



## COUNTRIES IN FOCUS:

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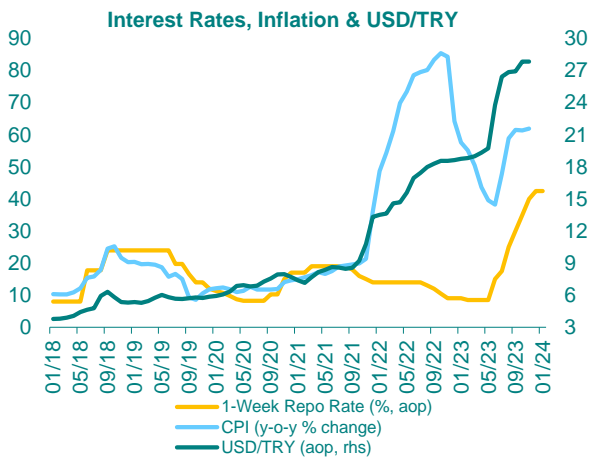
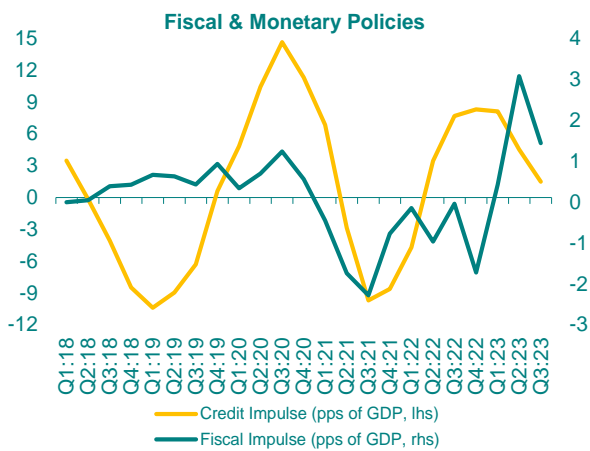
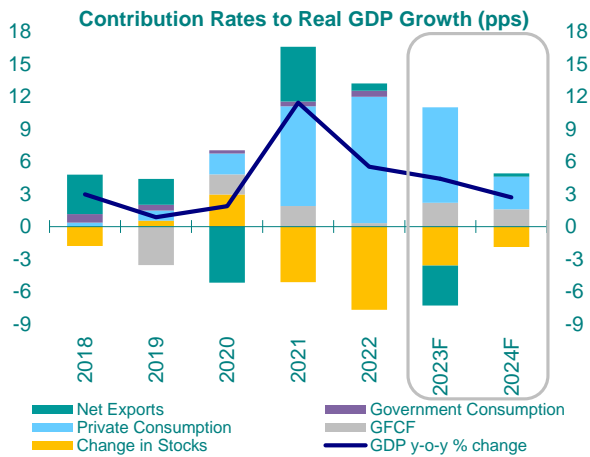
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# Türkiye

B / B3 / B (S&P/ Moody's / Fitch)



	11 Dec.	3-M F	6-M F	12-M F
O/N TLREF (%)	41.0	42.5	42.5	37.5
TRY/USD	28.94	30.15	31.10	33.00
Sov. Spread (2027, bps)	279	280	270	250

	11 Dec.	1-W %	YTD %	2-Y %
ISE 100	7,728	-4.4	40.3	279.7

	2021	2022	2023F	2024F	2025F
Real GDP Growth (%)	11.4	5.5	4.4	2.7	3.7
Inflation (eop, %)	36.1	64.3	64.2	37.0	17.0
Cur. Acct. Bal. (% GDP)	-0.9	-5.4	-4.9	-3.1	-2.6
Fiscal Bal. (% GDP)	-2.6	-0.9	-5.0	-4.5	-3.6

