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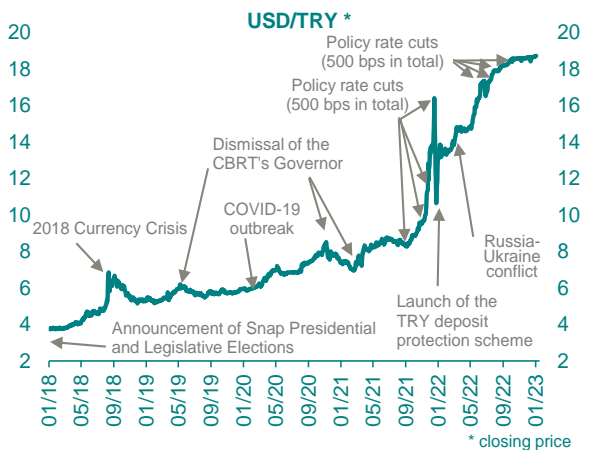
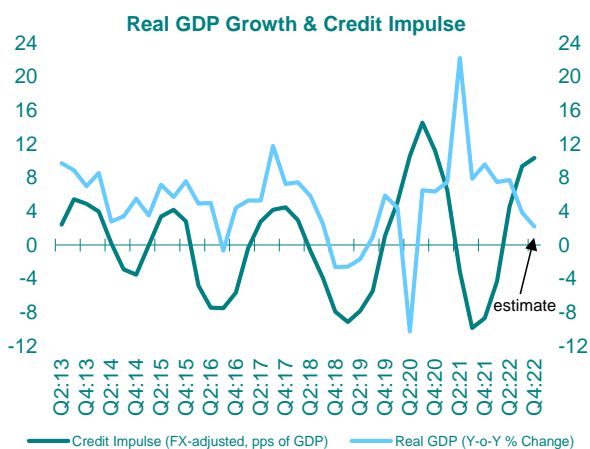
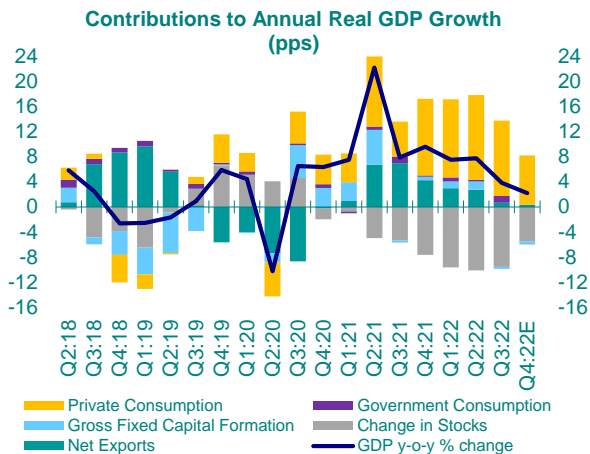
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# Türkiye

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



	9 Jan.	3-M F	6-M F	12-M F
O/N TLREF (%)	9.1	9.0	9.0	25.0
TRY/USD	18.77	19.70	20.50	21.50
Sov. Spread (2025, bps)	275	400	400	340

	9 Jan.	1-W %	YTD %	2-Y %
ISE 100	5,171	-8.7	-6.1	235.6

	2020	2021	2022F	2023F	2024F
Real GDP Growth (%)	1.8	11.0	5.0	2.5	3.5
Inflation (eop, %)	14.6	36.1	64.3	32.0	20.0
Cur. Acct. Bal. (% GDP)	-4.4	-0.9	-5.5	-3.8	-2.8
Fiscal Bal. (% GDP)	-3.4	-2.7	-3.2	-4.0	-3.2

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

**The economy stalled in H2:22, amid strong headwinds from record-high inflation.** Following a strong performance in H1:22, with an average sequential growth rate of 1.2%, economic activity is estimated to have lost abruptly steam in H2:22, contracting marginally for the first time since the pandemic. Albeit easing, private consumption remained the main driver in H2:22, as deeply negative real rates continued to discourage savings. At the same time, amid heightened uncertainty, fixed investment dropped, led by the construction sector. Reflecting still strong demand pressures, stock depletion continued at a fast pace in the same period. That said, and despite solid -- yet moderating -- export growth, net exports' contribution to overall growth diminished in H2:22, following a pick-up in import growth, driven by consumer goods. Overall, GDP growth is estimated at a solid 5.0% in FY:22, largely underpinned by a large carry-over effect from Q4:21 (3.0 pps).

**An expansionary policy mix ahead of this year's election should sustain economic growth in the short-term, yet at the cost of exacerbating economic imbalances.** In stark contrast to global trends, the CBRT has aggressively cut interest rates, driving its key rate to 9.0% (down 500 bps since August). As a result, the credit impulse has strengthened to levels last seen during the pandemic, lending strong support to domestic demand. Given the economy's external imbalances (stemming from its complete reliance on imports to cover its energy needs), this ultra-accommodative policy has left Türkiye trapped into a vicious cycle of weakening TRY and surging inflation. To make things worse, the jump in global energy prices, in the aftermath of the Russia-Ukraine conflict, has been translated into even higher FX needs, putting an extra burden on the TRY (down 30% in FY:22, on top of losses of 70% between FY:18-21), and thus sending inflation into even higher spirals (up 64.3% y-o-y at end-2022 against 36.1% at end-2021).

