



COUNTRIES IN FOCUS:

Cyprus & Albania

CYPRUS..... 1

Independent N. Christodoulides wins Presidential election runoff

Broader policy continuity is expected under Christodoulides' term, with new Government having to speed up RRF-related reforms and address the cost-of-living crisis, while facing the challenge to resume reunification talks

ALBANIA 2

GDP growth is estimated to have moderated in FY:22 (to a still robust 4.2% from 8.5% in FY:21), following the elimination of positive base effects (related to strong post-earthquake reconstruction activity, the re-opening of the heavily-weighted tourism sector from COVID-19 lockdown and a weather-induced spike in hydroelectric power production)

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APPENDIX: DETAILED MACROECONOMIC DATA 3

REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS 5

FINANCIAL MARKETS 6

NBG – Economic Analysis Division

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Emerging Markets Analysis

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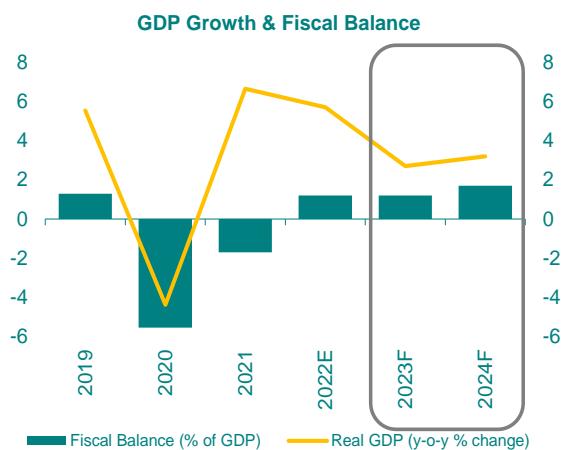
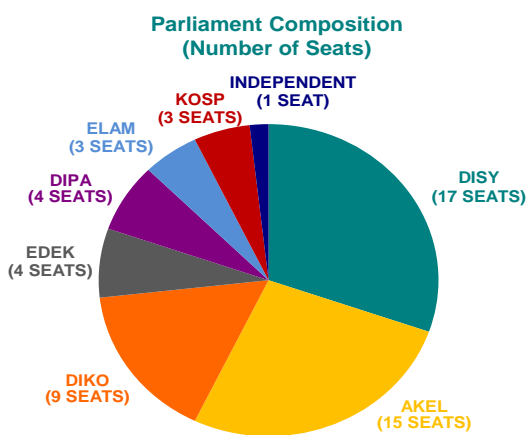
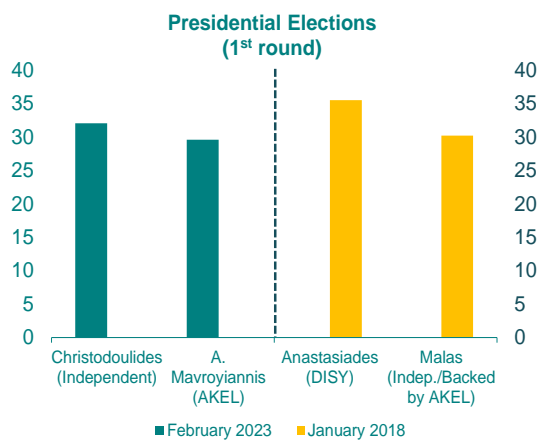
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Cyprus

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



	20 Feb.	3-M F	6-M F	12-M F
1-M EURIBOR (%)	2.4	3.1	3.4	3.3
EUR/USD	1.07	1.09	1.10	1.13
Sov. Spread (2028, bps)	137	135	132	125

	20 Feb.	1-W %	YTD %	2-Y %
CSE Index	108	8.2	20.8	87.8

	2020	2021	2022E	2023F	2024F
Real GDP Growth (%)	-4.4	6.6	5.6	2.5	2.9
Inflation (eop, %)	-1.1	4.8	7.9	2.6	2.2
Cur. Acct. Bal. (% GDP)	-10.1	-6.8	-9.0	-7.3	-6.0
Fiscal Bal. (% GDP)	-5.5	-1.7	1.2	1.2	1.7

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

Independent N. Christodoulides wins Presidential election runoff.