Sources: Reuters, CBRT, Turkstat & NBG estimates

## Türkiye braces for a soft landing, as tightening financing conditions take hold.

Recall that in the wake of President Erdoğan's re-election in May, and in a bid to calm markets, which were expecting return to more conventional policies, the CBRT, under new leadership, has embarked on a progressive tightening cycle, involving a reversal in interest rates and selective credit and quantitative tightening measures. Against this backdrop, sequential GDP growth slowed markedly to a meagre 0.3% q-o-q s.a. in Q3:23 from a sizeable 3.3% in Q2:23, when uninterrupted fiscal expansion, driven by a loose incomes policy and post-earthquake spending, together with overly accommodative financing conditions, boosted domestic demand. Unsurprisingly, the deceleration in GDP growth was mainly driven by private consumption, which, albeit contracting on a sequential basis (for the first time since Q4:20), still added significantly to annual GDP growth (with the latter standing at a robust 5.9%). Economic growth would have been even weaker had fixed investment (mainly machinery & equipment and, to a lesser extent, construction) not strengthened for a 4<sup>th</sup> quarter in a row. Net exports remained a drag on overall growth in Q3:23, yet smaller compared with the previous quarter, thanks to weakening private consumption.

Rates have gone up 3150 bps since June, to 40.0%, with the real ex-post policy rate remaining, however, in deep negative territory (c. -14.0%), suggesting that authorities still have a long way to go before Türkiye's imbalances get effectively unwind. On a positive note, the CBRT's hawkish turn has been welcomed by foreign investors, bringing some relief to the FX market, with the TRY continuing to depreciate, but at a much slower pace than before.

Looking ahead, interest rates are unlikely to move up much more, with the CBRT expected to shift progressively its focus on unwinding its complex macro-prudential regulations protecting the TRY. Assuming no surprise, the central bank should consider cutting rates only in late-2024, when inflation is expected to have been firmly entrenched. At the same time, despite recent tax (incl. VAT) hikes, fiscal consolidation is set to progress slowly, reflecting increased budget rigidities from recent generous pre-election handouts. Given President Erdoğan's track record of populist policy shifts, the uncertainty surrounding our forecasts is large. Worryingly, the political factor is expected to remain at play at least until the March '24 local elections.

Against this backdrop, we expect GDP growth to slow further down in the period ahead, led by private consumption. Indeed, with stubbornly high inflation continuing to erode households' purchasing power and consumer confidence having plunged from a multiyear high prior to the elections to subdued levels, private consumption cannot but lose steam, despite negative real interest rates and recent employment gains.

Similarly, investment activity is unlikely to maintain momentum, due to tightening financing conditions and the impact of the weaker TRY on the NFCs' balance sheets (with the sector's indebtedness and net FX position amounting to c. 110% and -10% of GDP, respectively). Post-earthquake reconstruction activity should continue to provide some support in the short-term, nonetheless.

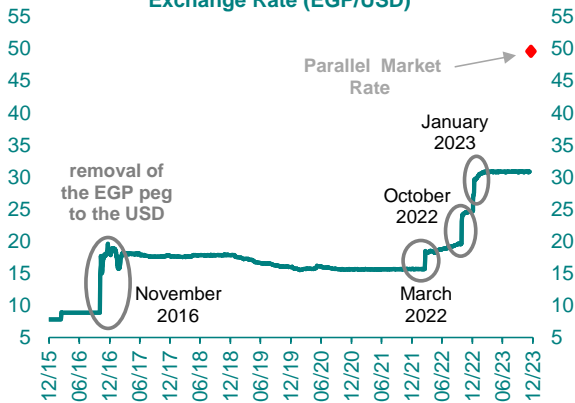
On the other hand, with domestic and external demand gradually decoupling, net exports should start adding to growth. Note, though, that Türkiye's external competitiveness has been deteriorating, albeit modestly, due to the TRY devaluing at a slower pace than inflation.

All said, we see GDP growth easing to 2.7% in FY:24 from a projected 4.4% in FY:23 and 5.5% in FY:22, but with a more balanced structure. Tight global financing conditions pose significant downside risks to economic outlook, given Turkey's reliance on short-term financing and the lack of a comfortable FX reserves position.

