



COUNTRIES IN FOCUS: Türkiye & Bulgaria

TÜRKIYE..... 1

The devastating earthquakes are set to weigh on Türkiye's GDP growth, in light, *inter alia*, of external imbalances, posing new challenges to economic policy

The expansionary policy mix pursued by authorities ahead of the elections should feed market volatility

BULGARIA..... 2

Political uncertainty persists, with Bulgaria heading for a 5th Parliamentary election in 2 years

Still elevated inflation and tightening financing conditions, together with weakening external demand from the EU, should weigh on the economy in the period ahead

| | |
|--|----------------|
| APPENDIX: | |
| DETAILED MACROECONOMIC DATA |3 |
| REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS | 5 |
| FINANCIAL MARKETS | 6 |

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

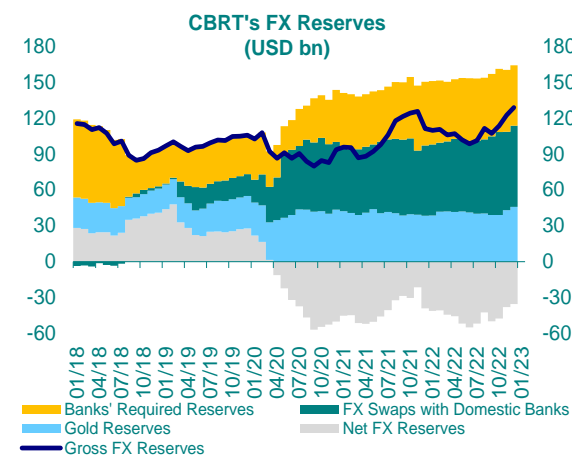
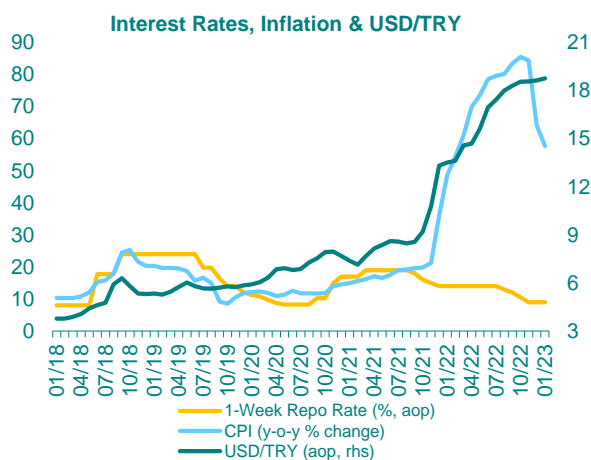
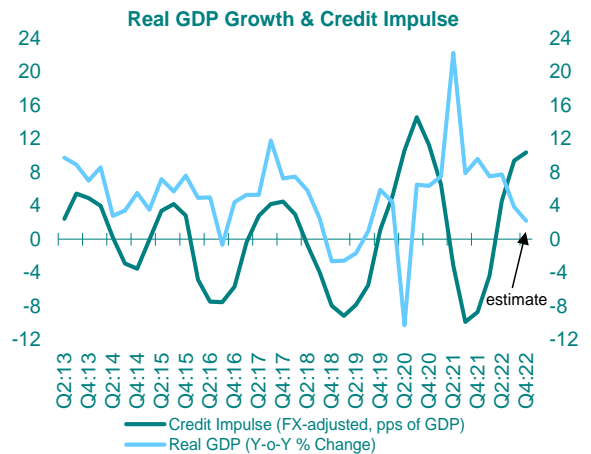
+30 210 33 41 696
troupi.louiza@nbg.gr

Georgios Ntinenis

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

Türkiye

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



| | 6 Feb. | 3-M F | 6-M F | 12-M F |
|-------------------------|--------|-------|-------|--------|
| O/N TLREF (%) | 10.0 | 10.0 | 10.0 | 25.0 |
| TRY/USD | 18.81 | 20.00 | 20.60 | 21.60 |
| Sov. Spread (2025, bps) | 345 | 400 | 380 | 320 |

| | 6 Feb. | 1-W % | YTD % | 2-Y % |
|---------|--------|-------|-------|-------|
| ISE 100 | 4,930 | -3.3 | -10.5 | 222.8 |

| | 2020 | 2021 | 2022E | 2023F | 2024F |
|-------------------------|------|------|-------|-------|-------|
| Real GDP Growth (%) | 1.8 | 11.0 | 5.0 | 1.5 | 3.3 |
| Inflation (eop, %) | 14.6 | 36.1 | 64.3 | 37.0 | 22.0 |
| Cur. Acct. Bal. (% GDP) | -4.4 | -0.9 | -5.8 | -4.8 | -3.7 |
| Fiscal Bal. (% GDP) | -3.4 | -2.7 | -1.1 | -5.0 | -4.4 |

