

Economic and Banking Outlook

Viewpoint

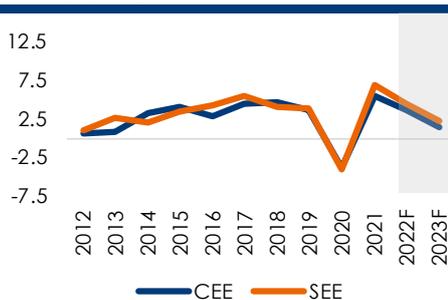
The macroeconomic scenario shows a deterioration in growth prospects and persistent inflationary pressures. Looking forward, downside risks on GDP and upside risks on CPI still prevail.

The first half of the year was characterised by higher-than-expected economic expansion thanks to the gradual easing of COVID-19 related restrictions on the supply side and the recovery in consumption on the demand side. Looking ahead, several negative factors are likely to weigh on the economy in the final months of this year and quite likely beyond that, at least through the first part of 2023, especially in European countries. In detail: **i)** risks of a further deterioration in the geopolitical scenario resulting from both the war in Ukraine and growing international tensions that are also affecting relations between China and the US; **ii)** persisting high commodity prices – with particular reference to gas and cereals – reflecting actual or potential trade restrictions; **iii)** a stronger-than-expected acceleration in inflation globally and at local levels; and **iv)** increasingly restrictive international and domestic financial conditions due to overall tightening monetary policies. In this regard, the central banks of the CEE countries – and later those in the SEE area moved ahead of similar decisions taken by the monetary authorities of Western countries, but the effects of monetary tightening have not yet fully unfolded. A different and much more severe scenario concerns Eastern European countries (EE), where a deep recession is under way in both Ukraine – due to the direct effects of the conflict – and in Russia as a result of the sanctions adopted by several countries. A marked economic deterioration is also affecting Moldova, where GDP contracted in 2Q22.

In this context, we have revised our June estimates for the two-year period of 2022-2023. On the economic growth side, the good performance in 1H22 has led us to improve GDP projections for 2022 in the CEE area to 3.6% (+0.5% vs June projections), in the SEE area to 4.5% (+1.7% vs June), and in the EE area to -8.6% (+4.0% vs June, as in the short term, the effects of sanctions on Russia have resulted in lower than initially expected. Egyptian GDP growth estimates were confirmed at 4.0%. Conversely, GDP estimates for 2023 were reduced for all three areas by -1.5% (CEE to +1.5%), -0.5% (SEE to +2.1%) and -2.0% (EE to -2.9%), respectively. With regard to inflation forecasts, there was a general upward revision, especially for the CEE area (about +6.6% cumulative over the two-year period) – compared to the SEE (less than 3% cumulative) – due to the greater impact on energy prices as a result of the higher dependence on Russian supplies.

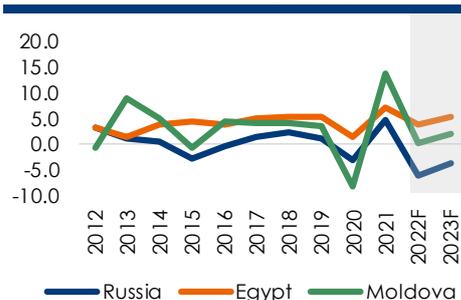
CEE area central banks are nearing the end of their tightening cycle and from 2023 some institutions will start to cut policy rates as inflationary pressures moderate during the year and due to the economic slowdown. In SEE countries, where rate hikes started later, they are projected to continue. On the banking side, we should see a slowdown in lending in both areas in 2022 and 2023. At an overall level, an average slackening to 6.4% this year and 4.4% in 2023 is expected. Lending is foreseen to be negatively affected by a deteriorating macro outlook, with high inflation and higher rates than in the recent past. On the deposit side, a slowdown is forecast in 2022 for CEE and SEE countries (to 2.7% from 9.9% in 2021), due to the recovery in consumption that took place mainly in the first part of this year. A subdued dynamic is expected in 2023 (to 3.8%), due to rising interest rates and persisting precautionary behaviour by households.

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



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

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



Source: ISP Research Department forecast

September 2022

Countries with ISP subsidiaries

Quarterly Note

Research Department

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

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

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

Cross country analysis

Recent developments

In the **CEE and SEE regions**, GDP growth remained higher than expected in 2Q22 even if the trends softened to 4.5% yoy and 5.4% yoy, respectively, vs 7.8% yoy and 6.2% in 1Q22. The latest releases of high frequency economic indicators signalled a further deceleration in economic growth in Q3.

In June in the CEE area, **industrial production** slowed to 0.1% with respect to the previous month (from 1.5% mom in May) and the trend, even if still positive, softened to 6.0% from 10.5% (on a weighted average basis [w.a.]). Among the countries in the area, it ranged from -5.7% yoy in Slovakia to +10.4% yoy in Poland. As in the CEE area, in the SEE region, industrial production contracted in June on a monthly basis (-3.5% mom on a w.a. basis), but in this case, it also recorded a negative trend (-0.3% w.a.). Within the region, industrial production ranged from -2.0% yoy in Romania to 3.9% yoy in Croatia.

In June, nominal **export** trends were still positive, at 19.5% and 27.5%, respectively, in the CEE and SEE regions, basically in line with Q1 trends. In the same month, the **retail sales** trends were still positive as well (11.6% and 3.9% w.a., respectively, in CEE and SEE), ranging from -5.9% in Czech Republic to 23.7% in Slovenia among CEE countries and from 3.2% in Romania to 10.7% in Bosnia and Herzegovina among SEE countries. In August with respect to Q2, the **ESI** weakened in all countries of the CEE and SEE regions (to 90.2 and 100.5 from 96.4 and 101.3 respectively).

Consumer price indices have been affected by two main external factors: energy price increases (at the time of writing, the price of Brent is USD 94.5/bbl); and bottlenecks in global supply chains, which have been exacerbated by the ongoing conflict between Russia and Ukraine. These factors are pushing up consumer price indices. **Inflation** continued to accelerate in August in both the CEE area (15.9% from 15.4% in July) and the SEE region (13.5% from 13.2%). In several cases, a weakening of local currencies, such as in Hungary and Poland, is affecting price indices, contributing to rises in inflation.

To counteract inflationary pressures, at their latest meetings, the **central banks** of Hungary, Poland, Romania, Serbia and Albania further increased policy rates: to 11.75% (from 10.75%), 6.75% (vs 6.50%), 5.50% (vs 4.75%), 3.50% (vs 3.0%) and 1.75% (vs 1.25%), respectively. In August, Czech Republic maintained the policy rate at 7.0% after the 25bp increase in June. In line with the upwardly revised inflationary expectations, **long-term yields** have also risen overall, with a widening of spreads vs the EA benchmark.

Antonio Pesce, Francesca Pascali, Davidia Zucchelli

Above expectations GDP trend in 2Q22 even with deceleration. The high frequency indicators signal a further softening of the economic dynamic in Q3

Consumer prices accelerated, due to the energy shock and bottlenecks in global supply chains

Further monetary restrictions to counteract inflation

Industrial production % yoy – CEE/SEE



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

Industrial production % yoy – EE/Egypt



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

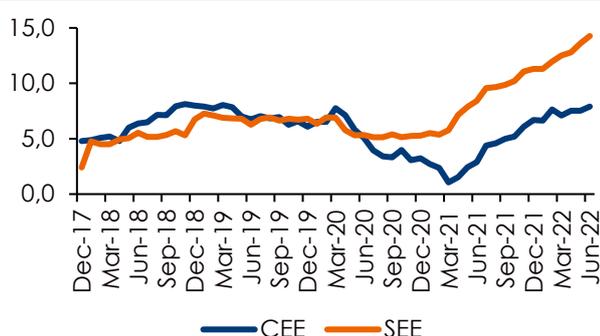
Outside the CEE/SEE regions, the geopolitical situation continues to affect **EE countries** in terms of an acceleration in inflation and a slowdown in economic activity. In 2Q22, **GDP** decreased by 4.0% yoy (from 3.5% in 1Q22) in **Russia** and to 37.2% yoy (from -15.1% in 1Q22) in **Ukraine**; in 1Q22, it increased by 1.1% (from 18.9% in 4Q21) in **Moldova**. In **Egypt**, GDP – still only marginally affected by the Russia-Ukraine war – grew by 3.2% yoy in 2Q22 (from 5.4% in 1Q22). Moving to the high-frequency indicators released in the early months of 2Q22, in July, **industrial production** fell (by -0.5% yoy) in Russia (vs -1.8% in June). In July, **retail sales** decreased in Russia by 8.8% (vs -9.6% in June 2022) and in June they declined by 4.1% in Moldova (vs +2.2% in May). With regard to **inflation**, in Russia, consumer prices started to decelerate from April (14.3% in August vs 15.1% in July) but remained well above CB targets (4.0%). It rose in Ukraine to 23.8% (vs 22.2%) and in Moldova (the CPI was 34.3% in August vs 33.6% in July). In Egypt, inflation rose by 14.6% in August (13.6% in July) which was well above the upper end of the official corridor ($7 \pm 2\%$) set by the CBE.

With regard to **banking aggregates**, **lending growth** accelerated further in many countries in June still supported by business cycle dynamics, despite rising interest rates. Loans increased by 7.9% yoy (3% YTD) in **CEE countries** (from 6.7% in 2021) and by 14.3% yoy (7.4% YTD) in **SEE countries** (from 8% in 2021). Hungary and Romania, where loans jumped by 13.4% and 16.9% yoy in June (from 12.7% and 14.3% in 2021), respectively, continued to be the best performers. Corporate loans showed much stronger performances than household loans in both CEE countries (13.3% yoy vs. 5.1% yoy as of June) and SEE countries (21% vs 8.6%). Rising interest rates are feeding some concerns regarding mortgages, especially in Poland and Romania, where variable rate mortgages dominate. The National Bank of Poland approved a new moratorium to support borrowers. At the country level, corporate loans strengthened by well over 10% yoy in all countries, especially in Romania (26.3%; but in Czech Republic +7.7% and Bosnia 3.9%). NPL ratios have so far remained low everywhere, but deteriorating economic conditions could lead to higher ratios.

Precautionary motives continued to support **deposit growth**, in both the CEE (but slowing from 8.7% in 2021 to 5.9% yoy in June) and SEE (from 12.9% to 9.1% yoy) areas. **Interest rates** accelerated, with regard to both lending and deposits, while the spread remained stable or even decreased marginally m/m (the only exceptions being Slovenia and Bosnia).

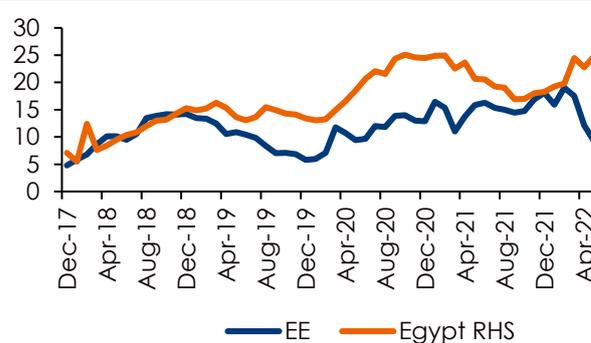
In the **EE area**, loan growth remained strong in Russia (9.2% yoy in May), especially for households (14.8% yoy), sustained by the subsidised mortgage lending programme, but slowing from 25% in 2021, while loans to corporate decelerated from 16% to 6.6% yoy in May. In Moldova, loans increased by 20.6% yoy in June, thanks to households (26.7% yoy vs 16.7% yoy in the corporate sector). In **Egypt**, banking aggregates (latest data only to May 2022 as for Russia) accelerated, with loans increasing by 24.9% and deposits by 24.4%.

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

In Q2 of this year, **global GDP** contracted at 0.4% qoq and the trend dynamic softened to 2.8% yoy from 4.3% yoy in Q1 (Oxford Economics estimate) as several shocks hit a world economy already weakened by the pandemic: strong inflation worldwide, especially in the United States and major European economies, wide negative spillovers from the war in Ukraine, diplomatic tensions and geopolitical fragmentation. The IMF, in its July 2022 update of WEO forecasts, showed GDP growth slowing from 6.1% in 2021 to 3.2% in 2022 (downwardly revised by 0.4pp with respect to the April 2022 WEO) and 2.9% in 2023 (0.7pp lower than the April 2022 WEO). The risks to the outlook are overwhelmingly tilted to the downside. The war in Ukraine could lead to an abrupt stop of Russian gas export towards European countries; inflation could be more persistent than expected; and renewed COVID-19 outbreaks and lockdowns could negatively affect economic activities.

