

Economic and Banking Outlook

Viewpoint

The macroeconomic scenario is still subject to high uncertainty, especially in the short term. Expanding the time horizon for our estimates, we expect **GDP growth** rates to improve in the second half of this year and in 2024. In addition, the trend of moderating **inflationary pressures** should continue, while several central banks are close to peak levels of **policy rates**.

The global macroeconomic scenario – despite a high level of uncertainty – shows signs of potential improvement for several reasons:

- First, **the energy shock has been less severe than initially estimated**. The prices of oil and natural gas have declined significantly, and futures market expectations indicate stability in coming quarters.

On this subject, Russian oil has traded at a much lower price than Brent, with a negative spread of about USD 25 per barrel since the beginning of the war. Furthermore, in Europe: (i) autumn and winter temperatures were milder than in previous years; (ii) households reduced energy consumption for savings purposes; and (iii) in several countries, relevant government interventions were approved to soften the effects of the energy shock.

- The pandemic has receded and **China has initiated a reopening of economic activity**, which should boost international trade and global GDP this year and in 2024.

- **On international trade, current volumes are well above pre-pandemic levels**, especially in Asia. It is interesting to note that the effects on export and import trends were smaller during the pandemic period than during the subprime financial crisis.

- **Supply chains should be shortened** – also for geopolitical reasons – and for ISBD countries, this represents an important opportunity.

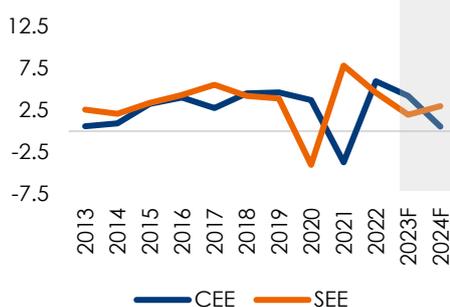
- Finally, the **major central banks are close to the peak of raising policy rates**. As a result, market interest **rates** may be lower than previously expected over the forecast horizon.

However, there are several elements to watch out for:

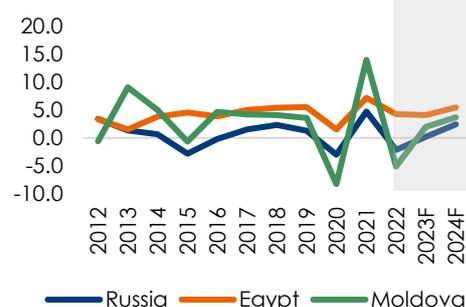
- **The decline in inflation will not be fast**, especially at the core rate level.
- **Financial markets have seen an increase in volatility** and are affected by some banking crises in the US and Europe. Central banks, however, have all the tools to counter any crisis. The lessons of the Lehman Brothers collapse have been learnt and there is unlikely to be a new systemic crisis.
- **Finally, the greatest risks for the baseline scenario concern geopolitical tensions caused by the war in Ukraine and the problematic relations between China and the US.**

Regarding the **banking aggregates** in ISBD countries, in line with the macroeconomic scenario, **there are – almost generalized – expectations of moderating growth rates regarding loans and deposits in 2023 and recovery in 2024**. Also, on the positive side, we point out that the recent crises affecting some credit institutions in the US and Europe have had limited effects on the banking sector in all EE/CEE/SEE areas and in Egypt, thanks to the support of the monetary authorities and limited exposure of distressed banks to the previously mentioned geographical areas.

GDP % yoy forecast\*



GDP % yoy forecasts Russia, Moldova, Egypt



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

Source: ISP Research Department forecast

March 2023

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

In 4Q22, the GDP of the **CEE area** recorded the weakest trend dynamic since 2Q21, slowing to 1.3% and bringing growth for the full year to 4.2%. Foreign demand mainly made a net positive contribution, while demand regarding household consumption was strongly penalised by lower real disposable incomes and the less advantageous loan conditions compared to previous months. In cyclical terms, Q4 saw a change in GDP into negative territory (-1.4% qoq), mainly due to the cyclical contraction of the Polish economy. In 4Q22, the GDP of the **SEE area** recorded a trend dynamic of 3.6%, well below the 5.0% seen in the first part of the year, bringing growth in 2022 to 4.6% (estimate without data for the fourth quarters for Albania and Bosnia as these are not yet available). Domestic demand generally represented the main factor supporting the GDP trend, countering the negative net contribution of foreign demand. In cyclical terms, 4Q22 saw a positive change in GDP (0.9% qoq), thanks above all to still relatively strong growth in Romania (1.1%) and Croatia (0.9%).

The latest releases of high-frequency economic indicators mainly point to a further slowdown in the economy in the first quarter of this year. In January in the CEE area, **industrial production** growth slowed to 0.3% yoy from 0.7% yoy in the previous month (on a weighted average basis [w.a.]). Among the countries in the area, it ranged from -8.6% yoy in Slovakia (w.d.a. data) to 2.6% yoy in Poland. In the SEE region, the industrial production trend remained negative in January (-3.0%). Within the region, the industrial production dynamic ranged from -5.4% yoy in Romania to 4.1% yoy in Serbia. In January and February, the **Economic Sentiment Indicator** averaged 90.2 and 85.1 in the CEE area and the SEE area, respectively, well below last year's average values in the two regions (94.1 in CEE and 86.0 in SEE).

Although with differences for each country, **inflationary pressures** still appear persistent in the CEE and SEE areas, and the dynamics of the core component have not yet shown convincing signs of cooling. Aggregating the data (w.a.), in February, despite the drop in energy prices, in the CEE area, inflation rose again (to 18.5% from 17.7%), while remained very high in the SEE area (12.6%). In several cases, the price indices have been affected by the weakening of **local currencies**, such as in Hungary, contributing to rises in inflation.

At their latest meetings, the **central banks** of Serbia and Albania further increased policy rates, to 5.75% from 5.5%, and to 2.75% from 2.50%, respectively, while the banks in Czech Republic, Hungary, Poland and Romania maintained the policy rates at 7.0%, 13.0%, 6.75% and 7.0%, respectively. **Long-term yields** have increased in Slovakia, Slovenia and Serbia, while decreasing lightly in those countries where monetary policy has been paused.

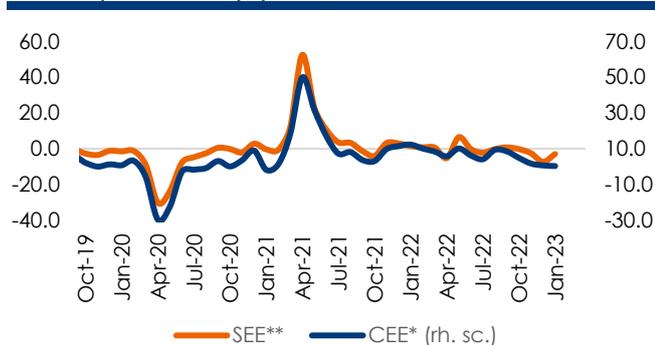
**Antonio Pesce, Francesca Pascali, Davidia Zucchelli**

**GDP trend in 4Q22 decelerated and high frequency indicators signalled a further softening of the economic dynamic in 1Q23**

**Consumer prices still on an accelerating path, due to the energy shock and bottlenecks in global supply chains**

**Strong monetary restrictions to counteract inflation**

**Industrial production % yoy – CEE/SEE**



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

**Industrial production % yoy – EE/Egypt**



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

Outside the CEE/SEE regions, as we noted in the *Outlook* published in December, the geopolitical situation continues to affect **EE countries**, but it is improving in terms of a deceleration in inflation and a slowdown in economic activity. In 4Q22, **GDP** decreased by 4.2% yoy (from 3.7% in 3Q22) in **Russia**, and in 4Q22, to 31.4% yoy (from -30.8% in 3Q22) in **Ukraine**; in 4Q22, it decreased by 10.6% (from -10.3% in 3Q22) in **Moldova**. In **Egypt**, GDP grew by 4.4% yoy in 3Q22 (preliminary figure, from 3.3% in 2Q22). Moving to high-frequency indicators, in January, **industrial production** fell (by 2.4% yoy) in Russia (vs a decline of 4.3% in December). Also in January, **retail sales** decreased in Russia, by 6.6% (vs -10.5% in December 2022), and in December, they declined by 5.6% in Moldova (vs -1.4% in November). With regard to **inflation**, in Russia, consumer prices started to decelerate from April (11.0% in February) but remained well above CB targets (4.0%). In February, prices rose in Ukraine to 24.9% (vs 26.0%), and in Moldova, the CPI was 25.9% in February vs 27.3% in January. In Egypt, inflation rose by 31.9% in February (25.8% in January) which was well above the upper end of the official corridor ( $7 \pm 2\%$ ) set by the CBE.

**In the EE region, inflation decelerated in EE countries and Egypt**

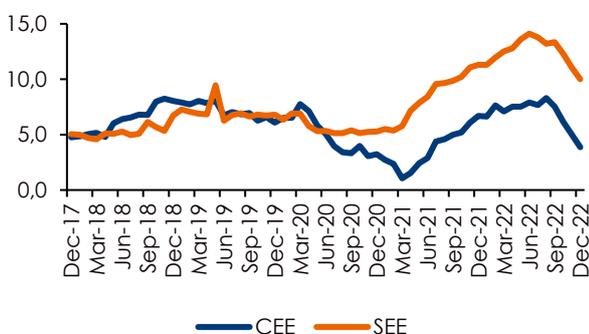
With regard to **banking aggregates**, **lending growth** decelerated in many countries in December (area averages are not available as of January) due to deteriorating economic conditions plus rising inflation and interest rates. Loans increased by 3.9% yoy in **CEE countries** in 2022 (from 6.7% in 2021) and by 10% yoy in **SEE countries** (from 11.3% in 2021). Hungary and Romania, where loans jumped by 11.6% and 11.2% yoy in December (13.6% and 11% yoy as of January) (from 12.7% and 14.3% in 2021), respectively, continued to be the best performers. **Corporate loans** showed much stronger performances than household loans in both CEE (9.8% yoy vs. 0.8% yoy as of December, especially in Poland, Hungary and Slovenia) and SEE countries (16% vs 5.1%, mainly in Croatia); the best performers regarding corporate loans in January were Hungary (21%) and Romania (16% yoy).

**Bank loans decelerated as of December/January**

**Banking interest rates** stopped growing in some countries (as in Czech Republic, Poland, and most of SEE countries). NPL ratios have so far remained low everywhere, but new tensions related to the international banking sector could put some pressure on asset quality due to a weak economy, liquidity tensions, and bank risk aversion. Precautionary motives continued to support **deposit growth** in both the CEE (but slowing from 8.7% in 2021 to 5% yoy in December) and SEE (from 12.9% to 7.5% yoy) areas.

In the **EE area**, loan growth remained strong in Russia (11.8% yoy in 2022), especially for corporates (13% yoy), while loans to households decelerated (from 25% in 2021 to 9.5% yoy in 2022). In Moldova, loans decelerated to +6.3% yoy in February (12% yoy in the corporates vs -2% yoy in the household sector, which strongly decreased from 40% in 2021). Total deposits from the private sector jumped from 1.5% yoy in November to 11% yoy in December, but mainly relating to the corporate sector (+17.2% yoy in Russia). In **Egypt**, banking aggregates maintained strong dynamics in nominal terms, with loans increasing by 28.4% and deposits by 27.4% in 2022.

