

Macroeconomic and Strategic Analysis

UniCredit Weekly Report



Romania's budget deficit at 1.7% of GDP at end-February 2024, the highest on record for the first two months

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Anca Maria NEGRESCU

Senior Economist

+40 723 103 008

anca.negrescu@unicredit.ro

Mihai JUGRAVU

Macroeconomic Economist

+40 790 684 924

mihai.jugravu@unicredit.ro

Iulia CORLANESCU

Macroeconomic Economist

+40 724 052 840

iulia.corlanescu@unicredit.ro

Weekly briefing

Last week, in a speech entitled “There’s Still No Rush”, the Fed Governor C. Waller called the recent inflation data “disappointing” and said he wants to see “at least a couple months of better inflation data” before cutting rates (likely at the Fed’s 12 June meeting). The **US 4Q23 GDP growth was revised upwardly, at an annualized 3.4%qoq** (3rd estimate), driven by the upward revision of consumer spending (+3.3%qoq) and of the non-residential investments (+3.7%qoq). The **US core PCE inflation slowed down to 0.3%mom in February** from 0.4%mom in the previous month. In annualized terms, the core inflation rate slowed to 2.8%, at its lowest level in about three years. **Personal income decelerated to 0.3%mom in February**, while **personal spending accelerated to 0.8%mom**.

Economic sentiment indicator (ESI) in Eurozone increased to 96.3 points in March, the highest level in the last three months. The **German unemployment rate remained high at 5.9% in March**, in line with the market forecasts, **unchanged for the fourth month in a row**. This is the highest level since May 2021, the labour market being quite loose due to the economic weakness.

Romania's budget deficit reached 1.7% of GDP (RON 29bn), at the end of February 2024, the highest on record for the first two months. The growth of revenues tempered in February (as compared to January) to 17.2%yoy, while the one of expenditures quickened to 27.1%yoy. **We forecast a budget deficit of around 6.3% of GDP this year** (no correction from the 2023 levels), **as the government is relying solely on improved tax collection**, which was difficult to implement also in the past, **while expenditure is increasing significantly** due to wage and pension increases, transfers to local authorities and election-related spending. **We expect the correction to around 4.7% of GDP to be postponed to 2025, when new taxes are likely.**

The Romanian non-governmental loans moderated their monthly decline to 0.2%mom in February, driven by the 0.9%mom decrease of the foreign currency component and a 0.1%mom increase of RON. **The growth moderated to 4.9%yoy, due to a slowdown for both RON and FX lending.** **The loans to individuals quickened to 2.6%yoy, while tempering for companies to 6.9%yoy.** **The total savings of the residents accelerated to 1.4%mom in February, maintaining a high yearly growth of 11.6%**, as both the private individuals and companies registered increases.

This week, activity is expected to return to normal after the Catholic Easter break. **CPI-inflation data** are scheduled to be published **in Germany** (Tuesday) and for the **eurozone** aggregate levels (Wednesday), while the **ISM manufacturing and service surveys** (Monday and Wednesday), together with the **jobs report** for February (Friday), are the main releases in the US. In **Romania, the main event will be the monetary policy meeting on Thursday**, when **we expect the NBR to keep the key rate unchanged**, with the key rate cutting cycle to be initiated on 13 May. Additionally, we will have on Monday the **BCR manufacturing PMI** expected to show an improvement in March and **international reserves**, likely to have decreased slightly. We expect the **PPI** to show a more tempered drop in February (Tuesday) and the **unemployment rate** (Wednesday) to decrease marginally. **Retail sales** are estimated to accelerate their annual growth in February (Friday).

