

Economic and Banking Outlook

Viewpoint

The key points of our scenario show moderate economic growth and declines in both inflation and interest rates. In the short term, geopolitical tensions hinder global expansion, with a recovery at a measured pace in CEE, SEE, EE and Egypt. We expect the process of disinflation to continue and central banks to soften policies to stimulate economies amid diverse economic landscapes.

■ Macroeconomic scenario

□ Economic growth

Geopolitical tensions and increasing competition are expected to challenge global economic growth, potentially dampening overall potential for expansion. An anticipated rise in political and policy-making fragmentation could complicate global economic governance and stability. In this context, **the CEE, SEE, and EE regions, along with Egypt, are progressing towards economic recovery at a moderate pace**, with growth being fuelled by resilience in significant economies and targeted fiscal measures in China and the US. Despite this, growth rates remain below historical averages, hindered by high policy rates aimed at controlling inflation and fiscal policies aimed at limiting public deficits. Egypt, navigating similar challenges, seeks to balance growth with structural reforms and external financial support.

□ Inflation

The process of disinflation is projected to continue throughout the year. Inflationary pressures in the CEE, SEE and EE regions are showing signs of subsiding but remain above target levels, particularly in areas with pronounced wage growth. In specific countries such as Russia and Egypt, inflation has recently resurged. Both countries anticipate a slow alignment with central bank targets, indicating enduring inflationary challenges despite the general easing trend.

□ Monetary policies

Consistent with global trends, central banks in the CEE, SEE and EE regions are gradually adopting more accommodating monetary policies as inflation pressures decline. This includes lowering policy rates to bolster economic growth, with approaches varying by country based on distinct economic conditions and inflationary forecasts. Egypt is similarly adjusting its monetary stance, balancing between stimulating growth and controlling inflation, reflecting its unique economic conditions and goals.

■ Banking aggregates

□ Loans

Economic resilience and sector-specific developments drive divergent loan growth trends across regions. The CEE's lending deceleration, influenced by past economic slowdowns and regulatory tightening, contrasts sharply with the SEE's accelerated corporate lending, buoyed by economic improvements. Similarly, vigorous expansion in the EE area, especially Russia, and strong loan dynamics in Egypt—albeit with inflation considerations—illustrate varied lending environments. These dynamics are shaped by regulatory changes, such as Slovakia's increased capital buffers, and economic vitality, highlighting the complexity of regional lending landscapes.

□ Deposits

A universal surge in deposits across all regions, motivated by precautionary saving amid economic uncertainties, reveals a shared trend towards safeguarding assets. This pronounced increase in the CEE and SEE areas underscores a collective response to safeguarding assets against an unpredictable economic backdrop. The EE's robust deposit growth further underscores a deep-seated savings culture, echoed by Egypt's significant deposit accumulation. These patterns reflect universal trust in the banking sector as a reliable repository for assets, spurred by economic uncertainties and a collective search for financial security.

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Countries with ISP subsidiaries

Quarterly Note

Research Department

International Research Network

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

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

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

Recent developments

On a quarterly basis, the GDP of the CEE area in 4Q23 increased by 0.1% qoq (weighted average), vs 0.6% growth in the previous quarter, bringing the year-on-year growth rate to 1.0% (from 0.3% yoy in the previous quarter). Based on the peculiarity of each country in the region, and within a rather wide range, a positive economic performance was evident in Poland (1.5%), Slovakia (1.3%) and Slovenia (2.0%), while in Hungary Q4 was stagnant and in the Czech Republic the GDP dynamic remained in negative territory (-0.2%), albeit on a recovery path. Despite the still weak external landscape, the higher contribution to annual GDP growth has been provided by foreign net demand, followed by public consumption, and while they were still negative, the contributions from private consumption and gross capital formation. **In 4Q23, among the countries in the SEE area, only data relating to Croatia (4.3% yoy), Romania (1.0% yoy) and Serbia (3.8%) are currently available.**

The latest releases of high-frequency economic indicators are mixed, but generally point to a positive, although still weak, cyclical phase in the coming quarters. In December, in the CEE area, **industrial production** contracted by 4.0% yoy from -1.4% yoy in the previous month (on a weighted average basis [w.a.]) and the **real retail sales** trend remained negative (-2.2% in January), albeit slightly better than the previous six months' average (-2.3%). In December, **nominal export** dynamics remained negative (about -10% yoy) due to slowing prices. A similar figure was observed in the SEE region, where industrial production contracted further in December (-4.9% yoy), but real retail sales grew by 2.4% yoy. In February, the **Economic Sentiment indicator** improved in the CEE region with respect to 4Q23 (to 98 from 95.8) and remained around 85 in the SEE area.

Although there are differences in each country, **inflationary pressures** are declining in the CEE and SEE regions, as is the core component, thanks to favourable base effects and due to both tighter monetary policy and lower international commodity prices. Aggregating the data (w.a.), in January in the CEE area, harmonized inflation was still high but decreased to 4.0% (from the peak of 18.5% in February 2023), and in the SEE area in December it declined to 6.8% (vs the peak of 15.3% in December 2022).

At the most recent meetings, the central banks of Hungary and the Czech Republic reduced their **policy rates** to 9.0% and 6.25%, respectively, while the Polish national bank held its rate steady at 5.75%. In their last meetings, the central banks of Albania, Romania and Serbia kept their policy rates at 3.25%, 7.0% and 6.5%, respectively. In the financial markets, **long-term yields** decreased in all CEE countries vs. three months ago and spreads narrowed vs. 10Y Bund yields. Due to geopolitical tensions relating to the conflicts in Ukraine and the Middle East, and concerns about the economic implications, particularly for those countries more exposed to energy imports, national currencies depreciated slightly with respect to the previous three months in the Czech Republic and Hungary, while the zloty recovered from its earlier depreciation.

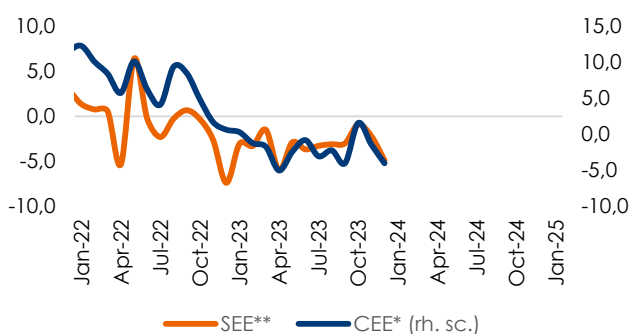
Antonio Pesce, Francesca Pascali, Davidia Zucchelli

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

Consumer prices are decelerating, and the core component is cooling too

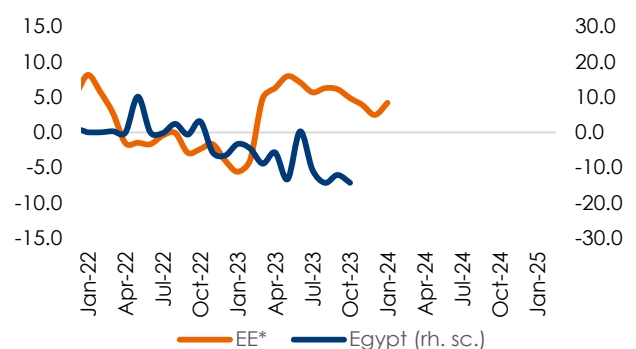
Czech Rep. and Hungary's CBs eased monetary policy further. Temporary pauses for monetary easing in the remaining countries

Industrial production % yoy – CEE/SEE



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

Industrial production % yoy – EE/Egypt



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

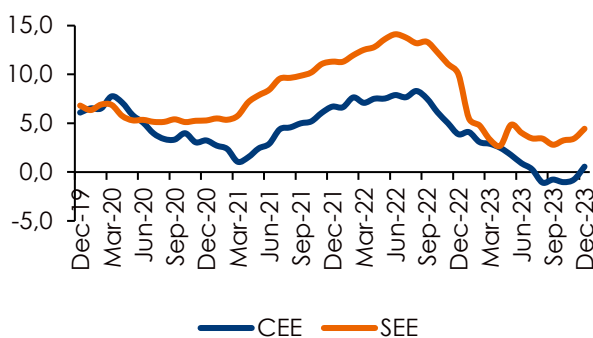
Outside the CEE/SEE regions, **EE countries** continued to grow despite the pitfalls arising from geopolitical tensions. In 3Q23, **GDP** increased by 5.5% yoy (from 4.9% in 2Q23) in **Russia**, and it increased by 9.3% yoy in 3Q23 (from +19.5% in 2Q23) in **Ukraine**; it grew in 3Q23 by 3.4% (from -2.2% in 2Q23) in **Moldova**. In **Egypt**, GDP grew by 2.7% yoy in 3Q23 (2.9% in 2Q23). Moving to high-frequency indicators, in January, **industrial production** grew (by 4.6% yoy) in Russia (from 2.7% in December), Moldova (+1.1% in December), and in Ukraine (+11.8% in September 2023). In Egypt, it decreased by 14.3% in November vs a decrease of 12.1% in October. In December, **retail sales** increased in Russia by 10.2% (vs +10.5% in November), and in September they grew by 14.9% in Ukraine (vs +19.3% in August). In Russia, **consumer prices** decelerated from April 2022 to May 2023, but from July, they began to rise again (7.7% in February 2024), up to the CB targets (4.0%). In February, prices rose in Ukraine to 4.3% (vs 4.7%). In Moldova, in January the CPI was 4.6% vs 4.2% in December. In Egypt, inflation rose by 29.8% in January, down from the +33.7% of December, which was well above the upper end of the CB's corridor ($7 \pm 2\%$).