**Lending growth (% yoy chg, weighted averages)**



Source: ISP Research Department elaboration on central banks' data

**Lending growth (% yoy chg, weighted averages)**



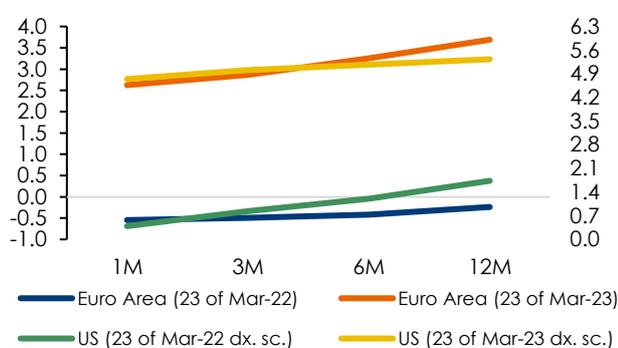
Source: ISP Research Department elaboration on central banks' data

## The international outlook

**Global economic growth** (at 3.4% in 2022) is projected to decelerate to 2.9% in 2023 (upwardly revised from 2.7%), before rising to 3.1% in 2024 (downwardly revised from 3.2%, as in IMF January WEO update). The upward revision for 2023 reflects positive surprises and greater-than-expected resilience in several economies. However, the global growth projected for 2023 and 2024 is still below the historical average (3.8% in 2000-19 period). Global inflation is expected to fall from 8.8% in 2022 to 6.6% in 2023 and 4.3% in 2024 (well above the average of 3.5% in the 2017-19 period). Rising central bank rates and the war in Ukraine are expected to weigh on the 2023 economic dynamic, while the expected pickup in GDP growth in 2024 reflects a gradual recovery from the effects of the war in Ukraine, subsiding inflation, and a further easing of supply bottlenecks. The **risks to the outlook** continue to be to the downside. Inflation could be more persistent than expected, and renewed COVID-19 outbreaks and lockdowns could negatively affect economic activity; the war in Ukraine could escalate; tighter global financing conditions could worsen debt distress; while further geopolitical fragmentation could hamper economic progress. Regarding the **US**, the lower household purchasing power and tighter monetary policy intended to curb inflation are penalising economic growth. The GDP dynamic is expected to slow from 2.1% this year to 1.0% next year, and then to 1.2% in 2024 (upward revisions from 0.3% and 1.0% expected for 2023 and 2024, respectively, in ISP's December scenario). The risk of a wage/price spiral is not over yet because inflation was still strong in February 2023 (6.0%) even if on a softening path after the 40-year high of 9.1% hit in June 2022. The Federal Reserve raised the fed funds target to 4.75% at its February 2023 meeting and ISP expects the policy rate to rise further, to 5.5%, by the end of 2023 and then to fall, to 4.5%, by end-2024. In the **Euro Area**, the war in Ukraine and tighter monetary policy are weighing heavily on the economic dynamic. Despite expansionary fiscal policies implemented in the Euro Area through the PNRRs at national levels, ISP foresees full-year GDP growth slowing from 3.5% in 2022 to 0.7% in 2023 (upwardly revised from 0.1% in December forecasts) and 1.4% in 2024 (from 1.6% in December forecasts). Uncertainty regarding the forecasts remains high, especially due to the economic consequences of the conflict in Ukraine and geopolitical tensions with Russia. The annual inflation rate in the Euro Area eased to 8.5% in February 2023 from a record high of 10.6% in October 2022. Now, it is expected to decrease further in the coming months, and the annual averages are projected to be 5.6% in 2023 and 1.8% in 2024 (downwardly revised from December forecasts). The ECB raised interest rates by 50bps, to 3.50%, as expected, at its March meeting, further pushing borrowing costs to the highest level since late 2008, in order to help temper the region's high inflation. At ISP, we expect the policy rate to reach 4.5% by eop in 2023 and 4.0% by eop in 2024. Among **emerging countries**, China's GDP trend has been revised down with respect to the December scenario, from 5.1% to 4.5%, and only a soft acceleration is expected for 2024 (to 5.0%). The economic performances of commodity-exporting countries in other areas are expected to remain relatively robust, but also in this case with risks prevailing to the downside, should the international landscape deteriorate significantly.

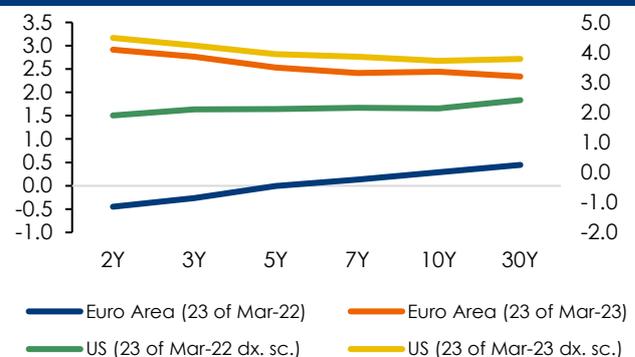
**Global economic growth still looks fragile, especially in the first part of the year**

**Benchmark monetary rates (US and EA rates)**



Source: ISP elaboration on Refinitiv-Datastream data

**Yield curves (US bonds and German Bunds)**



Source: ISP elaboration on Refinitiv-Datastream data

## The economic outlook

### Growth and inflation

The high-frequency economic indicators point to a slightly weaker economic cycle for the first part of this year than expected in the December scenario. For this reason, we have slightly revised downwards the **GDP** growth for 2023 in the CEE area (to 0.6% from 0.8%), while, for this year, we have left that for the SEE area basically unchanged (at 2.0%).

Next year, due to monetary conditions, now expected to be tighter than in December (especially in Hungary), we have reduced the GDP profile forecast for the CEE region to 2.7% from 3.0%. In the SEE area, however, we have left this unchanged at 3.0%.

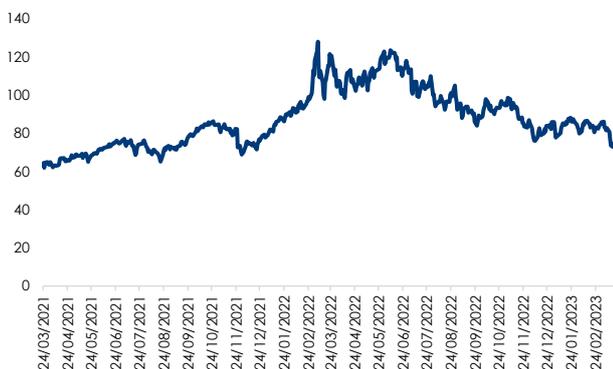
Among the countries of the two areas, in 2023, the major revisions occurred for Czech Republic, Poland and Serbia, where the GDP growth rates were reduced by about 30bps, and in 2024 also in Slovakia and Slovenia (about 40bps).

The assumptions behind these projections include hypotheses on fuel and nonfuel commodity prices. In 2023, oil prices are projected to fall by about 16%, while nonfuel commodity prices are expected to fall by, on average, 6.3% (see IMF WEO). The prevailing **risks to the outlook** are to the downside, however. Inflation could be more persistent than expected, renewed COVID-19 outbreaks could occur and lockdowns could dampen economic activities, the war in Ukraine could escalate, and tighter global financing conditions could hamper economic recovery.

**Inflation** is projected to remain high in the coming months in both the CEE and SEE regions – in particular, in those countries where wage dynamics have strengthened significantly. The end-of-period inflation forecast for 2023 has been roughly confirmed (5.7%) in the CEE/SEE area. As in the December forecasts, by the end of next year, inflation is expected to decrease further and approach CB targets.

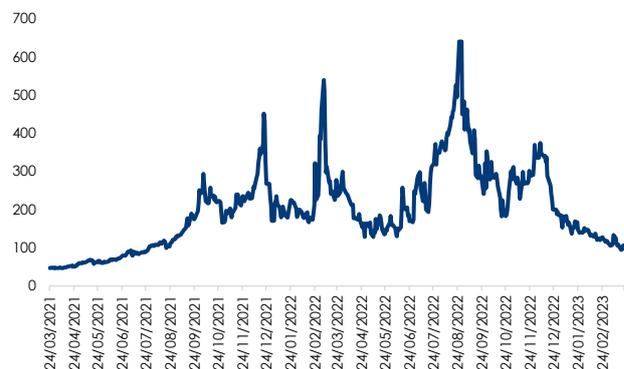
Due to better-than-expected data, GDP growth forecasts for the **EE** region has been revised upwards: for Russia, to +0.2% in 2023 and +2.5% in 2024 (from -2.8% and +2.2% projected in December), but lowered in Ukraine (+0.3% from +3.5% in 2023) and +4.1% in 2024. Estimates are unchanged for Moldova (+2.0% in 2023). Price pressures are expected to fall in Russia, Ukraine and Moldova. In Russia, where inflation had already started to decelerate from April 2022, it is not expected to converge to the CB's targets before 2025. For **Egypt**, we left our GDP growth estimates unchanged at 4.1% for calendar year 2023, and at 5.5% for 2024 and 2025. Inflation is expected to accelerate to 33.0% by year-end 2023, particularly due to food and oil price increases. It is projected to ease to 15% by year-end 2024, before moving back to the CB's target in 2025.

#### ICE-BRENT CRUDE OIL (Barrels \$)



Source: Refinitiv-Datastream

#### ICE-NATURAL GAS (Therm £)



Source: Refinitiv-Datastream

**GDP forecasts for 2023 and 2024 have been revised down due to stronger-than-previously-expected monetary restrictions**

**Risks to our forecasts remain to the downside**

**Inflationary pressures are expected to remain high in the coming months**

## Monetary policy and financial markets

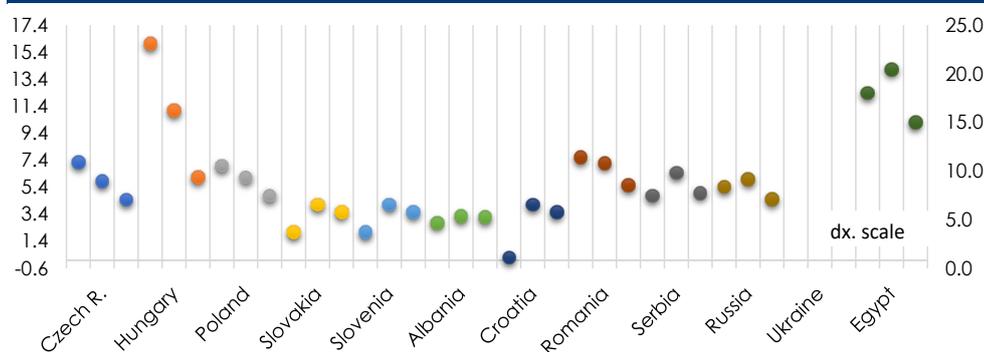
Czech Republic, Poland and Hungary seem to have paused now with regard to raising **policy rates**, although the stance of monetary actions remains guided "by data" and therefore, as inflationary pressures remain high, further rate increases are not excluded.

In **Hungary**, where the policy rate is currently 13%, a reversing of the cycle is expected in 2023, with clear signs of softening inflationary pressures. However, now we project a softer decreasing path with respect to December forecasts. In **Poland**, the National Bank held its reference rate unchanged at 6.75% for the sixth consecutive time at its March 2023 meeting. As in December, 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% for the sixth consecutive time at its February meeting. The CB is expected to start to reverse the cycle during 2023, and cut the policy rate to 5.50% by year-end. In **Romania**, the policy rate is expected to be 7.0% by year-end 2023, before being cut to 5.0% by year-end 2024. For **Albania**, the monetary policy profile has not been modified with respect to our December forecasts, while for **Serbia**, we have upwardly revised the policy rate path to 6.5% and 5.0% at the year-ends of 2023 and 2024. Money market rate projections have been revised accordingly.

Outside the CEE/SEE regions, due to a new phase of large-scale structural transformation of the Russian economy, **Russia's CB** left the policy rate unchanged at 7.5% on 17 March. Starting from this level, the Bank of Russia has become more hawkish this year, warning as it held its key rate at 7.5% last month that further widening of the country's budget deficit may compel it to raise the cost of borrowing. CBR key rates may be raised over in 2023 in relation to the rise in inflation expectations and the level of the structural budget deficit. In **Moldova**, the central bank cut 3pp from the refinancing rate, to 17.0% p.a., in February in order to ensure the maintenance of stimulus measures in the context of the monetary policy easing cycle initiated at the end of the previous year, in a disinflationary macroeconomic environment. In **Egypt**, the CB, after raising the policy rate four times in 2022, by 8pp to 17.25% at the first meeting of 2023 kept the rates unchanged. It is expected to raise rates by 200bps, to reach 19.25%, by end-2023, and then lower the rate, to 15.00%, in 2024.

