



Economic Analysis Division

Southeastern Europe & Mediterranean Emerging Market Economies



Bi-Weekly Report

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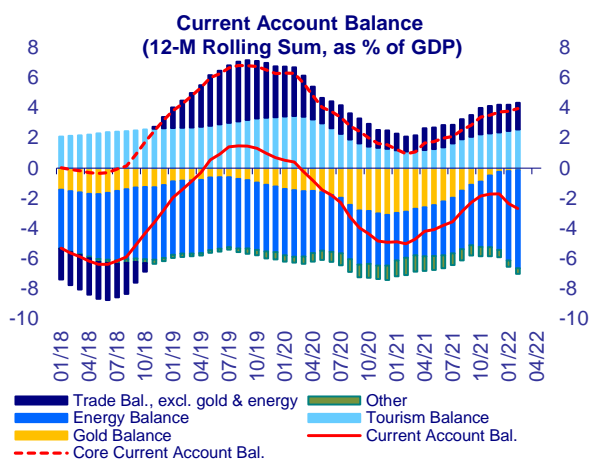
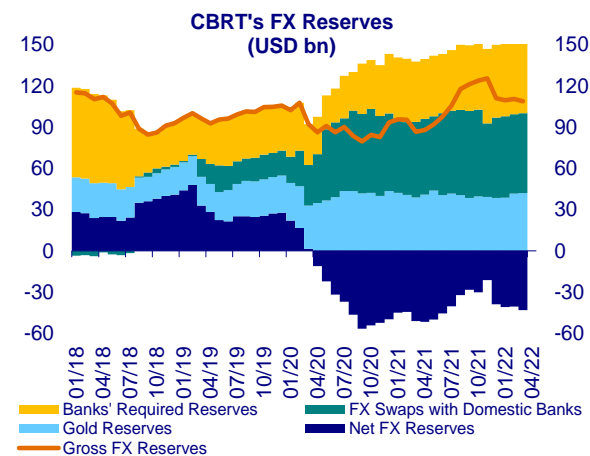
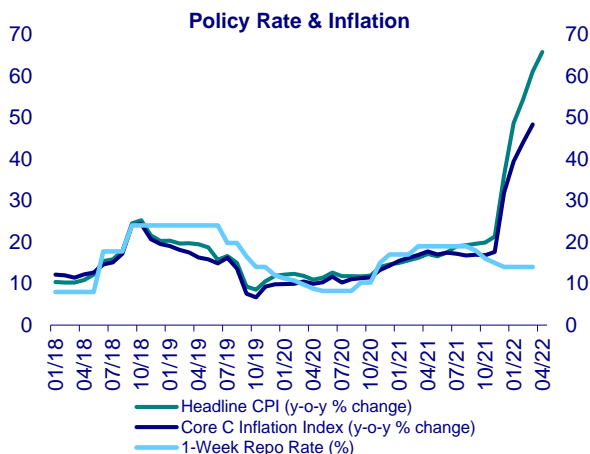
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Turkey

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



Headline inflation hit a 2-decade-high of 61.1% y-o-y in March against 36.1% in December, driven by surging global energy and food prices, which compounded the impact of the weaker TRY.

The increase in consumer prices has been across the board, reflecting the impact of the recent sharp weakening in the TRY (down 40.0% against the USD since October 2021 following a (broadly linear) depreciation of the currency by c. 60.0% between end-2017 and September 2021). The latter came in the wake of the easing delivered by the CBRT in late last year (including a cumulative policy rate cut of 500 bps to 14.0%), which was seen by markets as exacerbating the economy's underlying vulnerabilities (see below). As expected, energy and food prices have made by far the biggest contributions to the jump in inflation (adding c. 10.0 and 7.0 pps to the headline figure between end-2021 and March 2022, respectively), reflecting not only the impact of the weaker TRY but also by that of surging global commodity prices, especially in the aftermath of the Russia-Ukraine crisis.

Inflation is set to remain at extremely high levels throughout the year, affecting the economy's performance.

The continuing pass-through of higher global commodity prices and the weaker TRY, together with strong underlying cost-push pressures (the PPI was up 115.0% y-o-y in March, with the latter also reflecting the impact of the recent 50% hike in the minimum wage), high inertia and steadily deteriorating expectations, mean that inflation dynamics are unlikely to improve materially in the short-term. Assuming a broadly stable TRY, we see inflation hovering around 70.0% y-o-y in most part of the year, before easing to 46.0% at end-2022, thanks to positive base effects.

An adjustment in monetary policy is crucial to preserving macroeconomic and financial stability.

With the CBRT remaining on hold since end-2021, and following the state's interventions, including the launch of a scheme protecting TRY deposits against FX risk and the implementation of some sort of capital controls on export revenue, pressure on the TRY appears to have eased lately, as suggested by the relative stabilization in the CBRT's net FX reserve position (see chart). Still, we deem that a tightening in monetary policy is a *sine qua non* condition for the vicious cycle of rising inflation and weakening TRY to be broken. Otherwise, and in view of Turkey's structurally weak external position, the grounds for a renewed upsurge in market volatility will remain in place, threatening macroeconomic and financial stability.