Data spotlight: 25 – 29 March

CURRENCIES - MAJORS

Currencies	Last	1D ch (%)	1M ch (%)
EURUSD	1.0779	-0.14%	-0.52%
EURCHF	151.27	-0.10%	0.53%
USDJPY	1.26	0.02%	-0.43%
GBPUSD	1.2360	-0.42%	4.36%

CURRENCIES - CEE

Currencies	Last	1D ch (%)	1M ch (%)
EURPLN	4.2860	-0.09%	-0.74%
EURHUF	393.70	0.13%	0.10%
EURCZK	25.30	0.12%	0.04%

CURRENCIES - NBR REFERENCE

Currencies	EUR	USD	SDR	XAU (1g)
1-Apr	4.9700	4.6074	6.1017	333.38

CURRENCIES - RON

	EURRON	USDRON
1-Apr	4.971	4.612
29-Mar	4.970	4.604
28-Mar	4.970	4.606

FIXED INCOME MARKET YIELDS - LOCAL

Mid-rate	1Y	3Y	5Y	10Y
1-Apr	6.0	5.9	6.1	6.5
27-Mar	6.0	6.0	6.2	6.6

MONEY MARKET RATES - LOCAL

ROBOR	ON	1M	3M
1-Apr	6.01	6.20	6.08
29-Mar	6.01	6.05	6.08
28-Mar	6.01	6.05	6.08

MONEY MARKET RATES - MAJORS

Euribor	1M	3M	6M
29-Mar	-	-	-
28-Mar	3.86	3.89	3.85
27-Mar	3.84	3.91	3.86
USD Libor	1M	3M	6M
29-Mar	-	-	-
28-Mar	5.44	5.56	5.65
27-Mar	5.44	5.56	5.65

STOCK MARKETS

Index	Last	1D ch (%)	1M ch (%)
S&P 500	5,254.4	0.11%	3.47%
FTSE	7,952.6	0.26%	4.30%
Hang Seng	16,541.4	0.91%	0.03%
Bucharest BET	17,025.4	0.00%	6.35%

Romanian Economy

■ Romania's budget deficit reached 1.7% of GDP at end-February 2024, the highest on record for first two months

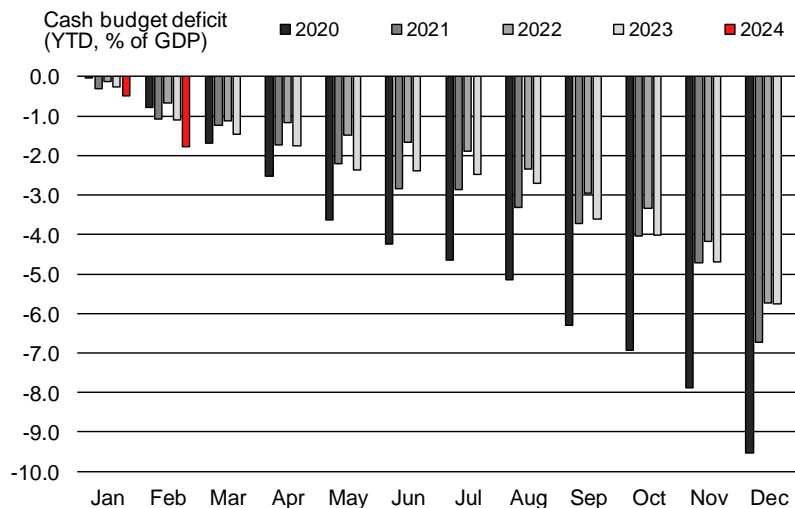
The Ministry of Finance released the budget execution for the first two months of 2024, showing a deficit of 1.7% of GDP (RON 29bn), the highest on record (please see the graph on the following page). The growth of revenues tempered to 17.2%yoy in February from 19.7%yoy in January, while the one of expenditures quickened to 27.1%yoy from 26.7%yoy in January. Similar to the patterns visible in January, the highest increases in revenues came from social insurance contributions (RON 6.1bn; 25.4%yoy), followed by fiscal revenues (RON 4.5bn; 12.2%yoy) and VAT (RON 2.9bn; 16.5%yoy). On the expenditures side, the highest increases in nominal terms were seen in capital expenditure (RON 9.2bn; 353.6%yoy), social assistance spending (RON 4.1bn; 11.8%) and personnel expenses (RON 4bn; 19.9%yoy).

We forecast a budget deficit of around 6.3% of GDP this year (implying no correction from the 2023 levels), as the current government is relying solely on improved tax collection as a deficit-reduction measure (which was difficult to implement in the past due to the limited institutional capacity and willingness), while expenditure is increasing significantly due to wage and pension increases, transfers to local authorities and election-related spending.