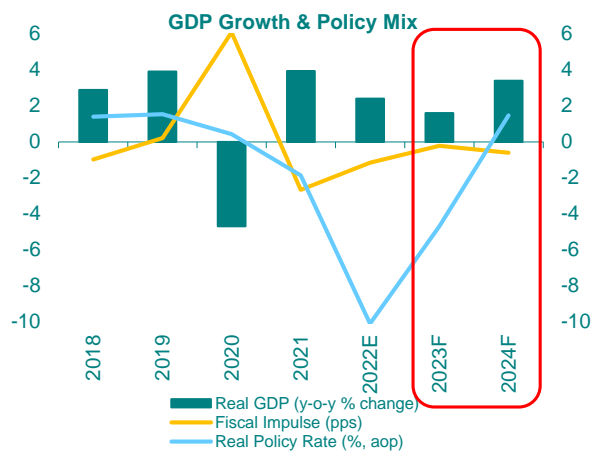
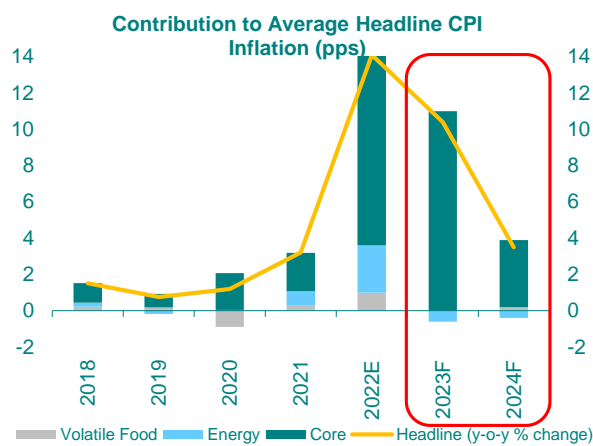
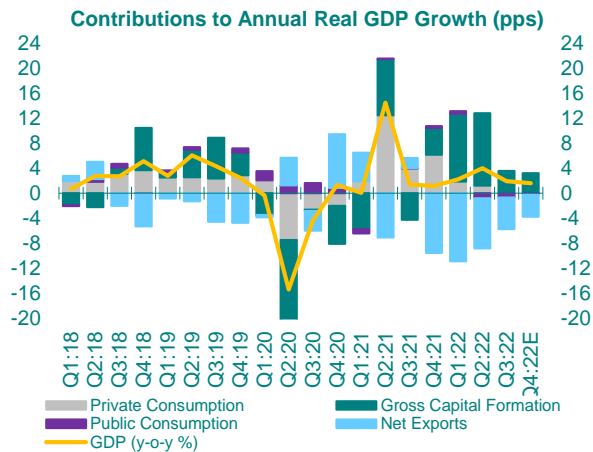
At the same time, fiscal policy has been far from being contractionary. Indeed, a loose incomes policy, together with the measures to support the ailing TRY (through a scheme protecting LC deposits against FX risk), have put the budget under pressure. Looking ahead, authorities' raft of pre-election spending -- including massive hikes in the minimum and public sector wages (up 25% and 55%, respectively), energy subsidies and early retirement benefits -- is set to inflate the budget deficit even further, with Turkey's low debt metrics, however, providing still ample headroom to this end.

Against this highly accommodative policy backdrop, we expect economic momentum to gain steam in the short-term, eventually peaking before mid-year, when elections are scheduled to take place. In spite of stubbornly high -- yet gradually easing -- inflation, private consumption should continue to lead economic expansion. Similarly, despite the adverse impact of the weak TRY on corporate balance sheets, fixed investment could show signs of revival, thanks to loose credit conditions (with another state loan guarantee scheme, worth up to 1.0% of GDP, being reportedly in the pipeline). Strong domestic demand, on the one hand, and slowing economic growth in major EU trade partners, on the other hand, should, however, be translated into a shrinking contribution by net exports to GDP growth in the period ahead.

All said, GDP is seen growing by 2.5% in FY:23, with the slowdown attributed, *inter alia*, to a smaller carry-over effect (projected at just 0.3 pps). Regardless of the election outcome, we expect authorities to reverse policies in H2:23. Recall that, in 2018, authorities hiked rates by 1600 bps (to 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%, the lowest worldwide. Should authorities delay the highly needed policy adjustment, Türkiye risks snowballing into a full-fledged currency crisis and deep recession.

