



## COUNTRIES IN FOCUS:

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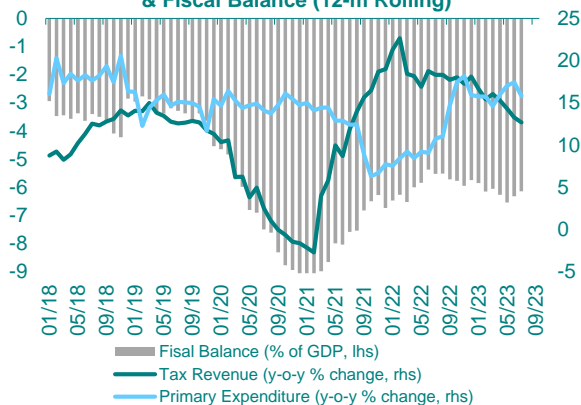
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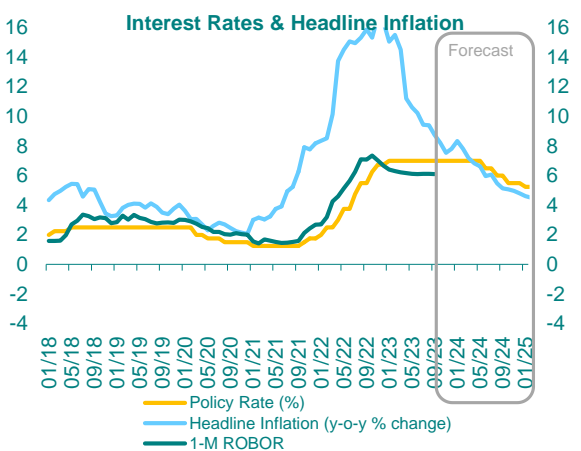
# Romania

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

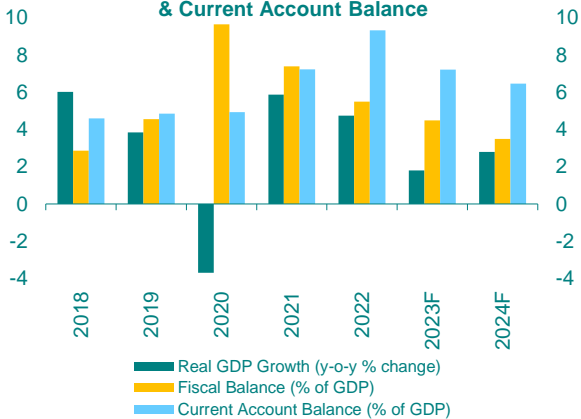
Tax Revenue, Primary Expenditure & Fiscal Balance (12-m Rolling)



Interest Rates & Headline Inflation



Real GDP Growth, Fiscal Balance & Current Account Balance



## Fiscal consolidation stalls, as post-COVID-19 tailwinds dissipate.

Fiscal consolidation appears to have come to a halt, with the cash budget deficit widening to 6.1% of GDP on a 12-month rolling basis in July from 5.7% at end-2022, well above the initial target of 4.4%, driven by weakening growth in tax revenue, especially indirect taxes. Slowing economic growth and its changing structure (with previously overperforming domestic absorption easing at a much faster pace than of GDP, leading tax elasticities back to their usual levels) are seen as the key factors behind the disappointing performance in tax revenue.

## Fiscal rebalancing is set to regain pace in 2024, with the budget deficit unlikely to fall below the 3.0% of GDP mark earlier than in 2026.

Fiscal consolidation should resume only next year, when a series of measures, including a turnover tax for banks, the elimination of several tax exemptions and a new tax regime for SMEs, would be put into effect. The measures are projected to yield c. 1.2% of GDP, helping to bring the deficit down to 4.5% of GDP in FY:24 from a projected 5.7% in FY:23. Worryingly, next year's heavy election calendar could affect fiscal discipline, slowing down the pace of the adjustment.