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

The devastating earthquakes are set to weigh on Türkiye's GDP growth, in light, *inter alia*, of elevated external imbalances, posing new challenges to economic policy. The February 6 twin earthquakes struck southeastern Türkiye and neighbouring Syria, resulting in a death toll of c. 21,000 people so far (with Türkiye's share standing at c. 80.0%), while leaving a trail of destruction on both sides of the border. The affected region, which has been already wracked by Syria's civil war and refugee crisis, accounts for slightly less than 10.0% of Türkiye's GDP, while accommodating c. 15.0% of its population. As a result, we revise our FY:23 GDP growth forecast downwards to 1.5% (from 2.5% previously), with risks being clearly tilted to the downside. Worryingly, in view of the economy's external imbalances (see below), the scope for policy support appears to be limited. At the same time, the impact of the earthquakes cannot but add to political noise, with the latter being already elevated ahead of the elections (due by mid-year).

The expansionary policy mix pursued by authorities ahead of the elections should feed market volatility. Similarly to Türkiye's previous boom cycles, an ultra-loose monetary policy is the main instrument used by authorities to stimulate the economy during the current pre-election period. Indeed, in stark contrast to global trends, the CBRT has aggressively cut interest rates, bringing its key rate down to 9.0% (down 500 bps since August). Although the rate cutting cycle has most likely come to an end, authorities maintain their easing bias, with another state loan guarantee scheme, worth up to 1.0% of GDP, being in the pipeline. As a result, the credit impulse, which has already strengthened to levels last seen during the pandemic, is set to increase further over the next months, lending strong support to domestic demand.

Given the economy's external imbalances (stemming from its complete reliance on imports to cover its energy needs -- with the energy trade deficit currently standing at c. 10.0% of GDP, nearly double the current account deficit), this 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, resulted into even higher FX needs, putting an extra burden on the TRY, and thus sending inflation skyrocketing (see chart).

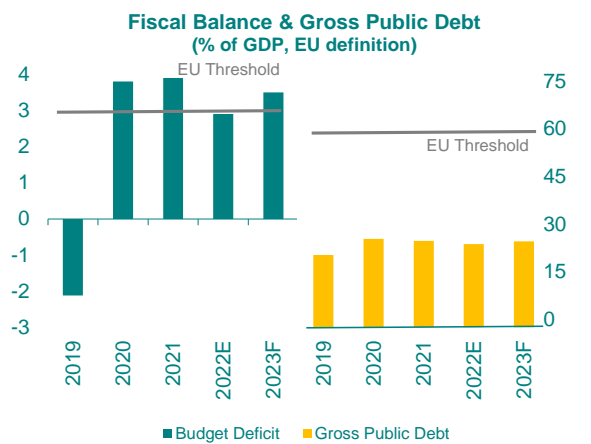
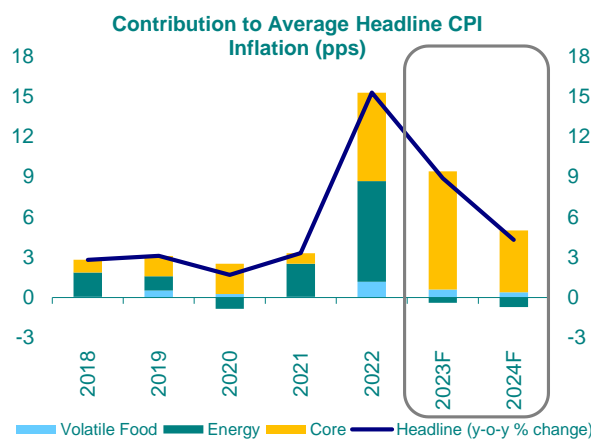
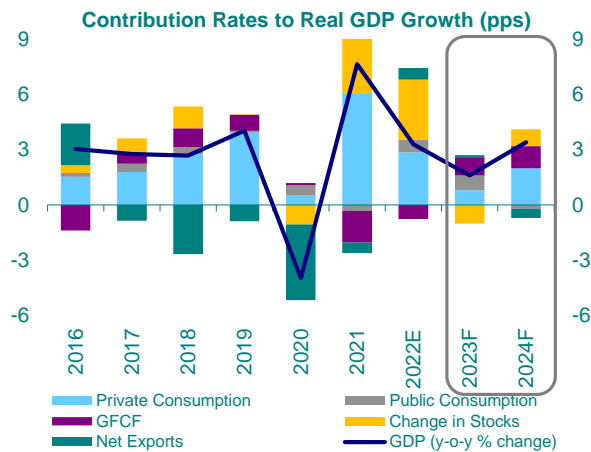
Looking ahead, tightening global financing conditions, together with still strong demand-side pressures on the trade balance and the sizeable external debt payments looming in the short-term (worth c. 24.0% of GDP), paint a gloomy picture for the TRY, despite the recent drop in global energy prices. The picture gets even worse when considering the CBRT's lack of ammunition, with its net FX reserves position having long turned negative (see chart).

