# Economic and Banking Monitor

**International Research**

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Countries with ISP subsidiaries

Quarterly Note

**Research Department**

**International Research Network**

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## Viewpoint

High frequency data signal a softening of the business cycle in 3Q21, which on a trend basis, continues to recover overall. Rising CPI pressures have prompted several CBs to start (eg, PL and RO) or accelerate (CZ, HU and RU) the reversal of policy rates.

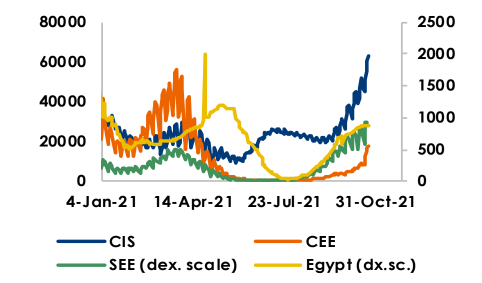
Based on the most recent release of high frequency indicators, the business cycle is still moving along a recovery path overall among the countries with ISP subsidiaries, although, as expected, at a slower pace than in 2Q21 as the base effect related to last year's negative performance in Q2 is fading. In July and August, industrial production decelerated on a trend basis, by 7.4% and 6.6%, respectively, in the CEE/SEE areas (with CEE countries still outperforming at 8.6% and 7.8% in the two months) and by 6.3% and 4.4% in the CIS region (at 10% in July for Egypt vs 15.6% in Q2) while retracing on a monthly basis. The recovery path is still supported by the easing of restrictive measures adopted to contrast the pandemic, but it has been hit since June by bottlenecks on the supply side, with shortages of chips and other imported materials especially affecting the output of electronics-sensitive manufacturing sectors, such as automotive. Even if the economic picture remains highly positive overall, with pre-COVID GDP levels already reached in most countries, the forecasts regarding the speed of recovery are being somewhat clouded by the resurgence in infections – in particular, in the SEE and CIS areas where vaccinations are lagging.

Despite the softening of business cycle, inflation is in parallel accelerating in all the countries. The CPI has increased rapidly in the last few months in both the CEE/SEE and in CIS areas, climbing from a 3.8% average in Q2 to 5.4% in September in the former and from 6.2% to 7.7% in the latter, quite often moving beyond the upper range of targets set by CBs. Inflationary pressures also are mainly related to supply side factors, such as the increases in energy and other imported commodity prices and the above-mentioned bottlenecks on global value chains, with all this occurring in the face of particularly buoyant domestic demand, following a period of pent-up consumption and uncertainty-related postponement of investments.

To keep inflationary expectations anchored – as core inflation and wages have also showed signs of tension – several CBs in the CEE/SEE areas have strengthened the already started reversal of the interest cycle (as in CZ and HU, which in October have further raised policy rates by 75bps, to 1.5%, and by 15bps, to 1.8%, respectively) or begun to raise them (as in PL, with an increase in October by 40bps, to 0.5%, and in RO by 25bps, to 1.5%), with further increases now on the cards. Also, in the CIS region, in Russia, the CB raised the policy rate in October by 75 bps. to 7.5% and pointed to the potential for further increase before moving back to a neutral stance.

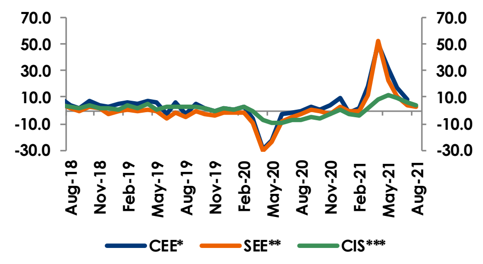
As regards banking aggregates, the latest data again show a strong dynamic. Loans further accelerated n the CEE/SEE area (to 5.9% in August vs 5.8% in July) and, with the exception of Ukraine, in the CIS area (+17.1% in July in Russia), thanks to the ongoing economic recovery and the credit support measures that are still in place. As expected, deposits are instead slowing overall with respect to a buoyant 2020, but they are still seeing a strong pace of growth in both the CEE/SEE area (circa +10.2% in August vs 13.8% at year-end 2020) and in the CIS area (+11.6% in Russia in July). Deposits are still being supported by prudent savings behaviour by households and by favourable liquidity conditions in the markets. With the only exception being Ukraine, NPL ratios remain at historically low levels in all the countries but are expected to deteriorate with the gradual removal of support measures (mainly moratoria and credit guarantee schemes).

**COVID-19 daily new cases**




Source: Refinitiv

**Industrial production (% yoy)**




* Weighted avg on SK, SI, HU, CZ, PL data; ** weighted avg on BA, HR, RO, RS data; *** weighted avg on RU, UA data. Source: Intesa Sanpaolo elaboration on Refinitiv data

Based on information available to 25.10.2021

See the final page for important information

ALBANIA – INTESA SANPAOLO BANK Albania
ROMANIA – INTESA SANPAOLO BANK Romania
SLOVAKIA AND CZECH REPUBLIC – VÚB BANKA
BOSNIA AND HERZEGOVINA – INTESA SANPAOLO BANKA Bosna i Hercegovina
RUSSIAN FEDERATION – BANCA INTESA
SLOVENIA – INTESA SANPAOLO BANK
CROATIA – PRIVREDNA BANKA ZAGREB
SERBIA – BANCA INTESA Beograd
HUNGARY – CIB BANK
EGYPT – ALEXBANK | بنك الإسكندرية
UKRAINE – ПРАВЕКС БАНК
MOLDOVA – EXIMBANK

**This note has been coordinated by Gianluca Salsecci. The names of the authors are reported in the single 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 SEE countries; Russia, Moldova and Ukraine among CIS countries; Egypt among MENA countries. It also includes Poland among the CEE countries, where ISP is present with a branch.**

**The Economic and Banking Monitor is released on a quarterly basis in January, April, July and October.**

# Cross Country Analysis

## CEE Area

**Antonio Pesce**

In **CEE** countries, the gradual easing (starting from May) of lockdown measures imposed to address the COVID-19 pandemic has led to a recovery in business conditions in the services and industrial sectors. According to the most recent high-frequency indicators, however, albeit still strong, the trends in many cases have started to decelerate since June, due to supply bottlenecks in several markets (in particular, logistics services and basic electronic components). In the region, the uncertainty regarding the further course of the pandemic has been driven from the increase in new daily infection rates, which started to rise again from the low levels reached in June of 300 (ie, 4.5 per million inhabitants) to about 17,600 currently (266 per million inhabitants). The renewed wave of COVID-19 cases increases the risk of strict containment measures being imposed once again.

In August, **industrial production** increased by 7.8% yoy on a weighted average in the area, below the July trend (8.6%), with a contraction of the index on a monthly basis (-1.3% m/m in August vs -0.7% m/m in July on seasonally adjusted data). In August, among CEE countries, the industrial production trend ranged from -1.4%% in Czech Republic to 13.2% in Poland (where, however, given the preliminary estimate available for this country, in September, industrial production growth softened to 8.8%). In August, the **exports** trend also was still decreasing and softened to 12.2% (from 17% in July, on seasonally adjusted data), with Poland and Slovenia the only two countries experiencing double-digit growth rates. In July and August, **retail sales** dynamics remained strong (both 7.1% yoy) but were significantly lower than the June trend (10.2%). Moving to forward-looking business indicators, September's surveys signalled a slight deterioration in the economic environment overall, which was negatively affected by the difficulties for firms in several markets in obtaining the materials to make up intermediate goods (supply bottlenecks). In all CEE countries, the Economic Sentiment Indicator (**ESI**) in September (102.8 as a weighted average [w.a.]) decreased further with respect to June (106.6).

Prices for many commodities, in particular oil and gas, but also for transportation services have increased this year and are currently significantly higher than a year ago. Along with supply-side constraints related to the pandemic, this is exerting upward pressures on **inflation**. In September, the consumer price dynamic in the region increased further, to 5.4% as a weighted average from 4.9% in August and set a record for recent years. Since July, inflationary pressures have also been seen in the component of the basket of consumer goods with lower volatility, as **core inflation** rose for the third month in a row in September, reaching 3.8% (vs 3.2% in June). Significant growth was also observed in the trend of **wages,** which despite the decline from the peak in June (9.2%, on regional w.a.) was very strong in August (7.5%) and well above the January dynamic (6.0%).

To keep inflation expectations anchored, in October, the central banks in Hungary and Czech Republic further increased **policy rates**, to 1.8% in October (from 1.65% in September) and 1.5% (from 0.75%), respectively. The strength in the move of inflation above the target also prompted the CB of Poland to intervene regarding the policy rate by increasing it to 0.5% in October (from 0.1%). On the fiscal policy side, to limit the negative economic impact of the pandemic, significant economic stimulus will be implemented through **Recovery and Resilience Plans** (RRPs). The RRPs of Slovakia (€6.3bn in grants), Slovenia's (€1.8bn in grants and €705m in loans), and Czech Republic (€7.0bn in grants) have been endorsed by the European Commission and, for Slovenia and Czech Republic the equivalent of 13% of each country's grant allocation under the Recovery and Resilience Facility has already been disbursed. Regarding financial markets, **long-term yields** rose in Hungary, Czech Republic and Poland in the last three months partly due to the increase in 10Y Bund yields and partly due to slightly higher spreads vs 10Y Bund yields. In the **FX markets**, local currencies have remained basically stable in the CEE region over the last three months, but with small amounts of depreciation seen in Hungary and Poland.

Davidia Zucchelli

As far as **banking aggregates** are concerned, **in the CEE area,** lending was slightly stronger in August vs July, thanks to the ongoing economic recovery and the support measures still in place. Lending accelerated slightly in August, on average to 4.6% yoy (from 4.4% yoy in July): it was dynamic in the household sector (+7% yoy; particularly in Hungary, +16% yoy), but remained in negative territory in the corporate sector in Poland and Slovenia (-1.5% and -0.6%, respectively, vs +0.6% yoy in the area). NPL ratios remain very low, thanks to the flexibility allowed by regulators and the parallel strong lending performances. The moratoria are still in force in Hungary. NPLs are expected to fully emerge when all supporting measures (particularly government guarantees) end. According to the latest property market review by the Oesterreichische Nationalbank (September 2021), in the CESEE region, the overall annual growth rate for residential property prices declined slightly in the first quarter of 2021, but with some countries still reporting strong price growth (especially Czech Republic). The dynamic regarding **deposits** continued to be strong (+8.7% yoy in the area vs 9% yoy as of July) particularly in Hungary (16% yoy), despite a slight deceleration that occurred, as expected, due to the consumer spending recovery.

Loan dynamics strengthened in all countries with the exception of **Hungary,** where loans decelerated, but still rose 11.6% yoy in August, driven particularly by households (16% yoy) while corporate loans increased by 7.7% yoy, the best performance in the area. In **Slovenia,** lending increased, though slightly (1.6% yoy), still supported by households (+3.4%) and influenced by a negative trend in the corporate sector (-0.6%). Total deposits saw a sizable increase (10.5% yoy), particularly among corporates (12.6% yoy vs 9.9% yoy in the household sector).

**Slovakia** and **Czech Republic** recorded strong performances in August, both in lending (6% and 5.6% yoy, respectively) and deposits (4.7% and 10.4% yoy), but the pace of growth is slowing in comparison with the early months of the year. Loans in Poland (2.4% in August) strengthened slightly, thanks to household loans, which rose, though moderately (+4.2%), while loans to corporates decreased (-1.5% yoy) because of a decline in demand for loans due to macroeconomic factors and the substitution of lending with fiscal support to enterprises.

## SEE Area

Antonio Pesce

As with the CEE area, since May, lockdown measures have been softened in the SEE region, thanks to the fall in COVID infections observed at that time (when the number of new daily cases moved from about 15k in March to 150 at the end of June). However, since then, the number of new daily COVID cases has increased again, reaching a current 27,700 daily new infections (about 840 per million inhabitants). In the SEE area as well, the surge in the spread of COVID-19 infections could result in a higher risk of seeing the reintroduction of stringent containment measures.

