



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

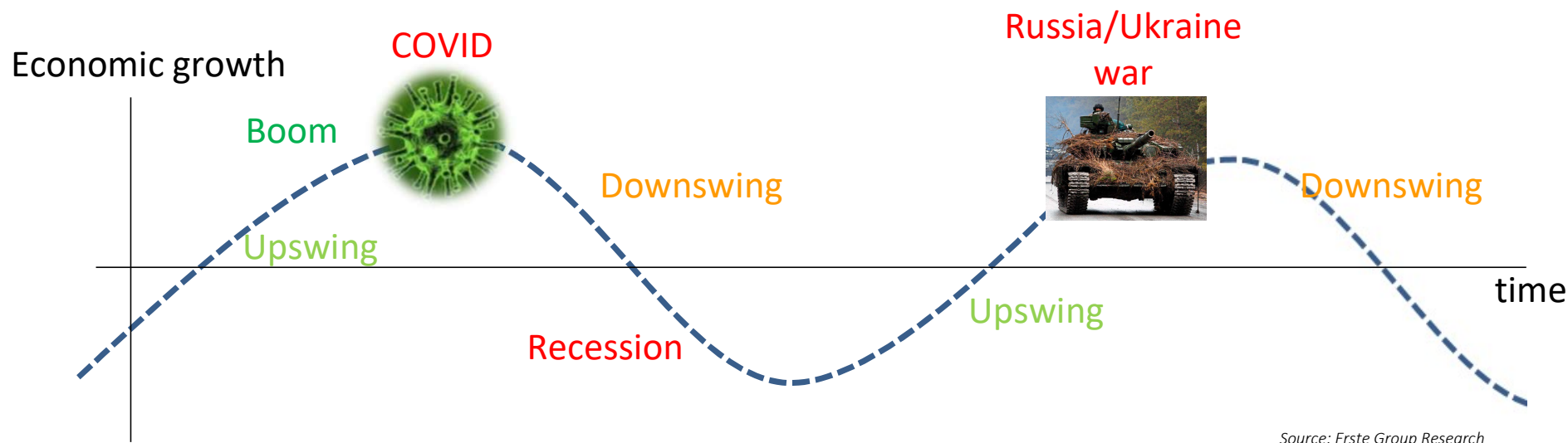
**The European
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Sophienstraße 44,
60487 Frankfurt am Main
office@effas.com
www.effas.com



International environment

The war weighs on an already difficult environment



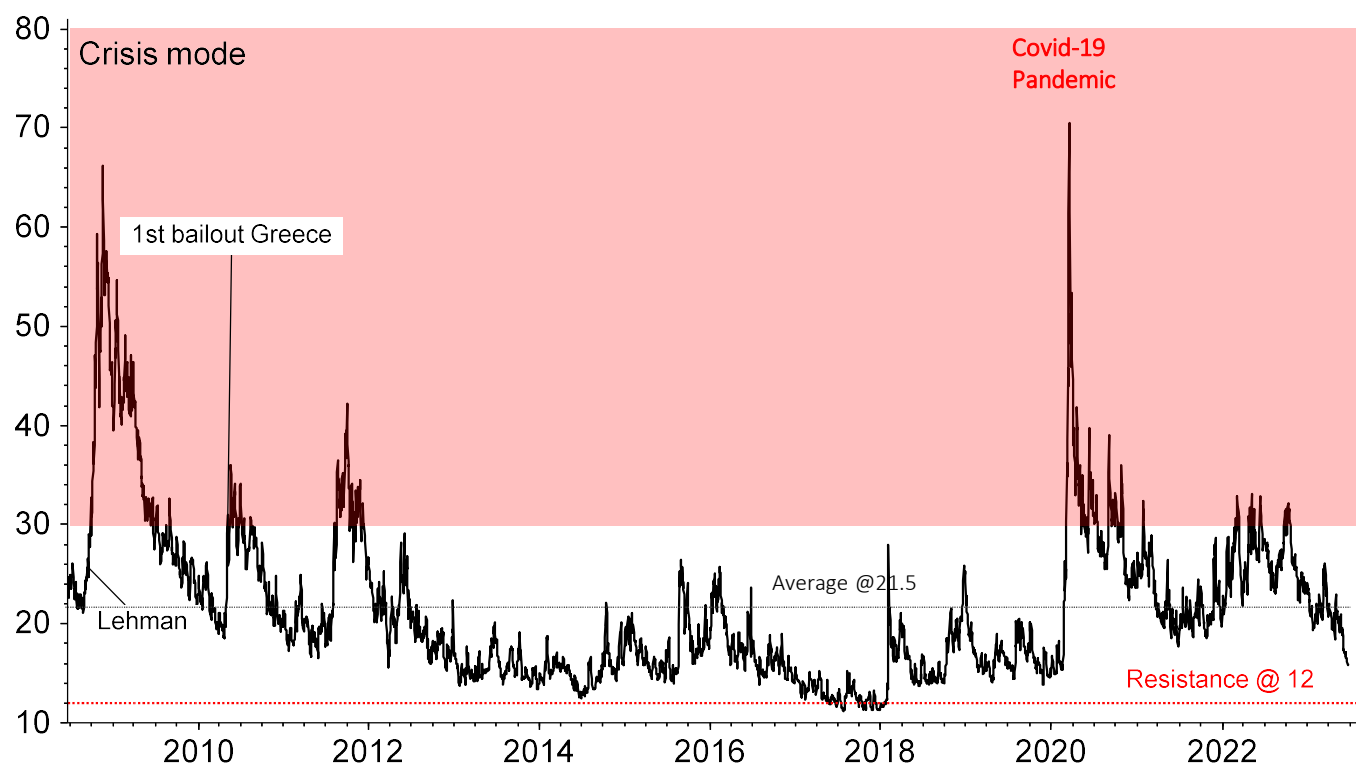
After Covid catch-up process and above-average growth rates:

- 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

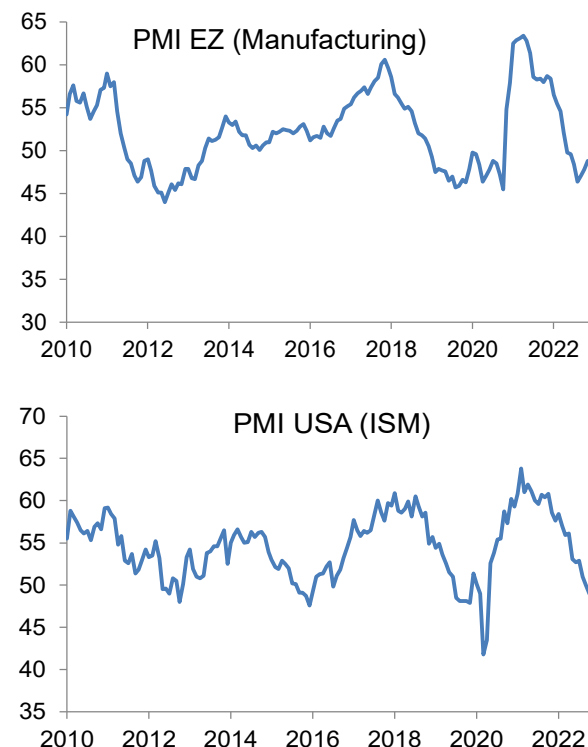


Quelle: Erste Group Research

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

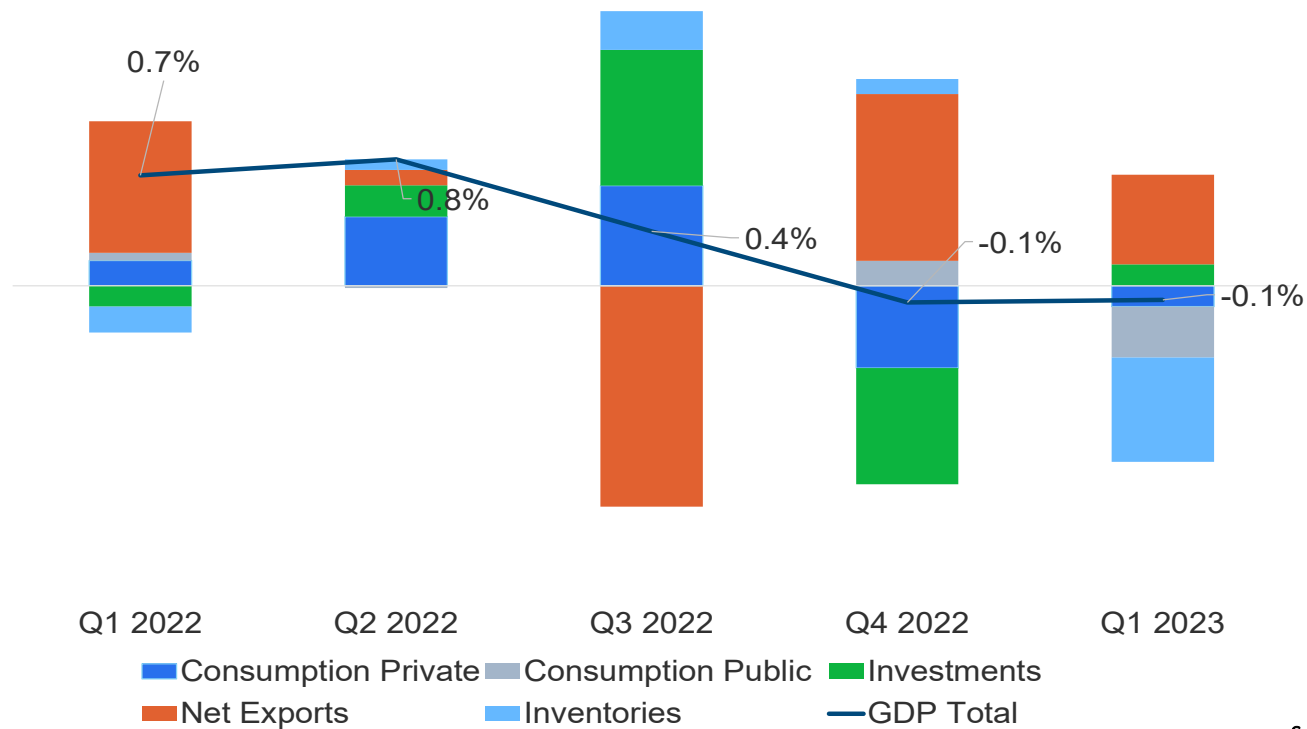


- The inflation shock in 2022 triggered an unexpectedly strong tightening of monetary policy by the major central banks. The now high interest rate level will have a dampening effect on growth in the medium term.
- With the end of the pandemic, the distribution of demand has shifted from goods to services.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

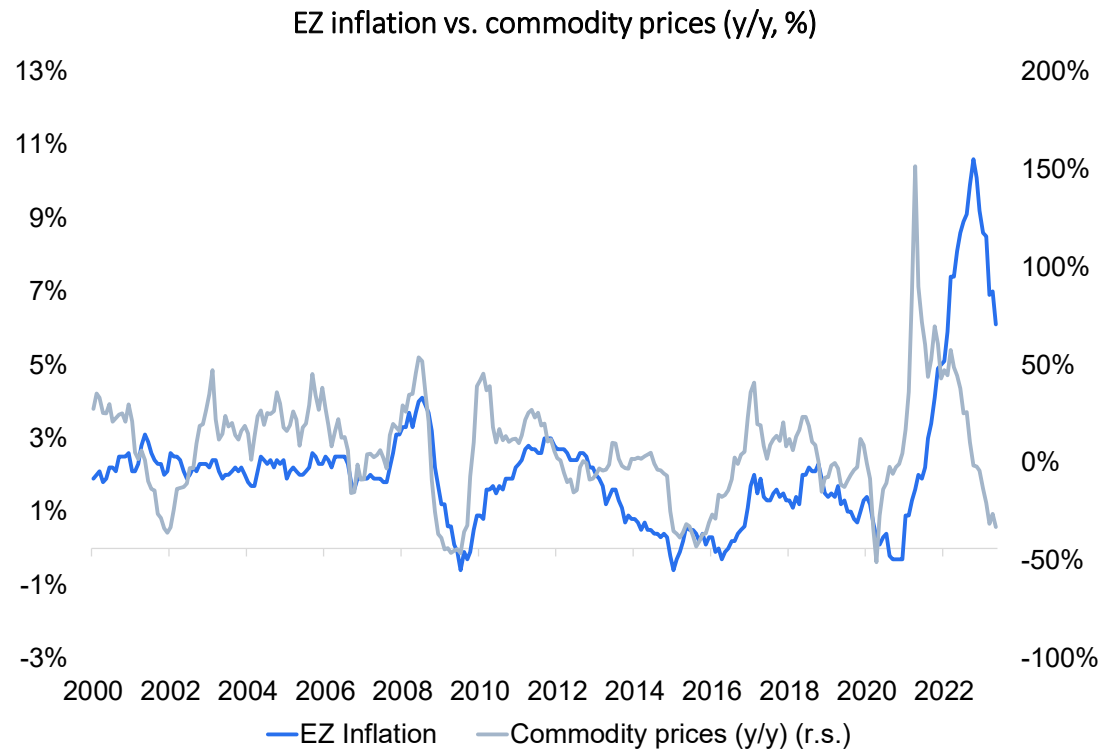
EZ-GDP growth 1Q 2022 – 1Q 2023 (q/q, %)