The profiles of **long-term yields** have been revised upwards overall along the forecast horizon with respect to our December scenario in the CEE/SEE region, due to the higher path of Bund yield forecasts. Spreads with respect to the EA benchmark have been revised down slightly – in particular, in those countries with lower inflation figures and less restrictive monetary policies. In **FX markets**, exchange rates are expected to move around the current values in the CEE/SEE area overall, but to recover some of the depreciation that occurred in the last few months, thanks to rising monetary rates, especially in Hungary.

### Short-term interest rates 2022-2024 (% end of period, ISP forecast)



Source: ISP Research Department forecasts. Note: data are not available for Ukraine

### Policy rates at record highs in CEE/SEE regions

## Banking aggregates and interest rates

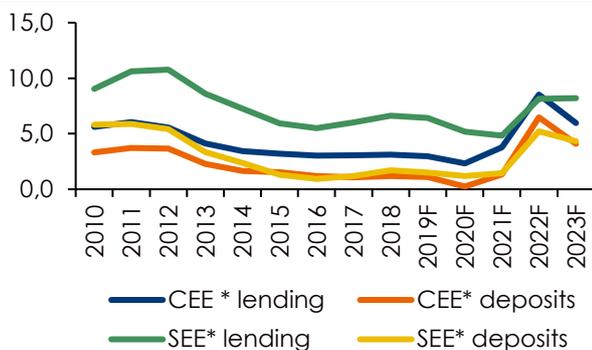
Recent international events – the bankruptcy of some American banks and the dire situation of Credit Suisse – are expected to have limited and indirect effect on the CEE/SEE/EE banking systems, thanks to the support of central authorities and, in the case of Credit Suisse, also thanks to its modest presence in the area and the intervention of UBS. Problems relating to banks that have not adequately hedged interest rate risk (as was the case with SVB) appear to be very limited. On the liabilities side of balance sheets, loan/deposit ratios are generally low (with the exception of Slovakia) and there is no heavy reliance on wholesale funding. On the assets side, banks are benefitting from low ratios of non-performing loans and high regulatory capital. Nevertheless, credit restrictions due to increasing uncertainty could be the major indirect effect.

Forecasts for banking aggregates have been slightly revised by ISP for many countries in 2023 mainly because of recent 2022 performances (lower for loans but stronger for deposits than our expectations) and in light of weaker GDP dynamics. After rising in both CEE and SEE countries (by 3.9% and 10%, respectively) in 2022, **loans** are forecast to increase in 2023, by 3.6% in the former and 5.5% in the latter, respectively. Lending could be negatively affected by higher interest rates (mainly mortgages with variable interest rates), making it more difficult to service debt. Furthermore, demand for credit could be affected by falls in real disposable incomes due to high inflation, which reduces the ability of households to repay debt. But at the same time, inflation also decreases real debt, increasing the ability of households and corporates to repay loans. NPLs are expected to rise, given the deteriorating macroeconomic outlook, as indicated by current Stage 2 exposures (source: EBA), specifically where the increase in interest rates – and the associated rise in private sector debt servicing costs – has been particularly sharp.

Among **CEE countries**, a strong deceleration is expected in Hungary (to 1.5% from 11.6%, in 2022). Lending is expected to recover in Poland (to 3.6%), after being particularly weak in the last two years, supported by the corporate sector, as in Slovakia and Slovenia. The new economic landscape will also affect lending in the **SEE countries**, but to a lesser extent (5.5% in 2023). Romania is expected to remain the best performer in the area (6.8% in 2023). In the **EE area**, lending is still expected to decelerate in 2023, to 7.2% in Russia, where the CB is likely to cancel many regulatory easing measures and tighten the regulation of mortgage lending because it has become a source of concern. Further prudential limits on consumer lending have recently been imposed to avoid over-indebtedness for households. **Deposits** are forecast to decelerate as well because of the deteriorating macroeconomic context and rising inflation, which could support consumer spending. On the other hand, uncertainties about the economy and the evolution of the war could sustain deposit growth via precautionary saving. In detail, deposits are expected to decelerate in CEE countries from 5% in 2022 to 3.1% in 2023, and in SEE countries from 7.5% in 2022 to 5.8%. In Russia, deposits are forecast to rise by 6.5% in 2023. The effects of the recent international banking crisis will be more moderate in **Egypt**: loans are expected to decelerate from 28.4% and deposits from 27.4% in 2022 to 10.3% and 11%, respectively, in 2023. Nevertheless, the new crisis could have some effects because some start-ups have exposure to SVB, and due to higher risk aversion on the part of international investors.

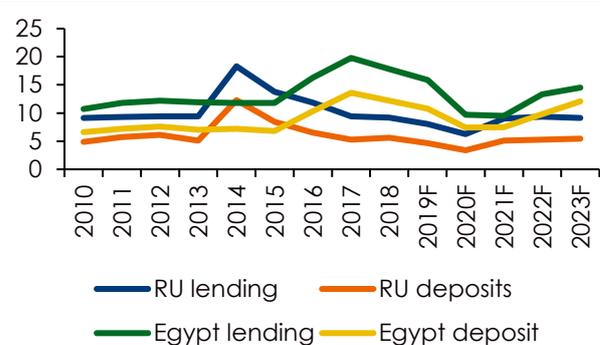
## Banking loans expected to decelerate slightly in 2023

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



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

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



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

## Country-Specific Analysis

### Czech Republic

#### Real Economy

The outlook for the Czech economy has been revised marginally down, foreseeing a small contraction in full-year real GDP in 2023 rather than the previously forecast stagnation. Also, growth in 2024 is seen to slow marginally vs previously expectations, at 2.5% vs 2.8%, reflecting the economy contracting on a quarterly seasonally adjusted basis through the first quarter (making it the third quarter in a row of decreasing real GDP). The weakness relates mainly to the energy-driven high inflation and its impact on household consumption. In 2023, we foresee an even bigger contraction of private consumption than in 2022, as households will no longer rely on savings to smooth their spending plans. Nevertheless, with global energy prices now declining and Czech inflation likely to drop to single digits in the second half of the year, we expect private consumption to gradually recover and contribute positively to GDP growth in 2024. We also expect investment to improve and contribute to growth next year more than in 2023, which is being impacted by a slow start of the new EU funds programme period.

Zdenko Štefanides

#### Financial Markets

The Czech National Bank (CNB) has been holding rates steady since June last year, keeping its refi rate at 7% since that time. With inflation still way above the 2% target (the latest inflation reading as of February was 16.7%, which compares to the CNB forecast of 16.5%), there remain voices on the CNB board as well as among the CNB research team that are advocating for further increases in rates. However, we retain our view that the next move in Czech rates will be down, not up. Inflation looks to be on a path to single-digit levels in the second half of 2023 and towards the targeted 2% in the first half of 2024. We project a total of 150bps of easing before the end of 2023 and expect market rates and yields to follow suit. The koruna made impressive gains vs the euro at the start of 2023, driven by improved market sentiment and a high interest rate differential. While we believe in the long-term potential of the Czech koruna to appreciate, its recent gains appear oversized relative to fundamentals and thus we foresee a return to the previously forecast trend of 24 koruna to the euro.

#### Banking Sector

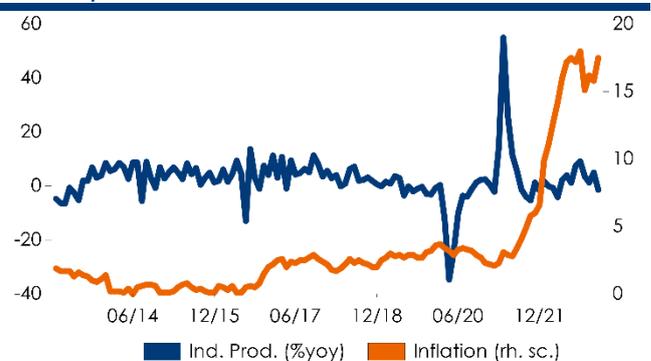
In the banking sector, high interest rates, tighter macroprudential measures, and a decline in real purchasing power of households had led to the Czech mortgage and housing market stalling by late 2022, resulting in downward revisions to forecast loan growth dynamics. There is nonetheless no credit crunch envisaged for Czech Republic – far from this, in fact. The Czech market remains over-liquid, with a loan/deposit ratio at a very comfortable 71% and banks are well capitalised and eager to lend. We expect lending growth to revive in the second half of this year as the economy starts to grow again.

#### Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	3.4	2.5	-0.2	2.5
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	5.9	4.5
L/T bond yields (eop)	2.7	4.8	5.0	4.9
Bank loans (pr. sector, yoy)	8.4	4.5	4.6	4.4
Bank deposits (pr. sector, yoy)	7.0	4.2	4.2	4.2
Lending int. rate (corp., eop)	4.5	9.0	4.8	3.4
Deposit int. rate (hh, eop)	2.3	6.0	3.5	2.1

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 contracted by 0.7% and 0.4% qoq in the third and fourth quarters of 2022, respectively. Activity remained subdued at the beginning of the year: consumption weakened further in tandem with declining real earnings; and investments came to a halt on the back of weaker demand and high financing costs. Fiscal tightening has been a drag on growth as well. Net exports could be a positive contributor to GDP, but this will not be sufficient to fully offset the impact of falling domestic demand. Still, we expect to see a gradual recovery in H2. Hence, FY23 GDP growth could be 0.2%. Inflation peaked at 25.7% in January, but the structure of inflation still points to broad-based underlying pressures. Headline CPI will remain elevated in H1 (above 20%), but disinflation could gain momentum from mid-year, supported by the inflation-containing impact of weak domestic demand and lower imported inflation. Year on year, CPI might return to single-digit territory in December, but average 2023 CPI could still be close to 19%. The disinflation trend is expected to continue into 2024, but reaching the medium-term inflation target will be delayed until 2H24.

### Financial Markets

The central bank has kept the key rates unchanged in Q1, but further tightened monetary conditions by increasing the mandatory reserve requirements for banks. The monetary policy stance remains hawkish, as inflation risks are still skewed to the upside. The policy rate (13%) will not be cut until the inflation outlook improves materially, and the effective O/N depo rate will remain at 18% as long as the central bank does not see a sustained positive trend reversal in risk perceptions. The O/N depo rate may be lowered in Q2 at the earliest, but the gap between the policy and O/N rates will likely not be closed until Q4. We have raised our eop policy rate forecasts by 1pp, to 10.5%. The high interest rate differential is supportive of the HUF, but due to the domestic vulnerabilities, the Hungarian currency remains sensitive to changes in global risk perception. We do not see room for much appreciation from current levels this year.

### Banking Sector

Bank deposit growth has slowed in the recent months, and even turned negative. No growth is expected for the remainder of the year, due to a deteriorating economic climate and rising inflation. For 2023, we expect to see a decline of 0.5-1% in the volume of deposits while customer savings should start to grow again from 2024, although only at single-digit rates. Regarding the corporate lending market, there is still demand for government-supported Széchenyi loans, but household lending demand decreased significantly, due to the decline in housing market transactions and high interest rates. With slowing economic growth, the increase in loan volumes will drop to 1-2% in 2023.