At the same time, following a significant overperformance in FY:22, fiscal policy is set to ease markedly this year. Indeed, authorities' raft of pre-election spending -- including massive hikes in the minimum and public sector wages (up 55% and 30%, respectively), energy subsidies and early retirement benefits (for around 2.25 million people) as well as an extensive debt relief scheme (mainly covering households' debt to state and student loans) -- together with (unbudgeted) post-earthquake reconstruction spending (with a support package worth 0.5% of GDP having been already announced) are set to inflate the budget deficit in FY:23 (see table). Importantly, however, Türkiye's still low debt metrics (with the gross public debt-to-GDP ratio estimated at 37.5% at end-2022, well below that of its peers) provide ample headroom to this end.

All said, regardless of the election outcome, we expect authorities to eventually 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. -30%, the lowest worldwide. Should authorities delay the highly needed policy adjustment, Türkiye risks snowballing into a full-fledged currency crisis and deep recession. peers.

Bulgaria

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



| | 6 Feb. | 3-M F | 6-M F | 12-M F |
|-------------------------|--------|-------|-------|--------|
| Base Interest Rate (%) | 1.8 | 2.2 | 2.4 | 2.5 |
| BGN/EUR | 1.96 | 1.96 | 1.96 | 1.96 |
| Sov. Spread (2027, bps) | 121 | 130 | 120 | 100 |

| | 6 Feb. | 1-W % | YTD % | 2-Y % |
|-------|--------|-------|-------|-------|
| SOFIX | 612 | -0.5 | 1.7 | 23.8 |

| | 2020 | 2021 | 2022E | 2023F | 2024F |
|-------------------------|------|------|-------|-------|-------|
| Real GDP Growth (%) | -4.0 | 7.6 | 3.3 | 1.6 | 3.4 |
| Inflation (eop, %) | 0.1 | 7.8 | 16.9 | 5.0 | 3.4 |
| Cur. Acct. Bal. (% GDP) | 0.0 | -0.5 | -0.2 | -0.5 | -0.1 |
| Fiscal Bal. (% GDP) | -2.9 | -2.8 | -0.8 | -3.0 | -2.4 |

Sources: Reuters, NSI, Ministry of Finance & NBG estimates

Political uncertainty persists, with Bulgaria heading for a 5th Parliamentary election in 2 years. As expected, the negotiations over the formation of Government in the wake of the October election failed, with President Radev calling for a new election on April 2. Indeed, with most political parties opting to keep the winner of the election, the centre-right GERB, whose decade-long rule was marred by corruption allegations, at bay, while failing to agree with the 2nd largest force, the reformist WCC party on a common set of principles and policies, Bulgaria seems to be trapped into a vicious cycle of inconclusive elections.

The latest opinion polls suggest that the composition of the Parliament is unlikely to change much after the next elections. However, the recent hints by the GERB and the centre-left BSP over their intention to support a broad-backed technocratic Government offer some hope for a breakthrough in the political stalemate.

Worryingly, lingering political uncertainty could bring about delays in policy and reform implementation, hampering the efficient tapping of available funds under the RRF and affecting economic growth. Importantly, however, the risk of serious policy slippage appears to be limited, given political parties' consensus on Bulgaria's strategic goals and 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.