Data spotlight: 25 – 29 March

Romanian Economy (continued)

Thus, we expect the correction of the budget deficit to be postponed to 2025, when new taxes are likely. We continue to expect a mix of measures, including higher VAT, taxes on income, profit, property and commodities, which if implemented efficiently and quickly, could lead to a decrease of the budget deficit to around 4.7% of GDP in 2025.



■ Romanian loans moderated their monthly decline, while deposits continued to grow in February

Non-governmental loans decreased by 0.2%mom in February 2024, after 0.6%mom decline in January, driven by the 0.9%mom decrease of the foreign currency credits, in spite of the 0.1%mom increase of the loans denominated in RON. On a yearly basis, the growth pace of the non-governmental loans moderated to 4.9%yoy, due to a slowdown for both RON and FX lending, to 5.5%yoy and 3.7%yoy, respectively. The households increased by 0.4%mom due to the loans outstanding in local currency up by 0.7%mom, while the foreign currency loans continued their descent (-1.9%mom). Companies' loans moderated their decline to 0.7%mom, after -1.1%mom in January, due to the RON component decreasing by 0.8%mom (vs. -1.4%mom in January) and the foreign currency component down by 0.7%mom, at the same pace as in January. In yearly terms, lending to individuals quickened to 2.6%yoy, while tempering for companies to 6.9%yoy. On the deposits' side, the total savings of the residents accelerated to 1.4%mom in February, after remaining flat in January, maintaining a high yearly growth pace of 11.6%, as both the private individuals and companies registered increases.

Data spotlight: 25 – 29 March

Romanian Economy (continued)

■ Romanian rating affirmed by Moody's, the outlook was maintained at stable

Last Friday, Moody's maintained Romania's Baa3 investment grade rating and the stable outlook. The reasoning behind is Romania's economy strong growth potential, supported by large EU funds and FDI inflows, while on the negative side Moody's considers that Romania still has quite weak public governance, with high fiscal and current account deficits. Romania's public debt is set to deteriorate gradually in the next years due to high fiscal deficits.

Moody's expects Romania's GDP to grow by 3.0% GDP in 2024 and 3.5% in 2025, supported by strong consumption and by the private investments, after a weak growth of 2.1% in 2023. The fiscal and current account deficits will improve only marginally in 2024, with the budget deficit estimated at 5.7% of GDP and the current account deficit at 6.6% of GDP for the year. The European Commission will likely conclude this spring that Romania does not meet its fiscal targets under the Excessive Deficit Procedure, but Moody's expects that the government will not announce any additional fiscal consolidation efforts until after the parliamentary elections to be held in 2H 2024.

Romania's ratings could be improved if the fiscal and the current account deficits are significantly reduced, the institutional effectiveness increases and the debt burden stabilizes significantly below the peer group median. Other favorable factors will be the continuation of the political stability after the 2024 elections and the reduction of the geopolitical risks related to the Russia-Ukraine war. A positive for the credit ratings will be the further strengthening of the economy's growth potential and the fiscal sustainability through the adoption of reforms under PNRR.

The key risk factors for the ratings will be the government's ability to control the twin deficits, the inability of the government to absorb the remaining PNRR funds and the more elevated external vulnerability risks, such as an escalation of geopolitical tensions related to the war in Ukraine, or a deterioration of domestic political stability.

Data spotlight: 25 – 29 March

European Economy

■ **The optimism in Eurozone improved in March**

The economic sentiment indicator (ESI) in Eurozone increased to 96.3 points in March, the highest level in the last three months. The sentiment improved among manufacturers (-8.8, at its highest level since September 2023), consumers (-14.9, at its best since February 2022). It slightly improved among the service providers (6.3) and retailers (-5.7), while it remained almost unchanged for constructors (-5.6). Among the largest economies in Eurozone, the ESI improved more significantly in France (+2.6), Italy (+1.5) and Germany (+0.9), while it deteriorated in the Netherlands (-0.7) and Spain (-0.4).

■ **German unemployment rate remained high in March**

The seasonally adjusted unemployment rate in Germany remained at 5.9% in March, in line with the market forecasts, unchanged for the fourth month in a row. This is the highest level since May 2021, the labour market being quite loose due to the ongoing economic weakness. The number of unemployed individuals rose by 4 thousands to 2.7 million, although lower than market expectations.