As expected, former Foreign Minister N. Christodoulides won the February 12 Presidential election run-off against A. Mavroyiannis, who was supported by the leftist AKEL party, but narrowly, with 51.9% of the vote. Christodoulides -- an independent candidate, who broke ranks with his right-wing Democratic Rally (DISY) last year -- was backed by three small parties, namely the centrists DIKO and DEPA and the social-democratic EDEK. Note that this is the first time a candidate wins the Presidency without backing from Cyprus' largest political parties (i.e. DISY and AKEL), confirming that their popularity remains on a downward trend (as also manifested by the outcome of the 2021 Parliamentary election).

N. Christodoulides will succeed N. Anastasiades in the Presidency for a 5-year term, with the latter having completed a decade in office. The outgoing President, who is affiliated with DISY, allegedly favoured Christodoulides's candidacy, causing disarray within the party, which supported its leader, A. Neofytou, in the first round of the election.

Broader policy continuity is expected under Christodoulides' term.

The three parties that backed Christodoulides' candidacy hold just 16 seats in total in the 56-seat Parliament, meaning that the new Government would have to rely on DISY (17 seats) to secure consensus support. Although the latter moved into opposition, its leader stated that "the new President could count on DISY's support", easing concerns over political instability in the period ahead. Note that DISY heads for an election congress in March, which could bring about a change in the party's leadership.

In any case, decision-making would not always be straight-forward and compromises between the political parties supporting the new Government might need to be made. Importantly, however, the country's sound institutions and the authorities' strong track record of economic policy and reform implementation provide an anchor of political stability, in view of the challenges facing the new administration.

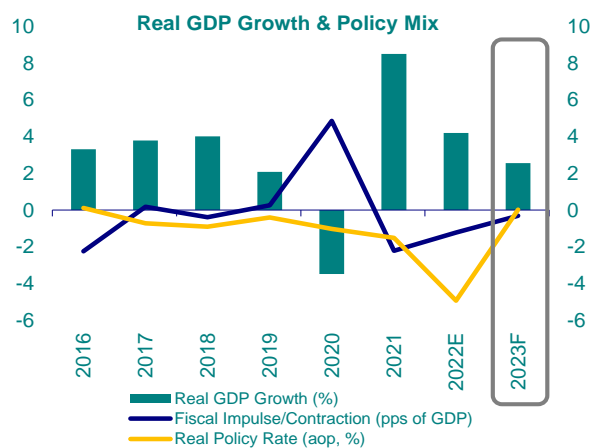
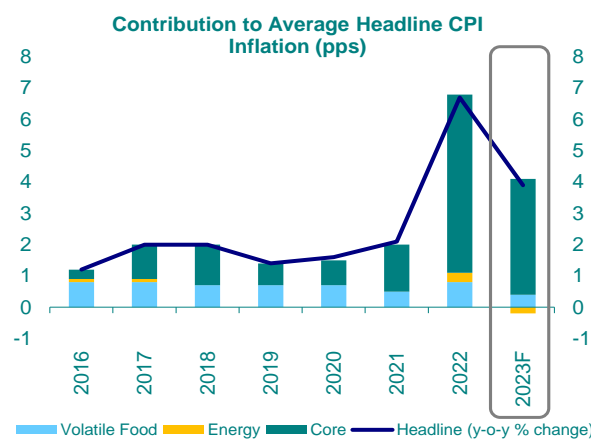
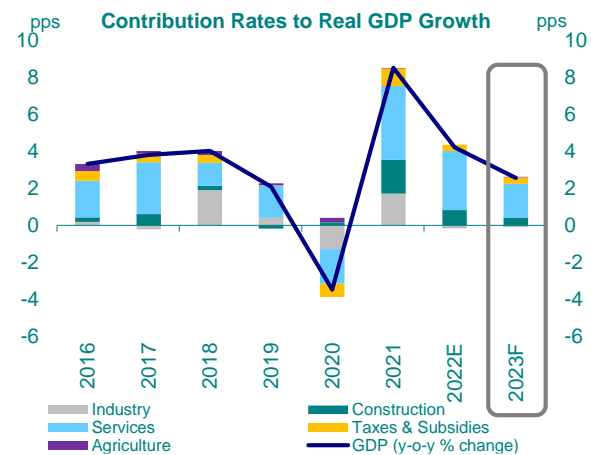
These challenges include, *inter alia*, the need to:

- proceed with the reforms embedded in the country's RRF plan (mainly aiming at enhancing the efficiency of the judicial system and public administration, and promoting the economy's green and digital transition), to ensure the uninterrupted flow of much-needed EU funds (worth 5.1% of FY:21 GDP over 2021-26);
- address the cost-of-living crisis, resulting from the jump in inflation, in the aftermath of the Russia-Ukraine conflict (with the economy having proved, however, more resilient than initially envisaged, and the return of fiscal balances in surplus providing some room for additional support measures, see chart);
- tackle the immigration issue (with Cyprus topping EU rankings in terms of asylum applications per capita); and
- strengthen fight against corruption and manage the fallout from the scandals in which the outgoing administration has been involved (prominently the cash-for-passports scheme, which was eventually revoked in 2020, after a series of reports suggested that several fraudsters made use of it).

Last but not least, a key challenge for the new President would be to resume reunification talks with the Turkish-Cypriot community after several years of stalemate (recall that the last round of talks collapsed in 2017). Worryingly, however, amid heightened tensions in the East Mediterranean over hydrocarbon resources and maritime territory, and with relations between Greece and Turkey at a nadir, the chances for a compromise solution appear to be limited for the time being.

Albania

B+ / B1 / NR (S&P / Moody's / Fitch)



	20 Feb.	3-M F	6-M F	12-M F
1-M TRIBOR (%)	3.2	3.6	3.8	3.8
ALL/EUR	115.1	116.1	117.3	119.3
Sov. Spread (2027, bps)	373	365	350	315

	20 Feb.	1-W %	YTD %	2-Y %
Stock Market	---	---	---	---

	2020	2021	2022E	2023F	2024F
Real GDP Growth (%)	-3.5	8.5	4.2	2.6	3.8
Inflation (eop, %)	1.1	3.7	7.4	3.4	2.6
Cur. Acct. Bal. (% GDP)	-8.7	-7.5	-7.1	-6.7	-6.4
Fiscal Bal. (% GDP)	-6.7	-4.5	-3.3	-3.0	-2.4

Sources: Reuters, INSTAT, BoA, Ministry of Finance & NBG estimates

GDP growth is estimated to have moderated in FY:22 (to a still robust 4.2% from 8.5% in FY:21), following the elimination of positive base effects (related to strong post-earthquake reconstruction activity, the re-opening of the heavily-weighted tourism sector from COVID-19 lockdown and a weather-induced spike in hydroelectric power production). Adjusted for these effects, GDP growth is estimated to have eased only slightly in FY:22, despite the steep hike in inflation. Indeed, headline inflation hit an over 2-decade high in FY:22 (of 6.8% on average against a historical average of c. 2.0%) and would have been even higher had the Government not capped electricity prices. The services sector is estimated to have remained the main growth driver, underpinned by resilient consumption. The latter was sustained by tight labour market conditions (as suggested by strong employment growth, up 4.7% y-o-y in 9M:22), a loose incomes policy and a pick-up in remittances (mainly from seasonal employees, whose movement was restricted during the pandemic). GDP growth would have been stronger had electricity generation not fallen below its historical average, due to adverse weather conditions.

Elevated inflation, together with weakening external demand and a tighter policy mix, should push economic growth lower in FY:23.

