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Countries in Focus in this Issue:
Türkiye, Bulgaria & Egypt

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Emerging Markets Analysis

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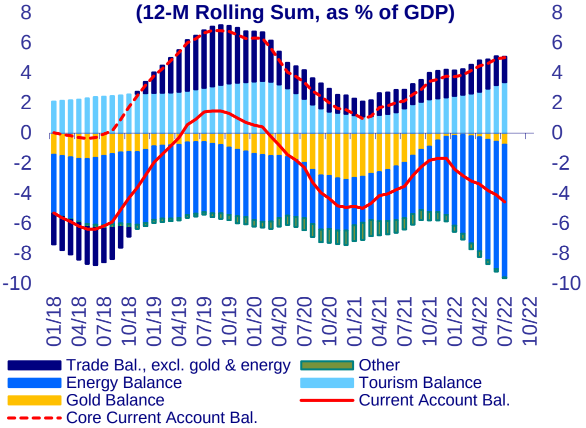
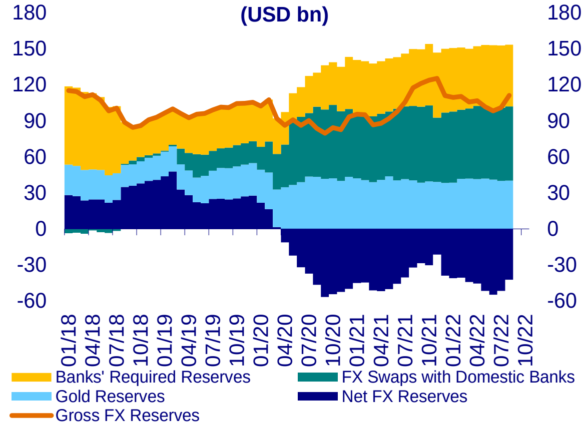
Türkiye

B+ / B2 / B+ (S&P/ Moody's / Fitch)

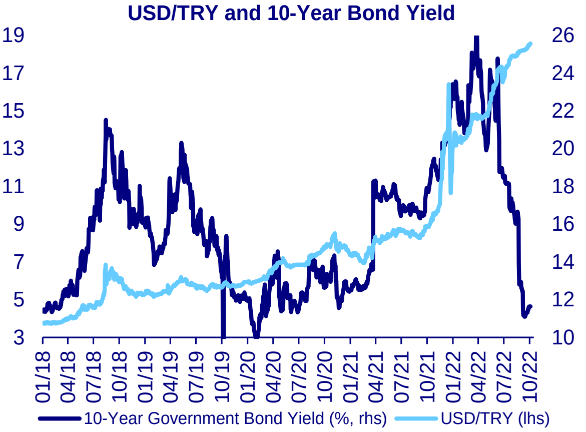
Current Account Balance (12-M Rolling Sum, as % of GDP)



CBRT's FX Reserves (USD bn)



USD/TRY and 10-Year Bond Yield



	3 Oct.	3-M F	6-M F	12-M F
TLREF (%)	12.4	12.2	12.0	12.0
TRY/USD	18.54	19.50	19.75	20.25
Sov. Spread (2025, bps)	541	550	550	450

	3 Oct.	1-W %	YTD %	2-Y %
ISE 100	3,392	4.0	82.6	196.2

	2019	2020	2021	2022F	2023F
Real GDP Growth (%)	0.9	1.8	11.0	5.2	3.0
Inflation (eop, %)	11.8	14.6	36.1	65.0	32.0
Cur. Acct. Bal. (% GDP)	0.7	-4.9	-1.7	-4.9	-3.5
Fiscal Bal. (% GDP)	-2.9	-3.4	-2.7	-3.5	-3.5

Sources: Reuters, CBRT, BDDK, Turkstat & NBG estimates

The TRY hits a new low, as the CBRT continues with its unorthodox policy. In late-September, the CBRT cut its key 2-week repo rate by 100 bps for a 2nd consecutive meeting, to 12.0%, citing weakening economic activity. The move brings the total policy rate cuts to 700 bps since October 2021, coming in stark contrast to the global monetary policy tightening cycle. Unsurprisingly, given skyrocketing inflation and the economy's structurally weak external position (largely reflecting Türkiye's almost complete reliance on imports to cover its energy needs), the new rate cut kept the TRY on a free fall, with the latter hitting a new low of 18.54 against the USD, extending the losses recorded since the launch of this unorthodox monetary policy to 55%. The latter come on top of a c. 60.0% depreciation of the TRY between end-2017 and late-2021.

Note that this year's TRY losses would have been larger had authorities not contained the tide of dollarization, through the launch of a state scheme protecting local currency deposits against FX risk and the adoption of tighter macroprudential policies by the CBRT (see below).

An adjustment in monetary policy is crucial to preserving macroeconomic and financial stability. The rapid widening in the current account deficit (see chart), in line with surging energy prices, together with the sizeable external debt payments looming in the short-term (worth 23% of GDP), paint a gloomy picture for the TRY, especially in light of tightening global financing conditions. The picture gets even worse when considering the CBRT's lack of ammunition, with net FX reserves (i.e. excl. gold, the CBRT's short-term borrowing and banks' required reserves) having long turned negative (see chart). Against this backdrop, authorities' efforts to secure non-market FX financing from Türkiye's international partners should provide only little relief.