Source: Eurostat, Erste Group Research

Eurozone

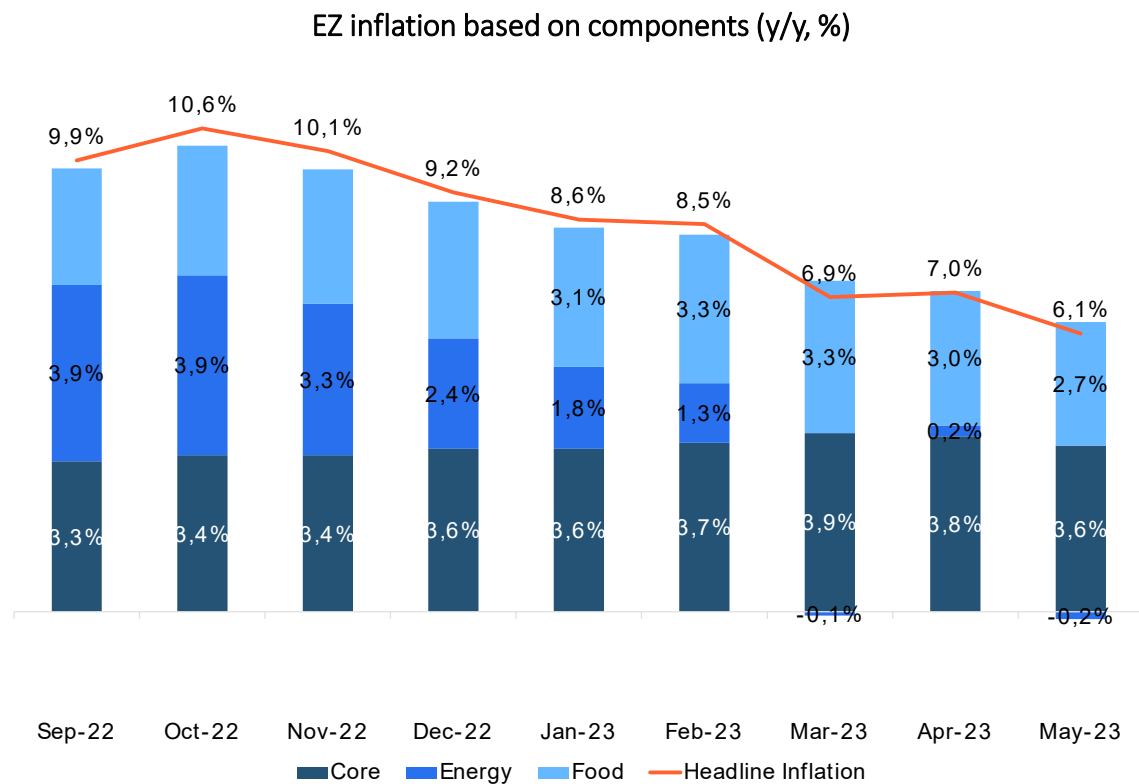
Commodity prices point to falling inflation rates



