Macroeconomic and Strategic Analysis

UniCredit Weekly Report

NBR's May Inflation Report showed upward revisions to the forecasted annual inflation

26 May, 2025

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Weekly briefing

In the US, **President Trump** announced in a press conference on Friday that **a 50% levy on EU imports** to be imposed as of **1 June**, **subsequently postponed to 9 July**.

The eurozone, German and French PMIs were in the contractionary area in May. The **eurozone composite PMI fell to 49.5 in May** from 50.4 in April, missing expectations. **May marked the first contraction in the eurozone's private sector activity**, after four months of expansion. The **eurozone manufacturing PMI rose slightly to 49.4 in May** from 49.0 in April. **Manufacturing output improved for the fifth consecutive month and new orders stabilized,** signaling the slowest contraction in manufacturing since August 2022. **Employment was resilient**, dropping at its slowest this year. The **eurozone services PMI decreased to 48.9 in May** from 50.1 in April, **at a sixteen-month low, triggered by the softer foreign and domestic demand.** On a more positive note, there was a modest increase in staffing levels. The **French composite PMI edged up to 48 in May**, **recording the nineth month in the contractionary area** (below 50 points). The **German composite PMI declined to 48.6 in May**, from 50.1 in April. **The private sector activity contracted**, after slight expansions over the previous four months, **triggered by deepening the services' sector into the contractionary zone** (47.2 vs. 49.0 in April), **at the fastest pace in the last two and a half years**, while **manufacturing sector continued to contract, but at a slower pace** (48.8 vs. 48.4 in April). The **German producer prices declined further by 0.6%mom in April**, the fifth consecutive drop. **In yearly terms, they fell by -0.9%, driven by the lower energy prices** (-6.4%yoy). **Excluding energy, producer prices rose by 1.5%.** The **German Ifo Business Climate index rose to 87.5 in May** from 86.9 in April, better than expected.

In Romania, **the construction works were up by 6.4%yoy in March 2025** (gross data), mainly due to the positive evolution of engineering works (+14.4%yoy). The non-residential buildings increased to a lower extent (+5%), while the residential buildings recorded a fall (-11.7%yoy). **The NBR's May Inflation Report showed an upward revision to the annual inflation anticipated**, by 0.8pp to 4.6% at the end of 2025 and by 0.3pp to 3.4% at the end of 2026. **The new adjusted CORE2 forecast places the indicator at 4.5% at year-end (vs. 3.7% in the previous estimate) and at 3.2% at the end of 2026 (vs. 2.9%).**

This week's calendar for the external market includes the **German Gfk Consumer Confidence and EMU Economic Sentiment** (Tuesday), the German **unemployment rate** and the **US FOMC Minutes** (Wednesday), the final **1Q25 US GDP growth rate** (Thursday), **German retail sales** and **inflation rate**, **US PCE inflation rate** and **Michigan Consumer Sentiment** (Friday). The data calendar for **Romania** is light an only includes the **monetary indicators for April** (Tuesday).

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Data spotlight: 19 - 23 May

CURRENCIES - MAJORS			
Currencies	Last	1D ch (%)	1M ch (%)
EURUSD	1.1383	0.16%	0.52%
EURCHF	0.94	0.06%	0.96%
USDJPY	142.85	0.22%	-0.41%
GBPUSD	1.3562	0.16%	2.33%

CURRENCIES - CEE			
Currencies	Last	1D ch (%)	1M ch (%)
EURPLN	4.2485	-0.31%	-0.92%
EURHUF	403.55	-0.06%	-1.20%
EURCZK	24.87	0.21%	-0.60%

CURRENCIES - NBR REFERENCE				
Currencies	EUR	USD	SDR	XAU (1g)
26-May	5.0612	4.4478	1.2438	0.5677

CURRENCIES - RON		
	EURRON	USDRON
26-May	5.061	4.447
23-May	5.056	4.446
22-May	5.058	4.483

FIXED INCOME MARKET YIELDS - LOCAL				
Mid-rate	1Y	3Y	5Y	10Y
26-May	7.6	7.4	7.5	7.4
23-May	7.6	7.4	7.5	7.4
21-May	7.6	7.4	7.6	7.5

