

## COUNTRIES IN FOCUS:

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### NBG – Economic Analysis Division

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### Emerging Markets Analysis

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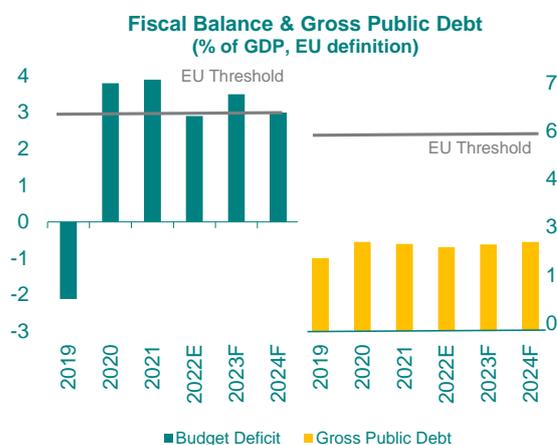
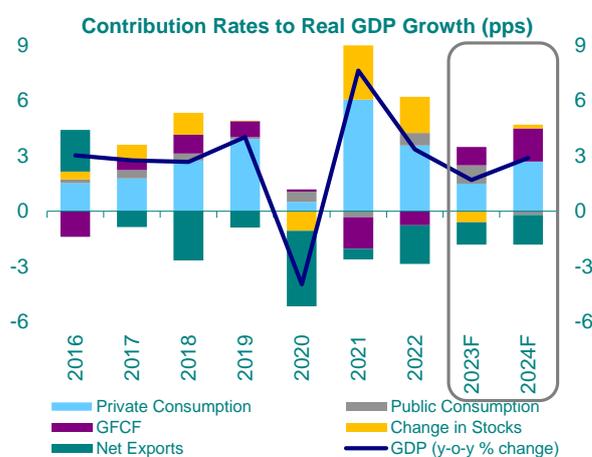
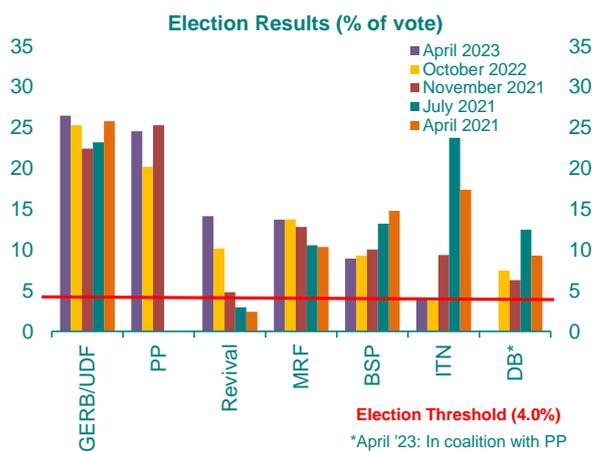
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# Bulgaria

BBB / Baa2 / BBB (S&P / Moody's / Fitch)



	3 Apr.	3-M F	6-M F	12-M F
Base Interest Rate (%)	2.5	2.9	3.1	3.0
BGN/EUR	1.96	1.96	1.96	1.96
Sov. Spread (2027, bps)	149	145	140	120

	3 Apr.	1-W %	YTD %	2-Y %
SOFIX	611	1.0	1.6	22.2

	2020	2021	2022E	2023F	2024F
Real GDP Growth (%)	-4.0	7.6	3.4	1.7	2.9
Inflation (eop, %)	0.1	7.8	16.9	5.7	3.2
Cur. Acct. Bal. (% GDP)	0.0	-0.5	-0.3	-0.3	0.0
Fiscal Bal. (% GDP)	-2.9	-2.8	-0.8	-3.0	-2.4

Sources: Reuters, Electoral Commission, NSI, Ministry of Finance. & NBG estimates

**Elections deliver another hung Parliament, failing to end political uncertainty.** The April 2 election, the 5<sup>th</sup> held in 2 years, came after the October polls failed to deliver a functioning Government to succeed that of K. Petkov (backed by a PP-led coalition), which collapsed in June.