Note that Romania is the only EU state currently under the EC's Excessive Deficit Procedure. Although the bloc's fiscal rules are still not fully functional, further fiscal consolidation is critical for Romania to continue receiving RRF grants (c. EUR 74bn by 2027). Given budget spending rigidities, fiscal efforts are expected to focus mostly on broadening the weak tax base (2nd lowest in the EU). Still, the budget deficit is unlikely to fall below the 3.0% of GDP mark earlier than 2026.

Importantly, public debt is set to remain in check, at the same time, with strong nominal GDP growth (denominator effect) broadly compensating for the impact of persistently high budget deficits. As a result, the gross public debt-to-GDP ratio is projected to remain broadly flat at slightly below 50% of GDP over the medium-term, below the EU threshold of 60%.

## The NBR is set to remain cautiously tight until late mid-2024, when inflation is projected to fall below the current level of the policy rate.

The NBR's key 2-week repo rate currently stands at 7.0% (up 575 bps since end-2021), unchanged since the beginning of the year. However, the extent of the tightening carried out is much less than suggested by the change in the key rate, as short-term money market rates have been long fixed at slightly above the NBR's deposit facility rate (i.e. key rate minus 100 bps), making the latter as the relevant policy instrument.

Given the challenging economic outlook, with GDP growth projected at 1.9% in FY:23 and 2.9% in FY:24, below its long-term potential rate of c. 3.5%, we expect the NBR to maintain "excess" liquidity in the market in the short-term. Assuming no inflation surprise (with rising global oil prices, on the one hand, and already strong nominal wage growth, on the other hand, posing non-negligible downside risks, however), the NBR should deliver its first cut in Q2:24 (with a total of 150 bp cuts projected by end-2024), when inflation is due to fall below the current level of the policy rate.

In the event of weaker-than-envisaged fiscal consolidation, which would, inter alia, inhibit the correction of external imbalances, the NBR could need to tighten liquidity conditions or maintain rates at high levels for longer than assumed in our baseline scenario. Note that, albeit narrowing, the current account deficit remains markedly high (at 7.6% of GDP on a 12-rolling basis in July, down from 9.3% at end-2022, but still well above the level implied by economic fundamentals and desirable policy settings -- c. 2.0% of GDP, IMF estimate, Sep. '22). At the same time, the ULC based-REER keeps appreciating, suggesting eroding external competitiveness.

	2 Oct	3-M F	6-M F	12-M F
1-M ROBOR(%)	6.1	6.1	6.1	5.6
RON/EUR	4.97	4.98	4.99	5.01
Sov. Spread (2027, bps)	236	235	220	200

