

Economic and Banking Outlook

Viewpoint

The economic outlook – despite high short-term uncertainty – looks positive and in 2024, compared to current levels, we expect to see higher GDP growth rates, weaker inflationary pressures and lower policy rates.

- **Economic growth.** The global economy is expected to undergo a gradual recovery from the impact of the pandemic and the war in Ukraine. China, in particular, is experiencing a strong rebound as its economy reopens. Supply-chain disruptions and market dislocations caused by the war are subsiding. Central banks' coordinated tightening of monetary policy is anticipated to yield positive results, with inflation moving towards its targets. The latest forecast suggests that global growth will reach a low point this year before rising at a moderate pace in 2024. Notably, emerging market and developing economies are already exhibiting robust growth rates, with special reference to India and China. **In this context, due to the good figures released in recent months, our GDP estimates for 2023 presented in the March Outlook have been revised upwards in Eastern Europe (from +0.2% to +0.6%), Central and Eastern Europe (from +0.6% to +0.8%), and South-Eastern Europe (from +2.0% to +2.3%). The strengthening outlook and projections for 2024 were confirmed: EE (+2.6%), CEE (+2.7%) and SEE (+3.0%). Finally, for Egypt, we maintained our forecasts for both years, at +4.1% and +5.5%, respectively.**
- **Inflation.** While global inflation has decreased due to declines in energy and food prices, core inflation (excluding volatile components) remains stubbornly high in many countries. This persistence of inflation, coupled with stronger-than-expected demand and tight labour markets, raises concerns about the risk of an uncontrolled wage-price spiral. However, the prevailing view is that as long as inflation expectations remain anchored and nominal wage inflation catches up to the central banks' long-term targets, the situation should not spiral out of control. Nevertheless, the recent tightening of monetary policy has started to have side effects both on the financial sector and inflation. **Consistent with global trends, even for EE, CEE and SEE countries, we forecast declines in CPI, thanks to (i) the statistical base effect; (ii) the lower energy commodity prices from 2022 peaks; and (iii) the impacts of past policy rate tightening. In detail, compared to the March estimates, we have revised our 2023 average inflation forecasts downwards in all three areas: EE to 8.3%, CEE to 12.5% and SEE to 9.8%. Conversely, we have made marginal upward revisions regarding Egypt, where we expect average inflation of 32.7% this year and 25.9% in 2024.**
- **Monetary policies.** The rapid tightening of monetary policy over the past two years has led to significant losses in long-term fixed-income assets. **Looking ahead, we substantially confirm our March estimates. Key interest rates in CEE countries look to have peaked, and over the next two years, monetary easing is expected to begin in response to falling inflationary pressures. Conversely, in the second half of the year, Russia's central bank is likely to take restrictive measures to counter the effects of sanctions on CPI and the FX market. Similarly, we expect further monetary tightening in 2023 in the SEE countries and the start of policy rate cuts will only occur in 2024, when there is evidence of a sustained decline in inflation. Finally, an upward revision of interest rate projections relates to Egypt, due to the weakening pound and persistent inflationary pressures.**
- **Banking aggregates.** As expected, the CEE/SEE/EE banking systems have demonstrated resilience amid the turmoil in the spring. The figures as of April indicate a slowdown in lending and deposits, reflecting the weak economic context. Despite this, banks have solid funding bases and conservative liquidity buffers. They rely on broad bases of core domestic deposits, with low loan/deposit ratios, ensuring stability. The assets side shows favourable indicators with low non-performing loan ratios and high regulatory capital. However, increasing uncertainty could lead to credit restrictions. **Forecasts for 2023 point to a recovery in lending, with projected increases of 3.2% in CEE and 5.3% in SEE countries. In Russia, lending is expected to decelerate to 7.2%. Deposits are projected to slow in the CEE area to 2.5% in 2023 and in SEE countries to 5.7%. In Russia, deposits are forecast to rise by 6.5%.**

June 2023

Countries with ISP subsidiaries

Quarterly Note

Research Department

International Research Network

Giovanni Barone

Head of International Research Network

International Research Team

Contents

Cross country analysis	3
Recent developments	3
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.

Cross country analysis

Recent developments

In Q1, **GDP in the CEE area** grew by +2.2% (weighted average) compared to the previous quarter, rebounding from -1.4% in the last quarter of 2022. Apart from the peculiarities of each country in the area and within a rather wide range, there was a fairly generalised significant cyclical recovery (Poland +3.9%, Slovakia +0.3%, and Slovenia +0.6%). GDP contracted in Hungary (-0.3%), while it remained flat in Czech Republic. Foreign demand mainly made a positive net contribution, while household consumption demand continued to be penalised by lower real disposable incomes and less favourable financing conditions than in previous months. Despite the recovery in cyclical terms, the trend GDP dynamic was slightly negative (-0.3% on a weighted average for the area). In 1Q23, the **SEE area's** GDP showed the weakest growth since 2Q21, slowing to +1.9% yoy (for Albania and Bosnia and Herzegovina, 1Q23 GDP data are not yet available). Among the countries in the area, Serbia's economy grew the least in Q4, with GDP at +0.7% yoy, while Croatia recorded the best performance (+2.8%). Domestic demand was generally the main driver for GDP dynamics. In cyclical terms, the fourth quarter of 2023 saw a positive change in GDP (+0.2% qoq), albeit modest, thanks to growth in Croatia and Romania.

The latest releases of high-frequency economic indicators are mixed but mainly point to positive cyclical phase in the coming quarters, although still quite weak. In April, in the CEE area, **industrial production** declined at by 5.0% yoy from -1.7% yoy in the previous month (on a weighted average basis [w.a.]), but the negative trend of **retail sales** improved, at -6.3% in April from -6.8% in May, and in the same month, **export** dynamics remained robust even if decelerated (+2.8% yoy from 9.1% yoy). A similar figure was been observed in the SEE region, where industrial production contracted further in April (-6.0% yoy from -1.5% yoy in the previous month), retail sales grew at +0.6% yoy from +4.4% yoy, and exports increased at 2.7% yoy in April vs 7.7% yoy in March. In May, the **Economic Sentiment Indicator** improved in the CEE region to 92.2, above the Q1 average (91), while in the same month, it decreased slightly in the SEE region (83.6 vs 85.2 in Q1).

Although with differences for each country, **inflationary pressures** are declining in the CEE and SEE areas, even if the core component has not yet shown convincing signs of cooling. Aggregating the data (w.a.), in May, in the CEE area, inflation was still high but decreased to 13.6% (from the peak of 18.5% in February), and in the same month, it declined to 9.9% (vs the peak of 15.3% in December) in the SEE area.

At their most recent meetings, the **central banks** of Serbia and Albania further raised policy rates, to 6.25% from 6.0%, and to 3.0% (in May) from 2.75%, respectively, while the banks in Czech Republic, Hungary, Poland and Romania maintained policy rates at 7.0%, 13.0%, 6.75% and 7.0%, respectively. **Long-term yields** decreased in countries where monetary policy has been paused.

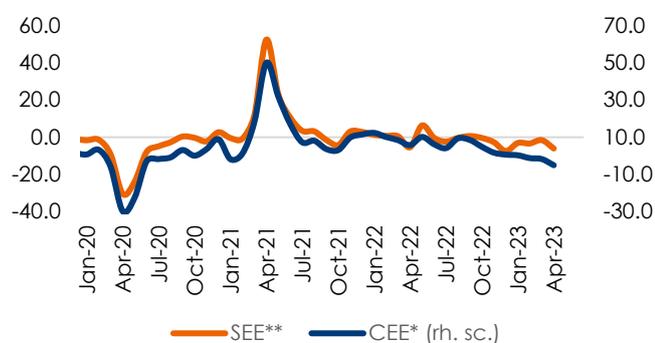
Antonio Pesce, Francesca Pascali, Davidia Zucchelli

The quarterly dynamic of GDP was positive in 1Q23 and high frequency indicators signalled a still-positive-but-weak path for the coming quarters

Consumer prices are decelerating, albeit the core component has not yet shown convincing signs of cooling

Pause for monetary restrictions, but further policy rate hikes occurred in Albania and Serbia

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

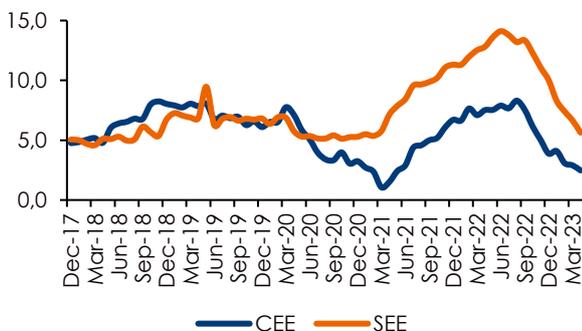
Outside the CEE/SEE regions, the geopolitical situation continues to affect **EE countries**, but it has been improving in terms of a deceleration in inflation and a slowdown in economic activity. In 1Q23, **GDP** decreased by 1.9% yoy (from 2.7% in 4Q22) in **Russia**, and by 10.5% yoy (from -31.4% in 4Q22) in **Ukraine**; it decreased by 2.4% (from -10.6% in 4Q22) in **Moldova**. In **Egypt**, GDP grew by 3.9% yoy in 4Q22 (from 4.4% in 3Q22). Moving to high-frequency indicators, in April, **industrial production** grew (by 5.2% yoy) in Russia (from 1.2% in March). It decreased in Moldova (-4.7% in March) and Ukraine (-44.0% in December 2022). In Egypt, it decreased by 4.6% in March from -3.3% of February. Also in April, **retail sales** increased in Russia, by 7.4% (vs -5.1% in March), and in December, they declined by 5.6% in Moldova (vs -1.4% in November) and Ukraine (-28% vs -25.4% in November). With regard to **inflation**, in Russia, consumer prices started to decelerate from April 2022 (2.5% in May 2023) and went down CB targets (4.0%). In May, prices rose in Ukraine to 15.3% (vs 17.9%). In Moldova, the CPI was 16.3% in May vs 18.1% in April. In Egypt, inflation rose by 32.8% in May (30.6% in April), 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 April due to deteriorating economic conditions plus still-rising inflation and interest rates. Loans increased by 2.5% yoy in **CEE countries** in April (from 2.9% in March) and by 6.9% yoy in **SEE countries** (from 7.9% as of March). Slovakia and Croatia – where loans jumped by 12.5% and 9.4% yoy in April (13.3% and 9.4% yoy as of March) from 10.8% and 11.2% in 2022, respectively – were the best performers. **Corporate loans** showed much stronger performances than household loans in both CEE (6.6% yoy vs 0.1% yoy as of April, especially in Poland, Hungary and Slovakia) and SEE countries (11.6% vs 2.8%, mainly in Romania and Croatia); the best performers regarding corporate loans in April were Slovakia (20.4%) and Romania (15.2% yoy).

Banking interest rates stopped growing in some countries (Poland and Romania among the SEE countries). NPL ratios have so far remained low everywhere, but the still-fragile economic context could put pressure on asset quality in the near future. Some liquidity tensions could be due to utilisation of deposits by both the corporate and the household sectors. Precautionary motives continued to support **deposit growth** in both the CEE (but slowing slightly from 7.9% in March to 7.8% yoy in April) and SEE (from 10% to 9.7% yoy) areas, in nominal terms.

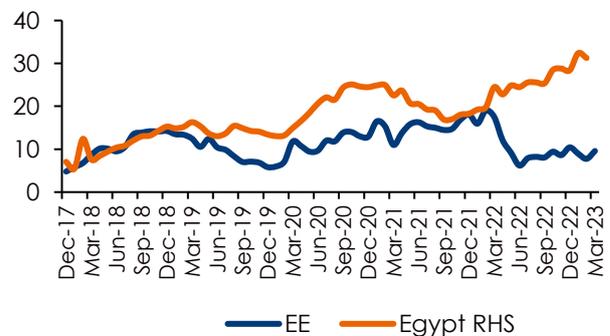
In the **EE area**, loan growth remained strong in Russia (11.2% yoy in March), especially for corporates (11.8% yoy), but also for the households, where loans accelerated from 8.1% in February to 10% yoy in March. In Moldova, the loans performance (+6.1% yoy in April) was relevant for corporates (13% yoy) but still declining in the household sector (-3.8% yoy), which saw a strong decrease from 40% in 2021 in a very uncertain context. Total deposits from the private sector remained vigorous (from 13.6% yoy in February to 12% in March), mainly relating to the household sector (+11% yoy in Russia). In **Egypt**, banking aggregates saw continued strong dynamics in nominal terms, with loans increasing by 11.2% and deposits by 32.9% in 2022 (but changes were -0.7% and +1% in real terms).

