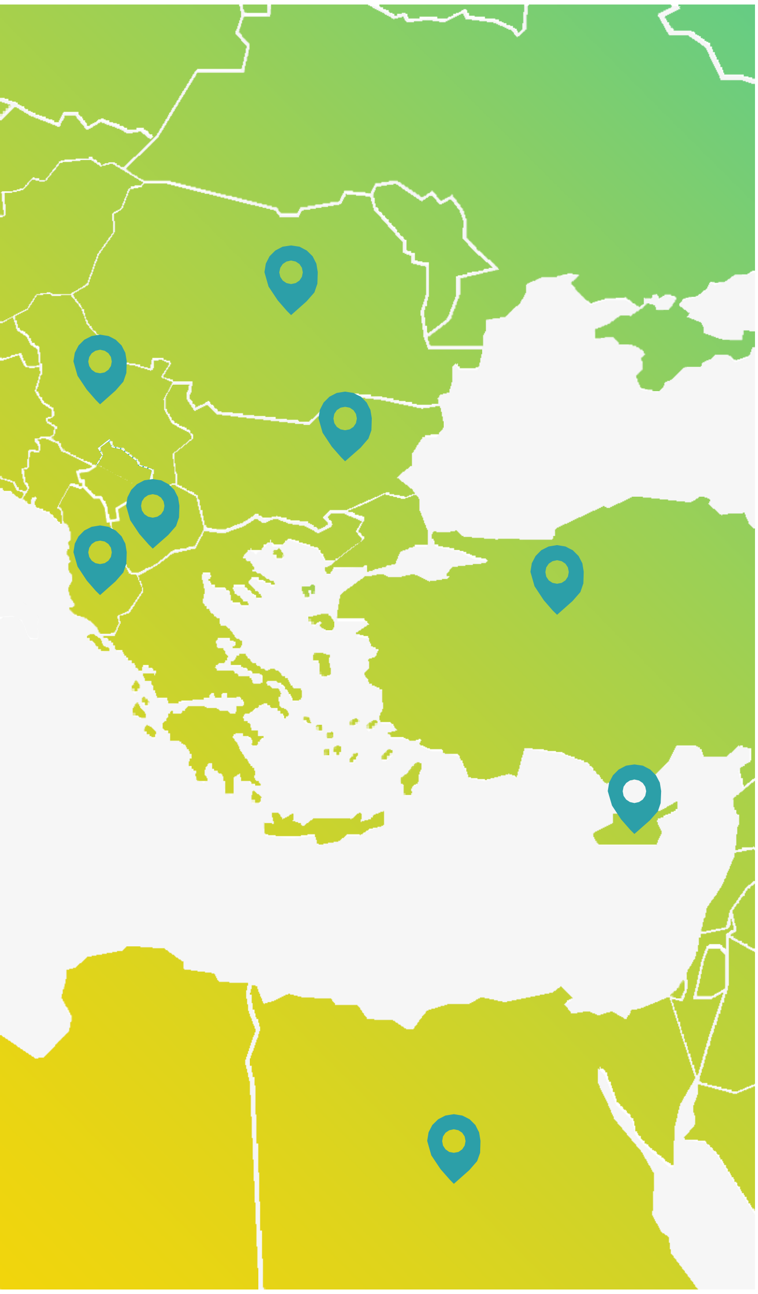
Bi-WEEKLY REPORT

Emerging Markets Analysis

10 – 23 January 2023



COUNTRIES IN FOCUS:

Romania, Serbia & Egypt

Romania saw a robust GDP growth rate in FY:22 (up by an estimated 4.8%), on resilient domestic demand against a challenging backdrop

GDP growth is set to slow significantly in the period ahead, dragged down by weakening private consumption and net exports

In view of persistent inflationary pressures, the NBS is expected to maintain its tightening bias at least until end-Q1:23

While GDP growth remained resilient in H1:22 (up 4.0% y-o-y), it slowed abruptly in H2:22 (to just 0.7% y-o-y), with a contraction recorded in all sectors, except for services

The EGP depreciates sharply (again) as Egypt continues with its transition to a flexible exchange rate regime, despite the massive hike in its key rate

NBG – Economic Analysis Division
https://www.nbg.gr/en/group/studies-and-economic-analysis

Emerging Markets Analysis

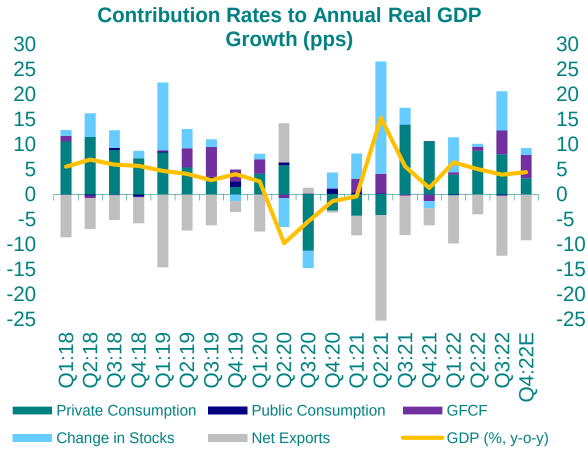
Head:
Konstantinos Romanos-Louizos
+30 210 33 41 225
romanos.louizos.k@nbg.gr

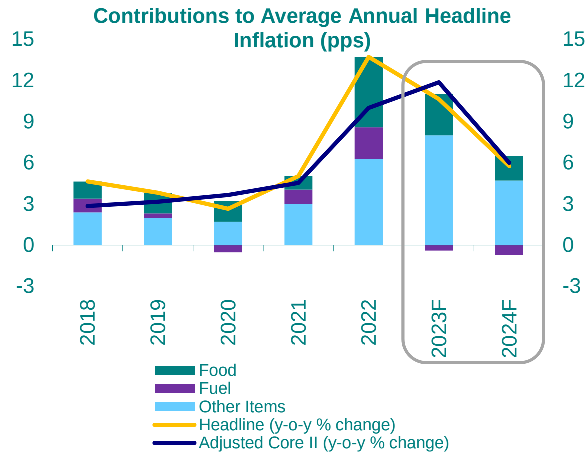
Louiza Troupi
+30 210 33 41 696
troupi.louiza@nbg.gr