# North Macedonia

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



	9 Jan.	3-M F	6-M F	12-M F
1-m SKIBOR (%)	3.0	3.6	4.0	4.3
MKD/EUR	61.4	61.6	61.6	61.6
Sov. Spread (2028, bps)	456	460	435	400

	9 Jan.	1-W %	YTD %	2-Y %
MBI 100	5,764	2.0	2.0	22.2

	2020	2021	2022F	2023F	2024F
Real GDP Growth (%)	-4.7	3.9	2.4	1.6	3.4
Inflation (eop, %)	2.2	4.9	19.4	4.2	3.2
Cur. Acct. Bal. (% GDP)	-2.9	-3.1	-7.5	-6.2	-5.0
Fiscal Bal. (% GDP)	-8.0	-5.4	-4.2	-4.0	-3.4

Sources: Reuters, NBRNM, MAKSTAT &amp; NBG estimates

Against a challenging backdrop, North Macedonia saw GDP growth slowing down markedly in FY:22 (to an estimated 2.4%, well below the regional average of 4.2%). Gross capital formation is estimated to have been the main driver of economic growth in FY:22 (see chart), reflecting strong build-up in inventories, in the face of record-high global energy and food prices, on the one hand, and higher public investment, on the other hand. At the same time, following the re-opening of the economy, and thanks to bold policy support (including a massive 18.5% hike in the minimum wage), private consumption is estimated to have added to economic growth, with its contribution, however, shrinking significantly compared with FY:21, due, *inter alia*, to surging inflation. Unsurprisingly, against the backdrop of solid domestic demand and persistent global supply disruptions, net exports remained a large drag on overall growth. All said, GDP growth is estimated to have slowed down to 2.4% in FY:22 from 3.9% in FY:21, with economic activity returning to pre-COVID-19 levels with a significant delay compared with regional peers.

With inflation due to remain elevated in the short-term, GDP growth is set to remain subdued over the next quarters, in line with weakening private consumption and net exports. With inflation projected to remain in double-digits until mid-year, biting seriously into households' disposable income and savings (with the latter's level as percent of GDP having already fallen well below pre-COVID-19 standards), and consumer confidence having already plunged, private consumption cannot but be significantly affected in the period ahead. The withdrawal of several policy measures supporting the labour market (wage subsidies) should also take a toll.

At the same time, in view of slowing economic growth in the EU (especially in Germany, which absorbs c. 50% of the country's total exports), net exports should remain a large drag on overall growth, despite weaker private consumption and the envisaged easing in strains in global supply chains.

In fact, economic growth should be mainly underpinned by fixed investment, which is expected to continue overperforming, led by the public sector. According to the Government's (ambitious) plans, capital spending is set to rise further in FY:23 (up 1.0 pp of GDP), driven by a scale-up in infrastructure investments. On the other hand, against the backdrop of tightening financing conditions and heightened uncertainty, private investment (including from FDI, which has proven resilient so far) is unlikely to add much to overall growth this year as well.

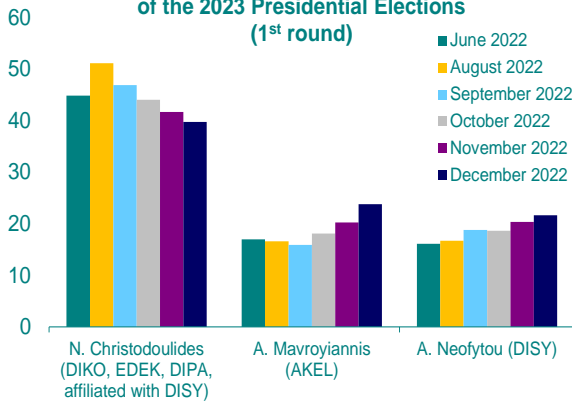
As highlighted above, policies are not expected to sustain economic growth this year. On the one hand, we see fiscal consolidation continuing (albeit at a very slow pace) in FY:23, with the phasing-out of stimulus measures freeing the necessary fiscal space to increase investments. On the other hand, amid high inflation and elevated external imbalances, the NBRNM cannot but maintain its tightening bias. As a result, we see the key rate at 5.25% by mid-2023, up from 4.75% at end-2022 and 1.25% at end-2021. Still, the implied tightening would be smaller than that of regional economies, reflecting the economy's limited financial linkages with the rest of the world.

All said, we see GDP growth at a mere 1.6% in FY:23. By then, the output loss relative to the pre-pandemic path would amount to slightly less than 10%, nearly double that of the SEE region, due, *inter alia*, to the higher share of energy and food in domestic household spending, the economy's lower energy efficiency as well as the smaller scope for policy support, amid a sharp deterioration in external imbalances. As far as the latter is concerned, the 2-year precautionary agreement with the IMF should provide a critical safety net to the economy, in the event external financing conditions deteriorate abruptly.

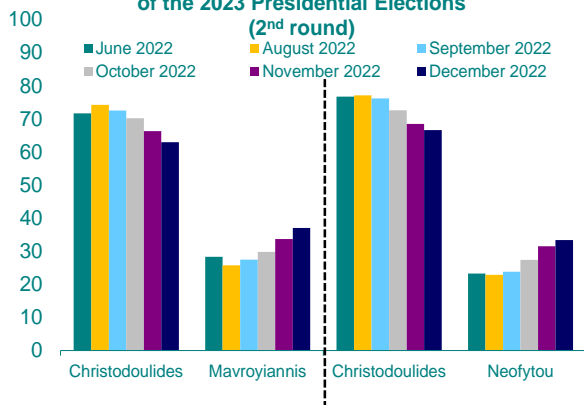
# Cyprus

BBB / Ba1 / BBB- (S&P / Moody's / Fitch)