Source: Eurostat, Bank of Canada, Erste Group Research

Eurozone

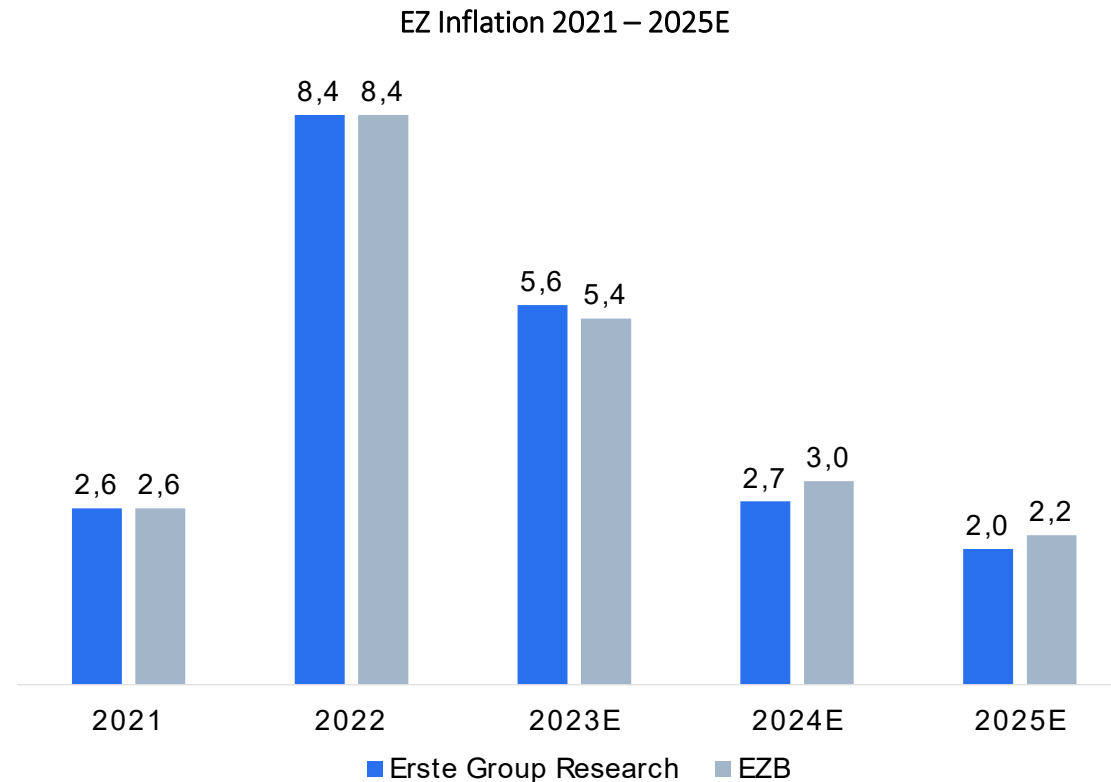
Inflation loses dynamic



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