The pace of economic expansion is set to moderate further in the period ahead, as stubbornly high inflation would keep squeezing real incomes. This impact, together with weakened consumer confidence, cannot but weigh on private consumption trends. The tight labour market environment, on the back of persistent labour force shortages (with the latter attributed, *inter alia*, to youth migration and skills mismatches), compounded by an accommodative incomes policy (including hikes of 25.0% and 9.5% in the minimum wage and pensions, respectively) should cushion downside risks.

At the same time, weaker external demand from the EU, especially Italy -- Albania's main trade partner (absorbing c. 43% of the country's exports) -- whose economy is projected to broadly stagnate this year -- along with higher input costs should weigh on exports.

Tightening financing conditions would also take a toll, albeit less severe than in regional economies, due to the relatively lower level of lending penetration. The impact should be mostly felt by the previously overperforming construction sector, which has benefited from double-digit growth in mortgage lending over the past 1½ years. Indeed, against the backdrop of record-high inflation and still unanchored inflation expectations, on the one hand, and stubbornly high current account deficits, on the other hand, the BoA cannot but tighten further its stance. As a result, we see the key rate at 3.75% by mid-2023, up from 2.75% at end-2022 and a low of 0.5% in early-2022. On the other hand, following significant consolidation in FY:22, fiscal policy is set to turn broadly neutral in FY:23, assuming some spending under-execution, especially with capital expenditure, as in the past.

All said, we expect activity in all economic sectors to be affected markedly, with FY:23 GDP growth slowing down to 2.6% -- below its long-term potential of c. 3¾% -- due, *inter alia*, to a weak carry-over effect (of a mere 0.2 pps against 1.5 pps in the previous year). Our forecast could be revised lower in the event of shortfalls in domestic electricity generation. Note that Albania's almost complete reliance on hydroelectricity leaves the economy vulnerable to weather conditions. Worryingly, authorities' scope for (further) policy support remains limited against the backdrop of twin deficits and high public debt. On a positive note, the opening of EU accession negotiations in mid-July should provide a policy anchor and strengthen the reform drive, especially in the areas of legal framework and fight against corruption, which have been traditionally regarded as Albania's weak points.

DETAILED MACROECONOMIC DATA

CYPRUS					
	2020	2021	2022f	2023f	2024f
Real Sector					
Nominal GDP (EUR million)	21,895	24,019	27,498	29,086	30,693
GDP per capita (EUR)	24,546	26,677	30,209	31,606	32,989
GDP growth (real, %)	-4.4	6.6	5.6	2.5	2.9
Unemployment rate (% aop)	7.6	7.5	6.7	6.6	6.4
Prices and Banking					
Inflation (% eop)	-1.1	4.8	7.9	2.6	2.2
Inflation (% aop)	-0.6	2.4	8.4	3.2	2.5
Loans to the Private Sector (% change, eop)	-5.6	-5.0	-12.1		
Customer Deposits (% change, eop)	-0.6	5.4	2.8		
Loans to the Private Sector (% of GDP)	132.0	114.3	87.7		
Retail Loans (% of GDP)	61.2	50.9	41.8		
Corporate Loans (% of GDP)	70.8	63.4	45.9		
Customer Deposits (% of GDP)	188.0	180.7	162.3		
Loans to Private Sector (% of Deposits)	70.2	63.2	54.0		
Foreign Currency Loans (% of Total Loans)	---	---	---		
External Accounts					
Merchandise exports (EUR million)	2,969	3,590	4,187	4,142	4,171
Merchandise imports (EUR million)	7,180	7,907	9,897	9,832	9,913
Trade balance (EUR million)	-4,211	-4,318	-5,710	-5,690	-5,742
Trade balance (% of GDP)	-19.2	-18.0	-20.8	-19.6	-18.7
Current account balance (EUR million)	-2,202	-1,638	-2,465	-2,110	-1,835
Current account balance (% of GDP)	-10.1	-6.8	-9.0	-7.3	-6.0
Net FDI (EUR million)	7,454	4,369	4,369	5,571	6,963
Net FDI (% of GDP)	34.0	18.2	15.9	19.2	22.7
International reserves (EUR million)	---	---	---	---	---
International reserves (Months ^a)	---	---	---	---	---
Public Finance					
Primary balance ^b (% of GDP)	-3.4	0.1	2.7	2.7	3.3
Fiscal balance ^b (% of GDP)	-5.5	-1.7	1.2	1.2	1.7
Gross public debt (% of GDP)	113.5	101.1	87.2	82.0	77.2
External Debt					
Gross external debt (EUR million)	175,543	168,003	180,003	178,003	176,003
Gross external debt (% of GDP)	801.7	699.5	654.6	612.0	573.4
External debt service (EUR million)	---	---	---	---	---
External debt service (% of reserves)	---	---	---	---	---
External debt service (% of exports)	---	---	---	---	---
Financial Markets					
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	3.7	3.5
Exchange rate: USD (eop)	1.221	1.137	1.070	1.120	1.160
Exchange rate: USD (aop)	1.142	1.183	1.053	1.115	1.140

