Bi-WEEKLY REPORT
Emerging Markets Analysis

17 - 30 October 2023

COUNTRIES IN FOCUS:
Albania & Egypt

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The high manufacturing capacity utilization rate bodes well for a rebound in investment as soon as macroeconomic conditions allow

The (albeit distant) prospect of EU membership should help strengthen the reform drive

Egypt's downgrade by S&P and Moody's corroborate the view that time is running out for authorities to enact necessary -- yet painful -- structural reforms

However, authorities will most likely delay any adjustment until after the December Presidential election

Risks to the economic outlook are further exacerbated by the uncertain geopolitical backdrop

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Emerging Markets Analysis

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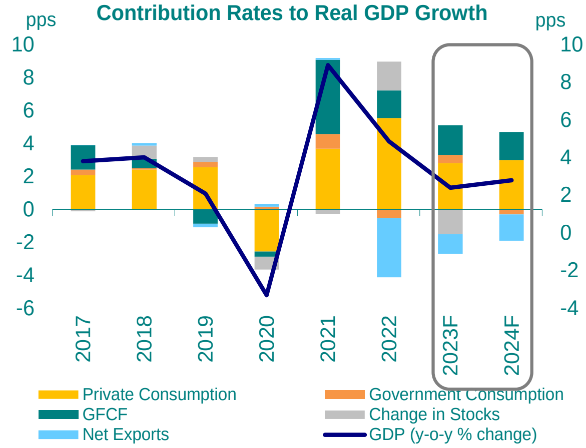
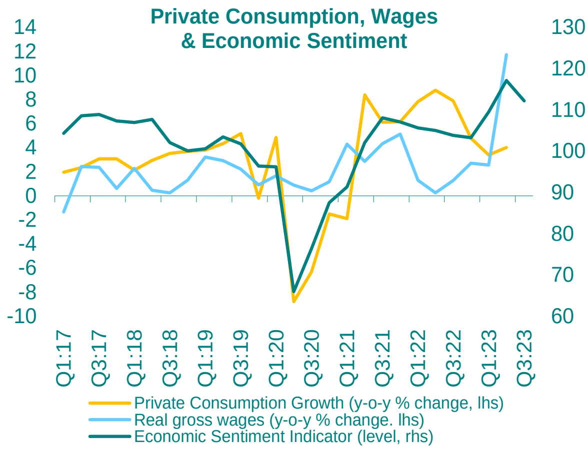
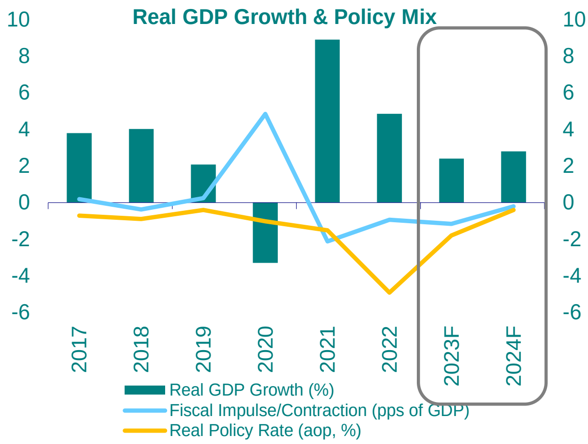
Albania

B+ / B1 / NR (S&P / Moody's / Fitch)







	30 Oct.	3-M F	6-M F	12-M F
1-M TRIBOR (%)	3.5	3.6	3.6	3.5
ALL/EUR	105	108	108	107
Sov. Spread (2027, bps)	302	290	280	250

	30 Oct.	1-W %	YTD %	2-Y %
Stock Market	- - -	- - -	- - -	- - -

	2020	2021	2022	2023F	2024F
Real GDP Growth (%)	-3.3	8.9	4.8	2.5	2.9
Inflation (eop, %)	1.1	3.7	7.4	4.5	3.2
Cur. Acct. Bal. (% GDP)	-8.6	-7.7	-5.9	-4.5	-4.4
Fiscal Bal. (% GDP)	-6.7	-4.6	-3.7	-2.4	-2.2