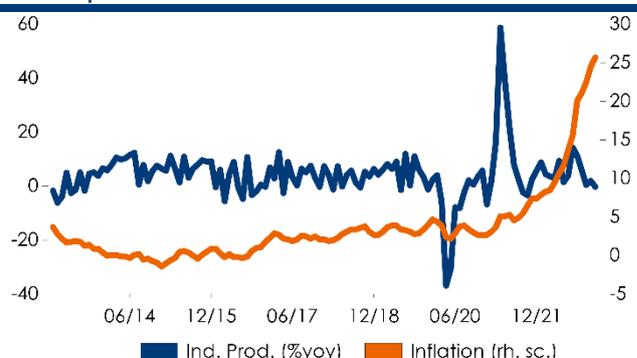
### Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	7.1	4.6	0.2	3.1
CPI (eop)	7.4	24.5	8.3	3.4
Euro exch. rate (value, eop)	367.2	407.2	384.5	384.0
Short-term rate (eop)	3.8	16.1	11.1	6.1
L/T bond yields (eop)	4.4	8.6	9.1	6.5
Bank loans (pr. sector, yoy)	12.7	11.6	1.5	5.3
Bank deposits (pr. sector, yoy)	17.6	2.5	-0.5	4.4
Lending int. rate (corp., eop)	4.5	11.5	7.7	4.3
Deposit int. rate (hhs, eop)	1.5	12.3	5.5	2.2

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

Mariann Trippon

### Industrial production and inflation



Source: Hungarian Central Statistical Office

## Poland

### Real Economy

The outlook for the Polish economy has been revised down marginally, by two-tenths of a percentage point for both 2023 and 2024. This small downward revision reflects a sharp contraction in 4Q22. Recovery is expected in the future, but it will start slowly as double-digit inflation continues to weigh on household spending. Overall, in 2023, private consumption will probably only stagnate, as households have already used up most of their excess savings from the pandemic which allowed them to sustain their spending in 2022. However, with inflation likely easing on the back of lower energy prices, we foresee household real purchasing power gradually recovering in 2H23 and starting to contribute positively to GDP growth from 2024. Investment-wise, Poland is late in utilising the funds from RRP and thus will miss out on the related boost to growth this year. Still, the regular EU funds are available, both from the old 2014-20 period and the new one, which should help to drive investment growth and to sustain positive increments of real GDP in 2023 after all. Higher military spending should also be a positive for the economy.

Zdenko Štefanides

### Financial Markets

The National Bank of Poland (NBP) has kept rates steady since September, maintaining the reference rate at 6.75%. We continue to believe that the hiking cycle of the NBP has ended. We look for the policy rates to remain steady in the near future and continue to believe that the next move in rates will be down. The NBP governor expressed hope of beginning monetary easing in the final quarter of this year, and we are partial in line with to this view.

As for bond yields and the exchange rate, we expect volatility to remain elevated, with their values remaining under pressure. Markets are likely to stay vigilant given both global and local factors related to the upcoming parliamentary election in November. Still, considering our view of inflation easing globally and major central banks now approaching the end of their tightening cycles, bond yields are likely to fall somewhat while the zloty is likely to benefit and appreciate a bit in the medium term.

### Banking Sector

In the banking market, we expect loan volume growth to remain relatively low, due to high interest rates and a slow-growing economy. Deposit growth also likely will remain relatively low as households face tight financial situations with inflation in double digits. A return to more dynamic growth of banking volumes is expected in 2024 as the economy recovers and inflation moderates. The loans/deposits ratio is likely to continue to hover around a comfortable 80%. This liquidity buffer has helped to distance Poland's banks from the recent global banking turmoil related to the run on deposits at some US regional banks.

#### Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	6.9	5.0	0.8	2.7
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	6.1	4.8
L/T bond yields (eop)	3.3	6.6	6.7	6.2
Bank loans (pr. sector, yoy)	4.6	0.2	3.6	4.7
Bank deposits (pr. sector, yoy)	7.7	5.6	3.4	4.8
Lending int. rate (corp., eop)	3.8	8.7	6.3	5.0
Deposit int. rate (hh, eop)	1.3	6.5	4.5	3.2

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

#### Industrial production and inflation



Source: Statistics Poland

## Slovakia

### Real Economy

The Slovak economy surprised to the upside in 4Q22, when it continued to grow on a quarterly basis (+0.3% qoq), helped by still-strong household consumption and investment. In addition, the winter season has passed without any real shortage of natural gas, as was previously feared. As investment in the economy should be supported by the drawing down of EU funds this year, this all leads us to slightly increase our GDP forecast for 2023 to 1.0%.

This expectation is being aided by the still-strong labour market, where employment levels have continued to increase (+0.2% qoq) and the unemployment rate has remained low, at 6% at the end of 2022. Labour offices still report plenty of vacancies, which leads us to think that even if there is a small increase in the number of unemployed, this will be quite limited. Moreover, local wages should continue to increase at a fast pace, supported by the public sector's valorisations in several quarters of this year. The average salary could thus increase by about 9% in 2023.

This will be still lower than the inflation rate though. Local CPI rose again in February, to a multi-year high that was also seen in December (15.4%). However, the annual rate should fall over the rest of this year, perhaps to as low as 5%. In 2024 and 2025, local inflation could continue to be higher than the Euro Area average due to the lagged increases of regulated energy prices.

### Financial Markets

In March, the ECB looked beyond the banking turmoil in the US and Switzerland and raised key interest rates again by 50 basis points. However, it refrained from any real forward guidance about rates in the future. We do not expect to see any material spillovers into the Euro Area economy, thus leading the ECB to raise the refinancing rate to 4.5% this year. Less optimism regarding the financial markets caused the Slovak government bond yield spread against German rates to rise to about 130bps in March, and we expect it to narrow only with time. Early elections in September create additional upward risks regarding the spread if a populist and/or anti-Western coalition were to take power.

### Banking Sector

Slovakia's banks are currently profiting from a widening of interest rate margins – yet in an environment of a significant fall in new mortgage loans. Plunging household saving rates are slowing total deposit growth and widening spreads may mean even higher costs of funding for banks. This all could lead to much slower growth in banking business in the near future, even in nominal terms. Banks' profitability may soon be hit by a new bank levy (+12pp to corporate income tax) which is currently being discussed in parliament.

#### Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	3.0	1.7	1.0	2.7
CPI (eop)	5.8	15.4	5.0	2.5
Short-term rate (eop)	-0.6	2.1	4.1	3.6
L/T bond yields (eop)	0.0	3.2	4.3	4.2
Bank loans (pr. sector, yoy)	7.3	10.8	4.4	4.7
Bank deposits (pr. sector, yoy)	4.5	6.0	4.4	4.0
Lending int. rate (corp., eop)	1.6	3.8	4.3	3.3
Deposit int. rate (hh, eop)	0.0	0.0	1.5	1.5

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 picked up on a quarterly basis in Q4, rising 0.8% qoq, while decelerating sharply on an annual basis, to just 0.2% yoy (seasonally adjusted 1.3% yoy). A detailed breakdown of Q4 data shows domestic demand continuing to cool, with private consumption slowing to 2.6% yoy and public consumption sinking by 1.0% yoy, paired with lower investments, only increasing 5.9% yoy. External trade shrank in Q4. However, as exports declined at a stronger rate (2.5% yoy) than imports (1.5% yoy), the contribution of net foreign trade to headline growth was negative. Overall GDP growth in 2022 thus amounted to 5.4% yoy, in line with our expectations. So far, high frequency data for Q1 are scarce, only showing that industrial production stayed negative in January, whereas growth in retail trade and exports both picked up. The labour market remained strong and net wages rose in real terms in January. In spite of some positive signals and prospects looking less gloomy for the EA as whole, we have prudently left our 2023 GDP growth projection unchanged at 0.9% yoy, with upside risks prevailing.

Inflation eased in the first months of the year, to 9.9% yoy in January and 9.4% yoy in February (core 7.3% and 7.1% yoy, respectively). Looking ahead, this trend is expected to continue, supported by softer demand and rising costs of financing. Hence, we envisage average inflation at 6.8% yoy in 2023.

### Financial Markets

The 10Y government bond spread stood, on average, at 120bps in the first quarter of the year, with the average yield at 3.5%. The average yield and spread in 2023 are projected at 3.9% and 120bps, respectively (eop at 4.4% and 150bps).

### Banking Sector

Loan growth in January slowed to 9.3% yoy from 9.8% yoy in December, due to a lower rise in corporate loans. By year-end, we see growth slowing further, to 3.2% yoy, as higher financing costs and weaker economic activity suppress demand. Deposits rose 7.7% yoy in January, down from 7.8% yoy in December. In the months to come, we expect that liquidity accumulation will soften as growth weakens while inflation continues to eat into disposable incomes.

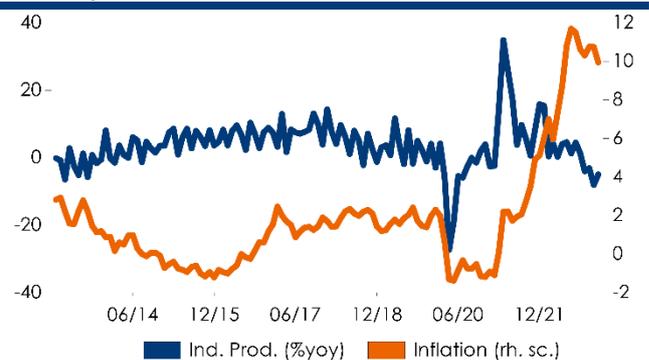
### Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	8.2	5.4	0.9	2.7
CPI (eop)	5.1	10.8	2.7	2.0
Short-term rate (eop)	-0.6	2.1	4.1	3.6
L/T bond yields (eop)	0.3	3.3	4.4	4.3
Bank loans (pr. sector, yoy)	5.2	9.8	3.2	2.5
Bank deposits (pr. sector, yoy)	8.2	7.8	3.9	3.6
Lending int. rate (corp., eop)	1.9	3.0	3.0	2.7
Deposit int. rate (hhs, eop)	0.1	0.2	1.0	0.8

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

Ana Lokin

### Industrial production and inflation



Source: Statistical Office of the Republic of Slovenia

## Albania

### Real Economy

Following the slower pace of GDP growth in 2Q22 at 2.23%, Albania's economic activity recorded a significant increase in the third quarter of 2023, with GDP growing by 4.02%. This growth was supported mainly by the increase in household consumption (higher employment and wages at 10.8% yoy, as in 4Q22) and by the increase in private investment. At the sectoral level, construction and services supported economic growth while industrial activity and agricultural production showed slower growth. In February yoy, exports expanded by 2.81% and imports by 1.14%. However, the country's economic growth is expected to shrink through 2023, at about 2.5%, but then gradually recover in 2024 and in the long term.

After peaking in October 2022 at 8.3%, inflation began to show a downward trend in the following months. The CPI for February was 7.1%. This drop mainly reflected lower prices in the international market for energy and food. While we noticed a downward trend of inflation in import prices, domestic prices remained high as a result of the improvement on the labour market.

### Financial Markets

The last tightening of its key interest rate (0.5%) by the central bank occurred in November 2022, with it remaining at 2.75%. The tightening of monetary policy resulted in a strong increase in interest on deposits and loans in the interbank market as well as yields of securities in the primary market. But with the recent deceleration of CPI, a slowdown in these yields is being noticed. In February 2022, the 1YTB yield decreased from 5.14% to 4.14% mom. Meanwhile, the CB will continue to monitor the risk of inflationary pressures on the economy, as well as to use monetary policy to gain a better balance between demand and supply. In the foreign exchange market, the lek continues to appreciate compared to foreign currencies. This is due to higher inflows of foreign currencies in the market. In February, the euro depreciated by 5.19% against the local currency yoy.

### Banking Sector

Albeit higher interest rates for loans, the loan portfolio continue to expand. In January, total loans to the private sector grew by 6.76% yoy. Household loans grew by 12.77% and corporates by 3.52%. New loan portfolio went up 6.36%.

On the deposit side, total deposits expanded by 5.04%. Household savings increased by 3.06% and business savings by 12.37% yoy. The rate of non-performing loans was at 5.1%, January 2022.