As in the October election, and amid low turnout (c. 40%), the centre-right GERB and its small UDF partner topped the polls, with 26.5% of the vote, failing once again to muster an absolute majority. Its main rival, the liberal PP-DB coalition finished closely behind, with 24.6% of the vote. The rising nationalist, pro-Russian Revival party was third, with 14.2% of the vote, followed by the Turkish-minority party, MRF, GERB's traditional partner, with 13.7%, the once-mighty centre-left BSP, with 8.9%, and the populist ITN party, which passed marginally the 4.0% election barrier.

All said, with most parties having ruled out cooperation with the GERB, whose decade-long rule was marred by corruption allegations, and the Revival party refusing to participate in any coalition, the formation of the next Government remains a complicated exercise. This means that we could see weeks of talks before a (most likely unstable) coalition takes office. As a result, political noise is unlikely to ease soon, in a country which has been in limbo since the 2020 anti-graft protests and has been governed by caretaker Governments for much of the past 2 years.

Worryingly, lingering political uncertainty could bring about delays in policy and reform implementation, hampering the efficient tapping of available EU funds. Note that Bulgaria is one of the largest recipients of RRF funding, designated to receive grants worth c. 9.0% of FY:22 GDP. Importantly, the risk of serious policy slippage appears to be limited, given the anchors provided by the currency board and the inclusion of the BGN into the ERM II, a precursor to the adoption of the euro.

**A still tight labour market and resilient exports should help prevent a hard landing for the economy in FY:23.** Stubbornly high core inflation should delay the moderation in headline inflation, despite the less adverse-than-initially-envisaged outlook for global energy prices, suppressing households' purchasing power. This impact, together with rising (albeit not as fast as in the euro area) debt-servicing costs and poor economic sentiment, cannot but dampen private consumption over the next quarters, but modestly, due to still tight labour market conditions (with widespread staff shortages keeping unemployment subdued over the projection horizon) supporting further increases in nominal wages.

Softer private consumption should be partly mitigated by a rebound in EU-funded investment, although the latter is subject to considerable uncertainty. Indeed, the protracted political deadlock, together with Bulgaria's historical weak track record of absorbing EU funds, raise challenges in this regard.

With GDP growth in the EU losing steam and, in view of the large import content of fixed investment, which is set to overperform in the period ahead, net exports cannot but weaken. Note, though, that Bulgaria's exports performance should be less affected than its peers', thanks to a relatively smaller deterioration in its terms-of-trade (reflecting the large weight of raw and low added-value products in total exports as well as the favourable impact of generous energy subsidies to businesses) and still increased (coal-based) electricity exports.

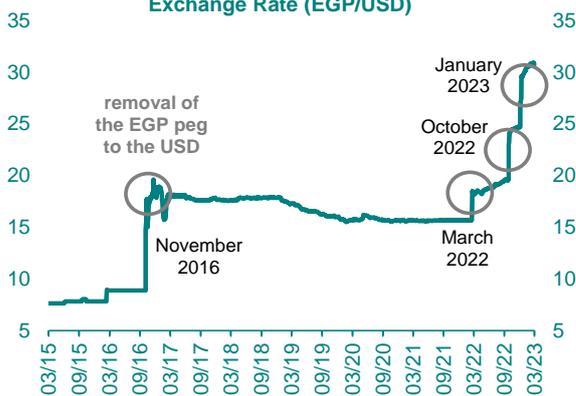
Following a significant overperformance in FY:22, fiscal policy should lend support to economic growth in FY:23, in view, *inter alia*, of the ample fiscal space available (see chart).

All said, we see GDP growth easing to 1.7% in FY:23 from 3.4% in FY:22 (with the latter having been supported by a strong carry-over effect of 2.4 pps), outperforming the EU average (up c. 1.0%).

