

Economic and Banking Outlook

Viewpoint

In the short term, economic growth is losing momentum. Expanding the forecast time horizon, we confirm a mildly positive scenario. Looking ahead over the next two years, we expect: (i) a decline in inflation; (ii) a reduction in policy rates; and (iii) a long-term trend of GDP recovery.

Economic growth

- **Looking at the very short-term outlook, after an overall strong first quarter of this year, the world economy is losing momentum.** This deceleration is influenced by a combination of factors, including the past tightening of monetary policy. Additionally, the global economy is grappling with the depletion of post-pandemic buffers. During the height of the COVID-19 pandemic, many governments implemented fiscal stimulus measures to support their economies. Now, as these measures are gradually being scaled back, they are no longer providing the same level of support, contributing to the slowdown, as shown by the PMI indices: mainly in advanced countries compared to emerging markets, and the manufacturing sector compared to services. Finally, special attention should be paid to household consumption, which is being affected by the decline in purchasing power due to inflation, the burden of debt due to monetary tightening, and the reduction of the savings buffer accumulated during the pandemic crisis.
- **Expanding the forecast time horizon, globally, we expect to see an upward trend** for several reasons: **(i)** The key interest rates of the major central banks have peaked or are close to peaking, levels from which we expect a phase of monetary easing to begin; **(ii)** we continue to see good performances from the BRICS countries, despite the recent slowdown in China's growth, which will drive the global recovery; and **(iii)** we forecast that international trade will continue on an upward trend.

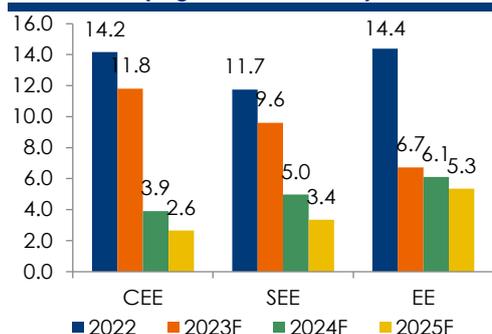
Inflation

- In recent years, Inflation has been a topic of significant concern and discussion in the economic landscape. Initially, there was a swift decline in headline inflation, but it has since exhibited a certain degree of stickiness.
- Our baseline expectation is that the economic growth slowdown will eventually allow inflation to return to central bank targets.
- To sum up, **inflationary pressures are easing and we expect that trend to continue.** In terms of average annual inflation, the peak was reached in 2022. This year and over the next two years, we expect to see a decline, especially for end-of-period figures, due to the statistical base effect. Despite past monetary policy interventions, inflation is everywhere well above central bank targets, but the trend is clearly downwards.

Monetary policies

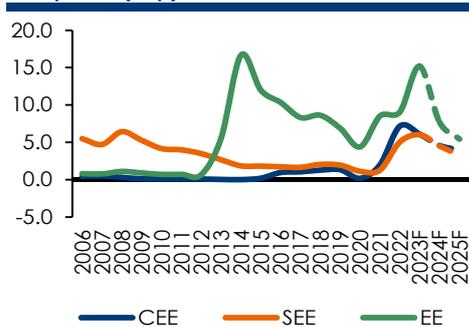
- Monetary policy plays a critical role in shaping economic conditions, and the current environment presents several noteworthy developments. Rates are now at their peaks and the short-term economic slowdown and falling inflationary pressures appear consistent with a downward shift in the monetary cycle.
- **Finally, over the next two years, we expect to see several cuts in policy rates and, as a result, we forecast steeper yield curves almost everywhere.**

Inflation rates (avg inflation forecasts)



Source: ISP Research Department elaboration and forecasts on National statistics offices' data

Policy rates (eop)



Source: ISP Research Department elaboration and forecasts on central banks' data

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Countries with ISP subsidiaries

Quarterly Note

Research Department

International Research Network

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

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

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

Cross country analysis

Recent developments

On a quarterly basis, in 2Q23, the GDP of the CEE area contracted by 2.0% (weighted average) vs growing by 2.1% in the previous quarter. Although given the peculiarities of each country in the area, and within a rather wide range, a significant economic decline was detected in Poland (-3.7%) and a more modest one in Hungary (-0.3%). In the remaining countries, the quarterly dynamic of GDP remained positive (Czech Republic +0.1%, Slovakia +0.4%, Slovenia +1.4%). **The unfavourable economic landscape kept the CEE area's GDP on a negative trend (-0.5% in the second quarter from -0.3% in the previous quarter).** In the same period, among the countries in the SEE area, only data relating to Croatia (2.7% yoy), Romania (1.1% yoy) and Serbia (1.6%) are available now. For the latter countries, the economic phase was positive, although it remained weak, and as regards Romania, it was slightly lower than expected.

The latest releases of high-frequency economic indicators are mixed but mainly point to a positive, although still weak, cyclical phase in the coming quarters. In July, in the CEE area, **industrial production** contracted by 3.0% yoy from -0.8% yoy in the previous month (on a weighted average basis [w.a.]), but the negative trend of **retail sales** improved to -4.6% in July from -5.4% in the previous month. In June, **export** dynamics remained robust and accelerated (+4.4% yoy from 1.6% yoy). A similar figure was observed in the SEE region, where industrial production contracted further in July (-3.3% yoy from -3.7% yoy in the previous month) but retail sales grew by 1.6% yoy (the same trend of previous month). In August, the **Economic Sentiment Indicator** improved both in the CEE region (to 94.3 from 91.6 in previous month) and in SEE (to 85 vs 84.4).

Although with differences for each country, **inflationary pressures** are declining in the CEE and SEE areas, and the core component has now started to show more convincing signs of cooling. Aggregating the data (w.a.), in August, in the CEE area, inflation was still high but decreased to 10.3% (from the peak of 18.5% in February), and in the SEE area in the same month, it declined to 8.6% (vs the peak of 15.3% in December 2022).

At their most recent meetings, **central banks** took the following steps: Poland's began the phase of easing monetary policy (the policy rate was cut by 75bps, to 6.0%), while the banks in Czech Republic, Hungary, Romania, Serbia and Albania maintained policy rates at 7.0%, 13.0%, 7.0%, 6.25% and 3.0%, respectively. **Long-term yields** decreased in countries where monetary policy has been paused.

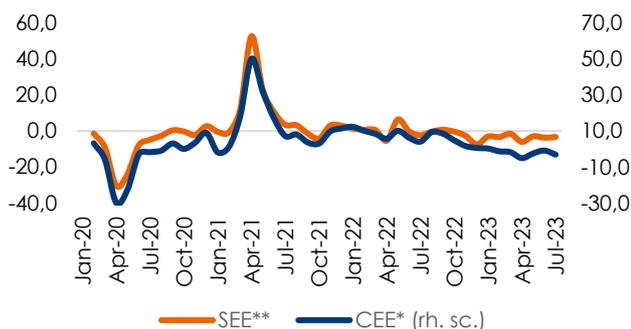
Antonio Pesce, Francesca Pascali, Davidia Zucchelli

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

Consumer prices are decelerating, and the core component has started to show more convincing signs of cooling

Poland's CB began the phase of easing monetary policy. Pauses for monetary restrictions seen in the remaining countries

Industrial production % yoy – CEE/SEE



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

Industrial production % yoy – EE/Egypt



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

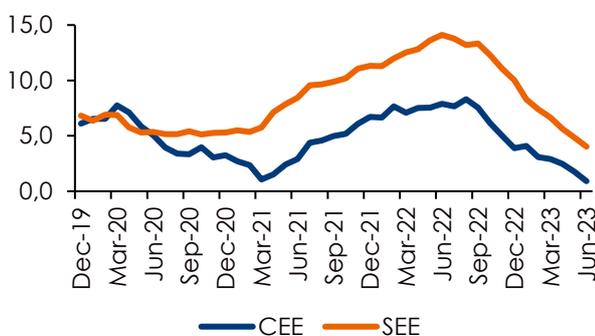
Outside the CEE/SEE regions, the geopolitical situation continues to affect **EE countries**, but economic situations have been improving in terms of a deceleration in inflation and a slowdown in economic activity. In 2Q23, **GDP** increased by 4.9% yoy (from -1.8% in 1Q23) in **Russia**, and it decreased by 10.5% yoy in 1Q23 (from -31.4% in 4Q22) in **Ukraine**; it fell in 1Q23 by 2.4% (from -10.6% in 4Q22) in **Moldova**. In **Egypt**, GDP grew by 3.9% yoy in 1Q23 (3.9% in 4Q22). Moving to high-frequency indicators, in July, **industrial production** grew (by 4.9% yoy) in Russia (from 6.5% in June). It decreased in Moldova (-7.4% in May) and increased in Ukraine (+51.4% in March 2023). In Egypt, it decreased by 5.7% in May vs a fall of 8.9% of April. In July, **retail sales** increased in Russia, by 10.5% (vs +10.0% in June), and in December, they declined by 5.6% in Moldova (vs -1.4% in November) however they increased in Ukraine (+35.4% in March vs -25.4% in February). With regard to **inflation**, in Russia, consumer prices started to decelerate from April 2022 to May 2023, but from June, they began to grow again (5.2% in August 2023) and went up CB targets (4.0%). In August, prices rose in Ukraine to 8.3% (vs 11.3%). In Moldova, the CPI was 9.7% in August vs 10.8% in July. In Egypt, inflation rose by 37.4% in August (36.5% in July), 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 June due to deteriorating economic conditions plus still-high inflation and interest rates. Loans increased by 0.9% yoy in **CEE countries** in June (from 1.8% in May) and by 5.2% yoy in **SEE countries** (from 6% as of May). Hungary and Croatia – where loans jumped by 7% and 8.8% yoy in June in nominal terms (9.3% and 9.0% yoy as of May) from 11.6% and 11.2% in 2022, respectively – were the best performers. **Corporate loans** showed much stronger performances than household loans in both CEE (3.5% yoy vs -0.6% yoy as of June, especially in Poland and Hungary) and SEE countries (8.9% vs 1.9%, mainly in Romania); the best performers regarding corporate loans in June were Hungary (9.1%) and Croatia (13% yoy).

Banking interest rates stopped growing in some countries (Hungary, and Croatia and Romania among 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 household sectors. Precautionary motives continued to support **deposit growth** in both the CEE (from 7.8% in May to 7.9% yoy in June) and SEE (but decelerating from 10.4% to 9.2% yoy) areas, in nominal terms.

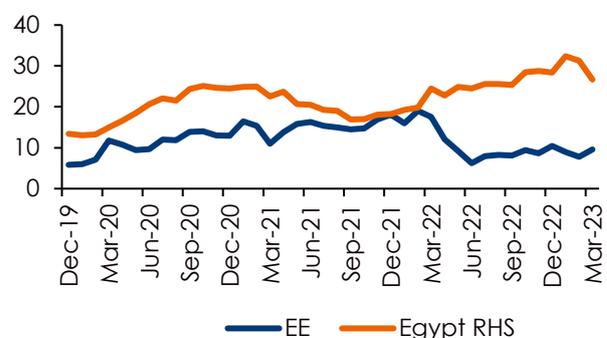
In the **EE area**, loan growth remained strong in Russia (20.5% yoy in May), especially for corporates (23% yoy), but also for households, where loan growth accelerated from 12.9% in April to 15.4% in May. In Moldova, the loans performance (+6.1% yoy in April) was relevant for corporates (7.5% yoy) but was still declining in the household sector (-3.7% yoy), which saw a strong decrease from 40% in 2021 in a very uncertain context. Total deposit growth from the private sector remained vigorous (from 12.3% yoy in April to 16.1% in May in Russia), both from the household sector (+14.8% yoy) and the corporate sector (17.5% yoy in nominal terms). In **Egypt**, banking aggregates saw continued strong dynamics in nominal terms, with loans increasing by 26.7% and deposits by 26.9% in March (but changes were in negative territory in real terms).