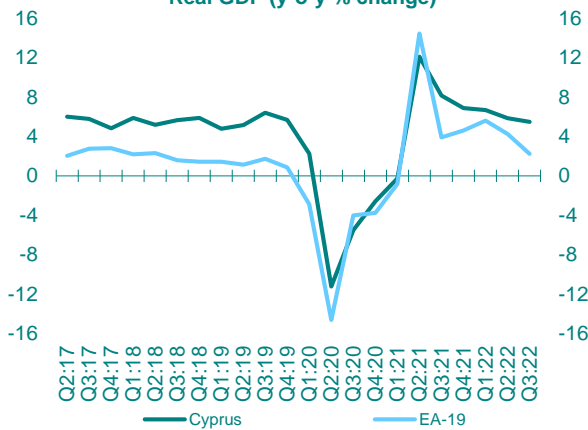
**Rai Consultants Opinion Poll Results, ahead of the 2023 Presidential Elections (1<sup>st</sup> round)**



**Rai Consultants Opinion Poll Results, ahead of the 2023 Presidential Elections (2<sup>nd</sup> round)**



**Real GDP (y-o-y % change)**



**Political continuity is expected after the February 5<sup>th</sup> Presidential elections, given main candidates' consensus on policies and important reforms.** Opinion polls suggest that the former Foreign Minister, N. Christodoulides -- an independent candidate, backed by three small parties and affiliated with the ruling conservative Democratic Rally (DISY) -- has a significant (15-20 pps) lead over his two main rivals, enjoying broad-based support across the political spectrum. His main competitors in the Presidential race, A. Mavroyiannis and A. Neofytou (nominated by the country's two major political parties, namely the main opposition leftist AKEL and DISY, respectively) trail far behind. As no candidate is expected to secure an outright majority in the 1<sup>st</sup> round, Christodoulides is widely expected to win a run-off election (to be held on February 12<sup>th</sup>). With Cyprus operating a presidential political system -- i.e. the President appoints the Cabinet -- broader political continuity is expected after the elections, despite the hung Parliament. Indeed, strong institutional quality (anchored by EU membership), together with all political parties' consensus on the need to maintain fiscal prudence and proceed with the structural reforms dictated by the country's RRF plan, limit the risk of a serious policy disruption.

**The strong 9M:22 growth performance is set to wear-off in the period ahead, reflecting headwinds from weakening EU activity, rising interest rates and persistent inflationary pressures.** GDP growth remained strong in Q3:22, up 5.5% y-o-y against 6.3% in H1:22 -- placing Cyprus among the top positions in Euro Area rankings. The robust economic growth rate was underpinned by the outstanding performance of tourism exports (with tourist arrivals recovering to 81% of their pre-COVID-19 level in Q3:22 against 60% in Q3:21), despite the sizeable drop in tourist inflows from Russia (the largest source country, accounting for 26.8% of tourists in FY:21), following an EU-wide ban on Russian flights, and Ukraine (4.4% of arrivals in FY:21).

Importantly, exports of non-tourism services (mainly financial, shipping and ICT) have also remained strong, despite the EU sanctions levied on Russian companies (with services provided to the latter accounting for a sizeable 9.0% of GDP in FY:21 -- the highest in the euro area), following several foreign ICT companies relocating in Cyprus.

At the same time, despite record-high inflation, private consumption remained resilient, mainly underpinned by positive spillovers from the overperformance in the tourism & related sectors (accounting for 9.3% of GDP in FY:21) and tightening labour market conditions. The relocation of several foreign companies (with their employees) in Cyprus helped to this end. State support (mainly in the form of subsidies) also cushioned the impact of the inflation shock.

Economic growth is estimated to have eased markedly in Q4:22, bringing the full-year figure to 5.5% (c. 2 pps above the euro area average). Looking ahead, little or no improvement is expected this year, especially in first half, with full-year GDP growth projected at just 2.2% - - close to its long-term potential and still well above that of the euro area (up 0.3%) -- reflecting, inter alia, a weak statistical carry-over effect (of just 1.1 pp against 2.7 pps in FY:22). In terms of growth drivers, investment activity should gain steam, bolstered by EU funding (Cyprus is due to receive EUR 1.2bn under the EU RRF over 2021-26, or 5.1% of the FY:21 GDP). On the other hand, private consumption should continue to growth, albeit at a slow pace, as weakening household purchasing power, tightening financial conditions and deteriorating consumer confidence take their toll. Some support should be provided by the automatic public wage & pension indexation (to 50% and 100%, respectively, of inflation) and high savings. At the same time, slowing economic growth and still elevated inflation in Cyprus' main tourism markets are set to weigh on net exports.