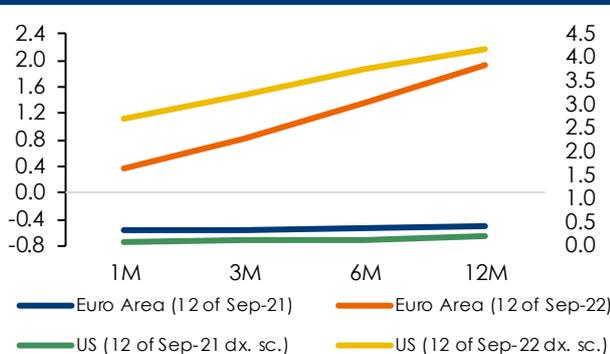
Regarding the **US**, even if the country is a powerful energy exporter and agricultural producer with limited trade links with Russia, reduced household purchasing power and tighter monetary policy to curb inflation could take a toll on economic growth, and GDP growth is expected to slow from 1.8% this year to below 1.0% next year (from 2.0% expected in ISP's June scenario). The still strong inflation in July, at 8.5%, after the 40-year high of 9.1% hit in June, highlights the risks of a wage/price spiral. In July, the Federal Reserve increased the funds rate by 75bps, to 2.50%. ISP expects the Fed funds rate to rise to 3.9% by the end of 2022 and to 4.5% by end-2023.

In the **Euro Area**, a significant economic dynamic downgrade reflects spillovers from the war in Ukraine and tighter monetary policy. ISP foresees full-year GDP growth slowing from 3.2% in 2021 to 0.5% in 2022, 1.6pp lower than in the June scenario, despite expansionary fiscal policies implemented in the Euro Area through the PNRRs at national levels. Uncertainty regarding the forecasts remains high, especially due to the economic consequences of the conflict in Ukraine and geopolitical tensions with Russia. The inflation rate (9.1% in August) is expected to increase further in the coming months and the annual average is estimated at 8.2% in 2022 and 6.7% in 2023. In this context, to counteract the mounting inflationary pressures, the ECB raised the policy rate by 75bp at its September 2022 meeting, following a 50bp rate hike in July. Given the statement of the Board, it is clear that interest rates are likely to rise further over the next several meetings, but any changes will continue to be data-dependent and changes will be made based on a meeting-by-meeting approach. At ISP, we expect the policy rate to reach 2.0% by eop in 2022 and 2.75% by eop in 2023.

Among **emerging countries**, prospects for the Asian region seem promising, as expected in the June scenario, with China's growth rate to soften slightly, from 5.6% this year to 5.4% in 2023. 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.

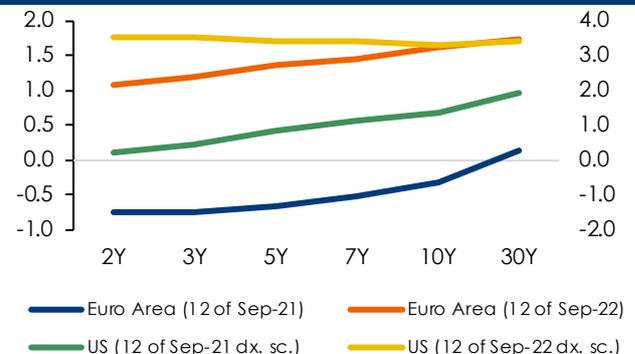
Global economic growth looks less promising than expected in the June scenario, with risks skewed to the downside

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

In both the **CEE and SEE regions**, **GDP trends** in 2Q22 have been above expectation. So, for full-year 2022, GDP projections have been raised with respect to the June scenario (to 3.6% from 3.1% and to 4.5% from 2.9%, respectively). GDP projections for 2023 have been downgraded, however (to 2.9% in CEE and 2.6% in SEE), due to the deterioration of international economic conditions as a consequence of further negative spillovers from the war in Ukraine, higher-than-expected inflation worldwide, and tighter monetary policies adopted by central banks both in the Euro Area and in CEE and SEE countries to fight the ongoing rapid acceleration of inflation. The prevailing risks to the outlook are to the downside. The war in Ukraine could cause an abrupt stop of Russian exports of gas toward European countries; inflation could be more persistent than expected; and renewed COVID-19 outbreaks and lockdowns could dampen economic activity.

Among CEE countries, for GDP growth in 2022, the higher upward revisions with respect to June projections occurred in Slovenia (1.9pp, to 6.6%) and Czech Republic (1.0pp, to 2.1%). For the same year, in the SEE region, the higher upward revisions occurred in Croatia (2.1pp, to 5.9%) and Romania (2.1pp, to 4.7). Regarding GDP growth in 2023, among the CEE countries, the higher downward revision occurred in Czech Republic and Hungary (-2.0pp, to 1.0% and 1.5%, respectively) and among SEE countries, in Albania and Serbia (-1.0pp and -0.8pp, to 2.2% and 2.5%, respectively).

In the CEE and SEE regions, **inflation** is projected to remain high in the coming months due to the energy shock and supply bottlenecks caused by the Russian-Ukraine conflict. The end-of-period inflation forecasts for 2022 have therefore been raised to 19.0% (from 13.4% projected in June) in the CEE area and to 13.5% (from 11.6%) in the SEE area. As in the June forecasts, by the end of next year, inflation is expected to decrease, though to still remain above the upper limits of CB targets, before approaching targets in 2024.

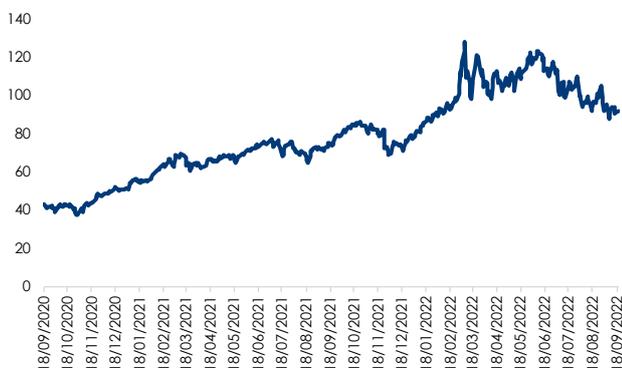
Due to the conflict in Ukraine, GDP growth forecasts in the **EE** region has been revised downwards: for Russia, to -6% in 2022 and -3.7% in 2023 (from -10.0% and -1.0% projected in June) and in Moldova to 0.3% in 2022 and 2.0% in 2023 (we maintain the June forecasts). For Ukraine, we forecast GDP to contract by 40% in 2022. Price pressures are expected to fall in Russia but remain high in Ukraine and Moldova. In Russia, where inflation has already started to decelerate, it is not expected to converge to the CB's targets before 2024. For **Egypt**, we have lowered our GDP growth forecast to 4.0% from 4.7% forecast in June for calendar year 2022, but kept it at 5.0% for 2023. Inflation is expected to accelerate to 15.0% by year-end 2022, particularly due to food and oil price increases. It is projected to ease to 10% by year-end 2023, before moving back to the CB's target in 2024.

The GDP forecast for 2023 has been downgraded due to deteriorating international economic conditions

Risks to our forecasts are to the downside

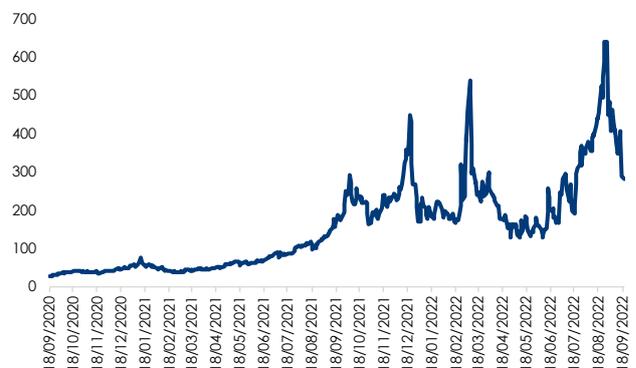
Inflationary pressures are expected to remain high for several months

ICE-BRENT CRUDE OIL (Barrels \$)



Source: Refinitiv-Datastream

ICE-NATURAL GAS (Therm £)



Source: Refinitiv-Datastream

Monetary policy and financial markets

With respect to our June Outlook, the paths of **policy rates** have been revised upwards in the CEE/SEE regions due to the acceleration of inflation, which is expected to be higher than previously forecast. All the CBs in CEE/SEE have adopted increasingly firm tones.

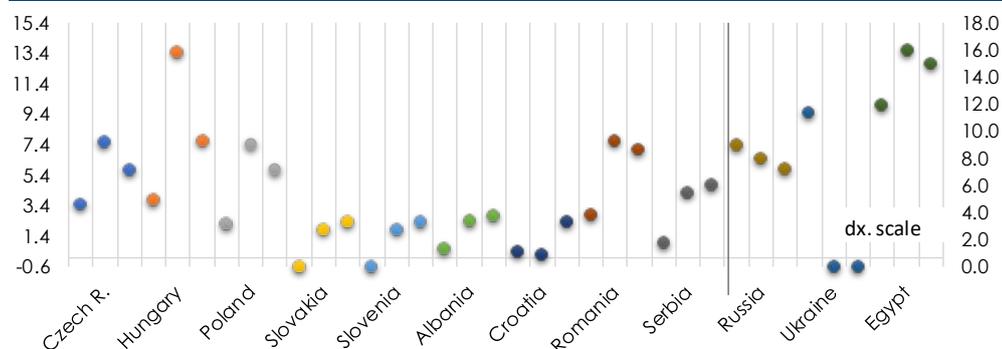
In Hungary, the MNB – after the shock increase to 11.75% on September – is still expected to increase the policy rate slightly further to above 13% by year-end 2022 and to start reversing the cycle in 2023, when clear signs of softening inflationary pressures are apparent. In Poland, we also still forecast a rise in the policy rate, to 7.5% by year-end 2022, and then a decline, to 5.25% eop, in 2023. In Czech Republic, after raising the policy rate to 7.0% in June 2022, the CB is expected to increase it further, by 50bp, by the year end, before starting to reverse the cycle and cut the policy rate to 5.50% by year-end 2023. In Romania, the policy rate is expected to reach 7.0% by year-end 2022, before being cut to 6.50% by year-end 2023. Also for Serbia and Albania, we have raised the profile of policy rates with respect to our June forecasts, to 4.25% and 4.75% at year-ends 2022 and 2023 in the former case and to 2.25% in 2022 and 2.50% in 2023 in the latter. Money market rate projections have been revised accordingly.

Outside the CEE/SEE regions, due to inflationary pressures and to a new phase of large-scale structural transformation of the Russian economy, **Russia's CB**, after raising the policy rate to 20% on 28 February, has started to lower the rate: by 300bp (to 17%) in April and by a further 600bp (to 11%) in two steps in May. At the beginning of June, the CBR again lowered the policy rate, to 9.5%, to 8.0% at the beginning of July, and then to 7.5% at the beginning of September. We do not expect it to announce further decreases in upcoming meetings. Starting from this level, key rates may be cut over the course of 2022, 2023 and 2024 as inflation recedes towards CB targets. In **Moldova**, the central bank raised the policy rate six times in 2022, by 1,500bp, to 21.5%. Due to expected persisting inflationary pressures, we forecast that the policy rate will reach 22.5% by the end of 2022, before being cut back to 10.0% by year-end 2023.

In **Egypt**, the CB, after keeping policy rate unchanged in 2021, raised the rate in March 2022 by 100bp (to 10.25%) and in May by a further 200bp (to 12.25%). It is expected to raise it again, by an additional 100bp, to 13.25% in 2022 and in 2023

The profiles of **long-term yields** have been revised upwards overall along the forecast horizon with respect to our June scenario due to the higher path of both inflation and Bund yield forecasts in the CEE/SEE regions. Spreads with respect to the EA benchmark have also been revised upwards – in particular, in those countries with higher inflation figures. In **FX markets**, exchange rates are expected to depreciate only slightly with respect the current values in the CEE/SEE areas overall, but in Hungary, we project a slight recovery from the depreciation that occurred in the last few months thanks to the stronger hikes of the monetary rate. The Croatian kuna (in the ERMII since July 2020, with a central parity at 7.53) will join the Euro from January 2023.