Lending growth (% yoy chg, weighted averages)



Source: ISP Research Department elaboration on central banks' data

Lending growth (% yoy chg, weighted averages)



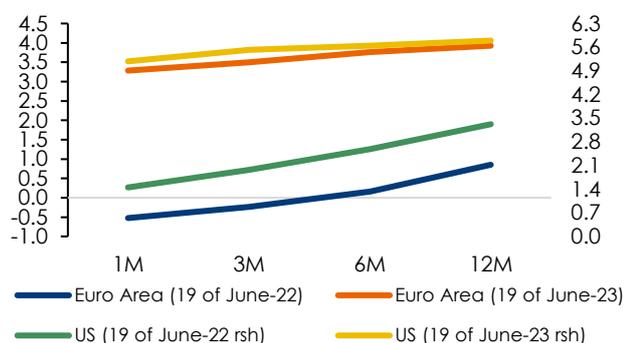
Source: ISP Research Department elaboration on central banks' data

The international outlook

Global economic growth (at 3.4% in 2022) is expected to decelerate to 2.8% in 2023, before rising to 3.0% in 2024 (April IMF World Economic Outlook), well below the historical average (3.8% in 2000-19 period). Global inflation is projected to fall from 8.7% in 2022 to 7.0% in 2023 and 4.3% in 2024 on the back of lower commodity prices, but underlying core inflation is likely to decline more slowly. Rising central bank rates and the war in Ukraine are expected to weigh on the 2023 economic dynamic. The expected pick-up in GDP growth in 2024 should reflect a gradual recovery from the effects of the war in Ukraine, subsiding inflation, and a further easing of supply bottlenecks. 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 war in Ukraine could escalate; tighter global financing conditions could cause a deterioration in debt distress, while further geopolitical fragmentation could hamper economic progress. Regarding the **US**, the lower household purchasing power and tighter monetary policy intended to curb inflation are penalising economic growth. The GDP dynamic is expected to slow from 2.1% in 2022 to 1.5% this year, upwardly revised from 1.0% in the Intesa Sanpaolo (ISP) March scenario, and then to 0.8% in 2024. Consumer price inflation declined to 4.0% in May 2023, the lowest level since March 2021, driven by a decline in energy prices. The Federal Reserve left the fed funds target unchanged at 5.25% at its last meeting and ISP expects the policy rate to rise to 5.5% by the end of 2023 and then to fall to 4.25% by end-2024. In the **Euro Area**, the war in Ukraine and tighter monetary policy are weighing heavily on the economic dynamic. Despite expansionary fiscal policies implemented in the Euro Area through the PNRRs at national levels, ISP foresees full-year GDP growth slowing from 3.5% in 2022 to 0.6% in 2023 and 1.2% in 2024. Uncertainty regarding the forecasts remains high, especially due to the economic consequences of the conflict in Ukraine and geopolitical tensions with Russia. Consumer price inflation in the Euro Area declined to 6.1% in May (from 7.0%), the lowest level since February 2022. It is expected to decrease further in the coming months, and the end-of-period levels are projected to be 2.7% in 2023 and 2024 (slightly above the March scenario). The ECB raised interest rates by 25bps, to 4.0%, as expected, at its June meeting, further pushing up borrowing costs, to the highest level since late 2008, in order to help temper the region's high inflation. At ISP, we expect the policy rate to reach 4.5% by eop in 2023 and 4.0% by eop in 2024. Among **emerging countries**, China's GDP trend has been revised up with respect to the March scenario, from 4.5% to 4.9%. Only a soft acceleration is expected for 2024 (to 5.1%). The economic performances of commodity-exporting countries in other areas are expected to remain relatively robust, but also in this case with risks prevailing to the downside, should the international landscape deteriorate significantly.

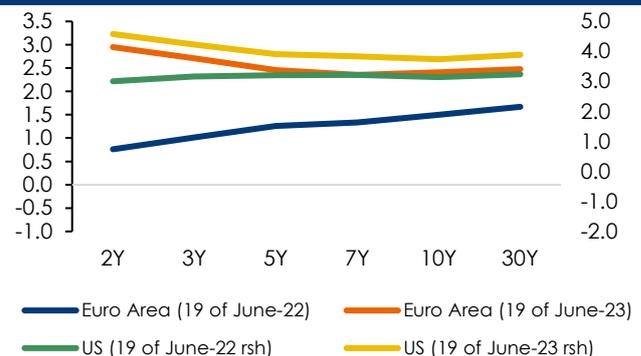
Global economic growth still looks fragile, especially in the first part of the year

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 remain on a recovery path in the coming months, albeit still a relatively modest one, especially during the first half of the year, mainly due to the persistence of a still-high inflation profile, which will weigh on households' real incomes, as well as the monetary restrictions implemented by the monetary policy authorities, which will weigh on the financing conditions of economic agents.

The March baseline scenario projected GDP growth for the CEE area at 0.6% yoy in 2023, but considering the latest GDP data releases, we slightly upwardly revise it to 0.8%, due to improved GDP expectations in Poland and Czech Republic. The GDP dynamic in the SEE area has also been slightly upwardly revised (to 2.3% from 2.0%), thanks to the revisions that occurred in Croatia (2.5% from 1.0%) and Romania (2.4% from 2.3%). For next year, we left the GDP projection unchanged.

The assumptions behind these projections include hypotheses on fuel and nonfuel commodity prices, assumed to moderate in 2023 and 2024. 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 activities, the war in Ukraine could escalate, and tighter global financing conditions could hamper economic recovery.

Inflation is projected to remain high in the coming months, even if on a declining path, in both the CEE and SEE regions – in particular, in those countries where wage dynamics have strengthened significantly. The end-of-period inflation forecast for 2023 has been roughly confirmed (5.6%) in the CEE/SEE area. As in the March forecasts, by the end of next year, inflation is expected to decrease further and approach CB targets.

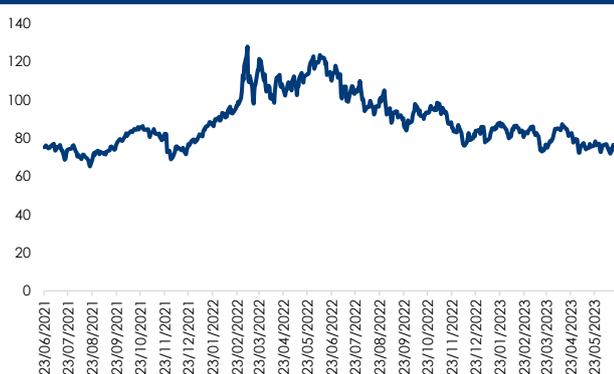
Due to better-than-expected data, GDP growth forecasts for the **EE** region have been revised upwards: for Russia, to +0.5% in 2023 from +0.3% projected in March, and in Ukraine to +2.4% from +0.3% in 2023 and +4.5% in 2024. Estimates are unchanged for Moldova (+2.0% in 2023). Price pressures are expected to fall in Ukraine and Moldova. In Russia, where inflation had already started to decelerate from April 2022, it is expected to reach the CB's targets in 2025. For **Egypt**, we left our GDP growth estimates unchanged at 4.1% for calendar year 2023, and at 5.5% for 2024 and 2025. Inflation is expected to accelerate to 35.6% by year-end 2023, but fall to 16.2% in 2024 before moving back to the CB's target not before than 2028.

GDP forecasts for 2023 and 2024 have been revised up slightly, thanks to higher-than-expected Q1 data

Risks to our forecasts remain to the downside

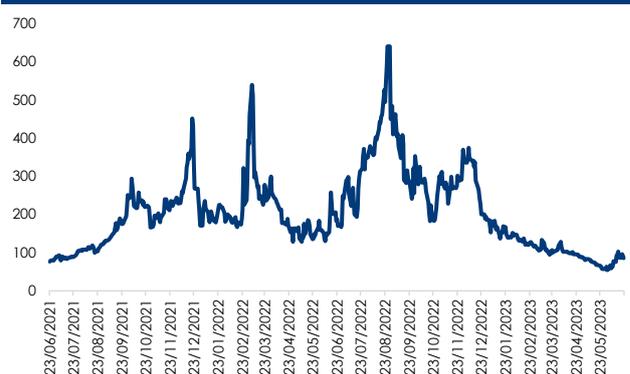
Inflationary pressures are expected to remain high in the coming months but on a descending path

ICE-BRENT CRUDE OIL (Barrels \$)



Source: Refinitiv-Datastream

ICE-NATURAL GAS (Therm £)



Source: Refinitiv-Datastream

Monetary policy and financial markets

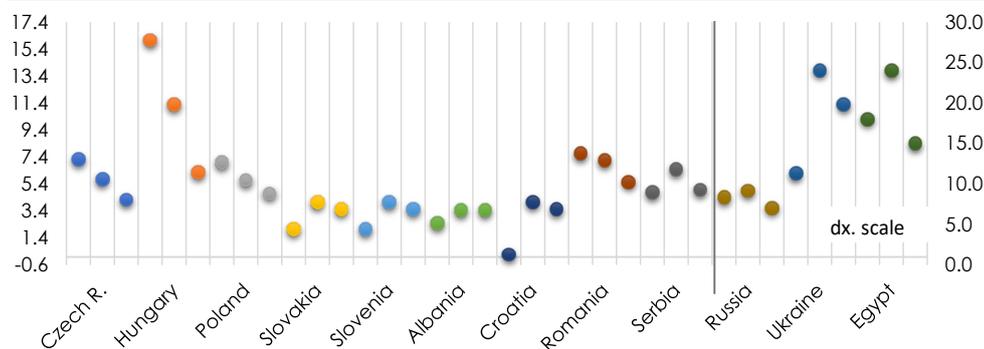
Czech Republic, Poland and Hungary seem to have paused now with regard to raising **policy rates**, although the stances of monetary actions continue to be guided "by data" and therefore, as inflationary pressures remain high, further rate increases are not excluded.

In **Hungary**, where the policy rate is currently 13%, a reversing of the cycle is expected in 2023 year end, with clear signs of softening inflationary pressures. However, now we project a softer decreasing path with respect to March forecasts (11.0% end-2023 instead of 10.5% as in March projections). In **Poland**, the National Bank held its reference rate unchanged at 6.75% at its June 2023 meeting. As in March, we expect the policy rate to decline to 5.50% eop in 2023. **Czech Republic's** National Bank held its two-week repo rate steady at 7% at its June meeting. The CB is expected to start to reverse the cycle during 2023 and cut the policy rate to 5.50% by year-end. In **Romania**, the policy rate is expected to be 7.0% by year-end 2023, before being cut to 5.0% by year-end 2024. For **Albania**, the monetary policy profile has been modified (25bps higher) with respect to our March forecasts, while for **Serbia**, we expect the policy rates to be 6.5% and 5.0% at the year-ends of 2023 and 2024, as in the March scenario. Money market rate projections have been revised accordingly.

Outside the CEE/SEE regions, due to a new phase of large-scale structural transformation of the Russian economy, **Russia's CB** left the policy rate unchanged at 7.5% on 9 June. Given the gradual increase in inflationary pressures, the CBR is keeping open the prospect of an increase in the key rate at its next meetings to stabilise inflation close to 4% in 2024 and beyond. CBR key rates may be raised over in 2023 in relation to the rise in inflation expectations and the level of the structural budget deficit. In **Moldova**, the central bank cut the refinancing rate as follows: by 3pp, to 17.0% p.a.; in February, by 3pp in March, to 14%; by 4pp in May, to 10%; and by 4pp in June, to 6%. The reasoning was to ensure the maintenance of stimulus measures in the context of the monetary policy easing cycle initiated at the end of the previous year, in a disinflationary macroeconomic environment. In **Egypt**, the CB, after raising the policy rate four times in 2022, by 8pp, to 17.25%, at the first meeting of 2023, kept the rates unchanged. The CB raised rates by 200bps, to 19.25%, in April and it is expected to increase it to 21.25% by end-2023, and then lower the rate, to 18.00%, in 2024.