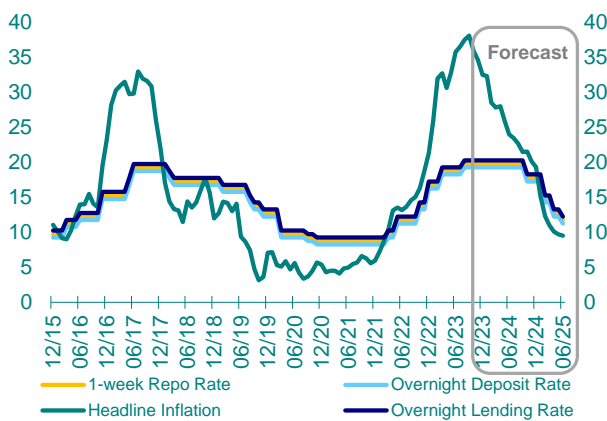
# Egypt

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

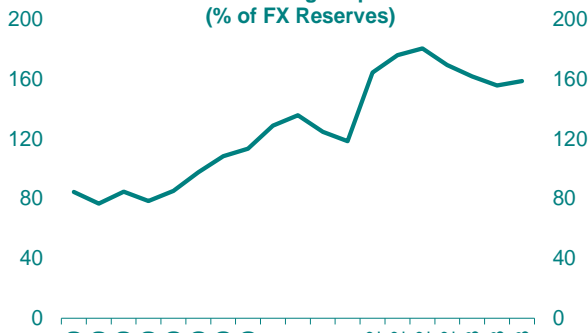
Exchange Rate (EGP/USD)



Nominal Policy Rates & Headline Inflation (%)



External Financing Requirements\* (% of FX Reserves)



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

	11 Dec.	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	44.0	42.0	40.5
Sov. Spread (2025, bps)	1,114	900	800	650

	11 Dec.	1-W %	YTD %	2-Y %
HERMES 100	2,809	-6.5	72.2	127.6

	20/21	21/22	22/23E	23/24F	24/25F
Real GDP Growth (%)	3.3	6.7	3.8	2.4	4.1
Inflation (eop. %)	4.9	13.2	35.7	24.0	9.5
Cur. Acct. Bal. (% GDP)	-4.3	-3.5	-1.2	-2.0	-2.8
Fiscal Bal. (% GDP)	-6.8	-6.1	-6.2	-7.2	-6.7

Sources: Reuters, CBE & NBG estimates

## Incumbent President A. F. Al-Sisi easily secures a new term.

Although official results have not yet been made available, incumbent President reportedly scored another landslide victory in the Dec. 10-12 election. Note that Sisi, who retains backing of powerful security services, is in office since 2014. Following the 2019 constitutional amendments, which upped the maximum number of terms to 3, while extending their duration to 6 years, Sisi could remain in office until 2030.

**The completion of the election should pave the way for FX flexibility, unlocking much-needed financing from IFIs and bilateral creditors.** Egypt has been facing a currency crisis since the outbreak of the Russia-Ukraine conflict, when the CBE's interventions to maintain EGP stability, against the backdrop of a sharp deterioration in external imbalances, eroded FX reserves, prompting authorities to enact capital controls and eventually resort to the IMF. Conditional on a series of structural reforms (including shift to a flexible FX regime, fiscal consolidation, and reduction of the state's footprint on the economy), the IMF programme was also due to catalyse financing from other multi- and bilateral creditors.

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 transition to a flexible FX regime, which would fuel already elevated inflation. As a result, the IMF and other creditors put financing on hold, which, in turn, deepened the crisis, leaving Egypt completely reliant on non-market financing from its partners, mostly GCC countries. Indeed, following two controlled devaluations, the official FX rate has been fixed at EGP 30.9/USD since March '23, while that on the parallel market has been steadily depreciating to reach c. EGP 50.0/USD over the past weeks.