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



Source: ISP Research Department forecasts

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

Banking aggregates and interest rates

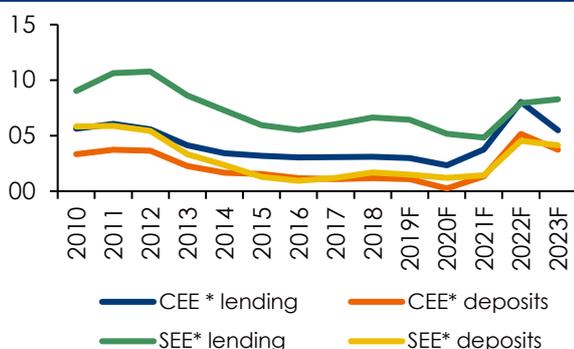
Forecasts for banking aggregates have been revised slightly overall for 2022 and in 2023 mainly because of recent performances (stronger for loans but lower for deposits than our expectations) and in light of increasing nominal GDP dynamics (due to economic slowdowns and an acceleration in inflation). After rising in both CEE and SEE countries (by 6.7% and 11.3%, respectively) in 2021, **loans** are forecast to accelerate in 2022, to 5.2% in the former and 9.5% in the latter (compared with 4.0% and 7% predicted in our June forecasts), but to decelerate in 2023, to 3.8% and 5.9%, respectively. Lending could suffer from higher interest rates (mainly mortgages with variable interest rates), making it more difficult to service debt. Furthermore, the demand for credit could be affected by the falls in real disposable incomes due to high inflation, which reduces the ability of households to repay debt. But at the same time, inflation also decreases real debt, increasing the ability of households and corporates to repay loans. Some countries (mainly Poland and Romania) have adopted some measures to support consumer spending or moratoria to postpone arrears. NPLs are expected to rise given the deteriorating macroeconomic outlook. However, the GDP growth dynamic could continue to slow NPL ratio trends.

Among **CEE countries**, the deceleration is expected to be strong in Hungary (from 12.7% in 2021 to 9% in 2022, revised up from 3% projected in our June forecasts) while lending in Poland, which has been particularly weak in the last two years, is expected to slow only slightly. The new economic landscape will also affect lending in the **SEE countries**, but to a lesser extent (9.5% in 2022 and 5.9% in 2023), partly due to the lower number of European banks that also operate in Russia in the region (in comparison with the CEE area). Romania is expected to remain the best performer in the area (10.4% in 2022 and 6.9% in 2023). In the **EE countries**, lending is still expected to decelerate significantly, particularly in Russia (to 3% from 18.8% in 2021) because of the recession and the severe financial restrictions imposed by Western countries. The new sanctions, limitations on capital flows to/from abroad, the exclusion of some Russian banks from SWIFT transactions, and the interruption to the operations of foreign banks based in the country – which have been faced with strong liquidity support by the CBR and the government – are forecast to hit lending (which is seen to decelerate from 18.8% in 2021 to 3.0% in 2022, down further from 3.5% projected in our June forecasts).

Deposits are forecast to decelerate as well because of the deteriorating macroeconomic context and rising inflation, which could support consumer spending. On the other hand, uncertainties about the war's evolution could sustain deposit growth via precautionary saving. In detail, deposits are expected to decelerate in CEE countries from 8.7% in 2021 to 2.4% in 2022, and in SEE countries from 12.9% in 2021 to 3.5% in 2022 (vs 5.4% and 5.5%, respectively, foreseen for 2022 in our June forecasts). In Russia, deposits are forecast to slow from 12.7% to 2% (4% in our June forecasts).

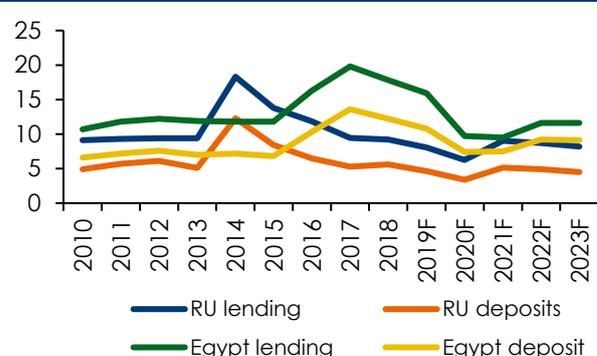
The effect of the war on banking will be more moderate in **Egypt**, where loans are expected to decelerate from 18.3% to 18% and deposits from 18.7% to 18%.

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 Czech economy recorded a better-than-expected performance in the first half of the year, leading to an upward revision of the full-year 2022 growth estimate by 1pp. Growth for 2023, however, has been revised downward from the previously foreseen 3% to just 1%, due to the recession now anticipated in the autumn and winter months, driven by the impact of Russia's war in Ukraine and the broader energy crisis in Europe. The latter factor could have particularly dire consequences for the Czech economy, due to its relatively heavy dependence on imports of Russian energy as well as heavy exposure to the German industrial supply chain, which is also suffering from soaring energy costs.

Besides impacting industrial prospects, soaring energy bills also negatively affect consumer confidence. Households have hitherto been drawing down savings to sustain consumption plans and thus have been helping to sustain overall GDP growth. Yet, with pandemic savings now depleted and inflation seen peaking in the autumn at 20%, lower household consumption will likely start to have a negative effect on GDP growth over the rest of 2022 and also in 2023. To alleviate the impact of the energy crisis, the Czech government will likely intervene in addition to measures proposed on an EU-wide level. It has already suggested bold floors for electricity and gas prices which would cost nearly EUR 3bn. Such an intervention would help to cushion the sentiment and financial situation of Czech firms, but comes at the expense of government consumption and its own contribution to GDP growth.

Financial Markets

The Czech National Bank (CNB) has been responding swiftly to the rise in inflation and had increased rates to 7% by June. With inflation still expected to increase, there remain voices on the CNB board advocating for further rises in rates. At the same time, the majority of the CNB Board, including the newly appointed governor Ales Michl, would now prefer to pause and wait to see if the past rate hikes start to slow the demand-driven component of inflation. Hence, the official rates are expected to remain stable or increase at most by 50bp over the rest of the hiking cycle. The koruna has recently recovered from a temporary bout of weakness in the early summer and we now expect it to be a bit stronger at year-end than we previously had. Forecasts longer term continue to project that the koruna stays steady or appreciates mildly vs the euro. Regarding the debt markets, Czech yields and spreads continue to remain much higher than previously expected. Prospects nonetheless are for spreads and yields to normalise, but given the elevated global rate environment, this could take some time.

Banking Sector

In the banking sector, rising interest rates and tighter macroprudential measures, along with steep housing prices and deteriorating affordability, will curtail the growth of new mortgages. Deposit volumes will be impacted by depletion of forced pandemic savings and still negative real rates. But, we expect that ample liquidity in the Czech market will nonetheless prevail. The loan/deposit ratio is forecast to deteriorate only marginally, to around 73% from a pandemic low of 70%.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-5.7	3.4	2.1	1.0
CPI (eop)	2.3	6.6	19.8	4.0
Euro exh. rate (value, eop)	26.3	25.2	24.6	24.2
Short-term rate (eop)	0.4	3.5	7.6	5.7
L/T bond yields (eop)	1.3	2.7	5.3	4.5
Bank loans (pr. sector, yoy)	4.1	8.4	5.4	5.0
Bank deposits (pr. sector, yoy)	11.9	7.0	4.0	4.5
Lending int. rate (corp., eop)	1.9	4.4	8.1	5.1
Deposit int. rate (hh, eop)	0.6	2.3	5.9	3.8

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

After the stronger-than-expected H1, the economy looks set to lose steam. Industry is weighed down by sky-high input costs and weakening demand. The construction sector is set weaken mirroring cancelled fiscal investments. Households will react to elevated inflation, rising utility costs, and the high level of uncertainties by cutting consumption, which will be reflected in weaker growth in services (previously the key engine of growth). There is very limited fiscal room to support activity (we forecast meagre growth in investments) while the contribution from net exports is expected to be negative. Still, FY22 GDP may surpass 5% before slowing to ~1.5% in 2023. Inflationary pressures have intensified further recently. Strong, broad-based repricing in the economy has continued, there is a developing wage-price spiral, and inflation expectations have been unanchored too. Administrative measures (partial phasing out of utility price caps, the expected abolition of price caps on fuel and staple food items) will push the inflation trajectory further up. CPI yoy is likely to peak above 22% in late 2022. A marked slowdown in inflation can be expected from 4Q23, but average CPI should be ~14% both this year and the next.

Mariann Trippon

Financial Markets

Reacting to strengthening inflation risks and increased financial market volatility, the CB accelerated the tightening cycle: the policy rate and the effective one-week depo rate reached 11.75% in August. Based on the outlook for inflation, the tightening cycle could continue until at least year-end. The policy rate may peak at 13.5% and rates will remain higher for longer. We expect a partial reversal from 2H23 in tandem with the deceleration of inflation though. The NBH's rate hikes could not push the forint to stronger levels; volatile global risk sentiment, along with country-specific issues, has weighed on the Hungarian currency. The EUR/HUF has been fluctuating around 400 recently. Concerns regarding the disputes with the EU will remain important short term, but fundamentals (external deficits) are also HUF negative. Therefore, we do not expect any meaningful FX appreciation either over the remainder of the year or in 2023.

Banking Sector

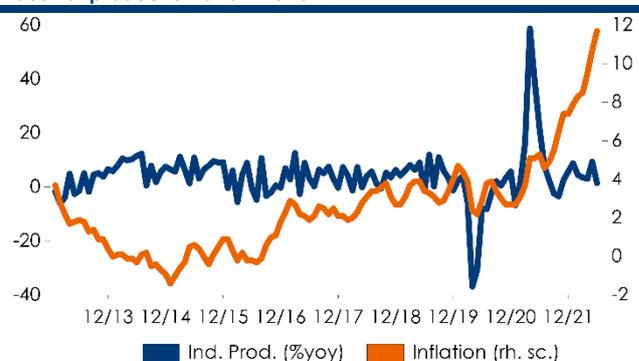
Bank deposit growth slowed in the first half of 2022 and no significant growth is expected for the remainder of this year, due to the end of moratoria, as household and corporate customers are starting to pay back loans. Lower GDP growth and high inflation as well point to decelerating savings growth. Customer deposits are expected to rise by around 3% in 2022, but the pace should fall to 1-2% in 2023. With regard to the lending market, the strong first half-year could keep the growth rate for 2022 close to 10%, thanks to the government supported Széchenyi programme and a strong housing market. However, with slower economic growth, the increase in loan volumes could drop below 2% in 2023.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-5.1	7.1	5.1	1.5
CPI (eop)	2.7	7.4	22.7	6.2
Euro exch. rate (value, eop)	359.0	367.2	390.0	385.0
Short-term rate (eop)	0.8	3.8	13.5	7.7
L/T bond yields (eop)	2.2	4.4	8.6	7.5
Bank loans (pr. sector, yoy)	13.4	12.7	9.0	1.5
Bank deposits (pr. sector, yoy)	23.3	17.6	3.0	1.5
Lending int. rate (corp., eop)	3.0	4.5	9.5	5.7
Deposit int. rate (hhs, eop)	0.3	1.5	6.9	3.5

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

Industrial production and inflation



Source: Hungarian Central Statistical Office

Poland

Real Economy

The Polish economy continued to withstand the external headwinds related to Russia's war in Ukraine and the energy shock regarding Europe reasonably well through Q2, allowing us to marginally increase the full-year GDP growth forecast, to 3.8% from 3.5% projected previously. The incipient industrial recession in the second half of the year, due to soaring energy costs and slowing external demand, will however likely negatively affect growth of real GDP in 2023, with it falling to well below 2%. A more pronounced slowdown is likely to be countered by consumer spending trends thanks to the tight labour market, generous wage increases and the government's anti-inflation shield, which is likely to be enlarged and extended upon them well into 2023 or even beyond.

Inflation, nonetheless, is continuing to increase and is seen to peak at close to 20%, some 5pp above previous expectations. Against this backdrop and the prevailing uncertainty, investment will likely contribute negatively to forecast growth.