Sources: Reuters, INSTAT, BoA, Ministry of Finance & NBG estimates

Although it has lost steam, economic activity in Albania should continue to grow at a healthy pace over the next quarters, thanks to resilient private consumption and robust tourism activity. Despite weakening confidence (albeit from high levels) and lower remittance inflows, private consumption should hold firm in the period ahead (growing at a pace of c. 3.0%), underpinned by a tight labour market, on the back of persistent labour force shortages (attributed, inter alia, to migration and skills mismatches), and a loose incomes policy and its spillover to the private sector (boosting real ex-post wage growth to double digits in Q2:23). Note that inflation (up 4.1% y-o-y in September and 5.1% in 9M:23), albeit elevated for Albania's standards, is significantly lower than that of its peers, reflecting the appreciation of the lek (up c. 9.0% y-o-y against the EUR in 9M:23) and the imposition of controls on energy and key food prices.

On the other hand, investment growth is expected to moderate, largely reflecting an unfavourable base effect from completion of post-2019 earthquake reconstruction activity. Higher interest rates should also take a toll -- albeit limited, due to the low credit penetration rate -- with the impact mostly felt by the currently overperforming construction sector, which has benefited, inter alia, from strong growth in mortgage lending over the past 2 years. Note that, FDI inflows (hovering around 7.5% of GDP over the past decade), albeit easing, are envisaged to remain solid over the forecast horizon, particularly in the tourism and energy sectors, supporting gross fixed capital formation. Importantly, the high capacity utilization rate bodes well for a rebound in investment as soon as macroeconomic conditions improve.

At the same time, weakened external demand from the EU, especially Italy (absorbing c. 43% of Albania's exports), should weigh on export growth. On a positive note, the tourism sector (which has markedly surpassed its pre-pandemic contribution to economic activity) is expected to continue overperforming in the period ahead, benefiting from strong price competitiveness vis-à-vis its regional partners. Overall, assuming a normalization in domestic energy output, and thus reduced electricity imports, the drag from net exports on overall growth should diminish markedly in FY:23-24.

The policy mix is not expected to support GDP growth over the forecast horizon. Indeed, against the backdrop of elevated inflation and still unanchored inflation expectations, on the one hand, and wide current account deficits, on the other hand, the BoA cannot but maintain its tightening bias. On the other hand, amid limited fiscal space, due to the high -- yet declining -- public debt, the budget deficit is set to remain on a consolidation path, assuming some spending under-execution, especially with capital expenditure, as in the past years.

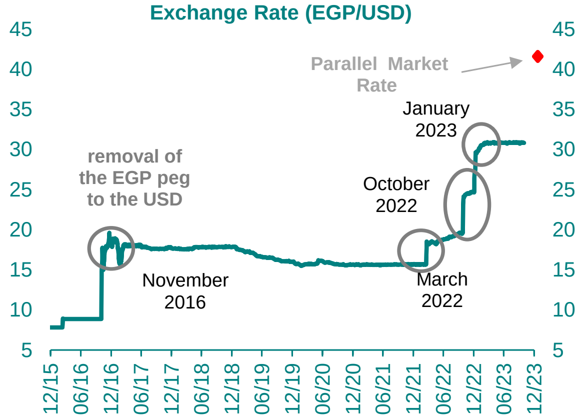
All said, we see FY:23 GDP growth easing to 2.5% from 4.8% in FY:22, with the economy continuing to overperform compared with its regional peers. Nevertheless, note that Albania's income gap with the later remains significant, with GDP per capita (PPP, USD) standing at slightly over 30% of EU average against c. 50% for SEE-7. GDP growth is set to firm to 2.9% in FY:24, below its long-term potential of c. 3.5%.