Indeed, despite a widening core external trade (i.e. excluding energy and gold) surplus (see chart), the current account deficit still remains in deficit, with Turkey's almost complete reliance on imports to cover its energy needs being the key factor behind this imbalance. Worryingly, the implied increase in FX needs, stemming from the jump in global commodity prices, in the aftermath of the ongoing geopolitical tensions, suggests that TRY is due to come under strong pressure in the period ahead. The picture gets much worse when considering the sizeable external debt payments (USD 174bn or c. 21% of GDP) looming in the short-term. Against this backdrop, and with the CBRT's net FX reserves having long turned negative, the outlook for the TRY remains bleak, especially in view of the weak confidence in the Turkish economy.

All said, a timely tightening in monetary policy is crucial to putting the economy on a sustainable growth path. Recall that, in 2018, authorities raised interest 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. -30.0%, 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 next general elections (due by mid-2023), in which he is set to face a tough fight, as suggested by his low popularity.

	18 Apr.	3-M F	6-M F	12-M F
1-m TRIBOR (%)	14.6	15.0	15.0	17.5
TRY/USD	14.63	15.00	15.40	15.75
Sov. Spread (2025, bps)	488	450	450	400

	18 Apr.	1-W %	YTD %	2-Y %
ISE 100	2,510	2.5	35.1	155.7

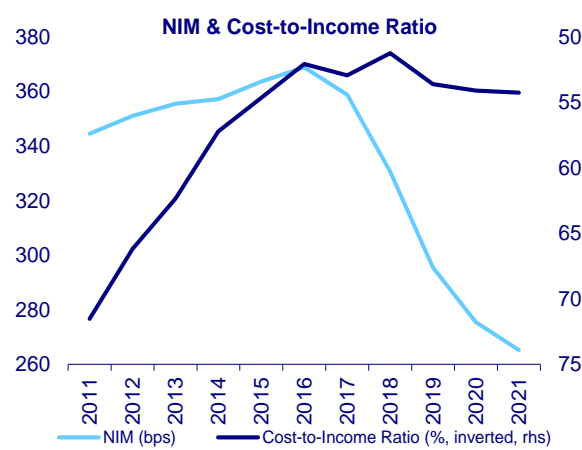
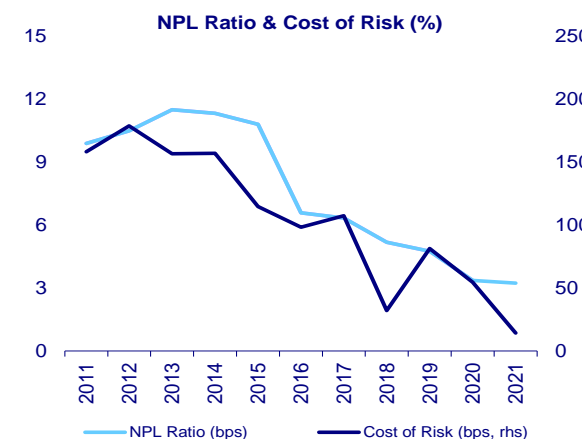
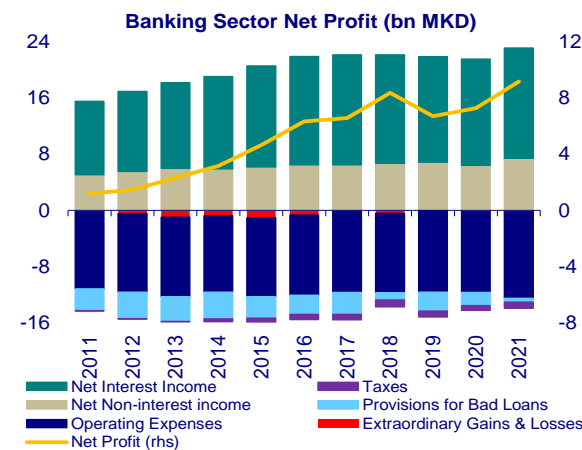
	2019	2020	2021	2022F	2023F
Real GDP Growth (%)	0.9	1.8	11.0	2.5	3.4
Inflation (eop, %)	11.8	14.6	36.1	46.0	20.0
Cur. Acct. Bal. (% GDP)	0.7	-4.9	-1.7	-2.9	-1.5
Fiscal Bal. (% GDP)	-2.9	-3.4	-2.7	-3.8	-3.0

Sources: Reuters, CBRT, Turkstat & NBG estimates



North Macedonia

BB- / NR / BB+ (S&P / Moody's / Fitch)



Against the backdrop of an improving operating environment, the profitability of the banking system strengthened in FY:21. In FY:21, banks' profits surged by 26.2% to MKD 9.2bn (1.3% of GDP), mainly in line with the sharp drop in loan loss provisioning needs. As a result, ROAE and ROAA firmed to 12.9% and 1.5% in FY:21, respectively, among the highest in the region, from 11.3% and 1.3% in FY:20.