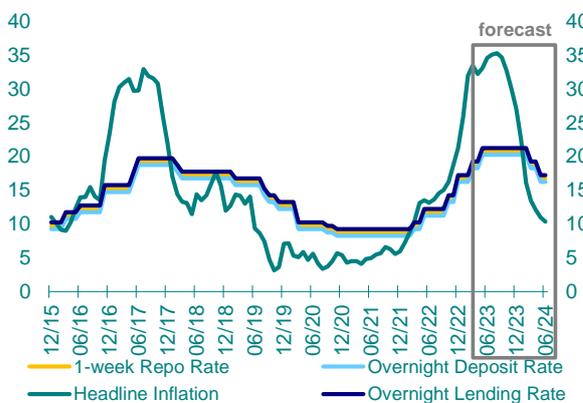
# Egypt

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

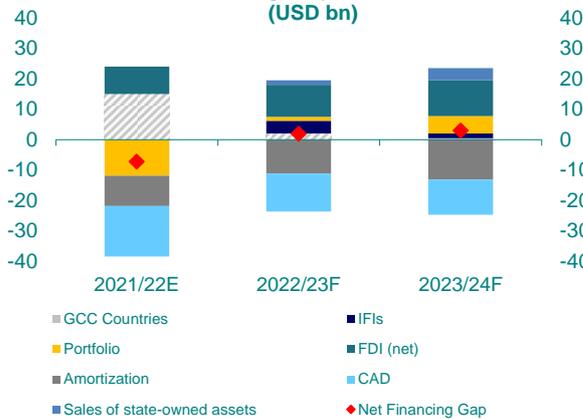
Exchange Rate (EGP/USD)



Nominal Policy Rates & Headline Inflation (%)



External Financing Requirements & Sources (USD bn)



	3 Apr.	3-M F	6-M F	12-M F
O/N Interbank Rate (%)	18.3	20.3	20.3	18.3
EGP/USD	30.9	33.0	33.4	34.2
Sov. Spread (2029, bps)	1,203	1,100	1,000	800

	3 Apr.	1-W %	YTD %	2-Y %
HERMES 100	1,882	7.9	20.3	78.5

	19/20	20/21	21/22E	22/23F	23/24F
Real GDP Growth (%)	3.6	3.3	6.6	3.8	4.1
Inflation (eop. %)	5.6	4.9	13.2	34.6	10.4
Cur. Acct. Bal. (% GDP)	-2.9	-4.3	-3.5	-3.2	-3.0
Fiscal Bal. (% GDP)	-7.5	-7.1	-6.6	-7.5	-6.8

Sources: Reuters, CBE & NBS estimates

**Surging inflation and strong underlying pressures on the EGP prompt the CBE to hike rates further.** At its March 30 meeting, the CBE raised rates by another 200 bps, bringing its key overnight deposit rate to 18.25%, up 1000 bps since early-2022.

The CBE's move came after inflation hit a 5½-high of 31.9% y-o-y in February (against 8.8% a year ago), mainly reflecting the impact of the weaker EGP. The latter has lost c. 35% of its value against the USD since October, when authorities committed to shift to a "durable flexible FX regime", following another 15% devaluation in March, after 2 years of stability. The free-floating of the EGP was a *sine qua non* condition for a critical 46-month USD 3bn arrangement with the IMF to be sealed.

Looking ahead, inflation is set to remain under pressure, mainly driven by: i) the continuing pass-through of the weaker EGP; and ii) further (gradual) adjustment in administered fuel prices (with the latter still lagging c. 40% behind global prices). All said, we see inflation peaking at over 35.0% y-o-y in Q3, before embarking on a slow downward trend, falling within the CBE's target range of 7±2% only in early-2025.

Risks to our forecasts are clearly tilted to the downside, reflecting the bleak outlook for the EGP, whose free-floating appears not yet to have been secured. Indeed, despite the revocation of a requirement for importers to secure letters of a credit, a still large backlog of imports (estimated at c. USD 4.0bn, albeit down from USD 5.5bn in January) remains to be cleared. Even disregarding the latter, the outlook for the EGP is still clouded by the sizeable debt redemptions looming ahead and the large, albeit narrowing, current account deficit. Indeed, external financing needs over the next 12 months account for a sizeable 70% of FX reserves (USD 34.4bn or USD 16.6bn adjusted for IMF disbursements). Recall that FX reserves had plunged following the CBE's interventions to maintain EGP stability in the wake of the Russia-Ukraine conflict (with the jump in global commodity prices boosting the trade deficit, due to Egypt's reliance on food imports to cover its needs, and heavy portfolio withdrawals adding to financing pressures).

Importantly, the IMF agreement (involving disbursements worth USD 0.7bn both this and next year) is set to unlock a significant funding package, including USD 2.6bn from other IFIs. These funds, together with the proceeds from the Government's (ambitious) privatization programme and continuing support from GCC countries (with the latter having already provided c. USD 16bn in short-term deposits), should cover a substantial part of Egypt's external financing needs (see chart).