Our forecast could be revised lower in the event of shortfalls in electricity generation. While offering some protection against the energy crisis, Albania's reliance on hydroelectricity leaves the economy vulnerable to weather conditions. A sudden FX reversal could also derail disinflation process, affecting economic growth. On a positive note, the opening of EU accession negotiations in mid-2022 should provide a policy anchor and strengthen the reform drive, especially in the areas of legal framework and fight against corruption, which have been traditionally regarded as Albania's weak points. However, we recognize that the large scale of reforms needed, together with growing EU enlargement fatigue, makes Albania's accession to the block a distant prospect.

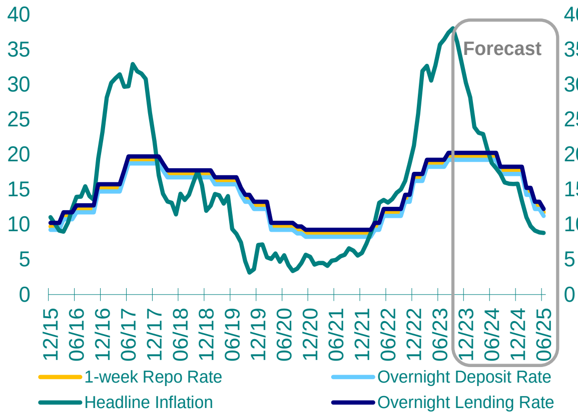
Egypt

B- / Caa1 / B (S&P / Moody's / Fitch)

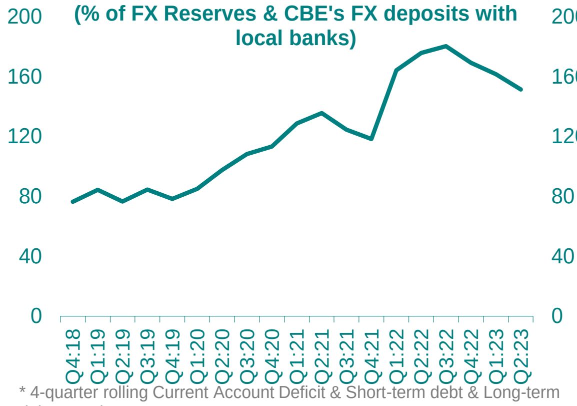
Exchange Rate (EGP/USD)



Nominal Policy Rates & Headline Inflation (%)



External Financing Requirements* (% of FX Reserves & CBE's FX deposits with local banks)



* 4-quarter rolling Current Account Deficit & Short-term debt & Long-term debt maturing over next 4 quarters

	30 Oct.	3-M F	6-M F	12-M F
O/N Interbank Rate (%)	19.3	19.3	19.3	17.3
EGP/USD	30.9	39.0	39.0	39.4
Sov. Spread (2029, bps)	1,461	950	850	700

	30 Oct.	1-W %	YTD %	2-Y %
HERMES 100	2,853	1.8	74.8	134.6

	20/21	21/22	22/23E	23/24F	24/25F
Real GDP Growth (%)	3.3	6.7	3.9	3.6	4.1
Inflation (eop. %)	4.9	13.2	35.7	18.8	8.8
Cur. Acct. Bal. (% GDP)	-4.3	-3.5	-1.2	-2.0	-2.8
Fiscal Bal. (% GDP)	-6.8	-6.1	-6.2	-6.7	-6.4

Sources: Reuters, CBE & NBG estimates

Egypt's downgrade by S&P and Moody's corroborate the view that time is running out for authorities to enact necessary -- yet painful -- structural reforms. Egypt saw its debt dropping further into distressed territory over the past month, with both Moody's and S&P downgrading its long-term sovereign credit rating by 1 notch to Caa1 and B-, respectively, citing mounting external funding pressures.

Indeed, with sizeable external debt repayments (worth over than USD 50bn, equivalent to c. 135% of the CBE's FX reserves) falling due in the short-term, on the one hand, and the country having practically lost access to the international debt market, on the other hand, Egypt's debt repayment capacity has been seriously called into question.