Data spotlight: 25 – 29 March

US Economy

■ Fed remains cautious regarding the rate cut

In a speech entitled “There’s Still No Rush”, the Fed Governor Christopher Waller called the recent inflation data “disappointing” and said he wants to see “at least a couple months of better inflation data” before cutting rates (to be sure, the Fed will receive three more CPI reports, and three more PCE inflation prints, by the time of its 12 June meeting). He also said that “the risk of waiting a little longer to ease policy is small and significantly lower than acting too soon”.

■ The US 4Q23 GDP growth was revised slightly higher

The third estimate of the US 4Q23 GDP growth was revised upwards, to an annualized 3.4%qoq [UniCredit Research and consensus: 3.2%]. The adjustment was driven by the upward revision of the consumer spending to 3.3%qoq, mainly due to services revised up to 3.4% from 2.8%, while the goods were revised down to 3% vs 3.2% previously. Also, the non-residential investments were revised up to 3.7% vs 2.4% previously, while the residential investments increased at a slightly slower pace by 2.8% (vs 2.9%). Government spending increased faster by 4.6% (vs 4.2%), while the exports increased at a slower pace by 5.1% (vs 6.4%) and imports by 2.2% (vs 2.7%). The drag from private inventories was almost double than in the second estimate subtracting 0.47pp from GDP growth. The US economy expanded by 2.5%yoy for the full year 2023, an increase from the 1.9%yoy growth seen in 2022.

■ US core PCE inflation slowed down in February

Core PCE inflation rose by 0.3%mom in February, as expected, easing from the 0.4%mom in the previous month. In annualized terms, the core inflation rate slowed to 2.8%, at its lowest level in about three years. Personal income decelerated to 0.3%mom in February, from the one-year high increase of 1.0%mom in January when it was boosted by the social security benefits. Personal spending accelerated to 0.8%mom, exceeding market expectations, after 0.2%mom in the previous month. The spending for services increased the most, especially the ones for financial services, insurance, transportation, housing and utilities.

Data spotlight: 25 – 29 March

International and Romanian Markets

■ **The EURRON was relatively stable last week**

The EURRON traded within the 4.9670-4.9740 range last week and ended the week close to the midpoint of the interval, at 4.9700, 16pips down compared to the closing of last week. The currency pair traded with a downward bias.

■ **The entire ROBOR curve remained almost flat**

Last week, the ROBOR curve was relatively stable for all maturities. The O/N-1W segment closed the week within the 6.00%-6.01% interval, while the 1M-3M segment closed inside 6.01%-6.06%, 1bp below the end of the week before. We expect the NBR to remain on hold at its monetary policy meeting on 4 April. The annual inflation figure for February confirmed that the disinflationary trend resumed after a tax-induced inflation spike in January 2024. We expect a further tempering of annual inflation to 6.3% in March, data to be released on 11 April. This will provide the second month of disinflation expected by NBR to initiate the key rate cutting cycle, enabling it to deliver the first key rate cut of 0.25pp to 6.75% at its monetary policy meeting on 13 May. Afterwards, we expect three more rate cuts this year, to 6%. Yet, these would only lock in the easing that has occurred as a result of the large amount of excess liquidity in the interbank market.

■ **MinFin auctions**

Last Monday, the Ministry of Finance held an auction for a T-bond with residual maturity of 3.2 years. Bids were above the planned amount, at RON 1,074.4mn vs. RON 500mn, enabling MinFin to place RON 962.4mn. The average accepted yield was 6.20% (max. 6.21%), 1bp below the previous reopening five weeks ago. A supplementary session for the non-competitive offers in amount of RON 75mn followed.