MONEY MARKET RATES - LOCAL			
ROBOR	ON	1M	3M
26-May	6.80	7.20	7.20
23-May	7.35	7.20	7.35
22-May	5.80	7.20	7.30

MONEY MARKET RATES - MAJORS			
Euribor	1M	3M	6M
23-May	2.09	2.04	2.10
22-May	2.09	2.05	2.12
21-May	2.05	2.05	2.11
USDSFOR	1M	3M	6M
23-May	4.32	4.35	4.42
22-May	4.32	4.35	4.42
21-May	4.32	4.35	4.42

STOCK MARKETS			
Index	Last	1D ch (%)	1M ch (%)
S&P 500	5,802.8	-0.67%	7.94%
FTSE	8,718.0	-0.24%	3.75%
Hang Seng	23,282.3	-1.35%	5.48%
Bucharest BET	17,696.5	1.14%	1.85%

Romanian Economy

The construction sector increased by 12.2%yoy in the first quarter of 2025

The construction works were up by 6.4%yoy in March 2025 (gross data), mainly due to the positive evolution of engineering works (+14.4%yoy). The non-residential buildings increased to a lower extent (+5%), while the residential buildings recorded a fall (-11.5%yoy).

In comparison to February 2025, the total volume of construction works rose by 4.6%mom (seasonally adjusted data) due to increases in engineering works (+9.4%) and in residential buildings (+0.3%mom), while non-residential buildings were down 5.7%mom.

The construction sector has been on a positive trend and was up 12.2%yoy (gross data) in 1Q2025, with widespread increases: +18.9% for engineering works, +11.1% for residential buildings and +2%yoy for non-residential buildings. In spite of the strong start of the year, this growth pace might temper as we progress into the year, depending on the absorption of EU funds, the evolution of investment and the fiscal policy. Yet, we expect the construction sector to return to growth in 2025 overall.

May 2025 Inflation Report

As expected, the NBR's May Inflation Report showed an upward revision to the annual inflation anticipated, by 0.8pp to 4.6% at the end of 2025 and by 0.3pp to 3.4% at the end of 2026. This forecast was based on data before the 1st of May and does not include

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Data spotlight: 19 - 23 May

Romanian Economy (continued)

the developments during the presidential elections. The revision was mainly driven by the increase in the projection for the adjusted CORE2 index, even though energy prices fell, especially gas. The new adjusted CORE2 forecast places the indicator at 4.5% at year-end (vs. 3.7% in the previous estimate) and at 3.2% at the end of 2026 (vs. 2.9%). At the same time, the forecast includes an upward adjustment of the electricity price in July 2025, when the current capping scheme is expected to end (+15%), with a persistent impact for 4 quarters on the inflation rate. NBR's inflation forecasts don't include any scenario of tax increases this year, but the governor emphasized the dire need for fiscal adjustment to combat the twin deficits. Depending on what fiscal measures will be implemented by the future government, the NBR inflation forecast may change.

The main takeaways from the press conference are:

- The absorption of EU funds is vital for this year, with economic growth dependent on the ability to unlock and utilize frozen funds.
- Mr. Isărescu emphasized that the central bank intervened from the day after the first round of the presidential elections with "large sums" to offset the effects of the large capital outflows, but ultimately it was impossible to prevent the depreciation of the RON. An emergency task force was formed to evaluate the situation and act as a braking pad to the fast deprecation of the RON. He also mentioned that reserves are still at optimal levels, although considerable amounts were used for interventions (the extent of which will be seen when reserves are published).
- The governor's overarching message was to highlight the need for the new government to regain credibility of markets and investors by creating stability and presenting a clear pathway to reach the 7% of GDP deficit target by year-end. He mentioned multiple times throughout his speech that Romania's economic position is tricky but there still are solutions to steer it in the right direction, through serious measures.
- Regarding the key rate, Mr. Isărescu suggested that if market rates come down, the recent capital outflows are reversed and stability is restored, a key rate cut would be possible in the second half of the year.