In view of the sizeable external debt repayments looming ahead (see chart), authorities cannot but eventually allow the EGP to depreciate. Although the lack of FX flexibility makes the calculation of the "fair" REER complicated, we estimate a 15-20% misalignment. Given, inter alia, strong pent-up FX demand, the sooner the devaluation comes, the smoother the adjustment would be. Importantly, FX flexibility is also set to unlock financing from IFIs, including from the IMF, which considers augmenting its USD 3bn loan programme (to up to USD 10bn). Note that the IMF head recently hinted at the possibility of releasing some of the dedicated funds even before any FX devaluation.

Against this backdrop, inflation is set to remain at double-digits at least until early-2025, prompting the CBE to maintain its tightening bias (with rates having been raised so far by 1100 bps). At the same time, following a sizeable (forced) correction in FY:22/23, the current account deficit is set to widen again, without, however, returning to the FY:18-21 highs. On a negative note, high public debt servicing costs (absorbing c. 40% of budget revenue) should further limit the fiscal space available to cushion the impact of the cost-of-living crisis.

**Risks to economic outlook are exacerbated by geopolitical uncertainties.** We see GDP growth easing to 2.4% in FY:23/24, from 3.8% in FY:22/23, before picking up to 4.1% in FY:24/25, with risks tilted to the downside, reflecting, inter alia, repercussions from tensions in the Middle East. Note that energy imports from Israel have been curtailed, affecting Egypt's capacity to meet domestic demand and export LNG. At the same time, tourist inflows are seeing signs of weakening. On the other hand, a potential migration influx could have an expansionary economic effect, yet further strain public finances, while raising pressure on the fragile social environment. On a positive note, the consolidation of Egypt's geopolitical role, in the aftermath of the ongoing crisis, could help the country attract additional FX financing, with the EU reportedly considering a EUR 10bn investment plan.

## DETAILED MACROECONOMIC DATA

TÜRKİYE					
	2021	2022	2023f	2024f	2025f
<b>Real Sector</b>					
Nominal GDP (USD million)	816,582	905,789	1,010,286	1,207,544	1,414,588
GDP per capita (USD)	9,643	10,572	11,656	13,777	16,040
GDP growth (real, %)	11.4	5.5	4.4	2.7	3.7
Unemployment rate (% aop)	12.0	10.5	10.0	10.3	10.0
<b>Prices and Banking</b>					
Inflation (% eop)	36.1	64.3	64.2	37.0	17.0
Inflation (% aop)	19.3	71.6	53.1	52.4	23.5
Loans to the Private Sector (% change, eop)	37.0	54.5			
Customer Deposits (% change, eop)	51.5	68.0			
Loans to the Private Sector (% of GDP)	67.5	50.4			
Retail Loans (% of GDP)	14.4	11.2			
Corporate Loans (% of GDP)	53.1	39.2			
Customer Deposits (% of GDP)	65.4	53.1			
Loans to Private Sector (% of Cust. Deposits)	103.2	94.9			
Foreign Currency Loans (% of Total Loans)	42.2	32.6			
<b>External Accounts</b>					
Merchandise exports (USD million)	224,686	252,416	251,238	269,995	290,046
Merchandise imports (USD million)	253,999	342,952	342,840	355,083	375,775
Trade balance (USD million)	-29,313	-90,536	-91,612	-85,089	85,729
Trade balance (% of GDP)	-3.6	-10.0	-9.1	-7.0	-6.1
Current account balance (USD million)	-7,232	-49,086	-49,712	-37,846	-37,450
Current account balance (% of GDP)	-0.9	-5.4	-4.9	-3.1	-2.6
Net FDI (USD million)	6,874	8,656	9,522	4,285	6,427
Net FDI (% of GDP)	0.8	1.0	0.9	0.4	0.5
International reserves (USD million)	111,181	128,736	130,000	137,500	152,500
International reserves (Months <sup>a</sup> )	4.7	3.3	4.5	4.5	4.6
<b>Public Finance</b>					
Primary balance (% of GDP)	-0.2	1.1	-2.5	-1.5	-0.7
Fiscal balance (% of GDP)	-2.6	-0.9	-5.0	-4.5	-3.6
Gross public debt (% of GDP)	41.8	31.7	34.0	35.0	35.0
<b>External Debt</b>					
Gross external debt (USD million)	437,281	458,699	490,000	510,000	530,000
Gross external debt (% of GDP)	53.6	50.6	48.5	42.2	37.5
External debt service (USD million)	74,954	67,079	75,000	80,000	85,000
External debt service (% of reserves)	67.4	52.1	60.0	60.4	57.6
External debt service (% of exports)	27.8	21.3	23.2	23.1	22.8
<b>Financial Markets</b>					
Policy rate (Effective funding rate, % eop)	14.0	9.0	42.5	37.5	17.5
Policy rate (Effective funding rate, % aop)	17.6	12.6	20.7	41.9	25.0
10-Y T-bill rate (% eop)	23.1	9.9	24.5	20.5	18.5
Exchange rate: USD (eop)	13.32	18.69	29.20	33.00	35.00
Exchange rate: USD (aop)	8.89	16.57	23.75	31.10	34.00