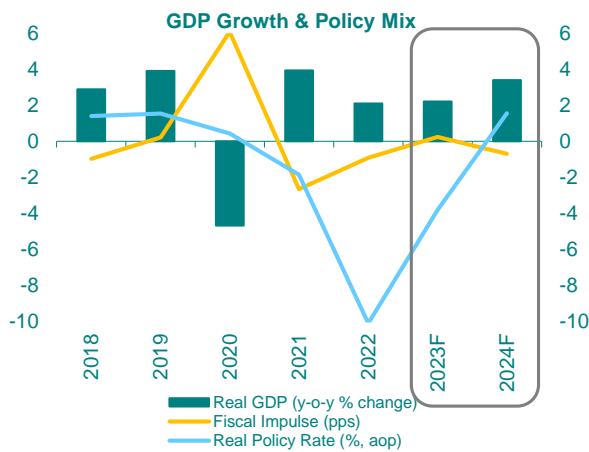
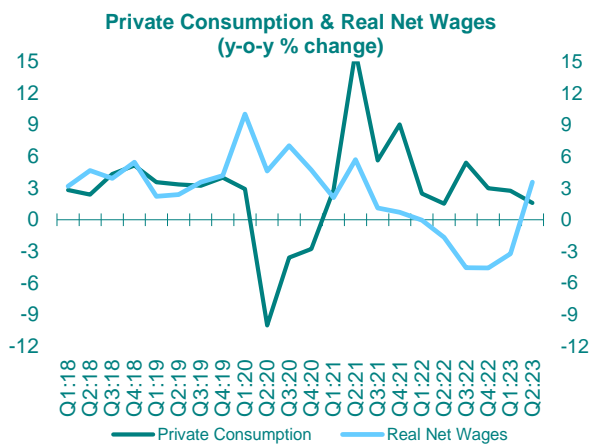
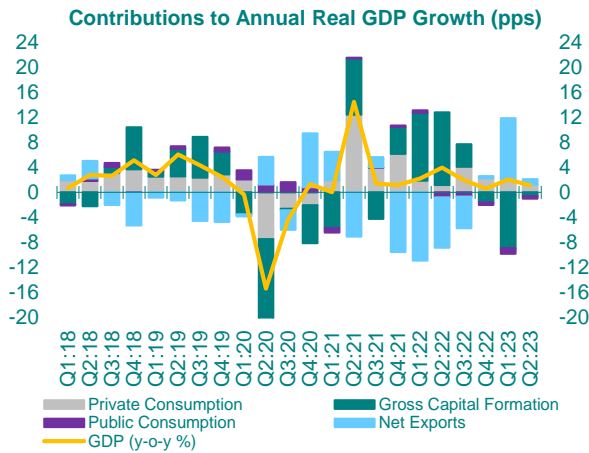
	2 Oct	1-W %	YTD %	2-Y %
BET-BK	2,673	1.2	21.4	6.9

	2020	2021	2022	2023F	2024F
Real GDP Growth (%)	-3.7	5.9	4.7	1.9	2.9
Inflation (eop, %)	2.1	8.2	16.4	7.8	4.8
Cur. Acct. Bal. (% GDP)	-4.9	-7.2	-9.3	-7.2	-6.4
Fiscal Bal. (% GDP)	-9.5	-6.7	-5.7	-5.7	-4.5

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

# North Macedonia

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



	2 Oct	3-M F	6-M F	12-M F
1-m SKIBOR (%)	4.1	4.4	4.4	4.2
MKD/EUR	61.6	61.6	61.6	61.6
Sov. Spread (2028, bps)	397	390	380	350

	2 Oct	1-W %	YTD %	2-Y %
MBI 100	5,811	0.2	2.8	2.4

	2020	2021	2022	2023F	2024F
Real GDP Growth (%)	-4.7	3.9	2.1	1.5	2.2
Inflation (eop, %)	2.2	4.9	18.7	5.7	3.2
Cur. Acct. Bal. (% GDP)	-2.9	-3.1	-6.0	-2.8	-3.0
Fiscal Bal. (% GDP)	-8.0	-5.4	-4.5	-4.7	-4.0

Sources: Reuters, NBRNM, MAKSTAT & NBG estimates

**Slowing private consumption curtailed further (already weak) GDP growth in Q2:23.** Growth in private consumption weakened further in Q2:23, as high interest rates and elevated inflation continued to erode households' purchasing power. The latter would have been even weaker had it not been for the sizeable hike in the minimum wage in March (up 12.6%), which (as has been traditionally the case) impacted the entire wage distribution, pushing real *ex-post* wage growth back into positive territory after one year of negative readings. At the same time, gross capital formation (GCF) continued to decline (mostly due to an unfavourable base effect from the jump in inventories in the aftermath of the outbreak of the Russia-Ukraine conflict in early-2022), yet at a much smaller pace compared with Q1:23, thanks to a surge in public fixed investment, following the initiation of the Corridor 8/10d highway. Unsurprisingly, relatively stronger GCF, together with weakening external demand, drove a sharp deterioration in net exports in Q2:23, which, nonetheless, continued to add to overall growth. Overall, the annual pace of economic expansion eased to 1.1% y-o-y in Q2:23 from 2.1% in Q1:23, with underlying momentum losing steam abruptly at the same time (GDP, up 0.2% q-o-q s.a. against a rise of 0.9% in Q1:23).