Like the CEE region, in the SEE area, the dynamic of the main economic indicators softened in Q3. In August, the trend of industrial production decreased further, to 3.1% (-6.7% m/m), after the deceleration in July to 3.5% (-0.5% m/m) from 10.6% in June. Also, the trends for exports and retail sales weakened in August, although they remained at double digits (above 20% and 10%, respectively). Moving to forward-looking indicators, in September, the ESI decreased further, to 103.3 (regional w.a.) after the 104.7 recorded in August (from 106.2 in July).

Also in the SEE region, supply chain constraints have resulted in big increases in freight costs and delivery times, pushing up inflationary pressures in tandem with upward pressures from rising energy prices. In September, the inflation rate increased to 5.5% from 4.5% in August (on a regional w.a.), ranging from 2.5% in Albania to 6.3% in Romania, the highest value in recent years for this country, well above the CB target (2.5% +/-1.0%). In Serbia, the inflation rate also rose above the CB target (3.0%+/-1.5%), to 5.7%, in September. To counteract the inflationary pressures, the National Bank of Romania raised its benchmark interest rate by 25bps, to 1.5%, at its October meeting, as expected, for the first time since 2018. The short-term interest rate was also increased. At the same time, long-term yields recorded for Croatia and Romania decreased slightly in the former country (supported by the prospects of joining the EA) but rose-in the latter with respect to three months ago. In the FX markets, local currencies have remained stable in recent months. In June, the European Commission approved the Croatian RRP (€6.3bn in grants) and the equivalent of 13% of the country's total financial allocation under the Recovery and Resilience Facility (RRF) has already been disbursed (€818m). In September, the European Commission endorsed the Romania's RRP (€14.2 billion in grants and €14.9 billion in loans).

**Davidia Zucchelli**

On the **banking side**, lending growth rates among **SEE area countries** (+9.7% in August on average, as in the previous month) remained very strong in Romania (+12.4%) and robust in Serbia (+7.9%) and Albania (6.8%). Loans to households strengthened further (to +8.3% yoy). The difference between CEE and SEE area **lending dynamics** to corporates remained wide (0.6% in the former vs 11.6% in the latter in August). No bubbles in the real estate market have been highlighted in all CEE/SEE countries, but prices are gradually rising this year, according to BIS data referring to some countries in the area. NPLs ratio remained low (ranging from 3.6% in June in Serbia to 7.0% in August in Albania). **Deposit growth** continued to be strong in the area in August (14.2% yoy) – in particular, in Romania (15.5%), Serbia (13.0%) and Bosnia (13.8%) – due to deferrals of consumption and investment. Loan/deposit ratios decreased in all the countries vs July levels (in CEE countries, LTD ratios increased in general due to a weaker monthly deposit performance).

Serbia and Romania, supported by a relatively stronger economic activity, played leading roles in the area as regards lending growth to households and corporates in August. In **Serbia**, loan growth continued to be vigorous (+7.9% yoy) but decelerated slightly (from 8.5% as of July), with loans denominated in foreign currency still seeing low growth (+3.1% vs 3% in July), due to the dinarisation strategy pursued by the central bank. The deposit performance was also similar in the two sectors in August (around 13% yoy), despite still declining interest rates. In **Romania,** lending grew by 12.4% yoy in August, which was stronger than expectations, particularly for corporates (to 16.7% yoy), but also for households (9% yoy). Corporate deposits continued to see strong increases (+20.6% yoy vs +12.7% for households). The TA increased to RON 651bn, a record level.

In **Croatia**, loans grew by 2.3% yoy in August, pushed up by households (+4%), while corporate loans continued to decline, though the pace had moderated (-0.4% yoy). Deposits rose by 10.9%, with a higher rate seen for corporates (17.6%, accounting for around 30% of total deposits, vs 8.4% for households). In **Albania**, total loans increased by 6.8% yoy in August (6.7% yoy in July), driven by households (to 10.7% yoy, which accounted for 35% of total loans) and regarding both consumer and mortgage loans. Corporates continued to be much more dynamic regarding deposits (+25.1% vs 6.7% for the household sector), leading to a total deposit boost of 10%. In **Bosnia**, loan growth increased slightly in August (2.4% yoy vs 1.9% yoy in the previous month) as a result of still-positive changes. Growth was more moderate for households (4.1%), with a shift back to positive territory for corporates (0.7%). Deposits increased by 13.8% yoy, mainly due to corporates, which experienced a jump of 25.2% yoy in August. Household deposits rose by 8.8% yoy, despite high unemployment and still-low and decreasing interest rates.

## CIS and MENA Areas

**Francesca Pascali**

CIS countries experienced a significant rise in the number of COVID-19 cases from the end of the summer, especially Russia, where the daily number of new cases exceeds the 34,000 per day. Due to the surge in the number of cases since mid-October, the Russian authorities have again imposed restrictions.

Since March, **industrial production** has continued to rise in **Russia,** though at a slower pace. In August, it rose 4.7% yoy vs 10.4% seen in June and 6.8% in July. The same trend was seen in **Ukraine** (0.6% in August vs 1.3% in June) and **Moldova** (6.6% in August vs 16.2% in July). **Export** trends in June were particularly strong in Russia (72.9% vs 63.1% in May). In August, exports from Moldova grew by 44.2% (from 15.2%) and for Ukraine they rose by 35.5% (from 33.4%). In August, Russian

**retail sales**, after negative growth in the first three months of 2021, rose by 5.3% from 4.7% in July. In the same month in Ukraine and Moldova, they grew by 10.4% and 19.0%, respectively. Regarding forward-looking indicators, despite the observed resurgence in COVID-19 infections, in September in Russia, the PMI rose to 49.8 from the August level of 46.5 (though it remained below the 50 level). On the **inflation** side, in September in Russia, consumer prices increased further, to 7.4% from 6.7%, well above the CB's inflation target of 4.0%. In Moldova, the inflation rate also increased strongly (6.7% from 4.6% in August). It increased further in Ukraine (11.0% from 10.2%) and remained higher with respect to the target range (5.0%+/-1.0%). Due to inflationary pressures, in October, Russia's CB raised the **policy rate** by a further 75bps (to 7.5%). In the same month, after four rate hikes of 50bps each in March, April, July and September, in Ukraine, the CB left its policy rate unchanged at 8.5%.

In the FX market in October, the Russian and Ukrainian currencies appreciated against the USD, supported by the recovery in energy prices. The progression of infections in **Egypt** has been improving in recent months. The number of recorded new cases in October was about 850 per day. Looking at economic data, in July, industrial production grew by 10.0% yoy (from 13.1%), while exports increasing in July by 31.5% (from +49.2%). In September, the PMI index decreased with respect to August to 48.9 from 49.8, still below the 50 threshold. In September, inflation increased to 6.6% (from 5.7% in August) and remained close to the bottom of the target range (7.0% +/- 2.0%). The EGP was stable against the USD.

**Davidia Zucchelli**

Regarding banking aggregates, in the **CIS area,** the loan dynamic has been very diverse among countries – it was very strong in **Moldova** and **Russia** (July data), but still negative in **Ukraine** (August data). In contrast, the deposit dynamic remained very strong in all the countries in July. In **Russia**, household loans rose strongly in July (23.8% in June). Restrictions imposed by the central bank are expected to cause a slowdown in loans in the near future. The CBR increased banks' risk weights for mortgage loans with a down-payment lower than 20% or a loan/value (LTV) ratio of 80-85% starting from 1 August and tightened consumer lending regulations starting from 1 July. While no bubbles in the real estate market have been highlighted, the central bank expressed some concerns about surging real estate prices (+4.4% qoq in June from 1.7% qoq in March, according to BIS data). In **Ukraine**, loans continued to decrease in August, by 1.3% yoy (after -3.7% yoy in July). Households strengthened to +5.8% yoy while corporate loans fell (-3.5%). This performance was mainly due to portfolio restructuring by state-owned banks. The recovery plan approved by the government requires a reduction of NPLs already covered by provisions by over UAH 300bn in three years. The NPL ratio declined further, to 36.3% in July. Total deposits rose significantly (15.4% yoy in August vs 16.7% yoy in July), particularly in foreign currency among corporates (+19.7% yoy) vs 0.7% for households. In **Moldova**, the performance of loans (22.6% yoy in September) continued to be driven by households, at up 36.7% yoy. Loans to corporates, which accounted for almost 70% of the total portfolio, grew by 14.7% yoy. Despite the economic recession, the NPL ratio continued to decrease in September (to 6.8%). In September, deposit growth decelerated to 16.3% yoy (corporates rose by 20.1% yoy, households by 14.1% yoy). The LTD ratio remained among the lowest in all the CEE/SEE/CIS countries (61.4% in August, followed only by Albania at 53%)

In **Egypt**, loans grew by 19.3% yoy in the private sector (well above the nominal GDP growth rate) in July, but decelerated for both corporates (to 17.6%) and households (to 22.5%). The NPL ratio remained very low (3.5% in June). Banks can rely on ample low-cost customer deposits, which increased by 18.8% yoy in July despite decelerating (deposits accounted for 60% of total assets).

# Country-Specific Analysis

## Czech Republic

### Real Economy

Zdenko Štefanides

The Czech economy continued to recover from the COVID-19 pandemic at a slower pace than peers. By mid-2021, Czech GDP was still some 5% below the 4Q19 level, whereas Hungary and Poland had reached pre-COVID levels. One of the main reasons for the relatively slower Czech recovery is a shortage of chips and other imported components paralysing the country's dominant car industry. In August, car production was down 28% yoy which removed 5pps from overall industrial output. This drag on growth looks set to continue. The Car Industry Association expects the sector to produce 250k, or 20%, fewer vehicles in 2021 than expected.

Domestic demand, in contrast, remains vibrant. Retail sales, for example, had already reached pre-pandemic levels earlier this year, and by August, they were up 4.1% yoy in calendar and seasonally adjusted terms. The unemployment rate is at an EU-low of 3%, resulting in wage and inflation pressures. In September, consumer inflation jumped to 4.9%, the highest level in 13 years from a trough of 2.8% in June. The CNB measure of core inflation rose even faster, to 5.8%, significantly above the forecast 3.5% in its summer prediction in August.

### Financial Markets

With inflation running well above the 2% target and rising, the CNB has been systematically increasing interest rates since June to prevent inflation expectations getting out of control. On 30 September, it nonetheless surprised the markets by hiking rates by 75bps, triple the size of its previous moves. The key two-week repo rate was increased to 1.50%. CNB board members are nonetheless indicating a further 50bps rate hike at the 4 November meeting. The two-week rate would thus reach 2% way earlier than previously foreseen (end-2022). The fast and outsized rate hikes have so far failed to boost the koruna much. In fact, the EUR/CZK rate as of 25 October was 25.74, weaker than the 25.45 before the 30 September hike. This weakening has however mainly been driven by dwindling global demand for emerging market assets. It had also pushed up Czech yields, to over 2.6% on 10Y bonds by 25 October from 2% in September.

### Banking Sector

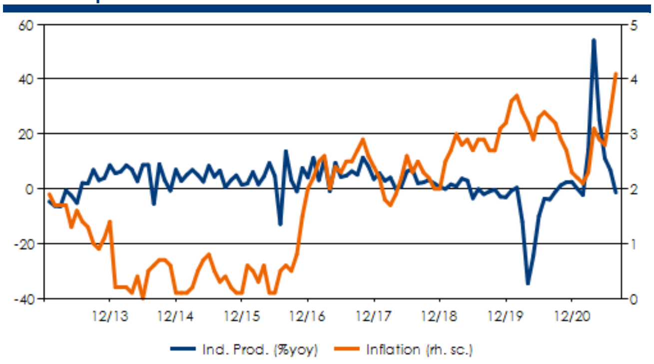
Alongside the rate hikes, Czech mortgage rates have been rising in recent months, now approaching 4%, double the rate before the summer. The market itself has shown few signs of slowing. In contrast, new mortgage production has nearly doubled this year and the volume of mortgage stock increased in August by 11.2% yoy, up from 10.5% in June and 9.4% in March. The latest CNB lending survey however indicates a change, as demand for housing loans has declined for the first time since autumn a year ago. Rising rates and steep housing prices have led to a significant deterioration in housing affordability.

