



EFFAS SUMMER SCHOOL 2023

Lisbon, 6/7 July

Key Note

“The Macro Environment and ESG”

Fritz Mostboeck, CEFA[®], CESGA[®]

Deputy Chairman, EFFAS

Chairman, OVFA

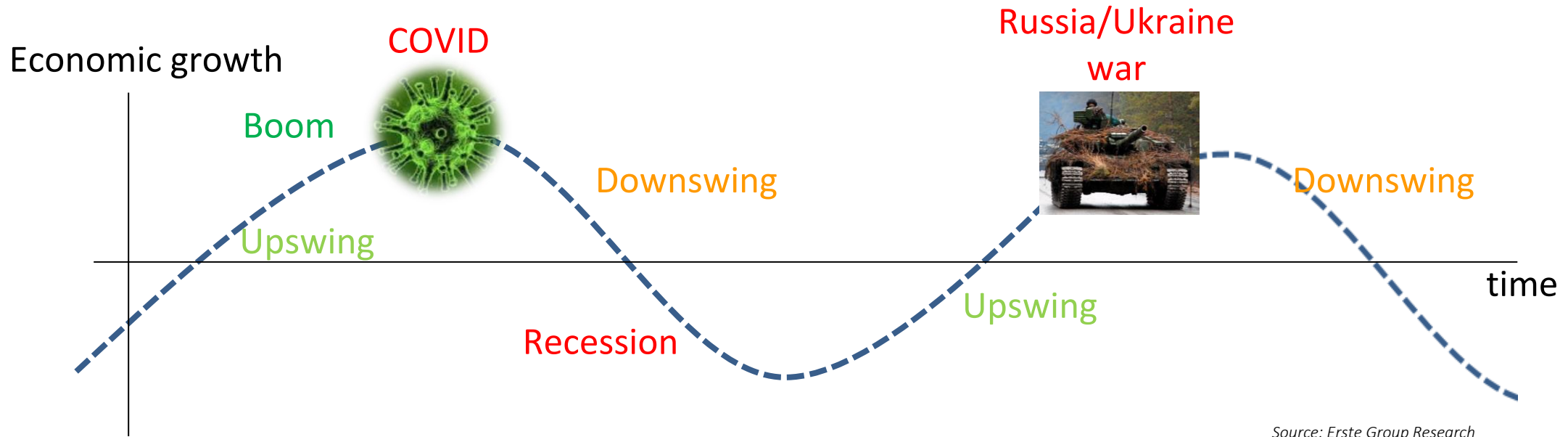
Head of Group Research, Erste Group Bank AG

**The European
Federation of
Financial Analyst
Societies**

Sophienstraße 44,
60487 Frankfurt am Main
office@effas.com
www.effas.com

International environment

The war weighs on an already difficult environment



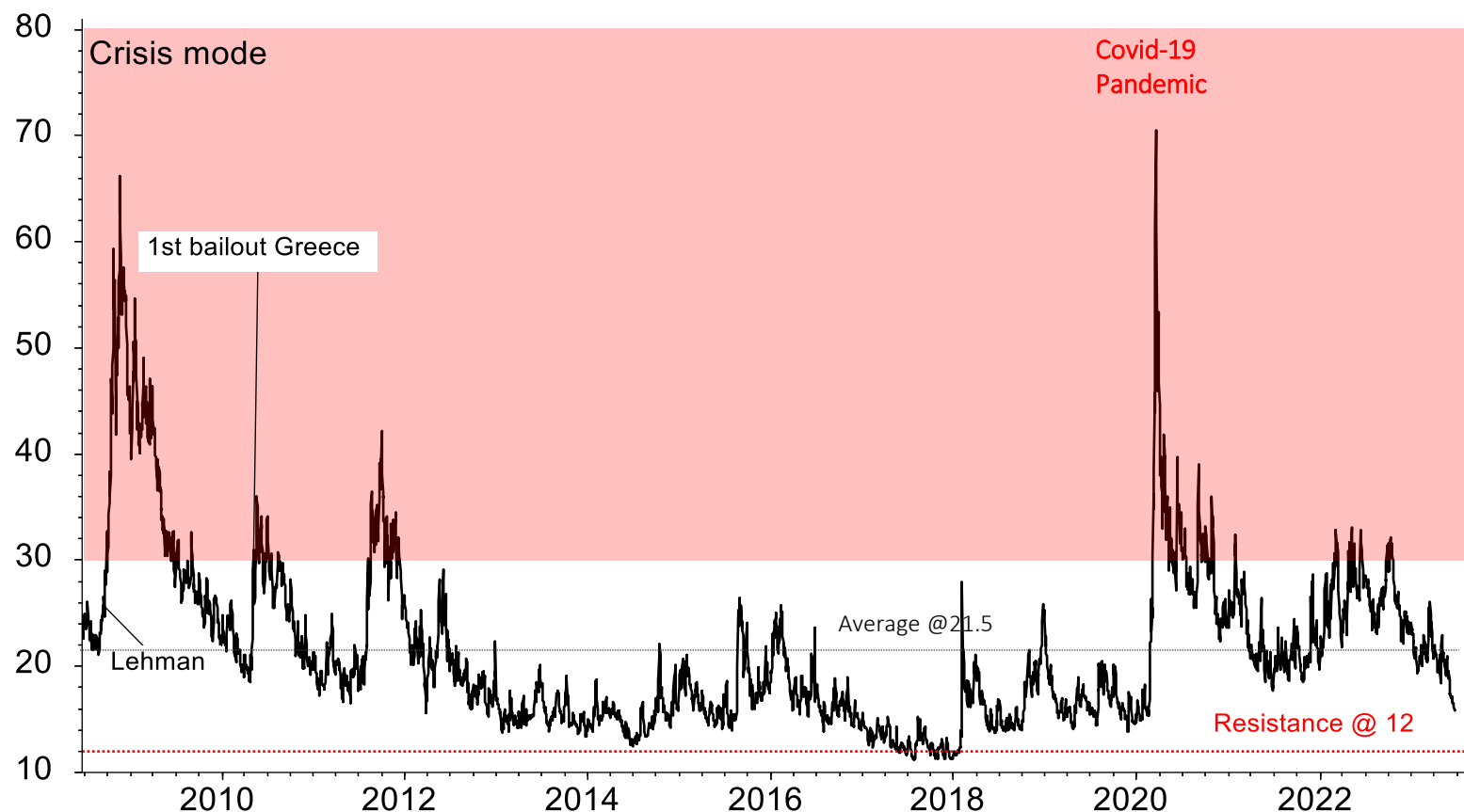
After Covid catch-up process and above-average growth rates:

- This crisis is different: duration, outcome and consequences of the war still uncertain
- Sanctions will mainly affect RUS; Eurozone, Austria & CEE less strongly for the time being
- Considerable uncertainty in sentiment, often disorientation in financial markets
- Decline/correction, growth in 2022 and 2023 partly better than expected

The war causes additional uncertainty in an already fragile economic situation

- Higher uncertainty in markets: reduced valuations, lower investment activity
- High inflation: high energy and food prices, sometimes supply shortages
- Central bank policy implications: uncertainty in assessment and effective fight against inflation
- Industry/corporate impacts: higher costs, occasionally disruption of supply chains, lower demand, pass-through of higher prices
- Government debt impact: support measures, higher military spending, debt can be partly "inflated away"
- Energy security: securing/expanding existing grid infrastructure and alternative energy, climate change and energy efficiency measures even more important now (keyword ESG)