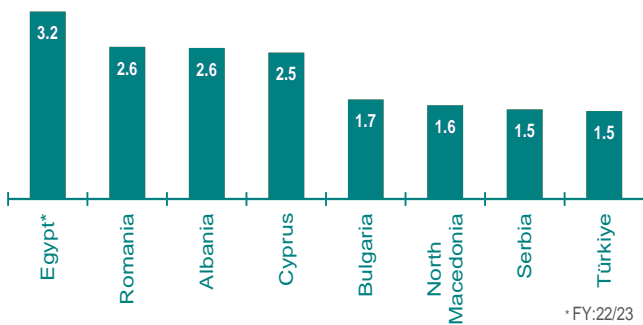
f: NBG forecasts; a: months of imports of GNFS; b: cash basis

ALBANIA					
	2020	2021	2022f	2023f	2024f
Real Sector					
Nominal GDP (EUR million)	13,319	15,460	17,637	19,086	19,758
GDP per capita (EUR)	4,693	5,499	6,317	6,870	7,127
GDP growth (real, %)	-3.5	8.5	4.2	2.6	3.8
Unemployment rate (% aop)	12.2	12.1	11.3	11.2	10.8
Prices and Banking					
Inflation (% eop)	1.1	3.7	7.4	3.4	2.6
Inflation (% aop)	1.6	2.0	6.7	3.9	3.2
Loans to the Private Sector (% change, eop)	8.9	8.5	7.0		
Customer Deposits (% change, eop)	8.0	9.1	4.8		
Loans to the Private Sector (% of GDP)	35.3	33.3	32.2		
Retail Loans (% of GDP)	12.8	12.4	12.5		
Corporate Loans (% of GDP)	22.5	20.9	19.7		
Customer Deposits (% of GDP)	65.0	61.7	58.4		
Loans to Private Sector (% of Deposits)	54.3	54.0	55.1		
Foreign Currency Loans (% of Total Loans)	48.1	47.6	48.2		
External Accounts					
Merchandise exports (EUR million)	0,794	1,265	1,897	1,948	2,089
Merchandise imports (EUR million)	3,776	5,094	6,291	6,612	7,029
Trade balance (EUR million)	-2,982	-3,829	-4,934	-4,664	-4,940
Trade balance (% of GDP)	-22.4	-24.8	-24.9	-24.4	-25.0
Current account balance (EUR million)	-1,153	-1,166	-1,249	-1,272	-1,270
Current account balance (% of GDP)	-8.7	-7.5	-7.1	-6.7	-6.4
Net FDI (EUR million)	0,894	0,990	1,188	1,218	1,278
Net FDI (% of GDP)	6.7	6.4	6.7	6.4	6.5
International reserves (EUR million)	3,942	4,972	4,931	5,476	5,710
International reserves (Months ^a)	9.6	8.8	7.0	7.4	7.2
Public Finance					
Primary balance (% of GDP)	-4.6	-2.6	-1.5	-1.3	-0.7
Fiscal balance (% of GDP)	-6.7	-4.5	-3.3	-3.0	-2.4
Gross public debt (% of GDP)	75.9	73.9	68.5	67.9	66.4
External Debt					
Gross external debt (EUR million)	8,548	9,740	10,140	10,640	11,140
Gross external debt (% of GDP)	64.2	63.0	57.5	55.7	56.4
External debt service (EUR million)	0,517	0,306	0,328	0,352	0,380
External debt service (% of reserves)	13.1	6.1	6.7	6.4	6.7
External debt service (% of exports)	13.3	4.9	3.5	3.7	3.7
Financial Markets					
Policy rate (1-week repo rate, % eop)	0.5	0.5	2.8	3.8	3.8
Policy rate (1-week repo rate, % aop)	0.6	0.5	1.5	3.5	3.8
1-Y T-bill rate ^b (% eop)	1.8	1.6	5.5	6.0	5.8
Exchange rate: EUR (eop)	123.4	120.6	114.0	119.0	121.0
Exchange rate: EUR (aop)	123.4	122.2	118.7	116.5	120.0