Still elevated inflation and tightening financing conditions, together with weakening external demand from the EU, should weigh on the economy in 2023. Despite the less adverse-than-initially- envisaged outlook for global energy prices, stubbornly high core inflation means that the headline inflation is set to remain elevated throughout the year, especially in H1, suppressing households' purchasing power. This impact, together with rising debt-servicing costs and a poor economic sentiment, cannot but dampen private consumption over the next quarters, despite a tight labour market (with widespread staff shortages due to keep unemployment subdued over the projection horizon, while preventing significant real wage losses).

Weaker private consumption should be partly mitigated, however, by a rebound in EU-funded investment. Note that Bulgaria is entitled to receive funds worth a sizeable c. 30.0% of FY:22 GDP under the RRF and the MFF in 2021-27. Worryingly, the ongoing political uncertainty, together with Bulgaria's historical low EU funds absorption rate, raise challenges in this regard. In contrast, amid rising input costs and tightening financing conditions, exclusively privately-funded investment is unlikely to add meaningfully to economic growth in 2023.

At the same time, 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, despite softening private consumption and easing global supply strains. Note that, amid heightened energy supply risks, Bulgaria should continue to benefit from increased electricity exports this year as well.

Importantly, fiscal policy should lend support to economic growth in FY:23. Following a significant overperformance in FY:22, on the back of the windfall gains of state-owned energy utilities, we expect authorities to loosen the public purse strings, in view, *inter alia*, of the ample fiscal space available (see chart).

All said, we see GDP growth moderating sharply to 1.6% in FY:23 from an estimated 3.3% in FY:22 (with the latter having been underpinned by a strong carry-over effect of 2.3 pps). Importantly, with gas accounting for a minor share in the country's energy mix, which is dominated by nuclear and coal-based power generation, and Bulgaria having secured a temporary exemption from conforming with the EU sanctions on Russian oil deliveries, energy supply risks appear to be limited.

DETAILED MACROECONOMIC DATA

| TÜRKIYE | | | | | |
|---|---------|---------|---------|---------|-----------|
| | 2020 | 2021 | 2022e | 2023f | 2024f |
| Real Sector | | | | | |
| Nominal GDP (USD million) | 719,168 | 815,755 | 787,891 | 941,220 | 1,110,858 |
| GDP per capita (USD) | 8,601 | 9,633 | 9,196 | 10,859 | 12,674 |
| GDP growth (real, %) | 1.8 | 11.0 | 5.0 | 1.5 | 3.3 |
| Unemployment rate (% aop) | 13.2 | 12.0 | 10.5 | 10.5 | 10.0 |
| Prices and Banking | | | | | |
| Inflation (% eop) | 14.6 | 36.1 | 64.3 | 37.0 | 22.0 |
| Inflation (% aop) | 12.3 | 19.3 | 71.6 | 42.7 | 25.8 |
| 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 | | |
| External Accounts | | | | | |
| Merchandise exports (USD million) | 168,387 | 224,686 | 253,499 | 264,388 | 277,536 |
| Merchandise imports (USD million) | 206,250 | 253,999 | 341,246 | 355,271 | 366,633 |
| Trade balance (USD million) | -37,863 | -29,313 | -86,746 | -90,883 | -89,097 |
| Trade balance (% of GDP) | -5.3 | -3.6 | -11.1 | -9.7 | -8.0 |
| Current account balance (USD million) | -31,878 | -7,231 | -45,788 | -45,367 | -41,054 |
| Current account balance (% of GDP) | -4.4 | -0.9 | -5.8 | -4.8 | -3.7 |
| Net FDI (USD million) | 4,592 | 6,811 | 7,492 | 8,241 | 9,478 |
| Net FDI (% of GDP) | 0.6 | 0.8 | 1.0 | 0.9 | 0.8 |
| International reserves (USD million) | 93,277 | 111,181 | 128,736 | 134,000 | 142,000 |
| International reserves (Months ^a) | 4.9 | 4.7 | 3.4 | 4.3 | 4.4 |
| Public Finance | | | | | |
| Primary balance (% of GDP) | -0.8 | -0.2 | 1.3 | -2.3 | -1.6 |
| Fiscal balance (% of GDP) | -3.4 | -2.7 | -1.1 | -5.0 | -4.4 |
| Gross public debt (% of GDP) | 39.7 | 41.8 | 37.5 | 38.5 | 38.0 |
| External Debt | | | | | |
| Gross external debt (USD million) | 432,848 | 441,064 | 460,000 | 482,500 | 507,500 |
| Gross external debt (% of GDP) | 60.2 | 54.1 | 58.4 | 51.3 | 45.7 |
| External debt service (USD million) | 70,931 | 74,311 | 80,000 | 85,000 | 90,000 |
| External debt service (% of reserves) | 76.0 | 66.8 | 62.1 | 63.4 | 63.4 |
| External debt service (% of exports) | 37.5 | 27.6 | 25.2 | 25.7 | 25.9 |
| Financial Markets | | | | | |
| 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 |
| 10-Y T-bill rate (% eop) | 12.5 | 23.1 | 9.9 | 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 |