International volatility index VIX Index

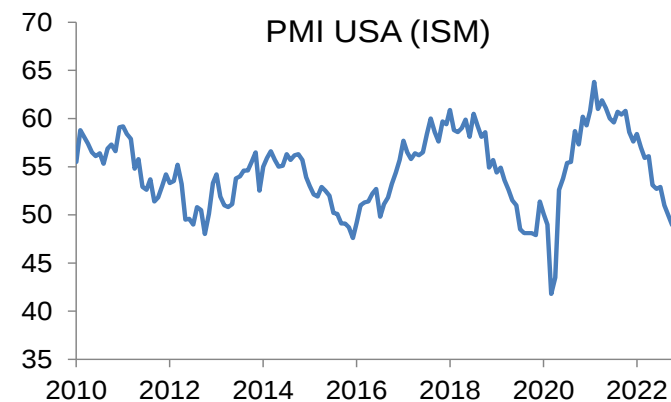
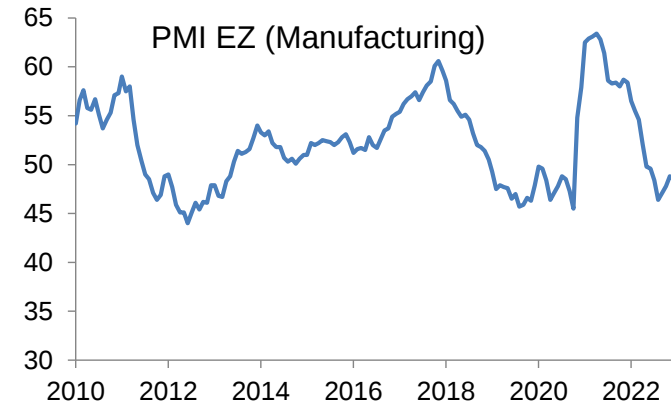
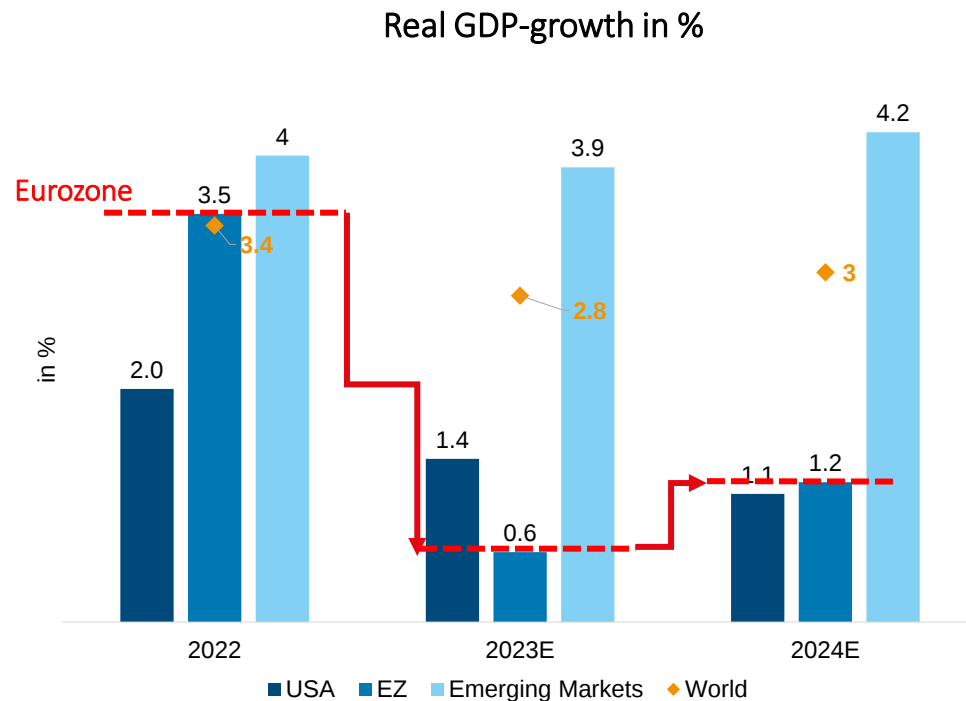


Quelle: Erste Group Research

From February 2022:
Renewed increase in
volatility due to
Russia/Ukraine war.
However, volatility has
declined recently below
average.