Financial Markets

The National Bank of Poland (NBP) has continued to tighten policy, having raised the reference rate to 6.75%, but it also indicated that the hiking cycle is coming to end due to the disinflationary impact of slowing economic growth. The NBP's recent statements are in line with our view that the reference rate will reach 7.5%.

Markets are likely to remain on their toes given the ongoing geopolitical tensions and keep the Polish zloty and yields under pressure. Still, compared to three months ago, tensions have eased a bit, allowing yields to retreat from previous highs and enabling us to lower our projections a bit for the end of this year and next, to 6.3% and 6.0%, respectively, compared to 6.9% and 6.4% previously.

The zloty is likely to remain weak, as the NBP is less hawkish than its regional peers, both in raising rates and engaging in interventions on the foreign exchange markets. Hence, we keep our forecast for the zloty exchange rate vs the euro unchanged, at 4.7 by end-2022 and 4.5 at end-2023.

Banking Sector

In the banking market, we expect loan volume growth to moderate due to rising interest rates, uncertainty, and a slowing economy. Deposit growth has slowed even faster, as households depleted most of their pandemic savings to sustain consumption given a rising cost of living. A return to more even growth seems likely in 2023 as the rate situation stabilises. The ratio of loans to deposits, which in pre-COVID times ran close to 100%, is likely to continue to hover around a comfortable 80%.

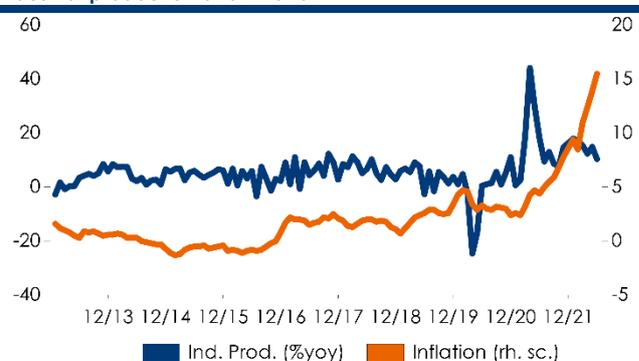
Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-2.7	6.1	3.8	1.5
CPI (eop)	2.4	8.6	19.0	5.0
Euro exch. rate (value, eop)	4.5	4.6	4.7	4.5
Short-term rate (eop)	0.1	2.3	7.5	5.8
L/T bond yields (eop)	1.3	3.3	6.3	6.0
Bank loans (pr. sector, yoy)	0.4	4.6	3.5	4.0
Bank deposits (pr. sector, yoy)	12.8	7.7	1.5	3.5
Lending int. rate (corp., eop)	2.4	3.8	8.8	5.9
Deposit int. rate (hh, eop)	0.2	1.3	5.4	4.1

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

Zdenko Štefanides

Industrial production and inflation



Source: Statistics Poland

Slovakia

Real Economy

Extremely high prices for energy, due to low supplies of natural gas from Russia to Europe, are taking their toll on the Slovak economy. Several large companies, mainly in the metallurgical, chemical and pharmaceutical industries, have already announced halts in production and layoffs. This most probably marks a turning point in economic development after the post-pandemic recovery that lasted until 2Q22, supported by buoyant consumer demand. In the coming quarters, we thus expect the industrial sector to continue to suffer, as supply chain problems could deteriorate further amid an environment of unsustainably high power and gas prices. In addition, services will witness weaker demand as real household incomes are now falling. For 2022 and 2023, domestic GDP could potentially grow by only 1.7% and 1.8%, respectively. But further, if Russia were to stop gas supplies to Europe completely, the resulting recession could be much more severe.

Slovakia's labour market has so far weathered the problems reasonably well. However, as it is a lagging variable, we expect to see a slight increase in the unemployment rate. Wage growth should remain robust in nominal terms, albeit negative in real terms this year and in 2023. The domestic inflation rate has been rising since last year and has reached 20-year highs. It may reach a peak at the beginning of 2023, when the new regulated prices of electricity, gas and heat will come into force. However, negotiations on regulated prices are ongoing.

Financial Markets

Due to the record-high inflation in the Euro Area, the ECB started to hike interest rates from July, initially by 50bp and then by another 75bp. This hiking trend may continue at least until December, when the central bank publishes its new macroeconomic forecasts, including forecasts for inflation until 2025. Along with expectations of higher short-term rates in the future, bond yields started to rise again. However, they may not increase much more from the current levels as risks of a looming recession in the Euro Area may put stop their rise.

Banking Sector

Slovak banks have recovered from the pandemic very well and continued to provide record volumes of new credit during 1H22, which also kept their profitability high. However, this may have also been caused by the one-off demand surge stemming from the expectations of further rises in interest rates, particularly regarding mortgages. This may have pulled some demand forward from the future to the earlier months of this year and could mean weaker demand from 2H22 onwards. Slower growth for the banking business can be expected also due to falling real household incomes.

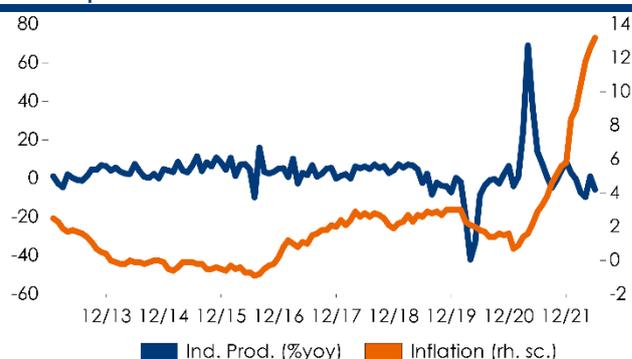
Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-4.4	3.0	1.7	1.8
CPI (eop)	1.6	5.8	13.6	6.0
Short-term rate (eop)	-0.5	-0.6	1.8	2.3
L/T bond yields (eop)	-0.5	0.0	2.7	2.8
Bank loans (pr. sector, yoy)	4.5	7.3	8.5	4.5
Bank deposits (pr. sector, yoy)	6.3	4.5	2.5	4.5
Lending int. rate (corp., eop)	1.7	1.6	2.8	3.6
Deposit int. rate (hh, eop)	0.0	0.0	0.9	1.8

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

Michal Lehuta

Industrial production and inflation



Source: Statistical Office of Slovakia

Slovenia

Real Economy

In Q2, quarterly GDP growth rose by 0.9% (from 0.7% in Q1), which meant the annual growth rate stayed high at 8.2%. The strong quarterly performance was mainly supported by services exports (+7.7% qoq, +38.7% yoy) and a positive contribution from inventories. Household consumption declined on a quarterly basis (-1.2%) as inflation negatively affected purchasing power. A strong but slowing annual growth rate (+6.4%) was also recorded for investments, although on a quarterly basis, investment declined by 1.2%. The annual growth rate for goods exports slowed to only 2.4% while imports strengthened by 6.3% yoy. Thanks to services exports, overall net foreign demand contributed positively (0.6pp) to headline GDP growth. The available data point to solid trends continuing into Q3, as July retail trade volume increased by 25% yoy. At the same time, goods exports continued to overperform, growing by 34.5% yoy (imports by 36%), but in recent months, exports to EU markets showed a slower dynamic compared to other markets, attributable to increased uncertainty and slowing manufacturing activity in the EU. Thus, as we expect a more material slowdown in autumn, our current estimate sees FY22 GDP growth surpassing 6%, followed by a significant slowdown in 2023, to around 2.2%, reflecting sizable downward revisions to major trading partners' growth as well as the adverse impacts elevated inflation will have on disposable incomes.

Ivana Jović

Inflationary pressures eased slightly in August, by -0.1% mom, while annual HICP slowed to 11.5% (from 11.7% in July), mainly reflecting monthly declines in oil derivatives prices and seasonal sales of clothing and footwear. We estimate average annual inflation of around 9.7%, with a gradual easing towards around 5% in 2023.

Financial Markets

Slovenian 10Y government bond spread vs the Bund and yield averaged 110bp and 2.2% in July-August (YTD 90bp and 1.7%). Average yield and spread in 2022 are expected to be 2.1% and 100bp (eop 2.8% and 110bps), as Q4 is likely to be a very uncertain period.

Ana Lokin

Banking Sector

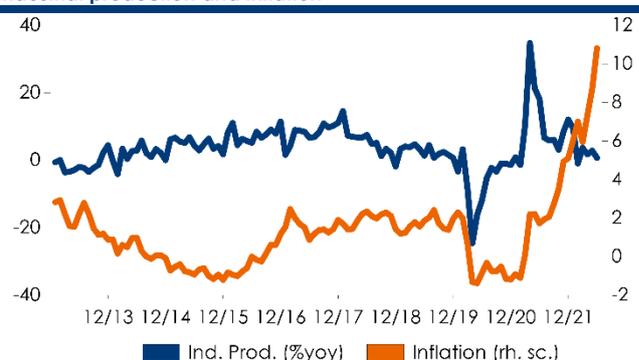
Loan growth rose sharply, reaching 11.2% yoy in July, thanks to strong lending to corporates (14.8% yoy), followed by a gradual acceleration of household lending (8.2% yoy). A stronger rise in GDP seen in 2022 as well as a surge in corporate lending prompted an upward revision of this year's loan forecast to a buoyant 9.2% yoy. Deposit growth was flattish (5.3% yoy in July). We have confirmed our end-2022 deposit rise estimate at 4.9% yoy as we continue to see uncertainty supporting a rise in savings while sharp price growth will simultaneously weigh on revenues.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-4.2	8.1	6.6	2.2
CPI (eop)	-1.2	5.1	12.0	2.7
Short-term rate (eop)	-0.5	-0.6	1.8	2.3
L/T bond yields (eop)	-0.2	0.3	2.8	2.9
Bank loans (pr. sector, yoy)	-0.9	5.2	9.2	3.2
Bank deposits (pr. sector, yoy)	12.2	8.2	4.9	4.0
Lending int. rate (corp., eop)	2.3	1.9	2.6	3.5
Deposit int. rate (hhs, eop)	0.1	0.1	0.8	1.5

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

Industrial production and inflation



Source: Statistical Office of the Republic of Slovenia

Albania

Real Economy

Albanian economic growth reached 5.97% in the first quarter of 2022. The main drivers were the construction sector and trade. Employment increased by 3.4% and the unemployment rate fell to 11.3%, which resulted in rapid wage growth. In particular, private sector wages have been on an upward trend since the end of 2020 and increased by 10.5% in the first quarter of 2022. In spite of that, the effect of high prices is weighing on purchasing power. In July, the CPI was 7.5% vs 2.2% in the same period a year ago. The high CPI, or the further extension of its high levels over time, is the main risk for the economy. Inflation is expected to remain high until the beginning of next year but then to decline and remain at the 3% target in the first half of 2024. The central bank remains determined to take all necessary measures to return inflation to the target in the medium term without jeopardising positive economic growth in this horizon.

Kledi Gjordeni

Financial Markets

Consequently, regarding the increases of services and good prices, at the August meeting, the Supervisory Council of the Bank of Albania increased the base interest rate by 0.5pp, bringing it to 1.75%. The increase in the key rate was immediately transmitted to the interbank and primary markets for government securities. The foreign exchange market saw an appreciating trend for the LBY against the euro, which is typical for the second and third quarters of the year. In August, the lek continued to strengthen, by more than 4% yoy against the euro, reflecting high foreign exchange inflows, mainly from a strong tourist season.