All said, a tightening in monetary policy is crucial to breaking the vicious cycle of weakening TRY and rising inflation. Recall that, in 2018, authorities hiked rates by 1600 bps to 24.0% (or c. 3.0% in real *ex-post* terms), before the TRY stabilised. For illustrative purposes, note that the real *ex-post* policy rate currently stands at c. -40.0%, the lowest worldwide. Worryingly, it is hard to foresee such a policy reversal, in view of President Erdogan's determination to keep interest rates subdued ahead of the upcoming elections (due by mid-2023).

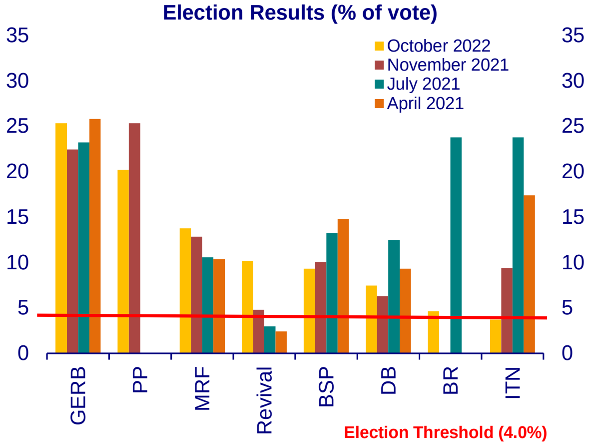
CBRT's bond regulations distort the debt market. In another twist of Türkiye's unorthodox policies, TRY-denominated Treasury bonds have been rallying recently (see chart), despite weakening economic fundamentals. With foreign investors having long fled away from Türkiye's financial markets, the rally has been mostly driven by domestic banks' bid to comply with the CBRT's regulations aiming at "improving the effectiveness of the monetary transmission mechanism", on the other hand, while containing dollarization, on the other hand.

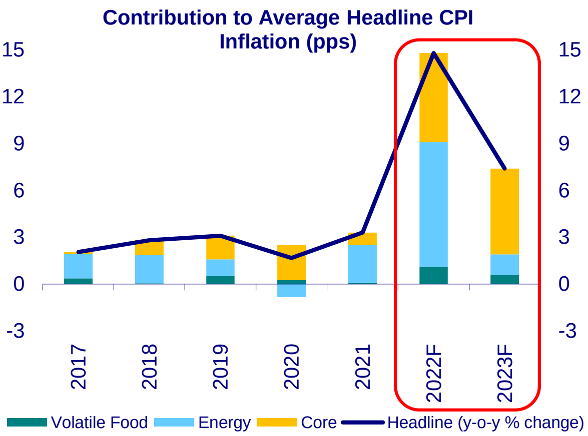
The new regulations replace the existing 20% reserve requirement for credits with a higher 30% Treasury bond collateral requirement, while introducing a penalty, in the form of additional bond holdings, for banks which extend corporate loans at interest rates above a certain threshold. At the same time, banks are required to hold Treasury bonds worth up to 10% of their FX deposit base. Under the CBRT's definition, Treasury bonds include all TRY-denominated, long-term, fixed coupon bonds. The latter do not offer protection against rampant inflation as opposed to the CPI-indexed bonds banks have so far been investing in.

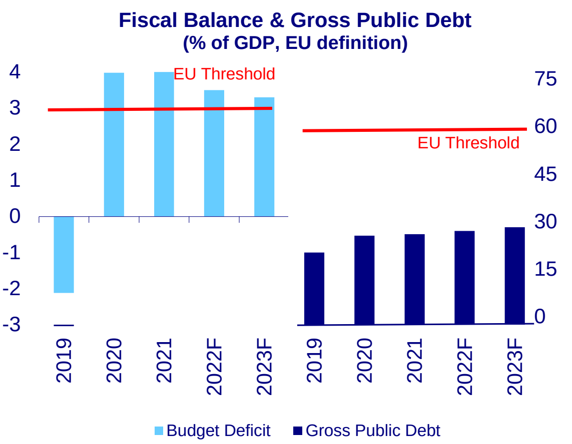
In our view, the CBRT's bond regulations fail to effectively address the economy's imbalances. Instead, they just help the state to lower its debt servicing costs. What is worrying, however, is their impact on financial stability. Indeed, having been bloated with low-yielding Government paper, banks are exposed to the risk of significant losses when bond yields return to more normal values.