Indeed, with the economy having embarked on a (weak) recovery path (GDP grew by 4.0% in FY:21, falling short of recouping COVID-19-induced losses), pressure on households' and corporates' repayment capacity has been gradually easing. As a result, and in view the front-loading of loan loss provisioning at the onset of the pandemic, against the backdrop of an already elevated NPL coverage ratio (with the latter currently standing at c. 65%, well above the EU average of 45%), banks continued to build up provisions in FY:21, but at a drastically slower pace compared with the previous year. As a result, and despite the expiry of the central bank's forbearance measures (including a debt moratorium), the cost of risk narrowed to just 14 bps in FY:21 against 55 bps in FY:20. Note that the NPL ratio remained subdued at 3.2% in December, a tad lower than a year ago, reflecting, *inter alia*, the impact of fast credit expansion (up 8.0% y-o-y in December, a pace somewhat stronger than that observed a year ago).

At the same time, pre-provision operating income sustained profitability, albeit modestly. The main driver was net non-interest income (mainly fees and commissions), which strengthened markedly in FY:21, in line with the rebound in economic activity. Net interest income also increased in FY:21, but mostly due to a positive base effect from the expiry of the debt moratorium. Note that, against the backdrop of accommodative monetary conditions, the net interest margin was compressed further, albeit marginally, to a still high 265 bps in FY:21 (still more than double that of EU banks). The improvement in top line revenue was partly offset by a broad-based hike in operating expenses.

Bank profitability should remain strong in FY:22, despite a challenging economic environment. Economic momentum is set to remain weak this year, reflecting the implications of the ongoing geopolitical tensions, particularly in terms of higher domestic inflation, as well as the impact of persistent disruptions in global supply chains, especially in those related to the automotive sector, which accounts for 40% of the country's exports. As a result, we see GDP growth easing to 3.0% in FY:22, with risks clearly tilted to the downside. Importantly, the forthcoming agreement with the IMF for a 2-year Precautionary and Liquidity Line Arrangement is due to provide a critical safety net to the economy, should external financing conditions deteriorate.

Despite the challenging economic backdrop, we expect the banking sector to continue to overperform in FY:22, driven by a rebound in NII. The latter should be underpinned by strong credit expansion, reflecting banks' abundant liquidity (the loan-to-deposit ratio currently stands at c. 87%), amid a still accommodative monetary policy environment. Indeed, in view of limited portfolio flows with the rest of the world and the strong FX reserve base, we expect the NBRNM to stay dovish for longer, despite the jump in inflation and the hawkish turn by several CEE central banks. Note that, at its April meeting, the NBRNM raised its key rate by 25 bps to 1.5%, with just another 25 bp hike expected to be seen by end-year, leaving North Macedonia with one of the lowest interest rates (both in nominal and real terms) in the region. At the same time, in light of the elevated NPL coverage ratio, we expect loan loss provisioning to remain relatively subdued. Importantly, the banking system's capitalisation remains strong, with the CAR standing at 17.3%, well above the minimum regulatory threshold of 8.0%, providing a line of defence against potential losses.

	18 Apr.	3-M F	6-M F	12-M F
1-m SKIBOR (%)	1.2	1.4	1.6	2.0
MKD/EUR	61.3	61.3	61.3	61.3
Sov. Spread (2025. bps)	378	330	280	200

	18 Apr.	1-W %	YTD %	2-Y %
MBI 100	6,076	-2.5	-1.3	50.3

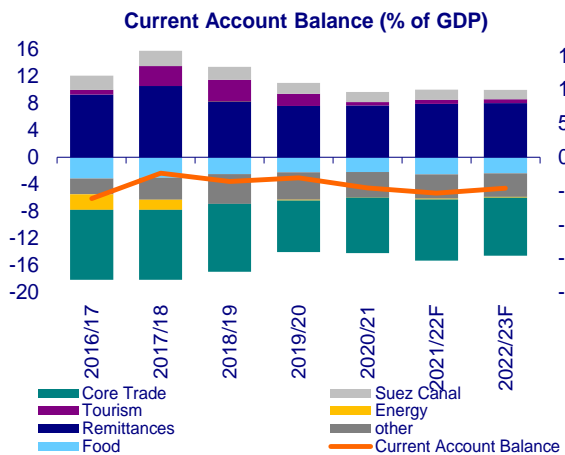
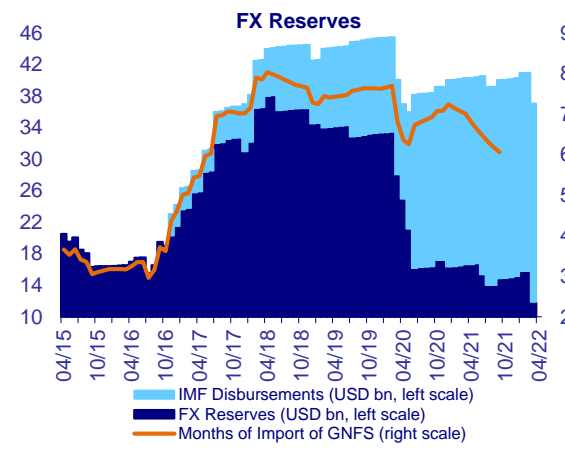
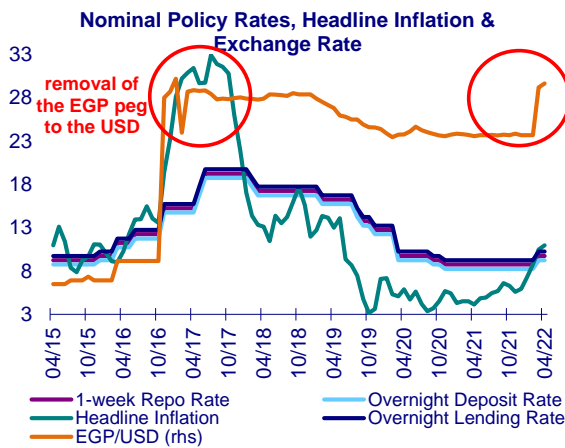
	2019	2020	2021	2022F	2023F
Real GDP Growth (%)	3.9	-6.1	4.0	3.0	3.5
Inflation (eop. %)	0.5	2.2	4.9	6.4	3.5
Cur. Act. Bal. (% GDP)	-3.3	-3.4	-3.5	-4.3	-3.3
Fiscal Bal. (% GDP)	-2.0	-8.2	-5.4	-5.4	-4.0