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Data spotlight: 19 - 23 May

European Economy

- **German producer prices declined further in April**

Germany's producer prices fell by 0.6%mom in April, after -0.7%mom in March, the fifth consecutive monthly drop. In yearly terms, they fell by 0.9%yoy In April, marking the second consecutive decrease. The energy prices fell by 6.4%yoy, especially for electricity (-7.5%yoy) and natural gas (-6.2%yoy). However, prices for non-durable consumer goods increased by 3.2% and those for durable consumer goods by 1.4%. The cost of capital goods rose by 2.0%, especially in machinery (1.9%) and motor vehicles, trailers, and semi-trailers (1.4%). Removing energy, producer prices rose by 1.5%.

- **The German Ifo Business Climate index rose in May**

The Ifo business climate indicator for Germany rose to 87.5 in May from 86.9 in April, better than expected. The expectations' component improved to 88.9 form 87.4 in April, while the current conditions component decreased to 86.1 points in May from 86.4 points last month. Ifo President Clemens Fuest stated that "The recent sharp rise in uncertainty among companies has eased somewhat. The German economy is slowly regaining its footing".

- **The eurozone, German and French PMIs in the contractionary area in May**

The eurozone composite PMI fell to 49.5 in May from 50.4 in April, missing expectations [UniCredit: 50; consensus: 50.6]. May marked the first contraction in the eurozone's private sector activity this year, after four months of expansion. The month saw fewer new orders placed for businesses, after front-loading of orders in March, considering the prospect of higher US tariffs and retaliatory actions by the EU in April. The new jobs creation remained steady, nevertheless, since order backlogs continued to drive capacity demand.

The eurozone manufacturing PMI rose more than expected to 49.4 in May [UniCredit: 48.5; consensus: 49.2], from 49.0 in April. Manufacturing output improved for the fifth consecutive month and new orders stabilized, signaling the slowest contraction in manufacturing since August 2022. Employment was resilient, dropping to the slowest pace this year. The input costs declined for the second straight month and the selling prices fell for the first time in three months.

The eurozone services PMI decreased to 48.9 in May missing expectations [UniCredit: 49.8; consensus: 50.5], from 50.1 in April. The services index reached a sixteen-month low, as a result of a combination of softer foreign and the sluggish domestic demand. On a more positive note, there was a modest increase in staffing levels.

The French composite PMI edged up to 48 in May, from 47.8 in April, recording the ninth month in the contractionary area (below 50 points). The service sector was the main driver (47.4 vs. 47.3), while manufacturing nearly stalled (49.5 vs. 48.7).

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Data spotlight: 19 - 23 May

European Economy (continued)

The German composite PMI declined for the second month in a row to 48.6 in May, from 50.1 in April. The private sector activity contracted, following slight expansions over the previous four months. The decline came from the deepening of the services' sector into the contractionary zone (47.2 vs. 49.0 in April), at the fastest pace in the last two and a half years, while the manufacturing sector continued to contract, but at a slower pace (48.8 vs. 48.4 in April).

■ Eurozone exports: frontloading effects will reverse, but when?

Eurozone exports to the US are expected to decline strongly once the frontloading effects wane. However, high uncertainty surrounds the exact timing.

EUROZONE EXPORTS by destination
(volumes s.a., 100=Jan 2018)

Source: Eurostat, The Investment Institute by UniCredit
Data for eurozone exports to the US refer to March 2025, while data for extra- and intra-eurozone exports are available up until February 2025

Eurozone exports of goods to the US have soared since Donald Trump won the presidential elections at the end of 2024, as the US companies frontloaded the import orders to avoid the announced higher tariffs. Eurozone exports to US have increased by an unprecedented 40% since the end of last year. The effect was particularly strong in March 2025, ahead of Trump's "Liberation Day" tariff announcement (2 April).

While the sharp rise of the exports to the US clearly points that a correction will follow in the coming months, Trump's decision to allow for a three-month suspension of reciprocal tariffs raises uncertainty regarding the expected timing of the normalization.

Interestingly, Ireland has recorded by far the largest increase, while Germany and Italy are the best-performing among the largest countries. The surge in Ireland's exports is mainly driven by the medical and pharma goods, which were exempt from sweeping tariffs on 2 April as more US producers are based in Ireland to benefit of the low corporate tax. Things could change, as the respective products are among the ones listed in the investigation launched by the US Department of Commerce and are, therefore, at risk of being hit by higher tariffs going further.