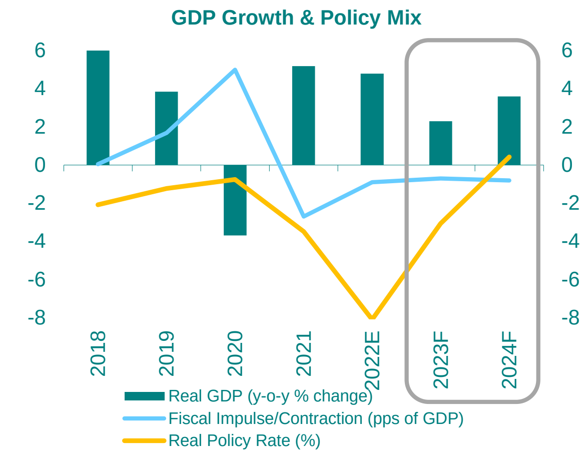
Georgios Ntinenis
+30 210 33 41 434
ntinenis.georgios@nbg.gr

Romania

BBB- / Baa3 / BBB- (S&P / Moody's / Fitch)







	23 Jan.	3-M F	6-M F	12-M F
1-M ROBOR(%)	6.3	6.5	6.5	6.0
RON/EUR	4.91	4.92	4.94	4.96
Sov. Spread (2027, bps)	290	300	280	250

	23 Jan.	1-W %	YTD %	2-Y %
BET-BK	2,317	2.0	5.2	18.6

	2020	2021	2022E	2023F	2024F
Real GDP Growth (%)	-3.7	5.2	4.8	2.3	3.6
Inflation (eop, %)	2.1	8.2	16.4	7.8	4.0
Cur. Acct. Bal. (% GDP)	-4.9	-7.3	-9.5	-7.9	-6.9
Fiscal Bal. (% GDP)	-9.5	-6.8	-5.7	-5.0	-4.2

Sources: Reuters, INSSE, BNRO, Ministry of Finance & NBG estimates

Romania saw a robust GDP growth rate in FY:22 (up by an estimated 4.8%), on resilient domestic demand against a challenging backdrop. Despite the jump in inflation and weaker economic sentiment, in the aftermath of the Russia-Ukraine conflict, economic growth remained strong in FY:22, at an estimated 4.8% against 5.2% in FY:21, outperforming the SEE-4 average of c. 3.0%. Although it lost some steam during the second half of the year, private consumption remained the main driver of economic expansion, underpinned by large fiscal transfers and a tight labour market. A positive base effect from the re-opening of the economy and a frontloading in consumption of goods, following the sharp upward adjustment in inflation expectations, did also provide some support to private consumption in the middle quarters of the year. At the same time, following 2 years of stagnation, fixed investment strengthened, with the public sector providing a critical boost. Unsurprisingly, stronger domestic demand (including massive stock rebuilding) fed into imports, with net exports deteriorating sharply in FY:22, reflecting, *inter alia*, the impact of strains in global supply chains.

GDP growth is set to slow significantly in the period ahead, dragged down by weakening private consumption and net exports. Stubbornly high core inflation should keep the headline figure elevated in the period ahead (see chart), despite the more benign-than-initially envisaged outlook for energy prices, meaning that growth in households' (real) disposable income is set to remain marginally negative this year as well, weighing on private consumption. Note that, in view of persistent shortages and mismatches in the labour market (reflecting, *inter alia*, emigration and ageing population), underlying slack is unlikely to increase materially in FY:23, despite weakening economic growth.

At the same time, against the backdrop of slowing economic growth in the EU, Romania's main trade partner, net exports should remain a large drag on overall growth, despite the offsetting impact of softer private consumption and easing strains in global supply chains. In fact, the large import content of fixed investment, which is expected to overperform in the period ahead, implies a relatively strong import growth going forward.

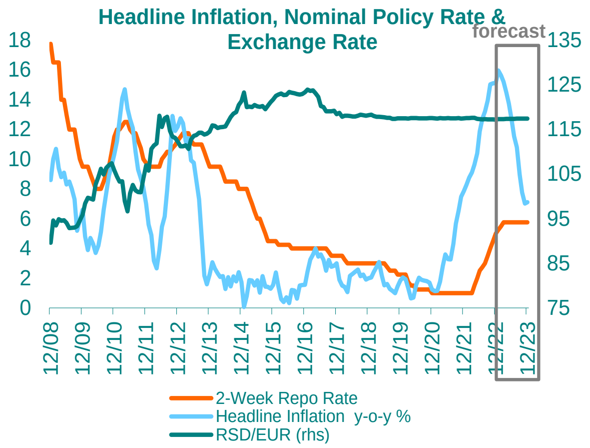
Importantly, despite poor business confidence, tightening financing conditions and construction costs, investment activity is set to gradually gain momentum, bolstered by EU funding, providing a critical contribution to GDP growth. Note that Romania is eligible to receive grants and loans worth EUR 29.1bn or more than 12.0% of its FY:21 GDP under the Recovery and Resilience Facility in 2021-27, with the historical low EU funds absorption rate posing, however, serious challenges in this regard.