The profiles of **long-term yields** have been revised downwards overall along the forecast horizon with respect to our March scenario in the CEE/SEE region, due to the lower path of Bund yield forecasts and a slightly downward revision of spreads with respect to the EA benchmark. In **FX markets**, exchange rates have recovered some of the depreciation that occurred in the last few months and now they 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

Policy rates at record highs in CEE/SEE regions but the start of the easing cycle is expected by the end of this year

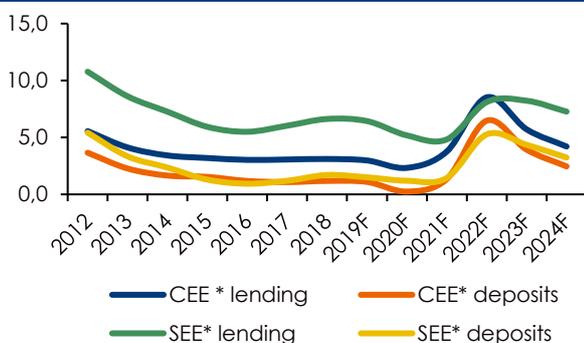
Banking aggregates and interest rates

As expected, the spring's turmoil – the bankruptcy of some American banks and the dire situation of Credit Suisse – had no relevant effects on the CEE/SEE/EE banking systems. Credit Suisse/UBS had a modest presence in the area and problems relating to banks that have not adequately hedged interest rate risk (as was the case with SVB) appear to be very limited. Lending and deposits data as of April also suggest that the slowdown is due to the weak economic context rather than concerns about banks' stability. 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 (with the exception of Slovakia). On the assets side, banks are benefitting from low ratios of non-performing loans and high regulatory capital. Nevertheless, **credit restrictions** due to increasing uncertainty could be the major indirect effect.

Forecasts for banking aggregates have been slightly revised by ISP for many countries in 2023 mainly because of recent monthly performances (lower both for loans and deposits) and in light of weaker GDP dynamics. After rising in both CEE and SEE countries (by 3.9% and 10%, respectively) in 2022, **loans** are forecast to increase in 2023, by 3.2% in the former and 5.3% in the latter. Lending will be negatively affected by higher interest rates (mainly mortgages with variable interest rates), making it more difficult to service debt. Furthermore, demand for credit could be affected by falls in real disposable incomes due to high inflation, which reduces the ability of households to repay debt. But at the same time, inflation also decreases real debt, increasing the ability of households and corporates to repay loans. 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.

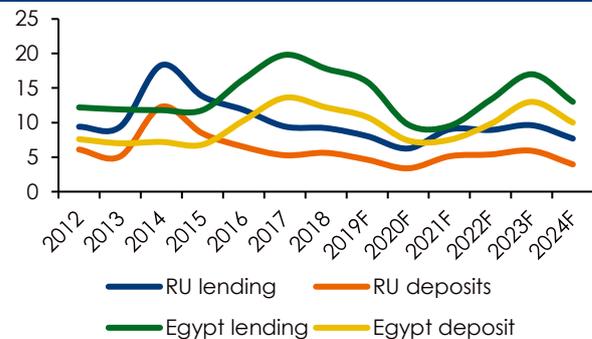
Among **CEE countries**, a strong deceleration is expected in Hungary (to 1.5% from 11.6%, in 2022). Lending is expected to recover in Poland (to 3.0%), after being particularly weak in the last two years, only partly supported by the corporate sector, as in Slovakia despite the tightening of the countercyclical capital buffer from 1% to 1.5% (starting from August). The new economic landscape will also affect lending in the **SEE countries** (5.3% in 2023). Romania is expected to remain the best performer in the area (6.3% in 2023). In the **EE area**, lending is still expected to decelerate in 2023, to 7.2% in Russia (confirmed as in March), where the CBR is likely to cancel many regulatory easing measures and tighten the regulation of mortgage lending because it has become a source of concern. Further prudential limits on consumer lending have recently been imposed to avoid over-indebtedness for households. **Deposits** are forecast to decelerate as well because of the deteriorating macroeconomic context and rising inflation, especially in Hungary. On the other hand, uncertainties about the economy and the evolution of the war could sustain deposit growth due to prudence. Deposits are expected to decelerate in CEE countries from 5% in 2022 to 2.5% in 2023, and in SEE countries from 7.5% in 2022 to 5.7%. In Russia, deposits are forecast to rise by 6.5% in 2023. In **Egypt**, loans are expected to decelerate from 28.4% and deposits from 27.4% in 2022 to 18.2% and 18.9%, respectively, in nominal terms in 2023.

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



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

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



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

Country-Specific Analysis

Czech Republic

Real Economy

The outlook for the Czech economy has not changed significantly compared to the March scenario. The economy is seen to broadly stagnate this year. After three consecutive quarterly declines in seasonally adjusted GDP, an improvement is expected from 2Q23 to year-end. But a meaningful recovery is unlikely to start until next year. Forces negatively affecting domestic demand in 2023 have not changed: subdued private consumption due to inflation-driven erosion of household purchasing power and high nominal interest rates correcting the previously hot property market. Also exports, the Czech economy's key driver in the past, have been disappointing lately. To be sure, the net trade contribution to GDP improved at the start of 2023 and will probably contribute positively to overall GDP in 2023. However, this contribution will also be affected by weak imports for consumption and investment purposes.

For 2024, the key drivers for the forecast recovery will be gradual restoration of household real spending power as inflation subsides to single digits from the summer. Also, exports are seen to recover significantly as global supply chain issues gradually unwind and external demand improves. Investments should take longer to recover, as the public sector will contribute little to capex given the need to correct the fiscal excesses of recent years, marked by the pandemic, the energy crisis, and the local election cycle.

Financial Markets

The Czech National Bank (CNB) continued to hold rates steady, as forecast, with the key two-week repo rate maintained at 7% for a year now. While there remain some hawks on the CNB board who would like to see rates climb even higher to ensure inflation returns to the 2% target soon, we maintain the view that the next move in Czech rates will be down, possibly already in the upcoming quarter. Given the tight policy stance but reasonable sovereign risk prospects, the Czech yield curve is steeply inverted. We assume that this situation will gradually unwind over the course of 2024 as policy rates are cut. High rates have meanwhile attracted flows into the Czech koruna, which moved ahead of the expected appreciation trend. A slight correction therefore seems plausible.

Banking Sector

High interest rates are taking a toll on loan growth. New production of mortgage loans has been especially weak, allowing the CNB to relax macroprudential regulations and scrap debt service/income limits from 1 July. Deposit growth should continue to grow steadily, supported by high rates and by household saving rates, which are exceptionally high in a regional context.

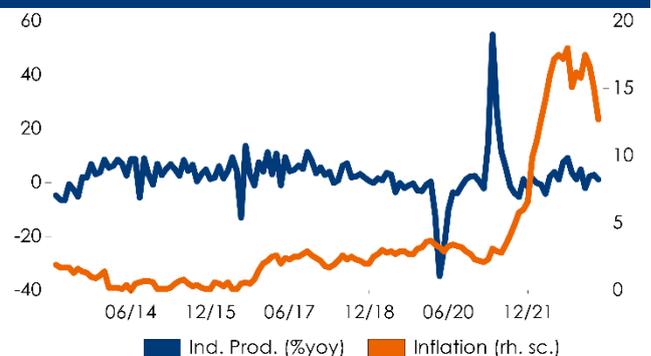
Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	3.4	2.5	-0.1	2.5
CPI (eop)	6.6	15.8	4.0	2.0
Euro exh. rate (value, eop)	25.2	24.3	24.2	24.0
Short-term rate (eop)	3.5	7.3	5.8	4.3
L/T bond yields (eop)	2.7	4.8	4.5	4.8
Bank loans (pr. sector, yoy)	8.4	4.5	4.5	4.4
Bank deposits (pr. sector, yoy)	7.0	4.2	4.2	4.2
Lending int. rate (corp., eop)	4.5	9.0	4.8	3.2
Deposit int. rate (hh, eop)	2.3	6.0	3.3	1.9

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 remained in recession in Q1; GDP contracted by 0.3% qoq. High frequency indicators point to sluggish activity in Q2. Economic activity is expected to bottom out during the summer and a gradual recovery may take place in H2. Still, FY GDP growth will be close to 0% in 2023. On the production side, services and agriculture could support GDP, while on the absorption side, net exports could contribute positively to overall growth. Activity should pick up in 2024-25, when GDP growth should be close to potential in a more balanced structure. Following the peak at 25.7% in January, disinflation is gradually gaining momentum, but higher inflation risks remain. CPI yoy might return to single-digit territory in November-December, but average 2023 CPI could still be a little above 18%. The 2024 inflation trajectory has moved up compared to the March scenario, so reaching the medium-term target is now unlikely before 2025. The labour market remains tight. A shortage of skilled labour now appears to be a permanent feature of the economy.

Mariann Trippon

Financial Markets

The central bank started easing monetary conditions in May. Improving external balances and market stability have created room for rate cuts, with the NBH cutting the O/N depo rate by a total of 200bps, to 16%, in May-June. Gradual, cautious, and data-dependent easing could continue through the summer, and the gap between the O/N and the policy rate could be closed by September. However, we raised our eop policy rate forecast by 1pp, to 11.5%. The revision reflects changes in the interest rate paths of the major central banks and the upward shift in our domestic inflation forecast. The high interest rate differential remains a HUF-supportive factor, but we do not see room for much appreciation this year from current levels. The expected narrowing of spreads is likely to push the forint to somewhat weaker levels in 2H23.

Banking Sector

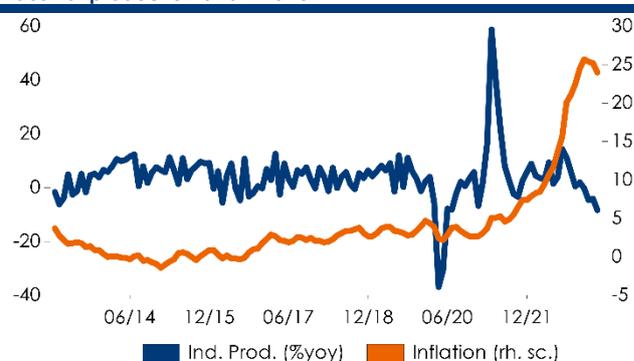
Bank deposits decreased in the first quarter of 2023 by 3.5%, equally impacted by the erosion of household savings and corporate deposits. No growth is expected over the remainder of the year, due to a deteriorating economic climate, rising inflation, and a continuing shift into government bonds and investment funds. For 2023, we expect to see a reduction of 5.3% in the volume of deposits. Customer savings should start to grow again from 2024, although only at a single-digit rate. On the lending side, there was a small decrease, of -0.6%, in Q1. Regarding the corporate lending market, there is still demand for government-supported Széchenyi and Baross Gábor loans. Household lending demand weakened, due to the decline in housing market transactions and high interest rates. With subdued economic growth, loan volume may only grow by 1.5% in 2023.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	7.1	4.6	0.2	3.1
CPI (eop)	7.4	24.5	7.8	4.5
Euro exch. rate (value, eop)	367.2	407.2	380.5	384.0
Short-term rate (eop)	3.8	16.1	11.3	6.3
L/T bond yields (eop)	4.4	8.6	6.9	6.3
Bank loans (pr. sector, yoy)	12.7	11.6	1.5	5.3
Bank deposits (pr. sector, yoy)	17.6	2.5	-5.3	4.4
Lending int. rate (corp., eop)	4.5	11.5	6.7	4.2
Deposit int. rate (hhs, eop)	1.5	12.3	5.5	2.2

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 outlook for the Polish economy has been revised up marginally, by three-tenths of a percentage point in 2023, reflecting better-than-expected Q1 GDP results. Nonetheless, the big picture continues to look like it did back in March. In 2023, private consumption will probably stagnate, as households have already used up most of their excess savings from the pandemic which allowed them to sustain spending in 2022. Retail sales data through May indicate that private consumption will likely have declined for another quarter in Q2. However, with inflation easing, thanks to lower energy prices, we foresee household real purchasing power gradually recovering in the second half of 2023 and starting to contribute positively to GDP growth from 2024. To be sure, though, disinflation in Poland appears less dynamic than in some other CEE countries, with the headline CPI yoy rate still at 13% in May. Regarding investment, Poland is late in utilising the funds from RRP and thus will miss out on the related boost to growth this year. Government spending, in contrast, is getting beefed up ahead of the parliamentary elections that are due to take place before 5 November.