Against this backdrop, **the CBE is set to maintain its tightening bias.** Besides cooling down domestic demand and anchoring inflation expectations, high interest rates should lure foreign investors to Egypt's debt market, which has traditionally been the most significant source of hard currency, helping to close the external financing gap. As a result, we see the CBE raising further its key rate by 200 bps to 20.25% by mid-year. Note that, in addition to the free-floating of the EGP and adherence to a tight monetary policy stance, progress with IMF-mandated reforms, including fiscal consolidation and the reduction of the state's "footprint" on the economy, is also seen as a key condition for the return of foreign investors to Egypt.

Worryingly, **tightening financing conditions could pose risks to financial stability**, in view of the deep sovereign-bank nexus (with banks holding 60% of public debt, equivalent to c. 40% of their assets). At the same time, rising interest rates and the weaker EGP cannot but stress the private sector's debt repayment capacity (with the low NPL ratio, 3.4%, offering, however, a good starting point). Encouragingly, private banks' high regulatory capital buffers and strong internal capital generation capacity should provide some cushion to these risks.

## DETAILED MACROECONOMIC DATA

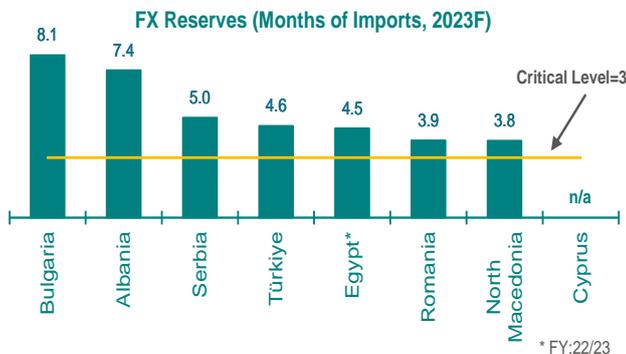
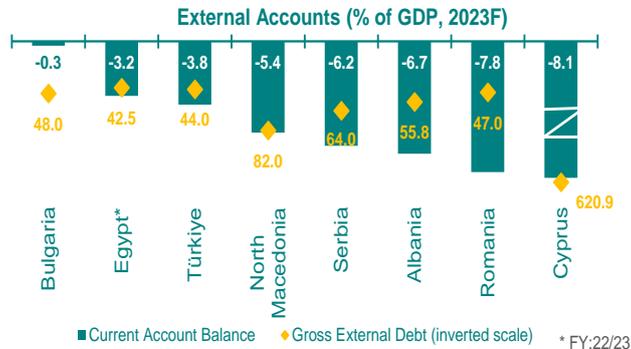
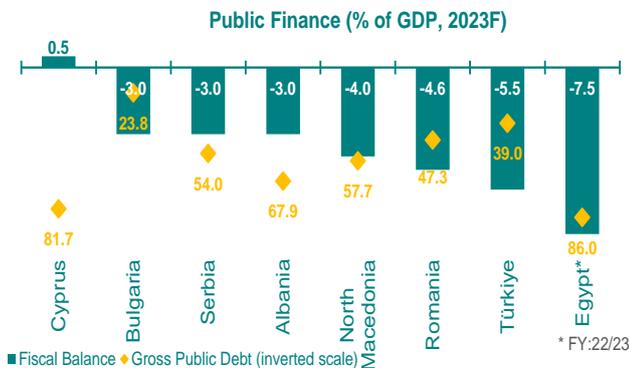
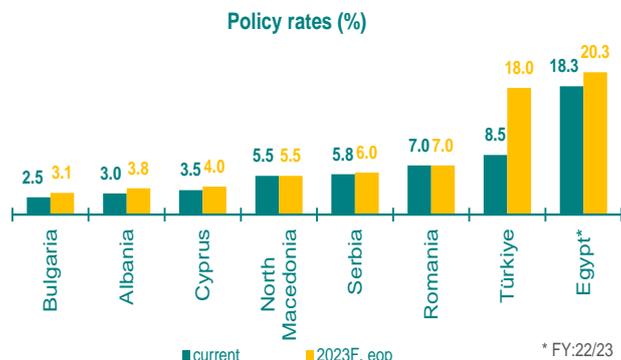
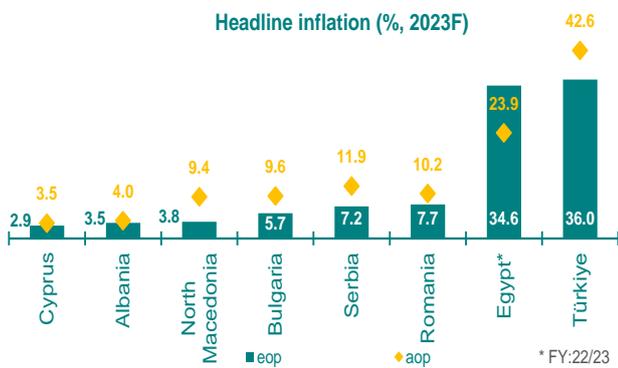
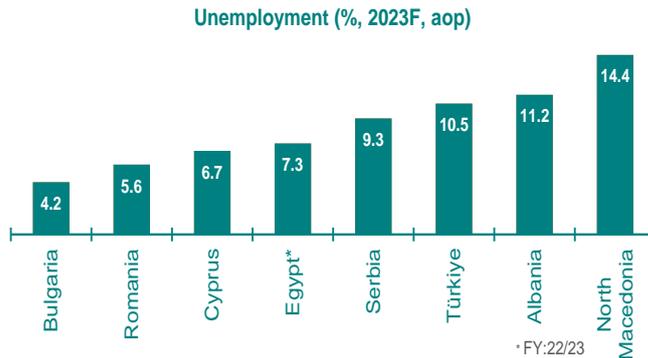
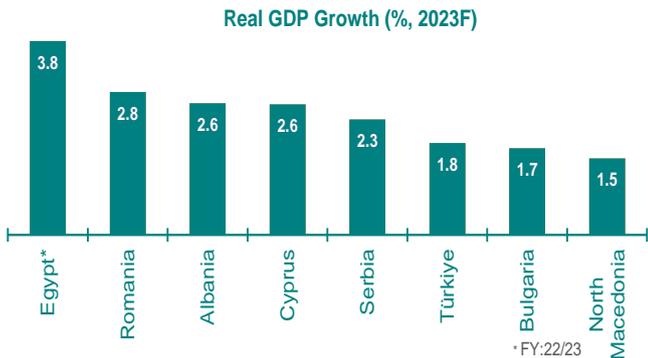
BULGARIA					
	2020	2021	2022f	2023f	2024f
<b>Real Sector</b>					
Nominal GDP (EUR million)	61,638	71,076	84,559	94,253	101,059
GDP per capita (EUR)	8,911	10,393	12,439	13,949	15,045
GDP growth (real, %)	-4.0	7.6	3.4	1.7	2.9
Unemployment rate(ILO definition, %, aop)	6.1	5.3	4.3	4.2	4.1
<b>Prices and Banking</b>					