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Data spotlight: 19 - 23 May

European Economy (continued)

UniCredit expects a correction in the US imports once the bilateral negotiations are concluded and there will be more visibility on the level of the US tariffs. This will probably take a few more months. For the eurozone, this implies that the bulk of the tariff-related hit to the eurozone' GDP will likely materialize in 2H25.

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Data spotlight: 19 - 23 May

US Economy

The global economy is in limbo

The Trump administration's reciprocal tariffs announced on 2 April have been put on hold until 8 July. In the meantime, the US is negotiating parallel trade agreements with all its main trading partners.

Immediately after freezing tariffs on 10 April, Peter Navarro, Trump's top trade advisor, stated that the administration had set a trade goal to "run 90 deals in 90 days". Washington recently announced the first of such deals, with the UK.

Two lessons can be learned from this:

1. Trump administration is willing to bring down tariffs, but just up to a point. Therefore, there will not be a return to the initial status quo, and a 10% tariff on the most of goods entering the US will likely become a floor – up from the previous average tariff on US imports of about 2.5%.
2. The complex trade agreements cannot be negotiated in a few weeks. The trade deal with the UK is not yet finalised. There are still details that need to be set up.

Agreements with large economies, like China or the EU, will take even longer. This is not surprising.

Trade negotiations with just a single country can take months or even years given the technicalities involved. And the Trump administration is not just focused on cutting foreign tariffs but on removing all possible trade barriers, such as foreign laws, regulations and policies that it sees as impeding the competition.

Therefore, much of the uncertainty that companies, consumers and investors are experiencing will not dissipate after 8 July (and in China's case beyond 10 August). The only certainty is that the world is moving towards a regime of persistently higher tariffs.

Central banks are trying to navigate these uncharted waters, with rising risks of monetary-policy divergence between the Fed and the rest. The ECB cut the rates at its latest meeting and is set to cut two more times in 2025. Major central banks are in a similar easing mode. The Fed, instead, despite pressure from the Trump administration, did not cut interest rates at its last meeting and said it is buying time to assess possible stagflationary risks caused by Trump's protectionist policies.

This negotiations limbo is likely to further erode the confidence in the dollar and to keep the market volatility elevated.

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Data spotlight: 19 - 23 May

US Economy

- **The Trump administrations announced 50% tariffs for EU goods**

On Friday, President Trump announced in a press conference that a 50% levy on EU imports will be imposed and will come into effect on the 1st of June. This move came as a surprise, given that the initial 90-day period of tariff adjournment wasn't supposed to end until July. Moreover, the 50% tariff rate is significantly higher than the previous 39% imposed on the so called "Liberation Day". This sudden move came as a response to dissatisfaction from the American side to the negotiations for a deal with the European partners. On Sunday, President Trump pushed the deadline for tariffs to July 9 from June 1, after European Commission President Ursula von der Leyen said the 27-nation bloc needed more time to produce a deal.

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International and Romanian Markets

- **EURRON returned below 5.10 last week**

Market sentiment improved after the pro-European candidate won the presidential race, as this was the outcome associated with lower political instability in the following period. Immediately after, the RON appreciated, enabling the EURRON to fall below the 5.10 mark above which it had stabilized after the first round of presidential elections. After touching levels as low as 5.0180 last Monday, the EURRON fluctuated in the 5.0407-5.0925 trading range for the rest of the week with an overall downward path and ended Friday's trading session at 5.0555. It is unlikely that the exchange rate will return below the 5.00 level. We maintain our view that a 5.00-5.10 trading range during the rest of 2025 is the most likely outcome.

- **The ROBOR curve has mixed evolutions last week**

The ROBOR curve increased on the short end and decreased on the long end last week. The ON-1W segment rose to 7.33-7.25% from 5.90-6.53% last week, mainly due to lower liquidity in the market as banks flocked to cover the minimum reserves at the beginning of the period. Moderate growth of 3bp was seen for the 1M to 7.12% from 7.09% while for the 3M a decrease of 10bp was noticed, to 7.29% from 7.39%. We could see rates decreasing in the following weeks, in case of continued market optimism and/or higher market liquidity.