With regard to **banking aggregates**, **lending growth** was supported in December by the macroeconomic context improving slightly and declining interest rates. Loans increased by 0.6% yoy vs -0.8% yoy in November in **CEE countries** and accelerated from 4.5% yoy to 5.5% yoy in **SEE countries**. The loan performance was the result of a still significant decrease in Poland (-2.5% yoy improving from -4% yoy in November), which was lower than our forecast (0.5%). In the Czech Republic, loans also accelerated, from 4.7% yoy in November to 6.5% yoy in December, and in Hungary from 1.7% yoy to 3.3% yoy. Slovakia and Slovenia showed a surprising deceleration (from 4.3% to 3.4% yoy and from -0.2% to -0.5% yoy, respectively). Loans to the private sector accelerated further in all SEE countries but especially in Albania and Serbia, which increased by 3.7% yoy and 1% yoy respectively. **Corporate loans improved** (+0.6% yoy in the area, from -1.7% yoy in November) particularly in Hungary (strengthening from 1.1% yoy to 4% yoy, despite increasing interest rates), mainly in marginal sectors, while Real Estate and Manufacturing declined by 1.2% yoy and 3.3% yoy respectively in 2023. In SEE countries, corporate lending accelerated from 6.1% yoy in November to 7.8% yoy in December, mainly in Romania (10.3%). **NPL ratios** have remained low everywhere so far, but the still-fragile economic context could put pressure on asset quality in the near future. There are no signs of liquidity tensions in general. Only in Slovakia did the **loan/deposit ratio** remain over 100%. Precautionary motives continued to support **deposit growth** in both the CEE (+7.8% yoy from 7% in November) and SEE (from 10.3% to 10.8% in the same period) areas, in nominal terms. **Banking interest rates** decreased in all countries (with the exception of Bosnia). In the **EE area**, loan growth remained strong in Russia (26.7% yoy in November), for both corporates (27.8% yoy) and households, where loan growth accelerated from 23.8% in November to 24.3% in December. In Moldova, the loan performance (+3.7% yoy in December) was robust for corporates (0.6% yoy) and moderate for the household sector (8.8% yoy, decelerating from the strong previous performance). Total deposit growth from the private sector remained vigorous (from 32% yoy in October to 30.7% in November in Russia), in both the corporate (+27.8% yoy) and the household sector (+24.3% yoy). In **Egypt**, banking aggregates saw continued strong dynamics in nominal terms, with loans increasing by 26.6% yoy and deposits by 30.7% in November (but changes were in negative territory in real terms).

In the EE region, inflation rose in Russia and fell in Moldova, Ukraine and Egypt

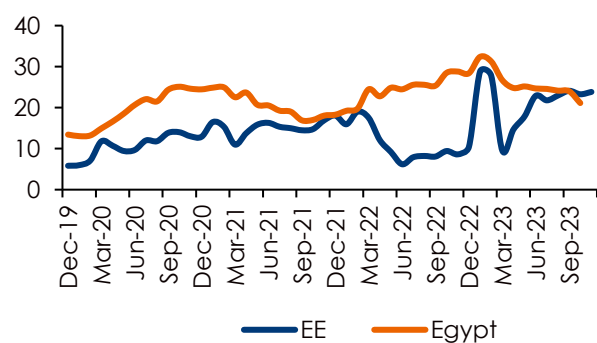
Bank loans in positive territory as of December

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 (estimated at 3.1% in 2023) is expected to remain at 3.1% in 2024 and then increase slightly to 3.2% in 2025 (World Economic Outlook, WEO January 2024), with forecasts for 2024 higher than those in the October 2023 WEO (by 0.2 percentage points) thanks to stronger than expected resilience in the US and several large emerging market and developing economies, as well as fiscal support in China. The forecast for 2024-2025 is, however, lower than the historical average (2000-2019, 3.8%) due to both high policy rates by central banks, as a consequence of previous monetary policy restrictions to fight inflation, and the withdrawal of fiscal support amid high public debt. Inflation is falling more quickly than expected in most regions, against a backdrop of resolving supply-side issues and tight monetary policy. Global headline inflation is expected to fall to 5.8% in 2024 and 4.4% in 2025 (January 2024 WEO), with the forecast for 2025 revised downwards. With disinflation and steady growth, **the risks to global growth** are broadly balanced. On the positive side, faster disinflation could lead to further easing of financial conditions, and less restrictive fiscal policy than assumed in the projections could imply temporarily higher growth. On the downside, new increases in commodity prices due to geopolitical shocks – including continued attacks in the Red Sea – and supply interruption in the global value chain, or more persistent underlying inflation could lead to tight monetary conditions for a longer period than expected. Strong tax increases and significant cuts in public spending, as well as worsening difficulties in the real estate sector in China, could also undermine economic growth.

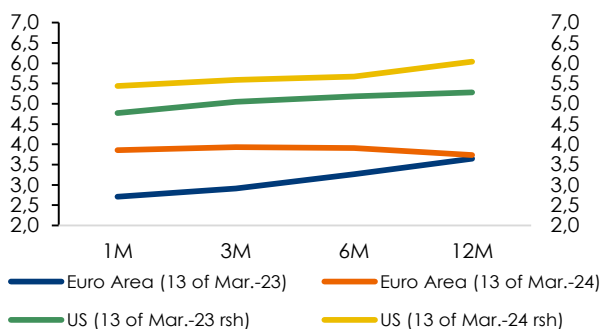
Regarding the **US**, the GDP dynamic is expected to decelerate from 2.5% in 2023 to 2.3% this year, upwardly revised from 1.5% in the Intesa Sanpaolo (ISP) December scenario, and then to 1.8% in 2025. The annual inflation rate in the US fell back to 3.1% in January 2024 following a brief increase to 3.4% in December. The Federal Reserve kept the fed funds rate unchanged at a 23-year high of 5.25%-5.5% for a fourth consecutive meeting in January 2024. The ISP Research Department expects the policy rate to fall to 4.75% by end-2024.

In the **Euro Area**, despite expansionary fiscal policies implemented through the PNRRs at national levels, ISP foresees full-year GDP growth slowing from 0.5% in 2023 to 0.4% in 2024 and then accelerating to 1.3% in 2025 (downwardly revised from 1.5% in the December scenario). The war in Ukraine and tighter monetary policy are weighing heavily on the economic dynamic. The inflation rate in the Euro Area declined to 2.6% year-on-year in February 2024, down from 2.8% in the previous month. It is expected to remain roughly stable in the coming months, and the end-of-period level is projected to be 2.7% in 2024. The European Central Bank maintained its interest rates at historically high levels at its March meeting (4.5%). At ISP, we expect the policy rate to reach 3.75% by eop in 2024.

Among **emerging countries**, China's GDP growth has been confirmed with respect to the December scenario at 4.9% in 2023 and 5.1% in 2024. For the Emerging and Developing Economies, economic performance is expected to remain relatively robust (about 4.1% in WEO projections for 2024-25) and also in this case with risks which are broadly balanced.

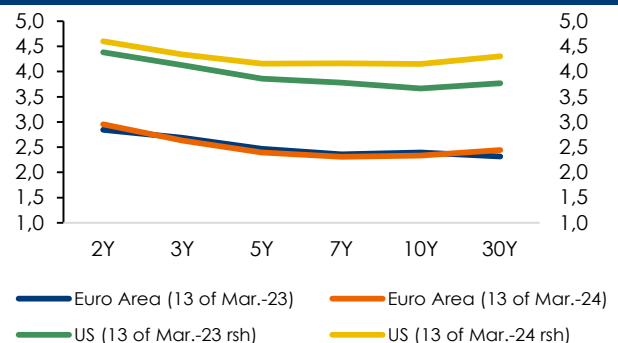
Global economic growth still looks fragile, albeit on a recovery path

Benchmark monetary rates (US and EA rates)



Source: ISP elaboration on Refinitiv-Datastream data

Yield curves (US bonds and German Bunds)



Source: ISP elaboration on Refinitiv-Datastream data

The economic outlook

Growth and inflation

Looking ahead, we expect **GDP in the CEE and SEE areas** to continue recovering in the coming months, albeit at a relatively modest rate due to the previous monetary restrictions implemented by policy authorities, which are weighing on the financing conditions of economic agents.

The December 2023 baseline scenario projected GDP growth for the CEE area at 2.4% yoy in 2024, and this was confirmed in the March update. The GDP dynamic in the SEE area has been upwardly revised (to 2.7% from 2.3%) thanks to stronger-than-expected data in Croatia and Romania. The forecasts for the following year have been confirmed for both the CEE and SEE regions (at 2.7% and 3.2%, respectively).

The prevailing **risks to the outlook** are broadly balanced. On one hand, inflation could be more persistent than expected given the wars in Ukraine and the Middle East could escalate, and tighter global financing conditions could hamper economic recovery. On the other, without additional frictions in the international landscape, the base effects could lead to stronger than expected disinflation and therefore further easing of financial conditions.

Inflation is projected to decline, even if remaining above central banks' targets in most cases in both the CEE and SEE regions – particularly in those countries where wage dynamics have strengthened significantly. The end-of-period inflation forecasts for 2024 have been confirmed (at 3.1% in the CEE area and at 4.3% in the SEE area) and are expected to move closer to CB targets in the following year.

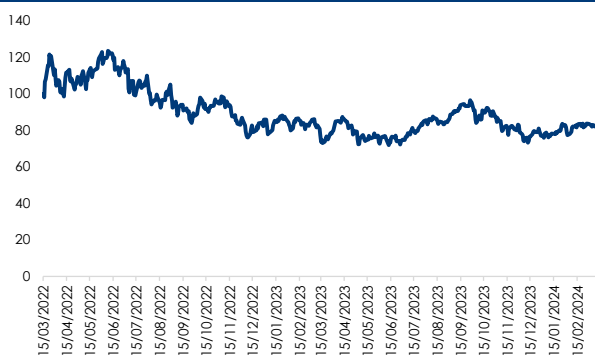
Due to better-than-expected data, GDP growth forecasts for the **EE** region have been revised upwards. For Russia, it was raised to +3.6% in 2023 from +3.0% projected in December; we have left 2024 numbers unchanged. For Ukraine, estimates were raised to +6.6% from +5.3% in 2023 and unchanged at +4.5% in 2024. Estimates are lowered for 2023 only for Moldova (+0.7 from +2.1%). Price pressures are expected to grow in Ukraine and Moldova. In Russia, where inflation began to accelerate again from June 2023, it is expected to reach the CB's targets in 2026. For **Egypt**, we lowered our GDP growth estimate to 3.1% from 3.4% in December for calendar year 2023 and we left it unchanged at 3.9% for 2024. Inflation is expected to fall to 23.1% by year-end 2024, and to 15.0% in 2025. It is not expected to move back to the CB's target before 2028.