Inflation (% eop)	0.1	7.8	16.9	5.7	3.2
Inflation (% aop)	1.7	3.3	15.2	9.6	4.2
Loans to the Private Sector (% change, eop)	4.5	8.3	12.2		
Customer Deposits (% change, eop)	10.2	9.0	14.4		
Loans to the Private Sector (% of GDP)	50.7	47.6	44.9		
Retail Loans (% of GDP)	20.8	20.5	19.8		
Corporate Loans (% of GDP)	29.9	27.1	25.1		
Customer Deposits (% of GDP)	73.1	69.1	66.4		
Loans to Private Sector (% of Deposits)	69.4	68.9	67.6		
Foreign Currency Loans (% of Total Loans)	31.1	28.7	25.7		
<b>External Accounts</b>					
Merchandise exports (EUR million)	27,272	34,405	46,493	48,761	50,975
Merchandise imports (EUR million)	29,213	37,291	51,086	53,916	56,490
Trade balance (EUR million)	-1,941	-2,887	-4,593	-5,155	-5,515
Trade balance (% of GDP)	-3.1	-4.1	-5.4	-5.5	-5.5
Current account balance (EUR million)	0,024	-0,351	-0,275	-0,236	-0,019
Current account balance (% of GDP)	0.0	-0.5	-0.3	-0.3	-0.0
Net FDI (EUR million)	2,762	0,988	1,887	1,887	2,029
Net FDI (% of GDP)	4.5	1.4	2.2	2.0	2.0
International reserves (EUR million)	30,848	34,597	38,424	41,076	43,335
International reserves (Months <sup>a</sup> )	11.1	9.8	8.0	8.1	8.2
<b>Public Finance</b>					
Primary balance (% of GDP)	-2.4	-2.4	-0.4	-2.5	-1.9
Fiscal balance (% of GDP)	-2.9	-2.8	-0.8	-3.0	-2.4
Gross public debt <sup>b</sup> (% of GDP)	24.5	23.9	23.0	23.8	24.5
<b>External Debt</b>					
Gross external debt (EUR million)	39,297	41,491	43,916	45,241	45,679
Gross external debt (% of GDP)	63.8	58.4	51.9	48.0	45.2
External debt service (EUR million)	7,041	7,000	8,200	7,100	7,250
External debt service (% of reserves)	22.8	20.2	21.3	17.3	16.7
External debt service (% of exports)	20.4	16.1	14.1	11.6	11.2
<b>Financial Markets</b>					
Base Interest Rate (% eop)	0.0	0.0	1.3	3.1	2.8
Base Interest Rate (% aop)	0.0	0.0	0.2	2.6	3.0
10-Y Bond Yield (% eop)	0.4	0.7	6.0	4.3	3.8
Exchange rate: EUR (eop)	1.956	1.956	1.956	1.956	1.956
Exchange rate: EUR (aop)	1.956	1.956	1.956	1.956	1.956