Banking Sector

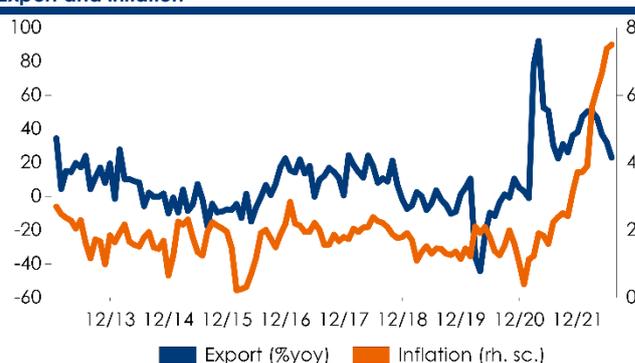
Although the rise in policy rates has been reflected in higher interest rates on loans, the expansion of consumption and investment continues to support demand for credit. In June 2022, total loans expanded by 12.46% yoy, with loans to households rising 13.92% and to corporates 11.67%. The NPL rate was 5.32% vs 7.12% in the same period a year ago. Interest rates on deposits also began to react to the rise in the base rate. In June 2022, total deposits expanded by 7.95% yoy. Household deposits rose by 5.8% while corporate deposits increased by 17.07%.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-3.3	9.0	3.2	2.2
CPI (eop)	1.1	3.7	7.5	3.8
Euro exch. rate (value, eop)	123.3	120.9	119.8	120.6
Short-term rate (eop)	0.4	0.5	2.4	2.7
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	7.0	9.6	7.2	4.1
Bank deposits (pr. sector, yoy)	8.1	9.2	3.2	3.8
Lending int. rate (pr. sec., eop)	6.5	5.3	7.7	8.5
Deposit int. rate (pr. sec., eop)	0.4	0.4	1.9	2.2

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

Following 5.5% yoy GDP growth in Q1, high frequency data indicate that a solid performance continued over the following four months ending July, although with a slowdown evident across the board. In detail, following Q1's 18.3% surge in retail trade volume, the pace of annual growth slowed to around 11% (average May-July) reflecting both a fading of the reopening-related boost and an inflation-related deterioration of purchasing power, as at the same time average inflation doubled from 8.4% (Q1) to 16.7% (July). In parallel, a slowdown was observed in goods exports, as nominal growth rates gradually slowed from 40% yoy (Q1) to the latest available 24.1% yoy for July. In parallel, a significant slowdown was observed in industrial production, as headline growth slowed to 1.1% in June, before slipping into negative territory at -1.4% yoy in July, driven by stagnating manufacturing and deteriorating electricity production (-2.8 yoy) amid an unprecedented period of drought. Overall, we see FY22 GDP growing by around 2.9% yoy. Looking forward, an unfavourable external environment – i.e., an expected significant slowdown in major export markets – as well as the lack of an appropriate local policy response to curb surging inflationary pressures led to a downward revision in the 2023 forecast, to 2.0% yoy growth. For obvious reasons, risks are skewed to the downside, particularly because of a likely prolonged formation of a government following elections scheduled for October.

Ivana Jović

Although inflationary pressures eased on a monthly level in July (to 0.7% mom vs 1.4% in June), the annual inflation rate skyrocketed to 16.7%, driven by a 24.7% yoy surge in food prices, followed by an 18.2% increase in electricity and gas prices and a 41.4% rise in motor fuel costs. Overall, average inflation over the first seven months of 2022 amounted to 12.2% and we estimate the FY22 average at around 13.6%, before we see an easing to around 5% in 2023.

Banking Sector

In September, we raised the estimated loan growth rate to 4.8% yoy, as private sector loans continue to rise steadily in recent months (5.1% yoy in July), with solid lending to both corporates (4.7% yoy) and households (5.5% yoy). Deposits saw mild growth (1.1% yoy in July). Corporate deposits slowed (9.7% yoy) while the decrease for household deposits (induced by troubles with Sberbanks) softened a bit, contracting by 3.0% yoy in July (vs -4.9% YTD). In line with the sluggish performance in the past several months, as well as rising prices biting into disposable incomes, we cut end-2022 deposit growth forecast to -0.1% yoy, expecting that the recovery, especially in household deposit growth, will take longer than previously expected due to the outlook becoming gloomier.

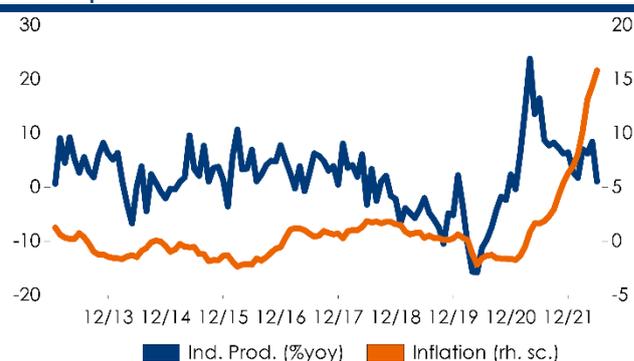
Ana Lokin

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-3.2	7.1	2.9	2.0
CPI (eop)	-1.6	6.4	14.5	3.2
Euro exch. rate (value, eop)	2.0	2.0	2.0	2.0
Short-term rate (eop)	n.a.	n.a.	n.a.	n.a.
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	-2.5	3.7	4.8	3.9
Bank deposits (pr. sector, yoy)	6.5	10.0	-0.1	2.2
Lending int. rate (corp., eop)	n.a.	n.a.	n.a.	n.a.
Deposit int. rate (hh, eop)	n.a.	n.a.	n.a.	n.a.

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

Industrial production and inflation



Source: Agency for statistics of Bosnia and Herzegovina

Croatia

Real Economy

Following 7.0% yoy growth in Q1, annual GDP growth strengthened in the second quarter, to 7.7%. The main drivers of growth were household consumption (+7.7% yoy vs 6.3% in Q1) and exports, as services skyrocketed by 65.7% yoy while goods exports surged by 26.5% yoy. At the same time, investments increased by 5.0% yoy, slowing from the 7.9% registered in Q1. High frequency data indicate solid Q3 trends, as tourism delivered strongly in both July (foreign overnight stays: +20.6% yoy) and August (+5.4% yoy). Although still solid, annual growth in real retail trade in July slowed to 3.3% for the third consecutive month while manufacturing slipped into the red (-3.3% yoy). However, July external trade was still buoyant, as goods exports increased by 40.7% yoy, followed by a 48.8% surge in imports. The domestic labour market remains tight, with unemployment down to 6.3%, or -1pp yoy. Thus, we see FY22 GDP growth nearing 6%, though a gloomy EA outlook amid an unfolding energy crisis and rising uncertainties caused us to downgrade our 2023 call to 2.3% yoy. Recently, the government has presented an additional EUR 2.8bn policy response to shield consumers and enterprises from rising food and energy prices. This mainly focuses on price caps on electricity, heating energy and gas. Monthly inflation in August slowed to only 0.2% (driven by seasonal clothing and footwear sales and a decline in motor fuel costs), the annual inflation rate stabilised at 12.3% (same as in July), pushing average annual inflation in the first eight months of 2022 to 9.6%. Given the recent surge in gas and electricity prices, we see average yoy inflation surpassing 10% in 2022 and staying elevated in 2023 as well.

Ivana Jović

Financial Markets

In July, the EU Council approved Croatia's entry into the Eurozone in 2023 and fixed the conversion rate at HRK 7.53450/EUR 1. The kuna thus flat-lined during summer. The average 10Y government bond spread and yield in July-August stood at 170bp and 2.9%; this year's estimated average spread is 150bp (eop at 130bps) and the average yield is estimated at 2.5% (eop at 3.0%).

Ana Lokin

Banking Sector

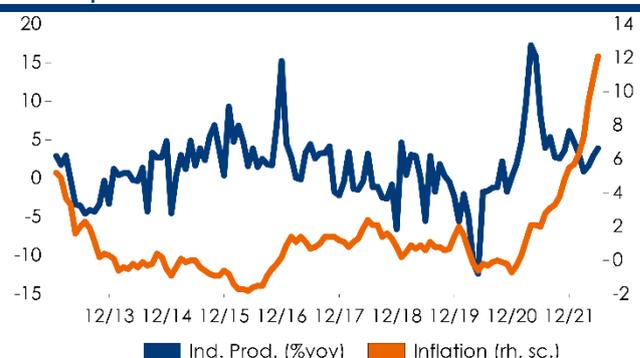
Loans gained momentum, rising 9.0% yoy in July due to increased borrowing by companies (15.3% yoy; energy sector financing needs increased; expected interest rate rise in the autumn) paired with stable household demand (5.2% yoy). We have therefore lifted our 2022 loan estimate to 9.2% yoy. Deposit growth rose (by 13.6% yoy in July) as rising revenues from the tourist season and increased lending spurred liquidity growth, reflecting caution on the part of the private sector, hence the 2022 estimate was raised to 9.0% yoy. After the EU Council decision, the Croatian National Bank changed monetary policy, announcing a gradual cut to the mandatory reserve requirements and minimum FX claims rates, bringing the former down to 1% in December while abolishing the latter in the same month.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-8.1	10.2	5.9	2.3
CPI (eop)	-0.7	5.5	12.6	4.8
Euro exch. rate (value, eop)	7.5	7.5	7.5	7.5
Short-term rate (eop)	0.2	0.4	0.2	2.3
L/T bond yields (eop)	0.7	0.6	3.0	3.1
Bank loans (pr. sector, yoy)	3.5	2.3	9.2	3.2
Bank deposits (pr. sector, yoy)	8.7	11.7	9.0	3.0
Lending int. rate (pr. sec., eop)	5.2	4.0	4.9	4.9
Deposit int. rate (pr. sec., eop)	0.1	0.1	0.3	1.1

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 2Q22 was 5.3% yoy, slightly higher than expectations. Our GDP growth forecast for eoy 2022 is around 2.6%.

CPI yoy at the end of August was 15.3%, above the National Bank of Romania (NBR) projection. According to the NBR's latest projections, the inflation evolution will decelerate through eoy 2022 to around 13%, but with many uncertainties related to the war in Ukraine, energy market prices, and food and commodities market prices. The inflation level significantly improved due to government subsidies for energy prices.

The budget deficit at the end of July 2022 was 1.94% of GDP, with a budget execution apparently better than in the previous year. This appeared to be because the grant for energy prices for the last five to six months was not yet paid entirely to energy companies.

The current account deficit is still growing: July showed a EUR 14.9bn deficit vs EUR 9.1bn in the same period of 2021. The magnitude of the increase is a risk factor and will need to be monitored for the coming months.

Financial Markets

The NBR increased all monetary policy rates (deposit, Lombard, and reference rate) by only 75bp at the August meeting, despite the high inflation level and higher market expectations. The levels of monetary policy rates are as follow: Deposit Facility Rate 4.5%, Reference Rate 5.5%, and Credit Facility Rate 6.5%. Further rate hikes are expected this year.

The EUR/RON rate became more volatile (range of 4.95-4.82 linked to the EUR/USD rate evolution), showing the NBR's use of "all instruments" in the fight against inflation. The bank continues to provide liquidity to the banking system. If bilateral repo Transactions volumes decline, Lombard Facility improved liquidity of the market with more than RON 10bn daily in the last two months.

Romania's EUR 5Y CDS reached almost 300bp at the end of July, the highest level since 2012. After reaching that level, it decreased to 270bps at the beginning of September.

Banking Sector

June figures pointed to consistent growth in credits (16.91% yoy) and a deceleration in deposit growth (9.83% yoy). In the first six months of 2022, the evolution of deposits was flat. Interest rate grown saw 5.54% and 7.75% averages on RON-denominated deposits and credit, and decreased by 1.54% average on EUR-denominated credits. It remained stable at 0.08% on EUR-denominated deposits.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-3.9	5.9	4.7	2.0
CPI (eop)	2.1	8.2	13.9	7.5
Euro exh. rate (value, eop)	4.9	4.9	4.9	5.0
Short-term rate (eop)	2.0	2.8	7.7	7.1
L/T bond yields (eop)	3.3	5.4	8.1	7.1
Bank loans (pr. sector, yoy)	5.0	14.3	10.4	6.9
Bank deposits (pr. sector, yoy)	15.4	13.6	2.8	5.1
Lending int. rate (pr. sec., eop)	5.4	5.3	9.0	9.5
Deposit int. rate (pr. sec., eop)	1.5	1.9	6.0	5.2

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

Although slightly weaker than in Q1, GDP growth in 2Q22 was above expectations, at 3.9% yoy. Resilient household consumption remained a key driver, adding 2.9pp to growth, followed by government consumption (0.7pp) and inventories (0.5pp). Investment activity moderated (+1.7%, 0.4pp) while the contribution of net exports remained negative for the fifth straight quarter (-0.5pp). On the production side, the service sector played a key role (3pp). Industry was also mildly supportive (0.9pp) while construction and agriculture shrank by 7.6% and 5.4%, respectively. Based on a better-than-expected performance in 1H22, we have upgraded our whole-year GDP projection to 3.5% yoy. However, we expect lower growth next year (2.5%) due to a weaker carry-over effect and a worse outlook for external demand after a major downward revision of Eurozone growth for 2023. Negatively affected by food and energy price spikes, yoy inflation hit 13.2% in August, a level last time seen in May 2011. Price pressures will remain elevated, with the inflation path becoming more flattened in the coming months, but not shifting downward yet. The average CPI projection has been revised up to 11.5% for 2022 and to 9.7% in 2023. A return to the National Bank of Serbia's (NBS) target bands (3%±1.5 pp) is likely at the turn of 1Q/2Q24.