Lending growth (% yoy chg, weighted averages)



Source: ISP Research Department elaboration on central banks' data

Lending growth (% yoy chg, weighted averages)



Source: ISP Research Department elaboration on central banks' data

In the EE region, inflation up in Russia and down in Moldova and Ukraine. Top record in Egypt

Bank loans decelerated as of June

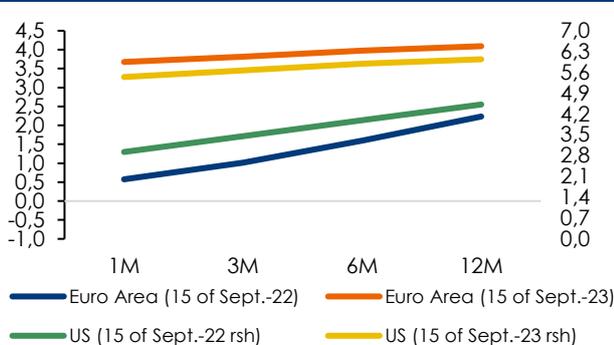
The international outlook

Global economic growth (estimated at 3.5% in 2022) is expected to decelerate to 3.0% both in 2023 and 2024 (April IMF World Economic Outlook), well below the historical average (3.8% in 2000-19 period). The increases in central bank official rates to fight inflation continue to weigh on economic activity. Global inflation is projected to fall from 8.7% in 2022 to 6.8% in 2023 and 5.2% in 2024, thanks to favourable base effects, but underlying core inflation is likely to decline more slowly. Strong action by authorities to contain turmoil in the US and Swiss banking sectors has reduced the immediate risks of financial sector turmoil. This has moderated adverse risks to the outlook. However, 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. China's recovery may slow, partly due to unresolved real estate issues, with negative cross-border spillovers. In most economies, across the board, central banks' priorities continue to be to bring inflation back to target levels while ensuring financial stability. Therefore, central banks should remain focused on restoring price stability by maintaining unaccommodative monetary conditions.

Regarding the **US**, the GDP dynamic is expected to slow from 2.1% in 2022 to 1.9% this year, upwardly revised from 1.5% in the Intesa Sanpaolo (ISP) June scenario, and then to 0.9% in 2024. The annual inflation rate accelerated for a second straight month, to 3.7% in August from 3.2% in July and 3.0% in June. Federal Reserve Chair Jerome Powell, speaking at the Jackson Hole Symposium, emphasised the potential necessity for the US Federal Reserve to implement additional interest rate hikes to effectively manage inflation. The ISP Research Department expects the policy rate to rise to 5.5% by the end of 2023 and then to fall to 4.75% by end-2024. In the **Euro Area**, despite expansionary fiscal policies implemented through the PNRRs at national levels, ISP foresees full-year GDP growth slowing from 3.4% in 2022 to 0.5% in 2023 and 0.8% in 2024 (downward revised from 1.4% in June scenario). The war in Ukraine and tighter monetary policy are weighing heavily on the economic dynamic. 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 remained at 5.3% in July (as in June), well below the peak of 10.6% in October 2022. It is expected to decrease further in the coming months, and the end-of-period levels are projected to be 3.1% in 2023 and 2.3% in 2024. The ECB raised interest rates by 25bps, to 4.5%, at its September meeting, further pushing up borrowing costs, to the highest level since late 2008, 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 confirmed with respect to the June scenario at 4.9% in 2023 and 5.1% in 2024. The economic performances of commodity-exporting countries in other areas are expected to remain relatively robust, but also in this case with risks prevailing to the downside, should the international landscape deteriorate.

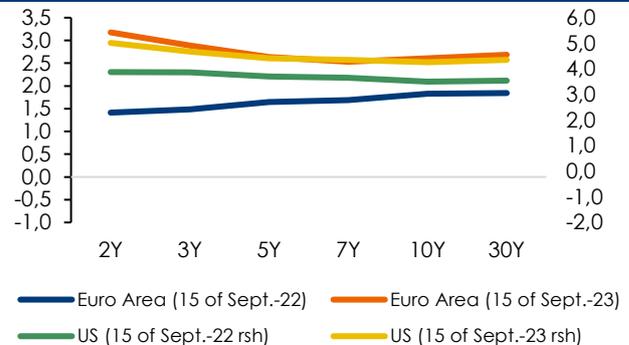
Global economic growth still looks fragile and weak in the remaining part of this year

Benchmark monetary rates (US and EA rates)



Source: ISP elaboration on Refinitiv-Datastream data

Yield curves (US bonds and German Bunds)



Source: ISP elaboration on Refinitiv-Datastream data

The economic outlook

Growth and inflation

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

The June baseline scenario projected GDP growth for the CEE area at 0.8% yoy in 2023, but we slightly downwardly revise this to 0.5%. The GDP dynamic in the SEE area has also been slightly downwardly revised (to 2.1% from 2.3%). The forecast revisions occurred also for the next year (-0.1 pp) in both the CEE area and SEE regions, to 2.6% and 2.9%, respectively.

The assumptions behind these projections include hypotheses on fuel and nonfuel commodity prices, which are 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.

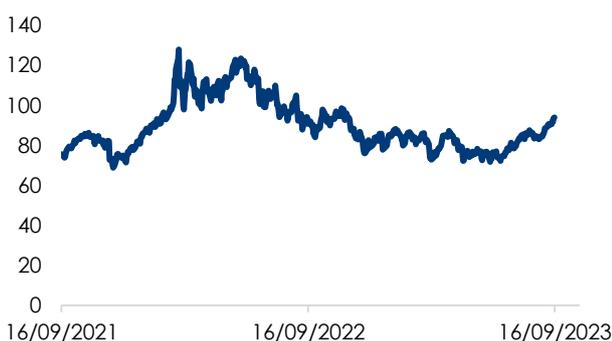
Inflation is projected to be on a declining path, even if it were to remain high in the coming months in both the CEE and SEE regions – in particular, in those countries where wage dynamics have strengthened significantly. The end-of-period inflation forecasts for 2023 have been roughly confirmed (5.2%) in the CEE area and in the SEE area (7.0%). As in the June forecasts, by the end of next year, inflation is expected to move closer to CB targets.

Due to better-than-expected data, GDP growth forecasts for the **EE** region have been revised upwards. For Russia, it was raised to +2.2% in 2023 from +0.5% projected in June, but we lowered our 2024 number to 1.9% (from 2.5%). For Ukraine, estimates were raised to +3.5% from +2.4% in 2023 and +4.5% in 2024. Estimates are unchanged for Moldova (+2.1% in 2023). Price pressures are expected to fall in Ukraine and Moldova. In Russia, where inflation began to accelerate again from June 2023, it is expected to reach the CB's targets in 2026. For **Egypt**, we lowered our GDP growth estimates to 3.4% from 4.1% for calendar year 2023, and to 3.9% from 5.5% for 2024. Inflation is expected to accelerate to 39.4% by year-end 2023 but fall to 31.3% in 2024. It is not expected to move back to the CB's target before 2028.

GDP forecasts for 2023 and 2024 have been slightly lowered because of the weaker-than-expected economic dynamic in the Euro Area countries. Risks to our forecasts continue to be to the downside

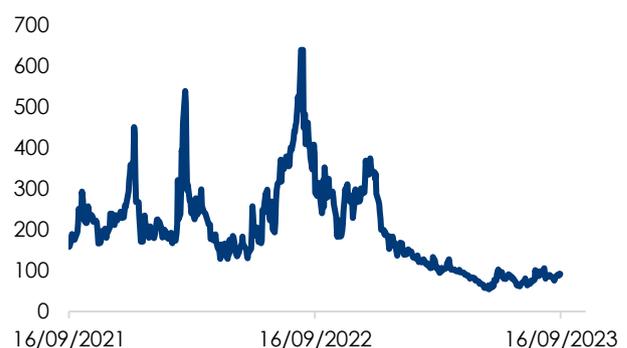
Inflationary pressures are expected to be on a declining path, but should remain high in the coming months

ICE-BRENT CRUDE OIL (Barrels \$)



Source: Refinitiv-Datastream

ICE-NATURAL GAS (Therm £)



Source: Refinitiv-Datastream

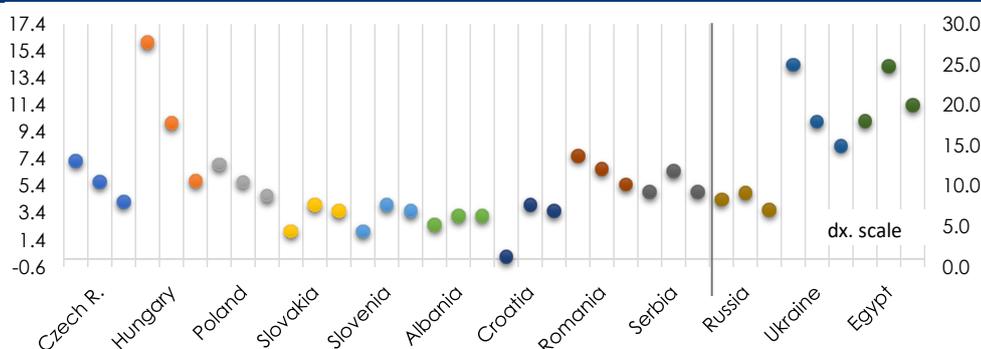
Monetary policy and financial markets

At its meeting on 6 September, the Board of the Polish National Bank began to ease monetary policy. The policy rate was reduced by 75bps, to 6.0%, one month ahead of our expectations. Czech Republic and Hungary seem to have paused with regard to raising **policy rates**, although monetary actions continue to be guided "by data" and therefore, as inflationary pressures are declining, in our baseline scenario, the start of the reduction in policy rates could start soon. In **Hungary**, where the policy rate is currently 13%, a reversing of the cycle is expected by 2023 year-end, with clear signs of softening inflationary pressures. However, we now project a stronger decreasing path with respect to June forecasts (10.5% end-2023 instead of 11.5% as in June projections and 6.0% instead of 6.5% at end-2024). In **Poland**, as in June, 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**, we expect the policy rates to be 3.0% in end-2023 and 2024; and for **Serbia**, the projections are 6.5% and 5.0% at year-end 2023 and 2024, as in the June scenario. Money market rate projections have been revised accordingly.