	9 Jan.	3-M F	6-M F	12-M F
1-m EURIBOR (%)	1.9	2.8	3.2	3.3
EUR/USD	1.07	1.05	1.07	1.10
Sov. Spread (2028. bps)	180	175	165	140

	9 Jan.	1-W %	YTD %	2-Y %
CSE Index	92	2.5	3.0	64.2

	2020	2021	2022F	2023F	2024F
Real GDP Growth (%)	-4.4	6.6	5.5	2.2	3.3
Inflation (eop, %)	-1.1	4.8	8.7	2.8	2.0
Cur. Acct. Bal. (% GDP)	-10.1	-6.8	-8.6	-7.0	-5.8
Fiscal Bal. (% GDP)	-5.5	-1.7	1.2	1.2	1.7

Sources: Reuters, Cystat & NBG estimates



## DETAILED MACROECONOMIC DATA

TÜRKIYE					
	2020	2021	2022e	2023f	2024f
<b>Real Sector</b>					
Nominal GDP (USD million)	719,168	815,755	787,891	911,861	1,074,005
GDP per capita (USD)	8,601	9,633	9,196	10,520	12,253
GDP growth (real, %)	1.8	11.0	5.0	2.5	3.5
Unemployment rate (% aop)	13.2	12.0	10.7	10.3	9.7
<b>Prices and Banking</b>					
Inflation (% eop)	14.6	36.1	64.3	32.0	20.0
Inflation (% aop)	12.3	19.3	71.6	36.9	25.3
Loans to the Private Sector (% change, eop)	34.8	37.0	54.5		
Customer Deposits (% change, eop)	33.0	51.5	68.0		
Loans to the Private Sector (% of GDP)	70.8	67.6	58.0		
Retail Loans (% of GDP)	16.8	14.5	12.9		
Corporate Loans (% of GDP)	54.1	53.1	45.0		
Customer Deposits (% of GDP)	62.1	65.5	61.1		
Loans to Private Sector (% of Cust. Deposits)	114.1	103.2	94.9		
Foreign Currency Loans (% of Total Loans)	34.2	42.2	32.6		
<b>External Accounts</b>					
Merchandise exports (USD million)	168,387	224,686	253,499	269,101	282,531
Merchandise imports (USD million)	206,250	253,999	333,317	343,906	355,350
Trade balance (USD million)	-37,863	-29,313	-79,817	-74,806	-72,819
Trade balance (% of GDP)	-5.3	-3.6	-10.1	-8.2	-6.8
Current account balance (USD million)	-31,878	-7,255	-43,493	-34,836	-30,436
Current account balance (% of GDP)	-4.4	-0.9	-5.5	-3.8	-2.8
Net FDI (USD million)	4,592	6,876	7,151	8,224	9,868
Net FDI (% of GDP)	0.6	0.8	0.9	0.9	0.9
International reserves (USD million)	93,277	111,181	105,000	110,000	117,000
International reserves (Months <sup>a</sup> )	4.9	4.7	2.9	3.7	3.8
<b>Public Finance</b>					
Primary balance (% of GDP)	-0.8	-0.2	-0.5	-1.3	-0.4
Fiscal balance (% of GDP)	-3.4	-2.7	-3.2	-4.0	-3.2
Gross public debt (% of GDP)	39.7	41.8	37.5	37.5	37.0
<b>External Debt</b>					
Gross external debt (USD million)	432,848	441,064	460,000	485,000	520,000
Gross external debt (% of GDP)	60.2	54.1	58.4	53.2	48.4
External debt service (USD million)	70,931	74,311	80,000	85,000	90,000
External debt service (% of reserves)	76.0	66.8	76.2	77.3	76.9
External debt service (% of exports)	37.5	27.6	25.2	25.3	25.5
<b>Financial Markets</b>					
Policy rate (Effective funding rate, % eop)	17.0	14.0	9.0	25.0	20.0
Policy rate (Effective funding rate, % aop)	10.5	17.6	12.6	17.0	22.5
1-Y T-bill rate (% eop)	12.5	23.1	9.8	13.0	12.0
Exchange rate: USD (eop)	7.43	13.32	18.69	21.50	22.75
Exchange rate: USD (aop)	7.02	8.89	16.57	20.09	22.13

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

NORTH MACEDONIA					
	2020	2021	2022e	2023f	2024f
<b>Real Sector</b>					
Nominal GDP (EUR million)	10,874	11,708	13,680	15,339	16,416
GDP per capita (EUR)	5,889	6,374	7,478	8,419	9,046
GDP growth (real, %)	-4.7	3.9	2.4	1.6	3.4
Unemployment rate (% aop)	16.4	15.7	14.5	14.5	14.2
<b>Prices and Banking</b>					
Inflation (% eop)	2.2	4.9	19.4	4.2	3.2
Inflation (% aop)	1.2	3.2	14.1	10.4	3.5
Loans to the Private Sector (% change, eop)	4.7	8.0			
Customer Deposits (% change, eop)	6.2	8.5			
Loans to the Private Sector (% of GDP)	53.0	53.2			
Retail Loans (% of GDP)	27.8	27.8			
Corporate Loans (% of GDP)	25.2	25.3			
Customer Deposits (% of GDP)	61.0	61.5			
Loans to Private Sector (% of Deposits)	86.8	86.5			
Foreign Currency Loans (% of Total Loans)	41.6	40.7			
<b>External Accounts</b>					
Merchandise exports (EUR million)	4,820	6,000	6,982	7,470	7,920
Merchandise imports (EUR million)	6,623	8,371	10,551	11,211	11,753
Trade balance (EUR million)	-1,804	-2,370	-3,568	-3,741	-3,833
Trade balance (% of GDP)	-16.6	-20.2	-26.1	-24.4	-23.3
Current account balance (EUR million)	-0,318	-0,366	-1,030	-0,948	-0,827
Current account balance (% of GDP)	-2.9	-3.1	-7.5	-6.2	-5.0
Net FDI (EUR million)	0,155	0,388	0,620	0,589	0,633
Net FDI (% of GDP)	1.4	3.3	4.5	3.8	3.9
International reserves (EUR million)	3,360	3,665	3,815	3,990	4,190
International reserves (Months <sup>a</sup> )	5.3	4.6	3.8	3.7	3.7
<b>Public Finance</b>					
Primary balance (% of GDP)	-6.8	-4.1	-2.9	-2.7	-2.1
Fiscal balance (% of GDP)	-8.0	-5.4	-4.2	-4.0	-3.4
Gross public debt <sup>b</sup> (% of GDP)	59.3	60.5	57.6	56.7	57.6
<b>External Debt</b>					
Gross external debt (EUR million)	8,536	9,577	10,670	11,351	11,984
Gross external debt (% of GDP)	78.5	81.8	78.0	74.0	73.0
External debt service (EUR million)	3,300	3,550	3,300	3,700	3,300
External debt service (% of reserves)	98.2	96.9	86.5	92.7	78.8
External debt service (% of exports)	52.7	45.8	36.0	37.5	31.5
<b>Financial Markets</b>					
28-d CB bill rate (% eop)	1.5	1.3	4.8	5.3	4.8
28-d CB bill rate (% aop)	1.6	1.3	2.5	5.2	5.0
1-Y T-bill rate <sup>c</sup> (% eop)	0.4	0.7	3.5	4.2	3.8
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