**The economy should continue to expand sluggishly in the short-term, underpinned by solid growth in fixed investment.** Fixed investment should emerge as the key growth driver over the forecast horizon, with public sector holding the lead role. Note that the construction of the Corridor 8/10d highway should add c. 0.3 pps to GDP growth over the next 5 years, assuming an even distribution over time. Private investment (including from FDI, which has proven resilient so far, thanks to the growing nearshoring trend) is also set to contribute to overall growth, albeit modestly, due to tight financing conditions and elevated uncertainty

On the other hand, with inflation remaining elevated in the period ahead (reaching 10.2% on average in FY:23 and easing to 4.6% in FY:24, still well above the past decade's average of c. 1.0%), private consumption is unlikely to gain much steam in the short-term, in view, *inter alia*, of weak underlying labour market dynamics. Indeed, despite the continuing drop in unemployment, employment has been declining marginally -- yet steadily -- over the past quarters, in line with shrinking labour force.

At the same time, amid sluggish growth in the EU (especially Germany, which absorbs c. 45% of the country's total exports) and strong GFC (due, *inter alia*, to the need to replenish inventories, which have been depleted, amid disruptions in global supply chains), net exports should turn into a drag on overall growth.

Policies are not expected to sustain economic growth over the forecast horizon. On the one hand, we see fiscal consolidation stalling this year before resuming -- albeit at a slow pace -- in FY:24, with the phasing-out of stimulus measures freeing space to increase investments. On the other hand, amid elevated inflation, the NBRNM cannot but maintain its tightening bias, at least until inflation returns to more normal levels, with the first cuts in the policy rate expected only in mid-2024.

All said, we see GDP growth easing to 1.5% in FY:23 from 2.1% in FY:22, slightly below the regional average. Stronger external demand and a recovery in private consumption should lift GDP growth to 2.2% in FY:24, with the output gap remaining negative. Should delays in the execution of the Government's ambitious investment programme arise, economic growth could come in lower than projected.

Worryingly, political noise is set to remain elevated in the period ahead, mainly surrounding the controversial deal settling the country's long-standing dispute with Bulgaria, which eventually, however, enabled the launch of accession talks with the EU.