Sources: Reuters, NBRNM & NBG estimates



Egypt

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



Heightened pressure on the FX market prompted the CBE to hike its policy rates by 100 bps, while breaking the EGP's *de-facto* peg with the USD. At an exceptional MPC meeting on March 21st, the CBE raised -- for the first time since 2017 -- its overnight deposit, 1-week repo, and overnight lending rates by 100 bps to 9.25%, 9.75%, and 10.25%, respectively. The hike in the policy rates came alongside a large 15.0% depreciation of the EGP against the USD, after 2 years of stability.

The CBE's moves came in response to the massive portfolio outflows recorded in the domestic market in the wake of: i) the tightening shift in monetary policy guidance globally, especially in the US (where the Fed has already started raising rates), and; ii) the sudden deterioration in global risk appetite, following the escalation of the Russia-Ukraine crisis. Naturally, these portfolio outflows were translated into excess pressure on the EGP, prompting a plunge in FX reserves to USD 37.1 in March (a mere USD 11.9bn adjusted for IMF disbursements) from USD 41.0bn in February (despite a USD 5bn deposit placed by Saudi Arabia with the CBE at end-March). It should be mentioned that, with tourism activity and Suez Canal receipts, which are the traditional sources of FX income for Egypt, well below their historical levels, and given the country's low export base, (volatile) debt portfolio inflows have emerged as the country's most significant source of hard currency.

Note that the outlook for the EGP was already challenging, due to the large external funding needs looming ahead (with debt redemptions projected at USD 17.8bn in FY:21/22 and USD 16.5bn in FY:2022/23). Since the outbreak of the Russia-Ukraine crisis, it had become much more gloomier, reflecting not only Egypt's reliance on imports to cover its basic food needs (note that the country is the largest global wheat importer, with the price of the latter having increased by c. 45% since end-2021) but also the significance of arrivals from Russia and Ukraine (combined accounting for a sizeable 30% of total tourist arrivals) for the domestic tourism sector. Importantly, Egypt's external position would have been much weaker had it not been for its broadly balanced overall energy balance (underpinned by a large gas trade surplus).

All said, with these moves, the CBE aims not only at narrowing the CAD, through a deterioration in the economy's terms of trade, but also at improving its financing, through rebuilding the EGP's attractiveness for carry trade. Importantly, FX flexibility has also paved the way for a new agreement with the IMF, which is reportedly expected to be concluded over the next weeks. Note that similar policy moves preceded Egypt's USD 12bn IMF programme in 2016. A (new) agreement with the IMF should help close the external financing gap, catalysing, at the same time, capital inflows from the private sector. Against this backdrop, we expect continued support from other GCC countries, including non-market financing. The inclusion of Egypt's debt in JP Morgan Emerging Markets Bonds Index in February 2022, and the forthcoming settlement of its bonds by the Euroclear platform, expected in H2:22, should also help sustain investor interest in sovereign debt in the period ahead.

With this view, we expect the CBE to proceed with additional 175 bp rate hikes by end-2022, eventually outpacing major central banks' tightening course. The CBE's policy tightening should, among others, help contain strong underlying inflationary pressures. The latter reached a 3-year high of 10.5% y-o-y in March, moving well above the mid-target of the CBE's Q4:22 target range of 7±2%. Under the impact of higher global food prices and the weaker EGP, we expect inflation to continue rising over the next months, hitting a peak of 15.0% y-o-y in August. In light of this backdrop, we revise downwards our GDP growth forecast to 5.5% and 4.5% in FY:21/22 and FY:22/23, respectively, from 6.1% and 5.1% previously.