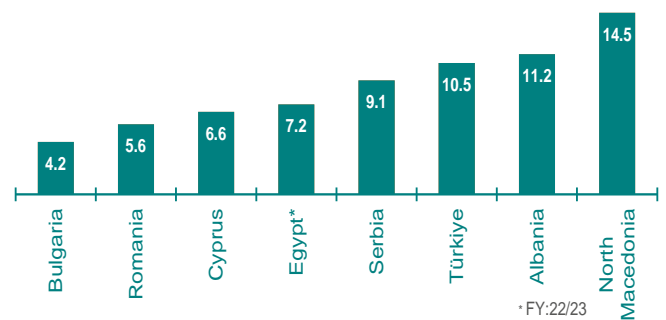
f: NBG forecasts; a: months of imports of GNFS; b: primary market

REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS

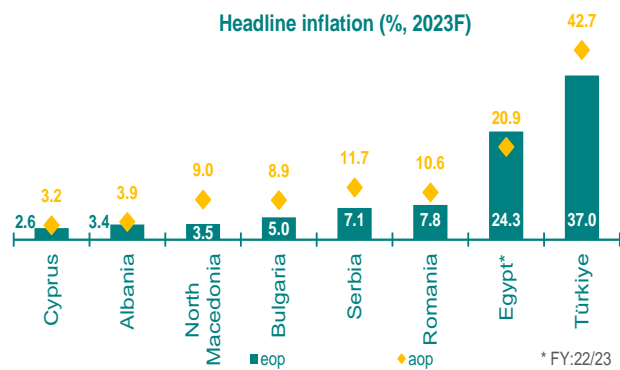
Real GDP Growth (% 2023F)



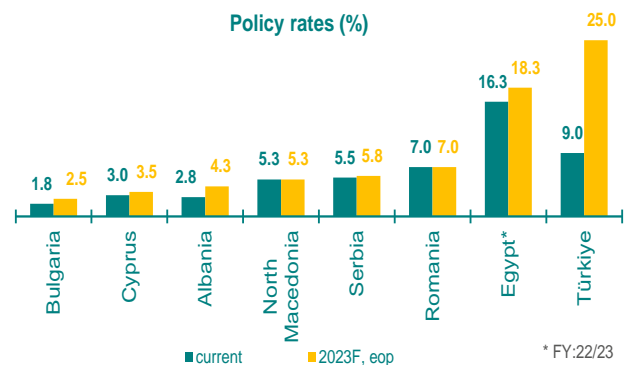
Unemployment (% 2023F, aop)