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

EGYPT					
	2020/21*	2021/22e*	2022/23f*	2023/24f*	2024/25f*
<b>Real Sector</b>					
Nominal GDP (USD million)	424,516	476,690	388,074	382,677	424,659
GDP per capita (USD)	4,126	4,542	3,625	3,505	3,813
GDP growth (real, %)	3.3	6.6	3.8	4.1	4.7
Unemployment rate (% aop)	7.3	7.3	7.3	7.5	7.4
<b>Prices and Banking</b>					
Inflation (% eop)	4.9	13.2	34.6	10.4	8.5
Inflation (% aop)	4.5	8.4	23.9	23.0	9.1
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	34.6			
Foreign Currency Loans (% of Total Loans)	12.7	11.3			
<b>External Accounts</b>					
Merchandise exports (USD million)	28,677	43,906	47,018	50,354	52,819
Merchandise imports (USD million)	70,736	87,302	90,990	95,802	101,791
Trade balance (USD million)	-42,060	-43,396	-43,792	-45,448	-48,972
Trade balance (% of GDP)	-9.9	-9.1	-11.3	-11.9	-11.5
Current account balance (USD million)	-18,436	-16,551	-12,527	-11,489	-12,525
Current account balance (% of GDP)	-4.3	-3.5	-3.2	-3.0	-2.9
Net FDI (USD million)	5,214	8,937	10,501	11,814	12,996
Net FDI (% of GDP)	1.2	1.9	2.7	3.1	3.1
International reserves (USD million)	40,584	33,376	35,376	38,376	41,676
International reserves (Months <sup>a</sup> )	6.5	4.2	4.5	4.6	4.6
<b>Public Finance</b>					
Primary balance (% of GDP)	1.4	0.8	1.5	2.3	3.7
Fiscal balance (% of GDP)	-7.1	-6.6	-7.5	-6.8	-5.6
Gross public debt (% of GDP)	87.3	87.6	86.0	84.5	83.9
<b>External Debt</b>					
Gross external debt (USD million)	137,860	155,709	165,000	173,000	177,000
Gross external debt (% of GDP)	32.5	32.7	42.5	45.2	41.7
External debt service <sup>b</sup> (USD million)	15,400	26,100	25,000	32,000	36,800
External debt service <sup>b</sup> (% of reserves)	37.9	78.2	70.7	83.4	88.3
External debt service (% of exports <sup>c</sup> )	37.5	40.5	36.1	42.9	46.5
<b>Financial Markets</b>					
Policy rate (O/N deposit rate, % eop)	8.3	11.3	20.3	16.3	11.3
Policy rate (O/N deposit rate, % aop)	8.5	8.9	15.3	19.3	13.0
3-M T-bill rate (% eop)	13.2	15.4	22.0	17.6	12.6
Exchange rate: USD (eop)	15.66	18.76	33.00	34.50	35.00
Exchange rate: USD (aop)	15.70	16.45	26.00	33.75	34.75