**Latest economic indicators**

| | Last value | 2Q21 | 1Q21 |
|---|---|---|---|
| Industrial production, wda yoy | -1.4 (Aug) | 30.1 | 4.0 |
| Export of goods, nominal yoy | 6.3 (Aug) | 38.2 | 11.7 |
| CB refi rate | 1.5 (22th Oct) | 0.5 | 0.3 |
| ESI (index) | 91.4 (Sep) | 106.1 | 83.3 |
| Retail sales yoy | 6.3 (Aug) | 38.2 | 11.7 |
| Inflation rate, avg yoy | 4.9 (Sep) | 2.9 | 2.2 |
| Loans (priv sector, yoy, eop) | 5.6 (Aug) | 4.2 | 3.2 |
| Deposits (priv sector, yoy, eop) | 10.4 (Aug) | 11.1 | 11.9 |
| Lending interest rate (corp, eop) | 2.1 (Aug) | 1.3 | 2.0 |
| Deposit interest rate (hh, eop) | 0.7 (Aug) | 0.6 | 0.5 |

Source: Czech National Bank, Czech Statistical Office

**Industrial production and inflation**




Source: Czech Statistical Office

## Hungary

Mariann Trippon

### Real Economy

The Hungarian economy posted a very strong post-COVID recovery. Output reached the pre-COVID level in 2Q21 and recently released high frequency indicators point to a continuation of strong growth. However, there are differences among sectors. The industrial sector has lost momentum recently as global supply-side bottlenecks hold back production. The services sector remains buoyant. Household consumption continues to recover rapidly, supported by positive labour market developments, high wage growth, strong confidence, and the high level of savings. The unemployment rate is hovering around post-COVID lows and retail sales are approaching pre-pandemic levels. Investments picked up in Q2 and the recovery is expected to continue despite the delay in the approval of Hungary's recovery plan. Although downside risks have strengthened recently, 2021 GDP growth may reach 7%. Some moderation of growth is expected for 2022. Inflationary pressures remain strong in the economy, partly as a result of global supply-side bottlenecks, but booming domestic demand and tight labour market conditions represent upside risks to the outlook. The high inflation period is likely to remain more persistent than previously expected, but CPI is still expected to return to the 2-4% target range in 2Q22.

### Financial Markets

The strengthening of upside inflation risks triggered a hawkish monetary policy turn and the NBH engaged in a gradual normalisation process. However, after three 30bps rate increases, the MC slowed, shifting to 15bps increments in September and October. Besides raising the policy rate, cancelling the Lending for Growth programme, and cutting back the monthly QE purchases, the CB also announced the gradual phasing out of the HUF FX swap facility. The rate hike cycle is expected to continue until the end of the year and presumably into early 2022. The MC will re-evaluate the inflation outlook in December. Following a short-lived firming period, the smaller interest rate hikes, the surprise central bank decisions both in Poland and Czech Republic, the fragile global risk sentiment, the imminent Fed tapering put the HUF under pressure; the EUR/HUF is back to levels not seen since the start of the rate hike cycle.

### Banking Sector

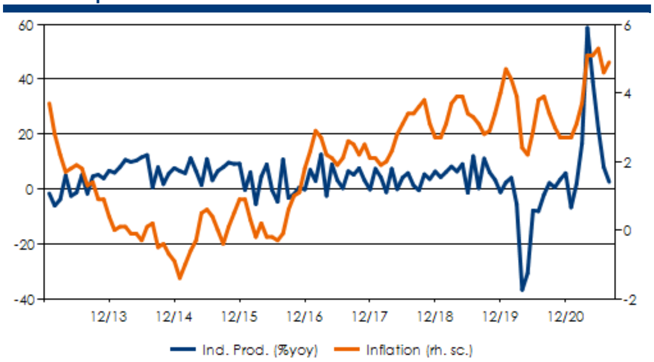
After rising by more than 20% in 2020, bank deposit growth is expected to slow this year, but the slower-than-expected decrease of forced savings and the moratorium should keep deposit growth close to 7% in 2021. Lending remains buoyant. SME lending increased by 21% yoy. The FGS Go! scheme played a major role in supporting corporate lending. Household lending grew by 15.3% in Q2, driven by housing loans. Private sector loan growth will remain in double-digit territory this year. The general moratorium was prolonged until June 2022 for those most affected by the COVID crisis.

**Latest economic indicators**

| | Last value | 2Q21 | 1Q21 |
|---|---|---|---|
| Industrial production yoy | 2.6 (Aug) | 40.0 | 3.9 |
| Nom exports yoy | 5.2 (Aug) | 41.3 | 7.6 |
| ESI (index) | 110.2 (Sep) | 105.2 | 91.1 |
| Retail sales yoy | 4.6 (Aug) | 7.3 | -3.2 |
| Inflation rate yoy | 5.5 (Sep) | 5.2 | 3.2 |
| CB reference rate | 1.8 (22th Oct) | 0.9 | 0.6 |
| Loans (priv sector, yoy, eop) | 11.6 (Aug) | 10.2 | 9.0 |
| Deposits (priv sector, yoy, eop) | 16 (Aug) | 17.4 | 20.3 |
| Lending interest rate (corp, eop) | 3.1 (Aug) | 2.9 | 2.9 |
| Deposit interest rate (hh, eop) | 0.5 (Aug) | 0.3 | 0.4 |

Source: Central Bank of Hungary, Hungarian Central Statistical Office

**Industrial production and inflation**




Source: Hungarian Central Statistical Office

## Poland

Zdenko Štefanides

### Real Economy

The Polish economy has been recovering well from the pandemic, having reached pre-COVID GDP levels already in 2Q21 and continuing to report solid activity through September. To be sure, some moderation in the recovery has looked inevitable, as the reopening effect has gradually faded and the global supply bottlenecks hampered the manufacturing processes. Industry thus managed to post a solid 8.8% yoy increase in output in September. This was a moderation from double-digit growth in the summer months, yet still an encouraging result, given that car manufacturing, weighed upon by chip shortages, dropped by over 17% yoy at the same time.

Retail sales meanwhile confirm the ongoing strong growth of household consumption. In September, retail sales increased 11.1% yoy, up from already strong 10.7% growth in August and 8.9% in July. Labour market performance also remained solid, with the production of 0.6% more corporate sector jobs in September than a year ago and delivering an 8.7% yoy increase in wages. While these were slightly smaller yoy growth rates than in August (0.9% and 9.5%, respectively), they are indicative of the strong foundations for continuing growth of household consumption. The strength of consumer demand has meanwhile manifested in inflation, which increased from 5.5% yoy in August to 5.8% in September.

### Financial Markets

With inflation increasing and approaching 6%, way above the 2.5% target of the National Bank of Poland (NBP), the pressure on the Polish central bank to join its two regional peer central banks, the CNB and MNB, to tighten policy increased. And the NBP did tighten. On 6 October, it raised the key rate by 0.4%, to 0.5%, and also raised the minimum reserve requirement, from 0.5% to 2%. The move surprised markets, which did not expect policy tightening before the November meeting, when a new macro projection was due. In response, the short end of the yield curve moved up and the zloty strengthened a bit. The latter gain though has since been affected by the global risk sell-off, which pushed the zloty above 4.60 vs the euro. The global factors also contributed to the sell-off in the bond market, which resulted in the 10Y yield approaching 2.9% by 26 October from c.2% in September and 1.2% at the start of the year. Concurrently, the spread vs Bunds approached 300bps, the highest level since May 2019.

### Banking Sector

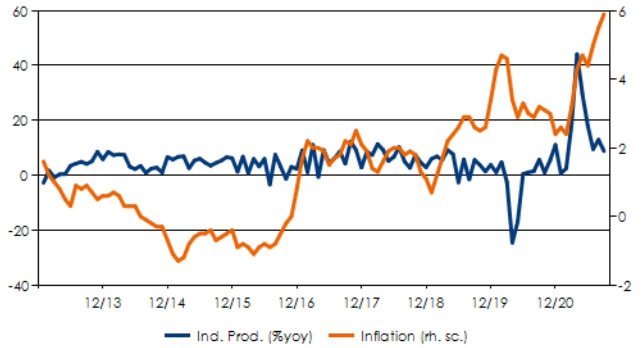
In the banking market, loan volumes have continued to recover. In September, growth of loans to private sector picked up to 3.0% yoy, up from 2.4% in August and a trough of less than 1% in the spring. Both loans to households and nonfinancial corporations contributed to the improved yoy dynamics. The latter finally stopped contracting. The volume of deposits meanwhile continued to grow at a faster pace than loans, albeit the yoy growth dynamics continue to gradually decline as excess savings hoarded during the pandemic gradually normalise.

**Latest economic indicators**

| | Last value | 2Q21 | 1Q21 |
|---|---|---|---|
| Industrial production yoy | 8.8 (Sep) | 30.7 | 7.3 |
| Nom exports yoy | 21 (Aug) | 44.4 | 16.5 |
| ESI (index) | 105.1 (Sep) | 106.9 | 90.3 |
| Retail sales yoy | 4.8 (May) | n.a. | n.a. |
| Inflation rate yoy | 5.9 (Sep) | 4.5 | 2.7 |
| CB reference rate | 0.5 (22th Oct) | 0.1 | 0.1 |
| Loans (priv sector, yoy, eop) | 2.4 (Aug) | 0.5 | -2.0 |
| Deposits (priv sector, yoy, eop) | 6.9 (Aug) | 5.7 | 12.4 |
| Lending interest rate (corp, eop) | 2.1 (Aug) | 2.3 | 2.1 |
| Deposit interest rate (hh, eop) | 0.1 (Aug) | 0.1 | 0.1 |

Source: Narodowy Bank Polski , Statistics Poland

**Industrial production and inflation**




Source: Statistics Poland

## Slovakia

### Real Economy

Michal Lehuta

The Slovak economy is probably slowing amid component shortages and high producer price inflation in the Euro area. Third-quarter GDP results are not yet available, but industrial production figures up to August (only +0.8% yoy), together with a slightly lower sentiment index, indicate a deceleration in activity after the summer rebound. This has particularly been the case for the automotive sector, which is suffering from a shortage of semiconductors (as much as -36.9% yoy, but this may also be due to summer holidays). Recently, Jaguar Land Rover as well as Volkswagen claimed problems with availability of chips and other components. In addition, high energy prices are now squeezing the most energy-intensive segments, such as the chemical industry.

The labour market, together with domestic demand, however seems to be faring well. Electronic sales data suggest stronger household consumption than last year by October, when already rather strict COVID measures hit retail, accommodation and restaurants in 2020. Retail sales grew by 2.2% yoy in August. Registered unemployment continued to narrow in September, when graduates traditionally enter the labour market, to 7.1%. Compared to the Euro area as a whole, the local share of jobless is still higher than before the pandemic.

High producer price inflation and shortages of materials are pushing local consumer prices higher as well, mainly in the categories of transport and foodstuff. We note that the statisticians also included the abolishing of free school lunches from September, which meant that local inflation increased to as much as 4.6%. This is not yet likely to be the high as January will see the planned increases in the regulated prices of heat, electricity and gas.

### Financial Markets

Despite higher inflation in the Euro area, the ECB is sticking to the narrative of its transitory nature and lower-than-target medium-term expectations for consumer price growth. This means still-very-low money market interest rates even though future expectations and bond yields have risen recently. The market thus expects more hawkish policy from Frankfurt than we do. Amid higher inflation expectations and fears of stagflation in the developed world, Slovakia's 10Y government bond yield increased to around 0.2% pa in October, which is still very close to German Bunds (a spread of around 30bps).