Polish National Bank began easing monetary policy. For the remaining countries, the policy rate decreasing cycle could start soon

Outside the CEE/SEE regions, due to a new phase of large-scale structural transformation of the Russian economy, **Russia's CB**, after 10 months, increased the policy rate to 8.5% on 21 July, to 12.0% on 15 August, and to 13.0% on 15 September, given an increase in inflationary pressures. The CBR is keeping open the prospect of further increases in the key rate to stabilise inflation close to 4% in 2024 and beyond. 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 has left the refinancing rate unchanged at 6% since June. Since the beginning of the year, it has been reduced as follows: by 3pp, to 17.0%, 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 **Ukraine**, the CB in September decided to cut the key interest rate to 20% (-2 pp) – following the new phase of monetary easing – in view of the faster-than-expected decline in inflation, the continued stability of foreign exchange market conditions, the high level of international reserves, and the effectiveness of measures taken to increase the attractiveness of hryvnia assets. In **Egypt**, the CB, at the meeting on 3 August, the policy rate was raised by 100bps, to 20.25%, and it is expected to increase it to 22.25% by end-2023, and then lower the rate, to 18.00%, in 2024. The revision profiles of **long-term yields** have been slightly downwards overall along the forecast horizon with respect to our June scenario in the CEE/SEE region, due to the lower path of Bund yield forecasts but with an upward 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

Banking aggregates and interest rates

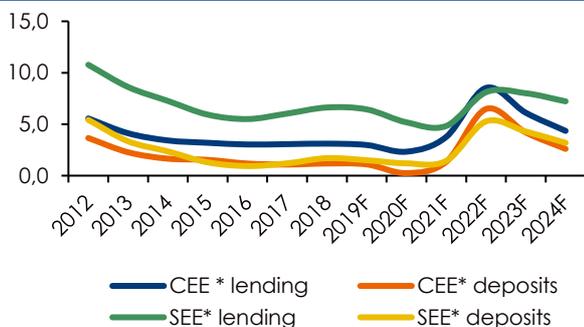
After the spring bank turmoil, regarding which the CEE/SEE areas saw very limited effects, weak lending and deposits data as at June and the economic context explain the revisions to our banking aggregates' forecasts for 2023 and very slightly for 2024. On the assets side, banks are still benefitting from low ratios of non-performing loans and high regulatory capital. Funding tensions are growing in some countries, mainly in Slovakia and Russia, where LTD ratios are very high. In general, however, banks can rely on **granular and stable funding bases** and conservative liquidity buffers to weather heightened volatility risks. They may count on broad bases of core, sticky domestic deposits and have a moderate reliance on market-sensitive institutional or external funding. Furthermore, **loan/deposit ratios** are generally low. Revisions to **policy rates**, such as in Poland, could have negative effects on interest margins and profitability.

Forecasts for banking aggregates have been slightly revised by ISP for many countries for 2023 and only in a few countries also for 2024 mainly because of recent monthly performances (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 2% in the former and 5.1% in the latter. Lending will be negatively affected by higher interest rates (mainly mortgages with variable interest rates). Furthermore, demand for credit could be affected by falls in real disposable incomes due to still high inflation, despite decelerations in all countries. 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 further worsening is expected in Hungary (where loan growth is expected to fall into negative territory also in nominal terms, to -4% and only 2% in 2024 from 11.6%, in 2022). Lending has been revised slightly in Poland (to 2.4% from 3.0% and confirmed at 4.9% in 2024), after being particularly weak in the last two years, only partly supported by the corporate sector. In Slovakia, the tightening of the countercyclical capital buffer from 1% to 1.5% (from August) is expected to weigh on lending. The new economic landscape will also affect lending in the **SEE countries** (5.1% revised from 5.3% in 2023 and confirmed at 4.5% in 2024). Croatia is expected to be the best performer in the area (6.3% in 2023 but not in 2024 with 3%). In the **EE area**, lending is still expected to decelerate in 2023 to 8.2% in Russia (improved from 7.2% forecast in June), after the banking aggregates' jump seen in May and in line with the CBR's expectations and to 6.3% in 2024. 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 macro-economic context and high inflation, especially in Hungary (-8% yoy forecast in 2023). 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 to 2.5% in 2023 and to recover to 3.9% in 2024, and in SEE countries to 5.8% and to 6.1% respectively in 2023 and 2024. In Russia, deposits are forecast to rise by 6.9% in 2023 and by 6.2% in 2024. 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 (10.2% and 10.9% in 2024).

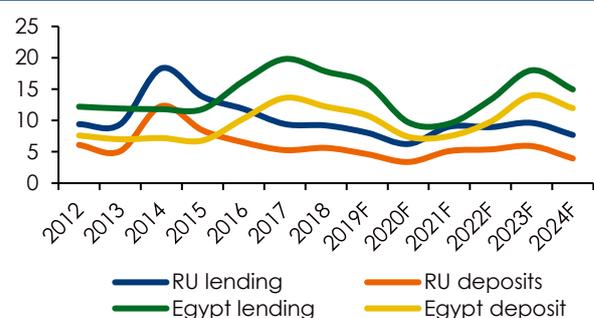
Banking aggregates still expected to decelerate in 2023 and to recover in 2024

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



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

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



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

Country-Specific Analysis

Czech Republic

Real Economy

The outlook for the Czech economy has changed little compared to the June scenario. The economy only narrowly managed to avoid a recession in the first half of the year, expanding by a feeble 0.1% qoq in both Q1 and Q2. Private consumption remains a major drag on growth due to inflation-related erosion of purchasing power and still-surprisingly-strong saving behaviour of Czech households. While some rebound looks likely in the coming months, for the year as a whole, the economy will likely to have broadly stagnated in 2023. Next year, the situation should improve as inflation will fall to low single digits, allowing wage income to resume growing in price-adjusted terms and thus enabling a recovery of household consumption. Also, interest rates are likely to ease from the current peak levels, which should help to mitigate debt servicing costs for households. In 2024 and 2025, we expect the Czech economy to grow by about 2.4%. But, a faster recovery will probably be hampered by the ongoing malaise in key export markets as well as incipient fiscal consolidation.

Zdenko Štefanides

Financial Markets

The Czech National Bank (CNB) held rates steady, with the key two-week repo rate remaining at 7% since June last year. Yet, with inflation dropping to 8.5% in August and heading toward the 2% target at the start of 2024, the case for the CNB to ease policy is growing. At its meeting on 4 August, the CNB left rates on hold by a unanimous vote. In previous meetings, there were always two or three members out of the seven-strong board who opted for further rate hikes. Also, the new quarterly forecast of the CNB unveiled on the same date foresaw rates being cut already in the third quarter. While the communication of the CNB board members was meant to calm rate cut expectations, we stand by our forecast that rates will be significantly lower by year-end, by up to 150bps. In terms of the exchange rate, we continue to forecast broad stagnation of the koruna vs the euro in the foreseeable future. The earlier appreciation of the koruna ran its course due to narrowing rate differentials vis-à-vis the Euro Area. The recent reversal of the recent koruna strength also was spurred by the CNB, which on 4 August formally ended the intervention regime announced in May 2022. With regard to yields, we see them continuously decline.

Banking Sector

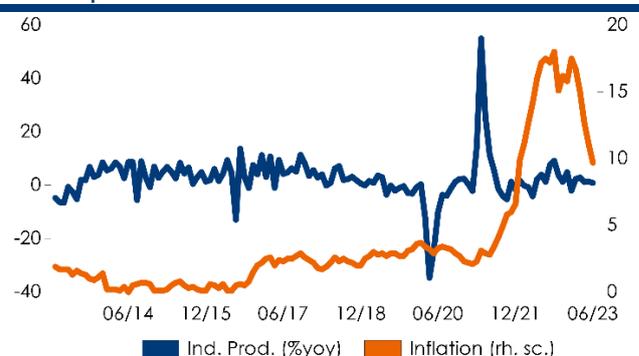
High interest rates are taking a toll on loan growth. New production of mortgage loans has been especially weak, allowing the CNB to relax macroprudential regulation and scrap debt service/income limits from 1 July. Deposit growth is assumed to continue to rise steadily, supported by high rates and by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

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	3.4	2.5	-0.2	2.3
CPI (eop)	6.6	15.8	4.0	2.0
Euro exch. rate (value, eop)	25.2	24.3	24.2	24.0
Short-term rate (eop)	3.5	7.3	5.7	4.2
L/T bond yields (eop)	2.7	4.8	4.6	4.3
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	4.9	3.2
Deposit int. rate (hh, eop)	2.3	6.0	3.4	1.9

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

Industrial production and inflation



Source: Czech Statistical Office

Hungary

Real Economy

The economy remained in recession in Q2, GDP contracted by 0.3% qoq and 2.3% yoy. The contraction was broad-based. The economy may have bottomed during the summer, but the recovery will be extremely slow. We have revised down our 2023 GDP projection and now expect the economy to contract by 0.3% this year. On the production side, agriculture will be the sole positive contributor to overall growth, while on the demand side, net exports will limit the decline. The recovery may gain momentum in 2024-25, when output growth is expected to be around potential. Disinflation has been gaining momentum, reflecting the collapse of domestic demand, lower imported inflation, and a more stable FX rate. Year on year, CPI might return to single-digit territory in November, but average 2023 CPI could still be close to 18%. The disinflation trend is expected to continue into 2024, albeit at a slower rate. The central bank's target is not likely to be reached until 2025. Although the unemployment rate has risen recently, the labour market remains tight. The shortage of skilled labour is now a permanent feature of the economy.

Mariann Trippon

Financial Markets

The central bank continued its cautious easing cycle and cut the effective rate from 18% to 14% by August. The gap between the O/N and the policy rate will be closed in September. After that, the NBH will switch to a data-driven mode. Gradual, cautious, and data-dependent easing may continue through the year, and the focus will continue to be on inflation and market stability. Our eop policy rate forecasts are 10.5% and 6% for 2023 and 2024, respectively. Real rates will remain positive throughout our forecast horizon. The high interest rate differential remains a HUF-supportive factor, but we do not see room for much appreciation from current levels: the HUF remains sensitive to shifts in risk perception.

Banking Sector

Bank deposits decreased in the first half of 2023 by 6%, equally impacted by the erosion of household savings and corporate deposits. Further declines are expected over the remaining part of the year, due to the worsening economic climate, rising inflation, and a continuing shift into government bonds and investment funds. For 2023, we expect to see a reduction of 8% in the volume of deposits, while customer savings may stagnate in 2024, as real wage growth should be positive again. On the lending side, there was a decrease of 2% in H1. In the corporate lending market, demand for government-supported loans only partially offset the negative impact of high market interest rates and the collapse of private investment. Household lending demand also weakened, due to the decline in housing market transactions and high interest rates. With subdued economic growth, loan volume may shrink by 4% in 2023, followed by a slow rebound of 2% in 2024.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	7.1	4.6	-0.3	2.9
CPI (eop)	7.4	24.5	7.5	4.0
Euro exch. rate (value, eop)	367.2	407.2	382.0	384.0
Short-term rate (eop)	3.8	16.1	10.1	5.8
L/T bond yields (eop)	4.4	8.6	7.0	6.3
Bank loans (pr. sector, yoy)	12.7	11.6	-4.0	2.0
Bank deposits (pr. sector, yoy)	17.6	2.5	-8.0	0.0
Lending int. rate (corp., eop)	4.5	11.5	7.9	5.1
Deposit int. rate (hhs, eop)	1.5	12.3	6.7	3.1

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 eased somewhat in Q2, as double-digit inflation impacted household disposable incomes and spending power, resulting in private consumption contracting by nearly 3% yoy. In addition, the previously reported strength of the economy in Q1 has now been revised down, which led us to return to our prior forecast of near stagnation for the Polish economy in 2023. For 2024, a recovery nonetheless still seems likely, as inflation is gradually declining to single digits, allowing wage growth to move into positive inflation-adjusted territory by year-end. In addition, there is prospective recovery of external demand and, importantly, the inflow of EU funds withheld this year due to Poland's violation of the rule of law. The latter will be dealt with by the government which will come to power as a result of the parliamentary elections on 15 October.