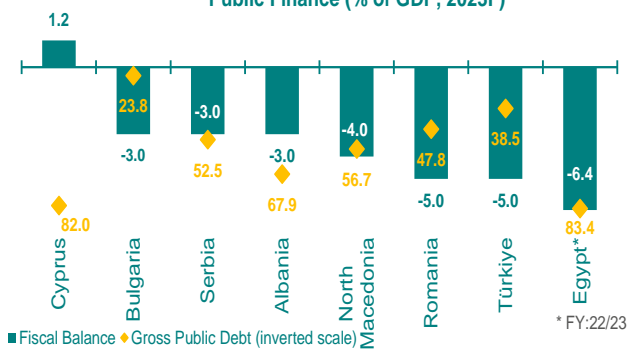
Headline inflation (% 2023F)



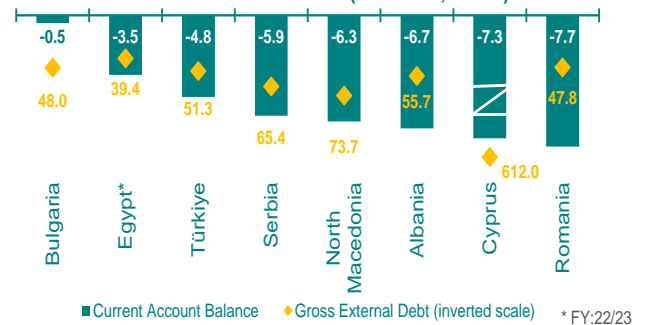
Policy rates (%)



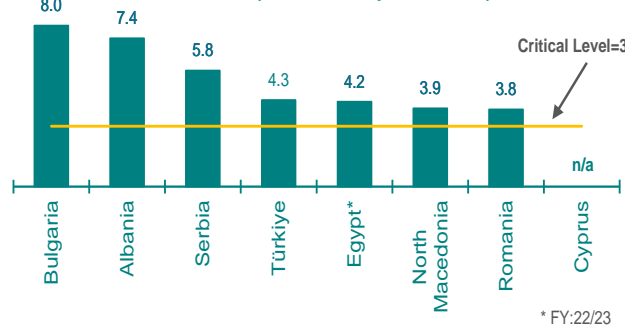
Public Finance (% of GDP, 2023F)



External Accounts (% of GDP, 2023F)