## DETAILED MACROECONOMIC DATA

ROMANIA					
	2020	2021	2022	2023f	2024f
<b>Real Sector</b>					
Nominal GDP (EUR million)	220,628	241,394	286,097	321,269	347,572
GDP per capita (EUR)	11,414	12,571	15,025	17,062	18,617
GDP growth (real, %)	-3.7	5.9	4.7	1.9	2.9
Unemployment rate(ILO definition, %, aop)	6.1	5.6	5.6	5.6	5.5
<b>Prices and Banking</b>					
Inflation (% eop)	2.1	8.2	16.4	7.8	4.8
Inflation (% aop)	2.6	5.0	13.7	10.7	6.2
Loans to the Private Sector (% change, eop)	5.0	14.3	11.2		
Customer Deposits (% change, eop)	15.3	13.7	6.7		
Loans to the Private Sector (% of GDP)	25.7	26.4	24.7		
Retail Loans (% of GDP)	14.0	13.8	12.1		
Corporate Loans (% of GDP)	11.6	12.5	12.5		
Customer Deposits (% of GDP)	37.9	38.7	34.7		
Loans to Private Sector (% of Deposits)	67.8	68.1	71.1		
Foreign Currency Loans (% of Total Loans)	29.7	26.5	29.9		
<b>External Accounts</b>					
Merchandise exports (EUR million)	57,560	70,194	85,833	89,896	95,057
Merchandise imports (EUR million)	76,509	93,317	118,175	120,391	126,935
Trade balance (EUR million)	-18,949	-23,123	-32,342	-30,495	-31,878
Trade balance (% of GDP)	-8.6	-9.6	-11.3	-9.5	-9.2
Current account balance (EUR million)	-10,900	-17,474	-26,689	-23,134	-22,311
Current account balance (% of GDP)	-4.9	-7.2	-9.3	-7.2	-6.4
Net FDI (EUR million)	2,960	8,820	9,626	10,107	10,411
Net FDI (% of GDP)	1.3	3.7	3.4	3.1	3.0
International reserves (EUR million)	37,379	40,475	46,636	53,359	57,208
International reserves (Months <sup>a</sup> )	4.9	4.3	3.9	4.4	4.4
<b>Public Finance</b>					
Primary balance (% of GDP)	-8.2	-5.2	-3.7	-3.6	-2.5
Fiscal balance (% of GDP)	-9.5	-6.7	-5.7	-5.7	-4.5
Gross public debt <sup>b</sup> (% of GDP)	46.5	48.3	47.1	47.7	48.7
<b>External Debt</b>					
Gross external debt (EUR million)	126,750	136,585	144,561	155,816	162,663
Gross external debt (% of GDP)	57.4	56.6	50.5	48.5	46.8
External debt service (EUR million)	17,291	16,702	19,195	18,250	18,500
External debt service (% of reserves)	46.3	41.3	41.2	34.2	32.3
External debt service (% of exports)	21.3	17.0	15.6	14.0	13.4
<b>Financial Markets</b>					
Policy rate (1-w repo rate, %, eop)	1.5	1.8	6.8	7.0	5.5
Policy rate (1-w repo rate, %, aop)	1.8	1.4	4.4	7.0	6.4
10-Y Bond Yield (% eop)	3.1	5.1	8.4	6.9	6.5
Exchange rate: EUR (eop)	4.863	4.946	4.940	4.980	5.020
Exchange rate: EUR (aop)	4.835	4.919	4.928	4.950	5.000