GDP forecasts for 2024 have been confirmed on a recovery path, even if still weak

Risks to our forecasts continue to be to the downside

Inflationary pressures are expected to continue declining, but to remain above CB targets in the coming months in most CEE and SEE countries

ICE-BRENT CRUDE OIL (Barrels \$)



Source: Refinitiv-Datastream

ICE-NATURAL GAS (Therm £)



Source: Refinitiv-Datastream

Monetary policy and financial markets

At its meeting in September 2023, the Board of the National Bank of Poland began to ease monetary policy, followed by the Hungarian National Bank, which started monetary easing in October and the Czech Republic in December. As inflationary pressures are declining, in our baseline scenario, reductions in policy rates should continue in the coming months. In **Hungary**, where the policy rate is currently 9.0%, we expect to see 5.75% at year-end 2024. In **Poland**, we

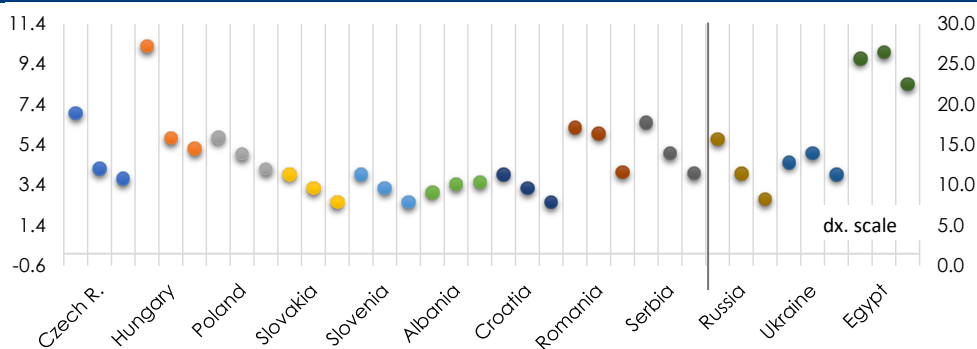
The policy rate decreasing cycle is expected to continue

expect the policy rate to decline to 5.0% eop in 2024. **Czech Republic's** national bank is expected to cut the rate to 4.0% by year-end. In **Romania**, the policy rate is expected to reach 5.5% by year-end 2024. For **Albania**, we expect the policy rates to remain at 3.25% through end-2024. For **Serbia**, the projections are 5.0% and 4.0% at year-end 2024 and 2025, as in the December scenario. Money market rate projections have been revised accordingly.

Outside the CEE/SEE regions, due to a new phase of large-scale structural transformation of the Russian economy, **Russia's CB**, after six policy rate increases, left the policy rate in February unchanged at 16%. The central bank anticipated its tightening cycle last year and is now adopting a very restrictive monetary stance (with the policy rate much higher than current and expected inflation). For 2024, we raised our estimates for the CBR's key rates from the December forecast in relation to the high level of inflation and structural budget deficit. We also raised them for 2025 and 2026. In **Moldova**, the central bank lowered refinancing rate in November to 4.75% from 6% and in February 2024 to 4.25% due to the declining trend of inflation. In **Ukraine**, the CB decided to reduce the key interest rate from 15% to 14.5% as of 15 March 2024. The further decline in inflation, stable currency market conditions and positive developments in the external assistance outlook make an early resumption of the interest rate policy easing cycle possible. In **Egypt**, after the rise of 200 basis points at its meeting on 1 February, the CB at its extraordinary meeting on 6 March, in line with the continuation of the central bank's restrictive stance, decided to raise key interest rates by 600 basis points to 28.25%. The CBE emphasises that the anchoring of inflation expectations is crucial and justifies this response to bring the real interest rate into positive territory. Also, the elimination of the parallel foreign exchange market should dampen inflationary expectations, contain underlying inflation and, as a result, overall inflation should follow a path of steady deceleration in the medium term. However, upside risks to the expected inflation path include regional geopolitical tensions, expected volatility in international commodity markets and the state of global financial conditions.

The profiles for **long-term yields** have been revised slightly downwards overall along the forecast horizon with respect to our December scenario in the CEE/SEE region, due to the forecast lower path for Bund yields. In **FX markets**, exchange rates are expected to move around the current values in the CEE/SEE area overall in 2024 and 2025.

Short-term interest rates 2022-24 (% end of period, ISP forecast)



Source: ISP Research Department forecasts

Banking aggregates and interest rates

Forecasts for banking aggregates have been revised slightly by ISP for many countries for 2024, mainly because of recent monthly performances which have been worse than expected in the CEE area but better than expected in the SEE countries. Specifically, **stronger lending** data for December and the economic context explain the revisions to our lending estimates for 2024, particularly regarding the SEE countries. In contrast, **deposit forecasts** have been revised slightly upwards in 2023 but downward in the CEE area and upward in the SEE area and in the EE countries in 2024 and substantially confirmed for the following years. On the assets side, banks are benefiting from low ratios of non-performing loans and high regulatory capital. **Funding tensions**

Lending decelerated in 2023 but is still expected to recover in 2024

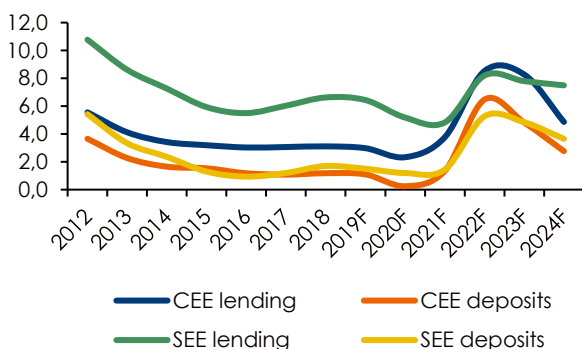
can increase in some countries, mainly in Slovakia and Russia, where LTD ratios are very high. In general, however, banks can rely on granular and stable funding bases and conservative liquidity buffers to weather heightened volatility risks. They may count on broad bases of core, sticky domestic deposits and have a moderate reliance on market-sensitive institutional or external funding. Furthermore, **loan/deposit ratios** are generally low. However, revisions to policy rates and moderately higher NPLs and provisions could have negative impacts on interest margins and profitability.

After rising in both CEE and SEE countries (by 0.6% and 5.5%, respectively) in 2023, **loan growth** is forecast to increase in 2024 by 3.9% in the former and 4.8% in the latter. Among CEE countries, the loan recovery in Poland (from -2.5% to 4.3% in 2024) will drive the area average. In the SEE area, Romania is expected to stabilise and Croatia is expected to slow (to 4.3% yoy in 2024). Lending will be negatively affected by higher interest rates in real terms, due to decreasing inflation. Furthermore, demand for credit could be affected by falls in real disposable incomes (slowing consumer lending). NPLs are expected to rise, as indicated by current Stage 2 exposures (source: EBA), specifically where the increase in real interest rates – and the associated rise in private sector debt servicing costs – has been particularly sharp.

In the CEE area, weaker performance in 2023 resulted in a revision to 2024, but lending has been revised downward further in Poland (from 4.9% forecast in December to 4.3% in 2024), after being particularly weak in the last two years. In Slovakia, the tightening of the countercyclical capital buffer from 1% to 1.5% (from August) is expected to weigh on lending. In Hungary, a better-than-expected performance in 2023 is not seen as sufficient to support an upward revision for loans in 2024 (+1.9%). The new economic landscape will also affect lending in **the SEE countries** (4.8%, revised upward, because of Romania's recovery, in 2024). Croatia had been the best performer in the area in 2023 (8%), but decreasing to 4.3% in 2024.

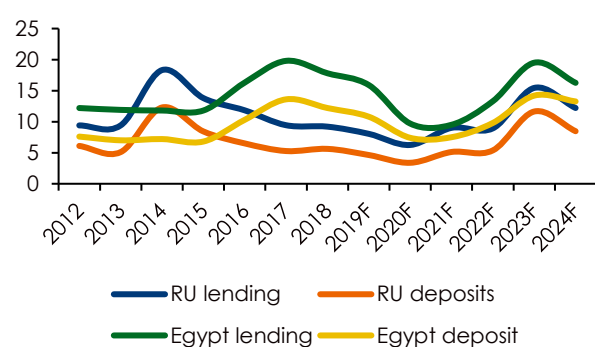
In the EE area, lending accelerated in 2023 to 26.2% in Russia (by +4pp vs the December forecast), and is therefore revised to 8.2% in 2024. Further prudential limits on consumer lending have recently been imposed to avoid over-indebtedness for households. **Deposit forecasts** have been revised upward in both the CEE (from 7.8% in 2023, thanks to a better-than-expected performance in Hungary to 3.6% in 2024) and the SEE (from 10.8% to 6.7% in 2024) countries. On the other hand, uncertainties about the economy and the evolution of the war could support deposit growth, due to prudence. In Russia, deposits are forecast to rise strongly from 29.1% in 2023 and then by 8.1% in 2024. In **Egypt**, loans and deposits are expected to decelerate from 21.5% and 18.5%, respectively, in nominal terms in 2023 to 13.2% and 15.2% in 2024 (strongly revised upwards because of the pound's depreciation).

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 remains broadly unchanged from the December scenario, with predictions of a relatively strong recovery in 2024 after the recession in 2023. The decline of GDP in 2023 proved to be deeper than foreseen, at -0.5% in real terms vs. the -0.3% expected in December, and the risks to 2024 also appear tilted to the downside. This is due primarily to external demand, which remains rather sluggish, especially in the Czech Republic's key trading partner, Germany, which is plagued by an ongoing manufacturing recession.

Growth in 2024 will be led by household consumption, on the back of recovering purchasing power. Inflation has fallen sharply, from more than 17% a year ago to 2% in February. Even if wage growth in 2024 halves compared to 2023 to 4.8%, as we forecast, real wage growth will still be positive and contribute to improving consumer confidence. Government consumption, meanwhile, will grow at a subdued pace in real terms, reflecting fiscal consolidation efforts. In investments, we foresee some recovery in private capex spending thanks to the easing of financial conditions.