### Banking Sector

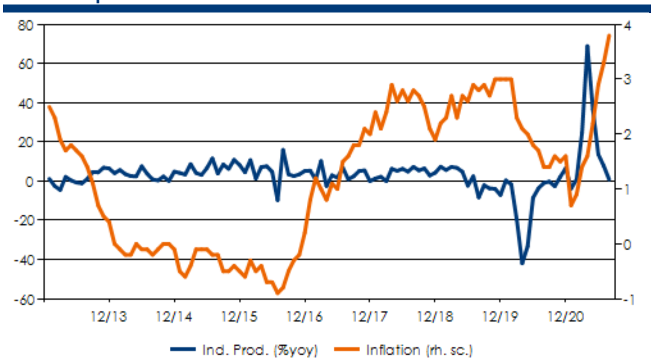
From June to August, local bank loans again grew faster than deposits in yoy terms. This related to the rebound in consumer demand and a more optimistic credit market. For the first time in a while, corporate investment loans and consumer credit are growing again. In addition, some bank deposits were invested in assets under management, which makes sense in times of higher inflation, and a very large share was current account deposits on total household financial wealth.

**Latest economic indicators**

| | Last value | 2Q21 | 1Q21 |
|---|---|---|---|
| Industrial production, wda yoy | 0.8 (Aug) | 39.8 | 7.2 |
| Nom exports, yoy | 0.5 (Aug) | 57.5 | 15.9 |
| ESI (index) | 100.1 (Sep) | 107.0 | 85.6 |
| Retail sales, yoy | 2.2 (Aug) | 9.9 | -10.4 |
| Inflation rate, yoy | 4.6 (Sep) | 2.2 | 1.0 |
| ECB refi rate | 0 (22th Oct) | 0.0 | 0.0 |
| Loans (priv sector,yoy,eop) | 6 (Aug) | 4.6 | 4.4 |
| Deposits (priv sector,yoy,eop) | 4.7 (Aug) | 5.5 | 8.3 |
| Lending interest rate (corp, eop) | 1.8 (Aug) | 1.9 | 1.8 |
| Deposit interest rate (hh, eop) | 0 (Aug) | 0.0 | 0.0 |

Source: Statistical Office of Slovakia, National Bank of Slovakia

**Industrial production and inflation**




Source: Statistical Office of Slovakia

## Slovenia

### Real Economy

Ivan Odrčić

Industrial production increased by 8.4% yoy in August (the lowest change since February 2021), of which by 9.8% in manufacturing, while increased demand and base-effect caused IP in January-August 2021 to expand by 12.6% yoy. Real retail trade and goods exports meanwhile strengthened their annual growth rates to +12.3% and +25.4%, respectively, as domestic demand recovers (employment and wage level increased), as is foreign demand (uncertainties however are present amid supply chain constraints and price surges for materials) and due to last year's stricter COVID-related rules. Construction activity in August posted a negative yoy growth rate of 6.8% while in the January-August 2021 period, the annual decline amounted to 4.2%, solely due to an 18.9% fall in construction of buildings (civil engineering activity rose by 6.6%) as the sector struggles with labour shortages and rising commodity prices. As regards the pandemic situation, new cases started to increase (833 per million on 25 October) and the vaccination level is c.57% (of total population) having at least one dose. The country expanded the recovered-tested-vaccinated rule to broad areas of service activities amid rising cases and hospitalisations.

Consumer prices in September increased 2.7% yoy (+2.3% in Q3), strongly influenced by surging (+28.7%) fuel and lubricants for personal transport equipment prices, as crude oil prices rose. Overall, the average annual inflation rate so far in 2021 has amounted to 1.2%, mostly due to rising fuel costs (+12.7%), but also due to higher electricity prices (+12.3%), as input prices for production of those two factors rise.

### Financial Markets

Ana Lokin

In September, the average yield on 10Y government bonds moved in lockstep with the Bund, rising 20bps mom (eop yield at 0.2%, spread at 40bps). Also, in September, Slovenia issued a €250m February 2031 tap offering a reoffer yield of 0.044%. In October, spreads have been flat (at 40bps), with the yield closely following the Bund.

### Banking Sector

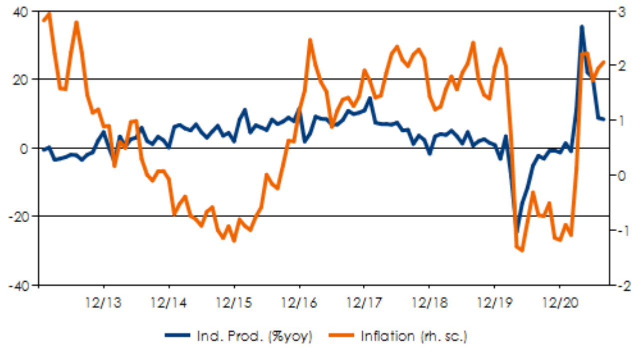
The increase in private sector loans saw an uptick in August, to 1.6% yoy. Corporate loans remained in negative territory (-0.6% yoy), with the average volume of newly granted corporate loans in July-August sinking 59% vs Q2. Household loans continued on a strong trend, coming in at 4.1% yoy, with a sharp rise in housing (7.7% yoy) and a somewhat softer fall in consumer loans (-5.5% yoy). Although improving on a yoy basis, consumer loans in August were lower at 2.9% compared to end-2020 (housing loans: +5.5%). Deposits rose 11.5% yoy in August, up a touch from the previous month. Corporate deposit growth picked up (12.2% yoy) while the rise in household deposits moderated (9.9% yoy). Amid an increase in lending and a healthy economic performance, asset quality improved, with the NPE ratio ending August lower by 0.6pps vs end-2020, at 1.3%.

**Latest economic indicators**

| | Last value | 2Q21 | 1Q21 |
|---|---|---|---|
| Industrial production, wda yoy | 8.3 (Aug) | 26.0 | 3.9 |
| Nom exports yoy | 25.4 (Aug) | 36.2 | 6.3 |
| ESI (index) | 102.7 (Sep) | 108.1 | 98.6 |
| Consumer Confidence Index | -20.5 (Sep) | -19.7 | -27.8 |
| Inflation rate yoy | 2.7 (Sep) | 2.1 | -0.6 |
| ECB refi rate | 0 (22th Oct) | 0.0 | 0.0 |
| Loans (priv sector, yoy, eop) | 1.6 (Aug) | 0.7 | -1.7 |
| Deposits (priv sector, yoy, eop) | 10.5 (Aug) | 10.2 | 13.8 |
| Lending interest rate (corp, eop) | 2.1 (Aug) | 2.2 | 2.1 |
| Deposit interest rate (hh, eop) | 0.1 (Aug) | 0.1 | 0.1 |

Source: Statistical Office of the Republic of Slovenia, National Bank of Slovenia

**Industrial production and inflation**




Source: Statistical Office of the Republic of Slovenia

## Albania

### Real Economy

Kledi Gjordeni

After GDP growth of 5.5% in the first quarter, the Albanian economy continues its accelerated path towards recovery. Economic growth has returned to pre-pandemic and pre-earthquake levels. In the second quarter of 2021, growth was in double digits, at 17.9% reflecting not only the strong base effect of last year's sharp decline in the economy, but also the expansion of country's industry, construction and service activities. Construction grew by 42%. Household consumption was up nearly 10% and total exports by over 130%.

The growth rise was however accompanied by higher inflation. Temporary supply/demand imbalances in international markets have generated further shocks to inflation, in addition to those related to the economic recovery. In September 2021, inflation reached 2.5%. From a macroeconomic point of view, this increase is due to the rise in energy products and food prices. The CB believes this increase will prove temporary. In spite of employment rising by 1.1% in Q2, the unemployment rate continues to be higher than pre-pandemic levels. The country's debt is expected to grow to nearly 80% of GDP by the end of 2021 but decreasing by around 70% over the medium term.

### Financial Markets

The central bank's accommodative monetary policy continues to be seen as appropriate as inflation has remained below target. Clearly, the impact of international supply shocks will affect the country's inflation trend and may pose a risk to the speed of economic recovery, but a shift towards monetary tightening policy should relate to clear evidence of rising and persistent inflationary pressures. However, the CB appears to believe that this effect will be transient. Should the opposite be the case, the CB remains ready to review the monetary policy stance, in line with the inflation target. During the summer, the exchange rate appreciated in favour of the local currency. The CB considers this to be in line with seasonal behaviour. Year on year in September, the EUR/LEK rate depreciated by 2% however. In the financial markets, yields remain stable.

### Banking Sector

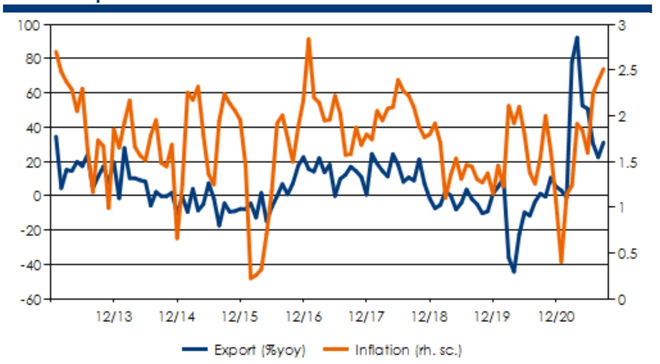
Credit to the private sector grew 6.77% yoy in August. Loans expanded mainly in the household sector, by 10.73% and by 4.72% for the corporate sector. New loans shrank by 19% vs the same period last year. We note that the non-performing loans ratio reached its lowest level in the last 15 years, at 6.9% at the end of August 2021. Total deposits increased by 9.97% in August yoy.

**Latest economic indicators**

| | Last value | 2Q21 | 1Q21 |
|---|---|---|---|
| Industrial production, wda yoy | n.a. | n.a. | n.a. |
| Export of goods, nominal yoy | 22.5 (Aug) | 64.3 | 27.0 |
| Unemployment rate | n.a. | 11.6 | 11.9 |
| Inflation rate, average yoy | 2.5 (Sep) | 1.8 | 0.9 |
| CB reference rate | 0.5 (31th Oct) | 0.5 | 0.5 |
| Loans (priv sector, yoy, eop) | 6.8 (Aug) | 6.0 | 2.4 |
| Deposits (priv sector, yoy, eop) | 10 (Aug) | 9.0 | 4.7 |
| Lending interest rate (corp, eop) | 5.6 (Aug) | 5.4 | 5.5 |
| Deposit interest rate (hh, eop) | 0.4 (Aug) | 0.4 | 0.4 |

Source: National Statistical Institute, Bank of Albania

**Industrial production and inflation**




Source: National Statistical Institute

## Bosnia and Herzegovina

### Real Economy

Ivan Odrčić

High frequency data show that the increase in industrial production softened in August, to +9.1% yoy, only to speed up to +9.3% in September, supported by strong goods exports, which expanded by +39.4% and +36.4% in August and September, respectively. Exports growth in January-September 2021 thus amounted to 33.1% yoy, influenced by last year's low base, along with recovering foreign demand. The strongest increase (share-wise) was recorded by base metals (+69.8%), due to higher production as well as significantly higher prices. Retail trade turnover in August rose by 32.4% yoy, driven by recovering employment and falling unemployment levels (+1.8% and -8.2% yoy, respectively), with non-food, except fuel (+39.8%) turnover increasing stronger than food (+19.6%). Construction activity in Q2 continued to grow, advancing by 2.6% yoy (1H21: +3.1% yoy), solely due to works on buildings advancing by 6.2%. Civil engineering declined by 0.5% yoy. As regards the pandemic situation, on 25 October, new cases hovered around 187 per million while the vaccination rate (at 29 September) stood at c.23% (at least one dose administered) of the total population.

Inflationary pressures strengthened in September, to 3.0% yoy (2.4% in Q3), mainly due to 5.5% higher prices of food. In the first nine months of 2021, the average annual inflation rate amounted to 0.9%, driven by rising food and automotive fuel prices.