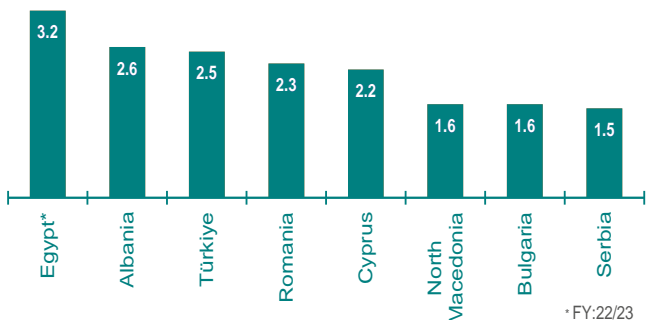
f: NBS forecasts; a: months of imports of GNFS

| BULGARIA | | | | | |
|---|-------------|-------------|--------------|--------------|--------------|
| | 2020 | 2021 | 2022e | 2023f | 2024f |
| Real Sector | | | | | |
| Nominal GDP (EUR million) | 61,638 | 71,076 | 84,613 | 93,618 | 100,693 |
| GDP per capita (EUR) | 8,911 | 10,393 | 12,447 | 13,855 | 15,031 |
| GDP growth (real, %) | -4.0 | 7.6 | 3.3 | 1.6 | 3.4 |
| Unemployment rate(ILO definition, %, aop) | 6.1 | 5.3 | 4.3 | 4.2 | 4.1 |
| Prices and Banking | | | | | |
| Inflation (% eop) | 0.1 | 7.8 | 16.9 | 5.0 | 3.4 |
| Inflation (% aop) | 1.7 | 3.3 | 15.2 | 8.9 | 4.3 |
| 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 | | |
| External Accounts | | | | | |
| Merchandise exports (EUR million) | 27,272 | 34,405 | 46,335 | 48,611 | 54,786 |
| Merchandise imports (EUR million) | 29,213 | 37,291 | 50,909 | 53,916 | 60,518 |
| Trade balance (EUR million) | -1,941 | -2,887 | -4,574 | -5,305 | -5,731 |
| Trade balance (% of GDP) | -3.1 | -4.1 | -5.4 | -5.7 | -5.7 |
| Current account balance (EUR million) | 0,024 | -0,351 | -0,201 | -0,433 | -0,067 |
| Current account balance (% of GDP) | 0.0 | -0.5 | -0.2 | -0.5 | -0.1 |
| Net FDI (EUR million) | 2,762 | 0,988 | 0,938 | 1,009 | 1,169 |
| Net FDI (% of GDP) | 4.5 | 1.4 | 1.1 | 1.1 | 1.2 |
| International reserves (EUR million) | 30,848 | 34,597 | 38,424 | 40,500 | 41,773 |
| International reserves (Months ^a) | 11.1 | 9.8 | 8.0 | 8.0 | 7.9 |
| Public Finance | | | | | |
| 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 ^b (% of GDP) | 24.5 | 23.9 | 23.0 | 23.8 | 24.5 |
| External Debt | | | | | |
| Gross external debt (EUR million) | 39,297 | 41,491 | 43,999 | 44,936 | 45,635 |
| Gross external debt (% of GDP) | 63.8 | 58.4 | 52.0 | 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 | 17.5 | 17.4 |
| External debt service (% of exports) | 20.4 | 16.1 | 14.2 | 11.6 | 11.3 |
| Financial Markets | | | | | |
| Base Interest Rate (% eop) | 0.0 | 0.0 | 1.3 | 2.5 | 2.8 |
| Base Interest Rate (% aop) | 0.0 | 0.0 | 0.2 | 1.9 | 2.7 |
| 10-Y Bond Yield (% eop) | 0.4 | 0.7 | 6.0 | 4.4 | 3.9 |
| 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 |