Bulgaria

BBB / Baa2 / BBB (S&P / Moody's / Fitch)







	3 Oct.	3-M F	6-M F	12-M F
Base Interest Rate (%)	0.5	1.0	1.3	1.8
BGN/EUR	1.96	1.96	1.96	1.96
Sov. Spread (2027, bps)	236	200	160	140

	3 Oct.	1-W %	YTD %	2-Y %
SOFIX	571	-3.5	-10.2	35.8

	2019	2020	2021	2022F	2023F
Real GDP Growth (%)	4.0	-4.4	4.2	3.3	1.9
Inflation (eop, %)	3.8	0.1	7.8	14.5	5.4
Cur. Acct. Bal. (% GDP)	1.9	0.0	0.5	-1.5	-0.8
Fiscal Bal. (% GDP)	-1.0	-2.9	-2.9	-3.0	-3.0

Sources: Reuters, NSI, Ministry of Finance & NBG estimates

Elections deliver another hung Parliament, failing to end political uncertainty. The October 2 snap election, the 4th held in less than 2 years, was triggered by the collapse of the 6-month old ruling coalition, led by the "We Continue the Change" (PP) party, in June, following the withdrawal of the ITN from its ranks. This election was marked by the comeback of the centre-right GERB, which topped the polls, with 25.3% of the vote, failing, however, to muster an absolute majority. The PP fell to the 2nd position, with 20.2% of the vote, while the centre-left BSP and the right-wing DB alliance, the junior partners in the outgoing ruling coalition, were 5th and 6th, with 9.3% and 7.5% of the vote, respectively. The Turkish-minority party, MRF, which had unofficially supported GERB in the past, finished 3rd, with 13.8% of the vote, followed by the nationalist and pro-Russian "Revival", with 10.2%. The last party to enter the Parliament was the newcomer nationalist "Bulgarian Rise" (BR) party, which passed marginally the 4.0% election barrier.

All said, with most parties of the highly fragmented opposition having ruled out any cooperation with the GERB, whose almost decade-long rule was marred by corruption allegations, the formation of the next Government remains a complicated exercise. This means that we could see weeks of talks before a (most likely unstable) coalition takes office. Importantly, although lingering political uncertainty could bring about delays in policy and reform implementation, the risk of serious slippage appears to be limited, given the anchors provided by the long-standing currency board and the inclusion of the BGN into the ERM II, a precursor to the adoption of the euro.

Following a strong start to the year, (GDP, up 4.5% y-o-y in H1:22), economic growth is set to slow down markedly in the period ahead, reflecting headwinds from record-high inflation. Given the economy's' very high energy intensity (putting Bulgaria at the top of EU rankings), the spike in energy prices and associated second-round effects should keep inflation at record-high levels until early next year, eroding households' purchasing power. This impact, together with deteriorating confidence, cannot but suppress private consumption, despite increased state support and a still tight labour market.

Weaker private consumption should be partly offset, however, by a rebound in (EU-funded) investment. Note that Bulgaria is entitled to receive grants worth c. 10.0% of FY:21 GDP under the EU RRF in 2021-26. Worryingly, the ongoing political uncertainty, together with Bulgaria's historical low EU funds absorption rate, raise challenges in this regard.

At the same time, with GDP growth in the EU losing steam rapidly, under the impact of the negative terms-of-trade shock from higher global commodity prices, net exports are due to remain a significant drag on overall growth over the next quarters, despite softening private consumption and easing global supply strains.

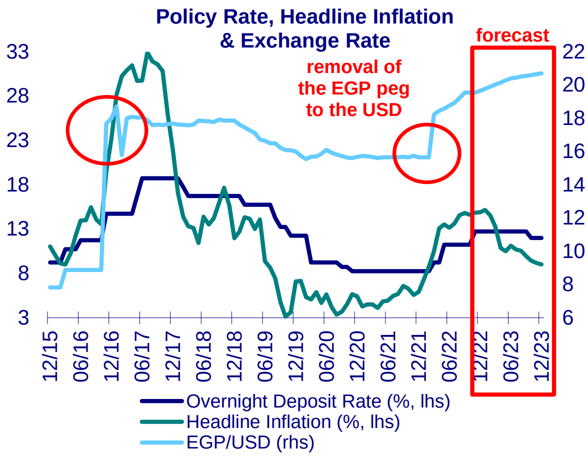
Fiscal policy should help alleviate the impact of the inflation shock on economic activity. Following a significant overperformance in H1:22, we expect the Government that will emerge from the elections to keep the public purse strings loose, in view, *inter alia*, of the ample fiscal space available (see chart).

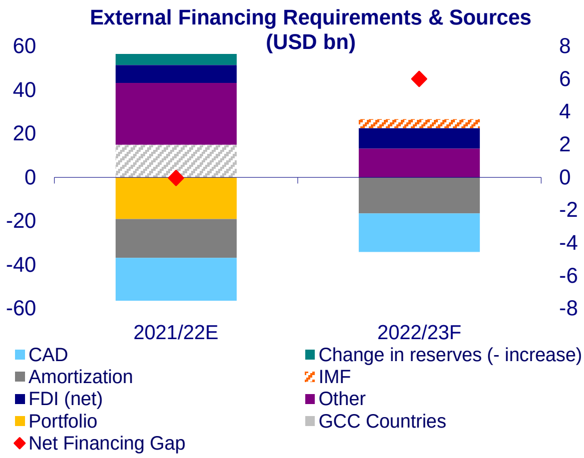
All said, we see GDP growth at 3.3% in FY:22. Despite some easing in price pressures next year, we expect GDP growth to moderate to 1.9%, with improving growth dynamics failing to compensate for the smaller carry-over effect (projected at 0.4 pps in 2022 against 1.7 pps in 2021).