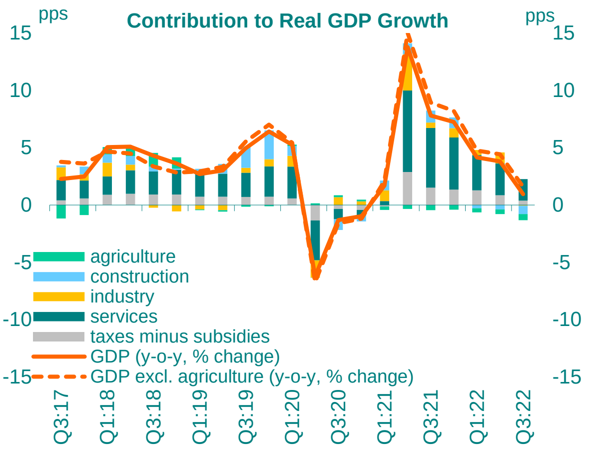
Policies are not set to support economic growth in 2023. On the one hand, amid still elevated inflation and large external imbalances (with the latter largely reflecting the impact of past strong fiscal expansion), the NBR cannot but maintain its tight stance (note that the key policy rate was raised to 7.0% in early-2023 and is projected to remain at that level throughout the year, markedly higher than the FY:22 average of 4.4%). On the other hand, the need to reduce the high structural budget deficit limits fiscal flexibility, despite the temporary suspension of EU fiscal discipline rules.

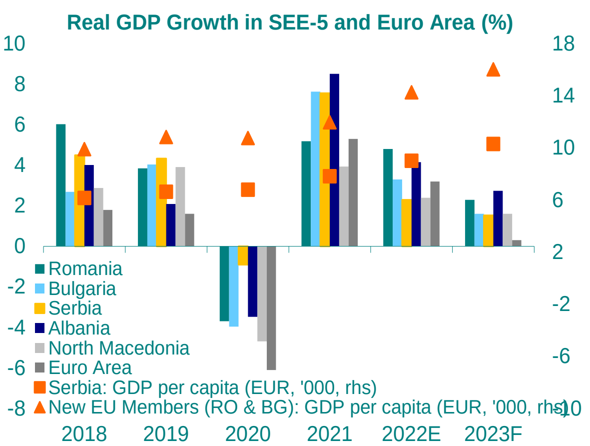
All said, we see GDP growth slowing to 2.3% in FY:23, due, *inter alia*, to a negative base effect from FY:22 overperformance. Note that with Romania being a grain exporter and largely self-sufficient in energy (importing c. $^{1}/_{3}$rd of total energy used), the domestic economy remains better placed to cope with the downside risks stemming from volatility in global commodity prices than its peers.

Serbia

BB+ / Ba2 / BB+ (S&P / Moody's / Fitch)







	23 Jan.	3-M F	6-M F	12-M F
1-m BELIBOR (%)	4.8	5.3	5.3	5.0
RSD/EUR	117.3	117.5	117.5	117.5
Sov. Spread (2029, bps)	406	415	400	350

	23 Jan.	1-W %	YTD %	2-Y %
BELEX-15	838	-0.4	1.6	14.3

	2020	2021	2022E	2023F	2024F
Real GDP Growth (%)	-0.9	7.5	2.3	1.5	3.5
Inflation (eop, %)	1.3	7.9	15.1	7.1	3.5
Cur. Acct. Bal. (% GDP)	-4.1	-4.5	-7.7	-7.1	-6.0
Fiscal Bal. (% GDP)	-8.0	-4.1	-3.3	-3.0	-2.2

Sources: Reuters, NBS, OPBC & NBG estimates

In view of persistent inflationary pressures, the NBS is expected to maintain its tightening bias at least until end-Q1:23. In response to heightened inflationary pressures, the NBS hiked its 2-week repo rate by a further 25 bps to (a 7½-year high of) 5.25% at its January meeting, bringing the total rate hikes to 425 bps since the outbreak of the Russian-Ukraine conflict. Despite weakening economic activity (see below), the NBS proceeded with the rate hike mainly with a view to: i) taming inflation expectations, ahead of the IMF-mandated (multi-stage) adjustments in electricity & gas prices for households & industries (up 15% and 30%, respectively, in FY:23) and their second-round effects; and ii) counteracting the impact of the loose incomes policy (comprising a sizeable 20% pension hike along with public sector and minimum wage increases -- up 12.5% and 14.3%, respectively), amid still tight labour market conditions. Indeed, despite weakening demand, softening global commodity prices and strong base effects, we expect inflation to edge up further in Q1:23, slowing down gradually thereafter -- yet remaining in double-digits until Q3:23 and well above its historical average. The need to facilitate external adjustment (note that the CAD widened significantly to 7.7% of GDP in FY:22 from 4.5% in FY:21, mainly reflecting a burgeoning energy bill, due not only to higher energy prices, but also to shortfalls in domestic power generation following technical breakdowns) has also weighed on the NBS's decision to maintain its tightening bias

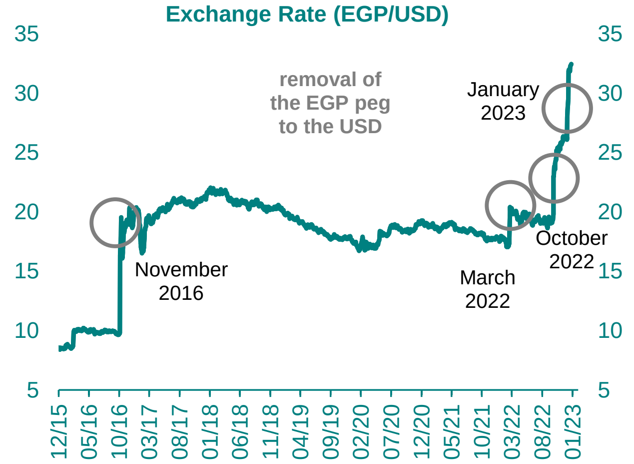
All said, we expect the NBS to raise further its key policy rate by 50 bps to 5.75% by end Q1:23. Larger-than-envisaged policy rate hikes could come should second round effects from hikes in regulated price push core inflation higher for longer and/or a wage-price spiral arise.