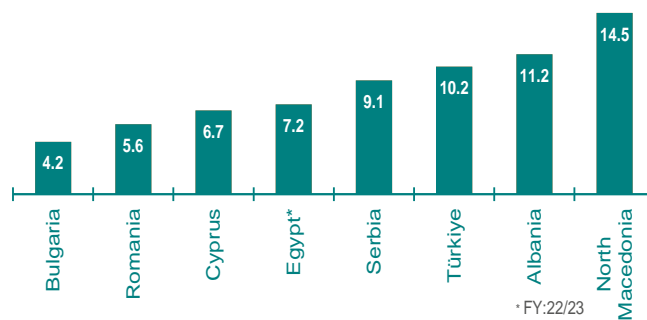
f: NBG forecasts; a: months of imports of GNFS; b: ESA 2010

REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS

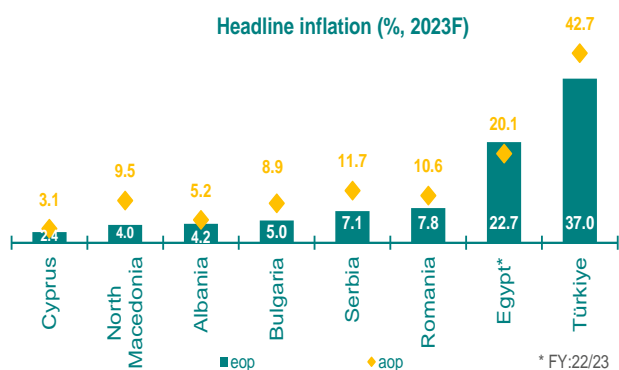
Real GDP Growth (% 2023F)



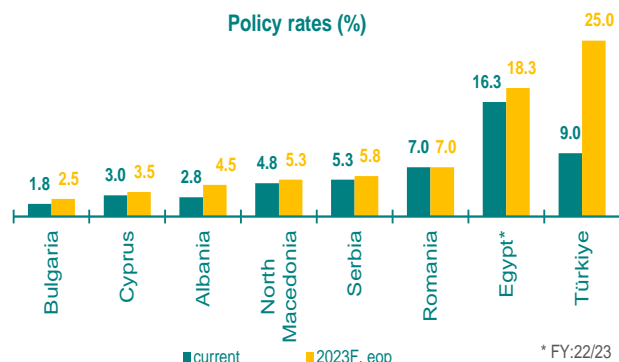
Unemployment (% 2023F, aop)



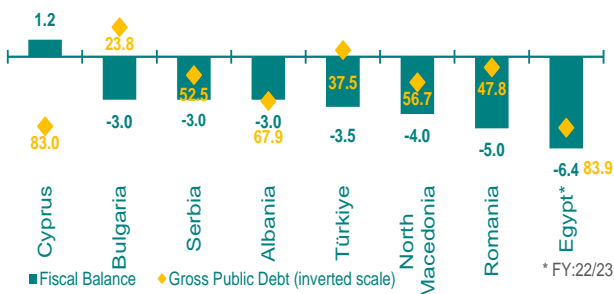
Headline inflation (% 2023F)



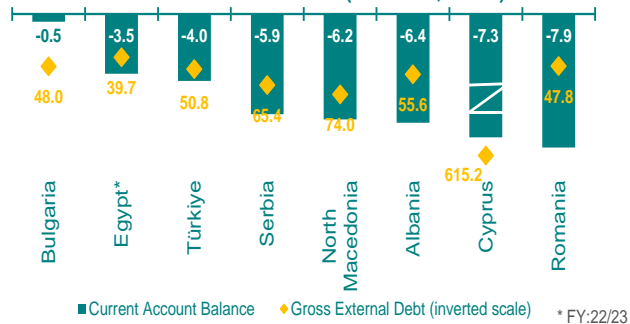
Policy rates (%)



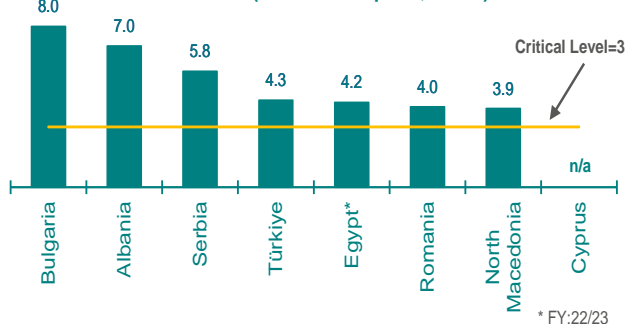
Public Finance (% of GDP, 2023F)