Financial Markets

The decline in inflation to 2.0% yoy in February was right on the CNB's target, yet some 0.8bps lower than predicted in the central bank's latest macro forecast. The faster-than-predicted disinflation was a result of both regulated prices and core inflation. The decline in the latter is especially important and leads us to believe that the CNB will lower its policy rate faster than previously expected. As a result, we now see the key refi rate at the end of 2024 at 4.00%, down from 6.75% at end-2023. Bond yields are also expected to be lower-than-previously-expected by end-2024. Besides the more aggressive policy easing expected from the CNB, this is also due to global sentiment, which has supported the demand for bonds. The koruna has taken a beating compared with other currencies in recent times. However, we believe the current koruna weakening will be a temporary phenomenon and, as the ECB also starts lowering policy rates later this year, the Czech currency will gradually recover to previous levels.

Banking Sector

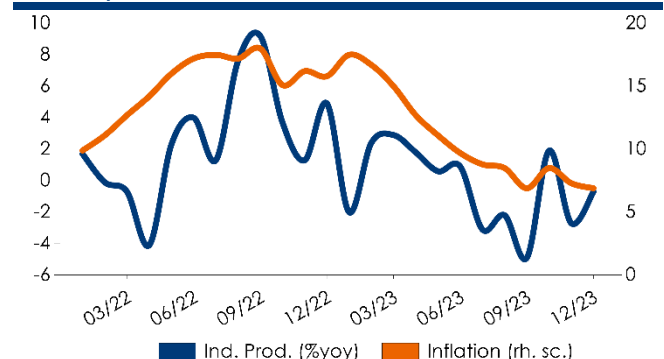
2023 volumes were a bit stronger than previously forecast, especially deposits, reflecting the very high saving rate of Czech households. In 2024 and beyond, we nonetheless maintain our previous forecasts for the growth in banking volumes, with healthy levels set to keep the loan-to-deposit ratio at a comfortable level of 70-71%. We note that the CNB has announced a lowering of the counter-cyclical capital buffer from April 1 as it hopes to encourage more lending.

Forecasts

	2022	2023	2024F	2025F
Real GDP yoy	2.4	-0.5	2.1	2.4
CPI (eop)	15.8	6.9	2.0	2.0
Euro exch. rate (value, eop)	24.3	24.5	24.4	24.0
Short-term rate (eop)	7.3	7.0	4.2	3.7
L/T bond yields (eop)	4.8	4.0	4.0	4.2
Bank loans (pr. sector, yoy)	4.5	6.5	4.3	4.3
Bank deposits (pr. sector, yoy)	4.2	7.5	4.1	4.1
Lending int. rate (corp., eop)	9.0	8.2	4.4	3.3
Deposit int. rate (hh, eop)	6.0	5.7	2.9	1.9

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

Industrial production and inflation



Source: Czech Statistical Office

Hungary

Real Economy

The economy stagnated on both a quarterly and annual basis in 4Q23, with GDP shrinking by 0.7% in 2023 as a whole. The monthly data releases for January confirmed that there were no signs of a significant pick-up in the economy in early 2024 either. In addition to industry and exports, retail sales were also weak in the first month of the year. The bleak external demand environment and the weak consumption recovery suggest that the economy will regain momentum only gradually. Hence, we revise down our 2024 GDP projection from 2.7% to 2.5%. Inflation continued falling in early 2024, with headline CPI dropping below 4% in January and February. The disinflation trend, however, is expected to stall in March, and due to the unsupportive base effect, yoy CPI will climb to more than 5% by December. We anticipate an average 2024 CPI of 4.3%. The labour market is likely to remain stable, and the unemployment rate could retreat from January's 4.6% level as the economy gains momentum. Hungary's external balances are expected to be stable, but fiscal risks are increasing. The government has already raised the deficit/GDP target from 2.9% to 4.5%.

Mariann Trippon

Financial Markets

The central bank continued its cautious easing cycle and cut the base rate to 10% in January and then to 9% in February. The NBH will continue to pursue a prudent, cautious, data-driven monetary policy. Based on incoming data and with a particular focus on financial stability, it will decide on the size of interest rate cuts on a meeting-by-meeting basis. The policy rate may fall to 6.5-7% by mid-year and even to 5.75% by December. The HUF has underperformed its regional peers since the beginning of the year: disappointing macro releases, the weakening interest rate differential, EU-related tensions and uncertainties surrounding the growth and fiscal outlook are weighing on the forint. Looking ahead, we expect the FX rate to stabilise, but a meaningful appreciation is not on the cards. Despite the fragility of the HUF, long yields remained stable, and spreads over the Bund have not widened meaningfully. The long-end segment of the curve is likely to remain driven by global developments.

Banking Sector

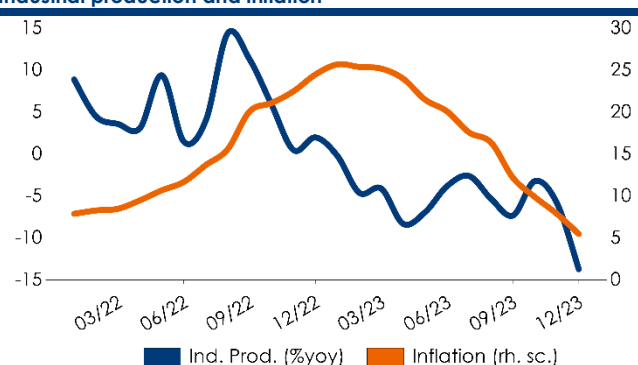
Bank deposits started to increase again in the second half of 2023, and the growth rate as of December 2023 was -0.8% compared to year-end 2022. Corporate savings increased by 5.1%, while the erosion of household deposits continued (-5.6% compared to December 2022). On the lending side, there was an increase of 3.5% during the year. In the corporate lending market, the demand for government-supported loans offset the negative impact of high market interest rates and the collapse of private investments, showing a growth rate of 4.0%. Household lending demand weakened due to the decline in housing market transactions and high interest rates, however still increased by 2.3%. With subdued economic growth, loan volumes could grow by about 2%, but we expect stagnation for deposits.

Forecasts

	2022	2023	2024F	2025F
Real GDP yoy	4.6	-0.7	2.5	3.1
CPI (eop)	24.5	5.5	5.2	3.4
Euro exch. rate (value, eop)	407.2	381.8	386.3	383.5
Short-term rate (eop)	16.1	10.3	5.8	5.2
L/T bond yields (eop)	8.6	6.2	5.7	5.7
Bank loans (pr. sector, yoy)	11.6	3.3	1.9	5.2
Bank deposits (pr. sector, yoy)	2.5	0.3	0.0	4.3
Lending int. rate (corp., eop)	11.5	12.4	5.0	4.3
Deposit int. rate (hhs, eop)	12.3	7.7	3.0	2.3

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

Industrial production and inflation



Source: Hungarian Central Statistical Office

Poland

Real Economy

The Polish economy had a weaker-than-anticipated last quarter of 2023, which leads us to revise full-year growth for the past year by 20bps. The outlook for 2024 nonetheless remains broadly intact, with real GDP forecast to increase by 2.7%. The key to the recovery from the near-stagnation of 2023 is consumer demand, which will benefit from slowing inflation and hefty wage increases. Indeed, inflation decelerated sharply to 3.9% in January, from 6.2% in December and the peak of 18.4% in February 2023. Wages, meanwhile, are forecast to post average growth of 7.4%, spurred by a 20% increase in the minimum wage.

Investments will be shaped by two opposing factors. On the downside, at least in the beginning of the year, there will be the payback of EU-funded projects following the rush to spend the funds from the previous programming period late last year and the slow start to the new programme. On the upside, there is the chance to step up investment activity related to the RRP and RePowerEU projects thanks to the unlocking of this funding from the EU institutions under the new Polish government. On exports, we continue to expect these to struggle due to weak external demand, especially from Germany, which is plagued by an ongoing manufacturing recession.

Financial Markets

The National Bank of Poland (NBP) pre-empted the prospective decline in inflation with an early policy adjustment of 100bps in the Autumn of 2023. Since then, the NBP has held rates steady at 5.75%, arguing that inflation risks will persist, especially in the second half of 2024, when current inflation shields on energy and food will expire and coincide with bold wage demands. As a result of the recent hawkish stance of NBP president Adam Glapinski, we expect less aggressive policy easing, with end-2024 policy rate of 5.00%, rather than the 4.50% forecast previously.

In terms of the currency outlook, we maintain our previous view, projecting a broadly stable zloty, at about 4.50 vs. the euro. We see yields falling lower than in December due to the developments in core markets.

Banking Sector

In the banking market, we expect loan volume growth to recover in 2024 as the economy starts recovering and the recent easing of financial conditions passes through to borrowers. Deposits, after surprising on the upside in 2023, are likely to return to the previously established pace of growth, with even higher expectations in terms of loan growth. The loan-to-deposit ratio of the Polish banking sector is thus expected to remain at about the recent and very comfortable level of 67%.

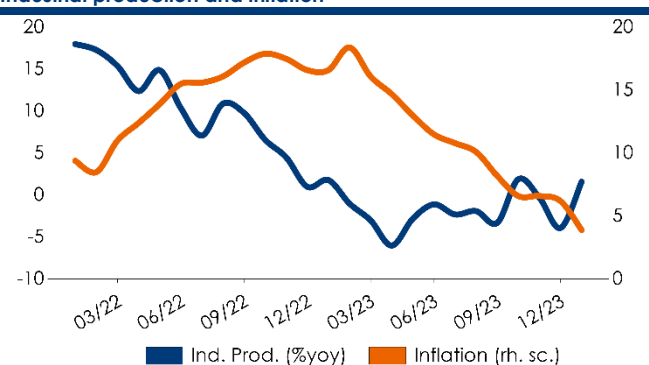
Forecasts

	2022	2023	2024F	2025F
Real GDP yoy	4.9	0.1	2.7	2.8
CPI (eop)	16.6	6.2	3.0	2.5
Euro exch. rate (value, eop)	4.7	4.3	4.5	4.5
Short-term rate (eop)	7.0	5.8	5.0	4.2
L/T bond yields (eop)	6.6	5.2	5.1	5.3
Bank loans (pr. sector, yoy)	0.2	-2.5	4.3	4.7
Bank deposits (pr. sector, yoy)	5.6	10.5	4.2	5.0
Lending int. rate (corp., eop)	8.7	7.8	5.4	4.1
Deposit int. rate (hh, eop)	6.5	4.6	3.1	2.3

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

Zdenko Štefanides

Industrial production and inflation



Source: Statistics Poland

Slovakia

Real Economy

Despite the global challenges, especially the weak German export market and geopolitical tensions, the Slovak economy could reaccelerate in 2024 and 2025. Domestic demand could take the forefront in driving growth in GDP, as real wages are now growing very fast and fiscal policy is still very accommodative. Economic sentiment in the country has improved, particularly among consumers and in services, which again points to the strength of domestic demand. However, public investment is expected to be a drag on growth due to the base effect of a strong 2023, and higher interest rates could also have a negative impact on growth.