Zdenko Štefanides

Financial Markets

The National Bank of Poland (NBP) has kept rates steady since September, with the reference rate at 6.75%. We still believe the NBP's hiking cycle has ended, even though disinflation in Poland looks to be less dynamic than in some other CEE countries. The headline CPI yoy rate in May was still relatively high, at 13%, and core inflation still looks to be under pressure from persistently high wage growth, which should rise further due to the increase in the minimum wage by over 20% next year. Yet, according to NBP Governor Glapinski, inflation should drop to single digits by September. If this were to happen, it could be an argument for the NBP to start cutting rates.

As to bond yields and the FX rate, we expect volatility to remain elevated. The zloty has recovered significantly in 2Q23, due to the high yield attractiveness of the Polish currency and better global sentiment. However, the prospective NBP easing could gradually erode the interest rate advantage and we do not project much further appreciation in the zloty in the medium term.

Banking Sector

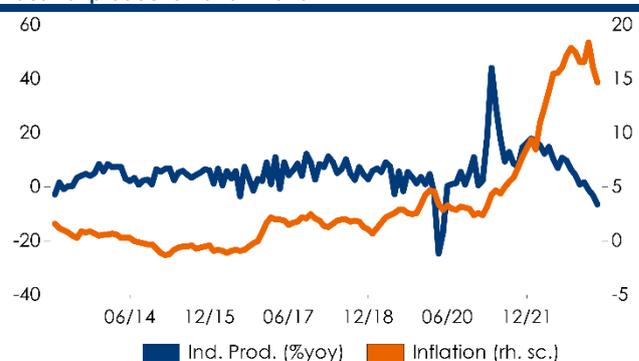
In the banking market, we expect loan volume growth to remain relatively low due to high interest rates and a slow-growing economy. Deposit growth also will likely remain relatively low, as households face tight financial situations with inflation still in double-digit figures. A return to more agile growth for banking volumes is expected in 2024 as the economy recovers and inflation moderates. Separately, we note the setback for Polish banks, as the EU's top court ruled on 15 June that customers may avoid paying interest on Swiss franc-based mortgages which was deemed unfair by local judges. This latest ruling is set to fuel additional write-offs on top of billions of euros in provisions already made during this decade-long saga.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	6.8	4.9	1.1	2.8
CPI (eop)	8.6	16.6	5.0	3.0
Euro exh. rate (value, eop)	4.6	4.7	4.5	4.5
Short-term rate (eop)	2.3	7.0	5.7	4.7
L/T bond yields (eop)	3.3	6.6	6.6	6.1
Bank loans (pr. sector, yoy)	4.6	0.2	3.0	4.9
Bank deposits (pr. sector, yoy)	7.7	5.6	3.4	4.8
Lending int. rate (corp., eop)	3.8	8.7	6.1	4.8
Deposit int. rate (hh, eop)	1.3	6.5	4.3	3.0

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

Industrial production and inflation



Source: Statistics Poland

Slovakia

Real Economy

The short-term outlook for the Slovak economy continues to be mixed. On the one hand, the slowdown in European manufacturing is negatively affecting local industrial production and exports. In addition, household consumption is weak, due to high inflation and record-low savings rates. On the other hand, EU funds drawn over the 2014-20 period are approaching the December deadline, which creates expectations of strong growth in investment during 2H23. The natural gas availability scare from last Fall does not have to repeat next winter as the gas storage levels are high and increasing and this could help to shift local GDP growth to around 1.6% this year and about 2.1% in 2024.

Inflation clearly is now narrowing and is expected to decrease over the rest of this year on the basis of both a lower energy and agricultural commodities' prices and a favourable base. Next year's inflation numbers remain highly uncertain, mainly due to the regulated prices of natural gas and heating, which have not yet converged to market prices as they are influenced by policy measures. CPI growth could thus exceed Euro Area averages next year and reach at least 4%.

The local labour market should continue to weather the slower growth and higher interest rates, with the unemployment rate projected to show only a small rise next year, to slightly above 6%. Wages are growing fast in nominal terms and should continue to do so next year as well, partly due to the public sector wage increases planned for 3Q23 and 4Q23.

Financial Markets

The ECB is expected to hike rates two more times by 25bps before reaching terminal points: in July and September, to 4.5% (refi) and 4.0% (deposit rate), after which it could start a phase of evaluating the situation related to falling inflation. The yield curve is thus flat and could become even inverted, as Slovak government bonds currently face yields of c.3.7%, as much as 120bps above German 10Y paper. They could rise a little further next year as the CB may speed up its balance sheet reduction. This should also keep local commercial interest rates high.

Banking Sector

Slovak banks are now enjoying high interest rate spreads between loans and deposits, improving their profitability; however, this is expected to be temporary, as deposit rates are expected to rise as well. The shock from higher interest rates on borrowing, particularly in the mortgage segment, is now in full swing, with only a slow recovery forecast for the future. On the other hand, banks are now trying to attract more deposits, and households might be a source with the falling inflation. These two factors could together help to stabilise the high local LTD ratio of more than 107%.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	3.0	1.7	1.6	2.1
CPI (eop)	5.8	15.4	5.0	3.5
Short-term rate (eop)	-0.6	2.1	4.1	3.5
L/T bond yields (eop)	0.0	3.2	3.7	4.1
Bank loans (pr. sector, yoy)	7.3	10.8	4.9	4.7
Bank deposits (pr. sector, yoy)	4.5	6.0	5.3	5.1
Lending int. rate (corp., eop)	1.6	3.8	4.1	3.1
Deposit int. rate (hh, eop)	0.0	0.0	1.3	1.3

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

After healthy GDP growth in Q1 (+0.7% yoy, +0.6% qoq), Q2 saw a mixed picture: increased weakness in industrial production and real trade (-8.8% yoy, i.e., -8.6% yoy in April); a strong performance for construction underpinned by EU funds (23.3% yoy in April); declines in exports (-5.8% yoy in April); and buoyant demand for services against the backdrop of tight labour markets with the unemployment rate slipping below 5.0% and wage growth catching up with inflation. Taking into account positive trends regarding personal consumption and investments, we think this year's growth could be stronger than previously anticipated. However, keeping in mind tightened financing conditions, which will be felt much more in the period ahead and are expected to weigh on both the local and EA economies (particularly Germany), we modestly raised our 2023 GDP growth projection, to 1.5% yoy. Risks to our forecast seems balanced at this point.

Ana Lokin

Inflation looks to be subsiding, albeit with still stubbornly strong underlying inflation. In May, the overall rate stood at 8.1% yoy, with core inflation at 7.3% yoy. The main factors supporting price increases continue to be food, utilities, and restaurant and hotel prices, whereas transport prices started shifting the headline figure downward. We see the annual average at 6.8% yoy in 2023, with that dropping below 3% yoy by year-end and moving towards an average of 2.4% yoy in 2024.

Financial Markets

The YTD average 10Y government bond spread on Bunds was 100bps, dropping from 120bps in Q1 to 90bps in Q2. The YTD average yield stood at 3.4% (Q1 3.5%; Q2 3.3%). The average yield and spread in 2023 are projected at 3.7% and 110bps (eop at 3.8% and 100bps), respectively.

Banking Sector

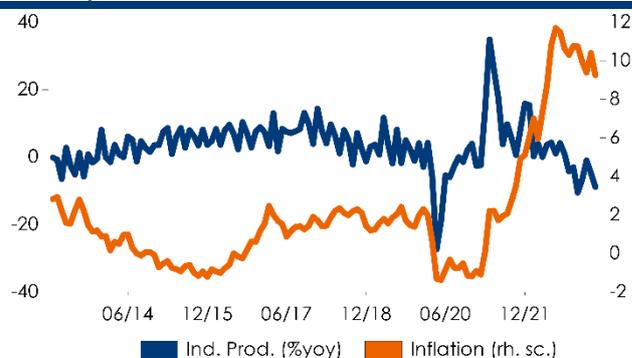
Loan growth moderated to 5.5% yoy in April as both corporate and household lending lost momentum, negatively affected by rising lending rates, slower economic activity, and, in case of companies switching to financing from own funds. Corporate loans thus decelerated from 12.4% at end-2022 to 5.5% yoy, with household loans falling from 7.6% to 5.5% as housing loans softened significantly. Looking forward, we expect the slowdown to continue, with rising costs of financing weighing on demand. Thus, we have trimmed the 2023 loan growth projection to 2.2% yoy.

Deposits fell somewhat, to 6.6% yoy in April, as both corporates and households are transferring funds from overnight to savings accounts due to rising savings interest rates. We kept the deposit forecast unchanged at 3.9% yoy as persistently high inflation is cutting disposable incomes. Corporates are increasingly using accumulated liquidity as well as other own funds for financing.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	8.2	5.4	1.5	2.6
CPI (eop)	5.1	10.8	2.7	2.0
Short-term rate (eop)	-0.6	2.1	4.1	3.5
L/T bond yields (eop)	0.3	3.3	3.8	4.2
Bank loans (pr. sector, yoy)	5.2	9.8	2.2	2.5
Bank deposits (pr. sector, yoy)	8.2	7.8	3.9	3.6
Lending int. rate (corp., eop)	1.9	3.0	3.8	2.7
Deposit int. rate (hhs, eop)	0.1	0.2	1.0	0.8

Industrial production and inflation



Source: Statistical Office of the Republic of Slovenia

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

Albania

Real Economy

After the impressive growth of Albanian GDP to 4.8% at the end of the fourth quarter of 2022, a slowdown towards historical growth rates is expected during 2023. Forecasts point to GDP growth this year contracting to around 2.2%. This is due to the negative impact of high prices in the economy as well as the adjustment compared to the strong growth that was observed last year. On the other hand, the improvement in confidence indicators, good domestic demand, and good performance of tourism sector should boost growth for the rest of the year. In April 2023, the CPI was 4.7%, down from 7.2% in the first month of 2023. The increase in inflation has been balanced by the strong appreciation of the LCY against the FCY. In May, exports contracted by 11.69% yoy. At the end of 2022, the unemployment rate had dropped further, surpassing the pre-Covid period and stood at 10.8%. Due to the improvements in the labour market and wages, the unemployment rate is expected to drop further this year, to around 10%.

Kledi Gjordeni

Financial Markets

Inflation continues to be a threat to economic growth in the country. From the beginning of last year, the basic interest rate has risen from 0.5% to 3.0% now. This monetary policy has worked quite well in both limiting growth of inflation and supporting domestic economic and financial activity. As a result of the well-absorbed monetary policy, the CB recently reduced the intensity of policy tightening, but was at the same time alert to the threat of increases of prices in the economy. According to the CB, the CPI rate is expected to reach the target of 3% in the first half of 2024. Mainly because of remittances and tourism, the euro continues its downtrend vs the local currency and saw depreciation yoy of over 9% in May 2023.