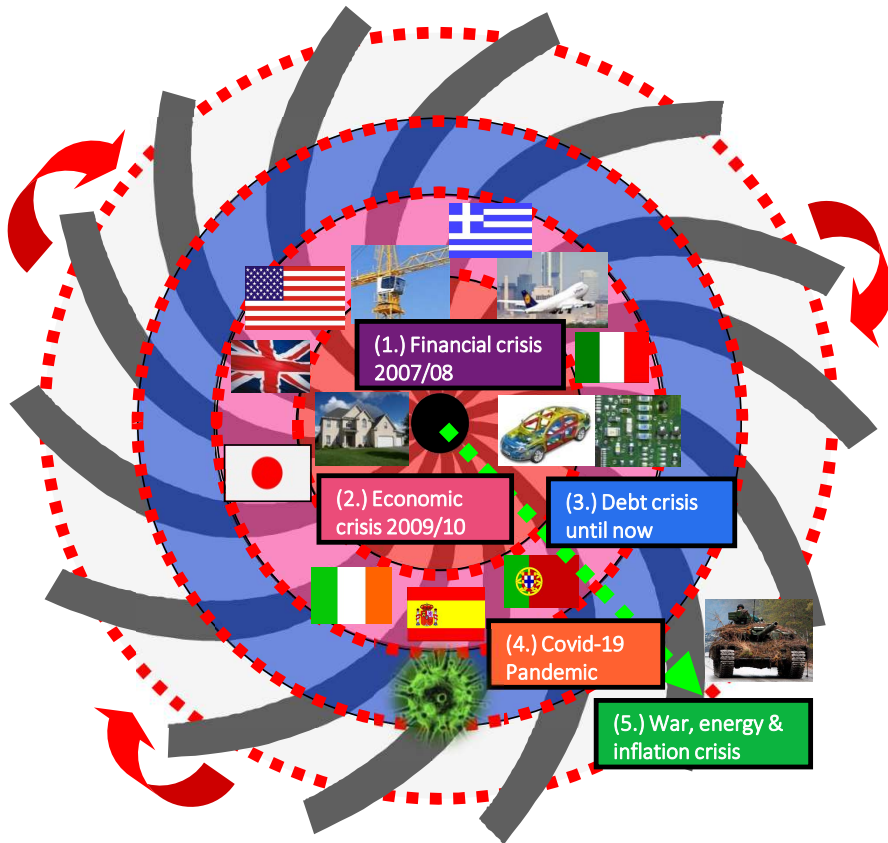
2006

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

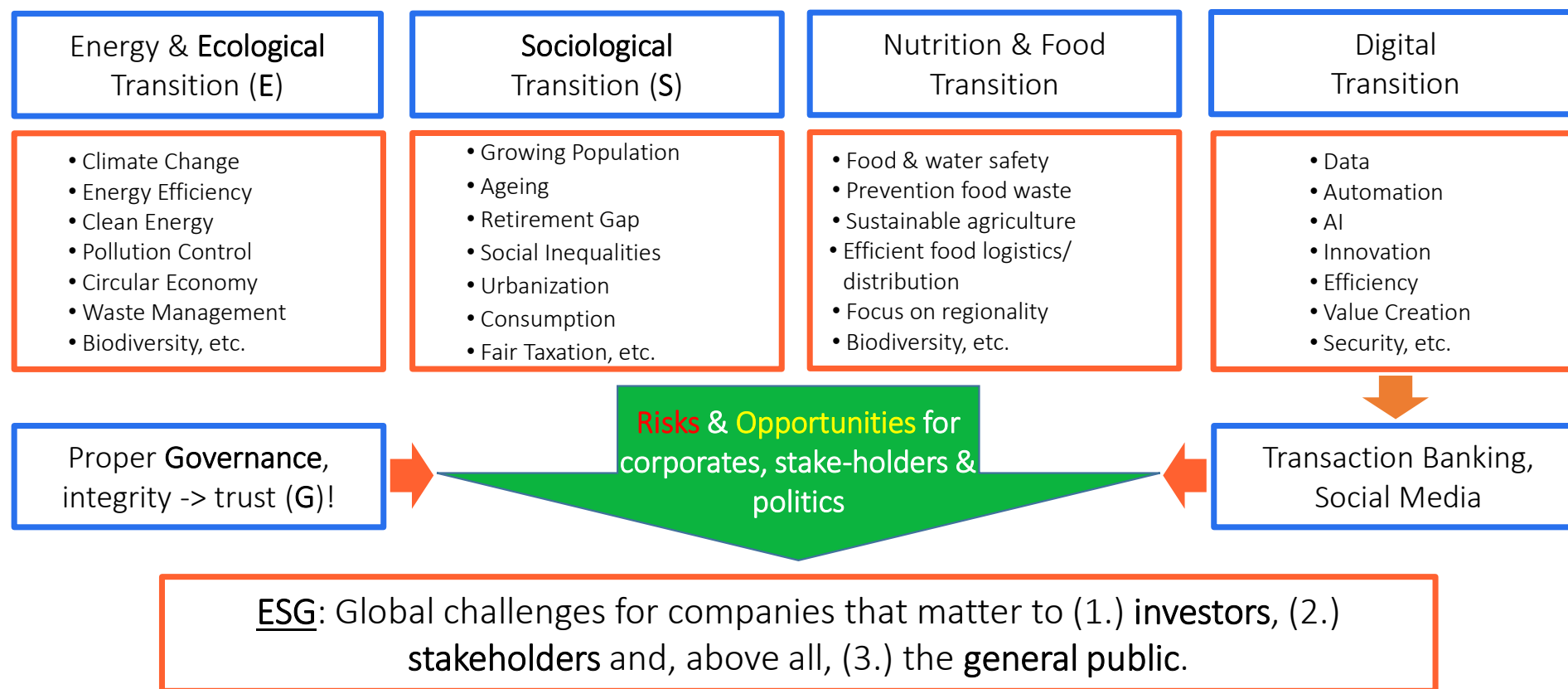
United Nations: Sustainable Development Goals (SDG)