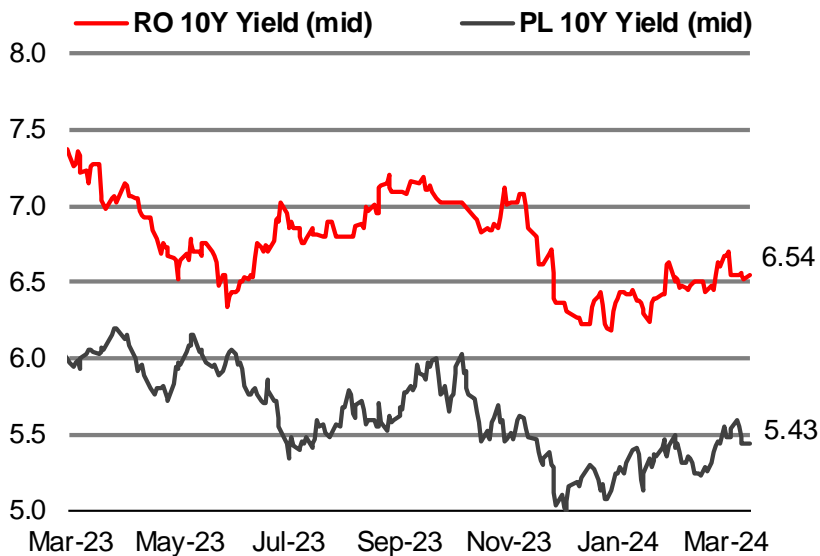
Last Thursday, the Ministry of Finance held an auction for a T-bond with residual maturity of 2.5 years. Bids were above the planned amount, at RON 1,710.0mn vs. RON 500mn, enabling MinFin to place RON 1,070.0mn. The average accepted yield was 6.13% (max. 6.13%), 11bp above the previous reopening one month ago. A supplementary session for the non-competitive offers in amount of RON 75mn followed.

■ **FX markets**

In FX, EUR-USD slipped back below 1.08. Activity is expected to return to normal after the Easter break, with investor attention turning to economic data releases in both the eurozone and the US. On balance, stable CPI inflation data in the eurozone and a slower net job creation in the US are likely to help EUR-USD return above 1.08 and potentially move back towards 1.0850.

Focus Ahead: 1 – 5 April

MinFin Issues



Data Source: Thomson Reuters

- According to the fixing levels, bond yields had mixed a evolution last week, but with marginal moves. 3Y yields increased by 3bp, while the 5Y-10Y segment decreased by up to 3bp.
- The major bond markets were largely unchanged in a quiet pre-Easter week.
- This week, MinFin intends to place RON 700mn in 203-days T-bills and RON 400mn in 5.1Y T-bonds on Monday and RON 400mn in 10.3Y T-bonds and RON 400mn in 1.8Y T-bonds on Thursday.

BOND ISSUES - APRIL

ISIN Code	Auction Date	Maturity Date	Months	Planned Amount	Currency	Total Applications	Total Allocated	Yield (av g)
RO7EKTXRHD6	29-Apr-24	28-Jan-26	21	500lei				
ROJVM8ELBDU4	29-Apr-24	25-Apr-29	61	500lei				
ROWLVEJ2A207	25-Apr-24	30-Oct-33	116	400lei				
RON7NMKOKQG2	25-Apr-24	28-Oct-26	31	400lei				
ROP9QVD42HO2	22-Apr-24	31-Jul-27	40	500lei				
ROXL7LT7QZ66	18-Apr-24	29-Apr-30	73	600lei				
ROCDG04X8WJ7	15-Apr-24	26-Apr-28	49	400lei				
RO1JS63DR5A5	11-Apr-24	28-Apr-31	86	400lei				
ROLDTS4N4L2	8-Apr-24	26-Mar-25	12	400lei				
RO0DU3PR9NF9	8-Apr-24	24-Feb-38	169	300lei				
RO7EKTXRHD6	4-Apr-24	28-Jan-26	22	400lei				
ROTM7EDD92S2	4-Apr-24	31-Jul-34	126	400lei				
RO9ZKMFLS2K3	1-Apr-24	23-Oct-24	7	400lei				
ROJVM8ELBDU4	1-Apr-24	25-Apr-29	62	400lei				