Banking Sector

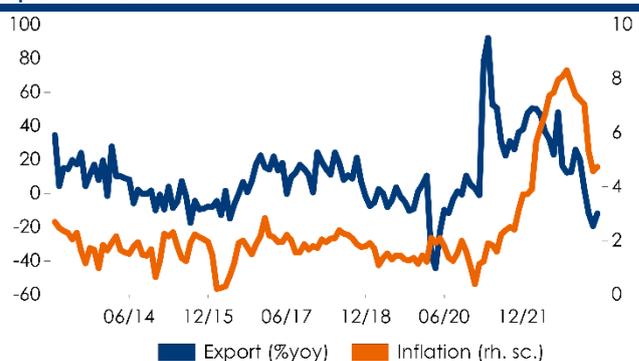
The banking sector continues at its normal pace. In April 2023, total private credits to economy rose by 2.47% yoy. Household loans increased by 10.11% but loans to corporates contracted by 1.63% yoy. New loans to the private sector fell by 5.5% yoy. Regarding deposits, in April 2023, total private sector deposits grew by 1.97%. Household savings contracted by 0.59%, whereas corporate deposit rose by over 12% yoy. Nonperforming loans stood at 5.18% of the total.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	8.9	4.8	2.2	3.5
CPI (eop)	3.7	n.a.	4.0	3.0
Euro exch. rate (value, eop)	120.9	114.9	113.5	121.5
Short-term rate (eop)	0.5	2.5	3.5	3.5
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	9.6	6.9	3.8	3.7
Bank deposits (pr. sector, yoy)	9.2	4.8	3.5	3.6
Lending int. rate (pr. sec., eop)	5.3	6.5	8.0	8.7
Deposit int. rate (pr. sec., eop)	0.4	2.5	2.5	2.4

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

Export and inflation



Source: National Statistical Institute

Bosnia and Herzegovina

Real Economy

Pending the release of national GDP statistics for the first quarter of 2023, due on 30 June (just after our cut-off date), data released for Republic of Srpska entity (accounting for roughly a third of the national economy) indicated slowdown in yoy GDP growth, to 0.9% from 1.8% in 4Q22, thus signifying that a similar slowdown could be expected at the national level as Q1 high frequency data were quite mixed. More precisely, while real retail trade turnover overperformed by any standards, growing by 4.8% qoq (11.3% yoy) over 1Q23 and continued to strengthen in April (3.5% mom and 15.4% yoy), industrial production, especially manufacturing, and exports, were less supportive. While Q1 was stagnant on quarterly basis (-2.9% yoy), the manufacturing slowdown intensified in April (-3.3% mom), leading to an annual slump, with results off 9.3%, with mining/quarrying contraction (-10.5% yoy) and -5.6% decline in electricity production which led to overall -9.1% yoy contraction in industrial production. In addition, as of March, exports slipped into the red, with an annual decline intensifying each subsequent month, resulting in a cumulative decline over January-May of 3.4% yoy. Simultaneously, construction activity also weakened on both a quarterly (-1.2% qoq) and an annual (-1.6% yoy) basis.

Looking ahead, we expect to see some rebound in construction activity, particularly infrastructure works, following final formation of the federal government in late April. Industrial production and exports will, however, remain a drag. At the same time, a stable labour market, double-digit wage growth, an acceleration in remittance inflow and tourism spending will continue to support headline growth, which we expect to be around 1.7% this year and around 2.8% in 2024. Inflationary pressures, after peaking in October last year (17.4%), eased to 6.5% in May and CPI is expected to average 7% this year, easing further towards 3% next year.

Banking Sector

Loans advanced at a steady pace of c.5.0% yoy since the start of 2023. Corporates decelerated (4.2% yoy in April), but households gained pace (5.4% yoy). In the coming period, we expect growth to soften slightly amid weaker demand from companies and a rise in interest rates. Our projection of the loan increase in 2023 has been lifted by nearly 1pp vs the March scenario, to 4.3% yoy, reflecting a better GDP outlook. Deposits surprised to the upside, growing 10.4% yoy in April, thanks to base effects and a pickup in households. We thus revised upwards this year's forecast to 5.2% yoy, due to a significantly more optimistic view of the household deposit trend.

The CBBH continued to follow the ECB's key rate path raising remuneration on required reserves, to 0.5% on base in local currency and to 0.3% on base in foreign currency and funds indexed to foreign currency (no remuneration on excess reserves). This will be applied from 1 July.

Forecasts

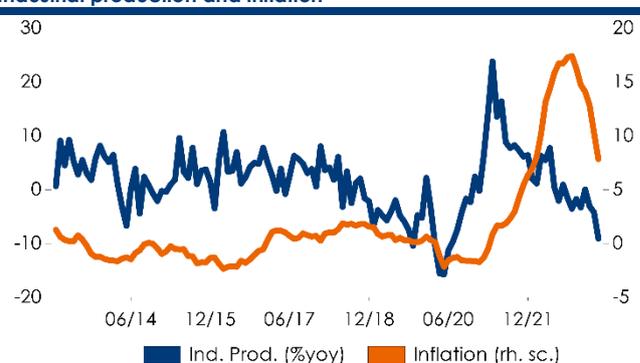
	2021	2022	2023F	2024F
Real GDP yoy	7.1	4.0	1.7	2.8
CPI (eop)	6.3	14.7	4.0	2.6
Euro exch. rate (value, eop)	2.0	2.0	2.0	2.0
Short-term rate (eop)	n.a.	n.a.	n.a.	n.a.
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	3.7	5.3	4.3	4.1
Bank deposits (pr. sector, yoy)	10.0	3.2	5.2	4.5
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

Ivana Jović

Ana Lokin

Industrial production and inflation



Source: Agency for statistics of Bosnia and Herzegovina

Croatia

Real Economy

Croatia's overperforming growth story continued in 1Q23, rising 1.4% qoq (and 2.8% non-adjusted, 2.6% yoy seasonally adjusted), resulting in GDP being 11.7% above the pre-pandemic level, which marks the strongest recovery across the Europe. First-quarter growth was supported by relatively solid household consumption (+1.4% yoy) and EU-financed investments (+3.9% yoy) as well as positive contributions from net foreign demand. More precisely, 4.8% yoy growth in exports (heavily supported by services, i.e., tourism) easily outperformed subdued imports (-0.8% yoy). So far, available Q2 high frequency data indicate continued positive momentum: real retail trade turnover in April rebounded on monthly (3.1%) and annual (4.2%) levels. Simultaneously, April and May tourism signalled strong double-digit (+27% yoy, +7% vs same period in 2019) growth in foreign overnight stays, indicating the first tangible positive impacts of Euro and Schengen area entries on the service-based economy. The labour market remains tight, as the unemployment rate declined towards a historically low 5.5% in May while easing inflationary pressures (CPI 7.9% in May), accompanied by double-digit nominal wage growth, supported a rise in real net wages. The picture is somewhat less rosy with regard to industrial performance, especially manufacturing which saw a significant slump in April (-3.8% mom, -5.2% yoy) due to easing foreign demand. Still, a better-than-expected winter performance, improving business and consumer sentiment, as well as a tight labour market, accompanied by another supportive tourist season, led to an upward revision to our FY23 projection, to 2.5%, at the same time highlighting for a possible stronger performance, which in turn brings some downside risks to our 2.8% 2024 call. The inflation outlook has been raised slightly, to around 7% this year, before easing towards 3% next year.

Ivana Jović

Financial Markets

The average 10Y government bond spread on the Bund stood at 150bps YTD. We see it dropping in the upcoming months, reaching an average of 140bps in 2023 (eop 120bps). YTD the yield averaged 3.8%. In FY23, the average yield is forecast at 4.0% (eop 4.0%).

Ana Lokin

Banking Sector

Loans slowed, to 9.4% yoy growth in April, as corporate lending lost pace due to a gradual subsiding of inflation, increasing financing costs. At the same time, household loans strengthened marginally. We revised upwards our loan forecast to 5.1% yoy due to stubborn inflation that continues to support corporate demand. Deposits slowed (9.6% yoy in April) due to the usual seasonal drop in corporate deposits and outflows of household deposits to government bond. Projections for 2023 were revised up a bit, to 2.2%, due to an expected pickup in corporate deposits as economic growth stays healthy.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	13.1	6.2	2.5	2.8
CPI (eop)	5.5	13.1	3.5	2.5
Euro exch. rate (value, eop)	7.5	7.5	7.5	7.5
Short-term rate (eop)	0.4	0.2	4.1	3.5
L/T bond yields (eop)	0.6	3.5	4.0	4.3
Bank loans (pr. sector, yoy)	2.3	11.2	5.1	2.5
Bank deposits (pr. sector, yoy)	11.7	15.0	2.2	2.6
Lending int. rate (pr. sec., eop)	1.9	3.6	4.7	4.6
Deposit int. rate (pr. sec., eop)	0.1	0.7	2.4	2.2

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

Industrial production and inflation



Source: Croatia Bureau of Statistics

Romania

Real Economy

GDP growth in 1Q23 was 2.3% yoy, lower than expectations of 3.4%. Our forecast for 2023 GDP growth is 2.3%.

YOY CPI at the end of May was 10.6%, in line with National Bank of Romania's (NBR) the May projection. Harmonised YOY CPI at the end of May was below 10% (9.6%). According to the NBR's latest projection, inflation growth should decelerate till EOY 2023, to around 7.15%. We forecast 2023 EOY inflation at 7.8%.

The budget deficit at the end of March 2023 was 1.72% of GDP, significantly higher than last year and above the levels in the fiscal consolidation plan. It is now expected a deficit below 4.4% of GDP at EOY 2023. This represents an important indicator, pointing to a possible deviation from the target that have negative impacts on European funding inflows and rating agencies' views on Romania.

The current account deficit at the end of April 2023 was EUR 5.451Bn vs EUR 7.568Bn in April 2022. This improvement is linked to high inflation and its impact in retail sales.

Financial Markets

At its 10 May meeting, the NBR kept monetary policy rates unchanged (Deposit, Lombard and Reference rates) as follow: Deposit Facility Rate 6.00%, Reference Rate 7.00%, and Credit Facility Rate 8.00%. The signals sent by the central bank governor are that this could be the last hike.

We still consider that entry into an easing monetary policy cycle depends on level of inflation (and core inflation), but also on the budget deficit, and ECB and Fed decisions on monetary policy.

After depreciating from 4.92 to 4.97 (around 1%), the EUR/RON rate appears to have reached a stable range at around 4.96. The exchange rate is still used as a monetary policy instrument.

Banking Sector

In the first four months of 2023, growth in loans and deposits remained consistent, though with a slight deceleration in household loans, due to high levels of interest rates.

In April 2023, yoy figures showed a slight deceleration in credit, to 7.98% growth, while deposits continued to grow, by 9.79%. The interest rates on RON-denominated deposits and credits decreased slightly, to 6.04% and 9.79%, respectively, on average, while rates on EUR-denominated deposits and credits increased by 1.66% and 6.24%, on average.

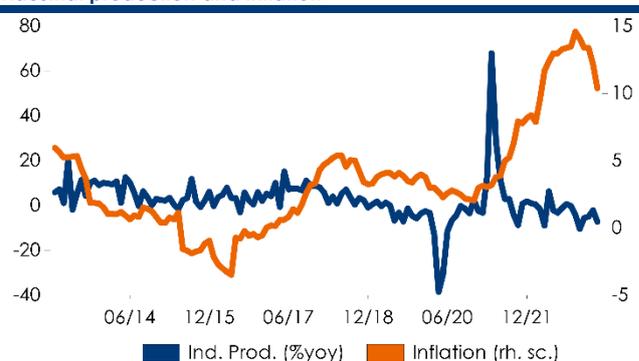
Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	6.8	5.0	2.4	3.1
CPI (eop)	8.2	14.1	7.8	3.5
Euro exch. rate (value, eop)	4.9	4.9	5.0	5.0
Short-term rate (eop)	2.8	7.7	7.2	5.6
L/T bond yields (eop)	5.4	7.9	6.9	6.9
Bank loans (pr. sector, yoy)	14.3	11.2	6.3	5.2
Bank deposits (pr. sector, yoy)	13.6	6.7	6.8	5.6
Lending int. rate (pr. sec., eop)	5.3	9.7	9.2	8.0
Deposit int. rate (pr. sec., eop)	1.9	6.7	4.9	3.5

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

Economic growth was confirmed at 0.7% yoy in 1Q23. On quarterly basis, GDP fell by 0.2%, after 0.6% qoq growth in 4Q22. Looking at components, net exports delivered the highest positive contribution, while private consumption visibly slowed relative to previous quarters, negatively affected by high inflation which peaked in Q1. High frequency indicators for April show that the economic performance remains quite weak, with real trade turnover still in negative territory and industrial production slowing compared to Q1, supported only by a stabilisation in electricity production, while the important manufacturing sector continues to be under pressure, affected by weaker domestic demand and rising borrowing costs. A somewhat stronger recovery is expected as of the second half of the year and we see the Serbian economy expanding by 1.6% yoy over the whole of 2023, before speeding up to 3.1% growth in 2024, supported by an easing of inflationary pressures, a rise in real disposable incomes, and an expected recovery in the country's key export markets.

Tijana Matijasevic

After the March peak at 16.2%, yoy inflation eased to 14.8% in May, but on a monthly basis, consumer prices continued to rise, supported by higher unprocessed food prices and energy price adjustments. YOY, inflation is expected to continue to slow, but considering another electricity and price hike planned for October, persistent food inflation (which might not ease to the degree previously expected due to an uncertain agriculture season), as well as announced new fiscal expenses, we have raised our average CPI forecasts to 12.9% in 2023 and 5.7% in 2024.