Recall that Egypt's FX reserves have fallen into the danger zone, following the CBE's interventions to maintain EGP stability in the wake of the Russia-Ukraine crisis (with surging global commodity prices boosting the current account deficit (CAD), and heavy portfolio withdrawals adding to financing pressures, at the same time).

Against this backdrop, Egypt was forced to resort to the IMF at end-2022, after the enacted capital controls failed to halt the currency crisis. Conditional on a series of structural reforms (including the shift to a "durable" flexible FX regime and fiscal consolidation), the IMF's USD 3bn loan was expected to catalyse financing from other multilateral creditors, while luring foreign investors back to the domestic debt market.

However, given Egypt's fragile social environment (with c. 30% of population below the poverty line), authorities have been reluctant to fully proceed with mandated reforms, especially FX liberalization, which would fuel further already elevated inflation. As a result, the IMF and other creditors put financing on hold, which, in turn, deepened the currency crisis. Indeed, following two controlled devaluations of the currency, the official FX rate has been practically fixed at EGP 30.9/USD since March '23, while that on the parallel market has been steadily depreciating to reach over EGP 40.0/USD over the past weeks.

With capital controls having yet to be fully lifted, the CAD has shrunk markedly (by c. $^2/_3$rds to 1.2% of GDP in FY:22/23), with tight flow of imports hindering, however, economic activity, especially investment. However, it is only with the help of non-market financing, especially from Arab countries (whose deposits with the CBE reach a whopping USD 30bn), that Egypt has been able to meet its external debt obligations.

In our view, time is running out for authorities to implement the reforms required to unwind Egypt's imbalances and unlock external financing. Still, authorities will most likely delay any adjustment until after the Presidential elections, scheduled for December 10-12, in which incumbent President Al-Sisi is expected to be comfortably re-elected.

As a result, we see the EGP devaluating to around its parallel market rate (down c. 20.0% from current levels) in early-2024, with, inflation remaining at double-digits at least until early-2025. Against this backdrop, the CBE is set to maintain its tightening bias (with rates having been raised so far by 1100 bps). On a negative note, high public debt servicing costs (absorbing 40% of budget revenue) limit the fiscal space available to cushion the impact of the cost-of-living crisis.

Risks to the economic outlook are further exacerbated by the uncertain geopolitical backdrop. We see GDP growth slowing to 3.6% in FY:23/24, before accelerating to 4.1% in FY:24/25, below its economy's long-term potential, with risks, however, tilted to the downside, reflecting, *inter alia*, repercussions from the conflict in neighbouring Gaza. Note that gas imports from Israel have been already halted, affecting Egypt's capacity to meet domestic demand and export LNG. Tourist inflows are also expected to be curtailed, hurting the domestic tourism industry (accounting for 8.0% of GDP in FY:22). On the other hand, a potential migration influx could have an expansionary effect on the economy, yet further strain public finances, while increasing pressure on the already fragile social environment.