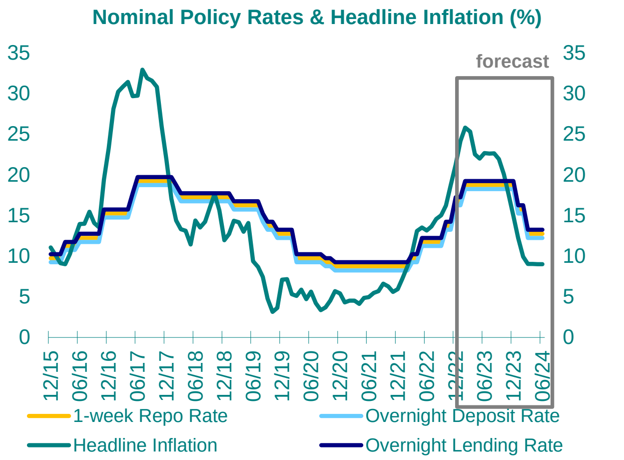
While GDP growth remained resilient in H1:22 (up 4.0% y-o-y), it slowed abruptly in H2:22 (to just 0.7% y-o-y), with a contraction recorded in all sectors, except for services. Specifically, after growing strongly -- in H1:22 -- at rates well above the long-term historical average, the industrial sector's contribution to overall growth is estimated to have turned negative in H2:22, reflecting: i) weakening external demand (especially for metals and chemicals); and ii) the elimination of a positive effect from the launch of a new major copper mine in Q3:21. Moreover, a severe summer drought -- for a 2nd successive year -- hit both the agriculture and the energy (hydroelectric production) sectors. In fact, the only sector adding to economic growth in H2:22 was that of services, with its contribution diminishing, however, in line with deteriorating economic sentiment and the adverse impact of the steep hike in inflation on disposable income. All said, GDP growth is estimated to have eased markedly in H2:22, bringing the full-year figure to 2.3% from (a 17-year high) 7.4% in FY:21.

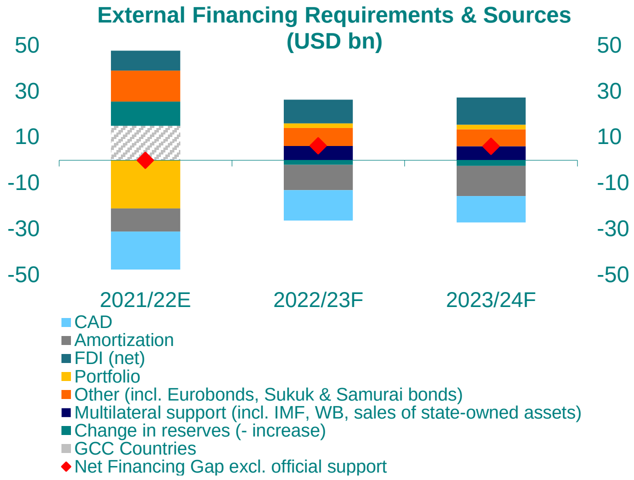
The slowing trend is expected to continue in FY:23, especially during the first half of the year. Indeed, with inflation set to hit record-high levels in Q1:23, eroding households' real disposable income, consumer confidence deteriorating steadily and financial conditions tightening further, growth in private consumption cannot but weaken in the period ahead. At the same time, softening external demand from the EU -- Serbia's main trade partner (absorbing ⅔ of the country's exports) -- along with higher -- yet easing -- input costs should weigh on exports. As a result, we see GDP growth moderating further to just 1.5% -- well below its long-term potential (of 3.5%) and the SEE average -- reflecting, *inter alia*, a weak statistical carry-over effect (of just 0.3 pps against 2.4 pps in FY:22), which should more than offset the impact of: i) the drought-related normalization in agricultural output; and ii) the fading of the negative base effect from temporary energy production outages in FY:22, due to technical breakdowns.

Egypt

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







	23 Jan.	3-M F	6-M F	12-M F
O/N Interbank Rate (%)	16.3	18.3	18.3	15.5
EGP/USD	29.8	30.0	30.0	30.0
Sov. Spread (2029, bps)	725	700	660	580

	23 Jan.	1-W %	YTD %	2-Y %
HERMES 100	1,783	0.5	9.3	46.9

	20/21	21/22E	22/23F	23/24F	24/25F
Real GDP Growth (%)	3.3	6.6	3.2	4.5	4.8
Inflation (eop. %)	4.9	13.2	22.7	9.0	7.5
Cur. Acct. Bal. (% GDP)	-4.3	-3.5	-3.5	-3.0	-2.5
Fiscal Bal. (% GDP)	-7.1	-6.4	-6.4	-6.2	-5.5

Sources: Reuters, CBE & NBG estimates

The EGP depreciates sharply (again) as Egypt continues with its transition to a flexible exchange rate regime, despite the massive hike in its key rate. Recall that the CBE's shift to a "durable" flexible exchange rate regime was *a sine qua non* condition for a 46-month USD 3bn Extended Fund Facility Arrangement (EFF) with the IMF to be sealed. In this context, and as a huge import backlog started to be cleared, following (the IMF-mandated) repeal at end-December of a February regulation requiring the use of letters of credit for imports (resulting, in turn, in significant product shortages), the EGP could not but depreciate abruptly (down 16.4% y-t-d), for a 3rd successive time in less than a year. Recall that the EGP had lost 15% of its value against the USD in October, when the CBE announced its shift to a flexible exchange rate regime, following another 15% devaluation in March, after 2 years of stability.

The EGP depreciation in January would have been larger had the CBE not hiked its rates by 300 bps (with its key overnight deposit now standing at 16.25%) at its December meeting, luring foreign investors to Egypt's debt market, which has traditionally been the most significant source of hard currency.