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

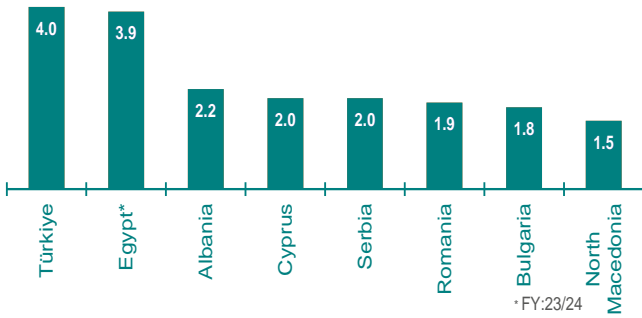
NORTH MACEDONIA					
	2020	2021	2022	2023f	2024f
<b>Real Sector</b>					
Nominal GDP (EUR million)	10,874	11,708	12,917	14,444	15,440
GDP per capita (EUR)	5,889	6,374	7,061	7,927	8,508
GDP growth (real, %)	-4.7	3.9	2.1	1.5	2.2
Unemployment rate (% aop)	16.4	15.4	14.4	13.3	13.1
<b>Prices and Banking</b>					
Inflation (% eop)	2.2	4.9	18.7	5.7	3.2
Inflation (% aop)	1.2	3.2	14.0	10.2	4.6
Loans to the Private Sector (% change, eop)	4.7	8.0	9.3		
Customer Deposits (% change, eop)	6.2	8.5	5.1		
Loans to the Private Sector (% of GDP)	53.0	53.2	52.7		
Retail Loans (% of GDP)	27.8	27.8	27.1		
Corporate Loans (% of GDP)	25.2	25.3	25.6		
Customer Deposits (% of GDP)	61.0	61.5	58.6		
Loans to Private Sector (% of Deposits)	86.8	86.5	89.9		
Foreign Currency Loans (% of Total Loans)	41.6	40.7	42.5		
<b>External Accounts</b>					
Merchandise exports (EUR million)	4,820	6,000	7,346	7,840	8,299
Merchandise imports (EUR million)	6,623	8,371	10,799	11,118	11,794
Trade balance (EUR million)	-1,804	-2,370	-3,453	-3,279	-3,495
Trade balance (% of GDP)	-16.6	-20.2	-26.7	-22.7	-22.6
Current account balance (EUR million)	-0,318	-0,366	-0,772	-0,404	-0,461
Current account balance (% of GDP)	-2.9	-3.1	-6.0	-2.8	-3.0
Net FDI (EUR million)	0,155	0,388	0,670	0,670	0,704
Net FDI (% of GDP)	1.4	3.3	5.2	4.6	4.6
International reserves (EUR million)	3,360	3,643	3,863	4,113	4,363
International reserves (Months <sup>a</sup> )	5.3	4.5	3.7	3.8	3.8
<b>Public Finance</b>					
Primary balance (% of GDP)	-6.8	-4.1	-3.3	-3.5	-2.7
Fiscal balance (% of GDP)	-8.0	-5.4	-4.5	-4.7	-4.0
Gross public debt <sup>b</sup> (% of GDP)	59.3	60.5	59.1	58.8	59.5
<b>External Debt</b>					
Gross external debt (EUR million)	8,536	9,577	10,856	11,555	12,352
Gross external debt (% of GDP)	78.5	81.8	84.0	80.0	80.0
External debt service (EUR million)	3,023	2,574	2,621	3,393	3,136
External debt service (% of reserves)	90.0	70.7	67.9	83.5	71.9
External debt service (% of exports)	48.3	33.2	27.1	32.7	28.4
<b>Financial Markets</b>					
28-d CB bill rate (% eop)	1.5	1.3	4.8	6.3	5.0
28-d CB bill rate (% aop)	1.6	1.3	2.5	5.8	5.7
1-Y T-bill rate <sup>c</sup> (% eop)	0.4	0.7	3.5	4.3	3.7
Exchange rate: EUR (eop)	61.6	61.6	61.6	61.6	61.6
Exchange rate: EUR (aop)	61.5	61.5	61.5	61.6	61.6

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

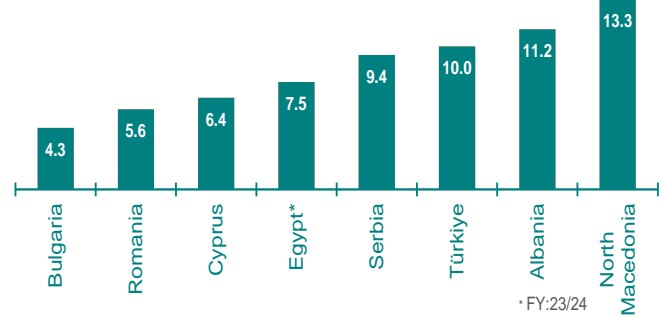


# REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS

Real GDP Growth (% , 2023F)



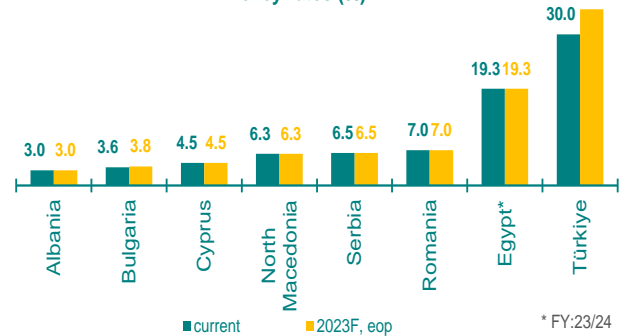
Unemployment (% , 2023F, aop)