External Accounts (% of GDP, 2023F)

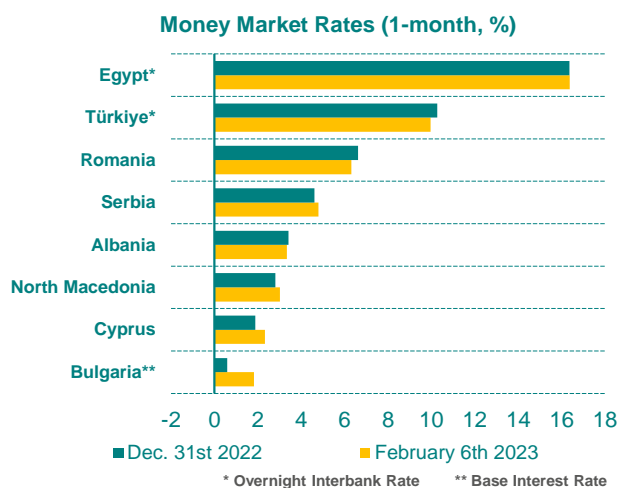
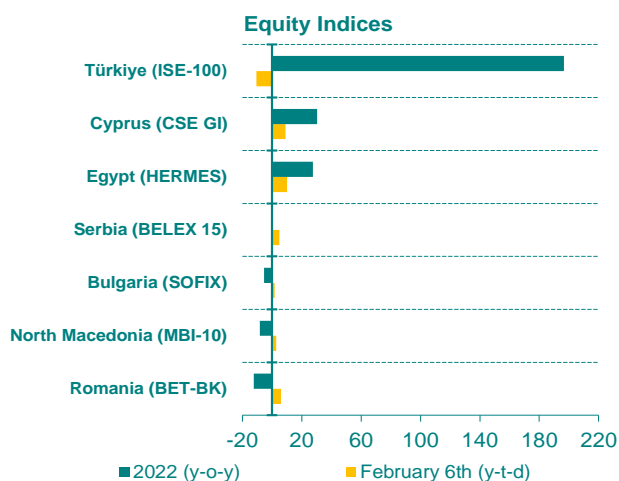
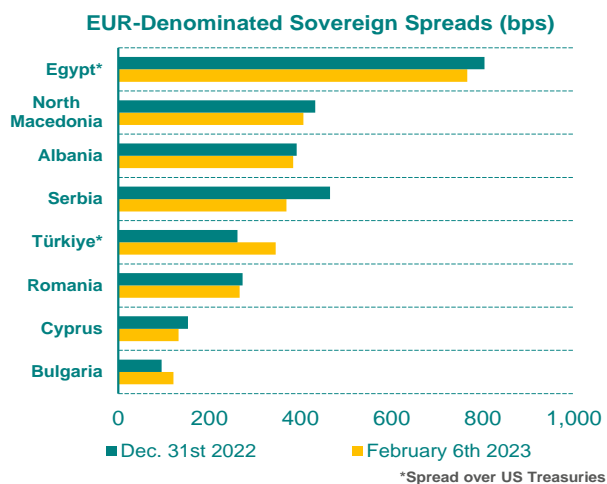
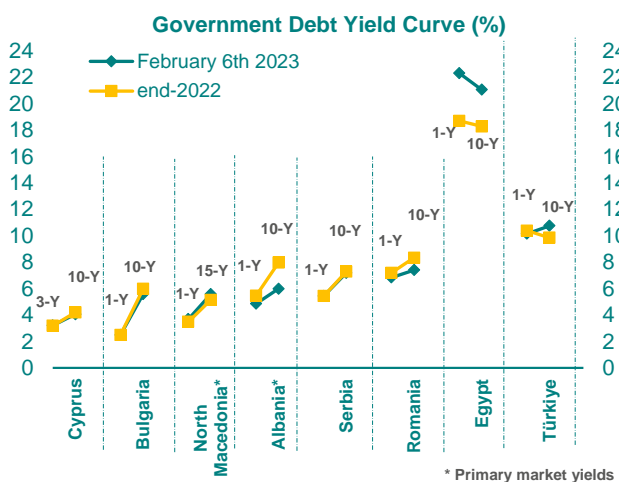
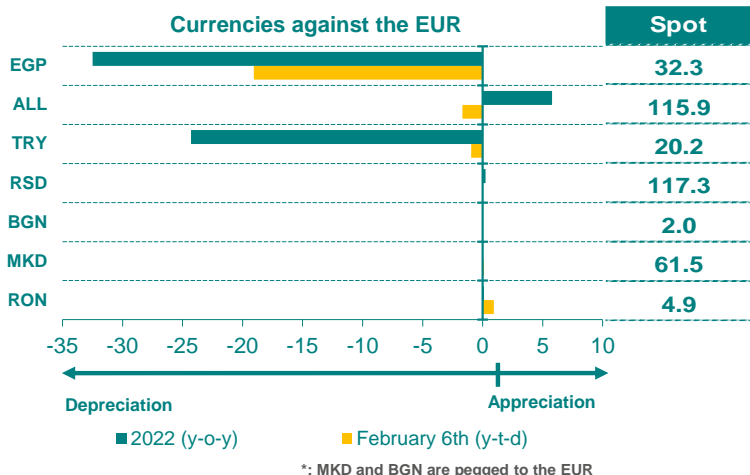