Even assuming the large remaining logjam of imports (worth c. USD 5.3bn, equivalent to 16% of FX reserves) gets cleared soon, the outlook for the EGP remains clouded by: i) the sizeable debt redemptions looming ahead (projected at c. USD 11bn in FY:22/23); and ii) the still large, albeit narrowing current account deficit (CAD, projected at USD 13.5bn in FY:22/23). In fact, total annual external financing needs amount to a sizeable 73% of FX reserves' current level (standing at a 5½-year low of USD 34bn and a mere USD 10.3bn adjusted for IMF disbursements). Recall that the plunge in FX reserves came on the back of the CBE's heavy interventions to maintain EGP stability in the wake of the Russia-Ukraine crisis (with surging global commodity prices boosting the CAD, due to Egypt's reliance on food imports to cover its needs, on the one hand, and heavy portfolio withdrawals adding to financing pressures, on the other hand). The drawdown in FX reserves would have been larger had Gulf Cooperation Council (GCC) countries not provided USD 13bn in short-term FX deposits.

On a positive note, the IMF agreement (involving disbursements worth USD 0.7bn for this year) is expected to unlock a USD 6bn funding package, including USD 1.1bn from the WB, USD 1bn from the China Development Bank and USD 2bn in committed purchases of public sector assets from GCC countries, which should help plug Egypt's external financing gap (see chart).

Worryingly, the massive depreciation of the EGP has come against an unfavourable backdrop, fuelling further inflation (with the latter having already hit a 5-year high of 21.3% y-o-y in December, up from 5.9% a year ago). Assuming the exchange rate remains broadly flat at current levels, we see headline inflation rising further to 25.8% in Q1:23, before embarking on a slow downward trend. Against this backdrop, and in view of tightening financing conditions, GDP growth is seen moderating abruptly to 3.2% in FY:22/23, half its FY:21/22 rate.

High inflation should compensate for the impact of the weaker EGP (and higher interest rates) preventing a further rise in the already elevated public debt (projected at 88% of GDP in FY:22/23). At the same time, external debt, albeit rising further (to 40% of GDP in FY:22/23, still well below that of Egypt's peers) should remain manageable.

Note that Egyptian banks, especially the privately-owned ones, are well placed to deal with the impact of the weaker EGP, due to their high regulatory capital buffers and strong internal capital generation capacity.

.

DETAILED MACROECONOMIC DATA

ROMANIA					
	2020	2021	2022e	2023f	2024f
Real Sector					
Nominal GDP (EUR million)	220,628	240,279	285,845	322,065	352,175
GDP per capita (EUR)	11,414	12,513	14,888	16,775	18,345
GDP growth (real, %)	-3.7	5.2	4.8	2.3	3.6
Unemployment rate(ILO definition, %, aop)	6.1	5.6	5.6	5.6	5.4
Prices and Banking					
Inflation (%, eop)	2.1	8.2	16.4	7.8	4.0
Inflation (%, aop)	2.6	5.0	13.7	10.6	5.8
Loans to the Private Sector (% change, eop)	5.0	14.3			
Customer Deposits (% change, eop)	15.3	13.7			
Loans to the Private Sector (% of GDP)	25.7	26.5			
Retail Loans (% of GDP)	14.2	13.9			
Corporate Loans (% of GDP)	11.5	12.5			
Customer Deposits (% of GDP)	38.2	38.9			
Loans to Private Sector (% of Deposits)	67.3	68.1			
Foreign Currency Loans (% of Total Loans)	29.7	26.5			
External Accounts					
Merchandise exports (EUR million)	57,560	70,194	80,539	86,543	91,576
Merchandise imports (EUR million)	76,509	93,317	112,321	119,183	125,237
Trade balance (EUR million)	-18,949	-23,123	-31,781	-32,641	-33,661
Trade balance (% of GDP)	-8.6	-9.6	-11.1	-10.1	-9.6
Current account balance (EUR million)	-10,900	-17,474	-27,067	25,417	-24,352
Current account balance (% of GDP)	-4.9	-7.3	-9.5	-7.9	-6.9
Net FDI (EUR million)	2,960	8,820	9,702	10,187	10,900
Net FDI (% of GDP)	1.3	3.7	3.4	3.2	3.1
International reserves (EUR million)	37,379	40,475	46,636	47,656	49,454
International reserves (Months[a])	4.9	4.3	4.2	4.0	4.0
Public Finance					
Primary balance (% of GDP)	-8.2	-5.2	-4.3	-3.6	-2.8
Fiscal balance (% of GDP)	-9.5	-6.8	-5.7	-5.0	-4.2
Gross public debt [b] (% of GDP)	46.5	48.6	47.5	47.8	48.6
External Debt					
Gross external debt (EUR million)	126,750	134,585	144,637	153,947	162,000
Gross external debt (% of GDP)	57.4	56.0	50.6	47.8	46.0
External debt service (EUR million)	17,291	16,079	17,000	17,250	17,250
External debt service (% of reserves)	46.3	39.7	36.5	35.9	34.7
External debt service (% of exports)	21.3	16.4	14.8	14.0	13.2
Financial Markets					
Policy rate (1-w repo rate, %, eop)	1.5	1.8	6.8	7.0	5.3
Policy rate (1-w repo rate, %, aop)	1.8	1.4	4.4	7.0	6.0
10-Y Bond Yield (%, eop)	3.1	5.1	8.4	7.5	6.8
Exchange rate: EUR (eop)	4.863	4.946	4.940	4.960	4.960
Exchange rate: EUR (aop)	4.835	4.919	4.928	4.950	4.960