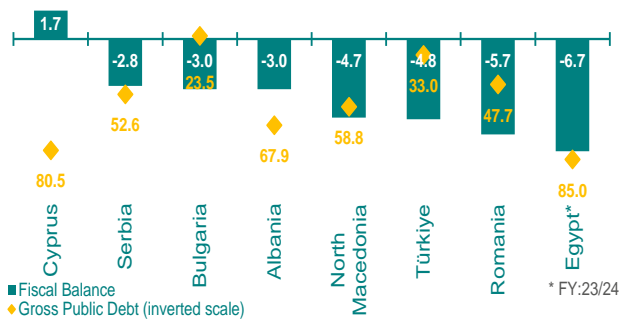
Headline inflation (% , 2023F)



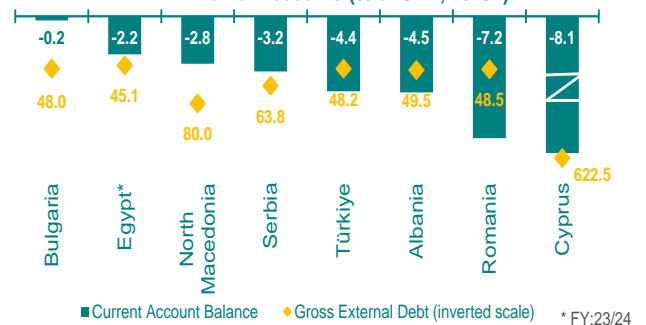
Policy rates (%)



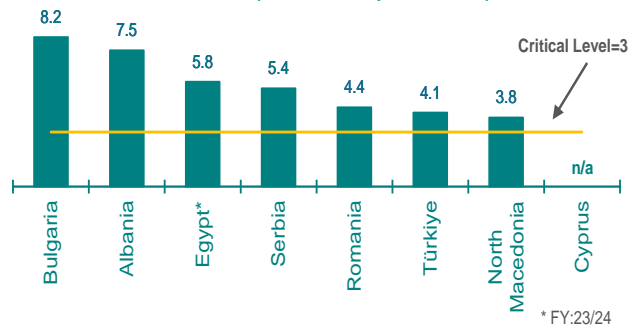
Public Finance (% of GDP, 2023F)



External Accounts (% of GDP, 2023F)