FX Reserves (Months of Imports, 2023F)



Sources: National Sources & NBG estimates

REGIONAL SNAPSHOT: FINANCIAL MARKETS



Sources: Reuters & NBG estimates

DISCLAIMER: *This report has been produced by the Economic Research Division of National Bank of Greece S.A., which is regulated by the Bank of Greece and the Hellenic Capital Market Commission, and is provided solely as a sheer reference for the information of experienced and sophisticated investors who are expected and considered to be fully able to make their own investment decisions without reliance on its contents, i.e. only after effecting their own independent enquiry from sources of the investors' sole choice. This report does not constitute investment research or a research recommendation, and as such, it has not been prepared under legal requirements designed to promote investment research independence. The information contained in this report does not constitute the provision of investment advice and under no circumstances is it to be used or considered as an offer or an invitation to buy or sell or a solicitation of an offer or invitation to buy or sell or enter into any agreement with respect to any security, product, service or investment. No information or opinion contained in this report is sufficient to support an investment decision – and should constitute any representation or warranty as to future performance of any financial instrument, credit, currency rate or other market or economic measure. Past performance is not necessarily a reliable guide to future performance. It is duly stated that investments products include investment risks, among which the risk of losing part of or the entire capital invested. National Bank of Greece S.A. and/or its affiliates shall not be liable in any matter whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance on or usage of this report and accepts no legal responsibility to any investor who directly or indirectly receives this report. The final investment decision must be made by the investor and the responsibility for the investment must be taken by the investor.*

Any data provided in this report has been obtained from sources believed to be reliable but has not been independently verified. Because of the possibility of error on the part of such sources, National Bank of Greece S.A. does not guarantee the accuracy, timeliness or usefulness of any information. Information and opinions contained in this report are subject to change without notice and there is no obligation to update the information and opinions contained in this report. The National Bank of Greece S.A. and its affiliate companies, its representatives, its managers and/or its personnel or other persons related to it, accept no responsibility, or liability as to the accuracy, or completeness of the information contained in this report, or for any loss in general arising from any use of this report including investment decisions based on this report. This report does not purport to contain all the information that a prospective investor may require. Recipients of this report should independently evaluate particular information and opinions and seek the advice of their own professional and financial advisers in relation to any investment, financial, legal, business, tax, accounting or regulatory issues before making any investment or entering into any transaction in relation to information and opinions discussed herein.

National Bank of Greece S.A. has prepared and published this report wholly independently of any of its affiliates and thus any commitments, views, outlook, ratings or target prices expressed in these reports may differ substantially from any similar reports issued by affiliates which may be based upon different sources and methodologies. This report is not directed to, or intended for distribution to use or use by, any person or entity that is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to any law, regulation or rule. This report is protected under intellectual property laws and may not be altered, reproduced or redistributed, or passed on directly or indirectly, to any other party, in whole or in part, without the prior written consent of National Bank of Greece. All the views expressed in this report accurately reflect author's personal views solely, about any and all of the subject issues. Further, it is certified that no part of any of the report author's compensation was, is, or will be directly or indirectly related to the specific or views expressed in this report. All the views expressed in this report accurately reflect author's personal views solely, about any and all of the subject issues. Further, it is certified that no part of any of the report author's compensation was, is, or will be directly or indirectly related to the specific or views expressed in this report.