- **MinFin auctions**

Last Monday, the Ministry of Finance held an auction for a 3Y T-bond. The bids were above the plan, at RON 1198.6mn vs. RON 500mn, allowing MinFin to place RON 752.0mn. The average accepted yield was 7.46% (max 7.47%), 37bp above the average yield at the beginning of April.

Last Thursday, the Ministry of Finance held an auction for 3M T-bills. The bids were above the planned amount, at RON 696.1mn vs. RON 500mn and MinFin placed RON 323.1mn. The average accepted yields was 7.33% (max 7.33).

- **FX markets**

Last week, the EUR-USD was on an overall upward trend last week, trading between 1.1167 to 1.1374 and closing Friday's trading session at 1.1364. The euro appreciated after the US President Donald Trump postponed the application of 50% tariffs on European Union goods to July, marking another temporary trade policy reprieve.

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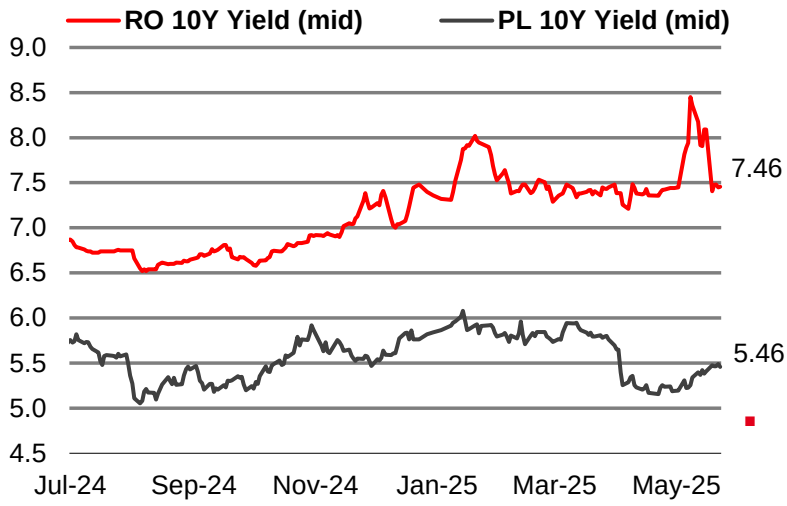
Focus Ahead: 26 – 30 May

MinFin Issues



Data Source: Thomson Reuters

- According to Friday's fixing levels, last week the Romanian yields decreased by 82bp for 1Y, up to 87bp for 3 and 5Y and 47bp for 10Y. The drop in Romanian yields came after the pro-European candidate won the presidential elections, an outcome seen by the markets as one with a lower political instability and a higher probability for a fiscal adjustment in line with the commitments.
- Renewed upside risks cannot be ruled out, depending on how fast a new government will be invested and what fiscal measures will be adopted to bring the budget deficit down to the 7% of GDP target agreed for 2025 and avoid credit-rating downgrades.
- The MinFin will issue RON 500mn in 2Y T-bonds on Monday and 500mn in 5.25Y T-bonds on Thursday. The official calendar for June is not available yet.

BOND ISSUES - MAY

ISIN Code	Auction Date	Maturity Date	Months	Planned Amount (mn)	Currency	Total Applications	Total Allocated	Yield (avg)
ROYNCLHRHVV6	29-May-25	29-Jul-30	63	500	lei			
RO45DLJ4EE76	26-May-25	28-Apr-27	23	500	lei			
RO25VL26UHW0	22-May-25	27-Aug-25	3	500	lei	500	696	7.33
ROCDG04X8WJ7	21-May-25	26-Apr-28	36	500	lei	1,199	752	7.46
RO937L7DZQF3	19-May-25	29-Apr-26	12	500	lei	960	868	8.34
ROXNS8ONSUB3	14-May-25	27-Jul-26	15	500	lei	1 345.3	540	8.45
ROACGEG6O7E2	14-May-25	14-Dec-26	19	200	euro	786	751	3.82
ROLGOGX9QOE0	14-May-25	13-May-26	12	300	euro	882	844	3.52
RO7Q5L1O12N6	8-May-25	29-Dec-25	8	500	lei	620	500	8.21
ROJVM8ELBDU4	7-May-25	25-Apr-29	48	500	lei	295	0	