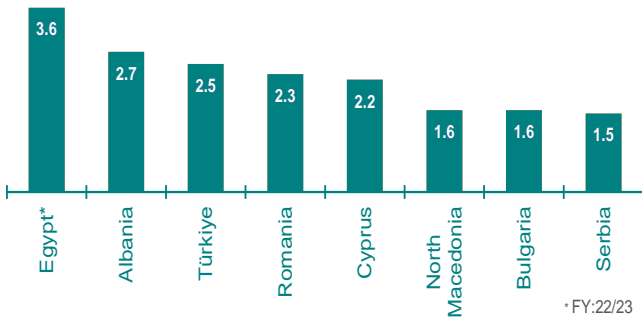
f: NBG forecasts; a: months of imports of GNFS; b: incl. guaranteed debt; c: primary market

CYPRUS					
	2020	2021	2022e	2023f	2024f
<b>Real Sector</b>					
Nominal GDP (EUR million)	21,895	24,019	27,475	29,265	30,931
GDP per capita (EUR)	24.546	26.677	30.184	31.800	33,245
GDP growth (real, %)	-4.4	6.6	5.5	2.2	3.3
Unemployment rate (% aop)	7.6	7.5	6.7	6.7	6.5
<b>Prices and Banking</b>					
Inflation (% eop)	-1.1	4.8	8.7	2.8	2.0
Inflation (% aop)	-0.6	2.4	8.4	4.2	2.3
Loans to the Private Sector (% change, eop)	-5.6	-5.0			
Customer Deposits (% change, eop)	-0.6	5.4			
Loans to the Private Sector (% of GDP)	132.0	114.3			
Retail Loans (% of GDP)	61.2	50.9			
Corporate Loans (% of GDP)	70.8	63.5			
Customer Deposits (% of GDP)	188.0	180.7			
Loans to Private Sector (% of Deposits)	70.2	63.3			
Foreign Currency Loans (% of Total Loans)	---	---			
<b>External Accounts</b>					
Merchandise exports (EUR million)	2,969	3,590	4,041	4,011	4,050
Merchandise imports (EUR million)	7,180	7,907	9,267	9,227	9,320
Trade balance (EUR million)	-4,211	-4,318	-5,226	-5,216	-5,270
Trade balance (% of GDP)	-19.2	-18.0	-19.0	-17.8	-17.0
Current account balance (EUR million)	-2,202	-1,638	-2,357	-2,041	-1,797
Current account balance (% of GDP)	-10.1	-6.8	-8.6	-7.0	-5.8
Net FDI (EUR million)	7,454	4,369	4,369	5,571	6,963
Net FDI (% of GDP)	34.0	18.2	15.9	19.0	22.5
International reserves (EUR million)	---	---	---	---	---
International reserves (Months <sup>a</sup> )	---	---	---	---	---
<b>Public Finance</b>					
Primary balance <sup>b</sup> (% of GDP)	-3.4	0.1	2.7	2.7	3.3
Fiscal balance <sup>b</sup> (% of GDP)	-5.5	-1.7	1.2	1.2	1.7
Gross public debt (% of GDP)	113.5	101.0	88.0	83.0	77.5
<b>External Debt</b>					
Gross external debt (EUR million)	175,543	168,003	164,003	162,003	160,003
Gross external debt (% of GDP)	801.7	699.5	596.9	553.6	517.3
External debt service (EUR million)	---	---	---	---	---
External debt service (% of reserves)	---	---	---	---	---
External debt service (% of exports)	---	---	---	---	---
<b>Financial Markets</b>					
Policy rate (ECB refinancing rate, % eop)	0.0	0.0	2.5	3.5	2.5
Policy rate (ECB refinancing rate, % aop)	0.0	0.0	0.7	3.4	3.0
3-Y T-bill rate (% eop)	-0.1	-0.2	2.6	3.8	2.8
Exchange rate: USD (eop)	1.221	1.137	1.070	1.100	1.130
Exchange rate: USD (aop)	1.142	1.183	1.053	1.075	1.115