	18 Apr.	3-M F	6-M F	12-M F
O/N Interbank Rate (%)	9.37	10.40	11.00	11.30
EGP/USD	18.41	18.50	18.50	18.50
Sov. Spread (2025, bps)	460	440	420	350

	18 Apr.	1-W %	YTD %	2-Y %
HERMES 100	1,134	-1.3	-11.5	19.7

	18/19	19/20	20/21E	21/22F	22/23F
Real GDP Growth (%)	5.6	3.6	3.3	5.5	4.5
Inflation (eop. %)	9.4	5.6	4.9	13.7	7.1
Cur. Acct. Bal. (% GDP)	-3.6	-3.1	-4.6	-5.5	-6.1
Fiscal Bal. (% GDP)	-8.1	-7.9	-7.4	-7.2	-6.6

Sources: Reuters, CBE & NBG estimates



DETAILED MACROECONOMIC DATA

TURKEY					
	2019	2020	2021	2022f	2023f
Real Sector					
Nominal GDP (USD million)	760,669	718,977	811,282	812,320	952,985
GDP per capita (EUR)	8,170	7,458	8,053	8,415	9,546
GDP growth (real, %)	0.9	1.8	11.0	2.5	3.4
Unemployment rate (% aop)	13.7	13.2	12.0	11.8	11.4
Prices and Banking					
Inflation (% eop)	11.8	14.6	36.1	46.0	20.0
Inflation (% aop)	15.4	12.3	19.3	62.7	21.7
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	224,711	241,957	255,401
Merchandise imports (USD million)	198,981	206,250	253,943	278,799	284,262
Trade balance (USD million)	-16,781	-37,863	-29,232	-36,842	-28,861
Trade balance (% of GDP)	-2.2	-5.3	-3.6	-4.5	-3.0
Current account balance (USD million)	5,303	-35,537	-13,959	-23,746	-14,286
Current account balance (% of GDP)	0.7	-4.9	-1.7	-2.9	-1.5
Net FDI (USD million)	6,628	4,592	7,551	7,173	8,967
Net FDI (% of GDP)	0.9	0.6	0.9	0.9	0.9
International reserves (USD million)	105,696	93,277	111,181	110,000	130,000
International reserves (Months ^a)	5.6	4.9	4.7	4.3	4.9
Public Finance					
Primary balance (% of GDP)	-0.6	-0.8	-0.2	-1.1	-0.3
Fiscal balance (% of GDP)	-2.9	-3.4	-2.7	-3.8	-3.0
Gross public debt (% of GDP)	32.6	39.7	41.5	39.5	38.5
External Debt					
Gross external debt (USD million)	416,163	433,042	455,000	465,000	490,000
Gross external debt (% of GDP)	54.7	60.2	56.1	57.2	51.4
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	72.7	65.4
External debt service (% of exports)	35.9	37.5	27.6	26.5	26.6
Financial Markets					
Policy rate (Effective funding rate, % eop)	11.4	17.0	14.0	14.0	17.5
Policy rate (Effective funding rate, % aop)	20.7	10.5	17.6	14.0	15.8
1-Y T-bill rate (% eop)	11.3	15.1	22.2	20.0	15.0
Exchange rate: USD (eop)	5.95	7.43	13.32	15.50	16.25
Exchange rate: USD (aop)	5.68	7.02	8.89	14.80	15.88

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

Sources: National Sources & NBG estimates



NORTH MACEDONIA					
	2019	2020e	2021	2022f	2023f
Real Sector					
Nominal GDP (EUR million)	11,274	10,657	11,754	13,071	13,989
GDP per capita (EUR)	6,074	5,772	6,399	7,145	7,677
GDP growth (real, %)	3.9	-6.1	4.0	3.0	3.5
Unemployment rate (% aop)	17.3	16.4	15.7	15.5	15.2
Prices and Banking					
Inflation (% eop)	0.5	2.2	4.9	6.4	3.5
Inflation (% aop)	0.8	1.2	3.2	8.0	3.4
Loans to the Private Sector (% change, eop)	6.1	4.7	8.0		
Customer Deposits (% change, eop)	9.8	6.2	8.5		
Loans to the Private Sector (% of GDP)	48.9	54.1	53.0		
Retail Loans (% of GDP)	24.9	28.4	27.7		
Corporate Loans (% of GDP)	24.0	25.7	25.2		
Customer Deposits (% of GDP)	55.5	62.3	61.2		
Loans to Private Sector (% of Deposits)	88.1	86.8	86.5		
Foreign Currency Loans (% of Total Loans)	41.5	41.6	40.7		
External Accounts					
Merchandise exports (EUR million)	5,347	4,817	5,996	6,385	6,778
Merchandise imports (EUR million)	7,296	6,622	8,371	9,122	9,534
Trade balance (EUR million)	-1,949	-1,805	-2,375	-2,738	-2,756
Trade balance (% of GDP)	-17.3	-16.9	-20.2	-20.9	-19.7
Current account balance (EUR million)	-0,368	-0,366	-0,416	-0,557	-0,459
Current account balance (% of GDP)	-3.3	-3.4	-3.5	-4.3	-3.3
Net FDI (EUR million)	0,363	0,155	0,435	0,435	0,479
Net FDI (% of GDP)	3.2	1.5	3.7	3.3	3.4
International reserves (EUR million)	3,263	3,360	3,665	3,365	3,565
International reserves (Months ^a)	4.6	5.3	4.6	3.9	4.1
Public Finance					
Primary balance (% of GDP)	-0.8	-7.0	-4.1	-4.1	-2.7
Fiscal balance (% of GDP)	-2.0	-8.2	-5.4	-5.4	-4.0
Gross public debt ^b (% of GDP)	48.8	60.5	61.7	63.4	64.0
External Debt					
Gross external debt (EUR million)	8,154	8,630	9,873	10,718	10,922
Gross external debt (% of GDP)	72.3	81.0	84.0	82.0	78.0
External debt service (EUR million)	2,468	3,300	3,550	3,000	3,500
External debt service (% of reserves)	75.6	98.2	96.9	89.2	98.2
External debt service (% of exports)	35.4	52.7	45.9	36.4	42.0
Financial Markets					
28-d CB bill rate (% eop)	2.3	1.5	1.3	1.8	2.3
28-d CB bill rate (% aop)	2.3	1.6	1.3	1.5	2.0
1-Y T-bill rate ^c (% eop)	0.6	0.4	0.5	0.7	1.0
Exchange rate: EUR (eop)	61.4	61.6	61.6	61.6	61.6
Exchange rate: EUR (aop)	61.4	61.6	61.5	61.6	61.6