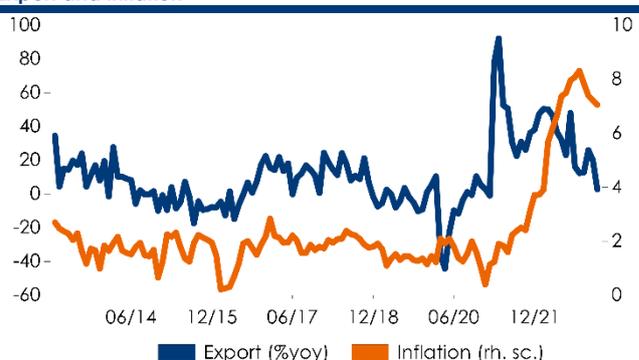
### Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	9.0	3.6	2.2	3.5
CPI (eop)	3.7	7.4	4.0	3.0
Euro exch. rate (value, eop)	120.9	114.9	120.0	121.5
Short-term rate (eop)	0.5	2.8	3.3	3.2
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	9.6	6.9	4.1	3.7
Bank deposits (pr. sector, yoy)	9.2	4.8	3.8	3.6
Lending int. rate (pr. sec., eop)	5.3	6.5	9.0	8.7
Deposit int. rate (pr. sec., eop)	0.4	2.5	2.7	2.4

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

Kledi Gjordeni

### Export and inflation



Source: National Statistical Institute

## Bosnia and Herzegovina

### Real Economy

Pending the release of national GDP statistics for the fourth quarter of 2022, due on 31 March, outturn for Republic of Srpska entity (accounting for roughly a third of the national economy) indicated slowdown in yoy GDP growth to 1.8% from 2.9% in Q3. In conjunction with the available high frequency data for the largest BH Federation entity, also indicating a similar slowdown, we see FY22 GDP growth of around 3.6% yoy.

Opening data for the current year are more mixed. Industrial production in January declined on an annual basis by 0.3%, but manufacturing annual growth was 1.9% yoy, while both mining/quarrying and electricity production continued a multi-month streak of annual declines. At the same time, merchandise exports registered relatively strong growth in both January (+5.9% yoy) and February (+7.8% yoy). Export growth rates are significantly lower than in the same months last year, but still higher than country's pre-pandemic trade performance. At the same time, domestic demand was quite resilient regarding inflationary pressures. More precisely, regardless of a high base, real retail trade in January increased by 15% yoy (4.0% mom) outpacing the 13.5% yoy average growth registered in 2022, and while some of the increased consumption can be attributed to the holiday/winter season and tourism (27% more foreign arrivals in January), other aspects we attribute to simultaneous inflow of remittances boosting domestic demand. Although double-digit (15.9%) growth in average net wages for January saw real income growth return to positive territory (+1.6% yoy, after nine months of declines), we expect to see a more moderate tone for private consumption in the coming months. Overall, we expect economic growth to decelerate in 2023 towards around 1%, although a stable labour market and strong wage growth, as well as decelerating inflation (to an average of 6.5% from 14% last year) could additionally support private consumption, leading to a slightly better performance Banking Sector.

### Banking Sector

After ending 2022 higher by a healthy 5.3% yoy, loan growth edged down to 5.0% yoy in January, due to smaller rise in corporate lending. In the months to come, we see a further deceleration of the growth pace against the backdrop of softer economic activity. However, compared to our previous scenario, we marginally raised this year's projection, to 3.4% yoy, to reflect a somewhat better environment than three months ago. Deposits ended 2022 on a high note, coming in at 3.2% growth yoy, substantially exceeding our estimate owing to strong corporate liquidity accumulation. Since the trend persisted in January, with the overall increase reaching 3.0% yoy, we lifted the projection to 2.7% yoy for 2023 on expectations of a stronger corporate deposit rise than previously anticipated while household deposits are expected to continue to recover.

#### Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	7.1	3.6	1.0	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	3.4	3.9
Bank deposits (pr. sector, yoy)	10.0	3.2	2.7	4.4
Lending int. rate (corp., eop)	3.1	4.0	n.a.	n.a.
Deposit int. rate (hh, eop)	0.1	0.5	n.a.	n.a.

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

Ivana Jović

Ana Lokin

#### Industrial production and inflation



Source: Agency for statistics of Bosnia and Herzegovina

## Croatia

### Real Economy

In line with the expectations, 4Q22 GDP data resulted in a further deceleration in annual growth (to 4% yoy from 5.2% in Q3), wrapping up FY22 to 6.3%, due to an overperformance in the first half of the year. The current year opened with more moderate activity levels. More precisely, following an average of 1.6% yoy growth in 2022, industrial production in January declined, for a third month in a row, by 2.8% yoy, although on a monthly basis, it increased by 0.9%. However, a worrying sign is that on a monthly basis, manufacturing production basically stagnated (0.1% mom), deepening the annual decline to 2.4%. However, as exports increased by 13.1% yoy and industry sentiment recovered mainly reflecting an improved assessment of (export) order books, manufacturing could regain some strength in the coming months, reflecting to a certain extent a better EU/EA outlook. On the domestic front, following a decline in December, real retail trade in January recovered both on a monthly (+0.3%) and annual (1.1%) basis, reflecting a stable labour market as the unemployment rate declined to 6.9% and average net wage growth picked up to +11.7% yoy, resulting in a fall in the annual real decline to only 0.9%. Looking forward, until current more positive soft sentiment is confirmed by hard monthly data, we stick to our 1% growth call, with more upbeat expectations on growth for 2024. The inflation outlook is improving gradually. We expect that following a 12% inflation rate in February, the following months will see stronger decelerations in the annual inflation rate, leading to an annual average of around 6.3%, before abating further, to around 3%, in 2024. On a related issue, in mid-March, the government adopted a new, fourth, package of support measures to alleviate high energy prices worth EUR 1.7Bn, with the most important decisions referring to a freeze in electricity (until end-September) and natural gas (until end-March 2024) prices for both households and businesses.

Ivana Jović

### Financial Markets

The 10Y government bond spread vs the Bund has averaged 150 bps in Q1. We see it dropping in the upcoming months, to an average of 130bps in 2023 (eop 160bps). In Q1, the yield averaged 3.9%. In FY23, the average yield is forecast at 4.0% (eop 4.5%).

Ana Lokin

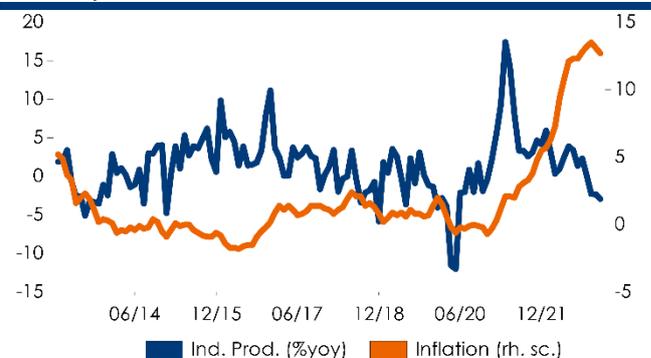
### Banking Sector

Loan growth rose slightly in January, to 11.4% yoy, thanks to corporate lending, mostly to the energy sector. We marginally lifted our 2023 projection, with growth increasing to 3.2% yoy on expectations that the rise in corporate loans will last amid still-strong inflation paired with a somewhat rosier environment. Deposits lost pace at the beginning of the year (13.5% yoy), due to the usual seasonal drop in corporate deposits. The projection for 2023 remains 2%, with household deposits expected to see a notable slowdown, due to post-EA entry outflows, subscription to a government bond (EUR 1.3Bn) aimed at retail investors, and an increasing number of mutual funds offering yields above term deposit rates.

#### Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	13.1	6.3	1.0	2.8
CPI (eop)	5.5	13.1	3.5	2.0
Euro exch. rate (value, eop)	7.5	7.5	Euro	Euro
Short-term rate (eop)	0.4	0.2	4.1	3.6
L/T bond yields (eop)	0.6	3.5	4.5	4.4
Bank loans (pr. sector, yoy)	2.3	11.2	3.2	2.5
Bank deposits (pr. sector, yoy)	11.7	15.0	2.0	2.6
Lending int. rate (pr. sec., eop)	1.9	3.6	4.7	4.4
Deposit int. rate (pr. sec., eop)	0.1	0.7	1.8	1.7

#### Industrial production and inflation



Source: Croatia Bureau of Statistics

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

## Romania

### Real Economy

GDP growth in 4Q22 was announced at 4.6% yoy, slightly higher than expectations of 4.4%. The ISP forecasts for 2023 GDP is 2.3%.

Marius Pacurari

CPI at the end of February was 15.5% yoy, higher than January, but in line with the NBR's February projection. Harmonised yoy CPI was 13.4%. According to the NBR's latest projection, the inflation evolution should decelerate through EOY 2023 to around 7.00%, taking into consideration the recent positive evolutions of the energy and food and commodities markets. The inflation level continued to be significantly supported by government subsidies for energy prices. Our forecast for 2023 EOY inflation is 7.8%.

The budget deficit at the end of January 2023 was 0.25% from GDP, with execution in 2022 (5.68% deficit) in line with the proposed target of 5.73% till the end of that year. The proposed deficit target for 2023 is 4.4% of GDP.

In 2022, the current account deficit reached EUR 26.571Bnvs EUR 16.92Bn for FY21. In January, the current account deficit was EUR 0.949Bn, slightly lower than the January 2022 level.

### Financial Markets

The NBR increased unchanged Monetary Policy rates (Deposit, Lombard, and Reference Rate) as follows: Deposit Facility Rate at 6.00%, Reference Rate at 7.00%, and Credit Facility Rate at 8.00%. The signals from the central bank governor are that this could be the last hike, if the inflation were to stay within the NBR's projected range.

The EUR/RON rate has been very stable in a range of 4.90-4.95, showing the NBR's usage of "all instruments" in the fight against inflation.

### Banking Sector

In 2022, figures showed consistent growth of credit (11.22% yoy) and a deceleration in deposits growth (6.74% yoy).

Marius Pacurari

In January 2023, the yoy figures showed an increase in credit of 11.04%, while deposit growth started to accelerate to 7.00%. The interest rates on RON-denominated deposits and credit were at 6.43% and 9.90%, on average, while on EUR-denominated deposits and credit, interest rates increased to 1.14% and 5.53%, on average, respectively.

### Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	6.8	5.0	2.3	3.0
CPI (eop)	8.2	14.1	7.8	3.5
Euro exh. rate (value, eop)	4.9	4.9	5.0	5.0
Short-term rate (eop)	2.8	7.7	7.2	5.6
L/T bond yields (eop)	5.4	7.9	7.3	7.3
Bank loans (pr. sector, yoy)	14.3	11.2	6.8	5.2
Bank deposits (pr. sector, yoy)	13.6	6.7	7.2	5.6
Lending int. rate (pr. sec., eop)	5.3	9.7	9.2	8.0
Deposit int. rate (pr. sec., eop)	1.9	6.7	4.9	3.5

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

### Industrial production and inflation



Source: National Institute of Statistics

## Serbia

### Real Economy

Economic activity recorded sluggish growth of only 0.4% yoy in 4Q22, bringing real 2022 GDP growth to 2.3% yoy. Growth in 4Q22 was mainly driven by net exports, which added 2.9pp to GDP growth, as exports outpaced import growth. Although suffering from a high inflation environment, household consumption remained positive, adding 1pp to the headline figure. On the other hand, government consumption decreased in Q4, subtracting 0.4pp from overall growth. Investment activity was also negative, decreasing by 2.7% yoy. The NBS kept its projection for 2023 economic growth at between 2% and 3%; we expect growth of 1.8% on account of still-high inflation, weak Eurozone growth (Serbia's key trade partner), and fragile consumer and business sentiment.

Inflation continued to rise, reaching 16.1% yoy in February 2023, with food prices still the main driver. After peaking in 1Q23, a gradual decline in the headline rate should start in 2Q23. However, CPI will remain elevated during the whole year, influenced by the announced increases in electricity and gas prices from May, by 8% and 11%, respectively. Average CPI in 2023 is currently seen at 12.6%, which is similar to NBS expectations of 12.3%. A return to within inflation target bands is expected to occur in mid-2024.

### Financial Markets

The NBS continued with monetary tightening in March, raising the key rate by another 25bps, to 5.75%. The lending facilities rate rose to 7%, while the interest rate on deposit facilities remained at 4.50%. Keeping in mind persistent inflationary pressures, we expect to see the KPR reach 6.5% at end-2023. The EUR/RSD rate remains stable, at around 117.3. The central bank bought EUR 165M net in 2023 so far, having ample foreign exchange reserves to preserve exchange rate stability (gross FX reserves of EUR 21.2Bn at end-February 2023).