Tijana Matijasevic

Financial Markets

In September, the NBS raised the key policy rate by 50bp, to 3.5%. The credit facility rate was increased to 4.5% and the deposit facility rate to 2.5%. Persistently high inflation and more hawkish ECB and Fed signal further rate hikes in the coming months. The key policy rate is expected to rise to 4.25% in December, with more hikes likely in 1Q23.

The dinar remains stable against the euro, trading slightly below 117.4. It has gained 0.2% since the start of the year. Appreciation pressures have prevailed since May, leading the NBS to intervene on the purchase side (-EUR 1.4bn) and to build up FX reserves after heavy spending early this year. While we expect to see stronger depreciation pressures as of autumn, the EUR/RSD should stay stable, supported by central bank intervention.

Banking Sector

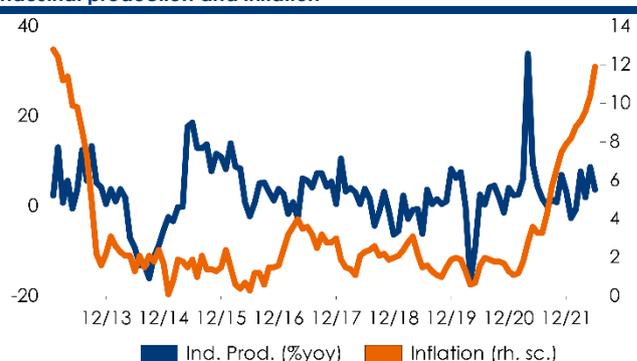
Private sector loans continued to show a strong positive performance during Q2, resulting in an upward revision to this year's forecast to 8.5%. Under the weight of tighter credit conditions and an economic slowdown, lending activity is projected to slow to 5.3% in 2023. After withdrawals in March, deposits from the private sector gradually stabilised, primarily in the household segment, and a modest yoy increase of 3% is expected by end-2022. Interest rates on LCY deposits recorded a marked increase as some large banks continue to aggressively bid for dinar liquidity.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-0.9	7.5	3.5	2.5
CPI (eop)	1.3	7.9	13.9	5.7
Euro exh. rate (value, eop)	117.6	117.6	117.4	117.7
Short-term rate (eop)	1.1	1.0	4.3	4.8
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	11.1	10.2	8.5	5.3
Bank deposits (pr. sector, yoy)	17.4	13.3	3.0	5.5
Lending int. rate (pr. sec., eop)	5.8	5.5	8.8	9.1
Deposit int. rate (pr. sec., eop)	1.5	1.8	5.2	5.3

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 evolution of GDP in the medium term is expected to be affected by the unfolding crisis in Ukraine through the trade and remittances channels as well as prices and financial uncertainties. Hence, a contraction for 2Q22 is foreseen, with modest 0.3% growth as of end-2022 but a subsequent acceleration up to 2% yoy in 2023.

The annual inflation rate continued to rise in 2022, reaching 34.3% in August driven by the increase in international and regional quotations for food products and energy resources. The adjustment of tariffs for gas in the network, thermal energy and electricity, the increase in fuel prices, but also the upward dynamics of wages increased costs for economic operators, which were gradually reflected in prices. The war in Ukraine has put additional pressure on food prices (also heightened by this summer's drought), fuel and some components of core inflation. High inflationary pressures are likely to persist throughout 2022, with the inflation rate peaking in 2Q22 and remaining, by year-end, well above the upper bound (6.5%) of the National Bank target corridor, decelerating down to 8% by the end of 2023.

Financial Markets

During 1H22, the National Bank increased the short-term rate several times (up to 21.5% in September from 8.5% in January) with the aim of tempering the increase in consumer prices, mitigating the secondary effects of supply shocks, stimulating financial intermediation in the national currency, balancing the trade balance, and counteracting inflationary expectations. Further hikes are expected during 2022, with the policy rate settling at 22.5% as of year-end, following which it will start a downward trajectory, potentially falling to 10% in 2023.

Banking Sector

In 1H22, the stock of loans in the private sector showed steady positive monthly growth, expanding by 20.6% as of June, driven by both household (+26.7%) and corporate (+16.7%) loans. On the other hand, the yoy growth in deposits sharply decelerated in 2Q22, growing by only 3.4% in June vs the 11.8% growth recorded in January. A further deceleration is expected for yoy growth of both loans and deposits in the years of projection compared to 2022 levels. Hence, loans are foreseen to grow by 10.1% yoy at 2022 year-end, with average growth of 5% in each of the remaining years of projection. Growth in deposits in 2022 should be 1.9%, slightly increasing to 4% in 2023 and 7% on average in the following years. The lending and deposits interest rates are expected to grow by the end of 2022, following the restrictive monetary measures applied by the National Bank.

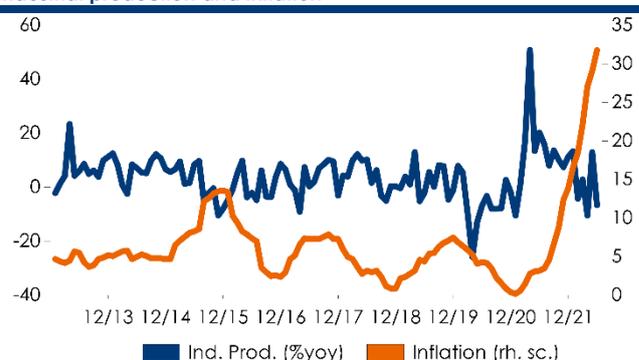
Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-8.3	13.9	0.3	2.0
CPI (eop)	0.4	13.9	34.3	8.0
USD exch. rate (value, eop)	17.2	17.7	19.5	19.7
Euro exch. rate (value, eop)	20.7	20.1	18.7	21.4
Short-term rate (eop)	2.7	6.5	22.5	10.0
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	13.1	23.5	10.1	4.5
Bank deposits (pr. sector, yoy)	16.5	13.1	1.9	4.0
Lending int. rate (corp., eop)	8.2	8.5	14.0	10.2
Deposit int. rate (hh, eop)	3.5	3.2	9.3	5.6

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

Olga Litvin

Industrial production and inflation



Source: National Bureau of Statistics of the Republic of Moldova

Russia

Real Economy

As discussed in our June Outlook, the conflict in Ukraine will have several economic repercussions for Russia and we expect the economy to contract by 6% this year. Risks are to the downside should sanctions be extended to the energy sector, which accounts for close to 50% of total goods exports. In 2023, we estimate to see a further slowing of the GDP, by 3.7%. The Central Bank of Russia (CBR) provided GDP forecasts in August of -6.0%/-4.0% for this year and -4.0%/-1.0% for 2023, due to the deterioration in the economic scenario. The external conditions of the Russian economy are still difficult and are therefore limiting the development of economic activity.

Francesca Pascali

Financial Markets

Russia's financial conditions have tightened sharply. The CBR raised the key rate by 20% on 28 February after seven rises last year. The bank lowered the policy rate in April by 300bp, to 17%, in May by 300bp, to 14%, at the end of May 300bp, to 11%, in mid-June 150bp, to 9.5%, in mid-July by a further 1,500bp, to 8%, and at the beginning of September by 500bp, to 7.5%. Starting from that level, key rates may not be cut further in 2022, and remain stable in 2023 and 2024 as inflation recedes towards the CB's target. In adjusting policy rates, the Bank of Russia will take into account the dynamics of actual and expected inflation relative to the target and the processes of economic transformation as well as the risks posed by internal and external conditions and the reaction of financial markets in the decision-making process on the key rate. Despite deteriorating external conditions, in particular following Western financial sanctions, after plummeting to an all-time low, the ruble has rebounded rapidly to a rate beyond the pre-war level (currently at 57 vs the USD). We forecast that it may normalise in the future towards 60.0 and 75.0 by the end of 2022 and 2023, respectively.

Banking Sector

According to the press, the crisis and sanctions resulted in negative results in 1H22 (RUB 1,500bn or USD 25bn). Losses could imply a capital reduction that we estimate to be equal to 2-3pp, which, however, do not reduce the capital adequacy ratio (at 12.2% as of November) to under the minimum requirement. New sanctions also have not caused relevant funding and liquidity pressures, thanks to the support of the CBR (by providing liquidity and various types of regulatory relief, including the creation of reserves for loans and investments in securities). Other forbearance measures include allowing banks not to classify loans to borrowers affected by sanctions as problem loans and not to increase reserves on such exposures. Deposit and loan growth rates are expected to decelerate in 2022 (from 10.1% in 2021 to 2% in 2022 and from 13.1% to 3%, respectively, strongly negative in real terms). The CBR extended until 9 March 2023 the restrictions on foreign cash withdrawals from individuals' accounts. Individuals may only withdraw foreign cash that was credited to their accounts or deposited before 9 March 2022. The withdrawal limit is USD 10,000 or the equivalent amount in euros.

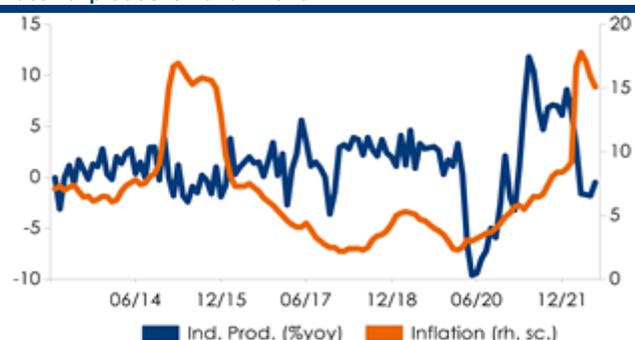
Davidia Zucchelli

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-3.0	4.7	-6.0	-3.7
CPI (eop)	4.9	8.4	12.5	5.5
USD exch. rate (value, eop)	76.8	73.8	60.0	75.0
Euro exch. rate (value, eop)	90.1	83.3	62.2	83.6
Short-term rate (eop)	4.9	9.0	8.0	7.3
L/T bond yields (eop)	5.9	8.4	8.5	8.0
Bank loans (pr. sector, yoy)	14.4	18.8	3.0	4.0
Bank deposits (pr. sector, yoy)	9.6	12.7	2.0	4.0
Lending int. rate (corp., eop)	6.3	9.0	8.7	8.2
Deposit int. rate (hh, eop)	3.4	5.1	4.9	4.5

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

Industrial production and inflation



Source: State Statistics Federal Service

Ukraine

Real Economy

According to preliminary estimates, GDP declined by 37.2% yoy in 2Q22 compared to a 15.1% decline in Q1. In quarterly terms, the economy shrank by 19.1% over April-June. As around a third of Ukrainians have been displaced due to the war, the unemployment rate hit a record, at an unprecedented level of 35% in Q2 (up from 10.6% in 4Q21), and we expect it to only marginally moderate to 20% by the end of 2023. Despite some recent positive developments – firstly, the partial resumption in seaborne grain exports – we still see a lack of momentum for strong economic recovery in H2, although we have slightly revised upward our GDP contraction estimate from 40% to 37% yoy for this year and we expect a 5 percent rebound in 2023 partly due to the favourable base effect. In August, the inflation rate accelerated to 23.8% yoy from 22.2% in July on the back of supply chain disruptions and the destruction of production amid the war. Monthly inflation gathered pace to 1.1% mom from 0.7% in July. The additional factor causing the acceleration was the weakening of the official UAH exchange rate by nearly 25%, (from UAH 29.25 to 36.57 per USD), which took place in July. Core inflation in annual terms accelerated to 19.1% from 16.7% in July. Given the likelihood of a protracted war and increasing fundamental inflationary pressure despite subdued consumer demand, we have increased our 2022 inflation forecast from 26% to 33% yoy.