Zdenko Štefanides

Financial Markets

The recent weakness in economic activity has been taken very seriously by the National Bank of Poland (NBP). Indeed, on 6 September, the NBP cut interest rates sharply, by 75bps, even as inflation had yet to move into single digits (the latest reading, for August, was 10.1%), the condition for easing set earlier by NBP Governor Glapinski. Now, Mr Glapinski is of the opinion that external environment has changed radically, and as a result, low or even negative growth for the Polish economy will facilitate a further decline in inflation, which, on NBP estimates, will have likely fallen to 8.5% in September. While the September rate cut was steeper than we had envisaged at this stage of the year, the direction of rates is consistent with our view, foreseeing further easing before the end of 2023, which would bring the policy rate to 5.5% from the current 6.0%.

The outsized rate cut surprised the markets and resulted in a fall in the Polish currency. The zloty immediately weakened by 3%, reversing most of the gains made during the summer, when it benefited from strong inflows on the current account. We now expect the zloty to trade broadly rangebound, at around 4.50-4.60 vs the EUR. With regard to yields, we continue to see them declining, and in 2024, even a bit faster than forecast previously, alongside the change in core eurozone yield forecasts.

Banking Sector

In the banking market, we expect loan volume growth to remain relatively low, due to high interest rates and a slow economy. Deposit growth will likely also remain relatively low as households face tight financial conditions, even if slightly improving as inflation gradually recedes. Forecast revisions concern only the current year, which is exhibiting slower credit growth than foreseen in June. Deposit formation, in contrast, appears to be marginally better than assumed at that time. The loan/deposit ratio of the Polish banking sector is expected to remain at the current comfortable 75%.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	6.8	4.9	0.7	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	6.7	5.6
Bank loans (pr. sector, yoy)	4.6	0.2	2.4	4.9
Bank deposits (pr. sector, yoy)	7.7	5.6	4.3	4.8
Lending int. rate (corp., eop)	3.8	8.7	6.5	4.8
Deposit int. rate (hh, eop)	1.3	6.5	4.5	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

Slovakia's economy switched gears regarding growth from household consumption to net exports during the first half of 2023, avoiding a decline in GDP in 2Q23. On the contrary, qoq GDP growth accelerated to 0.4%. Despite the slowdown in the Euro Area, the second half of this year should see a marked stimulus to investment spending in the country from EU structural and cohesion funds. This could pull annual GDP growth up to about 1.7%. Next year, however, the negative impact of higher interest rates on the economy should be seen, along with fiscal consolidation, which should keep GDP expansion at only around 1.9%. The labour market remained very strong until summer, with only relatively minor signs of cooling seen so far. Still, next year could see some rise in the unemployment rate as higher interest rates will translate into lower private investment.

Consumer inflation is now falling fast, with mom rates since May below the Euro Area averages. This could bring the inflation rate down to below 6% by the end of this year. Still, prices will continue to grow faster than the Euro Area average, due to the expected increase in natural gas and heating prices, which have been kept artificially low. This could mean higher inflation not only in 2024, but also in 2025, if the new government decides to unfreeze these prices only gradually.

Financial Markets

The ECB raised key interest rates in July and also in September - most probably for the last time in this hiking cycle. This means that short-term rates as well as bond yields are unlikely to rise further in the coming quarters, thus stabilising commercial lending and deposit rates. After inflation in the Euro Area returns to the target level, perhaps by August next year, we should see talks about decreasing key rates. We expect the first cut by 25bps in 3Q24, but any further cuts will most likely take several meetings of the governing board to materialise. Slovakia's bond yields, however, may stay higher for longer since the fiscal risks connected to the upcoming September parliamentary elections remain high.

Banking Sector

The plunge in the important mortgage business due to higher interest rates seems to have bottomed over the summer months of 2023. NPLs continued to decline to record lows up to June despite many households already refinancing their housing loans at considerably higher rates. Together with fast nominal income growth, this means that we do not expect to see any threats to financial stability, even though higher monthly payments became a political topic before the elections. With the stabilisation of interest rates, we predict only a slow return to growth in loans and deposits. Deposit rates should climb as well, albeit with a time lag after lending rates, bringing the gross interest margin back to pre-inflation levels.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	3.0	1.7	1.7	1.8
CPI (eop)	5.8	15.4	5.4	3.5
Short-term rate (eop)	-0.6	2.1	4.0	3.6
L/T bond yields (eop)	0.0	3.2	3.7	3.9
Bank loans (pr. sector, yoy)	7.5	10.4	4.9	4.7
Bank deposits (pr. sector, yoy)	4.4	5.9	3.9	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

GDP growth gained momentum in Q2 (+1.4% yoy and qoq), thanks to healthy investments (9.3% yoy), government consumption bouncing back (2.5% yoy), and the positive contribution of net exports (6.7pp), whereby exports shrank 0.7% yoy while imports fell by 8.3% yoy. Personal consumption, after rising 3.0% yoy in Q1, in the second quarter narrowed by 1.1% yoy, reflecting increased inclinations towards saving. In early August, Slovenia was hit hard by floods, causing damage estimated at EUR 4.7Bn. The government passed an emergency bill, which provided for the payment of a lump sum to those affected (EUR 3ths to 11ths), granted a 12-month loan payment moratorium, and established the Slovenian Reconstruction Fund (SOS) with mandatory contributions amounting 0.8% of pre-tax profit for companies and 0.3% of income tax for individuals. Additionally, EUR 400M in grants from the EU Solidarity Fund will be accessible to Slovenia in 2023-24, of which EUR 100M will be disbursed this year. A tax on banks (0.2% of assets) was also announced, aimed at funding the SOS. Considering the level of damage (8% of 2022 GDP), the time required, and the complexity of the organisational framework needed for renovation work and less rosy projections regarding Euro Area growth, we are cautious, cutting 2023-24 growth to 1.3% yoy and 2.3% yoy.

Ana Lokin

After dropping over four months, HICP inflation bounced back in August (flash estimate) to 6.1% yoy. While awaiting detailed data, based on domestic CPI, we judge this was due to fuel price rises. Underlying inflation has remained strong, at 7.3% yoy in July. The 2023 average inflation rate has been raised to 7.0% yoy and the year-end estimate to 4.0% yoy. As for 2024, we raised the projected annual average to 3.6% yoy.

Financial Markets

The YTD average 10Y government bond spread on the Bund amounted to 100bps, and we see it at 110bps in 2023, ticking up in 2024 to 120bps. The YTD average yield amounted to 3.4%. The average yield in 2023 is projected to be 3.5% and is expected to remain at that level in 2024.

Banking Sector

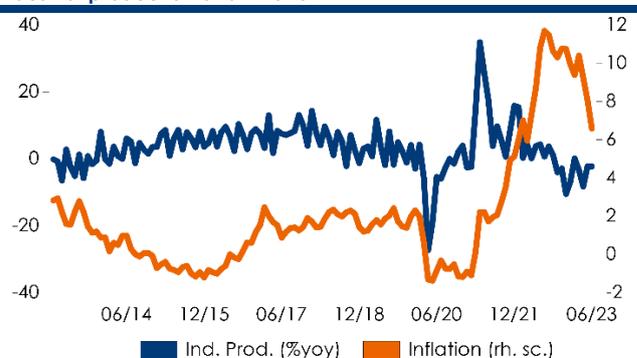
Loans lost pace, expanding 2.3% yoy in July. Household loans rose 3.8% yoy, as housing loans slowed to 2.3% yoy, while consumer lending strengthened to 6.2% yoy. Corporates are increasingly refraining from borrowing due to higher costs, against the backdrop of high liquidity reserves, thus loan growth decelerated to just 0.7%. Looking forward, we expect the slowdown to continue, with higher costs of financing weighing on demand. Therefore, we lowered our 2023 loan growth estimate to 0.9% yoy. Deposits were flattish at 6.6% yoy in July, with steady households and corporates picking up, forecast cut to 3.5% yoy. Estimates for loan and deposit growth in 2024 were cut, reflecting lower economic growth, a prolonged period of high inflation, and more expensive financing.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	8.2	2.5	1.3	2.3
CPI (eop)	5.1	10.8	4.0	2.0
Short-term rate (eop)	-0.6	2.1	4.0	3.6
L/T bond yields (eop)	0.3	3.3	3.6	3.5
Bank loans (pr. sector, yoy)	5.2	9.8	0.9	2.1
Bank deposits (pr. sector, yoy)	8.2	7.8	3.5	2.9
Lending int. rate (corp., eop)	1.9	3.0	4.4	2.7
Deposit int. rate (hhs, eop)	0.1	0.2	0.9	0.8

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

Industrial production and inflation



Source: Statistical Office of the Republic of Slovenia

Albania

Real Economy

Although the economic activity of Albania in 2023 had a strong decline compared to 2022, again the country's growth continues to remain positive. In the first quarter of 2023 the GDP growth was at 2.72%. Growth is expected to remain on the positive path throughout the current year and beyond. The total economic growth of 2023 is expected to be at 2.2%, paving the way for stronger growth in 2024. This positive economic situation is mainly supported by consumption and private investments (although at a slower pace), increase in exports of services and tourism. Meanwhile, higher prices and the decrease in exports of goods have had a negative impact. The unemployment rate (at 10.7% in Q2,23) continues to improve towards historically low rates. In parallel, wage rates have followed the upward trend, thus becoming an obstacle to the gradual decline in local market prices, as well as meaning internal inflationary pressures continue to rise. In August 2023, CPI reached 4%, down from 8% in the same period last year. The highest contribution was from "Food and non-alcoholic beverages", with a negative impact mostly related to "Transport". For the fifth month on a row, the country's exports of goods continued to be negative. In July, this it fell by 4% yoy.

Kledi Gjordeni

Financial Markets

The central bank's monetary policy stance, with the key interest rate of 3%, has helped to keep inflation under control. Also, the continuous appreciation of the LEK, especially against the EUR, has significantly helped to alleviate the rise of imported CPI in the country. In August, the EUR/LEK rate depreciated by 7.5% yoy. According to the CB, the impact of the LCY appreciation against foreign currencies has contributed to soften by 2.5pp the high CPI rate. In addition, the appreciation of the local currency has resulted in other advantages in the economy, such as in the payment of the country's debt, and it has meant no further rounds of tightening of monetary policy to result in as little damage as possible for lending and investments in the economy. The return of the inflation rate to the CB's target (3%) is expected to materialise around the first half of 2024. On the other hand, the exchange rate has badly hit exporters of goods over most of the 2023.