DETAILED MACROECONOMIC DATA

ALBANIA	2020	2021	2022	2023f	2024f
Real Sector					
Nominal GDP (EUR million)	13,346	15,185	17,987	20,931	22,612
GDP per capita (EUR)	4,703	5,401	6,443	7,535	8,156
GDP growth (real, %)	-3.3	8.9	4.8	2.5	2.9
Unemployment rate (%, aop)	12.2	12.1	11.3	11.0	10.7
Prices and Banking					
Inflation (%, eop)	1.1	3.7	7.4	4.5	3.2
Inflation (%, aop)	1.6	2.0	6.7	4.8	3.8
Loans to the Private Sector (% change, eop)	8.9	8.5	7.1		
Customer Deposits (% change, eop)	8.0	9.1	4.4		
Loans to the Private Sector (% of GDP)	35.2	33.9	31.6		
Retail Loans (% of GDP)	12.7	12.6	12.3		
Corporate Loans (% of GDP)	22.5	21.3	19.3		
Customer Deposits (% of GDP)	64.9	62.8	57.0		
Loans to Private Sector (% of Deposits)	54.3	54.0	55.4		
Foreign Currency Loans (% of Total Loans)	48.1	47.6	48.2		
External Accounts					
Merchandise exports (EUR million)	0,794	1,265	1,933	2,025	2,127
Merchandise imports (EUR million)	3,776	5,094	6,201	6,698	7,099
Trade balance (EUR million)	-2,982	-3,829	-4,269	-4,672	-4,973
Trade balance (% of GDP)	-22.3	-25.2	-23.7	-22.3	-22.0
Current account balance (EUR million)	-1,153	-1,166	-1,063	-0,936	-0,992
Current account balance (% of GDP)	-8.6	-7.7	-5.9	-4.5	-4.4
Net FDI (EUR million)	0,894	0,990	1,190	1,190	1,220
Net FDI (% of GDP)	6.7	6.5	6.6	5.7	5.4
International reserves (EUR million)	3,942	4,972	4,952	5,660	6,063
International reserves (Months[a])	9.6	8.8	7.1	7.5	7.6
Public Finance					
Primary balance (% of GDP)	-4.6	-2.7	-1.8	-0.6	-0.3
Fiscal balance (% of GDP)	-6.7	-4.6	-3.7	-2.4	-2.2
Gross public debt (% of GDP)	75.8	75.2	65.5	63.8	62.4
External Debt					
Gross external debt (EUR million)	8,549	9,755	9,766	10,366	10,966
Gross external debt (% of GDP)	64.1	64.2	54.3	49.5	48.5
External debt service (EUR million)	0,517	0,306	0,328	0,352	0,380
External debt service (% of reserves)	13.1	6.1	6.6	6.2	6.1
External debt service (% of exports)	13.3	4.9	3.5	3.5	3.6
Financial Markets					
Policy rate (1-week repo rate, %, eop)	0.5	0.5	2.8	3.3	4.0
Policy rate (1-week repo rate, %, aop)	0.6	0.5	1.5	3.0	3.7
1-Y T-bill rate [b] (%, eop)	1.8	1.6	5.5	3.8	4.7
Exchange rate: EUR (eop)	123.4	120.6	114.0	108.0	107.0
Exchange rate: EUR (aop)	123.4	122.2	118.7	109.1	107.5

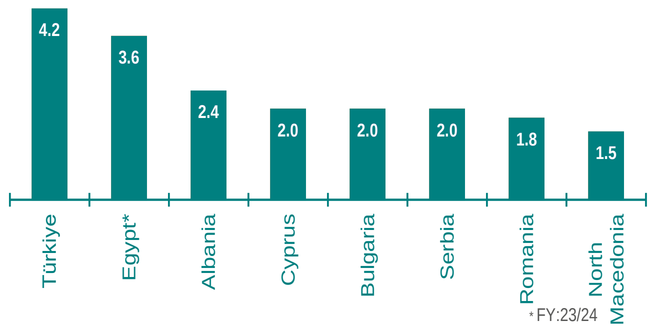
f: NBG forecasts; a: months of imports of GNFS; b: primary market