Artem Krasovskiy

Financial Markets

The National Bank of Ukraine (NBU) kept the key rate at 25% at its recent MP meeting in early September, but stated that more measures would come for strengthening the monetary transmission and to further increase the attractiveness of UAH assets. The devaluation of the official UAH exchange rate in late July from UAH 29.25 to 36.57 per USD had positive impacts on the balance of payments and reduced pressure on the NBU's monetary reserves. However, FX transactions remain restricted and official UAH exchange market trades are fixedly at UAH 36.57 (+/-1%) per USD. The black market hovers some +10% above this, at UAH 41-42 per USD. On the back of insufficient external funding to cover the state budget deficit of around USD 5-6bn/month, the NBU remains the main source of financing, as monetary borrowing has exceeded UAH 300bn since the start of the war.

Banking Sector

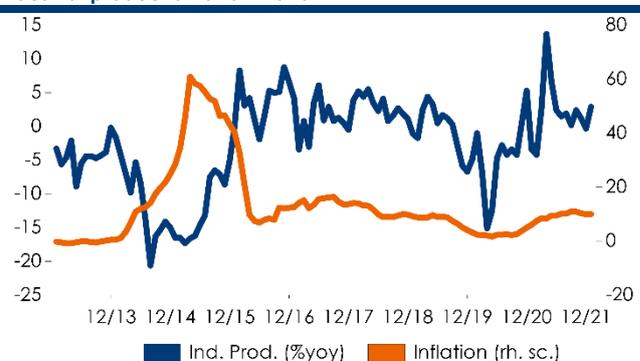
Despite the war, the banking sector remains stable and liquid. In Q2, the amount of deposits increased, primarily due to the UAH funds of households and corporate deposits in foreign currencies. The UAH loans portfolio grew mainly due to corporate lending by state banks with the support of state programmes. Household lending is seeing low demand. However, substantial provisions due to the war (+UAH 52bn over March-June) made the banking sector loss-making: -UAH 4.5bn in Q2 and -UAH -4.6bn since the beginning of this year.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	-3.8	3.4	-37.0	5.0
CPI (eop)	5.0	10.0	33.0	20.0
USD exch. (value, eop)	28.5	27.4	38.0	48.0
Euro exch. rate (value, eop)	34.3	30.8	39.4	53.5
Short-term rate (eop)	10.1	11.4	n.a.	n.a.
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	-2.8	9.6	-3.5	5.0
Bank deposits (pr. sector, yoy)	33.6	12.3	5.0	7.0
Lending interest rate (corp., eop)	12.6	14.3	19.5	20.5
Deposit interest rate (hh, eop)	4.4	5.0	10.5	12.5

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 of Egypt's economy is expected to be 4.8% yoy during the current FY 2022/23. This forecast, which is in line with the IMF's estimates, reflects the negative impacts of the war in Ukraine on different activities, particularly manufacturing and trade. It's important to note that the upward revision of the previous year's figure (6.6% against a preliminary estimate of 6.2%) was led by the expansion of the tourism sector by 45% and the maintenance of high growth for the communications sector (+16.3%). Urban headline CPI is expected to rise to 13.4% in 2022 against 5.2% one year earlier due to the weakening of the local currency, a rise in international prices for different commodities, and the central bank's decision to selectively prioritise imports, leading to some shortages in certain products. On a positive note, global prices of oil and grains are cooling down over concerns about demand and a new deal to allow blockaded shipments of wheat from Ukraine to be exported.

Samer Halim

Financial Markets

Egypt's Planning Minister stated that "the government agrees that a flexible exchange rate is definitely good for the economy". This statement comes in light of the government's efforts to finalise the deal with the IMF. However, it's still unclear whether a free-float or a crawling peg would be adopted, noting that the USD is officially trading at 19.3 per EGP. Hence, further depreciation is expected by the end of 2022. Egypt's financing gap (external debt service + current account deficit) is expected to amount to USD 39bn in 2022 (full year) assuming that deposits from the Gulf states would be rolled over. In addition, portfolio investment outflows reached USD 22bn. On the other hand, Egypt received USD 13bn in deposits from Gulf countries, including Saudi Arabia, UAE and Qatar, in 2022. Also, UAE and Saudi Arabia acquired minority shares, mostly in state-owned companies. The value of these acquisitions has amounted to USD 3.6bn so far this year. The Egyptian government pledged to offer state assets to private investors as part of its plan to fully withdraw from certain sectors of the economy and seeking to attract USD 40bn in FDI over four years. Key interest rates could rise further, by 100bp in 2022, to cope with missing the inflation target (5-9%) and global tightening policies.

Banking Sector

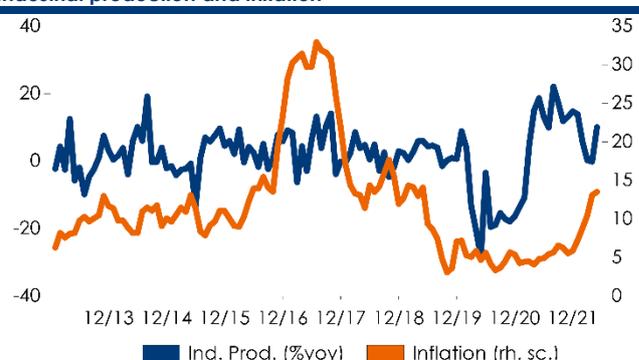
Expectations for annual growth of both private loans and deposits were revised upward in 2022 to 18% after their strong performance during the first half of the year. Banking sector net foreign assets improved to -USD 10.1bn in July 2022 against -USD 11.5bn a month earlier. On a related note, Egypt's Finance Minister stated that there are discussions ongoing with the IMF over defining the entity that should manage subsidised lending initiatives recently launched by the Central Bank of Egypt.

Forecasts

	2020	2021	2022F	2023F
Real GDP yoy	1.5	7.2	4.0	5.5
CPI (eop)	5.4	5.9	15.0	10.0
USD exch. rate (value, eop)	15.7	15.7	21.0	22.5
Euro exch. rate (value, eop)	19.1	17.8	21.8	25.1
Short-term rate (eop)	12.8	11.9	16.0	15.0
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	24.5	18.3	18.0	10.3
Bank deposits (pr. sector, yoy)	20.4	18.7	18.0	10.7
Lending int. rate (corp., eop)	9.7	9.5	11.6	11.6
Deposit int. rate (hh, eop)	7.4	7.5	9.2	9.1

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			
	2Q22	1Q22	2021	Last	mth	2Q22	Last	mth	2Q22	Last	mth	2Q22	Last	mth	2Q22	Last	mth	2Q22	Last	mth	2Q22	Last	mth	2Q22	
CEE																									
Czechia	3.6	4.9	3.4	1.7	Jun	0.4	18.9	Jun	12.2	-5.9	Jun	-2.2	17.2	Aug	15.8	3.3	Jul	3.2	8.1	Jun	8.2	88.3	Jul	94.5	
Hungary	6.5	8.2	7.1	1.5	Jun	4.7	13.0	Jun	12.3	4.1	Jun	10.6	15.6	Aug	10.6	3.3	Jun	3.5	14.9	May	15.1	99.8	Jul	100.3	
Poland	4.5	9.2	6.1	10.4	Jun	12.6	19.9	Jun	21.4	19.9	Jun	25.6	16.1	Aug	13.9	4.9	Jun	5.1	13.0	Jun	13.5	95.7	Jun	95.7	
Slovakia	1.7	3.1	3.0	-5.7	Jun	-4.7	12.9	Jun	16.6	1.5	Jun	6.3	14.1	Aug	12.5	6.3	Jun	6.4	8.1	Jun	7.4	96.8	Jul	99.5	
Slovenia	8.2	9.6	8.1	0.5	Jul	1.8	34.5	Jul	43.6	22.8	Jul	26.2	11.5	Aug	9.0	5.5	Jun	5.7	4.1	Jun	2.3	96.0	Aug	96.6	
SEE																									
Albania	n.a.	6.0	9.0	n.a.	n.a.	n.a.	36.8	May	41.7	n.a.	n.a.	n.a.	8.0	Aug	6.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Bosnia H.	n.a.	5.5	7.1	-1.4	Jul	4.4	24.1	Jul	39.9	9.2	Jul	14.6	16.7	Jul	14.5	30.0	Jun	30.1	13.0	Jun	11.9	n.a.	n.a.	n.a.	
Croatia	7.7	7.0	10.2	2.9	Jul	2.2	33.0	Jun	30.3	2.6	Jul	5.2	12.3	Aug	10.8	6.3	Jul	6.5	7.5	Jun	7.4	102.9	Aug	108.9	
Romania	5.3	6.5	5.9	-2.0	Jun	-1.5	25.9	Jun	27.0	3.2	Jun	5.0	15.3	Aug	14.4	2.6	Jun	2.6	12.3	Jun	12.1	101.2	Jul	100.9	
Serbia	3.9	4.3	7.5	-1.6	Jul	4.8	19.7	Jul	32.4	4.0	Jul	5.6	13.2	Aug	10.6	n.a.	n.a.	n.a.	14.2	Jun	13.6	n.a.	n.a.	n.a.	
EE & MENA																									
Moldova	-0.9	1.1	13.9	-6.6	Jun	-1.3	83.2	Jun	90.3	-4.1	Jun	-2.1	34.3	Aug	29.3	n.a.	n.a.	2.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Russia	-4.0	3.5	4.7	-0.5	Jul	-1.7	72.1	Jan	n.a.	-8.8	Jul	-9.8	14.3	Aug	16.9	3.9	Jul	3.9	13.3	Jun	11.5	50.3	Jul	50.9	
Ukraine	-37.2	-15.1	3.4	2.9	Jan	n.a.	-24.0	Jun	-19.0	14.4	Jan	n.a.	23.8	Aug	18.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Egypt	3.2	5.4	7.2	10.1	May	5.0	28.9	May	41.7	n.a.	n.a.	n.a.	13.6	Jul	13.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
m.i. E. A.	4.0	5.0	5.2	-2.4	Jul	0.4	20.1	Jun	20.5				9.1	Aug	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	
	20/9	chg	20/9	chg	20/9	3M*	1Y*	3M*	1Y*	20/9	20/6	2Q22	1Q22	2021	2Q22	1Q22	Moody's	
CEE																		
Czechia	7.3	1.3	4.7	-1.0	24.64	-0.25	-3.22	-7.7	-6.0	40.4	33.4	n.a.	n.a.	n.a.	-3,498	-547.1	Aa3	
Hungary	12.9	5.3	8.9	0.5	398.90	-0.33	12.76	0.0	-22.1	179.3	141.8	n.a.	n.a.	n.a.	n.a.	n.a.	Baa2	
Poland	8.2	0.9	6.2	-2.0	4.72	0.93	2.53	-7.0	-28.8	126.9	98.9	n.a.	n.a.	n.a.	n.a.	-8,883.0	A2	
Slovakia	1.1	1.3	3.0	0.2	n.a.	n.a.	n.a.	-6.4	-10.6	48.0	42.3	n.a.	n.a.	n.a.	-3,801	-2,277.1	A2	
Slovenia	1.1	1.3	3.1	0.4	n.a.	n.a.	n.a.	-7.8	-6.8	58.7	51.7	54	87	932	6	-127.1	A3	
SEE																		
Albania	1.6	n.a.	n.a.	n.a.	116.70	-2.36	-3.82	n.a.	n.a.	n.a.	n.a.	n.a.	-89	n.a.	n.a.	-233.0	B1	
Bosnia H.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-30	-201	1,268	n.a.	-213.4	B3	
Croatia	0.4	0.0	3.3	0.0	7.52	-0.08	0.38	-0.9	1.9	99.0	103.1	1,174	-952	6,079	n.a.	-2,391.0	Baa2	
Romania	7.8	1.7	8.2	-1.2	4.93	-0.23	-0.31	-6.9	-6.1	274.8	235.0	n.a.	93	n.a.	n.a.	-4,676.0	Baa3	
Serbia	3.5	1.0	n.a.	n.a.	117.30	-0.14	-0.26	7.7	3.0	299.4	290.3	n.a.	-2,158	2,963	-1,318	-1,357.8	Ba2	
EE & MENA																		
Moldova	21.5	n.a.	19.5	0.9	19.38	1.04	9.90	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	54.2	B3	
Russia	8.0	-19.3	8.5	2.4	61.4	10.7	-16.5	-0.4	-51.4	4,387.5	7,800.0	n.a.	16,505	n.a.	n.a.	n.a.	WR	
Ukraine	12.8	0.0	26.0	-38.1	36.93	25.61	38.32	-8.8	-63.1	14,247.7	10,066.1	-5,629	-4,325	1,820	959	2,411.0	Caa3	
Egypt	16.1	1.4	11.3	0.0	19.43	3.57	23.59	2.0	-14.6	899.1	906.0	n.a.	-3,853	872	n.a.	-5,791.7	B2	
m.i. E. A.	1.1	1.3	1.9	0.2	1.0	-5.1	-14.8	0.6	-4.1	9.32	6.63							