Banking Sector

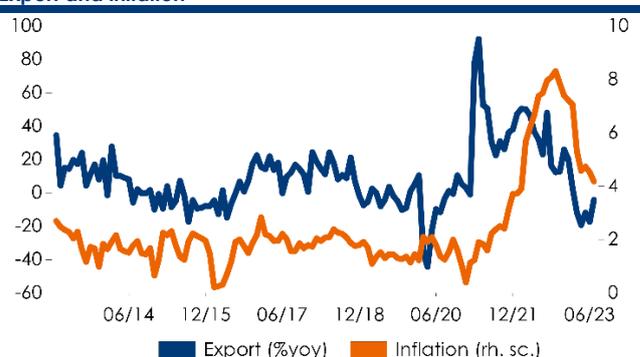
Despite the pressure of tightening monetary policy and high prices in the market, credit to the private sector by the banking system continues to be positive, especially regarding credit to households. Total loan growth to the private sector in June 2023 was 1.29%. Households contributes 8%, whereas corporate loan growth was negative by 2.44% yoy. With regard to deposits, in June 2023, total deposit growth remained basically flat yoy at 0.04%. Individual deposits growth was negative, at -2.45%, while corporates grew by 9.6% in the banking system. Regarding NPL rate in June 23 was at 5.2%.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	8.9	4.8	2.2	3.5
CPI (eop)	3.7	7.4	2.7	3.0
Euro exch. rate (value, eop)	120.9	114.9	107.0	110.0
Short-term rate (eop)	0.5	2.5	3.2	3.2
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	9.6	6.9	2.8	3.7
Bank deposits (pr. sector, yoy)	9.2	4.8	2.8	3.6
Lending int. rate (pr. sec., eop)	5.3	6.5	7.7	8.3
Deposit int. rate (pr. sec., eop)	0.4	2.5	2.2	2.1

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

Although economic activity continued to strengthen on a quarterly basis (+0.7% qoq), the annual Q1 GDP growth rate slowed to 1.1% yoy (vs 1.9% in the closing quarter of 2022), which, combined with mixed high frequency data, prompted us to lower our expectation for FY23 growth to around 1.3%. However, we don't exclude possible upside revision in Q1 outturn as for example a negative negative (-0.4% yoy) private consumption performance contradicts previously released monthly retail trade data. On the other hand, investment activity picked up strongly (+12.4% yoy). In line with the expectations, export growth weakened, to only 1.7% yoy vs slightly stronger imports (+2.0%). Q2-Q3 high frequency data were really a mixed bag, as retail trade continued to overperform (Q2 +13.1%, July +17.3% yoy) supported by easing inflation pressures (July CPI down to 4%) and real positive growth for real incomes. At the same time, industrial weakness strengthened, from Q1's -2.5% yoy to -6.2% in Q2, but with some sluggish recovery signs appearing in July (+0.6% yoy), following 10 straight months in the red. Simultaneously, the performance of exports nose-dived, slumping over Q2 by -10.7% yoy, followed by a 5% decline in July. Looking forward, the 2024 outlook envisages around 2.6% growth, with average inflation stabilising at around 3%. Some additional growth support is expected to relate to 2024 local elections-driven investments in infrastructure, while exports will continue to mirror major trading partners demand, which is likely to remain subdued in the coming months. The complex political situation remains a drag, as it could additionally worsen driven by local elections.

Ivana Jović

On 4 August, S&P raised its LT local and foreign currency sovereign credit ratings to B+ (stable) from B, based on resilient economic growth, accompanied by a favourable fiscal position.

Banking Sector

Loans continued to rise steadily, showing a 5.0% yoy increase in July. Corporate lending eased amid rising interest rates and softer inflation (4.1% yoy). At the same time, household loans rose (+5.9% yoy), due to a strengthening of consumer loans (+6.2% yoy), while higher financing costs, a rise in house prices, and tighter credit standards pressured housing loan demand (6.0% yoy). Recent trends prompted us to revise this year's estimated loan increase and lift it to 5.0% yoy, while the 2024 forecast was confirmed at a healthy 4.1% yoy.

Ana Lokin

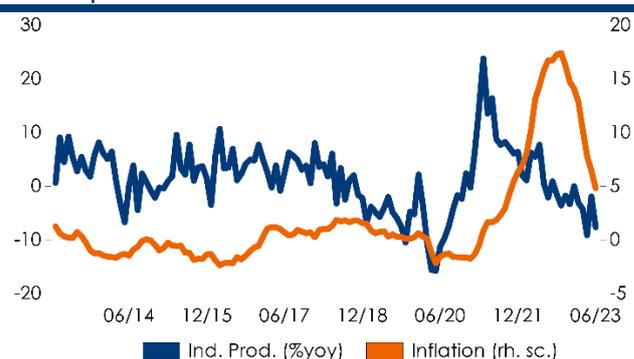
Deposits rising at a robust pace, coming in at 10.7% yoy in July due to base effects (last year's drop in household deposits) and corporate deposits picking up since May. Projection for 2023 was therefore improved to 7.4% yoy, while 2024 outlook remains unchanged (4.5% yoy).

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	7.1	4.0	1.3	2.6
CPI (eop)	6.3	14.7	3.2	2.0
Euro exch. rate (value, eop)	2.0	2.0	2.0	2.0
Short-term rate (eop)	n.a.	n.a.	n.a.	n.a.
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	3.7	5.3	5.0	4.1
Bank deposits (pr. sector, yoy)	10.0	3.2	7.4	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

Industrial production and inflation



Source: Agency for statistics of Bosnia and Herzegovina

Croatia

Real Economy

Croatia's above EA average growth has continued, as following Q1's +1.3% qoq (+2.8% non- and 2.6% yoy seasonally adjusted), Q2 GDP recorded a just slower performance, growing by 1.1% qoq (2.7% non- and 2.5% yoy seasonally adjusted). Driven by easing inflation, strong double-digit nominal, and recovering real growth in wages, as well as declining unemployment, Q2 private consumption growth strengthened to 2.3% yoy (vs Q1's 1.4%). On the other hand, investments eased to 3.2% yoy (vs 3.9%), reflecting a slower pace of public infrastructural investments, as indicated by less favourable trends in civil engineering activity. Positive support to headline growth came also from exports of services (tourism), which increased by 8.3% yoy, as the country registered an exceptionally good pre-season. At the same time, goods exports declined by 9.7%, worse than the 7.3% decline in imports. The little available Q3 data indicate continued, +0.4% mom and +2.9% yoy, growth in July retail trade volumes, but accompanied by weakening industrial (-3.9% mom and -0.7% yoy) and exports (-14.7% yoy) performances, as well as a less-favourable-than-hoped-for main tourist season (July-August foreign tourist overnight stays -1.7% yoy), thus indicating weaker Q3 GDP yoy outturn compared to 1H23. Overall, we stick to our FY23 +2.5% call, with the balance of risks tilted slightly to the downside, while the inflation estimate has been revised upwards, to around 8.1%, reflecting less disinflation throughout summer months than previously expected. The latest data for August saw disinflation trends halt, as CPI reversed to 7.8% (from 7.3% in July). Looking forward, 2024 GDP could grow by around 2.6% yoy, with more emphasis put on investments, both public (in addition to EUR 5.5Bn RRF grant component, the country recently applied for a EUR 4.4Bn loan component) and private, although investment outlook does represent most tangible downside risk, while at the same time both private and public consumption will continue to support growth.

Ivana Jović

Financial Markets

The YTD average 10Y government bond spread on the Bund amounted to nearly 150bps, with 2023 average estimated at 150bps, dropping to 120bps in 2024. The YTD average yield stands at 3.8%. In FY23, the average yield is seen at 3.9%, remaining at that level in 2024.

Ana Lokin

Banking Sector

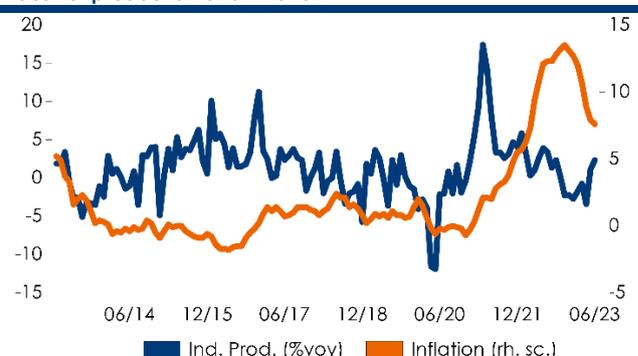
Loan growth eased to 8.0% yoy in July, owing to lower corporate demand amid rising interest rates and weaker inflationary pressures. We see loans growing by 6.3% yoy in 2023. Next year's forecast was lifted to 3.0% yoy based on an expected resumption of the investment cycle in tourism which was postponed due to the pandemic. Deposits in July surged 2.4% mom (6.4% yoy) due to steep tourism inflows. Projections for 2023-24, however, have been cut to 1.6% and 1.7% yoy, respectively, as the government announced issue of securities aimed at retail investors – hence, significant outflows are expected.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	13.1	6.2	2.5	2.6
CPI (eop)	5.5	13.1	5.0	2.5
Euro exch. rate (value, eop)	n.a.	n.a.	n.a.	n.a.
Short-term rate (eop)	0.4	0.2	4.0	3.7
L/T bond yields (eop)	0.6	3.5	3.9	3.7
Bank loans (pr. sector, yoy)	2.3	11.2	6.3	3.0
Bank deposits (pr. sector, yoy)	11.7	15.0	1.6	1.7
Lending int. rate (pr. sec., eop)	1.9	3.6	5.0	4.9
Deposit int. rate (pr. sec., eop)	0.1	0.7	2.6	2.5

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 2Q23 was announced at 1.1% yoy, with quarterly growth of 0.9%. Positive contributions came from the information and communication sector, real estate and construction. Industry's contribution was negative. The ISP Research Department forecasts for 2023 GDP growth is 2.2%.

CPI yoy growth at the end of August was 9.3%, in line with the May NBR projection. Harmonised yoy CPI at the end of August fell below 9% (8.9%). According to the NBR's latest projection, inflation growth should decelerate till year-end 2023, to around 7.5%. The ISP Research Department forecasts forecast for year-end 2023 inflation is 7.7%.

The unemployment rate has been stable this year, reaching 5.5% at the end of July, while wages increased by 14.8% yoy at the end of July.

The budget deficit at the end of July 2023 was at 2.43% of GDP, significantly higher than last year and above the levels in the fiscal consolidation plan, which projects a deficit at year-end 2023 below 4.4% of GDP.

The current account deficit at the end of June 2023 was EUR 9.826Bn vs EUR 12.3Bn in June 2022. This improvement is linked to the high inflation and its impact in retail sales.

Financial Markets

On 7 August, the NBR kept unchanged its monetary policy rates (Deposit, Lombard and Reference) as follows: Deposit Facility 6.00%, Reference 7.00% and Credit Facility 8.00%.

The EUR/RON exchange rate has been stable, with low volatility, over most of the period. The range of fluctuation was 4.93-4.96. The exchange rate is still used as a monetary policy instrument.

Banking Sector

In the first seven months of 2023, growth on loans and deposits remained above 3% (3.85% for loans, 3.33% for deposits), with stagnation seen in household loans, due to high interest rates.

In July 2023, yoy figures showed a slight deceleration in credit, at 5.03%, while deposits continued to grow, at 9.02%. The interest rates on RON-denominated deposits and credit decreased slightly, to 5.98% and 9.11%, on average, respectively, while on EUR-denominated deposits and credit, interest rates increased by 2.03% and 6.79%, on average, respectively.