Focus Ahead: 1 – 5 April
Data Calendar

Date	Country	Indicator/Event	Period	UniCredit forecast	Consensus	Previous
1-Apr-2024	US	ISM Manufacturing (index)	Mar	48.0	48.5	47.8
	Romania	BCR Manufacturing PMI	Mar	47.5		47.1
	Romania	International Reserves (EUR mn)	Mar	69.0		69.4
2-Apr-2024	GE	Consumer Price Index CPI (% yoy)	Mar	2.1	2.2	2.5
	US	JOLTS Opening (thousands)	Feb	8650		8863
	Romania	PPI (% yoy)	Feb	-4.9		-6.0
3-Apr-2024	EMU	Consumer price index, CPI (% yoy)	Mar	2.6	2.5	2.6
	EMU	Core CPI (% yoy)	Mar	3.1	3.0	3.1
	EMU	Unemployment Rate (%)	Feb	6.5	6.4	6.4
	US	ADP Employment Index (change thousands mom)	Mar	130	150	140
	US	ISM Non-Manufacturing (index)	Mar	52.4	52.6	52.6
	Romania	ILO Unemployment Rate (%)	Feb	5.6		5.7
4-Apr-2024	US	Trade Balance (USD bn)	Feb	-67.0	-65.7	-67.4
	Romania	Interest Rate Announcement	Apr	7.0	7.0	7.0
5-Apr-2024	GE	Industrial Orders (% mom)	Feb	0.5	0.5	-11.3
	US	Unemployment Rate (%)	Mar	3.9	3.8	3.9
	US	Non-farm Payrolls (change thousands mom)	Mar	180	216	275
	US	Average hourly earnings (% mom)	Mar	0.3	0.3	0.1
	Romania	Retail Sales (% yoy)	Feb	6.5		5.1

Data Source: Bloomberg

Economic Forecasts

MACROECONOMIC DATA AND FORECASTS

	2021	2022	2023F	2024F	2025F
GDP (EUR bn)	241.7	286.6	322.9	350.7	372.7
Population (mn)	19.2	19.1	19.1	19.1	19.0
GDP per capita (EUR)	12,596	14,979	16,902	18,386	19,566
Real economy, change (%)					
GDP	5.7	4.6	1.4	3.0	1.6
Private Consumption	7.2	6.9	2.6	2.6	0.3
Fixed Investment	2.9	5.6	9.7	4.8	2.1
Public Consumption	1.8	3.1	1.0	1.9	-0.2
Exports	12.6	9.6	-0.4	3.7	4.7
Imports	14.8	9.9	-2.2	3.8	2.4
Monthly wage, nominal (EUR)	1175	1303	1481	1670	1756
Real wage, change (%)	2.0	-2.2	3.1	7.6	1.9
Unemployment rate (%)	5.6	5.6	5.4	5.4	5.5
Fiscal accounts (% of GDP)					
Budget balance	-7.1	-6.2	-6.3	-6.0	-4.6
Primary balance	-5.6	-4.2	-4.2	-3.9	-2.4
Public debt	48.5	47.2	49.3	50.9	52.2
External accounts					
Current account balance (EUR bn)	-17.5	-26.6	-20.8	-18.2	-16.5
Current account balance/GDP (%)	-7.2	-9.3	-6.4	-5.2	-4.4
Extended basic balance/GDP (%)	-1.4	-3.6	-2.3	-1.3	-0.5
Net FDI (% of GDP)	3.7	3.7	2.3	2.0	2.0
Gross foreign debt (% of GDP)	56.5	50.4	52.1	49.6	49.9
FX reserves (EUR bn)	40.5	46.6	59.8	58.6	63.4
Months of imports, goods & services	4.3	4.0	5.0	4.7	4.8
Inflation/Monetary/FX					
CPI (pavg)	5.0	13.7	10.5	6.3	4.9
CPI (eop)	8.2	16.4	6.6	6.0	3.9
Central bank target	2.50	2.50	2.50	2.50	2.50
Central bank reference rate (eop)	1.75	6.75	7.00	6.00	4.00
3M money market rate (Dec avg)	3.01	7.57	6.22	5.32	3.93
USDRON (eop)	4.37	4.64	4.56	4.51	4.56
EURRON (eop)	4.95	4.95	4.97	5.05	5.15
USDRON (pavg)	4.16	4.68	4.57	4.45	4.40
EURRON (pavg)	4.92	4.93	4.95	5.02	5.10