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

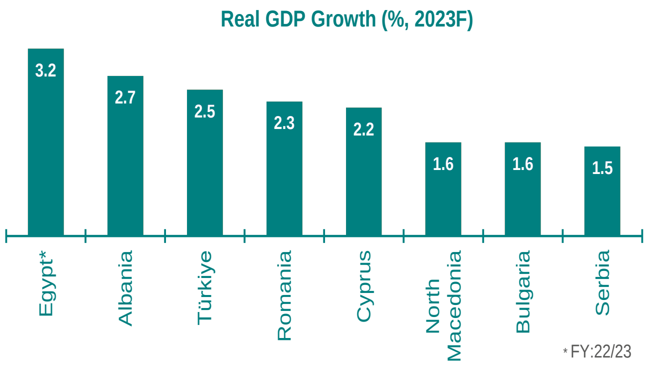
SERBIA					
	2020	**2021**	**2022e**	**2023f**	**2024f**
Real Sector					
Nominal GDP (EUR million)	46,841	53,363	61,155	69,405	75,345
GDP per capita (EUR)	6,789	7,808	9,011	10,289	11,214
GDP growth (real, %)	-0.9	7.5	2.3	1.5	3.5
Unemployment rate (%, aop)	9.7	11.1	9.2	9.1	8.7
Prices and Banking					
Inflation (%, eop)	1.3	7.9	15.1	7.1	3.5
Inflation (%, aop)	1.6	4.1	11.9	11.7	5.0
Loans to the Private Sector (% change, eop)	12.2	10.1			
Customer Deposits (% change, eop)	17.4	13.3			
Loans to the Private Sector (% of GDP)	49.0	47.4			
Retail Loans (% of GDP)	22.6	21.9			
Corporate Loans (% of GDP)	26.4	25.4			
Customer Deposits (% of GDP)	52.3	52.1			
Loans to Private Sector (% of Deposits)	93.6	91.0			
Foreign Currency Loans (% of Total Loans)	62.1	61.1			
External Accounts					
Merchandise exports (EUR million)	16,079	20,771	25,083	26,442	28,537
Merchandise imports (EUR million)	21,280	26,697	33,970	35,756	37,778
Trade balance (EUR million)	-5,201	-5,926	-8,887	-9,314	-9,241
Trade balance (% of GDP)	-11.1	-11.1	-14.5	-13.4	-12.3
Current account balance (EUR million)	-1,929	-2,389	-4,730	-4,920	-4,524
Current account balance (% of GDP)	-4.1	-4.5	-7.7	-7.1	-6.0
Net FDI (EUR million)	2,938	3,724	4,003	4,424	4,977
Net FDI (% of GDP)	6.3	7.0	6.5	6.4	6.6
International reserves (EUR million)	13,492	16,455	19,416	21,119	22,572
International reserves (Months[a])	6.1	6.0	5.4	5.6	5.7
Public Finance					
Primary balance (% of GDP)	-6.0	-2.4	-1.6	-1.4	-0.5
Fiscal balance (% of GDP)	-8.0	-4.1	-3.3	-3.0	-2.2
Central Government debt (% of GDP)	58.7	57.9	55.5	52.5	50.6
External Debt					
Gross external debt (EUR million)	30,787	36,536	41,585	45,391	46,337
Gross external debt (% of GDP)	65.7	68.5	68.0	65.4	61.5
External debt service (EUR million)	5,500	6,000	5,100	4,700	5,100
External debt service (% of reserves)	40.8	36.5	26.3	22.3	22.6
External debt service (% of exports)	24.7	21.0	14.3	12.5	12.7
Financial Markets					
Policy rate (2-w repo rate, %, eop)	1.0	1.0	5.0	5.8	5.0
Policy rate (2-w repo rate, %, aop)	1.5	1.0	2.6	5.7	5.5
10-Y T-bill rate (%, eop)	3.1	4.1	7.4	7.0	6.6
Exchange rate: EUR (eop)	117.5	117.5	117.2	117.5	117.5
Exchange rate: EUR (aop)	117.5	117.5	117.4	117.4	117.5

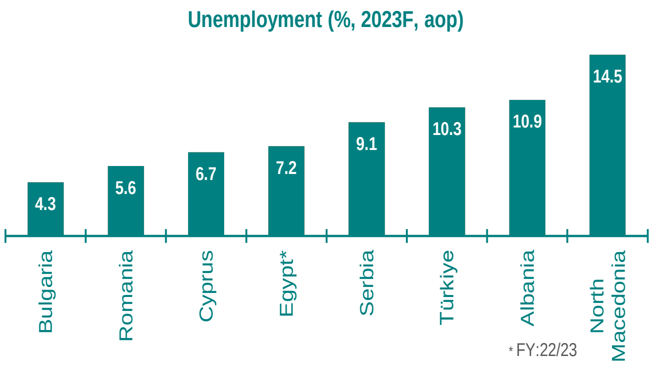
f: NBG forecasts; a: months of imports of GNFS

