7.3	4.0	4.0	Slovakia	4.8	6.3	4.5	5.2	4.5
	Slovenia	3.7	-0.9	5.2	7.3	2.8	Slovenia	6.3	12.2	8.2	4.9	4.0
SEE	Albania	6.5	7.0	9.6	3.6	3.8	Albania	3.8	8.1	9.2	3.9	4.0
	Bosnia Herzegovina	6.7	-2.5	3.7	3.8	3.7	Bosnia Herzegovina	8.4	6.5	10.0	1.0	4.6
	Croatia	3.9	3.5	2.3	6.4	3.0	Croatia	4.8	8.7	11.7	6.0	3.0
	Romania	7.0	5.0	14.3	8.0	6.5	Romania	12.6	15.4	13.6	5.5	5.7
	Serbia	8.9	11.1	10.2	5.5	5.1	Serbia	7.8	17.4	13.3	7.5	6.1
EE & MENA	Moldova	13.9	13.1	23.5	9.1	4.5	Moldova	7.7	16.5	13.1	9.2	7.1
	Russia	7.1	14.4	18.8	3.8	5.0	Russia	4.2	9.6	12.7	4.0	6.0
	Ukraine	-8.0	-2.8	9.6	-3.5	n.f.	Ukraine	9.6	33.6	12.3	-2.0	n.f.
	Egypt	13.4	24.5	18.3	14.1	10.3	Egypt	13.6	20.4	18.7	15.7	10.7

Banking interest rates (%)

	Lending (Corp. avg)	2019	2020	2021	2022F	2023F	Deposits (HH avg)	2019	2020	2021	2022F	2023F
CEE	Czech Rep.	3.2	2.3	2.3	6.1	5.7	Czech Rep.	1.5	0.8	0.9	4.0	4.3
	Hungary	2.5	2.8	3.2	6.5	5.6	Hungary	0.2	0.3	0.6	3.7	3.3
	Poland	3.6	2.7	2.4	6.7	7.0	Poland	1.6	0.5	0.3	4.0	5.0
	Slovakia	1.9	1.9	1.9	2.2	3.2	Slovakia	0.1	0.0	0.0	0.4	1.4
	Slovenia	2.1	2.1	2.1	2.0	2.9	Slovenia	0.2	0.1	0.1	0.2	0.9
SEE	Albania	7.2	6.2	6.1	7.0	8.5	Albania	0.7	0.5	0.4	0.9	2.3
	Bosnia Herzegovina	3.0	2.8	3.0	1.1	0.2	Bosnia Herzegovina	0.3	0.3	0.2	0.2	0.2
	Croatia	5.8	5.5	5.1	4.5	4.4	Croatia	0.3	0.1	0.1	0.1	0.5
	Romania	7.3	6.2	5.6	7.6	9.1	Romania	2.2	1.9	1.3	4.0	4.9
	Serbia	8.0	5.9	6.2	7.0	8.4	Serbia	2.5	1.6	1.4	2.4	3.6
EE & MENA	Moldova	8.8	8.5	8.3	10.7	11.7	Moldova	4.3	4.1	3.2	5.6	7.0
	Russia	8.7	6.8	7.2	11.6	9.5	Russia	5.4	3.8	3.8	7.7	5.9
	Ukraine	19.8	14.3	13.3	17.1	n.f.	Ukraine	12.9	6.1	4.6	8.1	n.f.
	Egypt	16.1	11.4	9.4	11.1	12.3	Egypt	11.0	7.8	7.4	8.6	9.8

Source: Intesa Sanpaolo Research Department forecasts

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