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g) Zagrebačka banka d.d., Trg bana Josipa Jelačića 10, HR-10000 Zagreb, Croatia
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h) UniCredit Bank Czech Republic and Slovakia, Želetavská 1525/1, 140 92 Praga 4, Czech Republic
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i) ZAO UniCredit Bank Russia (UniCredit Russia), Prechistenskaya nab. 9, RF-119034 Moscow, Russia
Regulatory authority: Federal Service on Financial Markets, 9 Leninsky prospekt, Moscow 119991, Russia

j) UniCredit Bank Czech Republic and Slovakia, Slovakia Branch, Šancova 1/A, SK-813 33 Bratislava, Slovakia
Regulatory authority: CNB Czech National Bank, Na Příkopě 28, 115 03 Praha 1, Czech Republic and subject to limited regulation by the National Bank of Slovakia, Imricha Karvaša 1, 813 25 Bratislava, Slovakia. Regulatory authority: National Bank of Slovakia, Imricha Karvaša 1, 813 25 Bratislava, Slovakia

k) UniCredit Bank Romania (UniCredit Bank S.A.), Bucharest 1F Expozitiei Boulevard, 012101 Bucharest 1, Romania
Regulatory authority: National Bank of Romania, 25 Lipscani street, 030031, 3rd District, Bucharest, Romania

l) UniCredit Bank AG New York Branch (UniCredit Bank, New York), 150 East 42nd Street, New York, NY 10017
Regulatory authority: “BaFin” – Bundesanstalt für Finanzdienstleistungsaufsicht, Marie-Curie-Str. 24-28, 60439 Frankfurt, Germany and New York State Department of Financial Services, One State Street, New York, NY 10004-1511

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UniCredit Research*
CEE Macro & Strategy Research


Marco Valli
Global Head of Research,
Chief European Economist
+39 02 8862-0537
marco.valli@unicredit.eu



Dr. Ingo Heimig
Head of Research Operations
& Regulatory Controls
+49 89 378-13952
ingo.heimig@unicredit.de

Head of Macro Research
Heads of Strategy Research


Marco Valli
Global Head of Research,
Chief European Economist
+39 02 8862-0537
marco.valli@unicredit.eu



Dr. Luca Cazzulani
Head of Strategy Research
FI Strategist
+39 02 8862-0640
luca.cazzulani@unicredit.eu



Elia Lattuga
Cross Asset Strategist
Deputy Head of Strategy Research
+39 02 8862-0851
elia.lattuga@unicredit.eu

EEMEA Economics Research


Dan Bucşa
Chief CEE Economist
+44 207 826-1954
dan.bucsa@unicredit.eu



Gökçe Çelik
Senior CEE Economist
+44 207 826-1032
gokce.celik@unicredit.eu



Mauro Giorgio Marrano
Senior CEE Economist
+43 50505-82712
mauro.giorgiomarrano@unicredit.eu



Artem Arkhipov
Head, Macroeconomic Analysis
and Research, Russia
+7 495 258-7258
artem.arkhipov@unicredit.ru



Hrvoje Dolenc
Chief Economist, Croatia
+385 1 6006-678
hrvoje.dolenc@unicreditgroup.zaba.hr



Pavel Sobišek
Chief Economist, Czech Republic
+420 955 960-716
pavel.sobisek@unicreditgroup.cz



Ľubomír Koršňák
Chief Economist, Slovakia
+421 2 4950 2427
lubomir.korsnak@unicreditgroup.sk



Anca Maria Negrescu
Senior Economist, Romania
+40 21 200-1377
anca.negrescu@unicredit.ro



Kristofor Pavlov
Chief Economist, Bulgaria
+359 2 923-2192
kristofor.pavlov@unicreditgroup.bg



Zsolt Becsey, Jr.
Chief Economist, Hungary
+3630 819 0489
zsolt.becsey@unicreditgroup.hu

Cross Asset Strategy Research
FX Strategy Research


Elia Lattuga
Cross Asset Strategist
Deputy Head of Strategy Research
+39 02 8862-0851
elia.lattuga@unicredit.eu



Eszter Gárgyán, CFA
FX Strategist - CEE
eszter.gargyan@unicredit.de