Financial Markets

The National Bank of Serbia opted for another 25bps hike in June, after a pause in May, judging that it was a necessary move to avoid a surge in inflation expectations and to put inflation on a firm downward trajectory. The key rate now stands at 6.25% and our base scenario assumes another 25bps hike during the summer, after which the CB looks likely to stay on hold until the end of the year. Since the start of 2023, the EUR/RSD rate has stayed broadly unchanged. The NBS bought EUR 255M in May and over EUR 1,320M YTD to maintain the relative stability of the local currency. Gross national FX reserves reached EUR 22.09Bn at end-May, their highest end-of-month level on record.

Banking Sector

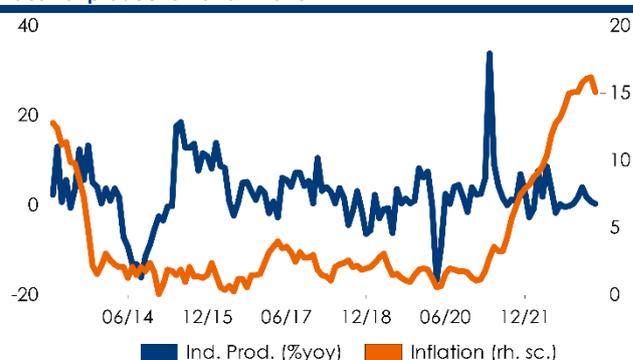
The lending growth rate continued to weaken in April (+1.6% yoy, -1% YTD), reflecting a high base in the previous year, a further tightening of credit conditions, and the maturing of guarantee scheme loans. In January-April 2023, new production was lower by 11.3% yoy, with lower demand observed in both the household (-7% yoy) and corporate (-13.5%) segments. The deposit dynamic was stronger (+11.6% yoy, 2% YTD), notably among corporates (+19.2% yoy) and in our new scenario, we see them rising by 5% yoy in 2023 vs 2% growth in total loan volumes.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	7.5	2.3	1.6	3.1
CPI (eop)	7.9	15.1	9.0	3.7
Euro exch. rate (value, eop)	117.6	117.3	117.5	118.0
Short-term rate (eop)	1.0	4.8	6.5	5.0
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	10.2	6.4	2.0	4.2
Bank deposits (pr. sector, yoy)	13.3	6.9	5.0	5.0
Lending int. rate (pr. sec., eop)	5.5	9.3	10.5	9.1
Deposit int. rate (pr. sec., eop)	1.8	6.2	6.0	4.7

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

Industrial production and inflation



Source: Statistical Office

Moldova

Real Economy

The economy of Moldova contracted by 2.4% yoy in the first quarter of 2023, following a 10.6% fall in 4Q22. Household consumption fell 2.6% and gross fixed capital formation decreased by 0.4%. Net foreign demand contributed negatively to GDP (-1.3%) as imports exceeded exports, resulting in a trade deficit. GDP growth is expected to rebound slowly, to 2.0%, by 2023 year-end, reaching its potential only in 2024, due to inflation dynamics, energy security concerns, and the ongoing war in Ukraine. This recovery is based on the increase in agricultural production and general economic expansion supported by more relaxed monetary policy. The annual inflation rate continued on a downward trend, to 16.3% as of end-May 2023, 14pp below the December level. The inflation rate started to decrease from the end of last year, due to the National Bank of Moldova's (NBM) previous monetary policy measures, which reduced the intensity and shock of the inflationary wave. Inflation is expected to decelerate, recording a rapid downward trend during the year, reaching its target variation range of ± 1.5 pp to 5% in 4Q23.

Doina Caraman

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 6% as of May (from 20% as of the end of 4Q22). The 91-, 182-, and 364-day treasury bill yields decreased by 10.2pp, 10.4pp and 10.9pp, respectively, as of June 2023 vs end-December 2022 levels, in line with the inflation trajectory and expectations. For longer maturity government bonds (two and three years' duration), yields also saw a sharp downward movement (-7pp and -4.75pp, respectively) compared to their December levels.

Banking Sector

Despite the NBM's decisions to lower the base rate during 2023, lending activity has been stagnant. As of May 2023, the loan portfolio stood at MDL 60.8Bn, a yoy increase of 2.3% but a decline of 1.4% since the beginning of the year. However, a recovery is expected in the second half of 2023 as a result of the base rate cuts applied by the NBM. Bank deposits continued to grow, driven by attractive interest rates offered by local banks. This led to a 9.3% increase in the first five months of 2023 vs December 2022 and a substantial 21.8% yoy positive evolution, leading to a stock of deposits of MDL 103.8Bn and reflecting a notable upward trend in deposit accumulation. Loans are foreseen to grow by 4.3% yoy at year-end 2023, with an average growth rate of 4.4% in the following years, until 2027. Growth in deposits in 2023 should be 6.6%, slightly rising to 6.7%, on average, in the following years. Lending and deposit interest rates are expected to fall in 2024 given monetary measures foreseen by the NBM.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	13.9	-5.1	2.0	3.7
CPI (eop)	13.9	30.2	5.5	6.0
USD exh. rate (value, eop)	17.7	19.5	18.4	18.1
Euro exh. rate (value, eop)	20.1	20.5	20.6	20.7
Short-term rate (eop)	6.5	20.0	6.0	5.0
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	23.5	9.3	4.3	4.3
Bank deposits (pr. sector, yoy)	13.1	5.4	6.6	6.8
Lending int. rate (corp., eop)	8.5	12.9	8.2	7.2
Deposit int. rate (hh, eop)	3.2	11.4	5.2	3.2

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

Despite the pressures on the Russian economy related to sanctions, in a context of declining inflationary pressures, we expect the economy to grow slowly, by 0.5%, this year, after the contraction of 2.1% seen in 2022. Risks continue to be to the downside and the impact of both positive and negative factors regarding the external environment on Russia appear limited because of sanctions. Pro-inflationary risks are still higher and this is the risk of a possible tightening of sanctions. The second risk is a stronger budget deficit, which might restrain the structural transformation of the economy and push up prices. The third risk is that supply in production and service markets will lag the expansion of consumer demand.

Francesca Pascali

Financial Markets

As expected, the Bank of Russia (CBR) decided on 9 June 2023 to keep the benchmark rate at 7.50%. Given the gradual increase in inflationary pressures, the CBR is keeping open the prospect of an increase in the key rate at its next meetings to stabilise inflation close to 4% in 2024 and beyond. Based on the current monetary policy stance, the CPI is projected by the CBR to be 4.5-6.5% in 2023, before returning to 4% in 2024. In line with our March forecast, we maintain our view that there will be a rate hike of 50bps, to 8.00%, in the second half of the year, with inflation risks likely to materialise in the second half of the year (four monetary policy meetings until the end of this year). There is an increasing probability that the central bank will tighten further in 2024. High, unanchored inflation expectations, which are particularly sensitive to exchange rate fluctuations, are also a source of risk. Based on these conditions, the impact on prices of the ruble's weakening since the beginning of the year could be more pronounced than the CBR currently forecasts.

Banking Sector

Lending growth is still expected to decelerate in 2023, to 7.2%, in Russia (confirmed as forecast in March), where the CBR is likely to cancel many regulatory easing measures and tighten the regulation of mortgage lending because it has become a source of concern. Further prudential limits on consumer lending have recently been imposed to avoid over-indebtedness for households. The loan growth rate will be negatively affected by the strong depreciation of the ruble (expected to be over +30% in 2023), despite the share of loans denominated in foreign currency in total loans to the private sector having declined to c.10%. Deposits are forecast to decelerate from 11% in 2022 to 6.5% in 2023 as well, despite the slightly improving macroeconomic context and inflation.

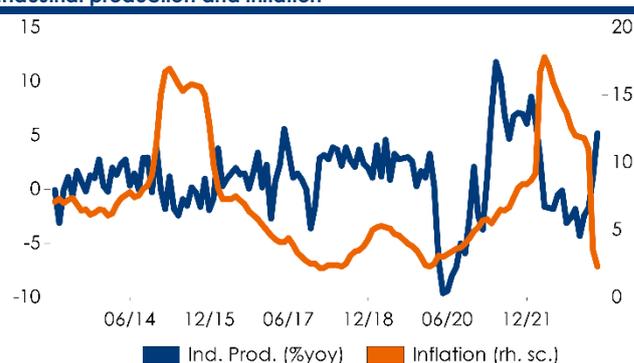
Davidia Zucchelli

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	4.7	-2.1	0.5	2.5
CPI (eop)	8.4	11.9	6.5	4.5
USD exch. Rate (value, eop)	73.7	66.6	88.0	92.0
Euro exch. Rate (value, eop)	83.5	70.7	98.6	105.4
Short-term rate (eop)	9.5	8.4	9.2	7.1
L/T bond yields (eop)	8.4	11.3	8.0	7.7
Bank loans (pr. Sector, yoy)	18.8	11.8	7.2	6.3
Bank deposits (pr. Sector, yoy)	12.7	11.0	6.5	6.2
Lending int. rate (corp., eop)	9.0	8.9	9.6	7.7
Deposit int. rate (hh, eop)	5.1	5.4	5.9	3.9

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

Industrial production and inflation



Ukraine

Real Economy

Despite the ongoing war, the Ukrainian economy has been gradually recovering in 2023. Following the optimistic upward revision of 2023 economic forecasts recently made by Ukrainian authorities, the 1Q23 GDP print was better than expected, with a decline of 10.5% yoy (flash estimate), up from declines of 31.4%, 30.6% and 36.9% yoy seen in 4Q22, 3Q22 and 2Q22, respectively. On a quarterly basis, GDP grew by 2.4%. The stable flow of international aid and the revival of the domestic debt market make it possible to cover a significant budget deficit without monetary financing. Since the beginning of 2023, Ukraine has already received about USD 20Bn in funding from international partners. The inflation rate in May slowed to 15.3% yoy from 17.9% in April. On a monthly basis, prices rose by 0.5%. Any further deceleration of inflation in 2023 will be more restrained due to the exhaustion of the low base effect, the return to the pre-war level of taxation in the fuel market, and expected growth in electricity tariffs. In addition, some negative impacts on inflation will result from the "Kahovska" dam destruction, which will lead to some losses of vegetable crops.

However, the losses from the war are growing. The explosion and destruction of the hydroelectric "Kahovska" dam on the Dnieper River and subsequent extensive floods will probably have devastating long-term effects in social, economic and ecological areas, which will only be fully evaluated over time.

Financial Markets

At the last MP meeting in mid-June, the National Bank of Ukraine (NBU) left the policy rate unchanged (as expected), at 25%, but hinted, however, that the upcoming easing of monetary policy may become a closer prospect than was envisaged at the previous MP in late April, when this was expected to happen in 4Q23. The USD/UAH rate remains in a fixed peg regime at 36.6. Thanks to steady inflows of financial aid from international partners, the NBU's FX monetary reserves rose by 4% in May, reaching USD 37.3Bn, a record high over the past 11 years. Based on this backdrop, the NBU has been gradually releasing FX capital flow restrictions introduced during the war: in June, the repayment of new external loans from foreign creditors was allowed. The finance ministry has been meeting sustainable demand in both UAH and USD at primary auctions in 2023. The 12-month UAH bond trades at a yield of 18.30%, while 1.5- and 2.5-year bonds trade at 19.30% and 19.75%, respectively.

Banking Sector

The Ukrainian banking sector remains stable and over-liquid, notwithstanding the ongoing war. Lending activity to the private sector remains dormant. Over the first four months of 2023, total loans to the private sector declined by 4.1%, while deposits grew by 6.3%.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	3.4	-29.1	2.4	4.5
CPI (eop)	10.0	26.6	16.5	10.4
USD exch. (value, eop)	27.4	36.9	39.5	41.9
Euro exch. rate (value, eop)	30.8	38.7	44.3	48.0
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)	9.6	-4.4	3.7	4.6
Bank deposits (pr. sector, yoy)	12.3	25.1	5.8	5.6
Lending interest rate (pr.sect., eop)	14.3	22.0	21.2	20.5
Deposit interest rate (pr.sect., eop)	5.0	10.7	11.2	11.0

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

Industrial production and inflation



Source: State Statistics Service of Ukraine

Egypt

Real Economy

Real growth is expected to decline slightly, to 4.1% yoy, in 2023 – after +4.3% in 2022 – as inflationary pressures will weigh on private demand. Growth would be led by tourism, Suez Canal, telecom and construction. Annual urban headline CPI is projected to soar, to 32.7%, on average, in 2023 against 13.8% in 2022 on the back of a weakening local currency, which has lost nearly 50% of its value against the USD.