Forecasts

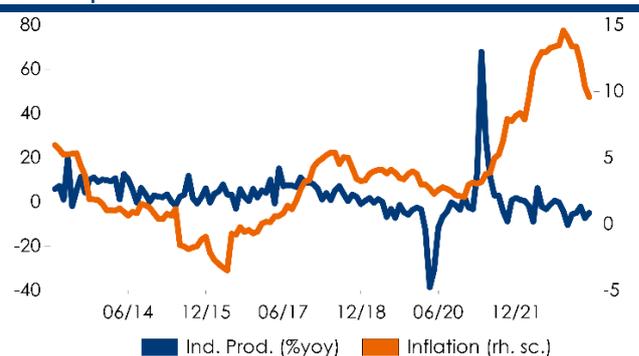
	2021	2022	2023F	2024F
Real GDP yoy	6.8	5.0	2.2	3.0
CPI (eop)	8.2	14.1	7.7	5.0
Euro exch. rate (value, eop)	4.9	4.9	5.0	5.0
Short-term rate (eop)	2.8	7.7	6.7	5.5
L/T bond yields (eop)	5.4	7.9	7.0	6.4
Bank loans (pr. sector, yoy)	14.3	11.2	5.9	5.2
Bank deposits (pr. sector, yoy)	13.6	6.7	6.9	7.5
Lending int. rate (pr. sec., eop)	5.3	9.7	8.8	7.9
Deposit int. rate (pr. sec., eop)	1.9	6.7	4.8	3.4

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

Marius Pacurari

Marius Pacurari

Industrial production and inflation



Source: National Institute of Statistics

Serbia

Real Economy

Real GDP accelerated in 2Q23, recording growth of 1.7% yoy, up from 0.9% yoy in 1Q23 (figure revised upwards from flash estimate of 0.7%). On the production side, the biggest positive contribution came from construction, which finally recovered after five quarters in negative territory. On the expenditure side, net exports once again were the main driver of overall growth, followed by fixed investments. In its new projection for 2023, the CB sees growth in a range of 2-3%, but now closer to the lower end. We expect real GDP to grow by 1.9% in 2023, considering still high inflation, weak external demand, and tighter global financial conditions.

August represented the fifth consecutive month of decline, with yoy inflation at 11.5%, down from 12.5% in July. Core inflation slowed to 9.1%. Inflation is expected to reach single digits in the last quarter of this year. However, announced electricity and gas price hikes in the last quarter; higher excise taxes on oil derivatives, tobacco products, alcoholic beverages and coffee (effective from October); as well as new fiscal policy measures will slow the inflation decline. Average CPI is seen at 12.9% in 2023 and 5.1% in 2024.

Financial Markets

At its September meeting, the NBS opted for a second pause in a row, keeping the key interest rate unchanged at 6.5%. The decision reflects further easing of global inflationary pressures, as well as the downward trajectory of domestic inflation. Since the beginning of monetary tightening in April 2022, the central bank has delivered 15 hikes, raising the rate by 550bps in total. However, despite pausing hikes, the NBS continued tightening monetary conditions by increasing the required reserve rates. If inflation were to continue along the expected downward trajectory, the first cuts are likely to be seen in the first half of 2024.

In August, the dinar remained unchanged against the EUR. Appreciation pressures had prevailed since February, due to a higher supply of EUR from exports, remittances and FDI, prompting the NBS to intervene in the FX market via net buying of EUR 2,770M in the first eight months of 2023. The CB has ample foreign exchange reserves at its disposal to preserve the EUR/RSD rate at around the current level (gross reserves reached a record high of EUR 23.6Bn at end-August 2023).

Banking Sector

Reflecting the combined effects of monetary tightening, a high base from the previous year, and the maturing of guarantee scheme loans, growth in total loans to the private sector slowed to a sluggish 0.2% yoy in July (+0.5% YTD). Deposit dynamics are more favourable, as July saw growth of 12% yoy in total private sector deposits, which was even more the case in the corporate segment (+22% yoy). We expect total deposits to grow by 4.5% yoy in 2023 overall and total loans by only 1% yoy.

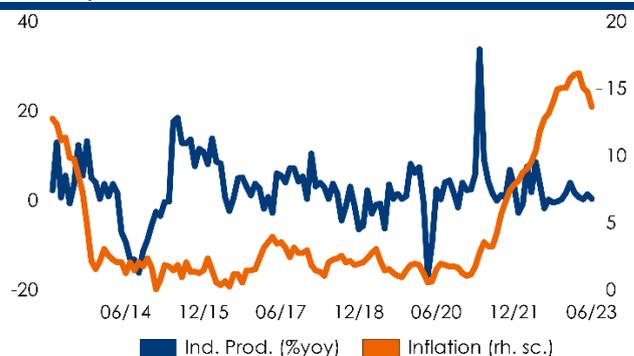
Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	7.5	2.3	1.9	3.0
CPI (eop)	7.9	15.1	8.7	3.3
Euro exch. rate (value, eop)	117.6	117.3	117.5	118.0
Short-term rate (eop)	1.0	5.0	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	1.0	3.5
Bank deposits (pr. sector, yoy)	13.3	6.9	4.5	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	5.8	4.7

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

Katarina Bubonja

Industrial production and inflation



Source: Statistical Office

Moldova

Real Economy

The Moldovan economy contracted by 2.4% yoy in the 1Q23, following a 10.6% fall in 4Q22. Household consumption fell by 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 2.1%, by 2023 year-end, reaching its potential only in 2024. This recovery is based on an increase in agricultural production and general economic expansion, supported by more relaxed monetary policy. Inflation fell to a 22-month low of 9.7% in August 2023, above the central bank's mid-point target of 5.0%, on lower price growth for food and housing services. 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.

Natalia Mihalas

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 August (from 20% as of the end of 4Q22). The 91-, 182-, and 364-day treasury bill yields decreased by 13.9pp, 12.5pp and 11.8pp, respectively, as of August 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 (-8pp and -5.75pp, respectively) compared to their December levels.

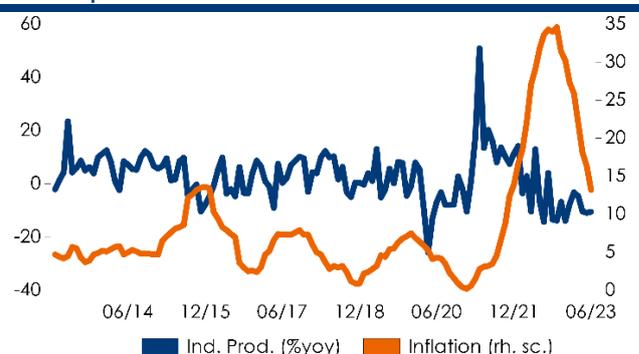
Banking Sector

Despite the NBM's decisions to lower the base rate during 2023, lending activity has been stagnant. As of July 2023, the loan portfolio stood at MDL 62Bn, a yoy increase of 3.4% but a decline of 0.6% since the beginning of the year. A recovery is expected in 4Q23 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 an 11.9% increase in the first seven months of 2023 vs December 2022, and a substantial 22.4% yoy positive evolution, leading to a stock of deposits of MDL 106.3Bn 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 6.8%, slightly rising to 6.7%, on average, in the following years. Deposit interest rates are expected to fall in 2024, given monetary measures foreseen by the NBM, while regarding lending rates, no significant fluctuations are expected.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	13.9	-5.1	2.1	3.7
CPI (eop)	13.9	30.2	5.5	5.4
USD exch. rate (value, eop)	17.7	19.5	18.4	18.1
Euro exch. rate (value, eop)	20.1	20.5	20.8	20.9
Short-term rate (eop)	6.5	20.0	6.0	6.0
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	7.6	6.8
Lending int. rate (corp., eop)	8.5	12.9	7.5	7.5
Deposit int. rate (hh, eop)	3.2	11.4	5.5	4.0

Industrial production and inflation



Source: National Bureau of Statistics of the Republic of Moldova

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

Russia

Real Economy

Russian GDP grew by 4.9% yoy in Q2. So, considering these signs of recovery, we estimate 2023 GDP growth at 2.2% yoy. The economy remains heavily dependent on the energy sector and, although not as strongly as the West would like, sanctions are expected to continue to negatively impact several sectors. The combined impact with the conflict with Ukraine should lead to a slow growth trajectory in the medium term. Public spending is set to increase, as the state needs financing for the war. But private consumption and fixed investments will be more volatile.

Francesca Pascali

Financial Markets

As a result of rising inflationary pressures, after 10 months, the central bank increased the policy rate to 8.5% on 21 July, to 12% on 15 August and to 13% on 15 September, given to an increase in inflationary pressures. The CBR is keeping open the prospect of further increases in the key rate to stabilise inflation close to 4% in 2024 and beyond. CBR key rates may be raised over 2023 in relation to the rise in inflation expectations and the level of the structural budget deficit. According to Bank of Russia estimates, the economy has generally completed its recovery phase. The dynamics of domestic demand are contributing to the increase in import demand. The latter grew, in contrast to a drop in exports. The different trends in exports and imports have been the main factor in the rouble's depreciation since the beginning of 2023. In the coming quarters, demand for imports should adjust to the current weakness of the rouble. Our forecasts for the rouble's development show a depreciation against the US dollar in 2023 (estimated at 103.3 at the end of the period), which is expected to stay over 100, as well as in 2024 (101.0), and then to gradually return to current levels, but not before 2025. The rouble is under pressure due to the growing budget deficit, the geo-economic environment, the not-very-favourable oil price, as well as the continuous outflow of capital from the Russian economy.

Banking Sector

Lending growth is expected to decelerate in 2023, to 8.2% yoy (revised from 7.2% as forecast in June), thanks to the strong acceleration seen in the last available data and in line with the BOR's expectations. The BOR preserved the foreign cash restrictions due to the sanctions enacted against Russia that prohibit Russian financial institutions from purchasing foreign currency cash. Among other things, the regulator has extended for another six months the ban on banks charging individuals a commission for foreign cash withdrawals from their deposits or accounts. The loan growth rate will be negatively affected by the strong depreciation of the rouble (expected to be over +30% in 2023, 24% in 2024), 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 6.9% 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	2.2	1.9
CPI (eop)	8.4	11.9	7.5	5.1
USD exh. rate (value, eop)	73.7	66.6	103.3	101.0
Euro exh. rate (value, eop)	83.5	70.7	116.9	116.5
Short-term rate (eop)	9.5	8.4	9.2	7.1
L/T bond yields (eop)	8.4	11.3	11.7	10.9
Bank loans (pr. sector, yoy)	18.8	11.8	8.2	6.3
Bank deposits (pr. sector, yoy)	12.7	11.0	6.9	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



Source: State Statistics Federal Service

Ukraine

Real Economy

According to preliminary estimates, Ukraine's economy grew by 18-20% yoy in 2Q23, after a decline of 10.5% in 1Q23, thanks to lower risks in the energy sector, resilience of the population and business to the challenges of the war, and a faster recovery of domestic demand. However, the pace of economic recovery is likely to slow significantly in 2H23 due to still-persistent security risks, restrictions on export logistics, rising fuel prices, and a slow recovery of the labour market. The prospects for ending the war are still being postponed, which weighs heavily on business expectations and restrains economic activity. Nonetheless, following the strong 1H23 performance, we have raised our 2023 GDP forecast to growth of 3.5%, from 2.4%. We have kept the 2024 GDP forecast unchanged at a conservative 4.5%, reflecting high contingency on ceasefire perspective. The CPI keeps surprising to the upside: deflation was recorded in August for the second month in a row. Prices fell by 1.4% (after a 0.6% decline in July), pushing the yearly inflation print down to 8.6% yoy (after 11.3% in July). Inflationary pressure may pick up in the coming months, due to recent increases in electricity tariffs and higher fuel taxation. We now see the eop CPI at 10% yoy in 2023 and 7.9% in 2024.