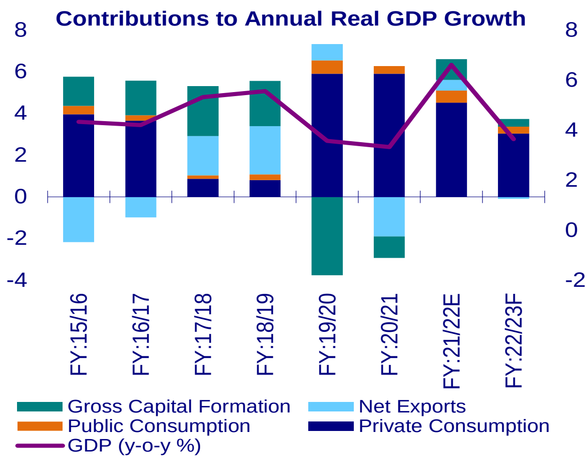
Our GDP growth forecast could be downwardly revised in the event of a disruption in Russian gas flows to Europe. Although Russian gas supply to Bulgaria has been cut off since April, negative spillovers from higher-than-assumed imported inflation and weaker-than-envisaged external demand would weigh on domestic economic growth.

Egypt

B / B2 / B+ (S&P / Moody's / Fitch)







	3 Oct.	3-M F	6-M F	12-M F
O/N Interbank Rate (%)	11.3	12.8	12.8	12.1
EGP/USD	19.6	20.1	20.5	21.2
Sov. Spread (2025, bps)	1,159	800	700	600

	3 Oct.	1-W %	YTD %	2-Y %
HERMES 100	1,097	-1.5	-14.3	0.8

	18/19	19/20	20/21E	21/22E	22/23F
Real GDP Growth (%)	5.6	3.6	3.3	6.6	3.6
Inflation (eop. %)	9.4	5.6	4.9	13.2	11.1
Cur. Acct. Bal. (% GDP)	-3.6	-3.1	-4.6	-3.7	-3.3
Fiscal Bal. (% GDP)	-8.1	-7.9	-7.4	-7.2	-6.8

Sources: Reuters, CBE & NBG estimates

Despite the need to plug a sizeable external financing gap, the CBE kept its key policy rates on hold, bucking market expectations. At its September 22 meeting, the CBE retained for a 3rd successive time its overnight deposit, 1-week repo, and overnight lending rates unchanged at 11.25%, 11.75%, and 12.25%, respectively. At the same time, though, in an indirect policy tightening move, the CBE raised banks' reserve requirement ratio by 4.0 pps to 18.0% -- for the first time since October 2017 -- absorbing c. ¼th of the system's excess liquidity (estimated at c. EGP 600bn or 7.5% of GDP).

Recall that, after hiking rates by 300 bps in the wake of the Russia-Ukraine crisis, the CBE has remained on hold, despite widening external imbalances. Indeed, the current account has been deteriorating at a rapid pace, following the outbreak of the Russia-Ukraine conflict, due not only to Egypt's large dependence on food imports to cover its needs, but also to the plunge in tourism inflows from Russia. At the same time, heavy portfolio withdrawals, in the wake of the Fed's tightening, have put additional pressure on external accounts. The Government's efforts to diversify FX sources, including sizeable (non-market) financing provided by Gulf Cooperation Council (GCC) countries, have only partially succeeded in covering the sizeable external gap (estimated at USD 10bn this year).

As a result, the EGP has lost 25.0% of its value against the USD y-t-d, currently trading at a historical low of 19.6. Note that authorities' tight control over the FX market, through the imposition, *inter alia*, of import restrictions, has allowed the EGP to depreciate at a controlled pace so far this year (see chart).

In effect, by extending its rate pause, the CBE just offers a helping hand to the state, which is mired by high debt service payments (accounting for more than ¹/₃ of public spending and c. 9.0% of GDP).

Looking ahead, in the absence of concrete policy tightening measures, the EGP cannot but continue weakening to allow the external financing gap to close. FX flexibility is also considered a *sine qua non* condition for a new agreement with the IMF to be sealed. All in all, we project the EGP weakening by an additional 8.0% against the USD by end-2023 (implying a c. 10% depreciation in REER terms since early-2022).

Following a strong performance in FY:21/22, we see GDP growth moderating abruptly this year, reflecting headwinds from weakening EGP and rising inflation. Economic activity ended FY:21/22 (July '21-June '22) on a strong footing, growing by 6.6%, double its growth rate in FY:20/21, supported by a rebound in tourism inflows, non-oil manufacturing exports (mainly chemicals, metals & textile) and higher gas production.

However, under the burden of very high inflation, GDP growth is set to be almost halved in FY:22/23, driven by private consumption. Note that strong remittance inflows (mainly from workers in oil-producing GCC countries) and a loose incomes policy (including hikes in pensions, public sector wages & the minimum wage and cash transfers) should provide households some buffer against the inflation shock.

At the same time, although the pick-up in FDI in export-oriented sectors (especially the energy sector) bodes well for investment, gross capital formation should expand at a timid pace in FY:22/23, due to heightened uncertainty, tighter profit margins and slowing public investment, with the latter coming on the back of a constrained fiscal space.

Finally, despite softening domestic demand, net exports contribution to overall growth is set to diminish in FY:22/23. Indeed, slowing economic growth in Egypt's main trade partners, especially the EU, together with rising export prices (reflecting the impact of the weakening EGP and surging energy costs), are set to weigh markedly on external demand.