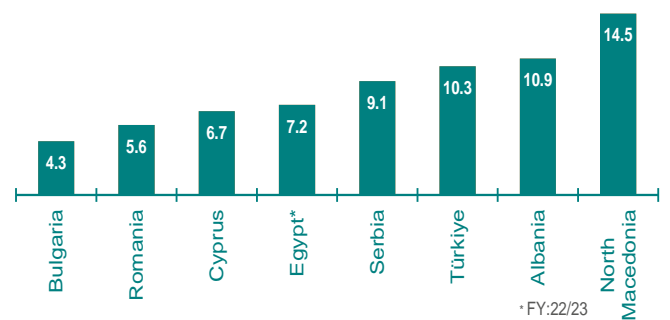
f: NBG forecasts; a: months of imports of GNFS; b: cash basis

# REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS

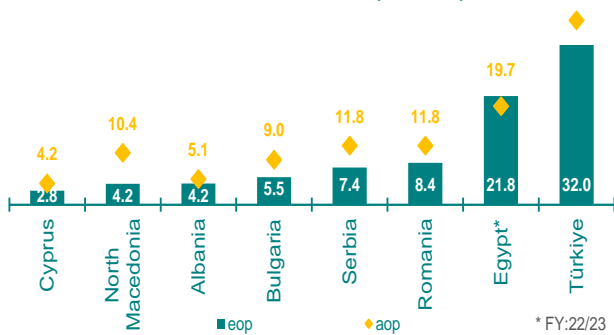
Real GDP Growth (% 2023F)



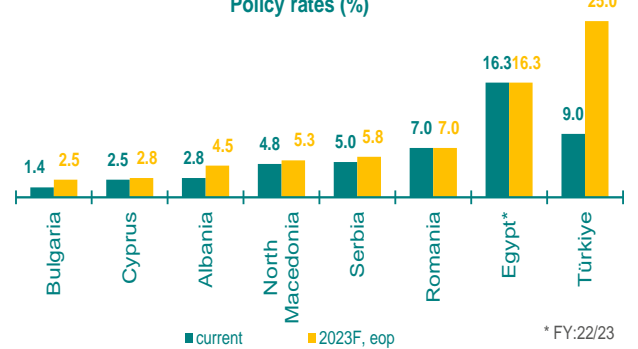
Unemployment (% 2023F, aop)



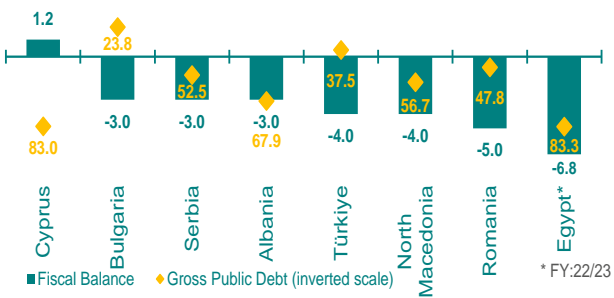
Headline inflation (% 2023F)



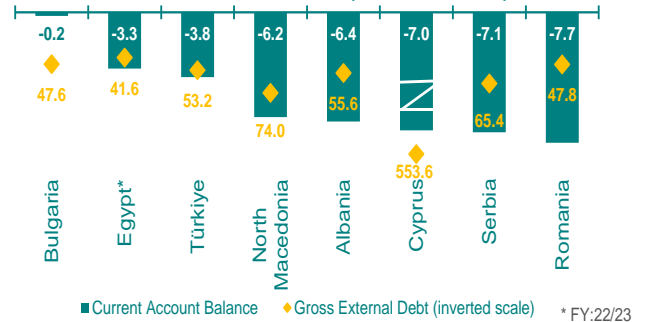
Policy rates (%)



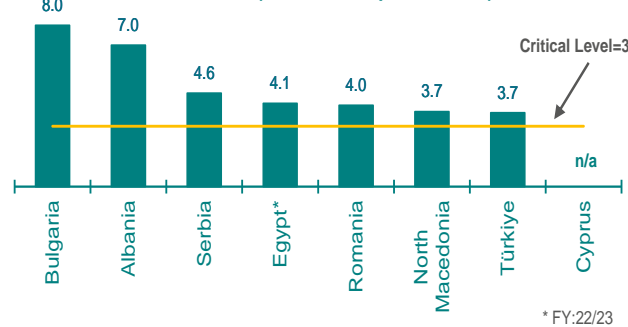
Public Finance (% of GDP, 2023F)



External Accounts (% of GDP, 2023F)