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	2021	Last	mth	2021	Last	mth	2021	Last	Mth	2021	Last	mth	2021	Last	mth	2021	Last	mth	2021			
CEE																								
Czechia	8.1	Jun	8.4	2.1	Jun	2.4	6.1	Jun	-11.3	3.8	Jun	7.0	7.9	Jun	4.4	C	5.3	Jun	2.3	H	71.5	Jun	70.7	
Hungary	13.4	Jun	12.7	2.2	Dec	2.2	28.0	Jun	6.7	16.8	Jun	17.6	7.1	Jun	4.5	C	4.7	Jun	1.5	H	74.2	Jun	71.9	
Poland	5.7	Jun	4.6	n.a.	Dec	n.a.	12.6	May	-1.2	4.1	Jun	7.7	8.3	Jun	3.8	C	4.6	Jun	1.3	H	82.7	Jun	80.1	
Slovakia	11.9	Jun	7.3	2.2	Jun	2.3	-12.5	Jun	19.6	4.9	Jun	4.5	2.0	Jun	1.6	C ²	0.0	Jun	0.0	H ²	109.7	Jun	103.7	
Slovenia	11.2	Jul	5.2	1.2	Jun	1.2	5.0	Jul	-7.8	5.3	Jul	8.2	1.7	Jul	1.9	C ²	0.0	Jul	0.1	H ²	66.6	Jul	63.1	
SEE																								
Albania	12.5	Jun	9.6	5.3	Jun	5.7	34.3	Jun	34.0	7.9	Jun	9.2	5.6	Jun	5.3	PS	0.9	Jun	0.4	PS	55.4	Jun	53.7	
Bosnia H.	5.1	Jul	3.7	5.2	Jun	5.8	-5.5	Jul	-16.3	1.1	Jul	10.0	2.9	Jul	3.1	C	0.3	Jul	0.1	H	95.2	Jul	89.5	
Croatia	9.0	Jul	2.3	3.8	Jun	4.3	15.5	Jul	-3.5	13.6	Jul	11.7	4.8	Jul	4.0	PS	0.1	Jul	0.1	PS	66.0	Jul	66.2	
Romania	16.9	Jun	14.3	3.2	May	3.4	23.9	Jun	9.8	9.8	Jun	13.6	7.8	Jun	5.3	PS	5.5	Jun	1.9	PS	73.7	Jun	68.1	
Serbia	11.9	Jul	10.2	3.3	Jun	3.5	23.3	Jul	9.9	7.0	Jul	13.3	7.7	Jul	5.5	PS	4.9	Jul	1.8	PS	97.7	Jun	90.1	
EE & MENA																								
Moldova	16.4	Jul	23.5	6.6	Jul	6.1	0.7	Jul	n.a.	2.4	Jul	13.1	10.8	Jul	8.5	C	7.1	Jul	3.2	H	69.1	Jul	62.6	
Russia	9.2	May	18.8	n.a.	May	n.a.	13.3	Dec	13.3	4.6	May	12.7	13.6	May	9.0	C	8.0	May	5.1	H	120.4	May	119.3	
Ukraine	5.6	Jun	9.6	27.6	May	30.0	-20.0	Jun	-5.8	11.3	Jun	12.3	18.9	Jun	14.3	PS	7.2	Jun	5.0	PS	70.8	Jun	72.2	
Egypt	24.9	May	18.3	3.3	Mar	3.5	54.2	Jun	32.4	24.4	May	18.7	10.5	Jun	9.5	C	8.6	Jun	7.5	H	35.9	May	35.3	
m.i. E. A.	3.55	Dec	3.6	1.9	Mar	2.0	6.7	Dec	6.7	4.7	Dec	4.7	1.5	Jul	1.1	C	0.3	Jul	0.2	H	74.6	Dec	74.6	

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

Country Outlook

The Economy

GDP (% yoy)		2019	2020	2021	2022F	2023F	Inflation (% avg)		2019	2020	2021	2022F	2023F
CEE	Czech Rep.	2.6	-5.7	3.4	2.1	1.0	Czech Rep.		2.8	3.2	3.9	16.1	10.5
	Hungary	4.6	-5.1	7.1	5.1	1.5	Hungary		3.4	3.3	5.1	14.4	14.0
	Poland	4.1	-2.7	6.1	3.8	1.5	Poland		3.4	3.4	5.1	14.3	13.0
	Slovakia	2.3	-4.4	3.0	1.7	1.8	Slovakia		2.7	2.0	3.2	12.3	9.1
	Slovenia	3.3	-4.2	8.1	6.6	2.2	Slovenia		1.7	-0.3	2.0	9.7	4.7
SEE	Albania	2.2	-3.3	9.0	3.2	2.2	Albania		1.4	1.6	2.0	6.6	5.2
	Bosnia Herzegovina	2.8	-3.2	7.1	2.9	2.0	Bosnia Herzegovina		0.6	-1.0	2.0	13.6	5.0
	Croatia	3.5	-8.1	10.2	5.9	2.3	Croatia		0.8	0.1	2.6	10.5	6.1
	Romania	4.1	-3.9	5.9	4.7	2.0	Romania		3.8	2.6	5.0	12.8	11.4
	Serbia	4.3	-0.9	7.5	3.5	2.5	Serbia		1.9	1.6	4.0	11.5	9.7
EE & MENA	Moldova	3.6	-8.3	13.9	0.3	2.0	Moldova		4.9	3.8	5.1	29.5	15.7
	Russia	1.3	-3.0	4.7	-6.0	-3.7	Russia		4.5	3.4	6.7	14.1	7.1
	Ukraine	3.2	-3.8	3.4	-37.0	5.0	Ukraine		7.9	2.7	9.3	21.3	26.5
	Egypt	5.5	1.5	7.2	4.0	5.5	Egypt		9.4	5.1	5.2	13.4	11.6

Markets

Exch.rate (avg Euro)		2019	2020	2021	2022F	2023F	Interest rate (% avg)		2019	2020	2021	2022F	2023F
CEE	Czech Rep.	25.7	26.5	25.6	24.6	24.4	Czech Rep.		2.1	0.9	1.1	6.3	6.0
	Hungary	322.6	351.1	358.7	383.6	387.3	Hungary		0.2	0.7	1.4	9.3	11.1
	Poland	4.3	4.4	4.6	4.7	4.6	Poland		1.7	0.6	0.4	5.9	6.6
	Slovakia	n.a.	n.a.	n.a.	n.a.	n.a.	Slovakia		-0.4	-0.4	-0.5	0.3	2.3
	Slovenia	n.a.	n.a.	n.a.	n.a.	n.a.	Slovenia		-0.4	-0.4	-0.5	0.3	2.3
SEE	Albania	123.0	123.4	122.3	119.8	120.3	Albania		0.8	0.5	0.5	1.2	2.6
	Bosnia Herzegovina	2.0	2.0	2.0	2.0	2.0	Bosnia Herzegovina		n.a.	n.a.	n.a.	n.a.	n.a.
	Croatia	7.4	7.5	7.5	7.5	7.5	Croatia		0.5	0.3	0.3	0.2	2.3
	Romania	4.7	4.8	4.9	4.9	5.0	Romania		3.1	2.4	1.8	5.9	7.4
	Serbia	117.9	117.6	117.6	117.5	117.6	Serbia		2.7	1.5	1.0	2.5	4.6
EE & MENA	Moldova (USD)	17.6	17.3	17.7	18.8	19.6	Moldova		6.9	3.4	3.8	17.1	16.3
	Russia (USD)	64.7	72.6	73.7	67.5	67.5	Russia		7.8	5.4	6.5	12.0	8.2
	Ukraine (USD)	26.1	26.9	27.4	32.4	43.0	Ukraine		18.9	12.2	10.7	13.1	14.4
	Egypt (USD)	16.8	15.8	15.7	18.6	21.8	Egypt		17.1	13.1	12.7	14.2	15.5

Banking aggregates (% change yoy)

Loans (pr. sector)		2019	2020	2021	2022F	2023F	Deposits (pr. sector)		2019	2020	2021	2022F	2023F
CEE	Czech Rep.	5.2	4.1	8.4	5.4	5.0	Czech Rep.		6.1	11.9	7.0	4.0	4.5
	Hungary	13.2	13.4	12.7	9.0	1.5	Hungary		8.0	23.3	17.6	3.0	1.5
	Poland	4.7	0.4	4.6	3.5	4.0	Poland		9.7	12.8	7.7	1.5	3.5
	Slovakia	6.2	4.5	7.3	8.5	4.5	Slovakia		4.8	6.3	4.5	2.5	4.5
	Slovenia	3.7	-0.9	5.2	9.2	3.2	Slovenia		6.3	12.2	8.2	4.9	4.0
SEE	Albania	6.5	7.0	9.6	7.2	4.1	Albania		3.8	8.1	9.2	3.2	3.8
	Bosnia Herzegovina	6.7	-2.5	3.7	4.8	3.9	Bosnia Herzegovina		8.4	6.5	10.0	-0.1	2.2
	Croatia	3.9	3.5	2.3	9.2	3.2	Croatia		4.8	8.7	11.7	9.0	3.0
	Romania	7.0	5.0	14.3	10.4	6.9	Romania		12.6	15.4	13.6	2.8	5.1
	Serbia	8.9	11.1	10.2	8.5	5.3	Serbia		7.8	17.4	13.3	3.0	5.5
EE & MENA	Moldova	13.9	13.1	23.5	10.1	4.5	Moldova		7.7	16.5	13.1	1.9	4.0
	Russia	7.1	14.4	18.8	3.0	4.0	Russia		4.2	9.6	12.7	2.0	4.0
	Ukraine	-8.0	-2.8	9.6	-3.5	5.0	Ukraine		9.6	33.6	12.3	5.0	7.0
	Egypt	13.4	24.5	18.3	18.0	10.3	Egypt		13.6	20.4	18.7	18.0	10.7

Banking interest rates (%)

Lending (Corp. avg)		2019	2020	2021	2022F	2023F	Deposits (HH avg)		2019	2020	2021	2022F	2023F
CEE	Czech Rep.	3.2	2.3	2.3	7.4	6.2	Czech Rep.		1.5	0.8	0.9	4.9	4.8
	Hungary	2.5	2.8	3.2	7.3	7.4	Hungary		0.2	0.3	0.6	4.7	5.1
	Poland	3.6	2.7	2.4	7.5	7.0	Poland		1.6	0.5	0.3	4.0	4.7
	Slovakia	1.9	1.9	1.9	2.0	3.2	Slovakia		0.1	0.0	0.0	0.2	1.4
	Slovenia	2.1	2.1	2.1	2.0	3.1	Slovenia		0.2	0.1	0.1	0.3	1.2
SEE	Albania	7.2	6.2	6.1	6.8	8.2	Albania		0.7	0.5	0.4	1.1	2.0
	Bosnia Herzegovina	n.a.	n.a.	n.a.	n.a.	n.a.	Bosnia Herzegovina		n.a.	n.a.	n.a.	n.a.	n.a.
	Croatia	5.8	5.5	5.1	4.8	4.8	Croatia		0.3	0.1	0.1	0.1	0.8
	Romania	7.3	6.2	5.6	7.5	9.7	Romania		2.2	1.9	1.3	4.7	5.7
	Serbia	8.0	5.9	6.2	7.7	9.0	Serbia		2.5	1.6	1.4	3.7	5.3
EE & MENA	Moldova	8.8	8.5	8.3	11.2	12.8	Moldova		4.3	4.1	3.2	6.5	8.2
	Russia	8.7	6.8	7.2	11.2	8.4	Russia		5.4	3.8	3.8	7.5	4.7
	Ukraine	19.8	14.3	13.3	17.7	20.4	Ukraine		12.9	6.1	4.6	7.7	12.1
	Egypt	16.1	11.4	9.4	10.6	11.5	Egypt		11.0	7.8	7.4	8.3	9.1

Source: Intesa Sanpaolo Research Department forecasts

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