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Focus Ahead: 26 – 30 May

Data Calendar

Date	Country	Indicator/Event	Period	UniCredit forecast	Consensus	Previous
27-May-2025	GE	Gfk Consumer Confidence	Jun			-20.6
	EMU	Economic Sentiment Indicator (index)	May		94.0	93.6
	Romania	M3 Money Supply (% yoy)	Apr			9.2
28-May-2025	GE	Unemployment Rate	May			6.3
	US	FOMC Minutes				
29-May-2025	US	GDP Growth Rate qoq 2nd Est	Q1		-0.3	-0.3
30-May-2025	GE	Retail sales	Apr			-0.2
	GE	Inflation Rate yoy prel	May			2.1
	US	PCE Core Inflation (% yoy)	Apr	2.5	2.5	2.6
	US	PCE Core Inflation (% mom)	Apr	0.1	0.1	0.0
	US	Michigan Consumer Sentiment final	May			52.2

Data Source: Bloomberg

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Economic Forecasts

MACROECONOMIC DATA AND FORECASTS

	2021	2022	2023	2024E	2025F	2026F
GDP (EUR bn)	242.3	281.7	324.4	356.5	384.1	405.0
Population (mn)	19.2	19.0	19.1	19.1	19.0	19.0
GDP per capita (EUR)	12,601	14,790	17,024	18,711	20,188	21,321
Real economy, change (%)						
GDP	5.5	4.0	2.4	0.9	1.9	2.6
Private Consumption	7.0	5.1	3.0	5.5	3.0	2.5
Fixed Investment	4.0	5.4	14.5	2.2	2.7	3.5
Public Consumption	-0.6	-1.4	6.3	-0.2	-0.4	-0.8
Exports	12.6	9.3	-0.8	-3.3	2.4	4.8
Imports	14.6	9.3	-1.1	3.0	2.1	4.7
Monthly wage, nominal (EUR)	1175	1303	1489	1710	1805	1878
Real wage, change (%)	2.0	-2.2	3.6	9.4	1.2	2.5
Unemployment rate (%)	5.6	5.6	5.6	5.3	5.2	5.4
Fiscal accounts (% of GDP)						
Budget balance	-7.1	-6.4	-6.5	-8.7	-7.0	-6.4
Primary balance	-5.6	-4.3	-4.6	-6.6	-4.8	-4.0
Public debt	48.3	47.9	48.8	54.9	58.4	60.3
External accounts						
Current account balance (EUR bn)	-17.4	-26.8	-21.5	-29.4	-28.7	-28.2
Current account balance/GDP (%)	-7.2	-9.5	-6.6	-8.2	-7.5	-7.0
Extended basic balance/GDP (%)	-1.8	-4.1	-1.9	-5.6	-4.3	-3.6
Net FDI (% of GDP)	3.7	3.3	2.0	1.6	1.6	1.8
Gross foreign debt (% of GDP)	58.8	54.6	56.5	57.1	56.9	58.1
FX reserves (EUR bn)	40.5	46.6	59.8	62.1	59.8	59.1
Months of imports, goods & services	4.3	4.0	5.1	5.1	4.8	4.5
Inflation/Monetary/FX						
CPI (pavg)	5.0	13.7	10.5	5.6	5.1	3.7
CPI (eop)	8.2	16.4	6.6	5.1	4.6	3.3
Central bank target	2.50	2.50	2.50	2.50	2.50	2.50
Central bank reference rate (eop)	1.75	6.75	7.00	6.50	5.75	4.50
3M money market rate (Dec avg)	2.83	7.66	6.25	5.91	5.48	4.63
USDRON (eop)	4.37	4.63	4.50	4.78	4.97	4.95
EURRON (eop)	4.95	4.95	4.97	4.97	5.07	5.15
USDRON (pavg)	4.16	4.68	4.57	4.60	4.86	4.98
EURRON (pavg)	4.92	4.93	4.95	4.97	5.01	5.12

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