f: NBG forecasts; a: months of imports of GNFS; b: incl. guaranteed debt; c: primary market



EGYPT					
	2018/19*	2019/20*	2020/21*	2021/22f*	2022/23f*
Nominal GDP (USD million)	303,034	364,957	403,994	405,123	458,777
GDP per capita (USD)	3,089	3,628	3,926	3,860	4,286
GDP growth (real, %)	5.6	3.6	3.3	5.5	4.5
Unemployment rate (% aop)	8.6	8.3	7.3	7.3	7.2
Prices and Banking					
Inflation (% eop)	9.4	5.6	4.9	13.7	7.1
Inflation (% aop)	13.9	5.7	4.5	8.4	12.0
Loans to the Private Sector (% change, eop)	12.5	19.5	21.2		
Customer Deposits (% change, eop)	11.9	16.5	19.3		
Loans to the Private Sector (% of GDP)	22.9	24.8	27.8		
Retail Loans (% of GDP)	6.5	7.7	8.9		
Corporate Loans (% of GDP)	16.4	17.2	18.9		
Customer Deposits (% of GDP)	63.8	68.0	75.1		
Loans to Private Sector (% of Deposits)	35.8	36.5	37.0		
Foreign Currency Loans (% of Total Loans)	20.0	15.9	12.7		
External Accounts					
Merchandise exports (USD million)	28,495	26,376	28,677	32,264	39,232
Merchandise imports (USD million)	66,529	62,841	70,736	80,782	90,193
Trade balance (USD million)	-38,034	-36,465	-42,060	-47,518	-50,961
Trade balance (% of GDP)	-12.6	-10.0	-10.4	-11.7	-11.1
Current account balance (USD million)	-10,894	-11,167	-18,436	-21,530	-21,143
Current account balance (% of GDP)	-3.6	-3.1	-4.6	-5.3	-4.6
Net FDI (USD million)	7,862	7,102	4,835	5,681	6,533
Net FDI (% of GDP)	2.6	1.9	1.2	1.4	1.4
International reserves (USD million)	44,481	38,202	40,584	39,984	40,584
International reserves (Months ^a)	7.5	6.7	6.5	5.2	4.8
Public Finance					
Primary balance (% of GDP)	2.0	1.8	1.2	0.9	0.6
Fiscal balance (% of GDP)	-8.0	-7.9	-7.7	-7.1	-6.5
Gross public debt (% of GDP)	90.4	87.2	91.0	88.5	86.0
External Debt					
Gross external debt (USD million)	108,699	123,491	137,860	142,500	150,000
Gross external debt (% of GDP)	35.9	33.8	34.1	35.2	32.7
External debt service ^b (USD million)	12,800	16,100	18,500	22,600	26,300
External debt service ^b (% of reserves)	28.8	42.1	45.6	56.5	64.8
External debt service (% of exports ^c)	25.8	36.5	45.0	47.5	47.9
Financial Markets					
Policy rate (O/N deposit rate, % eop)	15.8	9.3	8.3	11.0	11.0
Policy rate (O/N deposit rate, % aop)	16.3	11.9	8.5	8.5	10.2
3-M T-bill rate (% eop)	18.0	12.3	12.5	14.8	14.5
Exchange rate: USD (eop)	16.65	16.11	15.66	18.50	18.50
Exchange rate: USD (aop)	17.56	16.04	15.70	17.90	18.50