DETAILED MACROECONOMIC DATA

TÜRKIYE	2019	2020	2021	2022f	2023f
Real Sector					
Nominal GDP (USD million)	760,669	718,977	811,282	780,904	898,292
GDP per capita (USD)	9,148	8,542	9,524	9,060	10,303
GDP growth (real, %)	0.9	1.8	11.0	5.2	3.0
Unemployment rate (%, aop)	13.7	13.2	12.0	11.5	11.3
Prices and Banking					
Inflation (%, eop)	11.8	14.6	36.1	65.0	32.0
Inflation (%, aop)	15.4	12.3	19.3	71.7	37.3
Loans to the Private Sector (% change, eop)	10.8	34.8	37.0		
Customer Deposits (% change, eop)	23.5	33.0	51.5		
Loans to the Private Sector (% of GDP)	61.4	70.9	68.0		
Retail Loans (% of GDP)	13.9	16.8	14.5		
Corporate Loans (% of GDP)	47.6	54.1	53.4		
Customer Deposits (% of GDP)	54.6	62.1	65.8		
Loans to Private Sector (% of Cust. Deposits)	112.6	114.1	103.2		
Foreign Currency Loans (% of Total Loans)	38.3	34.2	42.2		
External Accounts					
Merchandise exports (USD million)	182,200	168,387	224,691	250,775	266,924
Merchandise imports (USD million)	198,981	206,250	253,978	313,368	329,781
Trade balance (USD million)	-16,781	-37,863	-29,287	-62,593	-62,856
Trade balance (% of GDP)	-2.2	-5.3	-3.6	-8.0	-7.0
Current account balance (USD million)	5,303	-35,537	-13,590	-37,912	-30,782
Current account balance (% of GDP)	0.7	-4.9	-1.7	-4.9	-3.4
Net FDI (USD million)	6,628	4,592	7,393	7,763	9,315
Net FDI (% of GDP)	0.9	0.6	0.9	1.0	1.0
International reserves (USD million)	105,696	93,277	111,181	105,000	110,000
International reserves (Months[a])	5.6	4.9	4.7	3.3	3.8
Public Finance					
Primary balance (% of GDP)	-0.6	-0.8	-0.2	-0.8	-0.8
Fiscal balance (% of GDP)	-2.9	-3.4	-2.7	-3.5	-3.5
Gross public debt (% of GDP)	32.6	39.7	42.0	43.0	44.0
External Debt					
Gross external debt (USD million)	415,983	432,848	441,064	460,000	485,000
Gross external debt (% of GDP)	54.7	60.2	54.4	58.9	54.0
External debt service (USD million)	84,967	70,931	74,311	80,000	85,000
External debt service (% of reserves)	80.4	76.0	66.8	76.2	77.3
External debt service (% of exports)	35.9	37.5	27.6	25.5	25.5
Financial Markets					
Policy rate (Effective funding rate, %, eop)	11.4	17.0	14.0	12.0	12.0
Policy rate (Effective funding rate, %, aop)	20.7	10.5	17.6	13.3	12.0
1-Y T-bill rate (%, eop)	11.3	15.1	22.2	17.5	15.5
Exchange rate: USD (eop)	5.95	7.43	13.32	19.50	21.50
Exchange rate: USD (aop)	5.68	7.02	8.89	16.68	20.50

f: NBG forecasts; a: months of imports of GNFS

Sources: National Sources & NBG estimates

BULGARIA	2019	2020	2021f	2022f	2023f
Real Sector					
Nominal GDP (EUR million)	61,557	61,330	67,871	80,487	88,086
GDP per capita (EUR)	8,856	8,867	9,872	11,777	12,967
GDP growth (real, %)	4.0	-4.4	4.2	3.3	1.9
Unemployment rate(ILO definition, %, aop)	5.3	6.1	5.3	4.6	4.6
Prices and Banking					
Inflation (%, eop)	3.8	0.1	7.8	14.5	5.4
Inflation (%, aop)	3.1	1.7	3.3	14.8	7.4
Loans to the Private Sector (% change, eop)	7.4	4.5	8.3		
Customer Deposits (% change, eop)	10.7	10.2	9.0		
Loans to the Private Sector (% of GDP)	48.6	51.0	49.9		
Retail Loans (% of GDP)	19.4	20.9	21.5		
Corporate Loans (% of GDP)	29.2	30.0	28.4		
Customer Deposits (% of GDP)	66.4	73.5	72.3		
Loans to Private Sector (% of Deposits)	73.2	69.4	68.9		
Foreign Currency Loans (% of Total Loans)	32.4	31.1	28.7		
External Accounts					
Merchandise exports (EUR million)	29,119	27,272	34,405	40,157	41,240
Merchandise imports (EUR million)	32,028	29,213	37,291	44,758	45,668
Trade balance (EUR million)	-2,908	-1,941	-2,887	-4,601	-4,428
Trade balance (% of GDP)	-4.7	-3.2	-4.3	-5.7	-5.0
Current account balance (EUR million)	1,148	-0,024	-0,351	-1,213	-0,690
Current account balance (% of GDP)	1.9	0.0	-0.5	-1.5	-0.8
Net FDI (EUR million)	1,238	2,762	0,988	1,432	1,647
Net FDI (% of GDP)	2.0	4.5	1.5	1.8	1.9
International reserves (EUR million)	24,836	30,848	34,597	35,115	36,073
International reserves (Months[a])	8.0	11.1	9.8	8.3	8.3
Public Finance					
Primary balance (% of GDP)	-0.4	-2.4	-2.5	-2.5	-2.5
Fiscal balance (% of GDP)	-1.0	-2.9	-2.9	-3.0	-3.0
Gross public debt [b] (% of GDP)	20.0	24.7	25.1	26.0	27.0
External Debt					
Gross external debt (EUR million)	37,716	39,813	41,965	43,302	44,131
Gross external debt (% of GDP)	61.3	64.9	61.8	53.8	50.1
External debt service (EUR million)	6,957	7,041	7,000	8,200	7,100
External debt service (% of reserves)	28.0	22.8	20.2	23.4	19.7
External debt service (% of exports)	17.7	20.4	16.1	16.1	13.5
Financial Markets					
Base Interest Rate (%, eop)	0.0	0.0	0.0	1.0	2.0
Base Interest Rate (%, aop)	0.0	0.0	0.0	0.3	1.8
10-Y Bond Yield (%, eop)	0.4	0.4	0.7	3.4	3.6
Exchange rate: EUR (eop)	1.956	1.956	1.956	1.956	1.956
Exchange rate: EUR (aop)	1.956	1.956	1.956	1.956	1.956