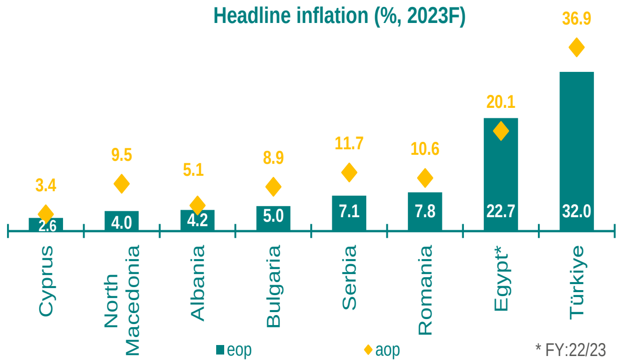
EGYPT	2020/21*	2021/22e*	2022/23f*	2023/24f*	2024/25f*
Real Sector					
Nominal GDP (USD million)	424,516	476,990	381,180	388,374	440,008
GDP per capita (USD)	4,126	4,542	3,561	3,557	3,951
GDP growth (real, %)	3.3	6.6	3.2	4.5	4.8
Unemployment rate (%, aop)	7.3	7.3	7.2	7.1	7.0
Prices and Banking					
Inflation (%, eop)	4.9	13.2	22.7	9.0	7.5
Inflation (%, aop)	4.5	8.4	20.1	14.7	8.1
Loans to the Private Sector (% change, eop)	21.2	23.6			
Customer Deposits (% change, eop)	19.2	24.7			
Loans to the Private Sector (% of GDP)	26.5	27.8			
Retail Loans (% of GDP)	8.9	9.5			
Corporate Loans (% of GDP)	17.6	18.3			
Customer Deposits (% of GDP)	74.4	80.2			
Loans to Private Sector (% of Deposits)	35.6	34.1			
Foreign Currency Loans (% of Total Loans)	12.7	11.3			
External Accounts					
Merchandise exports (USD million)	28,677	43,906	48,718	52,508	56,764
Merchandise imports (USD million)	70,736	87,302	93,634	98,631	106,246
Trade balance (USD million)	-42,060	-43,396	-44,916	-46,123	-49,482
Trade balance (% of GDP)	-9.9	-9.1	-11,8	-11,9	-11,2
Current account balance (USD million)	-18,436	-16,551	-13,471	-11,586	-11,057
Current account balance (% of GDP)	-4.3	-3.5	-3.5	-3.0	-2.5
Net FDI (USD million)	4,835	8,591	10,309	11,856	13,634
Net FDI (% of GDP)	1.1	1.8	2.7	3.1	3.1
International reserves (USD million)	40,584	33,376	35,376	37,776	40,576
International reserves (Months[a])	6.5	4.2	4.2	4.4	4.3
Public Finance					
Primary balance (% of GDP)	1.4	1.1	2.9	3.8	3.8
Fiscal balance (% of GDP)	-7.1	-6.4	-6.4	-6.2	-5.5
Gross public debt (% of GDP)	87.3	87.6	83.9	77.6	75.7
External Debt					
Gross external debt (USD million)	137,860	155,709	151,200	151,400	154,100
Gross external debt (% of GDP)	32.5	32.7	39.7	39.0	35.0
External debt service [b] (USD million)	15,400	26,100	25,000	32,000	36,800
External debt service [b] (% of reserves)	37.9	78.2	70.7	84.7	90.7
External debt service (% of exports[c])	37.5	40.5	35.2	41.6	43.8
Financial Markets					
Policy rate (O/N deposit rate, %, eop)	8.3	11.3	18.3	12.3	9.8
Policy rate (O/N deposit rate, %, aop)	8.5	8.9	15.3	15.8	10.0
3-M T-bill rate (%, eop)	13.2	15.4	23.0	16.0	13.5
Exchange rate: USD (eop)	15.66	18.76	30.00	30.00	30.00
Exchange rate: USD (aop)	15.70	16.45	25.50	30.00	30.00

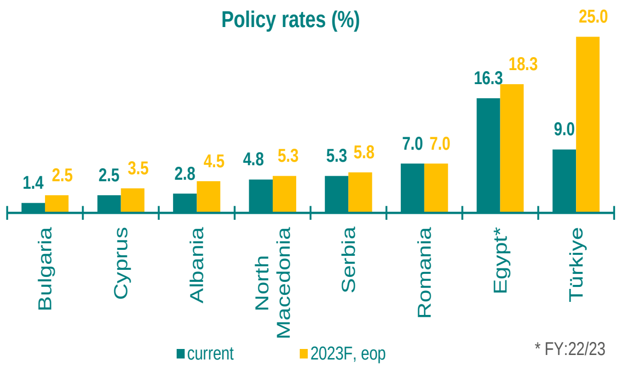
*: fiscal year starting in July and ending in June; f: NBG forecasts; a: months of imports of GNFS

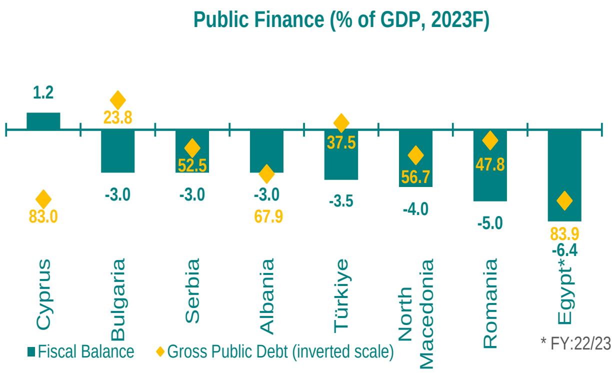
REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS