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

EGYPT					
	2020/21*	2021/22*	2022/23e*	2023/24f*	2024/25f*
<b>Real Sector</b>					
Nominal GDP (USD million)	424,516	476,690	391,977	372,894	406,044
GDP per capita (USD)	4,158	4,601	3,709	3,460	3,693
GDP growth (real, %)	3.3	6.7	3.8	2.4	4.1
Unemployment rate (% aop)	7.3	7.3	7.3	7.5	7.4
<b>Prices and Banking</b>					
Inflation (% eop)	4.9	13.2	35.7	24.0	9.5
Inflation (% aop)	4.5	8.4	23.8	31.7	16.2
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		
<b>External Accounts</b>					
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	-9.4	-10.2
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	2.9	3.0
International reserves (USD million)	40,584	33,376	34,807	36,307	39,107
International reserves (Months <sup>a</sup> )	6.5	4.2	7.1	5.7	5.2
<b>Public Finance</b>					
Primary balance (% of GDP)	1.3	1.3	1.2	0.2	0.6
Fiscal balance (% of GDP)	-6.8	-6.1	-6.2	-7.2	-6.7
Gross public debt (% of GDP)	86.2	89.9	88.5	90.0	89.0
<b>External Debt</b>					
Gross external debt (USD million)	137,860	155,709	164,700	172,500	175,000
Gross external debt (% of GDP)	32.5	32.7	42.0	46.3	43.1
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	71.8	88.1	94.1
External debt service (% of exports <sup>c</sup> )	37.5	40.5	37.2	47.6	52.3
<b>Financial Markets</b>					
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	15.9
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	42.00	39.00
Exchange rate: USD (aop)	15.70	16.45	25.72	36.46	40.50