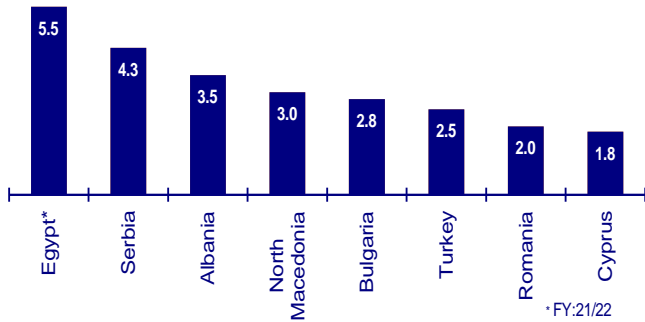
*: fiscal year starting in July and ending in June; f: NBG forecasts; a: months of imports of GNFS

Sources: National Sources & NBG estimates

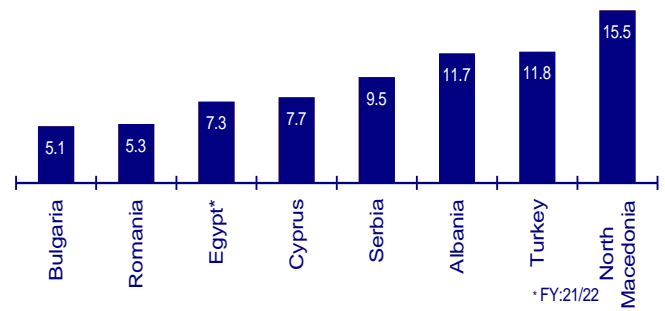


REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS

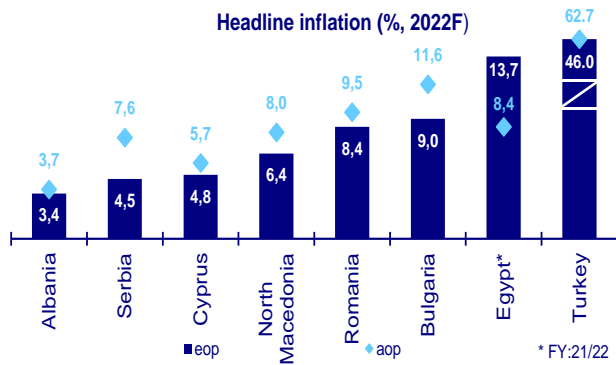
Real GDP Growth (% , 2022F)



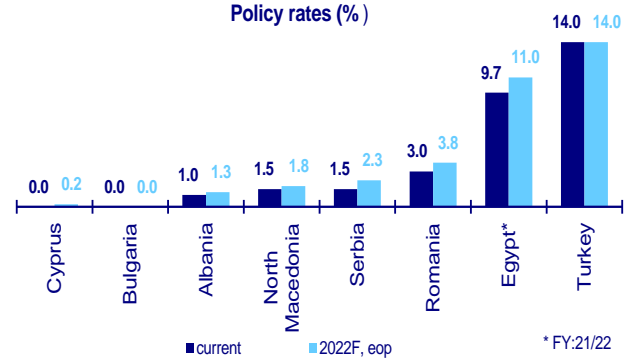
Unemployment (% , 2022F, aop)



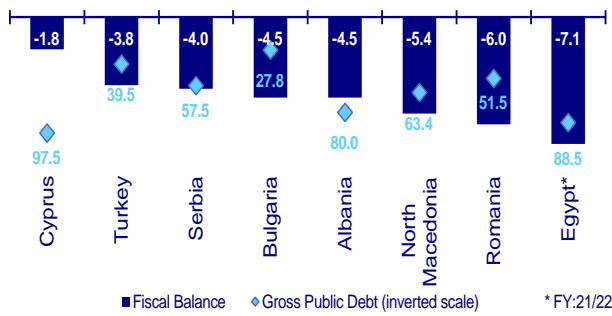
Headline inflation (% , 2022F)



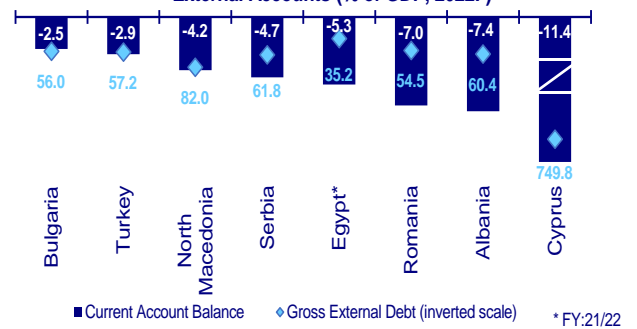
Policy rates (%)



Public Finance (% of GDP, 2022F)



External Accounts (% of GDP, 2022F)