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

ESG

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

ESG

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

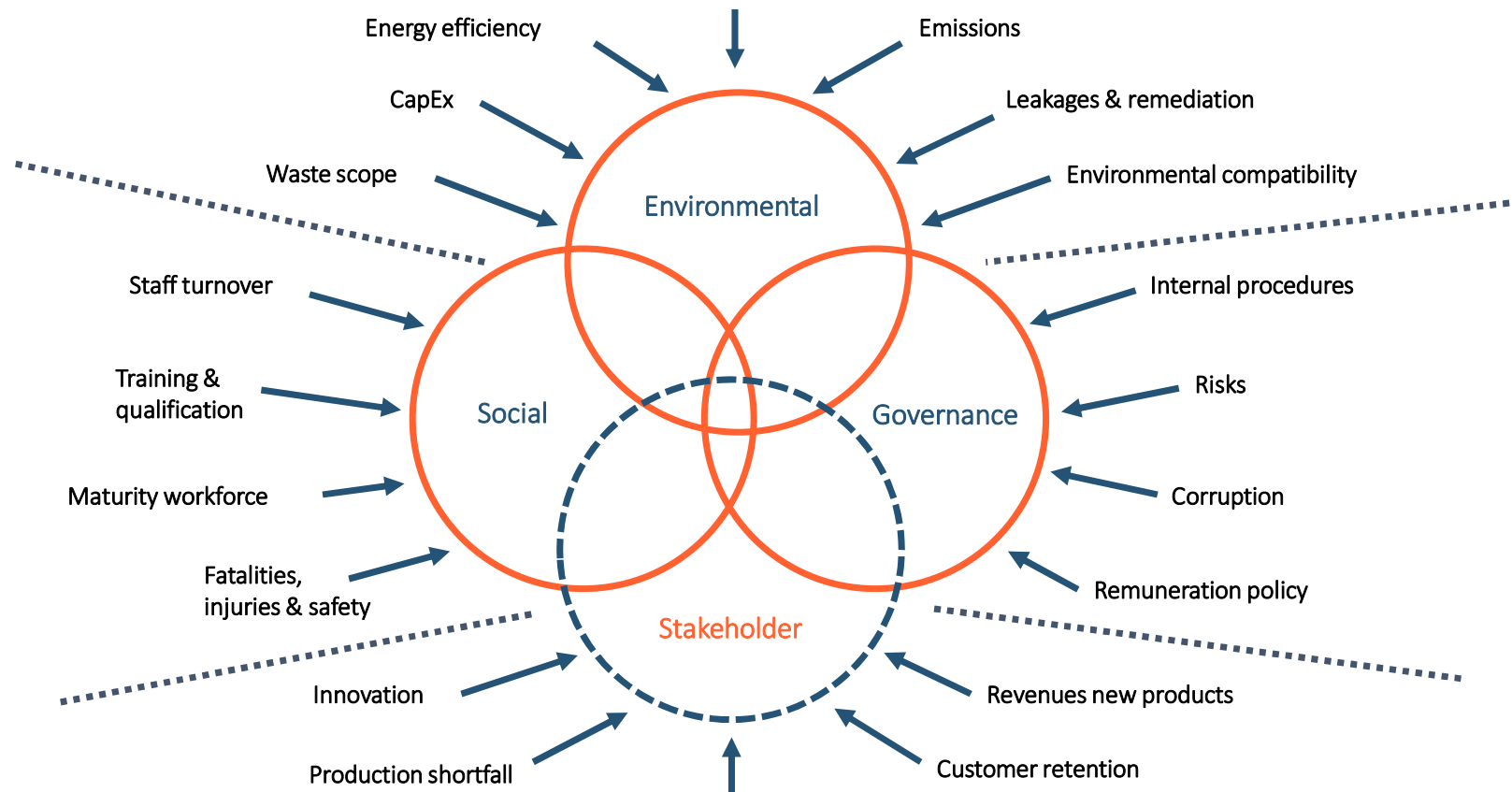
Prague
Ceska Sporitelna
Head: David Navratil
+420 224 995 439
DNavratil@csas.cz

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?