f: NBG forecasts; a: months of imports of GNFS; b: ESA 2010

Sources: National Sources & NBG estimates

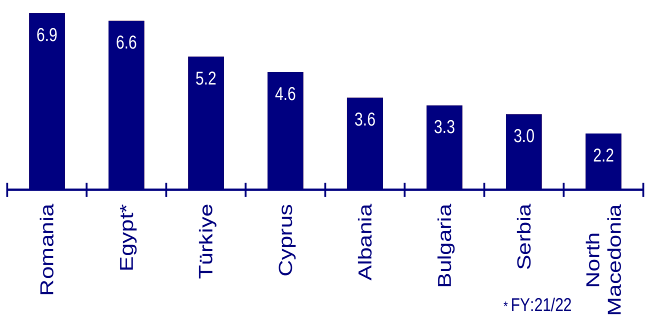
EGYPT					
	2019/20*	2020/21*	2021/22e*	2022/23f*	2023/24f*
Nominal GDP (USD million)	364,957	403,994	445,569	431,257	466,458
GDP per capita (USD)	3.628	3.926	4.245	4.028	4.272
GDP growth (real, %)	3.6	3.3	6.6	3.6	5.8
Unemployment rate (%, aop)	8.3	7.3	7.3	7.2	7.1
Prices and Banking					
Inflation (%, eop)	5.6	4.9	13.2	11.1	7.5
Inflation (%, aop)	5.7	4.5	8.4	13.6	8.9
Loans to the Private Sector (% change, eop)	19.5	21.2	23.6		
Customer Deposits (% change, eop)	16.5	19.2	24.7		
Loans to the Private Sector (% of GDP)	24.8	27.8	29.7		
Retail Loans (% of GDP)	7.6	8.9	9.5		
Corporate Loans (% of GDP)	17.2	18.9	20.2		
Customer Deposits (% of GDP)	67.6	74.4	80.2		
Loans to Private Sector (% of Deposits)	36.8	37.4	37.1		
Foreign Currency Loans (% of Total Loans)	15.9	12.7	11.3		
External Accounts					
Merchandise exports (USD million)	26,376	28,677	43,906	50,516	58,382
Merchandise imports (USD million)	62,841	70,736	87,302	96,024	106,560
Trade balance (USD million)	-36,465	-42,060	-43,396	-45,509	-48,178
Trade balance (% of GDP)	-10.0	-10.4	-9.7	-10.6	-10.3
Current account balance (USD million)	-11,167	-18,436	-16,551	-14,152	-11,378
Current account balance (% of GDP)	-3.1	-4.6	-3.7	-3.3	-2.4
Net FDI (USD million)	7,102	4,835	8,591	9,880	11,362
Net FDI (% of GDP)	1.9	1.2	1.9	2.3	2.4
International reserves (USD million)	38,202	40,584	33,376	34,876	36,876
International reserves (Months[a])	6.7	6.5	4.2	4.0	3.7
Public Finance					
Primary balance (% of GDP)	1.8	1.5	0.7	0.4	0.5
Fiscal balance (% of GDP)	-7.9	-7.4	-7.2	-6.8	-6.2
Gross public debt (% of GDP)	87.2	91.8	91.7	100.3	102.4
External Debt					
Gross external debt (USD million)	123,491	137,860	145,000	155,000	165,000
Gross external debt (% of GDP)	33.8	34.1	32.5	35.9	35.4
External debt service [b] (USD million)	16,100	18,500	22,600	26,300	33,100
External debt service [b] (% of reserves)	42.1	45.6	67.7	75.4	89.8
External debt service (% of exports[c])	36.5	45.0	42.6	43.6	48.0
Financial Markets					
Policy rate (O/N deposit rate, %, eop)	9.3	8.3	11.3	12.8	10.3
Policy rate (O/N deposit rate, %, aop)	11.9	8.5	8.9	12.4	11.5
3-M T-bill rate (%, eop)	13.3	13.2	15.4	16.4	14.8
Exchange rate: USD (eop)	16.11	15.66	18.76	21.00	21,60
Exchange rate: USD (aop)	16.04	15.70	16.45	20.00	21,3