Samer Halim

Financial Markets

The Central Bank of Egypt (CBE) raised key interest rates by 200bps in 2023, bringing total hikes to 1,000bps since 2022, with the aim of anchoring inflation expectations, and it is likely to further increase them, by 200bps, by the end of the year. Regarding the future of Egypt's external position, President Abdel Fattah El Sisi recently announced that adopting a flexible exchange rate regime might not happen if its risks exceeded a certain limit. Some analysts still think that this step needs to be delayed till the end of 2023 or the beginning of next year until more foreign funds are available to lead a smooth transition to the new exchange rate regime amid high external debt servicing and a sluggish flow of remittances (-23% yoy in 2H22). These funds can be provided via offering stakes in state-owned assets, noting that the International Finance Corp (IFC) was appointed as a strategic advisor to assist the government in this regard, in addition to booming tourism revenues (tourist arrivals increased by about 30% yoy during 1Q23). Suez Canal revenues also recorded all-time highs during FY 2022/23 at USD 9.4Bn (+34.3% yoy). On the other hand, the trade deficit is declining significantly (-48.2% yoy in 1Q23), mainly due to the fall in imports. Allowing a more flexible exchange rate for the EGP, traded at 30.9 per USD in banks and 37.5-38.5 in the parallel market, is one of the IMF's requirements within its USD 3Bn loan programme with Egypt, signed in December 2022. As for development in Egypt's efforts to promote investments, UAE's National Paints acquired 81% in state-owned Paint and Chemicals Industries (PACHIN) for about USD 25M and authorities are in talks with strategic Emirati investors to sell a 49% stake in the Egyptian Drilling Company. Furthermore, Global investors showed interest in buying a power plant for about USD 2Bn. This falls within the government plan to offer stakes in 32 companies. In parallel, the government sold a 10% stake in Telecom Egypt for USD 128M and negotiations are in process with Qatar's sovereign wealth fund to acquire a 25-30% stake in Vodafone Egypt. The country also signed an agreement with Emirati company Masdar to launch a wind powered plant with direct investments of USD 10Bn.

Banking Sector

Annual growth in private bank loans and deposits is expected to decelerate to 18.2% and 18.9% in 2023, respectively. Growth rates were supposed to slow at a faster pace, but the revaluation of FX portfolios is likely to inflate them. The expected slowdown can be explained in light of lower demand, higher interest rates, and the elimination of the CBE initiatives to offer subsidised loans to the agriculture and manufacturing sectors.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	7.2	4.3	4.1	5.5
CPI (eop)	5.9	21.3	35.6	16.2
USD exch. rate (value, eop)	15.7	24.7	34.9	37.2
Euro exch. rate (value, eop)	17.8	26.1	39.1	42.6
Short-term rate (eop)	11.9	18.1	24.0	15.0
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	18.3	28.4	18.2	10.2
Bank deposits (pr. sector, yoy)	18.7	27.4	18.9	10.9
Lending int. rate (corp., eop)	9.5	13.3	17.0	13.0
Deposit int. rate (hh, eop)	7.5	9.8	13.0	10.0

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

Industrial production and inflation



Source: Ministry of Planning, CAPMAS

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

The Economy

	GDP chg yoy			Ind.prod ¹ . chg.yoy			Export nom. chg yoy			Retail sales chg yoy			Inflation chg yoy			Unemployment rate			Wages chg yoy			Economic Survey ²			
	1Q23	4Q22	2022	Last	mth	1Q23	Last	mth	1Q23	Last	mth	1Q23	Last	mth	1Q23	Last	mth	1Q23	Last	mth	1Q23	Last	mth	1Q23	
CEE																									
Czechia	-0.1	0.1	2.5	1.2	Apr	1.1	2.0	Apr	10.3	-9.2	Apr	-7.2	11.1	May	16.4	3.5	May	3.8	9.6	Apr	10.7	87.3	May	93.4	
Hungary	-0.9	0.4	4.6	-8.3	Apr	-3.0	3.4	Apr	8.1	-13.6	Apr	-8.9	21.5	May	25.4	3.9	Apr	4.0	16.6	Mar	11.2	96.9	May	97.6	
Poland	-0.1	0.7	4.9	-6.4	Apr	-0.7	8.3	Mar	12.8	-7.3	Apr	-4.1	13.0	May	17.0	5.2	Apr	5.5	12.1	Apr	13.3	93.3	May	90.3	
Slovakia	1.0	1.2	1.7	-2.0	Apr	-3.6	7.4	Apr	12.2	-10.1	Apr	-2.8	11.9	May	15.1	5.3	Apr	5.7	10.4	Apr	10.1	93.9	May	90.4	
Slovenia	0.7	0.2	5.4	-8.8	Apr	-4.1	-5.7	Apr	27.6	-10.3	Apr	1.1	8.1	May	9.9	5.1	Mar	5.4	9.0	Mar	11.4	94.8	May	95.3	
SEE																									
Albania	n.a.	4.7	4.8	n.a.	n.a.	n.a.	-19.2	Apr	3.8	n.a.	n.a.	n.a.	4.7	May	6.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Bosnia H.	n.a.	1.7	4.0	-9.1	Apr	-2.5	-13.1	Apr	2.5	14.4	Apr	11.2	7.9	Apr	12.4	29.4	Feb	29.5	15.4	Mar	15.2	n.a.	n.a.	n.a.	
Croatia	2.8	3.5	6.2	-3.4	Apr	-0.9	21.1	Mar	14.0	2.2	Apr	0.5	7.9	May	11.8	6.1	Apr	6.9	11.9	Mar	11.8	108.4	May	107.2	
Romania	2.3	4.7	n.a.	-7.1	Apr	-4.1	4.9	Apr	8.1	-1.6	Apr	5.3	9.6	May	13.0	5.6	Apr	5.5	15.0	Apr	15.2	101.3	Apr	102.0	
Serbia	0.7	0.5	2.3	0.4	Apr	2.3	5.6	Apr	16.1	-6.1	Apr	-3.7	14.8	May	16.0	n.a.	n.a.	n.a.	14.5	Mar	15.5	n.a.	n.a.	n.a.	
EE & MENA																									
Moldova	-2.2	-10.6	-5.1	-4.7	Mar	-5.2	-20.0	Apr	1.1	-5.6	Dec	n.a.	16.3	May	25.1	n.a.	n.a.	5.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Russia	-1.9	-2.7	-2.1	5.2	Apr	-1.0	72.1	Jan	n.a.	7.4	Apr	-6.5	2.5	May	8.8	3.7	Nov	n.a.	14.3	Oct	n.a.	53.5	May	53.2	
Ukraine	-10.5	-31.4	-29.1	-44.0	Dec	n.a.	-20.2	Apr	-39.5	-28.0	Dec	n.a.	15.3	May	24.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Egypt	n.a.	3.9	4.3	-4.6	Mar	-4.8	-34.6	Mar	-21.3	n.a.	n.a.	n.a.	32.8	May	30.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	47.8	May	46.7	
m.i. E. A.	1.3	1.9	3.4	0.2	Apr	0.5	9.1	Dec	n.a.	n.a.	n.a.	n.a.	6.1	May	8.0										

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	
	16/6	3M*	16/6	3M*	16/6	3M*	1Y*	3M*	1Y*	16/6	16/3	1Q23	4Q22	2022	1Q23	4Q22		Moody's
CEE																		
Czechia	7.2	0.0	4.4	-0.1	23.78	-1.03	-3.90	0.4	2.9	31.1	33.9	n.a.	n.a.	n.a.	1,665	-16,913.7	Aa3	
Hungary	15.6	-0.7	7.1	-1.4	374.13	-5.43	-5.42	22.6	27.7	155.1	154.7	n.a.	n.a.	n.a.	n.a.	n.a.	Baa2	
Poland	7.6	-0.2	6.1	0.1	4.46	-5.10	-4.41	19.2	27.2	72.9	94.6	n.a.	n.a.	n.a.	5,186	-19,505.0	n.a.	
Slovakia	3.6	0.9	3.7	0.2	n.a.	n.a.	n.a.	4.6	-12.6	34.6	35.4	n.a.	n.a.	n.a.	-501	-8,718.5	A2	
Slovenia	3.6	0.9	3.5	0.1	n.a.	n.a.	n.a.	5.7	7.9	38.0	39.4	41	-72	134	778	-78.9	A3	
SEE																		
Albania	2.7	n.a.	n.a.	n.a.	107.97	-6.06	-9.91	n.a.	n.a.	n.a.	n.a.	n.a.	-12	n.a.	n.a.	-477.0	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.	-439	-232	-144	n.a.	-354.8	n.a.	
Croatia	0.4	0.0	3.8	-0.2	7.53	0.00	0.27	4.4	14.0	91.2	86.8	-24,749	1,616	2,855	n.a.	-1,439.6	Baa2	
Romania	6.4	-0.3	6.9	-0.7	4.96	0.80	0.34	0.6	1.7	183.4	187.6	n.a.	n.a.	n.a.	-5,004	-26,571.0	Baa3	
Serbia	6.3	0.5	n.a.	n.a.	117.25	-0.05	-0.14	-4.0	5.0	234.5	235.8	1,965	2,914	2,961	-112	-836.8	Ba2	
EE & MENA																		
Moldova	10.7	-4.0	8.1	-1.6	17.88	-3.70	-6.91	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	54.0	B3	
Russia	24.7	0.0	11.0	-0.1	104.07	0.00	0.00	24.0	18.2	12,940.3	12,940.3	n.a.	n.a.	n.a.	n.a.	n.a.	WR	
Ukraine	12.8	0.0	22.8	-9.8	36.93	0.00	25.00	0.0	-2.3	14,247.7	14,247.7	3,171	3,994	-4,129	-882	112.0	Ca	
Egypt	22.9	2.6	11.3	0.0	30.90	0.32	64.71	22.6	82.7	1,511.9	1,450.6	444	805	-6,932	n.a.	1,410.1	B3	
m.i.A.E.	3.6	0.9	2.5	0.2	1.1	2.9	4.1	6.8	19.1	6.55	7.39							