### Banking Sector

Ana Lokin

Loans continued on an upward trend in August, supported by a strong economic recovery, reduced uncertainties, improved labour market conditions, and declining loan interest rates. Credit standards in Q3, according to the BLS, should have remained unchanged or tightened slightly on corporate loans, but eased on household loans, especially regarding consumer lending, supporting growth. Private sector loans ended August higher by 2.4% yoy. Loans to non-financial corporations saw an upturn, expanding by 0.7% yoy, whereas household loan growth accelerated to 4.1% yoy. Consumer loans continued to gain pace, advancing by 3.0% yoy, while housing loans rose by a strong 9.3% yoy. The increases in lending recorded this year supported the improvement of the quality of portfolio. Hence NPL ratios witnessed a positive trend in the first half of the year, declining to 5.7% at end-Q2, down from 6.1% at end-2020, thanks to a particularly pronounced drop in the NPLs of legal entities.

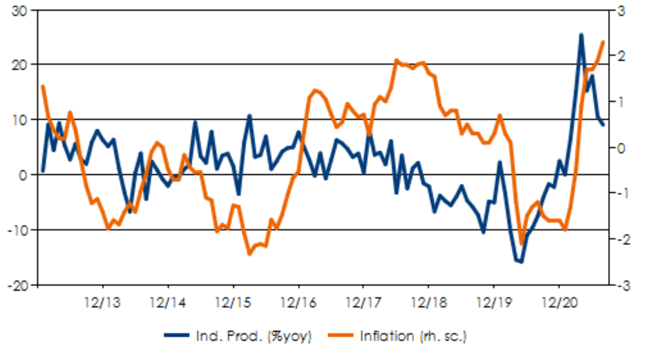
The rise in deposits moved into a higher gear in August, coming in at 13.8% yoy, with growth of deposits of non-financial corporations reaching 25.2% yoy. The household deposits increase softened to 8.8% yoy, with funds on transaction accounts up by 19.8% yoy, demand deposits by 9.9% yoy, and time deposits down by a mild 0.5% yoy.

**Latest economic indicators**

| | Last value | 2Q21 | 1Q21 |
|---|---|---|---|
| Industrial production, wda yoy | n.a. | 1.9 | 5.7 |
| Export of goods, nominal yoy | n.a. | 47.5 | 16.7 |
| Retail trade, real, wda yoy | n.a. | 26.6 | 1.9 |
| Inflation rate, average yoy | n.a. | 1.4 | -1.2 |
| Lending interest rate (corp, eop) | 2.4 (Aug) | 2.1 | -0.4 |
| Deposit interest rate (hh, eop) | 13.8 (Aug) | 12.5 | 10.6 |

Source: Central Bank of Bosnia and Herzegovina, Agency for statistics of Bosnia and Herzegovina

**Industrial production and inflation**




Source: Agency for statistics of Bosnia and Herzegovina

## Croatia

### Real Economy

Ivan Odrčić

August high frequency data showed that activity intensified vs July, as industrial output, retail trade turnover, and goods exports (preliminary) accelerated to +5.4%, +18.4% and +27.4% yoy, respectively. Strong tourist activity during the summer months (Q3 total arrivals and nights were at respective 84% and 89% levels vs the same period in 2019), along with healthy employment (+3.3% yoy in Q3) and wage (+5.4% in July-August, net nominal) increases boded well for overall economic activity. But, we expect to see a deceleration in Q3 annual growth rates compared to Q2 (+16.5% yoy), mainly as base effects disappear. Regarding the pandemic situation, new cases on 25 October had risen to around 622 per million and the vaccination rate is c.46% (at least one jab administered) of the total population.

In September, the inflation rate reached its highest level (3.3% yoy) since March 2013, influenced by rising transport (amid higher crude oil prices) and food prices. We note that inflationary pressures in the first nine months of 2021 were relatively mild (1.8% yoy), solely affected by rising energy prices. As regards recent hikes in natural gas and electricity prices across the EU, these are not expected to grow for households in Croatia, as the prices of natural gas for households for this heating season were set (until April 2022) while the largest electricity provider announced no price hikes for households in the next couple of months. Also, on 16 October, the government set a one-month ceiling on automotive fuel prices – ie, petroleum and diesel, but not gas – as a mean of controlling recent price surges for the aforementioned energy inputs.

### Financial Markets

Ana Lokin

The end of the tourist season has seen a small rise in depreciation pressures, with the FX rate back above 7.5 in October. Average 10Y government kuna bond spreads vs the Bund narrowed to 80bps in September (-20bps mom) and further to 60bps in October, with the yield steady at 0.5%.

### Banking Sector

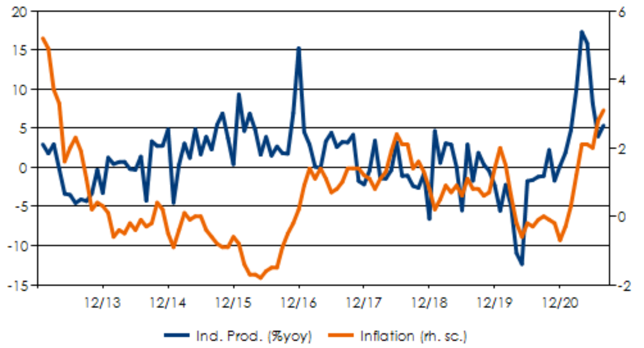
Loan growth stagnated at 2.3% yoy in August due to weak corporates (-0.4% yoy) and stable households (4.0% yoy). Transaction-based data (12-month cumulative) point to a slightly stronger rise in household lending of 4.6% yoy paired with a positive trend for corporate loans (1.3% yoy). Supported by a rise in revenues from the tourist season, deposits markedly accelerated in August (to 10.9% yoy). Corporate deposits surged by 17.6% yoy, whereas the rise in household deposits remained flat at 8.4% yoy. Thanks to a strong economic recovery, an improved quality of loans (NPL ratio dropped 0.4pp in 1H21, to 5.1%), an increase of credit institutions' profitability (ROA and ROE grew in 1H21 by 0.5pp ie 3.7pp vs FY20, to 1.1% and 8.1%), and the adequate capital buffers of credit institutions (total capital ratio at 25.4% at end-Q2), the central bank stopped the restriction of dividend payouts from October.

**Latest economic indicators**

| | Last value | 2Q21 | 1Q21 |
|---|---|---|---|
| Industrial production, wda yoy | n.a. | -0.1 | 4.0 |
| Export of goods, nominal yoy | n.a. | 46.4 | 11.0 |
| Retail trade, real, wda yoy | n.a. | 19.2 | 5.8 |
| ESI (index) | 112.7 (Sep) | 108.1 | 99.7 |
| Inflation rate, average yoy | n.a. | 2.1 | 0.4 |
| Loans (priv. sector, yoy, eop) | 2.3 (Aug) | 1.6 | 0.8 |
| Deposits (priv. sector, yoy, eop) | 10.9 (Aug) | 7.4 | 7.2 |
| Lending interest rate (corp, eop) | 2.7 (Aug) | 2.6 | 2.8 |
| Deposit interest rate (hh, eop) | 0.1 (Aug) | 0.1 | 0.1 |

Source: Croatian National Bank, Croatia Bureau of Statistics

**Industrial production and inflation**




Source: Croatia Bureau of Statistics

## Romania

### Real Economy

Marius Pacurari

Romania has still a low vaccination rate, with less than 40% of the population being vaccinate against COVID. The average number of positive tests is almost 30%; the vaccination programme really only started to accelerate in the last week. The government decided to maintain only soft restrictions and mostly for unvaccinated people.

Romania is also experiencing a political crisis, as it has had an interim government since the no-confidence vote passed in Parliament on 5 October.

The National Statistical Institute revised 2Q21 GDP growth from 13% to 13.9%. The Recovery and Resilience Plan was approved in September. Rating agencies confirmed Romania's ratings as unchanged (only Moody's improved the Outlook from Negative to Stable).

CPI growth was more aggressive than expectations, at the end of September reaching 6.3% yoy, exceeding the NBR's projections for 2021 EOY at 5.6%. Market expectations are for higher inflation, above 7.0%, in December. The main drivers are energy prices (natural gas and electricity power with more than 20% price growth), but also some food prices (cooking oil at over 20% and potatoes at over 12%).

If the budget deficit evolution confirms the fiscal consolidation plans of the government, staying at 3.35% at the end of August, the current account deficit would be 55% higher than for the same period of 2020 (-€10.149bn vs -€6.549bn in July 2020).

### Financial Markets

The NBR increased monetary policy rates by 25bps on 5 October. Minimum reserve requirements remained unchanged at 8% for ron liabilities and 5% for foreign currency liabilities. Since the evolution of CPI was more aggressive than forecasts, we expect to see further tightening measures, potentially at more than 25bps per step.

The domestic bond ron-denominated benchmark curve jumped around 60bps for up to three years and by around 100bps for more than three years. We expect that this evolution 'priced in' further NBR tightening measures and political uncertainty.

### Banking Sector

Marius Pacurari

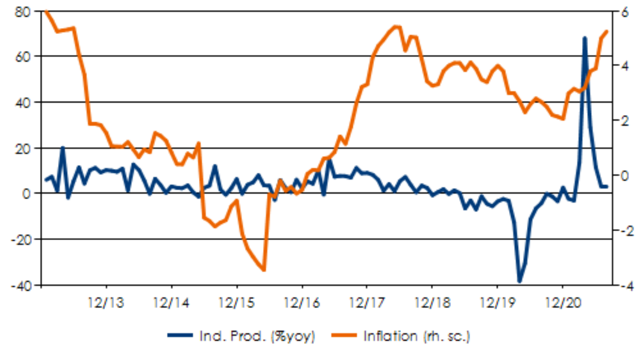
The growth in banking aggregates remained strong at the end of August, rising 12.44% yoy regarding loans volumes growth and 15.52% for deposits volumes growth. The local currency was more attractive for loans, especially for households, while regarding deposits, interest was divided between ron and euro accounts. Bank interest rates followed money market trends, with 1.14% and 5.64% averages on ron-denominated deposits and credits, and 0.06% and 2.51% averages on euro-denominated deposits and credits.

**Latest economic indicators**

| | Last value | 2Q21 | 1Q21 |
|---|---|---|---|
| Industrial production yoy | 3 (Aug) | 36.2 | 2.7 |
| Nom exports yoy | 23.3 (Aug) | 66.9 | 4.2 |
| ESI (index) | 100.3 (Sep) | 102.6 | 91.3 |
| Retail sales yoy | 11.1 (Aug) | 24.4 | 4.0 |
| Inflation rate yoy | 6.3 (Sep) | 3.6 | 3.1 |
| CB reference rate | 1.5 (22th Oct) | 1.3 | 1.3 |
| Loans (priv sector, yoy, eop) | 12.4 (Aug) | 10.9 | 6.9 |
| Deposits (priv sector, yoy, eop) | 15.5 (Aug) | 14.9 | 15.3 |
| Lending interest rate (corp, eop) | 3.9 (Aug) | 4.2 | 4.5 |
| Deposit interest rate (hh, eop) | 1.2 (Aug) | 1.1 | 1.2 |

Source: National Bank of Romania, National Institute of Statistics

**Industrial production and inflation**




Source: National Institute of Statistics

## Serbia

### Real Economy

Jelena Draskovic

After good results in H1, the developments of high frequency indicators appear supportive and prospects for the Serbian economy continue to look bright. Preliminary estimates assess growth in the first eight months at 7.6% yoy. In the same period, industrial production increased by 6.9% yoy, driven by manufacturing (+7.8% yoy), with majority of segments showing positive growth. External trade saw exceptional growth, with exports increasing by 28.5% yoy, while an acceleration of imports of 23.7% yoy caused a slight widening of the trade deficit. Despite an inevitable slowdown as base effects wane, economic activity in the rest of year should continue on a similar pattern, driven by domestic demand.