*: fiscal year starting in July and ending in June; f: NBG forecasts; a: months of imports of GNFS

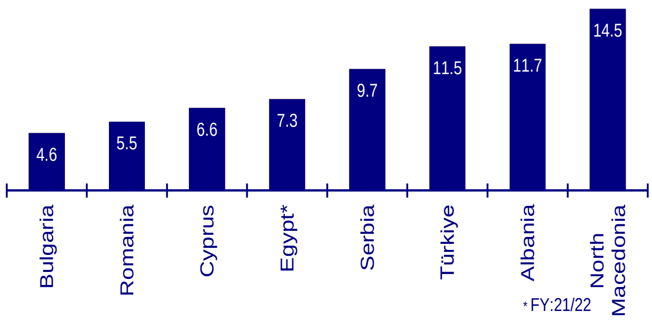
Sources: National Sources & NBG estimates

REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS

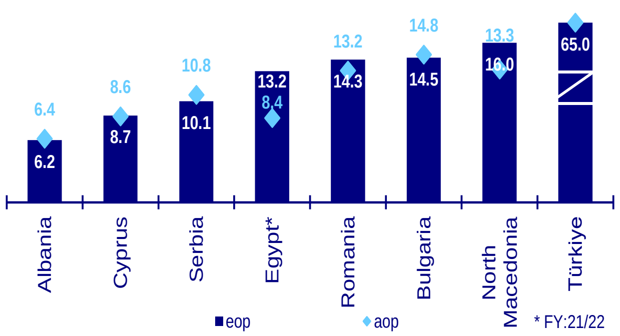
Real GDP Growth (%, 2022F)



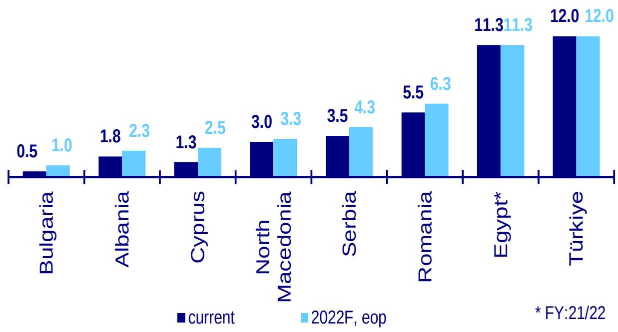
Unemployment (%, 2022F, aop)



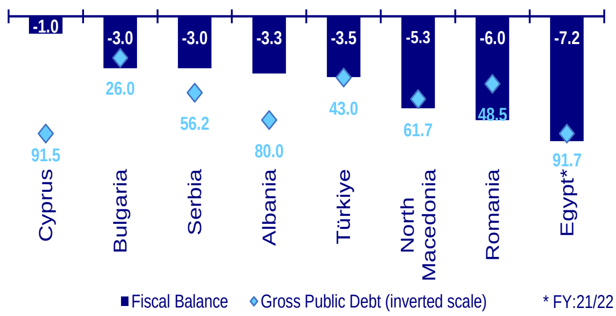
Headline inflation (%, 2022F)



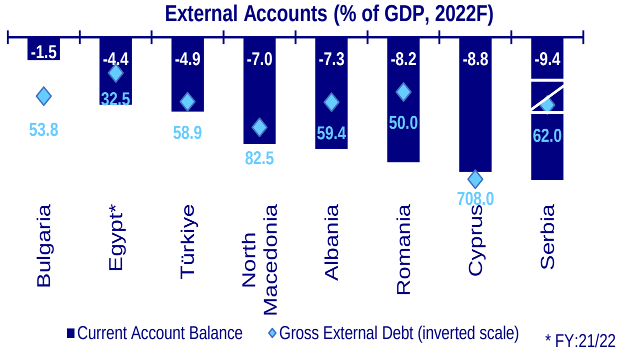
Policy rates (%)



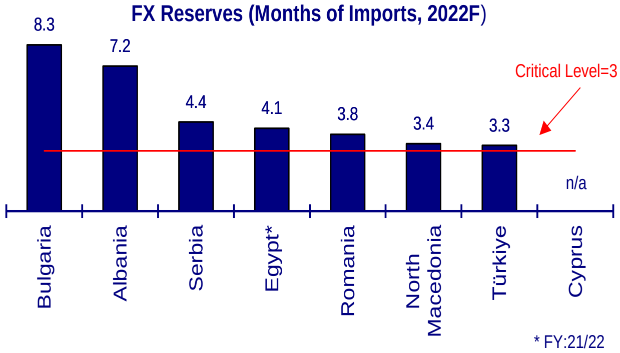
Public Finance (% of GDP, 2022F)



External Accounts (% of GDP, 2022F)