### Banking Sector

Loans to the private sector rose by a modest 5.5% yoy in January 2023, showing a considerable slowdown compared to June 2022 (12.8%), in line with the start of monetary tightening by the NBS and the ECB. We expect loans volume growth to slow to 3.0% in 2023, due to the increased interest rate profile, together with anticipation of further rises, thus impacting customers' total disposable incomes. Asset quality remains stable, with an NPL ratio of 3.0% in December, but with prospects for some deterioration amid a slowing economy and tighter financial conditions. Deposits from the private sector also showed a slowdown, with an increase of only 5.6% yoy in January, bringing our expectations for deposits growth to 4.5% for 2023.

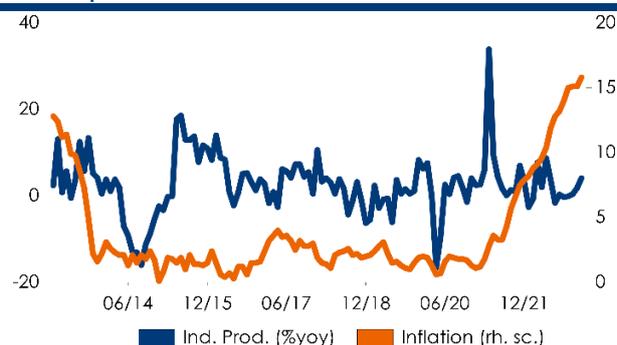
### Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	7.5	2.5	1.8	3.1
CPI (eop)	7.9	15.1	8.5	3.0
Euro exch. rate (value, eop)	117.6	117.3	117.7	118.0
Short-term rate (eop)	1.0	4.8	6.5	5.0
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	10.2	6.4	3.0	4.2
Bank deposits (pr. sector, yoy)	13.3	6.9	4.5	5.0
Lending int. rate (pr. sec., eop)	5.5	9.3	10.1	9.1
Deposit int. rate (pr. sec., eop)	1.8	6.2	6.3	4.7

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

Sanja Djokic

### Industrial production and inflation



Source: Statistical Office

## Moldova

### Real Economy

The Moldovan economy recorded a double-digit yoy contraction in 4Q22 (-10.6%), with a negative overall growth in FY22 (-5.9%), influenced mainly by the severe drought, inflationary pressures in the context of the constant increases in the prices of energy resources and the complicated situation in the region. The negative impact of the unfavourable conditions recorded in 2022 will extend to at least the first half of 2023, leading to a partial recovery of only 2%. In the remaining forecast years, an economic recovery is assumed, with yoy GDP growth of, on average, 3.6%. The annual inflation rate remains at a high level, but with signs of moderation, at 25.9% as of end-February 2023. The inflation rate remains above the upper limit of the variation range, reflecting the impact of the military conflict in Ukraine, the drought of last summer, as well as previous increases in international prices for food products and energy resources. For 2023, the reduction of pro-inflationary pressures is foreseen, due to the downward trend in prices on international markets, weak domestic demand, as well as a high basis of comparison vs 2022. The annual inflation rate is estimated at 6.6%. For 2024, it is predicted that the annual inflation rate will return to the acceptable variation range, (5% target by 2025).

### Financial Markets

The NBM continues with its easing of monetary policy measures, with the aim of stimulating aggregate demand by encouraging consumption, balancing the national economy, and anchoring inflationary expectations. Thus, during 1Q23, the policy rate has been cut twice (by 3pp steps) to 14%. The 91-, 182- and 364-day Treasury bill yields decreased by 7.4pp, 9.5pp and 10.1pp, respectively, as of 1Q23 compared to end of 4Q22 levels, in line with the inflation trajectory and expectations. For longer maturity government bonds (2Y and 3Y), yields also saw sharp downward movements compared to December levels.

### Banking Sector

As of February 2023, the volume of private loans in the economy expanded by 6.3% yoy, driven by a double-digit growth rate for corporate loans (12.1%), which counteracted the 2% contraction in the stock of household loans. On the other hand, deposits' growth accelerated, with the stock increasing by 11.5% yoy, due to the 14.8% and 9.5% yoy increases in corporate and household deposit volumes, respectively. A deceleration is expected for yoy growth in both loans and deposits in the years of projection. Hence, loans are foreseen to have grown by 4% yoy at year-end 2023, with an average growth rate of 4.4% in the remaining years. Growth in deposits in 2023 will be 4%, with slight increases, to +6.7%, on average, in the following years. Lending and deposits interest rates are expected to decrease in the following years, given a relaxing of monetary measures foreseen by the National Bank.

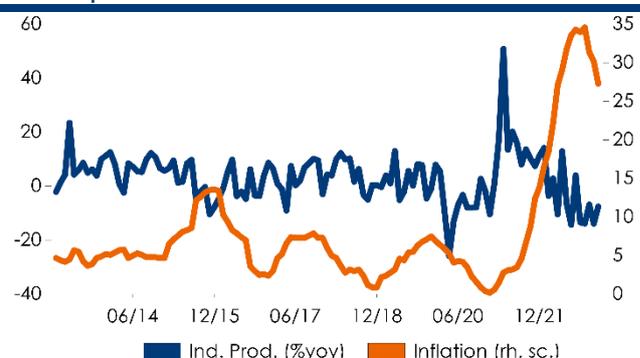
### Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	13.9	-5.1	2.0	3.7
CPI (eop)	13.9	30.2	6.6	6.1
USD exh. rate (value, eop)	17.7	19.5	19.2	19.0
Euro exh. rate (value, eop)	20.1	20.5	21.3	21.6
Short-term rate (eop)	6.5	20.0	10.0	7.0
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	23.5	9.3	4.0	4.3
Bank deposits (pr. sector, yoy)	13.1	5.4	4.0	6.8
Lending int. rate (corp., eop)	8.5	12.9	9.7	7.7
Deposit int. rate (hh, eop)	3.2	11.4	5.7	3.7

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

Natalia Mihalas

### Industrial production and inflation



Source: National Bureau of Statistics of the Republic of Moldova

## Russia

### Real Economy

The repercussions for Russia of the conflict with Ukraine continue, even if in a context of declining inflation pressures. We expect the economy to rise slowly, by 0.2%, this year after the contraction by 2.1% in 2022. Risks continued to be to the downside and sanctions are likely to be extended to the energy sector, also affecting the budget deficit. In 2024, we see a further rise in GDP, by 2.5%. The Central Bank of Russia (CBR) provided GDP forecasts at its last meeting of February of -1.0%/+1.0% for this year and 0.5%/+2.5% for 2024. GDP decreased by 2.1% in 2022, which was better than the Bank of Russia's February estimate. High-frequency data for the first quarter of 2023 show that economic activity continues to grow. Higher domestic demand is supporting an improvement in business sentiment, despite some deterioration in the external environment.

### Financial Markets

The CBR chose to maintain the key interest rate at 7.50% p.a. on 17 March 2023. While last month's decline in the headline inflation rate and expectations have alleviated the CBR's concerns, pro-inflation risks remain significant. Therefore, if pro-inflation risks intensify, the CBR will consider the necessity of key rate increases at its upcoming meetings. The balance of risks in the medium term has not changed significantly, remaining tilted towards pro-inflationary risks. The significant ones relate to geopolitical tensions affecting the terms of foreign trade. The increasing complexity of production and supply chains and payments due to external restrictions could lead to higher import prices and tighter supply-side constraints in the Russian economy. In addition, a deterioration in the global economic growth outlook may be an important factor for inflation in the short term, in a context of instability in the financial markets. In case of a further expansion of the budget deficit, pro-inflation risks will increase, and tighter monetary policy may be necessary to bring it back to the target in 2024 and keep it close to 4%.

### Banking Sector

Deposit and loan growth rates are expected to decelerate (from 10.9% and 11.8% in 2022 – data updated as of 24 March – to 6.5% and 7.2% in 2023, respectively, and remain negative in real terms). The CB is likely to cancel many regulatory easing measures and to tighten the regulation of mortgage lending because it has become a source of concern. Further prudential limits on consumer lending have recently been imposed to avoid over-indebtedness for households. Deposits jumped in December (from 1.5% yoy in November to 10.9%), mainly in the corporate sector (+17.2% yoy). The government may increasingly support financially the economic and the banking system even though monetary financing could have negative consequences for inflation and macro-financial stability. Furthermore, the CBR has established a procedure for depositories to return Russian securities that are recorded in their clients' accounts abroad.

### Forecasts

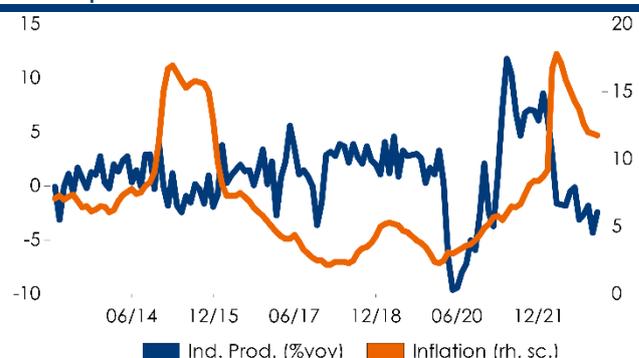
	2021	2022	2023F	2024F
Real GDP yoy	4.7	-2.1	0.2	2.5
CPI (eop)	8.4	11.9	6.5	4.5
USD exh. rate (value, eop)	73.7	65.7	85.0	90.0
Euro exh. rate (value, eop)	83.5	69.4	94.4	102.2
Short-term rate (eop)	9.5	8.4	9.2	7.1
L/T bond yields (eop)	8.4	9.9	8.0	7.7
Bank loans (pr. sector, yoy)	18.8	9.5	7.2	6.3
Bank deposits (pr. sector, yoy)	12.7	3.4	6.5	6.2
Lending int. rate (corp., eop)	9.0	9.4	9.1	7.6
Deposit int. rate (hh, eop)	5.1	5.3	5.4	3.9

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

Francesca Pascali

Davidia Zucchelli

### Industrial production and inflation



Source: State Statistics Federal Service

## Ukraine

### Real Economy

The Ukrainian economy continues to struggle given the ongoing war with Russia. Despite the fact that business and households have been demonstrating excellent levels of adaptivity, high security risks are still seen to limit economic activity in 2023, as hopes, which have hitherto been lingering for a ceasefire in mid-2023, now seem to be evaporating. Even though the Russian missile attacks on energy infrastructure and the consequent rolling power outages have somewhat moderated in February-March, the energy sector remains vulnerable, and the shortage of electricity is likely to have carryover effects well into 2024. The stability of the energy system remains the key prerequisite to avoiding a recession in the economy. The unemployment rate is seen to remain high, at 26.5% in 2023 and 20% in 2024. This comes amid the significant destruction of the means of production and the dramatic outmigration of educated and skilled professionals, which will likely constrain GDP growth to significantly below its potential over next couple of years. Reflecting these concerns, we have revised downward our GDP growth forecast from 3.5% to 0.3% in 2023, and from 4.8% to 4.1% in 2024. International financial aid will remain the key source for financing budget needs this year. Thus far, foreign creditors have committed to providing more than USD 30Bn this year, and additionally USD 15Bn is expected to be provided by the IMF.

Artem Krasovskiy

### Financial Markets

The NBU's monetary policy remains steady, with the key rate having been unchanged at 25% since summer 2022. In 2023, the NBU has conducted several rounds of mandatory reserve requirements tightening, as the weakness of monetary transmission owing to significant structural liquidity surplus has been weighing on the effectiveness of monetary tools. The USD/UAH rate remains in a fixed peg regime at 36.6, with the NBU remaining the only material provider of foreign currency supply to the market. However, fewer outages and a more stable power supply recently has contributed to a decrease in the import of fuel and other contingency goods, thus bringing some relief of pressure regarding the NBU's FX monetary reserves.