The labour market should therefore remain very tight, with unemployment remaining close to all-time lows and wages growing faster than labour productivity, at least in the near future. However, this means continuing labour shortages in many industries, increasing the pull factor for foreign workers. Partly due to the strong wage growth, the inflation rate may remain elevated above 3% this year and higher than the euro area average even in 2025-6, when the regulated price of energy is expected to be aligned upwards, in line with the market prices of gas and electricity.

Financial Markets

The ECB should soon start its rate-cutting cycle, most likely at its June meeting. This would mean that the key short-term rate in the euro area could decrease by December by 75bps, and also by about the same amount next year. However, long-term bond yields could show a mixed development: we expect a fall during the rest of the year, but growth again next year, driven by benchmark German yields. The Slovak government, now rated one of the riskiest in the monetary union, will finally have to show some real fiscal consolidation to appease the markets and rating agencies, but we do not expect this sooner than the budget in 2025. Therefore, there is still a risk of a local rating downgrade and a further spread increase.

Banking Sector

There has been some visible resurgence in the Slovak real estate market, which could help the important mortgage business of local banks, but we do not expect any resurrection of the previously strong pandemic and post-pandemic boom. In addition, consumer loans are now growing swiftly, which could bring total loan growth close to a nominal GDP increase of about 4-5%. After the resurgence in real wage growth, household bank deposits have started to increase again, which could help the very high L/D ratio to moderate slightly. A hefty additional bank tax levied from 2024 will decrease the local sector's net profitability, albeit by a decreasing amount as the rate is set to decrease in 2025-2027.

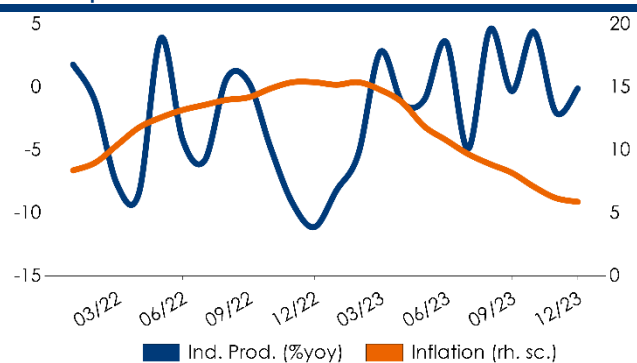
Forecasts

	2022	2023	2024F	2025F
Real GDP yoy	1.7	1.1	1.7	2.6
CPI (eop)	15.4	5.9	3.0	3.0
Short-term rate (eop)	2.1	3.9	3.3	2.6
L/T bond yields (eop)	3.2	3.3	3.3	4.2
Bank loans (pr. sector, yoy)	10.4	3.4	4.6	4.6
Bank deposits (pr. sector, yoy)	5.9	4.6	5.1	4.9
Lending int. rate (corp., eop)	3.8	5.8	2.8	2.6
Deposit int. rate (hh, eop)	0.0	1.3	1.0	0.9

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 in the final quarter of last year surprised on the upside, amounting to 2.2% yoy (+1.1% qoq). Private consumption on an annual level increased by 1.2%, supported by the growth of consumer lending, rising consumer optimism and a strong labour market. Public consumption accelerated markedly to 4.8%, owing to measures to mitigate the impact of floods and energy price rises. Investments continued to moderate, rising by 9.1%, while the contribution of net exports remained positive as the drop in imports (4.0%) exceeded the decline in exports (2.3%). Overall, in 2023 GDP increased by 1.6% yoy (private consumption +1.3%, public consumption +2.4%, investments +9.5%, exports -2.0% and imports -5.1%), a bit more than our 1.3% yoy estimate. Data from the beginning of the year points to a favourable trend, with exports in January up by 8.3% yoy, industrial production up by 12.2% yoy and manufacturing up by 13.9% yoy. Our assessment of the (export) order book, however, points to a more negative performance from industry, which deteriorated again in February. The labour market remains tight, with the number of employed persons reaching an all-time high at end-23. In 2024, we see GDP growth accelerating to 2.3% yoy, thanks to stronger private and public consumption and healthy investments, underpinned by the renovation process and export growth, amid the gradual recovery in the economic performance of the country's major trading partners.

Ana Lokin

The inflation rate in February stood at 3.4% yoy, unchanged compared to the previous month, with annual food price growth slowing to 1.7%, utilities accelerating to 4.4%, transport and recreation and culture stagnant, at 0.2% and 3.0% yoy, respectively, but restaurant and hotel prices accelerating by 6.0%. We trim our 2024 projection of average inflation to 2.9% yoy, while maintaining our end-of-year estimate at 2.0% yoy.

Financial Markets

The YTD average 10Y government bond spread on the Bund has fallen to 80bps, and we see the average for 2024 at about 80bps. The YTD average yield amounts to 3.0%, with the average in 2024 predicted at 3.1%.

Banking Sector

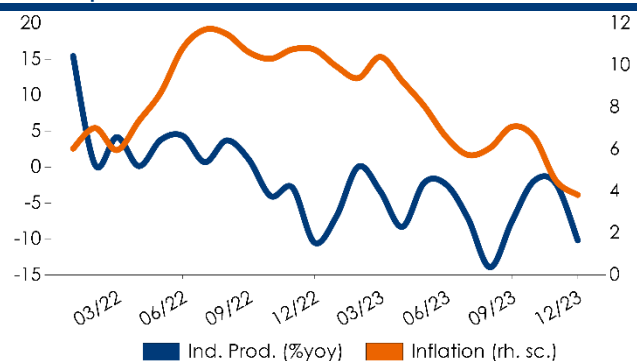
The pace of the loan decrease accelerated to -1.4% yoy in January, as the fall in corporate loans widened to -7.2% yoy, despite household loans increasing by 3.8% yoy. The latter was driven by the strength in consumer lending, despite subdued demand for housing loans. We expect that corporate loans will pick up slightly later this year, while household credit demand is seen gradually decelerating during the course of the year, hence loan growth is expected to reach +1.6% yoy. Deposits slowed to +4.7% yoy in January due to the slowing rise in household deposits, which are expected to decelerate further following the issue of the first government retail bond in February (citizens purchased EUR 258M). Deposits in 2024 are expected to rise by 2.5% yoy.

Forecasts

	2022	2023	2024F	2025F
Real GDP yoy	2.5	1.6	2.3	2.7
CPI (eop)	10.8	3.8	2.0	2.0
Short-term rate (eop)	2.1	3.9	3.3	2.6
L/T bond yields (eop)	3.3	3.0	3.0	3.9
Bank loans (pr. sector, yoy)	9.8	-0.5	1.6	2.6
Bank deposits (pr. sector, yoy)	7.8	5.1	2.5	2.6
Lending int. rate (corp., eop)	3.0	5.6	3.9	2.6
Deposit int. rate (hhs, eop)	0.2	1.3	0.9	0.7

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

Industrial production and inflation



Source: Statistical Office of the Republic of Slovenia

Albania

Real Economy

Despite the strong impact of the wars on the global economy, which has resulted in an increase in prices and uncertainty about credit and commercial activity, in 2023 the Albanian economy saw positive growth. GDP growth in 2023 is expected to be 3.5%. This increase is mainly due to the increase in domestic consumption, foreign investments and the excellent performance of the tourism sector. The inflation rate at the end of 2023 had almost halved compared to the beginning of the year. In January 2024, CPI was 3.4%, compared with 7.2% last January. The level of unemployment had dropped to historically low levels. In 4Q23, unemployment reached 10.7%, which was even lower than the pre-pandemic period. During 2023, as a result of tourism, for the first time in history Albania recorded a current account surplus. In terms of growth, 2024 is expected to be slightly lower than last year, but still positive. However, the reduction of the labour force, the decrease in productivity and global geopolitical uncertainties pose challenges and growing risks for the economy.

Kledi Gjordeni

Financial Markets

The base interest rate from the central bank remains unchanged at 3.25%. However, the CB remains cautious of downside risks and shocks to the economy, and is considering the balance between economic growth and price reductions. According to the CB, CPI should reach its 3% target by the last quarter of the year. Compared to a year earlier, the exchange rate of the lek against the euro has appreciated by almost 10%. However, for several months now the exchange rate has stabilised at the level of EUR/lek 104.

Banking Sector

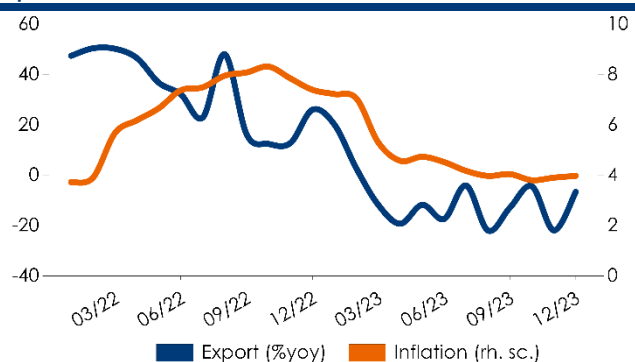
According to the central bank, private lending in 2023 increased by 10%. This increase was mostly due to the expansion of mortgage loans. In December 2023, the total private loan portfolio grew by 3.75% yoy. Household loans increased by 9.03% and corporate loans by 0.73%. In the same period, total private deposits increased by 1.64%. Total household deposits were down by 0.74%, while business credit expanded by 9.94%. Non-performing loans increased by 4.74% in December.