Global economy

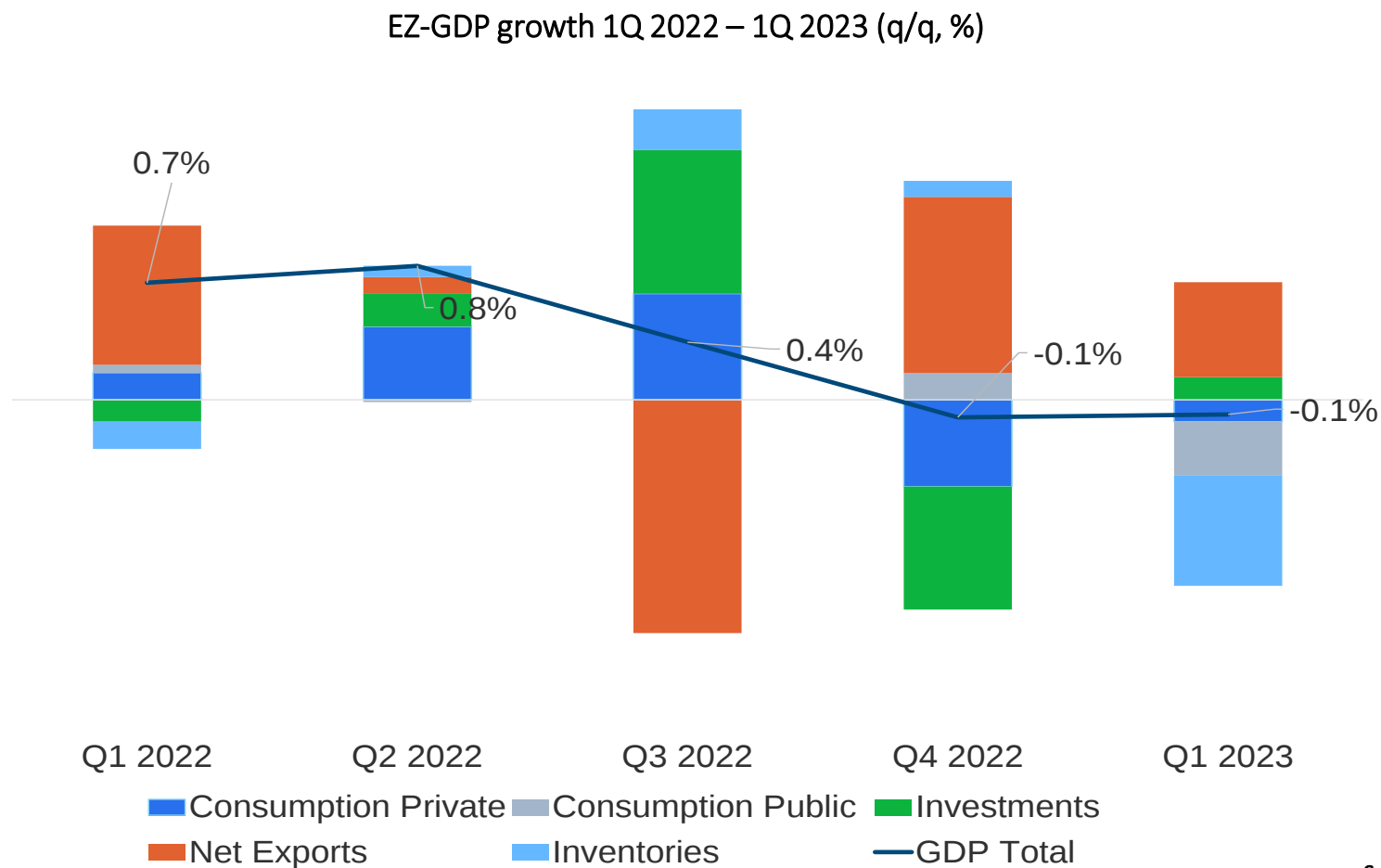
High inflation burdens growth outlook



- The inflation shock in 2022 triggered an unexpectedly strong tightening of monetary policy by the major central banks. The now high interest rate level will have a dampening effect on growth in the medium term.
- With the end of the pandemic, the distribution of demand has shifted from goods to services. For the time being, the mood of the manufacturing sector is suffering from this on a global level.

Eurozone

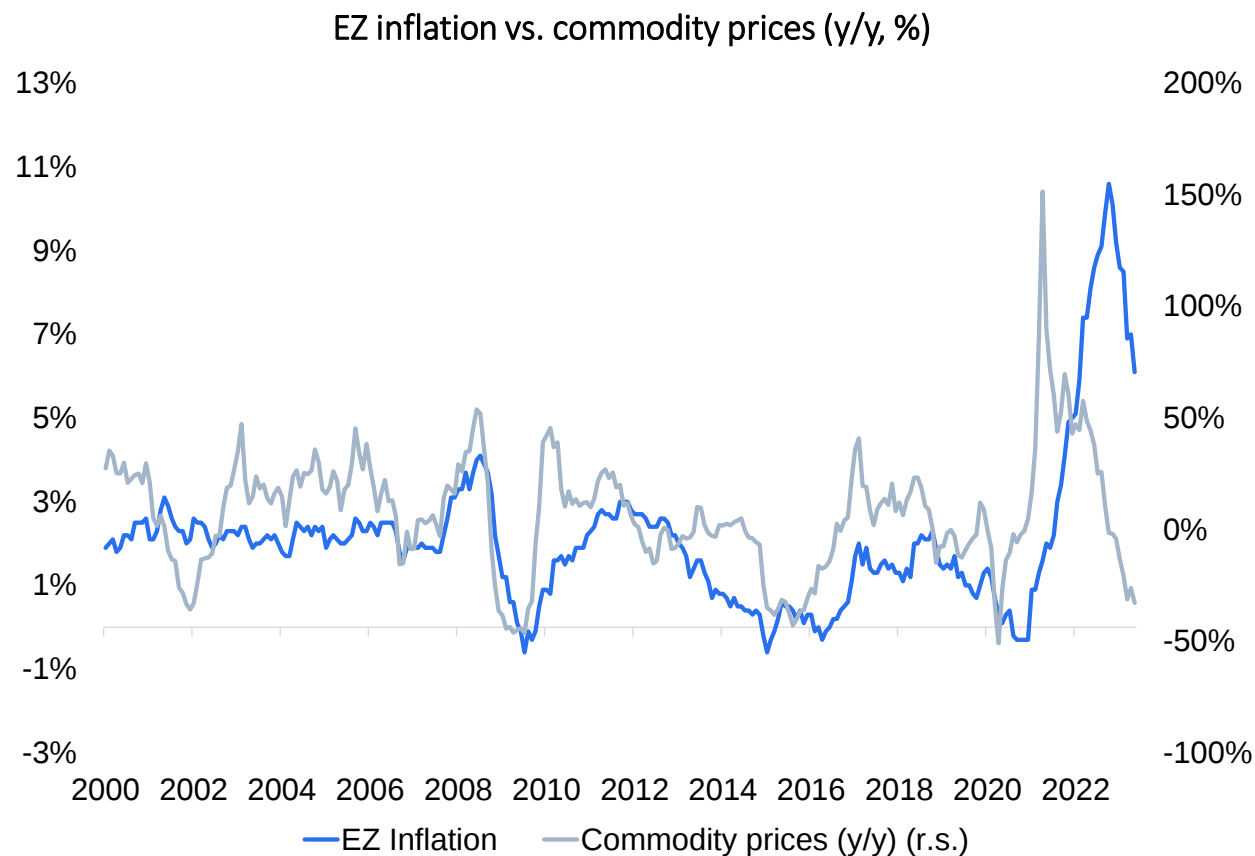
Weak domestic demand weighs on growth



Source: Eurostat, Erste Group Research

Eurozone

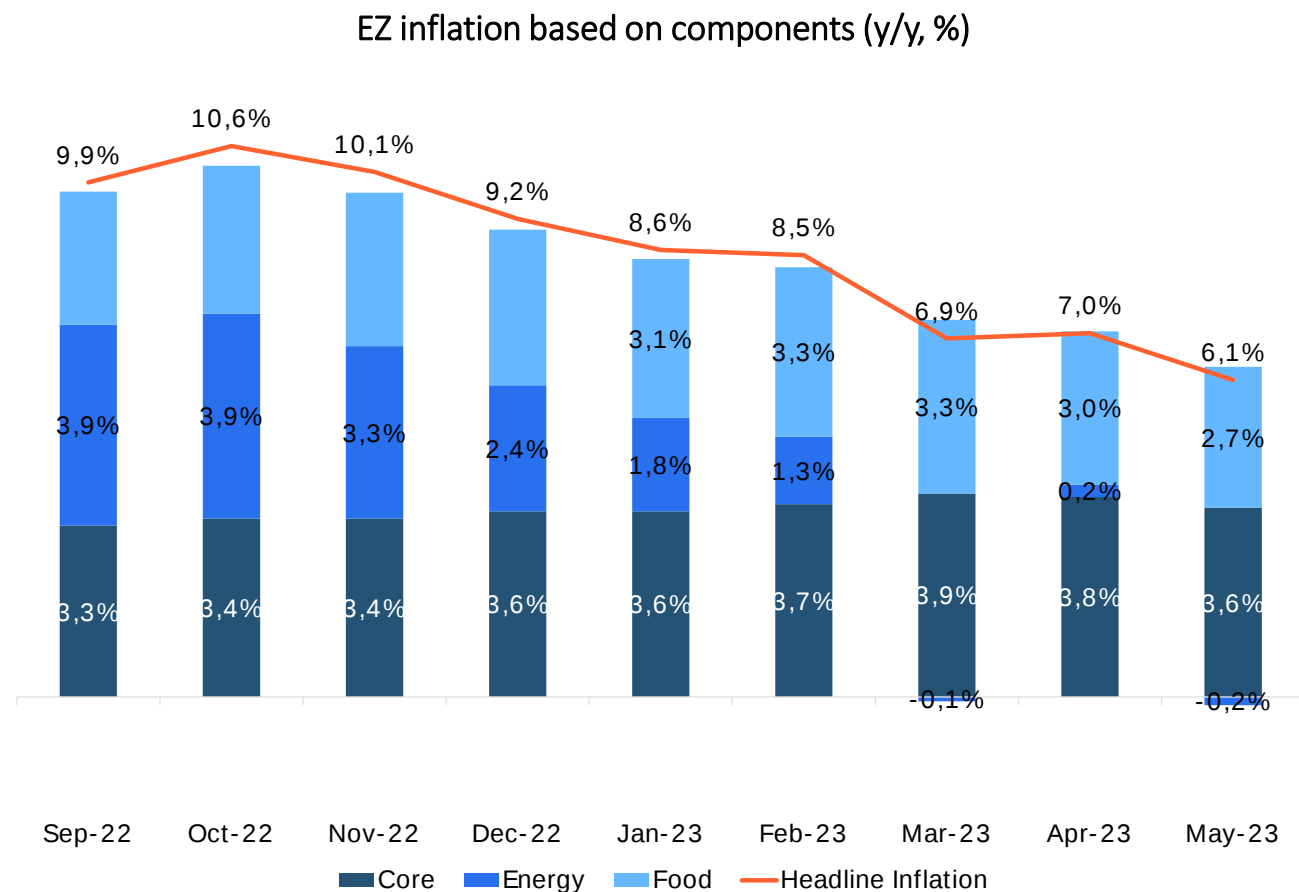
Commodity prices point to falling inflation rates