EGYPT	2020/21*	2021/22*	2022/23f*	2023/24f*	2024/25f*
Real Sector					
Nominal GDP (USD million)	424,516	476,690	392,355	388,365	402,307
GDP per capita (USD)	4,158	4,577	3,694	3,584	3,640
GDP growth (real, %)	3.3	6.7	3.9	3.6	4.1
Unemployment rate (%, aop)	7.3	7.3	7.3	7.5	7.4
Prices and Banking					
Inflation (%, eop)	4.9	13.2	35.7	18.8	8.8
Inflation (%, aop)	4.5	8.4	23.8	28.9	13.3
Loans to the Private Sector (% change, eop)	21.2	23.6	25.4		
Customer Deposits (% change, eop)	19.2	24.7	24.4		
Loans to the Private Sector (% of GDP)	26.5	27.8	27.1		
Retail Loans (% of GDP)	8.4	8.9	8.3		
Corporate Loans (% of GDP)	18.0	18.9	18.8		
Customer Deposits (% of GDP)	70.8	75.0	72.5		
Loans to Private Sector (% of Deposits)	37.4	37.0	37.4		
Foreign Currency Loans (% of Total Loans)	12.7	11.3	15.7		
External Accounts					
Merchandise exports (USD million)	28,677	43,906	39,624	38,888	40,567
Merchandise imports (USD million)	70,736	87,302	70,784	73,795	81,844
Trade balance (USD million)	-42,060	-43,396	-31,160	-34,907	-41,276
Trade balance (% of GDP)	-9.9	-9.1	-7.9	-9.0	-10.3
Current account balance (USD million)	-18,436	-16,551	-4,710	-7,614	-11,220
Current account balance (% of GDP)	-4.3	-3.5	-1.2	-2.0	-2.8
Net FDI (USD million)	4,835	8,591	9,701	10,914	12,005
Net FDI (% of GDP)	1.1	1.8	2.5	2.8	3.0
International reserves (USD million)	40,584	33,376	34,807	36,307	39,107
International reserves (Months[a])	6.5	4.2	7.1	5.7	5.2
Public Finance					
Primary balance (% of GDP)	1.3	1.3	1.2	0.7	0.9
Fiscal balance (% of GDP)	-6.8	-6.1	-6.2	-6.7	-6.4
Gross public debt (% of GDP)	86.2	89.9	88.5	90.0	85.0
External Debt					
Gross external debt (USD million)	137,860	155,709	165,000	175,000	178,000
Gross external debt (% of GDP)	32.5	32.7	42.7	45.1	44.2
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	71.8	85.1	94.1
External debt service (% of exports[c])	37.5	40.5	37.2	47.6	52.3
Financial Markets					
Policy rate (O/N deposit rate, %, eop)	8.3	11.3	18.3	19.3	11.3
Policy rate (O/N deposit rate, %, aop)	8.5	8.9	15.3	19.2	15.6
3-M T-bill rate (%, eop)	13.2	15.4	22.0	17.6	9.6
Exchange rate: USD (eop)	15.66	18.76	30.85	39.00	40.00
Exchange rate: USD (aop)	15.70	16.45	25.72	34.70	39.50

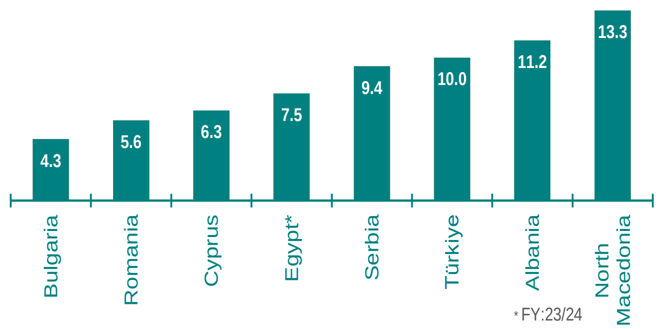
*: fiscal year starting in July and ending in June; f: NBG forecasts; a: months of imports of GNFS

REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS

Real GDP Growth (%, 2023F)

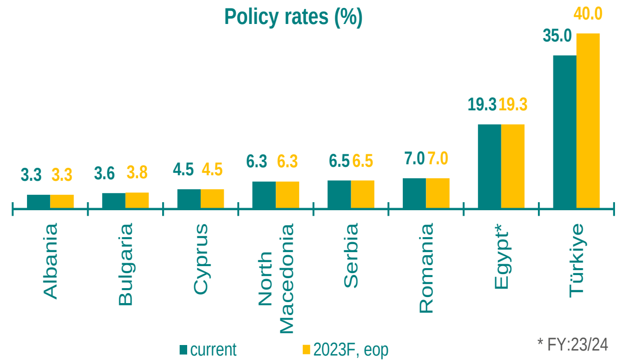


Unemployment (%, 2023F, aop)