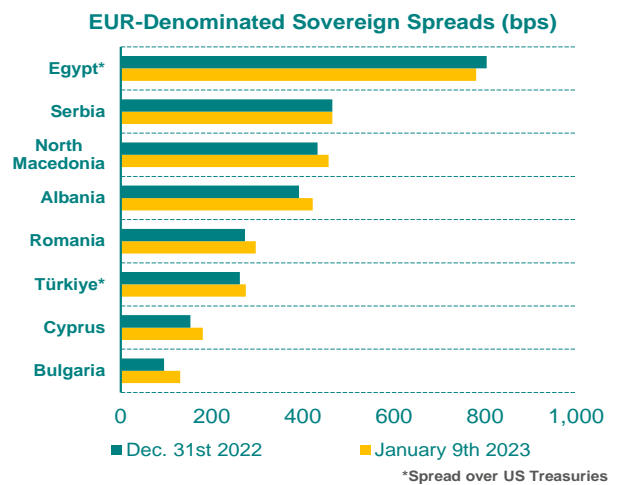
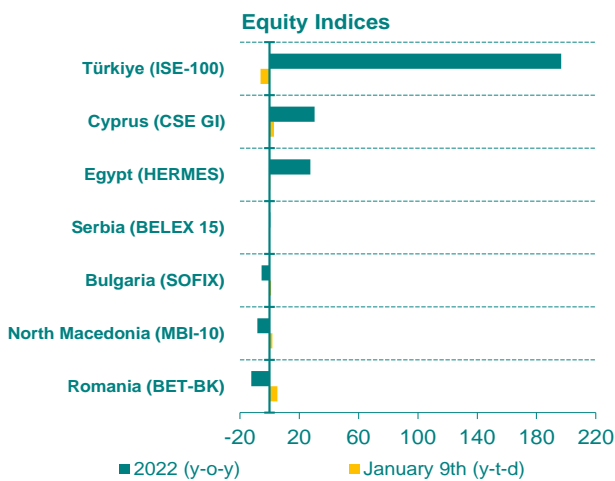
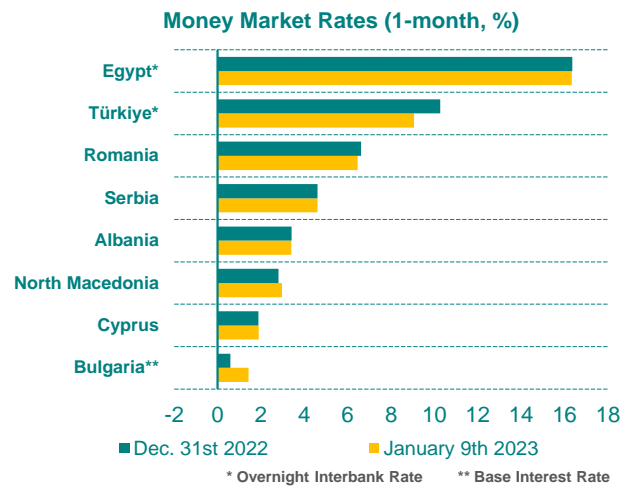
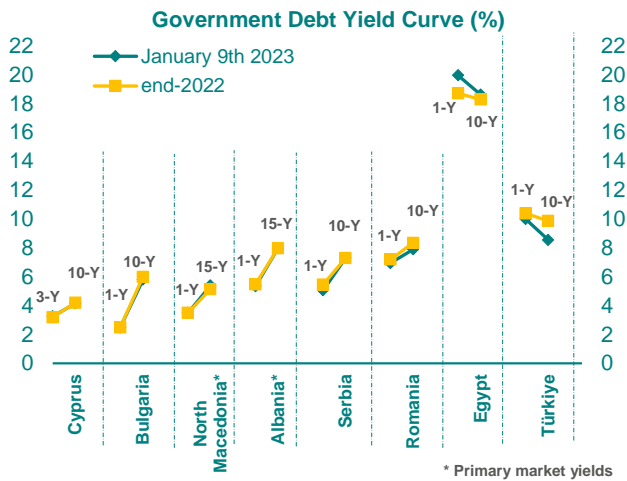
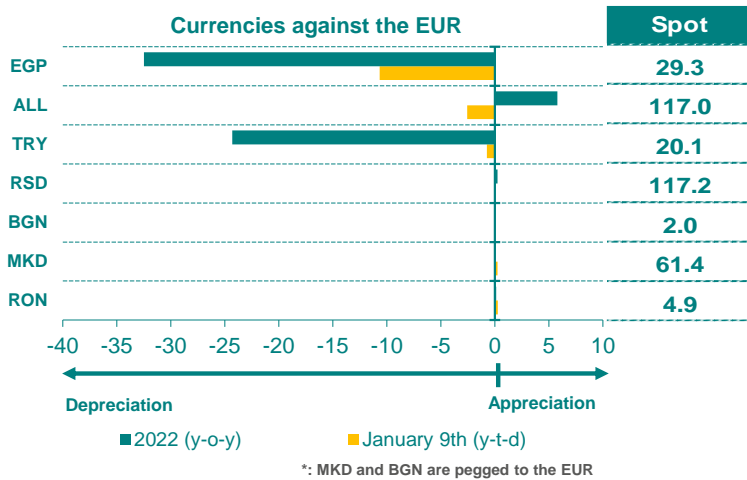
FX Reserves (Months of Imports, 2023F)



Sources: National Sources & NBG estimates



# REGIONAL SNAPSHOT: FINANCIAL MARKETS



Sources: Reuters & NBG estimates

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