### Banking Sector

Ukraine's banking sector remains stable and over-liquid, notwithstanding either the ongoing war or potential spillover effects from recent global financial market uncertainty. Net assets increased by 8.6% over Q4 and by 17.9% over 2022, but mainly thanks to investments into NBU monetary tools, while lending activity to the private sector remains dormant. The share of non-performing loans increased to 38.1% at year-end, by 4.5pp over Q4, and by 8.1pp over 2022.

#### Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	3.4	-28.6	0.3	4.1
CPI (eop)	10.0	26.6	18.7	10.4
USD exch. (value, eop)	27.4	36.9	42.2	42.5
Euro exch. rate (value, eop)	30.8	38.7	46.9	48.3
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	4.5	4.6
Bank deposits (pr. sector, yoy)	12.3	25.1	5.8	5.6
Lending interest rate (corp., eop)	14.3	22.0	21.2	20.5
Deposit interest rate (hh, eop)	5.0	10.7	11.2	11.0

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

#### Industrial production and inflation



Source: State Statistics Service of Ukraine

## Egypt

### Real Economy

Real growth is expected to slow to 3.9% yoy in FY 2022/23 against 6.7% a year earlier, due to spillover effects from the crisis in Ukraine. Growth is expected to be led by service sectors, particularly the Suez Canal, tourism and telecommunications.

Expectations for inflation rates in 2023 have been upwardly revised to 30.5%, on average, for annual urban headline CPI, following its rise in February 2023, to 31.9% and 40.3% for headline and core CPI, respectively. This can be mainly explained by the consecutive depreciation of the EGP against major currencies and rises in fuel prices earlier this month.

### Financial Markets

Despite the 800bps rise in key interest rates during 2022, a further 200bps in hikes is expected in 1H22 to anchor inflation expectations and support the local currency's position. Similar moves are forecast for the MMR after the government raised its budget deficit target for FY 2022/23 to 6.8% of GDP (against an initial target of 6.1%) and the need to attract more portfolio investments to meet the country's high external needs, before cooling in 4Q23, when the tightening cycle in the US is expected to recede somewhat.

Regarding the FX situation, the EGP has lost nearly 50% of its value against the USD in the last 12 months. Further depreciation of its value is expected, as the parallel market is still active, negatively affecting inflows of remittances (one of Egypt's top sources of foreign currency). On the positive side, revenues from the Suez Canal and tourism are booming: the Canal is set to achieve all-time high revenues in 2023, at USD 8Bn, and tourist arrivals rose 46.2% yoy in 2022. Also, portfolio investments are recovering: foreign investments in EGP T-Bills amounted to USD 2.4Bn in January 2023. These developments led to a USD 1.2Bn increase in foreign reserves during the period between August 2022 and February 2023 (USD 34.35Bn). The World Bank has also pledged to provide the country with USD 7Bn over 2023-27. It's worth mentioning that the IMF has stated that preparations for the first review of Egypt's economic reform programme have begun and dates for the review mission will be announced when agreed with the authorities.

### Banking Sector

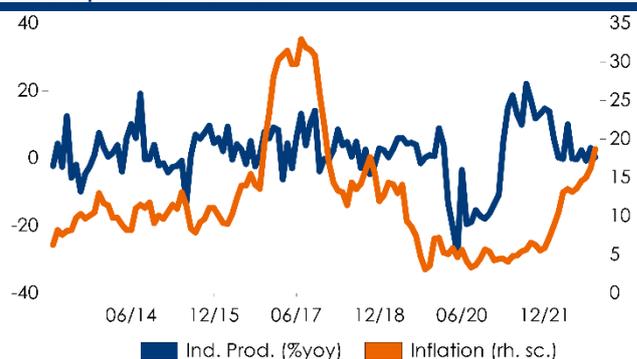
Annual growth of private loans is expected to decline to 10.3% in 2023, due to a projected slowdown in economic activity, higher interest rates, and the elimination of CBE initiatives to offer subsidised loans to the agriculture and industrial sectors. Private deposits are expected to follow the same trend after being inflated in 2022 due to the revaluation of foreign currency deposits.

#### Forecasts

	2021	2022	2023F	2024F
Real GDP yoy	7.2	4.3	4.1	5.5
CPI (eop)	5.9	21.3	33.0	15.0
USD exh. rate (value, eop)	15.7	24.7	32.0	31.0
Euro exh. rate (value, eop)	17.8	26.1	35.5	35.2
Short-term rate (eop)	11.9	18.1	20.5	15.0
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	18.3	28.8	10.3	10.2
Bank deposits (pr. sector, yoy)	18.7	27.4	11.0	10.9
Lending int. rate (corp., eop)	9.5	13.3	14.5	10.4
Deposit int. rate (hh, eop)	7.5	9.8	12.1	7.9

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 <sup>1</sup> . chg.yoy		Export nom. chg yoy		Retail sales chg yoy		Inflation chg yoy		Unemployment rate		Wages chg yoy		Economic Survey <sup>2</sup>	
	4Q22	3Q22	2021	Last	mth 4Q22	Last	mth 4Q22	Last	mth 4Q22	Last	mth 4Q22	Last	mth 4Q22	Last	mth 4Q22	Last	mth 4Q22
<b>CEE</b>																	
Czechia	0.1	1.5	3.4	-1.4	Jan 3.3	13.0	Jan 14.1	-6.5	Jan -9.6	16.7	Feb 15.7	3.9	Feb 3.6	11.9	Jan 9.8	92.0	Feb 83.3
Hungary	0.4	4.0	7.1	-0.2	Jan 2.8	15.0	Jan 8.0	-3.9	Jan -1.2	25.4	Feb 22.7	4.0	Jan 3.8	18.1	Dec 17.8	94.1	Feb 89.8
Poland	0.5	4.4	6.8	2.6	Jan 4.0	12.0	Jan 17.6	-0.3	Jan 0.8	18.4	Feb 17.3	5.5	Jan 5.1	13.5	Jan 12.4	89.8	Feb 90.0
Slovakia	1.1	1.4	3.0	-8.6	Jan -7.0	10.7	Jan 10.6	0.1	Jan -1.0	15.4	Feb 15.2	5.8	Jan 5.9	9.3	Jan 7.9	87.4	Feb 88.8
Slovenia	0.2	3.3	8.2	-4.9	Jan -5.0	31.1	Jan 25.3	19.4	Jan 5.3	9.4	Feb 10.6	5.6	Jan 5.4	6.2	Dec 7.6	95.8	Feb 97.5
<b>SEE</b>																	
Albania	n.a.	4.0	n.a.	n.a.	n.a.	2.8	Feb 17.2	n.a.	n.a.	7.1	Feb 7.9	n.a.	n.a.	10.8	n.a.	n.a.	n.a.
Bosnia H.	n.a.	2.6	7.1	-0.3	Jan -3.1	5.9	Jan 6.3	14.2	Jan 12.6	14.1	Jan 16.1	29.5	Dec 29.6	14.2	Dec 14.7	n.a.	n.a.
Croatia	4.0	5.2	13.1	-2.9	Jan -2.2	12.0	Dec 20.8	0.8	Jan -0.3	11.9	Feb 13.3	7.2	Jan 6.7	8.2	Dec 8.2	109.2	Feb 107.9
Romania	4.6	3.8	n.a.	-5.4	Jan -4.8	6.0	Jan 21.2	5.7	Jan 4.2	13.4	Feb 14.1	5.6	Jan 5.5	15.0	Jan 13.4	102.1	Dec 102.1
Serbia	0.4	1.0	7.5	4.1	Jan 0.7	21.1	Jan 19.4	1.8	Jan 2.0	16.1	Feb 15.1	n.a.	n.a.	n.a.	12.8	Dec 13.4	n.a.
<b>EE &amp; MENA</b>																	
Moldova	-10.6	-10.3	13.9	-13.9	Dec -11.5	0.4	Jan 1.8	-5.6	Dec -3.4	25.9	Feb 32.1	n.a.	n.a.	4.6	n.a.	n.a.	n.a.
Russia	-4.2	-3.7	4.7	-1.7	Feb -2.9	72.1	Jan n.a.	-7.8	Feb -9.4	11.0	Feb 12.2	3.5	Feb 3.8	0.6	Jan 14.3	52.6	Jan 53.0
Ukraine	-31.4	-30.8	3.4	-39.8	Sep n.a.	-35.2	Dec -33.7	-23.2	Sep n.a.	24.9	Feb 26.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Egypt	3.9	4.4	7.2	0.4	Nov 1.7	-2.7	Dec -10.0	n.a.	n.a.	n.a.	31.9	Feb 18.7	n.a.	n.a.	n.a.	n.a.	46.9
<b>m.i. E. A.</b>	1.9	2.1	5.3	0.9	Jan 2.0	9.1	Dec 14.8			8.5	Feb 10.0						

Source: Refinitiv; <sup>1</sup>Wda data for Slovakia, Slovenia; Bosnia, Croatia, Egypt; <sup>2</sup>PMI manufacturing for Russia and Egypt, ESI for remaining countries.

### Markets and Ratings

	S/T rates		L/T rates <sup>1</sup>		Foreign exchanges <sup>2</sup>			Stock markets		CDS spread (bp)		FX res. chg (mln €) <sup>3</sup>			CA bal. (mln €) <sup>4</sup>		Rating
	28/2	3M*	28/2	3M*	28/2	3M*	1Y*	3M*	1Y*	28/2	28/11	4Q22	3Q22	2021	4Q22	3Q22	
<b>CEE</b>																	
Czechia	7.2	-0.1	4.9	0.1	23.52	-3.34	-6.62	14.4	4.5	33.6	42.7	n.a.	n.a.	n.a.	-16,914	-13,486.4	Aa3
Hungary	16.3	1.0	8.5	0.1	379.90	-6.96	2.73	-1.8	2.4	152.4	201.4	n.a.	n.a.	n.a.	n.a.	n.a.	Baa2
Poland	7.6	-3.3	6.6	-0.2	4.72	0.72	0.56	8.0	-1.6	88.0	124.4	n.a.	n.a.	n.a.	n.a.	-18,834.0	A2
Slovakia	2.7	0.8	3.6	0.3	n.a.	n.a.	n.a.	-0.7	-16.0	35.6	47.7	n.a.	n.a.	n.a.	-8,719	-6,037.0	A2
Slovenia	2.7	0.8	3.8	0.6	n.a.	n.a.	n.a.	13.5	9.5	40.7	50.6	-72	66	932	-79	180.1	A3
<b>SEE</b>																	
Albania	2.5	n.a.	n.a.	n.a.	115.02	-0.90	-5.31	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	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.	-232	318	1,268	n.a.	-249.4	B3
Croatia	0.4	0.0	4.1	0.5	7.53	-0.12	-0.11	16.8	11.4	84.5	104.6	1,616	1,017	6,079	n.a.	4,127.5	Baa2
Romania	6.8	-0.9	7.9	-0.2	4.92	-0.09	-0.57	6.8	-3.2	214.4	276.1	n.a.	1,557	n.a.	-26,571	-20,181.0	Baa3
Serbia	5.5	1.0	n.a.	n.a.	117.29	-0.02	-0.30	10.6	10.1	233.4	244.6	2,914	1,726	2,963	-837	-404.3	Ba2
<b>EE &amp; MENA</b>																	
Moldova	17.0	-4.9	9.7	-10.0	18.88	-2.55	4.98	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	40.2	B3
Russia	24.7	0.0	11.0	0.9	104.07	0.00	24.57	-8.6	1.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	WR
Ukraine	12.8	0.0	30.0	4.0	36.75	-0.49	22.92	n.a.	n.a.	n.a.	n.a.	3,994	1,831	1,820	-514	5,570.0	Ca
Egypt	20.3	2.3	11.3	0.0	30.63	24.66	94.97	-1.4	39.1	1,036.5	845.7	805	-178	872	n.a.	-3,192.3	B3
<b>m.i.A.E.</b>	2.7	0.8	2.6	0.6	1.1	2.0	-5.6	4.8	5.0	7.14	10.57						

Source: Refinitiv; <sup>1</sup>For Ukraine, the long-term rate refers to a government issue in dollars; <sup>2</sup>The (-) sign indicates appreciation; <sup>3</sup>USD for Russia, Egypt, Ukraine, Romania; <sup>4</sup>USD for Russia, Egypt, Ukraine. (\*) % change.