Source: Eurostat, Bank of Canada, Erste Group Research

Eurozone

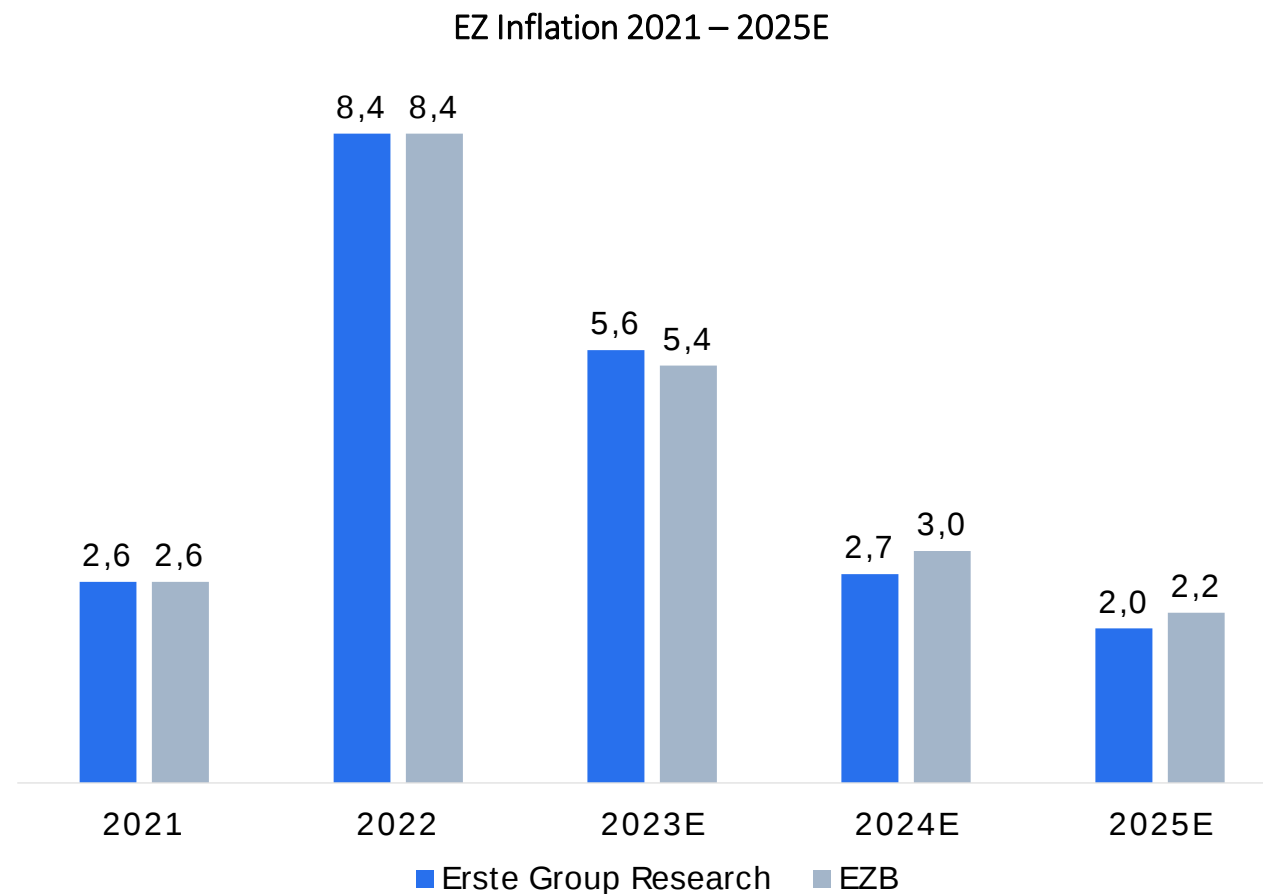
Inflation looses dynamic



Source: Eurostat, Erste Group Research

Eurozone

Inflation should decline, but ,too high for too long‘



Source: Eurostat, ECB, Erste Group Research

Main arguments

Global Interest Rate Outlook 2023

USA & EZ: We expect a weak economy and a decline in inflation in 2023

- In the Eurozone, inflation has so far fallen mainly due to energy prices. There are only initial signs of a slowdown in core inflation.
- In the USA, the decline in inflation is broader-based, but here, too, core inflation has made little progress in recent months.
- A weak economy, lower energy and commodity prices, the end of supply bottlenecks and a slowdown in the service sector lead us to expect inflation to fall in both economies over the rest of the year.
- In the Eurozone and the US we expect key interest rates to peak after a 25bp hike in July.
- For both economic areas the risks for interest rates are tilted to the upside.

Source: Erste Group Research

Risks: (1.) persistent high inflation, (2.) turbulences in the banking sector.

ESG: ‘What is it exactly?’, ‘Why?’ and ‘What has it to do with the current environment?’

What is ESG?

ESG is an independent tool to move things forward

- not a religion



- It's **not** a communist approach



- not a pseudo-moralistic view



- not an alternative political concept



- not a 'cheat pack'