Forecasts

	2022	2023	2024F	2025F
Real GDP yoy	4.8	3.6	3.3	3.3
CPI (eop)	7.4	4.0	3.8	3.0
Euro exch. rate (value, eop)	114.9	103.9	110.0	121.5
Short-term rate (eop)	2.5	3.0	3.5	3.6
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	6.9	3.7	3.7	3.6
Bank deposits (pr. sector, yoy)	4.8	1.6	3.6	3.5
Lending int. rate (pr. sec., eop)	6.5	5.6	8.4	8.2
Deposit int. rate (pr. sec., eop)	2.5	2.3	2.2	1.9

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

Export and inflation



Source: National Statistical Institute

Bosnia and Herzegovina

Real Economy

Data for the Republic of Srpska entity (accounting for roughly one-third of the national economy), released ahead of the national 4Q23 GDP release scheduled for April 1, indicated a slowdown in qoq GDP growth, to 0.6% from 0.8% in 3Q23. On a yoy basis, growth strengthened to +2.4% in 4Q23 (vs. +2.1% in 3Q23). When considered alongside the available high frequency data for the larger BH Federation entity, which points to similar trends, we expect FY23 GDP growth to wrap up at about +1.7% yoy.

Ivana Jović

Country-level data for the current year is still very scarce, relating only to foreign trade and inflation for January. More precisely, merchandise exports registered a 16.4% yoy decline in January, thus continuing an 11-month negative run that had commenced in March 2023. As at the same time, imports increased by 3.2% yoy and the overall trade deficit increased to EUR 376Mn, from EUR 226Mn a year earlier, lowering export/import coverage to 61.4% from 75.9%. As expected, the start of this year began on a weak foot in terms of foreign demand, prompting us to keep our FY24 estimated growth unchanged at 2.2% until some more data becomes available.

January data indicated that following two consecutive months of monthly decline, inflation picked up by 0.2% mom, mainly fuelled by the pick-up in food prices, hospitality services and other goods and services. At an annual level, however, inflation eased to 2%. Looking forward, we expect average FY24 inflation of about 3%, reflecting the spillover of the recent 20% hike in electricity prices for legal entities.

An important milestone has been achieved on the political front, as on March 12 the European Commission finally recommended the European Council open accession negotiations with Bosnia and Herzegovina. BiH was granted candidacy status in December 2022.

Banking Sector

Loans continued to accelerate, rising by 7.5% yoy in January, with both corporate and household loans gaining pace. Corporate loans expanded by 7.3% yoy and household loans by 7.6% yoy (consumer and housing loans were both up by 8.0%). Our scenario envisages loan growth moderating this year to +4.1% yoy, amid higher rates and the base effect. Deposits continued on an upbeat trend, coming in at +10.3% yoy in January (corporate +10.9%, households +10.0%), against a backdrop of rising wages, steady remittances and disinflation. We expect the deposit rise to soften to +5.8% yoy in 2024.

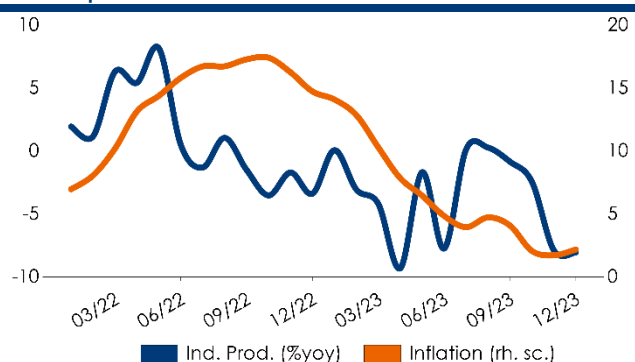
Ana Lokin

Forecasts

	2022	2023	2024F	2025F
Real GDP yoy	3.8	1.7	2.2	3.0
CPI (eop)	14.7	2.2	3.0	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)	5.3	6.9	4.1	3.8
Bank deposits (pr. sector, yoy)	3.2	10.1	5.8	4.2
Lending int. rate (corp., eop)	4.0	3.9	n.a.	n.a.
Deposit int. rate (hh, eop)	0.5	0.6	n.a.	n.a.

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

Industrial production and inflation



Source: Agency for statistics of Bosnia and Herzegovina

Croatia

Real Economy

4Q23 brought a noticeable acceleration in growth. According to the flash estimate, GDP increased by 1.3% qoq, while on an annual level, after an average of +2.4% during the first three quarters, the growth rate peaked at +4.3%. This left overall FY23 growth at +2.8%. The growth acceleration in last year's final quarter was primarily due to noticeably stronger private consumption, which, after the growth of 3% recorded in 3Q23, shifted into higher gear, recording an increase of 5.3% yoy. This trend was also replicated in retail trade turnover, real wages, tourist spending and the labour market. A positive contribution to growth came also from investments, which recorded an increase of 6.0%, identical to the increase recorded in Q323, which we attribute to the increased absorption of EU funds. Considering the export of goods and services in the period recorded a decrease of 4.4%, and imports fell by 7.1%, net foreign demand contributed positively to headline growth. Overall, the total annual growth of GDP in 2023 of 2.8% represented a slowdown compared to the 6.3% recorded in 2022, but given the environment of still above-average high inflation, the Eurozone teetering on the brink of recession and pronounced geopolitical uncertainties, this represents a more-than-solid result that puts Croatia at the very top of the EU in terms of GDP growth. In terms of expectations for this year, the noticeable carry-over effect will be further enhanced by the continuation of private consumption growth, driven by the noticeable growth of public sector wages, as well as minimum wages and pension adjustments, accompanied by a tight labour market and confirmed by January's +7.9% yoy retail trade volume. Supportive investments and government spending could push the annual GDP growth rate to about 3% and if there is a faster recovery of the export markets, growth may even go above that.

Ivana Jović

Financial Markets

In the first two months of the year, the average 10Y government bond yield stood at 3.3%, while the average spread on the Bund reached 100bps. In 2024, the average yield is forecasted to stay at 3.3% and the average spread to remain at about 100bps.

Ana Lokin

Banking Sector

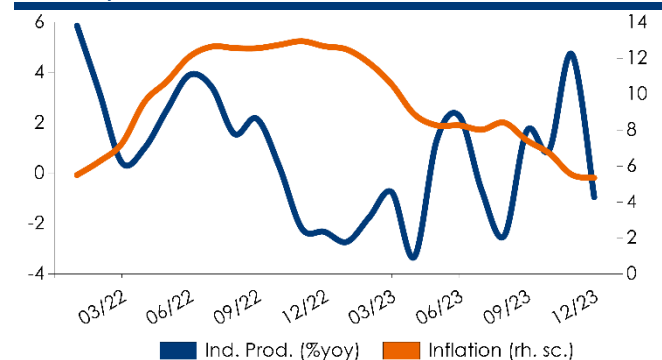
Loans eased to 7.3% yoy in January as corporate lending slowed, particularly to large companies. However, household loans accelerated, supported by the rise in consumer optimism. The March scenario envisages loans increasing by 4.3% yoy in 2024, as both corporate and household credit demand softens amid higher financing costs and lower inflationary pressures. January saw deposits expand by 3.8% yoy, though household deposits rose by a mere 1.8% yoy. The latter are set to slow further by the end of Q124 as citizens purchased EUR 0.9Bn in T-bills in February and the MoF plans to issue a retail bond in March. In 2024, we see private sector deposit growth at a modest 2.0% yoy.

Forecasts

	2022	2023	2024F	2025F
Real GDP yoy	6.3	2.8	3.0	2.8
CPI (eop)	12.7	5.4	2.5	2.0
Euro exh. rate (value, eop)	n.a.	n.a.	n.a.	n.a.
Short-term rate (eop)	0.2	3.9	3.3	2.6
L/T bond yields (eop)	3.5	3.3	3.2	4.0
Bank loans (pr. sector, yoy)	11.2	8.0	4.3	2.7
Bank deposits (pr. sector, yoy)	15.0	3.5	2.0	2.8
Lending int. rate (pr. sec., eop)	3.6	5.2	5.0	4.2
Deposit int. rate (pr. sec., eop)	0.7	3.1	2.6	1.5

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

Industrial production and inflation



Source: Croatia Bureau of Statistics

Romania

Real Economy

2023 GDP growth ended at 2.1% yoy, slightly higher than the 2.0% announced in early February, with a 0.5% qoq decrease in 4Q23. Positive contributions came from all areas, except industry, which made a -0.5% contribution.

Yoy CPI at the end of February was 7.23%, slightly below the NBR projection for the month. Harmonised yoy CPI at the end of February decreased to 7.1%. According to the NBR's latest projection, inflation is expected to grow in the first quarter of 2024.

Unemployment remained stable at the beginning of this year, at 5.7% at the end of January. Wages had increased by 15.5% yoy at the end of 2023.

The budget deficit for 2023 was announced as 5.68% of GDP, significantly higher than the previous year and above the level of the Fiscal Consolidation Plan, which projected a deficit at the end of 2023 below 4.4% of GDP. The deviation in 2023 creates significant threats for the economic evolution of 2024, due to further expected fiscal tightening measures. The IMF estimates a deficit of about 6% of GDP without further fiscal measures and economic growth of about 2.3% of GDP. 2024 started with a very high deficit in January of -0.45%.

The current account deficit at the end of 2023 was EUR 22.69Bn, EUR 4.5Bn lower than the 2022 deficit. This improvement was linked to high inflation and its impact on retail sales.

Financial Markets

At the February 2024 Monetary Policy Meeting, the NBR kept unchanged monetary policy rates (deposit, Lombard and reference rate) as follows: deposit facility rate 6.00%, reference rate 7.00% and credit facility rate 8.00%. No changes are expected at the next meeting. The NBR governor said he anticipated entering into an easing cycle only after two consecutive months of a deceleration of inflation.

The EUR/RON exchange rate was stable. The exchange rate is used as a monetary policy instrument.

Banking Sector

In 2023, the growth of loans and deposits was 12.89%, with a strong component in RON (20.8%), while EUR deposits decreased by 1.92%. On the loans side, overall growth was 5.93%, with a strong performance from companies (+10.3%), while household loans decelerated to +1.4%.