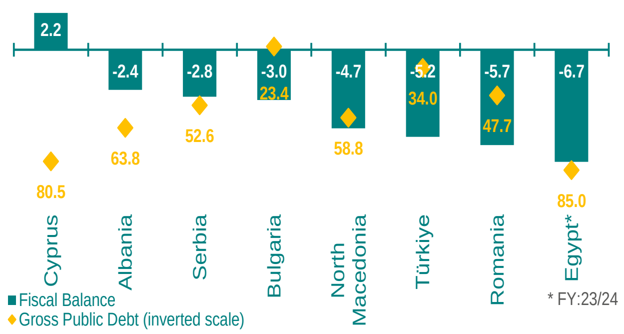


Headline inflation (%, 2023F)

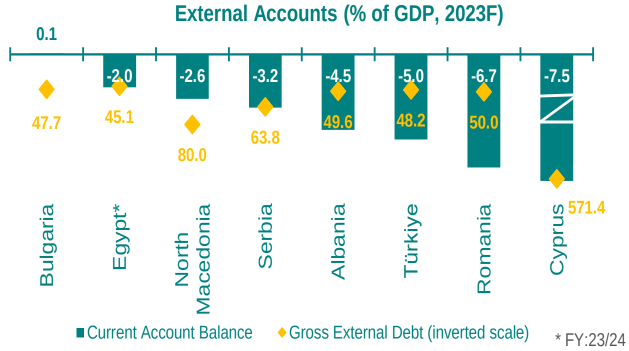
Policy rates (%)



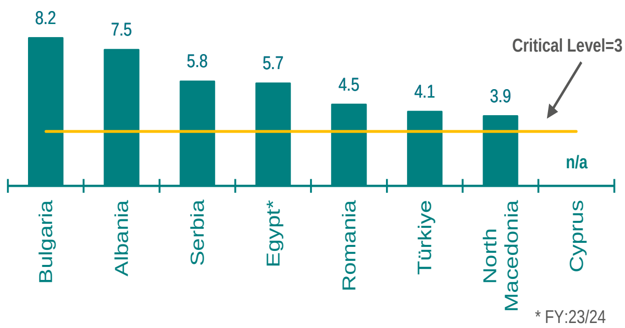
Public Finance (% of GDP, 2023F)



External Accounts (% of GDP, 2023F)