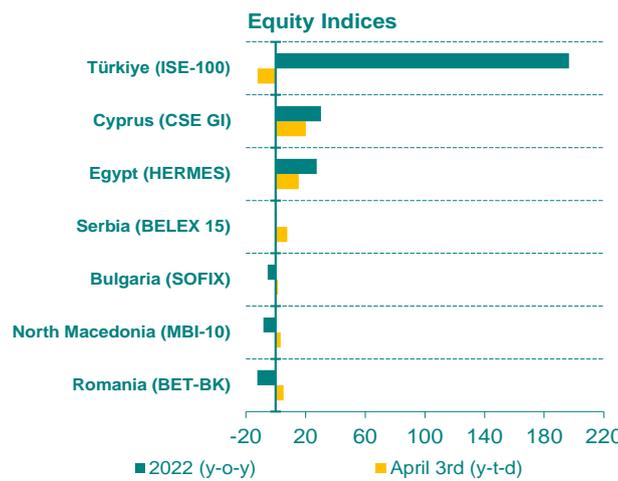
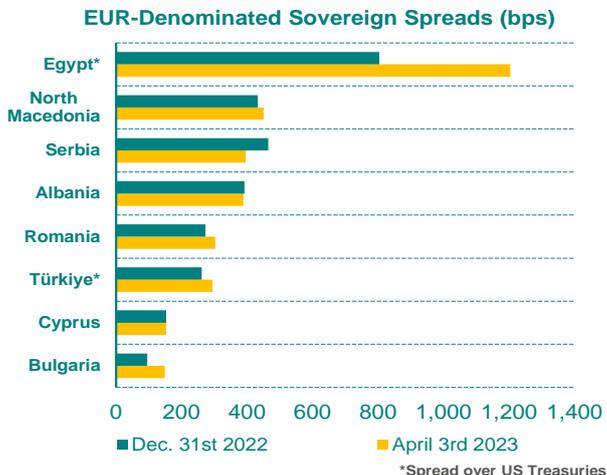
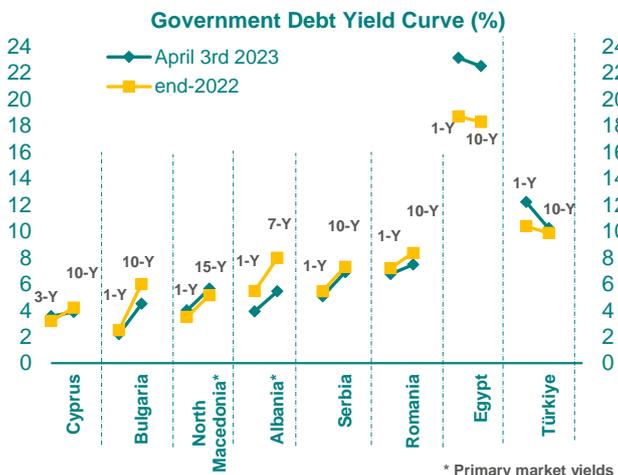
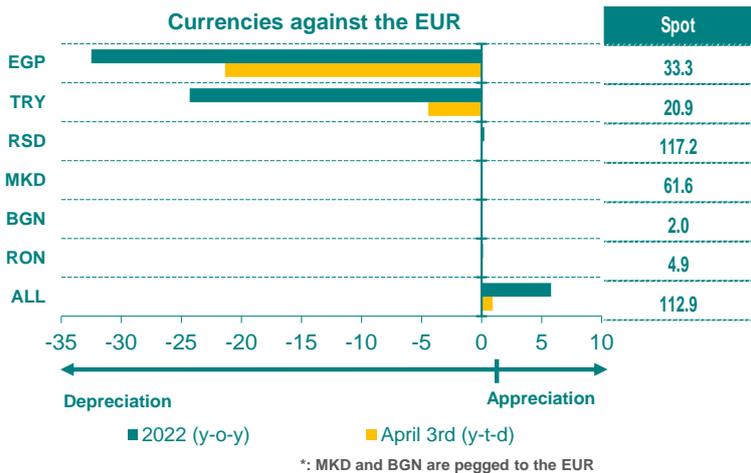
\*: fiscal year starting in July and ending in June; f: NBG forecasts; a: months of imports of GNFS

# REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS



Sources: National Sources & NBG estimates

# REGIONAL SNAPSHOT: FINANCIAL MARKETS



Sources: Reuters & NBG estimates

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