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

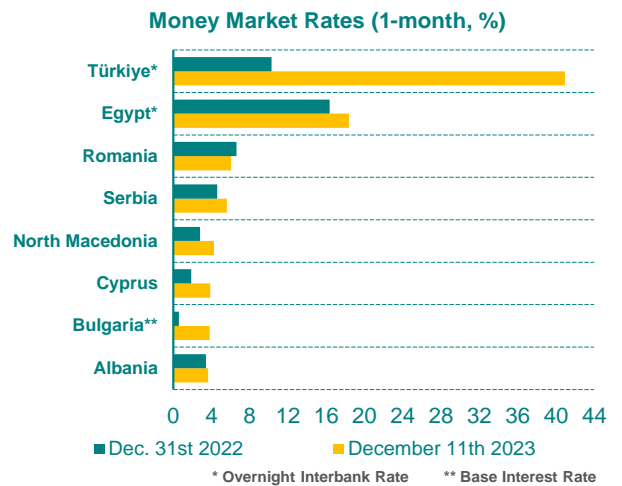
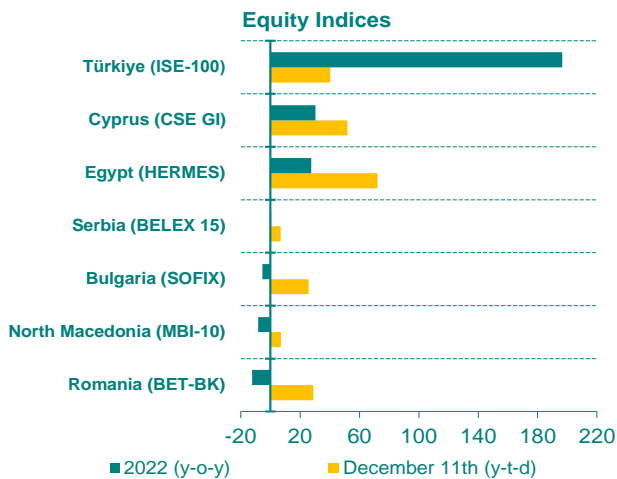
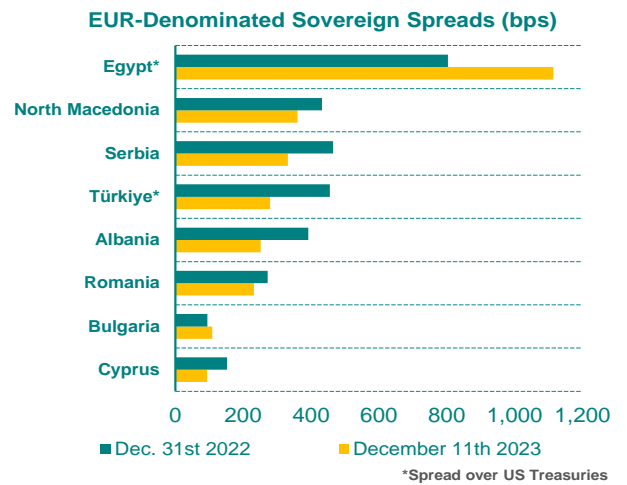
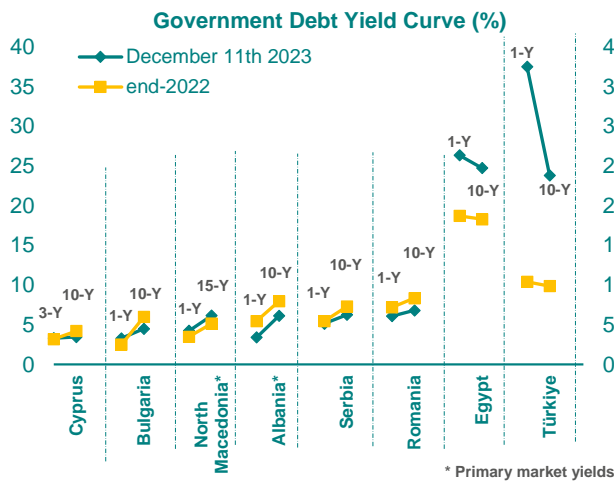
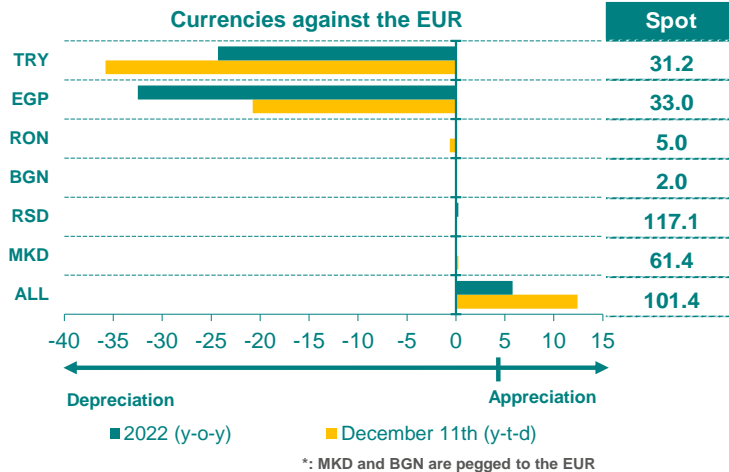


# REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS



Sources: National Sources & NBS estimates

# REGIONAL SNAPSHOT: FINANCIAL MARKETS



Sources: Reuters & NBG estimates

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