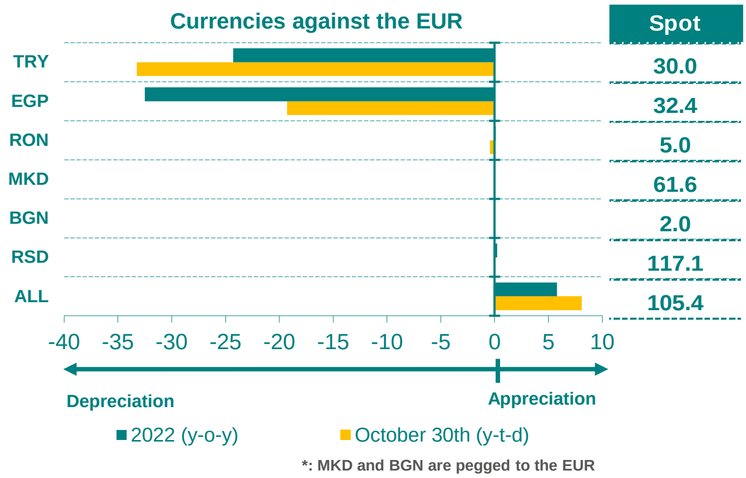


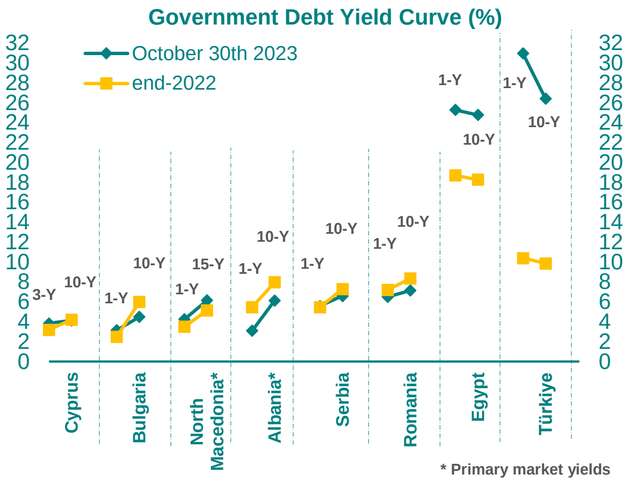
FX Reserves (Months of Imports, 2023F)

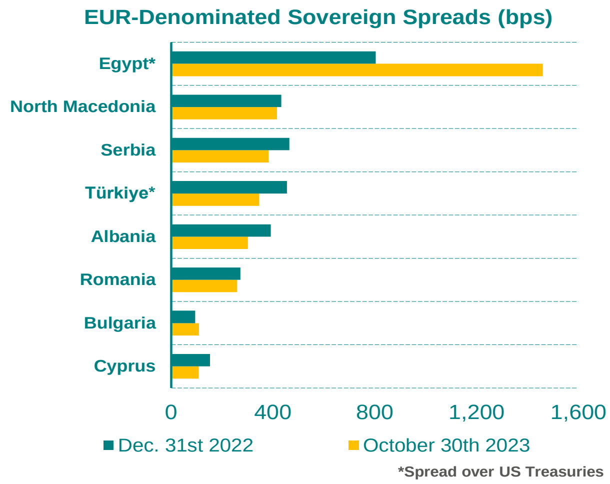


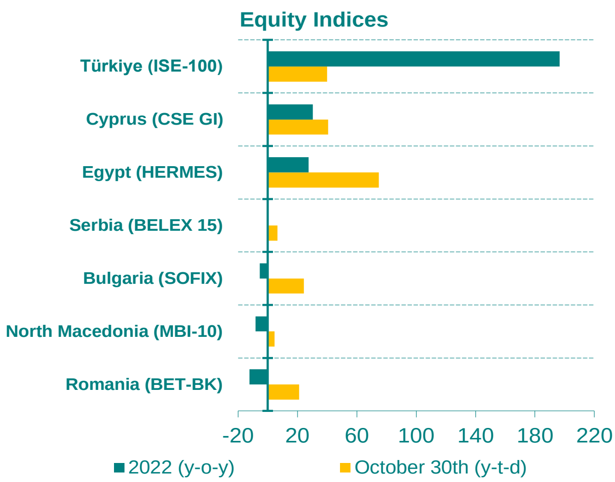
Sources: National Sources & NBG estimates

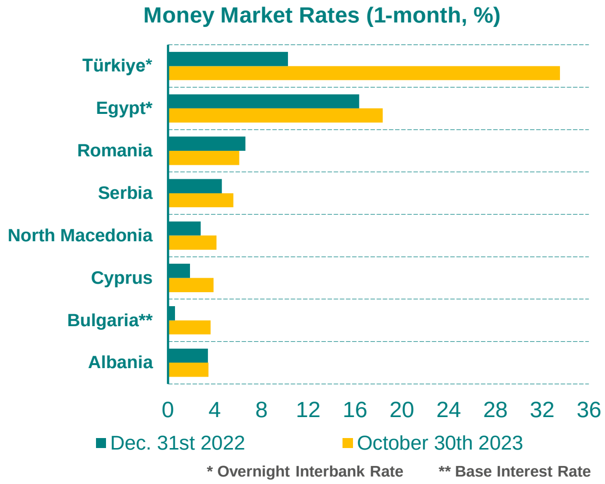
REGIONAL SNAPSHOT: FINANCIAL MARKETS











Sources: Reuters & NBG estimates