Artem Krasovskyi

Financial Markets

Following the prompt CPI deceleration, the NBU has started a policy easing cycle earlier than expected, and for the first time in more than a year, it cut the key rate from 25% to 22% at the MPC meeting in July. We now see the key rate reaching 18% by year-end and 15% by the end of 2024. Stable inflows of financial aid from international partners is helping to maintain a stronger local currency (the USD/UAH remains in a fixed peg regime at 36.6) and replenish the NBU's FX reserves, which are at a record high level: USD 41.7Bn in August 2023 compared to USD 29.1Bn in February 2022 (before the war) and the USD 22.3Bn, trough seen in July 2022.

Banking Sector

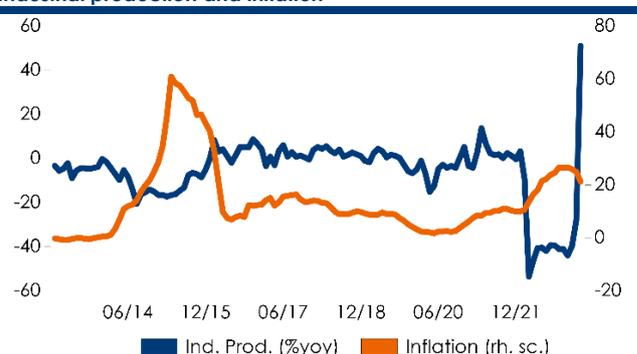
The Ukrainian banking sector remains stable and profitable: in 2Q23, banks earned UAH 34Bn. Deposits continued to grow, thanks both to households and businesses, by +5.3% over 2Q23. Corporate loans continued to shrink, whereas demand for consumer loans began to recover. The volume of net assets increased by 5.6% over the quarter. Due to the gradual recovery of the economy, credit risks have been decreasing and new provisions formed over the quarter were almost zero. The growth of credit losses resulting from the war has stopped in general: over 2Q23, non-performing loans increased minimally, by 0.1pp, to 38.9% (by 12.4pps from February 2022). The NBU key rate cut in July determined the start of a monetary policy easing cycle, which should lead to a reduction in bank interest rates.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	3.4	-29.1	3.5	4.5
CPI (eop)	10.0	26.6	10.0	7.9
USD exch. (value, eop)	27.4	36.9	39.5	42.0
Euro exch. rate (value, eop)	30.8	38.7	44.7	48.4
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	2.7	4.6
Bank deposits (pr. sector, yoy)	12.3	25.1	7.5	5.6
Lending interest rate (pr.sect., eop)	14.3	22.0	20.8	18.7
Deposit interest rate (pr.sect., eop)	5.0	10.7	12.3	10.7

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

Projections for 2023 real growth were lowered against June's scenario given the slowdown in government investments and the negative impacts of a high cost of borrowing and shortages in raw materials in the industrial sector. In 2024, real growth is likely to improve to 3.9% yoy, but remain below the long-term average, supported by strong performances of service sectors (Suez Canal, Telecom, Tourism).

A high-inflation environment will probably persist in 2024, hovering around 30%, on average, due to fluctuations in exchange rates, in addition to downside risks related to the rise in oil prices and disruptions in wheat supplies after Russia's withdrawal from the Black Sea Treaty.

Financial Markets

Regarding the country's external position, Egypt is required to repay almost USD 13.2Bn in medium- and long-term debt servicing during 2023-24, according to the IMF. These funds are to be secured through 1) selling shares in state-owned states worth USD 4-5Bn, of which USD 2.5Bn already concluded; 2) FDI, particularly in oil & gas, where Eni, BP and Apatchi announced USD 12.6Bn of investment plans in the country during the coming years; and 3) issuance of new yen- and yuan-dominated bonds worth USD 1Bn. On the other hand, the current account deficit is going to be affected by two opposing factors: 1) positive – booming tourism and Suez Canal revenues / partial recovery in gas exports in winter / decline in imports 29% yoy in 1H23; and 2) negative – continued leakage of remittances and revenues from other sources of foreign currency to the parallel market.

Regarding the future of exchange rates, there are three plausible scenarios: 1) maintaining the current official level (EGP 30.9/USD 1), due to fears about mounting social pressures after the rise in food prices by 70% yoy; 2) partly devaluing the EGP against the USD (baseline / most likely) by end of year; and 3) adopting a free-float exchange rate regime that would lead to further depreciation of the local currency (beyond the baseline scenario). This will be accompanied by a rise of 200bps in key interest rates in 2023, before the CB starts to lower rates again in 2H24, when the Fed is likely to depart from its hawkish stance. MMR is expected to slow, even with the rise in interest rates, as the current inverted yield curve would return to normal.

Banking Sector

In 2023, annual growth in both private loans and deposits will be somewhat inflated by the re-evaluation of foreign currency portfolios. Growth in private loans is expected to decline in 2024, to 10.9% yoy, due to less government spending and weak growth in real GDP. Deposits will also grow at a slower pace for similar reasons.

Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	7.2	4.3	3.4	3.9
CPI (eop)	5.9	21.3	39.4	31.3
USD exh. rate (value, eop)	15.7	24.7	38.0	40.0
Euro exh. rate (value, eop)	17.8	26.1	43.0	46.1
Short-term rate (eop)	11.9	18.1	24.8	20.0
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	18.0	14.9
Deposit int. rate (hh, eop)	7.5	9.8	14.0	11.9

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			
	2Q23	1Q23	2022	Last	mth	2Q23	Last	mth	2Q23	Last	mth	2Q23	Last	mth	2Q23	Last	mth	2Q23	Last	mth	2Q23	Last	mth	2Q23	
CEE																									
Czechia	-0.6	-0.5	2.5	0.9	Jun	1.2	-1.6	Jun	-0.5	-4.0	Jun	-7.1	8.8	Jul	11.2	3.5	Jul	3.5	9.1	Jun	9.9	83.9	Jul	82.1	
Hungary	n.a.	-0.9	4.6	-3.8	Jun	-6.3	11.0	Jun	4.6	-7.8	Jun	-11.4	17.6	Jul	21.9	3.8	Jun	3.8	15.9	Jun	16.4	93.7	Jul	91.8	
Poland	-0.5	-0.3	4.9	-2.7	Jul	-3.3	-5.4	Jun	-1.8	-4.0	Jul	-6.3	10.8	Jul	13.1	5.0	Jun	5.1	10.4	Jul	12.1	94.1	Jul	93.2	
Slovakia	1.5	1.0	1.7	3.6	Jun	0.5	9.6	Jun	6.6	-5.1	Jun	-7.9	9.7	Jul	12.2	5.2	Jul	5.2	10.7	Jun	10.6	89.0	Jul	90.0	
Slovenia	1.4	0.8	2.5	-2.3	Jun	-4.2	-5.0	Jul	-0.4	-16.6	Jul	-12.9	6.1	Aug	8.0	4.7	Jun	4.8	9.5	Jun	9.6	91.2	Aug	92.1	
SEE																									
Albania	n.a.	2.7	4.8	n.a.	n.a.	n.a.	-17.3	Jun	-16.1	n.a.	n.a.	n.a.	4.5	Jun	4.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Bosnia H.	n.a.	1.0	4.0	-7.6	Jun	-6.5	-5.1	Jul	-10.7	13.3	Jun	12.9	4.9	Jun	6.4	29.0	Jun	28.9	12.5	Jun	14.1	n.a.	n.a.	n.a.	
Croatia	n.a.	2.8	6.2	2.4	Jun	-0.7	-5.7	May	n.a.	3.2	Jun	2.9	7.3	Jul	8.1	5.8	Jul	5.8	12.4	Jun	11.8	105.2	Jul	105.4	
Romania	n.a.	2.3	n.a.	-4.8	May	-5.9	8.0	May	6.5	3.2	May	0.8	9.3	Jun	9.8	5.4	Jun	5.5	15.7	May	15.4	101.3	Apr	n.a.	
Serbia	n.a.	0.7	2.3	0.5	Jun	0.8	3.3	Jun	3.3	-6.0	Jun	-6.1	12.5	Jul	14.5	n.a.	n.a.	n.a.	16.2	May	15.5	n.a.	n.a.	n.a.	
EE & MENA																									
Moldova	-2.2	-2.4	-5.1	-10.5	Jun	-10.6	-24.0	Jun	-21.0	-5.6	Dec	n.a.	9.7	Aug	15.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Russia	4.9	-1.8	-2.1	6.5	Jun	6.3	72.1	Jan	n.a.	10.0	Jun	8.9	5.2	Aug	2.7	3.1	Jun	3.2	16.6	May	15.5	52.1	Jul	52.6	
Ukraine	n.a.	-10.5	-29.1	51.1	Mar	n.a.	-14.6	Jun	-17.0	35.4	Mar	n.a.	8.6	Aug	15.3	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	-5.7	May	-7.3	-44.9	Apr	-44.9	n.a.	n.a.	n.a.	37.4	Aug	33.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
m.i. E. A.	0.6	1.3	3.3	-1.3	Jun	-1.2	0.3	Jun	-2.0				5.3	Aug	6.2										

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	
	25/8	3M*	25/8	3M*	25/8	3M*	1Y*	3M*	1Y*	25/8	25/5	2Q23	1Q23	2022	2Q23	1Q23		Moody's
CEE																		
Czechia	7.1	-0.1	4.3	-0.3	24.09	2.01	-2.26	2.3	14.3	29.8	32.7	n.a.	n.a.	n.a.	n.a.	1,665.4	Aa3	
Hungary	13.8	-1.9	7.3	-0.4	382.97	2.53	-6.22	20.7	31.0	135.7	162.3	n.a.	n.a.	n.a.	n.a.	n.a.	Baa2	
Poland	7.3	-0.4	5.7	-0.5	4.47	-0.79	-6.12	6.3	27.6	63.5	77.0	n.a.	n.a.	n.a.	n.a.	5,186.0	n.a.	
Slovakia	3.8	0.3	3.8	-0.1	n.a.	n.a.	n.a.	10.2	-7.8	34.2	34.7	n.a.	n.a.	n.a.	-447	-672.0	A2	
Slovenia	3.8	0.3	3.5	0.1	n.a.	n.a.	n.a.	-4.0	1.2	38.0	37.8	-7	41	134	1,354	570.7	A3	
SEE																		
Albania	2.8	n.a.	n.a.	n.a.	110.25	-0.23	-5.47	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	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.	57	-439	-144	n.a.	-209.9	n.a.	
Croatia	0.4	0.0	3.9	0.0	7.53	0.00	0.37	8.6	22.6	85.3	91.9	-238	-24,749	2,855	n.a.	-2,290.2	Baa2	
Romania	6.3	-0.2	7.0	-0.2	4.94	-0.21	1.30	6.9	5.9	146.7	185.8	n.a.	n.a.	n.a.	n.a.	-5,004.0	Baa3	
Serbia	6.5	0.5	n.a.	n.a.	117.26	-0.01	-0.04	-1.7	4.9	219.0	220.2	1,204	1,965	2,961	-393	-133.9	Ba2	
EE & MENA																		
Moldova	4.2	-6.5	7.1	-1.0	17.77	0.10	-7.99	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.1	B3
Russia	n.a.	n.a.	n.a.	n.a.	94.70	12.91	56.21	14.4	28.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	WR
Ukraine	12.8	0.0	21.7	-2.0	36.91	-0.06	0.12	0.0	-2.3	14,247.7	14,247.7	7,429	3,171	-4,129	514	-1,789.0	Ca	
Egypt	24.8	1.9	11.3	0.0	30.90	0.00	60.85	8.6	80.0	1,450.9	1,759.3	360	444	-6,932	n.a.	-3,485.3	B3	
m.i.A.E.	3.8	0.3	2.5	0.0	1.1	0.4	7.9	-0.9	6.4	7.49	7.00							