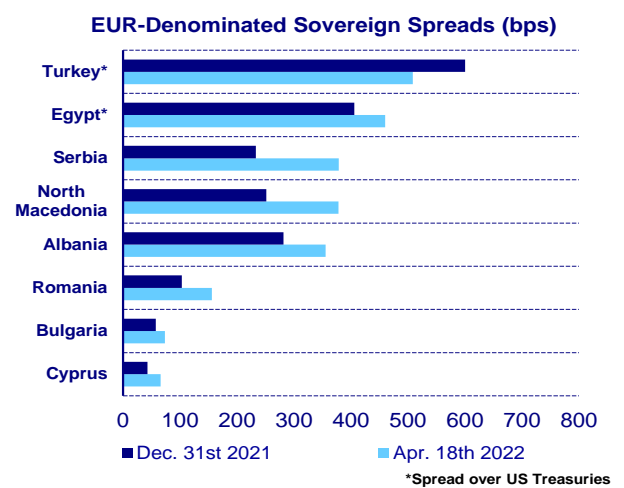
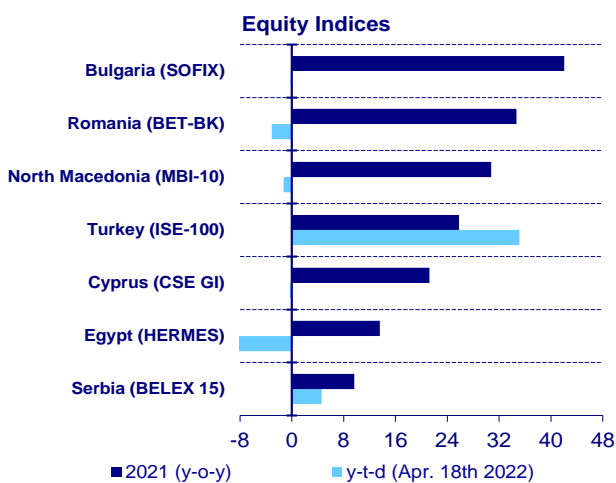
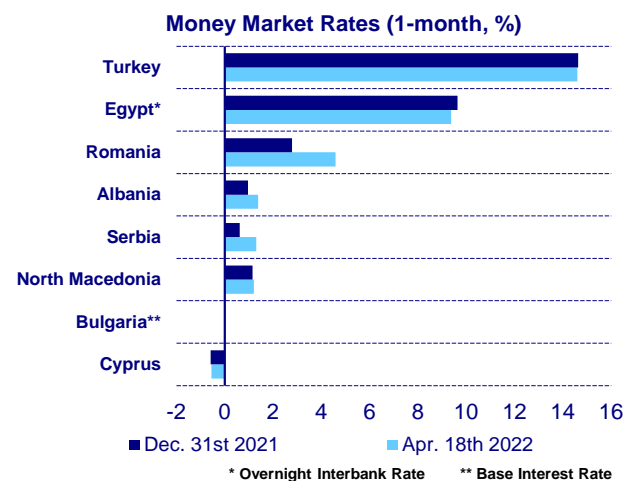
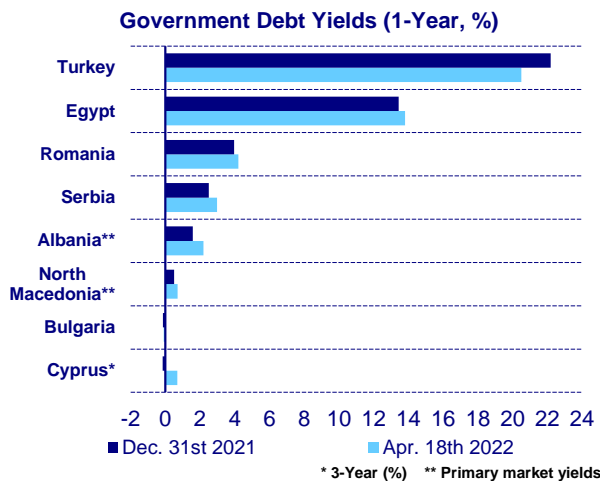
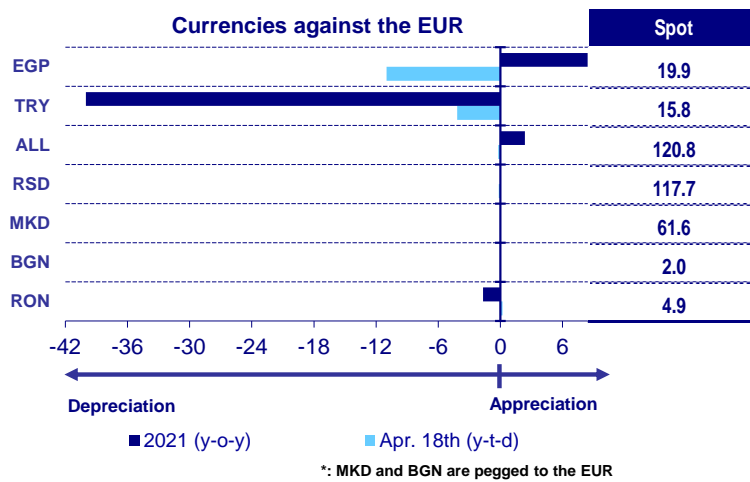
FX Reserves (Months of Imports, 2022F)



Sources: National Sources & NBG estimates



REGIONAL SNAPSHOT: FINANCIAL MARKETS



Sources: Reuters & NBG estimates



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