After moving around 2.0% on average in the past eight years, a gradual rise in inflation since Q2 is still seen as temporary and mainly related to supply side disruptions. Year on year, inflation accelerated from 4.3% in August to 5.7% in September, breaking through the upper bound of the target corridor. Almost 60% of yoy inflation (+3.3pps) was related to higher prices for unprocessed food (+17.9%) and energy (+9.5%). Price hikes for these two categories were due to last year's low base, higher global prices, unfavourable domestic weather conditions, and the drought during the summer months. Despite rising somewhat, core inflation is still low at 2.6%. In the next two quarters, same factors most likely see inflation stay above 4.5%, after which it should return to the target tolerance band and move around its midpoint thereafter.

### Financial Markets

Even if inflation accelerated in September at a faster pace than previously expected, the central bank remains confident in its transitory nature and kept the key policy rate unchanged at 1.0% for the 10th consecutive month. As favourable financial conditions can be maintained based on a somewhat lower degree of monetary policy expansion, the NBS took first measures to tighten monetary conditions and increased the average repo rate by 13bps, to 0.24%. Additionally, the CB suspended regular weekly repo auctions, an instrument introduced last year to secure cheap additional liquidity during the pandemic. As average inflation YTD is only 3% and the exchange rate is stable, we expect that the key policy rate will remain unchanged through year-end, after which it could be gradually increased. However, in case of a more sustained rise in inflation and unwanted capital outflows, the NBS could start hiking earlier.

### Banking Sector

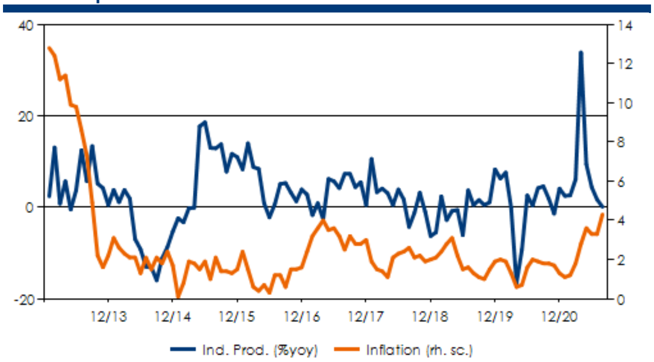
The banking system remains stable, liquid and well capitalised. Solid increases in private sector loans continue, but at a slower pace vs last year's double-digit growth. However, the structure remained favourable, as the strongest growth was recorded for liquidity and current assets and investment loans within corporate loans and for housing loans within household loans. The NPL share in total loans remains below pre-crisis levels, at 3.5% in August 2021. Even though slower than last year, increases in deposits remain steady.

**Latest economic indicators**

| | Last value | 2Q21 | 1Q21 |
|---|---|---|---|
| Industrial production yoy | 0.1 (Aug) | 15.9 | 3.7 |
| Nom exports yoy | 31.9 (Aug) | 47.6 | 13.6 |
| Retail sales yoy | 7.7 (Aug) | 19.9 | 3.8 |
| Inflation rate yoy | 5.7 (Sep) | 3.2 | 1.4 |
| CB reference rate, eop | 1 (22th Oct) | 1.0 | 1.0 |
| Loans (priv sector, yoy, eop) | 7.9 (Aug) | 7.3 | 8.9 |
| Deposits (priv sector, yoy, eop) | 13.0 (Aug) | 11.6 | 18.3 |
| Lending interest rate (corp, eop) | 3.2 (Aug) | 3.2 | 3.1 |
| Deposit interest rate (hh, eop) | 1.8 (Aug) | 2.0 | 2.1 |

Source: Statistical Office, National Bank of Serbia

**Industrial production and inflation**




Source: Statistical Office

## Moldova

Olga Litvin

### Real Economy

In 1H21, Moldova's GDP expanded by 11.7% yoy. During 2Q21, GDP was €2.8bn, representing a 21.5% yoy increase, ie, a 19.7pps acceleration vs the GDP evolution in Q1. The relaunch of investment activity, the increase in domestic consumption, and the revival of the real estate sector supported this growth. Household consumption, net investments and inventories made positive contributions (15.6pps, 6.9pps and 12.8pps, respectively) to GDP growth. On the other hand, net exports contributed negatively (-19.5pps) to GDP growth, a consequence of the stronger increase in the volume of imports of goods and services (+52.0%) compared to exports (+10.7%). This year has seen a recovery in the industrial sector after the pandemic shock, with positive yoy growth rates seen in each month starting with February. As of August, the volume of industrial production expanded by 6.6% yoy, due to positive contributions from extractive industries (+2.35), the manufacturing industry (+7.1%), and the energy sector (+3.7%). In 3Q21, annual inflation stood at 6.7%, 3.5pps higher compared to Q2, exceeding the 5% target as well as the upper bound level of the accepted interval (6.5%). The main drivers of this rapid growth were non-food and food prices, which rose by 8.6% and 8.3% yoy, respectively.

### Financial Markets

As of end-3Q21, yields on securities increased compared to their Q2 levels for all maturities, in line with future expectations regarding the evolution of inflation. At the same time, considering the rapid increase in annual inflation levels, in 3Q21, the National Bank of Moldova increased the reference rate three times, from 2.65% up to 5.5% (as of October 2021).

### Banking Sector

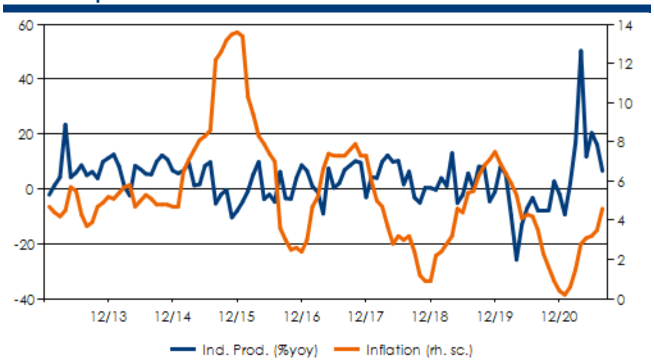
As of September 2021, the stock of loans in the private sector expanded by 22.6% yoy, mainly driven by a positive evolution in the household segment (+36.7%), but corporate loans also rose (+14.7%). In the loan portfolio, the highest contribution was provided by commercial loans (21.5%), followed by mortgages (19.5%) and consumption loans (18.8%). The stock of deposits increased by 16.3% yoy in September 2021, with the main contribution coming from corporate deposits at 20.1% yoy growth and household deposits (+14.1% yoy), with both increases based on higher deposit volumes attracted in local currency. The NPL ratio decreased in 3Q21, reaching 6.8% as of September, down 1.1pps from the peak recorded in April.

**Latest economic indicators**

| | Last value | 2Q21 | 1Q21 |
|---|---|---|---|
| Industrial production yoy | 6.6 (Aug) | 27.6 | 3.2 |
| Nom exports yoy | 44.2 (Aug) | 31.6 | 2.1 |
| PMI manufacturing | 44.2 (Aug) | 31.6 | 2.1 |
| Retail sales | 19 (Aug) | 32.6 | 9.5 |
| Inflation rate yoy | 6.7 (Sep) | 3.0 | 0.8 |
| CB reference rate | 5.5 (31th Oct) | 2.7 | 2.7 |
| Loans (priv sector, yoy, eop) | 22.6 (Sep) | 20.3 | 11.0 |
| Deposits (priv sector, yoy, eop) | 16.3 (Sep) | 15.6 | 12.8 |
| Lending interest rate (corp, eop) | 8.8 (Sep) | 8.8 | 8.9 |
| Deposit interest rate (hh, eop) | 3.3 (Sep) | 3.4 | 3.5 |

Source: National Bureau of Statistics of the Republic of Moldova, National Bank of Moldova

**Industrial production and inflation**




Source: National Bureau of Statistics of the Republic of Moldova

## Russia

### Real Economy

Valeriya Zubkova

As of mid-October, about 36% of people were vaccinated (33% with two doses). Over the past month, the number of new COVID cases has increased sharply. Due to this, a lockdown will be introduced in Moscow from 28 October to 7 November.

As for the real economy, the GDP growth rate base forecast by the central bank for 2021 is in a range of 4.0-4.5% and at 2.0-3.0% per year for 2022-2024. However, it is unlikely to exceed 4.2% in 2021, since in recent months there has been a slowdown in business activity. The rapid pace of economic recovery after the pandemic is nearing to an end and now the economy entered the trajectory of a more balanced growth while supply-side constraints have increased in a number of industries. Their restraining influence on business activity may also grow in the context of an ongoing tightening in anti-pandemic measures. Industrial production showed a slowdown to 4.7% yoy in August, partly reflecting the impact of shortages in electronic components and other imported inputs. Manufacturing expanded by 3.1% in the same month. Retail sales growth slowed to 4.7% yoy in July. Growing domestic and external demand and high corporate profits is supporting nevertheless investment activity.

### Financial Markets

At its last meeting on 22 October, the CBR raised the key rate by 75bps, to 7.5%, due to excessively high inflation expectations and a significant shift in the balance of risks in favour of pro-inflationary forces. The Bank of Russia pointed to the possibility of further increases in the key rate at its next meetings. Base forecasts for inflation were revised upward to 7.4-7.9% for 2021 while the level of 4.0-4.5% was maintained for 2022. The updated forecast for the key rate corresponds to ranges of 7.50-8.50% at the end of this year and 6.5-8.0% at the end of 2022. An additional +50bps rise in the key rate in December may now be considered as the baseline scenario. Increases in prices for fruit and vegetable products have played a significant role in the acceleration of inflation since the second half of August. The steady growth of domestic demand is outpacing the possibilities of expanding production for a wide range of industries. Regarding exchange rates, it is expected that local factors will remain very supportive for the ruble. The trend to strengthen the Russian currency will continue.

### Banking Sector

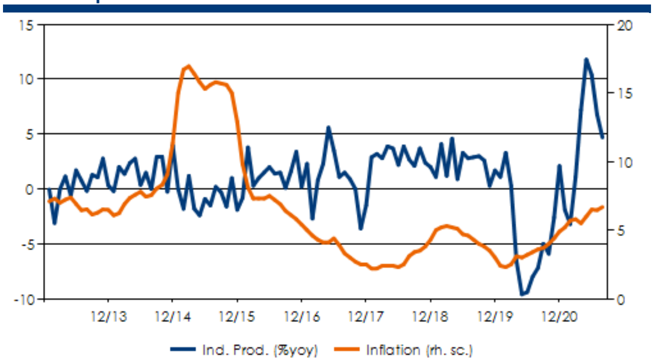
As the key rate is increasing, so do loan and deposit rates. The greater rigidity of monetary policy is a negative factor for short and medium-sized OFZs, the yield of which may be unstable. After the inflation rate has stabilized, the curve can begin to drop rather sharply. There has been a slight inflow of funds for term ruble deposits. Corporate lending continues to expand at a pace close to the highs of recent years. There is still high activity in the mortgage and unsecured consumer lending market.