Forecasts

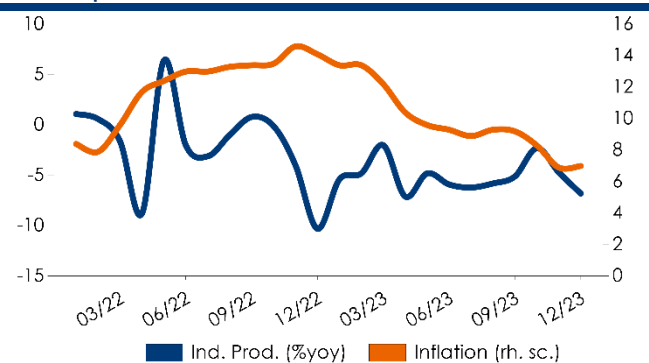
	2022	2023	2024F	2025F
Real GDP yoy	5.0	1.6	2.5	3.3
CPI (eop)	14.1	7.0	5.0	3.5
Euro exch. rate (value, eop)	4.9	5.0	5.0	5.1
Short-term rate (eop)	7.7	6.3	6.0	4.0
L/T bond yields (eop)	7.9	6.6	6.4	6.4
Bank loans (pr. sector, yoy)	11.2	5.9	5.6	6.0
Bank deposits (pr. sector, yoy)	6.7	12.9	8.1	7.1
Lending int. rate (pr. sec., eop)	9.7	8.6	8.3	7.5
Deposit int. rate (pr. sec., eop)	6.7	5.6	4.1	2.9

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

Marius Pacurari

Marius Pacurari

Industrial production and inflation



Source: National Institute of Statistics

Serbia

Real Economy

Real GDP growth accelerated further to +3.8% yoy in 4Q23, bringing full year growth to +2.5% yoy. By expenditure aggregates, GDP growth in 4Q23 was driven by stronger personal consumption (+1.7pp), government consumption (+0.9pp) and investments (+1.4pp). The NBS expects real GDP to accelerate to 3-4% in 2024, led by domestic demand. It expects higher private consumption to come as a result of the continuing employment and wage growth, while investment activity will be backed by numerous infrastructure projects. We see 2024 GDP growth at 3.1% yoy, supported by the further recovery in real incomes due to the inflation slowdown, as well as the continuation of strong construction activity.

In addition, 2023 was marked by record high FDI inflows for a second year in a row, the lowest ever CAD/GDP ratio and the highest level of NBS gross FX reserves, building a strong foundation for a future country rating improvement.

In January, annual inflation stood at 6.4%, having declined by 1.2pp from December, marking the 10th consecutive decline in headline inflation. On a monthly basis, prices recorded growth of 0.3%, up from a 0.1% increase in December. The NBS expects annual inflation to continue declining, returning within the target band (3%±1.5pp) by mid-2024, while approaching the 3% target midpoint by the end of the year. We project average inflation at 4.4% and eop inflation at 3.2% in 2024.

Financial Markets

At its meeting in March, the NBS decided not to change the key policy rate, leaving it at 6.5% for the eight consecutive month. Considering the projected return of inflation within target limits, as well as the anticipated timing of the first rate cuts by major central banks, the beginning of a gradual reference rate reduction could be expected from mid-2024, bringing the key policy rate to 5.0% at the end of 2024. The EUR/RSD rate remained stable, trading at about 117.2 in January. The NBS sold EUR 45M net in January, with ample FX reserves to preserve the dinar's stability (gross FX reserves EUR 25Bn at end-January 2024).

Banking Sector

Credit activity recorded modest growth of 1.0% yoy in 2023, while new lending to the private sector fell by 2.1% yoy in 2023, influenced by the slowdown in both the corporate and retail segments. This result reflected the combined effects of monetary tightening, the high base from the previous year and tightened bank lending standards. Deposit dynamics were more favourable, as 2023 saw growth of 11.7% yoy in total private sector deposits, with corporate deposits remaining the driver of growth at +14.0% yoy. Retail deposits also experienced double-digit growth, rising by 10.1% yoy. The NPL ratio remained well below its pre-crisis level (3.2% at end-2023).

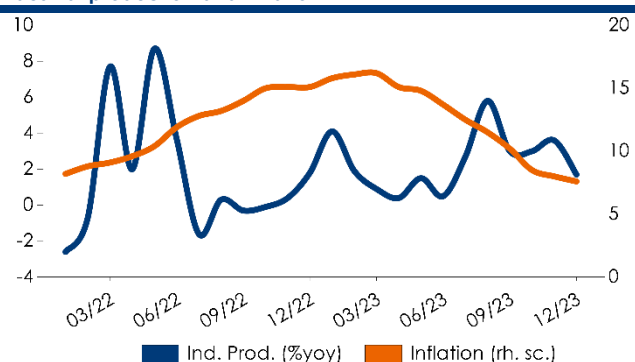
Forecasts

	2022	2023	2024F	2025F
Real GDP yoy	2.5	2.5	3.1	3.5
CPI (eop)	15.1	7.6	3.2	3.0
Euro exch. rate (value, eop)	117.3	117.2	117.3	117.5
Short-term rate (eop)	5.0	6.5	5.0	4.0
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	6.4	1.0	2.0	5.2
Bank deposits (pr. sector, yoy)	6.9	11.7	6.1	5.9
Lending int. rate (pr. sec., eop)	10.0	10.5	9.1	8.6
Deposit int. rate (pr. sec., eop)	6.2	5.7	4.7	3.8

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

Economic growth resumed in 3Q23, leading to Moldova's GDP reaching MDL 80.5Bn, an increase in real terms of 2.6%, or MDL 3.2Bn compared with 3Q22 and of 14.5% vs. 2Q23. Sharp disinflation helped household consumption recover, but investment is still lagging. A good harvest in 2023 had a positive impact on incomes, exports and food production in the short run, but the country's vulnerability to weather conditions remains a permanent challenge. In the medium term, growth will depend on inflation dynamics, energy security and the ongoing Russian invasion of Ukraine. Nonetheless, the outlook for economic growth is positive in the upcoming years. GDP growth is predicted to gradually rebound in 4Q23, reaching a 0.7% yoy positive evolution in 2023, fully recovering in 2024. The annual inflation rate in Moldova decelerated to 4.31% in February 2024, from 4.55% the previous month.

Financial Markets

The NBM continues to ease monetary policy, aiming to stimulate aggregate demand, by encouraging consumption, balancing the national economy and anchoring inflation expectations. Thus, during 2024, the policy rate has decreased, falling to 4.25% as of March, a 50bps drop compared with December 2023. The 91-, 182- and 364-day T-Bills yields had decreased by 0.79pp, 1.53pp and 1.654pp, respectively, as of March 2024 vs. end-December 2023, in line with the inflation trajectory and expectations. For longer-maturity government bonds, yields also saw a sharp downward movement compared with December levels.

Banking Sector

In January 2024, the volume of private loans in the economy expanded by 3.6% yoy, driven by the double-digit growth rate of individual loans (10.5%), which counteracted the 0.6% contraction in the stock of corporate loans. A deceleration in the growth of deposits was recorded in January 2024, with the stock increasing by 19% yoy (vs. 19.9% in December 2023) due to the 30.3% and 12.1% yoy increases in corporate and household deposit volumes. A deceleration is expected for loans and deposits this year, but an acceleration in the following years. Hence, loans are expected to grow by 3.3% yoy by 2024 year-end, with average growth of 4.5% in the following years. The growth of deposits in 2024 is expected to be 6.8%, with the same trend expected to be maintained, on average, in the following years. Lending and deposit interest rates are expected to decrease in the following years given the relaxing monetary measures foreseen by the national bank.

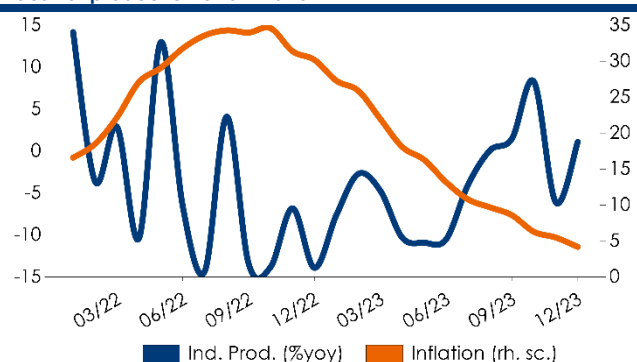
Forecasts

	2022	2023	2024F	2025F
Real GDP yoy	-5.1	0.7	4.1	4.0
CPI (eop)	30.2	4.2	5.6	4.1
USD exch. rate (value, eop)	19.5	17.8	17.7	18.2
Euro exch. rate (value, eop)	20.5	19.2	19.8	20.7
Short-term rate (eop)	20.0	4.8	4.0	3.8
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	9.3	3.7	3.3	4.4
Bank deposits (pr. sector, yoy)	5.4	19.9	6.8	7.4
Lending int. rate (corp., eop)	12.9	9.3	6.6	6.3
Deposit int. rate (hh, eop)	11.4	5.4	3.1	2.3

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

Caraman Doina

Industrial production and inflation



Source: National Bureau of Statistics of the Republic of Moldova

Russia

Real Economy

Russian GDP grew by 5.5% yoy in 3Q23 (+4.9% in 2Q23). Considering this sign of recovery, and in line with the forecast of the central bank, we raise our estimate for 2023 GDP growth to 3.6% yoy. Given the rising inflationary pressures, this suggests that domestic demand is still considerably higher than the country's capacity for expanding the production of goods and services. At the same time, the increasing propensity of households to save, the deceleration of growth in consumer activity and the cooling of import demand are helping to put the economy back on a balanced growth path. This process is set to continue. Labour shortages are still the main obstacle to the expansion of the production of goods and services. Flash data, including the results of short-term surveys, show that the labour market remains tight although this tightness has stopped increasing in some sectors.

Financial Markets

On 16 February 2024, the Bank of Russia (CBR) decided to keep the key interest rate unchanged at 16.0% p.a. Current inflationary pressures have eased compared to the autumn months but remain high. Domestic demand continues to exceed the capacity for expansion in the production of goods and services. Any judgement on the sustainable nature of emerging disinflationary trends would be premature. Monetary policy is set to consolidate the ongoing disinflationary processes in the domestic economy. In terms of the exchange rate, the high key rate has made ruble assets more attractive, moderating the demand for imports and, accordingly, foreign currency. This has helped stabilise the ruble exchange rate. The pass-through to prices of the ruble weakening that occurred in summer has ended. Finally, financial market participants, households and businesses have started to lower their estimates of future inflation from the previously extremely high levels.