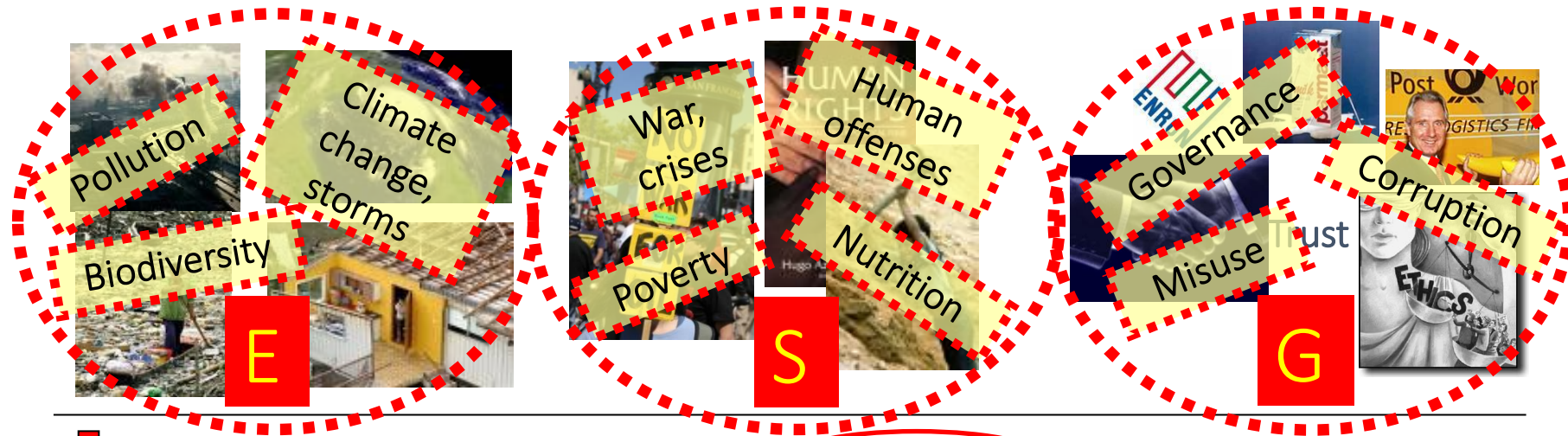
Key word
'green washing'

- not an "I-know-it-better" approach

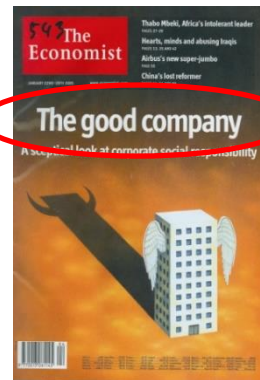


Instrument to react to past mistakes and avoid them in the future. ESG should be understood as the responsibility of ALL (comprehensive stakeholder approach).

Why ESG? we do have a lot of unsolved problems worldwide Our 'normal surrounding' for decades...



At the global level,
the discussion is
still in the middle
of the process and
has not yet been
concluded!



2005



2006



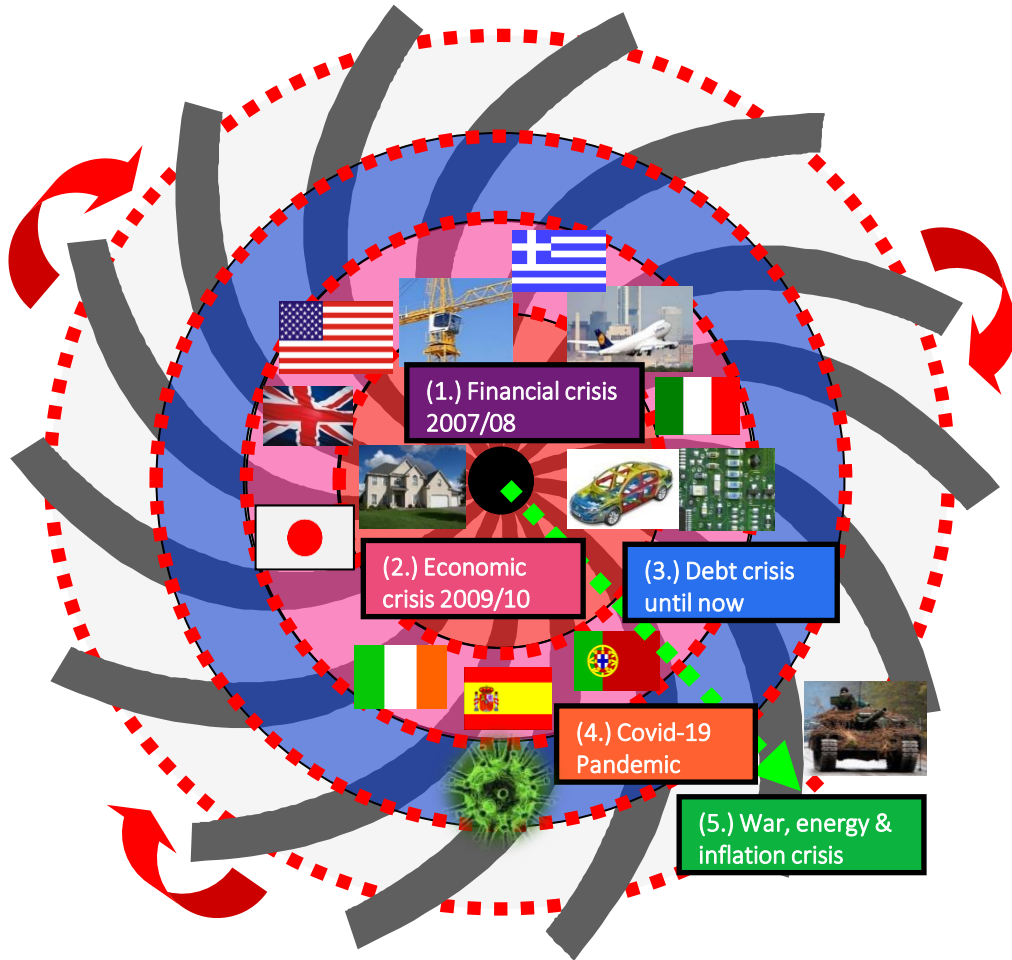
2006

etc., ongoing...

Sources: EFFAS, European Federation of Financial Analyst Societies

Past Background and current environment

The 'spinning wheel' of various crises provokes further ESG requirements



- (1.) The financial crisis was caused by **poor governance & supervision** and ultimately led to a **crisis of trust**. Were these not recently the same causes for the downfall of Credit Suisse?
- (2.) The following economic crisis led to an increased **need for regulation** to restore confidence.
- (3.) The debt crisis led partly to **general reduction**, higher **savings** and an increase in **efficiencies**.
- (4.) The pandemic partly led to a **shift away of globalization** (return **regionality**) due to supply chain issues, etc., **home office** and **improved mobility**.
- (5.) The war and subsequent energy/inflation crisis lead to **better use of energy resources**, increased **efficiency**, expansion of **alternative energy** sources but also **higher military spending**.