**Latest economic indicators**

| | Last value | 2Q21 | 1Q21 |
|---|---|---|---|
| Industrial production yoy | 4.7 (Aug) | 9.8 | -1.3 |
| Nom exports yoy | 72.9 (Jun) | 61.1 | 2.9 |
| Retail sales yoy | 27.2 (May) | 31.0 | -1.7 |
| PMI manufacturing | 49.8 (Sep) | 49.2 | 51.1 |
| Inflation rate yoy | 7.4 (Sep) | 6.0 | 5.6 |
| CB reference rate | 7.5 (31th Oct) | 5.5 | 4.5 |
| Loans (priv sector, yoy, eop) | 17.1 (Jul) | 18.0 | 12.9 |
| Deposits (priv sector, yoy, eop) | 11.6 (Jul) | 10.5 | 7.6 |
| Lending interest rate (corp, eop) | 7.2 (Jul) | 6.7 | 6.0 |
| Deposit interest rate (hh, eop) | 3.6 (Jul) | 3.4 | 3.2 |

Source: State Statistics Federal Service, Central Bank of Russia

**Industrial production and inflation**




Source: State Statistics Federal Service

## Ukraine

Artem Krasovskyi

### Real Economy

In January-August 2021, Ukraine's GDP growth amounted to 2.9% yoy (up from 2.1% in January-July 2021), according to the MoE's preliminary estimates. In 2H21, the economy continued to recover, supported by a record harvest of early cereals, together with the favourable dynamic of external prices, a revival in investments, and steady consumer demand. However, the impact of the pandemic continues and is having more of an effect than expected. Coupled with the consequences of the sharp rise in energy prices, it is likely to lead to weaker economy results in 2021 than previously expected and also to restrain the pace of economic recovery next year. The central bank recently revised downward its GDP growth forecasts, from 3.8% to 3.1% for 2021 and from 4% to 3.8% for 2022. Inflation reached 11.0% yoy in September, up from 10.2% in August. Core inflation rose slightly, to 7.4% yoy in September vs 7.2% a month earlier. Despite the tangible increase in September, inflation is in line with expectations, according to the central bank, which has kept its full-year 2021 inflation forecast unchanged at an optimistic low of 9.6%, assuming a solid slowdown by year-end. A strong local currency and a record-high cereal harvest should help to curb prices. In October, Ukraine reached a staff-level agreement with the IMF on the Stand-By Arrangement, which paves the way for an extension of the programme and disbursement of some US$700m [through year-end.

### Financial Markets

In October, the NBU kept the key interest rate unchanged at 8.5%. However, it may raise the rate at the next policy meeting in December if inflationary pressure persists. According to the NBU's baseline scenario, the key rate will remain around at least 8.5% until at least 3Q22, not 2Q22, as previously expected. Further, the key rate is now expected to fall more gradually over the next year than previously expected. At the end of 2022, it is now seen at 7.5% vs 6.5% in the previous forecast. The USD/UAH continued to trade at annual lows 26.2-26.4 in October, supported by favourable global prices for steel and agricultural products, on the one hand, and subdued demand for FX on the back of prospects of a new COVID-related lockdown, on the other.

### Banking Sector

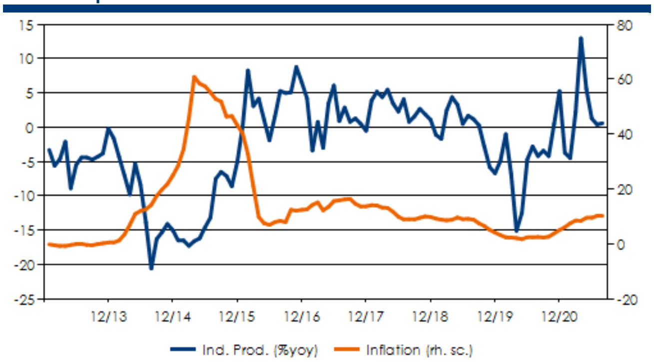
Lending activity continued to accelerate in August, added some 2.9% mom (households, +2.4%; corporates, +3.04%) while in annual terms, it remained negative at -1.3% yoy (households, +5.8%; corporates, -3.5%). Deposits declined slightly in August compared to July at -0.3% mom (households, -0.5%; corporates, +0.05%) while in annual terms, they still demonstrated an impressive result of +15.4% yoy (households, +10.1%; corporates, +24.8%). UAH interest rates rose significantly over the month, following monetary policy tightening. Lending and deposit interest rates for the private sector increased in aggregate by 39bps and 45bsp, respectively, in August vs July, with different patterns between the corporate and household sectors: most of the increase was seen in the former with respect to the latter sector.

**Latest economic indicators**

| | Last value | 2Q21 | 1Q21 |
|---|---|---|---|
| Industrial production yoy | 0.6 (Aug) | 6.6 | -2.0 |
| Nom exports yoy | 35.5 (Aug) | 25.1 | 3.6 |
| PMI manufacturing | 35.5 (Aug) | 25.1 | 3.6 |
| Retail sales | 10.4 (Aug) | 21.8 | 7.7 |
| Inflation rate yoy | 11 (Sep) | 9.1 | 7.4 |
| CB reference rate | 8.5 (31th Oct) | 7.5 | 6.5 |
| Loans (priv sector, yoy, eop) | -1.3 (Aug) | -1.8 | -9.3 |
| Deposits (priv sector, yoy, eop) | 15.4 (Aug) | 19.7 | 21.8 |
| Lending interest rate (corp, eop) | 8.9 (Aug) | 8.5 | 7.8 |
| Deposit interest rate (hh, eop) | 7.1 (Aug) | 7.2 | 7.6 |

Source: State Statistics Service of Ukraine, National Bank of Ukraine

**Industrial production and inflation**




Source: State Statistics Service of Ukraine

## Egypt

### Real Economy

Samer Halim

The public health situation remains stable, with plans to potentially limit entry to government buildings to vaccinated citizens in order to accelerate the vaccination process. Real GDP grew 7.7% yoy in 2Q21 vs a 1.7% contraction in the same period last year. Tourism and non-oil industrial sectors started to show signs of recovery, rising 432.7% and 16% yoy in 2Q21, respectively. Also, telecommunications continued its high growth rates amid digital transformation efforts across all areas (+16% yoy).

Egypt's PMI fell to 48.9 in September from 49.8 in August, as sales to foreign customers dropped sharply for the first time since March. However, the overall level of optimism climbed to its highest level since April 2012, with around 71% of PMI panellists giving a positive forecast. The improvement came amid a boost to Egypt's vaccination rate (over 23 million vaccine doses have been given: 15.1 million first doses and 8.2 million second jabs) and easing of travel restrictions around the world.

Annual headline urban CPI rose to 6.6% in September 2021 vs 5.7% a month earlier (still within the CBE's target of 7% [±2%] on average by 4Q22). The rise was mainly attributed to the increase in prices of food and beverages (due to the rise in global prices) and educational services (with return to school). Different commodity groups, such as energy, food and metals, are witnessing price increases globally due to supply bottlenecks, posing upside risks for inflation (the government raised fuel prices by almost 3% in October).

### Financial Markets

The CBE is has kept key interest rates unchanged at 8.25% and 9.25% for overnight deposit and lending rates, respectively, to maintain high real interest rates (Mid Corridor Minus Annual CPI) at 2.15%. Yields on short-term T-Bills fell amid high demand, but they started to rise again in the second week of October. The EGP is showing stability against the USD in light of foreign funds Egypt secured, especially the latest successful issuance of USD 3Bn in Eurobonds in September and the rise of foreign investment in EGP government securities (outstanding balance at USD 34Bn as of September, according to Fitch). This was reflected in achieving a surplus in the country's balance of payments in 1H21 against a deficit in the same period last year, despite the increase of the current account deficit to USD 10.8Bn. Fitch Ratings affirmed Egypt's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'B+' with a Stable Outlook.

### Banking Sector

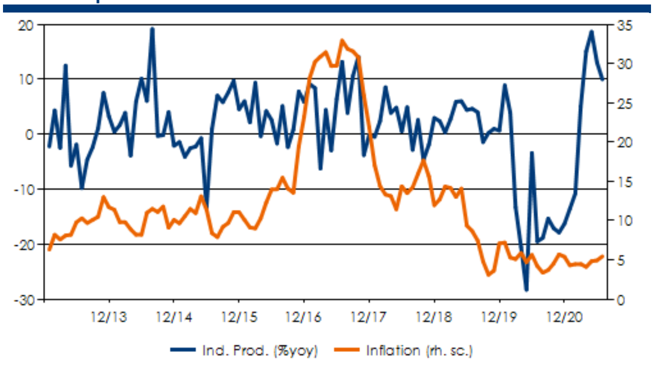
Egypt's banking sector enjoys a strong funding base represented by retail deposits, especially given the relative absence of other investment channels. This led to an increase in private deposits by 18.8% yoy in July 2021. On the other hand, private loans to both individuals and corporates continued to show healthy growth in 2021. Egypt's banking sector also has high asset quality, with an NPL rate of only 3.5% of total loans (June 2021).

**Latest economic indicators**

| | Last value | 2Q21 | 1Q21 |
|---|---|---|---|
| Industrial production, wda yoy | 10 (Jul) | 15.6 | -6.4 |
| Nom exports yoy | 31.5 (Jul) | 59.0 | 11.0 |
| Retail sales yoy | n.a. | n.a. | n.a. |
| PMI | 48.9 (Sep) | 49.9 | 48.0 |
| Inflation rate yoy | 6.6 (Sep) | 4.6 | 4.4 |
| CB reference rate | 8.3 (22th Oct) | 8.3 | 8.3 |
| Loans (priv sector, yoy, eop) | 19.3 (Jul) | 20.5 | 22.5 |
| Deposits (priv sector, yoy, eop) | 18.8 (Jul) | 19.6 | 21.4 |
| Lending interest rate (corp, eop) | 9.4 (Aug) | 9.4 | 9.5 |
| Deposit interest rate (hh, eop) | 7.5 (Aug) | 7.4 | 7.5 |

Source: Ministry of Industry & Foreign Trade, Central Bank of Egypt

**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] | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2Q21 | 1Q21 | 2020 | Last | mth | 2Q21 | Last | mth | 2Q21 | Last | mth | 2Q21 | Last | mth | 2Q21 | Last | mth | 2Q21 | Last | mth | 2Q21 | Last | mth | 2Q21 |
| CEE | Czechia | 8.2 | -2.5 | -5.7 | -1.4 | Aug | 30.1 | 6.3 | Aug | 38.2 | 5.1 | Aug | 7.9 | 4.9 | Sep | 2.9 | 3.6 | Aug | 3.9 | 6.9 | Aug | 11.1 | 91.4 | Sep | 106.1 |
| | Hungary | 17.9 | -2.1 | -5.1 | 2.6 | Aug | 40.0 | 5.2 | Aug | 41.3 | 4.6 | Aug | 7.3 | 5.5 | Sep | 5.2 | 4.0 | Aug | 4.1 | 7.9 | Jul | 7.3 | 110.2 | Sep | 105.2 |
| | Poland | 11.0 | -1.3 | -2.7 | 8.8 | Sep | 30.7 | 21.0 | Aug | 44.4 | 11.1 | Sep | 19.3 | 5.9 | Sep | 4.5 | 5.8 | Aug | 6.1 | 8.7 | Sep | 9.9 | 105.1 | Sep | 106.9 |
| | Slovakia | 9.6 | 0.2 | -5.2 | 0.8 | Aug | 39.8 | 0.5 | Aug | 57.5 | 2.2 | Aug | 9.9 | 4.6 | Sep | 2.2 | 7.1 | Sep | 7.9 | 9.4 | Jul | 13.1 | 100.1 | Sep | 107.0 |
| | Slovenia | 16.3 | 1.7 | -4.2 | 8.3 | Aug | 26.0 | 25.4 | Aug | 36.2 | 14.0 | Aug | 17.5 | 2.7 | Sep | 2.1 | 7.3 | Jul | 7.7 | 6.3 | Jul | 3.8 | 102.7 | Sep | 108.1 |
| SEE | Albania | 17.9 | 5.5 | -3.3 | n.a. | n.a. | n.a. | 22.5 | Aug | 64.3 | n.a. | n.a. | n.a. | 2.5 | Sep | 1.8 | n.a. | n.a. | 11.6 | n.a. | n.a. | n.a. | 110.2 | Sep | 106.7 |
| | Bosnia H. | 11.6 | 2.5 | -3.2 | 9.1 | Aug | 1.9 | 36.4 | Sep | 47.5 | 32.0 | Aug | 28.7 | 3.0 | Sep | 1.4 | 32.4 | Aug | 32.7 | 5.7 | Aug | 4.4 | n.a. | n.a. | n.a. |
| | Croatia | 16.1 | -0.7 | -8.0 | 5.4 | Aug | -0.1 | 13.5 | Jul | 46.4 | 18.5 | Aug | 20.0 | 3.3 | Sep | 2.1 | 7.0 | Sep | 8.2 | 5.9 | Aug | 6.5 | 112.7 | Sep | 108.1 |
| | Romania | 13.9 | -0.2 | -3.9 | 3.0 | Aug | 36.2 | 23.3 | Aug | 66.9 | 11.1 | Aug | 24.4 | 6.3 | Sep | 3.6 | 2.9 | Aug | 3.1 | 6.5 | Aug | 9.7 | 100.3 | Sep | 102.6 |
| | Serbia | 13.7 | 1.8 | -0.9 | 0.1 | Aug | 15.9 | 31.9 | Aug | 47.6 | 7.7 | Aug | 19.9 | 5.7 | Sep | 3.2 | n.a. | n.a. | 11.1 | 7.8 | Jul | 9.8 | 105.8 | Sep | 109.3 |
| CIS & MENA | Moldova | 21.5 | 1.8 | -7.0 | 6.6 | Aug | 27.6 | 44.2 | Aug | 31.6 | 19.0 | Aug | 32.6 | 6.7 | Sep | 3.0 | n.a. | n.a. | 3.6 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| | Russia | 10.3 | -1.0 | -3.0 | 4.7 | Aug | 9.8 | 72.9 | Jun | 61.1 | 5.3 | Aug | 31.0 | 7.4 | Sep | 6.0 | 4.8 | Jun | 5.0 | 10.7 | May | 12.8 | 49.8 | Sep | 49.2 |
| | Ukraine | 5.4 | -2.0 | -4.0 | 0.6 | Aug | 6.6 | 35.5 | Aug | 25.1 | 10.4 | Aug | 21.8 | 11.0 | Sep | 9.1 | n.a. | n.a. | 9.9 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| | Egypt | 7.7 | 2.9 | 1.5 | 10.0 | Jul | 15.6 | 31.5 | Jul | 59.0 | n.a. | n.a. | n.a. | 6.6 | Sep | 4.6 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 48.9 | Sep | 49.9 |
| | m.i. E. A. | *13.7* | *-1.8* | *-6.4* | *5.1* | *Aug* | *23.6* | *18.2* | *Aug* | *35.2* | | | | *3.4* | *Sep* | *1.8* | | | | | | | | | |