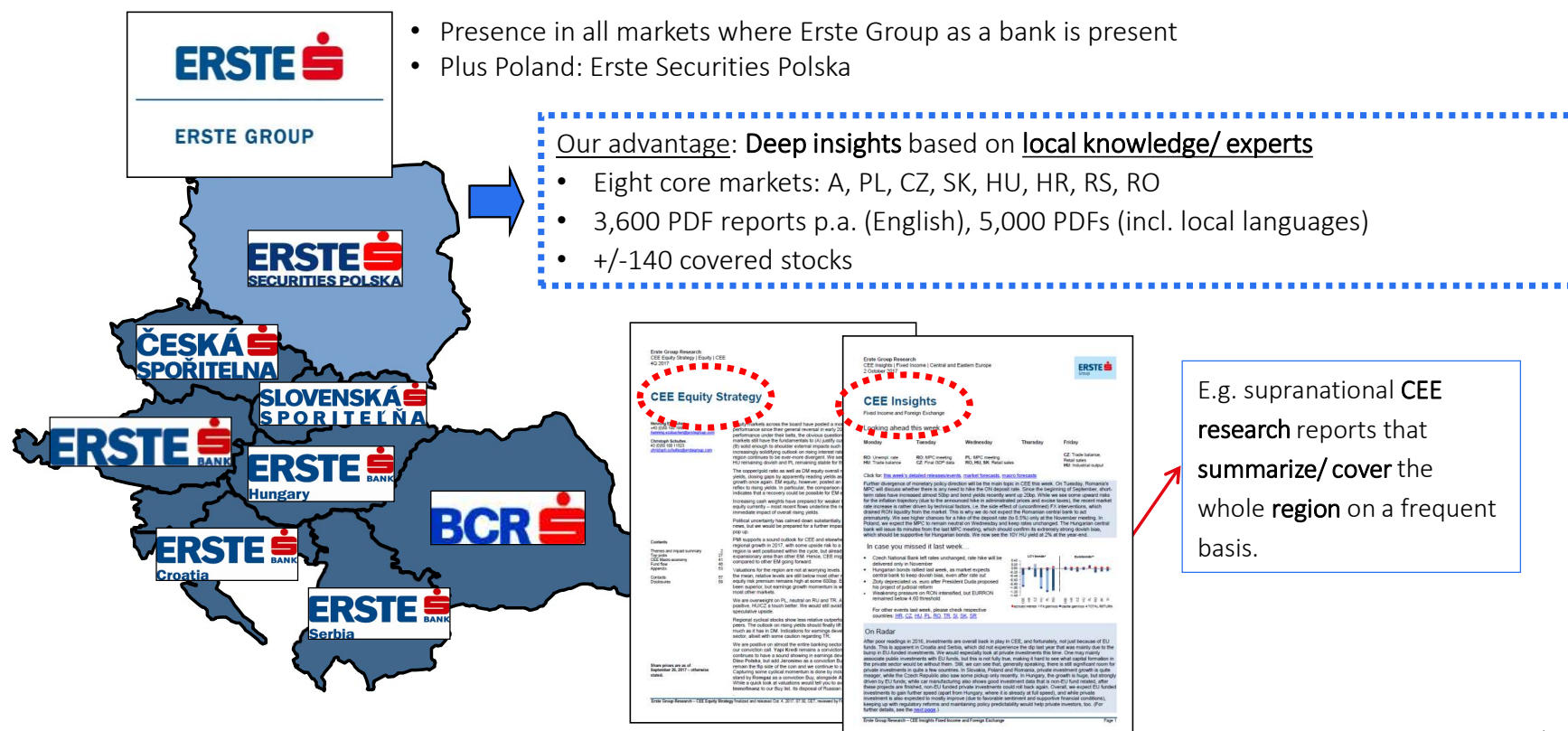
Source: Fritz Mostboeck/ EFFAS, European Federation of Financial Analyst Societies