Source: Erste Group Research

ESG is mainstream, based on Megatrends and not Theory

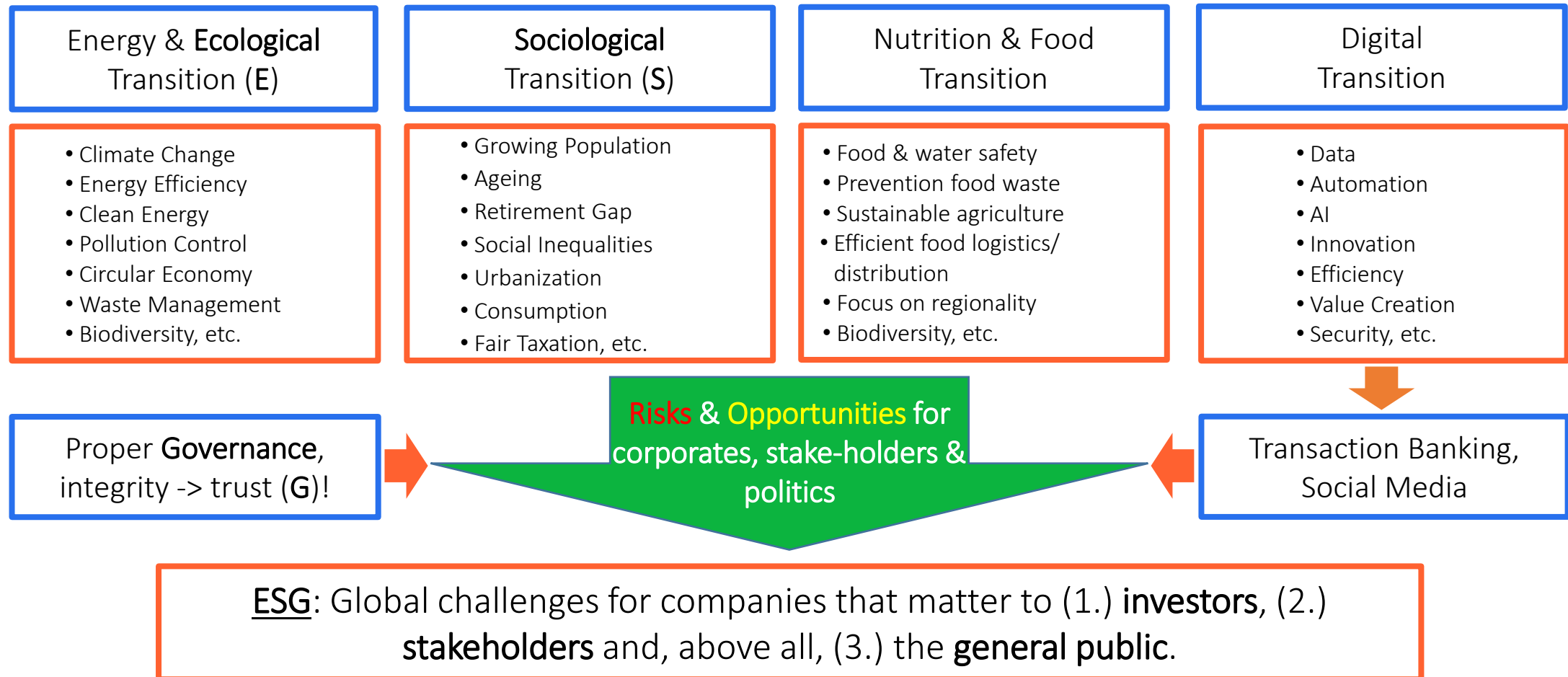
United Nations: Sustainable Development Goals (SDG)

SDGs through the lens of ESG



Source: ResearchGate

Global Megatrends & ESG Value Drivers



Source: Fritz Mostboeck/ EFFAS, European Federation of Financial Analyst Societies

ESG: Benefits & the Role of the Capital Markets

What are the company benefits?

ESG is not a marketing gag.

Differentiation effectively creates in the longer run:

1. Competitive advantage,
2. Higher reputation (e.g. Credit Suisse -> reputational risk),
3. Confidence, credibility and trust.



These components are the basis for the sustainable success of a company. Therefore, applied ESG increases the value of a company and reduces risks.

Source: Fritz Mostboeck/ EFFAS, European Federation of Financial Analyst Societies

What role do the capital markets play and what advantages do they offer?

- Wide **transparency** is rewarded, **lack** of it is sanctioned,
- **Soft facts** are also measured by the share price,
- **ESG** and the **capital market** stand for performance orientation,
- Creation of a **common good**,
- Efficient **allocation** of financial resources.

Capital markets are the most **appropriate medium** for a comprehensive valuation (including soft facts) because:

- **Listed companies** => represent the majority of global GDP (~60% equities, bonds are ~130%/ government- and corporate bonds).
- Still disadvantages: general **investor awareness**, **greed**, **carelessness** and **civil courage**,
but: -> **public pressure** continues to increase - from various sides.

Source: Fritz Mostboeck/ EFFAS, European Federation of Financial Analyst Societies

Contacts Erste Group Research

Visit www.erstegroup.com or type on Bloomberg [ESTE <GO>](#)

Erste Group Research (Vienna)

Fritz Mostböck, CEFA®, CESGA®
Head of Group Research
+43 5 0100 11902
friedrich.mostboeck@erstegroup.com

Juraj Kotian
Head of CEE Macro/ FI Research
+43 5 0100 17357
juraj.kotian@erstegroup.com

Gudrun Egger, CEFA®
Head of Major Markets & Credit Research
+43 5 0100 11909
gudrun.egger@erstegroup.com

Henning Eßkuchen
Head of CEE Equity Research
+43 5 0100 19634
henning.esskuchen@erstegroup.com

Local Research Offices

Bratislava
Slovenska Sporitelna
Head: Maria Valachyova
+421 (2) 4862 4158
valachyova.maria@slsp.sk

Budapest
Erste Bank Hungary
Head: Jozsef Miro
+36 (1) 235 5131
Jozsef.Miro@erstebroker.hu

Bucharest
Banca Comerciala Romana (BCR)
Head: Ciprian Dascalu
+40 3735 10 424
ciprian.dascalu@bcr.ro

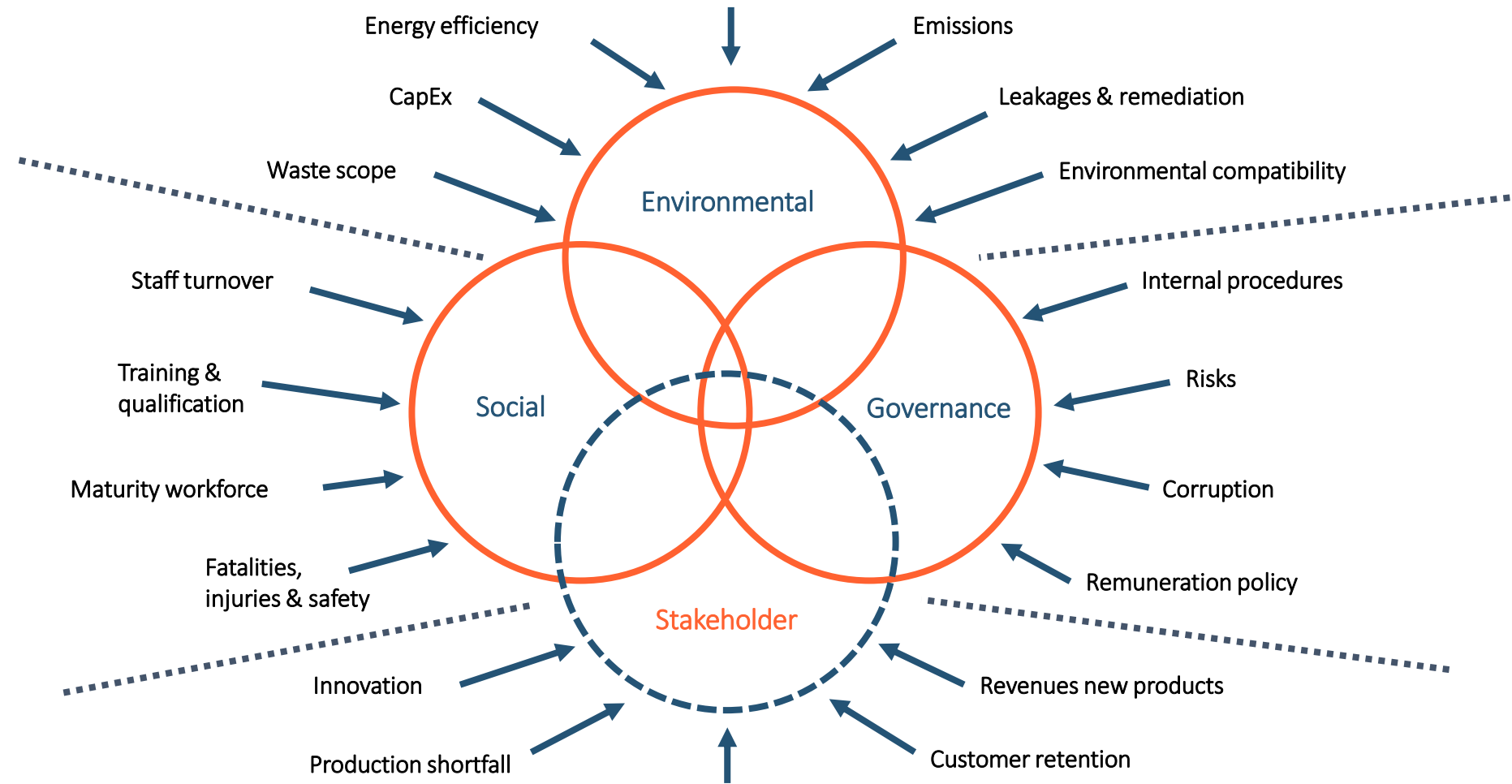
Prague
Ceska Sporitelna
Head: David Navratil
+420 224 995 439
DNavratil@csas.cz