Source: Refinitiv; [1]Wda data for Slovakia, Slovenia; Bosnia, Croatia, Egypt; [2]PMI manufacturing for Russia and Egypt, ESI for remaining countries.

## Markets and Ratings

| | | S/T rates[1] | | L/T rates[2] | | Foreign exchanges[3] | | | Stock markets | | CDS spread (bp) | | FX res. chg (mln €)[4] | | | CA bal. (mln €)5 | | Rating |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 22/10 | chg | 22/10 | chg | 22/10 | 3M* | 1Y* | 3M* | 1Y* | 22/10 | 22/7 | 2Q21 | 1Q21 | 2020 | 2Q21 | 1Q21 | Moody's |
| CEE | Czechia | 1.1 | 0.6 | 2.7 | 1.0 | 25.66 | 0.13 | -5.60 | 11.6 | 55.1 | 32.2 | 29.2 | n.a. | n.a. | n.a. | 1,076 | 2,730.6 | Aa3 |
| | Hungary | 2.0 | 0.9 | 3.8 | 0.9 | 363.24 | 1.18 | -0.41 | 15.7 | 64.2 | 51.9 | 48.2 | n.a. | n.a. | n.a. | n.a. | n.a. | Baa2 |
| | Poland | 1.1 | 1.0 | 2.8 | 1.2 | 4.61 | 0.65 | 0.43 | 10.0 | 53.6 | 47.0 | 43.1 | n.a. | n.a. | n.a. | 4,997 | 2,956.0 | A2 |
| | Slovakia | -0.5 | 0.0 | 0.1 | 0.3 | n.a. | n.a. | n.a. | 6.4 | 11.3 | 34.8 | 41.8 | n.a. | n.a. | n.a. | -88 | 73.2 | A2 |
| | Slovenia | -0.5 | 0.0 | 0.3 | 0.3 | n.a. | n.a. | n.a. | 5.1 | 43.3 | 51.5 | 59.6 | 19 | 32 | 165 | 527 | 792.2 | A3 |
| SEE | Albania | 0.5 | n.a. | n.a. | n.a. | 121.63 | -0.49 | -1.88 | n.a. | n.a. | n.a. | n.a. | -117 | 74 | n.a. | -243 | -309.0 | 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. | 277 | -117 | 650 | -209 | -93.5 | B3 |
| | Croatia | 0.4 | 0.0 | 0.5 | -0.1 | 7.50 | -0.08 | -0.94 | 6.4 | 27.8 | 83.0 | 78.3 | 428 | 2,170 | 382 | -802 | -1,362.6 | n.a. |
| | Romania | 2.1 | 0.8 | 4.9 | 1.2 | 4.95 | 0.46 | 1.46 | 7.6 | 46.3 | 70.5 | 83.8 | 1,519 | -2,453 | 5,605 | -7,040 | -2,549.0 | Baa3 |
| | Serbia | 1.0 | 0.0 | n.a. | n.a. | 117.59 | 0.06 | -0.02 | 1.9 | 13.4 | 128.6 | 122.2 | -184 | 784 | 113 | -652 | 115.0 | Ba2 |
| CIS & MENA | Moldova | 5.5 | 0.4 | 5.8 | 0.3 | 17.46 | -3.46 | 2.43 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 2,413 | 73.2 | B3 |
| | Russia | 7.9 | 1.1 | 7.8 | 0.8 | 70.99 | -4.70 | -7.84 | 12.9 | 51.6 | 77.6 | 81.5 | n.a. | -22,452 | 9,290 | n.a. | 16,800.0 | Baa3 |
| | Ukraine | 11.0 | 0.1 | 13.6 | 0.6 | 26.29 | -3.16 | -7.12 | 28.5 | 50.6 | 411.8 | 381.9 | 1,231 | -1,942 | 3,471 | 221 | -874.0 | B3 |
| | Egypt | 12.3 | -0.8 | 14.9 | 12.3 | 15.70 | 0.19 | 0.00 | 6.0 | -7.9 | 358.6 | 342.3 | 247 | 274 | -5,357 | -5,135 | -5,667.4 | B2 |
| | m.i.A.E. | *-0.5* | *0.0* | *-0.1* | *0.4* | *1.2* | *-1.2* | *-1.5* | *4.4* | *32.0* | *5.12* | *5.08* | | | | | | |

Source: Refinitiv;[1]The data for Egypt refers to September, for Czech Republic refers to September, for Moldova refers to September; [2]For Ukraine, the long-term rate refers to a government issue in dollars; [3]The (-) sign indicates appreciation; [4]USD for Russia, Egypt, Ukraine, Romania; [5]USD for Russia, Egypt, Ukraine. (*) % change.

## Banking aggregates and interest rates (private sector)

| | | Loans chg yoy % | | | NPL/Loans % | | | Foreign Liab. chg yoy % | | | Deposits chg yoy % | | | Loans rate1-NewB*. % | | | | DepositsRate1-NewB*. % | | | | Loans/Dep % | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Last | Mth | 2020 | Last | mth | 2020 | Last | mth | 2020 | Last | Mth | 2020 | Last | mth | 2020 | S[4] | Last | mth | 2020 | S[4] | Last | mth | 2020 |
| CEE | Czechia | 5.6 | Aug | 4.1 | 2.6 | Aug | 2.7 | 1.6 | Aug | -1.4 | 10.4 | Aug | 11.9 | 2.1 | Aug | 1.9 | C | 0.7 | Aug | 0.6 | H | 69.1 | Aug | 69.8 |
| | Hungary | 11.6 | Aug | 13.4 | 2.7 | Aug | 2.9 | 14.6 | Aug | -11.9 | 16.0 | Aug | 23.3 | 3.1 | Aug | 3.0 | C | 0.5 | Aug | 0.3 | H | 77.0 | Aug | 75.0 |
| | Poland | 2.4 | Aug | 0.4 | 4.0 | Mar | 3.7 | -5.0 | Aug | 10.4 | 6.9 | Aug | 12.8 | 2.1 | Aug | 2.4 | C | 0.1 | Aug | 0.2 | H | 81.7 | Aug | 82.4 |
| | Slovakia | 6.0 | Aug | 4.5 | 2.4 | Aug | 2.7 | 7.0 | Aug | -18.9 | 4.7 | Aug | 6.3 | 1.8 | Aug | 1.7 | C[2] | 0.0 | Aug | 0.0 | H[2] | 104.4 | Aug | 101.0 |
| | Slovenia | 1.6 | Aug | -0.9 | 1.3 | Jul | 1.9 | -2.5 | Aug | 2.0 | 10.5 | Aug | 12.2 | 2.1 | Aug | 2.3 | C[2] | 0.1 | Aug | 0.1 | H[2] | 62.7 | Aug | 64.9 |
| SEE | Albania | 6.8 | Aug | 7.0 | 7.0 | Aug | 8.1 | 5.8 | Aug | -6.8 | 10.0 | Aug | 8.1 | 7.0 | Aug | 6.5 | PS | 0.4 | Aug | 0.4 | PS | 52.6 | Aug | 53.6 |
| | Bosnia H. | 2.4 | Aug | -2.5 | 5.7 | Jun | 6.1 | -18.4 | Aug | -25.5 | 13.8 | Aug | 6.5 | 3.0 | Aug | 2.9 | C | 0.2 | Aug | 0.2 | H | 89.9 | Aug | 95.0 |
| | Croatia | 2.3 | Aug | 3.5 | 5.1 | Jun | 5.4 | 7.6 | Aug | 7.3 | 10.9 | Aug | 8.7 | 5.3 | Aug | 5.2 | PS | 0.1 | Aug | 0.1 | PS | 67.1 | Aug | 72.2 |
| | Romania | 12.4 | Aug | 5.0 | 3.7 | Aug | 3.8 | 4.3 | Aug | -6.2 | 15.5 | Aug | 15.4 | 5.6 | Aug | 5.4 | PS | 1.1 | Aug | 1.5 | PS | 69.5 | Aug | 67.8 |
| | Serbia | 7.9 | Aug | 11.1 | 3.5 | Aug | 3.7 | -5.4 | Aug | 6.3 | 13.0 | Aug | 17.4 | 6.5 | Aug | 5.8 | PS | 1.3 | Aug | 1.5 | PS | 91.9 | Aug | 92.6 |
| CIS & MENA | Moldova | 22.6 | Sep | 13.1 | 6.8 | Sep | 7.4 | 16.5 | Aug | 4.6 | 16.3 | Sep | 16.5 | 8.2 | Sep | 8.2 | C | 3.1 | Sep | 3.5 | H | 61.7 | Sep | 57.3 |
| | Russia | 17.1 | Jul | 14.4 | 8.1 | Jun | 8.8 | 9.1 | Jul | 10.5 | 11.6 | Jul | 9.6 | 7.2 | Jul | 6.3 | C | 3.6 | Jul | 3.4 | H | 116.4 | Jul | 113.2 |
| | Ukraine | -1.3 | Aug | -2.8 | 36.3 | Jul | 41.0 | -14.6 | Aug | -5.4 | 15.4 | Aug | 33.6 | 14.0 | Aug | 12.6 | PS | 4.9 | Aug | 4.4 | PS | 76.6 | Aug | 74.0 |
| | Egypt | 19.3 | Jul | 24.5 | 3.5 | Jun | 3.6 | 1.2 | Aug | 16.1 | 18.8 | Jul | 20.4 | 9.4 | Aug | 9.7 | C | 7.5 | Aug | 7.4 | H | 35.6 | Jul | 35.4 |
| | m.i. E. A. | *2.64* | *Aug* | *-1.3* | *n.a.* | *n.a.* | *n.a.* | *4.8* | *Aug* | *1.3* | *5.1* | *Aug* | *9.3* | *1.2* | *Aug* | *1.3* | *C* | *0.2* | *Aug* | *0.2* | *H* | *74.5* | *Aug* | *75.4* |

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

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