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	Last	mth	2022	
CEE																									
Czechia	5.4	Jun	4.5	1.8	Jun	2.0	4.4	Jun	18.1	8.0	Jun	4.2	8.7	Jun	9.0	C	6.1	Jun	6.0	H	69.8	Jun	71.0		
Hungary	7.0	Jun	11.6	2.2	Mar	2.3	34.7	Jun	56.4	-5.6	Jun	2.5	12.2	Jun	11.5	C	12.5	Jun	12.3	H	84.1	Jun	78.3		
Poland	-3.8	Jul	0.2	n.a.	Mar	2.4	n.a.	Jun	n.a.	12.3	Jul	5.6	8.9	Jun	8.7	C	5.8	Jun	6.5	H	71.1	Jul	76.0		
Slovakia	5.8	Jun	10.4	1.9	Jun	1.9	118.2	Jun	33.0	5.2	Jun	5.9	3.8	Dec	3.8	C ²	0.0	Dec	0.0	H ²	110.5	Jun	108.3		
Slovenia	3.9	Jun	9.8	1.0	Jun	1.1	54.4	Jun	33.7	6.7	Jun	7.8	4.6	Jun	3.0	C ²	0.7	Jun	0.2	H ²	64.1	Jun	64.3		
SEE																									
Albania	1.3	Jun	6.9	5.2	May	5.0	-22.1	Jun	-10.8	0.0	Jun	4.8	6.0	Jun	6.5	PS	1.8	Jun	2.5	PS	56.1	Jun	54.8		
Bosnia H.	5.0	Jun	5.3	4.2	Mar	4.5	-22.4	Jun	-7.0	10.5	Jun	3.2	3.6	Jun	4.0	C	0.7	Jun	0.5	H	91.3	Jun	91.3		
Croatia	8.0	Jul	11.2	3.2	Mar	3.0	-3.4	Jul	27.7	6.4	Jul	15.0	4.8	Jul	3.6	PS	2.6	Jul	0.7	PS	66.8	Jul	63.8		
Romania	5.8	Jun	11.2	2.6	May	2.7	26.0	Jun	35.8	9.6	Jun	6.7	9.4	Jun	9.7	PS	6.0	Jun	6.7	PS	71.0	Jun	71.0		
Serbia	0.2	Jul	6.4	3.1	May	3.0	-3.0	Jul	14.1	12.1	Jul	6.9	11.0	Jun	9.3	PS	5.8	Jun	6.2	PS	87.1	Jul	89.7		
EE & MENA																									
Moldova	3.4	Jul	9.3	6.7	Jul	6.4	0.7	Jul	n.a.	22.4	Jul	5.4	10.6	Jul	12.9	C	10.0	Jul	11.4	H	58.4	Jul	64.9		
Russia	20.5	May	11.8	6.1	Dec	6.1	n.a.	Jun	n.a.	16.1	May	11.0	9.8	May	8.9	C	5.4	May	5.4	H	125.0	May	120.3		
Ukraine	-8.5	Jun	-4.4	38.9	Jul	36.7	-3.8	Jun	-21.6	36.5	Jun	25.1	22.6	Jun	22.0	PS	14.0	Jun	10.7	PS	47.4	Jun	55.2		
Egypt	26.7	Mar	28.4	3.5	Mar	3.4	87.7	Jun	83.1	23.2	Jun	27.4	18.1	Jun	13.3	C	12.2	Jun	9.8	H	35.6	Mar	35.6		
m.i. E. A.	2.11	Jun	4.0	n.a.	n.a.	n.a.	1.8	Jun	9.0	1.0	Jun	3.3	4.9	Jul	3.4	C	2.8	Jul	1.4	H	75.9	Jun	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	-0.2	2.3	Czech Rep.	3.2	3.9	15.1	10.1	2.6	
	Hungary	-5.1	7.1	4.6	-0.3	2.9	Hungary	3.3	5.1	14.5	17.9	5.0	
	Poland	-2.0	6.8	4.9	0.7	2.8	Poland	3.4	5.1	14.3	11.3	4.0	
	Slovakia	-3.4	3.0	1.7	1.7	1.8	Slovakia	2.0	3.2	12.8	10.6	4.0	
	Slovenia	-4.3	8.2	2.5	1.3	2.3	Slovenia	-0.3	2.0	9.3	7.0	3.6	
SEE	Albania	-3.3	8.9	4.8	2.2	3.5	Albania	1.6	2.0	6.7	4.5	2.8	
	Bosnia Herzegovina	-3.3	7.1	4.0	1.3	2.6	Bosnia Herzegovina	-1.1	2.0	14.0	6.5	3.0	
	Croatia	-8.5	13.1	6.2	2.5	2.6	Croatia	0.1	2.6	10.7	8.1	3.7	
	Romania	-3.9	6.8	5.0	2.2	3.0	Romania	2.6	5.0	12.1	9.9	5.5	
	Serbia	-0.9	7.5	2.3	1.9	3.0	Serbia	1.6	4.0	11.9	12.9	5.1	
EE & MENA	Moldova	-8.3	13.9	-5.1	2.1	3.7	Moldova	3.8	5.1	28.6	11.1	5.4	
	Russia	-3.0	4.7	-2.1	2.2	2.5	Russia	3.4	6.7	13.8	5.9	6.9	
	Ukraine	-3.8	3.4	-29.1	3.5	4.5	Ukraine	2.7	9.3	20.1	14.7	8.2	
	Egypt	1.5	7.2	4.3	3.4	3.9	Egypt	5.1	5.2	13.8	34.6	34.1	

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	4.8	
	Hungary	351.1	358.7	391.1	381.1	383.6	Hungary	0.7	1.4	9.9	13.9	7.7	
	Poland	4.4	4.6	4.7	4.6	4.5	Poland	0.6	0.4	5.9	6.4	5.1	
	Slovakia	n.a.	n.a.	n.a.	n.a.	n.a.	Slovakia	-0.4	-0.5	0.3	3.4	3.9	
	Slovenia	n.a.	n.a.	n.a.	n.a.	n.a.	Slovenia	-0.4	-0.5	0.3	3.4	3.9	
SEE	Albania	123.4	122.3	118.9	109.3	108.5	Albania	0.5	0.5	1.3	3.2	3.2	
	Bosnia Herzegovina	2.0	2.0	2.0	2.0	2.0	Bosnia Herzegovina	n.a.	n.a.	n.a.	n.a.	n.a.	
	Croatia	n.a.	n.a.	n.a.	n.a.	n.a.	Croatia	0.3	0.3	0.2	3.4	3.9	
	Romania	4.8	4.9	4.9	5.0	5.0	Romania	2.4	1.8	6.2	6.8	5.9	
	Serbia	117.6	117.6	117.5	117.4	117.8	Serbia	1.5	1.0	2.6	6.1	5.5	
EE & MENA	Moldova (USD)	17.3	17.7	18.8	18.4	18.3	Moldova	3.4	3.8	16.9	9.8	6.0	
	Russia (USD)	73.4	73.6	68.3	87.4	102.2	Russia	5.4	6.8	11.9	8.7	8.2	
	Ukraine (USD)	26.9	27.4	32.3	37.6	40.8	Ukraine	12.2	10.7	20.4	22.1	16.7	
	Egypt (USD)	15.8	15.7	19.2	32.4	39.0	Egypt	13.1	12.7	14.5	24.1	23.1	

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	-4.0	2.0	Hungary	23.3	17.6	2.5	-8.0	0.0	
	Poland	0.4	4.6	0.2	2.4	4.9	Poland	12.8	7.7	5.6	4.3	4.8	
	Slovakia	5.2	7.5	10.4	4.9	4.7	Slovakia	7.1	4.4	5.9	3.9	5.1	
	Slovenia	-0.9	5.2	9.8	0.9	2.1	Slovenia	12.2	8.2	7.8	3.5	2.9	
SEE	Albania	7.0	9.6	6.9	2.8	3.7	Albania	8.1	9.2	4.8	2.8	3.6	
	Bosnia Herzegovina	-2.5	3.7	5.3	5.0	4.1	Bosnia Herzegovina	6.5	10.0	3.2	7.4	4.5	
	Croatia	3.8	2.3	11.2	6.3	3.0	Croatia	9.3	11.7	15.0	1.6	1.7	
	Romania	5.0	14.3	11.2	5.9	5.2	Romania	15.4	13.6	6.7	6.9	7.5	
	Serbia	11.1	10.2	6.4	1.0	3.5	Serbia	17.4	13.3	6.9	4.5	5.0	
EE & MENA	Moldova	13.1	23.5	9.3	4.3	4.3	Moldova	16.5	13.1	5.4	7.6	6.8	
	Russia	14.4	18.8	11.8	8.2	6.3	Russia	9.6	12.7	11.0	6.9	6.2	
	Ukraine	-2.8	9.6	-4.4	2.7	4.6	Ukraine	33.6	12.3	25.1	7.5	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	7.7	3.6	Czech Rep.	0.8	0.9	5.0	5.4	2.3	
	Hungary	2.8	3.2	8.3	11.0	6.7	Hungary	0.3	0.6	6.6	10.7	4.8	
	Poland	2.7	2.4	7.5	8.1	5.3	Poland	0.5	0.3	4.4	5.5	3.5	
	Slovakia	1.9	1.9	2.4	4.2	3.3	Slovakia	0.0	0.0	0.0	0.9	1.3	
	Slovenia	2.1	2.1	1.9	4.2	3.1	Slovenia	0.1	0.1	0.1	0.7	0.8	
SEE	Albania	6.2	6.1	6.4	6.4	8.1	Albania	0.5	0.4	1.2	1.9	2.2	
	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	4.9	Croatia	0.1	0.1	0.2	2.2	2.6	
	Romania	6.2	5.6	8.0	9.5	8.4	Romania	1.9	1.3	5.3	5.7	4.1	
	Serbia	5.9	6.2	7.8	11.0	9.5	Serbia	1.6	1.4	4.0	5.8	5.3	
EE & MENA	Moldova	8.5	8.3	10.6	11.0	7.5	Moldova	4.1	3.2	7.0	10.1	4.6	
	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	22.1	19.8	Ukraine	6.1	4.6	7.4	12.9	11.5	
	Egypt	11.4	9.4	10.6	16.9	16.1	Egypt	7.8	7.4	8.4	12.4	13.1	

Source: Intesa Sanpaolo Research Department forecasts

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