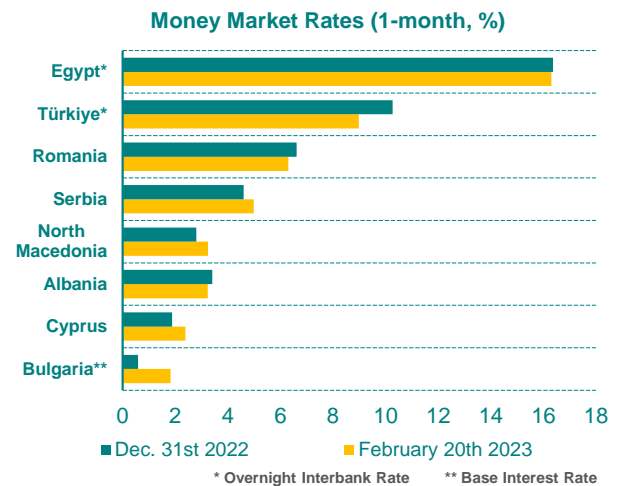
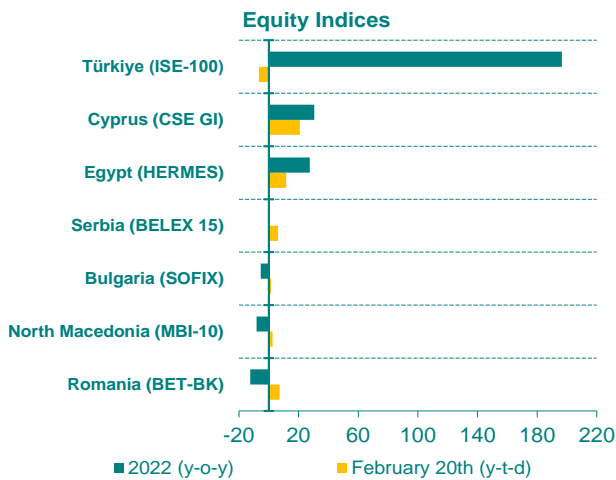
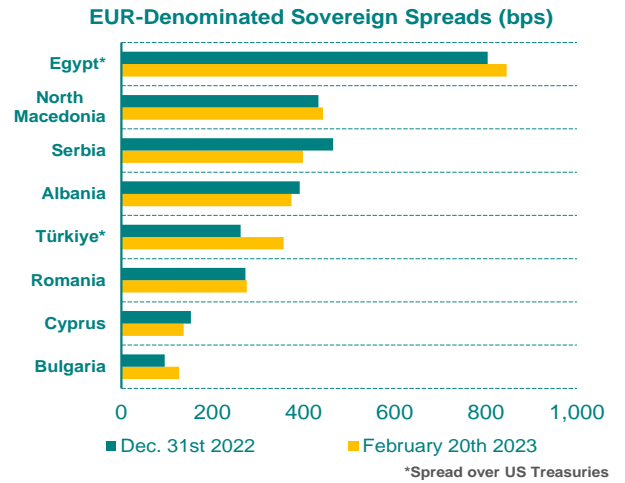
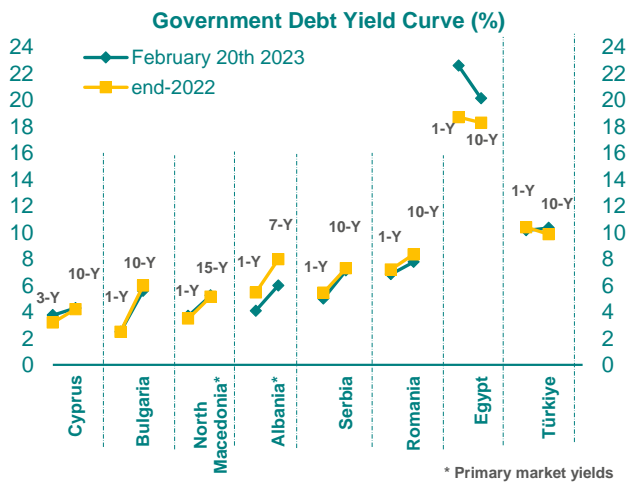
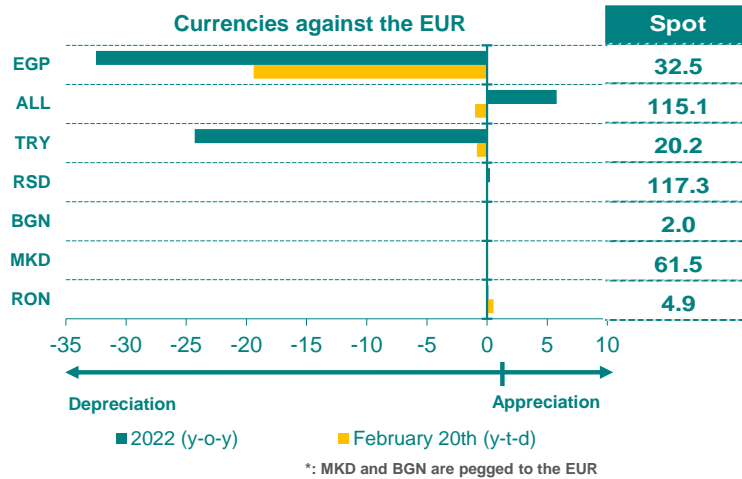


FX Reserves (Months of Imports, 2023F)



Sources: National Sources & NBG estimates

REGIONAL SNAPSHOT: FINANCIAL MARKETS



Sources: Reuters & NBG estimates

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