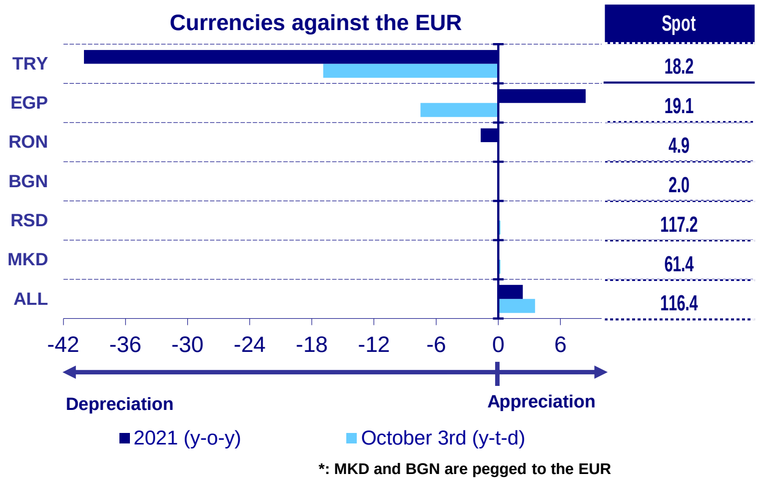


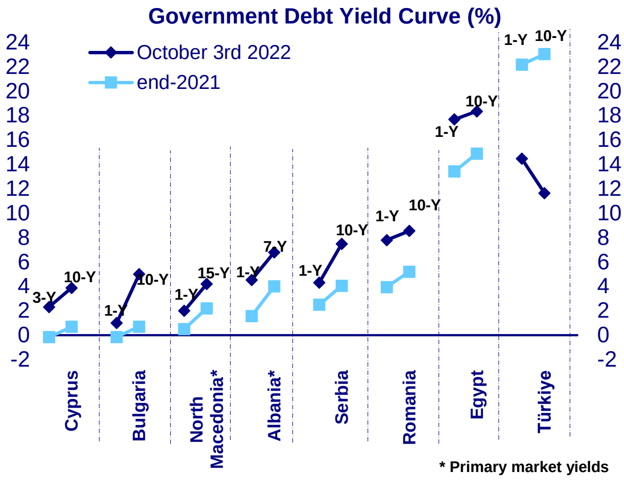
FX Reserves (Months of Imports, 2022F)

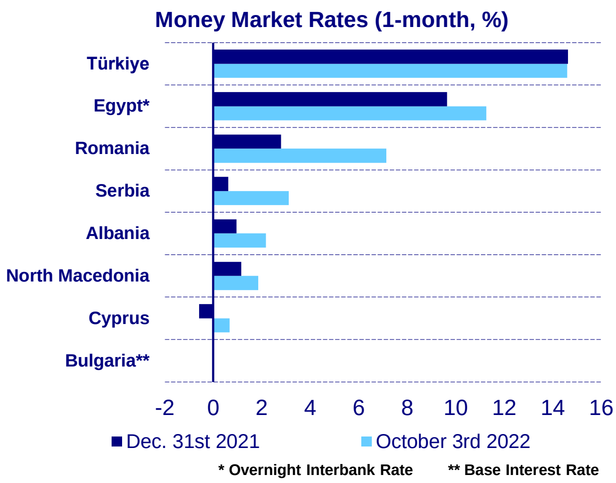


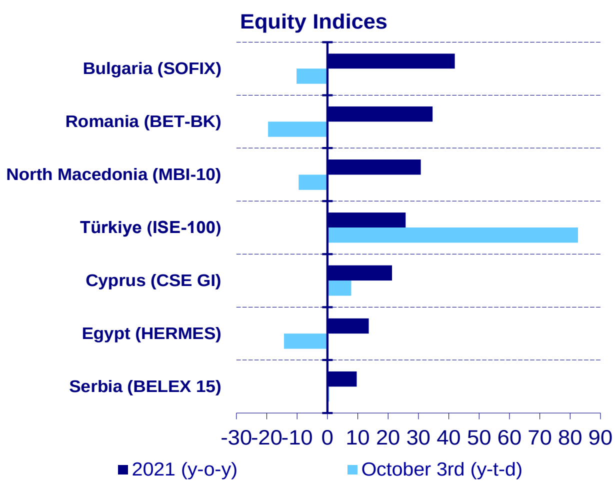
Sources: National Sources & NBG estimates

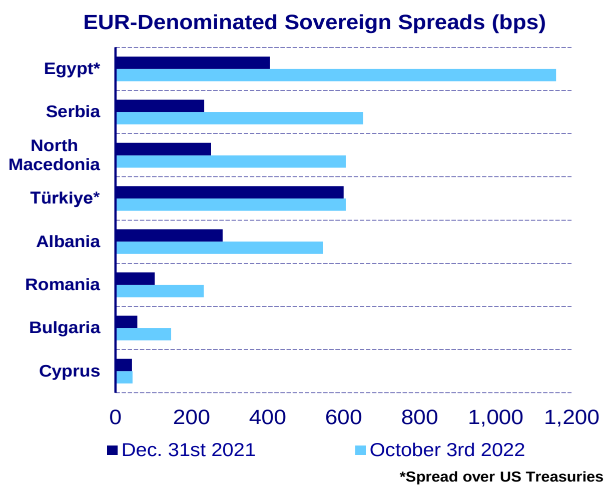
REGIONAL SNAPSHOT: FINANCIAL MARKETS











Sources: Reuters & NBG estimates

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