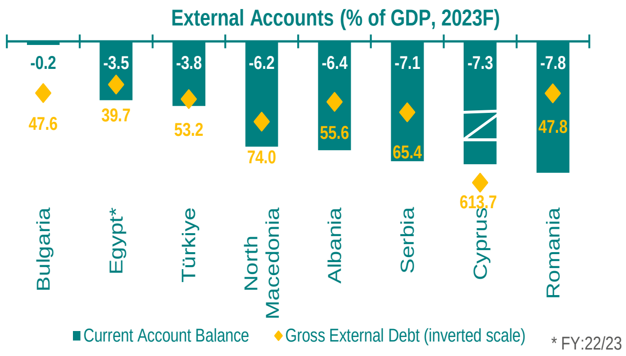


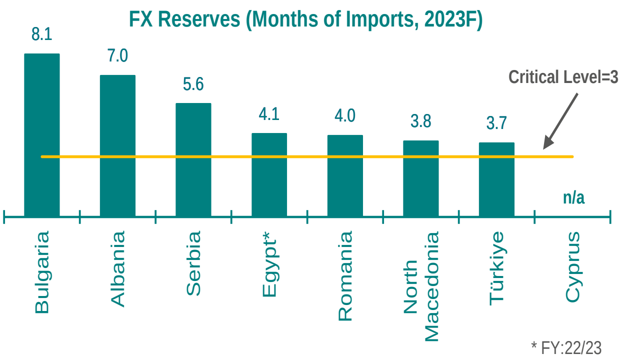






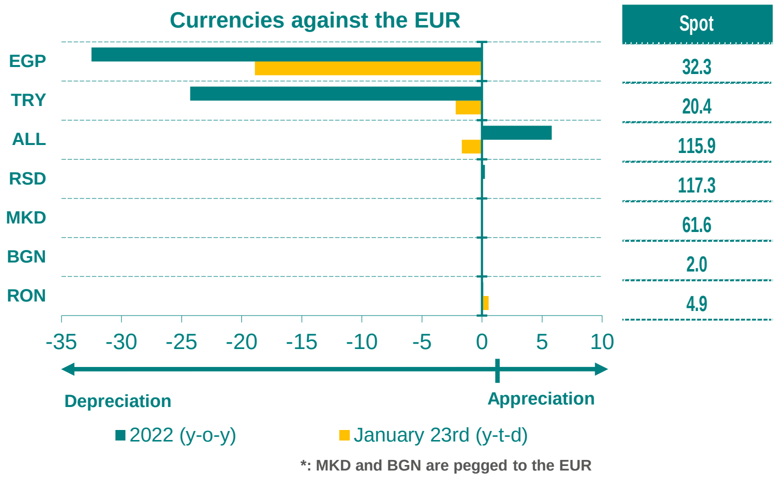


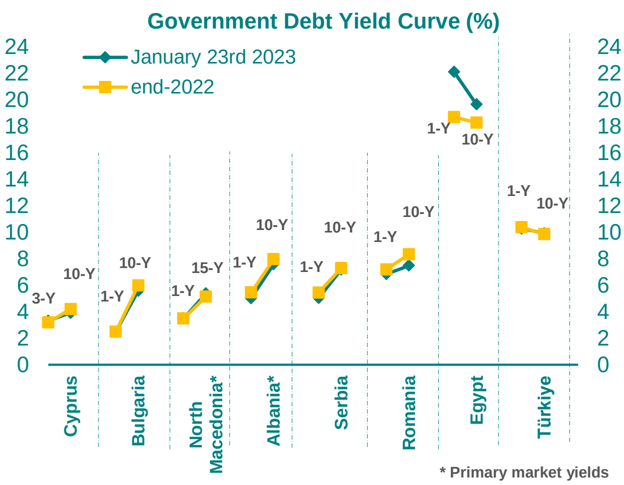


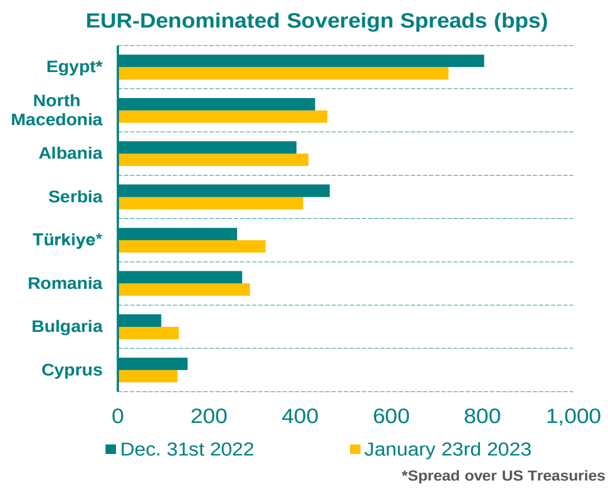


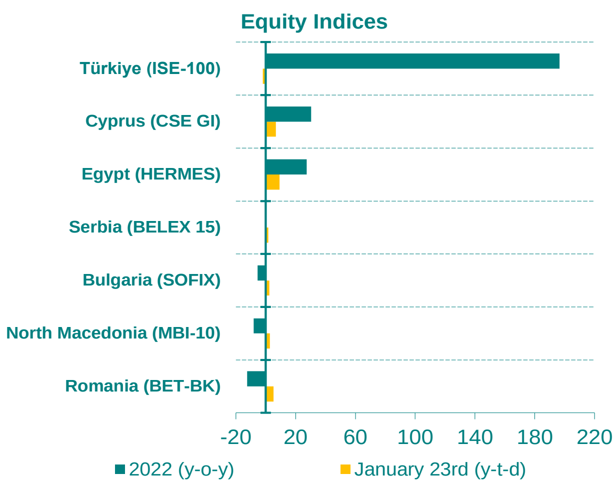
Sources: National Sources & NBG estimates

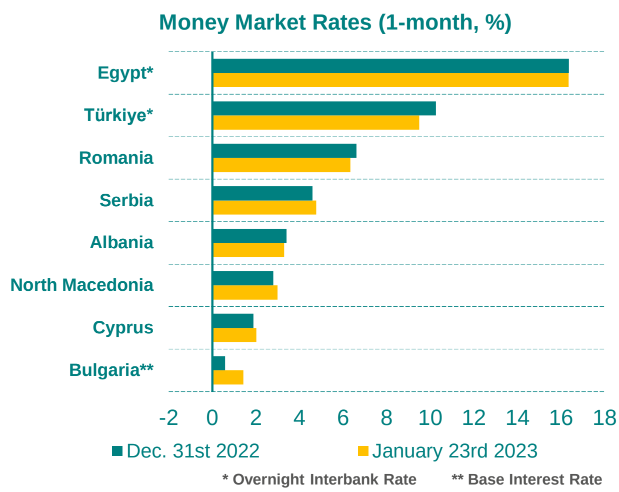
REGIONAL SNAPSHOT: FINANCIAL MARKETS











Sources: Reuters & NBG estimates