Banking Sector

Lending growth is expected to accelerate strongly in 2023 to 26.2% yoy (revised from 22.1% as forecast in September), thanks to the persistently strong acceleration seen in the last available data and in line with the CBR's expectations, and then to decelerate gradually in the following years (+8.2% in 2024). Lending is expected to cool from year-end, as downpayments on subsidised mortgages have been raised to 20%, the macroprudential regulation of both risky mortgages and consumer loans has been tightened and interest rates have risen significantly. Loan growth remained strong in Russia (+26.7% yoy in November), especially for corporates (+27.8% yoy), but also for households, where loan growth accelerated from +23.8% in November to +24.3% in December. Total deposit growth from the private sector remained vigorous (from +32% yoy in October to +30.7% yoy in November), particularly in the corporate sector (+27.8% yoy in nominal terms) but also in the household sector (+24.3% yoy).

Forecasts

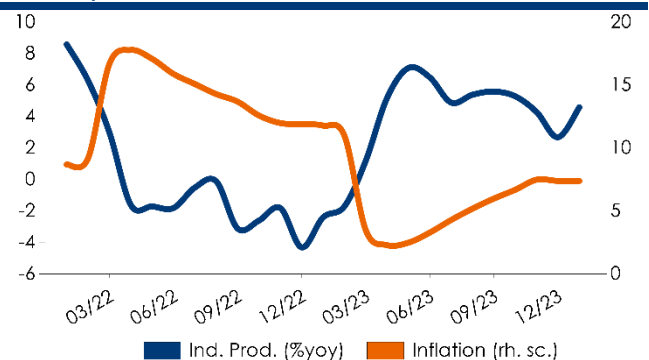
	2022	2023	2024F	2025F
Real GDP yoy	-2.1	3.6	1.9	1.7
CPI (eop)	11.9	7.4	6.0	4.8
USD exch. rate (value, eop)	66.6	93.1	97.6	93.2
Euro exch. rate (value, eop)	70.7	90.9	108.9	105.9
Short-term rate (eop)	8.4	15.7	11.4	8.3
L/T bond yields (eop)	11.3	12.2	11.1	9.6
Bank loans (pr. sector, yoy)	11.8	26.2	8.2	5.4
Bank deposits (pr. sector, yoy)	11.0	29.1	8.1	5.6
Lending int. rate (corp., eop)	8.9	15.4	12.2	9.8
Deposit int. rate (hh, eop)	5.4	11.6	8.5	6.2

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

According to the Ministry of Economy's estimate, GDP grew by 3.5% yoy in January, thanks to an expansion in logistics capabilities and the growth in investment demand generated by the state budget. The breakthrough in the seaborne corridor has made it possible to achieve record exports since the beginning of the war and boost economic activity across export-oriented industries, primarily agricultural and metallurgical. However, we marginally worsen our forecast and now see the economy expanding by 3.9% this year (down from 4.5% earlier) and by 5.7% in 2025 (down from 6.5%), on the back of the likely lower external financial support, labour force shortages and the still-unclear ceasefire possibility. Despite the expected inflation pick-up in 2024, the first months of the year surprised on the upside, with CPI decelerating to 4.3% yoy, from 4.7% in January and 5.1% in December 2023. On a monthly basis, prices grew by 0.3%, down from +0.4% in January and +0.7% in December. We now see inflation landing at 8.0% by year-end (somewhat better than the 8.5% expected previously), and moderating to 5.0% in 2025 (up from 7.0%).

While discussions on financial aid continue in the US, in January and February Ukraine received USD 1.2Bn of support from World Bank projects and it expects to receive EUR 4.5Bn in March from the EU's EUR 50Bn programme. In addition, Ukraine reached a staff-level agreement with the IMF on the third review of the EFF arrangement, which paves the way for the next disbursement of about USD 880M in March, of potentially USD 5.4Bn in total for 2024.

Financial Markets

At the MP meeting in mid-March, the NBU cut its key policy rate by modest 50 bps to 14.5% and decreased the rate for 3-month deposit facility by 150 bps to 17.5%. While recognizing this decision came as surprise a little (the previous statements envisaged the earliest cut as soon as 2H24), the policymakers believe the better inflation and improvement in relation to external financing provide enough grounds for flexibility. The USDUAH trades in wide range 38.00-38.60 in February-March, which appears to be a new balanced level for some while. The FX market pressure has somewhat moderated due to exports pick-up and decent external aid committed for March. However, monetary reserves dropped by USD 1.5bn in February (to USD 37.05bn) due to NBU's market interventions and state debt repayments.

Banking Sector

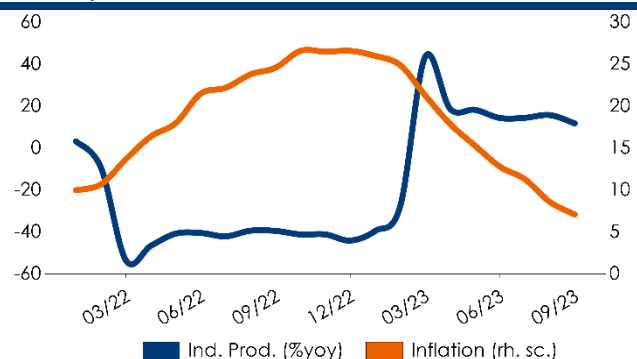
The Ukrainian banking sector remains stable and over-liquid. During 4Q23 net assets grew by 11%, largely due to investments in the NBU's tools and government securities. Corporate lending grew by 2.7%, while loans to households were up by 7.4%. Liabilities grew by 13%, while deposits grew by 11.5%. The share of NPLs decreased to 37.4% by year-end, down by 0.5% in 4Q23. In January 2024, the net profit of banks amounted to UAH 16.8Bn, up 14% compared to January 2023.

Forecasts

	2022	2023	2024F	2025F
Real GDP yoy	-29.1	5.7	3.9	5.7
CPI (eop)	26.6	5.1	8.0	5.0
USD exch. (value, eop)	36.9	36.5	40.5	41.0
Euro exch. Rate (value, eop)	38.7	40.5	45.2	46.6
Short-term rate (eop)	25.0	12.8	14.0	11.3
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	-4.4	-0.3	4.6	4.0
Bank deposits (pr. sector, yoy)	25.1	26.7	5.6	4.9
Lending interest rate (pr. sect., eop)	22.0	20.7	17.8	15.2
Deposit interest rate (pr. sect., eop)	10.7	10.4	9.8	7.2

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

Egypt's real growth is likely to be +3.9% yoy during 2024, in light of improving business conditions and the stabilising of the FX market. However, growth will remain below its historical average due to subdued private consumption, tight monetary conditions and the weak performance of the Suez Canal. Growth will also remain modest in 2025, given the expected decline in government investments. Annual headline CPI is expected to decline, particularly in 2H24, to an average of 28.4% in 2024 against 33.8% one year earlier, supported by lower demand, stable foreign inflows and the availability of raw materials, semi-finished and finished goods, after the clearing of the imports backlog.

Financial Markets

On 6 March, the CBE raised the overnight deposit and lending rates by 600bps to 27.25% and 28.25%, respectively. It also decided to free float the EGP, which depreciated to almost EGP 50 per USD before climbing to around EGP 49 in the following days, due to the relative absence of the parallel market. This improvement is projected to continue, as Egypt will receive the following funds during 2024: (1) USD 24Bn in liquidity from the Ras al-Hekma deal; (2) USD 5Bn in usual FDIs in the manufacturing, energy and real estate sectors; (3) USD 3Bn from selling shares in state-owned assets; (4) portfolio investments; and (5) a financial package from the IMF, the World Bank and the EU (Egyptian authorities reached a staff-level agreement with the IMF over an USD 8Bn loan over three years, to be approved by the IMF board at the end of March). On a related note, Egypt's Finance Minister previously stated that the country expects to receive USD 20Bn in funds from international organisations. On the other hand, the country's account balance will depend on developing Egypt's main gas fields, the impact of the free float on the trade deficit, restoring remittances after unifying the exchange rate and the implication of geopolitical developments on the Suez Canal (the canal's revenues declined by 50% yoy during 2023) and tourism (the number of tourists visiting Egypt increased by 6% yoy during the first 50 days of 2024). On a positive note, global credit rating agency Moody's upgraded its outlook on the Egyptian economy from negative to positive and the government targets lowering the debt-to-GDP ratio to less than 80% over the next three years. Authorities might be able to lower interest rates by 4Q24 and the MMR is expected to follow the same pattern.

Banking Sector

The growth in private loans is set to decelerate in 2024 as "the tighter stance could result in a short-term contraction in real credit growth", according to the CB. Accordingly, private deposits are set to grow at a slower pace than in 2023. State-owned banks issued a new three-year CD with a decreasing annual yield of 30% over the first year, 25% over the second year and 20% over the third year. In 2024, banks will partially enhance the position of their net foreign assets, which recorded negative USD 17.6Bn as of January 2024, as these will benefit from rising foreign inflows.

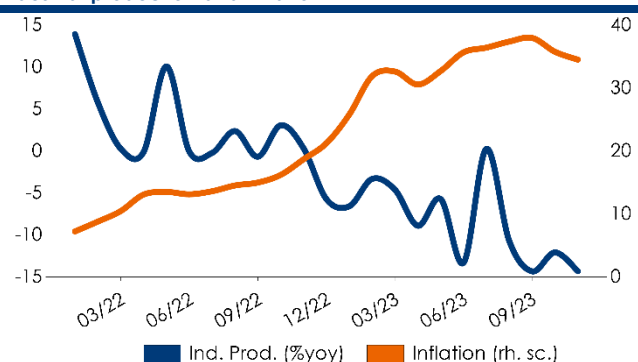
Forecasts

	2022	2023	2024F	2025F
Real GDP yoy	4.3	3.1	3.9	4.1
CPI (eop)	21.3	33.7	25.1	15.0
USD exh. rate (value, eop)	24.7	30.9	45.2	40.1
Euro exh. rate (value, eop)	26.1	33.7	50.4	45.6
Short-term rate (eop)	18.1	25.7	26.5	22.5
L/T bond yields (eop)	n.a.	n.a.	n.a.	n.a.
Bank loans (pr. sector, yoy)	28.4	21.5	13.2	9.8
Bank deposits (pr. sector, yoy)	27.4	18.5	15.2	13.3
Lending int. rate (corp., eop)	13.3	19.5	18.0	13.6
Deposit int. rate (hh, eop)	9.8	14.2	15.0	11.0

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

Samer Halim

Industrial production and inflation



Source: Ministry of Planning, CAPMAS

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