### Banking aggregates and interest rates (private sector)

	Loans			NPL/Loans			Foreign Liab.			Deposits			Loans rate1-NewB*			DepositsRate1-NewB*			Loans/Dep				
	chg yoy %			%			chg yoy %			chg yoy %			%			%			%				
	Last	Mth	2021	Last	mth	2021	Last	mth	2021	Last	Mth	2021	Last	mth	2021	Last	mth	2021	Last	mth	2021		
<b>CEE</b>																							
Czechia	4.8	Jan	8.4	1.9	Jan	2.4	-3.3	Jan	-11.3	5.3	Jan	7.0	8.5	Jan	4.5	C	6.0	Jan	2.3	H	70.5	Jan	70.7
Hungary	13.6	Jan	12.7	2.5	Sep	2.2	39.1	Jan	6.7	3.8	Jan	17.6	12.4	Jan	4.5	C	12.4	Jan	1.5	H	81.1	Jan	71.9
Poland	0.1	Jan	4.6	2.6	Sep	4.5	16.3	Sep	-1.2	7.3	Jan	7.7	9.1	Jan	3.8	C	6.4	Jan	1.3	H	75.9	Jan	80.1
Slovakia	10.8	Dec	7.3	1.9	Dec	2.3	33.0	Dec	19.6	6.0	Dec	4.5	3.8	Dec	1.6	C <sup>2</sup>	0.0	Dec	0.0	H <sup>2</sup>	108.3	Dec	103.7
Slovenia	9.3	Jan	5.2	1.1	Dec	1.2	25.4	Jan	-7.8	7.7	Jan	8.2	3.4	Jan	1.9	C <sup>2</sup>	0.2	Jan	0.1	H <sup>2</sup>	65.3	Jan	63.1
<b>SEE</b>																							
Albania	6.8	Jan	9.6	5.1	Jan	5.7	-13.6	Jan	34.0	5.0	Jan	9.2	6.5	Dec	5.3	PS	2.5	Dec	0.4	PS	53.7	Jan	53.7
Bosnia H.	5.0	Jan	3.7	4.9	Sep	5.8	-9.0	Jan	-16.3	3.0	Jan	10.0	3.8	Jan	3.1	C	0.3	Jan	0.1	H	89.8	Jan	89.5
Croatia	11.2	Dec	2.3	3.3	Sep	4.3	25.3	Dec	-3.5	15.0	Dec	11.7	3.6	Dec	1.9	PS	0.7	Dec	0.1	PS	64.0	Dec	66.2
Romania	11.0	Jan	14.3	2.7	Jan	3.4	32.4	Jan	9.8	7.0	Jan	13.6	9.9	Jan	5.3	PS	6.4	Jan	1.9	PS	71.0	Jan	68.1
Serbia	5.5	Jan	10.2	3.0	Dec	3.5	17.3	Jan	9.9	5.6	Jan	13.3	10.5	Jan	5.5	PS	5.8	Jan	1.8	PS	90.3	Jan	90.1
<b>EE &amp; MENA</b>																							
Moldova	9.3	Dec	23.5	6.4	Dec	6.1	0.7	Jul	n.a.	5.4	Dec	13.1	12.9	Dec	8.5	C	11.4	Dec	3.2	H	64.9	Dec	62.6
Russia	9.5	Nov	18.8	n.a.	n.a.	n.a.	n.a.	n.a.	13.3	1.5	Nov	12.7	9.3	Nov	9.0	C	5.3	Nov	5.1	H	128.5	Nov	119.3
Ukraine	-4.4	Dec	9.6	38.1	Dec	30.0	-21.6	Dec	-5.8	25.1	Dec	12.3	22.0	Dec	14.3	PS	10.7	Dec	5.0	PS	55.2	Dec	72.2
Egypt	28.4	Dec	18.3	3.4	Dec	3.5	125.3	Jan	32.4	27.4	Dec	18.7	14.4	Jan	9.5	C	10.7	Jan	7.5	H	35.6	Dec	35.3
<b>m.i. E. A.</b>	4.32	Dec	3.3	n.a.	n.a.	n.a.	9.0	Dec	6.9	3.4	Dec	4.7	3.5	Jan	1.1	C	1.5	Jan	0.2	H	75.3	Dec	74.6

Source: Central Banks, IMF, Moody's; <sup>1</sup>monthly average; <sup>2</sup>lending rate on current account overdraft; on deposits up to 1 year.<sup>3</sup>Sector 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	2.5	Czech Rep.	3.2	3.9	15.1	10.6	2.6	
	Hungary	-5.1	7.1	4.6	0.2	3.1	Hungary	3.3	5.1	14.5	18.4	4.2	
	Poland	-2.7	6.9	5.0	0.8	2.7	Poland	3.4	5.1	14.3	13.5	3.6	
	Slovakia	-3.4	3.0	1.7	1.0	2.7	Slovakia	2.0	3.2	12.8	9.9	3.1	
	Slovenia	-4.3	8.2	5.4	0.9	2.7	Slovenia	-0.3	2.0	9.3	6.8	2.2	
SEE	Albania	-3.3	9.0	3.6	2.2	3.5	Albania	1.6	2.0	6.7	5.9	3.0	
	Bosnia Herzegovina	-3.3	7.1	3.6	1.0	2.6	Bosnia Herzegovina	-1.1	2.0	14.0	6.5	1.9	
	Croatia	-8.6	13.1	6.3	1.0	2.5	Croatia	0.1	2.6	10.7	6.7	1.9	
	Romania	-3.9	6.8	5.0	2.0	3.0	Romania	2.6	5.0	12.1	12.1	4.9	
	Serbia	-0.9	7.5	2.5	1.8	3.1	Serbia	1.6	4.0	11.9	12.6	4.1	
EE & MENA	Moldova	-8.3	13.9	-5.9	2.0	3.7	Moldova	3.8	5.1	28.6	4.4	6.4	
	Russia	-3.0	4.7	-2.1	0.2	2.5	Russia	3.4	6.7	13.8	9.2	5.5	
	Ukraine	-3.8	3.4	-30.0	0.3	4.1	Ukraine	2.7	9.3	20.1	22.5	14.6	
	Egypt	1.5	7.2	4.3	4.1	5.5	Egypt	5.1	5.2	13.8	28.3	24.0	

### 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	24.2	24.1	Czech Rep.	0.9	1.1	6.3	6.6	5.2	
	Hungary	351.1	358.7	391.1	386.6	384.3	Hungary	0.7	1.4	9.9	13.4	8.4	
	Poland	4.4	4.6	4.7	4.6	4.5	Poland	0.6	0.4	5.9	6.5	5.5	
	Slovakia	n.a.	n.a.	n.a.	n.a.	n.a.	Slovakia	-0.4	-0.5	0.3	3.6	3.9	
	Slovenia	n.a.	n.a.	n.a.	n.a.	n.a.	Slovenia	-0.4	-0.5	0.3	3.6	3.9	
SEE	Albania	123.4	122.3	118.9	118.1	121.0	Albania	0.5	0.5	1.4	3.0	3.3	
	Bosnia Herzegovina	2.0	2.0	2.0	2.0	2.0	Bosnia Herzegovina	n.a.	n.a.	n.a.	n.a.	n.a.	
	Croatia	7.5	7.5	7.5	Euro	Euro	Croatia	0.3	0.3	0.2	3.6	3.9	
	Romania	4.8	4.9	4.9	5.0	5.0	Romania	2.4	1.8	6.2	7.2	6.3	
	Serbia	117.6	117.6	117.5	117.5	117.8	Serbia	1.5	1.0	2.5	6.1	5.5	
EE & MENA	Moldova (USD)	17.3	17.7	18.8	18.9	18.6	Moldova	3.4	3.8	16.9	14.8	8.5	
	Russia (USD)	73.4	73.6	68.0	76.2	87.5	Russia	5.4	6.8	11.9	8.8	8.2	
	Ukraine (USD)	26.9	27.4	32.3	39.4	42.4	Ukraine	n.a.	n.a.	n.a.	n.a.	n.a.	
	Egypt (USD)	15.8	15.7	19.2	33.3	30.5	Egypt	13.1	12.7	14.5	18.5	17.0	

### 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	4.6	4.4	Czech Rep.	11.9	7.0	4.2	4.2	4.2	
	Hungary	13.4	12.7	11.6	1.5	5.3	Hungary	23.3	17.6	2.5	-0.5	4.4	
	Poland	0.4	4.6	0.2	3.6	4.7	Poland	12.8	7.7	5.6	3.4	4.8	
	Slovakia	4.5	7.3	10.8	4.4	4.7	Slovakia	6.3	4.5	6.0	4.4	4.0	
	Slovenia	-0.9	5.2	9.8	3.2	2.5	Slovenia	12.2	8.2	7.8	3.9	3.6	
SEE	Albania	7.0	9.6	6.9	4.1	3.7	Albania	8.1	9.2	4.8	3.8	3.6	
	Bosnia Herzegovina	-2.5	3.7	5.3	3.4	3.9	Bosnia Herzegovina	6.5	10.0	3.2	2.1	4.4	
	Croatia	3.5	2.3	11.2	3.2	2.5	Croatia	8.7	11.7	14.8	2.2	2.6	
	Romania	5.0	14.3	11.2	6.8	5.2	Romania	15.4	13.6	6.7	5.1	5.6	
	Serbia	11.1	10.2	6.4	5.3	5.2	Serbia	17.4	13.3	6.9	5.7	6.0	
EE & MENA	Moldova	13.1	23.5	9.3	4.0	4.3	Moldova	16.5	13.1	5.4	4.0	6.8	
	Russia	14.4	18.8	9.5	7.2	6.3	Russia	9.6	12.7	3.4	6.5	6.2	
	Ukraine	-2.8	9.6	-4.4	4.5	4.6	Ukraine	33.6	12.3	25.1	5.8	5.6	
	Egypt	24.5	18.3	28.8	10.3	10.2	Egypt	20.4	18.7	25.0	11.0	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	6.4	3.7	Czech Rep.	0.8	0.9	5.0	4.8	2.4	
	Hungary	2.8	3.2	8.3	9.8	6.2	Hungary	0.3	0.6	6.6	7.9	4.2	
	Poland	2.7	2.4	7.5	7.3	5.3	Poland	0.5	0.3	4.4	5.1	3.5	
	Slovakia	1.9	1.9	2.4	4.3	3.5	Slovakia	0.0	0.0	0.0	1.0	1.6	
	Slovenia	2.1	2.1	1.9	2.7	2.9	Slovenia	0.1	0.1	0.1	0.6	1.0	
SEE	Albania	6.2	6.1	6.4	8.0	8.8	Albania	0.5	0.4	1.2	2.6	2.5	
	Bosnia Herzegovina	2.8	3.0	3.2	0.5	0.5	Bosnia Herzegovina	0.3	0.2	0.3	0.5	0.5	
	Croatia	2.1	1.7	2.1	4.4	4.6	Croatia	0.1	0.1	0.1	0.5	1.3	
	Romania	6.2	5.6	8.0	9.5	8.6	Romania	1.9	1.3	5.3	5.7	4.1	
	Serbia	5.9	6.2	7.8	10.0	9.5	Serbia	1.6	1.4	4.0	6.2	5.3	
EE & MENA	Moldova	8.5	8.3	10.6	9.8	8.4	Moldova	4.1	3.2	7.0	6.9	4.2	
	Russia	6.8	7.2	11.5	9.2	8.3	Russia	3.8	3.8	7.6	5.3	4.5	
	Ukraine	14.3	13.3	18.6	21.5	20.7	Ukraine	6.1	4.6	7.4	11.1	11.1	
	Egypt	11.4	9.4	10.4	11.6	11.4	Egypt	7.8	7.4	8.4	9.3	8.9	

Source: Intesa Sanpaolo Research Department forecasts

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