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 rate1-NewB*			DepositsRate1-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				
CEE																									
Czechia	5.7	Apr	4.5	1.9	Apr	2.0	-6.9	Apr	18.1	6.6	Apr	4.2	8.6	Apr	9.0	C	6.1	Apr	6.0	H	70.0	Apr	71.0		
Hungary	10.0	Apr	11.6	2.2	Mar	2.3	15.7	Apr	56.4	-2.3	Apr	2.5	12.6	Apr	11.5	C	13.2	Apr	12.3	H	80.9	Apr	78.3		
Poland	-2.3	Apr	0.2	4.0	Mar	4.2	-7.7	May	n.a.	10.8	Apr	5.6	8.7	Apr	8.7	C	5.7	Apr	6.5	H	73.4	Apr	76.0		
Slovakia	12.5	Apr	10.8	1.9	Apr	1.9	59.7	Apr	33.0	8.0	Apr	5.9	3.8	Dec	3.8	C ²	0.0	Dec	0.0	H ²	112.4	Apr	108.3		
Slovenia	5.5	Apr	9.8	1.1	Mar	1.1	27.5	Apr	33.7	6.6	Apr	7.8	4.0	Apr	3.0	C ²	0.4	Apr	0.2	H ²	65.2	Apr	64.3		
SEE																									
Albania	2.5	Apr	6.9	5.2	Apr	5.0	-15.9	Apr	-10.8	2.0	Apr	4.8	5.9	Apr	6.5	PS	2.0	Apr	2.5	PS	55.5	Apr	54.8		
Bosnia H.	5.0	Apr	5.3	4.2	Mar	4.5	-14.3	Apr	-7.0	10.4	Apr	3.2	3.8	Apr	4.0	C	0.4	Apr	0.5	H	91.3	Apr	91.3		
Croatia	9.4	Apr	11.2	3.2	Mar	3.0	-22.8	Apr	27.7	9.6	Apr	15.0	4.5	Apr	3.6	PS	2.0	Apr	0.7	PS	68.5	Apr	63.8		
Romania	8.0	Apr	11.2	2.7	Apr	2.7	33.1	Apr	35.8	9.8	Apr	6.7	9.8	Apr	9.7	PS	6.0	Apr	6.7	PS	70.2	Apr	71.0		
Serbia	1.6	Apr	6.4	3.0	Mar	3.0	7.9	Apr	14.1	11.6	Apr	6.9	11.4	Apr	9.3	PS	5.9	Apr	6.2	PS	87.1	Apr	89.7		
EE & MENA																									
Moldova	6.1	Apr	9.3	7.2	Apr	6.4	0.7	Jul	n.a.	23.0	Apr	5.4	12.9	Apr	12.9	C	12.2	Apr	11.4	H	60.4	Apr	64.9		
Russia	11.2	Mar	11.8	6.1	Dec	6.1	13.3	Dec	n.a.	9.8	Mar	11.0	9.6	Mar	8.9	C	5.7	Mar	5.4	H	124.4	Mar	120.3		
Ukraine	-7.9	Apr	-4.4	39.3	Apr	38.1	-1.4	Apr	-21.6	34.6	Apr	25.1	22.6	Apr	22.0	PS	13.2	Apr	10.7	PS	49.8	Apr	55.2		
Egypt	31.3	Feb	28.4	3.4	Dec	3.4	122.3	Feb	83.1	32.9	Feb	27.4	17.6	Apr	13.3	C	11.7	Apr	9.8	H	35.5	Feb	35.6		
m.i. E. A.	3.03	Apr	4.0	n.a.	n.a.	n.a.	1.5	Apr	9.0	1.4	Apr	3.3	4.3	Apr	3.4	C	2.3	Apr	1.4	H	75.5	Apr	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)		2020	2021	2022	2023F	2024F	Inflation (% avg)		2020	2021	2022	2023F	2024F
CEE	Czech Rep.	-5.7	3.4	2.5	-0.1	2.5	Czech Rep.	3.2	3.9	15.1	10.4	2.6	
	Hungary	-5.1	7.1	4.6	0.2	3.1	Hungary	3.3	5.1	14.5	19.0	4.5	
	Poland	-2.0	6.8	4.9	1.1	2.8	Poland	3.4	5.1	14.3	12.3	4.0	
	Slovakia	-3.4	3.0	1.7	1.0	2.7	Slovakia	2.0	3.2	12.8	11.0	3.5	
	Slovenia	-4.3	8.2	5.4	1.1	2.6	Slovenia	-0.3	2.0	9.3	6.4	2.4	
SEE	Albania	-3.3	8.9	4.8	2.2	3.5	Albania	1.6	2.0	n.a.	4.9	3.0	
	Bosnia Herzegovina	-3.3	7.1	4.0	1.0	2.6	Bosnia Herzegovina	-1.1	2.0	14.0	6.1	2.5	
	Croatia	-8.6	13.1	6.3	1.5	2.8	Croatia	0.1	2.6	10.7	7.0	3.0	
	Romania	-3.9	6.8	5.0	2.4	3.1	Romania	2.6	5.0	12.1	10.4	4.9	
	Serbia	-0.9	7.5	2.3	1.6	3.1	Serbia	1.6	4.0	11.9	12.7	4.1	
EE & MENA	Moldova	-8.3	13.9	-5.1	2.0	3.7	Moldova	3.8	5.1	28.6	9.1	5.1	
	Russia	-3.0	4.7	-2.1	0.5	2.5	Russia	3.4	6.7	13.8	7.2	5.5	
	Ukraine	-3.8	3.4	-29.1	2.4	4.5	Ukraine	2.7	9.3	20.1	20.0	13.5	
	Egypt	1.5	7.2	4.3	4.1	5.5	Egypt	5.1	5.2	13.8	31.3	25.9	

Markets

Exch.rate (avg Euro)		2020	2021	2022	2023F	2024F	Interest rate (% avg)		2020	2021	2022	2023F	2024F
CEE	Czech Rep.	26.5	25.6	24.6	23.9	24.1	Czech Rep.	0.9	1.1	6.3	6.7	4.9	
	Hungary	351.1	358.7	391.1	380.0	383.5	Hungary	0.7	1.4	9.9	14.3	6.8	
	Poland	4.4	4.6	4.7	4.6	4.5	Poland	0.6	0.4	5.9	6.5	5.1	
	Slovakia	n.a.	n.a.	n.a.	n.a.	n.a.	Slovakia	-0.4	-0.5	0.3	3.5	3.9	
	Slovenia	n.a.	n.a.	n.a.	n.a.	n.a.	Slovenia	-0.4	-0.5	0.3	3.5	3.9	
SEE	Albania	123.4	122.3	118.9	114.1	121.0	Albania	0.5	0.5	1.3	3.4	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	7.5	7.5	7.5	7.5	7.5	Croatia	0.3	0.3	0.2	3.5	3.9	
	Romania	4.8	4.9	4.9	5.0	5.0	Romania	2.4	1.8	6.2	7.0	6.3	
	Serbia	117.6	117.6	117.5	117.4	117.8	Serbia	1.5	1.0	2.5	6.0	5.5	
EE & MENA	Moldova (USD)	17.3	17.7	18.8	18.5	18.3	Moldova	3.4	3.8	16.9	12.4	6.5	
	Russia (USD)	73.4	73.6	68.3	79.8	90.0	Russia	5.4	6.8	11.9	8.7	8.2	
	Ukraine (USD)	26.9	27.4	32.3	37.9	40.7	Ukraine	12.2	10.7	11.5	20.7	21.9	
	Egypt (USD)	15.8	15.7	19.2	31.5	36.1	Egypt	13.1	12.7	14.5	21.5	17.8	

Banking aggregates (% change yoy)

Loans (pr. sector)		2020	2021	2022	2023F	2024F	Deposits (pr. sector)		2020	2021	2022	2023F	2024F
CEE	Czech Rep.	4.1	8.4	4.5	4.5	4.4	Czech Rep.	11.9	7.0	4.2	4.2	4.2	
	Hungary	13.4	12.7	11.6	1.5	5.3	Hungary	23.3	17.6	2.5	-0.5	4.4	
	Poland	0.4	4.6	0.2	3.0	4.9	Poland	12.8	7.7	5.6	3.4	4.8	
	Slovakia	4.5	7.3	10.8	4.9	4.7	Slovakia	6.3	4.5	6.0	5.3	4.0	
	Slovenia	-0.9	5.2	9.8	3.2	2.5	Slovenia	12.2	8.2	7.8	4.1	3.6	
SEE	Albania	7.0	9.6	6.9	3.8	3.7	Albania	8.1	9.2	4.8	3.5	3.6	
	Bosnia Herzegovina	-2.5	3.7	5.3	3.4	3.9	Bosnia Herzegovina	6.5	10.0	3.2	3.9	4.5	
	Croatia	3.8	2.3	11.2	3.2	2.5	Croatia	9.3	11.7	15.0	2.2	2.6	
	Romania	5.0	14.3	11.2	6.3	5.2	Romania	15.4	13.6	6.7	6.8	5.6	
	Serbia	11.1	10.2	6.4	3.0	4.2	Serbia	17.4	13.3	6.9	5.6	5.0	
EE & MENA	Moldova	13.1	23.5	9.3	4.3	4.3	Moldova	16.5	13.1	5.4	6.6	6.8	
	Russia	14.4	18.8	11.8	7.2	6.3	Russia	9.6	12.7	11.0	6.5	6.2	
	Ukraine	-2.8	9.6	-4.4	3.7	4.6	Ukraine	33.6	12.3	25.1	5.8	5.6	
	Egypt	24.5	18.3	28.4	18.2	10.2	Egypt	20.4	18.7	27.4	18.9	10.9	

Banking interest rates (%)

Lending (Corp. avg)		2020	2021	2022	2023F	2024F	Deposits (HH avg)		2020	2021	2022	2023F	2024F
CEE	Czech Rep.	2.3	2.3	7.6	7.5	3.6	Czech Rep.	0.8	0.9	5.0	5.3	2.3	
	Hungary	2.8	3.2	8.3	10.3	5.8	Hungary	0.3	0.6	6.6	9.8	3.8	
	Poland	2.7	2.4	7.5	7.8	5.3	Poland	0.5	0.3	4.4	5.3	3.5	
	Slovakia	1.9	1.9	2.4	4.3	3.3	Slovakia	0.0	0.0	0.0	0.9	1.4	
	Slovenia	2.1	2.1	1.9	3.8	2.9	Slovenia	0.1	0.1	0.1	0.6	1.0	
SEE	Albania	6.2	6.1	6.4	6.6	8.7	Albania	0.5	0.4	1.2	2.1	2.5	
	Bosnia Herzegovina	2.8	3.0	3.2	n.a.	n.a.	Bosnia Herzegovina	0.3	0.2	0.3	n.a.	n.a.	
	Croatia	2.4	2.1	2.6	4.6	4.8	Croatia	0.1	0.1	0.2	1.9	2.0	
	Romania	6.2	5.6	8.0	9.6	8.6	Romania	1.9	1.3	5.3	5.6	4.2	
	Serbia	5.9	6.2	7.8	10.7	9.5	Serbia	1.6	1.4	4.0	5.9	5.3	
EE & MENA	Moldova	8.5	8.3	10.6	11.6	8.5	Moldova	4.1	3.2	7.0	10.1	4.4	
	Russia	6.8	7.2	11.5	9.7	8.6	Russia	3.8	3.8	7.6	5.7	4.9	
	Ukraine	14.3	13.3	18.6	22.0	20.7	Ukraine	6.1	4.6	7.4	12.0	11.0	
	Egypt	11.4	9.4	10.6	15.9	12.0	Egypt	7.8	7.4	8.4	11.9	9.5	

Source: Intesa Sanpaolo Research Department forecasts

Important Information

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

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

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

Disclosure of potential conflicts of interest

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

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

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

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

giovanni.barone1@intesasanpaolo.com

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

Silvia Guizzo (Asia ex-Japan)

silvia.guizzo@intesasanpaolo.com

Debora Palmieri (Latin America and Sub-Saharan Africa)

debora.palmieri@intesasanpaolo.com

Francesca Pascali (MENA and EE)

francesca.pascali@intesasanpaolo.com

Antonio Pesce (CEE and SEE Countries and Quantitative Analysis)

antonio.pesce@intesasanpaolo.com

Francesco Martinelli (Data Base and Quantitative Analysis)

francesco.martinelli4@intesasanpaolo.com

Trade & Industry, Banking and Market Research

Wilma Vergi (Trade and Industry)

wilma.vergi@intesasanpaolo.com

Vincenzo Petrignano (Financial Markets)

vincenzo.petrignano@intesasanpaolo.com

Davidia Zucchelli (Banking)

davidia.zucchelli@intesasanpaolo.com

Pamela Furlan

pamela.furlan@intesasanpaolo.com

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

Zdenko Štefanides (Head)

zstefanides@vub.sk

Michal Lehuta

mlehuta1@vub.sk

Jacob Obst

jobst@vub.sk

CIB (Hungary)

Mariann Trippon (Head)

trippon.mariann@cib.hu

Andras Bukovszki

bukovszki.andras@cib.hu

PBZ (Croatia, Bosnia I Hercegovina and Slovenia)

Ivana Jovic (Head)

ivana.jovic@pbz.hr

Ana Lokin

ana.lokin@pbz.hr

Banca Intesa (Serbia)

Marija Savic (Head)

marija.v.savic@bancaintesa.rs

Tijana Matijasevic

tijana.matijasevic@bancaintesa.rs

Jelena Draskovic

jelena.draskovic@bancaintesa.rs

Sanja Djokic

sanja.djokic@bancaintesa.rs

Katarina Bubonja

katarina.bubonja@bancaintesa.rs

Alexbank (Egypt)

Samer Halim (Head)

samer.halim@alexbank.com

Mariam Massoud

mariam.massoud@alexbank.com

Aly Fayad

aly.fayad@alexbank.com

Mayada Hassan

mayada.hassan@alexbank.com

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

Kledi Gjordeni

kledi.gjordeni@intesasanpaolobank.al

Intesa Sanpaolo Bank (Romania)

Marius Pacurari (Head)

marius.pacurari@intesasanpaolo.ro

Pravex Bank (Ukraine)

Artem Krasovskiy

artem.krasovskiy@pravex.ua

Eximbank (Moldova)

Natalia Mihalas

natalia.mihalas@eximbank.com

Olga Pista

olga.pista@eximbank.com