Warsaw
Erste Securities Polska
Head: Cezary Bernatek
+48 22 257 5751
Cezary.Bernatek@erstegroup.com

Zagreb/ Belgrade
Erste Bank
Heads: Alen Kovac, Mladen Dodig
+385 72 37 1383, +381 1122 09178
akovac2@erstebank.com
Mladen.Dodig@erstebank.rs

Appendix

How to measure ESG?



Source: Fritz Mostboeck/ EFFAS, European Federation of Financial Analyst Societies

Overview

Erste Group Research

Research units in Vienna (headquarters) and seven CEE countries

Group Research: our CEE competence

- Presence in all markets where Erste Group as a bank is present
- Plus Poland: Erste Securities Polska

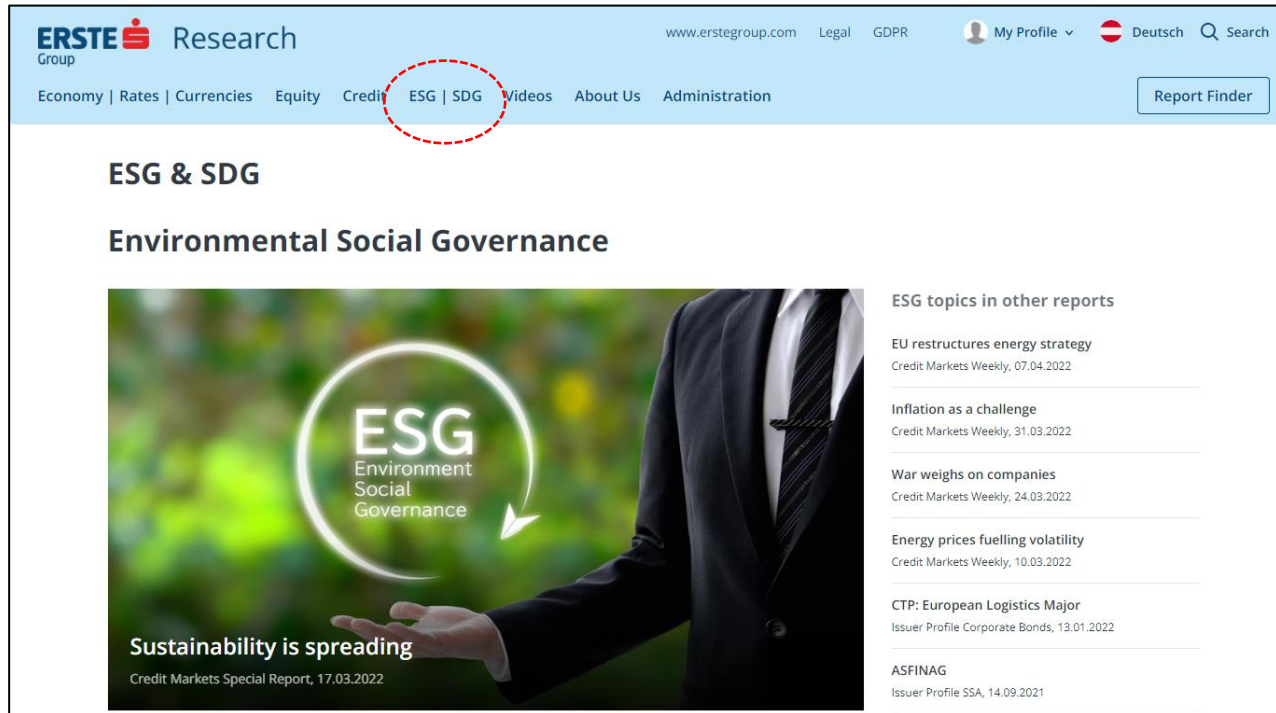
Our advantage: **Deep insights based on local knowledge/ experts**

- Eight core markets: A, PL, CZ, SK, HU, HR, RS, RO
- 3,600 PDF reports p.a. (English), 5,000 PDFs (incl. local languages)
- +/-140 covered stocks

E.g. supranational CEE research reports that summarize/ cover the whole region on a frequent basis.

Sources: Erste Group Research

Visit the ESG | SDG - section on our Erste Group Research website



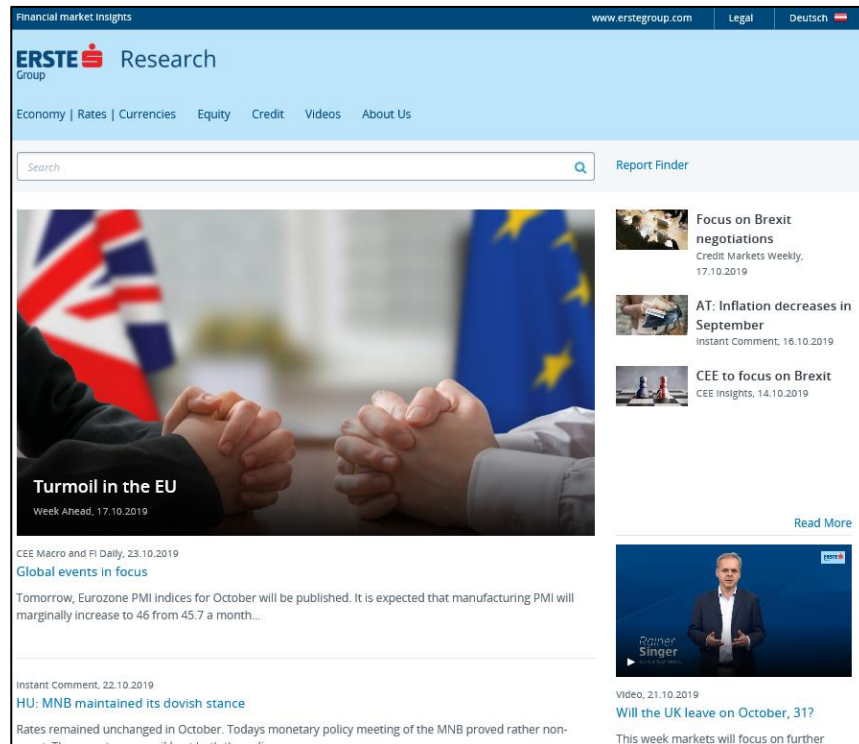
➔ <https://www.erstegroup.com/en/research>

- All public ESG-reports are available there (for equity reports please register - for MiFID2-reasons - as an Erste employee).
- Also included: the current SDG-status of our CEE core country-universe.