Overview

Erste Group Research

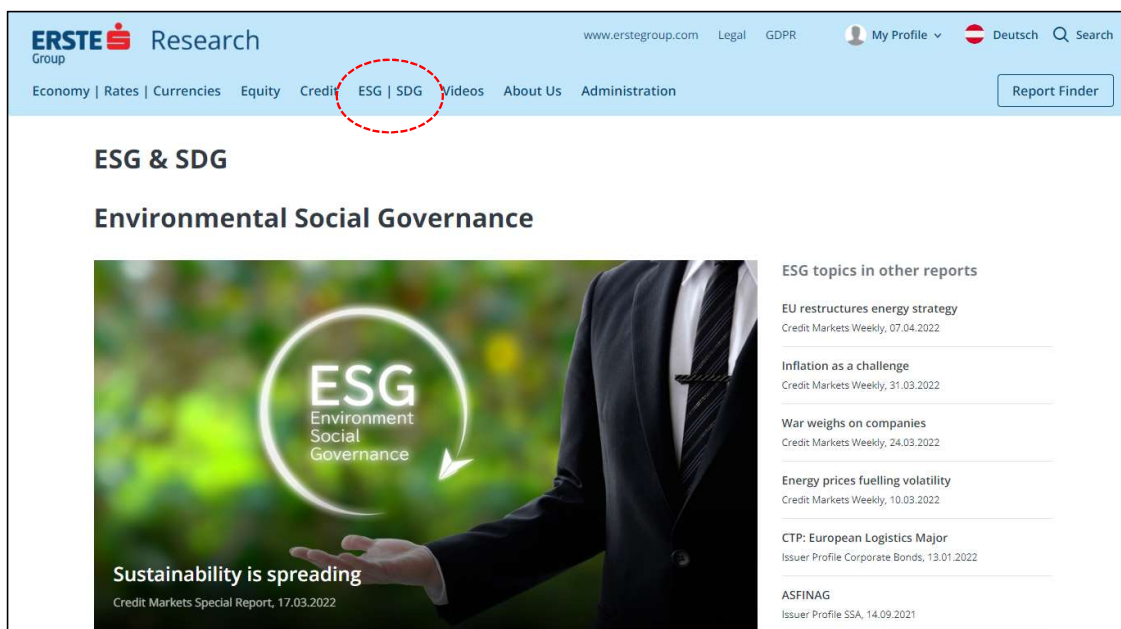
Research units in Vienna (headquarters) and seven CEE countries

Group Research: our CEE competence



Sources: Erste Group Research

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



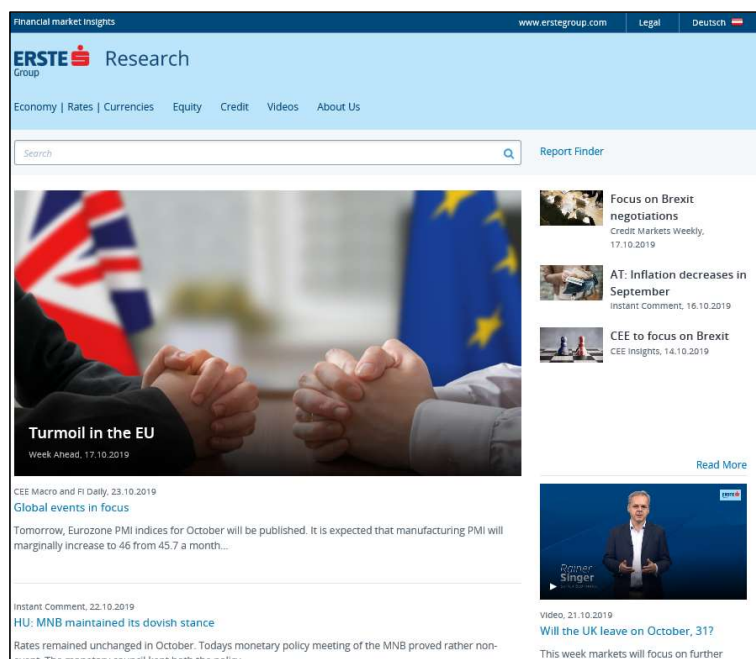
➔ <https://www.erstegroup.com/en/research>

- 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.

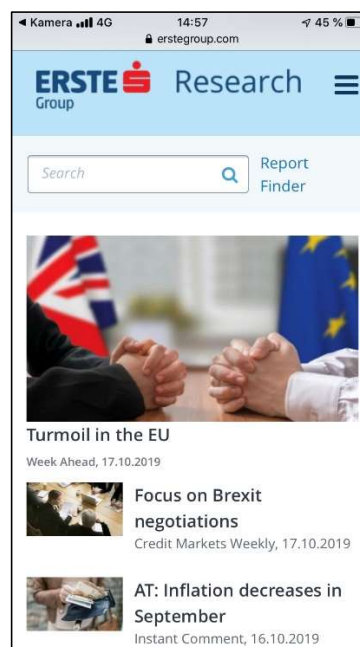
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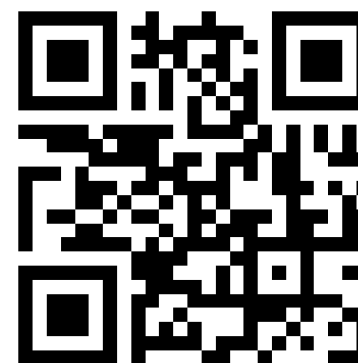
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Erste Group Bank AG
Group Research
1100 Wien,
Telefon: +43 (0)5 0100 - 11902

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