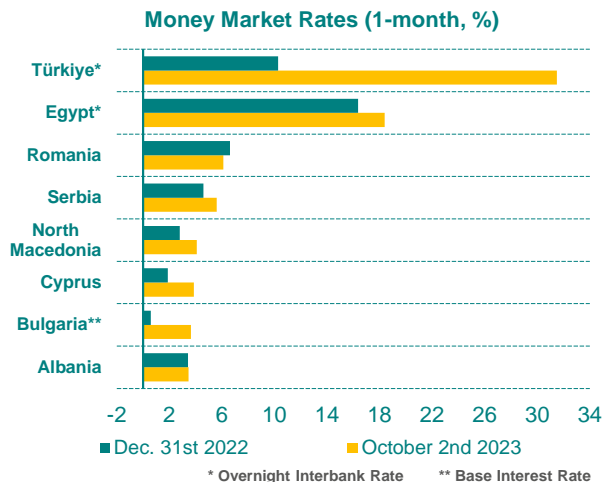
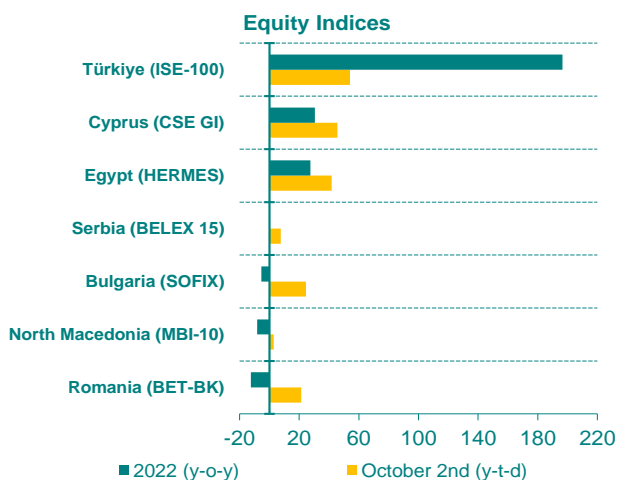
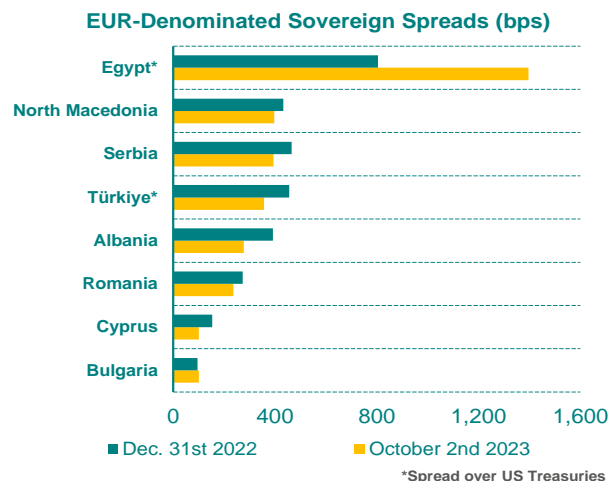
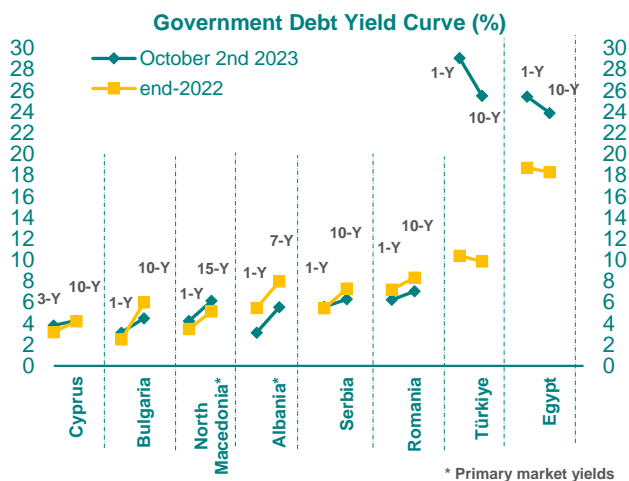
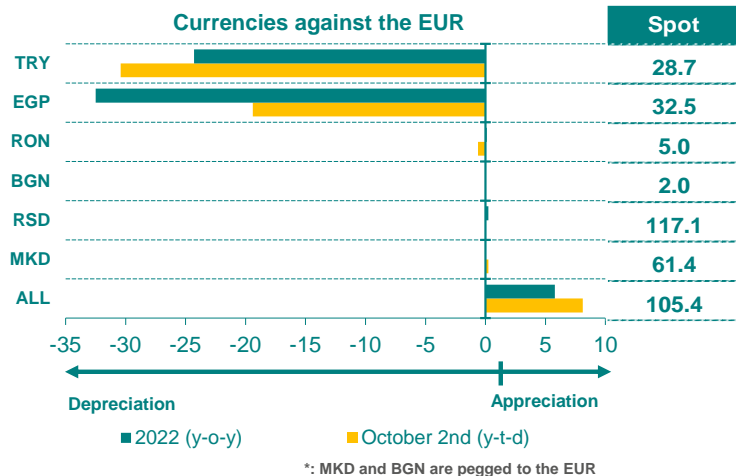


FX Reserves (Months of Imports, 2023F)



Sources: National Sources & NBG estimates

# REGIONAL SNAPSHOT: FINANCIAL MARKETS



Sources: Reuters & NBG estimates

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