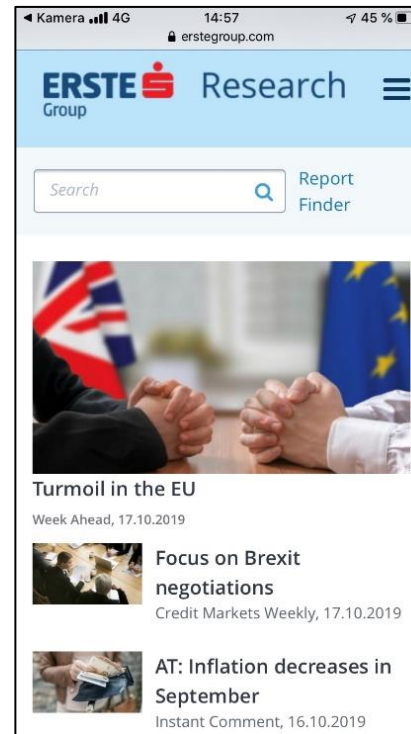
Source: Erste Group Research

Macro reports & forecasts are publicly available on Erste Group's website and our mobile applications

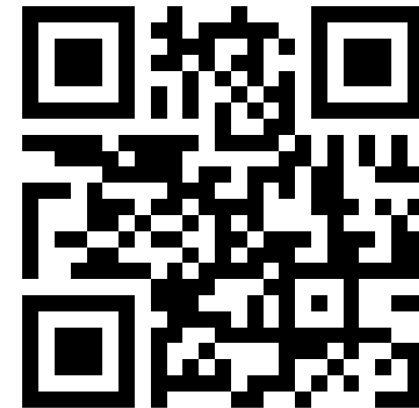
Open in your **browser**



On your **mobile**



Scan our QR code



Visit our research page:
erstegroup.com/en/research

Disclaimer

Erste Group Bank AG
Group Research
1100 Wien,
Telefon: +43 (0)5 0100 - 11902

Copyright: 2023 EGB AG, All rights reserved

This investment research (the "Document") has been prepared by Erste Group Bank AG or any of its consolidated subsidiaries (together with consolidated subsidiaries "Erste Group") independently and objectively for the purpose of providing additional economical information about the analyzed company or companies. The Document is based on reasonable knowledge of Erste Group's analyst in charge of producing the Document as of the date thereof and may be amended from time to time without further notice. It only serves for the purpose of providing non-binding information and does not constitute investment advice or investment recommendations. This Document does not constitute or form part of, and should not be construed as, an offer, recommendation or invitation to subscribe for or purchase any securities, and neither this Document nor anything contained herein shall form the basis of or be relied on in connection with or act as an inducement to enter into any contract or inclusion of a security or financial product in a trading strategy. All information, analysis and conclusions provided herein are of general nature. This Document does not purport to provide a comprehensive overview about any investment, the potential risks and results nor does this Document take into account any individual needs of an investor (the "Investor") in relation to proceeds, tax aspects, risk awareness and appropriateness of the security or financial product. Therefore, this Document does not replace any investor- and investment-related evaluation nor any comprehensive risk disclosure; any security or financial product has a different risk level. Performance charts and example calculations do not provide any indication for future performance of the security or the financial product. Information about past performance does not necessarily guarantee a positive development in the future and investments in securities or financial products can be of risk and speculative nature. The weaker the Company's credit-worthiness is, the higher the risk of an investment will be. Not every investment is suitable for every investor. Therefore, Investors shall consult their advisors (in particular legal and tax advisors) prior to taking any investment decision to ensure that – irrespective of information provided herein – the intended purchase of the security or financial product is appropriate for the Investor's needs and intention, that the Investor has understood all risks and that, after due examination, the Investor has concluded to make the investment and is in a position to bear the economical outcome of such investment. Investors are advised to mind the client information pursuant to the Austrian Securities Supervision Act 2007. Financial analysis is produced by Erste Group's division for financial analysis within the framework provided by applicable laws. The opinions featured in the equity and credit research reports may vary. Investors in equities may pursue different interests compared to those of investors on the credit side, related to the same issuer. The analyst has no authority whatsoever to make any representation or warranty on behalf of the analyzed Company, Erste Group, or any other person. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable, Erste Group (including its representatives and employees) neither expressly nor tacitly makes any guarantee as to or assumes any liability for the up-to-dateness, completeness and correctness of the content of this Document. Neither a company of Erste Group nor any of its respective managing directors, supervisory board members, executive board members, directors, officers or other employees shall be in any way liable for any costs, losses or damages (including subsequent damages, indirect damages and loss of profit) howsoever arising from the use of or reliance on this Document. Erste Group, associated companies as well as representatives and employees may, to the extent permitted by law, have a position in the securities of (or options, warrants or rights with respect to, or interest in the financial instruments or other securities of) the Company. Further, Erste Group, associated companies as well as representatives and employees may offer investment services to the Company or may take over management function in the Company. This Document has been produced in line with Austrian law and for the territory of Austria. Forwarding this Document as well as marketing of financial products described herein are restricted or interdicted in certain jurisdictions. This, in particular, applies to the United States, Canada, Switzerland, Australia, Korea and Japan. In particular, neither this Document nor any copy hereof may be taken or transmitted or distributed, directly or indirectly, into the United States or to US Persons (as defined in the U.S. Securities Act of 1933, as amended) unless applicable laws of the United States or certain federal states of the United States provide for applicable exemptions. Any failure to comply with these restrictions may constitute a violation of the laws of any such other jurisdiction. Persons receiving possession of this Document are obliged to inform themselves about any such restrictions and to adhere to them. By accepting this Document, the recipient agrees to be bound by the foregoing limitations and to adhere to applicable regulations. Further information may be provided by Erste Group upon request. This Document and information, analysis, comments and conclusions provided herein are copyrighted material. Erste Group reserves the right to amend any opinion and information provided herein at any time and without prior notice. Erste Group further reserves the right not to update any information provided herein or to cease updates at all. All information provided in this Document is non-binding. Misprints and printing errors reserved.

If one of the clauses provided for in this disclaimer is found to be illicit, inapplicable or not enforceable, the clause has to be treated separately from other clauses provided for in this disclaimer to the largest extent possible. In any case, the illicit, inapplicable or not enforceable clause shall not affect the licitness, applicability or enforceability of any other clauses.



EFFAS SUMMER SCHOOL 2023

Lisbon, 6/7 July

Key Note

“The Macro Environment and ESG”

Fritz Mostboeck, CEFA[®], CESGA[®]

Deputy Chairman, EFFAS

Chairman, OVFA

Head of Group Research, Erste Group Bank AG

**The European
Federation of
Financial Analyst
Societies**

Sophienstraße 44,
60487 Frankfurt am Main
office@effas.com
www.effas.com